
School District of Philadelphia

Five-Year Financial Plan

Fiscal Year 2008-2009 through Fiscal Year 2012-13



Philadelphia School Reform Commission

June 30, 2008



School District of Philadelphia

School Reform Commission

Sandra Dungee Glenn, Chair
Martin G. Bednarik
James P. Gallagher, Ph.D.
Denise McGregor Armbrister
Heidi A. Ramirez, Ph.D.

School District of Philadelphia

Dr. Arlene Ackerman, CEO
Shawn Crowder, Chief of Staff
James Doosey, Interim CFO
Erin O. Davis, Deputy CFO
Wayne M. Harris, Budget Director

Financial Plan Adviser

Public Financial Management, Inc.

School District of Philadelphia
Five-Year Financial Plan
Fiscal Year 2008-09 through Fiscal Year 2012-13

June 30, 2008

Table of Contents

Section

I.	Executive Summary	1
II.	Introduction	7
III.	Multi-Year Fiscal Projections	21
IV.	State Investment and Legislative Agenda	31
V.	City Partnership	45
VI.	Investing in Student Achievement	55
VII.	Management and Productivity	67
VIII.	Workforce	81
IX.	Charter Schools and a Strong Diverse Provider Model	105
X.	Debt Service and the Capital Plan	117
XI.	Financial Management	131
XII.	Appendices	141
	A.	Major Financial Plan Assumptions
	B.	Enrollment
	C.	National Approaches to State Education Funding

THIS PAGE INTENTIONALLY LEFT BLANK



EXECUTIVE SUMMARY

- Over the past six years, Commonwealth and City collaboration within the School Reform Commission (SRC) framework has demonstrated empirically that investment in Philadelphia's children can generate tremendous returns. Test scores are rising, troubled schools are improving, and hope is returning.
 - In 2002, only 23.9 percent of students tested as advanced/ proficient in reading, and 19.6 percent in math. As of 2007, 40.6 percent of students are advanced/ proficient in reading, and 44.9 percent in math. In 2002, including charters, just 26 schools met federal standards for Adequate Yearly Progress (AYP). In 2007, 152 schools met AYP.
 - In just the first year of this Plan, continued funding for ongoing reform programs totals \$634.5 million, including: \$317 million for charter school options; \$163.4 million for reforms in traditional schools; and, \$154.1 million in incremental debt service for modernizing school facilities, creating small high schools, and expanding K-8 schools.
- Even with this significant progress and investment, however, both the achievement and funding gaps for the District remain wide. Too many Philadelphia children are not yet meeting educational standards, while the expert analysis of the 2007 Costing-Out Report commissioned by the State Board of Education found Philadelphia per pupil spending to be \$4,184 below actual need with an overall spending gap of \$869.8 million.
- Building on Governor Rendell's historic, multi-year state budget proposal to close Pennsylvania's education funding adequacy gap statewide, and joining in new partnerships with Philadelphia's new Nutter Administration and City Council, this April preliminary FY2008-09 Budget and Five-Year Financial Plan propose further and significant progress toward eliminating these funding and achievement gaps.
- At the same time, consistent with the District's May 2008 Adopted Budget, this Budget and Five-Year Financial Plan also project balanced budget in FY2008-09. A \$29.7 million deficit is estimated to carry over from FY2007-08 – down dramatically from a \$181 million deficit projected last year – but the surplus projected in FY2008-09 would offset the District's negative fund balance.
- In future years, District finances are projected to continue steady improvement based on strong continued state funding levels, combined with tight fiscal restraint for District spending. Accordingly, the first year of this Plan is critical for establishing sustainable fiscal health.
- A Gap Closing Plan is in development to achieve full and sustainable balance for the fiscal year ahead. The SRC Chair has requested that the Commonwealth of Pennsylvania Secretary of the Budget and City of Philadelphia Director of Finance work with the District to construct this approach, and the process has begun. Assuming that at least half of the initiatives in this Gap Closing Plan recur, the District is projected produce operating

surpluses in FY2010-11 and FY2011-12 and to begin to rebuild a positive Fund Balance reserve.

- The first step in deficit elimination is for the District to continue to demonstrate that its own fiscal house is in order. At the same time – while strong District action remains the cornerstone for achieving and sustaining fiscal health – the Commonwealth of Pennsylvania and City of Philadelphia have also been key partners in the District’s progress to date.
 - From the Commonwealth, the District’s 2008 State Legislative Agenda is centered on the Governor’s proposed, new education funding formula for Pennsylvania. This landmark legislation offers the best opportunity in a generation to dramatically improve student achievement in our city schools, and across the Commonwealth. Along with this threshold priority, the State Legislative Agenda includes a series of smart reforms – many statewide in impact – that will further support education gains.
 - At the City level, recognizing the many competing demands on local tax dollars, this Plan looks to forge new and more creative partnerships to drive more resources into the classroom. To advance this goal, the School District and City will establish a new, executive-level Shared Services Task Force to review opportunities for consolidation and coordination of support functions and services.
- Along with its recent deficit reduction plan, the District has also implemented a series of creative management and productivity measures in recent years – ranging from contracting out of the District’s data center to strategic sourcing programs. Overall, since the start of this decade, the District has eliminated 487 Administrative Support positions and 1,044 Building Services positions. Building on these and other measures, this Plan addresses five key areas important to ongoing District financial responsibility:
 - New *Management and Productivity* initiatives – from field audits of providers to the thoughtful evaluation of building closure opportunities.
 - *Workforce* cost containment through wage moderation, health benefit cost-sharing, plan design, and administrative opportunities such as pooled purchasing.
 - Continued choice and innovation through *Charter Schools and a Strong Diverse Provider Model*, with careful review of performance to improve accountability and affordability.
 - Targeting of future borrowing and capital programs to address ongoing infrastructure needs to manage *Debt Service and the Capital Plan* cost-effectively.
 - Reliable *Financial Management* to ensure sound planning and budget execution, including a detailed set of fiscal controls and policies – many already well underway.
- As increased resources for the classroom are generated through such efforts, this Plan continues to invest in the proven academic reforms initiated over the last several years,

including the Core Curriculum and instructional supports, enhanced secondary education options, expanded alternative education programs, and the diverse provider model.

- As the District regains fiscal stability, it will be able to use a significant portion of the Governor’s proposed, multi-year increases to Basic Education funding for new academic reforms. State Basic Education funding allocated specifically toward new programs totals a projected \$41.9 million in FY2008-09, growing to \$272.0 million in FY2011-12 and FY2012-13.
 - In FY2008-09, this funding is central to the District’s plans for reducing class size in struggling (Corrective Action II) schools, expansion of art and music District-wide, continued rollout of new curriculum, and reinforcement of existing reforms.
 - The District has also launched a series of targeted initiatives for out-of-school youth and disciplinary students in recent years – important for improving overall graduation rates and ensuring opportunities for all Philadelphia students to learn. For FY2008-09, the District has initiated a competitive process to strengthen the network of alternative education providers and to expand the number of slots available while ensuring the best possible rates.
 - In future years, these significant new resources will be targeted toward expanding proven reforms and further innovation – such as additional class size reduction, dropout prevention strategies, and further charter school approvals and enhancement of the diverse provider model.
- Dr. Arlene Ackerman, the District’s incoming CEO and a nationally recognized academic leader, will guide the ongoing review and renewal of Philadelphia’s reform strategies. Accordingly, many of the details of the next phase of investment are likely to change, but the goals and momentum of student achievement remain consistent and growing.
- With this new District leadership now coming on board, a new partner in City Hall, and an historic new plan in Harrisburg for investing in schools statewide, now is the time to reach for the next level in educating Philadelphia’s students. While many details are still to be determined as the months ahead unfold, the framework is now in place, the opportunity is clear, and the next five years are the time to ensure that all Philadelphia children can fulfill their learning potential.

THIS PAGE INTENTIONALLY LEFT BLANK



II. Introduction





INTRODUCTION

With this adopted FY2008-09 Budget and Five-Year Financial Plan, the School District of Philadelphia sets forth its framework for building on the fiscal progress – and, more importantly, on the gains in student achievement – that have been achieved since the City and Commonwealth partnered to establish the School Reform Commission (SRC) more than six years ago.

	Then, in 2002....	→	...and now, as of 2007 ¹ .
<i>PSSA scores have risen</i>	23.9% of students were advanced/ proficient in reading, and 19.6% in math.	→	40.6% of students are advanced/ proficient in reading, and 44.9% in math.
<i>TerraNova scores have risen</i>	27% of students were at/above the national average in math, 33% in reading, and 28% in language arts.	→	40% of students are at/above the national average in math, 39% in reading, and 40% in language arts.
<i>More schools, including charters, are making AYP</i>	26 schools (22 traditional, 4 charters) met federal standards for Adequate Yearly Progress.	→	142 schools (107 traditional, 35 charters) met federal standards for Adequate Yearly Progress.
<i>High school choice has increased</i>	There were 38 high schools, with an average student population of about 1,700.	→	There are now 62 high schools, and 20 charter high schools, with an average student population of 800; half have fewer than 500.
<i>More students are in AP courses</i>	Only 18 high schools offered Advanced Placement courses.	→	48 high schools offer Advanced Placement courses.

This dramatic progress in student achievement results from the investment in proven academic reforms initiated by the District since the SRC was first established. In just the first year of this Plan, FY2008-09, continued funding for these ongoing reform programs totals \$634.5 million – more than 25 percent of the total budget – including: \$317 million for charter school options; \$163.4 million for reforms in traditional schools; and, \$154.1 million in incremental debt service for modernizing school facilities, creating small high schools, and expanding K-8 schools.

Even with this significant progress and investment, however, both the achievement and funding gaps for the District remain wide. As reflected in the data above, too many Philadelphia children are not yet meeting educational standards. At the same time, and not unrelated, the expert analysis of the Costing-Out Report commissioned by the State Board of Education² and released late last year, found School District of Philadelphia per pupil spending to be \$4,184 below actual need with an overall spending gap of \$869.8 million.

¹ March 2008 Accountability Review Council (ARC) Report to the SRC, *The Status of 2006-07 Academic Performance in the School District of Philadelphia*.

² Pursuant to Act 114 of 2006.

These findings are consistent with the empirical results achieved through recent increases in Philadelphia school funding – which have demonstrated that good investments can make a difference – while also reflecting the scale of the challenges yet ahead.

Building on Governor Rendell’s historic, multi-year state budget proposal to close Pennsylvania’s education funding adequacy gap statewide, and joining in new partnerships with Philadelphia’s new Nutter Administration and City Council, this adopted FY2008-09 Budget and Five-Year Financial Plan propose further and significant progress toward eliminating these gaps to enable all Philadelphia children to reach their learning potential.

Consistent with the District’s FY2008-09 Adopted Budget of March 2008, this Five-Year Financial Plan begins in FY2008-09 with a balanced budget. In year one, the District projects a \$29.7 million operating budget surplus that overcomes the negative fund balance carried over from FY2007-08.

Through further State, City, and District partnership, the SRC adopted the final and balanced FY2008-09 Budget with just \$5.9 million in revenue enhancements or obligation reductions to be determined. Assuming that at least half of these new FY2008-09 gap closing actions are recurring in future years, this continued partnership will achieve a balanced budget that further invests in boosting student achievement across the full five years of this Plan.

Key elements of this proposed FY2008-09 Budget and Five-Year Financial Plan include:

- Progress toward deficit elimination;
- City and State support;
- District financial responsibility; and
- Continued investment in student achievement.

Specific strategies in each of these areas are detailed throughout this Plan, and summarized in the sections below.

Progress Toward Deficit Elimination

As recently as February 2007, the District projected a \$181 million deficit. Through an aggressive deficit reduction plan, however, this shortfall has now been reduced to an estimated \$29.7 million for FY2007-08.

As of April 2008, as part of meeting its Act 45 obligations, the District's deficit reduction plan has achieved projected net savings of \$69.6 million, including:

- \$13.4 million from the elimination of 240 administrative positions via a headquarters reduction in force and the reorganization of regional administrative offices;
- \$10.3 million in academic program cuts, delays, and shifts to grant funding;
- \$9.6 million in contracted services reductions;
- \$9.2 million in non-salary personnel savings, including medical premium cost reduction and overtime cuts;
- \$8.4 million in reduced EMO/Partnership school subsidies;
- \$6.5 million in savings from audits of outside providers; and,
- \$5.6 million in other administrative and non-personnel cost reduction, such as fleet reduction, energy management, and transportation initiatives.

This remaining deficit results primarily from four factors unanticipated at the start of the fiscal year: increased debt service costs resulting from the turmoil on Wall Street this spring, which will increase District interest costs by \$6.9 million in FY2007-08; utility and diesel fuel cost pressures due to spikes in the energy markets, currently forecast at \$5.6 million above the levels planned in May 2007; a delay of the sale of two real estate parcels worth \$12.8 million into the following fiscal year; and, an increase in the number of students enrolled in cyber charter schools at an estimated additional cost of \$6.9 million. Unlike all other charter schools, cyber charters are not approved by the District. **Absent these four unforeseen factors, the District's deficit reduction plan would have produced a positive operating result for FY2007-08.**

Nonetheless, the District's preliminary statement of anticipated receipts and expenditures carries forward this \$29.7 million deficit, with an equal surplus projected in FY2008-09 to fully balance the District's budget. Beginning in FY2010-11, projections show a current year budget surplus of \$2.0 million growing to \$27.9 million by FY2011-12.³ This improvement reflects strong continued state funding levels, combined with tight fiscal restraint for District spending. Under these assumptions, with the District's finances projected to strengthen over time, the first year of this Plan is critical for establishing sustainable fiscal health.

Looking forward, as shown in the following table, when the projected FY2008-09 fiscal gap closes, the District is well positioned to rebuild its financial stability year by year. Assuming that at least half of the initiatives identified in the Gap Closing Plan recur, the District is projected⁴ to produce operating surpluses in FY2010-11 and FY2011-12 and to begin to build a positive Fund Balance reserve.

³ In FY2008-09, a change in reserves of \$884,453 has been incorporated into the fiscal gap.

⁴ The District's major revenue and expenditure line items and associated assumptions used in the baseline projections for FY2009-10 through FY2012-13 are detailed in Appendix A.

**FIVE-YEAR BUDGET PROJECTIONS
FY2008-09 THROUGH FY2012-13**

	Budget FY2008-09	Projected FY2009-10	Projected FY2010-11	Projected FY2011-12	Projected FY2012-13
Revenue	2,303,549,000	2,475,673,904	2,645,570,331	2,831,347,160	2,948,042,946
Expenditures	2,280,602,991	2,483,103,289	2,646,495,847	2,806,419,243	3,025,631,379
Change in Reserves	884,453	0	0	0	0
<u>Baseline</u>					
Annual Surplus (Deficit)	22,946,009	(7,429,385)	(925,516)	24,927,917	(77,588,433)
Beginning Fund Balance	(29,681,984)	(5,851,522)	(13,280,907)	(14,206,423)	10,721,494
Ending Fund Balance	(5,851,522)	(13,280,907)	(14,206,423)	10,721,494	(66,866,939)
<u>Gap Closing Plan Target</u>	5,851,522	2,925,761	2,925,761	2,925,761	2,925,761
<u>Revised With Gap Closure</u>					
Annual Surplus (Deficit)	29,681,984	(4,503,624)	2,000,245	27,853,678	(74,662,672)
Beginning Fund Balance	(29,681,984)	0	(4,503,624)	(2,503,379)	25,350,299
Ending Fund Balance	0	(4,503,624)	(2,503,379)	25,350,299	(49,312,373)

In evaluating these multi-year projections, it may be noted that a current-year deficit is forecast to reoccur in FY2012-13. This challenge is primarily the result of an anticipated major increase in employer funding requirements statewide for the Pennsylvania Public School Employees' Retirement System (PSERS). By beginning to rebuild Fund Balance prior to this juncture, the District will be able to better prepare for this pension funding adjustment. In the interim, it is also expected that the Commonwealth and other school districts across Pennsylvania will work to develop solutions for this important statewide issue.

To better understand the fiscal gap now projected for FY2008-09, it is instructive to review the District's key cost drivers that have been substantially outpacing growth in revenues: Charter Schools, Debt Service and Employee Benefits. **Combined expenses for these three areas increased by 31.4 percent over the past four fiscal years while the remainder of District expenses grew just 2.0 percent in aggregate.** As a result, many other areas of District spending have been cut in real, inflation-adjusted dollars to accommodate the increases in these categories of increase.

**MAJOR AREAS OF EXPENDITURE GROWTH
FY2003-04 TO FY2007-08**

	<u>FY2003-04</u>	<u>FY2007-08</u>	<u>4 YR GROWTH \$</u>	<u>4 YR GROWTH %</u>
CHARTER SCHOOLS	152,890,095	275,683,231	122,793,136	80.31%
BENEFITS	369,071,394	413,594,055	44,522,661	12.06%
DEBT SERVICE	168,913,189	218,628,178	49,714,989	29.43%
<u>OTHER OPERATING EXPENSES</u>	<u>1,256,637,564</u>	<u>1,281,788,075</u>	<u>25,150,511</u>	<u>2.00%</u>
TOTAL NET EXPENDITURES⁵	1,947,512,242	2,189,693,539	242,181,297	

⁵ Net expenditures does not include bond defeasements offset by an equal amount of revenue.

Going forward, it will be important to contain the spending growth in these major categories – as well as other emerging budget pressures, such as energy costs – and/or to identify specific and achievable budget strategies for offsetting these challenging fiscal trends.

City and State Support

The first step in deficit elimination is for the District to continue to strengthen its own fiscal performance. Recent deficit reduction reflects this commitment, and new initiatives are underway to build on these results. At the same time – while strong District action remains the cornerstone for achieving and sustaining fiscal health – the Commonwealth of Pennsylvania and City of Philadelphia have also been key partners in the District’s progress to date.

When first joining with the City in FY2001-02 to establish the SRC, the Commonwealth provided new, recurring support for charter schools and a special \$25 million grant. Subsequently, over the course of the Rendell Administration, new categorical funding programs have combined with existing funding streams to grow overall Commonwealth support from an average of 4 percent annually over the five years from FY1997-98 to FY2001-02 to an average of 7 percent per year since FY2002-03. Concurrently, the General Assembly has also been a key partner in reform, leading in the delivery of special grants for Alternative Education and supporting many other areas of Commonwealth investment that have been a vital component of these positive, overall trends.

In recent years, the City of Philadelphia has also incrementally and significantly increased its local funding commitment to the District through a series of important actions – from establishment of the liquor sales tax now generating over \$40 annually, to increases in the City’s annual General Fund grant and real estate millage transfers to bring the District’s share of all local property tax revenues from 50 to 60 percent. Overall, local support for the District grew at an average annual rate of 3.3 percent from FY2002-03 through FY2006-07, with estimated growth from FY2006-07 to FY2007-08 projected at another 5.9 percent. Such City investments have also contributed significantly to the District’s recent progress toward improving student achievement.

The District preliminary FY2008-09 Budget includes all state revenues in the Governor’s proposed Budget, as well as an additional \$14 million for continuation of the Alternative Education Demonstration Grant. From the City, the District preliminary Budget includes the impact of last year’s City millage transfer and increased annual subsidy carrying forward.

From the Commonwealth, the District’s 2008 State Legislative Agenda is centered around the proposed, new education funding formula for Pennsylvania. This landmark legislation offers the best opportunity in a generation to dramatically improve student achievement in our city schools, and across the Commonwealth. Along with this threshold priority, the State Legislative Agenda includes a series of smart reforms – many statewide in impact – that will further support education gains.

School District of Philadelphia 2008 State Legislative Agenda

- Enact the Governor's proposed new Basic Education funding formula and six-year student achievement plan for Pennsylvania
- Continue the District's Alternative Education Demonstration Grant
- Increase Charter school reimbursements to align with actual, net costs
- Establish a fair and reasonable statewide cyber charter funding formula
- Create a tiered special education funding formula for charter schools statewide
- Increase transportation reimbursements – funding charter school transportation at the same rate in place for non-public schools, and adjusting this non-public school rate for the first time since FY2001-02 to account for rising fuel costs and inflation
- Convene a Special Education Task Force to explore more equitable approaches for targeting state investment in special education needs

At the City level, recognizing the many competing demands on local tax dollars – from crime fighting to infrastructure renewal to job creation – this Plan looks to forge new and more creative partnerships to drive more dollars into the classroom. Overall, the local goal is to reduce the aggregate cost of combined City and District operations.

To advance this goal, the School District and City will establish an executive-level Shared Services Task Force to review collaborations already under way, to determine where such existing coordination should be strengthened, and to recommend new opportunities for further service sharing. This Task Force will be convened by May 2008, and will be charged with completing a detailed report to the Mayor, City Council, and School Reform Commission by the Fall of 2008 to enable consideration of any major recommendations for the FY2009-2010 budget cycle.

The Task Force will include cabinet-level leadership, and will also be empowered to appoint working groups under its direction to explore specialized areas of opportunity (e.g., energy procurement, fleet operations, risk management, etc.) in greater detail.

City-School District Shared Services Task Force

Across all common areas of City and School District operations, the Task Force will jointly evaluate issues and opportunities including:

- Size and structure of each existing District and City function
- Service goals and mandates of each existing function
- Options for consolidation and/or increased coordination
- Pros, cons, and risks; potential savings impact
- Recommended next steps including implementation requirements and time line

District Fiscal Responsibility

Along with achieving \$69.6 million in net savings from its recent deficit reduction plan, the District has also implemented a series of creative management and productivity measures in recent years – ranging from outsourcing of the District’s data center to energy savings strategies to strategic sourcing programs. In addition, the District has eliminated 65 non-bus vehicles from its fleet, cut over 750 cell phones, contracted out cleaning services for sixteen (16) schools, and sold excess properties to generate one-time revenues and long-term savings in utilities and maintenance. Within the last two years, the sale of just three major properties (Durham, Wanamaker, and Schuylkill Avenue Garage) has generated over \$19 million.

From June 2000 to June 2007 alone, the District eliminated 487 Administrative Support positions and 1,044 Building Services positions.

Building on these and other measures, this Plan addresses five key areas important to ongoing District financial responsibility in the more detailed chapters to follow:

- Management and Productivity: Building on recent initiatives to streamline administrative staffing and increase operational efficiency, this Plan includes new measures such as: field audits to ensure proper billing for out-of-district special education placements; expanded energy conservation programming; and the joint City-District Shared Services Task Force as strategies for continued productivity gains.

In addition, over the full five years of this Plan, given declining overall enrollment and a shift in student population toward charter and other non-traditional schools, it is also important for the District to reevaluate and optimize its facility needs. Toward this end, the District has engaged a professional firm to assist in evaluating consolidation and closure opportunities. Over time, the sale and/or leasing of excess buildings holds tremendous potential to generate positive bottom line impact – as much as \$500,000 to \$1 million per school in annual non-classroom operating cost savings alone.

- Workforce: While recent District wage increases have generally been moderate at around 3.0 percent annually, and health benefit cost growth has been held below regional and national norms, employee costs nonetheless represent nearly 60 percent of FY2007-08 expenditures totaling \$1.3 billion dollars. In FY2008-09, the District also must fund the full, annualized cost of a 3.0 percent wage increase for its largest union, the Philadelphia Federation of Teachers (PFT), provided in April 2008. Accordingly, with a significant budget gap yet to be closed, this Plan does not include any funding for across-the-board pay increases. At the same time, however, the Plan does detail a broad range of opportunities for compensation cost containment – particularly in the areas of health benefit cost-sharing and plan design – that hold strong potential to generate overall savings. For the out-years of this Plan, creative approaches through good faith bargaining can maintain a competitive – and affordable – overall compensation structure.

In addition, along with issues related to upcoming collective bargaining, the Workforce chapter of this Plan also outlines a series of potential administrative savings – from further staffing level analyses to benefit cost reduction through pooled purchasing, self-insurance, and/or eligibility reviews.

- Charter Schools and a Strong Diverse Provider Model: The District engages many partners – from charter schools to Educational Management Organizations (EMOs) to alternative education programs – that play a critical role in Philadelphia’s diverse provider model of urban education. Over the past five years, academic choices have been expanded to include: restructured District schools, and new, small high schools operated by the District; 38 District schools operated by six private EMOs, including universities, for-profit, and nonprofit organizations; and, 61 charter schools offering a broad range of approaches and programs, with two additional new charters approved for FY2008-09, educating more Pennsylvania children than charters across all other districts in the state combined.

Looking forward, the SRC will continue to apply any tool available where most effective for improving student achievement. For example, to address Corrective Action II schools struggling to meet the adequate yearly progress targets of the No Child Left Behind Act, the SRC will consider radical approaches from current partners with proven successful reform models. Whether such initiatives might include closing or “charterizing” some District schools, the Commission will work aggressively to address academic stagnation and retrogression. At the same time, the SRC will also continue to hold all of its educational partners accountable for performance, carefully reviewing progress and effectiveness. Such evaluations will be driven first and foremost by a focus on student achievement, and will also encompass financial factors important for ensuring that dollars invested in education yield a strong return. Accordingly, the Plan includes a focus on the financial impact of Philadelphia’s commitment to the charter school movement, and strategies for improving accountability and the affordability of continuing such support.

- Debt Service and the Capital Plan: The District faces ongoing infrastructure renewal and replacement needs that require an active capital program. Nonetheless, to help regain fiscal stability, the District will defer its planned spring 2009 borrowing into the summer of that

**District Financial Management
Reforms**

(11/06 -4/08)

- ***Strengthened encumbrance controls, including disciplinary action for manager overspending***
- ***Limited Contract Authority Committee reviews all contracts above \$25,000***
- ***Small and petty cash purchase monitoring and controls increased***
- ***Position controls tightened, eliminating new hires outside the formal process***
- ***School budget overspending now results in reduced budgetary authority in the following year (applied to 32 schools for FY2007-08)***
- ***New administrative policies adopted (Computers, Mobile Communications) with additional policies pending for new school year (Meals, Travel, Training, Real Estate, Risk Management, Overtime)***
- ***Monthly and quarterly budget reports and forecasts enhanced***
- ***“Negative budgeting” of anticipated future savings curtailed dramatically***
- ***Five-Year Financial Plan***

year, generating debt service savings for FY2008-09 while still maintaining a reasonable schedule of continued capital investment.

- **Financial Management**: Across all of the District’s business functions, reliable financial information, practices, and controls are important for ensuring sound planning and execution. Along with quantified budget initiatives, this Plan also sets forth a detailed set of budget control and policy measures – many already well underway – important for ensuring reliable and accountable fiscal performance.

Individually and in tandem, these approaches are intended to better contain costs while sustaining core services.

Investment in Student Achievement

This Plan continues to invest in the proven academic reforms initiated by the District over the last several years, including the Core Curriculum and instructional supports, enhanced secondary education options, expanded alternative education programs, and the diverse provider model. The School District’s reform efforts to date in these areas are seen as key drivers of its overall academic successes in recent years.

At the same time, significant gaps in achievement remain, and much work remains to be done.

To increase student achievement statewide, Governor Rendell has proposed a multi-year education funding plan, targeting the majority of any basic education funding increases above an inflation index toward establishing or expanding programs to improve school performance. Under the Governor’s plan, priorities would include the following approaches:

- Increased instructional time;
- New curriculum and expanded course offerings;
- Staff and teacher training;
- Class size reduction;
- Early childhood education;
- Teacher and principal recruitment; and,
- Performance contracts for superintendents and principals.

In Philadelphia, a fundamental principle of the plan for the next five years is to make the best possible educational use of the investment provided under the Governor’s funding approach while simultaneously producing efficiencies elsewhere to drive even more resources into the classroom. The District is committed to maintaining the momentum of reform started at the SRC’s inception and will prioritize investments to ensure that progress continues.

Consistent with the Governor’s plan, the SRC established an academic reform agenda in October 2007 to build upon the Declaration of Education – taking student achievement “to the next level.” In response to analysis by the independent Accountability Review Council (ARC), the SRC determined that the primary challenge now facing the District is sustaining improvement, and a set of strong future priorities were identified:

- Targeted class size reduction;
- Exposure to art and music for all students;
- Guidance counselors and counseling support;
- Nurses in elementary schools; and
- Adequately staffed libraries.

The School Reform Commission continues to support its objective of placing more resources back into schools by including in the FY2008-09 Adopted Budget \$15.4 million in funding for class size reduction in kindergarten through third grade for those schools facing the greatest academic difficulties (Corrective Action II), and the expansion of arts and music programs into every school in the District.

Along with more general academic reforms, District has also launched a series of targeted initiatives for out-of-school youth and disciplinary students in recent years – important for improving overall graduation rates and ensuring opportunities for all Philadelphia students to learn. Currently, these initiatives include educational options programs; gateway to college; accelerated high schools; and disciplinary programs. For FY2008-09, the District has initiated a competitive process to strengthen the network of alternative education providers and to expand the number of slots available while ensuring the best possible rates.

Since 2003, the General Assembly has worked with the Governor’s Office to add additional funding beyond initial proposed budgets for alternative education. For FY2008-09, the District is seeking continuation of Alternative Education Demonstration Grant funding at a minimum of \$14 million, consistent with the FY2007-08 appropriation, in support of its ongoing provider network improvement initiative.

Another key element of the SRC’s October 2007 framework for the next chapter of school reform was to recruit a new CEO to help guide the District in the next phase ahead. This goal has been successfully achieved with the appointment of Dr. Arlene Ackerman, a nationally recognized academic leader. With her transition to assume the District’s leadership in June 2008, and in the months that follow, Dr. Ackerman will head the ongoing review and renewal of Philadelphia’s reform strategies. Accordingly, many of the details of the next phase of

investment are likely to change, but the goals and momentum of student achievement remain consistent and growing.

As the District regains fiscal stability, it will be able to use a significant portion of the Governor’s proposed, multi-year increases to Basic Education funding for these new academic initiatives. State Basic Education funding allocated specifically toward new academic programs, over and above index-driven changes to standard state funding and incremental funding for existing innovations, totals a projected \$41.9 million in FY2008-09, growing to \$272.0 million in FY2011-12 and FY2012-13.

	Budget FY2008-09	Projected FY2009-10	Projected FY2010-11	Projected FY2011-12	Projected FY2012-13
<u>Closing the Adequacy Gap</u>					
State Achievement Funds	41,861,506	136,594,892	204,535,774	272,042,491	272,042,491

In FY2008-09, this funding is central to the District’s plans for reducing class size in struggling (Corrective Action II) schools, expansion of art and music District-wide, continued rollout of new curriculum, enhanced alternative education programs, and reinforcement of existing reforms.

In future years, guided by the District’s incoming CEO, these significant incremental resources will be targeted toward expanding proven reforms and further innovation – such as additional class size reduction, dropout prevention strategies, and further charter school approvals and enhancement of the District’s diverse provider model.

Next Steps

The challenges facing the Philadelphia School District are not small, but the commitment to solve them is greater. Over the past six years, Commonwealth and City collaboration within the School Reform Commission framework has demonstrated that investment in Philadelphia’s children can generate tremendous returns. Test scores are rising, troubled schools are improving, and hope is returning.

With new District leadership now coming on board, a new partner in City Hall, and an historic new plan in Harrisburg for investing in schools statewide, now is the time to reach for the next level in educating Philadelphia’s students. While many details are still to be determined as the months ahead unfold, the framework is now in place, the opportunity is clear, and the next five years are the time to fulfill the hopes and promise expressed in Declaration of Education for Philadelphia.

Declaration of Education

The academic achievement of all students in the School District of Philadelphia must improve. We believe all children can reach their learning potential and that the achievement gap can be eliminated. The School Reform Commission is responsible for that improvement and is obligated to prepare, ensure, and empower all students of diverse backgrounds to achieve their full intellectual and social potential in order to become lifelong learners and productive members of society. The Commission commits itself to raising student achievement through District-wide reforms and restructuring measures. We have done much but we have a long way to go. As a significant step on the continuing journey, the SRC issues this “Declaration of Beliefs and Visions.”

- 1. We believe all children can learn at high levels.**
- 2. We believe all children can reach their learning potential and that the achievement gap can be eliminated.**
- 3. We believe schools have an enormous impact on children’s lives.**
- 4. We believe the School District of Philadelphia can become a high performing organization.**
- 5. We believe that all children should be educated in a safe and orderly environment.**

Success is the only option.

III. Multi-Year Fiscal Projections





MULTI-YEAR FISCAL PROJECTIONS

Prior to taking corrective action, the District faced a significant projected negative fund balance in FY2008-09. The deficit resulted from a negative balance of \$29.7 million projected to be carried forward from the current FY2007-08, as well as continued structural imbalance included in the preliminary FY2008-09 budget. However, the District’s final adopted budget includes plans to overcome this imbalance through a range of revenue enhancements and expenditure reduction initiatives. Although a small deficit of \$4.5 million is projected in FY2009-10, by FY2011-12 projections show a positive fund balance of \$25.4 million.

While these projections represent significant progress relative to the \$181 million deficit projected as recently as February 2007, the District remains committed to achieving full and sustained fiscal health. Accordingly, a Gap Closing Plan is being developed to achieve balance for the fiscal year ahead. Toward that end, the Chair of the School Reform Commission has requested that the Commonwealth of Pennsylvania Secretary of the Budget and City of Philadelphia Finance Director work jointly with the District to construct this approach, and this process has begun. In the months between the first draft of this Plan and the final adoption of the FY2008-09 budget, the total amount of to-be-determined gap-closing measures has been reduced from \$38.9 million to \$5.9 million.

Looking forward, as shown in the table below, as the projected FY2008-09 fiscal gap closes, the District is positioned to rebuild its financial stability year by year. Assuming that at least half of the initiatives identified in the Gap Closing Plan recur, the District is projected¹ to produce operating surpluses in FY2010-11 and FY2011-12 and to begin to build a positive Fund Balance reserve.

FIVE-YEAR BUDGET PROJECTIONS FY2008-09 THROUGH FY2012-13

	Budget FY2008-09	Projected FY2009-10	Projected FY2010-11	Projected FY2011-12	Projected FY2012-13
Revenue	2,303,549,000	2,475,673,904	2,645,570,331	2,831,347,160	2,948,042,946
Expenditures	2,280,602,991	2,483,103,289	2,646,495,847	2,806,419,243	3,025,631,379
Change in Reserves	884,453	0	0	0	0
<u>Baseline</u>					
Annual Surplus (Deficit)	22,946,009	(7,429,385)	(925,516)	24,927,917	(77,588,433)
Beginning Fund Balance	(29,681,984)	(5,851,522)	(13,280,907)	(14,206,423)	10,721,494
Ending Fund Balance	(5,851,522)	(13,280,907)	(14,206,423)	10,721,494	(66,866,939)
<u>Gap Closing Plan Target</u>	5,851,522	2,925,761	2,925,761	2,925,761	2,925,761
<u>Revised With Gap Closure</u>					
Annual Surplus (Deficit)	29,681,984	(4,503,624)	2,000,245	27,853,678	(74,662,672)
Beginning Fund Balance	(29,681,984)	0	(4,503,624)	(2,503,379)	25,350,299
Ending Fund Balance	0	(4,503,624)	(2,503,379)	25,350,299	(49,312,373)

¹ The District’s major revenue and expenditure line items and associated assumptions used in the baseline projections for FY2009-10 through FY2012-13 are detailed in Appendix A.

In evaluating these multi-year projections, it may be noted that a current-year deficit is forecast to reoccur in FY2012-13. This challenge is primarily the result of an anticipated major increase in employer funding requirements statewide for the Pennsylvania Public School Employees' Retirement System (PSERS). By beginning to rebuild Fund Balance prior to this juncture, the District will be able to better prepare for this adjustment. In the interim, it is also expected that the Commonwealth and other school districts across Pennsylvania will work to develop solutions for this important statewide issue.

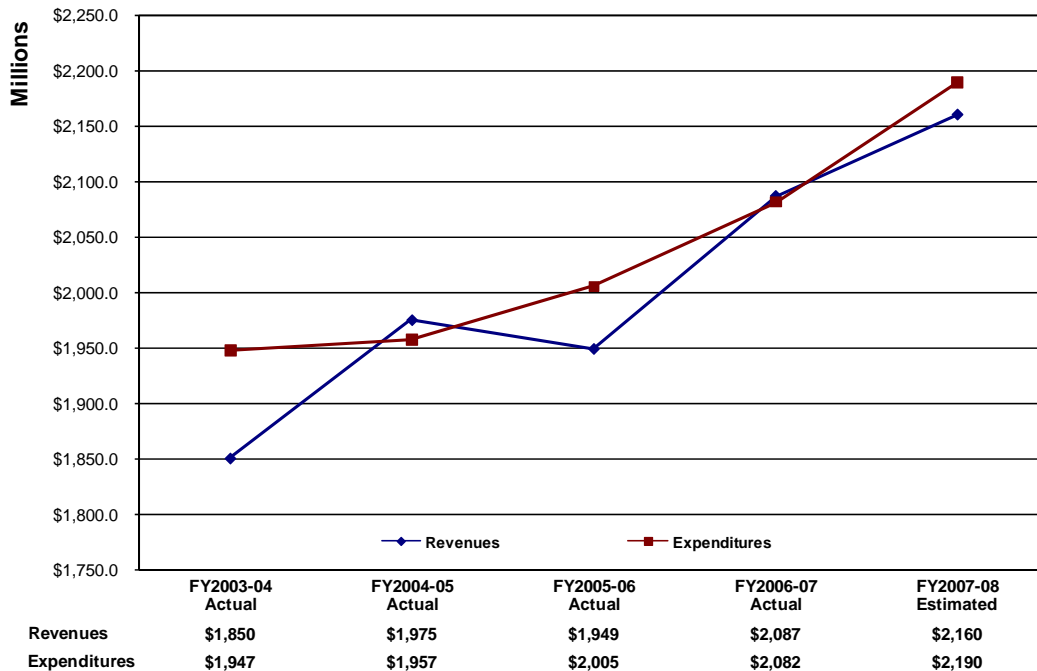
The remainder of this chapter addresses the following major considerations regarding these projections:

- Key budget drivers that contribute to the District's fiscal pressures;
- Education reform funding;
- Fund Balance targets; and
- Budget risks.

Major Budget Drivers

Operating funds are used for the majority of District services, and encompass the majority of District agency spending. Operating expenditures are almost entirely supported by local City and State aid and local tax revenue. In recent years, operating expenditures and revenues have struggled to maintain balance, even with significant infusions of non-recurring revenues.

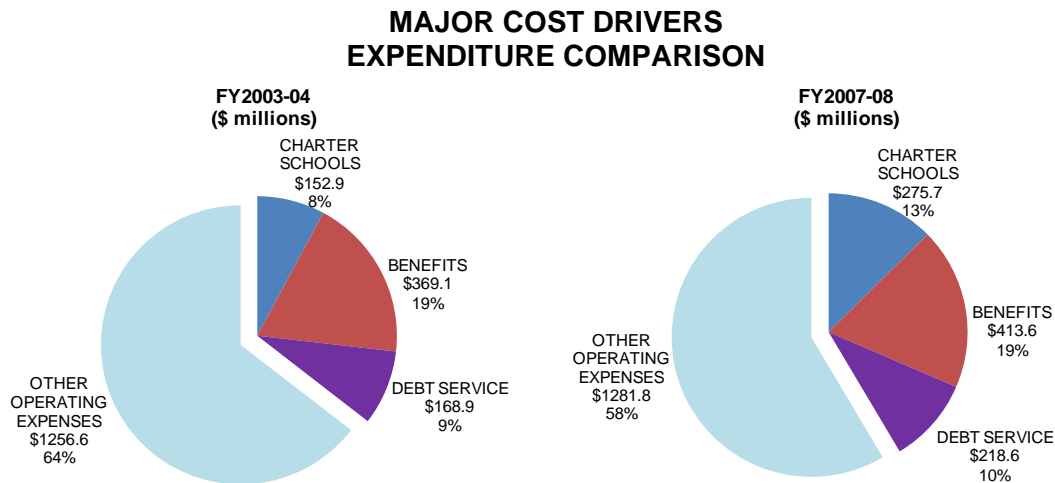
**DISTRICT OPERATING
REVENUES AND EXPENDITURES
FY2003-04 TO FY2007-08**



In FY2008-09, the District is projecting a surplus of \$29.7 million, which will offset the projected FY2007-08 negative fund balance to produce a balanced budget.²

In FY2009-10, projections show a small budget deficit of \$4.5 million. However, in FY2010-11 projections yield a \$2.0 million surplus, growing to \$27.9 million by FY2011-12. This projection reflects strong continued state funding levels, combined with tight fiscal restraint for District spending. Under these assumptions, with the District’s finances projected to improve over time, the first year of this Plan is critical for establishing sustainable fiscal health.

To better understand the fiscal gap now projected for FY2008-09, it is instructive to review the District’s key cost drivers that have been substantially outpacing growth in revenues: Charter Schools, Debt Service and Employee Benefits. These items represent a large percentage of the overall operating budget, growing from 36 percent of the total operating budget in FY2003-04 to 42 percent in the FY2007-08 estimated budget.



Combined expenses for charter schools, debt service, and benefits increased by 32.3 percent over this four-year period, while the remainder of District expenses grew just 2.0 percent in aggregate. As a result, many other areas of District spending have been reduced to accommodate the increases in these high-growth categories.

**MAJOR AREAS OF EXPENDITURE GROWTH
FY2003-04 TO FY2007-08**

	<u>FY2003-04</u>	<u>FY2007-08</u>	<u>4 YR GROWTH \$</u>	<u>4 YR GROWTH %</u>
CHARTER SCHOOLS	152,890,095	275,683,231	122,793,136	80.31%
BENEFITS	369,071,394	413,594,055	44,522,661	12.06%
DEBT SERVICE	168,913,189	218,628,178	49,714,989	29.43%
OTHER OPERATING EXPENSES	1,256,637,564	1,281,788,075	25,150,511	2.00%
TOTAL NET EXPENDITURES³	1,947,512,242	2,189,693,539	242,181,297	12.44%

² In FY2008-09, a change in reserves of \$884,453 has been incorporated into the fiscal gap.

³ Net expenditures does not include bond defeasements offset by an equal amount of revenue.

Going forward, it will be important to contain the spending growth in these major categories and/or to identify specific and achievable budget strategies for offsetting these fiscal trends.

Education Reform Funding

As the District regains fiscal stability, it will also be able to use a significant portion of the Governor’s proposed, multi-year increases to Basic Education funding to fund new academic initiatives designed to boost student achievement and close the public education adequacy gap. State Basic Education funding allocated specifically toward new academic programs, over and above index-driven changes to standard state funding and incremental funding for existing innovations, totals a projected \$41.9 million in FY2008-09, growing to \$272.0 million in FY2011-12 and FY2012-13.

	Budget FY2008-09	Projected FY2009-10	Projected FY2010-11	Projected FY2011-12	Projected FY2012-13
<u>Closing the Adequacy Gap</u>					
State Achievement Funds	41,861,506	136,594,892	204,535,774	272,042,491	272,042,491

In FY2008-09, this funding is central to the District’s plans for reducing class size in struggling (Corrective Action II) schools, expansion of art and music District-wide, continued rollout of new curriculum, and enhanced alternative education programs.

In future years, guided by the District’s incoming CEO, these significant incremental resources will be targeted toward expanding proven reforms and further innovation – such as additional class size reduction, dropout prevention strategies, and further charter school approvals and enhancement of the District’s diverse provider model.

Establishing a Fund Balance Target

Fund balance is essentially the District’s savings account, important to help cover cash flow fluctuations throughout the year and to prepare for contingencies. In addition, such reserve levels are a key benchmark of financial condition evaluated by the Wall Street credit rating agencies.

Accordingly, it is an important financial management best practice to establish and maintain an annual Fund Balance target, often expressed as a percentage of annual expenditures, as a formal financial policy to ensure that adequate reserves are maintained within an operating fund. At a minimum, a Fund Balance of 5.0 to 7.0 percent of expenditures is desirable to provide for basic flexibility and “cushion.”

Under the projections outlined above (again, assuming successful implementation of a Gap Closing Plan for FY2008-09 with recurring benefits), the District is positioned to eliminate its current deficit and to begin rebuilding a positive Fund Balance. The following table shows projected progress by the District toward meeting Fund Balance restoration targets of 1.0% of expenditures by FY2009-10, 2.0% by FY2010-11, 3.5% by FY2011-12, and 5.0% by FY2012-13.

	Budget FY2008-09	Projected FY2009-10	Projected FY2010-11	Projected FY2011-12	Projected FY2012-13
<u>Establishing a Fund Balance</u>	(Assuming successful implementation of Gap Closing Plan)				
Beginning Fund Balance	(29,681,984)	0	(4,503,624)	(2,503,379)	25,350,299
Ending Fund Balance	0	(4,503,624)	(2,503,379)	25,350,299	(49,312,373)
Target (% of Expenditures)	0.0%	1.0%	2.0%	3.5%	5.0%
Target (\$)	0	24,831,033	52,929,917	98,224,674	151,281,569
Percent of Target Achieved	n/a	n/a	n/a	25.8%	n/a

As may be noted, current projections are not yet on track to establish a positive fund balance until FY2011-12 – even with a successful \$5.9 million Gap Closing Plan – and are challenged anew in FY2012-13 due largely to anticipated PSERS employer contribution rate increases. Nonetheless, progress would be achieved, and is an important goal for strengthening and sustaining the District’s long-term fiscal health.

Budget Risks

While this Plan is intended to be based on reasonable and achievable assumptions, any multi-year forecast inherently encompasses some risks. Again, all major Five-Year Plan assumptions are outlined in Appendix A, and each features varying degrees of risk and upside potential. Among these, selected concerns are highlighted below.

Charter Schools

Growth of charter school enrollment and expense in the School District of Philadelphia has been both rapid and substantial due to the addition of new charter schools and expanding enrollment. The impact of further net increases in charter school enrollment beyond anticipated growth under existing approvals are not included in baseline Plan projections. In addition, changes to the per pupil funding formula, driven by expenditures and average daily membership, could also impact actual charter school expenditures and State reimbursement levels.

Debt Service

A portion of the District’s debt was financed through auction rate securities. Recent market conditions, including auction failures, resulted in projected increases in debt service costs for FY2007-08 and FY2008-09. The FY2008-09 increase of approximately \$4.5 million in debt service was carried forward in the out years as a contingency measure.

Employee Salaries and Benefits

The District’s five unions all have contracts expiring in 2008, and new agreements will impact both salary and benefit costs. The Five-Year Plan does not include any provision for across-the-board wage increases. For health benefits, only 5.0 percent growth in unit costs (e.g., for

medical premiums) is projected for FY2008-09, and out year cost escalation factors are based on market trends with no allowance for negotiated improvements. Any wage or benefit increase above these levels will impact the budget significantly.

