

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE

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ROOM 60 EAST WING

MONDAY, MARCH 12, 2011  
10:03 A.M.

HEARING ON  
HB 2230 (GROVE)

BEFORE:

HONORABLE KERRY A. BENNINGHOFF, MAJORITY CHAIRMAN

HONORABLE PHYLLIS MUNDY, MINORITY CHAIRWOMAN

HONORABLE RYAN P. AUMENT

HONORABLE SCOTT W. BOYD

HONORABLE KEVIN BOYLE

HONORABLE JIM COX

HONORABLE GORDON DENLINGER

HONORABLE GEORGE DUNBAR

HONORABLE ELI EVANKOVICH

HONORABLE FLO FABRIZIO

HONORABLE MATT GABLER

HONORABLE SID MICHAELS KAVULICH

HONORABLE FRED KELLER

HONORABLE DUANE MILNE

HONORABLE RICHARD MIRABITO

HONORABLE MIKE PEIFER

HONORABLE KATHY RAPP

HONORABLE MARIO SCAVELLO

ALSO PRESENT:

HONORABLE MARK M. GILLEN

HONORABLE SETH M. GROVE

HONORABLE RICK SACCONI

HONORABLE ROSEMARY M. BROWN

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CHAIRMAN BENNINGHOFF: If Members can take their seat, I'd like to get things started. Good morning, everyone. Thank you for joining us. As the Members start to get to their seat, I just want to say, "Welcome." The issue of looking at local property tax options, specifically trying to address property tax relief is not a new item to the Legislature. For some of us, it's an issue that we've talked about many times. As I've said to others, I think we have a good responsibility to the fact that we have 110 new Members in the Legislature since 2006 to listen to some new ideas and always be open-minded because the demand back home has not gone away. I know this is a big issue for Representative Grove, Representative Cox, and some others here on this panel. Representative Grove, we appreciate you bringing this issue up. I know you've done a good job working on our task force in trying to address this issue as well as many of the other Members, so I look forward to your testimony and others. Chairwoman Mundy, you have any comments you want to add before we get started?

CHAIRWOMAN MUNDY: Well, we all know what the problem is. The solution's been very difficult to come by. Over the years we've had, well, my first resp – my first, my first encounter, I should say, with this – with the property tax issue was back in 1989 when there was a ballot question. Governor Casey and the Legislature came up with a local option tax, local tax reform. The ballot question had to do with our ability to tax properties that were residential at a different rate from properties that were commercial, and it went down in flames, and since then, we've had three referenda at the local level, each of which widely went down in flames, so this is an issue that's been around since long before I got here, which is almost twenty-two years ago now, and the diversity in Pennsylvania's what makes it so difficult. We have urban, rural, and suburban communities with all different sorts of tax bases, so each statewide solution we try to come up with impacts adversely on one of those local situations. The one that really resounds

with me is the, is the Monroe County tax situation where a lot of the residents there work in New York State and pay taxes, income taxes, in New York State and not in Pennsylvania. A lot of people in that county have vacation homes, so if you do away with the property tax in Monroe County, you are absolutely crippling their tax base and leaving them with very little opportunity to fund their school districts and their municipalities and their county operations, so we have – you know, we’ll keep working on it. I keep telling my, my constituents it’s something we work on constantly. I know Representative Cox has another sort of a bill. One solution that wouldn’t have raised taxes was gaming funds, and everybody wanted a piece of that pie, and some of it went to tax relief, and, and senior citizens certainly have benefitted from the increase in the property tax rent rebate program relief from property taxes, but we still have a long, long way to go, so I look forward to the discussion. I would say, though, that, that I would hope that Representative Grove would address the issue of putting the burden so, so much on residential property taxpayers as opposed to commercial and industrial property taxpayers. I see that as one of the major flaws in this bill, and I’m wondering how we deal with that, and again, you know, look forward to working with all of you to try to come up with some reasonable approach that doesn’t hamstring our school districts, our counties, our municipalities, and yet relieves the property tax burden on individuals and other properties. Thanks, Mr. Chairman.

CHAIRMAN BENNINGHOFF: Thank you, Madam Chairwoman. As a courtesy to the listeners and those in the room, I’m going to have each of the Members introduce themselves. Just say where you’re from. I also want to recognize that we have several Members that also served on tax force and are interested in this issue. Representative Rick Saccone. Rosemary Brown, and I thought I saw someone else. Mark Gillen in the back have also joined us, not as

members of the Finance Committee but very interested Members on the issue of property tax. If we could start to my right with Jim Cox and go around the room, I'd appreciate it.

REPRESENTATIVE COX: Jim Co – Jim Cox, Western Berks County, 129<sup>th</sup> District.

REPRESENTATIVE KELLER: Fred Keller, 85<sup>th</sup> District, Union and Snyder Counties.

REPRESENTATIVE RAPP: Kathy Rapp, 65<sup>th</sup> District, Warren, Forest, McKean.

REPRESENTATIVE EVANKOVICH: Eli Evankovich, 54<sup>th</sup> District, Westmoreland and Armstrong Counties.

REPRESENTATIVE MILNE: Duane Milne, 167<sup>th</sup> District, Chester County.

REPRESENTATIVE GABLER: Matt Gabler, 75<sup>th</sup> District, Clearfield and Elk Counties.

REPRESENTATIVE DUNBAR: George Dunbar, 56<sup>th</sup> District, Westmoreland County.

REPRESENTATIVE AUMENT: Ryan Aument, 41<sup>st</sup> District, Lancaster County.

REPRESENTATIVE MIRABITO: Rick, Rick Mirabito, 83<sup>rd</sup> District, Lycoming County.

REPRESENTATIVE SCAVELLO: Mario Scavello, 170<sup>th</sup> District, Monroe County.

REPRESENTATIVE BOYLE: Kevin Boyle, 172<sup>nd</sup> District, Philadelphia.

REPRESENTATIVE KAVULICH: Sid Michaels Kavulich, 114<sup>th</sup> District, Lackawanna, Luzerne, Wyoming, and Susquehanna Counties.

REPRESENTATIVE FABRIZIO: Flo Fabrizio, 2<sup>nd</sup> District, Erie County.

REPRESENTATIVE BOYD: Scott Boyd, 43<sup>rd</sup> District, Lancaster.

CHAIRWOMAN MUNDY: Phyllis Mundy, Luzerne County.

CHAIRMAN BENNINGHOFF: Kerry Benninghoff, Centre and Mifflin Counties. With that, I will get started with Representative Seth Grove. Go ahead. Thank you for joining us.

REPRESENTATIVE GROVE: Thank you, Mr. Chairman, Chairwoman Mundy, my distinguished members of the House Finance Committee. I appreciate your, your enthusiasm

and time in taking on an issue that has plagued the state since longer than I have been alive. Just not Pennsylvania but every state in the, in the Union has struggled dealing with how to hammer out solutions for property taxes. Florida's looking at alternatives, North Dakota, many states currently looking at alternatives to property tax has been a very elusive issue to deal with, even within the state, as Chairwoman Mundy alluded to. There have been many, many solutions.

I developed House Bill 2230 on trying to make it as fair as possible to taxpayers. I am fully believer if you pay into a tax, you should be able to get reductions in your millage rates and make sure it's fair across the board. What the legislation simply does is allow a voter referendum for a 1 percent sales tax in every county, excluding Philadelphia. The local tax enabling act precludes Philadelphia from, from being within it. If the voters pass a referendum, the money will directly go to millage rate reductions for school districts. It is – when it's collected at the county level, it will be distributed by student population average daily membership to make it a fair growth funding formula.

It's one of the, the issues that those areas in the growth – you know, my colleague from Monroe County has been a, a precarious leader in changing the school funding formula to make sure it's equitable and actually funds students based on, on population. It also allows all local municipalities, counties, school districts, townships, and boroughs to implement an earned income tax or personal income tax, not through voter referendum, but by the elected officers or the elected officials of those entities, and it would require a minimum of a 30 percent reduction of the school prop – or the – their millage rates or all the way up to the maximum of complete elimination of their property taxes. If, if a local jurisdiction decides to do a minimum, the property tax millage rates are frozen at that reduced level. They will have the ability to raise on

the income tax based on inflation, but from there on out, they'll be locked out of actually raising millage rates anymore. It's critical.

I'm a firm believer that the property tax system taxation does not work anymore. In order to have a fair system, you need to do reassessments. The state has never implemented a requirement of counties to actually reassess. Many counties do not have or will not reassess their counties in the state for the past forty years have not reassessed. What that does is bring your evaluation, make sure it's a fair tax among all individuals with, with property taxes. The longer you do not reassess, the longer the distrike – discrepancy is between new housing and, and older housing, and it becomes an unfair tax base. It also does not allow – property taxes do not grow with inflation, so those local entities with property taxes and most – the bulk of local taxation is in property taxes, especially with counties. It's their only real taxing source, do not increase with inflation, so to get any new money because of inflation or any increases at the local government level, they're forced to raise millage rates, actually increase the tax to actually fund and support their, their local government in what they need to do, education funding and everything else that our local governments take care of. But switching over to sales tax and income tax, both those taxes naturally increase with the rate of inflation, so when you have inflationary increases, you don't – local governments won't need to actually increase taxes to get actually more money out of a single rate, so it becomes very taxpayer friendly because you get, naturally get more revenue out of a 1 percent income or sales tax versus just leaving it on millage taxes, so just through the natural growth, you won't have to see the, the increases year after year in, in property taxes. Obviously, no initial piece of legislation is perfect. This, this does need to have some work, but want to make sure we have a marker down so we can start this conversation.

Property taxes is a major issue, and in many parts of, of Pennsylvania. Just for instance, I received two emails. One of my constituents, and I'll let them talk to why we need to address this situation. Two of my constituents – great plan, and hope something exactly like this or very simpler – similar is enacted soon. “My wife and I never dreamt that our retirement years would include so much angst over our growing property tax burden after paying property taxes over careers lasting more than forty years, especially given the fact that our fixed incomes are now significantly less than what they are during our working years. Keep up the good work, and please continue to keep us informed.”

Another one was by Mrs. Gerald Parsons. “My husband and I live in Lebanon County. We are seniors, and our property taxes doubled in the last ten years. We pay almost \$4,000 in taxes, and we cannot afford to keep our home, a home that we worked very hard to have. It's not a very big home, just a three-bedroom home. My husband is seventy-two, and I am almost sixty-nine. My husband had cancer three years ago and was told by Hershey Medical Center that he had one year to live. Our prayers have been answered so far with his health issues, but if my husband dies, I'll be forced to sell our home, something I don't want to do. We both want to stay independent as long as possible, but the property taxes are making it impossible. Our school district is saying they will put up the 2012 property taxes another, another 10 percent this year. I have a pension, but my husband's pension was lost in a bankruptcy situation at his place of employment. We are pulling from my pension to pay property taxes, a pension that we tried to save for the survivor. Please continue the battle to help all homeowners keep their homes. We appreciate your efforts.” That's a reality individuals are facing in Pennsylvania. If we do not do something to keep seniors independent living, the cost increases long-term in our state budget are unfathomable.

We have an increasing aging population, a decreasing working class. It's unsustainable long-term. By keeping our seniors in their home as long as possible, we will no doubt help our long-term budget. It is far cheaper to provide independent services than throwing individuals out of their home and putting them into medical assistance, so we need to do everything we can to, to ensure we help those low-income seniors stay in their home as long as possible. I'm putting forth a plan to hopefully work with my colleagues to make it a better plan, one that will garnish the support of both Chambers, get signed into law, and actually, for once, fix the property tax situation in Pennsylvania. Thank you.

CHAIRMAN BENNINGHOFF: Thank you, Representative Grove. Good examples of the hard work you put into this. I know it's an important issue to you. First question comes from Chairwoman Mundy and then Representative Boyd.

CHAIRWOMAN MUNDY: Thank you. I have a – just a couple of quick questions. Why a referendum for the sales tax and not the EIT [earned income tax] and PIT [personal income tax]?

REPRESENTATIVE GROVE: We've done the EIT and PIT by referendum before. I just thought it was better just to let the local governments make that decision, and it's far different. The, the referendum previously was obviously under Act 1. The – my issue with Act 1 was it, it did the shift for EIT or PIT, but it still let local taxing authorities increase on property taxes, so constituents in my area always viewed that as a huge tax increase. While they would have sought a reduction in their EIT and PIT, they would have saw the property taxes continue to increase back up to what they were, so for my area, it was important to get a freeze and, and allow the local governments to make that decision rather than put it on referendum. The sales tax, we've never really had a sales tax issue, and because it's countywide, I didn't feel it was

comfortable enough to allow the county commissioners to make a decision for school districts. To me, the county really doesn't have anything in the, in the educational system. There may be a mechanism to trigger it through school districts, the – with the support of, of a percentage of school districts within the county to do it, but I thought it would, would just be easier to let the voters of a county to decide on it rather than put it in the hands of, of the county commissioners.

