



**Charter School Financial Feasibility Report:  
Philadelphia School District**

## **Executive Summary**

In its *Five-Year Financial Plan 2015-2019*, the School District of Philadelphia (SDP) articulates the seriousness of both its academic deficiencies and its deteriorating financial position. In doing so, it speaks to the financial challenges posed by the existence of charter schools and presents a case for dramatic increases in state and local funding. Indeed, the School District argues that the budgetary challenges it faces are a “revenue problem” and not an “expenditure problem.” However, our careful analysis indicates the precise opposite.

In making its case for an increase in state and local revenues of \$309 million in FY16 and \$913 million by FY19, the School District identifies a series of academic goals/objectives that may be attained if the funding increases are provided. However, a number of charter schools are said to be already attaining these goals and objectives, albeit at dramatically lower operating costs and thus with much more favorable taxpayer consequences.

Using alternative assumptions as to the number of students appearing on the charter school waiting list, our analysis identifies the highly substantial cost savings resulting from an increase in the number of charter schools and a decrease in the number of District schools. This analysis is firmly grounded in financial documents prepared and issued by the District itself, including the *Five-Year Financial Plan* noted above and the *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013*.

Increasing the number of charter schools while decreasing the number of District schools offers substantial benefits, but such benefits will be manifested only if the SDP’s leadership is willing to adopt a significant and permanent paradigm shift. Such a change requires a fundamentally different approach toward the treatment of both variable and fixed operating costs, but it is one that, in contrast to the ever-increasing debt service costs faced by the District, ultimately results in a substantial long-term reduction in such costs. The present course, which now shows a \$1.6 billion cumulative operating deficit, is entirely unsustainable. However, the analyses herein provide a scenario in which the District “lives within its means” and even realizes the ultimate elimination of its cumulative operating deficit. The end result is a system in which more students are granted their request of being admitted to charter schools, and in a manner that offers long-term benefits to taxpayers.

## **II. Current-State Analysis**

According to its *Five-Year Financial Plan 2015-2019*, the SDP is seeking “an investment of \$309 million in FY16 and \$913 million by FY19. (p. 1 of the Five-Year Plan).” More specifically, SDP states (p. 18):

*.. the District is seeking new revenues of \$206 million from the State and \$103 million from the City for FY16. This infusion of funding will allow the District to begin its reinvestment in Philadelphia’s public schools. In order to maintain and sustain such improvement, the District requests recurring and growing revenues of \$609 million from the Commonwealth of Pennsylvania and \$304 million from the City of Philadelphia by the end of the five-year plan.*

These funding requests, and the implications to taxpayers, are quite dramatic. Also, when examined within the context of SDP’s negative net position (i.e., deficit) of \$1.6 billion as of June 30, 2013 (the latest date for which audited financials are available), SDP’s new funding requests seem to promote a perpetuation of a fiscal policy that has long been proven broken and unworkable.

Previously, SDP has relied rather extensively on deficit financing, a policy that violates the “interperiod equity” concept of public finance. Under the interperiod equity concept, beneficiaries of current-period services provide adequate resources to cover the costs of those services. Through its use of deficit financing, SDP has previously deferred portions of operating costs to future-periods, thus pushing the burden of current-period spending onto future-period taxpayers and thereby violating the notion of interperiod equity. Despite a lengthy history of deficit spending, SDP now states, “We no longer budget for or spend more than our expected revenues (p. 1).” SDP further notes that it has been forced to eliminate some 5,000 positions; however, one must recognize the fact that the elimination of these positions has, in fact, aided in SDP’s ability to achieve the balanced budget that it now promotes. One could therefore postulate that the closure of yet additional District schools (and the elimination of administrative, teaching, and other positions, perhaps through a policy of attrition and/or retirement incentives) in favor of new charter schools (which have lower annual operating costs) would offer still further budgetary benefits.

In its discussion of the “Five-Year Financial Plan – Inadequate Status Quo,” SDP notes the following:

*The largest increase is expenditures for charter schools. Charter expenditures are projected to rise by approximately \$140 million during the five-year plan, due to the combination of increased charter school enrollment and an increased per pupil rate as a result of the state’s charter school funding mechanism.*

However, the analysis provided herein indicates that SDP receives \$11,684 in non-Federal revenue per student, and then makes payments to and incurs transportation costs for each charter

school student of \$10,070. Therefore, SDP actually retains an average \$1,617 in non-Federal revenue for each charter school student.

