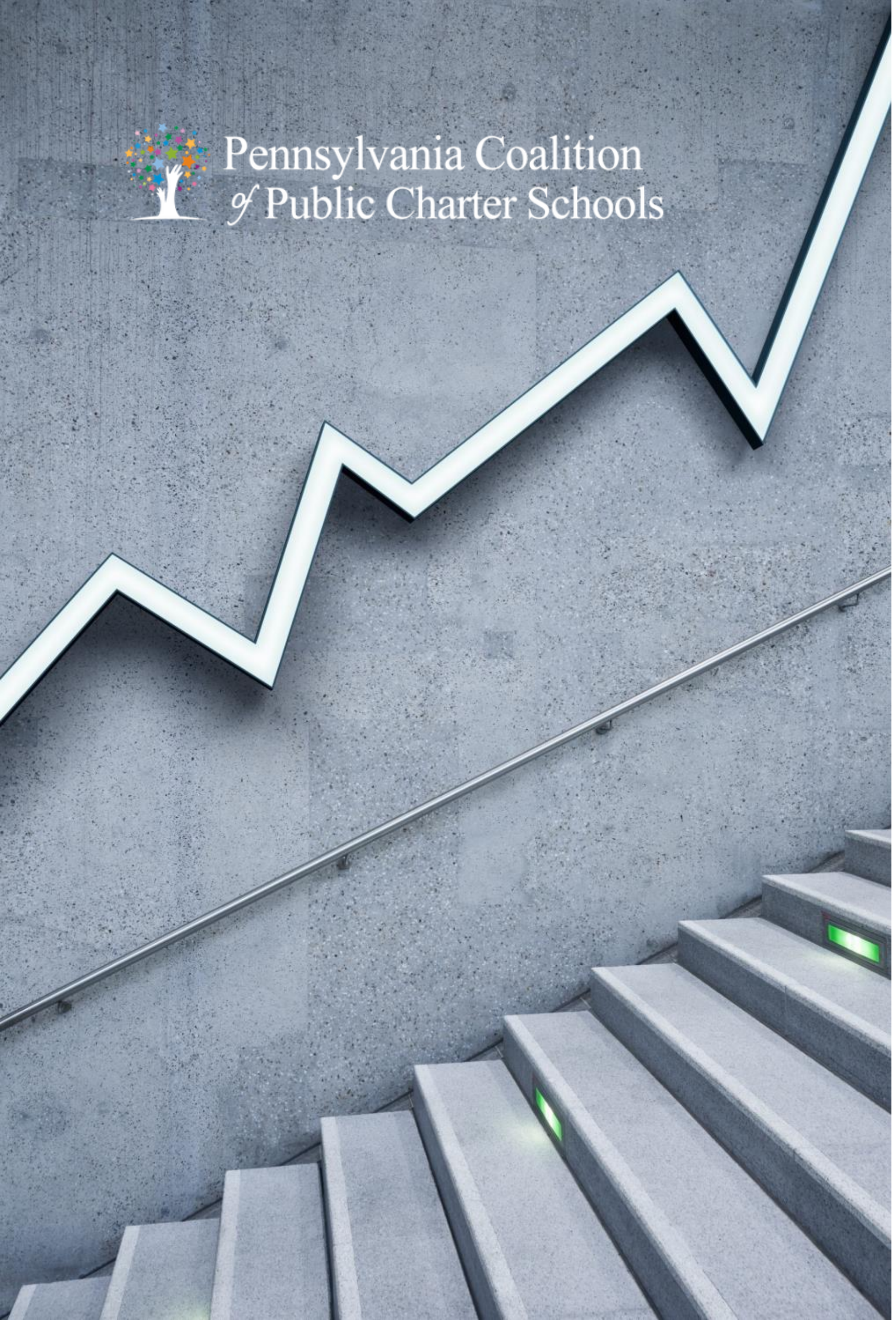


Budgeting & COVID-19

WHAT THIS MEANS FOR YOUR SCHOOL'S FY2021 BUDGET AND BEYOND

CHARTER CHOICES

Agenda

Objectives

Charter Choices – About Us

Reimbursement Rates

- Expenditures
- Revenues
- Take-Aways

PSERS Trends

Things to Expect….. and Uncertainty

Things You Can Control and Influence

Thinking Through Scenarios

Summary

Objectives

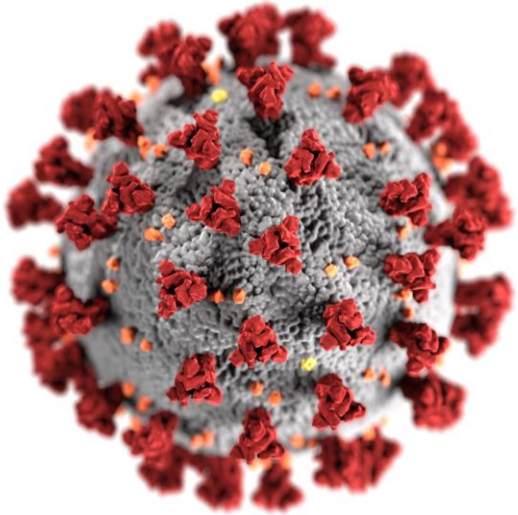
Generate discussion and share ideas

Provide context and historical examples

Identify key factors and potential impacts

Examine several possible scenarios

Share best practices, regardless of current environment



CHARTER CHOICES

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 over 15 years.

