



Legal Risk Pool Update

ISSUE

CEO Council approval is requested:

- \$100K for 2016-17 continuation of the legal due process reimbursement.
- \$200K contribution to the new set-aside risk pool created by separate CEO Council action.

BACKGROUND

Funds in the legal risk pool come from three sources:

1. Set-Aside funds from SELPA Partners who leave the SELPA prior to completion of four years' membership.
2. Modified funding from Charter SELPA Partners who are in the process of building programs, but are not yet able to fully expend the allocation of state dollars (greater than 25% unspent).

Allocation Plan Language (September 2012 CEO Council approval).

*When an LEA has unspent funds **greater than 25%** of their special education allocation (allocation as adjusted at year end close by September 30):*

- *Charters with unspent funds greater than 25% are automatically not eligible for federal funds in the following year.*
 - *Charters with unspent funds greater than 25% will have state funding reduced to the level of prior year expenditures; however, the funding will be held in reserve for allocation to the charter if need is demonstrated by year end expenditure reporting.*
 - *If need is not demonstrated, the funds will be allocated the next year to Charter SELPA Risk Pool.*
3. Modified funding from Charter SELPA partners who close operations and fail to submit documentation that would allow for release of funds being held.

2015-16 Funding to the Risk Pool

1. 2014-15 Set-Aside

\$6,426 in set-aside funds transferred to the risk pool from charters that closed.

2. Funding Modification (2014-15, 2015-16, and impact in 2016-17)

Six charters were subject to possible income modification in 2014-15, but three of them increased program capacity and spent prior year carryover and earned 2014-15 full funding.

Three charters were not able to fully expend prior year carryover and current year income, resulting in funding modification of \$104,613 (transferred to risk pool).

Three partners, representing 10 charter schools, had unspent funds in 2014-15 and will be subject to income modification in 2015-16. As they build program capacity, we anticipate they will be able to demonstrate need for most of their funding. As a result, we anticipate possibly \$300K in modified funding redistribution for the 2016-17 budget.

**Legal Risk Pool Update****3. Modified funding from Charter SELPA partners who close operation**

Rowland Heights and FAME charter schools closed operations as of June 30, 2015. Final cash releases are held pending filing of appropriate documentation per CEO policy. Such documentation includes final end of year special education expenditure reports and submission of the annual independent audit for 2014-15. As of February 2016, we are still requesting 2014-15 end of year special education expenditure reports and annual audit information. Between the two agencies combined advance cash flow funding and final reported expenditures, we anticipate a zero impact to the risk pool.

CEO Executive Committee reviewed and provided input (November, March, May 2016) on the following:

- \$100K allocation for 2016-17 legal risk pool under current parameters (\$10,000 maximum matching reimbursement for legal costs associated with a due process filing).
- \$200K allocation to the set-aside risk pool for a proposed new formula that eliminates the current per charter set-aside that declines from 5% to 1% over time.
- Discussion has occurred in the past regarding use of the risk pool for non-public school placements. There are currently 40+ students in the SELPA in NPS placements, with charters responsible for the educational costs. In addition to educational costs, there may be mental health services which are eligible for ERMHS funding. The estimated impact of the educational costs (net of LCFF funding) is estimated to exceed \$1M in future years.
- The revenue stream from modified funding has declined over time as charters have built capacity. \$100K per year in revenue is our anticipated future trend, which matches our anticipated future trend of \$100K for due process legal costs.

1		2013-14	2014-15	2015-16	2016-17
2	Set-Aside Funds	133,732		6,426	
3	Modified Funding	510,608	291,849	104,613	100,000
4	Closing Partners		4,734		
5	Other	100,000			
6	Total Income	744,340	296,583	111,039	100,000
7					
8	Expenditures:				
9	Legal Risk Pool	81,704	79,977	100,000	100,000
10	Set-Aside One Time Contribution (new)				200,000
11	ERMS Shortfall	600,000			
12	Total Expenditures	681,704	79,977	100,000	300,000
13					
14	Beginning Balance		62,636	279,242	290,281
15	Ending Balance	62,636	279,242	290,281	90,281



MAY 26, 2016 CEO COUNCIL

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RECOMMENDATION:

CEO Council action is requested:

Continue the legal due process reimbursement under the current parameters (50% of legal costs associated with a due process filing, up to \$10,000) and allocate \$100K budget for 2016-17.

Approve a transfer of \$200K from the legal risk pool to the newly created set-aside risk pool. Transfer will be completed in 2016-17.