A photograph of a young girl with dark hair and a pink clip in her hair, looking up and to the right with a thoughtful expression. She is in front of a chalkboard that displays a grid of multiplication tables from 3x3 to 9x9.

Uncharted Territory

Implications of Rising Charter Enrollment in the Southeastern Pennsylvania Suburbs

March 2018

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Notes About the Data

All data in the report is from the latest available year, the 2015-16 school year. Present tense refers to the 2015-16 school year.

Full databases and methodologies are available for download at:
www.pccy.org/unchartedterritory.

Charter school enrollment data was downloaded from the Pennsylvania Department of Education (PDE) website, at the following webpage: <http://www.education.pa.gov/K-12/Charter%20Schools/Pages/Annual-Reports,-Data-and-Resources.aspx>. However, PDE has since replaced that data with less detailed enrollment data. PCCY has published the enrollment data as it appeared on PDE's website prior to the switch at the above URL.

In addition to the academic performance data discussed in the report, PCCY analyzed Keystone Exam results, science PSSA results, exam results for just the 'historically underperforming' students, and 2017 test results. The same general patterns were observed in this additional data as were seen in the data discussed in the report. If you would like to see any of the additional data, contact David Loeb at davidl@pccy.org.

Executive Summary

While charter schools in Philadelphia typically take the spotlight, the southeast Pennsylvania suburbs also have a large charter sector. Twenty years into the charter school experiment, this report examines whether charter schools in the suburbs are an efficient and effective use of taxpayer dollars. More than 15,000 students from Bucks, Chester, Delaware, and Montgomery counties are enrolled in charter schools, and that number grows steadily each year by an average of 920 students. Every suburban school district has students in charter schools.

To support these students, suburban school districts paid \$217 million to charter schools in 2016. This figure grows each year along with enrollment; in the past five years alone charter school costs have increased by \$73 million. These charter payments increase the cost of operating for school districts, forcing them to raise taxes in order to maintain the same level of services for their remaining students in traditional public schools.

Though enrollment and costs grow each year, suburban charter school performance is lackluster. Brick and mortar charter schools, which account for about three-quarters of total suburban charter school enrollment, vary widely in both performance and share of low income, special education and English language learning students enrolled. However, half of the suburban brick and mortar charter schools score lower on state standardized tests than southeast school districts with similar shares of disadvantaged students. More than 75% of suburban brick and mortar charter school students attend these underperforming schools.

Cyber charter schools consistently perform worse than suburban school districts with similar shares of disadvantaged students. In fact, most cyber charter schools perform worse than nearly every school in the region.

Performance aside, the State's method of funding charter schools is poorly constructed, resulting in a funding system that is incoherent and inefficient. Although they provide the same education to all of their students, charter schools receive different amounts per student from each district, with a range of \$8,000 to \$18,000 in the suburbs. Also, cyber charter schools are paid the same amount per student as brick and mortar charter schools, despite having lower operating costs. Charter schools also receive more money for special education than they require; of the \$46 million paid by suburban districts to charters for special education in 2016, just \$27 million was used to educate students with special needs.

Certain spending patterns at charter schools also result in less money in the classroom. Administrative costs are much higher at charter schools – 17% of their budgets on average compared to 5% for suburban school districts. Charter schools also tend to amass greater surpluses, known as unassigned fund balances, than school districts. The average fund balance at suburban charter schools is equal to 19% of their budgets, compared to a 6% average for suburban districts. Some cyber charter schools also spend heavily on marketing, with six of these schools spending more than a million dollars each over the past three years on self-promotion.



**Over 15,000
students and
\$217 million
spent on charter
enrollment
in the southeast
suburban
counties.**



The problems with charter schools in the suburbs are rooted in Pennsylvania's weak and outdated charter school law, which has created a public-charter system that is an inefficient and ineffective use of taxpayer dollars. The good news is that numerous reforms to the law can be made to strengthen the southeast suburban charter school sector.

To improve the funding system for charter schools, PCCY recommends the following:

- Re-instate the charter reimbursement line in the State education budget and set the amount high enough to cover each districts' stranded costs entirely.
- Implement a standardized cyber charter tuition rate based on the actual cost of educating students in cyber charter schools.
- Apply the State's public school special education funding formula to charter schools.
- Cap charter school fund balances at a level consistent with the cap for school districts.

To increase the academic quality of charter schools, PCCY recommends a list of 21 changes to the state charter school law. (See page 20 of this report for the list.)

Introduction

Since their inception 20 years ago, charter schools have been remaking the education landscape in Pennsylvania. Though the bulk of these schools are in Philadelphia, the four suburban counties of Bucks, Chester, Delaware, and Montgomery have also had a charter presence since the beginning. That presence has grown significantly over the past two decades.

Charter schools are public schools in the sense that they are taxpayer funded and open to all students at no cost, but they operate largely as private entities with fewer regulations and more autonomy. Aside from limited authorizing powers, school districts' only direct relationship to charter schools is the tuition money they must send for each student who enrolls.

Pennsylvania passed the law establishing charter schools in 1997 with the idea that they would be hubs of innovation that would lead to better educational outcomes. Now, 20 years into this experiment, charter schools in the suburbs warrant an examination into the impact they have had on the public education system, both fiscally and academically. This report examines the degree to which charter schools are an effective and efficient use of taxpayer money in the southeast Pennsylvania suburbs.

