Preliminary Five-Year Plan (FY19-23) and Lump Sum Statement (FY18-19)

March 22, 2018

The School District of Philadelphia's Presentation of the Preliminary Five-Year Plan for FY18-23 and Fiscal Year 2019 Lump Sum Statement of Anticipated Receipts and Expenditures represents forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the revenues and obligations of the School District include, among others, reduced governmental allocations, changes in economic conditions, mandates from other governments, and various other events, conditions and circumstances, many of which are beyond the control of the School District. Such forward-looking statements speak only as of the date of this presentation, March 22, 2018. The School District disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the School District's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

- ➢ Action Plan 3.0 Anchor Goals
- ➢ The Investment Plan to Continue and Expand Progress
- ➢ Fiscal Plan Goals and Assumptions
- ➢ Preliminary Five-Year Plan for FY2019 - 2023
- ➢ FY18-19 Lump Sum Statement
- ➢ Budget Timeline

Action Plan 3.0 – Our Bold Goals

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

Current: 67% graduation rate

5 year milestone: 80% graduation rate

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

Current: 35% on grade level at age 8

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

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

5 year milestone: Engaged and supported principals and teachers with strong instructional skills

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

Current: Projecting fourth consecutive year of a positive fund balance

5 year milestone: Five-year balanced budget projections

The Investment Plan to Create Progress

- After operating in austerity mode for years to ensure fiscal stability, the District introduced an investment plan in 2016.
- This plan has continued to evolve and been expanded upon, and the District has made investments to improve performance:
  - Literacy coaches for elementary schools
  - Modernized classrooms with new furnishings
  - Increased supports for ELL students
  - Additional bilingual counseling assistants
  - Additional alternative education seats
  - Improved substitute teacher fill rate (85%)
- The City's proposed new funding plan provides resources to accelerate and further expand progress while ensuring fiscal stability for years to come.

Current Investments

Literacy

- New books and materials for K-8 math and reading anthologies for all levels
- Early literacy specialists in every school
- Summer books for students in K-2

Program Investments

- Investments in our lowest performing schools - System of Great Schools (SGS) and Turnaround
- Increase in the number of Alternative Education seats
- Special education pilot programs

College and Career Readiness

- IT refresh of all high school classrooms and all high school labs
- Increased funding and opportunity for advanced placement courses, gifted education, and PSAT/SAT testing
- A new middle college program, the only one in Pennsylvania

Talent/Workforce Investment

- Supplemental teacher hiring to address normal attrition and reduce vacancies
- Counselors for every school and nurses in every school/building
- Labor contracts with all unions that allow for 21st century learning environments
- Appropriate staffing of Central Office to support schools

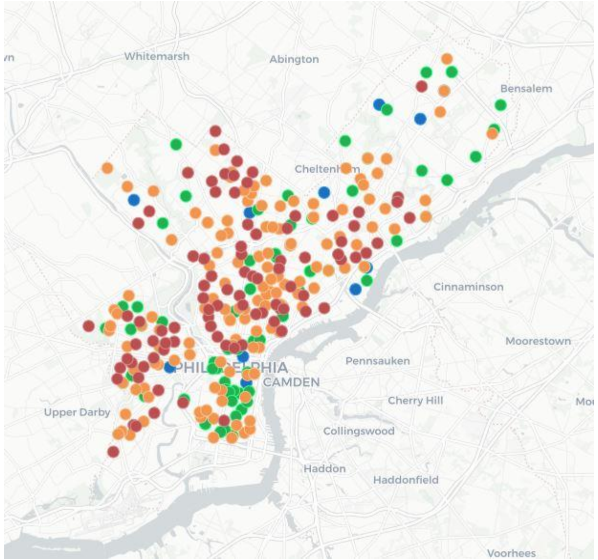
The Investments are Working, and There is Progress to Celebrate.

