



Pennsylvania Association of School Administrators

White Paper

**Funding Cyber Charter Schools:
Issues and Solutions**

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Introduction

In June 2018, PASA issued a White Paper comparing and contrasting the cost of cyber charter schools. We cited a 2017 study from Research for Action, a Philadelphia-based research group, that released a study, which was supported by the Pennsylvania Coalition of Public Charter Schools (PCPCS), Pennsylvania Association of School Administrators (PASA), and the Pennsylvania Association of School Business Officials (PASBO). The report reviewed six Pennsylvania School Districts of varying size and demographics in regard to their charter school expenditures over a five-year period. The researchers found that funding for charter schools in Pennsylvania is deeply flawed. It is based on a formula that is not reflective of the actual cost to operate these educational programs, especially cyber charter schools. Rather, the tuition per student is based on the cost of the sending specific district to educate children as if they remained in their home school district.

Included in that sending district's tuition cost are numerous expenditures that are not reflected in a charter school's tuition costs, including gifted education, extra-curricular costs, and busing/transportation (ironically, since school districts must then expend additional funds to transport charter students). Even the cost of collecting taxes is included in the calculation for public school tuition. These costs are then bundled together to calculate the "cost" of tuition, even though brick-and-mortar charter schools do not incur all these expenses, and cyber charter schools operate with very little infrastructure overhead. **In other words, the formula requires traditional public schools to send more money to charter schools than is needed to operate their programs.** The result is a windfall for the charter schools and a deficit for traditional public schools, particularly for those with a higher concentration of charter students.

The Executive Summary of that study emphasizes the following:

- The fiscal impact of charter expansion is consistently negative for the school districts where the students have left for a charter school in both the short and long term.
- The total annual fiscal impact grows each year as more students depart for charters.
- The per-pupil impact decreases in the longer term. With a constant rate of charter growth, the per-pupil impact in Year Five is smaller than the per-pupil impact in year one because districts are able to economize on teacher salaries, building costs, and other fixed costs as more students leave.
- Yet the impact never reaches zero as charter expansion continues. Even by Year Five in the fastest growth scenario, districts will only be able to recoup between **44-68%** of the cost of charter tuition for each student that leaves.
- Small districts generally show a higher per-pupil fiscal impact than large districts. This is because smaller districts need a higher percentage of students to leave before they are able to economize on teachers or buildings.

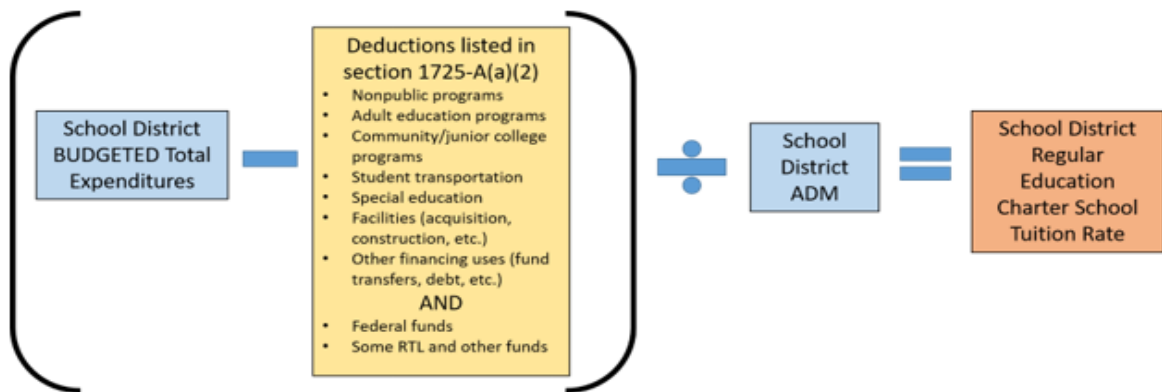
Using an accounting-based projection model of charter expansion, RFA estimated a significant, negative fiscal impact of charter expansion in all six participating Pennsylvania school districts participating in the study in both the short- and long-term. This is true for districts of all sizes and does not vary significantly by the rate of charter expansion. It is obvious that Pennsylvania must offset these costs by providing districts additional state funding reimbursement for charter enrollment or by changing the charter school funding formula to reflect the actual cost needed to educate students in the charter or cyber charter setting.

To provide the reader with a specific example, we provide an analysis from the Newport School District, which is a small rural district in central Pennsylvania.