The Basics: Enrollment and Cost

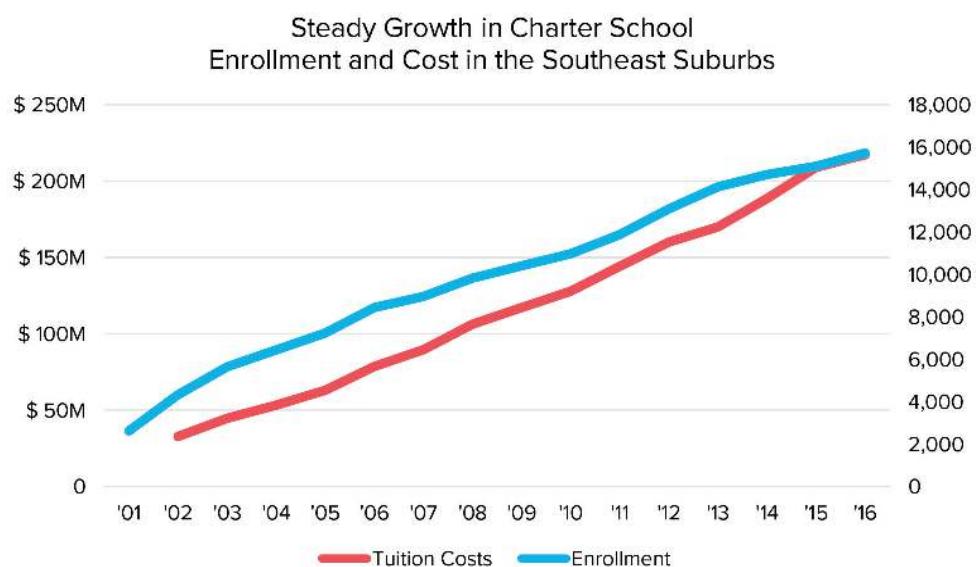
Charter Schools are an Ever-Growing Presence in the Suburbs

The southeast suburbs are now home to 15,725 charter school students.¹ Every school district in the region has students in charter schools. A subset of districts have reached substantial levels of enrollment, with thirteen having 5% or more – some far more – of their students in charter schools.²

Most districts have a relatively low percentage of students in charter schools, though, with 33 of the 61 suburban districts having less than a 2% enrollment rate. Chester and Delaware counties have the most charter school students, accounting for about three-quarters of the total.

A Fifth of School Districts have 5% or More of Their Students in Charter Schools			
School District	% Students in Charters	# Students in Charters	Payments to Charters
Chester-Upland	54.3%	3,836	\$54,808,725
Coatesville Area	22.8%	1,991	\$26,450,222
Bensalem Township	14.3%	907	\$12,753,242
Avon Grove	14.2%	816	\$9,389,707
Oxford Area	11.2%	484	\$5,537,454
William Penn	9.7%	547	\$6,979,462
Phoenixville Area	9.2%	380	\$5,617,358
Octorara Area	6.7%	178	\$2,531,238
Southeast Delco	6.5%	291	\$3,404,214
Norristown Area	6.3%	478	\$7,655,255
West Chester Area	5.8%	703	\$9,598,241
Downdington Area	5.5%	721	\$8,815,737
Kennett Consolidated	5.0%	219	\$3,089,000

These enrollment levels are the result of sustained growth. In fact, enrollment has grown every year for which data is available, by an average of 920 students a year. In the past five years alone 3,800 additional students from the southeast suburbs enrolled in charter schools, a 32% increase. Enrollment is growing in most school districts as well, with 45 of the 61 districts seeing growth over the past five years.



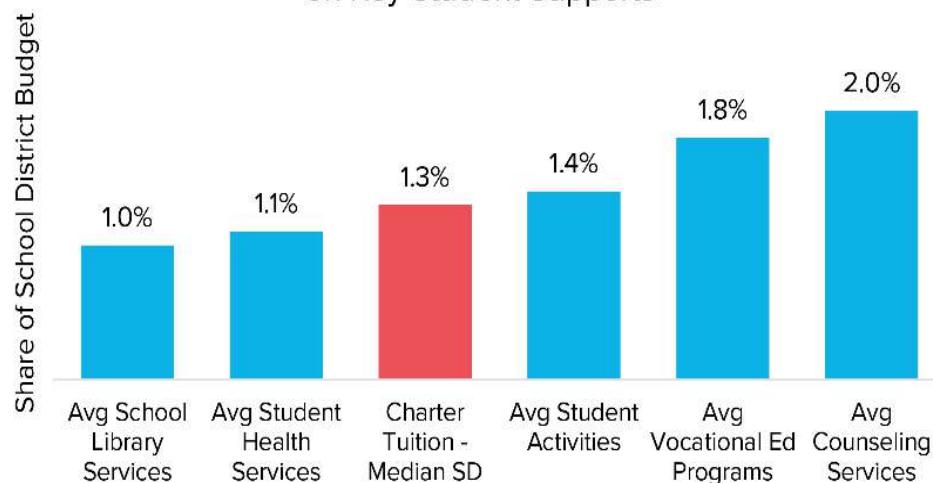
*Due to missing data in 2009, the figures for that year are just placeholders arrived at by averaging the '08 and '10 figures.

Cost of Charter Schools Grows With Enrollment

Along with charter enrollment comes the per-student tuition that school districts pay to charter schools. Districts in the region paid \$217 million in tuition to charter schools in 2016.³ That's \$73 million more than five years prior, a 50% increase. Ninety percent of school districts saw their payments to charter schools increase over the past five years.

The share of districts' budgets going to charter schools varies widely, but most districts spend at least as much on charter tuition as they do on certain key student supports. The median district spends 1.3% of its budget on charter tuition, around the same level as districts typically spend on school library services, student health services, student activities (athletics and extracurriculars), vocational education programs, or counseling services.⁴ For reference, mid-sized Methacton School District spends 1.3% of its budget on charter tuition, or \$1.3 million, and they spend in the range of \$1.1 to \$1.7 million each for school library services, health services and student activities. And, again, a subset of districts have substantial shares of their budgets going toward charter tuition, with nine paying more than 5%.