Our focus on literacy is creating real results

- 5% point increase in the number of 3rd grade students reading on grade level
- Students at every grade level from 3rd to 7th showed improvements in reading (ELA), with 3rd grade showing the largest gains
- Fewer students (over 1,500 fewer 3rd-7th graders) are reading at the lowest level (Below Basic)

Schools across the city are improving

- 164 public schools increased in overall SPR score from 2015-16 to 2016-17 (111 District, 53 Charter)
- 72 public schools improved one SPR tier (49 District, 23 Charter)
- Fewer schools in the lowest SPR tier (10 District, 5 Charter)



Graduation rate is the highest it has been in more than a decade

- Increase in graduation rate, 67% (up 1% point)
- 31 high schools saw improvement in their 2016-2017 graduation rate compared to the previous year

New Investments will Accelerate Progress

With the City's proposed new funding, the District is able to build on previous investments and expand those investments for FY19 and beyond:

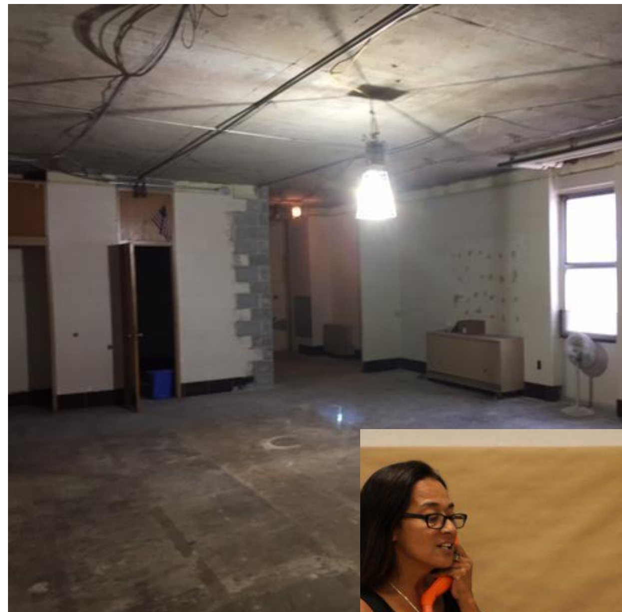
- Elimination of all 1^{st} / 2^{nd} grade split classrooms, resulting in reduced class size
- Expanding early literacy work to grades 4 and 5
- Classroom modernization and new furniture for over 150 elementary classrooms in 11 schools to support literacy
- 30 additional ESOL teachers to support ELL students
- 10 additional special education emotional support programs and 7 additional vocational special education teachers
- Additional arts/music funds to increase the number of itinerant music teachers and fund art and music supplies
- Increased financial support for our lowest performing schools
- Increased supports for credit recovery and grade enhancement for high school students

Infrastructure Investments

The District has adopted a capital investment program for needed school repairs and upgrades. These investments enhance and support the programmatic progress being made by the District. Some examples include:

Classroom Modernizations

- 150 Pre-K to 3rd grade classrooms in 11 schools to support the District's early literacy work
- Schools include:
  - Childs
  - Rhoads
  - Taggart
  - Steel
  - Webster
  - Hunter
  - Anna B. Day
  - Rowen
  - Farrell
  - J.H. Brow
  - McMichael



Before: Stearne Elem.

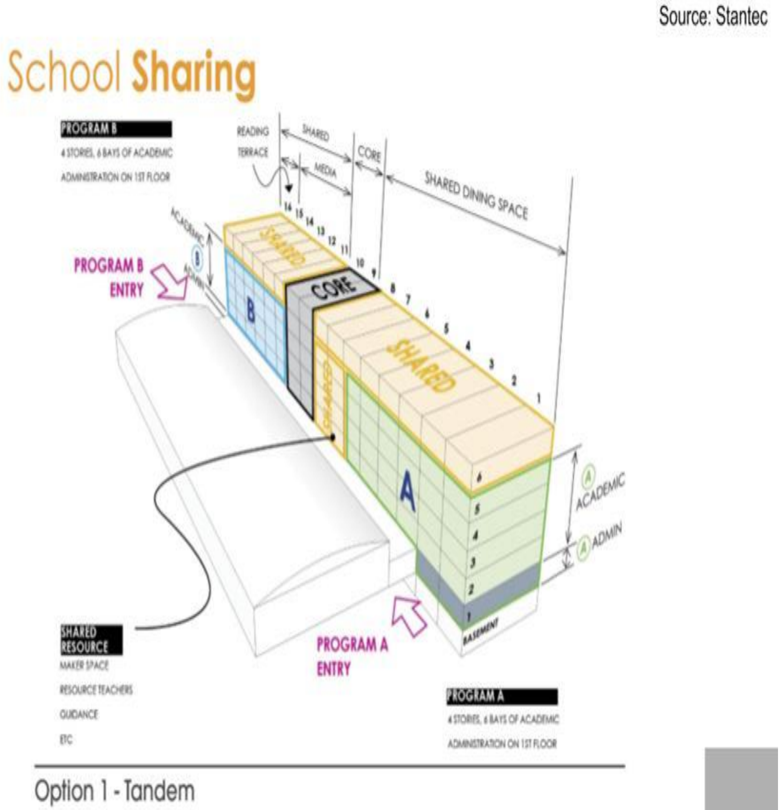
After: Stearne Elem.

