

Preliminary Five-Year Plan (FY17-21) and Lump Sum Statement (FY16-17)

March 24, 2016

The School District of Philadelphia's Presentation of the Preliminary Five-Year Plan for FY17-21 and Fiscal Year 2017 Lump Sum Statement of Anticipated Receipts and Expenditures represents forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the revenues and obligations of the School District include, among others, reduced governmental allocations, changes in economic conditions, mandates from other governments, and various other events, conditions and circumstances, many of which are beyond the control of the School District. Such forward-looking statements speak only as of the date of this presentation, March 24, 2016. The School District disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the School District's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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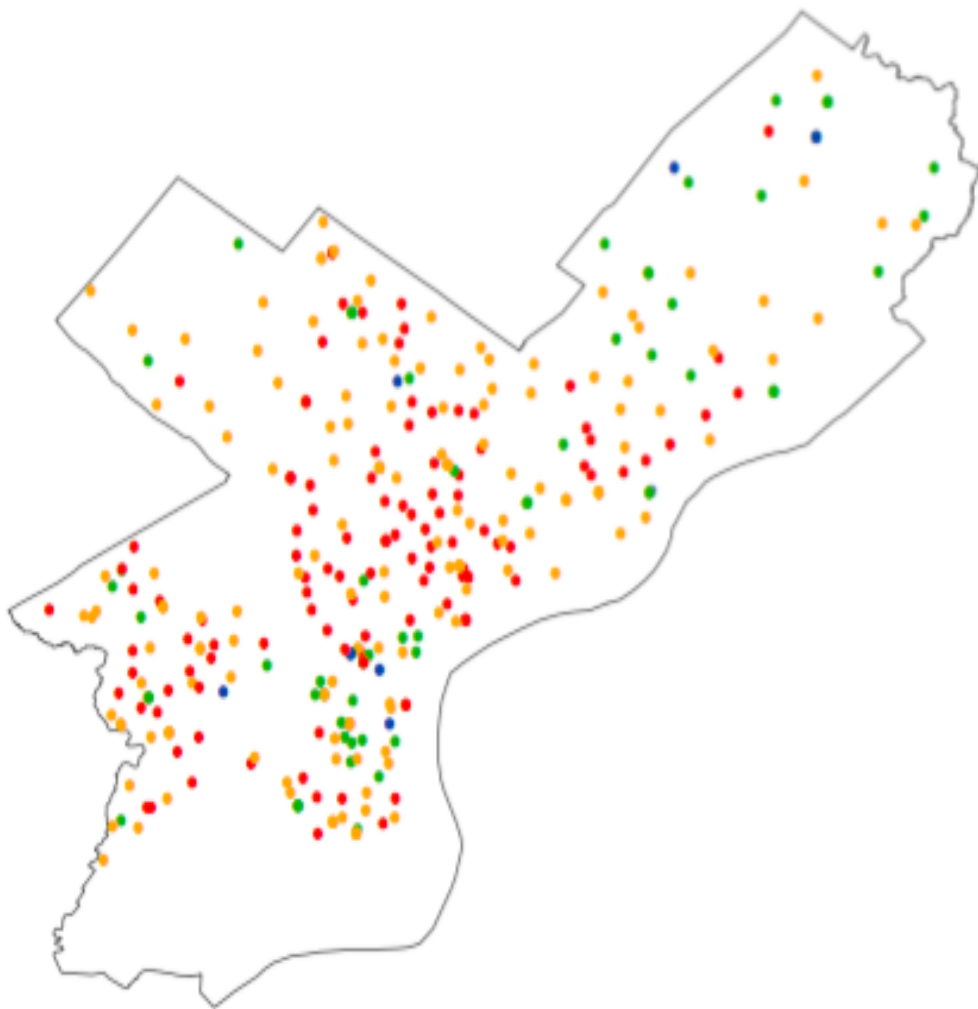
Overview

- Context & Action Plan 3.0 Anchor Goals
- Fiscal Plan Goals and Assumptions
- Preliminary Five-Year Plan for FY2017 - 2021
- FY16-17 Lump Sum Statement

