

Update on Providence Public Schools FY25 Budget

In our May board meeting, we shared PPSD's planned budget for FY25. That presentation assumed a local budget of \$428.6M, which was comprised of \$273.1M in unrestricted state aid, \$147.7M in City of Providence aid, and \$7.8M from other sources (e.g., Medicaid, indirect costs). In addition to the local budget, PPSD had planned for an additional \$18.1M in restricted state aid, the vast majority of which was from MLL categorical funding.

Since that May budget, there have been several updates to revenue projections. First, state aid was increased by a net of \$3.0M in the final budget signed by Governor McKee. This was done by increasing the per pupil state aid amount and through the elimination of the MLL categorical funding set aside, which is now factored into overall state aid. Compared to PPSD's May budget, unrestricted state aid was increased by \$20.5M while the \$17.5M in MLL categorical funding was eliminated, for a net increase to PPSD of \$3.0M. Second, aid from the City of Providence increased by \$2.5M from Mayor Smiley's original proposal. We are thankful of the Rhode Island General Assembly's continued support for public education and are appreciative of the additional contribution from the Providence City Council and Mayor Smiley's administration. We are also thankful for the community members who advocated for an increase in local funding for schools. Further details on changes in revenue are in the appendix to this memo.

While the additional increase from the City of Providence is a step in the right direction, it is still well short of the City's obligation under the Crowley Act, and less than what PPSD had planned for in our FY25 budget, presented to the Mayor this winter and the City Council throughout the spring. Based on the gap in funding from the City of Providence, PPSD will still have a revenue gap of \$9.2M for the upcoming year. That is based on state aid being \$3M more than planned and City aid being \$12.2M less than planned (\$147.7M vs. \$135.2M). The planned FY25 budget includes all of the reductions that we have already implemented, so the recent additions in aid will not enable PPSD to reverse cuts.

Given ongoing litigation with the City for FY24, which represents a ~\$18M revenue difference, and the \$9.2M remaining gap for FY25, we are closely reviewing our finances and identifying further mitigation steps we may need to take.

We have seen questions and comments regarding the current financial situation and whether it is the result of poor planning on the district's part. We strongly disagree with that suggestion. To control expenses over the past years, PPSD has made a number of difficult decisions, including the closure of three schools and districtwide reductions at the central office and all school levels. The main issue has been a failure on the City of Providence's part to meet their financial obligation to the students of Providence over the past five years. At the start of the intervention, the City Administration provided assurances on several occasions that they would comply with the funding requirements of the Crowley Act. Despite those assurances, the City did not include any increase to PPSD in FY21, FY22, FY23, or FY24. While we appreciate that the City contributed an additional \$5.5M in their FY25 budget, this increase is just \$0.6M more than the City was legally obligated to include four years ago. It continues to be incredibly difficult to plan for our schools when statutory requirements and commitments from the City go unmet.

Second, we have received inquiries about the use of PPSD's reserve funding to cover the upcoming year's deficit. We want to be clear: **the district will need to use all of its \$12M in reserve funds to cover the gap in FY24, which is currently in litigation but is approximately \$18M, as well as the remaining**

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gap for FY25. The establishment of the reserve fund was a prudent way to plan for district financial sustainability, and was created in the Spring of 2020 when the district shut down due to the COVID-19 pandemic and did not incur many standard operating costs (e.g., transportation, utilities). The reserve fund became a necessity as we projected challenging financial times due to enrollment declines in the years ahead. As part of the collaboration agreement between the City and Commissioner at the start of the intervention, we understood that the City would not be responsible for covering any deficits that the district runs like it would have been prior to the intervention. The reserve fund was our way to honor that commitment, and is common practice nationwide when municipalities are not responsible for covering a district's deficits. Unfortunately, those challenging financial times have arrived, but the City has not kept up their end of the collaboration agreement, in which they agreed to increase funding to the district.



Appendix – Revenue Projections (Summary)

Providence School Department
FY24 and FY25
Local Budget
Projected Revenue

	<u>FY24 (2023-2024)</u>	<u>FY25 (2024-2025)</u>
	Budgeted Revenue	Budgeted Revenue
Unrestricted State Aid	272,459,717	293,716,505
City Aid (PPSD Budgeted)	147,950,978	147,677,530
Other Sources	8,235,000	7,785,000
Total Local Budget Revenues	\$428,645,696	\$449,179,035
Restricted State Aid (MLL Categorical)	10,406,615	600,029
Local Budget plus Restricted State Aid	\$439,052,311	\$449,779,064
Difference from City budgeted funding	(17,904,367)	(14,630,919)
Difference from State budgeted funding	0	3,032,539
Gap if no increase from City	(17,904,367)	(11,598,380)