**AGENDA ITEM:** Financial Framework

**Background**

During the Board's August 12, 2013 meeting, Board staff provided an overview of proposed changes to the Board's financial performance framework. Earlier this month, the Board approved the revised *Financial Performance Framework and Guidance* (FPFG), which incorporated staff's changes.

At its August meeting, the Board received input from the charter community regarding other matters related to the FPFG and referred those matters to its Financial Subcommittee. The materials for the Financial Subcommittee's September 25, 2013 meeting include the written statements from the Arizona Charter Schools Association (see "b. Association Statement" in the portfolio) and Arizona Connections Academy (see "c. School Statement" in the portfolio), as well as other information that may be relevant to today's meeting (see "d. Other Information" in the portfolio).

**Unrestricted Days Cash Measure**

*Discussion and possible action regarding modifying the financial framework's Unrestricted Days Cash measure to an Unrestricted Days Liquidity measure that would include the charter holder's unrestricted cash and any available balances on lines of credit disclosed in the annual audit.*

Currently, as indicated by its name, the Unrestricted Days Cash measure looks only at the charter holder's unrestricted cash balance and does not include available balances on lines of credit disclosed in the annual audit. If a charter holder fails to meet the measure's target of at least 30 days cash and the charter holder is required to submit a response due to its financial performance, under the current FPFG, the charter holder may include in its response information regarding access it has to a line of credit.

If the Subcommittee chooses to recommend that the FPFG's Unrestricted Days Cash measure be modified to an Unrestricted Days Liquidity measure, staff believes this change would be implementable using current staffing resources so long as the new measure is defined to include the charter holder's unrestricted cash and any available balances on lines of credit disclosed in the annual audit. Staff already reviews each audit for the information currently used for calculating a charter holder's performance on each measure. The inclusion of available balances on lines of credit disclosed in the annual audit would involve adding one additional item to that review. However, expanding the sources of liquidity used in the measure beyond lines of credit disclosed in the annual audit would not be implementable with current staffing resources. If a charter holder is required to address this measure in a financial performance response, the charter holder could use that opportunity to address other sources of liquidity it has available.

**Framework's Use – Compliance Checks**

*Discussion and possible action regarding reviewing a charter holder's financial performance as part of compliance checks.*

On a regular basis, staff speaks with lenders and rating agencies at these entities' request when charter holders are involved in loans or bonds, for example. These entities contact the Board for information about the compliance of the charter holder. Staff conducts compliance checks of the charter holder and then shares verbally or in writing with the entity information on the charter holder's current academic and financial performance and operational compliance.

At the August meeting, staff proposed including this use in the revised FPFG. However, based on discussions at the August meeting, this change was not reflected in the revised FPFG approved earlier this month and is on the agenda today for Subcommittee consideration.

**Framework's Use – Outside Entities**

*Discussion and possible action regarding further changing the financial framework to address statements made at the Board's August 12, 2013 meeting about the financial framework's use by outside entities, including lenders and rating agencies.*

At the Board's August meeting, the Arizona Charter Schools Association made statements regarding the FPFG's use by outside entities, including lenders and rating agencies (please see "b. Association Statement" in the portfolio). The FPFG approved by the Board earlier this month included a new appendix, "Appendix B – Financial Expectations Not Met: Charter Holder Action & Board Consideration". Appendix B was created to clarify charter holder action and Board consideration when a charter holder does not meet the Board's financial performance expectations. While the "Board Consideration" information was a new addition to the framework, it reflects current Board practices with the exception of the new process for evaluating financial performance responses.

As background, according to *Charter School Bond Issuance: A Complete History Volume 2* published in October 2012 by The Educational Facilities Financing Center of Local Initiatives Support Corporation, "While charter school bonds have been issued for schools in 29 states and the District of Columbia, four states – Arizona, Colorado, Michigan and Texas – account for 52% of the number of issuances and 59% of total par originated in the sector." The report further indicates that schools in Arizona more frequently issue debt on an unrated basis. According to the report, 41 of Arizona's 52 schools had $350 million in unrated debt outstanding, which accounted for 60% of Arizona's total of nearly $600 million. Further, the report states that of the 19 jurisdictions with charter school bond issuance in 2011 and 2012, Arizona had the most offerings with 12 based on classification by school location.

**Subcommittee Consideration**

In addition to providing specific information regarding the changes being recommended by the Subcommittee, any motions made by the Subcommittee should direct staff to:

- Make the necessary changes to the *Financial Performance Framework and Guidance* to implement the Subcommittee's recommendations; and
- Bring the revised document to the full Board for its approval at an upcoming Board meeting.