
AGENDA ITEM: Proposed Rubric for Initial Financial Response**Issue**

Under the Board's Financial Performance Framework, Board staff will review the initial financial response submitted by a charter holder assigned an "Intervention" summative financial performance rating and prepare a report. On the agenda for the Board's consideration today is the proposed rubric that Board staff will use to review an initial financial response. During the first opportunity for public comment, the Board received one public comment. Today's meeting provides the second opportunity for public comment required under the Board's procedures.

Rubric for Initial Financial Response

Pursuant to A.A.C. R7-5-509(C), Board staff's report on the initial financial response will answer each of the following questions and briefly explain the basis for each answer:

1. Is there a sound explanation for why the charter holder underperformed on the Financial Performance Framework's measures?
2. Did the charter holder perform at a level just below or well below the Financial Performance Framework's measure(s) targets?
3. In what direction is the charter holder's financial health heading?
4. Do the charter holder's proposed or implemented actions address the problems that contributed to or caused the charter holder's underperformance on the Financial Performance Framework's measures and are they realistic to implement?

The rubric found in *Appendix A: Proposed Rubric for Report on Initial Financial Response* identifies the information and criteria Board staff will use to evaluate the initial financial response.

First Opportunity for Public Comment

In accordance with the Board's Procedures for Rule and Policy Adoption, the proposed substantive changes were open for public comment from August 12 through September 2, 2019. The initial communication was sent to the Board's newsletter distribution list, which includes all charter representatives, and was circulated through the Board's website. One written response was received during the public comment period and has been included with these meeting materials (see *Appendix B: Public Comment*).

Appendix A:
Proposed Rubric for Report on Initial Financial Response

Rubric for Reviewing the Initial Financial Response

The following information and criteria will be used by Board staff to evaluate the Initial Financial Response submitted by a charter holder that receives an Intervention Rating. A.A.C. R7-5-509(C) specifies the questions included below that Board staff must answer in Board Staff’s Report on the Initial Financial Response.

