

Pennsylvania Cyber Charters are Stockpiling Funds that Should be Spent on Students or Returned to Taxpayers

Executive Summary

Cyber charter surpluses are substantial, growing, and unregulated. This issue matters to school districts that are responsible for paying public cyber charter tuition and taxpayers who ultimately foot the bill. State law already prevents school districts from stockpiling excessive reserves, and Pennsylvania's cyber charters should be required to do the same. Cybers should either spend their surplus balances on student improvement or return the money to contributing school districts.

The PA Charter Performance Center analyzed the newly released financial reports for the 2020-21 school year to quantify changes in unrestricted surpluses for Pennsylvania's 14 statewide cyber charter schools and assessed the impact on students and taxpayers. Key findings include:

- + Pennsylvania's 14 cyber charters are sitting on over \$164 million in unrestricted reserves in the school year (SY) 2020-21. The surpluses, also called "unassigned fund balances," more than doubled compared to 2019-20 and skyrocketed seven-fold as compared to SY2018-19.
- + This increase was unique to cyber charters. Unassigned fund balances grew nearly 10 times faster in 2020-21 for cyber charters (+119%) than school districts (+12%).
- + The spike in surpluses cannot be explained by rising cyber charter enrollment. Cyber charter surpluses rose nearly 647% during this time period – over ten times the 63% increase in enrollment.
- + Using the standards applied to Pennsylvania school districts, 11 of 14 cyber charters are holding excessive surpluses.

These unrestricted, uncommitted resources could have been invested in students or returned to taxpayers but, absent reform, Pennsylvania cyber charter schools are not subject to the same oversight and accountability as public schools.

The time has come to update PA Charter School Law. This report makes the case for change and concludes with a set of policy recommendations.

How Do We Measure A Cyber Charter School’s Overall Financial Position?

Every year, cyber charter schools – along with school districts and other local educational agencies – are required to file Annual Financial Reports (AFRs) with the PA Department of Education. AFRs must be prepared in compliance with Government Accounting Standards Board (GASB) principles and are the most complete statement of a school’s finances using data provided by the schools themselves.

One of the key measures of a school’s financial position is its “fund balance” or the difference between assets (what a school owns) and liabilities (what a school owes). Financial experts generally recommend that an organization maintain a fund balance of 5% to 10% to plan for future growth and guard against unforeseen events.

Resources in a school’s fund balance are further categorized as committed, assigned, and unassigned. For example, funds for a planned construction project would be designated as “committed” to a specific purpose. In contrast, “unassigned fund balance” is the portion of a cyber charter’s fund balance that is not “categorized as restricted, committed or assigned.”¹ In other words, it functions as a surplus.

There are no legal or regulatory restrictions on how cyber charters can spend these surpluses which include, but are not limited to, cash. Equally important is the fact that the PA Charter School Law does not place any caps or limitations on how much surplus a charter can accumulate.

These unregulated, unreserved, and undesignated funds provide a good proxy for a cyber charter school’s overall financial position. The PA Charter Performance Center previously analyzed data through SY2019-20 and found that the state’s cyber charter sector was sitting on \$75 million in unrestricted reserves, raising questions about accountability to taxpayers and commitment to student performance.² New data shows that these surpluses more than doubled in SY2020-21.



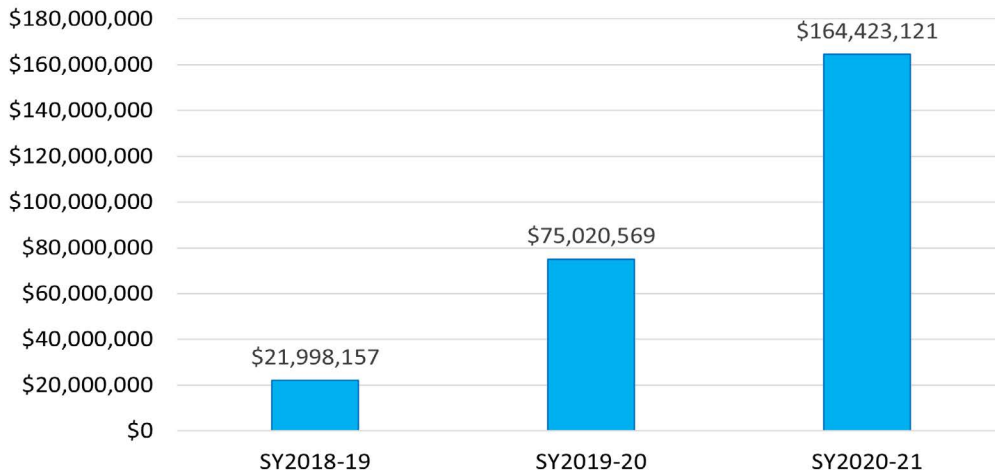
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Cyber Charters Continue To Accumulate Huge, Unrestricted Reserves

