

CHARTER SCHOOLS FUNDING TASK FORCE
FINAL REPORT TO THE 2011 STATE OF HAWAII LEGISLATURE

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Executive Summary

The Charter Schools Funding Task Force was convened by the 2010 Legislature to examine various issues pertaining to charter school funding. The Task Force was made up of members of the legislature, the charter school community, the Department of Education and the Department of Budget and Finance. The Task Force met nine times over August through December 2010. The Task Force examined each of the items identified within SCR108. Because of the significance of facilities funding for charter schools that issue became the primary focus of the Task Force. In addition to the Task Force recommendations The Task Force found:

- that changes made in statute during the 2010 legislative session helped to clarify the funding formula for charter school operations,
- that some variances continue to exist in funding for charter schools specifically with SPED, Federal Funding and other non-general fund appropriations,
- that the Department of Education's appropriations for routine repair and maintenance are only partially reflected in the funding formula for charter school appropriations,
- that a portion of the amount apportioned for operating funding for charter schools, per the statutory funding formula was redirected, per budget proviso, to create a funding source for charter school facilities.

As a result of its work the Task Force recommends the following two actions take place:

- Revise the language in the statutory formula for funding charter school operations such that State General Fund appropriations included for neighbor island schools routine repair and maintenance (AGS 807) costs are included within the base calculation used to determine the per pupil amount for charter school operations.
- Include a new funding formula in statute for a facilities "needs based" formula that considers the amount of building space needed to adequately house enrolled students at each charter school and that this formula:
 - Take into consideration the differing amounts of space needed to adequately provide for primary age students and secondary age students
 - Take into consideration the amount of building space provided at no cost to the charter school (generally from State of Hawaii sources)
 - Adjust the building space calculation for charter schools that have a reduced building space need due to incorporating a distance learning or online learning component to their program.
 - That this formula incorporate a factor for the approximate cost of leasing building space in urban and rural areas throughout the State of Hawaii
 - That the CSAO and CSRP be responsible for the appropriate distribution of the funding to the charter schools.

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Because of time constraints, the Task Force was unable to fully address all of the issues outlined in Senate Concurrent Resolution 108 and other issues presented to it during its investigations. These issues are identified in the Remaining/Unresolved Issues section of this report.

Background

SCR 108 Creating the Task Force

The Charter Schools Funding Task Force (CSFTF) was created as a result of Senate Concurrent Resolution 108 (SLH, 2010) requesting the convening of a task force to establish a consistent funding formula, process, or both, by which equitable funding to charter schools is determined (see Appendix 1 for a copy of SCR 108).

SCR 108 further requests that the CSFTF examine the following in making its determination:

1. Detailed information on the existing funding sources of the charter schools' per pupil allocation;
2. Detailed information on the Department of Budget and Finance's method of calculating the Department of Education's per-pupil allocation and the charter school's per-pupil allocation amounts;
3. Discrepancies and the reasons for discrepancies in calculations of per-pupil allocations for non-charter public schools and charter schools by various agencies; and
4. The portion of debt service, repair and maintenance, and capital improvement expenses that should be paid by charter schools.

Membership of the Task Force

Representatives of various departments and offices of listed organizations were requested to convene as members of the Task Force. The following individuals were the members of the Charter Schools Funding Task Force:

1. Marcus Oshiro, Chairperson of the House Committee on Finance
2. Donna Mercado Kim, Chairperson of the Senate Ways and Means Committee (recused herself from the Task Force after the December 6, 2010 meeting)
3. James Brese, CFO of the DOE
4. Georgina Kawamura, Director of Finance (represented by Neal Miyahira during most of the meetings)
5. Megan McCorriston, Executive Director of Ho`o ka ko`o Corporation
6. Alapaki Nahale-a, Executive Director of the Hawaii Charter Schools Network (replaced by Steve Hirakami starting with the December 13, 2010 meeting)
7. Bob Roberts, CFO of the CSAO
8. Carl Takamura, Charter School Review Panel

Meetings of the Task Force

The Task Force met 9 times (August 16, September 1, September 28, October 26, November 15, November 29 and December 6, December 13 and December 20). See Appendix 2 for Agendas and Meeting minutes of these meetings.

