

JAN 21 2026

A BILL FOR AN ACT

RELATING TO PUBLIC CHARTER SCHOOLS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that public charter
2 schools fulfill a critical need in Hawaii's public education
3 system by providing diverse, innovative, and community-based
4 learning opportunities for students. For the 2025-2026 school
5 year, a total of 13,371 students were enrolled across Hawaii's
6 thirty-eight public charter schools and received in total
7 approximately \$150,000,000 in state general funds for the fiscal
8 year, which is approximately five to eight per cent of the
9 department of education's budget. As recipients of significant
10 state funds and as stewards of public resources, public charter
11 schools must demonstrate fiscal accountability consistent with
12 public expectations.

13 The legislature further finds that section 302D-32, Hawaii
14 Revised Statutes, requires that each public charter school
15 conduct an annual independent financial audit. However, the
16 audits are not publicly reported or presented to the authorizer,
17 which is the state public charter school commission, in a



1 uniform or standardized manner. In addition, the authorizer
2 lacks an explicit enforcement mechanism if a public charter
3 school does not properly complete the audit.

4 Accordingly, the purpose of this Act is to ensure that each
5 public charter school exercises fiscal accountability consistent
6 with public expectations by:

7 (1) Standardizing the annual independent financial audits
8 each charter school is required to complete;

9 (2) Requiring that all annual independent financial audits
10 be publicly accessible;

11 (3) Requiring the board of education, the authorizer, and
12 the auditor to review each annual independent
13 financial audit;

14 (4) Authorizing the auditor to conduct its own financial
15 audit of a public charter school if the public charter
16 school is a high risk for financial insolvency; and

17 (5) Requiring the auditor to conduct a one-time financial
18 audit or each public charter school covering the past
19 three years and other information.



1 SECTION 2. Chapter 23, Hawaii Revised Statutes, is amended
2 by adding a new section to be appropriately designated and to
3 read as follows:

4 "§23- Public charter schools; independent financial
5 audits. The auditor shall review each completed independent
6 financial audit received under section 302D-32(d). If the
7 auditor determines that a public charter school is a high risk
8 for financial insolvency or if requested to do so by the board
9 of education or the applicable authorizer under section 302D-
10 32(g), the auditor may conduct an auditor's financial audit of
11 the public charter school. The auditor shall submit the
12 auditor's financial audit to the board, authorizer, and
13 legislature no later than ninety days after the conclusion of
14 the auditor's financial audit."

15 SECTION 2. Section 302D-17, Hawaii Revised Statutes, is
16 amended by amending subsection (d) to read as follows:

17 "(d) Notwithstanding section 302D-18 to the contrary,
18 every authorizer [~~shall have the authority to~~] may take
19 appropriate corrective actions or exercise sanctions short of
20 revocation in response to apparent deficiencies in public
21 charter school performance or legal compliance[~~—Such~~],



1 including failure to comply with the requirements of section
2 302D-32(c). The actions or sanctions may include, if warranted:

3 (1) Requiring a school to develop and execute a corrective
4 action plan within a specified time frame; and

5 (2) Reconstituting the governing board of the charter
6 school; provided that the following conditions are
7 met:

8 (A) Reconstitution occurs only under exigent
9 circumstances, including the following:

10 (i) Unlawful or unethical conduct by governing
11 board members;

12 (ii) Unlawful or unethical conduct by the charter
13 school's personnel that raises serious
14 doubts about the governing board's ability
15 to fulfill its statutory, contractual, or
16 fiduciary responsibilities; and

17 (iii) Other circumstances that raise serious
18 doubts about the governing board's ability
19 to fulfill its statutory, contractual, or
20 fiduciary responsibilities;



1 (B) The authorizer shall replace up to, but no more
2 than, the number of governing board members
3 necessary so that the newly appointed members
4 constitute a voting majority in accordance with
5 the governing board's bylaws; except that the
6 authorizer may replace the entire governing board
7 if the alternative is the initiation of
8 revocation of the charter school's charter
9 contract and the governing board opts instead for
10 reconstitution; and

11 (C) Reconstitution occurs in accordance with
12 processes set forth by the authorizer that
13 provide the charter school's personnel and
14 parents with timely notification of the prospect
15 of reconstitution."

