

West Chester University

Digital Commons @ West Chester University

Educational Foundations & Policy Studies
Faculty Publications

Educational Foundations & Policy Studies

8-3-2020

School Funding in the Covid Crisis: a policy proposal

David I. Backer

Follow this and additional works at: https://digitalcommons.wcupa.edu/profseced_facpub



Part of the Education Economics Commons

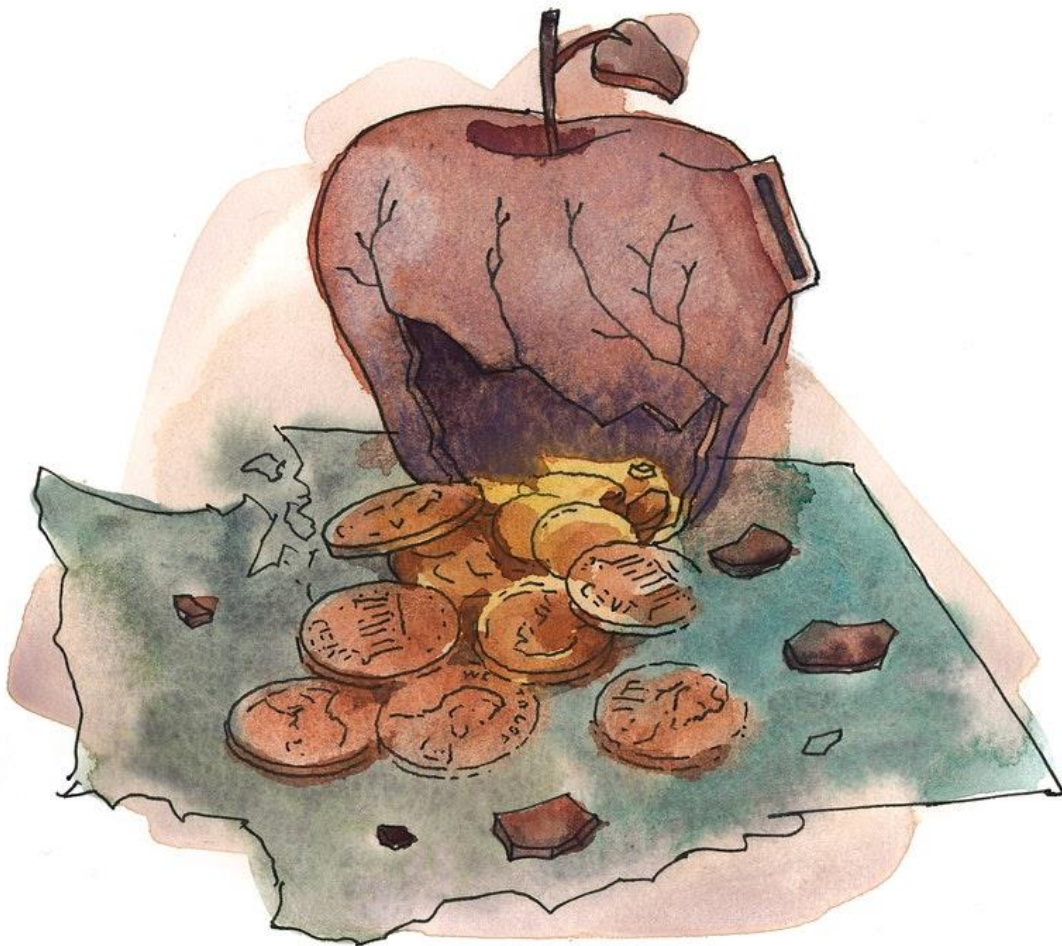
School Funding in the Covid Crisis

a policy proposal



David I. Backer

Aug 3



[I'll be discussing these ideas at an upcoming event if you're interested in joining!]

Things are bad. Really bad. It's truly a crisis in the sense that this is a moment for important decisions.

In *USA Today*, the historian of education Johann Neem paints a dour portrait of public schools. He basically sees the end of public schooling in the pandemic crisis.

Reading his essay, I had some cognitive dissonance. I've been having several *exciting* conversations about schools in this crisis moment. Seems hard to believe, but it's true. My excitement belied Neem's bleak picture. I started formalizing this excitement into a policy proposal.

The schools will close to battle the virus. I think district leaders are seeing that even creative attempts at normalcy just won't work as a second wave hits, flu season sets in, and cold weather comes. Just look at a recent marathon conference call the Philadelphia School District organized to get feedback from parents, teachers, and principals.

A teacher friend of mine asked me, "what do people think I should do when my fourth grader doesn't have a pencil? Say 'sorry, I can't give you one'? What happens when a few of my fourth graders sniffle? Do they all go to the quarantine room?"

These are extreme times. Schools have to close. But rather than a death knell, could this be a moment for rebirth?

Why not use this moment as an opportunity to improve schools, and try to bring about some structural changes to our totally unfair school funding and finance system in the process?

And wouldn't it be great if we could do something about unemployment, public schools' reputation, and community culture in the process?

Using this moment as an opportunity to improve school infrastructure would **strengthen** public schools during this time of crisis.

Here's what I mean.

The \$4.5 Billion Question

The Philadelphia School District was in deep trouble before COVID. Schools were actually closing way before the virus hit.

The schools were closing because of another health crisis: asbestos. Teachers were getting cancer. One of Philly's most prestigious public schools had to close for cleaning due to risk of poisoning.

The toxic schools problem comes down to dilapidated infrastructure. In 2017, an independent audit found that Philly's schools require \$4.5 billion of infrastructure improvements. This amount is on top of the yearly budget.

