

RECOMMENDATIONS for meaningful charter school reform



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Meaningful charter school reform has been a legislative priority of the Pennsylvania School Boards Association (PSBA) and its members in each of the last several legislative sessions. To provide the General Assembly with a set of policy recommendations for charter reform, PSBA convened a task force of its members and charter school experts to study the issue and formulate a set of specific recommendations for charter school reform.

After a series of meetings and discussions, the task force developed a set of recommendations which would provide school districts and taxpayers with savings and greater awareness of how charter schools are utilizing public resources, as well as providing for greater accountability of charter schools.

The recommendations of the task force are as follows:

- » Apply a tiered special education funding system for charter school students that more accurately reflects the actual costs of providing special education.
- » Apply a statewide tuition rate of no more than \$9,500 for all students enrolled in a cyber charter school.
- » Formalize and expand deductions school districts use when calculating their charter school tuition rates in recognition of the revenues and expenditures which should not be part of the tuition rate calculation.
- » Reform and enhance the charter school law's current redirection and reconciliation process and student accounting requirements to ensure school district payments are accurate.
- » Ensure that the public as well as all school districts with students enrolled in a charter school have access to important, basic information and data concerning the charter school's operation and performance.
- » Ensure that charter schools comply with the Sunshine and Right-to-Know laws and apply state ethics requirements as well as arm's length transaction requirements to trustees of a charter school.
- » Ensure that charter school boards of trustees include representation from the community they serve and parents of students who attend the school.
- » Ensure greater transparency of charter school foundations and management companies.

Since the passage of the original Pennsylvania charter school law in 1997, traditional public school leaders across the state have been alarmed by the lack of accountability and transparency required by the act, as well as the significantly flawed charter school funding formulas which result in inconsistencies and overpayments to charter schools. To this day charter school funding continues to grow at an accelerated pace, which exceeds the growth of enrollment in charter schools and exceeds the amount that charter schools report spending to educate students. This skewed funding system has ramped up budget pressures for school districts that must comply with a faulty state charter funding mandate by raising local taxes and/or cutting programs and opportunities for students in district schools in order to afford the ever-growing tuition payments to charter schools. For years, PSBA has prioritized charter reform at the direction of its members, and PSBA continues to engage with the General Assembly and governor to achieve charter school reform that enhances transparency, accountability and parity between charter schools and school districts, and which creates a fair system of funding charter schools. As used throughout this document, the term “charter school” is intended to apply to all types of charter schools – brick-and-mortar as well as cyber charter schools.

In December of 2019, PSBA made the decision to convene a Charter School Task Force made up of public education leaders from across the commonwealth. The task force charge was to conduct a review of the state’s current charter school law, examine previous efforts to update the law, conduct panel discussions with organizations and advocates with various perspectives of the issues in order to gain a balanced view on potential solutions, and issue a report with recommendations. The recommendations were to include potential legislative updates to the charter school law.

While the initial hope was to have a completed report released by the end of June 2020, the arrival of the COVID-19 pandemic threw the world of education into extreme upheaval, and the task force was put on hold until December of 2020. Upon reconvening the task force, the members agreed to meet weekly in order to expedite the timetable for completing group discussions and drafting a report to be released early in the 2021-22 legislative session so that the recommendations of the task force could be considered in conjunction with any charter law reform negotiations that may accompany the state budget in June of 2021.

Membership of the Task Force

The PSBA Charter School Task Force drew its membership from urban, suburban and rural school districts across the commonwealth, and the individuals serving with this group brought diverse backgrounds and expertise, including experience as teachers, administrators, business officials, school directors, charter trustees, attorneys and more.

Name	Position	Entity
Edith Gallagher*	Board President	The School District of Lancaster
Alan Moyer*	Board Vice President and former Superintendent	Gettysburg Area School District
Bill Wood	Board President	Avon Grove School District
Richard Michael	Board President	East Lycoming School District
Amanda Hetrick	Superintendent	Forest Area School District
Mike Vuckovich	Superintendent	Indiana Area School District
Craig Allen	Board President	Jersey Shore Area School District
Allison Peterson	Attorney	Levin Legal Group

Christine Oldham	Superintendent	Ligonier Valley School District
Sylvia Wilson	School Director	The Pittsburgh Public School District
Edward Andres	School Director	Saucon Valley School District
Randy Brown	Finance and Operations Officer, and Board Board Treasurer	State College Area School District
Lawrence Feinberg	Board President	The School District of Haverford Township
Elizabeth Gutman	Attorney	The School District of Philadelphia
Thomas Wilson	Board President	Upper Adams School District
Donna Zariczny	Board President	Warren County School District
Michael Belmonte	Board Vice President	Woodland Hills School District
Ellen Freireich	School Director	York Suburban School District

**Task force co-chairs*

Task Force Meetings and Educational Presentations

Due to the pandemic, the Charter School Task Force met exclusively in a virtual setting using video calls to conduct all group discussions and educational sessions. The task force co-chairs met regularly with staff for strategic planning and issue discussions. In addition to communicating with members of the task force via email and phone calls, the full task force convened for lengthy, group discussions on the following eight dates:

- » December 17, 2019
- » December 17, 2020
- » January 1, 2021
- » January 13, 2021
- » January 21, 2021
- » January 27, 2021
- » February 10, 2021
- » February 17, 2021

Beyond the eight meetings for group discussions, the task force also conducted three educational webinars early in the process to give the members a chance to hear from charter school law experts and representatives of the charter community. The task force felt that it was particularly essential to hear from brick-and-mortar charter school and cyber charter school operators in order to have a fair and balanced discussion about the current law, the need for reform, and the opinion and position of the charter community on the reforms they support and the ones they oppose. PSBA and the task force co-chairs and members would like to thank all the presenters for sharing their time, expertise and opinions, and engaging in open and honest dialogue and question-and-answer periods following their presentations. The presentations included the following:

- » The first educational webinar occurred on March 5, 2020. The session topic was a general overview of how the current charter school funding system works and the major concerns with the system. This webinar featured Allison Petersen from the Levin Legal Group as the expert presenter. Allison conducts an extensive practice in the area of the charter school law, and regularly appears before the state Charter School Appeal Board, Pennsylvania appellate courts and the Pennsylvania Department of Education (PDE) on charter school-related matters.





- » The second educational webinar occurred on March 18, 2020. The session topic was an insight into the perspective of a cyber charter school operator regarding the current charter school law, and charter school funding and policy reform initiatives. This webinar featured Dr. Maurice Flurie, who was president and CEO of Commonwealth Charter Academy at the time of the presentation, as the expert presenter.
- » The third educational webinar occurred on April 3, 2020. The session topic was an insight into the perspective of a brick-and-mortar charter school operator regarding the current charter school law, and charter school funding and policy reform initiatives. This webinar featured expert presenters Kristen Bishop, Head of School and CEO, and Donna Archer, Business Administrator and CFO, for Avon Grove Charter School.



HISTORY AND STATUS OF CHARTER SCHOOLS IN PENNSYLVANIA



Charter schools in Pennsylvania began as an educational experiment to provide parents and students with expanded educational choices and to create laboratories for innovation. Lawmakers intended charter schools to enjoy additional flexibility and in exchange, they would serve as educational models for traditional public schools.

