



School District of Philadelphia

Fiscal Year 2010-11

(July 2010 – June 2011)

First Quarter Financial Report

October 20, 2010

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School District of Philadelphia FY2010-11 First Quarter Financial Report

Introduction

- **Since the School District's FY2010-11 Budget was adopted by the School Reform Commission in May 2010, there have been a number of significant changes to the forecast opening fund balance, revenues and expenditures.**
- **The presentation that follows will highlight and explain the reasons for the major variances – both positive and negative.**
- **Despite the changes, School District management continues to forecast that the SDP will maintain a balanced budget for the fiscal year ending June 30, 2011.**



Despite Significant Changes Since May 2010, the SDP Continues to Forecast a Balanced FY11 Budget

FY2010-11 Revenue and Expenditure Variances - Compared to 5/10 Adopted Budget

	<u>5/26/2010</u>	<u>10/20/2010</u>	<u>Variance</u>
1 Prior Year FY2009-10 Ending Fund Balance	\$10,236	\$40,175	\$29,939
<u>Revenues - Forecast Variances</u>			
2 PA Basic Education Subsidy	\$1,105,725	\$1,062,176	-\$43,549
3 Fed Stimulus School Improvement (portion of grant deferred to FY12 + FY13)	\$51,996	\$13,153	-\$38,843
4 PA Pension Cost Reimbursement (offset by Exp. Reduction on Line 11)	\$51,799	\$35,308	-\$16,491
5 PA Charter School Reimbursement	\$113,970	\$110,298	-\$3,672
6 Parking Authority Contribution	\$4,500	\$7,284	\$2,784
7 PA Gaming Revenues	\$0	\$5,000	\$5,000
8 Sale of Property	\$564	\$8,162	\$7,598
9 Federal Education Jobs Bill	\$0	\$48,819	\$48,819
10 All Other Net Revenue Adjustments			\$400
			-\$37,954
<u>Expenditures - Forecast Variances</u>			
11 Pension Contribution (Positive Budgetary Impact)	\$80,815	\$55,450	\$25,365
13 Electricity Rate Increase forecast than budget	\$31,576	\$28,000	\$3,576
12 Renaissance Charter Schools (Negative Budgetary Impact)		\$10,380	-\$10,380
14 All Other Net Expenditure Adjustments (Neg. Budg. Impact)			-\$10,546
			\$8,015
15 Projected FY11 Yr End Fund Balance - Adopted FY11 Budget (5/2010)			\$0
16 Revenue and Fund Balance Adjustments (Net Negative Budgetary Impact)			-\$8,015
17 Expenditure Adjustments (Net Positive Budgetary Impact)			\$8,015
18 Projected FY11 YrEnd Fund Balance - 10/20/2010			\$0



The School District Projects a \$40.2M Positive 2009-10 Ending Fund Balance - \$29.9M Better Than Forecast in May 2010

Major variances from May 2010 are as follows:

- \$8.8M Debt Service:** Savings from FY10 refinancing better than budget; interest rates on variable rate debt lower than projected.
- \$7.9M Education for Students in Residential Placements:** Payments for students in placement were slightly lower than budget. This positive result may be offset in future years, as some institutions are very slow to bill the SDP.
- \$5.0M Payments to Charter Schools:** While SDP payments to Charter Schools increased by about \$30M in FY10, the PA Accountability Block Grant was able to fund a larger portion of the SDP's Charter School payments than anticipated in the FY10 Budget, providing relief for the SDP Operating Funds.
- \$3.9M Losses and Judgments:** Payments for SDP legal settlements were lower than budgeted.
- \$2.8M Additional Philadelphia Parking Authority Revenue:** PPA contributed more revenue to SDP than budgeted, due to an increase in City parking fines implemented this past year.
- \$3.0M Additional Revenue from City Tax Amnesty:** Local tax revenues were adjusted in May 2010 by \$4.0M in light of the City's announced April-June Tax Amnesty program; total local tax revenues exceeded projections by an additional \$3.0M. The total FY10 gain from the Tax Amnesty is thus projected to be \$7.0M.
- (\$1.4M) All Other Revenue & Expenditure Variances (net)**



SDP FY2010-11 Operating Revenues are projected \$37.9M below the level of the FY2010-11 Adopted Budget – PA Categorical Funds are lower by an additional \$8.0M

