
Allocation to New Century Schools Project

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

Report No. 00-04
February 2000



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
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THE AUDITOR STATE OF HAWAII

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OVERVIEW

Allocation to New Century Schools Project

Report No. 00-04, February 2000

Summary

Act 62, Session Laws of Hawaii 1999, requires the State Auditor to determine the appropriate allocation of state general funds to new century schools. These are schools funded with public moneys but allowed to operate independently—free from most state rules and regulations. In exchange for wide-ranging independence such as power over their curricula and budget, new century schools are held accountable for student performance and other goals specified in their own educational plans or “charters.” Currently Waiālae Elementary and Lanikai Elementary are the only new century schools in Hawaii.

In this, our second year of making the allocations, we refined our methodology to better accommodate four kinds of costs: 1) fixed personnel costs of the school, 2) variable costs of the school, 3) special education and *Felix* consent decree-related costs, and 4) costs for services or functions that a school could negotiate with the department to assume. Fixed, variable, and negotiable costs are included in the allocation; special education/*Felix* consent decree costs are excluded.

The allocation formula apportions out general funds and federal impact aid funds. Other federal funds, special funds, trust funds, interdepartmental transfers, and revolving funds are excluded from the allocation. Funds for collective bargaining increases are also included. As required by Act 62, we considered the advice of the superintendent in developing the methodology and applying it.

The fixed costs component of our methodology consists of the average salaries of four positions allotted by the department to each of this year’s new century schools—principal, school administrative services assistant, counselor, and librarian. If larger elementary schools or intermediate or high schools were to become new century schools, their fixed costs allocations might include more positions.

The variable costs component of our methodology is driven by enrollment. The apportioning of eligible school-based funds is calculated on a per pupil basis. Non-eligible funds—such as private agency project funds and workers’ compensation funds—are excluded from allocation.

The negotiable functions are those services and functions that we believe schools could assume. We also calculated these functions on a per pupil basis.

With all components and additions, Waiālae Elementary School should receive up to \$1,628,374 for FY1999-2000. It should receive a “fixed costs” allocation of \$186,676 and a “variable costs” allocation of \$1,231,448. Waiālae Elementary is also eligible to receive up to \$193,793 for services or functions that the school can negotiate to assume in the current fiscal year. Finally, Waiālae should receive a

total of \$16,459 for collective bargaining for non-fixed costs positions and the school's portion of federal impact aid funds.

Lanikai Elementary School should receive up to \$1,115,228 for FY1999-2000. It should receive a "fixed costs" allocation of \$186,676 and a "variable costs" allocation of \$793,136. The school is also eligible to receive up to \$124,816 for services or functions that it can negotiate to assume in the current fiscal year. Finally, Lanikai should receive a total of \$10,600 for collective bargaining non-fixed costs positions and the school's portion of federal impact aid funds.

Recommendations and Response

The department maintains that the "fixed costs component" of our methodology assumes that the Legislature would fund whatever fixed costs positions the department needs. This is incorrect. The fixed costs component is based on the current authorized position counts (FTE) and the funding already appropriated for FY1999-2000, not on what the Legislature might appropriate for future fiscal years. Furthermore, the department contends that using the fixed costs methodology will place an undue burden on the department without additional funding. The department misses the point. It will need funds as long as it approves any new century school proposal that calls for more positions than it already has. Our fixed costs methodology will not affect the department's responsibility.

The department is also mistaken in asserting that the "offset" language in Act 62 SLH, 1999 was intended to reimburse the department should a new century school receive federal funds. Act 62 allows for small schools to receive a subsidy or adjustment to augment their per pupil allocation. The act also states that if a small school receives federal grant moneys (with the exception of federal impact aid) the Auditor is to determine how much of those federal funds should be offset or reimbursed to the department. Since neither school received a small school adjustment, there is no basis for us to determine any offset. In addition, federal charter school moneys are designed to supplement, not supplant, general fund support. The department may claim a reimbursement of up to 6.5 percent for overhead expenses but has not yet done so.

Finally, the department responded that the entire \$4.6 million executive restriction should be used in the calculation of the allocations. We disagree. The Board of Education approved this use of approximately \$3.8 million in unused carryover funds from prior fiscal years to offset a major portion of the restriction. Imposing restrictions on unused carryover funds from prior fiscal years does not directly impact the FY1999-2000 allocations. Including these restrictions would result in an erroneous allocation to new century schools for FY1999-2000.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 00-04
February 2000

Foreword

The 1999 Legislature, through Act 62, Session Laws of Hawaii, required the State Auditor to determine the appropriate allocation of state general funds to new century schools in Hawaii for FY1999-2000. In this report we present the allocations to Waialae Elementary School and Lanikai Elementary School, the only two new century schools at present.

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 new century schools during the course of this project.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

In 1998, the Legislature directed the State Auditor to determine allocations for Hawaii's student-centered schools for FY1998-99 as well as subsequent fiscal years. Responding to this directive, we determined the allocations to two student-centered schools (Waiālae Elementary and Lanikai Elementary) and issued a report on our work, *Allocation to Student-Centered Schools Project*, Report No. 98-17.

In this report, we present the allocations to Waiālae Elementary and Lanikai Elementary for FY1999-2000. We also describe the basis for determining the allocations to the two schools, identify a variety of issues related to those allocations, and summarize the advice we received from the superintendent of education on our allocation methodology. We also report on how we accommodated that advice.

Background

Act 272, Session Laws of Hawaii (SLH) 1994, allowed for the establishment of up to 25 student-centered schools in the State. These schools are freed from most state rules, laws, and regulations in exchange for being held accountable for student performance. Since the enactment of Act 272, only two student-centered schools were established – Waiālae Elementary and Lanikai Elementary.

Student-centered schools are Hawaii's version of what is known more widely as "charter schools." Charter schools are funded with public moneys but are allowed to operate independently, free from most state rules and regulations. In exchange for wide-ranging independence such as power over their curricula and budget, charter schools are held accountable for student performance and other goals specified in their own educational plans or "charters."

In 1999, the Legislature supported the concept of "new century charter schools" (new century schools) to nurture the ideal of more autonomous and flexible decision-making at the school level. It also designated the two student-centered schools as "new century charter schools" and stipulated that up to 25 such schools may be established statewide.

Existing public schools and new schools may be established as new century schools. Currently, Waiālae Elementary and Lanikai Elementary are designated as such. Several other schools have formally expressed their intent to become new century schools.

Act 62, SLH 1999, specifies the funding requirements for new century schools. They are to receive an allocation of state general funds based upon their operational and educational funding requirements. The act also requires the State Auditor to determine the appropriate allocation of state general funds to new century schools. In setting the allocation, the Auditor is to explicitly consider the advice of the superintendent of education and to indicate the manner in which that advice has been accommodated.

In addition, the act stipulates that small schools shall be given a state subsidy or small school allotment to augment their allocation. If a school receives additional federal grant moneys, the Auditor shall determine the appropriate portion of the federal grant moneys to offset the small school allotment. Federal impact aid is to be excluded from consideration in the offset. The Auditor must also take into consideration any changes to the Department of Education's budget by the Legislature and any applicable collective bargaining amounts.

Furthermore, Act 62 stipulates that all federal and other financial support for new century schools shall not be less than the support given to other public schools. Also if the Department of Education provides administrative services to a new century school, the school must reimburse the department for the actual costs of the administrative services in an amount that does not exceed 6.5 percent of the school's allocation.

In addition, if the Department of Education provides administrative services to the new century schools with respect to any supplemental federal grants the schools may receive, the schools are also required to reimburse the department for those services. This reimbursement cannot exceed 6.5 percent of the supplementary grant received by the school.

In this report we present the allocations to Waiālae Elementary School and Lanikai Elementary School. We summarize our work on the project and identify issues that need to be addressed in subsequent fiscal years regarding those allocations.

Objectives of the Audit

1. Collect and review allocation, expenditure, and budget information for Waiālae Elementary and Lanikai Elementary Schools.
2. Collect and review budget, expenditure, and enrollment information from the Department of Education.
3. Develop an allocation methodology.

Scope and Methodology

We collected and reviewed prior student-centered school allocations to Waialae Elementary and Lanikai Elementary. We reviewed their expenditures and collected school budget documents for FY1999-2000. We also conducted interviews with personnel at Waialae Elementary School, Lanikai Elementary School, and the Department of Education.

We collected systemwide enrollment figures and reviewed the Department of Education's budget for FY1999-2000 and prior allocation notices to Waialae Elementary and Lanikai Elementary. We also reviewed the memorandum of agreement between the Department of Education and Waialae Elementary School. The department and Lanikai Elementary did not have a memorandum of agreement.

Our efforts to develop an allocation methodology included a review of the allocation criteria stipulated in Act 62, SLH 1999; a review of the methodology we used in FY1998-99; and a review of allocation methods adopted in other states. We also met several times with the superintendent of education and his staff to obtain advice on the allocation methodology.

Our work was conducted from June 1999 through January 2000.

Chapter 2

FY1999-2000 Allocations to New Century Schools

Act 62, Session Laws of Hawaii (SLH) 1999, stipulates that new century schools shall receive an allocation of state general funds based on the operational and educational funding requirements of the schools. The Auditor is to determine the appropriate allocation based on the total department general fund appropriation and per pupil expenditure for the previous year. We interpret this mandate to mean that we are required to develop the allocation to new century schools based on the Department of Education's general fund allocations for FY1999-2000 approved by the Board of Education.

