

Governing for Greatness Series

Strategies for Ensuring a Successful Budget



**BOARD
NETWORK**



Dr. Jim Goenner | Mary Bradley | Fulton Breen

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School Safety

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Board Strategies for Ensuring a Successful Budget: *Best Practices for Charter School Finance Committees*

National Charter Schools Institute

April 2023



Senior Director, Afton Partners

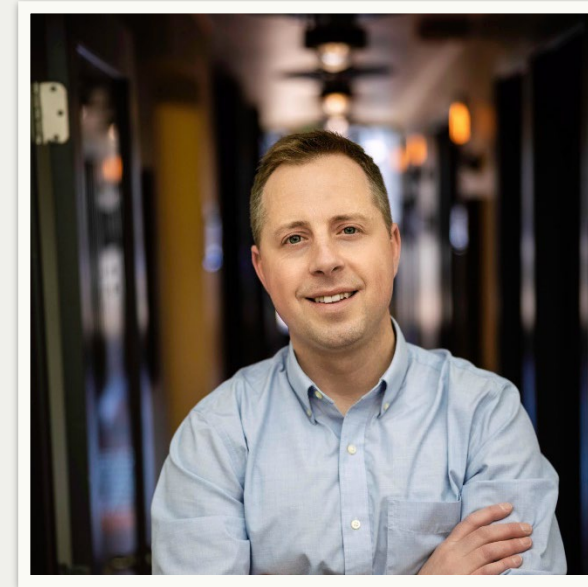
- Part of a team within Afton which leads a charter school finance practice.
- We have supported over 70 charter networks in over 30 states. We specialize in strategic planning, modelling, facilities and governance in support of school systems.
- Clients we work with range from a growing single-site charter school to networks of 15+ schools with enrollment greater than 10,000 students.

Former Charter School CFO

- Led financial function of a multi-school charter network in Denver, Colorado.
- Developed organization's strategic financial plan amid growth and change; budget increased 3x in four years.
- Responsibilities included facility expansion, financing, scenario planning, and long-range forecasting.

Parent of two young students

- Enjoying the “up close” view of watching our two boys grow within a public school and an early childhood center.
- Affirms personal belief in the importance of strong schools at all levels, in all places, for all kids.



Senior Director

Charter School Finance Practice



Fulton Breen

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Ways in which Afton supports schools and leaders

We are here for a long-term relationship and can help in multiple ways

- One-on-one coaching with Exec Director / CFO / COO

- Facility & financing planning

- Feedback on long term plans

- Long-term financial planning support

- Annual budget review and feedback

- Resource allocation and alignment

- Finance leadership coaching and development

- Financial policies and procedures analyses

- Board governance and support materials

We meet charter organizations where they are



Each charter organization has unique needs; we will meet you where you are and walk with you to where you want to go