SDP further states, “Debt service payments are projected to increase from approximately \$277 million in FY15 to \$305 million in FY19, a rise of approximately \$28 million over the five years (pp. 8 and 9).” With respect to this observation, there are two important points that should be expressed: 1) Debt service obligations will remain intact, at least for the foreseeable future, with or without the spending obligation that SDP has with respect to charter schools (i.e., existing debt service obligations are a “sunk cost”), and 2) a long-term reduction in capital expenditures for new district schools/major improvements as a result of increased charter school enrollment would likely mean a *reduction* in SDP’s debt service costs.

In its “Five-Year Financial Plan-Transformation,” SDP also makes reference to significant academic deficiencies that are part of its existing structure:

*In FY14, for students in grades 3 through 8, 42 percent of students performed at the proficient or advanced level in reading and 45 percent of students performed at proficient or advanced levels in math. For third graders, specifically, only 40 percent performed at the proficient or advanced level on the PSSA Reading. This is 60 percentage points lower than the District’s goal of the [sic] having 100 percent of eight-year-olds reading on grade level.*

*At the high school level, as of last year, 39 percent of students passed the Algebra I Keystone Exam, 26 percent of students passed the Biology Keystone Exam, and 52 percent of students passed the Literature Keystone Exam. Given that passing all three Keystone exams is now a state-mandated high school graduation requirement, it is imperative that the students receive adequate supports to ensure that passing the Keystone exam is not a barrier to graduation.*

Toward the goal of adequately addressing these noted deficiencies, SDP goes on to call for a “meaningful infusion of recurring resources.” In short, SDP is seeking substantial annual increases in state and local funding for the purpose of achieving the kinds of academic successes that charter school advocates regard as already being largely achieved within their schools. SDP offers the following aspirational “outcomes (p. 16)” vis-a-vis the substantial increases it is seeking in state and local funding:

- *More students on-track to graduate*
- *More students engaged in a college- and career-ready curriculum*
- *More teachers are able to differentiate instruction*
- *Additional inclusion opportunities for ELL and special education students*
- *More students are reading at grade level starting in Kindergarten*
- *More students are in school*
- *Decrease dropout rates*
- *Decrease suspension and violence incidents*

Here again, SDP seems to be striving for the kinds of academic outcomes (at a much more substantial taxpayer burden) that various charter schools are said to have already attained

Another objective being pursued by SDP in its “Five-Year Financial Plan-Transformation” is its stated intent to:

*.. invest in system-wide initiatives that would effectively transform low-performing schools and open up new opportunities for students who are currently attending these low-performing schools. Within five years, the District will have zero schools in the Intervene category on the School Progress Report (SPR) (p. 17).*

SDP and the charter schools may benefit through an identification of mutual aspirational goals and objectives with an eye toward the kind of fiscal stability for which the charter schools have become well known.

SDP further identifies (as one of six “actions” that its funding requests would permit with respect to its transformation of low-performing schools), “Converting low-performing District schools into Renaissance charter schools (p. 18).” SDP recognizes the merits of such conversions and thus provides for them in its Five-Year Plan. However, another one of its six stated actions is, “Creating new schools whose designs are built upon evidence-based practices from other Districts or systems to provide additional “quality options for students.” Given SDP’s recognition of the benefits that could potentially result from the conversion of “low-performing” schools and its acknowledgment of historical academic deficiencies in the areas of reading, math, biology, and literature, one could suggest that the goal of “creating new schools whose designs are built upon evidence-based practices” of more successful schools might be at least partly addressed by working in tandem with those charter schools that are specifically known for outstanding academic accomplishments.

Related to the above issue is a statement offered by SDP on page 7 of its *Five-Year Financial Plan 2015-2019*:

*Real estate taxes are expected to increase by \$77 million between FY15 and FY19. Other local taxes include the sales tax, cigarette tax, business use and occupancy tax, liquor sales tax, school income tax, and public utility realty tax, which together are projected to increase by \$29 million between FY15 and FY19.*

The above quote appears in the section of the Plan entitled, “Five-Year Financial Plan – *Inadequate Status Quo*” (emphasis added), thus showing that, even without the substantial funding increases being sought by SDP, the taxpayer burden is set to increase. One must therefore contemplate the taxpayer burden effect of the funding increases being sought by SDP. In short, the implications under a scenario in which state and local investments increase by \$309 million in FY16 and to \$913 million by FY19 must be recognized as an *incremental* taxpayer burden beyond the already problematic level.