It has been nearly 24 years since the General Assembly passed and then-Governor Tom Ridge signed Act 22 of 1997, Pennsylvania's Charter School Law. The debate at that time was focused on how these new schools would be organized, monitored and funded. In many ways the same debates that were associated with the charter school law concept as passed in 1997 still exist today. The law has not been modernized or updated to address the perennial issues that have occurred over the many years since enactment. The problems with the charter school law have led to charges of corruption, weak academic performance, segregation and fiscal issues. Numerous studies by state agencies, higher education institutions, news outlets and research think tanks have worked over the problems and challenges for years. Unfortunately, efforts to reform the law have been elusive, and this situation continues to create tension and hardship between traditional public schools and charter schools.

Charter schools are a part of the public school equation and they provide an academic or lifestyle fit for a number of parents and students. Because PSBA ultimately has the interest of all Pennsylvania students in mind, its members support charter schools as an educational option as long as they do not impose financial hardship on taxpayers and provided that they are held to the same standards of academic performance, accountability and transparency that local school districts must uphold, or, alternatively, that school districts are provided the same flexibility as charter schools.

However, in the years since the charter school law was enacted, no updates have been made to bridge the gap between the concept of the charter school experiment of 1997 and the reality of charter school education in the present. The only change to the charter school law was the addition of cyber charter schools in 2002. In the years since, education, technology and our knowledge of charter school education has changed significantly. These changes warrant a thorough examination of the law and updates to bring charter school requirements in line with the accountability required of all traditional public schools in the commonwealth.

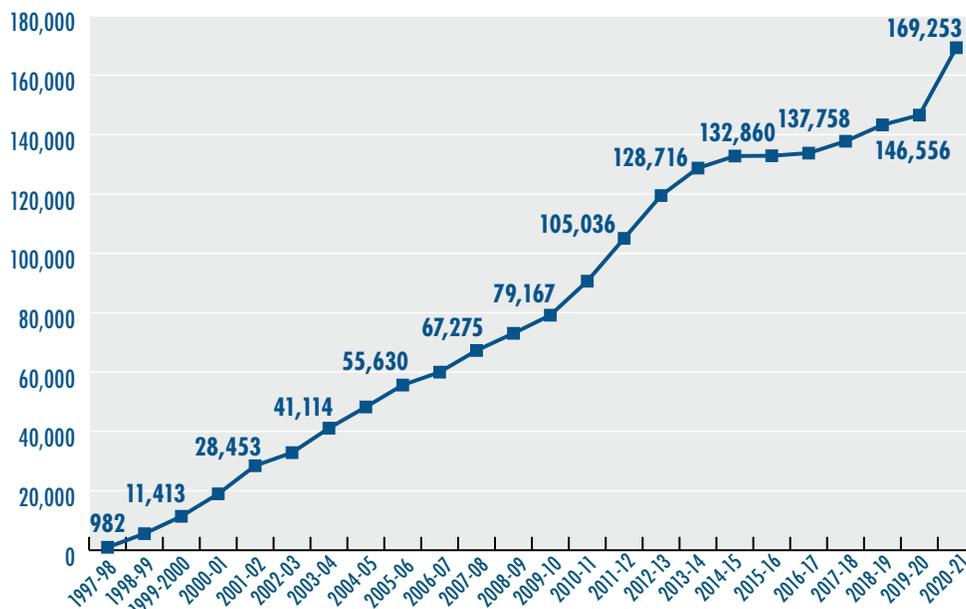


Charter School Growth in Pennsylvania

Since the inception of the law in 1997, the number of charter schools has skyrocketed from just six charter schools enrolling 982 students to 177 charter schools enrolling 169,253 students.

There are two general types of charter schools operating in Pennsylvania – brick-and-mortar charter schools and cyber charter schools. The two types of charter schools differ in terms of how they are authorized, and the method of instruction used.

Charter School Enrollment



Charter School Type	Authorization	Enrollment Area	Method of Instruction
Brick-and-Mortar	Authorized and operated under a charter agreement between a local board of school directors and the charter school.*	May enroll students who live in an authorizing school district and students from surrounding non-authorizing school districts upon available space.	Curriculum and instruction are delivered to students through face-to-face interaction at the schools' physical facilities.
Cyber	Authorized and operated under a charter agreement between the PA Department of Education and the cyber charter school.	May enroll students from all 500 school districts in the state.	Uses technology to provide curriculum and instruction through the internet or other electronic means.

* This includes regional charter schools, which are authorized by more than one local school board.

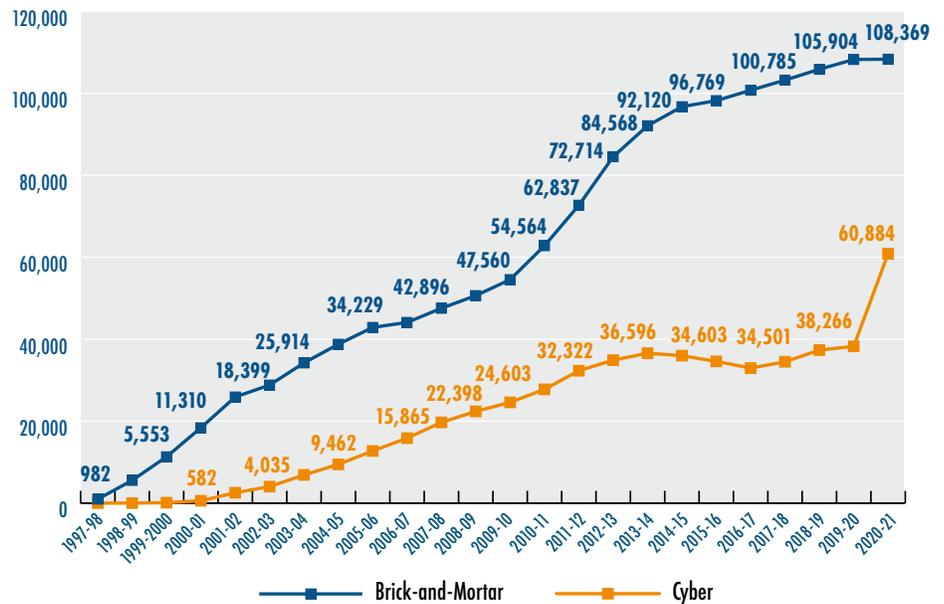


The majority of charter school students are enrolled in one of the 163 brick-and-mortar charter schools currently in operation, while enrollments in the state's 14 cyber charter schools has seen a significant boost due to increased interest in virtual education programs as a result of the COVID-19 pandemic.

The bulk of the state's brick-and-mortar charter schools are physically located in the most populous counties. Nearly half of all brick-and-mortar charter schools are located within Philadelphia County with another 13.6% located in Allegheny County. More than 4

out of 10 students enrolled in a charter school live in Philadelphia. However, the presence of a single charter school can have a dramatic impact on its authorizing and surrounding school districts.