Offices located in Philadelphia and Pittsburgh

Advisors to boards, school leaders, and business managers

Currently serving more than 50 clients, providing:

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

About Us

KEVIN CORCORAN, MBA, MPP

Kevin brings more than 20 years of financial, accounting and management experience to serving clients, including 10 years in leadership positions at one of the largest charter schools in the state including 6 years as its Chief Financial Officer. 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 20 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.

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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.

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“Everyone has a plan until they get punched in the mouth.”

- MIKE TYSON

Setting the Stage……….

- Reminder on district rates: 20-21 charter funding based on 19-20 district budgets
- SB751 ensures District and Charter funding for 19-20, based on March enrollment
- Initial Federal response includes Title-style grant through PDE (CARES Act)
- Median Charter School revenue mix:
  - 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

COVID in Context

2001 - 2002

Weakening economy, Tech bubble, Shock of 9/11

Unemployment increases from 4% to 6.5% over 2-year period

Stock market loss 2001-2002:

Dow >20% Loss

NASDAQ >40% Loss

2008 - 2009

Weakening economy, Real estate/subprime bubble, Liquidity fears

Unemployment increases from 5% to 10% over 2-year period

Stock market loss

45% decline before rebound

COVID in Context (cont'd)

2020 - ?

Stable economy and shock event, Sharp and sudden suspension in demand/consumption

26+ million unemployment claims in ~30 days, PA rate growth from 4% to 6% in two weeks. Forecast 25-30% within 3 months

Markets: 33% loss in March, has regained half of losses but remains highly volatile

State and local tax base decimated: Sales tax, gaming revenue, real estate transfer taxes, income and corporate taxes, wages taxes

March impact alone (half month of measures): State revenue 6.2% below budget

CBO: double-digit unemployment thru 2021

PASBO: 4-6% decrease in State funding to districts in 20-21

Reimbursement Rates

COMPOUND ANNUAL GROWTH RATES – TUITION REIMBURSEMENT

District Wide			
	2001-09	2010-13	2014-20
Reg Rate	4.1%	0.7%	3.7%
Sped Rate	5.4%	0.2%	4.2%

Top 20 Highest Tuition Paying Districts			
	2001-09	2010-13	2014-20
Reg Rate	3.9%	0.8%	3.0%
Sped Rate	5.7%	2.0%	3.4%

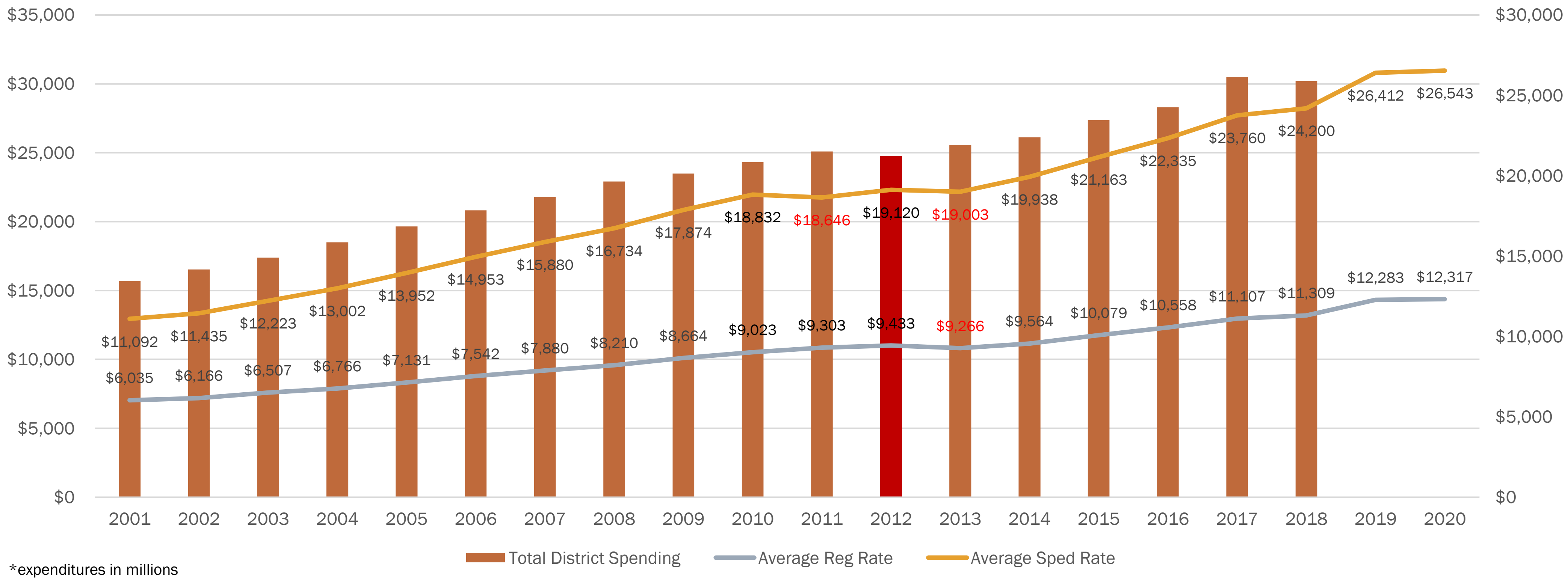
Philadelphia School District			
	2001-09	2010-13	2014-20
Reg Rate	4.3%	-0.4%	2.7%
Sped Rate	5.8%	2.8%	3.8%