Pennsylvania's cyber charters are sitting on a growing stockpile of funds. Financial data provided by the cyber charter schools in their 2020-21 Annual Financial Reports shows the total surplus for PA's 14 cyber charters doubled to \$164 million last year from \$75 million in SY2019-20. This trend is accelerating. In fact, the total surplus grew seven-fold over the last two years from \$22 million to \$164 million.

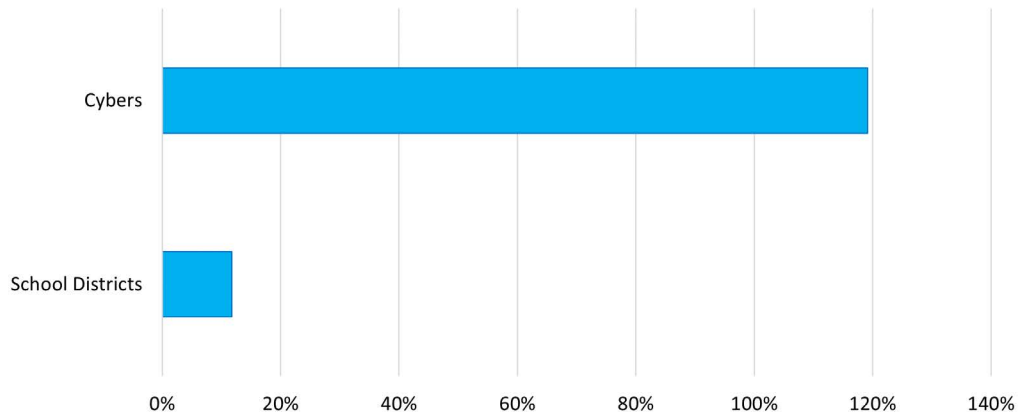
Chart 1: Cyber Surpluses More Than Doubled In 2021, Up Seven-Fold Over Last Two Years



Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

What accounts for this virtual explosion of unrestricted resources for cyber charters over the last two years? Comparing data for Pennsylvania's 500 school districts with its 14 cyber charter schools makes it clear that school districts did not experience the same spike. In fact, cyber charter unassigned fund balances grew by 119% in SY2020-21 or nearly ten times faster than school districts, which only grew by 12%. Clearly, the tuition payments that cyber charter schools receive exceed their actual operating costs, accounting for the huge surpluses they are amassing.

Chart 2: Cyber Surpluses Grew 10 Times More Than School Districts, SY2021 v SY2020



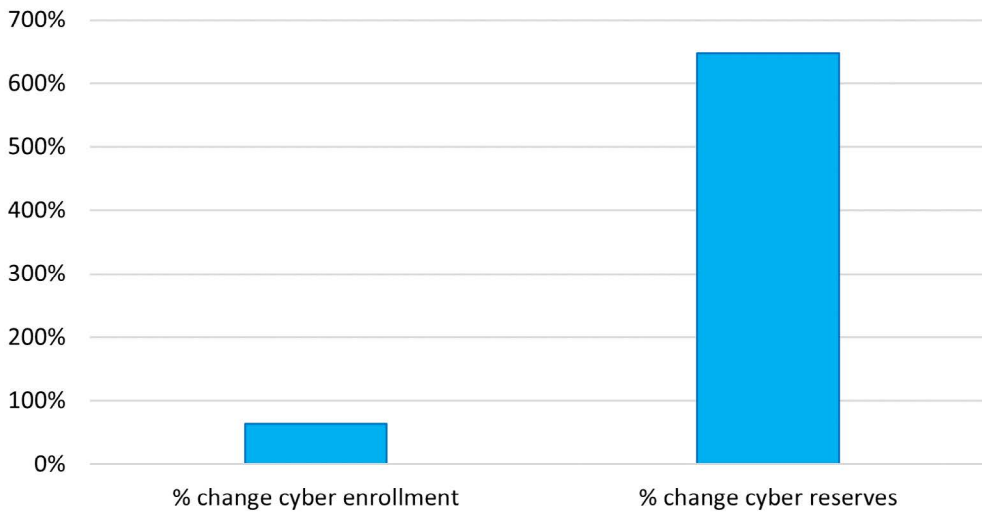
Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