Infrastructure Investments

Major Renovation at Ben Franklin High School

- Renovation to accommodate assimilating two high schools and their individual programs under one roof

New glazing at double hung windows, flooring, paint and lighting



Relocation of kitchen/cafeteria and accessible entrance on Green St.

Infrastructure Investments

New Construction - Solis Cohen

- Open and engaging common space
- Music room and practice room
- Outdoor amphitheater, basketball courts, playground equipment, and rock seating areas
- Structured drop-off and pick-up lines for increased student safety

Renovation - Overbrook CTE Digital Lab

- New lab supports the Digital Media Production program
- Instructional space with 26 computers
- Vision Smart TVs to stream student design and studio work
- Audio/video recording studio
- Students can earn Certifications in Photoshop, Illustrator, InDesign and Premiere

Looking Ahead: A Five-Year Plan Focused on Fiscal Stability

Goal: Propose a budget and spending plan which strives for structural balance, while making investments designed to enhance equity in educational opportunity for all children

- Use reasonable projections for revenues and expenditures, based on:
  - Actual revenues and expenditures
  - Current law
  - Historic trends
  - Most recent City and State budget proposals

- Primary objectives:
  - Identify sufficient revenues to meet the anticipated obligations of the first 24 months
  - Establish baseline financial projections to enable dialogue among all School District funders (City, State, Private) identifying pathways to achieving long-term structural balance

Significant Fiscal Achievements To-Date

- Positive Fund Balance
  - Currently projected to end FY18 with a $135.0 million positive Fund Balance
  - Our fourth consecutive year with a year-end positive fund balance
- State Reimbursement Adjustments
  - In July 2017, the State passed a statutory change that stopped the loss of more than $250M over 5 years in state reimbursement revenues, starting in FY19.
- Improved Bond Rating
  - In October, Moody's upgraded the Pennsylvania School District Enhancement Programs to A2 from Baa1 and revised the outlook to stable from negative. Fitch also revised the District's outlook to stable from negative.
- Refunding Savings
  - In November 2016, the District completed a bond refunding which will result in over $100 million in projected present value debt service savings over the next 20 years.
- Extending the Cigarette Tax
  - Due to an amendment to the Fiscal Code contained in Act 85, the City cigarette tax will no longer sunset in FY19 and the District will receive at least $58.0 million annually.
- New Rideshare Funding
  - In FY17, the State implemented a Ridesharing program effective through December 2019, in which the District will receive a portion of revenues. In FY18, the Ridesharing revenues are projected to be approximately $2.6 million.

Preliminary
Five-Year Plan

FY 19-23 Key Assumptions

Revenues – State:

- FY19 State revenues consistent with the Governor's FY19 proposed budget presented on February 6, 2018
- FY20-23 State revenues grow a nominal 1.5% per year

Revenues – Local:

- FY19 Local revenues consistent with the Mayor's FY19 proposed budget presented on March 1, 2018, which includes $980 million in new funding over the next five years:
  - $475M through a 6% property tax increase
  - $340M through slowing scheduled reductions in the Wage Tax
  - $100M in increased City contributions
  - $66M increase in the local portion of real estate transfer tax

Key Assumptions *(cont'd)*

Expenditures:

- Based on historic expenditure and enrollment trends
- Charter School growth is based on recent approvals, renewals, and historic enrollment trends
- Recurring capital borrowing to meet needs of the Capital Improvement Program:
  - FY18 $275M, FY21 $250M, FY23 $250M
  - This represents an additional $175 million in capital investments as compared to the previous Five-Year Plan.

