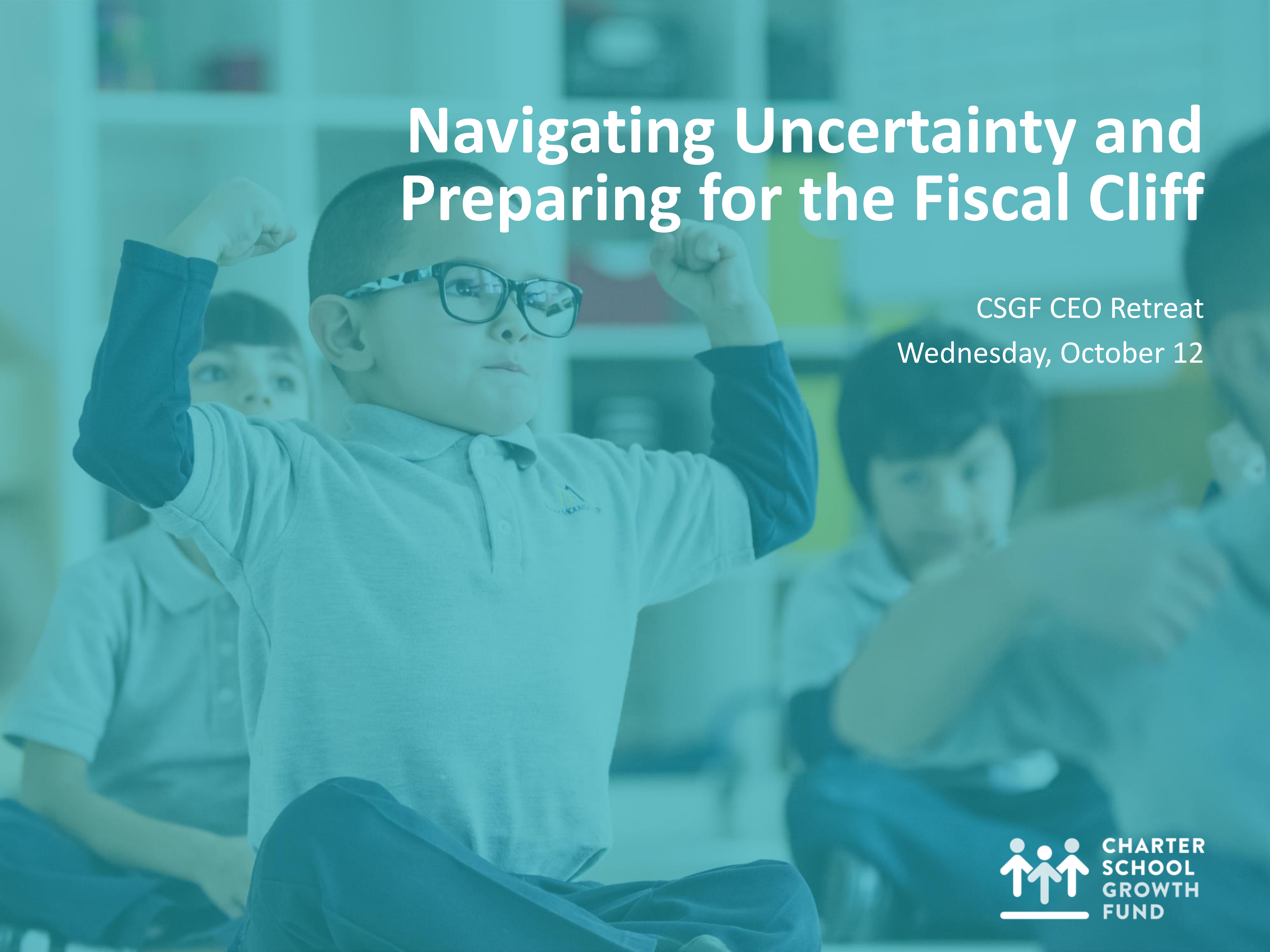


Navigating Uncertainty and Preparing for the Fiscal Cliff

CSGF CEO Retreat

Wednesday, October 12

CHARTER SCHOOL GROWTH FUND

Introductions

Carrie Stewart

Co-Founder & Managing Partner

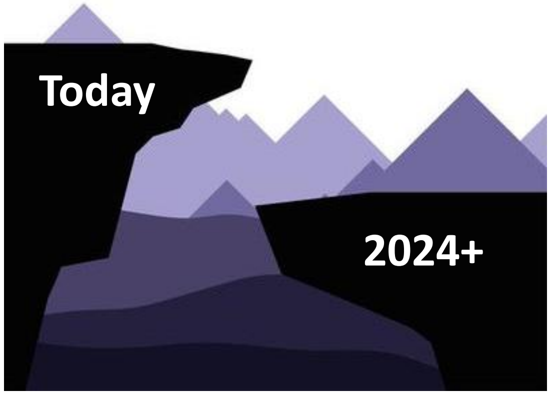
Rich Billings

Partner

Dan Greenberg

Director of Strategic Initiatives

"The Fiscal Cliff" – The 4 E's



A ESSER

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

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

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

Three Corners

"I **deeply** understand the forces driving the "fiscal cliff. My finance leader and I have **engaged stakeholders** and believe we have a **strong plan** in place to weather this storm."

1

2

3

"I **mostly** understand the forces driving the "fiscal cliff. My finance leader and I are **thinking about** a plan. We need the **playbook** of key financial management and stakeholder engagement strategies

"I'm attending this session because I know I **should be** worried about these forces, but we don't know **where to start**."

Three Corners

1. Find someone in your group that you don’t already know
2. Introduce yourself (name, organization, region, etc.)
3. Reflect on the following prompts:
    a. Why did you select this corner?
    b. What are you hoping to get out of today’s session?

Objectives

Leaders will walk away from today's session with:

- A clear understanding of the different forces combining to create the potential for "fiscal cliff"
- Key financial management strategies and lessons learned from previous moments of uncertainty
- Guidance on how to strategically navigate financial planning, ground decision-making in key academic priorities, and elevate stakeholder voice

We'll follow up after today's session with:

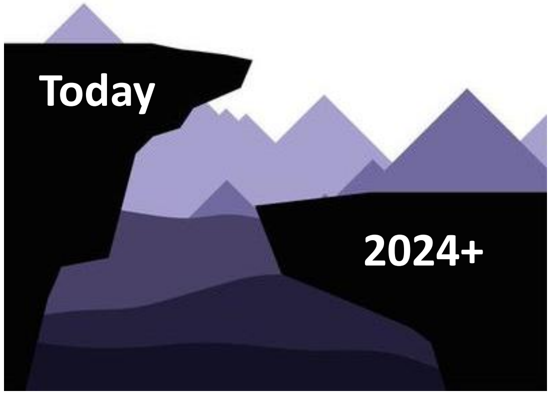
- Connection to different resources and channels for support

THE STOCKDALE PARADOX

You must never confuse **faith that you will prevail in the end** – which you can never afford to lose – with the discipline to confront **the most brutal facts of your current reality**, whatever they might be.

