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The Negative Fiscal Impact of Cyber Charter School Expansion in Pennsylvania Due to COVID-19

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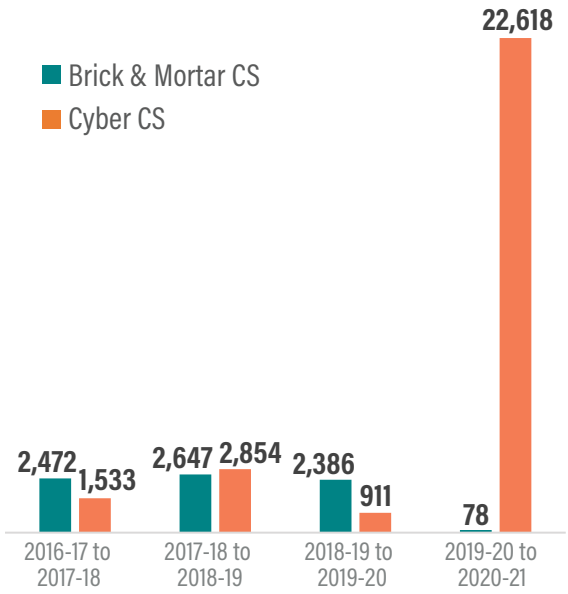
Introduction

Spending on cyber charter schools in Pennsylvania has long vexed leaders of school districts, which pay tuition for each enrolled student from their own budgets. Those concerns boiled over in many communities as cyber charter enrollment soared during the COVID-19 pandemic,[1] leaving Pennsylvania with *the highest cyber charter enrollment of any state.*[2]

In a 2017 study, Research for Action (RFA) found that districts are unable to realize substantial savings when students depart for brick & mortar charter schools, leaving the vast majority of tuition as a "stranded cost" or negative fiscal impact on district finances. Here we apply the findings of that study to estimate the fiscal impact of the expansion of cyber charter schools attributable to the pandemic. We also describe the broader state context. We find that year-one stranded costs were in the range of $300 million dollars statewide, highlighting the need for policymakers to address the inefficient spending on cyber charter schools in current law.

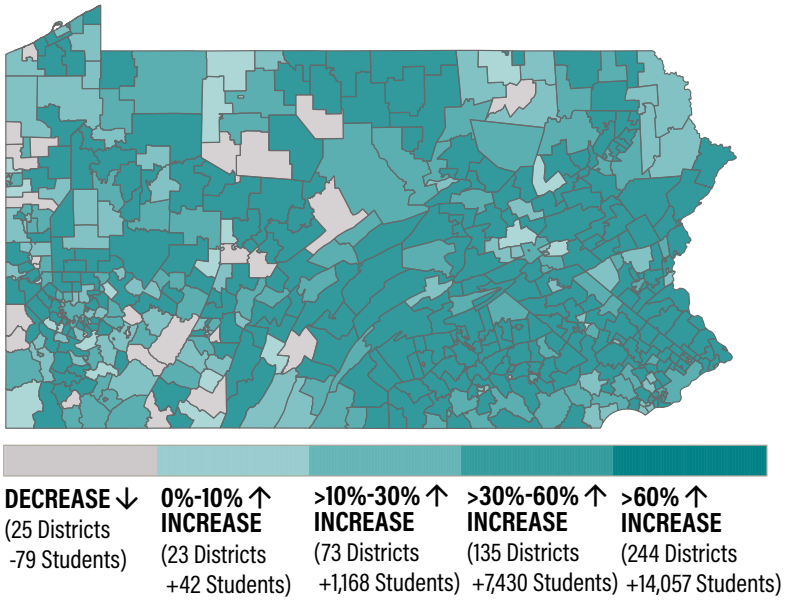
Figure 1. PA Charter School Enrollment Increases: 2017-2021



Cyber Charter School Expansion Due to COVID-19

Enrollment in Pennsylvania's 14 cyber charter schools increased by **22,618 students** between the 2019-20 and 2020-21 school years—a nearly 60% increase from 38,266 students in 2019-20 to 60,884 students in 2020-21. At the same time, in a departure from prior years, brick & mortar charter schools experienced near zero enrollment growth adding only 78 additional students as shown in Figure 1.[3]

Figure 2. Cyber Charter Enrollment Change in PA School Districts between 2019-20 & 2020-21



Pennsylvania is now home to the highest cyber charter school enrollment of any state in the nation. The cause of this unprecedented cyber charter expansion in 2020-21 was largely attributed to family concerns about in-person schooling in the context of the COVID-19 pandemic.[4]

While overall charter enrollment (cyber and brick & mortar combined) is concentrated in a few dozen of the Pennsylvania's 500 school districts, the stark one-year cyber charter school enrollment increase from 2019-20 to 2020-21 was widespread and experienced by nearly every school district community (Figure 2). As discussed below, this enrollment growth led to large increases in cyber charter tuition payments by these same districts.

