

Using All Available Tools

- In July 2013, the state authorized the extension of the 1% sales tax to provide the School District of Philadelphia (District) with \$120M in recurring funding starting in FY15 (2014-15).
- Because the funding from the extension was not going to be available until FY15, and the District had a funding gap in FY14 (2103-14), the state included in the extension legislation a way to provide the District with close to \$55M in one-time funds for FY14. Specifically:
 - the City would borrow \$55M and transfer it in a grant to the District; and
 - the borrowing would be repaid over a four-year period (from FY15 through FY18) using some of the funds from the sales tax extension.
- In August 2013, City Council and the Mayor committed to the District that the City would provide \$50M in FY14. This commitment enabled the District to recall essential school staff and safely open schools on time.
- In November 2013, the Mayor and Council President announced a plan for the District to use the sale of the District's own surplus properties as a mechanism to generate some amount of the promised \$50M, rather than the borrowing.
- Because the District already had \$11M in building sale proceeds built into its FY14 budget, the District would need a total of \$61M (i.e., the \$50M commitment from the City and \$11M in anticipated revenue) for this approach to be budget-neutral.
- Since November, the District has been moving forward to sell all of its surplus properties. All buildings in the first group of properties are under agreements of sale, with closings expected by June 30th. Offers are due on the second batch of properties (the sale of which is being managed by PIDC, at City Council's request) on June 9th.
- If the closing on the University City site goes forward as planned prior to June 30, the District expects to net at least \$26M from building sales in FY14. Depending on the offers received on the remaining properties, the District could net an additional \$11M to \$31M, but closings on additional sales may not be before June 30.
- To meet its financial obligations over the final weeks of the current fiscal year, the District is depending on receiving a grant from the City to fill any hole between building sale proceeds and the \$61M (i.e., \$50M commitment plus \$11M budgeted sale proceeds).
- For the next fiscal year, FY15, there is \$96M gap between known revenue (assuming the sales tax extension is passed by Council) and the funds needed to maintain current, albeit inadequate, service levels.
- The City has proposed filling some of that gap with a \$2/pack cigarette tax, which requires state approval.

- City Council, the City, the District, and the School Reform Commission (SRC) are all lobbying the state to pass the cigarette tax.
- At full implementation, the cigarette tax will generate over \$80M per year.
- In the first year of implementation, however, the cigarette tax is expected to generate only \$40M to \$50M, depending on how quickly it can be rolled out.
- This means that even if the cigarette tax is passed, the amount the District receives in the first year will not be enough to plug the budget hole.
- City Council has a vehicle to help address this shortfall.
- Although City Council has introduced a bill to borrow only up to \$20M for the District, it has the power to amend the bill to borrow the full amount authorized in the sales tax extension bill – approximately \$55M.
- This borrowing will be repaid from the sales tax proceeds, meaning it will have no impact on the City’s own budget.
- Additionally, unlike a grant from the City budget, this payment likely will not be subject to the “maintenance of effort” requirement:
 - When enacting the extension last summer, the intention was to exempt the grant from the maintenance of effort requirement but the needed language was inadvertently omitted. A legislative correction is now being proposed that would exempt the grant from the maintenance of effort requirement.
- If City Council wants to help the District not only get through the end of this fiscal year but also bridge some of the gap next year, this is the best way to do it.
 - This approach does not hurt the City budget in any way.
 - This approach should not obligate the City to provide the funds year after year.
 - This approach still encourages the District to move forward efficiently with building sales.
 - This approach will help prevent \$15M to \$30M in cuts next year.
 - This approach also makes good on City Council’s commitment last summer to get the District \$50M in new funding.
- City Council should amend the borrowing bill to borrow the full amount authorized – \$55M – and not leave any money on the table.