

The School District of Philadelphia

Budget in Brief

FY 2015-2016



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Introduction

In March 2015, the School District of Philadelphia released Action Plan 3.0, its strategic plan to transform schools and improve student achievement. The plan, grounded in equity and focused on four anchor goals¹, is intended to provide a framework to help the District deliver a high-quality education for every student in Philadelphia while achieving and maintaining fiscal balance. In order to realize these goals, meaningful financial investment is needed from the District's partners.

Consistent with a commitment to bring expenditures in line with revenues, the District was forced to make painful cuts over the last few years. In spite of actions to minimize the impact of cuts on schools, it was forced to scale back on school-based personnel and activities that support students. These painful reductions included shrinking instructional and extracurricular programming; reducing counseling and nursing services; scaling back on school turnaround efforts; and reducing retention activities and gifted programming.

As a result of expenditure reductions, new funding, and renewed financial discipline, the District is projected to end its current fiscal year with a small surplus. Nevertheless, due to reduced revenues and rising expenditures, the District projects a Fiscal Year 2015-2016 (FY16) baseline ending balance of negative \$84.7 million.

In support of the District's responsibility to provide every child in Philadelphia with an excellent public school education, Governor Wolf and Mayor Nutter have proposed increases in recurring revenues totaling approximately \$264.7 million for FY16.

Proposal	Increase in Funding
State Proposal	\$159.4M
City Proposal	\$105.3M
Total	\$264.7M

The first \$84.7 million in new funding will be used to cover the FY16 projected shortfall and maintain current service levels in FY16. The remaining \$180.0 million will be spent on investments for schools. Given additional resources, principals and their staffs will reinvest in schools in ways that best respond to the needs of their students. New and additional services and programming may include: AP courses, credit recovery, small-group instruction, counseling support, nursing services, social-emotional support, tutoring, Saturday programs, arts and music, professional development, and supports for English language learners and special education students.

If at least \$84.7 million in additional funding is not provided, the District will be forced to reduce services in its already depleted schools to balance the budget.

It is incumbent upon the District's partners to support schools by providing the funding needed to enhance student achievement and give all public school students in Philadelphia a fair chance at future success. The School District needs funding to do what works for students and schools, to replicate and scale successful programs, to give all schools the resources to deliver a high-quality education, and to provide teachers, principals, and school-based colleagues with support to strengthen their instructional practice and further their professional growth.

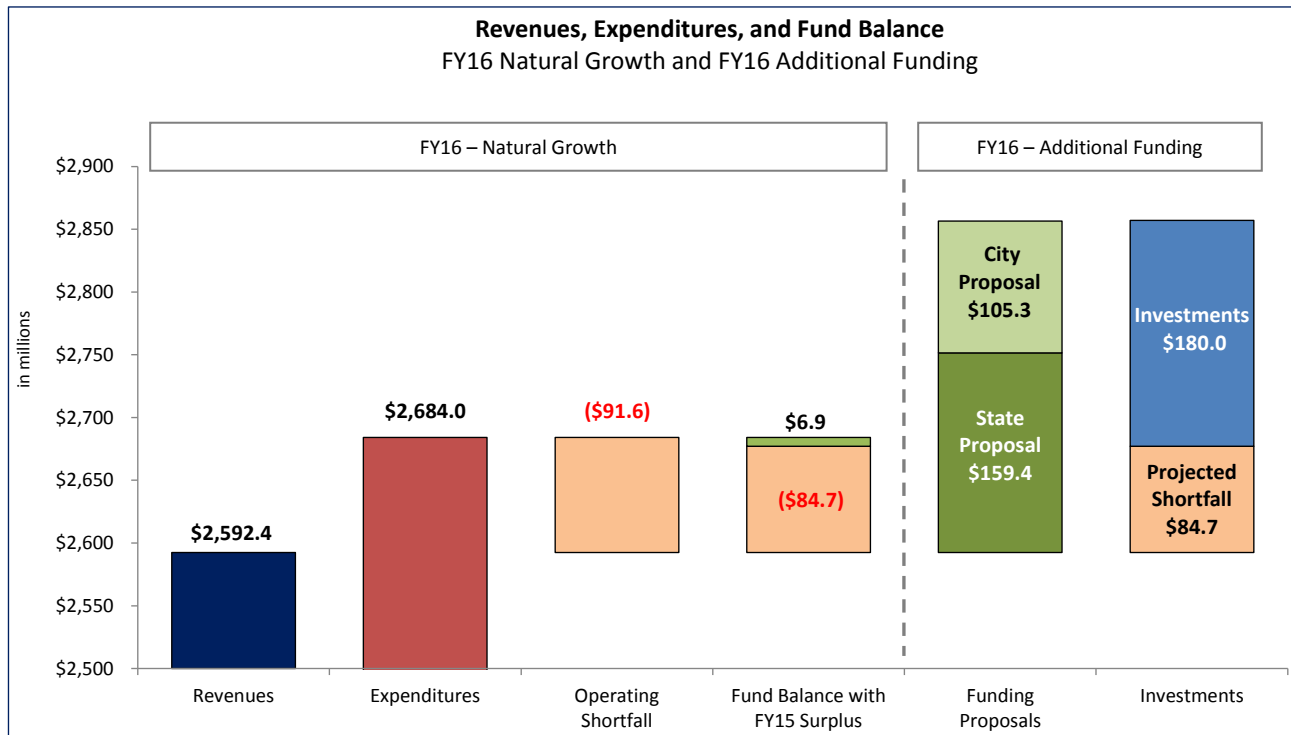
The District can do this with sufficient funding.

¹ The District's Anchor Goals are: (1) 100% of students will graduate, ready for college and career, (2) 100% of 8-year-olds will read on grade level, (3) 100% of schools will have great principals and teachers, and (4) the School District will have 100% of the funding we need for great schools, and zero deficit.

Budget Overview

The District’s FY16 lump sum statement includes operating revenues of \$2,592.5 million and operating expenditures of \$2,684.0 million, resulting in a projected budget shortfall of negative \$91.6 million. The District is projected to end FY15 with a \$6.9 million surplus, which will reduce the FY16 projected ending balance to negative \$84.7 million.

In accordance with the Governor’s and Mayor’s proposals, the District anticipates \$264.7 million in new, recurring revenues in FY16. The first \$84.7 million in new funding will be used to cover the FY16 projected shortfall and maintain current service levels in schools. The remaining \$180.0 million will be spent on new, critically needed investments for schools.



Note: Owing to rounding, numbers in chart may not match text.

