

## HOW PHILLY WORKS

### Funding Crisis in the Philadelphia Public Schools

The public schools open on September 9 – a mere 46 days away.

As of today, there is a staggering deficit. For over 200,000 district and charter school students, plus parents, guardians, teachers, administrators, support staff, laid-off employees and their families, it's a nightmare.

Only \$30 million of the \$313 million funds requested by the School District has actually been committed – with no strings attached – for September. The officials accountable for helping to close the deficit are hoping someone else will make the first move. As one of our **HOW PHILLY WORKS** readers told us: "It's always more taxes and 'after you Alphonse' to other levels of government to pick up the tab."

Because the Committee of Seventy believes this chaos is destructive for the entire city – not just for those directly impacted – we thought it was a good time to give you an update on where things stand right now with the public schools.

--July 25, 2013 (updated 7.30.13)

---

#### Isn't "nightmare" a bit of an exaggeration?

No. *The shortfall for this academic year alone is \$304 million. Over five years, there is a projected \$1.1 billion deficit.* Almost 4,000 teachers, assistant principals, classroom aides and guidance counselors have been laid off so far. Security personnel, nurses and support staff are gone. So are art, music and sports. Its leaders call the situation an unprecedented catastrophe.

#### Seems like the schools are in crisis every year. Is everyone crying wolf?

This crisis is the worst we've ever seen.

#### Someone will come to the rescue, right?

Who and when? The Pennsylvania General Assembly is on summer recess. So is Philadelphia City Council. Governor Corbett is worried about his reelection. Mayor Nutter isn't saying much. The teachers' union is staging neighborhood rallies. If genuine progress is being made, it is happening behind closed doors. From where we sit, there is too much human damage for secrecy.

#### What happens if the deficit isn't closed by September 9?

There's no way to predict this but it could very well happen. One thing is certain: the quality of education can't be anywhere close to what any parent or guardian wants for their children.

#### Sounds harsh, but maybe things need to hit rock bottom before they improve.

That's what people are saying about Detroit's bankruptcy. But these are children we're talking about. There is no issue bigger in this city – and nothing that accounts for so many other problems, such as unemployment, an undereducated workforce and poverty – than how successful Philadelphia is in educating its children.

### Is more money really the answer?

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

### THE CITY'S PORTION:

#### Let's start with City Council. I thought Council already stepped up.

Of the \$60 million requested from the city, the School District can only count on \$28 million right now.

#### Where's the \$28 million coming from?

From more aggressive collection of delinquent taxes, which Mayor Nutter has promised. Actually, the city needs approval from the General Assembly to up the ante against city deadbeats by putting liens on property they own in other parts of the state. The General Assembly hasn't approved this yet. But the mayor's spokesman says the city doesn't need its approval to bring in the \$28 million. (But you at least have to wonder since the city's track record to going after tax delinquents has been pretty dismal.)

#### So \$28 million is the city's entire contribution?

For now at least. Council passed a \$2-a-pack cigarette tax that was supposed to bring in \$45 million more. But, the PA General Assembly refused to approve this too.

#### I thought there was money coming from the sales tax?

The state legislature did approve extending the city's current 8% sales tax beyond June 2014, when it was scheduled to drop back to 7%. And the plan is for the city to borrow \$50 million against future sales tax revenue.

#### But at least we know the \$50 million is coming. Why aren't you counting this?

Because it still hasn't been approved by City Council. And the fate of how much sales tax revenue will ultimately generate for the public schools is up in the air. When it was being debated in Harrisburg, increasing the sales tax was expected to bring in \$120 million annually for the public schools. But, last week, City Council President Darrell Clarke said he wanted to use about \$50 million of the \$120 million to start fixing the city's pension fund. And, furthermore, the \$120 million is tied to a determination by the PA Secretary of Education of reforms that the School District begun "implementation of reforms that provide for fiscal stability, educational improvement and operational control."

#### Clarke wants to take away money from the schools?

He wouldn't put it that way. He says the schools aren't the only crisis in town. The city's pension fund is dangerously underfunded and threatens retirement payments for current and future city employees. (Pension problems are one of the factors that drove Detroit into bankruptcy.)

#### Does Clarke have any other ideas to fund the schools?

Apparently he does. But we haven't heard what they are yet. His spokesperson said he planned to introduce "alternative funding strategies" last week.

#### Here we go again: more taxes.

It's too late. Council already approved the budget so raising taxes (as they did with property taxes in 2010, 2011 and 2012) can't happen. Before the budget was approved, Council nixed proposals to raise two city taxes that already support the public schools: use and occupancy (on commercial uses of real estate) and liquor-by-the-drink. Next month, when the Philadelphia Board of Ethics posts the latest

lobbyists' expense reports, it will be interesting to see who spent how much to get the outcome they wanted.

### **What does Mayor Nutter have to say about this?**

He says he hopes the General Assembly will come around and approve the cigarette tax. This is one time he and President Clarke are on the same page. But, unlike Clarke, he wants the entire \$120 million in future sales tax revenues to go to the schools. The mayor is also waiting to see the outcome of the School District's negotiations with the teachers' union. (We'll get to that in a minute.)