Estimating Fiscal Impact

The actual cost to operate a cyber charter school is estimated to be 25-30% less than the cost to operate a brick & mortar charter school.[5] However, Pennsylvania law requires school districts to pay per pupil tuition to cyber charter schools at the same rates paid to brick & mortar charter schools.[6]

Because charter school tuition is not based on a school's cost to operate, but rather on the per pupil expenditures of each student's school district of residence, the tuition rate differs for students from each school district. On average Pennsylvania districts pay charter schools $28,553 for each student who receives special education[7] and $12,937 for nonspecial education students.[8] Approximately 20% of students enrolled in the state's cyber charter schools receive special education, compared to just over 17% of students in school districts.[9]

The Pennsylvania Department of Education's (PDE) recent Annual Financial Reports for local education agencies (LEAs) indicate that enrollment expansion due to the COVID-19 pandemic resulted in a *one-year increase* in tuition paid by school districts to cyber charter schools of $335 million.[10] In total, Pennsylvania school districts spent over $1 billion ($1,028,291,198) on cyber charter school tuition in 2020-21, compared to under $700 million ($693,166,174) in 2019-20. As with enrollment growth, increases in tuition payments were experienced by the vast majority of districts.

Theoretically, if school districts could cut their own operating costs at the same rate as these tuition increases they could avoid the financial impact from cyber expansion. However, RFA's 2017 study, **The Fiscal Impact of Charter School Expansion**, found that during year one of charter school expansion, districts are typically only able to realize savings between 3-20% of the cost of the tuition they must pay for students they lose to charter schools, depending on the size of the district. This leaves the remaining 80-97% of year one charter school tuition as a "stranded cost" inefficiency, or a negative fiscal impact that is borne by school districts.[11] The study found that by year five, stranded costs decline as a percentage of tuition (to 32-56%), though total cumulative negative impacts continue to grow.

Due to cyber charter expansion during to the pandemic, Pennsylvania school districts experienced an estimated $290 to $308 million in stranded costs.

To estimate the fiscal impact of cyber charter school expansion during Covid 19, we applied the findings of year one stranded costs from our 2017 study to the increased cyber charter school tuition paid by each district in 2020-21. The applicable ranges were applied to each district's tuition payments based on district size. **We estimate that due to the pandemic, Pennsylvania school districts experienced stranded costs, or negative fiscal impacts, from cyber charter expansion between $290 million and $308 million.** On average each additional student who enrolled in a cyber charter school in 2020-21 created a negative fiscal impact between $12,819 and $13,613 on their school district of residence.[12]

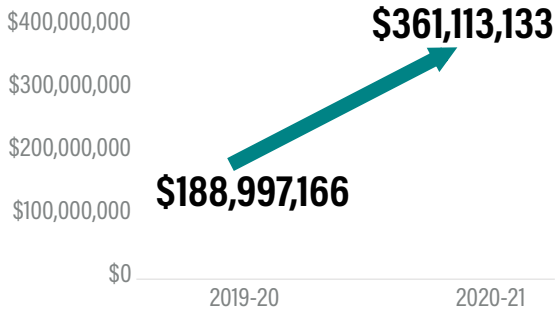
It is likely that these stranded cost estimates are conservatively low. RFA's 2017 study was based on assumptions that are reasonable during typical charter school expansion, but possibly not during expansion driven by COVID-19. For example, under normal circumstances school districts of residence can assume that most students who enroll in a charter school will not be returning to the district in future years. This allows districts to confidently institute cuts to internal staffing and other variable costs accordingly. The uncertainty of whether the cyber charter enrollment increases that occurred due to COVID-19 will hold in future years may have prevented districts from making cuts to variable costs.[13] The inability to make cuts would result in higher fiscal impacts than estimated in our 2017 study.

Additional Context

The negative fiscal impact from cyber charter expansion created significant inefficiency in Pennsylvania's system of school funding. School districts now report charter tuition as their top budget pressure. The Pennsylvania Association for School Business Officials found that local tax revenue increases were eclipsed by increases in cyber charter tuition payments alone and thus never reached students in PA's school district classrooms.