Ultimately the largest impact to charter school's will be the change in revenue at the district level and how that effects reimbursement rates.

Historically in periods of stable government funding, reimbursement rates have grown between 3-5% annually

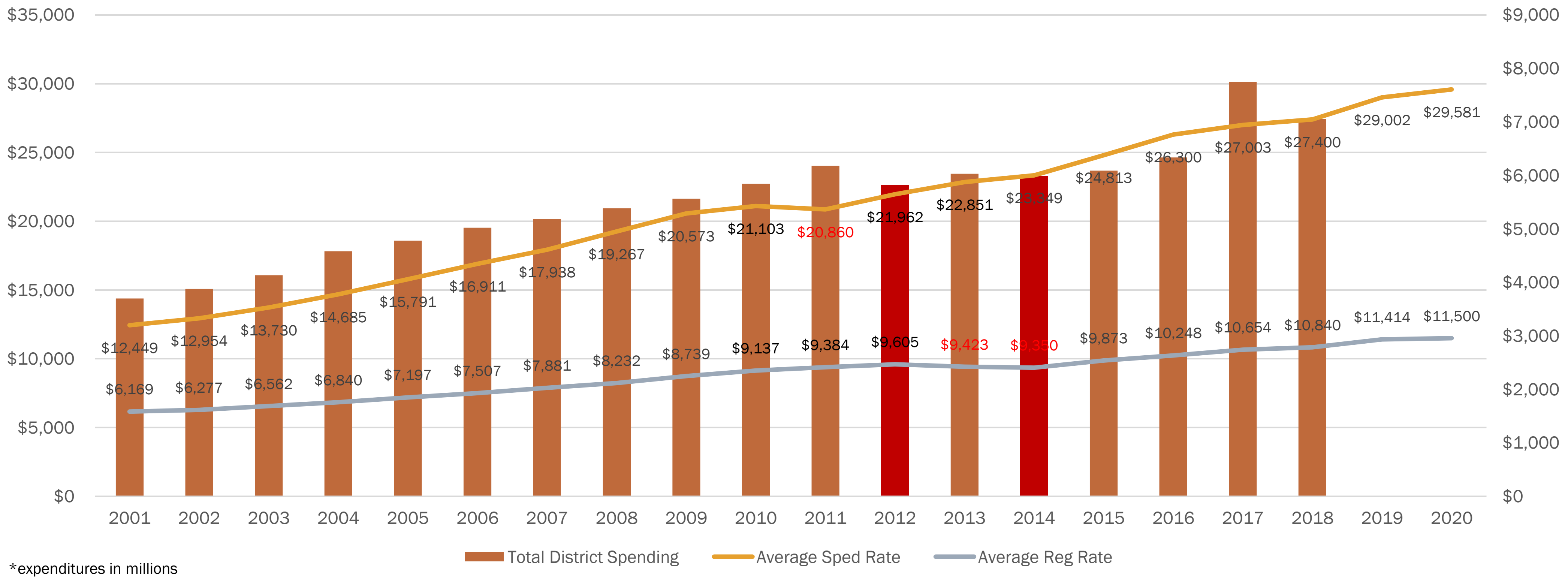
In the 4 years after the Great Recession, rates grew by less than 1% annually

