



Charter School Administrative Office

1111 Bishop Street, Suite 516
Honolulu, Hawaii 96813
Tel: 586-3775 Fax: 586-3776

October 11, 2012

MEMO TO: Karen Street – Chair Hawaii Public Charter Schools Commission

FROM: Roger McKeague, Executive Director
Bob Roberts, Chief Financial Officer
Charter School Administrative Office

SUBJECT: **CHARTER SCHOOLS' OPERATING AND CIP BIENNIUM BUDGET
REQUESTS FOR FISCAL BIENNIUM 2013-15**

1. RECOMMENDATION

It is recommended that the Hawaii Public Charter Schools Commission approve the Charter Schools' Operating, Facilities and CIP Budget Request for the 2013-15 Biennium Budget.

Summary:

Description	MOF	FY 13-14	FY14-15
Budget Ceiling	A	\$63,062,494	\$63,062,494
Enrollment Adjustment	A	6,045,674	10,827,807
Facilities	A	7,556,758	7,868,889
Workers' Comp. Admin Fee	A	48,376	51,723
Charter School Audits	A	629,000	629,000
Commission	A	1,235,114	1,235,114
Total General Funds	A	\$78,557,416	\$83,675,027
CIP	C	\$10,746,000	\$21,005,000

2. RECOMMENDED EFFECTIVE DATE

Upon approval.

3. DISCUSSION

a. Conditions leading to the recommendation:

Act 130 Section 3(b)(1) 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 Commission, the Governor and the Legislature. The Department of Budget and Finance's deadline for submittal of the Charter Schools Budget request is October 12, 2012. Budget instructions were issued by the Department of Budget and Finance on September 14, 2012.

The budget instructions include information describing the State's fiscal condition with concern over continuing challenges within the State's economy including possible impacts from federal sequestration, the fiscal cliff and the State's desire to recapitalize reserve funds and address unfunded liabilities in the Employees' Retirement System and Employer-Union Health Benefits Trust Fund.

The budget instructions include a list of general policies to be used for the development of the Executive Budget Request for FB 2013-15. Within these policies are the following priorities to reflect the Administration's commitment and focus to:

- Provide immediate job growth as we shift Hawaii's economy to a sustainable foundation.

We must work with determination to accelerate economic recovery in all sectors of the State's economy. Our continuing efforts to expedite New Day Work Projects must continue, as the energy and expenditures generated by moving our CIP quickly and purposefully will support our infrastructure needs while producing job growth and stimulating Hawaii's economy.

- Invest in the education, skills and well-being of Hawaii's people.

Hawaii's most valuable asset, its people, must be provided the opportunity to reach and live their lives to their fullest potential. Early childhood education is a vital stepping stone for our keiki and we are committed to ensure that resources for public schools are used appropriately to best serve all students.

- Transform State government into an efficient and effective enterprise.

State government must be able to serve its customer, the public, in the most proficient manner. Our ongoing task is to makeover State government operations to best manage our resources. Technology improvements that will take place through the proposed Enterprise Resource Planning program will greatly assist in this endeavor.

As in past years, B&F has established a budget ceiling for the charter schools for the biennium budget year. The budget ceiling has been determined as follows:

Act 106/2012 FY2013 Appropriation (General Funds)	\$61,757,919
add: Labor Savings	<u>1,304,575</u>

Total Charter Schools Budget Ceiling FB2013-15 **\$63,062,494**

The CSAO prepared the operating funds budget request using the concepts described in statute (Act 130 Section 28). The basis for the formula calculations used in determining the operating budget request was the allocation included in Act 106 plus an adjustment to include projected enrollment increases (Attachment 1). Formula adjustments based on the Department of Education's biennium budget request have not been reflected in the charter schools budget request because the DOE's budget request will not be available to the CSAO until October 19, 2012.

The CSAO has also prepared a facilities funding request based on statutory authority included in Act 130 Section 3(b)(1) and using projected facilities costs during the biennium as provided by the charter schools. This element of the budget request is based on estimated facilities costs that charter schools submitted to the CSAO and is summarized in Attachment 2.

The budget documents required by the Department of Budget and Finance, Form A and Form B, included with this request also include the Commission's Biennium Budget request previously approved by the Commission at the September 13, 2012 meeting.

