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Charter School Administrative Office

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December 31, 2008

Narrative

The effects of the economic downturn have begun to impact the charter schools in fiscal year 2008-09 in several ways. First, the amount of the per pupil appropriations to the charter schools declined in 2008-09 by 8.8%. Although the overall amount appropriated to EDN 600 in fiscal year 2008-09 increased from \$52,701,087 to \$59,670,891, a 13% increase, enrollments in charter schools also increased from 6,131 to 7,603, a 24% increase, over this same time frame. As a result, the per pupil amount declined from \$8,595.84 to \$7,841.76, a decrease of \$754.08 per pupil. This decrease is felt most acutely by charter schools with stable enrollments over these two years. Most of the enrollment growth occurred from the addition of four new schools - three new start-up schools and one new conversion school.

The decline in per pupil funding will continue and become worse into the biennium budget years if the funding for charter schools remains unchanged from the current Governor's approved level of \$60,046,281. This is the case because of projected enrollment growth for the charter schools from the current level of 7,603 to 8,488 an increase of 885 students. This is the projected growth in enrollment for current extant charter schools. The resultant change in per pupil funding is a projected decrease to \$7,074.26 a decrease of more than 9% from the 2008-09 per pupil amount or a combined two year decrease of 17.7%.

In order to avoid this disastrous outcome the charter schools respectfully request that serious consideration be given to increasing the per pupil amount so that the per pupil amount remains no lower than the current per pupil amount of \$7,841.76. This would result in the continuation of the cut in funding at the school level of 8.8%. The added funding needed to accomplish this is \$6,514,540.

The charter schools are also feeling the impacts of budget cuts made by the Department of Education (DOE). The DOE has included in their budget reductions a cut in the School Service Coordinators provided in the past by the DOE as part of its obligation to provide resources to the charter schools for the operation of the special

education programs. This cut eliminates the funding for the 28 SSCs currently funded by the DOE. These positions are essential for the operation of the special education programs for charter schools. The total amount of this cut is \$1,871,565, this amount is the minimum cost increase to be felt by the charter schools in order to continue to fund these positions. In addition, the charter schools are impacted by cost increases passed on by the DOE for services provided under the Memorandum of Agreement between the charter schools and the DOE for selected services (primarily payroll/personnel services) and cost transfers impacting the conversion schools related to health aides.

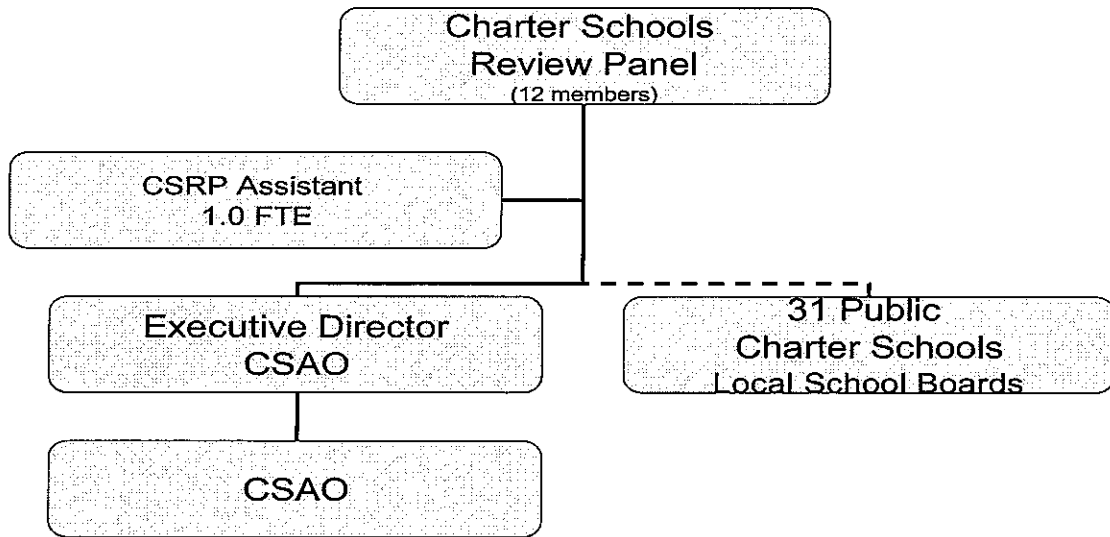
On behalf of the Public Charter Schools, mahalo for the opportunity to discuss these issues with you and mahalo for your continuing support for the public charter schools of Hawai'i.