On page 11 of its *Five-Year Financial Plan 2015-2019*, SDP points out its “lapsed appropriations (i.e., unspent budgets).” This item appears as somewhat of an oddity, particularly given SDP’s assertions of need for additional revenues.

On page 13 of its *Five-Year Financial Plan 2015-2019*, SDP states,

***Recommendation:*** *The Commonwealth of Pennsylvania should work to reform the pension formula or provide additional revenues to relieve the District of uncontrollable cost growth.*

Efforts on the part of SDP to “reform the pension formula” may logically lead to potential cost savings, thus representing an arguably more appropriate alternative to seeking “additional revenues.” (This is a *cost-reduction* recommendation intended to give due consideration to taxpayers) One such approach might include a phase-out of the traditional defined-benefit pension structure in favor of the defined-contribution structure that is becoming increasingly commonplace in both the private and public sectors.

On page 14 of its *Five-Year Financial Plan 2015-2019*, SDP states,

*Consistent with the goals of the Action Plan to help more students graduate college- and career-ready, have more students read on grade level by age 8, and to attract and retain high-quality teachers and other employees, the District will be required to do much more than maintain the status quo. To give all students the opportunity to receive a quality education requires meaningful financial investment from District partners and effective management of the District’s controllable expenditures.*

“Effective management of the District’s controllable expenditures” is a goal that, with due diligence, can indeed be attained. An increase in the number of charter schools (which operate at lower costs) represents one means by which SDP’s expenditures can be controlled. The demand for charter school expansion is already made apparent by the tens of thousands of student names on the charter school waiting list.

According to Table 21 appearing on page 142 of SDP’s *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013* (hereafter, “2013 CAFR”), SDP has, for a number of years, been experiencing a steady rate of decline in *public school* student enrollment. (For FY2004, public school enrollment is reported at 188,397; for FY 2013, the figure is only 140,593, a decrease of more than 25 percent). Nonetheless, SDP now seeks “an investment of \$309 million in FY16 and \$913 million by FY19.” SDP’s request for substantial increases in “investments” from FY 16 through FY 19 in conjunction with its significantly decreasing student enrollments might be analogized to a household situation in which the number of children within the household has decreased significantly over time but efforts are nonetheless being made to increase household spending on the remaining children. For example, if a given household once consisted of two parents and five children, but two of those children are now grown and no longer part of the household, it would seem to make little sense for the parents to continue their “5 children spending” level on the three remaining children, let alone seek to *increase* total

spending on those three children. To do so would potentially bring the total household budget to a point of sheer unsustainability. SDP's requests for dramatically higher levels of state and local funding in the face of decreasing student enrollment could be viewed as being equally unsustainable.

With tens of thousands of SDP students on the waiting lists of charter schools and a lottery system being used to determine which of those students are indeed granted admission, it would seem prudent to expand the number of charter schools, increase any given student's chances of admission and, at lower operating costs, provide the greatest good for all.

### **III. Future-State Analysis**

#### **Revenue Problem or Expenditure Problem?**

SDP's 2013 CAFR reports a deficit of \$1,601 million (i.e., a \$1.6 billion *negative* net position), which is a \$164 million increase over the SDP's 2012 deficit of \$1,437 million. In addition, the SDP's *Five-Year Financial Plan 2015-2019* includes a request for an almost tripling of new, recurring City and State revenues from \$309 million to \$913 million over the period FY16 to FY19.

*The District is requesting an investment from the City and State of \$309 million in FY16 and \$913 million by FY19 in the form of new, recurring revenues.*

The existence of a SDP \$1.6 billion deficit coupled with a request for \$913 million in new, recurring City and State revenues by FY19 is not an economically sustainable model as it would place a significant financial burden on Philadelphia resident taxpayers for years to come, and it doesn't address the highly unfortunate pattern of the District's deficit spending. Rather than continuing on the present course of attempting to address the District's long-term financial deficit by requesting more revenues, we recommend a strategy that focuses on a serious examination of sustainable ways by which SDP can operate in a more cost-effective manner. Such a strategy of expenditure control requires a shifting away from the kind of revenue-growth approach that SDP has historically applied to its fiscal challenges and which is reflected on page 3 of SDP's *Five-Year Financial Plan 2015-2019*.

*The District now faces a revenue rather than expenditure problem.*

In contrast, we believe that the District now faces an *expenditure* rather than a *revenue* problem. As such, a plan to first stop the growth in the existing \$1.6 billion deficit and to eventually turn it into a surplus will involve examining ways by which SDP can live within its means, which is to say deficit spending is no longer economically sustainable. SDP must operate in a more cost-efficient manner and limit expenditures to available revenues. The expansion of enrollment in the more cost-efficient charter schools appears to be a viable long-term financial strategy.

