

## Action Plan v2.0

### Financial Supplement: Getting to Great

February 20, 2014

This brief supplement to the Action Plan v2.0 asks our funders to provide the sustainable level of investment needed for us all to be successful as we work together to make our schools great.

As laid out in Action Plan v2.0, the case for investing in great schools is clear.

Firstly, we know what works and what we need to do. We are making our schools great by investing in school leadership and in teacher development, by investing in neighborhood schools, by investing in new ways of reaching all students according to their needs, by investing in the quality instruction necessary to achieve high standards, by investing in school safety and high-quality service for parents and families, and by investing in high quality charter options. In short, we are investing our precious resources in what works.

In addition, over the past year, in spite of our budget constraints, the District has been able to invest in specific programs that work including: expanding Career and Technical Education programs in high priority occupations; investing in turning a program – the Sustainability Workshop – into a new school; starting a career academies model at Roxborough and Lincoln; replicating and expanding high performing schools such as the Science Leadership Academy and Hill-Freedman; and turning around several low performing schools by establishing three new Renaissance charters and six new Promise Academies.

While these programs helped to move over 5,000 students into programs and school models that have been demonstrated to improve student achievement, this number remains far too low.

Secondly, a quality education benefits our students, families, communities, and the city.<sup>1</sup> Our funders, and thus taxpayers, should support the necessary investment because it is the right thing to do, to make great schools for all young people; and because strong schools are the heart of any vibrant city's civic and economic infrastructure. Simply put, strong schools will strengthen the foundation of Philadelphia's economy in meaningful ways; weak schools will erode the progress that the city has recently experienced.

More specifically, there are five facts that support the case for investing in great schools.

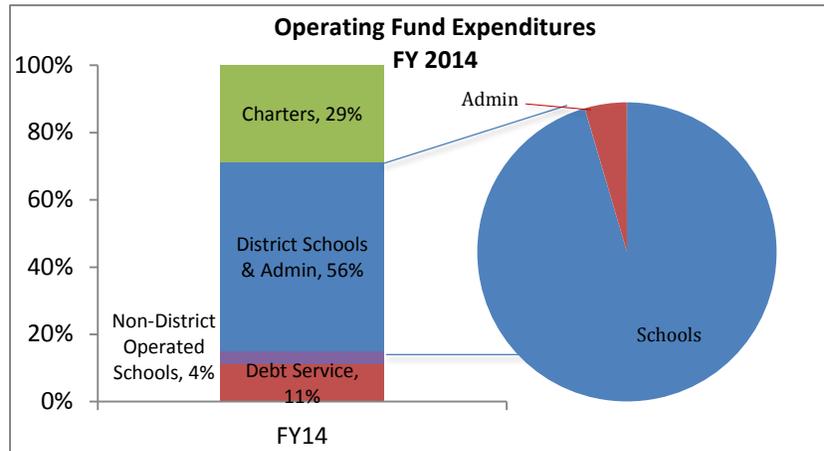
1. *Children benefit tremendously from great schooling, as great schools improve learning, decrease the number of drop-outs, and increase the likelihood of children going on to further education and work.* High school graduates enjoy 39% more in earnings over their lifetimes than high school dropouts, while people who complete college earn 129% more over their lifetime. Annually, high school dropouts earn \$10,300 less than high school graduates and \$31,400 less than college graduates.<sup>2</sup> Conversely, high school dropouts are 1.5 times more likely to end up unemployed than high school graduates, and more than 63 times more likely to enter the criminal justice system than those with at least a bachelor's degree.<sup>3</sup>
2. *Families deserve equitable investments across all schools, particularly given regressive taxation policies.* According to the Education Law Center's review of all fifty state's education funding

policies, Pennsylvania is considered a state with a regressive policy, i.e., it does not provide additional resources to schools based on their poverty concentration.<sup>4</sup> In essence, the state’s funding policy does not provide differentiated levels of support to students based on their level of need.