In addition, the District makes annual payments for each member of several of its collective bargaining units to union-administered Health and Welfare funds, which provide supplemental benefits such as dental, vision and prescription coverage. In addition to these per member contributions, the District has also made the following periodic lump sum payments into the PFT Health and Welfare fund:

7/5/2001 - \$13.0 million
9/1/2006 - \$12.5 million
9/1/2007 - \$12.5 million

The baseline projections do not assume any further such lump sum payments into union Health and Welfare funds.

Enrollment

Enrollment projections for this Plan are based on historical enrollment, birth rates, and retention rates, and forecast a general decline in student population over the next five-year period. Should enrollment level or increase, this could cause costs to increase.

Headcount Variances

Changes in attrition rates, reduction-in-force initiatives, enrollment trends, and other programmatic factors such as smaller class sizes, could potentially impact headcount and those costs subject to headcount.

Losses and Judgments

In recent years, expenditures for losses and judgments have averaged approximately \$2.0 million, but rose to \$5.7 million in FY2006-07. The volatility of this category and unexpected events could further increase this cost risk.

Revenues

The FY2008-09 District Budget is based on the Mayor's proposed City Five-Year Plan and the Governor's Proposed Budget, which may change prior to adoption. In addition, projections assume that the state Alternative Education Demonstration Grant appropriation is consistent with prior year levels. For out years, State, City and grant revenues have been projected based on State and City proposed budgets, historical data and other trends, inclusive of the increase to the Basic Education Subsidy which may change prior to adoption. There is the risk that state grants amount will change in future years, and subsidy amounts or the reimbursement percentage may change. Additionally, in recent years, Title I funding has increased, and the current funding level may change in the future.

Special Education

In recent years, there has been a growing increase in students eligible for special education services. There is a risk that this cost will continue to grow in future years beyond the levels projected. While teacher headcount decline assumed in the Five-Year Plan projections include non-special education teachers only, any required increase could partially offset overall projected teacher declines and adversely impact total personnel costs.

Utilities

In 2010, current caps on electric rates are scheduled to be lifted. In addition, the Philadelphia Gas Works (PGW) and Philadelphia Water Department have applied for rate increases. Based on longer-term historic rates and projections, the Plan includes utility cost increases ranging from 6.0 percent for electricity to 10 percent for heating oil and natural gas, however, market conditions and cost-of-service factors could drive these costs even higher.

THIS PAGE INTENTIONALLY LEFT BLANK



IV. State Investment and Legislative Agenda



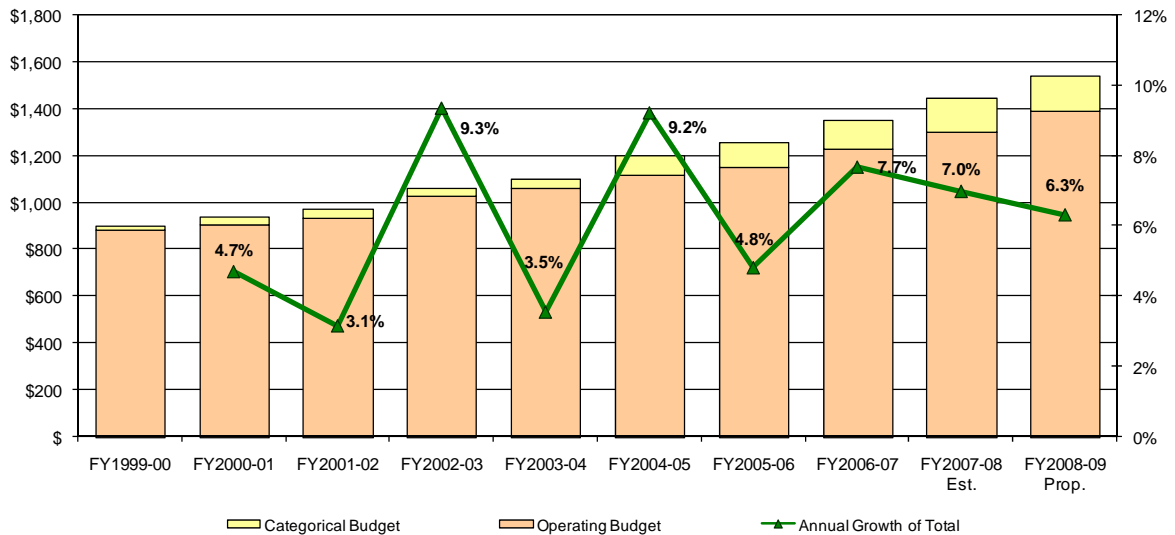


STATE INVESTMENT AND LEGISLATIVE AGENDA

The Commonwealth of Pennsylvania has been a tremendous partner in the School District of Philadelphia’s recent progress toward improving academic performance.

- When first joining with the City in FY2001-2002 to establish the School Reform Commission (SRC), the Commonwealth provided new, recurring support for charter schools and a special \$25 million grant.
- Over the course of the Rendell Administration to date, new categorical funding programs such as the Accountability Block Grant and Educational Assistance Program have combined with existing funding streams to grow overall Commonwealth support from an average of 4 percent annually over the five years from FY1997-98 to FY2001-02 to an average of 7 percent per year from FY2002-03 to FY2007-08.
- The General Assembly has also been a key partner in reform, leading in the delivery of special grants for Alternative Education and supporting many other areas of Commonwealth investment that have been a vital component of these positive, overall trends.

STATE AID TO THE SCHOOL DISTRICT OF PHILADELPHIA FY1999-00 THROUGH FY2008-09



Without this increased investment, it is difficult to imagine that the progress of this decade – from rising test scores to dramatic increases in the number of City schools reaching adequate yearly progress targets – could possibly have been achieved.

Yet at the same time, these positive funding steps – as important as they have been – have only begun to close the gap between existing resources and school funding needs.

Nationally, funding for K-12 public education typically comes from three sources – local, state and federal resources. The mix between these three varies, but on average, state funding provides the majority of funding – 51.8 percent, compared to 38.8 percent local and 9.4 percent federal.¹ As of 2005, however, Pennsylvania’s 36.0 percent state share of overall funding for public elementary and secondary education still ranked just 44th among the 50 states.

Further, for Philadelphia Schools in particular, the State Board of Education’s 2007 Costing-Out Report of statewide schools funding and spending (authorized by the General Assembly under Act 114 of 2006) identified a significant gap between needed and actual funding:

- On a weighted per pupil basis, Philadelphia’s total spending of \$9,947 was well below the actual need of \$14,131.
- In total, the actual spending gap was estimated at \$869.8 million.

In his FY2008-09 Commonwealth Budget, Governor Rendell has charted an historic, multi-year course toward closing this education funding gap in Philadelphia and across Pennsylvania. The Governor’s proposed Budget includes a six-year, \$2.6 billion increase in statewide education investment in concert with the introduction of a new funding formula. This new approach emphasizes what research shows it takes to raise achievement – class size reduction, extra time for learning, teacher training, new and more rigorous courses, and other key academic strategies.

This chapter will not only review the issues underscoring the importance of the Governor’s proposed landmark investment, but it will also highlight other key elements of the District’s FY2008-09 state legislative agenda that represent additional, important steps that the General Assembly will be asked to take to support sustainable fiscal health and continued academic progress within Philadelphia’s schools.

Background: Comparative State Funding

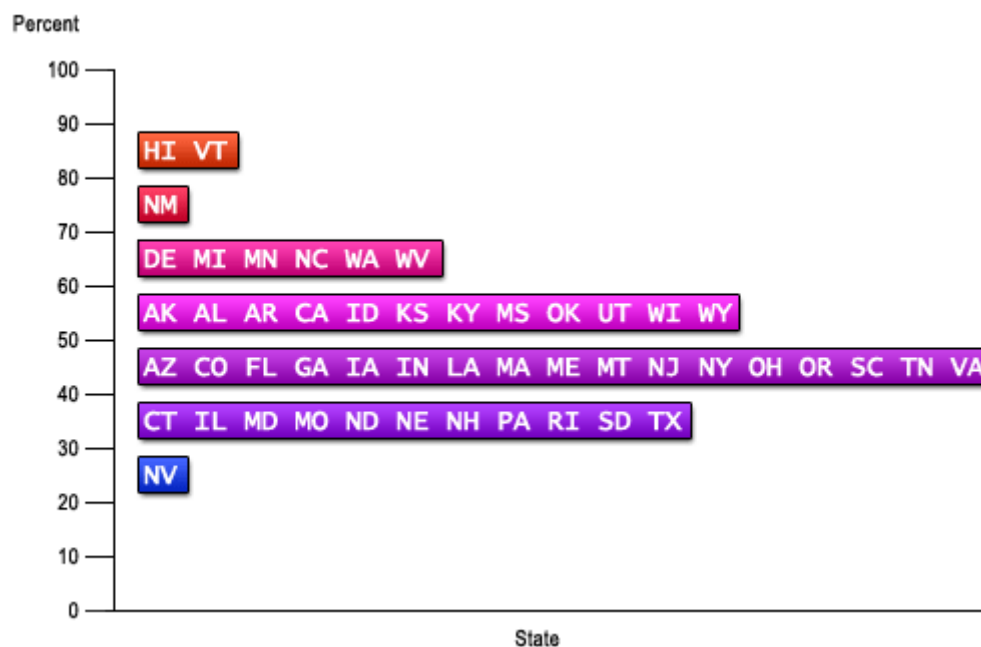
There is significant variation in the state percentage of total revenues for public elementary and secondary education in the United States. Hawaii (which has a single school district for the entire state) and Vermont both provide over 80 percent of the total revenues for public elementary and secondary education. By contrast, Nevada provides less than 30 percent.

Overall, however – as the following chart illustrates – Pennsylvania ranked in the lowest quartile nationally in terms of statewide funding for public elementary and secondary education as of 2005 – again, just 44th of 50.²

¹ U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), “National Public Education Financial Survey 9PEFS), fiscal year 2005, Table 1, p.6.

² Ibid.

STATE SHARE OF SPENDING FOR PUBLIC ELEMENTARY AND SECONDARY EDUCATION, 2005



Further, among the other large states that are similarly ranked, it may be noted that neighboring Maryland has recently enacted changes to its school finance system projected to move state funding to the 50 percent level – and most other states use formula-based approaches to school funding with which Pennsylvania is not now competitive. In some instances, this type of state formula alone will allocate all or most of the state’s resources devoted to public school districts. In other states, grants and awards are made to individual school districts that increase their overall resources. Overall, there appears to be a trend toward reduced use of categorical grants as states use adequacy studies to develop more robust funding formulas.³

The most common method for allocating funding is use of a Foundation Formula. These formulas generally provide a base amount of funding which is then multiplied by a weighted number of students. Generally, additional weighting is provided for students that would require special attention or assistance, including special education students, English Language Learners (ELL, previously referred to as English as a Second Language or ESL student), or students eligible for at-risk programs. In other cases, additional weighting is provided as an incentive for school districts to enhance programming, consolidate or create additional efficiencies.

Through 2005, 25 states and Washington DC use the Foundation method for funding: Alaska, Arizona, Colorado, Connecticut, Florida, Iowa, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, New Hampshire, New Jersey, New Mexico, North Dakota, Ohio,

³ Education Commission of the States, Finance – Funding Formulas [electronic] retrieved on January 16, 2008 from <http://esc.org/html/issue.asp?issueid=48&subIssueID=43>. They note as examples of this trend the states of Maryland, Ohio, and Wyoming, with Maryland revising its formula and eliminating 27 different categorical funds in 2002.

Oklahoma, South Carolina, South Dakota, Texas, Utah and Vermont.⁴ Within these states, this method is used to allocate state resources for multiple, major urban systems – including Chicago, Baltimore and Dallas.

The most common alternative to the Foundation method is a modified base formula. The modified formulas generally operate similar to base formulas but have specific features that cause them to function differently. The most common difference is that the modified formulas do not have a common base funding amount for all schools and instead, it varies from district to district.

The twelve states using a modified base formula are Arkansas, California, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New York, Oregon, Virginia and Wisconsin. This includes comparable school districts in Los Angeles, Detroit, and New York City.⁵

A cost allocation method is used in seven states. This type of formula provides funding for education staff and other costs based on student enrollment. This method is used in Alabama, Georgia, Idaho, North Carolina, Tennessee, Washington and West Virginia.

Among the other methods, two states, Massachusetts and Wyoming provide an exact dollar amount per student. In this case, the dollar amount that different types of students will receive is written into legislation.

Finally, four states use other systems. Hawaii, which has only one school district, does not require a formula to allocate resources among districts. Delaware uses a combination of a foundation formula and a teacher allocation system. Pennsylvania and Rhode Island are unique in having funding systems that allocate funds to school districts based on what they received the previous year plus an inflation and/or other forms of increase.

Commonwealth of Pennsylvania Funding

As in many states, Pennsylvania has recently sought to determine whether its level of school funding is sufficient to meet current state standards. Authorized by the General Assembly under the provisions of Act 114 of 2006, a Costing-Out Report of education funding and spending in

⁴ Education Commission of the States, State Education Funding Formulas and Grade Weighting, May 2005 [electronic] viewed on January 16, 2008 at <http://ecs.org/clearinghouse/59/81/5981.htm>.

⁵ Ibid. According to the report, for California, “Education funding from the state, for most districts, is determined by multiplying a district’s Average Daily Attendance (ADA) by their “revenue limit” amount. A revenue limit amount is set annually for each district and is provided through a combination of state aid and local property taxes. The amount is based on historical funding patterns that take into account the type of school district (elementary, unified or high school) and size of district. All districts, regardless of wealth, are given a base amount of at least \$120 per student from the state. For Michigan, “The foundation amount used in the state’s funding formula varies for each school district in the state. Each district’s foundation figure is derived from its per student spending amount in 1994, which was just after the adoption of the state’s new school funding system. For New York, “The foundation amount equals the greater of a district’s Approved Operating Expenses (AOP) or \$400. A district’s AOP is equal to their cost of: salaries (for administrators, teachers and non-professionals), fringe benefits, utilities, and the maintenance of school facilities.”

Pennsylvania was commissioned by the Pennsylvania State Board of Education and released in late 2007.

The Report's conclusions were reached by determining the basic cost per pupil that would be necessary to provide an education that would permit a student to meet the State's academic standards and assessments, which in Pennsylvania's case are the resources needed so that 100 percent of students can achieve proficiency in reading and math by the year 2014.⁶

For Pennsylvania overall, the Costing-Out Report reached several important conclusions regarding K-12 education funding:⁷

- The statewide costing out estimate to reach 100 percent student proficiency and other performance expectations is \$21.63 billion. This level of spending, with inflationary increases over time, is required for all students to meet Pennsylvania's performance expectations and academic standards.
- About two thirds of the \$21.63 billion total cost is associated with the base cost. About 12.6 percent is associated with the added costs of special education, about 9.4 percent of the total is associated with the added cost of serving students from high poverty homes, about 2.7 percent is associated with the added cost of serving English language learners, about 3.9 percent is associated with district size, and about 3.4 percent of the total cost is associated with regional cost of living differences.
- The average total costing out estimate per student is \$11,926. By comparison, in 2005-2006 school districts in Pennsylvania actually spent \$9,512 per student.
- There are 471 districts in the Commonwealth whose current spending is below their costing out estimate.
- In the aggregate, the costing out estimate is \$4.38 billion higher than current spending (25.4 percent higher than current spending). This number rises to \$4.57 billion if those districts that now spend more than required by the costing out estimates continue to do so.
- The Commonwealth's least wealthy districts (based on property wealth and personal income) are the furthest from the costing out estimate of resource needs. On average, the poorest 20 percent of districts have to raise spending by 37.5 percent, while the wealthiest 20 percent only have to raise spending by 6.6 percent.

⁶ The report used a combination of research approaches to determine the costs associated with meeting the goal – a successful school district analysis, a professional judgment analysis, and an evidence-based analysis. Each of these have been utilized in similar studies in other states, including several of the benchmark school district states. For a discussion of the methodology, see pages 5-7 of the report.

⁷ "Costing Out the Resources Needed to Meet Pennsylvania's Public Education Goals," Report to the Pennsylvania State Board of Education by Augenblick, Palaich and Associates Inc., Denver Colorado. December 2007 Revised, p. iii [electronic], viewed on January 17, 2008 at http://www.pde.state.pa.us/stateboard_ed/lib/stateboard_ed/Costing-OutStudyRevisedFinalReport12-10-07.pdf

Nationally, school aid formulas often seek to address funding equity – seeking to balance the resources available to lower wealth school districts. In the case of Pennsylvania, as the costing-out study notes, the inequality of the current school funding system is demonstrated by the finding that school districts with higher wealth and lower needs spend more than lower wealth districts, and do so with less tax effort.⁸

Philadelphia Funding Adequacy

The Pennsylvania Costing-Out Report also provided specific analysis of funding needs per student by school district. Philadelphia was viewed as a unique case throughout the analysis, based both on the size of the school district (more than six times as large as the next largest district in the state) and resource needs (in the professional judgment panel approach, separate panels were convened to consider resource differences solely specific to the Philadelphia school district).⁹

The Report identified a significant gap between the funding need for the Philadelphia school district and actual funding. Among its findings:

- Per pupil total spending was \$9,947 but actual need was \$14,131 – a difference of \$4,184 per pupil. It should be noted that the study weighted pupils based on characteristics, such as increasing weights for students with special needs, which is why the total spending per pupil may vary from other published figures.
- The total actual spending gap was \$869.8 million.
- The identified gap was comprised of \$338.0 million for regional cost differences, \$251.5 million for special education, \$502.4 million for poverty, \$154.9 million for ELL, and \$12.2 million for gifted students.

These findings are consistent with the empirical results achieved through recent increases in Philadelphia school funding – which have demonstrated that good investments can make a difference – while also reflecting the scale of the challenges yet ahead.

Governor’s Proposed FY2008-09 Budget

The Commonwealth has committed to bring all students up to grade-level in reading and math by 2014, building on significant progress across Pennsylvania in recent years. Today, however, more than three out of ten Pennsylvania students are still below grade-level in these core subjects, and nearly one in six is at the lowest (“Below Basic”) achievement level. In Philadelphia, despite tremendous improvement since the start of the decade, the achievement gap remains even greater.

With the Costing-Out Report now available to provide state-specific adequate funding targets, the Governor has proposed an aggressive, multi-year investment to close the resource divide that

⁸ Ibid., pp. 42-44.

⁹ Augenblick, Palaich and Associates, p. 12-13.

stands in the way of meeting statewide and City funding adequacy and student achievement goals.

Governor Rendell's 2008-09 Budget proposal initiates a six-year, \$2.6 billion increase in state education funding with a \$291.3 million statewide adjustment to basic education funding – nearly 6 percent above FY2007-08.

Further, this proposal includes a redefined school funding formula designed to raise student achievement. This formula:

- Begins with a base amount per student, based on the Costing-Out Report adjusted for inflation;
- Identifies additional resource needs for low-income and Limited English proficiency students who may need extra support to reach grade-level; and,
- Adjusts each district's target level to reflect its size and regional cost differences.

Over a six-year period, the proposal would incrementally increase state investment to meet these target funding levels and close the adequacy gap.

Further, the Governor's proposal targets the majority of any basic education funding increases above an inflation index toward establishing or expanding programs to improve school performance, including: increased instructional time; new curriculum and expanded course offerings; staff and teacher training; class size reduction; early childhood education; teacher and principal recruitment; and performance contracts for superintendents and principals.

2008-09 School District of Philadelphia State Legislative Agenda

The District State Legislative Agenda for FY2008-09 is centered around the proposed, new education funding formula for Pennsylvania. This landmark legislation offers the best opportunity in a generation to dramatically improve student achievement in our city schools, and across the Commonwealth. Along with this threshold priority, the State Legislative Agenda also includes a series of additional opportunities – many of which would have positive impacts statewide – to improve education funding.

SR01. Governor's Budget – Basic Education Formula

FY2008-09 Impact:	\$85,000,000	Rev/Exp:	Revenue
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Partially Implemented (proposed legislation)		

The Governor's FY2008-2009 Budget proposal for a new, better funded basic education formula charts a historic course toward closing the resource gap needed for student achievement. The proposed formula would allocate approximately \$967 million in Gross Basic Education funding to the District – an increase of \$85 million over FY2007-08. The proposed legislation would require Districts to use any fund increase above the Act 1 inflation index (4.4 percent) for

“proven school improvement strategies.” Of this amount, 80 percent must be invested in key program areas identified by the Pennsylvania Department of Education (PDE) pursuant to a plan to be developed by the District. Another ten percent can be invested to sustain approved programs that already exist, and the remaining ten percent can be used for other proven strategies not identified by the PDE that the District wants to implement. Full passage is the District’s number one state legislative priority. The figures in the following table represent projected year-over-year increases in gross basic education funding that would result from the proposed legislation and are included in the multi-year projection assumptions.

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY2012-13	Total
Fiscal Impact	\$85,056,000	\$153,607,818	\$131,518,760	\$137,612,293	-	\$508,044,870

SR01. Alternative Education Grant

FY2008-09 Impact: \$14,000,000 **Rev/Exp:** Revenue
Recurring/Non-Recurring: Recurring **Category:** Additional
Status: Not Implemented

Since 2003, the General Assembly has worked with the Governor’s Office to add additional funding beyond proposed budgets for alternative education. In FY2006-07, a \$22 million Alternative Education Demonstration Grant was allocated during the fiscal year to be used to defray the cost of running the District’s alternative discipline programs through four contracted providers. In FY2007-08, the grant was lowered to \$14 million. For FY2008-09, the District has initiated a competitive process to strengthen the network of alternative education providers and expand the number of slots available while ensuring the best possible rates. In support of these efforts, the District is requesting the continuation of Alternative Education Demonstration Grant funding at a minimum of \$14 million, consistent with the FY2007-08 appropriation. The multi-year budget projections assume the appropriation of a \$14 million Alternative Education grant in FY2008-09 and all out years.

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY2012-13	Total
Fiscal Impact	\$14,000,000	\$14,000,000	\$14,000,000	\$14,000,000	\$14,000,000	\$56,000,000

SR01. Charter School Funding

FY2008-09 Impact: \$20,814,084 **Rev/Exp:** Revenue
Recurring/Non-Recurring: Recurring **Category:** Additional
Status: Not Implemented

The State’s current charter school funding formula does not fully take into account residual costs incurred by the District when students leave District schools to attend charter schools. Although some savings are achieved as a result of declining enrollment, many of the costs associated with the general operation of the School District are fixed and not materially impacted when students transfer to charter schools. For example, because students often transfer to charters from schools across the City, classrooms in which enrollment declines by one or two students will still represent essentially the same cost to the District. Further, some District costs actually increase with rising charter enrollment – particularly transportation, as students who previously walked to a traditional, neighborhood school may now require a bus to a more distant charter. In addition,

many charter students for which the District must now make payments would likely have attended private or parochial schools, or have been home-schooled, had the charter option not been available.

As a consequence, while the Governor’s proposed budget does include charter school funding at stronger levels than some prior years, the proposed rate of 32.45 percent still results in a net drain in District resources for traditional public schools. A reimbursement rate of 40.0 percent would significantly reduce the erosion of resources for traditional District schools. Funding at that level would generate additional revenue of \$20.1 million in FY2008-09, growing to \$29.9 million by FY2012-13.

REVENUE GENERATED BY 40.0% CHARTER REIMBURSEMENT RATE

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Total Charter Costs	275,683,231	317,042,259	345,717,031	371,295,308	395,947,886	
Reimbursement at 32.45% of Prior Year		89,459,208	102,880,213	112,185,176	120,485,327	128,485,089
Reimbursement at 40.0% of Prior Year		110,273,292	126,816,904	138,286,812	148,518,123	158,379,154
Additional Revenue		20,814,084	23,936,691	26,101,636	28,032,796	29,894,065

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY2012-13	Total
Fiscal Impact	20,814,084	23,936,691	26,101,636	28,032,796	29,894,065	128,779,271

SR01. Cyber Charter Funding Formula

FY2008-09 Impact: \$973,731 **Rev/Exp:** Expenditure
Recurring/Non-Recurring: Recurring **Category:** Additional
Status: Not Implemented

The Commonwealth’s existing charter school funding formula does not distinguish cyber charter schools from traditional, “brick and mortar” charters. The cost structure of cyber charters is vastly different from that of traditional charter schools, however, as expenditures generally tend to be lower while per-student revenues are now the same. As a result, many of the cyber charters in the District and statewide have accumulated significant fund balances. In addition, cyber charter tuition is dependent upon a student’s home district, creating large variances in tuition for students attending the same school. The District supports legislation to develop a statewide cyber charter funding formula that more closely relates to the actual cost of operation and is not dependent upon a student’s home district. Recent proposed legislation would establish such a statewide rate by determining the lowest 2006-07 total expenditures per Average Daily Membership (ADM) of all cyber charter schools that achieved Adequate Yearly Progress in the 2006-07 school year and limit the increase of cyber charter funding to the Act I Index, which is currently 4.4 percent. According to District analysis, this approach would produce a net savings of approximately \$1 million in FY2008-09. Further, the District believes that alternative legislation might be developed that would reduce statewide costs even further, while still establishing a fair and appropriate formula to cover legitimate cyber charter costs.

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY2012-13	Total
Fiscal Impact	\$973,731	\$1,117,471	\$1,274,331	\$1,445,377	\$1,631,755	\$6,442,665

SR01. Charter School Special Education Funding Formula

FY2008-09 Impact: \$9,755,538 **Rev/Exp:** Revenue
Recurring/Non-Recurring: Recurring **Category:** Additional
Status: Not Implemented

The current funding formula for special education students in charter schools statewide makes no distinction for the severity of need. School districts pay the same amount for students with severe disabilities as for students who require significantly less special care and one-on-one instruction. In many systems, however, students requiring more individualized attention tend to remain in district schools rather than enrolling in charters. As shown in the School District of Philadelphia charts below, District schools have much higher percentages of autistic students, visually and hearing impaired students, and students with multiple disabilities.

District Schools			Charter Schools		
Rank	Special Education Service Category	Percent of Special Education Enrollment	Rank	Special Education Service Category	Percent of Special Education Enrollment
1	Learning Support	53.7%	1	Learning Support	77.5%
2	Gifted	21.8%	2	Speech and Language	15.5%
3	Emotional Support	6.5%	3	Emotional Support	3.4%
4	Speech and Language	6.2%	4	Autistic	1.2%
5	Life Skills Support	4.3%	5	Life Skills Support	1.0%
6	Autistic	3.3%	6	Gifted	0.6%
7	Multiple Disabilities	1.6%	7	Deaf/Hearing Impaired	0.3%
8	Deaf/Hearing Impaired	1.3%	8	Physical	0.3%
9	Blind/Visually Impaired	0.6%	9	Multiple Disabilities	0.1%
10	Physical	0.6%	10	Blind/Visually Impaired	0.0%

Under the current charter special education formula, however, the District pays charters based on the average district-wide cost of special education – even though most of those students with the highest-cost individual needs are not attending charters. To better target resources, the District supports a tiered statewide formula that more appropriately reflects varying levels of need.

While the specifics of such an approach have not yet been developed, the funding impact could be significant. For FY2008-09, the District estimates that it will pay charters more than \$39.0 million in supplemental funding for special education (over and above the regular payment rate for all students in charters). If a tiered formula resulted in the recovery of even 25 percent of such funding, it could achieve savings of \$9.8 million in FY2008-09, growing to \$15.5 million by FY2012.

**ESTIMATED SAVINGS
TIERED CHARTER SCHOOL SPECIAL EDUCATION FUNDING FORMULA**

	FY2009	FY2010	FY2011	FY2012	FY2013
Non-Special Education Charter Rate	8,209	8,594	8,997	9,418	9,860
Special Education Charter Rate	17,849	19,304	20,877	22,578	24,418
Proj Special Education Charter Enrollment	4,048	4,185	4,260	4,306	4,315
Total Proj. Charter Payments for Special Education Students	72,252,994	80,785,051	88,944,451	97,217,135	105,360,187
Charter Special Education Payments at Non-Special Education Rate	33,230,841	34,355,260	34,975,011	35,347,489	35,421,671
Difference	39,022,153	46,429,791	53,969,441	61,869,646	69,938,517
Savings at 25%	9,755,538	11,607,448	13,492,360	15,467,411	17,484,629

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY2012-13	Total
Fiscal Impact	9,755,538	11,607,448	13,492,360	15,467,411	17,484,629	67,807,387

SR01. Transportation Funding

FY2008-09 Impact: \$15,920,014 **Rev/Exp:** Revenue
Recurring/Non-Recurring: Recurring **Category:** Additional
Status: Not Implemented

In 2007-08, the District changed its public transportation subsidy program to issue free weekly SEPTA TransPasses to students in grades 7-12. In prior years, students received partial subsidies of SEPTA tokens and transfers. The change resulted in a gross cost of approximately \$23.4 million in FY2007-08. Because the State partially reimburses transportation costs for a prior year, the District will not receive that reimbursement until FY2008-09. To alleviate some of the strain on the District's cash flow, the State agreed to provide an up-front reimbursement of \$16.1 million to be repaid over three years. Repayment will cost the District nearly \$5.4 million per year in FY2008-09 through FY2010-11.

To achieve net transportation cost savings, the District proposes adjustments to the State's reimbursement rate for non-public school transportation. Each school district in Pennsylvania is required to provide free transportation to non-public school students living within the district's borders and attending schools not more than ten miles outside the district's borders. In addition to State funding resulting from the standard transportation reimbursement, districts receive \$385 for each non-public school student it transports. The District also provides transportation for charter school students, who generally have longer commutes than students attending neighborhood schools. Despite the longer commute, the District does not receive additional reimbursement for charter school student transportation. If the District were reimbursed for providing transportation to charter school students at the same \$385 rate as non-public school students, it would receive an additional \$8.4 million in FY2008-09.

In addition, the current \$385 non-public reimbursement rate has not been adjusted since the 2001-02 school year. Since then, fuel costs have more than doubled,¹⁰ and general inflation has

¹⁰ Source: US Dept. of Energy, Energy Information Administration.

V. City Partnership





CITY PARTNERSHIP

With new leadership joining the School District of Philadelphia (SDP) and a new Administration in Philadelphia City Hall, this is an extraordinarily opportune time to explore the potential for new partnerships to increase efficiency and performance through shared services strategies. Across both of these major public sector organizations – and potentially involving other regional governments and service providers– there are multiple opportunities for increasing collaboration, eliminating duplication, and capturing economies of scale.

Consolidation of business functions; redirecting a function to the level of government with the greater expertise (or for which it is a core function); and/or leveraging private sector vendors jointly can not only play an important part in resolving recurring budgetary problems, but can also help to direct more resources toward functions directly related to the District’s critical academic mission.

Background

In recent years, the City of Philadelphia has incrementally and significantly increased its local funding commitment to the District through a series of important actions:

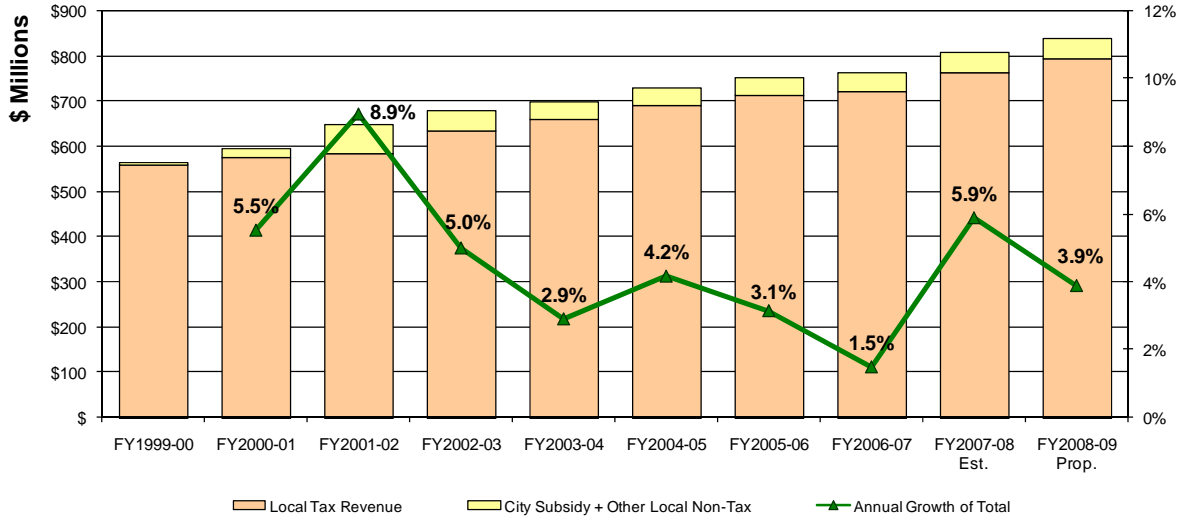
- The liquor sales tax levied by City Council effective January 1, 1995, is estimated to generate over \$41 million in FY2007-2008.
- With the appointment of the SRC in 2002, the City committed \$45 million in increased, annual funding to the District – raising the City’s annual General Fund grant from \$15 million to \$35 million, and providing another approximately \$25 million via a millage transfer that increased the District’s share of all local property tax revenues from 55 to 58 percent.
- In FY2007-08 the City increased its General Fund appropriation by another \$2 million (to \$37 million) and further shifted another \$18 million in real estate millage from the City General Fund to bring the District’s share of all local property tax revenues to 60 percent.
- In addition, the City pledged to relieve the District of \$8 million in contract expenses on a one-time basis in FY2007-2008.

Along with the revenue streams outlined above, City revenue sources also include a business use and occupancy tax, non-business income tax, public utility realty tax, and stadium agreements.

In FY2007-08, total such City-related support is projected to reach \$805 million – with a further increase of more than \$31 million forecast for FY2008-09.

Overall, local support for the District grew at an average annual rate of 3.3 percent from FY2002-03 through FY2006-07, with estimated growth from FY2006-07 to FY2007-08 projected at another 5.9 percent. Such investments have contributed significantly to the District’s recent progress toward improving student achievement.

**CITY-RELATED FUNDING TO THE SCHOOL DISTRICT OF PHILADELPHIA
FY1999-00 THROUGH FY2008-09**



Going forward, the Mayor’s Proposed FY2009 Budget and FY2009-2013 Five-Year Financial Plan sustain last year’s millage shift and subsidy increase for the District. Baseline District multi-year plan assumptions for ongoing revenue growth from existing sources are consistent with these assumptions in the Mayor’s Budget and Plan.

Beyond these commitments, recognizing the many competing demands on City tax dollars – from crime fighting to infrastructure renewal to job creation – this Plan looks to forge new partnerships to drive more dollars into the classroom. With this approach, as further detailed below, the overall goal is to reducing the aggregate cost of combined City and District operations.

Shared Services Task Force

To advance with this goal, the School District and City will establish an executive-level Shared Services Task Force to review collaborations already under way, to determine where such existing coordination should be strengthened, and to recommend new opportunities for further service sharing. This Task Force will be convened by May 2008, and will be charged with completing a detailed, six-month report to the Mayor, City Council, and School Reform Commission by the Fall of 2008 to enable consideration of any major recommendations for the FY2009-2010 budget cycle.

The Task Force will include cabinet-level leadership, and will also be empowered to appoint working groups under its direction to explore specialized areas of opportunity (e.g., energy procurement, fleet operations, risk management, etc.) in greater detail. For each identified area of potential collaboration, the Task Force will report on issues and opportunities, including:

- Size and structure of each existing District and City function;
- Service goals and mandates of each existing function;
- Options for consolidation and/or increased coordination;
- Pros, cons, and risks;
- Potential savings impact; and,
- Recommended next steps, including implementation requirements and timeline.

Many governments, large and small, are finding that initial shared service efforts have proven cost-effective, providing enhanced services and increased unforeseen synergies. While no one disputes the concerted effort that is required, very often initial efforts are followed by an interest in finding additional opportunities to save through sharing.

The City of Pittsburgh and Allegheny County (PA), for example, have achieved multimillion dollar savings from consolidating 911 call centers and many purchasing functions. On a smaller scale, the City of Rye (NY) and its coterminous, independent school district have implemented multiple shared services initiatives through the active work of a Commission representing both jurisdictions and other stakeholders. In that community, shared services currently include: a common vehicle fueling site; de-icing services; sewer service; shared recreational facilities; year-end tax statement distribution; and a common software package for sharing tax billing information and collection.

Opportunities for Savings

The following chart illustrates potential areas for shared services and/or other forms of increased City support for non-classroom functions that may be explored by the Shared Services Task Force. It is highly unlikely that 100 percent of these opportunities will prove to merit pursuit after more complete analysis, but the breadth of this preliminary list does indicate the strong potential of this cooperative approach overall.

Service/Function	SDP	City	Potential Opportunities
After school programs	<ul style="list-style-type: none"> ▪ Estimates are \$2 million per year in overtime and utility costs to keep buildings open for unreimbursed, non-District programs (e.g., Beacons and Recreation Dept.), 	<ul style="list-style-type: none"> ▪ City funds a wide range of youth recreation and “prevention” programs, many of which draw down State and other non-local dollars 	<ul style="list-style-type: none"> ▪ Immediate potential to rationalize the number and location of SDP sites, including possible consolidation of underused locations ▪ Longer-term improvement to program coordination may enhance support services
Health and social services	<ul style="list-style-type: none"> ▪ The District provides a broad range of student health services, and also responds to extensive behavioral health and social services concerns 	<ul style="list-style-type: none"> ▪ The City Health and Human Services Departments coordinate a wide array of support and prevention services 	<ul style="list-style-type: none"> ▪ Again, longer-term improvement to program coordination may enhance support services without increased service delivery costs

Service/Function	SDP	City	Potential Opportunities
Swimming pools	<ul style="list-style-type: none"> ▪ The SDP has ten (10) pools, eight (8) primarily used for City recreation programs ▪ Estimated yearly salary costs for maintaining and operating the pools exceed \$500,000; this does not include utility costs ▪ Three (3) pools are currently closed due to a lack of capital funds required for repairs 	<ul style="list-style-type: none"> ▪ The City Recreation Department operates pools and swimming programs across the City 	<ul style="list-style-type: none"> ▪ Potential for staffing and management efficiencies, better program coordination and prioritization, and joint supply purchasing and maintenance
Fleet management	<ul style="list-style-type: none"> ▪ 625+ District-owned school buses ▪ Over 60% of bus routes contracted ▪ Nearly 500 non-bus vehicles ▪ One central repair facility and several satellite facilities ▪ 29 F/T mechanics 	<ul style="list-style-type: none"> ▪ Approx. 6,000 vehicles ▪ 17 repair facilities ▪ Approx. 125 fueling sites, with a history of joint City-District use 	<ul style="list-style-type: none"> ▪ Near-term consolidation of SDP non-bus fleet into larger City system ▪ Joint use of City car-sharing agreement for pool vehicles (including multiple sites near School Admin. Building) ▪ Longer-term evaluation of bus fleet options, recognizing greater complexity of dispatch and routing distinct from most City functions
Energy management	<ul style="list-style-type: none"> ▪ In FY2008, the SDP estimates expenditures of \$65 million for utilities – including natural gas, oil, steam, electric, and water/sewer ▪ The SDP uses an energy consultant to advise on conservation and purchasing strategies 	<ul style="list-style-type: none"> ▪ The City is also a major utility user – including natural gas, oil, steam, electric, and water/sewer ▪ The City has a Municipal Energy Office to coordinate conservation and purchasing programs 	<ul style="list-style-type: none"> ▪ Joint programs could harness greater purchasing power and/or capture certain economies ▪ Combined energy management staffing could also create stronger “critical mass” of expertise in this technical, but high-fiscal-impact area of operations

Service/Function	SDP	City	Potential Opportunities
Landscaping and pest control	<ul style="list-style-type: none"> The Building Operations Department centrally manages landscaping and pest control, with a \$2.2 million budget and 30 FTEs 	<ul style="list-style-type: none"> Multiple City agencies manage landscaping and pest control functions and contracts 	<ul style="list-style-type: none"> Potential contract savings and/or operational economies
Real property management	<ul style="list-style-type: none"> The SDP Real Property Management Dept. manages the acquisition, disposition, and leasing of facilities The SDP owns approx. 300 buildings and spends approx. \$6.1 million to lease space at another 42 sites 	<ul style="list-style-type: none"> The City Public Property Dept handles most real estate management for the City 	<ul style="list-style-type: none"> Better coordinated real estate strategies may capture some economies
Safety / Climate	<ul style="list-style-type: none"> The SDP School Climate and Safety Division has an FY 2008 budget of \$41.4 million and 570 FTEs (all funds) including over 460 sworn officers (all ranks). The SDP also employs approx. 160 per diem security officers SDP also spends \$3.3 million to contract with community based organizations for security / climate staff 	<ul style="list-style-type: none"> Along with the City Police Department, some other municipal departments have in-house and/or contracted security guards City also funds school crossing guards through the Police Department 	<ul style="list-style-type: none"> Potential for enhanced coordination for patrol, emergency response, and support functions City Police Department already coordinates patrol assignments with dismissal times at some schools
Legal	<ul style="list-style-type: none"> The District General Counsel is budgeted for 33 employees, and the Office has a cost of approx. \$5.8 million for FY2007-2008 	<ul style="list-style-type: none"> The City Law Department FY2008 General Fund Budget is \$19.3 million, with 182 budgeted FTEs 	<ul style="list-style-type: none"> The SDP and City require separate legal counsel for certain policy-level guidance Potential joint operation or coordination of certain legal functions (claims, employee relations, contracting, etc.)

Service/Function	SDP	City	Potential Opportunities
Sanitation services	<ul style="list-style-type: none"> ▪ Contracted vendor collects trash and recyclables at a budgeted cost of \$3 million 	<ul style="list-style-type: none"> ▪ Large, municipal operation collects residential trash and recyclables Citywide 	<ul style="list-style-type: none"> ▪ Savings opportunities are somewhat limited due to the different nature of District (dumpster) vs. City (curbside) collections ▪ Moderate economies may be possible, however, via coordination with City routes and/or contractual arrangements
Capital program implementation	<ul style="list-style-type: none"> ▪ The SDP has a large and complex CIP, with 90 FTEs assigned to Capital Projects 	<ul style="list-style-type: none"> ▪ The City established a centralized Capital Program Office in the 1990's 	<ul style="list-style-type: none"> ▪ Potential training, vendor development and selection, and other coordination might be explored to accelerate CIP implementation
Other facility management	<ul style="list-style-type: none"> ▪ SDP has budgeted positions for 427 bldg. engineers, 854 general cleaners, 11 night cleaners, 313 custodial assts, 18 Saturday shift custodial assts and 15 cleaning leaders ▪ SDP contracts out for cleaning in 16 schools, authorized for 22 (\$11.7 million budget in FY2008) ▪ A decentralized Building Maintenance group, with a FY2008 budget of \$36.3 million and 393 FTEs manages skilled trades functions ▪ \$2.5 million is budgeted in FY2008 for contracted maintenance and repairs (generally specialized) 	<ul style="list-style-type: none"> ▪ The core City Public Property Dept has a \$44.1 million FY2008 General Fund budget for similar functions, and many City departments have separate maintenance staff and/or contracts 	<ul style="list-style-type: none"> ▪ While consolidation or increased coordination would not likely impact the SDP need for Building Engineers, some economies may be possible with specialized trades and general custodial / cleaning services

Procurement	<ul style="list-style-type: none"> ▪ The SDP Office of Procurement Services has over 22 FTEs and a total budget of \$2.4 million (\$2.2 million operating fund) as of FY2007-2008 	<ul style="list-style-type: none"> ▪ The City Procurement Department FY2008 General Fund Budget is \$5.2 million with 62 budgeted positions 	<ul style="list-style-type: none"> ▪ The SDP Office has already initiated a variety of joint purchasing options using federal (GSA) state (COSTAR), and city contracts. Enhanced joint purchasing can leverage increased bulk purchasing power, as well as potential administrative efficiencies
Risk management	<ul style="list-style-type: none"> ▪ The SDP has recently experienced multiple vacancies in risk management, with programs generally under-resourced ▪ Areas of functional responsibility include workers' compensation and insurance 	<ul style="list-style-type: none"> ▪ The City Risk Management Division also oversees workers' compensation and insurance 	<ul style="list-style-type: none"> ▪ Joint programs could be explored for insurance coverage, workers' compensation administration and networks, and safety and loss prevention
Other financial activities (A/P, A/R, payroll, debt management, cash management)	<ul style="list-style-type: none"> ▪ Both the SDP and City administer A/P, A/R, payroll, debt management, and cash management programs 	<ul style="list-style-type: none"> ▪ Both the SDP and City administer A/P, A/R, payroll, debt management, and cash management 	<ul style="list-style-type: none"> ▪ Many corporate shared services initiatives have streamlined "back office" and transactional financial functions through the establishment of joint business service centers
Inspector General	<ul style="list-style-type: none"> ▪ The District Inspector General Office is budgeted for 8 employees at a cost of over \$800,000 for FY2007-2008 	<ul style="list-style-type: none"> ▪ The City also maintains a professional Inspector General program 	<ul style="list-style-type: none"> ▪ Joint programs and education may enhance visibility and/or capture modest economies

<p>Employee benefits</p>	<ul style="list-style-type: none"> ▪ The SDP administers medical benefits for all employees, supplemental (dental, optical, Rx) for a subset of employees, and contributes to three Union trusts for supplemental benefits for the majority of District employees 	<ul style="list-style-type: none"> ▪ The City administers medical and supplemental benefits for non-union employees and contributes to four separate union-led trusts that provide benefits for the major City bargaining units 	<ul style="list-style-type: none"> ▪ Joint health benefit programs across the City and SDP workforces might be explored to harness purchasing power and reduce administrative costs ▪ Such efforts might focus on special initiatives (e.g., health and disease management) or could encompass pooled coverage for some (e.g. supplemental) or all benefits)
<p>Human resources</p>	<ul style="list-style-type: none"> ▪ The District operates a full HR program, including recruitment, employee relations, EEO, and employee development 	<ul style="list-style-type: none"> ▪ Under the direction of the Civil Service Commission, the City Personnel Department manages most HR functions ▪ Labor relations is led by a separate unit within the Mayor’s Office 	<ul style="list-style-type: none"> ▪ For common functions, joint recruitment and training programs could be beneficial ▪ The City of New York is among governments nationally that directly oversee and coordinate general municipal and school labor relations from a single office
<p>Information and communications technology</p>	<ul style="list-style-type: none"> ▪ The SDP Office of Information technology has over 100 FTEs and a total budget of \$18.6 million (\$14 million operating fund) as of FY2007-2008 	<ul style="list-style-type: none"> ▪ The City Mayor’s Office of Information Services FY2008 General Fund Budget is \$30.7 million with 183 budgeted positions, serving a diverse range of municipal services and enterprises 	<ul style="list-style-type: none"> ▪ Standardized hardware and software guidelines may enable joint purchasing, training, and maintenance savings over time as existing approaches are aligned ▪ As a further example of opportunities, the SDP is eligible to “piggyback” on the Commonwealth contract for IT Staff Augmentation, with more than 200 subcontractors in a vendor network, available for temporary IT support at competitive rates ▪ Opportunities with regard to telecommunications costs might also be explored, although Federal Universal Service requirements for schools may limit ▪ Existing long-term contracts and divergent software suites may limit some opportunities

VI. Investing in Student Achievement





INVESTING IN STUDENT ACHIEVEMENT

Since the School Reform Commission (SRC) was first established in December 2001, the School District of Philadelphia has embarked on a major reform effort that has produced unprecedented academic growth and educational opportunities for Philadelphia’s public school students. Strategic investments in curriculum and instructional materials, professional development for teachers, technology for classrooms, and alternative education programs have translated into one of the nation’s most successful school district turnaround stories in recent history.