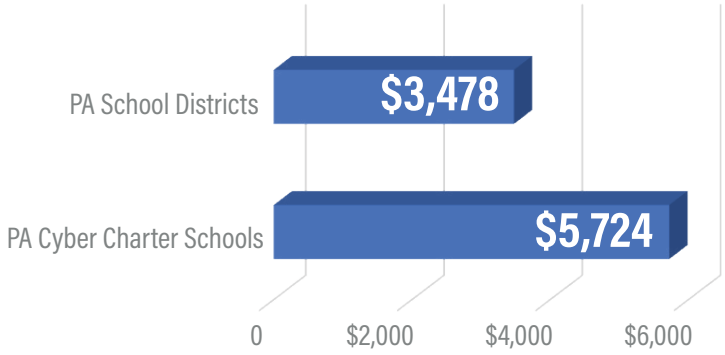
In contrast, the result of increased enrollment along with tuition revenues that exceed operating costs is that cyber charter school operators in Pennsylvania are flush with resources. One measure of fiscal stress for a district or charter LEA is its general fund balance, or the difference between assets and liabilities. As cyber charter enrollment and revenues increased, the combined general fund balances of these LEAs nearly doubled in one year—from $189 million in 2019-20 to $361 million in 2020-21 (Figure 3). Over half the $335 million in additional tuition received from the COVID-19 enrollment spike went to increasing cyber charter school fund balances.

Figure 3. PA Cyber Charter Schools General Fund Balance, 2019-20 to 2020-21



As shown in Figure 4, cyber charters in Pennsylvania now maintain fund balances at nearly $2,250/pupil greater than school districts.[14] Many cyber charters are also using excess resources to pay millions on advertising designed to attract even more students and tuition.

Figure 4. General Fund Balance Per Pupil, 2020-21



In addition, cyber charter schools in Pennsylvania are receiving approximately $240 million in federal funding intended to offset costs due to the pandemic, primarily from the Elementary and Secondary School Emergency Relief (ESSER) Funds.[15] These payments have been described as a "scandalous" waste and some have called for cyber charters to pay back the funding, since cyber schools already operate remotely and experienced little disruption from the pandemic compared to brick & mortar schools.

Meanwhile, before the pandemic, research nationally and in Pennsylvania found that cyber charter instruction had an "overwhelmingly negative" impact on student academic growth. Similar harmful effects on learning were found when school districts moved to virtual instruction during the pandemic.

Given concerns about questionable use of tax revenues and about the quality of student learning, some have suggested that PDE, which is charged with authorizing cyber charters, has not been provided capacity to provide adequate oversight of Pennsylvania's expanding cyber charter sector. Currently 11 of the 14 cyber charter schools are operating without renewed charters and many cyber charter schools have never undergone an enrollment or financial audit. In fact, PDE officials have requested legislative reforms to what they view as an outdated law, citing inefficient processes that "consume thousands of hours" of staff time and highly problematic programs that put vulnerable students at risk.[16]

Finally, one possible unintended consequence of the negative fiscal impact of cyber charter expansion is that, even before the pandemic, the majority of school districts have responded by creating their own virtual schooling options.[17] The primary purpose of starting district virtual programs appears to be, *not for improved pedagogy*, but to lure students back and alleviate the fiscal impacts of cyber charter tuition.[18] Yet even districts which operate their own virtual schools must "pay for redundant systems" when students enroll in cyber charter schools.

Implications

This analysis found that the $335 million in increased tuition payments to cyber charter schools from just one year of expansion triggered by the pandemic resulted in stranded costs, or negative fiscal impact, borne by Pennsylvania school districts in an estimated range of $290-$308 million.

Despite evidence that virtual education on a mass scale has harmful effects on student learning, the inefficient spending on cyber charters required under current law creates perverse financial incentives for (1) more would-be operators to enter the cyber charter school market, (2) for existing operators to spend millions of excess tax dollars on advertising to further increase cyber charter school enrollment and revenues, and (3) for school districts to expand their own virtual education programs.

