



## CSIS California School Information Services

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April 25, 2012

Marsha Coates, CEO/Principal  
Birmingham Community Charter High School  
17000 Haynes Street  
Lake Balboa, CA 91406

Dear Chief Executive Officer Coates:

The purpose of this management letter is to confirm the observations and recommendations developed by the Fiscal Crisis and Management Assistance Team (FCMAT) in providing immediate assistance to the Birmingham Community Charter High School as requested in your letter of December 2, 2011.

The charter high school requested that FCMAT conduct an on-site review of the calculations utilized in the conversion process according to SB 319. Specifically, the study agreement specifies that the scope and objectives of this study are as follows:

Birmingham Community Charter High School (BCCHS) is requesting the FCMAT team to review the calculations utilized by the Los Angeles Unified School District (LAUSD) to convert the high school to a charter school as of July 1, 2009 pursuant to Education Code section 47600(c).

The FCMAT team will evaluate the calculations performed by LAUSD to determine if they are in compliance with the intent of Section 47600(c) and incorrectly reduced BCCHS's entitlement per pupil by over \$4 million per year. The FCMAT team will conduct a review of the District's documented actual expenditures for Birmingham High School for the 2008-09 fiscal year and the District's calculations of BCCHS's general fund entitlement for the 2009-10 fiscal year and make recommendations.

FCMAT visited the charter school on January 11, 2012, February 14, 2012 and March 2, 2012 to meet with the CEO/principal and financial support provider. In addition, FCMAT conducted telephone interviews with the charter school legal counsel to gain additional background information.

FCMAT reviewed the assumptions and actual calculations of the Los Angeles Unified School District (LAUSD) for the conversion of Birmingham High School for the 2008-09 fiscal year, the year prior to conversion as provided in SB 319, and the district-prepared certification to the California Department of Education (CDE) for the funding amount per average daily attendance (ADA) for the first year of operations as a charter school in 2009-2010.

The following documents were also reviewed to prepare this assessment:

- The projection summaries prepared by LAUSD dated February 25 and 27, 2009.
- The actual calculations prepared by LAUSD, including detailed general ledger download dated November 24, 2009.

### FCMAT

Joel D. Montero, Chief Executive Officer

1300 17<sup>th</sup> Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647  
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • [www.fcmat.org](http://www.fcmat.org)  
Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

- The financial/accounting services provider's calculations, various presentations.
- Various other reports and communications.

## Background

Most charter schools in California are founded as new start-up organizations; however, more than 140 schools are traditional public schools that converted to charters as of 2011.

The laws that govern the calculation of funding for a converted charter school in a unified school district have changed three times. For charter schools converted before the 2006-07 fiscal year, the funding is computed using a block grant, with funding rates based on grade levels multiplied by the average daily attendance (ADA). Beginning on or after July 1, 2006, SB 319 changed general purpose funding for charter schools that converted from a noncharter school in a unified school district. For schools that converted after January 1, 2010 in a unified school district, general purpose funding reverted to the original block grant method.

Birmingham High School was a traditional LAUSD public school that met the requirements to convert to a charter school. LAUSD's governing board granted Birmingham High's charter petition in July 2009 to begin operating for the 2009-10 fiscal year. Because the petition was granted before January 1, 2010, the calculation for funding was prepared under the SB 319 regulations.

In a letter from the California Department of Education (CDE) regarding SB 319 implementation dated February 13, 2007, the department states "there are no standardized instructions or guidance to determine expenditures at the school level." With no instructions or guidance, school districts were authorized to "use cost allocation methods, if appropriate, for an accounting of actual unrestricted revenues expended in support of the school," according to this letter.

Upon receipt of the calculation completed by the LAUSD staff, the charter school notified the district and questioned several assumptions utilized to establish the base revenue limit funding. The district and charter school attempted to resolve the dispute through a series of discussions and meetings, but were unsuccessful. The core issue between the school district and the charter school is the methodology used to prepare the calculation, including the allocation methodologies that LAUSD staff unilaterally made, and whether the calculation meets the spirit and intent of SB 319.

