



# Pennsylvania Association of School Business Officials

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## Testimony of the PA Association of School Business Officials House Education Committee

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Bensalem Township School District

Good morning, Chairmen Clymer and Roebuck and members of the House Education Committee. I am Jack Myers, Director of Business Operations of the Bensalem Township School District located in Bucks County. I am here today on behalf of the Pennsylvania Association of School Business Officials (PASBO), an association of 3,000 members, two-thirds of which are K-12 non-instructional administrators who provide finance, accounting, operations, facilities, transportation, food service, technology, communication, human resources, purchasing and safety services to support classroom learning in schools in Pennsylvania. PASBO appreciates the opportunity to present testimony regarding the financial impacts of charters on school districts.

Our association is not opposed to the creation and development of charter schools, both brick and mortar as well as cyber schools, as an appropriate educational option for students and their parents. PASBO's professional development and training programs are inclusive to all public and even a small number of private schools who elect to participate. Additionally, some PASBO members have taken an active leadership role in their district in creating charter schools. As a result, our purpose here today will be to discuss the business side of charter schools not the educational aspects.

Funding has clearly created some of the animosity and divisiveness between school districts and charters. The current funding formula has also created a significant incentive for schools to create new charters to retain students since the formula creates a financial incentive to do so.

The current formula in Section 1725-A(a) of the School Code determining district payments to charter schools should be significantly amended. Under current law, charter school payments are calculated as follows (see enclosed for definition of Total Expenditures and PDE-363 form):

### For nonspecial education students

Total Expenditures (a)

*Minus* Total Deductions (b)

Equals Selected Average Daily Membership (a-b=c)

Estimated Average Daily Membership (d)

Selected Expenditures *divided by* Estimated Average Daily membership (c/d=e)

### For special education students

1200 Special Education Expenditures (f)

*Minus* Special Education Deductions (g)

*Equals* Selected Expenditures (f-g=h)

Estimated Average Daily Membership multiplied by .16 (d\*0.16=i)

Special Education Expenditures *divided by* .16 Average Daily Membership (h/i=j)

Funding for special education students (e+j=k)

The formula has not been modified since the inception of the Charter School Law in 1997. At that time there was no existing charter schools in operation. Therefore, the creation of the Charter School Law made assumptions and used predictive estimates in assigning mandated payments for districts sending students to charters. Now we can rework the funding formula using real and accurate financial data. We believe a funding formula change is critical and will help to create a better working relationship between districts and charters.

The current funding formula was built on two underlying presumptions. First, a district should pay based on its costs, not on the cost of the charter school. Consequently, every district has a different calculation as indicated above for determining the cost to send a student to a charter school. We are not sure why a charter school should base its tuition on the sending schools' expenditures. When public schools charge tuition for out-of-district students, it is based on the costs of the attending district not the sending district. This formula creates a windfall for charters. When a district receives new funding for example such as when the Accountability Block Grant was established in 2005, charter school payments increased because the district's instructional expenses increased. So in many, many cases a cost increase to a school district created an additional expense for charter school payments regardless of whether the costs of the charter increased.

We believe in a single tuition rate for charter schools that would standardize payments from all sending districts. There is no harm in creating a uniform charter school tuition rate based on the cost of the charter school. This change would eliminate windfalls to the charter school and encourage efficiencies.

The second underlying premise is that charter schools payments can be funded from avoided costs of the district. Most of the alleged "savings" from students moving to charter schools never have occurred. A neighboring district with 50 or so charter school students pays over \$500,000 but was not able to reduce a single position since the students were from multiple grades in multiple schools. And certainly there is no savings generated when the charter students were formerly home schooled or in non-public schools. Furthermore, the very minor savings that do occur are dwarfed by the inflated charter school payment calculation resulting from double dipping. This situation occurs when a district cost gets built into the charter school calculation AND a charter school gets state assistance for the same expenditures.