DETAILS OF THE CSAO RECOMMENDATION

Specific elements the charter schools' budget request are as follows:

Description	FY2013-14	FY2014-15
Budget Ceiling: This is the original budget ceiling as established by the Department of Budget & Finance.	\$63,062,494	\$63,062,494
Operating Funding Adjustment: Applying the provisions of Act 130 Section 28 for estimated enrollment increases only. This added funding would result in an operating funding per pupil amount of \$6,045.68. See Attachment 1 for details regarding this calculation. Upon the Department of Education's biennium budget request approval by B&F and the Governor this amount will be adjusted to reflect formula adjustments due to any changes in DOE funding that are not reflected here.	6,045,674	10,827,807
Net Budget Request for Funding for Charter School Operations	<u>\$69,108,168</u>	<u>\$73,890,301</u>

Description	FY2013-14	FY2014-15
<p>Lump-sum Funding Request for Facilities: This request is submitted per the authority of Act 130 Section 3(b)(1) which includes a provision for the submission of a “needs based” facilities funding request. See the Attachment 2 for details regarding how the amounts for this request were determined.</p>	<u>\$7,556,758</u>	<u>\$7,868,889</u>
<p>Funding Request for DHRD Workers’ Compensation Administration Fee: This budget item is submitted to request separate funding for the statutorily required fee to be paid to the Department of Human Resource Development to administer workers’ compensation claims for charter schools. Per Act 130 (and previously in HRS 302B) DHRD is responsible for the administration of all workers’ compensation claims for charter school employees. DHRD receives, per statute .07% of the state general fund appropriation for providing this service. In past years this was paid from CSAO resources. However the budget that the Commission received and approved at its September 13, 2012 meeting did not include this cost. Therefore, CSAO recommends that it be incorporated into the overall charter schools’ budget request.</p>	<u>\$ 48,376</u>	<u>\$51,723</u>
<p>Funding Request for Audits Costs of Charter Schools: This budget item is submitted to request separate state funding for the estimated costs for each charter school to undergo annual, independent audits. Although the Department of Education (DOE) also undergoes an annual audit the proportionate cost to charter schools for this is much higher than that borne by the DOE. The DOE’s costs are proportionately less at least partially because the auditors can use audit sampling techniques rather than audit each school individually. Each charter school, regardless of size, must undergo an annual, independent financial audit. These audits are important and provide a valuable service to the State and other users of the audited financial reports. However, it also represents a financial burden on the charter schools that is unique in Hawaii State government. The amount was estimated by extrapolating a per audit cost of \$17,000 to 37 charter schools.</p>	<u>\$629,000</u>	<u>\$629,000</u>

CIP Request:

The CSAO further recommends that the CSRP approve the submission of CIP requests as submitted by the charter schools to the CSAO for the 2013-15 biennium budget in the amount of \$10,746,000 for FY13-14 and \$21,005,000 for FY 14-15 (See Attachment 3 for a list of the individual projects that make up this amount). Only projects that qualify as CIP projects have been included in this amount and on the attached schedule.

b. Previous action on the same or similar matter

The Charter School Review Panel approved the Charter Schools 2012-13 Supplemental Budget request on November 10, 2011. The Charter School Commission approved the FB13-15 budget request for the Hawaii Public Charter Schools Commission on September 13, 2012.

c. Other policies effected

None.