## Findings and Recommendations

### **Senate Bill (SB) 319 (Chapter 355/2005), as amended by Assembly Bill 1967 (Chapter 730, Statutes of 2006)**

Before the passage of SB 319, a noncharter school that elected to convert to a charter school in a unified school district received Charter School Block Grant funding for average daily attendance (ADA,) which was reported to the state on a separate line through the school district's revenue limit report.

For charter high schools, the Charter School Block Grant funding rate is much higher than the revenue limit rate that a unified school district receives from the state per ADA. Under the prior regulations, the district was required to pass through the higher Charter School Block Grant to the converted high charter school. The differential between the two rates decreased the unified school district's net funding, and as a result, SB 319 was passed to end this inequity. Education Code (EC) 47660 offers the only guidance available for the calculation of SB 319 and leaves much to interpretation.

Education Code Section 47660 (c) (1) (A) states:

The amount of *the actual unrestricted revenues expended per unit of average daily attendance for that school in the year prior to its conversion to*, (emphasis added) and operation as, a charter school, adjusted for the base revenue limit per pupil inflation increase adjustment set forth in Section 42238.1, if this adjustment is provided, and also adjusted for equalization, deficit reduction, and other state general-purpose increases, if any, provided for the unified school district in the year of conversion to, and operation as a charter school.

After the initial calculation to determine the base revenue limit rate per ADA, EC Section 47660 (c) (1) (B) states that the base revenue limit per pupil inflation increase “is adjusted for equalization, deficit reduction, and other state general-purpose increases, if any, provided for the unified school district in that fiscal year.”

EC Section 47660 (c) (2) (g) authorizes the school district to use “the existing Standardized Account Code Structure and cost allocation methods, if appropriate, for an accounting of the actual unrestricted revenues expended in support of a school pursuant to subdivision (c).”

### **Unrestricted and Restricted Funding**

School district funding sources are either unrestricted or restricted, in accordance with CSAM Procedure on 105-5.

Unrestricted sources are available for any educational use. This is a broad category of funding that supports salaries, benefits, books, supplies, utilities, consultants, capital outlay and also funds a portion of expenses that some federal or state programs do not fully fund. This classification of expenditures is called encroachment.

According to the California School Accounting Manual procedure 105-5, restricted programs are limited to specific uses. Restricted funding is derived from federal, state and/or local sources in the form of grants, entitlements and/or specified donations. Examples include special education programs, Title I, transportation funding for home-to-school and transportation services for special education students. The expenditure of restricted funds is limited by the specific regulations that govern each funding source.

To determine the funding for a newly converted charter school under SB 319, the district must first convert the unrestricted expenditures into a base dollar amount per ADA for expenditures that were funded by unrestricted revenues in the school year prior to conversion. What is included in this calculation is subject to certain assumptions, primarily because not all expenditures can be directly attributable to a particular campus.

For example, many costs are districtwide such as central office administration and maintenance and operations, referred to as overhead. A portion of these expenditures must be allocated. In addition to districtwide expenditures for overhead general services costs, the district has encroachment from various restricted programs that are not fully funded such as special education, transportation, food services and others. This occurs when the actual program expenditures exceed actual program revenues to which the district is entitled.

The calculation is unique for each conversion because of the account variances that naturally occur between school sites that have unique cost features. For example, one high school may have the same number of students as another, but may have teachers with longevity, prompting higher costs for salary and benefits. Another example would occur when specialized programs are housed on one campus and not the other. This occurs in many districts that have specialized programs drawing students from several different schools within district boundaries to have a viable and concentrated program for students that

want to attend. These are generally referred to as magnet programs. However, many different specialized program configurations throughout a district cause the actual expenditures for that particular campus to differ from those of another campus of similar size and type (elementary, middle, or high school.)

FCMAT analyzed the data that the LAUSD staff prepared for Birmingham Community Charter High School and requested supporting documentation directly from the district; however, no response was received. (See Appendix A – Document Request List). As a result, FCMAT based its findings and recommendations on the data received from the charter school and district that cannot be verified with the district’s audited financial statements for the year ending June 30, 2009.

### **Daniel Pearl Journal Magnet**

Before its conversion to a charter school, Birmingham High School operated a specialized program called Daniel Pearl Journal Magnet that offered students a unique opportunity to attend dedicated classes in journalism. The students involved in this program were otherwise fully integrated in Birmingham High School class offerings in all other subject areas, extracurricular activities and sports. The school principal and other administrators were fully responsible for this program.

