



THE SCHOOL DISTRICT OF  
PHILADELPHIA

# Recommended Dissolution of the School Reform Commission

November 16, 2017

**EMBARGOED UNTIL PUBLIC PRESENTATION**

# Agenda

- Statutory Framework and Criteria outlined in Section 691 of the Public School Code
- Academic Accomplishments
- Financial Management
- Charter Schools Office
- Office of the Inspector General
- Plan for Continuity
- Questions and Answers

# Statutory Framework: Dissolution of the SRC

**Background:** December 21, 2001 – Pa. Secretary of Education declared The School District of Philadelphia as a distressed school district for the reasons that it:

- Failed to adopt a valid budget; and
- Failed or will fail to provide an educational program in compliance with State laws and regulations.

**Dissolution process:** As per Section 696(n) of the Public School Code:

- SRC deliberates and votes to adopt a resolution recommending the dissolution of the SRC.
- Secretary of Education may then issue a declaration to dissolve the SRC.

**Timeline for dissolution:** The Secretary's declaration must be issued at least 180 days prior to the end of the current school year and becomes effective at the end of that school year. The current school year ends June 30th, 2018.

# Criteria: Section 691 Public School Code

Section 691 of the Public School Code outlines the circumstances when a school district is distressed that, along with a proper investigation of a school district's financial condition and administrative practices of the Board, may lead the Secretary of Education to issue a declaration of distress

These criteria for distress include the following:

- Whether the salaries of employees have remained unpaid for 90 days.
- Whether tuition due another school district remains unpaid.
- Whether the District has defaulted on any bond payments or contracted any loan not authorized by law.
- Whether the District has operated with a deficit equal to 2% or more of the assessed valuation of taxable real estate for two successive years.
- Whether the District failed to adopt a valid budget or to transfer revenues in order to operate the school district for a minimum instructional year.
- Whether the District failed to provide for an educational program in compliance with applicable law or standards.

The School District of Philadelphia no longer meets these circumstances for distress.

# Academic Accomplishments

- Improved academic outcomes for students in all grades
  - Increased rate of 3rd graders reading on grade level to 36%
    - Students at every grade level from 3rd to 7th have shown improvements in reading
    - More students are reading at the very highest level (Advanced) and fewer reading at the lowest level (Below Basic)
  - Improved student scores for the Algebra I, Biology, and Literature Keystone exams
  - Increased district-wide graduation rate to 67%
- Safe, welcoming schools
  - Zero “persistently dangerous” schools for three consecutive years
  - Reduced suspensions and created a successful diversion program
  - City-wide focus on increasing attendance
- Successful teacher staffing
  - 99% teacher fill rate - over 2,150 teachers submitted applications for SY17-18
  - 85% substitute teacher fill rate

# Financial Management

Over the past few years the District has undertaken numerous initiatives to increase recurring revenue, improve the efficient and effective use of public dollars, and plan for sustainable investments

- Obtained recurring revenue from the State
  - Cigarette tax (originally slated to sunset in FY18) made permanent, and has an annual \$58 million floor
  - New rideshare fee revenues, estimated at \$2.5 million annually
- Introduced a sustainable, multi-year strategic investment plan, including:
  - New instructional materials for K-8 math and new reading anthologies
  - Increased funding for AP courses, gifted education, and PSAT/SAT administration
  - Counselors for every school and nurses in every school building
- Completed a bond refunding of over \$1 billion in high interest debt which will save the District over \$100 million in debt service interest over the next 20 years

# Financial Management

- Ratified collective bargaining agreements with all of the District's bargaining units.
- As of FY17, the District is considered a Best Practice model of grant compliance and management by the US Department of Education (ED).
- Secured a fix for the state reimbursement formula (AVI issue) which prevents the loss of over \$250 million in state reimbursement revenues through FY22.
- On September 8, 2017, the District received a ratings upgrade by Moody's Investors Service, the first upgrade since 2010. The upgrade opinion noted that:
  - "Structural balance and operating surpluses for the last three years show a significant improvement over years of deficits."

