

# OVERVIEW

## **New Century Charter School Allocation Project - FY2001-02**

**Report No. 02-03, February 2002**

### **Summary**

Section 302A-1185, Hawaii Revised Statutes (HRS), requires the Office of the Auditor to determine the appropriate allocation of the Department of Education's general funds to new century charter schools. In Hawaii, new century charter schools (charter schools) are independent public schools that can be formed by existing public schools or new schools formed by any community, group of teachers, or program within an existing school. Charter schools are intended to foster innovation and excellence in public schools and create better educational opportunities for children. This is to be accomplished by freeing charter schools from most state and local laws in exchange for their being held accountable through written contracts or charters to educate their students. For FY2001-02, there are 25 Board of Education approved charter schools, the maximum currently permitted by law.

In this, our fourth year of determining the allocations for charter schools in Hawaii, we determined that the FY2001-02 allocation of general funds to charter schools should be based on a rate of \$2,997 per pupil. This rate reflects modifications to the allocation methodology necessary to comply with changes mandated by Act 209, Session Laws of Hawaii (SLH) 2001. The FY2000-01 allocation was based on a methodology that identified costs as either fixed, variable, and or a transfer of function. Fixed costs are relatively independent of student enrollment while variable costs are directly affected by student enrollment. Transfer of function refers to costs for centralized functions and activities traditionally provided by the department that the department and a charter school have agreed will be assumed by the charter school.

Act 209 requires that the current allocations shall not exceed the department's average per pupil expenditures for the previous year. This places a limit on the allocation of general funds that did not exist for previous allocations. Act 209 further stipulates that the allocation shall be based on a comparison of similar cost items. Because of the dual requirements, we eliminated the fixed cost element of the previous years because it was based on average position costs rather than a per pupil base. Costs previously used to develop the fixed cost element are now included in the determination of the per pupil calculation.

The transfer of centralized functions and responsibilities costs remains unchanged and in accordance with the prior methodology. Charter schools can negotiate an agreement with the department for continuing to use departmental services or assuming individual responsibility for those services. After the department and charter school agree to transfer the service and responsibility to the school, the Auditor will determine an adjustment to the allocation to reflect the change.

The allocations to charter schools are also subject to a number of adjustments in addition to those based on the transferred services and responsibilities. These include: Article VI classroom relief, a compensating factor for inclusion of special education

students in the regular classroom; federal impact aid; collective bargaining agreements; changes to the department's budget; and offset for any small school allotments.

As required by Section 302A-1185, HRS, we also note the advice regarding the allocation process received from the superintendent of education and the local school boards, and the manner in which that advice was accommodated. Most of the advice from the superintendent concerned changes to the allocation methodology resulting from Act 209, while the charter schools were primarily concerned with the impact on the allocation caused by changes in the methodology. The charter schools' advice and our response to that advice are presented in Appendix C of our report.

Finally, we note three additional concerns encountered during this project. These concerns include: (1) the continued role of the Auditor in the allocation process, (2) the logistics of obtaining and issuing a timely allocation while having to obtain the advice of the superintendent and all the local school boards, and (3) concerns about deficit spending practices of several charter schools.

Regarding the role of the Auditor, we continue to note as we have in previous reports that our role in the allocation process should be reviewed. We acknowledge the legislative preference that we determine the allocation but note that this is an executive branch function more properly placed in that branch.

The expanded number of charter schools (25) and the need to make timely allocations have made the logistics to obtain advice from these schools a problem. Much of the advice we received pertained to operational issues with the department and not within our authority to act upon.

During the course of our work, we became aware that four of the six charter schools expended more funds in FY2000-01 than they were allotted, resulting in a total deficit of over \$261,000. Three of the four schools have since cleared the deficits, with one school still in deficit for over \$171,000. We note that the Board of Education recently enacted more stringent accountability requirements to address this deficit spending problem.

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## Agency Response

The Department of Education responded that it agrees with our concern that the allocation process places the Auditor in a potential conflict of interest situation, noting that it is a violation of the concept of separation of powers. The department noted that the Board of Education has enacted more stringent accountability requirements in response to the deficit spending by some charter schools. Finally, in its response to the deficit spending problem, the department noted that it has been reorganized and is taking steps to develop procedures to integrate the functions of the budgeting and accounting offices. The Board of Education elected not to respond.

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