The district calculates the administrative support ratio based on the number of students on a particular campus. For Birmingham High School during the 2008-09 school year, the ratio included the students attending additional classes in the magnet program. There was no separate allocation of administrative and clerical support exclusively assigned to Daniel Pearl Journal Magnet.

When a district school converts, there is no guarantee that all the teachers and support staff will elect to work for the charter school. Regulations clearly state that when this type of conversion occurs, teachers and classified support staff members can elect to be transferred to another district school. This election must be provided in writing no later than June 30 of the school year prior to conversion.

Because the Daniel Pearl Journal Magnet staff decided to remain with the district, LAUSD applied to make the magnet a separate school in the district for the next fiscal year. The California Department of Education (CDE) issued county-district-code (CDS) # 19 64733 0120360 on September 9, 2009 effective for the 2009-10 school year. This code is the official unique identification number assigned to a school in California. According to CDE, CDS codes are not assigned to programs. CDE states: “Evidence that the entity is a school rather than a program is provided by the governing board action approving formation of the school and board action establishing the school.” FCMAT verified that the Daniel Pearl Journalism & Communications school recorded academic performance index (API) testing results for the first time as a new school following the 2009-10 school year. When the district made the SB 319 calculation basing expenditures on the 2008-09 school year, the year prior to conversion, a ratio for the number of Birmingham High School students versus the Daniel Pearl Journal Magnet students was determined. Based on this ratio, the campus’s direct unrestricted expenditures were divided and a percentage for the magnet program was deducted from Birmingham High School’s total expenditures, even though Daniel Pearl was not a separate school. For purposes of the SB 319 calculation, LAUSD should include all the campus expenditures and students in the base calculation.

### **Encroachment**

When a school district uses unrestricted or general-purpose funds to support the obligations of a restricted program, this is called encroachment. Special education, transportation and food service programs traditionally encroach on the unrestricted funding that would otherwise be available for regular education programs.

Because encroachment reduces the amount of unrestricted funds available districtwide, the district must allocate a portion of the general fund encroachment to be included in the SB 319 calculation. The total district encroachment should be reduced for any program(s) that the new charter school does not participate in before the conversion.

For example, if Birmingham High School did not participate in the food service program and that program was part of the total district's encroachment, the district would reduce the total encroachment for this program before calculating the per-pupil amount.

Education Code Section 47660 (c) (2) (g) authorizes the district to use an allocation method, if appropriate. However, based on the information provided by the district, it is not possible to determine the basis of this allocation or whether all encroaching programs are included. The only three programs listed on the district's spreadsheet are special education (including extended day), special education transportation and restricted routine maintenance. Regular home-to-school transportation and any other restricted programs that encroach on the unrestricted general fund are not listed on the spreadsheet prepared by LAUSD.

Education Code 47600 (c) (1) (A) clearly states that "unrestricted revenues expended per unit of average daily attendance" are used in the calculation; however, the district included restricted expenditures for special education services and special education transportation identified on the Birmingham campus as well as routine restricted maintenance. The second part of LAUSD's calculation for these restricted expenditures applies a percentage of 53.93% for special education and 12.09% for special education transportation on a spreadsheet titled "Birmingham09ExpendituresFINALRATE(2)." On February 10, 2012, FCMAT requested the following information from LAUSD related to encroachment, but to date the district has not responded:

- The calculation to support 53.93% and 12.09% allocations of resources 6500 and 7240.
- A listing of all restricted program encroachments.

In a letter dated July 20, 2011, LAUSD contends that the restricted expenditures represent the encroachment for Birmingham High School and include a portion as an "add-on" to the direct unrestricted expenditures. The district should recalculate the encroachment add-on to include the total district general fund encroachment divided by total district ADA to arrive at a per pupil amount then multiplied by Birmingham High School's total ADA.

