

Discussion Financial Framework – ADM Measure

The table below summarizes the average daily membership (“ADM”) calculations proposed to the Board by the Reason Foundation in its September 2018 report and used by the Office of the Auditor General (“OAG”) as part of its school district Financial Stress Assessment. The “Proposal for Subcommittee” column takes components of each to create a third option. Additional information related to the third option begins on page 2.

	Reason	OAG (School Districts)	Proposal for Subcommittee
Description	Averages percent change in ADM for the three most recent completed fiscal years (Requires four years of ADM)	Considers percent change in ADM from first fiscal year to third fiscal year in three-year period (Requires three years of ADM)	Averages percent change in 100 th day ADM for the three most recent completed fiscal years (Requires four years of ADM)
Uniform or Varied Targets	Uses same target for all charters regardless of size	Groups districts by size categories <ul style="list-style-type: none"> ❖ Very Small = Fewer than 200 ADM ❖ Small = 200-599 ADM ❖ Medium = 600-1,999 ADM ❖ Medium-Large = 2,000-7,999 ADM ❖ Large = 8,000-19,999 ADM ❖ Very Large = 20,000+ ADM 	Groups charters by size categories <ul style="list-style-type: none"> ❖ Small = Fewer than 200 ADM ❖ Medium = 200-599 ADM ❖ Large = 600+ ADM
Specific Performance Target	Target set between a three-year decline of 3% or 5%	<p>Large Decrease Districts with decreases of:</p> <ul style="list-style-type: none"> ▪ Very Small/Small: 15%+ ▪ Medium/Medium-Large: 10%+ ▪ Large/Very Large: 5%+ <p>Moderate Decrease Districts with decreases of:</p> <ul style="list-style-type: none"> ▪ Very Small/Small: 5%-14.99% ▪ Medium/Medium-Large: 3%-9.99% ▪ Large/Very Large: 2%-4.99% <p>Increase Districts with increases of:</p> <ul style="list-style-type: none"> ▪ Very Small/Small: 5%+ ▪ Medium/Medium-Large: 3%+ ▪ Large/Very Large: 2%+ <p>Steady Districts with increases/decreases of:</p> <ul style="list-style-type: none"> ▪ Very Small/Small: 4.99% or less ▪ Medium/Medium-Large: 2.99% or less ▪ Large/Very Large: 1.99% or less 	<p>Below Standard Charter has <u>decrease</u> of:</p> <ul style="list-style-type: none"> ▪ Small: 15% or more ▪ Medium: 15% or more ▪ Large: 10% or more <p>Approaches Standard Charter has <u>decrease</u> of:</p> <ul style="list-style-type: none"> ▪ Small: 5% to 14.99% ▪ Medium: 5% to 14.99% ▪ Large: 3% to 9.99% <p>Meets Standard (in one of two ways):</p> <ol style="list-style-type: none"> 1. Charter has <u>increase</u> <u>OR</u> 2. Charter has <u>decrease</u> of: <ul style="list-style-type: none"> ▪ Small: 4.99% or less ▪ Medium: 4.99% or less ▪ Large: 2.99% or less <p><i>NOTE: The above targets will be applied to charters with only two years (year 1 to year 2) or three years (two-year average) of ADM available.</i></p> <p><u>For additional information that will be considered in determining measure ratings, see “Additional Rating Considerations” section on page 2.</u></p>

Additional Rating Considerations

Previous public comment asked that any ADM measure not only look at whether there was a decline, but also the charter’s response to that decline (e.g., did the charter reduce its expenses). Instead of considering performance on one of the discussion framework’s other measures in conjunction with the ADM measure, staff considered the charter’s performance on all five of the discussion framework’s other measures. For Subcommittee deliberation, staff proposes the following:

- A charter’s Approaches Standard or Below Standard rating on the ADM measure be increased by one rating category if the charter received no Below Standard ratings and no more than one Approaches Standard rating on the discussion framework’s other five measures. Under this scenario, an “Approaches” on the ADM measure would become a “Meets” and a “Below” would become an “Approaches”.
- A charter’s Approaches Standard or Below Standard rating on the ADM measure be unchanged if the charter received one or more Below Standard ratings or two or more Approaches Standard rating on the discussion framework’s other five measures.

ADM Measure – Performance Data

On October 1, 2018, the Arizona Department of Education provided staff with charter ADM data for fiscal years 2011 through 2018. Staff’s calculations included all charters with at least three fiscal years of ADM data in each three-year period; staff did not focus on only charters currently in operation. After reviewing this data, staff concluded that the Auditor General school district targets would be applicable to charters. The results below incorporate information found in the “Proposal for Subcommittee” column on page 1 and the “Additional Rating Considerations” section above and focus on those charters for which financial performance information was available.

SMALL CHARTERS (n=209)

3-Year Range	Raw Results		Adjusted for Additional Considerations	
	Below	Approaches	Below	Approaches
FY2013-FY2015	15	21	3	22
FY2014-FY2016	11	30	4	21
FY2015-FY2017	14	29	9	19

MEDIUM CHARTERS (n=182)

3-Year Range	Raw Results		Adjusted for Additional Considerations	
	Below	Approaches	Below	Approaches
FY2013-FY2015	3	16	2	7
FY2014-FY2016	3	13	3	6
FY2015-FY2017	4	11	4	5

LARGE CHARTERS (n=89)¹

3-Year Range	Raw Results		Adjusted for Additional Considerations	
	Below	Approaches	Below	Approaches
FY2013-FY2015	4	4	2	3
FY2014-FY2016	3	2	0	3
FY2015-FY2017	2	3	0	2

Please note that any ADM measure identified by the Board will need to account for the resulting drop in ADM for schools that transfer to their own contract or close.

First-Year and Second-Year Financial Site Visits

Since only one year of ADM data would be available, the ADM measure will not be applicable for first-year contracts. However, staff proposes visiting all new schools approved through the new application, replication application or amendment processes in the fall of their first year of operation. Prior to the visit, staff would compare enrollment projections identified in the application or amendment request to the school’s estimated count or, if available, actual ADM. During the visit, staff would meet with school officials and review documentation to ascertain the school’s current financial situation and, if applicable, discuss adjustments made or planned due to lower than projected enrollment.

Schools will be selected for second-year financial visits based on the results of the first-year visit and first-year audit, as well as the school’s second-year estimated count or, if available, actual ADM. Any second-year visits would likely occur in the winter of the school’s second year after the prior year’s audit has been received and reviewed.

¹ For fiscal years 2015, 2016, 2017 and 2018, the highest ADMs in the “Large” category were approximately 5,300, 6,000, 6,400 and 7,700, respectively.