Overview of District Expenditures and Key Cost Pressures

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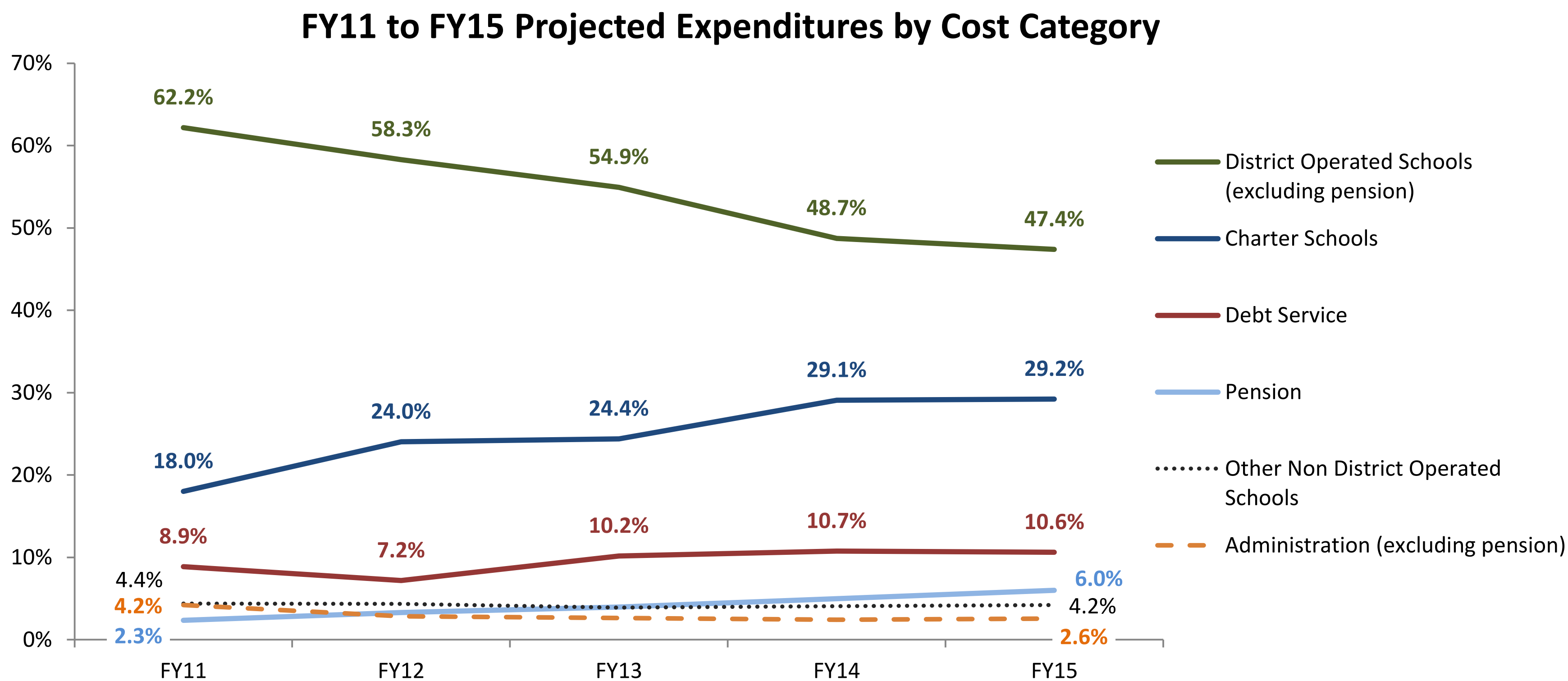
Overview

- A growing share of District resources are spent on mandatory costs:
  - **Pension**
  - **Charters**
  - **Healthcare**
  - **Debt Service**
- Reductions in state funding and the end of federal stimulus funds, combined with this growth in fixed costs, has forced the District to make painful cuts to balance its budget.
- The Mayor and the City Council took historic steps to add funding to the District – **$327 million since FY11** – without which, cuts in schools would have been substantially worse.
- While these increased local dollars were critical, total revenues have not kept pace with the growth in mandatory expenditures.
- As a result, the District has a **structural deficit** where natural growth in expenditures outpaces growth in revenues.

Significant Expenditure Shifts since FY11

The District's expenditure allocation has shifted dramatically since FY11, with significant reductions in the portion spent on central administration and District-run schools, and significant increases in charter, pension, and debt payments.

