



2012 and 2013 Budget Update

**Board Committee Meeting
November 5, 2012**



Because we put our children first, we are on a journey of continual improvement and learning. This requires us to adjust and grow in light of ever-changing opportunities and challenges.






Building a Sustainable District

Today's economy demands we **think differently about our finances** and how we are delivering education so that all children are Promise-Ready.

We must use this budget process and think carefully about how we are allocating resources now as a step along that **path to achieving long-term fiscal stability.**

To best allocate resources, we **will make adjustments based on what's working and what's not.**

We are making progress due to the courageous actions already adopted by the Board.



From June 2011 to July 2012 nearly \$50 million in budget reduction were adopted

- Phase 1 (approximately \$11 million annual savings)
 - 217 positions were eliminated resulting in 147 staff furloughs or layoffs.
- Phase 2 (approximately \$29 million annual savings)
 - District realignment was achieved through three strategies.
 - *School closings and reconfigurations*
 - *Feeder pattern changes*
 - *Educational delivery model adjustments*
- Phase 3 (approximately \$8-11 million annual savings)
 - Further central office workforce reductions, reductions or restructuring of Centralized Programs, non-staff reductions, renegotiated transportation contracts



Impact of Federal and State Reductions on the 2011 PPS Budget

Approved Budget Reductions (June 2011 - July 2012)	\$50.0
Loss of Federal Stimulus Funding	(\$18.4)
Loss of Charter School Reimbursement	(\$8.5)
Loss of EduJobs Funding	(\$10.9)
Total Revenue Loss	(\$37.8)
Net Savings	\$12.2

2013 is the beginning of our major work to reduce deficits for 2014 through 2016

	2012 est.	2013 est.	2014 est.	2015 est.	2016 est.
Revenue (Millions) (a) (b)	\$507.95	\$511.97	\$512.47	\$516.91	\$519.76
Operating Expenditures (c)	\$514.34	\$521.83	\$542.40	\$559.69	\$572.71
Operating Deficit	(\$6.39)	(\$9.86)	(\$29.93)	(\$42.78)	(\$52.95)
Beginning Fund Balance	\$72.40	\$66.01	\$56.15	\$26.22	(\$16.56)
Budgeted Year-end Fund Balance	\$66.01	\$56.15	\$26.22	(\$16.56)	(\$69.51)
Fund Balance Compliance	Yes	Yes	No	No	No
Minimum Fund Balance per Board Policy #721 (d)	\$25.72	\$26.09	\$27.12	\$27.98	\$28.64

Funds required to comply with Fund Balance Policy

	\$30.06	(\$0.90)	(\$44.54) (e)	(\$98.14)
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Notes:

(a) Revenues from Real Estate Tax, Earned Income Tax, and Basic Education Subsidy are projected to be flat

(b) Revenue increases can be attributed to Retirement reimbursement from the State

(c) Increasing costs - retirement, health care, salaries

(d) Requires 5% of current year's budgeted operating expenditures

(e) Assumes previous year fund balance is not restored to 5%

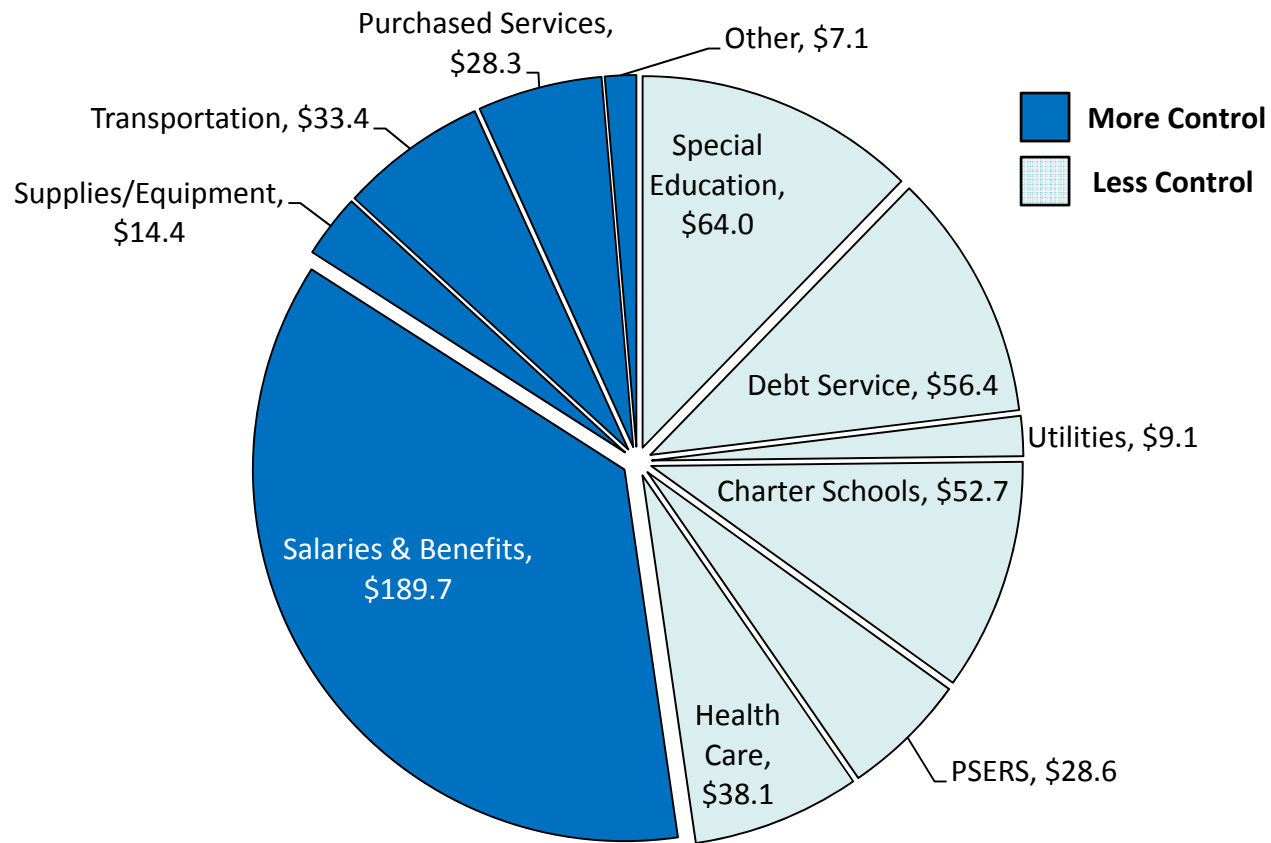
Projections as of November 5, 2012



**There are many factors
that are difficult or impossible to control.**

We have more control on some budget areas than others. Of the areas of more control, 70% is spent on salaries and benefits