As of publication, the governing school boards of 432 of Pennsylvania's 500 school districts have passed resolutions calling on the General Assembly "to meaningfully revise the existing flawed charter school funding systems" including overpayments to cyber charter schools. In a recent analysis of cyber charter school funding and legislation across the country, the PA Charter Performance Center of Children First found that most states spend significantly less than Pennsylvania on cyber charter schools and have experienced less rampant expansion. The report offers several commonsense recommendations to bring Pennsylvania more closely in line with best practices in other states that have experimented with virtual schooling.[19]

Two of those recommendations—to (1) create a uniform statewide cyber charter school tuition rate for all districts and (2) better align that rate to actual costs—are already captured in legislation that has been before the Pennsylvania Senate and House for several years.[20] These proposed reforms to the PA charter school law provide an opportunity to reduce the incentives for expansion of cyber schooling and reduce the negative fiscal impacts on school districts.

About PACER and Research for Action

The Pennsylvania Clearinghouse for Education Research (PACER) is a project of Research for Action (RFA), a Pennsylvania-based nonprofit education research organization. RFA seeks to use research as the basis for the improvement of educational opportunities and outcomes for historically underserved children and students. The PACER project is designed to inform state education policy discussions through rigorous, objective research; regular policy briefs; and research-based commentaries. For more information, please visit our website at researchforaction.org/pacer.

Acknowledgements

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End Notes

[1] Over 85% of school district school boards have passed resolutions calling on the General Assembly to reform Pennsylvania's charter school law. (https://www.pacharterchange.org/take-action/school-board-resolutions/).

[2] Children's First, The PA Disconnect in Cyber Charter Oversight and Funding, January 2022 (https://www.childrenfirstpa.org/wp-content/uploads/2022/01/PA-Disconnect-in-Cyber-Charter-Oversight-and-Funding-Children-First-2022.pdf).

[3] The 2020-21 enrollment rates for PA's 14 cyber charter schools varied from a high of over 16,000 students to a low of just over 100 students. Five cyber charters had over 5,000 students and five had fewer than 1,000. Enrollment rates for students of color, students from economic disadvantage, students with disabilities, English Learners, students experiencing homelessness, and students in foster care also varied significantly across the cyber charters. More information is available from the Future Ready PA Index at https://futurereadypa.org/Home/DataFiles. Note that RFA's analysis of charter school enrollment by school district of residence is based on records received via request from the Pennsylvania Department of Education.

[4] Barnum, M. (2020). Virtual charter schools see spike in interest as families grapple with the pandemic's disruption. Chalkbeat; Lieberman, M. (2020). COVID-19 Fuels Big Enrollment Increases in Virtual Schools. Education Week; Goldstein, A. (2021). Pandemic boosts enrollment in cyber charter schools, but costs also are rising. Pittsburgh Post-Gazette.

[5] See Children's First, citing: Education Commission of the States, What State Policymakers Need to Know about Funding Virtual Charter Schools, The Progress of Education Reform February 2014 (https://www.ecs.org/clearinghouse/01/11/11/11111.pdf); the PA Department of the Auditor General, Charter and Cyber Charter Education Funding Reform Should Save Taxpayers $365 Million Annually, June 20, 2012 (https://www.paauditor.gov/Media/Default/Reports/CyberCharterSpecialReport201206.pdf); Bruce D Baker and Justin Bathon, National Education Policy Commission, Financing Online Education and Virtual Schooling, A Guide for Policymakers and Advocates, October 2013 (https://nepc.colorado.edu/publication/financing-online-education); and Kevin Force, (New Mexico) Legislative Education Study Committee, Virtual Charter Schools: Funding and Accountability, September 15, 2016 (https://www.nmlegis.gov/handouts/ALESC%20091416%20Item%2010%20Virtual%20Charter%20Schools%20funding%20and%20accountability.pdf).

[6] See, 24 P.S. § 17-1725-A; and 24 P.S. § 17-1744-A(1).

[7] For explanation of why special education tuition rates often exceed district's actual expenditures, see Special Education Funding in Pennsylvania Charter Schools, Research for Action 2021 https://www.researchforaction.org/research-resources/k-12/special-education-funding-in-pennsylvania-charter-schools/.

[8] The above rates represent an unweighted average. Special education tuition rates for 2020-21 range from a low of $18,214 to a high of $53,169 and nonspecial education tuition rates range from a low of $8,331 to $22,322. Charter school tuition rates are available at https://www.education.pa.gov/K-12/Charter%20Schools/Pages/Charter-School-Funding.aspx. Note: tuition rates are not reported for 78 school districts.

[9] Using data reported by the Pennsylvania Department of Education at https://futurereadypa.org/, RFA calculated that 19.9% of students in PA cyber charters receive special education compared to 17.3% in PA school districts.

