



# HOUSE COMMITTEE ON APPROPRIATIONS

## FISCAL NOTE

HOUSE BILL NO. 2370

PRINTER'S NO. 3196

PRIME SPONSOR: Sturla

### COST / (SAVINGS)

FUND	FY 2023/24	FY 2024/25
General Fund	\$0	See Fiscal Impact

### SUMMARY:

This bill modifies the existing basic education funding formula, creates new supplements for adequacy and tax equity within the basic education funding formula, and makes comprehensive changes to laws governing cyber charter schools in Pennsylvania.

### ANALYSIS:

House Bill 2370 modifies the existing fair funding formula by incorporating three-year averages of formula factors for poverty, concentrated poverty, median household income, and number of households. It also resets the base as the 2023/24 allocation (\$7.87 billion) compared to the current base of \$5.88 billion (2014/15 allocation with adjustments).

While the bill does not contain an appropriation for basic education funding, the calculation of the new adequacy and equity supplements necessitates a certain appropriation level to fully fund the supplements. The amount of funding distributed through the modified fair funding formula will be the amount remaining in the appropriation after the payments for the base, adequacy supplement, and tax equity supplement are made. The Department of Education (PDE) is instructed to prorate funds in that order in the event of an insufficient appropriation.

The data used to calculate the adequacy and tax equity supplements is the most recent available as of June 1, 2023. The bill calculates a total adequacy gap (\$5.1 billion) and tax equity gap (\$955 million) and allocates 1/7<sup>th</sup> of that amount each year for the next seven years. These supplement amounts become part of the base amount in subsequent years.

The adequacy gap is calculated by subtracting the district's current expenditures from the product of \$13,704 and the district's weighted student count. The adequacy gap is then adjusted downward for districts that have a low local tax effort or are growing and have a strong tax base. The minimum adequacy gap is \$0.

For context, the majority report of the Basic Education Funding Commission identified \$13,704 per weighted student as the adequacy target, basing the figure on the median spending level of successful school districts. The adequacy student-weighted average daily membership differs from the fair funding formula student-weighted average daily membership by using economically disadvantaged data in conjunction with Census poverty data and by also including special education weights.

To qualify for the tax equity gap, a school district must have a local effort above the 66<sup>th</sup> percentile (with 100<sup>th</sup> being the highest tax burden). The tax equity gap is calculated by taking the difference between a qualifying school district's local tax-related revenue and the amount of revenue it would generate if its local effort rate was equal to the rate representing the 66<sup>th</sup> percentile. This amount is adjusted downward for school districts whose local capacity is above the statewide median.

The bill stipulates allowable uses for both the adequacy and tax equity supplements. School districts that receive the adequacy supplement must allocate those dollars to a broad list of programs that focus on high quality academics, foster supportive learning environments, establish healthy system conditions, or design a system of multi-tiered supports. The tax equity payments must go toward mitigating or preventing an increase in the millage rate of real estate taxes, supplementing the homestead and farmstead exclusion amount under the Taxpayer Relief Act, supplementing the Property Tax and Rent Rebate program, replacing the loss of revenue from a decision of a court relating to an assessment repeal, or reducing debt.

House Bill 2370 requires a paid media advertisement by a public school entity to indicate that the cost of the school is not “free” but covered by taxpayer dollars, and it prevents public schools paying to sponsor events. Public school entities must submit a report of their 2023/24 expenditures on advertising and public sponsorships to PDE, which is responsible for compiling and posting the data.

Specifically for cyber charter schools, the bill enacts transparency and ethics requirements, including for charter school foundations and educational management service providers that provide services to cyber charter schools. For these entities and a cyber charter school’s board of trustees, the bill requires compliance with the Right-to-Know Law and the Ethics Act. It also makes changes to the composition and quorum requirements for a cyber charter school’s board of trustees, which is also subject to the Sunshine Act. Under the bill, cyber charter schools are required to post their annual budgets, audits, tax filings, and reports submitted to PDE.

The bill creates a process for a cyber charter school to request changes to its charter agreement, and it removes caps on enrollment. It requires cyber charter schools to verify residency for their students and submit weekly attendance reports to the school district of residence. Further, the bill requires cyber charter school personnel to visibly see and communicate with enrolled students at least once per week to verify well-being. Annual reports are required to be submitted to PDE and local school boards, including data on special education students, and PDE must conduct a comprehensive review prior to granting renewal or nonrenewal of a charter.

The bill allows cyber charter schools to sell programs, courses and other educational services to school districts, while also requiring school districts to provide access to facilities for state testing. School districts will also be required to transport special education students in accordance with an Individualized Education Program (IEP). It prohibits intermediate units from refusing to provide any service to a cyber charter school that requires services for a student.

Beginning in 2024/25, House Bill 2370 establishes a statewide cyber charter tuition rate of \$8,000 per student. This is the amount that the school district of residence must pay to a cyber charter school for each non-special education student that attends the cyber charter school. This statewide rate will increase every three years based on the average annual percentage change in real estate tax collection for all school districts.

For special education students, the statewide rate will be multiplied by 1.64 (or its successor weight), which is the Category 1 (the lowest of the three cost tiers in use; education costs between \$1 and \$27,303 beyond the cost of regular education) weight for special education students. For special education students falling in the two higher cost tiers, a cyber charter school must justify the cost with PDE before being able to charge the resident school district the statewide rate multiplied by the Category 2 or 3 weight.

The bill places fund balance limits on cyber charter schools, requires them to approve an annual budget by June 30, prohibits paying for or reimbursing parents and guardians from educational or field trips, and bans cash, gifts, or other enrollment incentives. PDE is required to set a maximum reimbursement for technology services like internet access that cyber charter schools can pay to students’ families.

House Bill 2370 would take effect immediately.

#### **FISCAL IMPACT:**

House Bill 2370 prescribes a basic education funding formula that informs a specific appropriation level, but the bill does not include an appropriation of funds. Given the proration provision, there is no fiscal impact related to the basic education funding formula changes in this bill.

However, to fully fund the formula prescribed by the bill, the required basic education funding appropriation increase each year for the next seven years is \$864 million, which is \$728 million for the adequacy supplement and \$136 million for the tax equity supplement. For 2024/25, assuming the governor's proposed \$1.07 billion basic education funding increase, about \$200 million would be distributed through the fair funding formula.

Regarding the cyber charter provisions, PDE staff indicate that the department's administrative responsibilities under House Bill 2370 will cost \$662,000 per full year. This consists of an estimated personnel and benefit cost of \$412,000 related to three new positions (administrative officer, fiscal specialist, and attorney) and an estimated additional operating cost of \$250,000.

Beginning in 2024/25, school districts will realize savings in the form of lower cyber charter school tuition payments. The amount saved by school districts will be a revenue loss for cyber charter schools compared to current law.

The fiscal savings to school districts will vary depending upon the school district's number of cyber charter students and its 2023/24 calculated cyber charter tuition rate. Using 2022/23 data, it is estimated that school districts will save \$530 million in aggregate, which represents about 49 percent of school districts' reported expenditures on cyber charter tuition.

House Bill 2370 will impose an indeterminant cost on Intermediate Units related to their responsibility under the bill to provide any service to a cyber charter school that requires services for a student.

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**DATE:** June 10, 2024

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