Cyber Surpluses Grew 10 Times More Than School Districts, SY2021 v SY2020			
	SY21	SY20	%Change
School Districts	\$2,207,217,298	\$1,974,518,545	12%
Cyber Charters	\$164,423,121	\$75,020,569	119%

Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

Nor does adjusting for the sharp rise in cyber charter enrollment during the pandemic explain the huge increase in cyber charter surpluses. Cyber charter enrollment rose by 63% between SY2018-19 (the year before the pandemic) and SY2020-21. If the per-student tuition that school districts send to cyber charters were in line with the actual cost of educating a new student, cybers would not have built up substantial new surpluses over the last two years. The fact is that cyber charter surpluses rose nearly 647% during this time period – over ten times the 63% increase in enrollment. The spike in surpluses suggests that cybers elected not to spend available additional resources to improve student learning and instead banked the funds away.

Chart 3: Cyber Reserves Grew 10 Times More than Enrollment, 2019 to 2021



Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21 and Public School Enrollments, 2018-19 and 2020-21

Improving student performance should be a priority for the cyber sector. Every one of Pennsylvania’s statewide cyber charters has been identified as needing improvement under the state’s ESSA School Improvement and Accountability plan, placing them among the state’s lowest performing schools. In addition, 14 cyber charters scored below the statewide average on the latest statistically reliable English and math assessments in SY2018-19.³ (Only one in four (24%) of cyber students took the state assessments in SY2020-21, making the test results unreliable and leaving parents and educators without the data they need to judge cyber charter performance.)

PA Cyber Has A Long History of Amassing Unrestricted Reserves

The figures for some individual cyber charters are shocking. For example, Pennsylvania Cyber amassed a \$63 million surplus last year, a \$31 million increase in a single year. As a point of reference, \$63 million is nearly two-thirds the Level Up funding the legislature appropriated for the 2021-22 school year.

	2018-19 Unassigned Fund Balance 0850	2019-20 Unassigned Fund Balance 0850	2020-21 Unassigned Fund Balance 0850
Pennsylvania Cyber CS	\$13,768,846	\$32,483,919	\$63,308,393
Reach Cyber CS	\$4,668,127	\$12,577,339	\$31,250,087
Insight PA Cyber CS	\$2,282,367	\$1,440,970	\$21,552,509
Pennsylvania Leadership CS	\$1,311,106	\$16,253,358	\$14,171,108
Agora Cyber CS	-\$7,917,955	-\$6,077,179	\$11,269,163
Esperanza Cyber CS	\$1,857,688	\$3,794,731	\$5,982,636
ASPIRA Bilingual Cyber CS	\$988,555	\$1,499,143	\$4,520,292
Achievement House CS	\$1,025,045	\$4,644,765	\$2,938,826
Pennsylvania Virtual CS	\$2,444,236	\$4,644,242	\$2,696,207
Central PA Digital Learning Foundation CS	\$335,064	\$397,058	\$2,301,827
Pennsylvania Distance Learning CS	\$997,153	\$1,436,065	\$1,986,047
21st Century Cyber CS	\$17,762	\$628,015	\$1,439,722
Commonwealth Charter Academy CS	\$220,163	\$904,877	\$608,162
Susq-Cyber CS	\$0	\$393,266	\$398,142
TOTAL	\$21,998,157	\$75,020,569	\$164,423,121

Source: PA Department of Education, General Fund Balance: 2011-12 to 2020-21

Pennsylvania Cyber is the second largest cyber charter in the commonwealth with 10,500 students, making it approximately the same size as the Lancaster School District with 10,200 students. While the educational missions are the same, the Lancaster School District posted a \$17.2 million unassigned fund balance in SY2020-21 – or just 27% of Pennsylvania Cyber’s \$63.3 million for the same year.