Charter School Enrollment by Charter Type

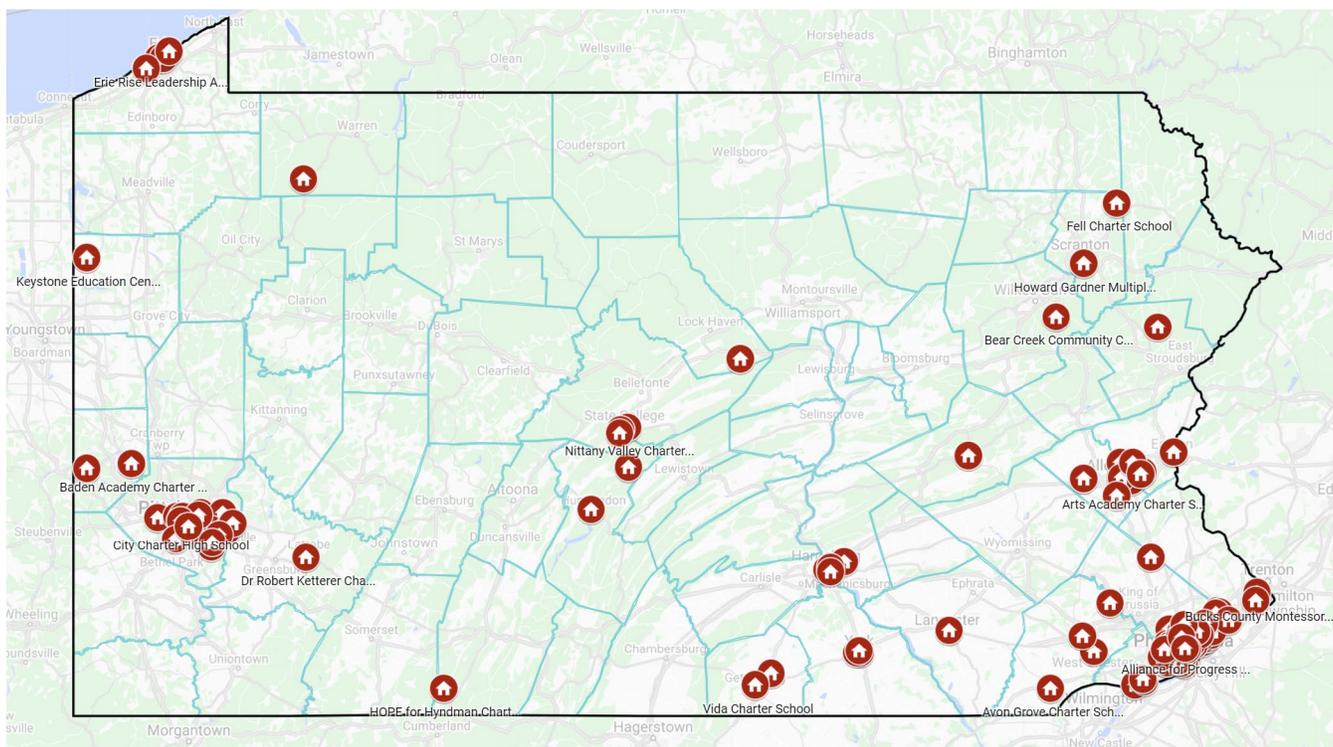


County	Charter Schools	% of Charter Schools	Charter School Enrollment	% of Charter Enrollment
Philadelphia	87	49.2%	69,199	40.9%
Allegheny	24	13.6%	10,072	6.0%
Chester	8	4.5%	18,473	10.9%
Lehigh	8	4.5%	4,892	2.9%
Dauphin	6	3.4%	25,428	15.0%
Delaware	4	2.3%	5,966	3.5%
Northampton	4	2.3%	3,249	1.9%
Erie	4	2.3%	2,040	1.2%
Montgomery	3	1.7%	10,294	6.1%
Beaver	3	1.7%	12,246	7.2%
Bucks	3	1.7%	1,679	1.0%
Centre	3	1.7%	501	0.3%
York	3	1.7%	1,599	0.9%
Lackawanna	2	1.1%	420	0.2%
Adams	2	1.1%	400	0.2%
Huntingdon	2	1.1%	235	0.1%
Luzerne	1	0.6%	466	0.3%



Blair	1	0.6%	182	0.1%
Westmoreland	1	0.6%	172	0.1%
Monroe	1	0.6%	100	0.1%
Schuylkill	1	0.6%	243	0.1%
Bedford	1	0.6%	174	0.1%
Mercer	1	0.6%	125	0.1%
Lancaster	1	0.6%	224	0.1%
Clinton	1	0.6%	479	0.3%
Columbia	1	0.6%	108	0.1%
Warren	1	0.6%	287	0.2%
TOTAL	177		169,253	

2020-21 Brick-and-Mortar Charter School Locations



After 24 years of experience and only one change to the original law – authorizing the addition of cyber charter schools – it is time to explore where things stand, evaluate both the positive and negative consequences of charters, and determine the future direction of charter school education in Pennsylvania. The financial history and status of charter schools in Pennsylvania lends contextually to the argument for needed reform.

Charter School Funding in Pennsylvania

Each school district is required by law to make a tuition payment to a charter school or cyber charter school for every student residing in the school district who enrolls in the charter school or cyber charter school. In 2019-20, nearly 90% of charter school funding (from state, local and federal sources) came from mandatory tuition payments from school districts.



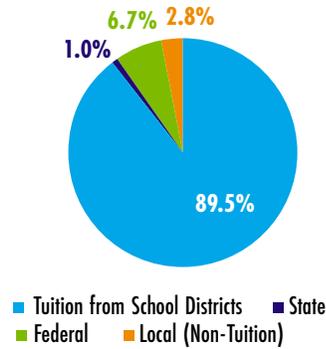
Those mandatory tuition payments amounted to nearly \$2.2 billion in 2019-20, more than 6.5% of all school district spending. To put that into perspective, \$2.2 billion would pay the average salary of 31,100 teachers and is more than 3.2 times what school districts spent on providing students with career and technical education programs.

As charter school enrollments have grown, so too have mandatory school district tuition payments. However, flaws in the way charter school tuition rates are calculated have caused tuition payments to increase at a faster rate than enrollments. This is best illustrated by looking at the time period between the 2007-08 and 2019-20 school years. Between 2007-08 and 2013-14, charter school enrollment increased 91.3% (an average of 11.6% per year) and the tuition paid by school districts increased 131.1% per year (an average of 15.4% per year). However, between 2014-15 and 2018-19, charter school enrollment had only increased 10.4% (an average of 2.2% per year) but school district tuition payments increased 47.6% (an average of 7.4% per year).

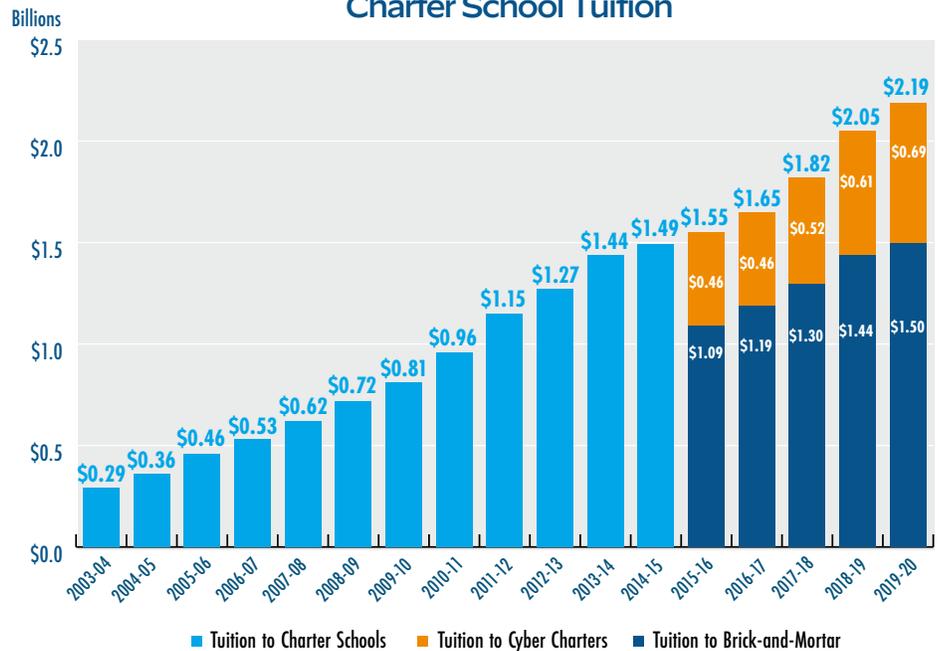
With charter school tuition based on school district expenses, it is worth a look at how school district expenses have fared during the same time period. The tuition formula is based on the theory that school district expenses will accurately reflect the cost of a student in a charter school, however charter schools do not have the same expenses as traditional public schools. Nowhere is this more apparent than in the mandated costs for pensions, charter school tuition and special education.