SCHOOL DISTRICT OF PHILADELPHIA
OPERATING BUDGET
FISCAL YEARS 2014/2015 AND 2015/2016

Amounts in Thousands

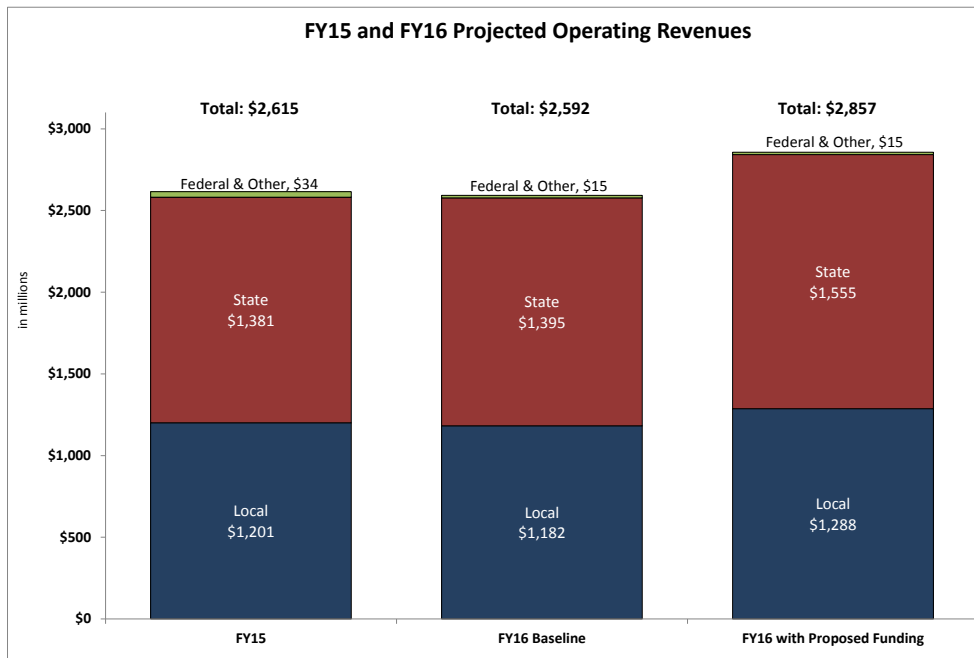
	Actual 2013/2014	Estimated 2014/2015	Request 2015/2016
Revenues	\$2,438,818	\$2,592,802	\$2,589,030
Other Financing Sources	\$31,668	\$22,267	\$3,439
Total Revenues and Other Financing Sources	\$2,470,485	\$2,615,069	\$2,592,469
Obligations	\$2,526,284	\$2,590,857	\$2,681,523
Other Financing Uses	\$2,264	\$2,518	\$2,518
Total Obligations and Other Financing Uses	\$2,528,548	\$2,593,376	\$2,684,042
Prior Year Fund Balance (Deficit) July 1	\$39,462	(\$14,821)	\$6,872
Fund Balance Prior to Changes in Reserves	(\$18,601)	\$6,872	(\$84,700)
Changes in Reserves	\$3,780	-	-
Fund Balance (Deficit) June 30	(\$14,821)	\$6,872	(\$84,700)
Proposed Additional Funding			
Mayor's Proposed Budget (March 5)			\$105,291
Governor's Proposed Budget (March 3)			\$159,373
Additional Funding -- Total			\$264,664
Total Revenues -- Including Additional Funding			\$2,857,133
Critical Investments -- Action Plan 3.0			\$179,964
Total Expenditures -- Including Critical Investments			\$2,864,005
Fund Balance (Deficit) June 30 -- Including Additional Funding	(\$14,821)	\$6,872	\$0

Note: The Governor's Proposed FY16 budget shifts \$33.8 million in revenues and expenditures from the Ready to Learn and Accountability Block Grants to the operating budget. To maintain continuity with the FY14 actual and FY15 estimated budgets, these revenues and expenditures are shown in grant funds, which are not included in the Lump Sum Statement above.

Revenues

The District faces a revenue problem. Projected revenues, excluding the Mayor’s and Governor’s funding proposals, are projected to decrease by \$22.6 million, or approximately 0.9 percent, from FY15 to FY16. The largest decrease is projected in local revenues, with the District anticipating a loss of \$18.4 million, due primarily to the end of one-time City funding directed to the District in FY15. Federal and other financing sources are also projected to decrease by approximately \$18.8 million, due primarily to the loss of one-time property sales revenues in FY15. Revenues provided by the state are projected to grow by \$14.6 million from FY15 to FY16, with the sole driver of growth being an increase in the Public School Employees’ Retirement System (PSERS) reimbursement, stemming from a significant rise in the PSERS contribution rate from FY15 to FY16. Without the increased PSERS reimbursement, projected state revenues would decrease by \$8.0 million between FY15 and FY16.

District revenues are projected to decrease by \$22.6 million between FY15 and FY16, prior to any proposed new funding.



A more detailed categorization of the District’s revenues is below:

Local Tax Revenues: Local tax revenues are projected to increase by \$12.3 million, or 1.1 percent, primarily due to an increase in the cigarette tax. The cigarette tax, a new revenue source for the District in FY15, did not begin generating revenues until October 2014, three months into FY15. When implemented for a full-year in FY16, the cigarette tax is expected to generate an additional \$10.5 million. Real estate tax, the District’s largest tax revenue source, which generates over 62 percent of the District’s local tax revenues, is expected to decrease by \$0.3 million in FY16. The remaining \$2.1 million increase in local tax revenues is expected in the liquor sales tax.

Local Non-Tax Revenues: Local non-tax revenues are projected to decrease by \$30.7 million, or 24.1 percent, in FY16, primarily due to the end of a \$29.9 million one-time grant and reductions in miscellaneous non-tax revenue. Local non-tax revenues primarily consist of the city grant, the Parking Authority contribution, gaming revenue, and stadium agreements.

State Revenues: District revenues provided by the state are projected to increase by \$14.7 million in FY15. However, if the \$22.6 million increase in PSERS reimbursement is excluded, state-provided revenues are expected to decrease by \$8.0 million from FY15 to FY16. The basic education subsidy is the District's largest state revenue source. It makes up approximately 66.5 percent of state revenues in FY16. The increase in PSERS reimbursement is provided to pay for a portion of the District's rising, mandated PSERS expenditures.

If PSERS reimbursement is removed, the District is projected to lose revenues in all of its major funding categories: Local, State, Federal, and Other Sources

Federal Revenues: Revenues from the federal government account for less than one percent of the District's FY16 operating revenues. Nearly all of the District's federal revenues, 98.7 percent, are from the federal debt service subsidy, which is based on the District's debt schedule. Federally provided revenues are anticipated to remain relatively flat in FY16, with a decrease of \$18,000.

Other Financing Sources: Other financing sources consist of revenues from the sale of property and transfers from other funds. Other financing sources are projected to decrease by \$18.8 million between FY15 and FY16. The primary cause of this reduction is the loss of one-time property sales revenues. In FY15, anticipated property sales are projected to yield approximately \$20.4 million in one-time revenues. There are no additional building sales revenues projected for FY16. Revenues from transfers from other funds are anticipated to increase by \$1.5 million in FY16.

