

Budget Adoption

Fiscal Year 2016-2017

May 26, 2016

The School District of Philadelphia's Presentation of the FY17 Budget Adoption 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 on May 26, 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.

Overview

- Action Plan 3.0
 - What progress have we made?
- Investments
- Budget Adoption
 - Timeline and Overview
 - Changes from Lump Sum Statement to Budget Adoption
- Five-Year Plan Projections

Action Plan 3.0 set expectations for the basic educational rights of every child

ANCHOR GOAL 1

100% of students will graduate, ready for college and career

ANCHOR GOAL 2

100% of 8-year-olds will read on grade level

ANCHOR GOAL 3

100% of schools will have great principals and teachers

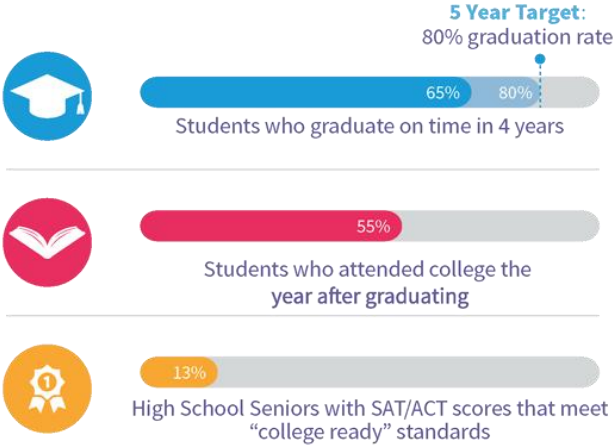
ANCHOR GOAL 4

SDP will have 100% of the funding we need for great schools, and zero deficit

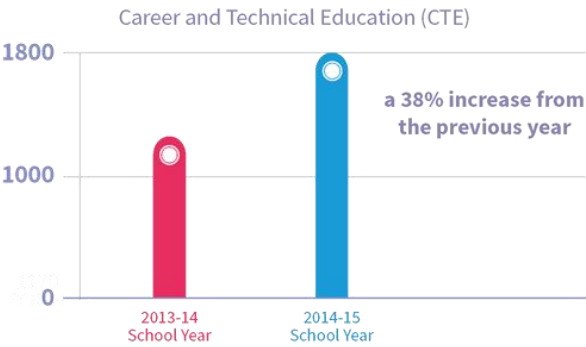
Action Plan 3.0 Status Report - What progress have we made?

ANCHOR GOAL 1

100% of students will graduate, ready for college and career



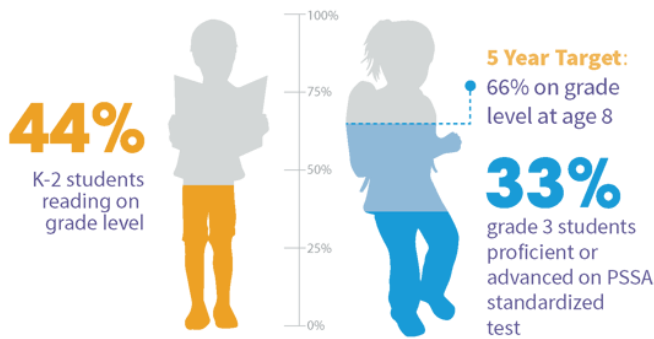
More than 1,800 students earned Career and Technical Education credentials



Restored funding so that all 9th, 10th and 11th grade students can take the PSAT for free, which is a leading indicator of college and career preparedness

ANCHOR GOAL 2

100% of 8-year-olds will read on grade level



Student reading levels are measured by specific skills that make up the reading level continuum, like recognizing words or understanding the order of events in a story. All K-2 student reading levels are included in quarterly report cards so that students and parents can track reading progress.

In grade 3, students take the PSSA which measures proficiency in both Mathematics and English Language Arts. Grade 3 PSSA scores allow the District to measure progress toward our anchor goals and five year targets.