The Potential Fiscal Cliff

"The Fiscal Cliff" – The 4 E's



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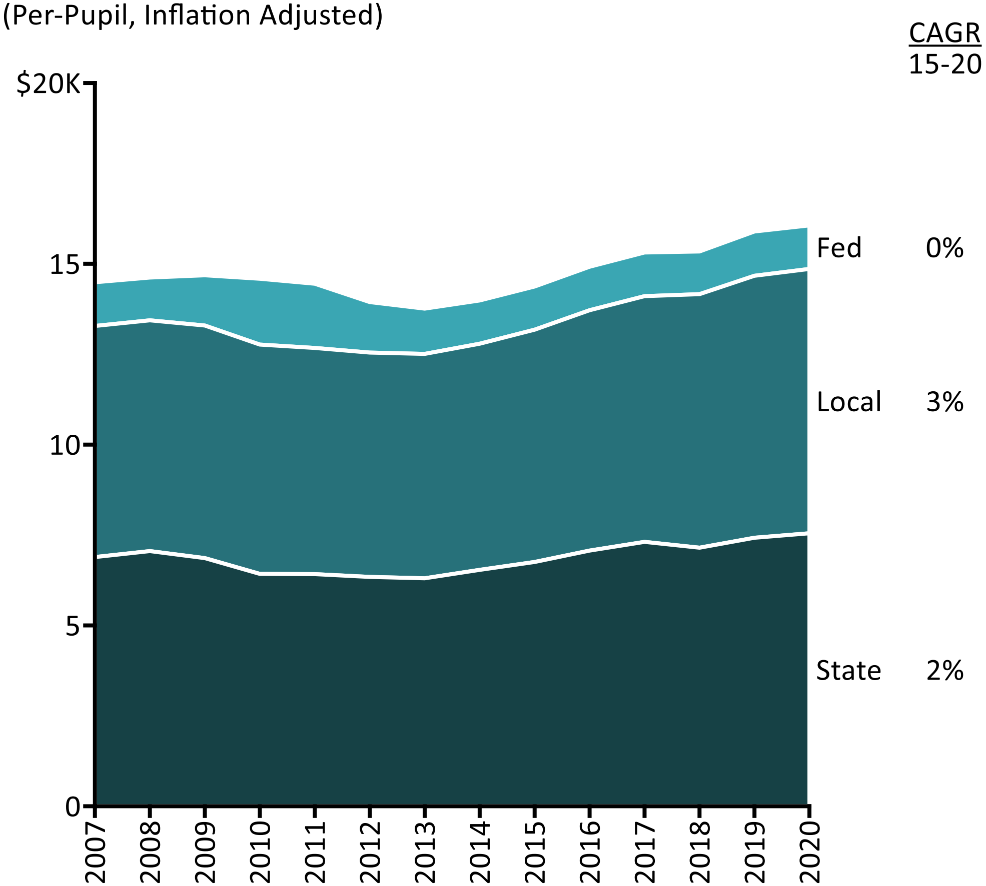
ESSER has provided significant resources to school systems across the country

State and local revenue (adjusted for inflation) have consistently grown YoY following the Great Recession[1]

Public Education Revenues
(Per-Pupil, Inflation Adjusted)



ESSER has added a total of $190B in federal revenues

CARES Act
ESSER I

$13B

CRRSA Act
ESSER II

$54B

ARP Act
ESSER III

$123B

$3,850

Per Pupil[2]

Source: 1.) Reason Foundation, 2.) Allovue

One time funding presents significant opportunities, but schools are running out of time to strategically spend ESSER funds

ESSER is unique relative to previous one-time aid for public education

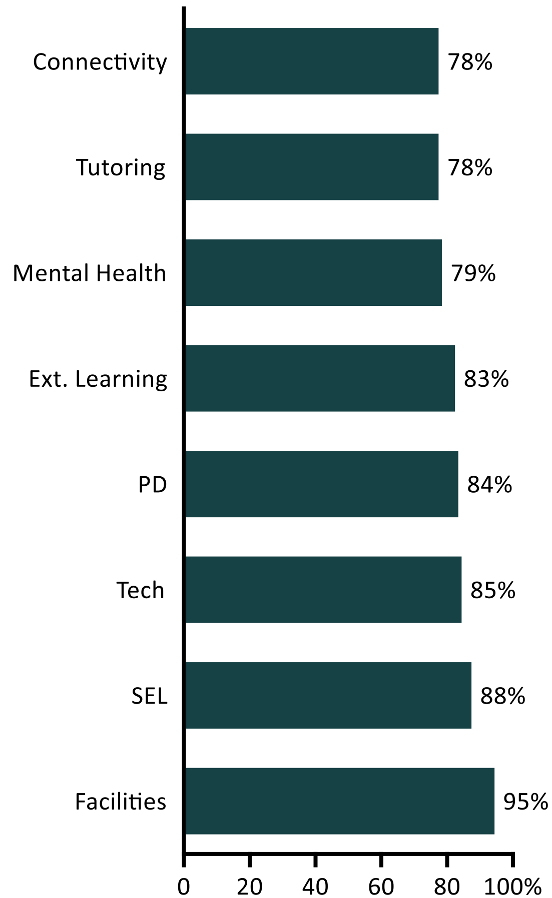
Revenue Shortfalls

Unlike the Great Recession, major revenue shortfalls did not materialize

No "Supplement Not Supplant"

ESSER does not carry the requirement that federal funds be used to augment the regular education program

Key recovery strategies stand out in systems' spending plans[1]



Systems have less than two years remaining to spend a significant sum

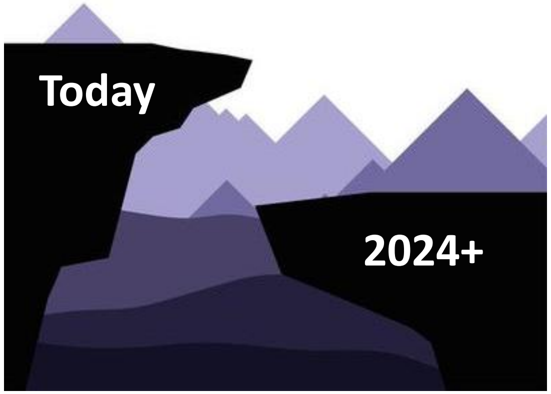
Remaining Balance[2]

$130B

ESSER III Deadline for Obligation:
September 30, 2024

Source: 1.) CRPE, 2.) DoE Education Stabilization Fund

"The Fiscal Cliff" – The 4 E's



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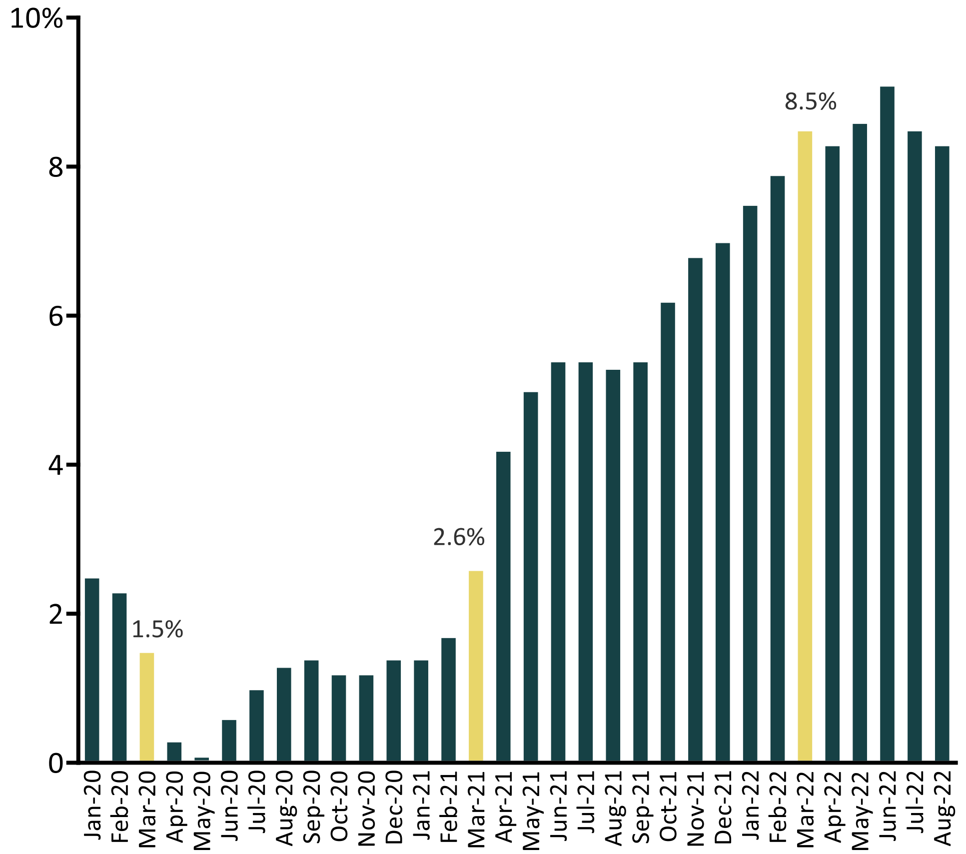
Unprecedented Student Needs