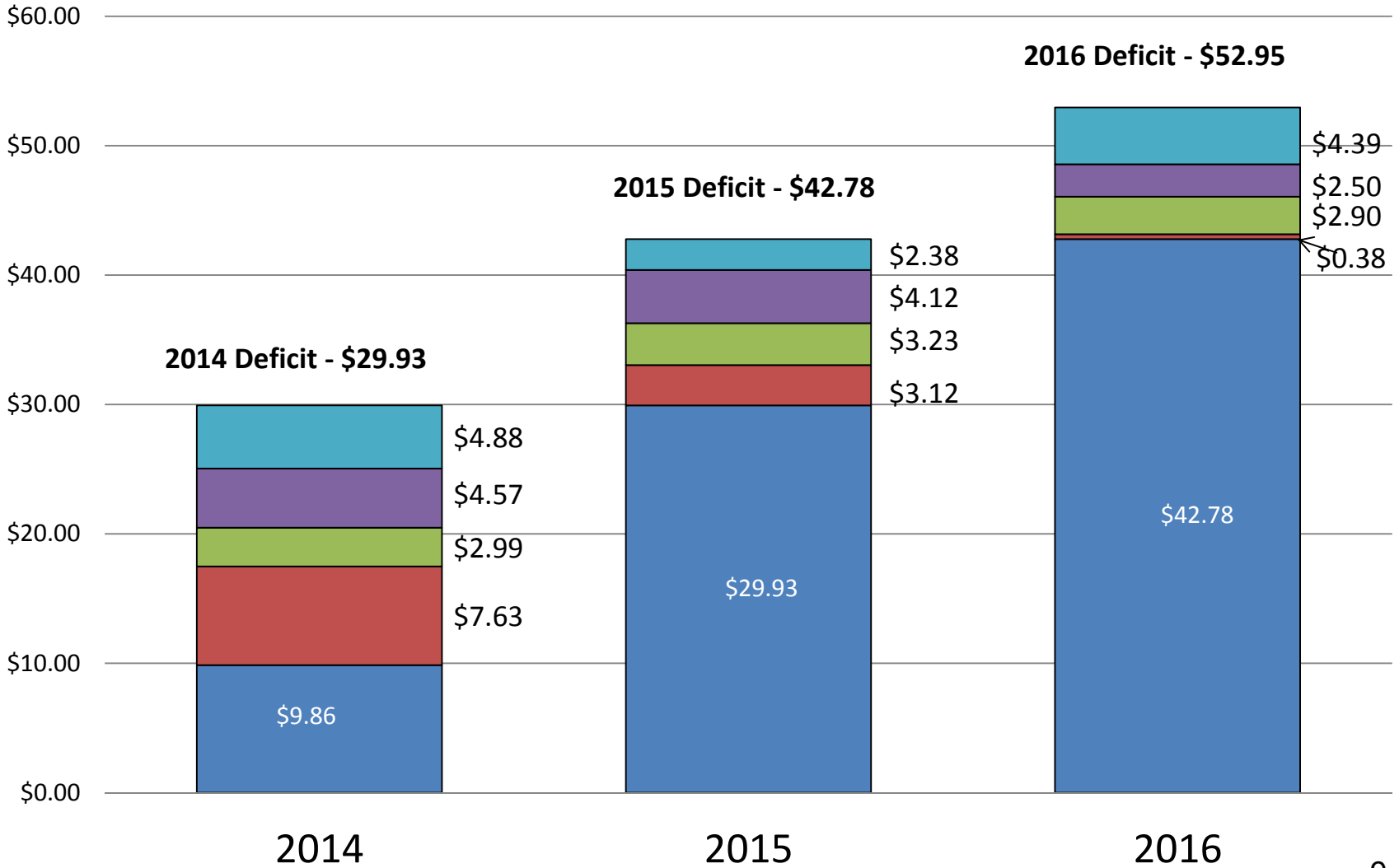
Proposed 2013 General Fund Budget of \$521.8 million



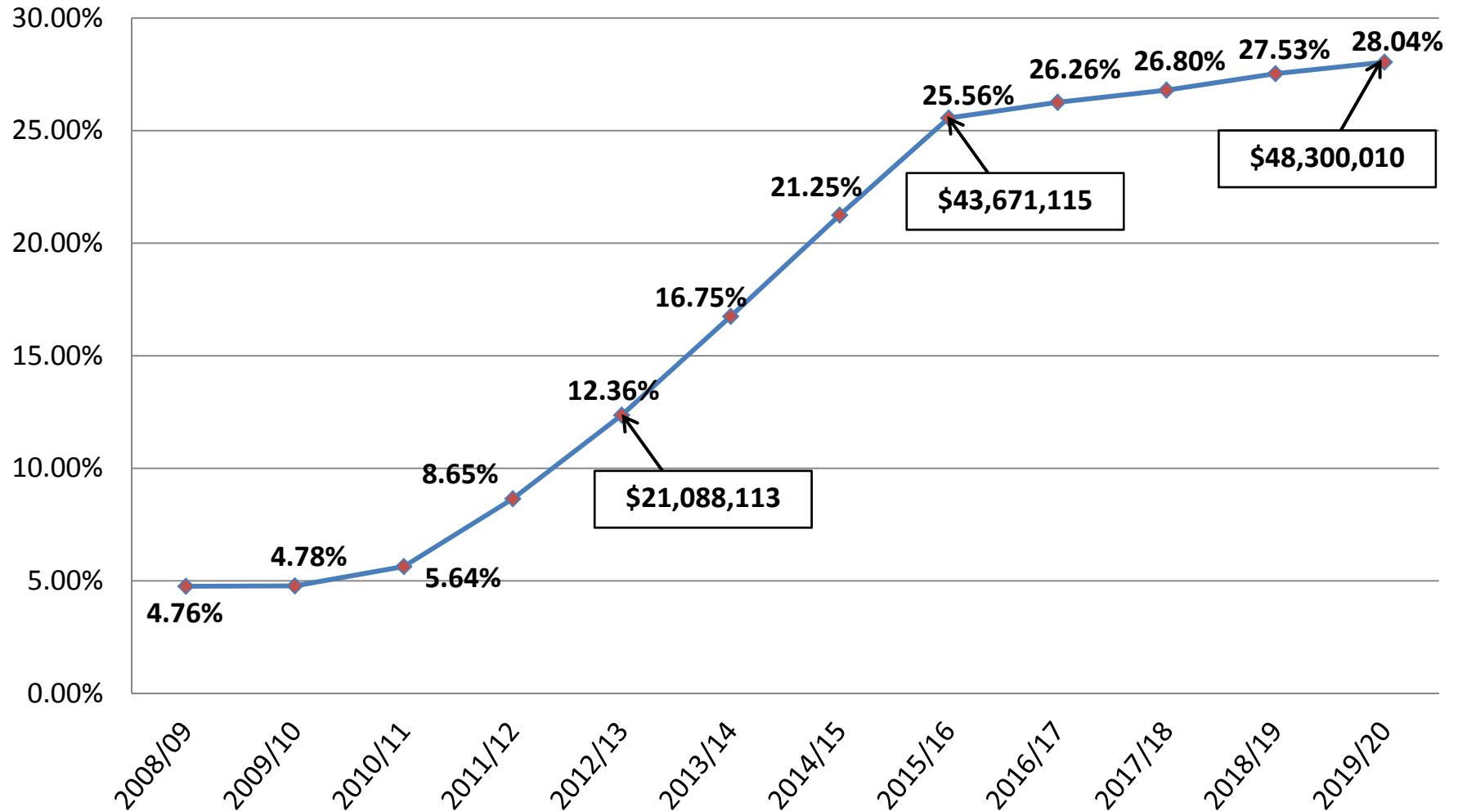
Sources of Major Annual Increases

(values in millions)

■ Prior Year Deficit ■ Salaries ■ Health Care ■ Net PSERS Increase ■ Transportation, Utilities, Etc.