CHAIRWOMAN MUNDY: And then my, my only other question at the moment would be residential versus commercial and industrial because obviously, commercial and industrial don't pay EIT or PIT, so it seems to me there would be a big windfall for them at the expense of the residential taxpayer.

REPRESENTATIVE GROVE: Some do. Some don't. It depends on how the businesses are, are – their tax structure is. Some corporations might actually pay ESCORP, the 3.07 PIT rather than the corporations, but if you're – if you pay corporate income taxes, the CNI [corporate net income tax], it would be a net, net fall for you. There, there are other solutions for that that that's actually the economy of property taxes and the hardest thing to get around. You can do a Constitutional amendment to separate corporations from them. You can allow some sort of local taxing authority for a corporate net income tax. I left it moot at this point just because there's no real gauge for a solution for, for that factor. Be more than happy to work with anybody on the committee to obviously make sure we have a fair tax structure when we move forward with this.

CHAIRWOMAN MUNDY: Thank you.

CHAIRMAN BENNINGHOFF: Thank you, Chairwoman Mundy. We've been joined by Representative Peifer out of Pike County. Thank you for joining us. Next will be Representative Boyd.

REPRESENTATIVE BOYD: Thank you, Mr. Chairman. I'd like to commend the maker of the bill. A question for you on the mechanism for the PIT EIT. Currently, we have property taxes paid to counties, property taxes paid to municipalities, and property taxes to school boards, school districts, okay? So would each of those governing authorities have to implement the shift? Do you see three separate – so in some municipalities you may have, you may have a county that doesn't do the shift, but a township within that county do the shift and then the schools separately, so it would be three separate governing bodies.

REPRESENTATIVE GROVE: Yes, yes, and that's what we have today. We currently have that local tax structure. The only way out of that is consolidation of local governments or get rid of them and move it up to county level. They are their own elected, you know, jurisdiction. It's been like that since the founding of Pennsylvania. You know, if you want a big government approach, you can bring it up to bigger government, or you can let the locals decide, you know, their own fate.

REPRESENTATIVE BOYD: Okay, and I believe to just follow up with Chairwoman Mundy's question on the commercial. I have, I have in my district one of the largest, if not the largest, continuing care senior facility in Pennsylvania. I believe it's east of the Mississippi. A substantial amount of property taxes are actually paid by that facility to the local school district. If the local school district decided to make that the shift that you are referring to, property taxes would be eliminated for that – or not eliminated, would be reduced and/ or potentially eliminated for that facility. Is that correct?

REPRESENTATIVE GROVE: Yes.

REPRESENTATIVE BOYD: Okay. Thank you.

CHAIRMAN BENNINGHOFF: Thank you, Representative Boyd. Next is Representative Scavello from Monroe County.

REPRESENTATIVE SCAVELLO: Thank you, Mr. Chairman. First, this 1 percent sales tax is not a new idea. It was in – I amended Representative Sturla’s bill about 2 years ago with the 1 percent and sharing it with the school districts and the county and the local municipality, the dollar for dollar property tax, but I believe Representative Lewis had something similar back in 2003 or 2002. I, I heard Monroe County mentioned, so I, I need to, honestly, tell you a couple of things. First of all, very few, very few vacation homes, and the reason being our property taxes have gone through the roof. Last year alone, the Pocono Mountain School District raised taxes between four and five hundred dollars a house. If you built a brand new home in Monroe County five years for \$250,000, today you would be ecstatic if you get \$150,000 for it, and the biggest problem is you got \$11,000 school property tax on that bill. We’re completely unique, and we’re really been crippled by a law that was passed in 1991, which is to hold harmless legislation. We getting funded off of a 1990 census. Luzerne and Lackawanna’s made out very well over the years because you’ve been losing population. Pocono Mountain’s population quadrupled since 1990. We were up to about 13,000. However, now, we’re down to low, low 10[,000]. We have 3,000 empty homes because of the school property tax increases. We just can’t survive anymore. We’re at a point that – so anything that we do, we need to do and do quickly. I would support this, but we also need to address the years of inadequacies that the – because of the hold harmless that some of these growing areas because just to say we’re going to raise sales tax and personal income taxes. You know, my school districts, I did – I believe Pocono Mountain’s about \$38 million that we haven’t received because of the growth. We’re in

a bad situation, folks, and you know, I'm going to tell you. You're going to be hearing more about this hold harmless in the next couple of months from me. Thank you.

CHAIRMAN BENNINGHOFF: Representative Evankovich.

REPRESENTATIVE EVANKOVICH: Thank you, Mr., thank you, Mr. Chairman. Representative Grove, thank you for putting this bill forward. I'm obviously a co-sponsor. Can you speak real quick about the mechanism by which the sales tax increase would go – filter back to the individual school district and municipality? Under the, under the, the filter that when you have counties that have high income levels and high, you know, tax bases versus in that same county an area that's much less economically sound. It sounds to me like we might see a, a big shift in, in where that money's being collected versus where that money's being appropriated after the fact, and I just wanted to know if, if you could help me understand that a little bit better.

REPRESENTATIVE GROVE: Yeah, the, the 1 percent sales tax – and I – let me bring up this point. I did disassociate the sales tax and, and the income tax. They're not really joined together. You can do one. You can do the other. There's, there's areas in the state that vehemently will oppose a sales tax because of their location. They may --- to an entire state that doesn't have a sales tax, so it's a huge issue with, with those areas, and also, you have some areas with great income tax receipts coming in. You know, their income levels just aren't there yet, so it provides that good mix where local governments can say, "You know what? We get a, a better bang in our buck with, with the sales tax, with the sales tax. We don't want to touch the income tax because we just don't have a great income tax base." If, if the 1 percent is implemented in that county, money's collected, sent up to, to the Department of Revenue, put into a restricted account for each county, and then redistributed to the school districts within that county per pupil, per average daily membership. So we're now moving towards funding them

exactly as my colleague from Monroe County puts in that, that fair funding formula that a lot of people have been trying to fight for for, for many, many years. With the sales tax, you're picking up revenue from everybody. Anybody who buys anything within that jurisdiction, you're passing through people who are trying to not pay their taxes. There's no way out of paying for it, so it's a very fair way to do it. Within the state of Pennsylvania, we have certain exceptions built into our sales tax. We basically take that law and mirror it in this legislation. The only way to change that locally is if you change the state law. We don't tax food and clothing, which are huge exceptions for border counties. For York County, for one, we have a lot of Marylanders that come up and shop, especially in the Hanover area of York County. Without those exceptions, all those businesses on the borders would die, especially when you're looking at Delaware County who has the state of Delaware next to it maintaining those exceptions to, to keep people – try to keep everybody as much as possible within the county of Delaware and not crossing that border are critical. Am I hitting all your points you want addressed, or...?

REPRESENTATIVE EVANKOVICH: Good with it.

REPRESENTATIVE GROVE: All right. Furthermore, with the sales tax, it's allowing the voters to make that decision. It's never actually been put up on the ballot before where income tax, EIT and stuff has been, so I think it's a critical step in, in moving forward. Obviously, adding a, a sense of diversity to their local taxing base to, to pull in from, from different resources and different areas, so, so it's critical. When you look at total collections, statewide it's about 1.5 billion dollars statewide. If you take all the property taxes statewide, it's about 11.9 percent decrease, and obviously, that fluctuates between areas. You know, it could be as high as a 44 percent reduction, as low as a, I think I saw a 5 percent reduction per county, and

then you have to base it on school districts between them, and all that money would always go to, to reduce millage rates. Can't be used for new spending, so if you get more, more dollars, then, from the sales tax, it's going directly to the taxpayers.

CHAIRMAN BENNINGHOFF: Our last two questions are Representative Rapp and Representative Gabler.

REPRESENTATIVE RAPP: Thank you, Mr. Chairman. I just wanted to kind of piggyback on what the Representative was asking. Within the bill it says any additional revenue shall be used to reduce other taxes imposed by the political subdivision. It seems to me – I wasn't here when the fifty-two dollar tax was passed here in the state, but I, I've been told that under that fifty-two dollar tax that municipalities were to, you know, reduce other taxes, and I've heard that that never happened, so when we say this within the bill that any additional revenue is to be used to reduce other taxes. What assurity do we have that that's actually going to happen?

REPRESENTATIVE GROVE: That's a good question because a lot of times we don't necessarily put penalties in the law to strengthen it. Rule of law says you, you have to reduce taxes. By law, they, they have to do that. I don't think there is really a penalty put in there. The other aspect is, is auditing. How, how do we know that the rule of law is followed up? That might be an excellent question, maybe, for a couple of the other panelists, dealing specifically with local government and ensure that it's, it's actually going to, to reduce taxes long-term. I know the, the gaming money flowing down. You can actually see that in your property tax bill. Most people think we devalued their house because their assessments dropped, but that's actually because it's a drop in their assessment. They're actually getting property tax relief through it, and that's kind of a unique trait. You can actually see it in the tax bills. I'm not sure they, they

actually have a, a showing of the LST [local services tax] tax on, on reductions and stuff like that, so that's, that's an excellent question. That probably needs to dive into it a little bit.

REPRESENTATIVE RAPP: Well, Representative, I thank you for your efforts. I, I know since I've been here we've talked about, and I certainly have heard from my constituents about the burden of the property tax, and so I appreciate your efforts here. Thank you. Thank you, Mr. Chairman.

CHAIRMAN BENNINGHOFF: Thank you, Representative Rapp. Representative Gabler actually waved off. Representative Grove, we will be speaking to you some more. Thank you for your time and attention to this. Our next testifier, and I apologize if I enunciate this wrong, is Dr. Dave Davare. You can correct me. Davare? My apologies. You can call me B – you can call me Benninghoof instead of Benninghoff. How's that? He's the Director of Research Services, Pennsylvania School Board Associations, and again, welcome. Begin when you're comfortable.

DR. DAVARE: --- I'm sorry. It looked like the light was on. My glasses need reset. As a result of, of these various attempts at tax reform, our diversified tax base has been eliminated, and we've really been forced down to the property tax. We had gross receipts taxes on the business side. Those – a lot of districts still levy that, but it's a case where districts who had those taxes could continue, but nobody else could access them, so what we found over time is is a shift in the burden back to the property tax. We applaud the committee in its effort to address the burden on the property tax and the property taxpayer. We support a diversification of the tax base because we've seen from our experiences as an association those rising property taxes.

The overreliance on the property tax by the state ensures that school districts, that limitation is forcing any increase we have right now back to the property tax. We have no other

choice. One of the things that we, we find is, is that there's a substantial difference in spending. Between the highest-spending district and the lowest-spending district, the difference is about \$17,000, and in part, that's due to available tax base.

What we have found is that while we support the concept of diversifying the tax base, PSBA [Pennsylvania School Boards Association] believes shifting the focus from school property taxes to other taxes will benefit taxpayers and begin to mitigate some of the losses in our school districts with declining revenue, but we realize that a local property tax is an important piece of any funding mechanism. To completely shift away, as was pointed out, all three local taxing jurisdictions rely on the property tax. The elimination of the property tax, we think, will undermine funding because what you're going to find is the earned income or the personal income is just as varied and just as diverse as the property tax bases, so we think there needs to be a mix.

In situations where the school district is faced with declining state dollars, we've got dramatically increasing pension costs. We've got special education costs that are increasing, and under the Governor's proposed budget, this would be the fourth year in a row for no increase in special education funding in Pennsylvania. We've got rising fuel costs just like everybody else. We have employee health insurance costs that are going up, as well. In many situations right now, we only have the option of raising property taxes and reducing spending, and many districts have done both trying to balance their budget. Many districts have cut programs along with those tax increases trying to continue to provide education to students in Pennsylvania. House Bill 2230 eliminates the exceptions that were reduced substantially with the two exceptions right now being – the two important ones being the pension increases over which no school district has control, and the special education costs, which are mandated by the individual needs of the

students, so we have to have – raise concerns about how are we going to fund those key issues going forward if there is a cap on property taxes? The, the millage cap we're concerned with will either hasten the creation of financially-distressed school districts or put school districts in the position of not looking to increase – enter into an earned income or personal income tax because of the restrictions that are set forth.