High levels of inflation have prompted central bank action that could lead to an economic slowdown or recession

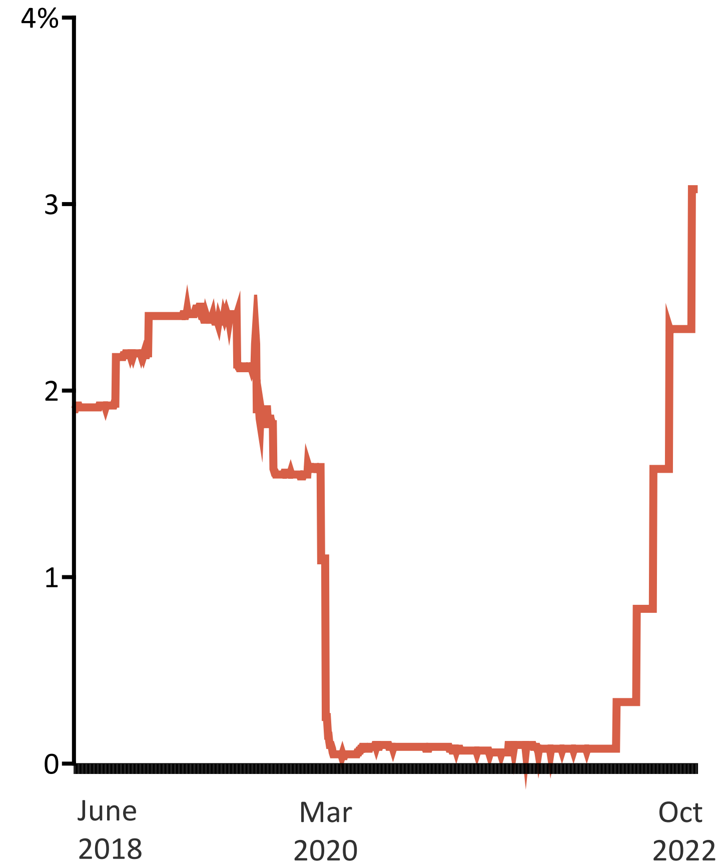
Inflation has significantly increased over the course of the COVID-19 pandemic[1]

CPI (12 month % change, all items)



In response, the Federal Reserve has aggressively raised interest rates[2]

Fed Funds Rate



Sources: 1.) Bureau of Labor Statistics, 2.) Macrotrends

Prominent economists and global financial leaders are now predicting a recession

"The indicators are not looking good. I think a global recession – that is what I think we are edging into."

Ngozi Okonjo-Iweala
WTO Director General

"It's not going to be a short and shallow recession; it's going to be severe, long, and ugly."

Nouriel Roubini
Economist

"What's out there? There are storm clouds...If I had to put odds: soft landing (10%), mild recession (20-30%), harder recession (20-30%), and something worse (20-30%)"

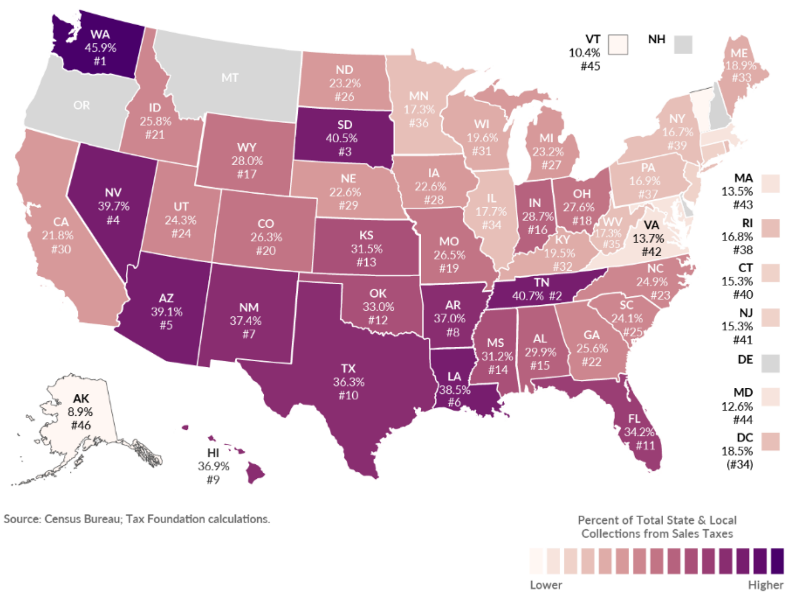
Jamie Dimon
CEO of JPMorgan

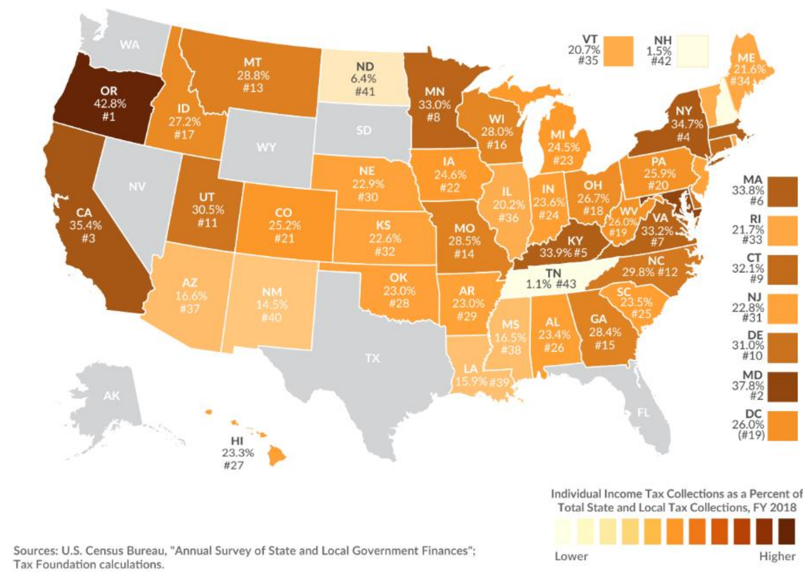
Sources: 1.) Fortune

We know from past recessions that some states are more at risk than others for per-pupil revenue volatility due to reliance on certain revenue streams

Revenue Source (as a % of Total State/Local Tax Collection)[1]

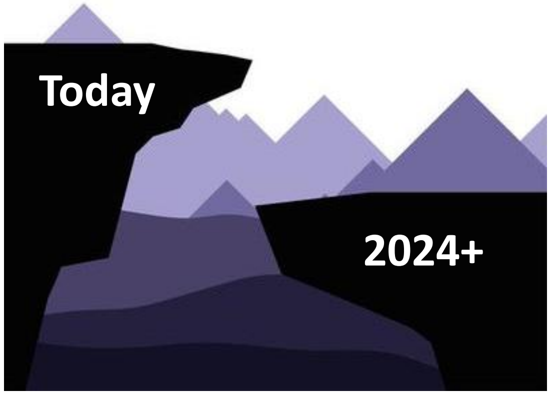
Sales Tax	Income Tax





Every state budget is funded through different revenue sources. It's important for leaders to know and understand the key drivers of your states' budgets. The more your state relies on **sales** and **income taxes**, the greater the risk of volatility and potential impact in a recession.

