

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

STATE CAPITOL
HARRISBURG, PA

IRVIS OFFICE BUILDING
ROOM G-50

MONDAY, MAY 21, 2012
9:07 A.M.

PRESENTATION ON HB 1776
ELIMINATION OF SCHOOL PROPERTY TAXES

BEFORE:

HONORABLE KERRY A. BENNINGHOFF, MAJORITY CHAIRMAN
HONORABLE RYAN P. AUMENT
HONORABLE SCOTT W. BOYD
HONORABLE JIM COX
HONORABLE GORDON DENLINGER
HONORABLE GEORGE DUNBAR
HONORABLE ELI EVANKOVICH
HONORABLE C. ADAM HARRIS
HONORABLE FRED KELLER
HONORABLE DUANE MILNE
HONORABLE KATHY L. RAPP
HONORABLE MARIO M. SCAVELLO
HONORABLE PHYLLIS MUNDY, DEMOCRATIC CHAIRMAN
HONORABLE KEVIN J. BOYLE
HONORABLE TIM BRIGGS
HONORABLE MARGO L. DAVIDSON
HONORABLE MADELEINE DEAN
HONORABLE FLORINDO J. FABRIZIO
HONORABLE SID MICHAELS KAVULICH

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*Pennsylvania House of Representatives
Commonwealth of Pennsylvania*

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ALSO IN ATTENDANCE:

- HONORABLE STEPHEN BLOOM
- HONORABLE THOMAS R. CALTAGIRONE
- HONORABLE TINA M. DAVIS
- HONORABLE SHERYL M. DELOZIER
- HONORABLE MARK M. GILLEN
- HONORABLE SETH M. GROVE
- HONORABLE THOMAS J. QUIGLEY
- HONORABLE RICK SACCONI
- HONORABLE MARCY TOEPEL
- HONORABLE DAN TRUITT
- HONORABLE RANDY VULAKOVICH

COMMITTEE STAFF PRESENT:

- TAMARA LYNN FOX
MAJORITY EXECUTIVE DIRECTOR

- CHARLES W. QUINNAN
DEMOCRATIC EXECUTIVE DIRECTOR

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SUBMITTED WRITTEN TESTIMONY

* * *

LISA SCHAEFER
GOVERNMENT RELATIONS MANAGER,
COUNTY COMMISSIONERS ASSOCIATION OF PA

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P R O C E E D I N G S

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3 MAJORITY CHAIRMAN BENNINGHOFF: Out of respect for
4 your time and everyone else's, I'd like to get started. Before
5 we do, I'd remind people this is being videotaped, so please
6 turn off cell phones or any other electronic devices like that
7 so that they are not interrupted.

8 Those who have come to testify, please make sure
9 your microphone has a green light on. There's generally a
10 button, either on the pad or on the stem, and if we can't hear
11 you, we'll let you know, and we're looking forward to people's
12 comments.

13 I am going to take a moment to introduce
14 Madeleine Dean, our newest Member to the Finance Committee, and
15 actually, probably the newest Member to the House of
16 Representatives. Madeleine, if you want to wave or say hello.
17 She comes out of Montgomery County.

18 And then I'm going to start to my far left with
19 Representative Fabrizio. If you just want to say who you are
20 and where you represent.

21 REPRESENTATIVE FABRIZIO: Flo Fabrizio, Erie County.

22 REPRESENTATIVE SCAVELLO: Mario Scavello, Monroe
23 County.

24 REPRESENTATIVE DAVIDSON: Margo Davidson, Delaware
25 County.

1 MINORITY CHAIRMAN MUNDY: Phyllis Mundy, Luzerne
2 County.

3 MAJORITY CHAIRMAN BENNINGHOFF: Kerry Benninghoff,
4 Centre and Mifflin Counties.

5 And my Executive Director, Tammy Fox.

6 MINORITY CHAIRMAN MUNDY: My Executive Director,
7 Chuck Quinnan.

8 REPRESENTATIVE RAPP: Kathy Rapp, Warren, Forest,
9 and McKean Counties.

10 REPRESENTATIVE COX: Jim Cox, Berks County.

11 REPRESENTATIVE BOYLE: Kevin Boyle, Philadelphia.

12 MAJORITY CHAIRMAN BENNINGHOFF: Your first time on
13 tape, young lady.

14 REPRESENTATIVE DEAN: Oh, thank you. Madeleine
15 Dean, Montgomery County.

16 MAJORITY CHAIRMAN BENNINGHOFF: Welcome aboard.

17 REPRESENTATIVE DEAN: Thank you.

18 REPRESENTATIVE KELLER: Fred Keller, Union and
19 Snyder Counties.

20 REPRESENTATIVE EVANKOVICH: Eli Evankovich, parts of
21 Westmoreland and Armstrong Counties.

22 REPRESENTATIVE DUNBAR: George Dunbar, Westmoreland
23 County.

24 REPRESENTATIVE DENLINGER: Gordon Denlinger,
25 Lancaster County.

1 REPRESENTATIVE BOYD: Scott Boyd, Lancaster County.

2 MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

3 Members probably will be coming and going. Please
4 don't be alarmed, there are conflicting other issues going on,
5 but we will do our best.

6 We are here to discuss HB 1776, another proposal and
7 issue to the ever challenging school property tax and overall
8 school funding matter which has plagued the General Assembly
9 for probably two or three decades.

10 It's estimated that Pennsylvania's 501 school
11 districts generate us about \$13 billion a year in residential
12 and commercial property taxes. To throw a little figures out
13 there for us, to put this figure in perspective, both the
14 Pennsylvania sales tax and personal income tax generated about
15 \$10 billion each during the previous fiscal year.

16 Over the past 10 years, school property taxes
17 outpaced increases in education funding. Total State funding
18 in Pennsylvania schools has increased \$3.65 billion, which is
19 about 66 percent overall. From 1998 to 2008-09, in comparison,
20 school property taxes have increased \$4.77 billion, which is a
21 77-percent increase during that same time period.

22 So what does that mean? For every dollar in new
23 State funding, local schools have increased property taxes
24 \$1.33, thus our challenge continues to not only be a revenue
25 issue but that of an issue of spending.

1 Even with the increases in property tax revenue and
2 State funding, school districts continue to have to borrow, and
3 in some cases, were borrowing at alarming rates. According to
4 the Pennsylvania Department of Education, Pennsylvania school
5 districts owed about \$19.4 billion in 2002 in debt, and the
6 closest figure we have in 2010 shows that figure to be about
7 \$26.6 billion, which is also a 38-percent increase. So the
8 challenge of just coming up with a quick formula to replace
9 property taxes and/or any school funding is not very simple.

10 Now, I'm not here to go on and on. We do have the
11 author of the bill here. I encourage those who are testifying
12 to give us your presentation as succinctly as possible, because
13 we'd like to also be able to ask some questions. And I will be
14 hosting a secondary hearing, just because we couldn't get
15 everybody here in a timely fashion today.

16 Without further ado, I will ask Representative Cox
17 to take the desk in front of us.

18 In the interim, I want to introduce Representative
19 Ryan Aument, and you're also out of Lancaster, correct?

20 And then we will turn the microphone over to
21 Chairwoman Mundy for some introductory comments, and then
22 Representative Cox can proceed after that.

23 MINORITY CHAIRMAN MUNDY: Thank you, Mr. Chairman.

24 My experience with this issue began as a private
25 citizen with the League of Women Voters back in 1988. At that

1 time, there had been a very comprehensive property tax reform
2 proposal that passed the Legislature and required a referendum,
3 a statewide referendum. It would have increased the PIT in
4 order to reduce property taxes. Seventy-five percent of
5 Pennsylvania's voters voted to defeat the referendum.

6 Back in 1998 we had another bite at the apple, that
7 Act 50 of 1998 offered school districts the opportunity via
8 referendum to shift from property taxes toward an EIT, an
9 earned income tax. Voters in 4 of the 501 school districts at
10 that time approved it and the rest rejected it. That was at
11 the local level, a local referendum.

12 And then in 2006, Act 1 offered school districts the
13 opportunity via referendum to increase or implement their
14 earned income tax or PIT, personal income tax, to reduce
15 property taxes. Voters in only 9 of the 498 school districts
16 that put it on the ballot approved it. Voters in all of my
17 four school districts voted against it.

18 So we have tried many times over the years to
19 address this burdensome property tax issue. I think the
20 enormous problem that we face is the diversity of Pennsylvania.
21 We have urban, rural, and suburban school districts with
22 different funding problems, and I'm sure we'll hear more about
23 that during the course of the hearing.

24 But I want to commend those -- Seth Grove had a bill
25 before us recently; Representative Cox, I know, has worked,

1 along with Representative Sam Rohrer, in the past; and many,
2 many others, Democrats and Republicans, have offered possible
3 solutions to the property tax problem.

4 Obviously when the problem proved intractable, we
5 went to gaming as a source of new revenue that would not
6 require an increase in taxes except for the gaming industry,
7 and that has proven mildly successful in helping our most
8 at-risk seniors through the Property Tax/Rent Rebate Program
9 and has provided very modest relief on individual property tax
10 bills.

11 But today we look at another attempt to make the
12 shift from property to income and sales taxes. I commend
13 Representative Cox and all those who worked on this bill for
14 their efforts and hope that we can find a reasonable solution
15 to this very intractable problem.

16 Thank you, Mr. Chairman.

17 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
18 Chairwoman Mundy.

19 Representative Cox, this is the day you've been
20 waiting for. And I, too, commend Seth Grove and Dave Maloney
21 and some other Members who have tried to do some other things,
22 and I think it's nice to have an option with multiple different
23 plans on the table.

24 So we're looking forward to your presentation.
25 Representative Cox, you have the floor.

1 REPRESENTATIVE COX: Thank you, Mr. Chairman.

2 The idea behind HB 1776 is not a new one. As
3 Chairman Mundy pointed out, this is an idea that Representative
4 Sam Rohrer advocated for continually during his time here in
5 the House, and it's something that the public has come to know
6 through various different names. Whether it's the Commonwealth
7 Caucus Plan or what have you, there are various other versions
8 of this that have been talked about in the past.

9 So what I'd like to do is start of with kind of the
10 overview of what this plan is and then perhaps more importantly
11 what this plan is not, what it does not contain that prior
12 versions did contain.

13 I know a lot of the Members here remember the older
14 discussions. They remember HB 1275 from both of the prior
15 sessions. Others don't know HB 1776 at all. And I'm not sure
16 what our newest Member, what her background is on this
17 particular issue, but I would certainly love to give her an
18 education on it today and any other questions she might have in
19 the future.

20 But by means of giving, again, the broadest brush
21 as I can to this, to boil it down to brass tacks, as they say,
22 I'm going to be following the summary that was provided here,
23 and it's a very thorough summary and it allows me to move
24 through it in a very organized fashion and I think it makes
25 sense.

1 HB 1776 does have the goal of eliminating school
2 property taxes, and it utilizes the personal income tax and the
3 sales tax as the primary sources of its funding.

4 The sales tax would increase from 6 percent to
5 7 percent on the existing goods and services that are currently
6 taxed. The personal income tax would increase about 1 percent,
7 to 4.01 under the proposal, and that would go from, again, 3.07
8 to 4.01. The sales tax would also see an expansion, and by
9 "expansion" I simply mean additional goods and services would
10 be taxed under this approach that are not currently taxed.

11 We also allow local school districts to implement a
12 local PIT and a local EIT on the local level. So we're not
13 pulling away all levels of local funding. Some have thought
14 that that was one of the approaches. We are not pulling away
15 every single option for the local school districts to raise
16 current funding; we're just removing the ability to raise
17 school property taxes.

18 Under the existing wording of HB 1776 -- and I've
19 already had some people approach me about some potential
20 changes -- the Property Tax/Rent Rebate Program would be
21 modified. We change the numbers slightly, and then we had
22 originally planned to eliminate the program in 2013. We're
23 looking at leaving it in place, because even early on I had
24 looked and said, okay, if we're going to eliminate property
25 taxes, we're not going to need property tax/rent rebate. My

1 thinking behind that was, the school property tax is the
2 biggest tax that people face when it comes to property taxes,
3 but some people pointed out to me that there are those who
4 would end up paying school property taxes for the first time if
5 we remove the program altogether. And so for some people we
6 would have an actual substantial property tax increase, and
7 that's not my goal, because county and municipal taxes are also
8 eligible under the property tax/rent rebate.

9 So the language in this bill regarding property
10 tax/rent rebate will probably change substantially and may be
11 removed altogether, but I wanted to point that out, that
12 currently we make some changes to it. And my goal was not to
13 have anybody be hit harder with property taxes, and so it was
14 an oversight on my part, and so I apologize for that.

15 HB 1776 also, as I mentioned, eliminates the school
16 district's authority to impose school property taxes, and we do
17 that beginning on June -- it actually begins on July 1. They
18 would no longer be permitted to impose school property taxes.
19 We would leave with them the authority to cover their debt
20 service.

21 Statewide, debt service is an average of 10 percent
22 of any given school district's budget, and with that
23 10 percent, we essentially leave the school district with
24 roughly 10 percent of their property taxing authority, if that
25 makes sense. And so it allows them to continue to pay their

1 payments on their debt.

2 One of the biggest problems that we had with earlier
3 versions of this bill was that, one of the biggest problems was
4 that people said, you know, why are we taking on the debt of
5 all the school districts around the entire Commonwealth? We're
6 the responsible school districts over here; why do we have to
7 take on the debt of those school districts that didn't do
8 things right? And so in trying to address that, we decided to
9 leave that debt service with the local school districts, allow
10 them, again, to retain the ability to impose property taxes,
11 but only at the level to service their existing debt.

12 The legislation calls for a locking-in of debt. The
13 legislation currently says December 31, 2011, and we
14 essentially take a snapshot: whatever debt they had at that
15 point, that is the debt they can collect property taxes to
16 service. So it is a minimal level. The average around the
17 State, as I mentioned, is 10 percent, which would mean there
18 would be a 90-percent property tax reduction for the vast
19 majority of Pennsylvania school districts.

20 And those property taxes would only be imposed for
21 the remainder of the life of the debt service. If they've got
22 5 years left, then they would have 5 years of property taxes at
23 that significantly reduced level. If they happened to have
24 entered into debt more recently, they would have to pay that
25 10 percent, or whatever percent it would be, for the remainder

1 of the lifespan of that particular debt.

2 Another area that was -- and before I go further,
3 school districts, as it mentions in the summary here, school
4 districts are not going to be allowed to incur any additional
5 debt. I mentioned that.

6 The fund distribution. That was a big question. A
7 lot of people came to me and said, "I like the idea behind the
8 bill; however---" And their concern was, funding as a whole is
9 a controversial subject in the House. When you talk about
10 education funding, you talk to five Members and they'll like
11 the funding formula that we have for the basic education
12 subsidy; you talk to another five and they can't stand it.
13 Some people love hold harmless; some people hate hold harmless.

14 And so as I saw the problem that was going to be,
15 the huge problem that was going to be trying to be discussed in
16 conjunction with this bill, I and some others made the decision
17 that it would probably be best to pull the funding formula out.
18 So what we do, instead of saying that School District X will
19 receive this amount and School District Y will receive this
20 amount, we essentially take the existing school property tax
21 level that they're receiving -- the way the legislation is
22 drafted, the funding they're receiving through school property
23 taxes for the 2012-2013 school year, that will be the snapshot
24 year, if you will, and so the funding will be based on that.
25 The amount of money that goes out to the school district will

1 directly replace that particular amount.

2 The goal was to essentially swap the funding, not
3 create a new funding formula -- not go down a road that would
4 be fraught with all kinds of subliminal discussions and rabbit
5 trails. The goal for this bill is to ask the Members of the
6 House and the Senate, do you want to change the source of
7 funding from school property taxes to two broader based sources
8 across the State, the sales tax and the income tax? I wanted
9 to boil it down and have it to just be about changing that
10 funding source. It's not about, do you like the way we
11 distribute it? And that's why I tried as best as possible to
12 just do an exact swap, to make it as even as possible.

13 By and large, Members seem to be excited about that
14 in that it allows us to have the discussion outside of this
15 bill. Many times in the past, versions of this bill got bogged
16 down with discussions of the formula, and if they saw the
17 spreadsheet and said, you know, they didn't get enough or their
18 district happened to lose X, Y, or Z, that essentially was the
19 death of the bill as people began to look at it and pull it
20 apart for their district.

21 The discussions of what's in the SUT, what will be
22 taxed that's not currently taxed, I'm not going to read them
23 all to you. I figure I would probably put you to sleep with
24 the listing.

25 I do want to point out two of the larger changes.

1 We are taxing services, and you're going to see a lot of those
2 on here today. By and large, our goal with taxing services was
3 essentially to say, businesses, we don't want you to have to
4 increase the cost of doing business. We know Pennsylvania's
5 not particularly business friendly, and so we did not want to
6 further burden businesses. So the goal was to say anytime a
7 business has a transaction, we're going to try to pull those
8 out and say, you don't have to pay sales tax on that. We're
9 trying to treat those the same way that we have the
10 manufacturing exemptions, the agricultural exemptions, that are
11 currently in place.

12 Costs in Pennsylvania are not pyramided under the
13 sales tax approach that we currently have in place. They're
14 not pyramided for businesses in large part due to those two
15 existing exemptions, agricultural and manufacturing exemptions.
16 So we would treat some of these services in a similar fashion.

17 For instance, if a business utilizes an accountant,
18 that would be a nontaxable event. If that same individual who
19 perhaps owned the business, if he went and had his personal
20 taxes done, that would be a taxable event. And so there is a
21 distinction there, because the individual will bear -- the end
22 consumer is the goal. The end consumer would be the one
23 bearing the burden of the sales tax.

24 I want to touch on two of the biggest changes to the
25 good side of things. People ask, oh, you're not taxing food

1 and clothing, are you? And one of the things that you learn
2 early on is that food and clothing are two of the largest items
3 that are not currently taxed in Pennsylvania. And in order to
4 keep this from being regressive, everyone has said, hey, the
5 sales tax is regressive; the poorest people are going to be hit
6 the hardest; they're not going to be able to buy what they
7 normally were able to; their costs are going to go up. So in
8 response to that, I and some others came up with an approach
9 that I think will go a long way to address that.

10 On food, for instance, and I can provide any of you
11 that would like a list. It's available online as well. The
12 Pennsylvania WIC list is a listing of foods that the U.S.
13 Department of Agriculture has worked with our Public Welfare
14 Department to come up with, and it's simply a list of
15 nutritious foods. There are certain parameters that are put in
16 place by the USDA. It's for our participation in the Federal
17 Women, Infants, and Children Program. But what it does is it
18 lays out core nutritious foods -- breads, cereals, milk, eggs,
19 cheeses, it even has soy milk in there, 100-percent fruit
20 juice. Those are just a few of the items. And as I mentioned,
21 there's probably about a 9- or 10-page booklet that we can
22 provide you that lists all of those things. But the idea was
23 to say, if you want to feed your family with these healthy
24 foods, we're not going to tax you, and so the legislation calls
25 for an exemption of WIC foods.

1 Grocery stores currently have this tagged in their
2 system. They know what items are able to be purchased with the
3 Women, Infants, and Children Program. So the goal there was to
4 say, we don't want to incur additional headaches for those who
5 would be administering this, by and large your grocery stores.
6 So if they have an existing list already in their systems --
7 they know what's permissible as far as the Women, Infants, and
8 Children Program -- we will just utilize that and they can just
9 tag that as being nontaxable foods.