Charter Tuition Payments as Large as District Spending on Key Student Supports

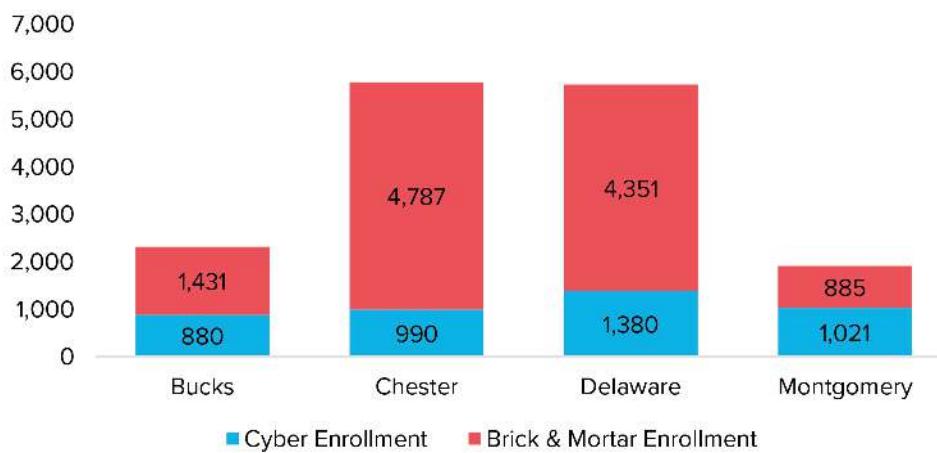


Comparing Brick and Mortar & Cyber Charter Schools on Enrollment and Cost

There are two types of charter schools, 'brick and mortar' and cyber. Brick and mortar charter schools are like typical schools, housed in physical buildings. Cyber charter schools are online schools where students attend by logging in on their computers. They have somewhat different enrollment patterns, but both have a strong presence in the southeast suburbs.

Brick and mortar charter schools account for about three-quarters of total charter enrollment in the region, and cyber charter schools make up about a quarter.⁵ Fifty-one of the 61 school districts in the southeast have students in brick and mortar charter schools, and every district has students in cyber charter schools. Brick and mortar enrollment is heavily concentrated in a subset of districts, with 17 districts accounting for 95% of enrollment in this sector, while cyber enrollment is more evenly spread across districts.

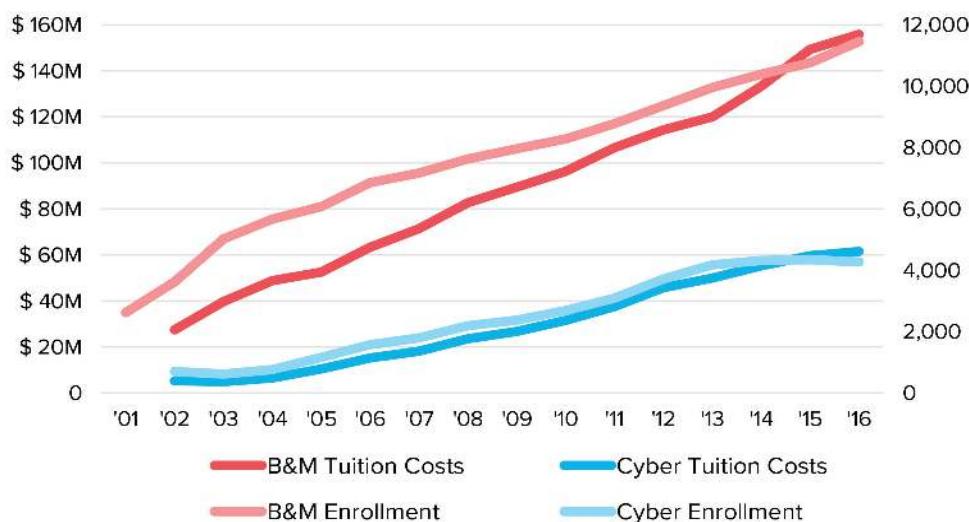
Enrollment is Highest in Chester and Delaware Counties



Enrollment has grown steadily in both sectors. Brick and mortar enrollment has grown every year for which there is data, including an additional 700 students in 2016. Cyber enrollment also grew steadily up until 2015, when enrollment of non-special education students began to decline slightly. However, special education student enrollment in cyber charter schools continues to grow steadily.

Tuition costs to districts divide between the two sectors along the same lines as enrollment, with \$156 million going to brick and mortar charter schools – \$50 million more than five years ago – and \$61.5 million going to cyber charter schools – \$24 million more than five years ago.

Steady Growth in Brick and Mortar & Cyber Charter Schools in the Suburbs



When Students Leave District Schools for Charter Schools, Districts are Left With Unrecoupable ‘Stranded’ Costs

Charter school growth increases the cost of operating for school districts. When students enroll in charter schools, districts no longer have to educate those students and thus save a portion of the funds that they are required to pay to the charter schools. However, savings come primarily in the form of teacher and staff layoffs and building closures, so unless an entire classroom or building’s worth of students leaves a district for charter schools, little savings can be realized.

The difference between the savings districts can realize and the tuition they pay to charter schools, known as “stranded costs,” is the true net cost of charter schools to school districts. Districts must raise taxes to cover these stranded costs in order to maintain the same level of services for their remaining students. The legislature, recognizing that these stranded costs would burden districts, initially reimbursed districts for some of the cost of charter tuition. However, charter reimbursement was eliminated in 2011 amidst large education funding cuts.

A recent report from Research for Action estimated the dollar value of stranded costs in Pennsylvania school districts.⁶ The report examined six districts across the state of various size and charter enrollment levels and estimated the stranded costs of charter growth in these districts, next year and in five years, at various hypothetical growth rates. They found that in year one, districts would only be able to realize savings of 20% or less of the amount they paid in tuition to charters. If growth continued at the same rate, by year five the stranded costs would be lower as a percentage of tuition, but the actual dollar figure would continue to grow. Estimates of current stranded costs for districts are not readily available, but stranded costs are certain to increase for suburban school districts as charter growth continues.

