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*BALANCING 'BRICK-AND-MORTAR' & 'BITS-AND-BYTES':
AN ANALYSIS OF CYBER CHARTER SCHOOL FUNDING
IN PENNSYLVANIA*

Suzie Clarke
Steven Hurlburt
Lindsay Wines



School of Public Policy

EXECUTIVE SUMMARY

Cyber charter schools—K-12 educational organizations that offer full academic programs via the Internet—are a recent phenomenon in Pennsylvania, and have been surrounded by much interest and controversy since their inception in 1998. As the number of cyber charter schools across the country has nearly tripled in two years, Pennsylvania has been at the forefront of this movement. Currently the state hosts eleven cyber charter schools—the most of any state nationwide—with more than 13,000 students enrolled statewide.

However, for more than six years, the state has been mired in controversy as local school districts and education advocacy organizations have challenged the legitimacy of cyber charter schools—in particular, contesting how they are publicly funded. While Pennsylvania took steps in 2002 to resolve these issues with new legislation, a viable, sustainable solution has yet to be found that fulfills the requirements of the No Child Left Behind Act (NCLB), encourages innovation, and satisfies districts and cyber charter schools. The question remains: how and by whom should cyber charter schools be funded?

This paper examines the controversy related to the funding and management of Pennsylvania cyber charter schools through a discussion of the important characteristics of cyber charter schools and their emergence in Pennsylvania. In particular, it looks at the sustainability and fairness of the current funding model from the perspectives of both cyber charters and local school districts. The analysis also describes policy objectives, basic economics, and the politics of cyber charter school activity. It considers the benefits versus costs of cyber schools and analyzes the implications of the various alternative funding structures. Finally, several recommendations are made to improve the funding structure of cyber charter schools in Pennsylvania. Most notably, the Pennsylvania Department of Education should seriously

consider the adoption of a 'sliding-scale' funding approach based on actual operating costs, which in effect would place both oversight and funding responsibilities solely at the state level.

INTRODUCTION

Cyber charter schools—educational organizations that offer full academic programs via the Internet—represent the convergence of two significant movements that are changing the shape of the American educational landscape: the charter school movement and the virtual school movement. Over the past decade, the number of charter schools established has grown dramatically nationwide. As of 2006, nearly 4,000 charter schools were operating in forty states and the District of Columbia, serving 1.15 million students.¹ Likewise, virtual learning programs have witnessed a vast expansion in their own right. According to estimates, over 50,000 K-12 students were enrolled in online courses during the 2001-02 school year, and by 2006, a majority of students were predicted to have taken an online course before graduating.²

Preliminary analysis suggests that cyber charters are not a “trivial byproduct” of these larger movements, but rather integral members that are gaining momentum across the country.³ Indeed, as of 2006, over sixty cyber charter schools were operating in fifteen states.⁴ Scholars suggest that this alternate school model has “begun to challenge traditional definitions of public schooling by delivering instruction from beyond the classroom walls of traditional 'brick and mortar' school houses”—specifically, by “relying on parents and the Internet to deliver much of their curriculum and instruction while minimizing the use of personnel and physical facilities.”⁵

This new schooling paradigm has become the subject of much interest and controversy in recent years, particularly in Pennsylvania, where public scrutiny of cyber charters has prompted debate among policymakers, educators, and advocacy organizations. At issue is the current policy of transferring public money from local school districts to cyber charters. This paper examines the controversy related to the funding and management of cyber charter schools in Pennsylvania, focusing on the question of how and by whom cyber charter schools should be

financed. This analysis begins with a discussion of the important characteristics of cyber charter schools and their emergence in Pennsylvania. Section 2 describes the policy objectives, basic economics, and politics of cyber charter school activity. Section 3 considers the benefits versus costs of cyber schools, and Section 4 discusses the implications of various alternative funding structures. Discussion of the various aspects of the issue helps inform the policy recommendations, which are offered in the final section of this paper.

SECTION 1. OVERVIEW OF CYBER CHARTER SCHOOLS IN PENNSYLVANIA

Features of Cyber Charter Schools

Like traditional charter schools, cyber charters operate free of many educational regulations that apply to other public schools in exchange for accountability to their authorizing bodies.⁶ Cyber charter schools differ from traditional “brick-and-mortar” schools in the several ways. These differences include:

- learning occurring primarily outside of a classroom and often independent of other students;
- delivery of instruction through an alternative medium (e.g., computer);
- enrollment of students who did not previously attend public schools, especially those formerly home-schooled; and
- disregard for geographic barriers, allowing enrollment of students from across the state.⁷

The cost of attending a cyber charter is generally free to the student because it is subsidized by either the state or the district. In addition, cyber charter schools provide students with a computer, books, and other needed materials. A teacher provides online instruction, but a parent is expected to oversee the student’s work at home.⁸

The Emergence of Cyber Charter Schools in Pennsylvania

With the passage of Act 22 in 1997, Pennsylvania became the 27th state to pass charter school reform granting local school districts, or a group of local districts, the power to approve

charters.⁹ The law, however, made no explicit mention of cyber charter schools, leading to the opening of SusQ-Cyber Charter School in 1998. Enrolling students only from within the thirteen districts of the Central Susquehanna Intermediate Unit, SusQ-Cyber attracted little controversy.¹⁰ The opening of a second school—one that attracted students from throughout the state—in 2000 created quite a different public reaction.

