

Charter School Financial Performance Framework (FPF)

-Presentation on Proposed Changes to the Framework

Denver Public Schools

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Key Changes to the FPF

Overview of Key Changes to the FPF

- The overall goal in revising the FPF is to more accurately reflect the financial risk at each charter school. It also helps to eliminate charter Boards and school leaders from fixating on ratios that may deviate from the standards in any given year but do not impact the overall financial health of the school.

Current Methodology

- Individual ratios evaluated as a stand-alone
- Each ratio marked as red, yellow or green
- Benchmarks established based on how long the school has been open
- Each year evaluated independently
- No overall FPF rating assigned

New Methodology

- Individual ratios grouped into sections and evaluated together
- Each group assigned a risk level – Low, Medium or High
- All schools measured against the same benchmarks
- Ratios utilize 1- or 3-year trend information where appropriate
- Each section is weighted and contributes to an overall FPF rating



Overall FPF Rating

Overall FPF Rating – School Template

Charter School Name

CDE Location Code

Overall FPF Rating **Low Risk**
 Total Points Earned 24
 Total Points Possible 24

<u>Section</u>	<u>Rating</u>	<u>Points Earned</u>	<u>Points Possible</u>
Enrollment	Low Risk	6	6
3 Year Change in Enrollment		1.70%	
1 Year Change in Enrollment		-0.83%	
10/1 FPC as % of Adopted Budget		97.55%	
Occupancy	Low Risk	6	6
Debt Default		N/A	
Debt Service Coverage		N/A	
Occupancy Expense per Student		817.00	
Costs per Student	Low Risk	6	6
Total Expense per Student		8,606.23	
Private Contributions per Student		0.00	
Balance Sheet	Low Risk	4	4
Unassigned Fund Balance on Hand		4.71	
Unassigned Fund Balance 1 Year Trend		1.35	
Current Ratio		51.47	
Operating Margin	Low Risk	2	2
3 Year Aggregated / New School Cumulative		8.71%	
FY15 Operating Margin		11.26%	
FY15 Trend		0.61%	
FY14 Trend		7.02%	

Overall FPF Rating – Public Template

Charter School Name

CDE Location Code

<i>Overall FPF Rating</i>	Low Risk
<i>Total Points Earned</i>	24
<i>Total Points Possible</i>	24

<u>Section</u>	<u>Rating</u>	<u>Points Earned</u>	<u>Points Possible</u>
Enrollment	Low Risk	6	6
Occupancy	Low Risk	6	6
Costs per Student	Low Risk	6	6
Balance Sheet	Low Risk	4	4
Operating Margin	Low Risk	2	2

Overall FPF Rating – Ranking of Sections

- Total points are calculated based on the points assigned in each section
- The sections are weighted based on importance to the financial health of a school

Section	Minimum Points	Maximum Points
Enrollment	0 points	6 points
Occupancy	0 points	6 points
Costs per Student	0 points	6 points
Balance Sheet	0 points	4 points
Operating Margin	0 points	2 points
Total Points	0 points	24 points

- The overall FPF rating is assigned based on the total points

FPF Rating	Total Points
Low Risk	19 – 24 points
Medium Risk	12 – 18 points
High Risk	0 – 11 points



Enrollment

Enrollment – Overall Risk Level

- Enrollment overall risk level is worth 3X points due to the importance of enrollment on the long-term sustainability and viability of the school
- Ratios contributing to the overall risk level
 - % change in enrollment
 - 10/1 funded pupil count as % of adopted budget
- Rules for overall risk level
 - Ratios contribute equally to the overall risk level

Overall Risk Level	% Change in Enrollment	10/1 Funded Count as % of Adopted Budget	Points
Low Risk	Low risk Medium risk	Low risk or Medium risk Low risk	6 points
Medium Risk	Medium risk Low risk High risk	Medium risk High risk Low risk	3 points
High Risk	High risk Medium risk High risk	High risk High risk Medium risk	0 points

Enrollment - % Change in Enrollment

■ Purpose

- Demonstrates declining enrollment and/or the ability of the school to retain students who are enrolled, which is a critical factor for funding

