CITY OF PHILADELPHIA
PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

IN SEARCH OF REAL DOLLARS AND COMMON SENSE:

A Preliminary Report on the School District of Philadelphia's
School Closure Plan

City Controller
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EXECUTIVE SUMMARY

The School District of Philadelphia faces major challenges as both a financial and an educational endeavor. For the past fifteen years the School District has spent beyond its means. The "brand name" of Philadelphia public schools has been tarnished, as evidence by the flood of students into the burgeoning charter-school sector, drawn by the promise of better and safer schools.

Whether it is due to poor economic conditions or bad policy decisions, financial problems have deteriorated, or so the public has been told, into a full-blown state of emergency, with the entire $2.3 billion enterprise on the verge of collapse. Only through a $300 million bond issue has the District found enough cash to operate for the 2013 school year. In short, there seem to be very real financial issues that have led to the latest round of dramatic proposals to fundamentally change the structure, scope, and scale of District operations.

As the City's financial watchdog, the Controller's Office is compelled to evaluate the financial claims made in the District's published plans. We also have a responsibility to evaluate whether the plan is financially sound for the District, as it will ultimately displace thousands of students and could have devastating repercussions for many neighborhoods.

This report focuses on evaluating the District's case for the financial necessity of the immediate closure of 36 district-run schools. This substantial and imminent set of closures will affect more than 10,000 students, disproportionately concentrated in some of Philadelphia's poorest neighborhoods; nearly 80% of the affected students are African-American – in a District that is 55% Black. The District claims that the closure of these schools will benefit it in two ways: first, by providing a short-term revenue enhancement of $28 million from the sale of surplus District property; and second, a longer-term savings in operating expenses of $28 million annually.

In order to test claims made in the key documents that make the case for closure, the District's *Facilities Master Plan* and *Proposed Five-Year Financial Plan: Fiscal Years 2013-2017*, the Controller's Office requested data on operating expenses, costs associated with closing the buildings and transitioning the students to new schools, and the estimated market values for the properties in question. The District has been reasonably forthcoming with data.

In sum, after analyzing the available data, we find the District's oft-repeated central claims – that the District stands to reap a $28 million cash windfall in the next 5 years as well as annual permanent savings of the same amount from the immediate closure of these schools – to be somewhat misleading and based on a few tenuous assumptions. The $28 million annual figure is premised on rapid disposition of surplus property; because it is highly unlikely that even under the best of conditions in the real estate market the District will sell 36 additional properties in addition to 6 already in the surplus property inventory, counting on a short-term cash infusion on either the revenue or the expenditure side is probably unwise.

On the "revenue" side of the ledger, our analysis of the potential redevelopment opportunities for the proposed properties suggests that, at best, a few will be sold to market-rate developers at or near assessed market value. Many will likely be sold to nonprofits or educational management organizations at very low prices; for example the SRC recently approved the transfer of the former Roberto Clemente Middle School site to Nueva Esperanza for $1 and there apparently will be significant costs for remediation. Our analysis of the market suggests that many of these properties will remain vacant for years to come. And because many of the decommissioned properties will remain vacant for at least 5 years, on the one hand they will not generate revenue and on the other, they will accrue significant carrying costs.

In sum, the annual savings will likely be closer to $20 million than $28 million per year, at least in the near- and medium-term horizon of 5-10 years. Our analysis suggests that there will be vacant-facility carrying costs of $5.2 million for 2 years, $3.5 million for 3 years, and 1 million for 5 years. There will also likely be lower-than-anticipated savings in principal salaries due to seniority-based bumping, on the order of $2.2 million a year.

In addition to these direct financial implications for the District's budget, we believe that it makes sense to consider the broader economic impact of closures on such an unprecedented scale. Since there is a reasonable probability that many of the District's surplus properties will remain vacant for several years at best, we have tried to estimate the "blight effects" on property values in the immediately contiguous neighborhood. Since many of these proposed closings are concentrated geographically, the blight effects will likely be magnified; neighborhoods that are already economically challenged will find themselves even more so. **We estimate that, in the aggregate, the blight effect of this set of closures could be as high as $86 million in lost property values.**

Finally, though it is outside of the Controller's financial purview, we question whether the closure plan is adequately linked to the District's stated commitment to "improving academic outcomes." In approximately one-third of the proposed closures and relocations, students will be leaving a better-performing school for a worse-performing school, according to the District's own indices. Research on closures and relocations suggest that student outcomes only improve if students transfer to higher-performing schools than those they leave. In addition, thousands of families may face significant obstacles created by the school transfers, some of which will mean that students will be forced to travel into unfamiliar neighborhoods to attend new schools. This may lead to some level of attrition from the District, thereby undermining the fiscal benefits of the consolidations.

In sum, while we are acutely aware of the precarious financial position of the School District of Philadelphia, and while we are persuaded that a degree of "right-sizing" is appropriate and necessary, it is our view that the current plan may not deliver sufficient benefit for the very likely costs that it will impose on precisely those neighborhoods and families that can least afford to bear them.