This chapter presents the FY1999-2000 preliminary allocations to Waialae Elementary School and Lanikai Elementary School and describes the methodology used to formulate the allocations. Each school is to receive an allocation for fixed and variable costs, as well as funds for services or functions the school negotiates with the Department of Education to assume in the current fiscal year. Allocations for collective bargaining increases and federal impact aid are also included. The allocation methodology apportions funds for collective bargaining increases applicable to both fixed and non-fixed costs positions.

Allocations Are Due to New Century Schools

Waialae Elementary School should receive up to \$1,628,374 for FY1999-2000. It should receive a "fixed costs" allocation of \$186,676. In addition, the school should be allocated \$1,231,448 for its "variable costs." Waialae Elementary is also eligible to receive up to \$193,793 for services or functions that the school can negotiate to assume in the current fiscal year. Finally, Waialae should receive a total of \$16,459 for collective bargaining for non-fixed costs positions and the school's portion of federal impact aid funds.

Lanikai Elementary School should receive up to \$1,115,228 for FY1999-2000. It should receive a "fixed costs" allocation of \$186,676. In addition, the school should be allocated \$793,136 for its "variable costs." The school is also eligible to receive up to \$124,816 for services or functions that Lanikai can negotiate to assume in the current fiscal year. Finally, Lanikai should receive a total of \$10,600 for collective bargaining for non-fixed costs positions and the school's portion of federal impact aid funds.

The amount of the variable costs component is based upon the number of regular education and Article VI students officially enrolled in each school. 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. Waialae Elementary School has an official enrollment of 472 regular education and Article VI students. Lanikai Elementary School has an official enrollment of 304 regular education and Article VI students.

We Developed An Allocation Methodology

To determine the allocation of general funds to new century schools, we proposed a methodology that would identify and group all costs at the school level. The following methodology applies only to the allocation for FY1999-2000. Funding requirements and/or funding restrictions may vary for subsequent fiscal years. Allocation methodologies in those years may need to take such requirements or restrictions into account.

We initially considered four components or cost categories for the allocation. These cost components are:

- fixed costs of the new century school,
- variable costs of the school,
- special education and *Felix* consent decree-related costs, and
- costs for the services or functions that the school could assume based on negotiations with the Department of Education.

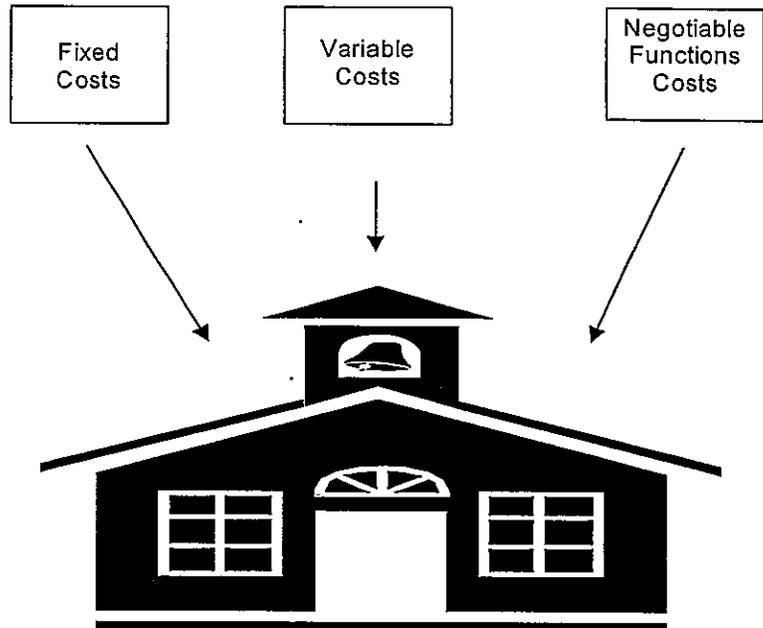
However, we concluded that special education and *Felix*-related costs and services were inappropriate to be administered at the school level, and therefore propose that these costs and services should continue to be administered at the departmental level. The allocation thus consists of three components, instead of four.

The exhibit below provides a graphical summary of the three remaining components of the allocation. The methodology described below is applied to both new century schools and can be applied to other new century schools, once they become established and the Department of Education determines the number of fixed costs positions that can be allotted to them.

Fixed costs component

All schools have two types of costs – fixed and variable. Thus, specific allocations for both types of costs in new century schools are needed. Our methodology defines fixed costs in Hawaii's public schools as those EDN 100 (School-Based Budgeting) fund allocations for school

Exhibit 2.1 Components of the Allocation to New Century Schools



personnel positions that are not directly dictated by student enrollment. These positions, such as the school principal, counselor, and librarian, remain relatively constant across small, medium, and large schools. Since such costs are relatively constant, small schools spend a relatively larger proportion of their budget to cover the salaries of the fixed costs positions. An allocation specifically for the fixed costs helps ensure that the school has sufficient money to cover those costs. In our methodology, the fixed costs allocation comes from EDN 100 funds only. To ensure equity of the allocation, the average salary costs for these positions are used to calculate the allocation.

EDN 100 (School-Based Budgeting) is one of the six budget programs, or “program IDs” for the Department of Education’s public school budget in the State’s executive budget system. The other five program IDs are:

- EDN 150 – Comprehensive School Support Services
- EDN 200 – Instructional Support
- EDN 300 – State and District Administration
- EDN 400 – School Support
- EDN 500 – School Community Service.

In our review of the personnel positions in Hawaii's public schools, we found that seven types of positions meet our fixed costs definition. These positions are: (1) principal; (2) vice-principal; (3) school administrative services assistant (SASA); (4) counselor; (5) librarian, (6) registrar, and (7) account clerk. The method of allocating funds for the fixed costs component applies to all schools regardless of size or type (i.e., elementary, intermediate, high school, or combined grade levels). However, not all schools are allotted every position. The actual number of position counts for fixed costs personnel may vary by school type and school size.

In determining the fixed costs component for each school, the actual full-time equivalents (FTE's) allotted to the schools by the department is used. For example, a new century school may wish to hire two full-time counselors, but the department has allotted only one FTE counselor position to the school. The fixed costs component in this instance is based on one counselor position, not two. Lanikai and Waialae are allotted the following four positions by the department:

- Principal (1);
- School Administrative Services Assistant (SASA) (1);
- Counselor (1); and
- Librarian (1).

Both schools should receive funds in the fixed costs component to cover the average salary costs of each of the four positions. Larger elementary schools, intermediate schools, and high schools may have more fixed costs positions allotted to them by the Department of Education. Thus, depending on the type of school attaining new century school status, the amount of the fixed costs component may be different from the amount calculated for Lanikai Elementary and Waialae Elementary.

The following steps were taken in determining the fixed costs component of the allocation for Lanikai Elementary and Waialae Elementary.

1. We identified the total budgeted FY1999-2000 salaries for all principals, vice-principals, SASAs, counselors, librarians, registrars, and account clerks in the department's EDN 100 program. Budgeted salary costs for the seven positions totaled \$75,275,550.
2. We excluded the total salary costs for these positions from the EDN 100 program money to be used in the variable costs component. (See discussion of variable costs component below.)

3. We determined the average annual salaries for FY1999-2000 for the four positions in each new century school by dividing the budgeted salary figures for each position by the authorized position counts for each position. The average salary for principal positions varies by type of school (elementary, intermediate, and high school). (See Exhibit 2.2 below.)
4. We allocated funds to each new century school to cover the average annual salaries for these four positions.
5. We also determined an estimated amount of the collective bargaining increases authorized by Act 60, SLH 1999, that would be used to cover the salaries of the fixed costs positions. We calculated the average salary increases for the principal and SASA positions and added this amount to the fixed costs component. There are no collective bargaining increases for counselors and librarians.

The average salary costs for fixed costs positions, position counts, and the total budgeted salary figures for each position are displayed in Exhibit 2.2.

Exhibit 2.2 Average Salaries for Fixed Costs Positions

Position	Average Salary	Statewide Position Count	Total Budgeted Salaries (Systemwide)
Elementary Principals	\$62,287	166.0	\$10,339,602
Intermediate Principals	\$64,829	43.0	\$2,787,639
High School Principals	\$70,247	41.0	\$2,880,145
Vice Principals	\$55,041	231.0	\$12,714,537
SASAs	\$30,929	250.0	\$7,732,228
Librarians	\$45,986	279.0	\$12,830,110
Counselors	\$42,196	473.5	\$19,980,015
Registrars	\$57,889	75.5	\$4,370,594
Account Clerks	\$24,672	66.5	\$1,640,680
Total Salaries to be Excluded from EDN 100			\$75,275,550

As described earlier, seven positions are considered to be fixed costs positions. The actual positions considered to be fixed costs for a new century school depend upon the size and type of school and the number of FTE positions that the department allots to the school.

Exhibit 2.3 displays fixed costs positions for three other types of schools to illustrate how the fixed costs component for a specific school might vary by size and type of school.

**Exhibit 2.3
The Fixed Costs Component in Various Types of Schools**

	ELEMENTARY	INTERMEDIATE	HIGH SCHOOL
Enrollment	736	856	1,363
Position	Number of Fixed Costs Positions		
Principal	1	1	1
Vice-Principal	1	1	2
SASA	1	1	1
Librarian	1	1	2
Counselor	2	2	4
Registrar	0	1	1
Account Clerk	0	0	1
TOTAL FIXED COSTS	\$278,635	\$339,066	\$554,575

Variable costs component

The variable costs component is defined as the allocation of EDN 100 funds determined by school enrollment, with the exception of the negotiable costs and other exceptions identified below. Since variable costs are determined by enrollment, the variable costs component is based upon per pupil costs. We also calculated the state general funds authorized by the Legislature for collective bargaining increases and federal impact aid funds on a per pupil basis. However, we display them separately from the variable costs component in the allocation tables.

