

HOW PHILLY WORKS

Groundhog Day: Funding Crisis in the Philadelphia Public Schools

On February 2nd, Punxsutawney Phil predicted six more weeks of freezing weather...and another stormy Philadelphia City Council budget season dominated by a staggering financial crisis in the city's public schools.

He was right on both counts.

Just in the nick of time, on the final day before heading out for the summer, City Council came through with borrowed city funds. The School District is still \$66 million shy of what it needs **just to provide a skeletal education** for 200,000 public school students.

City Council is not solely responsible for the fiscal and academic health of the city's public schools. State government and the teachers' union also play crucial roles. As do Mayor Nutter and Governor Corbett.

The situation is emotional and complicated. Even gathering information for this **HOW PHILLY WORKS** was tough. But we wanted to give you a single document that pulls all the details together to let you know where things stand at this moment with the city's public schools.

Sadly, it was Groundhog Day just writing this.

--June 24, 2014

How much money is the School District asking for?

Before Council ponied up more city dollars last week, the School District said it needed \$320 million: (1) \$96 million to maintain the current level of services (as inadequate as they may be) for the next school year, and (2) \$224 million to "make all schools great," which is the goal the District's Superintendent Bill Hite set out in his February 2014 reform plan, which you can read [here](#).

What happens if the School District doesn't get the additional \$224?

Here's our best guess: The public schools will open in September. They will stagger through another year with not a whole lot of progress on Hite's reform plan. When the city's budget season rolls around next spring, the School District will be back in front of Council pleading for more money. And Council once again will come through. Council elections are held in 2015. It's not a year to alienate voters or contributors.

Is more money really the answer?

Of course not. But no reform can even start without it.

THE CITY'S PORTION:

Start with City Council. What was the School District seeking?

For starters, School District officials said they needed \$35 million just to finish out this school year. For the school year that begins this coming September, School District officials asked the city to contribute

\$75 million towards the \$320 million total. (Remember: that's \$96 million for a skeletal education, plus \$224 million for Hite's "make all schools great" plan.)

And what did the School District end up with?

The full \$35 million for this year and \$30 million in guaranteed funds for the upcoming school year. That leaves \$66 million still needed for the skeletal education. (Keep the \$66 million in mind as you go through the rest of this Q&A.)

I'm not clear on how it all rolled out in Council.

That's what this part of our **HOW PHILLY WORKS** is all about. We'll try to sum it up.

Don't city taxpayers already give the School District a lot of money?

Yes. According to a School District report at the end of its last fiscal year (June 30, 2013), 35.3% of the School District's annual budget comes from the city: around \$870 million in local tax revenue (including 55% of property taxes, business use and occupancy tax, liquor-by-the-drink tax; a portion of fines from the state-controlled Philadelphia Parking Authority also go to the schools) and another \$106 million in locally generated non-tax income.

How did Council come up with \$35 million so the schools could finish out this year?

In one of its last-day-before-summer-recess moves, Council approved a bill to enable the city to borrow \$27 million against future sales tax revenues to give to the public schools. The rest will be made up of proceeds from the School District's sale of vacant public schools, which is expected to be in the neighborhood of \$32 million (\$11 million of this is already included in the School District's budget for the current academic year so it's not all "new money").

And the \$75 million the School District wants from the city?

In another last-day-before-summer-recess move, legislation was introduced in Council to authorize the city to borrow another \$30 million for the next school year. Although a final vote can't be taken until Council returns in September, the School District will take a leap of faith and "count" the money as in the door. City Council is also pinning its hopes on the General Assembly authorizing the city to impose a \$2-a-pack cigarette tax hike, which could raise another \$90 million annually for the schools. After the cigarette tax was approved by City Council last year, the state legislature didn't act on it.

Why is Council pinning its hopes on a cigarette tax this year?

