

AFFIRMING COMMITMENT TO EQUITY FOR ALL STUDENTS IN A PERIOD OF SIGNIFICANT BUDGETARY CHALLENGES

A+ Schools
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I. BACKGROUND

Since the announcement early last year of the budgetary concerns faced by Pittsburgh Public Schools (PPS), A+ Schools has strived to fulfill its role as an independent community advocate for improvement in public education, with a special commitment to ensuring equity among all schools.

As part of that effort, late last spring, A+ Schools — with the cooperation of Pittsburgh Public Schools (PPS) — engaged William Johns¹ to conduct an independent financial analysis examining the District's overall goals, spending projections, cost reduction options and strategies for making budget-related decisions. That analysis included benchmarking PPS with a number of other Pennsylvania school districts.

Since May, A+ Schools also has engaged Pittsburgh families, educators and community members in discussions of PPS budget priorities. More than 500 people have participated in these meetings at multiple locations throughout the city, where they listened to presentations by PPS Superintendent Dr. Linda Lane, took part in small discussion groups, and/or voiced their opinions on priorities through polling online or in person.

That polling revealed that there is an understanding of the budget challenges and that, in general, Pittsburghers recognize that under-enrolled classes are contributing to high costs of education. Those responding also overwhelmingly expressed the need for more information about specific costs, course offerings, enrollment and effectiveness.

The polling further affirmed the need for Mr. Johns' study commissioned by A+ Schools. **Participants articulated the need for decisions related to course offerings be made with a commitment to equity, ensuring that all students have access to the courses that will best prepare them for college or career training (the number one concern of poll participants).** Additionally, at these public meetings, A+ Schools reaffirmed its advocacy for the creation of teams at schools experiencing changes due to budgetary challenges to help students and parents during the transition.

II. FINANCIAL ANALYSIS HIGHLIGHTS

A. Progress Toward Achieving Sustainability

PPS currently enjoys strong, but diminishing, financial health and temporary sustainability. Its recent budgetary initiatives have bought it some time to introduce more change in the District. PPS cannot, however, continue to pay for uncontrollable cost increases simply through staff reductions or by taking on more debt. In summary:

- **PPS has responded to the pressing financial challenges quickly and decisively.** A projected \$100 million deficit by 2015 has been reduced by \$70 million in only nine months through a series of aggressive, yet thoughtful and prudent, actions. What is required now is continued vigilance in successfully meeting the challenges of prudent cost-cutting measures to address the remaining \$30 million deficit while ensuring equity of educational opportunity for all students in the District.

(1) Mr. Johns is the former senior vice president-finance of PNC Financial Services. After retiring from PNC in 2005 with 31 years of experience, he served as interim CFO of the Pittsburgh Public Schools for 2006-07. He brought both deep private sector experience and intimate knowledge of PPS finances to this assignment.

- **A+ Schools’ analysis indicates steady and consistent movement in the right direction.** To reach its financial goals, the District has begun to address the issues where it is significantly above its peer districts in terms of spending, people and buildings — e.g., fewer schools, fewer employees (central office and teachers) and reduced capital spending.

Specifically, we commend PPS for the difficult steps it has already taken to address issues of financial sustainability and equality of educational opportunity. These measures include:

- Development of a new educational delivery model;
- Re-designing the site-based budget process to equitably distribute school resources;
- Realignment/school closures and reconfigurations;
- Central office reductions;
- Feeder pattern changes;
- Reduced capital spending and building sales; and
- Debt refinancing and restructure.

- **Controlling employee costs will be a major factor in PPS’s efforts to successfully eliminate its anticipated \$30 million deficit.** Current projections indicate that if not brought under control, employee costs will overtake the savings generated by the successful actions taken to date.

B. Benchmarking with Other Pennsylvania Schools

Our benchmarking analysis compared PPS’s per-pupil costs with comparable districts in Pennsylvania, including Philadelphia, Harrisburg, Scranton, Wilkes-Barre and Altoona. The publicly available data used is collected annually by the Pennsylvania Department of Education for each district within the state, and submitted under common and consistent instructions. *NOTE: The most recent information available is for the 2009-2010 school year — before the most recent budget cuts were made.*

This data collected provides valuable context on why school closures and layoffs are a difficult, but unavoidable, action to address PPS’s financial challenges:

- In the 2009-10 school year, PPS’s average cost-per-pupil was \$21,100 — more than \$8,000 higher than the peer group median and about \$3,700 more than Harrisburg, the second highest. Totals from both PPS and Harrisburg included about \$3,000 per pupil in programs supported by supplemental funds.

When considering PPS’s spending per pupil, however, the following should be noted:

- PPS’s demographics, aging infrastructure and Excellence for All reform initiatives (as supported by substantive grants and supplemental funding), contribute to its high-cost structure.
- A reduction to the high per-pupil cost resulting from the current cost containment efforts will take a few years to be reflected in comparisons, due to the long lead time necessary for implementation of initiatives.
- PPS has a larger number of smaller schools than the peer group, despite being the second-largest district in the state. PPS’s average enrollment per school was 383 students compared with the benchmark group average of 588. *NOTE: This calculation precedes the school closures that are currently being planned.*
- There were 6.1 students enrolled at PPS for every full-time employee on staff. The average of the other districts most similar to PPS was 7.1 students for every full-time employee. Neither PPS’s central office reductions that occurred in 2011, nor the anticipated staff reductions from educational delivery model changes (combined totaling 630 reductions), are included in this statistic.