The Pennsylvania Cyber Charter School (formerly Western Pennsylvania Cyber Charter School)—established in order to provide more opportunities for area students—originally expected only a small number of students to enroll, but within the first year had enrolled more than 500 students from across the state.¹¹ As a few years passed, this figure grew to nearly 3,000.¹² Invoices from cyber charters, primarily for individuals not previously enrolled in their district (i.e., former home-schooled or private-school students), took many local school districts by surprise. More than sixty districts refused to pay on the grounds that “they had not approved, could not monitor, and were not empowered to regulate,” leaving the Pennsylvania Cyber Charter School with approximately \$900,000 in unpaid bills.¹³ In response, the Pennsylvania Department of Education (PDE) decided to withhold \$850,000 in state aid from the districts with outstanding payments to the cyber charter school. The Pennsylvania School Board Association (PSBA), together with four school districts, countered by suing the state, disputing the legitimacy of cyber charter schools on three primary grounds.¹⁴ First, the PSBA argued that, under Act 22, only local school districts had the authority to grant charters. In the case of cyber charters, districts were being charged with paying the bills without any approval or oversight authority. Second, the PSBA’s lawsuit maintained that cyber charter schools were a significant “drain of resources from local school districts.”¹⁵ According to PSBA estimates cyber charters cost Pennsylvania school districts nearly \$18 million during the 2001-02 school year.¹⁶ Third, the PSBA raised questions with regard to the perceived likeness between cyber charters and home

schooling, citing that roughly 60 percent of students attending a cyber charter school were previously home-schooled.¹⁷

Alongside PSBA's statewide litigation several district-level lawsuits began to crop up. Most notably, TEACH-Einstein Charter Academy—the state's largest cyber charter school at the time—was involved in a number of lawsuits and various complaints from parents for not providing the necessary tools and resources (e.g. computers, Internet access, materials), which ultimately lead to its charter being revoked. In June 2002, under mounting pressures from the cyber charter debate, state legislators revised its charter school law and created Act 88, which “ostensibly created a new school district, one that encompassed the entire state of Pennsylvania.”¹⁸

Act 88 explicitly defined cyber charter schools as “independent schools established and operated under Department of Education charters...which utilize technology to provide a significant portion of [their] curriculum and instruction via the Internet or other electronic means.”¹⁹ Under its authority, Act 88 granted full approval and oversight authority over cyber charter schools to the PDE while maintaining a district-oriented funding structure.²⁰ Since the passage of Act 88, cyber charters have burgeoned across the state. At present, Pennsylvania hosts eleven cyber charter schools with more than 13,000 students enrolled statewide.²¹ As cyber charters continue to expand the debate over cyber charter funding continues unabated, which makes finding the appropriate funding approach all the more important.

SECTION 2. POLICY OBJECTIVES, BASIC ECONOMICS, & POLITICS

This section describes the primary policy objectives, funding and spending, and politics of Pennsylvania's cyber charter schools. To supplement the discussion, extant fiscal data

collected through the National Center for Education Statistics' (NCES) Common Core of Data (CCD), alongside the findings of previous research studies, are examined.²²

Policy Objectives

In seeking a more appropriate funding structure for cyber charter schools, there are several policy objectives that merit consideration.

- **Promote school choice as specified by the No Child Left Behind (NCLB) Act.** Providing parents and pupils with expanded choice in the types of educational opportunities that are available within the public school system is a paramount priority. Cyber charter schools offer Pennsylvania parents and students another option in meeting their educational needs, and provide an alternative to children in failing schools, which are not meeting Adequate Yearly Progress (AYP).²³
- **Encourage innovation and growth of cyber charter schools.** Act 22 states that one goal of the charter school law is to “encourage the use of different and innovative teaching methods.”²⁴ Any change in funding models must allow cyber charters to continue to develop new innovative programs that would benefit students, and have the potential of spreading to traditional public schools.
- **Provide service to underserved student populations.** As Bogden notes, “online education can serve entire classes of students that ordinary public and charter schools do not—students who live in remote areas, those who are homebound for health reasons, professional athletes and entertainers, students who are incarcerated, young parents, and employed students who need flexible schedules.”²⁵
- **Ensure sustainability of cyber charter schools.** Any funding model considered by the PDE must allow cyber charters to receive adequate funding, so they may provide high-quality education to students. It must also ensure that it draws on reliable and ongoing funds, and that these funds be protected from economic instability.