Proposed Additional Funding:

State: The Governor of Pennsylvania has proposed a significant increase in District funding for FY16. If approved, the new funding proposal is expected to generate \$159.4 million in new revenues.

City: The Mayor of Philadelphia has proposed a significant increase in District funding for FY16. If approved, the new funding proposal is expected to generate \$105.3 million in new revenues.

If both funding proposals are approved, baseline FY16 revenues would increase by \$264.7 million, bringing total revenues to \$2,857.1 million in FY16. Total revenues with the proposed funding are \$242.1 million, or 9.3 percent, more than FY15 projected revenues. This significant increase is necessary to fund the projected shortfall in FY16 and reinvest in schools and students.

In addition to its operating revenues, the District also receives grants and food service revenues and borrows capital funds to help support its schools and students. These funds are addressed in more detail in the section entitled "Additional Resources".

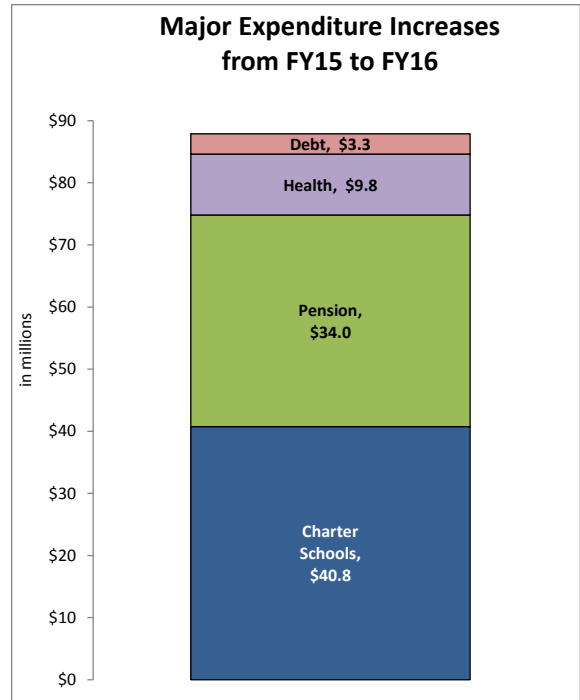
Expenditures

In order to maintain similar levels of service from FY15 to FY16, the District will need to expend \$2,684.0 million, or approximately \$90.7 million more than in FY15. The primary drivers of this increase are rising charter school, pension, healthcare, and debt service costs. Together, growth in these expenditures accounts for approximately \$87.9 million, or 96.9 percent, of the total baseline expenditure increase from FY15 to FY16.

The funding proposed by the Governor and Mayor will enable the District to invest an additional \$180.0 million in critically needed services, staff, and support programs for Philadelphia schools. With the additional funding from the Governor and Mayor, District expenditures will total \$2,864.0 million.

The expenditure components of the District's FY16 budget are detailed below:

- District-Operated Schools: \$1,432.2 million
- Charter Schools: \$796.3 million
- Debt Service: \$277.8 million
- Out-of-District Placement and Non-Public Services: \$108.7 million
- Administrative Support: \$77.5 million
- Undistributed Budgetary Adjustments: **-\$8.4 million**
- Critical Investments from Additional Funding: \$180.0 million



District-Operated Schools

The largest portion of District operating funds are expended on District-operated schools. Excluding debt service, approximately \$1,432.2 million of the District's \$2,684.0 million baseline expenditures will be spent on instruction, support, and operations in schools. More than \$914.9 million of these expenditures are spent on regular and special education instruction. The second largest subset of expenses, approximately \$282.3 million, pays for school operations including facilities, utilities, and transportation for District schools. The remaining \$235.0 million is spent on various supports for schools, including:

- \$62.8 million for nurses, counselors, and psychologists;
- \$38.2 million for English Language Learners;
- \$30.2 million for school police;
- \$27.0 million for alternative education;
- \$19.1 million for per diem substitutes;
- \$7.6 million for athletics;
- \$7.3 million for itinerant music;
- \$5.8 million for additional supports for Promise Academies; and
- \$37.0 million for other supports for schools including education technology, professional development, early childhood education, summer programs, extracurricular activities, and insurance.

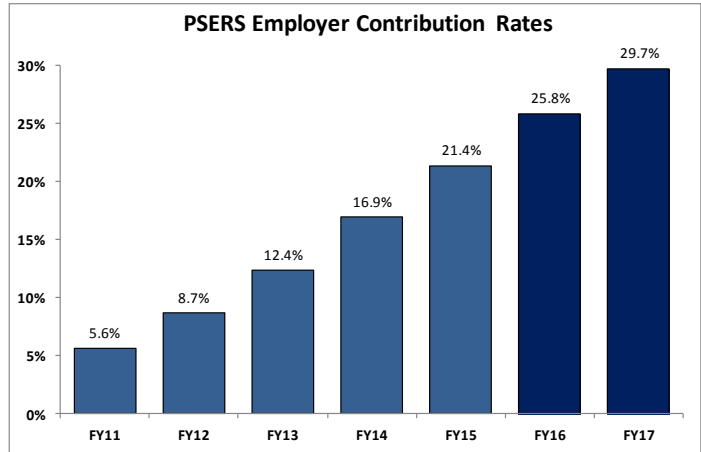
Administrative Support

The District's central office supports students, families, and schools in Philadelphia, including charter and non-District schools. In FY16, baseline administrative supports are projected to cost \$77.5 million, or 2.7

percent of the District’s total operating budget. Since FY11, the District has significantly reduced its central office costs, including reductions of approximately 375 operating fund full-time equivalents (FTEs), which equates to a 44.3 percent staff reduction.

