



MAGNOLIA PUBLIC SCHOOLS

Board Of Directors

Board Agenda Item #	II B
Date:	June 2, 2016
To:	MPS Finance Committee
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Approval of Revised CMO Cost Allocation Table and Contingency Reserve for Economic Uncertainties

Proposed Board Recommendation

I move that the Finance Committee recommends approval of the revised option 1 CMO Cost Allocation Table and Contingency Reserve for Economic Uncertainties.

Background

Based on the direction provided by the MPS Treasurer, senior management has prepared an analysis of the current Magnolia Public Schools Charter Management Organization (CMO) fees and a comparison with other cost allocation methodologies. The purpose of the analysis is to provide the MPS' Board of Directors with the financial impact to each of the schools of various cost allocation methodologies, and a cost effective recommendation for the organization.

CMO Fees and Cost Allocation Methodologies

The two main CMO fee methods are the fixed rate methodology and the indirect cost allocation methodology. Both methods are acceptable and used by CMOs and non-profit organizations that have incurred costs for common or joint objectives and that cannot be readily identified with a particular school.

Based on the conversations and direction provided by the Finance Committee members, Senior Management is presenting the following methodologies for consideration:

1. CMO Fee Rate Based on an Indirect Cost Allocation Methodology driven by ADA and Tier Factor
2. Fixed CMO Fee Methodology
3. CMO Fee Rate Allocation Methodology based on ADA

Option 1.- CMO Fee Rate based on an Indirect Cost Allocation Methodology driven by ADA and Tier Factor

Currently MPS uses the indirect cost allocation methodology driven by ADA and Tier Factor to calculate the CMO fees. The current MPS Home Office Expense Allocation structure was designed to be in accordance with Code of Federal Regulations 2-CFR-230 Cost Principles for Non-Profit Organizations (OMB Circular A-122), and California Education Code § 47600 applicable to approval, operation, and accountability of charter schools.

The Home Office Expense Allocation is a dynamic model that takes into consideration the annual budget of MERF, potential reduction of fees due to limited school reserves, and is based on an attendance tier-model that considers each school's operational thresholds and breakeven costs. As part of the calculation, The CMO Fee Rate Based on an Indirect Cost Allocation is based on a redistribution of total expenses and cash reserves, and based on a tier factor driven by Average Daily Attendance (ADA).



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Option 1 - Current Fee Structure (includes 5% reserve)				
School	FY16-17 Budgeted ADA	CMO Fee - Current Calculation	Budgeted FY16-17 Net Income (Loss) - Current CMO Fee	CMO Fee as % of Revenue
MSA-1	519	972,684	150,509	14.0%
MSA-2	472	972,684	151,978	18.2%
MSA-3	439	881,495	341,598	15.9%
MSA-4	181	72,951	188,201	3.3%
MSA-5	170	72,951	14,248	3.9%
MSA-6	175	72,951	292,887	3.7%
MSA-7	293	607,928	41,748	16.4%
MSA-8	480	972,684	61,122	18.2%
MSA-SA	514	972,684	(567,055)	18.1%
MSA-SC	194	-	117,397	0.0%
MSA-SD	456	370,217	182,649	10.4%
Total	3,893	5,969,230	975,280	13.9%

Option 2 - Fixed CMO Fee Rate Methodology

Fixed CMO Fee Rate Methodology is calculated by applying the board approved fee structure percentage to the unrestricted income of each school. This fee may be waived or capped in order to mitigate the financial burden of schools that have not reached a minimum threshold of recommended reserves.

In accordance with the independent study commissioned by MPS on February 2015, CMO fees are typically calculated by multiplying a designated fixed fee rate percentage to total unrestricted income. This method is quite common primarily because it is simple to implement and it maintains a constant and stable rate. The CMO fee rate typically ranges between 10% to 20%.

Option 2 - Fixed CMO Fee Rate Methodology (14.23% of revenue)				
School	FY16-17 Budgeted ADA	CMO Fee - Flat Fee Structure	Budgeted FY16-17 Net Income (Loss) - Flat Fee Structure	CMO Fee as % of Revenue
MSA-1	519	990,497	132,697	14.2%
MSA-2	472	759,273	365,389	14.2%
MSA-3	439	790,692	432,401	14.2%
MSA-4	181	312,522	(51,370)	14.2%
MSA-5	170	267,075	(179,875)	14.2%
MSA-6	175	277,642	88,196	14.2%
MSA-7	293	526,467	123,209	14.2%
MSA-8	480	761,710	272,096	14.2%
MSA-SA	514	764,604	(358,975)	14.2%
MSA-SC	194	148,532	(31,136)	14.2%
MSA-SD	456	370,217	182,649	10.4%
Total	3,893	5,969,230	975,280	13.9%



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Option 3 - CMO Fee Rate Allocation Methodology based on ADA

CMO Fee Rate Methodology based on ADA is calculated by assigning a percentage to each school based on the school's ADA. The percentage is then applied to the total home office budget in order to determine the allocation to be applied for each school. This fee may be waived or capped in order to mitigate the financial burden of schools that have not reached a minimum threshold of recommended reserves.