# Financial Management

## Five-Year Financial Plan

- The District has implemented a Five-Year budget and spending plan which strives for structural balance, while providing for investments designed to achieve the mission of equity in educational opportunity for all children.
- The Five-Year Plan utilizes reasonable projections for revenues and expenditures and establishes baseline financial projections to enable dialogue among all District funders to identify pathways to long-term structural balance.
- The Five-Year Plan assumes funding for maintaining current service levels and investments
- The District projects to end FY18 with a positive fund balance (\$85.6 million), the 4th consecutive year of a year-end positive fund balance.

# Revised Five-Year Plan

## FY18-FY22 FINANCIAL PLAN – OPERATING FUNDS

(in thousands)

	FY17 Q4 Projection	FY18 Q1 Projection	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected	CAGR FY17 to FY22
<b>REVENUES &amp; OTHER FINANCING SOURCES (Excluding Refunding)</b>							
Local Tax Revenues	\$1,139,177	\$1,236,963	\$1,283,168	\$1,300,390	\$1,339,095	\$1,368,703	3.7%
Local Non-Tax Revenues	\$134,201	\$122,892	\$123,315	\$123,815	\$124,308	\$124,550	-1.5%
State Revenues	\$1,527,947	\$1,606,899	\$1,631,112	\$1,677,835	\$1,715,018	\$1,752,204	2.8%
Federal Revenues	\$13,083	\$16,713	\$16,615	\$16,516	\$16,400	\$16,283	4.5%
Other Financing Sources	\$6,798	\$289	\$789	\$289	\$789	\$289	-46.8%
<b>TOTAL REVENUES &amp; OTHER SOURCES</b>	<b>\$2,821,205</b>	<b>\$2,983,756</b>	<b>\$3,054,999</b>	<b>\$3,118,845</b>	<b>\$3,195,610</b>	<b>\$3,262,029</b>	<b>2.9%</b>
<b>EXPENDITURES &amp; OTHER FINANCING USES (Excluding Refunding)</b>							
District Operated Schools	\$1,482,916	\$1,629,202	\$1,660,887	\$1,717,311	\$1,742,262	\$1,753,502	3.4%
Charter Schools (Incl. Transportation)	\$808,923	\$885,024	\$994,500	\$1,079,080	\$1,160,900	\$1,228,710	8.7%
Other Non-District Operated Schools (Incl. Transportation)	\$108,010	\$110,720	\$111,611	\$112,522	\$113,451	\$114,401	1.2%
Debt Service	\$267,859	\$271,891	\$291,955	\$282,283	\$286,309	\$291,925	1.7%
Administrative Support Operations (Central Offices)	\$82,742	\$96,580	\$97,995	\$99,322	\$100,282	\$101,360	4.1%
Undistributed Budgetary Adjustments	(\$18,053)	(\$9,458)	(\$9,442)	(\$9,425)	(\$9,407)	(\$9,389)	-12.3%
Other Financing Uses	\$1,806	\$2,627	\$2,627	\$2,627	\$2,627	\$2,627	7.8%
Reserve for Federal Cuts	\$0	\$12,500	\$17,500	\$17,500	\$17,500	\$17,500	N/A
<b>TOTAL EXPENDITURES &amp; OTHER USES</b>	<b>\$2,734,203</b>	<b>\$2,999,086</b>	<b>\$3,167,634</b>	<b>\$3,301,222</b>	<b>\$3,413,925</b>	<b>\$3,500,636</b>	<b>5.1%</b>
<b>Refunding Revenues and Sources</b>	<b>\$1,306,745</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>Refunding Expenditures and Uses</b>	<b>\$1,315,876</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>OPERATING/FUND BALANCE</b>							
Operating Surplus/(Deficit)	\$87,002	(\$15,330)	(\$112,636)	(\$182,377)	(\$218,315)	(\$238,607)	
Net Impact of Refunding	(\$9,130)	\$0	\$0	\$0	\$0	\$0	
Transfers from Reserves	(\$9,702)	(\$14,702)	\$4,633	(\$13,321)	(\$13,321)	(\$13,321)	
<b>Fund Balance at Beginning of Year - July 1</b>	<b>\$131,228</b>	<b>\$115,656</b>	<b>\$85,624</b>	<b>(\$22,378)</b>	<b>(\$218,076)</b>	<b>(\$449,711)</b>	
Prior Period Adjustment	(\$83,744)						
<b>Restated Fund Balance at Beginning of Year - July 1</b>	<b>\$47,485</b>	<b>\$115,656</b>	<b>\$85,624</b>	<b>(\$22,378)</b>	<b>(\$218,076)</b>	<b>(\$449,711)</b>	
<b>ENDING FUND BALANCE</b>							
<b>Fund Balance at End of Year - June 30</b>	<b>\$115,656</b>	<b>\$85,624</b>	<b>(\$22,378)</b>	<b>(\$218,076)</b>	<b>(\$449,711)</b>	<b>(\$701,639)</b>	
<i>% of Total Revenues</i>	4.1%	2.9%	-0.7%	-7.0%	-14.1%	-21.5%	

