Annual Operating and Capital Budgets 2020-2021

Board Approved June 17, 2020

Patterson Park Public
CHARTER SCHOOL

Mission

To empower our school community – through a diverse, whole-child approach in a community-centered learning environment – to be stewards of an equitable future.

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 …

- Excellence: Challenging every child to excel using interdisciplinary, thematic, hands-on instruction that infuses the arts and fosters creativity and critical thinking.
- Wellness: Providing a safe environment to maintain and improve the physical, mental, social, and emotional health of every child and family.
- Identity: Encouraging every child's identity development through personal growth and an understanding of historical contexts of race, gender, and other expressions of self.
- Love: Cultivating a network of committed, caring individuals and strengthening family and community structures that support healthy interpersonal relationships.

Patterson Park Public Charter School
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2020-2021

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Budget Summary

Operating Budget

Patterson Park Public Charter School, Inc. navigated many changes throughout FY20 and in the FY21 budget planning process.

At the start of FY20, PPPCS, Inc. began the process of refinancing it's publicly held bond. In late October, PPPCS, Inc. closed on a 10-year bank bond with an interest rate of 3.21% and an average annual debt service of $704,000, a $238,762 savings from the previous bond. The loan is also structured to allow PPPCS, Inc. to build liquidity in the first two years of the loan. The debt service payment for FY21 is $381,307. This is a significant savings from previous years, and the FY21 budget reflects the actual debt service payment.

At the start of the budget season, PPPCS, Inc. was charged with re-designing our budgeting process to include two schools – Patterson Park Public Charter School and Clay Hill Public Charter School – as well as PPPCS, Inc. As a result of COVID-19 and the global pandemic, PPPCS, Inc. is delaying the opening of CHPCS until 2021-2022 and reverted to an operating budget for a single site charter school.

Baltimore City Public Schools revenue increased 2% when comparing the FY20 budget to the FY21 budget. The increase is a result of changes in the various Baltimore City funding sources: the per pupil allocation increased $4 from $9,108 to $9,112; Title I funding decreased 3%; Title II funding increased 9%; Title IV funding increased 18%; and Special Education funding increased 18%. The FY21 budget also includes the $40,000 Struggling Learners grant, which was not budgeted in FY20. Expenses increased 9% when comparing the FY20 budget to the FY21 budget. Almost all of the expense increases are due to increasing staff position costs and the addition of staff members during FY20, whose positions are being maintained in FY21. Approximately 82% of the FY21 expenses are for personnel. As a result of these changes and the FY20 debt refinance, the budgeting process started with a flat budget, reflecting neither a significant deficit or surplus.

In the face of these challenges, as in FY20, 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 while also preparing for the programmatic and financial uncertainty caused by COVID-19.

The operating budget satisfies the mandate and reflects an acceptable educational environment without significant changes from FY20. However, with the possibility of financial and programmatic changes as a result of COVID-10, the Budget Committee has also included a recommended down-turn plan that includes investing in technology, eliminating enrichment programming, and eliminating instructional support staff. The extent of these changes will be determined if and when we hear of changes to revenue.

Noteworthy items about the budget include:

- The per pupil allocation increased $4/student from $9,108 to $9,112 when comparing the FY20 budget to the FY21 budget. Student enrollment is budgeted flat with neither an increase or decrease.
- $114,850 increase in Special Education funding.
- $40,000 Struggling Learners grant, which was not budgeted in FY20; this grant partially funds an academic intervention position.
- Unrestricted fundraising revenue is budgeted $25,000 less than FY20 due to a drop in unrestricted operating grants as a result of adjusting the MSDE budget for Clay Hill Public Charter School.
- Four Academic staff positions were added during FY20 and are being maintained in FY21.
- We have maintained specials at the same level as FY20.
- We have maintained enrollment at the same level as FY20.
- There are no expenses related to Clay Hill and replication in the PPPCS budget; those will be covered by various grants and presented to the Board in August 2020.
- The budget includes the following expenses to support PPPCS, Inc's DEI Work Plan: Curriculum stipends, Curriculum Lead, DEI Committee allocation.
- The budget includes a $100,000 transfer to the PPPCS Fund during FY21 as a measure to build liquidity and savings for the future.

