



Pennsylvania Association of School Business Officials

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Senate Education Committee
Public Hearing on Charter Schools
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Remarks of Matthew Malinowski, PRSBA
Assistant Superintendent for Business Services
Susquehanna Twp. School District

Good afternoon. My name is Matt Malinowski and I am the Assistant Superintendent for Business Services of the Susquehanna Township School District in Dauphin County. Susquehanna Township is an urban fringe school district with about 3,280 students with an aid ratio of .3747.

I am also a member of the PA Association of School Business Officials' Accounting Committee. PASBO is a statewide association of over two thousand active members representing K-12 non-instructional administrators below the rank of superintendent and providers of products and services in the school marketplace. Its active members support classroom learning by providing services including finance administration, accounting, facilities management, transportation, food service, technology, purchasing, communications, safety and human resources for local education agencies.

On behalf of PASBO, I want to thank you for the opportunity to speak to you concerning the important issue of charter schools, an area of financial concern for all school districts. PASBO recognizes that charter and cyber charter schools have offered many children a viable educational alternative. In fact my school district offers choices as well.

In 2008, Susquehanna Township partnered with an organization to create a virtual high school with web-based multimedia lessons that match the scope and sequence of instruction presented in our district's classrooms. Students are provided support services through our existing staff. Support for completion of the online curriculum is through Pennsylvania certified educators through a virtual learning network. The network can also be used to provide a learning venue for alternative education both on and off campus, homebound programs, prescriptive remediation, summer school and test prep.

The model provides blended learning and support for our families who desire a cyber school with our curriculum. The cost to establish this cyber school was approximately \$50,000. Our cost per student is approximately \$4,000, which is nearly half of the costs we pay to cyber charter schools under the current law. Projections indicate that we will break even for the program in 2009-2010.

PASBO does not oppose charter schools but we urge immediate changes to financing charter schools that would benefit school districts and taxpayers in numerous ways. Therefore we would urge the General Assembly and this committee to move forward with reworking how charters and cyber charters are funded.

Overview of Concerns with Charter School Law

Concern #1—The Charter School Law requires each sending school district to pay the charter school an amount equal to that district’s budgeted total expenditures per the district’s average daily membership (ADM) of the prior school year minus certain budgeted expenditures.

The advent of charter and cyber charter schools was based on the premise that such schools could be a cost-effective solution to the increasing costs of public education and save taxpayers money. The reality, however, has been much different.

For all 501 school districts, there is a tuition rate that is charged for any non-resident. This rate is calculated by PDE annually. Cyber charters are treated in the opposite fashion as tuition rates for cyber charters are based on the district of the residence.

In 2007-2008, my district paid \$7,392.16 for each nonspecial charter school student and \$14,105.88 for each special education charter school student while a neighboring school paid \$9,161.81 and \$21,951.20 for each nonspecial and special education charter school student, respectively. So while two districts may be very different, districts could pay vastly different payments, as Attachment A indicates.

Attachment B shows the impact of charter and cyber charter schools to the Susquehanna Township School District. Of the student totals, in 2007-2008, only 8 attended brick-and-mortar charter schools. Another 33 were enrolled in cyber charter schools. Expenditures have been in excess of \$1,010,815.94. Since 2002-2003 fiscal year, the commonwealth has provided reimbursement of \$303,245.00. My net cost since the 2002 fiscal year represents a property taxpayer equivalent of .616 mills.

Concern #2—The Charter School Law requires payments to be made without regard to program costs at the charter or cyber charter school.

The current funding/reimbursement mechanism under the Charter School Law takes total school expenditures and subtracts several costs that are unrelated to charter and cyber

charter schools—expenditures for non-public programs, adult education, community and junior college programs, transportation, special education and facilities acquisition and financing. Many other expenditures should also be excluded.

When my school district incurs additional costs for curriculum improvements, personnel, insurance and other operating costs, our charter school payments increase. In previous years, districts have received an Accountability Block Grant for full-day kindergarten, class size reduction and other early childhood education initiatives. The utilization of these funds in school districts means that payments to charter and cyber charter schools increases since our instructional expenses increased. So in essence, a portion of my district's Accountability Block Grant created a windfall for charter and cyber charter schools.

As another example, when the healthcare costs for my school district increases, charter school payments go up. If a district settles a contract for increased teacher salaries and benefits for additional educational programs, cyber charter costs increase even though it is unlikely cyber charter school teachers are not paid any differently because of a district of residence negotiated a new agreement. These school districts costs and several others do not impact cyber charter school costs.