School districts are required by law to contribute to the state pension system. As shown in the graph below, school

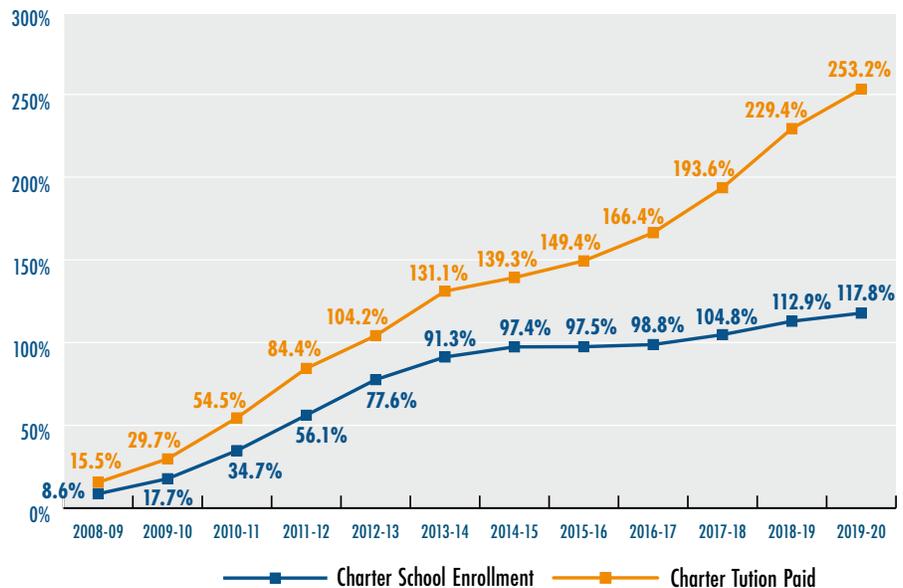
Charter School Revenues by Source



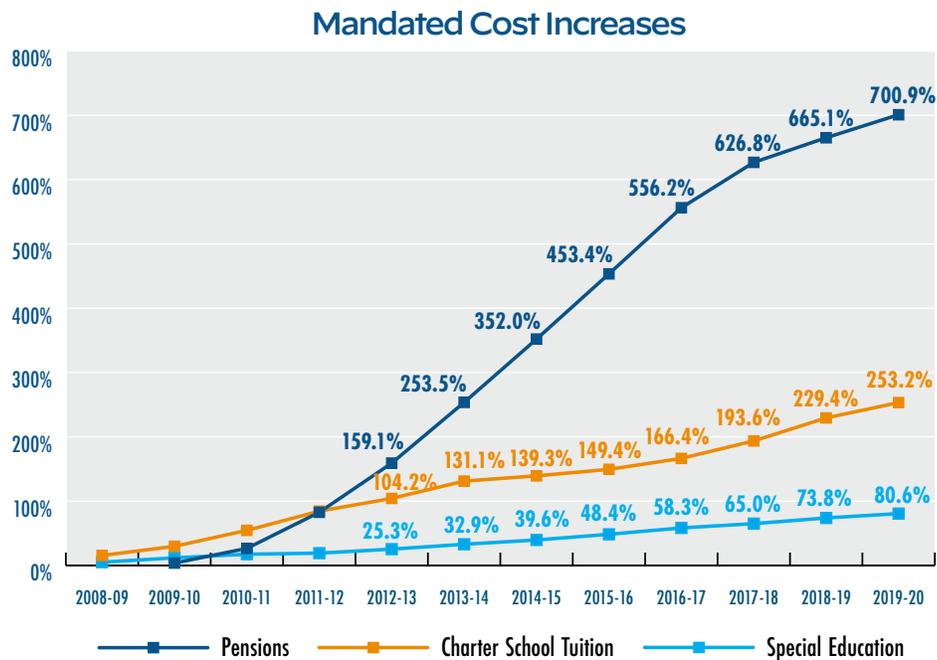
Charter School Tuition



Charter School Enrollments and Tuition Paid from 2007-08



district pension expenses have increased by more than 700% over the last 12 years. For charter schools, participation in the state pension system is optional, yet they are paid as if they all participate. Additionally, the amount that school districts spend on charter school tuition has increased more than 250% during the same time period and is included in the tuition formula despite charter schools not incurring any similar expense. Over the last 12 years, special education expenses for school districts are up more than 80%. The charter school special education formula is built on a number of false assumptions; however, since the flaws related to special education are the basis for two separate recommendations, those issues will be addressed in more detail later in this report.



Until 2010-11, the state would reimburse school districts for some of their charter school tuition costs to help them deal with the financial impacts of mandatory charter school tuition payments. This reimbursement provided roughly \$225 million to school districts, which was intended to pay up to 30% of a school district's charter tuition costs. When this reimbursement was eliminated, school districts were left to replace this revenue and increasing tuition costs with local funding – primarily property taxes.

A common misconception is that school districts save money when students choose to attend a charter school. On its face, it would seem that school districts could reduce their costs when students transfer to charter schools, but that is not the case for several reasons.

First, charter schools not only attract students from public school districts, but also from private schools and homeschool programs. Because school districts do not incur any educational costs for private and homeschool students, when they enroll in a charter school, it results in school districts absorbing entirely new educational costs.