By not including the entire unrestricted general fund contribution for special education, the district is not considering general fund encroachment for special education local plan area (SELPA) services. Generally, these are programs operated by the county office of education, however, LAUSD operations as a single-district SELPA. Encroachments for SELPA programs throughout the state have grown exponentially over the last several years as funding reductions continue and requirements for special education services expand. Many districts have struggled to find solutions to offset these rapidly growing costs. By not including the true encroachment to the district's unrestricted expenditures and instead calculating a percentage of the actual cost of programs running on the campus, the costs presented as an "add-on" for this calculation may be considerably lower and do not reflect the true encroachment cost.

The methodology utilized by LAUSD is atypical. Encroachment is not calculated by school site or department but on a districtwide basis, and the LAUSD calculation disregards that many restricted programs are concentrated on various campuses. Furthermore, special education programs operated by the district's SELPA and charged back to the general fund have an enormous impact on the total districtwide encroachment, which affects funding that would otherwise be available to support regular education programs on all campuses districtwide. The district's methodology does not meet the spirit or intent of the legislation.

It is important that the district disclose the methodology for allocating encroachment expenditures so that the charter school and district staff can determine whether the amount of allocated expenditures applied in the base year is accurate and includes all the expenditures to which the school is entitled from encroaching programs.

**Unrestricted Districtwide Overhead Expenditures**

The charter school was given credit for \$447.69 per ADA for districtwide overhead in the base calculation on the spreadsheet titled “Birmingham09ExpendituresFINALRATE(2).” FCMAT also requested verification to support the cost allocations for districtwide “Unrestricted Non-School Districtwide Overhead Expenditures” of \$275,520,449.26 and ADA of 615,420.29. To date, the district has not responded; therefore, the team is unable to confirm the accuracy of this allocation. However, in this part of the calculation, the district utilized a districtwide approach.

The presentation of districtwide costs for overhead but not for encroachment demonstrates a change in methodologies. All districtwide costs including encroachments should be applied in the same manner as overhead costs.

**Other Requested Information**

The FCMAT study team questioned several gaps in the rows of data on the LAUSD spreadsheets and subsequently determined that a difference exists between the total expenditures for the campus and the total allocated to the charter school totaling \$2,445,254.58.

On the spreadsheet titled “Birmingham09ExpendituresFINALRATE(2) - Complete Detail” tab several rows and gaps of information exist per the table below:

**LAUSD Supplied Information  
Gaps in Detailed Information  
For the 2008-09 Fiscal Year**

Between Row Numbers	Total Number of Missing Rows
787 - 803	15
905 - 1986	1,080
2095 - 2266	170

On the same spreadsheet tab “Program Summary,” the district shows the following expenditures and allocations:

**LAUSD Supplied Information  
Unaccounted Difference in Expenditure Information  
For the 2008-09 Fiscal Year**

Expenditure Amount	\$20,059,135.86
Revised Expenditures Amount (Unrestricted Funds Portion Only)	\$17,613,881.28
<b>Difference</b>	<b>\$2,445,254.58</b>
Share of Birmingham HS	\$15,169,925.78
Share of Daniel Pearl Magnet	\$2,443,955.50
Total Allocated Expenditures	\$17,613,881.28

Based on the observations identified in this report that the district included restricted expenditures, subtracted expenses for Daniel Pearl Journal Magnet program and inconsistently applied districtwide cost, FCMAT is unable to determine the correct base revenue limit funding per ADA. The district should recalculate the base funding as follows:

- Include Daniel Pearl Journal Magnet expenditures.
- Include Daniel Pearl Journal Magnet ADA.
- Remove the direct campus restricted program costs for special education, extended day special education, special education transportation and restricted routine maintenance.
- Include districtwide general fund encroachment per ADA and multiply the per ADA amount to Birmingham's ADA.
- Include the direct unrestricted expenditures.
- Include the districtwide overhead allocation.

Based on the information provided, it is not possible for FCMAT to determine whether revising the calculation will increase or decrease the charter school's base funding amount per ADA; however, the methodologies to be applied must be appropriate, reasonable, and satisfy the intent of the SB 319 legislation.

### **Base Revenue Limit Calculation Based on Ed-Data and District Information**

The district did not respond to FCMAT requests for fiscal data; however, CDE collects financial reporting data for K-12 local educational agencies throughout the year. Year-end financial data is collected by each county office of education after each district's governing board approves the unaudited actuals, which the districts are required to submit on or before September 15 each fiscal year. The CDE's Financial Accountability and Information Services Unit analyzes, certifies and releases the financial data in a standardized format, which allows end users to access the information for each district and compare it to other K-12 LEAs.