PSERS Employer Contribution Rate Increases



*A stable workforce was assumed when calculating the projected PSERS expenditures.



Where we are as of November 5, 2012 on 2013 General Fund and Capital Budgets

District's budget is on a calendar year (Jan. 1 - Dec. 31)

- 1. Summary of the 2013 Budget**
- 2. Financial and Economic Budget Drivers**
- 3. Revenues**
- 4. Expenditures**
- 5. Conclusion**



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Summary of Proposed 2013 Budget



The District's Budget is Composed of Two Parts

Governmental Funds

- Calendar Year Budget Cycle
- Flexible Uses
- Examples
 - General Fund
 - Capital Projects
 - Food Service

Supplemental Funds

- Fiscal Year Cycle
- Restricted Uses
- Examples
 - Title 1
 - IDEA
 - Head Start
 - Perkins
 - TIF
 - Gates Foundation
 - Fund for Excellence



Proposed 2013 District General Fund Budget

- Expenditures for 2013 are budgeted at **\$521.8 million**:
 - Represents a **1.5 % decrease** from 2012 adopted budget
 - Includes an operating deficit of **\$9.8 million** in 2013
- Adheres to Board's minimum **5 percent fund balance policy** for general fund through 2013 based on assumptions to date – required fund balance of **\$26.1 million**
- Imposes no new taxes
- Proposed Capital budget for 2013 of **\$14.1 million**
 - 2012 Capital budget was **\$13.4 million**



Budget Assumptions

Revenue

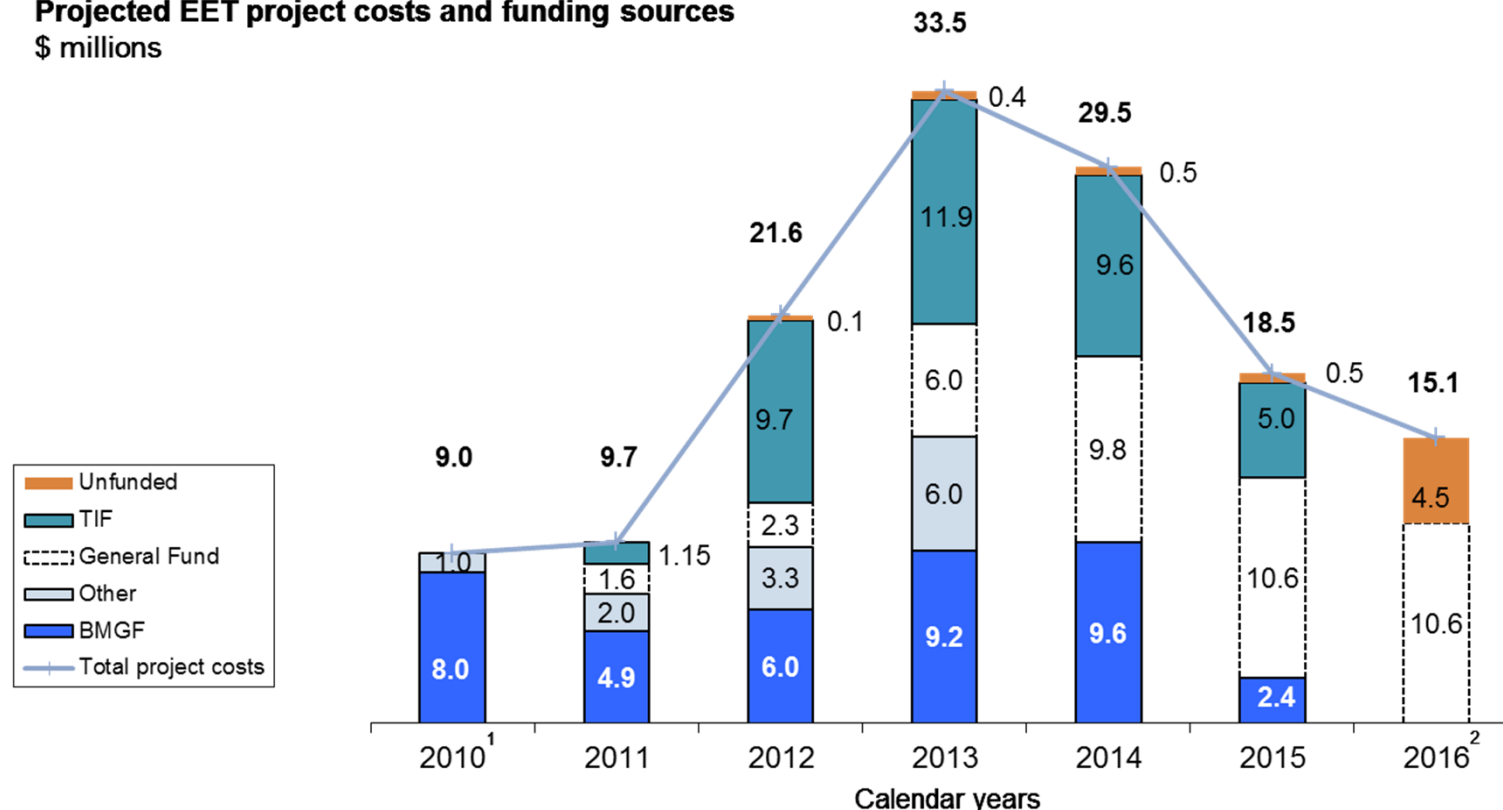
- **No tax increase**
- **Flat Real Estate and Earned Income Revenue**
- **Flat Basic Education Funding**
- **Stable enrollment**

Expenditures

- **No additional school closures**
- **Stable workforce**
- **Increasing retirement, health care, utility and transportation cost**
- **Increased charter school costs**
- **Continuation of Effective Teaching work**

Projected Empowering Effective Teaching Project Costs and Funding Sources

Projected EET project costs and funding sources
\$ millions



	2010	2011	2012	2013	2014	2015	2016
Total Sources	\$ 8.98	\$ 9.61	\$21.48	\$33.03	\$28.98	\$18.02	\$10.6
Total Project Costs	\$ 8.98	\$ 9.61	\$21.60	\$33.45	\$29.42	\$18.52	\$15.10
Funding Gap	\$.00	\$.00	\$.12	\$.42	\$.44	\$.50	\$ 4.50

1 Includes December 2009

2 Includes the full year of 2016, although the BMGF grant period terminates June 30, 2016

*Note: The General Fund costs are included in the District's multiyear forecast, though the District remains at a deficit.



There is much work to be done.

We must be diligent, flexible and
creative as we move forward.