"The Fiscal Cliff" – The 4 E's



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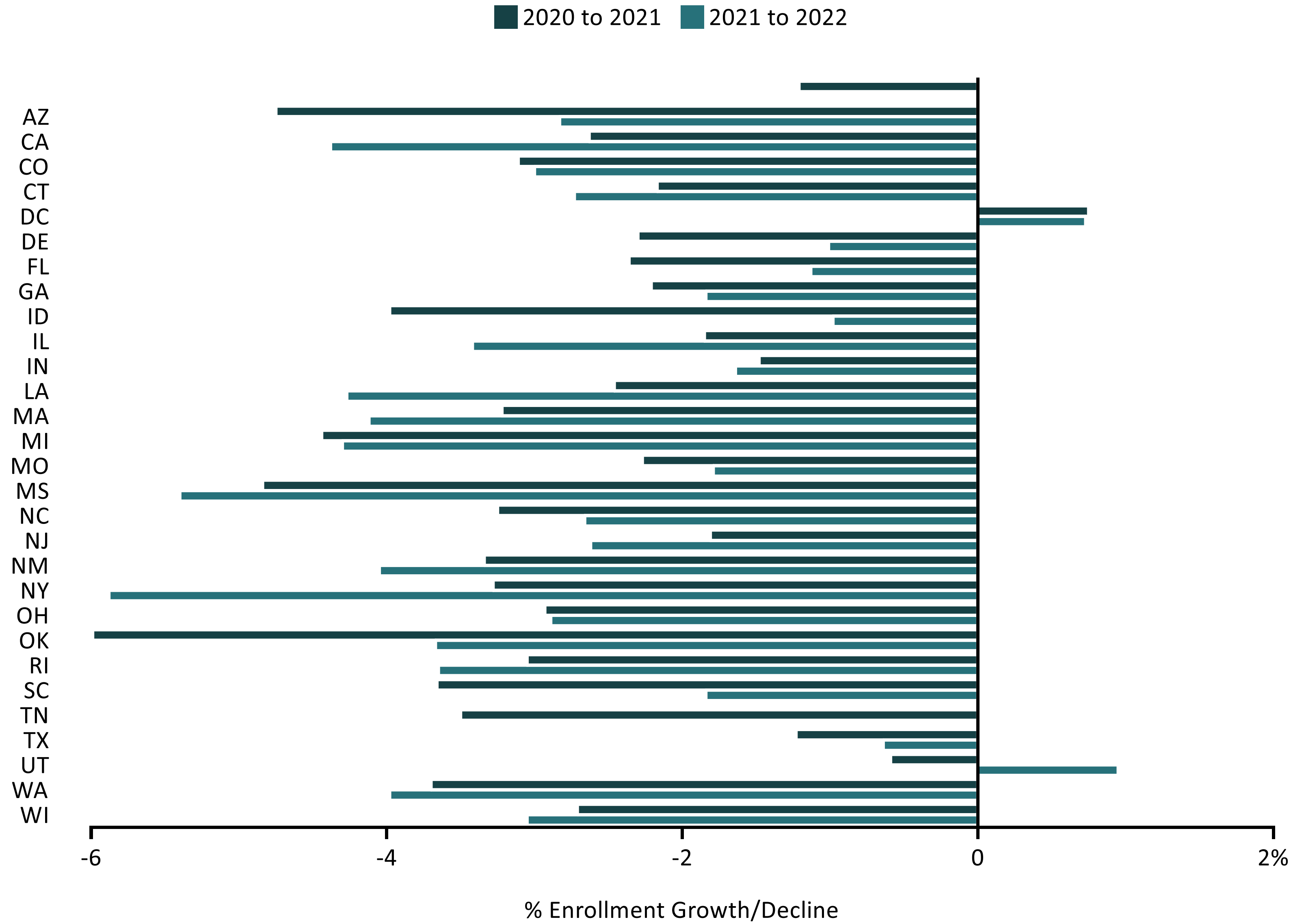
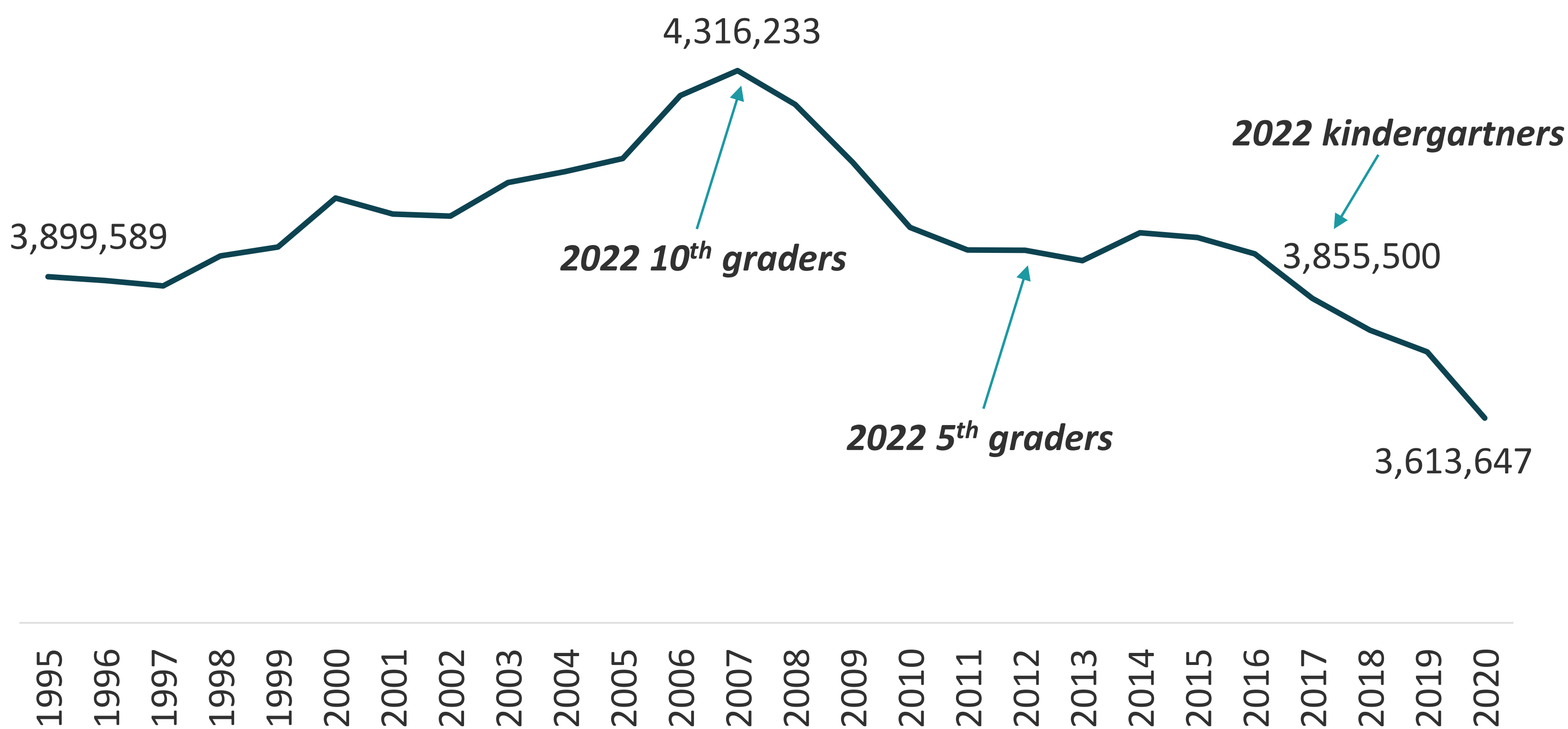
Unprecedented Student Needs

