The School District of Philadelphia

FY 2014 Proposed Budget in Brief

April 26, 2013

If you have a disability and the format of any material on our web pages interferes with your ability to access the information or you have a question regarding the School District's website accessibility, please contact us via any of the following means for assistance:

The School District of Philadelphia
Office of Family and Community Engagement
440 N. Broad Street, Suite 114
Philadelphia, PA 19130-4015
Email: ask@philasd.org
Tel: (215) 400-4000
Fax: (215) 400-4181

To help us respond in a manner most helpful to you, please indicate the nature of the accessibility problem, the web address of the requested material, your preferred format in which you want to receive the material (electronic format (ASCII, etc.), standard print, large print, etc.), and your contact information (name, email, telephone, and physical mailing address).

INTRODUCTION

These are challenging times for The School District of Philadelphia. Previous indecisions, inactions and the past practices of spending more resources than were available, coupled with declining revenues have left the District with unsustainable budget deficits. In the absence of additional revenues and labor savings, the District is faced with the unpalatable prospect of making additional significant cuts to an already trimmed-to-the-bone budget. Such cuts will inevitably be painful and very successful programs that, while heralded and popular, will have to be sacrificed in order to maintain the core functions and mandates of the District.

In an effort to do no harm to an already struggling school district – that is to provide schools with budgets equivalent to what they received in FY13 – the District is seeking additional revenues and labor savings in order to close a $304 million gap. The revenues will allow the District to be structurally balanced in FY14 and beyond; it will help put the District on a financially sustainable path. More importantly, the additional revenues and labor savings will provide District with an opportunity to plan and begin to implement the innovative programs and additional student supports that the District sorely needs. It will provide the district an opportunity to focus on making the strategic new investments necessary to put the district on the road to real, measurable improvements.

This is not an indication that $304 million is all the District needs to ensure that all students receive the education they deserve. Rather, these additional resources represent the minimum the District requires just to stem the very real threat of regression, to avoid slipping into a downward trajectory of diminishing rather than enhanced educational opportunity for its students.

The District has taken and will continue to take the necessary steps to bolster the foundation upon which effective teaching and learning can build, including:

- Closing low-performing and underutilized District or Charter schools;
- Working towards ensuring that all receiving schools have a high quality principal;
- Seeking revisions to its contracts;
- Expanding high quality seats; and
- Establishing baseline expectations for all of its schools.

The School District of Philadelphia can be efficient, effective and financially sustainable; however, the District cannot do this on its own. Through a shared commitment demonstrated by shared sacrifices, the District will provide all Philadelphia public school students with the education they need to learn earn and flourish.

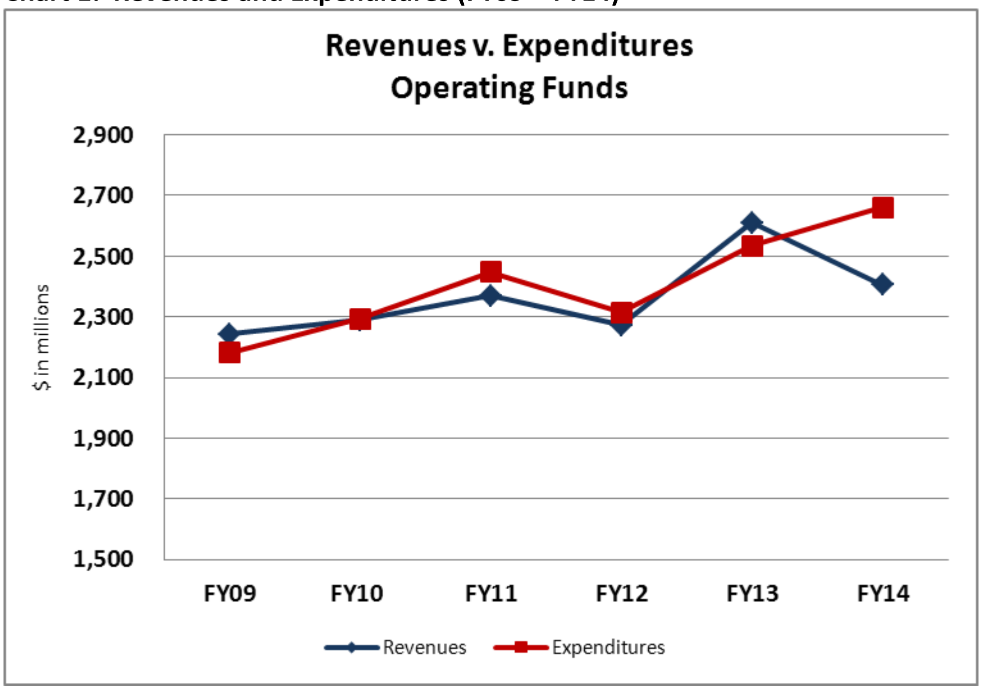
BUDGET OVERVIEW

The District's proposed lump sum statement includes operating revenue of $2.357 billion and operating expenditures of $2.661 billion, leaving a gap of nearly $304 million. Given that The District has begun to make the necessary operational and financial reforms to establish fiscal balance, and recognizing its desire to do so without further harming the educational opportunities for the students of Philadelphia, it is imperative that the District realizes budgetary savings from reduced labor expenditures and receives an influx of new recurring revenues. However, the FY 2014 Proposed Budget is an expenditure plan that only spends Funds the District will receive. Both school budget and central office budgets were built on the FY 2014 revenue projection and not the $304M in revenue enhancements and personnel savings that were requested in the Lump Sum Statement approved by the SRC on March 28.

