
Allocation to Student-Centered Schools Project

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 98-17
October 1998

THE AUDITOR
STATE OF HAWAII

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Submitted by

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Foreword

The 1998 Legislature, through Act 308, Session Laws of Hawaii, required the Office of the Auditor to determine the funding allocations for student-centered schools in the state for FY1998-99 as well as for the subsequent fiscal years. In this report we present the allocations for FY1998-99 to two student-centered schools, Waialae Elementary School and Lanikai Elementary School.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Department of Education and the two student-centered schools during the course of this project.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

Background

The 1998 Legislature, through the passage of Act 308, Session Laws of Hawaii (SLH), substantively revised Section 302A-1123, Hawaii Revised Statutes (HRS), the statute that authorizes the establishment of student-centered schools. The act also required the Office of the Auditor to determine the allocations for student-centered schools in the State for FY1998-99 and subsequent fiscal years.

In 1994, the Legislature gave public schools more flexibility to implement innovative programs and administrative frameworks that best meet the needs of students. It allowed for the establishment of up to 25 student-centered schools exempt from most state rules, laws, and regulations. In exchange for these waivers, student-centered schools are held accountable for student performance. The Legislature granted student-centered schools substantial fiscal independence by providing them a lump sum allocation of general funds based on student enrollment. Each student-centered school is governed by its own local school board which formulates school policies and goals and selects the principal to be the chief executive officer of the school. Since 1994, only two student-centered schools have been established.

In 1997, the Legislature requested our office to conduct an audit of the decentralization efforts of the Department of Education. Our report, *Audit of the Decentralization Efforts of the Department of Education*, Report No. 98-4, found flaws in Section 302A-1123, HRS. Our report noted some of the difficulties in implementing the statute's funding provision. We also summarized disagreements between the department and the two student-centered schools regarding the allocation methodology. Finally, we noted that allocating funds strictly on a per pupil basis may leave smaller student-centered schools with inadequate funding because some school costs are "fixed"—not dependent on enrollment.

In this report we present the allocations for FY1998-99 to two student-centered schools, Waialae Elementary School and Lanikai Elementary School. We also summarize our work on the project and identify issues that will need to be addressed in subsequent fiscal year allocations.

Objectives

1. Identify the Department of Education's prior efforts to allocate funds to student-centered schools.
2. Identify the budget and expenditures of the student-centered schools.

3. Identify any areas of contention between the student-centered schools and the Department of Education with regard to the allocation of funds.
4. Develop an allocation methodology.

Scope and Methodology

In our identification of the Department of Education's efforts to allocate funds to the two student-centered schools, we reviewed allocation documents, department directives, and correspondence between the department and the two schools. We also conducted interviews with personnel at Waialae Elementary School, Lanikai Elementary School, and the Department of Education. We reviewed budget and expenditure documents for the two schools for FY1996-97, FY1997-98, and FY1998-99. Our efforts to develop an allocation methodology included a review of the General Appropriations Act of 1997 (Act 328) and the Supplemental Appropriations Act of 1998 (Act 116). We also identified and reviewed relevant issues regarding the allocation methodology.

We did not review the services or functions provided to student-centered schools by agencies such as the Department of Accounting and General Services, the Department of Transportation, and the Department of Health. In addition, given the short time frame for this project, we did not audit the financial or enrollment data used to compute the allocations.

Different enrollment counts were used in the allocations. We used each school's reported enrollment ten days after the start of their respective school years. For the statewide enrollment figure, we used the department's projected regular education enrollment for this school year, plus the department's calculation of the number of Article VI students from the prior school year. The department's official statewide enrollment count for this school year will dictate the final allocation figures for the two schools.

Our work was conducted from June 1998 to September 1998.

Chapter 2

FY1998-99 Allocations to Student-Centered Schools

This chapter presents the FY1998-99 allocations as of September 2, 1998, to Waialae Elementary School and Lanikai Elementary School and describes the methodology used to formulate the allocations. Waialae Elementary School should receive a core allocation of \$1,549,313.39 for FY1998-99 and may receive up to \$72,282.86 for services or functions that the school assumes based on negotiations with the Department of Education. Depending upon the services assumed by Waialae through its negotiations, the allocation to Waialae could total \$1,621,596.25.

Lanikai Elementary School is allocated a core allocation of \$921,781.42 and a “small school adjustment” of \$72,021.25. The school is also eligible to receive up to \$43,005.50 for services or functions that it can negotiate to assume in the current fiscal year. Depending upon the services that Lanikai assumes, the total allocation to Lanikai Elementary School could add up to \$1,036,808.17.