Once the data is certified and released by CDE, Ed-Data in partnership with EdSource, FCMAT and CDE posts it on the Ed-Data website. The certified LAUSD financial information posted on Ed-Data, although not audited, was the best available financial data, and FCMAT utilized this information in combination with other data supplied by the district through the charter school to calculate LAUSD's base revenue limit for Birmingham Community Charter High School.

### **Recalculation of Birmingham Community Charter Initial School Base Revenue Limit Calculation**

**Information Source: District Download, District Spreadsheet and Ed-Data**  
**For the Fiscal Year 2008-2009**

Assumption	Source of Information	Amount	Calculation	SB319 Base Revenue Limit Amount
District ADA	Ed-Data	595,701	NA	NA
Birmingham High School ADA	District Spreadsheet	2,924.10	NA	NA
District General Fund Encroachment	Ed-Data	\$888,701,206	NA	NA
Unrestricted Expenditures Birmingham High School 2008-2009	District Download	\$15,022,716	\$15,022,716	\$15,022,716
Non-School Unrestricted Contributions (district overhead)	District Spreadsheet	\$275,520,449	$(\$275,520,449/595,701)*2,924.10$	\$1,352,439
General Fund Encroachment	Ed-Data	\$888,701,206	$(\$888,701,206/595,701)*2,924.10$	\$4,362,342
Total Expenditures				\$20,737,496
SB319 Base Revenue Limit			$\$20,737,496/2,924.10$	\$7,091.92
Expenditures Per ADA				

LAUSD calculated the base revenue limit to be \$6,653.94 for 2008-2009. Based on FCMAT’s calculation, the base revenue limit should be \$7,091.92 a difference of \$437.98 per ADA before applying the cost-of-living and deficated reduction for the subsequent fiscal year, 2009-2010.

The following table shows the difference between the funded based revenue limit received by the charter school in 2009-2010 and FCMAT’s calculation:

**Birmingham Community Charter School  
Funded Based Revenue Limit  
For the Fiscal Year 2009-2010**

Description	LAUSD	FCMAT Recalculation
Base Revenue Limit	\$6,654	\$7,092
Add: Cost of Living Adjustment	261	261
Less: Deficit Reduction @ 18.355%	1,269	1,350
Funded Base Revenue Limit	\$5,646	\$6,003

The difference between the funded base revenue limit for the two calculations is \$357 per ADA. Therefore, the funding base lost for 2009-2010 fiscal years is as follows:

Funding Differential	ADA for 2009-2010	Dollar Amount
\$6,003 - \$5,646 = \$357	2,448.96	\$874,279

Because the base revenue limit is carried forward in subsequent years, the-cost-of-living adjustment applied to the \$874,279 is lost each year based on the total ADA reported.

## Conclusion

FCMAT reviewed the district’s cost impact based on a defined set of assumptions. As these assumptions change, so will the base revenue limit per ADA. The financial calculations for the issues identified in this report can have a profound financial impact on the charter school’s daily operations and academic support for students.

The Daniel Pearl Journal Magnet program remained on the Birmingham campus in 2008-09, and LAUSD applied to make the magnet a separate school in the district for the next fiscal year. Therefore, the calculations utilized by LAUSD were incorrect because the program did not qualify as a separate school under definitions provided by the California Department of Education. CDE issued the county-district-code (CDS) # 19 64733 0120360 on September 9, 2009 effective for the 2009-10 school year, which would make the calculations by LAUSD invalid.

This code is the official unique identification number assigned to a school in California. According to CDE, CDS codes are not assigned to programs. CDE states: “Evidence that the entity is a school rather than a program is provided by the governing board action approving formation of the school and board action establishing the school.”