This report proceeds from the narrowest to the broadest sets of financial and policy implications.

I: THE REVENUE NUMBERS

In the *Proposed Five-Year Financial Plan* (5YFP) published in September 2012, the following statements were made under the "key revenue assumptions" section of the document (pgs. 5-6) with regard to estimated surplus property sales:

"The projection assumes $28 million from the sale of unused District facilities over the five year period (i.e. fiscal years 2013 through 2017) – both facilities that were already closed and unused as of this date and facilities projected to be closed in FY 2013 through the Facilities Master Planning (FMP) process. Revenue projections for facilities that were already closed as of the time of publication were based on the appraised value for those properties. Revenue projections for properties closed through the FMP are necessarily an estimate, because no specific facilities have yet been identified for closure. That estimate is based on average values for District facilities, transaction costs, and the likelihood that a significant percentage of those facilities would not be immediately saleable."

Our office asked the District to provide "detailed support for the calculation of the estimated $28 million to be received from surplus property sales." The publicly available data as well as the experience in other cities like Detroit and Washington, DC provided reason for healthy skepticism about any school district's plans to garner revenues through sales and incur savings through closures.[1]

Data provided by the District show that over the past decade and a half, 12 properties were decommissioned, all of which were put on the market in late 2011. By the end of 2012, the District had received approval from the School Reform Commission to enter into agreements of sale for 6 of these properties, for total anticipated revenue in FY2013 of $7.78 million. According to the District's Director of Real Property Management, three other sites are on the verge of agreements of sale as well. The District's disposition policies, as described by the Director, seem sensible and informed by the experience of other cities: adaptive reuse is preferred, the District is required to sell for "appraised value or more" to private developers, and there are anti-speculation provisos in the sales agreements stipulating penalties for failing to develop the property within a specified timeframe.

Two of the pending 6 sales will produce 80% of the anticipated FY13 revenue, and it is instructive to look at them a bit more closely. The 187,000 square-foot former West Philadelphia High School building is located at 4700 Walnut Street, on the edge of the rapidly expanding domain of the University of Pennsylvania and on the border between the tony Spruce Hill neighborhood and the rapidly gentrifying Walnut Hill section. According to the City of Philadelphia's Office of Property Assessment (OPA), the former West Philly HS had a market value of $1.275 million, but New York-based Strong Place Partners was willing to purchase it for $6 million, or about $32 per square foot. A savvy and experienced developer, Strong Place is willing to invest what a rough pro-forma indicates will be at least $150 per square foot to convert the school into residences because they understand that Penn's near-continual expansion makes

[1] Pew Philadelphia Research Initiative, "Closing Public Schools in Philadelphia: Lessons from Six Urban Districts," October 19, 2011.

this a safe bet for high-end rental units worth $24 per square foot.[2] With average values for housing units in 5-or-more-unit structures running at close to half a million dollars and median rents in Spruce Hill at over $710 per month, this building represents the Holy Grail for the District's real estate team.[3]

Another promising property in the District's surplus property portfolio, the former Educational Services Building (ESB) at 427 Monroe Street is dramatically undervalued by the OPA, like much else in recently gentrified Queen Village, at $200,000. The District priced the ESB priced to sell at $1.2 million and garnered its asking price from Queen Village Lofts, LP, a development company based in the City's Fishtown neighborhood. At $76 per square foot for the building and around $150 per SF in likely conversion costs, the developers could sink $3 million or more into this 16,000 SF structure. In order to simply break even, condominium units will have to sell for 20% above the average Queen Village condo price of $356,000; rentals will likely run in the $20 per SF range. But like the West Philly High building, this property is in the right place, at the right time.

By contrast, the Rudolph Walton, John P. Jones, and Simon Muhr buildings, all vacant for some time, captured less than 75% of their asking price. Walton, in Strawberry Mansion, was sold to the charter school operator KIPP-Philadelphia for $320,000, 71% of the District's asking price, presumably to house a charter school. Jones, in East Kensington, is under contract to Elm City Capital for $250,000, roughly 56% of the asking price. Elm, a local developer specializing in conversion of old warehouses into low-income housing or "creative economy" live-workspaces, will likely try to redevelop the site along the lines of its existing Loom project in the same neighborhood.[4] Muhr, in Hunting Park, sold for $150,000, just 42% of the asking price of $360,000, to the Philadelphia Suburban Development Corporation, which does not appear to have made its redevelopment intentions known publicly. Conversations with developers who specialize in adaptive reuse development suggest that this building might work as either low-income or senior housing.

The District expected to garner $9.2 million from the sale of the first 6 sites in the surplus property inventory that are under agreement of sale, but earned only $7.9 million; it hopes to earn $6.4 million from the remaining 6 sites, but it would be far safer to assume earnings of less than $5 million.

Modeling potential sale values and reuse possibilities for surplus District properties

Our office asked the District to provide a spreadsheet delineating the proposed asking prices for each of the 36 buildings to be decommissioned. We have been told that as of the date of this

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[2] SPP CEO Andrew Banks estimates monthly rents of $800-850 for 400 SF studios. "Old West Philly High likely to become lofts aimed at grad students, faculty," WestPhilly.com, http://www.westphillylocal.com/2012/11/10/old-west-philly-high-likely-to-become-lofts-aimed-at-students-faculty/.