As we did in the FY1998-99 allocation, we exclude the following funds from the per pupil allocation for the reasons noted:

- Private Agency Projects. Such funds do not go to any public school; thus, they should not be used in the allocation to new century schools.
- Workers' Compensation. The department currently administers this function.
- Unemployment Insurance. The department currently administers this function.

Additional adjustments to the variable costs component for the FY1999-2000 allocation exclude EDN 100 funds that are included in the fixed or negotiable costs components. These are:

- Total statewide salaries for the seven fixed costs positions. These salaries cannot be included in both fixed and variable costs components.
- Statewide testing. This is a negotiable function. The cost cannot be included in the both the variable and negotiable functions costs components.

Finally, restrictions on Basic Needs (Program ID 15110) and School Priority Fund (Program ID 16111) are excluded. Executive restrictions on the Department of Education affected the general funds available to the department by the respective amounts excluded from the component.

Negotiable functions costs component

The negotiable functions costs component consists of those services and functions that we believe new century schools could assume. We identified services and functions currently provided by the department on behalf of or for public schools. In our determination of the services and functions that we believed to be potentially negotiable, we identified functions such as curriculum development, staff development, and student testing that a new century school may have the capacity to assume. Our review also took into consideration those services and functions that appear to be core, centralized responsibilities of the department and may be difficult to apportion or transfer to the schools. These have been placed in the "excluded" column in the negotiable functions costs component.

New century schools need to enter into an agreement with the Department of Education to undertake any function or service in the negotiable functions costs component. For each item that we consider to be potentially negotiable, we identify the amount of funding to be provided to the school. Should there also be an agreement between the department and the new century school that a function or service in the "excluded" column can be negotiated we will calculate the amount to be provided to the school for that function or service.

The formula is based on a statewide per pupil cost for that function or service. Although the department allocates funds to public schools for some of these services or functions on other than a per pupil basis, we use a per pupil formula for the sake of consistency in the allocation.

Appendix A and Appendix B display the allocations for FY1999-2000 for Waiālae Elementary School and Lanikai Elementary School respectively.

Each appendix summarizes the allocation under three components – fixed costs, variable costs, and negotiable functions costs. Only state general funds are included in the total figures for each EDN level. State general funds for collective bargaining increases and federal impact aid funds are added to the total (general fund) allocations to the new century schools. All other funds, including federal funds, interdepartmental transfers, special funds, trust funds, and revolving funds, are not included in these allocations.

The fixed costs component consists only of the estimated salary costs for four positions in each school. For both Waiālae Elementary and Lanikai Elementary, these positions are the principal, the school administrative services assistant, the counselor, and the librarian.

Variable costs consist of some special education and *Felix* consent decree costs that are excluded because the Department of Education is responsible for covering those costs. Consequently, the allocation is based only upon regular education and Article VI student enrollment. Appendix C briefly describes the other programs or functions that are excluded from the variable costs component of the allocation to new century schools.

Appendix D displays the departmental functions or services that we believe are not potentially negotiable. In most instances, these are core, centralized services or functions that we believe should not be transferred to the school level.

Appendix E briefly describes the services or functions that we believe are potentially negotiable. The department and the new century school must reach an agreement as to the transfer of a function or service before funds are allocated to the school.

Collective bargaining and impact aid

As noted above, Act 60, SLH 1999 authorized collective bargaining increases for FY1999-2000. We estimated the amount of collective bargaining increases that were attributable to fixed costs positions and the amount attributable to non-fixed costs positions. Waiālae Elementary is to be allocated \$3,734 and Lanikai Elementary is to be allocated \$2,404 for collective bargaining for non-fixed costs positions.

New century schools are to receive an allocation of federal impact aid funds on a per-pupil basis. We have deducted the following funds from the impact aid allocation for the reasons noted:

- Fringe Benefits for Regular Education and Substitute Teachers. Fringe benefit costs are centralized and should not be assumed by new century schools.

- Special Education Services. The department is responsible for special education costs.
- Substitute Teachers for Regular Education and Special Education. This covers the costs of substitutes for regular education and special education teachers. The costs for substitutes for special education teachers are assumed by the department. Assuming the costs for substitutes for regular education teachers is negotiable. The costs for substitutes for regular education teachers cannot be included under impact aid and the negotiable functions component at the same time.

Special education costs

A new EDN program ID (EDN 150) was created during the 1999 regular session to contain all special education and *Felix*-related funds. Allocating special education funds to new century schools is not appropriate at this time. The allocation of such funds may jeopardize the department's efforts to comply with the *Felix* consent decree and/or the department's ability to comply with other federal requirements pertaining to special education. In addition, it may not be in the best interest of the new century schools to receive such funds and be solely responsible for those costs and services.

We Obtained the Advice of the Superintendent of Education

Act 62 requires the Auditor to determine the appropriate allocation of state general funds to new century schools. We are also to explicitly consider the advice of the superintendent of education and to indicate the manner in which that advice was accommodated. We took the following steps in adhering to this stipulation.

Obtaining the advice of the superintendent

We held a series of three meetings with the superintendent and other personnel from the Department of Education to discuss the proposed allocations and obtain their advice. At our first meeting on July 13, 1999, we presented and explained our draft allocation methodology for new century schools. We explained that our approach to the project was to devise a methodology applicable to all new century schools, regardless of school size or grade level. We identified the three proposed components of the allocation, the types of personnel to be considered as fixed costs, and the functions that we believed were potentially negotiable between the department and the new century school.

At our second meeting on July 28, 1999, we presented the department with draft allocations for the two new century schools. We noted that actual and final allocations for the schools would need to be determined at a later date. The figures used for the draft allocations were from

FY1999-2000 appropriations for the department's FY1999-2000 operating budget dated June 7, 1999.

At our third meeting on October 4, 1999, we met with the superintendent and other department personnel to discuss revisions we made to the allocation tables based on official statewide and new century school enrollment counts and additional information we had received from the department. We also reviewed some of the department's prior concerns.

Response to the allocation methodology

The superintendent and his support staff provided oral responses during the meetings and the superintendent commented in writing on the allocation methodology. In our second meeting, the superintendent stated that adjustments to the department's budget in response to the executive restrictions should result in an adjustment to the allocations to new century schools. In a written response dated July 20, 1999, the superintendent was in general agreement with many of the items in the allocation, but noted that some of the functions or services we proposed as potentially negotiable should be removed from the list. He also stated that a small school subsidy appeared to be in the fixed costs component of the allocation. In addition he noted that should the department receive supplemental funds for charter schools, there needs to be a recovery mechanism to reimburse the department for prior allocations to schools.

In another letter dated July 29, 1999, the superintendent desired evidence or documentation that the methodology could be fairly applied to all schools without "bankrupting" the public school system that funds the needs of all schools. He also reiterated his belief that the fixed costs allocation is a small school subsidy and asked for clarification on the amount of the small school subsidy that was recoverable per Act 62, SLH 1999. He also stated that the majority of letters of intent that the Board of Education had received at that point were from "schools-within-schools." He asked for clarification on how the fixed costs allocation would apply to those situations.

Response to the superintendent's concerns

The following summarizes our response to the superintendent's concerns. We considered them at great length and in most instances have either modified the allocations or provided the superintendent and his staff with additional information about the allocation methodology. However, with regard to his concerns about the fixed costs component being a small school subsidy, we note that the allocation methodology is consistently applied to all types of schools, and therefore small schools are not receiving special treatment. Additional detail on this issue is noted below.

Systemwide impact of the new century school allocation methodology

The department has contended that the methodology may negatively affect the department's ability to provide sufficient funds to all schools in the system. To test whether our methodology would have this impact, we applied our formula to all schools regardless of status. Our calculations indicate that our total of the general fund allocation for fixed and variable costs under EDN 100 is essentially equal to the amount of EDN 100 funds available for the allocation.

Recovering costs to the system

Because the methodology is consistently applied to all types and sizes of schools, there is no small school adjustment, as such, in the allocation. Small schools do not receive a small school subsidy or an augmentation to their allocation. However, the department contends that the fixed costs component essentially provides an adjustment to small schools. We believe that the inclusion of the fixed costs component in the allocation methodology helps to ensure that schools have the funds necessary to pay the salaries of their fixed costs personnel but does not place an additional cost burden upon the department. The methodology is fair to all types of schools and is more appropriate than an allocation based strictly on the number of pupils in the school.

Although there is no small school adjustment, we believe that federal grant moneys used to offset costs that we have identified as "fixed" are subject to reimbursement. If a new century school were to use its federal grant moneys to pay for any portion of a fixed costs position, the department would be in a position to deduct that amount from the FY1999-2000 general fund allocation. In addition, if a new century school uses its federal grant funds to pay for the same purchases or costs covered by the general fund allocation this would be considered "double-dipping." If such instances are discovered in a review or audit of the school's federal fund expenditures, the department can also claim a reimbursement. While we continue to review federal grant moneys that the two schools have received to determine whether any portion of such moneys can be used to offset the fixed costs allocations, to date no such applications have been identified.