[10] School district tuition payments to cyber charter schools are available in the AFR "Tuition Schedule: 2011-12 to 2020-21" at https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx. Six school districts (Sto-Rox, Central Cambria, Phoenixville Area, Southeast Delco, Cheltenham, and Bethlehem-Center) reported students enrolled in cyber charter schools, but did not report tuition payments to cyber charter schools in the AFR data for the 2020-21 school year and are thus excluded from this calculation. Based on enrollment reports, we estimate that combined these districts would have paid an additional $11.7 million in cyber charter tuition in 2020-21. There are several additional districts in which the AFR cyber charter tuition payment data appears inconsistently low compared to the size of enrollment increases reported in PDE's enrollment data (most notably Pittsburgh Public Schools). These districts remained in the statewide calculation, but inconsistencies may indicate that actual statewide fiscal impact was higher than estimates based on the AFR data. A spreadsheet with RFA's fiscal impact estimates by school district is available for download at https://www.researchforaction.org/research-resources/the-negative-fiscal-impact-of-cyber-charter-school-expansion-in-pennsylvania-due-to-covid-19/

[11] RFA's 2017 study found large districts experienced year one stranded costs between 81-88% of tuition, medium districts between 83-93%, and small districts between 94-97%. Districts with an average daily membership (ADM) over 7,551 students were considered large, districts between 3,331 to 7,550 were medium, and districts lower than 3,330 were small. The School District of Philadelphia was in a class of its own with an ADM over 200,000 students and year-one stranded costs estimated at 80% of charter tuition. See Lapp; Lin; Dolson; and Moran. The Fiscal Impact of Charter School Expansion: Calculations in Six Pennsylvania School Districts. Research for Action, September 2017. https://www.researchforaction.org/research-resources/k-12/fiscal-impact-charter-school-expansion-calculations-six-pennsylvania-school-districts/

[12] Per pupil impacts were calculated by dividing total impacts by the total number of additional cyber charter students (22,618).

[13] For example, following the large influx of students in 2020-21, there were 4,122 fewer students enrolled in cyber charter schools for the 2021-22 school year. However, statewide district enrollment did not increase accordingly.

[14] Fund balance data is available at https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx. To calculate a per pupil fund balance RFA divided total fund balance by total average daily membership (ADM), which are available at https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/FinancialDataElements/Pages/default.aspx. Note that school district ADM rates include students in both district and charter schools, so total charter school ADM was subtracted from total district ADM to get an accurate state average fund balance per pupil for PA school districts.

[15] State reports indicate that cyber charter schools are slated to receive over $237 million in total from the ESSER funding. See distributions to PA schools at https://www.education.pa.gov/Schools/safeschools/emergencyplanning/COVID-19/CARESAct/Pages/default.aspx. Several cyber charter schools in PA also received several million in forgiven loans through the Paycheck Protection Program https://www.witf.org/2020/07/07/dozens-of-pa-charter-schools-among-recipients-of-federal-small-business-aid/.

[16] Testimony of Dr. Sherri Smith, Deputy Secretary for the Office of Elementary and Secondary Education at PDE, House Education Committee Public Hearing on the Cyber Charter School Application and Renewal Process March 22, 2022 (https://www.legis.state.pa.us/WU01/LI/TR/Transcripts/2022_0046_0001_TSTMNY.pdf).

[17] Children's First, The PA Disconnect in Cyber Charter Oversight and Funding, January 2022 (https://www.childrenfirstpa.org/wp-content/uploads/2022/01/PA-Disconnect-in-Cyber-Charter-Oversight-and-Funding-Children-First-2022.pdf).

[18] See Carpenter, D. (2021) Pittsburgh Post-Gazette, Bethel Park to offer district-run synchronous cyber-learning option for students (quoting District director of cyber and alternative learning options Brian Lenosky, "If we don't do it, somebody else will, and they will continue to attract our students.").

[19] Children's First, The PA Disconnect in Cyber Charter Oversight and Funding, January 2022 (https://www.childrenfirstpa.org/wp-content/uploads/2022/01/PA-Disconnect-in-Cyber-Charter-Oversight-and-Funding-Children-First-2022.pdf) (finding that 90% of districts operate their own virtual school options).

[20] House Bill 272 of 2021 and Senate Bill 27 of 2021 would create a per-student tuition rate of $9,500 that all Pennsylvania school districts would pay to cyber charter schools.