As a result of this commitment, there is now \$634.5 million more invested toward sustaining reform in the preliminary FY2008-09 Budget, over 25 percent of total expenditures, than was included at the time the SRC was established. These annual and recurring investments include:

- \$317 million for charter school options;
- \$163.4 million for academic reforms in traditional District schools; and,
- \$154.1 million in incremental debt service that pays for modernizing school facilities, creating small high schools and expanding K-8 schools.

Six years into this major reform effort, such investments have generated measurable and significant results:

	Then, in 2002....	→	...and now, as of 2007 ¹ .
<i>PSSA scores have risen</i>	23.9% of students were advanced/ proficient in reading, and 19.6% in math.	→	40.6% of students are advanced/ proficient in reading, and 44.9% in math.
<i>TerraNova scores have risen</i>	27% of students were at/above the national average in math, 33% in reading, and 28% in language arts.	→	40% of students are at/above the national average in math, 39% in reading, and 40% in language arts.
<i>More schools, including charters, are making AYP</i>	26 schools (22 traditional, 4 charters) met federal standards for Adequate Yearly Progress	→	142 schools (107 traditional, 35 charters) met federal standards for Adequate Yearly Progress (including 107 traditional District schools).
<i>High school choice has increased</i>	There were 38 high schools, with an average student population of about 1,700.	→	There are now 62 high schools, and 20 charter high schools, with an average student population of 800; half have fewer than 500.
<i>More students are in AP courses</i>	Only 18 high schools offered Advanced Placement courses.	→	48 high schools offer Advanced Placement courses.

¹ Updated based on March 2008 ARC Report to the SRC *The Status of 2006-07 Academic Performance in the School District of Philadelphia*.

This Plan continues to invest in the proven academic reforms initiated by the District over the last several years, including the Core Curriculum and instructional supports, enhanced secondary education options, and expanded alternative education programs. The School District's reform efforts to date in these three areas are seen as key drivers of its overall academic successes in recent years.

At the same time, significant gaps in achievement remain, and much work remains to be done. As further detailed in the "State Investment and Legislative Agenda" chapter of this Plan, the 2007 Costing-Out Report of education funding and spending commissioned by the State Board of Education identified a gap of \$869.8 million for Philadelphia schools to be adequately funded to meet current state standards for student achievement.

To close this adequacy gap, Governor Rendell has proposed a multi-year education funding plan, targeting the majority of any basic education funding increases above an inflation index toward establishing or expanding programs to improve school performance. Under the Governor's plan, priorities would include the following approaches:

- Increased instructional time;
- New curriculum and expanded course offerings;
- Staff and teacher training;
- Class size reduction;
- Early childhood education;
- Teacher and principal recruitment; and,
- Performance contracts for superintendents and principals.

In Philadelphia, a fundamental principle of the plan for the next five years is to make the best possible educational use of the investment provided under the Governor's funding approach while simultaneously producing efficiencies elsewhere to further drive dollars into the classroom. The District is committed to maintaining the momentum of reform started at the SRC's inception and will prioritize investments to ensure that progress continues.

Further consistent with the Governor's plan, the SRC established an academic reform agenda in October 2007 to build upon the Declaration of Education – taking student achievement "to the next level." In response to analysis by the independent Accountability Review Council (ARC), the SRC determined that the primary challenge now facing the District is sustaining improvement, and a set of strong future priorities were identified.

The School Reform Commission continues to support its objective of placing more resources back into schools by including in the FY2008-09 lump sum budget \$15.4 million in funding for class size reduction in kindergarten through third grade for those schools facing the greatest academic difficulties (Corrective Action II), and the expansion of arts and music programs into every school in the District. This action aligns with the stated mandatory priorities of the SRC agenda for Targeted Class Size Reduction and Exposure to Art and Music for all Students, and is the centerpiece of the District's investment of the Governor's adequacy gap supplement in the

basic education funding, which will also be used to expand core curriculum and reinforce established reforms.

Additional academic reform initiatives planned for the out years of this Plan include: Increased Guidance Counselors and Counseling Support, Additional Nurses in Elementary Schools, and Adequately Staffed Libraries.

Another key element of the SRC's October 2007 framework for the next chapter of school reform was to recruit a new CEO to help guide the District in the next phase ahead. This goal has been successfully achieved with the appointment of Dr. Arlene Ackerman, a nationally recognized academic leader. With her transition to assume the District's leadership in June 2008, and in the months that follow, Dr. Ackerman will head the ongoing review and renewal of Philadelphia's reform strategies. Accordingly, many of the details of the next phase of investment are likely to change, but the goals and momentum of student achievement remain consistent and growing.

Reform Strategies to Date (FY2003 – FY2008)

Under the direction of the SRC, the District has undertaken a broad agenda of reform – from expanded educational choice, to smaller high schools, to improvements in climate, safety, and more. The following section of this chapter focuses on one of the most important strategies adopted, a comprehensive curriculum redesign introduced in the FY2003–04 school year.

This overall reform design reflected the influence of a significant research study that indicated common characteristics among high-achieving school districts across the country. Such characteristics include²:

- Clear and specific goals for what students should learn in every grade, including the order in which they should learn;
- A common high-level, challenging curriculum for all students;
- A progress monitoring system to provide immediate feedback to determine if students are learning the taught curriculum.

In response to this research, the District invested time and resources in building a solid foundation for the following system-wide improvement efforts:

- Research, development and design of Core Curricula for Pre- kindergarten to grade 12 in mathematics, literacy, science, and social studies. Each curriculum is rigorous and standards-driven; aligned to what students need to learn at every grade level; grounded in research-based pedagogical practices; informed by student achievement data; and independent of textbook materials and programs.
- Research, development and design of a Curriculum Benchmark Assessment system of tests that were designed and given every six weeks. Curriculum Benchmark Assessments

² Source: Council of Great City Schools

give immediate feedback to teachers and administrators about students' ability to answer PSSA-like questions.

- The establishment of an Instructional Management System (IMS) that organizes student data in an accessible, comprehensible, and actionable format which allows teachers and principals adapt instruction to individual student needs.
- The delivery of high quality professional development and supports for teachers which includes the following:
 - Content-specific coaches in each region who support teachers through professional development sessions and in-class coaching;
 - School-based Teacher Leaders in Literacy and in Mathematics well versed in the Core Curriculum and its implementation were identified for each school;
 - 18 half-day professional development sessions during the school day to ensure a consistent message about the Core Curriculum; and,
 - Professional Development for teachers after school, on Saturdays, during summer, and during in-class coaching.

Additionally, Philadelphia, like other large urban districts, has prioritized narrowing the achievement gap that separates low-income and minority students from other students:

- In each Core Curriculum there are clear and public standards for what students should know and be able to do at each grade level. The knowledge and skills students must master are clearly detailed.
- Each student has an opportunity to learn a rigorous and challenging curriculum.
- In grades K to 8, students are given extended blocks of time for learning reading and mathematics. The extended time allows both struggling students the extra time needed for small group instruction and proficient students the time needed to reach and exceed grade level targets.

The School District has placed a relentless focus on the academic core, setting clear and high standards, providing assessments aligned with those standards, and creating a data management system that houses critical data to inform the further work of teachers, principals, schools, and central administrators. Additionally, to support the development of Core Curricula, the School District has invested heavily in ensuring that all teachers and students have high quality textbooks and supporting materials for the effective delivery of instruction.

Key Strategies Implemented from 2003 – 2008

- Identify appropriate content – What do students need to know and be able to do?
- How will teachers understand the expectations?
 - Design and develop Core Curriculum
 - Design and develop Curriculum Benchmark Assessments as assessment of learning (Monitor implementation, Make midcourse Instructional adjustments)
 - Plan and design a curriculum that is dynamic (allows for yearly revisions based on state, national trends, responds to voices in the field)
 - Design so that teachers have greater flexibility along the implementation continuum
 - Provide quality Professional Development Opportunities
- Identify the instructional models for delivery;
- Identify blocks of time to provide extended learning;
- Centralize purchase of adopted textbooks in the four major content areas.

Curriculum Reform Strategies Going Forward (2008 – 2013)

Technological advances, immigration, globalization and a media-driven culture define the landscape of our students' future. The next steps in the School District's curriculum efforts must include the changes necessary to ensure that all students are prepared to be active participants in their ever-changing world. The School District must create individual thinkers who are able to create, synthesize, and evaluate with ingenuity, imagination, and empathy. The School District's next steps must prepare students for the demands – civic responsibility demands, digital demands, cognitive demands, global demands – of the 21st century.

Over the next five years, the School District plans to pursue the following curriculum reform agenda:

Key Strategies for 2008 – 2013

- Redesign Core Curriculum to align to research, revised State standards, and the needs of the 21st Century;
 - Alignment of assessment with instructional goals
 - Curriculum compacting and parallel curriculum
- Re-conceptualize learning opportunities for students
 - Development and use of e-portfolios by students
 - Alternative approaches and opportunities for learning
 - Project focused learning
- Enhanced technology integration and communication;
- Purchase new textbooks and materials that reflect technology integration and 21st Century influence;
- Leverage technology investments in materials and teacher training through models now coming into the district (i.e. Classrooms for the Future).

Five-Year Blueprint for Secondary Education Reform

As one key component of this overall reform, the School District of Philadelphia began the Secondary Education Movement in 2003 in an intensive effort to revisit the goals and functions of high schools in the City. A second “phase” of this work began in 2006, with development of a white paper that reviewed the District’s prior steps in strengthening secondary education, and proposed five broad strategies to undergird future reform efforts.

With generous support from the William Penn Foundation, the District, in partnership with the Philadelphia Education Fund, has been conducting an extensive program of planning and information-gathering activities towards the development of a five-year blueprint for secondary education, grades 6-12. The District and the Education Fund are working toward completion of an initial draft of the five-year Blueprint for presentation to, and initial feedback from, the School Reform Commission and new CEO in May/June 2008.

With further refinement through this process, the goal is for the SRC to adopt a new plan later in 2008. Given the anticipated timing of increased student achievement funding, any significant new implementation beyond ongoing high school initiatives would be expected to occur in the out years of this Plan.

To develop the Blueprint, the District and Education Fund co-convened a Steering Committee and a range of working groups that engage a broad cross-section of district and community stakeholders. Through this process, the stakeholders have articulated the following statements to guide development of the Blueprint:

- **Vision:** The School District of Philadelphia’s secondary education blueprint envisions that all students will acquire the habits of heart and mind, knowledge, and skills that enable them to achieve their dreams for the betterment of self and humanity.
- **Mission:** The School District of Philadelphia will work in collaboration with local, state, and national partners to provide systems and resources to ensure safe, engaging, rigorous, and relevant learning environments to achieve our shared vision.

Seven Target Outcomes

The action plans and strategies of the Blueprint are organized around seven measurable target outcomes, which will serve as the “drivers” for ensuring equity and accountability for all youth in Philadelphia. Specific target levels for each measure, which are consistent with the goals articulated in the School Reform Commission’s “Declaration of Education,” are being developed in cooperation with the District Office of Accountability and Assessment.

1. On-time promotion from grades 6 through 12;
2. On-time 9th grade promotion;
3. PSSA achievement at the proficient and advanced levels;
4. High school graduation rates;
5. Re-engagement of out-of-school youth;

6. Readiness for success in post-secondary education and career pathways; and
7. School climate indicators such as student and teacher attendance, suspension rates, and serious incidents.

A Comprehensive Plan

Specific action steps are being developed for each of these targets to comprise a comprehensive five-year planning document. The “Blueprint,” then, represents a coherent, long-term commitment to make the District’s high schools models of high achievement. The Blueprint will also provide broad goals and objectives around two major components that cut across the targets and action plans:

- **Teaching and Learning:** Ensuring quality teaching and learning by cultivating and investing in the full continuum of teacher development – from certification, recruitment, induction, retention, to ongoing, job-embedded professional development; and,
- **Building Capacity for Change:** Ensuring that district, community, city, and state leaders share the vision and common language for change; and, that system resources are organized to support, sustain, and scale these changes over time.

As noted above, specific action steps are in development for each of the seven measurable outcomes. For each of these targets, specific action steps will be identified, and then sequenced over a five-year period.

For the initial stages of implementation, the Blueprint planning committees have developed a set of proposed action plans that focuses on achieving results for measurable outcome #2: strengthening the student transition from 8th to 9th grade. The large and diverse group of individuals and organizations involved in planning strongly concur that supports provided for this transition year hold the key to keeping students on track to graduation and will promote immediate improvement in the outcomes for District youth.

The following nine initiatives illustrate potential strategies to target this key transition year:

1. **Conduct Summer Academy for Rising Ninth Grade Students** – A three day academy will be held in high schools across the City to prepare new high school students for the expectations and routine of the high school setting in order to boost achievement and 10th grade promotion. Teams consisting of faculty and upper-grade students will work with groups of incoming students.
2. **Conduct Orientation Sessions for Parents of Incoming Ninth Grade Students** – Provide ninth grade parents an understanding of high school expectations so they can better support student transition into new settings. Two AM sessions and one PM session – 3 hours for each – held concurrently with Summer Academy for Rising Ninth Grade Students.
3. **Develop Individualized Transition Plans and Graduation Planning Tool for all Rising Ninth Grade Students** – Ensure early and careful planning and tracking of school progress toward graduation for all high school students beginning in ninth grade;

establish collaboration and articulation between K-8 and high schools; promote continuity and tailored support for each student; provide receiving schools with key information regarding incoming students. Develop a one-year pilot in selected high schools and feeder middle schools for a sub-population of students identified as at-risk.

- 4. Create an Early Warning System for Grades Six Through Nine** – Early identification of students at risk of failing or dropping out of school; prompt measures to address their needs to help support transition to high school. Via a pilot in up to two schools, concentrate on developing intervention strategies with an initial focus on students at greatest risk of failure.
- 5. Establish Four-Year Advisories for High School Students** – Provide continuity of support for students throughout upper grades, and particularly through the ninth-tenth grade transition; to personalize the learning environment by ensuring that each student is known well by at least one adult in the school.
- 6. Establish Student Success Centers to Provide Coordinated Strategic Supports for all High School Students** – Promote a network of comprehensive, continuous support and personalized school environment to promote successful transition into, through, and beyond high school. Includes support for academic achievement, college preparation, career exposure and development, social supports, and student leadership development. Student Success Centers are currently in pilot phase in eight comprehensive high schools.
- 7. Pilot Small Schools Conversion at Neighborhood High Schools** – Support pilots currently underway in three high schools (West, Kensington, and Olney), and possibly in other neighborhood high schools identified through system-wide needs assessment. This initiative will ensure that conversion of larger neighborhood high schools fully incorporates research-based practice for planning and implementation of small schools.
- 8. Intensify instructional focus on literacy skill development across the Ninth Grade curriculum** – Ensure that Ninth Grade students have the literacy skills to successfully engage all content areas of the Ninth Grade curriculum. Includes Intensive professional development supports to promote depth of implementation of District’s six-strategy high school literacy plan. Build upon work underway in pilot high schools through two independent grant-funded initiatives focused on adolescent literacy (Penn and Annenberg Foundations).
- 9. Establish a Re-Engagement Center for Out-of-School Youth** – Multi-service center will promote identification and re-connection of school dropouts to appropriate educational settings. First pilot one Center to establish a framework for regional centers in subsequent years.

Alternative Education Reform Strategies

Along with more general academic reform, District has also launched a series of targeted initiatives for out-of-school youth and disciplinary students in recent years. Currently, these initiatives include educational options programs; gateway to college; accelerated high schools; and disciplinary programs. With information from a variety of data sources such as the Project U-Turn hotline and input from various community partners, a comprehensive recommendation for alternative education reform has emerged.

In the fall of 2007, an alternative education task force was established, including community-based organization representatives, parents, city agencies and partner organizations, along with School District personnel such as teachers, principals and administrative staff. As a result of the collective work of the task force a profile of the most vulnerable student was realized, allowing for the District to create a menu of services and supports that lead to academic success for all students. These services include:

- **Less Restrictive/More Flexible Pathway Options**

There is a need for programs that offer greater flexibility in determining where and when learning takes place. Programs capable of accommodating different schedules for diverse skill levels of students are especially needed for those young adults that are unable to attend programs at fixed locations and times.

- **Skill-Building and Credit-Bearing Interventions**

In order for students to successfully enter pathway options, remediation services and supports must be readily available. Such supports may include literacy-focused interventions helping students to improve reading levels; and where credits pose a barrier, competency-based credit-bearing curriculum modules to support credit recovery.

- **Post-Secondary Preparedness**

To be competitively prepared for post-secondary success, students must be equipped with the skills needed to excel in life, work and higher education. To this end, programs that support college and career-readiness are especially needed. Examples of such activities include subsidized internships, college and career exposure and counseling, employability skills development workshops and job placement.

- **Increased Capacity**

In general, the demand for pathway options outpaces supply, as does the breadth of needed supportive services. Over the past year, students in need of alternative educational options doubled the capacity of the current programs. There is a pressing need to increase spots and build capacity to access and/or provide comprehensive supportive services for “at-risk” populations.

The School District has the capacity to serve 4,775 students in alternative education placements. Each program provides quality academic and behavioral programming for students that have violated the Code of Student Conduct and adjudicated youth. In addition, these programs provide credit retrieval and social support services to over-age, under-credited youth who may have disengaged from the traditional school environment. These programs are contracted to outside providers who work in partnership with the School District. The School District of Philadelphia continues to develop, implement, and emphasize rigorous quality standards for alternative education program operations, curriculum and instruction, accountability, and special education interventions.

As part of this effort to improve the Alternative Education Network, the School District will embark on the following reform strategies for FY2008-09:

1. Termination of existing alternative education contracts with the School District of Philadelphia:
 - On March 18, 2008, all providers were issued termination notification that contracts will end June 19, 2008.
 - In order to provide uninterrupted services to students, new (1) one-year contracts with revised standards and terms will be negotiated to commence June 20, 2008 and run through June 30, 2009.
2. Issuance of a Request for Proposals to provide alternative education services to “at-risk” and disengaged youth that must include:
 - A comprehensive education program that includes personalized learning; differentiated instruction; integrated youth development principles; comprehensive and support services; learning that scaffolds to high standards; and a welcoming climate and culture based upon the promotion of mutual respect and responsibility.
 - A cost structure that will provide equity across the funded model. This will include per pupil costs aligned with the services needed to achieve expected outcomes.
 - Standardized performance measures across all programs that will result in high student achievement and an increased graduation rate for all students served.
 - Diverse learning models that meet the diverse needs of the target population.

The goal of the Alternative Education Reform initiative is to improve the delivery of services to all students by providing a system of educational options that include non-traditional academic programs and settings. By reforming the current alternative education network, the School District will expand the level of services and supports provided by allowing the opportunity for new providers to partner with the District and for existing providers to improve on current programs.

Next Steps

The months just ahead represent a tremendous opportunity and turning point. Building on the tangible progress of the last six years and the emerging blueprints and strategies such as outlined above, Philadelphia now stands ready to take education reform to the next level. With new District leadership, strong support and partnership from a new Administration and Council in Philadelphia City Hall, and an historic plan for increased state funding proposed by the Governor, this is the time to invest wisely – and fully – in student achievement.

At this juncture, many details regarding specific program costs, as well as the precise level of resources to be made available through the legislative processes, are still to be determined as the months ahead unfold. Nonetheless the framework is in place, the opportunity is clear, and the next five years are the time to fulfill the hopes and promise of the SRC and School District Declaration of Education for Philadelphia.

VII. Management and Productivity





MANAGEMENT AND PRODUCTIVITY

As a multibillion dollar organization with over 22,000 employees located across more than 300 facilities, the School District of Philadelphia relies on a broad range of non-academic services – from building management to transportation to security – to support its core educational mission. By continuously examining these areas and identifying areas of opportunity for savings, the District can drive more dollars into the classroom.

Already, as part of meeting its Act 45 obligations, the District's deficit reduction plan has achieved projected net savings of \$69.6 million for FY2007-08, including:

- \$13.4 million from the elimination of 240 administrative positions via a headquarters reduction in force and the reorganization of regional administrative offices;
- \$9.6 million in contracted services reductions;
- \$9.2 million in non-salary personnel savings, including medical premium cost reduction and overtime cuts;
- \$6.5 million in savings from audits of outside providers; and,
- \$5.6 million in other administrative and non-personnel cost reduction, such as fleet reduction, energy management, and transportation initiatives.

From June 2000 to June 2007 alone, the District eliminated 487 Administrative Support positions and 1,044 Building Services positions.

These near-term measures build on a series of creative management initiatives in recent years, as illustrated by the following examples:

- Outsourcing of the District's data center, eliminating the need for an estimated \$5 million in capital expenditures for mainframe computer upgrades and saving an approximately \$1.5 million in annual operating costs while improving service and reliability;
- Energy purchasing and management initiatives, generating \$3.0 million in FY2007-08 heating oil savings by purchasing in bulk and in advance, as well as a parallel strategy to realize savings of \$0.8 million on gas
- Elimination of 65 non-bus vehicles from the District fleet, and reduction of over 750 cell phones;
- Expanded use of an enhanced pre-plate meal program, resulting in the reduction of approximately 120 food services positions in FY2007-08;
- Strategic sourcing initiatives, including expanded web-based ordering for office supplies and the establishment of an on-site delivery program for maintenance repair and operating supplies that has reduced down-time and costs due to travel to suppliers;
- Contracting out of cleaning services for sixteen (16) schools to date;
- Decentralization of facilities maintenance and operations to sustain service levels with reduced employee headcount;

- Best practice use of a Federal Universal Service programs to effectively subsidize 85 percent of many District telecommunications and networking costs;
- Enterprise server consolidation, reducing information technology maintenance costs by over \$70,000 per year;
- Development of a program to supply reconditioned textbooks, achieving estimated savings of \$332,000; and,
- Sale of excess properties, generating one-time revenues and long-term savings in utilities and maintenance; within the last two years, the sale of just three major properties (Durham, Wanamaker, and Schuylkill Avenue Garage) has generated over \$19 million.

Going forward, this Five-Year Financial Plan includes a series of interrelated strategies to further improve management and productivity across the District:

- **Shared and consolidated services:** As further detailed in the “City Partnership” chapter of this Plan, a centerpiece of the District’s approach for cost reduction is to pursue opportunities to increase service sharing with the City. To explore this opportunity fully, a joint City-District Task Force will begin active work this May.
- **Facility rightsizing:** Given declining overall enrollment and a shift in student population toward charter and other non-traditional schools, it is also important for the District to reevaluate and optimize its facility needs. As detailed in this chapter, the closure and sale and/or leasing of excess buildings holds tremendous potential to align physical infrastructure with student needs while generating positive bottom line impact.
- **General operational efficiencies:** This chapter of the Plan also details a series of additional opportunities to reduce costs through continued internal improvements – from further creative energy management strategies to possible market-oriented strategies such as leasing space on District buildings for cell towers.
- **Provider and partner accountability:** The District engages many partners – from charter schools to EMOs to alternative education programs – that play a critical role in Philadelphia’s diverse provider model of urban education. To ensure the continued strength of this system, it is important that District partners be held accountable for effective program and fiscal performance. Along with accountability strategies outlined in the “Charters and a Strong Diverse Provider Model” section of this Plan, this Management and Productivity chapter also highlights ongoing initiatives to improve alternative education program delivery and to ensure appropriate payments for out-of-district special education placements.
- **District workforce reforms:** Because employee compensation costs represent the largest component of the District budget, it is critical that wage and benefit costs be managed effectively. Along with issues related to upcoming collective bargaining, the “Workforce” section of this Plan also outlines a series of potential administrative savings – from benefit cost reduction through pooled purchasing, self-insurance, and/or eligibility reviews to further staffing level analyses.
- **Fiscal accountability:** Across all of the District’s business functions, reliable financial information, practices, and controls are important for ensuring sound planning and execution. Progress and initiatives in these areas are further detailed in the “Financial Management” chapter of this Plan.

Individually and in tandem, these management and productivity approaches are intended to better contain costs while sustaining core services.

Facility Rightsizing

The School District of Philadelphia owns or leases a total of 30.1 million square feet of usable interior space. As of the end of FY 2007, the District owned 300 buildings used as schools, school annexes, or community centers run in conjunction with schools. The District also owns four buildings for Administration, five repair garages and one school garage, and three former school buildings being leased to Charter schools. In addition, the District leases 42 buildings (or space therein), used for high schools, middle school, elementary schools and early childhood education. Overall, the District owns 29.5 million square feet – or 98 percent of all space it currently occupies.

Cost for facilities operations and maintenance is driven, to a certain degree, by the age, condition and amount of physical space under control. Buildings owned by District vary in age, but seventy percent of District buildings are more than 50 years old, and the average building is 85 years old. Recently, as part of its Capital Plan, the District has constructed a number of newer facilities, including new high schools and sports facilities. The current District 2007-2013 capital plan includes \$116.1 million for major renovations, structural renovations and exterior renovations, including \$18.6 million for roof replacements and \$37.8 million for window replacements.

Current overall school building capacity significantly exceeds utilization. For the purpose of calculating school utilization, Pennsylvania assumes twenty five students per classroom. Based on this assumption, for FY 2007, the District reported that many of its school buildings were operating below capacity. For example, more than one-third of all classroom capacity in high schools was not used. At the same time, it is important to note that certain neighborhood schools are still severely overcrowded, requiring solutions to develop additional space. In the aggregate, however, applying utilization data to actual building square footage suggests that as much as 7.1 million square feet under control of the District may be underused.

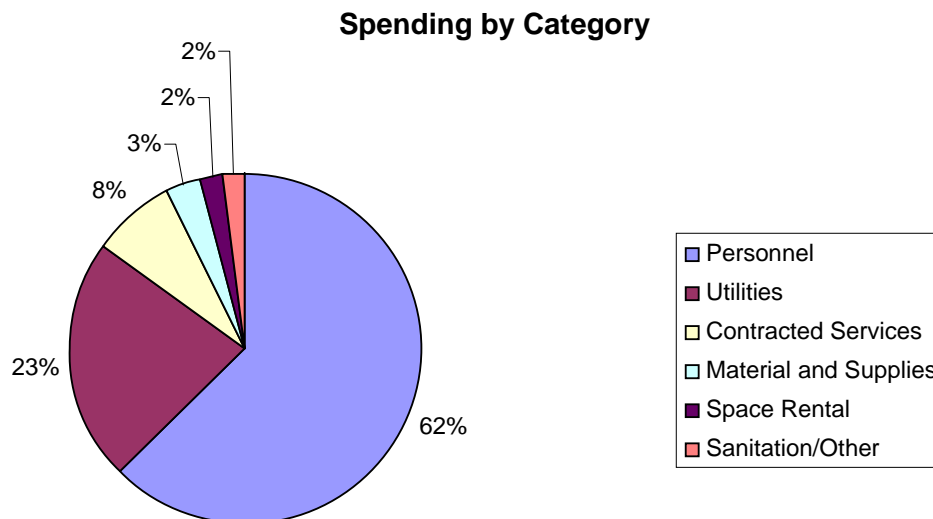
CAPACITY AND UTILITIZATION FOR SCHOOL DISTRICT OF PHILADELPHIA FY 2006 – 2007

	Total Square Feet	Percentage of Capacity Used	Underused Square Feet
Elementary Schools	12,094,069	83.0%	2,055,992
Middle Schools	4,178,028	58.4%	1,738,434
Senior	7,132,118	66.1%	2,417,788
Senior/Elementary	110,193	90.0%	11,019
Special	1,778,037	66.6%	593,864
Special/Middle School	105,000	140.4%	0
Vocational	1,750,946	86.4%	238,129
Alternative	483,657	79.5%	99,150
TOTAL	27,632,048	74.1%	7,145,376

The amount of underused space in the District is largely the result of a steady student enrollment decline in the last decade. In the 1997-1998 school year, the District had 214,957 students in traditional schools compared to a 2006-7 school year population of 170,319, an enrollment decline of 20.8 percent. The decline in enrollment is caused by both demographics – a declining birth rate – and the increasing choice of Philadelphia parents and children to attend one of the 61 District charter schools instead of a traditional public school. Using birth data and historic trends, it is projected that enrollment will continue to decline through the 2011-2012 school year, dropping by more than 10,000 students.

The District’s process for reviewing potential schools for closure, conversion, reconfiguration, and/or consolidation is conducted every year starting in October. The process for closing a school starts approximately nine months before the school could potentially be closed. The District has already initiated or completed this process with six (6) buildings which have been determined to be appropriate candidates for closure. If a school is closed, the District is required to either sell the property at market rate or transfer it to the City for redevelopment. Any revenue from the sale of District property may be used in the capital budget or debt service fund, which is part of the operating budget.

In FY 2008, District is budgeted to spend \$261.2 million on Facilities & Utilities, School Climate and Safety and Space Planning – approximately eight percent (8%) of the total budget. Within these budget categories, specific areas that drive spending are building operations, maintenance, heat, power and light, school police and trash and recycling.



Of the \$261.2 million in budgeted cost, \$163.0 million is attributable to personnel. These areas employ more than 2,700 full time employees – just over one quarter of all non-instructional District employees. Another \$59.0 million is expended on utility costs, including \$53.2 million for heat, light and power and \$5.8 million for water and sewer costs. Contracted services – including contracting out of certain building cleaning and maintenance – accounts for another \$20.5 million in budgeted expenditures. In addition, the District has budgeted \$7.8 million for

materials and supplies, \$6.1 million for space rental costs and \$3.0 million for sanitation services. Materials include construction materials, paint and other wiring for District maintenance crews.

The District uses three leasing approaches to acquire additional buildings and class space. Early Childhood Program leases provide classrooms for early childhood programs. Temporary Classroom leases are obtained as an intermediate solution to overcrowded schools, and as a result of their purpose are generally short-term leases. Turn key leases use a developer to buy land and provide a building to school specifications, thereby transferring the design and construction duties. Under a turn key lease, a developer buys land and provides a building to school specifications. The developer is responsible for resolving any environmental issues, providing the general contractor, and obtaining and managing all other contractors.

The District determines the need for leasing space for temporary classrooms on an annual basis. As enrollment has declined and space has become available, the District has terminated 12 leases over the past 5 years.

- **Building closure and consolidation plan:** The District has increased its focus on evaluating long-term space needs by engaging a professional firm, CRE, to undertake a comprehensive capacity study that will determine, by school, opportunities for space reduction or areas needing additional capacity. The goal of this process is to ensure that the facilities costs incurred by the District most efficiently match the long-term educational and support needs based on projected enrollment trends. As the District moves to reduce its overall number of facilities, the District will save utility, cleaning, maintenance, and security costs associated with operating each building that is taken out of commission. Estimated non-instructional savings per school closed through consolidation or reallocation typically range from \$0.5 million to \$1.0 million, depending on size. As of April 2008, the study is in its final stages of completion.

General Operational Efficiencies

Along with the potential savings from building closure and consolidation, the District is also actively pursuing more general operational savings in areas such as Building Operations, Building Maintenance, Utilities, Climate and Security, and Transportation.

Building Operations

The Operations Department includes building operations, cleaning, landscape and pest control and management of the District contract for refuse and recycling, as well as smaller units dedicated to training, warehouse services and water treatment. Building Operations has a FY2008 budget of \$109.5 million and employs 1,716 full time employees:

- 427 building engineers, including 30 trainees
- 854 general cleaners, 11 night cleaners, 313 custodial assistants, 18 Saturday shift custodial assistants and 15 cleaning leaders
- 30 full time building operations personnel responsible for landscaping and pest control

Building engineers oversee the day to day operations of school buildings. Every Philadelphia school is required by City ordinance to have a licensed stationary engineer on the premises. Building engineers manage custodial assistants and cleaners and report to regional managers and assistant managers in four regional operational centers.

Overall, the Building Operations Department had \$4.8 million in overtime expenditures in FY2006 – the last full year for which actual financials were available for analysis. While some of these overtime costs were attributable to human resource issues – such as the vacancies in Building Engineer positions – operational decisions also drive overtime. For example, the decision to keep schools open beyond school hours for special programs has an impact on overtime. Also, a significant amount of Operations overtime spending occurs in the period immediately before the opening of schools. There is a relatively short period between the end of summer session and the beginning of the regular school year, during which schools need to be completely cleaned.

Schools are subject to inspections by the State Health Department and the Department of Labor and Industry. The District also has policies and procedures that address sanitary management, which vest responsibility for cleanliness with the school principal.¹

The District contracts out for cleaning services in a relatively small number of public schools. Spending for contracted cleaning services is projected to grow from \$6.2 million in FY 2006 to a budgeted \$11.7 million in FY 2008. The SRC has authorized the District to contract for cleaning services in twenty-two (22) comprehensive, neighborhood high schools, among the District's largest facilities. To date, the District has gone forward with contracting out in sixteen (16).

The Operations Department is also responsible for overseeing the District's contract for sanitation services for its facilities. Until 2000, the City of Philadelphia provided for trash and recycling pickup at Philadelphia schools at no cost. When this service was terminated, the District contracted with Waste Management to provide the service: in FY 2008, the District has budgeted \$3 million for the contract. Contract costs are based on actual amount of waste: the contract provides for a discount for recyclables. The Waste Management contract ends this year.

Building Maintenance

In addition to the school based process of cleaning and operating buildings on a daily basis, the District also has a centrally structured maintenance division that provides non-routine upkeep.

In 2007, Maintenance staff completed 35,572 tasks, including 7,580 tasks for plumbers, 5,059 tasks for carpenters and 4,573 tasks for locksmiths. During the year, there were 37,198 work orders created. Overall, there was a 95.6 percent ratio of closed tasks to new tasks: Maintenance began 2008 with 1,446 more open work orders than in January 2007. Work orders from schools are issued to Maintenance if the building engineer determines that they are unable to address the needed work. Response to maintenance requests is dependent on funding and resources.

¹ Section 703 of the District Policies states that “[T]he cleanliness of each school building shall be the responsibility of the building principal. Teachers shall be responsible for the condition of their classrooms.”

Building Maintenance has a FY2008 budget of \$36.3 million and employs 393 full time employees. The Maintenance workforce includes general mechanics, painters, plumbers and glazers. Most Maintenance employees are assigned to shifts that coincide with the school day. Yet, many repairs cannot be performed while students are in school – generating significant overtime under current operational practices. Budgeted FY2008 overtime was \$462,359.

The District does contract for some highly specialized maintenance work, such as high voltage electrical jobs. In FY 2006, the District expended \$1.5 million in contracted maintenance and repair service: the FY 2008 budget provides for \$2.5 million in spending. The ability for the District to contract for more of its maintenance work is apparently limited, not just by its contract with its own workforce, but by the SRC project labor agreement or partnership agreement with the Philadelphia Building and Construction Trades Council. Under the agreement, any construction related work – including contracted repair work – must go to firms with a union workforce that pays union rates.

Utilities

In FY 2006, the District expended \$48.5 million on heat, light and power and another \$5.5 million on water and sewer costs. The FY 2008 budget includes a total of \$59 million for utilities costs. Within the utilities budget, PECO electric service is the largest cost, accounting for \$21.3 million in FY 2006 and a budgeted \$26.8 million in FY 2008. The Districts’ facilities are heated through a combination of natural gas, oil and steam: most buildings are heated with natural gas. Total spending on natural gas in FY 2006 was \$14.0 million and the FY 2008 budget includes \$15.9 million for natural gas purchases. The District estimates using six million gallons of oil at a projected FY 2008 cost of \$13.5 million – up from \$11.3 million in FY 2006. Historical expenditures for all utilities are detailed in the following table.

**HISTORIC UTILITIES EXPENDITURES
(FY2002-03 to FY2005-06)²**

	FY2002-03 Actual	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual
Water & Sewage	3,858,271	4,359,453	4,904,199	5,463,425	6,043,248
Natural Gas	9,638,370	8,752,717	6,147,051	13,977,859	14,417,293
Electricity	21,339,672	21,986,280	30,248,526	21,307,572	20,162,886
Heating Oil	7,935,513	7,671,158	8,839,136	11,282,040	12,137,984
Steam Heat	1,368,282	1,524,839	1,459,130	1,503,414	1,001,917

In recent years, the District has undertaken a series of initiatives designed to reduce spending on utilities. For example, on the ISO Bunker contract for heating oil, the District realized savings of \$3.0 million this year by purchasing in bulk and in advance to “lock in” a cost below budget. In addition to those savings, the District has already used a parallel strategy to realize savings of \$0.8 million on gas purchased from Hess Oil.

² FY2006-07 data unavailable at the time of writing.

School Climate and Safety

State statute provides school districts in Pennsylvania with the power to seek to appoint school police officers with the power to enforce the law and disciplinary rules in school buildings, on school buses and on school grounds.³ The District Office of School Climate and Safety is responsible for the public safety function within school system, including both policing and security. School Climate and Safety expended \$41.5 million in FY 2006 and has an FY 2008 budget of \$41.4 million. In addition, the District employs approximately 160 per diem security officers, and has \$3.3 million in contracts with community based organizations to provide certain school climate staff.

Personnel are assigned to schools based on a series of criteria involving student population, incidents, violent crimes and the number of other non-teaching personnel assigned to the building. Some schools may have only a single safety employee assigned to them. Schools with larger populations and a history of violent incidents may have as many as 20 staff assigned

School Climate and Safety also makes significant use of technology in its efforts. All middle schools and high schools have metal detectors that are staffed by safety and security personnel. In addition, approximately 200 schools have some form of closed circuit television monitoring system: few, however, have closed circuit systems that can transmit to a centralized location.

Police and security officers generally work on shifts based on the school day. During the first six months of FY 2008, the District expended \$574,764 on overtime for security operations. School use for special events and extracurricular programs leads to overtime cost. Overtime can be authorized by the regional lieutenant. And, as is the case for Maintenance employees, principals can sometimes pay for overtime for events in their building.

There are 375 police officers assigned to specific school buildings. The remaining 51 officers are assigned to patrol on a three shift, seven day a week basis. By contract, school police officers are assigned to security for non-educational buildings: for example, the front desk security at 440 North Broad is provided during the day by four police officers. While District police do not provide security for charter schools, they do provide security for some of the alternative schools operated under contract.

³ Philadelphia School District, Office of School Climate and Safety, Directive No. 5, March 15, 2004, Revised July 12, 2006.

Transportation

The Transportation Services Group (“TSG”) provides transportation services to approximately 40,000 students eligible for free transportation pursuant to federal and state mandates, court orders, and District policy. Over 1,450 district-owned and contractor operated vehicles serve approximately 600 public, charter, and nonpublic schools. One hundred and thirty-three of the contractor operated vehicles are taxis that transport small numbers of children to school. Approximately 40 percent of the roughly 1,310 bus routes are in-house with the remaining 60 percent contracted out to ten vendors. The number of contracted bus services increase each year due to the increase in charter schools and special education students. Over the past several years, 25 to 30 additional bus routes have been added to transport students to charter schools; it is TSG policy to outsource such routes.

Additionally, around 30,000 educational, cultural, and athletic trips are scheduled during off-peak hours. TSG is also responsible for providing free TransPasses to approximately 52,000 students using mass transit.

TSG also provides maintenance support for over 625 District-owned school buses and approximately 430 general-purpose District vehicles that are used primarily by the Office of School Climate and Safety and the Office of Facilities and School Operations. Twenty-nine (29) mechanics maintain the in-house bus fleet at the District’s Broad and Lehigh central repair facility and three satellite facilities. TSG also operates an extensive driver training program for prospective school bus drivers and a safety program for students who ride school buses.

General Operational Initiatives

For FY2008-09 and beyond, potential general operational efficiencies and initiatives include:

- **Energy Service Company (ESCO) facility upgrades:** Currently, the District is working with its energy consultant to develop an RFQ process to engage qualified ESCOs. After creating a list of qualified firms through the RFQ, the District will issue an RFP for ESCOs to develop and implement a series of energy conservation measures in as many as 140 different school buildings. These could include more energy efficient lighting, improved control systems, replacing steam traps and dual fuel conversions. As currently contemplated, these initiatives would be financed by the ESCOs and ultimately paid for over a period of time by the District with funds saved as a result of the initiative.
- **Expanded contracting of school cleaning:** Based on estimated costs of cleaning, the District saves approximately \$230,000 for every 1 million square feet of space shifted from in-house to contracted cleaning. The SRC has authorized contracted cleaning of six (6) schools beyond the agreements already in place. District managers will develop alternatives for further extending this successful initiative where cost-effective.
- **Textbook asset management:** Development of a database with complete and accurate descriptions is anticipated to reduce annual purchasing needs, while also increasing the use of the District’s successful reconditioned textbook program. If savings of 15 percent can be achieved relative to overall textbook purchases, this initiative could yield \$2-3 million annually within school budgets.

- **Cell tower rental income:** District managers will develop a plan for SRC consideration to authorize leasing of District facilities for use by cellular/wireless carriers to locate antenna equipment on logistically attractive schools. Under a leasing-agent turnkey approach, revenue potential could exceed \$500,000 annually.
- **Expanded competitive contracting:** The District has already successfully outsourced multiple non-classroom support functions, including Data Center operations, cleaning services, and a majority of student transportation bus routes. District managers estimate that implementing this model in other non-core service and business areas over time could achieve additional, multimillion savings.
- **TransPass policy:** The District’s current policy for providing free SEPTA TransPasses to high school students permits any student in grades nine through twelve living 1.5 miles or farther from their enrolled school to obtain a free pass. However, the funding formula from the Commonwealth only provides reimbursement for students living 2.0 miles or more from school. For FY2008-09, the District is evaluating alternative TransPass policies to better align with state reimbursement standards and other criteria.
- **Development of fee-based services:** In multiple service areas – such as Student Information System management – District resources and expertise have marketable value for regional Charters and non-public schools. Through the development of expanded cost recovery mechanisms, potentially through the District Intermediate Unit (IU), it may be possible to develop new and recurring streams of revenue.
- **Additional surplus real estate sales:** As space needs adapt to enrollment declines, the District is actively pursuing the sale or rental of excess facilities and real estate – thereby generating one-time revenues, reducing operating costs, and potentially adding new properties to the tax rolls.
- **Procurement card system for purchasing.** The District is exploring implementation of a Procurement Card system to improve controls and improve efficiency in purchasing. Procurement Cards are used for purchasing of materials and supplies as an alternative to traditional, labor and paper intensive purchase orders. Use of Procurement Cards increase financial control and security of purchases and often result in savings from reducing the cost of paper, postage, envelopes and other materials and supplies as well as reduce the amount of FTE time needed for manual payment processes. In addition to savings, Procurement Cards increase control and security by automating the process. Lastly, the technology used as part of the Procurement Card system allows for electronic monitoring and reporting, further improving financial controls in the purchasing process.

Provider and Partner Accountability

Along with the reviews and controls outlined in the “Strengthening the Diverse Provider Model” chapter of this Plan, two focused new initiatives are planned to begin by FY2008-09 that are expected to improve provider and partner accountability:

- **Alternative Education Provider Request for Proposals (RFP) Process.** For FY2008-09, the District has initiated a competitive process to strengthen the network of alternative education providers and expand the number of slots available while ensuring the best

possible rates. This initiative is further detailed in the “Investing in Student Achievement” chapter of this Plan.

- **Special Education Out-of-District Placement Field Audits.** There are some special education students that cannot be served by providers within the District and are sent to providers outside of the City. Beginning in FY2008-09, the District will conduct audits of the facilities located outside of the District by conducting field visits to assess the level of services provided to ensure that those services are adequate and necessary. Conservative estimates indicate that these audits will save the District at least \$600,000 annually.

THIS PAGE INTENTIONALLY LEFT BLANK



VIII. Workforce

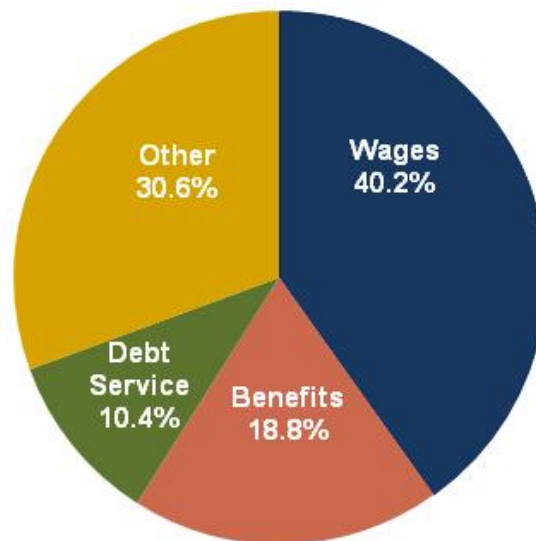




WORKFORCE

The School District's teachers, administrators, and support personnel are essential to delivering quality education in a safe and nurturing environment. As a labor-intensive enterprise, combined employee wages and benefits represent the majority of the District's Operating Budget spending – nearly 60 percent of 2007-2008 estimated expenditures totaling about \$1.3 billion dollars. Given this magnitude, as well as ongoing cost pressures, the District's multi-year financial planning must address these personnel costs.

