

From: Council President’s Office – Finance and Budget Team

Date: 11/27/18

RE: Historical Trend Analysis – Q1 School District Operating Fund Update (FY08-FY18)

Introduction

As City Council returns from a budget process that provided significant investment in our schools, we have examined how the School District’s finances have improved over the past decade – shifting from deficits to surpluses, from negative Operating Fund balances to positive Operating Fund balances, and from closing schools to investing in the District’s infrastructure.

Budget Stability

On November 14th, 2018, the School District of Philadelphia (District) released its First Quarter School Manager Report, detailing the unaudited year-end financials of the District. **The District is projected to end FY18 with an Operating Fund balance of \$163.9 million – which equates to 5.5% of annual expenditures and \$74.1 million above the original projection.**¹ This change is due to an increase in revenues above projections, and obligations that aligned with projections. Although this fund balance equals approximately three weeks of expenditures, the District has recently stated that, when highlighting the FY18 preliminary actuals, the District “is in its strongest academic and financial position in years”.² **Additionally, the School District is projected to end FY19 with a fund balance of \$179.3 million, or 5.7% of annual expenditures.**³ This is \$15.2 million lower than the amount projected in the FY19 Adopted Budget and is driven by slight changes to revenue assumptions.⁴

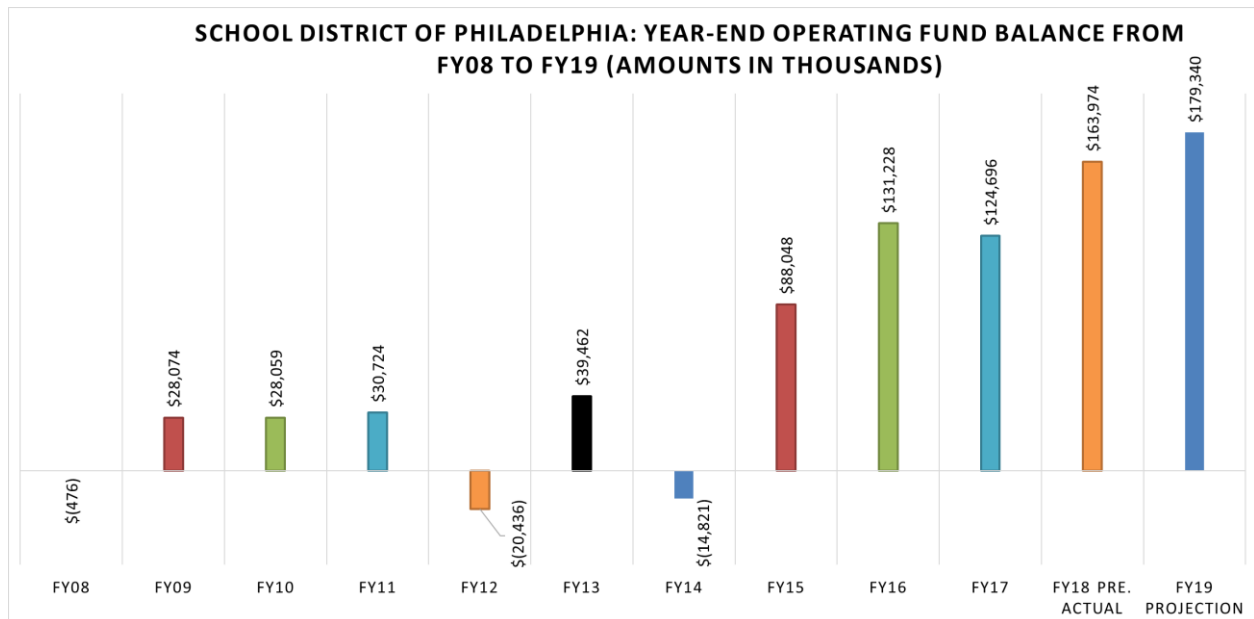


Figure 1

¹ The School District anticipates having finalized, unaudited FY18 figures by the end of the second quarter (12/31/18).

