# 2013-14 Budget Q&A

**Q: What is the status of the Pleasant Valley School District's 2013-14 school year budget?**

**A:** The Pleasant Valley School District's Board of School Directors (Board) voted to approve a preliminary budget for the 2013-14 school year at the January 24, 2013 Board meeting. The 5.57% proposed increase in the real estate tax that would result in a millage increase of 8.126 mills and an increase in taxes to the average homeowner of $169.

The approval of the preliminary budget is the first step of the budget process. Budget deliberations will be occurring throughout the spring. By law, a school district must adopt a final budget by June 30th. In the end, the millage rate may be reduced from the preliminary budget, but cannot be raised.

This winter, the preliminary budget was approved at $ 94,894,104. With revenues projected at $ 91,342,007, the result is a budgetary shortfall of $3,552,097, requiring the use of fund balance and the possibility of raising of taxes to cover any shortfall. The Act 1 Index limit for the school district has been set at 2.4% with an additional 3.17% being requested through the exceptions allowed by the state for the increased contribution to the retirement system and special education costs.

**Q: What is the "Act 1 Index?"**

**A:** Under Act 1 of 2006, the Pennsylvania Taxpayer Relief Act a tax rate increase is limited to an annual statewide index. The Act 1 index for the 2013-2014 tax year is 2.4% for our school district.

**Q: Are there exceptions to the index?**

**A:** A school district that adopts a preliminary budget with real estate taxes that exceed its index may seek approval for referendum exceptions to increase tax rates by more than its adjusted index. Section 333 of the Taxpayer Relief Act, as amended by Act 25 of 2011, provides for four exceptions that require approval by the Pennsylvania Department of Education (PDE).

The Board authorized the school district to file the necessary applications with the commonwealth for both the retirement contribution and existing debt service exceptions, for which our school district qualifies under Act 1.

**Q: How is the Pleasant Valley School District funded?**

**A:** Like all 500 school districts in Pennsylvania, our school district receives revenue from four primary sources: local, state, federal, and "other" revenues. What makes funding Pleasant Valley, and other school districts with similar demographics particularly challenging, is the percentage of our budget that comes from state and federal contributions.

In this year's budget, our school district is projected to receive less than 40% of its revenue from the state.

Thus, the administration and Board are extremely mindful of the fact that for every dollar our school district spends, more than 60% comes from local taxes.

**Q: What is the state funding to the Pleasant Valley School District based on?**

**A**: Many of the state subsidies received by the school district are determined, at least in part, by a formula called the Market Value/Personal Income Aid Ratio (MV/PI AR). This ratio, adjusted annually by the state, is used to allocate funding to school districts throughout the state.

Pleasant Valley's 2012-2013 aid ratio is .5918.

**Q: How are assessments prepared?**

A: Pennsylvania has a constitutional requirement for uniformity of taxation. Counties are the governmental unit principally responsible for assessments. They typically meet the uniformity requirement by adopting a "base year" market value. Monroe County's base year is 1988.

**Q: What is a mill?**

**A:** A mill is 1/10 of one cent or $.001 (one thousandth of a dollar). A mill levy is the number of dollars a taxpayer must pay for every $1,000 of assessed value.

**Q: How does a millage rate and an assessment come together in the form of a tax bill?**

**A**: You can easily calculate your school tax bill by multiplying the millage rate included in the preliminary budget approved by the Board in January – 154.1420 mills – by the assessed value of your home. So a property assessed at $20,780 (the average assessment in Pleasant Valley School District) would receive an annual school tax bill of $3,203 or .1541420 (millage) multiplied by 20,780.

**Q: Does a mill raise the same amount of money for every school district?**

**A:** No, every school district has a unique tax base and the effect of a mill levy is, therefore, different. In Pleasant Valley School District, each mill in property tax levied raises about $313,629 million for the school district. A mill in Pocono Mountain School District, on the other hand, generates about $924,426 in revenue.

**Q:** So how can I compare my tax bill to others in the area?

**A.** It's important to compare apples to apples. Based upon the current millage (146.0160), if a home in Pleasant Valley has an assessment of $20,780, the tax bill would be $3,034. A home with the same assessment in neighboring Stroudsburg Area School District would have an annual tax bill of $3,270 based upon their 2012-2013 millage rate of 157.3600. A home with the same assessment in Pocono Mountain School District would have an annual tax bill of $3,060 based upon their 2012-2013 millage rate of 147.2900. A home with the same assessment in East Stroudsburg Area School District would have an annual tax bill of $3,757 based upon their 2012-2013 millage rate of 180.8100. It is also important to know what other local taxes are levied by each school district.