District recent history

- The District has been operating in deficit mode since 2012
- The District has made many difficult and painful decisions to prevent additional and more significant operating deficits
 - Closed 24 schools
 - Eliminated important programs
 - Laid off 1000s of teachers, nurses, counselors and staff
 - Made substantial central office staffing cuts

Where we are today



- 80% of all District-run and charter schools are in the lowest 2 performance tiers
- We have made investments to preserve performance:
 - Literacy coaches
 - Additional CTE seats
- There are accomplishments to celebrate:
 - 0 persistently dangerous schools
 - Increased attendance
 - Steady graduation rate
 - Increased Keystone Literature pass rate

Action Plan 3.0 – Our bold goals

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*

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

**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."*

Five-Year Plan – Aiming for Fiscal Stability

- Propose a budget and spending plan which strives for structural balance, while determining investments designed to achieve the mission of achieving equity in educational opportunity for all children
- Utilize reasonable projections for revenues and expenditures, based on:
 - Actual revenues and expenditures
 - Current law
 - Historic trends
 - Most recent budget proposals
- Primary objectives:
 - Identify sufficient revenues to meet the anticipated obligations of the first 24 months
 - Establish baseline financial projections to enable dialogue among all School District funders (City, State, Private) identifying pathways to achieving long-term structural balance.

Preliminary Five-Year Plan and Lump Sum - Investments

The Plan and Lump Sum assumes \$440 million of investments designed to support the goals of Action Plan 3.0

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

Preliminary Five-Year Plan

FY17-21 Key Assumptions

REVENUES

- Local revenue projections consistent with City's Five-Year Plan projection
- FY16 State Revenues consistent with Governor's comments on March 23, 2016
- FY17 State Revenues consistent with the Governor's FY17 proposed budget presented on February 9, 2016
- FY18-21 State Revenues grow a nominal 2.5% per year
- State reimbursements related to City Market Valuations are reduced beginning in FY19 (due to City's Actual Value Initiative "AVI" implementation)
 - Projected annual impact: FY19 \$61M, FY20 \$67M, FY21 \$69M
- Cigarette tax sunsets at the end of FY19
 - Projected annual impact: FY20 \$51M, FY21 \$50M

FY17-21 Key Assumptions (cont.)

EXPENDITURES

- Based on historical enrollment trends and recent approvals (including proposed renaissance charter schools), charter school enrollment will continue to grow
- Closing three District-operated schools per year, beginning in FY18, due to enrollment declines
- Capital borrowing every other year starting in FY17
 - FY17 \$200M, FY19 \$200M, FY21 \$160M

Preliminary Five-Year Plan Projections

FY17-FY21 FINANCIAL PLAN Operating Funds

(in thousands)

	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected	FY20 Projected	FY21 Projected	CAGR FY16 to FY21
REVENUES & OTHER FINANCING SOURCES							
Local Tax Revenues	\$1,129,021	\$1,142,097	\$1,164,008	\$1,194,017	\$1,173,509	\$1,206,893	1.7%
Local Non-Tax Revenues	\$133,275	\$132,518	\$131,818	\$131,244	\$131,244	\$131,244	-0.4%
State Revenues	\$1,438,584	\$1,517,969	\$1,567,288	\$1,546,768	\$1,584,788	\$1,617,456	3.0%
Federal Revenues	\$11,250	\$11,203	\$11,116	\$11,018	\$10,914	\$10,803	-1.0%
Other Financing Sources	\$6,344	\$1,489	\$989	\$1,489	\$989	\$1,489	-30.4%
TOTAL REVENUES & OTHER FINANCING SOURCES	\$2,718,474	\$2,805,276	\$2,875,219	\$2,884,536	\$2,901,443	\$2,967,885	2.2%
EXPENDITURES							
Total District Operated Schools	\$1,460,521	\$1,466,942	\$1,514,865	\$1,545,916	\$1,572,100	\$1,582,325	2.0%
Total Charter Schools (Incl. Transportation)	\$752,431	\$874,910	\$939,241	\$1,005,869	\$1,060,885	\$1,112,763	10.3%
Total Other Non-District Operated Schools (Incl. Transportation)	\$111,345	\$111,341	\$112,266	\$113,212	\$114,179	\$115,168	0.8%
Debt Service	\$265,261	\$260,534	\$267,405	\$264,103	\$278,185	\$275,198	0.9%
Total Administrative Support Operations (Central Offices)	\$82,469	\$84,477	\$86,885	\$88,279	\$89,573	\$90,376	2.3%
Undistributed Budgetary Adjustments	(\$16,979)	(\$3,745)	(\$3,728)	(\$3,710)	(\$3,692)	(\$3,674)	-31.8%
TOTAL EXPENDITURES	\$2,655,048	\$2,794,459	\$2,916,934	\$3,013,669	\$3,111,230	\$3,172,156	4.5%
OPERATING/FUND BALANCE							
Operating Surplus/(Deficit)	\$63,426	\$10,817	(\$41,715)	(\$129,133)	(\$209,787)	(\$204,271)	
Transfers from Reserves	(\$16,902)	(\$9,702)	(\$14,697)	(\$14,697)	(\$13,316)	(\$13,316)	
Fund Balance at Beginning of Year - July 1	\$88,048	\$134,572	\$135,687	\$79,276	(\$64,554)	(\$287,657)	
ENDING FUND BALANCE							
Fund Balance at End of Year - June 30	\$134,572	\$135,687	\$79,276	(\$64,554)	(\$287,657)	(\$505,244)	
Fund Balance as % of Total Revenues	5.0%	4.8%	2.8%	-2.2%	-9.9%	-17.0%	