#### **Analysis of non-Federal funding and cost-per-student of Philadelphia district and charter schools**

*As Pennsylvania continues to debate revamping its charter law, it is evident that the discussion would benefit from a rigorous, objective, and exhaustive analysis of the fairness of the per-pupil charter funding formula. (Jonathan Cetel, "Charter Schools really do get less money for children," Philadelphia Public School the Notebook, Feb 7, 2014).*

The Charter School Non-Federal Funding Analysis attached to this report does indeed provide a rigorous and objective analysis by presenting comparable non-Federal funding per pupil for Philadelphia District and charter schools based on the data in the SDP's 2013 CAFR.



### Accepting waiting list students into charter schools

Our analysis shows that SDP retains an average of \$1,614 in non-Federal revenue for each charter school student. Additionally, after including the District's average deficit spending per student of \$726, the non-Federal cost per District school student is \$2,340 greater than the non-Federal cost of charter school student. Estimates of 40,000 to 70,000 students are presently on charter school waiting lists. (The number of students that would actually choose to attend a charter school is likely more than the number of waiting list students given that some students may be discouraged from participating in the currently-structured charter school lottery process).

Accepting only 20,000 waiting list students into charter schools would result in the District retaining on a *recurring, annual* basis a total of \$32,280,000 (20,000 students @ \$1,614) in non-Federal revenue for remaining District students. Since some pundits argue that the charter school waiting list is actually considerably greater than the 20,000 just postulated, it is worth examining the financial impact assuming a higher figure, for example, 50,000 students or still higher. The amount the District would retain on a recurring, annual basis by accepting 50,000 students increases to \$80,700,000 (50,000 students @ \$1,614), and by accepting 70,000 students jumps to \$112,980,000 (70,000 @ \$1,614). The table below provides the corresponding recurring, annual amounts retained by the District for a range of waiting list students accepted into charter schools.

	Number of waiting list students accepted into charter schools		
	20,000 students	50,000 students	70,000 students
Recurring, annual amounts of non-Federal revenue retained by the District	\$32,280,000	\$80,700,000	\$112,980,000

A more accurate, complete non-federal cost per student and total cost analysis would further consider actual expenditures *in excess* of non-federal funding (i.e., deficit spending). After including the district's actual average deficit spending per student over the nine years from FY2004 to FY2013 of \$726, accepting only 20,000 waiting list students into charter schools would result in a total *recurring, annual* lower non-Federal cost of \$46,800,000 (20,000 students @ \$2,340). This non-Federal cost savings would be available for remaining District students and to eventually eliminate the District's \$1.6 cumulative deficit. The amount of the District's recurring annual non-Federal cost savings by accepting 50,000 students increases to \$117,000,000 (50,000 students @ \$2,340) and, by accepting 70,000 students, jumps to \$163,800,000 (70,000 students @ \$2,340).

The table below provides the corresponding *recurring, annual* total non-Federal cost savings after including the District's actual average deficit spending per student for a range of waiting list students accepted into charter schools.

	Number of waiting list students accepted into charter schools		
	20,000 students	50,000 students	70,000 students

Recurring, annual total non-Federal cost savings including the District's actual deficit spending per student	\$46,800,000	\$117,000,000	\$163,800,000
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Table 21 (page 142) of SDP's 2013 CAFR reveals that the District schools have experienced a 47,804 (or 25%) decline in student enrollment from 188,397 in 2004 to 140,593 in 2013. Conversely, over that same period, Table 22 (page 143) of the 2013 CAFR shows that charter schools have experienced a 39,816 (or 178%) increase in student enrollment from 22,425 in 2004 to 62,241 in 2013, with tens of thousands of additional SDP students remaining on charter school waiting lists.

Given this 10-year pattern of increasing student enrollment in the lower operating cost charter schools and decreasing student enrollment in the higher operating cost District schools, a plan needs to be developed for SDP to, in turn, reduce its variable costs (such as labor and benefits) and its fixed costs (such as District school building closings and/or consolidations) in response to declining District school enrollment.

Non-Federal cost analysis under which all students attend district schools in comparison with all students attending charter schools

Our analysis reveals that a total annual non-Federal funding of \$2,042,538,380 (202,834 enrollment @ \$10,070) would be needed for all students to attend charter schools, which is \$327,374,076 less than the annual \$2,369,912,456 (202,834 enrollment @ \$11,684) in non-Federal funding that would be needed if all students were enrolled in District schools. This assessment is based on SDP's 2013 CAFR total enrollment.