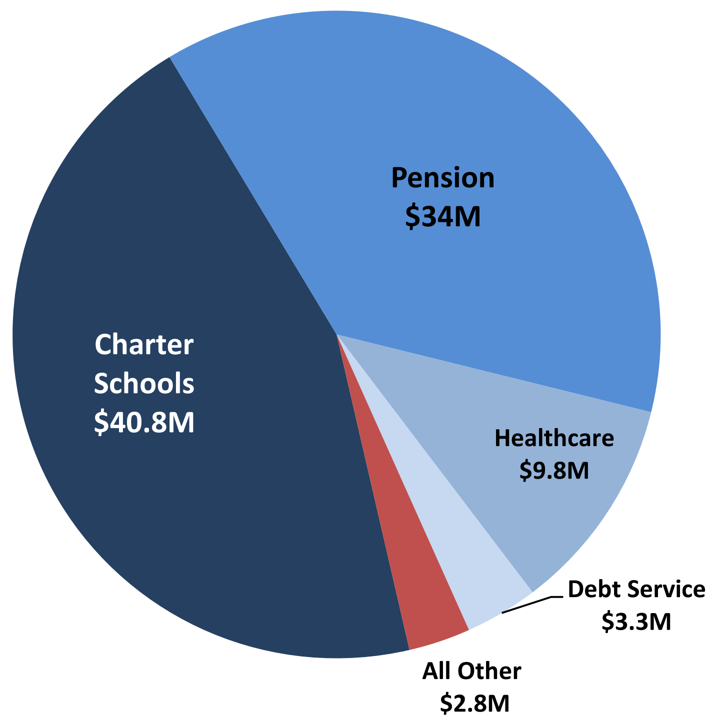


Notes: Undistributed budgetary adjustments are distributed for the purpose of the chart; FY11 debt service assumes that all of the proceeds from the bond refunding went to reduce debt service expenses.

Decline in Revenues and Growth in Healthcare, Pensions, Charter, and Debt Service Costs Are Expected in FY16

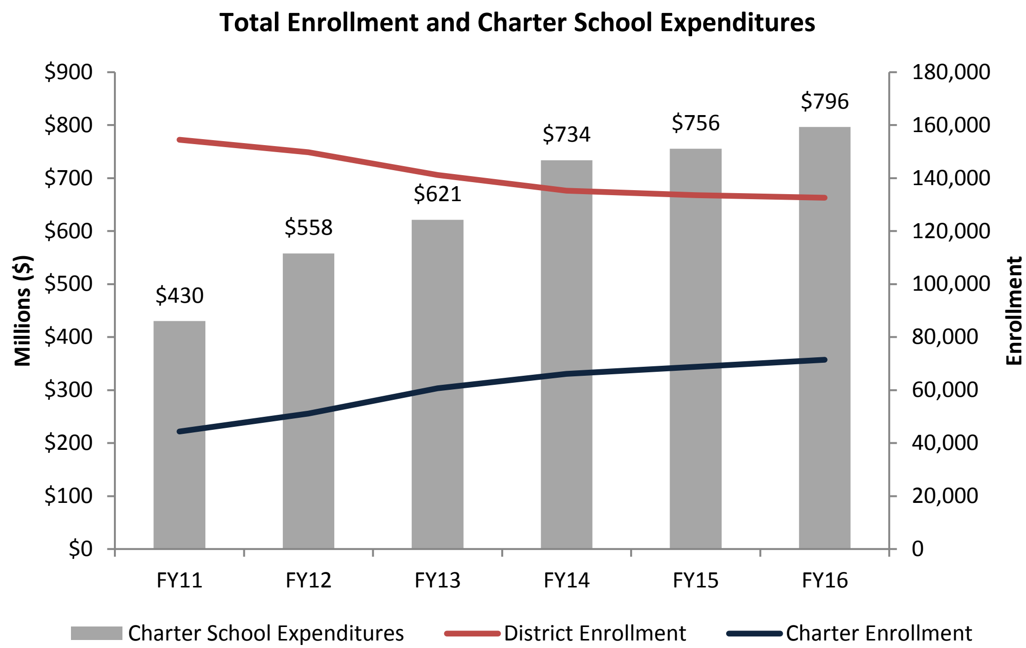
- Baseline revenues are projected to decrease by $22.6M between FY15 and FY16 due to:
  - Loss of one-time revenues from sale of property ($20.4M) and one-time City grant ($30.1M)
  - 1.1% net growth in all other State, City, and federal funding
- Approximately $87.9M – **or 97%** – of the District's $90.7M expenditure growth between FY15 and FY16 can be attributed to four categories:
  - **Pension**
  - **Charter schools**
  - **Healthcare**
  - **Debt**
- The District's mandated PSERS contributions increased from 5.6% of salary in FY11 to over 21% in FY15, and are rising to 26% in FY16.