Five-Year Plan Risks

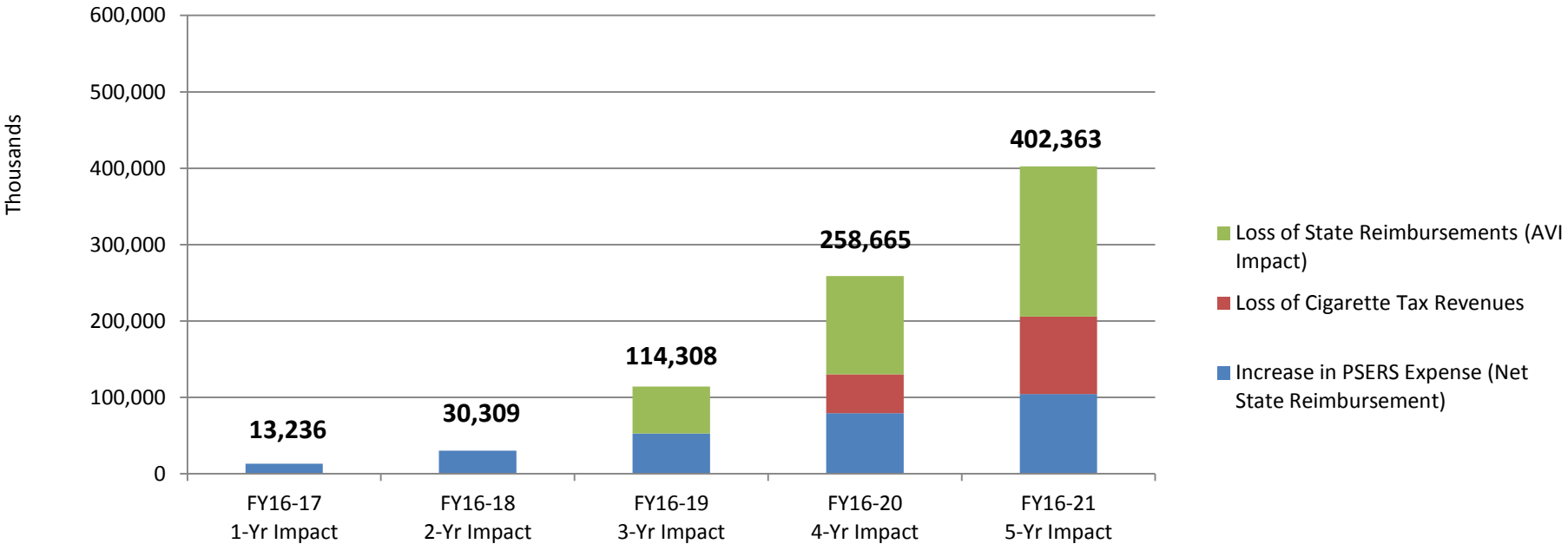
- Approval of a FY17 State budget that does not include anticipated revenues
- Delays in the approval and release of State funds in FY17
 - Increases borrowing costs and uncertainty, making planning and investments more difficult
- Narrow positive Fund Balances
 - Projected FY16 Fund Balance of \$134.6M equal to just 5 percent of revenues
- Unexpected costs resulting from State Supreme Court Case ruling
- Changes to the charter school formula and authorizing authority
- Economic Downturn affecting funding assumptions
- Additional increases in the Public School Employees' Retirement System (PSERS) contribution schedule

