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October 4, 2006

MEMO TO: The Honorable Garrett Toguchi, Chairperson  
Committee on Budget and Fiscal Accountability

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

SUBJECT: **DISCUSSION/RECOMMENDATION FOR BOARD ACTION ON THE  
CHARTER SCHOOL ADMINISTRATIVE OFFICE OPERATING  
BUDGET REQUEST FOR FISCAL BIENNIUM 2007-09**

**1. RECOMMENDATION**

It is recommended that the Board of Education (Board) Committee on Budget and Fiscal Accountability (Committee) approve the Charter Schools Biennium Operating Budget request for fiscal years 2007-09.

The Charter Schools 2007 budget ceiling is \$47,456,143. The Charter Schools Operating Budget request for fiscal year 2007-08 totals \$58,378,903. The Charter Schools Operating Budget request for fiscal year 2008-09 totals \$61,866,717.

**2. RECOMMENDED EFFECTIVE DATE**

Upon approval.

**3. RECOMMENDED COMPLIANCE DATE**

Upon approval.

#### 4. DISCUSSION

a. Conditions leading to the recommendation

On August 3, 2006, the Charter School Administrative Office (CSAO) received budget preparation instructions from the Department of Budget and Finance (B&F). Attachment A includes B&F's budget forms as completed by the CSAO for the Charter Schools Budget request. B&F's deadline for submittal of the Charter Schools Budget request was September 11, 2006. Because of the scheduling differences, a draft copy of this request was submitted to B&F on September 11, 2006, with the understanding that changes may be necessary due to Board changes.

The CSAO recommends that the Charter Schools Biennium Operating Budget request for fiscal year 2007-08 totaling \$58,378,903 and for fiscal year 2008-09 totaling \$61,866,717, which includes the items listed below, be approved.

Highlights of the budget request are as follows:

<b>DESCRIPTION</b>	<b>FY 2007-08</b>	<b>FY 2008-09</b>
<b>Current Operating Budget Ceiling:</b> This is the current funding level for charter schools adjusted by the Department of Budget and Finance for estimated collective bargaining costs in fiscal years 2007-08 and 2008-09. This ceiling is inclusive of \$3,174,000 for start-up charter schools facilities costs, \$42,612,762 for charter school operations allocated on a per pupil basis, and \$1,669,381 for estimated collective bargaining costs for Charter School employees paid through the Department of Education's (DOE) system.	\$47,456,143	47,456,143
<b>Current Service Adjustment:</b> Applying the provisions of law, section 302B-12(a), Act 298, Session Laws of Hawaii (SLH) 2006, for estimated enrollment increases and changes in the funding base based on the Department of Education's most recently published Comprehensive Annual Financial Report (CAFR) (2004-05) yields the increase in funding requested. Most of this increase is due to projected increases in enrollment. The revised funding equates to	3,499,302	6,384,791

DESCRIPTION	FY 2007-08	FY 2008-09
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a per pupil funding amount of \$6,969.78 for both fiscal year 2007-08 and 2008-09. The current per pupil funding amount is \$6,940.33

<p><b>Per Pupil Adjustment to DOE’s 2006-07 Budget:</b> This request further revises the per pupil funding for charter schools using as a base the Department of Education’s 2006-07 budget (vs. the 2004-05 CAFR). There is precedent for this request in that in the 2006-07 fiscal year the charter school’s funding was legislatively increased to reflect per pupil equity with the 2006-07 proposed DOE budget.</p>	1,355,305	1,440,113
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In calculating this adjustment the Department of Education’s 2006-07 total budget was analyzed so that federal funds, special education funds, fringe benefit costs, and debt service amounts were excluded from the base. The revised per pupil amount using this methodology is \$7,174.63. This represents a 3.3% increase over the 2006-07 per pupil funding. The most recent U.S. Department of Labor statistic for Consumer Price Index (inflation) for Hawaii is 5.9%.

<p><b>Facilities Adjustment for Increase in Projected Enrollment:</b> This request increases the total amount of funding provided for facilities in 2006-07 due to increases in projected enrollments at existing start-up charter schools. This adjustment will allow the per pupil amount for facilities funding at start-up charter schools to remain at \$686.12.</p>	187,997	452,153
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<p><b>Facilities Adjustment Based on DOE Debt Service:</b> This request adjusts the facilities funding for start-up charter schools from the \$686.12 per pupil currently funded to a funding level</p>	2,970,089	3,203,450
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DESCRIPTION	FY 2007-08	FY 2008-09
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equivalent to the per pupil debt service amount included in the DOE budget (\$1,292.26).

<p><b>Operations Funding for Three Additional Start-Up Charter Schools:</b> Section 302B-4, Act 298, SLH 2006, provides that a new start-up charter school may be authorized by the Charter School Review Panel and the State Board of Education for each existing start-up charter school that receives a three year or longer accreditation from the Western Association of Schools and Colleges or a comparable accreditation authority. Currently three start-up charter schools have received such accreditation (Kihei, Myron B. Thompson Academy and West Hawaii Explorations Academy).</p>	2,152,389	2,152,389
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Funding for this request is contingent upon the actual approval of the new start-up charter schools. This request includes funding only for the operational costs for the potential new start-up schools. The operational costs have been calculated by estimating an average enrollment of 100 students for each of the potential new start-up charter schools and funding this enrollment at the same per pupil rate as that requested for the existing charter schools. A request to provide funding for facilities, comparable to the funding for existing start-up charter schools, is requested under a separate item.

<p><b>Facilities Funding for Three Additional Start-Up Charter Schools:</b> This item requests funding for facilities at the same rate of funding as requested for current start-up charter schools (\$1,292.26 per enrolled student). As with the request for operational costs funding, this request is contingent on the actual approval of the additional start-up charter schools.</p>	387,678	387,678
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DESCRIPTION	FY 2007-08	FY 2008-09
<p><b>Grievance Process Funding:</b> 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 per year.</p>	40,000	40,000
<p><b>Substitute Teacher Funding:</b> Section 302B-8(e)(2), Act 298, SLH 2006, requires the CSAO to include in its budget request to the legislature 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. The per diem rate for substitutes used in this estimate is \$136.</p>	330,000	350,000
<p><b>Total: Charter Schools Budget Request</b></p>	<u>\$58,378,903</u>	<u>\$61,866,717</u>

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

The Board approved the Charter Schools 2006-07 Supplemental Budget request on October 6, 2005.

- 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 Final 2007-09 Budget request to B&F for consideration in the Executive Budget submittal to the 2007 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 Budget to the Hawaii State Legislature for the 2007 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 includes, in the budget ceiling, resources for the start-up charter schools to lease and/or purchase facilities, facilities improvements, and facilities maintenance. A request to provide facilities funding for three potential new start-up charter schools has also been included in this request.

l. Financial implications

This Biennium Budget request for fiscal years 2007-08 and 2008-09 is in the amount of \$58,378,903 and \$61,866,717, respectively. The Charter Schools Operating Budget request includes items that are critically needed to achieve the charter schools' goals and those of the Board.

**5. OTHER SUPPLEMENTARY RECOMMENDATIONS**

None.