

**SENATE EDUCATION COMMITTEE**

**PUBLIC HEARING**

**Testimony Remarks on  
Cyber-Charter School Funding**

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Thank you for the opportunity to present here today at such an important crossroads of funding cyber-charter schools, public school districts and providing property tax relief.

It is important to highlight that this testimony focuses on funding issues of cyber-charter schools, how SB 335 and its companion bill in the House HB 1074 will provide financial accountability, and provide local property tax relief. While at the same time provide parental choice, local decisions, and educational success for all students.

We have heard from other past testimonies that parents, better than anyone else, know great educational options when they see them. That is a true and accurate statement. The proof can be found simply by looking into the percentage of Pennsylvania students attending public schools and those attending Pennsylvania cyber-charter schools.

For more than a decade the Pennsylvania Legislature has offered a tuition free cyber charter school education to all students within the Commonwealth of Pennsylvania. Cyber charter schools were created by the Pennsylvania Legislature, are owned in name only by non-profit organizations and operated by for-profit companies all paid for by taxpayers without any input. So, what has been the school enrollment of choice by parents?

Across the Commonwealth 1.8 million students are sent by their parents to public school districts, while only 32,000 students are sent by their parents to cyber-charter schools. In more than a decade of existence, the state cyber-charter schools have only managed to entice 2% of the entire public school children population into their programs. By all regards in a real business model this would be considered a huge failure. Also, in the world of business when 94% of the stockholders make a decision, the organization honors the majority decision and moves in that direction. Never, as is currently the case, does an organization or business appease 2% of the stockholders and outright ignore the choice of a 94% majority. SB 335 meets the choice of an overwhelming majority of Pennsylvania parents.

Educators, parents, and communities alike are continually told by cyber-charter lobbyists and coalitions that the public school system is “failing” miserably and parents need to have school choice in order to challenge the public schools. But what they are really saying is that the cyber charter schools need public taxpayer funds to make large profits without any financial accountability. If the cyber charter schools are educationally sound or educationally superior the funding of such a program should not be an issue. Parents and children should be flocking to cyber charter schools regardless of funding – but that is simply not the case. Therefore it is easy to see that the cyber charter school choice is not really about the quality of an educational program it is about diverting public money to a private cyber charter school without any financial accountability. This is why we have seen class-action lawsuits being filed against cyber charter schools. (NSBA – Legal Clips).

Across the Commonwealth parental choice without taxpayer funding can already be found everywhere. Private schools, religious schools, magnet schools, and homeschooling are options parents choose for their children’s education without taxpayer funding. So as you can see educational choice has existed for many years and parents have actively enrolled their children in those schools.

Every parent has the right and should have the opportunity to make an educational choice that is right for their child. However, the only paid choice that Pennsylvania is providing is for the Pennsylvania cyber-charter schools. We all know that this is not real parent choice but government selected choice.

Most public school officials strongly believe that parents deserve the right to choose the educational system they want their child to attend. As stated previously, it is often overlooked that parents already have that right. However, the state government currently sees that, tax dollars must be provided for parents to send their child to a state cyber-charter school in order to be considered school choice. To fix that problem, the state is pillaging local taxpayers’ pockets, giving their money to cyber-charter schools, and calling it school choice. “The for-profit companies that operate cyber charter schools take this a bit further by agreeing that private business models are more efficient than public school districts” (New York Times). We already know that successful business models are not designed by the desires of only 2% of the

stockholders. Without SB 335, Pennsylvania will continue to reach deep into pockets of all taxpayers to fund cyber-charter schools with absolutely no financial oversight giving them higher potential profits annually.

Cyber charter schools are continually trying to convince legislators their costs are different but equivalent to public school districts. The cyber charter schools repeated and flawed attempt to defend their 500 different and incredibly high tuition costs are designed to distract the legislature from the real facts. According to a report by the Pennsylvania Auditor General in 2010, the state cyber charter schools have little or NO costs similar to the public school districts in the areas of personnel, building, maintenance, utilities, transportation, cafeteria, and extra-curricular activities. This gives the cyber charter schools \$100 million in reserves even after giving millions of taxpayer dollars away.

Meanwhile Charter school coalitions openly admit that cyber-charter schools provide an education for less than traditional public school districts. (Piccola – March 2013) Yet the cyber-charter school tuition funding rates are far above the public school district funding and increasing at an alarming rate.