Identifying negotiable functions

The department identified some services and functions that it felt should not be considered as negotiable. Our position is that our responsibility is simply to identify potential items for negotiation and calculate the amount the school should receive if the department and the school agree that the school will assume the function or service. Our placement of the

item in the negotiable function category does not obligate the school to assume the function, nor does it obligate the department to transfer the function to the school. If the department and the school fail to agree to transfer the function or service, then that item remains the responsibility of the department. Should the department and the school fail to reach an agreement on the transfer of the function, the Auditor will not mediate the process. Also, for some specific services and functions, the school may need to negotiate an agreement with the appropriate collective bargaining unit before assuming that function or service.

Impact of the executive restrictions

We concur with the superintendent that the impact of the executive restrictions on the Department of Education's budget should be reflected accordingly in the allocations to new century schools. The governor has restricted approximately \$4.6 million from the Department of Education's lower education budget. We excluded the following amounts from the variable costs component:

- \$786,348 under Basic Needs (Program ID 15110)
- \$89,972 under School Priority Fund (Program ID 16111)

The Board of Education also approved restrictions of approximately \$3.8 million in FY1997-98 and FY1998-99 carryover funds. We did not exclude the restrictions on carryover funds because such restrictions do not directly affect the FY1999-2000 allocations available to the department.

Allocations to schools-within-schools

Currently, only two schools exist as new century schools, but, as stated earlier, a number of other schools have submitted letters of intent to the Board of Education to join Lanikai Elementary and Waialae Elementary as new century schools. To achieve such status, they must also submit implementation proposals to the Board of Education. We cannot develop allocations for a school until that school has officially been designated as a new century school.

Some of the letters of intent have come from "schools-within-schools," which is a sub-population of teachers and/or students within a school that has developed its own identity usually for curriculum or other purposes. The applicability of our allocation methodology to schools-within-schools has yet to be determined. This largely depends on whether positions such as the principal, SASA, counselor, and librarian will be allotted to schools-within-schools.

If any schools-within-schools become established before the end of this fiscal year and desire to hire additional principal, counselor, or librarian positions beyond what has been allotted to the entire school, it is questionable whether the department can create new positions that have not been approved by the Legislature. If the department wishes to create new positions for schools-within-schools, the department may need to submit a budget request for those positions to the 2000 legislative session.

Other Issues Need Review

Act 62, SLH 1999, requires the Auditor to determine the allocations for FY1999-2000. Two issues need to be reviewed. The first concerns our involvement in developing allocations in future fiscal years. The second relates to how new century schools could be financed.

The role of the Office of the Auditor

Our role in the future allocation process needs to be reviewed. We believe that the responsibility as currently assigned may be open to challenge as an inappropriate expansion of our functions. This is an executive branch function that should remain in the executive branch.

Requiring the Auditor to determine the allocations to new century schools places us in an awkward position. At some time in the future our office may be required to audit the transactions of these schools. We would be placed in the position of auditing our own allocations. Such a position could jeopardize our independence and ability to conduct impartial assessments under generally accepted government auditing standards.

The potential for legislative appropriations to new century schools

Currently, allocations to new century schools come out of general funds the Legislature appropriates to the department. If the Legislature wishes to ensure particular funding levels for new century schools, a separate EDN program ID could be created for such schools. The Legislature would then have the option of funding the schools under the new and separate EDN.

Appendix A
 Allocation to Waiālae Elementary School -- FY1999-2000
 (As of January 28, 2000)

FIXED COSTS COMPONENT	
Average Salaries for Positions	
Elementary School Principal	\$ 62,287
Librarian	45,986
Counselor	42,196
School Administrative Services Assistant (SASA)	30,929
Collective Bargaining for Fixed Costs Positions	5,278
Total Allocation for the Fixed Costs Component	\$ 186,676

VARIABLE COSTS COMPONENT	FY1999-2000 ALLOCATIONS	EXCLUDED
EDN 100 SCHOOL-BASED BUDGETING	\$ 542,777,981	\$ 84,591,072
Private agency projects		547,313
Workers' compensation		5,019,782
Statewide testing		29,564
Unemployment insurance		2,842,543
Salaries for fixed costs positions		75,275,550
Restriction on Program ID 15110 funds		786,348
Restriction on Program ID 16111 funds		89,972
		INCLUDED
TOTAL AMOUNT OF EDN 100 TO BE INCLUDED	\$	\$ 458,186,909
PER PUPIL COST STATEWIDE	\$	2,609
Total Allocation for the Variable Costs Component	\$	1,231,448

Notes

1. With the exception of the impact aid funds, the figures include general funds only. Other federal funds, special funds, trust funds, interdepartmental transfers, and revolving funds are excluded.
2. Allocations are based on official statewide and school enrollment counts. The official statewide enrollment figure of 175,618 includes 165,767 regular education students for FY1999-2000 and Waiālae's official enrollment of 472 includes 446 regular education and 26 Article VI students.
3. Minor discrepancies are attributed to rounding.

FY1999-2000
ALLOCATIONS

NEGOTIABLE FUNCTIONS COSTS COMPONENT

EDN 300 STATE AND DISTRICT ADMINISTRATION

		EXCLUDED	Amount Included Statewide	Per Pupil Statewide	Amount to School
State Administration	\$	17,489,518	\$	6.06	\$ 2,860
Board of Education (33005)	\$	575,555			
Office of the Superintendent (33007 and 33790)		497,124			
Communications (33027)		110,302			
Business Education Partnerships (33016)		156,802			
Internal Audit (33656)		59,967			
Budget (33006)		850,603			
Management Analysis and Compliance (33013)		186,849			
Collective Bargaining Administration (33008)		103,969			
Business Services (33009)		130,627			
Administrative Services (OBS) (33010)		3,090,348			
Facilities and Support Services (33011)		648,133			
Personnel Services (33926)		3,924,152			
Class/Comp Appeals Board (33718)		2,645			
Service and Merit Awards (33719)		16,472			
Equal Employ/Oppor Affirmative Action (33755)		90,909			
Criminal History Check (33829)		265,535			
Personnel Recruitment (33085)		112,133			
Blood Pathogen Control (15125)		139,528			
Workers' Compensation -- Administration (23052)		460,550			
School Administrator Training Program (33118)			\$		
Sabbatical Leaves -- EO (33116)			738,628	4.20	\$ 1,982
Sabbatical Leaves -- Classified (33121)			251,042	1.43	675
Reprographic Services (33022)			74,933	0.43	203
Duplicating Services (33001)		1,193,840			
Office of Info & Tech - General Direction (33084)		48,765			
Information Resources Management (33088)		188,954			
Network Support Services (33089)		918,252			
Information Systems Services (33021)		951,035			
Financial Management Services (33879)		2,110,023			
		656,446			
District Administration	\$	3,147,083	\$	0.00	0

**FY1999-2000
ALLOCATIONS**

NEGOTIABLE FUNCTIONS COSTS COMPONENT		EXCLUDED	Amount Included Statewide	Per Pupil Statewide	Amount to School
EDN 400 SCHOOL SUPPORT	\$	\$	\$	\$	\$
School Food Services --State Admin (35161)		26,583,235	50,488,314	287.49	135,695
Cafeteria Management (35162)	\$	389,727			
Food Services (35163)		6,389,902			
State Admin Physical Plant Operations (37012)		13,156,794			
Auxiliary Services -- Oahu (37932)	\$	506,751	1,654,129	9.42	4,446
School Custodial Services (37297)			28,033,708	159.62	75,344
Utilities -sewer (37324)		2,012,365			
Utilities - telephone (37325)			948,103	5.40	2,548
Utilities - electricity (37326)			17,488,111	99.58	47,002
Utilities - water (37327)		3,293,655			
Utilities - gas (37328)		259,857			
Utilities - telecommunication charges for schools (37330)		574,184			
School Inspection (37730)			98,417	0.56	265
Repair and Maintenance of School Facilities (37662)			930,184	5.30	2,500
Disposal of Hazardous Materials (37663)			440,230	2.51	1,183
Classroom Cleaners (37997)			895,432	5.10	2,407
EDN 500 SCHOOL COMMUNITY SERVICES	\$	\$	\$	\$	\$
Afterschool A+ Program (45001)		16,003,615	0	0.00	0
Adult Education (46401, 46403, and 46411)	\$	10,690,280			
		5,313,335			
TOTAL POSSIBLE ALLOCATION FOR NEGOTIABLE FUNCTIONS COSTS	\$	\$	\$	\$	\$
			72,104,982	410.58	193,793

TOTALS FOR THE THREE COMPONENTS	
FIXED COSTS	\$ 186,676
VARIABLE COSTS	\$ 1,231,448
NEGOTIABLE FUNCTIONS COSTS	\$ 193,793
TOTAL FOR THREE COMPONENTS	\$ 1,611,917

	Total Amount	Excluded	Amount Included Statewide	Per Pupil Statewide	Amount to School
IMPACT AID	\$ 19,000,000	\$14,265,377	\$ 4,734,623	\$ 26.96	\$ 12,725
Fringe benefits for regular education		\$1,286,397			
Fringe benefits for substitute teachers		808,980			
Special education services		2,470,000			
Substitute teachers for regular education and special education		1,938,540			
Substitutes for regular education teachers		7,761,460			

ADDITIONS TO THE THREE COMPONENTS

	Total Amount	Per Pupil Statewide	Amount to School
Collective bargaining for non-fixed costs positions	\$ 1,388,742	\$ 7.91	\$ 3,734
Impact aid for regular education	\$ 4,734,623	\$ 26.96	\$ 12,725
Collective Bargaining Plus Impact Aid	\$	\$ 34.87	\$ 16,459