For some perspective, the entire commonwealth of Pennsylvania's education budget is \$6 billion. So one school districts needs almost two-thirds of that to update it's infrastructure.

And there's no money. Pennsylvania's school funding inequity is the wildest in the country.

Under the existing regime of bond financing, property taxes, and state aid Philly's school district can't even refund its loans fully each fiscal year, much less spend an extra \$4.5 billion dollars.

The whole thing makes reopening the school district an absurd proposition.

Take the example of ventilation systems. My local elementary school, Benjamin Comegys Elementary, needs at least \$100,000 for its out of date ventilation system. In a pandemic, how can students — almost 100% African-American, in my neighborhood of West Philly— enter this building without intense risk of infection? They were already at risk for asbestos!

Cash rules everything around this problem. If there was money to fix the schools' infrastructure, then schools would be safer. If there was money, the public system could pay for needed updates. If there was money, the school district could hire thousands of trade unionists to fix the dilapidated infrastructure.

But there isn't money. Philly property prices just aren't that high and property taxes are only getting higher. The school district's credit rating just got upgraded to non-junk status last year so there are more loans it can take out, but that means it'll have to pay them back.

And with tax revenues at the state level drying up— and no clear plan for fiscal grants from Congress—the money just isn't there.

Or is it?

Liquidity Support!

The Federal Reserve has been making extraordinary decisions in this crisis. Nobody in finance or economics can quite believe it. The Fed is sort of like a credit Atlas holding US capitalism on its back.

One of its strategies is to create lending facilities that provide credit to all kinds of entities. These facilities give liquidity support, or loans at low interest rates. There's a corporate lending facility for big business, a main street lending facility for small businesses, and, for the first time, a municipal lending facility (MLF).

The MLF provides liquidity support to municipalities and local governments. Thus far, Illinois has applied for liquidity support, as well as the New York City subway system.

What if school districts applied for liquidity support from the MLF? These loans would go to infrastructure improvements during the shutdown. Such projects are exactly the kinds of things the Fed means to encourage.

Flush with the Fed's extraordinary lending support, school districts could take this opportunity to hire trades workers to fix up schools. Philadelphia's schools ventilations systems would be one very specific project.

Let kids breathe! Fix the ventilation!

A Light in Dark Times

It's a perfect moment for this. We're in an extreme economic downturn, by some accounts a depression. The Federal Reserve knows this and is making an extraordinary offer. The time has come for school districts around the country to make an extraordinary request.

I see this strategy as a way to receive liquidity support for infrastructure improvement. But I also see it as a cultural renewal for public schools.

Imagine what would happen in school districts, particularly urban and rural districts, if there was a flurry of employment, improvement, and progress around school buildings? It would be exciting. Public schools would be places of positivity, progress, and hope.

I'm imagining the Philly School District receiving Fed loans and channeling that money to schools desperately in need of infrastructure. Trade unions in the city receive contracts for work and start hiring more workers. The workers arrive at the school and start hauling out the decrepit ducts and dusty fans and replacing them (see future pieces for the possibility of green infrastructure and the connections to a Green New Deal).

The *Inquirer* writes a positive story about school buildings. Community leaders and elected officials set up socially-distanced parties to watch the progress and cheer the process. Parents, teachers, students, and community members feel a sense of pride. Excitement builds to go back to school once we get the pandemic under control.

Given the right messaging campaign, public schools would become points of light in a dark time. Could the same logics of austerity, failure, and destruction hold in this shining hope? Would charter schools be able to sell their snake oil? Would advocates of tax credits and 'scholarships' to encourage segregationist-theocratic-capitalist school choice schemes hold sway? Maybe not.

Terms and Conditions Apply

Coming down from this rosy portrait, the Fed isn't exactly giving away money. Far from it. To keep up the appearance of brow-beating austerity politics there are terms and conditions for these loans.

First there's the interest rate. The spreads (or rate relative to the Fed's 10 year note) increase depending on credit rating. These spreads are measured in basis points, meaning that the School District of Philadelphia would have a 3.8% rate on the loan. This is because the SDP has a Baa3 credit rating (which is part of what I call school finance's cycle of bondage, more on that in future posts).

Second, there's an origination fee that goes to the Fed.

Origination Fee: Each Eligible Issuer that participates in the Facility must pay an origination fee equal to 10 basis points of the principal amount of the Eligible Issuer's notes purchased by the SPV. The origination fee may be paid from the proceeds of the issuance.

Third, there's a cap to the amount of the loan. The loan can be 20% gross revenue for the district maximum.

Finally, a municipal government can only borrow the funds for up to three years, so the support is not indefinite (and you have to specify how you're going to pay it back).

In a future post I'm going to outline these numbers further, but it's important to know that there are strings.

A Political Act

But I don't think these terms and conditions should intimidate us. Extraordinary times call for extraordinary measures. The Federal Reserve isn't just some rich bondholder. It's part of our federal government, should be taking care of us, and can be made to do so with a bit of organizing.

If/when the Fed comes calling, we can organize and make demands around the structural inequities that compelled us to take out the loan. We can do some money politics.

To counter the repressive forces, there would have to be an organizing project between governments and municipalities to confer, be in solidarity, and make demands as the depression worsens. (I think this is a more realistic strategy than asking the Fed to create another facility for education with different lending terms, like Gerald Epstein's 'human capital bonds', but this is something to study.)

Applying to the MLF for loans is a political act. It means engaging in a practice that stretches our imaginations when it comes to municipal finance. But the times certainly calls for imagination. If there's a possibility that public schools could turn a corner then it's worth it.

We don't have a lot to lose at this point.