Five-Year Plan Challenges

The negative ending fund balance beginning in FY19 is driven primarily by:

- Reduction of State reimbursements due to AVI (beginning FY19)
- Loss of cigarette tax revenues (beginning FY20)
- Scheduled increases in the PSERS rate.

**Impact of Challenges
to the Preliminary Five-Year Plan
CUMULATIVE**



Five-Year Plan Solutions: Cigarette Tax Extension & AVI Offset

Though it would not make up for the continued growth in PSERS costs, the State could extend the Cigarette Tax and increase Basic Education funding to offset the impact of reduced reimbursements related to the City's AVI changes in property values.

These actions would enable the District to effectively eliminate the negative ending fund balance in FY19, and would cut the annual operating deficit by more than fifty-five percent.

	FY16 Projected	FY17 Projected	FY18 Projected	FY19 Projected	FY20 Projected	FY21 Projected
OPERATING/FUND BALANCE						
Operating Surplus/(Deficit)	\$63,426	\$10,817	(\$41,715)	(\$67,718)	(\$91,644)	(\$85,616)
Transfers from Reserves	(\$16,902)	(\$9,702)	(\$14,697)	(\$14,697)	(\$13,316)	(\$13,316)
Fund Balance at Beginning of Year - July 1	\$88,048	\$134,572	\$135,687	\$79,276	(\$3,139)	(\$108,098)
ENDING FUND BALANCE						
Fund Balance at End of Year - June 30	\$134,572	\$135,687	\$79,276	(\$3,139)	(\$108,098)	(\$207,030)
Fund Balance as % of Total Revenues	5.0%	4.8%	2.8%	-0.1%	-3.6%	-6.7%

Additional Investments to Accelerate Change

The spending plan includes basic investments to advance the goals of the Action Plan. Additional investments currently not included in the Preliminary Five-Year Plan would enable accelerated school improvement, including:

- Elimination of split classes in grades 1-3, reducing class size
- Expansion of the Summer Institute program to ensure that all teachers are “Ready to Teach”
- Classroom Transformation Project, refreshing all classrooms over four years
- Providing for a Reading Specialist and an Early Literacy Coach in every elementary school
- Instituting Common Prep and Planning Time/ Music and Art for all K-3

If additional funding were available to the District, these recurring investments would begin in FY18. Estimated costs are \$92.2 million beginning in FY18, with a total cost through FY21 of \$382.8 million.

Lump Sum



Lump Sum Statement

(in thousands)