THE REVENUE AND EXPENDITURE GAP

The financial gap that the District currently finds itself will not come as a surprise to many given the District's recent deficit financing. Since 2010, the District's expenditures have outpaced its revenues. Despite significant reductions in FY12 to try to bring its spending in line with expected revenues, the District found itself borrowing $300 million in FY13 in order to meet District payroll (Chart 1). The proposed budget closes this gap by dramatically reducing services to schools and students.

Chart 1: Revenues and Expenditures (FY09 – FY14)



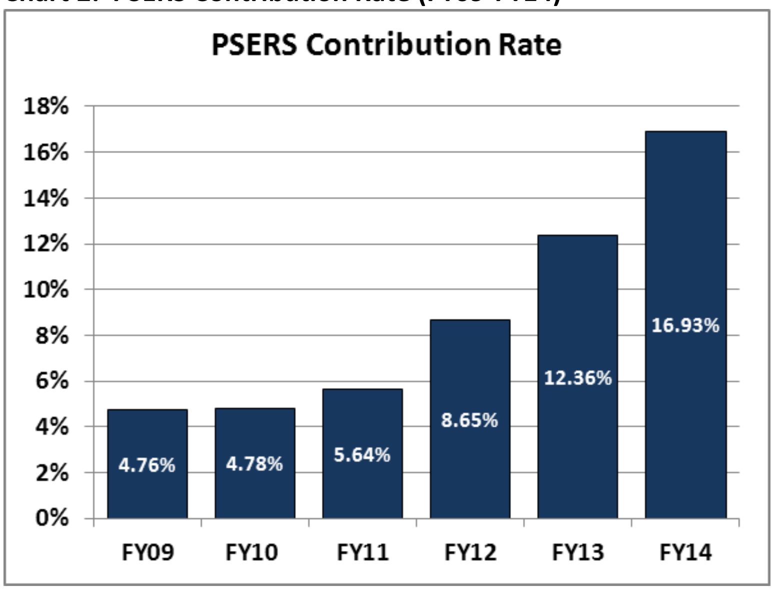
The variance between expenditures and revenues is the result of several key factors, including:

- State mandated expenditures;
- Increases in expenditures such as payments to charter schools, contractually mandated increases in compensation and benefits
- Declining revenues.

Employer Retirement Contribution

An expenditure for which the School District does not have the ability to change is the growing cost of employee contribution to the Pennsylvania School Employees' Retirement System (PSERS). The PSERS contribution rate is set forth in state legislation and has been growing exponentially and, as a result, draining additional District operating resources (Chart 2). Specifically, while it is true that the state's reimbursement percentage has remained steady, for every one percent increase in the employer's share, it costs the District approximately $4 million.

Chart 2: PSERS Contribution Rate (FY09-FY14)



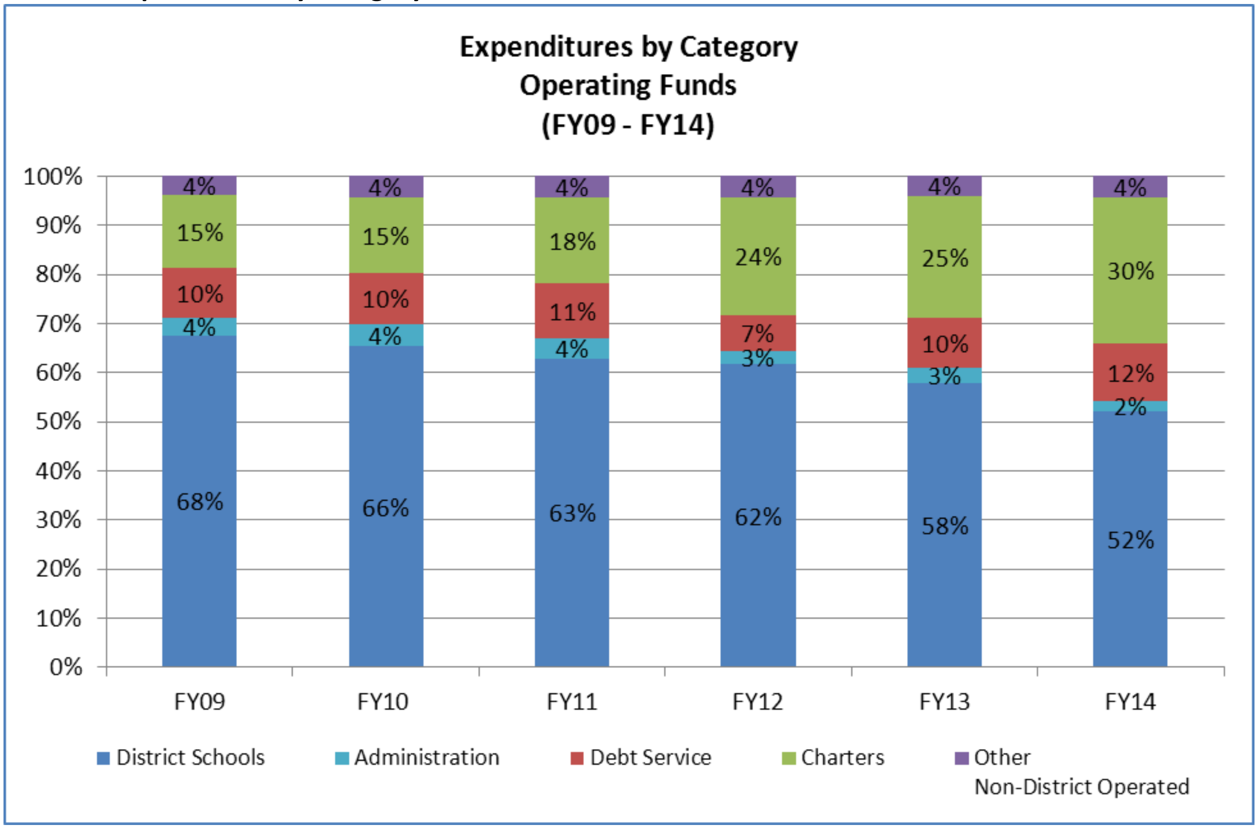
Debt Service, Charter School Payments and Out-of-District Placements