To address its higher per-pupil spending rate, larger number of smaller schools and higher staff ratios, PPS over the last year has made general budget cuts overall, closed schools and eliminated staff. These actions will eventually help to “close the spending gap” between Pittsburgh and other schools in the state.

PPS, however, will still be among the highest cost districts on a relative basis. All other districts in the Commonwealth have experienced comparable losses of state funding and are going through similar cost reduction efforts.

III. MEETING THE CHALLENGES

A. Protecting the PPS Fund Balance

While Pittsburgh Public Schools face significant challenges, it is in a much better position to address its budgetary problems than many districts.

Key to PPS’s ability to prudently address its current financial issues has been its healthy fund balance. The fund balance represents the excess of the district’s assets (what is owned) over liabilities (or what is owed). Maintaining a healthy fund balance allows the district to avoid excessive short-term borrowing; cover unforeseen expenditures; better manage cash flow; demonstrate the financial stability needed to preserve or enhance its bond rating; and, above all, remain solvent. The fund balance is a reserve that should never be utilized to fund normal operations. **The PPS Board (and best practices) mandate that districts always have a fund balance in excess of five percent of annual operating expenses.** At the end of July 2011, the PPS fund balance was approximately \$70 million dollars, or almost triple the mandated \$26–\$27 million (based on a 2011 budget of \$540 million).

The danger exists, however, that unless PPS is vigilant and creative in pursuing all possible cost-cutting opportunities, its fund balance is at risk. **One of A+ Schools’ top priorities will be to continue to monitor the health and sustainability of the fund balance through this budget year and beyond.** Maintaining a strong financial position allows the district to focus on educating students rather than managing financial crises.

B. Balancing the Budget — Recommended Initiatives

A+ Schools has identified a number of initiatives — largely targeted at controlling employee costs — that can be taken by PPS to contribute toward permanent financial sustainability in the foreseeable future:

- Undertake an evaluation of the PPS collective bargaining agreement (CBA), comparing it with other benchmarked districts in the Commonwealth as well as neighboring districts;
- Impose a temporary wage freeze for employees not covered by the CBA to demonstrate the District’s commitment to controlling costs;
- Continue the hiring freeze already imposed for the time being;
- Increase efforts to work with members of the state legislature and the Governor’s office to address the current Pennsylvania School Employees Retirement System (PSERS) and consider possible alternatives. Participation in PSERS is currently mandated by the state and is adversely impacting all districts due to extremely high (and increasing) annual contributions;
- Continue to focus on escalating healthcare costs to identify opportunities for greater cost effectiveness. This could include evaluating new providers and higher employee contribution rates; and
- Continue to focus on debt refinancing while interest rates are at historic lows.

C. Ensuring Equity and Excellence

Although balancing the budget is critical, A+ Schools believes it can be achieved while continuing to build a high-performing public school system. There remains an ongoing need for vigilance in cost cutting while continuing to pursue equity and excellence.

Later this spring, A+ Schools, with the cooperation of PPS, will review the individual budgets for 2012-13 of all PPS schools with an eye to ensuring equity at high-risk, low-income schools, as well as monitoring the state of the PPS fund balance

D. Impact of the Commonwealth's 2012-2013 Preliminary Budget

On Feb. 7, Governor Corbett presented his preliminary budget for fiscal year 2012-2013 for the Commonwealth of Pennsylvania. If approved without modification, K-12 Basic Educational Funding for the fiscal year will remain flat with the current year. However, the proposed budget eliminates the Accountability Block Grant, and reduces funding to the Pre-K Counts and the Head Start Supplemental Program, which provide critical funding for early childhood programming. The District's Pre-K program has been incredibly effective in preparing low-income students for success. If the program is discontinued, it will threaten the progress of students in the elementary grades.

IV. CONCLUSION

Achieving long-term sustainability in Pittsburgh Public Schools will not be easy. The painful, but necessary, decisions made by PPS to date — from closing schools to terminating jobs — have affected the lives and livelihoods of hundreds of families, students and educators in our City. Subsequent decisions that will be made — that *must* be made — to further reduce annual costs will be even more difficult. These decisions are critical in order to maintain the financial health of the district and provide the resources required for the continued progress in academic achievement that PPS has experienced.

A+ Schools believes that PPS has made solid progress toward achieving financial stability. We further commend the PPS Board for introducing greater equity into the District's structure — not only in regard to cost reductions, but the entire operating budget. It is important to recognize, though, that the benefits resulting from the changes that have been made — and those to come — will likely take several years to be fully realized. Efforts to control costs are critical and must be made with a continued sense of urgency. Any postponement of cost reduction efforts adds to projected deficits and further reduces the flexibility provided by the district's resources.

While there are many challenges ahead, A+ Schools is encouraged by both the progress and transparency evident in this analysis. We will continue to actively advocate for excellence and equity in Pittsburgh's schools as this process moves forward.



A+ Schools is deeply appreciative of the cooperation extended by Dr. Lane and the members of her staff in undertaking this analysis. Additionally, the PPS Board has been supportive of this effort and has provided valuable input into the process.