

Pittsburgh Schools' Date with Insolvency Postponed...Again

Oftentimes audits bring bad news. In the case of Pittsburgh Public Schools (PPS) in recent years their budget forecasts have been presenting a precarious financial picture while the audited results show something quite different.

Even though PPS is audited and a Comprehensive Financial Report (CAFR) is produced annually, the District is also periodically subject to an examination by the state Auditor General (AG). In December 2015, the AG released a performance audit covering the period February 23, 2012 through November 20, 2015. PPS operates on a calendar year basis, so the audit touched all or part of four fiscal years.

The performance audit found the general fund balance stood at \$129 million at the end of 2014. The PPS CAFR shows the balance was \$88.9 million in 2012, and is up from \$66.6 million in 2005 as a result of a decrease in debt obligations and four years of operating surpluses. The audit notes, "the actual financial results were more positive than the District expected primarily because operations accounted for in the general fund significantly outperformed budgeted amounts for each year in the audit period." The PPS response to the budgeted/ actual variations was that the District received more local revenue than it expected and contained costs and noted they had the budget forecasts reviewed by outside experts during the time frame of the performance audit.

So why does the District continue to forecast it will reach financial insolvency in a couple of years? Is it deliberately done for some political reason or is it just bad analysis?

The linking of PPS and insolvency was first publicly raised at a November 2012 school board meeting and reported in a news article detailing that meeting. A board member asked a PPS budget official "by 2015, are we broke, out of business?" and the response given was "correct". Obviously, the fact that 2015 has come and gone and the District is still operating means something has changed.

As the performance audit pointed out "...the District revised its projected insolvency dates multiple times and never reached insolvency at any time during the review period". In the final 2014 PPS budget (December 2013) the "adoption of annual budget" section states "insolvency will not happen until 2016". In the same section in the final 2015

budget (December 2014) it states “insolvency will not happen until 2017”. The preliminary budget for 2016 (November 2015), not breaking with the trend, predicts “insolvency will not happen until 2018”.

The 2016 budget (completed before year end 2015) estimates 2015 revenue at \$540.2 million and expenditures at \$539.3 million. Thus, the \$30 million shortfall projected in the 2015 budget has apparently disappeared. At the same time the 2016 budget is forecasting \$109 million in cumulative budget shortfalls through 2018 as expenditures rise more than revenues in 2016, 2017, and 2018. With a projected fund balance of only \$17.8 million at the end of 2018, the District would be out of compliance with fund balance policy. Not exactly bankruptcy but serious.

But what do the recent budget forecasts and actual results tells us about the reliability of the 2016 projection? A look at budgets going back to 2011 should shed some light on this question. District budget data from 2011 through 2016 provide budgeted and actual expenditures and revenues (actuals appear on a two year lag). Budget deficits were forecast in each of the four years 2011 through 2014 (the last year for which actual expenditures and revenues are available). Three forecast deficits turned out to be surpluses instead and the deficit that did occur was smaller than projected.

2011 through 2014 PPS Budgets and Actuals, \$ millions

	Expenditures		Revenues	
Year	Budgeted	Actual	Budgeted	Actual
2011	\$540.9	\$528.0	\$532.2	\$523.6
2012	\$529.8	\$518.0	\$508.1	\$521.2
2013	\$521.8	\$498.6	\$512.0	\$520.2
2014	\$529.1	\$527.3	\$514.7	\$539.2
Cumulative	\$2,121.6	\$2,072	\$2,067.0	\$2,104.2
Actual - Budget		(\$49.70)		\$37.2

Over the four budget years –2011 through 2014—the expected difference between expenditures and revenues was a cumulative shortfall of \$54 million (add in 2015’s budgeted deficit and the projected cumulative shortfall reaches \$80 million) but the actual figures showed revenues outpacing expenditures by \$32 million. With 2011-14 actual expenditures coming in close to \$50 million less than budgeted and actual revenues \$37 million greater than projected, the net improvement or “gain” over the four years is close to \$90 million.

Despite this evidence of bad forecasting and the comments from the state’s top auditing official, PPS claims of impending insolvency have not stopped.

Nonetheless, if the District truly believes with high levels of certainty that its projections of insolvency by 2018 are correct, then they should take clear and direct action to help stave off this event.

Under a 2012 Commonwealth statute (Act 141), the state created a financial recovery program for school districts akin to Act 47 for municipal governments. The program offers technical assistance and has placed four districts (Aliquippa, Reading, Steelton-Highspire, and Wilkinsburg) into financial watch status, and four districts (Chester-Upland, Duquesne, Harrisburg, and York) into financial recovery status.

Knowing that the state certainly did not want its second largest city to face bankruptcy it granted Pittsburgh Act 47 status in 2003. Surely the state would not want insolvency to befall its second largest school district, thus PPS ought to explore Act 141 as a way to avoid their predicted crisis, if they are convinced insolvency is near.

Could it be that what the District is doing is deliberately presenting a bleak financial picture again and again even though that picture has always turned out to be unfounded? One would think that budget surpluses the size PPS has recently experienced and the buildup of a large reserve would be news to brag about and possibly prompt a hint of a reduction in tax rates for PPS taxpayers.

Is the District presenting a picture of insolvency to encourage advocates and lobbyists to call for additional education funding in order for PPS to get more state and local money? Or is it a negotiation tactic to be used in labor contract discussions? What can be the motivation for continuously forecasting budget deficits? One could appreciate an abundance of caution in budgeting, but these errors are too large to support that argument. Normally, expenditures are more likely to be larger than forecast and revenues less than projected. In the PPS case the exact reverse has happened.

Jake Haulk, Ph.D., President

Eric Montarti, Senior Policy Analyst

*Policy Briefs may be reprinted as long as proper attribution is given.
For more information about this and other topics, please visit our website:
www.alleghenyinstitute.org*

<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
