
Allocation to New Century Charter Schools Project - FY2001-01

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

Report No. 01-01
January 2001



THE AUDITOR
STATE OF HAWAII

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.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 S. King Street, Room 500
Honolulu, Hawaii 96813

OVERVIEW

Allocation to New Century Charter Schools Project - FY2000-01

Report No. 01-01, January 2001

Summary

The Hawaii State Legislature through Act 187, Session Laws of Hawaii (SLH) 2000 requested the Office of the Auditor to determine the appropriate allocation of the Department of Education's general funds to new century charter schools. In Hawaii, new century charter schools are independent public schools that can be formed by existing public schools or new schools formed by any community, group of teachers, or program within an existing school. For FY2000-01, there are six Board of Education approved new century charter schools: Wai'alaie Elementary School, Lanikai Elementary School, Connections New Century Public Charter School, Kanu o ka 'Aina Public Charter School, West Hawaii Explorations Academy – Public Charter School, and Waters of Life New Century Public Charter School.

In this report, on our third year of making the allocations, we refined our allocation methodology and modified the allocation process. In addition, the allocation methodology has been adapted to apply to various types of public and new century charter schools. We also report the advice of the superintendent of education and local new century charter school boards and our accommodation of their advice. Furthermore, our report addresses special education costs, collective bargaining increases, executive restrictions, and federal grant expenditures. Finally, we present other issues on our allocation role and budgeting of educational funds for new century charter schools.

The allocation methodology to new century charter schools consists of the fixed and variable costs components. The fixed costs component is based on the department's development of its personnel somewhat regardless of student enrollment. Act 187, SLH 2000 stipulates that all federal and other financial support for new century charter schools shall not be less than the support given to other public schools. So we used the department's personnel allocation formulas for public schools as a basis for determining the fixed cost allocation. That is, for example, an elementary school, almost no matter how small or how large, would be allocated a principal position. The same for an administrative services assistant, and so forth. We applied such personnel formulas to each new century charter school, using the average salaries, type of school, and enrollment size to allocate in the fixed costs component. This became a monetary figure for each school. New century charter schools have the flexibility to determine their own operational requirements and how their funds will be expended to meet those requirements.

The variable costs component consists of moneys that are more directly linked to student enrollment. These moneys are identified on a per pupil basis. Amounts to be divided in the variable cost component include the department's general funds other than those personnel costs identified as fixed costs. Federal impact aid and



funds to public school for federal activities are also included in the variable costs component. All these moneys in the variable costs component were then allocated on the basis of each school's enrollment. The fixed and variable allocations were added together to yield each schools allocation.

The allocation of the department's general funds and federal impact aid for new century charter schools for FY2000-01 is presented in the table below:

**Allocation to New Century Charter
Schools, FY2000-01**

Schools	Fixed Costs Component	Variable Costs Component	FY2000-01 Allocation
Connections	\$183,010	\$470,438	\$653,448
Kanu o ka 'Aina	\$328,687	\$353,823	\$682,510
Lanikai Elementary	\$183,010	\$809,684	\$992,694
Wai'alaie Elementary	\$183,010	\$1,180,734	\$1,363,744
Waters of Life	\$328,687	\$432,008	\$760,695
West Hawaii Explorations Academy	\$328,687	\$318,043	\$646,730

Agency Response

The Department of Education responded that it agrees with our concern that a potential conflict of interest exists with the allocation process. The department also expressed concern that new century charter schools may be "favored" because the department is bound by the Auditor's allocation and that new century charter schools are not subject to subsequent adjustments that may be applied to other public schools. It is true that the department is bound by the Auditor's allocation. However, as noted in our report, we will adjust the allocation to new century charter schools upon receipt of proper documentation that an adjustment—upwards or downwards—to the department's funding has occurred. New century charter schools will receive equitable treatment as a result of any budget adjustment information provided to our office.

Finally, the department responded to a contention from the new century charter schools that the federal requirements for the announcement and time frames for the distribution of federal funds were not being followed. The response states that both the board and department fully complied. We reiterate that this contention is an operational matter between the department and new century charter schools. As noted in our report, these matters are beyond the scope of the Auditor's role in the allocation of funds and is therefore included only to report the input received from the local school boards.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

Allocation to New Century Charter Schools Project - FY2000-01

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

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 01-01
January 2001

Foreword

Act 187, Session Laws of Hawaii 2000 required the State Auditor to determine the appropriate allocation of state funds to new century charter schools for FY2000-01. In this report we present the allocations to six new century charter schools, a methodology for funding various types of schools, and the advice of the superintendent of education and the local school boards and our accommodations to their advice.

We wish to express our appreciation for the cooperation and assistance extended to us by the staff of the Department of Education and the six new century charter schools.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background	1
Objectives of the Project	6
Scope and Methodology	6

Chapter 2 FY2000-01 Allocations to New Century Charter Schools

Summary of Allocation to New Century Charter Schools	7
Allocation Methodology Considered Several Factors	8
Fixed and Variable Costs Determine Funds for Various Types of Schools	16
Advice of the Superintendent of Education and the Local School Boards was Considered	18
Other Issues Need Further Review	19

List of Appendixes

Appendix A	Allocation to Connections New Century Public Charter School - FY2000-01	21
	Allocation to Kanu o ka 'Aina New Century Public Charter School - FY2000-01	22
	Allocation to Lanikai Elementary School - FY2000-01	23
	Allocation to Wai'alae Elementary School - FY2000-01	24
	Allocation to Waters of Life Public Charter School - FY2000-01	25
	Allocation to West Hawaii Explorations Academy - Public Charter School - FY2000-01	26
Appendix B	Advice and Accommodation -- Superintendent of Education	27
Appendix C	Local School Boards' Advice and Office of the Auditor's Accommodations	29
Appendix D	Issues Beyond the Scope of Auditor's Responsibility ...	31

Responses of the Affected Agencies	33
---	-----------

List of Exhibits

Exhibit 1.1	Analysis of Charter Schools in 36 States and the District of Columbia for School Year 1999-2000	4
Exhibit 2.1	Allocation to New Century Charter Schools, FY2000-01	8
Exhibit 2.2	Personnel Positions Allocated to Elementary Schools by the Department of Education	9
Exhibit 2.3	Average Salaries for Fixed Costs Positions - FY2000-01	10
Exhibit 2.4	Regular Enrollment Count for New Century Charter Schools and Statewide - FY2000-01	11
Exhibit 2.5	Variable Costs Component and Statewide Per Pupil Estimate - FY2000-01	13
Exhibit 2.6	The Department's Fixed Costs and Auditor's Per Pupil Allocation for Small Schools with Less than 120 Students - FY2000-01	17
Exhibit 2.7	Fixed Costs Allocation for Various Types of Public Schools and New Century Charter Schools - FY2000-01	17

Chapter 1

Introduction

This is our third report on the allocation of educational funds to new century charter schools. We issued our first report on the FY1998-99 allocation to student-centered schools, the prior name for new century charter schools. Report No. 98-17, *Allocation to Student-Centered Schools Project*, described allocations to Wai‘alae and Lanikai Elementary Schools. The following year, we again determined the allocations to Wai‘alae and Lanikai Elementary Schools for FY1999-2000 in our Report No. 00-04, *Allocation to New Century Schools Project*.

In this report, we present allocations for six new century charter schools for FY2000-01. While the allocation methodology is similar to that used in our previous reports, the allocation process has been modified. In addition, the methodology has been applied to fund various types of public and new century charter schools. Finally, the advice of the superintendent of education and local school boards was accommodated and is summarized in this report.

Background

New century charter schools are Hawaii’s version of what is known more widely as “charter schools.” In Hawaii, these schools have been referred to as student-centered schools, new century schools, and new century charter schools. Nationally, charter schools are independent public schools, formed by teachers and/or other community members. Charter schools are freed from most state and local laws in exchange for independence based on a written contract or charter. We found that charter school laws differ in many ways. We also found that Hawaii’s charter school legislation has changed significantly in recent years.

Charter schools in Hawaii offer an innovative approach to learning

In Hawaii, Act 187, Session Laws of Hawaii (SLH) 2000, allows for existing public schools and new schools formed by any community, group of teachers, or program within an existing school to be established as a new century charter school. These schools are funded with public moneys but are allowed to operate independently, free from most state rules and regulations. In exchange for this independence exemplified by such powers as authority over their curricula and budgets, charter schools are held accountable for the student performance and other goals specified in their own educational plan or “charter.”