How Brick and Mortar Charter Schools Stack Up

Brick and mortar charter schools represent the original charter school vision. They are housed in physical buildings, like typical schools, but have more freedom to experiment than their public school counterparts. Their charters are granted by a local school district, and they mainly enroll students from the surrounding geographic area. While some suburban students go to Philadelphia charter schools, 95% of suburban brick and mortar charter school students go to one of the 12 charter schools located in the suburbs. These schools make up about three-quarters of the total charter school enrollment for the region. First established in 1997-98, suburban brick and mortar charter schools have since grown to a sector that draws more than 10,000 students and \$148 million in suburban public education dollars.

Demographics Differ from Districts and Performance is Underwhelming

The ultimate measure of return on taxpayer investment in charter schools is performance. A blanket statement cannot be made about brick and mortar charter school performance in the suburbs because performance varies widely, as does the demographic makeup of each charter school. Data shows:⁸

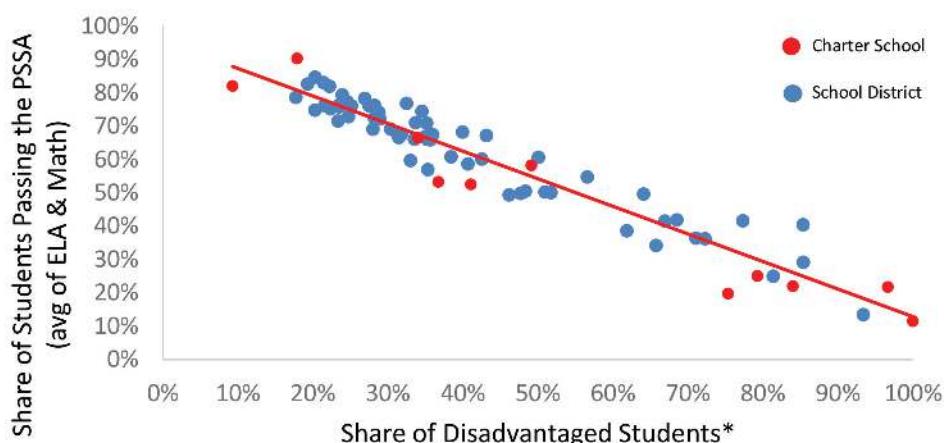
- 73% of the brick and mortar charter schools have fewer low income students than the districts they draw from, as well as fewer special education and/or English language learning students.
- The remaining 27% of charter schools have more disadvantaged students than the districts they draw from.

More Than 10,000 Students are Enrolled in the 12 Brick and Mortar Charter Schools in the Southeast Suburbs				
Charter School	# Suburban Students	Tuition \$ Received from Suburban SDs	Authorizing SD	# Suburban SDs it Draws From
Chester Community	2,919	\$42,738,839	Chester-Upland	9
Collegium	2,626	\$34,519,314	West Chester Area	18
Avon Grove	1,648	\$19,965,065	Avon Grove	8
Renaissance Academy	1,043	\$15,754,310	Phoenixville	16
School Lane	882	\$12,126,441	Bensalem Township	8
Chester Arts	479	\$6,167,246	Chester-Upland	6
Widener Partnership	413	\$5,507,343	Chester-Upland	1
Souderton Collaborative	220	\$2,761,028	Souderton Area	7
Bucks County Montessori	194	\$2,575,572	Pennsbury	6
Vision Academy	187	\$2,010,320	William Penn	3
Center for Student Learning	148	\$2,664,436	Pennsbury	6
Chester County Family Academy	108	\$1,509,152	West Chester Area	5
TOTAL	10,867	\$148,299,065	-	51

However, looking at test score and demographic data together gives a sense of how brick and mortar charter schools compare to southeast school districts, and most charter schools underperform. Data shows:⁹

- 55% percent of charter schools score lower on state standardized tests than southeast school districts with similar shares of disadvantaged students.
- These underperforming charter schools serve 77% of suburban brick and mortar charter school students.
- Just one charter school, School Lane, outperforms southeast districts with similar shares of disadvantaged students and serves a moderate share of these students. This school enrolls 8% of all suburban brick and mortar charter school students.

Half of Suburban Brick and Mortar Charter Schools Perform Worse Than Districts with Similar Shares of Disadvantaged Students



Disadvantaged Students="Historically Underperforming" students, as defined by the PA Department of Education. This category includes low income, special education and English language learning students.

While test scores are not a complete measure of student development, they are an important gauge of academic achievement and one of the only standardized measures with which we can compare schools in Pennsylvania. And on these measures, most suburban brick and mortar charter schools don't stack up.

Cyber Charter Schools Lag

Cyber charter schools began to enroll students statewide, including in the southeast suburbs, in 2002. Every suburban school district now has students in cyber charter schools. Thirteen of the state's 14 cyber charter schools enroll suburban students, accounting for about a quarter of the total charter school enrollment for the region. These schools draw more than 4,000 suburban students and \$61.5 million in suburban public education dollars.