Statewide District Expenditures vs Average Reimbursement Rates



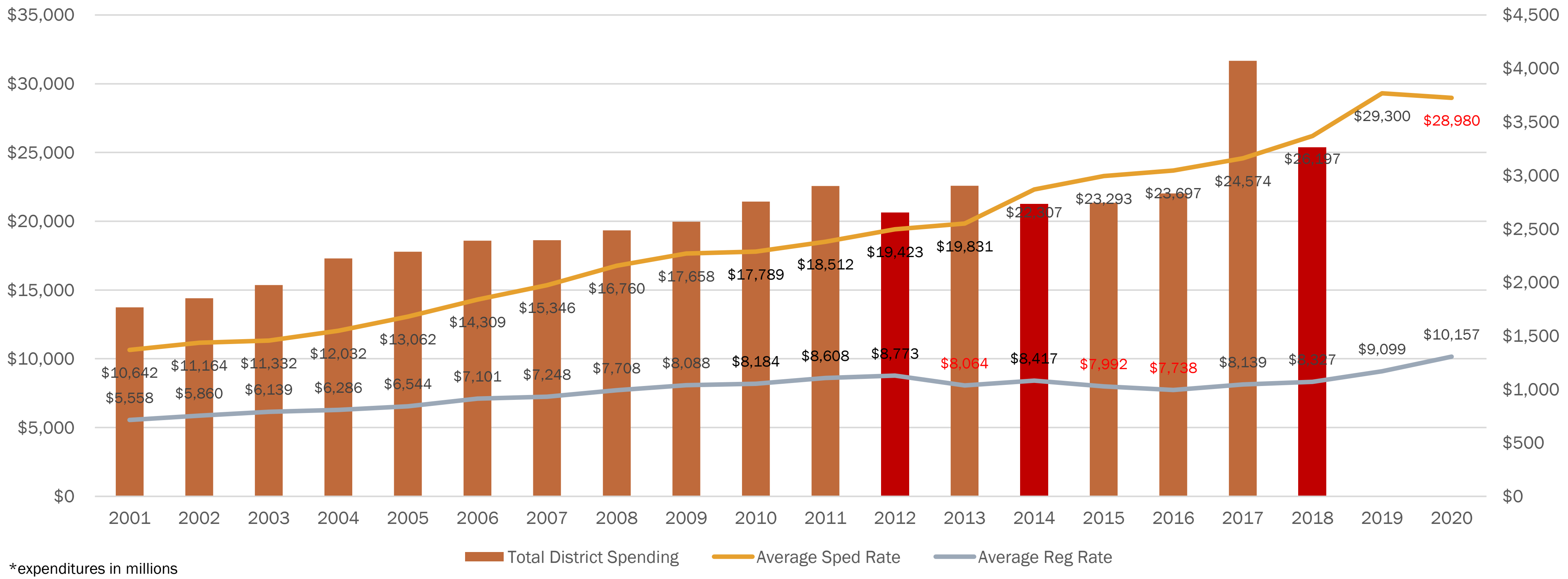
*expenditures in millions
FY19 AFR data not available.

Top 20 Tuition Paying Districts Expenditures vs Average Reimbursement Rates



*expenditures in millions
FY19 AFR data not available

Philadelphia School District Expenditures vs Reimbursement Rates



*expenditures in millions
FY19 AFR data not available

Revenue Changes

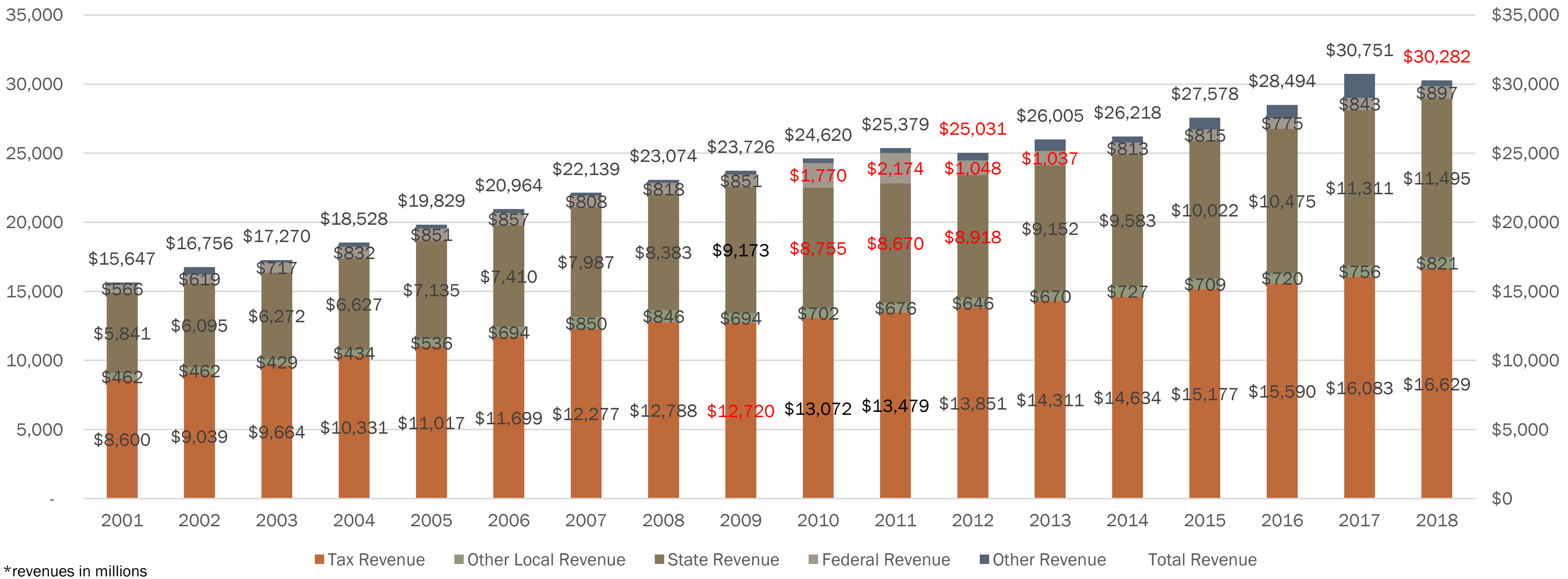
In the aftermath of the "Great Recession" 2008-09:

- Statewide district local tax revenue only decreased in 2009
- State revenue decreased between 2010-2012 before recovering
- Federal Revenue via ARRA Funding in 2011 and 2012 more than doubled to supplant the declining local and state revenues.
- A consistent upward trajectory was **not re-established** until 2016

Ongoing effects and aftermath of COVID:

- Impact on local tax revenue could be much more pronounced and drawn out
- How long it will take to return pre-COVID conditions is impossible to know at this stage

District Revenue Statewide by Source



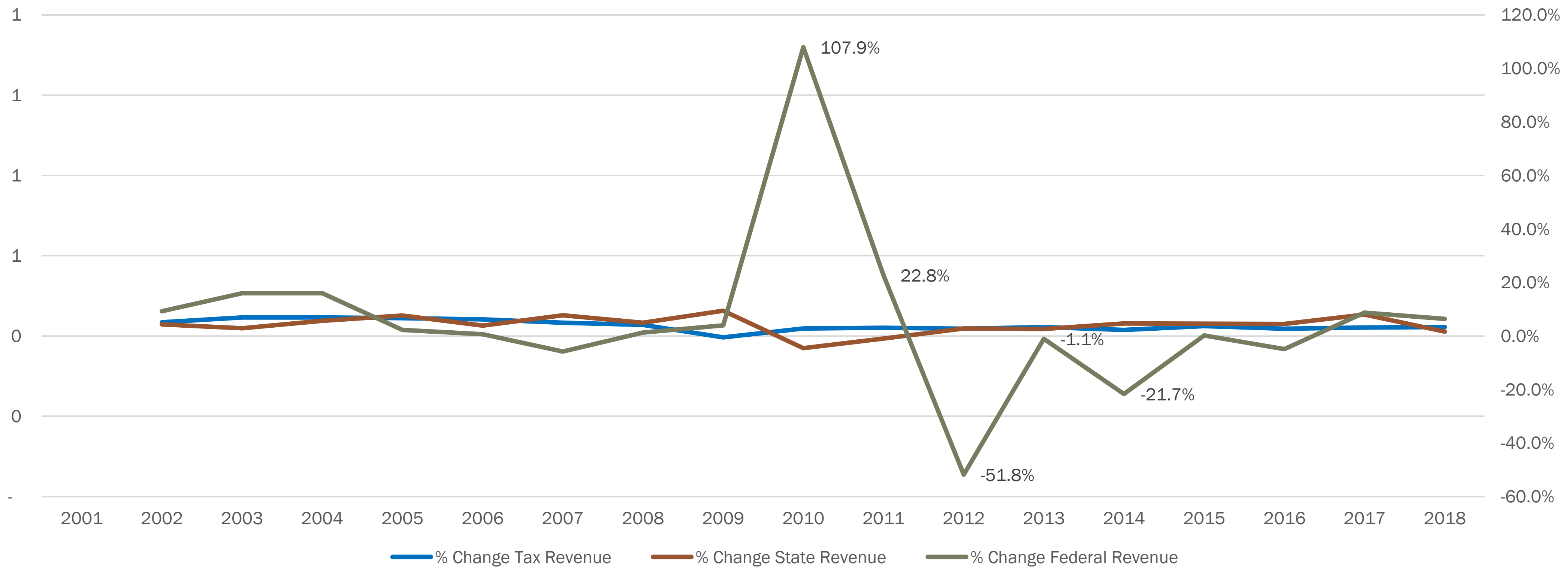
*revenues in millions

District Revenue Statewide by Source

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Tax Revenue	$12,277	$12,788	$12,720	$13,072	$13,479	$13,851	$14,311	$14,634	$15,177	$15,590	$16,083	$16,629
Other Local Revenue	$850	$846	$694	$702	$676	$646	$670	$727	$709	$720	$756	$821
State Revenue	$7,987	$8,383	$9,173	$8,755	$8,670	$8,918	$9,152	$9,583	$10,022	$10,475	$11,311	$11,495
Federal Revenue	$808	$818	$851	$1,770	$2,174	$1,048	$1,037	$813	$815	$775	$843	$897
Other Revenue	$218	$238	$288	$320	$380	$568	$834	$461	$855	$934	$1,759	$439
Total Revenue	$22,139	$23,074	$23,726	$24,620	$25,379	$25,031	$26,005	$26,218	$27,578	$28,494	$30,751	$30,282

*revenues in millions

Change in District Revenue Statewide by Source



Reimbursement Rate Take-aways

Charter school reimbursement rates are based on the general fund budget of the receiving district's previous year. For example, your FY20 rates are based on districts FY19 budgeted expenditures. (PDE 363)

Reductions in State assistance to Districts ripples through to charters beyond the more direct measures (e.g. Health and Lease reimbursement)