The current level of expenditures in these three categories – debt service, charter school payments, and out-of-district placements – is a result of past decisions for which The District must now manage. All of these expenditures are mandatory and are all becoming an increasingly larger share of the District's overall operating budget. In FY09, these categories constituted approximately 29% of the overall District operating budget in FY14, they are projected to be approximately 48% of the District's operating budget (Chart 3). As a result, a smaller share of the District's operating budget can be spent on District operated schools.

While in the short term, the District has little flexibility with regard to these expenditures, in the long run, the District is committed to:

- Managing the size of its bond issuance;
- Authorizing only high performing charter schools; and
- Working with providers, the city and family courts to both improve the quality of service and institute controls on the cost of out-of-district placements.

Chart 3: Expenditures by Category

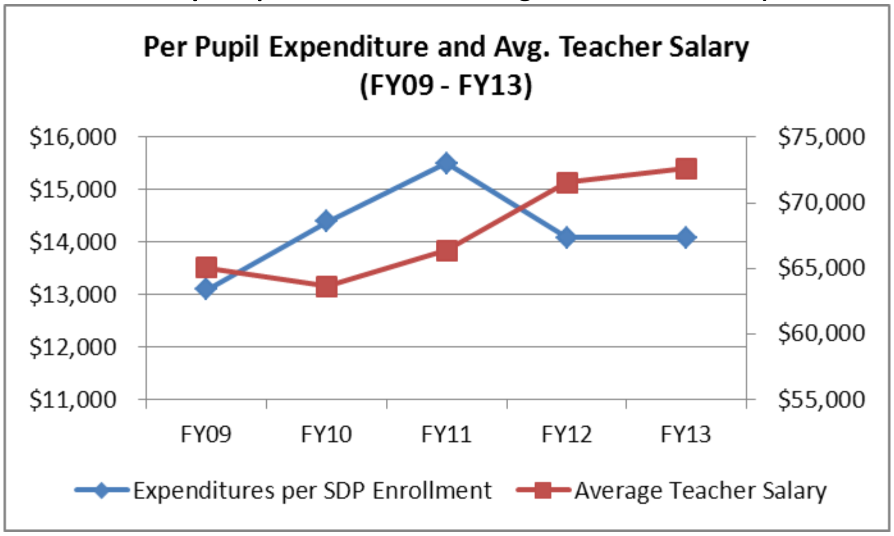


Other significant FY14 expenditures include:

- Contractually mandated salary increases;
- Higher costs for the District's self-insurance plans; and
- Scheduled increases to payments to union's health and welfare funds.

Since 2011, as the District worked to bring its operating expenses into balance by trimming staff and supports to schools, average teacher salaries have continued to increase in addition to growth in other contractually obligated areas (Chart 4). The District is working to control these expenditures and the rates at which these expenditures grow.

