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Mt. Lebanon Schools Becoming a Taxpayer Nightmare

Mt. Lebanon taxpayers, like many taxpayers in Pennsylvania, are facing a shocking increase in school taxes over the next five years. Between now and 2015, property tax collections in Mt. Lebanon are projected to rise 45 percent as the millage rate is boosted by over 40 percent while earned income tax collections are slated to rise 19 percent. These figures are taken from the School District's preliminary out-year budget forecasts. The coming real estate hikes are necessary to cover an enormous 120 percent jump in fringe benefit expenditures from $13.2 million to $29.7 million; a nearly $8 million rise in debt service to cover the new high school and normal increases in other expenses. Fringe benefits will surge largely as a result of the jaw dropping gush of required payments into the teacher pension fund.

In this budget forecast scenario a Mt. Lebanon household with the municipality's 2008 median income of $77,167 and owning a home with the median value of $190,000—that is correctly assessed—will see school real estate taxes go from the current $4,580 to $6,437, assuming the home's assessed value stays at its current level. This will be accompanied by a $385 per year earned income school tax, more if the household is fortunate enough to have its income increase over the next five years.

Then there is the earned income tax paid to the municipality along with property taxes to the municipality and county: another $2,400 per year —assuming municipal and county tax rates do not rise. In sum, under the projected tax increases the owner of a median value house could be facing well over $9,000 in local taxes each year by 2015.

Now consider the other revenues being budgeted to meet the 2015 spending of $103.9 million. The drafters of the out-year budget projections show the state allocation increasing sharply from this year's $12.25 million to $21.59 million in 2015, a rise of 77 percent. However, in view of the tremendous fiscal problems facing the state over the next several years, including the state's own large pension payment increases, the Commonwealth will be hard pressed to find funds that will nearly double Mt. Lebanon's allocation. Moreover, Mt. Lebanon will not be the only school district needing additional funds to meet the gigantic swelling of required pension payments.

If Mt. Lebanon schools do not receive the $21.59 million state funding level being forecast in the budget document, there will either have to be substantial expenditure cuts or additional hikes in taxes. If property owners are forced to ante up say, $5 million more, then millage will have to be raised to 36.18 mills, pushing total real estate taxes to 45.86—or 4.59 percent. Bear in mind that the average millage rate for real estate taxes nationally is around 13.4 mills. Thus, Mt. Lebanon's total real estate tax is already far above most areas: with the contemplated increases, the gap with the nation will widen further.

The projected budget scenario is not a sustainable situation. Note that over the period 2000 to 2015, the total level of real estate taxes collected based on budget forecast figures will rise over 100 percent. However, the earned income tax collections—a fairly good indicator of income growth—over the same period will have risen only 45 percent, assuming the budget forecast is anywhere close to accurate. In short, the expanding burden on property taxpayers is far outstripping the ability of taxpayers to pay.* As a result, the impact of the tax hikes will begin to have detrimental consequences for the housing market in Mt. Lebanon.

There are two other major points to be made in this analysis. First, Mt. Lebanon's housing stock is quite old with 73 percent of homes over 50 years old and 35 percent over 70 years old. Fewer than 5 percent are less than 20 years old. Older homes often require more maintenance than newer homes unless they have already had substantial and costly upgrades.

Second, properties in Allegheny County will be reassessed in 2012. And while on average, tax bills may not rise in the district as a result of re-assessment, homes that are significantly under assessed will be in for a double surprise. In addition to the coming millage rate hikes, these properties will see their assessed values jump as well. For example, a $300,000 market value house that is currently assessed at $250,000 and is correctly re-assessed in 2012 will see its school tax bill rise from $6,028 in 2010 to $10,164 in 2015. There are some homes that might see some reduction as a result of the re-assessment, but for those getting hit with the increase such as the example above, they will undoubtedly find it much harder to sell their homes for the $300,000 they expect to receive.

In a word, a perfect storm is developing for some Mt. Lebanon property owners. And it is too late to do anything about it, unless the school board starts to make significant spending cuts, and soon.

* *Thanks to William Matthews for this insight and information.*

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