Preliminary Five-Year Plan Projections

FY19-FY23 FINANCIAL PLAN
Operating Funds
(in thousands)

	FY18 Projected	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected	FY23 Projected	CAGR FY18 to FY23
REVENUES & OTHER FINANCING SOURCES							
Local Tax Revenues	$1,270,437	$1,354,693	$1,392,600	$1,432,036	$1,471,804	$1,513,533	3.6%
Local Non-Tax Revenues	$133,054	$203,914	$228,086	$259,184	$274,447	$278,466	15.9%
State Revenues[1]	$1,601,209	$1,621,294	$1,638,903	$1,663,256	$1,686,984	$1,710,376	1.5%
Federal Revenues	$16,976	$16,633	$16,529	$16,419	$16,301	$16,175	-1.0%
Other Financing Sources	$904	$289	$289	$789	$289	$789	-2.7%
TOTAL REVENUES & OTHER SOURCES	**$3,022,580**	**$3,196,823**	**$3,276,407**	**$3,371,684**	**$3,449,825**	**$3,519,339**	**3.1%**
EXPENDITURES							
District Operated Schools	$1,624,112	$1,666,888	$1,720,211	$1,739,645	$1,744,518	$1,761,037	1.6%
Charter Schools (Incl. Transportation)	$903,371	$983,792	$1,064,372	$1,145,909	$1,214,150	$1,262,660	6.9%
Other Non-District Operated Schools (Incl. Transportation) [1]	$113,155	$99,403	$100,051	$100,714	$101,391	$102,083	-2.0%
Debt Service	$274,190	$300,513	$287,723	$293,675	$302,061	$335,680	4.1%
Debt Service as a % of Total Revenues	*9.1%*	*9.4%*	*8.8%*	*8.7%*	*8.8%*	*9.5%*	-
Administrative Support Operations (Central Offices)	$97,489	$106,006	$110,143	$112,465	$112,899	$113,588	3.1%
Central Offices as a % of Total Expenditures	*3.3%*	*3.4%*	*3.4%*	*3.3%*	*3.2%*	*3.2%*	-
Undistributed Budgetary Adjustments	($18,223)	($18,289)	($19,741)	($19,692)	($19,641)	($19,590)	1.5%
Other Financing Uses	$3,433	$1,738	$1,738	$1,738	$1,738	$1,738	-12.7%
Reserve for Federal Cuts	$0	$17,500	$17,500	$17,500	$17,500	$17,500	0.0%
TOTAL EXPENDITURES & OTHER USES	**$2,997,527**	**$3,157,551**	**$3,281,998**	**$3,391,953**	**$3,474,615**	**$3,574,695**	**3.5%**
OPERATING/FUND BALANCE							
Operating Surplus/(Deficit)	**$25,053**	**$39,272**	**($5,591)**	**($20,269)**	**($24,790)**	**($55,356)**	
Transfers from Reserves	($14,702)	$4,633	($13,321)	($13,321)	($13,321)	$28,259	
Fund Balance at Beginning of Year - July 1	$124,697	$135,048	$178,952	$160,041	$126,451	$88,341	
ENDING FUND BALANCE							
Fund Balance at End of Year - June 30	**$135,048**	**$178,952**	**$160,041**	**$126,451**	**$88,341**	**$61,245**	
Fund Balance as % of Total Revenues	*4.5%*	*5.6%*	*4.9%*	*3.8%*	*2.6%*	*1.7%*	

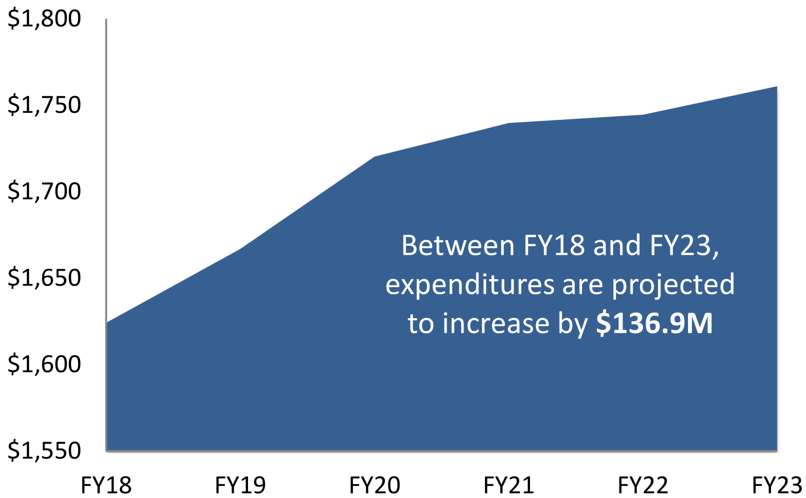
[1]Starting in FY19, approximately $15M of revenues and expenditures associated with Act 89 transfer to Categorical. For the FY18 to FY23 CAGR calculation, these funds are excluded for FY18.