Wai‘alae and Lanikai Elementary Schools were the only new century charter schools in Hawaii prior to FY1999-2000. During that fiscal year the Board of Education approved four additional school charters. All located on the island of Hawaii, the schools are: Connections New Century Public Charter School, Kanu o ka ‘Aina New Century Public Charter School, West Hawaii Explorations Academy – Public Charter School, and Waters of Life Public Charter School. Several other schools and groups have formally expressed their intent to become new century charter schools.

Wai‘alae Elementary School

Wai‘alae is a kindergarten through sixth grade (K-6) school serving the Kaimuki area of East Honolulu. The school’s enrollment is approximately 450 students. In August 1995, Wai‘alae Elementary School became the first student-centered school in Hawaii. As a new century charter school, Wai‘alae is authorized to implement alternative administrative and education policies and goals in accordance with state and school standards.

Lanikai Elementary School

Since 1964, Lanikai Elementary School had served students from grades K-6 in the Lanikai and surrounding areas of Windward Oahu. In 1996, Lanikai became the second student-centered school in Hawaii and has an approximate enrollment of 320 students. The school reports that it involves the entire community in the development of excellence and implements the continuous improvement concept specified in Edward Deming’s principles of total quality management.

Connections New Century Public Charter School

Connections New Century Public Charter School is a K-6 grade school with an approximate enrollment of 180 students. The school initially started as a school-within-a-school at Mountain View Elementary School and serves the communities of Mountain View, Volcano, Glenwood, South Kurtistown, and other communities surrounding the geographical area of Mountain View in East Hawaii. The school was created to provide families with options for involvement in the educational program and to increase the community’s capacity to meet the varying needs of their students.

Kanu o ka ‘Aina New Century Public Charter School

Kanu o ka ‘Aina New Century Public Charter School is a kindergarten through grade 12 (K-12) charter school with an approximate enrollment of 130 students serving the Hamakua and North and South Kohala areas of the Big Island. The school initially started as a school-within-a-school

at Honoka‘a High and Intermediate School. Kanu o ka ‘Aina is tailored for the distinctive cultural needs of Hawaii’s indigenous student population and plans to perpetuate Hawaiian language, culture, and traditions. The school rotates its students between its two learning centers at Waimea and Kawaihae in the districts of North and South Kohala. As a community-based family-oriented school, Kanu o ka ‘Aina intends to actively involve parents and extended family as well as community members in its educational process.

West Hawaii Explorations Academy – Public Charter School

West Hawaii Explorations Academy – Public Charter School is a grade 10-12 high school with approximately 120 students. It is located near the Kona International Airport on 5.5 acres of the Natural Energy Laboratory of Hawaii. The school originated as a marine and aquaculture-based school-within-a-school at Konawaena High School. Today, West Hawaii Explorations Academy continues to serve as an attraction to students interested in a hands-on experiential and integrative setting. West Hawaii Explorations Academy reports that it simultaneously challenges and empowers students to seek their own solutions to complex problems while promoting collaboration among peers, mentors, teachers, and the community-at-large.

Waters of Life Public Charter School

Waters of Life Public Charter School is a nonprofit organization that was incorporated in May 1997. The school intends to provide education, development services, holistic special education, and holistic health services for members and the public in the surrounding area of Kea‘au and Pahoa in East Hawaii. The school has an approximate enrollment of 160 students for grades K-12 and is located on three small separate campuses. Each campus focuses on a specific age group, program, or special need.

Nationally, charter school laws differ

Nationally, the numbers of operational charter schools and charter school laws vary widely. The Center for Education Reform, a nonprofit organization serving as a clearinghouse for information on innovative reforms in education, reports that there were 36 states and the District of Columbia with charter school state laws during school year 1999-2000. We reviewed these reports and found the following conditions, displayed in Exhibit 1.1.

Exhibit 1.1**Analysis of Charter Schools in 36 States and the District of Columbia for School Year 1999-2000**

Category	Conditions in Other States
Number of charter schools in operation	<ul style="list-style-type: none"> • Hawaii and 15 other states have fewer than 10 charter schools in operation. Five of these states have no operational charter schools. • Five states (Florida, Texas, Michigan, California, and Arizona) each have 100 to over 350 operational charter schools. These states account for over 1,040 charter schools, or approximately 62 percent of all charter schools. • The remaining 15 states and the District of Columbia have between 15 and 75 operational charter schools.
Number of charter schools allowed by law	<ul style="list-style-type: none"> • 16 states have no limits. • 12 states, including Hawaii, limit the total number of authorized charter schools. • The remaining states and the District of Columbia do not identify a specific ceiling statewide but place limits on the number authorized per district, per year, or other methods.
Method of funding	<ul style="list-style-type: none"> • 26 states and the District of Columbia fund charter schools using some form of per pupil formula. Of the 26 states, 14 states and the District of Columbia provide 100 percent of the per pupil costs; Connecticut provides 110 percent. • The remaining states use other methods such as negotiated formulas or as specified in the school's charter.
Financial autonomy/independence	<ul style="list-style-type: none"> • Seven states, including Hawaii, do not provide autonomy to charter schools. • 23 states and the District of Columbia (64.9 percent) provide charter schools with autonomy. • The remaining states use other procedures as specified in the school's charter.

Hawaii's charter schools funding legislation has changed

Act 272, SLH 1994, gave public schools more flexibility to implement innovative programs and restructure administration to better meet students' needs. Act 272 permitted up to 25 existing public schools to become student-centered schools. Under this provision, Wai'alaie and Lanikai Elementary Schools were the first two student-centered schools in Hawaii.

Act 308, SLH 1998, substantially revised Act 272, as codified under Section 302A-1123, Hawaii Revised Statutes (HRS). Act 308 required the Office of the Auditor to determine allocations for student-centered schools for FY1998-99 and subsequent fiscal years. The act further stated that these allocations would be based on “. . . the total department of education general fund appropriation and per pupil expenditure for the previous year.”

In 1999, the Legislature adopted Act 62 which established “new century charter schools” to promote more autonomy and decision-making at the school level. The act permitted both existing public schools and new schools to become new century charter schools. The act also stipulated that existing student-centered schools (Wai'alaie and Lanikai Elementary Schools) were to be designated as new century charter schools. In addition, the act specified that new century charter schools are to be funded with an allocation of state general funds based upon their operational and educational funding requirements. Furthermore, it stipulates that federal and other financial support for new century charter schools shall not be less than that support given to other public schools.

Act 62 provides for a state subsidy or small school allotment to augment allocations to small schools. However, if a small school qualified for federal grant moneys for start-up and planning of charter schools, the Auditor is to determine if it is appropriate to offset the small school allotment with a portion of the federal grant moneys. Federal impact aid funds, which reimburse public schools for federal activities, are excluded from consideration in the offset.

Finally, the act required the Auditor to take into consideration any legislative changes to the department's budget and any applicable collective bargaining increases. The Auditor is also to explicitly consider the advice of the superintendent of education and to indicate the manner in which that advice has been accommodated.

Act 187, SLH 2000, amended Section 302A-1185, HRS, to require the Auditor to obtain the advice of both the superintendent of education *and* representatives of the local school boards and to indicate the manner in which that advice was accommodated. Act 187 also stipulated that the small school allotment for schools with less than 120 students is to be determined by the department and not by the Auditor. Furthermore, the act specified that the department may provide limited start-up and

planning grant funds as formulated by the Auditor for new century charter schools upon the issuance of its charter. Finally, the act required the Auditor to develop a methodology for allocating funds that can be applied to alternative forms of public schools, including but not limited to new century charter schools.

In this report, we present the allocation of funds to these new century charter schools as prescribed in Act 187, SLH 2000. We also summarize our work on the project and identify issues that need to be addressed in subsequent fiscal years regarding those allocations.

Objectives of the Project

1. Determine the appropriate allocation to new century charter schools.
2. Develop a methodology for allocating funds that can apply to alternative types of public and new century charter schools.

Scope and Methodology

We collected and reviewed prior allocation documents for Wai‘alae and Lanikai Elementary Schools. We reviewed their expenditure and budget documents for FY1999-2000. We also reviewed their federal grant funds for any expenditure that was applied to the fixed costs component.