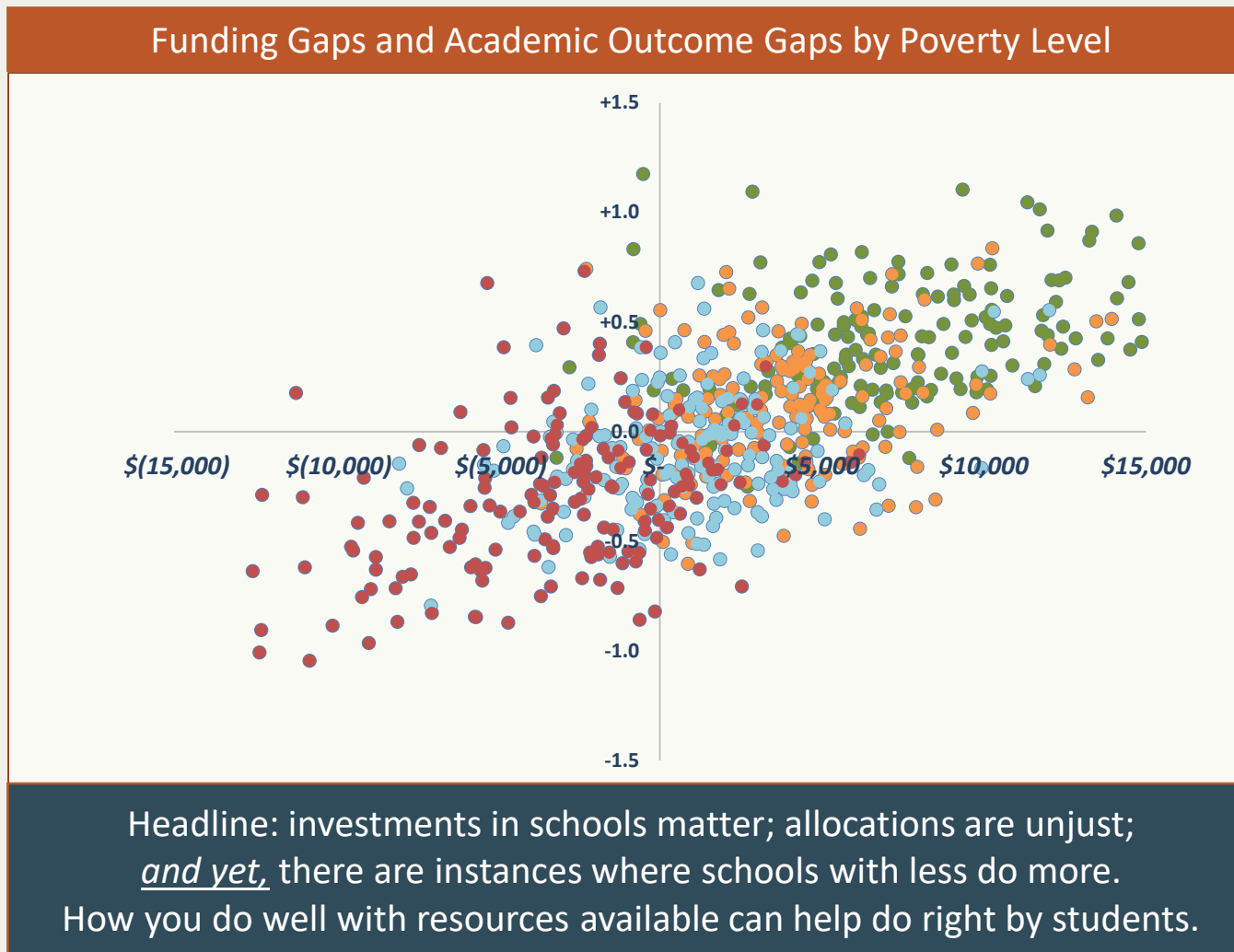
My personal “why” for the importance of school finance

X-Axis: Funding gaps above/(below) adequate levels, per pupil

Y-Axis: Academic outcome gaps relative to nationally normed scores

Color-coding: Poverty levels by district in quartiles (red = highest poverty level)

● Q1 ● Q2 ● Q3 ● Q4



Headline: investments in schools matter; allocations are unjust; and yet, there are instances where schools with less do more. How you do well with resources available can help do right by students.



“

Strong charter school **financial governance** can strengthen your charter school's ability to be **good fiscal stewards of public dollars**, leveraging them to their utmost **for students**.

Learning Objectives:

1. Walk away with actionable tactics to bolster your finance committee's capacity to guide budget and sustainability.
2. Underscore basic good practices on coming back to mission, sustainability, and priorities.
3. Reference tools at the finance committee level, which may help develop strategies, routines, discipline, and cadence to keep board eyes on key financial items at the right level.
4. Elevate awareness of the ESSER fiscal cliff and broader economic forces which will impact school budgets going forward.
5. Make sure you have a finance committee!

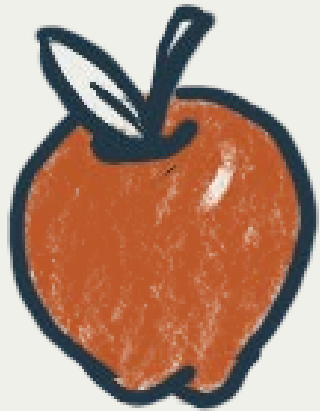
Welcome any additional questions and ideas to add to the list as we get into Q&A





Aligning Budget to Mission

Leading with mission is essential. AND this must show up in the budget. One cannot exist without the other.

