

**Testimony on House Bill 1877 to the
General Assembly of Pennsylvania. House of Representatives Finance Committee**

Submitted by: Joseph P. Lubitsky
February 10, 2012

Good morning Chairpersons Benninghoff and Mundy as well as other members of the House of Representatives Finance Committee and thank you for allowing me this opportunity to present information on the proposed House Bill No. 1877. My name is Joseph Lubitsky and for the past ten years I have served as the Director of Administrative Services for the Chester County Intermediate Unit. Prior to joining the Intermediate Unit, I served as the Director of Business Operations for the Kennett Consolidated School District in Chester County. During my career I have been actively involved with the Pennsylvania Association of School Business Officials (PASBO), including committees geared toward implementing efficiency initiatives in the areas of tax collections.

The purpose of my testimony is to present support on behalf of the public school districts for HB 1877. If passed into law, HB 1877 would give districts the ability to eliminate the mandated annual cost incurred for the collection of delinquent real estate property taxes by a county. The tax claims bureaus of each county currently assess delinquent tax collection fees equal to five percent (5%) of delinquent real estate taxes collected each year. This amounts to over \$1.2 million in annual costs for the school districts in Chester County as outlined in the table below.

Delinquent School Real Estate Taxes Submitted to Chester County	
District	Delinquent Tax Amount
Avon Grove School District	1,463,534
Coatesville Area School District	4,365,622
Downingtown Area School District	3,589,253
Great Valley School District	1,380,694
Kennett Consolidated School District	1,293,732
Octorara Area School District*	998,152
Owen J. Roberts School District	2,278,162
Oxford Area School District	1,334,217
Phoenixville Area School District	2,382,263
Springford Area School District*	167,099
Tredyffrin-Easttown School District	1,545,022
Twin Valley School District*	545,213
Unionville / Chadds-Ford School District*	930,884
West Chester Area School District*	2,789,786
Total 2102 Delinquent School Real Estate Taxes	25,063,633
County Collection Fee	5%
Estimated Collection Fees	\$ 1,253,182

* Chester County Municipalities only

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Statewide, it is estimated that HB 1877 would provide the opportunity for school districts to save between \$25.6 million to \$30.8 million annually in collection fees. These estimates represent costs that could be nearly 100% avoided by school districts if they employed a third party tax collector regulated under the provisions of the Municipal Claims and Tax Liens Act. The opportunity to avoid these unnecessary fees would provide welcome relief for beleaguered school board members and administrators who continue to face drastic educational program cuts in the upcoming 2012-2013 budget year.

The districts have recognized and responded to the challenges created by reduced revenue streams as a result of property assessment appeals, Act 1 limitations on millage increases, flat or declining state funding, and historically low interest earnings. They have done this through extensive cost cutting in every area of school operations including staff salaries, benefits, supplies, equipment, and outside services, such as tax collections, in order to preserve educational programs. HB 1877 provides an opportunity for the districts to continue to reduce the non-educational expenses associated with delinquent property tax collection services. In Chester County, the annual fees charged to the larger districts for the collection of delinquent real estate taxes in some cases exceed over \$200,000. The elimination of these collection fees could fund the equivalent of over 25 teacher positions countywide every year.

<u>District</u>	<u>Estimated 2012 Collection Fees</u>	<u>Equivalent Teacher Positions at \$50,000 annually</u>
Awn Grove School District	73,177	1.46
Coatesville Area School District	218,281	4.37
Downingtown Area School District	179,463	3.59
Great Valley School District	69,035	1.38
Kennett Consolidated School District	64,687	1.29
Octorara Area School District*	49,908	1.00
Owen J. Roberts School District	113,908	2.28
Oxford Area School District	66,711	1.33
Phoenixville Area School District	119,113	2.38
Springford Area School District*	8,355	0.17
Tredyffrin-Easttown School District	77,251	1.55
Twin Valley School District*	27,261	0.55
Unionville / Chadds-Ford School District*	48,544	0.93
West Chester Area School District*	139,489	2.79
Total Collection Fees Paid to the County	1,253,182	25.06

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When given the choice between cutting educational programs or outside tax collection costs, many school districts would welcome the opportunity to have the option of engaging a third party tax collection agency as a cost savings alternative.

Please do not interpret my testimony as a criticism of the services provided by the Chester County government services offices. They have proven to be a valuable partner in a number of initiatives including providing educational support services, development of an extensive geographical information services, procurement of electrical services, and other inter-governmental agency collaborations. Ironically, this also included a very successful early implementation and consolidation of earned income tax collections under Act 32, which resulted in the savings of over \$1.3 million per year in tax collection fees for the municipalities and school districts. In the area of delinquent property tax collections, the Chester County Tax Claim Department has leveraged its technology base and introduced other operating efficiencies to generate significant annual operating surpluses. Page 62 of the 2011 Chester County budget document reflects the following:

Chester County Tax Claim Department				
Historical Operating Analysis				
<i>Source: 2011 Chester County Government Budget</i>				
	Actual	Actual	Budget	Approved
	2008	2009	2010	2011
Revenue				
Departmental Earnings	2,142,670	2,478,504	2,300,000	2,300,000
Expenditures				
Personnel	442,035	443,806	426,527	470,499
Operating	181,142	206,876	233,239	230,095
Total Expenditures	623,177	650,682	659,766	700,594
Surplus	1,519,493	1,827,822	1,640,234	1,599,406
<i>Surplus as Pct. Of Budget</i>	<i>244%</i>	<i>281%</i>	<i>249%</i>	<i>228%</i>
Full-Time Equivalent Employees	8.1	9.1	7.1	8.2

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The local school districts applaud this type of efficiency in government. It is also an opportunity for HB 1877 to provide relief from mandated tax collection costs without significantly impacting the county government's operation.

School districts can also appreciate that the county is often hamstrung in their delinquent tax collection efforts by the often cumbersome mandated timelines and activities under Act 72 Real Estate Tax Sale laws. These prevailing regulations limit the flexibility of both the school districts and county government in developing strategies to assist the delinquent taxpayers. Private third-party tax collection agencies, operating under the Municipal Claims and Tax Liens Act, provide a reasonable and cost effective alternative tax collection method. This is even more beneficial when the mandated 5% fees charged by the local county government are waived in recognition of the reduced responsibilities of the county tax claim bureaus. This is exactly what is occurring in Montgomery County, Pennsylvania, where the county government has voluntarily waived the 5% fees in situations where a school district engages a third party collection agency. The current laws interfere with free markets, competition and achieving lowest price for this service. If passed into law, HB 1877 would allow school districts to reduce costs and improve efficiencies, and in turn become less reliant on state education funding. Changing the law would ultimately move jobs out of the public sector and into the private sector, thereby reducing government spending and the burden on the taxpayers.

Thank you for your consideration of HB 1877 and the flexibility that it would provide school districts in meeting ongoing budgetary pressures if it becomes law. I would be pleased to try to answer any questions that the Committee might have. Thank you.