### **This doesn't sound like a strategy that can help right now.**

We agree, which is why Seventy called on the mayor and Council to display real leadership – and set an example for the General Assembly and the unions – by coming up with more money for the schools. We even threw out an option: a one or two percent spending cut by city departments. You can read our press release [here](#).

### **Has anyone else put new ideas on the table?**

Phil Goldsmith, who was interim CEO of the School District in 2000, suggested (1) cutting back on ten-year tax abatements on new construction, or (2) asking property-tax-exempt institutions to contribute payments in lieu of taxes. But there's no chance this will bring in money anytime soon. City Councilman W. Wilson Goode wants to gradually reduce tax abatements. But, after strong opposition from developers, he said he will amend his proposal to delay the effective date until 2016. As for payments in lieu of taxes, they are vehemently opposed by tax-exempt non-profits, who argue they already support the city enormously through free services to the community and wage tax revenue.

### **Any other ideas?**

Michael O'Brien, who represents part of Philadelphia in the state House of Representatives, introduced a bill to redirect to the public schools about \$86.3 million in gaming revenues now used for in Philadelphia for wage tax relief. But the city wage tax is the most despised tax in town. Diverting the money will be a tough sell.

### **When is City Council's next meeting?**

Council officially goes back into session on September 12 – three days after the schools open.

## **THE STATE'S PORTION:**

### **Moving to the state. I thought the General Assembly stepped up too.**

**Of the \$120 million requested from the state, the School District can only count on \$2 million right now.**

### **That's it? I thought there was much, much more.**

There is supposed to be at least \$45 million more from the federal government forgiving a \$45 million debt owed by the state. But, as with future sales tax revenue, it comes with strings attached: In order to get this money, the PA Secretary of Education must determine that the School District has begun the School District begun "implementation of reforms that provide for fiscal stability, educational improvement and operational control." That determination hasn't been made yet. The next scheduled meeting of the School Reform Commission, the five-member state-controlled group that manages the city's public schools, is on *August 22*.

### Where's the \$2 million coming from?

The \$2 million is extra basic education funds. Although the state is taking credit for \$16 million, the School District's budget already counted on getting \$14 million so we are not including the full \$16 million as part of the state's contribution.

### Why does the state take credit for the sales tax revenue as part of its contribution?

We've asked the same question. Although the General Assembly has to approve increases in the city's sales tax, the actual dollars come from people who make purchases in Philadelphia. On balance, we think sales tax revenue belongs more on the city's ledger, not the state's.

### If the state controls the schools, how can it turn its back on Philadelphia's kids?

That's what the mayor and City Council are saying as they wait for the state to loosen the strings on the \$45 million debt-forgiveness and to pass the cigarette tax. (The state also has a constitutional obligation to provide a "thorough and efficient public education.") The PA House is back in session on September 23 – two weeks after the city schools open. The Senate's calendar doesn't say when its members will reconvene, but they are on summer recess too.

## THE UNION'S PORTION:

### How much is the teachers' union giving?

**Of the \$133 million requested from the teachers' union, the School District can count on \$0 right now.**

*The School District's contract with its largest union that represents 15,000 School District employees – the Philadelphia Federation of Teachers – expires on August 31, 2013. So far, the PFT hasn't agreed to any concessions. (Although we focus here on PFT, the district is looking for labor or personnel savings from non-PFT-represented employees too. Last summer, for instance, an agreement was reached with the Service Employees International Union Local 32BJ, which represents the district's maintenance, cleaning, and transportation employees, that resulted in givebacks in the range of 10%.)*

### What is the PFT being asked to give back?

The School District's Superintendent William Hite wants 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 at:

<http://www.pft.org/docs/SDP%20Proposals%20to%20PFT.pdf>.

### They are pretty far apart. Will the PFT strike?

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

### Are the teachers willing to risk this?

Because of the state law, the PFT officially can't go there. But we have heard mumblings from teachers about breaking the strike ban. "What do we have to lose?" some say. "Will the state risk throwing out thousands of teaching certificates? What happens to the children then?"

\* \* \*

### Now I'm worried too.

With the sand slipping through the hourglass, it's hard for anyone who cares about Philadelphia not to be very worried.

### How can I stay up on what's happening?

We will keep you updated on the crisis in the public schools every few days – whether or not anything is happening. (For instance, after this **HOW PHILLY WORKS** was released on July 25, the School District announced \$33 million for the return of laid-off school secretaries, music teachers and fall sports programs. District officials say the money comes from district savings initiatives, an increase in the state's basic education funding and increased city tax collections.) And if you have ideas to share, let us know at [info@seventy.org](mailto:info@seventy.org).

*If you thought this HOW **PHILLY WORKS** was worthwhile, please help us continue this series by [donating](#) today! (We are a non-partisan non-profit that does not accept government money – your support is truly appreciated!)*