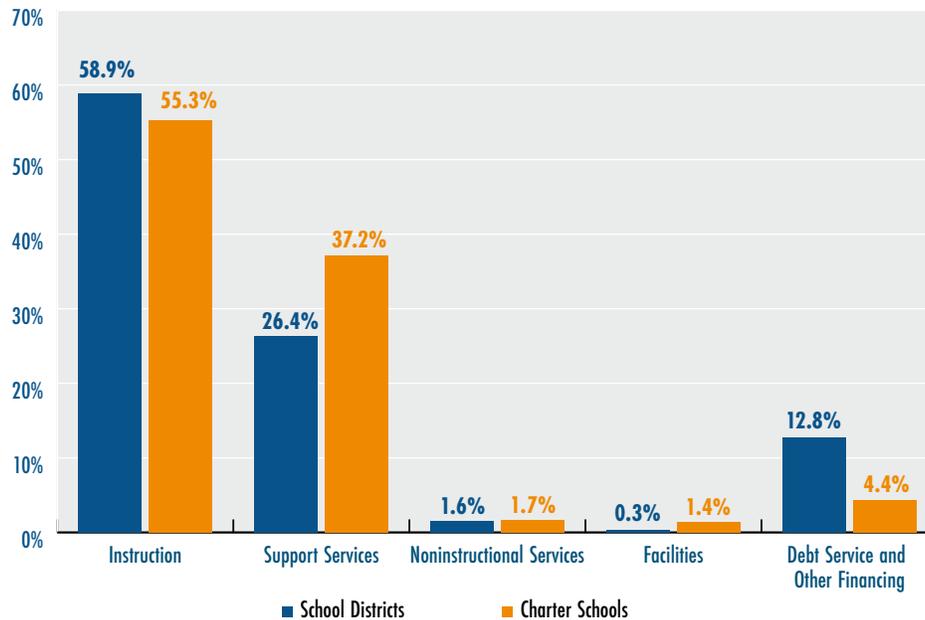
Second, there are stranded costs that stay with a school district even after a student leaves for a charter school. Imagine a school district elementary school with 50 children in its third grade class at the start of the 2020-21 school year. In the elementary school, those students are divided into two classrooms of 25. If five of those students leave the elementary school for a charter school, those students are taking with them as much as \$21,000 each (depending on the school district's tuition rate and assuming none of them are special education students). Where would the school district be able to reduce costs? They cannot. The district would not be able to reduce its teaching staff, building space, maintenance or utility bills. Transportation routes to their buildings would remain unchanged, so the number of drivers, buses and fuel costs remain the same. And the district would have to maintain enough books and educational supplies for those students in case they decide to return to the district school.



Comparing School District and Charter School Spending

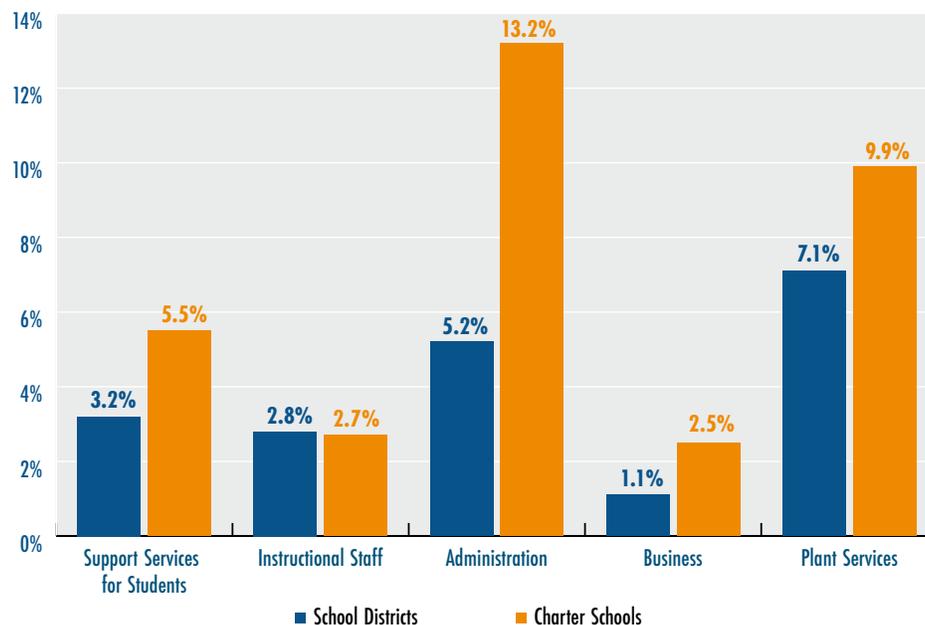
Not only are the funding sources for school districts and charter schools different, so too are their expenditures. Generally speaking, school districts spend a larger portion of their budgets on instructional costs and debt service related to the district's buildings and infrastructure. Charter schools on the other hand spend a greater portion of their budgets on support services and facilities.

Major Function Spending Comparison



The disparity in spending on support services warrants a further examination. When looking more closely, there are some key differences, primarily the differences in expenses related to administration. Charter schools spend more than twice their budgets on administrative expenses, compared to school districts.

Support Services Comparison



Administrative costs include those expenses related to direction and management of the school, such as building principals, school superintendents and third-party management companies. Because these differences



are so great and because management companies are not subject to the same transparency requirements as traditional public schools, this presents a problem when trying to determine how taxpayer resources are being spent.

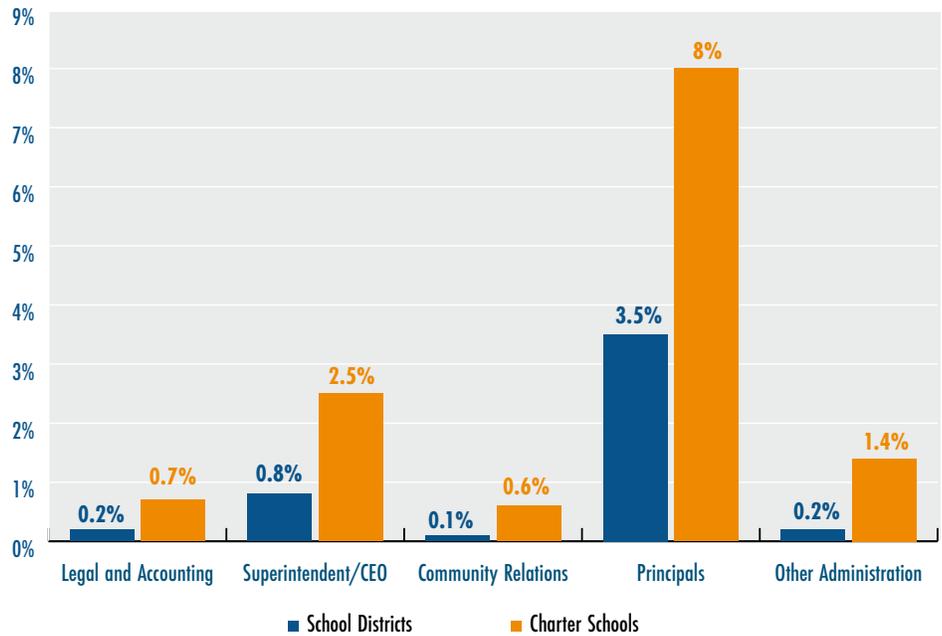
Charter School Performance

Charter schools were created to be centers for innovation to improve student learning. More than 24 years since the charter school experiment began in Pennsylvania, the data and research related to charter school performance indicate

that overall, they have not led to improved student outcomes. When looking at any measure of academic performance, charter schools consistently score lower than traditional school districts. The difference is even more apparent when comparing school districts to cyber charter schools.

In 2009, PSBA conducted a review of charter school performance on state assessments from the years 2004-08. In the five years of assessment data studied, charter school proficiency was an average of 21% lower than that of the proficiency levels for all Pennsylvania students. Unfortunately, not much has changed since then. On 2019 state assessments, charter school student proficiency was an average of 19.6% lower than that of proficiency levels for all Pennsylvania students.

