



Pittsburgh Public Schools needs to confront budget realities

Summary: The 2024 preliminary budget for Pittsburgh Public Schools (PPS) shows spending will outstrip revenues. This has been the case for the past several years. Then, too, the projected decline in enrollment over the next decade presents a sobering picture, making decisions on possible closure of school buildings, which have been repeatedly deferred, even more critical.

For the fiscal year (FY) that begins Jan.1 and ends Dec. 31, 2024, PPS' preliminary general fund budget expects \$684.3 million in revenues and \$713.9 million in expenditures. This results in a deficit of \$29.6 million, which would be covered by PPS' fund balance. Spending more than available revenues and utilizing the fund balance happened in FY 2021 and FY 2022 and is how PPS expects to end FY 2023.

PPS' end-of-2024 unassigned fund balance (money other than assigned, committed, restricted or non-spendable fund balances) would be \$14.5 million. This would represent 2 percent of 2024's expenditures and violate the PPS board's policy on unassigned fund balance as a percentage of spending. The targets are a minimum of 5 percent and a maximum of 15 percent of general fund current year expenditures. When the unassigned fund balance is expected to fall below the 5 percent target of expenditures, "the District shall generate additional revenues or reduce expenditures" according to the policy.

PPS' three largest revenue sources are from property and earned income taxes and the state's basic education funding subsidy. Current and delinquent property taxes are expected to raise \$191.2 million after accounting for \$19.6 million in homestead property tax relief funded by slot machine revenues. PPS is budgeting a decrease in current property tax collections. PPS raised the property tax millage three times since the 2012 countywide reassessment. Successful assessment appeals that lower the assessed value of residential and commercial properties could cut into PPS' revenue depending on appeals that result in higher values.

PPS expects \$176.9 million in current and delinquent wage tax revenue. PPS expects current wage tax collections to rise. Under Act 187 of 2004, PPS shares 0.25 percent of its 2 percent rate with the City of Pittsburgh. PPS' earned income tax revenue is reduced

by \$23.8 million from the shift. The idea of ending the shift was a subject of public discussion most recently in 2021.

PPS expects to receive \$177.7 million from the basic education funding subsidy. This is comprised of \$153.8 million in “hold harmless” dollars and \$23.9 million from the student-weighted formula. While PPS has lost enrollment, the base amount has not changed. Any new money appropriated since FY 2015-16 goes through the student-weighted formula. PPS expects the basic education funding subsidy to rise in 2024.

Following the February ruling by Pennsylvania Commonwealth Court that the state’s method of funding public schools is unconstitutional, the Basic Education Funding Commission held a series of hearings to make recommendations to the General Assembly (*see Policy Brief Vol. 23, No. 36*). Plenty of testimony concerned the “hold harmless” portion of the funding total. But as of yet, what the commission might recommend, what the General Assembly will do with any recommendations and how that would affect PPS is unknown.

As the Institute has noted for years, most recently in *Policy Brief Vol. 23, No. 21*, PPS is a very high-spending school district and should be making expenditure reductions.

Spending is to increase by \$28.9 million (4.2 percent) over 2023’s budget. Examining appropriations by major object (nine objects in all, including salaries, employee benefits, supplies and property) shows that spending will be up for five and down for four. Salaries and employee benefits total \$338.7 million and account for 47 percent of all appropriations. Salaries will be up \$4.9 million (2.5 percent) but benefits will decrease \$1.1 million (0.9 percent). PPS is projecting a major jump in tuition paid for students attending charter schools, with a recent headcount of 5,343.

Perhaps that is an indictment of PPS’ performance or dissatisfaction of district families, which comes despite PPS’ level of per-student spending.

The preliminary budget notes “cost per pupil based on the 2021/2022 Annual Financial Report (AFR) Expenditure per ADM filed with the Pennsylvania Department of Education is \$30,306.⁴⁵.”

Examining the 2021-22 AFR data shows the \$30,306 per ADM (Average Daily Membership, which counts all students for which a district is financially responsible) is comprised of the following components: instruction (\$19,151); support services (\$8,645); non-instructional (\$274); facilities, acquisition and construction (\$83) and other financing uses (\$2,151).

Of the state’s 500 school districts, all but three reported 2021-22 data. PPS ranked 18th highest on total expenditure per ADM and was 45 percent above the state average of \$20,830. It ranked behind wealthy districts (measured by the market value/personal income aid ratio) like Lower Merion and New Hope-Solebury and small districts (measured by ADM) like Forest Area and Union. On expenditures for instruction, PPS ranked fourth highest (55 percent above the state average). For support services, 18th

highest (52 percent above the state average) and for the three remaining components 421st (16 percent lower than the state average), 145th (46 percent lower than the state average) and 153rd (6 percent lower than the state average).

Statewide in 2021-22, the reporting districts' average share of these components as percentages of total expenditure per ADM were 59 percent; 27 percent; 2 percent; 1 percent and 11 percent. PPS was not very different from these shares. But its expenditures per ADM on the two largest components—instruction and support services—were much higher than the state average. These are areas where the PPS board and administration need to look at intently as they try to fulfill the fund balance policy.

Notwithstanding the very high spending levels at PPS, academic performance is woeful. Results on the 2022-23 Pennsylvania System of School Assessment and Keystone Exams, based on the percentage of students scoring advanced or proficient were below state averages.

Additionally, the issue of the PPS building footprint is paramount and has been delayed long enough. PPS operates 57 schools (34 elementary, 7 middle, 9 secondary and 7 special). The total square footage of the schools and three other buildings is just over 6 million square feet. After putting off a plan to close six schools in 2021, the board and the administration discussed revisiting the issue at a meeting in October.

State law requires that a public hearing must be held at least three months in advance of closing a school. PPS' superintendent stated the "administration will present plans for consolidation to the school board after the start of the year."

In the preliminary budget K-12 enrollment in 2022-23 was 18,665. That was down 24 percent from 2012-13. The enrollment projection for 2024-25, drawn from state Department of Education data, is 17,422 (another 7 percent decline from 2022-23). By 2032-33 the projection shows a nearly 30 percent drop to 13,303. According to the 2022 Annual Comprehensive Financial Report, PPS used 52 percent of its "functional capacity" of space. Without adjusting square footage, utilization would be even worse.

The superintendent and board are talking about closing schools, no easy task that can get plenty of public pushback and can increase travel time for students. Eventually, closed school buildings must be sold, preferably to buyers that will put them on the tax rolls. This will encounter significant resistance along with additional development conditions. Between FY 2005 and FY 2006, the number of schools was reduced by 21, which is the largest year-over-year drop in the past two decades.

PPS is again in a critical situation of its own making. Keeping the commonwealth and the school district taxpayers in mind, the PPS board needs to begin the process in making major cuts in spending for several years. If the Legislature eliminates or makes large reductions to "hold harmless," the board will be forced to make reductions or find other sources of revenue to sustain the level of per-student spending. The 2024 budget would

be a good place to start. Currently, PPS spending and academic results are a huge negative look for the city.

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