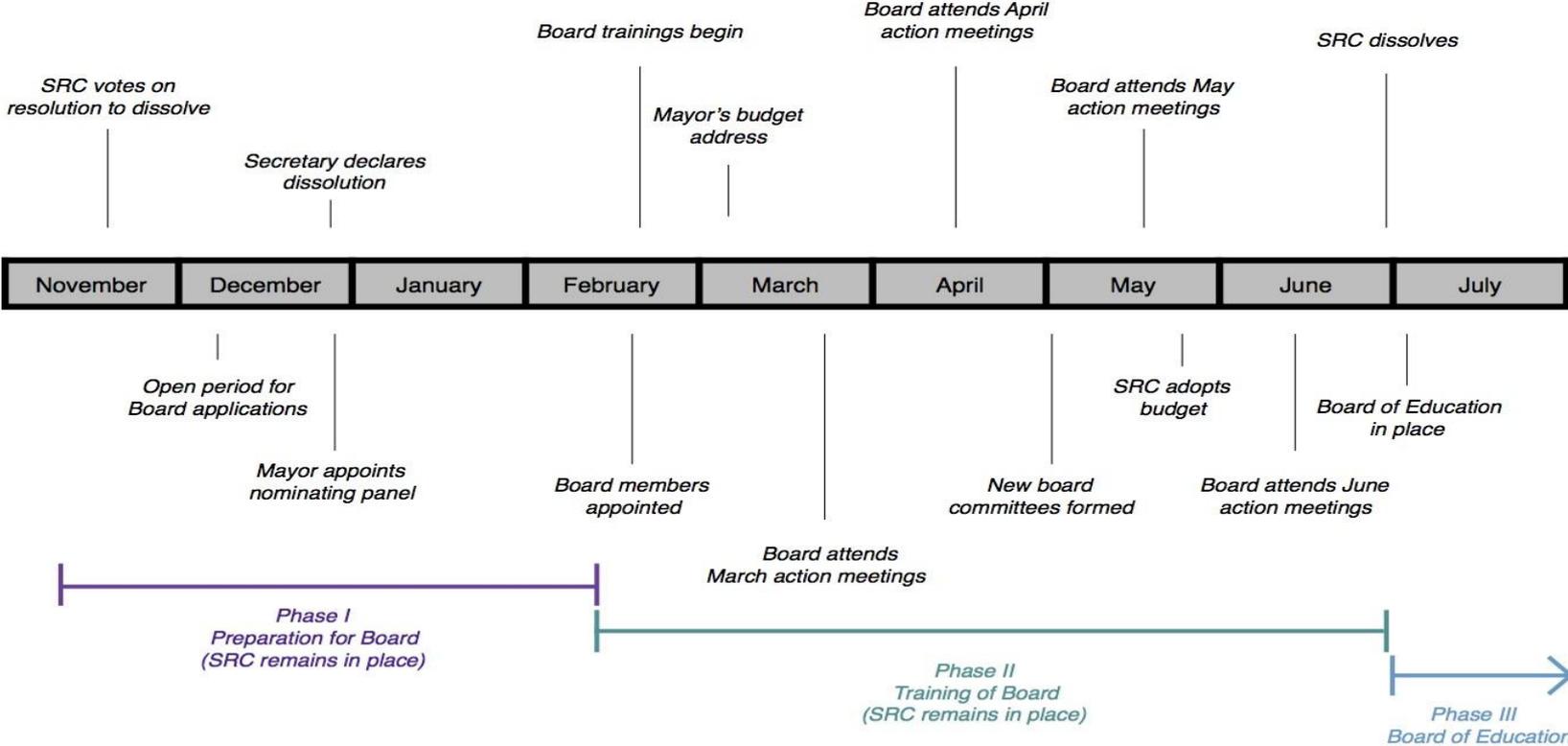
# Charter Schools Office (CSO)