Pennsylvania Cyber was audited by two successive PA Auditor Generals in 2012 (5 findings) and 2016 (8 findings). One of the issues raised in the 2012 audit⁴ concerned the size of the cyber charter’s “unreserved fund balance” which at the time stood at \$13 million. The Auditor General described this as “the highest amount among all operating charters and cybers.”

While the Auditor General did not question Pennsylvania Cyber’s intentions or financial planning, he noted that the “lack of specific reporting related to the size of these accounts and how they are expended means that the cyber school does not have to publicly account for their use.”

The Auditor General went on to describe how this failure put local taxpayers at risk:

Since charter and cyber charter schools are funded under the law largely by tuition payments from school district, including local taxpayer money, with students attending the charter or cyber charter school, the need for accountability and monitoring of these discretionary funds is heightened. Any misuse of these “discretionary” unreserved fund balances could result in financial disaster for the school and in a loss of state and local taxpayer money intended for public education.⁵

Ten years after this audit, little has changed. Pennsylvania Cyber’s unassigned fund balance has grown from \$13 million to \$63 million and remains the largest in the cyber sector. Auditor General DeFoor, however, has gone in a different direction from his predecessors by dismantling the Bureau of School Audits and issuing a letter that, due to limited staff resources, his office would not be opening an audit into any cyber charter school.⁶ As a result, there is virtually no protection for taxpayers and nothing that requires to cyber charters to ensure that taxpayer funds are expended for educational purposes.

Most Cyber Charters Are Holding Surpluses That Exceed The 8% Limit for School Districts

Pennsylvania state law (24 PS §6-688) limits the amount of unassigned fund balance to 8% for a school district whose expenditures exceed \$19 million if the district is going to raise taxes. The underlying rationale behind the 8% threshold is to prevent a district from building up excessive reserves and to protect local taxpayers from unnecessary property tax increases. Because cyber charter schools are exempt from these guidelines, there is currently no statutory limit on the amount of surplus a cyber charter school can generate or rules on the use of excessive surpluses.

Absent legal limits on the amount of fund balance that a cyber charter can accumulate, where do most cyber charters fall with respect to the 8% standard? The PA Charter Performance previously analyzed fund balance data for SY2015-16 to SY2019-20 and found that cyber fund balances as a percentage of total expenditures exceeded the 8% benchmark over half (52%) of the time.⁷

Data for the 2020-21 school year show that the problem of excessive surpluses has accelerated. Last year, 11 of 14 cyber charters reported unassigned fund balance in excess of 8% of total expenditures. The unrestricted reserves for three cyber charters – ASPIRA Bilingual Cyber, Esperanza Cyber, and Central PA Digital Learning Foundation – exceeded 50% of expenditures. Insight PA Cyber and Pennsylvania Cyber reported unassigned fund balances over 40% of total expenditures.

Recommendations

Compared to the 27 other states that permit cyber charters, Pennsylvania has some of the weakest systems to ensure students and taxpayers are getting their money's worth.⁸ The Pennsylvania General Assembly and the PA Department of Education (PDE) should enact four specific measures to prevent this financial stockpiling and stem the flow of taxpayer dollars into cyber charter bank accounts.

1. Adopt statutory limits on cyber charter fund balances. The Pennsylvania School Code already caps the amount of unassigned fund balance that a school district can accumulate to 8% as a form of taxpayer protection. The same logic should apply to preventing cyber charters from stockpiling excessive fund balances.

The Commonwealth should adopt new guidelines that require cybers with excessive surpluses to refund payments to contributing school districts and/or spend unassigned resources on student performance. Cybers that fail to meet these stricter standards should be subject to restrictions on new state grants or local revenue.

Several fund balance bills have been introduced in recent years. In the 2022 legislative session, House Bill 314 (Rep. DeLuca) would prohibit payments to charter or cyber charter schools unless those schools have adopted budgets that include an estimated unreserved, undesignated fund balance less than 5% of their total budgeted expenditures. Similarly, in the 2019-20 regular session, HB 1329 (Rep. Carroll) proposed bringing public charter schools in line with school districts by imposing the same limits on the unassigned fund balances that charter schools may accumulate. This bill required public charter schools to refund unassigned fund balances in excess of the limit on a pro rata basis to all school districts that paid tuition to the charter school entity in the prior school year.