Administration Cost Comparison



2019 % Proficient or Advanced	Charter Schools	All Students
Grade 3 ELA	48.7%	63.5%
Grade 4 ELA	43.2%	59.8%
Grade 5 ELA	40.0%	59.4%
Grade 6 ELA	43.2%	62.5%
Grade 7 ELA	44.6%	61.9%
Grade 8 ELA	45.5%	61.5%
Grade 3 Math	34.8%	54.1%
Grade 4 Math	22.9%	43.5%
Grade 5 Math	21.2%	45.2%
Grade 6 Math	17.1%	39.6%
Grade 7 Math	17.8%	38.9%
Grade 8 Math	13.8%	31.1%
Grade 4 Science	58.2%	75.5%
Grade 8 Science	34.9%	53.9%
Biology Keystone	37.9%	64.4%
Literature Keystone	56.2%	72.7%
Algebra Keystone	39.6%	65.2%



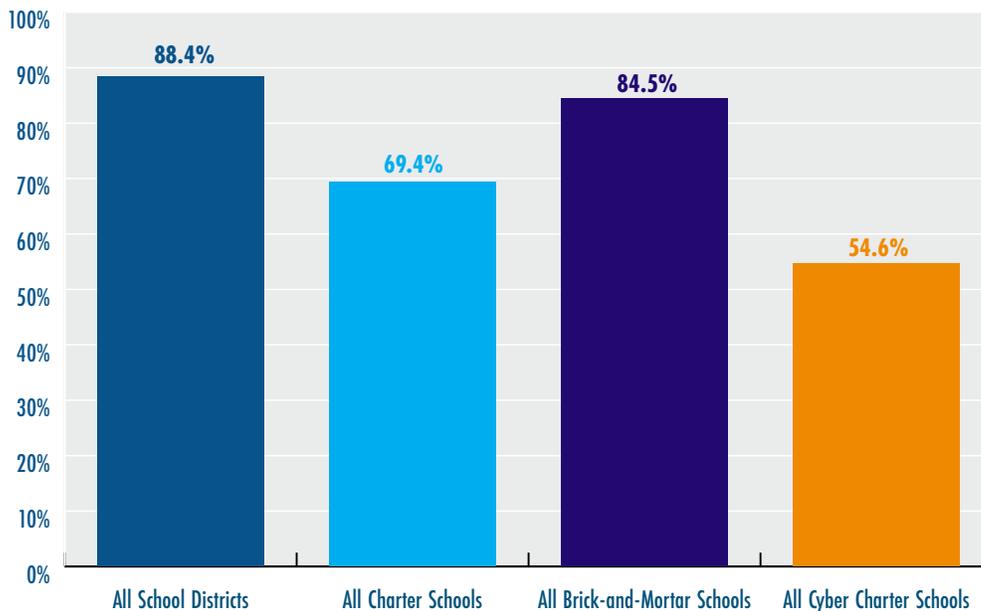
The state's Future Ready PA Index is a school evaluation tool that was launched by PDE in 2018 and is maintained by the department as a collection of school progress measures related to school and student success. Among the measures on the index are two designated as future indicators of success – third grade English language arts proficiency and seventh grade math proficiency. Research indicates that a student's success on these measures factors heavily in the student's future educational success. When comparing cyber charter schools to traditional school districts, we see that:

- » Third grade English language arts proficiency was 22.3% lower in cyber charter schools than traditional school districts.
- » Seventh grade math proficiency was 25.3% lower in cyber charter schools than traditional school districts.

Under the new accountability measures established by PDE to implement the federal Every Student Succeeds Act (ESSA), all 14 cyber charter schools have been identified by the state as either Comprehensive Support and Improvement (CSI), Additional Targeted Support and Improvement (ATSI), or Targeted Support and Improvement (TSI) schools. Schools identified as CSI are those schools facing the most significant challenges in academic achievement, student growth and other areas. Schools identified as ATSI or TSI schools are those schools in which performance by one or more student groups (such as students with disabilities, English learners, or a racial group) is at or below the level of the CSI schools. More information on CSI, ATSI and TSI schools can be found on PDE's website at <https://www.education.pa.gov/K-12/ESSA/Pages/Accountability.aspx>. Further, during the five years when PDE issued School Performance Profile (SPP) scores as part of its earlier state system to measure public school quality, none of Pennsylvania's cyber schools met the 70% benchmark score for passing.

Another standard metric of school performance is the four-year cohort graduation rate. Although graduation rates of brick-and-mortar charter schools are only a few percentage points behind those of school districts, graduation rates of cyber charter schools are substantially lower. In fact, four-year graduation rates at cyber charter schools are more than 33% lower than school districts.

4-Year Cohort Graduation Rates



Concerning the current state of performance, a recent study of Pennsylvania’s charter school performance released in June 2019 by the Center for Research on Education Outcomes (CREDO) at Stanford University found that students enrolled in cyber schools show significantly weaker growth than the average student in a traditional public school and the average brick-and-mortar charter school student. The study showed that a student enrolled in a cyber charter school loses the equivalent of 106 days of learning in reading and about 118 days of learning in math compared to the average traditional public school student.

Further, the report noted that “any potential benefits of online schooling such as student mobility and flexibility in curriculum are drowned out by the negative impacts on academic growth of students enrolled in such schools.” The study also showed there has been little to no progress in Pennsylvania charter school performance since CREDO’s 2013 National Charter School Study.

Despite the generally flat performance overall, there were some important positive findings for Pennsylvania charter schools. Most notable is the strong reading performance of some brick-and-mortar charter schools; in math, brick-and-mortar charter school students perform similarly to the average traditional public school.

CHARTER SCHOOL TASK FORCE RECOMMENDATIONS



The task force debated and evaluated numerous possible reforms to the charter school law to determine the most pressing need for reform. The following recommendation reflects the task force's priorities in no particular order.

FUNDING RECOMMENDATIONS

The task force discussed many concerns with the charter school law's current provisions related to funding. Members reviewed possible charter school law reforms that could ensure charter school payments are more accurate and fairer to both school districts and taxpayers.

Recommendation - Apply a tiered special education funding system for charter school students that more accurately reflects the actual costs of providing special education.

Rationale - Special education funding for school districts is based on a tiered formula developed by the bipartisan Special Education Funding Commission. This formula correctly recognizes that not all students identified for special education have the same educational needs and costs. The formula considers the number of low, moderate and high need students in the school district and directs more resources to school districts with greater levels of high need students. This results in state special education funding for school districts being more equitable.

Unfortunately, charter schools are paid using a flawed formula that does not reflect what the charter school spends to educate its special education students. The three biggest flaws in the current formula are 1) it is based on school district expenditures for special education and not those of the charter school; 2) it assumes that all students receiving special education have the same educational costs; and 3) it incorrectly assumes that every school district serves a special education population equal to 16% of its students despite many school districts serving a higher percentage of special education students.

The current formula requires each school district to use a three-step process to calculate its own unique charter school tuition rates that it will pay to a charter school for each one of its resident students who enrolls in a charter school. First, the school district starts by taking its own expenses for special education and subtracting any federal special education funding the district received. Next, the district multiplies that amount by 16% of the school district's average daily membership. Finally, the school district adds that amount to its tuition rate for non-special education students to get its special education charter tuition rate.