Rising Cost of Personnel Benefits

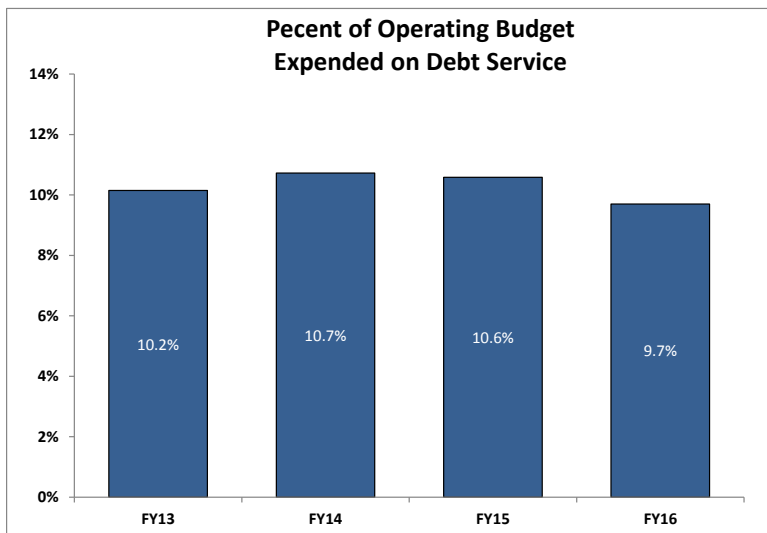
A major cost driver for the School District is the rising cost of personnel benefits, particularly retirement contributions and healthcare costs. Retirement contributions are a state-mandated expenditure over which the School District has no control. The employer contribution rate for PSERS, which is set forth in state law, has been growing drastically in recent years, causing a drain on District resources. From FY11 to FY16, the PSERS rate has grown from 5.6 percent to 25.8 percent and is expected to continue to rise in FY17 and beyond. Between FY15 and FY16, District expenditures other than PSERS (before the \$180.0 million in new investments) grew at 2.3 percent, while PSERS expenditures grew by 21.9 percent.



The District’s medical, dental, and vision costs have also grown in recent years. FY16 baseline budgeted healthcare costs are \$164.4 million. This is approximately \$9.8 million, or 6.3 percent, more than the cost projected for FY15. As a result, a growing share of District revenues must be spent on personnel benefits rather than school services.

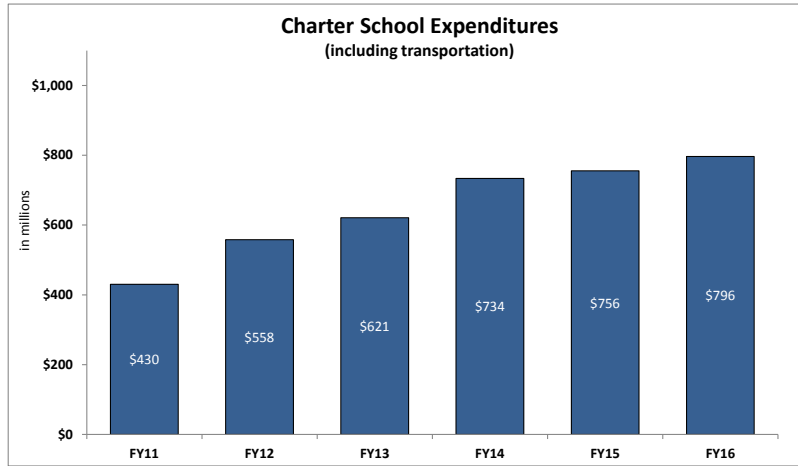
Debt Service

The District is projected to spend \$277.8 million, or 9.7 percent of its total budget, on debt service in FY16. While payments for debt service have become an increasingly larger share of the District’s overall operating budget in recent years, the percentage of the District’s budget spent on debt service is expected to decrease in FY16. One reason for this decrease is the expected overall increase of the District’s operating budget - as the overall budget increases, the percent of the budget required for debt service payments will decrease. Another reason is that the District has slowed the growth of debt service payments by more effectively managing debt issuances and refinancing bonds. In FY15, the District refinanced approximately \$285.5 million in bonds, saving an estimated \$3.3 million per year through FY26.



Charter Schools

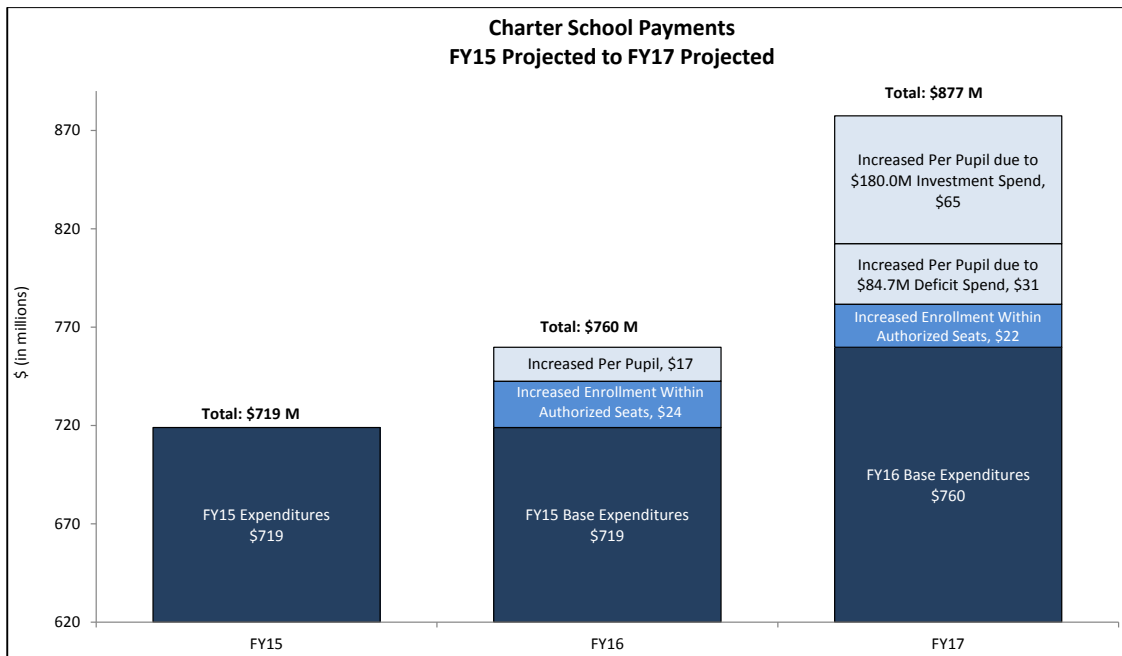
Payments to charter schools are mandated expenses that have grown significantly since FY11. In FY11, payments to charter schools and transportation for charter school students constituted approximately 18.0 percent of the District’s operating budget. In FY15, these costs are projected to be approximately 29.1 percent of the District’s operating budget, costing approximately \$755.6 million. In FY16, costs for charter schools are projected to rise by another \$40.8 million. While this is a nearly six percent increase over FY15 projected expenditures, the cost as a percentage of the overall budget is expected to decrease as total District spending grows from new funding.



While charters are projected to be a smaller percentage of overall District spending in FY16 due to the overall increase in projected District resources, costs for charter schools are projected to rise dramatically in FY17 as a result of the state-mandated per pupil funding mechanism for charter schools. In accordance with State law, the District pays charter schools based on its per pupil expenditure for regular and special education students from the prior year. If the District invests the proposed new funding in District schools in FY16, charter schools will receive a significant increase in per pupil funding the following year, FY17. If the District spends all of the \$264.7 million in new funding proposed in FY16, payments to charter schools to serve the same number of students are estimated to increase by approximately \$96 million in FY17.