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Issues that were considered by the Task Force

SCR 108 identified four issues for the Task Force to examine. The following paragraphs describe the issues to be examined and the actions taken by the Task Force:

1. Detailed information on the existing funding sources of the charter schools' per pupil allocation:

This issue was addressed at length in the report submitted to the Task Force from the Senator Takamine Work Group. The Task Force received this report and a presentation from members of the work group. In addition the Task Force requested and received follow-up information pertaining to the findings of the Work Group report. These events occurred during the August 16 and September 1, 2010 Task Force meetings and are described in more detail later in this report. Information pertaining to the existing funding sources of the charter schools' per pupil allocation is included in Appendix 3.

2. Detailed information on the Department of Budget and Finance's method of calculating the Department of Education's per-pupil allocation and the charter school's per-pupil allocation amounts:

This issue was addressed by the submission of information provided by the Department of Budget and Finance's representative to the Task Force which stated that B&F follows the formula included in statute in calculating the per pupil allocation for charter schools. A sample calculation of the methodology used by the Department of Budget and Finance in determining its recommendation for Charter School appropriations is provided in Appendix 12.

3. Discrepancies and the reasons for discrepancies in calculations of per-pupil allocations for non-charter public schools and charter schools by various agencies:

As with the information pertaining to the funding sources for charter schools, this issue was addressed in the Work Group report, Appendix 3. Readers of this report interested in further information on this subject are referred to that document. The Task Force addressed this issue by focusing on the single largest discrepancy in charter school funding – facilities.

4. The portion of debt service, repair and maintenance, and capital improvement expenses that should be paid by charter schools.

This issue is addressed by the Task Force in its recommendation for a new "needs based" facilities funding formula for charter schools.

Funding Formula, Facilities Funding and Related Issues

August 16, 2010

The first meeting of the CSFTF occurred on August 16, 2010. At this meeting members introduced themselves and discussed the rules under which the Task Force would conduct

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its business. Representative Oshiro was elected the Chair of the Task Force and Senator Kim was elected Vice Chair. The Task Force also discussed future meeting dates and data/reports to be presented at the next Task Force Meeting.

During this meeting a presentation was delivered by Taffi Wise and Katie Benioni, representatives of the group that met with Senator Takamine, to the Task Force. The result of this work was a series of recommendations that were included in a report from the Senator Takamine Work Group (hereinafter referred to as the Work Group report). A complete copy of the report, titled "Understanding Public School Funding Fiscal year 2009-10" is provided as Appendix 3. The following summarizes the recommendations of this group:

1. Create a reliable system to allow charter schools access to federal competitive grant opportunities.
2. Ensure that services provided in lieu of funding are equitable.
3. Move Non-SPED funding within EDN 150 to EDN 100.
4. Establish Charters as an LEA to access federal funding.
5. Give Charters a proportionate share of facilities funding.
6. Create a mechanism for post school opening funding adjustments.
7. Educate legislators and B&F on how the funding formula functions in relation to the budget appropriation.
8. Collaborate with the DOE in advocating for adequate per pupil funding.

At the conclusion of the August 16, 2010 meeting CSFTF members requested for their next meeting:

- Status of Recommendations from the Senator Takamine Work Group report
- Discussion regarding the pros and cons of future appropriations to charter schools being made on a formula basis or using the same process as other State Departments (formula v. line-item budget request).
- Discussion regarding the Budget Proviso language (Act 180) pertaining to charter schools and impacts due to that language.

September 1, 2010

At the September 1, 2010 Task Force meeting members received reports from Mr. Brese and Mr. Roberts regarding the current status of the recommendations of the Work Group report that was presented at the prior Task Force meeting (see Appendix 4). These items were discussed at length by the Task Force.

The Task Force also received information and discussed the concept of changing the appropriations process for charter schools from a formula basis to a line-item basis. Task Force members agreed that the impact on charter schools from the Budget Proviso language was adequately addressed during the discussion of the recommendations of the Work Group.

At the conclusion of this meeting the Task Force members agreed that the role of the Task Force be to "fine tune" the formula process rather than establishing a new funding mechanism or recommending that the charter schools funding process be based on a line-item request.

