

Senate Education Committee Hearing on K-12 School Budgeting and Fund Balances

Testimony of Michael A. Whisman
Certified Public Accountant
Charter Choices, Inc.
Wednesday, March 15, 2023

Good afternoon Chairman Argall, Chairwoman Williams and Honorable Members of the Senate Education Committee. My name is Mike Whisman, I am a Certified Public Accountant and founding member of the leadership team at Charter Choices, an organization that provides business services to public charter schools in the Commonwealth. Thank you for the opportunity to speak before you this afternoon.

I have been working with public charter schools in the Commonwealth since 1997, when the Charter School Law was first enacted, and my first charter school client from that time is still a client today.

I have testified before both this Committee and your counterpart in the House many times over the years. I think my reputation is one of commitment to ensuring the students of Pennsylvania have educational options that meet their diverse needs.

As you receive testimony today regarding public school budgeting and fund balances, I ask that you keep in mind that, in Pennsylvania, every **charter school is a public school**. And with that in mind, traditional public schools and public charter schools share more requirements in common (including independent annual audits, budgets that are publicly voted upon by a board of trustees, the Sunshine Act, the Right to Know Law, audits conducted by the PA Auditor General, federal grant monitoring, annual reports submitted to the PA Department of Education, plus many others) than they do exceptions.

Budgeting and Funding for Public Charter Schools

I suspect that dedicated hearings specific to this topic are forthcoming. Until then, here are the highlights:

- Public charter schools lack the power to levy taxes to supplement the federal and state revenue they receive.
- Public brick-and-mortar charter schools have the same structural, personnel, and management costs as school districts.
- Public charter schools receive their state and federal allocations directly from the state. Their local funding is allocated to them through tuition reimbursement from each student's home school district. Basic Education Funding for charter school students are first received by the school district.
- These tuition reimbursements for regular education and special education students are based on each district's expenditures from the previous fiscal year as

addressed in [Section 1725-A of the Pennsylvania Public School Code](#) - - which means public charter schools have no control over their revenue.

- The calculation of these tuition reimbursements are done through the PDE-363 form which are required to be submitted to the PA Department of Education each year by school districts.
 - As of March 2, 2023, there were 140 districts that have not completed the PDE-363 form. At this point in the school year, charter schools do not know the per-pupil rate for 140 districts. This is a funding reality that school districts do not face and this uncertainty is a reason why public charter schools need to maintain healthy fund balances.
- Currently, school district revenues are approximately 20% higher than public charter schools because the law allows for 7 deductions to be made on the PDE-363 form but over time PDE has increased the number of deductions to more than 20. One of the major deductions is federal funding received by the school district.
- The accounting and budgeting practices of each school district has a direct impact on the amount of funding a charter student receives through their tuition reimbursement rate.
 - For example, with the significant infusion of federal funds to school districts as part of the COVID relief efforts, public charter schools are seeing a significant drop in their per pupil tuition reimbursement rates. This is a result of school districts supplanting their state and local funding with the excess federal funding so they would not have to calculate those dollars in their charter reimbursement rate.
 - As a result of the charter funding formula, the regular education rates in Philadelphia went down 11.69% in fiscal year 2023 (current year). Since 2008, the average annual increase in the regular education rate for Philadelphia's public charter schools is 2.8%. At that rate, it will take 5 additional years to almost get back to the rates from the 2020-2021 school year.

The main takeaways are that public brick-and-mortar charter schools have the same financial demands as school districts and adhere to the same accountability requirements for how their resources are spent. Unlike school districts, public charter schools do not have a stable and reliable revenue source and have no power to increase their revenue (like districts do through property tax increases) if/when they need to finance a special project or save for an emergency. To make matters worse, some school districts exploit the current funding system for public charter schools with accounting loopholes that decrease the rightful amount of funding that should be going to students in charters.

The Importance of Fund Balances for Public Charter Schools

Just like school districts, public charter schools are allowed to maintain fund balances as a way to save for special projects, facilities improvements or emergency situations. For public charter schools, these fund balances play a far more crucial role in maintaining the fiscal health of a charter school.

The Difference Between Fund Balance Limits for School Districts and Charter Schools

The PA Public School Code prohibits a school district from increasing property taxes if its unassigned fund balance exceeds a certain percentage of its total budgeted expenditures. This limit is 8% for most of the 500 school districts in Pennsylvania. This measure (Act 48 of 2003) was taken to protect local taxpayers from persistent increases in property taxes, while their local school districts accumulated significant fund balances.