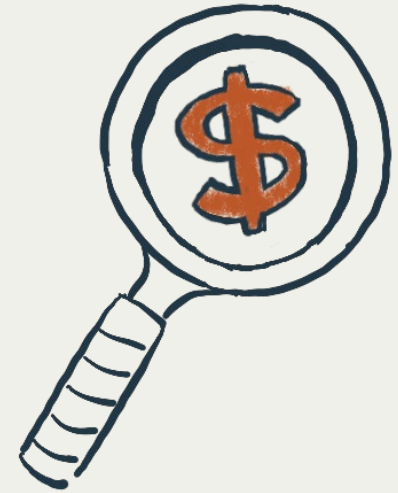


MISSION

- The mission needs to be created and kept alive by the founders, current leaders, and board members of the organization
- In all cases, the goal is to do right by students; however the **mission** and **priorities** need to be specific in order to clearly show up in the budget.
- The mission cannot be carried out without financial sustainability

BUDGET

- The budget as a financial statement of values should show the key investments towards mission and **priorities**
- Show most significant items in terms of scale – **not** the minutia
- Utilize key performance indicators to ensure annual financial health
- Financial sustainability is essential for the mission to be achieved on an ongoing basis into the future



Each year, the budget should highlight investments into the school's PRIORITIES to achieve overarching mission.



Boiling down the line items of the budget

- Hash out the details of the financials in a separate financial commitment – **NOT in a full board meeting**
- Convert the most essential pieces of the budget to be accessible for the full board, in layperson's terms:

1 Recurring and non-recurring revenues:

- a) **Enrollment-driven** funding; show simple impact of 10 students below budget (e.g. \$15K x 10 = \$150K shortfall)
- b) Non-recurring public grants: ESSER, CSP, other grants with public funding restrictions: take care of requirements early **so that compliance will NOT drive allocations** away from priorities or create last-minute spending
- c) Private philanthropy: organize by largest donors and indicate **recurring/non-recurring** time horizon

2 Personnel Expenses

- a) Largest changes in drivers: wage growth and FTE changes; which FTE changes are linked to **priorities**?

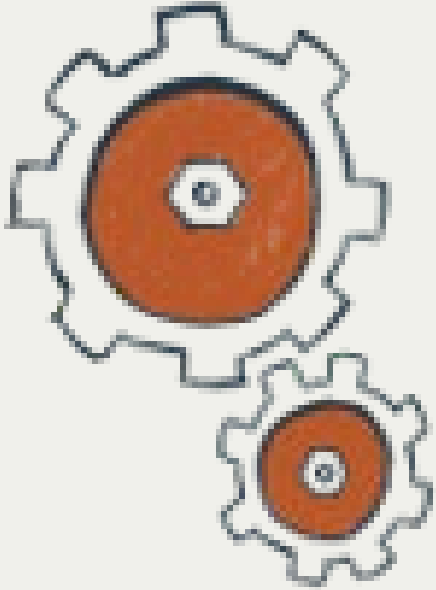
3 Non-Personnel Expenses: similarly, which big-ticket items are new and linked to **priorities**? Who on board will approve?

4 Cash, cash, cash: all large balance sheet items matter, such as fund balance as it relates to

5 Covenants: when applicable, is there a budgeted surplus which exceeds a debt service coverage ratio?



Assumptions



- Growth rates of State Per Pupil Funding and Federal funding
- Enrollment by grade-level. Show along side past budget-to-actuals
- Compensation drivers: average wage increases and **benefits** per FTE
- Non-personnel assumptions:
 - Costs relating to mission: technology, curricula, PD, teacher training
 - Fixed operational costs: insurance, audit, legal, etc.