10 Other foods, you know, if you want to buy the Lucky
11 Charms that are all -- and I say "Lucky Charms" because that's
12 one of my favorites, incidentally -- but if I want to buy my
13 Lucky Charms, I'm going to be paying sales tax on it. But if I
14 buy Cheerios -- nonsweetened Cheerios, mind you; there's about
15 18 different versions of Cheerios these days -- but if you buy
16 the regular Cheerios, the whole-grain type foods, those will
17 not be taxable.

18 So I think we've gone a long way in that. And I
19 wish I could say it was my idea, but the gentleman who's going
20 to be testifying behind me had a lot of these ideas, and we
21 worked with taxpayer groups around the Commonwealth to come up
22 with ideas that would help solve these types of problems and
23 help address concerns that had been raised in previous versions
24 of the legislation.

25 As I mentioned, clothing is another pretty

1 substantial amount of money that could be garnered if we were
2 to tax all of clothing. But again, in an attempt not to tax
3 the lowest income and not to hurt those who would be
4 potentially hardest hit by a change to the sales tax, we looked
5 at clothing and said, how can we avoid making this problematic
6 for the lowest of incomes? And so we looked at the amounts of
7 money, and we chose \$50 as a starting point. Whether that
8 changes throughout the course of the legislative process, it
9 will be up to you and others like you. But we chose a \$50
10 amount, and that \$50 amount, the reason for that was we wanted
11 to allow people to be able to purchase kind of the basics of
12 clothing without having sales tax imposed on it.

13 There are not too many thrift stores that have items
14 where you can't clothe yourself for \$50 per item. So you could
15 go and purchase a pair of pants, a shirt, socks, underwear,
16 whatever was available at any given -- whether it's a thrift
17 store, whether it's a discount store, you can purchase all of
18 those items. As long as each particular item was under \$50,
19 that would not be taxable. You could buy a thousand dollars in
20 clothing, but as long as each individual item did not surpass
21 the \$50 individual item point, there would not be tax on those
22 transactions.

23 And so those two distinctions in the food and
24 clothing are different than I think any other versions that
25 we've seen in the past that looked at going down the road of

1 taxing food or clothing. Whether it addresses the problem
2 fully enough, we'll find out. But those two are key, and as I
3 said, I'm not going to walk through all of the goods and
4 services that are taxed.

5 I believe I have covered the vast majority of the
6 conceptual approach behind this bill, and at this time I'd
7 welcome any questions.

8 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
9 Representative Cox. I think that was a pretty good thorough
10 overview.

11 Before we go to questions, I did want to note for
12 the listeners in the room and those watching on TV, we are also
13 joined by many other Members who would like to be involved in
14 this process and are not on the committee, and they're in the
15 room: Currently, Representative Bloom, Representative Saccone,
16 Representative Gillen, Representative Toepel, Representative
17 Quigley, and Representative Truitt -- and Representative
18 Tina Davis. So thank you for joining us, and we can provide
19 written material for those Members, too. Even though they
20 don't serve on the committee, we want them to be as informed as
21 possible.

22 All right. Questions?

23 Chairwoman Mundy.

24 MINORITY CHAIRMAN MUNDY: Thank you, Mr. Chairman.

25 I have a ton of questions, but I'm only going to ask

1 a couple and let other Members of the committee follow up.

2 MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

3 MINORITY CHAIRMAN MUNDY: My understanding is that
4 your claim is that you eliminate all school property taxes, but
5 is that reliant of the referendum at the local level?

6 REPRESENTATIVE COX: It is not reliant on the local
7 referendum. The local referendum is a -- this bill would
8 eliminate school property taxes across the board. It takes
9 away the authority to levy any school property taxes, except
10 for the debt service that I mentioned in my comments, but all
11 school property taxes would be eliminated. There's not a swap
12 required on that local level.

13 MINORITY CHAIRMAN MUNDY: Well, let me ask it a
14 different way then.

15 REPRESENTATIVE COX: Sure.

16 MINORITY CHAIRMAN MUNDY: The Chairman referenced
17 \$13 billion statewide in property taxes that are currently
18 levied. Does the increase in the PIT and the EIT -- I'm sorry
19 -- the PIT and the sales tax at the State level, does that
20 amount to \$13 billion?

21 REPRESENTATIVE COX: It's about \$13 billion. The
22 total school district local tax revenues, according to the
23 information I received from our Appropriations, totals
24 \$12,760,000,000 and some change, if you want to put it that
25 way. So it's not quite \$13 billion.

1 But the way we arrive at our numbers is this: The
2 \$12.76 billion, that's a starting point for what we would have
3 to replace if we included local school district debt. But when
4 we looked at the amount of local school district debt that I
5 referenced that we're leaving with the school districts, that
6 amounts to \$2.275 billion. And so it brings us down closer to
7 the \$10 billion that we need to raise with the sales tax, the
8 income tax, and then the expanded sales tax.

9 MINORITY CHAIRMAN MUNDY: Well, wait a minute.
10 You're confusing me, and my question, I think, is pretty
11 simple: What is your revenue estimate, for the PIT and the
12 sales tax at the State level, how much do you believe will be
13 generated by those two items alone at the State level?

14 REPRESENTATIVE COX: Okay. The personal income tax
15 increase going from 3.07 to 4.01 percent is expected to
16 generate almost \$3 1/2 billion. It is \$3.467 billion. The
17 sales tax increase, going from 6 to 7 percent on the existing
18 base, with no changes made, just with everything we're taxing
19 now, is expected to generate about \$1 1/2 billion.

20 MINORITY CHAIRMAN MUNDY: But the bill includes the
21 changes, so you can include the changes in that number.

22 REPRESENTATIVE COX: Well, I was just getting ready
23 to give you the estimated expansion.

24 MINORITY CHAIRMAN MUNDY: Well, give me the total
25 -- the total -- that would go into the replacement of the

1 \$13 billion. You've got \$3 1/2 billion from the PIT. How much
2 from sales?

3 REPRESENTATIVE COX: Sales tax---

4 MINORITY CHAIRMAN MUNDY: Expanded sales.

5 REPRESENTATIVE COX: Expanded sales is another
6 \$4.6 billion.

7 MINORITY CHAIRMAN MUNDY: All right. So you've got,
8 what, \$8---, round figures, \$8 billion. Where do you get the
9 other---

10 REPRESENTATIVE COX: It's actually closer to 9.

11 MINORITY CHAIRMAN MUNDY: Okay. Where do you get
12 the other to make up to the \$13 billion currently being levied
13 in property tax?

14 REPRESENTATIVE COX: Well, as I mentioned, we're not
15 taking up the entire \$13 billion. We're only taking up
16 10-point---

17 MINORITY CHAIRMAN MUNDY: Well, that leaves, that
18 leaves the school districts with billions of dollars in revenue
19 that they've lost that they have no way to make up, right?

20 REPRESENTATIVE COX: No, because we're leaving---

21 MINORITY CHAIRMAN MUNDY: Unless, unless their
22 voters pass a referendum which they---

23 REPRESENTATIVE COX: No, ma'am.

24 MINORITY CHAIRMAN MUNDY: Okay.

25 REPRESENTATIVE COX: Nope.

1 MINORITY CHAIRMAN MUNDY: What am I missing?

2 REPRESENTATIVE COX: The \$2.275 billion that we take
3 off the top, if you start with \$12.75 billion, take 2.275 right
4 off that, right off the bat, and that gets us down to just over
5 \$10 billion. That's the amount of money that we need to raise,
6 that we need to fill, because we're leaving that 2.275, we're
7 leaving that amount with the school district, and they have the
8 school property taxes that they need to collect, just that
9 percentage.

10 MINORITY CHAIRMAN MUNDY: Well, now I'm even more
11 confused, because your claim is that you're eliminating school
12 property taxes.

13 REPRESENTATIVE COX: Over time it will be
14 eliminated, yes, ma'am. Some districts, and I believe there
15 are about 15 school districts, I think it's 15 school
16 districts, that have zero debt service as of right now,
17 according to---

18 MINORITY CHAIRMAN MUNDY: So the residual is---

19 REPRESENTATIVE COX: So those 15 school districts
20 would have zero property taxes upon full implementation of this
21 plan.

22 MINORITY CHAIRMAN MUNDY: So the residual is for
23 debt service.

24 REPRESENTATIVE COX: The residual is only for debt
25 service. Yes, ma'am.

1 MINORITY CHAIRMAN MUNDY: Okay. So--- All right.
2 I don't know how to ask that to get -- I'm going to have to
3 think about your answer and see what I'm missing here. But let
4 me just ask one other question.

5 You are not taxing business-to-business services,
6 but you're eliminating all property taxes for Walmart and
7 Best Buy and industrial and commercial properties?

8 REPRESENTATIVE COX: Commercial properties would
9 receive the same benefit. As you're probably well aware, we
10 have HB 2300, I believe it was, that just went over to the
11 Senate. The goal there would be to allow us constitutionally
12 to address property tax elimination for only homesteads. Under
13 the existing Constitution, though, we're not able to eliminate
14 school property taxes just for homesteads without doing it for
15 commercial properties as well. We can only go up to 50 percent
16 of the median assessed value, and so we're significantly
17 limited.

18 MINORITY CHAIRMAN MUNDY: Do you have any indication
19 that the Senate is going to take up 2300 or that they're going
20 to consider it in conjunction with a bill that would eliminate
21 property taxes?

22 REPRESENTATIVE COX: Like any other bill, I'm taking
23 this one step at a time. I'm just thrilled that the Chairman
24 has allowed us to have a hearing on this and allowed the bill
25 to get some discussion going.

1 So I can't speak as to what the Senate will do.
2 That would be a question for Senator Scarnati and the others.

3 MINORITY CHAIRMAN MUNDY: Well, the biggest problem
4 that I have with your concept is that until 2300 passes, it's
5 an enormous shift from the business community to individual
6 taxpayers, especially low-income working families trying to
7 raise children.

8 REPRESENTATIVE COX: Well, let me address what I
9 think was perhaps a question embedded within a question.

10 Businesses, and I think you're asking me, are
11 businesses going to get off scot-free essentially. And, you
12 know, we're making this huge, lifting this burden off of the
13 businesses and what are they contributing to the community.
14 The approach behind this was that, by and large, about 70 to
15 75 percent -- we hear differing numbers from different groups
16 -- but a significant percentage of businesses pay income tax,
17 not at the corporate net income tax level but at the personal
18 income tax rate of 3.07. And so---

19 MINORITY CHAIRMAN MUNDY: You're talking about
20 Sub S corporations.

21 REPRESENTATIVE COX: Whether it's S corporations,
22 sole proprietorships. You've got significant employment going
23 on around the State that is simply taxed under the 3.07 rate,
24 the personal income tax rate, and so in increasing their rates
25 -- again, 70, 75 percent of businesses pay tax at this level --

1 we're going to be increasing their rates from 3.07 to 4.01. So
2 they are going to be paying. You know, is it something that
3 every business pays in the same way? No, but because of the---

4 MINORITY CHAIRMAN MUNDY: But how about the Walmarts
5 and the Best Buys and the huge multi-State, multinational
6 corporations that have properties in Pennsylvania. Do you have
7 any ballpark number as to what that property tax revenue
8 amounts to?

9 REPRESENTATIVE COX: We don't have the breakdown as
10 far as what Walmart pays versus, you know, the five-and-dime
11 store that's locally owned. We don't have a breakdown on that.
12 We know roughly, the numbers I think we got -- I'm trying to
13 think -- I think it was 65 percent of all properties in
14 Pennsylvania are classified as "residential." That does not
15 necessarily mean they are homesteads. But when you're looking
16 at the overall business taxes, about 35 percent of property
17 taxes are paid by some sort of commercial entity.

18 And as far as saying, you know, well, will Walmart
19 end up paying no property taxes? If they are a property owner,
20 they will not pay property taxes; that is correct. But again,
21 that's 25 to 30 percent of the entire tax load for our school
22 property taxes.

23 And again, we're looking at the statewide issue as
24 well. The goal was to not hit the 70 to 75 percent of
25 businesses who employ a huge number of individuals around the

1 Commonwealth. We didn't want them to have to pay a higher
2 income tax and not receive any benefit for it.

3 The other side of the coin there as well is that
4 when, especially the small businesses, and I can't speak to
5 what the Walmarts and the Best Buys are going to do, but when
6 you have a smaller business, you've got a business that's
7 paying \$25,000, \$30,000, \$40,000 a year in school property
8 taxes, suddenly that money is freed up. I've already talked to
9 a good number of business owners who have said, I have asked
10 them, what would you do with that?

11 MINORITY CHAIRMAN MUNDY: Well, I'd hire more
12 people.

13 REPRESENTATIVE COX: Well, that is one of the things
14 I hear. Some of them said, hey, I'd definitely pocket some
15 more money because I've been going behind; Pennsylvania is a
16 tough business climate. Some say they would hire more. Some
17 say they would expand the physical footprint of their business,
18 which ultimately leads to more sales and more income tax
19 generated for the State, so.

20 MINORITY CHAIRMAN MUNDY: Look, you know, I was in
21 business myself for years and years. For 10 years before I got
22 here, I managed a small business. I absolutely understand how
23 difficult it is. I'm just looking at tax fairness, because the
24 individual is going to be paying more in sales and income and
25 they're not going to get any more of a break than the

1 individual who is owning a business and generating profit and
2 able to expense a lot of that profit in salary, fleet-leased
3 cars, all kinds of other--- We did it; we did it. I know all
4 about how you do it. So I'm just looking for tax fairness,
5 that's all.

6 REPRESENTATIVE COX: Well, the ultimate fairness---

7 MINORITY CHAIRMAN MUNDY: And I thank you.

8 REPRESENTATIVE COX: You're welcome.

9 MINORITY CHAIRMAN MUNDY: I'm sorry; I thank you.

10 I'm going to let somebody else ask a question.

11 REPRESENTATIVE COX: If I may, the ultimate fairness
12 behind this bill is the fairness to the individual taxpayer --
13 the individual who has paid off his home 15, 20 years ago and
14 is now looking at going into a reverse mortgage; the individual
15 who loses his job and then is suddenly faced with losing his
16 home that he may already own. And so it's situations like
17 that; it's that individual tax fairness.

18 In my mind, nothing is more fair than letting people
19 keep the very property that they own, whether they're an
20 individual or a business. But certainly individuals do not
21 come up on the short end of the stick with this.

22 MAJORITY CHAIRMAN BENNINGHOFF: I'll remind the
23 Members, we are having a second hearing June 4, so
24 Representative Cox will be able to be questioned there as
25 well.

1 Representative Rapp has been gracious enough to give
2 Representative Mario Scavello a quick moment, and then
3 Representative Rapp will follow him.

4 REPRESENTATIVE SCAVELLO: Thank you, Representative,
5 and thank you, Mr. Chairman.

6 I just want to follow up; there were a couple of
7 comments made on the history. And we tried to do many
8 referendums and they've all failed, and they failed because we
9 haven't had tax fairness.

10 If you look at the hold-harmless clause and what
11 it's done to us over the years, you've got school districts
12 receiving dollars based off of a 1990 census, and in the
13 growing areas of the Commonwealth you've been shafted because
14 you're still getting funded off of that 1990 census. If you've
15 lost population, you're still getting funded off of that 1990
16 census. You know, we've been talking about this for a long,
17 long time.

18 So if you put it out there on a ballot, Philadelphia
19 is not going to vote for it. They're getting funded at a 1990
20 census, and I believe they've lost four Legislators since then.
21 You know, the growth in those areas, in the areas that the
22 Legislators went to, got the representation; however, the
23 dollars associated with the growth stayed in Philadelphia.

24 So if we really want tax fairness, we need to do
25 something like this to address it for every taxpayer in the

1 Commonwealth.

2 Thank you, Mr. Chairman.

3 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
4 Representative Scavello.

5 Representative Rapp, thank you for your patience.

6 REPRESENTATIVE RAPP: Thank you, Mr. Chairman.

7 Actually, I have the same concerns as Representative
8 Scavello, although I hold the opposing view regarding hold
9 harmless. It's not just Philadelphia; it's all of rural
10 Pennsylvania as well.

11 So under your legislation, Representative Cox, all
12 of the tax revenue would go to the State and then be
13 distributed. Am I correct?

14 REPRESENTATIVE COX: That is correct.

15 REPRESENTATIVE RAPP: And my concern is, when I
16 spoke with you earlier you said you would give and your
17 legislation would give a 1-year timeframe to decide what that
18 distribution level is. Is that correct, for 1 year?

19 REPRESENTATIVE COX: Yes. The way we've drafted the
20 legislation -- and I'll take this opportunity right here to
21 say, this bill is 170 pages long. I know there are drafting
22 errors that are my fault. I know there are drafting errors
23 that are Legislative Reference Bureau's fault. They've already
24 notified me of one of those just recently. So I don't put this
25 forward as the end-all legislation that's finely tuned and

1 doesn't need any changes.

2 But with that said, our goal in putting the
3 legislation together, in regard to the question you asked, upon
4 full implementation of this, school districts will receive the
5 same dollar amount that they got under school property taxes.
6 For instance, if your school district is collecting
7 \$100 million in school property taxes in the '12-13 school
8 year, in the following year, that is the dollar amount they
9 would receive.

10 We do work in a cost-of-living adjustment, if you
11 will, if the economy allows for it. If the sales and PIT allow
12 for it, we allow for that level of growth. If it doesn't,
13 they're guaranteed that minimum that they would have gotten
14 under the school property taxes.

15 However, the next, literally the next paragraph in
16 the legislation says that the Legislature is going to be
17 responsible for coming up with a funding formula for all
18 subsequent fiscal years.

19 REPRESENTATIVE RAPP: Right, and that is my concern,
20 Representative.

21 You know, I represent two school districts -- well,
22 actually I have three school districts, but two of my school
23 districts, Warren County, the county is one school district;
24 Forest County, the county is one school district. We do not
25 have the economic base that the fast growing school districts

1 enjoy. These are rural districts that are doing everything
2 that they can do to consolidate, to downsize. We do not have
3 Taj Mahal buildings or Taj Mahal sports programs. Some of our
4 rural schools have, you know, bare bones, whatever we need to
5 make sure kids get a good education.

6 And quite frankly, I am a big believer in equal
7 opportunity in education. And do I like the property tax? No.
8 I'm a property owner and I have to pay that, and I know it's a
9 burden. But I do have concerns about losing hold harmless,
10 because, quite frankly, rural school districts cannot survive
11 without that hold-harmless clause. And our children in rural
12 Pennsylvania deserve the same equal opportunity and education
13 that that money provides, and they would not be able to survive
14 without that hold-harmless clause. And without having that
15 distribution connected to this piece of legislation and
16 actually seeing, you know, down the road what those rural
17 school districts would be receiving to educate our children in
18 rural Pennsylvania, that's my biggest concern with your
19 legislation.

20 I was here in 2005-2006 with Representative Rohrer,
21 and we had the Committee of the Whole on the floor and went
22 over, you know, all the property tax pieces of legislation.
23 But that is my biggest concern as a rural Legislator, making
24 sure that those dollars go to those schools, because our rural
25 children have the right to the same equal opportunities in

1 education as folks that have a huge economic base in their
2 school districts.

3 Thank you.

4 REPRESENTATIVE COX: These are the very comments
5 that led me to pull a specific funding formula out. We toyed
6 with, Representative Boyd and I toyed with some different
7 formulas. He did some background work for me, and we looked at
8 ADM times equalized mills and we looked at other variations on
9 formulas. Mr. Baldinger and I looked at other ways to do
10 things.

