



MAGNOLIA PUBLIC SCHOOLS

Board Of Directors

Board Agenda Item #	II.B
Date:	06/28/2016
To:	MPS Board of Directors
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 CMO Cost Allocation Table and Contingency Reserve for Economic Uncertainties.

Background

Based on the direction provided by the Finance Committee, 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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Current Fee Structure (includes 5% reserve)						
FY16-17 Budgeted ADA	CMO Fee - Current Calculation	Indirect Fee	Direct School Specific Charges	Budgeted FY16-17 Net Income (Loss) - Current CMO Fee	CMO Fee as % of Revenue	
MSA-1	518	1,010,664	972,192	38,472.26	151,182	14.0%
MSA-2	470	1,007,082	972,192	34,890.11	152,640	18.2%
MSA-3	434	914,224	881,049	33,175.63	343,065	15.9%
MSA-4	181	86,175	72,914	13,260.47	188,978	3.3%
MSA-5	165	84,597	72,914	11,682.75	15,706	3.9%
MSA-6	174	85,400	72,914	12,485.44	293,915	3.7%
MSA-7	291	628,880	607,620	21,260.07	53,688	16.4%
MSA-8	478	1,007,450	972,192	35,258.11	63,471	18.2%
MSA-SA	512	1,005,424	972,192	33,232.62	(550,228)	18.1%
MSA-SD	454	412,955	370,217	42,737.58	186,876	9.6%
Total	3,675	6,242,850	5,966,395	276,455	899,295	14.1%

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 (14.6% of revenue)						
FY16-17 Budgeted ADA	CMO Fee - Current Calculation	Indirect Fee	Direct School Specific Charges	Budgeted FY16-17 Net Income (Loss) - Current CMO Fee	CMO Fee as % of Revenue	
MSA-1	518	1,055,446	1,016,974	38,472.26	106,401	14.6%
MSA-2	470	814,460	779,570	34,890.11	345,262	14.6%
MSA-3	434	845,003	811,828	33,175.63	412,286	14.6%
MSA-4	181	334,136	320,876	13,260.47	(58,984)	14.6%
MSA-5	165	285,897	274,214	11,682.75	(185,594)	14.6%
MSA-6	174	297,549	285,063	12,485.44	81,766	14.6%
MSA-7	291	561,800	540,540	21,260.07	120,768	14.6%
MSA-8	478	817,329	782,071	35,258.11	253,591	14.6%
MSA-SA	512	818,275	785,042	33,232.62	(363,078)	14.6%
MSA-SD	454	412,955	370,217	42,737.58	186,876	9.6%
Total	3,675	6,242,850	5,966,395	276,455	899,295	14.1%



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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						
	FY16-17 Budgeted ADA	CMO Fee - Current Calculation	Indirect Fee	Direct School Specific Charges	Budgeted FY16-17 Net Income (Loss) - Current CMO Fee	CMO Fee as % of Revenue
MSA-1	518	879,674	841,202	38,472.26	282,172	12.1%
MSA-2	470	797,873	762,983	34,890.11	361,849	14.3%
MSA-3	434	738,165	704,989	33,175.63	519,125	12.7%
MSA-4	181	306,270	293,010	13,260.47	(31,117)	13.3%
MSA-5	165	278,739	267,056	11,682.75	(178,436)	14.2%
MSA-6	174	294,457	281,972	12,485.44	84,858	14.4%
MSA-7	291	494,276	473,016	21,260.07	188,292	12.8%
MSA-8	478	810,710	775,452	35,258.11	260,210	14.5%
MSA-SA	512	863,576	830,343	33,232.62	(408,379)	15.5%
MSA-SD	454	779,110	736,372	42,737.58	(179,279)	19.0%
Total	3,675	6,242,850	5,966,395	276,455	899,295	14.1%

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 comparison analysis