IS THERE A SOUND EXPLANATION FOR WHY THE CHARTER HOLDER UNDERPERFORMED ON THE FINANCIAL PERFORMANCE FRAMEWORK’S MEASURES?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “Yes”	QUESTION ANSWERED “No”
<ul style="list-style-type: none"> ▪ INITIAL FINANCIAL RESPONSE, INCLUDING SUMMARY OF FACTORS THAT CAUSED OR CONTRIBUTED TO THE CHARTER HOLDER’S FINANCIAL PERFORMANCE IN THE MOST RECENT AUDITED FISCAL YEAR ▪ AUDITS SUBMITTED TO THE BOARD ▪ ADMS46-1 REPORTS AVAILABLE THROUGH DEPARTMENT’S WEBSITE 	<ul style="list-style-type: none"> ▪ DOES THE INITIAL FINANCIAL RESPONSE INCLUDE AN EXPLANATION FOR WHY THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR? ▪ COULD THE CAUSE OR CONTRIBUTING FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE HAVE AFFECTED THE CHARTER HOLDER’S PERFORMANCE ON THE MEASURE(S) RATED “BELOW STANDARD?” ▪ AS APPLICABLE, DOES INFORMATION INCLUDED IN THE CHARTER HOLDER’S AUDITS OR ADMS46-1 REPORTS CONTRADICT THE CAUSE’S OR CONTRIBUTING FACTOR’S EFFECT ON THE MEASURE(S) RATED “BELOW STANDARD?” 	<p>ALL THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER PROVIDES AN EXPLANATION FOR WHY IT UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE RELEVANT TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE DO NOT CONTRADICT INFORMATION IN THE CHARTER HOLDER’S AUDITS OR ADMS46-1 REPORTS. 	<p>ONE OR MORE OF THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER DOES NOT PROVIDE AN EXPLANATION FOR WHY IT UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE NOT RELEVANT, IN WHOLE OR IN PART, TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ ONE OR MORE FACTORS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE CONTRADICT INFORMATION IN THE CHARTER HOLDER’S AUDITS OR ADMS46-1 REPORTS.
DID THE CHARTER HOLDER PERFORM AT A LEVEL JUST BELOW OR WELL BELOW THE FINANCIAL PERFORMANCE FRAMEWORK’S MEASURE(S) TARGETS?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “JUST BELOW”	QUESTION ANSWERED “WELL BELOW”
<ul style="list-style-type: none"> ▪ MOST RECENT AUDITED FISCAL YEAR FINANCIAL DASHBOARD ▪ Measures and Summative Performance Ratings Guide 	<ul style="list-style-type: none"> ▪ SINCE PERFORMANCE ON THE FINANCIAL FRAMEWORK’S GOING CONCERN AND DEFAULT MEASURES IS BASED ON THE PRESENCE (“BELOW STANDARD”) OR ABSENCE (“MEETS STANDARD”) OF CERTAIN DISCLOSURE IN THE AUDIT, “JUST BELOW” OR “WELL BELOW” ARE NOT APPLICABLE. ▪ IF THE CHARTER HOLDER RECEIVED “BELOW STANDARD” RATINGS ON ONLY THE GOING CONCERN MEASURE, DEFAULT MEASURE OR BOTH, THEN THIS QUESTION WILL BE ANSWERED “NOT APPLICABLE.” 	<p>FOR THE FINANCIAL FRAMEWORK’S FOUR CALCULATED MEASURES, ALL THE FOLLOWING, AS APPLICABLE, ARE TRUE FOR THE MEASURE(S) RATED “BELOW STANDARD:”</p> <ul style="list-style-type: none"> ○ UNRESTRICTED DAYS LIQUIDITY IS AT LEAST 10 DAYS BUT FEWER THAN 15 DAYS. ○ ADJUSTED NET INCOME DIVIDED BY TOTAL REVENUES IS BETWEEN NEGATIVE 5% AND NEGATIVE 9.99%. ○ THE LEASE ADJUSTED DEBT SERVICE COVERAGE RATIO IS AT LEAST 0.9 BUT LESS THAN 1.0. ○ THE CHARTER HOLDER’S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS A DECREASE OF A) 15% TO 19.99% FOR A SMALL OR MEDIUM CHARTER HOLDER OR B) 10% TO 14.99% FOR A LARGE CHARTER HOLDER. 	<p>FOR THE FINANCIAL FRAMEWORK’S FOUR CALCULATED MEASURES, ONE OR MORE OF THE FOLLOWING, AS APPLICABLE, ARE TRUE FOR THE MEASURE(S) RATED “BELOW STANDARD:”</p> <ul style="list-style-type: none"> ○ UNRESTRICTED DAYS LIQUIDITY IS FEWER THAN 10 DAYS. ○ ADJUSTED NET INCOME DIVIDED BY TOTAL REVENUES IS LESS THAN OR EQUAL TO NEGATIVE 10%. ○ THE LEASE ADJUSTED DEBT SERVICE COVERAGE RATIO IS LESS THAN 0.9. ○ THE CHARTER HOLDER’S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS A DECREASE OF A) 20% OR MORE FOR A SMALL OR MEDIUM CHARTER HOLDER OR B) 15% OR MORE FOR A LARGE CHARTER HOLDER.