11 In trying to craft a formula that pleased all of the
12 Members, again, we felt it was outside of the scope of this
13 legislation. So we wanted to boil this legislation down and
14 make it simply about, do we want to find a more fair way to
15 tax, and we believe that shifting from a school property tax on
16 the local level to a statewide funding source would be the more
17 fair way to do it.

18 So in deference to what you mentioned in regard to
19 hold harmless, I'm fully aware of that, but I would ask that we
20 take that up with basic education funding formula discussions
21 and the discussions that would follow the passage of this bill
22 that would enable us to put a funding formula in place to make
23 sure your districts and the children in those districts do not
24 receive any less funding than they need to provide a solid
25 education.

1 MAJORITY CHAIRMAN BENNINGHOFF: I would remind the
2 Members---

3 REPRESENTATIVE RAPP: Thank you, Mr. Chairman.

4 MAJORITY CHAIRMAN BENNINGHOFF: Thank you -- and
5 Representative Cox, if we could actually stay specific to 1776.
6 I mean, some of this information is important and I don't
7 disagree with it, but we're going to be really crunched for
8 time.

9 And I also want to recognize Representative
10 Delozier, Representative Briggs, and Representative -- thank
11 you -- Vulakovich. I hate to goof that up. I know, but I
12 always butcher it up. Out of respect to him, I don't want to
13 say it wrong.

14 Next we have Representative Dunbar.

15 REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

16 Thank you, Representative Cox, for all your hard
17 work on this. I just have a really quick, brief question.

18 When you were referring to the residual property tax
19 that would be left to pay off debt, you also mentioned that
20 after implementation of the act, that these schools can no
21 longer incur any debt. What are they to do if they wanted to
22 build a building or something in that regard?

23 REPRESENTATIVE COX: I probably should have
24 clarified that, and that's an excellent question.

25 They're not able to incur any new debt that they can

1 collect based on the school property tax. The debt that is
2 mentioned in this legislation is existing school district debt
3 that would be payable through a local school district property
4 tax -- residual, if you will.

5 Any new debt that they wanted to enter into would
6 have to be placed on the ballot, and so this legislation is
7 designed with the taxpayer in mind. It puts the question
8 directly to them: Do you want a personal income tax or an
9 earned income tax on the local level for local debt? And they
10 can put that in place for a period of years; they can put it in
11 place for as long as the taxpayers allow for it, but it is
12 something that has to go on the ballot first.

13 REPRESENTATIVE DUNBAR: Thank you.

14 MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

15 Representative Denlinger.

16 REPRESENTATIVE DENLINGER: Thank you, Mr. Chairman.

17 Representative Cox, just two brief questions, if I
18 may.

19 I think in the midst of your dialogue with
20 Chairman Mundy, you were taking this to equalization of sources
21 versus the outflow. I think we were at roughly \$9.6 billion in
22 sources, based on the numbers you gave us. Are we still at
23 about a \$500 million gap that you were going to explain to us
24 and didn't get there? Is that---

25 REPRESENTATIVE COX: There's additional money. The

1 existing revenues that come to us through slots that currently
2 goes to the Property Tax Relief Fund, we would have
3 significantly less need for the Property Tax Relief Fund under
4 this. We're leaving the property tax/rent rebate in place, due
5 in large part to address this concern. But \$828 million was
6 the estimate provided to me as far as the funding source there.

7 We also are attempting to see if we can pull in
8 \$70 million or so from the expanded gaming, the table games.
9 Those are some estimates that -- it would be new revenues to
10 the school property tax arena, but we believe we might have the
11 votes. An amendment passed, just this past spring, I think,
12 that would have taken money and directed it to property tax
13 relief. So I'm fairly comfortable in saying we could probably
14 accomplish that same goal with this.

15 REPRESENTATIVE DENLINGER: And then one other brief
16 question.

17 In the notes that we all received in the packages,
18 there's indication that mortgages issued by financial
19 institutions I believe are exempt. However, are privately
20 issued mortgages, citizen-to-citizen mortgages, taxed under the
21 plan?

22 REPRESENTATIVE COX: The goal, and I believe the
23 wording tracks this exactly, but the goal behind this
24 legislation -- and as I mentioned, in a 170-page bill there are
25 going to be errors that I made in drafting, oversights on my

1 part as well. It is not my intent to tax those monthly
2 mortgage payments, regardless of the source of the loan. So
3 if, you know, father-son enter into some sort of mortgage
4 arrangement as you might see on some of the, you know, farm
5 properties or whatever -- a lot of times you see that -- it's
6 not my goal to make homeownership or property ownership more
7 difficult. So that is something that would definitely need to
8 be addressed in an amendment.

9 And I expressed openness to modifications. This
10 bill is a starting point. It's an opening of a discussion, and
11 I welcome all comments and concerns.

12 REPRESENTATIVE DENLINGER: Very good. Thank you.

13 Thank you, Mr. Chairman.

14 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
15 Representative Denlinger.

16 Next, Representative Evankovich.

17 REPRESENTATIVE EVANKOVICH: Thank you, Mr. Chairman.

18 Thank you, Representative Cox. Two brief questions.

19 If you could just talk real briefly about the
20 mechanics of how the sales tax is, how the sales or the income
21 tax are specifically reallocated back to the school districts,
22 and I'll give two analogies or two examples.

23 I have many school districts in my district. I have
24 school districts that provide 70 percent of their funding with
25 local property taxes and I have school districts that provide

1 20 percent of their funding from local property taxes.
2 Obviously the areas that are wealthier have higher income
3 bases. They are going to be paying more under this proposal
4 because they buy more, they make more. The same, the opposite,
5 would be true for the other school districts.

6 Can you help me understand how your plan provides
7 equity for both of those environments?

8 REPRESENTATIVE COX: I don't think any piece of
9 legislation is going to be completely fair. My goal in this
10 was to make the funding approach for schools more fair.

11 As I touched on earlier, in my mind, there's nothing
12 less fair than asking an individual to leave their home because
13 they can't make that monthly mortgage payment, if you will, to
14 their school district. They've made all the mortgage payments
15 on a piece of paper that says they own the home. And so my
16 goal is to take and make it more fair.

17 Am I saying that no one will end up paying more? I
18 can't say that. But in utilizing the two broader statewide
19 sources of the personal income tax and the sales tax, I believe
20 most people will find themselves in a winning situation.

21 REPRESENTATIVE EVANKOVICH: If I can just make -- I
22 think maybe we were talking about two different subjects.

23 In many ways, revenue to the school districts coming
24 from a local level provides a higher level of accountability.
25 In other words, the school boards are being elected by people

1 who are providing the revenue to run the school district. In
2 the example where 70 percent comes from the local property
3 taxes, those school boards face somewhat tougher scrutiny
4 because of the -- and the opposite side to that is that those
5 school districts are able to have a higher level of discretion:
6 if they want to build out their school in different ways; if
7 they want to, you know, spend that money in whatever way they
8 see fit. The local taxpayers make the decisions and so it
9 works; it cuts both ways.

10 So my question is, you know, thinking at it from
11 that perspective, and we're both in agreement that renting your
12 home from the government isn't the right solution and, you
13 know, that property ownership is not an indication of wealth or
14 income or the ability to pay. So we both are in agreement with
15 that, but my concern is looking out for both of those types of
16 school districts. And we can talk offline.

17 My second question is in regard to Subchapter G,
18 Section 781.2, transfers to the Public Transportation Reserve
19 Fund. Can you just talk real briefly about -- there must be
20 something I'm missing as to why this is in the bill, and if you
21 could just shed some light on that, I'd appreciate it.

22 REPRESENTATIVE COX: Sure. That is a question that
23 quite a few people are beginning to ask and raises a red flag
24 of, you know, why are we doing this.

25 The goal behind this portion of the bill, the sales

1 tax, because we are not just doing what we do with the personal
2 income tax and increasing a rate, that's one of the reasons the
3 bill is 170 pages long. We had to pull in essentially the
4 entire sales tax code, Article II of the Tax Reform Code, and
5 in doing so, we did not want to change the existing
6 responsibilities that the sales tax currently had, and one of
7 those responsibilities was to the Public Transportation Fund.
8 So that percentage that you see pulled out? That's just a
9 carryover from the existing Article II sales tax. It's not
10 something that we create out of thin air. It was just to take
11 and mirror as best we could the existing law, and then we took
12 the existing law and then overlaid expansion into that.

13 REPRESENTATIVE EVANKOVICH: Thank you.

14 MAJORITY CHAIRMAN BENNINGHOFF: Thank you both for
15 your brief explanations.

16 Representative Dean.

17 REPRESENTATIVE DEAN: Thank you, Mr. Chairman.

18 And I appreciate all the effort you have put into
19 this. You've been at this for months, and many people in here
20 have been at this for years, and I've been at it for about
21 30 minutes. So if you don't mind, I'll ask you a couple of
22 informational questions just as I begin to gather some
23 information about it.

24 To follow up on what Chairwoman Mundy asked you
25 about, and you did that calculation also for the other

1 Representative. If I'm understanding it correctly, the
2 shortfall in that calculation of both the personal income tax,
3 sales tax, and the expansion of the sales tax, it's somewhere
4 about a billion, under a billion dollars, which would be made
5 up by gaming revenues? Is that what you're saying?

6 REPRESENTATIVE COX: Not necessarily gaming revenues
7 -- slots revenues. Gaming funding is considered to be table
8 games.

9 REPRESENTATIVE DEAN: Yes; okay.

10 REPRESENTATIVE COX: But yes, there's about
11 \$828 million that we are expected to receive in slots revenues
12 as we go forward.

13 REPRESENTATIVE DEAN: And is there a mechanism that
14 this would capture that?

15 REPRESENTATIVE COX: Yes. This reaches out and
16 grabs that, and the goal behind the legislation would be to
17 make sure that that revenue finds its way to property tax
18 elimination under this bill.

19 REPRESENTATIVE DEAN: Okay.

20 And the numbers that your estimates are based on,
21 what date are they? For example, when are you estimating the
22 income tax and when are you estimating the sales tax? When was
23 that?

24 REPRESENTATIVE COX: These estimates, I believe they
25 were current through February. We used as current information

1 as we had. We went through and plugged in the Governor's
2 budget numbers, the estimates that he and the Department of
3 Revenue and the other agencies put together. We pulled those
4 numbers in to try to make it as current as possible.

5 The sales tax increase from 6 to 7 being about
6 \$1 1/2 billion, that has been pretty static over the years as
7 I've worked with this. The PIT bringing in close to
8 \$3 1/2 billion, that has edged its way up. As incomes
9 increase, that has gone up fairly steadily. It's not huge
10 jumps, but that's gone up. And the expanded sales tax base is
11 also based on those 2012-13 starting estimates that the
12 Governor's Office used in his budget presentation.

13 REPRESENTATIVE DEAN: And because I do not know, how
14 does this anticipate a downturn in the economy as incomes fall?
15 as the purchase of goods falls? How does this account for
16 that?

17 REPRESENTATIVE COX: Well, overall, income and sales
18 are among two of the most stable of the taxes. I can't say
19 that they are the most stable, but they have a pretty
20 significant level of stability, simply because the cost of
21 goods continues to increase over time.

22 As well, income levels continue to increase over
23 time. And so while one individual may lose his job, another
24 individual might receive a pay increase to make up for doing
25 the extra work that that individual would have been doing.

1 So it's not an immediate balance, but if you look at
2 the forecast over the next several years, there's always an
3 increase to the income tax expected. Even if it's marginal,
4 there's always an increase. And one of the reasons that we
5 utilized the sales and income taxes is because they are direct
6 reflectors of the economy. When the economy is not doing as
7 well, the revenues are going to flatten out a little bit.

8 So one of the things that school districts have not
9 shown themselves good at doing is growing within the rate of
10 inflation. Chairman Benninghoff pointed out early on that
11 school districts have grown -- for every dollar we give them,
12 they increase property taxes a dollar 33.

13 And so it's one of those things that, you know, if
14 you have a kid that you've given a blank checkbook to and they
15 misuse it, you've got to consider at some point taking it away.
16 So currently the school district property taxes in many school
17 districts are functioning in the same way that a blank
18 checkbook would be functioning, and this just pulls back that
19 authority and significantly limits it and says, you're going to
20 be able to see some growth, but it will directly track the
21 sales and income tax, and when the economy allows it, you'll
22 get an increase to that.

23 REPRESENTATIVE DEAN: I don't know if I agree with
24 your characterization of the school districts and blank
25 checks.

1 REPRESENTATIVE COX: Well, again, it's not all
2 school districts, but the significant number -- I've got
3 70 cosponsors, so we've got at least 70 Members who have said,
4 hey---

5 MAJORITY CHAIRMAN BENNINGHOFF: Please, let's stay
6 to the bill as much as possible.

7 REPRESENTATIVE COX: ---we're not satisfied with
8 what is happening.

9 REPRESENTATIVE DEAN: And my final question is
10 Internet sales. What do you anticipate will happen as a result
11 of sales of goods over the Internet?

12 REPRESENTATIVE COX: I don't have estimates on that.
13 We know that the Department of Revenue, from testimony before
14 this committee, is looking at efforts to capture those sales.
15 And I think the more we see in the Internet sales arena, the
16 longer we go. I think Congress is going to have to do
17 something that lays things out.

18 I know that is one of the hurdles that we face in
19 this day, is, you know, can we tax those interstate commerce
20 transactions and things like that? So it's something that
21 remains to be seen, but I'm confident that we'll be able to
22 figure out a way to capture that revenue as well.

23 REPRESENTATIVE DEAN: Okay.

24 Thank you, Mr. Chairman.

25 MAJORITY CHAIRMAN BENNINGHOFF: Thank you both.

1 We have also been joined by Representative Grove,
2 Representative Harris, Representatives Kavulich and
3 Caltagirone.

4 And for our last questioner, I believe, for
5 Representative Cox is Representative Davidson.

6 REPRESENTATIVE DAVIDSON: Thank you, Mr. Chairman.

7 My questions have to do with collection and
8 distribution, and thank you for putting forward the bill.
9 Property taxes in my area soar to the tune of \$9,000 to \$12,000
10 a household, so there is definitely relief needed. But my
11 concern is the funding of public education and the collection
12 of the tax and the distribution of the tax.

13 School districts are already facing cash flow issues
14 in terms of payments to charter schools, when the State pays
15 them, when they have to make disbursements. So can you
16 describe for me how the revenues will be collected, hopefully
17 not going into what's described as the "black hole" of the
18 General Fund. Is there going to be a set-aside, or are you
19 considering setting aside a fund just for education funding and
20 at some point being able to put additional revenues in there if
21 we see that there's a shortfall in terms of collection?

22 And two, in terms of distribution, how will funds
23 be distributed from this fund to school districts in a timely
24 way since they no longer have access to this other revenue?

25 REPRESENTATIVE COX: Well, let me answer your second

1 question first.

2 The funding distribution, if you will, it's for a
3 period of 1 year after the full elimination of the school
4 property tax option for the local school district. There will
5 be quarterly disbursements. And we're not creating any new
6 administration, not creating any new bureau or anything like
7 that. So it is designed for quarterly disbursements.

8 Quarterly is the common thread between the corporate payment of
9 taxes, businesses paying their taxes, PIT collections, all of
10 that. Quarterly was the common thread there, and it has proven
11 useful in other disbursements for education funding. So we'll
12 probably stick to that. The legislation does call for
13 quarterly disbursements.

14 In regard to your first question, there is an
15 Education Stabilization Fund. That is a separate fund. This
16 does not flow into the General Fund. By design, this sets
17 aside the amount brought in under these changes, and it's
18 designed to set aside the funding brought in -- the additional
19 income tax, the additional sales tax, and the additional
20 expansion of the sales tax, as well as pulling in the slots
21 revenue. All of that will be directed into the Education
22 Stabilization Fund, which is a separate fund outside of the
23 General Fund, and that's where the disbursements will come
24 from.

25 REPRESENTATIVE DAVIDSON: And in terms of the State

1 revenue that currently goes to school districts out of the
2 General Fund, would that money flow through the Education
3 Stabilization Fund or will that be disbursed from the General
4 Fund in addition to this new fund?

5 REPRESENTATIVE COX: The basic education funding
6 would continue to flow separately out of the General Fund. So
7 the discussion of the basic education subsidy formula, that
8 would take place outside of this, as it does right now. If we
9 choose to adopt a basic education funding formula that reaches
10 out and says the Education Stabilization Fund will utilize the
11 same distribution methodology as the General Fund does, then
12 that's a decision for the Legislature to make.

13 But this bill does not call for a specific funding
14 formula. It's a dollar-for-dollar replacement for the school
15 property taxes in that early year, and then a funding formula
16 would be put in place by the Legislature going beyond that.
17 And we don't mess around with any of the existing funding
18 formula in the General Fund. It's outside of the scope of this
19 legislation.

20 REPRESENTATIVE DAVIDSON: Thank you.

21 REPRESENTATIVE COX: Thank you.

22 MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

23 Representative Cox, thank you for your testimony and
24 for your work on this bill. We know this is important to you
25 and a lot of your supporters.

1 If you want to join us back on the dais, we will get
2 our next testifier. That is David Baldinger, Spokesperson for
3 the Pennsylvania Coalition of Taxpayer Associations.

4 I'd ask the Members, if we could, go one question at
5 a time. If we have time, we'll circle back around. But we're
6 about 40 minutes off schedule currently, and I'd like to be
7 respectful to the testifiers who are spending their day with
8 us.

9 Mr. Baldinger, you're not new to us. Thank you for
10 joining us again, and I know that you'll be concise with your
11 testimony. We appreciate your passion for the issue.

12 MR. BALDINGER: Well, thank you, and good morning.

13 MAJORITY CHAIRMAN BENNINGHOFF: Excuse me.

14 Go ahead, sir. Thank you.

15 MR. BALDINGER: You're welcome.

16 My name is David Baldinger, and I'm here today
17 representing the Pennsylvania Coalition of Taxpayer
18 Associations, an affiliation of 72 grassroots taxpayer advocacy
19 organizations from across the State.

20 First of all, I want to offer my thanks to the
21 Members of the House Finance Committee for giving me the
22 opportunity to testify today on behalf of the PCTA about
23 HB 1776.

24 Today I'd like to discuss the benefits of HB 1776 as
25 we see them, a few of the objections to the plan, and the

1 results of research done by the PCTA members and others.

2 I'm sure you're all aware, as Chairman Benninghoff
3 said, of the extreme pressure that homeowners of all ages are
4 facing because of relentlessly rising school property taxes.
5 Our research has shown that as many as 10,000 Pennsylvanians
6 lose their homes to property tax sheriff's sales each year, and
7 that total doesn't include those who sell, sometimes at a loss,
8 to avoid losing their equity through such an event.

9 As one supporter recently wrote to me, "My husband
10 and I are senior citizens and every year it becomes harder for
11 us to pay our school taxes. We have paid our school taxes
12 since 1965 and our fear is that one of these years we will be
13 unable to do so and will have to move from the home where we
14 raised our children."

15 Completely eliminating the school property tax
16 through HB 1776 is a giant step toward giving these homeowners
17 peace of mind and forever ending the unconstitutional seizure
18 of their property. But the damage caused to homeowners is only
19 the very tip of the property tax iceberg.

20 Walmart notwithstanding, 80 percent of nongovernment
21 jobs in Pennsylvania are provided by small businesses. As the
22 second biggest fixed expense for these job creators, the
23 property tax, through it's uncertain nature, discourages small
24 business expansion and hinders job growth.

