

OVERVIEW

New Century Charter School Allocations Project - FY2002-03

Report No. 03-01, January 2003

Summary

Section 302A-1185, Hawaii Revised Statutes (HRS), requires the Office of the Auditor to allocate the Department of Education's general funds to new century charter schools and new century conversion charter schools. Charter schools are semiautonomous public schools operated by parents, educators, community groups, or private organizations under contracts with the Board of Education.

This year's allocation—our fifth—was guided by two legislative actions amending Section 302A-1185, HRS. Acts 2 and 262, Session Laws of Hawaii 2002, created a category of public schools that converted into charter schools. Two of the 25 charter schools fall into this new category. The statutory requirements for allocating funds were amended. The allocation is based on departmental funding for budget programs EDN100, 200, 300, and 400, and official regular education enrollment for the current fiscal year. EDN150 funds for special education are excluded, as are changes to the department's budget made by the Legislature or governor, departmental restrictions and collectively bargained sums. Additionally, the Auditor must exclude funds for necessary state-level services; programs or projects for specific schools, complexes, or districts; grants in aid; and resources for new facilities.

We used a per pupil allocation methodology for FY2002-03, resulting in an allocation rate of \$3,805 per regular education student officially enrolled in a charter school. The amounts allocated to the charter schools range from \$76,100 to \$1,795,960. The total allocated to all charter schools is \$11,723,205.

Finally, we note three additional concerns: 1) a retroactive provision in Act 262 may require an additional appropriation; 2) the statute relating to new century conversion charter schools needs clarification; and 3) the continued role of the Auditor in the allocation process is problematic.

Act 262 changes the allocation computation retroactively, beginning with FY2001-02. However, Act 262 was signed into law on July 5, 2002, after the completion of FY2001-02, and does not appropriate additional funds to cover the recalculation for the previous fiscal year. In the absence of a clear legislative directive and adequate appropriations, we did not address the retroactive allotments issue.

Act 2 establishes a new class of charter schools called new century conversion charter schools. The statute now provides for two distinct methods of allocating charter school funds, one for new century charter schools and the other for newly converted new century conversion charter schools. However, it is unclear whether the allocation method for newly converted schools applies to schools to be



converted in the future only, or also to the already converted charter schools. It is also unclear whether the Auditor's responsibilities continue after the first year of operation, when a school is no longer a newly converted school.

Additionally, the statutes are ambiguous regarding newly converted charter schools. The Department of Education is required to provide appropriate transitional resources to a conversion charter school for its first year of operation based on the school's prior year allocation. However, the Auditor is obligated to develop a methodology for newly converted charter schools based on departmental program budgets. We recommend that the Legislature clarify its intent.

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.

Recommendations and Response

The Department of Education responded that it agrees with our concern that the allocation process places the Office of the Auditor in a potential conflict with its constitutional and statutorily assigned audit functions. Also, the department indicated that, should the Auditor continue to be assigned the allocation function for charter schools, legislation is needed to clarify that the Auditor should use the same methodology for existing and newly established conversion charter schools. The department also agrees that the Auditor was unable to provide retroactive funding because Act 262 was not signed until July 5, 2002 and was absent any appropriation.

The department also noted some issues of concern. The department requested that the Auditor notify the department of the per pupil allocation by September 1 of each year in order to facilitate the department's final distribution to the charter schools by October 15. We note, however, that this request is unreasonable since the department is not required to give us its official enrollment counts until September 15, and the allocation calculations cannot begin without those counts. The department also indicated that the July 5, 2002 signing of Act 262 did not allow new century charter schools to enter into an annual memorandum of agreement with the department for centralized services prior to the beginning of the school year as required by the revised law. Finally, the department requests that the Auditor allocate a per pupil amount for all students, including special education students. We remind the department that the current law does not provide for Auditor's allocations for special education students.

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