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Members also requested that the following items/issues be discussed at the next CSFTF meeting:

- Mr. Brese stated that at the next Task Force meeting, additional funding considerations will parallel those decisions made by the Legislature as described in the text of the DOE's response to KALO Recommendation #6 as presented in Status of 8 KALO Recommendations. Mr. Brese stated that facilities funding considerations and EDN 500 are the two biggest issues that the Task Force will need to consider for inclusion or exclusion.
- Mr. Takamura suggested that CIP funding should also be addressed at the next Meeting.
- Mr. Nahale-a suggested that facilities funding should be addressed, and how private dollars can be brought into the funding mix.
- Mr. Nahale-a asked that access to federal and SPED funding be considered in relation to how those funding dollars are spent in supporting the administrative office effort to secure and administer funding, and whether federal fund proposals should be done collectively or independently by Charter Schools.
- Mr. Takamura noted that it is the Panel's responsibility to examine fiscal accountability and to determine possible re-authorization of particular charters, and proposed that this issue be considered at the next Meeting.
- Mr. Miyahira said that an overview of State bond funding should be examined in regards to its role in supporting in-state educational facilities.
- Vice Chair Kim asked that a volunteer determine how other states are handling the facilities funding issue, and to present this at the next meeting.

September 28, 2010

Ruth Tschumy and Amy Vorderbruegge presented information to the Task Force regarding the CSRP's reauthorization process. Bob Roberts presented information regarding the template charter schools use in submitting budget and financial information to the CSAO and CSRP (Appendix 7).

Reports were also provided to the Task Force during this meeting regarding CIP funding for Charter Schools, Charter Schools Facilities Funding and Private Resources, an overview of State of Hawaii bond funding and research on how other states address charter schools facilities funding. At the conclusion of this meeting Chair Oshiro requested that Taffi Wise (Kanu o ka Aina Charter School) and Alapaki Nehala-e present information to the Task Force at their next meeting regarding Public-Private Partnership examples in Hawaii that aided in the funding of facilities for certain Hawaii Charter Schools.

October 26, 2010

At the October 26, 2010 Task Force Meeting Taffi Wise (Kanu o ka Aina) and Marci Sarsona (Ke Kula o Samuel Kamakau) delivered presentations regarding the specific efforts made by their charter schools in addressing the schools facilities needs through the use of public-private partnerships (appendices 8 & 9). Both of these presentations provided details as to how officials at these schools, creatively and efficiently developed solutions for the planning, design and financing phases of their facilities programs. However, for each school after these phases were completed the charter schools were left

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with debt service obligations which are currently funded from the charter schools operating funds.

Bob Roberts delivered a presentation regarding how public-private partnerships can be viewed as one element in comprehensive program of providing resources for the development of facilities for charter schools (Appendix 10). The primary conclusion of his presentation was that while private-public partnerships can help to pay for many of the up-front planning and design costs of facilities they rarely provide funding for construction costs. As a result, and per the examples provided by Kanu o ka Aina and Ke Kula Samuel Kamakau the current result of public-private partnerships in funding charter school facilities is unfunded debt service costs that are currently funded by charter schools from their operating funds.

Alapaki Nahala-e delivered a presentation regarding the political considerations regarding public-private partnerships (Appendix 11). Mr. Nahala-e stated that the purpose for charter schools is to elevate the success of all students. This is accomplished through innovation, reaching underserved populations of students and creating choice for parents and students. However, in order to achieve these goals charter schools need adequacy and equity in funding. This presentation also addressed the issue that the expectations for charter schools are different and that because charter schools have autonomy it appears that some believe they should not expect equity in funding. In fact charter schools are subject to all of the same academic, health and safety, collective bargaining and compliance issues as other public schools. With respect to the autonomy issue, charter schools do have a greater degree of autonomy than regular public schools, yet with all of the compliance issues this autonomy is not as great or expansive as is commonly thought.

At the conclusion of the October 26, 2010 meeting the Task Force members agreed to leave the agenda for the next meeting (November 15, 2010) open for discussion of the information that was provided to the Task Force during its prior meetings.

November 15, 2010

During this task force meeting members focused on the details of a formula to address facilities funding for charter schools. Several issues were identified during this discussion that had not been previously addressed:

Assuming that the formula suggested by Neil Miyahira forms the basis for the recommendation how will conversion charter schools facilities needs (primarily major repair & maintenance) be addressed?

How will the facilities needs of conversion schools that have an approved amended DIP to expand the grade levels that they serve beyond those grade levels where the conversion charter school is the school of record for students in that attendance area? Currently there is only one conversion charter school in this situation (Kamaile Academy). Task Force members discussed this issue and agreed that for schools in this situation that the enrollment due to the expanded grade levels would be counted as start-up school enrollment for the purposes of the proposed facilities funding formula.