Option 3 - CMO Fee Rate Allocation Methodology based on ADA				
School	FY16-17 Budgeted ADA	CMO Fee - Allocation based on ADA	Budgeted FY16-17 Net Income (Loss) - Proposed CMO Fee Structure	CMO Fee as % of Revenue
MSA-1	519	799,578	323,615	11.5%
MSA-2	472	724,306	400,356	13.6%
MSA-3	439	669,270	553,823	12.0%
MSA-4	181	278,106	(16,955)	12.7%
MSA-5	170	260,258	(173,059)	13.9%
MSA-6	175	267,720	98,118	13.7%
MSA-7	293	449,125	200,551	12.1%
MSA-8	480	736,185	297,621	13.8%
MSA-SA	514	698,997	(293,368)	13.0%
MSA-SC	194	297,447	(180,050)	28.5%
MSA-SD	456	788,237	(235,371)	22.1%
Total	3,893	5,969,230	975,280	13.9%

Recommendation

Based on the models presented for Board consideration, Senior Management recommends retaining the current CMO Fee Rate based on an Indirect Cost Allocation Methodology driven by ADA and Tier Factor. The recommendation is based on the flexibility of the CMO fee to adapt to unanticipated changes in the home office, as well as the ability to cap the fees of the schools that require maintaining reserves in accordance with the charter petition.

Budget Implications:

Financial impact as presented in the document.

Name of Staff Originator:

Oswaldo Diaz
Chief Financial Officer

Attachments:

CMO Fee allocation comparison table

Magnolia Public Schools
 CMO Fee Comparisons - FY16-17 Budget

				Option 1 - Current Fee Structure (includes 5% reserve)			Option 2 - Fixed CMO Fee Rate Methodology (14.23% of revenue)			Option 3 - CMO Fee Rate Allocation Methodology based on ADA		
	FY16-17 Budgeted ADA	Total Budgeted FY16-17 Revenues*	Budgeted FY16-17 Net Income - Before CMO Fee	CMO Fee - Current Calculation	Budgeted FY16 17 Net Income (Loss) - Current CMO Fee	CMO Fee as % of Revenue	CMO Fee - Flat Fee Structure	Budgeted FY16-17 Net Income (Loss) - Flat Fee Structure	CMO Fee as % of Revenue	CMO Fee - Allocation based on ADA	Budgeted FY16-17 Net Income (Loss) - Proposed CMO Fee Structure	CMO Fee as % of Revenue
MSA-1	519	6,962,022	1,123,193	972,684	150,509	14.0%	990,497	132,697	14.2%	799,578	323,615	11.5%
MSA-2	472	5,336,796	1,124,662	972,684	151,978	18.2%	759,273	365,389	14.2%	724,306	400,356	13.6%
MSA-3	439	5,557,630	1,223,093	881,495	341,598	15.9%	790,692	432,401	14.2%	669,270	553,823	12.0%
MSA-4	181	2,196,660	261,152	72,951	188,201	3.3%	312,522	(51,370)	14.2%	278,106	(16,955)	12.7%
MSA-5	170	1,877,220	87,199	72,951	14,248	3.9%	267,075	(179,875)	14.2%	260,258	(173,059)	13.9%
MSA-6	175	1,951,493	365,838	72,951	292,887	3.7%	277,642	88,196	14.2%	267,720	98,118	13.7%
MSA-7	293	3,700,444	649,676	607,928	41,748	16.4%	526,467	123,209	14.2%	449,125	200,551	12.1%
MSA-8	480	5,353,920	1,033,806	972,684	61,122	18.2%	761,710	272,096	14.2%	736,185	297,621	13.8%
MSA-SA	514	5,374,262	405,629	972,684	(567,055)	18.1%	764,604	(358,975)	14.2%	698,997	(293,368)	13.0%
MSA-SC	194	1,044,006	117,397	-	117,397	0.0%	148,532	(31,136)	14.2%	297,447	(180,050)	28.5%
MSA-SD	456	3,572,865	552,866	370,217	182,649	10.4%	370,217	182,649	10.4%	788,237	(235,371)	22.1%
Total	3,893	42,927,318	6,944,510	5,969,230	975,280	13.9%	5,969,230	975,280	13.9%	5,969,230	975,280	13.9%