To the Members of the School Reform Commission:

The School District of Philadelphia is facing two crisis-level challenges: an unprecedented financial shortfall and a public school system that is falling behind in delivering high-quality education to all of Philadelphia’s students. The School Reform Commission retained the Boston Consulting Group (BCG) in February 2012, following a competitive bid process, to develop strategies to stabilize the District’s finances and to ensure that all students have better access to safe, high-quality educational options that ready them for college and careers.

Attached is Transforming Philadelphia’s Public Schools: Key Findings and Recommendations, which summarizes BCG’s analyses. Working with the SRC and District leadership, BCG identified opportunities for reducing operating costs and improving operations, while outlining an option for restructuring the District to reflect the diverse needs of our students, our schools and our communities. The analyses were particularly instrumental in helping to develop the 2013 budget and five-year plan by the required March 31, 2012 deadline.

This BCG summary document is one of several important resources on which we, along with our new Superintendent Dr. William Hite, will draw as we move forward with educational transformation in Philadelphia. It contains a wealth of valuable data and thoughtful conclusions that reflect local and national educational trends. And it captures some of the approaches taken by other urban systems that have confronted issues similar to our own and suggests ways those approaches might be tailored to our unique needs.

In short, this document provides us with needed context as we make decisions on the range of issues we face. But it does not dictate our actions. It is simply a summary of BCG’s findings and recommendations, some of which we have accepted and integrated into our strategies, while others await further community input and open deliberation.

Indeed, as we utilize this and other information to make decisions moving forward, we remain committed to and invite public engagement. Just as learning in our schools comes not just from textbooks, but also from teachers, parents, and peers, so too our own decisions need to be guided not by a single document alone, but also by the collective wisdom of our many partners.

Thomas E. Knudsen  
Chief Recovery Officer and Acting Superintendent  
School District Of Philadelphia
Transforming Philadelphia’s Public Schools

*Key findings and recommendations*
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About Our Global Education Practice

The mission of BCG's Global Education Practice is to drive significant social impact by dramatically improving educational outcomes for students. We have conducted over 200 projects that span all corners of the education sector, from higher education and education service providers to nations, states, school districts, charter management organizations, foundations, and non-profits. In the past five years we have worked with over 30 U.S. school districts, including urban districts such as Chicago, Los Angeles, Dallas, Cleveland, Hillsborough County (Tampa), New Orleans, Memphis, and Seattle. We have partnered with these clients on a range of topics, including strategic and financial planning, designing central offices to better serve schools, data-driven instructional support, teacher and leader effectiveness, performance management, and many others. We pride ourselves on working closely with district and community leaders to drive impact and improve student outcomes.
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# Table of Contents

Table of Contents ......................................................................................................................................................... 3
Table of Exhibits .............................................................................................................................................................. 4
I. Executive Summary .......................................................................................................................................................... 6
II. Introduction .................................................................................................................................................................. 16
III. Moving to a Decentralized Portfolio Management Model .......................................................................................... 25
V. Organizational Model to Support Shift to Portfolio Management ................................................................................ 39
VI. Recommended Improvements to Key District Functions .......................................................................................... 67
VII. Delivering Fiscal Sustainability: Five-Year Financial Plan ...................................................................................... 111
VIII. Path Forward .......................................................................................................................................................... 115
# Table of Exhibits

Exhibit 1. Operations Cost Benchmarking of Major Urban Districts .................................................. 18
Exhibit 2. Cost Benchmarking for Selected Operations ................................................................. 19
Exhibit 4. Urban District Graduation Rates (Class of 2009; Philadelphia Class of 2011) ............... 20
Exhibit 5. NAEP Results by Racial and Ethnic Group ................................................................. 21
Exhibit 6. Four-Year Graduation Rates by Racial and Ethnic Group ......................................... 22
Exhibit 7. Key Elements of a Portfolio Strategy ............................................................................. 26
Exhibit 8. Analysis of Potential Facilities Closures Required ..................................................... 29
Exhibit 9. Sources of Savings from Representative Facility Closure ........................................... 31
Exhibit 10. Strategic Framework to Assess SDP School Portfolio .............................................. 32
Exhibit 11. Comparison of Charter and District-Operated School Performance ........................... 34
Exhibit 12. Estimated Cost of Charter School Expansion ............................................................ 35
Exhibit 14. Proposed Organizational Model for Philadelphia's Public School System ............... 40
Exhibit 15. Proposed Organizational Chart for New District Center ........................................... 42
Exhibit 16. Recommended Transition of Academic Office Positions .......................................... 43
Exhibit 17. Organizational Structure of Core Academic Offices in New District Center .............. 44
Exhibit 18. Key Lessons Learned from SDP's Previous Decentralization Efforts ....................... 48
Exhibit 19. Model Suite of Support Services Provided by Achievement Networks .................. 51
Exhibit 20. Examples of Six Levers to Improve School Performance .......................................... 52
Exhibit 21. Four Guiding Principles for Organizing Achievement Networks ............................. 54
Exhibit 22. Proposed Selection Process for Achievement Network Leadership ............................ 56
Exhibit 23. Recommended Evaluation Criteria for Network Leadership ....................................... 57
Exhibit 24. Differentiated Support Model, Based on School Performance ................................. 58
Exhibit 25. Overview of Services Offered by Chester County IU ................................................. 61
Exhibit 26. Organization Chart for Shared Services Organization .............................................. 62
Exhibit 27. Proposed Range of Services to be Provided by SSO ............................................... 63
Exhibit 28. Proposed Academic Organizational Model ............................................................... 65
Exhibit 29. Proposed Academic Goals ......................................................................................... 66
Exhibit 30. Benchmarking of Custodial Services at SDP ............................................................ 68
Exhibit 34. Estimated Savings from Modernization ................................................................. 69
Exhibit 35. Financial Impact of 32BJ-1201 Work Rules (including Facilities and Transportation) .... 71
Exhibit 36. Facilities Service Cost Differences Between SDP and Vendors ................................ 74
Exhibit 37. Current State of District-run Versus Contracted Buses in SDP ................................. 76
Exhibit 38. Comparison of SDP and Vendor Cost Per Bus ......................................................... 76
Exhibit 39. Breakdown of SDP Bus Driver and Attendant Compensation ................................... 77
Exhibit 40. Process for Modernizing Transportation ................................................................. 78
Exhibit 41. Recommended Finance Organizational Structure ..................................................... 82
Exhibit 42. Distribution of SDP Teacher Performance Ratings ................................................... 85
Exhibit 43. Summary of Recommended Talent Management Reforms ........................................ 89
Exhibit 44. HR Business Partner Support in Achievement Networks.........................................................90
Exhibit 45. Summary of HR Functions in New Organizational Structure ....................................................91
Exhibit 46. IT Solutions for New Performance Management System..........................................................93
Exhibit 47. Map of IT Systems and Potential Improvements.......................................................................95
Exhibit 48. Assessment of SDP’s Current IT Systems ..................................................................................96
Exhibit 49. Proposed IT Governance Structure for SDP .........................................................................98
Exhibit 50. Price Comparison of Alternative Education Providers ............................................................102
Exhibit 51. Capital Investment and Projected Savings for Utilities Improvements ......................................103
Exhibit 52. Framework for Implementation of Procurement Savings Initiatives ........................................104
Exhibit 53. Savings Estimates for Key Procurement Categories .................................................................105
Exhibit 30. Cross-District Comparison of Special Education Performance ................................................106
Exhibit 31. Cross-District Comparison of Achievement Levels for Students with Disabilities ..................106
Exhibit 32. Trends in Special Education Enrollments by Severity of Disability .........................................107
Exhibit 54. Overview of Financial Inputs to Five-year Plan ......................................................................114
I. Executive Summary

In February 2012, the School District of Philadelphia (SDP) engaged The Boston Consulting Group (BCG) to help develop strategies to “return the District to structural balance.” Over the past year, the District had largely closed a $715 million budget gap through a series of significant cost-cutting measures. Yet on its current trajectory, the District still faces a projected deficit in excess of $200 million for the 2012–13 school year and a cumulative deficit of more than $1.1 billion over the next five years. A number of key assumptions underlie this “base case” scenario. First, it assumes that charter school enrollments will continue to grow in line with historic trends. The District’s Charter Schools Office projects that charter schools will compose 40 percent of public school enrollment by the 2016–17 school year, an increase of roughly 32,000 seats from today. Over the next five years, personnel costs are predicted to increase by 25 percent, while revenues are expected to rise by only 8 percent. The increase in personnel costs is driven in part by the required increase in SDP’s contribution to the Public School Employees’ Retirement System, from 12 percent of the total contribution in FY13 to 26 percent in FY17.

It is important to note that the District’s overall per-pupil spending is roughly in line with that of other urban, unionized districts. The budget gaps were caused mainly by a loss of $300 million in state and federal revenues, in combination with the continued growth of charters and the rise in personnel costs for compensation, health care, and pension benefits.

In addition, despite making academic gains in recent years, Philadelphia’s schools remain among the worst performing in the nation. On the National Assessment of Educational Progress (NAEP), a standardized test administered at regular intervals by the U.S. Department of Education, Philadelphia’s scores in reading and math are well below national, state, and urban district averages. In terms of long-term outcomes, Philadelphia’s four-year graduation rate was 61% for the class of 2011. This is above the 57% average for urban districts, but remains well below the national average of 73%. There are also wide racial and ethnic disparities in achievement. The four-year graduation rate among white students is 68 percent, while African-American and Latino students graduate at rates of 61 percent and 50 percent, respectively. African-American and Latino males face even steeper odds of graduating—53% and 43%, respectively. In addition, truancy rates at SDP are unacceptably high—District data show that the number of students who miss 10 days of school or more is approximately 30 percent overall and reaches 50 percent at the high school level.

In addition to its fiscal and academic challenges, the District faces a fundamentally different public school system than it was designed to manage. After a decade of growth, the city’s 84 charter schools now educate roughly a quarter of all public school students. And their share is expected to rise: District projections show the charter sector growing to encompass 40 percent of all public school students within the next five years if current trends persist.

Charters have provided families with a wider array of high-quality choices than District-operated schools alone. On average, charters outperform their District peers, with 51 percent of schools holding a 1–3 rating on the School Performance Index, versus 41 percent of District-operated schools. However, their growth also puts tremendous fiscal pressure on the public school
system. For each additional student who enrolls in a charter school, the public system’s costs increase by approximately $7,000. This is due to two factors:

- About a third of charter students come from outside the system (e.g., private and parochial schools), adding new costs without any additional revenues.

- When students transfer from District-operated to charter schools, the District has typically cut just 50 percent of the expenses associated with those students. The fixed costs, such as for building utilities and maintenance and school leadership, have remained with the District.

For years, the District did not think enough about how to work collaboratively with charter schools to limit their fiscal impact. Nor did the District historically seek to learn from the ability of some charters to turn around failing schools. Now the District’s financial circumstances and the School Reform Commission are provoking a change in mindset and approach.

District leadership, faced with these fiscal, academic, and structural challenges, believed that transforming the District would require not only a series of cost savings and revenue initiatives, but also a fundamental rethinking of how to manage and provide services to Philadelphia’s public schools. Thus, in the initial six-week engagement, District leadership asked BCG to focus in two areas:

- **Portfolio model design.** Design of a decentralized portfolio model for managing the school system and improving student achievement, including a review of strategies for managing charter schools.

- **Operations assessment.** Assess the District’s operations across specific functional areas (facilities, transportation, capital programs, human resources (HR), procurement, information technology (IT), finance, and special education) and the identification of strategies to reduce costs while improving the quality of services.

Interviews with District senior executives and School Reform Commission members provided a set of common perspectives that influenced the direction of the work, including the desire to:

- **Shift to a portfolio management model,** with the District focused on expanding high-performing schools and attracting high-quality leadership and operators, rather than directly managing schools.

- **More strategically manage the charter school sector** to improve performance and minimize the financial impact of charter schools’ continued expansion.

- **Decentralize academic support structures** to make them more responsive to individual school needs.

- **Provide District services to all schools,** including charters, to enable charters and the District to benefit from increased purchasing power.
• **Increase school autonomy**, focusing on principals and teachers as the agents of school improvement.

The recommendations presented by the District in April 2012, “A Blueprint for Transforming Philadelphia’s Public Schools,” represented the culmination of a highly collaborative process between District leadership and the BCG team. This presents a summary of our key findings and recommendations—some of which have been accepted by the school district and integrated into their proposed blueprint, while others await further community input and District decisions.

### Moving to a Decentralized Portfolio Management Model

The portfolio management model, as detailed by the Center on Reinventing Public Education at the University of Washington, states that school districts should focus on nurturing the right mix of high-performing schools to best serve all students. This is in lieu of setting one standard school model or instructional philosophy that all schools are expected to follow. The individual school—led by an empowered and highly effective principal—therefore becomes the critical unit of change.

This model has emerged in several cities, such as Denver, Washington, New Orleans, and Los Angeles, as charter schools have grown to represent a significant share of seats in the public education system. This has had several implications in these cities as well as Philadelphia:

- Aging, costly district infrastructure has become underutilized as students move to charters.
- Districts now have the opportunity to integrate charter schools into their strategies, particularly in turning around low-performing schools. Some charter operators have had success in schools where districts have not. These operators should be leveraged as part of a comprehensive strategy for improving student performance.
- Charters range widely in their performance, just as district-operated schools do. As a sector, charters need greater oversight and management of their performance if they are to fulfill their full promise. Districts can play this role.
- As more and more students move to charters, districts have lost “scale” in their operations. Thus, centralized services and oversight take up a greater share of spending. If they are to regain scale, districts will need to redesign their operations to deliver high-quality, cost-effective services to all schools, including charters.

To move to a portfolio management model, we recommend that the District restructure its key portfolio management processes and organization in a number of fundamental ways that respond to these trends. In summary:
Key Portfolio Management Processes

Facilities Master Plan. The number of students enrolled in District-operated schools has decreased from approximately 193,000 students in 2003 to approximately 152,000 in 2012 (a decline of roughly 21 percent). Meanwhile, enrollment in charters has increased by more than 150 percent, from approximately 20,000 in 2003 to 52,000 today. Yet the District's facilities footprint has remained largely unchanged. We estimate that SDP could close 40–50 schools in the near-term. This would increase its facilities utilization from 72 percent to 90 percent or greater and would save $32 million to $40 million a year in operating costs, depending on the size and types of facilities closed. In addition, these analyses are based on today's utilization level. Over the next five years, the number of seats in free-standing, lottery-based charter schools and cyber charters is anticipated to increase by roughly 21,000. If students switch from District-operated to charter schools at rates similar to the past, SDP's enrollment is likely to drop by another 15,000 students. To maintain utilization at 85 percent would necessitate the closure of an additional 15 to 20 schools over the next five years.

To align with the goal of increasing high-performing seats, SDP should refine its facilities master planning process by more explicitly taking school performance into account when deciding which facilities to close and how to accommodate the students and staff. One of the goals of the planning process should be to move students into better learning environments. Finally, the District should do everything within its power to improve the quality of its schools to retain students and their families and minimize the need for closures in the future.

Charter school authorization. SDP’s Charter Schools Office predicts that the charter sector will grow by another 32,000 seats by the 2016–17 school year, at which point charters would educate about 40 percent of Philadelphia’s public school population. Without major changes, this expansion would create more than $500 million in cumulative incremental costs over the next five years. Given the fiscal impact, SDP needs to take a more strategic approach to the charter school sector. The District needs to reserve further expansions for schools that meet two priorities:

- Helping to move students from low- to high-performing seats
- Limiting the financial impact on the public school system (by, for instance, drawing from a specified catchment area or being willing to use a vacated District facility)

Instead of authorizing new charters, the District should continue to channel charter growth through the Renaissance Schools effort. Renaissance seeks to turn around failing District schools by contracting with high-quality charter operators. This ensures that charter schools address a substantial need, at substantially lower cost to Philadelphia’s public school system, than the expansion of free-standing charters (due to the fact that Renaissance operators take over an existing District school, thereby not leaving the District with stranded facilities or

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1 According to school district budget office estimates

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personnel costs). The District also needs to continue taking stronger stances vis-à-vis persistently low-performing charters, by closing them permanently.

As part of its strategy for improving achievement while minimizing the costs of charters, SDP should also launch a high-quality virtual high school and credit-recovery program. The quality of Philadelphia students’ current virtual education options offered through state cyber charters is notoriously low. Moreover, for each student who selects a cyber charter, SDP is forced to pay the school the full District per-pupil rate of approximately $10,500, even though the charters’ true cost of serving virtual students is likely far less. By launching its own high-quality virtual school, the District can stem the flow of students to lower-quality programs and save costs.

Organizational Structure to Enable Portfolio Management
To facilitate the shift to a portfolio management model, we recommend a redesign of the District’s current organizational structure. The new structure would divide the current District administration into three main components:

- **The “Lean” District Center**, with many of its positions reallocated to provide direct school supports, would focus on the portfolio management role—managing the mix of schools to ensure that every family has access to a range of high-quality options. It would also include a number of functions that are critical to managing the District and planning for the future, such as assessment and accountability, grants development and compliance, federal compliance (including special education), finance, HR, and IT. The number of central office employees would drop from more than 700 today to below 300.

- **A system of Achievement Networks** would provide customized, responsive support and guidance to smaller groups of District-run schools. Each network would be accountable for the performance and growth of the schools in its network and would serve roughly 25–30 schools each. They would serve under a performance contract with the District that would spell out the expected improvement of each network. The teams operating each network would be selected through a competitive proposal process, in which teams would describe their plan for each network. Networks would be operated by teams of District personnel (current or future), or nonprofit organizations with a proven track record in turning around failing schools. The network teams would provide four major services: (1) general academic support and coaching; (2) special education services focused on improving quality; (3) HR support, helping principals fill their schools with skilled and qualified teachers; and (4) a liaison service, helping principals navigate the Lean District Center and Shared Services Organization to get the help and support they need. Establishment of the networks would place support services closer to schools, where they would be more responsive and gain a better understanding of each school’s unique needs. We also believe this structure would hold network staff more accountable for the quality of the services provided, relative to today’s centralized administration.

- **An independent Shared Services Organization (SSO)** would offer a menu of high-quality operational and academic services to District schools and—on an opt-in basis—
charter schools. Establishing the SSO would help meet two goals: (1) By making the SSO independent of the District, it would increase the likelihood that charters will buy District services, helping the District keep down the cost of its services; and (2) the SSO, whose services would be mostly contracted, would be better able to ramp up or down its services based on demand than the District can.

We believe that by dividing the District central office into three entities, each with a well-defined purpose and mission, the level of service to schools would improve greatly relative to today’s centralized models. Achievement Network teams would be rated by principals based on the quality of service provided and by the District based on the improvement of the schools in their networks. Achievement Network teams that failed on either dimension should be replaced by the District. The SSO, by contrast, would be more market oriented—if its services are not robust or cost effective, schools can procure them elsewhere (after a defined period of time for ramp-up). The Lean District Center could focus the bulk of its attention on making sure each school has the highest-quality leadership available. Key to making this structure work will be the District Center’s ability to establish and enforce a strong performance management system. Goals for performance and improvement need to be set at every level—school, network, SSO, and District—and the District must reward the meeting or exceeding of goals and take action when warranted.

**Recommended Improvements to Key District Functions**

The operations assessment examined areas such as facilities management, transportation, finance, HR, IT, procurement, and special education. The goals were to find cost-savings opportunities that would help close the District’s budget gap and to make high-level recommendations for the improvement of District services.

**Facilities management.** SDP manages an in-house facilities services workforce that provides custodial, maintenance, and grounds services across the majority of its 264 schools. The exceptions are the District’s 20 comprehensive high schools and District headquarters, where vendors provide custodial services. SDP’s central office management team of approximately 60 individuals is responsible for overseeing a workforce of more than 1,500 full-time employees and an annual budget of $130 million. While SDP’s costs have decreased in recent years, they remain well above external benchmarks conducted by the Council of the Great City Schools. Without fundamental changes in work rules and reductions in employee benefits, the District has little room for further cost-cutting. By contrast, our estimates show that the District would save at least $28 million per year by contracting with vendors to service not just its comprehensive high schools but all schools. Barring sweeping concessions from its labor union, we recommend that SDP contract with vendors to maintain its facilities. Aside from the cost savings, this would enable the District to focus more on its core mission of education. It would also create a more flexible cost structure, in which the District could increase or decrease its level of service depending on changes in the student population (e.g., if more students transfer to charter schools). Once outsourced, facilities management would be an important core service offering of the SSO, which could use the District’s scale to benefit both District-operated and charter schools.
Transportation. SDP yellow school bus operations meet the daily student transportation needs of more than 35,000 students across 264 schools. Of the total 1,415 daily routes, 71 percent are already contracted to external bus and cab contractors. This saves the District millions each year, as the District’s in-house operations cost $100 more per bus than vendors cost. In fact, despite running just 29 percent of the routes, in-house operations account for 42 percent of SDP’s total annual transportation costs. We estimate that the District would save $22 million a year by modernizing its operations in a three-phased approach:

- **Phase I.** Negotiate with existing vendors to take on the remaining 29 percent of routes. This would save roughly $17 million per year.

- **Phase II.** Optimize the transportation network by bringing in transportation experts to manage the District’s operations and implementing routing software to optimize the routes across the network. This would save roughly $4 million per year.

- **Phase III.** Issue a new Request for Proposals (RFP), asking existing and new vendors to bid on routes. SDP’s routes are currently serviced by 15 different bus and cab contractors. Careful documentation of vendor performance, along with a more rigorous RFP process, would likely result in a consolidation of routes among a smaller number of vendors. This would result in savings of $1 million a year and improve the quality of service.

Finance. This critical function was hit hard in the 2011–12 budget cuts, losing 40 percent of its staff. Its current staffing level is well below that of similarly sized districts. In short, we determined that, budget permitting, the District needed to invest in its finance function by building up such critical areas as audit and finance business partners to support the Academic and Operations Offices. The District should also begin to implement a weighted student funding system to ensure funding equity across the District and enable school staff to make more decisions regarding resource allocation. This would align the District’s financing policies with its CAO’s push to provide schools with increased autonomy over decision-making.

Human Resources. SDP’s HR function is also significantly understaffed relative to districts of similar size. As a result, much of HR’s strategic work—such as developing a high-quality teacher and principal talent pipeline, staff development and evaluation, teacher career ladder development, and termination of low-performing staff—does not have dedicated staff resources or is currently handled by the academic offices. We recommend that SDP undertake a comprehensive examination of its recruitment and professional development practices to ensure that it develops a high-quality talent pipeline of principals and teachers, hires the most talented candidates, provides high-quality development and coaching, and retains its highest-performing staff. A critical aspect of the District’s efforts to promote autonomy with accountability will be providing every principal with the power to select his or her teachers. SDP’s HR function needs to redesign its processes to reduce the time required for transactional services, such as orchestrating the teacher transfer process, and refocus its efforts in these more strategic areas. HR should also provide stronger support to principals in the recruitment, evaluation, and termination processes, via HR business partners located in the Achievement Networks.
All of this will take a substantial rethinking of the District’s collective bargaining agreements, which HR should spearhead, working closely with the Academic Office. Local contract and state code policies significantly undermine the ability of SDP to implement a world-class talent-management strategy and become a true magnet for high-performing principals, teachers, and staff. We recommend that the District pursue a range of reforms intended to professionalize its workforce, such as privileging performance over seniority.

**Information Technology.** IT is another area where SDP is underinvested relative to school districts of similar size. In addition, the District has an aging IT infrastructure that requires significant upgrades, particularly to manage in a portfolio model. For instance, an effective SSO would need to be able to bill for its services, which the District’s current systems cannot do. Similarly, a portfolio model requires smart, data-driven decision-making among both the District and the families who choose which schools to attend. To enable those choices, IT needs to provide quick, consumer-friendly access to performance and school climate data. We recommend that over the next few years, IT focus on four key areas:

- Develop a performance management system to enable data-driven decision-making, consolidating the District’s many ways of collecting and displaying data into a single, user-friendly interface.

- Evaluate whether the Enterprise Resource Planning (ERP) system should be upgraded to ensure that the District’s core business operations are supported by a modern infrastructure. The District’s current system was implemented in 1999 and is essentially obsolete.

- Plan for the eventual replacement of the Student Information System (SIS), which is ten years older than the District’s ERP system and uses even more antiquated technologies. SDP can continue to use the SIS for years to come, but we believe that SDP should start planning now for the eventual replacement of the SIS.

- Enhance the IT governance mechanisms to ensure that the District is adequately prioritizing its IT investments across the many actors who make IT purchasing decisions.

