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## **CYBER CHARTERS ARE STOCKPILING DOLLARS THAT SHOULD GO TO STUDENTS**

*New Report Shows PA's Cyber Charters Are Banking Millions*

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PHILADELPHIA (June 22, 2021)— New financial data uncovered by the PA Charter Performance Center shows that Pennsylvania's cyber charter schools are sitting on \$74 million in reserves, raising new questions about charter school spending and their commitment to improving student performance.

"Cyber charter fund balances are substantial, growing, and unregulated. This issue matters to school districts who are responsible for paying public cyber charter tuition and taxpayers who ultimately foot the bill," said ML Wernecke, Director of the PA Charter Performance Center. "Just as school districts can't stockpile excessive reserves, Pennsylvania's cyber charters should be required to spend their surplus balances on student improvement or give the money back to contributing school districts."

The PA Charter Performance Center analyzed expenditure, fund balance, and federal COVID relief payments data to assess changes in financial position for cyber charter schools individually and as a sector. Key findings include:

- The overall financial position of Pennsylvania's cyber charters strengthened substantially in School Year (SY) 2019-2020.
- The injection of over \$200 million in federal COVID relief in 2021 will further strengthen their finances in SY2020-2021.
- Applying the standards set in state law for Pennsylvania school districts, over half of cyber charters have held excessive fund balances over the last five years.

The PA General Assembly can enact specific measures that will prevent this financial stockpiling and weaken the flow to taxpayer dollars into cyber charter bank accounts.

1. Adopt limits on cyber charter fund balances.
2. Audit every cyber charter every three years, an achievable task since there are only 14 cyber charters operating in the commonwealth.

(continued)

3. The PA Department of Education should utilize the charter school renewal process to hold cyber charters accountable and improve performance.
4. Pass cyber charter funding reform that would standardize cyber charter tuition.

*The PA Charter Performance Center, a project of Public Citizens for Children and Youth, seeks to improve the quality of education, especially for at-risk students, by producing unbiased, accurate and timely information that will build momentum for the adoption of sound state-level charter school policy. Learn more at [www.pccy.org/issues/education/pa-charter-performance-center/](http://www.pccy.org/issues/education/pa-charter-performance-center/) and on Twitter (@pa\_charter).*

*PCCY is a non-profit, non-partisan organization that works to improve the lives of children in Bucks, Chester, Delaware, Montgomery, and Philadelphia counties by developing initiatives and advocating for quality health care, child care, public education, and family stability. Learn more on our website ([www.pccy.org](http://www.pccy.org)), Twitter (@pccyteam), and Facebook page (PCCYPage).*

(8-page report attached)

# A New Look at Cyber Charter Fund Balances.

## Are Cyber Charters Stockpiling Resources that Could Improve Student Performance?

### Executive Summary

Pennsylvania school districts and charter schools are required to submit [Annual Financial Reports \(AFR\)](#) to the Pennsylvania Department of Education (PDE) containing detailed expenditure, revenue, and general fund data. The reports are prepared in accordance with Generally Accepted Accounting and Reporting Principles and the data is comparable across schools and years. The PA Charter Performance Center analyzed expenditure, fund balance, and federal COVID relief payments data to assess changes in financial position for cyber charter schools individually and as a sector. Key findings include:

- + The overall financial position of Pennsylvania's cyber charters substantially strengthened in SY2019-2020.
- + The injection of over \$200 million in federal COVID relief in 2021 will further strengthen their finances in SY2020-2021.
- + Applying the standards set in state law for Pennsylvania school districts, over half of cyber charters have held excessive fund balances over the last five years.

This analysis summarizes these findings in the context of the ongoing debate about charter school tuition reform and concludes with a set of policy recommendations.



New financial data documents that Pennsylvania's cyber charter schools posted sharply higher fund balances in the 2019-20 school year, raising new questions about charter school spending and their commitment to improving student performance.



## Unassigned fund balance More than Tripled in the Last Year for the Cyber Sector

In government accounting terms, a cyber charter school's fund balance is the difference between assets and liabilities. While it is important to note that a fund balance includes but is not limited to cash, fund balance generally increases when revenues exceed expenditures in a given year.

There are four categories of fund balance including restricted, committed, or assigned for a specific purpose. For example, funds for a planned construction project would be designated as committed fund balance. In contrast, "[unassigned fund balance](#)" is defined as funds that are available for consumption or not limited in any manner. In other words, these funds are unreserved, undesignated, and a good proxy for a school's overall financial position.

