Business and Finance Committee

Long-term Financial Planning
Our process
Keystone questions:

• Do we have enough resources to support Excellence for All?
• What is causing our General Fund’s structural gap?
• How much do we need to reduce our budget by in 2009 and 2010?
• How do we set priorities for allocating resources?
Over 50% of our total 2006-07 resources ($596,810,660) were local.

SCHOOL DISTRICT OF PITTSBURGH
Total Governmental Fund revenues and other financing sources
2006-07

- Local sources: 51.64%
- State sources: 37.86%
- Federal sources: 9.98%
- Sale/compensation for fixed assets: 0.48%
- Interfund transfers: 0.04%

33% of our total 2006-07 spending ($602,207,612) went to support services.
Pittsburgh’s Cost Per Pupil is Higher than Other Large PA Districts

COMMONWEALTH OF PENNSYLVANIA
Total expenditures per average daily membership 2005/06
All districts with average daily membership exceeding 10,000 pupils

<table>
<thead>
<tr>
<th>School District</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pittsburgh SD</td>
<td>20,000.00</td>
</tr>
<tr>
<td>West Chester Area SD</td>
<td>18,000.00</td>
</tr>
<tr>
<td>North Penn SD</td>
<td>16,000.00</td>
</tr>
<tr>
<td>Council Rock SD</td>
<td>14,000.00</td>
</tr>
<tr>
<td>Downingtown Area SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Pennsby SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Pocono Mountain SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Central Bucks SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Philadelphia City SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Lancaster SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Central Dauphin SD</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Erie City SD</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Upper Darby SD</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Bethlehem Area SD</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Allentown City SD</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Reading SD</td>
<td>8,000.00</td>
</tr>
</tbody>
</table>
Pittsburgh’s Cost Per Pupil is Higher than Other Large Districts Nationally

NATIONAL COMPARISON
Cost per pupil 2005/06

Boston, MA Fairfax, VA Garden Grove, CA Milwaukee, WI Norfolk, VA Pittsburgh SD Racine, WI San Diego Unified, CA Springfield, MA

04/07/08
General Fund revenues have grown 5.93% since 2003.
School District of Pittsburgh
General Fund expenditures have grown 11.16% since 2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries</th>
<th>Employee Benefits</th>
<th>Special Education</th>
<th>Utilities</th>
<th>Transportation</th>
<th>Debt Service</th>
<th>Charter Schools</th>
<th>Other</th>
<th>Tax Refunds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>330,000,000.00</td>
<td>100,000,000.00</td>
<td>45,000,000.00</td>
<td>5,000,000.00</td>
<td>10,000,000.00</td>
<td>15,000,000.00</td>
<td>5,000,000.00</td>
<td>10,000,000.00</td>
<td>50,000,000.00</td>
<td>400,000,000.00</td>
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<tr>
<td>2004</td>
<td>360,000,000.00</td>
<td>110,000,000.00</td>
<td>50,000,000.00</td>
<td>6,000,000.00</td>
<td>10,000,000.00</td>
<td>20,000,000.00</td>
<td>5,000,000.00</td>
<td>15,000,000.00</td>
<td>55,000,000.00</td>
<td>450,000,000.00</td>
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<tr>
<td>2005</td>
<td>370,000,000.00</td>
<td>120,000,000.00</td>
<td>55,000,000.00</td>
<td>7,000,000.00</td>
<td>10,000,000.00</td>
<td>25,000,000.00</td>
<td>5,000,000.00</td>
<td>20,000,000.00</td>
<td>60,000,000.00</td>
<td>500,000,000.00</td>
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<tr>
<td>2006</td>
<td>380,000,000.00</td>
<td>130,000,000.00</td>
<td>60,000,000.00</td>
<td>8,000,000.00</td>
<td>10,000,000.00</td>
<td>30,000,000.00</td>
<td>5,000,000.00</td>
<td>25,000,000.00</td>
<td>65,000,000.00</td>
<td>550,000,000.00</td>
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<tr>
<td>2007</td>
<td>390,000,000.00</td>
<td>140,000,000.00</td>
<td>65,000,000.00</td>
<td>9,000,000.00</td>
<td>10,000,000.00</td>
<td>35,000,000.00</td>
<td>5,000,000.00</td>
<td>30,000,000.00</td>
<td>70,000,000.00</td>
<td>600,000,000.00</td>
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</tbody>
</table>
School District of Pittsburgh
Charter schools are the fastest growing General Fund cost driver since 2003
School District of Pittsburgh
Employee benefits lead General Fund expenditure growth ($) since 2003