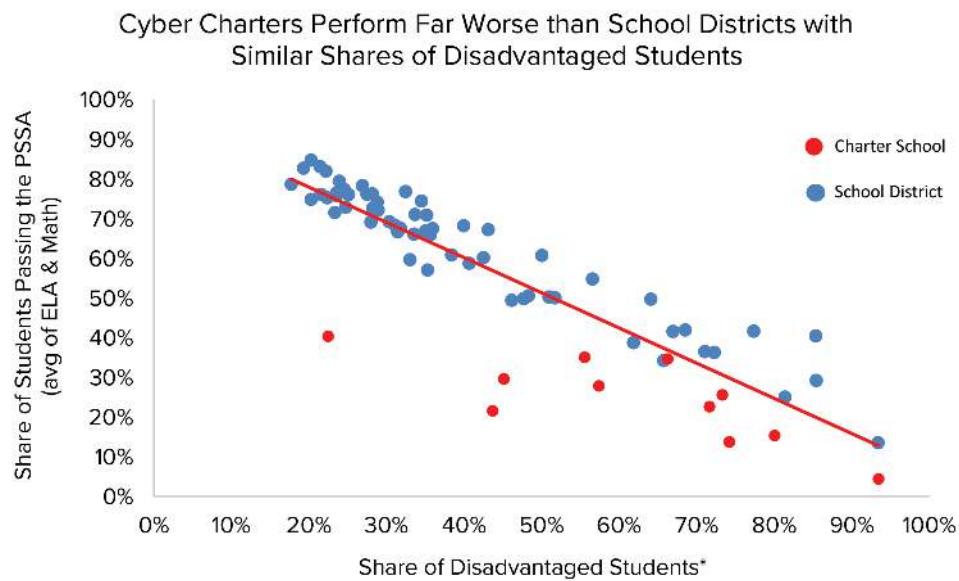
13 Cyber Charter Schools Enroll Over 4,000 Students From Every District in the Southeast Suburbs			
School	# Southeast Suburban Students	Tuition \$ Received from Suburban SDs	# Southeast suburban SDs it draws from
Commonwealth Connections Academy	1,013	\$14,620,106	58
Pennsylvania Leadership	931	\$12,640,599	55
Agora Cyber	814	\$12,657,117	58
Pennsylvania Cyber	659	\$9,404,702	55
Pennsylvania Virtual	381	\$5,280,130	52
21st Century Cyber	254	\$3,554,501	52
Education Plus Academy Cyber	81	\$1,258,202	24
Achievement House	71	\$1,147,521	25
Pennsylvania Distance Learning	47	\$654,045	22
ACT Academy Cyber	9	\$146,765	2
Central PA Digital Learning Foundation	5	\$55,465	3
SusQ-Cyber	4	\$61,098	3
ASPIRA Bilingual Cyber	2	\$39,453	2
TOTAL	4,271	\$61,519,703	61

Cyber Charter Schools Perform Far Worse Than Southeast School Districts

Performance at cyber charter schools is consistently poor. The School Performance Profile (SPP), based primarily on the PSSA and Keystone Exams, is the PA Department of Education's performance measure. No cyber charter has ever met the SPP quality benchmark set by PDE.¹¹ Eleven of the 13 cyber charter schools have lower SPP scores than over 90% of southeast suburban schools. Even the cyber charter school with the highest SPP score, Education Plus Academy (which is now closed), falls squarely in the bottom third of all suburban schools.

Cyber Charter Schools are at the Bottom of the Pack on the School Performance Profile	
School	Rank out of 477
Education Plus Academy Cyber	346
21st Century Cyber	399
Pennsylvania Leadership	435
Achievement House	447
Pennsylvania Distance Learning	450
Pennsylvania Cyber	454
Pennsylvania Virtual	461
Susq-Cyber	462
Central PA Digital Lrng Foundation	466
Commonwealth Charter Academy	467
ASPIRA Bilingual Cyber	473
ACT Academy Cyber	474
Agora Cyber	475

Cyber charter schools tend to enroll higher shares of low income and special education students than the average school district.¹² Still, every cyber charter school but one scores lower on the PSSA than every suburban district with a similar share of disadvantaged students, in both English language arts (ELA) and math.¹³

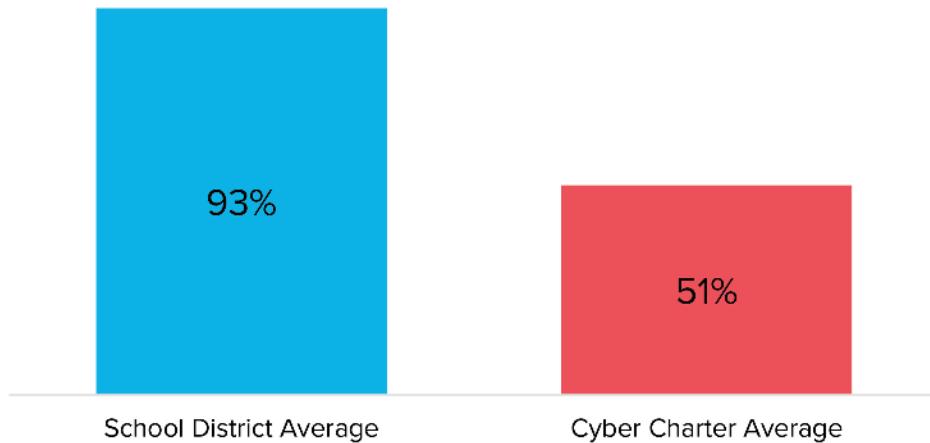


Disadvantaged Students="Historically Underperforming" students, as defined by the PA Department of Education. This category includes low income, special education and English language learning students.

Not only are standardized test performances weak at cyber charter schools, but graduation rates are also alarmingly low. The average four-year graduation rate at suburban school districts is 93%; for the cyber charter schools, it's 51%.¹⁴ Cyber charter schools are consistent in their low graduation rates. For instance:

- At 3 cyber charter schools, just a quarter of the students graduate.
- 7 of the 11 cyber charter high schools have lower graduation rates than every suburban school district.
- 59 of the 61 suburban school districts have higher graduation rates than every cyber charter high school.