Again, a more accurate and complete non-Federal cost per student and total non-Federal cost analysis would further consider actual expenditures in excess of non-Federal funding (i.e., deficit spending). After including the District's actual average deficit spending per student over the nine years from FY2004 to FY2013 of \$726, a total non-Federal cost of \$2,042,538,380 (202,834 students @ \$10,070) would result if all students were to attend charter schools. This full-enrollment charter school non-Federal cost of \$2,042,538,380 is \$474,631,560 less than the total cost of \$2,517,169,940 (202,834 students @ \$12,410) that would result if all students attended District schools). This assessment is also based on the 2013 CAFR total enrollment.

Moreover, the total annual non-Federal cost savings of \$474,631,560 under a full "charterization" would be sufficient to cover the District's current \$1.6 billion cumulative deficit in 3.4 years. In addition, under full charterization, all future SDP deficit spending would be eliminated. The table below indicates the annual \$474.6 million in non-Federal cost savings under a full charterization and the resulting 3.4 years period within which the \$1.6 billion cumulative deficit would be eliminated.

Total non-Federal cost of all students attending District schools	Total non-Federal cost of all students attending Charter schools	Recurring, annual non-Federal cost savings from full charterization	Years to cover 2013 \$1.6 billion deficit using annual non-Federal cost savings
\$2,517,169,940	\$2,042,538,280	\$474,631,560	3.4 years
Note: The total annual non-federal cost savings of \$474,631,560 under a full charterization would be sufficient to cover the District's current \$1.6 billion deficit in 3.4 years and eliminate all future deficit spending.			

#### Support and methodology for Charter School Non-Federal Funding Analysis

The \$1,614 in non-Federal revenue for each charter school student that the District retains is determined by deducting the (1) District payments to and expenses paid for each charter school student of \$10,070 from the (2) \$11,684 amount received by the District in non-Federal revenue per student. The table below provides information related to the \$1,614 in non-Federal revenue for each charter school student that the District retains.

District received non-Federal revenue per student	District payments and transportation expenses incurred for each charter school student	District retains non-Federal revenue for each charter school student
\$11,684	\$10,070	\$1,614
Note: See the Charter School Non-Federal Funding Analysis for the support and methodology pertaining to the above figures.		

#### Method of calculating District-received non-Federal revenue per student:

Federal source revenue of \$400 million was deducted from the total of \$2.77 billion in 2013 District revenues to obtain the total District non-Federal revenues of \$2.37 billion, which was then divided by 2013 total SDP enrollment of 202,834 in order to arrive at the \$11,684 amount received by the District in non-Federal revenue per student. Federal revenues received by the District were deducted because charter schools receive Federal revenues directly. Therefore, any Federal revenues accompany charter school students transferring from District schools.

#### Method of calculating District payments and transportation expenses incurred for each charter school student:

District payments to, and transportation expenses incurred, for charter schools total \$627 million. (District payments to charter schools of \$601 million were added to the \$26 million expense incurred by the District for charter school student transportation. since the District provides transportation to all students. The \$26 million transportation cost figure is calculated as \$84 million x 31% of total students who are enrolled in charter schools). The \$727 million was then divided by the 2013 charter school enrollment of 62,241 to arrive at the \$10,070 amount per charter school student. (District capital outlay expenditures are not allocated to charter schools because charter schools pay for their own facilities and any related debt service).

District debt service expenditures related to debt issued for the purpose of funding (1) the District's deficit spending and (2) the District's capital assets are not allocated to charter schools for the following reasons:

1. District's deficit spending debt: Charter schools must operate within the non-Federal revenue funding as determined by the PDE 363 funding calculation. Therefore, charter schools have no deficit spending and thus any debt service expenditures incurred to fund the District's \$1.6 billion deficit were not created by charter school operations.
2. District's capital assets debt: Charter schools must provide their own facilities, including paying their own debt service expenditures incurred to acquire capital assets, again from the non-Federal revenue funding as determined by the PDE 363 funding calculation. Therefore, any debt service expenditures incurred to acquire the District's capital assets are related solely to the District's operations.