IN WHAT DIRECTION IS THE CHARTER HOLDER'S FINANCIAL HEALTH HEADING?			
DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED "IMPROVING"	QUESTION ANSWERED "STABLE OR WORSENING"
<ul style="list-style-type: none"> ▪ QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵ AND BUDGETS SUBMITTED WITH THE INITIAL FINANCIAL RESPONSE AND QUARTERLY FINANCIAL REPORTS ▪ INITIAL FINANCIAL RESPONSE'S SCHEDULE OF DEBT AND LEASE OBLIGATIONS AND THE CURRENT OUTSTANDING BALANCES FOR EACH ▪ MOST RECENT AUDITED FISCAL YEAR FINANCIAL DASHBOARD ▪ AUDITS SUBMITTED TO THE BOARD ▪ ADMS46-1 REPORTS AVAILABLE THROUGH DEPARTMENT'S WEBSITE 	<ul style="list-style-type: none"> ▪ FOR THE DEFAULT, UNRESTRICTED DAYS LIQUIDITY AND ADJUSTED NET INCOME MEASURES, THE CHARTER HOLDER'S CURRENT PERFORMANCE BASED ON THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵ AND BUDGETS. ▪ INFORMATION DISCLOSED IN THE INITIAL FINANCIAL RESPONSE AND THE AUDITS REGARDING THE CHARTER HOLDER'S DEBT AND LEASE OBLIGATIONS. ▪ AS APPLICABLE, INFORMATION DISCLOSED IN THE AUDITS REGARDING THE CHARTER HOLDER'S PERFORMANCE ON THE DEFAULT AND GOING CONCERN MEASURES. ▪ THE CHARTER HOLDER'S CURRENT PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE. IF THE CURRENT FISCAL YEAR'S ADMS46-1 REPORT IS NOT AVAILABLE ON THE DEPARTMENT'S WEBSITE, BOARD STAFF WILL USE THE CHARTER HOLDER'S ESTIMATED COUNT IN THE CALCULATION. 	<p>ALL THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE GOING CONCERN MEASURE WAS NOT RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE DEFAULT MEASURE WAS NOT RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR <u>OR</u> THE INITIAL FINANCIAL RESPONSE SUPPORTS THE CHARTER HOLDER HAS CURED THE DEFAULT(S) IDENTIFIED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ IF APPLICABLE, THE UNRESTRICTED DAYS LIQUIDITY MEASURE WAS RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER'S CURRENT PERFORMANCE AS OF THE QUARTER END DATE HAS IMPROVED TO A "MEETS STANDARD" OR "APPROACHES STANDARD." ○ IF APPLICABLE, THE ADJUSTED NET INCOME MEASURE WAS RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE INITIAL FINANCIAL RESPONSE'S BUDGETS AND THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER'S CURRENT FISCAL YEAR PERFORMANCE IS PROJECTED TO IMPROVE TO A "MEETS STANDARD" OR "APPROACHES STANDARD." ○ THE NUMBER OF MEASURES PROJECTED TO BE RATED "BELOW STANDARD" BASED ON CURRENT PERFORMANCE IS LESS THAN THE NUMBER OF MEASURES RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR.⁶ ○ BASED ON THE INITIAL FINANCIAL RESPONSE, THE CHARTER HOLDER'S NON-FACILITY DEBT HAS REMAINED THE SAME OR DECREASED IN THE CURRENT FISCAL YEAR. ○ FOR THE CURRENT FISCAL YEAR, THE CHARTER HOLDER'S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS EITHER: A) AN INCREASE, B) A DECREASE OF LESS THAN 15% FOR A SMALL OR MEDIUM CHARTER HOLDER, OR C) A DECREASE OF LESS THAN 10% FOR A LARGE CHARTER HOLDER. 	<p>ONE OR MORE OF THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE GOING CONCERN MEASURE WAS RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE DEFAULT MEASURE WAS RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR <u>AND</u> THE INITIAL FINANCIAL RESPONSE DOES NOT SUPPORT THAT THE CHARTER HOLDER HAS CURED THE DEFAULT(S) IDENTIFIED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ IF APPLICABLE, THE UNRESTRICTED DAYS LIQUIDITY MEASURE WAS RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER'S CURRENT PERFORMANCE AS OF THE QUARTER END DATE REMAINS RATED "BELOW STANDARD." ○ IF APPLICABLE, THE ADJUSTED NET INCOME MEASURE WAS RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR, <u>AND</u> BASED ON THE INITIAL FINANCIAL RESPONSE'S BUDGETS AND THE QUARTERLY FINANCIAL REPORTS THROUGH AT LEAST THE QUARTER ENDING DECEMBER 31⁵, THE CHARTER HOLDER'S CURRENT FISCAL YEAR PERFORMANCE IS PROJECTED TO REMAIN RATED "BELOW STANDARD." ○ THE NUMBER OF MEASURES PROJECTED TO BE RATED "BELOW STANDARD" BASED ON CURRENT PERFORMANCE IS EQUAL TO OR MORE THAN THE NUMBER OF MEASURES RATED "BELOW STANDARD" IN THE MOST RECENT AUDITED FISCAL YEAR.⁶ ○ BASED ON THE INITIAL FINANCIAL RESPONSE, THE CHARTER HOLDER'S NON-FACILITY DEBT HAS INCREASED IN THE CURRENT FISCAL YEAR. ○ FOR THE CURRENT FISCAL YEAR, THE CHARTER HOLDER'S PERFORMANCE ON THE AVERAGE DAILY MEMBERSHIP MEASURE SHOWS A DECREASE OF A) 15% OR MORE FOR A SMALL OR MEDIUM CHARTER HOLDER OR B) 10% OR MORE FOR A LARGE CHARTER HOLDER.