GOAL: show 2-3 year historical trends of assumptions, and the impact of changes to assumptions in a 3-5 year model

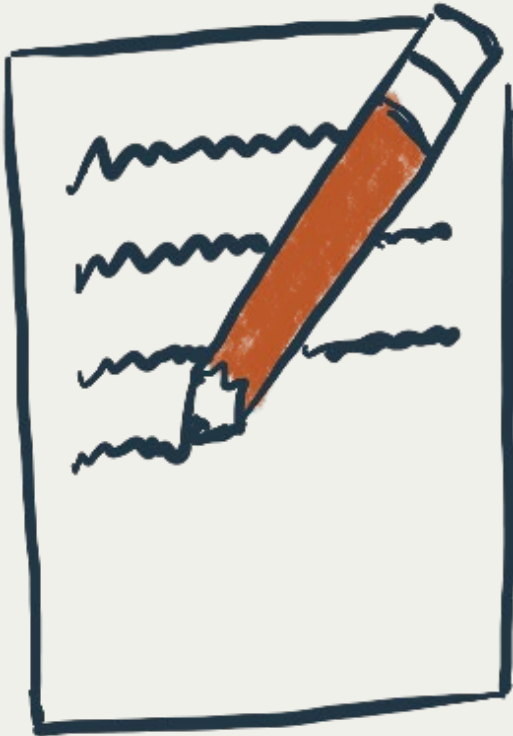
The end-result: monitor key assumptions to manage financial projections, and yearly cash positions, effectively and conservatively over the long-term





Role of the Finance Committee

Your board's Finance Committee carries out the principal aspects of the board's financial duties



The Finance Committee will make recommendations to the full board on the **establishment of fiscal policies and expectations** and **monitor to those policies and expectations** to guide the full board in upholding its fiduciary responsibilities.



Together, the Board and Management are responsible for ensuring the organization is a *good steward of public funds*, in addition to *providing a high-quality education* for its students.



A clear delineation of roles helps ensure the budget is not “co-managed” by the board, and on the same token, management is not only responsible partner for the financials of the organization

Each of the Finance Committee Chair, CEO, and CFO play an important role toward effective fiscal governance

Finance Committee Chair

- Leads the board through all financial matters
- Governing financially responsible board member of the organization

Chief Executive Officer

- Sets the strategy of the organization and approves key financial investments and budget allocations
- Accountable for the delegation and approval to allocate key financial resources of the organization

Chief Financial Officer

- Runs the internal financial management of the organization, inclusive of day-to-day requirements, strategic investments, and long-term commitments
- In-house expert and owner of the finance function, accountable for all relevant activities of financial operations

These roles must each evolve as your organization grows, matures, and becomes more complex.





Example Materials & Meeting Topics

Preparing for your annual budget is something which your school should be building towards throughout the year

Your monthly reporting package enables:

- Monitoring of **liquidity**
- Monitoring of **actual financial results** in connection with goals
- Guidance of any **major organizational decisions** (e.g. borrowing and capital decisions)

Thus, every month, you can discuss:

- ✓ **Cash** position and projections
- ✓ Year to date **financial statements & budget variance**
- ✓ **Enrollment** status
- ✓ Any **major transactions** being contemplated

Financial dashboards and one-pager summaries can be great supplements to the standard monthly financial statements



What can this look like in practice? What are example KPIs?