**Procurement.** During the 2011–12 school year, SDP is expected to spend approximately $436 million to purchase materials and services from external vendors, a significant reduction from its $588 million in spending last year. About 75 percent of this spending is not addressable in the short to medium term, as it involves long-term contracts or has been covered by other workstreams (e.g., facilities management and transportation vendor spending). Of the remaining costs, we estimate that the District can save $14 million to $19 million per year by undertaking a series of procurement initiatives. These initiatives would focus first in areas of high spending, where the District should work with vendors to renegotiate agreements for more favorable pricing (e.g., suppliers of alternative education services). The District can also make targeted investments to reduce its demand for services—for instance, by investing in modern lighting fixtures that will reduce utilities spending by $8 million per year.
Taken together, the savings from facilities management, transportation, and procurement would yield $64 million to $69 million per year. Added to the potential savings of $32 million to $40 million from the initial round of school consolidation, and further savings of $15 million to $20 million from additional closures, the District could achieve $111 million to $129 million in annual savings from four major initiatives. Some of these actions would be painful, in particular for the impacted employees. But facing a cumulative deficit of $1.1 billion over the next few years, the District has few choices, barring additional revenues from the city, state, or federal government.

Special education. Students with disabilities in Philadelphia’s schools significantly underperform their peers in other cities, despite SDP’s spending similar amounts on their education. In addition, the District’s costs will continue to increase as students with mild disabilities continue to transfer to charter schools, leaving the District with an increasing share of students with more severe disabilities. In addition to reforming the charter school funding formula, which currently overcompensates charters for disabled students, the District should explore several strategies to improve educational outcomes and contain costs. Other districts have had success with developing more comprehensive diagnostic regimes to identify students’ true needs and with clustering students in ways that enable higher-quality service.

Delivering Fiscal Sustainability: Five-Year Financial Plan

As of April 2012, SDP faced at least a $218 million deficit for 2012–13 and $1.1 billion in deficits over the next five years. Since then the outlook has worsened: an anticipated $94 million in additional annual revenues from property and business taxes has been reduced to $40 million, creating a new revenue shortfall of $270 million over five years. The figures presented here assume that the five-year estimates as of April still hold, while the District considers how to plug the additional gap created by the revenue shortfall.

Without massive layoffs, cuts in academic programs, or new revenues, it is impossible to eliminate the District’s deficit for 2012–13. The savings for operations initiatives such as facilities management and transportation outsourcing would not be realized fully until FY14. Likewise, it will take a year to decide which facilities to close and where to reassign students. Nevertheless, the projected savings from operations initiatives would combine to eliminate about $400 million from the cumulative deficit over five years.

Successfully implementing these initiatives should go a long way toward convincing policymakers that the District is doing everything it can to ensure that it is operating efficiently. This may make policymakers more amenable to providing the District with the funds necessary to close its budget gap. Before undertaking further cuts, the District should continue to seek greater funding. This would help to protect key academic programs as well as SDP’s ability to recruit and retain skilled and experienced instructional staff. To close its gap, the District has assumed that, in addition to 1 to 2 percent increases in local and state revenues per year, state revenues will increase by 3 percent in FY16 and FY17, with new revenues totaling $133 million by FY17. Additional revenues beyond these would be required to avoid personnel-related cuts. Barring additional revenues, SDP would need to look closely at its $1.2 billion in personnel...
compensation and benefits. Negotiating at least $156 million in cuts to compensation and benefits would be the only way to eliminate the deficits, without additional cuts to school programs (e.g., increasing class sizes).

Importantly, charter schools will also bear a heavy burden as a result of continued revenue shortfalls. Per-pupil payments to charter schools are based on the District’s level of expenditures. If SDP closes its budget gap by slowing the growth in expenditures, instead of increasing revenues, charter schools will see their payments stagnate. The five-year financial plan assumes that the District will make substantial cuts in spending on operations and personnel costs. The result is that charter schools would receive $149 million less in per-pupil payments per year than anticipated in the “base case.”

In short, returning to fiscal balance over the next five years will require sacrifices from all major stakeholders.

Path Forward

Taken together, our recommendations across both the academic and operational areas would compose a large-scale, multiyear transformation program. Based on our wide array of experiences leading and supporting such efforts with other educational organizations, we believe that SDP can dramatically increase its odds of successful implementation by focusing in five key areas:

- **Engage stakeholders** intensively and throughout the process, including internal personnel and a broad range of external stakeholders.

- **Roadmap and rigorously manage** the set of key strategic initiatives, holding individuals and teams accountable for attaining goals.

- **Show leadership and build key capabilities**, undergoing an extensive talent review and filling key positions with the right leadership at all levels of the organization, starting with hiring a Superintendent who is fully committed to the transformation.

- **Establish key performance indicators** that map to the District’s strategic goals, and track and report progress toward meeting them.

- **Support key legislative and policy changes** that will result in higher revenues for the District or improve the District’s ability to control its costs.

While the road ahead is full of obstacles, with twists and turns that will leave some of the District’s future out of its control, SDP leadership has shown the willingness to be bold, focus on the mission of educating Philadelphia’s children, and face the inevitable headwinds of a plan that requires sacrifice from all.
II. Introduction

In January 2012, the School District of Philadelphia (SDP), in the midst of a fiscal crisis, issued a public request for qualifications (RFQ) for consulting services to “advise on and provide a detailed plan for an efficient and cost-effective administrative, operational, and organizational structure for the District, designed to enable and support school-level management and accountability.” SDP requested proposals to help District leadership not only develop a plan but also support implementation of an “SRC-approved plan to return the District to structural balance.” The Boston Consulting Group (BCG), a global management consulting firm, was among several firms that responded to the RFQ and was selected to interview with a panel of senior SDP and city of Philadelphia leadership.

In the interview, District officials requested a revised proposal to work closely with District leadership in developing recommendations by the end of March. The focus was in two areas:

- **Portfolio model design.** Design of a decentralized portfolio model for managing the school system and improving student achievement, including a review of strategies for managing charter schools.

- **Operations assessment.** Assess the District’s operations across specific functional areas (facilities, transportation, capital programs, human resources, procurement, information technology, finance, and special education) and the identification of strategies to reduce costs while improving the quality of services. Areas such as legal, food services, and the Office of School Safety were excluded due to limited opportunities for cost savings.

Based on the strength of our experience in complex K–12 education transformation efforts, we were selected for an initial five-week engagement, due to the need to complete our analysis and recommendations by the end of March. This deadline was driven by two factors: 1) The District faced a statutory requirement to develop a "lump-sum" FY13 budget by March 31; and 2) The District needed a five-year financial forecast in order to address requirements from the city and state, and to access the bond markets for deficit financing. This accelerated timetable did not allow for the in-depth stakeholder engagement we typically would do as part of an effort like this. Instead, we formed an advisory committee composed of representatives from the District, city and state, all members of the School Reform Commission and representatives from the William Penn Foundation and United Way to review analyses, findings, and recommendations. BCG and District leadership then collaboratively developed a proposed plan, culminating in the District’s presentation of its comprehensive proposal and five-year financial plan in late April.
Initial Situation

At the time, SDP was (and still is) faced with enormous challenges. A $715 million budget gap had emerged for the fiscal year ending on June 30, 2012. The superintendent had been replaced with a Chief Recovery Officer, and four of five members of the School Reform Commission were newly appointed. Prior to BCG’s engagement, the District had undertaken an unprecedented cost-cutting program that, within an operating budget of approximately $2.3 billion, reduced school budgets by $318 million, cut the central offices' administrative spending by $63 million (cutting nearly half the central office employees), and cut school operating support by another $37 million. These and subsequent other cuts, as well as additional state and local revenue, managed to trim the budget gap to under $30 million for the 2011–12 school year.

However, we estimated that the District would still face a deficit in excess of $200 million in the 2012–13 school year and a cumulative deficit of $1.1 billion over the next five years if no significant action was taken. These long-term structural deficits are the result of three major trends:

1. **Loss of funding.** The budget crisis was in large part caused by massive losses in revenues from the Commonwealth of Pennsylvania. State funding (which represents about 60 percent of SDP’s revenues) declined by roughly 10 percent compared with the previous fiscal year. The majority of the decline in revenues was due to the loss of about $200 million in stimulus funding, as well as the elimination of more than $100 million in charter school reimbursement funds.

2. **Rising personnel costs.** From FY12 to FY13, salary increases negotiated in SDP’s existing collective bargaining agreements will cause operating costs to increase by $41 million. Rising health care costs add another $61 million in expenditure. Finally, pension costs, driven by scheduled contribution rate increases to the Public School Employees’ Retirement System (PSERS), will increase by $44 million (only part of which the District is reimbursed for by the Commonwealth of Pennsylvania). The total of these effects will represent more than $146 million in additional personnel costs during FY13.

3. **Families choosing charter schools.** Over the past decade, charter schools have experienced explosive growth. Charter students now represent approximately 25 percent of Philadelphia’s public school population. As a result, the District’s payments to charter schools now represent approximately 25 percent of SDP’s operating budget. While the District is able to save some personnel costs when families opt for charters, the facilities and administrative costs remain. The District’s failure to adjust its footprint in response to the loss of students, or to work productively with charters to minimize their financial impact, has left SDP with an expensive, underutilized facilities infrastructure. For each new enrollment in a charter school, we estimate that the District’s costs increase by roughly $7,000 (for details on the underlying calculation behind this figure, please refer to Section IV).

It is important to note that, while SDP faces massive deficits, its overall spending and operations costs are generally in line with those of other large districts. (See Exhibit 1.) We
defined operations spending as operating budget expenditures incurred for administration, transportation, facilities, maintenance, and custodial services. While in FY12 SDP’s operations expenditure per student was above $2,500, it declined to about $2,300 per student for the proposed FY13 budget. This places SDP squarely in the middle of the pack relative to benchmarks, with districts such as Detroit, Baltimore, Prince George’s County and Montgomery County, Maryland, being higher, while districts such as Chicago and Fairfax County, Virginia, are lower.

**Exhibit 1. Operations Cost Benchmarking of Major Urban Districts**

Nevertheless, further benchmarking by functional area identified clear opportunities to reduce operations costs, whittle down the deficit, and protect critical instructional programs from further cuts. In particular, SDP’s costs for facilities and transportation are extremely high relative to other urban districts. (See Exhibit 2.) By contrast, SDP appears significantly underinvested in strategically critical areas such as HR and IT.
Meanwhile, despite evidence of improvement over the past decade, Philadelphia’s schools remain among the worst performing academically of any school district in the nation. As shown below, Philadelphia fourth-grade reading scores and eighth-grade math scores on the National Assessment of Educational Progress\(^2\) (NAEP) are significantly below city, state, and national averages (see Exhibit 3). In terms of long-term outcomes, Philadelphia’s graduation rate was 61% for the class of 2011. This is just above the 57% average for large urban districts, but remains well below the national average of 73%\(^3\). There are also wide racial and ethnic disparities in achievement. The four-year graduation rate among white students is 68 percent, while African-American and Latino students graduate at rates of 61 percent and 50 percent, respectively. African-American and Latino males face even steeper odds of graduating—53% and 43%, respectively. In addition, truancy rates at SDP are unacceptably high—District data show that the number of students who miss 10 days of school or more is approximately 30 percent overall and reaches 50 percent at the high school level.

\(^2\) NAEP, also known as the "Nation's Report Card," is a national standards-based exam that enables longitudinal comparisons of progress across states and cities.

\(^3\) Urban and national averages are for 2009, based on a Cumulative Promotion Index calculated by Editorial Projects in Education. Philadelphia’s rate is a cohort-based graduation rate for the class of 2011.
Exhibit 3. Academic Performance of SDP Compared to Other Urban Districts

SDP among the lowest performing urban districts

Exhibit 4. Urban District Graduation Rates (Class of 2009; Philadelphia Class of 2011)

Roughly six in ten Philadelphia students graduate high school in four years

Based on EPE’s Cumulative Promotion Index (CPI) for the Class of 2009; CPI calculates graduation as three grade-to-grade promotions and diploma receipt. SDP data for the Class of 2011 provided by the Office of Accountability.
The District’s racial and ethnic gaps are evident on NAEP as well. On the NAEP 4th grade reading test, the average scale score of African-American and Latino students in SDP was roughly 10-12% lower than their white peers. Results are only slightly better for 8th grade math, where scores for SDP’s African-American and Latino students are roughly 7-9% lower than those of their white peers. According to SDP’s Office of Accountability, the four-year graduation rate for white students in the class of 2011 was 68%, while the comparable rates for African-American and Latino students were 61% and 50%, respectively.

Exhibit 5. NAEP Results by Racial and Ethnic Group

Source: National Center for Education Statistics, 2011 National Assessment of Educational Progress
SDP’s leadership believed that transforming the District would require not only a series of savings and revenue initiatives but also a fundamental rethinking of how to manage and provide services to Philadelphia’s public schools. When BCG began our engagement with SDP, we conducted extensive interviews with executive leadership, collecting a set of facts and viewpoints to inform a redesign of SDP’s organizational model. The following perspectives significantly influenced the direction of our work:

1. **Desire to focus on expanding high-performing schools and seats via a portfolio management model.** Philadelphia already boasts a diverse portfolio of schools—including career and technical education (CTE), themed, selective/citywide admission (magnets), alternative, and charter schools—comprising a range of student performance and safety levels. However, no formal structure currently exists at the District to enable maximal student choice and expand high-performing seats within this portfolio. Leadership expressed desire for a shift in District structure to focus on effectively managing its mix of schools, encouraging the replication of high-performing models and reducing the number of lower-performing schools.

2. **Need to increase performance management of charter schools to ensure high-quality programs and financial prudence.** District, city, and state leadership recognized the need to oversee more tightly—and work more collaboratively with—the charter sector to ensure that charters make a substantial contribution toward improving
student achievement while minimizing financial impact on the District. Despite a significant effort to evaluate charter school performance, charters have faced a relatively low threshold for reauthorization and expansion—even charters with poor or inconsistent performance levels. Furthermore, such decisions have been only loosely linked to the District’s overall goals. While strong charters such as Young Scholars, Nueva Esperanza, and Mastery have provided parents with high-quality school options, there are low-performing charter schools, just as there are low-performing District-run schools. The additional cost to the District of sending students to charter schools necessitates a renewed focus on ensuring a high return on the charter investment. The SRC has recently begun to take important steps in this direction, with its decision this year not to renew three low-performing charter schools.

3. **Shift to a decentralized support structure to improve service levels and reduce costs.** Leadership expressed a desire for a new model of decentralized supports that would be more responsive to the needs of schools. The existing academic office structure with large centralized services and skeleton academic divisions was not viewed as effectively supporting schools’ academic needs, and many operations departments have not maximized cost-saving opportunities or service quality levels.

4. **Desire for District services to be provided to all schools.** The District has a strong desire to revitalize its academic and operational services and offer them to charters in addition to District-run schools. This would benefit the entire system by increasing economies of scale: both District and charter schools would reduce service costs by participating in larger, pooled contracts. However, in interviews charter schools indicated that they have strong doubts about the quality of services they would receive from the District, necessitating service level improvement and the provision of services from an organization distinct from the District.

5. **Desire for increased school autonomy.** District leaders believe that, fundamentally, good schools are run by strong principals who have the autonomy necessary to best meet the unique needs of their students. However, there are currently uneven levels of principal capacity for running fully autonomous schools, which would require an enhanced principal skill set around budgeting, staffing, and other school-level decisions. While many principals are highly effective, district leaders believe a significant number of principals would likely have difficulty running a successful autonomous school without significant support and guidance.

District management asked BCG to develop a new operating model for the District that would focus the central office on portfolio management while increasing school autonomy, decentralizing school supports, and increasing the cost effectiveness of services. This was all with an eye toward increasing the number of available seats in high-performing schools and thereby dramatically improving student achievement. This reflects a trend among many large urban districts of moving toward a portfolio management model of autonomous schools and away from one in which they directly manage and support hundreds of mixed-performance schools from a centralized structure.
Structure of This Document

The recommendations presented by SDP administration in April 2012, “A Blueprint for Transforming Philadelphia’s Public Schools,” represented the culmination of a highly collaborative process among District leadership and the BCG team. In response to requests from the public for more transparency into the process, we agreed to develop a summary of our key findings and recommendations—some of which have been accepted by the District and integrated into its proposed blueprint, while others await further community input and District consideration. This summary is organized into the following major sections:

- Moving to a Decentralized Portfolio Management Model
  - Portfolio Management Approach
- Key Portfolio Management Processes
  - Facilities Master Planning Process
  - Managing Charter School Authorization
- Organizational Model to Support Shift to Portfolio Management
- Recommended Improvements to Key District Functions
  - Facilities Management
  - Transportation
  - Finance
  - Human Resources
  - Information Technology
  - Procurement
  - Special Education
- Delivering Fiscal Sustainability: Five-Year Financial Plan
- Path Forward
III. Moving to a Decentralized Portfolio Management Model

Portfolio Management Approach

Prior to BCG’s involvement, the District had been investigating the idea of moving towards a portfolio management system and asked BCG to provide assistance in developing a plan to operationalize this strategy. The concept of “portfolio management” is an established theory of action in the education reform literature, codified most prominently by the Center on Reinventing Public Education (CRPE) at the University of Washington. The theory essentially states that school districts should focus on ensuring the right mix of high-performing schools to best serve all students rather than setting one standard school model or instructional philosophy that all schools are expected to follow. The individual school—led by an empowered and highly effective principal—therefore becomes the critical unit of change.

This model emerged in several urban areas, such as Washington, Denver, and Los Angeles, as charter schools grew to represent a significant share of seats in the public education system. Districts determined that to effectively plan a districtwide education system, they needed to widen their perspective to take these charter school options into account alongside diverse district school options. The focus of the district therefore evolved toward monitoring the performance of schools and taking actions to expand the highest-performing schools and close those that failed to perform, whether district or charter. CRPE has developed seven key elements underpinning effective portfolio strategies. Some of these elements are functions the central office must perform—such as setting up robust systems of performance-based accountability and attracting high-quality talent to district schools—while others are a deliberate “pulling back” of central office functions, such as giving increased autonomy to schools and creating an independent market for school support services.
Exhibit 7. Key Elements of a Portfolio Strategy

**Key elements of a portfolio strategy**
As defined by Paul Hill, Center on Reinventing Public Education, University of Washington

<table>
<thead>
<tr>
<th>Distinctive elements</th>
<th>“Pure” model features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Magnet for high performers</td>
<td>• Recruitment of new school operators, principals, and teachers to district</td>
</tr>
<tr>
<td><strong>2</strong> Performance-based accountability</td>
<td>• Common student performance standards for all schools</td>
</tr>
<tr>
<td><strong>3</strong> Options and choices for all students</td>
<td>• Data systems that measure student growth</td>
</tr>
<tr>
<td><strong>4</strong> School autonomy</td>
<td>• Closure of persistently low performing district and charter schools</td>
</tr>
<tr>
<td><strong>5</strong> Pupil-based funding</td>
<td>• Open new schools with high-quality outside providers (e.g. charters)</td>
</tr>
<tr>
<td><strong>6</strong> Open market for support services</td>
<td>• School choice for all families</td>
</tr>
<tr>
<td><strong>7</strong> Extensive community engagement</td>
<td>• Equity and access for special education and ELL students</td>
</tr>
<tr>
<td></td>
<td>• District-wide enrollment to facilitate choice</td>
</tr>
<tr>
<td></td>
<td>• All schools control staff selection, pay, assignment and budget</td>
</tr>
<tr>
<td></td>
<td>• Openness to new models of teaching and organization</td>
</tr>
<tr>
<td></td>
<td>• All schools receive pupil-based funding</td>
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<tr>
<td></td>
<td>• Schools run by different operators share facilities and resources</td>
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<tr>
<td></td>
<td>• Schools free to select support from independent providers (e.g. professional development, business and insurance services, facilities management)</td>
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<tr>
<td></td>
<td>• District helps to incubate providers as necessary</td>
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<tr>
<td></td>
<td>• Strong communication plan to convey information (including communications related to any school closures)</td>
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<tr>
<td></td>
<td>• Feedback loop for parents and community members</td>
</tr>
</tbody>
</table>

Indeed, in a portfolio model, many of the functions traditionally performed by the central office are pushed out of the district into schools or support organizations, leaving the district with a much leaner set of responsibilities, including: portfolio planning based on quantitative and qualitative analysis of district trends and needs; accountability for charter and district schools (academic, financial and equity-based); communication to parents, students, and citizens about the suite of school options and how schools are evaluated; districtwide talent management; centralized enrollment; and facilities management.

The portfolio model tacitly acknowledges that large urban school districts have had very little success in systematically turning around low-performing schools. It suggests that school districts should focus on shutting down or replacing low-performing programs while incubating and expanding high-performing programs, in lieu of actively managing schools.

Critically, the portfolio approach relies heavily on talented principals and teachers to determine the curricular and instructional strategies that will best meet the needs of their students. This structure suggests that principals be given significant autonomy over school-level decisions—such as budget, staffing, and school program and schedule. In return, the district increases the accountability of principals and teachers for driving student achievement in their schools.

To carry out the mandate of the portfolio management model, we recommend that the District refine its two key portfolio management processes—facilities master planning and charter authorization practices—to better meet the twin goals of improving academic performance and ensuring financial sustainability. We recommend:

- A more holistic facilities master planning process that takes into account student achievement in affected facilities and ensures cost-effective use of the District’s facilities infrastructure.

- A strategic charter authorization process that takes into account charters’ role in expanding high-performing seats across the portfolio, aligns with the facilities master planning strategy, and limits the financial impact of charter expansion.

Facilities Master Planning Process

Context: The Case for Right-Sizing

As the number and quality of public school choices available to Philadelphia's families has increased, the number of students enrolled in schools operated by SDP has fallen from approximately 193,000 students in FY03 to approximately 152,000 in FY12 (a decline of approximately 21 percent). Meanwhile, enrollment in charter schools has increased by more than 150 percent, from approximately 20,000 in FY03 to approximately 52,000 in FY12, according to SDP budget office estimates. Yet, the District's facilities footprint has remained largely unchanged. Consequently, utilization of the 264 schools operated by the District has dropped to 72 percent. From an economic perspective, this means that for each student enrolled in a District-operated school, the District is paying approximately 1.3 times the cost in facilities-related expenses that it would pay if buildings were enrolled to full (100 percent) capacity. This inefficient and expensive operating model is contributing to the District’s increasing structural deficit.

SDP undertook its first efforts to right-size its portfolio three years ago when it commissioned its Facilities Master Plan. However, the rate of attrition from District-run schools, coupled with the District’s severe financial distress, has created the need to accelerate the consolidation efforts. Indeed, the situation will become more severe if no actions are taken, as enrollment in District-run schools is projected to continue its downward slide.

4Based on spring 2012 enrollment data. Excludes buildings housing alternative education and early childhood programs, as well as school facilities that have already been closed and exist in a mothballed status. A previous Facilities Master Plan study found utilization to be 67 percent.
Recommendations: Right-Sizing Targets and Closure Criteria

Given this context, District leadership asked BCG to provide recommendations on three dimensions:

1. The magnitude of closures needed to right-size the portfolio in the short term and on an ongoing basis

2. Financial savings that could be achieved by this right-sizing and contribute to closing the five-year budget gap

3. A framework and process for identifying schools for closure and guiding principles that would govern facility and program closures and student reassignment

Magnitude of closures required. To inform our recommendations, BCG drew from previous SDP facilities closure experience as well as best practices from large-scale school closures that have taken place nationally. The position Philadelphia finds itself in is common among urban districts. Cities such as Boston, Chicago, Dallas, Washington, Miami-Dade, Oakland, Pittsburgh, St. Louis, and Seattle have undertaken consolidation efforts.

Prior to BCG’s engagement, the District had set a goal of achieving 85 percent facilities utilization by 2014. However, maintaining 85 percent utilization on an ongoing basis presents challenges in an environment of continuing attrition. At the most basic level, there is a timing issue: because student enrollment figures are not confirmed until October of any given school year, it is difficult to make sound and careful closure proposals based on attrition, solicit community input, finalize closure decisions, and reassign students all before the start of the next school year.

In addition, there are advantages to undertaking a larger number of closures all at one time versus making a smaller number of initial closures followed by a series of additional closures to right-size on an ongoing basis. Specifically, a large portion of the economic benefit of closures is derived from carefully optimizing the use of facilities and instructional resources and minimizing additional transportation costs. By conducting multiple closures at one time, catchment areas, school grade spans, and feeder patterns can be restructured in an optimal way. Equally important, making these changes all at once limits the number of changes a student or family might undergo over a given time period. Interviews with other major districts confirmed that they were targeting greater than 85 percent utilization—up to 95 percent or higher—to compensate for secular enrollment trends similar to those experienced and projected in Philadelphia.