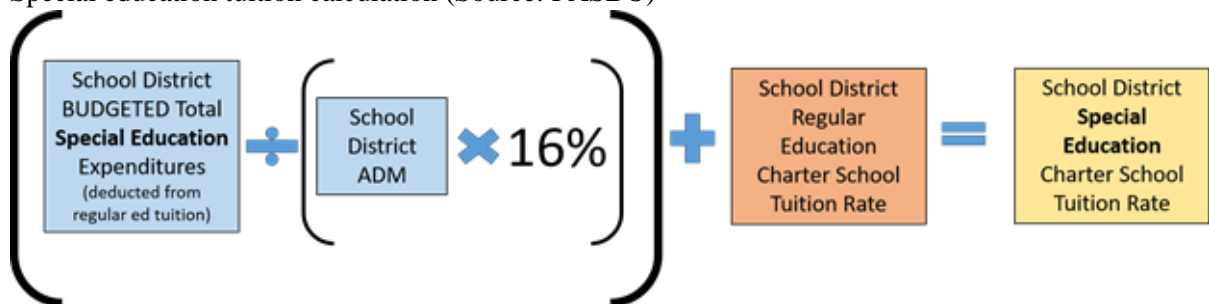
Newport School District Cyber-Charter School Impact Analysis: February 2021

Overview:

- PA charter schools receive some limited funding from the state, but the majority of their funding is received from school districts via tuition.
- The tuition rate paid by school districts to charter schools is the same whether the charter school is brick and mortar or a cyber charter school. The rate is based on individual school district costs.
- The charter school tuition calculation is included in charter school law and broken into regular education tuition and special education tuition.
- Tuition rate is based on budgeted expenditures, with some limited deductions.
- Regular education tuition calculation (Source: PASBO)

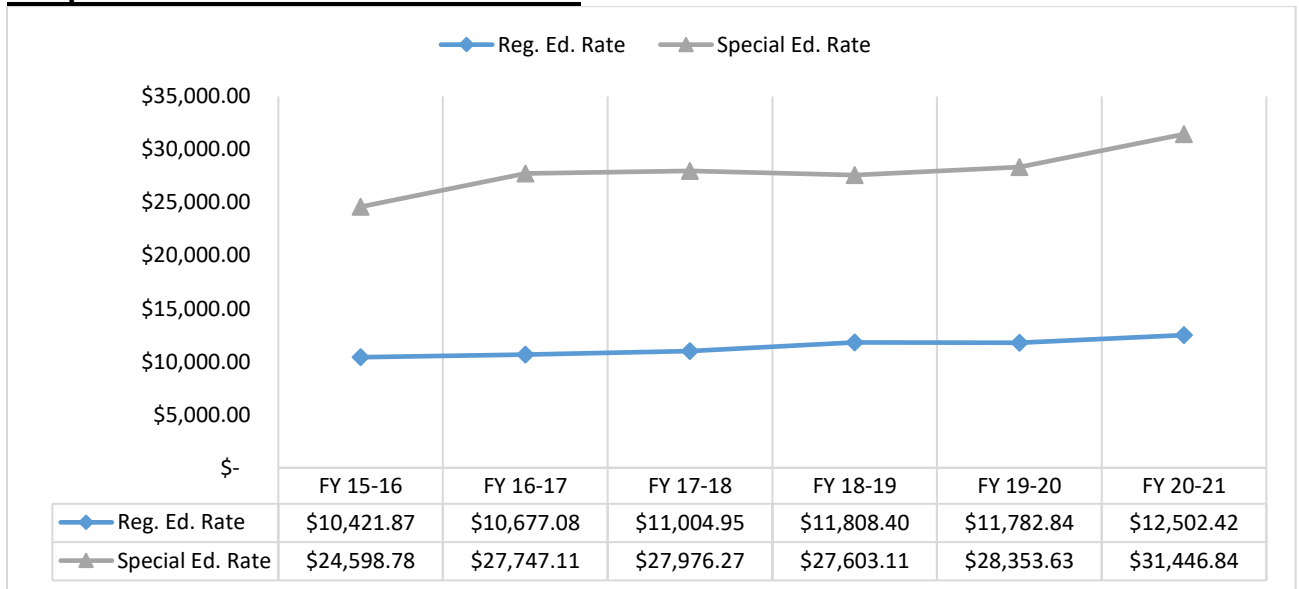


- A higher special education tuition rate is calculated and paid for any charter student who requires special education services and has an Individualized Education Plan (IEP).
- The special education tuition rate is based on district budgeted total special education expenditures.
- The formula divides total special education expenditures by a calculated (not actual) Average Daily Membership (ADM) of district special education students.
- 16% is used in the calculation because it is to be representative of the average percentage of special education students in a school district.
- The resulting amount is then added to the regular education tuition rate.
- Special education tuition calculation (Source: PASBO)