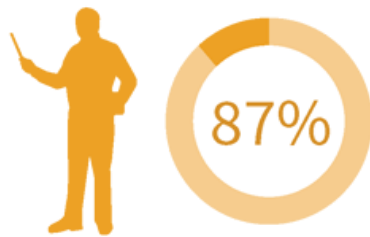
\$10 million investment by philanthropies to train, coach and support literacy instruction and install leveled libraries in all K-3 classrooms

Working with the READ! By 4th campaign to put early learning programs in **100 summer camps**

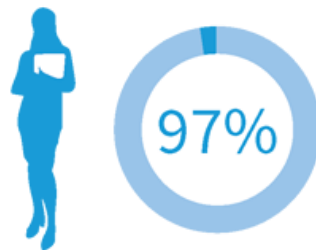
ANCHOR GOAL 3

100% of schools will have great principals and teachers

5 Year Target: Engaged and supported principals and teachers with strong instructional skills



Percentage of formal observations completed for teachers in School Year 2014-15



Percentage of formal observations completed for principals in School Year 2014-15



Actively recruited and hired 24 new school leaders for School Year 2015-16

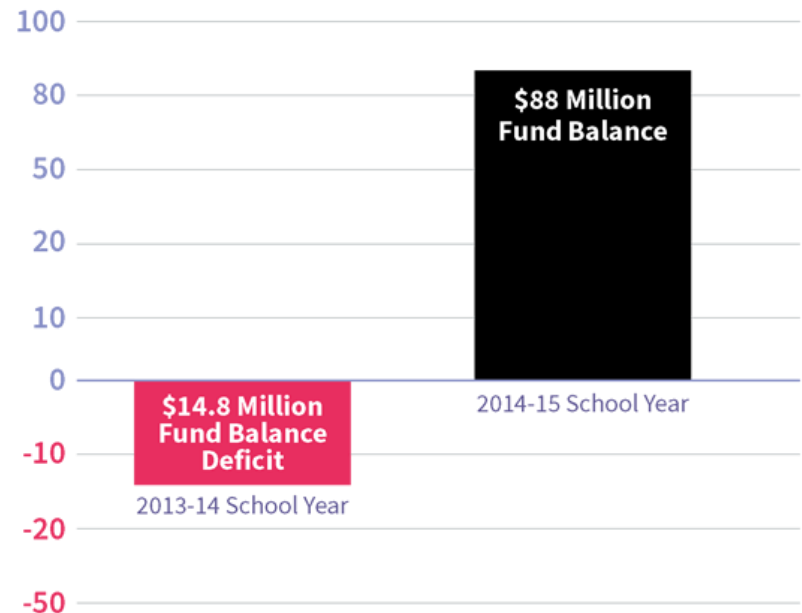


367 first-year teachers participated in New Teacher Orientation for School Year 2015-16