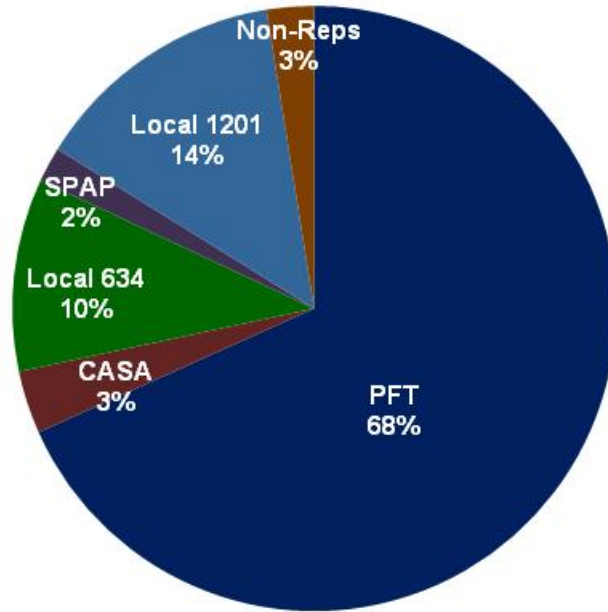
ESTIMATED ACTUAL EXPENDITURES SCHOOL DISTRICT OF PHILADELPHIA FISCAL YEAR 2007-2008



Like many public school systems, the District is highly unionized. Almost all of the District's workforce is represented by one of the following five employee unions, all of which have current collective bargaining agreements set to expire at the end of August 2008:

- Philadelphia Federation of Teachers (PFT)
- Commonwealth Association of School Administrators (CASA)
- School Police Association of Philadelphia (SPAP)
- National Conference of Firemen and Oilers, Local 1201
- School Cafeteria Employees, Local 634

**UNION AFFILIATIONS OF EMPLOYEES IN THE
SCHOOL DISTRICT OF PHILADELPHIA**



Employee Group	Positions Covered	FTE *	Contract Term
Philadelphia Federation of Teachers (PFT)	Teachers, daycare teachers, food services managers, teaching assistants, etc.	15,159	Expires August 31, 2008
Local 1201	School custodians, facility maintenance	3,027	Expires August 31, 2008
School Cafeteria Employees (Local 634)	Cafeteria employees	2,293	Expires August 31, 2008
Comm. Assoc. of School Administrators (CASA)	Principals and other administrators	748	Expires August 31, 2008
Non-Union	Executive and administrative	559	N/A
School Police (SPAP)	School safety	415	Expires August 31, 2008
Total Full Time Employee Headcount		22,201	

*Headcount as of February 2008

Going forward, it is critical for fiscal stability that the District align workforce costs to be affordable within a structurally balanced budget, and that future personnel cost growth be managed to sustain fiscal health. In working with the District’s employee groups and their representatives to manage costs and improve educational quality, three major themes emerge:

- Moderating wage increases to account for the District’s financial constraints, while remaining able to recruit and retain effectively;
- Partnering to contain the skyrocketing costs of employee benefits while continuing to provide quality coverage; and,
- Maintaining an appropriately sized workforce.

Collective Bargaining

Good faith collective bargaining requires give and take with mutual problem-solving, and such negotiations are only just beginning toward the new agreements to begin September 1, 2008. Accordingly, it would be premature to set forth specific changes in the District’s workforce cost structure that require collective bargaining. At the same time, however, personnel costs associated with represented employees make up such a large share of the overall District budget that such expenditures must be addressed as a key part of any multi-year financial plan.

To balance these considerations, this Plan contains allowances for future benefit cost growth and for progression by individuals through existing step scales, but sets aside no specific dollars for future across-the-board wage increases. By working collaboratively, however, it should be possible to find positive savings approaches – for example, through benefit plan redesign – that will enable out-year wage increases or other priorities to be funded toward maintaining a competitive overall compensation package.

The following summarizes key areas of cost expected to arise in bargaining, as well as opportunities for managing such costs to generate additional resources for reinvestment into affordable compensation improvements.

Wages

During the past fiscal year, over \$862 million dollars were spent on wages for full time employees at the School District – approximately 40 percent of total expenditures. As a result, across-the board wage increases have a significant impact on the District’s overall finances.

Overall, each 1% salary increase adds approximately \$9 million per year to the District’s base expenditures.

WAGE INCREASE SCENARIOS

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Base Line (0% Annual Growth)	\$891,900,000	\$889,400,000	\$887,200,000	\$888,900,000	\$892,400,000
1% Annual Growth Cost	\$8,900,000	\$17,900,000	\$26,900,000	\$36,100,000	\$45,500,000
2% Annual Growth Cost	\$17,800,000	\$35,900,000	\$54,300,000	\$73,300,000	\$92,900,000
2.5% Annual Growth Cost	\$22,300,000	\$45,000,000	\$68,200,000	\$92,300,000	\$117,300,000
3% Annual Growth Cost	\$26,800,000	\$54,200,000	\$82,300,000	\$111,600,000	\$142,100,000

The following chart presents recent, historical wage increases for each of the District’s employee unions. In addition, most employees have received pay progression “step increases” over and above these general raises.

WAGE INCREASES BY UNION

Fiscal Year	PFT	CASA	SPAP	1201	634
FY 2003	4%	4%	2%	3%	3%
FY 2004	4%	4%	0%	0%	3%
FY 2005	3% lump sum (min. \$750; max \$1,250)	0%	3%	3%	0%
FY 2006	3%	3%	3%	3%	3%
FY 2007	3% + 1% lump sum	3%	3%	3%	3%
FY 2008	3% + 1% lump sum	3%	3%	3%	3%

While it is important that pay remain competitive over the long-term, wage moderation is critical to the District’s ability to regain structural budgetary balance. Among public and private employers alike, resolving fiscal crises has often required wage restraint and other difficult adjustments. For example, both of the District’s principal funders have negotiated multi-year wage freezes concurrent with healthcare cost containment during periods of fiscal recovery:

- In 1992, the City of Philadelphia reached labor agreements with labor, trades, clerical, professional, and technical employees, as well as police and firefighters, that included a two-year wage freeze (total four-year term of 0%, 0%, 2%, 3%), elimination of 4 holidays (from 14 to 10), 20% cuts in police and fire starting pay, reduced employer health benefit contributions, restructured longevity pay, and disability and sick leave reforms.
- In 2003 settlements affecting over 60,000 state employees, the Commonwealth of Pennsylvania and its multiple civilian units agreed to a two-year wage freeze (including a one-year pay progression step freeze) and the establishment of employee contributions toward medical benefit premiums along with significant healthcare plan redesign.

To generate additional funding for wages in the context of limited budget resources, it will be beneficial to fund such gains from savings generated elsewhere. To further moderate the impact of such raises, options include:

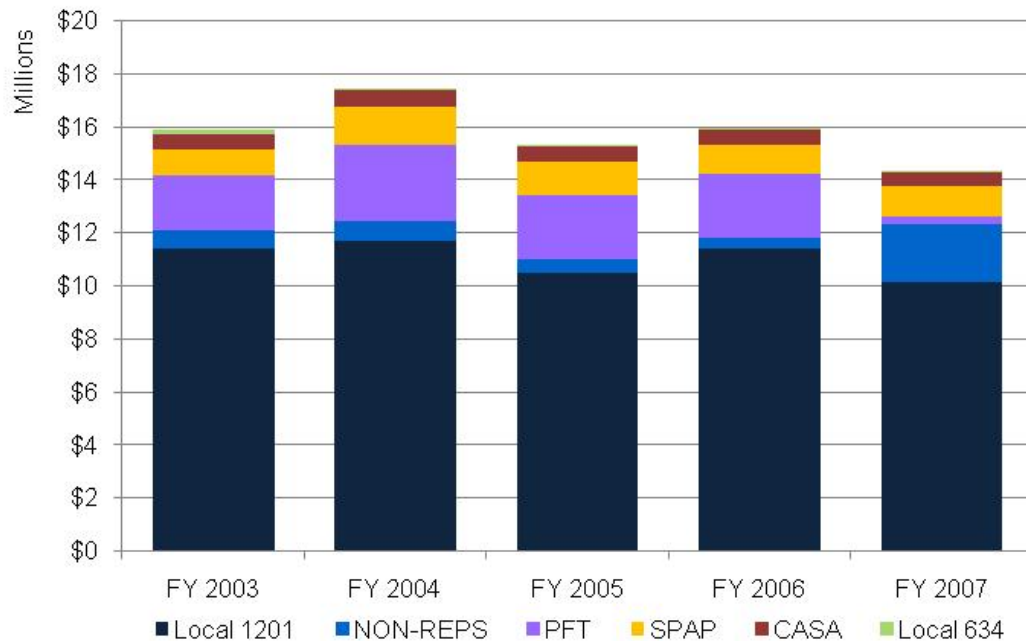
- Freezes in step increments, as adopted by the Commonwealth of Pennsylvania for state workers in fiscal year 2005. If adopted by the District for just FY 2009 alone, this would save approximately \$7.0 million relative to the baseline;
- One time lump-sums that do not carry forward into the base budget for subsequent years;

- Restructuring of the pay progression. For example, a wage increase might be put into place as a new, additional top step, rather than across-the-board, or provided as a performance-based incentive.

Overtime and Extracurricular Pay

Over the previous five (5) fiscal years, the School District has spent an average of \$15.4 million dollars per year on overtime– more than two-thirds (69.78%) attributable to Local 1201.

**TOTAL OVERTIME COMPENSATION
BY BARGAINING UNIT**



Key overtime drivers include:

- High leave usage;
- Use of school facilities for after hours programs; and,
- Shift and calendar year scheduling practices.

For teachers as well as other employees, additional pay beyond base salaries may be earned for extracurricular responsibilities – such as advising a student group or teaching. Overall, such supplemental compensation is anticipated to reach over \$22.4 million dollars in FY 2008. Of this total approximately 76.6 percent of this supplemental compensation is paid to members of the Philadelphia Federation of Teachers.

Health Benefits

The skyrocketing cost of employee health care is not only a challenge for the School District of Philadelphia; it is a national crisis all across the public and private sectors. During the 2007-

2008 fiscal year the projected combined cost for all employee benefits, (including health, dental, optical and prescription) will be over \$414 million dollars. This amounts to 18.8 percent of total expenditures for the fiscal year – approximately one-third of all District non-wage spending.

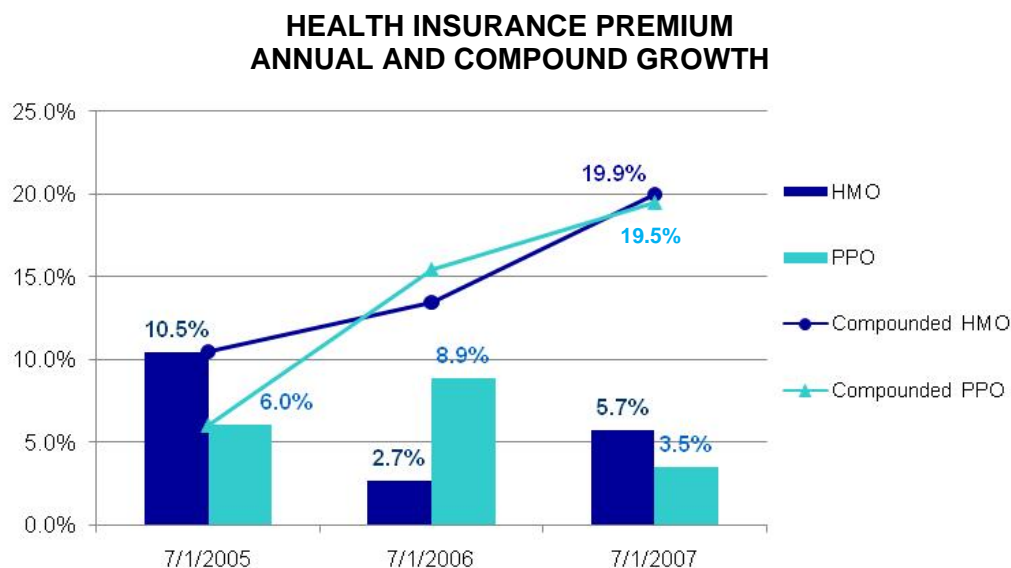
Primary Medical Benefits (Active Employees)

The District currently offers two different types of primary medical coverage to most employees:

- Independence Blue Cross Health Maintenance Organization (HMO) coverage, used by approximately 38.7 percent of School District employees; and,
- Independence Blue Cross Preferred Provider Organization (PPO) coverage, in use by over 58.3 percent of the District workforce.

Additionally, there is a small group still covered by an older plan; the Aetna HMO (approximately 2.6 percent of workforce). Enrollment in this plan is only open to new employees in the Local 1201.

Over the past three years, the District has been able to hold its health insurance premiums for both plans to increases below 7.0 percent per annum. While this rate of growth is moderate relative to national norms, overall medical cost pressures have more than doubled general growth in consumer prices – generating significant pressure on the overall District budget.



Going forward, the School District and its employees have multiple options for further slowing health benefit cost growth, while still remaining consistent and competitive with other regional public and private employers.

Premium Cost-Sharing

Looking first at premium cost-sharing, no District plans required employee premium

contributions prior to the last round of collective bargaining. Under the terms of the last agreements, employees who began working for the School District, below the Director level, after November 1, 2004 are required to spend their first four (4) years of employment in the HMO plan before becoming eligible to switch to the PPO. After four years, employees who opt to switch to the PPO are required to contribute 3 percent of the total premium cost for PPO coverage¹. Director level employees and above have the option of enrolling in the PPO plan from the date of employment. Individuals employed by the School District and enrolled in the PPO plan before this date do not have to contribute, and the more affordable HMO remains available with no contributions. As of January 2008, only 297 employees, or about 1.3 percent of the overall District workforce, contribute toward the monthly cost of their medical premiums.

In contrast to this low rate of premium cost-sharing, a majority of private and public employers now typically require cost-sharing at a much higher rate:

- According to the Kaiser Family Foundation 2007 Employer Health Benefits Survey, the average employee across the overall labor market contributed 16 percent of the total premium cost for single coverage and 28 percent of the premium cost family coverage (average, all plan types).
- In the national public sector generally, the Kaiser survey found employee premium cost-sharing among State and Local government plans to be somewhat lower than these private sector averages, but still significant at 13 percent of premium cost for single coverage and 22 percent for family coverage (average, all plan types).
- Among State governments, the Workplace Economics, Inc 2006 State Employee Benefits Survey (benefits in effect as of 1/1/06) similarly found that 44 states requires employee premium contributions for all family coverage, 46 states for some plans, with an average employee contribution of 19.4 percent.
- Also according to the Workplace Economics survey, 34 states require employee premium contributions for all single coverage, 37 states for some plans, with an average employee contribution of 8.6 percent.
- In a January 2007 agreement between the Commonwealth of Pennsylvania and multiple major bargaining units, approximately 45,000 state employees agreed to incrementally raise their contribution to health care premiums to 3.0 percent of gross pay by 2011 (with possible offsets for health management plan participation). This builds on changes negotiated in June 2003 agreements, pursuant to which the state phased in its first employee monthly health benefit premium cost-sharing, rising to 1.0 percent of salary by FY2007.
- According to a PFM survey in 2005, of the 10 largest school districts in the nation, eight (8) required cost sharing for family coverage in their highest enrollment plans and six (6) required premium sharing for single coverage.

¹ Employees hired after November 1, 2004 in the Local 1201 are not required to contribute 3% of premiums if they choose to participate in the PPO after the fourth (4th) year of service.

- Within the City of Philadelphia non-uniformed workforce for 2008, professional and technical employees (AFSCME District Council 47) contribute monthly premiums of \$14.47 for single, \$29.29 for dual, or \$40.97 for family participation for HMO coverage, and \$50.29 for single, \$101.73 for dual, or \$142.31 for family PPO coverage. Similarly, non-represented City employees contribute \$14.47 for single, \$29.12 for dual, or \$42.10 for family participation in their HMO option; \$26.65 for single, \$53.67 for dual, and \$77.58 for family POS coverage; and \$90.07 for single, \$164.19 for dual, and \$260.78 for family PPO coverage.

COST SHARING COMPARISON

Plan Type	School District of Philadelphia	Commonwealth of PA State Employees**	U.S. State & Local Government (Kaiser 2007)	Overall U.S. Labor Market (Kaiser 2007)
HMO	None	1% of salary FY08 1.5% of salary FY09 2.0% of salary FY10 3.0% of salary FY11	% of Premium Contribution Single: 14% Family: 22%	% of Premium Contribution Single: 17% Family: 28%
PPO	3% of total premium cost for employees hired since November 1, 2004 (eligible after 4th year of service)*	1% of salary FY08 1.5% of salary FY09 2.0% of salary FY10 3.0% of salary FY11	% of Premium Contribution Single: 13% Family: 22%	% of Premium Contribution Single: 17% Family: 27%

*Employees who were hired prior to November 1, 2004 and did not chose to switch coverage plans until after November 1, 2004 must contribute to the PPO at the same rate.

**Commonwealth of PA employees may earn a partial credit against their required employee premium contribution for participation in health management programs.

As one option in collective bargaining, consistent with the Commonwealth of Pennsylvania and broader national trends, the District could adopt increased employee cost-sharing for medical premiums.

There are multiple premium cost-sharing approaches that could be developed. Many employers require a contribution based on a percentage of total premium costs, often at a higher rate for dependent coverage. Others layer in a “buy up” feature such that employees pay for the incremental costs of more costly plans relative to a more affordable base plan. Still others, such as the Commonwealth, set premiums based on a percentage of salary. As an illustration of potential impact, the following chart reflects the potential savings of implementing an employee contribution set at 3 percent of base wages, consistent with the cost-sharing structure for state employees to be effective within the next several years.

**HEALTH BENEFITS SAVINGS
ASSUMED EMPLOYEE CONTRIBUTION OF 3% OF WAGES**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Savings	\$25,180,000	\$24,850,000	\$24,770,000	\$24,810,000	\$24,900,000

*It was assumed that all full-time School District employees contribute 3% of salaries.

As an alternative illustration of potential cost savings, if District employees paid just 15 percent of total premium costs – consistent with municipal employees in the City of Pittsburgh, and still below private sector norms – annual savings would be as follows:

**HEALTH BENEFITS SAVINGS
ASSUMED EMPLOYEE CONTRIBUTION OF 15% OF PREMIUMS**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Savings	\$22,200,000	\$24,180,000	\$26,360,000	\$28,840,000	\$31,610,000

Along with employee premium cost sharing, the Commonwealth of Pennsylvania has also adopted an innovative health management program for state employees: “Get Healthy.” Much more than just a traditional “wellness” program, Get Healthy includes confidential health risk assessments, followed by personalized health and disease management plans, to promote significant health improvements – and cost reductions. As an incentive for employees to participate in this program, the Commonwealth waives half of the required employee premium contribution (i.e., when the standard premium cost-share reaches 3 percent of wages, Get Healthy participants will pay only 1.5 percent). Similarly, other public employers nationally provide varying forms of financial incentives to promote healthier behaviors – such as penalties and/or discounts to encourage employees not to smoke in state governments such as Kentucky and Indiana.

If the District and its unions move forward with increased premium cost-sharing, discounted contribution requirements for active participation in health management initiatives might be considered as a further strategy for reducing overall costs – while also improving employee health and reducing the fiscal impact for individual workers.

As of January 2008, the District workforce also included approximately 550 non-represented employees – primarily in executive and administrative functions. In concert with any changes bargained the District’s union employees, the District could also establish premium cost sharing requirements for these employees. If effective September 1, 2008 at a rate of 1.5 percent of salary, consistent with the Commonwealth of Pennsylvania requirement for state employees for FY2009, savings would be approximately \$790,000 in FY2008-2009, and would grow in future years if held consistent with scheduled increases in state employee cost-sharing.

**HEALTH BENEFITS SAVINGS
ASSUMED EMPLOYEE CONTRIBUTION CONSISTENT WITH COMMONWEALTH**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Savings	\$790,000	\$800,000	\$800,000	\$810,000	\$820,000

Note: This includes only employees not in bargaining units.

Medical Plan Design

In addition to low premium cost-sharing requirements, key features of the District’s plan designs also compare favorably to other benchmarks. The following tables compare the School District to the Commonwealth and general U.S. averages.

HMO PLAN DESIGN COMPARISON

	School District of Philadelphia	Commonwealth of PA State Employees	Overall U.S. Labor Market (2007)
Deductible	\$0	\$0	Single: \$401 Family \$759
Primary Care Physician Visit	\$10	\$15	\$18
Specialist Visit	\$15	\$25	\$23
Emergency Room Visit	\$35*	\$50**	N/R

* Emergency Room visit copayments are waived if the individual is admitted to the hospital

** Emergency Room visit copayments are waived if considered a medical emergency as defined by the HMO

PPO PLAN DESIGN COMPARISON

	School District of Philadelphia		Commonwealth of PA State Employees		Overall U.S. Labor Market (2007)	
	In-Network	Out-of-Network	In-Network	Out-of-Network	In-Network	Out-of-Network
Deductible	\$0	Single: \$500 Family \$1,000	\$0	\$400 per person; 30% of next \$5,000; 0% over \$5,000	Single: \$461 Family \$1040	
Primary Care Physician Visit	\$15	70% after deductible	\$15	70%	\$19	\$29
Specialist Visit	\$25	70% after deductible	\$25	70%	\$26	\$33
Emergency Room Visit	\$40*	\$40*	\$50**	\$50**	N/R	N/R

* Emergency Room visit copayments are waived if the individual is admitted to the hospital

** Emergency Room visit copayments are waived if considered a medical emergency as defined by the HMO

Along with premium cost sharing, plan design features – from co-payments to coinsurance to deductibles – should be reviewed on an ongoing basis toward reducing the pace of premium growth. In many instances, the District’s current plans could be further adjusted, while still maintaining strong and competitive coverage. Areas for potential review, include, but are not limited to, the following examples:

- Primary care physician, specialist, and emergency room co-pays are all relatively low in current District plans.

- In the District-run prescription drug plan covering SPAP, CASA, and non-represented employees, co-pays are lower than those for state employees – and well below national norms.
- The District prescription drug plan does also not include such common cost containment features as a requirement for mandatory use of generics where appropriate or a mandatory mail order provision for maintenance medications.
- In the District’s agreement with Locals 1201, the maximum age for dependents to remain covered is 23 years of age. For other groups, however, the maximum is 25 years of age. Setting dependent coverage at a consistent maximum of age 23 could reduce overall costs.

Currently, the multi-year plan assumes 5 percent medical cost growth for FY2008-2009 and 10 percent for subsequent years. If plan design adjustments were to successfully help reduce this rate, the cost avoidance savings would be significant.

Opt-Out Incentives

Following the lead of the private sector and many public and quasi-government entities, the School District could also achieve savings by offering all employees an incentive to opt-out of District coverage if the employee has access to another plan.

Currently, only Local 1201 members receive an economic incentive for opting out of District health plans. These employees may receive back 25 percent of the premium cost for opting out. Within Local 1201, 82 employees – approximately 2.8 percent of the unit, or 7.0 percent of individuals covered as couples or families through the School District – are enrolled in this program.

Savings associated with a broader opt-out incentive would depend on employee participation; the level of health coverage offered those participating employees and the size of the opt-out incentive. Nonetheless, assuming for calculation purposes an incentive set at 20 percent of the total premium cost for the District’s current HMO plan, the potential savings are significant. With seven percent (7.0 percent) employee participation across all represented employees, the District could save approximately \$6.89 million during the next fiscal year.

OPT-OUT SAVINGS PROJECTIONS (FY2008-2009)

Participation Rate	Count	Gross Savings	Opt Out Cost	Net Savings
3%	227	\$3,500,000	\$550,000	\$2,950,000
5%	378	\$5,840,000	\$920,000	\$4,920,000
7%	530	\$8,170,000	\$1,280,000	\$6,890,000
9%	681	\$10,510,000	\$1,650,000	\$8,860,000

Note: The above calculations are based on an employee health plan distributions from February 2008. Opt-out participation was calculated based on couple and family coverage only.

Supplemental Health and Welfare Benefits

In addition to medical insurance, the District provides other, supplemental benefits including dental, vision, and prescription coverage.

Such supplemental benefits are provided directly by the District to SPAP, CASA, and non-represented employees with no employee premium cost-sharing. In FY2007-2008, the School District will spend over \$4.2 million dollars for these SPAP, CASA, and non-represented employee benefits.

Listed below are the rates per employee for coverage, as funded by the District.

**FISCAL YEAR 2008 SCHOOL DISTRICT OF PHILADELPHIA
MONTHLY DENTAL, VISION & PRESCRIPTION INSURANCE PREMIUMS**

	Employee	Employee & Child	Employee & Children	Couple	Family
Dental	\$34.79			\$69.02	
Rx/Vision	\$107.08	\$214.99	\$214.99	\$214.99	\$214.99

Members of the PFT, Local 1201, and Local 634 are not covered under the School District supplemental benefit plans, instead receiving coverage from union supplemental Health and Welfare trusts into which the District contributes on a per member basis. These three bargaining units represent over 92.2 percent of the School District workforce.

**ANNUAL COST OF SCHOOL DISTRICT CONTRIBUTION
TO SUPPLEMENTAL HEALTH AND WELFARE TRUSTS**

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total*	\$48,629,879	\$47,673,351	\$50,023,080	\$62,782,568	\$74,141,034

*In fiscal year 2006/07 and 2007/2008 the PFT Health and Welfare Trust Fund received a onetime lump sum of \$12.5 million, included in the above chart. Of the totals shown for all years, approx. 75-80% was paid to the PFT, 20% to Local 1201, and 2% to Local 634.

During the term of the most recent union contracts, the School District has continuously increased the per employee contribution rates to the unions Health and Welfare funds.

**SCHOOL DISTRICT CONTRIBUTION TO
SUPPLEMENTAL HEALTH AND WELFARE TRUSTS
(Per employee annual contributions)**

Union	FY 2005	FY 2006	FY 2007	FY 2008
PFT	\$3,164	\$3,496	\$3,863	\$4,288
Local 1201	\$2,450	\$2,690	\$2,990	\$3,350
Local 634	\$1,600	\$1,700	\$1,800	\$1,950

**ANNUAL INCREASE IN SCHOOL DISTRICT CONTRIBUTION TO
SUPPLEMENTAL HEALTH AND WELFARE TRUSTS
(Per employee annual contributions)**

Union	FY 2006	FY 2007	FY 2008	Compound FY 06-08
PFT	10.5%	10.5%	11.0%	35.5%
Local 1201	9.8%	11.2%	12.0%	36.7%
Local 634	6.3%	5.9%	8.3%	21.9%

In contrast to the \$4,288 per member contribution to the PFT Fund, the District's FY2008 annual cost to provide prescription, vision and dental coverages in its own plan for CASA, SPAP, and non-represented employees was \$2,939 (blended rate) – \$1,349 less than paid per member to the PFT. If the more than 15,000 PFT members were provided benefits at even \$1,000 less than current rates, allowing for some incremental costs for administration and miscellaneous benefits that may also be offered by the PFT Fund, the difference between these two per member costs would yield \$15 million in annual savings.

As may be noted below, the high contribution rates for the PFT and Local 1201 enable the union Funds to offer much lower employee prescription drug co-payment structures than provided under the District-run plan for CASA, SPAP, and non-represented employees – and well below Commonwealth employee and national labor market benchmarks.

PRESCRIPTION COPAYMENT COMPARISON

	Generic	Preferred	Non-Preferred
School District of Philadelphia Plan (SPAP, CASA, non-represented)	\$10	\$15	\$25
Philadelphia Federation of Teachers ¹	\$6.75	\$9.50	
Local 1201 ¹	\$5	\$5	\$5 + additional cost above generic
Local 634 ¹	\$5 ²		
Commonwealth of PA State Employees	\$10	\$18	\$36
Overall U.S. Labor Market (2007)	\$11	\$25	\$43

¹ The PFT, Local 1201 and Local 634 have prescription drug coverage through the Health and Wealth Trust Funds to which the School District contributes annually.

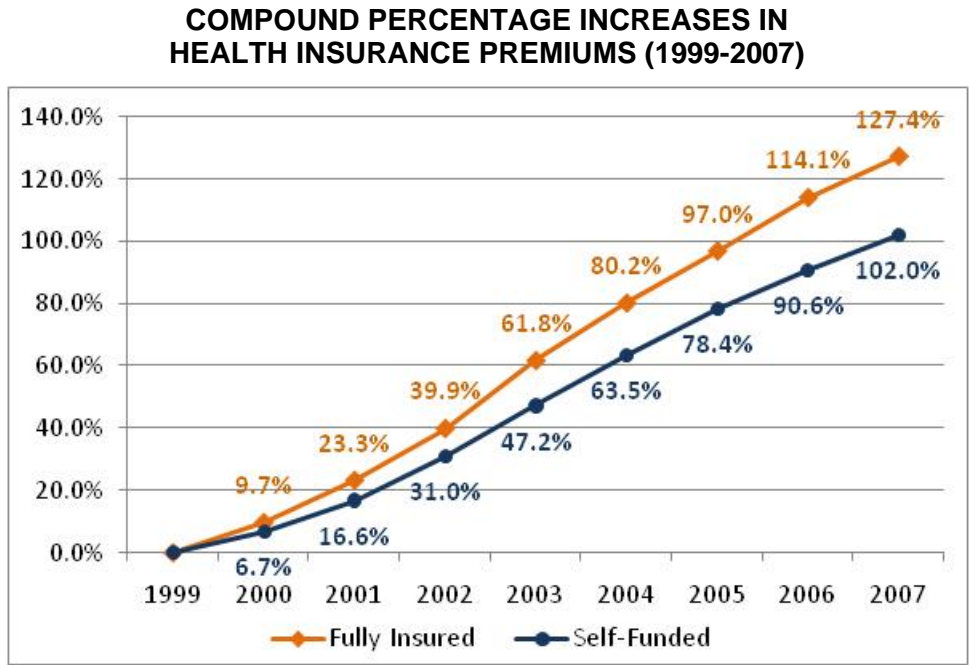
² The Local 634 has a maximum annual benefit, after which the employee is responsible for all costs. Cafeteria Workers: \$2,500 for family and \$1,500 for an individual. Noon-Time Aides - \$1,000 per year single or family and prescriptions are purchased through Express Scripts, Inc.

Based on the existing cost differentials for different District employee groups, as well as the generous level of benefits provided by the unions under their Funds, it appears that cost containment could be achieved while maintaining competitive coverage. To gain a better understanding of the potential for savings in this area, more detailed audit information should be developed and shared with District trustees regarding current and recent expenditures. In addition, opportunities should be explored for capturing administrative economies and harnessing increased purchasing power by consolidating these fragmented benefit programs.

Health Benefits Administration

The District is currently exploring the option of self-insuring for medical benefits, rather than purchasing fully insured coverage. Under this approach, common among large employers, certain risk premiums charged by insurers can be avoided.

According to the Kaiser Survey of Employer-Sponsored Health Benefits (2007), the average cost growth of self-funded health plans has generally been lower than for fully insured plans.



For a school system as large as the District, some benefits experts estimate potential savings of three percent (3%) or more of healthcare premium costs through self-funding – or approximately \$4.4 million dollars per year.

In addition, as of Spring 2008, the Pennsylvania General Assembly is considering legislation to advance the establishment of a single, statewide health benefits program for school employees – intended to capture the benefits of increased purchasing power and administrative efficiency. In current version of the legislation, Philadelphia is excluded. Going forward, however, the District should actively explore whether such an approach might also generate savings in Philadelphia. Concurrently, joint health benefits administration and purchasing strategies might also be pursued in conjunction with the City of Philadelphia and other regional public employers.

Finally, the District has successfully conducted periodic eligibility audits in recent years to reestablish proof of marriage status, proof of dependent age and status, and to ensure accuracy of mortality records. As a result of such efforts, multimillion dollar savings have been achieved by eliminating premium payments for ineligible (and even deceased) individuals. Building on these past successful efforts, the District will establish a more formal, annual audit process to ensure ongoing accuracy of payments.

In further support of this goal, the District will also pursue establishment of a chargeback mechanism for units, (schools, offices, divisions) that do not notify the Employee Benefits unit within two (2) weeks of any termination, retirement, or resignation. This process will help to reduce overpayment for employee health and legal benefits, while ensuring a more up-to-date list of the number of employees in the District.

Total Health Spending

In combination, District Operating Budget spending on employee health and welfare benefits will exceed \$215 million in FY2007-08 – at a cost of nearly \$9,700 per full-time employee.

TOTAL ANNUAL HEALTH SPENDING

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Medical Premiums Dental, Vision & Prescription	\$121,930,577	\$130,318,813	\$137,677,747	\$144,663,266	\$131,678,483	\$141,051,636
Health and Welfare Fund Contributions	\$46,089,118	\$48,629,879	\$47,673,551	\$50,023,080	\$62,782,568	\$74,141,034
Total Health Spending	\$168,019,695	\$178,948,693	\$185,351,297	\$194,686,346	\$194,461,051	\$215,192,669

TOTAL ANNUAL HEALTH SPENDING PER FULL TIME EMPLOYEE

Fiscal Year	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Medical Premiums Dental, Vision & Prescription	\$4,579	\$5,041	\$5,497	\$6,002	\$5,733	\$6,353
Health and Welfare Fund Contributions	\$1,731	\$1,881	\$1,903	\$2,076	\$2,733	\$3,340
Total Health Spending	\$6,310	\$6,922	\$7,400	\$8,078	\$8,466	\$9,693

As shown in the following chart, currently the anticipated growth rate for health benefits is five percent in FY2009 and ten percent each year thereafter. Controlling the costs of these benefits would yield significant savings to the School District.

HEALTH BENEFIT COST INCREASE SCENARIOS
(Includes Medical, Dental, Vision, Prescription, and Contributions to Union Funds)

Fiscal Year	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Baseline 5% Growth in FY2009 and 10% growth each year thereafter	\$216,071,980	\$235,416,232	\$256,592,194	\$280,736,684	\$307,720,912
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Savings with 2.5% Annual Growth	\$17,000,000	\$34,200,000	\$54,000,000	\$76,200,000	\$100,800,000
Savings with 5% Annual Growth	\$11,300,000	\$23,100,000	\$36,900,000	\$52,600,000	\$70,400,000
Savings with 7.5% Annual Growth	\$5,600,000	\$11,700,000	\$18,900,000	\$27,200,000	\$36,800,000

Pension

School District of Philadelphia employees are eligible to earn a traditional defined benefit pension provided through the Pennsylvania Public School Employees' Retirement System (PSERS).

Pension eligibility is based on a combination of age and years of service. For a normal, unreduced benefit, criteria include: attaining: at least one full year credited service, and 62 years of age; 30 or more full years credited service, and 60 years of age; or 35 years of credited service, regardless of age. The pension benefit formula is based on Final Average Salary (highest three year average career salary) and years of credited service.

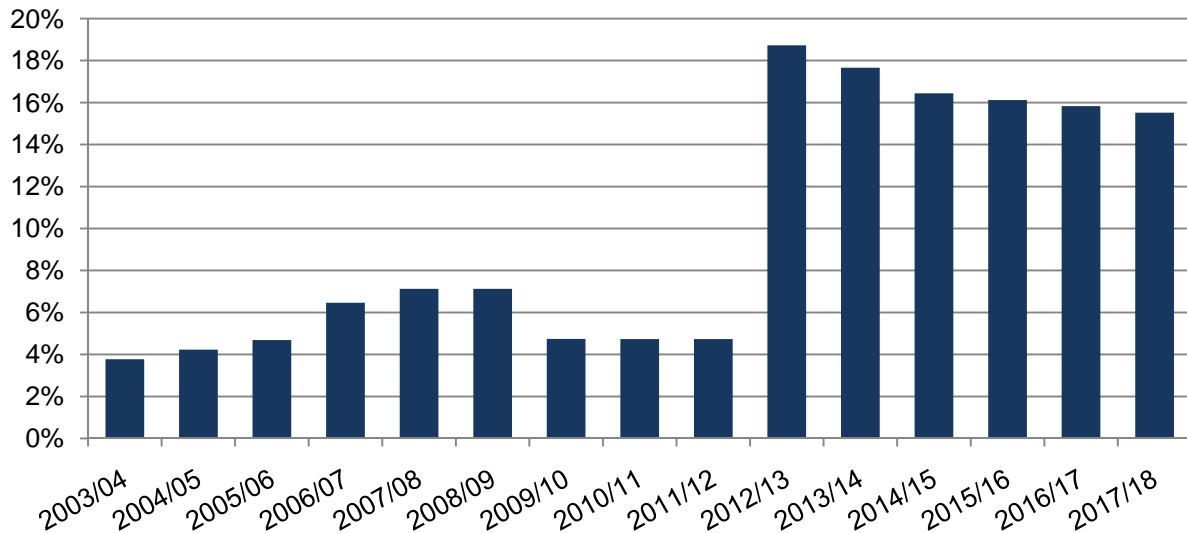
$$\begin{aligned} \text{Yearly Benefit} &= 2.5\% \times \text{Final Average Salary} \times \text{Years of Credited School Service} \\ \text{(Maximum Single Life Annuity)} &+ 2.5\% \times \text{Final Average Salary} \times \text{Years of Credited Non-School Service} \end{aligned}$$

For example, if an individual were to retire today at age 60 with 30 years of credited school service, the retiree would receive an annual benefit of 75 percent of the average of the highest 3 years salary. Reduced benefits are also available for those who are over 55 with at least 25 years of service.

PSERS retirees are also eligible for premium assistance for post-retirement health benefits. Through PSERS Health Options Program (HOP), retirees may select from among fee-for-service, HMO, POS, and PPO health insurance policy options. Toward such coverage, eligible retirees are provided with premium assistance up to \$100/ month as a non-taxed reimbursement. While employer-sponsored retiree medical coverage is increasingly rare in the general labor market, it may be noted that many governments (including the Commonwealth of Pennsylvania) provide more extensive post-employment coverage.

Participation in PSERS requires a 5.25 to 7.5 percent employee contribution, with the District contributing a further amount as a percentage of covered payroll determined by PSERS based on actuarial calculations and/or statute. As shown in the following chart, ***total employer pension contributions are currently slated to increase dramatically in FY2012-13 after certain statutory limits expire.***

**PUBLISHED ANNUAL PSERS CONTRIBUTION RATE
(Percent of Gross Salary)**



FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Actual	Actual	Actual	Actual	Actual	Actual	Actual	Projected
1.09%	1.15%	3.77%	4.23%	4.69%	6.46%	7.13%	7.13%

FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
4.74%	4.73%	4.73%	18.73%	17.66%	16.44%	16.12%	15.83%	15.52%

Based on PSERS projected contribution rates, it is anticipated that pension costs will generate significant financial strain for the School District early in the next decade. Currently, State legislative action is under consideration to attempt to reduce the size of this upcoming “cliff.” While likely beneficial in the long-run, it is possible that such measures could result in higher contribution requirements for the District in the near-term. Reflective of current expectations regarding potential near-term State legislative action, the assumption in this Plan’s projections is that the current rate remains at 7.13 percent through fiscal year 2012.

In addition, all published rates for future years are subject to change, and may vary based on actuarial factors including investment performance.

It is of note that the District receives a portion of the PSERS contribution, as well as Social Security and Medicare, back from Pennsylvania. This amount was approximately 54.3 percent combined, which is the projected reimbursement. Further discussion of Commonwealth reimbursement can be found in the Appendix.

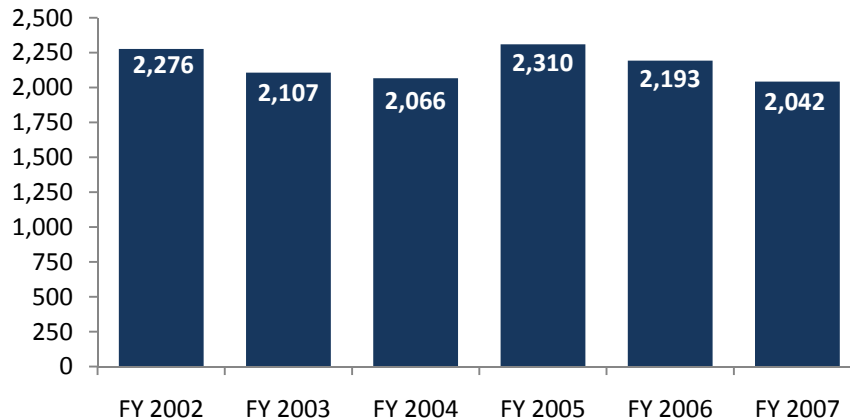
Workers’ Compensation

In recent years, total District Workers’ Compensation expenditures have been approximately \$20 million per year. The District’s Workers’ Compensation programs are administered by the Risk

Management Division, with claims management provided by a third-party vendor and legal services provided by outside counsel.

Over the previous six years the number of claims submitted for workers' compensation has remained steady, averaging over 2,100 claims per year.

COUNT OF WORKERS' COMPENSATION CLAIMS



Of the claims submitted during the past five fiscal years (FY 2003 through FY 2007), 18.0 percent of these claims have resulted in no additional cost to the School District. The average costs were approximately \$8,500 per claim.

The School District pays employees injured on duty a supplement in excess of statutory Workers' Compensation requirements. These state regulations mandate payments set at 2/3 of wages up to a state cap – now \$807 per week, or \$41,964 per year. In contrast, however, the School District pays an additional wage replacement supplement (this supplemental income is taxable.) For SPAP, CASA, Local 1201, and Local 634, the School District is contractually obliged to pay the difference between 75 percent of an individual's salary and the \$807 per week. For the PFT, the District replaces up to 66 2/3 percent of pre-injury salaries. However, this supplemental income benefit is taxable. In addition, employees experiencing work-related injuries due to assault are compensated at 100% of gross earnings.

Further, the School District provides individuals with one year of workers' compensation leave with full benefits coverage. During this year, leave continues to accrue, and the benefits (i.e., health, prescription, and dental) that the employee had before injury continue to be provided, including family benefits coverage. After the one year period these extra benefits end, except for those medical bills associated with the original workers' compensation injury.

In sum, the District currently provides a wage replacement supplement to employees injured on duty at a cost above that required by workers' compensation statute, but does not receive any additional cooperation in return. In contrast, while the City of Philadelphia also provides municipal employees with an injured-on-duty benefit in excess of statutory requirements, the City workers who receive these extra benefits are required to receive treatment for their work-related injuries within a specialized, managed care network for the first 90 days. After the initial

90 days of workers' compensation, employees are no longer required to receive service within the managed care network. Not only does this network provide a quality level of care with a focus on return-to-work, but the arrangement also enables the City to negotiate group, in-network discounts. Going forward, the District could seek to negotiate a similar incentive structure – or could consider elimination of supplemental benefits above statutory requirements.

At the same time, the District will also work to continue strengthening the management of its injured-on-duty programs. Until early 2008, the position of Risk Manager for the District has been vacant for an extended period. Now filled by a qualified professional, it will be important to support a series of administrative reforms to rebuild an effective structure for managing a budget of approximately \$22.0 million in workers' compensation in the next fiscal year. Needed improvements include, but are not limited to, the following:

- Improved reporting on the frequency, location, type, severity, and cause of employee injuries. Currently, much such data is believed to be collected and stored by the District's third party administrator, however, routine reports are not provided to Risk Management.
- Based on improved reporting, better safety training and injury prevention initiatives should be developed and implemented.
- Restructure the District's Temporary/Alternate work Program (TAP) for return to work of injured employees, including staffing increases using part-time and/or dual functions employees. The staff for this function would be responsible for maintaining a list of jobs that individuals would be able to perform to help injured employees get back to work, and with matching individuals to jobs based on their restrictions and capabilities.
- Enhance review and screening for claims, with a particular focus on injuries claimed to be based on assault, given the higher rate of wage replacement under such claims.
- Formalize criteria for assignment of Workers' Compensation cases to outside counsel. Currently, workers' compensation cases are allocated to advocates on a rotational basis. While this procedure helps to manage the District's overall caseload volume, no incentives are provided for stronger performance and results. Going forward, criteria should be developed for case assignment, potentially including factors such as total cost, cost of settlements, and time required to close/settle cases.

As a further strategy for improving risk management programs, the District will also explore opportunities for increased coordination and/or joint programming with the City. In many instances, overall costs may be reduced and quality of training and prevention efforts enhanced via greater coordination. An overall framework for exploring such opportunities is outlined in the City Partnership section of this Plan.

Miscellaneous Benefits

In addition to the major wage and benefit categories outlined above, School District employees also receive various other forms of compensation, including:

- Pre-paid legal services, provided to approximately 94.1 percent of employees covered by union run Legal Funds. Each year, the District spends over \$2.1 million on per member contributions to the PFT, Local 634, Local 1201 and SPAP for legal benefits (e.g., assistance with estates, family law, and real estate):

**SCHOOL DISTRICT CONTRIBUTION TO
SUPPLEMENTAL LEGAL TRUST
(Per Employee Annual Contribution)**

Union	FY2005	FY2006	FY 2007	FY 2008
PFT	\$135	\$145	\$145	\$145
SPAP	\$100	\$105	\$110	\$120
Local 1201	\$125	\$105	\$110	\$120
Local 634	\$0.07 per actual hour worked			

- The District provides life insurance benefits and/or subsidies to employees at a cost of approximately \$1 million dollars a year.
- Both CASA and the PFT have been provided annual payments for Professional Growth Funds administered by the unions. In FY2008, the District paid \$1,000 per CASA member (approximately \$792,000) plus an additional \$400,000 to the PFT.

Workforce Size

Overall, the District headcount has been steadily reduced by a compounded total of 20.95 percent over the course of this decade.

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Full-Time Employees	28,085	27,996	27,682	26,626	25,852	25,047	24,101	22,970	22,201

* Headcount from School District Comprehensive Annual Financial Reports FY 2007, and SDP Payroll Department

Various factors have contributed to the reduction in School District employees. Most significantly, declining enrollment due to the growth of charter schools and broader demographic trends has reduced the demand for instructional staff – even as new initiatives have been launched to decrease class size and expand educational opportunity. In addition, the District has cut non-essential administrative staff, and has pursued productivity gains within support functions.

Over the next several years, further enrollment declines are projected that will continue to reduce staffing needs, even assuming no net additional Charter school approvals.

PROJECTED CHANGE IN STUDENT ENROLLMENT FOR THE SCHOOL DISTRICT

2008/09	2009/10	2010/09	2011/12	2012/13
(2.51%)	(2.34%)	(2.18%)	(2.01%)	(1.63%)

Based on such current projections, the District will lose approximately 7,400 students over just the next two school years. As the number of students decreases, opportunities will arise to restructure and consolidate programs and facilities to reduce the overall size of the workforce.

Already, these enrollment projections have been used to forecast future teacher staffing needs, and declining teacher headcount is assumed throughout the baseline fiscal projections within this multiyear plan, prior to any “adding back” for class size reduction or other educational goals..

PROJECTED DECREASE IN FULL-TIME TEACHERS

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Five-Year Total
Projected Decrease in Full-Time Teachers	(151)	(141)	(134)	(78)	(58)	(562)

Many other positions, however, are more difficult to correlate with enrollment. For example, having a somewhat smaller number of students in a particular school will not immediately reduce facility maintenance staffing needs, so long as the building itself remains fully open on a comparable scale. Nonetheless, over time, some reductions should be possible – and the District should establish a more structured approach to identify such opportunities.

To ensure effective position control, a senior staff committee will review all requests to fill vacant positions as they arise, seeking to capture opportunities for streamlining as they arise through attrition. While such a process will create some undesirable delays in hiring, such negative impacts are outweighed by the District’s current fiscal challenges.

At the same time, many external reviewers have expressed concern regarding the high number of central administrative staff within the District. While a series of staffing cuts have significantly reduced this number, many of these reductions were executed under the pressure of budgetary crisis without the benefit of organizational review.

