



School District of Pittsburgh Draft 2008 Budget and Updated Three-Year Rolling Forecast

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2008 Budget Highlights

- We have made a lot of progress but have a long way to go
- Assumes a 6% enrollment decline consistent with state projections
- Overall \$3.5 million reduction in appropriations compared with 2007 adopted budget
- Includes \$8.1 million of proposed reductions in central office and schools related to enrollment decline
- Despite an overall decline in the budget, some expenses are growing:
 - Examples include increases in rates for benefits, energy costs and debt service and supports high school reform transition costs
- 2008 Revenues compared with the 2007 estimated final are flat

Scenario 1: Incorporates Proposed Reductions of \$8.1 million

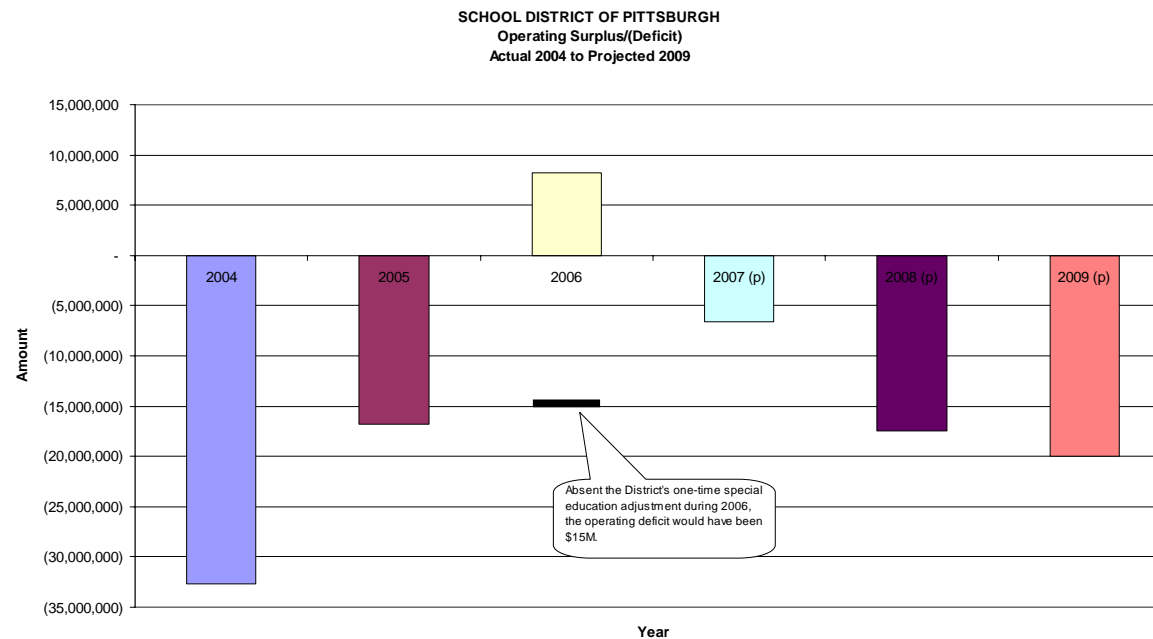
Highlights Need for Deeper Reductions

- By 2009, expenditures of \$529.9M outpace revenues by \$19.9M

<i>BASELINE PROJECTION ALIGNED WITH DRAFT 2008 BUDGET</i>				
	2007 Original BUDGET	Projected Year Ended 2007	Projected Year Ended 2008	Projected Year Ended 2009
Total Revenues	\$503,859,744.00	\$508,541,444.73	\$507,972,005.10	\$510,031,297.43
Total Expenditures	\$528,935,744.00	\$515,198,242.00	\$525,450,591.05	\$529,964,069.25
Beginning Balance	\$74,951,465.00	\$74,951,465.00	\$68,294,667.73	\$50,816,081.77
Operating Surplus/(Deficit)	(\$25,076,000.00)	(\$6,656,797.27)	(\$17,478,585.95)	(\$19,932,771.82)
Ending Fund Balance	\$49,875,465.00	\$68,294,667.73	\$50,816,081.77	\$30,883,309.96
Less Projected Reservations	(\$2,500,000.00)	(\$3,000,000.00)	(\$3,000,000.00)	(\$3,000,000.00)
Unreserved Fund Balance	\$47,375,465.00	\$65,294,667.73	\$47,816,081.77	\$27,883,309.96
% Budgeted Expenditures	8.96%	12.67%	9.10%	5.26%
Compliance with Fund Balance Policy	Yes	Yes	Yes	Yes

The District has operated with a structural gap since 2004

- Expenditures are projected to outpace revenues even with the \$8.1 million of 2008 proposed reductions included in the forecast.



Key revenue assumptions in the three-year projection

- No tax increase is planned or proposed.
- For local revenues we assume the Pittsburgh housing market remains relatively resilient to the housing bubble, offset by continued demographic and real estate tax appeal pressures.
- The earned income tax shift will continue through 2009 when our effective rate drops to 1.75%.
- For state revenues we assume continued growth in the basic and special education subsidies for all school districts.
- For other sources we include the proposed elimination of the Medicaid administrative claims program effective October 2008.