Federal assistance was invaluable in filling gaps in 2009-11. We do not yet know what federal support will look like beyond the next few months

Funding rates for 20-21 can go **lower if a district submits a revised 19-20 Budget (Phila SD) budget**

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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**

The rate currently projected by PSERS are likely not the rates we will have. However, ER rate increases will **not be immediate**

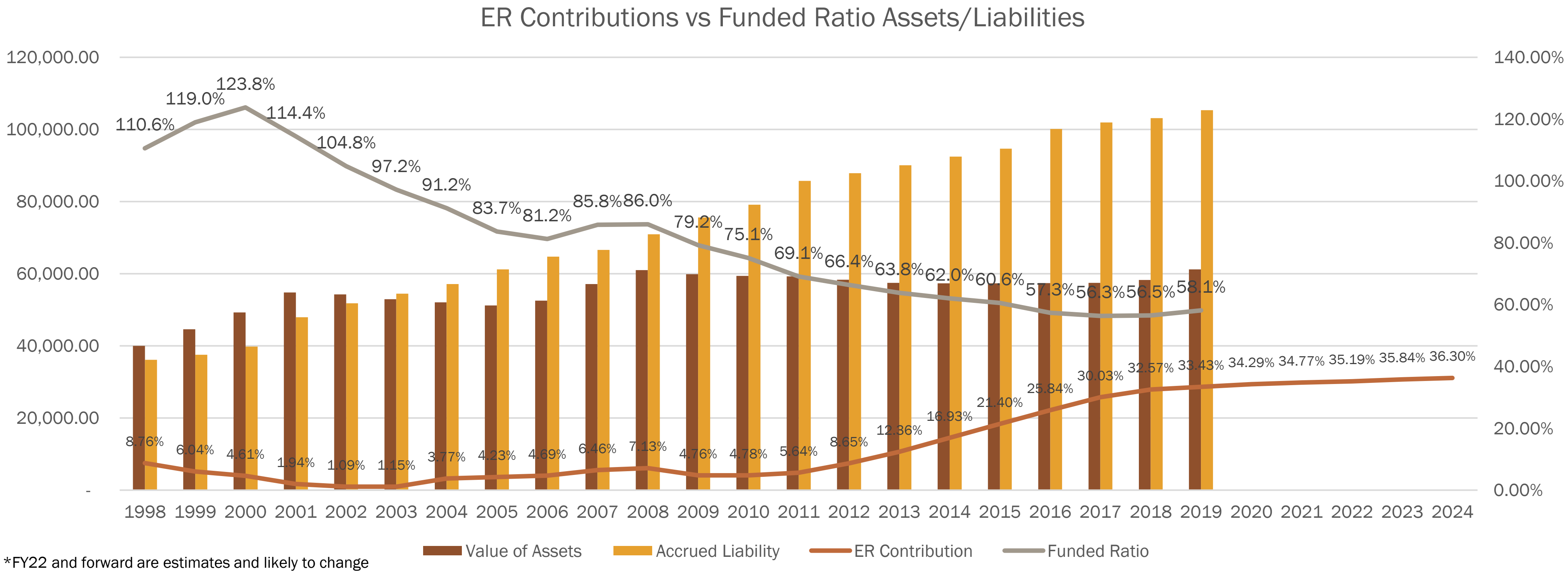
As PSERS employer contributions have a large direct impact on your budget, increases in employee contributions should also be considered when calculating total compensation for your employees

Questions:

What is your exposure to PSERS?

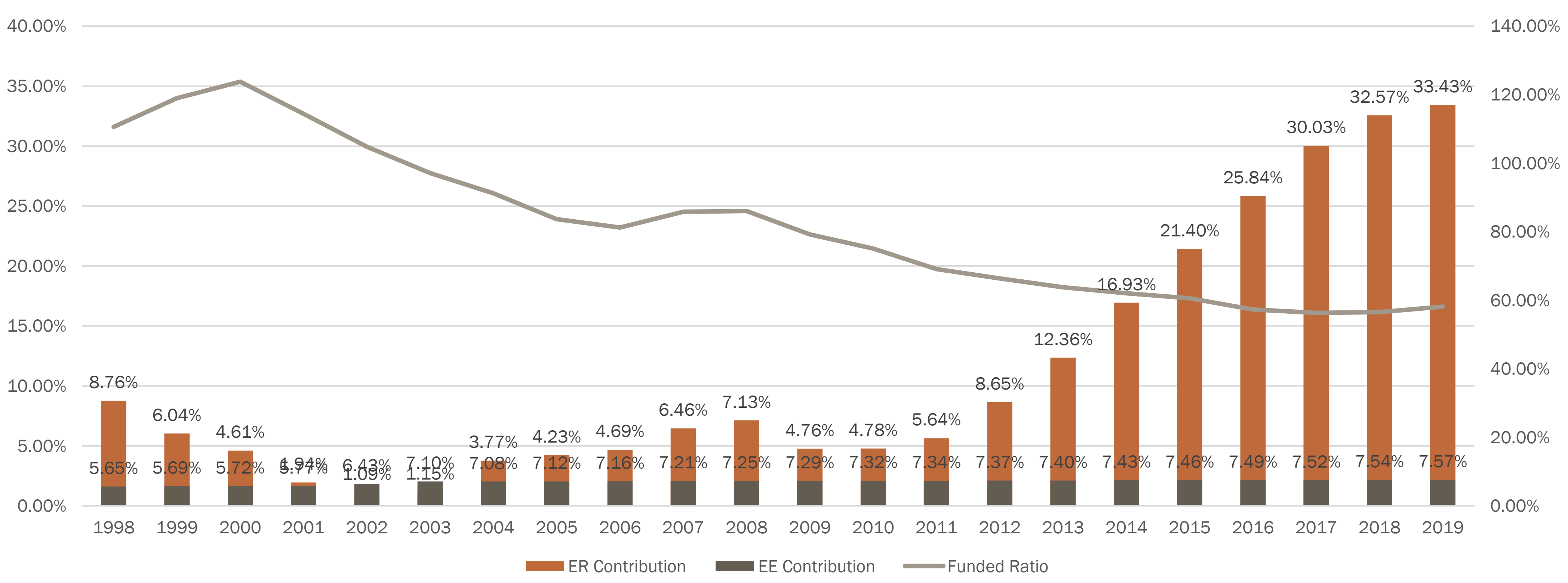
Are you still hiring into PSERS? If so, why?