ANCHOR GOAL 4

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

5 Year Target: Five-year balanced budget projections



Five Year Plan New Investment: **\$440 million** for



High School technology updates



More advanced placement and gifted opportunities



K-8 reading and math materials



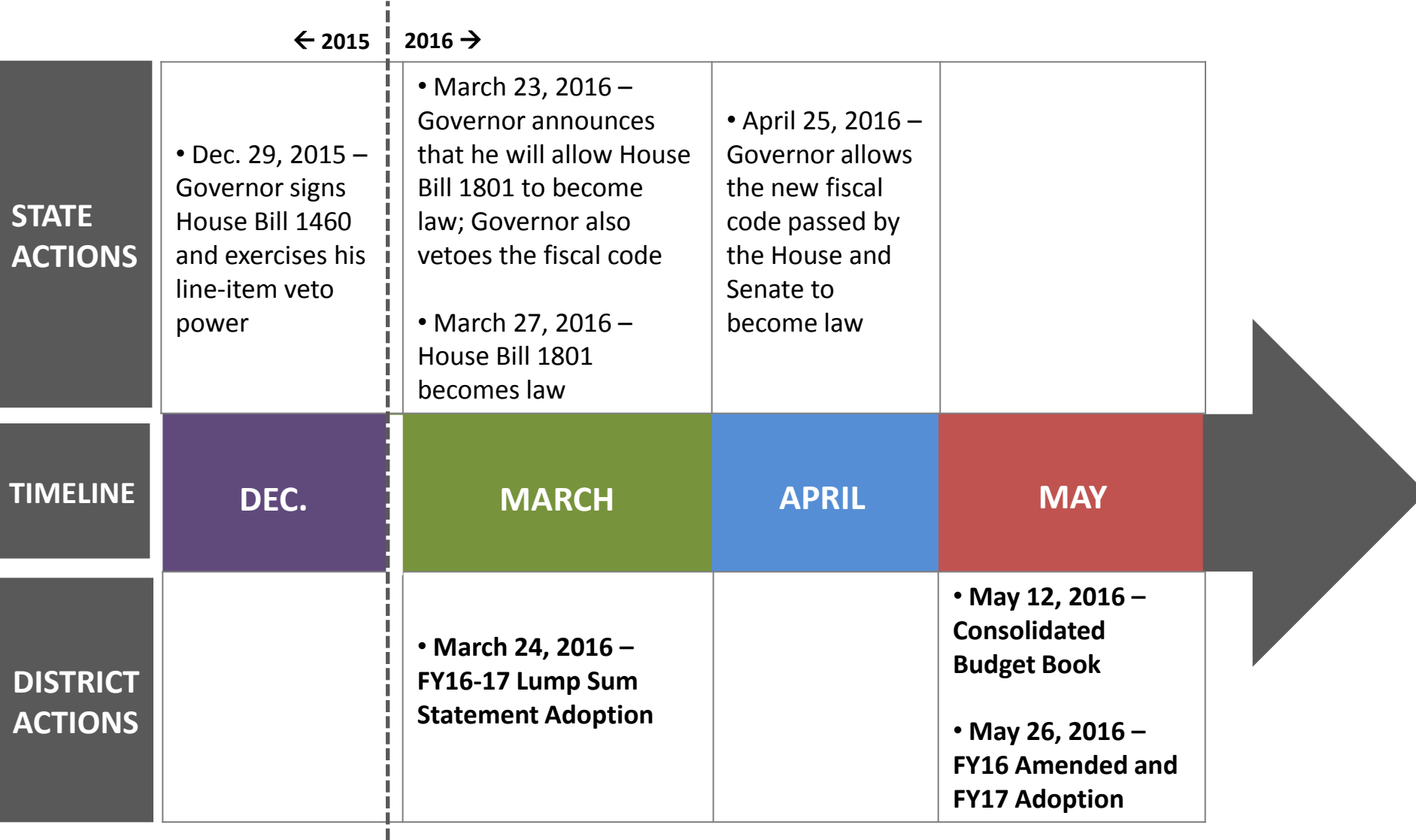
Counselors and nurses in every school

Investments

- The District's Lump Sum Statement and Preliminary Five-Year Plan, FY16-21, include over \$440 million of investments aligned with the Superintendent's Action Plan 3.0
- Investments focus on: Literacy, College and Career Readiness, and Talent/Workforce Development
- Specific investments included in FY16 and FY17:
 - \$7.8 million of funding for schools to use at their discretion, allocated on a per pupil basis
 - \$32 million instructional material refresh
 - At least one counselor in every school
 - At least one nurse per school (or one nurse per building if schools share a building)
 - Additional investments for new Renaissance charter schools and in-District turnaround schools
- Additional necessary investments beginning in FY18 have been identified by the District but are not currently included in its Five-Year Plan. These additional investments would require additional recurring resources from funding partners.

BUDGET ADOPTION

FY16-17 Budget Timeline



Budget Adoption Overview

- Since Lump Sum, the FY16 Amended and FY17 Adopted Budgets show a two-year negative fund balance impact of (\$35) million. Both Lump Sum and the FY17 Budget Adoption include approximately \$55 million in new FY17 revenues proposed by the Governor.

(Amounts in Thousands)	Lump Sum Statement March 2016		Budget Adoption May 2016		Variance to Lump Sum	
	Projected 2015/2016	Proposed 2016/2017	Amended 2015/2016	Adopted 2016/2017	Amended 2015/2016	Adopted 2016/2017
Revenues and Other Financing Sources	\$2,718,474	\$2,805,276	\$3,083,904	\$2,855,343	\$365,430	\$50,067
Obligations and Other Financing Uses	<u>\$2,655,048</u>	<u>\$2,794,459</u>	<u>\$3,037,487</u>	<u>\$2,862,634</u>	<u>\$382,439</u>	<u>\$68,175</u>
Surplus/(Deficit)	\$63,426	\$10,817	\$46,417	(\$7,291)	(\$17,009)	(\$18,108)
Prior Year Fund Balance (Deficit) July 1	\$88,048	\$134,572	\$88,048	\$117,903	\$0	(\$16,669)
Fund Balance Prior to Changes in Reserves	\$151,474	\$145,389	\$134,465	\$110,612	(\$17,009)	(\$34,777)
Changes in Reserves	<u>(\$16,902)</u>	<u>(\$9,702)</u>	<u>(\$16,562)</u>	<u>(\$9,702)</u>	<u>\$340</u>	<u>\$0</u>
Fund Balance (Deficit) June 30	\$134,572	\$135,687	\$117,903	\$100,910	(\$16,669)	(\$34,777)