[3] All figures on average housing values and rental rates are from the census Bureau's 2009 American Community Survey.

[4] Plan Philly, December 6, 2012, "School Buyers Use Different Tactics with Surrounding Communities," http://philadelphianeighborhoods.com/2012/12/06/plan-philly-school-buyers-use-different-tactics-with-surrounding-communities/.

report, the District's real estate professionals have yet to conduct appraisals of any of these sites, since none has actually yet been added to the surplus property inventory. Absent this data, we used a combination of publicly available sources as well as accepted modeling techniques to determine what the likely reuse might be for a sample of these 36 buildings. From this, we can extrapolate very rough potential sales prices.

In deriving our estimates, we started from the assumption that the most lucrative reuse for most school district buildings and sites would be high-end residential or mixed-use residential and retail. As noted above, of the six pending sales of District properties, the highest prices were paid by developers for intent on redeveloping the properties into market-rate residential units. Using online commercial construction cost estimators, we estimated the cost per square foot to convert each building to residential use.

In the majority of cases, the costs of construction per square foot far outstripped the average rent or condo prices per square foot in the same neighborhood. In these cases, it would be highly unlikely that a private developer would find it economically viable to purchase these buildings for condominium or market-rate apartment conversion. Of the 31 examples shown in Table 2 below, perhaps 10 will be attractive to market-rate housing developers and sell at $20 or more a square foot. In some cases, the District's asking price seems unrealistic, such as $750,000 for Alcorn Annex; at nearly $18/SF a developer would need to invest roughly $150 per SF for conversion costs into the 42,000 SF building, in a neighborhood in which rents are among the lowest in the City, at about $6.27 per SF, and the condo market is virtually nonexistent.[5] Several other buildings on the proposed closure list share similarly unfavorable characteristics. Ada Lewis, which has been vacant for several years and is deteriorating badly, suffers from a relatively undesirable location from a market-rate development standpoint; it is quite difficult to imagine a developer paying $2.5 million for this site, as has been reported in the press as the District's asking price, or even the more recent price floated by the District of $1.75 million.[6] Many of the sites are located in neighborhoods along the struggling North Broad corridor that have seen major declines in population over the past two decades.[7]

On the positive side, there appear to be several sites with the potential to fetch reasonable prices due to their location near either University City or Temple University's campus on North Broad Street. Gillespie Middle School has been on the surplus property rolls for several years and is in reasonable proximity to Temple's Health Sciences campus. It is in reasonably good condition and is on the historic register, making it eligible for tax credits. Though rents in the Rising Sun neighborhood immediately surrounding Gillespie are low, with proper marketing to Temple medical students, it is plausible to imagine a developer paying close to a million dollars for this

[5] The District's real estate team seems to have understood this dynamic, and in its most recent documents, has revised the Alcorn asking price downward to $500,000.

[6] Plan Philly, "School Buyers Use Different Tactics with Surrounding Communities," op cit.

[7] Pew Charitable Trusts, "A City Transformed: The Racial and Ethnic Changes in Philadelphia Over the Last 20 Years," June 1, 2011.

137,000 SF building. Similarly, the proximity of Meade and Duckrey to Temple's main campus bodes well for more ready reuse and thereby could drive up sales prices. A final example of well-located sites are University City High School, at the edge of Drexel's rapid expansion, and Robeson, in the Penn environs and near the Presbyterian Hospital campus.

In the final analysis, however, at least half of the buildings on the proposed closure list are located in declining neighborhoods with few nearby "anchor" institutions to give developers a reason to expect reasonable return on investment.

II: THE EXPENDITURE NUMBERS

In addition to the one-time cash infusion expected from the sale of 36 surplus properties, the District anticipates garnering significant recurring annual savings on the expenditure side of the ledger from mothballing these properties.

On page 7 of the *Proposed Five Year Financial Plan*, under "key expenditure assumptions," the District asserts that "moving to an 85%-95% utilization - which would require the closure of approximately 40 buildings... is projected to save the SDP approximately $33 million annually beginning in FY 2014..." More recent press accounts of the proposed closures cite a savings figure of $28 million per year.[8]

Our office asked the District to provide the detail of the District's cost savings analysis that supports this estimated $28-33 million annual figure. In response, the District provided a document that enumerates its methodology for calculating the savings, as well as data on projected savings at each school.

According to the District's response, "savings assumptions were carefully developed with industry standards and past experience in the School District of Philadelphia." The $33 million initially cited in the *5YFP* was revised downward to $28 million, because the *Facilities Master Plan* proposes not only closures but also consolidations and program co-locations; thus the District expects to capture minimal savings related to "academic" expenditures. In concrete terms, more careful consideration led the District to revise downward from 10% to 6% its savings assumption from "enrollment teachers," among other factors.

