

Financing Public Education: Tax Increment Financing

Bill Green 04 April 2011

Introduction

There can be no question that the single greatest challenge facing Philadelphia—the issue on which our city's future will turn—is the quality of our publicly supported education.

Unless we provide our most vulnerable citizens with the skills they need to earn a decent wage, unless we provide middle-class families a reason to stay in the city rather than move to the suburbs once their kids are school-aged, no amount of tax reform or business attraction incentives will be enough to keep our daunting demographic trends—Philadelphia's 35 percent child poverty rate portends an overall poverty rate of close to 50 percent within the next several decades—from overwhelming the city.

Last spring, I released a policy paper with dozens of detailed action items for school reform, many of which relate to issues or ideas touched upon in other articles in this special issue of the *Philadelphia Social Innovations Journal*. In this piece, I highlight one concrete example of how I think education reform in Philadelphia should

proceed.

The Penn Alexander Example

The Penn Alexander School in West Philadelphia—a successful partnership between the School District and the University of Pennsylvania—shows us both the potential of collaborating with our local universities to improve public education and also that investing in education is an economic development tool.

In the late 1990s, the University of Pennsylvania partnered with the School District of Philadelphia to create a K–8 public school, Penn Alexander, just west of the university's campus. The idea for the school grew from Penn's desire to stabilize and revitalize the surrounding neighborhood in the wake of a crime spike in the 1980s and 1990s, a desire intensified by the high-profile fatal stabbing of a Penn graduate student in the neighborhood in 1996.

Officials at Penn and members of the community understood the economic and social value of having quality, affordable elementary education readily available in the neighborhood. The university, under the direction of then-president Judith Rodin, sought to make the neighborhood more stable and safe by encouraging more middle-class families and Penn employees to settle there. The theory was that these residents would strengthen the neighborhood by revitalizing its historic housing stock, making lighting improvements, reducing vacancy and

fueling commercial activity. Penn offered special mortgages with favorable terms, such as partial loan forgiveness and upfront grants to fund building improvements, to employees committing to live in the area for a minimum of seven years. These efforts resulted in local homes being purchased and/or rehabilitated.

Penn appreciated, however, that incentivizing new residents to move in would not be a long-term solution unless it did something about the educational options available in the area. The existing Philadelphia public schools serving the neighborhood had lackluster student achievement and reputations for violence and disorder. The risk was that new residents would move out of the area once they had school-age kids, perpetuating a historic pattern.

Accordingly, Penn decided to partner with the District to open a new K–8 school, which the university would support with both direct and in-kind contributions. When Penn Alexander opened in 2001, it had a curriculum designed by professors at Penn's Graduate School of Education, which also trained teachers and subsidized the school's operating costs by more than \$1,000 per student (Tracy 2009). The school has been a success academically.

As a result of the quality of the education provided at Penn Alexander, the school has become a major selling point for those looking to move to the neighborhood. And

it has had a significant effect on property values: Homes within the school's catchment zone sell for \$60,000 to \$100,000 more than similar homes across the street but outside of the zone (Dubilet 2004). As one area realtor, Steve Drabkowski, explained: "Once the school boundary was established, it really caused the value in that catchment area to go up. Families didn't have to worry about sending their kids to private schools or to inadequate public schools" (Lapinski 2001). Real estate prices within the catchment zone nearly tripled and home ownership rose six percent in the first several years after the school opened (Dubilet 2004).

Penn Alexander not only contributed to an increase in property values, it also added stability to a neighborhood in transition. "I think from a social standpoint, what building a school has done is begun to stabilize the neighborhood . . . because now people feel comfortable staying and raising their children in the area," said Nancy Roth, president of the Spruce Hill Community Association (Dubilet 2004).

Given what we know about a major reason families move out of the city when they have children—namely, to access high-quality suburban public schools—it should come as no surprise that the availability of quality public education is a major factor in a neighborhood's desirability and is reflected in property values. Taking this one step further, the effect of Penn Alexander on its neighborhood is clear evidence that investing in publicly supported

education could be an economic development tool for Philadelphia, particularly in transitioning neighborhoods with quality housing stock.