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Salaries</td>
<td>$(12,415,893)</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>$19,476,375</td>
</tr>
<tr>
<td>Special Education</td>
<td>$4,110,332</td>
</tr>
<tr>
<td>Utilities</td>
<td>$3,432,639</td>
</tr>
<tr>
<td>Transportation</td>
<td>$4,831,441</td>
</tr>
<tr>
<td>Charter Schools</td>
<td>$15,488,951</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$7,835,690</td>
</tr>
<tr>
<td>Tax Refunds</td>
<td>$3,113,655</td>
</tr>
<tr>
<td>Other</td>
<td>$5,604,133</td>
</tr>
</tbody>
</table>

04/07/08
Underutilized facilities create enormous resource inequities and diseconomies of scale

2007 Utility costs per pupil

- PPS average: $393.32
- Westinghouse: $972.05
- Peabody: $1,038.63
- McNaugher: $1,134.03

$0 $200.00 $400.00 $600.00 $800.00 $1,000.00 $1,200.00
Staff reductions have not kept pace with enrollment decline

SCHOOL DISTRICT OF PITTSBURGH
K-12 Enrollment versus General Fund positions, 1998 and 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>General Fund Budgeted FTEs</th>
<th>Official K-12 Membership</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>40,181</td>
<td>3,804</td>
<td>10.56</td>
</tr>
<tr>
<td>2008</td>
<td>28,265</td>
<td>3,078</td>
<td>9.18</td>
</tr>
</tbody>
</table>
Outstanding debt is growing faster than the real estate tax base (which is shrinking)

General bonded debt outstanding as a percentage of taxable real estate market value
Decisions made now through 2010 are critical to our long-term financial stability.

10 year forecast and scenarios

Baseline (already presumes reducing payroll by enrollment decline)
Decisions made now through 2010 are critical to our long-term financial stability.
Decisions made now through 2010 are critical to our long-term financial stability

10 year forecast and scenarios

Operating surplus/structural gap vs. Year

- Baseline (already presumes reducing payroll by enrollment decline)
- Add $30m to 2009 capital budget
- Add $90m to 2009 capital budget

04/07/08
Decisions made now through 2010 are critical to our long-term financial stability.

10 year forecast and scenarios

Baseline (already presumes reducing payroll by enrollment decline)
Add $30m to 2009 capital budget
Add $90m to 2009 capital budget
Eliminate 10% of payroll in 2009 and 2010
Decisions made now through 2010 are critical to our long-term financial stability

10 year forecast and scenarios

- Baseline (already presumes reducing payroll by enrollment decline)
- Add $30m to 2009 capital budget
- Add $90m to 2009 capital budget
- Eliminate 10% of payroll in 2009 and 2010
- Eliminate 10% of payroll in 2009 and 2010, reduce 3% thereafter
Summary

• If properly and effectively utilized, we have adequate resources to sustain *Excellence for All*
  – *Note: Supplemental funds to develop EFA will continue to be needed and sought from private and public sources.***
• If properly and effectively utilized, we have adequate resources to support *Excellence for All*
• Expenses are growing faster than revenues
• Continued enrollment decline fuels excess capacity
• Underutilized facilities create inefficient cost structures
• Our capacity to absorb increasing debt service is limited
• Our 10 year outlook requires strong stewardship and prioritization of spending demands, including restraint on capital appetites
Our course

• Achieve 10% reductions in each of the next two years, by applying the principles of long-term financial management and budgeting for outcomes to prioritize the spending of 90% of our budget.