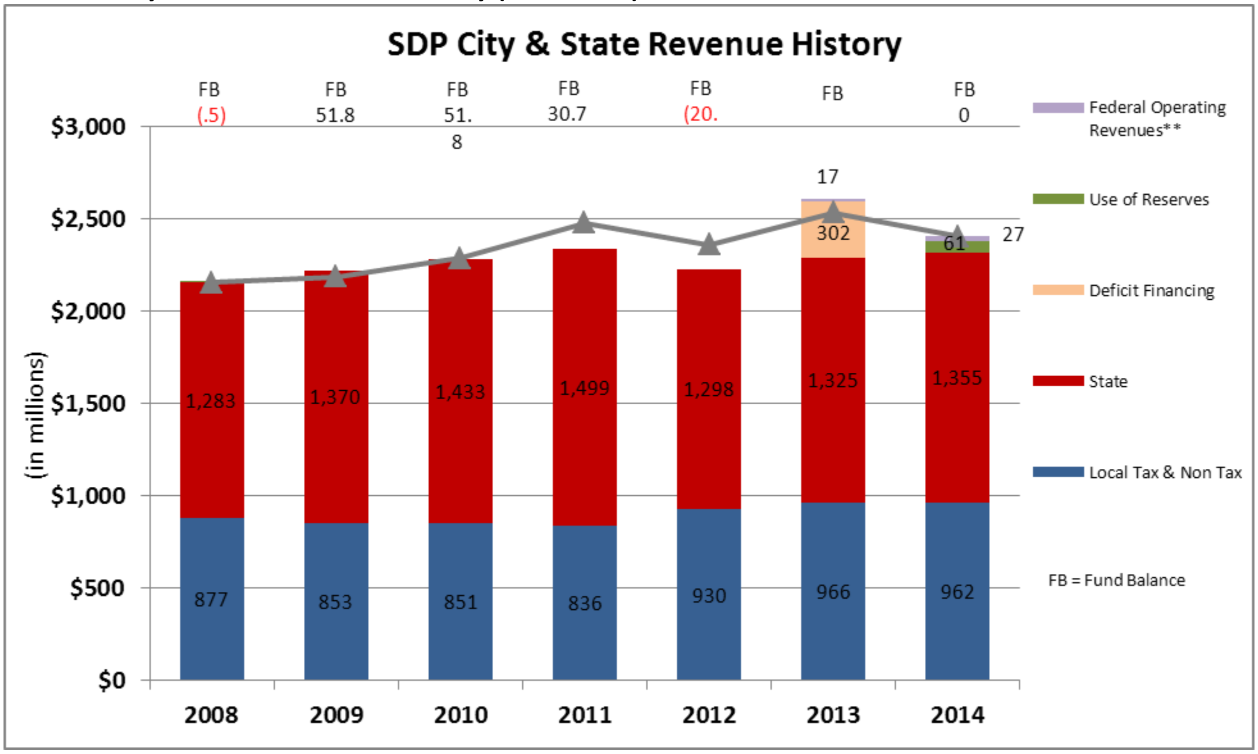
Chart 4: Per Pupil Expenditures and Average Teacher Salaries (FY09-FY13)



Revenues

In addition to increases in expenditures, the District has also experienced a significant decline in revenues (Chart 5). The sharpest decline in state revenues occurred between FY11 and FY12; FY12 was the first time in over 18 years that state has decreased its revenues to the District. The request for additional recurring revenues from the state and city is intended to bring the District back into relative parity to FY 2011 contributions.

Chart 5: City and State Revenue History (FY08-FY14)



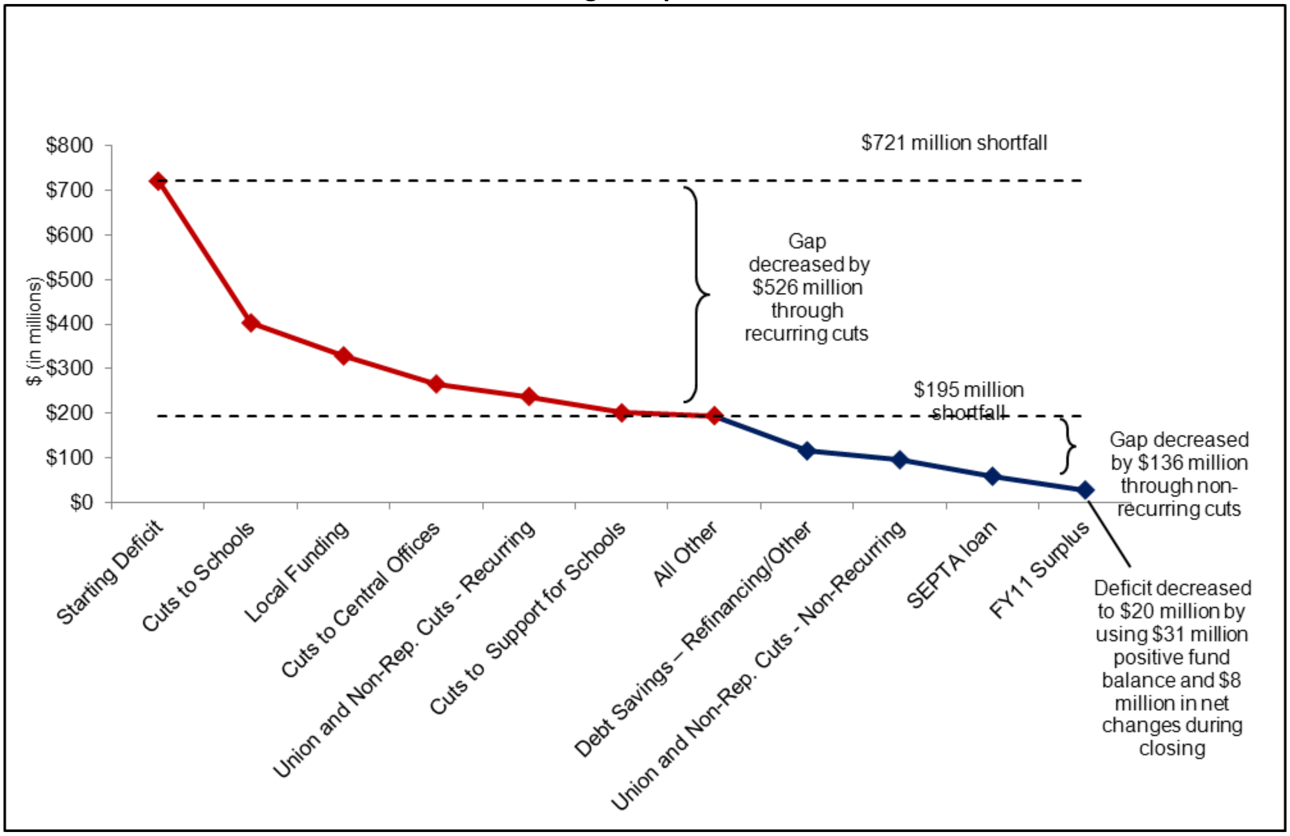
MEASURES TO ACHIEVE FISCAL BALANCE

The combination of these factors, among others, creates the growing gap between expenditures and revenues. As a result, bringing the District into fiscal balance requires a combination of expenditure controls and additional revenues. Outlined below are the District's efforts to control its expenditures as well as additional information regarding its request for additional revenues as outlined in the lump sum statement.

