

Evaluating School Funding Proposals

Tax Based Proposals:

1. Property Tax Increase in FY16:

Funds Available in FY16	Yes
Impact on School District Budget	+ \$105 Million
Impact on City Budget or Services	None
Recurring or One-Time Funding	Recurring
Requires State Action	No

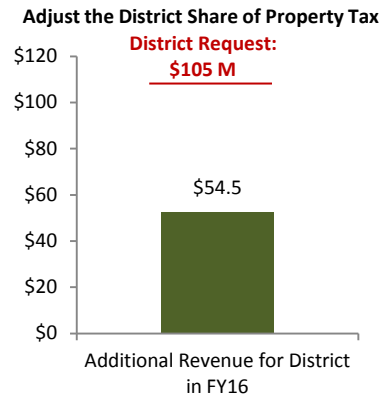
The Mayor proposes to increase the School District’s portion of the property tax rate to generate \$105 million in FY16. This revenue would be stable and recurring which enables the District to fill an existing \$84 million deficit in FY16 and fund investments as described by Dr. Hite in Action Plan 3.0. The median property in Philadelphia is valued at \$113,100, and under this proposal, property taxes on the median home value would increase by \$104 in FY16 (half of the properties in the city are above the median and half are below). More than 42% of Philadelphia residential properties are valued below \$100,000 and their additional tax would be under \$88.

- Issues with the Proposal:** The increase would increase the tax burden for property taxpayers. For the median valued property, however, the cost would be less than \$9 a month, which is less than the cost of one pizza per month.

2. Changing the Split of the Property Tax without Increasing the Rate:

Funds Available in FY16	Yes
Impact on School District Budget	+ \$54 Million
Impact on City Budget or Services	- Loss of \$50 Million
Recurring or One-Time Funding	Recurring
Requires State Action	No

The School District currently receives 55% of all property tax revenue and the City receives the remaining 45%. The proposal would change that allocation to 60% for the School District and 40% for the City. Adjusting the tax split simply reduces the amount of Real Estate taxes going to City services while providing more to the School District. The rationale for this change appears to be that the District’s portion of the property tax had been 60% before the City’s portion of the tax was increased. While the percent of property tax revenue that goes to support City services went from 40% to 45% when the City increased the rate on its portion of the property tax, that change had no impact on the dollar amount that the District receives from the property tax.



- **Issues with the Proposal:** Increasing the District’s share to 60% would only provide \$54.5 million— *\$50.5 million lower than its request of the City* – and not enough to close its deficit, let alone invest in critical services for Philadelphia’s school children. The loss would cause a \$54.5 million hole in the City’s budget, which would mean cuts to City services.

3. Separate Residential and Commercial Property Tax Rates:

Funds Available in FY16	No
Impact on School District Budget	Depends on Rate Set on Commercial Properties (23% increase needed to generate \$105 Million)
Impact on City Budget or Services	No Direct Impact
Recurring or One-Time Funding	Recurring
Requires State Action	Yes (requires constitutional amendment)

The State constitution requires that residential and commercial tax rates be uniform. Under this proposal, the City would be allowed to impose different rates on commercial and residential properties and would increase the rate on commercial properties to provide additional funding for the School District.

- **Issues with the Proposal:** Shifting the tax burden toward the commercial sector through separate tax rates would require a constitutional amendment – which must be approved by the legislature over two separate two year cycles and then approved by the voters. Even if this change were eventually enacted, the earliest the School District would see the benefit of this initiative would be FY19. That means that schools would have to wait three years to receive funds that they desperately need next year. As commercial properties account for about 40% of the tax revenue, the property tax rate would need to *increase by over 23%* in order to generate \$105 million annually.
- In addition, the proposed change in commercial property tax rates has often been coupled with proposed reductions in wage and business taxes to allow the City to increase its competitiveness in ways that are consistent with the findings of two tax reform groups. Making this change without reducing wage and business taxes would reduce the city’s competitiveness and could cost the city jobs.

4. Increasing Use & Occupancy (U&O) Tax Rate:

Funds Available in FY16	Yes
Impact on School District Budget	+ Depends on the new rate <i>(85% increase needed to generate \$105 Million)</i>
Impact on City Budget or Services	None
Recurring or One-Time Funding	Recurring
Requires State Action	No

Under this proposal, additional revenue would be generated by increasing the Use and Occupancy Tax Rate.

- Issues with the Proposal:** The District currently receives \$135 million in U&O revenues. Even a 20% increase in the tax would only generate \$27 million, which is only about a quarter of the amount that the District is requesting. The tax rate would need to be increased by 85% in order to provide an additional \$105 million to the District.