3. *Great schools support and sustain neighborhoods, providing essential “social capital” that counters the adverse effects of blight and poverty.* Schools and education can build social capital by providing forums for community activity.<sup>5</sup>
4. *Great schools will contribute meaningfully to Philadelphia’s and Pennsylvania’s economy.* Investments in great schools both increase future public revenue and decrease current and future public costs. Educated workers raise regional income because of increased productivity. Furthermore, dollars invested in quality schools can reduce other areas of public spending such as unemployment, the criminal justice system, and public aid.<sup>6</sup> For example, every \$1 spent on quality pre-school for low income families is estimated to generate \$4 to \$11 of economic benefits over a child’s lifetime.<sup>7</sup>
5. *Great schools contribute to the recruitment and maintenance of a high quality workforce.* According to a recent study by the Pew Charitable Trusts, 56% of young adults said they would not recommend Philadelphia as a place to live as the condition of the School District of Philadelphia “weighs heavily on millennials;” 81% of them have a negative impression of the job that schools are doing.<sup>8</sup> In addition to not recommending Philadelphia as a place to live, half of those surveyed indicated that they definitely or probably will not be living in Philadelphia in the next five to 10 years with 29% indicating that school and child-upbringing as their primary source of concern.<sup>9</sup>

## Our Current Ability to Invest in Students and Schools

Improving our schools is our work; it is clearly reflected as our highest priority in the way we spend our limited resources. After paying for mandatory expenditures, approximately \$1.41 billion, or 56% of our operating budget is available for District expenses. Of the \$1.41 billion available to cover District expenses, \$1.35 billion goes to paying for our school buildings and our students’ instruction.



This constitutes 95% of our available funding.

In spite of the District’s commitment and our actions to protect as much school funding as possible, we have had to scale back on school-based personnel and many activities that support our students, including decreasing some instructional programming, shrinking our extracurricular programming and counseling support, decreasing the number of librarians, scaling back on our school transformation efforts, and decreasing the activities that support our retention activities and gifted programs.

These reductions have occurred over several years, and we have endeavored to minimize the impact on students and the school district. However, over the past three years, The School District of Philadelphia has made massive budget reductions to close shortfalls. In FY 2012 the District closed a budget gap of over \$700 million which included \$315 million in school-based reductions and reducing the central office FTE total by 50%. To allow schools to open, the District borrowed \$300 million – an option that was no longer available to us in FY 2014. Therefore, by FY 2014, the District was facing a \$304 million budget gap. In an effort to only spend what we have, the adopted budget for FY 2014 included over \$250 million in additional expenditure reductions, leaving many of our schools with a principal, teachers at the contractual class size limits and very little else. The District had to reduce nearly 5,000 positions (25% of total positions) resulting in roughly 3,800 layoffs. Central office spending was further reduced by 30% leaving Central Office spending at a little over 2% of the total operating budget.

Since Budget adoption, additional revenue (\$112 million) has been identified which has partially restored some services to school. However, as the majority of the \$112 million in new revenues for FY 2014 is non-recurring, these resources are no longer available for FY 2015. Therefore, it is critical that the District receives the full \$120 million in recurring revenues from the 1% sales tax continuance.

As a result, we are in the same situation we were last year. The District cannot afford what works. We can only afford some of what works. This means that we cannot afford to replicate and scale programs that work at the rate our students deserve. We cannot afford to provide all of our schools with the opportunities necessary to ensure a high quality education which prepares our students for college and career. We cannot afford to provide our teachers and principals and other educators with the time and support necessary to help strengthen their instructional practice and continue their own professional growth in aid of our students.

We cannot afford these things because we do not have sufficient funding. If we compare our estimated per pupil spend to our nine top performing neighboring districts, the District spends between \$1,890 and \$12,204 less on each student than our neighboring districts, despite having 150%-1600% higher proportion of students who qualify for free and reduced-price meals (see Table 1).<sup>10</sup> Therefore, to have a similar per-pupil spend as neighboring districts, the SDP’s operating budget would have to increase by ~\$250 million to ~\$1.6 billion annually.

**Table 1: 2012 Per Pupil Spend for SDP and Nine Neighboring School Districts & Pittsburgh<sup>11</sup>**

School District	Per Pupil Estimate* (2012)	PSSA Proficiency (Gr 3-5)** (2012)	Economically Disadvantaged*** (2012-2013)	Funding required to provide SDP with similar resources
Lower Merion	\$25,370	90%	8.17%	\$1,603 million
Pittsburgh	\$21,000	52.8%	69.46%	\$1,029 million
Cheltenham	\$20,941	80%	22.40%	\$1,021 million
Colonial	\$19,132	90%	18.55%	\$784 million
Lower Moreland	\$18,718	86%	5.14%	\$729 million
Neshaminy	\$17,230	81%	19.68%	\$534 million
Bensalem	\$16,976	67%	46%	\$500 million
Abington	\$15,543	84%	18.42%	\$312 million
Haverford	\$15,398	89%	12.95%	\$293 million
Springfield	\$15,056	89%	13%	\$248 million
Philadelphia	\$13,167	41%	83.93%	\$0