Most public school districts across the Commonwealth have completed their own financial analysis of their cyber and blended school programs. These public school districts have found that the actual tuition cost to run this type of program is under \$4,000, yet the average tuition cost to state cyber charter schools is \$11,000 (networks – January 22, 2013). So where does the extra two-thirds of the tuition, which equates to millions of taxpayer dollars, go? The cyber charter schools sub-contract to for-profit public advertising firms, for-profit management firms, for-profit enrollment consultants, billboards, recreational vehicles, newspaper, radio and television advertisements, arena and event signage, lobbyist groups, Steinway grand pianos, political campaign contributions, CEO compensations of 5 million dollars annually, and multi-million dollar mansions all paid for by the taxpayer. SB 335 will stop this funding formula abuse of taxpayer dollars.

This all makes Pennsylvania one of the most lucrative states in the nation to operate cyber charter schools and the funding source for Pennsylvania cyber charter schools come solely

from the taxpayer. Several years ago the state government officials eliminated the approximately 30% reimbursement out of the state budget for local school districts to help cover cyber charter school costs. This clearly shows that even state officials do not believe in the Pennsylvania cyber charter schools to fund them but they are content to increase local property taxes to pay for them. However, the Legislature now has the ability to correct this problem by stopping the annual increase of financial profits to cyber charter schools and provide local property tax relief at the same time. (SB 335)

Permit us to bring this issue closer to home at a much more manageable number. In one of our 67 counties, Lebanon County, we see approximately 20,000 students choosing to attend public school districts while only 400 students chose to attend state cyber charter schools (I.U. 13). The approximate cost to fund those Lebanon County students to attend the cyber charter schools equals \$4 million dollars annually. While not even one cyber charter school is located in Lebanon County, Lebanon County taxpayers send 4 million tax dollars annually outside the county. This scenario is replicated across the majority of the other counties in the Commonwealth. Even closer to home in the Northern Lebanon School District the annual cost to our taxpayers for state cyber charter schools is approximately \$800,000.

That \$800,000 expenditure equates to the Northern Lebanon taxpayer paying 4.7 mills annually to educate cyber charter school students. For every 5 students attending out of district cyber charter schools, the Northern Lebanon School District must cut 1 teacher. Ironically, that one Northern Lebanon School District teacher would be able to educate from 25 elementary to 100 secondary students daily. While the Northern Lebanon School District is cutting staff, curtailing programs, looking to outsource the cafeteria, eliminating student physicals, increasing class sizes, reducing student co-curricular activities/clubs, eliminating the purchasing of student textbooks, and deleting student opportunities, the cyber charter schools choose to put millions of dollars of profit in their pockets. It is clear that the only choice in this equation is cyber charter profit.

Since the tuition rates for cyber charter schools are based upon expenditures and not revenues, the current state funding formula for cyber charter schools has made the Northern Lebanon School District pay more to cyber charter schools every year without receiving

increases in state subsidies. The only way for the Northern Lebanon School District to cover the increasing cyber charter school costs is to raise local property taxes. Ironically, state officials tout they have not raised taxes, yet they mandate cyber charter school payments on local school districts and make local school boards raise local property taxes. In fact, many school districts across the Commonwealth saw a billion dollars cut from their local budgets, while at the same time, the state continued to increase the tuition payments to the cyber charter schools.

The funding cuts from the state coupled with the mandated increase in cyber charter school tuition are clear and very disturbing for the Northern Lebanon School District student population. First, since 2008 the Northern Lebanon School District has seen a decrease in state funding in the three largest revenue streams; Basic Education, Special Education, and Accountability Block Grants. At the same time (since 2008) the state has mandated the Northern Lebanon School District pay a regular education cyber charter school tuition rate that increased 16.2% and a special needs cyber charter school tuition rate that increased 8.6%. As you can see the cyber charter school increase funding significantly exceeded the state funding to the Northern Lebanon School District. If the state would have applied that same funding percentage to the Northern Lebanon School District as the cyber-charter schools, the state would owe the residents of Northern Lebanon approximately \$1.3 million dollars. Is it any wonder why SB 335 is viewed by 94% of the parents who chose to send their children to the Northern Lebanon School District as the “Bill of Choice”?

Let’s all start listening to not only what the majority of parents are saying, but look at the choices they are making.

Does the current cyber charter school system offer choice for taxpayers? No, there is no taxpayer choice; taxpayers MUST continue to pay local property taxes to fund cyber-charter schools without any financial accountability. This formula was created by the state but now they have the opportunity to fix the flawed funding formula with SB 335.

