

2021-22: Budgeting During Uncertain Times

THOUGHTS ON CRAFTING YOUR SCHOOL'S
BUDGET IN 21-22 AND BEYOND

Agenda

Objectives

Outlook on Revenues

- Being Strategic with ESSER Funds
- District Reimbursement Rates

Outlook on Expenditures

- Personnel: Salaries, Health Benefits and PSERS
- Operating Expenses: 21-22 will look more like 19-20.....or will it?

Risks and Uncertainty

Things You Can Control and Influence

Thinking Through Scenarios

Best Practices in Any Environment



Objectives

Generate discussion and share ideas

Provide context and historical examples

Identify key factors and potential impacts

Examine several possible scenarios

Share best practices, regardless of current environment



Mission:

To support innovative and high quality schools

We are a group of visionary choice advocates, accountants, analysts, billing-gurus, designers, forward thinkers, backwards thinkers, never-ending learners, former teachers and forever students. Most of all, we're here to help your school grow, innovate and succeed.

Independent organization serving charter schools and related entities in Pennsylvania for more than 16 years.

Offices located in Philadelphia and Pittsburgh

Advisors to boards, school leaders, and business managers

Currently serving more than 55 charter school clients, providing:

- Full-service back office support
- Accounting and financial services
- District billing services
- Strategic planning consulting
- Compliance and reporting support
 - Including PIMS and Federal reporting
- Capital financing services
- Charter applications and renewals
- Audit preparation
- Special project consulting

About Us

KEVIN CORCORAN, MBA

Kevin brings more than 20 years of financial, accounting and management experience to serving clients, with 10 years in leadership positions at one of the largest charter schools in the state including 6 years as its COO/CFO. He also has served in client service and consulting organizations with an emphasis on operations management, procurement and contracts. Kevin is a trusted advisor to Boards and school leaders, providing guidance during pivotal events such as audits, charter application and renewal, and leadership transitions. He has helped educate legislators and officials in Harrisburg on key charter school issues and has provided testimony to the Senate Education Committee. Kevin has also served for more than 22 years in the United States Navy, where he holds the rank of Captain and Commanding Officer of a reserve unit providing logistics support to the Pacific Fleet. Kevin is a native of Philadelphia and earned dual MBA/Master of Public Policy degrees from Duke University and B.S. from Villanova University.

kevin@charterchoices.com

JOE MARTIN, MPA

Joe has served as the Director of Capital Financing since 2014, working with clients around the Commonwealth to secure over \$130 million in debt for refinancing, capital improvements, and new construction. In addition to his financing work, Joe also works with clients to build multi-year financial projections and conducts market and compensation analyses to improve outcomes for schools. Joe also leads our Data Solutions team which provides thought leadership to schools, charter advocacy groups, and lobbying efforts. Joe holds a Masters of Public Administration from the Rockefeller College of Public Affairs and Policy and has previously worked for Public Financial Management and the City of Philadelphia.

joe@charterchoices.com

Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.”






- WINSTON CHURCHILL

Budgeting in the Age of COVID: 1 Year In

- Much like the pandemic's impact on our society, COVID has impacted K-12 education in ways we may not have foreseen
- In addition to the pandemic, social movements for equity in education have emphasized focus on programs that support populations of greater need
- Federal support to K-12 education is occurring on a scale without historic precedent, but brings with it additional risks
- Changes to schools' cost structures may or may not revert back to pre-pandemic norms; certain aspects of virtual learning – and associated costs – may indefinitely add to your school's costs
- The “**when, where and how**” of learning has potentially changed in permanent way

