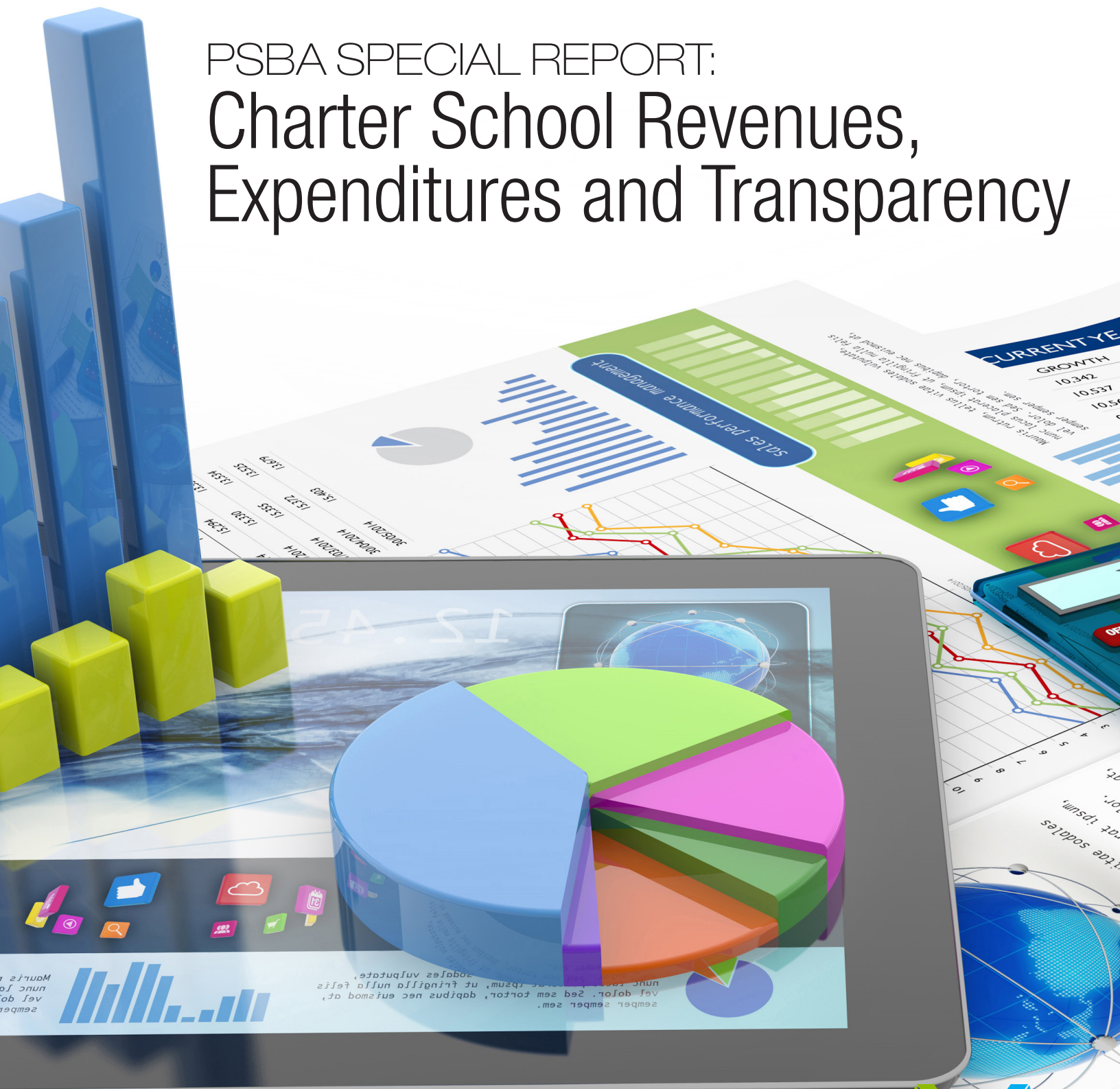


PSBA SPECIAL REPORT: Charter School Revenues, Expenditures and Transparency



PSBA
Pennsylvania School Boards Association



Founded in 1895, PSBA is the voice for public education and the work of strong local school boards in the halls of the Capitol. The association is committed to supporting an effective child-centered public education that is adequately and equitably funded.

In October 2015, school directors voting at PSBA's Delegate Assembly selected four legislative priorities for the 2015-16 session of the General Assembly. This paper provides an in-depth discussion on the priority issue of enacting meaningful charter school reform.



Introduction

Since charter schools first came into existence in Pennsylvania in 1997, they have been a topic of interest for parents, educators, businesses and communities. Charter schools were created with the intent of allowing communities to establish public schools independent from existing traditional public schools as a means to improve student performance, increase learning opportunities, encourage innovation, create professional development opportunities for teachers, and to provide expanded school choice, particularly to provide opportunities for children that were being underserved.¹ As used in this report, the term “charter school” includes both brick-and-mortar charter schools and cyber charter schools unless otherwise stated.

Charter schools were intended to be different from traditional public school districts to provide a model for innovations in education. Many of the laws, regulations and other mandates that dictate what school districts are required to do, how they must do it and, ultimately, how much will be spent in order to get it done do not apply to charter schools. Charter schools, organized as public nonprofit organizations, are also not subject to the same local controls as a school district.

Under the current Charter School Law, last updated in 2002, school districts are primarily responsible for authorizing the creation of, assessing the performance of, and periodically re-authorizing brick-and-mortar charter schools located within their boundaries. Charter schools also receive the bulk of their funding via payments from the school district where the charter school student resides. This current mechanism of funding charter schools places school districts and charter schools in an adversarial position despite the intention of providing students and parents with educational choices.

In order to assess who is doing a better job of educating Pennsylvania’s youth, the debate over charter versus traditional public schools

Pennsylvania Coalition of Public Charter Schools was quoted as saying, “[t]he Pennsylvania Coalition of Public Charter Schools has no problem with either transparency or full responsiveness to legitimate RTK requests, but when the law is being used to harass, rather than inform, then the requests should be denied.”³

typically centers on issues like student performance, financial management of public funds and accountability/transparency. Although this report does not examine student performance, it does take a closer look at how charter schools and school districts are spending public funds and it highlights some of the issues encountered by the Pennsylvania School Boards Association (PSBA) in obtaining information from charter schools under the Pennsylvania Right-to-Know Law.

Purpose

PSBA sought to collect, compile and analyze information on charter school revenues and expenditures in order to compare that information to traditional school districts, when possible, and report the findings. In doing so, the data assembled (and the difficulty obtaining public records from some charter schools) would highlight issues that either warrant further consideration or are in need of addressing by the General Assembly to ensure a level playing field for charters and school districts and to ensure the prudent use of public education funds.

Data for this report was obtained in three ways: a Right-to-Know (RtK) request sent to each charter school; accessing publicly available data from the Pennsylvania Department of Education (PDE); and finally, analyzing organizational tax returns (IRS 990 form) for each charter school where a return could be found.

Right-to-Know Requests -

In May 2015, PSBA sent requests under the Pennsylvania Right-to-Know Law to all 173 charter schools then in existence across the state. As local agencies under the law, charter schools are required to allow access to public records in accordance with the law.² The requests sought information related to advanced course offerings, salaries of administrators (including contractors), foundations created to provide financial or other support to the school or its students, donations made to the school, real estate transactions, and marketing/advertising expenditures.

Shortly after the requests were sent, a spokesperson for the Pennsylvania Coalition of Public Charter Schools was quoted as saying, “[t]he Pennsylvania Coalition of Public Charter Schools has no problem with either transparency or full responsiveness to legitimate RTK requests, but when the law is being used to harass, rather than inform, then the requests should be denied.”³ Most charter schools ignored this unlawful advice and complied with the law by providing PSBA with access to public records.