\*Source: Pennsylvania Department of Education Statewide AFR Expenditures

\*\* Source: PA AYP

\*\*\*Source: Pennsylvania Department of Education PA School Performance Profile

Similarly, a recent report prepared for Philadelphia’s City Council by scholars at the University of Pennsylvania about education spending in Pennsylvania (based on 2009-2010 budgets) estimates that Philadelphia spends \$5,478 per student less than it should to provide an adequate education.<sup>12</sup> In 2013 dollars, this means that the District is operating a budget that is approximately \$770 million less than what is required for adequacy.<sup>13</sup>

Furthermore, in comparison to neighboring states The School District of Philadelphia spends between \$2,800 to \$5,900 less per pupil.<sup>14</sup> Therefore, when accounting for the number of students we serve, this difference equates to approximately \$368 million less than what New Jersey would otherwise spend on its students and about \$776 million less than what New York would spend (see Table 2).

**Table 2: Per Pupil Spend in Neighboring States (2011)**

Comparison State	Per Pupil Amounts FY 2011	Equivalency Gap
New York	\$19,076	\$776 million
District of Columbia	\$18,475	\$697 million
New Jersey	\$15,968	\$368 million

*Source: US Census Bureau*

We agree that funding is not the sole solution to the many challenges facing our schools. However, money does matter, and we do not have enough. For example, we currently do not have resources to:

- Significantly improve our early literacy and kindergarten readiness program
- Provide our students with an adequate number of counselors<sup>15</sup>
- Offer a range of extracurricular options for our students<sup>16</sup>
- Support students who demonstrate advanced academic potential<sup>17</sup>
- Provide our teachers with opportunities to be observed and receive feedback to help strengthen their instructional practices
- Incubate or replicate our high performing schools
- Dramatically improve the physical environments of all of our schools

In short, we do not have sufficient funds to fully implement the evidence-based actions identified in Action Plan v2.0.

## A Stark Choice

In addition to the \$120 million of recurring revenues from the 1% sales tax continuance, the District will require \$320 million in recurring revenues to provide a minimum amount of improved and sustained educational opportunities for our students and families. Approximately \$80m of this recurring funding would go to closing a new anticipated budget gap (due to increased expenses for pensions and charter school growth), to ensure that students are provided the same level of service. The difference of approximately \$240 million will allow the District to provide additional supports to our schools and students (see Table 3). These services will provide the incremental support our schools and the system needs to reverse the tide of underinvestment and under performance.

**Table 3: Additional Resources for Schools with \$320 Million Additional Recurring Revenues**

Action Plan Strategies	Activities
<b>Strategy 1: Improve Student Learning</b>	<ul style="list-style-type: none"> <li>• Robust early literacy program</li> <li>• School climate programs</li> <li>• Limited credit recovery program for high school students</li> <li>• Additional supports to English Language learners and students with IEPs</li> <li>• Additional counseling, mental, and behavioral health support to schools and students</li> <li>• Additional support to students for Keystone exams</li> <li>• Updated curricular materials</li> <li>• College and career readiness assessments and programs for most schools (e.g., PSAT, SAT, AP, IB, and dual enrollment)</li> <li>• Modest increase in discretionary spend for schools</li> </ul>
<b>Strategy 2: Develop a System of Excellent Schools</b>	<ul style="list-style-type: none"> <li>• More expansions, replications, and creation of new schools</li> <li>• Strengthened and expanded career academies operating in the District</li> <li>• Expanded CTE programming</li> <li>• Improved safety and physical infrastructure for a select number of schools</li> <li>• 1-5 Renaissance Charter conversions</li> <li>• Expansion of top charter performers</li> </ul>
<b>Strategy 3: Identify and Develop Exceptional, Committed People</b>	<ul style="list-style-type: none"> <li>• Additional instructional activities</li> <li>• Strengthened teacher and principal PD</li> <li>• Principal residency program</li> <li>• Development of internal leadership pipeline</li> <li>• Additional non-instructional supports for schools</li> </ul>
<b>Strategy 4: Become a Parent- and Family-Centered Organization</b>	<ul style="list-style-type: none"> <li>• Improved student enrollment process</li> <li>• Improved customer service and training for parents</li> </ul>
<b>Strategy 5: Become and Innovative and Accountable Organization</b>	<ul style="list-style-type: none"> <li>• Upgraded student information system</li> <li>• Improved data processing and reporting</li> </ul>
<b>Strategy 6: Achieve and Sustain Financial Balance</b>	<ul style="list-style-type: none"> <li>• Increased capacity to leverage partnership support</li> </ul>