The most significant savings categories enumerated by the District are as follows:

Savings Category	Savings Assumption as % of Baseline	Aggregate Projected Savings
Trash removal	50%	$180,389
School safety	50%	$260,000
Nursing Services	33%	$634,000
Maintenance Cost	85%	$3,236,638
Enrollment Teachers	6%	$3,475,487
Energy/Utilities	100%	$5,863,989
Cleaning / Engineering Cost	65%	$7,057,959
Operating Budget Allotment	Varies by school	$7,790,909
TOTAL Projected Annual Savings		**$28,499,371**

[8] See for example, Herrold, NewsWorks, Jan 16, 2013, "School Closings Plan Gets Raucous Reception in North Philadelphia," http://thenotebook.org/blog/135488/school-closings-plan-get-raucous-reception-north-philadelphia.

School-level data was broken out into 2 general categories: "School Operating Budget," which includes program costs like teachers, administrators, special education allotment, nursing, and school security; and "Facilities Expenses," which includes utilities, trash removal, cleaning and engineering (performed by building-level staff), and maintenance (performed by centralized maintenance staff via work orders).

The closure plan assumes close to a zero-sum outcome, in other words, that the vast majority of students who are transferred from their current District-run school will end up in another District-run school. Since the Commonwealth requires a student-to-teacher ratio of 30:1 for elementary grades and 33:1 for secondary grades, the District assumes that only a small proportion of the savings will come from shrinkage in the number of teachers; from past experience, it estimates that it will lose 1 teacher per school, on average, from the consolidations. This means that the vast bulk of the projected savings comes from downsizing the number of building-specific, non-teaching personnel such as principals, nurses, school police, and custodians, as well as dramatic cuts in the expenses associated with running each building, such as utilities, cleaning, and maintenance. According to the Savings Summary provided by the District, roughly \$12.2 million (43%) is slated to come from shrinking the School Operations side of the ledger and \$16.3 million (57%) from the Facilities side.

Let us consider the validity of some of these assumptions. On the School Operations side of the ledger, the District is counting on major savings from laying off a substantial number of the 36 principals in the schools slated for closure. It also proposes a 33% savings in nursing services. While reductions in force are permitted under the collective bargaining agreements covering both the principals and nurses, union seniority rules mean that higher-paid senior nurses and principals at schools slated for closure will likely exercise their "bumping rights" and displace less senior, lower-paid staff. According to union officials, at least 30 of the principals at the schools on the proposed closure list have high levels of seniority and are virtually guaranteed a job in the system. Since it is impossible to know at this time which principals will exercise bumping rights, and with principals' salaries ranging from about \$90-150,000 plus about \$30,000 in benefits, it is hard to say with confidence that the District's projected savings on the School Operations side are accurate; possible annual savings range from a low of \$4.3 million to a high of \$6.5 million. To be conservative, the District should err on the side of assuming \$4.3 million and not \$6.5 million in savings.

On the Facilities side, the District will accrue major savings, about \$10 million a year, from shrinking the custodial and maintenance workforce by about 130 members, which it claims will happen entirely through attrition. In any case, under the recently ratified collective bargaining agreement with SEIU 32BJ, the union representing the custodians and engineers, the District acquired the right to lay off employees due to building closure without the customary 12-month notification proviso.

In addition to reductions in labor costs, the District is counting on about \$6 million in annual savings from zeroing out utilities costs. We question the validity of this assumption. The District plans to garner revenue from the sale of at least a portion of these facilities; if maximizing revenue requires at least maintaining the present physical condition of the buildings, by, for example, not allowing pipes to freeze and burst in frigid winter temperatures; and if such sales are likely to take some time to actualize, we do not believe it is realistic to assume that utilities or maintenance costs or will be zeroed out in the near- or medium-term.

We believe it is safer to assume that the District will, at best, be able to sell one-third of these 36 properties within 2 years, another one-third within 5 years, and a portion of the rest within 10 years. For most of the buildings on the District's proposed closure list, utilities costs represent between 20 and 50% of facilities expenses. If we assume that the carrying costs of maintaining a vacant building – including utilities plus some preventive maintenance and security – run about 25% of the cost of maintaining an occupied building, the District will spend roughly $5.2 million in the first two years after the closures, $3.5 million over the subsequent 3 years, and perhaps $1.5 million annually for five years thereafter.

