CHARTER SELPA SET-ASIDE RISK POOL

ISSUE

The member owned set-aside, declining over time from 5% ($25 per ADA) to 1% ($6 per ADA), is proposed to be revised to be:

- $5 per ADA one-time contribution in the first year of entry
- $2.50 per ADA contribution for members in the SELPA in 2015-16 and returning in 2016-17
- Shared Set-Aside Risk Pool

BACKGROUND

CURRENT ALLOCATION PLAN LANGUAGE

Starting in 2006-07, the SELPA formula provides for a set-aside contribution per Single Charter Partner/Organization Partner. This set-aside contribution is to protect the SELPA as a whole entity. The set-aside contribution will not be utilized for any shared costs. The set-aside contribution is essentially a one-time payment adjusted annually with a declining rate over time.

RATIONALE FOR SHARED RISK POOL AND A LOWER RATE PER MEMBER

The rationale for having a set-aside still exists, to protect the SELPA as a whole entity. What does not work well is having a set-aside of over $900K that cannot be utilized for shared risk, e.g. it is member owned and not a risk pool.

Over the past 10 years, we have had a few charters close unexpectedly. In most instances we had sufficient early warning to appropriately monitor cash distributions so we did not distribute more than the charters earned. With growth, the probability of a single large adverse funding issue increases. Currently, only the set-aside balance of a particular partner may be utilized should that partner close in a manner that adversely impacts SELPA funding. A shared risk pool would increase SELPA-wide protection and reduce the cost of providing that protection to each partner.

Under the current formula, a new charter pays approximately $25 per ADA in year 1 of entry and that amount recalculates each year (based on state and federal dollars and ADA) and reduces over five years to 1% or approximately $6 per ADA. The one-time savings in year 1 of $20 (from $25 to $5) frees up resources immediately for services to students.

There is currently over $900K in the set-aside account, which is larger than needed. This has been used for cash advances for year 1 charters who otherwise would not receive funding until February ($300K in 2015-16). As a shared risk pool, a $500K balance would be more appropriate.

The CEO Executive Committee has reviewed options and provided input on this proposal (November 2015, March 2016, May 2016).

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RECOMMENDATION

CEO Council action is requested on the Allocation Plan language change to the set-aside:

KEY ELEMENTS OF THE PROPOSED CHANGE (FOLLOWED BY ALLOCATION PLAN FORMAL LANGUAGE)

1. Establish a shared risk pool of approximately $500K.
   - Eliminate current model which provides for a declining contribution that is vested in the charter with no shared risk.
   - One-time contribution from the legal risk pool of $200K.

2. 2015-16 Members
   - Returning members in 2016-17 will pay $2.50 per 2015-16 P2 ADA up to a maximum of $25K.

3. 2016-17 New Members
   - All new charters (starting in 2016-17) pay a one-time non-refundable contribution of $5 per ADA upon the first year of entry into the Charter SELPA.
   - A new charter is defined as a new charter/partner (single or organization) and expansion charters of existing partners.

INTENT

Starting in 2016-17, each member of the Charter SELPA will contribute a one-time, non-refundable contribution to the set-aside risk pool. The set-aside risk pool is intended to protect the SELPA as a whole entity.

CONTRIBUTIONS

Charters entering in 2016-17 and future years:

All new charters (new charters/partners and charter school expansions of current partners) will contribute a one-time **$5 per current year P-2 ADA** in the first year of entry (starting in 2016-17).

This $5 per ADA contribution is a non-refundable contribution to a shared risk pool. If growth from new members in the Charter SELPA is 10,000 ADA, this results in $50K per year.

ADA is defined as current year P-2 ADA. Payment will be deducted from the state apportionment in May.

Charters that are members/partners in 2015-16 and returning in 2016-17:

Return the existing set-aside amount, net of a non-refundable contribution to the shared risk pool of **$2.50 per 2015-16 P-2 ADA** (approximately $300K), with a maximum partner contribution of $25K. (Partners with a combined ADA greater than 10,000 ADA will be capped at 10,000 ADA x $2.50.)

After the books are closed for 2015-16 (October 2016), each member set-aside will be determined, including any accrued interest over time.

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In 2016-17, the set-aside amount will be returned, net of a deduction for a non-refundable contribution to a shared risk pool. For a charter at the 1% set-aside, the amount is estimated to be $6 per ADA less $2.50 non-refundable contribution, leaving an **amount to be returned of approximately $3.50 per ADA** + a small amount of interest.

The amount is lower than $5 contributed by new members, to recognize the shift from a vested LEA reserve to a risk sharing pool.

In 2016-17, a one-time $200K contribution from the legal risk pool is transferred.

USE OF FUNDS IN THE SET-ASIDE RISK POOL

The intent of the risk pool is to provide a funding source when SELPA funding declines as a result of the action of a member, and there is no recourse to recover the funds from the member. Charter SELPA administration will make all due diligence attempts to recover funds from the member, but in the case of a closure or bankruptcy, this may not be possible. Issues that might arise:

- Funding adjustments as a result of disallowed ADA with no ability to recover from the member.
- Funding adjustments as a result of disallowed expenditures at the state/federal level with no ability to recover from the member.
- Funding adjustments as a result of other actions from a member, with no ability to recover from the member.

An annual report will be provided to CEO Council on the use of funds and the balance available.