Almost every CSGF portfolio state has experienced significant public-school enrollment declines for two consecutive school years



Source: Return2Learn Tracker (AEI)

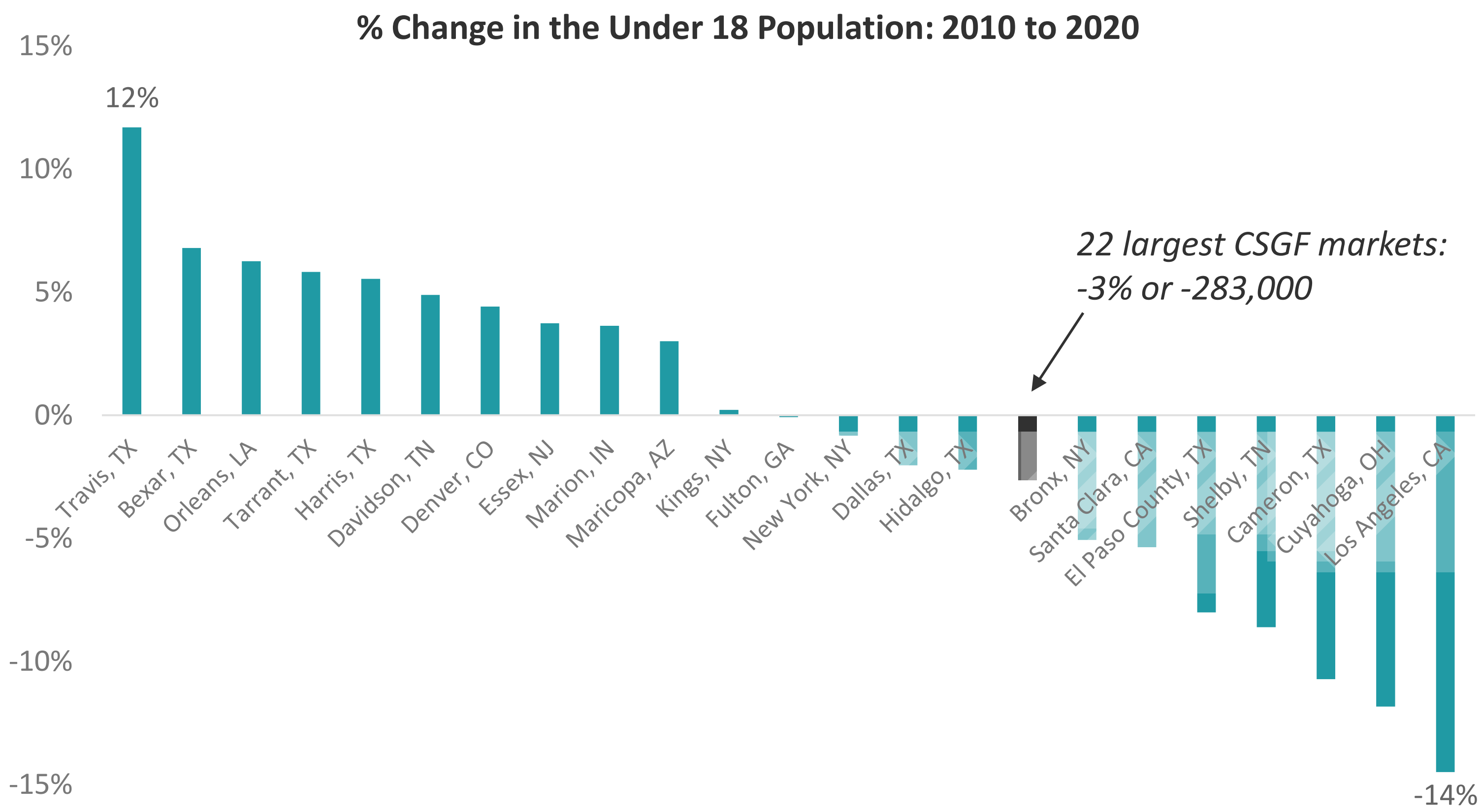
Historically low birth rates indicate that there are fewer students entering the public school system in the coming years as older cohorts age out



Births have declined 700,000, or 16%, since 2007 pre-Recession peaks.
There is a bit of a plateau in cohort sizes between 2010 an 2016 births, which are roughly 1st through 7th graders this fall. Then cohorts will decline again with kinder this year.

Source: Brian Eschbacher analysis, U.S. Census

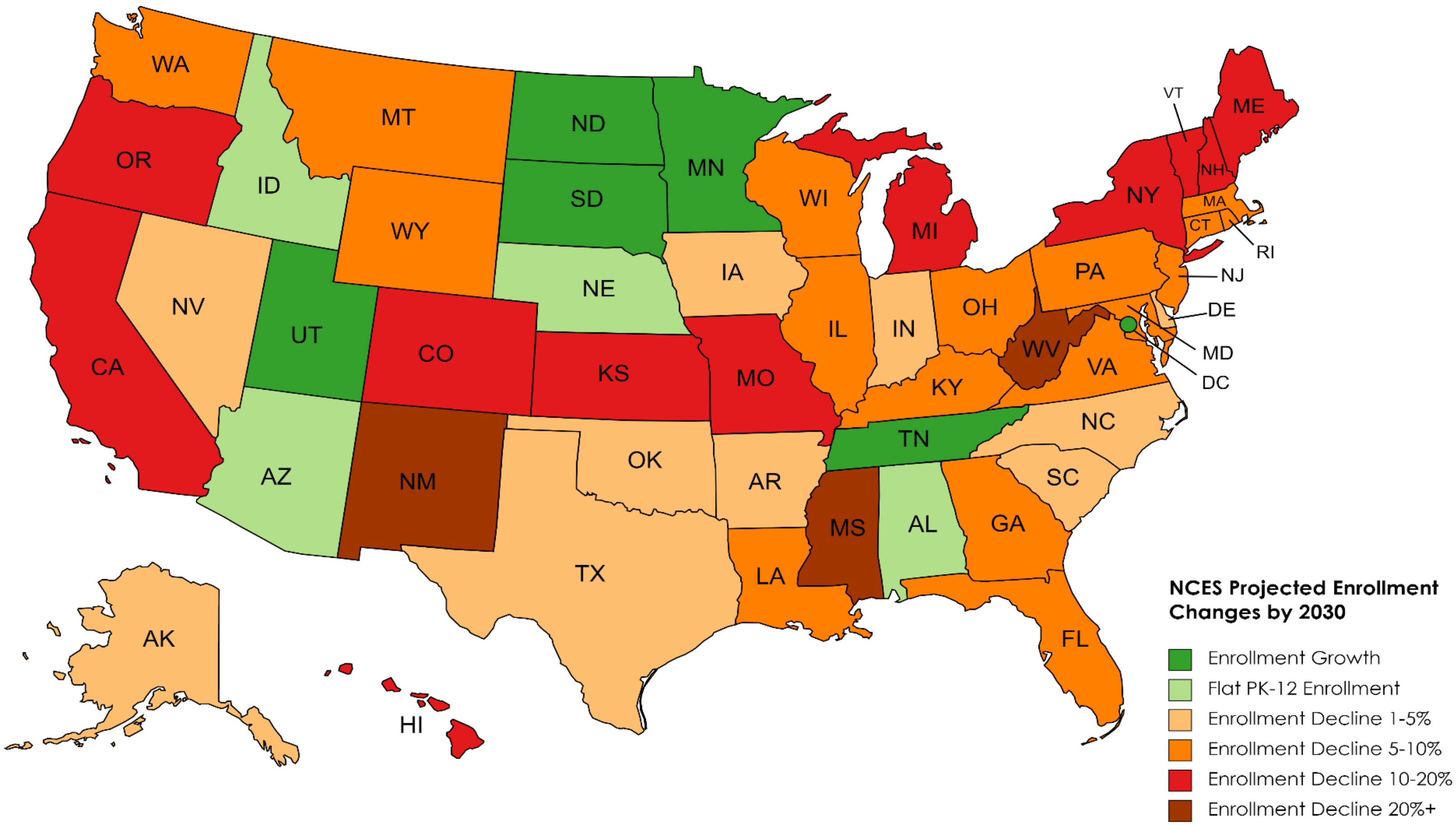
Students aren't "lost"; there are simply far fewer school aged children in many places