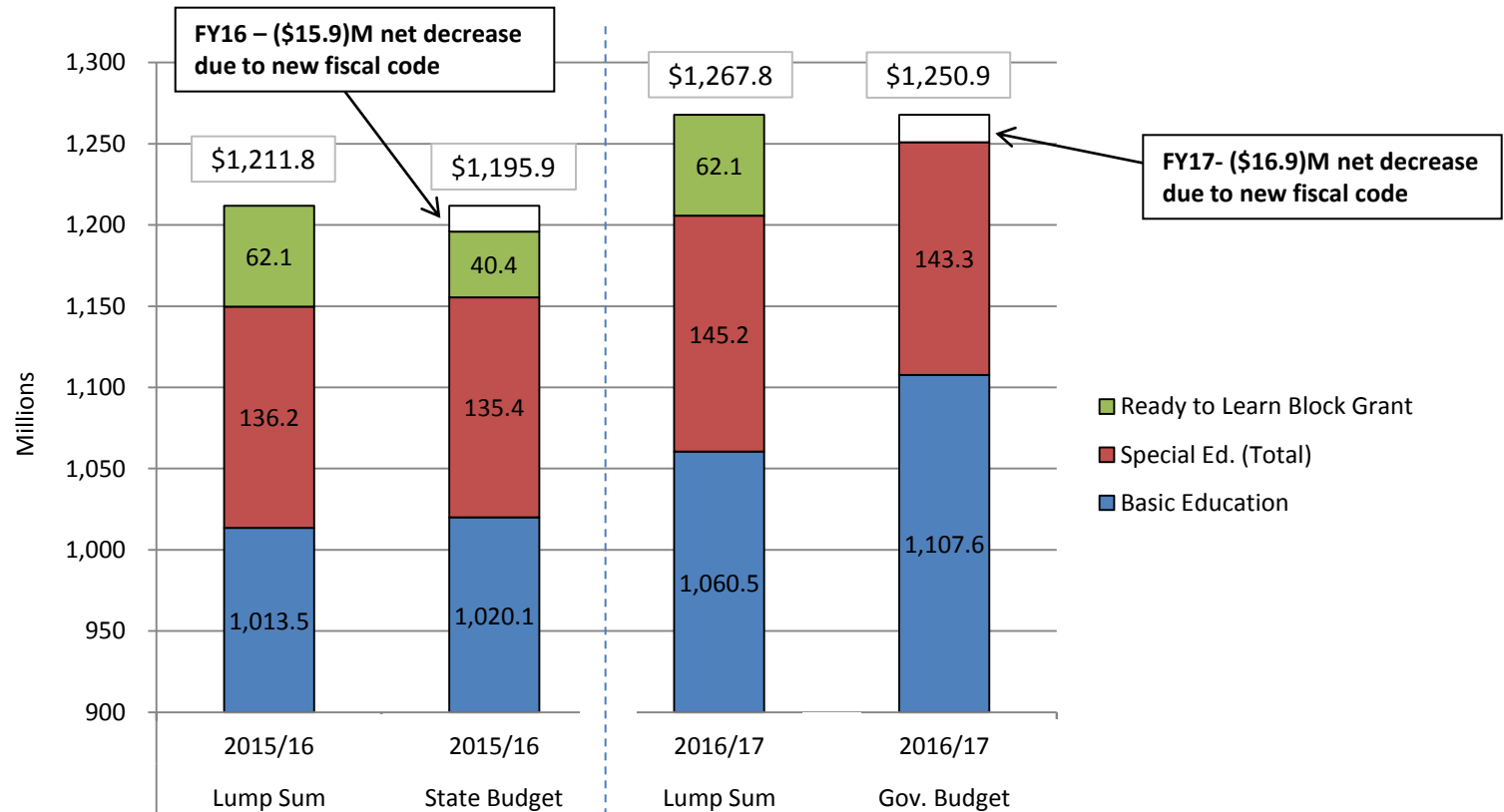
Without the proposed new revenues, the District will face negative ending fund balances by FY18, exacerbating the District's structural imbalance. However, in order to assure educational stability, even without the Governor's new funding in FY17, the District will maintain the same level of spending included in its FY17 adopted budget.