**Table 1: Cybers Gain \$52M in Unassigned fund balances SY2019-20**

	2019-2020 unassigned fund balance	2018-2019 unassigned fund balance	Net Increase	Percent Increase
PA Leadership	\$16,253,358	\$1,311,106	\$14,942,252	1,140%
Achievement House	\$4,644,765	\$1,025,045	\$3,619,720	353%
Commonwealth Charter Academy	\$904,877	\$220,163	\$684,714	311%
Reach Cyber	\$12,577,339	\$4,668,127	\$7,909,212	169%
PA Cyber	\$32,483,919	\$13,768,846	\$18,715,073	136%
21st Century Cyber	\$40,689	\$17,762	\$22,927	129%
Esperanza Cyber	\$3,794,731	\$1,857,688	\$1,937,043	104%
PA Virtual	\$4,644,242	\$2,444,236	\$2,200,006	90%
ASPIRA Bilingual Cyber	\$1,499,143	\$988,555	\$510,588	52%
PA Distance Learning	\$1,436,065	\$997,153	\$438,912	44%
Agora Cyber	(\$6,077,179)	(\$7,917,955)	\$1,840,776	23%
Central PA Digital Learning Fdn	\$397,058	\$335,064	\$61,994	19%
Insight PA Cyber	\$1,440,970	\$2,282,367	(\$841,397)	-37%
<b>Total</b>	<b>\$74,039,977</b>	<b>\$21,995,157</b>	<b>\$52,041,820</b>	<b>237%</b>

Source: <https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx>

Table 1 reports the unassigned fund balances for 13 cyber charters operating in the last two school years. (Susq-Cyber did not have an AFR filed at the time PDE posted the data for the 2019-2020 school year online.)

The data suggests that overall financial position of the vast majority of schools materially strengthened in the SY2019-20.

- + Total unassigned fund balance more than tripled in a single year, rising from \$22 million in 2018-19 to over \$74 million in 2019-20 school year.

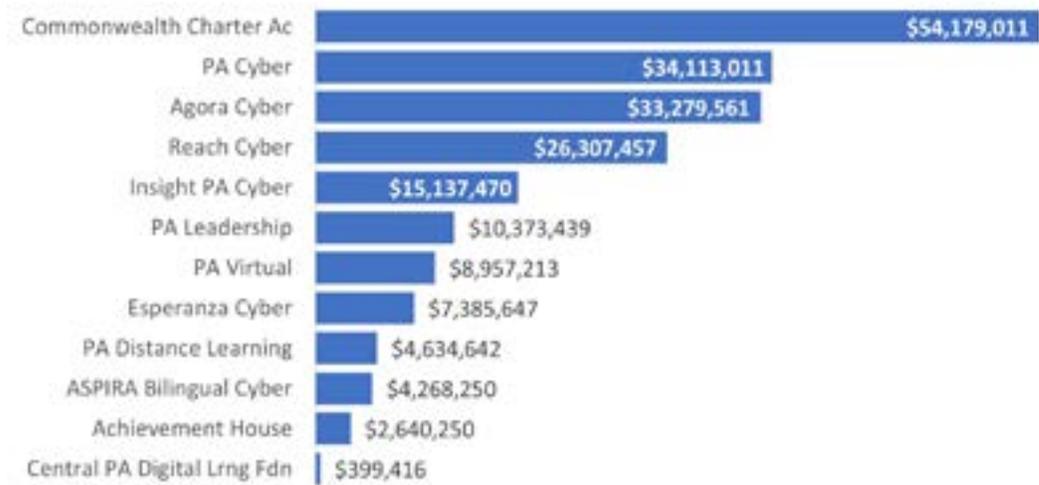
- + Twelve out of thirteen cybers reported a net increase in unassigned fund balance, ranging from 19 percent to 1,140 percent with an average increase of 191 percent. Insight PA reported a 37 percent decrease.
- + One school, Agora Cyber, had a negative unassigned fund balance in both 2019-20 and 2020-21. K12 (now Stride Inc.) is a major educational service provider for both Agora and Insight PA, although it is unclear from the AFRs how that business relationship affects either school's fund balance position.

The 2019-20 Annual Financial Reports offer a snapshot of each school's financial position as of June 30, 2020. Comparing this data to the prior year's results provides verifiable and objective evidence that the financial well-being of individual schools and for the sector as a whole materially strengthened during the 2019-20 school year. The vast majority of cyber charters entered the current school year with positive and growing unassigned fund balances. The advent of substantial federal COVID relief in 2021 provides a major new source of liquidity to support their operations.