We collected statewide enrollment figures and reviewed the Department of Education’s budget for FY2000-01. We conducted interviews, attended meetings, and visited each of the new century charter schools. Additionally, we conducted interviews and attended meetings with personnel from the Department of Education. We also collected and reviewed documents to develop an allocation methodology that applies to various forms of public and new century charter schools. Furthermore, we reviewed documents on how other states provide for new century charter schools.

We met several times with the superintendent of education and representatives from the local school boards to obtain their advice on the allocations. We also met with these groups to present our accommodations to their advice.

Our work was conducted from May 2000 to October 2000.

Chapter 2

FY2000-01 Allocations to New Century Charter Schools

This chapter presents the FY2000-01 allocation to new century charter schools in accordance with Act 187, Session Laws of Hawaii (SLH) 2000. In addition, this chapter explains the allocation methodology, changes to the allocation process, accommodation and advice of the superintendent of education and local school boards, and the allocation of funds to various types of schools. We also discuss other issues related to the allocation project. For FY2000-01, there are six new century charter schools that are subject to this funding allocation. The six schools are: Wai‘alae Elementary School, Lanikai Elementary School, Connections New Century Public Charter School, Kanu o ka ‘Aina New Century Public Charter School, West Hawaii Explorations Academy – Public Charter School, and Waters of Life Public Charter School.

Summary of Allocation to New Century Charter Schools

The allocation of funds to the new century charter schools is based on determining the fixed and variable costs components. The fixed costs component consists of those costs that are relatively independent of student enrollment. Variable costs are linked to student enrollment and are allocated on a per pupil basis. In addition, we included federal impact aid as part of the variable costs. The methodology also considered any collective bargaining agreements and/or executive restrictions. However, at the time of our review, no collective bargaining increases or executive restrictions had been imposed for FY2000-01.

With the exception of federal impact aid, which was previously allocated by the department to new century charter schools, the allocation includes only general funds. Other federal, special, and revolving funds are not included in the allocation. The allocation of the department’s general funds and federal impact aid for new century charter schools for FY2000-01 is presented in Exhibit 2.1. A more detailed explanation of the allocation for each school is shown in Appendix A.

Exhibit 2.1
Allocation to New Century Charter Schools, FY2000-01

Schools	Fixed Costs Component	Variable Costs Component (with federal impact aid)	FY2000-01 Total Allocation
Wai'alaie Elementary	\$ 183,010	\$ 1,180,734	\$ 1,363,744
Lanikai Elementary	\$ 183,010	\$ 809,684	\$ 992,694
Connections	\$ 183,010	\$ 470,438	\$ 653,448
Kanu o ka 'Aina	\$ 328,687	\$ 353,823	\$ 682,510
West Hawaii Explorations Academy	\$ 328,687	\$ 318,043	\$ 646,730
Waters of Life	\$ 328,687	\$ 432,008	\$ 760,695

**Allocation
Methodology
Considered Several
Factors**

The allocation methodology for new century charter schools is based on a concept of equity. Act 187, SLH 2000 stipulates that all federal and other financial support for new century charter schools shall not be less than the support given to other public schools. The Department of Education determines the personnel allocation formulas for public schools in Hawaii. Those formulas serve as the basis for allocations to new century charter schools. However, the personnel allocation formulas are used only for determining how much money should be allocated to new century charter schools, not how many or what kinds of positions each school should create. Charter schools have the flexibility to determine their own use of these funds to meet their operational requirements.

In our allocation determination, we used an allocation methodology similar to the one described in our previous Report No. 00-04, *Allocation to New Century Schools Project*. This methodology allocates the department's general funds and federal impact aid in the cost categories of fixed and variable costs. Collective bargaining increases and executive restrictions are also factored into the methodology. We used this methodology because of its acceptance by the superintendent of education and the new century charter schools. We also addressed special education responsibilities and costs and federal grant funds in this section.

***Fixed costs component
was derived from the
department's personnel
formulas***

Our methodology defines fixed costs in Hawaii's public schools as those funds allocated for personnel positions that are relatively independent of student enrollment. These authorized public school personnel positions are based on the formulas developed and applied by the Department of Education. For example, the department assigns each public school one principal regardless of the enrollment size. Since such costs are constant,

small schools spend a relatively large proportion of their budgets covering salaries for fixed costs positions. A specific allocation for fixed costs helps ensure that small schools have sufficient money to cover those expenses. To ensure equitability of the allocation, the average salary costs for those positions are used to calculate the fixed costs component.

In reviewing the department’s personnel allocation formulas for Hawaii’s public schools, we found that seven positions met our fixed cost definition. These positions are (1) principal, (2) vice-principal, (3) school administrative services assistant (SASA), (4) counselor, (5) librarian, (6) school registrar, and (7) account clerk. Not all schools are allotted every position. The actual number of positions for fixed cost personnel varies by school size and school type (i.e. elementary, intermediate, or high schools). For example, the authorized positions that the department would normally assign to a typical elementary school are shown in Exhibit 2.2.

**Exhibit 2.2
Personnel Positions Allocated to Elementary Schools by the Department of Education**

Position	Less than 120 Students	120 to 549 Students	550 to 649 Students	650 to 749 Students
Principal	1	1	1	1
Vice-principal	0	0	1	1
SASA	1	1	1	1
Librarian	1	1	1	1
Counselor	1	1	1	2

Note: This chart applies to the Department of Education’s allocation of personnel positions to public schools and not to new century charter schools.

Source: Department of Education’s personnel allocation formulas.

The fixed costs component for the allocation to new century charter schools for FY2000-01 was determined by:

1. Identifying the FY2000-01 total budget for salaries of all fixed positions. The salary costs for the seven positions statewide totaled \$77,067,891.

2. Calculating the average annual salaries for FY2000-01 for all seven fixed cost positions by dividing the total budget for each position by the authorized position counts for that position. Average salaries for principals were further differentiated by elementary, intermediate, and high school levels. The average salary for fixed cost positions, position counts, and salary figures for each position are displayed in Exhibit 2.3.
3. Allocating funds to each new century charter school to cover the average annual salaries for its authorized fixed positions. Not all schools were allocated the same number and type of positions. The actual number of positions, enrollment size, and type of school was used to determine the final allocation. The allocation for the fixed cost component for each of the new century charter schools is shown in Appendix A.

Exhibit 2.3
Average Salaries for Fixed Costs Positions – FY2000-01

Position	Total Budget for Salaries (Statewide)	Statewide Position Count	Average Salary
Elementary Principals	\$ 10,384,465	166.0	\$ 62,557
Intermediate Principals	\$ 2,850,427	43.0	\$ 66,289
High School Principals	\$ 2,964,548	42.0	\$ 70,584
Vice Principals	\$ 13,496,412	244.0	\$ 55,313
SASAs	\$ 7,815,072	251.0	\$ 31,136
Librarians	\$ 13,106,018	281.0	\$ 46,641
Counselors	\$ 20,292,388	475.5	\$ 42,676
Registrars	\$ 4,464,401	77.5	\$ 57,605
Account Clerks	\$ 1,694,160	68.5	\$ 24,732
Total Statewide Salaries	\$ 77,067,891		

Statewide per pupil rate determines the variable costs component

Variable costs are those public school costs that are linked directly to student enrollment. A per pupil estimate using the enrollment count of each new century charter school determines the variable costs component. For this report, we included federal impact aid in the variable costs component.

The adjusted regular education student count includes the number of regular education and Article VI students enrolled at each school. Article VI is a provision in the department’s contract with the teachers’ union to

account for special education students in the regular education classroom. A special education student is considered an Article VI student when the student spends at least a half-day or more in the regular education classroom in accordance with his/her Individualized Educational Plan. For example, a special education student who spends a half-day in the regular education classroom is counted as a 0.5 regular education student. Other special education students spending more than half of their time with regular education students are counted as regular education students. The adjusted regular student enrollment for the new century charter schools and the statewide count are shown at Exhibit 2.4.

Exhibit 2.4
Regular Enrollment Count for New Century Charter Schools and Statewide – FY2000-01

School	Regular Education Students	Article VI Students	Adjusted Regular Education Student Enrollment
Statewide	163,382	11,615.0	174,997.0
Wai'alae	422	23.5	445.5
Lanikai	284	21.5	305.5
Connections	169	8.5	177.5
Kanu o ka 'Aina	121	12.5	133.5
West Hawaii Exploration Academy	113	7.0	120.0
Waters of Life	149	14.0	163.0

Note: 0.5 student enrollment is due to some special education students spending half their time with regular education students.