Council is hoping state legislators will throw them a bone in exchange for votes from the Philadelphia-area legislators on issues related to the state budget, which is still being finalized in Harrisburg. Council also hopes its recent approval of an extension in the city's sales tax will remove a hurdle to the cigarette tax. In April of this year, a spokesman for the House GOP (the party which controls this chamber) said "there will be no plans" to enact the cigarette tax until Council approved the state-authorized extension of the city's sales tax.

I thought Council DID approve extending the sales tax!

It did. Here's a quick recap: In 2009, Philadelphia upped its sales tax from 7% to 8% to help the city through the recession. The increase was supposed to expire on June 30, 2014. To bring in annual recurring sales tax revenues of around \$120 million for the schools, the General Assembly approved making the 8% sales tax permanent last June. Before this could happen, Council's approval was required.

And?

Council did not finalize its approval until this June. The delay was because Council President Darrell Clarke wanted to split the \$120 million evenly between the public schools and the city's dangerously underfunded pension fund. The General Assembly said this couldn't happen. Clarke relented and agreed to make the sales tax permanent and give \$120 million to the public schools for next year. Clarke still hopes the General Assembly will approve splitting the revenues evenly between the pension fund and public schools in future years.

Will any of the \$120 million go towards the \$224 million needed to “make all schools great?”

No. The School District was already counting on \$120 million from the sales tax – which accounts for why the “skeletal education” request for the upcoming school year was lowered from \$216 million to \$96 million to begin with. The \$224 million “make schools great” request is for additional funds.

If the schools will be back for more city dollars next year, is Council considering other ideas?

A number of ideas have been proposed that could result in *recurring* funds for the schools (keep in mind that the \$30 million is a one-time infusion of borrowed money), although no action has been taken:

- Increasing parking meter rates.
- Increasing the tax on commercial use and occupancy of real estate in Philadelphia (Use & Occupancy tax).
- Generating revenues from slot machines at the airport.
- Giving the School Reform Commission (the five-member, state controlled Board that oversees the city's public schools) the power to collect the portion of abated property taxes that would otherwise go to the public schools.
- Growing the portion of city property taxes that go to the public schools from 55% to 60% (and reducing the portion going to the city's general fund from 45% to 40%).

Will any of these funding ideas get enacted?

It's hard to predict. Once Council gets back from summer recess in September, everything they do will be with the 2015 races for mayor and City Council uppermost in mind. Take the Use and Occupancy tax hike proposal as an example. Council upped the U&O tax in 2012 to help the schools despite fierce opposition from the business community. Is Council likely to do this during an election year when many members of the business community vote and contribute to their campaigns? We doubt it.

You said Mayor Nutter plays a crucial role too. Where is he in this mess?

The mayor hasn't been as front and center on the schools' crisis this spring as he seemed to be last spring. Nutter was against Council President Clarke's idea to split the sales tax revenue between the pension fund and the schools and is battling Council on other matters (including the sale of PGW to provide some pension fund relief). The discord between the executive and legislative branches has hurt the schools. Both Nutter and Clarke have been in Harrisburg to plead for more state funds – but they go separately rather than present a joint front.

When is Council's next meeting?

Council officially goes back into session on September 11 – three days after the schools are scheduled to open.

THE STATE'S PORTION:

Moving to the state. What is the School District seeking?

For the upcoming school year, School District officials want the state to contribute \$150 million towards the \$320 million total. (Remember, again: that's \$96 million for a skeletal education, plus \$224 million for Hite's "make all schools great" plan.)

And how much has the School District gotten?

Zero so far. That leaves \$66 million still needed just for the skeletal education.

How much does the state already give Philadelphia?

According to the School District report we mentioned earlier, as of the end of the last fiscal year (June 30, 2013), 50.2% of the School district's money came from state grants and subsidies (around \$1.4 billion), with federal grants and subsidies (which usually flow through the state) making up around 14.5% (around \$400 million).

Obviously the School District thinks that's not enough.

You won't find many people in Philly who do. How much money Harrisburg is obligated to provide to fulfill its state constitutional obligation to support "thorough and efficient" public schools is an explosive issue well beyond the scope of this **HOW PHILLY WORKS**. An answer may be coming though. Earlier this month, the General Assembly approved and Governor Corbett signed a law to establish a Basic Education Funding Commission to study how state funds to public school districts are distributed and to recommend a new state funding formula. The Commission's report is due no later than next June.