### Cybers Received \$201 Million in Largely Unrestricted Federal COVID Relief Funds in 2021

Pennsylvania cybers received over \$151 million in American Rescue Plan funds in March 2021 and \$50 million in ESSER II funds in January. (They also received \$10 million in the first round of ESSER funds in 2020 which would have been reflected in their 2019-20 AFRs.) Chart 1 shows the distribution by cyber charter, with Commonwealth Charter Academy topping the list at \$54 million. 21st Century Cyber and Susq-Cyber did not receive any federal relief funds.

**Chart 1: PA Cyber Charters Reap \$201 Million in American Rescue Plan and ESSER II funds**



According to the US Department of Education, the American Rescue Plan funds are intended to allow schools to invest in strategies “to get students back in the classroom” and address the impacts that the pandemic has had on students. Allowable uses include improving ventilation, purchasing personal protective equipment, providing sufficient staffing to facilitate social distancing, and implementing strategies to address learning loss.

Because cybers already had the hardware, curriculum, teacher training, and technical infrastructure in place, COVID relief funding was a huge windfall for cyber charter schools. Brick and mortar charter schools and district-run schools incurred substantial unbudgeted costs for cleaning, partitions, PPE, and air quality – in addition to the cost of pivoting to online education. Cybers avoided the vast majority of these pandemic-related expenses.

On the revenue side of the ledger, cybers experienced a surge in enrollment and tuition payments from public school districts. Enrollment in cyber charters grew by 22,000 students in the fall of 2020, an unprecedented 60 percent jump. Total tuition payments from school districts to cybers are estimated at \$980 million in 2020-21, up from \$600 million in the prior year. While cybers would incur costs related to this growth in enrollment, these costs would be covered by tuition payments from school districts.

Like online retailers, delivery services, and the creators of video conferencing, cyber school operators were well positioned to grow their businesses during the pandemic. The cyber sector started the year with a healthy \$74 million fund balance and the surge in enrollment coupled with substantial federal assistance exceeded pandemic-related cost increases. While final financial reports will not be available until 2022, the underlying fundamentals were more favorable for the online education sector in 2020-2021 than in recent years.

## Are Cyber Charters Holding Excessive Fund Balances?

An organization's fund balance, or the difference between assets and liabilities, can generally be thought of as a measure of reserves, including but not limited to reserves held as cash. The financial industry generally recommends that organizations maintain fund balances [between 5% and 10% of total operating expenditures](#) and state law contains provisions that apply to school districts, but not brick and mortar or cyber charter schools. Analyzing data for the last five years shows that the majority of cyber charters report fund balances that exceed state standards for school districts and that the share of cybers with excessive fund balances has been growing over time.

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 it is going to raise taxes. The underlying rationale behind the 8% threshold is to prevent a district from building up excessive reserves and protect local taxpayers from unnecessary property tax increases. Because cyber charter schools are exempt from these guidelines, there is currently no statutory limit regarding fund balance or rules on use of fund balances deemed excessive.

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? As shown in Table 2, AFR data from the last five years demonstrates that 8 of 13 cybers (62%) posted fund balances that, as a percent of total expenditures, exceeded the threshold in the PA School Code, and that the share of schools with excessive fund balances is increasing.

