Patterson Park Public
CHARTER SCHOOL

Annual Operating and Capital Budgets

2019-2020

Board Approved May 15, 2019

Mission

To provide a community-centered learning environment that values diversity and embraces a whole child approach to develop well-educated citizens.

Values

PPPCS is a community-founded school driven to academic excellence and devoted to a whole child philosophy in a diverse setting. We believe in …

- Challenging every child academically using interdisciplinary, thematic, hands-on instruction that fosters creativity, critical thinking and a life-long love of learning.
- Developing character in our young people by cultivating civility, perseverance, resilience and shared responsibility.
- Partnering with our broader community to support student success, healthy families and strong neighborhoods.

Photographs: PPPCS Service Day, Lego Robotics Club, Family Heritage Dinner, and Middle School Baseball Team

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Budget Summary

Operating Budget

FY20 is the sixth year in a row to present a challenging budget environment. Public revenue remained stagnant even though there are slight fluctuations in specific streams including a: 1% increase in per pupil allocation, 11% decrease in Title I funding, 2% decrease in Title II funding, 4% decrease in Special Education funding, and the addition of a new Title IV grant. Expenses also remained stagnant primarily as a result of shifts in personnel throughout FY19, increasing salaries for all employees, including a more competitive and equitable hourly rate for facility staff members, and the reduction of mandatory fees for school police. As a result of these changes, the budgeting process started with $93,000 less than in FY20 for the same number of students and staff.

In the face of this challenge, as in FY19, the mandate for budget development was to do everything possible to maintain the academic and non-academic programs and develop a budget that is compliant with our bond covenants.

The operating budget satisfies the mandate and reflects an acceptable educational environment. However, with several budgeting parameters unknown, a balanced budget required reducing enrichment programming and adding as many as 8 students. For the coming year, PPPCS has chosen to leverage our reserves at a maximum of $75,000 for the next year years to serve as a bridge to replication with an anticipated $65,000 in replication expenses.

Besides per pupil funding and personnel costs, noteworthy items about the budget include:

- Base Title I funding is $24,033 lower than FY19.
- Special Education funding, based on BCPSS projections is $26,465 lower than in FY19.
- We have maintained school day specials at the level similar to FY19 and avoided cuts to OrchKids and Playworks, but reduced enhanced programming (Audubon).
- Up to 8 students will be added, although the specific grade levels have yet to be determined by the enrollment committee.
- After school (OST) programs are budgeted at $170,000, which reflects our actual for FY19.
- Fundraising revenue is projected to decrease by $27,640 due to an anticipated drop in annual fund donations as we direct donors toward supporting our capital campaign.
- Replication costs of $65,000 have been added as an expense in FY20.
- The PPPCS Finance Committee approved a proposal to use our reserves as bridge funding to replication. The approved amount is not to exceed $75,000 each year for a maximum of two years (FY19 & FY20). This revenue is recorded in non-operating income.

Capital Budget

The capital budget reflects $55,100 for security and physical plant improvements plus approximately $10,000 for grant-funded capital improvements for security and energy efficiency.

The capital budget reflects an increased investment of $20,000 in anticipation of projects that are not as attractive to grant funding. These projects, however, will be taken on cautiously as we continue to have a strong desire to conserve cash in the face of ongoing uncertainties around State and City funding as well as the funding formula disputes with Baltimore City Schools.

Budget Environment

The PPPCS budget is developed within the constraints of many factors: parameters established by City Schools outside of PPPCS control, fixed bond debt service payments, the school's current financial health, and an assessment of the future economic environment.

Parameters Established by City Schools

The major parameters of the school's budget are set by BCPSS without school input. BCPSS revenue is based on State, City and federal revenue to BCPSS; expenses reflect negotiated union contracts, district benefit costs and BCPSS interpretation of education mandates. Lack of school input is an ongoing issue as it limits PPPCS control of its financial picture and its educational program.