22 counties serve roughly 75% of CSGF's 950 school portfolio. These counties cumulatively declined **283,000** children (under 18) between 2010 and 2020. This is equivalent to the combined under 18 populations of Denver and Nashville. During this same time period, these cities added 4 million adults, a 14% increase.

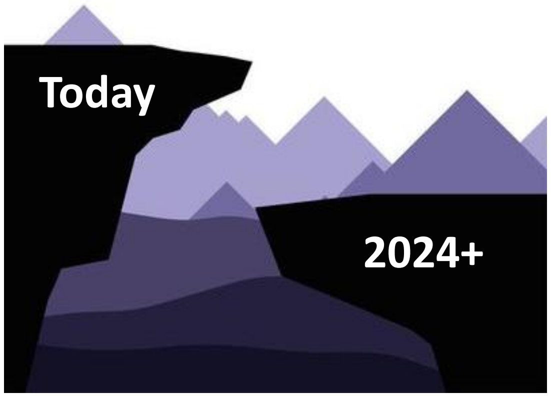
Source: Brian Eschbacher analysis, U.S. Census

NCES projects a 4.3% decline in national public-school enrollment by 2030 with only 5 states projected to grow their student population



Source: Source: NCES 2022 Projections through 2030; Note: These projections are from Fall 2019 (peak) to Fall 2030

"The Fiscal Cliff" – The 4 E's



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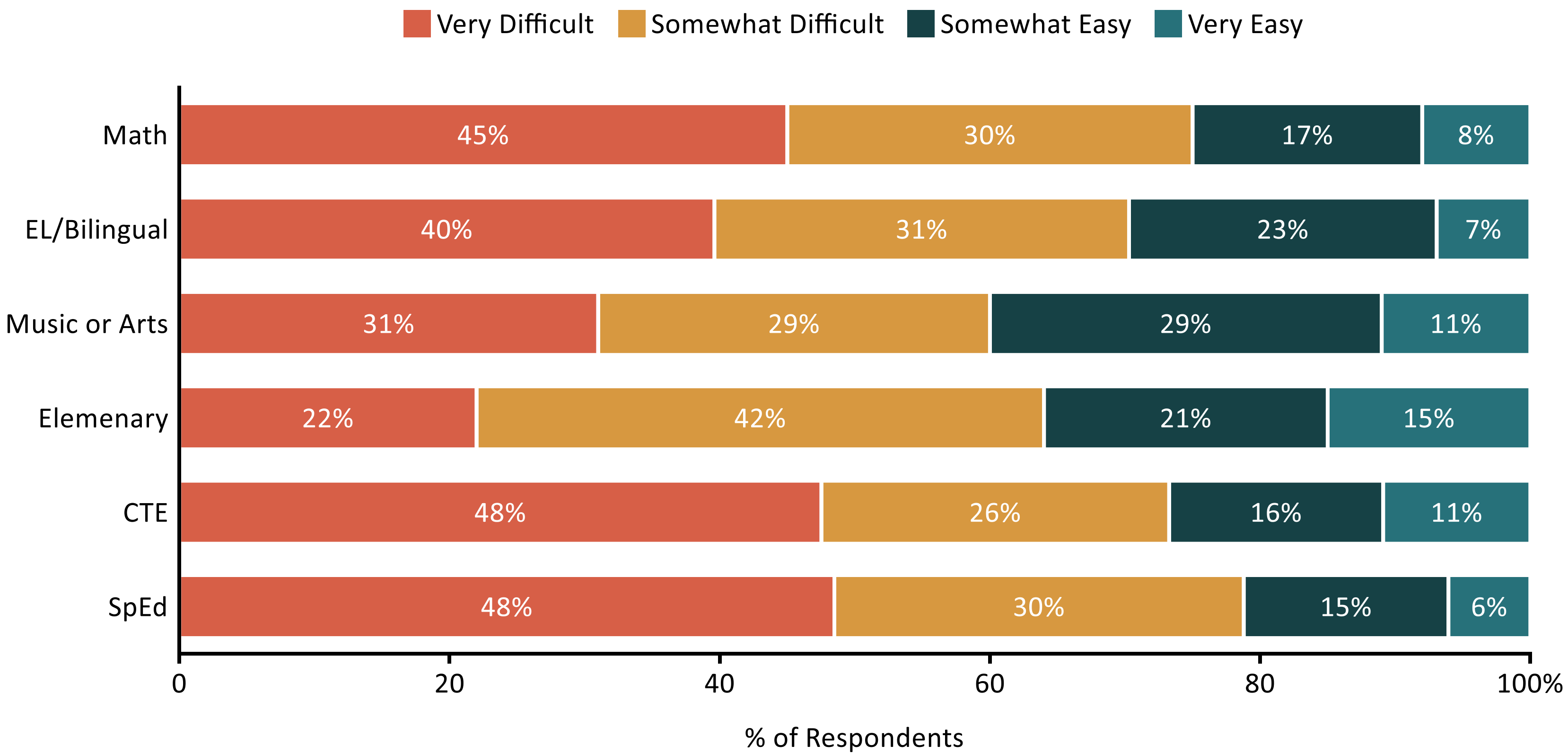
Unprecedented Student Needs

The pandemic and a particularly hot labor market have made it increasingly difficult to fill both teaching and non-teaching positions with qualified candidates

How Hard is it to Fill Vacancies with Certified Teachers?[1]