Our effort to develop an allocation methodology was based upon several considerations. First, the two student-centered schools should receive sufficient funds to cover their operational costs within the constraints imposed by the budget process, collective bargaining, and staff allotments. We strove to ensure an equitable and consistent allocation to each school. Second, we developed an allocation methodology that would be applicable to both schools. However, it was necessary to adjust Lanikai’s allocation to compensate for the smaller school’s relatively higher non-instructional fixed costs.

Finally, we identified functions currently provided by the Department of Education that student-centered schools could assume through negotiation and included those functions in the allocation scheme. Act 308, SLH 1998, anticipates this element of the allocation scheme by allowing each student-centered school to negotiate an adjusted allocation for school services provided by the Department of Education.

With the exception of federal impact aid funds, the allocation formula includes only general funds. General fund appropriations for collective bargaining increases are also included in the allocation. Other federal funds, special funds, trust funds, interdepartmental transfers, and revolving funds are excluded from the allocation.

The allocations presented in this report are based upon the Board of Education’s allotments from the department’s budget appropriations. The allocations are not based upon actual school-level expenditures.

Exhibit 2.1 provides a graphical summary of the calculated allocations to the two student-centered schools.

**Exhibit 2.1
Summary of Allocations to Student-Centered Schools**

FY1998-99 Allocation to Waiialae Elementary School (Total: \$1,621,596.25)

Core Allocation \$1,549,313.39	Negotiable Elements \$72,282.86
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FY1998-99 Allocation to Lanikai Elementary School (Total: \$1,036,808.17)

Core Allocation \$921,781.42	Small School Adjustment \$72,021.25	Negotiable Elements \$43,005.50
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Allocations to Student-Centered Schools

The following two exhibits show how the FY1998-99 allocations to the student-centered schools were developed. Exhibit 2.2 displays the allocation for Waiialae Elementary School. The allocation for Lanikai Elementary School is shown in Exhibit 2.3.

Each exhibit summarizes each school’s allocations by five programs—EDN 100 through EDN 500. Only state general funds are included in the total figures for each EDN program. Collective bargaining funds and federal impact aid funds are then added to the total allocations of general funds to the student-centered schools. All other funds, including federal funds, trust funds, interdepartmental transfers, special funds, and revolving funds are not included in these exhibits.

Allocations are shown under four categories in each exhibit:

- total general funds by EDN per the Board of Education budget,
- funds excluded from the per pupil allocation,
- the basic or core allocation to the school, and
- negotiable elements—amounts for each function or service that student-centered schools could negotiate with the Department of Education to assume.

Exhibit 2.2

Allocations to Waialae Elementary School--FY 1998-99

PROGRAMS	TOTAL FISCAL YEAR 1998-99 AS PER BOE BUDGET	EXCLUDED FROM THE PER PUPIL ALLOCATION	CORE ELEMENTS OF THE ALLOCATION			NEGOTIABLE FUNCTIONS		
			Statewide Amount	Per pupil Statewide	Amount to School	Statewide Amount	Per pupil Statewide	Amount to School
EDN 100 - SCHOOL-BASED BUDGETING	\$ 568,596,202.00	\$ 105,439,975.00	\$ 463,156,227.00	\$ 2,574.65	\$ 1,328,519.01	\$ -	\$ -	\$ -
Private Agency Projects		\$ 645,967.00						
Substitute Teachers		\$ 9,700,000.00						
Fringe Benefits for Impact Aid		\$ 2,532,244.00						
Workers Compensation		\$ 4,928,465.00						
Unemployment Insurance		\$ 3,247,464.00						
Special Education and Felix Consent Decree		\$ 84,385,835.00						
EDN 200 - INSTRUCTIONAL SUPPORT	\$ 35,624,692.00	\$ 27,097,765.90	\$ -	\$ -		\$ 8,526,926.10	\$ 47.40	\$ 24,458.67
Administrative Services		\$ 344,738.00						
School Renewal Support						\$ 1,552,917.00	\$ 8.63	\$ 4,454.39
Multimedia Services						\$ 564,465.00	\$ 3.14	\$ 1,619.11
Teacher Improvement Services		\$ 3,788,646.00						
Information Technology Support Center		\$ 361,020.00						
Systems Support Group		\$ 1,960,424.00						
Technology in Education		\$ 2,510,606.00						
School Complex Resource Services						\$ 3,513,308.00	\$ 19.53	\$ 10,077.59
Success Compact						\$ 1,092,099.00	\$ 6.07	\$ 3,132.58
Planning and Evaluation						\$ 1,296,046.00	\$ 7.20	\$ 3,717.58
Hawaii Content and Performance Standards		\$ 454,143.00						
School/Community-Based Management						\$ 528,821.00	\$ 2.94	\$ 1,516.87
Diagnostic Services		\$ 17,744,195.00						
General Reduction		\$ (66,006.10)				\$ (20,729.90)	\$ (0.12)	\$ (59.46)
EDN 300 - STATE AND DISTRICT ADMINISTRATION	\$ 22,124,119.00	\$ 22,124,119.00	\$ -	\$ -				
Board of Education		\$ 361,707.00						
Office of the Superintendent		\$ 809,388.00						
Budget		\$ 799,438.00						
Management Analysis and Compliance		\$ 366,180.00						
Collective Bargaining Administration		\$ 96,735.00						
Business Services		\$ 3,006,943.00						
Facilities and Support Services		\$ 730,708.00						
Personnel Services		\$ 4,268,561.00						
Non-instructional Staff Training		\$ 1,220,655.00						
Printing and Duplicating Services		\$ 1,313,663.00						
Office of Information and Telecommunications Services		\$ 4,790,250.00						
Honolulu District		\$ 783,976.00						
Central District		\$ 656,873.00						
Leeward District		\$ 715,841.00						
Windward District		\$ 470,748.00						
Hawaii District		\$ 732,350.00						
Maui District		\$ 654,521.00						
Kauai District		\$ 443,160.00						
General Reduction		\$ (97,578.00)						