- Improvements in staffing, CSO capacity.
  - Capacity increased from 8 FTE to 16 FTE in three years, school to staff ratio reduced from 10.4:1 to 5.25:1.
- Strengthened authorizing practices through the Authorizing Quality Initiative.
  - Aligned CSO authorizing activities to the charter school performance framework.
  - Implemented new tools for school quality and transparency including informational charter profiles (2015), Annual Charter Evaluations (2016), notices of deficiency (2016) and new website (2017).
  - Instituted board check-ins (2016) for schools with areas of concern in Annual Charter Evaluations and mid-charter term check-ins (2017) to identify schools as being on or off-track for renewal (2017).
  - Revised charter performance framework (2017) based on charter sector feedback, new Every Student Succeeds Act (ESSA) performance expectations and feedback from SRC and the National Association of Charter School Authorizers (NACSA).

# Office of the Inspector General (OIG)

- Innovative Partnership
  - Pursuant to a 2015 MOU, the School District engaged the Philadelphia Office of the Inspector General to assume authority for the District OIG.
  - MOU leveraged Philadelphia's recognized Office of the Inspector General to lead in structuring, staffing and operating the District's OIG.
- Strong Outcomes
  - Created a comprehensive case management system.
  - Established 'best practices' investigative protocols.
  - Communicated across District to inform employees about the office.
  - Issued over 20 Reports of Investigation and made extensive recommendations.
  - District OIG is on track to duplicate the financial viability that the City OIG has demonstrated.

# Plan for Transition



# Questions

# Appendix A

## Criteria outlined in Section 691 of the Public School Code & SDP Responses

1) The salaries of any teachers or other employees have remained unpaid for a period of ninety (90) calendar days.

**All salaries have been paid on time without issue. Termination pay, when an employee separates from the District, is supposed to be paid within 60 - 90 days. Currently there is a 14 month lag in making these payments (down from 17 months). These delays are not due to financial reasons - all of the funds required to make these payments are budgeted, reserved, and available. The delays are administrative in nature and are undergoing business process improvement efforts currently. See Appendix C - Term Pay Memo.**

2) The tuition due another school district remains unpaid on and after January first of the year following the school year it was due and there is no dispute regarding the validity or amount of the claim.

**All invoiced tuition due to other school districts are paid as appropriate and justified.**

3) Any amount due any joint board of school directors under a joint board agreement remains unpaid for a period of ninety (90) calendar days beyond the due date specified in the joint board's articles of agreement.

**Not Applicable**

4) The school district has defaulted in payment of its bonds or interest on such bonds or in payment of rentals due any authority for a period of ninety (90) calendar days and no action has been initiated within that period of time to make payment.

