

The School District of Philadelphia

# Budget in Brief

## FY 2016-2017

### Lump Sum



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## Introduction

On March 24, 2016, the School Reform Commission adopted the District's proposed Lump Sum Statement for FY17. The Lump Sum Statement for FY17 was presented by the District in the context of a Preliminary Five-Year Plan (FY17-21), a long-term view which allows the District to propose a spending plan which strives for structural balance, while determining investments designed to achieve the mission of achieving equity in educational opportunity for all children.

The FY17 budget and five-year plan projections are based on actual revenues and expenditures, current law, historic trends, and the most recent budget proposals. In establishing the budget and preliminary spending plan, the District's primary objectives were to identify sufficient revenues to meet the anticipated obligations of the first 24 months, and establish baseline financial projections to enable dialogue among all School District funders (City, State, private) in order to identify pathways for achieving long-term structural balance.

Investments are critical to improving the District's performance. After operating in deficit mode since FY12, cutting thousands of positions, and reducing supports to schools, the District is projected to end FY16 and FY17 with modest surpluses while reinvesting in schools. The District's improved fiscal state is a result of difficult decisions made by the District and the SRC, bringing expenditures in line with revenues.

In spite of the District's progress towards financial stability, persistent long-term challenges remain. The District has no control over its own revenue sources, and limited control over its largest expenditures. Over the next five years, the District's projected expenditure growth rate of 4.5 percent is driven primarily by continued growth in charter, pension, and healthcare costs. This expenditure growth rate is more than double the projected revenue growth rate of 2.2 percent. This structural imbalance results in a projected operating deficit in FY18 and a projected negative fund balance by the end of FY19.

Given the District's improved fiscal state, the School District did not request additional funding from the City or State for FY17 above the current proposed amounts. The FY17 budget, and five-year fiscal projections out through FY21 are dependent on the increases included in the Governor's proposed budget. Without that increased level of funding, the District will more quickly face the prospect of unwinding today's basic investments. Regardless of the outcome of the state's FY17 allocation for the District, the District will need support from its funders to ensure additional, recurring funding to maintain current programs and implement necessary investments in future years.

## Budget Focus:

### Investments

The District's Lump Sum and Preliminary Five-Year Plan, FY16-21, includes over \$440 million of investments to support schools over a six-year period. These basic investments, designed to advance the goals of the Action Plan, include recurring and non-recurring investments of \$84 million in FY16 and predominantly recurring investments of \$60 million in FY17. These investments are aligned with the goals of Action Plan 3.0, which the Superintendent released in March 2015. Action Plan 3.0 is a strategic plan grounded in equity and focused on four anchor goals. The Preliminary Five-Year Plan identifies the following measurable five-year milestones for each Anchor Goal and investments to enable the District to meet them:

#### **Anchor Goal 1: 100% of our students will graduate, ready for college and career**

- Current: 65% graduation rate
- **5 year milestone: 80% graduation rate**

**Anchor Goal 2: 100% of 8-year-olds will read on grade level**

- Current: 33% on grade level at age 8
- 5 year milestone: 66% on grade level at age 8

**Anchor Goal 3: 100% of schools will have great principals and teachers**

- Current: 6% distinguished teachers and principals<sup>1</sup>
- 5 year milestone: Engaged and supported principals and teachers with strong instructional skills

**Anchor Goal 4: SDP will have 100% of the funding we need for great schools, and zero deficit**

- Current: Narrow current fiscal year surplus with projected out-year deficits
- 5 year milestone: Five-Year balanced budget projections

In line with the Action Plan, the District's investments included in the Lump Sum and Preliminary Five-Year Plan focus on Literacy, College and Career Readiness, and Talent/Workforce Development:

Literacy

- Instructional materials refresh for K-8 Math and reading anthologies for all levels
- Additional Children's Literacy Initiative coaches
- Investments in District Turnaround schools and new renaissance charters

College and Career Readiness

- IT refresh of all high school classrooms and all high school labs
- Increased funding and opportunity for advanced placement courses, gifted education, and PSAT/SAT testing
- Summer enrichment opportunities

Talent/Workforce Investment

- Supplemental teacher hiring to plan for normal attrition and eliminate system-wide vacancies
- Counselors for every school and nurses in every school building
- Fair workforce agreements that allow for 21st century learning environments
- Appropriate staffing of Central Office to support schools

Proposed investments for FY16 and FY17 include \$32 million of instructional material refresh and \$12 million for counselors and nurses. All schools have purchased at least one counselor for FY17 and each school has been centrally-allocated at least one nurse or one nurse per building if a building is shared by two schools. The budget also includes additional investments for new Renaissance charter schools and in-District turnaround schools, focusing on the lowest performing schools with new opportunities designed based on each school's context and students' needs. In March of this year (FY16), the District also pushed out \$7.8 million of funding, allocated on a per pupil basis, for all schools to use at their discretion.

In addition to the investments included in the FY17 budget and FY17-21 Preliminary Five-Year Plan, the District has identified the next series of investments which would enable accelerated school improvement. If additional funds become available, these additional investments would include:

- (1) elimination of split classes in grades 1-3;
- (2) expansion of the Summer Institute program to ensure that all teachers are "Ready to Teach;"
- (3) classroom transformation project to refresh all classrooms over four years;
- (4) providing for a Reading Specialist and an Early Literacy Coach in every elementary school; and,
- (5) instituting common prep and planning time in grades K-3.