Exhibit 2.2 (continued)

PROGRAMS	TOTAL FISCAL YEAR 1998-99 AS PER BOE BUDGET	EXCLUDED FROM THE PER PUPIL ALLOCATION	CORE ELEMENTS OF THE ALLOCATION			NEGOTIABLE FUNCTIONS		
			Statewide Amount	Per pupil Statewide	Amount to School	Statewide Amount	Per pupil Statewide	Amount to School
EDN 400 - SCHOOL SUPPORT	\$ 71,941,341.00	\$ 55,268,584.00	\$ -	\$ -	\$ -	\$ 16,672,757.00	\$ 92.68	\$ 47,824.20
School Food Services		\$ 18,871,149.00						
State Administrative Food Services		\$ 380,638.00						
State Administration of Physical Plant Operations		\$ 370,096.00						
Auxiliary Services -- Physical Plant Operations		\$ 1,581,519.00						
School Custodial Services		\$ 28,413,299.00						
Utilities - sewer		\$ 1,668,608.00						
Utilities - telephone						\$ 1,042,638.00	\$ 5.80	\$ 2,990.71
Utilities - electricity						\$ 14,212,390.00	\$ 79.01	\$ 40,766.87
Utilities - water		\$ 3,235,014.00						
Utilities - gas		\$ 184,522.00						
Utilities - telecommunication charges to schools		\$ 563,739.00						
School Inspection						\$ 77,104.00	\$ 0.43	\$ 221.17
Repair and Maintenance of School Facilities						\$ 913,263.00	\$ 5.08	\$ 2,619.61
Disposal of Hazardous Materials						\$ 427,362.00	\$ 2.38	\$ 1,225.85
EDN 500 - SCHOOL COMMUNITY SERVICES	\$ 10,937,512.00	\$ 10,937,512.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Afterschool A+ Program		\$ 5,810,264.00						
Adult Education		\$ 5,127,248.00						
TOTAL FOR EDN PROGRAMS	\$ 709,223,866.00	\$ 220,867,955.90	\$ 463,156,227.00	\$ 2,574.65	\$ 1,328,519.01	\$ 25,199,683.10	\$ 140.08	\$ 72,282.86
ADDITIONAL NON-EDN FUNDS								
Collective Bargaining Funds	\$ 57,974,656.00		\$ 57,974,656.00	\$ 322.28	\$ 166,294.71			
Impact Aid Funds	\$ 19,000,000.00		\$ 19,000,000.00	\$ 105.62	\$ 54,499.67			
TOTAL FOR CORE ALLOCATION			\$ 540,130,883.00	\$ 3,002.55	\$ 1,549,313.39			
TOTAL FOR ALL NEGOTIABLE ELEMENTS					\$ 72,282.86			
TOTAL FOR CORE ALLOCATION PLUS ALL NEGOTIABLE ELEMENTS					\$ 1,621,596.25			

Note: With the exception of the impact aid funds, the figures include general state funds only. Other federal funds, special funds, trust funds, interdepartmental transfers, and revolving funds are excluded.

