

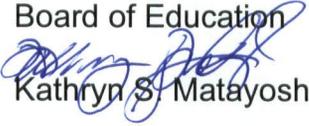


**STATE OF HAWAII
DEPARTMENT OF EDUCATION**
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

October 18, 2011

TO: The Honorable Donald G. Horner, Chairperson
Board of Education

FROM:  Kathryn S. Matayoshi, Superintendent

SUBJECT: **RECOMMENDATION FOR BOARD ACTION ON THE DEPARTMENT
OF EDUCATION SUPPLEMENTAL OPERATING BUDGET FOR
FISCAL YEAR 2012-13**

1. **RECOMMENDATION**

It is recommended that the Board of Education approve adjustments to the Department of Education's operating budget for Fiscal Year (FY) 2012-13, as described in Attachment A.

2. **RECOMMENDED EFFECTIVE DATE**

July 1, 2012.

3. **RECOMMENDED COMPLIANCE DATE**

Upon approval.

4. **DISCUSSION**

a. **Conditions leading to the recommendation.**

On September 27, 2011, the Department received Finance Memorandum No. 11-16 from the Department of Budget and Finance, which outlined the supplemental budget policies and guidelines for FY 2012-13 for all Executive Branch agencies. All departments are instructed to adjust their budgets to reflect:

- Labor savings adjustments due to the Legislative reduction total of \$88.2 million in general funds for all agencies statewide and adjustments to all other means of finance (MOF); and

- 2011 Program Review adjustments which were finalized on August 22, 2011, and reflected in Finance Memorandum No. 11-15.

The Department of Education's share of the \$88.2 million general fund reduction amounts to \$37,179,962. Also, an additional \$2,574,400 in other MOF expenditure ceilings is being reduced from the Department's budget.

As a result of the 2011 Program Review, the Department will reduce \$6.1 million from the Food Services general fund budget and correspondingly increase the special fund ceiling by the same amount due to a proposal to increase the student meal prices to the USDA reimbursement rate.

In addition, the instructions state that additional general funds may be requested only for:

- Increases in fixed costs such as debt service, fringe benefits, Medicaid and financial assistance programs;
- Critical emergencies related to public health and safety, or requests related to requirements of court orders or federal mandates;
- Restoration of specific Legislative reductions for critical programs, which includes the Student Transportation program for the Department of Education; and
- High priority programs of the Administration.

Increases to non-general fund appropriation ceilings may be requested if there is sufficient justification to do so, and if such increases will not require additional general fund appropriations. Trade-offs and transfers within and among programs are encouraged to address changing program needs and maximize efficiency.

Based on these instructions, the Department is requesting an additional \$42 million in general funds for FY 2012-13 for the Student Transportation program, and additional general funds for the Weighted Student Formula (WSF) due to increases in enrollment. The Department also proposes to increase the special fund ceiling for food services by an additional \$3.9 million in anticipation of the need to pay fringe costs and increases in commodity prices, and increase the federal fund ceiling for the Community School for Adults program in order to more accurately account for the amount of federal funds available for the program.

The Finance and Infrastructure Committee amended the Department's original recommendation by adding a request for \$2.5 million for Community Schools to enable the program to keep matching federal funds.

b. Previous action of the Board on the same or similar manner.

On June 7, 2011, the Committee approved additional reductions to the Department's budget totaling \$16.4 million which distributed the lump-sum legislative reduction taken in EDN 100. On that date, the Committee also approved transferring funding for the Alternative Learning Centers, Peer Education Program, and Learning Centers into the WSF.

On September 20, 2011, the Board of Education approved transferring approximately 90% of funding for the Alternative Learning Centers, Peer Education Program, and Learning Centers out of WSF making them categorically funded once again.

On October 4, 2011, the Finance and Infrastructure Committee approved the Department's Supplemental Operating Budget for fiscal year 2012-13 and included \$2.5 million for Community Schools.

c. Other policies affected.

Policy No. 1200-1.11, Budget Restrictions and Reductions Policy, governs the method by which the Department shall reduce the operating budget.

The policy states the Superintendent shall "provide [the Board] with comprehensive lists of recommended restrictions or reductions by program, function and costs. Further, the recommended restrictions or reductions shall be approved by the Board before they are forwarded to the Governor or to the Legislature. These recommendations must meet one or more of the following criteria: (1) that all students will continue to receive equal opportunities for all educational programs or services or all library users will continue to receive equal services; (2) that the well being of students or library users are protected; and (3) that all judicially- and legally-mandated programs and services are preserved."

In addition, Policy No. 1200-1.12, Department of Education Budgets, states that any Department proposal to make adjustments in the operating budget and Capital Improvements Program budget shall require prior Board approval.

d. Arguments in support of the recommendation.

Additional funds for the Student Transportation program will mitigate the projected shortfall for FY 2012-13. During the last Legislative session, the Governor's requested increase of nearly \$20 million was denied by the Legislature, and an additional \$20 million was reduced from the Department's base budget in FY 2012-13 leaving approximately \$28.5 million remaining in FY 2012-13 for the Student Transportation program. If the Department were to operate the program with only \$28.5 million in the budget, services for

general education students statewide would likely be eliminated, and only transportation services for special education students would be provided.

