OUR CITY OUR SCHOOLS

Proposal for Equitable School Funding in 2018

WRITTEN BY

Our City Our Schools
and the Philly Power Research Collective

MARCH 2018

Funding the Schools Our Communities Deserve

In November, Mayor Kenney called for Philadelphia Public Schools to return to local control, while making a bold commitment to fix the nearly $1 billion deficit facing our schools over the next 5 years. On March 1, the Mayor announced his budget proposal to solve the looming deficit. We applaud the Mayor for his leadership on taking responsibility for funding our schools.

But we know that our schools need more funding than simply closing yet another budget deficit — our top priority must be creating the schools our children deserve. This means an even larger investment in our schools, so that our students, educators and parents can begin to envision what it would look like to have smaller class sizes, fully-funded extracurriculars and healthy buildings to name a few.

In this proposal, the Our City Our Schools coalition outlines our vision for increasing local revenue for our schools. We outline four policy proposals around revenue that, if enacted, could bring over $191 million to the School District of Philadelphia annually, thus both taking care of the deficit and helping us to begin to imagine the schools our children deserve.

While this proposal is specifically focused on the 2018 City Budget, it is critical to continue to fight for more funding from the State of Pennsylvania — for a fair funding formula statewide, for an end to state tax breaks that bankrupt our schools like Keystone Opportunity Zones and for entities like the Philadelphia Parking Authority to pay what they owe.

ABOUT OUR CITY OUR SCHOOLS

The Our City Our Schools coalition formed in 2016 with a goal of abolishing the School Reform Commission and regaining local control. The coalition includes: 215 People's Alliance, AFSCME DC 47, AFSCME 1199C, AFT Local 2026, Alliance for Philadelphia Public Schools, Caucus of Working Educators, JUNTOS, Media Mobilizing Project, Neighborhood Networks, Parents United for Public Education, PASNAP, Philadelphia NAACP, Philly Student Union, PhillySUN, POWER, Reclaim Philadelphia, SEIU 32BJ, Taxi Workers Alliance, Teacher Action Group, UNITE HERE Philly and UrbEd.

The Wealthy Need to Pay Their Fair Share to Our Schools

OVERVIEW OF THE OUR CITY OUR SCHOOLS PLAN

We are in a critical moment where this city's wealthiest must contribute their fair share to the Philadelphia schools. In light of the recent federal tax cuts and decades of corporate tax rollbacks, there is no reason our city should not demand increased funding from the city's 1%. While some argue that raising taxes on business will negatively affect development and cause people and businesses to leave the city, we do not find research to support this. To the contrary, as the annual Pew Polls on the *State of Philadelphia* illustrate, residents leave because of the state of our schools, not because of taxes.

While Mayor Kenney's property tax increase proposal has provided important protections with the homestead exemption, we are concerned about the impact of this tax increase on this city's lowest-income residents — on renters and on homeowners in gentrifying neighborhoods. It is unfair and politically unwise to ask working class Philadelphians to bear the brunt of closing our projected school debt — especially when corporations, mega-nonprofits and the wealthy in our city have evaded paying their fair share for decades. **Our proposal focuses on those who have evaded paying their fair share for decades: universities like UPenn, developers like Brandywine and corporations like Comcast.**

TO RAISE REVENUE FOR OUR SCHOOLS

End the 10-year Tax Abatement......	$386 million over 10 years
Collect PILOTS..................................	$95-142 million per year
Stop Reductions of the BIRT....................	$54 million per year
Raise Use and Occupancy Tax to 1.5%...	$35 million per year
Estimated *Annual* Revenue	**$191-301 million**

In addition to these four revenue proposals, explained in further detail, we also propose an **independent forensic audit** of the School District to assess current spending, as well as the funding of a **feasibility study on a Philadelphia public bank** that could lower debt service costs to our schools.

End the 10-Year Tax Abatement

APPROXIMATELY $386 MILLION OVER 10 YEARS

WE PROPOSE A TOTAL AND COMPLETE END TO THE 10-YEAR TAX ABATEMENT PROGRAM.

Philadelphia is no longer a city with few economic prospects — Center City is proving to be a robust economic engine and "the fastest growing place to live" in Philadelphia. After 17 years of successful development incentives, we no longer need to give tax handouts to large corporations at the expense of our schools. We are pleased with the increased scrutiny on the tax abatement program.

Those calling for reform have named a few possible ways to end the tax abatement program — by zip code or by property value amount for example. We are calling for a complete end to the abatement program. The abatement program has served as an unearned privilege, resulting in windfall profits for developers while costing our schools millions of dollars.

The bulk of the revenue brought in from ending the abatement would be from high-end luxury developments such as apartment buildings and condominiums.