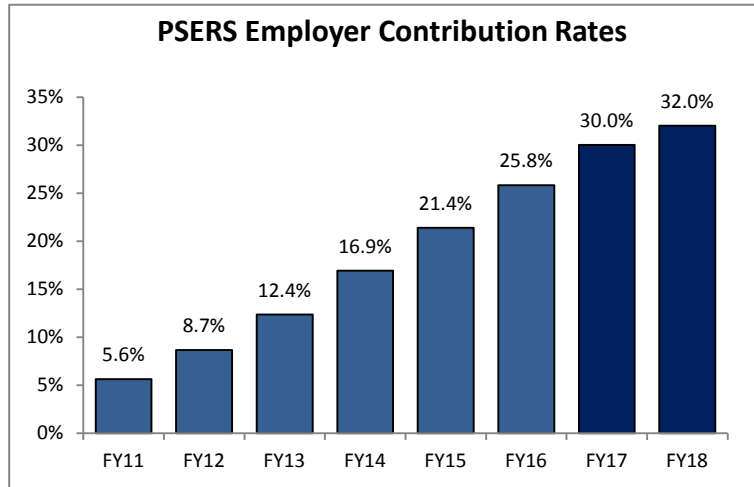
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<sup>1</sup> Pennsylvania's Act 82 states that all professional employees must be evaluated once a year and temporary professional employees must be evaluated twice a year. Act 82 requires that all teachers will be rated as Distinguished, Proficient, Needs Improvement, or Failing. Distinguished is described as "the employee's performance consistently reflects teaching at the highest level of practice."

Meaningful, recurring resources from District partners, in conjunction with effective management of District funds, will allow for the necessary investment in providing educational opportunities for Philadelphia’s children. Estimated costs for all five investments are \$92.2 million beginning in FY18, with a total cost through FY21 of \$382.8 million.

### The 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 will rise to 30.0% in FY17 with further increases expected beyond that. Between FY16 and FY17, District budgeted expenditures excluding PSERS grew at 4.2 percent, while PSERS expenditures grew by 18.7 percent.



The District’s medical, dental, and vision costs have also grown in recent years. FY17 lump sum budgeted healthcare costs are \$164.2 million. This is approximately \$8.9 million, or 5.8 percent, more than the cost projected for FY16. As a result of these benefit increases, a growing share of District revenues must be spent on personnel benefits rather than school services.

### Issues and Risks to the Budget

It is important to note that there are issues and risks that could materially affect the projections included in the FY16 and FY17 lump sum budgets. Specifically, these include:

- *Ongoing FY16 State Revenues Uncertainty:* While the majority of the FY16 State budget has been approved, the Fiscal Code remains unresolved as of this writing. The fiscal code determined how a portion of the State’s education funding was going to be distributed to school districts. As a result, there is a risk that the District will not receive all of the state revenue projected in FY16 or FY17 (current year funding can impact FY17 funding). In addition, the fiscal code includes the authorizing legislation for PlanCon borrowing (the Planning and Construction Workbook fund, or PlanCon, is administered by the state Department of Education and reimburses school districts for school construction projects). The District had projected to receive \$12.1 million in PlanCon funding in FY16.
- *FY17 Governor’s Proposed Budget:* The District’s budget assumes that it will receive State revenues consistent with the Governor’s FY17 proposed budget presented on February 9, 2016. If the approved FY17 State budget does not include anticipated State revenues, the District will be further constrained in its efforts to achieve fiscal structural balance. Additionally, delays in the approval and release of State funds in FY17 could result in increased borrowing costs and uncertainty, making planning and investments more difficult.

- *State Supreme Court Case Ruling:* On February 16, 2016, the Pennsylvania Supreme Court ruled unconstitutional the provision in State law granting the School Reform Commission the power to suspend certain provisions of the State Public School Code. This ruling is likely to have a significant long-term impact on the operations of the District; however, the implications have not yet been fully determined.
- *Potential Repayment of Variable Rate Debt:* As a result of the FY16 State budget impasse, the District had to increase the size of its short-term borrowing. Since the District has started to receive the remainder of its basic and special education funding from the State, it may be able to pay back a portion of this additional debt earlier than anticipated and realize budgeted savings in this area.

### **Budget Overview**

The District's FY17 lump sum statement includes operating revenues of \$2,805.3 million and operating expenditures of \$2,794.5 million, resulting in a projected operating surplus of \$10.8 million. The District is projected to end FY16 with a \$63.4 million operating surplus, which will result in a FY16 projected ending fund balance of \$134.6 million and a FY17 projected ending fund balance of \$135.7 million.<sup>2</sup>

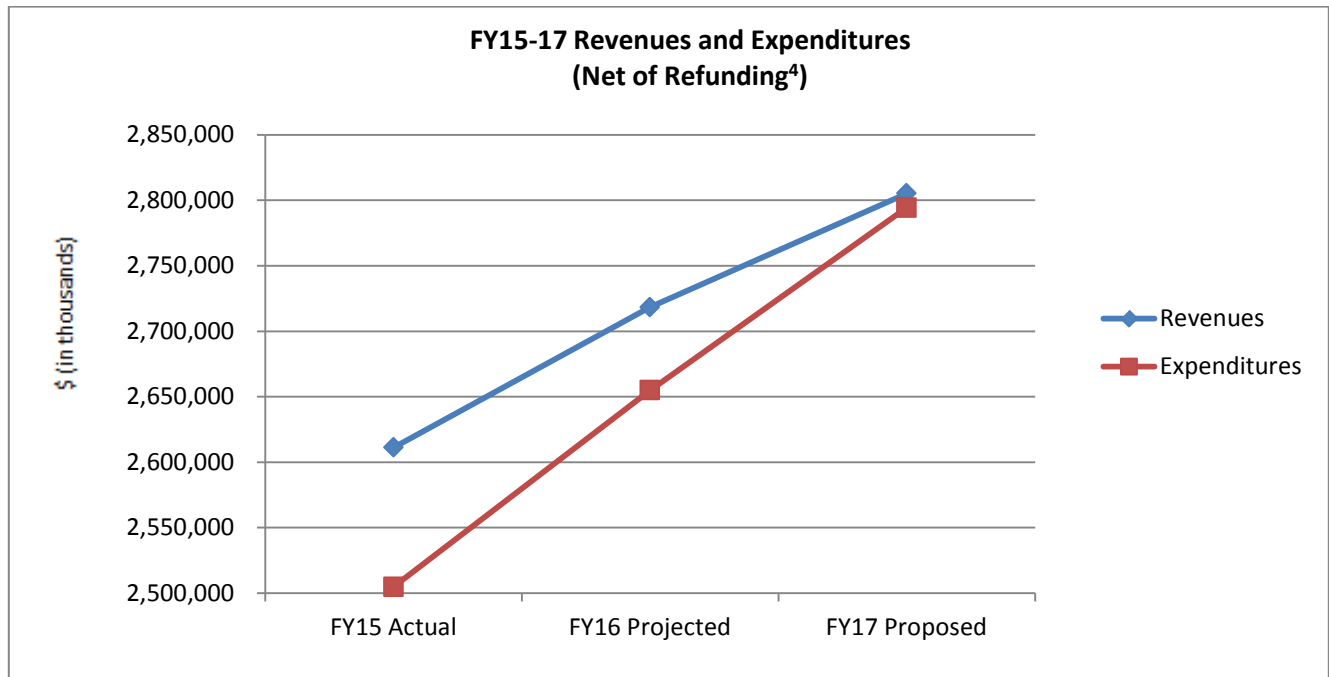
Approximately 95 percent of the FY17 projected ending fund balance of \$135.7 million is the result of annual operating surpluses in FY15 and FY16 (\$85.0 million in FY15 and 46.5 million in FY16).