Major Expenditure Increases FY15 to FY16



Charter School Costs are Approximately 28% in FY16

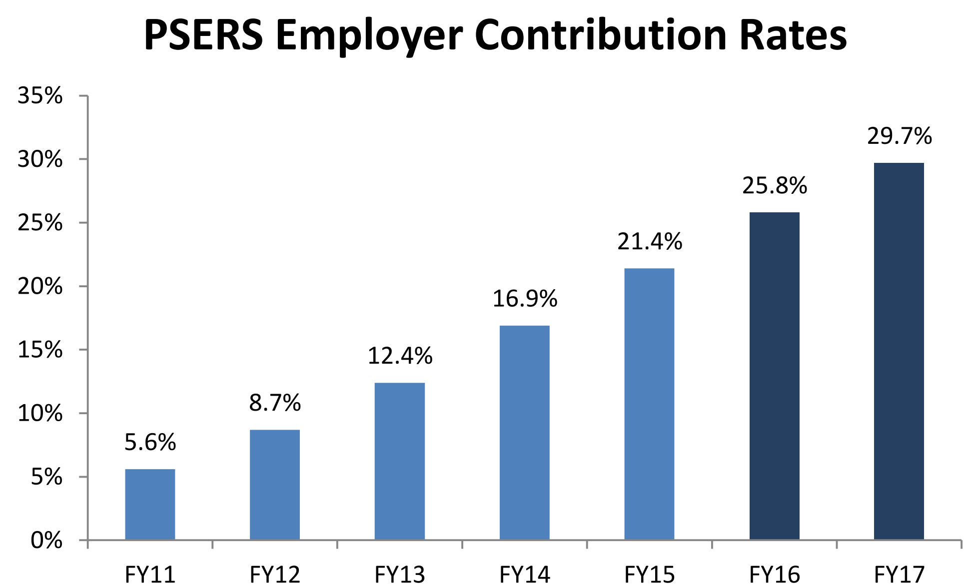
- Payments to charter schools are mandated expenses that have grown significantly since FY11.
- In FY11, payments to charter schools and transportation for charter school students constituted approximately 18% of the District's operating budget.
- In FY15, these costs are projected to be approximately 29% of the District's operating budget or approximately $755.6 million.
- In FY16, costs for charter schools are projected to rise by another $40.8 million to $796 million – approximately 28% of the proposed operating budget.



Note: Charter school expenditures include transportation costs

Pension Contributions Increase to 25.8% of Payroll

- The employer contribution rate for PSERS, which is set in state law, has been growing drastically in recent years, causing a drain on District resources.
- From FY11 to FY16, the PSERS rate has grown from 5.6% to 25.8% - an increase of $133.5 million over this period - and is expected to continue to rise in FY17 and beyond.
- Between FY15 and FY16, District expenditures other than PSERS (without $180 million in new investments) grew at 2.3%, while PSERS expenditures grew by 21.9%.



Benefit and Debt Service Costs Pressures

Benefits (Non-Pension)

- The District's medical, dental, and vision costs have also grown in recent years. FY16 baseline budgeted healthcare costs are $164.4 million. This is approximately $9.8 million more than the cost projected for FY15.
- Total benefit costs (excluding pensions) are approximately $345 million in FY16.
- As a result, a growing share of District revenues must be spent on personnel benefits rather than school services.

Debt Service

- The District is projected to spend $277.8 million, or 9.7% of its total budget, on debt service in FY16. While payments for debt service have become an increasingly larger dollar amount of the District's overall operating budget in recent years, the percentage of the District's budget spent on debt service is expected to decrease in FY16:
  - The District has slowed the growth of debt service payments by more effectively managing debt issuances and refinancing bonds. In FY15, the District refinanced approximately $285.5 million in bonds, saving an estimated $3.3 million per year through FY26.

Note: Total benefits include Social Security, Workers Comp, Termination Pay, Unemployment Comp, Life Insurance, and Health & Welfare.

Central Administration Costs Have Declined to Less than 3% in FY16

- The District’s central office supports students, families, and schools in Philadelphia, including charter and non-District schools.
- In FY16, baseline administrative supports are projected to cost 2.9% of the District’s total operating budget. In FY11 administrative support costs equaled 4.4% of the budget.
- Since FY11, the District has significantly reduced its central office costs, including reductions of approximately 375 operating fund full-time equivalents (FTEs), which equates to a **44.3% staff reduction**.

The City Has Provided $327 Million in Additional Revenue to the District since FY11

- Through tax and fee increases, implementation of new taxes, improved revenue collections, and natural growth, the City has increased local funding to the District by $327 million since FY11.
- Recent local efforts to increase funding to the School District of Philadelphia include:

Fiscal Year	Revenue Increase	Fiscal Year Impact
FY2012	Property tax increase	$60.1 million
	Parking revenue increase	$6.2 million
	City general fund grant to District increased from $38.6 million to $48.9 million	$10.3 million
FY2013	Use and Occupancy tax increase	$20.1 million
	City general fund grant to District increased from $48.9 million to $68.9 million with revenues from a property tax increase	$20.1 million
FY2014	Increased collection of delinquent property taxes	$14.7 million
	City borrowing for District (one time)	$27 million
	Forgiveness of Office of Property Assessment (OPA) Costs	$2 million
FY2015	Sales Tax additional 1% extension	$120 million
	Increased collection of property taxes	$13.6 million
	City grant to District increased from $69 million to $99.1 million through a borrowing (one time)	$30.1 million
	Cigarette Tax additional $2/pack	$49 million
	Forgiveness of Office of Property Assessment (OPA) Costs	$2 million

Notes: Table includes major revenue increases and other sources of additional revenue may include School Income Tax, Liquor Sales Tax, and the Public Utility Tax. One-time funds and forgiven costs not included in $327 million total increase.

Increased City Funding Has Prevented Cuts from Being Even More Severe

- While local revenues have increased by $327 million since FY11, the District's major cost drivers have grown by $462 million from FY11 to FY15.