

**FREEDOM TO  
SUCCEED  
MAKING  
CYBER CHARTER  
SCHOOLS WORK**

A PENNCAN ISSUE BRIEF



# FREEDOM TO SUCCEED

MAKING CYBER CHARTER  
SCHOOLS WORK

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# Preface

JONATHAN CETEL

PENNCAN EXECUTIVE DIRECTOR

Americans are obsessed with innovation. In our quest for perpetual self-improvement, we've learned to loathe complacency and idolize bold minds, like Steve Jobs or Mark Zuckerberg, who zig when everyone else zags. From health care to finance to countless other industries, we're constantly looking to replace "business as usual" with something new and better.

Unfortunately, this ethos of innovation is largely missing from our public schools. That's why the delivery model for public education throughout the country looks shockingly similar to how it would've looked 100 years ago: students warehoused in a building for seven or eight hours, sitting neatly in rows as the teacher stands in front of the class and provides instruction.

And that's why virtual education is so exciting. The public education system has pockets of innovative programs and innovative governance models, but virtual education represents something quite unlike anything we've ever seen before.

But like all new and emerging technologies, the verdict is still out on its efficacy. At some cyber charter schools, for example, state assessments show that fewer than half of eighth-graders are proficient in math.<sup>1</sup>

Here's what we do know: parents are embracing this model. With more than 30,000 children enrolled in Pennsylvania's cyber charter schools, we know virtual education is more than a passing fad. It's here to stay—and we need to find the policies that will maximize the good it can do.

This is a challenging issue for me. I believe strongly in the principles of school choice and disruptive innovation, but I also believe in quality and accountability. I feel strongly that technology can be a powerful tool to differentiate instruction and create interactive lessons. But I feel just as strongly that the "soft skills" of education—developing character—require children to socialize and interact with each other in school settings.

That's why PennCAN decided to study this issue. We think, quite simply, that there are some policy solutions to make sure that cyber education continues to evolve in Pennsylvania, not just as an *additional* choice for families but as a *high-quality* school option.

We hope this brief inspires dialogue and encourages everyone to challenge their assumptions and think critically about what is possible in public education and how our public policies can help get us there.

<sup>1</sup> "2011-12 PSSA School Level Math and Reading Results," Pennsylvania Department of Education, accessed March 13, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/school\\_assessments/7442](http://www.portal.state.pa.us/portal/server.pt/community/school_assessments/7442).

# Introduction

Pennsylvania passed its charter school law in 1997, empowering local school boards for the first time to award contracts—or charters—to parents, teachers, colleges and non-sectarian nonprofits seeking to open independent public schools. Policymakers hoped charter schools would improve student learning, empower teachers, expand families' educational choices and add more accountability to public schooling.

In that same spirit, Pennsylvania approved Act 88 five years later, permitting the state department of education to authorize cyber charter schools. Like traditional charter schools, cyber charter schools are tuition-free and open to the public. But rather than teaching students in brick-and-mortar school buildings, cyber charter schools provide instruction online.

Research shows that families opt for cyber schooling for a variety of reasons. The poor learning environment at some brick-and-mortar schools pushes some parents to choose online education for their kids. Others like the class choices offered and the ability to control their child's pace through the curriculum. And some parents see cyber education as an alternative to traditional home schooling.<sup>2</sup>

For reasons like these, there is high demand for cyber charter schools in Pennsylvania. At last count, more than 30,000 students were enrolled in cyber charter schools across our state.<sup>3</sup>

Amidst this high demand, however, there are mounting questions about cyber charter schools' performance and funding. State assessments show that many cyber charter schools have low proficiency rates in math and reading. Policymakers also wonder why cyber charter schools need as much money as their brick-and-mortar counterparts despite lower facilities costs.

These are reasonable questions. This issue brief examines those questions and proposes ways to address them, such as empowering multiple authorizers, strengthening accountability and providing equitable funding to give cyber charter schools the freedom they need to succeed.

**2** "A Study of Online Learning: Perspectives of Online Learners and Educators," Buechner Institute for Governance, accessed March 4, 2013, [http://www.cde.state.pa.us/onlinelearning/download/Study%20of%20Online%20Learning\\_Perspectives%20of%20Online%20Learners%20and%20Educators\\_FINAL.pdf](http://www.cde.state.pa.us/onlinelearning/download/Study%20of%20Online%20Learning_Perspectives%20of%20Online%20Learners%20and%20Educators_FINAL.pdf).