The District continues to balance the need for additional investment in schools with the need for fiscal stability. The 2015 operating fund surplus was not apparent until the very end of the fiscal year due in large part to the late receipt of certain tax revenues. The District's ability to reinvest operating savings was limited for most of FY16 due to the FY16 State budget impasse, and uncertainty introduced by the recent State Supreme Court decision.<sup>3</sup> In addition, the projected FY17 fund balance, while positive, was still considered inadequate by many standards and is not recurring. The Government Finance Officers Association (GFOA) recommends a fund balance of no less than two months of general fund operating revenues or expenditures; for the District, two months of operating fund revenues is \$467.5 million. The District's FY17 projected year end fund balance is \$135.7 million, representing less than three weeks of operating revenues. As importantly, by FY19, the District will be facing a negative fund balance because the underlying structural imbalance between the growth in revenues and expenditures remains.

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<sup>2</sup> Transfers from Reserves are not included in the total expenditures. FY16 transfers from reserves are \$16.9 million (\$9.7 million for trapped funds and \$7.2 reserved for grant litigation); FY17 transfers from reserves are \$9.7 million (\$9.7 million for trapped funds). The operating surpluses net transfers from reserves are: FY16 \$46.5 million, and FY17 \$1.1 million.

<sup>3</sup> On February 16, 2016, the Pennsylvania Supreme Court ruled unconstitutional the provision in State law granting the School Reform Commission the power to suspend certain provisions of the State Public School Code.



<b>SCHOOL DISTRICT OF PHILADELPHIA</b>			
<b>OPERATING BUDGET</b>			
<b>FISCAL YEARS 2015/2016 AND 2016/2017</b>			
Amounts in Thousands			
	<b>Actual</b>	<b>Projected</b>	<b>Proposed</b>
	<b>2014/2015</b>	<b>2015/2016</b>	<b>2016/2017</b>
Revenues	\$2,592,460	\$2,712,130	\$2,803,787
Other Financing Sources	\$317,952	\$6,344	\$1,489
Total Revenues and Other Financing Sources	\$2,910,412	\$2,718,474	\$2,805,276
Obligations	\$2,502,693	\$2,650,548	\$2,792,207
Other Financing Uses	\$302,584	\$4,500	\$2,252
Total Obligations and Other Financing Uses	\$2,805,277	\$2,655,048	\$2,794,459
Prior Year Fund Balance (Deficit) July 1	\$3,043	\$88,048	\$134,572
Fund Balance Prior to Changes in Reserves	\$108,178	\$151,474	\$145,389
Changes in Reserves	(\$20,130)	(\$16,902)	(\$9,702)
<b>Fund Balance (Deficit) June 30</b>	<b>\$88,048</b>	<b>\$134,572</b>	<b>\$135,687</b>