Will the schools get another \$150 million?

The General Assembly is still in session. On the table is Governor Corbett's proposal to give the city schools an additional \$10 million in education funding and pension relief and a \$29 million grant for early childhood literacy. The state's Budget Secretary says those funds are at risk because of the state's own budget problems.

If the state controls the schools, doesn't that mean more state dollars should come here?

That's what lots of Philadelphians are saying. The chorus to return the public schools to local control is getting louder and louder. Expect to see a proposed Charter amendment expressing Philadelphians' desire to eliminate the state-controlled School Reform Commission on the November 2014 ballot.

Where is Governor Corbett in all of this?

The governor is battling for a second term this year and, if polls are accurate, his reelection bid is in trouble. Corbett has been harshly criticized by his Democratic opponent Tom Wolf for cutting funds to public education. Earlier this year, facing opposition from the teachers' union, Corbett cancelled his first visit to a city public school. The governor is more focused now on the state's budget, rather than the Philadelphia public schools. He knows his likely votes are not in Democratic-heavy Philly anyway.

When is the General Assembly's next meeting?

After finishing the budget and adjourning for the summer, the Senate goes back to work on September 15. The House's online session calendar only goes through June. But don't expect House members back until September either. (By the way, all House seats and one-half of the Senate's seats are up for election this year).

THE UNION'S PORTION:

Now the teachers' union. What is the School District seeking?

For the upcoming school year, School District officials want the 16,000-member PFT to contribute \$95 million in concessions towards the \$320 million total. (One last time: that's \$96 million for a skeletal education, plus \$224 million for Hite's "make all schools great" plan.)

And how much has the PFT given?

Zero so far. That still leaves \$66 million outstanding for a skeletal education.

Will the PFT respond?

No signs that they will. The PFT says its members are educators, not revenue-generators. Also, its contract with the School District expired on August 31, 2013. Closing in on one year later, the PFT hasn't agreed to any concessions.

What is the PFT being asked to give back?

If any new proposals are on the table, we haven't heard them. As of last year, Superintendent Hite wanted steep salary cuts, a wage freeze through 2017, elimination of teacher seniority, reduced health benefits, a longer workday and less prep time, among other things. You can compare what the School District wants and what the PFT wants [here](#).

Can the School District force these changes?

The SRC has asked the PA Supreme Court to confirm its power to change work rules, including disregarding seniority in teacher assignments and imposing transfers and layoffs. The Pennsylvania Education Department supports these changes as "essential to the SRC's mission of stabilizing the district's finances." The court has not ruled yet.

I guess the court action puts a damper on the School District and PFT contract talks.

PFT President Jerry Jordan says the School District, not the PFT, is to blame for abandoning contract talks. In a June 11 Letter to the Editor of the Philadelphia *Inquirer*, the complete version of which appears on the PFT's website [here](#), Jordan says any implication that teachers aren't doing their part is "insulting."

Will the PFT go on strike?

A state law prohibits the PFT from going on strike. If it did, the PA Department of Education could revoke teaching certificates.

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You're right. This is complicated and hard to digest.

It is. And there are a number of important side issues we haven't even touched on. For instance, how the School District ended up in such a financial mess in the first place. What steps are being taken to rein in expenses. Why Council President Clarke wants City Council to have more fiscal oversight over how the School District spends its money. Why Council is angry over the speed (or lack of it) with which the

School District is selling its vacant buildings. How the charter schools impact the city's budget crisis. And to what extent the charter schools v. traditional schools debate fuels this crisis. The list goes on and on.

How can I stay up on what's happening?

Look for more updates from us when new developments happen.

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*As always, if you have any questions or ideas for future **HOW PHILLY WORKS**, please send your ideas to futureofthecity@seventy.org. Join the conversation - "Like" us on [facebook](#) and "Follow" us on [Twitter](#)!*