Changes from Lump Sum Statement to Consolidated Budget Book

(Amounts in Thousands)	Lump Sum Statement March 2016		Consolidated Budget Book May 2016		Variance to Lump Sum	
	Projected 2015/2016	Proposed 2016/2017	Projected 2015/2016	Proposed 2016/2017	Projected 2015/2016	Proposed 2016/2017
Revenues and Other Financing Sources	\$2,718,474	\$2,805,276	\$2,727,428	\$2,856,584	\$8,954	\$51,308
Obligations and Other Financing Uses	<u>\$2,655,048</u>	<u>\$2,794,459</u>	<u>\$2,679,936</u>	<u>\$2,862,966</u>	<u>\$24,888</u>	<u>\$68,507</u>
<i>Surplus/(Deficit)</i>	<i>\$63,426</i>	<i>\$10,817</i>	<i>\$47,492</i>	<i>(\$6,382)</i>	<i>(\$15,934)</i>	<i>(\$17,199)</i>
Prior Year Fund Balance (Deficit) July 1	\$88,048	\$134,572	\$88,048	\$118,638	\$0	(\$15,934)
Fund Balance Prior to Changes in Reserves	\$151,474	\$145,389	\$135,540	\$112,256	(\$15,934)	(\$33,133)
Changes in Reserves	<u>(\$16,902)</u>	<u>(\$9,702)</u>	<u>(\$16,902)</u>	<u>(\$9,702)</u>	<u>\$0</u>	<u>\$0</u>
Fund Balance (Deficit) June 30	\$134,572	\$135,687	\$118,638	\$102,554	(\$15,934)	(\$33,133)

Changes from Lump Sum Statement to Consolidated Budget Book: Detail

- The majority of the change in the Consolidated Budget Book is due to the new fiscal code that became effective after the Lump Sum Statement. This resulted in a net (\$15.9) million decrease in FY16 and net (\$16.9) million decrease in FY17 of overall State revenues for the District.



Changes from Consolidated Budget Book to Adopted Budget

(Amounts in Thousands)	Consolidated Budget Book May 2016		Budget Adoption May 2016		Variance to Consolidated Budget Book	
	Projected 2015/2016	Proposed 2016/2017	Amended 2015/2016	Adopted 2016/2017	Amended 2015/2016	Adopted 2016/2017
Revenues	\$2,721,084	\$2,855,095	\$2,727,595	\$2,853,854	\$6,511	(\$1,241)
Other Financing Sources	<u>\$6,344</u>	<u>\$1,489</u>	<u>\$356,309</u>	<u>\$1,489</u>	<u>\$349,965</u>	<u>\$0</u>
Total Revenues and Other Financing Sources	\$2,727,428	\$2,856,584	\$3,083,904	\$2,855,343	\$356,476	(\$1,241)
Obligations	\$2,675,436	\$2,860,714	\$2,684,691	\$2,860,382	\$9,255	(\$332)
Other Financing Uses	<u>\$4,500</u>	<u>\$2,252</u>	<u>\$352,796</u>	<u>\$2,252</u>	<u>\$348,296</u>	<u>\$0</u>
Total Obligations and Other Financing Uses	\$2,679,936	\$2,862,966	\$3,037,487	\$2,862,634	\$357,551	(\$332)
<i>Surplus/(Deficit)</i>	<i>\$47,492</i>	<i>(\$6,382)</i>	<i>\$46,417</i>	<i>(\$7,291)</i>	<i>(\$1,075)</i>	<i>(\$909)</i>
Prior Year Fund Balance (Deficit) July 1	\$88,048	\$118,638	\$88,048	\$117,903	\$0	(\$735)
Fund Balance Prior to Changes in Reserves	\$135,540	\$112,256	\$134,465	\$110,612	(\$1,075)	(\$1,644)
Changes in Reserves	<u>(\$16,902)</u>	<u>(\$9,702)</u>	<u>(\$16,562)</u>	<u>(\$9,702)</u>	<u>\$340</u>	<u>\$0</u>
Fund Balance (Deficit) June 30	\$118,638	\$102,554	\$117,903	\$100,910	(\$735)	(\$1,644)

Changes from Consolidated Budget Book

2015-16 Amended Budget: Impact of Refinancing

- For FY16, subsequent to the Consolidated Budget Book, the District refunded certain variable rate bonds to reduce the interest rate on its bond series. This transaction resulted in an impact to Revenues & Sources of \$349,965,000 and Obligations & Uses of \$348,991,000, which nets to a \$1.0 million positive impact on the bottom line.