TOTAL FOR THREE COMPONENTS \$ 1,611,917

ADDITIONS TO THE THREE COMPONENTS

TOTAL POSSIBLE ALLOCATION TO WAIALAE \$ 16,459

TOTAL POSSIBLE ALLOCATION TO WAIALAE \$ 1,628,374

Appendix B
Allocation to Lanikai Elementary School -- FY1999-2000
 (As of January 28, 2000)

FIXED COSTS COMPONENT		
Average Salaries for Positions		
Elementary School Principal	\$	62,287
Librarian		45,986
Counselor		42,196
School Administrative Services Assistant (SASA)		30,929
Collective Bargaining for Fixed Costs Positions		5,278
Total Allocation for the Fixed Costs Component	\$	186,676

VARIABLE COSTS COMPONENT	FY1999-2000 ALLOCATIONS	EXCLUDED
EDN 100 SCHOOL-BASED BUDGETING	\$ 542,777,981	\$ 84,591,072
Private agency projects	\$	547,313
Workers' compensation		5,019,782
Statewide testing		29,564
Unemployment insurance		2,842,543
Salaries for fixed costs positions		75,275,550
Restriction on Program ID 15110 funds		786,348
Restriction on Program ID 16111 funds		89,972
		INCLUDED
TOTAL AMOUNT OF EDN 100 TO BE INCLUDED PER PUPIL COST STATEWIDE	\$	\$ 458,186,909
Total Allocation for the Variable Costs Component	\$	793,136

- Notes**
1. With the exception of the impact aid funds, the figures include general funds only. Other federal funds, special funds, trust funds, interdepartmental transfers, and revolving funds are excluded.
 2. Allocations are based on official statewide and school enrollment counts. The official statewide enrollment figure of 175,618 includes 165,767 regular education students for FY1999-2000 a Lanikai's official enrollment of 304 includes 281 regular education and 23 Article VI students.
 3. Minor discrepancies are attributed to rounding.

FY1999-2000 ALLOCATIONS

NEGOTIABLE FUNCTIONS COSTS COMPONENT

EXCLUDED

Amount Included
Statewide

Per Pupil
Statewide

Amount to
School

	Amount Included Statewide	Per Pupil Statewide	Amount to School
EDN 100 SCHOOL-BASED BUDGETING	\$ 7,791,024	\$ 44.37	\$ 13,488
Statewide testing (23040)	29,564	0.17	51
Substitutes for regular education teachers	7,761,460	44.20	13,436
EDN 150 COMPREHENSIVE SCHOOL SUPPORT SERVICES	\$ 136,858,733	\$ 0	\$ 0
EDN 200 INSTRUCTIONAL SUPPORT	\$ 15,622,256	\$ 72.66	\$ 22,089
Administrative Services (25023)	2,861,215		
School Renewal Group (25024)	305,635		
School Improvement/Comm Leadership Group (25233)	431,459	10.59	3,219
Leadership Development (25234)			
Accreditation/School Improvement (25235)	190,864	1.09	330
Year Round Education (25236)	142,062	0.81	246
Systems Group -- Administration (25912)	71,291	0.41	123
School Library Services (25048)			
School Library Materials Processing Center (25044)	233,982	1.33	405
Institutes and Workshops - Certificated (25015)	249,063	1.42	431
Sabbatical Leave - Certificated (25115)	323,132	1.84	559
Teacher Evaluation Path (25020)	849,218	4.84	1,470
Cooperative/Host Teacher Training (25749)			
Teacher Education - Kauai District (25750)	51,380		
Information Technology Support Centers (25754)	14,246		
Teleschool (16772)	74,829		
Educational Cable Channel (16731)	362,208		
Telecommunications Services (16703)			
District Resource Services -- Hawaiian Studies (34659)	2,338,314	13.31	4,048
District Resource Services -- ESLL (34660)	28,892	0.16	50
General Curriculum -- District Resource Services (15135)	256,898	1.46	445
School Renewal (34661)	49,854	0.28	86
Literacy (25038)	1,232,625	7.02	2,134
Hawaii Content and Performance Standards (15654)	132,809	0.76	230
Statewide Testing (33004)	2,512,856	14.31	4,350
Planning and Evaluation (33004)	1,066,862	6.07	1,847
	1,316,150		
	502,961	2.86	871
	719,062	4.09	1,245

**FY1999-2000
ALLOCATIONS**

NEGOTIABLE FUNCTIONS COSTS COMPONENT	EXCLUDED	Amount Included Statewide	Per Pupil Statewide	Amount to School
EDN 300 STATE AND DISTRICT ADMINISTRATION				
State Administration	\$ 17,489,518	\$ 1,064,603	\$ 6.06	\$ 1,842
Board of Education (33005)	\$ 575,555			
Office of the Superintendent (33007 and 33790)	497,124			
Communications (33027)	110,302			
Business Education Partnerships (33016)	156,802			
Internal Audit (33656)	59,967			
Budget (33006)	850,603			
Management Analysis and Compliance (33013)	186,849			
Collective Bargaining Administration (33008)	103,969			
Business Services (33009)	130,627			
Administrative Services (OBS) (33010)	3,090,348			
Facilities and Support Services (33011)	648,133			
Personnel Services (33926)	3,924,152			
Class/Comp Appeals Board (33718)	2,645			
Service and Merit Awards (33719)	16,472			
Equal Employ/Oppor Affirmative Action (33755)	90,909			
Criminal History Check (33829)	265,535			
Personnel Recruitment (33085)	112,133			
Blood Pathogen Control (15125)	139,528			
Workers' Compensation -- Administration (23052)	460,550	\$		
School Administrator Training Program (33118)		738,628	\$ 4.20	\$ 1,277
Sabbatical Leaves -- EO (33116)		251,042	1.43	435
Sabbatical Leaves -- Classified (33121)		74,933	0.43	130
Reprographic Services (33022)	1,193,840			
Duplicating Services (33001)	48,765			
Office of Info & Tech - General Direction (33084)	188,954			
Information Resources Management (33088)	918,252			
Network Support Services (33089)	951,035			
Information Systems Services (33021)	2,110,023			
Financial Management Services (33879)	656,446			
District Administration	\$ 3,147,083	\$ 0	\$ 0.00	\$ 0

**FY1999-2000
ALLOCATIONS**

NEGOTIABLE FUNCTIONS COSTS COMPONENT

	EXCLUDED	Amount Included Statewide	Per Pupil Statewide	Amount to School
EDN 400 SCHOOL SUPPORT				
School Food Services --State Admin (35161)	\$ 26,583,235	\$ 50,488,314	\$ 287.49	\$ 87,397
Cafeteria Management (35162)	389,727			
Food Services (35163)	6,389,902			
State Admin Physical Plant Operations (37012)	13,156,794			
Auxiliary Services -- Oahu (37932)	506,751	\$ 1,654,129	\$ 9.42	\$ 2,864
School Custodial Services (37297)		28,033,708	159.63	48,528
Utilities -sewer (37324)	2,012,365			
Utilities - telephone (37325)		948,103	5.40	1,641
Utilities - electricity (37326)		17,488,111	99.58	30,272
Utilities - water (37327)				
Utilities - gas (37328)	3,293,655			
Utilities - telecommunication charges for schools (37330)	259,857			
School Inspection (37730)	574,184			
Repair and Maintenance of School Facilities (37662)		98,417	0.56	170
Disposal of Hazardous Materials (37663)		930,184	5.30	1,610
Classroom Cleaners (37997)		440,230	2.51	762
		895,432	5.10	1,550
EDN 500 SCHOOL COMMUNITY SERVICES				
Afterschool A+ Program (45001)	\$ 16,003,615	\$ 0	\$ 0.00	\$ 0
Adult Education (46401, 46403, and 46411)	\$ 10,690,280			
	5,313,335			
TOTAL POSSIBLE ALLOCATION FOR NEGOTIABLE FUNCTIONS COSTS		\$ 72,104,982	\$ 410.58	\$ 124,816

TOTALS FOR THE THREE COMPONENTS	
FIXED COSTS	\$ 186,676
VARIABLE COSTS	\$ 793,136
NEGOTIABLE FUNCTIONS COSTS	\$ 124,816
TOTAL FOR THREE COMPONENTS	\$ 1,104,628

	Total Amount	Excluded	Amount Included Statewide	Per Pupil Statewide	Amount to School
IMPACT AID	\$ 19,000,000	\$ 6,503,917	\$ 4,734,623	\$ 26.96	\$ 8,196
Fringe benefits for regular education	\$	1,286,397			
Fringe benefits for substitute teachers		808,980			
Special education services		2,470,000			
Substitutes for special education teachers		1,938,540			
Substitutes for regular education teachers		7,761,460			

	Total Amount	Per Pupil Statewide	Amount to School
ADDITIONS TO THE THREE COMPONENTS			
Collective bargaining for non-fixed costs positions	\$ 1,388,742	\$ 7.91	\$ 2,404
Impact aid for regular education	\$ 4,734,623	\$ 26.96	\$ 8,196
Collective Bargaining Plus Impact Aid	\$	\$ 34.87	\$ 10,600
TOTAL FOR THREE COMPONENTS	\$ 1,104,628		
ADDITIONS TO THE THREE COMPONENTS	\$ 10,600		
TOTAL POSSIBLE ALLOCATION TO LANIKAI	\$ 1,115,228		

Appendix C

Costs Excluded from the Variable Costs Component of the Allocation to New Century Schools

EDN 100 - SCHOOL-BASED BUDGETING

Description

Rationale for Exclusion

Private agency projects

Funds are allocated to nonprofit organizations that provide special community programs such as dropout prevention and services for pregnant teens and unwed mothers.