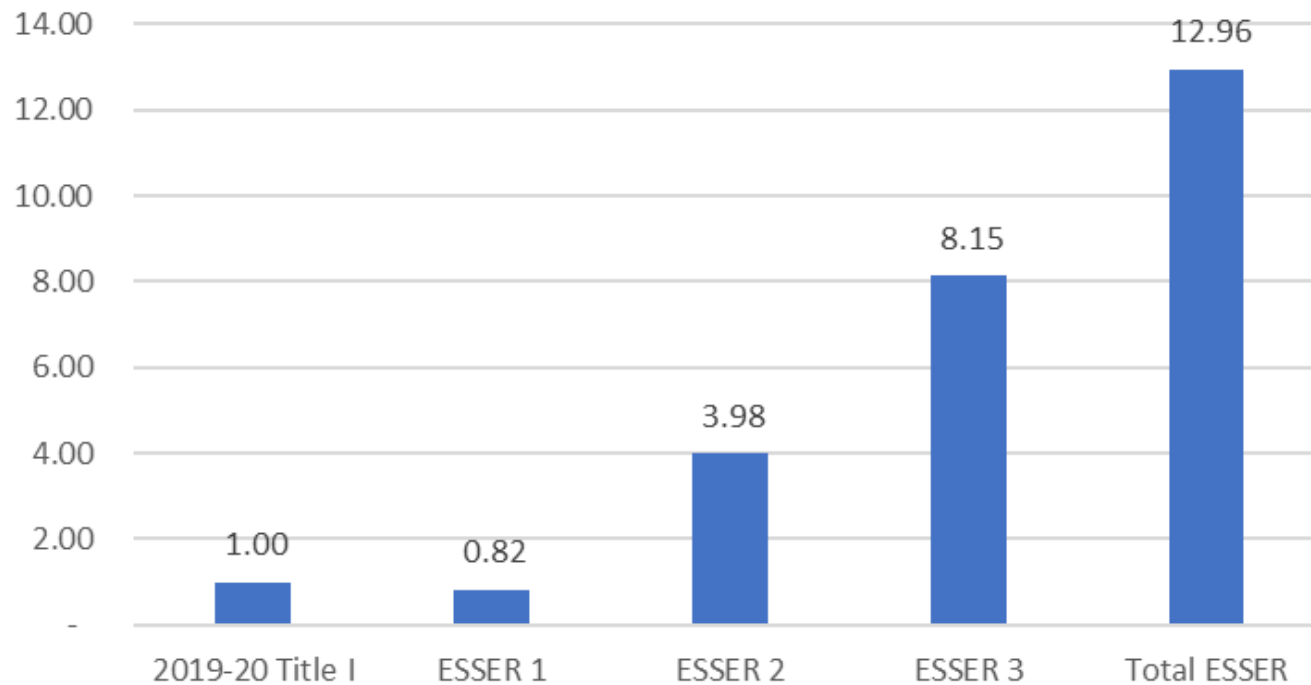
Revenues

Setting the Stage.....

- Reminder on district rates: 21-22 charter funding based on 20-21 district budgets
- Median rate increase from 19-20 to 20-21: 3.0% for Gen Ed, 4.0% for Special Ed
- Uncertain and uneven impact on local school district budgets
- Federal support beyond any historic precedent
- Median Charter School revenue mix (pre-pandemic) and 3 year-outlook:
 - 90-95% District funding (Gen Ed, Special Ed) 
 - 3-7% Federal (Title programs, IDEA) 
 - 1-3% State (Health reimbursement, Lease reimbursement, Safety/PCCD)  
 - 1-3% Fundraising/Development/Other 

Federal COVID Relief in Perspective

ESSER Size Relative to Annual Federal Title I



- CARES Act/ESSER 1 was an instant 82% boost relative to annual Title I
- ESSER 2 is appx 4x annual Title I (!)
- ESSER 3 is more than 8x annual Title I (!!!!!)
- Taken together, ESSER grants are like receiving 13 years of Title I funding with – for the bulk of the funds – a 2.5 year spending window

Key Traits of Various ESSER Grants

	ESSER I	ESSER II	ESSER III or "ARP ESSER"
Available From	Spring 2020	Winter 2021 (can apply retroactive to Mar 13, 2020)	Spring 2021 (can apply retroactive to Mar 13, 2020)
Available Through	Sep 30, 2021*	Sep 30, 2023	Sep 30, 2024
Relative Size (on average; individual LEAs may vary)	~80% of Title I	appx 5x ESSER I	Just over 2x ESSER 2
Relative Flexibility	Moderate	Moderate to High	Moderate to High
Subject to Federal Regulations and Monitoring	YES	YES	YES
Primary Uses	Safety measures Technology needed to conduct school	Safety measures Improving ventilation / infrastructure Mitigating Learning Loss	Safety measures Improving ventilation / infrastructure Mitigating Learning Loss Ensuring no loss of resources for students

* One-year rollover available with properly filed carry-over

How to Spend: 3 Sample Approaches

	Go Slow Approach	Aggressive Approach	Moderate Approach	Notes
<i>ESSER 1</i>	Spend by Sep 30, 2021	Spend by Jun 30, 2021	Spend by Jun 30, 2021	More restrictive limits on usage
<i>ESSER 2</i>	-50% in 21-22, -50% in 22-23	-Identify uses now for 20-21 -Spend all by 21-22	-Do not use in 20-21 if already positive Net Income -Identify plan for 21-22 to spend as much as possible, ideally 100% -Aim for healthy 21-22 Net Income to build Fund Balance	Less restrictive Supplanting OK
<i>ESSER 3, now called ARP ESSER</i>	-0% in 21-22, -50-75% in 22-23, -25-50% in 23-24 (use by Sep 30th, 2024)	-Identify uses in 21-22 -Spend as much as possible in 21-22, rest in 22-23 -Use Local funding to build Fund Balance for 22-23, 23-24 and beyond	-Identify uses in 21-22 where possible -Plan for bulk of spend in 22-23 -23-24 available for any remaining -Use Local funding to build Fund Balance in 21-22 and 22-23 for possible District rate reductions in 22-23, 23-24 and beyond	Least restrictive Supplanting OK "At least 20% to stem Learning Loss"

- 1) Waivers and carryovers available, but flexibility of ESSER 2/3 should make unnecessary
- 2) PDE rules and guidance on ESSER 3 not yet finalized
- 3) Stay out of trouble.....be sure to comply with all Federal regulations and guidelines