Statewide enrollment 179,891
Includes 175,458 regular education and 4,433 Article VI students

Waialae enrollment 516
Includes 490 regular education and 26 Article VI students

Date: September 2, 1998
BOE: Board of Education

Exhibit 2.3

Allocations to Lanikai Elementary School--FY1998-99

PROGRAMS	TOTAL FISCAL YEAR 1998-99 AS PER BOE BUDGET	EXCLUDED FROM THE PER PUPIL ALLOCATION	CORE ELEMENTS OF THE ALLOCATION			NEGOTIABLE FUNCTIONS		
			Statewide Amount	Per pupil Statewide	Amount to School	Statewide Amount	Per pupil Statewide	Amount to School
EDN 100 - SCHOOL-BASED BUDGETING	\$ 568,596,202.00	\$ 105,439,975.00	\$ 463,156,227.00	\$ 2,574.65	\$ 790,417.32	\$ -	\$ -	\$ -
Private Agency Projects		\$ 645,967.00						
Substitute Teachers		\$ 9,700,000.00						
Fringe Benefits for Impact Aid		\$ 2,532,244.00						
Workers Compensation		\$ 4,928,465.00						
Unemployment Insurance		\$ 3,247,464.00						
Special Education and Felix Consent Decree		\$ 84,385,835.00						
EDN 200 - INSTRUCTIONAL SUPPORT	\$ 35,624,692.00	\$ 27,097,765.90	\$ -	\$ -	\$ -	\$ 8,526,926.10	\$ 47.40	\$ 14,551.96
Administrative Services		\$ 344,738.00						
School Renewal Support						\$ 1,552,917.00	\$ 8.63	\$ 2,650.19
Multimedia Services						\$ 564,465.00	\$ 3.14	\$ 963.31
Teacher Improvement Services		\$ 3,788,646.00						
Information Technology Support Center		\$ 361,020.00						
Systems Support Group		\$ 1,960,424.00						
Technology in Education		\$ 2,510,606.00						
School Complex Resource Services						\$ 3,513,308.00	\$ 19.53	\$ 5,995.77
Success Compact						\$ 1,092,099.00	\$ 6.07	\$ 1,863.76
Planning and Evaluation						\$ 1,296,046.00	\$ 7.20	\$ 2,211.82
Hawaii Content and Performance Standards		\$ 454,143.00						
School/Community-Based Management						\$ 528,821.00	\$ 2.94	\$ 902.48
Diagnostic Services		\$ 17,744,195.00						
General Reduction		\$ (66,006.10)				\$ (20,729.90)	\$ (0.12)	\$ (35.38)
EDN 300 - STATE AND DISTRICT ADMINISTRATION	\$ 22,124,119.00	\$ 22,124,119.00	\$ -	\$ -	\$ -			
Board of Education		\$ 361,707.00						
Office of the Superintendent		\$ 809,388.00						
Budget		\$ 799,438.00						
Management Analysis and Compliance		\$ 366,180.00						
Collective Bargaining Administration		\$ 96,735.00						
Business Services		\$ 3,006,943.00						
Facilities and Support Services		\$ 730,708.00						
Personnel Services		\$ 4,268,561.00						
Non-instructional Staff Training		\$ 1,220,655.00						
Printing and Duplicating Services		\$ 1,313,663.00						
Office of Information and Telecommunications Services		\$ 4,790,250.00						
Honolulu District		\$ 783,976.00						
Central District		\$ 656,873.00						
Leeward District		\$ 715,841.00						
Windward District		\$ 470,748.00						
Hawaii District		\$ 732,350.00						
Maui District		\$ 654,521.00						
Kauai District		\$ 443,160.00						
General Reduction		\$ (97,578.00)						

Exhibit 2.3 (continued)