5. Extending Bar Hours to Increase Liquor by the Drink Tax Revenues:

Funds Available in FY16	Yes, depending on timing of State action
Impact on School District Budget	+ Likely Minimal
Impact on City Budget or Services	No Direct Impact
Recurring or One-Time Funding	Recurring
Requires State Action	Yes

Operating hours for bars would be extended from 2am to 4am under this proposal. The rationale for the proposal is that extended hours would generate additional liquor by the drink revenues for the School District.

- Issues with the Proposal:** The District currently receives \$50 million annually from the 10% liquor by the drink sales tax. Extending bar hours from 2am to 4am may somewhat increase revenues, however, the increase would be only a fraction of the District’s \$105 million request. In addition, adding operating hours to bars could create issues in the neighborhoods in which those bars are located. This proposal would also require state authorization before bar hours could be extended.

Non-Tax Based Proposals:

6. Reassess Land Values:

Funds Available in FY16	No
Impact on School District Budget	+ Up to \$8 million
Impact on City Budget or Services	+ Up to \$7 million
Recurring or One-Time Funding	Recurring
Requires State Action	No

There is a perception that the value of land has been relatively under assessed compared to the value of improvements. If that perception is accurate, a comprehensive reassessment of land would increase the taxable value of land. For properties on which improvements are abated, an increase in the land value would result in an increase in the amount of taxes owed. Those additional taxes owed would provide additional revenues to both the School District and the City.

- Issues with the Proposal:** The Office of Property Assessment already plans to do a full assessment on land values, but that assessment would take time and the earliest that it would have an impact on taxes that the District would receive is in FY17 – a full year later than the District needs those funds. Even if land values doubled under the reassessment, this action would only generate \$15 million and the funds would not be available until FY17.

7. Tax Lien Sale:

Funds Available in FY16	Yes
Impact on School District Budget	+ Likely Less than \$30 million
Impact on City Budget or Services	+ Likely Less than \$25 million
Recurring or One-Time Funding	Primarily One-Time
Requires State Action	No

Under this proposal, the City would sell the rights to collect delinquent commercial taxes to private entities. Each sale could generate one-time revenue for schools and the City and encourage taxpayers who had been delinquent to pay their taxes going forward.

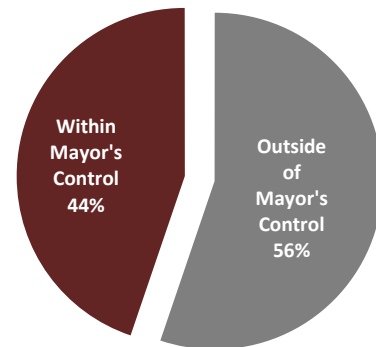
- Issues with the Proposal:** While the City is prioritizing delinquent collections and considering pursuing tax lien sales, once the past due revenue is collected and spent, it is no longer available. The District needs a recurring source of funding for programming, additional teachers, and other investments.

8. Implement Zero Based Budgeting:

Funds Available in FY16	No
Impact on School District Budget	Depends on Outcome of Budget Process
Impact on City Budget or Services	Depends on Outcome of Budget Process
Recurring or One-Time Funding	Recurring
Requires State Action	No

Zero based budgeting can help identify areas of potential savings as departments start with a blank slate rather than working with the prior year budget as a guide. The amount of savings, however, may be limited for several reasons. More than half of the City’s expenditures are out of the Mayor’s control (56%), including those mandated by law such as pension contributions and debt service as well as county functions like prisons. After these mandatory costs are paid, there is little discretionary funding available to cut. Salaries set through collective bargaining or arbitration award are included within the Mayor’s control but are guaranteed through the term of the existing contracts. Finding money for the District would require making *tough decisions* as to what services could be reduced or eliminated.

More than Half of the City's FY16 Budget Is Outside of the Mayor's Control



- Issues with the Proposal:** While in a large organization there are always opportunities for savings, after City departmental spending was significantly cut during the Great Recession, finding “excess” spending is difficult. Some departments saw a 50% reduction in spending, most of which has not been restored to prior levels. For example, even if zero based budgeting identified 1% of discretionary expenditures for cuts, this would still only amount to approximately \$18 million out of the District’s \$105 million dollar request.

9. Providing Larger City Contribution to the School District:

Funds Available in FY16	Yes
Impact on School District Budget	+ Depends on Amount of Contribution
Impact on City Budget or Services	- Depends on Amount of Contribution
Recurring or One-Time Funding	Recurring
Requires State Action	No

The City provides the District with an annual “City Contribution” from its General Fund revenues. This amount is currently \$69 million and, under state law, the City is required to provide at least this amount of revenue (or more) going forward. Under this proposal, for example, the City could increase its contribution to the District by an amount sufficient to eliminate the District’s projected \$84 million deficit in FY16. In this example, the \$84 million would be in addition to the existing \$69 million for a total contribution of \$153 million.