25 A small business owner from York County recently

1 wrote this: "As a small company owner in the auto and truck
2 repair trade that already has five workers, we were looking to
3 open a second branch in York. We would have been able to hire
4 at least three to five more people to run the second location.
5 The monthly lease payment was two thousand dollars, but then
6 our lawyer found that the school taxes would be twenty-three
7 thousand dollars per year. We have now put the brakes on
8 opening a second branch in Pennsylvania and we have been
9 looking at other states to open our new location."

10 The enactment of HB 1776 would give these
11 entrepreneurs a well-deserved break and would allow them to
12 expand their businesses and create much needed jobs in
13 Pennsylvania. And through Keystone Opportunity Zones we
14 already know that targeted property tax abatements attract
15 new business to Pennsylvania. Why not eliminate the property
16 tax and welcome new businesses by making the entire State a
17 KOZ?

18 In a February 29, 2012, Tax Foundation "Comparative
19 Analysis of State Tax Costs on Business," a measure of business
20 friendliness, Pennsylvania was ranked No. 49 of 50 for new
21 firms and dead last at No. 50 for mature established firms.
22 Not only is Pennsylvania's tax burden, which includes the
23 property tax, discouraging new businesses and the jobs they
24 create from locating here, it is also driving existing
25 businesses and their jobs from Pennsylvania.

1 Please see the chart from the Tax Foundation on
2 page 6 and additional supporting information from businesses on
3 pages 7 to 9 of my written testimony.

4 Agriculture, Pennsylvania's largest industry, is
5 being decimated by the property tax as farms that had been in
6 families for generations are being sold acre by acre by owners
7 who trade their land for property tax payments.

8 A few months ago, during one of my presentations
9 about HB 1776 to a group in Monroe County, a woman told me how
10 her father, a Christmas-tree farmer, had sold 30 of his
11 40 acres piecemeal in the past 10 years simply to pay his
12 property tax. And at the Capitol Property Tax Independence
13 Rally on May 7, another farmer from Luzerne County talked about
14 selling homemade baked goods in addition to his farming to
15 raise enough money simply to pay his property tax.

16 Farming -- Pennsylvania's heritage and its lifeblood
17 -- is being destroyed by the property tax. This could end now
18 with the enactment of HB 1776.

19 The housing market is at a standstill in
20 Pennsylvania. During our research, realtors have told us that
21 through the elimination of the greatest portion of the monthly
22 property tax escrow, an amount in some areas that can equal the
23 amount of the mortgage payment -- Pennsylvania's real estate
24 market would explode with new buyers. Thousands of young
25 families who now cannot afford their piece of the American

1 dream could almost immediately become homeowners by the
2 elimination of the school property tax escrow through HB 1776.

3 But besides the benefits to taxpayers, HB 1776's
4 advantages for schools need to be considered. With the
5 downturn in the housing market, many school districts have lost
6 substantial revenue through assessment appeals by both
7 homeowners and businesses. Here's just a couple of examples:

8 Chester schools -- \$180,000 annual loss from a
9 single appeal by a shopping mall.

10 Wyomissing schools -- \$250,000 annual loss through a
11 single appeal by a nursing home.

12 Upper Merion schools -- \$2 million annual loss
13 through a single appeal by a manufacturer.

14 And these are only a few examples of many throughout
15 Pennsylvania.

16 On April 17, a school district business manager from
17 Montgomery County wrote to me saying, "Our district is the
18 poster child for property owner initiated tax assessment
19 appeals. We have lost \$94 million in assessed value in the
20 past year alone. This translates into \$1.7 million in revenue
21 lost just since last year. We have over 50 cases pending in
22 the court system as well."

23 In Monroe County, it is not unusual for property
24 taxes on a \$200,000 home to exceed \$10,000. Because of this
25 tax burden, more than 3,000 homes are unoccupied and are

1 generating no property taxes, resulting in huge revenue losses
2 to the schools. HB 1776 can end the uncertainty of property
3 tax revenues and stabilize school funding for the benefit of
4 all Pennsylvania schoolchildren.

5 And finally, imagine for a moment the stimulus to
6 Pennsylvania's economy as \$10 billion in homestead property
7 taxes is returned to the hands of homeowners to spend as they
8 please.

9 In short, the Property Tax Independence Act would
10 not only relieve an unfair burden on homeowners but would also
11 serve as a massive economic stimulus, encourage small business
12 development and expansion, and create jobs for Pennsylvanians.
13 HB 1776 would foster an economic climate where every resident
14 can grow and thrive.

15 In the interests of being proactive, I'd also like
16 to refute three of the most common objections to the
17 legislation.

18 The most commonly heard objection is that the
19 numbers don't work. We'll know for certain when the
20 Appropriations Committee issues its fiscal note, but in the
21 meantime, it's sufficient to say that throughout the crafting
22 of HB 1776, the numbers were constantly compared and revised to
23 conform to figures supplied by the House Appropriations
24 Committee staff and the Governor's 2012-2013 Budget Book.
25 Because of this ongoing fiscal diligence, I am convinced that

1 the plan is financially sound.

2 The second most common objection is the loss of
3 school board local control. HB 1776 contains no mandates of
4 any kind and schools are free to use the replacement funding in
5 any manner they wish. And school boards will still have the
6 option to levy a local earned income tax if it is approved
7 through voter referendum.

8 But the most puzzling objection I've heard recently
9 is that because of the retained debt provision of HB 1776,
10 property taxes will remain after the 2-year phaseout period.
11 While this is true, what is not generally mentioned is that for
12 a large majority of Pennsylvania school districts, debt service
13 is less than 10 percent of their total budget. This means that
14 almost all Pennsylvania homeowners will see an immediate
15 property tax reduction of 90 percent or better until the
16 existing debt is satisfied, and then the remainder of the
17 property tax will disappear completely.

18 Previous property tax elimination plans called for
19 servicing existing debt from the State level, but many
20 taxpayers from frugal school districts rightfully objected to
21 paying for debt incurred by high-spending districts. Requiring
22 each school district to service its own debt is by far the
23 fairest method to address this issue while still promptly
24 allowing almost total school property tax elimination.

25 Finally, please consider the broad-based taxpayer

1 acceptance of HB 1776. In the last year alone, our statewide
2 taxpayer coalition has grown from 39 participating groups to
3 the current 72. This growth is a clear evidence of the
4 continued and expanding support of HB 1776.

5 For almost all property tax relief legislation that
6 has been offered in the past, the sponsoring lawmaker has
7 invariably talked about "my" plan. What differentiates
8 HB 1776 from other property tax plans is that it is "our"
9 legislation.

10 Throughout the development of the bill, the prime
11 sponsor conferred extensively with his House colleagues so he
12 could incorporate their input, but equally important is the
13 grassroots taxpayer groups' continuing involvement. From the
14 earliest discussions of this legislation in November 2010, the
15 PCTA has been a full partner in the drafting of the Property
16 Tax Independence Act. HB 1776 is truly a collaborative effort
17 between lawmakers and the taxpayers who support it and, because
18 of this collaboration, has gained widespread acceptance by
19 residents from across the Commonwealth.

20 On April 3, the Reading Eagle newspaper polled its
21 readers about the Property Tax Independence Act. Ninety
22 percent of the respondents agreed with the provisions of the
23 legislation. On April 11, KQV Radio in Pittsburgh conducted a
24 similar poll that resulted in an 85-percent approval. And in a
25 multiple-choice poll conducted by the York Dispatch that was

1 published on May 15, only 8 1/2 percent of the respondents
2 disagreed with the provisions of HB 1776. Screen captures of
3 these polls are available on pages 10 through 12 of my written
4 testimony for your reference.

5 HB 1776 is solid, effective legislation with
6 bipartisan support from 70 cosponsors that has captured the
7 enthusiasm and approval of Pennsylvania taxpayers. Through its
8 enactment, this legislation can serve to not only remove an
9 oppressive burden from Pennsylvania homeowners but also can
10 have positive, far-reaching effects on Pennsylvania's schools,
11 business climate, job growth, and our Commonwealth's economy in
12 general.

13 The Pennsylvania Coalition of Taxpayer Associations
14 strongly urges the Members of the House Finance Committee to
15 swiftly vote for approval of HB 1776 for the benefit of all
16 Pennsylvanians.

17 Thank you very much for this opportunity and for
18 your time and attention. I'll respond to any questions, if you
19 have any.

20 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, sir.

21 MR. BALDINGER: You're very welcome.

22 MAJORITY CHAIRMAN BENNINGHOFF: If we could just
23 solve this problem as swiftly and efficiently as you went
24 through five pages of testimony, we'd be in good shape and
25 probably all re-elected pretty quickly.

1 You did a great job, and I appreciate you
2 summarizing as well as you did.

3 MR. BALDINGER: Very well.

4 MAJORITY CHAIRMAN BENNINGHOFF: I will say I
5 actually agree with the changes in this particular portion of
6 the bill that calls for the servicing of the debt on the local
7 level rather than the State. I think that was pretty egregious
8 for a lot of us, and I think that makes it a lot more
9 attractive and I appreciate you highlighting it.

10 I think our first question comes from Representative
11 Denlinger.

12 REPRESENTATIVE DENLINGER: Thank you, Mr. Chairman.

13 Welcome, Mr. Baldinger. Good to have you back with
14 us.

15 MR. BALDINGER: Thank you.

16 REPRESENTATIVE DENLINGER: I know you have spent
17 much effort on this topic and I appreciate that. I wanted to
18 share that with you.

19 MR. BALDINGER: Thank you.

20 REPRESENTATIVE DENLINGER: Within the taxpayer
21 groups that you've referenced, I'm going to play devil's
22 advocate here for a minute and say, what point of angst or what
23 points of concern with this plan do you hear from your own
24 membership?

25 Obviously, I'm sure there's a diversity of views on

1 various items such as expansion of the SUT and certain
2 categories there, perhaps the raising of the rate, the raising
3 of the PIT. What point of contention is there within the
4 taxpayer groups?

5 MR. BALDINGER: I know this is going to sound
6 unbelievable, but actually there is none. We had discussed
7 this internally, the 72 groups, the entire time the bill was
8 being crafted. I was the point man on this with Representative
9 Cox, but I represented the thoughts and the opinions of
10 everybody within the taxpayer group. We, 72 groups, are
11 totally united in this effort, and we stand for everything that
12 is in this legislation.

13 REPRESENTATIVE DENLINGER: I guess, you know, as
14 someone who has also spent some effort on this and some years,
15 one frustration that I run into is, you know, everybody is for
16 elimination, but there's this presumption that somehow they're
17 not going to end up paying anything, you know, that there's
18 just this disconnect from the realization that teachers'
19 salaries have to be paid, the buses have to run, the lights
20 have to be on.

21 And perhaps you share that frustration -- I don't
22 know -- but I would appreciate any comments you could share
23 with us as Members as we approach this issue: Is there a
24 disconnect from the reality that there is a \$10 billion bill to
25 be paid here for education?

1 MR. BALDINGER: I think in some cases, yes.
2 However, I've given the talk on HB 1776 close to 50 times in
3 the past year. I pull no punches. I tell it exactly the way
4 Representative Cox did this morning. But people are very
5 accepting of it. They are so concerned about the property tax
6 that they are not concerned about some of the provisions of the
7 bill that might not be exactly to their liking.

8 They understand that there is a \$12.7 billion hole
9 to be filled here and has to be filled somehow, and yes,
10 they're going to pay other taxes. But by and large what we're
11 doing is spreading the burden from 3.2 million homeowners to
12 12.7 million residents, plus visitors.

13 And we always use a simple formula to tell the
14 homeowners how to roughly figure it out. Now, obviously it
15 doesn't account for all the aspects of the bill. But take your
16 school property tax bill, divide by .07, which is the amount of
17 the sales tax. That gives you roughly what you're going to
18 have to spend on newly taxed items and services to equal the
19 amount of property tax eliminated.

20 The example I always like to use, because it's
21 pretty close to the statewide average: a \$3,500 property tax
22 bill, you would have to spend \$50,000 on newly taxed items and
23 services to equal the amount of taxes that have been
24 eliminated. You give that number to a taxpayer, suddenly the
25 light bulb goes off over their head and they understand how

1 this works, and for most people in the State, it's a definite
2 benefit for them.

3 REPRESENTATIVE DENLINGER: One last question for
4 you, if I may.

5 Some amount of the challenge we've had for decades,
6 frankly, on this issue is geopolitical. Pennsylvania is a very
7 diverse State and specifically diverse with regard to school
8 financing. In your experience with the groups, is the growth
9 in areas where this is at the top one or two of the hot-button
10 political issues a little less so in areas that perhaps are
11 more modest in their property taxation?

12 MR. BALDINGER: Our growth has been, for want of
13 better words, "horseshoe shaped" across the State, starting in
14 the northeast down across south-central and up into the
15 northwest. Northern-tier counties, not so much, but definitely
16 that ring, starting northwest to northeast, is where we've had
17 -- and especially in the northwest is where we've had most of
18 our growth. I think that's understandable, because the
19 movement started for us in the southeast and grew from there.
20 The majority of our growth over the past year has very
21 definitely been in the west and southwest.

22 REPRESENTATIVE DENLINGER: Okay. Thank you.
23 Thank you, Mr. Chairman.

24 MR. BALDINGER: You're very welcome.

25 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,

1 Representative Denlinger.

2 Representative Dean.

3 REPRESENTATIVE DEAN: You know what? I'm going to
4 pass on my time. My question was answered. Thank you.

5 MAJORITY CHAIRMAN BENNINGHOFF: For the sake of
6 brevity, we thank you as well.

7 Anyone else?

8 Thank you, Mr. Baldinger. We appreciate your hard
9 work on this and your testimony here with us today.

10 MR. BALDINGER: Thank you.

11 MAJORITY CHAIRMAN BENNINGHOFF: Next we have
12 Greg Herb, Legislative Chair of the Pennsylvania Association of
13 Realtors, and whoever else from their association wants to join
14 him.

15 When you get comfortable, sir, go ahead and begin.

16 MR. HERB: Good morning, Chairman Benninghoff and
17 Chairwoman Mundy and Members of the House Finance Committee.

18 My name is Greg Herb, and I have been in the real
19 estate business for over 30 years. I am the Legislative Chair
20 of the Pennsylvania Association of Realtors and previously
21 served as the association President in 2009.

22 On behalf of the 28,000 realtors in Pennsylvania, I
23 am here to present testimony on property tax reform. The
24 Pennsylvania Association of Realtors is a strong advocate for
25 private property rights and homeownership.

1 We are not here to present support or opposition on
2 any property tax reform proposals currently under consideration
3 by the General Assembly. In order to gain a better
4 understanding of Pennsylvanians' views on property tax reform,
5 PAR commissioned its own company, Keystone Analytics, to survey
6 voters throughout the Commonwealth. While PAR does not make
7 policy decisions based solely on the opinions of voters, we
8 believe that in decisions as important as property tax reform,
9 someone must give voice to the voters and homeowners of
10 Pennsylvania, and PAR is the natural entity to do just that.

11 Keystone Analytics polled 500 voters in
12 Pennsylvania, 87 percent of whom are homeowners, on May 13 and
13 14 of 2012. The results show that Pennsylvanians believe
14 reforming and reducing property taxes should be a priority.
15 Fifty-nine percent believe property taxes are either in part or
16 wholly a State issue, and we have demonstrated that on the
17 graph to my right, to your left.

18 When asked to rank a list of current State
19 legislative priorities, 23 percent of Pennsylvanians picked
20 reforming and reducing property taxes over balancing the State
21 budget, improving roads and bridges, and dealing with illegal
22 immigration. Based on the overall sentiment that Keystone
23 Analytics has tracked over the past few years on taxation
24 issues, it appears that voters are growing more and more weary
25 of inaction by the State government on property tax reform.

1 Property tax reform is on the minds of many
2 Pennsylvanians. Our survey shows that 57 percent of homeowners
3 believe that their property taxes are too high. Nearly
4 40 percent have seen increases of more than \$50 in their total
5 property tax bill in the last year, and more than 50 percent
6 say it has contributed to their family's financial strain.

7 Those surveyed were asked to comment regarding some
8 of the recent property tax reform proposals. Sixty-two percent
9 of Pennsylvanians surveyed believe that increasing the sales
10 tax by 1 percent and broadening the base tax would be a
11 favorable alternative to funding public schools if the schools
12 would receive the same amount of revenue, regardless of the tax
13 source.

14 Of those surveyed, 56 percent don't believe that
15 giving local governments the option of reducing property taxes
16 by levying a sales tax and a use and occupancy tax, in
17 addition to all the other State and local taxes, is a viable
18 solution.

19 The Pennsylvania Association of Realtors will
20 continue to perform extensive research on the issue of property
21 tax reform and the implications on the real estate industry.
22 We look forward to working with Members of the State
23 Legislature to find a plan that best meets the needs of
24 Pennsylvania homeowners and encourages homeownership for future
25 generations.

1 Thank you for the opportunity to discuss our
2 findings. I would be happy to answer any questions you may
3 have.

4 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, Mr. Herb.
5 I believe our first question is Representative Boyd.

6 REPRESENTATIVE BOYD: Thank you, Mr. Chairman.

7 I appreciate your testimony. Thanks for being here
8 this morning.

9 As was spoken earlier by prior Members of the
10 committee and testifiers, this plan is part of an evolution
11 over the last, I'm going to say at least 6 years or so. Prior
12 elements or prior previous plans, HB 1275 and some other bills,
13 PAR was an adamant opponent of the bill, and at this point,
14 based on your testimony, you're taking a neutral stance on
15 HB 1776. Is that correct?

16 MR. HERB: That's correct. We actually just did
17 some preliminary survey work back on -- last week, actually, it
18 just was completed, and we really are forming our information
19 based upon that survey and data. I think some of the other
20 bills that were mentioned talk about an increase in the realty
21 transfer tax and other things that would prove to be even a
22 greater barrier for homeownership in Pennsylvania.

23 REPRESENTATIVE BOYD: Yeah; one of the first
24 original plans had or dealt with or included the realty
25 transfer tax, but another part of this whole issue is, the vast

1 majority of your members, I would imagine, are either sole
2 proprietors or S corps and, as such, will end up paying an
3 increase in income tax. You're aware of that, correct?

4 MR. HERB: That's correct.

5 REPRESENTATIVE BOYD: So I guess my question is, and
6 I want to be very direct, where do you anticipate your group
7 coming out on this piece of legislation?

8 MR. HERB: In terms of your earlier comment,
9 certainly we understand that it may have a far-reaching effect
10 on our Members, but really the work that we're doing is really
11 about our consumers and the benefits of homeownership and what
12 that effect might be with respect to reforming property taxes.

13 Our group will be meeting in the next couple of
14 weeks. We have our scheduled business meetings. As I
15 mentioned in my testimony, we're actually going to be doing a
16 lot more survey work and a lot more in-depth research about the
17 subject matter. So because of the timing of this and the
18 timing of our meetings, we haven't had the opportunity to pull
19 our full group together, which we will be doing in about
20 2 weeks.

21 REPRESENTATIVE BOYD: Okay. I look forward to
22 seeing the results of that, because I appreciated that, you
23 know, you said specifically that your concern is how this would
24 affect, you know, homeownership and the consumers and really
25 people that ultimately you would represent in the transaction

1 of purchasing a property. Unfortunately, the way this place
2 operates around here is most people are very parochial, and
3 unfortunately they look at things as to, you know, how their ox
4 is personally going to get gored when they look at specific
5 pieces of legislation, and I'm looking forward to perhaps an
6 affirmative stance from your organization on this piece of
7 legislation since the realty transfer tax has been backed out
8 of it.

9 So I'm hopeful that you'll see the light, that this
10 bill would encourage homeownership, and I think that from your
11 standpoint, that would be a tremendously positive benefit for
12 the Association of Realtors.