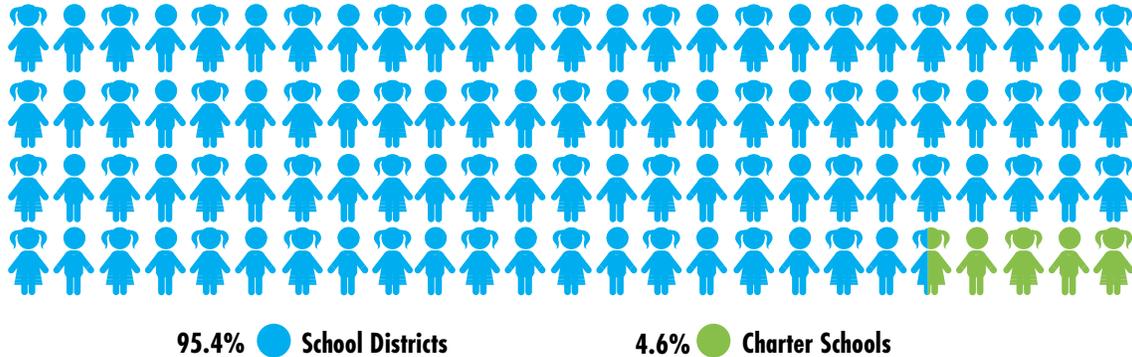
Act 16 of 2000 specifically separated special education costs into four categories, and public schools are required under the act to report on the number of special education students enrolled in each category and the estimated costs of providing special education programs and services to those students. In the 2017-18 report from PDE on Act 16, the special education ranges were as follows:

Category	Cost Range
1	<\$25,628.39
2	\$25,628.40 - \$51,256.79
3A	\$51,256.80 - \$76,885.19
3B	>\$76,885.19



When looking at the enrollments for students at the higher cost categories – 2, 3A and 3B, it’s clear that school districts are responsible for educating almost all of the special education students needing extensive services and supports. In 2017-18, more than 95% of the students requiring the most expensive special education services were educated by or through a school district. Because the charter school funding formula utilizes the school district’s total special education expenses when calculating the district’s special education tuition rates, an inflated special education tuition rate results.

Percentage Of Special Education Students Greater Than \$25,628.40



In 2017-18, the average special education charter school tuition rate paid by school districts was more than \$24,000 and the maximum tuition rate was \$48,200.

The impact of the current flawed funding system is two-fold. First, it results in the overpayment of millions of dollars each year by school districts to charter schools. Based on an analysis of 2014-15 data, which is the latest year for which PDE has made data available, school districts paid charter schools \$101.7 million more than the charter schools spent to provide special education. Because charter schools are not obligated to use special education tuition solely for special education purposes, and there is no mechanism for school districts to seek repayment of unused funds, these overpayments are profit to the charter school.

Second, these overpayments have the potential to create a financial incentive for charter schools to over-identify students for special education, especially those which require low-cost services. It may also create a disincentive for charters to serve students with more severe disabilities because their needs will be more expensive. Charter schools can currently reclassify a student as needing special education regardless of whether the student was previously classified as such by their home school district, without a review by the authorizing school district that is required to pay increased tuition rates. And, as the data shows, charter schools identify a higher percentage of their students for special education than school districts, although the reasons accounting for this discrepancy have not been studied.

Special Education Enrollments by School Type



Recommendation - Apply a statewide tuition rate of no more than \$9,500 for all students enrolled in a cyber charter school.

Rationale - Cyber charter schools receive the same tuition payment from school districts as brick-and-mortar charter schools despite not having the same level of expenses as their brick-and-mortar colleagues. For example, cyber charter schools do not maintain a physical school building and do not incur the costs of maintenance, utilities and other overhead that go along with it. Although cyber charters incur costs for shipping educational materials to students and for finding space to administer state testing, those costs pale in comparison to the costs of maintaining a physical school building. Plus, school districts are required by law to provide cyber charter schools with access to district facilities for the administration of state assessments.

The charter school tuition payments calculated by school districts are based on the districts' expenses and bear no relation to the costs incurred by the cyber charter schools to provide their online educational program. This is particularly problematic in relation to cyber charter schools because the tuition rate calculation includes several school district expenses that cyber charter schools just do not have. For example, cyber charter schools do not incur costs related to tax assessment and collection and providing support services to private schools, nor do they incur costs to the extent school districts do for extracurricular activities, food services, debt service, health services and infrastructure.

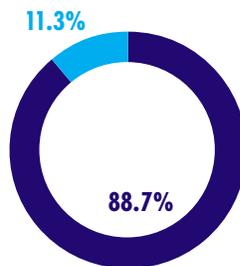
There are wide discrepancies in the amount of tuition paid by school districts. Because each school district calculates its own unique tuition rates based on the school district's expenses, this results in vastly different tuition rates being paid to the cyber charter school despite all students in the school being provided the same education.

2020-21 Charter Tuition Rate Range		
	Regular Education	Special Education
Highest	\$22,322	\$53,169
Lowest	\$9,149	\$18,214
Difference	\$13,173	\$34,955

The result is that cyber charter schools are not paid accurately under the current method by which they are funded, and in many cases, they are receiving more than it costs to educate a student. There are no limitations or restrictions on what a cyber charter school can do with any profit it receives from tuition payments. Additionally, because many cyber charter schools are operated by private for-profit management companies, taxpayers have no idea how those dollars are being spent, aside from the ubiquitous advertisements for cyber charter schools appearing on radio, television and elsewhere.

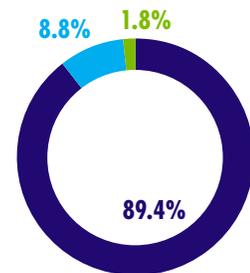
Even before the COVID-19 pandemic, most school districts provided their students with a virtual education option comparable to cyber charter schools. And, due to the pandemic, we know that the percentage indicated in the chart below has certainly increased. Further, these school district programs are being provided at a fraction of the cost paid by those school districts for cyber charter tuition.

SD Virtual Program



■ Offers a virtual program ■ Does not offer a virtual program

SD Virtual Program Cost Compared to Charter Tuition Rates



■ Significantly Lower ■ Lower ■ Same or higher



Recommendation - Formalize and expand deductions school districts use when calculating their charter school tuition rates in recognition of the revenues and expenditures that should not be part of the tuition rate calculation. Specifically, school districts should be able to deduct:

1. Expenditures for charter school tuition from the prior year with a corresponding deduction from the school district's average daily membership used to calculate charter tuition rates.
2. Expenditures for tax assessment and collection.
3. Grants, gifts and donations made specifically to the district.

Further, the calculation should be amended to formalize in statute the existing deductions of federal funding and state Pre-K Counts funding.

Rationale - The current tuition rate calculations allow school districts to deduct certain expenditures in recognition of the fact that charter schools do not have those expenditures and should not receive funding for them. For example, school districts deduct their expenditures related to transportation because charter schools do not pay to provide transportation to their students – school districts are required by law to transport students to charter schools.

However, the current tuition rate calculation still includes numerous other expenditures that charter schools simply do not have. Primary among them is the expenditures for charter school tuition. As a school district's charter tuition payments increase, it drives up the overall school district budget, which then increases the district's calculated tuition rates, thus creating a cycle of ballooning increasing costs.

Another clear example of expenditures included in the tuition rate calculation that charter schools do not have is tax assessment and collection costs. Charter schools are not capable of imposing taxes and therefore cannot incur any costs in assessing or collecting taxes, so school districts should not pay them as if they could.

The current tuition rate calculation also would not allow a school district to deduct the amount of any gift, grant or donation it received to help improve its instructional or extracurricular offerings. Forcing school districts to, in essence, pass along resources given to the school district is not fair to the school district or to the donors who specifically chose where they wanted their donations to go.. In the case of grants, charter schools have the same access to those funds as school districts.

