

Introduction

Good morning, Chairman Benninghoff, Chairwoman Mundy, and distinguished members of the House Finance Committee. Thank you for this opportunity to present my comments today regarding the merits of HB 1877 which would amend the Real Estate Tax Sale Law by eliminating the 5% commission paid to tax claim bureaus when taxing districts decide to collect delinquent taxes by utilizing private collectors.

My name is Dennis Cawley and I am the Business Manager for the North Pocono School District located in northeastern Pennsylvania. Before joining the NPSD I was a director for the public accounting firm of PricewaterhouseCoopers in their New York office.

Brief History of the Municipal Claims and Tax Liens Act (MCTLA)

In 1996, the Pennsylvania General Assembly amended the Municipal Claims and Tax Liens Act to allow Pennsylvania school districts, municipalities and counties to hire outside legal counsel or private collection firms to collect delinquent real estate taxes. This action was in response to the substantial and growing problem of local tax delinquency. The legislature recognized that county tax claim bureaus had been ineffective, and were ill-equipped to reduce the problem. Local governments and school districts needed help from private collectors who could do the job more effectively. The idea of hiring outside help is not new, as local governments and school districts have for a long time found it cost-effective to hire private companies to handle many important services. For example, they hire contractors to fix the roads they own, rather than having a big road crew; they hire accounting firms and human service providers to audit finances and handle important services; and they hire outside firms to collect their taxes and municipal claims.

NPSD Reasons for Utilizing The MCTLA

Since 1996, hundreds of local government jurisdictions have hired private firms to collect their delinquent taxes and municipal claims. Almost uniformly, this has resulted in greater tax revenues to the local government, significantly lower costs of collection, and a reduction in the long term rate of tax delinquency – a true win-win situation for local taxpayers.

School real estate taxes are due on December 31st of the year for which they are imposed. If they are not paid, they become delinquent and are reported to the tax claim bureau in the county in which the school district is located. State law allows the bureau to file tax liens against delinquent properties, but does not allow the bureau to sell the properties at a tax sale until 21 months after the taxes become due. Over the years, this 21-month period has become a de facto grace period for the ever increasing numbers of delinquent taxpayers in the Commonwealth.

In 2005, the North Pocono School District began to use a private collector that utilizes the Municipal Claims and Tax Liens Act to collect the District's delinquent taxes. Under this law, delinquent taxpayers are notified of their obligations within a month after the taxes become delinquent, and are pursued through the judicial system if they refuse to make payment. This law allows school districts to pass on all collection fees and costs to the delinquent taxpayer. While this law allows school districts to go after taxpayers that are cheating the system, it also provides school districts with broad flexibility to work out payment plans and hardship programs for those taxpayers facing real financial or medical hardship. The tax law which the county tax claim bureaus must follow expressly prohibits this type of flexibility..

The use of a private collector has been a very successful strategy for our District, and has greatly enhanced our regular and delinquent tax collections. The regular collections have been enhanced because property owners not inclined to pay their taxes on time now know that they will have to answer to a judge if they fail to do so. Under the Municipal Claims and Tax Liens Act, the benefit of simply waiting to make payment is no longer present because there is no longer a 21-month grace period before any action is taken against the delinquent taxpayer. Our calculations show that the increased regular and delinquent tax collections resulting from use of a third party collector have brought in an additional \$1.6 million each year. Our collection rate has gone from 85%, when using the tax claim bureau that is required to proceed under the Real Estate Tax Sale Law, to 93% by using a private collector that utilizes the Municipal Claims and Tax Liens Act. Based on these numbers, it is clear that the North Pocono School District has greatly benefitted from using a private collector to collect its delinquent taxes.

The problem that we are now facing is that the county tax claim bureau wants a share of our success. The Real Estate Tax Sale Law allows the tax claim bureau to collect a 5% commission on any delinquent taxes that it collects. That makes sense when the bureau is doing the collections. But that's not the case here. The Lackawanna County Tax Claim Bureau is demanding a 5% commission on taxes that it is not collecting. In my opinion, it is not right for the Bureau to ask for any commission when it is not doing the work. The Tax Claim Bureau is asking to be paid for work that it did not do.

The Lackawanna Tax Claim Bureau has demanded from the North Pocono School District payment of a 5% commission on all monies collected by our private collector over the past 6 years. Given that our collector has brought in over \$10 million in delinquent taxes for the District over this period, the North Pocono School District is now facing a \$500,000 liability to

the tax claim bureau. To recoup the loss of \$500,000, our District would have to raise its tax millage by over 3 mills. And for what reason - to pay a governmental department for doing nothing. Ladies and gentlemen, this is not right,

HOUSE BILL 1877

House Bill 1877 improves the process of collecting delinquent taxes for all Pennsylvania communities, and builds on a system that is already in place and working very well for Pennsylvania's law-abiding taxpayers and concerned local governments. This legislation eliminates the unnecessary 5% commission that county tax claim bureaus are collecting from taxing districts which utilize the services of a private collector. This is money that the legislature has specifically earmarked for school districts, and the county should not receive 5% of our money for doing nothing.

I strongly believe in local control and decision making. Municipalities and school districts should have the right to choose the manner in which their delinquent taxes are collected, be it by the county tax claim bureau or by a private entity. Their decision should be dictated by local needs and capabilities, not constrained by a state law that forces local governments to be subjected to paying high fees for services that are not adequate to meet their needs. This is about local control and placing less financial mandates on cash-strapped school districts. Our District has saved its taxpayers \$1.6 million annually by using a private tax collector. If we were forced to use the county tax claim bureau, we would risk reducing the current tax collections by 10.2 mills, and would have to increase property taxes by 8.1% to make up this difference. Our Act I index for the 2012 – 2013 school year is only 2.2% We would not be able to make up the

difference without going to referendum. I urge you to pass ~~this~~ Bill to allow us to continue to bring in this money for our District. State law allows the counties to keep 100% of their tax collections. All I am asking is that you allow school districts to do the same thing – keep the tax revenues that they bring in on their own.

I thank you for your time and public service.