



Pennsylvania School Boards Association

# legislative report

August 18, 2016



## **New PSBA report shows need for greater charter school transparency and accountability**

This week PSBA released a report examining Pennsylvania charter school revenues, expenditures and transparency. The findings highlight the need for reform and suggest the need for further study into how charter schools are operated.

"Financial integrity and operational transparency must be demanded of publicly funded charter schools, just as it is of traditional schools," said PSBA Executive Director Nathan Mains. "Taxpayers have an expectation that public dollars are guarded the same way no matter which schools they fund."

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 analyzing organizational tax returns (IRS 990 form) for each charter school where a return could be found.

In May 2015, [PSBA sent requests](#) under the Pennsylvania Right-to-Know Law to all 173 charter schools then in existence. As local agencies under the law, charter schools are required to allow access to public records in accordance with the law. The requests sought information related to salaries of administrators (including contractors), real estate transactions, and marketing/advertising expenditures.

The compliance, or lack thereof, tells a story itself outside of the data that was actually gathered.

- Slightly more than 53% of charter schools complied with the request without any additional action by PSBA.
- PSBA filed 75 appeals with the Pennsylvania Office of Open Records (OOR) due to the request being denied or deemed denied due to a lack of a response by the charter school. Twenty seven charters complied with the request once the appeals were filed.
- Another 29 complied after OOR either granted or partially granted the appeal.
- Nineteen did not comply even after PSBA's appeal was granted or partially granted by OOR.

Equally concerning 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.

Based on the RtK submissions, the 134 charters that provided advertising information for 2014-15 spent over \$4.3 million in 2014-15. Based on the IRS 990 forms, 167 charter schools reported spending only \$3.3 million on advertising in 2013-14.

Occupancy expenses also were gathered as part of PSBA's analysis. The conclusion after analyzing this information was that documenting real estate expenditures is incredibly difficult, even with IRS 990 forms and copies of leases. Because the leases for each charter were so different and reported data in different formats, accurate comparisons of the real estate expenditures across charter schools in any systematic manner could not be made. This finding, in addition to the recent [report](#) from the Pennsylvania Auditor General's Office that showed the Pennsylvania Department of Education provided \$2.5 million in questionable lease reimbursements to nine charter schools, shows a need for changes to the way charters lease property.

Some other key findings of the report:

- Charter tuition payments have outpaced charter enrollments. Since 2007-08, charter school enrollment has increased 97.4%, however, tuition payments from school districts to charter schools have increased 139.3%.
- Charters continue to be overpaid for special education costs. In 2014-15, school districts paid more than \$294.8 million in special education tuition payments to charter schools, while charter schools reported special education expenditures of \$193.1 million - an overpayment of \$101.7 million.
- Charters are allocating a much higher percentage of their budgets on administration than school districts. On average, districts spent 5.6% of total expenditures on administrative costs while charters spent 13.3%.
- Charters are spending over three times as much per student on chief administrator salaries - \$43 for school districts and \$130 for charter schools.
- Cyber charters spent significantly more on advertising costs than brick-and-mortar charters. Based on RtK data gathered, five cyber charters spent more than \$3.7 million on advertising compared with \$591,000 spent by 129 brick-and-mortar charters.

Based on the analysis, PSBA's report makes the following recommendations:

- A more thorough and defined state mechanism must be developed to hold charter schools accountable.
- Funding for special education students attending charter schools should be based on the same formula applied to school districts, and payments should be capped and verifiable to actual per pupil costs.
- The state should establish a fair, balanced commission to study and make recommendations on charter school funding and financial operations.

[The full report](#) and all the [RtK data submitted by charters](#) can be found online at <https://www.psba.org/issue/charter-school-reform/>

Latest News

**PSBA News**

- [PSBA PlanCon Study Group meets to make recommendations for reform](#)

## Regulatory News

- [New regulations for financial recovery are now final](#)

## PSBA News

### **PSBA PlanCon Study Group meets to make recommendations for reform**

As the state moves to resolve concerns with its complex and antiquated system for reimbursement of school construction projects under the PlanCon process, PSBA seeks to be part of the solution. This week the association convened a Study Group of stakeholders this week to examine these issues and offer recommendations for improvement. Participating in the Study Group's two-day session were school directors, superintendents, architects and solicitors. A report of the group's work will be released in upcoming weeks.

Act 25 of 2016 established a Public School Building Construction and Reconstruction Advisory Committee to review and recommend changes to the PlanCon process by next May. PSBA has a seat on the state Advisory Committee and will share the report of the association's Study Group with the committee and the entire General Assembly.

The law also authorized a \$2.5 billion bond to provide for approved reimbursements to address the backlog of funds owed to districts for school construction costs. In July, 2016, the Commonwealth Financing Authority approved a bond resolution to authorize the borrowing of up to \$850 million for initial payments owed. That initial bond revenue will be used to provide funding to districts for the missed 2015-16 and 2016-17 payments, and for projects that have been waiting for approval at Part H of the Plancon process. The distribution of payments to schools from the PA Department of Education is not expected to begin until the bonds are actually issued, which may occur later this year. It is expected that there will be additional rounds of borrowing to cover projects currently in other parts of the PlanCon pipeline.

In addition, Act 25 required PDE to post on its website information and the status of school construction projects still in the PlanCon pipeline. The information is required to be updated every 90 days. [Click here to see to access the project logs.](#)

[Top](#)

## Regulatory News

### **New regulations for financial recovery are now final**

The State Board of Education's new [Chapter 18](#) regulations regarding financial recovery have been published in the Pennsylvania Bulletin and are now final and effective

Chapter 18 fulfills the requirement under Act 141 of 2012, which established provisions regarding financially distressed school districts (except the School District of Philadelphia). Act 141 creates triggering events wherein school districts would be declared in financial recovery status, and directs the State Board to promulgate regulations that establish criteria the secretary of education may consider in placing a school district in financial recovery status and determining whether the district is in moderate or severe recovery status. Act 141 allows only nine school districts to be under a declaration of financial recovery status or in receivership at any time, and the Chapter 18 proposal reflects the same language.

PSBA supported the work of the State Board in fulfilling this requirement through the creation of Chapter 18. The proposal appropriately reflects the provisions of Act 141 without establishing extensive, unnecessary or duplicative additional criteria or procedures. Chapter 18 does not reach beyond the law by establishing unreasonable criteria that may be considered in determining whether a school district is in financial recovery status.

[Top](#)

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