- *What happens if your district's special education population is greater than 16%?* The formula unfairly misrepresents the actual ADM of a district and inflates a district's tuition rate. A district with less than a 16% special education population benefits from the formula, receiving a lower tuition rate.
- Between 2014-2015 to 2019-2020, Newport SD's special education percentage has ranged from **19.05%** to **21.10%**, ranking in the top three in Intermediate Unit 15 during that time.

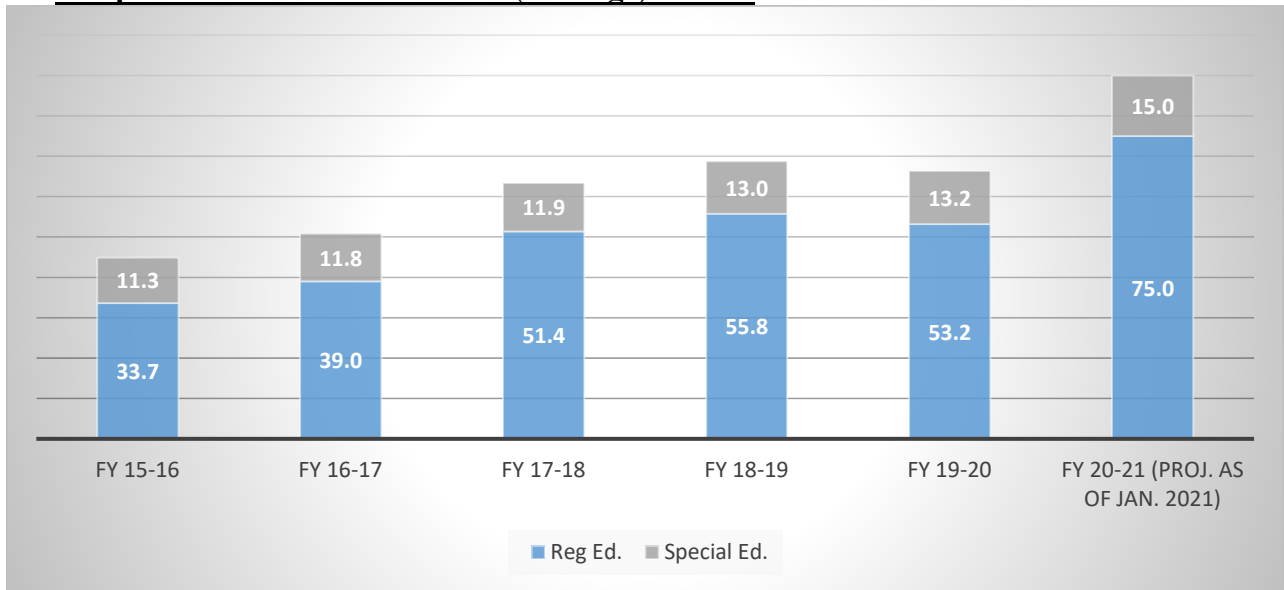
Newport SD Charter Tuition Rate Trends



- Combined tuition rate five-year increase: **25%**
- Endless Cycle: Increasing charter tuition rates increase school district expenditures, which increase future charter tuition rates (can't deduct these expenditures from formula).