The most significant revenue/expense parameters are:

- Per pupil funding, an amount distributed for every child, increased slightly to $9,108 compared to $9,002 in FY19, but is still down from $9,327 in FY18. PPPCS, along with other charter schools, were successful in our filing for a declaratory ruling on mandatory fees for school police, but we are still being charged $25 per pupil for tuition reimbursement.
- Federal Title I funding is provided to improve the education of students most in need of additional intervention. The funding is allocated by City Schools based on the population of poor students as measured by the percentage of students who are directly certified through the State. For FY20, PPPCS's Title I allocation will be $222,497 which is approximately $24,000 less than FY19.
- Special Education is funded from a variety of sources and is based on the hours of special services needed by identified students. For FY20, PPPCS is budgeting the revenue allocated by BCPSS which is $628,724 (4% less than FY19). The allocation will be adjusted on September 30 depending on service needs.
- Salary increases for BCPSS staff, based on an interval promotion for most staff are 3%. PPPCS is basing its budget on zero teacher attrition.
- BCPSS is still requiring a $25 mandatory per pupil fee for tuition reimbursement and actual costs for sick-leave conversion ($20,000).

Debt Service

The school has debt service requirements of approximately $941,000 per year until 2045 at a fixed interest rate of approximately 6%. That is 12% of all PPPCS operating expenses. The bonds can be refinanced without penalty in FY20.

PPPCS Financial Health

The current financial health of PPPCS is related substantially to two factors: assets of the organization and continued adherence to bond covenants.

- Entering FY20, the health of PPPCS continues to be impacted by short term challenges. Liquid assets[1] remain above $1.1 million. The school continues to meet the liquidity covenant to maintain Fitch's BB and Standard and Poor's BB rating on the MHHEFA bonds. Operating projections meet bond covenants, but the PPPCS Finance Committee approved a proposal, beginning in FY19, to use our reserves as bridge funding to replication. The approved amount is not to exceed $75,000 each year for a maximum of two years.
- Although the school's net operating income is sufficient to meet the DCR requirement of 1.10, the high level of annual depreciation and amortization, over $500,000, contributes to an ongoing reduction of net equity. Net equity fell below zero in FY19 and the trend will continue into FY20. The Finance Committee has been in on-going conversations about this issue.
- With respect to the school's bond obligations, PPPCS views the following as essential to continued adherence with the terms of the bond transaction and to keep the S&P and Fitch ratings on the bonds stable.
    - Maintain a strong and positive relationship with the chartering agency (BCPSS), in spite of PPPCS's participation in a lawsuit over the BCPSS per pupil funding formula;
    - Ensure year-to-year stability by operating within budget, and maintaining and monitoring cash and investment balances;
    - At the end of every fiscal year, demonstrate a debt coverage ratio (DCR) of 1.10. For the purposes of this document, DCR is defined as the net revenue, excluding depreciation and amortization, available for debt service divided by $942,762 (the maximum annual debt service payment over the life of the bonds); and
    - PPPCS has already met the goal of fully funding a reserve and replacement account at $200,000.

[1] Assets include those of the Patterson Park Public Charter School Fund which is an IRS-defined support organization of PPPCS.

Future Economic Environment

The school's future operating performance depends on the ability to grow revenues and control expenses. Unfortunately, BCPSS continues to provide over 90% of PPPCS revenue and determine personnel costs, which are 69% of our budget, that are outside PPPCS control.

For revenues, BCPSS per pupil growth is critical as is the need to increase non-BCPSS sources.

- As always, the funding environment for public schools is more unpredictable than we would like, and for charter schools it is even more so because of uncertainties in charter school funding. The primary source of funding for public schools is the State, with lesser contributions by the City and federal government.

  The Kirwan Commission postponed their recommendations for a new funding formula until the next legislative cycle. Their work did result in recommendations for increased education funding, but the extent of those increases is dependent upon implementation of their recommendations within the funding formula, and this is not yet known.

- In addition to education funding taking a spotlight at the state level, City Schools also commissioned a study to work with Allovue to provide greater transparency in how funding is allocated to schools. Allovue's work remains unpublished and did not impact material changes in FY20.

