

# 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.

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## 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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