FCMAT verified that the Daniel Pearl Journalism & Communications school recorded academic performance index (API) testing results for the first time as a new school following the 2009-10 school year. When the district made the SB 319 calculation basing, expenditures on the 2008-09 school year, the year prior to conversion, a ratio for the number of Birmingham High School students versus the Daniel Pearl



Journal Magnet students was determined. Based on this ratio, the campus's direct unrestricted expenditures were divided and deducted from Birmingham High School's total expenditures even though Daniel Pearl was not a separate school. In addition, LAUSD utilized a site-specific encroachment value instead of a districtwide encroachment, resulting in a significant reduction in funding per ADA that the charter school is entitled to receive.

For purposes of the SB 319 calculation, LAUSD should have included all the campus expenditures and students in the base revenue limit calculation along with the correct amount per ADA for general fund encroachment.

## Recommendation

*The charter school should:*

1. Continue to seek legal counsel and make a formal appeal to the LAUSD governing board to reestablish the base revenue limit utilized by LAUSD to convert the charter school, based on SB 319.

On behalf of FCMAT, we appreciate the opportunity to serve you and extend our thanks to the charter school staff for their cooperation and assistance. Please contact us if you have any questions at (661) 636-4611.

Sincerely,

A handwritten signature in black ink, appearing to read "Debi Deal", written over a horizontal line.

Debi Deal, CFE

Fiscal Intervention Specialist



CALIFORNIA  
DEPARTMENT OF  
EDUCATION

1430 N STREET  
SACRAMENTO, CA  
95814-5901

**JACK O'CONNELL**  
State Superintendent of  
Public Instruction  
PHONE: 916-319-0800

February 13, 2007

Dear County and District Chief Business Officers and Charter School Administrators:

**UNIFIED SCHOOL DISTRICTS AND CHARTER SCHOOL FUNDING  
FISCAL YEAR 2006-07**

**General Information**

General purpose funding for a charter school sponsored by a unified school district changed significantly as a result of Senate Bill (SB) 319 (Chapter 355, Statutes of 2005), as amended by Assembly Bill 1967 (Chapter 730, Statutes of 2006). This letter provides information about those changes.

Prior to fiscal year 2006-07, revenue limit funding for a unified school district included the average daily attendance (ADA) of all pupils attending a charter school(s) that was sponsored by the district (see Footnote 1). This applied only to the ADA of pupils who resided in the district and were otherwise eligible to attend a noncharter school of the district.

The unified school district, in turn, provided to the charter school the charter school general purpose block grant. Consequently, the district's net revenue was impacted positively or negatively by each charter school, depending on the difference between the district base revenue limit per ADA and the charter general purpose block grant per ADA. SB 319 more narrowly defined the charter schools that would continue to interact with the unified school district revenue limit, thus reducing the impact of charter schools on a school district's net revenue.

Specifically, commencing with 2006-07, ADA of pupils residing in a unified school district and attending a charter school that, **on or after July 1, 2006, converted from a noncharter school of the district to a charter school**, will continue to be funded through the district revenue limit. The only other charter school ADA that will continue to be funded through the district revenue limit is that of charter school pupils who reside in a basic aid unified school district, as described below in the Basic Aid Unified School Districts section.

Another significant SB 319 change is in the amount of general purpose funds provided to these newly operational conversion charter schools. The unified school district will no longer transfer to the charter school the charter school block grant amount. Instead, the charter school will receive the amount of actual unrestricted revenues expended per unit of ADA for that school in the year prior to its conversion to, and operation as, a charter school. The inflation, equalization, deficit factor, and other similar general purpose adjustments that apply to the district also apply to the charter school per ADA rate in the year of conversion and each year thereafter.

Note that the funding amounts and transfer of funds between the district and the charter school is completed by the California Department of Education (CDE) and already reflected in the district and charter school respective apportionment allocations. The state aid amount also reflects adjustment for local property tax contributions.

**All Charter School Unified School Districts**

When a unified school district converts all of its schools to charter status, the district has two choices: 1) fund all of its charter schools according to the traditional revenue limit model, or 2) fund all of its charter schools through the charter school general purpose funding model. Pursuant to that model, schools converting to charter status after July 1, 2006, will receive the amount of actual unrestricted revenues expended per unit of ADA for that school in the year prior to its conversion to, and operation as, a charter school. Those schools converting to charter status prior to July 1, 2006, and all startup charter schools will receive the charter school block grant.