Only Half of Cyber Charter Students Graduate



The State's Flawed Funding Mechanisms

In general, Pennsylvania's approach to school funding is flawed. The State provides neither an adequate nor an equitable system of funding for public schools. To make matters worse, it enables a charter school funding system that deepens the inequities among school districts. One major problem related to charter school funding is stranded costs, which was previously discussed. However, stranded costs are certainly not the only problem.

In 1997, the State created the law that opened the door for charter schools and established a funding method, and nothing has changed since. The approach to funding was not well developed, and it has resulted in a funding system that is incoherent and inefficient.

There are three primary issues with the way the state funds charter schools: a random tuition pricing system, overpayments to cyber charter schools, and an adverse special education incentive.

Tuition Varies Widely District-to-District

School districts pay a fixed per-student tuition to charter schools that enroll students from their district. The amount is based on the district's spending on its own students, resulting in wide variation in the per-student tuition. Tuition in the southeast ranges from \$8,250 (Oxford Area SD) to \$18,750 (New Hope-Solebury SD) for regular education students. For special education students, the range is \$20,600 (Central Bucks SD) up to \$47,025 (Lower Merion SD).¹⁵ As a result, charter schools receive different amounts for students from different districts despite generally spending the same on each of them. For instance:¹⁶

- Agora Cyber Charter School receives more money for the eight students that they educate from Palisades School District (about \$122,000) than for the 14 students that they educate from Oxford Area School District (about \$115,500).
- Renaissance Academy receives more money for the 23 students that they educate from Methacton School District (about \$300,000) than for the 27 students that they educate from Perkiomen Valley School District (about \$290,000).

Cyber Charter Schools Receive the Same as Brick and Mortar Charter Schools

Pennsylvania's charter school law did not anticipate cyber charter schools, and thus by default, cyber charter schools are funded in the same manner as brick and mortar charter schools. However, cyber charter schools have higher student-teacher ratios and no facilities costs, making their operating costs lower than that of brick and mortar charter schools.¹⁷

Governor Wolf attempted to standardize cyber charter school tuition at \$5,950 per student in 2015.¹⁸ The amount was based on the cost of the highest-performing online school programs run by intermediate units (consortiums of traditional school districts). The legislature rejected the proposal, but had it been enacted, suburban districts would have saved \$18 million – nearly 30% of the total cyber charter tuition cost – on non-special education students alone in 2016 and every year thereafter.¹⁹

An early draft of House Bill 97, the 2017 proposed charter school reform bill, contained language that would have modestly reined in cyber charter tuition. Unfortunately the provision was stripped. As of March 2018, this bill sits in House committee and is silent on tuition rates.

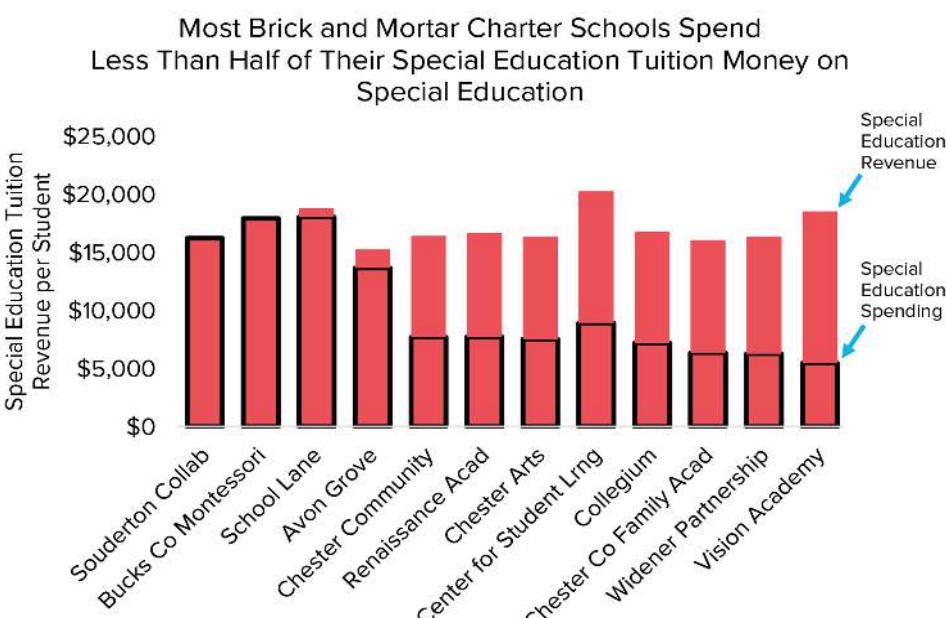
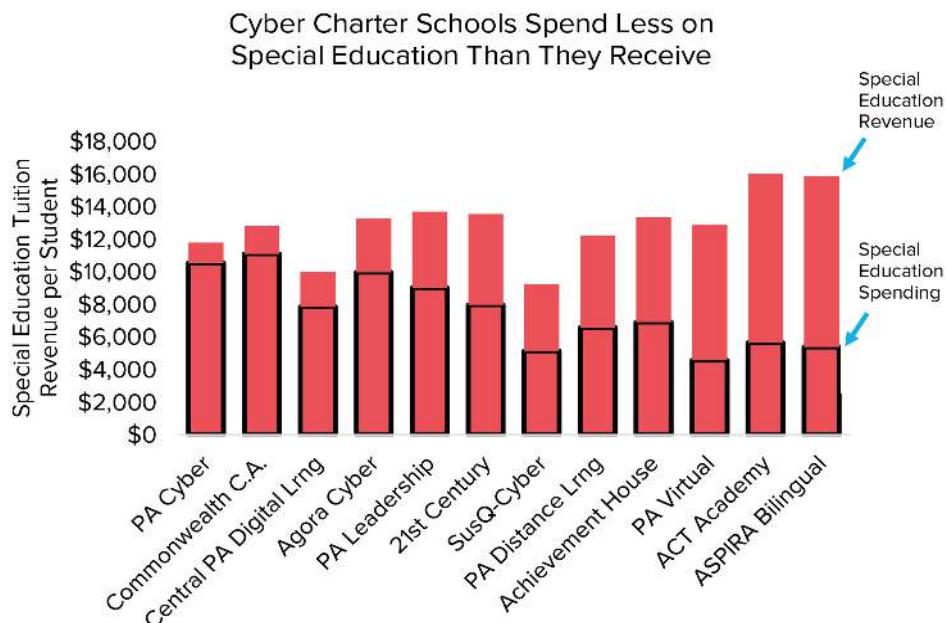
Charter Schools are Overpaid for Special Education