- Issues with the Proposal:** Providing meaningful additional funding from the General Fund resources would mean *reducing or eliminating City services*. Even if the City were to get a waiver from the maintenance of effort requirement and could make a one-time contribution to the District, providing enough money to only eliminate the District’s \$84 million projected deficit – without providing sufficient revenue for the District to make crucial investments for students – would create deficits in all but one year of the City’s proposed FY16-FY20 Five Year Plan. That would again require the City to reduce or eliminate services without improving outcomes for school children. In addition, it would only provide a one-time source of revenue for the District, which would then need to find additional revenues in the following year.

10. Payments in Lieu of Taxes (PILOTs):

Funds Available in FY16	No
Impact on School District Budget	+ Likely Under \$10 million
Impact on City Budget or Services	+ Likely Under \$10 million
Recurring or One-Time Funding	Depends on Type of Agreement
Requires State Action	No

PILOTs are voluntary payments in lieu of taxes by property owners who are exempt from taxes, such as non-profit institutions such as universities and hospitals. As Philadelphia has a large “eds and meds” economy, a large proportion of Philadelphia’s assessed market value is exempt.

- Issues with the Proposal:** Several practical challenges exist around using PILOT programs to generate meaningful, recurring funding for education. PILOT programs are heavily relationship driven. Under current law, tax exempt institutions cannot be required to make contributions to the City and therefore it takes commitment from key stakeholders to agree to meaningful, multi-year financial commitments. PILOTs are also *unlikely to generate significant revenue* for schools. Often looked to as having a model program, the City of Boston generates approximately \$20 million to \$26 million each year from PILOTs. In Philadelphia, the Rendell Administration

was able to collect around \$9 million annually for both the District and the City in the mid 1990's as a result of state law that allowed it to threaten the tax exempt status of non-profits. After the law changed, all of these PILOT agreements expired. While such nonprofit contributions would be welcome, the District would still need significant additional revenues to fill the deficit and fund investments.

11. Contributions from Private Entities toward Charter Costs:

Funds Available in FY16	Yes
Impact on School District Budget	- Likely Negative Net Impact
Impact on City Budget or Services	No Direct Impact
Recurring or One-Time Funding	Depend on agreement
Requires State Action	No

Private entities have offered to contribute funding to offset the District's charter expenses for a limited period of time.

- Issues with the Proposal:** To date, the funding offered from private entities would require the District to spend the money on charter expenses and would expire after several years. While such funding would help offset a portion of charter expenses, this funding would not be sufficient to cover the full cost of operating permanent charter schools (that do not disappear when the funding expires) or keep pace with the growth of charter costs over time, which has been a key cost driver that the District struggles to fund.

12. Eliminating All Money Managers and Using the Savings to Provide Funds to the School District:

Funds Available in FY16	Unlikely
Impact on School District Budget	Likely None
Impact on City Budget or Services	- Potential Lost Interest Earnings for the Pension Fund
Recurring or One-Time Funding	Not Applicable
Requires State Action	No

Under this proposal, the pension fund would eliminate all of its money managers and invest solely in index funds.

- Issues with the Proposal:** The pension fund carefully analyzes every proposal from investment managers and then monitors each investment manager's performance. The fund only hires and maintains managers who add value beyond what is provided by index funds. In many cases, the fund's staff and board have determined that active managers would not add value and uses index funds. As a result, while eliminating active manager would reduce the fees that the fund pays, the savings in fees would likely be more than offset by lost earnings.

13. Eliminate School District Portion of Property Tax Abatement:

Funds Available in FY16	Yes
Impact on School District Budget	+ \$700k-\$800k per year in short-term
	- Long-term loss of \$22 million
Impact on City Budget or Services	No short-term impact
	- Long-term impact from loss of development (-\$46 million over 30 years)
Recurring or One-Time Funding	Recurring
Requires State Action	No

The intent of the City’s ten-year property tax abatement program is to provide tax relief as an incentive to encourage development in areas where it would otherwise not occur. Under this proposal, the abatement would be reduced by the School District’s 55% portion to provide additional revenue to the District during the ten-year abatement.

- Issues with the Proposal:** The abatement program is designed to make the city more attractive to developers and provide a significant long-term benefit to the District and City. An analysis conducted to determine the impact of Council legislation found that had the District portion of the abatement been removed, there would have been 45% fewer development projects. If only the City portion were abated, the study found, the estimated average annual increase in revenue to the District would be roughly \$700,000 to \$800,000 per year for the next ten years. While this proposal would provide modest short-term revenue, the District would lose \$22 million over 30 years due to lack of new development (the City would lose \$46 million over 30 years) relative to leaving the status quo in place.