PROGRAMS	TOTAL FISCAL YEAR 1998-99 AS PER BOE BUDGET	EXCLUDED FROM THE PER PUPIL ALLOCATION	CORE ELEMENTS OF THE ALLOCATION			NEGOTIABLE FUNCTIONS		
			Statewide Amount	Per pupil Statewide	Amount to School	Statewide Amount	Per pupil Statewide	Amount to School
EDN 400 - SCHOOL SUPPORT	\$ 71,941,341.00	\$ 55,268,584.00	\$ -	\$ -	\$ -	\$16,672,757.00	\$ 92.68	\$28,453.54
School Food Services		\$ 18,871,149.00						
State Administrative Food Services		\$ 380,638.00						
State Administration of Physical Plant Operations		\$ 370,096.00						
Auxiliary Services -- Physical Plant Operations		\$ 1,581,519.00						
School Custodial Services		\$ 28,413,299.00						
Utilities - sewer		\$ 1,668,608.00						
Utilities - telephone						\$ 1,042,638.00	\$ 5.80	\$ 1,779.35
Utilities - electricity						\$14,212,390.00	\$ 79.01	\$24,254.71
Utilities - water		\$ 3,235,014.00						
Utilities - gas		\$ 184,522.00						
Utilities - telecommunication charges to schools		\$ 563,739.00						
School Inspection						\$ 77,104.00	\$ 0.43	\$ 131.58
Repair and Maintenance of School Facilities						\$ 913,263.00	\$ 5.08	\$ 1,558.56
Disposal of Hazardous Materials						\$ 427,362.00	\$ 2.38	\$ 729.33
EDN 500 - SCHOOL COMMUNITY SERVICES	\$ 10,937,512.00	\$ 10,937,512.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Afterschool A+ Program		\$ 5,810,264.00						
Adult Education		\$ 5,127,248.00						
TOTAL FOR EDN PROGRAMS	\$ 709,223,866.00	\$ 220,867,955.90	\$ 463,156,227.00	\$ 2,574.65	\$ 790,417.32	\$25,199,683.10	\$ 140.08	\$43,005.50
ADDITIONAL NON-EDN FUNDS								
Collective Bargaining Funds	\$ 57,974,656.00		\$ 57,974,656.00	\$ 322.28	\$ 98,938.91			
Impact Aid Funds	\$ 19,000,000.00		\$ 19,000,000.00	\$ 105.62	\$ 32,425.19			
TOTAL FOR CORE ALLOCATION			\$ 540,130,883.00	\$ 3,002.55	\$ 921,781.42			
ADD SMALL SCHOOL ADJUSTMENT					\$ 72,021.25			
TOTAL FOR CORE ALLOCATION PLUS SMALL SCHOOL ADJUSTMENT					\$ 993,802.67			
TOTAL FOR NEGOTIABLE ELEMENTS					\$ 43,005.50			
TOTAL FOR CORE ALLOCATION PLUS SMALL SCHOOL ADJUSTMENT PLUS ALL NEGOTIABLE ELEMENTS					\$ 1,036,808.17			

Note: With the exception of the impact aid funds, the figures include general state funds only. Other federal funds, special funds, trust funds, interdepartmental transfers, and revolving funds are excluded.

Statewide enrollment 179,891
Includes 175,458 regular education and 4,433 Article VI students

Lanikai enrollment 307
Includes 283 regular education and 24 Article VI students

Date: September 2, 1998
BOE: Board of Education

All programs and functions that fall under EDN 100, except those identified in the exhibits, are included in the basic allocation to student-centered schools. The Department of Education used a similar allocation scheme in the past two fiscal years. Special education and *Felix* consent decree costs are excluded from the basic allocation because the Department of Education is responsible for covering the costs of these functions. Consequently, the allocation is based only upon regular education enrollment and student enrollment as defined by Article VI.

Article VI is a provision in the department's contract with the Hawaii State Teachers Association. Article VI students are special education students who by the designated educational arrangement in their Individualized Educational Plan are expected to spend at least a half-day or more in the regular education classroom.

Of the total \$568,596,202 under EDN 100 (School-Based Budgeting), \$105,439,975 was excluded, leaving \$463,156,227 available as the base for the allocation. We divided that figure by the total estimated statewide enrollment of 179,891 regular education and Article VI students for an average per pupil cost of \$2,574.65. We multiplied this per pupil cost by the number of regular education and Article VI students at each student-centered school to obtain a core figure. Collective bargaining funds and impact aid funds were added to the EDN 100 funds to give each school a grand total for the core allocation.

Our attempt to assign EDN 200 (Instructional Support) funds to the student-centered schools is a new element of the allocation scheme. The department agreed to allow student-centered schools to negotiate the assumption of several functions under EDN 200. These functions are identified as negotiable elements. There are six broad functions under EDN 200 that student-centered schools can negotiate with the department to assume:

- School renewal support,
- Multimedia services,
- School complex resource services,
- Success compact,
- Planning and evaluation, and
- School/community-based management.

The amount of these negotiable funds the student-centered school receives depends on the functions the school assumes.

Currently, all functions under EDN 300 (State and District Administration) are excluded from the allocation. The five functions under EDN 400 (School Support) that are identified as negotiable elements have been generally included in prior allocations. There is nothing in EDN 500 (School Community Services) that could be included in the allocation.

With an actual enrollment of 490 regular education students and 26 Article VI students as of August 17, 1998, Waialae Elementary School should receive a core allocation of \$1,549,313.39 (or \$3,002.55 per student) for FY1998-99. The total amount that Waialae could receive if it assumes all negotiable functions under EDN 200 and EDN 400 is \$72,282.86. The allocation to Waialae Elementary School could total \$1,621,596.25.