The variable costs component consists of a portion of the education department's general fund appropriation for schools [EDN 100, School-Based Budgeting] and federal impact aid for regular education. EDN 100 funds for functions that the department has elected to retain are deducted from the variable costs component. Those functions include:

- Private Agency Projects - such funds are not used for public schools; thus, they should not be used in the allocation to new century charter schools.
- Statewide testing - the department has elected to retain this responsibility.

- Unemployment insurance - the department currently administers this function.
- Workers' compensation - the department currently administers this function.
- Transfers to other agencies - these funds are included in the department's allocation but transferred to other State agencies for administration. These funds include risk management, health fund, pension accumulation, social security, and debt services.
- Substitute pay and fringe benefits for regular education teachers - the department has elected to retain the responsibility for substitute teachers and uses federal impact aid to pay the salaries and fringe benefits costs for the substitute teachers.

In addition to the functions for which the department has elected to retain responsibility, total statewide salaries for the seven fixed cost positions must be deducted from the total source of funding. Schools are allocated these costs based on type of school and enrollment size as part of the fixed costs component. These salaries cannot be included in both the fixed and variable costs component.

The variable costs component, shown in Exhibit 2.5, for new century charter schools after the allowable deductions, is \$463,804,637. With a statewide enrollment of 174,997 for the adjusted regular education students (163,382 regular education and 11,615 Article VI students), the statewide per pupil cost is \$2,650 per student. This amount plus the fixed cost component, shown in Appendix A, were used to determine the final allocation to the new century charter schools for FY2000-01.

***Allocation not affected
by collective bargaining
or executive restrictions***

For FY2000-01, no collective bargaining agreements or executive restrictions necessitated any adjustments to the allocation to new century charter schools. If these conditions do occur, we will adjust the allocation appropriately.

***The department retains
special education funds
and responsibility***

As we noted in our previous report, departmental concerns about compliance with the *Felix* consent decree (requiring the department to provide mental health services to all eligible students) has led to its decision to retain responsibility for all special education functions. Allocating such funds to new century charter schools may jeopardize the department's efforts to comply with the decree and/or the department's ability to comply with other federal requirements pertaining to special education. Additionally, it may not be in the best interest of the new century charter schools to receive the funds and be solely responsible for these costs and services. The superintendent and representatives of the local school boards also support this recommendation.

Exhibit 2.5**Variable Costs Component and Statewide Per Pupil Estimate – FY2000-01**

Source of funding for the variable costs component		
EDN 100 School-Based Budgeting		\$772,611,122
Federal impact aid for regular education		<u>22,741,520</u>
Total amount available for the variable costs component		\$795,352,642
Less deduction from variable costs component		
Functions for which the Department of Education elects to retain responsibility:		
Salaries for fixed costs positions	\$254,480,114	<u>77,067,891</u>
Total deductions from variable costs component		<u>(331,548,005)</u>
Total amount of variable costs component for allocation to schools		\$463,804,637
Per pupil costs statewide for enrollment of 174,997 students		\$ 2,650

Charter school federal grant funds were reviewed

Act 187, SLH 2000, stipulated two requirements for the Auditor relating to federal grant funds. First, if new century charter schools receive additional federal grant money, the Auditor is to determine the appropriate portion of the federal grant moneys to offset the small school allotment. The second requirement was that the Department of Education could provide limited start-up and planning grant funds as formulated by the Auditor to new century charter schools upon the issuance of its charter. For FY1999-2000, we found that no reimbursement was required to offset the small school allotment. We also found that the department had already selected the schools and determined the amount of federal grant funds allowable for start-up and planning prior to this allocation project. However, we did review the department's allocation method and found its procedures to be reasonable.

During FY1999-2000, only Wai'alaie and Lanikai Elementary Schools were new century charter schools and subject to an offset to the small school allotment based upon receipt of additional federal grant moneys. We determined that small schools subsidies at Wai'alaie and Lanikai Elementary Schools would be subject to an adjustment if federal grant fund expenditures had been used to pay for any "fixed" costs salaries or purchases covered by the general fund allocation. This is consistent with our determination of the applicability of this requirement in our previous report as well. In addition, if a new century charter school used its federal grant funds to pay for the same purchases or costs covered by the general fund allocation, this would be considered "double-dipping" and subject to

reimbursement to the department. We reviewed the federal fund expenditures for Wai‘alae and Lanikai Elementary Schools for FY1999-2000 and found that these funds were not used to pay for any of the fixed cost salaries or purchases that would be paid for through general funds. Therefore, there is no reimbursement required for FY1999-2000.

We also reviewed the procedure for allocating federal grant funds to new century charter schools. Act 187, SLH 2000 stipulates that the department may provide limited federal grant funds to new century charter schools for the purpose of start-up and planning as formulated by the Auditor. However, prior to the enactment of the act, the department had already selected 21 applications for these federal grant funds. Each recipient received \$96,000 in FY1999-2000 and could continue to receive federal funds for two more fiscal years. We therefore reviewed the department’s method of selecting and evaluating these schools for the federal funds and found its method appropriate.

***Allocation methodology
and our role was
refined***

Several modifications in our allocation methodology were made based on our review of the allocation process and the additional requirements reflected in Act 187, SLH 2000. We modified our allocation process to accommodate advice from the superintendent of education and representatives of the local school boards. We also clarified and changed the definition and our responsibility for the negotiable function costs component from our previous report. Finally, we simplified the allocation process to provide a more timely initial allocation to new century charter schools. These changes were presented and accepted by the superintendent of education and representatives of the local school boards.

Negotiable function costs component needs new definition

During FY1999-2000, use of the terms “negotiable” and “excluded” functions resulted in some confusion in the transfer of funds to Wai‘alae and Lanikai Elementary Schools. Previously, negotiable functions were defined as services and functions that our office believed new century charter schools could assume. Excluded functions were those services and functions that we believed were core centralized responsibilities of the department. We further reported the statewide per pupil amount for these negotiable functions should the department and new century charter schools reach an agreement on transfer of negotiable functions.

This report changes the terminology in order to clarify the definition in our previous report. The “negotiable” function is now termed “transfer of functions and responsibilities.” An “excluded” function is now termed “the Department of Education has elected to retain responsibility for that function.”

The transfer of functions and responsibilities from the department to Wai‘alae and Lanikai Elementary Schools for FY1999-2000 was reported as being time-consuming and resource-intensive. For example, a final agreement between the department and the schools on specific functions that would be transferred was not reached until May 2000, ten months into the fiscal year. However, the department proceeded to allocate the entire fiscal year’s funds for the transferred functions, despite the fact that the department had maintained operational responsibility for these functions for ten months.

We stress that determination of functions and responsibilities to be transferred or retained are a mutual responsibility of both the department and the new century charter school and that an agreement should be made before the beginning of the fiscal year. After the schools and department have agreed to the transfer of specific functions and responsibilities, our office will determine the allocation of funds to the new century charter schools. The superintendent and new century charter schools generally agree that the change in terminology and an earlier agreement on the transfer of functions can be an improvement to the current practice.

New allocation process provides more timely and accurate allocation

The allocation process was also modified to facilitate an initial and final allocation to new century charter schools. The initial allocation will be provided prior to the beginning of the fiscal year and will be based on the previous year’s cost components and projected current year enrollment. The final allocation will be determined during the fiscal year after the department releases the official enrollment figures. This modification will permit a more timely release of partial funds to schools at the beginning of the fiscal year and a more accurate final allocation later in the fiscal year.

The initial allocation, as estimated prior to the beginning of the fiscal year, will include only the fixed and variable costs components. The functions and responsibilities that are assumed by the new century charter schools will not be included. The type of school and projected enrollment count will determine the number of fixed personnel positions the school would be authorized if the school were a typical public school. The prior year average salary we reported will then determine the allocation for the fixed costs component. In a similar manner, the variable costs component will be determined by the previous year per pupil rate and the projected school enrollment for the new fiscal year.

The determination of the fixed cost and variable cost components described above will be used to estimate the initial projected allocation to

the new century charter school for that fiscal year. It is the department's responsibility to allocate a partial funding to the new century charter schools at the beginning of the fiscal year.