Slightly more than 53% of charter schools complied with the request without any additional action by PSBA. Appeals were filed with the Pennsylvania Office of Open Records (OOR) for 75 requests due to

the request being denied or deemed denied due to a lack of a response by the charter school. In those cases where appeals were filed, 36% complied with the request following filing of the appeal (the appeal was then withdrawn), 39% complied after a decision from OOR either granting or partially granting the appeal, and 25% did not comply with the request even after a decision from OOR either granting or partially granting the appeal.⁴

Table 1

	Number of Charter Schools	Percent of Charter Schools
Complied without the need to file an appeal	92	53.2
Complied after PSBA filed appeal with OOR (appeal withdrawn)	27	15.6
Complied after PSBA won appeal with OOR	29	16.8
Did not comply/respond even after PSBA won appeal with OOR ⁵	19	11.0
Records not obtained due to other reasons	6	3.5
TOTAL	173	100%

The records submitted by charter schools as part of the RtK request can be accessed through the PSBA website.

PDE Data and 990 Returns –

Data collected from PDE included the following: Annual Financial Report data, Public School Enrollment Reports, Professional Staff Summary Reports, and Charter School Tuition Rates and Calculation Data. All data are available on PDE's publicly accessible website.

In order to gain another perspective on charter school revenues and expenditures, individual charter school tax returns (IRS 990 forms) for 167 charter schools for the tax year beginning July 1, 2013, the latest year for which data are consistently available, were compiled from public sources and analyzed.

PSBA wishes to thank Allison S. Petersen, Esq. of Levin Legal Group, P.C. and Dr. Edward Fuller and Dr. William Hartman from the Department of Education Policy of the Pennsylvania State University for their assistance with this project.

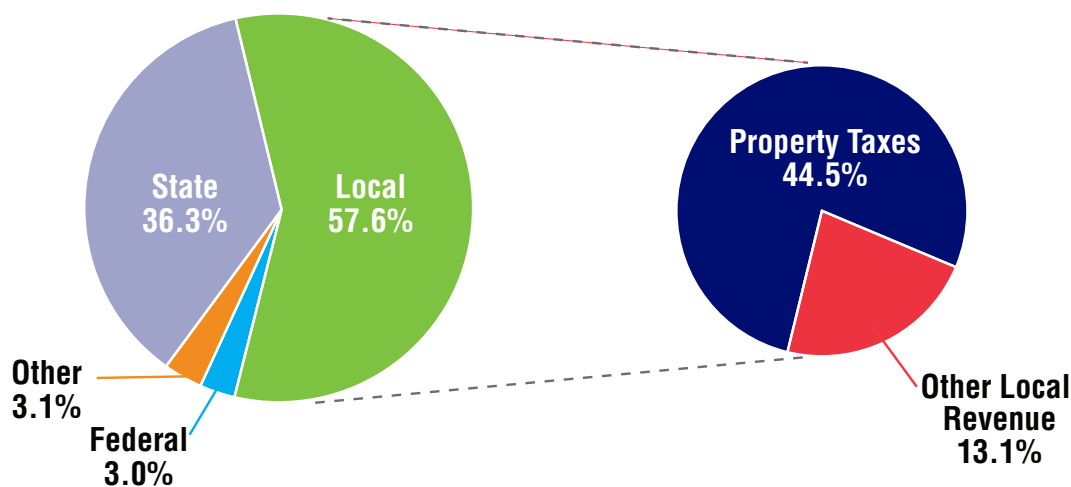


Charter School and School District Revenues

Revenue Sources

School districts and charter schools have very different sources of revenue. As shown in Figure 1, school district funding comes primarily from local sources (57.6%) such as property taxes and state subsidies (36.3%). School districts also receive some federal funding (3%) and revenue from other sources such as issuing bonds (3.1%). While Figure 1 shows the overall revenue picture for all Pennsylvania school districts, it is important to note that revenue from each source, particularly local and state, varies widely from district to district.⁶

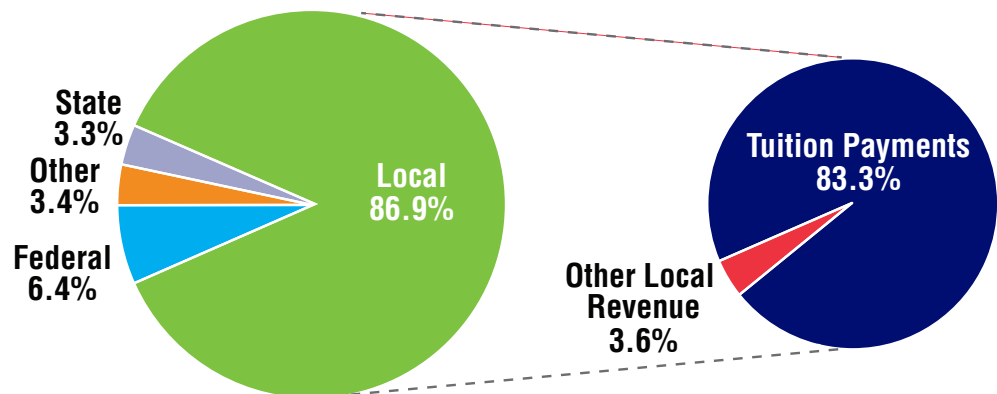
Figure 1 School District Revenue Sources 2014-15



Specifically, charter schools receive 83.3% of their revenue in the form of tuition payments from school districts.

As shown in Figure 2, charter school revenues come almost entirely from mandatory tuition payments from school districts with students attending the charter school. Specifically, charter schools receive 83.3% of their revenue in the form of tuition payments from school districts. This is much larger than the highest single source of revenue for school districts – property taxes (44.5%).

Figure 2 Charter School Revenue Sources 2014-15



Charter School Tuition Payments

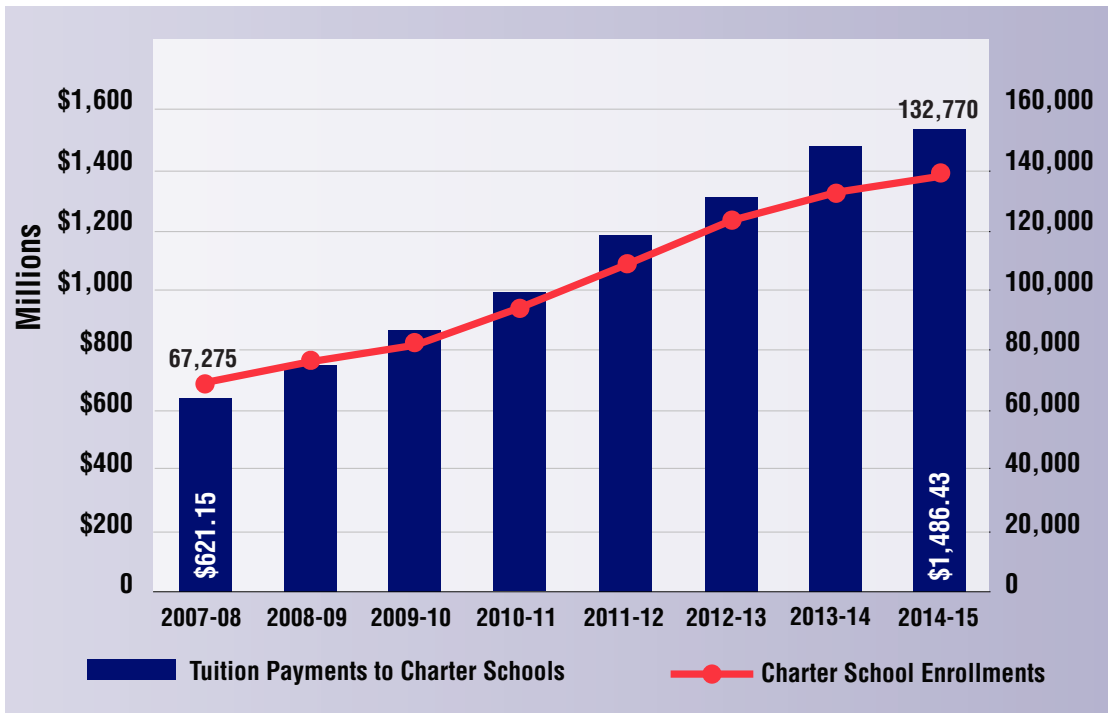
Under the Charter School Law, tuition payments are calculated based on the budgeted expenditures of the student's school district of residence rather than charter school's cost to educate a student.⁷

Because tuition payments are calculated based on the home school district's expenditures, charter schools can receive vastly different payments to provide the same education to students enrolled from different home school districts. For the 2015-16 school year, tuition rates for non-special education students⁸ averaged \$10,559, ranging from \$6,865 in the Saint Clair Area School District to \$18,750 in the New Hope-Solebury School District.