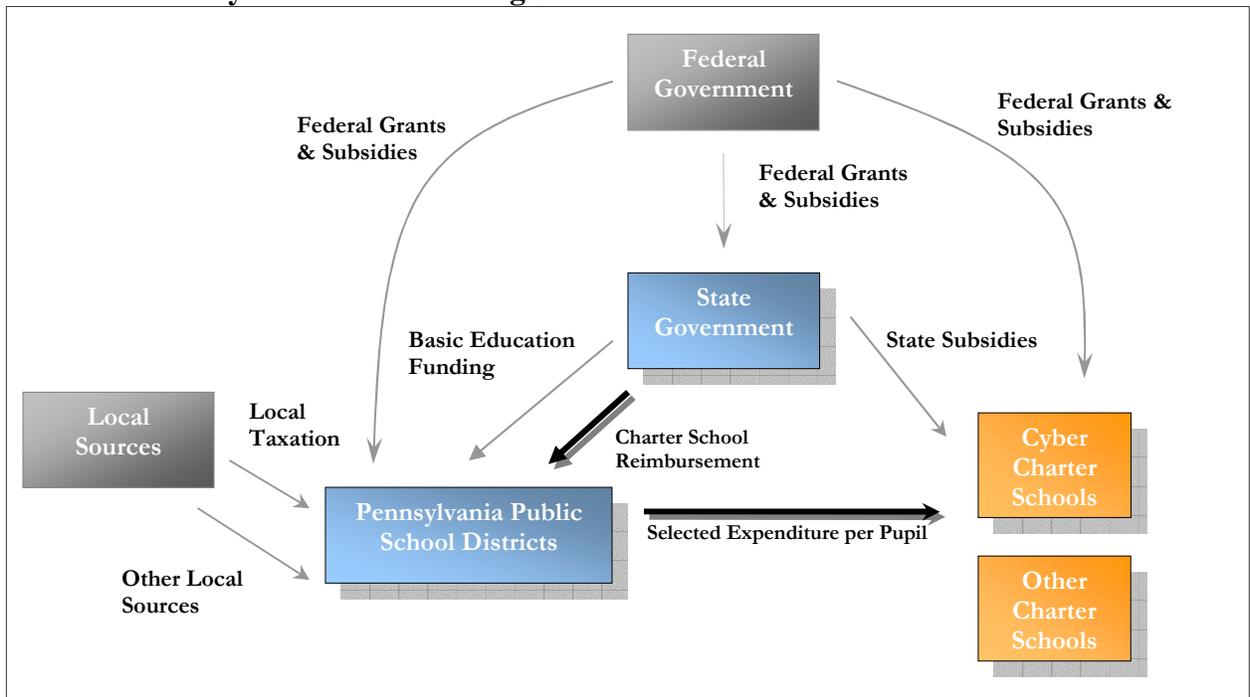
Cyber Charter School Funding & Spending

Cyber Charter School Funding Methods & Sources of Revenue

Pennsylvania’s cyber charter schools are funded in the same manner as other charter schools in the state. Funds are distributed primarily through public school districts, which must pay a selected expenditure per pupil for their resident students who attend traditional or cyber charter schools. This selected expenditure—equal to the resident district’s budgeted total expenditure per student minus a pro rata share of the cost of certain programs that charter schools do not provide—averages roughly 80 percent of what the district of residence spends for each

pupil.²⁶ In exchange, school districts receive reimbursements up to 30 percent, subject to the availability of state funding, of costs incurred for each student of residence attending a charter school. Exhibit 1 represents the basic funding structure for K-12 education in Pennsylvania, with pieces relevant to cyber charter funding highlighted.

Exhibit 1. Pennsylvania K-12 Funding Structure



Examining state policies on the funding of cyber charter schools suggests that the funding methods used differ greatly across the country. According to a 2004 study conducted by the Ohio Legislative Office of Education Oversight (LOEO), seven of the nine states studied, including Pennsylvania, fund their cyber charter schools with the same method used for other charter schools.²⁷ Only Kansas funds cyber charters in the same manner as Pennsylvania—that is, cyber charter school students are counted as part of school district enrollment, and state funds are sent from the state to school districts, who in turn distribute the funds to cyber charters. Two states (Ohio and Colorado) distribute state funds directly to cyber charter schools after subtracting the funds out of the allocation to public school districts; one state (Idaho) calculates the funding

level and distributes state funds to charter schools completely independent of school districts; and the remaining two (Arizona and Wisconsin) use a combination of two of the three methods described above. Of the two states that do not use the same funding method, Alaska provides a lower proportion of funding (80 percent) to virtual schools than it does for other charter schools and Texas uses a separate method based on contact time or credit hours.²⁸