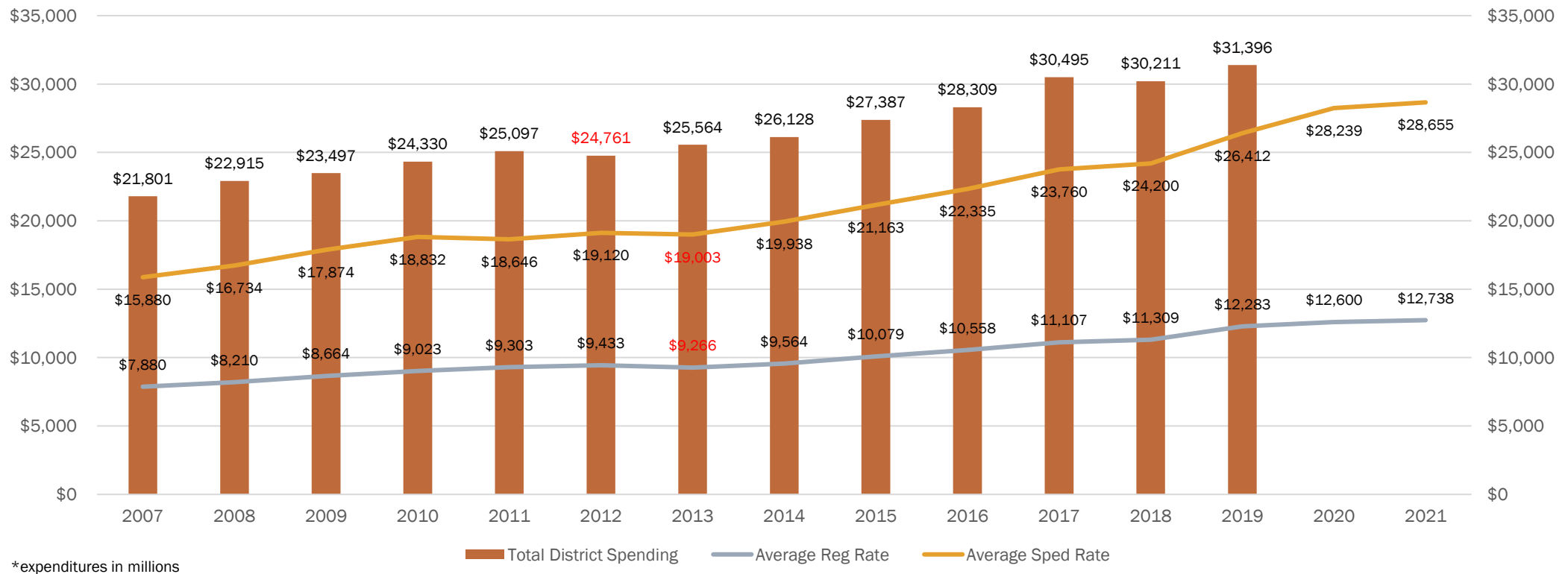
District Reimbursement Rates

COMPOUND ANNUAL GROWTH RATES – TUITION REIMBURSEMENT

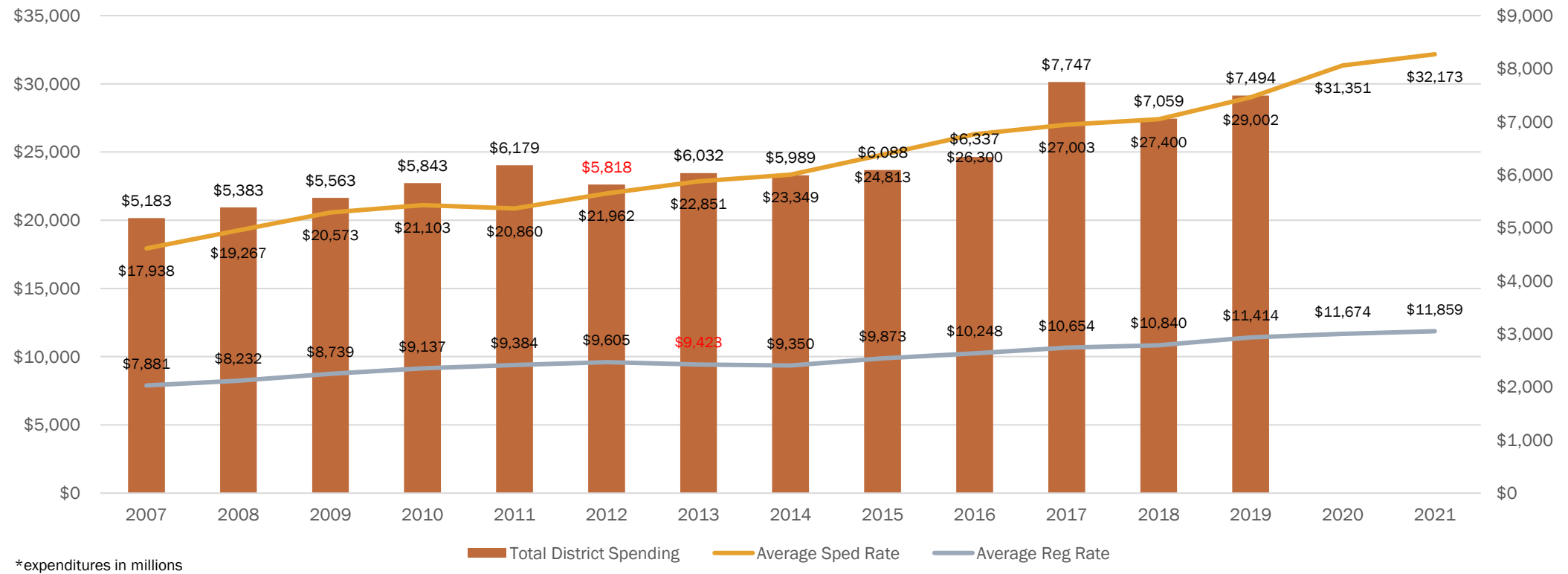
District Wide			
	2001-09	2010-13	2014-21
Reg Rate	4.1%	0.7%	3.6%
Sped Rate	5.4%	0.2%	4.6%
Top 20 Highest Tuition Paying Districts			
	2001-09	2010-13	2014-21
Reg Rate	3.9%	0.8%	3.0%
Sped Rate	5.7%	2.0%	4.1%
Philadelphia School District			
	2001-09	2010-13	2014-21
Reg Rate	4.3%	-0.4%	3.2%
Sped Rate	5.8%	2.8%	4.0%