- Federal Title I funding is unpredictable; PPPCS's annual allocation has dropped from $316,000 in FY12 to $222,497 in FY20. Income status is no longer determined via family survey; it is determined by a count of families who are directly certified by the State. This continues to be a threat for PPPCS given that a large sum of our families are not eligible for direct certification.

- For the last five years, union contracts have driven rapid increases in academic staff salaries. For FY20, personnel costs are expected to increase and we have budgeted for BCPSS' advised 3% increase in salary, but the final results of union negotiations is unknown and leads to an uncertain future trajectory that could have a significant impact on PPPCS if not in line with BCPSS recommendations.

  PPPCS bears the full brunt of teacher salary increases while significant attrition from traditional schools mitigates the impact of salary increases on the district. In recent history, PPPCS has experienced low teacher turnover.

- In addition, State law and funding formulas do not provide a facilities supplement as many other states do. State law also specifies that charter schools pay a share of the BCPSS debt service, $475,000 being the approximate PPPCS annual share. The law was enacted without considering that some charter schools, such as PPPCS, own their own facilities and are actually ineligible for capital improvement funds. After extensive

advocacy work this legislative session, the Maryland legislature is conducting a study on this topic.

- In light of these challenges, PPPCS has committed to replication and the operation of a second school by 2020. Additionally, Maryland was awarded $17 million to support successful charter schools in expansion or replication efforts. Working toward this strategic goal will provide PPPCS a path toward expanded impact, sustainability, and increased revenue.

To summarize the uncertainties that PPPCS and charters are likely to face in FY20 and beyond:

- We are hopeful that a revised State funding formula will increase funding in FY21, but City School's implementation of the charter funding formula as well as the distribution of Title I funding is unpredictable and requires significant advocacy on our part to ensure equity and adequacy.

- PPPCS is committed to working toward replication and operations of a second school by 2020. PPPCS submitted a charter application in March 2019 for approval by June 2019.

- If BCPSS personnel costs continue to rise through union negotiations as they have in the recent past, this will impact PPPCS' expenses.

- PPPCS is eligible to refinance our bonds in FY20, and initial projections show this to be a favorable move that the organization intends to pursue in the coming months.

These items are significant, but nevertheless, there are potential positives and negatives and it is premature to consider the future too precisely as there have been significant positive and negative surprises in the past.

Budget

The attached spreadsheet is the proposed PPPCS FY20 budget, with the FY19 numbers in column B. Row number 102 is the "bottom line" and reflects the net income used for the calculation of the Debt Coverage Ratio. To meet the bond covenant, net income must be 10% above the maximum debt service. That value of $1,007,037 meets the requirement as shown by the zero in Row 118, Column C.

There are five columns of numbers:

- Column B: Budget 2018-2019. The current year-end projection for FY19.
- Column C: Budget 2019-2020.
- Column D: Variance FY19 vs. FY20.
- Column E: Percent Change. The percent variance of FY19 vs. FY20.
- Column F: Percent Of Budget. The percentage of the entire operating budget for each line item. Compared to prior years, the percentage of overall funding from City Schools and expenses for academic programs have remained close to 92% and 77% respectively.

  Debt service has dropped from 13.6% of expenses in FY13 to 12.0% in FY20.

Remaining Budget Unknowns

There are a number of financial and operational variables, unknown at this writing that could have significant effects on the year's operating revenue and expenses.

Noteworthy items with respect to contingency planning are:

- The per pupil will change based on the final Baltimore City budget. The per pupil will also change when the final district enrollment is set at September 30, and may change again depending on the final State enrollment number. We budgeted based on City School's allocation of $9,108 as a conservative estimate.
- Teacher salaries may vary more than usual due to the timing of the union contract vote and City School's guidance on staffing numbers. The budget incorporates the guidance from City Schools to allow for 3% increase in salaries.
- After making a payment in FY18, we did not budget for legal costs in the suit against City Schools. The suit is currently in discovery.
- The budget includes revenue from fundraising and reserves as a bridge to replication as well as expenses related to replication. This section will be closely monitored to meet all fundraising goals and delay tapping the reserves unless absolutely necessary.
- Other budget variables are generally within PPPCS control and adjustments in revenue or spending can be made as needed, although they are relatively small fractions of the overall budget. Utilities, facilities and technology costs will be closely monitored.