The Proposal

The Proposal

Philadelphia should replicate the Penn Alexander model elsewhere in the city, using a form of tax-increment financing (TIF) to bring quality educational options to neighborhoods with solid housing stock but poor or limited school choice. Under the TIF model, the debt service on capital borrowed to construct and finance new or renovated schools would be paid through the additional real estate tax revenue generated as property values rise within the school's defined adjacent catchment area (see Dye and Merriman 2006).

Many cities, including Philadelphia, use this funding mechanism to support economic development projects that are expected to generate additional future tax revenue. In Philadelphia, for example, a TIF was used to help fund for the revitalization of 13th Street in Center City—a redevelopment project that has increased tax ratables and spurred neighborhood redevelopment. Given the clear impact of education on property values, it makes sense to use this tool to fund the development of new, innovative public schools, as well.

For example, if an educational TIF zone was drawn to encompass 2,500 properties, at least \$3 million annually in new tax revenue could be generated through the tax increment following from increased property values attributable to the presence of a quality school. (If each property, on average, saw its assessed value increase by just \$25,000, it would generate more than \$1,200 in new annual tax revenue at the School District's current rate of 49.59 mills – 2,500 properties at \$1,200 each would amount to \$3 million). This would be more than enough to fund debt service on a \$30 million bond issued for school construction (enough to fund the bulk of the cost of new school construction), retrofitting an existing facility, and related start-up costs.

While this model may not be practical in parts of the city that are not expected to generate a significant tax increment solely through the presence of a new school, it could be effective in transitional or revitalizing neighborhoods that lack adequate access to quality public education. Neighborhoods with solid housing stock that are attracting new residents, such as Francisville, Fishtown and Powelton Village, could be ideal places to use TIFs to build, revitalize and self-finance better schools. These schools, in turn, would stabilize and increase property values and continue to attract new families to Philadelphia at minimal cost to the rest of the city.

The quality of education opportunities has long been

acknowledged to be a primary factor influencing property values. Simply put, homes located in areas with poor public schools sell for less than equivalent homes located in excellent school districts or catchment zones. Quality education is an essential element for maintaining neighborhood stability and high property values and can be leveraged as an economic development tool.

Next Steps

Moving this concept from vision to implementation will require willingness to collaborate, openness to new ideas and leadership from the School District. Given the budgetary challenges and excess capacity issues facing the District—the District has approximately 70,000 vacant seats system-wide (Woodall 2011)—the TIF proposal could be an effective mechanism for retrofitting existing facilities, including for new charter schools, or for constructing new schools.

A likely critique of the approach is that by being geographically targeted, it inherently gives preference to some neighborhoods over others. While it may be more expedient to stick with the status quo—or await those approaches that can be applied citywide from inception—I think we do the entire city a disservice by refusing to pilot innovative ideas, testing them to see if they are replicable, and then scaling those that work.

I hope the School Reform Commission will consider how

to incorporate this concept into the District's pending facilities master plan (and I have previously have shared with the SRC a copy of the policy paper first proposing the TIF approach). The challenges facing Philadelphia's public education system are such that all options must be on the table.

Bill Green is an At-Large Councilman for the City of Philadelphia. Since taking office three years ago, Bill has focused his work in City Council on accountability and fiscal discipline, constituent service, quality of life for city residents, and education. Among other education-related initiatives, Bill successfully sued the City to prevent the permanent closure of 11 neighborhood library branches, receiving a court order still in effect.

References

Dubilet, A. (2004). Alexander School adds stability to neighborhood. *Daily Pennsylvanian*, April 6.

Dye, R. F. and D. F. Merriman. (2006, January). Tax increment financing: A tool for local economic development. *Land Lines*. Lincoln Institute of Land Policy. Available at http://www.lincolninst.edu/pubs/1078_Tax-Increment-Financing.

Jan, T. (2009). Ivy's growth transforms a city. *Boston Globe*, May 3.

Lapinski, A. (2001). School causes real estate boom. *Daily Pennsylvanian*, September 7.

Woodall, M, (2011). 70,000 empty seats in Philadelphia School District classrooms. *Philadelphia Inquirer*, January 20.