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Financial and Economic Budget Drivers

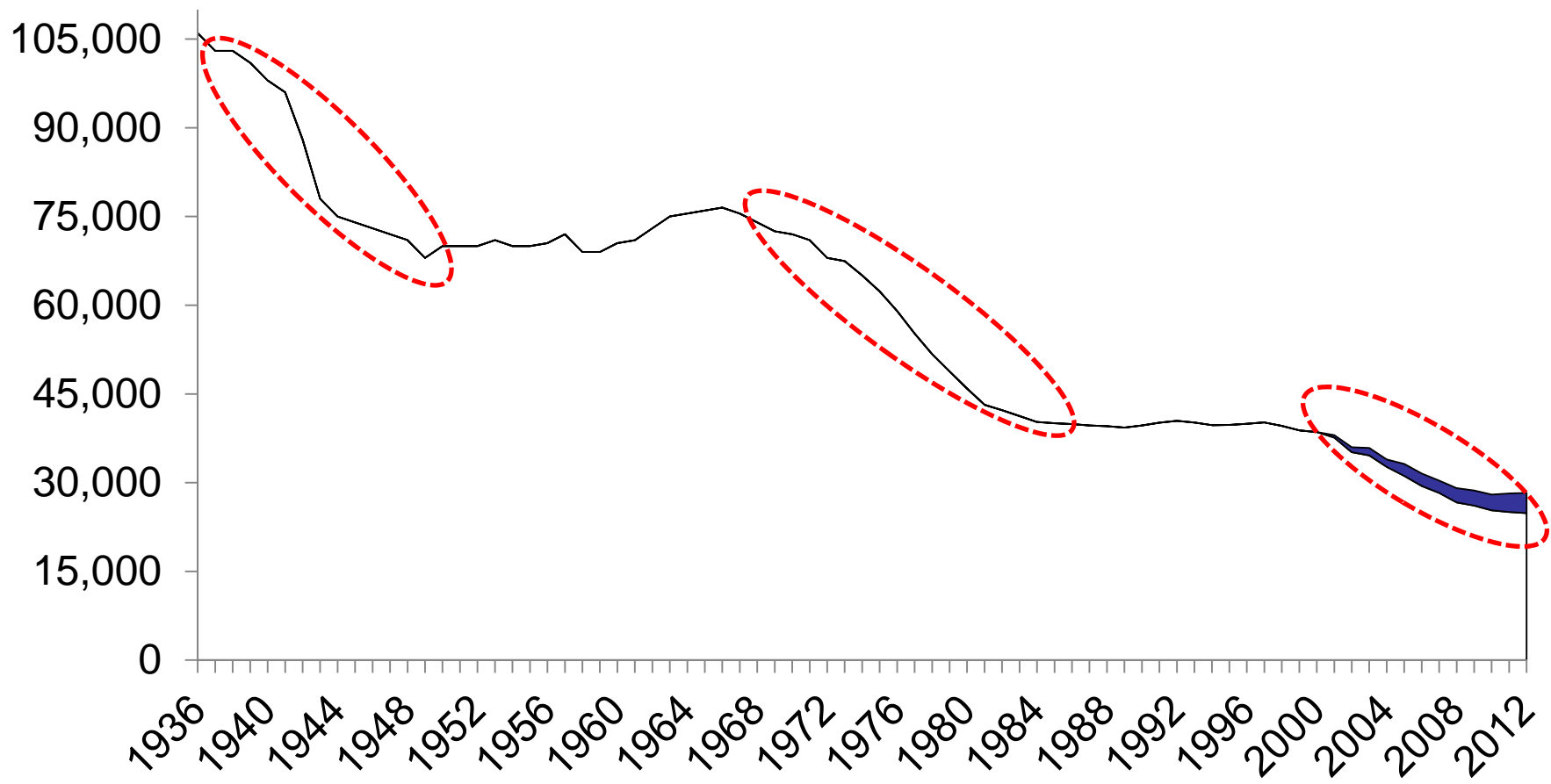


Our problem is complex since there are many challenges at the same time

- **Uncertain federal and state funding**
 - **Sequestration – Automatic cuts to discretionary Federal programs over the next decade**
 - **Basic Education Subsidy – Change in Allocation Formula**
- **Student Enrollment Decline**
- **Increase in Charter Schools**
- **Rising cost of retirement, utilities, transportation, health care, and salaries**
- **Opportunity Scholarship Tax Credit Program**

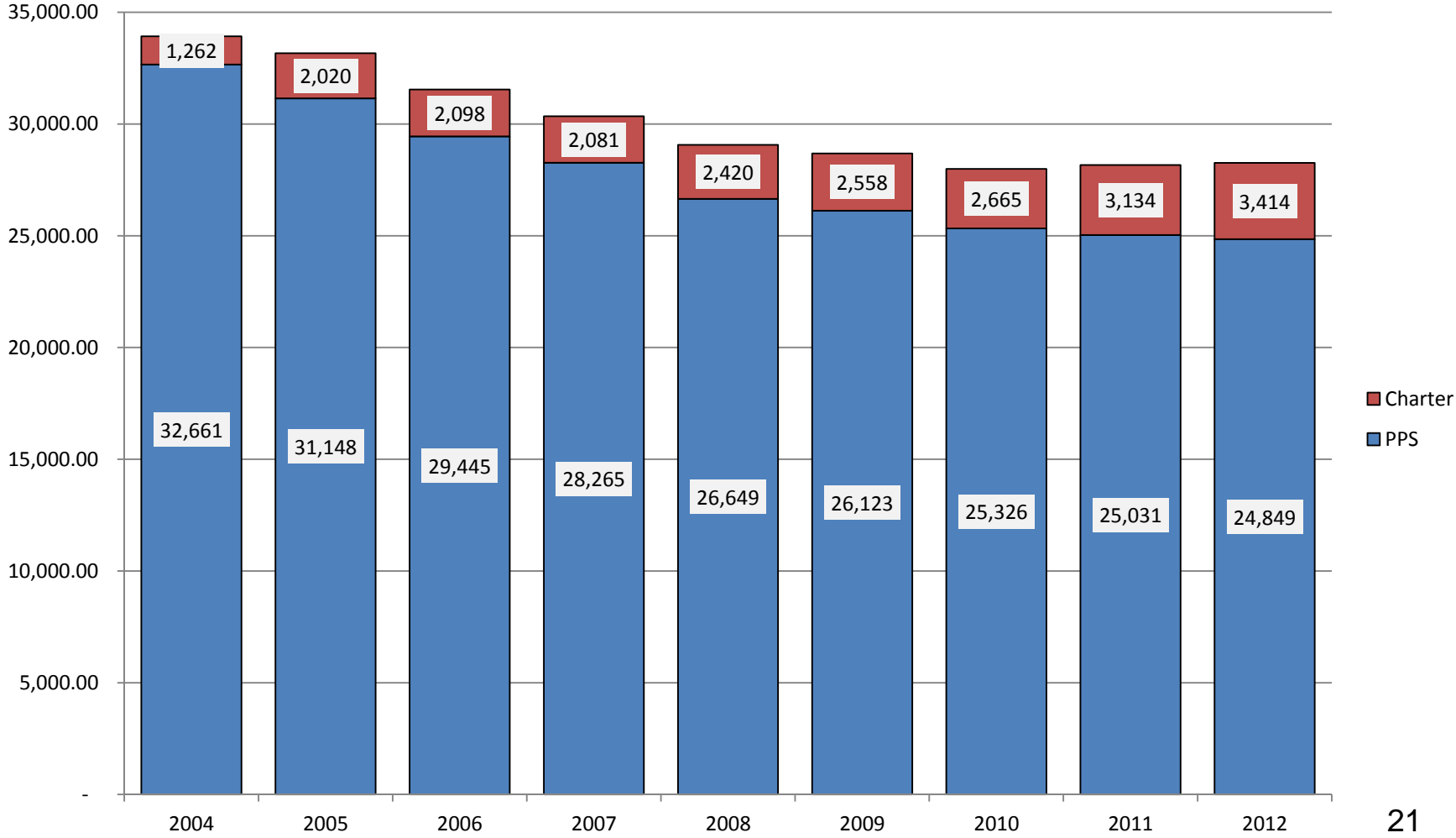
We must actively manage our third wave of enrollment decline