Our analysis of current utilization levels versus these targets showed that to increase utilization from the current level of approximately 72 percent to 85–95 percent, the District would need to close anywhere from 29 to 57 schools depending on key assumptions. At the low end of this range (85 percent target), this number of closures would mean a reduction of approximately 29,000 seats in capacity; at the high end of this range (95 percent target), this would be a reduction of approximately 46,000 seats.
A key factor influencing this range is the extent to which the District would reconfigure grade spans when it makes closures. Specifically, the District could:

- **Maintain existing elementary/middle school and high school grade spans**, meaning that the District would keep grades that have traditionally been elementary/middle school grades (K–8) in the same buildings and house traditional high school grades (9–12) separately.

- **Introduce more flexibility to reconfigure grade spans across elementary/middle school and high school bounds**, meaning that the District could adjust grade spans across traditional grade levels as appropriate, such as by increasing middle secondary options with grades 7–12, to better utilize high school facilities. In Exhibit 8 we refer to this as a "blended approach."

Exhibit 8. Analysis of Potential Facilities Closures Required
As illustrated above, high schools are much more underutilized than elementary/middle schools (59 percent versus 79 percent, respectively). If the District assumes that it can close the appropriate number of elementary/middle school buildings and high school buildings to reduce the excess seats across both of these groups, fewer closures would be required to achieve the target utilization level. This is because high school buildings have, on average, a higher capacity than elementary/middle school buildings (1,274 seats versus approximately 685 seats). The range in this scenario is 29 to 51 closures, depending on the target utilization rate.

However, it could be difficult to find 15–19 high school buildings (out of 50 high schools included in the analysis) suitable to be closed simultaneously. Instead, in a blended strategy, the District would adjust grade spans to minimize the number of high school closures, which would require closing a greater number of elementary/middle schools. Thus, in the blended strategy, the District would wind up closing buildings with an average capacity of approximately 800 to achieve the target utilization level. In this scenario, the range of closures would be 36–57 schools.

Notably, these analyses are based on today's utilization level. Over the next five years, the number of seats in free-standing, lottery-based charter and cyber charter schools is anticipated to increase by roughly 21,000. If students switch from District-operated to charter schools at rates similar to the past, SDP's enrollment is likely to drop by another 15,000 students. To maintain utilization at 85 percent would necessitate the closure of an additional 15 to 20 schools over the next five years.

Based on this set of analyses, we recommend that SDP target approximately 90 percent utilization in the initial year of the plan to reduce the need to conduct ongoing right-sizing in later years. We project that to achieve this target the District would need to close approximately 40–50 schools in the initial round, depending on the mix of elementary/middle and high schools (or the capacity of the schools selected for closure).

It is important to note that previous SDP processes as well as experiences of other districts throughout the country highlight the fact that careful implementation planning and community engagement are critical to the success of large-scale right-sizing efforts. The urgency of the financial situation necessitated a quick diagnostic assessment to identify the high-level closure targets. Moving forward, it will be critical to refine these analyses and develop specific facilities closure recommendations with significant community input. Similarly, the precise number of schools to be closed both in the initial round of right-sizing and in subsequent years of the five-year financial plan will depend on the actual capacity levels of schools targeted for closure. In addition, as enrollment in District-operated schools continues to decline, the District will need to monitor overall capacity utilization of the portfolio on an ongoing basis and make additional closures as needed depending on actual attrition and resulting utilization levels.

Most important, the District and each District school must do everything in its power to attract and retain more students and families by improving the quality of instruction districtwide. Likewise, strategies such as the Renaissance schools initiative and collaborating with charters to make use of District facilities are likely to reduce the need to close facilities.
Financial savings. In general, based on an analysis of the facilities closures slated for this year, school closings tend to save the District approximately $650,000 to $1.5 million per year in operating costs. The financial impact largely depends on the size and operating costs of the facility, as well as the ability to transfer students into other schools, saving on administrative costs.

BCG worked with District facilities, capital, and finance personnel to conduct a detailed analysis of financial savings achieved through the closure of a school representative in size and utilization (Charles Drew Elementary) to project expected savings from right-sizing. This analysis identified expense categories considered to be addressable in a consolidation scenario and used specific savings assumptions associated with each of those addressable categories.

We applied a similar methodology to the other facilities closures slated for this year. Based on our detailed analysis of the Charles Drew closure, BCG concluded that the District can expect to save on average approximately $800,000 per school building. Roughly 45–50 percent of those savings comes from the consolidation of administrative and instructional staff that is possible with consolidating school programs; the remaining 50–55 percent of those savings results from the elimination of direct facilities and building support expenses, such as maintenance and utilities. The analysis assumed that the spending on transportation would be neutral. This resulted from the assumptions that the overall number of routes would be reduced based on closing a school but that the reassignment of students to other schools that necessitate bussing would be a potential offset. By closing 40–50 schools, we estimated that the District would save $32 million to $40 million per year. In the first year, there would be one-time costs projected at approximately $70,000 per school, including costs to decommission the school and move equipment, resulting in projected net savings of approximately $29 million to $36 million in the first year. The closure of an additional 15 to 20 schools over the next five years, based on projected enrollment decreases, would save an additional $12 million to $16 million.

These projections will need to be refined based on the unique economics of specific facilities identified for closure (still to be determined).

Framework and processes for identifying closures. Phase I of the facilities master planning process had used building condition and utilization as the primary factors in assessing candidates for closure. The fact that this approach resulted in some higher-performing schools being slated for closure highlighted the need to integrate academic criteria into the process more strongly. This was echoed by feedback from community engagement processes in other locales, such as Boston Public Schools.
We recommend that school academic performance be one of the primary criteria for identifying closures and that one of the other criteria be building quality (with capital needs as a proxy). Utilization is recommended as a third lens for prioritizing closures and creating a list of potential candidates. The framework below was developed as a tool to apply these criteria. Using this framework, schools would be plotted by building quality (Facilities Condition Index) and school academic performance (School Performance Index or SPI). Poor-quality programs in low-quality facilities would be prioritized for closure, particularly those with lowest utilization.

Exhibit 10. Strategic Framework to Assess SDP School Portfolio

This framework would be used to identify a longer list of candidates for closure. From there a more nuanced analysis would need to be undertaken, to further assess individual programs in relation to portfolio and geographic needs and determine final candidates for closure. This second level of screens would include academic performance trends, safety of the school (both within the facility and in student passage); neighborhood demographic trends; feasibility and quality of student reassignment options; and impact on student and family access, such as travel distance and transportation requirements. In the process, SDP would also seek to optimize on other dimensions by shifting high-quality programs in decaying or outmoded buildings to better buildings and replacing low-quality programs in good buildings with better programs (either through the Renaissance effort, Promise Academies, shifts of other District-run programs, or leasing to charter schools). In addition, the District would seek to maximize utilization in high-performing programs in high-quality facilities. In a final step of the planning process, SDP would review overall intended shifts to ensure balance of opportunity and equity in access across geographic regions of the District.

Impact. The recommended approach outlined here would further the District’s two overarching goals: 1) increasing the number of safe, high-performing seats and 2) achieving a balanced budget. Specifically, right-sizing is expected to:

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• **Increase overall academic performance of the portfolio.** As low-quality buildings and programs are closed, lower-performing seats would be eliminated, strong programs would be preserved in better-quality buildings, and students would be reassigned to programs that provide better academic options. Beyond building closures, the facilities master planning process provides the District with the opportunity to think more creatively about the use of public school infrastructure in Philadelphia. Over the course of the facilities master planning process, the District should explore opportunities to repurpose buildings for use by high-performing charters and turn around low-performing programs through the Renaissance process.

• **Help avoid further cuts to academic programs.** The initial round of closures is projected to generate approximately $32 million to $40 million in annual savings, helping to close the District’s deficit and protect critical academic programs from further cuts. There is also potential for one-time returns from asset sales, though the specialized configuration of many schools, lack of commercial activity in many neighborhoods, and high levels of deferred maintenance suggest sales are not likely to generate significant revenues.

• **Reduce capital backlog.** By closing 40–50 schools, the District is projected to reduce its capital backlog by approximately $0.9 billion to $1.2 billion (of its $2.9 billion estimated backlog). In other words, by closing buildings that require extensive repairs, the District would eliminate capital investments that would otherwise have to be made in the future to maintain buildings to a standard that is suitable for children.

Without a doubt, facilities closures on the scale recommended here would be traumatic. It would involve severe dislocation of families, students, and SDP’s school staff. As noted earlier, SDP must also do everything it can to minimize the number of closures necessary in the future by improving the quality of education in District schools citywide and attracting and retaining students. In other words, make every SDP school a school of choice. The District should also work productively with the charter community to make the most effective use of District facilities through the Renaissance strategy or directly leasing or selling buildings to charters.

**Managing Charter School Authorization**

**Context and Key Findings**

Over the past decade, charter schools have generally been an asset to the city: they have increased the diversity of options for students and families and, on average, are higher performing, with 51 percent of charter schools rated SPI 1–3 versus 41 percent of District-operated schools. (See Exhibit 11.) Furthermore, approximately 11 percent of all charter school students attend SPI 8–10 schools versus 16 percent of students in District-operated schools.

As students and families increasingly opt for charter options within the District, the District’s Charter Schools Office projects that total charter enrollment will increase by approximately 32,000 seats by FY17, comprising approximately 40 percent of public school enrollment in Philadelphia.
While the expansion of charters provides families with a greater variety of high-quality choices, it also comes at a financial cost to the District. Each additional seat that is created in non-Renaissance charter schools increases the District’s costs by an average of approximately $7,000 per year. This incremental cost is due to two factors:

- Roughly one-third of all students attending charters came from outside the District school system, meaning a private or parochial school. The roughly $10,400 average per-pupil payment SDP must make to the charter represents an entirely new cost to the District.

- When students transfer from District to charter schools, the District is able to cut some costs, such as instructional personnel. However, many fixed costs remain, such as school administration, facilities costs, and central office services. These costs remain until the District loses so many students that it is forced to consolidate schools. Furthermore, the extent to which some costs can be eliminated depends upon (1) the concentration of departed students from a particular school and/or grade level and (2) the District’s ability to rationalize catchment areas in response to attrition. On average, the net cost to the District of a student leaving for a charter is approximately $5,600.

The incremental cost of roughly $7,000 per student represents a weighted average of these two factors. In addition, while charters serve the same share of students with disabilities (14 percent), the District serves a greater share of severely disabled students (50 percent of SDP’s disabled students are low-incidence disabilities versus 32 percent in charters). Charters also serve a lower share of English language learner (ELL) students (3.3 percent in charters versus 8.1 percent in District-operated schools). These two additional factors place even more cost pressure on the District.

The Renaissance strategy is a much more cost-effective way of leveraging high-quality charter operators to create a system of great public schools. Of the approximately 32,000-student increase projected in charter enrollment over the next five years, the Charter Schools Office has included roughly 11,000 seats for Renaissance schools.5 Based on District estimates, Renaissance schools cost the District an incremental $800–$1,000 per student due to the inflated special education reimbursements, stranded central administration costs, and enrollment growth as a result of a high-quality operator taking over the school.

5The Renaissance schools initiative targets persistently low-performing District-operated schools for turnaround by individuals or organizations with a proven track record of improving school performance. Renaissance schools are charterized.
Taken together this means that charter school expansion (including Renaissance seats) will cost the District roughly an additional $158 million in the year 2017 or a cumulative total of approximately $516 million over the five-year budget period if students continue to leave District, private, and parochial schools at a pace consistent with the expansion of available charter seats. It is important to note that the actual cost to the District will depend on level of District expenditures, which influences the per-pupil allotment in the subsequent year.

Exhibit 12. Estimated Cost of Charter School Expansion

<table>
<thead>
<tr>
<th>Savings of $240K if 50 students leave from single school...</th>
<th>...offset by additional cost of $730K in Per Pupil Payments to charter</th>
</tr>
</thead>
<tbody>
<tr>
<td>in $M</td>
<td>500 students</td>
</tr>
<tr>
<td>Fixed cost¹</td>
<td>2.31</td>
</tr>
<tr>
<td>Teachers²</td>
<td>1.70</td>
</tr>
<tr>
<td>Support Staff³</td>
<td>0.47</td>
</tr>
<tr>
<td>Admin Staff⁴</td>
<td>0.21</td>
</tr>
<tr>
<td>Books/Supplies⁵</td>
<td>0.05</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$4.74M</td>
</tr>
</tbody>
</table>

1. Includes principal, Counselor, Secretary, Utilities, Custodial Services, Operational Support, Debt Service and other school-based resources
2. Assumes 1 teacher for every 25.5 students
3. Assumes 1 Admin Staff for every 150 students
4. Assumes 1 Support Staff for every 20 students
5. $80K per student

Given the cost of shifting seats to charters, the District must focus on expanding and attracting charters that provide a unique value to the portfolio and perform substantially better than students’ alternative options. In other words, the District must generate a return on investment by expanding charters that further the goal of increasing high-performing seats.

While on average charters outperform District-operated options today, there is a range of performance levels across charters. Historically, there has been little political will to close low-performing institutions, whether District or charter run. Furthermore, pupil-level data show that charters often serve students who could have gone to District-operated schools in their neighborhoods that have similar academic performance levels. These factors point to a need to collaborate more strategically with charters to ensure that the expansion of seats furthers the
overall goals of increasing high-performing seats and improving academic choices available to students.

**Key Recommendations and Rationale**

**Adopt and execute a new decision-making framework that reflects the dual goals of the SRC to increase high-quality seats and balance the budget.** The District’s Charter School Office had put into place a renewal assessment process that evaluates charters along four dimensions: academic performance, financial health, governance and compliance, and customer satisfaction. The data collected through this assessment, including both quantitative data as well as data from site visits conducted by SchoolWorks, remain important inputs into renewal and modification decisions. We recommend adding criteria to ensure that the district gets a return from its investment in charters. Specifically, as reflected in Exhibit 13, we recommend that decisions on charters result from examining the charter’s ability to improve student achievement and safety as well as support the efforts of the District to be fiscally sound. A school is plotted on the matrix using the specific criteria outlined below. The updated criteria were incorporated by the SRC into its planning framework in April 2012.

**Student Achievement and Safety Axis**

- **School’s academic performance (SPI, Pennsylvania System of School Assessment (PSSA), and Pennsylvania Value-Added Assessment System (PVAAS)).** We recognize that no single measure is sufficient to gauge comprehensively the academic performance of a school. The Charter Schools Office will continue its practice of using SPI as a high-level indicator and developing nuanced assessments of progress and improvement by evaluating PSSA trends and comparative PVAAS scores.

- **Comparison of charter school’s performance to students’ alternative school options.** This metric is used to understand the extent to which the charter is contributing to the goal of eliminating low-performing District seats.

- **Rating of admissions barriers, percentage of special education students, and percentage of ELL students compared with District.** As charters constitute a growing proportion of the District, there must be shared responsibility for meeting the needs of all students in Philadelphia. This dimension is assessed through a qualitative comparison of share of...
special education and ELL students against the District average, as well as through discussions with charter operators on admissions processes and policies.

- **Expulsion policies and approach.** Similarly, it is critical that the portfolio of schools provide equal opportunities to all students. This dimension is assessed by examining student retention rates as well as through discussions with charter operators.

- **Qualitative assessment of program uniqueness/contribution to portfolio.** As the District shifts more explicitly to a portfolio model, it will seek to leverage charters to provide innovation and program model diversity for the portfolio.

**Fiscal Prudence**

- **Signed charter in force.** The District seeks to enter into legal contracts with charters that will provide both entities with predictability on the parameters of service provision and ensure mutual accountability and support.

- **Enrollment agreements.** Predictability around charter enrollment will be key to maintaining a balanced budget and ensuring that the District is able to invest in improvements that benefit all students in the system.

- **Enrollment from designated catchment area.** Designating catchment areas for charter schools directly influences the District’s ability to eliminate low-performing seats and maximize capacity utilization.

- **Alleviation of District overcrowding or ability to accommodate students in need of reassignment.** As the District tries to alleviate overcrowding in select regions, charters can be part of the solution.

- **Willingness to target specific schools for recruitment.** Like catchment areas, a commitment to partner with the District to recruit students from low-performing schools will directly contribute to the District’s ability to reduce the number of students in low-performing seats.

- **Willingness to utilize a District facility.** Facility arrangements have the potential to provide charters with space that is uniquely configured for educational purposes, limit stranded costs for the District, and ensure that buildings throughout the city are effectively utilized for positive purposes.

**Channel more growth through the less-expensive Renaissance mechanism.** While ensuring that there are significant returns on charter investments, the District should also seek to increasingly leverage the Renaissance model. The District will need to continue to work with charter operators to ensure sufficient capacity to carry out these turnarounds, which have the potential to significantly expedite the conversion of low-performing seats to high-performing seats.
Monitor the financial impact of charter expansion. As it makes charter expansion and authorization decisions, the District should carefully monitor growth against five-year budget targets. The proposed five-year financial plan makes room for the creation of 13,450 new free-standing charter seats and approximately 11,000 Renaissance seats. If the District exceeds these projections, it will throw the five year plan out of balance. (The overall growth to 32,000 seats includes expansions authorized previously by the SRC as well as projected growth of cyber charter enrollments.)

The recommendations outlined above were incorporated into the 2011-12 renewal and modification process for charters. Negotiations between the District and charter school operators have emphasized the importance of academic achievement, as well as fiscal prudence dimensions. A number of charters have developed proposals for expansion and modification that directly reflect the newly stated priorities of the SRC. Many charters have agreed to new or expanded catchment and/or recruitment areas that will provide opportunities for students in low-performing schools to access better options.

Launch a virtual high school and credit-recovery program to improve graduation rates and reduce the costs of cyber charters. The quality of Philadelphia students’ current virtual education options offered through state cyber charters is notoriously low (see the Center for Public Education’s May 2012 report Searching for the Reality of Virtual Schools). Despite this, thousands of District students currently attend cyber charter schools. For each student who selects a cyber charter, SDP is forced to pay the school the full District per-pupil rate of roughly $10,500, even though the charter’s true cost of serving virtual students is likely far less. By launching its own high-quality virtual school, the District can stem the flow of students to lower-quality programs, increase its graduation rate through online credit recovery, and save costs—not only through reduced per-pupil payments to charters but also through expanded virtual offerings for homebound and credit-recovery students.
V. Organizational Model to Support Shift to Portfolio Management

To facilitate the shift to a portfolio management model that nurtures high-performing schools, we recommend a redesign of the District’s current organizational structure. We designed the structure to address the following issues:

- Focus the District center on portfolio management functions, with an emphasis on expanding high-performing schools, recruiting and incubating high-quality school operators, and closing low-performing schools
- Hold charter and District schools accountable to the same high performance standards
- Set up a system of tiered autonomy for schools in which schools’ autonomy varies according to their performance
- Provide all schools with effective support services, with dedicated support for turning around low-performing District schools
- Attract high-quality talent to work in Philadelphia’s public school system

We recommend that the current central office structure be divided into three entities, each focused on a clear set of goals:

- Focus a lean District central office on a portfolio management role—expanding high-performing District and charter schools and closing low performers
- Reallocate most of the current academic organization positions to a system of Achievement Networks to provide customized, responsive support and guidance to smaller groups of District-run schools
- Establish an independent Shared Services Organization (SSO) that would offer a menu of high-quality operational and academic services to District schools and—on an opt-in basis—charter schools
Lean District Center

As a result of multiple leadership transitions over a short time period and shifting organizational priorities, the central office has become a patchwork of offices, often with overlapping functions and unclear or cumbersome lines of communication and reporting. These characteristics hinder responsiveness and accountability.

Moving forward, we recommend building a lean, nimble District center organization focused on managing a portfolio of high-quality schools and associated activities. We modeled the recommended District central office structure after the CRPE model, in addition to promising practices and lessons learned from the organizational structures of several portfolio districts, including Chicago, New York City, and Baltimore. Key elements include an integrated portfolio management function that oversees all schools in the District; a distinct assessment and accountability function that works closely with the portfolio office; and a communications or community engagement function that is equal in importance to portfolio and accountability. We would also include key activities associated with strategic planning, equity and regulatory compliance, and recruitment and development of talent.
Key Recommendations and Rationale

Focus central office on core portfolio management functions—such as portfolio planning, program closures, assessment and accountability, talent recruitment, special education and English Language Learner (ELL) compliance, and core operational functions—and push remaining functions outside of the central office. As of FY14, the new District center would include the following offices/functions (see Exhibit 15 for a detailed organizational chart):

- **Portfolio and planning**: portfolio strategy for District and charter schools, universal enrollment, facilities/capital planning, early childhood programs
- **Academics**: Achievement Network support (including curriculum standards, CTE, and alternative education), assessments, analytics and data systems
- **Safety and student support**: safety, student services, and truancy
- **Talent and labor**: staff recruitment, labor/employee relations
- **Communications**: parents and families, internal, PR
- **Grants and compliance**: development and monitoring of grants, special education and ELL compliance
- **Finance & operations**: finance, IT
- **Legal and government affairs**

Through the reallocation of positions to Achievement Networks and the Shared Services Organization, this would slim the current central office structure significantly, from 725 FTEs down to 285.
Create a Chief Portfolio Officer role reporting to the Superintendent, with consolidated responsibility for the overall portfolio of District and charter schools. The Portfolio Office should develop a full picture of available seats—including District-run, charter, and alternative schools—and optimize the portfolio based on an integrated evaluation of individual school performance, population projections, assessment of student needs, and facilities utilization and condition. Optimization will involve shutting down or replacing low-performing schools; attracting, incubating, and expanding high-performing schools and talent; ensuring sufficient presence of innovative or tailored school models, such as magnets, CTE, performing arts, and international, to fit diverse needs of kids; and strategically leveraging the charter mechanism to fill gaps and expand the number of high-performing seats. To create this integrated perspective, we recommend that the District bring capital planning and charter authorization under the portfolio strategy umbrella.

Maintain a slim set of additional activities that are critical to managing and assessing school-level performance. In the new lean District model, the majority of staff in the Academic Office would be reallocated either to Achievement Networks or the SSO to bring supports and services closer to schools. (See Exhibit 16.) However, a small team would remain under the oversight of the Chief Academic Officer (CAO) to oversee and support academic programs within
the Achievement Networks and assess school-level performance within the District. The Achievement Network management team would ensure that networks appropriately implement districtwide programs and initiatives such as the Common Core curriculum, CTE programs, and alternative education. The SRC has stated an explicit goal related to increasing high-quality school options—meaning academically strong and safe learning environments. To achieve this goal, the Office of Security would be broadened to the Office of Safety, with a focus on using both security and school culture strategies to combat unsafe environments. This office would also handle school violence and truancy issues that are escalated to the District level, as required. The Grants Office would continue to focus on developing and maintaining funding streams to support programs and on ensuring compliance with federal, state, and grantor requirements.

Exhibit 16. Recommended Transition of Academic Office Positions

Preserve existing capabilities for monitoring and reporting on special education compliance. Currently the Special Education Office performs three broad categories of functions: (1) support of direct service provision, including training and technical assistance for service providers in schools and coordination of contract service providers; (2) student transition coordination, including transition from early intervention programs and to postsecondary programs as well as coordination of out-of-District options; and (3) administration, including budgeting, data management, reporting, contracts, and legal. As is discussed in greater detail in
the special education section of this report, we recommend that the first category of activities be divided between the Achievement Networks and SSO. The responsibility for supporting student transitions as well as administering funding and monitoring all special education activities would remain at the District center.

**Keep a light operating arm to manage core District operations—such as finance, HR, and IT—and associated vendor contracts.** Finance, capital planning, and IT functions would remain structured largely as they are today. The HR office would play a critical role in building a talent pipeline. (See the HR section of this report for additional detail.)