13 Thank you, Mr. Chairman.

14 MR. HERB: We look forward to sharing those results
15 with you. And when you speak about homeownership, it really
16 does have a positive impact on a community, on a neighborhood,
17 on the school districts. The research is pretty profound as
18 far as those effects of homeownership.

19 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
20 Representative Boyd.

21 Representative Davidson.

22 REPRESENTATIVE DAVIDSON: Thank you.

23 Thank you for your testimony today.

24 My question has to do with home buying and selling
25 and how, and you didn't mention it in your report, but maybe

1 you have some preliminary data as to how property taxes are
2 affecting home sales.

3 I do have some anecdotal data, which is homeowners
4 testifying that they can't sell their homes because their
5 taxes, property taxes, are \$9,000 or \$12,000, and people
6 looking at that tax bill won't buy in the area, even though the
7 homes are beautiful and it's a well-kept neighborhood. Are you
8 seeing that across the State in areas that have high taxes
9 being less desirable simply because of the property taxes?

10 MR. HERB: I would agree with your comments.
11 Certainly as mentioned earlier, we're a very diverse State, and
12 as such, disparity in terms of the property taxes varies so
13 greatly across the Commonwealth.

14 But I can personally relate to the specific areas
15 that you speak of, and when you have an elevated property tax
16 -- we have seen some taxes as high as \$12,000 to \$15,000 on
17 slightly above medium-value properties -- that becomes a
18 barrier for homeownership. It becomes a difficult task when
19 you're looking at the amount of monthly income that can go
20 towards homeownership. And if it's being absorbed by that
21 taxation, it certainly affects what we call the affordability,
22 the affordability index as far as what a consumer can afford to
23 purchase based upon those elevated or higher property taxes.

24 So to answer your question, yes, it does have an
25 effect.

1 REPRESENTATIVE DAVIDSON: Thank you.

2 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
3 Representative Davidson.

4 I was going to ask if you could provide a copy of
5 the questions that were asked in that survey, just for the
6 membership's knowledge, to compare the answers. That would be
7 very helpful.

8 MR. HERB: Sure, and we would be happy to meet with
9 you at a later time as well.

10 MAJORITY CHAIRMAN BENNINGHOFF: Very good.

11 Thank you, and we appreciate your testimony and the
12 good work you do here in Pennsylvania.

13 Oops, I apologize. A late add-on was -- I'm not
14 adjusted to my new glasses -- Representative Cox. Do you have
15 a question?

16 I know, what do you want for \$3.

17 REPRESENTATIVE COX: You're getting a lot of mileage
18 out of those \$3 glasses.

19 MAJORITY CHAIRMAN BENNINGHOFF: Hey, I upgraded. I
20 usually only pay a buck and a half, so.

21 If you'd like to ask a short question, Mr. Cox, your
22 time is burning.

23 REPRESENTATIVE COX: Thank you, Mr. Chairman.

24 Just a real quick question: Do you have a rough
25 percentage of how many Pennsylvanians are homeowners versus

1 property owners? We've heard varying percentages out there on
2 different property types, but kind of two questions.

3 MR. HERB: We do have that data. I don't have that
4 with me, and we just came off of our national meetings in
5 Washington so I have some national numbers on the tip of my
6 tongue. But out of the survey that was done, 87 percent were
7 homeowners. But I believe your question spoke to, out of the
8 citizens of the Commonwealth, what the percentage of
9 homeownership is, and I can provide that exact number to you.

10 REPRESENTATIVE COX: Okay.

11 And on page 2 of your testimony, you make reference,
12 I mean, one reference talks clearly about HB 1776, that type of
13 broaden based approach on a statewide level. Was there a
14 specific piece of legislation focusing on that 56 percent that
15 didn't want to give local governments the option of reducing
16 taxes?

17 MR. HERB: So, sir, in answer, to make sure I
18 clarify your question about the 56 percent that believe that
19 giving local governments, the opinion was not favorable, we
20 basically framed the question to ask, out of the couple
21 different proposals that have been talked about, we were really
22 trying to gauge the sentiment of the consumer, the citizen, to
23 find out what they felt was a more palatable solution, and what
24 that survey result reveals was a direct answer to those
25 questions.

1 REPRESENTATIVE COX: Okay. So the local option, I
2 believe the Democratic Chair referenced past failures of
3 approaches to shift on that local level. Would you say the
4 sentiment then from your survey is saying that they still don't
5 want to do a local level; they want a broader statewide
6 approach?

7 MR. HERB: That's what our survey results, and
8 actually to go back to the graph that was provided earlier
9 where they look at the 59 percent that is comprised of a State
10 or a State and local issue versus a much smaller minority, they
11 think it should just be a local, and that was part of the graph
12 provided also in the testimony.

13 REPRESENTATIVE COX: Thank you. Thank you for your
14 testimony.

15 MAJORITY CHAIRMAN BENNINGHOFF: Chairwoman Mundy has
16 a question.

17 MINORITY CHAIRMAN MUNDY: Well, actually it's a
18 follow-up to Representative Cox's question, because in your
19 testimony, twice you indicated -- on the first page you say
20 "someone must give voice to the voters and homeowners," and
21 then on the second page you talk about the voters are growing
22 more and more weary of inaction by State government on property
23 tax reform.

24 I've been working on this issue for 30 years. I
25 think in 1988, the overwhelming defeat of that referendum gave

1 the Legislature a very clear message that people were not ready
2 for property tax reform. And so then in 1998 we said, okay,
3 well, if you don't want to do it at the State level, let's do
4 it at the local level, and we let school districts put a
5 referendum on the ballot -- overwhelmingly defeated. Again in
6 2006, overwhelmingly defeated at the local level.

7 So I guess my question is, what should we do on the
8 State level, since you're not taking a position on the elements
9 of 1776 or on any bill, as you say, what are the people of
10 Pennsylvania looking for? Because from where I'm sitting,
11 they've been very clear that they are not for a shift from
12 property to sales and income. You can't just do it by sales
13 tax; you have to include income taxes.

14 So what are the people of Pennsylvania looking for,
15 because I don't see that we've been inactive. We've given them
16 the opportunity three times through referendum. We instituted
17 gaming. The only reason I voted for gaming was because of the
18 property tax relief aspects of it.

19 So tell me, please, what are, based on your survey,
20 what are people looking for in terms of a solution other than
21 just the elimination of a tax that they don't like?

22 MR. HERB: I think that -- and I share some of the
23 same scenarios that you have been through in the past and that
24 we certainly have been a part of. It seems clear to us, based
25 upon the preliminary survey work that we completed, that the

1 sentiments of your constituents and the residents of the
2 Commonwealth are looking at it should be more of a State issue
3 barring the previous bills that were out there and the
4 referendums that were there.

5 I think the -- you comment about the inactivity or
6 inaction by the Legislature. It just shows that the growing
7 frustration from our citizens has grown greater than what it
8 has even been in the past and the frustration of not doing
9 something. And certainly I agree we've been back and forth on
10 this issue in terms of the Legislature, in terms of having
11 various proposals that were out there. We intend to do
12 additional survey work and follow-up work on this over the next
13 couple of weeks, and again, we'll be happy to share our results
14 with you.

15 MINORITY CHAIRMAN MUNDY: So you don't really know
16 at this point what people are looking for as a substitute for
17 the current system?

18 MR. HERB: Well, we know so far, based upon what I
19 presented, that they believe it's going back to a State issue.
20 They definitely -- what we do know from the survey results that
21 we did complete is that they're looking for some type of
22 property tax reform, and they want to see that done. And
23 again, to actually have and bring back to you more specifics, I
24 think we'll be able to do some follow-up with you on that. We
25 look forward to continue to work on it.

1 MINORITY CHAIRMAN MUNDY: Thank you.

2 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, sir, for
3 your testimony on behalf of the Pennsylvania Realtors
4 Association.

5 Next we will have Bernard Oravec, Publisher for the
6 Williamsport Sun-Gazette, and -- Deborah, are you going to join
7 him? Good -- Deborah Musselman, Director of Government Affairs
8 for the Pennsylvania Newspaper Association.

9 When you are comfortable, feel free to join us.

10 MS. MUSSELMAN: Hi. Good morning. Thank you so
11 much for allowing us to appear today.

12 I'm Deb Musselman, Director of Government Affairs
13 for the Newspaper Association. Our Publisher for the
14 Williamsport Sun-Gazette, Bernard Oravec, is here with us today
15 to share our views on this issue.

16 MR. ORAVEC: Thank you.

17 Good morning, Chairman Benninghoff and Chairwoman
18 Mundy. I appreciate the opportunity to speak before the
19 Finance Committee today.

20 My name is Bernard Oravec -- Bernie Oravec. I serve
21 as Publisher of the Williamsport Sun-Gazette, a daily newspaper
22 published in Lycoming County since 1801. In addition to the
23 Williamsport Sun-Gazette, our company also owns the Altoona
24 Mirror, Lewistown Sentinel, Lock Haven Express, and Muncy
25 Luminary, as well as the Warren newspaper.

1 I'm here today, probably to be the first person to
2 voice opposition to portions of, if not all of, HB 1776. I'm
3 not a paid lobbyist or a political activist. I serve as a
4 private-sector CEO who hopes to share with you today how this
5 bill will adversely affect our industry, my industry, as well
6 as some of the citizens that we serve.

7 Fortunately, on a daily basis, I have a lot of
8 interaction with our readers, both online and in print. It was
9 interesting to note some of the poll results we talked about
10 earlier. I could put a poll up tomorrow and have 100 percent
11 in opposition to real estate taxes. Then I could say, well,
12 what if half of the taxes go to sales tax? Well, it dropped to
13 50 percent. But the big uncertainty here with the people,
14 especially our readers, is not what reform takes place but how
15 do we curb the spending to prevent those taxes from increasing
16 either on a statewide or a local level, and that's something
17 I'm going to get to a little bit later, that I think I can help
18 answer the last question by Representative Mundy.

19 HB 1776 would impose a State sales and use tax at
20 the rate of 7 percent in numerous goods and services not
21 currently taxed in Pennsylvania by means of repealing
22 exemptions found in the Tax Code. The bill would impose a tax
23 on newspaper sales, production, and advertising. Most States
24 do not charge the sales tax when consumers buy a daily or
25 weekly newspaper, nor do they tax newspapers on their

1 circulation revenue. PNA and I believe that such taxes are bad
2 for business and bad for democracy in general.

3 Sales and circulation taxes stifle the free flow of
4 information. Newspapers report on events of State and national
5 interest, government activities, and events in our own
6 communities and around the world. Imposing a sales tax on
7 newspapers amounts to taxation of information and free speech.
8 Ideas should not, and really should not, be taxed.

9 If one looks at the current news climate in the
10 area, you'll notice that most news that you hear on the radio,
11 on television, and even online is generated through newspaper
12 reporting and newspaper posting. Years ago, this maybe wasn't
13 the case, but over the past 10 to 15 years, just about
14 everything you hear now, with the exception of individual
15 bloggers, is coming in one form or another from newspaper
16 reporters.

17 The cost of administering and collecting a tax on
18 newspapers would be high for a limited return. The tax would
19 create an administrative hardship on thousands of newspaper
20 carriers, including retirees who deliver newspapers to
21 supplement their income and a handful of boys and girls under
22 age 18.

23 As independent contractors for their local papers,
24 they purchase the papers they deliver at a wholesale rate for
25 delivery and they sell them directly to the customer. These

1 contractors would doubtless, for sure, lose customers if forced
2 to collect a new tax and would face the choice of absorbing the
3 tax and losing income or serving as a tax collector for the
4 State.

5 One of the secrets about newspaper carriers a lot of
6 people don't realize is, when most newspapers transferred from
7 an evening format, an afternoon format, to a morning format
8 about 30 to 40 years ago, at that time, 80 percent of our
9 carriers were school-age children who came home from school and
10 delivered the local news. Today, with early-morning delivery,
11 95 percent in my particular paper are between the ages of
12 45 and 65. So it's a completely changing demographic of
13 delivery personnel, and most of these men and women do this as
14 a preliminary or a supplemental income to go along with either
15 their Social Security or some sort of pension.

16 Many newspapers derive much of their circulation
17 revenue from news-rack sales. It would be impossible to adjust
18 coin boxes to collect the sales tax, particularly with local
19 county tax options in place. This would force newspapers to
20 raise prices and absorb the cost of the tax. Declining sales
21 and revenues would be the result here, and a very negative one.

22 One thing I do as a publisher, in addition to
23 setting the tone of the paper and worrying about how much
24 revenue I can bring in to keep the paper afloat, is I also have
25 the power to hire and fire, create jobs, and eliminate jobs.

1 And when there's a down economy, based on the recession of '08
2 and still the slow recovery, often I have to sit down with
3 employees and lay them off based on lack of work, especially
4 lack of commercial printing. We used to print a lot more
5 special publications other than newspapers. With the
6 recession, a lot of that has gone away, so I've had to lay off
7 based on economic means.

8 That's hard in and of itself, but I can justify that
9 in an honest and responsible way. For me to go back to
10 employees now and say, you're going to lose a job because we
11 have to pay more in taxes for newspapers that had never been
12 taxed in the first place, would make no sense. So it's very
13 important; it is a job-killer for us.

14 Retailers lose a vital resource when newspaper
15 circulation declines. Adding 7 percent or more to the cost of
16 a newspaper, regardless of whether it's sold in a store, from a
17 news rack, or by subscription, would reduce circulation and, in
18 a devastating chain reaction, reduce the distribution of
19 advertising by retail merchants who rely on newspapers to reach
20 local customers and could harm local economies.

21 A tax on advertising would have a significant
22 adverse impact on newspapers and on society. The tax on
23 advertising in this bill would not apply to, quote, "business
24 to business" advertising, but it does not clearly define the
25 term. Is the advertising circulated with a newspaper exempt

1 because the advertiser has chosen to deal with another business
2 -- my local newspaper -- or is it subject to the tax since it
3 is distributed to the general public? Will the Department of
4 Revenue decide this by regulation? If the purchaser of the
5 newspaper and advertising is a business, does the tax on
6 advertising apply?

7 What about advertisements on Internet Web sites?
8 Florida tried to tax advertising in 1999 and repealed it less
9 than 1 year later after discovering it was a regulatory
10 nightmare.

11 Singling out newspapers for a sales tax without
12 imposing that tax on other information media -- radio, TV,
13 direct mail, and Internet-only publications -- is not only
14 inappropriate but unfair. Newspapers already pay their fair
15 share of taxes, including property tax, corporate net income
16 tax, capital stock and franchise tax, as well as other taxes
17 imposed on businesses in general.

18 Because the bill would curtail many regulations
19 under the current Tax Code, it would also impose a sales tax on
20 the cost of our raw materials such as paper and ink. This
21 would leverage the unfair advantage created in the bill for our
22 media competitors.

23 Local community newspapers report on events of State
24 and national interest, on government activity, and on events in
25 their communities and around the world. PNA notes the

1 time-honored status of our free press as the only form of
2 business specifically identified in the United States
3 Constitution.

4 While I am here to specifically address concerns of
5 the newspaper industry and to defend our right to publish free
6 and clear of taxes, the larger picture cannot be overlooked.
7 Raising taxes, creating new taxes, shifting taxes from one
8 group of citizens to another, will not solve the core problem
9 of too much government -- both local and statewide -- spending.

10 We had talked earlier; Representative Mundy had
11 asked the former gentleman, what do our taxpayers want? Well,
12 no one can absolutely answer that question, but I can tell you
13 one thing for sure from the interactions I have with our
14 readers: Many of them complain about their real estate taxes.
15 None of them, or I, would want to pay real estate taxes if we
16 had the choice. But the bigger concern over having to pay the
17 taxes is not knowing year in and year out how much it's going
18 to go up.

19 Most of our readers and I think most taxpayers
20 understand that paying real estate taxes has been and may well
21 be a part of owning a home in the Commonwealth of Pennsylvania.
22 A slight reduction of those taxes would go a long way, but more
23 importantly, a reduction in spending and the certainty to know
24 year in and year out, do I have to worry about having to pay
25 another hundred and then another hundred on top of my existing

1 taxes, that certainty is what our taxpayers are looking for,
2 and shifting tax burdens for the sake of shifting tax burdens
3 is not the answer.

4 It is also time to revisit the issue of school and
5 municipal consolidation. For real and lasting cost reductions,
6 we must address this issue very soon. We have 499 school
7 districts in this Commonwealth within 67 counties. That's
8 499 superintendents. Cut back to even 100 of those, keep 100
9 for the 67 counties plus the larger urban areas, and you're
10 saving just in salaries of superintendents alone close to
11 \$56 million based on an average of \$140,000 a year. Small
12 change when we're talking about billions, but there are other
13 costs involved with that as well that can be saved.

14 Not a popular or easy decision, not something that
15 anyone wants to do -- I think only about two major
16 consolidations have happened in the past few years -- but it's
17 something to look at. Otherwise, people in our community in
18 education and in other walks of business in Pennsylvania are
19 going to look at this tax reform bill as, I dare say it, a
20 sleight way or an underhanded way to deny our school districts
21 of revenue, and we don't want that to happen.

22 Everybody here has the right view. They want to do
23 what's best for the people of Pennsylvania; they want to do
24 what's best for the taxpayers, but I think it's very important
25 that we start with maintaining current rates or reducing them

1 slightly, and more importantly, cutting spending going into the
2 future.

3 With that, I simply would like to close that we
4 consider any tax imposed on the sale of newspapers to be a tax
5 on the free flow of information in our society and contrary to
6 the public interest, and we oppose HB 1776. Please table or
7 vote "no" on HB 1776 when the opportunity arises.

8 Thank you.

9 MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

10 Deb, do you want to add anything to that?

11 MS. MUSSELMAN: No. Thank you.

12 MAJORITY CHAIRMAN BENNINGHOFF: Are you here to take
13 questions?

14 MS. MUSSELMAN: Any questions you have for us.

15 MAJORITY CHAIRMAN BENNINGHOFF: Okay. Anyone?

16 Representative Davidson, and then Representative
17 Cox.

18 REPRESENTATIVE DAVIDSON: Would you still oppose the
19 bill if the newspaper tax is taken out?

20 MR. ORAVEC: We would still question it, but that
21 would certainly, you know, that's our one sacred ox, as the
22 gentleman said.

23 But overall, we do have overall objections to it, to
24 be honest with you. I mean, it's a combination, of course, of
25 our own -- we're definitely looking at our own industry, but we

1 are looking at, since we deal with the public daily, we deal
2 with writers, we deal with people who call us, write us, and
3 confer with us on a daily basis, we do find that the biggest
4 concern people have isn't so much the fact that they're paying
5 real estate taxes, it's just that every year it keeps going up
6 and the spending isn't curtailed. That's the problem that our
7 taxpayers, our readers, are facing.

8 And I think if you were to do a bill, a modification
9 of the bill where you are able to save some real estate taxes
10 and also make enough spending cuts State and locally that we
11 can guarantee those things don't go up every year, I think it
12 would be a lot easier sell.

13 You know, I disagree with some of the folks who went
14 first. They have some good points, but I think overall the
15 issue isn't a shifting from real estate to sales tax; it's
16 maintaining or lowering slightly existing taxes and not making
17 them go up year after year, if that makes sense.

18 MAJORITY CHAIRMAN BENNINGHOFF: Representative Cox.

19 REPRESENTATIVE COX: Thank you, Mr. Chairman.

20 Thank you for your testimony.

21 You talked briefly about a survey, you know, if you
22 surveyed people, would they not want to pay property taxes?
23 Have you in fact conducted any surveys among your readership?