**The District has not defaulted on any bond payments, in any fashion.**

5) The school district has contracted any loan not authorized by law.

**The District has not contracted any loans not authorized by law.**

6) The school district has accumulated and has operated with a deficit equal to two per centum (2%) or more of the assessed valuation of the taxable real estate within the district for two successive years.

**The District has not accumulated or operated with a deficit equal to two per centum (2%) or more of the assessed valuation of the taxable real estate within the district for two successive years.**

7) A new, merged or union school district has been formed and one or more of the former school districts which compose the merged or union school district was a distressed school district at the time of the formation of the merged or union school district.

**Not applicable.**

8) The school district of the first class failed to adopt or to comply with a valid budget to operate the school district for a minimum instructional school year under section 1501.

**The school district of the first class has adopted and complied with a valid budget to operate the school district for a minimum instructional school year under section 1501.**

9) The school district of the first class failed to allocate or transfer revenues to ensure that funds are sufficient to provide a minimum instructional school year under section 1501.

**The city of the first class has transferred revenues to the school district consistent with the current budget.**

10) The city of the first class failed to transfer revenues to the school district consistent with the current budget.

**The city of the first class has transferred revenues to the school district consistent with the current budget.**

11) The school district of the first class has failed or will fail to provide for an educational program in compliance with the provisions of this act, regulations of the State Board of Education or standards of the Secretary of Education.

**The School District has provided for an educational program in compliance with the provisions of the Public School Code, regulations of the State Board of Education and standards of the Secretary of Education. When the School District is notified of potential or alleged deficiencies, it provides the required corrective action and evidence of correction to the Secretary of Education. The School District's provision of compliant programs does not address - and is subject to and without prejudice to - the claims made in William Penn School District, et al v. Pennsylvania Department of Education, et al, alleging that the General Assembly has failed to fund a "thorough and efficient system of public education" under the Pennsylvania Constitution.**

# Appendix B

## Academic Accomplishments - Supporting Documents

- School District of Philadelphia. *Action Plan 3.0*, (March 4, 2015).
- School District of Philadelphia. *Action Plan 3.0 Status Report*, (March, 2016).
- School District of Philadelphia. *Action Plan 3.0 Update*, (March, 2017).
- School District of Philadelphia. *School Year 2016-17 District Scorecard*
- District Performance Data SY2012-13 to SY2016-17, (November 16, 2017).
  - 4-year Adjusted Cohort Graduation Rates
  - Interventions and outcome data to support school climate
  - Attendance data
- PA Department of Education. *Persistently Dangerous Schools*. (November 16, 2017)<sup>1</sup>.
- School District of Philadelphia. *Staffing Progress*, (November 15, 2017).
- School District of Philadelphia. *School Progress Reports SY2015-16*, (January 31, 2017).

<sup>1</sup> List remains the same in most recent years.

# Appendix C

## Financial Management - Supporting Documents

- School District of Philadelphia. *The Comprehensive Annual Financial Report of the School District of Philadelphia - School Year 2015-16*, (July 1, 2017).
- SRC-1 Resolution. *Adoption of Amended Operating Budget for 2016-17 and Operating Budget for 2017-18 & FY18 Budget Adoption Presentation*, (May 25, 2017).
- SRC-2 Resolution. *Amended Capital Budget for 2016/17 and Amended Capital Program for 2017-2022 and Adopts a Capital Budget for 2017/18 and a Capital Program for 2018-2023*, (May 25, 2017).
- School District of Philadelphia. *Lump Sum Presentation*, (March 23, 2017).
- School District of Philadelphia. *FY17 Budget Adoption Presentation*, (May 26, 2016).
- School District of Philadelphia. *FY16 Budget Adoption Presentation*, (June 30, 2015).
- School District of Philadelphia. *FY15 Budget Adoption Presentation*, (June 30, 2014).
- School District of Philadelphia. *FY14 Budget Documents*, (May 30, 2013).
- U. Monson, *Termination Pay Processing Update*, (November 3, 2017).