Concern #3— The Charter School Law does not require charter schools to reconcile payments with their actual costs at the end of the school year.

In June 2007, Auditor General Jack Wagner urged the Governor, 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.”

Concern #4—A school district's expenditures do not necessarily reduce when a student leaves a district to enroll in a charter school.

Susquehanna Township School District is required to provide a charter and cyber charter school a funding calculation per special education ADM, based on the number of our special education students who attend the charter or cyber charter school. In 2007-2008, our district had 6 special education students enrolled in cyber charter schools. That costs us \$84,635.28 for the year. Our special education funding from 2006-2007 to 2007-2008 increased by \$31,636.52. Having these 6 children leave the district did not, however, reduce our costs by \$84,635.28. Instead, charter schools are creating an additional tax burden for district residents and businesses.

Concern #5—The Charter School Law does not impose a fund balance limitation on charter schools.

Based upon 2006-2007 AFR data, cyber charter schools have fund balances ranging from -4.76% to 66.84% of total expenditures. 6 out of 11 cyber schools have fund balances higher than 8-12% camp that districts are permitted to have as per section 688 of the Public School Code. 4 cyber charter schools have fund balances over 30%. See Attachment C.

Concern #6—The Charter School Law does not adequately provide for handling truant students.

While charter schools are required to issue attendance letters, the pursuit of remedies is handled differently. Brick-and-mortar charter schools file truancy documents with the magisterial district judge in whose jurisdiction the charter school is located. For cyber charter schools, the resident district is required to handle the filing and to attend scheduled hearings. The cyber charter school has no obligation to attend or testify concerning the filed truancy. This puts the resident school district in a difficult situation in trying to comply with attendance laws while not having first-hand knowledge of the attendance situation.

Concern #7—The Charter School Law requires monthly payments based on invoices submitted by the charter school and the attendance reported for students enrolled.

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 has on many occasions has received bills for students that do not reside in Susquehanna Township School District. I know of other situations where a charter school bill contains students who have returned to the district of residence. The charter

school invoice puts the burden of proof on the district and not on the charter school where it should be. The current process is unfair, unjustified and unnecessary.

Concern #8—Special education services required for charter school students significantly drive up the cost to school districts.

Some special education services are provided to students who did not have an Individual Education Plan with the school district of residence. This fact leads to a question of motivation. Furthermore, the special education services are delivered by local providers for cyber students. This creates the inefficient and costly process of a student receiving locally delivered services (perhaps from the intermediate unit of the district of residence) but the payment is sent from the district of residence to the cyber and then back to the provider. This triangulated service and payment process needs remedied.

Recommendations for Improvement

As a result of the concerns I've described, we have vastly different payments to cyber charter schools, depending on the sending district; school districts paying more than the actual cost of instruction, and some paying less, which leads to some school districts subsidizing other school districts' charter school students; charter schools receiving more funding than they need to educate students; charter schools having unlimited ability to hold local tax dollars; resident districts managing truant students enrolled in charter schools; and school districts' administrative duties becoming more burdensome.

PASBO recognizes that online or distance learning is a viable form of education and recognizes that any failures of the Charter School Law may be due in part because the formula simply did not anticipate cyber charter schools. So the formula, while well-intended for brick-and-mortar charters, does not adequately work for cyber charter schools and must be improved.

Recommendation #1—Establish a single statewide cyber charter school tuition rate.

Currently there is a myriad of substantial local dollars being channeled to charter and cyber charter schools, with state financial assistance covering only a percentage of that cost. A uniform level of funding such as that proposed by Secretary Zahorchak would mitigate the myriad of funding levels that currently exist, making the funding of cyber charter schools more rational and equitable.

Recommendation #2—Link cyber charter school payments to the Act 1 index.

Allowing increases in cyber payments equal to the base increase in the index for school districts under Act 1 recognizes that capping revenues (in the form of property taxes) requires limiting expenditures.

Recommendation #3—Impose fund balance limitations on charter schools.

The General Assembly enacted a fund balance limitation on school districts in 2003. PASBO supports imposing a similar restriction on cyber charter schools. Moreover, cyber charter schools with excessive fund balances should be required to return tuition in excess of costs to the sending district. A fund balance limitation on cyber charter schools would assure that only necessary reserves and designations of existing funding for future expenditures occur.