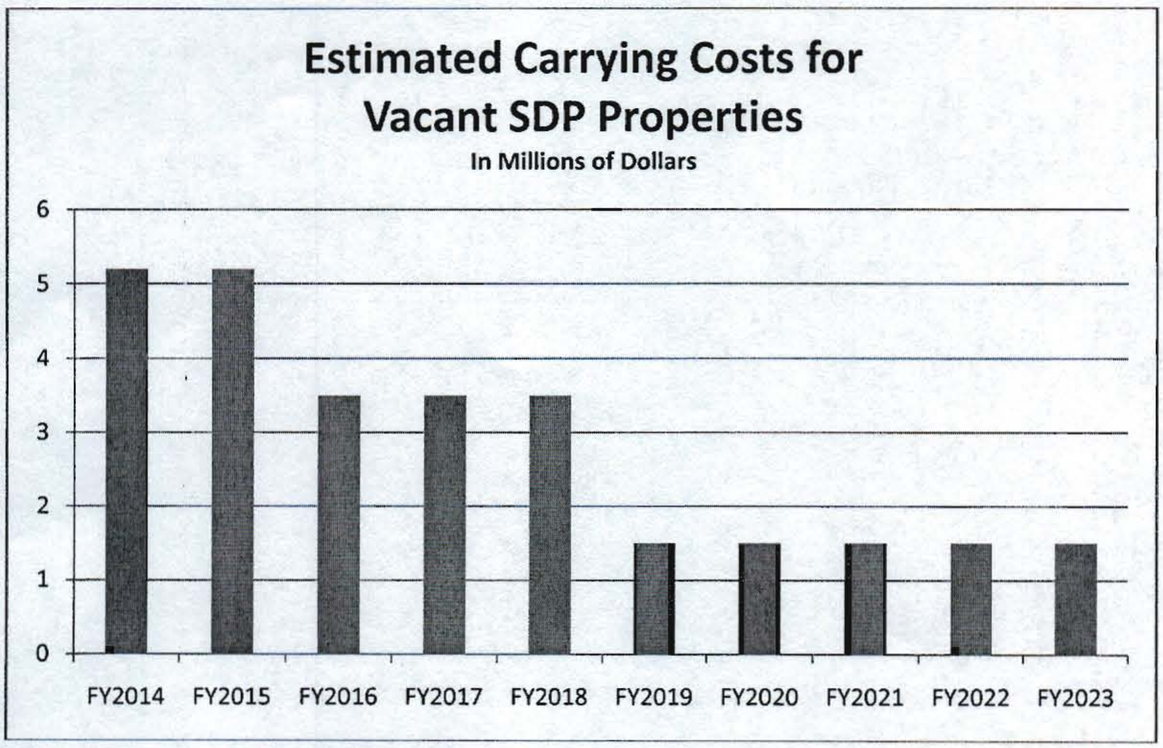

TABLE 1: Estimating the Blight Effect of Vacant School District Property by Neighborhood[11]