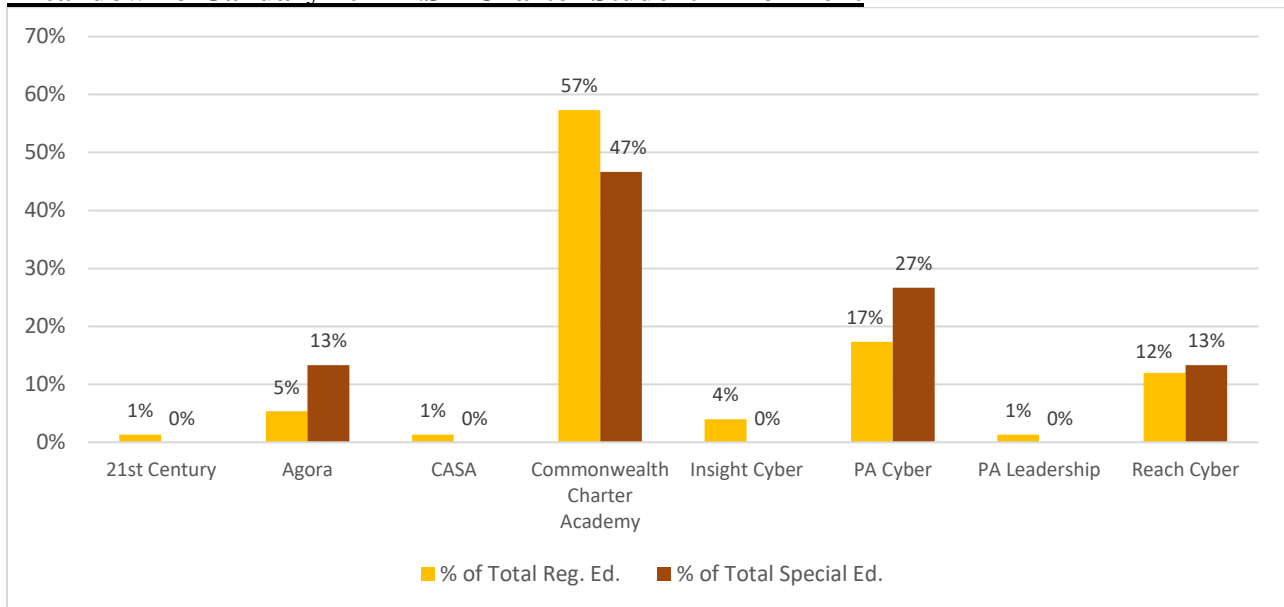


Newport SD Charter Enrollment (Average) Trends

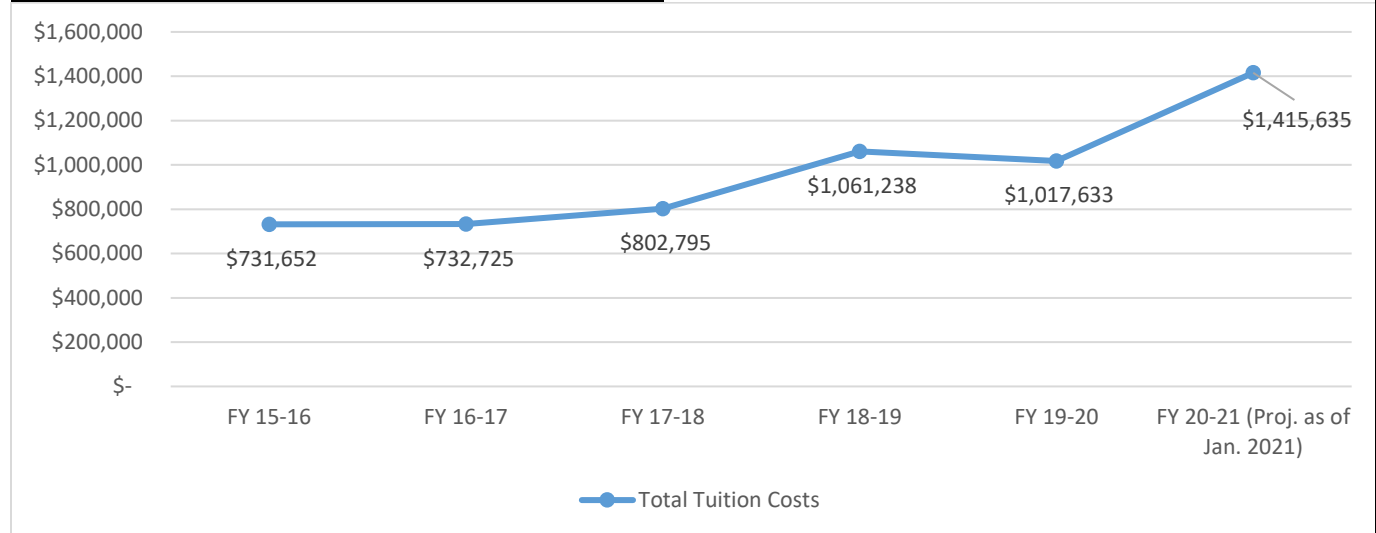


- Combined enrollment five-year increase: **100%**

Breakdown of January 2021 NSD Charter Student Enrollment



Newport SD Total Charter Tuition Cost Trends



- Five-year cost increase (FY 15-16 to FY 20-21): **93%**

State Funding vs. Charter Cost Trends

- Charter tuition is a state-mandated cost.
- Basic Education Funding (BEF) is the primary state revenue received by Newport SD, representing approximately **30%** of total yearly revenue.
- Five-year increase in charter costs from FY 15-16 through FY 20-21 (projected.): **\$683,983**
- Five-year increase in BEF from FY 15-16 through FY 20-21: **\$286,211**
- % of five-year increase in state BEF passed through to charter schools: **239%**; For every \$1.00 increase received in BEF, **\$2.39** goes toward paying charter school tuition.
- Five-year increase in BEF left over after growth in charter school costs: **-\$397,772**; So, after utilizing BEF funding for charter tuition, the district must come up with an additional \$397,772 from other sources to fund this state mandate.

Charter Cost Trends and Property Taxes

- Unfunded state mandates impact local programs and property taxes.
- Local property taxes are the primary local revenue of Newport SD, representing approximately **31%** of total yearly revenue.
- Five-year increase in charter costs from FY 15-16 through FY 20-21 (projected.): **\$683,983**
- Five-year increase in property taxes from FY 15-16 through FY 20-21: **\$655,485**
- % of five-year increase in property taxes passed through to charter schools: **104%**; For every \$1.00 increase received in property taxes, **\$1.04** goes toward paying charter school tuition.
- Five-year increase in property taxes left-over after growth in charter school costs: **-\$28,498**; So, after utilizing property taxes funding for charter tuition, there is no increase left over to fund other cost increases elsewhere in the budget.