2. Audit every cyber charter every three years. According to reporting by the Scranton Times-Tribune, six of fourteen cyber schools have never been audited by the state and others are severely behind schedule. Commonwealth Charter Academy, for example, the state's largest cyber charter with a \$270 million budget, was last audited in 2012. The PA Auditor General Timothy DeFoor should prioritize these overdue reviews, focusing on the cybers with the largest budgets. Instead, the PA Auditor General has chosen to dismantle the Bureau of School Audits and has issued a letter that, due to limited staff resources, his office would not be opening an audit into any cyber charter.

Reversing course would be an opportunity for Auditor General DeFoor to demonstrate his political independence. The "Tim DeFoor for Auditor General campaign" received over \$1.4 million in campaign contributions from the Commonwealth Leaders Fund in the 2019-2020 cycle, a remarkable 79% of all contributions received. School choice proponent Jeff Yaas and his Students First PAC are major contributors of the Commonwealth Leaders Fund.

3. The PA Department of Education should make better use of the charter school renewal process as a tool to improve cyber performance.

Pennsylvania's Charter School Law requires PDE to conduct a comprehensive review process prior to granting a five-year renewal of a cyber charter. The purpose of this process is to enable schools to receive timely feedback and implement corrective action to improve student performance. PDE can also revoke or non-renew the charters of persistently underperforming schools.

Currently 11 of 14 cyber charter schools are overdue to have their charters renewed, including three of the five largest cyber charter schools (Commonwealth Charter Academy, Agora Cyber, and PA Leadership). This means that two out of three cyber students last year were enrolled in a school that was operating beyond the charter's end date. Technically, these charters remain valid until PDE renews or initiates revocation procedures and such procedures are exhausted. In practice, the backlog of reviews is a missed opportunity to use the renewal process as a tool to improve cyber student performance. PDE has begun work on five renewals but has failed to materially reduce the backlog in the last year.

4. Pass cyber charter funding reform. Legislation in both chambers (House Bill 272 and Senate Bill 27) would standardize cyber charter tuition statewide for non-special education students, and require charter schools to use the criteria in the Special Education Funding Formula – the same criteria used by all district-run schools – to calculate special education tuition. According to PDE, these two measures would save school districts \$373 million annually. The magnitude of the excess fund balances documented in this report strengthens the case for tuition reform.

While both bills remain stuck in committee, there has been some notable progress at building bipartisan support in the last year. House Bill 272 currently boasts 70 co-sponsors, including 20 members from the Republican side of the aisle. This is evidence of a growing recognition that charter school funding reform is a taxpayer issue, not a partisan one.

The bottom line is that cyber charters are stockpiling dollars that should either be used to improve student outcomes or be returned to taxpayers. As one education observer summarized, "cybers are not subject to the same kind of oversight and accountability that public schools are, and there is no way to characterize this non-regulation as beneficial to students – it is, in fact, the exact opposite."⁹

Endnotes

1. Pennsylvania Department of Education Accounting Bulletin #2010-01: Implementation of GASB Statement #54: Fund Balance Reporting.
2. PA Charter Performance Center, A New Look at Cyber Charter Fund Balances, June 2021. <https://www.childrenfirstpa.org/report/a-new-look-at-cyber-charter-fund-balances/>
3. Ibid.
4. Pennsylvania Cyber Charter School, Beaver County, Pennsylvania, Performance Audit Report (December 2012).
5. Ibid.
6. <https://edvoterspa.org/wp-content/uploads/2022/06/Response-to-Susan-Spicka-Ltr-5.23.22.pdf>
7. PA Charter Performance Center, A New Look at Cyber Charter Fund Balances, June 2021. <https://www.childrenfirstpa.org/report/a-new-look-at-cyber-charter-fund-balances/>
8. <https://www.childrenfirstpa.org/report/pa-disconnect-in-cyber-charter-oversight-and-funding/>
9. <https://curmudgucation.blogspot.com/2022/01/pa-one-more-cyber-school-regulatory.html>

Children First, formerly known as Public Citizens for Children and Youth (PCCY), serves as the leading child advocacy organization working to improve the lives and life chances of children in southeastern Pennsylvania.

Children First undertakes specific and focused projects in areas affecting the healthy growth and development of children, including child care, public education, child health, juvenile justice, and child welfare.

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