*Total PA Funding for the SDP in FY2010-11
(excluding Retirement Reimbursement) is \$43M lower than in FY2008-09*

FY2010-11 Revenue Variances - Compared to 5/10 Adopted Budget

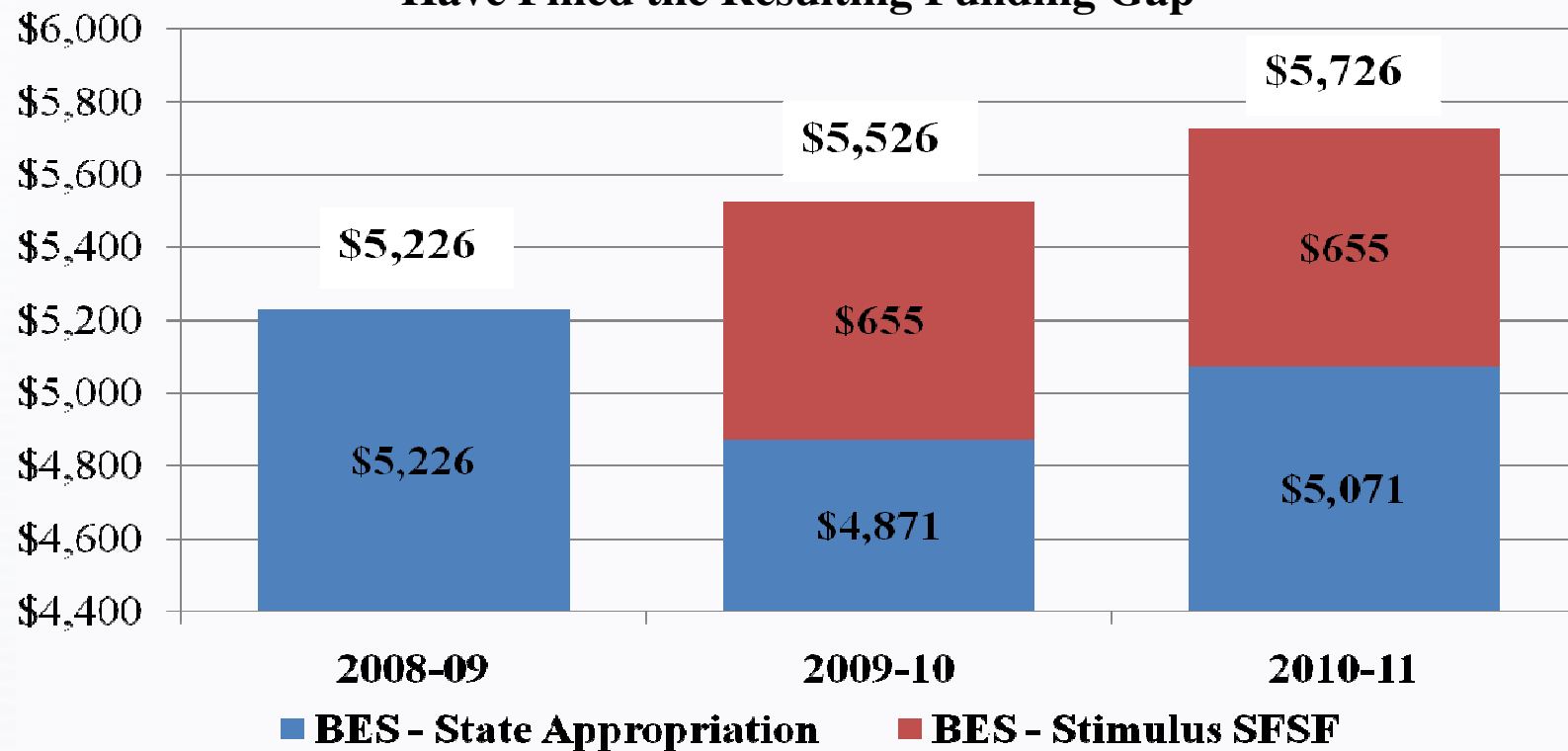
(\$ in thousands)