Funds for private agency projects are specifically directed to the nonprofit programs that provide designated services to the community.

Workers' compensation (Program ID 23001)

Covers losses to employees resulting from work-related injury or illness.

The Department of Education is responsible for the management and payment of all workers' compensation costs for DOE employees.

Statewide testing (Program ID 23040)

Funds are for centralized processing services for statewide testing.

Statewide testing is a negotiable function for new century schools and therefore must be excluded as a variable cost in EDN 100.

Unemployment insurance (Program ID 23002)

Covers unemployment insurance benefits for department employees.

The Department of Education is responsible for unemployment insurance benefits for its employees. This function should be handled on a centralized level.

Salaries for fixed costs positions

Covers the salaries of the seven fixed costs positions statewide.

Funds for fixed costs positions are in the fixed costs component of the allocation.

Restrictions on Program funds

Covers restrictions on two programs under EDN 100.

Executive restrictions directly affecting FY1999-2000 allocations need to be excluded.

Appendix D Departmental Services or Functions That Are Not Potentially Negotiable

EDN 200 - INSTRUCTIONAL SUPPORT

Program Description

Rationale for Exclusion

Administrative Services (Program ID 25023)

Covers administrative and secretarial positions in the Office of the Assistant Superintendent for Accountability and School Instructional Support (OASIS).

State leadership and direction in curriculum and instruction is a core, centralized service that should not be transferred to the schools.

School Improvement/Community Leadership Group (Program ID 25233)

This office supports schools in their attempts to implement School Community-Based Management (SCBM) by providing funds for training, release time, consultant services, supplies, and support.

New century schools are not SCBM schools and do not receive such services from the department.

Systems Group - Administration (Program ID 25912)

This unit is responsible for handling communication with individuals and public and private groups outside the department.

This is a core, centralized function of the department.

Teacher Evaluation Path (Program ID 25020)

Funds are allocated to the Office of Personnel Services for the professional growth and development of teachers throughout the system.

This service provided by the Office of Personnel Services is a core, centralized function.

Cooperative/Host Teacher Training (Program ID 25749)

Funds from this program are paid directly to the University of Hawaii at Manoa and the University of Hawaii at Hilo for courses, workshops, and other training activities for the cooperating teacher and the observation-participation host teacher for the field experience of student teachers.

Funds for services provided by the two universities should not be transferred to schools.

EDN 200 - INSTRUCTIONAL SUPPORT (continue)

Program Description	Rationale for Exclusion
<p>Teacher Education - Kauai District (Program ID 25750) Training and services are provided by the Kauai District Office to support the professional growth and development of teachers on Kauai.</p>	<p>This district-level program benefits schools on Kauai. Neither of the two new century schools is in the Kauai District.</p>
<p>Information Technology Support Centers (Program ID 25754) This program provides technology support to schools for training, production, and telecommunications purposes.</p>	<p>This centralized, technical service provided by the department should not be transferred to schools.</p>
<p>Hawaii Content and Performance Standards (Program ID 15654) Funds support continued development of statewide performance standards.</p>	<p>The development of such standards is a statewide department initiative that should not be transferred to schools.</p>

EDN 300 - STATE AND DISTRICT ADMINISTRATION

Program Description	Rationale for Exclusion
<p>Board of Education (Program ID 33005) The Board of Education develops statewide policies for public education and establishes standards to guide the operation of the public school system.</p>	<p>Statewide oversight provided by the Board of Education is a core, centralized service.</p>
<p>Office of the Superintendent (Program ID 33007 and Program ID 33790) This office plans, directs, and administers the activities of the Department of Education.</p>	<p>This is a core, centralized function of the department.</p>
<p>Communications (Program ID 33027) This program funds three positions in the communications office under the Office of the Superintendent.</p>	<p>The communication responsibility of the office is a core, centralized function that should not be transferred to schools.</p>

EDN 300 - STATE AND DISTRICT ADMINISTRATION (continue)

Program Description	Rationale for Exclusion
<p>Business Education Partnerships (Program ID 33016)</p> <p>The Business-Education Partnership office plans, directs, and administers various partnerships with the business community.</p>	<p>This is a centralized function under the Office of the Superintendent of Education that should not be transferred to schools.</p>
<p>Internal Audit (Program ID 33656)</p> <p>This program funds the work of the internal auditor of the department.</p>	<p>This is a core, centralized function of the department.</p>
<p>Budget (Program ID 33006)</p> <p>This office coordinates the development of the department's budget and expenditure plans, as well as the allocation of resources to schools and offices.</p>	<p>This is a core, centralized function that should not be transferred to schools.</p>
<p>Management Analysis and Compliance (Program ID 33013)</p> <p>The office handles compliance with various federal and state nondiscrimination laws and regulations. The office also conducts management reviews.</p>	<p>This is a core, centralized function that should not be transferred to schools.</p>
<p>Collective Bargaining Administration (Program ID 33008)</p> <p>This covers the costs of negotiations with bargaining units, the administration of the negotiated agreements, and the processing of employee grievances.</p>	<p>This is a core, centralized function that should not be transferred to schools.</p>
<p>Business Services (Program ID 33009) and Administrative Services (Program ID 33010)</p> <p>Services include the development and use of a centralized accounting system, analysis of the department's financial operations, preparing vendor and payroll payments, and maintaining a central purchasing and distribution system.</p>	<p>These are core, centralized functions of the department.</p>

EDN 300 - STATE AND DISTRICT ADMINISTRATION (continue)

Program Description	Rationale for Exclusion
<p>Facilities and Support Services (Program ID 33011) Services include maintaining an inventory of school facilities, evaluating complete school facilities, preparing Capital Improvement Project budgets and expenditure plans, and providing consultation regarding site acquisition, design, construction, and improvement.</p>	<p>These are core, centralized services that should not be transferred to schools.</p>
<p>Personnel Services (Program ID 33926) This covers planning, administration, and operations of all personnel functions for employees of the department including contract negotiation and administration, certification, recruitment, employee welfare, retirement counseling, processing personnel transactions, and personnel record keeping.</p>	<p>These are centralized functions of the department.</p>
<p>Classification/Compensation Appeals Board (Program ID 33718) Funds are provided to the Office of Personnel Services for the Board.</p>	<p>This board provides core, centralized services for the department.</p>
<p>Service and Merit Awards (Program ID 33719) Service and merit awards funds are allocated to the Office of Accountability and School Instructional Support.</p>	<p>This is a centralized function of the department.</p>
<p>Equal Employment/Opportunity Affirmative Action (Program ID 33755) This program includes efforts to encourage high school students and college students from ethnic groups that are underrepresented in the department to enter the teaching profession.</p>	<p>This is a centralized program in the department.</p>
<p>Criminal History Check (Program ID 33829) Funds cover personnel support services for employee background checks including the processing of fingerprinting, screening of criminal records from the FBI and Hawaii Criminal Justice Data Center, and record keeping.</p>	<p>This is a core, centralized function performed on behalf of schools.</p>

EDN 300 - STATE AND DISTRICT ADMINISTRATION (continue)

Program Description	Rationale for Exclusion
<p>Personnel Recruitment (Program ID 33085) Funds are used to recruit department employees.</p>	<p>This is a core, centralized function that should not be transferred to schools.</p>
<p>Blood Pathogen Control (Program ID 15125) Funds for this function are allocated to the Office of Personnel Services for blood testing.</p>	<p>This is a core, centralized function that should not be transferred to schools.</p>
<p>Workers' Compensation - Administration (Program ID 23052) Funds are allocated to the Office of Personnel Services to administer workers' compensation for the department.</p>	<p>This is a core, centralized function that should not be transferred to schools.</p>
<p>Reprographic Services (Program ID 33022) and Duplicating Services (Program ID 33011) Covers the provision of printed materials and graphic arts for schools and offices.</p>	<p>These are core, centralized functions of the department.</p>
<p>Office of Information & Technology - General Direction (Program ID 33084), Information Resources Management (Program ID 33088), Network Support Services (Program ID 33089), Information Systems Services (Program ID 33021) and Financial Management Services (Program ID 33879) Functions and services include the maintenance and use of a systemwide financial management system and other information systems.</p>	<p>These are centralized functions that should not be transferred to the schools.</p>
<p>District Administration The seven districts as part of the administrative hierarchy assure the delivery of centralized services to schools.</p>	<p>This is a centralized function that is not transferable to schools.</p>

EDN 400 - SCHOOL SUPPORT

Program Description

Rationale for Exclusion

**State Administration - Physical Plant Operations
(Program ID 37012)**

Responsibilities include the development and revision of custodial procedures, standards for supplies and equipment, review of the custodial staffing formula, and workshops for custodians.

This is a centralized function that is not transferrable to schools.

**School Food Services State Administration
(Program ID 35161)**

Functions and services include planning food services facilities, recommending staffing levels, contracting for the storage of federally donated commodities, monitoring compliance with federal and departmental regulations, and administering and reviewing programs.

This is a core, centralized function that should not be transferred to schools.

Cafeteria Management (Program ID 35162)

Cafeteria management staff supervise daily food service operations which consist of the preparation and the serving of lunches and breakfast meals.