- Historically in periods of stable government funding, reimbursement rates have grown between 3-5% annually
- In the 4 years after the Great Recession, rates grew by less than 1% annually

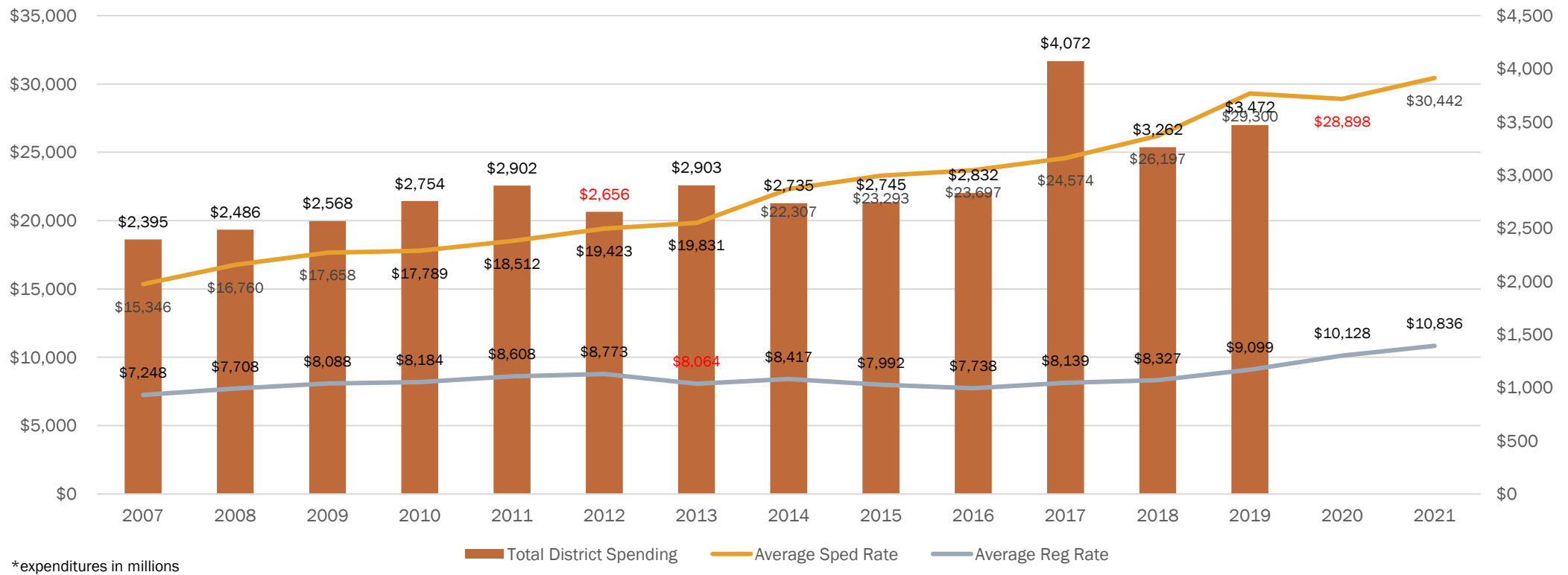
Statewide District Expenditures vs Average Reimbursement Rates



Top 20 Tuition Paying Districts Expenditures vs Average Reimbursement Rates



Philadelphia School District Expenditures vs Reimbursement Rates



ESSER's potentially suppressive effect on local district rates (“tuition reimbursement”)

District A: 2000 students		20-21 Charter Rate (Gen Ed) = \$10K per student	
<u>20-21 Budget</u> \$20M in local, 363-eligible Expenditures \$ 5M in local, non-363 Expenditures \$ 5M in Federal funds (not 363-eligible)		<u>21-22 Budget</u> \$18M in local, 363-eligible Expenditures \$ 5M in local, non-363 Expenditures \$ 16M in Federal funds (not 363-eligible)	
\$ 30M Total Budget		\$ 36M Total Budget (20% increase)	
\$20M in 363-eligible Expenditures 2000 ADM students		\$18M in 363-eligible Expenditures 2000 ADM students	
\$ 10K charter school Gen Ed rate for 21-22		\$ 9K charter school Gen Ed rate for 22-23 10% charter reduction despite 10% overall increase	