Interaction of BEF and Property Taxes to Cover Charter Costs

- Property taxes and BEF revenue make up approximately **61%** of total yearly revenues.
- Considering the combined effort of these revenue streams over the last five years, the percentage of increase in these revenues passed through to charter schools is **73%**; For every \$1.00 increase received in property taxes and BEF, **\$0.73** goes toward paying charter school tuition.
- Five-year increase in property taxes + BEF left-over after growth in charter school costs: **\$257,713 (\$51,543 avg. per year).**

	Change in Charter Costs	Change in Property Taxes	Change in BEF
FY 15-16 to FY 20-21 (projected)	\$ 683,983	\$ 655,485	\$ 286,211

Statewide Cyber-Charter Tuition Rate Implications

- A proposed statewide cyber-charter tuition rate of \$9,500 per student per year has been proposed by Governor Wolf.
- The rate is based on *actual* costs of high performing PA cyber charter schools.
- This base rate would apply to all non-special education students.
- To arrive at more accurate special education tuition rates, the non-special education rate would be increased by multipliers based on actual student special education student data reported for each cyber charter school.
- School districts report special education student data every year as a requirement of Act 16.
- Students fall into four different categories based on direct costs of education. The higher the cost, the higher the category.
- Multipliers would be 1.51, 3.77, and 7.46, for Categories 1, 2, and 3 +4, respectively.

Impact of Statewide Tuition Rate on Newport SD

- Estimated one-year savings: **\$487,960** (based on 20-21 enrollment and assuming all special education students are Category 1).

	FY 20-21 (est.)	Proposed Statewide Tuition	Estimated One-Year Savings
Regular Education Tuition	\$943,933	\$712,500	\$231,433
Special Education Tuition	\$471,703	\$215,175	\$256,528
Total:	\$1,415,635	\$927,675	\$487,960