What we're concerned about is, is a fair application. When a political subdivision chooses to implement or increase an EIT or net profit stacks, individual taxpayers as well as businesses, sole proprietorships, limited partnerships, are going to pay C-corporations. S-corporations may not pay if we go to a PIT. We again get the mix of some people paying, some people not paying. What we find, as was pointed out, that property taxes are going to come down on some businesses, and that's going to be offset by increases on individuals, and we're concerned about that type of situation.

We need flexibility in the property tax reduction. The bill right now calls for a minimum 30 percent reduction, but in one district in Pennsylvania where property values have been in substantial decline, the median household income is \$15,286 or less than a third of the state median of \$49,288. In this situation, a 30 percent property tax reduction, we think, would be untenable and virtually destroy the school district. It may be that this is – it would be more appropriate in this district for a 5, 10, or 15 percent property tax reduction. That local determination becomes very important because of the differences in communities.

While we appreciate the, the bill provides that for those districts that opt into a sales – or those counties that opt into a sales tax, the money will be distributed on the first of July. What we do have a concern with is that there doesn't appear to be a notice to the school districts that would be consistent with the Act 1 timeline as to how much that sales tax distribution would be

so that we could build that into our budgets. Under Act 1 right now, we're required to start budgeting in December, January. We have to have a budget at least ninety days prior to the municipal – or to the primary election if we want to go to the voters for a tax increase, so we're concerned that while the distribution – we're okay with the distribution, July 1<sup>st</sup> or shortly thereafter. We're concerned about notice timing to get that built into the budget appropriately. We think that that is an important consideration that needs to, to be taken.

The cost of collection. Right now the bill calls for a cost of collection being paid to their – being taken by the Department of Revenue to fully cover its cost. We're concerned that that cost is not capped. We would like to see that cap on the, on the cost of collection limited to 1 percent. It's a matter of distribution of a tax that's already being collected, so while we see the Department having some increased cost, we think there should be a cap on the Department of Revenue, as well.

The thing that, and I think it's probably most important. While we understand the need to alleviate the burden on the property taxpayer, this alone cannot be done effectively by merely diversifying the tax base. We need to pay attention to addressing items such as cost containment and state funding, which simply, you know, without addressing those, we're simply putting off the problem for another couple of years. For example, a comprehensive solution would need to look at revising the funding formula for cyber charter schools. We believe that there needs to be a look at funding of special education costs. We need to talk about things like funding mandates. We want to talk for a minute. Prevailing wage and complying with the Separations Act requires districts to spend money when they need to improve buildings on buildings rather than having that money into the classroom. It's been stated on a number of occasions that prevailing wage imposes about a 20 percent cost. Think about it this way. You're paying for

twelve miles of highway, but you only get ten. We're paying for twelve buildings, but we're only getting ten in education without addressing prevailing wage and the Separations Act. With that, I would like to thank you for allowing me to testify before you, and I'll be happy to try and answer your questions.

CHAIRMAN BENNINGHOFF: Thank you, sir. It was a good, broad, varying set of issues, I think. Addresses a lot of the different concerns we have. I think our first question is from Representative Boyd.

REPRESENTATIVE BOYD: Thank you, Mr. Chairman. I wanted to get back to something you said earlier in your testimony. I want make sure I heard it correctly.

DR. DAVARE: Yes, sir.

REPRESENTATIVE BOYD: You said that disparity in the funding between districts is nigh onto \$17,000.

DR. DAVARE: Yes, sir.

REPRESENTATIVE BOYD: And you attributed that to what?

DR. DAVARE: In part, that is the disparity between funding tax bases and the varying costs of providing education across the, the Commonwealth. You've got very high-cost suburban Philadelphia area. You've got much lower-cost rural Central Pennsylvania. Out in the southwest, we've got some – a few districts out there that are struggling, as well.

REPRESENTATIVE BOYD: Okay, I'm glad you clarified that a little because I was a little concerned. In your original testimony, I believe the words were, "This is related to available revenue," and, and I, I – sometimes we say things, and we subtly just go by them and go, "Oh, yeah." From the – my standpoint, and I'll speak strictly for myself, it concerns me that what we pay to educate a student varies in this state by \$17,000, and I would suggest that that's

absurd that a student can be educated for somewhere in the neighborhood of \$12,000 whether you live in Lancaster County, Luzerne County, Centre County, or some other counties. The fact that some teachers get paid \$90[,000] or \$100,000 a year to do the same service that in my county they get paid an average of \$70,000 for seems a bit absurd to me in the fact of it's based on the availability of revenue to me points out one of the fundamental problems. And related to that, you mentioned pension costs, and I don't know that you know, but I've been involved with calling for pension reform since the day I came into this place. And I'll be kicking and screaming about pension reform when I leave in 266 days, not that anybody's counting, but one thing to bear in mind. School districts have some control of pension costs in that pension, the employer contribution, is, is calculated as related to a percentage of payroll, so while the state has clearly a responsibility, and, and I will adhere – I will readily admit our responsibility with that. To the extent that you can control your payroll costs, you can lower your pension costs, and the reason that the state only picks up 50 percent average of pension is because we don't define what your payroll is. The fact goes back to the fact earlier that we have this disparity is related to un – the ability or the lack of the ability it seems that we have to control the costs of education. And to me, there is a balance between those two, and to only talk about one side, I believe, is just unfortunate that, that to, to fix this problem we need to, we need to talk about it in a balanced fashion. And there's got to be give and take by, by all parties, and that includes the PSEA [Pennsylvania State Employees Associate], who needs to come to the table and make some accommodations and, and make some – express some direct willingness to give on some issues like prevailing wage, which they have flat out refused to do, like some of the other issues, seniority and economic furlough. These are issues that are a part of this discussion of property

tax reform, and until the unions come to the table and are willing to make some concessions, we will never solve the property tax issue. Thank you, Mr. Chairman.

CHAIRMAN BENNINGHOFF: Thank you, Representative Boyd. Next, we have Representative Evankovich. Congratulations on your new little one.

REPRESENTATIVE EVANKOVICH: Thank you, Mr. Chairman. Tough to follow Representative Boyd. Dr. Davare, thank you for your testimony this morning. I was, I was happy to see the last section of your testimony, which is the need to address school district costs. One of the, one of the statistics that we hear a lot when I go from school board to school board, school district to district in Westmoreland County and Armstrong Counties is that the state of Pennsylvania picks up only 39 percent, 38 percent of overall education costs, and the rest is on the local tax base, and I believe you had parroted that in your testimony.

DR. DAVARE: Yes, sir. That's correct.

REPRESENTATIVE EVANKOVICH: And then you also brought in some identifiers of where other states are. What percentage – I believe you said 7 – 47 percent or thereabouts of education costs is picked up, picked up by the states and other states.

DR. DAVARE: Yeah, that's on the first page of my testimony.

REPRESENTATIVE EVANKOVICH: My, my question – whenever I hear those statistics, my question is always 38 percent of what? 47 percent of what? Do you have similar statistics for what the average cost per student is in Pennsylvania versus what the average cost to educate a student is in other states?

DR. DAVARE: I don't have a consistent database for that in other states. Every state measures the expenditure side slightly different, so the expenditures, I don't have that at the moment.

REPRESENTATIVE EVANKOVICH: Do you think you would be able to get that information for the committee?

DR. DAVARE: We can – I will make an attempt to see what we can find and, and get that.

REPRESENTATIVE EVANKOVICH: And to, to more appropriately than understand those statistics and to use the information that you use that the time period from [19]93 to 2009, we would also have to understand what the increase was. So in other words, I'll say it like this. You know, if, if in Pennsylv – if in every other state, the cost of education went like this, and now those states are still picking up 48, 49 percent of the, of the cost to educate rather than the local tax base, but in Pennsylvania, they went like this, to me, it's a matter of the denominator getting too big versus the numerator not rising to – submit substantially enough.

DR. DAVARE: I'll see what I can find and share that with the committee.

REPRESENTATIVE EVANKOVICH: Okay, thank you.

DR. DAVARE: Yes, sir.

REPRESENTATIVE EVANKOVICH: Thank you, Mr. Chairman.

CHAIRMAN BENNINGHOFF: Thank you, Representative Evankovich. I did want to note that Vice Chair Gordon Denlinger's joined us, as well as former Member Representative Lynn Herman, who passed the only bill to get rid of the occupational tax. Lynn, welcome aboard. You could probably provide us a lot of history, since you talked about this for twenty-four years when you were here. Representative Keller.

REPRESENTATIVE KELLER: Thank you, Mr. Chairman, and thank you, Doctor. Just a couple questions following on Representative Evankovich's line of questioning here. On page 1 where we're discussing how much is local revenue from property tax.

DR. DAVARE: Yes, sir.

REPRESENTATIVE KELLER: In [19]93, [19]94, we stayed at 76.4 percent is local.

DR. DAVARE: Yes, it is.

REPRESENTATIVE KELLER: The balance would then be from the Commonwealth.

DR. DAVARE: No, 76 percent was real estate tax, and the balance of the local share was earned income and all of the other Act 511 taxes.

REPRESENTATIVE KELLER: Okay, so, so in other words in, in [19]93, [19]94, 23.6 percent would have come from the Commonwealth and other areas?

DR. DAVARE: Yeah.

REPRESENTATIVE KELLER: Okay, so we basically increased from 23.6 in [19]93, [19]94, to 38.7.

DR. DAVARE: I'm sorry, sir. I was incorrect on that statement. The – if you take the local taxes as 100 percent of the local taxes, 76 percent of all local taxes comes from the real estate tax, but it was about 38 percent state share.

REPRESENTATIVE KELLER: So this, this is only dividing the local taxes...

DR. DAVARE: Yes.

REPRESENTATIVE KELLER: ...in the beginning part of this equation.

DR. DAVARE: That's correct.

REPRESENTATIVE KELLER: Okay. Do you know what the, the state portions were in each one of those years?

DR. DAVARE: I – we have those posted, available on our website. I will make sure that the committee gets those.

REPRESENTATIVE KELLER: Okay. One other question I had further back in the testimony. Under the flag – flexible property tax reduction. You mentioned that the median household income in that district is \$15,286?

DR. DAVARE: Yes, sir.

REPRESENTATIVE KELLER: What's the average teacher paid in that district?

DR. DAVARE: I want to say the average in that district is about \$65[,000], \$70,000. That is Chester Upland School District, sir.

REPRESENTATIVE KELLER: Chester Upland?

DR. DAVARE: Chester Upland.

REPRESENTATIVE KELLER: Okay. I just – you know, we're talking about containing costs for the people that are paying the taxes, the people we work for and who the teachers work for, yet they're making more than four times what the average person paying their salary is.

DR. DAVARE: And, and in fact in that area, it's a case of Chester Upland competing in the suburban Philadelphia labor market for teachers.

REPRESENTATIVE KELLER: Thank you.

DR. DAVARE: Yes, sir.

CHAIRMAN BENNINGHOFF: Thank you, Representative Keller. Next is Representative Grove.

REPRESENTATIVE GROVE: Thank you. Appreciate the testimony. I want to focus on the, the cap on millage rates. Going back to your original testimony, the, the reliance on, on local revenue from the property tax, 76.4 percent in a drastically increase through that. Obviously, in 2001, there were increases in the EIT through Act 1. Many school districts

initiated that. The EIT get new revenue naturally without increasing it. If, if property tax were actually inflationary, how much reliance would there – how much property tax increases would we have seen if property taxes were actually inflationary and increased with, with inflation?

DR. DAVARE: I think you're probably seeing property taxes increasing on a statewide basis pretty close to inflation because most districts recognize that if your tax base is flat, it needs to go up just to break even. We have some – we have districts that have seen decline. We have districts that are growing. That's always been one of the problems in trying to standardize a one size fits all tax reform in Pennsylvania is each district is different. Each municipi – just as each municipality and county are substantially different. I believe overall that the tax increases have been right around inflation because a number of districts also use the earned income tax, which will bring that in. You pointed out starting in 2001 that has to do with the repeal of the occupational assessment tax. At the point when that bill was first passed, there were about 110, 120 school districts levying the occupation assessment millage base. That's now down to forty-nine.

REPRESENTATIVE GROVE: So if, if property taxes actually grew with inflation, school districts wouldn't have to actually raise the rates, correct?

DR. DAVARE: That's correct in most cases.

REPRESENTATIVE GROVE: So it would be imperative if we don't want to continue seeing rate increase after rate increase let the, the economy do the work for us. Kind of like the old Ronald Reagan grow our way out of the issues with economics always makes the best policy.