Standard Metrics: to use at every Finance Committee meeting

Target and Criteria	Red	Yellow	Green	Notes (examples)
<u>CASH</u>			132 Days	<ul style="list-style-type: none"> + Dec 31 cash balance was \$5.0M (103 days of current expenses) + Forecasted 6/30 cash of \$5.2M is 103 days of FYYY expenses. + Higher cash inflow are expected April-June with reimbursable grants being funded, and philanthropy grant X being funded. + See tab in workbook for monthly cash detail.
Target c over monthly operating expenses with cushion	< 45 days	45 days - 90 days	>= 90 days	
<u>ENROLLMENT</u>		95% of target		See following sheet for year over year enrollment details and performance compared to budget.
Target: Count-day students as % of plan	90% - 95%	95% - 97%	>= 98%	
<u>NET ASSETS</u>		Net Assets forecasted to be 30% of Budget		<ul style="list-style-type: none"> + Net Income budget target for the year is \$900K, and forecasted net income estimated to have a favorable variance of approx. \$100K + Increased liabilities are forecasted for end of year borrowing will lower net assets
Target : Grow Net Assets to \$X.XM (~35% of expenses)	<35%	25% - 35%	Net Assets >35% of expenses	
<u>FUNDRAISING</u>	35% of annual target through December			<ul style="list-style-type: none"> + First 6 months of collections are \$1.7M, >50% of \$2.9M target; + \$2.3M is committed for the entire year + The annual fundraising target was \$2.2M without facility + "Phase I" (FY20-FY25) goal of \$8.3M is 75% complete with \$6.2M of collections and commitments FY20 - FY25
Target: Meet annual fundraising target of [\$X.XM]	< 40% through Dec. <90 % through Jun	> 40% through mid-year >100% through end of year	> 50% through mid-year >100% through end of year	
<u>BUDGET</u>			Expenses tracking to 98% of budget	<ul style="list-style-type: none"> + Through the first 6 months of the year, consolidated expenses are tracking to 98% of pro-rated full year budget. + Lower expenses are expected in the second half of year.
Target: control spending w/in reasonable percent of budget	Forecast > +/- 5% of annual budget	Forecast within +/- 2% to 5% of annual budget	Forecast within +/- 2% of annual budget	

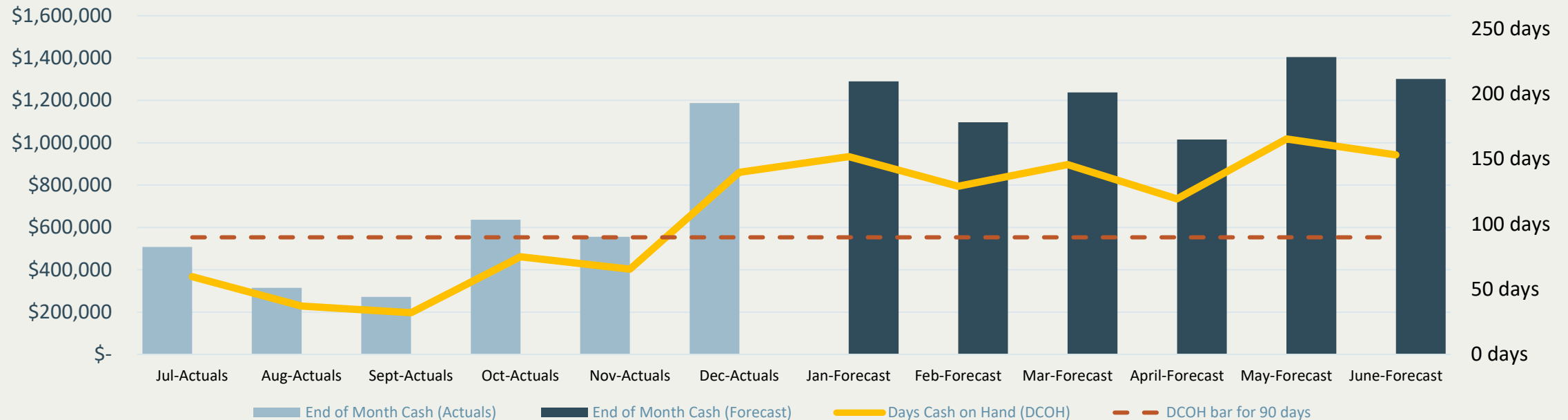
Zoom into Enrollment: the most important “KPI”

	FY21-22				FY22-23				FY23-24		
	FY22-B	FY22-A	+/- Budget		FY23-B	FY23-A	+/- Budget		FY24-B	FY24-A	+/- Budget
Enrollment by Grade Level											
Grade A	550	554	4		554	552	-2		542	n/a	n/a
Grade B	625	623	-2		623	600	-15		547	n/a	n/a
Grade C	595	603	8		603	618	10		545	n/a	n/a
Grade D	573	576	3		576	589	5		598	n/a	n/a
Enrollment Total	2,343	2,356	13		2,356	2,359	(2)		2,232	-	-
Attrition / Additions for Rising Grade Levels											
	FY21 into FY22				FY22 into FY23				FY23 into FY24		
Grade A	n/a	n/a	n/a		n/a	n/a			n/a	n/a	n/a
Grade B	10	15	5		73	46	(27)		(5)	n/a	n/a
Grade C	(5)	(20)	(15)		(22)	(5)	17		(55)	n/a	n/a
Grade D	(5)	(20)	(15)		(19)	(14)	5		(20)	n/a	n/a
Rising grades +/-	0	(25)	(25)		32	27	(5)		(80)	0	0

