Arizona Charter Schools Association
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Arizona State Board for Charter Schools Board Meeting – August 12, 2013

Public Comment on Item G.4. Update on the implementation of the Financial Performance Framework and possible changes for future consideration.

The Arizona Charter Schools Association and its Advisory Council members agree the Total Liabilities to Equity Ratio measure should be eliminated

Moreover, managing year to year cash flow in a positive fashion is far more critical for limited funded charter schools than building "equity" to meet a designated ratio. For those that own facilities (rather than lease), the ratio is negatively skewed due to accounting treatment of depreciation. At least in the short- to mid-term, two schools - one that leases and one that owns its facilities - could have the exact same facility rent/payments and net cash flow, but the school with a depreciable asset would be at a disadvantage as it relates to a ratio benchmark due to the non-cash depreciation charge to their financial statements. Hopefully a healthy ratio can be developed over time, but it should not be a key indicator of financial viability of a nonprofit charter school.

In addition, the Association requests another meeting with the financial subcommittee when it is convenient for the Board and staff to further discuss the use of the financial framework. Below I am presenting several of the concerns raised to the Association.

The mandates of the financial framework dashboard are having a negative effect on schools who are seeking financing or bonding or already in contractual bond relationships investors despite the limited application of the framework as listed below. The Financial Framework is having a particularly toxic impact on bonds right now as most bonds are issued anticipating growth and advancing debt anticipating a higher debt to income level in early years until enrollment grows to a stabilized level which the dashboard compromises. Further, lenders are using the Financial Framework is used to evaluate credit worthiness.

Does the Financial Framework provide a reliable indicator of future charter actions (revocation or renewal)? If it does, then it can become a rating/investment factor. Under securities laws/regulations, borrowers (i.e., schools) are obliged to disclose in their offering documents any information they believe would be material to an investor in making their investment decision. For example, state ratings (now letter grades) are routinely disclosed, not only because a higher/lower rated school would be viewed as one that would attract more/less student demand, but also one that is more/less likely to face revocation or renewal challenges which is important to rating agencies and investors. So, if Financial Framework criteria are believed to be a true indicator of renewal/revocation risk, then schools would be obliged to disclose it and it will become a real rating/investment factor. As such, it is important that any publicly available Arizona Board For Charter Schools data/ratios is meaningful and not just a data dump without any authorizer explanation or evaluation associated with it (otherwise rating agencies/investors would have to make their own interpretation of the risk and would likely take a conservative/negative view).

If a meeting could be set – or even a phone call- the Association would work to have witnesses discuss the negative ramifications of the financial framework on the Arizona charter community beyond what is listed in the financial framework.

The financial framework states, "A charter holder's financial performance will be considered by the Board during five-year interval reviews, when making decisions about eligibility for expansion, and in considering whether to renew the charter contract. Financial performance will also be evaluated when considering the following expansion requests:

- New School Site Notification Requests
- Arizona Online Instruction Program of Instruction Amendment Requests
- Replication applications
- Transfer applications involving the transfer of the charter contract from another sponsor to the Board

Because financial health can affect a charter holder's ability to meet the obligations of its charter contract and applicable laws, a charter holder's financial performance may also be reviewed at other times when the Board makes decisions related to a charter holder's academic and/or operational performance."