Budget and Finance Committee Meeting

October 3, 2011

Budget Development Update

General Fund

2011 Estimated Final

2012 Preliminary Budget

Pittsburgh Public Schools

The Pathway to the Promise.
Building a Sustainable District

• Our City’s future depends on an educated, skilled workforce.

• It is our obligation to ensure that we build and maintain a strong, high-quality public school system.

• For PPS, sustainability means we must accelerate student achievement by putting in place a system that is affordable now and for long-haul.
Our Path to District Sustainability

- We need to do fewer things, better.

- We will be deliberate and thoughtful.

- We must lead through example and instill confidence in the path forward.

- We can no longer depend on an ever increasing revenue stream from the Commonwealth.
Phase 1: Central Office Reductions Were Necessary, But Not Sufficient to Close $68-$100 Million Gap

• Workforce reductions approved at Board’s June 22, 2011 Legislative Meeting.

• 217 positions were eliminated resulting in 147 staff furloughs or layoffs.

• Decreases the District’s total funding gap by ~$11.1 million annually.
Phase 2: Change Educational Delivery of Services to Increase Promise-Readiness with Fewer Resources

• District realignment will be necessary.
  • School closings and reconfigurations
  • Feeder pattern changes
  • Course reductions
  • Class size adjustments
  • Staff reductions
• A combination of all the above could decrease our funding gap by additional $30-40 million.
# A Model for Addressing Under-enrolled Classes

<table>
<thead>
<tr>
<th></th>
<th>Grades K-5</th>
<th>Grades 6-8</th>
<th>Grades 9-12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principal</strong></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Asst. Principal</strong></td>
<td>0-1</td>
<td>0-1</td>
<td>1-3</td>
</tr>
<tr>
<td><strong>Pupil Services (SW, counselors, nurses, librarians, etc.)</strong></td>
<td>1-2</td>
<td>1-2</td>
<td>2-6</td>
</tr>
<tr>
<td><strong>Other Staff (clerical)</strong></td>
<td>1-2</td>
<td>1-2</td>
<td>2-5</td>
</tr>
<tr>
<td><strong>Maximum Class Size for Teachers</strong></td>
<td>25</td>
<td>28</td>
<td>30</td>
</tr>
<tr>
<td><strong>Actual Avg. Class Size</strong></td>
<td>22</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td><strong>Approx. cost to support under-enrolled classes</strong></td>
<td>$7.7 million</td>
<td>$7.6 million</td>
<td>$16.8 million</td>
</tr>
</tbody>
</table>

*K-5 enrollment: 12,148; 6-8 enrollment 5,601; 9-12 enrollment 7,366, calculation based on average teacher cost of $100k per year; includes non-teaching periods of 1 in K-5, 2 in 6-8, 3 in 9-12. Paraprofessionals also provide instructional support; primarily used in PPS to support special education students.*
The Reality of Addressing Under-enrolled Classes

Example at Elementary Level where class size maximum is 25:
40 - 1st graders at 4 different schools

The Model: 160 students divided by 25/class = 6.4 teachers required

# of 1st graders in a school

<table>
<thead>
<tr>
<th>40</th>
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</table>

# students per class

<table>
<thead>
<tr>
<th>20</th>
<th>20</th>
<th>20</th>
<th>20</th>
</tr>
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The Reality: 8 classes X 1 teacher per class = 8 total teachers required
2012 General Fund Budget Adoption Timeline

- June 22, 2011  Board certified no tax increase beyond 2012 index
- October 3, 2011  Budget Workshop
- October 20, 2011  Budget Workshop
- October 24, 2011  Regular Public Hearing
- November 2, 2011  Release of Preliminary 2012 Budget
- November 7, 2011  Committee Meeting
- November 21, 2011  Regular Public Hearing
- November 29, 2011  Special Noontime Budget Public Hearing
- December 5, 2011  Committee Meeting
- December 7, 2011  Special Legislative Meeting - 2012 Budget Adoption
Delay in Real Estate Reassessment Would Increase Budget Expense by $2 Million

- County is behind schedule in completing real estate reassessments and a delay would require PPS to levy Real Estate Taxes without certified Assessments

- A delay in tax billings requires PPS to do the following:
  - Exhaust fund balance and all cash reserves
  - Borrow $60 million to meet obligations
  - Secure a tax anticipation note with an estimated cost of $2 million which is not currently in 2012 budget forecast

- PPS tax levy is required to be set between 1st Monday in December and December 31
2011 Estimated Final Expenditures and Revenues

2011 Estimated Final Expenditures $532.6 million

2011 Estimated Final Revenues $521.4 million

2011 Estimated Operating Deficit -$11.2 million
2011 Projected Deficit

- Because our expenditures were greater than our revenues, we already had projected a deficit for 2011. $ - 8.7 million

