POLICY BRIEF

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Are Pittsburgh Schools Lurching Toward a Fiscal Nightmare?

As the Pittsburgh Public School District Board prepares to release its proposed budget for 2011, they are quick to point out there will be no tax increase for the tenth consecutive year. Supporters applaud this move and offer it as proof the District is fiscally responsible. But lost in the hype is the fact that revenues have been increasing to cover rising expenditures, thanks in large part to state and Federal funds. However, as the state grapples with its own budget shortfalls and the Federal stimulus money dries up, the District could face serious budget problems in the near future.

Revenues from local sources over the last five years have been decreasing. The largest local source of funding—real estate taxes—has been declining. In 2006 the District budgeted slightly more than $172 million in real estate taxes; in the current 2010 budget that number is projected to be $155 million—a decrease of nearly ten percent from 2006. Meanwhile, the second largest local revenue stream, the earned income tax, has been fairly flat at around $90 million (this reflects in part a shift of 0.25 percent to the City of the earned income tax). Budgeted revenue from all local sources has fallen from $301.1 million to $273.9 million—a drop of $27.3 million.

On the other hand, between 2006 and 2010 total general fund expenditures rose from $497 million to $528 million and are projected to rise another 3.4 percent in 2011. With local revenues down almost $30 million over the period and spending up by $30 million, how has the District managed to pay its bills? Briefly put, the gap has been filled mostly with increased state appropriations.

Note that in 2006 the District received just under $200 million in state funds. For the 2010 budget year that number had increased to $242.3 million—a jump of more than 21 percent. The state gives the District money to cover a variety of expenses from retirement contributions to transportation to charter schools with the largest appropriation for basic instruction.

In 2006 the District received $134.3 million from the state for the basic instructional subsidy. By 2010 this revenue category increased to $157.6 million—an increase of more than 17 percent and is projected to jump another $5 million to $162.7 million in 2011, aided in part by the Federal stimulus money. In August 2010 the Federal government passed another stimulus package to "save school-level jobs". Pennsylvania's allocation was $387.8 million. This is in addition to the $250 million increase to the basic instructional subsidy already approved in the state budget.

But with the change in the Governor's office and the expiring stimulus money, the District may be faced with tough decisions as it goes forward. The state is facing a budget shortfall reported to be as much as $5 billion. Automatic increases to the basic instructional subsidy are not guaranteed. With a change at the Federal level in Congress, another round of stimulus spending seems unlikely as well. Indeed, there might be cuts in the state subsidy and certainly there is strong likelihood it will be no better than flat.

The District will be confronted with the very real possibility of cutting spending or breaking its streak of not hiking tax rates to balance future budgets.

As noted, District spending levels have climbed by more than $30.6 million going from $497.2 million in 2006 to $527.9 million in 2010. At the same time, enrollment has been heading lower falling from 29,445 in 2006 to 25,326 in the 2010 school year pushing the cost per student from $16,886 to $20,843.

The increase in total costs, coupled with the uncertain future of state funding sources, could force the District to increase taxes to cover future budgets. However, the District will have to compete with a cash-strapped city for tax revenue. As we have written earlier (*Policy Brief Volume 10 Number 57*), the City of Pittsburgh's well known pension problems and probable takeover by the state may force it to raise its taxes to bring the pension fund up to acceptable levels. Will the District and the City be able to raise taxes simultaneously to solve their respective problems? Taxpayers in the City will certainly be outraged by a double tax rate hit. Substantially higher City and school tax burdens will make the challenge of attracting and holding on to residents and businesses much more difficult.

Clearly, the best thing for the City and its taxpayers would be for the District to begin serious cost cutting immediately. But it's unlikely there is sufficient political will to make the necessary spending cuts. More likely they will find it easier go hat-in-hand to Harrisburg to ask the next governor and legislature to funnel more money to the Pittsburgh schools—easier perhaps, but unlikely to be successful. It is time for school Board members and the City officials to take their responsibilities to taxpayers seriously and make expenditure reductions.

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