However, to be clear, the additional \$320 million in new recurring revenues will not provide the District, our schools, our students, or the charter sector the sufficient resources to fully implement the activities identified in Action Plan v2.0. It does not allow us to do all of the hard work necessary to turnaround each school and get to great. Getting to great requires more.

### Further Considerations

In addition to the operating budget, additional considerations must be made for other sources of revenues received by the District; the charter funding formula; and supports received from our communities and partners.

#### **Labor**

We are currently engaged in contract negotiations with four of our five labor unions. Last year, we included \$133 million in cost reductions from our labor partners in our funding requests. We remain committed to the belief that all must share in the sacrifice. In order for the District to implement the various initiatives in a sustainable and cost effective manner, cost savings will be paramount to further enhance the program improvements outlined in Action Plan v2.0.

Furthermore, we need more than economic concessions from our labor partners. The following work rule reforms are absolutely necessary to implement our initiatives so they achieve the outcomes desired. Those reforms include:

- Getting the right people in schools, ensuring that principals and school leadership teams are able to assemble school teams that best meet the needs of the students and school community through:
  - 100% inbound site selection (i.e., all open positions in schools may be filled through a thoughtful process involving interviews)
  - Providing principals with the authority to determine who exits a building owing to either enrollment or funding reductions based on appropriate, student-focused criteria
  - Enabling flexibility on recall of laid-off employees
- Providing principals with the ability to construct the use of preparation periods to facilitate collaborative planning among teachers in a school
- Increasing the length of instructional time during the school day
- Flexibility around a school's roster so that class schedules can be created in an efficient manner that meets the needs of students in the school

### ***State funding commission***

We are enthusiastic about the state's interest in establishing a commission to review the distribution of school funding and will fully support the commission's work should House Bill 1738 be voted into law.<sup>18</sup> At the same time, our students and families should not have to wait another year for better resourced schools. We ask our funders to invest in making our schools better now.

### ***Additional funding streams***

In terms of other revenues, the District also receives resources in the form of state and federal grants, capital funds, and small enterprise funds. Therefore, we are working to ensure that all of our resources are well managed and that our expenditures are allocated in a manner that is aligned with our strategies.

- ***Grant Funds.*** Grants comprise approximately 11% of the total District consolidated budget,<sup>19</sup> or \$336 million. The District has spent two years ensuring we are completely compliant with federal regulations, and were recently cited for our exceptional approach to the use of Grant funds. We are now reviewing all allowable uses to make sure that our Federal grants are being allocated to our most important priorities.
- ***Capital Funds.*** Our Fiscal Year 2014 capital budget is \$134 million.<sup>20</sup> We have instituted strong controls on capital budget decision-making to ensure complete harmony with our overall budget priorities.
- ***Enterprise Funds.*** These funds are used to account for the operations of the Food Services Division within the School District of Philadelphia. These fund budgets are not adopted; however, formal budgets are prepared and approved by management. These funds amount to approximately \$81.8 million, which is 2.8% of the District's budget.

### ***Charter School Funding***

The District, as authorizer, supports high performing charter schools as important and real options for families in Philadelphia. The District also suffers from an unreasonable state funding formula that

penalizes District schools for every child that leaves to attend a charter school. Therefore, as we consider our authorizing work, we are committed to expanding high performing charter schools, and doing so in ways that are cost neutral to the District. Toward this end, we plan to continue to work with the state to stop payments to schools, especially low performing schools, that are over-enrolled and get payment directly from the state; and we plan to aggressively seek to close the lowest performing charter schools that are under-serving children and families.