The extent to which a District supplants its local spending with Federal funds directly threatens charter rates

District Rate Exercise: Everything is Local

- 500 Districts = 500 flavors of funding structure, 500 possible outcomes on rates
 - To what extent does your local/authorizing district rely on Property Taxes vs State Aid vs Sales Taxes vs Hospitality Taxes
- Tough and/or not necessarily helpful to plan for District tuition/reimbursement rates on statewide level
- Worth your time (especially for brick and mortar charters):
 - Learn about your authorizing district's/districts' funding structure(s)
 - Follow 21-22 Budget process (and every year)
 - Proxy – at least directionally – for your 22-23 District rates and charter school Budget
 - Equips you to ask questions if year-subsequent rates vary from District's Budget direction/trend

Reimbursement Rate Take-aways

- 2021 – 2023 Federal support is great for charter school students, but it remains unclear to what extent Districts will use Federal funds to supplant their organic 19-20 and 20-21 Budgets, which could lead to future rate reductions
- Remember the “lag effect” of District budgets on charter rates; it’s possible that charter school rates could remain suppressed even after Districts recover on local funding
- Everything is Local when it comes to District tuition/reimbursement rates
- If the Governor’s plan to cut charter school Special Ed funding is passed, that financial crisis will become the greatest challenge facing charter schools

Expenditures

March 2020-March 2021 Expenditure Reflection

- Where schools have spent more
 - Technology (staff and student computers, internet, software)
 - Safety and Personal Protective Equipment (masks, temperature readers)
 - Capital Improvements (ventilation systems)
- Where schools have saved during remote learning
 - Utilities
 - Maintenance
 - Certain external services (e.g. Personal Care Assistants)
 - Student Activities

FY2022 Potential Budget Expenditure Increases

- A potentially reduced staff will be coming back online
 - Higher wages from “burnout”
 - Recruitment and Retention
 - See increase in substitute teaching costs
- Student Achievement Gap
 - increased need for teacher support for academic remediation (if grant funded may be looking at unfunded costs in the future if kept on)
 - spend more on programming, assessments and accountability to get students caught up.
- Student Mental Health
 - Many student returning with socio-emotional challenges
- Additional technology spending

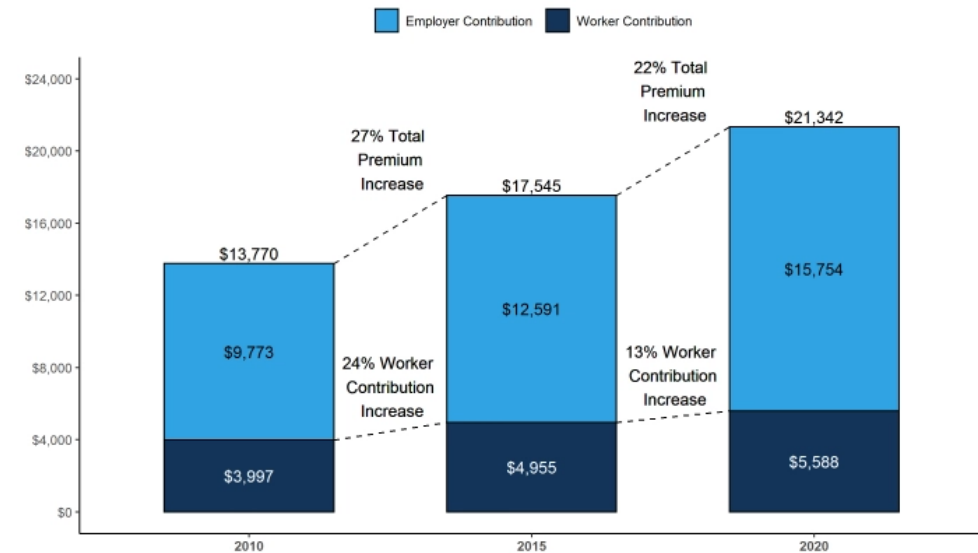
Grant Expenditures

- As ESSER I, II, and III funds continue to flow, it may be a good time to invest in areas that may have been put off in previous years
 - Student and Staff Technology
 - Computers, laptops, tablets, carts, copiers, network equipment, data security
 - Academic Tools
 - Smartboards, A/V Projectors, wireless access points, lab equipment
 - Deferred Maintenance
 - School buses and vehicles, HVAC, boilers, facility renovations
- One of the largest budget challenges you will face this year is strategizing how to spend ESSER funds in a way that improves school operations while drawing down all funds and meeting the grant requirements. Plan ahead!
- Your ESSER funds are **NOT just top-line revenue** but will likely have **matches expenditures that would normally be excluded from your operating budgets.**

Health Insurance

- In 2020, the average annual premiums for employer-sponsored health insurance are \$7,470 for single coverage and \$21,342 for family coverage. The average single and family premium increased 4% and the over the past year.
- While overall proposed rate increases for 2021 appeared modest, most insurers were taking a “wait-and-see” approach, electing to hold off on factoring the pandemic into their premiums for next year until they had more predictability and claims experience.