After we receive the necessary budgetary documentation and official enrollment counts, our office will provide the department and new century charter schools with a final allocation for the fiscal year. This allocation will also identify the appropriate funds for the agreed upon transfer of functions and responsibilities from the department to the schools. The new fixed costs and variable costs components will then be the basis to determine the allocation for the next fiscal year.

Fixed and Variable Costs Determine Funds for Various Types of Schools

Act 187, SLH 2000 requires the Auditor to develop a methodology for allocating funds that can apply to alternative forms of public schools, including but not limited to new century charter schools. Alternative schools are defined as elementary, intermediate/middle, and high schools. The act further states that “. . . small schools with less than one hundred twenty students shall be given a state subsidy or small school allotment, as determined by the department, to augment the per pupil allocation given. . .” Therefore, our allocation for various types of public and new century charter schools for the fixed costs component only applies to schools with enrollments of 120 or more students.

Allocation for schools with less than 120 students

In accordance with Act 187, SLH 2000 the department is required to determine the state subsidy or small school allotment for schools with less than 120 students, to augment the per pupil allocation. However, in accordance with Section 302A-1189, HRS, the Board of Education has determined that schools must have an enrollment of 30 or more students to be eligible for a charter. Thus, the department's small school allotment applies to schools with an enrollment from 30 to 119 students.

The department's small school allotment is determined by multiplying the per pupil fixed cost component by the actual number of students enrolled in each small charter school. The per pupil rate for the fixed costs component is based on the type of school. For example, a new century elementary charter school would receive a per pupil amount for the fixed costs component of \$1,525 per student. If the regular education enrollment were 53 students, the school would receive a subsidy of \$80,825 ($\$1,525 \times 53$ students) for the fixed costs component for FY2000-01.

In addition, the small school also receives a per pupil variable costs component as determined by the Auditor. Continuing our example, an elementary school with 53 students would receive a variable costs

allocation of \$140,450 (\$2,650 x 53 students) for a total allocation of \$221,275 for FY2000-01. The department per pupil costs for various types of small schools and the Auditor’s per pupil costs for FY2000-01 are shown at Exhibit 2.6.

Exhibit 2.6

The Department’s Fixed Costs and Auditor’s Per Pupil Allocation for Small Schools with Less than 120 Students – FY2000-01

Type of Allocation	Elementary Schools	Intermediate/Middle Schools	High Schools
Fixed Costs Component	\$1,525 per pupil	\$2,036 per pupil	\$2,739 per pupil
Variable Costs Component	<u>\$2,650 per pupil</u>	<u>\$2,650 per pupil</u>	\$2,650 per pupil
Total per Pupil Costs	\$4,175 per pupil	\$4,686 per pupil	\$5,389 per pupil

The Auditor determines allocation for schools with more than 120 students

The Auditor is responsible for determining the allocation of the department’s general funds for schools with regular education enrollment and Article VI students of 120 or more. The same allocation methodology for typical public schools, as discussed previously, includes the fixed costs and variable costs components. The variable costs component for FY2000-01 is \$2,650 per regular education and Article VI student.

As discussed previously, the amount of the fixed costs component differs by school type and enrollment size. Using the department’s personnel authorization formulas, the fixed costs for various types of schools with different enrollment sizes are shown in Exhibit 2.7. This exhibit would also apply to all types of public and new century charter schools. Since the department allocates positions to schools at the highest-grade level of that school, a K-12 grade school would receive a fixed cost component at the high school rate. Likewise, a K-8 grade school would receive a fixed cost allocation for an intermediate/middle school.

Exhibit 2.7

Fixed Costs Allocation for Various Types of Public Schools and New Century Charter Schools – FY2000-01

Enrollment Size	Elementary Schools	Intermediate/Middle Schools	High Schools
120 to 399 students	\$183,010	\$244,347	\$328,687
400 to 499 students	\$183,010	\$244,347	\$371,363
500 to 549 students	\$183,010	\$269,079	\$371,363
550 to 599 students	\$238,323	\$324,392	\$371,363

Advice of the Superintendent of Education and the Local School Boards was Considered

Act 187, SLH 2000 requires the Auditor to consider the advice of the superintendent of education and the representatives from the local school boards and indicate the manner in which that advice was accommodated. A series of meetings with the superintendent and representatives of the local school boards was held to obtain the advice on the allocation process. Subsequent meetings were held to discuss our response to their concerns. Both the superintendent and local school boards' representatives concurred with our responses to their concerns.

The superintendent's advice was accommodated

We met three times with the superintendent and other personnel of the Department of Education to discuss the proposed allocation, obtain their advice, and present our accommodation to their advice. At our first meeting on May 30, 2000, we discussed the changes and implications of Act 187, SLH 2000; allocation methodology and process; and requested advice from the superintendent. We received that advice on June 13, 2000.

At our second meeting on July 6, 2000, we provided the superintendent and the department personnel an update of the allocation project and a draft proposal of how we intended to accommodate his advice. We also shared the advice from the local school boards and our accommodations to that advice. Additionally, we recommended that the department consider the option of including new century charter schools in its school budget. This action would provide visibility to any additional new century charter schools' costs to the department, other state agencies, the Board of Education, and the Legislature.

At our last meeting on August 4, 2000, we presented the manner in which the advice of the superintendent and local school boards would be accommodated. The superintendent's advice and our response to that advice are displayed at Appendix B. The superintendent generally agreed with our accommodations to his advice.

The local school boards' advice was accommodated

Similarly, we held several meetings with the local school board representatives for each of the new century charter schools. For the schools on Oahu, we held two separate meetings with Wai'alaie and Lanikai Elementary Schools. In our first meeting in early June 2000, we discussed Act 187, SLH 2000, the allocation methodology, and requested advice from their local school boards.

For the four new century charter schools in Hawaii County, we held a series of three meetings. The first meeting was held in Hilo on June 15, 2000 with representatives from all four schools. During this meeting we discussed our role in the allocation, the allocation methodology, and the

allocation process. We also requested advice from their local school boards. At our second meeting with each of the new century charter schools at their school locations, we discussed issues and concerns specifically related to each school.

Our final meeting with each of the six new century charter schools was held in September 2000. We met separately with Wai‘alae and Lanikai Elementary Schools and collectively with the four new century charter schools on Hawaii. During these meetings, we discussed the manner in which our office intended to accommodate their local school boards’ advice. Appendix C includes our accommodations to that advice. Generally, the local school boards accepted our response to their advice. In addition, we shared the superintendent’s advice and our response to it. We noted that many of the schools’ concerns were operational issues that exceeded our responsibilities and that these issues should be discussed directly with the department. These concerns are noted in Appendix D.

Other Issues Need Further Review

Act 187, SLH 2000 required our office to determine the allocation to new century charter schools for FY2000-01. Two issues need to be reviewed. The first issue relates to how new century charter schools are financed. The second concern is our involvement in determining the allocation for future fiscal years.

Funding for new century charter schools should be included in the budget

Neither the Board of Education nor the Department of Education accounted for additional funding needed to operate new century charter schools in their budget deliberations. This applied to charter schools that are schools-within-schools and those that are entirely new institutions. During FY2000-01, the Board of Education approved four new charters without making provisions for whatever additional general fund support the board and department believed necessary. The board and the department’s failure to anticipate the financial consequence of approving these schools required funding to be provided from the department’s existing appropriation, thereby reducing the funds available for other public schools. If the Board of Education and the Department of Education wish to ensure particular funding levels for new century charter schools, they should include them in the budgetary process. The Legislature and the public could thus be informed of the full costs of the new century charter schools.

The role of the Office of the Auditor

We mentioned in our previous report that our role in the allocation process needs to be reviewed. For the record, we recognize a potential conflict of interest if at some time we are required to audit new century charter schools. We are cognizant of the legislative preference that we continue to make the allocations.

This page intentionally left blank.