Recommendation #4—Create a verification process for students enrolled in cybers and other charters through the PIMS data collection project of PDE.

School districts should not have to manually sort through charter school invoices to determine if payments claimed for charter school students are accurate. The burden of proof needs to be placed on charters for accurate identification of the district of residence for charter students. Each district has to complete a form for our students enrolled outside the district. Charter schools should do the same to provide accurate notification to the district of residence.

Recommendation #5—Restructure the payment of special education costs to charters where special education services were not previously provided by the district.

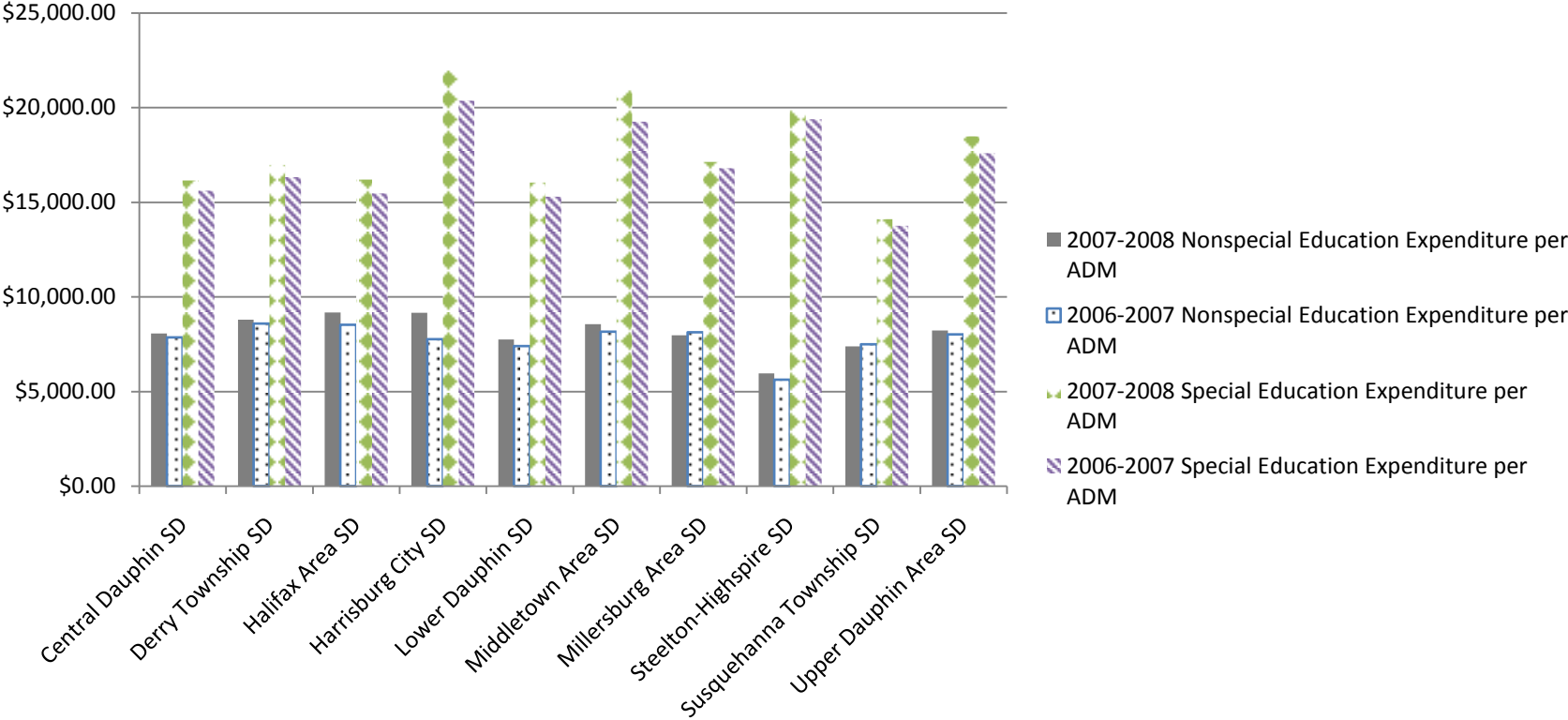
Charter schools should be paid only actual costs for newly identified special education students. Additionally, the district of residence should be authorized to provide any required special education services to cyber students.