Since 2007-08, charter school enrollment has increased by over 65,000 students, a 97.4% increase. However, tuition payments from school districts to charter schools have increased over \$865 million, which is a 139.3% increase.

In 2014-15, tuition payments to charter schools accounted for over 5.4% of all statewide school district expenditures. In some school districts though, this percentage is much higher and severely hinders school district operations. For example, in the Chester-Upland School District, 46.1% of all expenditures were allocated to charter school tuition payments and in the Philadelphia City School District, the percentage was 26.1% of all expenditures.

Figure 3 Charter School Tuition Payments and Enrollments 2007-08 to 2014-15

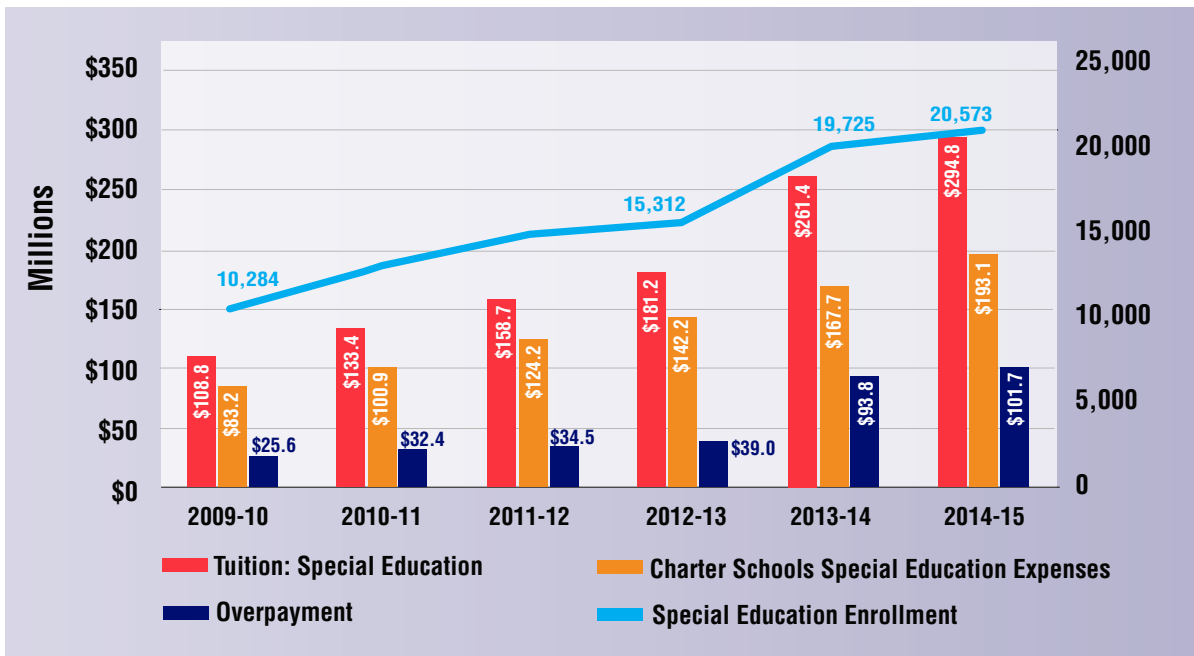


Special Education Tuition Payments

For every student identified by a charter school as needing special education programs or services, a charter school receives a tuition payment equal to the tuition payment for a non-special education student plus a supplement equal to the average per-pupil expenditures of the school district of residence for special education. For the 2015-16 school year, the average special education tuition rate was \$22,291, ranging from \$13,852 in the Bermudian Springs School District to \$47,025 in the Lower Merion School District.

In 2014-15, school districts paid over \$466.8 million in special education tuition payments to charter schools, roughly \$294.8 million of that being attributable to the special education supplement, while charter schools reported special education expenditures of \$193.1 million.⁹ The difference of \$101.7 million indicates that charter schools received substantially more than was spent in meeting the special education needs of their students based on their own expenditures for those students.

Figure 4 School District Tuition Payments for Special Education and Charter School Expenditures on Special Education





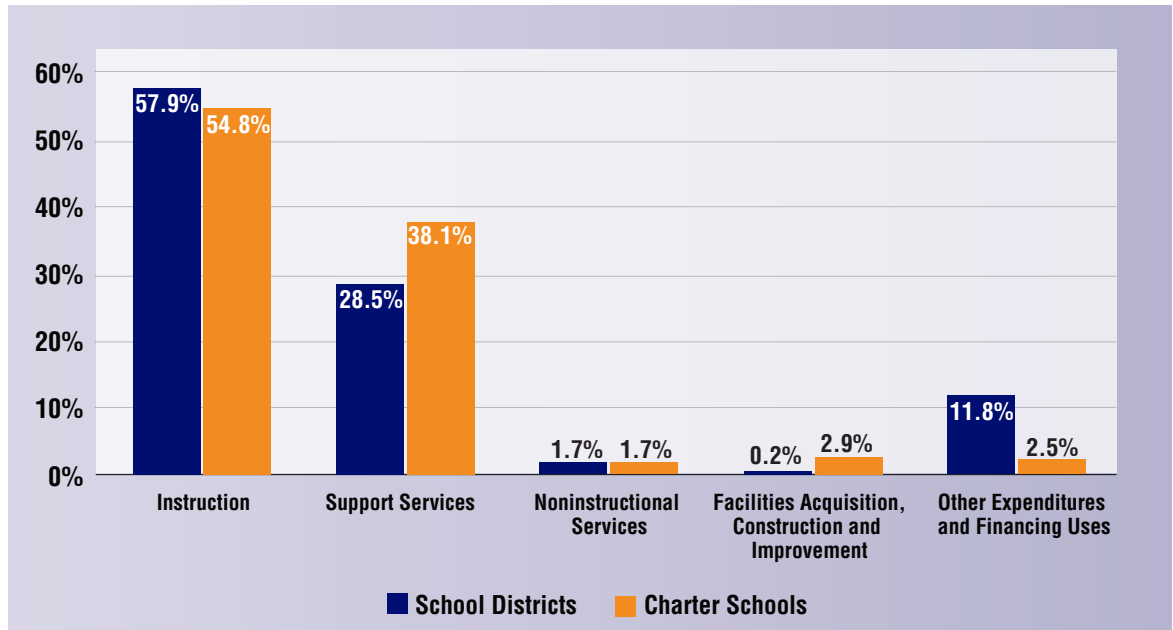
Charter School and School District Instruction and Support Expenditures

In this section, the expenditures for charter schools and school districts for the period of 2005-06 through 2014-15 will be compared. To compensate for the magnitude of expenditures, the analysis is based on the percentage of total expenditures for major functions and sub-functions.¹⁰ When looking more closely at specific service areas of expenditure, the analysis is based on per-pupil expenditures for the 2014-15 fiscal year.

Expenditures by Major Function

The most aggregated level of expenditures is by major function.¹¹ As shown in Figure 5, the percentage of all expenditures targeted on instruction and other financing (which includes debt service and fund transfers) was greater for school districts than for charter schools. Alternatively, charter schools expended a greater percentage of their overall budget on support services and facilities. Finally, both school districts and charter schools spent approximately the same budget share for non-instructional expenses.