PSERS ER Contributions vs Funded Ratio Assets/Liabilities

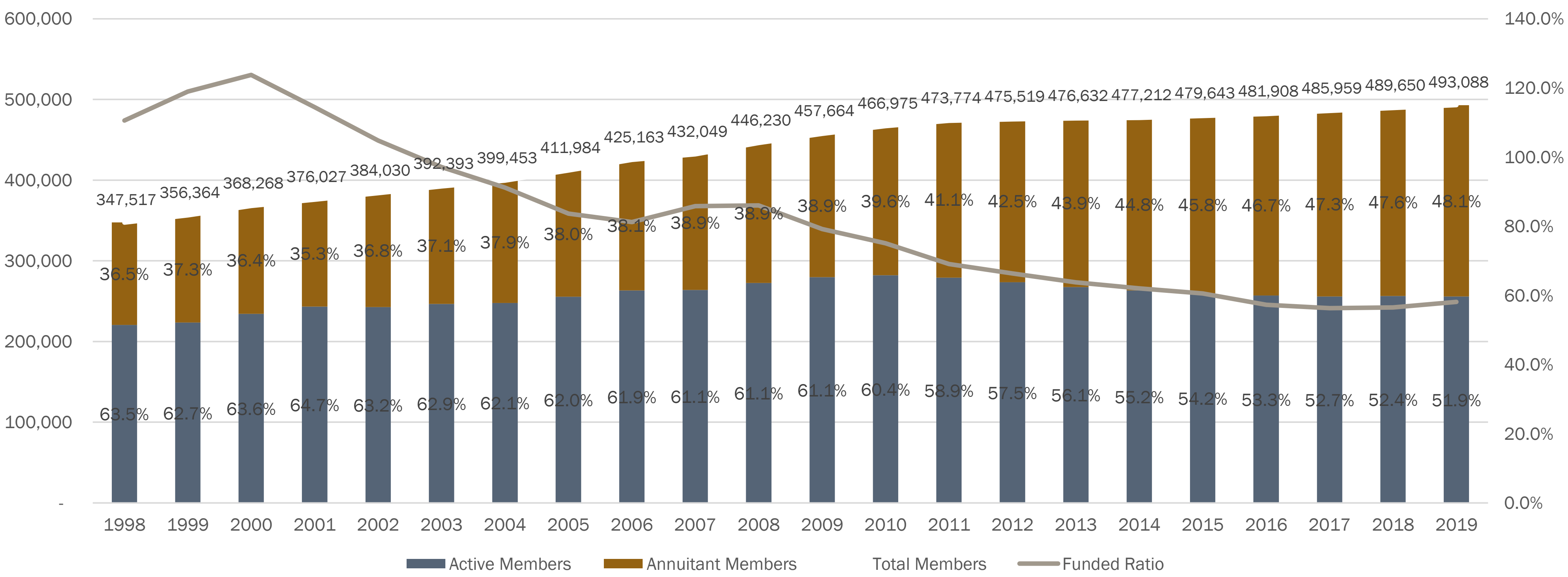


*FY22 and forward are estimates and likely to change

EE and ER Contributions vs Funded Ratio



PSERS Membership vs Funded Ratio



PSERS Rate Take-aways

PSERS funded ratio was already low before COVID. The increase in employer contributions were an attempt to bring that percentage upward.

Because of COVID, the unfunded liability will be exacerbated by:

- Decrease in the number of employees paying in to the system due to layoffs
- Continued increase in the number of retirees collecting benefits
- Reduced investment value of assets

To mitigate this problem the state may:

- Increase employee contributions
- Increase employer contributions
- Modified pension benefits for new employees
- Do nothing and let the unfunded liability grow

For charters this all boils down to an increased urgency to switch to 403b plan for all new employees. The minimum employer contribution is **5%** which would be over a **30% savings per employee** by FY22.