Mission Statement:

The mission of the CSAO is to provide advocacy, assistance and support for the development, growth, progress and success of charter schools and the charter school system in Hawai'i in accordance with applicable state and federal laws.

Organizational Chart:

Charter Schools System Organizational Chart:



The dashed line linking the CSRP with the 31 Public Charter Schools is indicative of the autonomy of the charter schools. While the CSRP may hold the charter schools accountable for academic, administrative and financial success, the charter schools are largely autonomous in deciding how these goals are to be achieved.

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October 6, 2008

MEMO TO: The Honorable Breene Harimoto, Chairperson
Board of Education Committee on Budget and Fiscal Accountability

FROM: Maunalei Love, Interim Executive Director
Charter School Administrative Office

SUBJECT: **CHARTER SCHOOLS' OPERATING AND CIP BUDGET REQUESTS
FOR BIENNIUM FISCAL YEAR 2009-11**

1. RECOMMENDATION

It is recommended that the Board of Education Committee on Budget and Fiscal Accountability accept the Charter Schools' Operating and CIP Budget Request for the 2009-11 Biennium as approved by the Charter School Review Panel. The Charter Schools' Operating Budget Request for 2010 and 2011 totals \$74,131,060 and \$82,081,477 respectively. The Charter Schools' CIP budget request for 2010 totals \$11,543,368.

2. RECOMMENDED EFFECTIVE DATE

Upon approval.

3. RECOMMENDED COMPLIANCE DATE

Upon approval.

4. DISCUSSION

a. Conditions leading to the recommendation

HRS 302B-8 provides that the Charter School Administrative Office is responsible for preparing and executing the budget for the charter schools including submission of the budget request to the board, the governor and the legislature. The Department of Budget and Finance's deadline for submittal of the Charter Schools Budget request is October 10, 2008.

On September 7, 2007 the CSAO received a letter from the BOE clarifying the Board and the Panel's responsibilities regarding the approval of the charter schools biennium and supplemental budgets. Specifically, this letter recognizes the CSRP's responsibility in approving the charter schools biennium and supplemental budget submissions while also recognizing that the statute continues to require that the charter school budget be presented to the BOE before submission to the Governor.

On September 11 2008, the Charter Schools Administrative Office received from the Department of Budget and Finance budget instructions, related memoranda and forms to be used as guidelines in preparing the Charter Schools budget request for the upcoming biennium (2009-11). In summary, the instructions include information describing the State's fiscal condition with softening revenues projected to continue through the second year of the biennium. The overall gap between State revenues and State expenditures is estimated to total over \$900+ million through the second year of the biennium.

Because of the seriousness of the fiscal challenges facing the State, the budget guidelines require that all departments prepare their executive budget requests using a three tier format. Per the budget guidelines: *"Three budget packages must be developed and submitted to correspond to Tier 1 (minus 10%), Tier 2, (minus 15%) and Tier 3 (minus 20%). These plans are needed for the development of a balanced budget, as required by the State Constitution."* However, per B&F, these tiered reductions were to be applied to each department's discretionary funding. Because the charter schools budget has no discretionary funding the tiers were revised to Tier 1 (minus 1%), Tier 2 (minus 2%) and Tier 3 (minus 3%).

These tiered reductions ignore the statutory requirement that the CSAO submit its budget request based upon a formula (HRS 302B-12). As a result, after consulting with the B&F analyst assigned to charter schools, and consulting with leadership from the charter schools the CSAO choose to submit a budget request on behalf of the charter schools which is in conformance with HRS 302B-12 and in excess of the budget ceiling (and therefore also above each of the three tiered reductions as directed by the Department of Budget and Finance). Because the recommended operating budget request is in excess of the budget ceiling, it makes no sense to also submit a budget request complying with the tiered reductions requirement.

On September 25, 2008 the CSRP approved the charter schools biennium operating budget request as presented in the following list. The CSAO recommends that the charter schools' supplemental budget request for fiscal year 2010 and 2011, totaling \$74,131,060 and \$82,081,477, respectively and which includes the items listed below, be accepted by the Board of Education's Committee on Budget and Fiscal Accountability.