To better evaluate such positions, the District will engage a comprehensive review of central and regional administrative staffing, focusing on issues including, but not limited to, the following:

- Potential consolidation of related departments or divisions;
- Realignment of functions across and/or within similar departments to minimize overlap and redundancy;
- Consolidation of “back office” and support functions such as finance/purchasing, human resources, information technology, fleet management; and office management;
- “Delaying” of management and supervisory ranks;

- Opportunities for expanded span of control;
- Potential for automation and/or work process redesign, based on a high-level comparison to national best practices;
- Other opportunities for improved efficiency and economy, based on a high-level comparison to national best practices; and,
- Opportunities for joint services and/or administration with other regional governments (e.g., City of Philadelphia).

This review will be conducted after permanent executive leadership for the District takes office, and will be completed in advance of FY2009-10 budget development.

***IX. Charter Schools and a
Strong Diverse Provider Model***





CHARTER SCHOOLS AND A STRONG DIVERSE PROVIDER MODEL

The School Reform Commission (SRC) remains committed to expanding educational options for Philadelphia parents. Over the past five years, academic choices have been expanded to include:

- Restructured District schools, and new, small high schools operated by the District;
- 38 District schools operated by six private Educational Management Organizations (EMOs), including universities, for-profit, and nonprofit organizations; and,
- 61 charter schools offering a broad range of approaches and programs, with two more approved for FY2008-09, educating more Pennsylvania children than charters across all other districts in the state combined.

Looking forward, the SRC will continue to apply any tool available where most effective for improving student achievement. For example, to address Corrective Action II schools struggling to meet the adequate yearly progress targets of the No Child Left Behind Act, the SRC will consider radical approaches from current partners with proven successful reform models. Whether such initiatives might include closing or “charterizing” some District schools, the Commission will work aggressively to address academic stagnation and retrogression.

At the same time, the SRC will also continue to hold all of its educational partners accountable for performance, carefully reviewing progress and effectiveness. Such evaluations will be driven first and foremost by a focus on student achievement, and will also encompass financial factors important for ensuring that dollars invested in education yield a strong return.

The first of these efforts will be implemented for the FY2008-09 school year when 6 of the schools operated by private providers will be returned to District operation. Those six schools - Gillespie, Harrity, Potter-Thomas, Stetson, Dunbar and Fitzsimons – have not met District or state standards and were deemed the most in need of direct intervention. In the new school year these schools will have additional supports including case teacher coaches, professional development, and social services to impact achievement. Additionally, 20 of the 38 schools were awarded probationary contracts of one year while the remainder are given full three- year renewals. In each case, the District’s goal is to ensure that the best educational opportunities are available to all students, and those providers that are not successful will be held accountable.

Accordingly, the focus for this chapter of the District’s Five-Year Financial Plan is the financial impact of Philadelphia’s commitment to the charter school movement, and strategies for improving accountability and the affordability of continuing such support.

Charter Schools

Charter schools became a reality in Pennsylvania in June 1997 when Act 22 was passed by the legislature and signed by Governor Tom Ridge. Charter schools are established as public nonprofit, nonsectarian entities by teachers, parents, institutions of higher education or museums.

As established under Act 22, Pennsylvania’s charter school system is intended to:

- *Improve pupil learning;*
- *Increase learning opportunities for all pupils;*
- *Encourage the use of different and innovative teaching methods;*
- *Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site;*
- *Provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system; and*
- *Hold the schools established under this act accountable for meeting measurable academic standards and provide the school with a method to establish accountability systems.*

Pennsylvanians quickly adopted the charter school alternative as a vehicle for educational delivery, and Philadelphians became early leaders in the charter school movement when four charters with a combined allowable enrollment of 870 students were granted in the FY1997-98 school year. Since then, the number has grown progressively to a total of 61 Philadelphia charters with total enrollment of nearly 32,000 students, with two additional new charters are authorized for FY2008-09. Further, there are currently over 2,300 city students attending either cyber charter schools or charters located outside the borders of Philadelphia – bringing total District charter school enrollment to nearly 32,000 students.

The following table shows the growth in the number of charter schools and the charter school enrollment of the School District of Philadelphia over just the past six years.

HISTORICAL CHARTER SCHOOL TRENDS IN PHILADELPHIA

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Actual	Actual	Actual	Actual	Projected	Projected
Number of Charters	38	45	47	52	55	56	61
Enrollment	14,711	18,955	21,981	25,613	27,954	29,245	31,918
Enrollment Change:							
Students	3,016	4,244	3,026	3,632	2,341	1,291	2,673
Annual Increase	25.8%	28.8%	16.0%	16.5%	9.1%	4.6%	9.1%
Cumulative Increase (from FY2001-02)	-	49.4%	69.9%	94.6%	110.5%	119.3%	137.5%

By virtually every measure, the School District of Philadelphia continues to lead the state in terms of commitment to the charter school movement:

- Of the 117 charter schools operating in the Commonwealth in 2005-06, 47 percent or 55 were located within the city;
- Out of nearly 50,000 Pennsylvania students enrolled in charter schools, 28,000 or 56 percent were Philadelphians;
- As noted above, Philadelphia’s charter community today has continued to grow, with 61 schools now educating nearly 32,000 students, and two more new charters approved for

FY2008-09. If Philadelphia’s charters were an independent school district, they would be the second largest in Pennsylvania – with a slightly higher enrollment than Pittsburgh.

The designers of Pennsylvania’s charter school legislation mandated funding for charters through local school districts. As a result, from nonexistence less than a decade ago, charter school payments have rapidly grown to become one of the most significant investments in the District budget. Since FY2000-01 alone, payments to charter schools have more than tripled, increasing from \$71.4 million to \$275.7 million.

The following table illustrates the actual annual historical growth of total district expenditures and charter school payments.

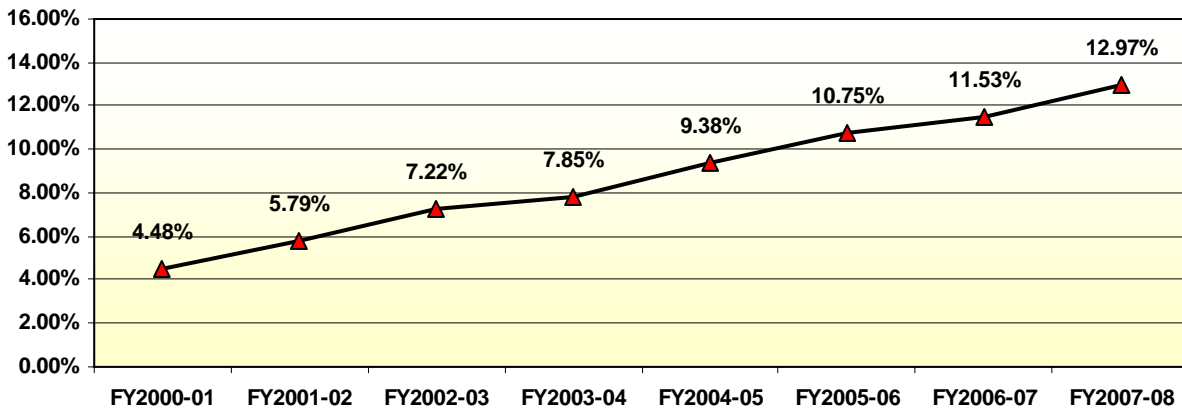
**HISTORICAL INCREASES IN OVERALL DISTRICT EXPENDITURES
AND CHARTER SCHOOL PAYMENTS (\$ Millions)**

	Total Expenditures	Increase	%	Charter Payments	Increase	%
FY2000-01	\$1,594.2			\$71.4		
FY2001-02	\$1,646.9	\$52.7	3.3%	\$95.3	\$23.9	33.5%
FY2002-03	\$1,745.6	\$98.7	6.0%	\$126.1	\$30.7	32.2%
FY2003-04	\$1,947.5	\$201.9	11.6%	\$152.9	\$27.4	21.7%
FY2004-05	\$1,956.9	\$9.3	0.5%	\$183.6	\$30.7	20.0%
FY2005-06	\$2,051.8	\$94.9	5.4%	\$220.7	\$36.0	19.5%
FY2006-07	\$2,081.8	\$30.0	1.5%	\$240.1	\$19.4	8.8%
FY2007-08*	\$2,125.1	\$43.3	2.1%	\$275.7	\$35.6	14.8%

*FY2008 expenditures are estimated

In the relatively brief history of charter schools, the School District of Philadelphia has made more than \$1.4 billion in gross charter school payments. The following graph indicates the growth in charter school costs as a percentage of total District expenditures.

CHARTER SCHOOL PAYMENTS AS % OF TOTAL DISTRICT EXPENDITURES



Going forward, the School District of Philadelphia faces a number of challenges affecting its efforts to maintain fiscal balance while continuing to support school choice:

- While the District receives partial reimbursement from the Commonwealth for charter school payments, this amount (currently 32.45 percent) is not sufficient to have charter enrollments be “cost neutral” to the District. While some savings are achieved from enrollment declines in traditional schools as charter enrollments grow, many of the District’s costs are fixed and cannot be cut proportionately. If a charter school classroom is filled by students drawn one or two at a time from multiple traditional classrooms across the City, for example, the District may not be able to reduce any teaching or facility costs at all. Further, some students enrolled in charters and subsidized from the District’s budget may never have enrolled in traditional schools previously, but may have chosen private, parochial, or home schooling options had charters not been available.
- Additionally, some costs for the District actually increase as charter school enrollment rises. For example, the District must now transport students across the city to attend non-local charters who might otherwise have walked to a neighborhood school.
- As further detailed later in this chapter, funding rates for special education students in charter schools are also relatively high – since the formula for such students does not take into account the relative severity of need.
- The charter tuition rate is based on prior year District per pupil funding, a number that has been increasing yearly. This trend has been exacerbated by the declining enrollment in District schools as compared to increasing enrollments at the charter schools, which tends to drive up per pupil costs in traditional schools as fixed costs are spread across a smaller base. The year over year growth rate for 2008-09 has been estimated to be 6.5 percent. As a result, even without growth in the number of students in Philadelphia’s charter schools, the District’s FY2008-09 cost rise to \$295.4 million.
- Current charter school enrollment, however, is likely to continue to grow. If all current charter schools increased enrollments to the maximum authorized, approximately 5,000 students would be added to the nearly 32,000 currently enrolled. Further, if the FY2008 charter school average proportion of regular education students (88.2 percent) to special education students (11.8 percent) remained the same, the District’s increased liability would be \$43.8 million, or a nearly 16 percent increase in the current budget.

When allocating limited resources, prioritization plays a major role in each and every management decision. The challenge for Philadelphia is to provide a variety of educational opportunities and choices for students – including successful charter schools — while achieving established performance standards within a structurally balanced financial plan.

In professional sports, the concept used for budgetary management is that of the “salary cap.” Under this construct, teams must make decisions about how much to pay individual players within the limitation of an overall budget cap for all of the players they employ. In turn, this “cap” drives decision-making about where to target a team’s limited resources and when to release a player (who may still be contributing positively, but not at a level commensurate with costs relative to other options). It helps teams prioritize resources within a set funding limit.

While unquestionably difficult at times, the reality of similar funding constraints across school programs can also generate healthy competition among educational options, including charter schools. New proposals and new applications for charters should and do get the opportunity to

be heard and/or tried. In conjunction with an effective system for evaluation of programs and schools to assure their performance matches expectations, programs found to be delivering results can receive continued investment while those that are not might be restructured or discontinued. Each year six to 13 charters are up for renewal, allowing for the continued support of the best performing and change or closure among those which do not meet established criteria.

The School District of Philadelphia is not alone in having to face difficult fiscal realities. In Nevada, the State Board of Education is looking to respond to the Clark County School Board vote in October 2007 to curtail its sponsorship of new charter schools and shift the cost to the State. In the prior year, the Washoe County School Board, the state’s second largest district, issued a moratorium on new charters.

Accountability

The new Charter School Policy approved in December 2007 includes Section VI, Procedures for Renewal, Non-Renewal and Revocation. It requires a comprehensive review of each charter under consideration for renewal.

As of 2007, nearly 13 percent of charter schools were in need of “Corrective Action” pursuant to the federal Adequate Yearly Progress (AYP) requirements. Seven others were in “Need of Improvement” and six had received a “Warning.” Sixteen charter schools are up for renewal in 2008-09, and ten more after the 2008 AYP reports are complete. The following table was presented to the SRC to aid in adoption of a revised charter school policy and charter approval/renewal/application decision making in 2007-08 by the SDP Office of Accountability Assessment and Intervention. (Requirements for AYP, and related intervention requirements are listed on the following pages.)

ACADEMIC ACHIEVEMENT OF PHILADELPHIA CHARTER SCHOOLS

	2003	2004	2005	2006	2007
Total # of Charters	38	43	46	53	55
Made AYP	4	15	15	26	30
% Making AYP	10.50%	51.20%	45.70%	67.90%	63.60%
Making Progress	0	7	6	10	5
Warning	14	5	10	6	6
School Improvement	20	16	11	6	7
Corrective Action	0	0	4	5	7
% in Corrective Action	0.00%	0.00%	8.70%	9.40%	12.70%

*Adequate Yearly Progress

Many Philadelphia charter schools are making a strong contribution to the City’s educational system, providing unique and successful learning strategies for many students at all grade levels. However, not all charter (or traditional) schools have led to the high level of student achievement sought by the Commission in investing in these schools of choice.

Twenty-six charter schools are due for renewal in the next two years. While some have made AYP, others have been given warnings, are in one of the two “School Improvement” (needed)

categories, and a few require corrective action. In April 2008, two of these schools did not have their charters renewed, and the public hearing process to close these two schools is underway. It is expected that any savings gained from the non-renewal of these and any future charters will be redirected towards proven efforts to improve achievement including, potentially, new or expanded charter schools.

Charter Special Education Funding

Special education plays a major role in rising charter school costs. Among other factors, the percentage of special education students is greater in the charter schools, as self-reported, than in the general public school student population. Of the total population of students in charters, 11.6 percent are identified as special education students – almost a full percentage point greater than that of the District’s general student population.

The special education tuition rate is based on the per pupil special education costs in the operating funds budget of the District, one of the faster growing budget segments. The tuition rate paid to charter schools for identified special education students is more than twice that for non-special education students and is increasing at more than 1.5 times the rate of regular education.

Further, the percentage of special education students to non-special education students in the charters has generally been trending upward – 2.8 percentage points from 2002-03 to 2007-08. The difference equates to 827 additional special education charter students in the current year or an added cost of \$8.0 million at current rates. The following chart illustrates the percentage of special education students to charter school student enrollment for the past five years.

SPECIAL EDUCATION AS A PERCENTAGE OF CHARTER ENROLLMENT*

Year	Total Enrollment	Special Education Enrollment	% of Total
FY2002-03	18,422	1,628	8.8%
FY2003-04	21,251	2,190	10.3%
FY2004-05	24,308	2,624	10.8%
FY2005-06	26,486	3,192	12.1%
FY2006-07	27,645	3,228	11.8%
FY2007-08	29,502	3,424	11.6%

*In-district charter schools only; special education as a percentage of traditional district schools is 10.8 percent.

Additionally, the funding formula for charter school special education students provides substantially greater funding than services required for many of these students because the formula makes no distinction among low-incidence and high-incidence special need students – even though various special services have very different costs. For example, in 2006-07, the per student amount to educate a visually impaired child was estimated to be \$20,828 a year, while the cost of providing speech and language program support is estimated at \$6,652. However, in FY 2008, payment for all children in need of special education services was the blended rate of \$16,760. Currently, the Commonwealth of Pennsylvania conducts a limited number of audits of charter schools each year. In addition, the District audits charters scheduled for renewal. In

particular, the District reviews enrollment data to see if the student numbers match enrollments and check to see that there is an appropriate Individualized Education Program (IEP) for every special education student.

Currently, 29 of the 61 charter schools operating in FY2007-08 have a greater percentage of special education students than the general student population. Compounding these issues, existing systems to monitor and audit the identification of special education students in charter schools are insufficient. This is a significant cost issue for the District, as, in the aggregate, students qualifying for Special Education funding continue to be reported as a higher percentage of all students in charter schools compared to the traditional District schools. The following table lists charter schools with the highest percentage of special education enrollment.

CHARTER SCHOOLS WITH A HIGHER PERCENTAGE OF SPECIAL EDUCATION ENROLLMENT THAN GENERAL SCHOOL POPULATION

Rank	Charter School	Special Ed % of Enrollment	# Spec Ed Students
1	Philadelphia Academy	29.54%	332
2	Northwood	22.57%	153
3	People for People	20.56%	111
4	Belmont Elementary	20.51%	73
5	Montessori	19.39%	32
6	Nueva Esperanza	18.29%	128
7	Franklin Towne	18.27%	169
8	Mastery at Pickett	18.10%	42
9	Wissahickon	17.25%	69
10	Imhotep	16.51%	86
11	First Philadelphia- Literacy	16.29%	114
12	Mastery	15.42%	62
13	DeHostos BiLingual	15.00%	30
14	Mariana Bracetti Academy	14.84%	161
15	Greenwoods	14.81%	28
16	KIPP	14.73%	47
17	Mastery at Shoemaker	11.29%	35
18	Phila. Electrical & Technology	14.50%	87
19	Delaware Valley	13.67%	82
20	Young Scholars	13.64%	27
21	Mastery at Thomas	13.58%	55
22	Discovery	12.94%	62
23	New Foundations	12.52%	64
24	Germantown Settlement	12.10%	49
25	MultiCultural Academy	12.08%	18
26	Renaissance	11.93%	26
27	Hope Charter	11.70%	51
28	Independence	11.06%	75
29	Community Academy	11.00%	132
TOTAL			2,400
All Charter Schools		11.61%	
SDP Traditional Schools		10.80%	

Initiatives

The District will pursue multiple strategies to better target resources, enforce accountability, and create increased opportunity for new and innovative charters to be funded. Such initiatives include:

- **Expand the number of Charter Schools within the District pending available resources.** In May 2008 the SRC provided conditional approval of 7 new charter school applicants for opening the FY2009-10 school year. These approvals were awarded based on the condition that the schools will only open if District resources are sufficient to support these new charter schools and their students. The seven schools conditionally approved for opening are anticipated to enroll approximately 1,758 students for an estimated total cost of \$14.5 million in FY2009-10 growing to \$37.9 million (gross costs not including reduction in State reimbursement or potential offsetting annual savings of approximately \$2.0 to \$7.6 million over four years). Further, given that past experience has shown that charter schools typically draw approximately. However, it should be noted that the nature of this conditional approval means that changes in the number of students enrolled and the number of charter schools opened in a given year are estimated and may change.
- **Continue and strengthen District audits of charter schools finances and performance.** Given the many challenges of tracking nearly 32,000 students, and the significant impact associated with the different funding formulas for regular and special education students, regular audits are important. Strengthening this function will include ongoing cost/benefit analysis of increasing the District charter auditing program beyond the current staff of three.
- **State legislative agenda to make charter schools closer to cost-neutral for the District.** As further detailed in the “State Investment and Legislative Agenda” section of this Plan, Philadelphia supports a series of legislative changes to support continued and expanded charter school growth, without eroding resources available for traditional public schools. These initiatives include:
 - Increasing the Commonwealth’s charter school payment reimbursement formula to ensure that charters are not a net drain on overall school district resources, and to encourage broader support for the charter movement among school boards statewide. An increase from 32.45 percent to 40 percent would generate over \$20 million in additional resources for Philadelphia schools in FY2008-09.
 - Developing a statewide funding rate for cyber charters that reflects the actual cost to run such schools effectively. The current payment structure is based entirely on the needs of “bricks-and mortar” charters, and did not contemplate the growth of cyber schools. Such funding restructuring would likely achieve multimillion dollar savings.
 - Establishing a statewide funding approach for special education students in charter schools that recognizes variability in severity. Such a tiered approach will better target public dollars, and ensure more adequate resources for special education students with the greatest needs. Such restructuring would also likely achieve significant savings.

- Providing State subsidies for charter student transportation at the same rates already in place for nonpublic student transportation. Because charters often draw students from broader geographic areas than traditional neighborhood schools, the growth in charter school enrollment has significantly increased demands and costs for student transportation. Statewide transportation funding approaches should be adjusted to reflect this impact. If the District were reimbursed for providing transportation to charter school students at the same \$385 rate as non-public school students, it would receive an estimated additional \$8.4 million in FY2008-09.
- **Evaluation of alternative policies for reporting projected enrollment numbers to improve budget accuracy.** When actual charter enrollments exceed estimates, the current payment methodology can result in late notification to the District and inadequate information for annual budgeting purposes. In New York State, New York City must be given notice of projected enrollment by charter schools by July in order to begin payments in August. No payment can be made until such estimation is received. Moreover, charter schools are required to update enrollment data regularly and submit that information with its bill to the District, to trigger payment six times a year. This methodology ensures that more accurate enrollment numbers are continuously available. While a first notice in July would not permit completely accurate budgeting, such ongoing reporting should enable better estimates and greater opportunity for mid-course corrections as needed. Advancing this concept fully may require State legislative action.
- **Ensure appropriate designation of special education students at charter schools by involving District professionals.** In New York State, home districts also have the responsibility for identifying the special education needs of students in charter schools and developing their IEPs. Under this approach, if a charter is not able to provide services to fit a student’s needs, the District will provide the special education needs at its expense, paying the charter school only the regular education rate. As a result, districts better ensure both accurate identification and appropriate service provision. Advancing this concept fully may also require State legislative action.
- **Encouraging philanthropic support for charters.** In California, billionaire philanthropist Eli Broad has already brought 17 new high-achieving charter high schools to Los Angeles. The Los Angeles Times recently (January 18, 2008) reported he added \$23.3 million more to the charter school cause, bringing his total investment in charters to approximately \$60 million. With Broad’s contribution, the Los Angeles Unified School District will soon have nearly 150 charter schools. As part of improved overall school funding development efforts, the District will seek opportunities to support coordinate the solicitation of such donations. Some school districts have established funds for particular purposes (such as sports equipment and facility improvements and music programs) and actively developed relationships with a wide range of corporate and private citizens to support such endeavors.
- **Control incremental growth in the overall District operating budget.** Under the current Pennsylvania charter funding formula, the per-pupil payment to charter schools is based on the calculated per pupil costs incurred by the District for its own students in the prior year.

Accordingly, current Five-Year Plan baseline projected per-pupil charter payments are based on historical District expenditure trends. This Plan, however, proposes several measures that will effectively reduce the District's expenditure growth, which will also impact the cost of funding charter schools. If the District can successfully reduce its annual expenditure growth from a projected 4.7 percent for regular education and 8.2 percent for special education per year by 1.0 percent each, the District will save as much as \$3.0 million per year.

In sum, since inception just over a decade ago, charter schools have become an integral component of the District's diverse provider model. The SRC has approved an additional 23 charters beyond the 38 already in existence in 2002, so that there are now 61 charter schools educating nearly 32,000 Philadelphia students with two more new charters slated to open this year. The District remains committed to continuing to build on the successes of the charter school movement through such increased investment and support.

At the same time, the District must continue to take stock of all of its schools – whether partnership, restructured, charter, or traditional – to ensure that each is best serving its students. When and where necessary, resources must be redirected to more promising providers if student achievement and/or fiscal responsibility lag. To help all Philadelphia students achieve, accountability must be ensured system-wide so that the District's valuable and limited resources are consistently put to best use.

X. Debt Service and the Capital Plan





DEBT SERVICE AND THE CAPITAL PLAN

In FY2003-04, the School Reform Commission (SRC) authorized funding of \$1.5 billion for an expanded Capital Improvement Plan (CIP) to modernize school facilities, create small high schools, and expand K-8 schools. This dramatic new investment will fund just over half of the District's \$2.7 billion in total capital project needs as identified in the Adopted FY2008-13 CIP.

To date, over \$1.2 billion in new borrowing has already occurred, with the issuance of the remaining \$270 million to reach \$1.5 billion planned for later this year. This action has had a significant and long-term impact on the District's outstanding debt. From FY2006-07 to FY2007-08 alone, long-term debt service increased from \$161.0 million to \$193.9 million, and another increase to \$212.6 million is slated to occur from FY2007-08 to FY2008-09.

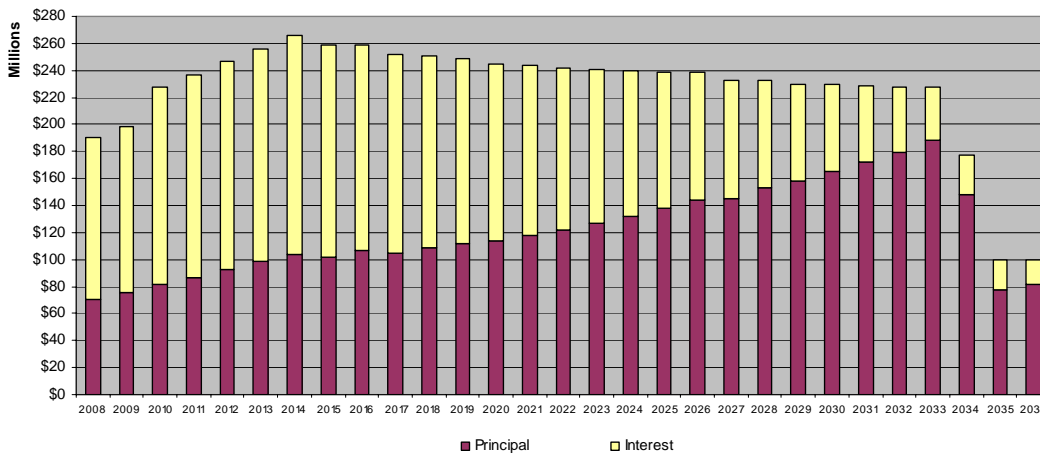
Going forward, to continue addressing the District's capital needs while paying down past investments, further growth in debt service obligations is projected over the full course of this Five-Year Financial Plan.

EXISTING AND PROJECTED DEBT SERVICE COSTS (FY2008-2013)

	Existing Debt			New Debt			Total Existing and Projected
	Principal	Interest	Total	Principal	Interest	Total	
FY2007-08	70,801,071	119,094,063	189,895,134	0	0	0	189,895,134
FY2008-09	75,596,738	115,274,126	190,870,864	0	7,425,000	7,425,000	198,295,864
FY2009-10	76,336,738	111,583,197	187,919,934	2,440,000	21,657,900	24,097,900	212,017,834
FY2010-11	78,551,738	108,200,983	186,752,720	6,625,000	32,683,613	39,308,613	226,061,333
FY2011-12	81,876,738	103,601,098	185,477,835	9,400,000	41,042,925	50,442,925	235,920,760
FY2012-13	84,551,738	99,749,138	184,300,876	12,110,000	49,251,400	61,361,400	245,662,276

As of June 30, 2007 - All variable rate debt: Series 2003A, Series 2004A, Series 2004B and Series 2004C are calculated at 4.5%.

TOTAL ACTUAL AND PROJECTED DEBT SERVICE EXPENSES FY2008 – FY2036 Projected¹



¹ New debt issuance not assumed for this analysis beyond FY2012-13.

Currently, the District's remaining non-electoral general obligation ("GO") debt capacity is approximately \$589.5 million, or 36 percent of total capacity. To support the \$1.5 billion CIP, the District turned to the State Public School Building Authority to issue School Lease Revenue bonds. School districts have both non-electoral debt capacity and lease rental debt capacity. Without having moved a portion of its issuance to lease rental debt, the CIP program at current levels would have consumed the entirety of the District's non-electoral GO debt capacity. The District has \$906,200,000 of Lease Revenue Bonds outstanding through the State Public School Building Authority. The District's remaining general obligation and lease rental debt capacity is \$1.65 billion.

For recent District debt issuances, the amortization rate has been relatively slow, with only 13.5 percent of principal being retired within five years and 30.3 percent retired in 10 years. This structure was adopted to minimize pressure on the District operating budget, while still enabling the District's increased level of capital investment. Looking forward, however, this structure limits both capacity and flexibility.

The District's 2004B and 2004C bonds are also party to ten synthetically fixed rate swap agreements. Under all of these agreements, the District pays a fixed rate and receives a variable rate based upon the LIBOR. The District also has two basis swaps on a portion the Series 2006 bonds. On the basis swap the District will pay a floating rate based on SIFMA and receive a percentage of LIBOR plus a spread. The SRC has capped the District's exposure to derivatives to 50 percent of its outstanding bonds. Currently, the amount outstanding is 45 percent.

For FY2008-09, balancing the competing demands of capital investment need and operating budget stability and to more fully expend current funds prior to an additional issuance, the District now plans to delay the issuance of its planned borrowing by six (6) months. As a result, the District will achieve short-term savings from reducing planned debt service payments in the coming fiscal year, while maintaining the longer-term commitment to invest in the District's facilities and infrastructure going forward.

Credit Crisis and Auction Rate Securities

The municipal bond market is in the midst of a serious credit crisis impacting the cost of new issuance and the ongoing cost of short term debt, particularly auction rate securities (ARS). This market volatility is caused by widespread credit and liquidity concerns initially prompted by a slowdown in the housing market. Rising mortgage defaults have threatened the value of mortgage-backed securities requiring many Wall Street investment banks to write down massive losses related to sub-prime mortgage-backed securities and related structured investment vehicles.

This "sub-prime mortgage crisis" has affected the municipal market in several areas: 1) credit spreads have widened as investors become more discriminating with their capital, 2) liquidity has tightened as market participants reduce balance sheet exposure, and most significantly 3) the credit crisis of the AAA rated mono-line bond insurers, many of whom have insured billions of dollars worth of the sub-prime securities in question. The rating agencies have completed extensive reviews of the bond insurers resulting in a majority of these bond insurers being placed on credit watch with some now being downgraded.

The municipal market in the past has relied on these previously “AAA” rated mono-line bond insurers to homogenize the varied credit profile of tax-exempt borrowers. The prospect of downgrades has resulted in buyers having to look through the bond insurance to the underlying rating. Additionally auction rate securities are being sold at significant premiums. This premium is also beginning to be felt in the variable rate bond market, particularly for those issues that have been insured by AMBAC, MBIA, XL Capital and FGIC, all four of which have received downgrades by Fitch Rating Services, Moody’s and Standard & Poor’s. The following summary is as of 6-25-2008 and news is changing daily.

Insurer	Moody's Investor Services				Standard & Poor's Rating Services				Fitch Rating Services			
	Prior Rating	Revised Rating	Prior Outlook	Current Outlook	Prior Rating	Revised Rating	Prior Outlook	Current Outlook	Prior Rating	Revised Rating	Prior Outlook	Current Outlook
FSA	Aaa	Aaa	Stable	Stable	AAA	AAA	Stable	Stable	AAA	AAA	Stable	Stable
Ambac	Aaa	Aa3	Negative Watch (6/4/08)	Negative (6/19/08)	AAA	AA	Negative (3/12/08)	Negative Watch (6/5/08)	AAA	AA	Negative Watch (1/18/2008)	Negative (3/12/08)
*FGIC	Baa3	B1	Negative Watch (2/14/2008)	Negative (6/20/2008)	A	BB	Negative (3/28/08)	Negative Watch (6/6//08)	AA	BBB	Negative Watch (1/30/08)	Negative 3/26/08
MBIA	Aaa	A2	Negative Watch (6/4/08)	Negative (6/19/08)	AAA	AA	Negative (2/25/08)	Negative Watch (6/5/08)	AAA	AA	Negative Watch (2/5/08)	Negative (4/4/08)
XL Capital Assurance	A3	B2	Negative Watch (3/4/2008)	Negative (6/20/08)	A-	BBB-	Negative Watch (2/25/2008)	Negative Watch (6/6/2008)	A	BB	Negative Watch (1/24/2008)	Negative 3/26/08
CIFG	A1	Ba2	Stable (3/6/08)	Watch Developing (5/20/08)	A+	A-	Negative (3/12/2008)	Negative Watch (6/6/2008)	A-	CCC	Negative (3/31/08)	Evolving Watch (5/30/08)
Assured Guaranty	Aaa	Aaa	Stable	Stable	AAA	AAA	Stable	Stable	AAA	AAA	Stable	Stable
ACA	NR				A	CCC (12/19/2007)	Negative Watch (12/19/2007)	Developing Watch (12/19/2007)	NR			
Radian Asset Assurance	Aa3	A3	Negative (3/28/08)	Negative (6/25/08)	AA	A	Negative Watch (4/8/2008)	Negative Watch (6/16/2008)	A+	WD	Evolving Watch (9/5/07)	Ratings Withdrawn (5/2/08)

*4/08 S&P Shifts Short-Term FGIC-Backed VRDB's to Not Rated

The District had ten series of ARS currently outstanding (Series 2004 sub-series B-1 through B-9 and Series 2004C) in the amount of \$678,575,000. The Series 2004B, sub-series B-1 through B-9 and Series 2004C ARS were issued each in conjunction with a LIBOR-based swap, under which the District receives a percentage of the taxable London Interbank Offering Rate (LIBOR) index and pays a fixed rate – the LIBOR-based swap receipts were designed to offset the tax-exempt bond interest payments. All series of bonds are insured by FGIC.

Prior to the credit crisis the Districts ARS have traded approximately 15 basis points (“bps”) above Securities Industry & Financial Market Association (SIFMA) rates. However, since the credit crisis began in November of 2007 those spreads have widened and currently the District’s ARS are trading at 200 bps above SIFMA. With regard to ARS, the District has determined to refund the ARS with VRDBs with Letter of Credit enhancement issued for up to a three-year period. On April 23, 2008, the District refunded its entire portfolio of ARS.

In addition to auction rate securities, the District has two series of Variable Rate Bonds currently outstanding (Series 2003A and Series 2004A) in the amount of \$208,960,000 through the Dauphin County General Authority.

Credit Ratings

When the District entered the market in December 2006 to issue new money and refunding bonds, it requested that all three of the credit rating agencies, Moody's, Standard and Poor's and Fitch, review underlying and state intercept ratings. The District was assigned the ratings of Ba2/A1, A+ (S&P does not assign the District an underlying rating), and BBB-/A+, respectively, and this examination of the District's financial position rendered some areas of concern. As a result, Fitch downgraded the District's underlying rating from BBB to BBB- due to the financial condition and assigned a negative outlook.

To address rating agency concerns, the following are among the important goals identified for the District going forward:

- "Multi-year trend of surplus operating budgets," (Moody's 2007)
- "Realization of fiscal reforms and additional revenue streams that would provide for a reasonable expectation of at least balanced fiscal operations and contribute to the elimination of the fund balance deficit." (Fitch 2007).

While increased capital investment in recent years has added significantly to the District's overall debt burden as a percentage of full assessed value, Moody's April 2007 credit report indicates that this debt burden still remains manageable so long as the District's revenues remain strong. In total, the District's outstanding debt projected as of June 30, 2007 is \$2.64 billion.

Debt Service Initiatives

The District's existing capital plan and associated debt issuance schedule addresses only those projects that have begun construction or are needed to maintain existing assets. In light of the District's financial challenges, the District could consider more dramatically deferring/reducing planned debt issuances, thereby further deferring planned maintenance and improvements. Any further such delay in capital construction, however, would substantially inhibit the District's ability to address basic repair needs. In this context, the initiatives that follow reflect the conscious choice to make the most of other cost control options and changes to borrowing practices without veering from the planned course of borrowing. Should the District's fiscal challenges persist, however, more draconian options may need to be revisited.

DB01. Avoid Delaying of Amortization of Debt

In recent years the District has had a practice of delaying the amortization of debt (new issue and refunding). While this practice reduced immediate debt service expenditures, the longer-term impact has been to reduce the District's debt capacity and financial flexibility. With future issuances, the District will seek to minimize delayed amortization of debt for initial budget relief. Rather, the District will strive to issue debt within its ability to pay for debt service without delaying amortization, and/or downsize the borrowing to an appropriate level. This will result in reduced interest costs over the life of the new debt.

DB02. Adopt Formal Debt and Swap Policies

A key component of sound public sector financial management is the development of and adherence to appropriate financial policies – including debt policies. A sound debt policy establishes the criteria for debt issuance and ongoing debt management. According to the Government Finance Officers Association, debt policies perform the following functions:

- Provide guidance to community leaders as to acceptable levels of debt and risk;
- Direct staff on objectives to be achieved, both before bonds are sold and for the ongoing management of the debt program;
- Facilitate the debt issuance process by making important decisions beforehand; and,
- Promote objectivity in decision making and limit the role of political influence.

Moreover, when a debt policy is consistently applied, it forces the government to analyze how the issuance of new debt fits in with other aspects of the long-term plan. Adherence to the policy demonstrates to rating agencies the entity's commitment to these sound financial practices and is looked upon positively by credit rating agencies.

The credit rating agency Fitch outlines several components of Strong Debt Affordability Policies that include:

- Reasonable, Attainable Debt Parameters;
- Pay-As-You-Go Funding Guidelines;
- Policies Regarding Use and Management of Derivative Products and Variable-Rate Debt.

Already, the District has an internal target of 10.0 percent as a maximum indebtedness level within which annual debt service should generally remain. The FY2008-09 budget makes progress towards achieving this goal with 10.1 percent debt service costs, with projected reduction below ten percent by FY2011-12. Such practices are reinforced and strengthened when adopted as part of a formal and comprehensive debt policy.

Capital Improvement Planning

The Philadelphia Home Rule Charter requires the District to adopt a capital budget and a five-year comprehensive CIP annually. The CIP addresses the needs for new schools, renovations, vehicles and equipment and other necessary improvements to promote the long-term goals of the District.

The development and publication of such a capital budget is essential to establishing infrastructure priorities and providing a framework by which projects can advance. Over the last several years, SDP has emphasized the construction of new facilities for students. To further its goals, the District has issued over \$1.2 billion in general obligation debt over the last five years to complete a variety of construction, renovation, and renewal projects.

The capital program is essential in preserving the District's ability to meet future facility and infrastructure needs. At the same time, a comprehensive CIP is critical to ensure that the District remains within its financial constraints, maintains an appropriate credit rating, can fund debt

service payments without overburdening the operating budget, and complies with arbitrage regulations.

The District has adopted a \$2.7 billion capital plan for FY2008-FY2013 that has been updated from the plan originally adopted in 2004 and acts as an ongoing project list for construction and maintenance projects from which the District chooses to fund. At this juncture, however, the plan remains largely an ongoing modification of the plan originally adopted in 2004. Further, the plan does not contemplate the District’s ability to fund those projects identified in the list. The FY2007-08 plan alone calls for \$736.7 million in capital projects. The District has planned to borrow \$270.0 million in FY2009 and \$250.0 million by the end of FY2010.

While there is still a need for some new buildings for SDP, it is anticipated that an increased emphasis on the renewal of existing facilities will be necessary to maintain those assets in which the District has already substantially invested.

Best Practice Gap Analysis

Outstanding capital planning functions in other school districts and local governments typically demonstrate twelve (12) key characteristics. As part of providing support for the development of this Five-Year Financial Plan, PFM was charged with developing the following gap analysis that compares the District’s current capital planning program to those best practices found nationally. While many sound practices are already in place across the District, this analysis is intended to provide a basis for initiatives to even better target capital investment.

DISTRICT CAPITAL PROGRAM GAP ANALYSIS

Best Practice	District Practice	Addressing Performance Gap
1. Prepares a capital needs assessment.	The Capital Planning Office completed a capital needs assessment in 2004.	SDP should establish a formal process of conducting updated capital needs assessments on a more frequent and regular basis.
2. Develops an annual capital budget and capital improvement plan.	SDP adopts a capital plan annually.	n/a
3. Capital budget includes long-range plans, consistent with anticipated revenues.	The District's current capital plan does not reflect relationship to anticipated revenues.	The District should develop a long-range capital and financing plan for capital improvements that includes at least five years.
4. Develops capital and operating budgets concurrently.	The District does not prepare its capital plan in concert with the operating budget.	The budgets should be coordinated so that the District can consider debt service, pay-as-you-go financing, and operational impacts of capital projects.
5. Involves the public in capital planning.	The District held public meetings prior to the development of the current capital plan, but does not conduct meetings annually.	SDP should increase the involvement of the public in the preparation of its capital budget.

Best Practice	District Practice	Addressing Performance Gap
6. Evaluates projects for inclusion in the capital plan using established criteria.	There is neither a set criterion nor a consistent system in place to evaluate projects comparatively or on a regular, annual schedule.	The District should determine formal criteria by which all proposed projects will be evaluated and implement a system for approval of projects to be included.
7. Considers the operational requirements (or savings) of capital projects in capital planning.	While the District has advanced projects that make building more energy efficient, there has been no consistent effort to advance projects that lower operating costs.	The operational impact of all projects should be determined and evaluated before the projects are advanced. Projects resulting in operating savings should be prioritized.
8. Maximizes funds from other sources.	The District has relied on reimbursements in State funding for new construction. Yet many projects are not PlanCon eligible.	A capital plan that identifies projects in advance is essential. This ensures that projects are already identified when outside funding becomes available and sequenced in a way that best meets the needs of students, parents, faculty, and administrators.
9. Has a pay-as-you-go program.	There is no formal process of using pay-as-you-go financing as part of its capital program.	As the District's fiscal position continues to stabilize, the capital budget financing plan should include pay-as-you-go financing as a way to reduce the long-term costs of the capital program.
10. Monitors the progress of the capital budget.	The District's Capital Programming Office produces monthly reports for the SRC.	The District will continue to report on the progress of the Capital program, ensuring that critical information is made available to decision makers and other constituent groups.
11. Includes information on current debt limits and legal debt in the capital budget.	The District's current capital plan does not consider ability to pay relative to its debt limit or indebtedness level.	The SDP Capital Budget should include information on debt limits and level of indebtedness and impact of planned spending.
12. Modifies the capital budget and plan as necessary.	The District modifies the capital plan annually.	Throughout the fiscal year, the capital budget may be modified as necessary.

Capital Planning Initiatives

The capital planning initiatives outlined below are focused on better planning for capital needs and the impact of building improvements on the operating budget, ensuring that capital planning efforts align with financial plans. Because this undertaking represents a shift from current capital planning procedures, it is assumed that transition time will be needed before changes are fully implemented so the FY2009-10 budget cycle will be the targeted first year for impact.

In addition to the issues raised in the following initiatives, the District will more strategically plan for space and leasing needs. Those issues are further detailed in the Management and Productivity chapter of this Plan.

CP01. Temporarily Delay Planned Borrowing

The District's capital borrowing plans had reflected new issuance of \$270.0 million by the end of FY2008. However, it has been determined that the District may delay borrowing of this amount for up to six months without detrimental impact on its planned capital projects. As a result, one of two semi-annual interest payments be eliminated because of the timing of issuance. In total, delaying this borrowing temporarily will realize short-term debt service savings of approximately \$9.2 million in FY2009.

CP02. Use Operating Budget Projections to Develop a Financing Plan

The first component of a sound and useful capital improvement plan is a capital financing plan. A sustainable, effective capital program is dependant upon a prudent and disciplined financial planning process. In addition to committing to a long-term multi-year Capital Improvement Plan, the District must identify financial resources for implementing its capital needs. The District's capital program should be driven by available resources, based on realistic assumptions.

The capital financing plan identifies resources and options for funding capital projects and the selection and priority among these options over the project period of the CIP. As part of the development of the operating budget, the District will prepare an operating budget projection that includes:

- Tax revenues
- Other revenues
- Expenditures
- Debt service expenditures
- Pay-as-you-go funding

This projection will be used to determine the total capital spending capacity, for both the budget year and for the five years of the capital plan. This capacity should then act as the capital budget threshold for each year of the plan.

Entities with a comprehensive capital planning approach will often set targeted levels for funding from these sources. Further, comprehensive plans will describe funding sources for each of the projects proposed, and indicate the level of funding available to be used in implementing the plan, including any proposed increases in fees, taxes, or borrowing that may be necessary to meet capital programming goals.

CP03. Prepare a Capital Needs Assessment Annually and Prioritize Protecting Existing Capital Assets

As a first step in the capital planning process, the District will update the capital needs assessment regularly and include a routine replacement schedule for major systems as a standard component of the capital budget. A demographic forecast will help the District plan for population or other shifts that would require new or expanded facilities. The forecast should also include projections of the location of students, attendance at private and charter schools, and demand for special programs including magnet schools.

The Capital Improvement Office completed a capital needs assessment in 2004. This examination will be reviewed and updated annually and, as time and resources allow, expanded to include information technology and other equipment needs.

CP04. Establish Official Point-Based Project Selection Process Based on Policy Priorities

The capital plan should contain all projects that are anticipated to begin in a five-year period. Every year, however, the plan will be re-evaluated to ensure that the planned projects meet the needs of the students, administration, and staff. Also, there will be an opportunity to evaluate and consider new projects. All new projects in the budget (the first year of the capital plan) and new projects in the capital plan will be described in detail. So that each project may be evaluated fairly, information about each proposed project will be provided on a standard form. The following information will be captured:

- What the project is and why it is needed
- How much it will cost
- How long it will last
- Its impact on operating costs
- When will it be implemented

A committee will be responsible for reviewing projects and recommending those that will be included in the capital budget and plan. The District’s financial resources are limited, as is its ability to advance projects. The CIP, therefore, will be a plan to advance projects over the next several years.

The following represents a structure from which the District’s capital projects evaluation process might be developed and implemented.

Factor	A Score (1-10)	B Weight	A x B Weighted Score
Legal mandate		10	
Health or safety		9	
Protection/ preservation of School assets		8	
End of useful life/ obsolescence		7	
Enrollment changes		6	
Educational program		5	
Cost savings (reduces operating expenditures)		3	
Comfort/ convenience		2	
TOTAL			

Legal Mandate:

- Is the project needed to comply with a local, State, or Federal mandate?
- Is there a pending or a potential legal action?
- Consider if the project oversteps the mandate or incorporates additional scope

Health or Safety:

- Is there a health or safety issue that will be mitigated by this project?

Protection or Preservation of School Assets:

- Will the project preserve or protect existing assets?

End of Useful Life / Obsolescence:

- Will the project replace a facility or equipment that has reached the end of its useful life?

Educational Program:

- Is the project necessary to begin to continue or improve an educational program?

Cost Savings (Reduces Operating Expenditures):

- Will operating expenditures be reduced as a result of the project?
- Specific, quantifiable savings should be presented

Comfort / Convenience:

- Will improvements improve the comfort or convenience of teachers, students, or parents?