CUTS AND EFFICIENCY INITIATIVES

With the significant declines in state revenues between FY11 and FY12, the District has taken significant steps to bring its expenditures into alignment with its revenues. In FY12, the District closed a $721 million shortfall through implementing a series of recurring and non-recurring measures as well as utilizing its fund balance (Chart 6).

Chart 6: Measures Utilized to Close District Budget Gap FY12



While the immediate challenge of bringing the District into fiscal balance in FY12 was averted, the gap that was closed with non-recurring measures remained. This, combined with the natural growth in expenditures resulted in the need to borrow $300 million in FY13. The $300 million gave the District one year to realize additional savings through a variety of initiatives. In six months, the new administration has started to rectify years of inaction and has begun or is in the process of implementing a series of cost savings and efficiency measures. These initiatives are included below:

Labor Contributions

Members of 32BJ/Local 1201 who recognized the need to maintain building quality and service to facilitate student learning negotiated a contract whereby contributions are being made by its members. These contributions are expected to save the District over $100 million over the course of five years; some of these savings were realized in FY13.

Transportation Efficiencies

The School District of Philadelphia anticipates recurring savings in transportation beginning in FY15. Once current vendor contracts expire at the end of FY14, the District plans to issue a Request for Proposal (RFP) in an effort to realize savings through a consolidated network of transportation vendors.

Lighting Retrofit Project

Beginning in FY14, the District will begin investing in a utilities efficiency project to generate recurring savings in future years. With investments provided through the capital fund, the lighting retrofit project will replace lighting fixtures currently in schools and buildings with more efficient lighting fixtures to realize savings in FY15 and additional savings in FY16 and beyond.

Procurement Savings

The District has embarked on an intensive effort to reduce its spending on contracts and supplies without reducing service levels. The FY14 budget realizes savings of approximately $2.5 million from a reduction in Alternative Education contract expenditures while maintaining current service levels. Additionally, the District seeks to achieve future procurement savings for supplies and materials through its RFP process.

Textbook Inventory System Implementation

The District does not currently have a comprehensive inventory system that can accurately track the use of textbooks in the District. SDP plans to invest in an inventory system that will provide recurring savings throughout the years of the five-year forecast. In addition to financial benefits of the inventory system, the system will allow for increased textbook monitoring to ensure that students are provided with up-to-date instructional materials.

Lease Savings

The District anticipates savings beginning in FY17 due to the non-renewal of existing leases.

Out-of-District Placements Savings

The District will be working with providers, city agencies and family courts to ensure high quality service and parity in the cost to place students in out-of-district programs.

Blended Learning Implementation

The District plans to implement a blended learning initiative beginning in FY15. This initiative will combine online and classroom learning to enhance educational opportunities for students through alternative learning methods. It is anticipated that approximately 25 percent of District schools will implement blending learning programs, and the District will see significant savings as a result.

Virtual School

In FY14, the School District will launch its own virtual school in an effort to give students new virtual learning options and save money. The District can recognize significant savings if students at existing cyber charter schools choose to return to a District-run virtual school. Administered through the Chester County Intermediate Unit, the Philadelphia Virtual Academy will provide a virtual learning environment with physical locations for learning support.

Facilities Master Plan

In FY13, the School Reform Commission voted to close 24 schools in an effort to create a more efficient use of school facilities that aligns programs and resources to the greatest benefit of students. As a result of those closures, the District will realize annual run-rate savings of approximately $21 million. During the years of this forecast, the District will continue its Facilities Master Plan to more efficiently use District funds by closing under-performing and under-utilized schools.

Central Office Cuts

The central office administration saw grave reductions in staff in FY12 as the number of full-time employees decreased by 42% from FY11. Without additional revenue or personnel savings, the Central Office will be reduced again by another 30% in FY14