• By imposing greater discipline, we will spend proportionately more on the things that matter, yet still reduce the overall size of our budget and make substantial progress toward controlling our cost per pupil and delivering Excellence for All.
10% Budget Reduction Summary for 2009 Based on 2008 General Fund Budget

<table>
<thead>
<tr>
<th>Departments</th>
<th>2008 Budget</th>
<th>10% Reduction for 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>$73,401,941</td>
<td>$7,340,194</td>
</tr>
<tr>
<td>Schools</td>
<td>$287,566,776</td>
<td>$28,756,678</td>
</tr>
<tr>
<td>Fixed Costs/Intersystem</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td>$165,591,057</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$526,559,774</td>
<td>$36,096,872</td>
</tr>
</tbody>
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Actions Needed
(Budgets have been reduced)

• $2.6 million reduction from the 2008-09 Special Education Budget – as incorporated in the Rolling Forecast

• $1.0 million reduced from the Rolling Forecast for utilities costs in closed buildings – assumption was all closed buildings would be sold in 2008 – to date 1 building has been sold
Timelines

- Strategic Plan / Budget Development
Alignment of PPS’ Strategic Direction with PDE Planning Requirements

Board Shared Goals, Core Beliefs and Commitments

Excellence for All = Content Framework for All Planning

PDE District Level Logic Framework for Planning = One Plan for All – Aligns All District Level Plans
1. Commonwealth Empowerment Plan (3 year plan filed 12/14/06)
2. Chapter 4 Plan (6 year plan due 9/30/08)
3. Teacher Induction Plan (6 year plan due 9/30/08)
4. Professional Education Plan (6 year plan due 9/30/08)
5. Educational Technology Plan (3 year plan due 9/30/08)
6. School Services (i.e., Student Services) (3 year plan due 9/30/08)
7. Special Education Plan (3 year plan due 5/31/08, currently being written by staff)
8. District Improvement Plan (PDE to announce deadline shortly – We anticipate this announcement will require a 2 year plan due 11/15/08)

Central Office Plans Aligned to EFA Content and PDE Logic Framework

School Plans for Excellence Aligned to EFA Content and PDE Logic Framework
Suggested Timeline to Develop Chapter 4
Districtwide Strategic Plan Due on 9/30/08

• February – April 2008: Internal Preparation – Review of Past Years’ Baseline Data and Planning to Plan
  • Includes alignment of all other plans due on 9/30/08 and 11/15/08
• May 2008: Superintendent Convenes Initial Steering Committee Meeting; Subcommittee Process Begins
• June – July 2008: Plan is Drafted and Circulated to Board for Comment
• August 5, 2008: Education Committee Meeting - Board Receives Final Draft Plan
• August 20, 2008: –Final Draft Posted for Required 30 Day Public Comment Period
• September 24, 2008: Legislative Vote on Plan
• September 30, 2008: Plan is Filed with PDE
2008-09 School Year and 2009 General Fund Budget Development Timeline

03/05/08 Received 2008-09 enrollment projections
04/11/08 Provide 2008-09 allocations to schools
05/05/08 Review of 2008-09 Special Education Budget
05/16/08 Human Resources receives school staffing reports for 2008-09
05/21/08 Legislative approval of the 2008-09 Special Education Budget
2008-09 School Year and
2009 General Fund Budget Development Timeline
Continued

06/25/08  Board considers resolution certifying Board will not increase taxes beyond index for 2009

11/26/08  Deadline to make 2009 proposed final budget available for public inspections (no less than 20 days prior to adoption), release can be earlier

12/01/08  Budget Public Hearing
2008-09 School Year and 2009 General Fund Budget Development Timeline
Continued

12/05/08 Deadline for public notice of intent to adopt Budget (10 days prior to adoption)

12/08/08 Budget public hearing (Part of regular public hearing)

12/17/08 Regular legislative meeting, adoption of Budget