# Appendix C - continued

## Financial Management - Supporting Documents

- School District of Philadelphia. Grant Corrective Action Plan Status, (October 30, 2017).
- School District of Philadelphia. *OIG Audit/Grant Corrective Action Plan Status Report*, (November 3, 2017).
- School District of Philadelphia. *Quarterly School Manager Report*, (November 14, 2017).
- SRC-19 Resolution. *Ratification of Memorandum of Agreement with Local 32BJ District 1201*, (June 16, 2016).
- SRC-4 Resolution. *Ratification of Collective Bargaining Agreement with the Teamsters Local 502 Commonwealth Association of School Administrators*, (September 14, 2017).
- SRC-18 Resolution. *Ratification of Collective Bargaining Agreement with Philadelphia Federation of Teachers*, (June 20, 2017).
- SRC-5 Resolution. *Ratification of Collective Bargaining Agreement with School Police Association of Philadelphia*, (October 19, 2017).
- Moody's Investors Service. *Philadelphia School District*, (September 8, 2017).
- Fitch Ratings. *Fitch: Philadelphia School District Takeover Presents Risks and Opportunity*, (November 9, 2017).

# Appendix C - continued

## Financial Management - Supporting Documents

- School District of Philadelphia. *2013-2017 Debt Service Payments*, (November 16, 2017).
- School District of Philadelphia. *Schedule of Bonds Outstanding*, (November 16, 2017).
- School District of Philadelphia. *Projected Revenue and Expenditure Detail for 18/19 through 21/22*, (November 14, 2017).
- School District of Philadelphia. *Schedule of City Revenues FY2013-2017*, (November 16, 2017).
- School District of Philadelphia. *FY13-17 Ledger Transaction Detail Report - LEA Expenditures by Vendor* (November 16, 2017).
- School District of Philadelphia. *Operating Fund Revenues and Sources*, (November 16, 2017).
- School District of Philadelphia. *Comparative Statement of Revenues, Obligations, and Changes in Fund Balance*, (November 16, 2017).
- School District of Philadelphia. *FY18-FY22 Financial Projections - All Major Funds*, (November 16, 2017).

# Appendix D

## Charter Schools Office (CSO) - Supporting Documents

- School Reform Commission *Policy 401: Charter School Office* (April 24, 2014).
- D. Kacer, *Accomplishments and Progress Towards Strong Charter Authorizing*, (November 7, 2017).
- Charter Schools Office. *Authorizing Paradigm*, (November, 2017).
- Charter Schools Office. *Charter School Performance Framework*, (October 2017).
- National Association of Charter School Authorizing. *The State of Charter Authorizing 2016* (January 1, 2017).
- Charter School Office. *Annual Charter Evaluation 2016 Reports*

# Appendix E

## Office of the Inspector General - Supporting Documents

- SRC-5 Resolution. *Amendment of Memorandum of Understanding with the City of Philadelphia - Inspector General Services*, (June 15, 2017).
- Philadelphia Office of the Inspector General. *Annual Report: Building on a Foundation of Integrity*, (2016).

# Appendix F

## Plan for Continuity - Supporting Documents

- Mayor Jim Kenney. *Transcript of Mayor's Announcement*, (November 2, 2017).
- Mayor Jim Kenney. *Ensuring Quality Schools For Every Philadelphia Child*, (November 2, 2017).
- City Council Resolution. *Amendment to Home Rule Charter*, (November 2, 2017).
- SRC-1 Resolution. *Public Meeting Schedule School Year 2017-18*, (June 15, 2017).
- M. Shore. *Compliance with Federal and State Requirements Following Change in Governance Structure*, (November 15, 2017).
- M. Shore. *Impact of Dissolution of the SRC on Organization and Staffing Patterns*, (November 15, 2017).
- M. Shore. *Special Powers of the SRC*, (November 15, 2017).