	<u>5/26/2010</u>	<u>10/20/2010</u>	<u>Variance</u>
<u>Operating Funds</u>			
1 PA Basic Education Subsidy	\$1,105,725	\$1,062,176	-\$43,549
2 Federal Stimulus School Improvement	\$51,996	\$13,153	-\$38,843
3 PA Pension Cost Reimbursement	\$51,799	\$35,308	-\$16,491
4 PA Charter School Reimbursement	\$113,970	\$110,298	-\$3,672
5 Parking Authority Contribution	\$4,500	\$7,284	\$2,784
6 PA Gaming Revenue	\$0	\$5,000	\$5,000
7 Sale of Property	\$564	\$8,162	\$7,598
8 Federal Education Jobs Bill	\$0	\$48,819	\$48,819
9 <u>All Other (Net Changes)</u>			<u>\$400</u>
10 OPERATING FUNDS TOTAL			-\$37,954
11 PA CATEGORICAL FUNDS (Net)	\$134,715	\$126,731	-\$7,984
12 ALL FUNDS TOTAL			-\$45,938



While Higher Than in FY2009-10, the FY2010-11 PA Basic Education Subsidy is Still Lower Than in FY2008-09

Federal Stimulus “State Fiscal Stabilization Funds”
Have Filled the Resulting Funding Gap



SDP BES funding has increased \$129.6M from 2008-09 to 2010-11 - all but \$7.7m of that increase comes from Stimulus SFSF Funds.

In FY2009-10, PA used \$355M of Federal Education Stimulus dollars to replace rather than augment the state-provided Basic Education Subsidy dollars. This gave PA school districts a net \$300M increase in BES and SFSF combined. In FY2010-11, PA increased the State BES Appropriation by \$200M. 2010-11 is the 2nd and final year of the “State Fiscal Stabilization Fund” Federal Stimulus Appropriation.



FY2010-11 Enacted PA Budget Allocates \$3.7M less to SDP in Charter School Reimbursement

- Declining level of PA Reimbursement for Charter Schools since FY2008-09.
 - In **FY2008-09**: State reimbursement was **43%** of prior year SDP Charter School expenditures = **\$119.5 million**.
 - In **FY2010-11**: **SDP to receive \$110.3 million** in State Charter School Reimbursement (**8% - \$9.2m reduction** from FY2008-09).
 - 2010-11 SDP spending on Charters projected **25% higher (\$77.3M)** than in FY2008-09.

	FY2008-09	FY2010-11	% change
# of Philadelphia Charter Schools	63	74	17%
Projected Phila. Charter Schools Enrollment	34,882	42,734	23%
Projected SDP Per Pupil Payments to Charters	\$ 307,925,897	\$ 385,177,154	25%
PA Charter School Reimbursement to SDP	\$ 119,528,276	\$ 110,297,555	-8%
Reimbursement as % of current year payments	39%	29%	-26%
Reimbursement as % of prior year payments	43%	33%	-25%



The SDP's Mandated Pension Fund Contribution Will Be \$25.4M Lower Than Assumed in the Adopted FY11 Budget *PA Retirement Reimbursement to SDP Will Be \$16.5M Lower as Well, Reducing Net Savings to \$8.9M*

- In June 2010 the Pennsylvania General Assembly amended the PA Fiscal Code to reduce the 2010-11 pension contribution rate for Pennsylvania school districts from **8.2%** of wage/salary payroll down to **5.6%**. This reduced the SDP's mandated contribution by **\$25.4M**.
- At present, the Commonwealth reimburses the School District of Philadelphia for 61.5% of its annual pension contribution. With the reduction in the SDP's mandated pension contribution, PA Retirement Reimbursement also dropped, by **\$16.5M**. The **net FY11 pension cost savings** for the SDP is **\$8.9M**.
- According to current State Law, pension contributions as a % of payroll are slated to jump to **10.6% in FY2011-12** and further to **29.5% in FY2012-13**. Unless there is an amendment to State Law, and assuming the State continues to reimburse the SDP for about 61.5% of its pension contribution, the District's net Pension Cost is projected to be \$28 million higher than in FY2011-12 than in FY2010-11.