■ Calculation

- $(\text{Current Year Enrollment} - \text{Prior Year Enrollment}) / \text{Prior Year Enrollment}$
 - For schools adding grades, only those grades with enrollment in the prior year will be counted
 - For schools in years 1 or 2, enrollment in opening grades will be compared to DPS preliminary projections in opening year
- 1-year and 3-year percent change will be calculated

■ Rating

Rating	Results
Low Risk	3-year change is 0% or greater 3-year change is between -5% and 0% AND 1-year change is positive
Medium Risk	3-year change is between -5% and 0% AND 1-year change is negative
High Risk	3-year change is less than -5%

Enrollment – Funded Pupil Count as % of Adopted Budget

- Purpose
 - Demonstrates the school’s ability to budget based on realistic enrollment assumptions, reducing the need to make significant changes to the budget after school starts

- Calculation
 - $\text{October Count Funded Pupil Count} / \text{Adopted Budget Funded Pupil Count}$
 - Calculated for the current year

- Rating

Rating	Results
Low Risk	95% or greater
Medium Risk	Between 90% and 95%
High Risk	Less than 90%



Occupancy

Occupancy – Overall Risk Level

- Occupancy overall risk level is worth 3X points due to the fixed nature of the costs and the importance on the long-term sustainability and viability of the school
- Ratios contributing to the overall risk level
 - Debt default
 - Debt service coverage
 - Occupancy expense per student
- Rules for overall risk level
 - If a school has no debt issued, the rating from Occupancy Expense per student will be used as the overall risk level
 - If a school has debt issued and is in default, the risk level is automatically High

Overall Risk Level	Debt Default	Debt Service Coverage	Occupancy Expense per Student	Points
Low Risk	N/A Low risk	N/A Low risk	Low risk Low risk	6 points
Medium Risk	N/A Low risk Low risk	N/A Low risk High risk	Medium risk Medium risk or High risk Low risk	3 points
High Risk	N/A High risk Low risk	N/A Low risk, Medium risk or High risk High risk	High risk Low risk, Medium risk or High risk Medium risk or High risk	0 points

Occupancy – Debt Default

- Purpose
 - Demonstrates whether a school is meeting its debt obligations or covenants
- Calculation
 - A school is noted as being delinquent with debt service payments or in default of loan covenants in the audited financial statements
- Rating

Rating	Results
Low Risk	School is not delinquent with debt service payments and is not in default of loan covenants
Medium Risk	N/A
High Risk	School is either delinquent with debt service payments or is in default of loan covenants

Occupancy – Debt Service Coverage

- Purpose

- Demonstrates whether or not the school can pay the principal and interest due on its debt based on the current year’s net income
- Demonstrates the extent to which the school is reliant on borrowed funds to finance its operations

- Calculation

- $(\text{Net Income} + \text{Depreciation} + \text{Interest Expense}) / (\text{Annual Principal, Interest and Lease Payments})$
 - This information is taken from the school’s audited financial statements
- Calculated for the current year

- Rating

Rating	Results
Low Risk	1.1 or greater
Medium Risk	N/A
High Risk	Less than 1.1

Occupancy – Occupancy Expense per Student

- Purpose

- Demonstrates the per student cost for facilities

- Calculation

- Total Purchased Property Services (All program 2600, 4000 and 5100 plus object series 0400 in other programs) / K-12 enrollment
- Calculated for the current year

- Rating

Rating	Results
Low Risk	Less than 15% of district PPR in the current year Less than \$1,150 per student in FY17
Medium Risk	Between 15% and 20% of district's PPR in the current year Between \$1,150 and \$1,500 per student in FY17
High Risk	Greater than 20% of district's PPR in the current year Greater than \$1,500 per student in FY17



Costs per Student

Costs per Student – Overall Risk Level

- Costs per Student overall risk level is worth 3X points due to the importance of running a program within the financial constraints of consistent revenue streams (PPR, Mill Levy)
- Ratios contributing to the overall risk level
 - Total expense per student
 - Private contributions per student
- Rules for overall risk level
 - Total expense per student is weighted more heavily than Private contributions per student

Overall Risk Level	Total Expense per Student	Private Contributions per Student	Points
Low Risk	Low risk	Low risk or Medium risk	6 points
Medium Risk	Low risk Medium risk	High risk Low risk, Medium risk or High risk	3 points
High Risk	High risk	Low risk, Medium risk or High risk	0 points