Funding for Cyber Charter Schools

Virtually all—around 98 percent—of Pennsylvania cyber charters’ revenue comes from other Pennsylvania public school systems. During the 2003-04 school year the seven operating cyber charter schools received \$47.8 million in per-pupil district payments, representing nearly 17 percent of the total amount of district-level funding (\$284.2 million) received by all charter schools statewide. State subsidies and federal funding, in contrast, represent only a small fraction of total general revenue for cyber charters—amounting to \$632,000 and \$213,000, respectively. In total, the seven cyber schools received roughly \$48.7 million in total general revenue, an average of \$7,177 per pupil.²⁹ Exhibit 2 shows the 2003-2004 school year local, state, federal, and total funding for each cyber charter school studied, along with each school’s per-pupil funding.

Exhibit 2. Funding of Cyber Charter Schools, 2003-04

School	FTE	Local Funding		State Funding	Federal Funding	Total General Funding	Per-pupil Funding
		Public School Districts	Other Local Sources				
21 st Century Cyber School	330	\$2,674,000	\$11,000	\$50,000	\$--	\$2,735,000	\$8,288
Central Pennsylvania Digital Learning Foundation Charter School	168	\$1,041,000	\$--	\$20,000	\$--	\$1,061,000	\$6,315
Commonwealth Connections Academy Charter School	377	\$2,898,000	\$--	\$21,000	\$--	\$2,919,000	\$7,743

Pennsylvania Learners Online Regional Cyber Charter School	389	\$3,678,000	\$26,000	\$41,000	\$41,000	\$3,786,000	\$9,733
Pennsylvania Cyber Charter School	2,087	\$13,962,000	\$7,000	\$250,000	\$--	\$14,219,000	\$6,8163
Pennsylvania Virtual Charter School	3,330	\$22,876,000	\$3,000	\$240,000	\$172,000	\$23,291,000	\$6,994
SusQ-Cyber Charter School	110	\$719,000	\$1,000	\$10,000	\$--	\$730,000	\$6,636
Total	6,791	\$47,848,000	\$48,000	\$632,000	\$213,000	\$48,741,000	\$7,177

Source: NCES, *Documentation to the NCES Common Core of Data Local Education Agency Universe Survey: SY 2003-2004*

Spending of Cyber Charter Schools

According to NCES data, the total spending of the seven operating cyber charter schools in the 2003-04 school year was \$41,465,000; the average per-pupil spending of the schools was \$6,106.³⁰ Exhibit 3 presents the total and per-pupil spending by school for the 2003-04 school year.

Exhibit 3. Spending of Cyber Charter Schools, 2003-04

School	FTE	Total Expenditure	Per-pupil Expenditure
21 st Century Cyber School	330	\$2,396,000	\$7,261
Central Pennsylvania Digital Learning Foundation Charter School	168	\$915,000	\$5,446
Commonwealth Connections Academy Charter School	377	\$2,845,000	\$7,546
Pennsylvania Learners Online Regional Cyber Charter School	389	\$3,088,000	\$7,938
Pennsylvania Cyber Charter School	2,087	\$10,038,000	\$4,810
Pennsylvania Virtual Charter School	3,330	\$21,512,000	\$6,460
SusQ-Cyber Charter School	110	\$671,000	\$6,100
Total	6,791	\$41,465,000	\$6,106

Source: NCES, *Documentation to the NCES Common Core of Data Local Education Agency Universe Survey: SY 2003-2004*

Just as instructional practices and organizational models differ between cyber charter schools and traditional “brick-and-mortar” schools, so too do their spending patterns. Indeed, as recent research suggests, the expenses confronted by traditional schools do not accurately capture and reflect the same costs of cyber charters.³¹ The most comprehensive analysis of cyber school spending comes from a 2001 study, conducted by KPMG Consulting—the first and, to date, only evaluation of Pennsylvania’s cyber charters. Examining the seven schools that were operational during the 2000-01 school year,³² the study found that cyber charter schools may be a less costly form of education than traditional “brick-and-mortar” schools due to considerably lower facilities, staff, transportation, and food services expenses.

However, cyber charters, not surprisingly, have substantial technology needs—access to servers, computers for all enrolled students, printers, and internet connectivity, and software for curriculum, student tracking, and security. Consequently, cyber charter schools typically experience far larger technology costs than do traditional public schools. Moreover, as the KPMG report suggests, cyber charter schools may also spend more per student on curriculum development and school support services staff (e.g., teacher facilitators, guidance counselors).³³ Similar findings were reported in a 2005 LOEO study of Ohio’s cyber charter schools—known as eCommunity schools in Ohio.³⁴ Collectively, Ohio’s eCommunity schools were reported as spending the largest proportion—nearly 28 percent—of their total expenditures on technology. Curriculum costs were also found to be significant (9 percent overall), but varied considerably depending on the degree of interactive capabilities and whether the curriculum was purchased or developed in-house.³⁵

Although current literature recognizes that cyber charters and traditional “brick-and-mortar” schools have different types of operating costs, findings are relatively inconclusive on

whether the *overall* cost levels vary between the two. This is an area of focus that requires further comparative research, including longitudinal analyses, to determine the actual total long-term costs of creating, operating, and maintaining cyber charters vis-à-vis traditional schools.

