

Testimony of Michael A. Whisman
Certified Public Accountant
Charter Choices, Inc.

Good Afternoon Chairman Langerholc, Chairman Dinniman, and Honorable Members of the Senate Education Committee. My name is Mike Whisman, I am a Certified Public Accountant and partner at Charter Choices, an organization that provides business services to charter schools in the Commonwealth. Thank you for this opportunity to present facts about charter schools in Pennsylvania.

Introduction

I have been working with charter schools in the Commonwealth since 1997. My first charter school client from that time is still a client today. Much of the testimony you are hearing today has been heard by many over the years. The rhetoric continues and will continue until real conversations happen.

It is that time of the year again when political and financial pressures force the charter movement to fight for their very existence. Each year charter schools are faced with opponents who are pointing out one-sided inequities in the current funding formula for charter schools. Perhaps what they really want is to keep the charter school parents school taxes and have someone else pay for the education.

A gap has always existed between traditional education advocates who focus on tweaking the current system and charter operators who believe that giving existing schools stable funding, whether or not they deserve it, makes no sense and is only a form of self-protection.

Unless charter schools are funded appropriately and equitably, real change will not happen. It is time to work on a funding method that is equitable for all public schools AND will address the actual inequities in the system. This would require both traditional public schools and public charter schools to work together for what is best for the children.

Lost in all of this is the fact that student learning is completely disrupted when charters and districts fight. Districts must commit to the success of every charter, even when they question the charter's right to exist. So long as charters exist, they serve Pennsylvania's students and they must be given every opportunity to succeed. Charter schools must also do their part by cooperating and complying with the state's laws and regulations governing charter schools. Charters must embrace constructive criticism and make corrections when necessary.

Funding

- Funding for charter schools is addressed in Section 1725-A of the Pennsylvania Public School Code. From a high level, the formula is simple. The per-pupil

formula takes the total budgeted expenditures less certain deductions identified in the School Code divided by Average Daily Membership. Section 1725-A allows districts to deduct seven (7) specific expenses from their total expenditures when determining charter school rates. However, PDE's 2019-2020 template for calculating the charter school rates has twenty-four (24) deductions listed for districts to take advantage of.

- One of the seven deductions in Section 1725-A is “other financing uses”. I believe the legislative intent for this deduction was to allow for debt service payments to be excluded from the Charter School formula. Unfortunately, “other financing uses” in PDE’s chart of accounts includes “suspense account (5800) and budgetary reserve (5900). The 5800 and 5900 accounts can obviously be manipulated and deducted as an “other financing use” expense. This is a “loophole” used by districts. Approximately \$150 million was budgeted in FY19 to account code 5900 alone.

In fact, the Titusville Herald reported in April 2019 that the Titusville Area School Board is using this loophole to reduce payments to charter schools. From the article “The board took a step to combat the costs paid to charter schools at Monday’s meeting...Specifically, Sampson said the amount placed into contingency will increase by \$150,000. In addition to lowering the amount paid to charter schools”. http://www.titusvilleherald.com/news/article_4b937e60-6001-11e9-a8f5-ff24fd1d6e80.html

- Section 2501(20) of the Public-School Code is a reference to the General Fund. Charter school funding is calculated using only the General Fund enabling districts to move other eligible expenses to other funds to avoid payments. For the 2018 fiscal year, districts budgeted approximately \$731 million to other funds in eligible expense categories (1000 and 2000 removing the expenses from the charter school per-pupil amounts).
- Charter school rates are calculated each year on a form provided by PDE (PDE-363). For the 2018-2019 school year, 57 districts did not complete this form. As of August 7, 2019, there were 398 districts that have not submitted a PDE-363 to the Department for the 2019-2020 year. When a form is not completed by a district, the charter schools and PDE face considerable administrative burden compiling information and performing calculations that the district should be doing while sometimes going through an entire school year without knowing their funding level and thus their budget.
- Section 1725-A mandates that “payments shall be made to the charter school in twelve (12) equal monthly payments, by the fifth day of each month, within the operating year.” The schedule released by PDE for 2018-2019 and 2019-2020 allows for only eleven (11) payments. The twelfth payment for a fiscal year is received on the last Thursday in August of the subsequent school year, two

months after the fiscal year ends. This delay is an obvious fiscal strain on charter schools.

- For example: The Gillingham Charter School (GCS) opened in 2011 and is located in the Pottsville Area School District (PASD). Each month, for the last ninety-eight (98) months an invoice is submitted for payment to PASD. They have made exactly zero payments to the GCS. Furthermore, because of PDE’s timeline, GCS will not receive twelve payments in a fiscal year as mandated in the School Code.
- Pursuant to section 1725-A(a)(5), a charter school may ask the Secretary of Education to redirect a school district's subsidy when the school district fails to pay the charter school for educating resident students. Charter Choices has a list of 151 school districts that “fail” to make monthly payments directly to charter schools resulting in additional administrative burdens for both the charter school and PDE. However, there are never any penalties for these districts, which are effectively incentivized to withhold payment and collect interest on the cash.