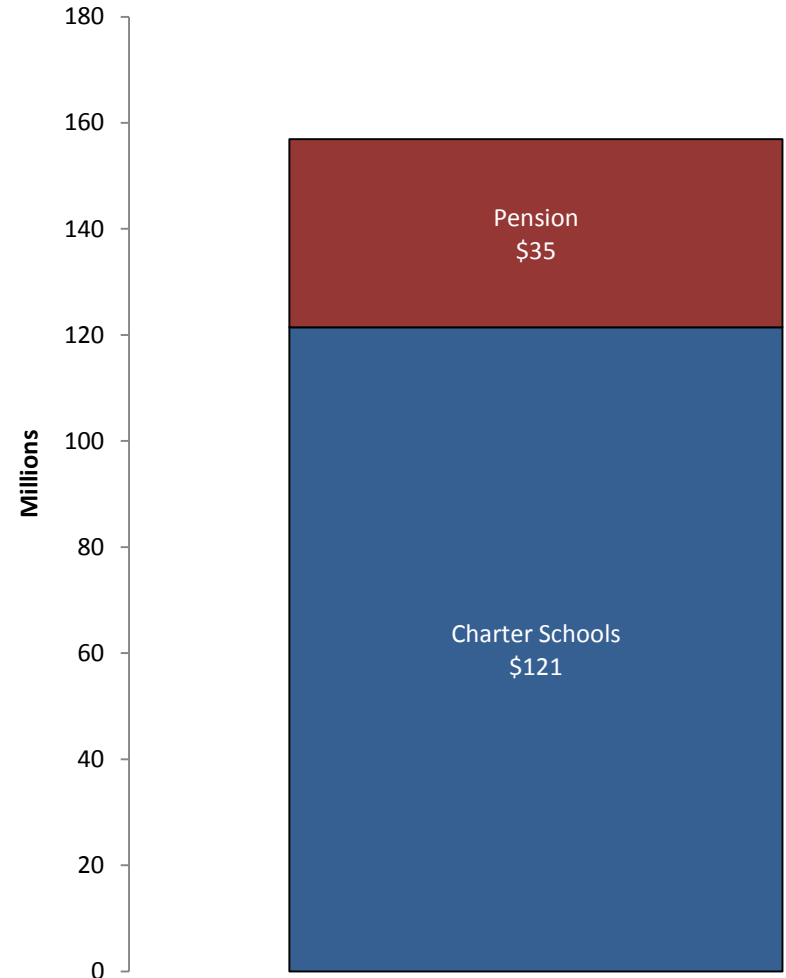
	FY15 Actual	FY16 Projected	FY17 Proposed
REVENUES & OTHER FINANCING SOURCES			
Local Tax Revenues	\$1,063,320	\$1,129,021	\$1,142,097
Local Non-Tax Revenues	\$131,023	\$133,275	\$132,518
State Revenues	\$1,386,742	\$1,438,584	\$1,517,969
Federal Revenues	\$11,375	\$11,250	\$11,203
Other Financing Sources	\$317,952	\$6,344	\$1,489
TOTAL REVENUES & OTHER FINANCING SOURCES	\$2,910,412	\$2,718,474	\$2,805,276
EXPENDITURES			
Total District Operated Schools	\$1,353,170	\$1,460,521	\$1,466,942
Total Charter Schools (Incl. Transportation)	\$746,473	\$752,431	\$874,910
Total Other Non-District Operated Schools (Incl. Transportation)	\$106,258	\$111,345	\$111,341
Debt Service	\$267,102	\$265,261	\$260,534
Total Administrative Support Operations (Central Offices)	\$71,876	\$82,469	\$84,477
Undistributed Budgetary Adjustments	(\$40,044)	(\$16,979)	(\$3,745)
Refunding	\$300,440	\$0	\$0
TOTAL EXPENDITURES & Other Uses	\$2,805,277	\$2,655,048	\$2,794,459
OPERATING/FUND BALANCE			
Operating Surplus/(Deficit)	\$105,136	\$63,426	\$10,817
Transfers from Reserves	(\$20,130)	(\$16,902)	(\$9,702)
Fund Balance at Beginning of Year - July 1	\$3,043	\$88,048	\$134,572
ENDING FUND BALANCE			
Fund Balance at End of Year - June 30	\$88,048	\$134,572	\$135,687



★ Why are Expenditures and Revenues increasing from FY16 – FY17?