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Out-of-District Placement and Services for Non-Public School Students

The District is responsible for paying for educational services for Philadelphia students in placements outside of Philadelphia and for some services for Philadelphia students in non-public schools. In FY16, the District is projected to spend \$108.7 million on out-of-District placement and services for non-public school students, consisting of \$87.9 million in payments for educational services and \$20.8 million for transportation for non-public school students. These costs have remained relatively constant in recent years.

Undistributed Budgetary Adjustments

Undistributed budgetary adjustments consist of budget items that affect the entire operating budget but cannot be assigned to a particular departmental budget or set of budgets. These items include:

- Personnel costs/savings not associated with a particular department (e.g., benefits provided to retirees or lower separation costs due to the restoration of positions);
- Lapsed appropriations (i.e., unspent budgets); and
- Budgetary reserves for unforeseen events (i.e., snow removal).

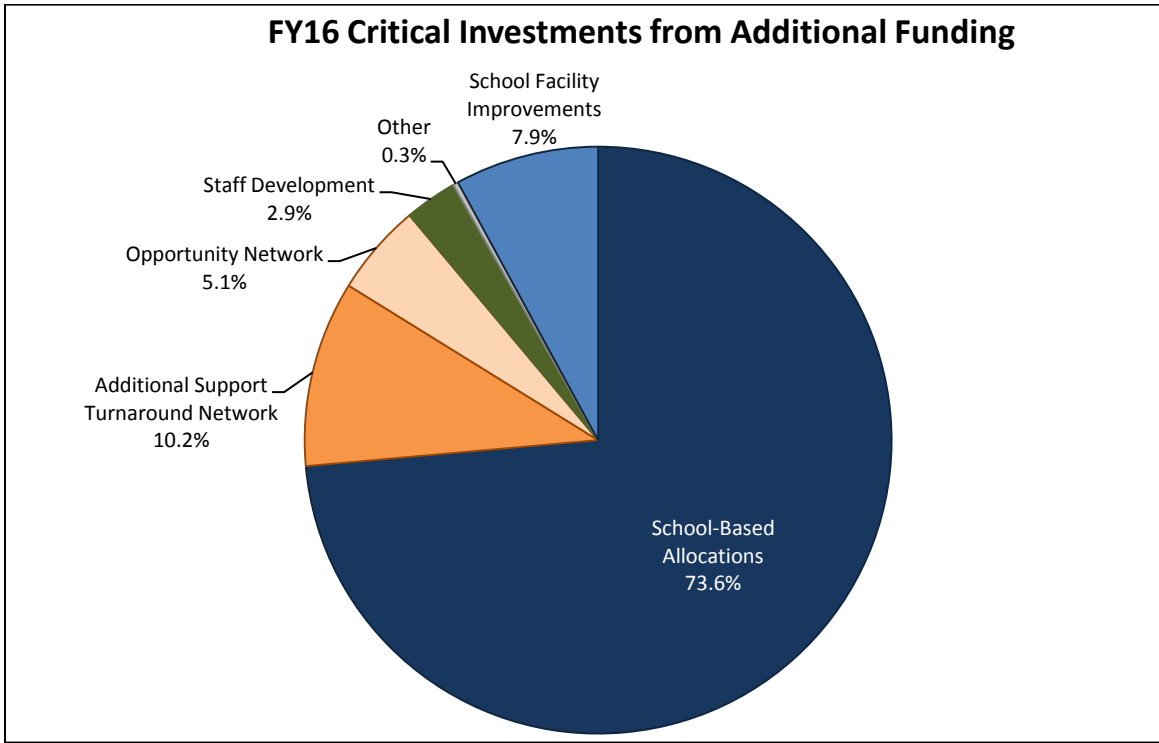
Total undistributed budgetary adjustments in FY16 are negative \$8.4 million.

Critical Investments

In support of the District's efforts to improve student achievement and opportunities, Governor Wolf and Mayor Nutter have proposed a combined \$264.7 million in new, recurring resources. The \$264.7 million will provide the much needed reinvestment in schools.

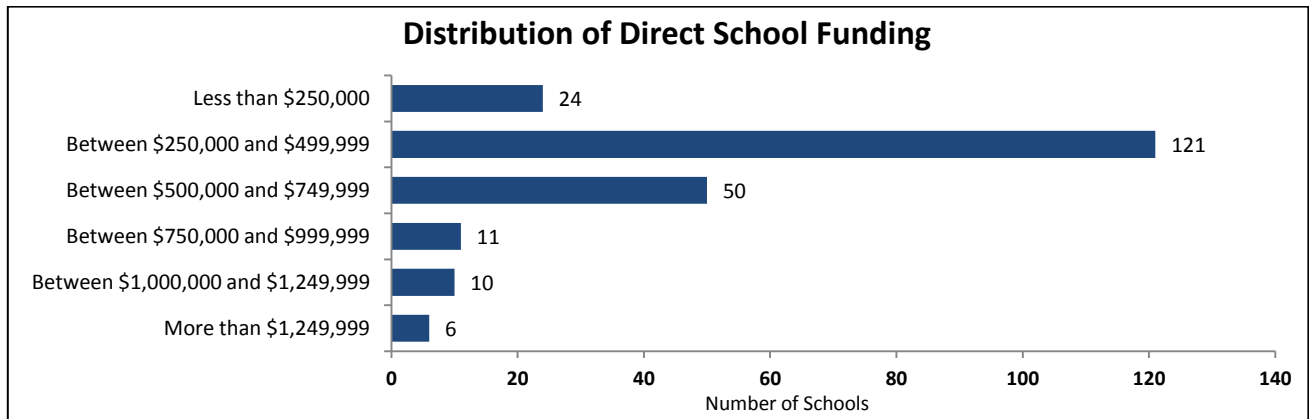
As Action Plan 3.0 makes clear, great schools for all students in Philadelphia can be achieved through a relentless focus on ensuring excellent teaching, providing safe and productive school environments, and selecting and supporting talented, committed people. Financial investments in the District will be directed to support these priorities, after ensuring that current service levels are maintained.

In summary, of the \$264.7 million in additional proposed funding, the first \$84.7 million will be used to maintain current service levels in schools and close the projected budget shortfall. The remaining \$180.0 million will be spent to ensure that excellent teaching will occur in all classrooms; the social-emotional needs of students will be met; schools will be clean, comfortable, and safe learning environments; and staff will have materials, supplies, training, and support to provide all students with a high-quality education.



School-Based Allocations

Investments in District schools will be used to simultaneously improve all schools and fundamentally transform its lowest performing schools. The majority of schools will receive between \$250,000 and \$499,999 in new, recurring resources and approximately one-third of schools will receive more than \$500,000 to support District students and families.