**Exhibit 17. Organizational Structure of Core Academic Offices in New District Center**

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**Achievement Networks**

As part of BCG’s recommendation to implement a portfolio management structure, the District requested we develop a new model of decentralized support for schools. A focus on decentralization is consistent with the portfolio management theory that urban districts cannot effectively manage large portfolios of mixed-performance schools out of a centralized structure. Instead, portfolio districts seek to establish a separate system of supports for autonomous schools and shift their focus primarily to evaluating school performance.
BCG and the District agreed to focus on a decentralized service model that would emphasize the effective support and guidance of principals, consistent with SDP’s belief that principals are the lynchpin to fostering successful school environments. The need for a robust structure of principal support and guidance is particularly salient given District leadership’s concerns about uneven principal capacity to run successful autonomous schools and the need for intensive, accelerated turnaround efforts at SDP’s many low-performing schools. We also recognized that, given SDP’s current fiscal reality, the District could not retain a strong central office school support function alongside a decentralized system of services. The District therefore would need to seek a model that could provide comprehensive school support at a decentralized level.

To develop a new school support model, we examined benchmarks from other portfolio districts using a decentralized support system as well as lessons from successful charter management organizations (CMOs). We also researched Philadelphia’s past decentralization efforts to ensure that our recommendations addressed the shortcomings of prior models. We used these findings to propose a new decentralized support structure for Philadelphia—a system of Achievement Networks—that leverages the experiences of other school systems and incorporates lessons learned from SDP’s history.

This section of the report is organized as follows:

- Summary of Benchmark Research from Portfolio Districts and CMOs
- Lessons from Philadelphia’s Past Decentralization Efforts
- Summary of the Achievement Network Model
- Detailed Achievement Network Design Recommendations

**Summary of Benchmark Research**

To understand and build off existing decentralized models, we examined school support benchmarks from large urban districts embracing the portfolio model (primarily New York City, Chicago, and Baltimore). We also researched the structures of high-performing CMOs, which are among the only school systems with a track record of turning around failing schools with large low-income and minority student populations.6

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6Several reports have outlined the significant effects of high-performing CMOs on student achievement. A 2011 study on CMO effectiveness by Mathematica showed that students in high-performing CMOs are achieving three years of learning in just two years of school. A 2011 article in *Education Next* entitled “Unlocking the Secrets of High-Performing Charters” showed data indicating that CMOs in the New Schools Venture Fund portfolio open for three or more years typically demonstrated student proficiency rates of more than 10 percentage points higher than their local school districts.

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Key findings include:

- Many large school districts operate under a decentralized or regional structure that dedicates district staff to supporting smaller groups of schools. This enables district staff to maintain a reasonable case load of schools and provide focused support and interventions in low-performing schools. The New York City Department of Education, Baltimore City Public Schools, Chicago Public Schools, and Victoria Schools in Australia are examples of districts that operate this way.

- New York City has taken this decentralized school support concept the furthest of any district, creating a system of 60 networks. Most networks are run by teams of district staff, while some are run by external nonprofits.
  
  - Network teams of approximately 15 staff provide academic, operations, and staffing services to groups of roughly 25–35 schools. While all district schools must be part of a network, they are able to choose which network support team they would like to work with.

  - Roughly 80 percent of network teams are staffed by district employees, with the remainder contracted to external nonprofit organizations. In many cases, nonprofit networks have also invested their own resources and attracted outside funding to offer higher-quality services to schools.

  - Networks are held accountable for school performance by the central office. Principals also hold networks accountable for their service quality through satisfaction surveys. The central office has closed one network and intervened in others for low performance and satisfaction.

  - Many principals—particularly newer ones—say the networks are more responsive to their specific school needs than the previous centralized system. They have generally found the networks helpful in providing high-quality instructional support, assisting with special education programs/Individualized Education Plans, navigating compliance issues, preparing budgets, and providing one-touch access to resolve school operations issues.

  - District leadership notes that former central office employees, redeployed into networks, have become significantly more customer-service focused and credits the model helping the district achieve a more than 10 percentage point increase in graduation rates over the past decade.

We believe it is worth clarifying a few additional points on our adaptation of New York City’s model:

- We note that New York City’s student performance results are mixed and that commentators have raised questions about the validity of using the district’s school support model in the absence of clear student outcomes. However, we
believe it is virtually impossible to disaggregate the effects of New York’s network structure on student achievement amidst the raft of reforms the district has implemented over the past decade. We encourage a discussion focused on the proposed model for Philadelphia compared with Philadelphia’s current centralized structure as opposed to a discussion about the level of effectiveness of New York City’s model. This is particularly salient given our recommended model differs significantly from New York in that we do not have the requisite resources to maintain both a strong central office academic function as well as decentralized networks, while in New York, the district retains both structures. Our model explicitly outlines a few core functions that will remain in the central office, but recommends the vast majority of academic support services shift to the networks.

- That said, we have tried to incorporate lessons imparted to us by New York City leadership to improve on its model whenever possible, as noted in the detailed design portion of our recommendations below.

- Successful CMOs such as Green Dot, Achievement First, and Uncommon Schools have also created robust teams of support staff focused on providing customized instructional, operational, and staffing support to similar-sized groups of schools.

  - CMO network teams pride themselves on being highly customer-service oriented to schools while simultaneously managing the performance of their network schools and principals.

  - CMO networks have the ability to recruit, manage, and replace their school leaders. They provide support to all network schools and interventions when principals are not meeting expectations. The incentives of CMO network leaders are directly aligned with school-based staff, as the success of the individual charter schools is directly linked to the success of the CMO network as a whole.

  - Networks drive strong instructional philosophies and best-practice sharing across their network schools. Principals receive intensive support on school culture and instructional leadership, and teachers receive in-depth, personalized coaching from subject area experts and special education and ELL specialists.

**Lessons from Philadelphia’s Past Decentralization Efforts**

While benchmarks suggest a decentralized or regional support structure would more responsively meet the needs of schools—particularly those most in need of support—we also recognized the need to be sensitive to the shortcomings of Philadelphia’s previous decentralized models and the short-lived diverse provider model established a roughly a decade ago.

We therefore designed the new decentralized model with a deliberate eye toward addressing the deficiencies of the District’s previous clusters, regions, and academic divisions. As opposed to previous decentralized models, we sought to create a new structure that would (1) address key labor restrictions in terms of school staffing; (2) establish clear accountability and consequences
In addition, we noted the District’s difficulty in improving student outcomes as a result of the diverse provider model, which turned groups of schools over to outside providers. We examined the 2007 RAND/Research for Action study on this model and sought to address the key shortcomings highlighted in the report.

- According to RAND, “Initial competition among private providers was constrained by the fact that few experienced organizations applied for contracts with the District.” The diverse provider model suffered significantly from the low quality of organizations awarded contracts to manage schools. We therefore sought to create a model that would encourage high-performing talent from a variety of sources to become involved in decentralized school support services, including unleashing the talent of current District staff, principals, and teachers or new hires to the District. Rather than relying solely on external organizations, a new model would significantly widen the pool of talent available to support schools, enabling the District to create truly high-performing decentralized support entities.

- It is also important to note that the constellation of nonprofit groups with deep experience running successful schools has exploded over the past decade, creating a
larger pool of promising contributors to a decentralized school support system. During this time, several successful CMOs, such as school turnaround providers like Mastery and the Academy for Urban School Leadership) and freestanding CMOs such as Green Dot, KIPP, Rocketship, Achievement First, and Uncommon Schools, have launched and/or expanded. Organizations focused on human capital, such as The New Teacher Project and Teach for America, and nonprofit school support organizations, such as New Visions and the Center for Educational Innovation—Public Education Association, have increased their scale and scope. School model specialist groups, such as Success for All and the James Comer School Development Program, could also provide high-quality school support and guidance.

- Another feature of the diverse provider model was lack of provider empowerment and accountability for its schools: “[T]he District retained responsibility for staffing . . . altering grade configurations, and teacher and student codes of conduct. Regional instructional support staff in the District continued to provide support to privately managed schools after the management change.” In the new model, we recommend that principals and decentralized support entities gain real autonomy from the District central office around key instructional, school model, and teacher staffing decisions. These core decisions would be turned over to principals with guidance provided by school support entities for lower-performing principals, enabling schools to achieve significant autonomy from the central office bureaucracy that was not present in the diverse provider model.

- Finally, the study notes, “Providers had joint authority with the District over the appointment of principals in the schools they managed.” This situation significantly limited the providers’ ability to influence school-level decisions and be held meaningfully accountable for their schools’ outcomes. Conversely, in the proposed decentralized model, we recommend that school support entities—in consultation with local School Advisory Councils—gain full decision rights over the hiring and replacement of school principals with resulting accountability for school-level performance. This will incentivize decentralized entities to seek the best principal talent, retain high-performers, and exit principals who are not achieving strong student-level results.

**Summary of the Achievement Network Model**

Taking into account these practices from other urban districts and CMOs—as well as the lessons from past Philadelphia reform efforts—we designed a decentralized system of Achievement Networks to support and guide small groups of schools in Philadelphia.

We recommend the District form eight to ten networks of approximately 20–30 schools organized primarily by geographic region. All networks would be equitably funded and required to serve all of the District’s children, including those with special needs. Each Achievement Network would be supported by a dedicated network team, which would be charged with supporting and guiding the schools within its network. Network teams would focus on areas that directly affect student achievement and school culture or that support principals to more deeply engage in this core work. Networks would be fully customer-service oriented, and most network staff would spend the majority of their time in schools meeting with principals and teachers.
Under the network system, high-performing principals and schools would gain full autonomy over key school-level decisions such as curriculum materials; school schedule and rostering; school culture and instructional model; and hiring, development, and termination for instructional and noninstructional staff. For principals with average school performance, networks would provide additional guidance around strategies for improving student achievement. For principals who are struggling, network teams would more directly intervene in school-level decisions. In all cases, networks would evaluate principals and provide coaching and professional development opportunities. If networks identify principals who are persistently low performing, the network team could choose to replace the principal in consultation with the local School Advisory Council.

The supports provided at the Achievement Network level would be highly customized to the specific needs of the network’s schools. While all networks would be required to provide the same baseline set of services, each network would receive an equitable budget and would be empowered to invest that budget differently based on the unique needs of its schools. Network staff positions—both operating and grant funded—would be allocated from the central academic offices into networks, resulting in an approximate annual budget of $2.7 million or 18 full-time equivalents (FTEs) per network. This staffing level generally aligns with staff support levels provided by New York City’s networks but includes additional staff to work deeply with schools in need of intensive turnaround—principal coaching on school culture and instructional leadership, in-depth instructional coaching for teachers in specialized subjects and student populations, and robust school staffing support to enable principals to hire and retain the best talent for their schools. These domains are also critical focus areas of successful CMOs.

A detailed list of functional supports provided by networks appears in Exhibit 19. In addition to the supports above, networks would assist principals in preparing their budgets and securing operations and compliance support. The network would also be responsible for developing community and nonprofit partnerships and—if possible—securing additional funding and resources for its group of schools. Indeed, a system of networks would provide easier entry points for school-level collaboration with local organizations and funders, many of which frequently seek opportunities to provide programs and support to local schools but fail to effectively navigate through central office to reach schools and students.
To ensure that the District secures the highest-quality talent to run Achievement Networks, we recommend that SDP invite a wide range of individuals and groups to form network teams and submit proposals to support specific groups of schools. Eligible groups would include current District central office staff, assistant superintendents, principals, and teachers; new hires to the District; and external nonprofit organizations. For-profit organizations would not be eligible. Network teams would be hired on multiyear contracts and held accountable for the performance of their member schools (including student achievement, financial management, and equity/compliance) as well as the satisfaction of the principals in their network. Network teams that fail to achieve performance targets would be subject to interventions from the central office and could be replaced.

Under the recommended structure, Philadelphia can capitalize on the benefits of the network model we have observed in other urban districts and CMOs. Specifically, we believe the proposed Achievement Network model will employ six levers to increase school performance:

1. Create focused responsibility for driving improvement in a group of schools
2. Increase accountability for those providing services and supports to schools
3. Create environments more conducive to attracting and developing top talent
4. Provide a vehicle for developing and sharing best practices across the District
5. Attract new investments to the District

6. Develop more effective interfaces between central office, schools, and communities

Exhibit 20. Examples of Six Levers to Improve School Performance

Evidence: Proven examples of these six levers (I)

1. Successful charter management organizations like Green Dot and Achievement First both manage and support small groups of schools with a strong instructional philosophy and school culture model.

2. In New York City, networks are rated by central office and ranked based on 1) student performance improvement and 2) principal satisfaction with services.

3. In New York City, the network structure attracts talent from inside & outside the system who would not previously have considered working in traditional school district management.

Exhibit 20. Examples of Six Levers to Improve School Performance

Evidence: Proven examples of these six levers (II)

4. New York City’s principals select among different types of networks to best suit their needs.

5. New York City’s external partner networks (universities and non-profits) have brought in additional resources and expertise.

6. A central role of New York City’s networks is to help create points of contact to manage relationships between to central office and their communities.

*Quotes are from conversations with leadership in New York City.

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Detailed Achievement Network Design Recommendations

To ensure equity, we recommend organizing schools into networks following a set of core guiding principles. Most important, each network would be required to serve all of the District’s students, including special education and ELL students. Additionally, we recommend that each network contain schools at a range of performance levels, so low performers can gain coaching and advice from high performers within the same network.

Many districts—such as Chicago and Baltimore—currently use geography as the primary organizing principle for networks. While New York City promotes a model in which schools opt in to networks that are not geographically constrained, we learned that this creates a set of logistical challenges. In particular, geographic dispersion makes it difficult for network staff to frequently visit all their schools and for schools to meet in mutual learning teams. Additionally, a survey of principals conducted by the CAO office revealed that principals tended to affiliate geographically, already working with principals in schools within their feeder pattern. Therefore, we recommend that the District preserve geographic groupings in networks where possible.

Secondarily, the District should consider opportunities to group schools with like program types that may require specialized resources—such as CTE, military academies, or arts programs—into networks to ensure that they receive supports customized to their unique needs.

We believe that SDP must proactively organize schools into networks to ensure equity of resources. However, we also desired to preserve an element of choice for principals and school communities regarding their network support team, in keeping with SDP’s commitment to school-level autonomy. Therefore, we recommend allowing high-performing principals to petition the District to switch networks in extenuating circumstances, such as better alignment with a different network team’s instructional philosophy, desire to affiliate with a CTE-focused network, etc.

Each network would receive an equitable budget and receive the same set of core services as all other networks. Budget allocations from central office to networks would be revisited each year based on the number and type of schools and students each network serves.

For a summary of the guiding principles for organizing Achievement Networks, see Exhibit 21.
Exhibit 21. Four Guiding Principles for Organizing Achievement Networks

<table>
<thead>
<tr>
<th>Principle</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Where they exist, preserve geographic boundaries &amp; neighborhood feeder</td>
<td>* Enables school support staff to develop expertise in local community issues and work with local groups to address student/family needs*</td>
</tr>
<tr>
<td>patterns within networks</td>
<td>* Allows network support staff to easily visit schools*</td>
</tr>
<tr>
<td></td>
<td>* Enables schools who will serve the same students to work together*</td>
</tr>
<tr>
<td></td>
<td>* Allows parents to work with a stable set of supports personnel over time*</td>
</tr>
<tr>
<td>2. A mix of performance levels in all Achievement Networks</td>
<td>* Distributes work relatively evenly across networks—each has some schools requiring intense focus and others a lighter touch*</td>
</tr>
<tr>
<td></td>
<td>- Includes special admissions and city-wide HS's</td>
</tr>
<tr>
<td></td>
<td>* Enables weaker programs to learn from stronger ones (e.g. through school pairings/partnerships and professional learning communities)*</td>
</tr>
<tr>
<td>3. Group schools with like program types together in networks</td>
<td>* E.g. CTE, Arts, Military Academies</td>
</tr>
<tr>
<td></td>
<td>* E.g. Alternative schools and low-incidence special education programs*</td>
</tr>
<tr>
<td></td>
<td>* Enables networks to develop expertise &amp; deliver supports most effectively*</td>
</tr>
<tr>
<td></td>
<td>* Enables networks to be as relevant as possible for principals*</td>
</tr>
<tr>
<td>4. All networks serve high-inc. special education and ELL students</td>
<td>* Want to encourage these students to remain in their local schools*</td>
</tr>
<tr>
<td></td>
<td>* Grouping students could potential result in inappropriate clustering of students in a subset of schools*</td>
</tr>
</tbody>
</table>

Attract the highest-performing teams to run networks, whether from inside or outside the District, via a competitive application process. Network teams would be selected through a public, transparent application process, modeled off New York City's request for proposals (RFP) for its Partnership Support Organizations (networks run by external nonprofits).

Current central office staff, principals, and teachers; individuals from outside the District; and nonprofits would be eligible to form teams and apply to support groups of schools. For-profit organizations would not be eligible to apply. Would-be network teams would craft detailed proposals to support and guide specific, preorganized groups of schools and would be selected based on the merit of their plan, depth of team experience and expertise in managing successful schools, and responsiveness to community and principal needs. SDP would promote the formation of hybrid teams. For instance, a team could form with high-performing District teachers providing instructional coaching, alumni from a successful CMO providing principal support on school culture and instructional leadership, and a human capital nonprofit such as The New Teacher Project or Teach for America providing the teacher recruitment and staffing functions.

It is critical to note that the network application process does not presuppose which individuals or groups will operate in the network structure. SDP would select teams based on their experience managing or supporting successful schools, such as by serving as a principal, assistant superintendent, charter leader or nonprofit organization, and the quality of their plans for managing and supporting a group of District schools. Though the District would accept
applications from a variety of groups and individuals, the proposal assumes the majority of networks would be run by District employees—whether from inside SDP (principals, teachers, central office staff) or new hires to the District from other public school systems or nonprofit backgrounds. Indeed, New York City staff indicated that the most successful network leaders are generally former principals, assistant superintendents, and other instructional leaders. They also noted that it is critical to have individuals in networks who can effectively interface with central office services and help principals navigate compliance issues, a role most effectively filled by former central office staff who know details of the system.

A few additional notes on the staffing of Achievement Networks:

- Current District employees who form Achievement Network teams and are selected to manage a group of schools would retain their status as unionized employees. New hires to the District on Achievement Network teams could also be eligible for unionization.

- We anticipate that the majority of current District employees from the academic offices will migrate to Achievement Network positions or the SSO. Those who do not could return to the classroom, other school-based positions, or other central office positions. We also expect that some will leave the District.

Please see Exhibit 22 for more details on the proposed RFP process.
Exhibit 22. Proposed Selection Process for Achievement Network Leadership

Hold network teams accountable for the performance of their member schools as well as the satisfaction of the principals in their networks. Networks would be managed by the CAO on multiyear performance contracts. Performance metrics would include student achievement growth, safety, compliance, equity, and principal satisfaction goals. Principal satisfaction would be assessed annually via anonymous surveys that would ask principals about the quality and responsiveness of the network’s support services. Networks would be subject to intervention and replacement if they do not meet performance expectations.

Please see Exhibit 23 for an overview of the performance management framework the central office would use to evaluate networks.
Implement a system of tiered autonomy for schools that would provide complete freedom in school management and design for principals of high-performing schools. All schools in the network would receive support, but weaker performers would also receive more explicit guidance and intervention from network teams.

Please see Exhibit 24 for more detail on school-level autonomy under Achievement Networks.
Exhibit 24. Differentiated Support Model, Based on School Performance

In addition to providing intensive supports, coaching, and development of principals, networks would have the critical role of conducting principal evaluations and making final principal staffing decisions. In persistently low-performing schools requiring significant intervention—and after a network’s detailed assessment of insufficient principal capacity to manage these efforts—network teams would have authority to replace school principals. The network team would act in consultation with the local School Advisory Council to exit the principal, interview successors, and select and train new school leadership.

This hybrid support and evaluation role is currently played by high-performing CMO networks, which state that such a setup actually better aligns incentives between network staff and school leaders. Network staff are evaluated based on the success of their schools, prompting them to work as hard as possible to attract the best talent to run their schools and then aggressively develop and support their school leaders. Likewise, principals know network teams are strongly behind their success and can count on them as a trusted thought partners in improving their schools.

New York’s network leadership occupies an uncomfortable niche between support provider and manager, which has created a tenuous school management environment. While network teams know their principals and schools deeply, regional superintendents still conduct principals’ formal evaluations and make final hiring/dismissal decisions. (Networks provide varying levels of input into this process, however, and thus retain a quasi-evaluative role in some cases.) This setup results in a less-effective evaluation and development process for principals, as superintendents cannot provide the rich feedback or developmental plans that network teams
could supply were they the formal evaluators. Additionally, it is difficult to truly hold network
teams accountable for school performance when the principal evaluation and staffing function
is formally outside networks’ purview. Discussions of the challenges of this aspect of New York’s
model also prompted us to recommend consolidation of the support and accountability
functions within the network.

We believe Achievement Networks are a critical element of the proposed plan, particularly in
turning around SDP’s many low-performing schools on an accelerated timeframe. Based on
benchmarks from other urban districts and CMOs, we believe this structure will create a much-
needed culture of principal-centered support and accountability. At the same time, we have
incorporated the lessons from Philadelphia’s past reform efforts to avoid repeating history.
Achievement Networks would fully empower successful principals to direct the vision and
operation of their schools. Nevertheless, they would also ensure that the lowest-performing
schools receive the focused support and guidance they need to improve. The design of networks
would be flexible to attract top talent into school support roles, including personnel—such as
principals and teachers—who may never have considered working for a central office
bureaucracy. At the same time, it would break up central office silos and free current district
staff to become far more customer-focused.

Achievement Networks would also help introduce a better system of interfaces among schools,
the district central office, and the community. Networks would help schools navigate
compliance mandates and provide one-touch support to resolve operational issues, freeing up
principals to focus on instructional leadership. Networks would also make SDP more accessible
to the community, enabling volunteers, nonprofit organizations, and funders to more easily
form deep relationships with schools.

Shared Services Organization

Today, SDP is not effectively leveraging the scale of all city schools—District and charter—to
secure the lowest-cost, highest-quality service contracts for operational and key academic
services. Interviews with charter schools indicate that charters procure the majority of these
services independently and are not interested in procuring from the District, primarily due to
trust and quality concerns. As such, the District and charter schools are not able to benefit from
the increased scale—and consequent purchasing power and lower costs—that would
accompany joint purchasing and provision of services.

To more efficiently and cost effectively provide services to the current portfolio of District-run
schools and to potentially provide charters with a more-attractive procurement option, we
recommend creating an SSO. An SSO is a central, independent organization dedicated to
providing a set of services to a number of different organizations such as District-run schools,
charter schools, and administrative buildings. An SSO would enable the District to aggregate
demand for these services to reduce costs (through economies of scale), standardize the service
and/or quality (through centralization), and increase the ease and efficiency of the procurement
processes for schools (also through centralization). Moreover, the SSO would be an
independent, third-party agency deeply focused on customer service, which could ensure more
effective and efficient service delivery and reestablish a relationship of trust with the charter community.

During the transition period when the SSO is initially established, the District would require its schools to procure services from the SSO for a period of three years. This mandate would help create stability for schools and for the SSO and provide sufficient time for the organization to position itself for success. After this transition period, District-operated schools would be able to procure services through alternative means if the SSO does not deliver a sufficiently strong value proposition of high-quality services at competitive pricing. This competitive market dynamic should, in turn, create an additional incentive for the SSO to continue to improve the quality of its services and responsiveness to customer needs.

Many other districts—including some in Pennsylvania—have developed shared service centers to improve service quality and maintain greater cost efficiencies. Examples include:

- **Denver Public Schools.** The district provides a fee-based menu of services to its Innovation Schools, including operational services such as custodial, human resources, and textbook acquisition and academic services such as credit recovery and professional development.

- **Detroit Public Schools.** In fall 2012, Detroit Public Schools will set up a new central office function—the Enterprise Services Group—which will provide services, such as food, payroll, and policing, to self-governing schools, charter schools, and other districts in a fee-for-service model. Detroit Public Schools’ superintendent has made it a goal to develop a stronger customer-service orientation within the central office.

