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Can Penn Hills climb the financial mountain?

Summary: After being placed in financial recovery under Act 141 of 2012, the Penn Hills School District now has its required recovery plan. A substantial property tax increase and furloughs are real possibilities in the 2019-20 school year.

"The Penn Hills School District must change how it does business, how it compensates its workforce, how it educates its children, and how it charges its taxpayers to do so. [It] must adjust what it spends to match its current and potential revenue. Academically, [it] must build upon the things it does well in order to improve student achievement across the board. [It] must change the narrative that feeds a negative public perception about the school district." -*Penn Hills School District financial recovery plan, May 20, 2019*

Sounds quite simple and straightforward and should be accomplished in no time at all, right?

In January when the district was placed into financial recovery (joining five other districts) it met the criteria of a decreasing fund balance, a deficit in three consecutive years and a delinquent tax collection rate of more than 10 percent.

Much of the district's financial difficulties are traced to the construction of new schools, which district officials expected would lead to "students [returning] from charter and parochial schools once construction was completed" according to the plan. That expectation was not met. From 2008-09 to 2018-19 in-house enrollment fell from 4,972 to 3,360 (32 percent). Meanwhile charter school enrollment increased from 479 to 833 (73 percent). Clearly district residents with school-age children are looking for something besides new buildings.

During construction, Penn Hills' property tax rates remained unchanged. From 2008-09 to 2012-13 millage remained at 24.81. Without substantial savings it is hard to see how the district could expect to build new schools and not increase taxes. The plan states that if taxes had increased in the school construction years up to the Act 1 index (which determines the maximum tax increase a district can enact without an exception or referendum), then there would have been an additional $17 million raised above the $155 million in cumulative collections.

That's assuming homeowners and commercial property owners would have sat still for year-over-year increases, which have been the norm ever since. After being adjusted downward for the 2013 reassessment, there have been five consecutive tax increases. The last three were greater than the index. For a median value home of $74,000 school property taxes will have increased $526 since the millage was reset in 2013-14 if the proposed 1.92 millage increase (6.6 percent) is enacted in 2019-20. Are homeowners any happier now? And are they sitting still during the years of increases that the plan says were simply delayed?

Penn Hills' outstanding bond principal is higher than the peer group of other county districts it utilizes (Woodland Hills, Gateway, Plum and McKeesport). When compared to these districts on per pupil spending, Penn Hills was second highest at $21,145 in 2017-18. Its growth in per pupil spending from 2013-14 was third highest with an increase of $3,066 (16 percent). The district is higher than the Pennsylvania average ($17,582) on per pupil total spending and higher than the state averages on instruction costs and support services. Despite the spending, Penn Hills' scores on standardized tests compared to the state average leave plenty of room for improvement. Proficient or advanced scores on the 2017-18 PSSA for third and eighth grade students were below state averages. For example, Penn Hills' eighth grade proficient or advanced percentage on language arts was 35.7 percent, while the state average was 61.5 percent. Keystone exams for algebra, biology and literature were also significantly lower than Pennsylvania's averages.

With the loss in enrollment, there are proposed furloughs (55 is the "worst-case scenario") to the 487 positions in the district. Professional, para-professional, plant operations, principals/office, secretarial and food service positions are all scheduled to see reductions. The plan points out that there were 54 teacher furloughs in recent years (prior to the declaration of financial recovery) but 40 percent of those employees were recalled. Seniority and collective-bargaining provisions will govern the furloughs. State law also allows furloughs due to program changes, building consolidation and economic reasons.

A whole host of other cost-saving initiatives—from trying to attract cyber school students to the district's online program to utilizing space in the new schools for events and groups for a higher fee—are envisioned. Overall, the change in expenditures from this year to the next is a net reduction of $2.3 million compared to what would be an increase of $4.8 million with no initiatives.

Even if the initiatives proposed by the recovery coordinator are adopted, what are projected to be annual operating deficits through 2023-24 would still occur but with two years (2020-21 and 2021-22) ending with a surplus. That means "additional measures need to be explored" somewhere down the road. At the same time the district grapples with its own fiscal issues including a spike in debt service and an increase to the employer contribution for teacher pensions which will climb from 33.43 percent this school year to 36.3 percent in 2023-24.

In order to leave financial recovery the district will have to show positive operating results, a minimum positive fund balance of 5 percent for three consecutive years and satisfaction of at least 90 percent of the plan's initiatives among other requirements in the law.

As we have recommended previously, increases to existing taxes should be subject to approval by taxpayers in a referendum. Perhaps Penn Hills voters could have set the district on a different path if they had been given the chance for an up-or-down vote on school construction based on a clear explanation of the purported benefits backers envisioned.

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