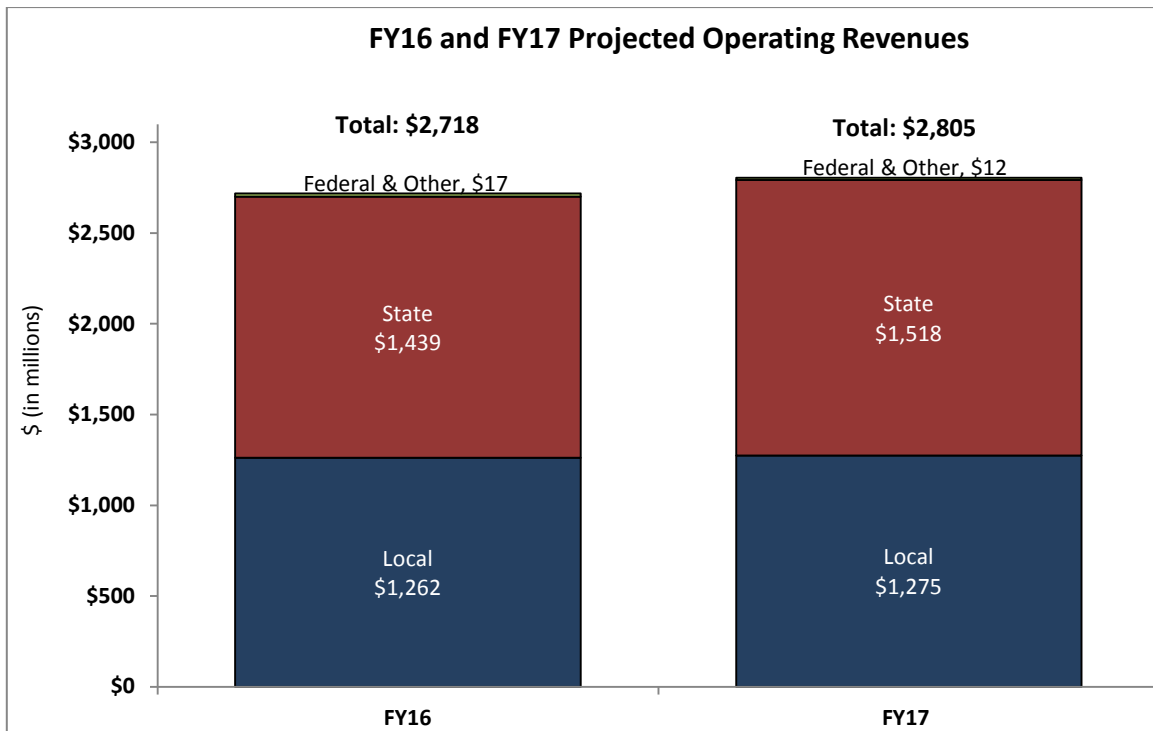
<sup>4</sup> The chart is adjusted to exclude the effects of a refunding in FY15, which accounts for \$299.1 million of FY15 revenues and \$300.4 million of FY15 expenditures.



**Revenues**

From FY16 to FY17, revenues are projected to increase by \$86.8 million, or approximately 3.2 percent. More than 60% of the increase is driven by a \$56.0 million increase in basic education and special education funding included in the Governor’s FY17 proposed budget. Other significant revenue increases include \$15.1 million in increased real estate tax revenue collections, and a \$22.2 million increase in Public School Employees’ Retirement System (PSERS) reimbursements, stemming from a significant rise in the PSERS contribution rate from FY16 to FY17.

The FY17 State revenues are consistent with the Governor’s FY17 proposed budget presented on February 9, 2016. Approval of a FY17 State Budget which does not include these anticipated revenues presents a significant risk to the FY17 budget and Preliminary Five-Year Plan projections.



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

**Local Tax Revenues:** Local tax revenues are projected to increase by \$13.1 million, or 1.2 percent, primarily due to an increase in the real estate tax collections. Real estate tax, the District’s largest tax revenue source, which generates over 63 percent of the District’s local tax revenues, is expected to increase by \$15.1 million in FY17. The cigarette tax is expected to decrease by \$4 million. The remaining \$2.0 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 \$0.8 million, or 0.6 percent, in FY17, primarily due to reductions in miscellaneous non-tax revenue. Local non-tax revenues primarily consist of the City grant, the Parking Authority contribution, gaming revenue, casino settlements and stadium agreements.

**State Revenues:** District revenues provided by the state are projected to increase by \$79.4 million in FY17. However, if the \$22.2 million increase in PSERS reimbursement is excluded, state-provided revenues are

expected to increase by \$57.2 million from FY16 to FY17. The basic education subsidy is the District’s largest state revenue source. It makes up approximately 69.9 percent of state revenues in FY17. The increase in PSERS reimbursement is provided to pay for a portion of the District’s rising, mandated PSERS expenditures.

**Federal Revenues:** Revenues from the federal government account for less than one percent of the District’s FY17 operating revenues. Nearly all of the District’s federal revenues, 98.6 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 FY17, with a decrease of \$47,000.

**Other Financing Sources:** 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, 98.6 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 FY17, with a decrease of \$47,000.

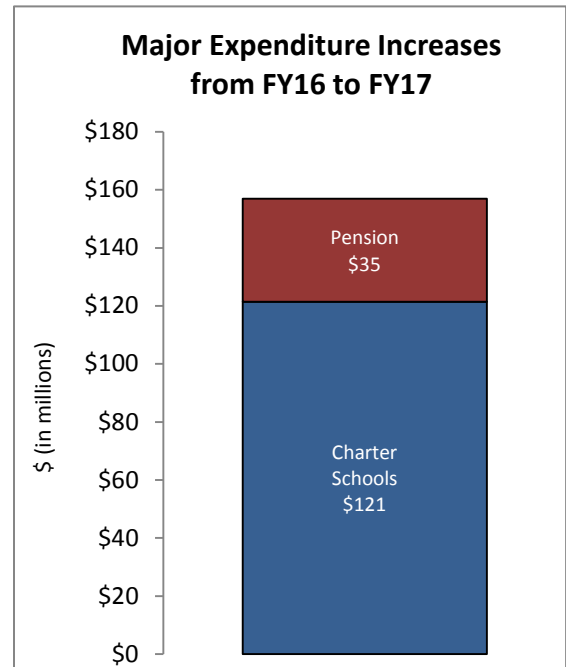
In addition to its operating revenues, the District also receives grants and food service revenues and borrows capital funds to help support its schools and students. These funds are addressed in more detail in the section entitled “Additional Resources.”

**Expenditures**

The Lump Sum Statement adopted by the SRC on March 24, 2016 includes expenditures and other uses of \$2,655.0 million in FY16 and 2,794.5 million in FY17, an increase of \$139.5 million. The primary drivers of this increase are rising charter school and pension costs. Together, growth in these expenditures accounts for approximately \$156 million, or more than 100% of the total expenditure increase from FY16 to FY17. These increases are offset by net reductions in all other areas of \$16.5 million.