PPPCS, Inc recognizes that this is not the most conservative approach. It is, however, the best course of action to provide available resources to students and families during this time of uncertainty.

Capital Budget

The capital budget includes $82,488 for facilities and $76,992 for technology. The capital investments will be offset by at least $38,589 in grant funding, so the ultimate cash cost to PPPCS is $120,829.

This is a significant increase in the capital budget from previous years. This change is possible as a result of PPPCS, Inc.'s increased liquidity - as a result of refinancing the bonds - as well as revenue from Baltimore City to support technology needed or distance learning.

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 $4/student from $9,108 to $9,112 when comparing the FY20 budget to the FY21 budget. The FY20 actual per pupil is $9,199 but is still down from $9,327 in FY18.
- 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 FY21, PPPCS's Title I allocation will be $216,480 which is $6,017 less than FY20.
- Special Education is based on the hours of special services needed by identified students. For FY21, PPPCS is budgeting the revenue allocated by BCPSS which is $743,574. The allocation will be adjusted on September 30 depending on service needs.
- Salary increases for BCPSS staff, based on an interval promotion for staff are 5% on average.
- BCPSS is still requiring a $25 mandatory per pupil fee for tuition reimbursement and actual costs for sick-leave conversion (approximately $20,000).
- New in FY21, PPPCS will have to pay new teachers to attend the New Teacher Institute. This expense previously was provided in kind by the school district.

Debt Service

As previously noted, PPPCS, Inc. refinanced in FY20 and, in FY21 has a debt service of $381,307. PPPCS, Inc's debt service will increase to $598,259 in FY22 and $704,269 in FY23 at a fixed interest rate of approximately 3.21%. That is 5% of all PPPCS operating expenses in FY21. The FY21 budget uses the actual debt service, as opposed to the maximum debt service, which yields savings to the school in the short-term.

PPPCS Financial Health

The current financial health of PPPCS is related substantially to two factors: liquidity (or days cash on hand) and debt service coverage ratio (or cash flow). Both metrics improved significantly in FY20 with the refinancing of the bonds.

- Liquidity is determined through a calculation of: Cash and Equivalent Securities divided by Total Annual Operating Expenses divided by 365. Best practice is to have 90-120 days cash on hand. Entering FY20, PPPCS had 44 days cash on hand. Because of the refinancing and the Finance Committee's recommendations in light of this change, PPPCS is anticipating ending FY20 with 120 days cash on hand.
- Debt service coverage ratio is determined through a calculation of: Excess of Revenue over Expenses plus Depreciation plus Amortization)/Debt Service. PPPCS' FY21 budgeted debt

coverage ratio is 1.25 which is above our covenant of 1.15 and is the Finance Committee's recommendation of 1.25.

	FY19	FY20 Est.	FY21 Budgeted
Days Cash on Hand	44	120	127
Debt Service Coverage Ratio	1.24x	2.1x	1.25x

- Although the school's net operating income is sufficient to meet the DCR requirement of 1.15, 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 FY20 and the trend will continue into FY21. 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.
    - 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 1.25.

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 BCPSS personnel costs, which are 71% 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 Blueprint for Maryland Schools passed both houses of the legislature in FY20, but was vetoed by the Governor. It is unclear when the legislature will reconvene to closeout the legislative session and if, in the current environment and the financial impact of COVID-19,

they will have the votes to override the veto. The legislation did include stop gaps for delayed implementation in the event that the State experienced a recession.

- Federal Title I funding is unpredictable; PPPCS's annual allocation has dropped from $316,000 in FY12 to $216,480 in FY21. 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.

- 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.

