

SCR154/SR116

Measure Title: REQUESTING A STUDY ON THE PER-PUPIL FUNDING SYSTEM FOR PUBLIC CHARTER SCHOOLS TO DETERMINE WHETHER THE SYSTEM FULFILLS ITS STATUTORY PURPOSE OF EQUALIZING OPERATIONAL FUNDING AMONG PUBLIC SCHOOLS.

Report Title: Public Charter Schools; Per-Pupil Funding; Study; Legislative Reference Bureau

Description:

Companion:

Package: None

Current Referral: EDU, WAM

Introducer(s): KIDANI, CHUN OAKLAND, Baker, Shimabukuro



Written Testimony

SCR154
REQUESTING A STUDY ON THE PER-PUPIL FUNDING SYSTEM FOR PUBLIC
CHARTER SCHOOLS TO DETERMINE WHETHER THE SYSTEM FULFILLS ITS
STATUTORY PURPOSE OF EQUALIZING OPERATIONAL FUNDING AMONG
PUBLIC SCHOOLS

Testimony by the Legislative Reference Bureau
Charlotte A. Carter-Yamauchi, Acting Director

Presented to the Senate Committee on Education

Wednesday, March 23, 2016, 1:15 p.m.
Conference Room 229

Chair Kidani and Members of the Committee:

Good morning Chair Kidani and members of the Committee, my name is Charlotte Carter-Yamauchi and I am the Acting Director of the Legislative Reference Bureau. Thank you for providing the opportunity to submit written comments on S.C.R. No. 154, Requesting a Study on the Per-Pupil Funding System for Public Charter Schools to Determine Whether the System Fulfills its Statutory Purpose of Equalizing Operational Funding Among Public Schools.

The purpose of this measure is to request that:

- (1) The Legislative Reference Bureau conduct a study on the per-pupil funding system to determine whether the system fulfills its statutory purpose of equalizing operational funding among public schools;
- (2) By June 30, 2016, the State Public Charter School Commission provide specific data to the Legislative Reference Bureau detailing how the present system of funding fails to achieve its statutory purpose of equalizing funding, to permit the Bureau to target its study and complete it in a timely manner;
- (3) The State Public Charter School Commission provide other information and assistance as requested by the Bureau; and
- (4) The Legislative Reference Bureau submit a report of its findings and recommendations, including any proposed legislation, to the Legislature no later than twenty days prior to the convening of the Regular Session of 2017.

The Bureau takes no position on this measure, but submits the following comments for your consideration.

As a baseline matter, the Bureau lacks any specific expertise in how the budgets of the Department of Education and public charter schools operate. As such, we would appreciate very specific instructions and study parameters in order to accomplish any tasks directed to us that relate to fiscal policy issues.

To this end, the Bureau believes that to facilitate completion of the requested study in the timeframe provided, the measure should be amended to include a request that the Department of Education provide the identical information requested of the Public Charter School Commission, and by the same deadline specified.

In addition, the study would be more effective if the measure specified the parameters by which the term "equalizing operational funding" is to be evaluated. Without knowing which aspects of a school's operations (whether public or charter school) are to be included or excluded, it will be extremely difficult for the Bureau to determine which funding aspects upon which to focus. The Bureau respectfully requests that the measure be amended to specifically identify those cost categories that both the Department of Education and the Public Charter School Commission are requested to provide to the Bureau. If amended in this manner, the Bureau may then focus its study efforts on actually comparing funding for each cost category as opposed to expending resources trying to determine if the financial information submitted actually relates to the same cost category. The intent of this is to ensure beforehand that the information provided to the Bureau by both agencies is provided in an "apples to apples" categorization. Otherwise, the sorting, categorization, and making sense of submitted financial information could potentially take months, thus leaving the Bureau with very little time to actually write a report.

If the measure is amended to address the concerns noted above, the Bureau believes that the services requested of the Bureau under this measure are manageable and that the Bureau will be able to provide the services in the time allotted; provided that the Bureau's interim workload is not adversely impacted by too many other studies or additional responsibilities, such as conducting, writing, or finalizing other reports, drafting legislation, or both, for other state agencies, task forces, or working groups that may be requested or required under other legislative measures.

Thank you again for your consideration.