DR. DAVARE: That's correct.

REPRESENTATIVE GROVE: Thank you.

DR. DAVARE: But I, I would like to remind everybody on the committee that over the past few years because of the overall economy the state PIT, along with local EIT's, has been down.

CHAIRMAN BENNINGHOFF: Thank you, and I believe our cleanup batter is Representative Cox.

REPRESENTATIVE COX: Thank you, Mr. Chairman. Just one quick question. On page 2 of your testimony, you make the statement that districts with greater property values have greater access to resources and tend to spend more local dollars per student. Want to focus on the first part of that sentence, if I could, because I, like others in this Assembly, have been looking for an answer to the overall problem. Districts with greater property values having greater access to resources, that, to me, points out and emphasizes your, your statement that we have an overemphasis on local revenue sources. In an approach like this that still relies on local revenue sources, do you see any difference in shifting from local property taxes, which is largely wealth-based, to a sales tax and/ or income tax of whatever kind? Does that shift enough away from the local revenue sources? Because to me, if you don't have property values right now to sustain the local education system, then how are you going to get that from a local sales tax or a local EIT or PIT? To me, resources – those two resources are, are aligned very closely.

DR. DAVARE: To a degree, they are aligned very closely, but when people buy a house, they buy based on their income, and the incomes continue to grow. The value of the house does not necessarily, unless there's been reassessment, and we can talk about all the problems with reassessment. We just need to look at Allegheny County. Since 1972, they've been trying to get, get that corrected, but one of the, one of the problems that we have right now with the tax base is we've got some districts that are property-rich. We've got some districts that are income-

rich. We've got some districts that are both property- and income-rich, and by the same token, we've got districts that are both income- and property-poor, and, and that's why we have a concern of one size fits all where we need to have local flexibility to address the local issues. For example, there are thirty-three districts in Pennsylvania which did not use the EIT. In part, most of those are in suburban Philadelphia because their residents are working in Philadelphia and paying the Sterling Act, which overrides local EIT revenue, but you do have disparity in tax base. There's – I know of one district that one mill will generate about 1.2 million dollars in the suburban Philadelphia area. There is one district out in southwestern corner of the state where one mill will produce about \$70,000, so we do have disparity in the tax base itself.

REPRESENTATIVE COX: And do you think – is there, is there a way to reach out in a broader sense? I'm, I'm an advocate of a, of a larger solution, a, a broader tax base, if you will, and I believe a statewide sales tax effort combined with perhaps a statewide income-based effort, I believe that would provide a broader base and a more reliable base for the statewide education funding issue that we're facing.

DR. DAVARE: It would provide a, a much more stable base on a statewide basis. That way, you stay away from the local community fluctuations, but there still needs to be local community input if we want to have strong, viable, community-based schools.

REPRESENTATIVE COX: Okay, and the last subquestion, if you will, and I appreciate the latitude, Mr. Chairman. If we were to utilize a statewide funding source, how, how do you feel we best maintain the local control of, of that funding once it, once it makes its way back? To me, we have school boards in place that are already designed to do just that, and I feel that school boards have spent way too much of their time over the last ten, fifteen years trying to figure out how to raise revenues when, in fact, they could and should be focusing on where best

to focus the, the revenues that they do have. And, and so I think my approach is to take their fundraising mentality out of the board members' job and shift it back to what it was designed to be, which is essentially, "Here's the money we have to use. How can we best use it to establish programs and so forth?" To me, it'll give them a better opportunity to really focus on the original design of the school board.

DR. DAVARE: That gets back to my commentary in the testimony regarding addressing the cost and helping the school districts contain costs by addressing the mandates and the things we have to do and to look at a couple of the funding streams that are out there like special education and the charter schools, primarily the cyber charter funding, so it's, it's not – again, it's not a one size fits all. I still think that the local taxpayers need to have some money in the game to maintain an interest in, in local schools themselves, but we also need to address state funding and the mandates.

REPRESENTATIVE COX: Okay, I'm in full agreement with what Representative Boyd brought up about some of the driving costs behind our school funding, and I appreciate your testimony today, and I look forward to working with you on, on some solutions to this. Thank you.

DR. DAVARE: You're welcome.

CHAIRMAN BENNINGHOFF: Thank you, Representative Cox. Doctor, we do appreciate your time, your energy, and your efforts on this, and we will have a post – part of our entire portfolio on this issue. You are dismissed, and we appreciate it again.

DR. DAVARE: Thank you very much for the opportunity to be here.

CHAIRMAN BENNINGHOFF: We will now be joined by David Baldinger, Pennsylvania Coalition of Taxpayers Association. When you're comfortable, feel free to begin, sir.

MR. BALDINGER: Good morning. My name is David Baldinger, and I'm here today representing the Pennsylvania Coalition of Taxpayer Associations, an affiliation of sixty-eight grassroots taxpayer advocacy organizations from across the state. I want to express my thanks to the House Finance Committee for giving me the opportunity to testify today on behalf of the PCTA [Pennsylvania Coalition of Taxpayer Associations] about HB 2230.

In a recent public comment, the prime sponsor of HB 2230 stated, "Property taxes are a local tax and should be dealt with at the local level."

The PCTA agrees, at least in part, with this comment and fully supports the provision of HB 2230 that authorizes a local earned income tax or personal income tax as an additional funding source for counties and municipalities. We also agree that because of the great number of these entities and their widely-varying needs, diversification to a variety of local taxes is both appropriate and necessary.

However, while being a local tax may also be true for school property taxes today, it was not always so, since property taxes were not permitted as an education funding source before the enactment of Act 481 in 1947. Prior to that time, there were no local school property taxes, and therefore, no school property tax problem existed such as the one we face today.

Article III, Section 14 of the Pennsylvania Constitution states, "The General Assembly shall provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth." Please specifically note that the General Assembly is constitutionally and singularly responsible for the support of public education.

As the framers of the Constitution understood, the funding needs of schools are, in general, far less diverse than those of counties and municipalities and can be addressed more efficiently and more equitably at the state level while still maintaining local control of curriculum and spending decisions.

In his co-sponsorship memorandum, the prime sponsor of HB 2230 titles this legislation “Local tax diversification for property tax reduction or elimination.” While this proposal may reduce property taxes in some school districts by partially shifting to a different local funding source, the potential for school property tax elimination is extremely limited, if not impossible, in the majority of school districts. Further, this legislation does nothing to solve the core problem of an antiquated and inequitable education finance system and can in fact exacerbate local school taxation difficulties and further aggravate funding inequities. It, in effect, trades relentlessly increasing school property taxes for relentlessly increasing local income taxes and provides no solution for mitigating Pennsylvania’s education finance problems. The possibility of losing your home because you are unable, unable to pay your property tax will be just as great under the provisions of this legislation as it is today.

A tax shift to a local EIT, similar to that, to that proposed in HB 2230, was authorized in 1998 with Act 50 and again in 2004 with Act 72 with school boards given the decision to implement. It was soundly rejected both times. Act 1 of 2006, the infamous property tax relief measure from gambling money, also authorized a local tax shift to an EIT or PIT and mandated a voter referendum for implementation. The referendum, denounced by taxpayers and in newspaper editorials across the state, was held in May of 2007 and was rejected by voters in 494 of 498 eligible Pennsylvania school districts. From these failures, it is glaringly obvious that taxpayers do not favor a local tax shift – excuse me – for partial property tax reductions, yet

certain members of the General Assembly insist on attempting something, yet again, that has proven to be a failure on three separate occasions. It is unfortunate that they have not learned from these rejections that partial local tax shift proposals are totally unacceptable to Pennsylvania taxpayers.

It is most likely, based on this tax shift history, that voters in few counties will approve the tax shift proposed in HB 2230. We will almost certainly see the same result we've seen with Act 1 where many years must pass before the plan is proven to be a failure and property tax elimination is again addressed. Unfortunately, by that time, the level of property taxes could rise to a point that it will be impossible to fund the replacement from a state-level source. We are nearing that threshold right now.

School districts that do not have the cumulative community wealth to support themselves through property taxes will likely not have the wealth to fund themselves with other local taxes. As Dr. Terry Madonna and Dr. Michael Young, respected Pennsylvania academics, stated in an April 2007 essay,

There are only two broad-based taxes with the capacity to raise enough revenue: the state sales tax and the state income tax. There are no other ways that state or local governments can raise the money to pay for schools. The political leadership of the state continues to deny this fundamental truth and beguiles us into believing that local taxes can do the job if we only get the right local taxes. But the truth is local tax bases simply won't stretch far enough to raise sufficient revenues to meet the needs of the schools.

I have attached this essay, as well as a similar one by Dr. Mark Hendrickson, an economist at Grove City College, to my written testimony and respectfully request that the committee

members read these essays to better understand the folly and negative consequences of local tax shifting schemes.

Some southeast, south central, and western counties have huge retail tax bases with many malls and shopping centers that already generate much property tax revenue, lessening the burden on homeowners in those areas, and will provide even more school district revenue and lower property tax burdens with a local shift to a sales tax. But for residents of counties such as those in the northern tier and elsewhere that have little retail activity, only meager revenue can be generated from a shift to a local sales tax and will not have any significant impact on property taxes.

Research by one of the PCTA's member groups has found that twenty-three Pennsylvania counties have no significant retail activity in the form of shopping centers or malls, and that an additional thirteen counties have only one of these shopping venues. Residents of these counties will have no opportunity for property tax relief from a sales tax shift, but even worse, as these homeowners do their shopping in neighboring counties with more retail activity and that have approved the shift, they will be contributing to property tax relief for those areas without any benefit for themselves.

And even counties that do have the advantage of a large retail base will likely not generate sufficient revenue to completely eliminate the property tax. Taxpayers from various areas of the state are not treated equally or fairly under this proposal, and inequity in the amount of relief is assured. This will cause a greater disparity between "rich" and "poor" school districts and can be better addressed with a more comprehensive, statewide approach.

And because county-to-county taxation inequities are virtually guaranteed, this plan would only aggravate the housing problem in Pennsylvania by encouraging people to locate in

counties with lower property taxes and abandoning areas where the property tax is higher or where the voters have not approved the referendum for the tax shift.

It's also worth noting that Pennsylvania has twenty cities that are under Act 47 restructuring plans with several more heading in that direction. For cities that are in that position because of the lack of a residential income tax base and a retail sales tax base, this approach only exacerbates their problems.

And finally, a massive increase in the infrastructure of both state and local government will be necessary to track and distribute a county-by-county sales tax, adding millions of dollars to the cost of administration and opening the door for a flood of new taxes.

In short, HB 2230, in the same manner as its failed predecessors, is yet another duplicitous and ill-conceived shell game that has little, if any, benefit and only cruelly serves to raise false hopes for the beleaguered homeowners of Pennsylvania. The sixty-eight member groups of the Pennsylvania Coalition of Taxpayer Associations strongly oppose this valueless scheme and implore the members of the Finance Committee to reject this proposal in favor of more comprehensive and effective property tax replacement legislation. Thank you for your time and attention. Take any questions you might have.

CHAIRMAN BENNINGHOFF: We'll start with Representative Boyd and Representative Grove.

REPRESENTATIVE BOYD: Thank you, Mr. Chairman. Appreciate your testimony. I guess one of the questions I would have is what other comprehensive state solution would you propose at this point in time? I'm assuming you want 100 percent elimination of property taxes.

MR. BALDINGER: Yes, we do.

REPRESENTATIVE BOYD: Are you aware of how many dollars that is statewide?

MR. BALDINGER: Certainly am.

REPRESENTATIVE BOYD: So which tax would you suggest increasing to what level, please?

MR. BALDINGER: We support very strongly Representative Cox's bill will be introduced shortly, which calls for an expansion of the state sales tax base, a slight increase – a 1 percent increase in the rate, and an increase of 0.92 percent in the PIT.

REPRESENTATIVE BOYD: Okay, I haven't seen the actual language, the final language with, with – of Representative Cox's bill yet, so I can't comment on the, the specifics. I believe we're talking around a 12 billion dollar total amount of revenue for school property taxes alone.

MR. BALDINGER: Actually, closer to 13 [billion dollars].