Budget Process

PPPCS has adopted a well-defined budgeting process:

- Convene the Finance Committee to set financial guidelines for budget creation.
- Create a Budget Committee consisting of administration, academic and non-academic staff, and parents. Committee members are listed at the back of this document.
- Develop a baseline budget to guide initial conversations and surveys. The baseline budget makes reasonable assumptions about predictable, contract driven factors such as personnel cost increases, known changes to other expenses, etc. The resulting baseline gives the various committees a starting point for what can reasonably be accomplished with respect to school programming, e.g. expansion, contraction, need to raise additional funds, etc.
- Develop and distribute a budget priorities survey to all families and staff. Present budget guidelines and seek parent input at a HOPPP meeting early in the process.
- The budget committee meets as needed from March through May to arrive at recommendations for the Finance Committee.
- Staff presents ongoing budget updates at parent and Board meetings.
- Staff presents the draft budget at the March Board meeting, with final approval at the May meeting.

Budget Responsibilities

Responsibilities for developing the PPPCS budget are:

- Board of Directors: approves the final budget, based on compliance with the charter and the school's strategic plan.
- Finance Committee: recommends a budget to the Board based on compliance with fiscal responsibility, bond covenants and rating agency expectations.
- Budget Subcommittee: recommends allocation revenue and expenses to best meet the needs of the school in accordance with Board and Finance Committee directives.
- Administration: Principal and Executive Director work with staff to develop information for the committees and the Board.

Board of Directors

Responsibility for creating the budget rests with the Board of Directors for overall direction and with the school administration for budget details. The Board of Directors has established a number of committees that are responsible for the financial well-being of PPPCS.

The Board of Directors does not exercise budget line item responsibility. Rather, it directs that the school's program adhere to the charter and the school's Strategic Plan. Ultimately, the Board approves the annual budget on that basis.

In addition to the committees with specific financial and budgetary responsibilities, two other committees serve as advisors and watchdogs for implementation of the Strategic Plan:

- The Academic Excellence Committee meets with the school's administration to ensure compliance of the educational program with the mission and vision of the school.

- The Enrollment Committee analyzes enrollment patterns to ensure that enrollment practices meet the goals of the school's Strategic Plan, and that the school complies with all enrollment policies. Within the budget's financial constraints, the Enrollment Committee establishes open seats and class size targets.

Finance Committee

The Finance Committee, chaired by the Board's Treasurer, debates and ultimately accepts the Budget Subcommittee's budget recommendation, then recommends the budget to the Board for approval. The Finance Committee defines the budgetary constraints in which the Budget Committee must make its recommendations.

Budget Subcommittee

The Budget Subcommittee is a collection of administrators, staff, other committee representatives and parents that recommend a final budget to the Finance Committee. The recommended budget reflects the school community's best effort to resolve the Budget Goals within the constraints of the Budget Environment. Members of the Budget Subcommittee were:

Administration	Staff	Parents
Jane Lindenfelser, Chair	Serena Harris, 2nd grade	Kelly Hope
Chad Kramer, Principal	Patrice LaHair, MS ELA	Kim Forsythe
Liz Obara, CSC Coordinator	Emily Oliver, Kindergarten	Lazette Wells
Emily Augustine, AP	Marisa Moschelle, Family Liaison	Chris Scott (also Treasurer)

Accountability

With literally hundreds of individual budget line items, many of which overlap direct areas of responsibilities, it has not always been easy to understand where setting and meeting budgeting responsibility lay. For FY20, the budget has been designed with very clear lines of accountability:

- The Principal is responsible for setting and meeting targets for all Academic Program items.
- The Community School Coordinator, reporting to the Executive Director, is responsible for setting and meeting targets for all Non-Academic program items.
- The Executive Director is responsible for setting and meeting targets for Fundraising, Facilities, Technology and Administration.

Staff Responsibilities

The Executive Director has responsibility for developing the draft budget as follows:

- Develop the specific tools and formats for developing and presenting the budget.
- Conduct all communications necessary to ensure integrity of the budget process.
- Create and present the final budget document.