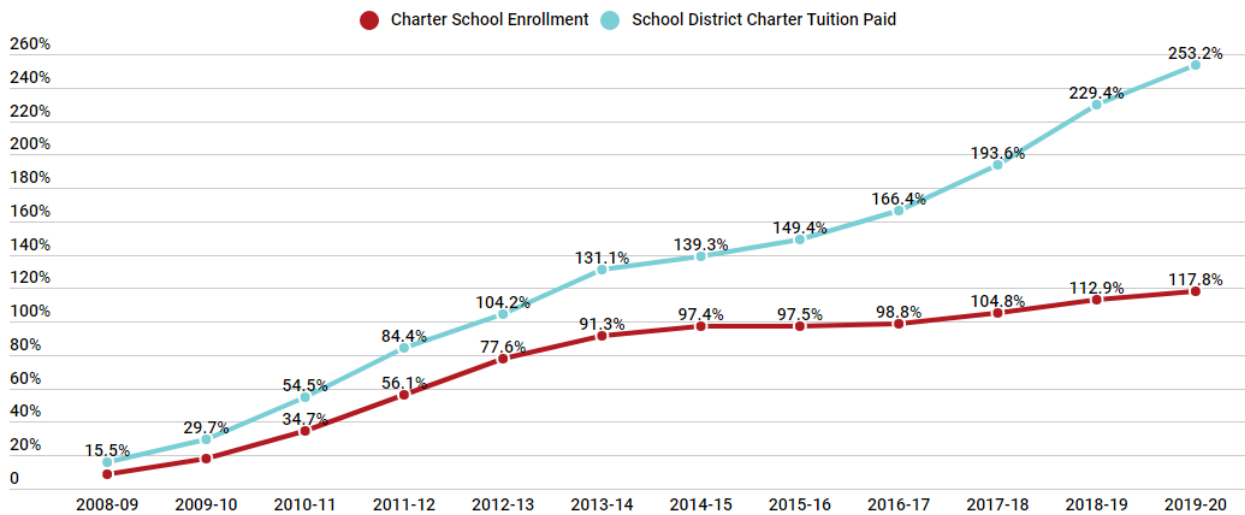
With the various negative economic implications of the COVID-19 pandemic, school districts are facing additional fiscal pressures. Despite the infusion of federal funds that are designated for one-time expenditures, these dollars should not be used to offset the ongoing and escalating cost of cyber charter school tuition. Doing so would create a devastating financial cliff for district when the federal dollars expire.

Charter schools appear to be somewhat financially insulated from the current educational financial environment, with much of their funding guaranteed from local school districts across the state no matter


the local economic environment or level of state funding. Cyber charter school tuition cannot be negotiated and is based on the previously mentioned state formula. School districts do not enjoy the same funding stability as cyber charter schools and must make difficult financial decisions to ensure a balanced budget each year, which can often lead to increased property taxes, cuts to personnel, reductions in programs, or some combination of the three.


This creates constant and ever-growing pressure on school districts as they often see cyber charter school tuition increase well above the rate of inflation or the Act 1 index due to the way the tuition formula works. Below is a graph from the PSBA Charter Change website that displays the rapid growth in charter school tuition cost to school districts. Over a five-year period, cyber charter school enrollment increased by 10.4%, yet tuition increased by 47.6%, creating significant budget implications for school districts. This rapid escalation of tuition increases is unsustainable for school districts and must be curbed in the future.

School District Charter School Tuition Payments and Charter School Enrollment Growth from 2007-08



Year	Charter School Enrollment	School District Charter Tuition Paid
2007-08	67,275	\$621,151,495
2019-20	146,556	\$2,193,604,996

 **10.4%**
Growth in charter school enrollments between 2014-15 and 2019-20.

 **47.6%**
Growth in charter tuition payments by school districts between 2014-15 and 2019-20.

 Share



Source: PSBA

The Cost to Operate Cyber Charter Schools

PASA realizes that cyber charter schools are public schools and are part of the educational landscape. This schooling option can serve as a good fit for some students and families when traditional public schools and other schooling options aren't working for their personal situation. We also understand that cyber charter schools have costs that are unique to their educational delivery structure and must develop an educational infrastructure that mirrors many aspects of traditional public schools. Most cyber charter schools do their best to develop a Local Education Agency to provide many of the same services as a traditional public school. They employ, principals, special education coordinators, guidance counselors, school psychologists, support staff, tech staff, and many other positions beyond online teachers. Some cyber charter schools limit class size comparable to traditional public schools to enhance the student-teacher ratio. In addition, they often must rent large spaces, often at various locations across the state, to conduct annual state accountability testing, as this must be administered via an in-person setting.

Consequently, cyber charter schools are local education agencies that provide many of the same services for students as traditional school districts. We recognize the cost to operate a cyber charter school goes beyond paying for teachers and technology for students. However, it is obvious that cyber charter schools do not shoulder the same operating cost of a traditional school district that included the physical facilities, transportation, food service, extra-curricular activities, and many other venues that are absent in a cyber leaning setting.