REPRESENTATIVE BOYD : Thirteen billion dollars, so the, the question, then, that I have for you is prior testimony we heard a, an individual talk about the differences in spending within various school districts. The distribution formula back – one of the concerns that, that I have with a statewide collection of taxes is we in Lancaster County spend an average of, I'm going to say, roughly \$12,000 per student. MontCo [Montgomery County], we have any MontCo Rep[representative]s here? MontCo, Montgomery County, I believe their average is probably closer to \$17,000 per student, so my question is is, well, why would the taxpayers of Lancaster County want to send their money to the state and have that money distributed back to MontCo at \$17,000 per student when we're doing the exact same job in Lancaster, arguably some better schools, test results would show that, for \$12,000? What sense does that make for me as a taxpayer in Lancaster County?

MR. BALDINGER: The bill that Representative Cox is proposing from the get-go was not designed, and let me back up for a moment here. You know – I'm sure you realize that the basis of this bill was something proposed by Sam Rohrer back in 2004. He looked at completely reworking – excuse me, Representative Scavello, because I know you had a hand in that. He at that time proposed revamping the entire education finance system. It also did a redistribution. From the get-go with Representative Cox's bill, we said this is about school property tax elimination, period, which means dollar for dollar replacement for all the school districts regardless of their per pupil cost. Any inequities we feel should be addressed in the basic education funding formula, and that has been discussed here earlier today. We feel that's where those inequities should be taken care of. Ideally, a statewide per pupil cost would be the best result. That's almost impossible, and we are not advocating for that because it would certainly kill the legislation, so that is my response to you, Representative.

REPRESENTATIVE BOYD: Okay, and I appreciate the response, but I will say categorically until we address the funding formula issue, I can't support a bill that taxes the residents of the 43<sup>rd</sup> Legislative District the same that it taxes the residents in Montgomery County and sends almost twice as much money to some of those school districts as I send to my home district. I, as an elected official, can't support that. My taxpayers would send me down the pike in a heartbeat, whether I've eliminated property taxes or not, so a part of this solution has to be, it has to be an equitable funding formula that gets money in a fair fashion in a more equalized fashion to the various districts. I don't know what the school districts in Luzerne County spend per student, but I would suggest they're not even close to some of those districts in the southeast, and I don't understand the disparity, and until we can address that, I don't think we can supp – we, we can have a plan that goes to a statewide tax, and one last thing. This place is a

30 percent filter. For every dollar that we take in tax dollars, we return seventy cents back to the, the citizens. Now we're going to add an additional 13 billion dollars to what we take at the state so that we can filter our 30 percent off for administrative overhead and send 70 percent back to the, the local school districts. I'm not so sure that that's an efficient way of doing things. I appreciate your point. I have a passion for eliminating property taxes, too, but until we have the formula that drives the money back in a fair and equitable fashion per student, I don't think we can address that issue. Thank you.

CHAIRMAN BENNINGHOFF: Representative Grove.

REPRESENTATIVE GROVE: Thank you. Appreciate your testimony today, Mr. Baldinger. In your testimony, you say, "Northern tier and elsewhere that have little retail activity, only meager revenue can be generated from a shift to local sales tax will not have any significant impact on property taxes." They may not have significant income, but what are their property taxes? Are they high property taxes?

MR. BALDINGER: It varies across the state. In almost half the, half the county – better than half the counties, excuse me, have no significant, significant retail activity in the forms of, form of malls or shopping centers. I can't give you specifics because it's so widespread.

REPRESENTATIVE GROVE: So the actual question was on how much property taxes do they actually have?

MR. BALDINGER: And I, and I can't answer that. It would be district by district.

REPRESENTATIVE GROVE: So in northern tiers that have, you know, low economic activity, that percentage of sales tax – what would the, the threshold be for a reduction? Because you're saying that you wouldn't get any, any impact on property taxes, but it all depends on how

much revenue you get in compared to how much property taxes you actually have. Is that correct?

MR. BALDINGER: That's correct, yes.

REPRESENTATIVE GROVE: So in cases that could see drastic decreases in their property taxes because they could have low property taxes.

MR. BALDINGER: If they already have low property taxes, I suppose that's possible, but again, with little retail activity and most of the retail activity taking, taking place across their borders, the likelihood for a significant decrease would be very small.

REPRESENTATIVE GROVE: I'll give you an example. Elk County has about 2.2 million dollars in 1 percent sales tax in that county. They have about 13.6 million dollars in school property taxes. That's about a 16.4 percent reduction. I mean, is that your nominal, insignificant amount of property tax reduction?

MR. BALDINGER: For that particular county, no.

REPRESENTATIVE GROVE: So your, your statement carte blanche says they will not have any significant. That's not accurate. There is significant depending on, obviously the local....

MR. BALDINGER: Depending on the county and the school district, yes, I agree with you.

REPRESENTATIVE GROVE: Okay. Your other issue brings up with the infrastructure. It says local governments will need to track and distribute a county-by-county sales tax, which is done at the state level. Department of Revenue will be already doing that, adding millions of dollars to the cost of administration. Everything's set up to our current system, you know. Local

governments already collect EIT through the, the Act 32 process of regional tax collections. Where's the added cost on administration?

MR. BALDINGER: How about the school districts that have to decide how the tax – or determine the tax bills that go out each year? Already, they're giving Act 1 rebates that depend on the, the Homestead Exclusion. This does not depend on the Homestead Exclusion. It uses a totally different methodology, has to be recalculated annually if I read this correctly. Also, the counties are involved in determining a per pupil cost, collecting AVM and looking at how to drive it out.

REPRESENTATIVE GROVE: Actually, no. Counties have no – nothing to do with this. It's all Department of Revenue we do in those calculations.

MR. BALDINGER: That's not the way I read the bill. If I am in error, I apologize.

REPRESENTATIVE GROVE: It goes back to – everything's set up. There's no need to hire new staff because everything's in place at the local level to be able to collect and distribute these funds. I don't see where the increased cost is.

MR. BALDINGER: And as I mentioned, local school districts are going to need to track this and change their tax bills accordingly. We've done a little bit of research into this, and we've had an estimate of two additional people per school district to track this and handle the taxation issues each year.

REPRESENTATIVE GROVE: Where'd you come up with that analysis?

MR. BALDINGER: It came from the local school district administrators.

REPRESENTATIVE GROVE: And they say they need two people to do calculations that they're already doing.

MR. BALDINGER: That, that was the estimate.

REPRESENTATIVE GROVE: I would highly doubt that and, and beg to differ on that.

MR. BALDINGER: That's your prerogative, sir.

REPRESENTATIVE GROVE: I think that's all I really have for the testifier this morning, Mr. Chairman. Thank you.

CHAIRMAN BENNINGHOFF: Thank you. As you know, there will be other proposals coming forward. We'd like to try to stay as focused on 2230 as we can. I believe our next questioner is Representative Scavello.

REPRESENTATIVE SCAVELLO: I wish you wouldn't have made that comment. I, I – Mr. Baldinger, it's obvious we go to the same barber, so we do have something in common.

MR. BALDINGER: Yes, we do.

REPRESENTATIVE SCAVELLO: In Monroe County, myself and Representative Brown would definitely support that. We have \$11,000 in school property taxes, and that's one of the highest. My paper did a newspaper – actually, I'll support anything that reduces property taxes, and 1776 did very well. Little bit of history. It was I that brought the 4 percent plan to the Capitol. It was I that brought that project to the Capitol. I brought it to the Commonwealth Caucus. Okay, but I began to realize very quickly that not every part of the state's going to embrace it. Go down to Luzerne and Lackawanna, it's not going to get embraced. I have a – there's a Representative pays \$1,000 a year in school property taxes. Thousand dollars a year, total, excuse me, total property taxes. You think he's going to support that plan? Raising....

MR. BALDINGER: If he looks at the num – if he looks at the numbers, probably.

REPRESENTATIVE SCAVELLO: He has a – he pays \$1,000 in total property taxes. He's making – let's say the salary's eighty grand.

MR. BALDINGER: Okay.

REPRESENTATIVE SCAVELLO: You're going, you're going to raise his personal income tax by 0.92 and plus raise the sa – the sales tax in that community that he represents. That's the average in that area. If you're making better than \$70,000, I don't care who – whatever and you're paying \$2,000 in property taxes. You're losing the write off, first of all, and you're going raise your personal income tax. It is not going to pass in Philly. It will not pass in Pittsburgh. It will not pass in the inner cities where the property tax is paid – a bigger chunk of it, just like Representative Boyd had said earlier, where the property taxes are paid more from the state. Venango County gets 70 percent funding from the state. You think that Legislator's going to vote for this? No way. I'm, I'm – reality here, sir, so I'm going to tell you, I'll vote for anything that reduces or, or eliminates property taxes, but long and short of it is, you're looking for the whole thing, and I don't see it. I see maybe about eighty votes in the House, and, and that's what we had with 4 percent.

MR. BALDINGER: Well, I'm – for....

REPRESENTATIVE SCAVELLO: Thank you.

MR. BALDINGER: If I'm going to respond to you. Prognostication is meaningless to me, but I will say this. I give talks on the plan frequently to groups. One of the points I try to make is, yes, I understand a Representative's responsibility to his or her constituents, but this is such a huge problem I think it's time that we get out of the parochial attitude and start to look at the greater effect that it can have in the state of Pennsylvania. And I'm talking about employment, attracting jobs, attracting employers to Pennsylvania with the elimination of the school property tax, and I know we're off topic here. I apologize, Representative Benninghoff, but since Representative Scavello brought it up, I felt compelled to answer.

CHAIRMAN BENNINGHOFF: I find the spirited debate encouraging. It's a tough issue, and we appreciate both of your comments and you keeping your response brief. Any other questions? Representative Denlinger, just wanted to make sure you were paying attention, has a question.

REPRESENTATIVE DENLINGER: I'm still here. Thank you, Mr. Baldinger, for your testimony, and I appreciate your considerable years of, of effort on this significantly difficult issue that we have. One thing that I didn't notice in your testimony, PCTA's position on the continuance of the commercial side of the real estate tax. Are you – obviously, we have a Constitutional issue there, and Representative Cox and I have been back and forth on that issue. Do you favor – we have – you know, Act 50 obviously gave us some – a bit of a vehicle for Homestead Exemption. What is the position of PCTA with regard to either elimination of the commercial aspect of property tax or the continuance of it?

MR. BALDINGER: Our position is elimination of all property taxes in both commercial and homestead for a couple of reasons. You mentioned the Constitutional issue. Yes, that's one. We don't feel it's, it's prudent to wait for a Constitutional amendment to pass to correct the uniformity clause. Second, in the past two budget cycles the, the General Assembly has had – has continued to phase out of the Capital Stock and Franchise Tax, which is very beneficial to corporations in Pennsylvania. However, 80 percent of non-government employees in Pennsylvania are employed by small businesses that don't benefit in the least from the phase out of the Capital Stock and Franchise Tax but would benefit greatly from the elimination of the school property tax. We've spoken to a number of small business owners who said they would be willing to ex – right now, they are unwilling to expand or hire because of the uncertainty of the property tax over the next few years, especially with the pension spike. They said they will

be willing to expand their businesses and hire more if that uncertainty is taken away and the property tax burden is removed from them, so yes, we support 100 percent elimination.

REPRESENTATIVE DENLINGER: Okay, I appreciate that point of clarification. Thank you, Mr. Chairman.

MR. BALDINGER: Thank you.

CHAIRMAN BENNINGHOFF: Thank you both. Just editorial for those in TV land watching. Do remember that small business does pay Capital Stock and Franchise Taxes on some levels, but – and some of the ESCORPS. Thank you very much. We appreciate it. It's not easy to do in these testifications, but it's important to have input. Thank you very much.

MR. BALDINGER: You're very welcome.

CHAIRMAN BENNINGHOFF: Next testifier will be Lisa Schaefer, Governmental Relations Manager, County Commissioners Association of Pennsylvania.

MS. SCHAEFER: Good morning. My name is Lisa Schaefer. As Representative Benninghoff said, I am the Government Relations Manager for the County Commissioners Association of Pennsylvania. We are a non-partisan, non-profit association representing all sixty-seven counties in the Commonwealth.

As you know, counties provide a broad and expanding variety of services to Pennsylvania citizens, everything from administering the election process to providing human services, emergency planning and response, providing local courts and corrections systems, just to name a few. However, counties are forced to fund an increasing local share of these services using the same inequitable tax base that has been in place throughout our Commonwealth's history. The real property tax. This is a system that we agree neither equitably nor adequately reflects a homeowner's economic condition, and it places an unfair burden on many property tax owners.