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November 29, 2010

The Task Force met briefly on this date to discuss the elements of the Task Force Report.

December 13, 2010

During this meeting of the Task Force the members focused on the formula to be included in the recommendation. Representative Oshiro mentioned that during discussions with colleagues problems with the initially recommended formula came to light. The primary problem with the current (debt service based) version of the formula is that because it is based on debt service and enrollment it does not distinguish between charter schools that have a higher need for facilities funding and charter schools that have a lower need for facilities funding.

After much discussion the members of the Task Force agreed that a formula that was needs based would take into consideration the cost of leasing facilities within the geographical area that the school is located in, the amount of space that the school needs to adequately house the enrolled students and the amount of space that the charter school is currently occupying that is being provided at no, or very low cost, from State owned facilities. Steve Hiramami volunteered to present a sample of a “needs based” formula at the next task force meeting.

December 20, 2010

During this meeting Steve Hiramami presented an example, using data from Hawaii Academy of Arts and Sciences PCS, on how a “needs based” facilities funding methodology could work. This example was discussed by members of the task force. Bob Roberts agreed to draft formula language based on this example to be included in the final draft of the report.

Survey of Facilities Funding for Charter Schools in Other States

Task Force members received a copy of the 2010 Charter School Facility Finance Landscape (Appendix 6: Elise Balboni, 2010). This report summarized each of the significant facilities financing programs available to charter schools. The report identified the non-profit organizations, tax-exempt programs, federal initiatives and state initiatives that existed in 2010 for the purpose of supporting charter schools in developing school facilities. Further, the report provided a state-by-state analysis of the implementation of these programs within each state. This report concludes that a lack of access to appropriate public facilities or to public funding for facilities continues to be a major obstacle to charter school operators. Of the 40 states with a charter school law only 11 provide additional funding specifically for charter schools. As a result charter school operators have had to turn to a combination of public and private financing in order to address their facilities needs.

History of Facilities Funding for Charter Schools in Hawaii

In fiscal year 2006-07, the Hawaii State Legislature appropriated \$3,174,000 specifically to address the facilities needs of Hawaii’s charter schools. These funds were distributed by the CSAO to the 23 start-up charter schools operating in that year. The distribution to the start-up charter schools was based on the charter schools official enrollment count and was equal to \$686.12 per pupil.

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In fiscal year 2010-11, per requirements of Budget Proviso 39.1 (Act 180 SLH, 2010), up to \$1,909,049 in charter school operating funds were directed to be used to fund charter school facilities in an amount equal to \$197 per pupil with any excess funds being deposited into a special reserve account within the State Treasury. Because the actual official enrollment count was slightly under the projected enrollment count only \$1,778,122 of these funds were actually distributed to the charter schools. The remaining \$130,927 will be deposited into the special account as provided by law.

In no other years have State funds been appropriated to provide for the facilities costs incurred by the State's charter schools.

Findings

The Task Force finds that changes in statute made during the 2010 legislative session helped to clarify the calculation of the per pupil funding for charter school operations. This has been a process that has taken many years. The committee further finds that the next step in this process should be the development of a formula for funding charter schools facilities needs.

The Task Force finds that some variation remains in the appropriation of funding for charter schools. Specifically the task force noted variation in federal funding, SPED and other non-general fund appropriations. These variations may not be specific to charter schools; rather they appear to disproportionately affect small and rural schools.

The Task Force finds that the Department of Education public schools routine repairs and maintenance costs are only partially reflected in the DOE's budget. Oahu regular public school R&M costs are reflected in EDN 400 since DOE has assumed repair and maintenance operations on Oahu. However, neighbor island routine R&M costs are reflected in DAGS' budget AGS 807. This appropriation has not been included in the formula calculation for charter school operations.

The Task Force finds that in the 2010 legislative session that a portion of the charter school operating funds (\$197 per enrolled student), calculated per statutory formula, was redirected, per budget proviso, to provide a funding source for charter school facilities. The effect of this on charter schools was that no additional facilities funding beyond what was calculated per statute was provided. Rather an amount that should have been provided for operating funding was instead provided as facilities funding. This had the effect of decreasing the amount of resources available for the charter school for operations below the comparable amount provided to the DOE per statutory formula.