Appendix A

Allocation to Connections New Century Public Charter School - FY2000-01

(As of October 12, 2000)

FIXED COSTS COMPONENT	FY2000-01 Allocation
Average Salaries for Positions	
Elementary School Principal	\$ 62,557
Librarian	46,641
Counselor	42,676
School Administrative Services Assistant (SASA)	31,136
Total Allocation for the Fixed Costs Component	\$ 183,010

VARIABLE COSTS COMPONENT	FY2000-01 Allocation
Source of funding for the variable costs component	
EDN 100 School-Based Budgeting	\$ 772,611,122
Federal impact aid for regular education	22,741,520
Total amount for the variable costs component	\$ 795,352,642
Less deduction from variable costs component	
Functions for which the DOE elects to retain responsibility:	
Private agency projects (EDN 100)	\$ 721,083
Statewide testing (EDN 100)	29,659
Unemployment insurance (EDN 100)	2,851,707
Worker's Compensation (EDN 100)	5,502,557
Transfer to other agencies (EDN 100)	234,368,487
Substitute for regular education teachers (Impact aid)	9,963,448
Fringe benefits for regular education substitute teachers (Impact aid)	1,043,173
Salaries for fixed costs positions	77,067,891
Total deductions from variable costs component	(331,548,005)
Total amount of variable costs component for allocation to schools	\$ 463,804,637
Per pupil costs statewide for enrollment of 174,997 students	2,650.36
Total Allocation for the Variable Costs Component for 177.5 Students	\$ 470,438

TOTAL OF TWO COMPONENTS	FY2000-01 Allocation
Fixed Costs Component	\$ 183,010
Variable Costs Component	470,438
TOTAL ALLOCATION FOR FY2000-01	\$ 653,448

Notes:

1. With the exception of federal impact aid funds, the figures include general funds only. Other federal funds, special funds, and revolving funds are not included in the allocation. Impact aid funds were included since the department previously provided these funds to new century charter schools.
2. Allocations are based on the official statewide and school enrollment counts. The official statewide enrollment figure of 174,997 includes 163,382 regular education students and 11,615 Article VI students. Connection's official enrollment of 177.5 includes 169 regular education and 8.5 Article VI students.
3. There were no executive restrictions or collective bargaining increases for FY2000-01.
4. Minor discrepancies due to rounding.

Appendix A

Allocation to Kanu o ka 'Aina New Century Public Charter School - FY2000-01

(As of October 10, 2000)

FIXED COSTS COMPONENT	FY2000-01 Allocation
Average Salaries for Positions	
High School Principal	\$ 70,584
Vice Principal	55,313
Librarian	46,641
Counselor	42,676
Registrar	57,605
School Administrative Services Assistant (SASA)	31,136
Account Clerk	24,732
Total Allocation for the Fixed Costs Component	\$ 328,687

VARIABLE COSTS COMPONENT	FY2000-01 Allocation
Source of funding for the variable costs component	
EDN 100 School-Based Budgeting	\$ 772,611,122
Federal impact aid for regular education	22,741,520
Total amount for the variable costs component	\$ 795,352,642
Less deduction from variable costs component	
Functions for which the DOE elects to retain responsibility:	
Private agency projects (EDN 100)	\$ 721,083
Statewide testing (EDN 100)	29,659
Unemployment insurance (EDN 100)	2,851,707
Worker's Compensation (EDN 100)	5,502,557
Transfer to other agencies (EDN 100)	234,368,487
Substitute for regular education teachers (Impact aid)	9,963,448
Fringe benefits for regular education substitute teachers (Impact aid)	1,043,173
Salaries for fixed costs positions	<u>77,067,891</u>
Total deductions from variable costs component	(331,548,005)
Total amount of variable costs component for allocation to schools	\$ 463,804,637
Per pupil costs statewide for enrollment of 174,997 students	2,650.36
Total Allocation for the Variable Costs Component for 133.5 Students	\$ 353,823

TOTAL OF TWO COMPONENTS	FY2000-01 Allocation
Fixed Costs Component	\$ 328,687
Variable Costs Component	353,823
TOTAL ALLOCATION FOR FY2000-01	\$ 682,510

Notes:

1. With the exception of federal impact aid funds, the figures include general funds only. Other federal funds, special funds, and revolving funds are not included in the allocation. Impact aid funds were included since the department previously provided these funds to new century charter schools.
2. Allocations are based on the official statewide and school enrollment counts. The official statewide enrollment figure of 174,997 includes 163,382 regular education students and 11,615 Article VI students. Kanu o ka 'Aina's official enrollment of 133.5 includes 121 regular education and 12.5 Article VI students.
3. There were no executive restrictions or collective bargaining increases for FY2000-01.
4. Minor discrepancies due to rounding.

Appendix A
Allocation to Lanikai Elementary School - FY2000-01
(As of October 10, 2000)

FIXED COSTS COMPONENT	FY2000-01 Allocation
Average Salaries for Positions	
Elementary School Principal	\$ 62,557
Librarian	46,641
Counselor	42,676
School Administrative Services Assistant (SASA)	31,136
Total Allocation for the Fixed Costs Component	\$ 183,010

VARIABLE COSTS COMPONENT	FY2000-01 Allocation
Source of funding for the variable costs component	
EDN 100 School-Based Budgeting	\$ 772,611,122
Federal impact aid for regular education	22,741,520
Total amount for the variable costs component	\$ 795,352,642
Less deduction from variable costs component	
Functions for which the DOE elects to retain responsibility:	
Private agency projects (EDN 100)	\$ 721,083
Statewide testing (EDN 100)	29,659
Unemployment insurance (EDN 100)	2,851,707
Worker's Compensation (EDN 100)	5,502,557
Transfer to other agencies (EDN 100)	234,368,487
Substitute for regular education teachers (Impact aid)	9,963,448
Fringe benefits for regular education substitute teachers (Impact aid)	1,043,173
Salaries for fixed costs positions	77,067,891
Total deductions from variable costs component	(331,548,005)
Total amount of variable costs component for allocation to schools	\$ 463,804,637
Per pupil costs statewide for enrollment of 174,997 students	2,650.36
Total Allocation for the Variable Costs Component for 305.5 Students	\$ 809,684

TOTAL OF TWO COMPONENTS	FY2000-01 Allocation
Fixed Costs Component	\$ 183,010
Variable Costs Component	809,684
TOTAL ALLOCATION FOR FY2000-01	\$ 992,694

Notes:

1. With the exception of federal impact aid funds, the figures include general funds only. Other federal funds, special funds, and revolving funds are not included in the allocation. Impact aid funds were included since the department previously provided these funds to new century charter schools.
2. Allocations are based on the official statewide and school enrollment counts. The official statewide enrollment figure of 174,997 includes 163,382 regular education students and 11,615 Article VI students. Lanikai's official enrollment of 305.5 includes 284 regular education and 21.5 Article VI students.
3. There were no executive restrictions or collective bargaining increases for FY2000-01.
4. Minor discrepancies due to rounding.

Appendix A

Allocation to Wai'ala'e Elementary School - FY2000-01

(As of October 10, 2000)

FIXED COSTS COMPONENT	FY2000-01 Allocation
Average Salaries for Positions	
Elementary School Principal	\$ 62,557
Librarian	46,641
Counselor	42,676
School Administrative Services Assistant (SASA)	31,136
Total Allocation for the Fixed Costs Component	\$ 183,010

VARIABLE COSTS COMPONENT	FY2000-01 Allocation
Source of funding for the variable costs component	
EDN 100 School-Based Budgeting	\$ 772,611,122
Federal impact aid for regular education	22,741,520
Total amount for the variable costs component	\$ 795,352,642
Less deduction from variable costs component	
Functions for which the DOE elects to retain responsibility:	
Private agency projects (EDN 100)	\$ 721,083
Statewide testing (EDN 100)	29,659
Unemployment insurance (EDN 100)	2,851,707
Worker's Compensation (EDN 100)	5,502,557
Transfer to other agencies (EDN 100)	234,368,487
Substitute for regular education teachers (Impact aid)	9,963,448
Fringe benefits for regular education substitute teachers (Impact aid)	1,043,173
Salaries for fixed costs positions	77,067,891
Total deductions from variable costs component	(331,548,005)
Total amount of variable costs component for allocation to schools	\$ 463,804,637
Per pupil costs statewide for enrollment of 174,997 students	2,650.36
Total Allocation for the Variable Costs Component for 445.5 Students	\$ 1,180,734

TOTAL OF TWO COMPONENTS	FY2000-01 Allocation
Fixed Costs Component	\$ 183,010
Variable Costs Component	1,180,734
TOTAL ALLOCATION FOR FY2000-01	\$ 1,363,744

Notes:

1. With the exception of federal impact aid funds, the figures include general funds only. Other federal funds, special funds, and revolving funds are not included in the allocation. Impact aid funds were included since the department previously provided these funds to new century charter schools.
2. Allocations are based on the official statewide and school enrollment counts. The official statewide enrollment figure of 174,997 includes 163,382 regular education students and 11,615 Article VI students. Wai'ala'e's official enrollment of 445.5 includes 422 regular education and 23.5 Article VI students.
3. There were no executive restrictions or collective bargaining increases for FY2000-01.
4. Minor discrepancies due to rounding.

