

AGENDA ITEM: Transparency Recommendations

Background

As part of the Financial Framework Subcommittee’s (“Subcommittee”) discussions with stakeholders, the Subcommittee determined that additional transparency is needed to complement the financial framework (“transparency recommendations”). The transparency recommendations were formally presented during the Subcommittee’s October 23, 2018 meeting. At this meeting, the Subcommittee directed staff to solicit public comment on the proposed recommendations and to provide the public comment to the Subcommittee at its November 27, 2018 meeting. In addition to a 15-day comment period, staff and Board members met with the charter community, Arizonans for Charter School Accountability and the Grand Canyon Institute. On November 27th, the Subcommittee adopted the transparency recommendations and directed staff to bring them to the Board in December.

Transparency Recommendations

The transparency recommendations fall into three categories – rules, best practices and areas for further study – which are described below.

RULES

	Educational Service Provider Registry	Website Link to Performance Dashboards	Mandatory Notifications
Recommendation Description	<p>Charters must declare if they have an agreement or contract with an educational service provider (“ESP”) and provide the following information:</p> <ul style="list-style-type: none"> ▪ Name of ESP ▪ A written statement describing the services provided to the charter school(s) <p>An ESP is defined as any number of organizations that contract with or have a governance relationship with the entity to provide comprehensive services. Major types of ESPs are education management organizations (“EMO”) and charter management organizations (“CMO”).</p>	<p>Charters must conspicuously post a link on their websites to their performance dashboards on the Board’s website. Currently, a charter holder’s academic, financial and operational dashboards are all accessible through one link.</p>	<p>Within 10 business days, charters must report to the Board:</p> <ul style="list-style-type: none"> ▪ Any notice from a lender or landlord regarding default ▪ Notice of legal filings associated with bankruptcy ▪ Any notice from the IRS, ASRS, ADOR, or ADES regarding a tax lien, levy or garnishment ▪ Correspondence from an insurance provider related to cancellation of health or liability insurance due to nonpayment ▪ Notice of termination of line of credit whether initiated by financial institution or charter when replacement credit line is not in effect ▪ Withdrawals from debt service reserve funds
Implementation	<ul style="list-style-type: none"> ▪ Board rules must be amended before these recommendations can be implemented. ▪ Fiscal year 2020 will be a pilot year. ▪ Beginning with fiscal year 2021, failure to comply will be noted on charter’s operational performance dashboard. 		

BEST PRACTICES

	Description
Board Member Training	Board member participation in training related to responsibilities (e.g., Open Meeting Law, accountability) at least once every two to three years
Adherence to Tax-Exempt Organization Requirements	Corporate board adherence to IRS requirements for 501(c)(3) tax-exempt organizations
Governing Bodies	More than three-member governing bodies

AREAS FOR FURTHER STUDY

	Description
Transition of Charter Contract	<p>Charter school movement is approaching 25-year milestone. A generational shift is occurring as charter holders operating schools at the beginning of the charter law (1994) have already retired or are about to retire from their schools.</p> <p>Staff will bring recommendations to the full Board no later than May 2019 regarding the Board's role in this transition to ensure fidelity to the contract.</p>
Compliance Questionnaire	Stakeholder meetings to discuss adding questions to the Legal Compliance Questionnaire addressing areas such as specific internal controls. Any changes would be effective for the fiscal year 2020 audits.
Financial Framework's Use of Other Information	Board staff will work with stakeholders to determine if other information required to be submitted to the State by charters (e.g., school level reporting) could be used to finetune the Board's intervention efforts.
Communications with Other Agencies	Board staff will work with the Arizona Department of Education and the Office of the Auditor General to resolve technical matters related to the financial forms (e.g., Annual Financial Report) submitted to the Department and address other matters.