With District guidance and support from their assistant superintendents, principals and their staffs will be empowered to determine what programs and practices will best address the academic and social-emotional needs of the students they serve. Investments in additional school-based staff; academic, enrichment, and climate programs; and technology, teaching materials, and supplies must be designed to:

- *Accelerate student learning* by continuing to focus on and expanding early literacy efforts and enabling more students to receive individualized attention, such as through small group and one-on-one instruction.

- *Enhance college and career readiness* by broadening access to a college-preparatory curriculum, expanding Advanced Placement and honors class offerings, and supporting college exposure and knowledge.

The additional funding will provide our 11th and 12th grade students the opportunity to take courses at the Community College of Philadelphia.
-- The Workshop School

- *Provide schools with additional programming flexibility*, enabling schools to design and implement evidence-based programs and provide teachers with more opportunities for planning, collaboration, and training.

- *Improve school climate and enhance student support services* in order to address students' social-emotional needs, increase attendance, decrease suspensions, and create welcoming and supportive environments for teaching and learning.

To support student safety and climate on a daily basis for our 579 students, over 15 percent of whom require specialized services, we would like to have a nurse for five days a week.
-- H.A. Brown

- *Increase family engagement* so that more families are actively engaged in Home & School Associations and School Advisory Councils and provide school-based and system-wide trainings to further engage families in supporting student academic progress, including in early literacy.

- *Expand high-quality professional development and instructional support*, enabling teachers to receive training, support, and feedback to grow their teaching skills and increase their opportunities to collaborate with and learn from their peers.

An Assistant Principal would allow for our instructional team to better support teachers, as we would be able to work to instill our vision and goals through Danielson and the on-going observation cycle more completely.
-- Sayre High School

- *Support special education students* by having more students who require specialized services included in the regular education environment and enhancing the professional development and supports provided to teachers serving special education students.

- *Support at-risk students* by providing targeted, timely interventions and supports for students who are behind in reading and/or math, resulting in more students staying engaged in school and graduating on-time.

Teachers would serve as intervention specialists to accelerate students to proficiency in grades K-2 and promote students beyond proficiency in grades 3-5 by increasing time spent in ELA support classes, extending guided reading, and applying specified interventions.
-- Wister Elementary

- *Improve school operations*, resulting in upgraded technology for schools and consistency of programming across years, providing students with educational stability.

Using the additional resources, schools will be able to purchase additional staff, materials and supplies, technology, contracts and extracurricular time in order to provide additional programs for students and families and professional development time for staff. The table below details how principals would spend the additional funds on school-based staff.

Position	Spend	FTE
Teacher	\$29,179,980	248.6
Climate/Operations Support	\$8,384,040	101.4
Assistant Principal	\$8,181,500	49.0
Counselor	\$6,985,300	59.5
Supportive Services Assistant	\$5,993,310	316.1
Nurse/Health Technician	\$4,473,180	37.0
Noon-Time/School Aide	\$3,472,450	268.0
Secretary	\$2,167,400	29.8
School Police	\$1,634,400	24.0
Librarian/LIMA	\$1,390,400	16.0
Classroom Assistant	\$1,062,000	20.0
Bilingual Counseling Assistant	\$726,150	10.3
School Improvement Support Liaison	\$666,900	9.0
Community Relations Liaison	\$531,300	6.9
Non-Teaching Assistant	\$513,100	7.0
Technical Maintenance Specialist	\$149,090	1.7
Total	\$75,510,500	1,204.3

The District will also use a portion of these funds to expand innovative, research-based approaches to school transformation and new school design; support school and administrative infrastructure; and improve its services to families. Among other things, these resources will be used to:

- *Support schools* that are a part of the District’s School Redesign Initiative, a school-led approach to school improvement.
- *Support the design of new schools* built upon evidence-based practices from other Districts or systems to provide additional, quality options for students.
- *Recruit, develop, and support high-quality employees* in order to support the implementation of the District’s rigorous curriculum across all schools. Approximately 2.9 percent of the \$180.0 million will be directed to support this effort.
- *Improve school environment* to enhance students’ physical learning space through additional cleaning and maintenance services. Within a three-year period, these new resources will enable the District to paint and brighten many of its schools. Approximately 7.9 percent of the \$180.0 million will be directed to support this effort.

Turnaround Network

The District will also invest in initiatives that would effectively turnaround low-performing schools and open up new opportunities for students who are currently attending these schools. These actions will vary depending on a school’s context, but could include implementation of a District-designed turnaround model that is flexible enough to adjust to a school’s context and student needs; the Renaissance charter school model; or other, flexible turnaround approaches. For FY16, the District will dedicate 10.2 percent of the \$180.0 million in new funding to develop and implement this turnaround network.

Opportunity Network

In addition to turning around its lowest performing schools, the District is committed to supporting students who may require alternative learning opportunities, including students who have dropped out of school, are over-age and under-credited, or are at risk of dropping out. Approximately 5.1 percent of the \$180.0 million will be dedicated to expanding the alternative education pathways available to students.

Risks to the Budget

It is important to note that there are risks associated with some of the assumptions in the FY16 proposed budget. Specifically, these assumptions include:

- *Governor's Proposal:* The District's budget assumes that it will receive the \$159.4 million in new funding proposed by the Governor of Pennsylvania. If this funding is not approved, significant cuts will need to be made to bring expenditures in line with revenues.
- *Mayor's Proposal:* The District's budget assumes that it will receive the \$105.3 million in new funding proposed by the Mayor of Philadelphia. If this funding is not approved, significant cuts will need to be made to bring expenditures in line with revenues.

Without full funding of these proposals, some of the investments described will not be able to be implemented. Furthermore, if less than \$84.7 million in new revenues are approved, the District will be forced to make significant reductions in services. Given that schools are already operating at bare-bones levels, additional cuts would strip desperately needed supports from students, staff, and families.

Additional Resources

In addition to the operating budget revenues, the District also receives grant funding to supplement school services, issues debt for capital improvements, and maintains a food services enterprise fund to provide meals to students.

Grant Funds

After years of significant cuts due to the loss of stimulus and state grants, grant funding for the District has stabilized. Between FY14 and FY15, grant fund expenditures increased due to the carry-forward of federal Title I, Title II, and Race to the Top grants, and from additional resources in the State Accountability Block Grant. A modest reduction of resources is expected between FY15 and FY16, due primarily to the end of the federal Race to the Top and School Improvement Grants. Through effective grant management and prioritization of resources, the School District has been able to allocate a portion of its federal formula grants (Title I and Title II) to provide critical supplemental supports for Action Plan 3.0 initiatives.