Five-Year Plan Risks

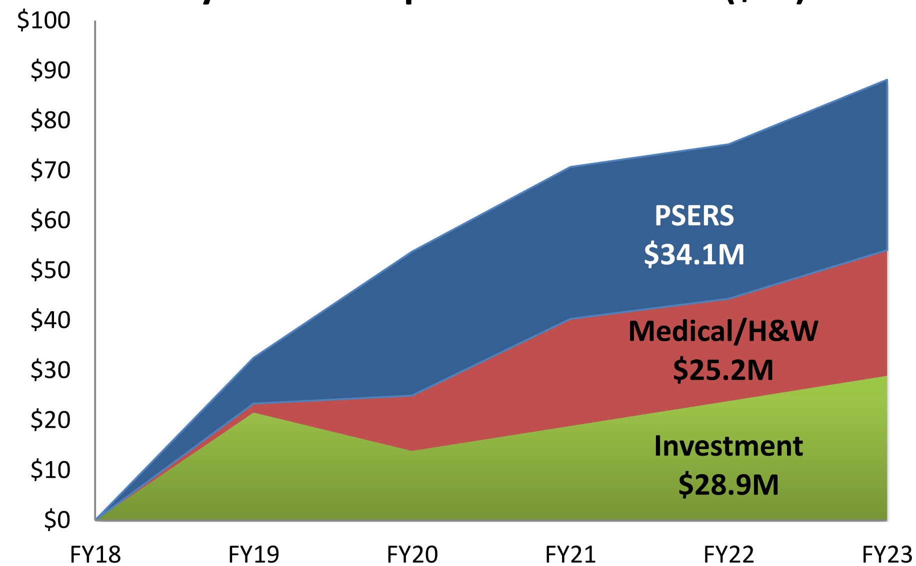
- Mayor’s proposed new investments not approved
- Governor’s proposed new investments not approved
- Changes in federal funding priorities
- Delays in the state budget process in FY19
  - Increases borrowing costs and uncertainty, making planning and investments more difficult
- Narrow positive ending fund balances
  - Projected FY18 ending fund balance of $135.0M is equal to just 4.5% of revenues
- Changes to the charter school formula and authorizing authority
- Increases in the already mounting Public School Employees’ Retirement System (PSERS) contribution schedule
- Economic downturn affecting funding assumptions

Five-Year Plan District-Operated School Cost Drivers

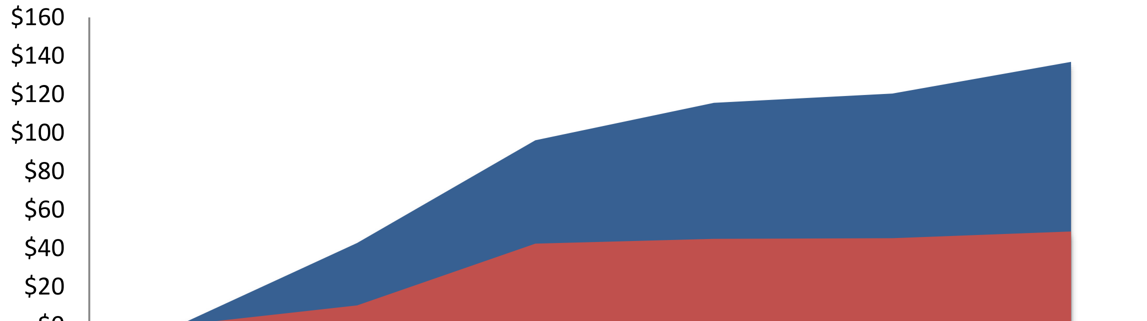
Projected Expenditure Growth ($M)



Key Annual Expenditure Drivers ($M)