The expenditure components of the District’s FY17 budget are detailed below:

- District-Operated Schools: \$1,466.9 million
- Charter Schools: \$874.9 million
- Debt Service: \$260.5 million
- Other Non District Schools (incl. Transportation): \$111.3 million
- Administrative Support: \$84.5 million
- Undistributed Budgetary Adjustments: (\$3.7) million



**District-Operated Schools**

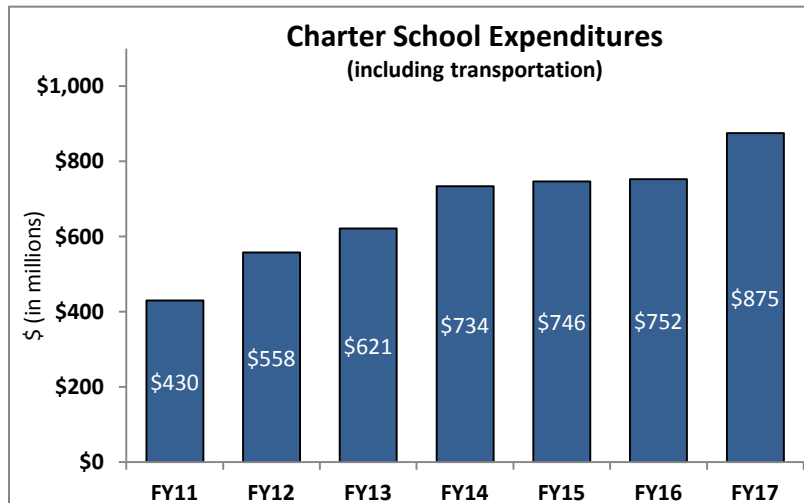
The largest portion of District operating funds are expended on District-operated schools. Excluding debt service, approximately \$1,466.9 million of the District’s \$2,794.5 million lump sum expenditures will be spent on instruction, support, and operations in schools. \$927.1 million of these expenditures are spent on regular and special education instruction. The second largest subset of expenses, approximately \$307.8 million, pays for school operations including facilities, utilities, and transportation for District schools. The remaining \$232.0 million is spent on various supports for schools, including:

- \$77.0 million for nurses, counselors, and psychologists;

- \$38.4 million for English Language Learners;
- \$31.0 million for school police;
- \$26.9 million for alternative education;
- \$19.0 million for per diem substitutes;
- \$7.7 million for athletics;
- \$7.5 million for itinerant music;
- \$6.3 million for additional supports for Promise Academies; and
- \$18.2 million for other supports for schools including education technology, professional development, early childhood education, summer programs, extracurricular activities, and insurance.

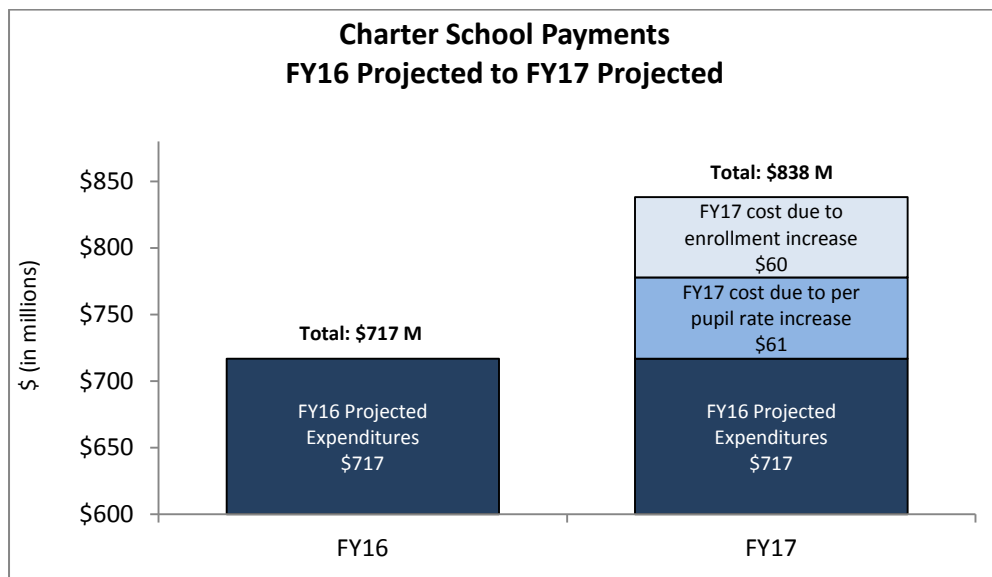
### Charter Schools

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 obligations. In FY16, these costs are projected to be approximately 28.4 percent of the District’s projected operating expenditures, costing approximately \$752 million. In FY17, costs for charter schools are projected to rise by another \$122.5 million making up 31.3 percent of the FY17 operating budget. This is a nearly 16.3 percent increase over FY16 projected operating expenditures and is almost equally due to projected increases in per pupil rates (\$61.0 million) and increases in charter school enrollment (\$60.4 million); with the remaining increase is due to charter school transportation costs (\$1.1 million).



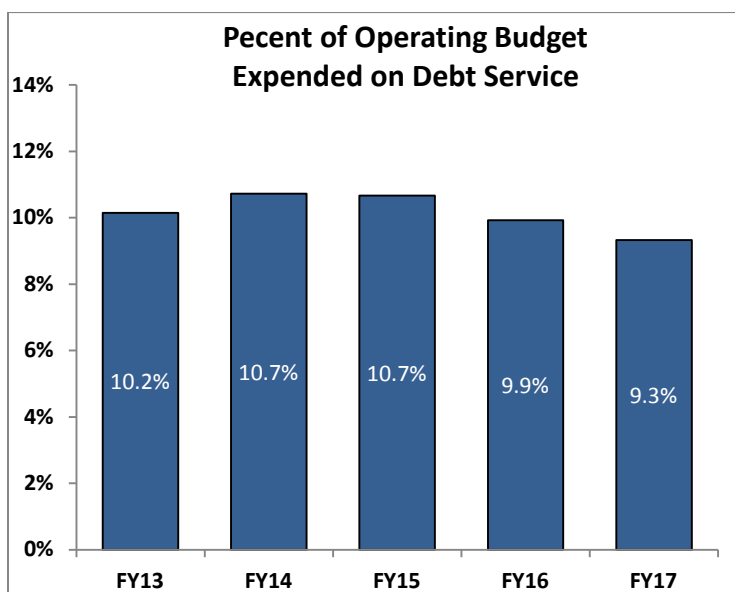
**Charter School Payments have increased from 18% of operating obligations in FY11 to a projected 31% in FY17**

Charter school rates are projected to rise 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. As the District invests in District schools in FY16, charter schools will receive a significant increase in per pupil funding the following year, FY17, and will continue to increase in the remaining years of the five-year plan.