HAWAI'I EDUCATIONAL POLICY CENTER

Testimony

Senate Committee on Education

March 23, 2016 1:15 pm Room 229

SCR 154, SR 116 REQUESTING A STUDY ON THE PER-PUPIL FUNDING SYSTEM FOR PUBLIC CHARTER SCHOOLS TO DETERMINE WHETHER THE SYSTEM FULFILLS ITS STATUTORY PURPOSE OF EQUALIZING OPERATIONAL FUNDING AMONG PUBLIC SCHOOLS.

HEPC **supports these resolutions.** HEPC has conducted its own analysis on this issue in the past, and has most recently updated its efforts. Briefly, HEPC has concluded:

- **What is school based funding in the HIDEOE?** There is much confusion over several terms often used differently by different stakeholders. For example, the student weighted formula – which relates to HIDEOE funding at the school level with greater flexibility – is confused with the total amount of school level operational support. These are also confused with the state budget funding in EDN 100. While related and overlapping, they are not precisely the same. I have often heard legislative staff assert that the SWF is the total amount of support.
- **Calculation is not Allocation.** There is confusion over the difference between a calculated per pupil average funding in the HIDEOE, and the actual per pupil allocation to charters.
- **Support Employees Matter.** There is little or no attention paid to the support system of employees serving HIDEOE schools at the state, district (CAS) or school levels. The number of non-instructional personnel available, on average, for HIDEOE schools, teachers, and students, is significantly greater than that which charters can afford.
- **What is IN and What is NOT.** Common phrases such as: *It's in the charter per pupil allocation* are often used to imply that a specific program is funded by transferring funds to a charter school. However, the reality is that funding for school lunches, buses, nurses, professional development and a myriad of other important support services is NOT allocated, but rather must be funded out of the allocation, if at all. In most cases, it is not at all.
- **From Direct to Indirect.** In the past, per pupil charter appropriations from EDN 600 went directly to the schools, and then each school was “charged” with up to 2% of that allocation back to the charter office for support. In this way, as the number of charter students grew, so did the capacity of the office grow. Later, this 2% was taken “off the top.” In 2012, following the task force, it was promised that support for the Commission and its staff would be a separate appropriation. However, this did not occur immediately, and the charters were charged to support the office. Today, all state and federal funds, including additional collective bargaining funds, do NOT go directly to the charters, but rather to the Charter Commission. The Commission has the authority to delay distribution, and in some cases, to reallocate the per pupil and federal funds to projects it deems necessary. Therefore, it is important to understand that simply dividing the funds in EDN 600 by charter enrollments does not necessarily provide the most accurate per pupil allocation numbers.
- **Mixing the Numbers.** The state reports its financial data, particularly the consolidated financial report, by lumping the HIDEOE and charter funding all together, creating endless and

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unnecessary disputes as to how to disentangle the two, and calculate a “clean” HIDEOE support number. Some insist that the DOE and BOE are somehow required to report the data this way, but this does not prevent the financial reports from including more helpful disaggregations for DOE schools and charters.

- **Same Year Data is Delayed.** HEPC has found that the most recent FY in which there is consistent data available for HIDEOE and charters and federal funds is FY 2013-14. This means that an “apples to apples” analysis is usually one or two years old. To further complicate this issue, collective bargaining increases are based on a previous year’s employment. When a charter school is expanding, or new schools are opening, this can place charters at a financial disadvantage. Recently, the Commission delayed distribution new CBA funds, but required charters to begin payments based on the higher salary schedule.
- **Federal Funds DO matter.** While these resolutions deal only with state appropriations, it is important to understand that there is a systems bias against equitable distribution of federal funds, and this impacts directly on the financial capacity of a charter school to operate with some degree of equitable services to students.
- **An Inconvenient Truth.** IF following analysis is valid, it would mean that several generations of charter students, their families, and their teachers and staff have received less than equitable funding. Obviously, this idea will be resisted simply because its financial implications, and the remedy, may not be palatable. HEPC suggests it is not the role of LRB to validate what may be an inaccurate and inequitable history.

HEPC has recently cobbled together, from various sources, several perspectives to better understand how we answer the following questions:

What is the average calculated general fund per pupil support for HIDEOE schools and HIDEOE students?

What is the average calculated federal funds per pupil support for HIDEOE schools and students?

What is the average calculated facilities allocation (debt service) provided to HIDEOE schools?