24 One of the previous testifiers talked about a survey
25 done online, another one was done -- I think a couple of them

1 were done online, and the public sentiment is high on this and
2 there's a high number. Have you done a survey within your
3 readership as far as laying out some of these parameters, much
4 like the Realtors have done, to say, if you take away this tax
5 and utilize sales and income tax, if you lay out a
6 fairly-phrased question, do you know what your readers would
7 say or have you done this already?

8 MR. ORAVEC: No, we haven't done it already, but I
9 would definitely say yes, they would want and say that they are
10 paying too much in taxes; they would want to see the taxes
11 lowered. There's no doubt about that.

12 I think the concern is, you can't, you can't lay out
13 the survey in such a way that you can explain to them, well, we
14 can't guarantee the taxes somewhere else and expenses are going
15 to continue to go up. If you were able to say that, you know,
16 your taxes are going to go down this amount but you may have to
17 pick up a few extra dollars here for the sales tax and that's
18 not going to go up next year -- or the main initiative we
19 talked about a little bit here is your local districts still
20 have the option to levy a local income tax if they need to make
21 up the difference. I mean, if you put all that in there, that
22 changes the dynamics.

23 Plus, to be quite honest, a lot of the folks who
24 will respond to online surveys tend to be generally more
25 politically active -- in our neighborhood -- more generally

1 conservative, and it's going to be a skewed result, kind of
2 like choosing registered versus actual voters.

3 But either way, a poll is going to say yes, please
4 reduce my real estate tax, and I would vote yes, please reduce
5 my real estate taxes. But at the same time, we have to look at
6 what's going to happen once the alternatives are put into
7 place, and it's very difficult to guarantee any of our readers,
8 our taxpayers, that their rate still isn't going to go up
9 somewhere else next year or the year after or the year after.

10 So I think while you've done a lot of work on this,
11 and I like the idea that we're thinking about saving money and
12 trying to reduce taxes, I don't think we have to go as far on
13 the whole as we're doing here. I think we have to figure out,
14 first, how do we curb and prevent the out-of-control spending,
15 both locally and statewide, on things such as education? There
16 are so many unfunded mandates; there are so many things going
17 into it. And those costs, no matter how wonderful the plan may
18 seem or whatever the plan might finally come out to be, it's
19 all going to be for naught if 2 years from now the local real
20 estate rate -- or excuse me -- the local earned income rate is
21 going to have to keep going up, going up, going up to the point
22 where you're going to end up paying more collectively, both in
23 income and real estate taxes.

24 REPRESENTATIVE COX: I would ask that you perhaps
25 take the time to do, as I know at least one other newspaper off

1 the top of my head -- Times Herald, Stan Huskey, the gentleman
2 did a series of articles on this, and across those articles he
3 explained, you know, what's taxable, and I believe did a very
4 thorough discussion of the ins and outs of the plan. And he
5 put out what he called a property tax challenge, and I recently
6 interviewed with him, and he handed me a stack of letters, and
7 that was just a portion of what he had received.

8 Over and over and over again, and this is the more
9 traditional -- and this is going to the potentially skewed
10 results of an online poll. KQV wasn't just an online poll; it
11 was also a telephone poll -- no pun intended. But when you
12 look at that type of response -- a few people in the audience
13 just got that.

14 MR. ORAVEC: There's not a comedy tax, so we're
15 okay.

16 REPRESENTATIVE COX: Fortunately.

17 MR. ORAVEC: Yeah.

18 REPRESENTATIVE COX: But when you look at that,
19 and Mr. Baldinger testified as far as going around to at least
20 50 different places in the last year alone. I've been around
21 different areas, other Reps have been around in other areas:
22 this is not an isolated issue from the most conservative voters
23 or the most conservative responders. This is Republicans,
24 Democrats, Independents, from all political spectrums, and the
25 common thread is they want homeownership. And so I would

1 disagree with you that they're content to continue to pay rent
2 to their school districts. They want to pay that last mortgage
3 payment and they want to own it. They want to feel secure in
4 their homes.

5 Our own Department of Aging talks about aging in
6 place, and yet our own tax system is pushing people out of
7 their homes. So if we're trying to address health-care costs
8 by letting people age in their homes, shouldn't we tackle the
9 thing that's driving them out of their homes the fastest?

10 So I'm not looking to get into a back and forth
11 here---

12 MR. ORAVEC: I'm not disagreeing.

13 REPRESENTATIVE COX: ---but I would request that you
14 perhaps put a series of articles out there explaining it and
15 give it fair treatment and say, you know, what would you like
16 to see done? If you're doing this and doing this, you know, I
17 would ask that you not just look at, you know, the businesses
18 or the carriers who are going to be delivering it and looking
19 at whether they want to become tax collectors but asking your
20 readers as a whole, the general populace, what they think of
21 this. And I think you'll be, based on what I'm hearing today,
22 I think you'll be surprised by the results, because it's a
23 growing sentiment, and as the Realtors' information displayed,
24 when given information about this in an open way, the results
25 are overwhelming and they're continuing to grow in that

1 direction.

2 MR. ORAVEC: And I would love -- I think I will get
3 together and I'll put something together and poll our folks,
4 with your help.

5 But I do, again, I think what you have to take out
6 of this, I'm not disagreeing people want some kind of a tax
7 reform. Everybody wants something to pay a little less. And I
8 don't think it's a matter of me trying to say no one wants tax
9 reform; of course they want tax reform. My concern is, if
10 you're going to have such an upheaval and you're going to
11 change it this way and you're not going to act on the core
12 problem, which is out-of-control spending, what are you
13 accomplishing? You're robbing Peter to pay Paul, and both of
14 them are poor.

15 REPRESENTATIVE COX: And this will be my last
16 comment; you're welcome to comment if you wish. But the
17 Republican agenda thus far over the last couple of years, since
18 Governor Corbett came in, has been to tackle those very issues,
19 to tackle the out-of-control school spending. To rein them in,
20 we did some legislation last summer that pulls back on the
21 exemptions allowed under the tax increases.

22 And so we are doing just that, we are trying to
23 tighten the belt in every way possible. So I think if you can
24 get behind us on some of these other things -- prevailing wage
25 is another thing that just shackles school districts to

1 artificial cost increases---

2 MAJORITY CHAIRMAN BENNINGHOFF: Stay on the bill.

3 Not to cut you short---

4 REPRESENTATIVE COX: I'm addressing the gentleman's
5 concerns, Mr. Chairman. I think a little latitude would be---

6 MAJORITY CHAIRMAN BENNINGHOFF: Out of respect to
7 the other people that are here waiting to testify, I'd like to
8 stay on schedule, please.

9 REPRESENTATIVE COX: Okay.

10 MR. ORAVEC: I appreciate the comments.

11 REPRESENTATIVE COX: Thank you, sir.

12 MAJORITY CHAIRMAN BENNINGHOFF: You two are welcome
13 to have a side bar if you'd like and set up that opportunity to
14 get that survey together.

15 MR. ORAVEC: Thank you, Chairman.

16 MAJORITY CHAIRMAN BENNINGHOFF: Representative Dean,
17 I believe, has a question.

18 REPRESENTATIVE DEAN: I have a quick question.

19 Thank you very much, Mr. Chairman, and thank you for your
20 testimony, Mr. Oravec.

21 Have you done an analysis of what is the dollar
22 number impact -- and maybe this is really more appropriately
23 for Representative Cox -- for your industry across the
24 Commonwealth? What does this represent in expansion of
25 revenues?

1 MR. ORAVEC: That is something we'd have to really
2 point out.

3 MS. MUSSELMAN: We actually haven't done a specific
4 analysis per se. One of the reasons for that is a lack of
5 clarity in the bill as to the way the tax would be imposed, if
6 it would be paid at the newsstand, if it would be paid on
7 newspaper circulation revenue. There are a lot of unanswered
8 questions.

9 MR. ORAVEC: And the advertising issue is a key as
10 well.

11 MS. MUSSELMAN: Yeah.

12 MR. ORAVEC: If it's considered business to
13 business, is advertising exempt? But because we sell to the
14 public, is advertising then taxed, you know, as far as that
15 option as well? So there are a lot of parameters we don't have
16 an answer on yet to clearly give you a proper number.

17 REPRESENTATIVE DEAN: To know. Okay. Thank you
18 very much.

19 MS. MUSSELMAN: Excuse me. If I may add, the
20 legislation in previous sessions was just a blanket tax on
21 advertising, and we do have data on that, on the impact on
22 Pennsylvania and specific cities that was done by Global
23 Insight, the econometric study, and I'll be happy to get a
24 packet of that information to you, Representative.

25 REPRESENTATIVE DEAN: Thank you very much.

1 Thank you, Mr. Chairman.

2 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
3 Mrs. Dean.

4 And thank you both for your testimony.

5 MR. ORAVEC: Thank you.

6 MAJORITY CHAIRMAN BENNINGHOFF: Next we have
7 Cheri Freeh, a certified public accountant -- actually,
8 President of the Pennsylvania Institute of CPAs -- and her
9 lovely assistant, Peter Calcara.

10 MS. FREEH: Isn't he lovely. Good morning.

11 MAJORITY CHAIRMAN BENNINGHOFF: You're welcome to
12 join her, Peter, if you wish. Thank you.

13 MS. FREEH: Good morning, everyone. I want to thank
14 you for giving us the opportunity to address your committee
15 this morning.

16 My name is Cheri Freeh, and I am currently the
17 President of the Pennsylvania Institute of CPAs -- PICPA -- and
18 I'm also a principal with the firm of Hutchinson, Gillahan &
19 Freeh, and we're located in Quakertown, Pennsylvania.

20 You have our written testimony. For the sake of
21 time, I do want to just make a few comments. I'm not going to
22 read the testimony.

23 Usually PICPA prefers to be an objective resource
24 for Legislators in terms of items that are in bills, and we try
25 not to take a position one way or another because we want to

1 maintain that objectivity. However, there are some things in
2 this bill that are seriously detrimental to our membership, so
3 we do have to express some concern, specifically as it relates
4 to the language expanding the sales tax base to include
5 services.

6 Overall, we applaud you in your efforts to try to
7 address the real estate tax situation. Actually, our
8 membership, many of our members have said all along you should
9 just get rid of all Act 511 taxes and replace it with an
10 increased PIT. I mean, we are not opposed to the general
11 concept of this legislation. We do have some serious concerns
12 about the taxation of services and specifically the expansion
13 of the sales tax base.

14 In particular, with the advanced technology that is
15 available today, there has been a lot of loss of jobs in the
16 accounting sector to overseas, places due to outsourcing, to
17 offshore service providers, and our concern is that this would
18 not only be to offshore, that if a sales tax is imposed on our
19 services in the State, that it would now be that we'd be losing
20 jobs to people out of State.

21 I have a lot of clients across the country. They
22 don't even come into Pennsylvania. They scan and e-mail me
23 their information to do a tax return. I've got clients in
24 Florida, Arizona, Ohio, and if we suddenly have to start
25 imposing a sales tax on that service, I'm going to lose those

1 clients. We're going to lose the revenue in Pennsylvania, and
2 you multiply that by a significant number of people that do tax
3 preparation in Pennsylvania.

4 Now, I am talking specifically, because I know that
5 the bill does include a business-to-business exemption. In all
6 honesty, I'm not sure how that would work because of the
7 uniformity clause. I don't know anything about that. I just
8 know Representative Mundy had brought up why is it that the
9 real estate taxes have to be across the board. I know it's
10 because of the uniformity clause in the Constitution. I'm not
11 sure how that would apply to a business-to-business exemption
12 in terms of taxpayers, so I won't go into that.

13 But the other thing I want to point out is that
14 business as defined, you know, the definitions I've seen in
15 here are a bit unclear. I do believe that charitable
16 organizations would not qualify as a business, and in essence,
17 you would be raising taxes on charitable organizations -- your
18 fire companies, your EMS squads, your homeless shelters, your
19 churches potentially, PTAs. They are all users of accounting
20 services, and they would not receive an exemption.

21 Now, charitable organizations do get an exemption
22 from sales tax for purchases made directly related to their
23 exempt purpose, but they don't get a sales tax exemption on
24 administrative costs or fundraising costs. So they would be
25 subject to this tax.

1 Also, as was mentioned previously, the
2 administrative nightmare. You know, you've got, okay, a
3 service. You know, I was trying to think of services that are
4 going to be subject to this tax, and one of the first things
5 that came to mind was my daughter's soccer team, the little
6 soccer kids out playing, and they pay \$10 to a teenager to
7 referee the game. Well, that's a service; that would be
8 subject to tax.

9 You know, there are schools having to cut programs.
10 If parents want to pay for music lessons for their child, if
11 they want to supplement their child's education through
12 tutoring and that type of thing -- subject to tax.

13 Our biggest concern is that that is an unknown
14 quantity. This past year, the Pennsylvania Department of
15 Revenue added a line to the Pennsylvania income tax return to
16 help in collecting use tax, which is the situation where if
17 somebody purchases an out-of-State service and they use it in
18 Pennsylvania, they're supposed to pay that in. Revenue
19 estimates were done, and when actual revenues were compared to
20 the revenue estimates, they took in about half of what they had
21 anticipated.

22 So I just question the ability to measure the amount
23 of income that's going to be generated by an expansion in the
24 sales tax base, because it's an unknown quantity.

25 Now, increasing the sales tax on the known base

1 would be a known quantity. Increasing the personal income tax
2 would be a known quantity, generally. The expansion of the
3 sales tax base is our big concern, because we really don't see
4 how that can even be quantified properly.

5 So in closing I do just want to point out, we do
6 want to learn something from the past. In our testimony we
7 referenced that back in the Casey Administration, a sales tax
8 on computer services was implemented that was devastating to
9 Pennsylvania. It resulted in the loss of a lot of jobs, and it
10 was almost immediately repealed but we're still recovering from
11 some of that. So we're just recommending that you take a very
12 close look. We are in opposition to the sales tax on the
13 services in general, and overall, the ability to expand the
14 sales tax base with a known quantifiable amount.

15 So if there are any questions.

16 MAJORITY CHAIRMAN BENNINGHOFF: Yes, we have a
17 couple, and actually, I'm going to throw one out there quickly.
18 You did a great job trying to summarize, but I would just like
19 to expand a little bit on your comment on, I think it's page 3;
20 it says about the pyramiding effect. In the bill, I believe
21 there's a provision that says the business-to-business
22 transactions are exempt. Do you see that relieving any
23 concerns about the pyramiding?

24 MS. FREEH: A business-to-business exemption would
25 assist. I'm not going to kid you. You know, that would be

1 helpful. It's not going to address the administrative
2 nightmare that's going to be caused by it. It's not going to
3 address the fact that we could be losing jobs out of State.
4 But in terms of businesses charging taxes on other businesses,
5 then yes, it could potentially do away with that.

6 MAJORITY CHAIRMAN BENNINGHOFF: And your comment
7 about the pyramiding effect, does that help to address any of
8 that?

9 MS. FREEH: I'm not quite sure I understand.

10 MAJORITY CHAIRMAN BENNINGHOFF: It says about taxing
11 on a tax on top of a tax.

12 Peter, you're welcome to jump in.

13 MR. CALCARA: Yeah; I think exempting the business
14 to business, the business-to-business exemption, is a step in
15 that direction. However, the concern we have, too, is once
16 that is part, once you do subject sales tax to accounting
17 services on an individual level, what's there to say that it's
18 not eventually going to be expanded at some point, if the
19 numbers don't add up, to business-to-business transactions.

20 MAJORITY CHAIRMAN BENNINGHOFF: Thank you for that
21 clarification.

22 Representative Mundy. And Representative Davidson,
23 did you have a question as well? Okay.

24 Chairwoman Mundy.

25 MINORITY CHAIRMAN MUNDY: Thank you for your

1 testimony.

2 I'm interested, you talked about your out-of-State
3 clients. Do any of the other States that you do business with
4 or that you're aware of impose a tax on services?

5 MS. FREEH: Not that I'm aware of.

6 MR. CALCARA: There are a small handful of States
7 that do impose tax on a broad base of services. I could get
8 you that list. I believe it's a handful, maybe five. And most
9 of them are very small States, like Wyoming---

10 MS. FREEH: And you have to have nexus, obviously.

11 MR. CALCARA: Yeah.

12 MS. FREEH: In our situation, I don't have nexus. I
13 have not set foot in their State. I am not seeing them
14 personally. So we are not subject to that tax, but they would,
15 potentially in those States, be subject to a self-reporting use
16 tax-type situation.

17 MR. CALCARA: None--- I'm sorry.

18 MS. FREEH: Possibly.

19 MR. CALCARA: Yeah. And none of the surrounding
20 States, I'm pretty sure, have a tax on professional services.

21 MINORITY CHAIRMAN MUNDY: Thank you.

22 MAJORITY CHAIRMAN BENNINGHOFF: You guys hit a home
23 run. It looks like no other questions. We thank you both for
24 your testimony.

25 MR. CALCARA: Thank you.

1 MS. FREEH: Thank you.

2 MAJORITY CHAIRMAN BENNINGHOFF: Next we have
3 Dr. David Davare, Director of Research for the Pennsylvania
4 School Boards Association.

5 Thank you for joining us, and feel free to start
6 when you're comfortable.

7 DR. DAVARE: I'm going to move that a little bit. I
8 have a tendency to hit microphones from time to time.

9 Chairman Benninghoff, Co-Chairwoman Mundy, Members
10 of the committee, thank you for the opportunity to testify.

11 As stated, I'm Dave Davare. I'm the Director of
12 Research Services at PSBA.

13 While PSBA supports the concept of diversifying the
14 tax base, unfortunately, our association does not support or
15 will not support any proposal that is a 100-percent elimination
16 of the property tax. We feel that the property tax is a very
17 stable base, and rightly so, it should be available to school
18 districts along with the other municipal governments.

19 I'm not going to read all of my testimony. I'm
20 going to highlight a couple of things. As I indicated, we do
21 rely too heavily on property taxes. Some of that is because of
22 the mandates that school districts need to operate under.

23 Chairwoman Mundy, thank you very much for the brief
24 summary of the tax reform attempts. That saves me even
25 addressing that. I was around and did do work under the

1 Casey plan, the '88-89 attempt at tax reform. And you're
2 correct, there is a poor track record of voters approving a
3 shift in the EIT/PIT, and in fact we had the opportunity under
4 a bill that came out in 2001 and additionally revised in 2002
5 to repeal the occupational assessment, the millage-based tax.
6 When I started at PSBA, there were 110 districts that were
7 levying that tax. There are still 39 districts levying that
8 tax, and many of them have put out ballot questions and the
9 people would not accept that transition as well. So, you know,
10 that's just another situation.

11 One of the biggest things that we're concerned about
12 under HB 1776 -- and Representative Cox, we do thank you for
13 your effort on this behalf -- is the shift away from businesses
14 onto individuals. In Pennsylvania, on a statewide basis, about
15 70 percent of all assessed value is residential property, and
16 that would include the lots that people purchase in urban areas
17 that are right beside their lot to give them a slightly bigger
18 area. So that means about 30 percent of the real estate tax
19 would be shifted away from business onto individual taxpayers.

20 If you'll look at Table 1 in my testimony, I present
21 a brief summary of how that works, and what that does is, that
22 shifts roughly \$2.6 to \$3.2 million. That's a 25- to
23 30-percent range. That means that in the PIT, on a statewide
24 basis, that would require a 1- to a 1.2-percent PIT on
25 individuals to handle that shift.