- For the 2005-2006 school year and each school year thereafter, no school district shall approve an increase in real property taxes unless it has adopted a budget that includes an estimated ending unreserved, undesignated fund balance less than the percentages set forth as follows:

Total Budgeted Expenditures	Fund Balance % Limit (less than or equal to)
Less Than or Equal to \$11,999,999	12.0
Between \$12,000,000 and \$12,999,999	11.5
Between \$13,000,000 and \$13,999,999	11.0
Between \$14,000,000 and \$14,999,999	10.5
Between \$15,000,000 and \$15,999,999	10.0
Between \$16,000,000 and \$16,999,999	9.5
Between \$17,000,000 and \$17,999,999	9.0
Between \$18,000,000 and \$18,999,999	8.5
Greater Than or Equal to \$19,000,000	8.0

Due to the lack of authority for public charter schools to levy taxes, there was no need for the General Assembly to expand the requirements of Act 48 of 2003 to brick-and-mortar charter schools. Over the years, I have heard calls from school districts and their interest groups to limit the amount of funding a public charter school can hold in unreserved fund balances. Time and time again, the charter school community (rightfully so) has pushed back on this call due to:

- The unpredictable nature of a charter school’s revenue and the need to ensure that they have enough money in the bank to pay their bills, pay their staff and educate their students if/when a school district refuses to pay their tuition reimbursement or they manipulate the PDE-363 form to short-change the charter school. As I mentioned previously, charter schools are being encouraged by their financial advisors to put aside more funding in reserves to offset the decreases in per pupil tuition reimbursement rates they are already seeing as a result of districts using federal COVID dollars to supplant state and local funding.
- Public charter schools do not have the ability to raise local property taxes when they have an urgent need for more revenue, so they need to keep a healthy fund balance to ensure they have the resources to respond to emergencies. A perfect example of this was the COVID pandemic and the reserves that charters used to purchase laptops or tablets for their students.

- Public charter schools do not have access to the same facilities funding that school districts receive from the state and must save over time for long-term capital improvement projects.

Current Fund Balances – Districts vs Charters

The most recent fund balance information from PDE’s website, as of March 2, 2023, for the fiscal year ending June 30, 2021 shows how much school districts hold in reserves compared to public charter schools:

	Districts	Charter Schools
Committed FB	\$ 1,703,491,235	\$ 360,830,463
Assigned FB	\$ 1,374,738,781	\$ 153,869,275
Unassigned FB	\$ 2,207,217,298	\$ 456,419,399
	\$ 5,285,447,314	\$ 971,119,137

Auditor General DeFoor’s Report on School District General Fund Balances

The Auditor General [released a report](#) on school district fund balances that highlighted the use of exceptions as a way to continue increasing property taxes beyond the limitations of Act 48 of 2003.

The Pennsylvania Association of School Business Officials (PASBO) [responded to the report](#) released by the Auditor General office with the following statements:

- “Having a fund balance is essential for prudent financial operations of any school district. Fund balances are integral to the long-term preservation of the school district’s General Fund to ensure stability and consistency in providing the resources needed for all student programs and services.”
- “Maintaining a fund balance also provides additional revenue from investment earnings rather than the opposite of incurring additional expense from borrowing for cash flow needs.”

To the extent these statements and reasoning make sense for school districts, they should make sense for public charter schools, as well. However, some school district interest groups have responded to the Auditor’s report by calling for more scrutiny of how public charter schools use their funding. To that call, I would remind the members of this committee that public charter schools are subject to the same routine audits conducted by the Auditor General, are required to submit independent audits to their authorizers each year, complete annual reports and submit those to their authorizer and PDE, and must go through a rigorous renewal process every 5 years in addition to the other accountability requirements I outlined previously. To say that public charter schools are in any way unaccountable or unregulated is false and being used to deflect from the serious issues exposed in the Auditor General’s report.

In conclusion, public charter schools face funding challenges that school districts do not, yet they are required to provide the same quality education as districts. Fund balances are needed and fiscally responsible to address the annual uncertainty around funding for public charters.

Thank you again for the opportunity to be a part of this important conversation. I know that the General Assembly, along with the Governor, has a daunting task in front of them as a result of the recent ruling in the fair funding case. As you embark on this task, I urge you to take a holistic approach to K-12 funding, which includes looking at how public charter schools are funded to ensure equity for every public school student. As Governor Shapiro said last week in his budget address, we should all be working collaboratively to ‘empower parents to put their kids in the best position for them to succeed’. As a parent with school-age children, I agree.