How do these compare with the level of support provided, in actual per pupil allocations, to each charter school?

Findings. All numbers, appropriations and allocations are based on public documents and reports.

BASIC CONTEXT AND FACTS

For FY 2013-14

Charter Schools represented 11% of all public schools (33 of 288)

Charter Schools represented 5% of all public school enrollments (9,797 of 185,273)

GENERAL FUNDS: Charter schools received 4.5% of all general funds appropriated to Hawaii public schools – adjusting for removing fringes. (Of the 2,263,000,000 of general funds

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appropriated to public education in FY 2013-14, \$69,325,807 was appropriated for charters in EDN 600 – representing 3%. However, the financial audit indicates that of the \$2.2 billion, approximately 23% are for fringe benefits, or \$520,490,000. The Total General Fund allocation minus fringes = \$1,742,510,000. Using these numbers, the charter general fund allocation represents 4.5%. The half % difference represents approximately \$8.7 million. Therefore, a more equitable total of 5% would have been \$69 million plus \$8.7 million, or \$77.7 million.

Source: DOE Financial Report 2013-14 p.5

[Of note: The *Financial Audit of the Department of Education State of Hawaii – Fiscal Year Ended June 30, 2014*, prepared by N&K CPAs, Inc., and submitted by the Auditor of the State of Hawaii – has a slightly different percentage calculation for charters. On page 7 of this report, the Auditor wrote. “*We did not audit the financial statements of certain public charter schools which represent 3% of the total assets and 4% of total fund balances as of June 30, 2014, and 3% of total revenues for the fiscal year ended June 30, 2014, of the DOE’s governmental funds.*” Adjusted to remove fringes, our initial calculations are confirmed. The N&K audit, page 33 also references some \$37 million in revenues over expenditures, and a reserve amount of \$81 million in state general funds, and \$23 million in reserves from federal funds.

FEDERAL FUNDS

From State of Hawaii Department of Education Financial Report July 1, 2013- June 30, 2014

<http://www.hawaiipublicschools.org/Reports/FinRep2013-14.pdf>

CAFR p. 14 Consolidated Annual Financial Report of Expenditures, FY 2013-14

Federal Funds not including exclusions, i.e. Adult Education

TOTAL \$286,792,079 / 185,273 (DOE & Charter enrollments) = \$1,548 per pupil

The State Public Charter School Commission Annual Report 2014-15

<http://sharepoint.spcsc.hawaii.gov/public/Documents/FINAL%202015%20Commission%20Annual%20Report%2011.30.15.pdf>

p. 98

Charter \$5,205,760. / 9707 (charter enrollments) = \$531 per pupil for charters.

TOTAL \$286,792,079 - \$5,205,760 (Charter Fed \$) = \$281,586,319 (DOE only) / 175476 = \$1,605 per pupil Federal Funds for HIDEOE

A gap of over \$1,100 dollars per pupil.

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A BRIEF ANALYSIS OF WHY CHARTER SCHOOLS ARE NOT RECEIVING EQUITABLE FUNDING – USING THE CONSOLIDATED FINANCIAL REPORT

The original analysis was reviewed by several knowledgeable leaders who provided additional information not available earlier.

Page 14: Exhibit A-2 Net state revenue increases were 14%, and
CONSOLIDATED ANNUAL FINANCIAL REPORT OF EXPENDITURES*, FY 2013-14
<http://www.hawaiipublicschools.org/Reports/FinRep2013-14.pdf>

Page 5 Official Enrollments: HIDOE 175,476 Charters 9,797 TOTAL = 185,273
Charters Represent 5% of enrollments.

Page 14 Consolidated Annual Financial Report of Expenditures, FY 2013-1T

The bottom of p.14 CAFR chart indicates this chart includes both charter enrollments and charter expenditures. Thus, these expenditures and other aspects of the annual report will use different HIDOE totals than are used in the N&K Financial Audit.

In order to reasonably use the CAFR as an *initial tool* to calculate what the HIDOE per pupil allocation is, when charter and HIDOE figures are consolidated, we should divide expenditures by 185,273. When it is possible to identify expenditures only by HIDOE, we need to use only the HIDOE enrollment number of 175,476. The first category includes both charter and HIDOE numbers. Other categories depict services and expenditures available ONLY to the HIDOE.