Transferring funding for the Alternative Learning Centers, Peer Education Program, and Learning Centers out of WSF will ensure that these programs will have funds specifically allocated for those purposes. As a result of this, schools will not have to expend WSF funds for these purposes.

The number of general education and special education students enrolled in DOE schools, Pre-K through 12, grew by 2,255 since last school year, resulting in a smaller amount being allocated for each student in the current school year. At the October 4, 2011 meeting, the Department recommended increasing the WSF "pot" by \$9,368,000 for these additional students. (Total WSF "pot" divided by the number of students in FY 2010-11, multiplied by 2,255 students). This calculation was based on the actual increase in enrollment experienced in the past year. The official enrollment projection for SY 2012-13 is now available. **The calculation of the increase to WSF has been adjusted to \$13,557,502.**

e. Arguments against the recommendation.

The increase to the special fund ceiling (and corresponding reduction in general funds) is in anticipation of increasing student meal prices to the USDA reimbursement rate. This recommendation assumes that the price of a student breakfast will increase from \$1.00 (elementary) and \$1.10 (secondary) to \$1.70 (elementary) and \$1.85 (secondary). The price of a student lunch will increase from \$2.25 (elementary) and \$2.50 (secondary) to \$3.10 (elementary) and \$3.35 (secondary). Some families may not be able to afford this price increase resulting in more children going hungry, which will have a negative impact on student achievement.

f. Findings and conclusions of the Board Committee.

Not applicable.

g. Other agencies or departments of the State of Hawaii involved in the action.

None.

h. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendations.

The reaction to additional funds for WSF will be positive as it will result in additional funds allocated to schools.

The additional funds for the Student Transportation program will have a positive reaction as this will ensure that transportation services will be available to both general and special education students statewide.

The reaction of the public to continue general fund support for Community Schools will be positive.

The reaction of the public to the increase in school meal prices may be negative.

i. Educational implications.

The addition to WSF will result in schools having more operating funds, which may result in additional positions at schools.

j. Personnel implications.

The proposed requests do not include any requests for additional full-time equivalent positions, but as stated earlier, additional funds for WSF may result in schools choosing to have additional positions.

k. Facilities implications.

None.

l. Financial implications.

The recommendation will allow the Department to meet the appropriation ceiling amounts set forth in Finance Memorandum No. 11-16, and request additional funds for high priority areas.

5. **OTHER SUPPLEMENTARY RECOMMENDATIONS**

None.

KSM:AC:ks

Attachment

c: Office of Fiscal Services

Department of Education
Supplemental FY 2012-13 Budget Adjustments

B&F CEILING ADJUSTMENTS			
EDN	Description of Request	MOF	Requested Amount
various	Labor savings adjustment	A	\$ (37,719,962)
various	Labor savings adjustment	B	\$ (285,126)
various	Labor savings adjustment	N	\$ (2,169,612)
various	Labor savings adjustment	T	\$ (70,940)
various	Labor savings adjustment	U	\$ (12,296)
various	Labor savings adjustment	W	\$ (36,426)
EDN 400	Decrease general funds for Food Services due to Governor's Program Review	A	\$ (6,100,000)
EDN 400	Increase special fund ceiling for Food Services - offset general funds	B	\$ 6,100,000
EDN 100	WSF - transfer out funding for ALCs, Peer Education Program, and Learning Centers	A	\$ (4,455,000)
EDN 100	Categorical Programs - transfer in funding for ALCs, Peer Education Program, and Learning Centers	A	\$ 4,455,000
EDN 400	Student Transportation -restore Legislative reduction	A	\$ 42,000,000

TOTALS OF B&F CEILING ADJUSTMENTS BY MOF			REQUESTED AMOUNT
GENERAL FUNDS		A	\$ (1,819,962)
SPECIAL FUNDS		B	\$ 5,814,874
FEDERAL FUNDS		N	\$ (2,169,612)
TRUST FUNDS		T	\$ (70,940)
INTERDEPARTMENTAL TRANSFER FUNDS		U	\$ (12,296)
REVOLVING FUNDS		W	\$ (36,426)

ADDITIONAL BUDGET REQUESTS FOR CONSIDERATION (approved by FIC)			
EDN	Description of Request	MOF	Requested Amount
EDN 100	Additional funds for WSF - estimated enrollment increase (see notes below)	A	\$ 13,557,502
EDN 400	Increase special fund ceiling for Food Services - pay fringes and increased costs	B	\$ 3,900,000
EDN 500	Increase federal fund ceiling for Community Schools	N	\$ 1,870,000
EDN 500	Additional general funds for the Community Schools for Adults to meet MOE requirements	A	\$ 2,500,000

TOTALS OF ADDITIONAL BUDGET REQUESTS FOR CONSIDERATION BY MOF			REQUESTED AMOUNT
GENERAL FUNDS		A	\$ 16,057,502
SPECIAL FUNDS		B	\$ 3,900,000
FEDERAL FUNDS		N	\$ 1,870,000

- Notes: 1. The Finance and Infrastructure Committee approved an increase of \$9,368,000
 2. When comparing the projected enrollment for SY 2012-13 to the enrollment for SY 2010-11, the projected additional need for FY 2012-13 is \$13,557,502