² [School District of Philadelphia Quarterly School Manager Report: For the Period Ending June 30, 2018.](#)

³ This figure does not include funds reserved for potential cuts to federal funding, which was originally budgeted at \$17.5M. This reserve amount has been reduced to \$7.5M, since the start of the fiscal year. In FY19, the School District is anticipating a \$10M reduction in funding for Title II (\$5M reduction has already been declared). Any portion of the “Reserve for Federal Cuts” that remains unused will flow to the Operating Fund balance at the close of the fiscal year.

⁴ The original FY19 Adopted budget anticipated an increase in Real Estate tax revenues (due to a potential tax rate increase). However, there was no increase to the Real Estate Tax rate, and therefore revenues were adjusted downward.

The School District of Philadelphia has improved its financial position since the declining revenues of the Great Recession, including most notably, the significant reduction in State revenue starting in FY12. **Comparing FY08 to FY18's preliminary figures, Local Tax revenues have increased by 61.7%, while State revenues have increased by 23.6% – since FY08.**

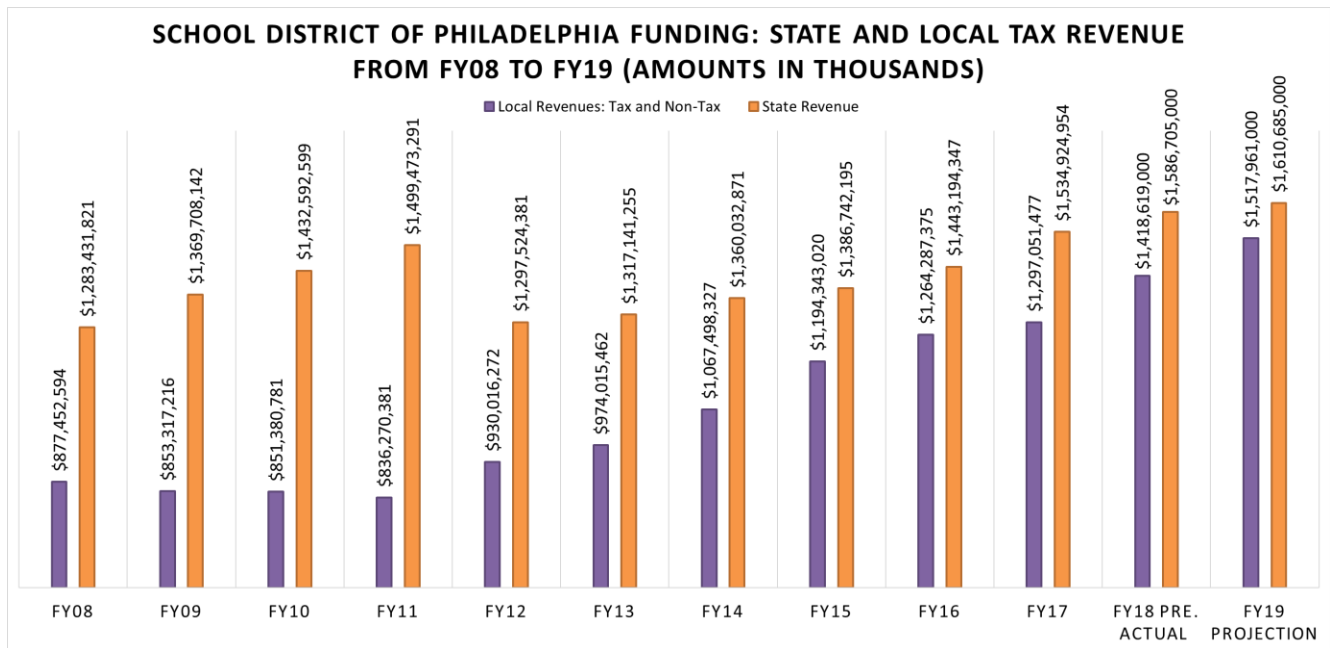


Figure 2

As highlighted in **Figure 2**, the State budget cuts to the School District in FY12 were significant, both in terms of dollar amount, and relative to Local revenues. In FY17, after five fiscal years, appropriations from the State reached their FY11 level. These deep cuts made it difficult over that period to maintain a healthy fund balance, as any additional resources allocated to the School District were needed to fund critical operating expenditures. **In FY19, State revenues are projected to increase by \$24 million, to \$1.61 billion, while Local revenues are projected to increase by \$99.3 million, to \$1.52 billion.**

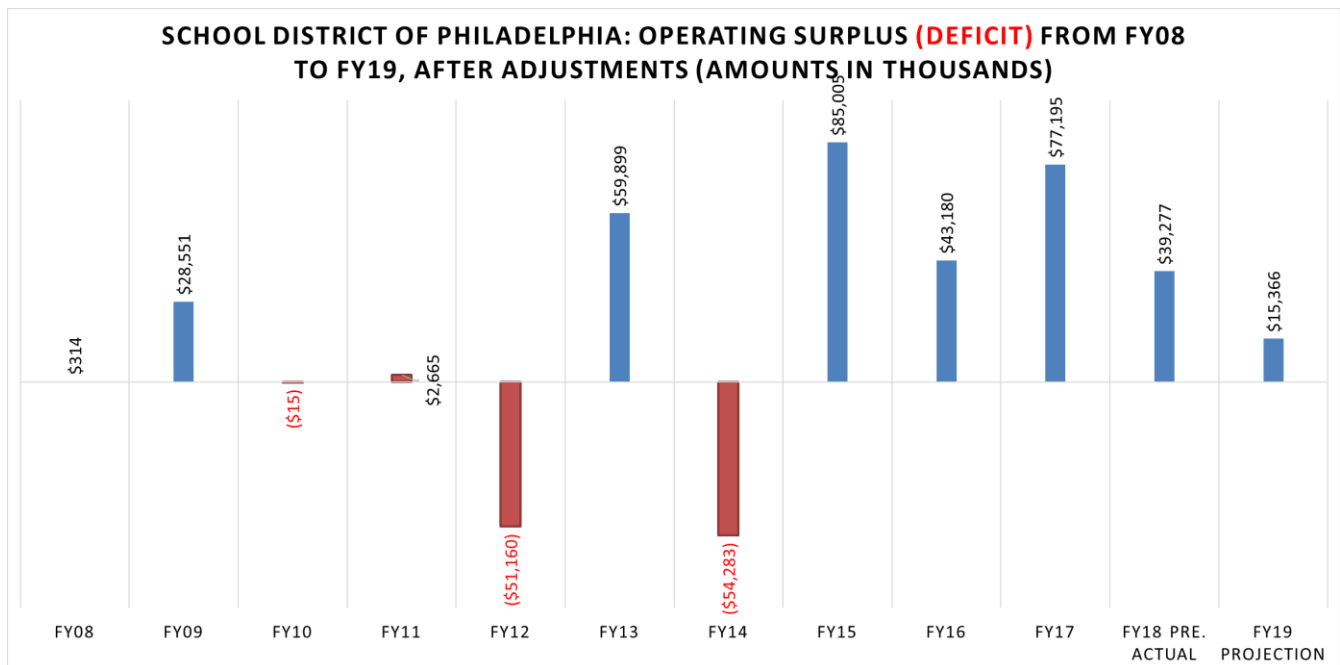


Figure 3

The School District can only increase reserve levels in years with a *positive operating surplus* – in which revenues exceed expenditures. It is notable to mention that **at the close of FY18, the School District is projected to maintain four consecutive fiscal years of operating surpluses.** This trend is expected to continue throughout this fiscal year – **FY19 is projected to end with a \$15.3 million surplus.**⁵