1 But the bottom line is, if I take the total number
2 of tax returns that were listed by the Department of Revenue,
3 in 2009 -- that's the most recent year that they have data for,
4 and this is total returns, including zero returns and those who
5 have tax forgiveness under the special provisions -- that means
6 that that tax increase to offset that loss would be between
7 \$450 and \$540 just to replace the lost real estate tax to
8 school districts.

9 As pointed out by some of the business presenters
10 here this morning, we have a concern in regard to the expansion
11 of the sales and use tax. Primarily our concern is the
12 expansion of that tax to the point that people are going to be
13 required to gain additional licenses as the authority to serve
14 as a tax collector for the Commonwealth for that tax, and also
15 the additional filings that will be necessary to the Department
16 of Revenue, and we're not sure that the Department of Revenue
17 is staffed sufficiently to handle the influx of demand for the
18 licenses to collect the real estate tax, or I'm sorry, the
19 sales tax, nor are they staffed to handle the expanded increase
20 in returns, quarterly and annual filings, and any necessary
21 audits that would go along with that. So if the Department of
22 Revenue has the authority to remove revenue from the expanded
23 sales and use tax to cover their costs, what does that truly
24 leave for school districts? So we've got a concern about those
25 numbers in there.

1 I've provided some additional tables that look at
2 how this bill reacts to individual school districts. According
3 to the testimony this morning, this is going to be on a
4 statewide basis, and the dollars are there supposedly from the
5 expansion of the sales tax and a .94-percent increase in the
6 PIT. Unfortunately, we do not read the bill in the same
7 manner, and we believe districts are going to have to pick up a
8 substantial portion on the EIT.

9 Representative Cox, not to be picking on your bill
10 at this point, but I've been through enough tax reforms to know
11 the devil is always in the details, and there is some concern
12 in regard to how we're reading certain provisions in your
13 legislation and how you're intending them. We think there's a
14 concern or a mismatch in some cases. You know, as we put out
15 before this committee before on several occasions, PSBA would
16 be willing to work with the committee, individual Members or
17 the entire committee, in terms of how this is read.

18 One of the things that we don't want to get into and
19 we found in other attempts at tax reform is the devil is in the
20 details and the amount of effort and necessity of training our
21 members and the general public as to what these tax reforms
22 mean. Under the '98, 2004, 2006 attempts at tax reforms, I
23 want to say that our organization did somewhere in the
24 neighborhood of 200 to 300 workshops all across the
25 Commonwealth just trying to make sure our members and their

1 corresponding taxpayers understood what was required of the
2 school board.

3 As the gentleman from the Williamsport newspaper
4 mentioned, there is a concern about people understanding what
5 this means to them, and here again, I think, you know, my view
6 on tax reform is, people always want to try and understand, can
7 I pay less? am I going to pay less? and I think that's what
8 they want from tax reform.

9 But as the gentleman from the newspaper stated, one
10 of the issues is the cost. School boards are not free-rein
11 jurisdictions to make their own decisions. They are mandated
12 to provide a specific service. We cannot lay off teachers for
13 financial reasons. That means we have to cut programs. We
14 have to do whatever is required of the school district, that's
15 both legislatively under the School Code and regulatory from
16 the Department of Education itself. We also have to deal with
17 Federal mandates.

18 In Pennsylvania, a child from the ages of 6 to 21,
19 if they are a special-needs child, is the responsibility of the
20 public school district. That means that we have to provide
21 whatever is necessary to support that child, and unfortunately,
22 that's not a cost that we can control; that's not a cost that
23 the Legislature can control. And in fact I go back far enough
24 that when Governor Casey left, one of the crowning achievements
25 in his administration, as he stated, was his ability to control

1 the rising costs of special education at the State level, and
2 that was controlled by passing it to local school districts.
3 And as long as we keep getting those kinds of mandates, then
4 school districts, unfortunately, are going to be in the
5 position of having to say, we need more to operate.

6 Yes, it's true the Legislature has given school
7 districts more money over time. Yes, it's true that school
8 districts have increased real estate taxes over time, and in
9 part that's because the mandates that we face have imposed
10 costs that are rising at a rate greater than State subsidy
11 increases.

12 It was talked about, prior to the primary election,
13 one of the key points I'll make in terms of a mandate has to do
14 with prevailing wage. The cost of prevailing wage is such that
15 as an individual, if I go out and I hire a contractor to
16 install 10 feet of sidewalk, I get 10 feet of sidewalk. If I
17 do it under prevailing wage, I only get 8 feet of sidewalk but
18 I pay for 10, and it's those kinds of mandates that get imposed
19 on school districts that are forcing districts to spend.

20 I have not met a school board member who was in a
21 rush and willing to say, let's do nothing but raise taxes.
22 Over the past 2 years, districts have cut programs and raised
23 taxes. Some districts have not raised taxes but they have
24 severely cut programs.

25 And with that, I will close my comments and ask if

1 there are any questions.

2 MAJORITY CHAIRMAN BENNINGHOFF: Any questions from
3 the Members?

4 Representative Davidson.

5 REPRESENTATIVE DAVIDSON: Have you seen or can you
6 elaborate on a reluctance of school boards to cut
7 administrative costs -- superintendents, principals, assistant
8 principals? Have you seen a reluctance in cutting costs that
9 would cause you to not be supportive of this kind of bill?

10 DR. DAVARE: No, I have not seen a reluctance.
11 Understand, though, that a school district just can't eliminate
12 the superintendent. There is a mandate that we have a
13 superintendent.

14 REPRESENTATIVE DAVIDSON: Yeah; I mean assistant
15 superintendents.

16 DR. DAVARE: Assistant superintendents have been
17 eliminated, a number of administrators, central-office
18 administration. Over the last 2 years, those positions have
19 been subject to eliminations. Some districts have had some
20 retirements, and they've announced this year they're not doing
21 replacements.

22 The school district I live in, the West Shore School
23 District, has a business manager, an assistant business
24 manager. The business manager is retiring this year. The
25 board has announced they're promoting the assistant business

1 manager and there will be no replacement for the assistant
2 business manager. So we're seeing the administrative positions
3 all across the State also being subject.

4 But we also have districts, by law, we're required
5 to have a voting principal for every building, and if we go
6 into some districts, you're going to find the elementary
7 principal is not only principal in one building but two or
8 three buildings, especially more so in rural communities is
9 typically where we tend to see that. There are some small
10 rural districts where the superintendent is also the elementary
11 principal.

12 So we see a lot of -- we hear a lot about the
13 overflow of administrative costs, but a lot of that is
14 primarily mandates.

15 REPRESENTATIVE DAVIDSON: Okay. And do you provide
16 any guidelines to school boards about how they can cut
17 administrative costs or what an acceptable ratio is?

18 DR. DAVARE: We provide information on what the
19 ratios are, the different ratios or different rates of
20 staffing. But we've also been supportive -- the next speaker
21 behind me is from PASBO. They put out a couple of years ago
22 500 best practices, and we've supported school districts, we've
23 encouraged school districts to look at those best practices
24 and, to the extent possible, if they could implement them, even
25 to the point of having a workshop at our annual conference

1 where one of the individuals responsible did a presentation on
2 some of the different things.

3 We also encourage shared services, where a district
4 or two districts would go together and instead of two districts
5 having a curriculum per each, a curriculum person where they
6 would share. We find a number of small districts are already
7 sharing a lot of unusual positions. There's a shared business
8 manager. There are shared technology directors, shared
9 curriculum people. We even had two school districts inquire
10 and get approval from the Department of Education to share a
11 superintendent, but when the districts went back and took a
12 look at that and the demands that they would be placing on one
13 individual, they felt that that was going to be problematic, at
14 least at this point. But districts are looking for every way
15 they can save.

16 REPRESENTATIVE DAVIDSON: Just a final comment.

17 Thank you for sharing that with me. I just haven't
18 found that to be the case -- maybe in some rural areas that may
19 be the case, but it's certainly not the case in the school
20 district that I'm representing, where there are two assistant
21 superintendents, there are probably two assistant principals in
22 a number of schools, there is not a whole lot of cost sharing,
23 I don't believe, that they're sharing with any of the other
24 school districts, and costs continue to rise and property taxes
25 continue to go up. They raise property taxes every single year

1 and cut programs -- teachers, 57; administrators, 1.

2 So that's my concern with spending. So I just
3 wanted to make that comment for the record.

4 DR. DAVARE: Yeah. And let me point out that with
5 assistant principals, sometimes it's the nature of the building
6 that requires additional assistants. Typically, that is more
7 common in a high school where you may have an issue, a
8 historical issue, of discipline problems.

9 REPRESENTATIVE DAVIDSON: We have four.

10 DR. DAVARE: And I can understand in some buildings
11 where that might be necessary, one for each grade level. But
12 here again, part of that is local control, and I can't address,
13 you know, any specific district, but that does occur from time
14 to time.

15 MAJORITY CHAIRMAN BENNINGHOFF: Very quickly; I have
16 two quick questions.

17 I was at a statewide School Boards Association
18 meeting several years ago, and I consistently heard the words
19 "fair and equitable" funding thrown about, and I raised my hand
20 and asked the question if someone could explain what that
21 meant. And nobody seems to be able to explain what the words
22 "fair and equitable" mean, and therefore, we have this kind of
23 proverbial dog chasing its tail and "you need to give us more
24 money and we'll spend less money," and we just never seem to
25 get to the crux of the problem. It almost brings me to mind of

1 Chairwoman Mundy's earlier comment: If you were king for a
2 day, what would you throw out as a solution?

3 I mean, this issue is not new. We continue to try
4 to find solutions. I think if you ask people if they want to
5 eliminate their taxes or lower them, they're always going to
6 say yes. But do they want to have a comparable reduction in
7 services or do they want to give up certain things that are
8 going on, because I think most people want their kids in, you
9 know, the premier school, and they want swimming pools and ball
10 fields and everything else that they see in the neighboring
11 schools, and so it's difficult to provide those services for
12 you and for those of us who take money statewide and provide it
13 to other school districts to provide all that if people aren't
14 willing to pay for it.

15 DR. DAVARE: "Fair and equitable," if I were to
16 define it, unfortunately, I need to do what Representative Cox
17 backed away from originally, and that was tie any kind of tax
18 reform to a funding formula. And one of the big issues that we
19 face right now is, we do not have a funding formula. It has
20 tended to become last year-plus. Over the years we have
21 attempted to change the funding formula, and we get one
22 Governor who starts, and the Governor changes and the parties
23 change and that gets called to a screeching halt, and by the
24 end of that term, we start to see another reform and then we
25 get the same thing. So we see this repetitive nature.

1 But I think, unfortunately, the two are inextricably
2 linked together. You need to talk about the capacity of the
3 individual districts to generate their own revenue versus the
4 ability of the State to provide a funding formula that
5 addresses the needs of all the districts and the diversity of
6 this State.

7 My apologies; I would not want to be king for a day
8 to do that.

9 MAJORITY CHAIRMAN BENNINGHOFF: Well, I wouldn't
10 want you to run for the Legislature either, because the
11 decisions aren't any easier.

12 But it's interesting, at that same meeting -- and
13 I'll try to end with this. You know, the reality is, we hear
14 lots of people advocating, "Well, if we just get 50 percent of
15 our funding, get 50 percent funding from the Commonwealth...."
16 The reality is, a good portion of our school districts across
17 the Commonwealth get over 50 percent of their funding and some
18 up as high as 75 percent of the funding, and the internal
19 reality is, the guys who have districts in their legislative
20 districts that make 75 percent of their money from the State
21 sure aren't going to want to relinquish that.

22 But at that particular same meeting there was a
23 school district from down in the southeast who said, you know,
24 we only get 10 percent of our funding from the State; let us
25 alone.

1 DR. DAVARE: Yeah.

2 MAJORITY CHAIRMAN BENNINGHOFF: You know, we want to
3 provide for our children, and if we want to add a pool or we
4 want to put a gym on or whatever, we do that through local
5 taxation. And that's really part of the internal struggle we
6 have here, that there are those parochial ideologies, both
7 within the Legislature and outside within the school boards,
8 who want to have a say within what they do, and I think they
9 fear having some statewide control overtop of that.

10 DR. DAVARE: Yeah; in terms of the Act 1 tax reform,
11 I worked with two tax study commissions, one in suburban
12 Philadelphia, one up in Erie County. Yes, I did get them back
13 to back one week. It's 457 miles from northwest to southeast.
14 The issue there is, that district made a conscious decision not
15 to levy an EIT or a PIT, to stay with the property tax because
16 of the number of residents who work in Philadelphia and are
17 subject to the Sterling Act tax.

18 You've got the same thing up in the Poconos where
19 you have some districts who have chosen not to levy the EIT
20 because of the absentee landowners and the people from New York
21 who own properties, and rather than subsidize those properties
22 through the local taxpayer paying an EIT, they have chosen not
23 to. There are only 33 school districts left that do not levy
24 an EIT at this point.

25 MAJORITY CHAIRMAN BENNINGHOFF: One quick last

1 question, if I may.

2 I have reservations on, how do you get absentee
3 landlords to relinquish properties if there isn't any financial
4 punitive measure, as in property taxes? If I got a guy who
5 owns 10, 15 properties in my community and doesn't live in the
6 State and ultimately pays no property taxes, what gets them to
7 turn those properties over and, therefore, helps a community
8 not to have a bunch of blighted properties?

9 DR. DAVARE: I was a township manager many years
10 ago. I wish I had an answer to that question, because as the
11 township manager, I had six properties exactly like that. And
12 one was to the point of almost collapsing into a neighbor's
13 house, and we couldn't get relinquishment to even do a
14 demolition. We finally had to go to court to get demolition of
15 the property under health safety.

16 MAJORITY CHAIRMAN BENNINGHOFF: Did those people pay
17 property taxes on those properties at that point or were they
18 negligent on that?

19 DR. DAVARE: They were negligent on their
20 properties, but they always managed to pay that third year in
21 arrears just before sheriff's sale.

22 MAJORITY CHAIRMAN BENNINGHOFF: Did you eventually
23 have to take them by eminent domain?

24 DR. DAVARE: We asked the court for permission to
25 demolish the building for health safety reasons.

1 MAJORITY CHAIRMAN BENNINGHOFF: Thank you. We
2 appreciate your willingness to answer those questions.

3 DR. DAVARE: Thank you.

4 MAJORITY CHAIRMAN BENNINGHOFF: Thank you for your
5 testimony.

6 DR. DAVARE: Thank you.

7 MAJORITY CHAIRMAN BENNINGHOFF: Last but not least,
8 we have Jeffrey Mummert -- I hope I said that properly -- the
9 Business Administrator and Board Secretary of South Western
10 School District. Joining him will be Jay Himes, the Executive
11 Director of the Pennsylvania Association of School Business
12 Officials.

13 While they are getting ready, I will also, for
14 editorial purposes, let you know that we did receive written
15 comments from Lisa Schaefer, Government Relations Manager for
16 the Centre County -- for the County Commissioners Association.
17 I'm not home right now.

18 And for those who may leave before we finish, there
19 will be another hearing on June 4, probably within the same
20 time period, somewhere between 9 and 1 o'clock.

21 Sir, if you are ready, feel free.

22 MR. MUMMERT: Chairman Benninghoff and Members of
23 the House Finance Committee, thank you for inviting the
24 Pennsylvania Association of School Business Officials, PASBO,
25 to testify on HB 1776.

1 My name is Jeff Mummert, and I am the Business
2 Administrator of the South Western School District in York
3 County. Effective July 1, I'll become a member of PASBO's
4 Board of Directors, as well as Chair of its legislative
5 committee, a committee on which I've served for 8 years.

6 PASBO's membership covers a wide spectrum of
7 non-instructional disciplines required to support student
8 achievement and classroom learning. More about our
9 organization can be found at the end of my testimony.

10 HB 1776 will eliminate property taxes in
11 Pennsylvania by increasing the personal income tax from
12 3.07 percent to 4 percent and the State sales tax from
13 6 percent to 7 percent. While I'm not 100 percent certain, I
14 would guess that if you took a poll of likely voters in
15 Pennsylvania, the vast majority of them would indicate they are
16 in favor of eliminating property taxes. I would also bet that
17 if you asked the same voters if they would be interested in
18 paying more in total taxes, the vast majority of them would
19 answer no. This is the quandary we find ourselves in regarding
20 the issue of property taxes in the State. What is the fairest
21 and most equitable way of generating revenue to pay for public
22 services?

23 Property taxes have historically funded local
24 government services. They have been levied since the beginning
25 of this country. Some people believe they are regressive in

1 nature, although most economists would argue that a sales tax
2 is more regressive, having a greater proportional negative
3 impact on the poor.

4 What we do know about property taxes is that they
5 are a very consistent and stable way of funding public services
6 at a relatively low cost to collect. Our district pays about
7 \$36,000 to collect about \$30 million in property taxes, which
8 is about 1/10th of 1 percent.

9 Property taxes affect everyone -- senior citizens on
10 a fixed income, families and individuals who own a home,
11 renters and businesses. Almost everyone pays property taxes
12 for public services. Is it the only way to pay for public
13 services? Probably not, but coming up with an alternative plan
14 hasn't been easy either or I would guess that we would already
15 have an alternative in place.

16 The plan in HB 1776 is a drastic and unworkable
17 departure from our current method of funding education. It is
18 drastic from the perspective that the local property tax base
19 that gives local officials some degree of local discretion for
20 addressing local priorities will be cast off and replaced with
21 a State-controlled tax base where local dollars are
22 redistributed back to where they were collected. This
23 legislation makes Harrisburg the big tax collector of all
24 school district revenues. It is a big-government solution that
25 wrecks local discretion.

1 Currently, property taxes are collected locally and
2 the money stays local. I believe there is general distrust
3 across the Commonwealth by schools when it comes to having the
4 State collect and distribute education funds. The distribution
5 method of State funds has always been a bone of contention in
6 the central part of the State, as many of us are convinced that
7 much of our tax revenues are actually being diverted to the
8 Philadelphia and Pittsburgh areas instead of coming back to
9 central Pennsylvania.

10 State collection and distribution also begs the
11 question of how this plan could be possibly implemented just
12 from a cash-flow perspective. Increasing the State's personal
13 income and sales taxes will have to provide about \$11 billion
14 in new revenues to replace existing school property taxes.

15 HB 1776 calls for quarterly payments to be made to
16 districts. So will the State guarantee that there will be
17 nearly \$3 billion generated in the first quarter of the year or
18 is the State willing to provide the funding from reserves or
19 other sources? Even if the answer to either of these questions
20 is yes, has there been any consideration to the drastic
21 consequences of spreading out property taxes that are collected
22 primarily in the first 4 months of the fiscal year to a system
23 of quarterly State payments?

24 Further, is there any consideration to how districts
25 should budget? Currently, the property tax provides not only a

1 fairly stable revenue base but a predictable one as well. I
2 believe that a quarterly distribution of State funds replacing
3 property taxes will create havoc for school budgets.

4 The other State distribution concern that I don't
5 see specifically addressed in HB 1776 is related to whether the
6 State will distribute those tax revenues to school districts
7 when the General Assembly and Governor are unable to approve a
8 State budget in a timely manner. It wasn't that long ago that
9 school districts had to wait until October to get State
10 revenues due to a budget impasse. We were able to make it
11 through that disruption, as we were still collecting property
12 tax revenues in August and September.

13 Now, while many people will hear about the
14 elimination of property taxes, this bill is not about
15 eliminating taxes but rather shifting taxes from one type to
16 another. And when we say "eliminate" property taxes, let's be
17 clear: We are only talking about eliminating school district
18 property taxes, and only after 2 years, and only completely
19 after all outstanding debt has been paid. Evidently it is just
20 fine to continue to pay county and municipal property taxes,
21 many of which have seen double-digit percent increases the past
22 few years, as they are not part of this bill.