We also believe it is vital to look at the racial breakdown of who has received abatements, both from individual home sales and from high-end development. This year, the *Center for Investigative Reporting* reported on how redlining practices are continuing to make it difficult for African-Americans to receive home loans. We believe that this redlining practice could mean that the abatement program intensifies racial discrimination in housing ownership. While racial data for the abatement is not tracked by the city, we believe this could be estimated using Census tract data.

ENDING THE 10-YEAR ABATEMENT PROGRAM

Year	School District Revenue
2018	$7,034,957
2019	$14,069,914
2020	$21,104,871
2021	$28,139,828
2022	$35,174,785
2023	$42,209,742
2024	$49,244,699
2025	$56,279,656
2026	$63,314,613
2027	$70,349,570
Over 10 years	**$386,922,635**

Methodology at the end.

PILOTS from Mega Non-Profits

APPROXIMATELY $95 TO 142 MILLION ANNUALLY

WE PROPOSE THAT THE CITY INSTITUTE A PAYMENTS IN LIEU OF TAXES (PILOTS) PROGRAM ON MEGA NON-PROFITS THAT OWN MORE THAN $15 MILLION IN EXEMPT PROPERTY.

Universities like Penn, Temple and Drexel, hospitals like Jefferson and non-profit businesses like Independence Blue Cross are among the biggest property owners in the city, but pay no property taxes. These institutions are not charities but big businesses who depend on city services. Mayor Kenney has cited Boston as an example of a "meds and eds" city raising $35 million from PILOTS. We believe Philadelphia, with an estimated $13.6 billion in exempted property, the most in the country, should be able to do better.

To recoup school funding from wealthy non-profits, we propose a real estate tax-based PILOTS program that would call for non-profits to pay 50% of the value of forgone taxes — and to pay all of that to our schools. We also propose that these properties should be reassessed because of the possibility that they are undervalued by as much as 50%. This accounts for the range in estimated revenue. As recommended by then Mayor Rendell's 1994 Executive Order on PILOTS, we propose an exemption for nonprofits that own less than $15m of exempt property and pass the HUP test on the definition of a non-profit.

TAX-EXEMPT PROPERTIES OWNED BY NON-PROFITS

Assessment Rate	Total Exemption Amount	Lost District Revenue (at 1.3998% rate)	PILOT Revenue (50% of lost revenue)
At current assessment	$13,600,000,000	$190,372,800	**$95,186,400**
At reassessed market rate (50% increase)	$20,400,000,000	$285,559,200	**$142,779,600**

Check out our full report on the 10-year tax abatement at http://bit.ly/NpPILOT. Methodology at the end.

Stop Rollback of the Big Biz Tax

APPROXIMATELY $54 MILLION ANNUALLY

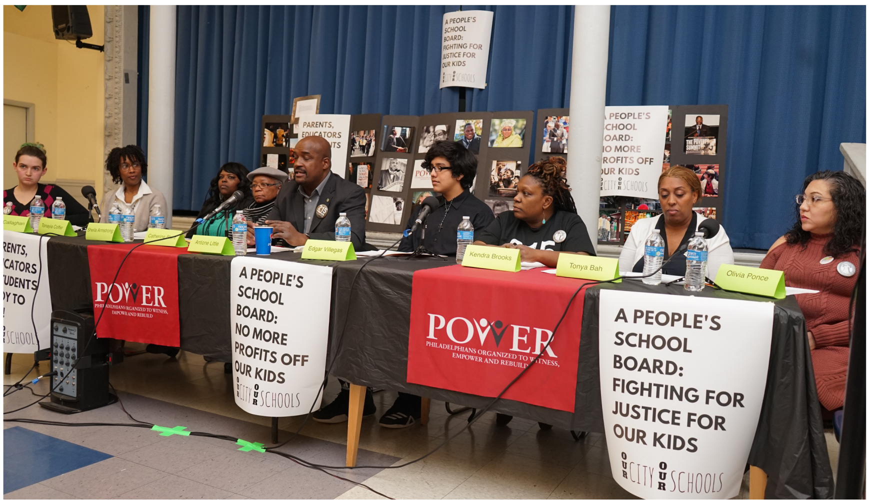
WE PROPOSE POSTPONING THE SLATED REDUCTIONS OF THE BUSINESS INCOME AND RECEIPTS TAX (BIRT).

In his March 2018 budget address, Mayor Kenney proposed a postponement in slated cuts to the wage tax in order to fund our schools. This is an important move, but **it is both unwise and immoral to keep a tax that hits individuals while allowing tax rollbacks for giant corporations in the city.**

The same major corporations who pay the BIRT just received a major windfall from the Trump tax cuts. Instead of rolling back the BIRT, our city government should not just stop the reductions but consider increasing BIRT taxes as long as the Trump budget continues to allow major corporations to avoid paying what they owe to our schools through the federal budgets.