All public school districts are regulated by 9 locally elected school board members to represent their constituents’ interests and provide input educationally, socially, emotionally, and financially. Yet no local official or taxpayer has that same right for input into any state cyber

charter schools. Locally taxpayers can go to the election polls and make a choice concerning local school board members. Those same voters who frequently discuss public school districts' budgets, and rightly so, have absolutely no choice in cyber charter school tuition rates. On one hand the local school district officials must fund cyber charter schools and on the other these same local officials have had no input into their operations. The voters and taxpayers are simply told by the state, it costs what it costs, and you have to pay it.

Does the current cyber charter school system offer local control since local decisions are best? No, local school boards never approved or were even asked for input when the state created cyber-charter schools. Local school boards who are making local decisions are asking for the passage of SB 335 and elimination of cyber charter school funding.

We don't see any local representation, local input, local choice or local management in the current cyber charter school system. We do see local tax dollars being sent out of the school districts as others get rich on the backs of the local taxpayer and public school district children.

When the legislature approved the implementation of cyber charter schools (and charter schools) it automatically approved an influx of every employee into the Pennsylvania State Employee Retirement System (PSERS). Whether or not this was realized at the time of approval or not is another discussion. The fact remains that during a time of increasing pension demands, lowering of investment income, and the state increasing the school districts' payment into the Pennsylvania State Employee Retirement System; it is beyond words why this was permitted to happen, but it can be fixed.

Prior to the approval of this Legislation many people were heard to say Pennsylvania needed to consolidate the 500 Pennsylvania public school districts. Yet, some of these same people voted to approve 175 more charter school entities into the Pennsylvania public education system bringing the new total number of school entities to 675. As such, all employees of the newly created charter school entities were placed into the already overburdened and underfunded pension system. Thousands of new employees were placed into the pension system which has created additional long term burdens and caused local school districts and ultimately local taxpayers to pay more for pension costs. The public has already spoken, and we agree, that the

pension system must be addressed immediately because the unsustainability is looming over all our heads. SB 335 is an excellent place to start. By making all cyber charter schools individually funded private schools, the legislature could eliminate some of the long term burden by eliminating cyber charter school employees from the pension fund.

Let's be honest, public school district officials understand that the legislature is under significant financial challenges, cyber-charter lobbyist opposition, and charter coalition pressure. Therefore, it would not be fair for public school districts to ask the legislature to stop funding cyber-charter schools; however, we can provide an option or choice for you to provide tuition funding.

The state has already approved the Educational Improvement Tax Credit Program (EITC). This program provides businesses with a choice to contribute funds, in exchange for tax credits, for contributions to a scholarship organization, educational improvement organization and/or a pre-kindergarten scholarship organization. The EITC is an excellent opportunity for the Legislature to fund all state cyber charter schools and no longer burden the local property taxpayer. Under the current regulations, anyone with a household income no greater than \$60,000 plus \$12,000 for each dependent member qualifies for a maximum scholarship [tuition] award for a non-special education student is \$8,500 and a maximum scholarship for a special education student is \$15,000. These amounts far exceed the school cost of teaching a student in cyber-charter schools. In fact, the actual cost to educate a cyber-charter student is one-half the scholarship amount.

The choice is yours but the answer is clear. Passing SB 335 will meet the choice of 94% of the public education school district parents, meet the choice of local taxpayers by providing property tax relief, and with a minor tweak, can meet the choice of 2% of the cyber-charter parents by providing all cyber charter school funding from the existing EITC program.

Very rarely does an opportunity come along that will successfully change the course of public education funding, provide pension reform, and property tax relief all in one fell swoop. You stand at the gate of an opportunity today, and we ask, are you willing to do the right thing? Are you willing to represent 94% of the public school parents? Are you willing to decrease the



unfunded demands of the Pennsylvania State Employee Retirement System? Are you willing to provide property tax relief for all Pennsylvanians? We can no longer turn a blind eye to the inefficient funding of cyber charter schools on the backs of the local property taxpayer. Compromise is not needed, action is!

The overwhelming majority of the stakeholders in this business of education are calling for:

- an immediate moratorium on all tuition payments on cyber charter school billing.
- an immediate vote in the full Senate on SB 335.
- an immediate passage of SB 335
- funding of all cyber charter schools tuition to be allocated through EITC funds not local property tax.
- elimination of all cyber charter school employees from the Pennsylvania State Employee Retirement System.

Thank you for the opportunity to present at this hearing.