Figure 5 Percentage of Overall Expenditures by Major Function

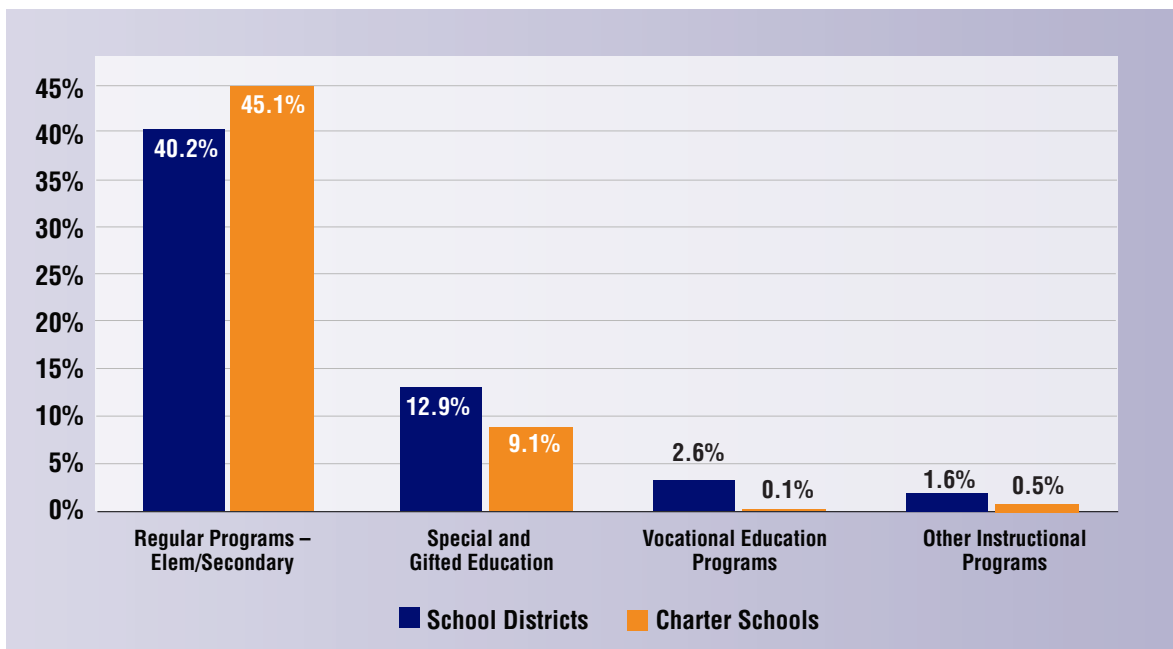


Expenditures by Instruction Sub-Functions

Given that instruction was the largest proportion of expenditures, expenditures in this area were further analyzed by comparing the expenditures by sub-function within instruction.

As shown in Figure 6, school districts spent a greater proportion of their instructional expenditures on special, vocational and other education. Charter schools, alternatively, spent a greater proportion of their instructional expenditures on regular instructional programs.

Figure 6 Percentage of Overall Expenditures by Instruction Sub-Function



Expenditures by Support Sub-Functions

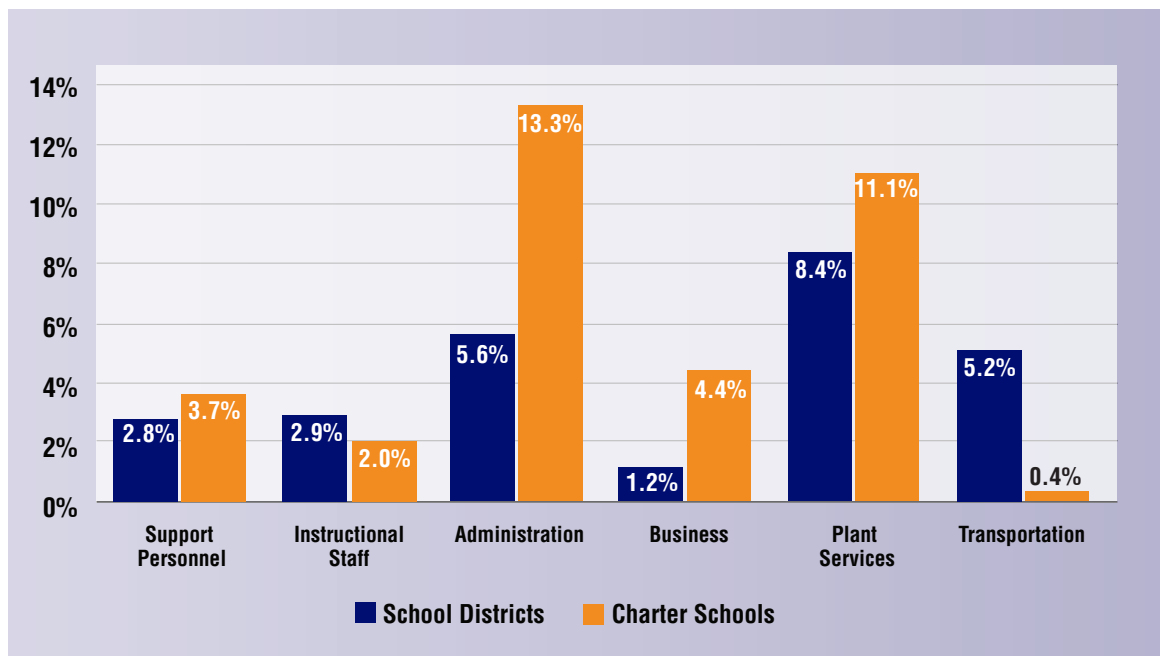
The differences in expenditures for the next largest function category – Support Services – were also examined. As shown in Figure 7, there were several significant differences in expenditure patterns between school districts and charter schools.

First, charter schools allocated a substantially greater proportion of their budgets to the administration sub-function. Specifically, the proportion of all expenditures targeted to administration for charter schools was more than twice the percentage for school districts (13.3% to 5.6%). Additionally, charter schools expended a greater proportion of their funds on support personnel, business functions, and plant operation and maintenance.

On the other hand, school districts spent a greater proportion of their funds on instructional staff and student transportation than charter schools. The difference in transportation is to be expected since school districts are required to provide free transportation for students residing in their school districts who attend charter schools within the school district's boundaries and up to 10 miles beyond the boundaries even if the school district does not provide transportation for its own students.¹²

Specifically, the proportion of all expenditures targeted to administration for charter schools was more than twice the percentage for school districts (13.3% to 5.6%).

Figure 7 Percentage of Overall Expenditures by Support Sub-Function

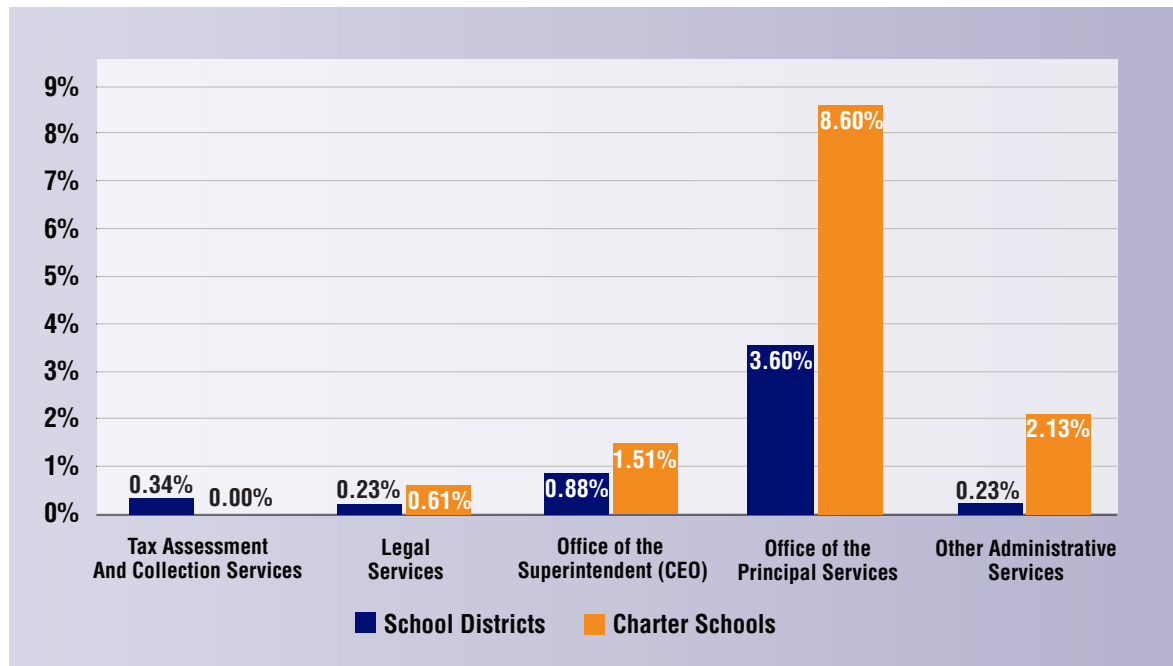


Administration and Chief Administrator Expenses

With the significant difference in the percentage of expenditures allocated to administration, expenditures in this area were further analyzed by comparing the expenditures by service area under administration. As shown in Figure 8, there were again several significant differences in expenditure patterns between school districts and charter schools.