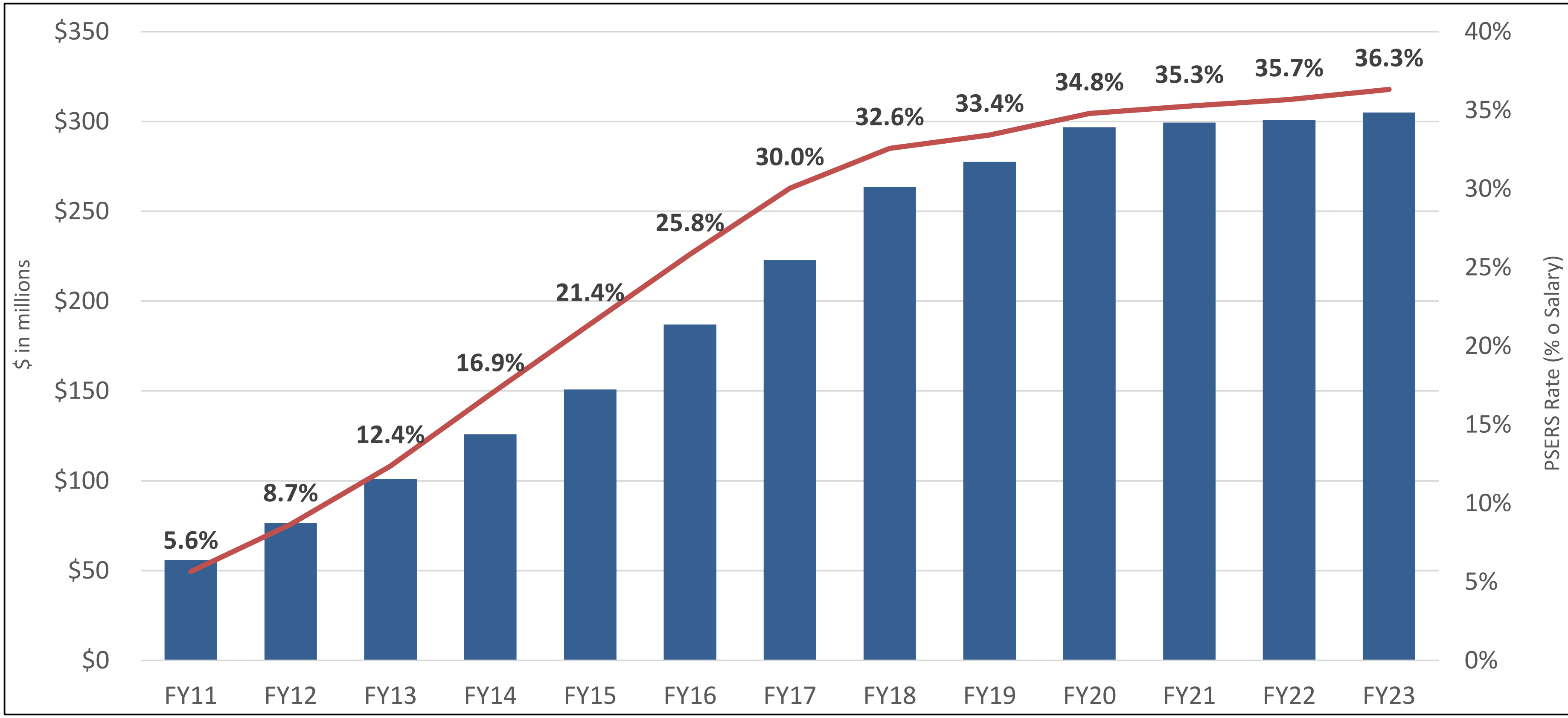
Key drivers make up 64% of the expenditure increase between FY18 and FY23



	FY18	FY19	FY20	FY21	FY22	FY23
Chage in District Op. Schools Expenditures	$0.0	$42.8	$96.1	$115.5	$120.4	$136.9
Change in District Op. Schools Less Key Expenditure Drivers	$0.0	$10.3	$42.4	$44.8	$45.2	$48.8

Pension Cost Growth

Since FY11, the District has experienced a more than 500% increase in pension rates, resulting in almost a quarter of a billion dollar increase in annual payments during that time.



Lump Sum

Lump Sum Budget

(in thousands)