Average Daily Membership (ADM) 1936 until Present
Count of K-12 students enrolled at PPS (or Charter LEA post 1999)



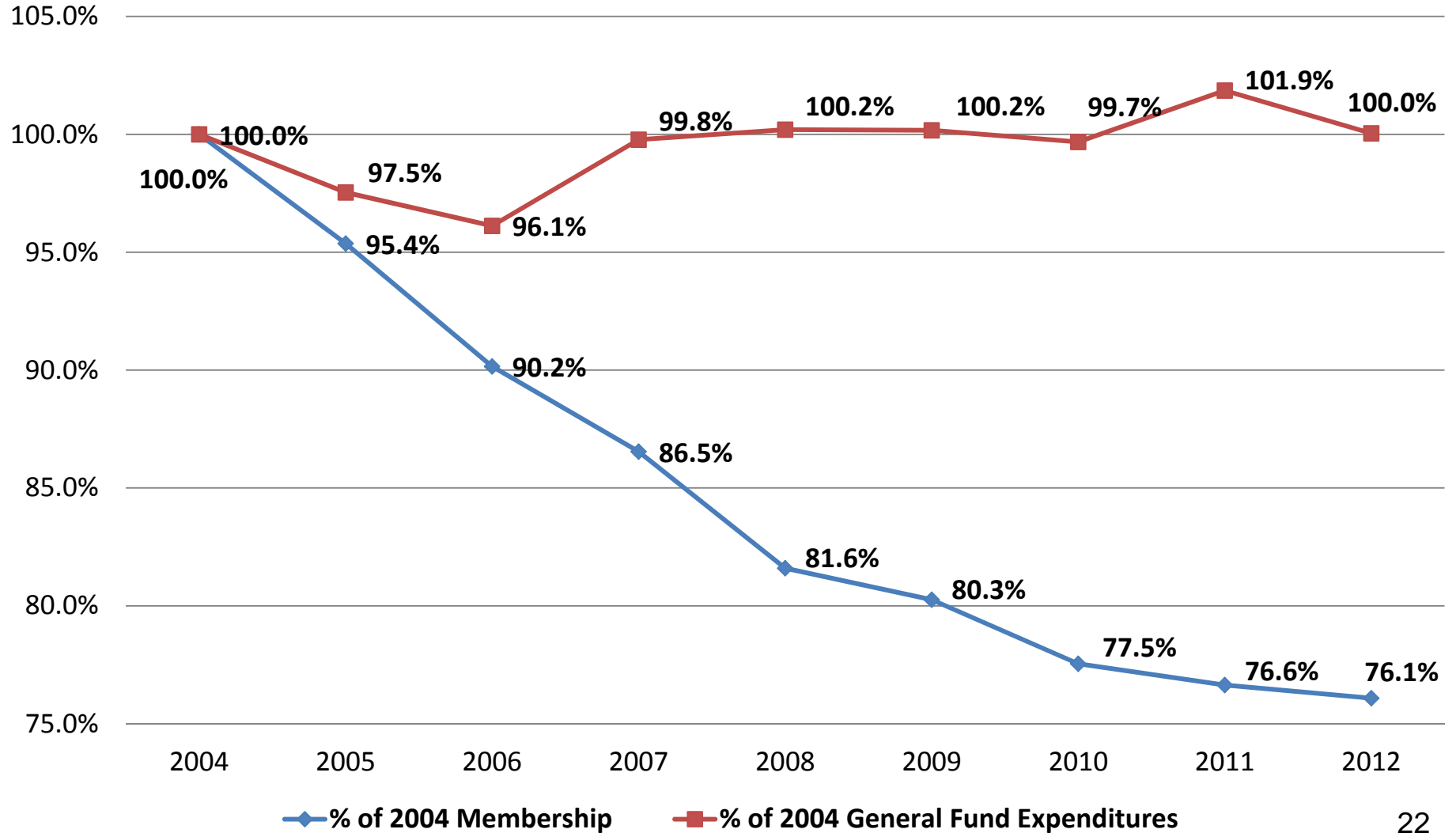
Source: PPS Historic General Fund Budgets, 1980 through present

Student population is declining while Charter enrollment is growing



Expenditures are growing while enrollment is declining

Comparing Student Membership to Total Expenditures : 2004 - 2010
[Baseline Level 2004 = 100%]