FY 2014 BUDGET: SEVERELY LIMITED BUYING POWER

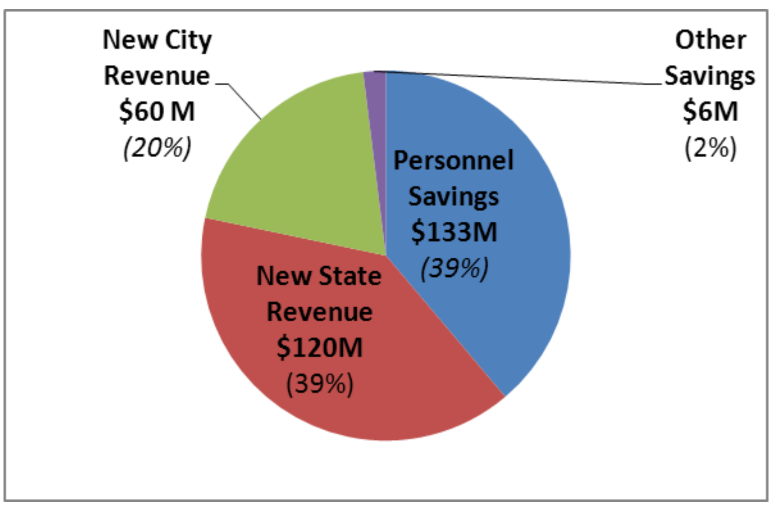
In spite of the savings realized through contributions from some of our union members and by implementing the measures listed above, schools and central office will see their ability to provide services severely limited (Table 1).

Table 1: Budgets in line with projected revenues

Category	Current service levels	Reduced Service Levels	Total
District Operated Schools	$1.47B	$1.23B	($222M)
Central Office	$76M	$53M	($23.0M)
Other			($9.3M)
		Total	**($254M)**

The District is, therefore, seeking a combined $304 million in revenues and labor savings to support the District's efforts to be fiscally stable, but more importantly, to provide the District with an opportunity to meaningfully reinvest in the education of the city's students. The request, as laid out in the lump sum statement seeks to balance revenue requests and labor savings (Chart 7).

Chart 7: Share of New Revenues and Personnel Savings

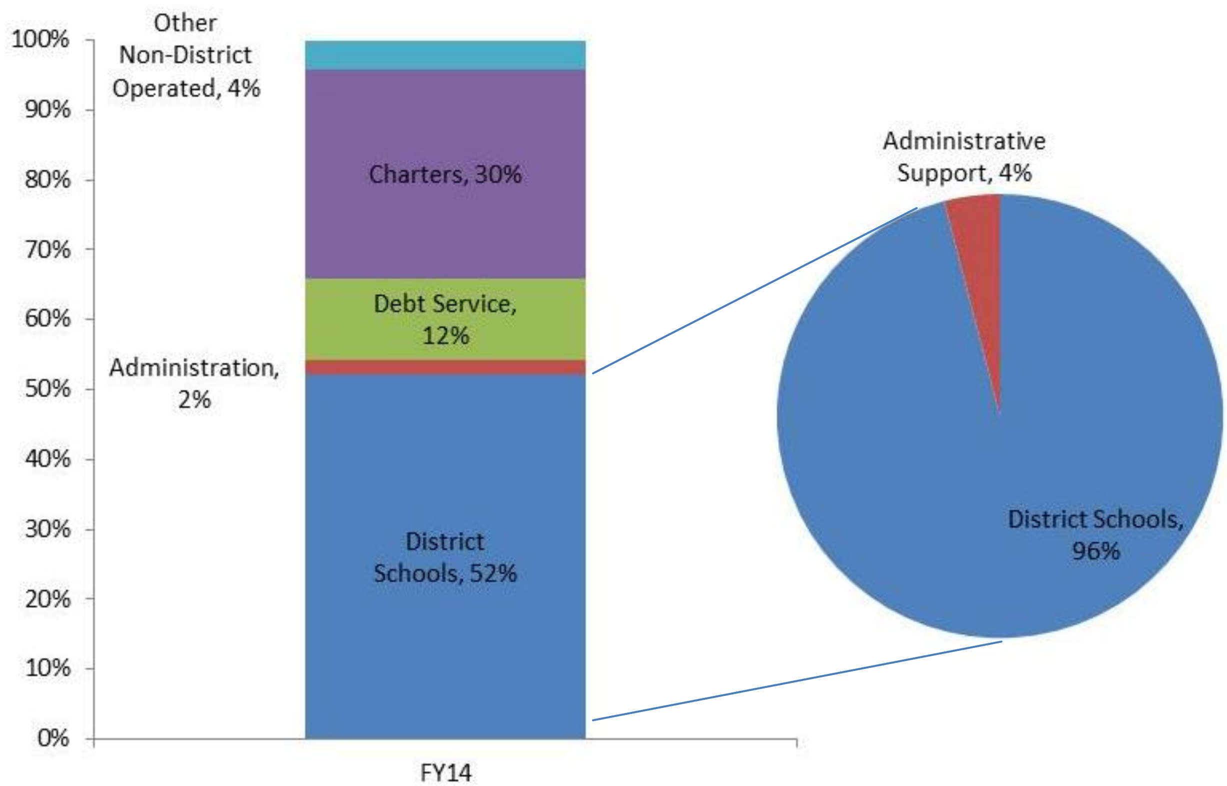


IMPLICATIONS FOR THE DISTRICT

If the measures to achieve fiscal balance are not realized, the District's FY14 operating budget would dramatically reduce services that are currently provided in FY 2013.

After payments for debt service, Charter schools and non-district operated schools, in FY 2014 it is projected that 54% of the District's operating budget can be spent on its more than 200 schools (Chart 8) of the 54% that remains, 96% of these remaining dollars will be used to directly support schools.