**3** "Pennsylvania Charter School Enrollment - 2011-2012," Pennsylvania Department of Education, accessed March 4, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/annual\\_reports\\_and\\_statistics/7357](http://www.portal.state.pa.us/portal/server.pt/community/annual_reports_and_statistics/7357).

# Are cyber charter schools held to high standards?

Right now, the Pennsylvania Department of Education is the only body that reviews and authorizes applications to open cyber charter schools. Likewise, the department is solely responsible for renewing and revoking charters from cyber schools.<sup>4</sup>

Once a cyber charter school is approved, it's legally recognized as a non-profit like any other school. But it's allowed to enter contracts with for-profit companies who provide management and curriculum.

Like other public schools, cyber charter schools are also governed by a set of accountability standards. These rules permit—but don't *require*—the Pennsylvania Department of Education to revoke or deny renewal of a charter for any of the following reasons:

- *Violating one or more conditions, standards or procedures set forth in the charter*
- *Substandard student performance*
- *Financial mismanagement*
- *Breaking the law*
- *Fraud*

Disputes with the department's authorization, renewal or revocation decisions may be taken to a state appeals board. If the matter isn't settled there, cyber charter school applicants and operators may make an additional appeal in a Commonwealth Court.<sup>5</sup>

For the most part, these are reasonable boundaries for authorizing cyber charter schools and holding them accountable. But the question is whether the department should be the only referee on the field.

Over the past few years, department officials have occasionally blown the whistle on low-quality cyber charter schools. In January, the department denied all eight applications to open a cyber charter school, citing concerns about the applicants' caliber of academic programming and their close resemblance to traditional brick-and-mortar schools.<sup>6</sup> Secretary of Education Ronald Tomalis also shut down Frontier Virtual Charter High School after a school review revealed that some students weren't given computers and Internet access, attendance wasn't properly monitored and promises of providing a robust foreign language curriculum were broken.<sup>7</sup>

Unfortunately, tough authorizing and high accountability are the exception, not the norm. Most cyber charter schools aren't living up to

<sup>4</sup> "Pennsylvania Public School Code (Section 1741-A)," Pennsylvania General Assembly, accessed March 5, 2013, <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/1949/0/0014.017A041.000.HTM>.

<sup>5</sup> "Pennsylvania Public School Code (Section 1746-A)," Pennsylvania General Assembly, accessed March 5, 2013, <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/1949/0/0014.017A046.000.HTM>.

<sup>6</sup> Eleanor Chute, "Pennsylvania withholds OK for 8 cyber charter schools," Pittsburgh Post-Gazette, January 29, 2013, accessed March 6, 2013, <http://www.post-gazette.com/stories/news/education/pennsylvania-withholds-ok-for-8-cyber-charter-schools-672451/>.

<sup>7</sup> Mike Bock, "Penn. Virtual School Agrees to Give Up Charter," *Marketplace K-12*, July 6, 2012, [http://blogs.edweek.org/edweek/marketplacek12/2012/07/penn\\_virtual\\_school\\_agrees\\_to\\_give\\_up\\_charter.html](http://blogs.edweek.org/edweek/marketplacek12/2012/07/penn_virtual_school_agrees_to_give_up_charter.html).

their promises to improve student learning, and few of them have been penalized. For instance, the most recent state assessment results show that many cyber charter schools have been unsuccessful in making a majority of eighth-graders proficient in math. And at many cyber charter schools, fewer than two-thirds of eighth-graders are proficient readers.<sup>8</sup> Given these proficiency levels, it's hardly surprising that high school graduation rates are also lagging. In 2012, nearly every cyber charter failed to surpass the statewide high school graduation rate of 83 percent.<sup>9</sup> These results aren't what policymakers had in mind when they enacted our charter school laws.

But we shouldn't simply quit on cyber charter schools. High enrollment numbers indicate a strong demand for alternatives to traditional education. Policymakers should respect that demand—but also find ways to raise the quality of our cyber charter schools. Improving the authorization process and strengthening accountability are sensible places to start.