For that reason, our counties have long advocated for tax fairness and revenue options as a county priority, and again, it is in 2012 one of our priorities for legislative action, so we are pleased to see that this topic has come with House Bill 2230 up for discussion by this committee. It's important for local governments to have a balanced portfolio of local taxes and that that be in power to choose the right mix of taxes based on local conditions and to diversify the tax base to better absorb economic conditions.

As you've already heard, in some cases, that might be the property taxes and some places it might be the sales tax, and in some places it might be an earned income or personal income tax. However, counties are dependent on the authorization of state law to levy local taxes, and we currently lack any effective alternates to the real property tax. While property tax reform has been a subject of debate in this General Assembly for many decades, to date, the focus has been on schools only, and county taxes just have not been included in those reform programs. Complete property tax reform will only be achieved when counties and municipalities are also included in the mix, and we appreciate the opportunity for dialogue that House Bill 2230 is offering.

Counties have historically supported a mix of taxing options, including both the earned income, personal income tax, and sales tax. Historically, over the past few years, there have been several bills that have looked at the local optional sales tax. Representative Grove's bill, of course, looks at the earned income tax and the personal income tax for local governments. However, while we support a mix of local taxing options, our legislative platform opposes statutory local spending limits. We believe that local elected officials should have the sole responsibility for determining and levying the taxes necessary to fund public services. House

Bill 2230 essentially caps the rate of earned income and personal income taxes after the initial levy at what appears to be – look like the Act 1 inflationary rate.

Spending or taxation controls, though, are really an illusion. Local elected officials are accountable to their constituents, and they seek first to ensure that they are being good stewards of taxpayer dollars. They look for the most efficient ways and the most effective ways to provide services to their residents, and they increase taxes only as a last resort. However, many local costs are not actually under the direct control of local officials. We have specific services that the Federal and state governments require us to offer, specific levels of services that must be offered, certain ways we have to provide those services. Mandates, then, become the driving force in our local decision-making, and often, the spending or taxation controls, then, make revenues inadequate to deal with our responsibilities. Meanwhile, while spending and taxation controls might hold down costs, they instead take away the ability of local elected officials to do the jobs for which they were elected. Ultimately, it forces us to focus our budgets first on mandates and at the expense of our locally-determined priorities, our discretionary programs. This route basically results in a disproportionate effect on locally-determined priorities.

True control of local budgets and taxation comes from giving local jurisdictions greater flexibility in whether and how they meet Federal and state mandates, both on a programmatic level and a fiscal level and pro – by providing full reimbursement from the state or Federal funds to pay for such mandates.

From our perspective of about half of our revenues have come from intergovernmental transfers. Historically, the 4 percent, 6 percent revenue number from 2004 would – has nudged upwards over the last decade. While these intergovernmental transfers help to provide for

mandates – mandated services, how completely these funds cover the costs is often a source of debate between local officials and the General Assembly.

Pointing to House Bill 2230, if a county elects to impose an earned income or personal income tax, not only are they capped at an inflationary rate, but they – the property tax freezes all – is also put in place, then. These caps would almost entirely remove the ability of county governments to have any say over their own budgets or to respond in changes to state and Federal funding, as well as economic conditions, even though, as we've noted, the ability to respond to economic conditions is one of the benefits of having a menu of local taxing options. With local reserves depleting, Federal and state budgets facing their own difficulties and demand for services increasing, even counties that have been able to get by without increasing taxes over the last two or three years are now sitting on the threshold of having to do so. Putting caps in place will hamper their ability to continue to provide these services.

We note that generally in investing, it's best to diversify so that once – when one segment of your portfolio suffers losses, your entire investment does not suffer. In local budget making, the concept is the same, and CCAP accordingly supports both flexibility and alternatives in local taxing options.

We appreciate this opportunity to continue a meaningful dialogue on tax fairness and revenue options for local government. As I said, this is a 2012 priority for our association. Because of the diversity, though, in all sixty-seven counties, our members support a menu of local taxing options but not at the expense of local discretion and decision-making on community programs and priorities. We'd very much appreciate the General Assembly's assistance in addressing mandates that help to drive the costs behind our local budgets, and we are happy to discuss these comments further and answer any questions.

CHAIRMAN BENNINGHOFF: Representative Seth Grove.

REPRESENTATIVE GROVE: Thank you. I appreciate your testimony. You have a unique position because in previous work life you did deal with school districts, as well.

MS. SCHAEFER: I did.

REPRESENTATIVE GROVE: So I do appreciate this. From what I've seen from local governments, there, there's a concern, obviously, on the, the mandates being passed down to, to Harrisburg for, for costing local governments money that they have to unfortunately do as a political subdivision of the Commonwealth as, as they are entitled. It's a huge cost driver for them. I, I won't disagree with that. I definitely think we need to do more for townships, boroughs, school districts, and counties with that fashion, and I appreciate the leadership of those organizations pushing that to the forefront. Obviously, anything we do, we need to do cost containment to, to protect taxpayers at, at all cost. How often have counties – this past budget year, has – how many counties have actually increased their property taxes?

MS. SCHAEFER: Unfortunately, we don't have the data all compiled for that yet. Because counties run on the calendar year, they adopt their budgets in December for the 2012 year, and with the election of our county officials in November when the new commissioners came in, they had the option for thirty days to reopen the budgets and, and reexamine those, so they had until the end of January, so we are still getting the data back on how many did those and what the property tax increases have been.

REPRESENTATIVE GROVE: Yeah. I – now, York County, I can't remember the last time our county commissioners actually increased the tax. I can't even remember the last time my local governments have actually increased a tax. I think that's a significant difference for local governance versus school districts. Local governments, I think they do have less mandates,

but they have a better ability to, to mitigate tax increases by working very hard and diligently not to actually increase taxes. I give them full credit for, for doing that.

MS. SCHAEFER: Thank you.

REPRESENTATIVE GROVE: You know, there's a good weighing of those, those core functions of that government with, with weighing in again with the taxpayers' needs and, and need to try to keep costs and, and tax rates low, so I do, do applaud counties, boroughs, townships for looking that and, and applying to that, so I do appreciate that. I would like, like to actually see how many counties, you know, maybe in the past five years has actually increased taxes throughout the Commonwealth, so appreciate that information.

MS. SCHAEFER: I'll try to look for that.

CHAIRMAN BENNINGHOFF: Thank you very much, Representative Grove, and I'd echo his comments. If you could supply that data to the committee, I'll disperse it to the members. I think that would be very interesting. It's been my experience I've never had anyone call me complain about their county taxes going up, a compliment to your association.

MS. SCHAEFER: The one thing I will note. I do believe we have some of the data that we can provide, but because of things like reassessments and some other things, sometimes that data can be a little misleading, so we'll do our best to break it down and show where those numbers are coming from.

CHAIRMAN BENNINGHOFF: I think Representative Cox has a quick question.

REPRESENTATIVE COX: Yes, some of the comments just sparked a question in my mind, and I think I know the answer, but I want to hear it from, from the expert. Counties currently – do they have a cap on what they can do with their property taxes?

MS. SCHAEFER: No, no.

REPRESENTATIVE COX: They do not. Okay.

MS. SCHAEFER: Except in the year of a reassessment, there are some provisions that prohibit you from raising the increase too far to, to – basically it's a windfall protection.

REPRESENTATIVE COX: Okay, but outside those reassessment parameters, there's really no limit on what they can do on an annual basis.

MS. SCHAEFER: Correct.

REPRESENTATIVE COX: Okay. I know you can't speak individually to each of the counties as far as why they would or would not utilize a, an opportunity to increase the property tax on the local level. Do you anticipate counties – do you anticipate this having any different – this playing out any differently, or is the difference being in the fact that this becomes a, a voter referendum? Right now, county commissioners decide whether to look at the property taxes and increase them or not. Because this is voter-driven, do you anticipate a different outcome, or do you have a sense of that?

MS. SCHAEFER: I don't believe that the voter referendum provision applies to the county increases. It's only to the sales tax option for the school district, so that really doesn't apply to us.

REPRESENTATIVE COX: Okay, and so the county increases. What do you anticipate being the – how does that play out?

MS. SCHAEFER: As far – they, they get to take a vote as far as whether they choose to do the EIT or PIT and shift it under this bill if I understand correctly.

REPRESENTATIVE COX: Right, but do you, do you think you'll see – with, with counties that have declined to increase their property taxes, do you see them going down the road of utilizing a PIT or EIT on the county level?

MS. SCHAEFER: I think there will be some that will, again, as we mentioned, you know – the, the tax base is so diverse across the state that I think there are some that even if they have not raised property taxes would prefer to use a different tax base or to use a different mix of tax bases, and I think that there are some who would possibly prefer to keep it the way it is.

REPRESENTATIVE COX: Okay, thank you.

MS. SCHAEFER: Sure.

CHAIRMAN BENNINGHOFF: Thank you, Representative Cox. So I don't bumble another word, I just want to say, Lisa, thank you very much for testifying here before the House Finance Committee, and your information was very insightful.

MS. SCHAEFER: Thanks for the opportunity.

CHAIRMAN BENNINGHOFF: Don't rush in that data, but when you can get it to us, I will disperse it to the other Members.

MS. SCHAEFER: We'll do that. Thank you.

CHAIRMAN BENNINGHOFF: Thank you. Next --- Elam was a Pennsylvania State Association of Township Supervisors.

MR. HERR: Thank you, Mr. Chairman.

CHAIRMAN BENNINGHOFF: If you're at leisure, you can bring your history and your wisdom.

MR. HERR: First of all, I – you have a copy of my testimony, so I will highlight some points, try to get you a little bit back on time. My name is Elam Herr. I am the Assistant Executive Director for the State Association of Township Supervisors, which represents the 1,455 townships of the second class within Pennsylvania. A little bit of the history. I've been here, I think, since tax reform first was discussed. I remember testifying back in 1983 with some

of the same comments I'm going to make today. Local tax reform, whether it's for the municipalities, including the counties and school districts, must be flexible in its outcome. We are around – I was around when the Governor Casey proposal went through, and in that proposal, there was substantial local tax reform. What happened was because of the referendum local governments lost some taxes. The courts said those portions of the Act were in effect, even though the way the bill or the law was written it said they should only go into effect if the referendum passed, and we got some new additional taxes. We didn't get the new additional taxes, but we did lose some, so our flexibility actually started shrinking.

What you have to keep in mind is that the local government is very similar to the state in that we provide services to the general public that basically the private sector does not provide. We are the ones who are usually looked at as last resorts. I'll give you a good example of that. Years ago when I was growing up, mass transit, bus services, in a lot of the municipalities were run by private enterprise. Over the years, you've seen what happened to that. That has been taken over by local government to provide that service. Matter of fact, at one time, Allegheny County had over thirty-five individual bus companies running. Today, they have one, which is run by the – an authority out there. In the taxes we have to have a proper mix of the taxes to generate sufficient revenues to meet the demands of the community. Again, the tax base must be fair to all citizens and maintain a balance between the residential and business community. One of the things to keep in mind when you get off the property tax is that the business community, except for small business, the only tax that they pay back to the community is the property tax, so if you totally go off a property tax, there's a lot of communities that will not pay anything.

The second thing to keep in mind is there's a number of areas of the state that basically are bedroom communities or second phone – second home communities. Poconos is one area in

particular. Again, a lot of the property is owned by out of state residents. If they do not have a property tax, those communities cannot function.

As I said earlier, we need to be more flexible in the options, and in some of the comments that were made today by the Representatives about having a set statewide one size fits all type of tax is a problem because if you look at townships in Bucks County compared to Juniata County or some other, you will see that there's a great disparity between the types of taxes that are being levied and by the municipality and the demands. This challenge affects all size communities. It also affects all areas of the Commonwealth.

We're asking for a broad-based, long-term solution. We need an optional menu of taxes, not only for municipalities but also looking at what the school districts and the counties have. The property tax – again, it is a viable tax. Nobody likes to pay property taxes, or as I said back in 1983, nobody likes to pay taxes at all, and the best form of taxation is you pay everything. I pay nothing, and if you can write it into the bill that Elam Herr doesn't pay any taxes, I think that would be the best form of taxation you can have. I asked for that in [19]83. I'm asking for it now in 2012, and I probably will not see it in this legislation, either.

One of the things you have to realize if you go to a proper – or a earned income or personal income tax, you will hear that the property tax is unfair to – again, a lot of times it's a senior citizen, but think about it. In just shifting the tax from property to your earned income, you're also affecting another clientele, and that is the young who are just starting out who do not have the resources that is necessary to pay taxes but are going to be put on the spot to pay those taxes, i.e., either it's an earned income or a personal income tax base. Those young people are starting out. They may be starting with a family if they are employed, which you hope they are.