Parking Authority Revenues Increased in FY10 – The SDP Now Anticipates That FY11 Receipts Will Match FY10

- The **Philadelphia Parking Authority (PPA)** is required to transfer to the City of Philadelphia its annual net income from on-street parking regulation and parking garage revenues up to a state-specified level. Any net income above that level is transferred to the School District of Philadelphia.
- An increase in local parking fines instituted in 2009 has resulted in higher revenues to the PPA, which in turn has enabled the Parking Authority to fund the School District at higher levels, as may be seen below:

	A	B	C	D	E	F
	FY2007-08	FY2008-09	FY2009-10	FY2009-10	FY2010-11	FY2010-11
	Actual	Actual	Amend. Budget	Proj. Actual	Adop. Budget	Current Est.
	12/1/08	12/1/09	5/26/10	10/07/10	5/26/10	10/07/10
Parking Authority Contribution	\$2,221,349	\$3,800,588	\$4,500,000	\$7,284,153	\$4,500,000	\$7,284,153
<i>Increase from Prior Year</i>		71%		92%		

- Based on the higher level of the PPA’s 2009-10 contribution to the School District, the SDP is now revising its FY2010-11 PPA revenue projection to match 2009-10.



The School District Now Anticipates Receiving \$48.8M in FY2010-11 in Federal Education Jobs Bill Funding

- The Education Jobs Bill was enacted by the U.S. Congress in August 2010 and provides **\$10 billion** in assistance to state governments to save or create K-12 education jobs in the 2010-2011 school year, and in 2011-12.
- The Commonwealth of Pennsylvania will receive about **\$380M** to distribute to PA school districts. PA can distribute based the state's **Basic Education Subsidy distribution** or the **allocation of Federal Title I funds** to PA districts.
- The School District's share of PA Ed Jobs funds could be **\$97.6M**, assuming that Pennsylvania allocates Ed Jobs funds based on the Commonwealth's Basic Education formula. If only half of the SDP's Ed Jobs funds are spent in 2010-11, this will provide **\$48.8M** this year, with the balance available for the SDP 2011-12 budget.
- Without these funds, which have not yet been appropriated by the PA General Assembly, the School District could not maintain a balanced FY2010-11 budget without severe spending cuts and headcount reductions.



Other Forecast School District Revenue Variances

-\$38.8 M Stimulus School Improvement Grants:

The FY2010-11 Adopted Budget included **\$52M** in Stimulus School Improvement Grants (SSIGs). SDP applied for \$52M in SSIG funding in July 2010 and was awarded **\$51.9M** for 27 **Empowerment Schools, Promise Academies and Renaissance Charter Schools** where turnaround strategies are already being implemented. However, these funds were allocated between three years: FY2010-11, FY2011-12, and FY2012-13. For FY2010-11, **\$13.2M** has been allocated, **\$38.8M less** than in the May 2010 budget

\$5.0 M Gaming Funds:

The **PA Race Horse Development and Gaming Act** provides the City and School District of Philadelphia with **4% of gross terminal revenues (GTR)** from any gaming facility located in Philadelphia. The first **\$5 million** of GTR generated annually by any Philadelphia casino goes to the School District of Philadelphia; the balance goes to the City. With the opening of the new **Sugar House Casino in September 2010**, the School District will now begin to receive these revenues.



Other Forecast School District Revenue Variances

\$7.6 M Sale of Property:

The Adopted FY2010-11 Budget forecast of only **\$600,000** in income from surplus property sales has now been revised to **\$8.2M**, a **\$7.6M** increase. The primary reason for the improved forecast is the School Reform Commission's approval at its August 25, 2010 meeting of the sale of the SDP's surplus **15th Street garage** to Community College of Philadelphia for **\$5.8 million**. CCP's bid came in response to a request from the SDP earlier this year for competitive bids on this property.

The balance of the increased property sale income forecast is related to surplus property sales approved previously by the SRC that did not conclude prior to the end of FY2009-10 and are now expected to close before the end of the current fiscal year.



Enrollment in the SDP's New Renaissance Charter Schools is 677 higher than anticipated, at a cost of approximately \$6.8 million

- The FY2010-11 budget for the Renaissance Charters - Bluford, Daroff, Douglass, Harrity, Mann, Smedley, and Stetson – assumed that enrollment in FY11 would reflect the moderate year-over-year enrollment declines these seven schools have experienced in recent years.
- Instead, enrollment at the Renaissance Charter Schools has increased by 15% compared to last year, increasing the SDP's per student payments to the operators of these seven schools.