The method of calculating special education tuition also results in overpayments to charter schools. The calculation is based on the amount the district spends on its own special education students. However, some special education students have greater needs than others, and charter schools tend to serve special education students with less acute needs than students that remain in districts.²⁰ Thus, districts tend to overpay charter schools for special education students.

This overpayment problem is exacerbated as charter growth continues, since more lower-needs special education students enroll in charters, leaving districts with higher concentrations of higher-needs students. Thus, districts' per-student special education expenditures increase, as does the special education tuition rate paid to charters schools.

Special education overpayments are reflected in charter schools' pattern of underspending special education tuition money. For instance:²¹

- All but three charter schools spent less on special education than they received in special education tuition in 2016.
- Overall, just 58% of the special education tuition paid by suburban districts was actually used for special education.
- Districts paid charter schools nearly \$20 million for special education that was instead spent on other purposes.
- 46% of charter schools spent less than half of their special education tuition money on special education.



Souderton Collaborative spent nearly 100% more, and Bucks County Montessori 40% more, on special education than they received in tuition.

In 2013 the PA legislature empaneled a commission to develop a special education funding formula based on the actual cost of serving students with various types of special needs. The formula was enacted in 2014 for public school districts. However, the legislature ultimately did not include language in the legislation that would have applied the formula to charter schools as well, despite the commission's recommendation that the formula be applied to both charter schools and school districts.²² If the state's public school special education formula were applied to charter schools, special education tuition costs would much more closely match need.

The state's special education funding formula creates three tiers of funding levels based on the actual cost of students' special needs.²³ It applies a weight of 1.5 to students whose special education costs are below \$25,000, the lowest cost tier. In other words, district schools get about 50% more funding for students in this tier than they would for a non-special education student. Special education tuition for charter schools, on the other hand, is on average 140% more than non-special tuition.²⁴

No specific data is available on how many students there are in each special education category at each charter school, but more than 90% of all special education students statewide fall into this lowest cost category.²⁵ That figure is likely even higher at charter schools, where 98% of students have been found to have special education costs below \$30,000.²⁶ Based on this information, if the special education formula were applied to charter schools, an estimated \$23-33 million would have remained in districts in 2016 and annually thereafter rather than being paid to charter schools.²⁷



If the special education formula were applied to charter schools, at least \$23 million would be saved.



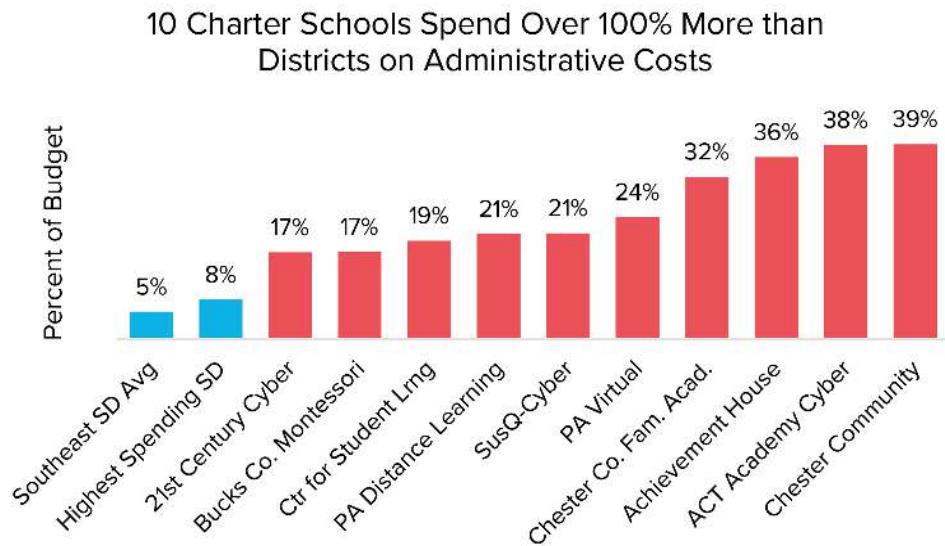
Questionable Spending Patterns

Charter schools spend their money differently than traditional districts in some key ways. One of the starker differences is in administrative spending, an area where charter schools spend a much higher portion of their budgets than school districts. They also tend to amass greater surpluses in proportion to their budgets, and some of their reserves appear to have grown beyond need. Additionally, some cyber charter schools spend heavily on marketing.

Charter Schools Spend Far More on Administration

Charter schools spend a much greater share of their money on administration than school districts. On average, school districts in the southeast spend 5.4% of their budgets on administration, compared to a 17% average for the region's charter schools.²⁸ Twenty-one of 24 charter schools spend a higher share of their budget on administration than any school district in the southeast.

The higher administrative spending extends to top executives' salaries. While southeast suburban school districts spend an average of 0.2% of their budgets on superintendent salary, the region's charter schools spend an average of 2.2%.²⁹ Put another way, districts spend \$51 per student on superintendent salary on average, while charter schools spend \$307 per student on average for the top executive – six times as much.