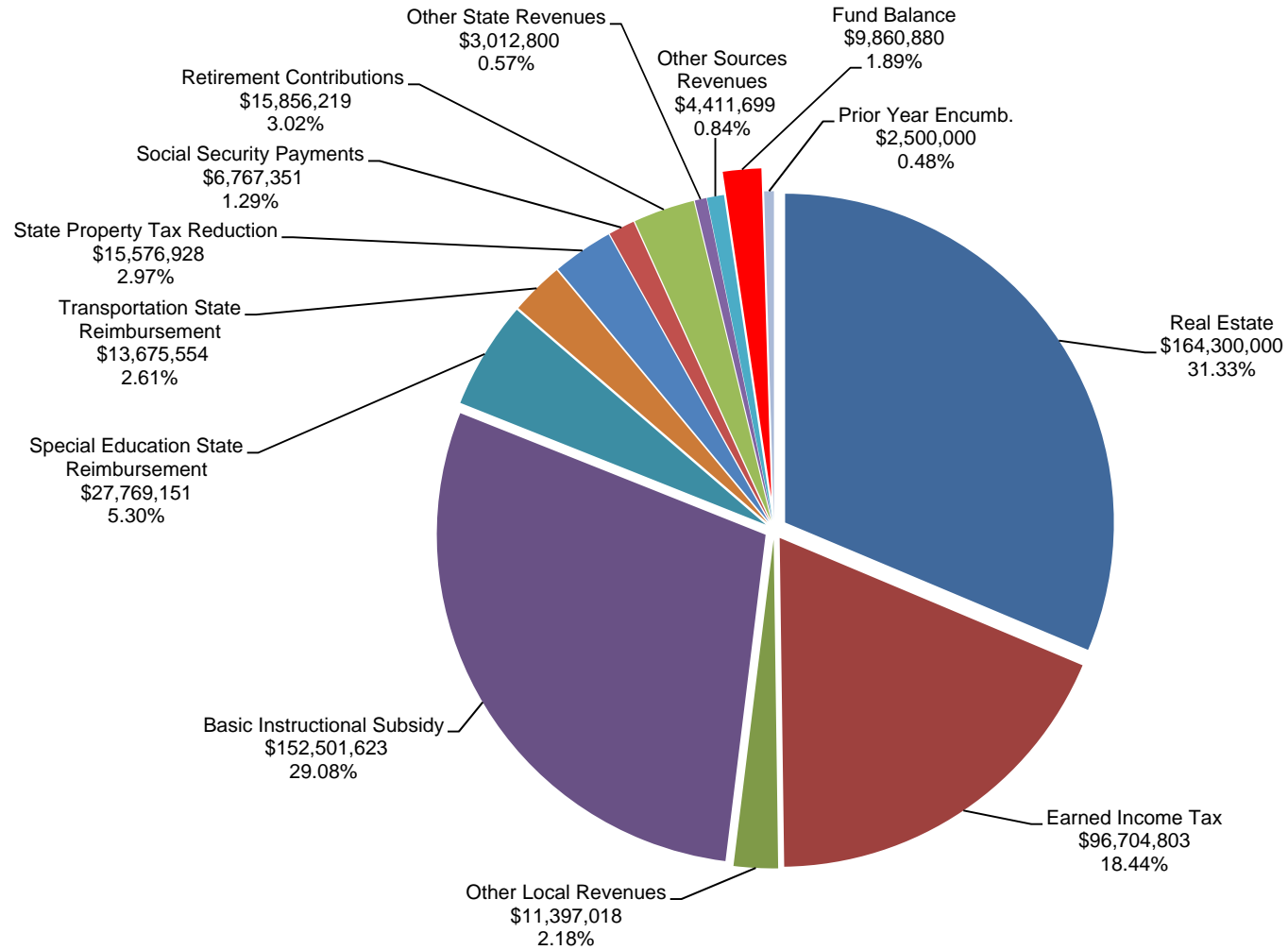
3 General Fund Revenues



Real Estate Reassessments

- **Allegheny County is required to certify the Assessment of property values by December 17, 2012.**
- The District is required to set its resulting recalculated millage rate for 2013 and Homestead Exemption from Gaming Revenues for 2013 based on the certified assessments by December 31, 2012.
- Our goal is to have the Board approve the 2013 General Fund Budget and millage rate for 2013 at the Legislative Meeting on December 19, 2012.

2013 Budget by Revenue Source



Total Revenue	\$524,334,026
Prior Encumbrances	\$ 2,500,000
Deficit	\$ 9,860,880

2013 Budget by Revenue Source

LOCAL SOURCES	PROJECTED REVENUES	PERCENT OF TOTAL	
Real Estate	\$164,300,000	31.33%	
Earned Income Tax	\$96,704,803	18.44%	
Other Local Revenues	\$11,397,018	2.18%	
Total - Local Sources	\$272,401,821		51.95%
STATE SOURCES			
Basic Instructional Subsidy	\$152,501,623	29.08%	
Special Education State Reimbursement	\$27,769,151	5.30%	
Transportation State Reimbursement	\$13,675,554	2.61%	
State Property Tax Reduction	\$15,576,928	2.97%	
Social Security Payments	\$6,767,351	1.29%	
Retirement Contributions	\$15,856,219	3.02%	
Other State Revenues	\$3,012,800	0.57%	
Total - State Sources	\$235,159,626		44.84%
REVENUE FROM OTHER SOURCES	\$4,411,699	0.84%	
			0.84%
FROM FUND BALANCE	\$9,860,880	1.89%	
			1.89%
RESERVE FOR PRIOR YEAR ENCUMBRANCES	\$2,500,000	0.48%	
			0.48%
TOTAL	<u>\$524,334,026</u>	<u>100.00%</u>	



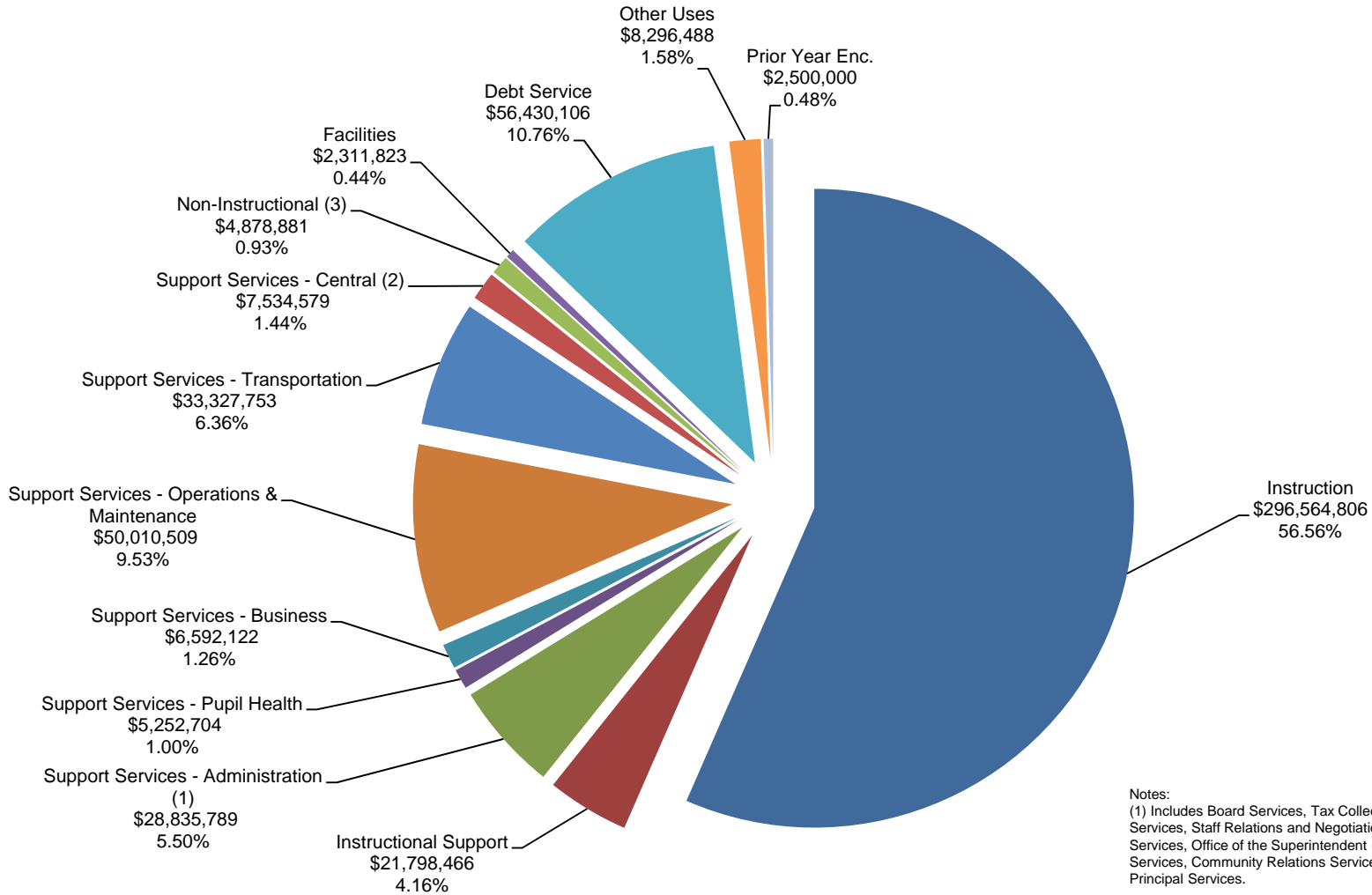
4 General Fund Expenditures



What are functions and objects?