Figure A
Average Annual Worker and Employer Premium Contributions for Family Coverage, 2010, 2015, and 2020



SOURCE: KFF Employer Health Benefits Survey, 2020; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010 and 2015

PSERS Trends

Over the past 10 years PSERS employer contribution rates have risen by nearly 30%

These contributions have increased to close the gap on PSERS unfunded liability

The decrease in the funded ratio despite an increase in employer contributions is driven by:

- Decreased value of assets
- Decrease of number of employees paying into system vs the increase in annuitant members

As the state realizes losses in the value of assets and as the state freezes hiring and salary increases, the unfunded liability is likely to grow without **an increase in employer or employee contributions**

PSERS Rate of Return in 2020 was **1.1%** compared to the S&P 500 performance of **15.8%**

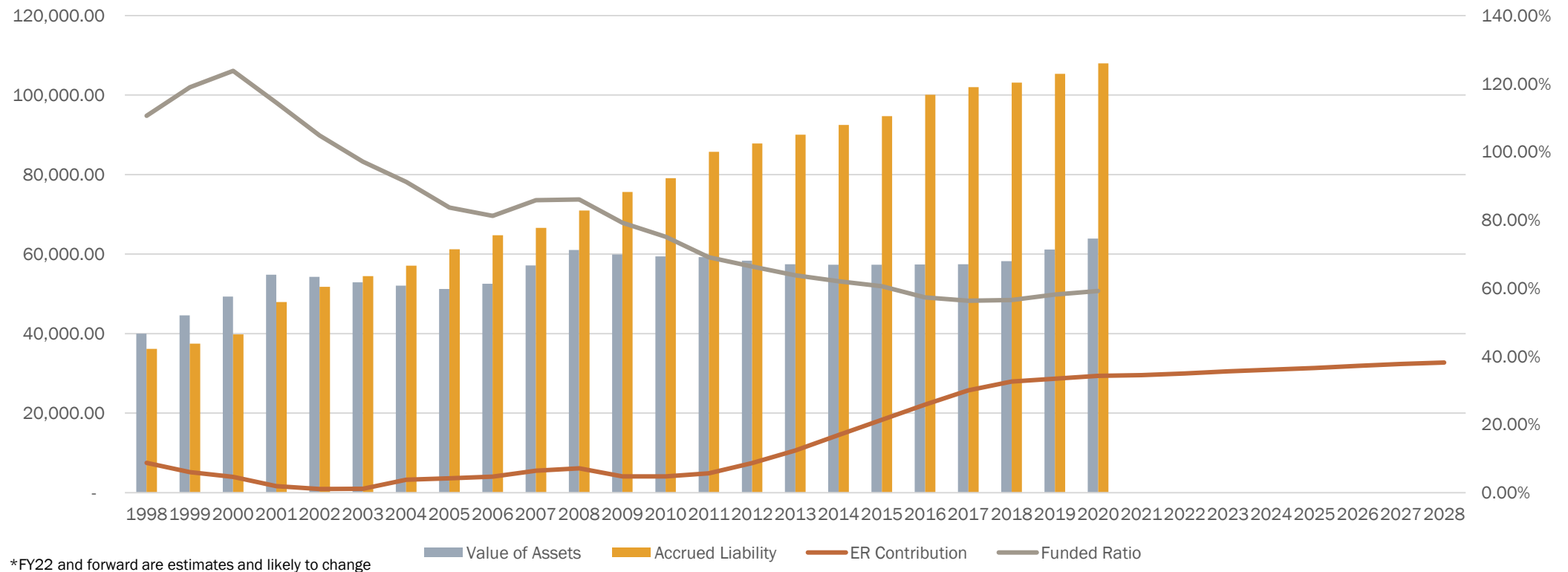
As PSERS employer contributions have a large direct impact on your budget, increases in employee contributions should also be considered when calculating total compensation for your employees

Questions:

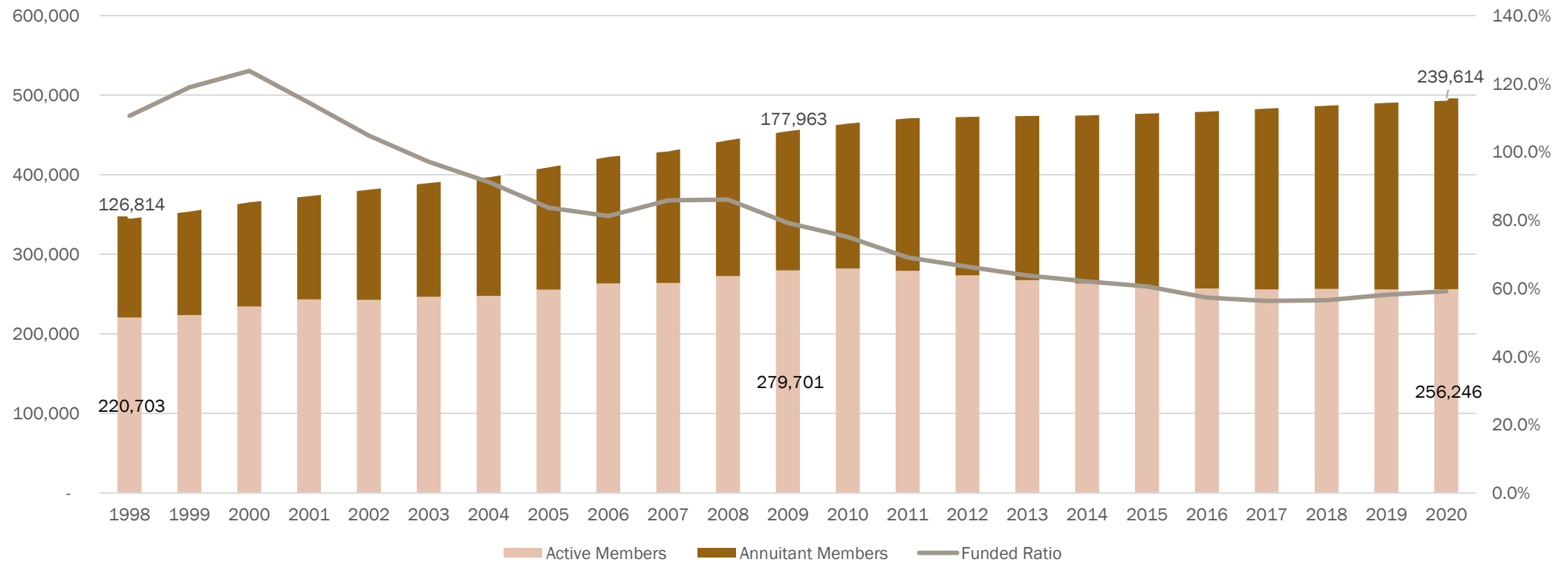
What is your exposure to PSERS?

Is your school able to absorb higher PSERS rates?

PSEERS ER Contributions vs Funded Ratio Assets/Liabilities



PSEERS Membership vs Funded Ratio



Risks and Uncertainties

Potential Special Ed Cuts

- Governor Wolf's plan to cut Special Education funding for charter school students now has a formal legislative designation: Senate Bill 27 and House Bill 272 (SB 27 & HB 272).
- This legislation has the potential to drastically cut special education rates by 30-50% depending on your school's identification of special education students
- This potential change in funding makes **accurate Act 16 reporting crucial**, as it might ultimately determine your school's funding.

Proposed SpEd Tier Structure	Rate	Categorization
Alternate SpEd Rate Tier 1	(Reg * 1.51)	up to \$25k in sped costs to education
Alternate SpEd Rate Tier 2	(Reg * 3.77)	\$25k - \$49,999
Alternate SpEd Rate Tier 3	(Reg * 7.46)	+\$50k

\$\$ Impact of Governor's Special Education Cut for Charters

- Between 80-95% of charter school students would likely fall in lowest cost category ("Tier 1" or "Category 1")
- The per-pupil cuts for these students are extreme and permanent
- Funds gained for higher Tier/Category students will not nearly recoup the cut for Tier/Category 1

School District	2020-21 General Education Rate	2020-21 Special Education Rate	Governor's New Rate for Median Special Education student ("Tier 1")	Per Pupil Cut Under Governor's Plan	% Change in Special Education Funding Under Governor's Plan
Allentown City SD	\$10,481	\$26,797	\$15,827	-\$10,970	-41%
Bethlehem Area SD	\$13,071	\$28,383	\$19,737	-\$8,645	-30%
Coatesville Area SD	\$11,508	\$42,329	\$17,377	-\$24,951	-59%
East Penn SD	\$12,058	\$26,898	\$18,208	-\$8,691	-32%
Easton Area SD	\$12,947	\$24,367	\$19,550	-\$4,817	-20%
Philadelphia City SD	\$10,836	\$30,442	\$16,363	-\$14,079	-46%
Upper Darby SD	\$10,183	\$30,314	\$15,376	-\$14,938	-49%
West Chester Area SD	\$13,039	\$32,164	\$19,689	-\$12,476	-39%
William Penn SD	\$12,057	\$33,909	\$18,205	-\$15,703	-46%
York City SD	\$12,957	\$31,080	\$19,565	-\$11,516	-37%

Enrollment Risks: Have We Thought This Through?

Brick and Mortar:

If we return to full in-person to open 21-22, will some families stay away?

If we offer online or hybrid option, what additional costs and operational challenges will we need to address?