*Rely on school leadership to track closely on all indicators of enrollment.
If something looks concerning or off, ask “why?” What are the trends?*



Zoom into Cash: monthly historicals & forecasts for year



- Liquidity and total cash should be monitored and reported *every* month
- Days Cash on Hand (“DCOH”) can help convert the nominal amount into a scaled metric that matters
- Outputs like this can become manual when put into slides; however some form of quick metric (even if just DCOH) can help finance board members and laypersons to quickly see if the numbers are good, bad or in the middle



Boards should constantly monitor organizational risk

Example categories which should be customized for each organization and point-in-time

Type of Risk	Example Details on Type of Risk	Notes on Current State
Enrollment	<ul style="list-style-type: none"> Incoming grades Rising grades, attrition, trends 	<ul style="list-style-type: none"> Note example: exceeded budget target last year, however younger grade counts are declining. Concerns of forecast for FYXX.
External / Political	<ul style="list-style-type: none"> Authorizer renewal; report cards City/State trends with charters 	<ul style="list-style-type: none"> Note example (e.g. currently “yellow” on state report card; renewal process begins FYXX)
Financial	<ul style="list-style-type: none"> Financial KPIs (DCOH, Budget) Rising wages, healthcare costs 	<ul style="list-style-type: none"> Add note specific to your organization and current situation
Academic	<ul style="list-style-type: none"> State standardized test scores Internal metrics for growth 	<ul style="list-style-type: none"> Add note specific to your organization and current situation
Personnel	<ul style="list-style-type: none"> Teacher turnover Leadership changes 	<ul style="list-style-type: none"> Add note specific to your organization and current situation
Operational	<ul style="list-style-type: none"> Attendance Long-term strategic plan challenges 	<ul style="list-style-type: none"> Add note specific to your organization and current situation



Additional metrics to chose from as relevant

Additional Metrics to Chose from as relevant		Definition	Criteria		
			red	yellow	Green
Financial Health	Days of Cash	=unrestricted cash / [(current year operating expenses) / 365]	30	<x<	60
	Current Ratio	=current assets / current liabilities	1	<x<	2
	Leverage	=Liabilities / net assets	3	>x>	0.5
	Operating Cash Flow	=operating cash flow / operating exp	-5%	<x<	5%
	Net Income Margin	=Change in Net Assets/Revenue	-5%	<x<	5%
	Line of Credit	=Line of Credit / [(current year operating expenses) / 365]	n/a	<30	>30
	Net Asset Margin	= net assets / current year operating expenses	8%	<x<	20%
Financial Compliance	Audit Opinion		Qualified/ Modified		Unqualified/ Unmodified
	Timely Audit		No		Yes
	Audit Findings		MW	SD	None
Financial Management	Budget Management	= (actual net income - budgeted net income) / budgeted expenses	-5%	<x<	0%
	Expense Management	= (budgeted expenses - actual expenses) / budgeted expenses	-5%	<x<	0%
	Enrollment Management	= (actual enrollment - budgeted enrollment) / budgeted enrollment	-5%	<x<	0%
	Management to Lender Covenants	Hit lender covenants around cash, coverage and compliance	Multiple misses	1 miss	All
Sustainability	School Sustainability	% of fully built schools sustainable on public revenues	80%	<x<	100%
	School Margins	=Change in Net Assets/Revenue	0%	<x<	5%
	School Margins Pre-fac & mgmt fee	School margins before facilities and management fees	20%	<x<	25%
	Central Office Sustainability	% of central office expenses covered by management fees	60%	<x<	90%
Facilities	Sustainability	% of fully built schools that have a permanent affordable building	60%	<x<	80%
	Facility Needs	% of open schools with a permanent facility secured	50%	<x<	80%
	Current Affordability	% of PPR spent on facilities	15%	>x>	10%
	Projected Affordability	Projected affordability of existing buildings at full build out	12%	>x>	10%