**Table 2: 62% of Cyber Fund Balances Exceed 8% PA School Code Standard, SY 2019-20**

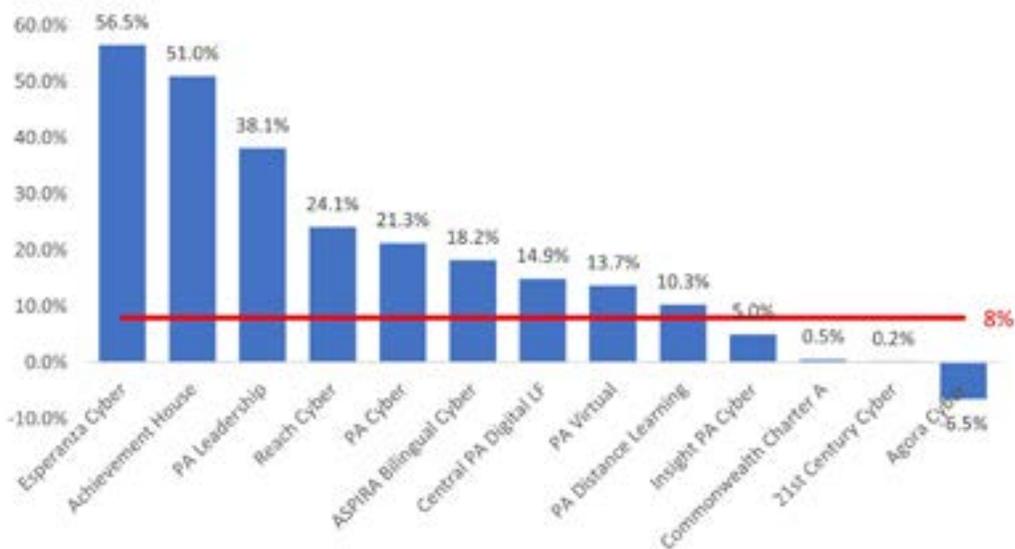
Red shade denotes fund balance over PA School Code threshold *	2015-16	2016-17	2017-18	2018-19	2019-20	Number of years over threshold *
21st Century Cyber	NA	NA	0.4%	0.1%	0.2%	0
Achievement House	NA	NA	3.2%	12.3%	51.0%	2
Agora Cyber	-1.7%	-9.4%	-9.7%	-8.3%	-6.5%	0
ASPIRA Bilingual Cyber	17.2%	-0.1%	14.7%	11.4%	18.2%	4
Central PA Digital Learning Fdn	45.4%	85.9%	93.2%	14.6%	14.9%	5
Commonwealth Charter Academy	2.1%	4.3%	0.7%	0.2%	0.5%	0
Esperanza Cyber	4.4%	16.0%	23.4%	40.0%	56.5%	4
Insight PA Cyber	NA	NA	2.7%	10.3%	5.0%	1
PA Cyber	3.9%	8.3%	16.0%	9.6%	21.3%	4
PA Distance Learning	9.3%	5.1%	9.3%	7.8%	10.3%	0
PA Leadership	1.9%	0.8%	9.5%	3.3%	38.1%	2
PA Virtual	32.3%	31.1%	28.0%	7.4%	13.7%	4
Reach Cyber	NA	26.4%	14.2%	12.4%	24.1%	4
Susq-Cyber	15.1%	1.9%	15.8%	NA	NA	2
<b>Total</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>Total</b>
# of cybers over threshold	4	5	8	7	8	32
# of cybers reporting data	10	11	14	13	13	61
% cybers over PA Sch Code threshold	40%	45%	57%	54%	62%	52%

\*The threshold in Pennsylvania School Code (24 PS §6-688) ranges between 8 to 12 percent depending on the size of the school based on the level of expenditures. The comparable threshold is 8 percent for all cybers except PA Distance Learning (11 percent) and Achievement House, ASPIRA Bilingual Cyber, Central PA Digital Learning Foundation, and Esperanza Cyber (12 percent).

The practice of holding excessive fund balances is not a new or a one-time problem. Over the last five-years, cyber fund balances exceeded the PA School Code schedule over half (52%) of the time. Many cybers accumulate excessive fund balances year after year and six cybers exceed the threshold in the PA School Code in at least four of the last five years.

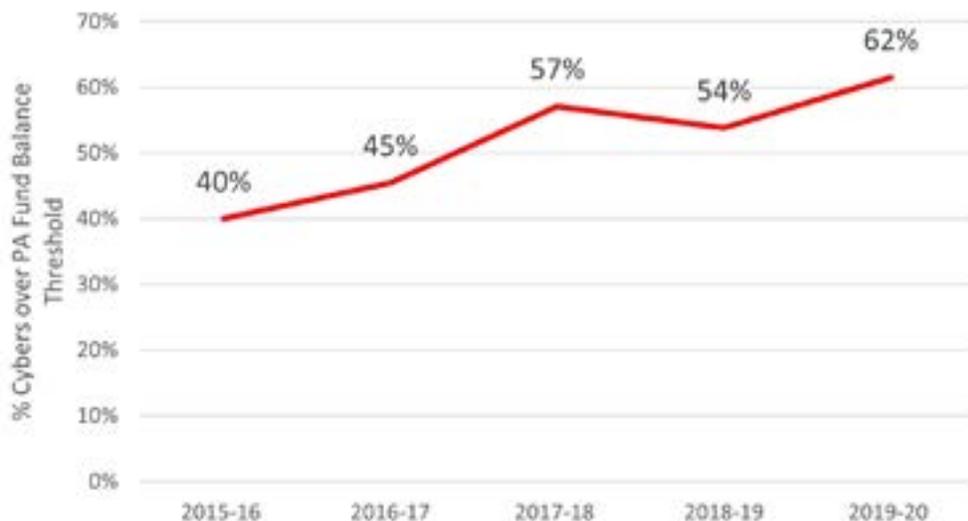
The overage is significant for most cybers. In SY2019-20, cyber fund balances averaged 19% of expenditures – more than twice the 8 percent standard. As is shown in Chart 2, two schools (Achievement House and Esperanza Cyber) reported fund balances over half of their total expenditures and another school (PA Leadership) exceeded 38 percent.