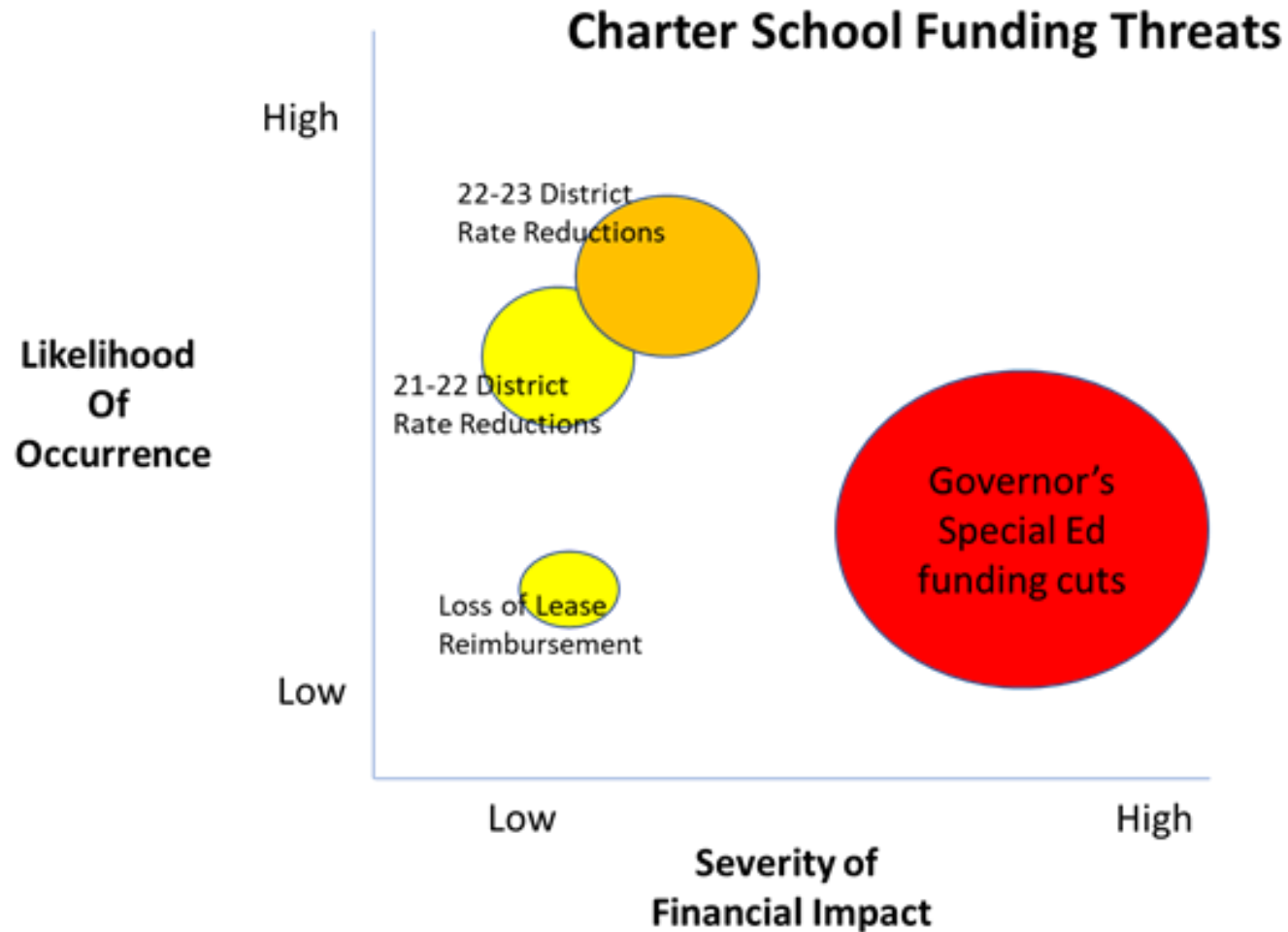
Do we understand COVID impact on 20-21 Kindergarten and 1st grade? What does that mean for 21-22?

Cyber Charters:

How much of 20-21 enrollment gains carry over in to 21-22?

How to approach staffing in light of great enrollment uncertainty?

Simple Picture on Threats



Control & Influence

There are many factors beyond your control.....be sure to make the best decisions for your school on those factors you can control or influence.

Control	Influence	Neither
Salary Increases		District Rates
Discretionary Spending	Rent Facility	Federal Support
Enrollment		State Support
PSERS vs 403b for new employees		
Contract Negotiations		
Review Insurances and policy quotes		
	Political Environment	

Budgeting for Scenarios

Conservative budgeting of tuition reimbursement rates in FY21-22; ESSER protects you

Maximize flexibility of ESSER 2 and 3 grants, both in timing and usage

Health insurance growth at 10% (if not yet known); no harm in over-estimating

Expect moderate dips in reimbursement rates in future years and don't expect rates to recover until FY2025

PSERS ER and/or EE contribution rates to increase over the coming years

Worst Case: Governor's Special Ed cut passes, paired with District rate reductions; use safety net of ESSER to adjust to new fiscal reality over next 2-3 years

Budgeting for Scenarios

What is your school's (i.e. Board's) level of risk aversion?

	21-22		22-23		23-24	
	Gen Ed	Special Ed	Gen Ed	Special Ed	Gen Ed	Special Ed
Optimistic	+2%	+2%	Flat	Flat	+2%	+2%
Moderate	Flat	Flat	-1%	-3%	Flat	Flat
Conservative	-1%	-3%	-3%	-5%	-1%	-3%
Very Conservative	-3%	-5%	-5%	-10%	-3%	-5%
Notes / Drivers	Based on 20-21 District Budgets, which clustered around Flat		21-22 District Budgets factor in COVID economic losses and plug holes with ESSER		ESSER funds gone; District Budgets begin to rebound on Local Revenue, but "lag effect" still in play	

Best practices in any scenario

Plan now, get out ahead, build safety net, communicate

Do not assume temporary help, i.e. ESSER grants, become a permanent funding source

Re-examine cost structure: does spending reflect priorities?

Scrutinize capital projects and large expenditures

Protect Cash and establish Line of Credit with your bank

Educate staff and stakeholders; prepare for future uncertainties and potential hardships