Charter schools allocated a substantially greater proportion of their budgets to chief school administrators, principals and other administrative services than school districts. School districts spent a greater proportion of their budgets on tax assessment and collection services than charter schools. But, this difference highlights the fact that school districts have additional expenditures in cases where charter schools do not have the same obligations as school districts because they are not a local government unit.

Figure 8 Percentage of Overall Expenditures by Administration Service Area



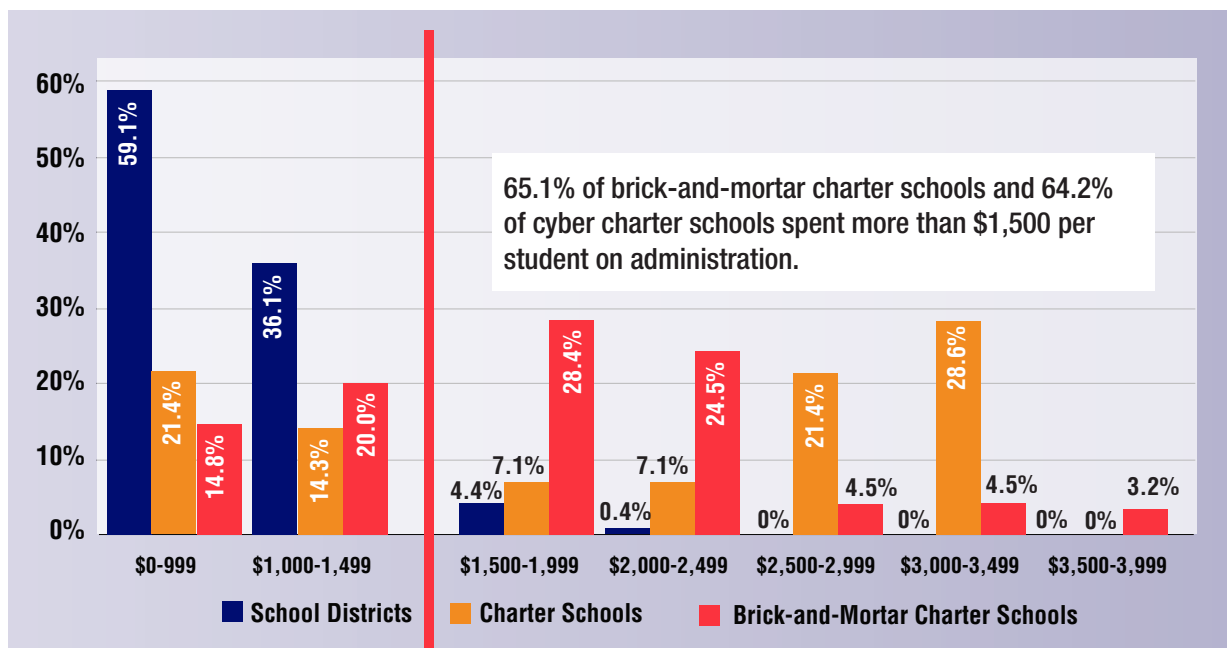
Administration expenditures were explored further by examining the per-pupil administration expenditures for the 2014-15 school year. In a simple comparison of average per-pupil expenditures on administration, charter schools spent approximately \$828 more per pupil than school districts.

Table 2

	School Districts	All Charter Schools	Only Brick-and-Mortar Charter Schools	Only Cyber Charter Schools
Per-Pupil Expenditures on Administration	\$914	\$1,742	\$1,877	\$1,379

This overall \$828-per-pupil difference seems even more significant when considering that, as noted previously, charter schools spend slightly less per student on instructional costs. As shown in Figure 9, over 95% of school districts spent less than \$1,500 per pupil on administration costs as compared to 36% of cyber charter schools and 35% of brick-and-mortar charter schools. In addition, no school district spent more than \$2,500 per student on administration costs while 50% of cyber charter schools and 12% of brick-and-mortar charter schools reported spending that much or more.

Figure 9 Percentage of School Districts and Charter Schools – Per-Pupil Expenditures on Administration



A component of administration expenditures is the salaries of superintendents and chief executive officers (CEOs). Using the number of students enrolled in charter schools reporting CEO salary data, the average per-pupil expenditures on chief administrator salaries were compared and charter schools spent approximately \$87 more per pupil than school districts.

Table 3

	School Districts	All Charter Schools	Only Brick-and-Mortar Charter Schools	Only Cyber Charter Schools
Per-Pupil Expenditures on Chief Administrators	\$43	\$130	\$160	\$48

Based on the foregoing data, charter schools are spending a lower portion of their budgets on instruction and are spending significantly more on overall administration costs and chief administrator salaries than school districts.

The average per-pupil expenditures on chief administrator salaries were compared and charter schools spent approximately \$87 more per pupil than school districts.



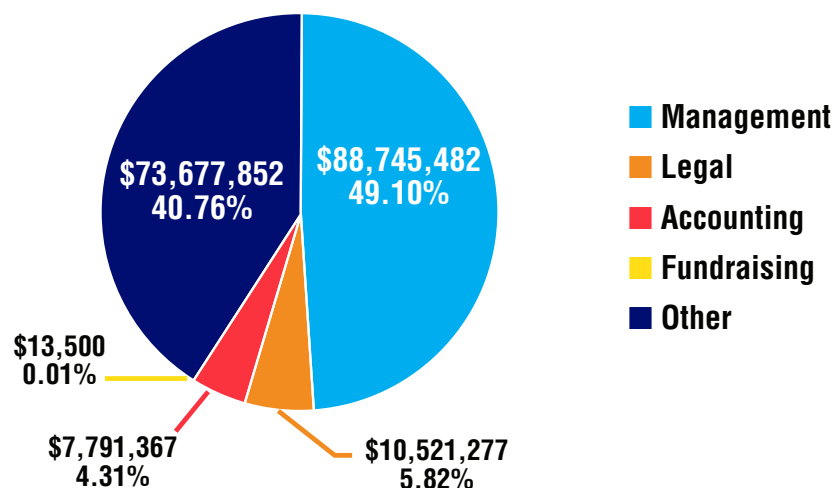
Charter School Management, Occupancy and Advertising Expenditures

In this section, the expenditures reported by charter schools on their IRS 990 forms for the 2013 tax year along with information submitted in response to PSBA's RtK request will be examined.

Fee-for-Service Expenditures

The IRS 990 forms include a section on fee-for-service expenditures that are fees for individuals other than employees.¹³ These expenditures include the following areas: management, legal, accounting, lobbying, professional fundraising, investment management fees and other. Across all charter schools, the total amount of expenditures on fee-for-service was more than \$180 million – representing 11.7% of all charter school expenditures.

Figure 10 Fee-for-Service Expenditures by Type of Expenditure



Fee-for-Service Expenditures: Management

In total, charter schools reported management expenses to non-employees of nearly \$89 million. As shown in Table 4, 77 (or 46.1%) of all charter schools reported management expenditures. Of the charter schools reporting expenditures on management, slightly more than half reported management expenses that exceeded 5% of their total expenditures and two charter schools reported management expenditures of over 25%. In terms of per-pupil spending, of the 77 charter schools reporting management expenses, 22 reported spending at least \$1,000 per student on management with two charter schools spending over \$5,000 per pupil.