Chart 8: Share of District Operating Funds That Can Be Spent on Schools



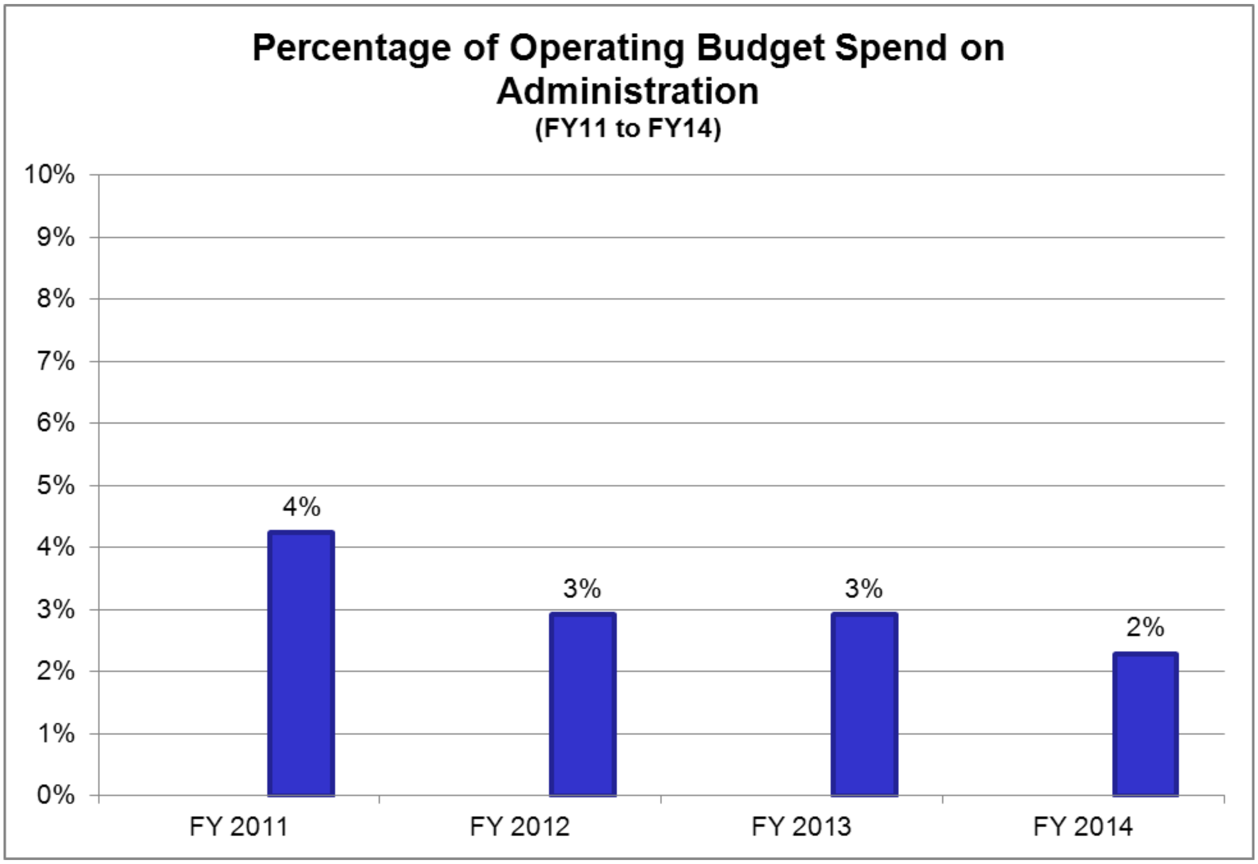
Within the 96% of funds that remain to be invested in District schools, the majority must be used to meet legal and contractual obligations (Table 2).

Table 2: Legal Mandates and Contractual Obligations

	Notes
Principal	**State mandated** to ensure teachers are evaluated by an administrator
Teachers	**Contractually Mandated:** Must be staffed at a level which allows the District to meet class size
Counselor	**Contractually Mandated:** 1 per school
Librarian / Library Instructional Material Aide (LIMA)	**Contractually Mandated:**1 per school that enrolls more than 1,000 students
Special Education Services	**Federally mandated** services as stipulated by the Individuals with Disabilities Education Act (IDEA)
Disability Services	**Federally mandated** services as stipulated by the Rehabilitation Act of 1973 – Section 504
Nurse services	**State mandated** services whereby the number of pupils under the care of each school nurse shall not exceed 1,500
Teacher Prep Time	**Contractually Mandated:** Teacher prep time varies depending on grades taught
Extra-Curricular Pay	**Contractually Mandated**
Facilities Coverage	**Contractually Mandated**: Buildings cannot be open without coverage from facilities staff

The remaining balance, or $53M, are used to pay for a lean central office. A 2% investment of the overall operating budget in central office administration reflects a clear commitment by the District to allocate the majority of available funds to the operation of schools (Chart 9). Since FY11, the administration has cut nearly 40% of central office positions that were funded out of the operating budget.

