POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

January 10, 2008 **Volume 8, Number 3**

Looking a Gift Horse in the Mouth

UPMC's conditional pledge of $100 million over ten years to the Pittsburgh Public Schools for use as a college scholarship fund raises many questions. Setting aside the issue of UPMC's motivation—although developments have given rise to questions about motives—there are many administrative pitfalls, public relations issues and financial calculation concerns that will present themselves.

To begin with, two broad philosophical questions must be addressed. First, how is it that a school district with operating expenditures of more than $18,000 per pupil has the temerity to ask for $100 million from a non-profit, tax-exempt organization that provides charitable services and is itself a seeker of tax deductible contributions? If Pittsburgh schools were spending $13,000 per pupil—still well above the state and national average—the district would save between $140 and $150 million per year, 15 times more than the annual $10 million UPMC is willing to contribute.

There is something truly remarkable about a situation wherein a district spends—at current per pupil levels—an average of $234,000 per child to get them through 13 years of public education and then feels the need to get millions more to help fund their college education. If the district would find savings of around $400 per child each year and set that money aside as college scholarship funding, Pittsburgh schools would easily generate the $10 million pledged by UPMC. Or, make it $1,000 in per student savings and produce over $25 million per year for college funds. There would be no ten year time limit and the fund could become very large over the years. Instead, the district will try to squeeze another $250 million out of the corporations and foundation community to help it stave off the ongoing and predicted further massive shrinkage in enrollment that its already colossal spending per pupil is not able to do.

Second, how is it that a hospital organization—a tax-exempt charitable entity—can afford to be giving money away in this amount? To be sure, UPMC has plenty of money as its income statement and balance sheets show. Over $600 million in surplus earnings on gross revenues of around $6 billion is not too shabby even allowing for sizable investment earnings. The question surely must be, "Why is a medical organization that is tax-exempt for charitable purposes not returning its surplus to its customers in the form of lower prices or more free services?" Setting aside some reserves is prudent. But any surplus should be plowed back into providing either more services or less expensive medical services, not becoming a funding organization for college scholarships.

But beyond these philosophical issues, several more practical questions arise. One, how can UPMC, which derives its revenue from operations and patients from around the region and not just in Pittsburgh justify college scholarship funds for Pittsburgh students only? Undoubtedly there will be requests for funds from other school districts where UPMC has major operations. How will they respond?

Two, how will access to the scholarship program be policed? For example, can a child from the suburbs move in with relatives in the City for their senior year and qualify for funding? Then too, will the academic requirements utilize national testing standards? If requirements are based solely on district measures such as grade point average, there is a high probability of even further grade inflation, which would have a perverse effect on the plans to improve academic quality. SAT scores in many of the high schools shows how poorly Pittsburgh students are performing compared to state and national averages. Adopting even a very modest combined SAT score of 900 (100 points below the national average) to qualify for funds would make the majority of students at several schools ineligible. Using scores on the state's PSSA tests would lead to the same problem.

The political and public relations nightmare created by setting reasonable standards will assuredly consume the scholarship administrators' time and attention.

One of the stated requirements will be 90 percent attendance. But with attendance running at 80 percent or so in some schools that means a huge fraction of current juniors and seniors will not be able to qualify. Will the requirement be waived for those about to graduate?

Which raises a greater question: Why would we expect that kids who do not see the value of getting a high school education all of sudden respond with markedly improved performance given the prospect of receiving help to go to college?

And finally, there is the financial math question. Currently, there are about 2,000 seniors. If half qualify for help at an average of $5,000, half the first year's grant of $10 million will be used up. And assuming that another 1,000 come along next year, $10 million will be spent, in the third year scholarships would total $15 million and in the fourth $20 million where it would level off, assuming no growth in graduates or average amount of funding per recipient. So even if the matching $15 million per year is raised beginning in the second year, the total remaining available funds after ten years —discounting any investment earnings—would be only $65 million and far from the amount needed to sustain the "Promise" by funding only out of endowment earnings.

The only ways out of this dilemma would be to raise far more funds than the projected $250 million, limit the average per recipient funding to well below $5,000 or to keep the number of new recipients well below 1,000 each year. All of these might be accomplished but doing so will certainly take away from the luster of the program.

In short, the “Promise” idea is a poor way to provide students with a high quality education in the K-12 experience. Well prepared and accomplished students can get funding for college – where they can go and benefit fully from the experience and not have to be remediated and/or placed in watered down courses and majors.

Clearly, a far better approach to improving educational outcomes would be for UPMC to use the $10 million per year, along with any funding from other organizations, to create $7,000 annual scholarships for Pittsburgh students to attend any private or religious school they choose and where they can get accepted. Rather than hope for improvement by dangling the carrot of a future college scholarship, why not create an opportunity for parents and kids who want to but cannot afford to attend a better, non-public school?

Existing examples such as Pittsburgh’s Extra Mile Schools or KIPP (Knowledge is Power Program) Schools in other parts of the country demonstrate that better education outcomes are possible even for the most disadvantaged children when given the right program options for parents who truly care about their kids’ future. Funding scholarships for such programs would show a far greater sense of concern and hope for better education achievement in Pittsburgh than will the “Pittsburgh Promise” idea.

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