For expenses, PPPCS, Inc. has two major expenses - personnel and facility costs:

- For the last five years, union contracts have driven rapid increases in academic staff salaries. For FY21, personnel costs are expected to increase and we have budgeted for BCPSS' advised 5% increase in position costs. PPPCS bears the full brunt of teacher salary increases while significant attrition from traditional schools mitigates the impact of salary increases on the district.

- Refinancing the school's bonds in FY20 will yield an annual savings of $238,762 at our average max debt service of $704,000. The FY21 Budget, as previously noted, is based on our actual debt service of $381,307 in FY21. The debt service will increase to $704,269 in FY23 and we anticipate this will be around the same time that the drop in state revenue begins to affect the funding formula.

In light of these challenges, PPPCS, Inc. has included a transfer of $100,000 to PPPCS Fund in FY20 and FY21 with the intention of transferring these funds back to the school in the form of revenue to support the budget in future years.

We have also committed to replication and the operation of a second school and were awarded $900,000 to support the opening of Clay Hill Public Charter School. Working toward this strategic goal will provide PPPCS, Inc. a path toward expanded impact, sustainability, and increased revenue.

To summarize the uncertainties that PPPCS, Inc. and charters are likely to face in FY21 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.

- If BCPSS personnel costs continue to rise through union negotiations as they have in the recent past, this will impact PPPCS' expenses.
- PPPCS is preparing for an uncertain financial future and seeking to generate revenue by saving $100,000 now and working toward replication and operations of Clay Hill Public Charter School by 2021

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 FY21 budget, with the FY20 numbers in column B. Row number 103 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 15% above the maximum debt service. That value of $555,680 meets the requirement as shown by the zero in Row 119, Column C.

There are five columns of numbers:

- Column B: FY20 Budget approved on May 15, 2019.
- Column C: FY21 Budget proposed.
- Column D: Dollar amount variance FY20 vs. FY21; Column B minus Column C = Column D.
- Column E: Percent variance FY20 vs. FY21; Column D divided by Column B = Column E.
- 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 78% respectively.

  Debt service has dropped from 13.6% of expenses in FY13 to 4.9% in FY21 because of the interest only period. It will increase to approximately 9% in FY23.

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 $9,112 as a conservative estimate.
- Teacher salaries may vary more than usual due to teacher's step increases. The budget incorporates the guidance from City Schools to allow for an average of 5% increase in position costs.

- 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. This section will be closely monitored to meet all fundraising goals.
- 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 February through May to arrive at recommendations for the Finance Committee.
- Staff presents ongoing budget updates at parent, staff and Board meetings.
- Staff presents the draft budget at the March Board meeting, with final approval at the May meeting. This year's budget is being presented later than usual as a result of COVID-19 impacting the opening of Clay Hill Public Charter School and the structure of PPPCS, Inc's FY21 budget.

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: Business Manager, 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	Gail Cuffie, Instructional Assis.	Janice Harris
Chad Kramer, Principal	Serena Harris, 2nd grade	Kelly Hope
Liz Obara, CSC Coordinator	Patrice LaHair, MS ELA	Kim Forsythe
Alexis Suskin-Sperry, AP	Emily Oliver, Kindergarten	Chris Scott (also Treasurer)
	Marisa Moschelle, Family Liaison	

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 FY21, 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.