BUILDINGNAME	ADDRESS	ZIP	Neighborhood	Med Inc	%City Median	AvgProp Value[12]	HHBlight Effect	Density	NHBE[13]
TM Peirce	2300 W Cambria St	19132	Allegheny West	$27,792	75.0%	$41,563	$2,078	9,046	$696,257
Whittier	3001 N 27th St	19132	Allegheny West	$27,792	75.0%	$41,563	$2,078	9,046	$696,257
Leidy	1301 Belmont Ave	19104	Belmont	$20,513	55.4%	$61,341	$3,067	9,487	$1,119,119
Morris	2600 Thompson St	19121	Brewerytown	$29,467	79.5%	$39,678	$1,984	17,249	$1,267,418
McCloskey	8500 Pickering St	19150	Cedarbrook	$53,440	144.3%	$103,925	$5,196	10,621	$2,299,557
Ada Lewis	6199 Ardleigh St	19138	E Germantown	$33,028	89.2%	$79,608	$3,980	11,210	$1,652,603
Fulton	60 E Haines St	19144	E Germantown	$33,028	89.2%	$79,608	$3,980	11,210	$1,652,603
Germantown	40 E High St	19144	E Germantown	$33,028	89.2%	$79,608	$3,980	11,210	$1,652,603
Bok Technical	1901 S 9th St	19148	E Passyunk Crossing	$32,623	88.1%	$79,057	$3,953	26,753	$4,806,845
CommTech	8110 Lyons Ave	19153	Eastwick	$40,551	109.5%	$89,686	$4,484	1,606	$300,074
Pepper	2901 S 84th St	19153	Eastwick	$40,551	109.5%	$89,686	$4,484	1,606	$300,074
Fairhill	601 W Somerset St	19133	Fairhill	$17,489	47.2%	$36,181	$1,809	20,112	$1,102,534
Alcorn Annex	1325-1349 S 33rd St	19146	Grays Ferry	$24,205	65.3%	$34,224	$1,711	5,938	$390,812
Ferguson	2000 N 7th St	19122	Hartranft	$18,542	50.1%	$37,284	$1,864	15,824	$951,584
PMA-Elverson	2118 N 13th St	19122	Hartranft	$18,542	50.1%	$37,284	$1,864	15,824	$951,584
R Clemente	3921 N 5th St	19140	Hunting Park	$20,461	55.2%	$40,138	$2,007	15,148	SOLD
Simon Muhr	3150 Germantown Ave	19133	Hunting Park	$20,461	55.2%	$40,138	$2,007	15,148	SOLD
Taylor	3698 N Randolph St	19140	Hunting Park	$20,461	55.2%	$40,138	$2,007	15,148	$950,016
Douglas	2700 E Huntington St	19125	Kensington	$30,957	83.6%	$51,358	$2,568	11,848	$1,086,589
Shaw	5400 Warrington Ave	19143	Kingsessing	$29,831	80.5%	$54,372	$2,719	13,266	$1,243,619
Cooke	1300 W Louden St	19141	Logan	$36,202	97.7%	$55,790	$2,790	15,736	$1,513,640
McMichael	3542 Fairmount Ave	19104	Mantua	$19,134	51.7%	$83,109	$4,155	16,133	$2,482,958
Duckrey	1501 W Diamond St	19121	North Central	$19,134	51.7%	$34,829	$1,741	14,958	$964,763
Meade	1600 N 18th St	19121	North Central	$19,574	52.8%	$34,829	$1,741	14,958	$964,763
Overbrook	2032 N 62nd St	19151	Overbrook Farms	$45,034	121.6%	$232,528	$11,626	9,646	$4,313,394
Abigail Vare	1621 E Moyamensing Ave	19148	Pennsport	$42,043	113.5%	$105,402	$5,270	9,052	$1,987,706
Childs	1541 S 17th St	19146	Point Breeze	$26,177	66.3%	$76,126	$3,806	24,547	$3,460,491
Smith	1900 Wharton St	19146	Point Breeze	$26,177	66.3%	$76,126	$3,806	24,547	$3,460,491
University City	3601 Filbert St	19104	Powelton	$19,949	53.9%	$251,443	$12,572	16,430	$9,836,211
Admin Building	427 Monroe St	19147	Queen Village	$53,494	144.4%	$187,541	$9,377	19,322	SOLD
Carroll	2700 E Auburn St	19134	Richmond	$28,856	77.9%	$51,066	$2,553	6,754	$663,269
JP Jones Annex	3250 Amber St	19134	Richmond	$28,856	77.9%	$51,066	$2,553	6,754	SOLD
Sheridan Academy	3701 Frankford Ave	19124	Richmond	$28,856	77.9%	$51,066	$2,553	6,754	$663,269
Willard	2900 Emerald St	19134	Richmond	$28,856	77.9%	$51,066	$2,553	6,754	$663,269
Gillespie	1801 West Pike St	19140	Rising Sun	$27,677	74.7%	$64,154	$3,208	8,640	$1,154,772
Lankenau	201 Spring Lane	19128	Roxborough	$52,655	142.1%	$158,811	$7,941	4,491	$1,620,955
Reynolds	1429 N 24th St	19121	Sharswood	$15,568	42.0%	$44,779	$2,239	13,515	$1,080,693
Wilson	1300 S 46th St	19143	Squirrell Hill	$33,141	89.5%	$162,036	$8,102	18,052	$6,358,856
LP Hill	3133 Ridge Ave	19121	Strawberry Mansion	$19,722	53.2%	$44,415	$2,221	8,272	$706,540
Rudolph S. Walton	2601-2631 N 28th St	19132	Strawberry Mansion	$19,722	53.2%	$44,415	$2,221	8,272	SOLD
Strawberry Mansion	3133 Ridge Ave	19121	Strawberry Mansion	$19,722	53.2%	$44,415	$2,221	8,272	$706,540
Robeson	4152 Ludlow St	19104	University City	$25,797	69.6%	$443,262	$22,163	12,853	$14,992,754
Kinsey	6501 Limekiln Pike	19138	W Oak Lane	$47,220	127.5%	$73,790	$3,690	17,238	$2,355,541
West Philadelphia	4700 Walnut St	19139	Walnut Hill	$25,763	69.5%	$108,748	$5,437	18,204	SOLD
Beeber Annex	1818 N 53rd St	19131	Wynnefield	$42,829	115.6%	$133,240	$6,662	4,908	$1,557,005
Gompers	5701 Wynnefield Ave	19131	Wynnefield	$42,829	115.6%	$133,240	$6,662	4,908	$1,557,005
						TOTAL BLIGHT EFFECT			$86,185,034

11 All figures are from Census Bureau's 2009 American Community Survey

12 Household Blight Effect (HHBE) equals 5% of Avg Property Value, derived from Econsult's Vacant Land Study for the Phila Redevelopment Authority

13 Neighborhood Blight Effect (NHBE) is calculated by multiplying the HHBE by the number of households within 1/8 of a mile of the blighted property

III: IMPACT ON CONTIGUOUS PROPERTY VALUES AND CITY FINANCES

Blight Effects

Based on our analysis in Part I above, as well as past experience in Philadelphia and in other cities, it is highly probable that a significant proportion of the District's surplus properties will remain vacant for several years after decommissioning. It is a well-established axiom in real estate economics that proximity to a vacant property produces a "blight effect," negatively impacting values of surrounding properties.

With Econsult's 2011 study of vacant land in Philadelphia as a guide, we assume that proximity within a block of a vacant property decreases a home's value by approximately 5%.[9] Using Census data for average property values, we estimate a "Household Blight Effect" ranging from approximately $1,700 to over $10,000 per household, varying dramatically, of course, by neighborhood. Table 1 below organizes the estimates alphabetically by neighborhood.