#### Support and methodology for Charter School Non-Federal Cost Analysis

As noted above, the District school non-Federal cost per student of \$12,410 is \$2,340 greater than the Charter school non-Federal cost per student of \$10,070. The District school non-Federal cost per student of \$12,410 was computed by added together the \$11,684 amount received by the District in non-Federal revenue per student plus the District's actual average deficit spending per student of \$726. The \$726 deficit per student is computed by dividing the average annual increase in the District's deficit over the nine years from FY 2004 to FY 2013 of \$102,037,778 by the FY 2013 District school enrollment of 140,593 students. The table below compares the non-Federal cost per student of District schools and charter schools.

District school non-Federal cost per student	Charter school non-Federal cost per student	Excess of District school non-Federal cost per student over Charter school non-Federal cost per student
\$12,410	\$10,070	\$2,340
Note: See the Charter School Non-Federal Cost Analysis for the support and methodology for the above figures.		

#### Deductions from charter school funding calculation

A July 18, 2013 letter from the SDP Superintendent to charter school CEOs provided the charter school per pupil funding amounts for non-special and special education students for the 2013-2014 school year. The calculations were based on budgeted expenditures for the 2012-2013 school year (immediately preceding year). The SDP's charter school per pupil funding calculations involve dividing "selected expenditures" by total estimated average enrollment. A factor that substantially lowers the charter school funding is the practice of including twenty-one deductions from total budgeted expenditures to arrive at "selected expenditures." The deductions that relate to federal funds received directly by charter schools and for transportation costs provided by the SDP for charter school students are logical. However, our analysis does not support the logic or the fairness to charter schools of deductions such as "other financing uses"

of \$259,098,505 included as a deduction in the 2013-2014 charter school student per pupil funding.

#### **IV. Transition-State Analysis**

The current-state analysis presented a discomfiting yet irrefutable truth – the firmly-entrenched practices of the past are not only unsustainable, they are hugely unsuccessful. In contrast to SDP’s contention that their fiscal issues are a revenue problem rather than an expenditure problem, the current-state analysis reflects the exact opposite. The future-state analysis has provided detailed snapshots of the much-improved financial positions that SDP can experience while simultaneously assuring increasing numbers of students with the kind of education that all parents seek for their children. The path toward this future state is simple if not easy. A successful transition from the current- to future-states requires a major paradigm change on the part of SDP officials.

SDP must make a fundamental change to its perspective on charter school costs. Currently, SDP views charter schools as an additional overall expenditure above and beyond its longstanding district costs. In fact, an approach that merely adds expenditures for charter schools, without simultaneously acknowledging the corresponding and hugely significant reductions in District school costs is illogical and fiscally irresponsible. A sensible cost analysis would consider the short-, medium-, and long-term reductions to variable and fixed costs that would result from a gradual transition from District schools to charter schools.

In terms of variable costs, SDP would see short-term reduction in salary and benefit expenditures as enrollments move from existing District schools to new and existing charter schools. Of course, such cost reductions can occur only if SDP officials apply a process of due diligence in the identification and closure of underperforming schools and, in turn, appropriate reductions of personnel – teachers, administrators, etc.. As enrollments undergo this kind of transition, the cost savings are rather immediate since SDP’s operating costs for the following budget cycle are thereby reduced.

Similarly, SDP would experience significant fixed cost reductions under a consolidation strategy in which appropriate performance metrics serve as the basis for reducing the number of school buildings. Under a thoughtfully-designed consolidation policy, fixed cost reductions would be realized in a “step” manner. For example, with sufficient reductions in the number of District schools, transportation costs would be gradually reduced. Likewise, administrative overhead would be reduced. The most *long-term* example of fixed cost reduction is with regard to debt service. The current SDP perspective seems to be one in which debt service costs not only fail to decrease over time, but actually experience significant increases. In other words, the long-standing SDP trajectory actually exacerbates an already deleterious fiscal situation. On the other hand, a properly-designed school consolidation policy would lead to a long-term *reduction* in debt service and thereby yield more favorable bond ratings and a much more favorable result to the taxpayer. Thus, in the long run, even fixed costs become variable in the sense that there is a reduction in capital expenditures and related debt service.

SDP leadership is going to have to make extremely difficult yet equally essential choices. As stated, the solution to SDP's current fiscal plight is simple, but it won't necessarily be easy. SDP's fiscal scenario is indeed an expenditure problem rather than a revenue problem, and a carefully-developed plan will extend from the principles addressed herein.

Even in the face of tremendous push-back, reductions must be made to both variable and fixed operating costs. A methodical reduction in District schools along with an increase in the number of charter schools not only addresses the academic goals and objectives stipulated by SDP, it likewise addresses its serious fiscal issues.