Another way to consider the factors is to consider the impact of not moving a project forward. The following provides examples:

Factor	Impact Of Not Doing Project	Examples
Legal mandate	<ul style="list-style-type: none"> ▪ Legal action against the SDP 	<ul style="list-style-type: none"> ▪ Project to comply with a consent order ▪ Project to comply with Americans with Disabilities Act
Health or safety	<ul style="list-style-type: none"> ▪ Potential harm to children and liability 	<ul style="list-style-type: none"> ▪ Fire alarm system improvements ▪ Hazardous material abatement
Protection/ preservation of assets	<ul style="list-style-type: none"> ▪ Increase in seriousness of problem ▪ Increase in cost of corrective action 	<ul style="list-style-type: none"> ▪ Replacement of roof or windows past useful life ▪ Replacement of security system
End of useful life/ obsolescence	<ul style="list-style-type: none"> ▪ Reduced/ lost use of asset ▪ Potential increase in maintenance costs 	<ul style="list-style-type: none"> ▪ Replacement of personal computers, equipment, vehicles ▪ Bathroom renovations ▪ Replacement of floors, ceilings, paving
Cost savings	<ul style="list-style-type: none"> ▪ Continuation of current cost trends 	<ul style="list-style-type: none"> ▪ Lighting upgrades ▪ Installation of solar panels
Enrollment changes	<ul style="list-style-type: none"> ▪ Overcrowding/ over-supply ▪ Decreased ability to meet program goals 	<ul style="list-style-type: none"> ▪ Construction of new school/ school closure ▪ Building additions
Educational program	<ul style="list-style-type: none"> ▪ Reduced ability to meet program goals 	<ul style="list-style-type: none"> ▪ New athletic or performing arts facilities ▪ Technology upgraded science labs
Comfort/ convenience	<ul style="list-style-type: none"> ▪ Decreased comfort/ convenience 	<ul style="list-style-type: none"> ▪ Acoustical improvements ▪ New cafeterias

CP05. Incorporate Operational Savings and Additional Expenditures into the Operating Budget

The District will consider the operational impacts of capital projects as part of its financial planning process. Some costs, such as additional staff and utilities, may be obvious. Less obvious may be costs like field maintenance and snow removal. Anticipating and planning for changes in operational costs can help the District take advantage of anticipated savings and prepare for increases.

Priority will be given to capital projects that reduce operational costs. The operational impact of all projects will be considered, however. For example, a traditional design for a new school facility may cost less in the short-run than a design that incorporates energy-saving features. However, it is prudent to consider the costs of a new facility over its entire lifecycle.

CP06. Establish a “Pay-As-You-Go” Program for Funding Capital Projects

Debt is a major component of capital programs. This is appropriate because debt provides for “intergenerational equity” – i.e., today’s taxpayers won’t foot the whole bill for assets that will be used for years to come. Debt is also used because capital expenditures tend to be large and “lumpy,” i.e., irregular relative to the incremental growth of the operating budget. However, a “pay-as-you-go” component – funding some capital improvements from the operating budget – is also important. It not only reduces the cost of debt service, but also provides a dedicated funding stream for projects that do not meet capital eligibility criteria. The District will seek to incorporate pay-as-you-go financing of some assets and/or other capital-eligible expenditures as resources permit.

CP07. Enhance Reporting on the Progress of the Capital Plan

The goal of capital program management is to complete projects on schedule and on budget, meet program objectives, and reduce the frequency and financial impact of change orders. So that the District may accomplish this, project status reports will be enhanced to better report on the status of individual capital projects and the overall capital program.

The status reports will include summary information regarding the entire capital program, such as the total amount of spending anticipated for each of the funding sources, as well as information regarding significant variances between planned and current expectations regarding expenditures. The reports will include information on the status of each project with specific information that describes how project actuals and expenditure projections compare with the budget. The report will also indicate which project milestones have been met and how this compares with the planned schedule.

Regular reports may include the following:

- Anticipated versus actual expenditures
- Anticipated versus actual funding
- Projected versus actual schedule by phase (design, construction, furniture/equipment)
- Project cost under-runs and overruns by project

A summary report will provide an overall view of the status of the capital program. Detailed information by project should also be included.

Status reports will have a number of different audiences, including District staff, the SRC, elected officials, and the public. Reports will be developed to communicate the status of the District's capital projects for varying levels of stakeholder groups as appropriate.

XI. Financial Management





FINANCIAL MANAGEMENT

In November 2006 and May 2007, the School Reform Commission (SRC) adopted a series of policies and controls to promote sound management practices, stronger fiscal accountability, and greater compliance with annual budgets and other financial resolutions. In parallel, the District Administration has undertaken several additional and complementary initiatives focused on the same objectives.

This section reviews the implementation of these important financial policies and controls, and their impact on the fiscal health and productivity of the District. In addition, several “next step” initiatives are outlined that will further support more effective financial management going forward.

Management Accountability and Controls

The SRC has confirmed an explicit policy that managers are responsible and accountable for resources under their control – and must adhere to established budget levels and policies. In comparison to prior years, the District is using increased system controls, data analysis, and management oversight for key activities such as hiring, contracting, and encumbrance of funds. Examples include the following:

- **Encumbrance Controls:** The District Office of Management and Budget (OMB) is vested with control to ensure that all resolutions are fully encumbered and no changes to encumbrances or encumbrance overrides are authorized without proper reason and documentation. This policy has proven to be a powerful tool for changing organizational behavior by ensuring that manager-initiated resolutions and subsequent contracts are within budgeted levels, and designated resources are not subsequently used for other purposes. Managers that commit to receive services beyond resolution and budget amounts are subject to disciplinary action. This also allows OMB to project full year spending more accurately.
- **Limited Contract Authority (LCA) Committee:** The LCA, made up of District staff, reviews all contracts below \$15,000, a threshold set by the SRC. All contracts above \$15,000 are reviewed by the SRC. To strengthen the LCA and ensure that approval is sought prior to the contract start, the SRC adopted the following policy: “No person shall evade the limitation on the authority of the Limited Contracting Authority Committee of \$15,000 by contracting for goods or services piecemeal for the purpose of obtaining contracts for \$15,000 or less which should, in the exercise of reasonable discretion and prudence, be conducted as one transaction amounting to more than \$15,000.”
- **Other Purchasing Controls:** In addition, effective FY2007-08, the District reduced the threshold for petty cash funds from \$500 to \$200. Through the District’s Advantage Financial System, purchases greater than \$350 are also required to go through the formal purchasing system. The combined result of these enhanced controls is the capture of spending which would have previously fallen outside of any review process.
- **Staffing Management System (SMS):** In 2006, the District had limited ability to track and manage headcount at the school level to ensure that on-board positions would not exceed

budgeted amounts. The Human Resources hiring and position allocation process was labor intensive and not well connected to the school rostering process or the budget coding in the Advantage Financial system. This resulted in frequent errors and the inability to quickly retrieve timely and accurate information on the status of filled positions relative to budget – in turn, often leading to over-appointed positions. To help identify over-appointed positions, the District developed a staffing management system linked to the Advantage financial system to integrate school rostering and position filling. The first phase of SMS was completed in March 2007.

- **Position Control:** Concurrent with the implementation of the SMS system, District Human Resources and OMB developed an effective position control function through the Advantage financial system that has reduced the number of unbudgeted positions. The implementation of an effective position control function in FY08 is a milestone event on the path toward full time salary expenditure control.
- **Other Hiring Process Controls:** To further strengthen position control, the SRC confirmed a policy that all new hires not made through the standard hiring process will be paid for no more than two weeks and given a notification letter that no additional payment will be forthcoming. Since this policy was adopted, staff reports no instances of hires made outside of the formal process.
- **Administrative Policy Development:** The SRC has requested a District review of multiple administrative policies to support cost reduction initiatives and sound fiscal controls. To date, interim policies have been adopted by the District Administration in multiple areas, two new final policies have been approved by the SRC (for computers and mobile communications), and six additional final policies will be presented to the SRC for formal adoption prior to the end of FY2007-08:

Status of Review and Adoption of District-Wide Policies

Policy*	Status	2008 Adoption Target
Computer and Laptop	Presented to SRC in February	March (adopted)
Mobile Communications	Presented to SRC in February	March (adopted)
Meal Allowance	To be presented to SRC in May	June
Travel	To be presented to SRC in May	June
Professional Development for Non-Represented Employees	To be presented to SRC in May	June
Overtime/EC	To be presented to SRC in May	June
Real Estate Management	To be presented to SRC in June	August
Risk Management	To be presented to SRC in June	August

* This table lists status of final policies. Interim policies have already been adopted in multiple areas.

- **Expenditure accountability:** From an overall perspective, the SRC has also adopted the following general accountability policy to enhance fiscal discipline: “Budgets overspent in one fiscal year will result in a reduction of budget authority in the following fiscal year.” Accordingly, the District now reviews year end budgets, and reduced the budgets of 32 schools for FY2008 due to overspending in FY2007. Further, the ability of offices and

schools to automatically over-expend their non-personnel budgets has been blocked in the District's Advantage Financial system. For FY2007, just \$174,458 was overspent by schools, indicating a significant degree of improvement in schools managing to their budgets.

Financial Best Practices

The District has also taken multiple steps to improve financial planning, budgeting, and reserve practices. Examples include the following:

- **Multi-Year Financial Plan:** While the District has previously published multi-year forecasts and projections, this Five-Year Financial Plan represents a significant and new level of detailed documentation regarding strategies and tactics for achieving and sustaining structural budgetary balance. It is the goal of the District, consistent with recommendations in a recent report by the Commonwealth's Secretary of the Budget, to update this document yearly in conjunction with release of the annual budget.
- **Expenditure Projections:** The District Finance Department has developed budget-to-actual reporting along with detailed expenditure forecasts to provide an early warning system so that corrective actions can be taken as early as possible. A substantial element of this initiative has been examining accounting and budgeting practices to improve and synchronize those functions to provide as clear a financial picture as possible. Beginning in January 2008, the District has prepared exception reports targeting expenditures variances of greater than five percent in comparison to the prior year. The CEO and other Chiefs are now holding monthly meetings to review these reports. In addition, the District also prepares the Act 45 (2007) Budget Stabilization Plan Progress Report on a quarterly basis. Finance has also improved its ability to project year-end financial results through better analysis of expenditure flows, improved mathematical models, and a more detailed understanding of accounting processes (particularly during the financial close period).
- **Annual Planning Cycle:** The SRC has also moved to more closely align school year planning and reorganizations to the fiscal year and budget development process to ensure appropriate review and financial planning. For example, communications between the Office of the Chief Academic Officer and Finance have increased regarding plans for school openings and closings, which has in turn reduced the variability of this key aspect of the budget.
- **Budget Development Process:** The District reinstated a bottom-up rather than a top-down budget development process that seeks input and analysis from program managers and requires them to justify changes to their budget requests for personnel and non-personnel dollars. The Budget Office has also implemented a new web application (Budget Formulation and Management System-BFM) to automate and standardize this process. Budget requests that are above the "baseline" are analyzed and compiled into decision packages. The broad effort to reinforce and deepen the concept of financial accountability and stewardship must provide managers the opportunity to have meaningful input into resource allocations and outcomes. The process, initiated for the FY2008/2009 budget cycle, is designed to begin this dialogue and interaction in a structured, effective, meaningful, and predictable way that can be modified as needed and expanded in the coming years.

- **Monthly Expenditure Estimates/Quarterly Budgets:** To enhance budgetary understanding and control, program managers have estimated operating and categorical spending by month for October through the end of FY2008 as a foundation to developing quarterly budget-to-actual reports. Program managers, who know the likely trajectory of their expenditures best, will now apply that knowledge to their budgets and be responsible for addressing material deviations through a formal process on a quarterly basis, including sharing any known potential risks that may lead to spending beyond the budget. Greater resource accountability requires developing sound financial checks and balances, and educating managers about their financial oversight roles and responsibilities. Monthly expenditure estimates that rollup to quarterly budgets combined with a periodic review of expenditures is a critical element to fostering a strong accountability environment.

- **Reduced “Negative Budgeting:”** Prior to FY2007-2008, the District had used a high level of negative budgeting to reflect a variety of budgetary events, for example, internal fund transfers, anticipated year-end savings (e.g. under-budget spending, delayed implementations, salary/benefit savings), and future allocation of operating expenditures to grants or capital. While some negative budgets are considered a legitimate and acceptable part of budgeting, most such practices are to be sharply reduced from the District’s budget. The District’s past budgeting for anticipated year end savings without financial controls, for example, relied on individual schools and program managers to leave a portion of their budgets unspent – providing a low level of assurance that such funds would, in fact, be lapsed. In most cases, negative budgets: confuse current year projections and create an imprecise basis for budget to actual reporting; provide an unclear basis for examining historical data as well as future projections; and do not provide controls to ensure savings targets are realized. From FY2006-2007 Adopted to the Preliminary FY2008-2009 budget, the District reduced negative budgeting by \$37 million.

- **Fund Balance and Special Reserve Fund:** SRC resolutions have also established a “Designated Fund Balance” and “Special Reserve Fund,” to be funded by an appropriation not exceeding 2.5 percent of the total Operating Budget revenues for a fiscal year for each fund. Based on the current revenue projections, the maximum designated fund balance appropriation for FY 2008 would be approximately \$54 million for the operating fund. While not yet implemented due to ongoing budgetary challenges, these policies provide important goals for intermediate and longer-term planning.

Next Steps

Building on the progress of the past approximately eighteen (18) months, the District will pursue the following additional initiatives to further strengthen its financial management.

PC01. Additional Policy Reviews

FY2008-09 Impact:	n/a	Rev/Exp:	Both
Recurring/Non-Recurring:	Non-Recurring	Category	Additional
Status:	Partially Implemented		

As outlined above, District review is ongoing to develop final policies in key areas important to support cost reduction initiatives and sound fiscal controls. These reviews and the formal adoption of permanent policies are expected to be completed during FY2007-2008. The revised policies and the processes which will be used for oversight and enforcement distributed to District staff.

PC02. Quarterly Budget Reporting to SRC

FY2008-09 Impact:	n/a	Rev/Exp:	Both
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Not Implemented		

Quarterly financial reports will be provided to the SRC beginning in FY2008-2009, with an opportunity for SRC members and staff to review and ask questions. Such reports will also be made public for review by interested stakeholders.

PC03. Reconcile Capital Expenditures Quarterly

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Not Implemented		

While District staff has increased efforts to document and identify capital charges vs. operating charges, capital expenditures continue to be charged to operating funds during the year with a year-end adjustment to transfer expenses to capital funds. During FY2008-2009, the District will begin allocating capital expenditures to capital funds on a quarterly basis.

PC04. Advantage Financial Upgrade

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Non-Recurring	Category	Additional
Status:	Not Implemented		

The Advantage Financial, Human Resource, and Payroll systems form the backbone of the administrative support operation of the District. The capabilities of the system, combined with the design of the District’s business processes throughout the organization, are critical to determining the efficiency and effectiveness of operations.

The Advantage upgrade initiative is really about transformation; automating processes, improving access to the right information and keeping pace with change. Through transformation, the District aims to increase efficiency and accountability, improve management and management reporting, and improve service levels. The potential also exists for dollar savings that can be redirected to improving the District’s financial condition and efforts for academic reform.

The original installation of the Advantage system in 1999 was accelerated to ensure compliance with Year 2000 requirements without sufficient focus paid to modifying our business processes to work most effectively and efficiently with the new system. In addition, the current application

is several iterations old, meaning that new functionality is not being exploited to improve operations.

The District financial managers are currently reviewing upgrade options and strategies, requesting proposals from various vendors, and will have a strategy and upgrade path proposal in place during summer 2008 for consideration and action. While the potential payoff is large, the scope and complexity of the upgrade and re-design initiative will likely take at least three (3) years to fully implement.

Examples of some of the important system controls and business process improvements that an upgrade might address include the following:

- **General System Controls and Accountability** — Although the District has implemented many enhanced financial and budgetary controls over the last two years, the upgrade provides an opportunity to further strengthen organization-wide accountability by applying re-designed accounting rules across all financial transactions, with the ability to track and control internal and external funding sources, fiscal and multi-year budgets, grants, and projects including grant match tracking and sub-recipient monitoring.
- **Position Control** — Controls through Advantage were introduced in FY2007-08 and Human Resources is currently working through a cross-functional management team to assess and re-design the core position hiring process, and to re-design other key HR processes that cut across all segments of the District. However, many of the efficiency and effectiveness gains and potential savings that a re-design can achieve will require integration into the upgraded Advantage system which will provide a tighter link between position controls and budgets.
- **Integration of the Facilities Work Order System with Advantage** — The Facilities work order system incurs obligations for materials and supplies independent of the purchasing system creating the need for manual controls, and makes the identification of charges that are capital eligible difficult to document. A full integration of the work order and financial systems will automate many of these controls and help ensure that capital eligible expenses of approximately \$3 million per year can be redirected from the Operating budget and charged to the Capital budget with sufficient detail to comply with accounting requirements.
- **GASB 34 Requirements** — The Governmental Accounting Standards Board (GASB) made significant changes to the financial presentation model of governmental entities the most important of which is reconciling the statements for governmental funds, presented in the traditional way, with full accrual government-wide statements. In addition, the government-wide financial statements require a full accounting for capital assets, including infrastructure. Currently, the statements required by GASB 34 are largely compiled manually outside of the Advantage Financial system. The upgraded Advantage system will provide fully automated GASB 34 compliance to assist in financial statement production.
- **Applicant Tracking** — Human resources is in the process of researching and acquiring an applicant tracking system to eliminate process redundancy, bottlenecks, and communications gaps and to help ensure that highly qualified applicants are placed in positions for school

opening. This application will be tightly integrated with the upgraded Advantage HR system to create a seamless solution from employee selection and entry, to payroll and position control.

- **Improved System Functionality** — The following are key elements of the latest Advantage application that will facilitate service improvements:
 - Business Rule Configurable – Options and Controls are table driven and configurable rather than being embedded in the system code. This has been shown to reduce previous customization requirements and assist in eliminating related customer-side software maintenance costs.
 - Expanded and Flexible Chart of Accounts – Advantage is delivered with 36 Chart of Account elements and over 90 roll-up levels. These elements can be used to capture a wide range of data and increase the efficiency and effectiveness of reporting.
 - Web-based Architecture –User friendly web based browser can make the system more assessable to vendors and staff and the open integration standards can enhance usability across the enterprise. Additionally, web-based processing and workflow can help the district become more efficient and lead to more automated processing.

PC05. Budget Transfer Policies

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Not Implemented		

Schools and administrative divisions can reallocate their appropriated funds among major objects (textbooks, staff costs, supplies, etc) after the budget is approved. Although some such flexibility can be positive, the District has historically over-relied on the ability to make significant budget revisions throughout the year. In FY2008-09, the District will develop a budget transfer policy to improve divisional planning – maintaining reasonable school-level flexibility, while also limiting the appropriated amount which can be transferred from one line-item to another line-item without prior approval.

PC06. Continue Financial Accountability Unit

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Not Implemented		

To provide oversight and monitoring of policy and budget initiatives, the SRC established the Financial Accountability Unit (FAU). The FAU has provided focus for fiscal and accountability initiatives at the District, meeting regularly to address implementation progress and policy issues. The SRC has been presented with a plan to reconstitute the FAU given staffing changes over the past year. To build on progress of policy updates and implementation of controls, the FAU will continue to meet on a regular, at least biweekly, basis during FY2008-09.

PC07. Strengthen Divisional Budget/Finance Responsibilities

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Not Implemented		

To improve the focus on fiscal management, the District’s major administrative departments, such as facilities, information technology, and academic offices, will be directed to identify a key point person to lead, manage and monitor their budget and spending and to act as a liaison to Finance. The Budget Office will provide training on all of the tools and resources available for fiscal management and monitoring, particularly given the recent and ongoing development of new controls and reports.

PC08. SMS Business Process Improvement

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Partially Implemented		

To identify over-appointed positions, the District developed a staffing management system linked to the Advantage Financial system to integrate school rostering and position filling, with the first phase of SMS completed in March 2007. Often during a system implementation, organizations are not fully able to refine business processes, understand the data and functionality available, and train staff. To ensure savings and efficiencies are realized, the District will establish and maintain a team during FY2008-09 to refine business processes and utilize the information. This team will be comprised of staff from Human Resources, Finance, and representative end users in schools.

PC09. Strengthen Risk Management

FY2008-09 Impact:	n/a	Rev/Exp:	Exp
Recurring/Non-Recurring:	Recurring	Category	Additional
Status:	Not Implemented		

Until early 2008, the position of Risk Manager for the District had been vacant for an extended period. Now filled by a qualified professional, it will be important to support a series of administrative reforms to rebuild an effective structure for managing the areas of responsibility associated with this function. Among these responsibilities, opportunities for improving the District’s workers’ compensation program are outlined in the Workforce section of this Plan.

At the same time, general liability and claims management programs administered by Risk Management also have a significant budgetary impact. Over the past five years, the District has experienced high rates of increase in the cost of lawsuits and judgments – with average five-year Operating Fund cost growth of 27 percent and average three-year growth of 71 percent. To address and counter these trends, opportunities might include stronger liability prevention and claims management programs and re-bidding and restructuring insurance arrangements. As with worker’s compensation, the District will explore the potential for partnership with the City for cooperatively delivering such programs.

XII. Appendices



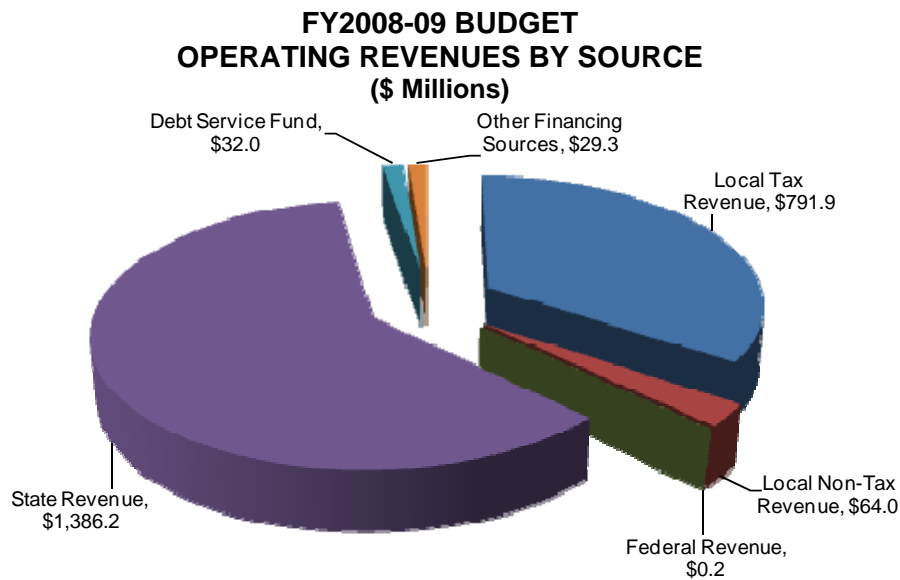


Appendix A – Revenue and Expenditure Detail

Revenue Summary

Budget projections for FY2007-08 through FY2008-09 show operating revenues growing at an average annual rate of 6.6 percent. Five year historical growth from FY2002-03 to FY2006-07 averaged 5.1 percent, and three-year historical growth for operating revenues averaged 4.2 percent; however, this recent experience includes significant non-recurring revenues. For out-years, an average growth rate of 6.4 percent is anticipated from FY2009-10 to FY2011-13.

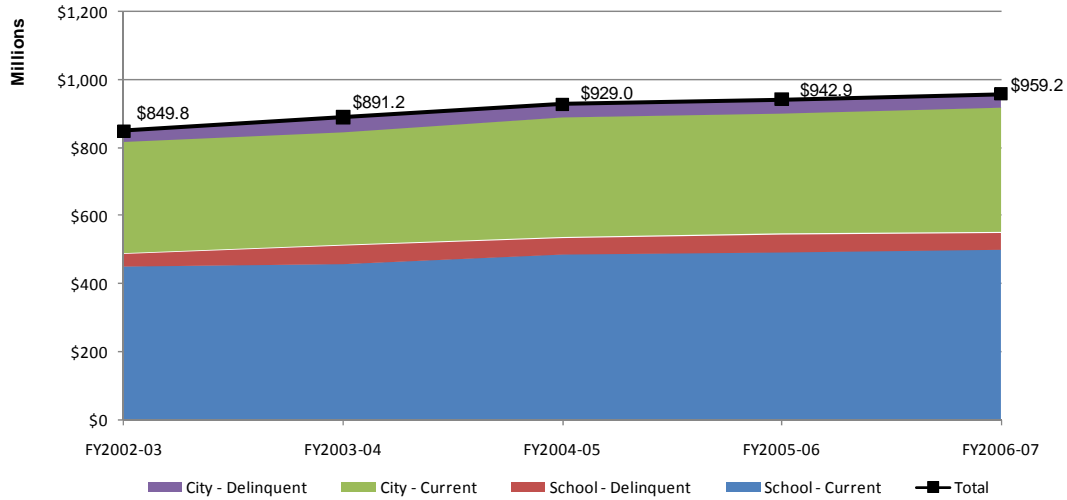
The following chart presents major sources of operating revenue for the District for FY2008-09. As shown below, 34.4 percent of operating revenue is received from Local Tax Revenues, 4.2 percent is received from Local Non-Tax Revenues including Debt Service Fund revenue, and 60.2 percent is received from State funding. Property sales account for \$24.2 million or 1.1 percent of total operating revenue. In addition to operating revenues, interfund transfers to the general fund are received from the capital and enterprise funds; for FY2008-09 interfund transfers comprise 0.2 percent of total revenues. Direct federal revenue represents less than 0.01 percent of operating revenues, although more significant federal dollars flow indirectly through the State.



Local Tax Revenue

Current and delinquent Real Estate taxes are 77.6 percent of Local Tax Revenue. Historical receipts for Real Estate Taxes have grown steadily over the past five fiscal years. The graph below shows combined current and delinquent revenue receipts for the City and District from FY2002-03 to FY2006-07. From FY2002-03 to FY2004-05, current and delinquent tax revenue grew consistently from 4.9 to 4.2 percent. A slight decline in annual growth began in FY2005-06, when combined receipts only grew 1.5 percent.

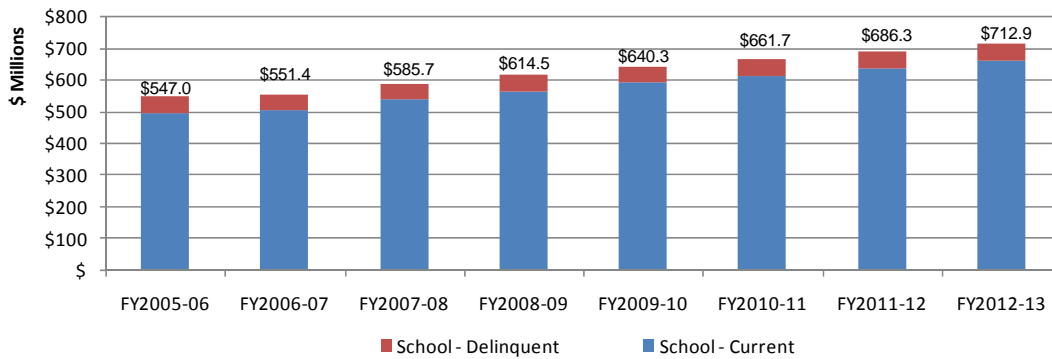
**CITY AND SCHOOL DISTRICT REAL ESTATE TAXES
FY2002-03 TO FY2006-07**



Out year projections are consistent with the real estate tax projections found in the City’s FY2009-13 Five Year Plan. The table below shows the historical and projected growth in District Real Estate current and delinquent taxes. As discussed in detail in the Revenue Section, current taxes increase at the City’s projected rates; delinquent taxes rise at the City’s rate adjusted for the FY2007-08 change in the District’s tax levy.

The following table shows projected District Real Estate taxes from FY2005-06 to FY2012-13. For the out-years, an average growth factor of 3.8 percent is projected from FY2009-10 to FY2012-13. A growth factor of 4.2 percent is projected for FY2008-09.

**DISTRICT REAL ESTATE PROJECTIONS
FY2004-05 TO FY2012-13**



Other Local Tax Revenue, comprised of Non-Business Use Income Tax, Business Use and Occupancy Tax, Liquor Sales Tax, Public Utility Realty Tax, and Payments in Lieu of Taxes are projected to grow at a blended rate of 1.7 percent from FY2009-10 to FY2012-13.

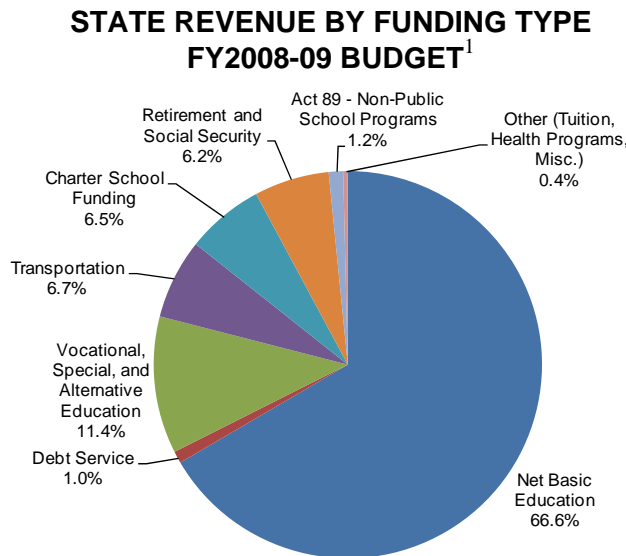
Local Non Tax Revenues

Local Non-Tax Revenue comprises 4.2 percent of operating revenues. The major contributors to Local Non-Tax Revenues for the District include the City appropriation to the District, the Bank Settlement for Use and Occupancy Tax, Stadium Agreements, and Reimbursement from the Food Services Fund and Print Shop. The three-year average growth rate from FY2003-04 to FY2005-06 was -0.08 percent. In FY2006-07, the growth rate increased to 21.6 percent due to a one-time receipt of interest earnings. Out-year projections average just 0.1 percent as most of the line items in this category are assigned flat growth rates in all out-years.

Local Non-Tax Revenues are also received by the Philadelphia Intermediate Unit (IU). Revenues received are tuition payments from other intermediate units and school districts with special education students receiving educational services from the IU, and interest earnings received from the Special Education Transportation Payments made by the District to the Intermediate Unit and Act 89 Non Public School Student Program for auxiliary services for children attending Non-Public Schools. The total revenues received by the Intermediate Unit from Local Non-Tax Revenues are minor, totaling \$0.7 million in FY2008-09. The growth rate for these line items is held flat for FY2009-10 through FY2012-13.

State Revenue

State funds are received primarily from the Basic Education Fund. Other major revenue sources include the Special Education and Charter School subsidies as well as the State’s reimbursement for social security and Medicare expenses. The pie chart below shows the breakdown of State funding for School District.

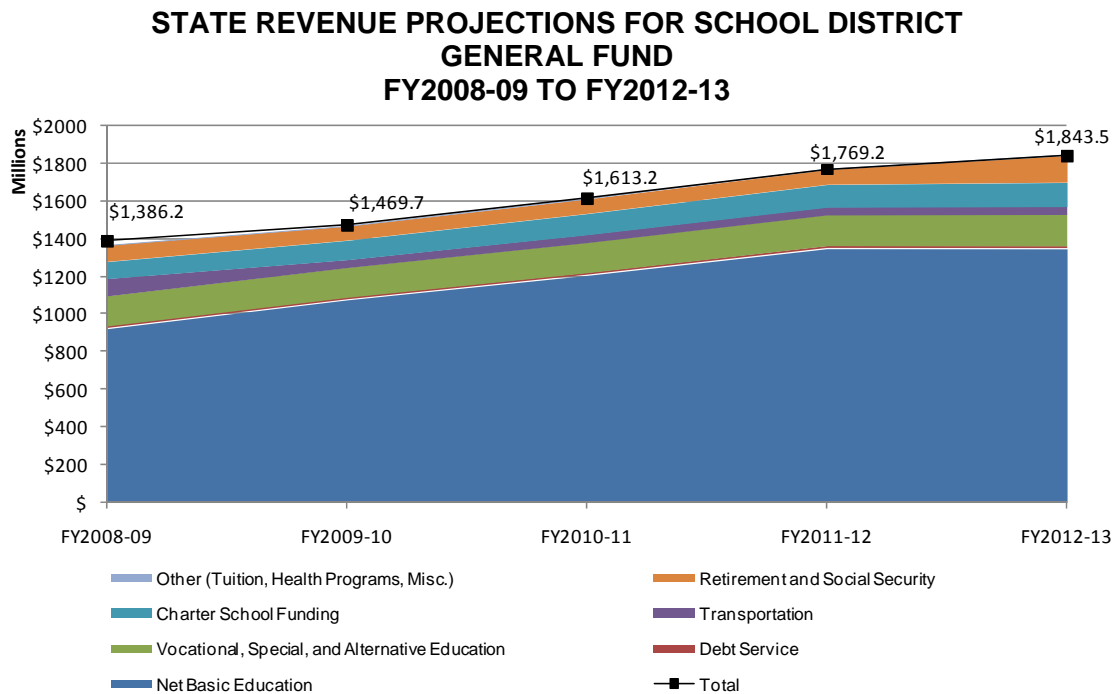


An average annual increase of 9.7 percent is projected for FY2009-10 through FY2012-13 for Gross Basic Education Funding, consistent with the Governor’s proposed budget. In FY2012-

¹ Budget as of 3/26/08. Net Basic Education funding is shown = Gross Basic Education funding minus prior year’s intermediate unit advance.

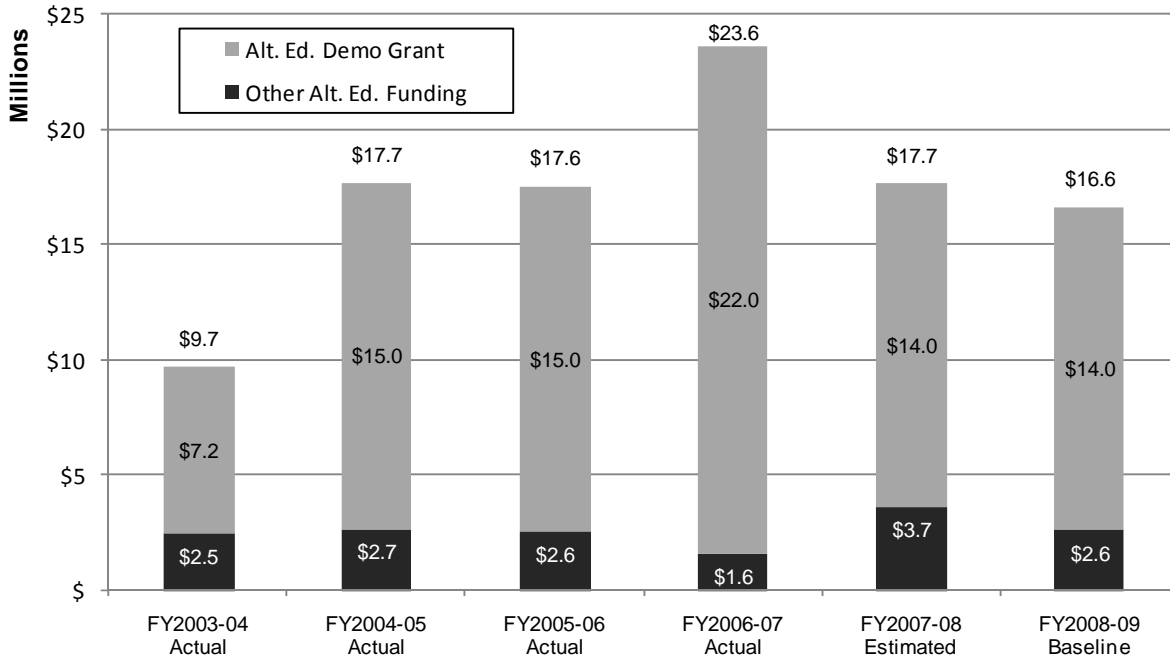
13, Retirement reimbursements are anticipated to escalate by more than 300 percent as a result of required actuarial changes to the Public School Employee Retirement System (PSERS).

The table below shows the anticipated growth in State revenues for the School District's General Fund. Due to substantial increases in Basic Education funding proposed in the Governor's FY2009 budget, from FY2009-10 to FY2011-13 these revenues are projected to grow at an average rate of 7.4 percent - significantly greater than the three year historical average growth rate of 4.8 percent.



The projections include the assumption of the continuation of the General Assembly's \$14.0 million appropriation for the Alternative Education Demonstration Grant in FY2008-09 and all out years. The following chart shows total historical State Alternative Education funding as well as projected FY2008-09 funding including the \$14.0 million grant.

**STATE ALTERNATIVE EDUCATION FUNDING
FY2003-04 ACTUAL to FY2008-09 PROJECTED**



The State also provides funding for the Philadelphia Intermediate Unit, which primarily involves special education transportation and program subsidies as well as retirement and social security reimbursements. In total, State Funding for the Intermediate Unit is anticipated to grow at an average rate of 2.2 percent from FY2009-10 through FY2011-12, and 14.4 percent in FY2012-13. The significant increase in revenue growth is driven by the increase in projected retirement contributions and resulting reimbursements from the State.

Multi-Year Plan Assumptions

This following summary table presents a high level overview of the major revenue projection assumptions used in this Five Year Plan to project baseline operating revenues:

	FY2009-10	FY2010-11	FY2011-12	FY2012-13
General Fund				
<u>Local Tax Revenue</u>				
Real Estate Tax - Current	4.45%	3.77%	3.91%	4.09%
Real Estate Tax - Delinquent	Refer to Detail in Revenue Section of Plan			
Non-Business Income Tax	0.00%	0.00%	0.00%	0.00%
Business Use and Occupancy Tax	1.50%	1.50%	1.50%	1.50%
Liquor Sales Tax	3.00%	3.00%	3.00%	3.00%
<u>Local Non-Tax Revenue</u>				
Interest on Temporary Investments	0.00%	0.00%	0.00%	0.00%
Reimbursements from Other Funds	1.15%	1.15%	1.15%	1.15%
City Appropriation	0.00%	0.00%	0.00%	0.00%
Bank Settlement for U&O Tax	0.00%	0.00%	0.00%	0.00%
Stadium Agreement	0.00%	0.00%	0.00%	0.00%
Parking Authority Payments	0.00%	0.00%	0.00%	0.00%
Voluntary Contribution Program	0.00%	0.00%	0.00%	0.00%
Miscellaneous Non-Tax	0.00%	0.00%	0.00%	0.00%
<u>State Revenue</u>				
Gross Basic Education	15.89%	11.74%	10.99%	0.00%
Prior Year IU Advance	Refer to Detail in Revenue Section of Plan			
Debt Service	Refer to Detail in Revenue Section of Plan			
School Health Programs	-2.45%	-2.45%	-2.45%	-2.45%
Tuition	0.00%	0.00%	0.00%	0.00%
Vocational Education	0.00%	0.00%	0.00%	0.00%
Transportation	1.03%	0.77%	1.41%	1.25%
Special Education	2.51%	2.51%	2.51%	2.51%
Alternative Education	0.00%	0.00%	0.00%	0.00%
Charter School Funding ²	32.45%	32.45%	32.45%	32.45%
Misc. State Subsidies	0.00%	0.00%	0.00%	0.00%
Retirement	1.37%	1.75%	2.17%	168.94%
Social Security	1.37%	1.75%	2.17%	2.38%
<u>Federal Revenue</u>				
Impacted Area Aid	0.00%	0.00%	0.00%	0.00%
Intermediate Unit				
<u>Local Non-Tax Revenue</u>				
Special Education Prog. Tuition	0.00%	0.00%	0.00%	0.00%
Special Education Trans. Interest	0.00%	0.00%	0.00%	0.00%
Act 89 - Non-Public School Interest	0.00%	0.00%	0.00%	0.00%
<u>State Revenue</u>				
Management Services Program	0.00%	0.00%	0.00%	0.00%
Special Education Program	2.09%	2.09%	2.09%	2.09%
Special Education Transportation	3.10%	3.02%	2.89%	3.00%
Non-Public School Program	2.00%	2.00%	2.00%	2.00%
Retirement	1.37%	1.75%	2.17%	168.94%
Social Security	1.37%	1.75%	2.17%	2.38%

² Expressed as a percentage of charter school expenditures

Revenue Detail

General Fund Revenue

Local Tax Revenue:

Real Estate Tax Current. School District revenue projections are consistent with City FY2009 to FY2013 projections, and are assumed to be proportional to respective taxation rates. Real Estate taxes are taxed at 49.59 mills of assessed valuation by the School District and the total School and City levy is 82.64 mills; District collections are therefore assumed to be approximately 1.50 times (=49.59/33.05) City collections.

- Five-year average growth in current is 4.60 percent for the school district. The three most recent years' average growth rate is more modest at 3.07 percent. In FY2002-03, a portion of the City's tax rate was transferred to the School District, creating a spike in collections for the school district. Another millage transfer occurred in FY2007-08. City and School District collections and growth rates are shown below.

COMBINED REAL ESTATE COLLECTIONS –SCHOOL DISTRICT AND CITY³

Tax		Actual FY2002-03	Actual FY2003-04	Actual FY2004-05	Actual FY2005-06	Actual FY2006-07
School	Real Estate Tax – Current	451,066,708	458,085,281	486,814,775	493,146,749	501,282,361
School	Real Estate Tax - Delinquent	37,615,252	55,437,680	49,459,199	53,862,636	50,165,318
City	Real Estate Tax – Current	329,400,000	332,600,000	353,200,000	354,100,000	367,300,000
City	Real Estate Tax - Delinquent	31,700,000	45,100,000	39,500,000	41,800,000	30,300,000
Total School and City		849,781,960	891,222,961	928,973,974	942,909,385	948,516,679
Annual Growth Rate		n/a	4.88%	4.24%	1.50%	0.59%

- City growth rates for current real estate taxes for the projection period are shown in the table below.⁴ These same rates have been adopted for out year projections.

FY2008-09: 4.71 percent
 FY2009-10: 4.45 percent
 FY2010-11: 3.77 percent
 FY2011-12: 3.91 percent
 FY2012-13: 4.09 percent

- City projections are consistent with historical trends.

Real Estate Tax Delinquent. For delinquent taxes, the District's property tax is also 1.50 times (=49.59/33.05) the City levy. Delinquent tax receipts are a percentage of prior years' uncollected taxes, remitted during the current fiscal year. Revenue received from real estate taxes are a measure of assessed values, mills collected, and collections rates. Prior to FY2003, the ratio of District to City levies was 1.21 compared to 1.38. As the proportion of remitted delinquencies

³ Historical revenue receipts from City are from the City of Philadelphia FY2009 Five Year Financial Plan.

⁴ City of Philadelphia FY2009 Five Year Financial Plan, page 27.

dating before FY2003 declines, the ratio between District to City receipts nears 1.38. The table below illustrates this trend. The increase from 0.97 percent to 1.19 percent in FY2002-03 reflects the FY2003 transfer of City mills to the District, subsequent growth in the ratio to 1.23 percent in FY2003-04 and 1.25 percent in FY2004-05 reflect the declining percentage of pre-FY2003 delinquencies.

Tax		Actual FY2001-02	Actual FY2002-03	Actual FY2003-04	Actual FY2004-05	Actual FY2005-06
School	Real Estate Tax - Delinquent	39,188,455	37,615,252	55,437,680	49,459,199	53,862,636
City	Real Estate Tax - Delinquent	40,400,000	31,700,000	45,100,000	39,500,000	41,759,000
	School / City Ratio	97.0%	118.7%	122.9%	125.2%	129.0%

Similarly, in FY2007-08 another millage transfer increased the ratio of District to City levies from 1.38 to 1.50. In the years ahead, it is expected that the increased millage will gradually shift the ratio of delinquent District to City receipts until it approaches 1.50.

For out years, the City Five-Year Plan projections for delinquent real estate taxes have been used as the base, and an additional 0.2 percent District/City receipts rate has been assumed annually to reflect the percentage of SDP receivables that include the millage transfer from the City in FY2007-08. Revenue projections derived from this projection method are shown below:

FY2008-09 DELINQUENT TAX REVENUE PROJECTIONS

	Budget FY2008-09	Projected FY2009-10	Projected FY2010-11	Projected FY2011-12	Projected FY2012-13
City Receipts †	36,000,000	36,000,000	35,000,000	35,000,000	35,000,000
District / City Receipts	1.430	1.450	1.470	1.490	1.500
School District Receipts	51,480,000 ‡	52,200,000	51,450,000	52,150,000	52,500,000

† From City's FY2009 Five Year Financial Plan.

‡ District FY2008-09 Baseline Budget

School (Non-Business) Income Tax. The School Income tax is levied at 4.26 percent on the non-business income of Philadelphia residents, such as dividends, interest on securities, short term capital gain, rental income, etc. As such, revenue from the tax is volatile and tends to fluctuate according to market conditions. In addition, the income tax rate changes with the City wage tax and as such will continue to decline in out-years.

- Five year average growth in non-business income tax is 8.12 percent. Average growth for the three most recent fiscal years has been higher at 18.11 percent.
- A growth factor of **zero percent** has been assumed for out year projections. Current economic conditions suggest a downturn, and flat growth over the next five years was used as a conservative estimate. Negative growth is also not unprecedented. In the five years following FY1999-00, non-business income tax revenue declined by an average rate of 3.14 percent annually. School Income Tax revenue for FY2003-04 through FY2007-08 is shown below.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
School Income Tax	14,604,624	17,617,205	20,013,029	24,034,663	24,500,000

Business Use and Occupancy Tax. This tax is levied on the use or occupancy of real estate within the School District for the purpose of carrying on any business, trade, occupation, profession, vocation, or any other commercial or industrial activity. The current rate is \$4.62 per \$100 assessed value of real estate.⁵

- The five year average growth rate for this revenue is 2.18 percent. Average growth for the three most current years is similar at 2.59 percent. In FY2006-07, growth in this revenue source was held flat. Growth in FY2007-08 is projected to be 4.67 percent, and the District is projecting modest growth of 0.92 percent in FY2007-08.
- A growth factor of 1.50 percent has been projected for out year projections. This is slightly less than the three and five year historical averages and more consistent with the most recent growth rate.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Business Use and Occupancy Tax	96,153,860	99,049,775	103,761,796	103,756,879	108,000,000

Liquor Sales Tax. Effective January 1, 1995, the liquor sales tax was levied on the sale, at retail, of liquor and malt, and brewed beverages at the rate of 10 percent of the sales price by ordinance of City Council.

- The five year average growth rate for liquor sales tax is 6.96 percent. Growth over the past three years has been consistently positive and has ranged from 2.56 percent in FY2004-05 to 12.71 percent in FY2005-06. A rate of 3.0 percent has been assumed for projections, which is more conservative than five year historical averages but still assumes continued growth.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Liquor Sales Tax	33,081,679	33,930,160	38,241,426	39,330,766	41,150,000

Public Utility Realty Tax. The Public Utility Realty Tax, enabled by Act 66 of 1970, provides that the Bureau of Corporation Taxes distribute to local taxing authorities the amounts collected based on realty of various public utilities located throughout the Commonwealth. This tax is imposed in lieu of local real estate taxes.