Table 4

% of Total Expenditures: Management	# of Charter Schools	% of Charter Schools	Per-Pupil Expenditures: Management	# of Charter Schools	% of Charter Schools
0%	90	53.9	\$0	90	53.9
0.01 to 0.99%	11	6.6	\$1 to \$99	6	3.6
1.00 to 2.99%	16	9.6	\$100 to \$499	28	16.8
3.00 to 4.99%	11	6.6	\$500 to \$799	11	6.6
5.00 to 9.99%	28	16.8	\$800 to \$999	10	6.0
10.00 to 14.99%	8	4.8	\$1,000 to \$2,499	18	10.8
15.00 to 24.99%	1	0.6	\$2,500 to \$4,999	2	1.2
25.00%+	2	1.2	\$5,000+	2	1.2
TOTAL	167	100	TOTAL	167	100

Fee-for-Service Expenditures: Independent Contractors

On the IRS 990 form, charter schools are asked to list the “five highest compensated independent contractors that received more than \$100,000 in compensation from the organization.” In addition to the amount of compensation, a description of the activities performed by the contractors is also to be provided. Thus, not all charter schools listed contractors (because no contract exceeded \$100,000) and not all contracts are listed (because charter schools were limited to listing the five highest compensated contractors and some charter schools had more than five contracts exceeding \$100,000).

In total, there were 223 reported contracts worth a total of \$178 million. Table 5 displays the top 10 types of contracts ranked by dollar value. By far, the largest sum of money expended on contractors was for management. Indeed, 17 charter schools spent over \$111 million on management contracts. It is worth noting that of the 17, two schools’ contracts accounted for more than \$100 million, with 15 schools’ contracts making up the remaining expenditures for management.¹⁴

Table 5

Contract Type	Number of Contracts	Cost	Contract Type	Number of Contracts	Cost
Management	17	\$111,024,334	Custodial Services	21	\$3,769,024
Food Services	28	\$11,025,217	IT Services	10	\$3,294,933
Construction	15	\$10,817,088	Insurance	8	\$3,035,132
Rent	14	\$7,899,860	Legal Services	13	\$2,860,485
Educational Services	24	\$5,814,231	Health Services	8	\$2,699,448

Expenditures: Occupancy

As reported on IRS 990 forms, charter schools spent \$116,577,296 on occupancy costs. This was almost 12% of all expenditures reported on the 990s. As shown in Table 6, more than 90% of charter schools reported expenses related to occupancy with almost 80% of charter schools reporting that occupancy expenses were at least 3% of their total expenditures. Just over 40% of charter schools reported that occupancy expenses were at least 10% of their total expenditures and eight charter schools reported that occupancy expenditures were more than 20% of expenditures. In terms of per-pupil spending, 86 charter schools reported spending at least \$1,000 per pupil on occupancy with one charter school spending over \$4,000 per pupil.

Table 6

% of Total Expenditures: Occupancy	# of Charter Schools	% of Charter Schools	Per-Pupil Expenditures: Occupancy	# of Charter Schools	% of Charter Schools
0%	15	9.0	\$0	15	9.0
0.01 to 0.99%	3	1.8	\$1 to \$199	8	4.8
1.00 to 2.99%	16	9.6	\$200 to \$499	22	13.2
3.00 to 9.99%	65	38.9	\$500 to \$999	36	21.6
10.00 to 14.99%	43	25.7	\$1,000 to \$1,999	62	37.1
15.00 to 19.99%	17	10.2	\$2,000 to \$2,499	16	9.6
20.00 to 29.99%	7	4.2	\$2,500 to \$3,999	7	4.2
30.00%+	1	0.6	\$4,000+	1	0.6
Total	167	100	Total	167	100

To gain a better perspective on charter school occupancy costs, records related to real estate transactions (including lease information) were requested as part of the PSBA RtK requests. The conclusion after analyzing this information was that documenting real estate expenditures is incredibly difficult, even with IRS 990 forms and copies of leases. Some of the leases include specific documentation that includes the square footage of the leased space, payments for utilities, and payments for repairs and upgrades. Many leases provide only a minimal amount of information such as the monthly or yearly lease amount and ranged from a one-day lease for a specific event, to a few months for storage, to multiple years for long-term use.

Often, an individual lease had multiple amendments, additions or extensions over the term of the lease, which changed the square footage leased, the amounts per square foot, and the conditions of use. All of these factors modified the lease amount in ways that were sometimes very difficult or impossible to determine. Finally, the types of property involved in the leases were often dramatically different. For example, one lease would include only one classroom while another would include an entire elementary school, office/administrative space and parking space. Thus, even with copies of the actual leases, accurate comparisons of the real estate expenditures across charter schools in any systematic manner cannot be made.

Expenditures: Advertising and Promotion

Another item specifically requested from charter schools as part of the RtK request was “[a]ll contracts, invoices, marketing plans, or other records with information regarding expenditures for advertising in any media including billboards, print, electronic, television, radio, multimedia or the sponsorship of conferences or events.” The IRS 990 forms also include an entry for expenses related to advertising and promotion. Using both of these sources of information, PSBA sought to gain insight into how much charter schools spend on advertising and promoting their schools by analyzing those expenditures as a percent of total expenditures and on a per-pupil basis.

In order to provide a consistent analysis of the RtK submissions and to avoid artificially inflating advertising expenditures, only data from the 2014-15 fiscal year were included. Any data related to legal advertising, job postings, duplicated invoices and/or from outside the 2014-15 fiscal year were excluded.

Based on the RtK submissions, the 134 charter schools that provided responsive information spent approximately \$4.35 million on advertising.¹⁵ As shown in Table 7, 79 charter schools reported at least some advertising expenses. While 55 charter schools reported no expenditures on advertising or provided no records related to advertising, five charter schools (two brick-and-mortar, three cyber) reported advertising expenditures that exceeded 1% of their total expenditures.

Based on IRS 990 forms, charter schools spent approximately \$3.3 million on advertising.¹⁶ As shown in Table 7, 127 charter schools reported at least some advertising expenses. While 40 charter schools reported no expenditures on advertising, eight charter schools (four brick-and-mortar, four cyber) reported advertising expenditures that exceeded 1% of their total expenditures.

Table 7

RtK Submissions			IRS 990s		
% of Total Expenditures	# of Charter Schools	% of Charter Schools	% of Total Expenditures	# of Charter Schools	% of Charter Schools
0%	55	41.0	0%	40	24.0
0.001 to 0.249%	65	48.5	0.001 to 0.249%	100	59.9
.25 to .49%	5	3.7	.25 to .49%	9	5.4
.50 to .99%	4	3.0	.50 to .99%	10	6.0
1.00 to 1.99%	3	2.2	1.00 to 1.99%	4	2.4
2.00 to 3.99%	2	1.5	2.00 to 3.99%	1	0.6
4.00 to 4.99%	0	0	4.00 to 4.99%	2	1.2
5.00%+	0	0	5.00%+	1	0.6
Total	134	100	Total	167	100

Based on the RtK submissions, the 134 charter schools that provided responsive information spent more than \$42 for every child enrolled in those charter schools on advertising.¹⁷ As shown in Table 8, 10 charter schools (seven brick-and-mortar, three cyber) reported advertising expenditures of more than \$75 per student, with none of those reporting spending more than \$500 per student.

Based on IRS 990 forms, charter schools spent more than \$26 for every child enrolled in those charter schools on advertising.¹⁸ As shown in Table 8, 14 charter schools (eight brick-and-mortar, six cyber) reported advertising expenditures of more than \$75 per student, with three of those reporting spending more than \$500 per student.

Table 8

RtK Submissions			IRS 990s		
Per-Pupil Expenditures	# of Charter Schools	% of Charter Schools	Per-Pupil Expenditures	# of Charter Schools	% of Charter Schools
\$0	55	41.0	\$0	40	24.0
\$0.01 to \$4.99	30	22.4	\$0.01 to \$4.99	39	23.4
\$5.00 to \$9.99	10	7.5	\$5.00 to \$9.99	27	16.2
\$10.00 to \$29.99	23	17.2	\$10.00 to \$29.99	33	19.8
\$30.00 to \$74.99	6	4.5	\$30.00 to \$74.99	14	8.4
\$75.00 to \$149.99	5	3.7	\$75.00 to \$149.99	6	3.6
\$150.00 to \$499.99	5	3.7	\$150.00 to \$499.99	5	3.0
\$500+	0	0	\$500+	3	1.8
Total	134	100	Total	167	100

Advertising expenses were not equally distributed across all charter schools. A small number of charter schools, mostly cyber charter schools, were responsible for the bulk of advertising expenses. In fact, the top five advertising expenses reported on the IRS 990 form and the top four advertising expenses from the RtK submissions all belonged to cyber charter schools. As shown in Table 9, cyber charter schools spent more on advertising than brick-and-mortar charter schools even though brick-and-mortar charter schools greatly outnumbered cyber charter schools in the analysis.