To assist school districts in calculating their unique charter school tuition rates, PDE has developed a standardized form called the PDE 363. The 363 form includes all of the expenditures listed in Section 1725-A of the Charter School Law which school districts are to deduct in their calculations and shows the step-by-step process used to arrive at the tuition rates. The 363 form also allows school districts to deduct the expenditure of two other types of funding that are not formally listed in the law.

First is the federal funding received by the district. The 363 form recognizes that charter schools receive federal funding directly for all of the same purposes as school districts, so instead of giving charter schools a share of a school district's federal funding, which would amount to a double dip, those amounts are deducted from the tuition rate calculation. Second is the state Pre-K Counts funding. Pre-K Counts is designed for children who are between age 3 and the entry age for kindergarten, are at risk of school failure, and living in families earning up to 300% of the federal income poverty level. Because there are no charter schools that provide those services, those amounts are deducted from the tuition rate calculation.

Recommendation - Reform and enhance the charter school law's current redirection and reconciliation process and student accounting requirements to ensure school district payments are accurate.

Specifically, the taskforce recommends that the law be changed to require the charter school to obtain proof of residency and to accurately record and report the number of days each student is enrolled in the charter



school. Residency within the school district should be confirmed at the beginning of each school year and a process must have clear set requirements regarding subsidy redirection that is fair for both sending districts and charters.

PDE should only make a deduction from a school district's state subsidy payments if the charter school provides the secretary with the proof that:

- » The school district was billed for a payment by the charter school entity 30 days prior to the date the payment is due; and
- » The school district has not made a payment by the due date.

PDE should verify the accuracy of the charter school entity's request and verify that the documentation is correct. PDE should not make a deduction if the request is inaccurate, and PDE should notify the school district 10 days prior to any deduction from state payments and provide the district with the amount of the deduction. School districts also need to have the ability to address payment issues by notifying PDE within 30 days after a redirection is made to a charter school that it believes was incorrectly deducted. PDE will again review the documentation of students who are enrolled in the charter school, the period they were enrolled, and whether the amounts deducted were accurate and provide a hearing. Should the school district's claim of overpayment be validated, PDE would restore the district's state subsidies previously withheld for redirection, direct that the charter school return money to the school district, or grant the school district a credit toward future charter school payments.

Rationale - The process by which school districts and charters properly pay tuition payments for students as well as reconcile those payments has been a challenge since the charter school law was inked. The previous state auditor general released an audit on PDE's charter payment reconciliation process, which was triggered by confusion about charter school payments during the FY 2015-16 budget impasse. The auditor general found that during the period from January 2011 to December 2015, there were 857 charter school payment appeals filed, totaling \$1 billion. While we currently do not know the total amount of backlogged appeals at this time, this issue is a common complaint among both school districts and charters schools alike that, if addressed correctly, would save taxpayer funds and relieve tension between charter schools and sending school districts.

TRANSPARENCY AND ACCOUNTABILITY RECOMMENDATIONS

The task force discussed many concerns with the charter school law over accountability and transparency. Members reviewed possible charter school law reforms that could assist authorizers in improving their abilities to fully evaluate the academic success, organizational compliance/viability and financial health/sustainability of the charter school they are responsible for authorizing or send students to.

Recommendation - Ensure that the public as well as all school districts with students enrolled in a charter school have access to basic information and data concerning the charter school's operation and performance. Charter schools should be required to obtain and post certain basic information on their websites, including board and committee meeting schedules, annual financial reports, standard GASB audits, certified audits of operation, enrollment audits, as well as the contracts and audits for management companies, where applicable.

Rationale - Currently, only the school district(s) that authorizes a charter school is entitled to records and information from the charter school under the law, but in some cases, authorizing school districts do not receive important information. The charter school law also allows a charter school to enroll students from school districts that did not authorize that charter school if there is space available. This results in school districts that did not authorize the charter school being required to pay tuition to the charter school without having any access to the information concerning the charter school's operations or performance.



Recommendation - Ensure that charter schools, including boards and committees, comply with the Sunshine and Right-to-Know laws, and that state ethics requirements as well as arm's length transaction requirements apply to all trustees. Charter school authorizers should be able to take a charter school's transparency and accountability compliance and governance structure into consideration when evaluating charter schools for renewal or revocation.

Rationale - Technically, charter schools, as public schools, are currently subject to both the state Sunshine and Right-to-Know laws. However, in practice, charter schools sometimes operate in ways that violate those basic transparency laws. For example, some charter school boards do not advertise their annual meeting calendar or fail to properly inform the public of upcoming meetings. Further, there have been several instances where charter schools have been found to neglect their responsibilities to provide access to records and information as required by state law. The charter school law is also deficient in applying ethics standards as well as transaction controls that would assist charters in board governance.

Recommendation - Ensure that charter school boards of trustees include representation from the communities they serve and parents of students who attend the school.

Rationale - It is important to ensure there is a connection between charter schools and the constituencies that they serve. As nonprofit entities, charter schools are free to determine how members of their boards of trustees will be selected. This can lead to instances where the board selects its own membership. The self-perpetuating nature of many charter school boards can create problems, or the potential for problems such as conflict of interest, lack of accountability and oversight, and being unrepresentative of the constituency or community the school serves. Representation of sending districts on charter boards could also assist in connecting sending school districts with the charter schools in a more meaningful way.

Recommendation - Ensure greater transparency for charter school foundations and management companies. This should include requiring that these entities be subject to annual audits, and that their budgetary and financial information as well as tax returns be made available to authorizers, other sending school districts, and the general public to ensure full transparency on the use of taxpayer funds. This also would allow authorizers to create a complete picture of charter school finances to ensure the schools will be sustainable for the long term.

Rationale - Many charter schools utilize the services of an education management company to help with the operation of the school. Because these companies are contractors of the charter school, they are not subject to the same transparency and accountability laws as other public schools. Once the charter school contracts with a management company, the public can no longer determine how their tax funds are being spent. While a charter school must be organized as a nonprofit entity, the same cannot be said for management companies. Ensuring that the relationships and financial operations of the for-profit entities who assist in managing many charter schools is key for good authorizer oversight.

Further, most charter schools also create educational foundations to assist with fundraising and provide resources to the school. Foundations are an important part of public education today. Many school districts operate their own foundations. However, there have been many instances where the use of an educational foundation by a charter school has led to conflicts of interest and other questionable transactions reported over the years in court cases and investigations. For example, some charter schools lease classroom and other learning space from their educational foundation. While this may be a legitimate use of public resources, it raises questions as to whether the arrangement is truly appropriate. Shedding light on the transactions should of all educational foundations ensure that schools are sustainable for the future.



CONCLUSION



PSBA wishes to thank the members of the task force and all those who presented valuable information for consideration. Throughout this work, the task force kept the students of Pennsylvania and their education as the primary and most important reason for improving the charter school law. PSBA recognizes that charter schools are a permanent part of Pennsylvania's public education landscape. However, PSBA believes that the recommendations for reform listed in this report will go a long way towards improving the landscape by ensuring accountability and transparency, saving taxpayer resources, and ensuring taxpayers are aware of how their public education dollars are being spent. PSBA and our members look forward to working with the General Assembly to make these recommendations a reality.





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