- The five year average annual growth in this revenue is 1.06 percent. Trends in this revenue has been irregular, with declines in actual receipts noted in FY2002-03, FY2004-05, and predicted again in FY2007-08. Amendments to this tax in May of 1999 changed the base of

⁵ Definition provided by Office of Management and Budget, School District of Philadelphia

the tax and tied timing of payment of the tax. The effect of the changes, together with deregulation of the utilities in Pennsylvania, has reduced the yield on this tax.

- Consistent with the District’s recommendations and past practices, a 0.0 percent growth factor has been used for out year projections.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Public Utility Realty Tax	1,055,433	857,055	1,096,214	1,122,686	1,049,000

Local Non-Tax Revenue

Interest on Temporary Investments. This revenue reflects interest earned on tax revenue anticipation notes (TRAN) of \$570 million. In addition, the District also earned interest on a \$220 million advance from the State, received in January of 2008. In FY2008-09, the District expects to use the State advance to reduce the amount of TRAN issued to \$350 million.

- Five year historical averages for this revenue have varied considerably. Actual revenue receipts from the past five fiscal years have ranged from \$2.1 million in FY2003-04 to \$20.7 million in FY2006-07.
- For the out-years, a zero percent growth rate has been used.
- In FY2008-09 and all out years, revenue from this source is projected to be \$5.9 million

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Interest on Temporary Investments	2,097,939	8,472,639	9,446,425	20,687,966	15,772,000

City Appropriation. This revenue represents an assignment of funds by the City of Philadelphia to the School District for operating purposes.

- For the past five years the City has made an appropriation of \$35.0 million to the School District. In FY2007-08 the City increased the appropriation to \$37.0 million. Zero percent growth has been assumed for out year projections, consistent with the City’s FY2009 Five Year Financial Plan.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
City Appropriation	35,000,000	35,000,000	35,000,000	35,000,000	37,000,000

Bank Settlement for Use and Occupancy Tax. This agreement, between PNC Bank, Wachovia Bank, and other banks and trust companies and the City of Philadelphia, is a settlement of existing and asserted legal disputes concerning the applicability of the School District Use and Occupancy Tax. The current agreement is dated as of January 2004 and will be received only through FY2008 unless a new agreement is settled. The settlement from FY1999-00 to FY2002-03 was an annual payment of \$4.5 million. The settlement from FY2003-04 to the current year has ranged from \$2.5 to \$2.8 million.

- The Bank Settlement is assumed to yield \$2.50 million in FY2008-09 with zero percent growth all out-years. However, this assumption has been identified as a risk as no new agreement had been signed as of the time of writing. If no agreement is reached, the projected fiscal gap can be expected to increase by \$2.50 million annually.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Bank Use and Occupancy Settlement	2,649,778	2,501,324	2,819,131	2,590,472	2,590,000

Stadium Agreements. The School District Office of Management and Budget expects that stadium agreements with the Spectrum Arena/Wachovia Center, the Philadelphia Eagles and the Phillies will provide consistent, stable revenues over the five year projection period.

- The \$3.0 million annual payments are pursuant to 30-year agreements beginning in FY2000 for the Spectrum Arena/Wachovia Center and in FY2007 for the Philadelphia Eagles’ Lincoln Financial Field and the Phillies’ Citizens Bank Park.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Stadium Agreements	1,159,200	1,159,200	1,159,200	2,898,000	3,000,000

Reimbursement from Other Funds. This represents a reimbursement of costs for administrative and support services provided by the General Fund to the Food Service Fund (an enterprise fund), a small portion of these reimbursement costs are for the rental of School District facilities for the Print Shop (an internal services fund).

- The five year average rate of change for this revenue is 1.15 percent. The average for the three most current years is -0.41 percent. Actual reimbursements declined from \$7.67 million in FY2003-04 to \$6.50 million in FY2005-06 before rising again to \$7.45 million in FY2006-07
- A zero percent growth rate has been assumed for out-years.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Reimbursement from Other Funds	7,667,624	7,221,142	6,501,987	7,448,164	7,224,000

Miscellaneous Non-Tax Revenues. These receipts are from various sources such as rentals, parent fees, refunds of prior year expenditures, etc.

- The five year average growth rate for these revenues has been -14.20 percent. Current year projection of \$5.60 million is above actual FY2006-07 revenue receipts of \$1.35 million although similar to FY2003-04 receipts of \$4.96 million.
- Given the variability of this revenue, zero percent has been applied for out-year projections.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Misc. Non-Tax Revenues	4,955,062	2,304,430	2,608,124	1,345,695	5,600,000

State Revenue

Gross Basic Education. The gross basic education subsidy reimburses districts for part of their operational costs. For FY2007-08, all districts receive a share of the State base plus a share of any of nine supplements, if qualifications are met. A hold harmless supplement ensures that individual Districts do not receive an amount lower than their FY2006-07 base. For FY2007-08, Philadelphia qualified for four of the nine supplements: poverty, foundation, limited English proficiency, and a base supplement.

- Five year average annual growth for this revenue has been 4.04 percent; the three most current years' growth has been slightly greater at 4.58 percent.
- For all out years through FY2012-13, an average increase of 9.7 percent is projected, consistent with the Governor's proposed budget.
- Starting in FY2006-07, an additional previously separate appropriation of \$25 million was added to account for a supplemental state appropriation associated with partnership schools.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Gross Basic Education	745,278,333	769,917,234	787,557,224	851,646,099	881,914,000

Reimbursement of Prior Year's Intermediate Unit Advances. Current year costs are primarily based on prior year state advances for intermediate unit transportation costs. School districts are required to partially reimburse the State the cost of transporting district students. The Philadelphia Intermediate Unit's reimbursement to the state for the past five fiscal years has averaged 79.5 percent; this same formula is projected for out year projections.

Fiscal Year	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06
State Subsidy for IU #26 Transportation	34,518,770	37,238,858	38,718,603	42,238,375	44,087,736
Following Year Cost to Philadelphia school district	26,971,432	29,407,397	30,776,951	33,690,041	(35,699,401)
Percent Transportation Costs reimbursed by PSD	78.1	79.0	79.5	79.8	81.0

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Transportation Reimbursement	(29,407,397)	(30,776,951)	(33,690,041)	(35,699,401)	(21,673,000)

In FY2007-08, the State reduced the required reimbursement to compensate the District for the required changes in SEPTA funding. The State provided \$16.1 million, to be repaid over three years.

The table below shows the FY2008-09 baseline transportation advances and out year projections for reimbursements.

Year of Advance	IU Transportation Advance	Year of Reimbursement	% Reimbursement of Prior Year Advance	Repayment of State's SEPTA Advance	Total Reimbursement of Prior Year Advance
FY2008-09	50,075,000	FY2009-10	79.5	(5,367,000)	(45,176,625)
FY2009-10	51,158,025	FY2010-11	79.5	(5,367,000)	(46,037,630)
FY2010-11	52,445,451	FY2011-12	79.5	0	(41,694,133)
FY2011-12	53,765,062	FY2012-13	79.5	0	(42,743,224)

Net Basic Education. This calculation is gross basic education less reimbursement of prior year's Intermediate Unit advances.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Net Basic Education	715,870,936	739,140,283	753,867,183	815,946,698	860,241,000

Debt Service. The state subsidizes the costs of construction, renovation, or purchase of school facilities based on a maximum reimbursable amount and a district's relative wealth. Act 46 of 2005 increased state per-pupil reimbursement rates to \$4,700 for an elementary building, \$6,200 for a secondary building, and \$7,600 for a vocational building. Additional reimbursements are available for construction projects that use pre-approved Department of Education designs. The debt service reimbursements anticipated for the term of the Plan are as follows and include an additional \$250 million borrowing anticipated for December 2008. The table below details the State debt service reimbursement.

As shown in the following table, four additional borrowings are anticipated from FY2009-10 to FY2012-13. No additional state subsidies have been projected for these out year borrowings for conservatism. Additionally, the PLANCON process to determine eligibility for reimbursement is an eleven step process that can take at least one year before any revenues could be determined precisely. The District should continue to seek maximization of PLANCON reimbursement through the strategic bundling of projects.

Fiscal Year	Current Debt	\$270 million	\$250 million	\$160 million	\$160 million	\$160 million	Total
FY2008-09	\$12,877,770	\$1,059,230	-	-	-	-	\$13,937,000
FY2009-10	\$10,533,169	\$1,059,230	TBD	-	-	-	\$11,592,399
FY2010-11	\$9,062,022	\$1,059,230	TBD	TBD	-	-	\$10,121,252
FY2011-12	\$9,320,025	\$1,059,230	TBD	TBD	TBD	-	\$10,379,255
FY2012-13	\$9,500,000	\$1,059,230	TBD	TBD	TBD	TBD	\$10,559,230

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Debt Service Subsidy	5,444,946	4,471,924	10,600,600	14,758,133	20,318,000

School Health Programs – Medical and Dental and Nurse. The Department of Health pays the School District a subsidy based upon the total pupil enrollment, provided requirements of the School Health Act are met. For all parochial, private and public schools in the program, the Philadelphia School District receives revenues per pupil enrolled: \$7.00 for nurse services; \$9.70 for health services, \$1.60 for medical services, and \$0.80 for dental services adjusted for actual screenings.

- A growth rate of -2.45 percent has been projected, consistent with five year average growth.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
School Health Programs	4,541,081	4,409,423	4,456,596	4,262,308	4,270,000

Tuition. The Department of Education pays the Philadelphia School District its approved tuition rate for non-resident pupils who are placed by child-placement agencies in foster homes and for state wards in institutions located in Philadelphia.⁶

- Historical receipts have varied widely due to the varying number of qualifying pupils. Five year average annual growth has been -1.44 percent. A zero percent growth factor has been applied for out-year projections.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Tuition	918,279	429,338	617,935	363,921	551,000

Vocational Education. The School District shall be paid, in addition to other subsidies to which it is entitled, an amount based on number of students enrolled in approved vocational programs. All payments are proportionately reduced if the state does not appropriate enough to fully fund the formula.

- State funding for this program has varied considerably over the past five years. The average five year average annual growth for this revenue is 3.79 percent, although in the three most current years average growth is 14.45 percent.
- While growth has been consistently positive since FY2003-04, this revenue source is expected to decrease slightly in FY2007-08. A conservative out year growth rate of zero percent was used, consistent with District projections.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Vocational Education	6,497,943	7,588,570	8,272,383	9,724,221	9,420,000

Transportation. The district is reimbursed for transporting elementary school children living in

⁶ Description provided by Philadelphia School District Office of Management and Budget.

excess of 1.5 miles from school, secondary school students living in excess of 2 miles from school and for children under these mileage limits who travel on certified hazardous routes. The reimbursable cost is multiplied by the District's Aid ratio. The state pays the *lesser* of the approved reimbursement cost (ARC) or the actual costs of transportation multiplied by aid ratio based solely upon a district's relative market value.⁷ An additional \$385 is provided per non-public or charter school pupil transported.

- The five year average annual growth rate is 8.92 percent due to an unusually large adjustment in reimbursement levels for FY2002-03 when the per-pupil reimbursement was increased from \$285 to \$385. The three year average rate of growth is 2.94 percent. The growth projections incorporate the 2.5 percent growth assumption for fare based student transportation discussed in the Expenditure section, but are otherwise consistent with historical projection methodologies and past practices.
- In FY2008-09 transportation revenue is projected to increase by 70.75 percent as a result of the change from partially subsidized SEPTA tokens to free weekly passes.

Growth Rate	
FY2008-09	68.65 percent
FY2009-10	1.03 percent
FY2010-11	0.77 percent
FY2011-12	1.41 percent
FY2012-13	1.25 percent

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Transportation	25,700,907	27,071,276	27,026,936	28,015,846	25,178,000

Special Appropriation. The State appropriation of \$25 million to the School District was combined with the Gross Basic Education Subsidy beginning in FY2006-07. The appropriation was allocated towards the diverse provider model and has since been combined with the Basic Education Subsidy.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Special Appropriation	25,000,000	25,000,000	25,000,000	0	0

Special Education (General Fund). For FY2007-08, a district's special education appropriation is equal to the FY2006-07 subsidy plus a pro rata share of \$27.0 million in new funding based on its 2007-08 market value/personal income aid ratio applied to 16 percent of its 2006-07 average daily membership. Some school districts in the State also receive an inflation index supplement and a supplement that guarantees a two percent increase in total funding. In

⁷ Approved reimbursable costs (ARC) is a factor based on vehicle capacity, mileage traveled, utilized passenger capacity, and excess driver hours in congested areas, and is adjusted by the consumer price index. The Education Policy and Leadership Center, Pennsylvania Education Finance Primer, November 2006, p15.

FY2007-08, the School District of Philadelphia received the prior year's grant plus the pro rata share base supplement only.

- The five year annual growth rate for special education funding is 2.51 percent. A slightly higher average growth rate of 2.60 percent is noted for the three most recent fiscal years.
- A growth rate of 2.51 percent has used for out-years, consistent with historical growth.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Special Education	111,420,299	113,999,817	117,082,645	120,328,609	124,631,000

Alternative Education. The Philadelphia School District receives reimbursement based on the number of students enrolled in its disciplinary schools from the Disruptive Youth Grant. Additionally, a Demonstration grant is provided to make available private alternative disciplinary education, for anticipated students.

- The five year average annual growth rate for this grant has been 57.61 percent, mainly due to a large increase in FY2004-05. Grant revenues declined from \$17.71 million in FY2004-05 to \$17.56 million in FY2005-06, and current year estimated collections show a 25.31 percent decrease from prior year actuals.
- A growth factor of **zero percent** has been applied for out year projections.
- The \$14 million Alternative Education Demonstration Grant is assumed to be received in FY2008-09 and all out years.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Alternative Education	9,713,857	17,708,355	17,560,557	23,641,817	17,522,000

Charter School Funding. Charter school legislation provides for funding of up to 30 percent of the prior year's Charter School payments. However, in FY2007-08, the Legislature passed legislation increasing the cap on the reimbursement for charter school expenses to 32.45 percent for the Philadelphia School District.

- Prior to FY2007-08 the District had not received a reimbursement rate over 28.0 percent. Out year projections are assumed at 32.45 percent of prior year expenses based on the Governor's proposed budget level.

Year Expenditures Incurred	Estimated Expenditures	Year Expenditures Reimbursed	Reimbursement @ 32.45 percent
FY2008-09	316,682,330	FY2009-10	102,763,416
FY2009-10	345,717,031	FY2010-11	112,185,176
FY2010-11	371,295,308	FY2011-12	120,485,327
FY2011-12	395,947,886	FY2012-13	128,485,089

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Charter School Funding	28,446,656	41,984,209	46,498,454	60,626,884	77,880,000

Miscellaneous State Subsidies. Included here are receipts from various state sources such as the Homebound and Migratory Children programs.

- The five year average growth for this revenue is 39.29 percent; three year average growth is 75.48 percent.
- Given the volatility of this revenue source and its relatively small budget impact, a zero percent growth factor has been used for out years.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Miscellaneous State Subsidies	27,335	40,641	25,408	80,094	60,000

Retirement and Social Security. All public schools within the Commonwealth are eligible for reimbursement of Social Security and Retirement contributions. This amount is equal to 50 percent of contributions for employees hired before July 1, 1994, or the *greater* of 50 percent market value/ personal income aid ratio for employees hired on or after July 1, 1994. Philadelphia 2006-07 market value/ personal income ratio is equal to 0.7084.

- For FY2008-09, the School District has assumed a blended rate of 0.6045. Consistent with the growth factors for social security and retirement payments described in the expenditure section, the following rates have been used for the out year reimbursement levels.

	Retirement	Social Security
FY2008-09	3.70 percent	3.44 percent
FY2009-10	1.37 percent	1.38 percent
FY2010-11	1.75 percent	1.75 percent
FY2011-12	2.17 percent	2.17 percent
FY2012-13	168.95 percent	2.38 percent

PSERS retirement contributions are based on published PSERS rates. The current rate of 7.13 percent of salaries has been assumed for FY2008-09 through FY2011-12 in anticipation of potential legislation that would limit the impact of the sharp increase in FY2012-13. In FY2013, the employer contribution rate rises sharply due to changes in PSERS funding methodologies required by Act 38 of 2002 and Act 40 of 2004, discussed in detail in the expenditures section. The projected employer contribution rates follow:

Projected PSERS Employer Contribution Rates (% of Salary)	
FY2008-09	7.13 percent
FY2009-10	7.13 percent
FY2010-11	7.13 percent
FY2011-12	7.13 percent
FY2012-13	18.73 percent

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Retirement and Social Security	66,789,774	66,916,669	69,909,121	76,140,136	83,691,000

Intermediate Unit

Local Non-Tax Revenue

Special Education Tuition. The Intermediate Unit receives payments by other districts for their special education pupils who are educated by the Philadelphia Intermediate Unit.

- Average annual growth for this revenue source from FY2003-04 through FY2005-06 is - 17.39 percent. In FY2006-07 revenue increased to \$302,467, and the most recent FY2007-08 estimates are slightly higher at \$317,000.
- A growth factor of zero percent has been assumed for out year projections.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Special Education Tuition	92,291	60,588	73,641	302,467	317,000

Special Education Transportation Interest. This interest is received on the Intermediate Unit's investment of special education transportation payments by the District.

- Five year average annual growth for this revenue is 50.43 percent.
- A growth factor of zero percent has been assumed for out year projections.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Special Education Transportation Interest	56,059	142,263	261,143	483,323	312,000

State Revenue

Management Services Program. This revenue covers management services contracted from the Philadelphia School District by the Intermediate Unit.

- The revenue from the management services contract has been \$560,105 since FY2001-02. Zero percent growth has been projected for the out years.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Management Services Program	560,105	560,105	560,105	560,105	560,000

Special Education Program. The Philadelphia Intermediate Unit contracts with the School District to provide instruction for exceptional children. The Intermediate Unit receives an allocation computed by the Commonwealth representing core funding.

- The five year average annual growth rate for special education funding is 2.09 percent. A similar average growth rate of 2.06 percent is noted for the three most recent fiscal years.
- A growth rate of 2.09 percent has been projected for out years, consistent with historical trends.

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Special Education Program	3,991,573	4,092,938	4,183,280	4,242,823	4,276,000

Special Education Transportation. The Philadelphia Intermediate Unit contracts with the School District for transportation of exceptional pupils. The Philadelphia Intermediate Unit receives full advanced funding of its approved costs from the Commonwealth. The total amount received is the full allocated IU transportation cost less Special Education Transportation Interest.

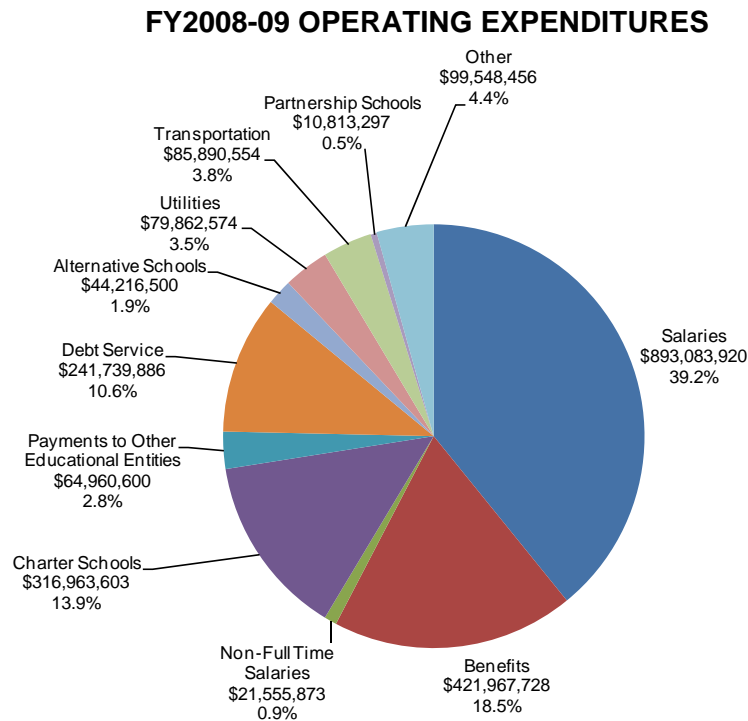
- The five year annual growth rate for special education transportation is 6.04 percent. An average annual growth rate of 6.12 percent is noted for the three most recent fiscal years. Any growth in this revenue source is offset by the allocated IU Transportation costs on the expenditure side of the budget.
- Growth factors consistent with the expected increased in intermediate unit transportation costs have been applied, as detailed in the expenditure assumption. Projected Special Education Transportation Interest has been subtracted from IU Transportation allocated costs to arrive at the projected Special Education Transportation Subsidy.

	IU Transportation Allocated Cost	Special Education Trans. Interest	Special Education Transportation
FY2008-09	50,241,000	339,000	50,075,000
FY2009-10	51,497,025	339,000	51,158,025
FY2010-11	52,784,451	339,000	52,445,451
FY2011-12	54,104,062	339,000	53,765,062
FY2012-13	55,456,663	339,000	55,117,663

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Special Education Trans.	38,718,603	42,238,375	44,087,736	46,239,015	48,201,000

Expenditures

This section of the Multi-Year Financial Plan discusses the District’s major expenditure categories in detail. Overall operating expenditures for FY2008-09 are projected to be \$2.3 billion comprised of the following major cost drivers:



The Multi-Year Plan also includes baseline projections for each fiscal year through FY2012-13. The assumptions for each major expenditure category, as well as smaller subcategories of expenditures not shown above, are discussed throughout the remainder of this section.

While moderate annual growth is expected and some targeted spending reductions have already been implemented in the current fiscal year, the District’s expenditures are projected to have an average annual growth rate of 6.7 percent from FY2008-09 to FY2012-13. Projected employee benefit costs trending towards national experience as well as growth in charter school payments and utility costs are the primary reasons why such expenditure growth in FY2008-09 and all out years of this Plan exceeds projected growth in general consumer prices of approximately 2.5 percent.⁸

⁸ Long-run average consumer price index forecast as of February, 2008; Survey of Professional Forecasters; Federal Reserve Bank of Philadelphia.

**GENERAL FUND PROJECTED EXPENDITURES
FY2009 – FY2013**

	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
Full Time Salaries	893,083,920	890,561,857	888,426,031	890,099,980	893,639,713
Non-Full Time Salaries	21,555,873	21,555,873	21,555,873	21,555,873	21,555,873
Benefits	421,967,728	447,223,731	472,353,706	501,456,432	648,461,184
3000-9000 Major Objects	84,573,260	104,403,876	106,563,978	108,778,082	111,047,539
Charter Schools	316,963,603	346,005,336	371,590,821	396,250,786	419,057,323
Payments to Other Educational Entities	64,960,600	67,771,285	70,703,581	73,762,750	76,954,282
Debt Service	241,739,886	263,240,385	277,801,048	288,190,568	298,475,428
Alternative Schools	44,216,500	45,321,913	46,454,960	47,616,334	48,806,743
Utilities	79,862,574	85,393,739	98,597,633	105,115,212	112,152,104
Transportation	85,890,554	88,401,128	91,024,682	93,769,013	96,642,936
Partnership Schools	10,813,297	10,813,297	10,813,297	10,813,297	10,813,297
Achievement Expenditures	Included Above	84,207,454	144,599,349	204,605,320	204,605,320
Other	14,975,196	28,203,415	46,010,888	64,405,596	83,419,637
TOTAL EXPENDITURES	2,280,602,991	2,483,103,289	2,646,495,847	2,806,419,243	3,025,631,379

Multi-Year Plan Assumptions

This following summary table presents a high level overview of the major expenditure projection assumptions used in this Five Year Plan to project baseline operating expenditures:

BASELINE PROJECTION EXPENDITURE ASSUMPTIONS

	FY2009-10	FY2010-11	FY2011-12	FY2012-13
Inflation	2.50%	2.50%	2.50%	2.50%
District Enrollment	-2.49%	-2.42%	-1.45%	-0.97%
Salaries				
Salaries	0.80%	0.80%	0.80%	0.80%
Benefits				
Medical Insurance	10.00%	10.00%	10.00%	10.00%
Life Insurance	10.00%	10.00%	10.00%	10.00%
Social Security Contributions ¹	7.65%	7.65%	7.65%	7.65%
Retirement Contributions (PSERS) ¹	7.13%	7.13%	7.13%	18.73%
Tuition Reimbursement	0.00%	0.00%	0.00%	0.00%
Unemployment Compensation ¹	0.45%	0.45%	0.45%	0.45%
Worker's Compensation ¹	2.45%	2.45%	2.45%	2.45%
Legal Aid Benefits	10.00%	10.00%	10.00%	10.00%
Health & Welfare	10.00%	10.00%	10.00%	10.00%
Termination Pay ¹	2.41%	2.41%	2.41%	2.41%
Severance Pay ¹	0.91%	0.91%	0.91%	0.91%
Sabbatical Pay ¹	0.48%	0.48%	0.48%	0.48%
Wage Continuation ¹	0.64%	0.64%	0.64%	0.64%
Employee Benefits Admin. Overhead ¹	0.20%	0.20%	0.20%	0.20%
Other				
3000-9000 Object Codes	2.50%	2.50%	2.50%	2.50%
Charter Schools	Refer to Detail in Expenditure Section of Plan			
Payments to Other Educational Entities	4.33%	4.33%	4.33%	4.33%
Alternative Schools	2.50%	2.50%	2.50%	2.50%
Debt Service	Refer to Detail in Expenditure Section of Plan			
Utilities - Electricity	6.00%	30.00%	5.00%	5.00%
Utilities - Natural Gas	10.00%	10.00%	10.00%	10.00%
Utilities - Heating Oil	10.00%	10.00%	10.00%	10.00%
Transportation - SEPTA TransPasses	Refer to Detail in Expenditure Section of Plan			
Transportation - Contracted Busing	2.00%	2.00%	2.00%	2.00%
Transportation - Gasoline	10.00%	10.00%	10.00%	10.00%
Partnership Schools	0.00%	0.00%	0.00%	0.00%
Losses & Judgements	0.00%	0.00%	0.00%	0.00%
Local Share - Early Childhood	0.80%	0.80%	0.80%	0.80%
Local Share - Junior ROTC	0.80%	0.80%	0.80%	0.80%

¹ Variable rate benefits - rates are a percentage of total salaries

Full Time Salaries

From FY2007-08 to FY2008-09, total full time salaries are projected to increase by \$29.8 million or 3.45 percent.

HISTORIC FULL TIME SALARY EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Full Time Salary Expenditures	854,851,331	823,594,531	830,013,105	778,489,535	863,278,747
Percent Change	-	-3.66%	0.78%	-6.21%	10.89%

Over the past five fiscal years total full time salaries have shown some volatility due to factors such as payroll timing and lump sums. At the same time, operating budget headcount has declined by an average of approximately 823 full time employees each year, as shown in the table below.

**HISTORIC FULL TIME EMPLOYEE HEADCOUNT
OPERATING ONLY**

Fiscal Year	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Full-Time Employee Head Count	20,911	20,082	19,763	17,953	17,620
Change in Headcount		-829	-319	-1810	-333
Percent Change	-	-4.0%	-1.6%	-9.2%	-1.9%

For the baseline expenditure projections, staffing levels will be assumed to be constant at FY2008-09 levels, except for the number of classroom teachers which will change as a function of enrollment projections. Regarding wage increase assumptions, FY2007-08 will be the last year of the current union contracts. For FY2008-09 through FY2012-13 where there are currently no contracts in place, no across the board salary increases are assumed. An increase of 0.8 percent is applied in each year to account for the in grade step increases which employees receive in addition to general across the board wage increases as they progress through the pay scale. In addition, the FY2008-09 Budget provides for the annualization of an April 2008 across the board 3.0 percent wage increase for the District's largest union, the Philadelphia Federation of Teachers. As a point of reference, wage increases for the District's employee unions over the last contract term are detailed in the Workforce section of this document.

Non-Full Time Salaries

Non-full time salaries include all types of compensation paid to employees which is not regular base pay. For example, overtime, shift differentials, per diem services, extracurricular compensation, and bonus pay are all considered to be non-full time salary items. From FY2007-08 to FY2008-09, all non-full time salary costs are projected to increase by \$2.4 million, or 12.4 percent.

Historic expenditures for major items in the non-full time salaries category are shown in the table below. The spike in FY2004-05 is representative of \$55.6 million in termination pay which is captured here in the “other” line item. The decline in FY2006-07 is due in part to lower expenditures for overtime as well as savings from insurance recoveries and turnover/delayed hiring. Additionally, due to old accounting methods, proceeds from Early Retirement bonds and Workers Compensation bonds were included in line items in the “other” category listed below. These accounting practices did not allow for the accurate reflection of actual expenses for certain types of non-full time salaries due to the impact of bond proceeds being shown in this category, thus further explaining the volatility of this line item.

HISTORIC NON-FULL TIME SALARY EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Per Diem Services	\$2,966,787	\$7,227,566	\$4,281,540	\$4,047,535	\$11,294,338
Overtime	\$16,756,864	\$14,647,672	\$15,557,404	\$13,979,322	\$11,946,653
Extra-Curricular	\$21,083,332	\$20,910,522	\$18,161,768	\$17,587,967	\$22,778,261
Extended Calendar	\$3,200,409	\$3,793,089	\$3,106,712	\$3,027,958	\$3,576,256
Bonus	\$4,508,735	\$23,259,567	\$7,546,077	\$6,807,071	\$7,098,300
Other	\$2,341,927	\$56,841,833	\$28,352,030	(\$26,961,006)	(\$37,520,326)
Total Non Full Time Salaries	\$50,858,054	\$126,680,249	\$77,005,530	\$18,488,847	\$19,173,482

The negative expenditures in the “other” category are comprised mainly of savings from insurance recoveries and turnover/delayed hiring.

For the baseline expenditure projections, no growth is projected for all non-full time salary items, consistent with salary growth assumptions.

Benefits

In total, benefits expenditures are projected to increase \$7.9 million or 1.9 percent from FY2007-08 to FY2008-09. Fixed benefit expenditures (Health Insurance, Life Insurance, Health and Welfare, and Legal Aid contributions) are driven by per member contribution increases, partially offset by declines in total headcount. The table below shows the District’s expenditures for all benefits over the past five fiscal years. The large decline in FY2004-05 includes the impacts of Early Retirement Bonds and Workers Compensation Bonds, which in prior years were included in the wage continuation budget line.

HISTORIC BENEFITS EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
All Benefits Expenditures	\$369,071,394	\$298,026,201	\$345,197,951	\$394,736,910	\$413,594,055
Percent Change	-	-19.2%	15.8%	14.4%	4.8%

Fixed and Variable Benefits

The District categorizes its benefits as one of two types. Certain benefits are labeled “fixed” benefits because these benefits are not functions of salary and thus are budgeted as specific dollar amounts in each year. Examples of fixed benefits are tuition reimbursement payments, contributions to health and welfare funds, and legal aid benefit payments. “Variable” benefits are a direct function of total District full time salaries in each year. Examples of variable benefits are workers compensation, termination pay, severance pay, and sabbatical pay.

To determine how amounts for variable rate benefits are budgeted, historical data is analyzed for each benefit offered. For example, to budget a dollar amount for expected workers compensation payments the District looks at past experience of workers compensation payments, which have ranged from 1.9 percent of total salaries to 2.5 percent of total salaries. Each of the major benefit lines is discussed in further detail in the following section along with the baseline projection assumptions for each.

Medical Insurance

In 2003-04, the District entered into a contract with Blue Cross/Blue Shield, now the primary provider of the District’s medical plans. That contract does not allow for more than a 12 percent increase each year. The District also pre-pays for its medical insurance for a savings of 6.0 percent. Premium rates are calculated based on a blended rate of families and singles by union.

The following table shows the District’s expenditures for medical insurance over the last several fiscal years.

HISTORIC MEDICAL INSURANCE EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Medical Insurance Expenditures	\$130,318,813	\$137,677,747	\$144,663,266	\$131,678,483	\$140,360,247

The projections assume five percent growth in medical premium rates in FY2008-09 and ten percent each year thereafter. Projected medical insurance expenditures are further adjusted for the projected reduction in the number of teachers due to projected declining enrollment in each of the out years.

Life Insurance

Life insurance is considered a fixed benefit. The following table shows actual expenditures for life insurance over the last several fiscal years.

HISTORIC LIFE INSURANCE EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Life Insurance Expenditures	\$734,768	\$856,794	\$902,262	\$1,159,221	\$1,431,372

Out year projections assume life insurance premium growth of 5.0 percent in FY2008-09 and 10.0 percent thereafter.

CASA Professional Growth

The District contributes \$1,000 per member of the CASA union for professional growth and development activities. Historic data is not available for CASA professional growth expenditures as this benefit was only delineated as a separate line item during FY2006-07. Out year projections assume flat growth for this line item.

Social Security Contributions

The standard employer social security contribution rate is 7.65 percent, subject to a cap on income above levels defined each year by the federal government. The following table shows actual District expenditures for social security contributions over the last several fiscal years.

HISTORIC SOCIAL SECURITY CONTRIBUTIONS

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Social Security Contributions	\$71,624,628	\$73,892,677	\$69,073,546	\$63,306,683	\$67,506,342

For the baseline projections, the mandated rate of 7.65 percent of salaries is assumed in each of the out years.

Public School Employees' Retirement System (PSERS) Retirement Contributions

School Districts across the Commonwealth of Pennsylvania participate in the Commonwealth's state-administered pension program, the Public School Employees Retirement System. In this system, the Commonwealth, the employee, and the School District of Philadelphia are all required to make contributions. The employer contribution rates are set by the State PSERS board and for FY2007-08, the District's contribution is 7.13 percent of payroll costs. This is a blended rate composed of the employer's normal cost, the unfunded liability rate, the preliminary employer pension rate, and the health care contribution. The following table shows actual expenditures for retirement contributions made to PSERS over the last several fiscal years.

HISTORIC RETIREMENT CONTRIBUTIONS

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Retirement Contributions	\$35,606,132	\$37,905,386	\$42,006,292	\$53,320,017	\$62,918,844

The following table shows the PSERS projected total employer contributions rates for the next five fiscal years based on assumptions adopted by the Board on December 8, 2006⁹. However,

⁹ The projection of contribution rates is based on the assumption that there are no changes in demographics or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses

Pennsylvania school districts have been advised to continue the current rate of 7.13 percent in anticipation of legislation correcting the large increase currently projected for FY2013. It is not known how the continuation of the 7.13 percent rate or other market factors may affect the FY2012-13 rate; therefore the published rate of 18.73 percent is still used in the projections.

PROJECTED PSERS EMPLOYER CONTRIBUTION RATES

	FY2008-09 Projected	FY2009-10 Projected	FY2010-11 Projected	FY2011-12 Projected	FY2012-13 Projected
Published Contribution Rate	7.13%	4.74%	4.73%	4.73%	18.73%
Rate Used for Projections	7.13%	7.13%	7.13%	7.13%	18.73%

Tuition Reimbursement

Tuition reimbursement funds are paid to the PFT each year and are only for paraprofessional employees. The current contract stipulates that \$400,000 annually be provided to the PFT for this purpose. The following table shows actual expenditures for tuition reimbursement payments over the last several fiscal years.

HISTORIC TUITION REIMBURSEMENT EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Tuition Reimbursement Expenditures	\$388,753	\$388,994	\$368,865	\$57,806	\$311,213

In recent years, the PFT has not used all of the allocated money for tuition reimbursement. No increase in this item is projected.

Unemployment Compensation

The District is required to pay unemployment compensation to those employees who are laid off from District employment. The level of unemployment compensation is determined by a state agency. This expenditure varies each year depending on how many people are involuntarily separated through the fiscal year. The FY2006-07 rate (as percentage of total salaries) was 0.30 percent (based on actual payments), but the rate for FY2007-08 is expected to increase to 0.45 percent because of the administrative RIF which took place during the course of FY2006-07.

**HISTORIC UNEMPLOYMENT COMPENSATION BENEFIT RATES
(PERCENTAGE OF TOTAL SALARIES)**

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Unemployment Compensation Rate	0.32%	0.30%	0.32%	0.30%	0.44%

on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets.

The following table shows actual expenditures for unemployment compensation payments over the last several fiscal years.

HISTORIC UNEMPLOYMENT COMPENSATION EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Unemployment Compensation Expenditures	\$2,904,459	\$2,845,756	\$2,931,159	\$2,421,671	\$3,882,790

Out year projections use the FY2008-09 rate of 0.45 percent of salaries for unemployment compensation expenditures.

Workers Compensation

The District is self-insured for workers compensation coverage which is paid through the General Fund. The District budgets based on past experience with workers compensation claims. In addition to statutory Worker’s Compensation payments, the District also pays supplemental benefits to employees who are out of work with a work-related injury. The District employs a third party administrator to handle all the workers compensation claims and cases. Additionally, all related legal work is handled by private counsel. The following table shows actual expenditures for workers compensation payments over the last several fiscal years. The negative expenditure number shown in FY2005-06 is the result of Workers Compensation bonds which were issued to fund one time settlements. Actual payments in FY2005-06 totaled \$34.9 million, which included \$12.3 million in one time settlements funded from workers compensation bond proceeds.

HISTORIC WORKER’S COMPENSATION EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Worker’s Compensation Expenditures	18,724,319	17,985,601	(6,617,107)	19,887,444	\$21,443,589

As it is difficult to project the number of on the job injuries that will occur in any given fiscal year, the District uses historic data reflecting its experience with Worker’s Compensation payments to budget anticipated payments for the next five years. The table below shows the rates derived from total worker’s compensation payments divided by total salaries for each of the past four fiscal years.

**HISTORIC WORKER’S COMPENSATION BENEFIT RATES
(PERCENTAGE OF TOTAL SALARIES)**

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Worker’s Compensation Rate	2.07%	1.89%	-0.73%	2.50%	2.45%

For the baseline projections, the FY2007-08 rate of 2.45 percent of salaries is applied to each of the out years.

Legal Aid Benefits

The District makes payments to legal trust funds for some of its unions including PFT and 1201. CASA members and non-represented employees do not receive legal aid benefits. For those units that do receive the benefit, the payment is based on a rate per member and there is a different rate for each union. For example, in FY2006-07 the SPAP benefit rate was \$110 per member and in FY2007-08 the rate is \$118.33 per member. The following table shows actual expenditures for legal aid benefits over the last several fiscal years.

HISTORIC LEGAL AID BENEFITS EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Legal Aid Benefits Expenditures	\$2,323,039	\$2,311,438	\$2,214,096	\$2,101,001	\$2,191,718

FY2007-08 rates are in the contract and are included as the assumptions for the next fiscal year. For FY2008-09 to FY2012-13, no increases are assumed. Adjustments have been made for projected declines in teacher headcount.

Health and Welfare Fund Contributions

The PFT has a Health and Welfare fund which provides supplemental health and welfare benefits to its members which are not part of the District’s supplemental health insurance plans. Each year, the District contributes a certain amount per member towards these health and welfare benefits. In addition to the per member contribution, the District was also contractually required to pay the PFT a lump sum payment of \$12.5 million in both FY2006-07 and FY2007-08. The PFT contract expires at the end of FY2007-08. No lump sum payment is assumed in the out years.

The following table shows actual expenditures for health and welfare payments over the last several fiscal years.

HISTORIC HEALTH & WELFARE EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Health & Welfare Expenditures	\$48,629,879	\$47,673,551	\$50,023,080	\$62,782,568	\$69,175,797

The projections assume a five percent increase in payments per member in FY2008-09 and ten percent in FY2009-10 through FY2012-13. The out year projections do not include any lump sum payments to the Health and Welfare fund. Projections also take into consideration the projected decline in teacher headcount related to the projected decline in enrollment.

Termination Pay

Termination pay is compensation paid to employees for unused vacation, personal, and sick days when they separate from the District. The following table shows actual expenditures for termination pay over the last several fiscal years.

HISTORIC TERMINATION PAY EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Termination Pay Expenditures	\$18,284,375	\$17,447,734	\$17,407,129	\$38,146,366	\$19,413,949

The following table shows the historic rate of termination pay in relation to total salaries paid.

**HISTORIC TERMINATION PAY BENEFIT RATES
(PERCENTAGE OF TOTAL SALARIES)**

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Termination Pay Rate	2.02%	1.84%	1.92%	4.79%	2.41%

For the baseline projections, termination pay expenditures have been projected to be 2.41 percent of total salaries in each of the out years.

Severance Pay

Severance pay is compensation paid to ten month employees upon separation that was previously deducted from the employee’s paycheck so as to pay them for the full twelve months of the year. Severance is essentially deferred salary. The following table shows actual expenditures for severance pay over the last several fiscal years.

HISTORIC SEVERANCE PAY EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Severance Pay Expenditures	\$9,917,461	\$9,372,466	\$9,323,769	\$7,830,658	\$7,942,070

For the baseline projections, severance pay has been projected to be 0.91 percent of total salaries. This rate is based on the historic experience of the District.

Sabbatical Pay

Sabbaticals are statutory benefits that are mandated by the Public School Code. Sabbaticals can be taken for a period of six months at 50 percent of regular salary. Employees are required to start sabbaticals on either September 1 or February 1; the sabbatical may be taken for either health or educational reasons. The following table shows actual expenditures for sabbaticals over the last several fiscal years.

HISTORIC SABBATICAL EXPENDITURES

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
	Actual	Actual	Actual	Actual	Estimate
Sabbatical Expenditures	\$5,806,006	\$6,493,616	\$6,462,649	\$4,265,807	\$4,147,525

The following table shows the historic experience of the District regarding sabbatical pay as a percentage of total salaries. The baseline projections project sabbatical pay at a rate of 0.48 percent of total salaries in each of the out years.

**HISTORIC SABBATICAL BENEFIT RATES
(PERCENTAGE OF TOTAL SALARIES)**

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
	Actual	Actual	Actual	Actual	Estimate
Sabbatical Rate	0.64%	0.68%	0.71%	0.54%	0.48%

Wage Continuation

The District’s self-insured wage continuation program is similar to a short term disability program. This benefit offered by the District is not mandated by the State or Federal government. There is a District paid portion and an employee paid portion. The rates paid by employees depend on the number of sick days in an employee’s sick leave bank; once an employee has over 30 sick days the employee pays a reduced premium, and after 60 sick days are accrued the premium is free. An employee is required to use all sick days before he/she can receive wage continuation benefits.

Historical trend data on wage continuation expenditures is not available as this line item also previously included the impacts of the Early Retirement Bonds and the Workers Compensation Bonds which were issued in prior years. District accounting methods in previous years put expenditures in this line item which were not actual payments for wage continuation. These two bond funds are now empty and future accounting for this line item should provide more consistent trend data. The following table shows the historic experience of the District regarding wage continuation pay as a percentage of total salaries. The baseline projects sabbatical pay at a rate of 0.64 percent of total salaries in each of the out years, consistent with the rate in FY2007-08.

**HISTORIC WAGE CONTINUATION BENEFIT RATES
(PERCENTAGE OF TOTAL SALARIES)**

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
	Actual	Actual	Actual	Actual	Estimate
Wage Continuation Rate	2.63%	-5.98%	0.69%	0.68%	0.64%

Employee Benefits Administrative Overhead

Employees who work in the District’s benefits department are technically considered as a “benefit” and are reflected as part of the cost of providing employee benefits.

The following table shows actual expenditures for employee benefits administrative overhead over the last several fiscal years.

HISTORIC EMPLOYEE BENEFITS ADMINISTRATIVE OVERHEAD EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Benefits Admin Overhead Expenditures	\$0	\$0	\$194,204	\$1,573,805	\$1,764,904

The following table shows the historic experience of the District regarding the benefits administrative overhead rate as a percentage of total salaries. The baseline projects this line item as 0.20 percent of total salaries in each of the out years, consistent with the rate in FY2007-08.

**HISTORIC EMPLOYEE BENEFITS ADMINISTRATIVE OVERHEAD RATES
(PERCENTAGE OF TOTAL SALARIES)**

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Benefits Admin Overhead Rate	-	-	0.02%	0.20%	0.20%

3000 – 9000 Major Object Codes

All non-salary, non-benefit, non-charter schools, non-educational entities, non-debt service, non-alternative schools, non-utilities, non-transportation, and non-partnership school expenditures are included in the general 3000 through 9000 major object codes. Items in this category include Professional and Technical Services, Property Services, Books and Supplies, and various other services. Historical expenditures for these items are shown in the table below.

HISTORIC 3000-9000 EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
3000-9000 Expenditures	\$101,888,001	\$97,412,679	\$108,304,293	\$132,085,705	\$92,451,779

Baseline projections assume rounded inflationary increases of 2.5 percent in each of the next five fiscal years based on CPI-U projections published by the Philadelphia Federal Reserve Bank’s Survey of Professional Forecasters 2008 first quarter release (2/12/08).

Charter Schools

Currently the School Reform Commission (SRC) holds the authority to grant charters in the School District of Philadelphia. Charter schools are established as public non-profit, non-sectarian entities by teachers, parents, institutions of higher education or museums. The District started with four charter schools with a combined allowable enrollment of 870 students in the FY1997-98 school year. Since that year, the District has increased the number of charter schools to a total of 61 schools with total enrollment of nearly 32,000 students.

The District’s charter school costs are based on a per pupil payment made to the charter school based on reported average daily attendance. The funding formula for non-special education pupils in charter schools is the total of district-wide ‘selected budget expenditures’ for non-special education students divided by the estimated total average daily membership of the total City student population (SDP and charter schools). The result is the per pupil rate paid to charter schools for non-special education students. The second part of the calculation process takes the special education expenditures district-wide and divides them by the average daily membership of special education students. Consequently, two factors drive these rates: total expenditures and average daily membership.

While the special education component serves to drive a large portion of the per pupil payment growth, the decline in enrollment that the District continues to experience compounds the growth of the charter school payment growth because the average daily membership is the denominator in the formula that derives the per pupil rate. The per pupil funding formula is discussed in more depth in the charter school section of this plan.

From a non-existent budgetary expense less than ten years ago, charter school payments have rapidly become one of the most significant and fastest growing expenditures in the budget. The following table illustrates the historical growth of District charter school payments.

HISTORIC CHARTER SCHOOL EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Charter School Expenditures	\$152,890,095	\$183,611,967	\$220,650,277	\$240,075,495	\$275,495,372

The baseline projections for the District’s projected charter school expenditures are based on the following assumptions:

- FY2008-09 per pupil payments are based on the current Average Daily Membership and the FY2007-08 estimated budget. Actual FY2008-09 per pupil payments will be based on the FY2007-08 amended budget which will be passed no later than May 31, 2008.
- No additional net charter approvals or expansions beyond those already committed to by the District are included in the projections.
- Out year expenditures are based on expected enrollments multiplied by projected per pupil payments. Historical growth rates were applied to per pupil payments for all out years.