⁵ If based on A.A.C. R7-5-509(B), the charter holder's Initial Financial Response must include a quarter ending subsequent to December 31, then the latest quarter end date will be used by Board staff to determine the answer to the question that asks, "In what direction is the charter holder's financial health heading?"

⁶ For this criterion, the measures considered are Default, Unrestricted Days Liquidity and Adjusted Net Income.

DO THE CHARTER HOLDER’S PROPOSED OR IMPLEMENTED ACTIONS ADDRESS THE PROBLEMS THAT CONTRIBUTED TO OR CAUSED THE CHARTER HOLDER’S UNDERPERFORMANCE ON THE FINANCIAL PERFORMANCE FRAMEWORK’S MEASURES AND ARE THEY REALISTIC TO IMPLEMENT?

DOCUMENTATION REVIEWED	FACTORS CONSIDERED BY BOARD STAFF	QUESTION ANSWERED “Yes”	QUESTION ANSWERED “No”
<ul style="list-style-type: none"> ▪ INITIAL FINANCIAL RESPONSE, INCLUDING SUMMARY OF ACTIONS TAKEN OR BEING TAKEN TO IMPROVE THE CHARTER HOLDER’S FINANCIAL PERFORMANCE IN THE CURRENT FISCAL YEAR ▪ AUDITS SUBMITTED TO THE BOARD ▪ ADMS46-1 REPORTS AVAILABLE THROUGH DEPARTMENT’S WEBSITE 	<ul style="list-style-type: none"> ▪ DOES THE INITIAL FINANCIAL RESPONSE INCLUDE PROPOSED OR IMPLEMENTED ACTIONS TO ADDRESS THE PROBLEMS THAT CONTRIBUTED TO THE CHARTER HOLDER’S UNDERPERFORMANCE IN THE MOST RECENT AUDITED FISCAL YEAR? ▪ COULD THE PROPOSED OR IMPLEMENTED ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE IMPROVE THE CHARTER HOLDER’S PERFORMANCE IN THE CURRENT YEAR ON THE MEASURE(S) RATED “BELOW STANDARD” IN THE MOST RECENT AUDITED FISCAL YEAR? ▪ DOES INFORMATION INCLUDED IN THE CHARTER HOLDER’S AUDITS, ADMS46-1 REPORTS OR INITIAL FINANCIAL RESPONSE INDICATE THAT THE ACTIONS ARE UNREALISTIC FOR THE CHARTER HOLDER TO IMPLEMENT? 	<p>ALL THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER PROVIDES ACTIONS TO ADDRESS THE PROBLEMS THAT CONTRIBUTED TO ITS UNDERPERFORMANCE IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE RELEVANT TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ THE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE REALISTIC FOR THE CHARTER HOLDER TO IMPLEMENT. 	<p>ONE OR MORE OF THE FOLLOWING ARE TRUE:</p> <ul style="list-style-type: none"> ○ THE CHARTER HOLDER DOES NOT PROVIDE ACTIONS TO ADDRESS THE PROBLEMS THAT CONTRIBUTED TO ITS UNDERPERFORMANCE IN THE AUDITED FISCAL YEAR. ○ THE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE NOT RELEVANT, IN WHOLE OR IN PART, TO THE MEASURES ON WHICH THE CHARTER HOLDER UNDERPERFORMED IN THE MOST RECENT AUDITED FISCAL YEAR. ○ ONE OR MORE ACTIONS IDENTIFIED IN THE INITIAL FINANCIAL RESPONSE ARE NOT REALISTIC FOR THE CHARTER HOLDER TO IMPLEMENT.

Appendix B:
Public Comment



Charter School Board - ASBCS <charterschoolboard@asbcs.az.gov>

PROPOSED RUBIC - PUBLIC COMMENT

1 message

MCamacho@ypic.com <MCamacho@ypic.com>
To: charterschoolboard@asbcs.az.gov

Tue, Aug 20, 2019 at 4:49 PM

Good afternoon,

The four questions are rigid. Charter schools are expected to be wealthy; and not all have this financial status. Not all charters are for profit; especially the ones operating under a not for profit organization. Non-profits are not expected to make a profit.

Also, there is no explanation on what is considered an “acceptable” answer to these 4 questions (enabling the school to continue to operate). The mechanism seems a bit “subjective.”

Training (technical assistance) on the calculation of the different ratios would be beneficial.

Thank you,

Martha Camacho

mcamacho@ypic.com