- A function is a 4-digit code that describes that activity or program that an expenditure is supporting (i.e. Instruction, Administration)
- An object is a 3-digit code that describes the service or item that is being purchased (Salaries & Benefits, Supplies)

2013 General Fund Budget By Function



Total Appropriations	\$524,334,026
Prior Encumbrances	\$ 2,500,000

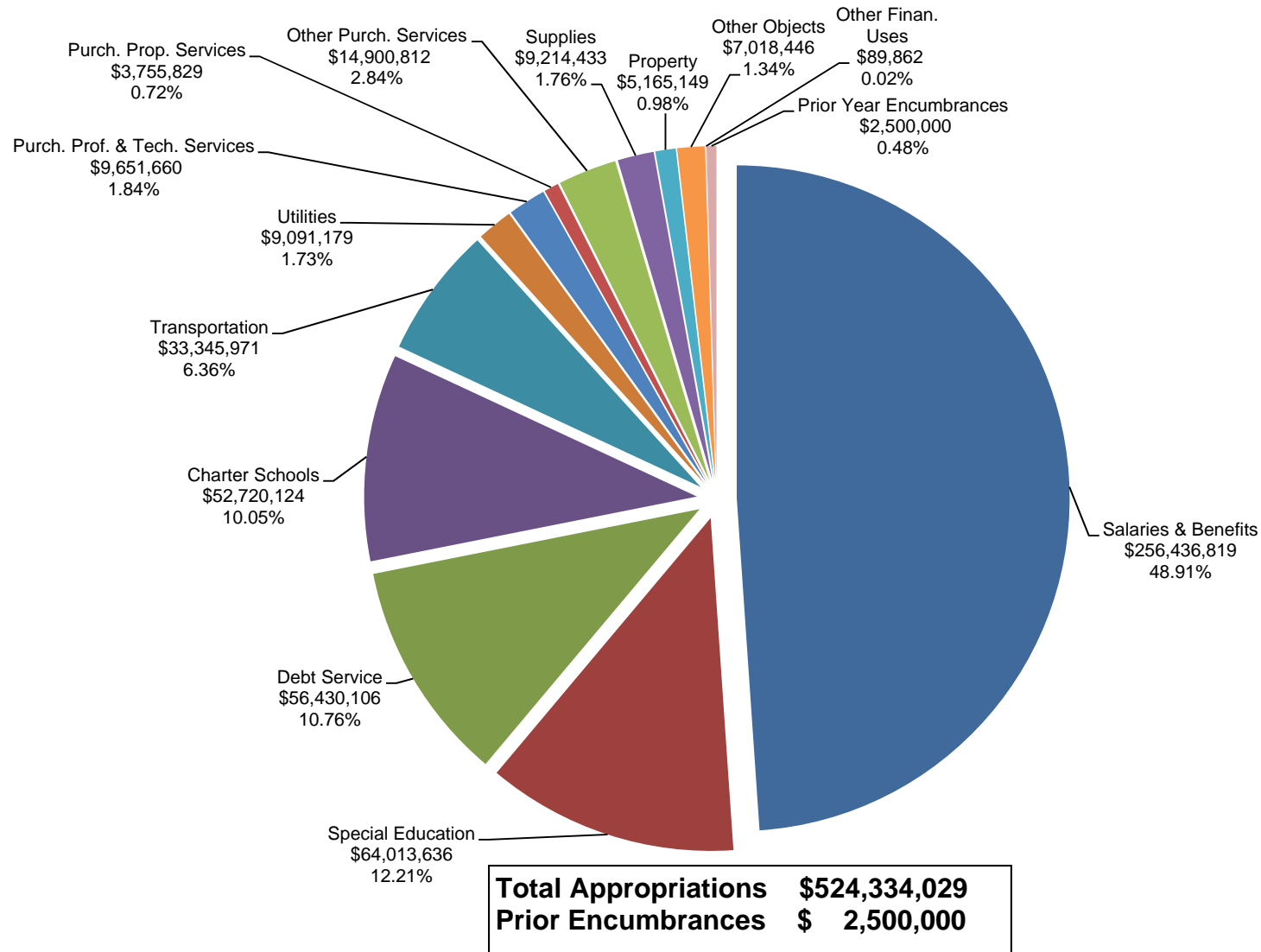
Notes:
 (1) Includes Board Services, Tax Collection and Assessment Services, Staff Relations and Negotiations Services, Legal Services, Office of the Superintendent (Deputy/Assistants) Services, Community Relations Services and Office of the Principal Services.
 (2) activities include planning, research, development, evaluation, information, staff and data processing services.
 (3) activities include student activities and athletics



2013 General Fund Budget By Function

FUNCTIONS	PROJECTED APPROPRIATIONS	PERCENT OF TOTAL
Instruction	\$296,564,806	56.56%
Instructional Support	\$21,798,466	4.16%
Support Services - Administration (1)	\$28,835,789	5.50%
Support Services - Pupil Health	\$5,252,704	1.00%
Support Services - Business	\$6,592,122	1.26%
Support Services - Operations & Maintenance	\$50,010,509	9.53%
Support Services - Transportation	\$33,327,753	6.36%
Support Services - Central (2)	\$7,534,579	1.44%
Non-Instructional (3)	\$4,878,881	0.93%
Facilities	\$2,311,823	0.44%
Debt Service	\$56,430,106	10.76%
Other Uses	\$8,296,488	1.58%
Prior Year Enc.	\$2,500,000	0.48%
TOTAL	\$524,334,026	100.00%

2013 General Fund Budget by Major Object





2013 General Fund Budget by Major Object

PROJECTED APPROPRIATIONS PERCENT OF TOTAL

Salaries & Benefits	\$256,436,819	48.91%
Special Education	\$64,013,636	12.21%
Debt Service	\$56,430,106	10.76%
Charter Schools	\$52,720,124	10.05%
Transportation	\$33,345,971	6.36%
Utilities	\$9,091,179	1.73%
Purch. Prof. & Tech. Services	\$9,651,660	1.84%
Purch. Prop. Services	\$3,755,829	0.72%
Other Purch. Services	\$14,900,812	2.84%
Supplies	\$9,214,433	1.76%
Property	\$5,165,149	0.98%
Other Objects	\$7,018,446	1.34%
Other Finan. Uses	\$89,862	0.02%
Prior Year Encumbrances	\$2,500,000	0.48%
GRAND TOTAL	\$524,334,026	100.00%