Below is PDE’s timeline for charter school payments:

Timeline for Submission of Documentation by Charter Schools Seeking Withholding Under Section 1725-A(a)(5) For 2018-19 Reconciliations and 2019-20 Invoices		
Invoice Deadline:	Payment Date (Unipay):	Maximum Student Enrollment Month That May Be Submitted (for Invoices Only):
July 25	August 29, 2019	July 2019
August 25	September 26, 2019	August 2019
September 25	October 31, 2019	September 2019
October 25	November 27, 2019	October 2019
November 25	December 26, 2019	November 2019
December 25	<i>To be updated in Fall 2019</i>	December 2019
January 25	<i>To be updated in Fall 2019</i>	January 2020
February 25	<i>To be updated in Fall 2019</i>	February 2020
March 25	<i>To be updated in Fall 2019</i>	March 2020
April 25	<i>To be updated in Fall 2019</i>	April 2020
May 25	<i>To be updated in Fall 2019</i>	May 2020

Enrollment

- Total charter school students represent 7.384% of all public-school students enrolled in the Commonwealth in FY18.
 - Cyber charter school students make up just 1.849% of the total public-school student population
- Charter schools typically serve students from struggling school districts with lower graduation rates, lower SAT verbal scores, and lower reading and math

scores. Charter school students also come disproportionately from school districts with higher African-American and low-income student populations. The average traditional school district's student population is 33.0% economically disadvantaged (ED) but this percentage is 49.7 for cyber charter schools and 66.6% for brick-and-mortar charter schools. When any legislation is put forth to cut charter school funding, it will disproportionately impact impoverished children and racial minorities.

	SD	CCS	CS
	Districts	Cybers Charter School	Brick and Mortar
Enrollment	1,727,306	34,482	103,230
% of Statewide enrollment	92.616%	1.849%	5.535%
Total Economically Disadvantaged (ED) Population	570,091	17,144	68,716
Total % ED	33.0%	49.7%	66.6%

- Only 2.7% of first time cyber-enrolled students are in kindergarten. A much higher percentage of new to cyber enrollees are in the middle school and high school grades. The organizations that oppose cyber charter schools will point to academic data without showing you this enrollment trend. The fact is that many students entering charter schools, specifically cybers, are already several years behind thanks to school districts that have failed them. The academic results are reported, but a deeper dive into these figures is needed. A charter school that enrolls a 6th grade student who reads at a 3rd grade level and is then able to successfully move that student up two grade levels in reading skills in a single year is nonetheless reported as a failure.

Revenues

Statewide, public charter schools receive from the district of residency approximately 80% of what that district is spending on a student attending a traditional public school. For many charters, the percentage is much lower. For example, the School District of Philadelphia spends an average of \$17,291 for each student but charter schools receive only \$10,156 (58.75%) for each non-special education student. When a student leaves a traditional public school for a public charter school (cyber or brick-and-mortar), the public charter school receives only a portion of the districts' previous year per-pupil spending. This portion excludes transportation, construction, facilities, and debt services. Public charter schools in the Commonwealth have to utilize other funding sources to assist with the payments of these expenses. Thus, traditional school districts already keep a sizable percentage of their per-pupil expenditures for students leaving their schools.

- Based on PDE's FY18 data, the average revenue per-student at a traditional public school was \$17,531 and \$14,878 at a public charter school.
- Charter schools educate 7.384% of all students in the Commonwealth and receive 6.34% of the revenue.

Expenses

- What school districts actually spend on debt service (6.2% of total expenses) is higher than what they pay charter schools (6.04% of total expenses).
- Traditional school districts spend an average of \$16,434 for each student enrolled. The average payment (Regular and Special Education) for a traditional school district to a public charter school is \$13,241 per student.
- Opponents will say that charter schools spend more on “administrative costs” (account codes 2000). What they are not telling you is that charter schools capture their facility costs (rent not debt) in administrative costs where districts borrow money (debt and not rent) which is captured in account code 5000. If you total the 2000 and 5000 accounts for both districts and charter schools, you will see that costs are similar.