Table 9

	Total Brick-and-Mortar	Total Cyber	# of Brick-and-Mortar	# of Cyber
RtK Data	\$591,000	\$3,770,000	129	5
990 Data	\$1,332,000	\$1,982,000	154	13

It is also worth noting that there were noticeable differences between the advertising expenses reported in the IRS 990 form and the information received in response to the RtK request. Several charter schools included in this analysis did not report any advertising expenditures on their IRS 990 form but did submit records indicating advertising expenses with their RtK submission for the same time period covered by the IRS 990 form.



Conclusions and Policy Recommendations

PSBA embarked on this project to learn more about the operations, revenue sources and expenditures of the commonwealth's charter schools. The results of PSBA's study clearly highlight areas of interest and concern with charter school operations and the law that governs them. Each of the following conclusions will be accompanied by policy recommendations to address the concerns uncovered through the work on this project.

Conclusion 1:

Charter schools need to be held to a higher standard of accountability and transparency, equal to that of traditional public schools.

Charter schools are public schools. More than 80% of their revenue comes from public tax dollars paid by the sending school district to educate students. However, charter schools are not held to the same standards as other stewards of public tax dollars when it comes to transparency in operational and financial decisions and accountability for follow-through and results. Put simply, this needs to change.

Former OOR director, Terry Mutchler, said during testimony in 2013 that charter schools are the worst offenders of failing to comply with the Right-to-Know Law.¹⁹ In PSBA's own experience requesting public information through RtK requests, there were several instances where a charter school failed to comply with a valid RtK request without justification.

Less than 54% of charter schools complied with the request without the need for PSBA to file an appeal. PSBA still has not received compli-

There were a number of charter schools that reported no or significantly lower advertising expenditures on their IRS 990 form than what was reported in their RtK submissions.

ant responses from 19 charter schools even after OOR ruled in favor of PSBA during the appeal process. Further, the records submitted in response to the request occasionally did not relate to the subject matter of the request and in some cases contained personal information that should have been redacted before providing the record to PSBA.

The examination of the IRS 990 forms that charter schools are required to submit annually by nature of their nonprofit status raised a number of questions as well, especially when compared to the information in records submitted through the RtK request. PSBA encountered a number of inconsistencies in the financial data reported by the charter schools regarding their own operations and even missing filings.²⁰ One such example of inconsistent reporting relates to advertising expenditures. There were a number of charter schools that reported no or significantly lower advertising expenditures on their IRS 990 form than what was reported in their RtK submissions. Also, there were charter schools that reported advertising expenses on their 990, but failed to submit documentation of that advertising in their RtK response.

Further on advertising, PSBA uncovered some charter schools reporting significant advertising expenses. Although most charter schools did not appear to have egregious advertising expenditures, eight charter schools spent more than 1% of their total expenditures on advertising, amounting to more than \$150 per student. Three charter schools spent over \$500 per student and two cyber charter schools spent over \$1 million total on advertising. Money sent to charter schools by school districts is meant for educating students and instructional costs. While a recruiting and marketing plan is required to be included in a charter school's application,²¹ spending on advertising must be better regulated to avoid overspending and ensure a more effective use of public funds.

The documents and records related to leases and other real estate transactions submitted through the RtK request also yielded concerning results that may warrant further investigation. Mainly, there is a clear lack of consistency or standardization on lease agreements and expenses for charter schools across the state that could lead to transactions that are not in the best interests of taxpayers.²²

Policy Recommendation 1:

PSBA recommends that a more thorough and defined state mechanism be developed to hold charter schools accountable. The accountability and transparency laws applicable to school districts should be applied equally to charter schools.

PDE must have the authority and take responsibility for a greater level of oversight of the states' charter schools and their compliance with all applicable laws. School districts are responsible for ensuring that a

charter school is meeting the goals of its charter. School districts alone cannot be responsible for ensuring that charter school operators are in compliance with state and federal laws and regulations. School districts have little jurisdiction in determining whether charter schools are acting responsibly with taxpayer funds.²³ Because school districts do not have the authority nor the resources to regulate charter schools in this way or to pursue legal recourse each time issues arise, it is the responsibility of PDE to regulate charter schools.

Current legislative attempts explicitly state that charter schools must follow the Ethics Act, Right-to-Know Law, the Sunshine Law and parts of the school code that are not currently clearly stated in the Charter School Law. What is needed to further assist with this issue is increased oversight by PDE that will objectively identify problems and hold all charter schools and their management companies accountable at a higher standard across the state. Require PDE to perform its role and expand its capacity to perform its duties and responsibilities, with respect to statewide charter school administrative oversight and authorization, and oversight duties specific to charter schools.

School districts that authorize charter schools need additional options to ensure those charter schools comply with law, regulations and the approved charter. Currently, the only option available to school districts is to pursue revocation of the charter which requires substantial district time and resources to investigate, document and then hold public hearings on the revocation. Even after a school board takes action to revoke a charter, their decision is then subject to review by the state Charter School Appeal Board which can reverse a local school board's decision to revoke a charter.²⁴ Legislation that extends the charter term is counter to this review process.

Valid issues or concerns with a charter school's operation often arise which school districts do not believe warrant revocation of the charter. School districts need to have the ability to hold charter schools accountable in these situations. Options could include suspending the charter until the charter school comes into compliance, withholding payments or amending the charter to address the issue. The General Assembly should also strengthen and clarify the Charter School Law to 1) expand, explain and update standards for the charter application and criteria for approval and; 2) establish default closure criteria for mandating the non-renewal or revocation of a charter.

Furthermore, the current process of school districts authorizing and monitoring charter schools represents an unfunded mandate. The time and resources spent by school districts to conduct site visits, annual reviews, investigations, hearings and other responsibilities under the law are not reimbursed by the state. Legislate an administrative fee to authorizers to assist in the cost of authorization, monitoring and related responsibilities.

Conclusion 2:

The current charter school funding formula has consistently resulted in school districts overpaying charter schools for special education students.

Since the 2009-10 school year, school districts have paid \$327 million more in special education tuition than charter schools have reported in special education expenditures.

The current calculation for special education tuition payments only takes into account the special education expenditures of the student's district of residence for the prior school year and not the actual costs of the charter school in providing special education services to the student.

The inequities built into the current formula can best be illustrated by special education enrollment information from PDE and shown in Table 10. School districts and charter schools are required to report the number of students with disabilities for which expenditures were over \$25,000 for the prior school year. During the 2014-15 school year, 27,411 school district and charter school students needed special education programs and services costing more than \$25,000. Of those 27,411 students, over 96% were educated by funds paid by school districts. Students needing special education programs and services costing more than \$25,000 also made up a greater proportion of special education students in school districts (10.6%) than charter schools (4.8%).

Table 10

	Total Special Education Enrollment	Category 1 < \$25,000	Category 2: \$25,000- \$49,999	Category 3A: \$50,000- \$74,999	Category 3B: \$75,000+
School Districts	249,898	223,465	19,707	4,729	1,997
Charter Schools	20,573	19,595	805	105	68
Total	270,471	243,060	20,512	4,834	2,065

Policy Recommendation 2:

The charter school funding formula for special education students should be based on the same three-category formula enacted by the Legislature in 2014 at the recommendation of the Special Education Funding Commission. Special education payments should be capped and verifiable at actual per-pupil costs for each sending school district.

With school districts educating most of the students in need of extensive and specialized education programs and services, the current special education tuition calculation creates an inflated rate for charter schools. By taking into account the different levels of programs, services and other supports needed to provide an educational program to each special education student, tuition payments will more closely align to actual program expenditures.

Further, charter schools should be required to annually report to the school district of residence the actual cost of the special education services provided. Where the school district has paid the charter school in excess of the actual cost of the special education services provided to their students, there should be a method for charter schools to return overpayments to the sending school district.

Conclusion 3:

Charter school financial operations should be studied further by a legislatively created commission. Reforms should be based on those findings.

Due to the amount of public funds being spent by charter schools, the public should have every confidence that charter schools are spending those funds effectively. Based on the findings in this report, PSBA questions whether this is actually the case.