### Debt Service

The District is projected to spend \$260.5 million, or 9.3 percent of its total budget, on debt service in FY17. 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 FY17. 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.



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

In FY17, the District is budgeted to spend \$111.3 million on out-of-District placement and services for non-public school students, consisting of \$90.6 million in payments for educational services and \$20.7 million for transportation for non-public school students. This represents a 3.0% average annual increase since fiscal year 2013.

### Administrative Support

The District's central office supports students, families, and schools in Philadelphia, including charter and non-District schools. In FY17, lump sum administrative supports are projected to cost \$84.5 million, or 3.0 percent of the District's total operating budget. Since FY11, the District has significantly reduced its central office costs, including reductions of approximately 355 operating fund full-time equivalents (FTEs), which equates to a 42 percent staff reduction.

### 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 FY17 are negative \$3.7 million

### 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. The District is also planning to create a Health Insurance (HI) Fund by the end of FY16 to segregate self-insured health-related sources and uses.

### 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 occurred between FY15 and FY16, due primarily to the end of the federal Race to the Top and School Improvement Grants. However, federal funding sources have generally stabilized between FY16 and FY17. 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**

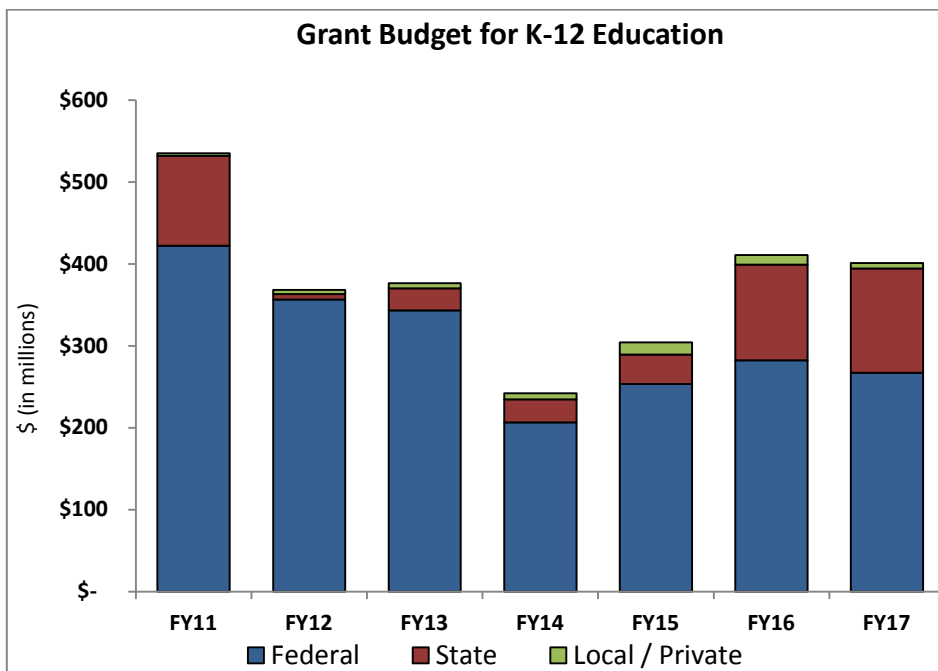
- *Early Literacy Support* – Fifty-nine grant-funded Early Literacy Specialists were assigned to support state-designated Priority and Focus elementary schools this year. This support will be continued next year with the current cohort of schools, and expanded to additional schools with the hiring of 55 additional Early Literacy Specialists. Additionally, grant-funded Reading Specialists were placed in the 18 lowest performing K-8 schools (Priority and Focus designated) in 2015-16, and those positions will be maintained in 2016-17.
- *Split Grade Eliminations* – Seventy-one additional federally-funded teachers will be provided in 2016-17 to eliminate combined grades 2 and 3 to ensure the most effective learning environments.
- *Computers for teachers* – All K-8 teachers were provided laptops in 2015-16 for professional development training and to implement the AimsWeb assessment tool that provides continuous feedback on student progress in order to modify learning approaches for student needs. Those positive impacts will carry forward into future years.

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

- *9<sup>th</sup> Grade Academy Pilot* – Four high schools (Sayre, Frankford, Kensington, and South Philadelphia) will implement focused interventions in 2016-17 with additional funding for a 9th Grade Academy Pilot. The goal of this Pilot is to provide a personalized learning environment for students at risk of dropping out who need academic, social, and emotional encouragement from teachers and school staff.