By far, the most egregious example occurs with state reimbursement payment for school employee retirement. This sizable amount for PSERS expenses is paid to the district which in turn reflects both the state and local share. Thus, the full amount of PSERS is included in the tuition calculation of PDE-363. The state portion is then DOUBLE PAID to the charter school when they in turn get the reimbursement paid to them directly from the state. This double payment is a result of the fact that the authors of the original legislation were basing the language of section 17-1724A (c) of the School Code ("The Commonwealth shall make contributions on behalf of charter school employees...") on the prior practice of the Commonwealth to pay PSERS directly, rather than reimbursing school districts. (The same scenario occurred with respect to state reimbursement for Social Security taxes until the Fiscal Code amendment adopted with the state budget last month removed the state reimbursements for Social Security payments to charter schools.)

With the state payments being made to the school districts, which then in turn pay both the state and local share to PSERS, the "Commonwealth contribution" is thus counted twice with respect to charter schools. **A solution would be to have the reimbursement amount received by the district excluded from the expenditure total on the PDE-363.** For Bensalem Township School District, this translates to **\$531 per student.**

Costs related to non-instructional services provided to non-public students (such as providing nurses) are included in the cost figures, though the non-public students do not impact the number of students used as the divisor. **The solution to this would be to allow non-public school related costs to be subtracted on the second page of PDE-363. In fact, Section 17-1725A (a) (2) of the School Code, in describing the calculation says in part: “minus the budgeted expenditures of the district of residence for nonpublic school programs.”** For Bensalem, this translates to **\$14 per student** for nurses only.

The costs of tax collection should probably be excluded since the district is collecting all funds, including those used to pay the charter school. In our district we have a long history of providing low income senior citizens with a tax rebate. Guess what! That too increases the amount we pay in charter tuition. Again, **this could be subtracted on the second page of PDE-363.** For Bensalem, this translates to **\$84 per student.**

Tuition costs of particularly expensive students, those attending vocational/technical high schools, are included, though such programs are not normally found in charter schools. If they were, then the vocational/technical tuition rate could be applied. **To correct this, the tuition and the number of students could be adjusted in the same manner as suggested above.** For Bensalem, if these students and their tuition were excluded, the difference would be **\$175 per charter school student.**

In calculating the separate special education tuition rate, there are similar inequities that generate inflated costs for school districts, i.e. the use of an all-inclusive average cost per special education child that includes tuition paid for very specialized (and expensive) programs run by the intermediate units and approved private schools. On top of this, the impact is exaggerated by the fact that these particular costs are added onto the regular tuition rate despite the fact that these tuition payments are all-inclusive costs. **This adjustment could be handled as a subtraction of these tuition amounts from the total special education costs on the bottom of the first page of PDE-363 with a concurrent reduction in the number of students in these programs.** The addition of the regular student charter tuition to these tuition-based special education students adds **approximately \$2850 to the cost of each charter school special education student** in Bensalem.

A school district is limited to using a predetermined number of special education students equal to 16% of its enrollment to calculate the charter school tuition rate. There are several things wrong with this restriction.

A school district that has a special education population higher than 16% pays more per student to charter schools than it spends on its own students. In districts which have large proportions of families enrolling their children in non-public schools that offer little or no special education services, their special needs children are enrolled in the public schools. (In Bensalem, there are currently over 136 special education students whose siblings are transported to non-public schools.) This one factor alone tends to drive the public school special education proportion higher. The 16% cap for school districts in calculating the tuition rate does not seem to be applied to charter or cyber charter schools, some of whom claim that **OVER 30% OF THEIR STUDENTS ARE IN NEED OF SPECIAL EDUCATION SERVICES. The correction for this calculation is two-fold. Add the district’s non-public students to the base for calculation of the 16% special education population on PDE-363 and allow for a number above the 16% with appropriate documentation.** For Bensalem, such an adjustment to the number of special education students in the base calculation would translate to **\$3,425 per charter school special education student.**