Some charter schools drive up their administrative costs because they contract out their services to for-profit companies, in turn funding profits and hefty executive salaries at those companies. For instance, Agora Cyber contracted with K12 Inc. for their management and curriculum services, at one point providing 13% of K12's revenue.³⁰ PA Virtual also contracts with K12 for their curriculum. K12's top five executives made a combined \$15 million in 2016 – more than the combined salaries of all 61 superintendents in the southeast.³¹

The practice of contracting out services is not limited to cyber charter schools. For instance, Chester Community Charter School, which spends more than any other charter school on administration, contracts with the for-profit management company CSMI LLC. The company's books are not open, but state records show its management fee for Chester Community was \$5,600 per student in 2012-13.³² If the fee was similar in 2016, Chester Community would have paid CSMI around \$17 million that year, nearly as much as it spent on instruction. Indeed, Chester Community's total administrative costs are higher than its instructional spending, the only school in the state where this is the case.³³

Some Charter Schools Sit on Large Surpluses

Some charter schools have amassed very large surpluses, known as unassigned fund balances. Districts and charter schools need to maintain reasonable fund balances in case of emergencies and to maintain strong credit ratings. However, when a fund balance gets very high, it may indicate that a district or school has excess money. The Government Finance Officers Association recommends that at minimum, fund balances for government entities should be between 5% and 15% of their operating budget, but state law limits districts to a fund balance of 8% if they wish to raise taxes.³⁴

Most southeast school districts fall within this recommended range; just 20% of districts have fund balances above 8%, and just one has a fund balance above 15%.³⁵ In contrast, 54% of southeast charter schools have fund balances greater than 8% of their budgets, and 40% of charter schools have fund balances above 15%. A third of the charter schools have higher fund balance-to-budget ratios than any of the suburban school districts. To be fair, smaller entities generally need higher fund balance-to-budget ratios, and charter schools tend to be smaller than districts. But at a certain point these surpluses grow beyond a financial stability fund and become a hoard.

A Third of Charter Schools Have Excessive Fund Balances

School	Fund Balance as % of Budget	Fund Balance
Bucks County Montessori	131.4%	\$3,494,531
Chester Co Family Academy	75.4%	\$867,566
Central PA Digital Learning Foundation	45.4%	\$1,237,964
Widener Partnership	34.1%	\$2,114,525
Pennsylvania Virtual	32.3%	\$9,418,075
Center for Student Learning	26.5%	\$759,433
Vision Academy	24.9%	\$472,191
School Lane	23.0%	\$3,693,297
Charter School Average	19.4%	-
Southeast School District Average	6.0%	-

If charter schools faced the same 8% cap on fund balances as school districts, 13 charter schools would collectively return \$17.7 million to suburban school districts.³⁶

Marketing at Cyber Charter Schools

Some cyber charter schools spend heavily on advertising and marketing. Six cyber charter schools spent over a million dollars each promoting themselves over the past three years.³⁷ The highest spending cyber charter school, Commonwealth Charter Academy, spent \$4.4 million in the 2016-17 school year alone.

Conclusion & Recommendations

Charter schools are perhaps the strongest force altering the financing of America's public education system today. While they have brought new school options and educational approaches to Pennsylvania, it has become clear after 20 years that the state's charter school sector needs tighter fiscal controls and stronger quality standards for authorization. The issues described in this report do not stem from charter schools per se, but rather from Pennsylvania's weak and outdated charter school law, which has created a public-charter system that is driving up costs with little to show performance-wise in southeast Pennsylvania. Fortunately, numerous reforms can be made to the law to boost student outcomes and save taxpayers money.

To improve the funding system for charter schools, PCCY recommends the following:

- Re-instate the charter reimbursement line in the State education budget and set the amount high enough to cover each districts' stranded costs entirely.
- Implement a standardized cyber charter tuition rate based on the actual cost of educating students in cyber charter schools.
- Apply the State's public school special education funding formula to charter schools.
- Cap charter school fund balances at a level consistent with the cap for school districts.

To increase the academic quality of charter schools, PCCY recommends the following list of changes to the state charter school law:

21 Essential Elements for High Quality Charter School Authorization	
STEP 1: ONLY APPROVE HIGH QUALITY APPLICANTS	
1. Define high quality	
2. Base decisions on the track record of prior performance of applicants from any state in which they've operated	
3. Capture sufficient background check information to determine if the leadership is in good standing	
4. Enable applicants to rely on a fair standard application form	
5. Allow ample time to review and verify application (minimum 100 days after first public hearing on the application)	
6. Have clear criteria for approval	
7. Give new schools time to become high performers (3-5 year initial charters) and time for taxpayers to act if they don't	
STEP 2: LET HIGH QUALITY CHARTERS GROW	
8. Set threshold for high quality as the top 10% of all schools within a district, where the charter is educating students who have a comparable demographic profile of the district and are fiscally solvent	
9. Give high flying schools in the top 10% more flexibility to expand	
10. Allow schools enough time to become high performers (5 year renewals)	
11. Assess schools exhibiting poor performance for 3 consecutive years and implement mandatory oversight with clearly defined goals and performance expectations with a one year deadline for improvement	
12. Provide clear guidelines for how & when high quality schools are identified	
13. Spell out a clear process for renewals for charters that are performing moderately well, but do not meet the high quality criteria threshold	
STEP 3: PROTECT STUDENTS AND TAXPAYERS FROM FAILURE	
14. Set the threshold for failing charters so the bottom 10% can be closed	
15. Make closure mandatory and non-appealable for chronically failing schools	
16. Tell schools and families the procedure for closing so families can prepare	
17. Expedite closure	
STEP 4: GIVE STUDENTS STABILITY	
18. Deem closed schools ineligible for reopening with EITC funds	
19. Set clear and limited guidelines for amendments associated with items that moderately adjust the charter but do not include substantial changes to grades or more students	
20. Give predictable criteria for review	
21. Provide authorizers with reasonable timeline to complete review	

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