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School District Seeks Answers

Cut personnel, raise taxes, or dip into the savings account. Those are the choices facing one of the largest school districts in Allegheny County. As the 2012-13 fiscal year approaches, Mt. Lebanon is grappling with the question of how to deal with a $2 million deficit. The deficit could increase to $3 million depending on the ruling on a grievance filed by teachers regarding retroactive benefits for substitutes who become full time teachers.

With the level of state education funding stalled, the past few years of rapidly rising costs have caught up with the District—a scenario that is likely developing in many districts. In Mt. Lebanon the trends in several key measures have definitely been unfavorable over the last ten years. Enrollment is down while employee benefits and property tax levies are up substantially.

Based on the audited financial report available on the District's website, from 2002 through 2011 enrollment fell from 5,616 to 5,268 (-6%). Over the same period full-time equivalent employee headcount rose 3.5 percent. The categories of supervisory and student services personnel were both up 16 percent while instruction and support/administration are up 2.5 percent and 1.6 percent, respectively.

Astonishingly, the audited data show fringe benefits have jumped from $6.4 million to $13.9 million (114%) during the 2002-11 period, pushing the ratio of fringe benefits to salaries in the District from 20 percent to 34 percent in 2011. If the $1 million grievance settlement is awarded the fringe benefits to salaries ratio will almost certainly rise even further. Total outlays climbed 42 percent over the period, boosting per pupil expenditures by 52 percent. Note that from 2006 to 2011, SAT scores were flat, although still well above state and national averages.

Will the District raise property taxes? Been there and done that. Notwithstanding the County assessment freeze that was touted as a way to curb property tax increases, audited financial data show that after reducing the property tax rate from 20.76 mills to 18.12 in the 2002-03 year, Mt. Lebanon school tax millage rate was raised every fiscal year since except for 2007-08 and 2011-12. For 2011-12 the tax rate is set at 26.63 mills, almost 50 percent higher than the 2002-03 rate. By comparison, the average Allegheny County school district rate for this year is just over 23 mills according to the Pennsylvania Department of Education.

Since there was no reassessment during the period, the change in the adjusted net property tax levy—from $38.8 million in 2002 to $55.8 million in 2011—is largely accounted for by the millage change. Meanwhile, the Municipality of Mt. Lebanon (which is geographically the same as the School District) raised its millage and the County rate was left unchanged. Thus, the property taxes paid to the District by Mt. Lebanon property owners climbed much faster than the taxes paid to the municipality or County.

To cover a $3 million shortfall, the Mt. Lebanon Board would have to raise millage by 5.4 percent on current assessed valuations, well above what is allowed by the Act 1 index. However, the reassessment coming in 2013 makes the situation more complicated. Due to the reassessment, the total assessed valuations in the District are expected to rise by 30 percent next year. Thus, the District must roll back the millage rate to hold the total tax collections at the increase allowed by Act 1 index—either 1.4 percent or 1.7 percent, depending on which index the Department of Education determines the District will use to comply with Act 1. Nothing precludes the District from raising taxes up to that index and it can seek an exception from the Department of Education to raise the millage higher. It can also place a referendum on the ballot asking voters to approve a larger rate hike. In light of all the tax increases in recent years, raising the millage any amount is highly questionable, but to ask for 5 percent higher taxes by a filing for an exception or using a referendum could ignite a firestorm of protests, especially from owners whose property assessments go up by well over the 30 percent average increase in the District.

Clearly the District is at a point of having to make some hard decisions, a situation similar to the ones facing other schools and local governments as they seek to balance the interests of taxpayers, students, and employees. That's the Board's job. The present situation should not come as a surprise. We noted in a *Policy Brief* over two years ago *(Volume 10, Number 9)*: fringe benefits and debt service were projected to rise in a budget forecast, and taxes would rise as well. The forecast projected that state assistance would rise to more than $21 million by 2015: the preliminary budget for 2012-13 anticipates $14 million in state sources. That means state appropriations to the District would have to rise 50 percent in two years to meet the forecast from two years ago. That is quite unlikely given the state's fiscal situation. It is possible some additional funding will be coming with much of that going to the school employees' pension fund.

The District is hiring a consultant to look for a way to raise revenue other than from taxes. The Board might want to work with other districts to change the retirement system to a defined contribution system for new hires or unvested employees. Cutting costs should be a top priority. There is always a way to find cost reductions if one looks hard enough. Granted, union contracts and state laws can make that difficult in some areas, but if a 4 percent spending reduction cannot be found, then the Board is not trying very hard.

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