Chart 9: Changes in Central Office Full Time Employees (FY09-FY13)



ADDITIONAL CONSIDERATIONS FOR FY 14

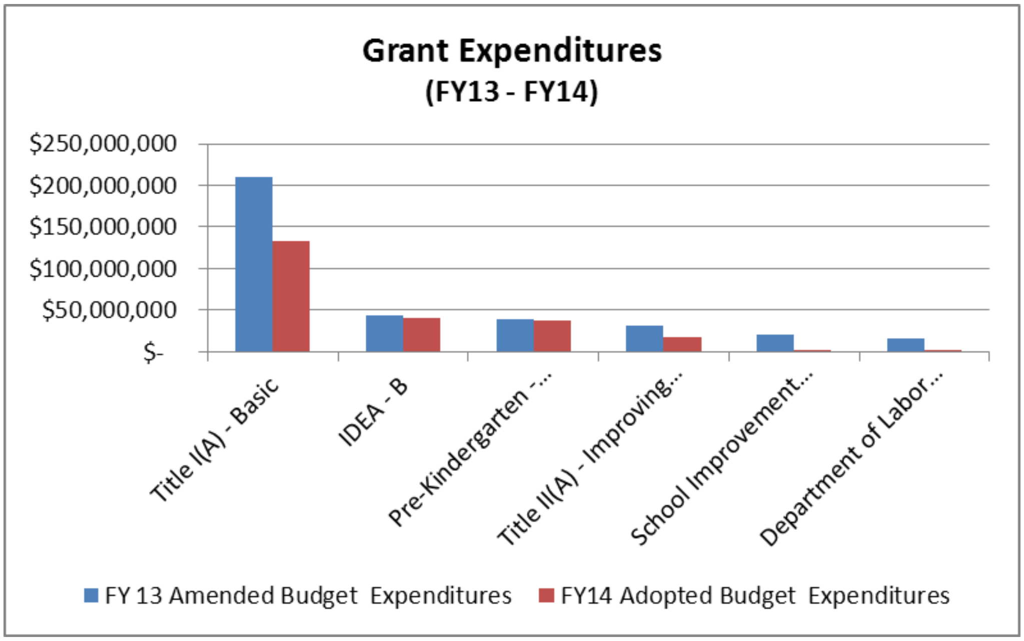
In addition to the operating budget, the District also receives grant funding to supplement school services and issues debt for capital improvement.

GRANT FUNDING: FEDERAL GRANTS

The School District will experience a significant loss of federal grant funding ($134M or 32.7%) in FY14, owing mainly to a loss of:

- Title I and School Improvement Stimulus Funds reduction;
- Title II funds reduction;
- Department of Labor Grant expiration; and
- Federal Sequestration Budget reductions (Chart 10).

Chart 10: Changes in Grant Expenditures (FY13 – FY14)



This drastic reduction will have an adverse impact on schools' ability to provide supplemental services to students (Table 3). Specifically, it is estimated that approximately 1,300 primarily school based positions will need to be eliminated to ensure grant expenditures do not exceed grant revenues.

Table 3: Projected Impact of Federal Grant Reductions and Expirations

Grant	Implications for Schools and Staff
Title 1: $209.9 M in FY13 will decrease to $135.9M in FY14.	• School budget allocations reduced by approximately 42%. • Estimated reductions of 825 FTEs. • Will continue to provide funding for kindergarten. • Will continue to provide funding for Pre-K services.
Title II: $30.9M in FY13 will decrease to $17.0M in FY14.	• Reduced class size initiative will be eliminated. • Estimated reductions of 134 FTEs. • Will continue to fund the priority of eliminating split grades in grades 4, 5, and 6.
School Improvement Grant: $20.3M in FY13 will decline to $2.4M in FY14	Schools affected by the reductions in FY14: • Sayre HS, West Philadelphia HS, Roxborough HS, King, M.L. HS, Frankford HS, Fels HS, South Philadelphia HS, Edison HS, Lincoln HS, Alcorn ES, Allen, Ethel ES, Clemente ES, Locke ES, Barry ES, Furness HS, Penn Treaty MS, Kelley ES • Estimated reductions of 130 FTEs.
Department of Labor Grant: $16.8M in FY13 will decline to $0.4M in FY14.	Schools that will be affected in FY14. • West Philadelphia HS, Bartram HS, Overbrook HS, Lincoln HS, Edison HS, Fels HS, Frankford HS • Estimated reductions of approximately 106 FTEs and some central office administration positions.

Capital Improvement Program Funds

To address the extensive physical needs of school facilities, The School District's Capital Improvement Program (CIP) is a set of projects that construct, replace and/or modernize School District facilities to offset the effects of age and use that has occurred in the school buildings and to improve the educational environment for students.

SDP funds the CIP by selling bonds, which are long-term School District debt, usually repayable with interest over 30 years. The proceeds from the School District's bond sales are the funding source for the Capital Improvement Program. The annual component of the CIP for the coming fiscal year is the Capital Budget. The Capital Budget is used to pay for professional services (i.e. architects, engineers, appraisers, contractors, and attorneys), land, equipment, supplies and other items that support the School District's Capital Improvement Program.

The proposed Capital Budget for FY14 is $134.3 million, and as of April 2013, will partially fund 75 active construction contracts at 36 locations including the completion of the Kearny New Addition and Major Renovation Project, the Bartram CTE and ML King CTE Classroom upgrade projects for September 2013. Included in the FY2013-14 Capital Budget is $72.1M in life-cycle replacements, comprised of:

- $7.4M for boiler and chiller replacements
- $21.6M for structural and façade restorations
- $14.3M for roof replacements
- $3.0M for window replacements
- $25.8M for electrical systems upgrades and replacements

The proposed FY2013-14 Capital Budget also includes partial funding for 94 projects currently in the design phase (Chart 11).

Chart 11: FY14 Proposed Capital Budget