(Amounts in Thousands)	Amended 2015/2016	Adopted 2016/17
<u>FY16 Revenues</u>		
<i>Revenues and Sources in FY17 Consolidated Budget Book</i>	\$2,727,428	
<i>June 2016 Refunding Sources</i>	\$349,965	
<i>Other Net Revenues and Sources</i>	\$6,511	
<i>Revenues and Sources in FY16 Amended Budget</i>	\$3,083,904	
<u>FY16 Obligations</u>		
<i>Obligations and Uses in FY17 Consolidated Budget Book</i>	\$2,679,936	
<i>June 2016 Refunding Obligations and Uses</i>	\$348,991	
<i>Other Net Obligations and Uses</i>	\$8,560	
<i>Obligations and Uses in FY16 Amended Budget</i>	\$3,037,487	
<u>Changes in Reserves</u>		
<i>Changes in Reserves in FY17 Consolidated Budget Book</i>	(\$16,902)	
<i>June 2016 Refunding Changes in Reserves</i>	\$0	
<i>Other Net Changes in Reserves</i>	\$340	
<i>Changes in Reserves in FY16 Amended Budget</i>	(\$16,562)	

Changes from Consolidated Budget Book

2015-16 Amended Budget Detail

- The remainder of the changes since the Consolidated Budget Book include various offsetting shifts between Revenues, Obligations, and Reserves.

(Amounts in Thousands)	Amended 2015/2016	Adopted 2016/17
<u>FY16 Revenues</u>		
<i>Revenues and Sources in FY17 Consolidated Budget Book</i>	\$2,727,428	
<i>June 2016 Refunding Sources</i>	\$349,965	
<i>Other Net Revenues and Sources</i>	<u>\$6,511</u>	
<i>Revenues and Sources in FY16 Amended Budget</i>	\$3,083,904	
<u>FY16 Obligations</u>		
<i>Obligations and Uses in FY17 Consolidated Budget Book</i>	\$2,679,936	
<i>June 2016 Refunding Obligations and Uses</i>	\$348,991	
<i>Other Net Obligations and Uses</i>	<u>\$8,560</u>	
<i>Obligations and Uses in FY16 Amended Budget</i>	\$3,037,487	
<u>Changes in Reserves</u>		
<i>Changes in Reserves in FY17 Consolidated Budget Book</i>	(\$16,902)	
<i>June 2016 Refunding Changes in Reserves</i>	\$0	
<i>Other Changes in Reserves</i>	<u>\$340</u>	
<i>Changes in Reserves in FY16 Amended Budget</i>	(\$16,562)	

Changes from Consolidated Budget Book

2016-17 Adopted Budget Detail

- Subsequent to the Consolidated Budget Book, the District further revised its FY17 budget to account for school governance changes and additional refinement to its revenue and expenditure estimates. The net change in revenues and sources is (\$1.2) million and obligations and uses is (\$0.3) million.