This is a core, centralized function.

Food Services (Program ID 35163)

Functions include the provision of breakfast and lunch to public school students.

This is a core, centralized function of the department.

**Utilities - Sewer (Program ID 37324), Water
(Program ID 37327), and Gas (Program ID 37328)**

These programs ensure that necessary sewer, water, and gas services are provided to the schools.

The responsibility for sewer, water, and gas costs has been retained at the department level.

**Utilities - Telecommunications charges for
schools (Program ID 37330)**

This program provides funding for school/office networking that supports the wide area network connection for Internet services, Internet access, other department remote host server computers, and the State's mainframe computers from the school local area network.

This is a core, centralized function that should not be transferred to schools.

EDN 500 - SCHOOL COMMUNITY SERVICE**Program Description****Rationale for Exclusion****After-School Plus (A+) Program (Program ID 45001)**

This program provides homework assistance, enrichment activities, and supervised recreational services at the end of the school day to eligible children.

Community services costs are centralized.

Adult Education (Program ID 46401, Program ID 46403 and Program ID 46411)

Eleven community schools provide educational programs for adults and in-school students with special needs.

Community services costs are centralized.

Appendix E Services or Functions New Century Schools Could Potentially Negotiate to Assume

EDN 100 - SCHOOL-BASED BUDGETING

Description

Statewide testing (Program ID 23040)

Funds are for centralized processing services for statewide testing.

Rationale for Inclusion

New century schools have the ability to conduct and monitor their own student testing programs.

Substitute teachers

Covers the costs of substitutes for regular education teachers.

New century schools have the ability to conduct and monitor their own student testing programs.

EDN 200 - INSTRUCTIONAL SUPPORT

School Renewal Group (Program ID 25024)

The School Renewal Group is responsible for supporting schools in content and instructional strategies consistent with the Hawaii Content and Performance Standards. Examples are Language Arts, Mathematics, Science, and Fine Arts.

Content and instructional strategies are determined individually by each new century school. Support from the department is therefore not necessary.

Leadership Development (Program ID 25234)

Helps to cover the cost of planning, developing, testing, monitoring, and evaluating new and existing curricula and teaching techniques.

New century schools could undertake such responsibilities individually.

Accreditation/School Improvement (Program ID 25235)

Funds are used to assist and facilitate the instructional program by planning, developing, testing, monitoring, and evaluating new and existing curricula and teaching techniques to provide equal educational opportunities to all the children of Hawaii.

Instructional programs, curricula, and teaching techniques are determined individually by each new century school. Support from the department is therefore not necessary.

Year Round Education (Program ID 25236)

Funds are provided for personnel in the Office of Accountability and School Instructional Support regarding year-round education.

Instructional programs, curricula, and teaching techniques are determined individually by each new century school. Support from the department is therefore not necessary.

EDN 100 - SCHOOL-BASED BUDGETING (continue)

Description	Rationale for Inclusion
<p>School Library Services (Program ID 25048) Funds are provided for personnel and supplies in the Office of Accountability and School Instructional Support, School Libraries Services Section.</p>	<p>Instructional programs, curricula, and teaching techniques are determined individually by each new century school. Support from the department is therefore not necessary.</p>
<p>School Library Materials Processing Center (Program ID 25044) The School Library Materials Processing Center orders and catalogs books for all public schools in the state.</p>	<p>New century schools could conduct their own training and personnel development programs.</p>
<p>Institutes and Workshops - Certificated (Program ID 25015) Funds are used for employee growth and development programs such as conferences and college programs related to personnel initiatives and requirements.</p>	<p>New century schools may be able to negotiate their own collective bargaining agreement with regard to sabbatical leaves.</p>
<p>Sabbatical Leave - Certificated (Program ID 25115) Covers the cost of providing sabbatical leave to qualified certificated personnel in the department.</p>	<p>New century schools could be responsible for contracting their own instructional television and distance learning programs.</p>
<p>Teleschool (Program ID 16772) This program supports the implementation of the Teleschool Instructional Television and Distance Learning Technology Program and related activities.</p>	<p>New century schools could contract their own educational cable channel program.</p>
<p>Educational Cable Channel (Program ID 16731) The Office of Information & Technology is charged with the task of providing all students with equal educational opportunities through technologies that overcome limitations of geographic isolation and limited resources.</p>	<p>New century schools could contract their own educational cable channel program.</p>
<p>Telecommunications Services (Program ID 16703) Funds are used for educational specialists in the Office of Information & Telecommunications Services. The purpose of the program is to provide all students with equal educational opportunities through technologies that overcome limitations of geographic isolation and limited resources.</p>	<p>New century schools could contract for their own telecommunications services.</p>

EDN 100 - SCHOOL-BASED BUDGETING (continue)

Description	Rationale for Inclusion
<p>District Resource Services - Hawaiian Studies (Program ID 34659) Funds are used for services provided by resource teachers in district offices.</p>	<p>New century schools could develop their own programs or contract the assistance.</p>
<p>District Resource Services - ESLL (Program ID 34660) Funds are used for district resource teachers and bilingual school-home aides who assist the schools in planning and conducting the English for Second Language Learners (ESLL) Program.</p>	<p>New century schools could plan and develop their own programs or contract for outside assistance.</p>
<p>General Curriculum - District Resource Services (Program ID 15135) Funds are used for district office teachers.</p>	<p>Content and instructional strategies are determined individually by each new century school. Support from the district office is therefore not necessary.</p>
<p>School Renewal (Program ID 34661) The purpose of the program is to employ and organize complex, district, and state assigned teachers with specialized expertise, knowledge, skills, experiences and abilities to support and assist school administrators and teachers in delivering effective instructional services to students.</p>	<p>Content and instructional strategies are determined individually by each new century school. Support from the department is therefore not necessary.</p>
<p>Literacy (Program ID 25038) Funds are used for resource teacher positions to advance literacy in all schools in Hawaii by facilitating staff development, effective instructional strategies and building nurturing relationships among school community members.</p>	<p>Responsibility for staff development and instructional strategies can be determined by each new century school.</p>
<p>Statewide Testing and Planning and Evaluation (Program ID 33004) This program provides for the planning, evaluation, and testing services to the Department of Education.</p>	<p>New century schools could conduct their own testing and planning and evaluation activities or use the funds to contract such services.</p>

EDN 300 - STATE AND DISTRICT ADMINISTRATION

Description	Rationale for Inclusion
<p>School Administrator Training Program (Program ID 33118) This is a certification program that recruits, selects, screens, and trains the department's personnel in school administration.</p>	<p>New century schools have the ability to select, screen, and train their own administrators.</p>
<p>Sabbatical Leaves - EO (Program ID 33116) Sabbatical leave is offered to educational officers in the department.</p>	<p>New century schools may be able to negotiate their own collective bargaining agreement with regard to sabbatical leaves.</p>
<p>Sabbatical Leaves - Classified (Program ID 33121) Sabbatical leave is offered to classified staff in the department.</p>	<p>New century schools may be able to negotiate their own collective bargaining agreement with regard to sabbatical leaves.</p>

EDN 400 - SCHOOL SUPPORT

<p>Auxiliary Services - Oahu (Program ID 37932) The program provides manpower for major mowing operations, landscaping and other ground maintenance services, floor maintenance services, repair of custodial equipment, and movement of equipment and furniture from school to school.</p>	<p>New century schools could be responsible for such functions. However, negotiations with the collective bargaining unit may be needed.</p>
<p>School Custodial Services (Program ID 37297) and Classroom Cleaners (Program ID 37997) Provides for the cleaning of all classrooms, plus offices, auditoriums, gymnasiums, cafeterias, laboratories, and other specialty rooms. School ground care includes landscaping, weed control, insect control, mowing, and plant propagation.</p>	<p>New century schools could be responsible for such functions. However, negotiations with the collective bargaining unit may be needed.</p>
<p>Utilities - telephone (Program ID 37325) and electricity (Program ID 37326) This program provides the necessary telephone and electricity services for the schools.</p>	<p>Schools are responsible for paying their own telephone and electricity bills.</p>

EDN 400 - SCHOOL SUPPORT (continue)

Description	Rationale for Inclusion
School Inspection (Program ID 37730) Services include inspections of school grounds, restrooms, cafeterias, locker rooms, classrooms, and other facilities.	New century schools could handle or contract their own inspections.
Repair and Maintenance of School Facilities (Program ID 37662) This program provides funds for school repair and maintenance projects not to exceed \$4,000 per school year.	New century schools could be responsible for ensuring the general upkeep and maintenance of their land and facilities.
Disposal of Hazardous Materials (Program ID 37663) This program provides for the identification, inventory, and disposal of hazardous wastes or chemicals.	New century schools could contract for such services as necessary.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the Board of Education and the Department of Education on January 18, 2000. 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 stated that the report should note that the "fixed costs component" of the allocation was designed on the assumption that the Legislature would fund these fixed costs positions. This is incorrect. The calculation of the "fixed costs component" is based on the official authorized FTE position counts for the department, the actual positions allocated to each new century school by the department, and the actual FY1999-2000 budget allocations.

The department correctly notes that this report applies only to the allocations for Lanikai and Waiālae Elementary Schools for the 1999-2000 school year but concludes that it is disappointed that the methodology is not applicable to future new century schools. We disagree. While Act 62, SLH 1999 specifically directs the Auditor to determine the allocation for *existing* new century schools, the base methodology applies to *all* schools, regardless of status or when they are established as new century schools. The application of the methodology must account for changes in positions and fund allocations that result from the creation of additional new century schools. Thus while the specific elements of the report's allocations apply only to the existing new century schools, the methodology can be applied as additional new century schools are established.