Lanikai Elementary School, with an enrollment of 283 regular education students and 24 Article VI students as of August 31, 1998, is allocated a core or basic allocation of \$921,781.42 (or \$3,002.55 per student). In addition, we added a “small school adjustment” of \$72,021.25 to Lanikai’s core allocation for a total of \$993,802.67. The school is also eligible to receive up to \$43,005.50 for services or functions that Lanikai may negotiate to assume in the current fiscal year. The allocation to Lanikai Elementary School could total \$1,036,808.17.

On a per pupil basis, Lanikai Elementary has relatively higher non-instructional fixed costs than a larger school such as Waialae Elementary. A simple per pupil allocation fails to take this into account and would not give Lanikai sufficient funds to cover supplies and equipment expenses once the salaries of the school’s allotted positions are paid. Thus, we added the adjustment to ensure that the school had sufficient funds to pay for necessary supplies and equipment during the current fiscal year.

To calculate Lanikai’s “small school adjustment,” we reviewed the FY1998-99 salary costs of four non-instructional positions to obtain an estimate of the “fixed,” non-instructional costs. We then determined the per pupil cost at Lanikai and Waialae Elementary for these four positions based on the total number of regular education and Article VI students at each school. We subtracted the per pupil cost at Waialae Elementary from Lanikai’s per pupil cost to obtain a per pupil cost difference. Finally, we multiplied the difference by the number of students at Lanikai Elementary to determine the “small school adjustment.”

Our effort to determine a small school adjustment included a review of Lanikai’s staffing requirements. Obtaining an understanding of those requirements slightly delayed the work on this project because it was difficult to obtain clear and consistent information from Lanikai Elementary about the school’s staffing complement. Since a small school adjustment for Waialae was unnecessary, we did not review Waialae’s staffing requirements to the extent that we reviewed them at Lanikai.

Exhibit 2.4 briefly describes the programs or functions that are excluded from the basic allocation to student-centered schools.

Exhibit 2.4**Programs Excluded from Per Pupil Allocation to Student-Centered Schools**

PROGRAM	PROGRAM DESCRIPTION
EDN 100	
Private Agency Projects	Funds are allocated to eight non-profit organizations that provide special community programs.
Substitute Teachers	Department generally assumes the costs of substitute teachers.
Fringe Benefits for Impact Aid	Fringe benefit costs are centralized.
Workers' Compensation	Department handles all workers' compensation claims and administration.
Unemployment Insurance	Unemployment insurance is handled by the department.
Special Education Services and <i>Felix</i> Consent Decree Costs	The department maintains responsibility for special education and <i>Felix</i> -related costs and services. The department has decided to provide special education services for both of the student-centered schools for FY1998-99.
EDN 200	
Administrative Services	Covers administrative and secretarial positions in the assistant superintendent's office in the Office of Accountability and School Instructional Support (OASIS).
Teacher Improvement Services	Provides pre-service and in-service training opportunities and services for teachers. It also includes sabbatical leave costs.
Information Technology Support Center	Gives schools access to resources for training, production, and telecommunication.
Systems Support Group	Handles regulatory, compliance, and communication functions of OASIS. The group also provides support for the A + Program, community and special education, and the licensing of vocational and trade schools.
Technology in Education	Includes the development and use of the interactive television network to facilitate distance learning.
Hawaii Content and Performance Standards	Includes the establishment of statewide performance standards.
Diagnostic Services	Includes student testing, assessment, and evaluation services. Also includes psychological social work, speech/language services, and other related services for students with special learning or adjustment problems.
General Reduction	Redeployment of positions to EDN 100.
EDN 300	
Board of Education	Costs associated with staffing the Board of Education, compensation for the board members, and other board expenses.
Office of the Superintendent	Personnel expenses for the office of the superintendent--superintendent, deputy superintendent, administrative assistants, public relations specialist, internal auditor, etc.
Budget	Includes personnel expenses in the budget office. State level budget preparation and execution.
Management Analysis and Compliance	Handles compliance with federal and state nondiscrimination laws and regulations. Also conducts management reviews.
Collective Bargaining Administration	Costs of processing employee grievances, in-service training, and contract compliance.
Business Services	Handles the accounting functions of the department, audits department business transactions, prepares vendor and payroll payments, maintains a central purchasing and distribution system.