Looking Ahead: Things We Know or Might Expect

There will be financial hardship for charters in the next 1-5 Years

Charter School budget challenges will begin in earnest in FY21-22 - but arrive earlier if your feeder districts amend their FY19-20 budgeted expenditures downward

Districts will be stressed and stretched from Local challenges as well as possible reduction in State funding to districts (which ripples through to charter rates)

Federal support (e.g. CARES Act, etc.) available to charters as well as districts will become more important to fill gaps at State and Local levels

Things We Know or Might Expect (Cont'd)

- Fundraising and Development success may not come as easily as recent years
- Low interest rates means lower Interest Revenue for schools
- Health insurance costs likely to increase 10% or more in 20-21
- Tech replenishment costs (e.g. Chromebooks and kids a volatile mix) to increase, especially in event of 2^{nd} wave and any 20-21 closures
- District hiring freezes, salary freezes and possible layoffs mean a labor market more favorable to charters
- Changes to EITC funding
- Charters lost the State Social Security reimbursement in FY11 and the State PSERS reimbursement in FY14. The Lease Reimbursement may be next in line.

....and Things That We Don't Know

Extent of damage to state and local district budgets

Duration of recession and recovery

Ability/willingness of federal government to provide sustained support

Impacts of recurring physical closures on economy

Outcome of state and federal elections and potential impact

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	

Best-case Scenarios

3-month closure followed by V-shaped recovery

FY2020 (19-20)	FY2021 (20-21)	FY2022 (21-22)	FY2023 (22-23)
FY20 District budgets not amended	Flat local funding	Decrease in tuition reimbursement rates	Flat or small increases in tuition reimbursement rates
School receives federal support (CARES, etc.)	Continued federal support (CARES)	Strong federal support	Strong federal support
Use additional funds to support rainy day fund for coming years	Slight decrease in state support	State support rebounds	Stabilization of state revenues
No change to current funding formula			
Minimum increase to PSERS employee and employer contributions as market rebounds to reduce unfunded liability growth			

Worse Case Scenarios

Prolonged economic shutdown followed by W-shaped or anemic recovery

FY2020	FY2021	FY2022	FY2023
Districts revise their 2019-20 budgets downward	Decrease in tuition reimbursement rates	Additional decrease in tuition reimbursement rates	Additional decrease in tuition reimbursement rates
School receives some federal support (CARES)	Continued federal support (CARES)	Additional federal support goes away	Return to pre-COVID federal support levels
Use additional funds to support rainy day fund for coming years	Moderate decrease in state support	State support does not rebound	Stabilization of state revenues
Large increases in PSERS employee and employer contributions while unfunded liability grows			

And WORST Case Scenario

Governor and Districts prevail in imposing drastic Special Educating funding cuts…………

FY2020	FY2021	FY2022	FY2023
FY20 District budgets amended their budget	Decrease in tuition reimbursement rates	Additional decrease in tuition reimbursement rates	Additional decrease in tuition reimbursement rates
	Add: Special Ed funding decrease		
School receives some federal support (CARES)	Continued federal support (CARES)	Additional federal support goes away	Return to pre-COVID federal support levels
Use additional funds to support rainy day fund for coming years	Loss of Rental Reimbursement	State support does not rebound	Stabilization of state revenues
Changes to funding formula – district/union win political battle: sped rates decrease 15-30%			
Large increases in PSERS employee and employer contributions while unfunded liability grows			

Budgeting for Scenarios

Conservative budgeting of tuition reimbursement rates in FY20-21

Include federal CARES Act money for FY2021

Health insurance growth at 10% with expectation rates will increase over the next few years

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

Hiring freezes and low/no salary increases are available tools; high mobility of staff unlikely as Districts will freeze hiring first

Best practices in any scenario

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

Unless in dire straits, earmark CARES Act funds for future help

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 coming hardship

For the few remaining charter schools still hiring into PSERS, please.....Stop hurting yourself

Summary

Unprecedented spike in unemployment and collapse of tax bases

District reimbursement rates - by far biggest revenue sources for charters – will see reductions of unknown magnitude and duration – most likely a year from now

Reduced state aid to districts has indirect but important impact

Direct Federal dollars (e.g. CARES Act) are helpful but not game-changing

Level, duration and deductibility of Federal funds for rate determination all variables to watch

Savings, discipline and communication now will make inevitable challenges in 1 to 3 years more bearable

Stay flexible: we are only in the middle of the movie

143K Rising

143K Rising provides the 143,000 charter school students and their families a platform to share their stories and contact their elected officials.

Please share this link with anyone on your team who may be able to assist with getting this information disseminated to your families. We are asking that each school make this a priority over the next few weeks.

https://143krising.com/

143K RISING
FAMILIES UNITED FOR CHARTER SCHOOLS

"The future depends on what we do in the present."

\- MAHATMA GANDHI