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

- *Math Strategy* – Consistent support and continuous development of all teachers and principals with high-quality training, in-classroom support, and instructional coaching is needed. Therefore, a professional development mathematics institute will be provided this summer to train approximately 2,100 teachers of grades K-12. The goal of this intensive, evidenced-based, professional development effort is to significantly improve mathematics instruction and students' math achievement. In addition, Assistant Superintendents will each be provided a Math Coach to help support effective math teaching methods across the District.
- *Supporting Teaching* – Grant funds will continue 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. In addition three Professional Learning Specialists will continue to support teacher professional development needs. Also, a Best Practice Video Library will be implemented in 2016-17 as a professional development tool accessible by all teachers, principals, and central office staff to promote effective teaching methods. In addition, many teachers will receive Conflict Resolution Training for Educators (CRETE) to help them learn how to create positive classroom climate to enhance learning, and select schools in greatest need will receive Restorative Practice training on building healthy community environments. Finally, a new Teacher center will provide active and engaging professional development for all coaches to include skills in teacher observations and feedback using the Danielson framework.
- *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 support a Principal Fellowship program, a Principal Summer Training Institute for current principals, and New Principal Academy, 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 continue to work to hire qualified teachers for the 2016-17 school year. In addition, the District will contract with Teach for America to provide qualified teachers in hard to fill subject areas, and the District is continuing its efforts to develop and attract minority candidates for staffing in the schools.



### Capital Improvement Program

The School District’s Capital Improvement Program is a set of projects that build, rebuild, replace, and renovate District facilities. To improve the alignment amongst the strategies in the District’s Action Plan, school level facility needs, and the resources available, the District’s Capital Program Office initiated a Capital Budget Call enabling principals and central office administrators to identify the needs for their individual building and the District as a whole.

Consistent with the Action Plan, the Capital Program engages in capital projects that have a “useful life” of five years or more to “create an environment conducive to learning.” Additionally, to support the District’s efforts to create a system of great schools to ensure that 100% of students graduate ready for college and career (Anchor Goal 1), the District’s Capital Improvement Program has invested in building and renovating buildings to support new schools.

To date, the School District’s Capital Improvement Program includes the building of 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

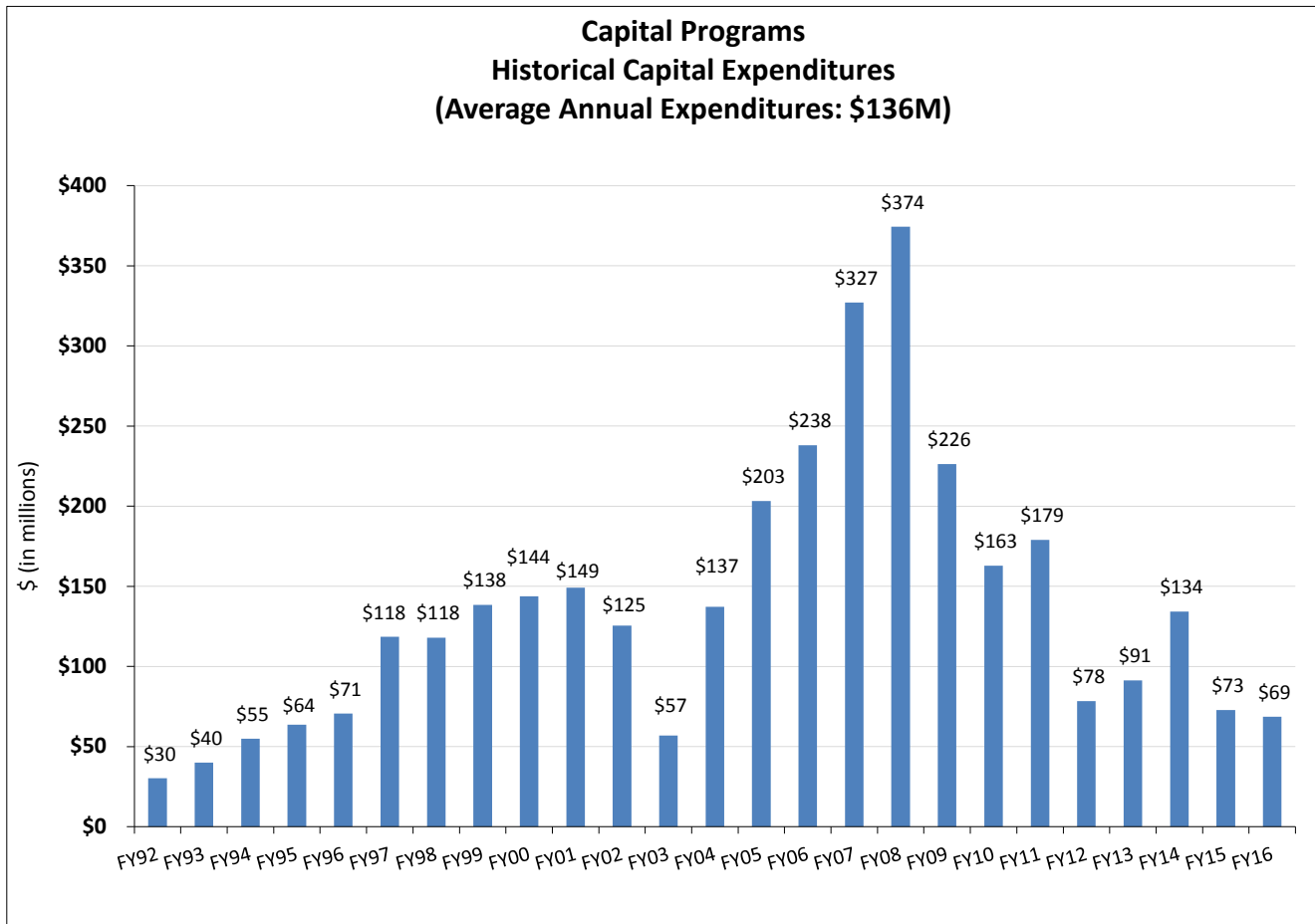
The School District funds the Capital Improvement Program by selling bonds, which are long-term District debt repayable with interest usually over 30 years. The proceeds from the District’s bond sales are the funding source for the Capital Improvement Program. Each year the District adopts a capital budget to reflect that fiscal year’s Capital Improvement Plan. The capital budget is used to allocate funds for capital projects, professional services (i.e. architects, engineers, appraisers, contractors, and attorneys), land, equipment, supplies, and other related costs. 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 dramatically in the past decade, and the District’s average annual expenditures from 1992 to 2016 (projected) have been \$136.1 million a year. However, this increased

expenditure level still remains well below the optimal level of spending the District needs to maintain its facilities as:

- The total estimated value of the District’s real property portfolio is currently \$7.4 billion (339 buildings), including primary school buildings, administration, field houses, annexes (little school houses), and garages.
- With an average building age of 66.3 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.