**Chart 2: Excessive Fund Balances Suggest Cybers are Stockpiling Revenues Instead of Spending on Students, SY 2019-20**



Finally, Chart 3 below, shows a clear trend that the issue of excessive fund balances is becoming more widespread. As recently as the 2015-16 school year, 40 percent of cybers exceeded the threshold in the Pennsylvania School Code. By 2019-20, the share of cybers with excessive fund balances rose by more than half to 62 percent.

**Chart 3: Share of Cybers With Fund Balances Exceeding the PA Threshold Trending Higher**



## Recommendations

Cyber charter fund balances are substantial, growing, and unregulated. This issue matters to school districts who are responsible for rising cyber charter tuition payments. It also matters to taxpayers who ultimately foot the bill for Pennsylvania's 14 cyber charter schools.

The PA Charter Performance Center offers four recommendations to curb excessive fund balances and strengthen the way that the state funds cyber charters.

- 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 percent as a form of taxpayer protection. The same logic should apply to preventing cyber charters from stockpiling excessive fund balances.

Several fund balance bills have been introduced in recent years. In the current legislative session, House Bill 314 (Rep. DeLuca) would prohibit payments to charter or cyber charter schools unless those schools have adopted a budget that includes 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 limits on a pro rata basis to all school districts that paid tuition to the charter school entity in the prior school year.

Senate Bill 1, the proposed Excellence in Education for All Act (Senator Martin) is silent on the issue of reducing excessive fund balances despite its goal of providing "additional resources for our most vulnerable students."

The data is clear that too many cyber charters are posting excessive fund balances that should instead be used to improve performance and educate their students. The Commonwealth should adopt new guidelines for cybers with excessive fund balances that require them to refund payments to contributing school districts and/or spend unassigned resources to improve student performance. Cybers that fail to meet these stricter standards should be subject to restrictions on new state grants or local revenue.

- 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. Reviews covering the 2020-21 school year should also examine how federal COVID-relief funds were utilized. This is an opportunity for Auditor General DeFoor to correct a problem he inherited and 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 percent of contributions received. School choice proponent Jeff Yaas and his Students First PAC are major contributors to 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 the Department of Education 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 cybers are overdue to have their charters renewed including three of the five largest cyber charter schools (Commonwealth Charter Academy, Agora Cyber, PA Leadership). As a result, 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 the Department 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.

- 4. *Pass cyber charter funding reform.*** Legislation in both chambers ([House Bill 272](#) and [Senate Bill 27](#)) would standardize cyber charter tuition at \$9,500 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 the Pennsylvania Department of Education, these two measures would save school districts [\\$395 million annually](#) and bring charter school tuition closer to actual costs. The data on excess fund balances presented in this analysis strengthens the case for tuition reform.

Cyber charters received an estimated \$980 million in charter school tuition in the 2020-21 school year, up from \$600 million last year. This 63 percent surge in payments from school districts has turned up the volume on the debate over cyber tuition reform. Defenders of the current system argue that reform “[harms those already hurting](#)” and is “[robbing Peter to pay Paul](#).” In this case, however, the data indicates that Peter has been stockpiling excessive fund balances year after year, suggesting that local taxpayers paying high charter tuition bills are the ones who are being fleeced.

In omnipresent television, radio and online advertisements, Pennsylvania’s cyber charters claim that they are a preferred alternative to traditional public schools. The fact is that every one of Pennsylvania’s cyber charters scored below the statewide average in English and math on the most recent assessments and all 14 have been identified as needing support under the states ESSA School Improvement and Accountability plan.

This isn’t a case of not having the resources; it’s a case of the cybers stockpiling revenues instead of spending them to educate their students. Just as school districts are subject to fund balance limits, Pennsylvania’s cyber charters should be required to spend surplus balances to improve student performance or refund the overage to contributing school districts.

### **About the PA Charter Performance Center**

The [PA Charter Performance Center](#), an initiative of Public Citizens for Children and Youth, produces unbiased, accurate, and timely information to advance sound state-level charter school policy.

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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 the region. Through thoughtful and informed advocacy, community education, targeted service projects and budget analysis, PCCY watches out and speaks out for children and families. PCCY 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.

The PA Charter Performance Center seeks to improve the quality of education, especially for at-risk students, by producing unbiased, accurate and timely information that will build momentum for the adoption of sound state-level charter school policy. The Center seeks to deliver reliable information on school performance for charters and district run schools to advance the policy conversation in Harrisburg and help parents make the best decisions for their children.

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