2013 Capital Budget Summary

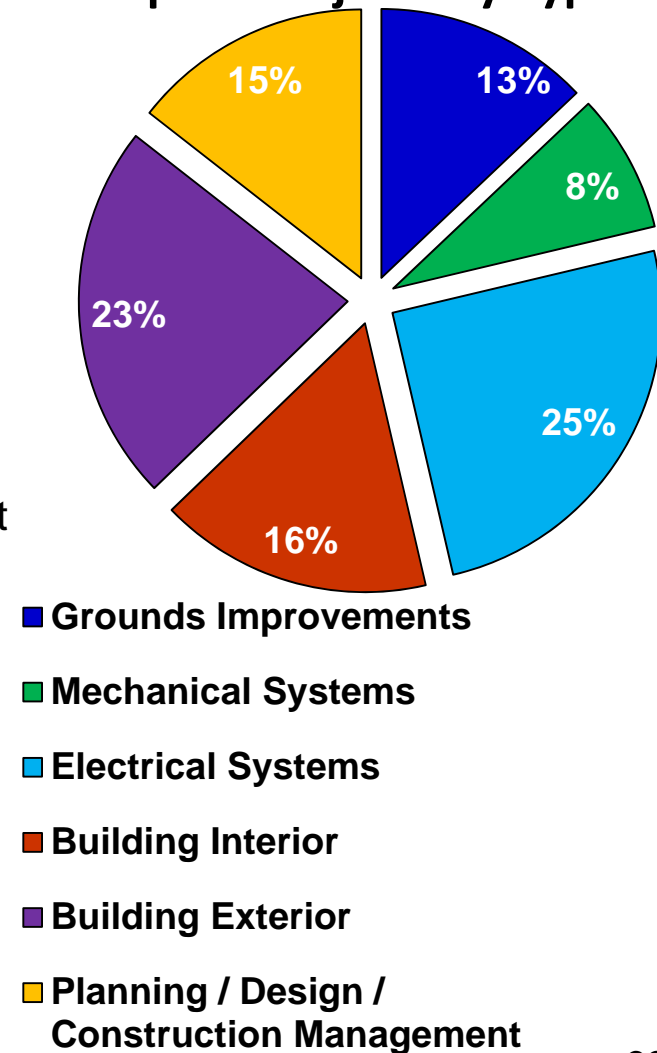
Proposed capital budget: \$14.1 million

Summary of significant capital projects planned for 2013 and 2014:

- **Allerdice** – Chemistry Labs Renovation
- **Beechwood** – Elevator Installation
- **Linden** – Elevator Installation
- **Obama (Peabody Bldg.)** – Window Replacement
- **Whittier** – Elevator Installation

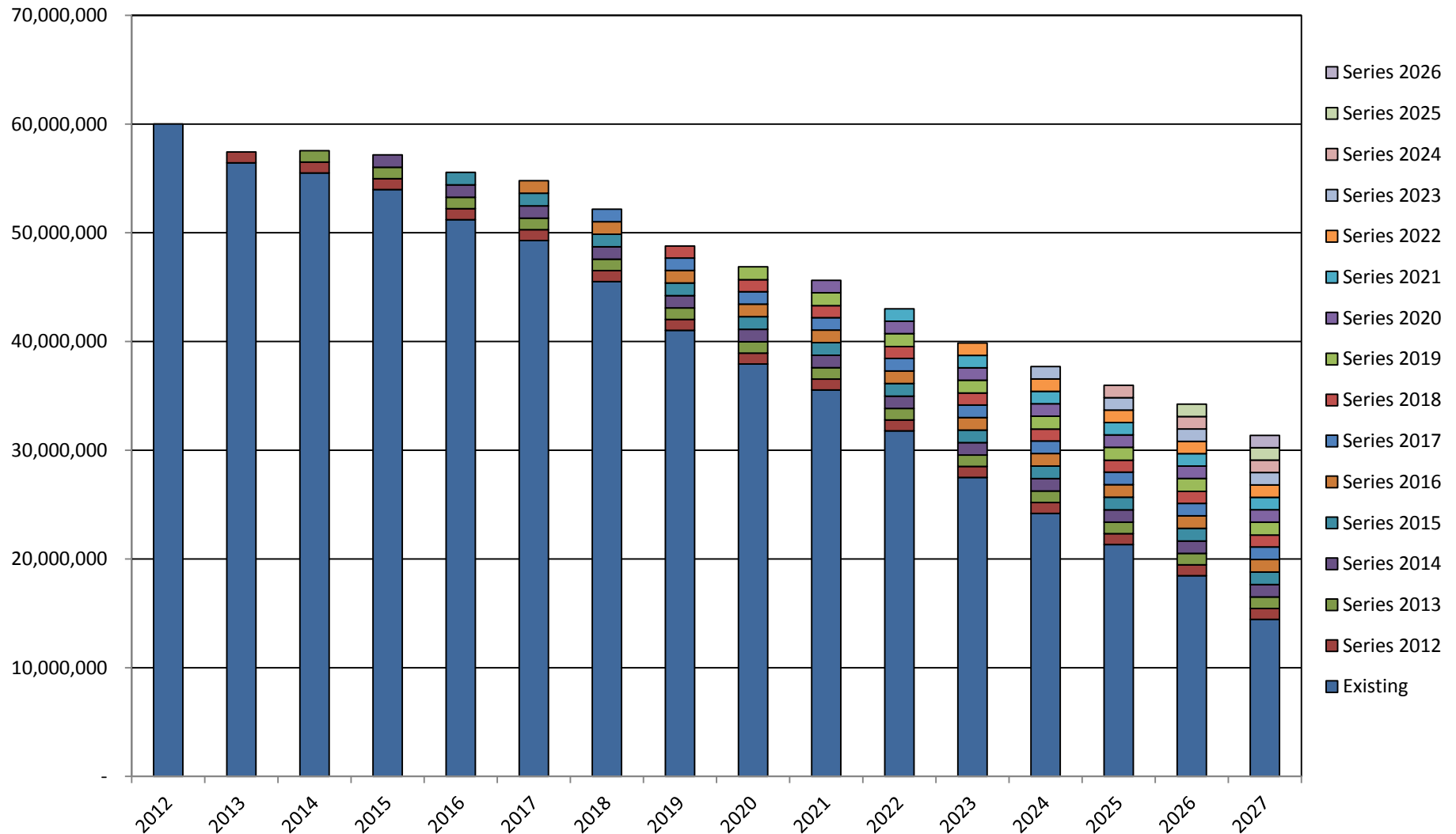
The proposed capital budget is focused on building maintenance.

Capital Projects by Type



15 year Debt Service Projection

(Assumes a maximum of \$15 million in borrowing annually)



Total Outstanding Debt = \$453,849,834



2013 General Fund Budget Adoption Timeline

- June 27, 2012 Board certified no tax increase beyond 2013 index
- October 1, 2012 Board Committee Meeting
- October 24, 2012 Regular Public Hearing
- November 5, 2012 Board Committee Meeting
- November 14, 2012 Release of Preliminary 2013 Budget
- December 3, 2012 Special Noontime Budget Public Hearing
- December 12, 2012 Agenda Review
- December 19, 2012 Regular Legislative Meeting - 2013 Budget Adoption



5 Conclusion

November 5, 2012: General Fund Financial Summary 2012 - 2016

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Long Term Visioning and Planning

- We can't deliver education the same way we always have.
- Change is needed in order for the District to achieve long term fiscal stability and become a District of Choice.
- It will take creativity, financial, business, and educational expertise to create this new model as well as build the transition from our current model to the new one.
- We must “re-envision school” and continue to explore new ways of reallocating and reducing our resources so we can continue to meet our goals of increasing student achievement, achieving racial equity and becoming a District of first choice.