Action Plan Anchor Goal: 100% of 8-year-olds will read on grade level

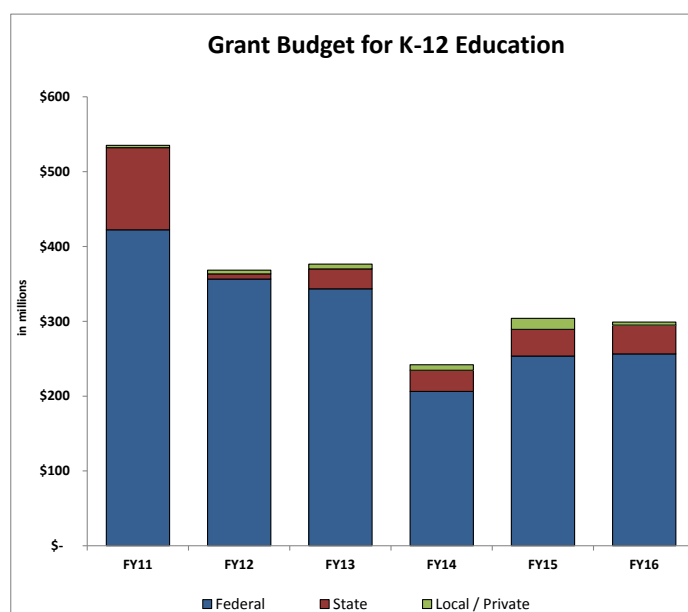
- *Early Literacy Support* – Grant-funded Early Literacy Specialists were assigned to support approximately 71 state-designated Priority and Focus elementary schools this year. This support will continue next year. Additionally, grant-funded Reading Specialists will be placed in the 18 lowest performing K-8 schools (Priority and Focus designated) next year.

Action Plan Anchor Goal: 100% of students will graduate, college and career ready

- *Keystone Support* – The 19 neighborhood high schools with the lowest graduation rates will receive grant-funded support next year from Keystone Project Managers, who will be responsible for managing student projects and supporting instructional quality in the Keystone tested courses.
- *Special Education Support* – The 30 state-designated Priority and Focus schools with the highest concentrations of students with disabilities will receive grant-funded Resource Teachers to serve as special education leaders.

Action Plan Anchor Goal: 100% of schools will have great principals and teachers

- *Supporting Teaching* – Grant funds will be allocated to support observation and feedback coaches, including a data analyst and program manager, to provide one-on-one coaching and support for principals in observing, recording, and delivering high quality, evidence-based, actionable feedback to teachers.
- *Supporting Principals* – To supplement the state's rubric for formally evaluating principals, the District will use grant funds to implement the Vanderbilt Assessment of Leadership in Education (Val Ed) 360-degree assessment tool that includes feedback from the principal and teachers, as well as from the principal's supervisor. Additionally, the District will use grant funds to expand the pool of Assistant Superintendents, allowing them to provide more frequent and focused support for the principals they supervise.
- *Targeted Staffing* – To identify, cultivate, and hire teachers and non-instructional staff to work in high-needs schools, grant-funded recruiters will be hired in preparation for the 2015-16 school year.



Capital Improvement Program

The School District’s Capital Improvement Program is a set of projects that build, rebuild, replace, and renovate facilities. To align the District’s Action Plan and school-level facility needs with available resources, the District’s Capital Program Office initiated a Capital Budget Call, which asked principals and central office administrators to identify capital needs for schools and for the District as a whole.

Consistent with the Action Plan, the Capital Improvement Program supports capital projects that have a “useful life” of five years or more to create an environment conducive to learning. The Capital Improvement Program has supported building new schools and additions, the renovation of existing facilities, and life-cycle replacements for critical building elements like roofs, boilers, and windows. The largest percentage of the capital budget is spent on life-cycle replacements such as boilers, windows, HVAC systems, and building additions.

Capital Funding

The School District funds the Capital Improvement Program by selling bonds, which are long-term District debt repayable with interest, usually over 30 years. The proceeds from the District’s bond sales are the funding source for the Capital Improvement Program. Each year, the District adopts a capital budget to reflect that fiscal year’s Capital Improvement Plan. The capital budget is used to allocate funds for professional services (i.e. architects, engineers, appraisers, contractors, attorneys), land, equipment, supplies, and for the costs of the projects in the capital budget. The debt service fund in the operating budget is used to make the District’s payments of principal and interest associated with the District’s bonds.

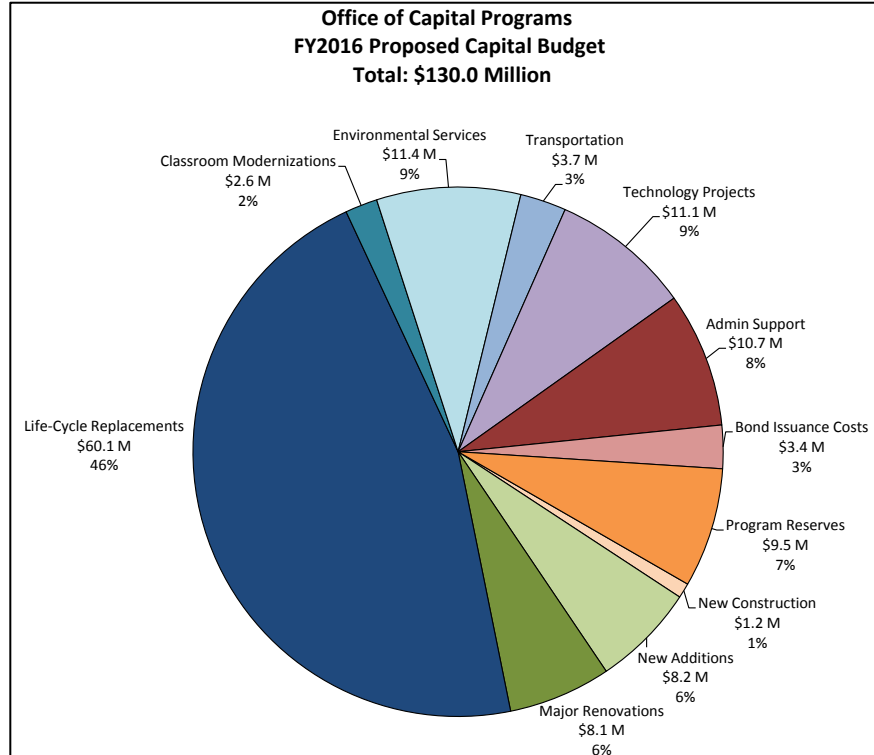
Investments

District capital investment has increased in the past decade. Nevertheless, this increased expenditure level still remains well below the optimal level of spending needed to maintain facilities. The current total estimated value of the District’s 344-building real property portfolio, which includes primary school buildings, administration, field houses, annexes, and garages is \$7.4 billion.

With an average building age of 65.4 years, the Capital Program Office has estimated the District’s optimal annual life cycle replacement costs to be \$320 million. This amount has been determined by counting the

District’s major building components such as roofs, windows, boilers, building envelopes, doors, chillers, elevators, cooling towers, fire alarms, and automatic temperature control systems; evaluating their respective expected life cycles; estimating their respective current replacement costs; and summing up the costs per year per component.