		<u>Total Enrollment</u>
1	2009-10 Actual	3851
2	2010-11 Budgeted	3750
3	2010-11 Actual (as of 9/13)	4427
4	Actual over Budgeted	677

- The District will also incur an additional \$3.6 million because the SDP has been able to recover 90% not 100% of the fixed costs it bore when directly serving these seven schools, for a total impact of \$10.4 million.



Other Forecast School District Expenditure Variances

At this point in the fiscal year, SDP management has identified several areas in which costs are now projected to be higher or lower than the level authorized in the FY11 Adopted Budget. During the year, management will seek to identify opportunities to make spending reductions to offset any net above-budget variances.

- \$5.3 M** Additional **Special Education** teachers, classroom assistants and psychologists, to meet federal and state mandates in the face of growing student populations requiring service
- \$4.3 M** For **Empowerment Schools** (for additional curriculum materials, \$1.4M) and **Promise Academies** (increased resources for academic achievement, \$2.9 M)
- \$2.0 M** Higher than budget interest costs for the SDP's annual **Temporary Borrowing for cash flow purposes**, due to higher interest rates than originally budgeted at the time of issuance
- \$3.7M** Lower projected **Electric Utility costs** for FY2010-11
- \$1.0 M** **All other spending variances (net)** lower than budget



SDP Reorganization

- In order to focus all district administrators and central departments more strongly on the work of school improvement, fundamental changes to the District's regional structure were implemented this Summer.
- The changes made included:
 - Creation of **9 Academic Divisions** under an **Associate Superintendent for Schools**, including an office dedicated to supporting the **Promise Academies**;
 - Creation of **8 Parent Resource Centers**, one at the Education Center and 7 in former regional offices;
 - Creation of a new **Associate Superintendent for Academics** and new deputies for instructional improvement;
 - Creation of a new **Associate Superintendent of Academic Supports**, with a new **Office of Non-Instructional Support Services** to perform the non-instructional functions previously performed by regional offices;
 - Creation of a new **Office of Grants Development and Compliance** by consolidating three previously existing offices whose work related to grants.



The Reorganization is Budget Neutral in the Operating Funds and Will Result in Net Savings on an All Funds Basis

- The old regional structure has been dissolved, and all of the new offices and structures are now operational.
- The original FY2010-11 budgets for the organizations that were affected by the reorganization total **\$16.8 million**. The budgets for the new reorganized offices and structures total **\$14.8 million**. Therefore, the reorganization is projected to result in nearly **\$2 million in savings**, relative to the FY2010-11 SDP Budget that was adopted by the SDP in May 2010.
- This \$2 million in savings is the sum of the impacts on the SDP's Operating Funds and Grant Funds. For the Operating Funds only, the reorganization is projected to result in a net cost increase of \$29,000.
- The projected \$2 million in savings results from:
 - Elimination of the old regional office structure.
 - Targeted position eliminations to offset the cost of other new positions created.
 - Targeted cuts in non-full-time personnel and non-personnel budget lines.



Assessing the School District's Current Financial Condition

- The School District's FY2010-11 budget remains balanced despite significant changes to revenues and expenditures since this year's budget was first adopted in May 2010.
- Budget balance in FY2010-11 was achieved in large measure due to the District's strong discipline in managing its financial affairs in FY2009-10, which produced a larger positive fund balance at year end. Also critical was the Federal Government's decision to provide America's school districts with additional Federal funding through the Education Jobs Bill.
- The School District continues to be critically dependent on Federal funding, because local funding has remained flat and state funding is slightly down over the past three years as a result of the Recession and its aftermath.
- Major Federal Stimulus funding sources, including the Stimulus State Fiscal Stabilization Fund, Stimulus Title I and Stimulus IDEA (Special Ed) are currently scheduled to be discontinued at the end of FY2010-11.
- As Federal Stimulus funds are discontinued, the School District will need to seek additional resources from other sources to maintain its successful programs and continue raising student achievement levels in FY2011-12. Even if these efforts are successful, the SDP will still need to maintain strong fiscal discipline, make tough budget decisions and curtail all unnecessary spending in order to maintain budget balance this year and next.