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### **Pension Obligations Are Taxing Property Owners**

Pension problems facing school districts have come home to roost. As we wrote in a recent blog: “Unless there is agreement on pension reform legislation...most school districts in Pennsylvania face ruinous increases in pension funding.” To handle this increase, districts will have to raise taxes, lay off personnel, or both. And while the Commonwealth, through Act 1 of 2006, restricts a district’s ability to raise property tax rates, in Allegheny County eleven school districts, 25 percent of the total, have petitioned for an exception to this law meaning they now have permission to increase property tax rates above the Department of Education’s prescribed limit.

Briefly, Act 1 of 2006 charges the Department of Education (PDE) with setting an inflation index each year that serves as a cap on each school district’s allowable millage increase. Anything above this cap has to be granted an exception or go before the voters in a referendum. There are only three allowable reasons for an exception—school construction (grandfathered debt), special education expenditures and pension obligations. In 2012 the index was calculated to be 1.7 percent for the upcoming school year (2013-14). Any increases over 1.7 percent, as stated above, require either a voter referendum or an exception from the PDE.

As we had written about in a previous *Policy Brief* (*Volume 12, Number 8*), the fact that this is a reassessment year (or the year the reassessments are implemented) in Allegheny County, muddies the water a little bit. As we stated then, “The act contained a section on property tax limits on reassessment and noted ‘notwithstanding any other provision of law’ that a school board ‘shall...reduce its tax rate, if necessary, for the purpose of having the percentage increase in taxes levied for that year...be less than or equal to the index for the preceding year.’ That does not mean revenue neutral, but within the index determining how much school taxes can increase under the statute.” Thus school districts in Allegheny County have to roll back their millages to comply with Act 1 by using the index for the 2012-2013 school year (calculated in 2011 which was also 1.7 percent). If they need to increase beyond the index, they must go before voters or apply for an exception.

For the upcoming school year, 186 school districts across Pennsylvania (of 500) adopted preliminary budgets indicating that they were going to seek millage increases. 171 are seeking exceptions as their desired increase, based on their preliminary budget, exceeds the index while the remaining 15 are holding increases to within the index. The PDE released a “Report on Referendum Exceptions for School Year 2013-2014” which provides details of the requests. Eleven Allegheny County school districts made such a request: Avonworth, Bethel Park, Brentwood, Clairton, Keystone Oaks, Mt. Lebanon, North Allegheny, Pine-Richland, Riverview, South Fayette, and West Allegheny.

All eleven districts cited pension obligations as reasons for petitioning for the exception with three—North Allegheny, Riverview, and West Allegheny—also citing special education expenditures. In fact statewide, 169 of 171 school districts (98.8 percent) seeking exceptions did so based on the grounds of pension obligations. Seventy five also asked for an exception for special education expenses (44 percent) and eleven (6.4 percent) for school construction (grandfathered debt). Clearly pension obligations, the contribution rate for the retirement system was raised from 12.36 percent to 16.93 percent, are straining school district budgets and many are looking to the taxpayers to pick up the tab.

For the eleven Allegheny County school districts, a total of approximately \$5.36 million additional tax revenue was being sought to pay for pension obligations. The requests ranged from \$115,200 (Clairton) to \$1.38 million (North Allegheny) with an average of just over \$487,000. The PDE approved nearly all of the requests (Brentwood and Clairton were approved but for less than they requested) for an eleven district total approved exception of \$5.23 million. The PDE also has given approval for millage hikes to cover the amounts approved for each school district. The range covers a low of 0.1987 mills (Keystone Oaks) to a high of 0.3811 (Riverview). Clairton, which has a separate rate for buildings and land, was approved for an increase of 1.3384 mills on the buildings and 3.9359 on land.

That is not to say that these districts will use their exceptions, but they have permission to do so—after all these calculations were based on preliminary budgets. In many cases final budgets are still being worked out and may not be approved until the State budget is set at the end of June. And of course the other districts not filing for an exception can still raise millages, they just have to do so within the parameters of Act 1.

Pension obligations are straining district budgets and there are basically only two options to deal with shortfalls—eliminate programs/staff positions or pass the higher spending onto the backs of taxpayers. Taxpayers have certainly borne the rising spending burden for a long time but now are pushing back. How many teachers would have to be laid off to close the budget gaps caused by the increase to pension contributions? North Allegheny's shortfall of \$1.38 million suggests that dozens of teachers would be on the block.

It's time for the state to address the issue by allowing some common sense solutions such as allowing districts to lay off teachers for economic reasons and eliminating the teachers' right to strike. Likewise teachers need to realize what is at stake and come to the table willing to accept needed reforms of the pension plans to save teaching jobs.

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