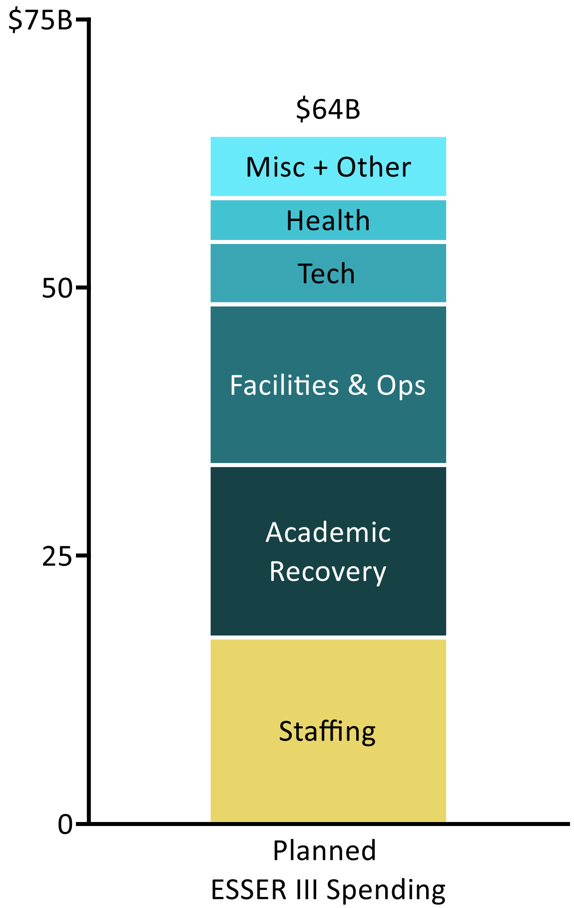


53% of public schools reported feeling understaffed entering the 2022-2023 school year

Source: 1.) IES School Pulse Panel

Many systems are likely dipping into one-time funds or other temporary sources of revenue to address compensation pressure

Staffing is the largest expense in systems' ESSER spending plans[1]



Several districts have committed to major staffing and pay increases not tied to recurring revenues

Seattle Public Schools

- A five-day teacher strike delayed the start of the school year
- Since 2013-2014, total district staffing has **increased by 32%** while enrollment has **declined by 3%.**[2]
- SPS agreed to **increase salaries by 7%** for both certificated and classified staff this year with additional increases in future years.[3]

San Diego Unified School District

- CA has a particularly strong budget this year buoyed by growth in the economy
- Total SDUSD student enrollment has **declined by over 10%** since 2016-2017.[4]
- Months after spending millions on early retirement buyouts to save costs, the district agreed to a **4% salary increase** on top of its step/ladder system, effectively a **7-8% salary increase.**[5]

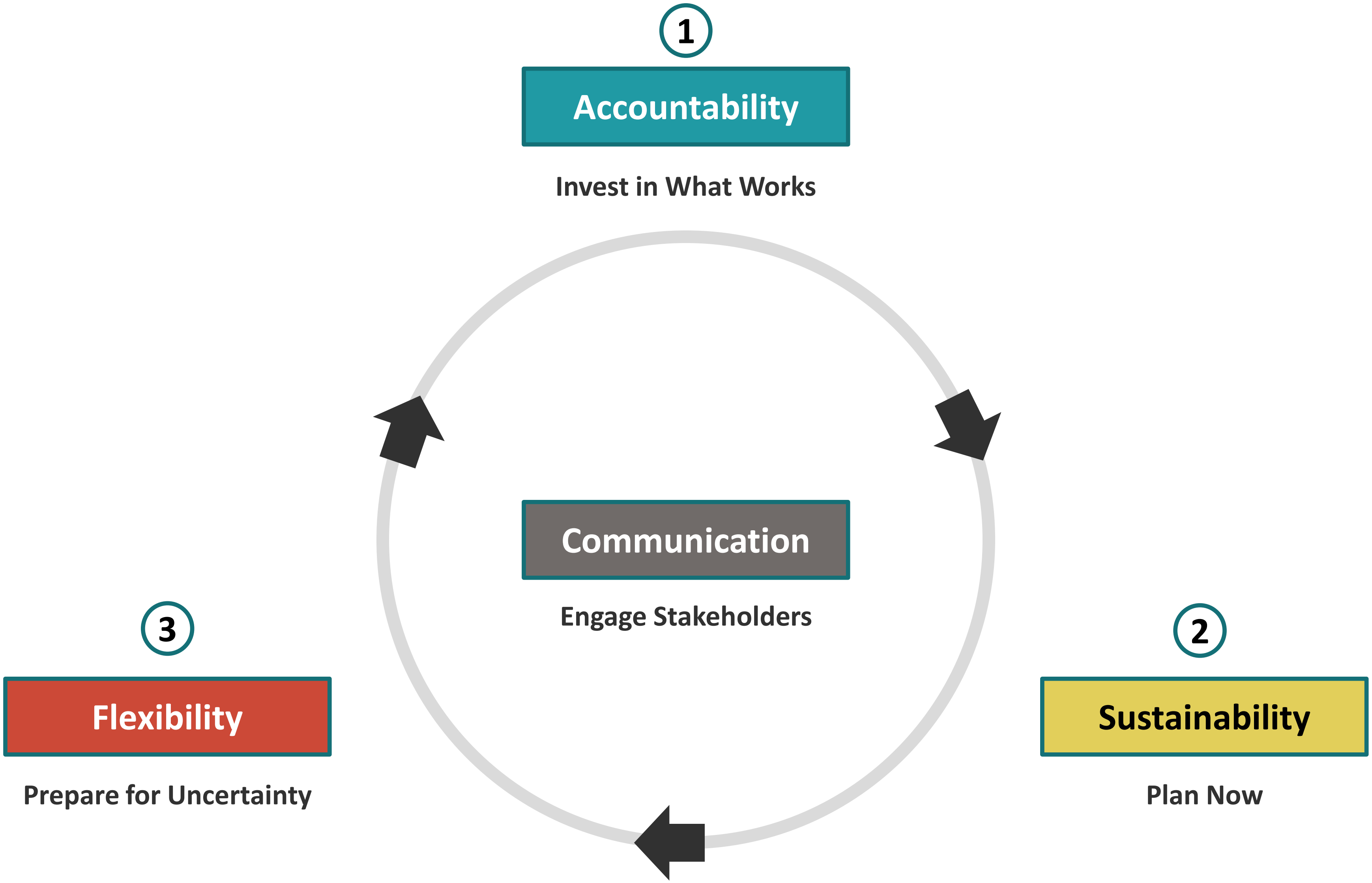
Sources: 1.) FutureEd 2.) Marguerite Roza, 3.) Seattle Times, 4.) Ed-Data.org, 5.) The 74,

Table Talk

- Which of these forces (ESSER, economy, enrollment, employees) feels most present in your context? How specifically is it showing up?
- What were you most surprised by? What confirmed things you already felt or knew?
- Are key stakeholders in your organization aware of these forces? Why or why not?
- Are there any myths or narratives do you need to disrupt?

Lessons Learned & Insights

Developing a Plan



Communication: Engage Stakeholders

Empowered Stakeholders

- Set **guiding principles for change** grounded in your organization’s values. Make communication and engagement **commitments you know you can keep.**
- Identify the **roles** you want **each part of your organization and each stakeholder group** to play in operational decision-making.

Communicate Reality

- Remember the Stockdale Paradox. Maintain the **discipline** to confront, and communicate, the most brutal facts of your current environment
- Approach conversations about resources with empathy and transparency. **Change requires buy-in on why its necessary**.