### ***Policy recommendations***

Pennsylvania should improve the authorization process and strengthen accountability by:

- *Establishing an independent statewide authorizer with expertise in online education.* Research shows that charter schools do best under multiple authorizers.<sup>10</sup> Pennsylvania should establish a statewide authorizer that operates independent of the education department and focuses solely on cyber charter schools. This specialized authorizer will add expertise and capacity in reviewing applications and holding schools accountable for their students' success.
- *Establishing clear and objective metrics of success.* Cyber charter schools should be held to clear and objective performance metrics. They should factor in multiple measures of student achievement, including state test scores, internal assessments, student work portfolios, learning growth, graduation rates and attendance. Cyber charter schools must also be held accountable for meeting clear performance targets on board stewardship and satisfaction among students and parents.
- *Requiring authorizers to shut down persistently low-performing cyber charter schools.* If a cyber charter school persistently misses its performance targets, its authorizer should be *required* to revoke its charter.

<sup>8</sup> "2011-12 PSSA School Level Math and Reading Results," Pennsylvania Department of Education, accessed March 13, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/school\\_assessments/7442](http://www.portal.state.pa.us/portal/server.pt/community/school_assessments/7442).

<sup>9</sup> Marnie Kaplan, Letter to Marlene Kanuck Re: Hearing Testimony on Cyber Charter School Applications, accessed March 13, 2013, [http://www.elc-pa.org/ELC\\_CyberCharterTestimony\\_Nov2012.pdf](http://www.elc-pa.org/ELC_CyberCharterTestimony_Nov2012.pdf).

<sup>10</sup> "Policy Guide: Multiple Charter Authorizing Options," National Association of Charter School Authorizers, accessed March 6, 2013, [http://www.qualitycharters.org/images/stories/Multiple\\_Authorizers.pdf](http://www.qualitycharters.org/images/stories/Multiple_Authorizers.pdf).

In fact, the current law doesn't stop the department of education from revoking a cyber school's charter at any time if necessary. There's no need to wait for a persistently low-performing cyber school's charter to come up for renewal. This high level of accountability is in line with the charter school law's intent to improve student learning while spurring innovation.

- *Rewarding high performers with longer renewal periods.* Along with shutting down low-performing schools, we must also reward cyber charter schools for achieving excellence. If a cyber charter school consistently meets or exceeds its performance targets during its initial renewal period, the authorizer should be free to grant a ten-year renewal charter. Lengthier renewal periods will provide high-performing cyber charter schools with enough long-term stability to finance their central headquarters.
- *Protect parents' right to know.* The law currently protects parents' right to know if a for-profit company has been contracted to manage their child's cyber charter school. But there is a legislative effort underway to take that right away. Since these management providers have varying records of success, it's important for parents to know whether they're putting their children's future in capable hands.

## Cyber charter schools' funding and finances

# 2

Pennsylvania uses a complicated formula to figure out how much money cyber charter schools get for each of their students. The state begins by dividing the total expenditures of a student's resident school district by its average daily attendance. From there, the state deducts money that the student's resident school district would spend on non-public school programs, community college programs, transportation services, facilities acquisition, construction services, special education and financing procedures. The resulting figure is the tuition rate a school district must pay for its student to enroll in a cyber charter school.

In Pennsylvania, a typical cyber charter school ends up with about \$10,935 in per-pupil funding, while an average school district receives

\$14,301.<sup>11</sup> That means we're investing nearly 25 percent less in cyber charter school students than their peers in traditional school districts.

Despite this funding gap, some Pennsylvanians argue that cyber charter schools should receive even less money.

### ***A single tuition rate***

Auditor General Jack Wagner recently called for bringing cyber charter school funding down to a single statewide tuition rate of \$6,500. He criticized the state's funding formula for resulting in school districts paying different tuition rates for their students to attend the same cyber charter school. Wagner believes a single statewide tuition rate would be fairer to school districts and bring Pennsylvania in line with the nation's average spending on cyber charter schools.<sup>12</sup>

This idea isn't new. Back in 2007, the General Assembly's Task Force on School Cost Reduction also proposed paying a single tuition rate, but they argued it should be tied to the actual costs of operating a cyber charter school in Pennsylvania. They placed that cost at \$7,888 dollars per pupil.<sup>13</sup> Based on trends in Pennsylvania's education spending, that would amount to approximately \$9,700 today.<sup>14</sup>

But the truth is, a fair funding solution isn't as simple as a "one size fits all" approach.

Cyber charter schools take on unique costs like supplying students with computers and printers, developing online curriculums and platforms, providing access to broadband Internet and transporting students to testing centers for their state assessments. Costs like these offset much of the money saved on instructional and facilities costs.

Of course, the freedom for cyber charter schools to reallocate savings is exactly the kind of innovation our charter school law intends to encourage. A lower statewide tuition rate would, in effect, limit their inventiveness.