Payments to Other Educational Entities

Expenditures for other educational entities represent payments the District makes to entities which provide services to students who are served in education settings outside of the District. These include severe special education students, delinquents, and students who were abused and neglected. Historic expenditures for payments to the entities that provide these educational services are shown in the table below:

HISTORIC PAYMENTS TO OTHER EDUCATIONAL ENTITIES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Payments to other Educational Entities	\$45,979,627	\$59,333,272	\$61,900,476	\$63,612,252	\$65,570,600

Baseline projections for this expenditure category assume increases of 4.33 percent in each of the out years based on the District’s cost growth in this area above general inflation.

Debt Service

The District issues debt periodically to fund its Capital Improvement Program (CIP) and regular maintenance of existing District owned buildings. Additionally, pending market conditions, the District may issue debt to refund higher interest rate bonds and/or to restructure debt service payments. The District’s historic debt service payments are detailed in the table below. As shown, total payments appear inflated in FY2003-04, FY2004-05, FY2006-07, and FY2007-08 due to bond defeasements which were offset by the same amount on the revenue side.

HISTORIC DEBT SERVICE EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Debt Service Expenditures	\$860,902,582	\$389,144,375	\$162,765,668	\$941,019,403	\$901,263,178
Amount of Bond Defeasements	\$691,989,393	\$256,746,398	-	\$727,979,601	\$682,635,000
Debt Service Expenditures Less Offsetting Bond Defeasements	\$168,913,189	\$132,397,977	\$162,765,668	\$213,039,802	\$218,628,178

For the baseline projections, debt service expenditures assume the following bond issues:

\$250.0 million in FY2008-09; and
\$160.0 million each year thereafter.

As part of the FY2008-09 Budget process, the District chose to delay the issuance of its next planned borrowing by 6 months. As a result, the first principal payment for new debt being issued will not occur until FY2009-10. The purpose of delaying this borrowing is to realize the short-term savings from reducing planned debt service payments in the coming fiscal year.

An interest rate of 5.5 percent has been assumed for future debt service payments.

Utilities

The major cost drivers in the utilities category are electricity, natural gas, and heating oil, which together make up approximately 77.5 percent of all District utility costs. Historic expenditures for all District utilities are shown in the table below:

HISTORIC UTILITIES EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Utilities Expenditures	\$51,790,107	\$59,499,500	\$61,697,126	\$66,133,029	\$73,507,345

Based on regional industry trends, consumption patterns and projections provided by the District’s energy consultants, the baseline assumptions for utilities vary by specific line item. Electricity expenditures are using an inflationary factor of 6.0 percent in FY2009-10. In FY2010-11, electricity pricing caps expire and a price spike of 30.0 percent could be experienced at that time. Electricity growth rate assumptions for FY2011-12 and FY2012-13 are 5.0 percent annually. Projections for natural gas and heating oil increase by a factor of 10.0 percent each year. The actual cost of energy is subject to change because of market conditions and/or supply-side agreements made on the District’s behalf.

Transportation

There are four major components of the District’s transportation expenditures:

- Contracted Bus Services - The District currently contracts out approximately 60.0 percent of bus routes to private vendors.
- Bus Maintenance – Maintenance function is primarily done in house, thus the majority of these expenditures are salary and benefits.
- Weekly TransPasses – The District provides free weekly Transpasses to students in grades 7-12. Prior to FY2007-08, the District partially subsidized tokens and transfers.
- District-owned fleet - The Transportation Services Group provides maintenance support for over 625 District-owned school buses and approximately 430 general-purpose District vehicles that are used primarily by the Office of School Climate and Safety and the Office of Facilities and School Operations. Fuel is also a major component of these costs, with expenditures estimated to be \$3.3 million in FY2007-08. Projections include out year growth rates of ten percent for gasoline.

Historic transportation expenditures are shown in the table below.

HISTORIC TRANSPORTATION EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Transportation Expenditures	\$60,387,789	\$63,645,583	\$67,601,009	\$68,350,394	\$93,365,081

The baseline projections assume that contracted bus services increase at 2.0 percent per year, which is required by contract. Additionally, a fuel escalator clause of 10.0 percent has been factored in for the fuel portion of the contract costs. For the token and transfer expenditures, the baseline projections include assumptions of 2.5 percent increases in SEPTA fares in each of the out years. In light of the most recent SEPTA budget submission, it is recognized that actual fare increases will vary from this assumption – likely occurring less frequently, but potentially at a higher rate of increase for each adjustment. The projections assume that the District takes the responsibility for any fare increases and that they are not passed on to students. Overall, SEPTA student ridership is projected to remain flat over the next five years.

Partnership Schools (EMOs)

In July 2002, the District entered into contracts with several non-profit and for-profit organizations to provide educational management services for 45 of the District’s 78 lowest performing schools. Expenditures for this activity group includes the school budget for each EMO school, a separate payment made to each EMO based on per-pupil enrollment, and central administration related to EMO schools.

HISTORIC PARTNERSHIP SCHOOL EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Partnership School Expenditures	\$22,415,175	\$21,015,401	\$18,233,874	\$16,847,218	\$10,405,417

Baseline projection assumptions for partnership school expenditures assume that costs in each of the out years remain consistent with FY2007-08 levels.

Losses & Judgments

Losses and judgments expenditures reflect liabilities incurred by the District as a result of litigation. In recent years, expenditures for losses and judgments were approximately \$2.0 million, but rose to \$5.2 million in FY2006-07, as shown in the following table.

HISTORIC LOSSES & JUDGMENTS EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Losses & Judgments Expenditures	\$891,680	\$1,996,354	\$2,744,512	\$5,655,737	\$5,900,000

Due to the volatility of this expenditure category, baseline projections assume that costs remain flat at FY2007-08 levels in each of the out years.

Local Shares – Junior ROTC

Historic expenditures for this program are shown in the table below:

HISTORIC JUNIOR ROTC EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Junior ROTC Expenditures	\$1,087,574	\$1,169,757	\$1,840,930	\$1,720,345	\$1,956,000

Because this line item is driven primarily by salary costs, out year projections use a 0.8 percent growth rate, consistent with District salary growth projections.

Local Shares – Early Childhood

Historic expenditures for this program are shown in the table below:

HISTORIC EARLY CHILDHOOD EXPENDITURES

	FY2003-04 Actual	FY2004-05 Actual	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Estimate
Early Childhood Expenditures	\$18,408,083	\$17,538,992	\$13,063,025	\$8,724,818	\$6,440,982

Because this line item is driven primarily by salary costs, out year projections use a 0.8 percent growth rate, consistent with salary growth projections.

APPENDIX B: ENROLLMENT

Student enrollment levels are an important driver of District staffing and resource needs, which, in turn, directly impact the budget. Because of this fiscal significance, it is important to follow and understand the District’s enrollment trends – both historical and projected – as well as the opportunities and challenges created by such trends.

Enrollment History

Over the ten year period from FY1997-98 to FY2006-07, total District enrollment has declined by 44,507 students – more than 20 percent – with the vast majority of this decrease occurring in grades K-6. The complete enrollment history for FY1997-98 to FY2006-07 is shown in the table below.

**DISTRICT ENROLLMENT HISTORY BY GRADE BY YEAR
FY1998-2007¹**

YEAR	GRADE												Total	
	K	1	2	3	4	5	6	7	8	9	10	11		12
1997-1998	17,852	20,074	18,207	16,892	17,220	16,204	16,165	14,835	14,434	23,650	16,616	12,559	10,249	214,957
1998-1999	17,574	19,772	18,172	17,373	16,243	16,565	16,147	15,868	14,340	20,828	16,143	12,455	10,404	211,884
1999-2000	16,430	18,832	17,519	16,794	16,082	15,164	15,561	15,273	15,219	21,172	14,437	12,150	10,567	205,200
2000-2001	14,566	17,204	17,090	16,482	16,194	15,786	15,171	15,993	15,892	21,398	14,448	10,431	10,534	201,189
2001-2002	13,735	15,892	16,266	16,650	16,217	15,696	15,168	14,949	15,392	21,931	15,376	10,641	9,170	197,083
2002-2003	13,200	14,869	14,852	15,850	15,980	15,623	15,331	15,229	14,645	20,892	15,792	11,203	9,217	192,683
2003-2004	13,009	14,491	14,099	14,735	15,294	15,597	15,070	15,234	14,627	18,988	15,601	12,724	10,310	189,779
2004-2005	12,996	14,208	13,774	13,729	14,253	15,099	14,830	14,999	14,666	17,673	14,611	12,235	10,555	183,628
2005-2006	12,890	13,967	13,171	13,213	13,202	13,697	14,175	14,523	14,592	18,622	15,062	12,060	10,707	179,881
2006-2007	12,664	13,498	13,235	12,709	12,802	12,717	13,045	13,698	13,882	18,223	13,935	11,070	8,972	170,450
5 Year Change FY2003-07	-536	-1,371	-1,617	-3,141	-3,178	-2,906	-2,286	-1,531	-763	-2,669	-1,857	-133	-245	-22,233
10 Year Change FY1998-07	-5,188	-6,576	-4,972	-4,183	-4,418	-3,487	-3,120	-1,137	-552	-5,427	-2,681	-1,489	-1,277	-44,507

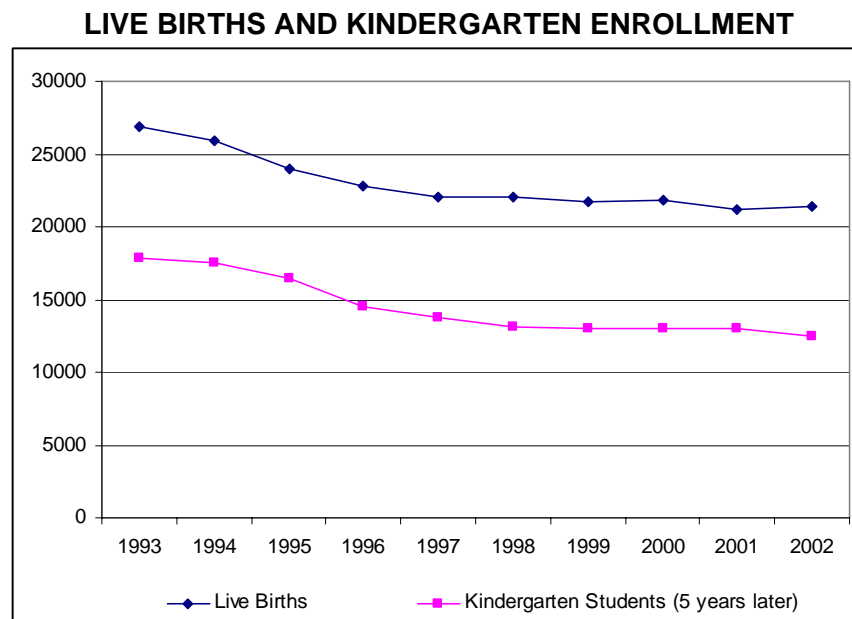
The shaded areas above represent selected periods of significant enrollment decline and help to illustrate the sequence of enrollment changes across grades and years. For example, kindergarten enrollment dropped by a total of 4,565 students (26.0 percent) during the five year period from FY1998-99 to FY2003-04. In turn, that decrease passed on to FY1999-00 to FY2004-05 first grade enrollment and to following years and grades in a similar fashion.

¹ Source: Pennsylvania Department of Education, Public School Enrollment Report. Does not include students in full-time out-of-district special education, comprehensive AVTSs, charter schools, alternative high schools, and juvenile correctional facilities.

A particularly large drop in enrolled ninth grade students may also be noted over the ten year period. Eighth grade enrollment of a given year naturally drives ninth grade enrollment for the following year, yet eighth grade enrollment was fairly stable, losing just 552 students in ten years. Retention rates from eighth to ninth grade, however, fell dramatically from 144.3 percent in FY1998-99 to 124.9 percent in FY2006-07.

There are two possible reasons for that drop in retention. First, more students may have progressed from ninth grade to tenth grade. The eighth to ninth grade retention rate is over 100 percent (that is, a ninth grade class in any given year is generally larger than its cohort eighth grade class from the year before) because a large number of ninth grade students are held back each year. If the number of students who are held back in ninth grade decreases, eighth to ninth grade retention rates will decrease as well. In turn, ninth to tenth grade retention rates should increase as more ninth grade students progress to the tenth grade. Indeed, from FY2001-02 to FY2005-06 ninth to tenth grade retention rates increased from 71.9 percent to 85.2 percent. A second possible reason for a drop in eighth to ninth grade retention rates is an increase in the number of students who drop out either after completing eighth grade or before repeating ninth grade.

On a broader level, live birth statistics for Philadelphia for the years 1992-97 also provide some explanation for the overall decrease in enrollment shown above. The number of live births dropped from 28,038 in 1992 to 22,038 in 1997, a total decrease of 21.4 percent. Because kindergarten begins for most students at age 5, that decline in live births had a direct impact on the kindergarten classes of 1997-98 to 2002-03. The relationship between live birth numbers and the District’s kindergarten enrollment is illustrated in the graph below.



Enrollment Projections

The enrollment projection method used by the Pennsylvania Department of Education (PDE) calculates future enrollments using a combination of live birth data and rates of grade retention. The grade retention rate is expressed as a percentage, and is obtained by dividing the number of students in a given grade from one year by the number of students in the preceding grade from the previous year. Theoretically, it is the rate at which students successfully progress from one grade to the next².

The model used for the baseline financial projections uses the same methodology with one important difference. The PFM model projects enrollments for full-time, non-special education students only. The PDE model includes the District’s special education students, who in some cases may not progress from one grade to the next in the same manner that full-time, non-special education students do. In addition, before the 2006-07 academic year the District assigned every special education student a grade from K through 12. Beginning in 2006-07, low-incidence special education students in Autistic Support, Life Skills Support, and Multiple Disabilities Support programs were included in those programs and not in specific grade levels. The change skewed enrollment projection results significantly.

Enrollment of full-time, non-special education students from academic years 2004-05 through 2007-08 are shown below:

**FULL-TIME, NON-SPECIAL EDUCATION ENROLLMENT
2004-05 THROUGH 2007-08³**

YEAR	GRADE												Total	
	K	1	2	3	4	5	6	7	8	9	10	11		12
2004-2005	12,837	13,847	13,020	12,772	13,162	13,695	13,290	13,187	12,783	15,510	12,826	11,017	9,662	167,608
2005-2006	12,721	13,550	12,549	12,398	12,243	12,524	12,680	12,653	12,467	15,392	12,275	10,065	9,389	160,906
2006-2007	12,402	13,121	12,659	11,912	11,871	11,716	11,814	12,059	12,017	15,478	11,858	10,032	8,626	155,565
2007-2008	12,073	12,888	12,147	12,032	11,503	11,329	10,938	10,983	11,441	14,728	12,337	9,410	8,763	150,572
Change 2004-05 to 2007-08	-764	-959	-873	-740	-1,659	-2,366	-2,352	-2,204	-1,342	-782	-489	-1,607	-899	-17,036

The retention rates used in the model are based on actual rates recorded in FY2004-05 through FY2007-08. As shown in the following table, retention rates can vary considerably from year to year and vary significantly more in grades nine through twelve. In the analysis below, retention rates have been averaged to smooth that variation.

² For more information see the Pennsylvania Department of Education’s *Enrollment Projection Model* information sheet, available online at: http://www.pde.state.pa.us/k12statistics/lib/k12statistics/enrollment_projection_model.pdf

³ Source: School District of Philadelphia. Does not include Charter Schools, Alternative Education Schools, or any special education students. All enrollment data is as of October 31 of each year.

SCHOOL DISTRICT RETENTION RATES, FY2006-2008

	Birth to K	Birth to 1	1 to 2	2 to 3	3 to 4	4 to 5	5 to 6	6 to 7	7 to 8	8 to 9	9 to 10	10 to 11	11 to 12
2005-06	58.2%	62.5%	90.6%	95.2%	95.9%	95.2%	92.6%	95.2%	94.5%	120.4%	79.1%	78.5%	85.2%
2006-07	58.5%	60.1%	93.4%	94.9%	95.7%	95.7%	94.3%	95.1%	95.0%	124.2%	77.0%	81.7%	85.7%
2007-08	56.5%	60.8%	92.6%	95.0%	96.6%	95.4%	93.4%	93.0%	94.9%	122.6%	79.7%	79.4%	87.4%
3-yr Avg	57.7%	61.1%	92.2%	95.1%	96.1%	95.4%	93.4%	94.4%	94.8%	122.4%	78.6%	79.9%	86.1%

The Educational Progression Model determines grade progression by multiplying a grade's enrollment by the corresponding average retention rate. The result will be the projected enrollment for the following year and grade. For example, to obtain FY2008-09 projected enrollment for second grade, first grade enrollment for the previous year (12,888 in FY2007-08) is multiplied by the corresponding first to second grade retention rate (92.2%).

Because of the significant year-to-year differences in retention rates, these projections could vary significantly from actual future enrollments. Over a five year period, even a small change in retention rates can have a substantial and cumulative effect on enrollment. Because the same retention rates are used for each year and because each change in an actual retention rate has a cumulative effect, the volatility of the model increases with each projection year. For example, it is generally expected that FY2012-13 projections will be less accurate than FY2008-09 projections.

Kindergarten and first grade enrollment projections are calculated using retention rates determined by live births five and six years prior, respectively. For example, in 2003 there were 22,103 live births in Philadelphia. Assuming a birth to kindergarten retention rate of 57.74 percent, the model calculates a kindergarten enrollment of 12,762 five years later in FY2008-09. Live birth data was provided by the Pennsylvania Department of Health.

Alternative Projection Methods

The Educational Progression Model assumes that any policies or factors that have affected student progression from one grade to the next will continue to affect that progression in the same manner and to the same degree in following years. In practice, however, both internal policy changes and external factor shifts both have the potential to positively or negatively impact grade progression, subsequently influencing enrollment trends. Those changes might include:

- The opening or closing of charter and nonpublic schools;
- Demographic shifts;
- New policies on how old a child must be before being admitted into kindergarten and first grade; and,
- New policies on academic retention.

In the past, District enrollment declines have been shown to correspond roughly to charter school enrollment increases. Assuming that the enrollments are inversely proportional, a projection model could simply subtract the increase in charter school enrollment from District enrollment. Because the Educational Progression Model uses actual retention rates recorded in years of charter school operation, however, any effect that charter school enrollment has had in the past has already been incorporated into the retention rates. Looking forward, charter school enrollment projections might be based on known plans to establish new schools, but projecting total enrollment based on charter school enrollment beyond the years of known plans would be inherently less certain.

Enrollment Projections

District enrollment projections prepared using the Educational Progression Model indicate that the recent significant enrollment decreases seen in grades K-5 will be passed on to higher grades in the next five years. Enrollments for grades 6-12 are projected to drop by a total of 13,409 students from FY2007-08 to FY2011-12, while grades K-5 are projected to lose just 272 students over the same period of time. Grades K-3, however, are actually projected to increase in enrollment over the next five years. The complete FY2008-09 to FY2012-13 enrollment projections are shown in the table below.

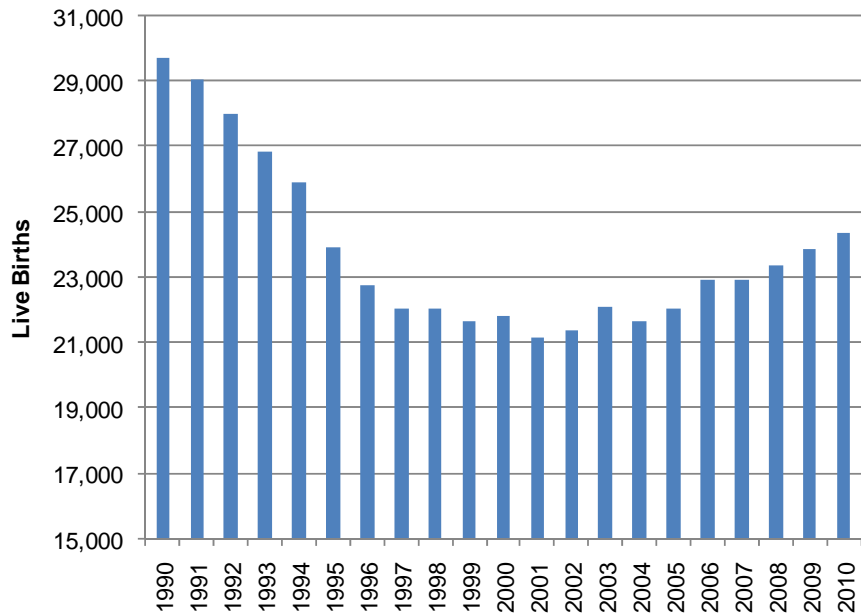
**ENROLLMENT PROJECTIONS BY GRADE BY YEAR
FY2008-09 to FY2012-13
FULL-TIME NON-SPECIAL EDUCATION STUDENTS ONLY**

		GRADE													
	YEAR	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
Actual	2007-2008	12,073	12,888	12,147	12,032	11,503	11,329	10,938	10,983	11,441	14,728	12,337	9,410	8,763	150,572
P r o j e c t e d	2008-2009	12,762	13,071	11,884	11,547	11,558	10,977	10,584	10,328	10,411	14,001	11,581	9,851	8,101	146,657
	2009-2010	12,506	13,513	12,053	11,297	11,092	11,029	10,255	9,994	9,791	12,741	11,009	9,247	8,481	143,009
	2010-2011	12,733	13,242	12,460	11,458	10,852	10,585	10,304	9,684	9,474	11,981	10,018	8,791	7,961	139,544
	2011-2012	13,234	13,483	12,210	11,845	11,006	10,356	9,889	9,730	9,180	11,594	9,421	8,000	7,568	137,516
	2012-2013	13,251	14,013	12,432	11,607	11,378	10,503	9,675	9,338	9,223	11,234	9,116	7,523	6,887	136,182
	5 Year Change FY2009-13	489	942	548	60	-179	-474	-909	-990	-1,188	-2,767	-2,464	-2,329	-1,214	-10,476

The five year increase in projected enrollments for grades K-3 is due to the leveling off of declining live births beginning in 1997. While live births decreased by 7,676 from 1990 to 1997, from 1997-04 a decline of just 379 births was recorded. A summary of live birth data (both actual and projected) from 1990-2010 is shown in the following table and graph.

PHILADELPHIA LIVE BIRTHS, 1990-2010⁴

Actual	1990	29,714
	1991	29,068
	1992	28,038
	1993	26,888
	1994	25,946
	1995	23,932
	1996	22,753
	1997	22,038
	1998	22,063
	1999	21,667
	2000	21,849
Projected	2001	21,190
	2002	21,380
	2003	22,103
	2004	21,659
	2005	22,053
	2006	22,921
	2007	22,950
	2008	23,412
	2009	23,883
	2010	24,364



Budget Impact

Assuming the enrollment declines projected above, the District has the opportunity to save approximately \$14.7 million in FY2008-09 due to a 151 teacher reduction based on lower enrollment. This estimate assumes a possible reduction of 1 teacher for every 25.8 students, with an FY2008-09 average teacher salary of \$68,014 and average benefits of \$29,370 per teacher. Growth assumptions are consistent with the general baseline assumptions for this Five-Year Financial Plan.

TEACHER REDUCTION AND SALARY SAVINGS

	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
Enrollment ⁵	146,657	143,009	139,544	137,516	136,182
Change	3,915	3,648	3,465	2,028	1,334
Teacher Reduction	151	141	134	78	51
Average Salary	68,014	68,558	69,107	69,660	70,217
Average Benefits	29,874	31,470	33,214	35,121	37,208
Salary Savings (\$ millions)	\$10.3	\$9.7	\$9.3	\$5.4	\$3.6
Benefit Savings (\$ millions)	\$4.5	\$4.4	\$4.5	\$2.7	\$1.9
Total Savings (\$ millions)	\$14.8	\$14.1	\$13.7	\$8.2	\$5.5

The above potential teacher salary savings from projected enrollment declines are already built into the baseline Five-Year Financial Plan forecasts. To the extent that actual enrollment varies from these projections over the period of the Plan, the District may experience further budget

⁴ Philadelphia live birth data provided by the Pennsylvania Department of Health

⁵ Full-time non-special education students only

relief – or increased fiscal pressure – depending on whether enrollment is below or exceeds projections.

The chart below illustrates the potential budgetary impact of alternative enrollment scenarios. For every change of 1,000 students, the teaching complement can be adjusted by approximately 39 FTEs at an estimated cost of approximately \$3.8 million.

**ESTIMATED IMPACT ON TEACHER SALARY COSTS
Per 1,000 Incremental Students**

Change in Number of Students	Resulting Change in Teacher Staffing (approx.)	Teacher Salary and Benefits Cost (est.)
1,000	39	\$3.8 million

In each school year, initial teacher assignments are set by the District based on projected enrollment levels. Permanent teacher placement needs for a given year, however, are dictated by the student attendance levels at each school. Consistent with union agreements, the District may “level” the teacher complement at each school up or down based on the maximum student-teacher ratio for each grade based on attendance records. Current collective bargaining agreements stipulate that the official attendance count for the purposes of setting the complement of teachers shall take place in early October.

In the 2007-08 academic year, the District began with the teacher complement required based on attendance at each school on October 31 after the student attendance fell to a level closer to its final levels. By beginning the year with what is believed to be a reasonable minimum, the District has the ability to continue to level up, or add, teachers where the attendance patterns warrant additional staff while avoiding both assigning teachers unnecessarily and leveling down which would result in the removal of a teacher after the start of the school year.

In addition to teacher salaries, other District expenditures are clearly affected by changing enrollment. Such costs may involve supplies and equipment, transportation, and indirect administrative activities. Likewise, if enrollment change is sufficiently significant, it may enable school and other facility closings and consolidation. Of course, such analyses are complex – and must take into account individual school, grade, and regional enrollment trends, relationships among feeder schools, and other factors. For example, because future high school enrollments are expected to decrease at a higher rate than elementary and middle schools, high schools might be more easily targeted for restructuring.

Although not directly quantified within this Plan, the District’s general projected trend of continued enrollment decline should help to enable cost containment in multiple expenditure categories beyond teacher salaries without adverse impacts on the quality of education.

THIS PAGE INTENTIONALLY LEFT BLANK

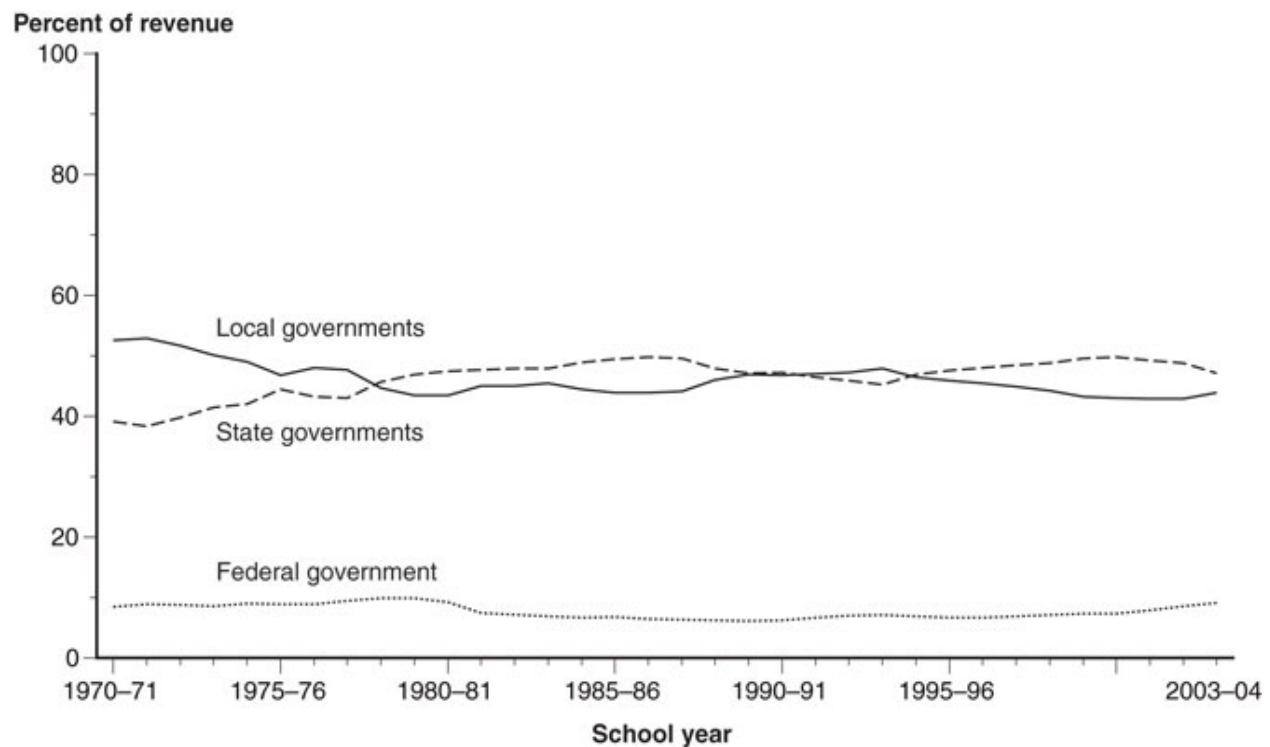


APPENDIX C: NATIONAL APPROACHES TO STATE EDUCATION FUNDING

The relationship between school districts and states is critical to any discussion of school finances. Over the years, the largest percentage of state expenditures has been for K-12 education (although in recent years, spending on Medicaid has closed the gap). Across, the nation, states rely on a mix of funding to support local school districts, including formulas, categorical grants, and direct appropriations.

While the percentage of revenues coming from the federal government has been relatively constant, over the last 35 years the state and local shares have shown considerable variation. During this period, state funding has tended to replace local funding as the primary funding stream; this trend going forward has become less pronounced, and there is evidence that in periods of poor state revenue performance, the gap between state and local funding narrows or is eliminated:¹

**TABLE 2
HISTORIC SHARES OF SPENDING FOR PUBLIC ELEMENTARY
AND SECONDARY EDUCATION**



For example, the last period where local government funding was equal or greater to state funding began in 1990-91, which coincided with a recession that began in July 1990 and ended in March 1991. The narrowing in 2001-2004 comes in the wake of the 2001 national recession that seriously impacted many state revenue systems.

¹ U.S. Department of Education, National Center for Education Statistics, Digest of Education Statistics: 2006 [electronic] retrieved on January 16, 2008 from http://nces.ed.gov/programs/digest/d06/figures/fig_09.asp?referrer=figures

The following section outlines the specific funding systems among select other states.

California

In the last thirty years, California has dramatically changed its method for school funding. Prior to the 1970s, school districts established their own property tax rates, and they were primarily responsible for funding local schools. However, the passage of Proposition 13 and a successful legal challenge to the state finance system led to a considerable equalization of revenue per pupil across school districts. The passage of Proposition 98 in 1988 established a constitutional floor for total revenue provided to school districts and community colleges. While meant to be a floor, Proposition 98 has generally acted as a ceiling, with the level of revenue exceeded in only a few years. As a result, one commentator has described the essence of California's school finance system in one sentence: "The legislature appropriates the funds directed by Proposition 98 and allocates those funds among school districts in proportion to their enrollment."²

While the California school finance system may provide for a fair amount of funding equalization, it is not without its critics. One recent study concluded that the result is "a finance system that has no coherent conceptual basis, is incredibly complex, fails to deliver an equal or effective education to all children, and is a historical accretion."³

In summary, the state has, because of ballot initiatives and Court decisions, become the primary source of funding for local districts and used revenue limits to level down districts with above average spending. As a result, California has moved to a state that ranks below the national average in per pupil spending when adjusted for the cost of living.⁴

Besides the school per-pupil revenue limits, there are more than 100 state categorical-aid programs. Categorical aid represents about one-third of the money the State spends on local schools. These categorical grants are limited to specific purposes, which often create situations where important school functions cannot be funded while resources exist for other aspects that are less critical to overall success of the school district and its students.

Michigan

In 1993, Michigan dramatically changed the way it funded K-12 education by eliminating local school property taxes – a \$7 billion shift which, after voter approval, was replaced by increased sales taxes, a state education property tax and other changes. As a result, the proportion of local school funding in Michigan is now among the lowest in the nation. While some have raised concerns that education funding could suffer in times of economic distress, this has not been borne out to date. Michigan (and California, for that matter) rank near the top of overall expenditure growth in state statistics even while providing a greater percentage of overall funding than the other comparable states. That said, the Michigan method for providing school funding is far removed from that in place within Pennsylvania.

² Sonstelie, Jon, "Aligning School Finance with Academic Standards: A Weighted-Student Formula Based on a Survey of Practitioners," Public Policy Institute of California, March 2007, p.123.

³ Kirst, Michael. "Evolution of California State School Finance with Implications from Other States." Stanford Institute for Research on Education Policy and Practice. 2006, p. 2.

⁴ Ibid., p. 3.

PERCENTAGE GROWTH IN STATE EXPENDITURES FOR K-12 EDUCATION

State	1990-91 Expenditures	2003-2004 Expenditures	Percentage Growth
New York	\$12,726	\$14,891	17.0%
California	\$6,673	\$8,243	23.5%
Illinois	\$8,203	\$10,383	26.6%
Pennsylvania	\$9,720	\$11,114	14.3%
Texas	\$6,595	\$8,246	25.0%
Michigan	\$8,741	\$10,745	22.9%
Maryland	\$9,887	\$10,842	9.7%

New York

New York’s school aid formula differs for its five largest cities (New York City, Rochester, Buffalo, Younkers and Syracuse), because constitutional tax limits require that education revenues comes from the total municipal budget rather than taxes levied by the school system. State formula aids and grants account for approximately 44 percent of total local school revenues.⁵ The State assumed a significant portion of the local tax burden in 1998 through the School Tax Relief (STAR) program. For the 2005-2006 fiscal year, STAR accounted for about 17 percent of State funding. It is also notable that all net revenues from the State lottery are earmarked for school aid (approximately 12 percent of the state total).

The Big Five city school districts are dependent upon citywide taxes for support. State aid for education enters the city treasury, which creates issues relating to the level and stability of funding. It is notable that the State has enacted a maintenance of effort statute applicable to each of the school districts to attempt to remedy this situation.

Despite the fact that the State uses an equalization method in its school aid formula, there are significant revenue disparities among school districts. In 2004-2005, operating expense per pupil ranged from \$7,100 for the district at the 10th percentile to \$13,681 for the district at the 90th percentile, a difference of 93 percent.⁶

In 2004-2005, the average actual value of property per pupil among the lowest spending ten percent of districts was \$184,799, while the average actual value per pupil among the highest spending ten percent of districts was \$1,422,470 – a difference of 670 percent.⁷

In fact, based on this information, the State Education Department concluded that “as in most states, property values of residences and businesses vary dramatically from school district to school district, as do local assessment practices, and the level of education services desired by

⁵ “State Formula Aids and Entitlements for Schools in New York State,” New York State Education Department, October 2005, p. v.

⁶ “Analysis of School Finances in New York State School Districts: 2004-2005.” New York State Education Department, Albany, New York, January 2007, p. 16.

⁷ “State Aid to Schools, A Primer.” New York State Education Department, Albany, New York, December 2007, p.4.

the community. In short, a student's access to educational resources depends in large part on where he or she lives, raising serious concerns about the equity of student opportunities."⁸

However, in 2007 the legislature approved an unprecedented \$7 billion increase over four years in school funding and targeted aid to the state's poorest school districts. The state also required districts to distribute the additional aid largely to high need, low performing students and schools. New York's just-passed fiscal 2007-08 budget gives schools an extra 9 percent, \$1.76 billion, over the previous year. New York City will get \$715 million of that new money.⁹

Illinois

Illinois provides a minimum guaranteed amount of funding per student and uses a formula to determine how much of the minimum amount will be covered by the state, with the remainder covered by local property taxes. In a small percentage of school districts in property rich districts, the local contribution is so large that the formula would provide no state funding. In these instances, the state uses an alternate formula or flat grant formula to the districts, based on the rationale that the state should contribute something to the education of every child.¹⁰

For FY 2007, the foundation level was set at \$5,334 per pupil. This is, however, just the starting point for determining how much money will be spent per pupil by a school district. Other items, such as mandated categorical grants (such as special education, and transportation), poverty grants, federal funds and capital expenditures are added to determine the total amount of spending per pupil. As further discussed in the section to follow on adequacy studies, it should be noted that the State's Education Funding Advisory Board has suggested that the FY 2007 Foundation Level is almost \$1,350 per student less than is required to meet a specified measurable educational goal for the State.¹¹

Maryland

In 2002, Maryland dramatically revamped its method for financing public schools, which included a plan to increase state spending for K-12 education by \$1.3 billion per year, phased in over a six-year period. The new finance system (known as the Thornton Plan) also targeted a larger portion of the increase to lower wealth districts and districts with a larger share of high need students. This was a response to poor student performance on standardized tests and a concern that the state funding system was not meeting the constitutional requirement to provide a thorough and efficient education.¹²

Maryland relied on four major goals it sought to achieve with its new finance model: adequacy, equity, simplicity and flexibility. To address adequacy, the model for funding relies on the costs associated with meeting State performance standards, including the costs associated with special needs students. To address equity, the proportion of state funding that is wealth-equalized was

⁸ Ibid., p. 5.

⁹ "Ambitious Legislative Agendas Move Ahead," Education Week, April 11, 2007.

¹⁰ "Illinois' School Funding Formula," Center for Tax and Budget Accountability, Chicago, Illinois, 2006, p. 1.

¹¹ Ibid., p. 3-4.

¹² "Back to the Basics on Thornton: Why it was Needed and What it Does," Maryland Policy Reports, September 2004.

raised from 65 percent to 80 percent. The new formula also applied a geographic cost-of-education adjustment, provided a guaranteed tax base for districts with less than 80 percent of statewide wealth per pupil, and strengthened local maintenance of effort. To simplify the system, the formula collapsed nearly 50 state categorical grants and aid programs into four: the foundation amount and one adjustment factor for each of three special needs populations.¹³

In fact, the early reforms in Maryland did increase resources for poor districts, by as much as \$400 per student per year by 2005.¹⁴ However, budget shortfalls have reduced the amount of the additional revenue. With the state facing a \$1.7 billion revenue shortfall, state lawmakers voted during a special session in November 2007 to eliminate inflation adjustments to the Thornton plan for 2009 and 2010 and limit the increases afterward. The cut will save the state about \$190 million in 2009. By 2012, it is projected to save nearly \$400 million. The savings may be partially offset by new revenue from the Geographic Cost of Education Index, a component of the Thornton plan that is to go into effect this year.¹⁵

Texas

The Texas school finance system has been the subject of repeated lawsuits over the last 35 years, including a 2005 state Supreme Court ruling that the financing system amounted to a statewide property tax, which is unconstitutional in Texas.¹⁶ In response, the legislature met in special session in 2006 and revised the funding system to provide by an additional \$3.9 billion in state resources to replace local property taxes. The bill also allows local school districts to raise the maximum property tax rate by up to 4 cents per \$100 of appraised property value without voter approval, and as much as 17 cents with voter approval.

Funding Gaps Among Comparable States

As noted above, most school finance systems make an effort to equalize educational opportunity among school districts, which acknowledges the challenges facing less wealthy districts and those with a greater number of special needs students. The following identifies the funding gap for comparable states between the highest and lowest poverty districts from 1999 to 2005.¹⁷

¹³ “Maryland Enacts Modern, Standards-Based Education Finance System: Reforms Based on Adequacy Cost Studies,” National Access Network, Teachers College, Columbia University, May 2002, p.5.

¹⁴ “The Funding Gap,” The Education Trust, 2008, p. 2.

¹⁵ “Schools Scramble to Make Grade Despite Lost Funding,” Washington Post, November 24, 2007, p. B3.

¹⁶ Texas Senate Research Center, “Texas Supreme Court Rules School Finance System Does Not Make the Grade,” April 2006. The majority found that many school districts were being forced to tax at the maximum tax allowed under the system to meet minimum state accreditation and other standards and had no real discretion in setting the local tax rate.

¹⁷ “The Funding Gap,” The Education Trust, January 2008, p. 6.

TABLE 4
FUNDING GAP BETWEEN HIGHEST AND LOWEST POVERTY DISTRICTS

School District	Gap Between Highest and Lowest Poverty Districts 1999	Gap Between Highest and Lowest Poverty Districts 2005	Poverty Gap Change 1999-2005
New York	(\$3,426)	(\$3,068)	\$358
California	\$11	\$154	\$143
Illinois	(\$1,568)	(\$2,235)	(\$668)
Pennsylvania	(\$1,218)	(\$1,055)	\$163
Texas	\$280	(\$165)	(\$445)
Michigan	(\$682)	(\$759)	(\$78)
Maryland	(\$981)	\$395	\$1,376

The formula changes in Maryland appear to have had a direct impact on funding equity. While New York and Pennsylvania have made progress, they still have a significant gap between the richest and poorest districts (although the recent changes in New York are not reflected in these numbers). While there are questions about the sufficiency of state spending in California, its system does address equity issues.

Funding Adequacy Studies Nationally

In recent years, some of the attention in school finance has shifted from issues of funding equity to funding adequacy. The first funding adequacy or sufficiency study was commissioned by the Massachusetts Business Alliance in 1991; since then, over 50 studies have been conducted in 38 states. Some of the studies have been the result of court orders to resolve school finance litigation (including New York, Arkansas and Wyoming). Others have been requested by state legislatures, commissions or state education agencies (such as in California, Maryland, Rhode Island, Vermont and Kansas). Still others have been commissioned by private organizations (such as in Colorado, Missouri and Massachusetts).¹⁸

There are various methods for conducting these studies. They generally use one or a combination of the following methods:¹⁹

- The professional judgment approach uses panels of education practitioners to identify the resources needed at school and district levels for students to reach state standards, sometimes to be reached by a phased in date. The panels also make adjustments to deal with students with special needs. This approach has been used in studies in at least 19 states.
- The successful school district approach bases the cost of an adequate education on the spending of schools and districts that are meeting established state standards. These generally include adjustments for additional costs associated with special needs students. This has been used in at least 11 states.

¹⁸ “Costing-Out Studies Across the Nation,” The Education Policy and Leadership Center, November 2007, p. 1.

¹⁹ *Ibid.*, p. 2-3.

- Expert judgment or evidence-based studies use research on effective educational programs and practices and the costs of implementing them to determine spending levels. This has been used in studies in Arkansas as well as in other states in combination with other methods.
- Cost function studies apply econometric models to determine the amount of spending need to achieve a specific level of student achievement. These require a lot of detailed data and are more difficult to explain to legislators and the public.

There is significant variation in the results of studies, largely because the required standard to reach varies from state to state. In some cases (such as Pennsylvania’s study), the standard is to reach 100 percent of students proficient in overall or certain state academic standards. Determining the cost is difficult, particularly because no state has achieved this. In other cases, the standard has been set so low (such as the 55 percent established in Texas for the state defendant in a Texas lawsuit) that there is little use for the study. There is also significant variance in determining the cost to provide services to special needs populations.²⁰

In general, the studies have recommended significant increase in state and local spending, with a median increase of 30 percent.²¹ As one commentator noted, the general rationale for these studies is to determine the appropriate level of resources to meet expectations for all students by new state and federal standards and requirements. In some instances, such as Kansas, the study became the basis for a Court ruling that the state’s funding system was unconstitutional. The following are summaries of studies done in Maryland, California, Illinois and New York.

Maryland

During a court challenge to the state’s school finance system, Maryland appointed a 27-member Commission on Education Finance, Equity and Excellence (the Thornton Commission) in 1999. The Commission contracted with Augenblick and Myers for a study using both the professional judgment and successful schools approaches. A citizen’s group, the New Maryland Education Coalition, contracted with Management Analysis and Planning for a study using only the professional judgment approach. Both studies indicated a need for significant increase in resources; ultimately, the legislature added \$1.3 billion to be phased in over 5 years (some of which is currently frozen) and an increase in the state share of education from 41 to 50 percent.²²

California

The Institute for Research on Education Policy and Practice at Stanford University used two costing out studies as part of an extensive analysis of the State’s education system, at the request of the Governor’s Committee on Education Excellence, which was completed in 2007. Staff from the American Institutes for Research used a professional judgment approach. They recommended that spending increase between \$24.1 billion (a 53 percent increase) and \$32 billion (a 71 percent increase). A second study was prepared by the Public Policy Institute of California, using a professional judgment approach where 568 educators worked independently (as opposed to on panels, which is the normal method) to determine the resource needs of

²⁰ Ibid., p. 3.

²¹ Ibid., p. 3.

²² Ibid., p. 4.

hypothetical schools. The study determined that California would need to increase total spending by \$17 billion (a 40 percent increase). To date, there has been no legislative action on either study and California's budget problems suggest that this may continue to be the case in the foreseeable future.²³

New York

In 2004, the New York School Boards Association joined with other advocacy organizations to conduct a 15 month study, which was completed in 2004. The study was jointly conducted by the American Institutes for Research and Management Analysis and Planning, Inc. The study used the professional judgment approach and utilized panels to design instructional programs necessary to meet the outcome goal of giving students a "full opportunity to meet the Regents Learning Standards." The panels were then charged with determining the resources needed to deliver these programs. The consultants also did an analysis of staffing patterns in highly successful schools and research on school effectiveness.²⁴

The study, noting that excluding transportation and debt services, public schools spent about \$31.7 billion in 2001-2002 to educate its students, suggested that an additional \$6.2 to \$8.4 billion would have been necessary in that same school year to ensure a "full opportunity to meet the Regents Learning Standards" to all students. It was found that about 520 districts would have required additional funds, while the remaining 160 districts in the state were already spending at "adequate" levels.²⁵

Illinois

In 1997, legislation created an Illinois Education Funding Advisory Board (EFAB) to make recommendations to the General Assembly for the foundation level and the supplemental general state aid grant level. The foundation level represents the minimum level of per pupil financial support to provide for basic education. In addition, supplemental general state aid is provided to districts with above average levels of children from low income households.

The methodology for determining these funding levels was created in a school adequacy study done by Augenblick and Myers in 2001. They used a successful schools approach to determine a base cost figure for EFAB. The study found that fiscally efficient school districts, where at least two-thirds of students (the threshold set for the study) perform at grade level, spend between \$5,120 and \$5,633 per student on basic education expenses. This compared with the foundation level of \$4,560 per student for the 2000-2001 school year. The report also proposed a method for establishing a more equitable distribution of the low-income poverty grant, recognizing the additional impact on school districts in educating low-income students.

EFAB first recommended a foundation level of \$4,570 for 2001-2002, which was the level established by the legislature. EFAB increased the recommendation to \$4,680 for 2002-2003, but the legislature maintained the foundation level at \$4,560.

²³ Ibid., p. 5.

²⁴ "The New York Adequacy Study: Determining the Cost of Providing All Children in New York an Adequate Education," American Institutes for Research and Management Analysis and Planning, Inc., March 2004.

²⁵ Ibid.