Politics of Cyber Charters

At its core, cyber charter education, as Bogden asserts, blurs the line between home and school.³⁶ Cyber charter schools offer “home-schooling families the attractive option of public financing for a home-based education program that relieves parents of much of the instructional burden, at little cost of loss of autonomy,”³⁷ and, indeed, nearly two-thirds of students enrolled in cyber charters were formerly home-schooled.³⁸ To local school districts, these students represent unanticipated education costs that were not previously covered by school budgets. Moreover, many critics have argued that cyber charter schools are simply an extension of home-schooling and, hence, do not deserve public funding.³⁹ On the contrary, others argue that all children have a right to a public education, regardless of whether they were previously home-schooled, and therefore the state should not deny them funding.

Equity and accessibility are also areas of concern. As noted earlier, cyber charters offer full online curricula, but rely significantly on parent/guardian support, which assumes that a parent or guardian must be home with the student each day to supervise instruction. For dual-income and single-parent families, especially those that are low-income, supervision is a barrier to accessibility, leaving some families at a disadvantage. This situation raises questions about if and how equal access can be promoted. Finally, the involvement of profit-seeking entities in providing public education is highly contentious.⁴⁰ Cyber charter schools are often nonprofit institutions that contract with for-profit companies. Some advocate removing the profit motive from public education, arguing that it sullies the integrity of the institution. Others contend that

inclusion of for-profits is beneficial to public education, citing that they “have access to major resources and...have a broad perspective on what is happening in education, technology and public policy.”⁴¹

SECTION 3. SALIENT POLICY ISSUES & CYBER CHARTER SCHOOL FUNDING

Much of the debate around funding for cyber charter schools in Pennsylvania has focused on the funding system used, described in a previous section, which relies primarily on payments from public school districts. Numerous interested parties—charter advocacy centers, research clearinghouses, and education associations—have become involved in the debate, providing policy reports outlining salient issues. This section draws on these reports and other documents to describe the funding of cyber charter schools and the cost and benefits of the funding paradigm.

Financial Policy Issues

Cyber Charter Schools: The ‘Districts’ Burden’ or ‘Boon’?

According to the PDE, school districts spent \$458.2 million on reimbursing cyber and other charter schools in 2005-06.⁴² This dollar amount represents an increase of nearly 25 percent over the \$368 million spent in 2004-05 and just over 57 percent from the \$291.5 million spent in 2003-04. Inherent in the discussion of cyber charter funding is the assumption that current funding levels for traditional school students are adequate. However, public school budgets are viewed as strained in many states, Pennsylvania included. In his article on charter school funding issues, Sugarman explains that “local school districts do not feel themselves able to provide generous funding of charter schools.”⁴³ Education advocacy organizations, such as the PSBA, Pennsylvania State Education Association (PSEA), and the Pennsylvania Association of School Administrators (PASA), view such payments as a undermining local district resources,

and are concerned with what they see as “the diversion of millions of dollars to cyber charter schools from the commonwealth, its public school districts, and ultimately, local taxpayers.”⁴⁴ Under the current system, districts are expected to cover costs for students who chose to exit their local district—or, in the case of many students formerly home-schooled or taught in private schools, who were never formally accounted for in the system—and enroll in a cyber charter. At the same time, school districts have no authority to ensure accountability over their payments to cyber charters, an issue discussed in further detail below.⁴⁵

Conversely, a smaller, less-vocal contingent suggests that rather than being a financial burden, students who attend a cyber charter may actually provide a financial boon to local school districts and taxpayers. According to this argument, school districts may save on costs, because the district is allowed to keep the difference between the selected expenditure mandated by the cyber charter school and the full per-pupil apportionment.⁴⁶ Moreover, districts receive state reimbursements of about 27 percent for each student enrolled in a cyber charter. Some espouse that, in essence, the district is “getting something for nothing”. Realizing these savings, however, requires much greater enrollment shifts than are typically experienced by local school districts, thereby calling into question the soundness of this argument. Small changes do not allow districts to scale back on large spending categories, such as teacher salaries, thus translating into only small decreases in marginal costs.⁴⁷

Inter-District Inequalities: Same School, Different Payments

One general objection to the current funding structure often cited by critics relates to its reliance on district per-pupil expenditures.⁴⁸ As is the case in most states, Pennsylvania funds its

districts largely through local property taxation, and to a lesser, though growing, extent, state sources.⁴⁹ Notwithstanding financial support from the state to local school districts, spending per pupil varies from district to district.⁵⁰ Consequently, as per-pupil expenditures vary across districts, so, too, do the payments made to cyber charter schools.⁵¹ That is to say, each school district is charged a significantly different amount for the same cyber charter school education.