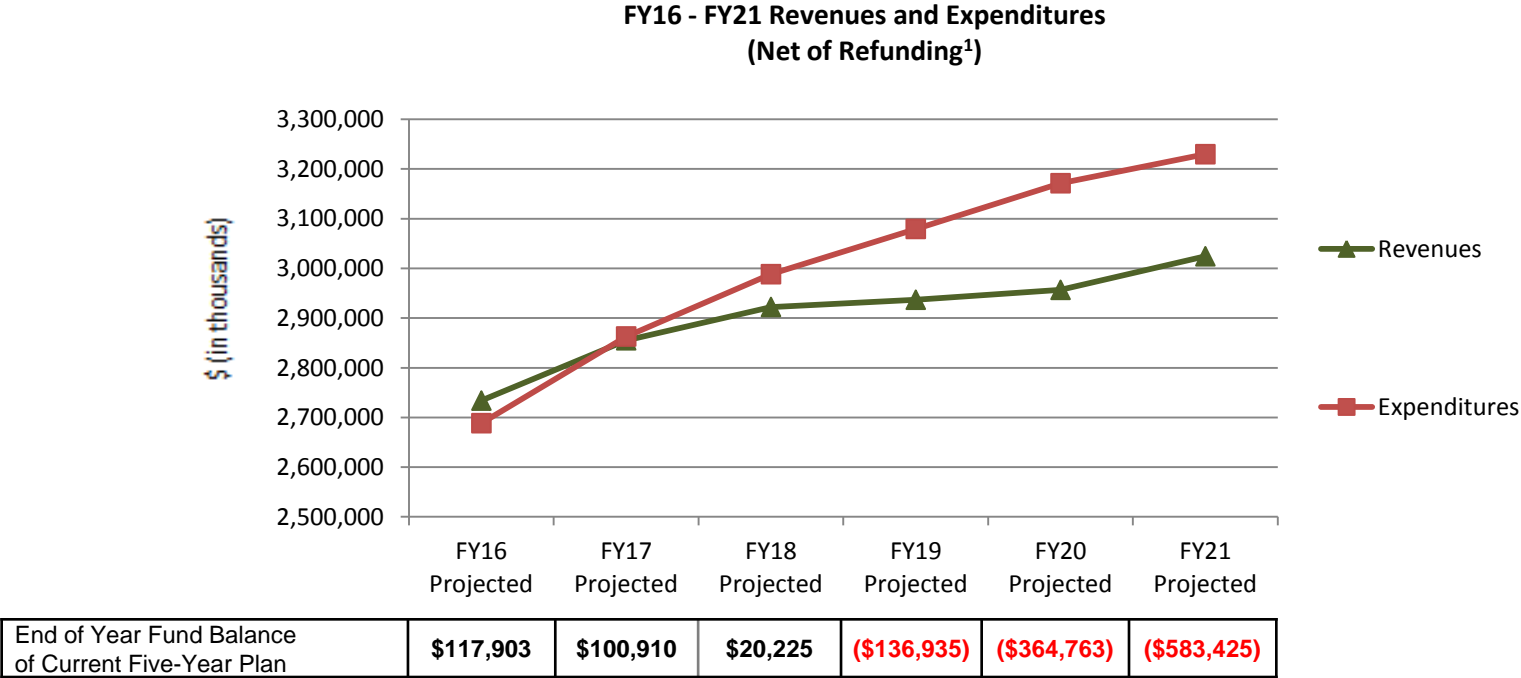
(Amounts in Thousands)	Amended 2015/2016	Adopted 2016/2017
<u>FY17 Revenues</u>		
<i>Revenues and Sources in FY17 Consolidated Budget Book</i>		\$2,856,584
<i>Other Net Revenues and Sources</i>		(\$1,241)
<i>Revenues and Sources in FY17 Adopted Budget</i>		\$2,855,343
<u>FY17 Obligations</u>		
<i>Obligations and Uses in FY17 Consolidated Budget Book</i>		\$2,862,966
<i>Other Net Obligations and Uses</i>		(\$332)
<i>Obligations and Uses in FY17 Adopted Budget</i>		\$2,862,634
<u>Changes in Reserves</u>		
<i>Changes in Reserves in FY17 Consolidated Budget Book</i>		(\$9,702)
<i>Other Changes in Reserves</i>		\$0
<i>Changes in Reserves in FY17 Adopted Budget</i>		(\$9,702)

2015-16 Amended and 2016-17 Adopted Budget Summary

(Amounts in Thousands)	Budget Adoption May 2016	
	Amended 2015/2016	Adopted 2016/2017
Revenues	\$2,727,595	\$2,853,854
Other Financing Sources	<u>\$356,309</u>	<u>\$1,489</u>
Total Revenues and Other Financing Sources	\$3,083,904	\$2,855,343
Obligations	\$2,684,691	\$2,860,382
Other Financing Uses	<u>\$352,796</u>	<u>\$2,252</u>
Total Obligations and Other Financing Uses	\$3,037,487	\$2,862,634
<i>Surplus/(Deficit)</i>	<i>\$46,417</i>	<i>(\$7,291)</i>
Prior Year Fund Balance (Deficit) July 1	\$88,048	\$117,903
Fund Balance Prior to Changes in Reserves	\$134,465	\$110,612
Changes in Reserves	<u>(\$16,562)</u>	<u>(\$9,702)</u>
Fund Balance (Deficit) June 30	\$117,903	\$100,910

Five-Year Projections

- The adopted positive ending fund balance of \$100.9 million is considered inadequate by many standards and represents about two weeks of operating revenues. In addition, due to the structural imbalance caused by expenditures growing at nearly twice the rate of revenues, the District is projected to face a negative fund balance by FY19.