The BIRT plays a significant role in keeping the School District solvent, adding an additional $54.36 million per year or approximately $271.8 million over the next 5 years (according to page 12 of the City's 2018-2022 Five Year Financial and Strategic Plan here: http://bit.ly/WageBIRT).

For further analysis from PA Budget and Policy Center:
https://www.pennbpc.org/brief-rethinking-philadelphia-taxes-fund-education



Members of the Our City Our Schools People's School Board slate hosting a town hall on the future of Philadelphia's schools on January 31, 2018

Tax Corporate Landlords

APPROXIMATELY $35 MILLION ANNUALLY

WE PROPOSE THAT THE USE AND OCCUPANCY TAX BE RAISED FROM 1.21% OF PROPERTY VALUE TO 1.5% OF PROPERTY VALUE.

In 2017, the Use and Occupancy tax, 1.21% of property value, with the first $165,000 of property value excluded, will bring in approximately $148 million in revenue. If the U&O rate was increased to 1.5% of property value, and the exemption proportionally increased to $206,000 (equivalent to a $2,500 credit), this will net roughly $35 million in additional income for the school district in 2018 and beyond. It is important to note that in 2013 with the adjusted value initiative that aimed at bringing tax assessments in line with market values, the owners of large corporate real estate received a huge tax windfall, with the ten largest landlords receiving $16 million reduction in their Use and Occupancy bill for 2014.

Members of Our City Our Schools celebrate at a rally before the SRC's vote to dissolve on November 16, 2017

Independent Forensic Audit

SCHOOL DISTRICT SPENDING PROPOSAL

While we see many ways to create a school district budget that supports the needs of students, teachers and the district, we believe it is critical to understand exactly how money is being spent. Consequently, we call on the Mayor, the School Reform Commission and/or the incoming School Board to do an independent forensic audit of the Philadelphia School District's budget so the public can assess spending and make recommendations. In particular, we believe that the District loses large sums of money to lawyers and for-profit consultants.

Fund Public Bank Feasibility Study

MEDIUM-TERM PROPOSAL TO ADDRESS SCHOOL DISTRICT DEBT SERVICE PAYMENT

Last year to service its debt, the School District paid commercial banks 9% of its budget, a staggering $272 million. This cost is excessively high because rating agencies downgrade the District's credit rating due, in large part, to stereotypes about urban districts. A public bank chartered by the city would rate the School District without that bias. Coupled with its lack of interest in making super-profits, the bank could save the District tens of millions of dollars annually in debt service. Indeed, the Bank of North Dakota charges its government borrowers at a 2% interest rate, drastically lower than Wall Street.

A public bank would be more beneficial than the substantially lower borrowing rates, because all loan repayments would be recycled by the bank into more loans funding additional public sector needs, while supporting small businesses and non-profits. The first step in establishing a public bank is funding a feasibility study that could address the legal and fiscal measures necessary to create such a bank. We ask the City to include funding for such a study in the 2019 budget. More about the benefits of public banks here: http://bit.ly/PubBank

METHODOLOGY ON TAX ABATEMENTS

This analysis relies on data obtained and purchased from the City of Philadelphia Office of Property Assessment (OPA) in January 2018. OPA provided a list of all certified properties making use of the 10-year tax abatement program. We calculated the total lost School District revenue for all abated properties by expiration year. $7.034 million is the estimated revenue that would have gone to the School District if not for new abatements given in 2017, and is used as the baseline should the abatement program be phased out for ten years beginning in 2018. $7.034 million was assumed to accrue annually over the next 10 years.

Assumptions:

- Development rates continue at the same rates as 2017 so that the number of buildings applying for abatements is the same.
- Philadelphia real estate tax rate = 0.6317% (City) + 0.7681% (School District) = 1.3998% (Total)
- The School District rate of 0.7681% was applied to the total exempt value (land and building) to derive the lost revenue to the District of abated properties.
- Exempt land and exempt building estimates are 100% attributable to the 10-year tax abatement program and are not in combination with other tax-exempt programs.

Data Sources:

- 2018 Certified Assessed Properties Receiving 10-Year Tax Abatement: City of Philadelphia Office of Property Assessment

METHODOLOGY ON PILOTS

This analysis relies an analysis done in April 2017 by Robert Brubaker at the *Inquirer*. We currently have a right to request in to OPA for a list of all property tax-exempt properties. These numbers do not take into account properties that would be exempt under of our threshold of $15 million. We also do not know if Brubaker's number refer only to property-tax exempt properties — we have reached out, and we are waiting for numbers from OPA. The high-end estimates reflect the possibility that these properties are undervalued by as much as 50%.

Assumptions:

- Philadelphia real estate tax rate = 1.3998% (Total)