**Q: Given the other things going on in the economy, couldn't the Board simply choose not to raise taxes at all this year?**

**A:** Last year, the Board did not raise taxes. However, it is important to keep in mind that just like the basic expenses in your household budget are going up, so too are ours. Fortunately, last year we were able to avoid a tax increase and not jeopardize our programs. But, it is important to note that it is always possible that freezing all of the school district's expenditures could require measures that could directly and negatively impact our students and jeopardize the progress of our entire educational program. Pleasant Valley strives to be an effective and efficient institution for public education. That extends beyond providing top-notch instruction, quality facilities, and includes prudent fiscal management on behalf of taxpayers. The school district does not like to raise taxes, but we have an obligation to budget wisely, fighting inflation, while preserving educational excellence.

In addition, historically the school district's administration and school board have implemented a series of, on average, relatively small tax increases with the hope that we can continue to provide the programs our constituents have come to expect and deserve, while avoiding large tax hikes.

**Q: Why are the school district's costs going up?**

A: A school district is subject to the same economic forces that any organization is faced with – salary increases, health care cost increases, property insurance, energy costs, and maintaining buildings and equipment.

In addition, school districts are subject to other costs that are unique to education. Pennsylvania school districts are mandated by the state to provide free public education to their residents from the earliest admission age for the school district's kindergarten program until graduation from high school or the end of the school term in which a student reaches the age of twenty-one (21) years, whichever occurs first.

One major contributing factor to the increase in the school district's costs is the dramatic increase in the mandated Pennsylvania State Employees Retirement System contribution rate. The contribution rate has been increased to 16.93%.

**Q: What is PSERS?**

A: PSERS, the Public School Employees Retirement System is the pension system that covers public school employees in Pennsylvania.

**Q: How does the PSERS contribution factor into the budget?**

A: A total of $6,998,000 has been included in the 2013-14 preliminary budget approved by the Board. This is a $1,983,000 increase over the 2012-13 contribution.

**Q: Does PSERS cover all school employees?**

A: PSERS covers full-time employees that work five hours or more per day or five days a week or its equivalent (25 or more hours per week) and who are required by law to become members of PSERS. Part-time salaried, part-time hourly and part-time per diem employees are also eligible for membership in PSERS, depending on how many hours or days they work. Independent contractors, persons compensated on a fee basis and school crossing guards are not eligible for membership in PSERS.

**Q: How is PSERS funded?**

A: PSERS is funded with employer (school employer and state) contributions, employee contributions and investment earnings.

**Q: How are the employer and employee contribution rates set?**

A: The employer contribution rate is set each December by the PSERS Board of Directors and is calculated by the system's actuaries to be the contribution needed to pay for its unfunded liability when combined with the employee contributions. However, from time to time the legislature has overridden the PSERS Board rate and implemented an “artificially low” employer contribution rate, which has greatly affected employer contributions and helped lead to underfunding. The employee contribution is set by statute.

**Q: Why is the employer contribution rate scheduled to increase by so much?**

A: There are several factors that have contributed to the projected increase in employer contribution rate. First, the stock market, from which PSERS receives the bulk of its investment revenue, has performed very poorly over the last few years. The rate of return on PSERS investments was -26.54% for the fiscal year ended June 30, 2009 (FY 2009) and -2.82% for the fiscal year ended June 30, 2008 (FY 2008) resulting in a devaluation of PSERS assets. Second, as previously mentioned, legislation approved during the previous decade that increased employee benefits and subsequent legislation, which re-amortized the system's liabilities, had the effect of pushing off liability to the future in exchange for providing fiscal relief to school employers and the commonwealth during recessions at the time. These liabilities are now coming due.

During this same time period, the employee contribution to PSERS remained constant. Thus, employee contributions were largely funding the entire retirement system.

**Q. Can you depend on the other sources of local revenues instead of my property taxes?**

A. In addition to real estate property taxes, local revenues are generated through earned income tax, real estate transfer tax, per capita tax and occupational privilege tax, investment earnings and other miscellaneous revenues. However, revenues from these sources have declined during the economic recession.

Earned income tax collections, real estate transfer taxes and investment earnings are directly related to a robust economy and cannot be depended on to produce the needed consistent revenue. Commercial property taxes can be subject to assessment appeals through the Monroe County Court system.