To get a sense of the overall potential loss of community wealth, we then aggregated the Household Blight Effect for the properties within a block (0.1 mile) of each of the proposed decommissioned schools and find that the total "Neighborhood Blight Effect" could be as large as $86 million. In communities still suffering major equity losses due to the global financial crisis and the long-term general disinvestment in many Philadelphia neighborhoods, this additional equity loss could prove devastating.

Ensuring Public Safety

There are also potential costs to both the District as well as the City of Philadelphia of ensuring that the vacant buildings do not become public safety or fire hazards. These costs could include private security or police to patrol closed school buildings to inhibit vandalism and vagrancy; it costs the Washington, DC school district nearly $40,000 a year to patrol closed schools.[10] As the Controller's 2011 report on vacant school properties demonstrated, school buildings that remain vacant for long periods of time become magnets for drugs, crime, and neighborhood-endangering fires. Since the DC school district also spent $3.3 million to demolish two unsound buildings, it must be asked whether the School District of Philadelphia has anticipated costs of demolition for any buildings deemed to be unsalable.

The District has indicated that it has anticipated costs for keeping buildings secured, but these have not been enumerated in any of the documents they have shared with our office.

[9] "Vacant Land Management in Philadelphia: The Costs of the Current System and the Benefits of Reform," Econsult Corporation, November 2010.

[10] Audit of the Closure and Consolidation of 23 D.C. Public Schools, September 6, 2012.

Transition Costs

There are at least two types of potential costs associated with such a major displacement. On the one hand are logistics costs, such as the costs of moving school assets from closing buildings to new buildings or to storage facilities. In DC, this cost $10 million. We have yet to see the District's estimates, though we are told that an RFP will be forthcoming. When we inquired about the costs of storage, we were assured that the vast bulk of equipment will be redeployed and anything redundant would be stored in District-owned facilities.

On the other hand are the costs associated with transferring students from one school to another. The District has acknowledged that it will spend about $1.8 million a year transporting students due to the transfers, and that it intends to maintain current levels of school safety personnel despite the shrunken portfolio of buildings.

Attrition Costs

We know from experience in Philadelphia and elsewhere that mergers and transfers lead to some level of attrition in the student population. For example, when Rhodes and FitzSimons merged into Strawberry Mansion High in 2012-13, there was a slight increase in enrollment at Mansion in grades 10-12 of 54 students - 14 new 10th graders, 31 new 11th graders, and 9 new 12th graders - over the 2011-12 figures. However, in 2011, FitzSimons and Rhodes combined had 131 students in 8th grade, 199 in 9th grade, and 190 in 10th grade, suggesting that the enrollment bump could have been as high as 530 students. If every Rhodes and FitzSimons 8th, 9th, and 10th grade student in 2011 had transferred to Mansion in 2012, in other words, Mansion's enrollment should have more than doubled to 1,000 students, but instead it rose by only 20%. What happened to the remaining 80% of the students from Rhodes and FitzSimons? Did they shift to other district high schools? To charters or other non-district options? Or did they drop out altogether? If either of the latter, then the District would potentially lose the funds attached to each child.

We would like to see the District's modeling for each of the affected schools in terms of anticipated attrition numbers.

IV. RELATED CONCERNS

In addition to assessing the strictly financial impact of implementing the Facilities Master Plan, a few words on the academic implications of this massive set of changes are in order. According to our analysis, in one-third of the cases, students will be transferring from a school with a higher School Performance Index (SPI) to a school with a lower SPI. The research on relocations and transfers, while by no means totally conclusive, suggests that students benefit only when they transfer from a lower-performing to a higher-performing school. While students at schools like Smith, Kinsey, L.P. Hill, Fairhill, and Leidy stand to benefit from transferring to higher-performing schools that are also in close proximity to their neighborhoods, students at Roosevelt, Carroll, Shaw, and Pepper will be faced with transferring to lowering-performing schools at considerable distance from their homes.

We also worry that students at several specialized high schools, like Robeson, Bok and Communications Technology, will be overwhelmed in the transition to lower-performing and much larger schools outside of their neighborhoods.

Table 3 below summarizes the data on school performance index and distance between the schools slated to close and the proposed transfer options.

