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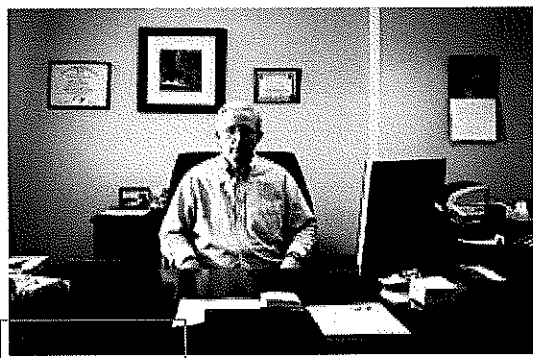
Pensions Push Taxes Higher

Cities Tap Homeowners for Revenue as Workers' Retirement, Health Costs Rise

By JEANNETTE NEUMANN

Cities across the nation are raising property taxes, largely citing rising pension and health-care costs for their employees and retirees.

In Pennsylvania, the township of Upper Moreland is bumping up property taxes for residents by 13.6% in 2011. Next door the city of Philadelphia this year increased the tax 9.9%. In New York, Saratoga Springs will collect 4.4% more in property taxes in 2011; Troy will increase taxes by 1.9%.



Scott Lewis for The Wall Street Journal

John Crawford is director of finance in Upper Moreland, Pa., which is raising taxes 13.6%.

Property-tax increases aren't unusual, in part because the taxes are among the main sources of local revenue. But officials say more and larger increases are taking hold. "This year we have seen a dramatic increase in our cities and towns having to increase property taxes" for pensions and other expenses, said Jack Garner, executive director of the Pennsylvania League of Cities and Municipalities.

Local officials and government workers say a confluence of factors is driving the increases, including the need to make up for staggering investment losses from the financial crisis and rising costs as more workers retire. In addition, benefit increases promised in flush times are coming due as revenue flounders, and some cities have skipped payments to their pension funds over the years.

In Illinois, towns have been raising property taxes to keep up with pension and health-care costs for several years, but the scale and scope of the increases this year are unprecedented, said Joe McCoy, a lobbyist with the Illinois Municipal League.

Representatives of government workers, including for unions, don't deny that pension costs are rising. But they blame local officials for failing to fund pensions adequately in better times.

"The main driver is the irresponsibility of local public officials who for years and years have not been funding their

Rates on the Rise

Property tax as a percentage of home value



Upper Moreland is raising its 2011 tax by 13.6% and Philadelphia raised its tax by 9.9% this year.



Saratoga Springs will collect 4.4% more in property taxes in 2011; Troy, 1.9%.



Some localities are raising property taxes for 2011: Palatine by 3.99% and Rolling Meadows by 9.8%.

Note: Data are for owner-occupied housing and exclude property taxes paid by businesses, renters and others.
Sources: Tax Foundation; WSJ research

pensions," said Henry Bayer, executive director of the American Federation of State, County and Municipal Employees Council 31 union, which represents 72,000 employees in Illinois.

Many local officials say they have been trying to right their pension funds without raising taxes. They have borrowed money from reserves, trimmed services and cut back on staff.

Some cities have also pushed unions to reopen contracts in an attempt to pare benefits or raise workers' contributions for pensions and health care. They have faced stiff resistance from some unions that argue it's unfair to penalize workers for a financial crisis that isn't their fault. Others have agreed to some cutbacks.

State aid to many local governments and other revenue remain below precrisis levels. Nearly half of states reduced aid to local governments in 2010, and 20 states have proposed additional cuts in 2011, according to a December report by the Congressional Budget Office.

"Unless governments really want to squeeze essential services...there are likely to be a lot more property tax increases" across the country, said Don Boyd, a senior fellow at the nonpartisan Nelson A. Rockefeller Institute of

Government at the State University of New York.

Tax increases and budget cuts are raising pressure on state politicians to tame growing pension costs, and the topic has become a significant issue in elections.

Many states have already increased the retirement age and required years of service for new hires, bumped up the amount new workers pay toward their benefits and reduced annual cost-of-living increases. This month, for example, Illinois lawmakers approved legislation requiring newly hired police and firefighters to retire at age 55 instead of 50 to receive full benefits, among other changes. The governor is reviewing the bill.

The tax increases are coming to light now because many local governments plan their budgets at the end of the previous year.

In Upper Moreland, a township of about 26,000 near Philadelphia, the Board of Commissioners voted this month to raise its 2011 property tax for residents by 13.6%, the first such rise in five years. That means a \$67 annual tax bump on a \$135,000 home, the average value there.

Pension and health-care costs are likely to make up more than a fifth of the town's \$17.8 million operating budget for next year, said finance director John Crawford, a Republican.

In 2005, Upper Moreland contributed around \$100,000 to its pensions. This year, it contributed \$681,000. In 2011, it will pay an estimated \$1.1 million. Healthy investment returns used to cover

a large portion of the town's contribution to its pension funds. Now, lower returns—coupled with higher costs as more workers retire—mean Upper Moreland is paying more.

In addition to those figures, the state of Pennsylvania annually contributes \$250,000 to Upper Moreland's pensions, Mr. Crawford said. Local Pennsylvania governments only receive pension aid from the state if they make the payments to their pensions recommended by actuaries.

Upper Moreland's payments on current workers' health care were \$2 million in 2010 and are estimated to reach \$2.63 million in 2011, Mr. Crawford said.

"If it hadn't been for the escalating costs," in pension and health-care benefits, he said, "the board may have succeeded in going through another year without a tax increase."

Many of the same issues are hitting Philadelphia, which earlier this year increased its property tax by 9.9%, the first bump since the early 1990s. That's a \$270 annual payment increase for residents living in homes valued at \$100,000, said Rob Dubow, city finance director.

Philadelphia's pension fund is 45% funded—meaning its assets represent 45% of its long-term liabilities—and the city's payments are projected to increase to \$600 million in 2015, up from \$230 million in 2004. Actuaries recommend pension systems be 80% funded.

Rolling Meadows, a Chicago suburb, is raising its property taxes next year by 9.8%, on top of a 16% jump in 2010, due to increased police and fire pension costs, said Mayor Ken Nelson. Those increases are the largest in nearly 20 years, he said. The local police and fire pension funds are around 45% funded.

Chris Lee, a firefighter paramedic and president of the city's pension fund, says the pensions must be paid because they are "promises the city made to us."

Rolling Meadows has paid less than it should into its pension fund by relying on higher assumed rates of returns than those recommended by the Illinois Department of Insurance, Mr. Lee said. Lower annual contributions mean the fund has trouble staying abreast of ballooning costs, leading in part to the underfunding, Mr. Lee said. The city recently changed to the Department of Insurance's recommended annual contributions, Mr. Nelson said.

The 70,000-person village of Palatine, near Chicago, recently voted to raise property taxes 3.99%, the most in at least five years. That's an average increase of \$40 per home. "But for the pensions, [the property tax] would not have gone up at all," said Village Manager Reid Ottesen.

The increase comes after cost-cutting steps in the past two years, including a hiring freeze and not replacing three firefighters and several police officers who retired, said Mr. Ottesen. "There is nothing left to cut if you still want to deliver the services that make you the community you are."

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