- **Intermediary Unit (IU) model,** such as Chester County, Pennsylvania. IU provides shared services to 86,000 students across 12 districts. Chester maintains a hotline to collect inquiries from districts and schools and forwards them to one of eight service departments. Prices are based on competitive market rates and are reevaluated every three to five years. Depending on the service, the fully loaded price including overhead cost varies between 4 percent and 20 percent above service cost. Please see Exhibit 25 for a list of services offered by Chester County.
Exhibit 25. Overview of Services Offered by Chester County IU

Chester County IU offers broad range of services

<table>
<thead>
<tr>
<th>Special education</th>
<th>Alternative education</th>
<th>Blended learning</th>
<th>Shared services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Speech-language</td>
<td>• Online education</td>
<td>• Virtual academy</td>
<td>• Concession pricing</td>
</tr>
<tr>
<td>• Autism</td>
<td>• Middle college</td>
<td>• Distance learning</td>
<td>• Benefits administration</td>
</tr>
<tr>
<td>• Blind/Visually impaired</td>
<td>• Mental health</td>
<td>• Online course design</td>
<td>• Insurance</td>
</tr>
<tr>
<td>• School readiness</td>
<td>• Students with IEP</td>
<td>• Program support</td>
<td>• Purchasing</td>
</tr>
<tr>
<td>• Career development</td>
<td>• ESL</td>
<td>• Recruiting / Prof development</td>
<td>• Food services</td>
</tr>
<tr>
<td>• Hearing impaired</td>
<td>• Homeless</td>
<td>• Professional recruiting</td>
<td>• Facility rental</td>
</tr>
<tr>
<td>• Emotional support</td>
<td>• Migrant</td>
<td>• Continuing education</td>
<td>• Records management</td>
</tr>
<tr>
<td>• Home services</td>
<td>• Transitional</td>
<td>• Professional development</td>
<td>• Document scanning</td>
</tr>
<tr>
<td>• Learning support</td>
<td></td>
<td></td>
<td>• Fingerprinting</td>
</tr>
<tr>
<td>• Life skills</td>
<td></td>
<td></td>
<td>• Unusual transport</td>
</tr>
<tr>
<td>• Mental health</td>
<td></td>
<td></td>
<td>• Governmental affairs</td>
</tr>
<tr>
<td>• Multicultural</td>
<td></td>
<td></td>
<td>• Legal</td>
</tr>
<tr>
<td>• Occupational therapy</td>
<td></td>
<td></td>
<td>• Legal services</td>
</tr>
<tr>
<td>• Psychological services</td>
<td></td>
<td></td>
<td>• Labor negotiations</td>
</tr>
<tr>
<td>• Psychiatric services</td>
<td></td>
<td></td>
<td>• Public relations</td>
</tr>
<tr>
<td>• Special education</td>
<td></td>
<td></td>
<td>• Crisis response</td>
</tr>
<tr>
<td>• Speech/Language</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Therapeutic education</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• School refusal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Technical services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early education</td>
<td>Instructional and student support</td>
<td>Vocational education</td>
<td>Management consulting</td>
</tr>
<tr>
<td>• Child care services</td>
<td>• Science labs</td>
<td>• Center for Arts &amp; Technology (2 campuses)</td>
<td>Planning support</td>
</tr>
<tr>
<td>• Head Start</td>
<td>• Curriculum needs assessment</td>
<td>• Technical College High School</td>
<td>Speaker workshops</td>
</tr>
<tr>
<td>• Preschool</td>
<td>• Youth orchestra</td>
<td>• School</td>
<td>• Computer repair</td>
</tr>
<tr>
<td></td>
<td>• Driver education</td>
<td>• Practical Nursing</td>
<td>• Network operations</td>
</tr>
<tr>
<td></td>
<td>• Parent monitoring</td>
<td>• Program</td>
<td>• Videoconferencing</td>
</tr>
<tr>
<td></td>
<td>• SAT preparation</td>
<td></td>
<td>• Technology integration</td>
</tr>
<tr>
<td></td>
<td>• Career workshops</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Educational innovation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Summer programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Technical resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Young parents program</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key Recommendations and Rationale

Establish SSO/IU26 as an independent, market-driven, and entrepreneurial entity that provides services consistent with benchmarks of other successful Pennsylvania IUs. The SSO would provide a broad range of academic and operational services on a fee-for-service basis to District, charter, and other schools, as well as the District and CMOs. (See Exhibit 27 for a recommended list of SSO-provided services.)

There are several advantages to housing the SSO in a separate entity from the school district:

- **Market signal.** A separate organizational entity signals to charters and other potential customers that this is not business as usual.

- **Focus.** The SSO will have a dedicated management layer that is highly incentivized to perform due to market pressures.

- **Risk mitigation.** Creation of the SSO insulates the District center from the risk of variable revenue due to opt-in/opt-out decisions by customers.

- **Organizational flexibility.** The SSO can more easily reorganize and can negotiate collective bargaining agreement de novo.
• **Governance model.** The SSO may modify current governance body to incorporate District and charter representatives plus business specialists.

The SSO would be organized as a series of operating units plus procurement and business development and necessary management. (See Exhibit 26.) In many cases, the SSO function will need to upgrade capabilities to become competitive or change the current delivery model.

**Exhibit 26. Organization Chart for Shared Services Organization**

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**Proposed Shared Services organization**
~190 FTEs, down from ~270 today, mainly due to outsourcing of functions

- **Operations Services**
  - Facilities Mgmt
  - Transportation
  - Food Services
  - School Security
  - HR
  - IT
  - Finance
  - Responsible for day-to-day vendor management and operations
  - Source vendors w/ Procurement support

- **Academic Services**
  - Special Education
  - Education Tech
  - Language Services
  - Compliance Support
  - Program Coordination
  - See description for Operational Services

- **Procurement**
  - Strategic sourcing unit that partners w/ functions to design/administer best-in-class procurement/vendor management processes
  - Directly manage small purchase categories (e.g., office supplies)

- **Business Development**
  - Sales to internal and new customers
  - Market and customer needs discovery

---

House services in the SSO that would benefit from purchasing scale and can be provided by **third-party vendors.** We recommend that the SSO operate primarily as a vendor contracting agency, outsourcing the majority of activities under its purview rather than running them with an operational team out of the SSO.
Exhibit 27. Proposed Range of Services to be Provided by SSO

**SSO would provide range of services at break-even pricing:**
Projected initial service menu for current customer base (I)

<table>
<thead>
<tr>
<th>Category</th>
<th>Service</th>
<th>Future state delivery model</th>
<th>Initial Pricing (to break-even)</th>
<th>Avg per school per year ($)</th>
<th>Initial SSO Revenue ($)</th>
<th>Current state of service delivery capabilities</th>
</tr>
</thead>
</table>
| Facility Management | • Custodial & engineering  
• Repairs and maintenance  
• Pest control  
• Landscaping/snow removal  
• Trash removal  
• Utility administration | Outsource; leverage purchasing scale | Negotiate rates w/ utility suppliers |                            |                         |                                               |
| Transportation   | • Bus routes  
• Special education routes | Outsource; leverage purchasing scale |                            |                         |                         |                                               |
| Food services    | • Pre plate  
• Cafeteria services  
• Claims reimbursement | Hybrid in/out-source model |                            |                         |                         |                                               |
| School Security  | • On-site security  
• Mobile patrols | Hybrid in/out-source model |                            |                         |                         |                                               |
| Goods catalogue  | • Educational mail  
• Office supplies, print, mail  
• Other categories TBD | Negotiate preferred rate for schools |                            |                         |                         |                                               |
| Financial        | • Accounting  
• Payroll  
• Insurance | Outsource |                            |                         |                         |                                               |

**SSO would provide range of services at break-even pricing:**
Projected initial service menu for current customer base (II)

<table>
<thead>
<tr>
<th>Category</th>
<th>Service</th>
<th>Future state delivery model</th>
<th>Initial Pricing (to break-even)</th>
<th>Avg per school per year ($)</th>
<th>Initial SSO Revenue ($)</th>
<th>Current state of service delivery capabilities</th>
</tr>
</thead>
</table>
| HR        | • Benefits administration  
• HR self-service portal  
• Employee on-boarding | Outsource |                            |                         |                         |                                               |
| IT        | • Application s  
• Hosting/storage  
• IT support | Mix of in and outsourc (eg. coding) |                            |                         |                         |                                               |

**The Boston Consulting Group**
After an initial transition period, permit all District schools the freedom to choose their desired services from the SSO menu. However we recommend that SDP be able to mandate the use of a service from the SSO where necessary for standardization (such as records management) or to address “network” risk (such as school security including school police, where lower-incidence schools may otherwise opt out, leading to stranded cost).

To facilitate the transition of these services from the current central office, we recommend that SDP set up an SSO management team and shift most operational services over to the SSO by FY14. Beginning in September 2013, all District schools would have a mandatory three-year purchasing period for a full suite of services at a single bundled price. Conversely, charter schools would be free to purchase goods and services from the SSO at any time on an a la carte basis but would have no such requirement. Initial pricing would be set at break-even levels, including SSO overhead. During the three-year period, SDP would undertake a redesign of the service delivery model for several services so that the SSO can improve cost and service levels while developing a pricing model. After three years, District schools would be free to purchase goods and services outside the SSO, if desired.

Making the Organization Work: Performance Management of District Staff, Schools, and Achievement Networks

A critical feature of the new model is a system of performance contracts that hold the various entities accountable for high-quality outcomes. This would enable the District to intervene in and/or replace schools and networks that do not meet expectations. The lean District center would performance manage the overall portfolio of District and charter schools, replicating those that achieve strong student outcomes and replacing or closing those that fail to perform. The District center would also manage the Achievement Networks, holding them accountable for their network schools’ performance and the quality of services provided to the network’s schools.
Exhibit 28. Proposed Academic Organizational Model

Academic model establishes management and support relationships between three main entities

**District and charter schools**
- Manages overall portfolio of schools.
- Makes final school opening, closure, expansion and replacement decisions.
- Provides differentiated support and intervention to schools based on student performance.
- Connects schools with community, shared services, and other resources.

**Lean District Center**
- Manages networks.
- Manages performance contracts with Achievement Networks and CMOs.

**Achievement Networks and CMOs**

We recommend that the District establish a robust performance management system beginning with a set of clearly articulated systemwide goals around academic achievement and school safety. (See Exhibit 29.) These overarching goals would, in turn, become the foundation for specific academic targets to which schools and networks would be held accountable (alongside equity mandates and financial and regulatory compliance).
Exhibit 29. Proposed Academic Goals

Need to set ambitious academic goals, leading to college and career readiness for all students

<table>
<thead>
<tr>
<th>New definition of college readiness</th>
<th>Current</th>
<th>5-year goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of students succeeding at postsecondary level</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Post-secondary success</td>
<td>63%</td>
<td>80%</td>
</tr>
<tr>
<td>Postsecondary readiness</td>
<td>49%</td>
<td>70%</td>
</tr>
<tr>
<td>High school graduation</td>
<td>73%</td>
<td>85%</td>
</tr>
<tr>
<td>Students learning on-track</td>
<td>61%</td>
<td>80%</td>
</tr>
<tr>
<td>High-quality schools</td>
<td>65%</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>52%</td>
<td>90%</td>
</tr>
</tbody>
</table>

- 30% SPI 1-3
- 40% SPI 4-7
- 30% SPI 8-10

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VI. Recommended Improvements to Key District Functions

The operations assessment examined areas such as facilities management, transportation, finance, HR, IT, procurement, and special education. The goals were to find cost-savings opportunities that would help close the District’s budget gap and to make high-level recommendations for the improvement of District services.

Facilities Management

Context and Key Findings
SDP manages an in-house facilities services workforce and provides vertically integrated building operations support—such as custodial, maintenance, and grounds services, which are collectively considered core facilities services—across the majority of the schools in its portfolio. SDP’s portfolio represents more than 29 million square feet of facilities, in addition to many fields and other acreage that requires landscaping, snowplowing, and other grounds-related services. Two distinct third-party vendors currently provide the custodial services for 20 comprehensive high schools and the District headquarters.

SDP’s central office management team of approximately 60 individuals is responsible for overseeing a workforce of more than 1,500 FTEs, all of whom are represented by the Local 32BJ District 1201 SEIU union. The scope of central management responsibilities includes custodial staffing, scheduling and planning work orders, identifying and tracking key performance indicators, performing building audits and quality inspections, and finance and planning for all of facilities services (including additional functions such as print shop, mail services, records management, utilities, and some real estate).

The annual SDP budget for core facilities services is approximately $130 million per year and has decreased substantially over the past few years. Cost-management initiatives have helped the District move toward external cost benchmarks, including other K–12 urban school districts, especially in maintenance services. However, according to benchmarking research by the Council of the Great City Schools in October 2011, SDP still provides most of these services at high costs relative to other K–12 urban school districts and to third-party providers.
Exhibit 33. Benchmarking of Custodial Services at SDP

SDP currently has little flexibility with its workforce to adjust overall staffing levels or to adapt its operational model—for example, by creating different maintenance shift structures. These limitations create a relatively rigid cost structure that has made it difficult to adapt to the evolving needs of the District's portfolio.

Our preliminary benchmarking analyses validated the savings opportunity for SDP for the majority of facilities services. We compared SDP’s current per-square-foot costs to external benchmarks on a total annual and per-square-foot cost basis. Despite some higher per-square-foot costs for pest control due to a higher service quality, preliminary analyses suggested that modernization would result in ongoing annual net savings of $28 million to $30 million.
Factors contributing to SDP’s relatively high costs include:

**Personnel compensation**

- SDP offers benefits packages to full-time employees not provided by external contractors, including the state-mandated, escalating PSERS obligations.
- SDP must offer full benefits packages to its part-time employees and thus does not benefit from using supplementary or part-time workforces to reduce costs.
- Many “extra” benefits are provided to 32BJ-1201 employees, such as an annual stipend to purchase shoes, paid overtime to work on inclement weather days, and licensure fee reimbursement.
- Inflexible work rules (see below) contribute to significant overtime expenses.

**Inflexible work rules**

Various work rules have a range of financial impacts and create operational inefficiencies, many of which lead to general overstaffing (higher numbers of FTEs) or overtime. For example:
• Only highly skilled building engineers (BEs) can open/close schools, and FTEs must work consecutive eight hours, which results in all BEs combined receiving structural overtime of approximately $1.7 million annually.

• One BE is required per school despite close proximity of schools to one another, which results in higher staffing levels, generating approximately $1.6 million annually in additional costs (based on consolidating approximately 21 BE positions).

• BEs/custodial assistants/general cleaners bid on buildings for staffing and receive extra compensation for choosing to stay in the same building. These bidding costs cause SDP to incur added payments of approximately $800,000 per year. The bidding also reduces staffing flexibility as management cannot move FTEs between buildings and results in additional overtime costs whenever SDP management needs to have FTEs cover buildings that they did not bid on.

• The union has been reluctant to establish second and third maintenance shifts despite the negotiated, contracted agreement to compensate such work at a rate of $2 per hour more than the straight time wage. This reduces management’s flexibility to structure work, which accounts for approximately 50 percent of overtime for facilities-funded maintenance.

For facilities services, these work rules cost SDP nearly $4 million annually in overtime-related costs and create additional management complexity and operational inefficiencies. (See Exhibit 35 for a list of these work rules and their estimated financial impact.) Some work rules that affect operational efficiencies and flexibility have not yet been quantified financially; however, changing or eliminating these rules would enable management to have greater flexibility to address most efficiently the needs of its facilities and to staff in the most cost-effective manner.

Many of these work rules are specific to the local 1201 union and are not required by other unions, including the national 32BJ organization (primarily governed by the Building Operators Labor Relations [BOLR] contract).7

Other workforce issues
Other issues include a 20 percent absenteeism rate (unplanned absences resulting from sick or personal days), meaning that on average employees work four out of five scheduled days. This requires SDP to maintain a higher level of FTEs on staff to cover such absences and often causes building cleanliness to suffer.

7The BOLR contract represents a contract between BOLR and SEIU 32BJ members in Philadelphia. BOLR members ratified the contract on October 21, 2011, and SEIU 32BJ members ratified the contract on October 22, 2011.
Key Recommendations and Rationale
In response to SDP’s increasing budget deficit, we recommend the District modernize its facilities services either through privatization via third-party providers or through an internal restructuring of its current workforce and work rules. Modernization will enable SDP to realize $28 million in ongoing annual cost savings by FY14, which will meaningfully contribute to overall efforts to reduce the structural deficit. Modernization via privatization will also enable SDP to shift more of its fixed costs to variable costs. External contracts would give SDP the right to add or remove facilities from the serviced portfolio on a relatively real-time basis. As square footage is removed, for example, SDP would suspend services in those buildings and adjust the overall contract amount, including labor and non-labor costs. In contrast, SDP currently faces constraints in its ability to hire and fire and, as such, has a relatively fixed cost base.

As SDP shifts its academic strategy to a portfolio model—including consolidating its existing footprint and expanding high-performing District and charter seats—it is imperative to create an equally adaptive operations organization. The new Shared Services Organization must be able to quickly expand or cull its services, with expenditures moving accordingly. While the scenario above of adjusting external contracts on a real-time basis reflects an end-state
accomplished via privatization, the same objectives could be achieved internally through a work-rule restructuring that allows similar staffing flexibility. However, in this scenario, work-rule changes must be comprehensive and also coupled with other cost-savings initiatives to achieve parity with the privatization option. If SDP cannot realize comparable long-term savings through a restructuring of its existing workforce, then we recommend outsourcing the portfolio across multiple vendors.

This structure would optimize cost savings for the District and diversify vendors to minimize operational risk and align incentives for vendors to provide the highest-quality, most-cost-competitive services over the life of the contract. It would also enable vendors to share best practices and elevate the performance at all schools to the highest level of service. We recommend that vendors be governed by a contract that establishes clear performance expectations to ensure that quality and cleanliness standards are met. Further, above the expected $28 million in savings, suppliers should be encouraged to introduce and share their best ideas for cost reduction or avoidance. Eventually, in an end-state under an SSO model, we recommend evolving this organization to deliver such high-quality, cost-competitive services that it might incentivize charter participation and drive additional scale benefits.

In an outsourced scenario, we recommend that SDP evaluate vendors based on the quality and professionalism of vendor services, in addition to any cost advantages third-party providers can deliver. (We also recommend that any internal restructuring proposals meet both objectives of lower costs and higher-quality services.) The current third-party provider in the 20 comprehensive high schools validates the model in which modernization can drive significant cost savings while providing an equal or, in most cases, higher-quality and increased scope of services. The standards that vendors should be held to in the RFP-321 contract would be meaningfully higher than the current service levels, especially in custodial services. We recommend vendors be evaluated by the Custodial Staffing Guidelines produced by APPA, an institute for educational facilities services. (Vendors should achieve APPA\textsuperscript{8} 1–2\textsuperscript{9} versus the District’s in-house APPA 3–5\textsuperscript{10} standard, on average, which reflects a significant cleanliness differential.)

The current third party providing custodial services in the 20 comprehensive high schools has received extremely high output/quality scores (in the mid- to high 90s out of 100) from principals in monthly customer satisfaction surveys. These customer-oriented quality metrics reflect the District’s goal for performance evaluation standards, which also hold providers accountable for the satisfaction of end users such as students, teachers, school leadership, and parents. We suggest that similar measures be implemented under any modernized scenario—through either

\textsuperscript{8}Initially published by APPA in 1992 and now in its second edition, Custodial Staffing Guidelines covers five levels of clean used to assess facility appearance. The guide includes information on such specialized facilities areas as dormitories, health care facilities, and more. Thirty-three categories are covered by the APPA staffing guidelines. The guidelines are based on the feedback of hundreds of individuals and institutions and have been in use for more than two decades by an ever-increasing number of institutions to validate staffing requirements at institutions in higher education as well as K–12 and to justify custodial budgets.

\textsuperscript{9}APPA has specific appearance levels definitions that contain detailed specifications about cleanliness standards. The definitions include APPA Level 1 (Orderly Spotlessness), Level 2 (Ordinary Tidiness), Level 3 (Casual Inattention), Level 4 (Moderate Dinginess), and Level 5 (Unkempt Neglect).

\textsuperscript{10}As evaluated by SDP personnel
an internal or an external option—with strict accountability through customer-service-driven key performance indicators.

In addition, this third-party vendor sourced 100 percent of its original staffing needs from the existing workforce in those buildings. We recommend that SDP evaluate vendors in part based on their willingness to prioritize District employees and to work with SDP to maximize the number of employees transitioned to a privatized workforce.

In the end state, upon transition to a portfolio model, we recommend that the SSO manage a modernized in-house staff or third-party vendors. The SSO should establish high-quality service levels, ensure customer service through quality assurance checks, review and approve vendors’ proposed plans and high-ticket work orders, and use key performance indicators to manage operations. An SSO-based facilities services organization would (1) have a greater asset management focus, with tight integration into the capital planning and energy management processes and (2) provide facilities management and energy management services to charter schools as third-party provider. Providing such services to charters would allow SDP to leverage its full scale. Along with the transition of its core facilities services, we recommend that SDP undertake an assessment of opportunities to modernize the three ancillary functions also in the current facilities organization (mail services, print shop, and records management). Modernizing the entire suite of facilities services and managing them via the SSO would best enable SDP to bring the entire facilities organization into line with cost benchmarks. It would also create a single infrastructure through which schools and administrative offices could procure such services.

These recommendations would result in an estimated $28 million in ongoing savings by FY14 in addition to accomplishing other operational objectives (such as shifting from a fixed to more of a variable cost structure). Indeed, third-party vendor responses to facilities services’ RFP-321 validated the benchmarking analyses and potential savings opportunity from facilities modernization. We anticipate additional upside to the annual savings potential as suppliers introduce ideas to further reduce costs via shared savings and other incentives in an operating agreement.

A leaner central office organization to manage vendors would contribute to the $28 million in savings and would transition over the course of FY13. We recommend streamlining the central office from the current approximately 62 FTEs to approximately 28 FTEs, who would be responsible for contract management, budget and accountability, quality assurance, and customer-service support for the CMMS (maintenance management) system. Over an initial contract period of five years, the net savings potential from modernization would be more than $100 million (net of one-time costs associated with the transition). The two one-year options in FY18 and FY19 to extend the contract would deliver comparable or even higher annual savings amounts.

Finally, in an outsourced model, there would be incremental savings opportunities from workers compensation cost avoidance. The District incurs costs in the form of new workers compensation claims each year and continues to pay the liability over a period of time.
Therefore at any point, the District is compensating workers for new and legacy claims. Currently SDP pays more than $6 million annually for these claims, with new claims comprising approximately $1 million to $1.5 million of that total. As such, in the near term, a privatized model would enable SDP to avoid the $1 million to $1.5 million in new claims per year, and that savings amount would increase to $6 million annually as the legacy claims slowly phase out (likely three to five years).

Exhibit 36. Facilities Service Cost Differences Between SDP and Vendors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Approx. value ($M)</th>
<th>SDP (in-house)</th>
<th>Vendors (outsourced)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing flexibility</td>
<td>16 – 28M</td>
<td>Higher leave rate and less flexible work rules necessitate higher FTEs: 1,507 FTEs</td>
<td>Ability to hire part-time workers and more flexible work rules enable vendors to staff at equivalent of 1,150 – 1,350 FTE levels</td>
</tr>
<tr>
<td>Benefits</td>
<td>3 – 10M</td>
<td>All employees have fixed benefits of $15,275(^1) per employee per year</td>
<td>Most employees have fixed benefits of ~$15,000 with some cleaners lower than that threshold</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Variable benefits (22.89%) per employee per year</td>
<td>Variable benefits per employee per year are lower given 5256 CBA (not 1201)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benefits gap would be larger with FY13 benefits(^2)</td>
<td>No PSRS</td>
</tr>
<tr>
<td>Work rules</td>
<td>2 – 3</td>
<td>Must use mechanics (10% more expensive) for repairs that engineers could do due to work rules</td>
<td>More flexible work rules enable engineers to fix issues before needing specialized mechanic</td>
</tr>
<tr>
<td>Overtime</td>
<td>2</td>
<td>OT expenses related to use of facilities $1.1M (50% of total OT) - eg, no split shifts</td>
<td>Limited overtime because buildings staffed 6am – 10:30pm on straight time</td>
</tr>
<tr>
<td>Leave rate</td>
<td>1</td>
<td>~20% leave rate results in $1.1M of OT costs per year and compromised quality of output</td>
<td>0% unplanned leave rate for SDP and higher quality output</td>
</tr>
<tr>
<td>Productivity</td>
<td>NA</td>
<td>$32,000 sq ft per custodial employee</td>
<td>12 vacation, 6 sick, 0 personal days per year</td>
</tr>
</tbody>
</table>

SDP cleans at a much higher cost and significantly lower quality\(^3\) than what is expected of vendors.

7. All employees will have fixed benefits of $15,275\(^1\) per employee per year in FY13 and variable benefits of $15,275\(^1\) per employee per year. Vendors will be held to the highest of two levels of nationally-recognized APPA cleaning standards (level 1 and 2). SDP currently is at levels consistent with APPA 1 – 3 standards (3 being the lowest in the APPA scale). There is a meaningful difference in quality between these levels of cleaning.