TABLE 3: PROPOSED SCHOOL CLOSINGS BY SCHOOL PERFORMANCE INDEX (SPI) DIFFERENTIAL

BUILDINGNAME	ADDRESS	ZIP	CD	SPI	FCI	Config	%fill	Xfer School	XferAddr	Distance	Xfer SPI	+/-
Smith	1900 Wharton St	19146	2	10	0.62	ES/MS		Childs	1599 Wharton Street	0.4	1	9
Kinsey	6501 Limekiln Pike	19138	9	8	0.41	ES/MS	76.6%	Rowen	6841 North 19th Street	0.5	1	7
LP Hill	3133 Ridge Ave	19121	5	10		ES/MS	31.1%	Blaine	3001 W. Berks Street	0.4	3	7
Fairhill	601 W Somerset St	19133	7	10	0.25	ES/MS	61.4%	Julia DeBurgos	401 W Lehigh St	0.3	4	6
Leidy	1301 Belmont Ave	19104	3	9	0.46	ES/MS	53.7%	Blankenburg	4600 W Girard Ave	0.3	4	5
McMichael	3542 Fairmount Ave	19104	3	9	0.54	ES/MS	41.0%	M Washington	766 N 44th St	1	4	5
Germantown	40 E High St	19144	8	10	0.25	HS	29.5%	M L King	6100 Stenton Ave	1.4	6	4
McCloskey	8500 Pickering St	19150	9	5	0.37	ES/MS	76.3%	Edmonds	8025 Thouron Ave	0.9	1	4
Vaux	2300 W Master St	19121	5	9		HS		Ben Franklin	550 N Broad St	1.3	5	4
Whittier	3001 N. 27th St	19132	4	8	0.60	ES/MS	45.4%	Rhodes	2900 W Clearfield Ave	0.3	4	4
Douglas	2700 E Huntingdon St	19125	1	10	0.75	HS	62.5%	Kensington Bus	2051 E Cumberland Ave	0.8	7	3
Sheridan West	3701 Frankford Ave	19124	1	5	0.61	ES/MS	16.7%	Penn Treaty	600 E Thompson St	2.7	3	2
A Vare	1621 E Moyamensing Ave	19148	1	3	0.22	ES/MS	56.4%	G Washington	1198 S 5th St	0.6	2	1
Fulton	60 E Haines St	19144	8	3	0.38	ES/MS	77.4%	Emlen	6501 Chew St	1.3	2	1
TM Peirce	2300 W Cambria St	19132	8	5	0.48	ES/MS	58.5%	Rhodes	2900 W Clearfield Ave	0.8	4	1
University City	3601 Filbert St	19104	3	10	0.20	HS	19.0%	W Philadelphia	4901 Chestnut St	1.5	9	1
Strawberry Mansion	3133 Ridge Ave	19121	5	5	0.42	HS	24.7%	Ben Franklin	550 N Broad St	2.4	5	0
Ferguson	2000 N 7th St	19122	5	7	0.44	ES/MS	32.4%	Hartranft	720 W Cumberland St	0.6	8	-1
Lamberton	7501 Woodbine Ave	19151	4	5	0.46	HS	17.9%	Overbrook	5898 Lancaster Avenue	1.8	6	-1
Pepper	2901 S 84th St	19153	2	6		ES/MS		Tilden	6601 Elmwood Ave	2.4	7	-1
Shaw	5400 Warrington Ave	19143	3	6	0.64	ES/MS	18.0%	Tilden	6601 Elmwood Ave	2	7	-1
Carroll	2700 E Auburn St	19134	1	5	0.72	HS	73.1%	Kensington Bus	2051 E Cumberland Ave	1.3	7	-2
Duckrey	1501 W Diamond St	19121	5	6	0.24	ES/MS	41.3%	MH Stanton	2539 North 16th St	0.5	8	-2
CommTech	8110 Lyons Ave	19153	2	3	0.47	HS	53.6%	Bartram	2401 S. 67th St	2.1	6	-3
Lankenau	201 Spring Lane	19128	4	3				Roxborough HS			6	-3
Roosevelt	430 E Washington Ln	19144	8	2		ES/MS		Leeds	1100 E. Mt Pleasant Ave	1.9	5	-3
Cooke	1300 W Louden St	19141	8	5	0.99	ES/MS	41.9%	Logan	1700 Lindley Ave	0.7	9	-4
Wilson	1300 S 46th St	19143	3	4		ES/MS		Lea	4700 Locust St	0.9	8	-4
Bok Technical	1901 S 9th St	19148	1	4	0.46	HS	97.0%	S Phila	2101 S Broad St	0.6	9	-5
Robeson	4152 Ludlow St	19104	3	4	0.11	HS	68.5%	Sayre	5800 Walnut St	1.9	9	-5
Carnell Annex	1100 Devereaux Ave	19111	7	7	0.50	ES/MS					na	
Gompers	5701 Wynnefield Ave	19131	4	5	0.80	ES/MS	70.2%	Beeber (new)	5925 Malvern Ave	0.6	na	
Meade	1600 N 18th St	19121	5	8		ES/MS		Vaux (new)	2300 W Master St	0.7	na	
Mil Acad at Elverson	2118 N 13th St	19122	5	2	0.47	HS	24.1%	Roosevelt (new)	430 E Washington Ln	5.5	na	
Morris	2600 Thompson St	19121	5	6	0.23	ES/MS	42.0%	Vaux (new)	2300 W Master St	0.3	na	
Overbrook	2032 N 62nd St	19151	4	5	0.03	ES/MS	60.0%	Beeber (new)	5925 Malvern Ave	0.6	na	
Reynolds	1429 N 24th St	19121	5	8		ES/MS		Vaux (new)	2300 W Master St	0.1	na	
Taylor	3698 N Randolph St	19140	7	5	0.20	ES/MS	89.6%	Clemente (new)	122 W Erie Ave	0.4	na	