Thank you for the opportunity to discuss the issue of charter schools and PASBO's recommendations with the committee. I am happy to respond to any questions.

**Attachment A, Part 1
Charter School Tuition**

School District	County	2007-2008 Nonspecial Education Expenditure per ADM	2006-2007 Nonspecial Education Expenditure per ADM	2007-2008 Special Education Expenditure per ADM	2006-2007 Special Education Expenditure per ADM
Central Dauphin SD	Dauphin	\$8,068.95	\$7,858.42	\$16,139.72	\$15,603.83
Derry Township SD	Dauphin	\$8,794.45	\$8,586.93	\$16,969.61	\$16,317.87
Halifax Area SD	Dauphin	\$9,172.11	\$8,528.38	\$16,192.67	\$15,459.81
Harrisburg City SD	Dauphin	\$9,161.81	\$7,763.52	\$21,951.20	\$20,371.16
Lower Dauphin SD	Dauphin	\$7,755.50	\$7,399.81	\$16,033.77	\$15,287.34
Middletown Area SD	Dauphin	\$8,558.62	\$8,163.87	\$20,926.39	\$19,258.39
Millersburg Area SD	Dauphin	\$7,976.87	\$8,131.83	\$17,134.17	\$16,799.36
Steelton-Highspire SD	Dauphin	\$5,962.16	\$5,620.67	\$19,926.27	\$19,382.18
Susquehanna Twp SD	Dauphin	\$7,392.16	\$7,486.14	\$14,105.88	\$13,753.84
Upper Dauphin Area SD	Dauphin	\$8,227.97	\$8,018.14	\$18,476.11	\$17,592.34

Attachment A, Part 2 Charter School Tuition



Attachment B
Susquehanna Township School District
Charter and Cyber Charter School Budget/Cost History

<u>FY</u>	<u>Budget</u>	<u>Expenditures</u>	<u>State Revenue</u>	<u>Revenue as % of Expense</u>	<u>Net Expenditures</u>	<u>Millage Impact</u>
2002-2003	\$ 16,254.00	\$ 13,724.84	\$ 4,117.45	30%	\$ 9,607.39	0.007
2003-2004	\$119,927.41	\$ 148,312.17	\$ 44,493.65	30%	\$ 103,818.52	0.009
2004-2005	\$200,929.00	\$ 219,711.69	\$ 65,913.51	30%	\$ 153,798.18	0.113
2005-2006	\$ 78,000.00	\$ 277,434.64	\$ 83,230.39	30%	\$ 194,204.25	0.139
2006-2007	\$211,000.00	\$ 351,632.60	\$ 105,490.00	30%	\$ 246,142.60	0.185
2007-2008	\$366,498.00	\$ 382,750.26	\$ 114,825.07	30%	\$ 267,925.19	0.185
Total	\$992,608.41	\$1,393,566.20	\$ 418,070.07		\$ 975,496.13	

Attachment C
Charter School Fund Balances

<u>Charter School</u>	<u>2006-2007 ADM</u>	<u>Total Ending Unreserved Fund Balance</u>	<u>Unreserved- Designated Fund Balance</u>	<u>Total Expenditures</u>	<u>Fund Balance as % of Total Expenditures</u>
21 st Century Cyber CS	98.9	\$ 753,020.00	\$ 999,000.00	\$ 3,743,488.00	20.12%
Achievement House CS	100	\$ 286,552.00		\$ 3,446,651.14	8.31%
Agora Cyber CS	88.2	\$ (403,587.00)		\$ 8,485,407.59	-4.76%
Central PA Digital Learning Foundation CS	99.1	\$ 800,802.00		\$ 1,295,602.00	61.81%
Commonwealth Connections Academy CS	97.6	\$ 3,372,670.00		\$ 11,188,123.15	30.15%
PA Learners Online Regional CS	100	\$ 2,477,820.00		\$ 6,337,524.42	39.10%
Pennsylvania Cyber CS	96.2	\$ 1,143,493.00		\$ 59,280,007.00	1.93%
PA Distance Learning CS		\$ 303,475.00		\$ 5,241,958.00	5.79%
Pennsylvania Leadership	94.7	\$ 1,240,586.00		\$ 17,312,849.39	7.17%
Pennsylvania Virtual CS	100	\$ 6,548,962.00	\$ 399,407.00	\$ 33,286,959.00	19.67%
SusQ-Cyber CS	95	\$ 776,402.00		\$ 1,161,578.87	66.84%