### **Partnership Goals**

It is our intention to work collaboratively with the philanthropic and corporate communities to secure both financial and in-kind services to support our priorities. We have established the following financial and service targets for our fledging Office of Strategic Partnerships over the next year:

- \$2 million from corporations
- \$7 million from local and regional foundations
- \$5 million from national foundations
- \$25 million of in-kind services

The total estimated value of partnerships in FY15 is \$39 million. These resources are intended to provide our schools with the complement of supports and services necessary to accelerate their progress towards “great;” it is not to achieve the minimum of services described above.

### **Conclusion**

As the numbers starkly indicate, for too long there has been a disinvestment in the School District of Philadelphia’s students. This is a policy with real and damaging consequences for the lives of our students, the future of our city, and the social and economic health of our state. As a District, we are committed to realizing a system of excellent schools capable of providing all our students with the quality education they deserve. Such a system, however, is not possible with the kind of chronic underfunding that is starving our schools and shortchanging our students. Together we have an opportunity to take action. Yes, commitment is necessary. And yes, we have an evidence-based and implementable plan. But good intentions, good will, and good planning can only take us so far. Real improvement requires adequate, fair and stable funding.

## End Notes

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- <sup>1</sup> Students without a high school diploma are three times more likely to be unemployed compared to individuals with a bachelor's degree, see the Bureau of Labor Statistics Employment Projections for 2012 ([http://www.bls.gov/emp/ep\\_chart\\_001.htm](http://www.bls.gov/emp/ep_chart_001.htm)). In terms of lifetime earnings, an individual with a bachelor degree could expect to earn approximately \$900,000 more than a high school drop out and about \$700,000 more than a high school graduate throughout his/her lifetime, see US Census American Community Survey Report "Education and Synthetic Work-Life Earning Estimates" (<http://www.census.gov/prod/2011pubs/acs-14.pdf>). Additional information about impact of public schools can be found in Weiss, Johathan D. (2004), "Public Schools and Economic Development: What the Research Shows," Knowledge Works Foundation. Also see Action Plan v2.0 section on "The Case for Investment." [www.philasd.org/actionplan/](http://www.philasd.org/actionplan/).
- <sup>2</sup> Baum, S., Ma, J., and Peyea, K. (2013). "Education Pays 2013: The Benefits of Higher Education for Individuals and Society." The College Board. Retrieved from <http://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report.pdf>
- <sup>3</sup> "The Consequences of Dropping Out of High School: Joblessness and Jailing for High School Dropouts and the High Cost for Taxpayers," 2009. [http://www.northeastern.edu/clms/wp-content/uploads/The\\_Consequences\\_of\\_Dropping\\_Out\\_of\\_High\\_School.pdf](http://www.northeastern.edu/clms/wp-content/uploads/The_Consequences_of_Dropping_Out_of_High_School.pdf)
- <sup>4</sup> Education Law Center (2004). "Is School Funding Fair? A National Report Card". Retrieved from [http://www.schoolfundingfairness.org/ExecutiveSummary\\_2014.htm](http://www.schoolfundingfairness.org/ExecutiveSummary_2014.htm)
- <sup>5</sup> The World Bank. "Social Capital and Education." Retrieved from <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTSOCIALCAPITAL/0,,contentMDK:20186584~isCURL:Y~menuPK:418214~pagePK:148956~piPK:216618~theSitePK:401015,00.html>
- <sup>6</sup> Alliance for Excellent Education (2013). "Saving Futures, Saving Dollars: The Impact of Education on Crime Reduction and Earnings." Retrieved from <http://all4ed.org/wp-content/uploads/2013/09/SavingFutures.pdf>
- <sup>7</sup> National Institutes of Health (2011). "High-quality preschool program produces long-term economic payoff." Retrieved from <http://www.nih.gov/news/health/feb2011/nichd-04.htm>.
- <sup>8</sup> The Pew Charitable Trust (2004). "Millennials in Philadelphia: A Promising but Fragile Boom." Retrieved from [http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia\\_Research\\_Initiative/Philly\\_Millennials\\_Report\\_012214.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia_Research_Initiative/Philly_Millennials_Report_012214.pdf)
- <sup>9</sup> The Pew Charitable Trust (2004). "Millennials in Philadelphia: A Promising but Fragile Boom." Retrieved from. [http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia\\_Research\\_Initiative/Philly\\_Millennials\\_Report\\_012214.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia_Research_Initiative/Philly_Millennials_Report_012214.pdf)
- <sup>10</sup> The statewide per pupil funding table can be accessed here: [http://www.portal.state.pa.us/portal/server.pt/community/summaries\\_of\\_annual\\_financial\\_report\\_data/7673/afr\\_excel\\_data\\_files/509047](http://www.portal.state.pa.us/portal/server.pt/community/summaries_of_annual_financial_report_data/7673/afr_excel_data_files/509047)
- <sup>11</sup> The funding required to provide SDP with similar resources was calculated by taking the difference in per pupil expenditures and multiplying it to the number of students currently served by SDP.
- <sup>12</sup> Steinberg, M. and Quinn, R., (2013). "Assessing Adequacy in Education Spending: A Summary of Key Findings from Pennsylvania and Philadelphia." Retrieved from [http://www.gse.upenn.edu/pdf/school\\_funding\\_summary\\_findings\\_steinberg\\_quinn.pdf](http://www.gse.upenn.edu/pdf/school_funding_summary_findings_steinberg_quinn.pdf)
- <sup>13</sup> The \$770 million dollar estimate was derived by multiplying the adequacy funding gap (\$5,478) by the number of K-12 students currently served by SDP (131,362) and converting a 2010 dollar value to a 2013 dollar value. The cumulative rate of inflation between 2010 and 2013 is approximately 6.8%. It is important to note that between 2010 and 2013, the District has cut more than \$200 million in expenditures, if this was added back to our operating budget the gap would be closer to \$970 million. This calculation also excludes Pre-K students, alternative education students, and students who are placed in alternative settings – all of whom are paid for by SDP.
- <sup>14</sup> These estimates were derived by subtracting the 2011 state per pupil spend as estimated by the US Census from SDP's 2012 per pupil spend as provided by PDE.
- <sup>15</sup> Decreasing the student to counselor ratio to 250:1 has shown to have decreased the probability of disciplinary infraction or recurrences, see Carrell, S.(2006). "Do Lower Student-to-Counselor Ratios Reduce School