Key expenditure assumptions in the three-year projection

- The 2008 working budget file already incorporates the \$8.1M in proposed reductions.
 - Site-based and special education budgets will be adjusted for enrollment declines.
 - Surplus buildings will be disposed of by 2009 to capture \$1M in utility cost savings.
- The Health Care Cost Containment Committee is successful in keeping rate increases at 5% and the Joint Labor Management Workplace Safety Committee in maintaining flat workers' compensation rates.
- Underlying utility rates will increase (e.g., aging sewer system).
- Charter schools are budgeted consistent with current enrollment levels.

Scenario 2: Drastic Reductions Needed to Address Financial Situation

- Must reduce 2009 expenditures by \$19.9M over and above the \$8.1M reduced for 2008, from \$529.9M to \$510M
- Need to maintain fund balance equal to one month of operating expenses:
 - 2008 recurring reductions needed \$10.7 million
 - 2009 recurring reductions needed \$9.2 million

FINANCIAL STABILITY: 2008 AND 2009 REDUCTIONS				
	2007 Original BUDGET	Projected Year Ended 2007	Projected Year Ended 2008	Projected Year Ended 2009
Total Revenues	\$503,859,744.00	\$508,541,444.73	\$507,972,005.10	\$510,031,297.43
Total Expenditures	\$528,935,744.00	\$515,198,242.00	\$514,774,552.90	\$510,042,139.99
Beginning Balance	\$74,951,465.00	\$74,951,465.00	\$68,294,667.73	\$61,492,119.92
Operating Surplus/(Deficit)	(\$25,076,000.00)	(\$6,656,797.27)	(\$6,802,547.81)	(\$10,842.56)
Ending Fund Balance	\$49,875,465.00	\$68,294,667.73	\$61,492,119.92	\$61,481,277.36
Less Projected Reservations	(\$2,500,000.00)	(\$3,000,000.00)	(\$3,000,000.00)	(\$3,000,000.00)
Unreserved Fund Balance	\$47,375,465.00	\$65,294,667.73	\$58,492,119.92	\$58,481,277.36
% Budgeted Expenditures	8.96%	12.67%	11.36%	11.47%
Compliance with Fund Balance Policy	Yes	Yes	Yes	Yes
Targeted Reduction 2008 (Recurring)			\$10,676,038.15	\$10,676,038.15
Targeted Reduction 2009 (Recurring)				\$9,245,891.11

2009 General Fund Budget Development

- 2009 General Fund Budget Development is already underway with a review of site-based budgeting. Program changes could drive additional efficiencies beyond enrollment declines.
- Central administrators with budgetary authority will be required to submit General Fund budget reduction strategies by March 2008.
- Not all responsibility centers may be able to contribute to budget cuts. Prime examples include intersystem payments, such as tuition for approved private schools.
- Creativity in service delivery will be encouraged.
- Any reductions initiated during 2008 will improve the District's long-term outlook.

Our demographic reality

- The Pittsburgh region lost more residents since 2000 than any U.S. metropolitan area except New Orleans.
- U.S. Census Bureau data points to low international immigration and an imbalance of deaths outpacing births.
- The seven-county metropolitan area drew an estimated 15,940 international immigrants between 2000 and 2006, the fewest among the 25 largest municipal areas. Some economists attribute this to a local economy that lacks sufficient growth to attract immigrants.
- Pittsburgh is among urban areas where the number of people moving to another part of the country exceeds the number moving in. Other examples include Cleveland, Buffalo, N.Y., Youngstown, Ohio, Scranton, Dayton, Ohio, Toledo, Ohio, Rochester, N.Y., and Syracuse, N.Y.
- Pittsburgh is the largest metropolitan area where deaths outnumber births.

Forecast Must Reflect Projected K-12 Enrollment Decline

Projected Decrease of 3,848 students over three years

- 2006/07 PPS Actual 29,445
- 2007/08 PPS Actual 28,265 (loss 1,180)
- 2008/09 PDE Projected 26,655 (loss 1,610)
- 2009/10 PDE Projected 25,597 (loss 1,058)

Our action plan

- Savings must be recurring, excluding items which require restoration in future budget years.
- The reduction plan will be prioritized through the Excellence for All reform agenda. Our plan:
 - Should avoid one-time wonders and cost-shifting.
 - Must close the structural gap first and then work to address cost per pupil.
 - Will require reductions in personnel to right-size our staffing levels.
 - Could include reductions in the seven-year capital plan (debt service is already 11% of the proposed 2008 budget).

Key Dates

- 11/20/07 Release Preliminary 2008 Budget
- 12/03/07 Budget Public Hearing
- 12/10/07 December Public Hearing
- 12/19/07 Legislative Meeting – 2008 Budget vote