The Business Manager has responsibility for developing the draft budget as follows:

- Develop the specific tools and formats for developing and presenting the budget.

FY2020 Operating Budget

1	A	B	C	D	E	F	F
2		Projection	Budget	Variance	Percent	Percent of	Notes
3		FY19	FY20	19 V 20	Change	Budget	
4	Budget Parameters						
5	Number of K-8 Students, projected	679	683	4	1%		679 was official 9/30/18 count.
6	Per-pupil Allocation	9,002	9,108	106	1%		
7	Total Revenue from Per-pupil Allocation	6,112,358	6,220,764	108,406	2%		
8	Bond payments intercepted by City Schools	940,890	941,200	310	0%		
9	Title I Academic Allocation	246,530	222,497	(24,033)	-11%		
10	Title I Parent Engagement Allocation	6,290	6,290	0	0%		
11	Title II Professional Dev. Allocation	33,796	33,067	(729)	-2%		
12	Title IV	-	28,927	28,927	100%		
13	Special Education Allocation	655,189	628,724	(26,465)	-4%		
14	Budgeted Debt Coverage Ratio (DCR)	1.10	1.10				
15							
16	Income						
17	City Schools Funding	7,054,163	7,140,269	86,106	1%	92%	
23	Academic Programs	30,990	30,990	0	0%	0%	
30	Non-Academic Programs	259,585	255,260	(4,325)	-2%	3%	No BEES Camp in FY20; adjusted to actuals.
38	Fundraising and Unrestricted Revenue	359,500	331,860	(27,640)	-8%	4%	Less income expected because of Capital Campaign & new special event.
43	Total Income	7,704,238	7,758,379	54,141	1%	100%	
44							
45	Expenses						
46	PPPCS, Inc. Personnel	760,928	815,648	54,720	7%	12%	Increased main office staff by .5; increased houeskeepers wages.
52	Academic Programs	5,156,154	5,188,928	32,774	1%	77%	
64	Non-academic Programs	268,375	264,550	(3,825)	-1%	4%	
72	Fundraising	56,484	27,500	(28,984)	-105%	0%	Removed field trip abroad expense.
77	Operations Technology	95,420	88,400	(7,020)	-8%	1%	
80	Facility	165,216	165,200	(16)	0%	2%	
85	Supplies, Printing and FFE	57,678	60,175	2,497	4%	1%	
91	Administration	136,070	140,940	4,870	3%	2%	
99	Other						
100	Total Expense	6,696,325	6,751,341	55,016	1%	100%	
101							
102	Net Ordinary Income	1,007,913	1,007,038	(875)	0%		
103							
104	Non-operating Income/Expense						
105	Income	95,000	95,000	0	0%	9%	
109	Contingency Expense	65,000	65,000	0	0%	6%	Replication costs
113	Net Income before "Other" Income/Expense	1,037,913	1,037,038	(875)	0%		
114							
115	DCR Calculation Adjustments						
116	Maximum Debt Service	942,762	942,762				
117	Debt Coverage Ratio (DCR)	1.10	1.10				
118	DCR Contingency Available	875	(0)				
119							
120	Other Income and Expense						
121	Unrealized Gain(Loss)						
122	Interest Expense	(768,740)	(768,740)	0	0%		
123	Depreciation & Amortization	(518,572)	(518,572)	0	0%		
127	Interest, Investments, Depreciation	(1,287,312)	(1,287,312)	0	0%		
128							
129	Net Income(Loss)	(257,263)	(250,274)	6,989	-3%		

FY2020 Capital Budget

		Budget		
		Cost	**Grant**	**Internal**
Facility Improvements				
	General physical plant	$7,000		$7,000
	Security Door	$11,000	$5,000	$6,000
	Security Door Tech	$6,600		$6,600
	Roof	$25,000	$5,000	$20,000
Technology				$0
	Meraki access points	$13,000	$0	$13,000
Furniture & Fixtures		$2,500		$2,500
		$65,100	**$10,000**	**$55,100**