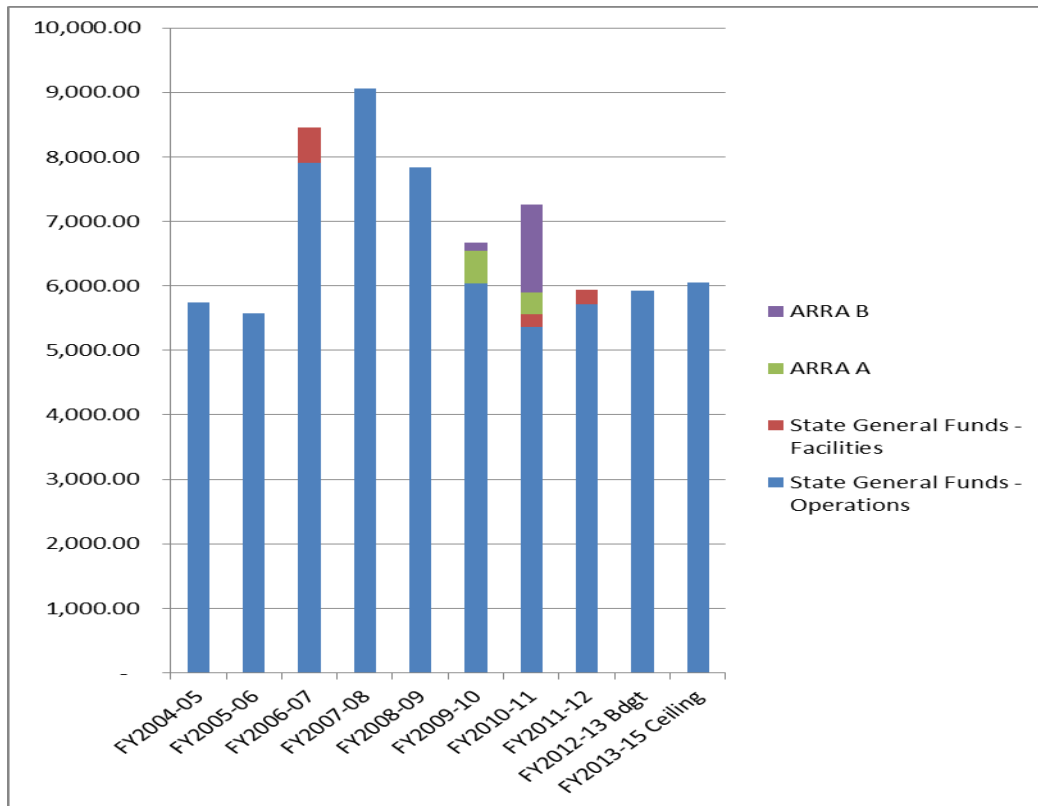
d. Arguments in support of the recommendation

This budget request has been prepared in compliance with concepts incorporated within formulas included in statute. The approval of this budget request will allow the CSAO to submit the Charter Schools 2013-15 Biennium Budget request to B&F for consideration in the Executive Budget submittal to the 2013 Legislature.

As can be seen from the following table, enrollment in charter schools has seen continual growth since the inception of charter schools in Hawaii. Further enrollment growth at many of the charter schools is limited by available space within their facilities. Prior statutory caps on the number of charter schools have also limited the growth in enrollments.

Year	Total CS Enrollment (10/15)	Real Growth Over Prior Year	% Growth Over Prior Year	No. of C.S.
2001-02	3,066			22
2002-03	3,350	284	9.26%	25
2003-04	4,502	1,152	34.39%	26
2004-05	5,305	803	17.84%	27
2005-06	5,744	439	8.28%	27
2006-07	5,812	68	1.18%	27
2007-08	6,131	319	5.49%	27
2008-09	7,603	1,472	24.01%	31
2009-10	8,098	495	6.51%	31
2010-11	9,018	920	11.36%	31
2011-12	9,339	321	3.56%	31
Ave. Actual % Change			12.19%	
2012-13 proj.	10,097	758	8.12%	32
2013-14 proj.	11,431	1,334	13.21%	37
2014-15 proj.	12,222	791	6.92%	37
Average			11.55%	

As can be seen from the following table per pupil funding for charter schools has declined significantly since FY 2007-08. Per pupil funding was augmented in 2009-10 & 2010-11 with Federal ARRA funds. However, with the expiration of these programs and without any adjustment in funding, the per pupil amounts in the most recent actual years were less than \$6,000 per pupil.



e. Arguments against the recommendation

The Executive Branch may object that the budget request is too high in relation to the current fiscal outlook.

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 2013 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 charter schools to lease and/or improve facilities and facilities maintenance. This budget request reflects changes in the statute that occurred during the 2011 legislative session that recognized the legitimate need to provide resources to charter schools in order that they may address their facilities needs.

l. Financial implications

The biennium budget request for state general funds in fiscal year 2013-14 is \$78,557,416 and in fiscal year 2014-15 is \$83,675,027. The Charter Schools operating budget request includes items that are critically needed to achieve the charter schools' goals and those of the Public Charter Schools Commission & the State of Hawai'i.

The biennium CIP budget request for fiscal year 2013-15 totals \$31,751,000. These major repair, maintenance, renovation and improvements to existing facilities projects and requests for new facilities represent requests from the charter schools that are important to their ability to continue to provide quality educational services to public charter school students.

4. OTHER RECOMMENDATIONS

None.