

---

**AGENDA ITEM: Financial Performance Framework Transition Plan****Issue**

At its July 8, 2019 meeting, the Board will consider approving the rules for implementing the new financial performance framework (“financial framework”) recommended by the Board’s Financial Framework Subcommittee and approved by the Board at its December 10, 2018 meeting. Should the Board approve the rules today, Board staff has prepared for the Board’s consideration a transition plan for implementing the new financial framework beginning with the fiscal year 2019 audits, which the Board will receive in fiscal year 2020.

**Background**

The Board initially adopted a financial framework in August 2012. Since financial performance was not specified in the law, a charter holder’s financial performance has been used during the term of the contract:

- To stipulate the conditions which waive the charter holder from any submission requirements related to its financial operations.
- To stipulate the conditions which require the charter holder to submit additional information or clarification (also known as a “financial performance response”) that would be used to inform the Board’s decision-making.

During the 53<sup>rd</sup> Legislature, Second Regular Session, the budget was passed with language requiring charters to meet the financial performance expectations set forth in the performance framework. This provision gave the Board the authority to take action against a charter it sponsors based on the Board’s financial framework. In light of this additional accountability, on December 10, 2018, the Board approved a new financial framework.

Each charter holder’s financial performance is represented in a dashboard. The dashboard becomes publicly available through ASBCS Online after the audit is received by the Board and reviewed by Board staff. Under the transition plan, the fiscal year 2019 audits would be the first reviewed under the new financial framework. Approximately three-quarters of the estimated 412 fiscal year 2019 audits must be submitted to the Board by November 15, 2019, with the remaining audits due by March 31, 2020.

**Why Is the Transition Plan Needed?**

The transition plan offers a roadmap for stakeholders and provides the Board with a means to:

- Acknowledge the new financial framework’s development during the same fiscal year as the first audit to be reviewed under the new financial framework.
- Recognize the shift the new financial framework represents in how the Board may use a charter holder’s financial performance.
- Address the timing and availability of the first financial dashboards created under the new financial framework.

**Transition Plan**

In fiscal year 2020, the Board will assign each charter holder a summative financial performance rating pursuant to A.A.C. R7-5-402(B) based on the fiscal year 2019 audit. Those charter holders assigned an “Intervention” summative financial performance rating will be subject to the reporting and evaluation requirements prescribed in A.A.C. R7-5-402 and A.A.C. R7-5-509. In recognition of the items identified in the previous section, fiscal year 2020 will be considered a transition year. The transition plan’s specific considerations for five-year interval reviews, expansion requests, renewal, and revocation decisions are addressed below.

**[FIVE-YEAR INTERVAL REVIEWS](#)**

A.R.S. § 15-183(I)(3) requires the Board to review a charter contract at five-year intervals. In August 2019, Board staff will notify charter holders undergoing a five-year interval review in fiscal year 2020 of their submission requirements. When this notification is sent, the most recent financial dashboard available will be

based on the fiscal year 2018 audit and the previous financial framework. The previous financial framework requires a charter holder that does not meet the Board's financial performance expectations to submit a financial performance response as part of its interval review.

***Under the transition plan for fiscal year 2020 interval reviews, a charter holder that does not meet the Board's financial performance expectations based on the fiscal year 2018 audit dashboard will not submit a financial performance response to the Board.*** If, based on its fiscal year 2019 audit, an interval review charter holder receives an "Intervention" summative financial performance rating, the charter holder will be subject to the financial intervention submissions identified in A.A.C. R7-5-509.

#### EXPANSION REQUESTS

"Expansion requests" are specified in A.A.C. R7-5-402(C)(1)-(7).

A. Except for enrollment cap increases, expansion requests to be implemented in fiscal year 2021 must be considered by the Board no later than the final Board meeting of fiscal year 2020; accordingly, charter holders are beginning to submit expansion requests for implementation in fiscal year 2021. For expansion request submissions made through at least the first part of fiscal year 2020, the most recent financial dashboard available will be based on the fiscal year 2018 audit and the previous financial framework. Under the previous financial framework, a charter holder that has one or more measures rated "Falls Far Below Standard" is not eligible to submit expansion requests. A charter holder that has two or more measures rated "Does Not Meet Standard" and no measures rated "Falls Far Below Standard" is eligible to submit expansion requests, but must also submit a financial performance response.

##### ***Under the transition plan:***

- ***A charter holder that has one or more measures rated "Falls Far Below Standard" based on the fiscal year 2018 audit dashboard will continue to be ineligible to submit expansion requests.*** Should the charter holder wish to submit an expansion request after the charter holder's fiscal year 2019 audit dashboard becomes available, the charter holder's eligibility will be reassessed.
- ***A charter holder that does not meet the Board's financial performance expectations due solely to two or more measures being rated "Does Not Meet Standard" based on the fiscal year 2018 audit dashboard will not submit a financial performance response to the Board with its expansion request.***

B. Pursuant to A.A.C. R7-5-402(D), a charter holder assigned an "Intervention" summative financial performance rating is not eligible to submit expansion requests specified in R7-5-402(C)(1)-(7).

