

MPSA - Report on School Cost Increases in Excess of Inflation - Nov, 2006

In response to the many letters to the Manhasset Press regarding school cost increasing at a rate in excess of inflation, MPSA has provided the following response.

Background

It should be noted that a core value to the MPSA mission, is the School Board presents annually to the homeowners a budget that is at or below the rate of inflation.

Virtually every financial talk show or newspaper print discusses the importance of inflation being managed not to exceed 2%. This is not just an American phenomenon but globally.

Personal financial modeling, can clearly demonstrate the havoc and personal financial destruction caused when spending inflation increases at a greater rate than savings rate.

Typically, should projected spending rates increase greater than savings retirement is delayed and/or you never get to retire?

MPSA ran a financial model to determine the effect if school spending continues to grow at 8% versus the generally accepted rate of 2%. Details follow.

For a baby boomer, age 55, planning to live in Manhasset for the next 30 years, assuming school taxes of \$12,000, and school taxes continue to increase by 8%, the homeowners are looking at cumulative taxes paid of \$1,500,000 over the 30 years.

Had the school district raised the taxes by 2% each year over the 30 years the cumulative taxes paid would have been \$500,000.

Accordingly, on average homeowners age 55 may have to pay an extra \$1,000,000 in school taxes as the result of the School Board not being able to control cost.

MPSA believes, on average, \$1,500,000 of school taxes may delay most baby boomers retirements anywhere from 10-15 years.

Solution

The School Board has done a disservice to the Community by understating the effects of its annual budget increases. Rather than disclose the long term compounding effects of its increases in excess of inflation, it chose to disclose only the current year increase, which would always appear inconsequential.

The school board should provide the community with long-term school tax projections based historical data, perhaps past ten years, and then project forward for the next thirty years so taxpayers can get a sense for future taxes. It is interesting that the School Union readily provides through its web-site for its members, a retiree pension calculation that projects year-by-year annual benefit payments for a long period of time so that their members have a basis to plan their retirement. MPSA is asking the School District to assist homeowners the same way the Union assist its members.