

POLICY BRIEF

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"Fiscal Prudence" School Board Style

When the chips are down, you find out who your friends are. In the case of Pittsburgh with its ailing finances, the school board is not a pal. There is talk in Harrisburg of changing the distribution of the revenues from the three percent total earned income tax paid by Pittsburgh residents, of which, two percent currently goes to the school district and one percent to the City. The proposal would equalize the earned income tax rates at 1.5 percent each, shifting about \$24 million in revenues to the City's coffers without changing the total tax burden on residents. Members of the school board have cried foul, claiming they are being "punished" for staying financially solvent and would be penalized because they are trying to be fiscally conservative.

What utter nonsense. Let's look at the data to determine whether District officials have conducted financial affairs in a prudent manner. The District's enrollment has declined by almost 6,000 students (14%) since 1997, dropping to the current level of 34,167 with forecasts calling for a further steep decline over the next five years. Incredibly, the District's general fund spending has climbed from \$391 million to \$525 million over the period 1997 to 2004. This year, the District's general fund spending per-pupil stands at \$15,385, a number that puts the spending of many wealthy districts, many comparable cities, and the state average to shame. In order to fund the massive spending increase, the District raised the real estate tax rate 23 percent and the earned income tax rate by nearly 7 percent in 2000. These rate hikes have pushed tax revenues up by almost 40 percent.

The notion that the District can be viewed as fiscally conservative while it spends like drunken sailors and gouges taxpayers is nothing short of mind boggling. This attitude by board members clearly demonstrates just how out of touch with common sense they are.

It is instructive to look at the impact shifting 0.5 percent of the earned income tax would have on school district finances. By taking \$24 million from the school district, general fund spending per student in Pittsburgh would drop a relatively small \$700 to \$14,660. Outlays at this level are still far above the state average and are surely enough to provide a quality education for Pittsburgh's children. A fiscally prudent, financially well-managed district should be able to do an excellent job with \$500 million to spend for 34,000 kids.

Other school districts in comparable cities across the country are much more financially responsible than the Pittsburgh district. Our recent Benchmark City report looked at four other districts in regional hub cities similar to Pittsburgh. On a per-resident basis, those districts spend on average about half as much on operating costs and debt service as Pittsburgh Schools --\$892 to Pittsburgh's \$1,601. Reflecting the lower spending, the local per-resident school taxes raised in the Benchmark Cities were also half the school taxes in Pittsburgh. One thing is for sure; Pittsburgh can never be competitive with tax disparities of this magnitude.

For the sake of argument, let's assume that the District gets its way and is not required to give up the 0.5 percent share of its wage tax to help the City. There is a real possibility the \$24 million might have to be raised by higher property taxes on residential and commercial properties. Employers in the City, who pay property taxes directly or indirectly through rent, could become further disenchanted with the City's tax burden and decide to leave. The loss of employment and residents will cause a further contraction in the tax base and make the financial situation for the City even worse and make it harder for the school district to maintain its expenditure level. Obviously, forcing the City to raise taxes is not a fiscally prudent course to take.

The school board must come to realize that its long-term financial well being is intimately linked to the financial health of the City. It is incumbent upon them to voluntarily join the City in biting the bullet and to begin the process of reducing spending and taxes.

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