The department asserts that the fixed costs component is a small school adjustment and contends that an undue financial burden will be created on the department if additional funding is not provided as more new century schools are created. We reiterate that fixed costs are applicable to all schools, regardless of size because each is provided with certain basic staff. Act 62 requires us to base the new century school allocation on actual general fund appropriations. If additional new century schools are chartered by the Board of Education and they require staffing beyond what the department has been appropriated, the department will be responsible for securing funding and staff for those schools. This might especially be the case if "schools-within-schools" desire any fixed costs staffing above and beyond the department's currently appropriated position count.

The department asserts that the “offset” language in Act 62 SLH, 1999 was intended to reimburse the department should a new century school receive federal funds. We disagree. Act 62 allows for small schools to receive a subsidy or adjustment to augment the per pupil allocation. The act also states that if a small school receives federal grant moneys (with the exception of federal impact aid) the Auditor is to determine how much of those federal funds should be reimbursed to the department to offset the small school subsidy. Neither school received a small school adjustment; thus we did not calculate a reimbursement on this basis.

We also note that federal charter school moneys are designed to supplement, not supplant, general fund allocations. The federal government recognized the need to provide start-up costs to charter schools because local and state revenue sources were not immediately available. These funds help schools to plan, design, and provide for the initial implementation of their programs and activities. The department can claim reimbursement of up to 6.5 percent for overhead expenses but has not yet done so.

However, we believe that federal grant moneys should be used to offset the allocation when there is evidence that a new century school has used both types of funds for the same purpose, or what is considered “double-dipping.” This principle holds true for any school receiving federal funds that supplement the general fund allocation. Wording in the report was modified to further clarify this point.

The department is correct in asserting that some program funds under EDN 100, such as those for athletics and vocational education, are intended for secondary schools, but are included in the allocation to the two elementary new century schools. However, had there been any secondary new century schools, they would also have benefited from allocations of purely elementary level moneys. Reviewing and categorizing program funds more finely by school type may be appropriate for future allocation methodologies, however we did not have sufficient time or documentation to do this for the present allocation.

The department states that the methodology permits the new century schools to receive more funds than they are entitled to for substitute teacher costs that are paid with impact aid funds. This is incorrect. Our methodology excludes the costs for regular education and special education teacher substitutes from the variable costs component. The total amount for substitute teachers is \$9,700,000, of which \$7,761,460 is for regular education and \$1,938,540 for special education. New century schools can negotiate to assume the responsibility of covering the costs of regular education teacher substitutes. All special education costs are excluded from the allocation, including those for special

education teacher substitutes. Because we have excluded the \$9,700,000 for regular education and special education substitute teachers from the variable costs component rather than from the impact aid total, there is no opportunity for a school to receive more funds than it is entitled to should it negotiate to assume regular education substitute teacher costs. However, to clarify the issue further, we revised the allocation tables by accounting for the substitute costs directly in the impact aid figures rather than in the variable costs component.

The department requested that the entire \$4.6 million executive restriction be used in the calculation of the allocations. To meet the executive restriction, the Board of Education approved approximately \$3.8 million in restrictions on carryover funds from two previous fiscal years. Carryover funds are allocated in the year appropriated. Imposing restrictions on carryover funds from prior fiscal years does not have a direct impact on the FY1999-2000 allocations. Therefore, including these restrictions would result in an erroneous allocation to new century schools for FY1999-2000.

Finally, the department noted that new century schools that opt out of the statewide testing program would be responsible for developing or purchasing their tests and conducting their own testing program. However, the department also asserts that it is questionable whether new century schools will have the knowledge, expertise, and resources to meet the testing requirements under Act 62. This matter is one that should be resolved in negotiations between the department and the school and is outside the scope of our work.

We also made some editorial changes and minor adjustments to the appendixes for additional clarity.

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

January 18, 2000

COPY

The Honorable Paul G. 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 New Century Schools Project*. We ask that you telephone us by Thursday, January 20, 2000, 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 Wednesday, January 26, 2000.

The 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
State Auditor

Enclosures



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

OFFICE OF THE SUPERINTENDENT

January 24, 2000

The Honorable Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street
Room 500
Honolulu, HI 96813-2917

RECEIVED

JAN 27 11 53 AM '00

OFFICE OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

The following is the Department of Education's response to your draft report, *Allocation to New Century Schools Project*.

- 1) Fixed costs component: It was reported at one of our meetings that the "fixed costs component" was designed on the assumption that the Legislature would fund these fixed cost positions. We believe that assumption should be included in the report. The creation of additional administrative support positions for the 23 potential "start-up" charter schools would place a considerable burden on the system without additional funding.

Note: The department understands that this report applies only to Lanikai and Wai'alaie Elementary Schools' allocations for the 1999-2000 school year. The statement on page 15 that the inclusion of the fixed cost component "...does not place an additional cost burden upon the department" is factual in this instance only because Lanikai and Wai'alaie are established charter schools already included in the current services budget.

The very next sentence, however, states that the "methodology is fair to all types of schools and is more appropriate than an allocation based strictly on the number of pupils in the schools." These conflicting statements confuse the issue because potential charter schools are looking to this methodology as a template for future funding. Although the department agrees with the "fixed cost component" as a way to provide adjustments to small schools, we all need to know that the application of this methodology without additional funding will create undue financial burden on the department. The report needs to explicate this assumption in the methodology, and make the relevant recommendations.

- 2) Although we understand the rationale for limiting the report to Lanikai and Wai'ala'e Elementary Schools, the department had anticipated and is disappointed that the report did not include a broader methodology that would be applicable to future charter schools.
- 3) Recovering costs to the system (page 15, paragraph 2): The department believes that the "off-set" language in Act 62 was clearly intended to reimburse the department should a school receive federal funds. According to your report, if a charter school does not fund fixed cost positions with federal monies, the department would not be able to recover any funds.

We believe that the law obligates the charter school to reimburse the department for what is essentially a "temporary subsidy" that augments the per-pupil allocation should the charter school receive federal funds. The methodology should explicitly state how this reimbursement will be made.

- 4) Because the allocation methodology does not differentiate programs that apply only to certain grade levels, some secondary programs are being used to fund elementary charter schools. Athletics and vocational education are examples.
- 5) Impact aid for regular education (pages 19, 20, and 22): Costs for substitute teachers are paid with impact aid funds. Thus, if the school negotiates and receives the per-pupil cost for "substitutes for regular education teachers" (\$7,761,460), then "impact aid for regular education" (\$16,530,000) should not be included in the final calculation because it creates the opportunity for Lanikai and Wai'ala'e Elementary Schools to receive more funds than they are entitled. The allocation methodology should reflect one or the other and not both.
- 6) Impact of the executive restrictions (page 15 and 16): The \$4.6 million executive restriction for fiscal year 1999-2000 was made up by carry-over funds from the 1997-1998 and 1998-1999 fiscal years and with current 1999-2000 funds. To ensure equity and to help the department recover funds previously allocated to Lanikai and Wai'ala'e Elementary Schools for three fiscal years, we request that the \$4.6 million figure be used to calculate executive restrictions rather than using only the 1999-2000 funds, (\$876,320) that were used to calculate the variable cost component. Otherwise, Lanikai and Wai'ala'e Elementary Schools should be assessed their proportionate share of the restriction attributed to the 1997-98 and 1998-99 carryover.

The following comment is included to clarify the department's perspective on included and excluded items listed in the negotiable component of the methodology and to point out an omission in the draft report. While we understand that all items under the negotiable

The Honorable Marion M. Higa
January 24, 2000
Page 3

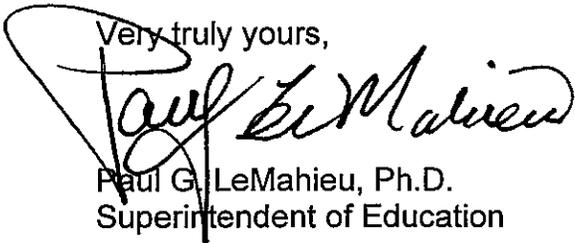
component must be agreed to by both the department and the charter school, some mention needs to be made of a new requirement in the charter school law.

- 7) Under your allocation methodology, statewide testing is listed as a potentially negotiable function. Your rationale is that "new century schools have the ability to conduct and monitor their own student testing programs." (page 37) Should a school opt out of the statewide testing program, it would be responsible not only for conducting and monitoring its own testing program but also for developing or purchasing the tests.

Moreover, although your report does not acknowledge it, Act 62 provides that a charter school must develop "a plan for assessing student performance that focuses upon the established state educational performance standards, has at least equivalent rigor of standards and technical quality..." Assuring test reliability and validity is a more rigorous requirement than what was in the previous student-centered school law. As reliability and validity issues are raised, it is questionable whether charter schools will have the knowledge, expertise, and financial resources to meet the requirements of the law.

The Department of Education appreciates this opportunity to submit its response to the final draft of the *Allocation to New Century Schools Project*.

Very truly yours,



Paul G. LeMahieu, Ph.D.
Superintendent of Education

PLeM:gm

- c: Budget Branch
- Office of Personnel Services
- Office of Business Services
- Planning and Evaluation Group
- DOE Internal Audit
- Board of Education
- Office of Accountability and School Instructional Support