FY2021 Operating Budget

	B	C	D	E	F	G
	Budget	Budget	Variance	Percent	Percent of	Notes
	FY20	FY21	20 V 21	Change	Budget	
Budget Parameters						
Number of K-8 Students, projected	683	683	0	0%		
Per-pupil Allocation	9,108	9,112	4	0%		FY20 actual per pupil allocation is $9,199.
Total Revenue from Per-pupil Allocation	6,220,764	6,223,496	2,732	0%		
Bond payments intercepted by City Schools	941,200	-	(941,200)	-100%		Bond payments are no longer intercepted.
Title I Academic Allocation	222,497	216,480	(6,017)	-3%		
Title I Parent Engagement Allocation	6,290	6,290	0	0%		
Title II Professional Dev. Allocation	33,067	36,141	3,074	9%		
Title IV grant	28,927	34,039	5,112	18%		
Struggling Learners grant	-	40,000	40,000			New grant in FY20.
Special Education Allocation	628,724	743,574	114,850	18%		FY20 actual is $735,562.
Budgeted Debt Coverage Ratio (DCR)	1.10	1.25	0	14%		
Income						
City Schools Funding	7,140,269	7,300,020	159,751	2%	92%	
Academic Programs	30,990	60,990	30,000	97%	1%	Grant for Curriculum Development
Non-Academic Programs	255,260	255,260	0	0%	3%	
Fundraising and Unrestricted Revenue	331,860	306,860	(25,000)	-8%	4%	
Total Income	7,758,379	7,923,130	164,751	2%	100%	
Expenses						
PPPCS, Inc. Personnel	815,648	871,387	55,739	7%	12%	Position cost increases.
Academic Programs	5,188,928	5,741,722	552,794	11%	78%	Position cost increases; four new positions.
Fundraising	27,500	27,500	0	0%	0%	
Operations Technology	88,400	92,652	4,252	5%	1%	
Facility	165,200	165,200	0	0%	2%	
Supplies, Printing and FFE	60,175	65,175	5,000	8%	1%	
Administration	140,940	138,310	(2,630)	-2%	2%	
Total Expense	6,751,341	7,366,497	615,155	9%	100%	
Net Ordinary Income	1,007,038	556,633	(450,404)	-45%		
Non-operating Income/Expense						
Income	95,000	20,000	(75,000)	-79%	4%	No transfer from the Fund.
Contingency Expense	65,000	100,000	35,000	54%	21%	Transfer to the Fund.
Net Income before "Other" Income/Expense	1,037,038	476,633	(560,404)	-54%		
DCR Calculation Adjustments						
Debt Service	942,762	381,307	(561,455)	-60%		Refinanced debt in FY20.
Debt Coverage Ratio (DCR)	1.10	1.25	0.15	14%		
DCR Contingency Available	(0)	(0)	0	-27%		
Other Income and Expense						
Unrealized Gain(Loss)						
Interest Expense	(768,740)	(381,307)	387,433	-50%		
Depreciation & Amortization	(518,572)	(518,572)	0	0%		
Interest, Investments, Depreciation	(1,287,312)	(899,879)	387,433	-30%		
Net Income(Loss)	(250,274)	(423,246)	(172,971)	69%		

FY2021 Capital Budget

Facilities	Cost	Grants	Ultimate cost	Notes
Building 1 Improvements				
New subfloor and tile in classrooms	$ 39,000		$ 39,000	$6,500/classroom x 6 classrooms
New floor in Main Office	$ 6,000		$ 6,000	
Building 2 Improvements (The Ed Rutkowski Building)				
Library RTU Replacement (HVAC)	$ 22,988		$ 22,988	
Other				
General facility capital projects	$ 7,000		$ 7,000	
Furniture, Fixtures, and Equipment	$ 2,500		$ 2,500	
Other HVAC replacement	$ 5,000		$ 5,000	
Facilities Total	**$ 82,488**		**$ 82,488**	
Technology				
Computer Software				
Office 365 Migration	$ 12,325	$ -	$ 12,325	
GoGuardian Chromebook child safety software	$ 5,000	$ -	$ 5,000	
Computer Hardware				
New switches (network hardware)	$ 21,667	$14,269	$ 7,398	Grant is E-Rate reimbursement.
Chromebooks, projectors, and/or desktop computers	$ 30,000	$24,320	$ 5,680	City of Baltimore Grant; hotspots
Security cameras	$ 8,000	$ -	$ 8,000	*Only if partially grant funded.
Technology Total	**$ 76,992**	**$ 38,589**	**$ 38,404**	
Capital Budget Total	**$ 159,480**	**$ 38,589**	**$ 120,892**	