To realize the full savings opportunity and minimize operational disruptions, SDP must closely manage any potential short-term risks that come with a decision to modernize. In a privatization scenario, workforce-management planning will be required, given the phased layoff structure for facilities (one year anniversaries of layoff notices occur on July 1, 2012; September 24, 2012; and January 1, 2013). It is also important given that the vendor transition may begin up to six months in advance of the last anniversary date. Such potential risks with a phased transition could include increased absenteeism, decreased quality of output in SDP-serviced schools, and possible employee tensions.

To mitigate these potential risks, we recommend that SDP management closely coordinate with vendors to (1) maximize the number of SDP employees transitioned to vendors; (2) onboard vendors in schools (including the development of building assessments); and (3) meet school reopening dates with safe, clean academic environments. In its evaluation of potential vendors,
SDP has prioritized those that committed to maximizing the SDP workforce transition, which will likely help reduce risks. To further mitigate potential issues, we recommend that SDP undertake extensive implementation planning and execution with dedicated transition teams. We also recommend comprehensive communications planning with strategies designed to address various constituencies including employees, school leadership, students, and parents.

If SDP and 32BJ-1201 negotiate a comparable, long-term savings opportunity for the District, we advise SDP to develop a detailed implementation and savings tracking plan based on the sources of savings. We also recommend that SDP and 32BJ-1201 collaborate on a detailed plan to increase the quality of the services provided to the schools, including more operational flexibility through less-stringent work rules and commitment to lower leave rates from unplanned absences.

Transportation

Context and Key Findings
Yellow school bus operations meet the daily student transportation needs of more than 35,000 students across 264 schools in SDP. Of the total 1,415 daily routes, 71 percent are contracted to external bus and cab contractors. While SDP has incrementally transitioning bus routes to contractors each year, it currently directly provides 29 percent, or 417, daily to-and-from-school routes using SDP buses and chauffeurs. SDP operates and maintains its internal fleet of buses out of four SDP-owned facilities in Philadelphia. Bus attendants for these routes are also SDP employees.

SDP’s central office transportation management team is responsible for overseeing daily operations, providing functions such as customer service (or dispatch), contractor and in-house performance management (street supervisors), route scheduling, vehicle maintenance, and garage management. SDP is responsible for planning both internal and external routes.

SDP total spending, in-house and contracted, on yellow bus transportation in FY12 is approximately $92 million. Despite only running 29 percent of the total to-and-from-school routes—in addition to athletic, summer, and midday trips—in-house operations account for approximately 42 percent of SDP’s total annual spending on yellow bus transportation.
Exhibit 37. Current State of District-run Versus Contracted Buses in SDP

SDP’s internal operations costs are higher than contractor costs for several reasons, including the fact that transportation is a non-core business. Thus, SDP is unable to capture efficiencies realized by full-time bus operators, due to insufficient capital investment in key enablers. For instance, manual route scheduling and the absence of a bus fleet GPS system—which prevents SDP from optimizing routes or continually tracking student ridership—have likely led to planning inefficiencies and fleet underutilization. In addition, internal operations are not likely to benefit from the scale that some external operators enjoy in bus, parts, and maintenance costs, as SDP bus operations are confined to a limited, and progressively shrinking, number of routes. In addition to these structural points, in-house costs are largely driven by personnel compensation. The District offers benefits packages to full- and part-time employees not provided by external contractors. Base salary, fixed and variable benefits, and overtime pay...
result in average full- and part-time driver annual compensations of $79,000 and $45,000, respectively, at SDP today. The District’s costs have also been inflated by inflexible work rules. For example, schedules allow employees to accumulate large amounts of overtime pay, with some personnel earning more than $20,000 in annual overtime compensation. In addition, a mix of both full- and part-time positions allows for employee underutilization between routes, causing SDP to pay for unassigned work time. For this reason, most external contractors offer only part-time positions.

Exhibit 39. Breakdown of SDP Bus Driver and Attendant Compensation

SDP’s focus on internal operations also detracts attention from contractor accountability and service quality for currently contracted operations. With increased focus on effective contractor management SDP could further reduce its vendor costs, mitigating key issues with current contracts, including above-market cost-per-route pricing, cost-ineffective route allocation, and improperly managed contractor incentives and liquidated damages.

Key Recommendations and Rationale
In response to its current budget crisis and in an effort to provide safe, high-quality, and cost-effective service to SDP students, we propose the following recommendations, which would be executed through a time-phased approach over FY13–FY15.
**Exhibit 40. Process for Modernizing Transportation**

<table>
<thead>
<tr>
<th>Step</th>
<th>Activity</th>
</tr>
</thead>
</table>
| 1    | Modernize district-run routes:  
- Negotiate current contract pricing  
- Distribute routes based on optimal pricing structure  
- Transition district driver and maintenance staff to new contractor(s)  
Develop valuation, negotiation and transition strategy for assets - buses, parts, and garages. |
| 2    | Phase 2: Optimize transportation:  
- Execute negotiations to purchase reusing software  
- Optimize routes  
- Maximize contractor scale and increase fleet utilization through automated routing mechanisms  
Redesign transportation model to decentralized model to cut costs.  
- Increase student access to lower cost transportation options likeTranspax.  
- Evaluate opportunity to alter SDP policy on student eligibility for free transportation.  
Adjust bell times to reduce number of busses required to operate equivalent service level.  
- Potential savings opportunity of $2-10M. |
| 3    | Phase 3: Renegotiate:  
- Robust school bus transportation services to achieve highest quality service at lowest cost to SDP upon expiration of current contract (June 2014)  
- Develop RFP for contractors to bid on an optimized route structure.  
- Award criteria based on:  
  - Cost efficiency  
  - Maximized scale  
  - Past performance metrics  
  - Structure district oversight frameworks to ensure contractor accountability going forward  
- Ensure MYPSE goals are met  
- Ensure participation  
- Identify proposal differences. |

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**Savings from modernizing transportation are time-phased**

<table>
<thead>
<tr>
<th>Step</th>
<th>Savings</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>~$17M in savings</td>
<td>Sept 2012</td>
</tr>
<tr>
<td>2</td>
<td>~$4M in savings</td>
<td>Sept 2013</td>
</tr>
<tr>
<td>3</td>
<td>~$1M in savings</td>
<td>June 2014</td>
</tr>
</tbody>
</table>

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**Transition remaining District-run routes to external yellow bus operators.** With a majority of routes already served by outside contractors, SDP has proved contracted transportation to be a safe, cost-effective model and alternative to in-house operations. SDP currently contracts with a diverse array of bus and cab operators to run the majority of student to-and-from-school routes. Within these contractors are some of the largest national school bus transportation players, including Durham, First Student, and Atlantic Express, which have extensive experience operating in urban environments and reputations for safety and quality service at cost-effective rates. Other contractors include smaller start-up firms or minority and women-owned business enterprises.

If SDP pursues the option to modernize transportation, the District would be able to leverage these existing relationships and contracts to expedite the transition of in-house routes. Through evidence of past performance and pricing, SDP would be able to ensure its routes are distributed to safe, high-quality, and cost-effective providers.

**Integrate third-party experts to manage the transportation department, including route scheduling, contractor negotiations, and dispatch/customer-service functions.** Based on a review of the current operating model, third-party transportation experts would strike a balance between necessary investments in technology, including route scheduling software and efficiency tools, and alterations to the existing organizational model. In an effort to develop a lean, efficient management team, third-party management would take a strategic approach to...
department management, leveraging expertise and proven tools to allow for consolidation of administrative functions. Dedicated to cost and performance management as well as contractor accountability, the new management team would be charged with developing ongoing operational improvements, instituting repercussions for poor contractor service quality, strengthening the customer-service function, and establishing a quick and reliable response program to ensure child safety and ease parent concern.

A third-party expert management team would bring industry knowledge; experience in other large, urban districts; and expertise to the SDP transportation department at a lower cost.

**Optimize routes and increase fleet utilization through investment in route-planning software.** One of the third-party management team’s deliverables would be to oversee the investment in routing software and efficiency tools to allow SDP to schedule the shortest to-and-from-school route trips while increasing fleet utilization. The efficiencies realized through this initiative would translate to a roughly 5 percent reduction in to-and-from-school routes, amounting to approximately $4 million in savings.

In addition to these efficiency efforts, we recommend that SDP and the third-party management team:

- Assess opportunity to stagger school bell times in an effort to reduce the number of buses required to provide equivalent service level by approximately 15 percent, resulting in $3 million to $10 million in estimated savings. This savings range is a preliminary estimate based on the number of school bell times affected and requires further analysis and validation.

- Analyze the mix of student transportation modes to ensure SDP is effectively leveraging lowest costs means (e.g., TransPass).

**Renegotiate route allocation and pricing upon expiration of current RFP-294.** Improvements in contractor performance management and diligent documentation of both infractions and exceptional service over FY13 and FY14 would support a more rigorous RFP process upon expiration of the current contract in June 2014. Strong evidence of performance trends through consistent and fair indicators, such as on-time performance, accident history, and reliability, would feed into the contractor evaluation process and ensure that routes are distributed to those contractors that can ensure high quality and student safety standards as well as cost effectiveness.

Given the fact that 942 contracted to-and-from-school routes are serviced by 15 different bus and cab contractors, we believe a rigorous contractor evaluation process would result in an opportunity to achieve an incremental $1 million in savings through contractor consolidation and more competitive pricing.

The execution of these recommendations would result in an estimated $22 million in run-rate savings by FY15. Most important, it would allow SDP to dedicate additional resources to providing high-quality education. These savings do not include those potential savings
associated with introducing a third party to manage the transportation department or potential benefits from the adjustment of school bell times. SDP recently contracted with Transpar, a national firm with experience in large urban districts, to manage its overall transportation system.

If SDP and 32BJ-1201 negotiate a comparable, long-term savings opportunity for the District, we advise SDP to develop a detailed implementation and savings tracking plan based on the sources of savings. We also recommend that SDP continue to pursue savings opportunities associated with route optimization and vendor consolidation over time. As drivers cease employment with the District, we recommend that SDP continue to outsource additional routes to its existing vendors to achieve incremental savings.

Finance

Context and Key Findings
SDP’s Finance Department was hit hard in the 2011–12 budget cuts, losing 40 percent of its workforce. In addition, the District has been operating without a Chief Financial Officer (CFO) since early this year.11 Today the Finance Department consists of 55 FTEs across six functions (management and budget, comptroller, special finance/treasury, payroll, systems administration, and risk management). The across-the-board personnel cuts had left individual functions with as few as three employees, resulting in a compartmentalized and inefficient organizational structure.

The department is responsible for preparing, monitoring, auditing, and accounting for a $2.3 billion operating budget and a $500 million grants budget. Additionally the department is charged with the administration of the District’s bank accounts, cash management, and payroll for more than 21,000 employees. SDP also manages payments for more $500 million for students in charter schools and placed outside the District and all short and long-term borrowing for operational and capital purposes.

Districts of comparable size would typically employ anywhere between 60 and 80 FTEs in their finance function, putting SDP’s staffing level at the lower end of the scale. For example, the Hillsborough County (Tampa), Florida, school district with an attendance of approximately 190,000 students and an operating budget of $1.7 billion runs a Finance Department with roughly 70 employees.12 SDP’s staffing level resembles that of a much smaller school district. For example, the St. Louis, Missouri, public schools maintain a Finance Department with a staff of 50 to support an enrollment of only 33,000 students.13

According to interviews with District and city officials, SDP has historically suffered from poor communication and transparency among the CFO, District leadership, and key stakeholders. As

11The Chief Recovery Officer was tasked with taking over most of the CFO duties in the interim.
12District website www.sdhc.k12.fl.us/BUSDIV/.
13District website and www.docstoc.com/docs/4876405/ST-LOUIS-PUBLIC-SCHOOLS-ORGANIZATIONAL-CHART.
a result of these communications breakdowns, outside credibility of financial figures provided by the District's CFO to the SRC and city and state officials had suffered significantly.

Before FY12, SDP received large state and federal stimulus revenues, which District personnel allocated towards recurring expenditures within the operating budget. However, as the stimulus funds were subsequently cut and expenditures continued to grow, the District had no strategic plan in place to reduce cost in line with revenues. The budget gap was further increased by large cutbacks in basic education funding and charter cost reimbursement on the state level. Due to the magnitude of the shortfall—the FY12 gap grew to as much as $715 million—SDP was ultimately forced to make urgent across-the-board cuts rather than developing a long-range plan around strategic priorities.

Contrary to what we typically encounter in other organizations, this was largely not an IT systems issue—the District’s Enterprise Resource Planning (ERP) system is adequate, if archaic, as detailed in the IT section of this report—but a cultural issue. The tensions between the Superintendent and the CFO created an environment that did not reflect the type of transparency and open communication necessary to avert or effectively manage through a crisis.

By the time BCG was brought in late February, however, the attitude toward transparency had begun to shift. In the absence of a CFO, key finance officials such as the Budget Director and Treasurer had been given direct lines of access to the Chief Recovery Officer (CRO), who was committed to allowing an honest accounting of the District’s financial issues and the available options to address them. In public settings, both the CRO and members of the SRC were open about the looming deficits and the measures they were considering to close them.

The push toward accountability and transparency was embodied in the District’s decision to commit to the creation of a five-year financial plan. For almost a decade, the District had not developed financial plans beyond the next year’s budget cycle. However, the CRO and SRC were committed to introducing sound financial forecasting and planning to ensure the achievement of fiscal sustainability. District finance staff, working with BCG and the District's external budget consultants, spent the better part of two months developing a comprehensive financial model to enable five-year forecasting on an ongoing basis. (See Section VIII of this report.)

Despite the positive developments described above, SDP’s degree of financial distress is still high. Moreover, the additional debt the District is taking on to continue to operate will further reduce funds available for instruction in the future. The new CFO and finance staff will need to continue to strive for fiscal sustainability even in the face of these stiff headwinds.

**Key Recommendations and Rationale**

We strongly encourage SDP finance organization to continue on the path it has taken in recent months. The CRO and Budget Director’s approach to creating a transparent budget for FY13, as well as the establishment of direct reporting lines and regular alignment between the finance leadership team and the CRO/SRC, have significantly improved communications and overall operating efficiency in the department.
The five-year financial model is now serving as a broadly used planning framework for union negotiations, charter authorization, workforce planning, and a variety of other purposes. SDP should continue to model its financial outlook on a five-year horizon and update forecasts as new, relevant information comes to light.

As to concrete recommendations, we propose a short-term reorganization of the Finance Department, cutting the number of sub-departments in half and setting up an organization that can manage successfully through FY13 while the search for a new CFO continues. Exhibit 41 shows the revised setup.

**Exhibit 41. Recommended Finance Organizational Structure**

The Accounting and Audit Coordination Department would contain all activities under the Comptroller, including accounts payable, accounting services, inventory management, and the preparation of the State Annual Financial Report and the Comprehensive Annual Financial Report. The Office of Management and Budget (OMB) would largely stay as-is, except for moving grants budgeting into a newly created Grant Compliance Unit, and would continue to be responsible for the annual preparation of budgets and associated tracking and budget-to-actual reporting. Finally, a new department called Financial Services would comprise all remaining activities within the CFO function, including treasury operations, cash management and payroll, risk/insurance, and all activities previously performed in the Special Finance Department, such as charter school payments, payments to other educational entities, and the Access Program as well as CFO projects. The rationale behind this revised organizational setup is to reduce compartmentalization and siloed thinking, as well as balance workloads and responsibilities across the departments and their directors.

In addition to this short-term reorganization for FY13, we recommend further changes to be prepared during the fiscal year and implemented starting in FY14.

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14 Note that the Systems Administration Unit was incorporated into the IT Department.
Establish finance business partners in key divisions, in particular the Academic Office and Charter Schools Office. Best practices in similar organizations, both public and non-public, calls for a dedicated team of finance staff who are embedded in the various departments. These finance business partners provide decision support for individuals, maintain communications with the budget office, plan and monitor staffing levels, and facilitate understanding of financial implications of key decisions. For instance, the renewal and expansion recommendations made by the Charter Schools Office have enormous financial implications for the District, yet the office lacks dedicated finance support today. In establishing this structure, SDP will be able to build upon its experience in the Facilities Department, where this setup has been successfully implemented.

Provide principals with more control over their budgets, with funds flowing to schools via a weighted student funding formula. Today school budgets are allocated largely by central offices. Although the spending autonomy granted to individual schools and principals has increased in previous years, the budgeting process still allocates the bulk of positions to the schools, rather than providing the corresponding dollars and letting the schools decide how to spend them. While in many cases mandated by law and/or collective bargaining agreements, this system has created rather large resource disparities among schools. Some schools that can attract and retain a senior staff cost much more than other schools that experience heavy turnover and are staffed with mostly junior teachers. We recommend that the District investigate possibilities of moving to an allocation practice that is tied more closely to the needs of the particular students and grants more possibilities for principals to make their own resource-allocation decisions.

Incorporate administrative services into the SSO. This recommendation ties in with the shared services approach described in Section V of this report. The finance function is performing a number of routine transactional activities such as payroll and accounts payable services that might also be offered to charters and non-public school on a fee-per-service basis. Our recommendation is to integrate those areas into the SSO beginning in FY14.

Human Resources

Context and Key Findings
The HR office has experienced significant instability over the past several years, including frequent leadership transitions. HR has also faced significant cuts during recent downsizings, resulting in lower staffing levels relative to those in districts of comparable or larger size. For example, the Hillsborough County (Tampa), Florida, school district runs an HR office with 95 employees, nearly twice what SDP has today.

The HR Office also has suffered from a significant underinvestment in IT and data systems, which results in highly inefficient use of staff resources to execute basic HR processes. Staff currently must undertake cumbersome, manual processes for many personnel-related tasks,

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15 Some support is provided by Special Finance.
Transforming Philadelphia’s Public Schools

including applicant tracking, employee onboarding, teacher transfers, and linking employees and positions.

Critically, most of HR’s strategic functions—such as developing a high-quality teacher and principal talent pipeline; staff development and evaluation; teacher career ladder development; and termination of low-performing staff—do not have dedicated staff resources or are handled by personnel in the Academic Office. As a result, the majority of staff in HR today are not directly focused on the department’s core work of cultivating an exemplary workforce. In particular, SDP suffers from poor human capital management on the following dimensions:

**No HR partner support for principals to ensure they have the highest-quality staff possible.** HR is not set up today to optimally support principals in their school staffing needs. In terms of recruitment, principals either manage their recruiting relatively independently or are on the receiving end of placements made by HR with little principal involvement. Support from a team of HR "business partners" would instead link principals directly with a district-managed pool of talented candidates that principals could interview themselves, with guidance as needed from HR as to which candidates would be the best fit for their needs. Likewise, principals currently face a daunting process to document unsatisfactory teachers through observations and remove them from their buildings. As a result, just 20 to 65 teachers were terminated for cause each year since 2008–09, representing less than 0.6 percent of the workforce. Only a fraction of these were for performance-related incidents. Principals need robust support from knowledgeable staff to assist them in ensuring they get the best talent in the door and exit those teachers who are not performing.

**Lack of teacher career ladders and proactive, focused, and customized teacher development and coaching.** Responsibility for teacher professional development is currently split between HR, the Academic Office, Academic Divisions, and schools, with little coherence across the different programs. The Peer Assistance and Review (PAR) program assists new teachers and some developing veteran teachers, but this service is not available to the vast majority of SDP teachers today. Implementing a teacher career ladder would more clearly pinpoint the level of development of each teacher and provide veteran teachers the opportunity to take on the roles of mentor teacher and coach for newer, developing teachers.

HR also operates under a set of Pennsylvania Federation of Teachers (PFT) contract rules and state school code laws that prevent the District from executing a world-class talent-management strategy:

**Weak teacher evaluation and development system.** As specified by the current PFT contract, the district’s teacher evaluation makes use of a binary rating system under which each teacher is rated either “satisfactory” or “unsatisfactory.” This system does not permit meaningful reviews of teacher performance or targeted professional development based on teachers’ degree of proficiency. Furthermore, until the recent passage of a new state teacher evaluation, evaluations were not permitted to take into account the achievement growth of a teacher’s pupils, which is a useful indicator alongside other factors to holistically assess teacher performance (e.g., observations, student surveys, and peer evaluation). In practice, under SDP’s current evaluation system, just 0.5% of teachers are rated unsatisfactory each year, despite NAEP test scores and graduation rates that demonstrate Philadelphia’s students are not
Transforming Philadelphia’s Public Schools

achieving at acceptable levels. Without an instrument to pinpoint the effectiveness of high, middle and low-performing teachers, it is challenging for districts to implement effective professional development that is tailored to teachers’ needs.

Exhibit 42. Distribution of SDP Teacher Performance Ratings

Teacher transfer process that undermines the autonomy of school principals. SDP currently has a forced and voluntary teacher transfer process in place that enables veteran teachers to transfer into non-site selected vacancies in seniority order. In practice, this means teachers can fill a vacancy without the principal’s consent. This does not serve either the principal or teacher, as mutual consent in the hiring process is essential for a positive teacher-administrator relationship and for ensuring the teacher is the right fit for the school’s culture.

Work rules that prevent flexible staffing and scheduling to meet student needs. The collective bargaining agreement with the PFT stipulates the length of the school year and day and use of a teacher’s time, resulting in inflexible staffing arrangements that are not necessarily set up to maximize student learning. These include rules concerning grades and subjects taught; the duration, timing and usage of prep and lunch periods; restrictions on the numbers of activities teachers can participate in before and after school, inability to assist with recess or lunch duties, and restrictions on available extracurricular hours. These rules inhibit practices that can help raise student achievement, including extended day and year for struggling students, flexibility to hold before/after school meetings for tutoring sessions, and more flexible
staffing schedule (e.g., increased class sizes to facilitate adoption of alternative teaching models using blended learning technology).

**State laws that require layoffs dictated by seniority rather than performance.** This forces the District to lose talented staff during recessions, when it must lay off its junior teachers, regardless of their effectiveness.

**Key Recommendations and Rationale**

**Redesign SDP’s talent recruitment and development strategy.** Responsibility for recruitment and development of teachers and principals is currently dispersed across HR, the CAO’s office, academic divisions, and schools. We recommend that SDP undertake a comprehensive examination of its recruitment and professional development practices to ensure that it develops a high-quality talent pipeline of principals and teachers, hires the most talented candidates, provides high-quality development and coaching, and retains its highest-performing staff.

Today, recruitment at SDP is not optimally structured to support principals in staffing their schools with the highest-quality talent. Recruiters spend significant hours interviewing and validating the credentials of all potential new hire candidates. In addition, HR staff at times will complete the interview process themselves and place new hires in a school without engaging the principal. We recommend HR reverse such "active" hiring on behalf of schools and re-engineer its process to focus on creating a high-quality pool of applicants from which principals can draw.

Recruiters should focus on performing "light touch" screens on the overall candidate pool, and focus more on recruiting applicants in areas of SDP need, such as hard-to-fill subject areas, dual certifications, and minority candidates. A critical component of developing such a pipeline is to strategically leverage proven alternative certification programs such as The New Teacher Project and Teach for America, particularly for hard-to-fill positions. HR should then post all candidates onto a centralized system where principals can view the full pool of applicants and select those they wish to interview. Longer-term, HR should perform analyses to ascertain which pathways (e.g., specific university programs, alternative certification programs, residency programs, etc.) consistently produce the highest-quality candidates. HR should then skew recruitment efforts towards these pipeline sources.

HR also needs to continue to push up the timeline for new teacher hiring to secure top talent, as the best teachers tend to receive job offers earlier in the recruitment season. Automating the teacher transfer process would help SDP expedite this timeline.

**Ensure effective implementation of new state teacher evaluation, including SDP’s participation in the third phase of the state’s pilot this fall.** Robust teacher evaluations that include a strong student growth component are critical for accurately evaluating teacher performance, retaining high performers, developing middle performers, and exiting low performers. The state is developing a new teacher evaluation that will include a robust teacher observational framework (developed by Charlotte Danielson) and building- and student-level achievement data (including a teacher value-added score). The state evaluation will also rate
Transforming Philadelphia’s Public Schools

teachers along a continuum of four levels from “unsatisfactory” to “distinguished.” This will enable SDP to make meaningful distinctions in effectiveness across teachers, as opposed to the binary satisfactory/unsatisfactory rating scale used by the District today.

The state is entering its third year of piloting the observational framework this fall. The District has the opportunity to participate in this pilot and would gain valuable advance experience with the evaluation before the state rolls it out in FY14. The District also needs to ensure that it is prepared to implement the student data components of the evaluation, which will also become state law in FY14. In the near term, work here includes determining how the District will address the 20 percent elective data component of the evaluation—which enables SDP, principals, and teachers to select from a range of data-based measures, e.g., student surveys, IEP growth, or student portfolios—and ensuring that the District has the capability to send the state roster-verified data for the teacher value-added growth calculation. In addition, developing standardized end-of-course exams in subjects not covered by state tests would enable SDP to evaluate most, if not all, teachers by their ability to accelerate student learning.