Alternatively, a generous single statewide tuition rate would place an unfair burden on our state's less affluent and rural school districts. For example, the current funding formula results in Reading School District paying about \$8,400 for each of its students who enroll in a cyber charter school.<sup>15</sup> That's a little less than the \$8,700 necessary to send a child to the district's public schools. If cyber charter school tuition were hiked up to a single statewide rate of \$9,700, school districts like Reading would be forced to pay upwards of \$1,000 more per student than they do today. Such added costs could create heavy strains on their budgets.

**11** Stephanie Saul, "Profits and Questions at Online Charter Schools," *New York Times*, December 12, 2011, accessed March 6, 2013, <http://www.nytimes.com/interactive/2011/12/13/us/lagging-in-performance-pennsylvania-online-schools.html?ref=education>.

**12** Jack Wagner, "Special Report: Charter and Cyber Charter Education Funding Reform Should Save Taxpayers \$365 Million Annually," Pennsylvania Department of Auditor General, June 20, 2012, accessed March 6, 2013, <http://www.auditorgen.state.pa.us/Department/Press/CyberCharterSpecialReport201206.pdf>.

**13** "Driving More Dollars into the Classroom," Task Force on School Cost Reduction, accessed March 7, 2013, [http://www.wright.edu/cupa/pdf/gcssd/PA\\_-\\_TFSCR\\_Final\\_Report.pdf](http://www.wright.edu/cupa/pdf/gcssd/PA_-_TFSCR_Final_Report.pdf).

**14** This calculation assumes that trends in Pennsylvania school districts' expenditures between the 2005-2006 and 2010-2011 school years are holding. In these years, school districts' expenditures per average daily membership grew approximately 23 percent, and we assume that expenditures would likewise grow for cyber charter schools. See "AFR Data: Summary Level," Pennsylvania Department of Education, accessed March 7, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/afr\\_excel\\_data\\_files/509047](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/afr_excel_data_files/509047).

**15** "Charter School Funding in Pennsylvania (2011-2012 Selected Expenditures Per ADM)," Pennsylvania Department of Education, accessed March 8, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/charter\\_school\\_funding/8661](http://www.portal.state.pa.us/portal/server.pt/community/charter_school_funding/8661).

## ***The PSERS double dip***

Per-pupil spending isn't the only funding issue vexing educators and policymakers.

They're also rightfully concerned with what's commonly known as the "PSERS double dip." PSERS is Pennsylvania's Public School Employees Retirement System. Every school district is required to pay state and local contributions to PSERS. The state later reimburses school districts for its share of the contribution. This funding is included in the tuition payments that school districts are required to send on behalf of students who choose to attend charter schools. Yet because of the way our charter school law is written, the state is also required to send its portion of the PSERS contribution directly to charter schools. As a result, cyber and traditional charter schools are effectively reimbursed twice—or "double dip"—for PSERS contributions.<sup>16</sup>

## ***Budget surpluses***

Another warranted concern is that cyber charter schools are keeping large budget surpluses.<sup>17</sup> In 2011, some cyber charter schools posted funding balances exceeding 50 percent of their total revenue.<sup>18</sup> While there's not one ideal percentage of revenue to keep on hand, ratings agencies generally recommend keeping surpluses between 5 and 10 percent.<sup>19</sup> Cyber charter schools should be free to hold on to some revenue in anticipation of capital projects or school districts missing payments, but there should be reasonable limits.

## ***Advertising costs***

Another issue is the amounts of money cyber charter schools spend on advertising. In the 2009–2010 school year, one cyber charter school dished out \$2 million in advertising costs.<sup>20</sup> It's certainly a fair question to ask whether advertisements are the best use of taxpayer dollars. But if advertising were prohibited, how else would cyber charter schools attract students from across the state?

For cyber charter schools to succeed, policymakers must tackle these issues head on with equity and fairness in mind.

**16** Jack A. Myers, Testimony of the Pennsylvania Association of School Business Officials to the House Education Committee, July 28, 2011, accessed March 7, 2013, [http://www.pasbo.org/28Jul11\\_Charter\\_Schools\\_Final.pdf](http://www.pasbo.org/28Jul11_Charter_Schools_Final.pdf).

**17** "Auditor General Jack Wagner Says Pennsylvania Cyber Charter School's Reserve Funds Highlight Need to Fix Funding Formula," Pennsylvania Department of the Auditor General, accessed March 6, 2013, [http://www.auditorgen.state.pa.us/Department/Press/Wagner\\_SaysPACyberCharterReserveFundsHighlight.html](http://www.auditorgen.state.pa.us/Department/Press/Wagner_SaysPACyberCharterReserveFundsHighlight.html).