	SD	CCS	CS
	Districts	Cybers Charter School	Brick and Mortar
Department Spending			
Total Instruction Spending (1000)	18,175,719,396	310,337,075	792,805,928
Total Support Services Spending (2000)	8,294,733,315	167,373,970	554,031,989
Total Instruction and Support Service Spending	26,470,452,712	477,711,044	1,346,837,917
Total Noninstructional Services Spending (3000)	524,283,847	3,159,664	34,623,927
Total Facilities, Acquisition, and Construction Spending (4000)	62,472,108	213,739	24,991,104
Total Other Expenditures and Financing Spending (5000)	3,153,990,473	25,755,386	30,828,937
Total Instruction Spending (1000) as % of Total Expenditures	60.2%	61.2%	55.2%
Total Support Services Spending (2000) as % of Total Expenditures	27.5%	33.0%	38.5%
Total Instruction and Support Service Spending as % of Total Expenditures	87.6%	94.3%	93.7%
Total Noninstructional Services Spending (3000) as % of Total Expenditures	1.7%	0.6%	2.4%
Total Facilities, Acquisition, and Construction Spending (4000) as % of Total Expenditures	0.2%	0.0%	1.7%
Total Other Expenditures and Financing Spending (5000) as % of Total Expenditures	10.4%	5.1%	2.1%
Total Instruction Spending (1000) per Student	10,523	9,000	7,680
Total Instruction Spending (1000) as % of Total Revenues	60.02%	57.48%	52.54%
Total Support Services Spending (2000) per Student	4,802	4,854	5,367
Total Support Services Spending (2000) as % of Total Revenues	27.39%	31.00%	36.72%
Total Instruction and Support Service Spending	15,325	13,854	13,047
Total Noninstructional Services Spending (3000) per Student	304	92	335
Total Facilities, Acquisition, and Construction Spending (4000) per Student	36	6	242
Total Other Expenditures and Financing Spending (5000) per Student	1,826	747	299
Total Other Expenditures and Financing Spending (5000) as % of Total Revenues	10.42%	4.77%	2.04%

PSERS

Charter schools are leading the way in maximizing the efficiency of taxpayer funds. Charter Schools have pioneered alternative 403(b) retirement plan options as an alternative to PSERS and the prohibitive costs that come with it. While school districts spend on average 12.4% of their total expenditures on PSERS and retirement spending, charter schools only spend an average of 7.4%.

Without question, the largest mandated, underfunded, and uncontrollable expense for school districts in Pennsylvania is PSERS. While charter school tuition is the favorite political target for district budget complaints, pension expenses is the actual fiscal crisis that districts continue to face.

Special Education Funding Commission Report

The Special Education Funding Commission report calls for a tiered approach based on costs in excess of regular education costs. The first-tier funding is “up to \$25,000 in excess of regular education costs.” The formula for this tier is a factor of 1.51 times “the average regular education expenditure amount for the district of residence, as calculated by pursuant to the current provisions of Section 1725-A(a)(2).”

As an example, the 2018-2019 average regular education per-pupil amount for a charter school student that resides in the Chestnut Ridge School District was \$9,578.03. Using the formula that the Commission recommends, a special education student from this district would receive an additional \$4,884.79 to cover costs up to \$25,000.

I believe the intent of the Commission was to treat traditional public district schools and public charter schools equally with the commission’s recommendation to be applied to new dollar amounts appropriated by the General Assembly. This is currently the case for traditional public district schools but the proposal brought before the General Assembly at the time, and advocated by special interest groups opposed to charter schools, would have applied the Commission’s suggestion to ALL special education dollars to ONLY charter schools.

The proposal released in 2013 would have had a devastating outcome for most public charter schools across the Commonwealth. A change like this can and will most assuredly result in the closing of many public charter schools, which thousands of students depend on to provide a high-quality education. The inequities in this proposal are obvious. Public charter school students will be forced to receive yet another decrease in funding simply because they exercised their educational rights.

Closing

A student's educational options, and funding for that education, should not be limited by school board politics or the self-interest of the teachers’ unions or state school boards. Public charter schools are obviously a form of competition for the traditional public schools, but wasn’t that the point? Parents and students can choose to go to a public charter school. Charter school students are public school students.

In closing, thank you for this opportunity to be a part of this important conversation. Unless charter schools are funded appropriately and equitable, real change will not happen. Instead of attacking how public charter schools are funded, school reformers should attempt to change the current funding system and remove all inequities that currently exist rather than to add to them. It is time to work on a funding method that is

equitable to ALL public schools in the Commonwealth AND will address the actual inequities in the system.

As Pennsylvania continues to debate revamping its charter laws, it is evident that the discussion would benefit from a rigorous, objective, and exhaustive analysis of the fairness of the funding formula (PDE-363). Both sides agree that the existing funding formula treats them unfairly.... and both are correct. But let's at least begin with an understanding of one basic fact: Charter schools currently receive less – not the same and certainly not more - per-pupil funding than district-operated schools.

I support a funding commission that is tasked to equitably fund the education of all students in the Commonwealth.