Appendix A

Allocation to Waters of Life Public Charter School - FY2000-01

(As of October 10, 2000)

FIXED COSTS COMPONENT	FY2000-01 Allocation
Average Salaries for Positions	
High School Principal	\$ 70,584
Vice Principal	55,313
Librarian	46,641
Counselor	42,676
Registrar	57,605
School Administrative Services Assistant (SASA)	31,136
Account Clerk	24,732
Total Allocation for the Fixed Costs Component	\$ 328,687

VARIABLE COSTS COMPONENT	FY2000-01 Allocation
Source of funding for the variable costs component	
EDN 100 School-Based Budgeting	\$ 772,611,122
Federal impact aid for regular education	22,741,520
Total amount for the variable costs component	\$ 795,352,642
Less deduction from variable costs component	
Functions for which the DOE elects to retain responsibility:	
Private agency projects (EDN 100)	\$ 721,083
Statewide testing (EDN 100)	29,659
Unemployment insurance (EDN 100)	2,851,707
Worker's Compensation (EDN 100)	5,502,557
Transfer to other agencies (EDN 100)	234,368,487
Substitute for regular education teachers (Impact aid)	9,963,448
Fringe benefits for regular education substitute teachers (Impact aid)	1,043,173
Salaries for fixed costs positions	77,067,891
Total deductions from variable costs component	(331,548,005)
Total amount of variable costs component for allocation to schools	\$ 463,804,637
Per pupil costs statewide for enrollment of 174,997 students	2,650.36
Total Allocation for the Variable Costs Component for 163 Students	\$ 432,008

TOTAL OF TWO COMPONENTS	FY2000-01 Allocation
Fixed Costs Component	\$ 328,687
Variable Costs Component	432,008
TOTAL ALLOCATION FOR FY2000-01	\$ 760,695

Notes:

1. With the exception of federal impact aid funds, the figures include general funds only. Other federal funds, special funds, and revolving funds are not included in the allocation. Impact aid funds were included since the department previously provided these funds to new century charter schools.
2. Allocations are based on the official statewide and school enrollment counts. The official statewide enrollment figure of 174,997 includes 163,382 regular education students and 11,615 Article VI students. Waters of Life's official enrollment of 163 includes 149 regular education and 14 Article VI students.
3. There were no executive restrictions or collective bargaining increases for FY2000-01.
4. Minor discrepancies due to rounding.

Appendix A

Allocation to West Hawaii Explorations Academy - Public Charter School FY2000-01

(As of October 10, 2000)

FIXED COSTS COMPONENT	FY2000-01 Allocation
Average Salaries for Positions	
High School Principal	\$ 70,584
Vice Principal	55,313
Librarian	46,641
Counselor	42,676
Registrar	57,605
School Administrative Services Assistant (SASA)	31,136
Account Clerk	24,732
Total Allocation for the Fixed Costs Component	\$ 328,687

VARIABLE COSTS COMPONENT	FY2000-01 Allocation
Source of funding for the variable costs component	
EDN 100 School-Based Budgeting	\$ 772,611,122
Federal impact aid for regular education	22,741,520
Total amount for the variable costs component	\$ 795,352,642
Less deduction from variable costs component	
Functions for which the DOE elects to retain responsibility:	
Private agency projects (EDN 100)	\$ 721,083
Statewide testing (EDN 100)	29,659
Unemployment insurance (EDN 100)	2,851,707
Worker's Compensation (EDN 100)	5,502,557
Transfer to other agencies (EDN 100)	234,368,487
Substitute for regular education teachers (Impact aid)	9,963,448
Fringe benefits for regular education substitute teachers (Impact aid)	1,043,173
Salaries for fixed costs positions	<u>77,067,891</u>
Total deductions from variable costs component	(331,548,005)
Total amount of variable costs component for allocation to schools	\$ 463,804,637
Per pupil costs statewide for enrollment of 174,997 students	2,650.36
Total Allocation for the Variable Costs Component for 120 Students	\$ 318,043

TOTAL OF TWO COMPONENTS	FY2000-01 Allocation
Fixed Costs Component	\$ 328,687
Variable Costs Component	318,043
TOTAL ALLOCATION FOR FY2000-01	\$ 646,730

Notes:

1. With the exception of federal impact aid funds, the figures include general funds only. Other federal funds, special funds, and revolving funds are not included in the allocation. Impact aid funds were included since the department previously provided these funds to new century charter schools.
2. Allocations are based on the official statewide and school enrollment counts. The official statewide enrollment figure of 174,997 includes 163,382 regular education students and 11,615 Article VI students. West Hawaii Explorations Academy's official enrollment of 120 includes 113 regular education and 7 Article VI students.
3. There were no executive restrictions or collective bargaining increases for FY2000-01.
4. Minor discrepancies due to rounding.

Appendix B

Advice and Accommodation -- Superintendent of Education

Superintendent's Advice	Accommodations by the State Auditor
<p><u>"Negotiable," "Non-Negotiable," and "Excluded" Items</u> – Clarify and provide a narrative as to what each means in the next report. (Specifically, we concur with the auditors' definition and treatment of these issues and would like to see it more clearly and fully articulated in the text of the product.)</p>	<p>The term "negotiable" and "non-negotiable" will be replaced with the term "transfer of functions and responsibility." Our office will not determine which functions are potentially transferable or non-transferable.</p> <p>"Excluded" will be referred to as "DOE Elects to Maintain Responsibility." This will apply to Special Education (EDN150) and selected EDN 100 funds such as fringe benefits.</p> <p>After agreement between the department and the local school board, our office will allocate the appropriate funding to the charter school for those functions for which responsibility is transferred.</p>
<p>2. <u>Fixed Cost Component</u> – Review and explicate the implications for the system when applying the fixed cost component to the opening of what is potentially a large number of new schools. We believe that policymakers and legislators would greatly benefit from your neutral analysis of this issue.</p>	<ul style="list-style-type: none"> • Charter schools should be included in the department's budgeting process. • This provides them with visibility for the Legislature, department, board, other agencies, and public. • Our report will include a description of all charter schools. To the extent possible, we will include the additional positions and costs to the public school system.
<p>3. <u>Small School Allocation</u> – Review and provide comment on our formula for small school allocations consistent with the fixed cost component of the funding methodology.</p>	<p>We have reviewed and recommended changes to the department's method in calculating the small school allotment.</p> <p>Our methodology was based on the number of fixed positions that the department assigns to various types and size of public schools. Public schools with small enrollment should be the basis for determining the type and amount of fixed costs component.</p> <p>Based on these positions, the average cost is calculated to determine the amount of the fixed cost component.</p>
<p>4. <u>Pro-Rationing Funds</u> – Recommend to the Legislature that a study needs to be made on pro-rationing funds within a closed student enrollment system and the impact of adding new students drawn from outside the system. Consider including projected charter school student enrollment in determining the pro-rationing divisor.</p>	<ul style="list-style-type: none"> • The constitution refers to the State as having the responsible for a statewide public school system that does not discriminate against race, religion, sex, or ancestry. Therefore, the department has the obligation to provide education to all children in Hawaii. • Many charter schools students were already in the public school system (school-within-a-school). • Inclusion of the funding and enrollment requirements for charter schools in the department's budget will provide them the visibility for the Legislature, board, and public.
<p>5. <u>Prior Fiscal Year</u> – Base allocations on prior year appropriations as stated in the new century charter school law. This provides a complete database that accurately reflects budgetary restrictions and fiscal timeliness.</p>	<ul style="list-style-type: none"> • We agree that the initial allocation should be made prior to the beginning of the fiscal year. • Since the fixed cost component and per-pupil rate from the prior year will not change significantly, these figures and the projected school's enrollment will be used to estimate the allocation. • This allocation will not include those transferable functions to which the department and the local school board agree. • Final allocation will be based on the official enrollment and approved budget. This will provide a more accurate allocation for the current fiscal year and establish the basis for the allocation for the next fiscal year.