**18** "AFR Data: Detailed (General Fund Balance: 1996-7 to 2010-11)," Pennsylvania Department of Education, accessed March 8, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049). See also "AFR Data: Detailed (Local Revenue: 2003-04 to 2010-11)," Pennsylvania Department of Education, accessed March 8, 2013, [http://www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/other\\_financial\\_information/509049](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/other_financial_information/509049).

**19** "Fund Balance FAQs," Pennsylvania School Board Association, accessed March 8, 2013, <http://www.pasba.org/issues-advocacy/issues-research/funding-finance/fund-balance-faqs.asp>.

**20** Rich Lord, "Pennsylvania Auditor General: PA charter school part of a 'broken system'," Pittsburgh Post-Gazette, December 6, 2012, accessed March 12, 2013, <http://www.post-gazette.com/stories/news/education/pennsylvania-auditor-general-pa-charter-school-part-of-broken-system-665219/>.

## ***Policy recommendations***

Here's how we can fund cyber charter schools for success:

- *Give cyber charter schools their fair share.* The current funding formula for cyber and traditional charter schools is flawed, but policymakers should reject any proposal for a single statewide tuition rate. Taking that approach will likely overburden less affluent school districts or shortchange more than 30,000 children. At the same time, cyber schools must be willing to accept fair reforms such as ending the PSERS double dip.
- *Put a cap on budget surpluses.* It's good fiscal sense for cyber charters schools to set aside money for the future. But it's not right to sit on piles of taxpayer dollars that should be spent on providing children with the best education possible. Therefore, policymakers should work towards establishing a cap on the percentage of total revenue that cyber charter schools can set aside as surplus funds. We think a cap between 8 and 12 percent is a good place for policymakers to begin this conversation.
- *Limit how much cyber charter schools can spend on advertising.* Unlike traditional public schools that draw students from their school district, cyber charter schools draw students from across the state. Families looking for the right educational option for their child need to know what's available to them. Advertising is one of the most direct ways for cyber charter schools to let parents know what they have to offer. But advertising should make up a limited percentage of cyber charter schools' budgets. Policymakers should consult with cyber charter school leaders, the department of education and other experts to figure out a reasonable cap.
- *Accountability is the best funding policy.* Ultimately, the best funding policy is to fund what's working. We need increased authorizing capacity to hold cyber charter schools accountable for success. We shouldn't hesitate to reward high-performers, but we also shouldn't hesitate to take away charters from schools that aren't making progress with our students.

# Conclusion

Virtual education is here to stay. More than 30,000 children are enrolled in Pennsylvania's cyber charter schools, and this demand will likely continue to grow. That's why policymakers must figure out ways to raise quality.

But they shouldn't limit their efforts to cyber charter schools. Traditional brick-and-mortar charter schools are also desperate for the freedom to succeed.

They need more authorizers to add expertise, increase capacity and raise accountability for student achievement. They need a fairer funding formula so their students aren't shortchanged in the classroom. Perhaps most of all, they need consistent, clear and objective measures of what it means for their students to succeed. And when they figure out what works best, there shouldn't be any roadblocks in the way when they try to replicate success.

Since December 2011, the General Assembly has made three attempts to improve our state's charter school law along these lines. Unfortunately, inaction has won every time. But our children can't afford to wait any longer.

In addition to the 30,000 children enrolled in cyber charter schools, 70,000 more are enrolled in brick-and-mortar charter schools.<sup>21</sup> These 100,000 children are counting on us adults to give their schools the freedom to succeed. Their future—and Pennsylvania's future—depend on us making meaningful changes to our charter school law.

**21** "The Public Charter Schools Dashboard," National Alliance for Public Charter Schools, accessed March 12, 2013, <http://dashboard.publiccharters.org/dashboard/students/page/overview/state/PA/year/2012>.

# About PennCAN

PennCAN: The Pennsylvania Campaign for Achievement Now launched in spring 2012 as an education reform advocacy organization building a movement of Pennsylvanians with the political will to enact smart public policies so that every Pennsylvania child has access to a great public school. We are a branch of 50CAN: The 50-State Campaign for Achievement Now, a growing national network of state-based education reform advocacy groups with campaigns in Rhode Island, Minnesota, New York and Maryland based on the groundbreaking model developed by ConnCAN in Connecticut.

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