	FY17 Actual	FY18 Projected	FY19 Proposed
REVENUES & OTHER FINANCING SOURCES			
Local Tax Revenues	$1,157,577	$1,270,437	$1,354,693
Local Non-Tax Revenues	$139,474	$133,054	$203,914
State Revenues	$1,534,925	$1,601,209	$1,621,294
Federal Revenues	$13,104	$16,976	$16,633
Other Financing Sources (excluding Refunding)	$6,799	$904	$289
TOTAL REVENUES & OTHER SOURCES (excl. Refunding)	**$2,851,879**	**$3,022,580**	**$3,196,823**
EXPENDITURES			
District Operated Schools	$1,487,996	$1,624,112	$1,666,888
Charter Schools (Incl. Transportation)	$814,394	$903,371	$983,792
Other Non-District Operated Schools (Incl. Transportation)[1]	$107,853	$113,155	$99,403
Debt Service (excluding Refunding)	$267,859	$274,190	$300,513
Administrative Support Operations (Central Offices)	$82,859	$97,489	$106,006
Undistributed Budgetary Adjustments	($14,858)	($18,223)	($18,289)
Other Financing Uses (excluding Refunding)	$9,750	$3,433	$1,738
Reserve for Federal Cuts	$0	$0	$17,500
TOTAL EXPENDITURES & OTHER USES (excl. Refunding)	**$2,755,852**	**$2,997,527**	**$3,157,551**
Refunding Revenues and Sources	**$1,306,746**	**$0**	**$0**
Refunding Expenditures and Uses	**$1,315,876**	**$0**	**$0**
OPERATING/FUND BALANCE			
Operating Surplus/(Deficit)	**$96,027**	**$25,053**	**$39,272**
Net Impact of Refunding	($9,130)	$0	$0
Transfers from Reserves	($9,702)	($14,702)	$4,633
Fund Balance at Beginning of Year - July 1	**$131,228**	**$124,697**	**$135,048**
Prior Period Adjustment	($83,727)	$0	$0
Restated Fund Balance at Beginning of Year - July 1	**$47,501**	**$124,697**	**$135,048**
ENDING FUND BALANCE			
Fund Balance at End of Year - June 30	**$124,697**	**$135,048**	**$178,952**
Fund Balance as % of Total Revenues (excl. Refunding)	*4.4%*	*4.5%*	*5.6%*

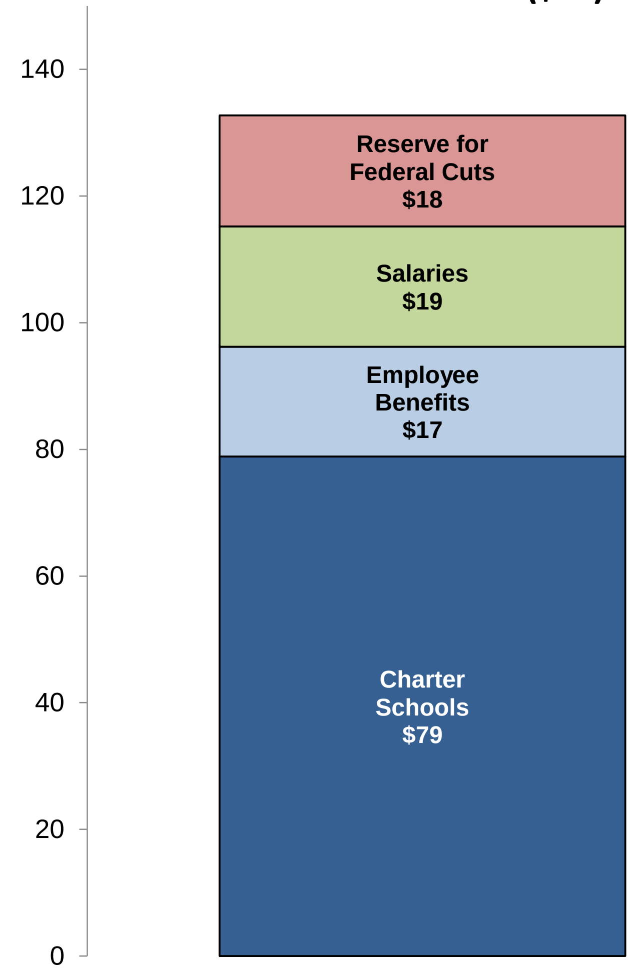
[1]Starting in FY19, approximately $15M of revenues and expenditures associated with Act 89 transfer to Categorical. For the FY18 to FY23 CAGR calculation, these funds are excluded for FY18.

Why are Expenditures and Revenues increasing from FY18 – FY19?