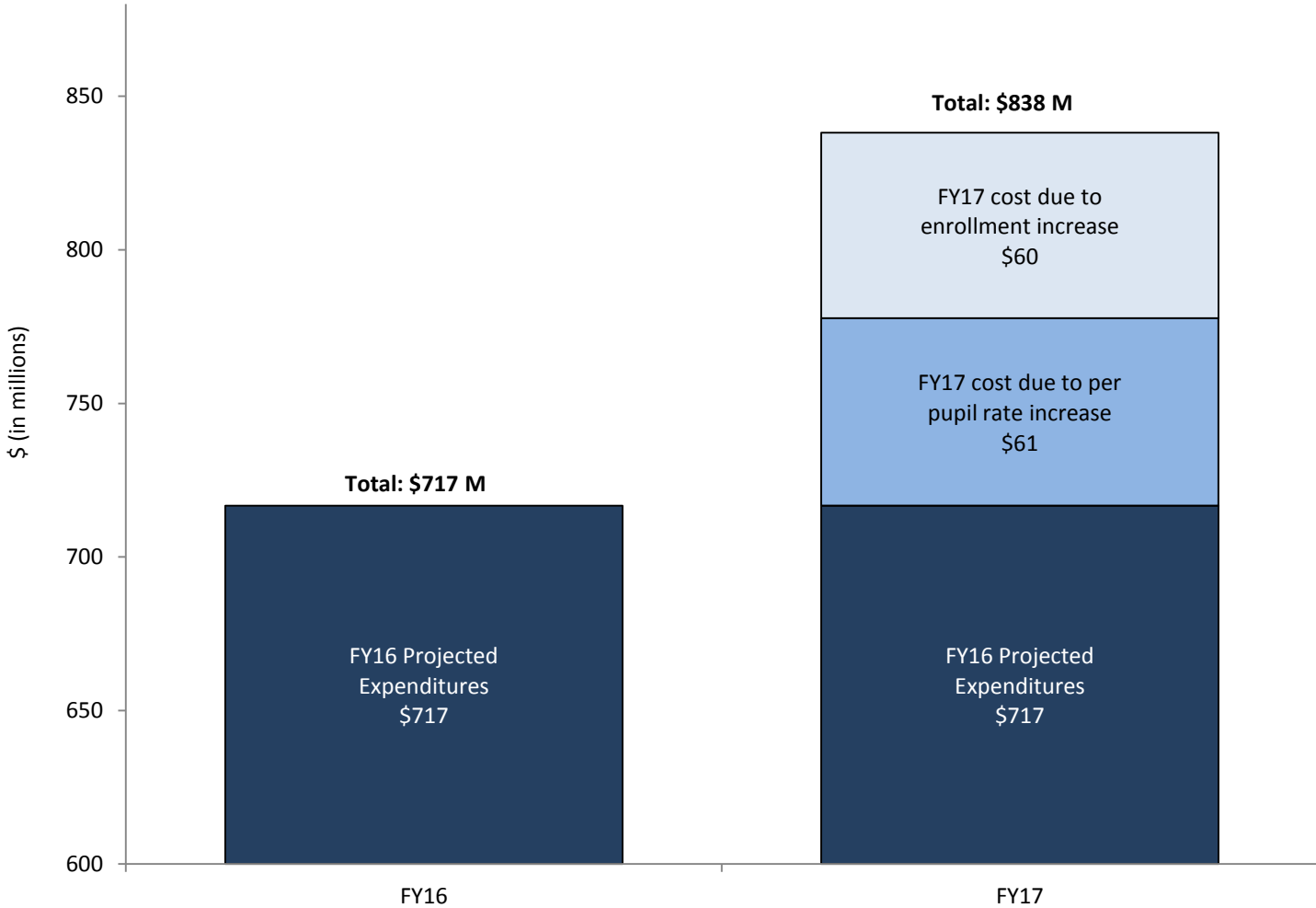
- Two major expenditure areas are driving growth from FY16 to FY17:
 - Increase of \$121M for payments to charter schools
 - Increase of \$35M for pension costs
- Baseline revenue increases between FY16 and FY17 are primarily due to:
 - Increase of \$56M in basic education and special education funding included in the Governor’s FY17 proposed budget
 - Increase of \$22M for increased retirement reimbursements
 - Increase of \$15M in real estate tax revenues

Major Expenditure Increases from FY16 to FY17



Between FY16 and FY17, charter expenditures are projected to increase by \$121M. The change is approximately equally due to increases in per pupil rates and enrollment growth.

**Charter School Payments
FY16 Projected to FY17 Projected**



Next Steps



Timeline

- **March 14 – April 8:** Principals complete school budgets
- **April 21:** SRC Budget Hearings
- **May 17:** City Council Hearing
- **May 26:** SRC Budget Vote
- **June:** City Adoption of Tax Measures for School District
- **June:** State Budget Adoption