- Adopted State funding cuts further reduce estimated revenues (for July-Dec 2011). + - 9.4 million

- New Charter Schools (July-Dec 2011). + - 2.5 million

- Central Office Reductions (August – Dec 2011) + 3.7 million

- Non-staff Reductions + 2.8 million

- Revenue & Expenditure Updates + 2.9 million

Updated 2011 Projected Deficit $ - 11.2 million
### 2011 Projected Deficit Recap

**Revenue and Expenditure Changes**

<table>
<thead>
<tr>
<th>Revenue Changes:</th>
<th>Expenditure Changes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Budget</td>
<td>New Charter Schools +$2.5 m</td>
</tr>
<tr>
<td></td>
<td>Central Office Red. -$3.7 m</td>
</tr>
<tr>
<td></td>
<td>Non-staff Red. -$2.8 m</td>
</tr>
<tr>
<td>Other Revenue And Exp. Updates +$2.9 m</td>
<td>Total -$4.0 m</td>
</tr>
</tbody>
</table>
2012 Estimated Final Expenditures and Revenues

2012 Estimated Final Expenditures  $546.5 million

2012 Estimated Final Revenues       $508.3 million

2012 Estimated Operating Deficit    -$38.2 million
2012 Projected Deficit

- Original deficit projection prior to Governor’s proposed cuts showed District already had a problem $ - 53.6 million
- Adopted State funding cuts in June 2011 further reduce estimated revenues for calendar 2012 $ - 2.7 million
- New Charter Schools add to expenses $ - 5.0 million
- Revised Capital Plan helps address the problem $ + 5.0 million
- Central Office reductions help address the problem $ + 11.1 million
- Non-staff reductions help address the problem $ + 3.4 million
- Revenue & expenditure updates help address problem $ + 3.1 million
- Refinancing bonds help address problem $ + 0.5 million

Current 2012 Projected Deficit $ - 38.2 million
### 2012 Projected Deficit Recap

**Revenue and Expenditure Changes**

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<tr>
<td>State Budget</td>
<td>-$2.7 m ↓</td>
</tr>
<tr>
<td>Other Revenue</td>
<td></td>
</tr>
<tr>
<td>And Exp. Updates</td>
<td>+$3.1 m ↑</td>
</tr>
<tr>
<td>New Charter Schools</td>
<td>+$5.0 m ↑</td>
</tr>
<tr>
<td>Revised Capital Plan</td>
<td>-$5.0 m ↓</td>
</tr>
<tr>
<td>Central Office Red.</td>
<td>-$11.1 m ↓</td>
</tr>
<tr>
<td>Non-staff Red.</td>
<td>-$3.4 m ↑</td>
</tr>
<tr>
<td>Bond Refinancing</td>
<td>-$0.5 m ↑</td>
</tr>
</tbody>
</table>

Total: -$15.0 m ↑
2011 Budget compared with 2012 Preliminary Budget

2011 Adopted Budget $540.9 million

2012 Preliminary Budget $546.6 million

Increase $5.7 million

Percentage increase in Budget 1.05%
Projected Unreserved Fund Balance

12/31/11 Unreserved Fund Balance $58.9 million

Less 2012 Operating Deficit ($38.2) million

12/31/12 Unreserved Fund Balance $20.7 million
(This is $4.2 million below District’s Fund Balance Policy)

Note: To comply with the District’s Fund Balance Policy, and to cover the estimated 2012 Operating Deficit, the District would need to reduce expenditures by $42.4 million vs $38.2 million.
## Major Expenditure Increases from 2011 to 2013

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Insurance</td>
<td>$0.3</td>
<td>$3.1</td>
<td>$3.4</td>
</tr>
<tr>
<td>Retirement Contribution</td>
<td>7.7</td>
<td>9.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Charter Schools</td>
<td>8.3</td>
<td>1.4</td>
<td>9.7</td>
</tr>
<tr>
<td>Special Ed Contribution</td>
<td>0.9</td>
<td>3.0</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17.2m</strong></td>
<td><strong>$16.6m</strong></td>
<td><strong>$33.8m</strong></td>
</tr>
</tbody>
</table>
50% of PSERS expenditures are reimbursed by the Commonwealth.
Our Risks – and how accounted for in the long term forecast

- Charter Schools – no assumption of new charter schools (deadline for application is 11/15/11)
- State/Federal Funding – no further reductions made to State or Federal Funds
- Port Authority – did not account for possible rate increases and reduction in routes
- Real Estate Reassessment – did not account for increased costs should there be a delay
- Local Economy / Tax Collections – flat, no decline
- Healthcare – won’t grow greater than 8%
- PSERS Contribution – won’t change beyond currently approved by PSERS Board
Next Steps

• More detail in packets
  – Revenue and expenditure summaries – 2011 estimated final and 2012 projections

• October 20, 2011 Budget Workshop
  – Educational Delivery Model