Costs per Student – Total Expense per Student

- Purpose

- Demonstrates the per student cost for the school’s program

- Calculation

- Total Expenses / K-12 enrollment
- Calculated for the current year

- Rating

Rating	Results
Low Risk	Less than \$10,800 per student
Medium Risk	Between \$10,800 and \$12,300 per student
High Risk	Greater than \$12,300 per student

- The level for Low Risk was set using the following information:
 - DPS cost per student using general fund and grant fund expenditures in FY17 was \$10,800
 - National average for public schools in 2013 (most recent year available) was \$10,700

Costs per Student – Private Contributions per Student

■ Purpose

- Demonstrates the per student private contributions required to fund operating expenditures

■ Calculation

- $((\text{Private Grant} + \text{Foundation} + \text{Gifts \& Contributions} + \text{Fundraising}) - \text{Net Income}) / \text{K-12 Enrollment}$
- Net income will not be subtracted out if the school had an operating loss for the year
- Calculated for the current year

■ Rating

Rating	Results
Low Risk	Less than \$500 per student
Medium Risk	Between \$500 and \$1,000 per student
High Risk	Greater than \$1,000 per student

- The per student levels were set using the following information:
 - 5% of district PPR in FY15 is \$384
 - 10% of district PPR in FY15 is \$768



Balance Sheet

Balance Sheet – Overall Risk Level

- Costs per Student overall risk level is worth 2X points
- Ratios contributing to the overall risk level
 - Unassigned fund balance on hand
 - Current ratio
- Rules for overall risk level
 - Unassigned fund balance on hand is weighted more heavily than Current ratio

Overall Risk Level	Unassigned Fund Balance	Current Ratio	Points
Low Risk	Low risk	Low risk or Medium risk	4 points
Medium Risk	Low risk Medium risk	High risk Low risk or Medium risk	2 points
High Risk	Medium risk High risk	High risk Low risk, Medium risk, or High risk	0 points

Balance Sheet – Unassigned Fund Balance on Hand

- Purpose

- Demonstrates the ability of the school to cover expenses with unrestricted funds

- Calculation

- $\text{Unassigned Fund Balance} / (\text{Total Expenses} / 12)$
- Current year and 1-year trend will be calculated

- Rating

Rating	Results
Low Risk	Greater than 2 months Between 1.5 months and 2 months AND 1-year trend is positive *Schools in years 1 and 2 must have at least 1 month on hand
Medium Risk	Between 1 month and 1.5 months Between 1.5 months and 2 months AND 1-year trend is negative
High Risk	Less than 1 month

Balance Sheet – Current Ratio

- Purpose

- Demonstrates the ability of the school to pay its obligations over the next 12 months

- Calculation

- Current Assets / Current Liabilities

- Current year and 1-year trend will be calculated

- Rating

Rating	Results
Low Risk	Greater than 1.1 Between 1.0 and 1.1 AND 1-year trend is positive
Medium Risk	Between 0.9 and 1.0 Between 1.0 and 1.1 AND 1-year trend is negative
High Risk	Less than 0.9



Operating Margin

Operating Margin – Overall Risk Level

- Costs per Student overall risk level is worth 1X points
- Ratio contributing to the overall risk level
 - Operating margin
- Rules for overall risk level
 - The rating from operating margin will be used as the overall risk level

Overall Risk Level	Operating Margin	Points
Low Risk	Low risk	2 points
Medium Risk	Medium risk	1 points
High Risk	High risk	0 points

Operating Margin – Operating Margin

- Purpose

- Demonstrates the ability of the school to operate with available resources

- Calculation

- Individual Years: $\text{Net Income} / \text{Total Revenue}$

- Aggregated: $\text{Sum of Net Income} / \text{Sum of Total Revenue}$

- Current year, 2 years prior and 3-year aggregated will be calculated

- Rating

Rating	Results
Low Risk	Aggregated 3-year is positive AND most recent year is positive Aggregated 3-year is greater than -1.5% AND trend is positive for past 2 years AND most recent year is positive *Schools in years 1 and 2 must have positive cumulative operating margin
Medium Risk	Aggregated 3-year is greater than -1.5% AND either the most recent year is negative OR trend is negative for past 2 years
High Risk	Aggregated 3-year is less than or equal to -1.5% Most recent year is less than -10%



End