Highlights of the operating budget request are as follows:

| <u>DESCRIPTION</u> | FY 2009-10 Request | FY 2010-11 Request |
|---|-------------------------------|-------------------------------|
| <p>Current Operating Budget Ceiling: This is the budget ceiling as established by the Department of Budget and Finance for charter schools. It was derived by combining the 2008-09 charter schools appropriation of \$57,745,483 and the 2009-11 Collective Bargaining adjustment of \$2,300,798. The collective bargaining adjustment was calculated by B&F using payroll data supplied by the CSAO and the charter schools.</p> | \$60,046,281 | \$60,046,281 |
| <p>Statutory Funding Formula Adjustment: Applying the provisions of law, Section 302B-12(a) for estimated enrollment increases and changes in the funding base based on the most recently approved executive budget recommendations for the department (2008-09 DOE) yields the increase in funding requested. The revised funding equates to a per pupil funding amount of \$8,247.31 for 2009-10 and 2010-11. This funding level is higher than the current per pupil funding level for charter schools (2008-09 - \$7,396.86, est.) which incurred an 11.7% cut below the prior year funding level.</p> <p>The other factor impacting this adjustment is projected charter school enrollments in each year of the biennium. Enrollments in existing charter schools are projected to increase to 8,488 students in 2009-10 and 9,452 students in 2010-11.</p> <p>Calculations showing how these amounts were determined are included as Attachment 1.</p> | 10,006,886 | 17,957,293 |
| <p>Funding Adjustment for Charter School Student Services Coordinators: On September 24, 2008 the Department of Education announced that it was including in its budget request a cut in funding for 28</p> | 1,871,565 | 1,871,565 |

| <u>DESCRIPTION</u> | <u>FY 2009-10 Request</u> | <u>FY 2010-11 Request</u> |
|--|-------------------------------|-------------------------------|
| <p>Student Services Coordinators funded by the Department for charter schools. These positions fill an essential role at the charter schools regarding compliance with Federal and State requirements pertaining to SPED and other essential student/school functions. The charter schools cannot eliminate these positions. Instead, the DOE's cut in reality becomes a transfer in the obligation to fund these positions from the DOE to the charter schools. Therefore we are including the cost of the 28 SSC positions in this request.</p> | | |
| <p>Funding Adjustment for New Schools: There is currently one open slot for new start-up charter schools. Estimated enrollment for the first two years of this projected new start-up school is 250 students. Using the same pupil amount as requested for existing charter schools (\$8,247.31) yields an overall increase in funding necessary for this item of \$2,061,828.</p> | 2,061,828 | 2,061,828 |
| <p>Charter School Review Panel: This item will provide specific funding for the operations and staffing of the charter school review panel. HRS 302B-3(k) provides that <i>"The office shall provide staff support and expenses of the panel."</i> However, the CSAO does not have the financial capacity to fund the ongoing staffing and operations of the panel and provide for its other responsibilities under the statute. In the CSRP's first year of operations the CSAO has provided funding to support the CSRP. In its second year of operations the State provided \$50,000 to support the operations of the CSRP. However, even after making significant cuts to the normal needs of the CSRP the 2008-09 budget for the CSRP requires resources totaling \$194,510. Providing the additional funding to support the CSRP on an ongoing basis is beyond the CSAO's financial capacity.</p> | 144,500 | 144,500 |
| <p>Grievance Process Funding: Section 302B-8(e)(4), Act 298, SLH 2006, requires the CSAO to include in its budget request additional funds to cover the costs of arbitration in the grievance process. The CSAO has been informed by the State Attorney General's Office that these costs are estimated to be \$40,000</p> | 0 | 0 |

| <u>DESCRIPTION</u> | <u>FY 2009-10</u> <u>Request</u> | <u>FY 2010-11</u> <u>Request</u> |
|--|-------------------------------------|-------------------------------------|
| per year. Although the statute requires that the CSAO include this item in its budget request it has never been funded. As a result, in order to comply with the statute the CSAO recommends submitting a request for zero funding for this item | | |
| Substitute Teacher Funding: As with the preceding item Section 302B-8(e)(2), Act 298, SLH 2006, requires the CSAO to include in its budget request to the legislature a request for additional funds to cover the costs of substitute teachers needed when a teacher is out on vacation or sick leave. This cost has been estimated by polling the schools regarding their most recent experience and extrapolating that data using projected enrollments. However, because of past experience, and the current budget situation, the CSAO recommends a request for zero funding for this item. | 0 | 0 |
| Total: Charter Schools Operating Budget Request | <u>\$74,131,060</u> | <u>\$82,081,477</u> |

The CSAO also requested that charter schools submit requests for capital improvement projects for major maintenance, repair or improvements to existing facilities during fiscal year 2009-10. Budget guidelines from the Department of Budget and Finance stated the following: "For the upcoming biennium, the Capital Improvement plan shall focus on an expanded Major Repair and Maintenance program to get projects out quickly to address the current backlog and, at the same time, provide a stimulus to Hawaii's economy. Planning, design or construction of new buildings to be funded with general obligation bonds is greatly discouraged." The following table summarizes the requests that have been received by the CSAO from the schools as of September 23, 2008:

Summary of Charter Schools CIP Requests

| School | R&M /Improvement to Existing | Related Equipment | Total |
|----------------------------|------------------------------|-------------------|----------------------|
| HALAU KU MANA-PCS | | 9,000 | 9,000 |
| KIHEI PC HIGH SCHOOL-PCS | 40,000 | | 40,000 |
| KANUIKAPONO-PCS | 60,000 | 19,000 | 79,000 |
| CONNECTIONS-PCS | 408,000 | | 408,000 |
| NAWAHI IKI LAB-PCS | 17,500 | | 17,500 |
| VOLCANO SCH OF A&S-PCS | 50,000 | | 50,000 |
| KANU O KA'AINA-PCS | 2,680,000 | | 2,680,000 |
| HI ACADEMY OF A&S-PCS | 102,500 | | 102,500 |
| WAIMEA MID-PCCS | 435,000 | | 435,000 |
| KA 'UMEKE KA'EO-PCS | 158,000 | | 158,000 |
| WATERS OF LIFE-PCS | 475,420 | 69,170 | 544,590 |
| MYRON THOMPSON ACAD-PCS | 4,735 | | 4,735 |
| KA WAIHONA O KA NAAUAO-PCS | 255,934 | | 255,934 |
| WEST HI EXPLOR ACAD-PCS | 48,000 | 57,473 | 105,473 |
| KE ANA LA'AHANA-PCS | 39,200 | 9,000 | 48,200 |
| KUALAPU'U ELEMENTARY | 5,500,000 | | 5,500,000 |
| KAWAIKINI | 375,436 | | 375,436 |
| Total | \$ 11,379,725 | \$ 163,643 | \$ 11,543,368 |

The table above summarizes the requests from the charter schools and presents only those items for R&M, Improvements to existing facilities and related equipment. The CSRP approved the CIP requests for R&M/Improvements and Related Equipment as presented above on September 25, 2008.

- b. Previous action of the Board on the same or similar matter

The Board of Education approved the Charter Schools 2008-09 Supplemental Budget request on October 4, 2007.

- c. Other policies effected

Board Policy No. 1200-1.12, "Department of Education Budgets" states the Board's roles and responsibilities in reviewing the budget. The policy states, in pertinent part:

"The establishment of budget priorities is one of the primary ways in which the Board of Education (BOE) articulates its policies for the Department of Education (DOE). The review of the biennial and supplemental budgets that specify the ways in which funds are expended is the process through which the BOE exercises its responsibility in order to monitor the programs of the DOE to evaluate their contribution to student success..."

- d. Arguments in support of the recommendation

The approval of this budget request will allow the CSAO to submit the Charter Schools 2009-11 Biennium Budget request to B&F for consideration in the Executive Budget submittal to the 2009 Legislature.

e. Arguments against the recommendation

The Executive Branch may object that the budget request is too high in relation to the instructions from B&F.

f. Findings and conclusions of the Board committee

Not Applicable

g. Other agencies or departments of the State of Hawaii involved in the action

B&F and the Governor's Office will review the request and will submit the Executive Supplemental Budget to the Hawaii State Legislature for the 2009 Regular Session.

h. Possible reaction of the public, professional organizations, unions, DOE staff, Charter school staff and/or others to the recommendations

Some members of the public, professional organizations, unions, DOE staff, and charter school staff may believe that although the Charter Schools Budget request is increased over the previous year that it is still insufficient to meet the charter schools' needs.

i. Educational implications

Charter schools are held accountable, as are all public schools, to meet the Hawaii Content and Performance Standards.

j. Personnel implications

Personnel decisions are under the purview of the charter schools and their local school boards.

k. Facilities implications

The budget request includes resources for the start-up charter schools to lease and/or improve facilities and facilities maintenance.

l. Financial implications

This biennium operating budget request for fiscal year 2009-10 is in the amount of \$74,131,060 and for fiscal year 2010-11 the amount of the request is \$82,081,477. The Charter Schools Operating Budget request includes items that

are critically needed to achieve the charter schools' goals and those of the CSRP & Board.

The biennium CIP budget request for fiscal year 2009-10 totals \$11,543,368. These major repair, maintenance, renovation and improvements to existing facilities projects represent requests from the charter schools that are important to their ability to continue to provide quality educational services to public charter school students.

5. OTHER SUPPLEMENTARY RECOMMENDATIONS

None.

**Charter Schools Administrative Office
Operating and Capital Budget Contacts
Biennium Budget 2009-11**

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