Their salary is going to be low, but yet they're still going to have demands on their income tax and then also potentially if there is also a sales tax included.

PSATS does oppose the elimination of the property tax. Again, I've already explained why that is. I just want to make it clear that we feel it is a viable portion of the mix of taxes.

CHAIRMAN BENNINGHOFF: Mr. Herr, just for clarification. Are you saying elimination or total elimination?

MR. HERR: Total elimination. Excuse me.

CHAIRMAN BENNINGHOFF: Okay. Thank you.

MR. HERR: Reduction, we have supported in the past in different types of, of testimony, but to totally reduce the property tax by making it such that municipalities, school districts that cannot rely on it depending on their demographics would be taking us even a step back further than what we have from the [19]87 law.

Just so you know, also in the past in this bill discusses the county sales tax. Our association, along with CCAP and the other associations, worked for a countywide sales tax, but there was a difference. That money was to come back to the counties and the municipalities to provide the services that we need – were needed. This bill would then instead put those taxes to the school districts.

One other thing you should also take in mind with this proposal that's before us. Right now, property tax is shared by three different taxing entities, the municipalities, the counties, and the school districts. This proposal talks about having the earned income tax or the personal income tax that's shared by those same three entities. That, in itself, could be an issue that needs to be addressed. What we are doing is just shifting the burden from one taxing entity to another – or shifting the burden from one taxpayer to another taxpayer. With that being said, I want to

also make it very clear that we do support allowing municipalities to have the option of the earned income tax and also the personal income tax. We also feel that the sharing provision that's presently in Act 511 should be eliminated and let the municipalities and the school districts stand on their own in levying what the tax base is, and the reason I say that is numerous times you will hear where the tax is shared at a half percent for the school districts, half percent for the municipalities. An example is my own school district municipality. Years ago, my township did not levy an earned income tax. When the school district started levying it, those municipalities within the school district were paying half to the school district, half to the municipality. My township decided why should they be paying the full amount to the school district and not receiving anything? They implemented it. Again, it gets back to some of the comments Representative Boyd was making from a state level perspective.

We have several suggestions on this legislation when you're looking at it. The dollar for dollar reduction we feel should be made first through the Homestead and the Farmstead provisions. That would get at some of the issues I mentioned about the difference between residence and business. The earned income tax or the personal income tax, the flexibility that shift municipality that goes to those. First of all, it should not be just a total shift for – to offset property taxes, but that shift needs to be set so that municipalities do have growth with those taxes so that they can provide the services.

And then the last thing I want to mention on this is the lack of flexibility. Again, I mentioned that earlier in the testimony of what we stated in the years past, but the reason for that problem with the flexibility is not all municipalities in the state are the same. Yes, we follow the same laws. We provide basically the same services, but there are different perspectives in those municipalities. The bedroom communities versus the communities where there's a large

industrial makeup have different obligations, have different responsibilities, so with that being said, what we want to say is the property tax is a stable form of taxation. During this economic downturn that we're having, municipalities are still receiving their revenues to provide the services. Statement that was made a couple of minutes ago before I came up about municipalities and counties raising taxes. None of our members like to raise taxes. You don't like to raise taxes, but if there isn't a stable form of taxation when you have the, the bumps in the economic system, then you're going to have to raise taxes at the wrong time. Taxes should not be raised when the economy is down, but just like everybody else, municipalities have to provide their services.

Finally, in closing, one of the things that is not addressed in this legislation that needs to be addressed that would help in the overall tax picture is mandates. Every one of us, counties, school districts, municipalities have mandates, unfunded mandates, I hate to say it. A lot of times what the state will do. The Federal government also does it to us is pass the mandates down to us. They will say, or you will say, "Well, you had the taxes to raise in order to provide those mandates." That's really not a solution. If you're going to give us mandates, you should also provide the funding for those mandates, otherwise what should be done is mandates should be looked at. Those that are on the books that are no longer needed should be removed, and before a mandate is sent back to local government and political subdivisions, it should be carefully analyzed to see if the cost really justifies what the means are.

With that, Mr. Chairman, attempt to answer any questions that the committee may have, either today, or since a lot of the Members have left, I'm always available for answers.

CHAIRMAN BENNINGHOFF: Thank you, Elam, and you are correct. You are very readily available. Representative Growth, Grove. Oxymoron. Representative Grove, who has a lot of growth in his district, would like to ask a question.

REPRESENTATIVE GROVE: Growth funding formula, Mr. Chairman. I like it. Thank you, Mr. Chairman. Elam, thank you so much for your testimony. Always appreciate the, the input of our hardworking township officials. Want to hit one thing before I get into questions. The Homestead and Farmstead provision you said, you know, start with that. The issue is with Homestead Farmstead and using income tax. Income taxes touch small businesses, so if you start taxing small businesses and only providing the re – the relief to residential, you now have a business tax, so not only are you maintaining the property tax for them, but you're giving them another tax on top of it. In doing this, trying to create tax fairness. If you pay in, you should get a reduction. That has always been one of the lynchpins with the Homestead Farmstead aspect. If you could design an income tax that just touches homeowners, I think you can do the Homestead Farmstead. Obviously PIT and EIT are the two that we touch, so it, it's tough to, to dive into that, and that's why I really didn't touch Homestead Farmstead provisions in that. While the mandate relief ongoing, hopefully we can get some prevailing wage relief to you at some point during this session. Want to go back to earned income tax. How important has earned income tax been to local township officials? Because obviously, it grows with inflation. How important has that been in, in the mix of, of maintaining local budgets?

MR. HERR: You will have seen in the past that the income tax has succeeded, exceeded the rate that the property tax has brought in over the years in a majority of the cases. Where the exception comes into play is during this economic downturn where we have seen a decrease in the earned income tax revenues. We saw it in the early part of the 2000's. Same thing. It

decreases. Property taxes basically stay stable. The earned income tax normally goes up, but the earn – yeah, excuse me. The earned income tax, as well as the prop – personal income tax does fluctuate as the economy fluctuates.

REPRESENTATIVE GROVE: And unfortunately, it's either direction up and down

MR. HERR: Right.

REPRESENTATIVE GROVE: And one other just a clarification. In this legislation, the way, way we try to interpret it is you wouldn't have to share that with any other local government. You would be on your own determining your own rates, so you kind of get the flexibility of, of each political entity to determine their own rates without having to share it. You know, school districts do x percent, locks you into a lower percent. That's not the case here, so we'd be more than happy to go back and, and look at that language and ensure that.

MR. HERR: The only reason we brought that up is because of the present sharing is how that equates out into if this would move forward, and we just have always had a policy position to do away with the sharing. Let everyone have to enact it act on its own. Just your quick comment on your Homestead and Farmstead. When that legislation was looked at a number of years ago, local government suggested that small business also be treated the same as residents and get the exemption for the Homestead provisions. Again, if that is taken into consideration, they would get the benefit of the Homestead compared to the large industries that are out there, businesses. Thank you.

REPRESENTATIVE GROVE: Thank you.

CHAIRMAN BENNINGHOFF: Thank you, Representative Grove. Representative Boyd, then Representative Cox.

REPRESENTATIVE BOYD: Just real quickly. One of the things I just wanted to comment on, Elam, thank you for your testimony is is I understand the principle that the property tax is stable, and so in an economic downturn, you like it. To, to Representative Grove's point that the earned income tax is incrementally gone up and has been a greater percentage of the budgets, except for the downturn. I want to, I want to just give you a different way of thinking about that is is that in an economic downturn, government should spend less just like families spend less, so there's actually some merit to saying, "Guess what, guys in government? Today, because your neighbors have turned the faucet back, you're going to have to turn the faucet back, too." There's sort of a built-in assumption within your premise that governments should be exempt from the problems of economic downturns, and I, I just don't want to let that sort of be out there on autopilot. I don't think you think that, but it kind of subtly came across. I just want to clarify, and for the record, I believe your Representative from the 41<sup>st</sup> Legislative District is going to introduce the Herr amendment.

MR. HERR: Okay. Appreciate that.

REPRESENTATIVE BOYD: That will exempt all Herrs from any taxes, and for the record, I'm married to a Herr, so I'm really looking forward to that.

MR. HERR: Last name.

REPRESENTATIVE BOYD: I will become Boyd-Herr.

MR. HERR: Just to respond, realize that in this present economic downturn is a good example where municipalities have at least held the line on services and cost if not in some cases actually cut some services, but again, just to state, we have some fixed costs that we have no control over, and we still have to pay those, those bills, and as you and I have discussed in other hearings, pension, just to name one, is a cost that we have a, a major obligation for, and everyone

who is entitled to a pension deserves to have a fully-funded pension. That's one – I could go on for the whole list, but you and I already have discussed those issues.

CHAIRMAN BENNINGHOFF: Representative Bird-Hoy. Boy, I got that mixed up. I'm just going to stay on script. Representative Cox. I am tongue-tangled today, let me tell you. Representative Cox.

REPRESENTATIVE COX: Thank you, Mr. Chairman. Thank you, Mr. Herr, for your testimony. I'm going to follow up a little bit on the stability comment that Representative Boyd brought up. Can I ask – to your knowledge on the municipal or even the county level, what happens when individuals do not pay a local PIT or EIT? What, what recourse does a municipality have to get that funding?

MR. HERR: Act 511 has a set procedure in it. Right now, we don't have the PIT, so it's just your EIT. There's a procedure set in there where the municipality ends up bringing action against the property own – or the, the wage-earner of the earned income tax and going after their funds, basically putting a – like, a little lien on their, on their pay to get it, but it has to go through a procedure. You have to go through the local courts.

REPRESENTATIVE COX: Okay, and is that, is that a garnishment of wages, or is that...?

MR. HERR: Basically a garnishment.

REPRESENTATIVE COX: Okay, so they can ultimately take it off the top of the pay if the proceeding goes far enough down the line.

MR. HERR: Correct.

REPRESENTATIVE COX: Likewise with the county or local property taxes, I'm assuming there's a similar mechanism?

MR. HERR: What happens there is you put a lien on the property, and the taxes just stay in advance until that property is sold.

REPRESENTATIVE COX: Okay.

MR. HERR: Or the property ends up going into a sheriff's sale, of which case, then, you know, that's the worst case scenario because theoretically, if it goes into the sheriff's sale, the home can be sold out from under you.

REPRESENTATIVE COX: Okay. And right there that highlights the severity of the property tax system that we have in place. The reason – one of the reasons I believe the property tax in particular, the school property tax is so stable is because of that severe threat. When you run the risk of losing your own home, you will go to no – you know, you'll borrow money. You'll beg, borrow, steal. You'll put your home into a reverse mortgage to keep your home, and that is the biggest problem that taxpayers in Pennsylvania face. I believe it is a – it's wrong of government to exercise that authority to ever have the ability to remove someone from their home, and so that is why I am so passionate about the full elimination, and I do feel it should be a broader base. But I heard several people talk about the stability, and I get tired of hearing about stability when it's not stability. It's a threat. I can say that, you know, my, my children that I have great confidence in their, their obedience, but there is a threat of punishment, and they know it when they disobey me. This is taking it up a, up a notch, and you're, you're talking about taking something away from people who have earned the money to pay for the home, and they've, they've many times nowadays have paid off their homes. But now they run the risk of losing that very home, and that's wrong, and so I think we need to rethink stability and what it really means to our taxpayers. We're not just talking about keeping, you know, things reasonable, making sure they have services. I think people would, would go without having

their, their trash picked up twice a week or whatever. I know my township made some changes with the economy. People would do without those services if it ultimately meant they could stay in their home, so I'd, I'd love for the – for PSATS to reconsider its position on the, the overall elimination of, of school property taxes. In addition, if you look at the amount of income. You've talked about the, the young income earner and how they might be some of the greatest impacted by a, a statewide elimination. Just doing some simple math, you have somebody who earns \$40,000 a year, and we talk about putting roughly a 1 percent bump on their, their income. That goes up \$400. If we eliminate their school property taxes, which are going to be more than \$400, they are already in a winning category. Now, assuming they have to pay additional sales tax on other items, we also – let's say we bump it up, and they, they pay an additional \$400 in items that were not previously taxed. They now have an \$800 income tax and sales tax load under a statewide approach, but they've gotten rid of whatever their property tax load was. I don't see how that individual or most individuals end up on the losing side of things unless they are a renter with no hopes of ever owning a home, and to my knowledge, the American dream does not consist of renting. I don't think that's changed yet. My children don't talk about getting out of the house and, you know, renting for the rest of their lives, so it's – I'd really love for you guys to, to rethink your position and put it back in front of your, your members for full consideration of the ramifications of a statewide approach as opposed to, to a more localized approach. Thank you.