Under the first category, Instruction and Instruction Related,

- *ALL SPED \$\$ were subtracted* (Total of \$1,773,339,881 minus \$524,466,376 = \$1,248,873,376 (Even though it is unlikely that SPED personnel allocations treat larger and small schools equally.)
- *All Federal Funds were subtracted, under the* (questionable) theory that they are distributed on a per pupil qualifying basis to charters. This is, arguably, not true, as many federal funds are available only to the Local Educational Agency, or LEA. For example, in the HIDOE Financial report, page 8, HIDOE indicates it received \$1,558,294 just for LEA administration of Title I grants. During these same years HIDOE received \$117,235,782 for LEA (meaning only HIDOE) Title 1 basic grants. In Race to the Top, for example, there was not a pp carve out for charters. Nevertheless, to be as conservative

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as possible, we subtract \$126,302,763 in Federal non SPED expenditures from the total (we already did subtract the \$51 million of Fed funds under SPED, as not to double count....) Thus, the CAFR partially obscures a more accurate account of federal funds going only to the HIDOE and charters which can be calculated (as was done on page 1 of this analysis) using the HIDOE Financial report and the Charter School Commission report.

- This analysis does not address the special or trust funds for that year, which amounted to over \$39 million allocated only to HIDOE. Nor does it drill down to the implications of state and federal funds carried over from a previous year.
- New Total under Instruction and Instruction related would be \$1,122,570,742 divided by 185,273. (Both charter and HIDOE enrollments and expenditures are included in this section.) The HIDOE portion on a per pupil allocation, using the HIDOE enrollment that year would be **\$6,750**, which I would point out is already more than the charters received that year.

Under the second category, Instructional Support

I assume all of these expenditures are for HIDOE. Ergo \$55,412,706 minus Federal \$18,274,978 = new total of \$37,137,728 divided by 175,476 = \$211 per pupil for this category. BUT, it would not be accurate to subtract the federal \$\$ under the assumption that the charters would get their fair share because under this category, virtually all the \$\$ both state and federal, goes exclusively to the HIDOE. Thus the accurate per pupil funding for HIDOE students should be \$316.

Under the third category, School Support (this is all HIDOE only)

Total \$374,962,496 minus Fed \$82,933,914 = \$292,028,582 Divided by 175,476 = \$1,664 per pupil. But again, charters don't get any of this particular federal \$\$, thus we should not subtract it, and the new total per pupil HIDOE support would be \$2,137. Just the category of school food services, for example, would total nearly \$110 million for HIDOE schools. Charters pay for food services from their per pupil operating allocation.

Under the fourth category, Administration (also only HIDOE)

Total \$61,384,918 minus Fed \$8,035,595 divided by 175,476 = \$350 per pupil.

ADDING THE HIDOE PER PUPIL allocations for all categories:

$\$6,750 + \$316 + \$2,137 + \$350 = \$9,553$.

This is clearly more than \$3,000 less than charters receive now, not counting additional SPED or Federal funds. To be fair, you could add on a per pupil amount for the Commission Staff, which of course is not a support operation but primarily a compliance driven office. (Office allocation divided by 9,797 = something to add on to the \$6K amount, but it would not be a great deal.)

You could also add to the \$6,100 the 14% of benefits which they do not pay for staff. Of course, it is not 14% of all allocations because not all of it is tied up in staff. Remember, they still have

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to pay for facilities, computers, buses, janitors, etc etc. But even if we assumed ALL the \$6,100 were staff with benefits, it would not add up to more than \$1,000 additional in per pupil support.

WHAT ABOUT FACILITIES?

Under Debt Service Costs in the p. 14 chart we have a figure of \$272,936,119, which should be added to capitalized equipment total of \$9,038,712 = \$281,974,831 as the total debt and capital annual costs (not counting cash) for DOE facilities during that FY. Divide this by 175,476 = \$1,606 per pupil debt support for each HIDEOE student. This figure does not represent all the existing facilities that are not debt ridden, which is a majority of the initial construction costs for HIDEOE schools.

Therefore, you would not need to actually build new facilities to provide facility support. Relief could be accomplished by allocating to each charter an additional per pupil amount of \$1,606. This would bring the equitable estimate to $\$9,553 + \$1,606 = \$11,159$ per pupil to cover both operations and a facility offset. [The facility amount would not be added to the conversion charters because they already have a facility.]