- Four major expenditure areas are driving growth from FY18 to FY19:
  - Increase of $79M for payments to charter schools
  - Increase of $19M for salaries
  - Increase of $18M in reserve for federal cuts
  - Increase of $17M for employee benefits

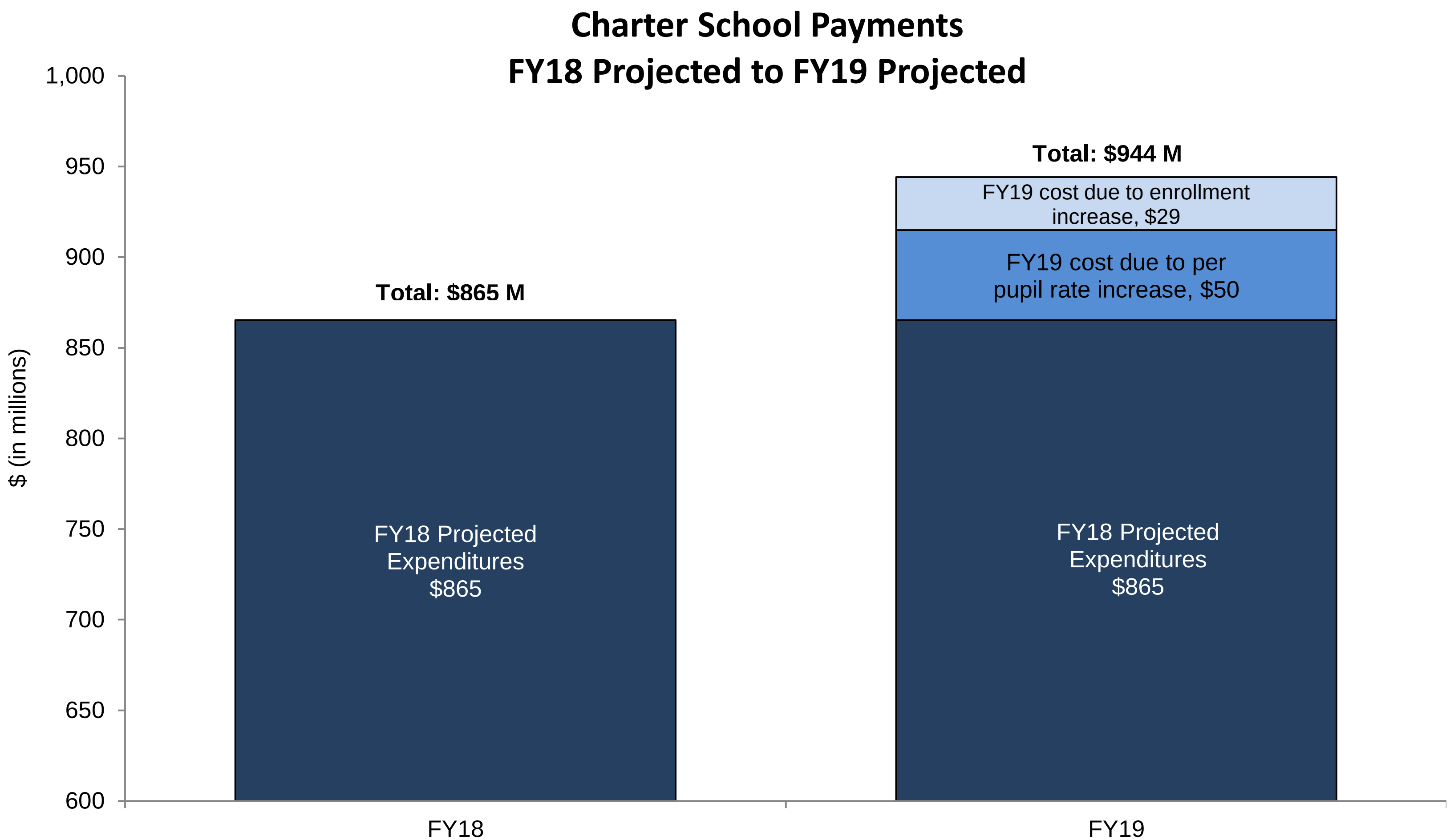
- Baseline revenue increases between FY18 and FY19 are primarily due to:
  - Increase of $88M in real estate tax revenues
  - Increase of $72M in the City grant
  - Increase of $18M in basic education and special education funding included in the Governor's FY19 proposed budget
  - Increase of $8M due to higher retirement reimbursements

Major Expenditure Increases from FY18 to FY19 ($M)



Increased Charter Costs

Between FY18 and FY19, charter expenditures are projected to increase by $79M. The change is due primarily to a projected increase in per pupil cost rates.



Next Steps

Timeline

- **March 12-28:** Principals Complete School Budgets
- **April 19:** SRC Budget Hearing
- **May 9:** City Council Budget Hearing
- **May 24:** SRC Budget Vote
- **May**: City Adoption of Tax Measures for School District
- **June:** State Budget Adoption