Seasonal Financial Governance Discussions

RELEVANT TO THE FULL BOARD AND THE FINANCE COMMITTEE

**July -
Oct**

Review interim year end results

Hard look at actual new year enrollment

Receive prior year audit update

**Nov -
Dec**

Approve prior year audit

Begin next year planning for org-wide and school-level priorities

Begin discussions on next year financial goals

**Jan -
Mar**

Set next year's financial targets

Discuss enrollment, revenue, and compensation forecasts

Review prior year IRS Form 990

**April -
May**

Review iterative new year budget drafts

Review updates to financial policies

Set committee meetings, priorities, and goals for year

June

Review coming year's enrollment projection

Approve new year's budget

Approve updates to financial policies



Leave space in your meetings for strategic, longer-term discussions



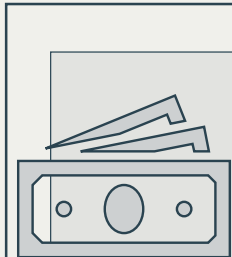
Federal Relief Funding

How will we measure progress with the incremental funding? And how will we operate sustainably post-relief funding?



Debt Financing

What should your network do to ensure it is strong for debt service and any future re-financing?



Talent Strategies

What are the budgetary implications of the strategies to achieve the network's goals for teacher recruitment and retention?





The ESSER fiscal cliff and economic uncertainty:

- FY23-24 budget as the last year with large ESSER funds
- Preparing for several significant uncertainties on horizon

The upcoming ESSER fiscal cliff... ... along with other major uncertainties



A

ESSER

Congress appropriated \$190B for public education that must be allocated by **Sep 2024**.

This often results in a 10%+ reduction of revenue.

One-time funds must be used strategically now to avoid painful decisions in the future.

B

Economy

Inflation, supply chain issues, and rising interest rates have increased expenses.

Banking uncertainty has added to school's time to arrange new structures.

A potential economic slowdown or recession could put pressure on public revenues.

C

Enrollment

Student enrollment has not recovered from the shock of the COVID-19 pandemic.

Enrollment will continue to decline due to historically low birth rates and other trends.

D

Employees

Educator talent is more difficult than ever to find and competitively compensate.

Shortages in key roles are putting pressure on school models and budgets.

Unprecedented Student Needs

Source: created in collaboration with Charter School Growth Fund, Afton, and other affiliated partners



Back to the basics: helpful reminders

Examine revenue forecasts in light of future uncertainties

1. Match recurring revenue sources to recurring expenses; have a plan for non-recurring revenues which may/will discontinue:
 - a. ESSER
 - b. CSP start-up funds
 - c. Philanthropy
2. Identify which grant funds are going away, when, and if there is an existing plan to continue or discontinue associated expenses
3. Monitor enrollment frequently, with management's detailed insights on:
 - a. Attendance
 - b. Rising grade levels' attrition and persistence (who leaves from one year to the next, who stays)
 - c. New enrollees (is this the result of increased marketing, other local dynamics)

Focus on the biggest expenses changes

1. How are the big bucket items trending: wages, benefits, FTE count, facility costs
2. What is our plan if growth rates of expenses exceed growth rates of recurring public revenue sources
3. How will we adjust to a smaller budget, while preserving our core priorities, if revenue begins to decrease

Simplify balance sheet into most important items: cash cushion, borrowings, covenants, net assets



“

In summary, you can achieve great value from your board fiscal governance when the board is:

- ✓ Consistently monitoring fiscal health – short and long term
- ✓ Populated with multiple members who are well-versed in understanding financial statements and financial planning
- ✓ Engaged in strategic questions about resource allocation
- ✓ Weighing in on seasonably appropriate topics
- ✓ Maintaining sound risk mitigation policies and procedures



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**THANK
YOU!**