PROGRAM	PROGRAM DESCRIPTION
Facilities and Support Services	Responsible for the planning, construction, and maintenance of facilities. Personnel include capital improvement project (CIP) planners and facilities planners.
Personnel Services	Handles personnel functions for the entire department. Maintains personnel records, administers employee benefits program, and recruits new employees.
Non-instructional Staff Training	Provides various types of training for classified personnel and educational officers. Specific activities include: the Cohort School Leadership (CSL) Program, sabbatical and professional improvement leaves, in-service training, and the Hawaii School Leadership Academy.
Printing and Duplicating Services	Provides printed materials for the department. Provides graphic arts services to the department.
Office of Information and Telecommunication Services	Handles the department's information systems--Financial Management System (FMS), Budget Execution System, Budget Preparation System, School Information Systems, and Personnel Information Processing Systems.
District Offices	Generally includes the cost of personnel such as the district superintendent, deputy superintendent, and educational specialists.
General Reduction	Redeployment of positions to EDN 100.
EDN 400	
School Food Services	The provision of food services is a centralized cost.
State Administrative Food Services	Administrators of the food services program.
State Administration of Physical Plant Operations	Supervision of mowing and ground maintenance, landscaping, custodial equipment repair, and furniture and equipment relocation.
Auxiliary Services - Physical Plant Operations	Includes personnel for major moving, landscaping, and other ground maintenance services.
School Custodial Services	Custodial cleaning of classrooms, offices, and other schools. Also includes school ground care.
Utilities - sewer	Sewer service provided by county water boards.
Utilities - water	Water service provided by county water boards.
Utilities - gas	Gas to schools primarily for use in school cafeterias and science labs.
Utilities - telecommunications charges to schools	Supports the wide area network.
EDN 500	
Afterschool A+ Program	Provides homework assistance, enrichment activities, and supervised recreational services at the end of the school day to eligible children.
Adult Education	Includes community schools for adults.

Exhibit 2.5 briefly describes the programs or functions that student-centered schools can negotiate to assume.

Exhibit 2.5
Functions To Be Negotiated

PROGRAM	DESCRIPTION OR RATIONALE
EDN 200	
School Renewal Support	Functions include planning, developing, testing, monitoring, and evaluating curriculum and teaching techniques. Includes funds for the Art in Public Places project from the State Foundation of Culture and Arts.
Multimedia Services	Coordinates statewide media/technology services; plans and develops statewide school library media; provides in-service training programs for teachers, librarians and other department personnel; and administers the school library materials processing center.
School Complex Resource Services	Includes services provided by school renewal specialists. Also includes district or complex services for Asian, European and Pacific languages, Hawaiian studies, and English for second language learners (ESL).
Success Compact	Primarily covers personnel expenses for Success Compact, a departmental approach to developing literate and responsible students.
Planning and Evaluation	Provides planning, evaluation, and testing services for the department.
School/Community-Based Management	Supports schools in their attempts to implement school/community based management (SCBM) by providing funds for training, release time, consultant services, and supplies.
EDN 400	
Utilities - telephone	Student-centered schools have historically paid for telephone costs from their lump-sum allocation.
Utilities - electricity	Student-centered schools can handle electricity costs.
School Inspection	Student-centered schools have historically handled school inspection.
Repair and Maintenance of School Facilities	Student-centered schools have historically handled minor repair and maintenance costs.
Disposal of Hazardous Materials	Student-centered schools have assumed responsibility for their own hazardous materials programs.

Refinements to the Allocations May be Needed

Act 308, SLH 1998, requires the Auditor to determine the allocations for FY1999-2000. Our efforts to determine the allocations for the current fiscal year were constrained by a relatively short time frame. Further refinements to the allocation methodology may be necessary for the next fiscal year. For example, we will continue to examine whether additional functions can be assumed by the student-centered schools. School food services, auxiliary services for physical plant operations, and custodial services are potentially negotiable items. Personnel in those programs are represented by the United Public Workers union. If the student-centered schools were to assume those functions, the schools may need to negotiate a separate collective bargaining contract with the union.

We may also revisit the need to include a “small school adjustment.” Our adjustment this year was based on an estimate of the non-instructional fixed costs of a student-centered school. A more precise estimate of those costs may be needed in future allocations. We also note that should there be an increase in the number of student-centered schools, other measures of ensuring that all student-centered schools receive sufficient funding may need to be adopted. The adjustment that we provide this year may not be an appropriate methodology in future fiscal years. In addition, a close review of expenditure patterns in the student-centered schools may also dictate whether other revisions to the allocation methodology are necessary.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the Board of Education and Department of Education on September 28, 1998. A copy of the transmittal letter to the Department of Education is included as Attachment 1. The Department of Education's response is included as Attachment 2. The Board of Education did not respond.