CONCLUSION. Using conservative estimates and assumptions, the public charter schools receive some \$3,000 less per pupil for operating costs and no public support to offset the cost of whatever facility arrangements they might make. The equitable total would be about \$10K per pupil.

As Noted on Page 1. The combined shortfall for FY 2013-14 for both state general funds and federal funds would be approximately \$17 million.

Key documents used in this update include:

- Hawaii 2013-14 State Budget Act
http://www.capitol.hawaii.gov/session2014/bills/HB1700_CD1_.HTM
- The Hawaii Department of Education's most recent Annual Financial AUDIT FY 2013-14
<http://www.hawaiipublicschools.org/Reports/AFSA2014.pdf>
- A summary of funds allocated to the Charter School Commission
<https://lilinode.k12.hi.us/STATE/OFS/BUDGET/ALLOC/barc16.nsf/Organization%20Summary?OpenView&Start=320&Count=30&Expand=332#332>
- December 4, 2015: 2015 Annual Report to the Hawaii Teacher Standards Board on Teacher Licensure in Charter School

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- Report on Report on the Implementation of State Auditor's 2011 Recommendations: Hawai'i Public Housing Authority; Hawai'i Public Charter School System
<https://lintvkhon.files.wordpress.com/2014/04/14-06.pdf>
- The State Public Charter School Commission Annual Report 2014-15
<http://sharepoint.spcsc.hawaii.gov/public/Documents/FINAL%202015%20Commission%20Annual%20Report%2011.30.15.pdf>
- Hawaii Charter School Commission – Various Reports
<http://www.chartercommission.hawaii.gov/#!reports/c1mkt>
- Hawaii Department of Education Financial Report: July 1, 2013-June 30, 2014
<http://www.hawaiipublicschools.org/Reports/FinRep2013-14.pdf>
- Public Education Finances 2013; U.S. Finance Branch, U.S. Census June 2015
<http://www.hawaiipublicschools.org/TeachingAndLearning/EducationInnovation/CharterSchools/Pages/home.aspx>

The Hawaii Department of Education's most recent Annual Financial AUDIT
<http://www.hawaiipublicschools.org/Reports/AFSA2014.pdf>

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SCR154/SR116

REQUESTING A STUDY ON THE PER-PUPIL FUNDING SYSTEM FOR PUBLIC CHARTER SCHOOLS TO DETERMINE WHETHER THE SYSTEM FULFILLS ITS STATUTORY PURPOSE OF EQUALIZING OPERATIONAL FUNDING AMONG PUBLIC SCHOOLS

Senate Committee on Education

March 23, 2016

1:15 PM

Room 229

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend to the Board of Trustees a position of **SUPPORT** on SCR154/SR116, which requests a study on the per-pupil funding system to determine whether and how the system fails to ensure equal operational funding between public charter and Department of Education (DOE) schools.

Haw. Rev. Stat. §302D-28 mandates that the non-facility general fund per-pupil funding for public charter school students be the same as the general fund per-pupil amount provided to the DOE in its most recently approved executive budget. However, questions have been raised as to whether this per-pupil funding system equalizes funding for public charter schools as intended. For example, start-up public charter schools, which must find their own facilities, have resorted to using per-pupil funding to meet significant facilities expenses, because facilities funding has not been provided them. In its 2014-2015 Annual Report, the Commission stated that “charter schools generally were in fair financial positions as of June 30, 2015, and appear to have exercised sound stewardship of public funds.” However, the Commission warned that financial sustainability challenges lie ahead if funding levels remain essentially flat and/or schools cannot realize additional cost savings. The Commission concluded: “As of this writing, per-pupil funding is expected to be about \$6,846 for fiscal year 2015-2016. Further increases, and assistance in the critical need area of facilities, will help strengthen the financial position of Hawaii’s charter schools.”

The requested study in this resolution will provide the Legislature with critical information on whether funding parity exists between public charter school students and DOE students. OHA has a strong interest in our Hawai‘i public charter school system, since, among other reasons, seventeen of the thirty-four public charter schools are Hawaiian-focused and Hawaiian language immersion charter schools; accordingly, OHA has invested over \$15,000,000 in Hawai‘i’s public charter schools since SY2005-2006.

Therefore, OHA urges the Committee to **PASS** SCR154/SR116. Mahalo nui for the opportunity to testify on this resolution.