A strong teacher evaluation system is a key lever for meaningfully improving teacher quality levels and student achievement in SDP. Therefore, we believe working with the state to pilot and implement its new teacher evaluation system must be one of the District’s highest priorities. SDP should work to use multiple points of feedback to develop teachers—such as principal and peer observations, student achievement data, and student feedback—and integrate them into a holistic teacher evaluation and development process.

Continue work to develop and implement a new District principal evaluation. While the state is roughly a year from launching its new teacher evaluation, it is further away from a launch date for its principal evaluation. As the principal evaluation is still a work in progress, it is unclear to what extent the final draft will take into account school-level outcome data, which we believe is a critical component of a robust principal evaluation. Therefore, we recommend that the District continue the work begun by the CAO’s academic reorganization committee to revise the District’s current principal evaluation and seek a waiver from the state to implement the new evaluation as soon as possible, ideally beginning this fall. We recommend that the final District evaluation include a simplified list of strong school-level outcome metrics. We also recommend that the District continue to engage the state regarding its ongoing work to refine the state principal evaluation, with particular emphasis on promoting the inclusion of outcome-level metrics. Similar to the need for a strong teacher evaluation, the quality of the District’s principal evaluation is directly linked to its ability to develop and retain top principals and ensure that all school leaders are driving meaningful school-level improvement.

Undertake comprehensive collective bargaining reform with the Pennsylvania Federation of Teachers, and encourage the state to pursue legislative changes in school code. Local contract and state code policies significantly undermine the ability of SDP to implement a world-class talent-management strategy and become a true magnet for high-performing principals, teachers, and staff. The adoption of the new state teacher evaluation, which incorporates a strong student performance component, is a very encouraging step in the right direction. Going forward we recommend that the District focus on:
- Leveraging the new state teacher evaluation framework to design multiple points of feedback to evaluate and develop teachers, such as principal and peer observations, student achievement data, and student feedback

- Rolling out full "site selection" for all school vacancies for instructional and noninstructional staff, enabling principals to choose which staff will fill all vacant positions in their buildings. Today, principals can fill just those positions that are designated as "site selected" by mutual consent with the candidate of their choice; the remaining positions can be filled by forced or voluntary transfers of staff in order of seniority.

- Reforming the teacher transfer process, which enables teachers to select vacant positions in District schools in seniority order without the consent of principals

- Reforming teacher work rules that constrict the ability to manage school schedules, rosters, and teacher prep time in ways that maximize student learning

- Encouraging the state to reform teacher leave policies, which currently allow significant paid and unpaid time off during the school year, resulting in interrupted student learning and large required payments to substitute teachers

- Encouraging the state to create a longer track, with more significant performance requirements, to teacher tenure

- Encouraging the state to use teacher performance—not seniority—as the basis for determining teacher layoffs
Incorporate HR/talent support services into Achievement Networks. Part of the core mission of each Achievement Network would be to support their group of principals in securing the highest-quality instructional staff for their school. Each network would have two dedicated HR partners whose job will be to assist principals with recruiting, hiring, onboarding, developing and evaluating their teachers and support staff. For those staff who are not performing well, the HR partners would also assist principals with providing targeted, intensive professional development and, if necessary, initiating the formal dismissal process. HR partners would also help principals compile and track relevant metrics to best assess the health of their teaching force, including teacher evaluation scores, teacher attendance, teacher turnover, upcoming teacher vacancies by subject area, etc. In addition to providing direct support and coaching for principals on staffing issues, HR partners would also serve as schools' liaisons to the district center's centralized pool of pre-screened, high-quality candidates.
Place administrative HR functions in the Shared Services Organization (SSO). This recommendation is aligned with the effort to move non-core functions to a SSO to increase the efficiency of these services and ensure focus by SDP personnel on the highest value-added work. For HR, we would recommend shifting compensation and benefits enrollment and administration to the SSO. Teacher recruitment, teacher evaluation, and labor relations would remain in-house due to the strategic nature of these activities. For coherence, we would also recommend moving all recruitment and evaluation responsibilities for principals to be managed by HR, with input from the Academic Office. Employee records would also remain at the district center for information security purposes.
Exhibit 45. Summary of HR Functions in New Organizational Structure

### Information Technology

**Context and Key Findings**

SDP is expected to spend about $35.6 million on IT in FY13. These expenditures are managed in four separate areas:

- The central IT organization (SDP IT), which manages about $18 million per year
- Other SDP central functions (transportation, food service, HR, finance), which manage about $12 million per year
- District schools, which manage about $3.5 million
- Educational Technology, which manages about $2 million per year

A 2011 benchmark study by the Council of the Great City Schools shows that SDP spends far less on average on IT than other school systems. For example, schools in the benchmark that fell into the middle two quartiles spent between $107 and $243 per student on IT, adjusted for cost of living in each geographical area. SDP spends just $66 per student.

Over the past ten years, IT spending has been the target of budget cuts. In addition, SDP IT has executed the strategies that for-profit and not-for-profit organizations typically use to reduce IT...
spending. For example, the IT organization has shrunk to about 60 people by outsourcing logical activities. Rather than operate and support all the applications in house, a substantial proportion of the applications are Software-as-a-Service (SaaS). These SaaS applications use cloud computing and are accessed over the Internet by SDP users.

Although many businesses and government agencies have outsourced their data and voice networks, SDP uses an unusual but very cost-effective network strategy. SDP IT used federal government subsidies to assist in the construction of a high-speed fiber-optic-based network in Philadelphia. SDP leases the fiber-optic cables and owns the network equipment, and SDP IT outsources the maintenance and support activities to a network firm.

According to the Council of the Great City Schools benchmark, SDP is able to provide far greater bandwidth to schools than the average district at a much lower cost. School systems in the benchmark that fall into the middle two quartiles offer between three and eight kilobits per second per student. SDP offers 17 kilobits per student. This high bandwidth is provided at a very reasonable cost. School systems in the middle two quartiles spend between $19 and $52 per student on network operations costs, while SDP spends only $13 per student.

We do not believe IT is an area where it is advisable to implement additional spending cuts. In fact, we believe additional IT investments will be required to help enable the new model. We have four key recommendations with respect to IT—three of them will require substantial investment and the fourth addresses the governance of such investments.

**Key Recommendations and Rationale**

Our key recommendations with respect to IT are:

- Develop a performance management system.

- Evaluate whether the ERP system should be upgraded.

- Plan for the eventual replacement of the Student Information System (SIS).

- Enhance the IT governance mechanisms.

**Develop a performance management system.** One of the most important aspects of the new model for SDP is that school principals will be held accountable for achieving agreed-upon goals across multiple dimensions using a balanced scorecard. These dimensions include student achievement, financial management, safety, nutrition, health, attendance, and so forth. Although SDP IT has had a data warehouse and associated reporting/analysis tools since 2005, which can support many performance measures, the data warehouse does not cover all the necessary measures, and it has very little data for charter schools.

Working with SDP IT, we used a preliminary list of future performance measures and determined that the current data warehouse contains the necessary data to calculate about 50 percent of these measures. SDP needs to expand the data warehouse to store all data required to calculate the performance measures and build data feeds to fill the data warehouse. In some
cases, the necessary data exist in SDP systems, and SDP IT merely needs to build what are known as extract, transform, and load (ETL) programs to extract the data from the systems, transform them if necessary (for example, add up all the detailed data for a week), and load the data into the data warehouse in the right spots. In other cases, SDP has no system for collecting the necessary data, and data collection systems will need to be built. Exhibit 46 outlines possible categories of data in a sample performance dashboard.

Exhibit 46. IT Solutions for New Performance Management System

<table>
<thead>
<tr>
<th>Source systems collect / store key indicators of performance...</th>
<th>... to report / provide access to scorecards and dashboards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preliminary categories of data</strong></td>
<td>Report levels:</td>
</tr>
<tr>
<td>• Student</td>
<td>• School</td>
</tr>
<tr>
<td>• School / program</td>
<td>• AN</td>
</tr>
<tr>
<td>• College</td>
<td>• District</td>
</tr>
<tr>
<td>• Safety</td>
<td></td>
</tr>
<tr>
<td>• Staff</td>
<td></td>
</tr>
<tr>
<td>• Course</td>
<td></td>
</tr>
<tr>
<td>• Surveys</td>
<td></td>
</tr>
<tr>
<td>• Facility</td>
<td></td>
</tr>
<tr>
<td><strong>SDP data must be captured in source systems</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Charter data must integrate with EDW through automated interface or direct entry into SDP source systems</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Requires collection of SDP and charter data</strong></td>
<td><strong>Requires development of new tool leveraging existing data warehouse</strong></td>
</tr>
<tr>
<td>~60% SDP data elements captured today</td>
<td>Estimated less than $6M to develop</td>
</tr>
<tr>
<td>~25% charter data elements captured today</td>
<td></td>
</tr>
</tbody>
</table>

The charter schools present a bigger challenge. Today the charter schools use their own automated applications including student information, financial management, HR management, etc. These schools are required to use SDP’s SIS on a very limited basis—just to report student enrollment by school.

Much of the information SDP will need to calculate school performance measures is likely to be found in the charter schools’ business and academic applications, which are generally dictated by the CMO operating each school. The challenge is that because there are so many different CMOs, there are many different vendor applications from which SDP will need to draw data. Each different application likely would require a separate ETL program to be written to get the
data from these charter applications into the SDP data warehouse, the scope of which would likely be cost and time prohibitive.

The time frame and cost estimate for creating new data capture applications, writing ETL programs for existing applications, and developing performance management scorecards and dashboards will depend on the exact performance measures to be used and the strategies for getting the information into the data warehouse. SDP could, for example, require the charter schools to send the data in the SDP-defined format at their expense.

We believe this effort could run as high as $6 million in one-time development costs and would take about two years to fully complete. This investment would provide the District with a data-collection process, a more robust data warehouse, and a reporting and dashboard platform that can grow as needed. This estimate is comparable to what it has actually taken another large school system that uses the same IBM school data warehouse model that SDP uses to create its performance management system.

**Evaluate ERP upgrade.** ERP systems are suites of business applications that use a central, integrated database. ERP systems typically have applications for a broad range of departments in an organization such as Finance, HR, Materials Management, Operations, and Sales. SDP implemented its current ERP system, Advantage 2.0, in 1999 because the prior system had a Year 2000 (Y2K) problem.

Advantage 2.0 is used at SDP for finance, HR, payroll, and procurement. This version of the software is essentially obsolete. The vendor, CGI-AMS, has been encouraging its customers to migrate to the latest version of its software, Advantage 3.0. An external education IT expert reported that CGI-AMS has no full-time people dedicated to Advantage 2.0 support. Although CGI-AMS still officially supports the 2.0 software, the vendor has implied that at some point in the near future, the support will stop. This is typical with all ERP vendors—it does not make economic sense for them to support software versions that are 10 to 15 years old.

Advantage 2.0 uses typical 1990s-style technologies including user interfaces that are far more difficult to use than today’s Web-based graphical user interfaces. Advantage 2.0 runs on a mainframe computer, and although SDP has outsourced the operations of the mainframe to Verizon, SDP IT expects that mainframe operations cost will rise by $1 million to $3 million in the next contract. Advantage 3.0 is offered as SaaS and is operated by the vendor on newer technology servers. If SDP were to upgrade to Advantage 3.0, it would not have to be concerned with supporting the applications or the underlying technologies.

Advantage 3.0 also has new functionality not found in Advantage 2.0. SDP managers believe that Advantage 3.0 will provide expanded capabilities for managing SSO cost accounting and billing, HR talent management, HR employee self-service, employee time and attendance, vendor contract management, e-procurement (such as online catalogs and shopping carts), electronic purchase orders, and more.

Replacing Advantage with another vendor package such as SAP or Oracle is another option that should be explored, but our going-in position is that upgrading to Advantage 3.0 will be much less expensive and far less risky. SDP should launch an ERP upgrade evaluation project with an
objective to look at the main alternatives, develop high-level business cases for each alternative, and then determine the strategy and time frames for addressing the business needs for ERP functionality.

Exhibit 47 shows the role of Advantage within the broader SDP IT landscape.

**Exhibit 47. Map of IT Systems and Potential Improvements**

![Map of IT Systems and Potential Improvements](image)

**Plan to replace the SIS.** The SDP SIS is ten years older than the Advantage 2.0 ERP system and uses even more antiquated technologies, including a completely text-based user interface. Although new SDP users and charter school users find it difficult to learn and use, the system is stable and manages critically important information reliably. Very little investment has been put into the SIS in the last ten years—mainly $150,000 to migrate the application to new servers.

The system is based on a software package called SKools by Keystone Information Systems and has been heavily customized by SDP over the years. The software vendor provides almost no support, and all enhancements must be made by SDP IT or a contractor. The SIS does not
provide all the information that modern SIS vendor packages have (such as parent e-mail addresses), but it works and is inexpensive.

SDP can continue to use the SIS for years to come, but it is critical to note that in seven years this application will be 30 years old and most applications reach the end of their useful life before that time. We believe SDP should start planning now for the eventual replacement of the SIS. It is important to think very carefully about replacement since the last quotes SDP received were in the $20 million to $25 million range, and even with the growing market space, replacement is likely to require an investment of $15 million to $18 million.

SDP IT and business-area representatives should start exploring the options for a new SIS and interviewing other school districts that have recently replaced their student systems. Most SIS vendors offer traditional software packages that must be implemented and operated by the school systems, but a few vendors are starting to offer SaaS for student systems (primarily for colleges at this point). An SaaS solution would be ideal since it pushes much of the work that an IT department does with respect to an application to the vendor.

SDP IT should also put together a risk-management checklist for the SIS and update it periodically. This will enable SDP to spot the signs that replacement may be needed soon (for example, if the District can’t find any programmers who know the programming language or the application is no longer compatible with current version of the database or operating system).

**Exhibit 48. Assessment of SDP's Current IT Systems**

<table>
<thead>
<tr>
<th>Attribute</th>
<th>ERP</th>
<th>SIS</th>
<th>IMS</th>
<th>EDW</th>
<th>Web</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Finance / HR / Procurement</td>
<td>Student information</td>
<td>Instruction &amp; student performance</td>
<td>Data collection &amp; reporting</td>
<td>Public info and core web apps</td>
</tr>
<tr>
<td>Updated content</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Usability</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- Existing users</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- New users</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underpinning technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Est. cost to maintain (S$K)</td>
<td>1,700</td>
<td>600</td>
<td>1,800</td>
<td>600</td>
<td>1,200</td>
</tr>
<tr>
<td>Preliminary guidance</td>
<td>Evaluate options for upgrade</td>
<td>Replace over time</td>
<td>Consolidate Business Intelligence tools</td>
<td>Replace Content Management System</td>
<td></td>
</tr>
</tbody>
</table>

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Enhance IT governance mechanisms. Currently decisions about how to spend money on IT within SDP are made by a variety of staff across four main areas: SDP IT, other central support functions, the schools, and Educational Technology. Not all technology acquisitions require the involvement or approval of the SDP Chief Information Officer (CIO) and the IT budget is not consolidated across the District. Only about half of the IT budget is directly controlled by the central SDP IT organization, which concentrates its activities on five key applications/technologies: SIS, communications networks and SDP-wide Web applications, ERP, data warehouse, and the instructional management system.

For most other applications and technologies, people outside SDP IT have the right to procure whatever IT solution they want, as long as they have the budget available or can get funding via a grant. In practice, many of these people consult with the CIO in choosing solutions. However, there is no current forum for business leaders and IT leaders to come together to make decisions about information and information technologies. We understand that IT steering committees have been tried in the past but have not lasted.

Decentralized decision making for IT has some advantages. For example, local managers can procure IT solutions that they perceive meet their local needs without having to compromise with others on the decision. However, decentralized decision-making can also lead to procuring many separate, but similar, solutions, resulting in increased procurement/contracting costs and decreased pricing leverage. And when information managed by these disparate solutions is needed outside the local area (such as in the SDP data warehouse), the work required to move the data and make them understandable increases considerably.

To ensure that IT decisions within the SDP realm (including central functions, the Shared Service Center, Achievement Networks, and schools) are made in a coordinated manner and allocate funds to the highest-value uses, we recommend more formal IT governance mechanisms be adopted. The key new mechanisms are:

- **IT Investment Committee**—a committee of senior executives from various central functions, SDP IT, SSO, Achievement Networks, and schools that will decide which IT-enabled business projects will be approved and ensure that these projects deliver the promised value

- **Project Management Office**—a new organization, which will help people develop project requests for investments with substantial IT content, help the project teams develop work plans and milestones, track the status (such as work accomplished, money spent, time expended) of the projects, help project teams identify and manage major risks and issues, and report to the IT Investment Committee on these projects

- **Business/IT Project Steering Committees**—committees of stakeholders and responsible parties who will, as a group, guide large projects with substantial IT content; each steering committee will set priorities, monitor the progress of the project team, resolve issues the team cannot resolve, make changes in project leadership if necessary, authorize changes in scope, and ensure that the team is on track to deliver the promised value
• **Financial Review Board**—a group of finance and potentially other managers who will review business cases for proposed projects with substantial IT content, assess whether the costs and promised value have been calculated properly, and attest that budget money is available for the project.

• **IT Landscape and Business Process Review Committee**—a committee of IT and business experts who will review proposed and evolving designs of the IT-enabled solutions project teams build and ensure that the designs are compatible with agreed-upon strategic directions and target architectures across these dimensions: business process, information, application, programming languages/development tools, end-user devices, servers, storage devices, networks, security, etc.

• **Data Management Group**—a group composed primarily of representatives from central functions, SSO, Achievement Networks, and schools who will decide what types of data will be defined in a common way across all or parts of these stakeholder organizations and—possibly through sub-committees—will agree on the common data definitions, data formats, and rules for managing data through their life cycles.

Exhibit 49 summarizes the proposed IT governance setup.

**Exhibit 49. Proposed IT Governance Structure for SDP**

SDP needs more formal governance mechanisms to bring enterprise-wide perspective to decisions about IT.
Procurement

Context and Key Findings
At the time of this analysis was performed, in FY12 SDP was expected to spend approximately $436 million to purchase materials and services from external vendors. The bulk of this spending—$384 million—is for services, primarily for education delivered by non-District entities such as alternative education and behavioral health institutions. After the aggressive FY12 budget cuts, the overall procurement spend had already been reduced significantly from approximately $588 million in FY11, primarily implemented through reductions in service levels (such as less paper and supplies available in schools).

We conducted an extensive analysis of procurement spend in FY12 by reviewing purchase orders, service contracts, and any other materials and services purchased by SDP. After establishing this baseline, to avoid double-counting savings, we removed those expenditures that would be addressed through other initiatives. Examples would be purchase orders for gasoline to run school buses or cleaning supplies for District facilities, which were covered in the facilities and transportation modernization analyses. Finally, we determined which components of the procurement spend were addressable in the short (FY13) and medium (FY14/15) term. Addressable areas are those where we believed it would be possible to achieve some level of near-term savings; this would omit those expenditures that are locked into long-term contracts or legally mandated. Finally, we then estimated the expected savings figures SDP could achieve by reconfiguring the addressable funds.

For the materials procurement budget, the level of spending had already been significantly stretched. To a lesser degree this also holds true for services procurement spend, which had been addressed through measures such as reduction in utilities expenditure (for example, through early closing of District buildings) in FY11 and FY12.

Services Spend
Starting with $384 million in projected services procurement spend in FY12, we excluded a total of $105.8 million in expenditures from the baseline: $57.7 million in transportation services (addressed in the context of the transportation modernization initiative), $27.6 million in food services (federally reimbursed and not part of the operating budget), and $20.5 million in cleaning and maintenance services for schools contracted to external vendors (part of the facilities services modernization initiative. Within the remaining spend, we determined that approximately $8.3 million is addressable in the near term. We identified five categories with major expenditures that could be addressed in the short to medium term, meaning that the spending is not locked up in long-term contracts or mandated by law:

1. **$147.7 million in education services** contains externally contracted early childhood education programs, educational services rendered by non-District entities such as behavioral health institutions, alternative education programs, and non-public-school auxiliary programs. Comparable programs, for example in alternative education, showed a large cost variance among providers with the cost per student ranging from $5,000 to more than $10,000 per seat per year. Many educational services are procured in the form of multi-year contracts, thereby limiting the opportunities for savings in the short term. Overall, $20.6 million of education services spend is considered addressable.
2. **$60.6 million in utilities** includes power and oil used for heating or cooling District buildings. *Of this spend, $46.7 million is addressable during FY13.*

3. **$7.2 million in telecom** spend includes fixed-line, cell phone, and Internet access services for schools and central offices. *There are no long-term contracts in place, which makes the total spend of $7.2 million addressable.*

4. **$6.8 million in legal and risk** spend is comprised of outside counsel services for lawsuits and arbitrations that SDP is involved in. *Just like telecommunications, legal and risk is not bound by long-term contracts, making the $6.8 million addressable.*

5. **$5 million in space rentals** are rents incurred by SDP programs in certain areas of Philadelphia that have insufficient space available and are therefore renting additional facilities. Of the $5 million, approximately $3 million in spend can be attributed to multi-year leases in their final year or SDP has the opportunity to exit on an annual basis. The residual spend is considered addressable because lease breakage costs would likely not overwhelm potential savings opportunities from moving to a district-owned site. *As a result, we believe the entire $5 million spend in space rentals is addressable.*

**Materials Spend**

Starting with a total projected materials spend in FY12 of $52 million, we made several exclusions to the baseline. As they were addressed through the facilities modernization initiative, we excluded $7.9 million in maintenance and repair materials. Similarly, $6.9 million in food procurement was excluded as it is federally reimbursed and not part of the SDP operating budget. Of the resulting total, we determined that $25.5 is addressable in the near term.

Three materials spend categories seem most promising as targets for potential savings initiatives:

1. **$18.9 million in instructional supplies,** which includes textbooks, workbooks, supplementary materials, and instructional aides. Of the total spend, only about two-thirds is procured through the central offices. The remaining $5.9 million is purchased directly by schools. The addressable spend is focused in core curriculum materials and roughly half is concentrated with three suppliers, all of whom are on short-term contracts. While other suppliers in this category are also on short-term contracts, we did not prioritize extracting savings from these vendors as this portion of the spend is significantly dispersed. *Therefore, we estimate only $9.8 million of spend is addressable in FY13.*

2. **$5.5 million in IT,** comprising IT hardware and software for schools, as well as central offices. *Unlike instructional supplies, this $5.5 million spend can be considered fully addressable in the short to medium term, meaning that none of it is locked into multiyear contracts.*
3. **$5.2 million in office and school supplies/equipment**, including paper and pens for schools, desks, chairs, and other furniture, as well as other equipment used in schools and central offices. *While these materials are typically purchased in longer-term contracts, the contracts were open for bidding this year, enabling the full $5.2 million to be considered addressable in the short term.*

In addition, we identified approximately $5M in addressable spend across a variety of smaller categories, resulting in a total figure for addressable materials spend of $25.5 million.

Combining services and materials spend, we found the total addressable pool of funds to be approximately $112 million.

**Key Recommendations and Rationale**

**Renegotiate alternative education contracts to reduce costs and variability among vendors.** Alternative education is the largest component of education services spend. SDP has the potential to obtain savings by renegotiating the more costly programs and shifting seats from higher cost to more affordable programs. If SDP pursues this option it is critical that the District simultaneously establish a transparent set of quality indicators to ensure an equal or improved performance of the contracted seats. As only a small fraction of the spend is addressable in the short term and evaluation of alternative education programs will take time, no savings are budgeted in FY13. For the following fiscal year, we estimate savings opportunities of between $1.6 million and $3.3 million. Exhibit 50 details our analysis.
Reduce utilities spend by investing in building efficiency. Utilities represent the second largest area for potential savings. By changing the type of lighting fixtures used in schools to a more energy-efficient and standardized system, SDP could potentially save $8 million in utilities cost annually. This would require an upfront investment of $20.9 million over a period of three years. Several quick wins such as the conversion of larger schools from oil to gas (with an estimated savings potential of $1.1 million to $1.2 million) and better treatment of storm water (with an estimated savings of $0.1 million to $0.2 million) are additional utilities measures that could be pursued in the short run. Exhibit 51 details this analysis.
Reduce materials spend through contract coordination. The largest savings opportunity in materials spend is to undertake a more centralized approach to procurement. Lower prices can be achieved by bundling required purchases and strategically negotiating with suppliers. For example, negotiating framework contracts and designating preferred suppliers could reduce cost by an estimated $500,000 to $1 million per year. Other minor opportunities include IT hardware and software (implementing a competitive bidding process for desktops and laptops to reduce unit price) and office and school supplies (aggregation of contracted volume to drive lower unit costs). The estimated total run-rate savings opportunities for materials spend ranges between $5.6 million and $10 million.