The department agrees with most of the report, but has significant concerns about the small school adjustment for Lanikai Elementary School. The department argues that Lanikai's core allocation plus the funds it would receive for assuming negotiable elements more than cover the school's fixed costs, leaving Lanikai with approximately \$60,000 in "discretionary" funds.

The department acknowledges that the sufficiency of this amount can be debated and argues that other small schools in the system cannot receive a subsidy for being small. Our review of small school expenditures indicates that \$60,000 is not sufficient to cover Lanikai's supply and equipment costs. We also note that the funds to cover these costs are not truly discretionary—schools must use the money to pay for textbooks and other educational materials, office supplies, and instructional equipment that are necessary to operate a school.

We acknowledge that the small school adjustment is problematic. Our approach to the adjustment was temporary and may need to be revisited next year. Other methods of ensuring that all student-centered schools receive sufficient funding may need to be adopted. However, we stand by our decision to include the adjustment in the allocation for FY1998-99.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

September 28, 1998

COPY

The Honorable Paul LeMahieu
Superintendent of Education
Department of Education
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Dr. LeMahieu

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Allocation to Student-Centered Schools Project*. We ask that you telephone us by Wednesday, September 30, 1998, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Thursday, October 8, 1998.

The Board of Education, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marion M. Higa".

Marion M. Higa *fr*
State Auditor

Enclosures



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

October 6, 1998

RECEIVED

OCT 8 4 02 PM '98

OFFICE OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

The Department of Education (DOE) agrees with most of the findings and recommendations in this report, *Allocation to Student-Centered Schools Project*, but has significant concerns about the recommendation for a small school subsidy for Lanikai.

This legislative report itself states that the auditor "found flaws in Section 302-1123, HRS" (page 1), the statute governing the establishment and implementation of student-centered schools. In its previous audit, conducted in 1997, the auditor recommended that the Legislature consider amending Section 302-1123 to identify "how funding inequities created by the per pupil allocation are to be addressed" (page 26, Report No. 98-4). No such amendment was passed.

Moreover, the rationale used by the audit report focuses on "fixed costs." In the case of Lanikai, its core allocation and its negotiable elements, based on its enrollment, more than cover its fixed costs:

Core Allocation	\$921,781.42
Negotiable Elements	<u>43,005.50</u>
Total	\$964,786.92

The "fixed costs" for the school total:

Instructional	\$643,595
Non-instructional	<u>261,479</u>
Total Fixed Costs	\$905,074

Ms. Marion M. Higa

Page 2

October 6, 1998

Lanikai's discretionary funds total \$59,712.92. Whether this amount is sufficient to operate a school is open to debate. Listed below is a sampling of other small schools that have approximately the same enrollment and their discretionary "B&C" fund totals:

<u>School</u>	<u>Enrollment</u>	<u>"B&C" Funds</u>
Palolo	312	\$71,970
Keolu	316	\$65,302
Waikiki	334	\$55,896

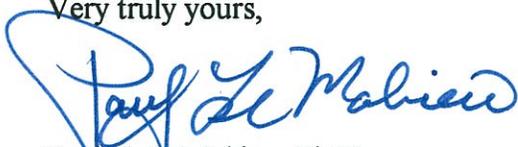
These schools cannot receive a subsidy for being small. The Department of Education in 1997-98, had 14 schools with enrollments less than Lanikai's. If we assume conservatively a similar small school subsidy (they are even smaller than Lanikai) the cost of all of these subsidies would total more than \$1,011,960.04 (14 x \$72,282.86). Extending the methodology employed here, subsidies would be forthcoming to many other schools as well. Clearly, the audit fails to provide what is most needed here: a principled accounting that can be extended throughout the system.

According to DOE records, Lanikai should be able to meet its obligations without the small school subsidy. Beyond these responsibilities, the school should look at other alternatives, such as attracting more students. It is apparent that a significant purpose of the legislation enabling student-centered schools is to free them of many debilitating constraints, thus enabling better performance and greater attractive power. This sort of "public school charter" legislation provides for attraction of a larger student body as a reward for high performance. Such enrollment increases are the appropriate remedy for the "small school" dilemma identified by the auditor.

Furthermore, the methodology used for calculating the small school subsidy is problematic. Comparing one school to another is highly idiosyncratic in its dependency upon the personnel present at each school at the time. At the very least, the auditor should have compared Lanikai's allocation to that of schools with similarly qualified and experienced non-instructional staff.

In closing, thank you for this opportunity to respond.

Very truly yours,



Paul G. LeMahieu, Ph.D.
Superintendent

PLeM:sts

c: Ms. Karen Knudsen
Mr. Edwin Koyama