16 SECTION 3. Section 302D-21, Hawaii Revised Statutes, is
17 amended to read as follows:

18 "**§302D-21 Annual board report.** No later than the opening
19 day of each regular session of the legislature, the board shall
20 issue to the governor, the legislature, and the public, an
21 annual report on the State's public charter schools, drawing



1 from the annual reports submitted by every authorizer, as well
2 as any additional relevant data compiled by the board, for the
3 school year ending in the preceding calendar year. The annual
4 report shall include:

5 (1) The board's assessment of the successes, challenges,
6 and areas for improvement in meeting the purposes of
7 this chapter, including the board's assessment of the
8 sufficiency of funding for public charter schools, and
9 any suggested changes in state law or policy necessary
10 to strengthen the State's public charter schools;

11 (2) A line-item breakdown of all federal funds received by
12 the department and distributed to authorizers;

13 (3) Any concerns regarding equity and recommendations to
14 improve access to and distribution of federal funds to
15 public charter schools;

16 (4) A summary of the criteria used by the charter school
17 facilities funding working group, established pursuant
18 to section 302D-29.5, in allocating facilities
19 funding;

20 (5) A detailed breakdown of the allocation of funding
21 through general funds and bond funds;



- (6) A detailed list of the projects funded by general funds and bond funds;
- (7) The status of funding for projects previously awarded; [and]
- (8) A discussion of all board policies adopted in the previous year, including a detailed explanation as to whether each policy is or is not applicable to charter schools[-]; and
- (9) A summary of the independent financial audits pursuant to section 302D-32 that includes any patterns of fiscal deficiencies, notable comments, or recommended actions."

SECTION 4. Section 302D-32, Hawaii Revised Statutes, is amended to read as follows:

"§302D-32 ~~[Annual audit.]~~ Independent financial audits; auditor's financial audits. ~~[Each charter school shall annually complete an independent financial audit that complies with the requirements of its authorizer and the department.]~~ (a) The board, in consultation with all authorizers and the auditor, shall adopt rules under chapter 91 that establish standards for independent financial audits of public charter schools,



1 including standards for format, reporting, and public
2 disclosure.

3 (b) The authorizer shall provide to each charter school it
4 oversees a list of approved independent auditors, from which the
5 charter school shall select one independent auditor to comply
6 with this section.

7 (c) Within one hundred twenty days after the close of each
8 fiscal year, each charter school shall complete an independent
9 financial audit and submit that completed independent financial
10 audit to the authorizer.

11 (d) The authorizer shall then transmit copies of the
12 completed independent financial audit to the board, legislature,
13 and auditor. The auditor shall review each completed
14 independent financial audit under section 23-_____.

15 (e) The authorizer shall maintain a publicly accessible
16 online database of all independent financial audits and
17 auditor's financial audits under subsection (g) of each charter
18 school it oversees.

19 (f) Failure by any public charter school to comply with
20 subsection (c), shall be considered a material breach of the
21 charter contract and the authorizer may sanction the public



1 charter school by withholding funds, imposing a corrective
2 action plan, or revoking the charter.

3 (g) The board and authorizer shall review the independent
4 financial audits. If the board or authorizer determines that a
5 public charter school is a high risk for financial insolvency,
6 the board or authorizer may request the auditor to conduct an
7 auditor's financial audit of the public charter school under
8 section 23- ; provided that the auditor may deny the
9 request."

10 SECTION 5. (a) The auditor shall conduct a financial
11 audit of each charter school. For each charter school, the
12 financial audit shall include:

13 (1) A list of financial expenditures for the past three
14 years;

15 (2) Financial information concerning faculty; and

16 (3) The school's cash on hand balance.

17 (b) The auditor may contract with private entities to
18 conduct the financial audits required by this section.

19 (c) The auditor shall submit a report of its findings and
20 recommendations, including any proposed legislation, to the



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1 legislature no later than twenty days prior to the convening of
2 the regular session of 2027.

3 SECTION 6. No later than one year after the auditor's
4 submission of the report to the legislature under section 5 of
5 this Act, the state public charter school commission shall take
6 action based on the recommendations made by the auditor.

7 SECTION 7. There is appropriated out of the general
8 revenues of the State of Hawaii the sum of \$ or so
9 much thereof as may be necessary for fiscal year 2026-2027 for
10 the auditor to complete the financial audits under section 5 of
11 this Act.

12 The sum appropriated shall be expended by the auditor for
13 the purposes of this Act.

14 SECTION 8. Statutory material to be repealed is bracketed
15 and stricken. New statutory material is underscored.

16 SECTION 9. This Act shall take effect on July 1, 2026.

17
INTRODUCED BY: *Keith M. Patenaude*



S.B. NO. 2163

Report Title:

Auditor; Charter Schools; State Public Charter School
Commission; Financial Audit; Report; Appropriation

Description:

Standardizes annual independent financial audits for public charter schools. Authorizes sanctions for noncompliance with independent financial audits. Requires the Board of Education, the Public Charter School Authorizer, and Auditor to review the annual independent financial audits. Allows the Auditor to conduct its own financial audit if a public charter school is a high risk for insolvency. Requires for 2026-2027, the Auditor to conduct its own one-time financial audit of each charter school in addition to the annual independent financial audits and requires a report to the Legislature. Requires State Public Charter School Commission to take action based on Auditor's recommendations in the one-time financial audits. Appropriates moneys.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