MR. HERR: Just a couple comments, and one in response earlier, again, to Representative Grove had stated is that in a majority of cases you will not hear about the property tax for a township or, or the county as being excessive, and it is the school districts. And I hear that from our own members because, again, when all three entities are levying the

same tax on an individual, everybody looks at it cumulatively. The second thing is when you look at this legislation, though, it also allows the earned income tax to go up or personal income tax to go up 2 percent. Again, across the board on all three entities. That's what we're saying is having the flexibility that you can tailor the taxes, and again, I'm not speaking on behalf of the school districts in this case. I'm looking at it from the side of the municipalities of where we're coming from in that we should have some ability to in those cases where the property tax is more viable. In the Pocono areas where you're really getting at the second home individuals compared to, like, in my township. My township – I pay about \$600 to my, my township. I pay about \$900 to my county, and I pay about \$3,400 to my school district. You can see where the two issues are. My township provides me with a number of services that I am thankful for because I have a township that provides everything from police to planning to recreation. The county provides me with a lot of services I don't want to use. The courts, the prisons, and those kind of things. The school district provides an educational basis for, you know, the kids that are going through – my children have already gone through and are out of the system. It still benefits society to have a good educational – educated student body, but with that being said, I think we also have to look at what are the parameters that all of us are working under. And if we don't get at some of the issues of the mandates that are there, or, as Representative Boyd has talked about, pensions and those kind of cost. All you're going to see is whether it's on a property tax or an income tax cost going up, and somebody's going to have to pay for it. So somewhere along the line, we have to look at more than just the solution of how the taxes come in, but why do we need that? And I think you and I are on the same wavelength on that. It's just how we get there. I appreciate your comments, though. Thank you.

REPRESENTATIVE COX: Thank you.

CHAIRMAN BENNINGHOFF: Thank you, Representative Cox, Elam, for your testimony. I have a question I'll catch you with later on.

MR. HERR: Okay.

CHAIRMAN BENNINGHOFF: And we do appreciate you taking the time to testify today. Our last testifier today will be Kevin Shivers in one of his members of his businessmen across Pennsylvania for the National Federation of Independent Businesses. Kevin, if you would make introductions and whoever chooses to testify, we look forward to hearing your comments.

KEVIN SHIVERS: Thank you, Mr. Chairman, and I appreciate your indulgence in allowing me to keep that blank. I'm delighted that, you know, despite the fact that it's tax season, I was able to find one of my members who's involved in that and was able to pull him out of his cave and be able to be here with us and talk about questions relating to tax policy in Pennsylvania. I'd like to introduce Warren Hudak, who is a – owns a payroll service and a tax preparation service and, and primarily works with small and independent businesses, not only in Pennsylvania but also does work in other states.

In the interest of time, I will not read my testimony, but I will highlight the key points. I represent 14,000 small and independent businesses. Our members typically have 5 or fewer workers and gross sales of about \$400,000 a year, and the take home salaries of many of the members that I represent, on average, is about \$50,000 a year, so these are the smallest of the small businesses. We do have some larger independent businesses, as well. You know, the issue of, of property taxes and local taxes is an important one, and we appreciate the opportunity to testify before you.

You know, many of my members pay a significant contribution to their local tax base, and that's through local property taxes for not only their personal property but their business also

through local nuisance taxes and local income taxes, and the administration of our tax system is a significant problem. Recently, the Committee on State Taxation ranked Pennsylvania – the administration of Pennsylvania’s property tax system as the second-worst in the nation, and I think our members certainly would agree to that, but it’s more than just the administration of the property tax that’s a problem.

Tax compliance in so many other areas has become increasingly more complex and confusing in recent years, particularly compliance with Pennsylvania’s local services tax, which obv – is also known as the LST, as well as the cumbersome, complex, and confusing system that’s now in place to collect local earned income taxes under Act 32. And the whole point of that effort, as we all remember, was to reduce the sheer number of taxing jurisdictions and tax collectors, but what has happened is that the, the system that has been established to replace the old tax collector system is a myriad of different entities that are collecting taxes and, and using different standards. You could have a single business who may have employees in multiple jurisdictions who are subject to multiple different collecting agencies using multiple different rules to collect and remit those, those taxes, so tax complexity is the fifth most pressing problem facing small businesses today.

And if you’re thinking about the cost of, of paperwork, tax paperwork is the most expensive form of paperwork for a small business, and the average that’s spent about \$74 an hour in doing tax preparation and also with dealing with the compliance costs associated with it. In looking at the legislation, our members had a couple of observations and, and recommendations.

And we certainly applaud the bill’s sponsor and members of the committee who are interested in reducing school and local governments’ reliance on property taxes, but we’re

concerned that the new taxing authority that's granted to local governments and schools under this legislation could make an already complex compliance system even worse and further exacerbate our noncompetitive environment here in Pennsylvania for business. We would recommend that the committee consider amending this legislation and develop a single standard collection system and method for all of these local taxes, local service taxes, earned income taxes, local personal tax – income taxes, and we believe that that change should address much of the confusion and compliance headaches that small business owners have who are just trying to follow the law.

Another key concern is that, you know, the intent of this legislation is to provide a path for local governments and schools to transition from their dependence on property taxes, and we certainly do applaud that, but we are concerned that it does not address the proliferation of spending increases at the local level in, in – also in school districts, as well, and that we would be – you know, we would encourage the committee to consider an amendment to require local referenda for increases in those areas as well. Simply giving bus – you know, giving these local governments new avenues to collect revenue doesn't address the real problem, and that is why are we spending the money in the first place? So we would encourage an amendment, a., to allow the, the – you know, to use local referenda to adopt those other taxing options but also to, you know, require these local units of government to justify their reasons for raising taxes in, in subsequent years.

The third key point that we wanted to make is relating to the sales tax, the optional sales tax, and it's an observation to point out to you that imposing local sales taxes do affect purchasing patterns, and particularly, when you're looking at this recession, the challenges that we have is that people are just not going out and buying stuff and so certainly when you're

raising sales taxes, you can create inefficiencies where, you know, businesses in some communities are, are going to be put at a disadvantage to those that don't have a tax in place. Also, too, I think it's important to note the administrative complexities that are going to be associated for a business, and, you know, trying to figure out where those taxes are due, and again, you're just adding to the complexity of trying to follow the law.

And then finally, I think, you know, it's important to note that, you know, one cannot have a real thoughtful and complete conversation about property tax reform, which without addressing the need for prevailing wage reform in Pennsylvania. And local governments have said that the cost of prevailing wages has preventing them from being able to provide efficient services in a cost-efficient manner to their taxpayers, and we certainly would agree, and we do stand in solidarity with our local government, county, township, municipal, and school district officials in support of legislation to help reform that. And would just point out, and I'm sure the members of the committee are aware, that House Bill 1329 stands before the House right now, which would raise the threshold for those kinds of projects. I mean, some municipalities are reporting that they can't even replace the guide rails in their local park because the \$25,000 threshold is far exceeded, and you know, those projects are now 20 percent more expensive because of these prevailing wage mandates, so with that, I wanted to thank you for allowing us the opportunity to participate today and to provide testimony, and I'm going to turn it over to Warren, who can provide a real world practitioner's perception of our tax code and, and this legislation.

MR. HUDAK: I've been wanting to do this for a really long time, and I'm going to take the opportunity. I've got two tax books here. One is from one of our northeast states who by far out taxes us, but this is how they do it. This is the Pennsylvania tax book, three times the size.

It's incredible. I don't think this bill or any of the reform bills that we've seen will do anything to decrease the size of this book and the complexity of this.

Along with the actual amount of money that you bring in from the taxpayer, there are other costs associated, distortion costs. Kevin, Kevin mentioned that. That's behavioral. How, how do we change how people spend their money, whether it be over the internet to avoid the 6 percent sales tax or maybe one of our competing states? You have the compliance costs, which we touched upon. That's the withholding of the tax. Now, moving to a PIT tax presents a particular challenge because now you have a lot of low-wage earners who are going to have a tax bill where they haven't withheld the money, so now at the end of the year, they calculate their tax. Maybe, under this scenario, three different ways. On the county level, the municipality level, and the school district, which might have a combination of EIT and PIT. For the PIT, those government uses decided to do a PIT. Now this low-wage earner has a tax bill they, they weren't – they didn't plan on. It wasn't withheld in their wages.

Now, all of a sudden, we get into the last part, which is the compliance part of this. The compliance part, it ends up on the employer to do garnishments, and in preparation for this, I looked over some of our garnishments. We have one employee who's – for their – one of the taxes that they didn't pay was the – I forget which one. It might be an EIT tax they owe the municipality for. We're, we're garnishing four dollars and eight cents a pay. Four pays a month at sixteen dollars at two percent vendor allowance doesn't even cost – cover the costs of the stamp, and the post office is increasing the cost of the stamp now, so we're already in the hole just for purchasing the stamp. That doesn't include the cost of the paper, writing and printing and monitoring the, the garnishment, so at the end of every month, we're already fourteen cents in the hole just putting the stamp on the envelope. A given employer could have five, maybe six

different municipalities that they're doing garnishments for because these employees aren't all from the same jurisdiction, so they're all from multiple jurisdictions, so now we're multiplying this compliance costs to the employer.

It becomes very troubling in the end to think that we're going to expand this to even the possibility of more taxing entities, so now, now all of a sudden instead of maybe four – typical employer, we have – the employer that I mentioned has four garnishments coming out, ten employees. Now, all of a sudden, these – typically these employees have more than one tax bill they haven't paid, so now, all of a sudden, we multiplied it by three different jurisdictions. Now, does that mean we have to write twelve checks and monitor this twelve different ways and cut it up twelve different ways at the end of every month? We're also seeing another troubling trend. Difficult times, people are intentionally not paying their tax bill, knowing that the following year that the employee – their employer will be garnishing their wages. They're saying, "We'll take the penalty. We'll allow the employer next year to start garnishing it," further shifting the spurt of a tax collection to the employer, particularly troubling to the small employer.

CHAIRMAN BENNINGHOFF: Much is making my mind spin on the complications of all this. Questions? Representative Grove. Did you – go ahead.

REPRESENTATIVE GROVE: Appreciate your testimony. Again, I'll hit with mandate relief as a, a core function in all of these discussions with local governments. Kind of going through your, your assessment. Obviously, and I don't know when it was, we enacted Act 32 to, to try to bring all those tax – instead of paying to – directly to the tax collector, try to bring them up more of a regional tax collection system, should have been done at the state level versus at the local level. I mean, would that be more effective way for tax collection for, for local businesses?

MR. HUDAK: There's absolutely no question about that, and Act 32 certainly didn't go far enough, and the perfect example is the LST tax, for instance. There's no stark reminder that last week we received from one particular county – businesses in one particular county, we received LST vouchers from a completely different taxing bureau than where we're remitting the EIT, and I know that we received two weeks prior to that vouchers for people in that same county for yet another LST collector, so literally, we have – you know, where, maybe, last year, that, that – those employers I know for a fact were remitting both the LST and the EIT to one taxing authority. After Act 32, now, they're, they're remitting the LST to one taxing bureau and the EIT to a different taxing bureau. When, when we have reconciliation issues now instead of one call and working it out in one place, now we have two calls.

REPRESENTATIVE GROVE: Okay, that's all the questions I have. Appreciate the testimony.

CHAIRMAN BENNINGHOFF: I just had one quick question. You had showed an example two different books. Have you seen other states who have a tax code book any larger than Pennsylvania's?

MR. HUDAK: I haven't. I'm limited to the northeast, and now that they're – these are old books, actually. They're 2000, 2005. We've, we've long since gone electronic. These books are obviously larger, but they are representative of, of today. We just have the electronic disc version.

CHAIRMAN BENNINGHOFF: And I'd be optimistic to think they got smaller since then.

MR. SHIVERS: Representative, Warren and I were talking earlier, and he mentioned that the size of the tax code book there for Pennsylvania's actually larger than the Federal Stimulus Law, so just something to kind of put that in perspective.

CHAIRMAN BENNINGHOFF: I like to try to end these meetings on a positive note, so I want to thank everyone watching and everyone participating today for the testimony, and for committee members, we have a meeting tomorrow at 10:30. This meeting is adjourned. Thank you.

Meeting is adjourned.

(Whereupon, the meeting adjourned at 12:16 p.m.)

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