Accountability: Know What Works

Identify What Works

- Assign a role to each part of your school community in identifying those aspects of your schools and similar schools that are contributing to positive student experience and value for parents and students
- Develop and implement a plan to organize your school community to gather and analyze this data

Prioritize

- Identify the resource implications – programs, staffing, schedules – of your strategies that are working
- Use your remaining funds to support **high impact learning recovery investments** and not recurring commitments that you won't be able to afford in the future.
- Iterate with your financial planning toward finalizing your operating priorities
- Assign a role to each part of your school community in this process of informing and determining priorities

Tell The Story

- Each stakeholder group has a potential powerful role in being the ambassador of your progress story
- Leverage your ecosystem and advocacy supports

Sustainability: Plan Now

Protect & Grow Revenue

- **Focus on enrollment:** Invest to ensure family engagement is a top priority and a core competency
- **Stay Flexible:** To take advantage of opportunities to increase class size when possible

Scenario Plan

- Understand potential financial impact of recession on state revenues
- Run projections for the years that ESSER funds go away. If you don't change operations, what is the financial impact on the organization and each school?
- Build plans for up, base, and down scenarios in enrollment and public funding. We recommend running **3% and 5% down** scenarios on public funding for the next fiscal year.
- Identify targeted opportunities to reduce expenses in downside scenarios. **If you must cut costs, you want to use a scalpel not a meat cleaver**

Establish & Reinforce Guardrails

- Clarify your organization's most important **financial guardrails** – loan covenants, liquidity needs, financing goals, and authorizer standards
- Communicate with key stakeholders your approach to ensuring long-term health of organization while navigating today's opportunities and challenges

Flexibility: Prepare for Uncertainty

Build Liquidity

- Increase your cash target (we recommend >90 days) to provide flexibility in times of high uncertainty
- Establish or renew a line of credit
- Ensure you're claiming ESSER funding ASAP and use at least part of it to build liquidity

Monitor Financial Health

- Develop a financial health dashboard and set a cadence for discussion of strengths and risks on at least a quarterly basis.
- Develop rolling 12-18 month cash flow forecast

Stay Scrappy

- **Limit new ongoing commitments**. When possible/reasonable, make strategic one-time investments (contractors, bonuses, etc) to avoid paying for recurring expenses with short-term funds.
- **Delay Commitments:** Consider staging facilities projects, leveraging short-term financing, renting rather than owning to provide financial flexibility
- **Budget Conservatively:** We recommend budgeting for 3-5% enrollment shortfall and building in 1-2% expense contingency
- **Invest in Developing New Teachers**: Building competencies in developing newer teachers provides budget flexibility

Table Talk

- Which of these ideas are you already implementing? Where can you share lessons learned with others?
- What are the biggest gaps for your organization? Where do you need the most support?
- Which stakeholder groups do you want to engage in this process? How has your organization typically engaged those stakeholders?

Wrap Up

Your Exit Ticket:

Share your contact information + reflections via this Google Form: https://tinyurl.com/csgffiscalcliff

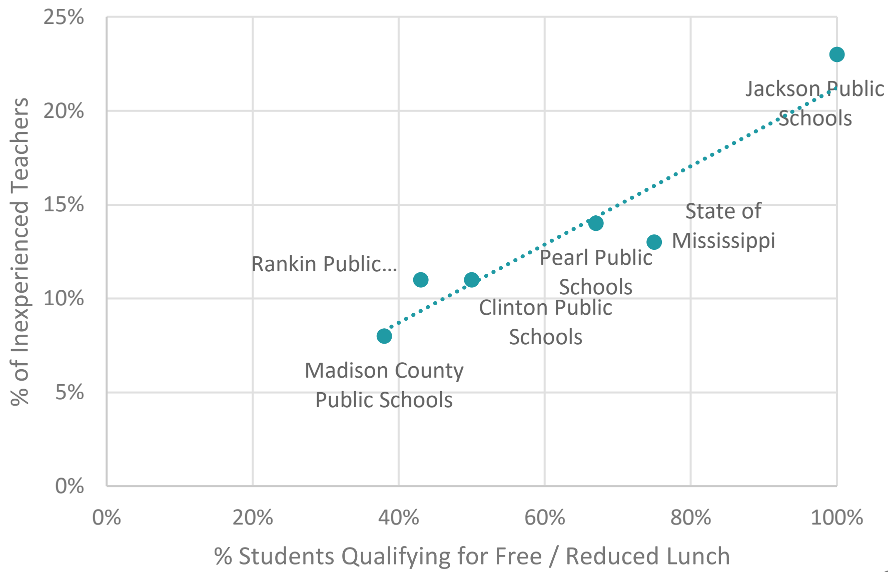
- Your name, org, role, and email address
- What are you committing to do by the end of next week to develop your plan and engage your stakeholders?
- Where do you have questions and need support?

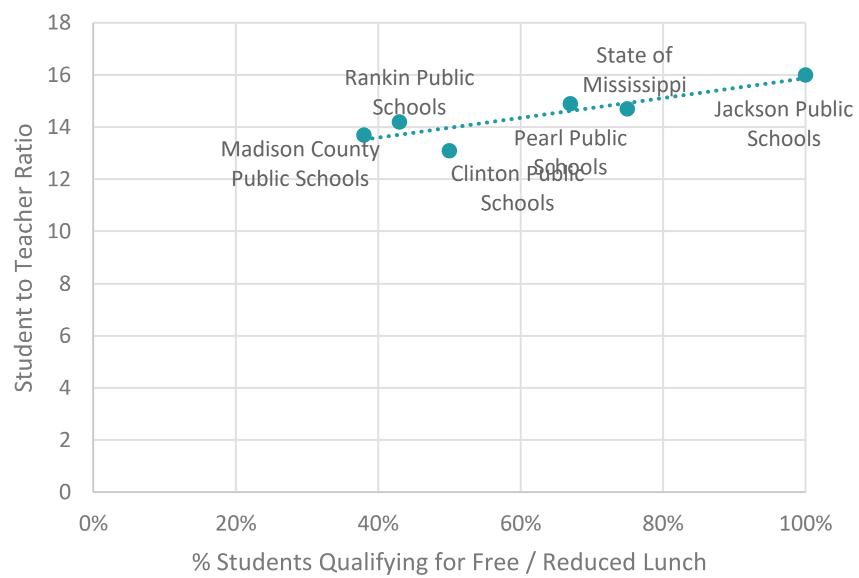
We will send out a follow up email with a copy of this presentation, links to articles/resources, our teams' contact information, and a summary of available Afton and CSGF supports

Appendix


NFL YOUTH EDUCATION TOWN ARIZONA
NFL YOUTH EDUCATION TOWN ARIZONA

Jackson, Mississippi: The higher the poverty level, the less experienced the teachers and the less support levels per student





Sources: 1.) ProPublica, 2.) Hechinger Report

Several theories attribute declining enrollment to temporary changes in family/student behavior, implying that "lost students" can be found and reengaged

Declining Enrollment Hypotheses/Theories:

Hypothesis	Evidence
Frustration with schools' decision to stay remote and not return in-person sooner	AEI analysis claims "Mostly Remote" districts lost **4.4%** of their students between 2020 and 2022, compared to **2.3%** for "Average Remote & In-Person" and **1.2%** for "Mostly In-Person" districts.[1]
Families exercising school choice, including the decision to home school	US Census Bureau surveys indicate homeschooling effectively **doubled** (5.4% to 11.1%) from the 19-20 to 20-21 school years. Black/African American households, the only demographic group with a statistically significant result, registered a **5X increase.**[2]
Pandemic migration patterns, including moves from urban to more suburban and rural areas	Between 2020 and 2021, large urban areas experienced a **3.7%** decline in children aged 5-11 and a **1.1%** dip in children aged 5-17. High cost of living areas lost substantial numbers of children under 5: LA County (-5.6%), Cook County (-5.3%), and Manhattan (-9.5%)[3]

Each of these shifts is likely contributing to declining enrollment. However, the COVID-19 pandemic also exacerbated and accelerated **long-standing trends** impacting student enrollment.