



## HOUSE COMMITTEE ON APPROPRIATIONS

# FISCAL NOTE

HOUSE BILL NO. 618

PRINTERS NO. 2371

PRIME SPONSOR: Emrick

### COST / (SAVINGS)

FUND	FY 2013/14	FY 2014/15
General Fund	See "Fiscal Impact" below.	

**SUMMARY:** House Bill 618 makes extensive changes to the Public School Code concerning charter schools. Its effective dates vary by provision.

**ANALYSIS:** This legislation makes extensive revisions and additions to charter school provisions found throughout the Public School Code.

There are changes to the funding formula for cyber charter schools. Under current law, all charter schools are paid a per student amount from the school district of residence of each student in the charter school. This amount is calculated by taking the total budgeted expenditures of a school district and deducting certain budgeted categories of expenditures enumerated in the School Code, such as transportation, adult education, debt service, and others. House Bill 618 adds to these deductions by allowing school districts to deduct the full cost of pension contributions and food service for cyber charter schools only. This change would be in effect for the 2013-2014 and 2014-2015 school years only.

This legislation creates the Charter School Funding Advisory Commission, a 20-member commission charged with exploring funding issues related to charter school entities, and making recommendations to the General Assembly and the Governor by March 30, 2014.

The PA Department of Education (PDE) is required to make direct payment of charter school invoices by deducting the funds from state payments to the school districts whose students are attending charter schools. Charter school entities must provide to PDE and a student's school district of residence documentation of the student's residence and enrollment, on a form to be developed by PDE, including copies of the actual documents used by the charter school entity to verify the student's residence. The Department cannot withhold payment to a charter school entity without a court order to do so.

The process for charter school payment calculation and dispute resolution is further clarified. The Secretary of Education must review school district calculations of payments to charter schools for errors and require districts to correct the errors. If a school district or charter school

entity files notice of a dispute with the Secretary, the Secretary must hold a hearing within 30 days, make a determination within 30 days of the hearing, and require the substantially prevailing party's reasonable legal fees be paid by the other party. Decisions of the Secretary may be appealed to Commonwealth Court.

This legislation also makes changes concerning charter school entity debt. Charter schools must annually hold in escrow an amount sufficient to pay its annual amount due. If a charter school fails to pay principal or interest due, the bank or bond trustee must notify the board of trustees of its obligation and immediately notify the Secretary and, in the case of a charter school or regional charter school, the local board of school directors. The Secretary must also withhold from any payment due the charter school entity an amount necessary to pay the indebtedness due.

House Bill 618 also places limits on the unassigned fund balances and reserves of charter school entities, similar to those placed on school districts. Any excess over the established limit must be returned to those school districts that paid tuition to the charter school entity.

Numerous changes are made by this bill concerning ethics, transparency, accountability, auditing, and governance reforms. These include:

- Specifying that the state Ethics Act applies to charter school entities and their employees.
- Putting tight limitations on when charter school administrators can perform work for another entity.
- Detailed prohibitions against nepotism relating to charter school entities.
- Additional rules concerning conflicts of interest for charter school entity trustees and employees, and the dismissal of charter school administrators.
- Prohibiting compensation for charter school board members for their duties as board members.
- Additional controls on charter school entity auditing, governance, and oversight.

The bill requires the State Board of Education, in consultation with an advisory committee composed of representatives of PDE, charter school entities, institutions of higher education with experience in oversight of charter schools, and school district personnel to create a performance matrix to measure and assess the academic performance of charter school entities, through regulations promulgated under the Regulatory Review Act.

This legislation also makes changes to the School Code designed to improve the chartering process. It requires PDE to develop an application form that must be used by all initial and renewal charter applicants, school boards and the Department. Detailed requirements for the form are enumerated in the bill. It also creates a process for charter school entities to amend their charters, makes changes to the State Charter School Appeals Board, and allows charter school entities to be granted 10 year renewals on their charters after a five year charter term for the initial charter.

Other miscellaneous provisions contained in the bill are listed below:

- Allows charter school entity students to participate in a dual enrollment program with an institution of higher education.

- Allows two or more high-performing charter schools to consolidate into a Multiple Charter School Organization that will be managed by a single board of trustees and a single administrator.
- Describes conditions under which a charter school entity may use a sectarian facility.
- Prohibits the availability of alcoholic beverages for consumption, purchase or sale in any charter school entity facility.
- Allows a charter school entity to give enrollment preference to siblings of students selected for enrollment during the enrollment lottery.
- Clarifies that charter school entity enrollment may not be capped or otherwise limited by any past or future action of a board of school directors, a board of control, a special board of control or any other governing authority.
- Prohibits a charter school entity from providing discounts to a school district or waiving required payments.
- Allows the charter school entity to ask the intermediate unit or the school district in which the charter school entity is located to provide services to the charter school entity and to pay the intermediate unit or school district for such services.
- Makes charter schools, regional charter schools, and cyber charter school subject to numerous provisions of law to which they are not currently subject.
- Requires all current charter school entities to amend their current charters within 1 year as needed to reflect the requirements of this legislation.
- Allows local boards of school directors and intermediate units to establish cyber charter schools pursuant to the procedures and requirements of the Charter School Law.
- Clarifies that a cyber charter school student's violation of the compulsory attendance law will subject the student to applicable penalties under the School Code.

**FISCAL IMPACT:** The changes to the cyber charter school funding formula will have no adverse impact on Commonwealth funds. However, increasing the expenditures school districts may deduct when calculating payments to cyber charter schools will save school districts money by reducing their payments to those schools. According to the Pennsylvania Association of School Business Officials (PASBO) these savings for all school districts will total approximately \$41 million for each fiscal year they are in effect, \$27 million for the retirement expenditure deduction and \$14 million for the food service deduction.

Members of the Charter School Funding Advisory Commission will receive no compensation for their services, but will be reimbursed by PDE for travel and other reasonable expenses incurred in connection with their service as members. Whenever possible, the Commission must use the services and expertise of existing personnel and staff of state government. The Department may use unspent funds from appropriations for grants and subsidies to fund the work of the Commission, up to a maximum of \$300,000. Therefore, it is expected the expenses of this Commission will be absorbed within previously appropriated funds.

The remaining provisions of the legislation will have a minimal impact on Commonwealth funds.

**PREPARED BY:** Jeff Miller  
House Appropriations Committee (R)

**DATE:** September 25, 2013

*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*