Lower-Cost Provider

Critics also question the needs and expenditures of cyber schools, to which they perceive public funds are “unfairly” being diverted, citing lower facilities, staffing, and transportation costs as evidence of cyber charters’ lower total operating costs.⁵² As explained earlier, however, other categories of spending—including technology and program development—can be substantial for cyber charters. The question of whether cyber charter schools are just as expensive to maintain as traditional schools requires further investigation.

Additional Policy Issues

Cyber charters offer several advantages over traditional schools. First, cyber charter schools are more adept at meeting individual needs of many underserved student populations, as described earlier. Second, cyber charter schools allow for school choice in a way traditional public and private schools cannot by offering an alternative to parents, who have not been satisfied that their child’s needs have been met through traditional public education, but are not qualified or comfortable home-schooling. Similarly, parents who have previously home-schooled their children are taking advantage of cyber charters to provide structure and assistance in educating their children. Third, cyber charters also allow students to take a wider range of courses, such as Advanced Placement (AP) or language courses that may not be offered in their home districts. Fourth, by bringing children who previously were home schooled back into the

public school system, cyber charters ensure that students who were not previously held to state standards and now taking the assessment tests required of students.

However, by providing more students with a public education, Pennsylvania does incur additional costs. Allowing previously home schooled students to enroll in cyber charter schools is a new, and often unanticipated cost to districts. Coupled with this is the potential cost associated with determining residency, and therefore eligibility to attend a cyber charter. For example, there was recently a case involving Senator Rick Santorum (R-Pennsylvania) and the enrollment of his children in a Pennsylvania cyber charter school. Five of his children were enrolled in PA Cyber, with their expenses being paid for by the Penn Hills District taxpayers. However, the school district discovered that although Santorum and his wife owned a house in the district, he and his children primarily reside in a house in Leesburg, Virginia; and therefore the district wanted the \$100,000 in expenses they had incurred repaid. This case illustrates the potential for taxpayers to finance the education of children who do not actually reside in the district.⁵³

Another aspect in weighing the costs versus benefits that needs mentioning is equity and accessibility. Cyber charter schools can bring educational resources to students who previously had been underserved by the public education system, but the full-time nature of most of these schools can preclude students in traditional public schools. Cyber charter schools may disproportionately benefit those students who have parents that can constantly monitor and assist in their child's education; however, this is not the case for all parents. Some parents who currently have their children in public schools and want to put them into a cyber school may be unable to because they can not provide the necessary support due to work schedules, being a single parent, or other extenuating circumstances.

Accountability is also an important aspect to the debate over cyber charter schools. The districts are unable to grant or revoke a cyber charter, yet they have to pay the tuition for district children to attend while having no oversight as to what the money they are providing is used for. This lack of oversight is best illustrated in the current legal inquiry regarding the Pennsylvania Cyber Charter School in Midland, Beaver County. “A state grand jury is investigating allegations of double billing, excessive management fees, questionable payments to building contractors and misuse of tax dollars” with regards to the building of a \$23.5 million Performing Arts Center.⁵⁴ The school district and taxpayers must deal with the costs of inadequate financial oversight by the Pennsylvania Department of Education. “The cyber school’s success—“the Midland Miracle”—was bolstered by a state funding formula that allows cyber schools to keep the difference between their actual costs and what the state pays.”⁵⁵

SECTION 4. FUNDING ALTERNATIVES

Cyber charter schools have established a clear, albeit turbulent, presence in Pennsylvania. Act 88 succeeded in creating a more viable regulatory structure for cyber schooling, recognizing “the reality that the Pennsylvania Department of Education, not [local school districts], is capable of providing accountability for the statewide operation of cyber schools.”⁵⁶ However, increasing state authority has not quelled the larger funding debate. As such, it is necessary for the Pennsylvania government to revisit its current funding structure for cyber charters. On this matter, the Pennsylvania House Education Committee has already taken initiative by proposing legislation that would revise current charter school law. House Bill 2616, introduced in April 2006, calls for transferring funding authority from local school districts to the PDE.⁵⁷ This shift seems like a logical choice, given that the department is currently charged with oversight of cyber charters. Indeed, this reorganization would align academic and fiscal accountability at a

single level, while relieving districts of cyber charter payments. This section aims to inform policy-makers for such a transition. To this end, this section provides a description of three potential funding methods, analyzing the various implications of each solution. It also considers the question of establishing a separate line-item in the state budget for cyber charter funding versus deducting funding from districts' subsidies, as well as several additional suggestions.