The nature of the special education services required for the charter school enrollees would tend to suggest that different special education categories with separately calculated rates be used. To calculate rates to represent the costs associated with students with “mild” impairments and a separate rate(s) for students requiring significant services (such as hearing or vision impaired) seems only fair. Not to do so reduces the funds available to school districts to properly serve those most in need. **The remedy here is straightforward. The special education costs shown on PDE-363 can be subdivided into two or three categories along with the number of students. The billings from the charter schools would then also have to make the same corresponding designation of students.** (At this time it is not possible to calculate the precise impact on Bensalem’s charter payments. However, since it is not unreasonable to expect a **\$5000+ difference between the categories**, the impact on just 40 students would be considerable.)

With respect to the overall impact of the items discussed above, when one considers the direct payments by the state to the charter schools for such things as PSERS above and beyond the inflated tuition payments required to be made by the school districts, the charter schools actually have more to spend than school districts on the comparable costs. **The adjustments described above, would impact the Bensalem Township School District to the tune of approximately \$1,000,000, or about 15% of the district’s anticipated charter school tuition obligations of \$5.425 million in 2011/12.** The impact of the FY 2011-12 enacted budget; that is, elimination of the partial reimbursement to the district for charter tuition while keeping intact the double dip reimbursement to charters for PSERS, **approximates -\$1.4 million.**

In the 2011-12 school year another factor comes into play. Many school districts will be curtailing their expenditures to deal with the significant revenue drop-off. This will have **NO IMPACT ON CHARTER SCHOOLS inasmuch as the calculations are based on the current year. To eliminate the 2011-12 partial state reimbursement to school districts for 2010-11 charter tuition costs rather than eliminating the DOUBLE DIP PSERS state reimbursements to charter schools seems to be blatantly inequitable.** A detailed discussion and analysis of these points would go a long way toward resolving issues of apparent imbalance.

Regarding the reconciliation of payments and timely payment of invoices, the Charter School Law neither requires charter schools to reconcile payments with their actual costs at the end of the school year nor requires monthly payments based on invoices submitted by the charter school and the attendance reported for students enrolled.

In June 2007, Auditor General Jack Wagner urged Governor Rendell, the General Assembly and the Department of Education to standardize the funding system for Pennsylvania’s charter and cyber charter schools. His call for changing the funding system was issued after three audits for charter schools showed that all three received hundreds and thousands of dollars more in reimbursement money than their actual costs for educating students.

“The fact that all three charter schools were legally entitled to receive more funding they needed to educate students underscores the critical need to fix the state’s Charter School Law immediately,” Wagner said. “The public is rightly concerned about rising property taxes and the escalating cost of education. We need to reassure taxpayers that their hard-earned dollars are being spent fairly and efficiently.”

Auditor General Jack Wagner also observed that “the [Charter School Law] provides for no reconciliation of [a sending district’s] tuition payments with the actual cost of educating the students incurred by the charter school. The lack of such an annual reconciliation allows for sending school district overpayments or underpayments to the charter school that do not reflect the actual cost of educating the charter school students.”

Finally, if a district does not pay a charter school invoice in a timely manner, charter schools have the right to appeal the non-payment to the Secretary of Education, and the amount due is deducted from a district's subsidy. There is no communication required between these three parties and in some instances, a district pays the charter school and due to timing, the deduction is made from the district subsidy resulting in time-consuming reconciliations and refunds. If this occurs, a district could end up paying twice, once in the regular payment of bills and a deduction of its subsidy from PDE.

More importantly, there is no requirement for the charter school to verify the charter student's district of residence. As a result, districts are required to verify that charter school invoices contain only charges for students residing in the district. This laborious and manual verification process at the district level, is the primary reason many districts do not timely pay charter school bills. My district on many occasions has received bills for students that do not reside in Bensalem Township School District. I know of other situations where a charter school bill contains students who have returned to the district of residence. **The remedy here is to put the burden of proof on the charter school, not the school district.**

Thank you for the opportunity to provide comments on the current mandated formula for determining the charter and cyber charter school tuition rates. PASBO looks forward to working with Committee in achieving positive funding reform changes. I would be pleased to respond to any questions from members of the Committee.