The proposed Capital Plan for FY16 is \$130.0 million.

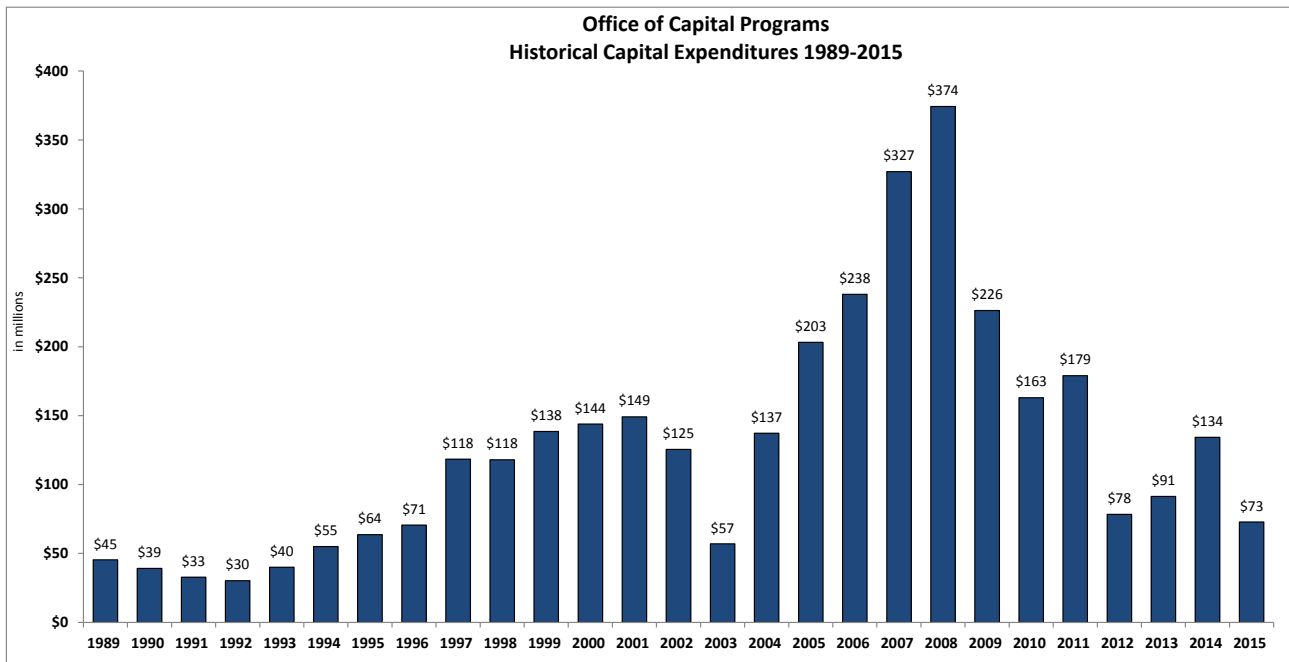


In short, the limited investments in Capital Projects in prior years have led to a deferred maintenance backlog. Despite dramatic increases in the levels of investment in facilities over the past 10 years, this backlog has not been eliminated. As a result, life-cycle replacement targets for the next six years are:

- \$60.1 million in FY16
- \$87.0 million in FY17
- \$80.2 million in FY18
- \$77.4 million in FY19
- \$79.7 million in FY20
- \$80.5 million in FY21

The proposed FY16 Capital Plan reflects \$60.1 million in life cycle replacements comprised of:

- \$8.3 million for boiler and chiller replacements and automatic temperature controls
- \$21.0 million for structural and façade restorations
- \$11.4 million for roof replacements
- \$0.8 million for window and door replacements
- \$15.3 million for electrical systems upgrades and replacements
- \$2.8 million for site improvements
- \$0.5 million for food service and security equipment



Food Services

The Food Service Division provides all kindergarten to 12th grade students with daily breakfast and lunch meals in 230 District and 17 charter school locations, as well as twilight dinner meals in high-need District locations.

In FY16, Food Services revenue is projected to exceed \$89 million, with meal volume exceeding 29 million in the 2015-16 school year. This represents a 2.5 percent increase from the 2014-15 school year and an 18.4 percent increase from the 2013-14 school year. This large increase is due in part to the District’s participation in the U.S. Department of Agriculture’s (USDA) Community Eligibility Program, which has allowed the Food Services Division to expand its free student meal program to include lunch as well as breakfast service. Given the direct link between better student nutrition and improved academic performance, expanding meal participation has been a major goal of the Food Services Division.

The Food Services Division receives no District operating support. Food Services revenues are provided from various student meal reimbursement programs, primarily the U.S. Department of Agriculture National School Lunch Program. The Division receives an average of \$2.73 per meal served; federal sources provide 93 percent of this funding and the Commonwealth of Pennsylvania provides the remaining seven percent of funding.

In exchange for receipt of federal and state funds, the Food Services Division must adhere to various USDA nutritional standards, which specify the exact components of each meal served; limit caloric intake; stress fresh fruits, vegetables, and whole grains; and limit the frequency with which some items can be served. The Food Services Division expends 93 percent of its revenues on student meal delivery. Approximately 59 percent of every dollar is spent on food and cafeteria supplies and 34 percent is spent on labor. The Division workforce comprises over 800 employees, including 13 central office staff. Through the use of automated accounting, meal ordering, and inventory management, the District has been able to save in recent years and provide meals free-of-charge to schools.

The Need to Invest

The District needs a significant increase in funding in order to reinvest in schools and students. Without additional revenues and after consecutive years of deep cuts, there is no way to close the projected budget gap without affecting positions and programs essential to the functioning of the school system. The District's budget challenge is not just a matter of stemming disinvestment; it is a matter of essential, urgent reinvestment.

Missing this opportunity to invest in District schools will carry a great cost to the future of Philadelphia and the Commonwealth of Pennsylvania. In FY14, 42 percent of students in grades 3 through 8 performed at the proficient or advanced level in reading and 45 percent of these students performed at proficient or advanced level in math. At the high school level, 39 percent of students passed the Algebra I Keystone Exam, 26 percent of students passed the Biology Keystone Exam, and 52 percent of students passed the Literature Keystone Exam. To give all young people a chance for a successful future, the District can and must do better. The District's Action Plan 3.0 provides a clear path to how it will do so; implementing it fully and well requires a significant infusion of recurring resources.

Giving all students the opportunity to receive a quality education requires meaningful financial investment from District partners and effective management of District expenditures, as demonstrated in recent years. The Commonwealth of Pennsylvania and the City of Philadelphia can take the lead in standing up for Philadelphia schools and students by providing the proposed, recurring investment of \$264.7 million.