State-Level Funding Methods

Foundational State-Level Funding Approach

The most straightforward funding method available to Pennsylvania is to distribute state funds directly to cyber charters after subtracting the funds out of the allocation to local school districts. With this distribution approach, cyber charters are counted in the enrollment of the school districts for basic education funding, but the monies are redirected to the cyber charter schools themselves, instead of traveling indirectly through public school systems. Currently, of the states with operating cyber charter schools, two—Colorado and Ohio—distribute funds in this manner.⁵⁸ In essence, this approach removes the district as an intermediary, but bears little other affect. Consequently, the financial impact, by and large, does not change—inter-district inequalities remain, as more money is deducted from high-affluence districts than low-affluence districts for the same product.

'Sliding-Scale' State-Level Funding Approach

A second approach, put forward in Pennsylvania HB 2616, is to establish a sliding scale, in which funding would be determined on a per-pupil basis based on the size of the school. Specifically, the legislation supports the use of a graduated payment schedule, structured as follows: for cyber charter schools with 1,000 students or less, \$5,000 per student, with 1,000-4,999 students, \$4,000 per student; and with over 5,000 students, \$3,000 per student.

Representative Karen D. Beyer (R-Lehigh/Northampton), a champion of the measure, suggests that it “will ensure a steady stream of funding to the schools, while taking advantage of the economies of scale offered by Internet technology.”⁵⁹

Members of the cyber charter community oppose such legislation, arguing that it would “effectively reduce funding to the schools.”⁶⁰ Moreover, this funding structure is flawed, critics allege, as “costs associated with curriculum, technology, teachers, administering state assessments, and school administration ‘do not decrease on a per-pupil basis’ if a school serves more students.”⁶¹ Such capricious funding assignments, as proposed in HB 2616, could very likely have a negative financial impact on cyber schools by creating a shortfall in per-pupil revenue. Nonetheless, the argument for realizing economies of scale, contrary to what members in the cyber charter community say, is compelling and one that warrants further attention. As the 2001 KPMG report shows, larger cyber charter schools “are better able to leverage their fixed costs across many students, reducing the overall per student cost.”⁶²

Considering the issues addressed above, it may be beneficial for Pennsylvania to determine the actual cost of educating cyber school students so that an adequate level of funding can be established. A sliding scale based on exact costs would solve the imbalance in inter-district deductions, as the same per-pupil allotment would be subtracted from each local school district. At the same time, by eliminating arbitrary funding amounts, it would prevent any potential disincentive to expand enrollment. Because funding is inversely related to enrollment, schools with higher student enrollment may be more sensitive to financial shortfalls if funding does not reflect actual costs. Following this argument, this situation may discourage cyber charters from expanding their student numbers, thus leaving anticipated economies of scale unrealized.

Performance-Based State-Level Funding Approach

Performance-based funding is a third option available to Pennsylvania to consider. This innovative funding approach, pioneered in Florida with its Florida Virtual School (FLVS), ties state appropriations directly to student achievement results, by making allocations contingent upon achievement or improvement.⁶³ That is to say, if students do not pass the course, the school does not get paid for educating them. While certainly a method to increase school accountability, the “no-pass, no-pay” provision may be overly harsh on a schooling model that is still maturing.⁶⁴ Additionally, financial disincentives may curtail innovation, one of the primary policy goals of the charter school movement. Schools may be less inclined to implement new initiatives with the distinct prospect of having funding taken away. Performance-based provisions also raise issues related to charter school autonomy. The basic idea behind charter schools is that “they are generally free from regulation in order to be able to experiment, [and] to be flexible in the way they manage their operations.”⁶⁵ Such financial controls may, as some charter school advocates contend, become a “back door way, [through which] the charter school movement is undermined.”⁶⁶

Basic Education Funding versus Separate Line-Item

Intertwined with this discussion of an appropriate comprehensive state-level funding approach is the question of whether payments to cyber schools should be deducted through a school district’s basic education subsidy or allocated through a separate line-item in the state budget. Although evaluating the full implications of these alternatives is admittedly beyond the scope of this analysis, the salience of the issue nonetheless merits consideration. The following offers a brief overview of the available options and addresses the perceived effects.

As regards the former, local school districts and public education advocacy organizations—though supportive of the transfer of payment from the local to the state level in general—are against any agreement that would subtract from districts’ subsidies. They insist that these payments, even when based on a sliding scale, “would further decrease the Commonwealth’s share of public education.”⁶⁷ Moreover, advocates claim that deducting cyber charter payments from the state-allotted basic education funding would increase the difficulty for districts to predict their revenues.⁶⁸ If the state establishes a sliding-scale or performance-based approach, however, it stands to reason that, although still potentially onerous, the financial burden on local school districts would be less than under the current system. With respect to the latter, delineating funding for cyber charters in a separate line-item in the state budget may prove less controversial, as it would remove all financial obligations from local school districts and, subsequently, eliminate the need for any state reimbursements for cyber charter payments. On the contrary, line-item funding limits the number of students able to enroll to a finite number.⁶⁹ Determining additional financial implications require further analysis.