## Total Expenditures

**Total Expenditures** - Includes expenditures with reference to the functional classifications of Instruction, Support Services, Operation of Noninstructional Services, Facilities Acquisition, and Other Financing Uses.

**1100 Regular Education** - Includes expenditures for activities designed to provide kindergarten through grade 12 students with learning experiences to prepare them for activities as citizens, family members, and non-vocational workers as contrasted with programs designed to improve or overcome physical, mental, social and/or emotional handicaps.

**1200 Special Education** - Includes expenditures for activities designed primarily to deal with students having special needs. The special programs include support classes for pre-kindergarten, kindergarten, elementary and secondary students that have been identified as exceptional.

**1300 Vocational Education** - Includes expenditures for PDE approved programs under public supervision and control which provide organized learning experiences designed to develop skills, knowledge, attitudes and work habits in order to prepare individuals to entrance into and progress through various levels of employment in occupational fields including agriculture, business, distribution, health, gainful and useful home economics, and trade and industry.

**1400 Other Instructional Programs** - Includes expenditures for activities that provide kindergarten through grade 12 students with learning experiences not included in the function codes 1100, 1200, and 1300; examples are drivers' education, summer school and homebound instruction.

**1500 Non-public Programs** – Includes expenditures for students attending a school established by an agency other than the State, a subdivision of the State, or the Federal government, which usually is supported primarily by other than public funds. The services consist of such activities as those involved in providing instructional services. Attendance, social work, health services and transportation are classified to the applicable 2000 support services function for nonpublic schools.

**1600 Adult Education** - Includes expenditures for activities designed to develop knowledge and skills to meet immediate and long-range educational objectives of adults.

**1700 Higher Education** - Includes expenditures for activities for students attending an institution of higher education, which offers (usually) the first two years of college instruction.

**1800 Pre-Kindergarten** - Includes expenditures for activities designed to provide Pre-K students with learning experiences to prepare them for activities as citizens, family members, and non-vocational workers as contrasted with programs designed to improve or overcome physical, mental, social and/or emotional handicaps.

**2100 Pupil Personnel** - Includes expenditures for activities designed to assess and improve the well being of students to supplement the teaching process and to meet the applicable provisions of Article XIII of the "Pennsylvania Public School Code of 1949," as amended, and Chapter 7 of the State Board of Education Regulations. Included are guidance, attendance and psychological services, speech pathology and audiology services, social work services, and student accounting services.

**2200 Instructional Staff** - Includes expenditures for activities associated with assisting, supporting, advising and directing the instructional staff with or on the content and process of providing learning experiences for students. Included are supervision of educational media audio-visual, educational television, computer-assisted instruction and school library services, instruction and curriculum development services and instructional staff development services.

**2300 Administration** - Includes expenditures for activities concerned with establishing and administering policy in connection with operating the local education agency (LEA). Included are board services, tax assessment and collection services, community relations services, and office of the principal services.

**2400 Pupil Health** - Includes expenditures associated with providing physical and mental health services, which are not direct instruction. Included are expenditures for activities that provide students with appropriate medical, dental and nurse services.

### **Total Expenditures (cont'd)**

**2500 Business** - Includes expenditures for activities concerned with support services not included elsewhere in the 2000 series of accounts.

**2600 Operation & Maintenance of Plant** - Includes expenditures for activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings and equipment in effective working condition and state of repair.

**2700 Student Transportation** - Includes expenditures for activities concerned with the conveyance of students to and from school, as provided by State and Federal law.

**2800 Support-Central** - Includes expenditures for activities, other than general administration, which support each of the other instructional and supporting services programs. This includes expenditures for planning, research, development, evaluation, information, staff and data processing services.

**2900 Other Support** - Includes expenditures for activities concerned with support services not included elsewhere in the 2000 series of accounts.

