ALLEGHENY INSTITUTE FOR PUBLIC POLICY

May 21, 2012 **Policy Brief: Volume 12, Number 28**

Selling Unused Buildings Will Benefit Pittsburgh School District

The Pittsburgh Public School District has 23 closed up school buildings on their hands and is spending $15.2 million per year on maintenance and debt service for them. In August 2011, the District's Board approved a new policy to sell the schools. The new policy gives preference to sales price but also takes into consideration non-monetary factors such as effect on enrollment and impact on the community as well. Considering how difficult it is to sell old school buildings and how desperate the District is to cover budget shortfalls it should not be obstructing efforts to sell these buildings and thereby reduce maintenance costs and the associated debt service.

This new policy's conditions will take under consideration any bids that will at least cover "the existing debt service attributable to the building". According to the 2010 Comprehensive Annual Financial Report, the District has $487.8 million in net general obligation bonds outstanding. The annual debt service on these bonds is $58.6 million or about twelve percent of the outstanding balance with $34.3M going principal and $24.3M to interest payments. For the 23 idled school buildings the District still has about $15 million in outstanding debt on them, about three percent of its total bond debt.

But there is nothing in the Pennsylvania school codes requiring the sales price to cover the outstanding debt. The amount received in a sale does have to be used toward paying off the debt, but it doesn't have to cover the full amount owed. The Department of Education does have guidelines if a closed school building is receiving a state reimbursement for a portion of the debt service incurred. The Department of Education's Basic Education Circulars (BEC) says this regarding the sale and lease of unused and unnecessary land and buildings: "When a building is sold by a school district, reimbursement by the Commonwealth ceases". Once the building is sold, the school district no longer receives the reimbursement. Furthermore the Circular notes "If the net annual proceeds exceed the annual debt service, the Commonwealth will not reimburse annual debt service. If the annual proceeds exceed the next semi-annual payment, but do not exceed the total annual payments, Commonwealth reimbursement of each semi-annual payment will be reduced equally." While it is not clear if any of the currently closed buildings are receiving any type of reimbursement from the Commonwealth for their debt payments, there is no language to suggest any restriction in selling a building for less than is owed on its debt.

Consider Schenley High with its outstanding debt of $2.95 million. If the District sells it for $2 million, they are still responsible for the remaining $950,000 in debt. Do they have to pay it all off at once? The BEC mentioned above does not indicate as much. But even if that were the case isn't it better to remove the dead loss represented by ongoing maintenance, security and insurance costs of the unused facility? The longer the school sits unused the greater the annual maintenance costs are likely to be and in a few years the cumulative costs could swamp the $950,000 in debt not covered by a sale for $2 million.

Bear in mind that outstanding debt on most of the unused buildings is far less than a million dollars. Thus, the strategy should be to sell buildings with the lowest debt outstanding first and use any excess funds left over from the sales revenue to create a special designated fund to pay off the debt on buildings for which the sales price does not cover the outstanding debt. Still, any building with a reasonable offer should be sold right away. If selling schools is as difficult as some experts claim, shouldn't the District take an offer if it comes along? Waiting until the debt obligation can be covered is not reasonable. The maintenance, insurance and security cost savings can be applied to any remaining annual debt service after applying the sale proceeds. That should easily cover the debt service for most of the 23 buildings.

Simple analysis tells us that continuing to pour money into an unused structure is not a good plan. If the buildings and land can be sold for a positive price, they should be sold as soon as practicable. They are generating no revenue and no educational benefits and are therefore a net drag on District finances. If they cannot be sold, they should be torn down to reduce the annual outlays by the maintenance, insurance and security costs.

In sum, the Pittsburgh School District has every incentive to move expeditiously toward selling as many of its idled school buildings—otherwise known as money pits—as possible.

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