Source: Office of the State Auditor and Department of Education, FY2000-01

This page intentionally left blank.

Appendix C

Local School Boards' Advice and Office of the Auditor's Accommodations

School Boards' Advice	Accommodations by the State Auditor
<p>1 Allocate partial funding at the beginning of the fiscal year with the entire fixed cost component. Variable cost component should be released soon after the official student count date</p>	<p>We agree that a partial funding is needed at the beginning of the fiscal year to provide operating funds. We will estimate the allocation prior to the beginning of the fiscal year based on the projected school enrollment and the previous year's fixed costs component and per-pupil rate. Transferred functions for which the Board of Education and the local school boards have agreed will be included in the final allocation. The department can then allocate a partial allotment to the schools at the beginning of the fiscal year.</p>
<p>2. Request to receive the same funding as previously established for Lanikai and Wai'alaie Elementary Schools. Fairness should also apply to allocation of funds.</p>	<p>The methodology used in FY1999-00 will be consistently applied to all charter schools. The department and all charter schools have agreed that the methodology is fair.</p>
<p>3 Allocation should include the actual cost of all collective bargaining raise increases.</p>	<p>Our methodology was based on fairness to both public and charter schools. Thus, we used the average cost to determine the amount of the allocation. Using the actual cost may give an unfair advantage to some schools and potentially penalize others.</p>
<p>4. The law does not limit the Auditor's Office from providing an opinion on allocating other funds to charter schools (federal funds).</p>	<p>Act 187 specifically states that the Auditor shall determine the appropriate allocation based on the total department's general fund appropriation. Providing an opinion on allocation of other types of funds is outside the scope of the allocation project.</p>
<p>5. Following recommendations for the fixed cost component: 1 Principal 1 SASA 1 Librarian 1 Counselor 1 Registrar Collective Bargaining</p>	<p>Our methodology does not allocate positions to charter schools. Our office is only responsible for allocating general funds to charter schools. Fixed cost component is determined by calculating the average cost for those "fixed positions" normally allocated by the DOE based on the school's enrollment and type of school. Charter schools have flexibility in determining how their funds are used to meet their operational requirements.</p>
<p>6. Request the following fixed cost positions: • 1 Administrator • 1 SASA • 1 Librarian • 1 Counselor • 1 Custodian • 7 Teachers (K-6)</p>	<p>Our methodology does not allocate positions to charter schools. Our office is only responsible for allocating general funds to charter schools. Fixed cost component is determined by calculating the average cost for those "fixed positions" normally allocated by the DOE based on the school's enrollment and type of school. Charter schools have flexibility in determining how their funds are used to meet their operational requirements.</p>

This page intentionally left blank.

Appendix D
Issues Beyond the Scope of Auditor’s Responsibility

Transfer of Functions and Responsibilities

1. The current functional descriptions used by the department are too vague to make informed decisions.
2. Clarify that functions not transferred to the schools will be the responsibility of the department at no expense to the charter school.
3. Variable cost components that should be paid by the department: <ul style="list-style-type: none"> • EDN 150 – Comprehensive School Support Services • EDN 400 – School Food Services (except as noted below) • EDN 500 – School Community Services <p>Functions for negotiation are EDN 200, EDN 300, and some EDN 400</p>
4. Functions should be negotiated each fiscal year based on feasibility and cost-effectiveness.
5. All functions should be negotiable.
6. “Negotiable” process is time consuming and resource intensive. Difficult to plan a budget for the current fiscal year.
7. Prefer functions be called “menu of services” that the schools can elect to accept or allow the department to provide the service.
8. Identified several negotiable functions that the local school board requested to assume responsibility.

Federal Funds

1. Federal law requires the Board of Education to notify charter school developers on participation in federal programs five months after passage of charter school legislation. However, charter schools have not received such notification.
2. Request assistance to receive all formula based federal funds within five months for school year 2000-01.

Personnel and Fringe Benefits

1. Personnel and fringe benefit issues need detailed clarification and explanation.
2. “Fairness” issues should be addressed especially in regard to fringe benefits. Fairness includes services and funding availability.

Budget Planning Process

1. The budget planning process should begin earlier to support the implementation of the charter school’s strategic plan.
2. Budget-neutral concept: <ul style="list-style-type: none"> • Charter schools will initially cost more. • Legislature did not provide funding to offset the increased costs for charter schools. • The department still needs to fund charter schools at the appropriate level.

Special Education

- | |
|---|
| 1. Agree that special education is the responsibility of the department, however, would like to know how the department intends to fulfill this responsibility. |
| 2. Special Education: <ul style="list-style-type: none">• Prefers to receive EDN 150 funds directly.• Since the function is excluded, the department, through hiring of its staff and using its own service delivery methods, should provide the positions and services. |

Small School Allocation

- | |
|--|
| 1. Small school allocation for schools with less than 120 students developed by the department raises the following concerns: <ul style="list-style-type: none">• Significant difference in original allocation of \$186,676 and \$165,578 used by the department for the small school allocation.• Act 187 does not distinguish between different types of schools – elementary, middle, and high schools.• The department formula does not consider the difference in salary for a high school principal and elementary school principal.• Clarification is needed regarding the amount of fixed cost positions for K-12 schools. |
|--|

Other Issues

- | |
|--|
| 1. Clarify the different types of insurance that the department covers for charter schools. |
| 2. Need to resolve the Department of Health's claim that since charter schools were not included in its budget, allocation cannot be made for FY2000-01. |

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 8, 2001. A copy of the transmittal letter to the Department of Education is included as Attachment 1. The Department of Education's response is included as Attachment 2. The Board of Education did not respond.

The department agrees that there is an inherent conflict for the State Auditor to be charged with developing the allocation to charter schools—that this violates the separation of powers principle of government. While our office recognizes that the potential conflict of interest exists, we are also aware of the Legislature's preference for our continued involvement in the allocation project.

The department asserts that it is bound by the Auditor's allocation and cannot make any subsequent budgetary adjustments as it does with other public schools. The department concludes that this restriction results in favoring new century charter schools. The department is correct in stating that it is presently bound by our office's allocation to new century charter schools. However, as we stated in our report, we will make appropriate changes to the new century charter school allocations—both upwards and downwards—as any additional information becomes available. Therefore, new century charter schools are not “favored” as a result of subsequent adjustments to the department's funding.

Finally, the department responded to an allegation by a representative of a local school board reported in Appendix D — *Issues Beyond the Scope of the Auditor's Responsibility* of our report. The department stated that the Board of Education and the department met all federal requirements, including announcements and time frames for the distribution of federal funds to eligible charter schools. However, we emphasize that this is an operational issue between the department and new century charter school and beyond the purview of the Auditor.

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 8, 2001

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 - FY2000-01*. We ask that you telephone us by Wednesday, January 10, 2001, 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 17, 2001.

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

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

Sincerely,

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR

PAUL G. LeMAHIEU, Ph.D.
SUPERINTENDENT



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

OFFICE OF THE SUPERINTENDENT

RECEIVED

JAN 18 11 55 AM '01

OFC. OF THE AUDITOR
STATE OF HAWAII

January 17, 2001

Ms. Marion M. Higa
State Auditor
465 King Street, Room 500
Honolulu, Hawai'i 96813-2917

Dear Ms. Higa:

We appreciate the opportunity to provide comments regarding your draft report, *Allocation to New Century Schools Project – FY2000-01*.


We are in agreement with you that there is an inherent conflict for the State Auditor to be charged with developing the allocation to charter schools as it violates separation of powers. In addition, since the Department is bound by the auditor's determination of allocations to the charter schools, the Department cannot make any subsequent adjustments as it does with other public schools. Consequently, this action favors the charter schools since their budget does not face the same restrictions as do the other public schools.

We would like to respond to the allegation noted in "Appendix D – Issues Beyond the Scope of the Auditor's Responsibility," item 1 under "Federal Funds."

Let it be known that the Board of Education and the Department have met all federal requirements, including announcements and time frames for the distribution of federal funds to eligible charter schools.

Please contact Mr. Charles Higgins, Public Charter Schools Specialist, at 586-3236 if you have any questions regarding the information provided.

Very truly yours,


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

PLeM:ed

c: Laurel Johnston, Planning, Budget, and Resource Development
Deborah Oyama, Public Affairs Office