

# City of Philadelphia



Council of the City of Philadelphia  
Office of the Chief Clerk  
Room 402, City Hall  
Philadelphia

(Resolution No. 120639)

## RESOLUTION

Urging the Pennsylvania Auditor General to conduct a forensic audit of the School District of Philadelphia to provide a greater degree of transparency into the District's finances so that the City of Philadelphia can consider solutions to the School District's current fiscal crisis.

WHEREAS, The School District of Philadelphia's Fiscal Year 2012-13 budget reflects a gap between revenues and expenses of at least \$218 million. This gap is projected to grow in future years if the structural imbalance in the School District's budget is not corrected. If unchecked, the budget shortfall could lead to a \$1.1 billion gap over the next five years; and

WHEREAS, The School District has entered into interest rate swap agreements with disastrous results. In the mid-2000s, the School District entered into swap agreements with several major financial institutions. These swaps are contracts between the School District and investment banks which speculated on the direction that interest rates would move. After the financial crisis of 2008, drastic drops in interest rates resulted in unfavorable terms for the School District. The School District expended a total of \$86.6 million between 2010 and 2011 to cancel nine of its interest rate swaps; and

WHEREAS, In the March 2011 Performance Audit Report of the School District of Philadelphia, the Pennsylvania Auditor General characterized such swaps as ". . . complicated, risky financial instruments that can needlessly waste taxpayer funds if the District bets incorrectly on which way interest rates will move . . . [t]he School District of Philadelphia is, in effect, gambling with a very large quantity of taxpayer's money"; and

WHEREAS, Recent reductions in federal and state funding have further endangered the fiscal sustainability of the already distressed School District; and

WHEREAS, According to the Independent Auditor's report dated February 10, 2012 by the Office of the Controller of the City of Philadelphia, ". . . the School District has experienced continued operating funds losses, is projecting significant budget shortfalls for fiscal years 2012 and 2013 and is uncertain about its ability to achieve cost savings

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and obtain additional funding to overcome these budget shortfalls. These conditions raise substantial doubt about its ability to continue as a going concern”; and

WHEREAS, The School District has asked the Council of the City of Philadelphia to approve a \$94 million increase in funding to be paid for by the taxpaying residents and businesses of Philadelphia; and

WHEREAS, The Council of the City of Philadelphia cannot in good conscience continue to spend increasing amounts of taxpayer money on the School District without a greater level of transparency regarding how the School District is currently spending the taxpayer dollars it receives, especially when educational outcomes remain unacceptably low; and

WHEREAS, The City of Philadelphia must have more detailed information regarding the School District’s finances including, but not limited to, debt structuring, contracts with financial institutions and vendors, and executive employee salaries; now therefore,

RESOLVED, BY THE COUNCIL OF THE CITY OF PHILADELPHIA, That the City Council of the City of Philadelphia hereby urges the Pennsylvania Auditor General to conduct a forensic audit of the School District of Philadelphia to provide a greater degree of transparency into the District’s finances so that the City of Philadelphia can consider solutions to the School District’s current fiscal crisis.

FURTHER RESOLVED, That a copy of this resolution be forwarded to the Pennsylvania Auditor General as evidence of the grave concern of this legislative body.

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CERTIFICATION: This is a true and correct copy of the original Resolution, Adopted by the Council of the City of Philadelphia on the twenty-eighth of June, 2012.

Darrell L. Clarke  
PRESIDENT OF THE COUNCIL

Michael A. Decker  
CHIEF CLERK OF THE COUNCIL

Introduced by: Councilmember Johnson

Sponsored by: Councilmembers Johnson, Bass, Squilla, Kenney, Goode, Oh,  
Henon, Tasco and O'Neill