**Basic Aid Unified School Districts**

Commencing with 2006-07, the ADA associated with pupils of a charter school, who reside in a unified school district, will continue to be reported as ADA in the district revenue limit calculation, if the district was a basic aid district in the prior year. This applies to all charter schools in the district, regardless of status as a startup (nonconversion) or

conversion school.

If the charter school is a conversion school after July 1, 2006, the charter school's general purpose entitlement, for pupils residing in the district, equals the actual unrestricted revenues expended per unit of ADA for that school in the year prior to its conversion to a charter school. For non-resident pupils and a startup charter school, the general purpose entitlement equals the charter school block grant.

Districts which move in and out of basic aid status may have some startup charter school ADA reported through the district revenue limit, and some charter school ADA reported outside of the district revenue limit, depending on the basic aid status in the year prior to the charter authorization. In both cases, the startup charter school is entitled to the same amount, i.e., the charter school block grant. Note, non-resident charter school ADA are never funded through the revenue limit.

"Basic aid" is defined as a school district that does not receive from the state an apportionment of state funds pursuant to subdivision (h) of California *Education Code* Section 42238.

#### **Startup Charter Schools**

The general purpose funding amount for startup charter schools, regardless of the date of authorization and operation, remains unchanged; the school will receive the charter school general purpose block grant rate. However, based on SB 319, the ADA no longer will be reported through the unified school district revenue limit unless the district is basic aid in the prior year.

#### **Certification Requirement**

A unified school district, that is the sponsor of a charter school that converts from noncharter to charter status after 2006-07, must certify to the State Superintendent of Public Instruction (SSPI) the amount of the actual unrestricted revenues expended per unit of ADA for that school in the year prior to its conversion. The certification to the SSPI must take place **prior** to the approval of the charter petition. The amount may be an estimate and revised once actual data are available.

Since charter schools in operation in 2005-06 had their petitions approved prior to the effective date of the enacting legislation, it is the opinion of the CDE that the change in charter ADA funded through the district revenue limit, the new charter school annual entitlement based on actual expenditures, and the certification requirement, commence with the 2006-07 fiscal year.

#### **Defining Expenditure of Unrestricted Revenues**

Regarding the requirement to determine the amount of actual unrestricted revenues expended per unit of ADA for a charter school in the year prior to its conversion, SB 319 provides that a school district may use cost allocation methods, if appropriate, for an accounting of actual unrestricted revenues expended in support of the school. Currently, however, there are no standardized instructions or guidance to determine expenditures at the school level.

If you have questions about the information in this letter, please contact the School Fiscal Services Division at 916-322-3024 ; ~~or Cindy Chan, Administrator, Charter School Fiscal Unit, at 916-324-4544~~ [Note, the preceding contact is no longer valid and has been replaced by Caryn Moore, Administrator, Office of Charter Apportionments and District Reorganization, at 916-324-4541.]

Sincerely,

Scott Hannan, Director  
School Fiscal Services Division

Footnote 1:

*Education Code* Section 47632(j)

(j) "Sponsoring local educational agency" means the following:

- (1) If a charter school is granted by a school district, the sponsoring local educational agency is the school district.
- (2) If a charter is granted by a county office of education after having been previously denied by a school district, the sponsoring local educational agency means the school district that initially denied the charter petition.
- (3) If a charter is granted by the state board after having been previously denied by a local educational agency, the sponsoring local educational agency means the local educational agency designated by the state board pursuant to paragraph (1) of subdivision (k) of Section 47605 or if a local educational agency is not designated, the local educational agency that initially denied the charter petition.
- (4) For pupils attending county-sponsored charter schools who are eligible to attend those schools solely

as a result of parental request pursuant to subdivision (b) of Section 1981, the sponsoring local educational agency means the pupils' school district of residence.

(5) For pupils attending countywide charter schools pursuant to Section 47605.6 who reside in a basic aid school district, the sponsoring local educational agency means the school district of residence of the pupil. For purposes of this paragraph, "basic aid school district" means a school district that does not receive an apportionment of state funds pursuant to subdivision (h) of Section 42238.

**California Department of Education**  
**1430 N Street**  
**Sacramento, CA 95814**

Last Reviewed: Thursday, March 03, 2011