Implement procurement initiatives in a series of waves, prioritizing those with high savings potential and/or high ease of implementation. Our recommendation is to implement the strategic sourcing initiatives described above in three primary waves, prioritizing spend categories based on ease of implementation and potential savings opportunities. Exhibit 52 describes a prioritization framework for implementation.
Wave I categories can be addressed immediately to drive near-term results that would be used to reduce the expected budget gap in FY13 and FY14. For the most promising initiative, the quick-win savings on utilities (oil and water), implementation has started already and is being tracked by SDP’s Program Management Office. Additional minor savings initiatives concerning core curriculum supplies, office and school supplies/equipment, and telecom services are in the process of being detailed and prepared for implementation at the time of writing this report. All in all, we conservatively estimate total savings potential of the short- and medium-term initiatives in progress to be $1.2 million in FY13 and $3.4 million in FY14.

Execution of Wave II initiatives would start in FY14 and be based on the experience gained in Wave I. Wave II would comprise the alternative education initiative, the space rental cost reduction, and addressing legal/risk spend. Finally, Wave III would capture the completion of the building efficiency measures (lighting fixture replacement). Exhibit 53 contains a list of run-rate savings for all identified measures. Total run-rate savings potential is projected to be between $14.2 million and $19.2 million, assuming capital investment expenditures to achieve the full utilities savings.
"Outside-in" estimate of savings in key categories

Based on savings realized on previous projects, and validated through selected deep dives

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>Addressable in near term</th>
<th>Saving range</th>
<th>Est. savings</th>
<th>Key hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education services</td>
<td>$147.7M</td>
<td>$20.6M</td>
<td>5% - 16%</td>
<td>$1.6M - $3.3M</td>
<td>Reduce price variations among suppliers, intensify competition, issue competitive RFP</td>
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<tr>
<td>Utilities</td>
<td>$60.9M</td>
<td>$46.7M</td>
<td>3% - 7%</td>
<td>$1.6M - $3.1M</td>
<td>Bundle electricity via aggregators to get wholesale unit prices</td>
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<tr>
<td>Telecom</td>
<td>$7.2M</td>
<td>$7.2M</td>
<td>8% - 10%</td>
<td>$0.6M - $0.7M</td>
<td>Introduce new volume (e.g. bus GPS service) and re-negotiate contract</td>
</tr>
<tr>
<td>Legal and risk</td>
<td>$6.8M</td>
<td>$6.8M</td>
<td>8% - 12%</td>
<td>$0.5M - $0.8M</td>
<td>Unbundle services and use paralegals for commodity services</td>
</tr>
<tr>
<td>Space rental</td>
<td>$5.0M</td>
<td>$5.0M</td>
<td>5% - 10%</td>
<td>$0.3M - $0.5M</td>
<td>Assess feasibility of moving to nearby district-owned sites, dependent on school closures</td>
</tr>
<tr>
<td><strong>Materials</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instructional supplies</td>
<td>$18.9M</td>
<td>$9.8M</td>
<td>5% - 11%</td>
<td>$0.5M - $1.1M</td>
<td>More effective system-wide ordering coordination to realize discounts</td>
</tr>
<tr>
<td>IT hardware and software</td>
<td>$5.5M</td>
<td>$5.5M</td>
<td>2% - 5%</td>
<td>$0.1M - $0.3M</td>
<td>Competitive bidding process for desktops and laptops to reduce unit price</td>
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<tr>
<td>Office/school supplies/equip</td>
<td>$5.2M</td>
<td>$5.2M</td>
<td>4% - 6%</td>
<td>$0.2M - $0.3M</td>
<td>Aggregate contracted volume to drive lower unit costs</td>
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<tr>
<td>Other</td>
<td>$5.3M</td>
<td>$5.0M</td>
<td>5% - 9%</td>
<td>$0.3M - $0.5M</td>
<td>Smaller savings opportunities</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$262.0M</td>
<td><strong>$112.0M</strong></td>
<td>6% - 10%</td>
<td><strong>$5.6M - $10.6M</strong></td>
<td></td>
</tr>
<tr>
<td>Utilities - with capital investments</td>
<td></td>
<td></td>
<td></td>
<td>$8.6M</td>
<td>Investment of $23.5M required</td>
</tr>
<tr>
<td><strong>TOTAL WITH CAPITAL INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$14.2M - $19.2M</strong></td>
<td></td>
</tr>
</tbody>
</table>

1. Saving's potential > $0.5M. 2. BCG analysis, BCG data, BCG procurement database.

Mini dive – dependent on school closures, needs further validation, potentially larger savings
Special Education

Part of our initial five-week engagement with SDP was a high-level assessment of special education in the District. The goals of this assessment were to develop a shared understanding of current performance trends and to identify high-level opportunities that should be pursued in greater depth. Given the District’s financial situation, much of this initial analysis focused on the District’s cost efficiency in serving disabled students. The presentation of these findings in this report should not overshadow the fact that there is a need for a comprehensive solution that will, first and foremost, ensure that students with disabilities as well as ELL students in Philadelphia have full access to a high-quality education. Additional research and analysis is required to develop a detailed plan for special education that fits in with the overall portfolio model strategy.

The preliminary assessment of SDP’s special education programs revealed two overarching findings:

- **Students with disabilities in SDP are performing at levels below students in peer districts, despite similar levels of spending.** A 2009 assessment of spending commissioned by the District showed that SDP’s ratio of spend for students with disabilities and regular education was on par with other major districts but high in absolute dollars relative to larger districts. (See Exhibit 30.)

Yet at the same time, a comparison of academic achievement of students with disabilities in Philadelphia schools to students with disabilities in other major urban districts...
shows that Philadelphia performs poorly relative to its peers. Philadelphia ranked eighteenth of 20 urban comparison schools in NAEP fourth-grade reading scores for students with disabilities. (See Exhibit 31.) Relative academic achievement levels between Philadelphia students and students in other urban areas are similar for other cohorts and other subjects. In other words, the district spends at similar levels to other districts but achieves inferior results.

- **The district’s special education costs will increase if current demographic and enrollment trends continue and the charter funding formula is left unchanged.** While the overall number of special education students in District-operated schools is declining, the number of low-incidence (or higher-cost) cases, such as autism, is increasing. District-run and charter-operated schools have similar shares of students with special education needs (roughly 14 percent). However, an analysis of the share of low-incidence and high-incidence cases at District-operated and charter schools shows that the District is taking on a disproportionate share of low-incidence students. Fifty percent of special education students in district-run schools have low-incidence disabilities compared to 32 percent in charter schools. Yet, the per-pupil payment to charters for students with disabilities is calculated as an overall average of the cost of educating a student with disabilities in the District. In other words, it does not take into account that students with disabilities have a wide range of needs, some far more extensive and costly than others. This set of circumstances not only is detrimental to the District’s financial circumstances but also represents an inequitable allocation of resources. It limits the ability of the District to effectively allocate resources to students based on their actual needs.

### Exhibit 32. Trends in Special Education Enrollments by Severity of Disability

![Graph showing trends in special education enrollments by severity of disability](image)

**Issue will gain importance if current trends continue**

- Declining number of cases in district overall
- ...but increasing low-incidence (higher-cost) cases
- ...as district takes on greater share of low-incidence cases

**Key Recommendations and Rationale**

A review of special education models employed by other portfolio districts such as Denver, New York City, and New Orleans revealed that while there are successful practices that can be leveraged, there is no single replicable special education model that will simultaneously improve quality and maintain or reduce costs. With that context, we recommend a set of organizational strategies to be pursued in the short term, as well as a list of promising practices to be explored in more depth over the medium and long terms.

**Divide special education services between the lean District center, Achievement Networks, and the SSO, based upon service scalability and need for direct interaction**
with schools. In alignment with the overarching strategy to operate a lean District center and utilize Achievement Networks to provide targeted supports to schools, we recommend shifting to Achievement Networks program-related special education functions such as technical assistance and training for working with students with both high- and low-incidence disabilities, intervention supports for classroom teachers, and coordination of resources. This recommendation builds from the fact that there is little evidence to suggest that large districts are the ideal engine for programmatic reform. It is also modeled after the organizational model of CMOs. Successful CMOs that have special education coordinators who serve 18–20 schools have been able to be more responsive in providing targeted curriculum and instructional support to principals and classroom teachers.

We recommend that evaluative or specialist services, such as evaluation (initial and annual); health services; and related ancillary treatment including speech therapy, vision specialists, occupational therapy, hearing, interpreters, and psychologists, etc., be located within the SSO. With this shift, there is potential to expand the scale (and negotiating power) for contracted services by pooling demand from both District-operated schools and charters. The SSO would manage both contracts of specialists and allocation across schools to ensure specialist time is efficiently utilized. The capabilities required to carry out these functions are similar to those capabilities needed for vendor/contract management of other core services recommended to be shifted to the SSO.

Finally, we recommend that the special education grants and compliance functions remain within the lean District center. This recommendation is based upon three key ideas:

- The District is ultimately charged with ensuring that students with disabilities in Philadelphia receive equal and quality educational opportunities. Shifting this responsibility to Achievement Networks or the SSO would potentially reduce the level of District accountability. By keeping reporting (to government authorities) centralized, the District can ensure that it is providing the appropriate level and quality of services across the District.

- Unlike special education curriculum and instruction that should be tailored based upon a school's approach and unique student needs, a one-size-fits-all approach is appropriate (and more efficient) for special education grants administration and compliance reporting. This requires fewer people to be trained in and carry out detailed administration and reporting.

- Locating these functions within the lean District center will facilitate collaboration with other related functions such as finance, grants development, and legal.

Pursue restructuring of the charter funding formula to more equitably allocate resources based on actual need. Other states, such as Florida, have developed funding formulas that base per-pupil payments on actual anticipated costs of a student’s educational needs. We recommend that the District pursue an evaluation of the Pennsylvania funding formula and
recommend changes that will more equitably distribute resources across District-run and charter schools.

**Evaluate opportunities proven to be successful in other districts.** Our external research surfaced a number of themes relating to promising practices emerged that we recommend the district explore in greater depth:

- **Develop systems to ensure rigorous and comprehensive testing that can better identify true student needs.** This is both to avoid the late identification of students who need support and to prevent overserving students who do not need services. Experts interviewed during the research process explained that often the services provided to students do not align with their needs as a result of poor testing. For example, students with mild dyslexia, while having a disability, may not actually need special services to address it beyond the normal classroom environment. Research also shows that minorities are overidentified as special needs—for example, a language barrier may be falsely identified as a learning disability. For these reasons, we recommend that the District undertake a thorough review of existing evaluation practices and outcomes to ensure that students are receiving the right level of services to meet their actual needs.

- **Cluster students in integrated settings either at a select number of schools or with the same types of disabilities in one school to foster improved service.** In Boston, for example, 10 schools were selected as focus sites for reintegrating pullout students back into the classroom, thereby reducing resource rooms in other schools. Denver recently developed Center Programs to highlight schools serving particular special needs. Both strategies have the potential to match students with staff with deep expertise in serving students with those specific disabilities. And if quality increases, parents will be less likely to advocate for private settings. For these reasons, we recommend undertaking an analysis of current clustering and quality of service by disability type to identify opportunities for rationalization and service improvement.

- **Increase investment in early intervention to reduce special education service needs in the long term.** Experts consulted during the research process frequently cited the importance of early intervention, and some districts are reporting significant success. The Minnesota Department of Education reports that the number of students with specific learning disabilities has fallen from 33 percent of the state's special education population in 2001 to about 24 percent in 2011 as a result of early intervention programs. Repeated studies of specialized, early intervention with autistic children have also proved to be successful.

- **Improve operating systems and data-driven decision making.** A study of the special education programs in Washington, DC, highlighted potential gains from operational efficiencies. For example, simple measures such as ensuring accuracy of student data can help maximize in-neighborhood placements and reduce transportation costs. Similarly, a robust data management system to track and administer compensatory services funding can help ensure effective allocation of resources. We recommend a
diagnostic of the special education data management systems and a refresh of systems as needed and merited.
VII. Delivering Fiscal Sustainability: Five-Year Financial Plan

As stated earlier, a core function of the Finance Department over the past several months has been to construct a detailed five-year financial plan for the District. According to the final five-year model, if no actions are taken the operating budget projection yields a cumulative budget gap of $1.1 billion over the five-year period starting July 1, 2012. Essentially, the minimum expected budget shortfall in FY13—$218 million—would reoccur annually as an increasing structural mismatch between expenditures and revenues. With a $94 million increase in city funding through the Actual Value Initiative (AVI) already built into the budget and no tangible shifts in state revenues beyond 1–2 percent increases per year, this structural gap must be closed through reductions in expenditures.

As in every five-year projection, the underlying calculations are based on a number of detailed assumptions. The “do nothing” scenario (the so-called “base case”) is determined by four major inputs:

- **Assumptions about wages and benefits**
  - SDP will comply with all collective bargaining agreements currently in effect, including across-the-board and career-step increases for all unions.
  - After the current collective bargaining agreements expire, across-the-board and step increases are assumed to be frozen during FY14 and FY15 and then resume their current increasing pattern in FY16 and FY17. Assuming continuation of the personnel increases in FY14 and FY15 would lead to an even larger budget deficit in those years, thereby adding deficits on top of the $1.1 billion cumulative gap.
  - Contributions to PSERS are included at the (increasing) rates set by the governing authority. These increases significantly add to benefits cost for SDP employees, rising from a 12 percent employer contribution in FY13 to 26 percent in FY17.

- **Assumptions about enrollment and facilities**
  - The assumed overall enrollment at SDP is based on the projections provided by the Facilities Master Plan, which include future expected demographic trends.
  - As agreed in the current collective bargaining agreements, regular education class sizes are limited to 30 students per class in K–3 and 33 students in all other grade levels.
  - Eight school closures out of the 2011–12 round of closings approved by the SRC are included with an average saving of approximately $830,000 per closed school building.
Revenues from sales of currently idle property are included at the level of estimated property values for FY13.

Assumptions about charter schools

- As mandated by Pennsylvania state law, the level of current year per-pupil payment is based on the previous year’s District expenditure. To prevent a compounding effect on budget deficits—a large deficit leads to a higher per-pupil payment, which then leads to an even larger deficit in the following year—over the five fiscal years, the expenditures are reduced by the projected budget gap for the purpose of calculating the following year’s per-pupil payment.

- Based on the legal restrictions of SDP controlling charter school growth, several assumptions underpin the growth rates of charters. It is important to note that these figures are not necessarily a desired outcome from the viewpoint of SDP. Rather, they represent the most likely scenario to be expected for fiscal planning purposes. Over the five-year period, free-standing charter seats are expected to increase by 18,600 seats, including those seats that have already been approved by the SRC through past resolutions. Renaissance charter seats are projected to increase by about 10,400 seats. Cyber charter seats, which are authorized by the state but still have to be paid for by SDP, are projected to grow by 4,500 seats.

- The number of total charter seats is expected to decline by approximately 2,000 seats because of closures at low-performing charters in FY14.

- Overall the number of charter seats will reach 40 percent of total enrollment in FY17.

Assumptions about revenues

- Revenues are expected to increase according to historical growth patterns (roughly 1–2 percent per year) with the exception of state pension reimbursements, which grow in line with reimbursable cost in PSERS.

- The $94 million in additional city of Philadelphia funding (which was under discussion at the time of writing this report) is included as revenue beginning in FY14. Any reduction or additional expenditure conditionality attached to this revenue would add to the cumulative budget gap.

- No further loans from SEPTA (as received in FY12) are included in the revenue projections.

Addressing the substantial structural deficit will require both reductions in expenditure and additional revenue. The District’s first priority should always be to seek greater federal, state, and local funding to protect key academic programs and SDP’s ability to recruit and retain high-quality instructional staff. However, even with the set of levers available to SDP today, we
believe the District can achieve structural balance through a combination of spending cuts and revenue enhancements within the next few years if all major stakeholders are prepared to play a role to closing the budget gap. Four categories of cost savings and revenue enhancements, if implemented together, would result in structural balance at SDP in FY15:

**Operations.** The first bucket of projected savings comes from restructuring facilities management, transportation, and procurement, as well as the fiscal relief contributed by school consolidation. In sum, these efforts will yield run-rate savings of approximately $122 million annually.

**Additional revenues.** The five-year plan also assumes the District will secure Mayor Nutter's proposed $94 million in Actual Value Initiative (AVI) from the city. If SDP is able to secure the AVI and implement the three big blocks of savings measures, namely operations, charters, and wages/benefits, we believe that fiscal balance can be attained through the end of FY15. However, as wages, benefits, materials cost, etc. eventually resume their climb, new gaps would emerge in FY16 and after without additional funding. Working on the assumption that SDP will have exploited all available options, the cost increases in those out years would have to be offset by an increase in state revenues totaling approximately 3 percent (on top of assumed 1–2 percent regular annual growth). Together with the $94 million in assumed additional recurring funding by the city of Philadelphia, total increases in revenue in FY17 would come to $133 million.

**Public Charters.** The second set of measures to achieve structural balance addresses the increasing cost of charters. To understand this matter, it is important to note that the District, especially in the wake of the Walter Palmer state court decision lifting enrollment caps for charters, does not have the power to cap or reduce the overall number of seats in SDP charters. However, the charter per-pupil payment is calculated based on the previous year’s spend on District-operated schools (excluding some deductions such as debt service and transportation expenditures). Essentially, if SDP manages to trim costs by implementing the cost-cutting measures described above, payments to charters will necessarily be curtailed in the following fiscal year, yielding additional savings to the operating budget. Compared to the amount of funding paid to charters in the "base case" scenario to the funding in the fiscally sustainable scenario, the District can achieve annual savings of $149 million from reduced charter school payments.

**Personnel.** Having addressed the cost of District operations and charters, a remaining gap of approximately $156 million annually will have to be closed. The District should continue to seek additional federal, state, and local funding to close this gap. In the absence of additional revenue prospects, the District will need to consider negotiating cuts in wages and benefits. Wages and benefits are by far the largest block of expenditure in SDP’s budget. Starting in FY14, when the current collective bargaining contracts runs out, a combination of foregone wage increases, one-time wage reductions, and employee contributions to health care cost would be required to close the budget gap. These measures would affect all SDP employees, including senior management positions.

Exhibit 54 summarizes the recommendations based on the five-year financial plan.
Exhibit 54. Overview of Financial Inputs to Five-year Plan

We fully realize that none of the cost-savings or revenue-generating measures will be easy or popular to implement. Returning to fiscal prudence will require significant shared sacrifices by all of the District’s stakeholders.
VIII. Path Forward

Taken together, our recommendations across both the academic and operational areas would compose a large-scale, multiyear transformation program. Based on our wide array of experiences leading and supporting such efforts with business, governmental, and nonprofit clients, SDP can dramatically increase its odds of successful implementation by focusing in five key areas:

- **Engage stakeholders** intensively and throughout the process, including internal personnel and a broad range of external stakeholders.

- **Roadmap and rigorously manage** the set of key strategic initiatives, holding individuals and teams accountable for attaining goals.

- **Show leadership and build key capabilities**, undergoing an extensive talent review and filling key positions with the right leadership at all levels of the organization, starting with hiring a Superintendent who is fully committed to the transformation.

- **Establish key performance indicators** that map to the District’s strategic goals, and track and report progress toward meeting them.

- **Support key legislative and policy changes** that will result in higher revenues for the District or improve the District’s ability to control its costs.

**Engage Stakeholders**

Successful transformation programs manage the “soft side” of change by regularly informing and seeking input from both internal and external stakeholders. The engagement process involves addressing stakeholders on the need for change; collecting their ideas on the issues and potential strategies; and refining the proposed design in response to feedback. Since SDP’s proposed plan was released in late April, District leadership has engaged a wide variety of community groups, District personnel, city officials, and the press. SDP held eight community forums in April and May, which had more than 1,200 attendees in total. Importantly, the District has already begun the process of refining its design in response to community input—for instance, by pausing on plans to launch an RFP to select Achievement Network teams in favor of gaining further community input on ways to restructure the District to better serve schools. The District will also need to work together with employee unions to find collaborative solutions to the District’s fiscal and academic distress. The focus of all parties needs to be on finding solutions that protect and enhance the quality of education offered by SDP. SDP will need to continue to engage both internal and external stakeholders throughout the transformation and in particular around key decisions such as the selection of a new Superintendent, facilities closures, and how schools will be supported in a decentralized portfolio model.
Roadmap and Rigorously Manage the Set of Key Strategic Initiatives

Successful change programs also manage the “hard side” of change by setting concrete goals, roadmapping the path toward meeting those goals, holding personnel accountable for staying on track, and intervening with greater resources or new leadership where necessary. Our experience with large-scale transformation programs has shown the need to establish a Program Management Office that centrally coordinates, drives, and tracks implementation across a range of initiatives. In the months since our initial engagement ended in late March, we have worked closely with District leadership to establish a PMO, roadmap key initiatives, track progress, and intervene where necessary.

An integral part of what we have set up for the PMO is a tracking of the identified savings against the FY13 operating budget and the five-year plan. Both the SDP OMB and HR Office have been closely involved in the tracking setup and regularly participate in PMO meetings. SDP should establish greater accountability for making progress against the plan by regularly updating key stakeholders, such as the SRC, city and state officials, and community and parent groups.

Show Leadership and Build Key Capabilities

SDP’s transformation will depend also on the District’s ability to retain and attract talented, passionate personnel across the organization, beginning with a new Superintendent. The District needs to conduct a full evaluation of its senior and junior central office personnel to understand where the District has key talent gaps and work steadily to fill them. In particular, SDP needs to work quickly to identify a new CFO to continue steering the District through a challenging financial situation and a Chief Portfolio Officer to begin building the portfolio management office structure and key processes. The District also needs resources to staff the PMO and drive the implementation effort. If SDP decides to move forward with Achievement Networks, it will need to attract and retain talented network teams with experience turning around low-performing schools.

Regardless of SDP’s organizational structure or financial situation, it needs to launch a major effort to attract, retain, and develop passionate and highly effective school principals and teachers. Ultimately the success of SDP’s transformation effort will be determined by the caring adults who engage with students on a day-to-day basis.
Establish Key Performance Indicators

To monitor progress on an ongoing basis and gauge the success of its transformation effort, SDP needs to define a set of key performance indicators that measure the District’s progress toward meeting its strategic goals. These indicators, and the District’s progress against them, need to be reported to the public on a regular basis to better enable the citizens of Philadelphia to hold the District accountable.

Support Key Legislative and Policy Changes

While SDP can do much to improve its odds of success, it cannot transform on its own. It needs support from a variety of stakeholders. For instance:

- Political support at the city and state level for additional revenues for the District
- Political support from the city on the district's cost cutting measures
- Support at the state level for changes to charter school law to enable greater fiscal and academic accountability for charter schools, such as limiting the amount of unspent surpluses charter schools can accrue. SDP needs greater authority to close and/or put limits on the growth of low-performing charters. The District also needs more ability to manage the growth of mid- to high-performing charters in ways that limit the fiscal impact on SDP.
- Support at the state level for revisiting the charter funding formula to ensure that charters are not being reimbursed at levels higher than District spending, in particular for enrolling disabled students.
- Support at the state level to ensure that a state-level authorizer is not created, unless the state agrees to pay more than 70 percent of the costs of any expansions it authorizes.
- Political support for enhanced cyber charter regulation. Reimbursement levels should be limited to the actual (and lower) cost of operating cyber charters, and cyber charters should be required to more fully report their fiscal responsibility and academic outcomes to SDP.
- Support at the state level for expedited development of statewide teacher and principal evaluations that include a strong component measuring staff's track record of accelerating student learning.
- Support at the state level for state pension reform that limits the financial impact on districts. The state should evaluate transitioning to a defined contribution system instead of the current defined-benefit system.
While the road ahead is full of obstacles, with twists and turns that will leave much of the District’s future out of its control, the SRC has shown the willingness to be bold, focus on the mission of educating Philadelphia’s children, and face the inevitable headwinds of a plan that requires sacrifice from all.