Additional Alternatives

Along with the alternatives on the issues described above, there are some additional aspects that warrant potential consideration in the development of a funding model for cyber charter schools. These include:

- ***Restriction on cyber school enrollment to students in the public school system.*** To reduce costs associated with students not in the school system, Pennsylvania could decide to restrict enrollment to only those students already enrolled in public schools.
- ***Limits on the number of cyber charters.*** Pennsylvania could impose a limit on the total number of cyber charter schools that are permitted to operate at one time in order to provide adequate oversight, which may decline with an increase in the number of schools.
- ***Establishment of a special fund for large enrollment spikes.*** It would be necessary to establish a fund to compensate for a sudden increase in the number of students returning to public education from home schooling.

SECTION 5. POLICY RECOMMENDATIONS

The experiences of Pennsylvania in confronting cyber charter funding issues shows that, while the state is starting to build an academic and fiscal accountability framework, more work is needed. This section provides a list of recommendations that aim to inform policymakers as they consider revising the funding structure for cyber charter schools.

Establish a State-level ‘Sliding-scale’ Approach. Among the three comprehensive funding approaches, the sliding-scale model appears to be the most appropriate for the PDE to establish. As described earlier, such an approach would remove inter-district inequalities by balancing payments across districts, while, at the same time, placing both academic oversight and funding responsibility solely at the state level. Conversely, the foundational approach does not alleviate the inequality in payments, a chief concern of local school districts; performance-based funding is also inadequate, given the associated, potential risks of stifling innovation and growth. Moreover, applying such a stringent funding system to cyber charters only may be perceived as inequitable, and, hence, an untenable solution in the eyes of the cyber charter community.

Commission a Study to Determine Actual Costs. Arbitrary funding levels, as proposed in HB 2616, however, are not a viable option. Indeed, any payment schedule established by the state must accurately reflect the total costs of cyber charter operations; otherwise cyber charters will become unsustainable, as their costs will outpace available revenue. To this end, the Pennsylvania government should consider commissioning a one-year longitudinal study to determine the actual cost of establishing, operating, and maintaining a cyber charter school in Pennsylvania. Financial data from all eleven cyber charters currently operating in Pennsylvania

over the past five years shall inform this analysis. During this study, a moratorium on additional cyber charter schools is recommended, so as to prevent further schools from proliferating under the current, inadequate funding system. This suspension will not affect those cyber charters currently in operation.

Informed by the findings of this study, Pennsylvania may then be able to establish a sliding-scale based on the actual costs of its cyber charter schools. To encourage continued growth and innovation, the state should re-evaluate these costs on a three-year schedule to account for any changes in the cost of online instruction.

Examine Funding Options. The question of whether to fund cyber charter schools through basic education funding or through a separate line-item in the state budget is one that demands closer inspection. At a general level, both have benefits and drawbacks with the implementation of a sliding scale model in Pennsylvania. Line-item funding would likely eliminate the financial burden on local school districts, but may also encumber cyber charters, by limiting student enrollment. Conversely, subtracting payments from basic education subsidies would ensure that cyber charter schools receive their funding; however, financial liabilities, though reduced, would potentially remain.

Additional Recommendations. Unlike other states, such as Colorado, Pennsylvania believes that all K-12 students have the right to a public education. Therefore, regardless of whether a student was previously home-schooled or attended a private school, the model provides the opportunity for all students to enroll in a cyber charter school and receive public funding. Allowing all students to enroll in a cyber charter school complies with the school choice provisions of NCLB as well as providing a general alternative to parents who may want something different for their children even if they are not in a failing school. On the same note,

limits on the number of cyber schools should not be established, as they would create greater controversy and resentment among the charter school community. A final additional recommendation is the development of a special fund to account for spikes in cyber school enrollment; however, this is not a feasible long-term solution.

CONCLUSION

At present, Pennsylvania is at a crossroads vis-à-vis cyber charter school funding. Four years ago, legislators moved to expand the state role in sanctioning and monitoring public schooling through Act 88, yet larger funding issues remained. By delegating funding responsibilities to the state level and establishing a sliding-scale funding model based on actual costs, Pennsylvania can effectively achieve the necessary balance between promoting the growth of cyber charter schools and alleviating the fiscal concerns of local districts and public education advocacy groups. Moreover, by making the necessary changes to its funding approach, Pennsylvania may prove to be an effective model from which other states interested in cyber schooling may learn.

NOTES

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