The data from the RtK request and charter school IRS 990 forms show that there are a number of inconsistencies in how charter schools are reporting the use of their funding and that the reporting is not specific enough in some regards to allow the public to determine how funds are being spent. Specifically, over 40% of charter school fees to contractors on the IRS 990 forms were placed in the “other” category, which in most instances does not provide any insight into the purpose for which those funds were spent. That, combined with the discrepancies between IRS 990 forms and RtK submissions related to advertising and lease agreements which were impossible to compare to one another, makes getting a true sense of charter school expenses from those sources incredibly difficult.

There are also vast differences in administrative expenditures and CEO salaries for charter schools as compared to local school districts. Specifically, brick-and-mortar charter schools are spending more than twice as much per pupil on administration and almost four times as much per pupil on CEO expenditures than school districts.

When any organization spends questionable amounts on management, administration, occupancy and/or advertising, it would certainly be required to defend its actions. Charter schools do not bear the same

The data from the RtK request and charter school IRS 990 forms show that there are a number of inconsistencies in how charter schools are reporting the use of their funding.

responsibility or scrutiny in the use of public funds. The state must require this responsibility of all charter schools as nonprofit organizations receiving public tax dollars.

Furthermore, it is clear that school districts and taxpayers need relief from charter school tuition payments, which represent more than 5% of all school district expenditures. Reforming the cost of charter school education will ultimately provide a necessary balance of available funds spent to educate *all* public school children. Specifically, the tuition paid to cyber charter schools must account for only those costs associated with providing an online educational program. Cyber charter schools should be providing education at a much reduced expense according the principles of economies of scale. School districts are able to provide their own rigorous and comprehensive cyber education at a significantly reduced cost. Many school districts are able to provide a comprehensive online curriculum for a fraction of the cost of tuition to cyber charter schools.

Policy Recommendation 3:

The state should establish a fair, balanced commission to study and make recommendations on charter school funding and financial operations.

The collaboration and careful study that both the Special Education and Basic Education Funding commissions underwent in recent years yielded successes in determining legislative recommendations for changes in those formulas. PSBA believes the same kind of success would be possible by creating a commission to study the issues of charter school funding and operations. It should be modeled after the two previous commissions.

PSBA recommends that the Legislature create a commission consisting of representatives from the House of Representatives, Senate, Governor's Office, Department of Education, charter school operators and school board directors. By including charter school operators and school board directors, the commission would gain valuable insight into the financial operations of both types of public schools.

By allowing the commission to focus solely on finances and financial operations, the commission would avoid other charter school issues, such as charter school expansion, taking away from the focus of developing recommendations on funding charter schools and how charter schools report their financial operations.

In order to comprehensively study the issues of charter school financing and financial operations, PSBA would also recommend that any commission created include the study of charter school foundations

and charter management companies that provide financial support to the charter schools.

Finally, a funding commission must specifically consider the difference in instructional costs in cyber charter schools from that of the online academic programs provided by traditional public schools. While PSBA recognizes that cyber charter schools are intended to provide a unique and independent educational program from that of traditional public schools, school districts and taxpayers should not bear the burden of excess costs incurred by cyber charter schools above the sending district's cost to provide online academic programs. Where school districts offer a comprehensive online curriculum, cyber charter tuition should be capped at the school district's cost to provide online education. Where a school district does not offer an online educational option, the commission must recommend a funding formula that reflects the actual instructional costs to provide an online education.

(Endnotes)

- 1 24 P.S. § 17-1702-A
- 2 65 P.S. §§ 67.102, 67.302
- 3 Available: <https://www.psba.org/2015/05/capitolwire-charter-school-group-calls-right-to-know-request-a-publicity-stunt/>. Accessed 8/5/16
- 4 As of the date of publication, those charter schools have not complied with the original request for records or the OOR order to comply with the request.
- 5 PSBA did not take any further action to obtain records, preferring to focus time and resources on its members.
- 6 For 2014-15, the largest local share was 86.5% (Lower Merion) while the largest state share was 77.1% (Blacklick Valley). The smallest local share was 11.5% (Duquesne City) while the smallest state share was 10.6% (Richland). This excludes the Bryn Athyn SD.
- 7 Specifically, the charter school receives a tuition payment calculated based on each school district's budgeted expenditures per average daily membership of the prior school year, minus certain categories of budgeted expenditures for each non-special education student. The cost categories school districts are able to deduct currently include the following: nonpublic school programs; adult education programs; community/junior college programs; student transportation services; for special education programs; facilities acquisition, construction and improvement services; and other financing uses, including debt service and fund transfers as provided in the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems established by the department. 24 P.S. § 17-1725-A
It is important to note that school districts are not allowed to deduct other costs that charter schools do not incur, like tax assessment and collection, or for cyber charter schools, food services or library services.
- 8 These are all students that do not require special education services.
- 9 The PDE account sub-function for special education expenditures (sub-function 1200) includes expenditures related to gifted education. Expenditures related to gifted support (service area 1243) were removed from the calculation to reflect only expenditures related to special education. Charter schools are not required to provide gifted education services under state Chapter 16 regulations. Charter schools also do not receive any additional revenues from the state or school districts to provide a gifted education program to its students.
- 10 Based on the Chart of Accounts for PA Local Educational Agencies, the function describes the activities for which a service or material is acquired. Sub-functions consist of programs or service areas falling under the main function.
- 11 The five major function areas are: 1000 Instruction, which includes all those activities dealing directly with the interaction between teachers and students and related costs, which can be directly attributed to a program of instruction; 2000 Support Services, which are those services that provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction; 3000 Non-Instructional Services, which are activities concerned with providing non-instructional services to students, staff or the community; 4000 Facilities Acquisition, Construction and Improvement, which are capital expenditures incurred to purchase land, buildings, service systems, and built-in equipment; and 5000 Other Expenditures and Financing Uses, which includes current debt service expenditures and other expenses not classified in other functional areas that require budgetary and accounting control.
- 12 24 P.S. § 17-1726-A

13 According to the instructions for the IRS form 990, these expenses include amounts paid for services provided by independent contractors, not officers or employees, for professional services.

14 According to the individual IRS form 990s for Commonwealth Connections Academy and Pennsylvania Cyber, those schools had school management contracts worth \$52,629,117 and \$49,249,463, respectively. Given that 77 charter schools reported management expenditures to non-employees in Part IX Line 11a of the form 990 totaling more than \$88 million, it is curious why only 17 charter schools reported independent contracts in Part VII Section B of the form 990. With the lack of detail provided on the form 990 about specific expenditures, this issue may warrant further examination in future studies.

15 The actual total amount spent on advertising is higher given that the total is based only on 134 of 173 charter schools. Eight charter schools did not provide a response to the RtK request related to advertising or provided information that was entirely outside of the 2014-15 fiscal year. Also, the RtK requests were sent in May 2015 and the records submitted in response likely do not include all charter school advertising activity for the 2014-15 fiscal year.

16 This would not include any advertising paid for by charter school foundations or charter management organizations.

17 The actual total amount is likely higher given that the RtK requests were sent in May 2015 and the records submitted in response do not include all charter school advertising activity for the 2014-15 fiscal year.

18 This would not include any advertising paid for by charter school foundations or charter management organizations.

19 Available: http://articles.philly.com/2013-05-15/news/39258122_1_open-records-public-charter-schools-ken-kilpatrick. Accessed 8/5/16

20 The PA auditor general has also found instances of charter schools failing to file the IRS 990 forms. <http://www.paauditor.gov/press-releases/auditor-general-depasquale-identifies-systemic-charter-school-problems-550-000-in-improper-lease-reimbursements>. Accessed 8/5/16

21 The Pennsylvania Charter School Application requires applicants to have a plan to attract a sufficient number of students.

22 The PA auditor general has uncovered several instances of questionable lease reimbursements to charter schools due to potential conflicts of interest and related-party transactions between a landlord and charter school. <http://www.paauditor.gov/press-releases/auditor-general-depasquale-says-pde-provided-more-than-2-5-million-in-questionable-lease-reimbursements-to-9-charter-schools>. Accessed 8/5/16

23 See 24 P.S. §§ 17-1728-A, 17-1729-A

24 24 P.S. § 17-1729-A

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