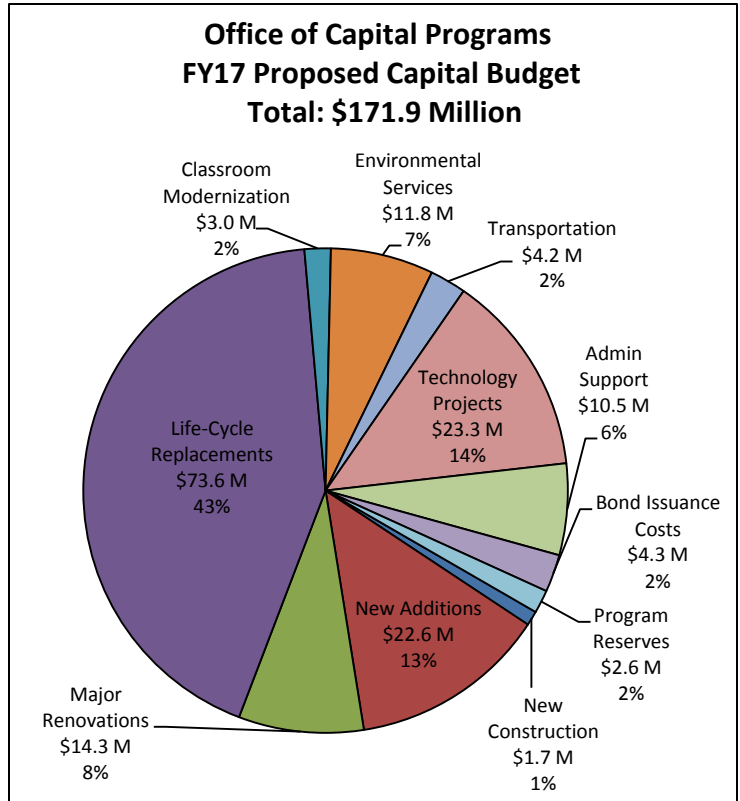
In short, the limited investments in Capital Projects in prior years have led to a deferred maintenance backlog. Despite dramatic increases in the levels of investment in facilities over the past 10 years, this backlog has still not been eliminated. As a result, life-cycle replacement targets for the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

- \$73.6 million in FY17
- \$72.9 million in FY18
- \$97.4 million in FY19
- \$99.2 million in FY20
- \$98.7 million in FY21
- \$99.3 million in FY22



The proposed Capital Plan for FY17 is \$171.9M and, as of April 2016, is comprised of:

- \$73.6 million for life-cycle replacements
- \$1.7 million for new construction
- \$22.6 million for new additions
- \$14.3 million for major renovations
- \$3.0 million for classroom modernization
- \$11.8 million for environmental services
- \$23.3 million for technology projects
- \$4.2 million for transportation
- \$10.5 million for administrative support
- \$4.3 million for bond issuance costs
- \$2.6 million for program reserves



The proposed FY17 life-cycle replacements of \$73.6M include:

- \$20.7 million for boiler and chiller replacements & automatic temperature controls
- \$14.1 million for structural, code compliance & façade restorations
- \$8.7 million for roof replacements
- \$5.3 million for window & door replacements
- \$18.3 million for electrical systems upgrades & replacements
- \$5.5 million for site improvements & athletics
- \$1.0 million for facility assessment, food service & security equipment

### Food Services

The Food Services Division provides all kindergarten to 12th grade students with daily breakfast and lunch meals in 264 District, charter, and private school feeding locations, as well as twilight dinner meals in high-need District locations. All student meals are provided free of charge regardless of family income and are served by our dedicated in-house workforce of 880 personnel (99.3% union represented).

For the upcoming 2016-17 school year, Food Services revenue is projected to total \$88 million, with annual meal volume projected in excess of 28 million meals. The Food Services Division relies on a number of federal meal programs primarily – the U.S. Department of Agriculture's (USDA) National School Lunch program, which provides 89% of the Division's annual revenue; and USDA's Community Eligibility Program, which enables the Food Services Division to serve meals at no charge to each and every student. Given the known link between better student nutrition and improved academic performance, expanding meal participation has been a major goal of the Food Services Division over the past several years.

The Food Service Division receives an average of \$3.24 per meal served with 63% of this amount spent on food, cafeteria supplies, and equipment, and 37% spent on labor. The Food Services Division receives no District or City of Philadelphia financial support to ensure maximum local funding can be allocated to our core classroom needs. Federal sources provide 96% of our annual revenue with the Commonwealth of Pennsylvania providing the remaining 4%.

In exchange for our receipt of federal funds, the Food Services Division must adhere to various USDA nutritional standards, which specify the exact components of each meal; limit caloric intake; limit sodium

intake; stress fresh fruits, vegetables, and whole grains; and limit the frequency with which some items can be served.

#### **Creation of the Health Fund**

The District is planning to create a SDP Health Insurance (HI) Fund to segregate self-insured health-related sources and uses by the end of FY16 and reconcile any credits or charges to this new fund. Employer contributions, COBRA premiums, and employee contributions will be combined in this fund and used to cover District self-insured medical, dental, optical, and prescription services (excluding Health & Welfare payments to unions). The new Health Insurance fund allows the District to capture any surpluses and deficits specifically related to the health budget allowing surpluses to be used to lower future rates or cover any additional health fund-related expenses.