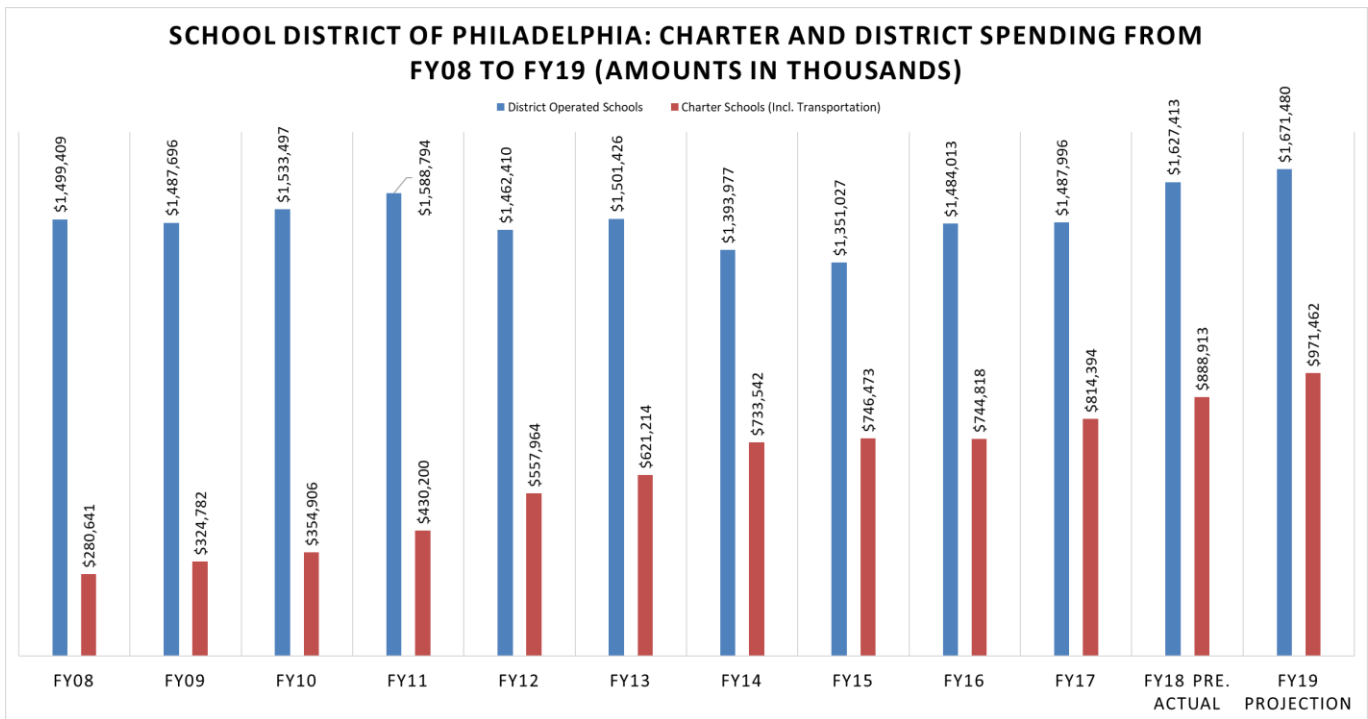


Figure 4

An additional pressure on *reserve levels* has been spending on Non-District Operated (i.e., Charter) schools. Comparing FY08 to FY19’s projection, expenditures for District Operated schools remained relatively flat, increasing only 11.5%, **compared to a 246.1% increase for Charter School expenditures.** These costs, which are outside of the discretion of the School District, have continued to complicate the budgeting process.

Conclusion

The School District of Philadelphia has dramatically improved its financial position over the past decade. If the positive fiscal trends are to continue over the long-term, the State must be involved in ensuring that the School District has the means to operating efficiently and effectively.

⁵ This amount does not include any potential unused portion of the Reserve for Federal Cuts.