***Under the transition plan, a charter holder assigned an "Intervention" summative financial performance rating based on the fiscal year 2019 audit dashboard may choose to submit expansion requests specified in A.A.C. R7-5-402(C)(1)-(7) if the charter holder meets all other eligibility criteria. Such expansion requests would require the review and approval of the Board.*** Such charter holders whose fiscal year 2020 audit dashboard produces an "Intervention" summative financial performance rating would no longer be eligible to submit expansion requests specified in A.A.C. R7-5-402(C)(1)-(7) and would be subject to the provisions of A.A.C. R7-5-402(D).

#### RENEWAL

A. A.R.S. § 15-183(I)(1) requires the Board to notify a charter holder of its eligibility to apply for renewal at least 18 months prior to the expiration of the charter contract. Later this month, Board staff will send the first renewal eligibility notification for fiscal year 2020. When this notification is sent, the most recent financial dashboard available will be based on the fiscal year 2018 audit and the previous financial framework. The previous financial framework requires a charter holder that does not meet the Board's financial performance expectations to submit a financial performance response as part of its renewal application.

***Under the transition plan for fiscal year 2020 renewal eligibility notifications, a charter holder that does not meet the Board's financial performance expectations based on the fiscal year 2018 audit dashboard will not submit a financial performance response to the Board.*** If, based on its fiscal year 2019 audit, a charter holder eligible for renewal receives an "Intervention" summative financial performance rating, the charter holder will be subject to the financial intervention submissions identified in A.A.C. R7-5-509.

- B. Pursuant to A.R.S. § 15-183(I)(1), the Board may deny a request for renewal if, in the Board's judgment, the charter holder has failed to meet the financial performance expectations set forth in the performance framework. ***Under the transition plan, the Board does not intend to consider making non-renewal decisions based on financial performance until a charter holder's fiscal year 2020 audit has been reviewed.*** The fiscal year 2020 audit will be submitted to the Board and reviewed in fiscal year 2021.

#### REVOCATION DECISIONS

Pursuant to A.R.S. § 15-183(I)(3), the Board may revoke a charter contract if the Board determines the charter holder has failed to meet financial performance expectations set forth in the performance framework. ***Under the transition plan, the Board does not intend to consider making revocation decisions based on financial performance until a charter holder's fiscal year 2020 audit has been reviewed.*** The fiscal year 2020 audit will be submitted to the Board and reviewed in fiscal year 2021.



# Financial Framework: Transition Plan Overview

ASBCS BOARD MEETING

JULY 8, 2019

1

## Reasons for Transition Plan

- To acknowledge framework's development during same year as the first audit that will be reviewed
- To recognize the new framework's shift in how the Board may use a charter's financial performance
- To address timing and availability of first financial dashboards created under the new framework



2

## FY20 Transition Plan Highlights

---

- Board will assign each charter holder a summative financial performance rating based on FY19 audit.
- Charters with “Intervention” rating will be subject to reporting/evaluation requirements in rule.
- Remainder of presentation addresses specific plan considerations for certain Board processes.



3

## Five-Year Interval Reviews

---

- For FY20 interval reviews, a charter holder that “does not meet” financially based on the FY18 audit dashboard will not submit a financial performance response to the Board.
- *NOTE: Charter holders assigned an “Intervention” rating based on the FY19 audit dashboard will be subject to the financial intervention submissions identified in A.A.C. R7-5-509.*



4

## Expansion – FY18 Audit Dashboard

---

- A charter holder with one or more “Falls Far Below Standard” ratings will continue to be ineligible to submit expansion requests\* to the Board.
- A charter holder that “does not meet” financially due solely to “Does Not Meet Standard” ratings will not submit a financial performance response to the Board with its expansion request\*.



\* “Expansion requests” are specified in A.A.C. R7-5-402(C)(1)-(7).

5

## Expansion – FY19 Audit Dashboard

---

- A charter holder assigned an “Intervention” rating based on the FY19 audit dashboard may submit expansion requests\* to the Board if the charter holder meets all other eligibility criteria.
- *NOTE: Such charter holders whose FY20 audit dashboard produces an “Intervention” rating would no longer be eligible to submit expansion requests and would be subject to the provisions of A.A.C. R7-5-402(D).*



\* “Expansion requests” are specified in A.A.C. R7-5-402(C)(1)-(7).

6

## Renewal Eligibility

---

- For FY20 renewal eligibility notifications, a charter holder that “does not meet” financially based on the FY18 audit dashboard will not submit a financial performance response to the Board.
- *NOTE: Charter holders assigned an “Intervention” rating based on the FY19 audit dashboard will be subject to the financial intervention submissions identified in A.A.C. R7-5-509.*



7

## Renewal Decisions

---

- The Board does not intend to consider making non-renewal decisions based on financial performance until a charter holder’s FY20 audit has been reviewed.
- *NOTE: The FY20 audit will be submitted to the Board and reviewed in FY21.*



8

## Revocation Decisions

---

- The Board does not intend to consider making revocation decisions based on financial performance until a charter holder's FY20 audit has been reviewed.
- *NOTE: The FY20 audit will be submitted to the Board and reviewed in FY21.*