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Disciplinary Problems?" *Contributions to Economic Analysis & Policy*, vol. 5: Iss 1. <http://www.umass.edu/schoolcounseling/uploads/breif5.3.pdf>. Furthermore, lower student-to-counselor ratio has shown to improve graduation and school attendance rates, see Lapan, R., Gysbers, N., Stanley, B., and Pierce, M. (2012). "Missouri Professional School Counselors: Ratios Matter, Especially in High-Poverty Schools." *Professional School Counseling*, v16, n2, p108-116.

<sup>16</sup> Hallow, J., (2002). "Research Link / Extracurricular Activities and Student Motivation." *Educational Leadership*, v60, no1. Retrieved from <http://www.ascd.org/publications/educational-leadership/sept02/vol60/num01/-Extracurricular-Activities-and-Student-Motivation.aspx> and Scott, T. (2010). "The Benefit of Extracurricular Activities in High School: Involvement Enhances Academic Achievement and the Way Forward." *Academic Leadership*, vol8, issue 3, p 239-244.

<sup>17</sup> While there is research indicating that students who achieve a certain score on the PSAT are likely to score a 3 or 4 on the AP exam, the District is currently unable to fund PSAT exams for all our students. As a result, we are unable to identify and support students who demonstrate a potential to succeed at higher levels. See Ewing, M., Camara, W., and Millsap R., (2006). "The Relationship between PSAT/NMSQT Scores and AP Examination Grades: A Follow-Up Study." College Board Research Report No 2006-1.

<sup>18</sup> Harris, M. (2013). "House OKs commission to examine school spending." TRIBLive. Accessed on 2/14/14 at <http://triblive.com/news/education/5422379-74/funding-formula-state#axzz2teDa8p00>. See also The General Assembly of Pennsylvania House Bill 1738. Retrieved from <http://www.legis.state.pa.us/CFDOCS/Legis/PN/Public/btCheck.cfm?txtType=HTM&sessYr=2013&sessInd=0&billBody=H&billTyp=B&billNbr=1738&pn=2878>.

<sup>19</sup> The District's consolidated budget includes four sources of funding: operating, categorical (grants), and food services.

<sup>20</sup> The Capital budget is not based on a specific source of revenue, rather it is based on a bond issuance; therefore, the Capital budget will vary based on District need as well as the District's ability to absorb debt service fees in its operating costs.