¹ The chart is adjusted to exclude the effects of a refunding in FY16, which accounts for \$350.0 million of FY16 refunding revenues and sources, and \$349.0 million of FY16 expenditures and uses.

Five-Year Plan Projections

FY17-FY21 FINANCIAL PLAN – OPERATING FUNDS May Final Update (in thousands)

	FY16 Amended	FY17 Adopted	FY18 Projected	FY19 Projected	FY20 Projected	FY21 Projected	CAGR FY16 to FY21 ¹
REVENUES & OTHER FINANCING SOURCES							
Local Tax Revenues	\$1,128,271	\$1,141,127	\$1,164,077	\$1,194,100	\$1,174,284	\$1,207,672	1.4%
Local Non-Tax Revenues	\$140,858	\$129,513	\$128,813	\$128,263	\$128,263	\$128,263	-1.9%
State Revenues	\$1,447,108	\$1,572,045	\$1,617,343	\$1,602,033	\$1,642,379	\$1,676,174	3.0%
Federal Revenues	\$11,358	\$11,169	\$11,116	\$11,018	\$10,914	\$10,803	-1.0%
Other Financing Sources	\$356,309	\$1,489	\$989	\$1,489	\$989	\$1,489	-25.2%
TOTAL REVENUES & OTHER FINANCING SOURCES	\$3,083,904	\$2,855,343	\$2,922,338	\$2,936,904	\$2,956,828	\$3,024,402	2.0%
EXPENDITURES & OTHER FINANCING USES							
Total District Operated Schools	\$1,500,468	\$1,541,116	\$1,570,406	\$1,597,196	\$1,619,962	\$1,629,886	1.7%
Total Charter Schools (Incl. Transportation)	\$747,857	\$866,777	\$950,628	\$1,015,698	\$1,068,382	\$1,117,961	8.4%
Total Other Non-District Operated Schools (Incl. Transportation)	\$113,018	\$112,365	\$113,274	\$114,204	\$115,154	\$116,126	0.5%
Debt Service	\$263,710	\$261,618	\$268,493	\$265,189	\$279,306	\$276,290	1.0%
Total Administrative Support Operations (Central Offices)	\$79,683	\$86,275	\$88,415	\$89,840	\$91,163	\$91,976	2.9%
Undistributed Budgetary Adjustments	(\$20,044)	(\$7,769)	(\$5,142)	(\$5,012)	(\$4,879)	(\$4,743)	-25.0%
Other Financing Uses	\$352,796	\$2,252	\$2,252	\$2,252	\$2,252	\$2,252	-12.9%
TOTAL EXPENDITURES & OTHER FINANCING USES	\$3,037,488	\$2,862,634	\$2,988,326	\$3,079,367	\$3,171,340	\$3,229,748	3.7%
OPERATING/FUND BALANCE							
Operating Surplus/(Deficit)	\$46,417	(\$7,291)	(\$65,988)	(\$142,464)	(\$214,512)	(\$205,346)	
Transfers from Reserves	(\$16,562)	(\$9,702)	(\$14,697)	(\$14,697)	(\$13,316)	(\$13,316)	
Fund Balance at Beginning of Year - July 1	\$88,048	\$117,903	\$100,910	\$20,225	(\$136,935)	(\$364,763)	
ENDING FUND BALANCE							
Fund Balance at End of Year - June 30	\$117,903	\$100,910	\$20,225	(\$136,935)	(\$364,763)	(\$583,425)	
<i>Fund Balance as % of Total Revenues¹</i>	4.3%	3.5%	0.7%	-4.7%	-12.3%	-19.3%	

¹ Growth rates and fund balance as a percent of total revenues exclude the impact of refunding in FY16.