Recommendations

The Charter Schools Funding Task Force makes the following two recommendations to the Hawaii State Legislature:

- (1) Revise the language in statute such that the charter schools per pupil funding formula for operations includes within the formula base DAGS' appropriation code AGS 807

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(Neighbor Island Routine R&M). This appropriation, included within the DAGS budget, is for routine repair and maintenance of DOE neighbor island facilities and has been excluded from the charter schools funding formula in prior years. Routine repair and maintenance costs for DOE facilities located on the island of Oahu are included within the DOE's budget (EDN400) and has been part of the charter schools funding formula in past years.

- (2) Included in statute a new funding formula, distinct from the formula used to appropriate operational funding for charter schools, to address charter schools' facilities needs. It is recommended that the formula for calculating this appropriation be a needs based formula, that the CSAO & the CSRP be responsible for the appropriate distribution of these funds, and that the formula contain the following elements:

For each charter school, a calculation of the total square feet of authorized facilities space shall be computed. A separate calculation shall be made for students enrolled in primary grades (K-6) and students enrolled in secondary grades (7-12). The total authorized facilities space calculation shall be the sum of the primary grades and secondary grades calculations. Authorized space by definition, includes classroom space and common area space (cafeteria, administration, libraries, and all other indoor space).

These calculations shall be based on the number of students enrolled in the school (OEC) times a "students per square feet" factor. The students per square feet factor shall be comparable to the actual square footage per student provided to students enrolled in Hawaii's regular public schools. There shall be two factors calculated: (1) Students per square feet in primary grades and (2) students per square feet in secondary grades.

A calculation shall be made of the amount of "State of Hawaii" provided space. This calculation shall be made similar to the authorized space calculation and shall include all space provided to the charter school on a discounted or free basis by the State of Hawaii.

For charter schools that include distance learning, on-line learning or programs of a similar nature regardless of how the program is described, an adjustment factor shall be applied to the school's enrollment count for the purpose of making a reasonable approximation of the amount of space needed by the school for its operations.

Average annual cost per square foot of leased space, to be used in this calculation, shall be determined annually by the State of Hawaii Department of Accounting and General Services (DAGS).

The recommended formula to be used is as follows:

- (1) Number of enrolled students - primary grades times online learning adjustment factor times students per square feet in primary grades
- (2) Number of enrolled students - secondary grades times online learning adjustment factor times students per square feet in secondary grades
- (3) Total authorized square feet of space (1 plus 2)
- (4) Amount of space provided by the state of Hawaii
- (5) Net authorized square feet of space (3 minus 4)

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- (6) Facilities funding support (5 times average annual cost per square foot of leased space)

See Appendix 13 for an example of how this formula could be applied.

Remaining/Unresolved Issues

Because of the short time line available to the Task Force, and the complexity of the issues discussed, the Charter Schools Funding Task Force focused its attention on the issue of facilities funding for charter schools. As a result certain other issues were not addressed in detail. A partial list of these issues include: (1) charter schools access to federal funding; (2) charter schools access to special education services/funding; and, (3) access, as appropriate, by charter schools to other non-general funds (e.g. Developer Impact Fees, Hawaii School-level Minor Repair & Maintenance from State Individual Tax Returns).

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Appendices

1. Senate Concurrent Resolution 108 (2010)
2. Agendas and meeting minutes of the CSFTF
3. Understanding Public School Funding Fiscal Year 2009-10 (Senator Takamine Work Group Report)
4. Status Reports RE: Recommendations of the Work Group
5. No Appendix
6. Balboni, Elise et al. 2010 Charter School Facility Finance Landscape. Local Initiatives Support Corporation. June 2010.
7. Charter Schools' Standardized Financial Reporting Model, Fiscal Year 2010-11
8. Ke Kula `o Samuel M. Kamakau Laboratory Public Charter School's Presentation to the Charter Schools Funding Task Force (example of a public-private partnership)
9. Kanu o Ka Aina's "Where Aloha Lives." Presentation to the CSFTF (example of a public-private partnership)
10. CSAO's Charter Schools Facilities Funding – A Proposed Framework
11. HCSN's "The Politics of Charter Schools Facilities Funding."
12. Sample Department of Budget and Finance Charter Schools Appropriation Calculation
13. Sample Application of a "Needs Based" Facilities Funding Formula