# Funding for Charter Schools

## Calculation of Selected Expenditures Per Average Daily Membership

PDE-363 (6/2010)

School District Name	County Name	AUN
Contact Person	E-mail Address	Telephone Number    Extension
Signature of Superintendent		Date

Calculation based on budgeted expenditures and estimated average daily membership

NOTE: When completing this form, use the most updated version of the budget for the school year immediately preceding the school year for which payments will be made to a charter school.

<b>FOR NONSPECIAL EDUCATION STUDENTS</b>		
TOTAL EXPENDITURES	_____	(a)
<i>Minus</i> TOTAL DEDUCTIONS (see page 2)	_____	(b)
SELECTED EXPENDITURES (a - b)	_____	(c)
ESTIMATED AVERAGE DAILY MEMBERSHIP	_____	(d)
<b>FUNDING FOR NONSPECIAL EDUCATION STUDENTS</b> (c / d)		
(SELECTED EXPENDITURES PER ESTIMATED AVERAGE DAILY MEMBERSHIP)	_____	(e)

<b>FOR SPECIAL EDUCATION STUDENTS</b>		
1200 SPECIAL EDUCATION EXPENDITURES	_____	(f)
<i>Minus</i> SPECIAL EDUCATION DEDUCTIONS (see page 2)	_____	(g)
SELECTED EXPENDITURES (f - g)	_____	(h)
ESTIMATED AVERAGE DAILY MEMBERSHIP <i>multiplied by</i> 0.16 (d x 0.16)	_____	(i)
SPECIAL EDUCATION EXPENDITURES <i>divided by</i> 0.16 AVERAGE DAILY MEMBERSHIP (h / i)	_____	(j)
<b>FUNDING FOR SPECIAL EDUCATION STUDENTS</b> (e + j)		
	_____	(k)

Provide a copy of this form to each charter school in which residents of the school district are enrolled.

Due Date:        **August 31**

Return to:        Pennsylvania Department of Education  
 Bureau of Budget and Fiscal Management  
 Division of Subsidy Data and Administration  
 333 Market Street, 4th Floor  
 Harrisburg, PA 17126-0333

School District Name	County Name	AUN
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The following expenditure amounts are to be subtracted from the TOTAL EXPENDITURES reported on line (a). Deduct only the federal portion of expenditures except for the following account codes: 1200, 1500, 1600, 1700, 1800, 2700, 4000 and 5000.

NOTE: Only deduct the federal portion of expenditures if included in the Total Expenditures reported on line (a) on page 1.

**DEDUCTIONS FROM TOTAL EXPENDITURES**

1100 Regular Education (federal only)	_____	
1200 Special Education	_____	
1300 Vocational Education (federal only)	_____	
1400 Other Instructional Programs (federal only)	_____	
1500 Nonpublic School Programs	_____	
1600 Adult Education Programs	_____	
1700 Community / Junior College Programs	_____	
1800 Prekindergarten (federal only)	_____	
1800 Prekindergarten (state PreK counts only)	_____	
2100 Pupil Personnel (federal only)	_____	
2200 Instructional Staff (federal only)	_____	
2300 Administration (federal only)	_____	
2400 Pupil Health (federal only)	_____	
2500 Business (federal only)	_____	
2600 Operation and Maint. of Plant (federal only)	_____	
2700 Student Transportation	_____	
2800 Central (federal only)	_____	
2900 Other Support (federal only)	_____	
3000 Operation of Noninstructional (federal only)	_____	
4000 Facilities Acquisition, Constr. and Improvement	_____	
5000 Other Financing Uses	_____	
<b>TOTAL DEDUCTIONS</b>		<u>\$0.00</u> (b)

**DEDUCTIONS FROM SPECIAL EDUCATION EXPENDITURES**

1200 Special Education (federal only)	_____	
1280 Early Intervention (state only)	_____	
<b>TOTAL SPECIAL EDUCATION DEDUCTIONS</b>		<u>\$0.00</u> (g)