The current cyber charter school tuition formula does account for some of the overhead that traditional school districts incur by removing expenses such as transportation and debt service cost. Unfortunately, this formula does not consider the residual expenses that a district incurs after a student enrolls in a cyber charter school. The flawed notion that the money should follow the student simply does not work in the current cyber charter school funding formula. As noted earlier, school districts only recover 44% to 68% of the cost of cyber charter school tuition as a result of the student no longer being enrolled in the district. A district never realizes 100% savings as a result of the student leaving for a cyber charter school.

Federal COVID-19 Relief Funds

The federal government passed three COVID-19 relief bills that send millions of dollars to public schools across the United States. The first round of funding was to help districts pivot to remote learning during the early phases of school closures due to the pandemic. Subsequent relief dollars were sent to public schools to assist with mitigation efforts and the safe return to in-person learning. Because cyber charter schools are considered public schools in Pennsylvania, they received more than \$200 million in federal relief money. The PA Department of Education was required to use the same student-based distribution formula for cyber charter schools as they did for school districts and brick-and-mortar charter schools. Although we understand that cyber charter schools may have needed additional funding for some COVID related matters, they did not have to pivot to virtual learning as that was already their primary mode of instructional delivery, and they certainly did not have to prepare for the return to in-person learning, thus giving them a significant windfall with these funds.

Potential Solutions

The funding of cyber charter schools is the number one reason why there is so much conflict, frustration, and anger between school districts and cyber charter schools. The state has established two distinct and separate systems of public education yet continues to employ one funding system that does not effectively support either system. It is time to ensure that public cyber charter schools and public school districts receive the funding needed to properly educate the children they serve. To that end, PASA offers the following potential solutions.

*** Flat Funding Rate for Cyber Charter School Tuition and Cap Future Tuition Increases:**

To date, there has not been an effort to ascertain how much is actually needed to operate a cyber charter school adequately and equitably via a per pupil expenditure basis. Governor Wolf's proposal established a flat rate of approximately \$9,500 per pupil to adequately operate a cyber charter school across the state. This figure was based on the operating costs of the three highest performing cyber charter schools in Pennsylvania. Districts should not have to pay differing amounts of tuition for students to attend the same cyber charter school and receive the same service.

The Governor's plan also establishes a per pupil rate for special education students based on the three-tier per pupil subsidy structure for special education students in the new special education funding formula for school districts instead of relying on the current flawed formula of assuming that each school district has a special education population of 16%. PASA believes that this concept has merit and can serve as an effective funding construct for cyber charter school tuition.

We understand that the initial amount set for the flat rate may need to be discussed further to ensure that cyber charter schools receive what they need to adequately fund their schools. Once the rate is set, it will be imperative to ensure that any future increases in the rate are tied to a credible inflationary index such as the state CPI, ECI, SAWW, or the Act 1 Index. Districts need to know that their cyber charter school tuition rate will not increase exponentially on an annual basis. A fair tuition rate with moderate annual increases will help to stabilize the current cyber charter school funding crisis.

*** Reinstate the 30% Tuition Reimbursement to School Districts and Cap Tuition Increases:**

When the charter school law was first implemented in Pennsylvania, the state reimbursed school districts 30% of the cost of charter school tuition. This was extremely beneficial in helping districts balance their budgets and absorb much of the residual costs remaining in district operations as students leave for charter schools. Unfortunately, this reimbursement ended during the Great Recession and was never reinstated.

The reinstatement of this reimbursement, coupled with a cap on the annual growth in cyber charter school tuition as described above, would accomplish two goals. First, the cyber charter schools would not see any reduction to their tuition. Second, school districts would receive compensation for the residual cost of students leaving for charter schools, with the understanding that the tuition rate will only increase at a moderate rate annually.

Conclusion

There are three mandated costs that serve as main drivers of budget increases in local school district budgets: required pension contributions, special education costs, and charter school tuition. These three areas alone have caused school district expenditures to rise by more than \$1 billion over the past two years. State subsidies have not kept up with this rapid growth, causing local school districts to raise property taxes, cut personnel, or reduce programming even in the midst of unprecedented federal stimulus dollars. Cyber charter school tuition has long been the most frustrating and discussed topic of contention during school district budget sessions over the past decade – and it is time to find a solution.

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