23 As you know, school districts are limited in our
24 property tax increase amounts as a result of Act 1 of 2006. So
25 property taxes will not be eliminated in total, only school

1 district property taxes will be eliminated. Property owners
2 will still receive a property tax bill each year for their
3 county and municipal property taxes, over which there are no
4 laws to control increases.

5 Anytime you have a shift in tax burden from one type
6 to another, you create winners and losers. You might think
7 that eliminating school property taxes would make everyone a
8 winner, but mathematically, that just isn't the case. Like
9 most bills dealing with the shifting of taxes, the intent of
10 HB 1776, when it is all said and done, is to be tax neutral.
11 Essentially, the amount of revenues generated by an increase in
12 the personal income tax and an increase in the sales tax and
13 the expansion of the goods and services covered by the sales
14 tax should be about the same as the amount lost from the
15 elimination of the property taxes.

16 In reading HB 1776, I noticed a few things regarding
17 this issue that raise a few operational questions.

18 First, the elimination of the school property tax
19 will occur over a 2-year period of time. And actually, if a
20 school district has debt that it is paying for construction
21 projects, they would be able to continue to have property tax
22 to cover that debt service cost until that debt service is paid
23 off.

24 So let me clarify this: HB 1776 proposes to
25 eliminate school property taxes with a shift to higher personal

1 income taxes and sales taxes, and yet, if your school district
2 has outstanding debt, you'll be able to have a property tax
3 that covers the cost of that debt service until it is paid off.
4 We'll come back to this in a minute.

5 Let's get back to the math. It is a given that most
6 individuals will pay more in total taxes as a result of HB 1776
7 than they do now. It is simple math, something we all learned
8 in school. If we eliminate the school property tax, the big
9 winners will be businesses and commercial property owners, as
10 they will have a decrease in taxes with no corresponding tax
11 increase.

12 Assuming that the financial need for funding
13 education doesn't decrease, the revenues lost from the
14 elimination of property taxes for businesses and commercial
15 properties will need to be made up, and that tax amount will
16 come from individuals. So when you do the math, there is no
17 question that under HB 1776, most of us will pay more in total
18 taxes than we pay now.

19 I found the examples of referendum questions
20 contained in the bill to be very interesting. On page 12, for
21 example, the bill gives us the sample referendum question, "Do
22 you favor the imposition of a personal income tax of X%?"
23 Similar referendum questions are outlined for an earned income
24 tax and net profits tax. I would suggest that a more accurate
25 referendum question for voters would be, "Do you dislike the

1 current school district property tax so much that you are
2 willing to pay more in total taxes to fund education?" To me,
3 that is at the heart of this question.

4 Actually, what concerns me personally, other than
5 the concept of having to pay more in taxes than I pay now to
6 cover the lost revenues from commercial and industrial property
7 taxes that would be eliminated, is what I call the "double
8 whammy" effect. The double whammy I'm referring to is the
9 twofold concern that not only will most people pay more in
10 total taxes, but that when crafting this legislation, the
11 General Assembly will not make the tax rates high enough to
12 provide sufficient revenues to make up for the lost school
13 property taxes. Again, from an operational standpoint, will
14 HB 1776 provide sufficient offsetting personal tax revenues in
15 year 1 to cover the lost school district property taxes, or
16 will that total revenue stream reach the total offset in
17 year 2?

18 As school districts with outstanding debt have their
19 debt get paid in full and they eliminate the remainder of their
20 property tax, will there be a mechanism in place to provide for
21 those additional offsetting revenues from personal taxes? What
22 mechanism will be in place to provide that district with the
23 additional revenue? What happens when we go into a recession
24 and personal tax collections decline? What provisions are
25 included in HB 1776 to provide adequate funding for public

1 education at a time when the expectations of public education
2 are increasing?

3 There is one more thing I'd like to bring to the
4 attention of the committee. I have heard many people comment
5 that the reason this significant shift in funding education is
6 needed is that people across the Commonwealth are losing their
7 homes as a result of rising school property taxes. While this
8 makes for a powerful sound bite, I'm not sure the facts support
9 this claim. I have done some research on this issue, both for
10 my school district and for York County. I'll start with my
11 district.

12 We currently have 11,384 taxable properties on our
13 tax rolls. This year, eight of those properties were exposed
14 to tax upset sale, and of that number, only three are actually
15 going to tax upset sale. And while I don't want to see anyone
16 lose their property because of taxes, that is a very, very
17 small number. That equates to .00026, or less than 3/100ths of
18 1 percent.

19 The statistics in York County as provided by the
20 County Tax Claim Bureau are equally compelling. Currently,
21 there are 180 properties scheduled to go to tax upset sale out
22 of 181,347 taxable parcels in the county, and that number is
23 likely to go down before the time of the sale. That equates to
24 about 1/10th of 1 percent, or .0009925.

25 I'm guessing that some of you may have worked in

1 factories at some point in your lives. I did one summer while
2 I was going to college. Do you believe that there are any
3 factories in the Commonwealth that would stop their assembly
4 lines if 1/10th of 1 percent of the items they were making were
5 flawed or if the bag or can was filled 1/10th of 1 percent from
6 the top? Again, we're talking about one in a thousand. If you
7 get a box of a thousand apples and you find one of them is bad,
8 do you send them back? I don't think so.

9 Some other information to pass along from the
10 Tax Claim Bureau: Of the properties that do go to upset sale
11 and are sold, the majority of those transactions get appealed
12 and then the people get their property back.

13 One last item along these lines. According to the
14 Prothonotary's Office, there are any number of reasons why
15 liens get placed on properties. It's not just because of
16 school district property taxes. Interestingly enough, if a
17 person fails to pay their State income tax, while their wages
18 usually get garnished first, the State also has the ability to
19 place a lien on your property for failure to pay taxes. So I'm
20 left scratching my head; what are we accomplishing with this
21 bill?

22 The last item I would like to address regarding
23 HB 1776 is the referendum requirements. If my memory serves me
24 correctly, it wasn't all that long ago that school districts
25 were required, under Act 1, to place a referendum question on

1 the ballot to see if our residents wanted the school district
2 to levy a higher earned income tax or collect a personal
3 income tax to help reduce property taxes. I believe voters in
4 only eight or nine school districts in the Commonwealth voted
5 to approve that tax shift. What has changed in the last
6 6 years to lead us to believe there will be a different
7 outcome?

8 Perhaps the fairest approach would be to continue to
9 allow businesses and commercial properties to pay property
10 taxes while shifting the residential and farm property taxes to
11 the personal income tax. Farmers may have a bit of a problem
12 with this, as they do enjoy the tax benefits of the Clean and
13 Green Program. But this approach would shift taxes within the
14 same group of people, so it would be less likely that most
15 people would pay more in total taxes. I'm guessing it's
16 discriminatory to have just commercial and industrial
17 properties pay school property taxes, but I'll let that up to
18 you folks.

19 Thank you again for your time and for listening to
20 my concerns.

21 MAJORITY CHAIRMAN BENNINGHOFF: Thank you, sir.
22 Your organization benefits from your good testimony and
23 obviously your passion for the issue.

24 Questions from anybody?

25 Chairwoman Mundy.

1 MINORITY CHAIRMAN MUNDY: Just a quick comment.

2 You know, I totally understand your point that
3 property taxes are a stable source of income for the districts,
4 but I guess I would argue that going to a tax sale isn't -- or
5 losing your home as a result of a tax sale isn't the only way
6 you lose your home.

7 MR. MUMMERT: Right.

8 MINORITY CHAIRMAN MUNDY: You might lose it because
9 you simply can't afford that much out of your disposable income
10 to pay the taxes, so you have to move to an apartment, you have
11 to move in with a family member if you're elderly. So I do
12 believe that the property tax is very regressive and it is the
13 most regressive, because even though a sales tax is also
14 regressive in the sense of how it impacts the poorest among us,
15 at least for the middle-income individual, it's somewhat
16 determined by how much you buy.

17 So it is a problem, it really is a problem,
18 especially -- I mean, my area is very elderly, and it gets more
19 expensive to upkeep your home and to pay the taxes when they
20 increase year after year and your income doesn't. So it is a
21 problem. I guess I'd ask you, my only question to you would
22 be, what are the school districts doing about this
23 out-of-control spending? And I'm going to touch the third rail
24 of school funding issues, and that is IDEA, special education,
25 pensions, and how we fund school districts at the State level.

1 And I would disagree with some of my colleagues; I
2 did not vote for the pension increase. I saw this as a huge
3 problem going forward. But that has increased school district
4 costs, and we did that here. Local districts didn't increase
5 the pension multiplier. And, of course, IDEA is mostly Federal
6 in nature. So what do you do at the school district level to
7 address those costs?

8 You know, the mandate that I continually hear about
9 is prevailing wage, but my districts aren't doing a lot of
10 construction or repairs that require prevailing wage, so that
11 is not the reason in my districts that you're seeing property
12 taxes increase.

13 So can you sort of address those concerns?

14 MR. MUMMERT: I'll do my best for you.

15 School district budgets are still rising, and I
16 think the primary impact, at least in my school district, is
17 pension costs, and the State deals with that as well since you
18 fund a portion of that increase. I would say health insurance
19 cost increases are also a significant driving factor.
20 Salaries, in the past, have been a significant factor, but we
21 are starting to see curbing of that. We just negotiated a
22 contract with our collective bargaining agreement, with our
23 teachers' union, for a freeze for next year, zero percent, and
24 a 1 1/2 percent the following year. So I think that there are
25 significant steps being made to address that particular line

1 item in your budget, because that's, let's face it, the biggest
2 of all of our expansure items.

3 Special ed is going to continue to be an increasing
4 cost, I believe, and it's one that's a mandated cost both at --
5 primarily at the Federal level where we have no control. Quite
6 frankly, it's the one area in the budget where, if they have to
7 do it to meet some requirement, we spend the money and we look
8 for it someplace else.

9 So what are we doing? We're curbing our
10 allocations, trying to reduce what we actually allow the
11 schools to have to operate their programs. We are cutting
12 other areas of the budget. Primarily, maintenance has been
13 slashed pretty badly, technology has been slashed pretty badly,
14 in order to try to provide a balanced-budget approach if you
15 can. And we're still using fund balance in order to help
16 balance our budgets, because you just can't, you can't do it
17 with just tax increases.

18 I mean, Act 1 has, you know, put a limitation on
19 what you can do with property tax increases. I mean, I'm not
20 saying that's necessarily a bad thing, but it is something that
21 is limiting what we're able to do from that perspective. So
22 you're going to have to use all types of resources, and you're
23 going to also have to cut expansures.

24 I'm not sure if that answers all of your
25 questions.

1 MINORITY CHAIRMAN MUNDY: Well, you know, it was a
2 multifaceted question.

3 I mean, we can identify the problem. The problem is
4 not identifying the problem. We know what the problem is. The
5 solution is the elusive part; so many different situations in
6 the school districts with regard to funding and the ability to
7 pay. You have--- I'm sorry? Right; demographics.

8 And personally, I am a proponent of strong academic
9 standards for schools. You know, I am a proponent of paying
10 teachers a reasonable salary so that we can attract the best
11 and the brightest to public education. We keep increasing the
12 requirements to become a teacher, to stay a teacher.

13 And, you know, at some point, when you freeze
14 salaries, you know, I'm sure that in some districts, salaries
15 are rather high, but what is the beginning salary for a teacher
16 in Pennsylvania? I think the mandated requirement is \$18,000 a
17 year? Now, very few districts pay that, but coming out of
18 college with a 4-year debt burden, you're going to expect to
19 get a reasonable salary just to pay off your college loans,
20 especially today. So---

21 Well, thank you for your testimony. This has been
22 an intractable problem for the 30 years I've been working on
23 it, and I guess we'll see how far this bill goes. Thanks.

24 MAJORITY CHAIRMAN BENNINGHOFF: I've got a quick
25 question.

1 In your testimony you also used the word "adequate."
2 Do you want to take a shot at trying to define the word
3 "adequate" funding?

4 MR. MUMMERT: Good question. Well, as the previous
5 speaker indicated, "adequate" is a tough thing to put a handle
6 on.

7 We've been told over the years that -- and I'll go
8 back in history. Back in the early seventies, the State was
9 providing 50 percent, "on average," funding for public
10 education, and that number has come down. I'm going to take a
11 stab at it -- somewhere around 35 percent. I'm not sure if
12 that's factually correct. I know in our district the State
13 pays about 35 percent of our funding.

14 Is it adequate? I think everybody that comes before
15 you will ask for more money. I think the State has limited
16 resources. I consider myself fairly conservative from that
17 perspective. So while I think everyone would like to see more
18 funding, I don't know that I can give you a definition of
19 "adequate."

20 MAJORITY CHAIRMAN BENNINGHOFF: I appreciate that.

21 One follow-up to that, if I might: We heard a
22 number of around \$12.7 billion in property taxes generated to
23 help fund the schools, but yet there's still about
24 \$3 billion-plus sitting in reserve dollars. That's about
25 25 percent of that number needed on an annual basis. What do

1 you say to the taxpayers when there's that kind of money being
2 sat on in reserves? You know, do we need to be looking at
3 maybe reducing the amount of money that can be set in reserves?

4 I never liked anybody in the taxing authority's
5 position to have a lot of reserve dollars. That, to me, always
6 represented overtaxation somewhere along the line. But I'd be
7 curious of your take on that.

8 MR. MUMMERT: That's a great question from a number
9 of different perspectives, and at the school district level, I
10 can tell you that we have nine board members that debate that
11 issue very heavily every year for the budget.

12 Currently, we are limited to 8 percent of our
13 expansure level for our fund balance. In our school district,
14 it's a little less than that. And if you think about the
15 8-percent level, that's essentially 1 month of operating
16 expenditures.

17 It seems like a lot of money because you're talking
18 about millions of dollars, but from my perspective, 1 month
19 isn't a lot. Our CPA firm, prior to the limitations placed on
20 us as far as fund balances, would normally recommend between
21 8 and 12 percent or more. The higher it was, the happier they
22 were.

23 But it is a delicate balance, because, again, I
24 don't think there's any elected school board member, at least
25 I'd argue that there are very few that I'm aware of, who want

1 to tax people. They're taxing themselves, and so there's no
2 incentive for them to do this. I mean, I don't see any reason
3 why people would just want to go out there and tax people. You
4 win points for not taxing or not raising taxes.

5 So I think the fund-balance issue becomes a delicate
6 balancing act. You want to make sure you are fiscally sound.
7 You want to make sure you have funds available in the event of
8 unforeseen situations. Again, you know, the budget impasse of
9 a couple years ago is a good example. And I don't know who has
10 higher fund balances or not, but again, I think the 8-percent
11 level is not unrealistic.

12 MAJORITY CHAIRMAN BENNINGHOFF: I appreciate your
13 candor.

14 Chairman Mundy is going to follow up on my question,
15 and then Representative Cox will be our cleanup batter.

16 MINORITY CHAIRMAN MUNDY: Well, just, you know,
17 we're talking about what's adequate. Well, I thought we did a
18 costing-out study as to what "adequate" meant. We commissioned
19 the study. We did the study. We began to implement what we
20 believed was adequate and necessary funding for what it would
21 take to give students in Pennsylvania a good, high-quality
22 education. To me, that is what "adequate" was about. That's
23 how we determined what "adequate" meant.

24 Now, you know, we've had a lot of turnover in the
25 Legislature since then and I guess people aren't aware that we

1 did that costing-out study, but it wasn't all that long ago.
2 So "adequate" is, you know, based on those numbers.

3 No; I totally understand what people mean when they
4 say 50 percent. Fifty percent of what? Whatever the local
5 districts want to spend? That's probably not reasonable
6 either. But the costing-out study was meant to determine what
7 "adequate" means. So if we use that as a starting point, and
8 that was several years ago now, and I don't know if that is
9 still what "adequate" means, but it certainly is a starting
10 point for the discussion.

11 MAJORITY CHAIRMAN BENNINGHOFF: Representative
12 Davidson.

13 REPRESENTATIVE DAVIDSON: Thank you, Mr. Chairman.
14 Thank you for your testimony. I just had a couple
15 questions related to your testimony.

16 You referenced your particular school district a few
17 times. How much is the average tax in your school district for
18 homeowners?

19 MR. MUMMERT: The average tax for a homeowner in our
20 school district is about \$2,600 -- property tax.

21 REPRESENTATIVE DAVIDSON: Okay. So that's probably
22 relatively low or mid-range across the State, I would say.

23 MR. MUMMERT: We're one of the lowest in our county.
24 Our board has, I would say that our board has done an
25 exceptional job of being fiscally responsible to the taxpayers,

1 and they strive to keep the tax rates as low as possible. I'm
2 sure there are others in the county that are higher, but we are
3 one of the lowest.

4 REPRESENTATIVE DAVIDSON: Yeah; it sounds like it.
5 And what percentage of your budget comes from those property
6 taxes versus the State?

7 MR. MUMMERT: We get roughly 56 percent of our
8 budget, 55 to 56 percent from property taxes -- it might be a
9 little higher than that -- and we get about 35 percent from the
10 State.

11 REPRESENTATIVE DAVIDSON: Okay. And in reference to
12 property taxes, have you seen a lot of shrinkage in your
13 collection of property taxes? I've noticed in some school
14 districts, as the taxes go higher, their ability to collect
15 those taxes goes lower. So are you seeing that in your school
16 district as well?

17 MR. MUMMERT: Our collection percent has gone down
18 slightly, from perhaps 97 percent to 96.8, 96.9. It hasn't
19 been dramatic. What has been dramatic is the level of growth
20 of our assessment base. We were getting assessment growth --
21 and keep in mind, I'm in south-central Pennsylvania. There are
22 lots of farms that are being converted into housing
23 developments. Currently, we have some 3,500 houses on the
24 books to be developed once we get past the sewer moratorium and
25 once the economy improves. So we're somewhat blessed from that

1 perspective. But we were seeing assessment increases of
2 3 percent on an annual basis, and with this recession, the most
3 recent recession, we saw that number drop down to .75 percent.

4 So we saw a significant downturn in the growth of
5 assessments. I would say it wasn't a significant, at least in
6 my mind it wasn't a significant change in the collection
7 percentage for real estate taxes. We've been lucky from that
8 perspective. And again, that's evident by the numbers I gave
9 you for the number of properties going to tax upset sale. We
10 don't have a lot of that as a problem either.

11 REPRESENTATIVE DAVIDSON: Okay. But you are seeing
12 some reduction in the amount of property taxes you're being
13 able to collect. And then the assessments are going down,
14 so---

15 MR. MUMMERT: The assessments now are starting to
16 come back up again. We're seeing a shift in that. And I'm not
17 sure if I can attribute that to any long-term economic
18 improvement or the building of a huge Target in our district,
19 which attributed about \$10 million to our assessed value this
20 year.

21 So I don't know yet, without seeing another years'
22 worth of data, whether we are starting to trend up because of
23 the economy. It is a true statement to say that our collection
24 percentage has declined slightly.

25 REPRESENTATIVE DAVIDSON: Thank you.

1 MAJORITY CHAIRMAN BENNINGHOFF: I have to ask:
2 Quick math, 55 percent of your money is generated from property
3 taxes, 35 is from the State. Where do you get your other
4 10 percent, if I might ask?

5 MR. MUMMERT: Well, not from Federal. I get
6 about---

7 MAJORITY CHAIRMAN BENNINGHOFF: Are there any other
8 taxes that you---

9 MR. MUMMERT: Sure; EIT. We get about \$3 million a
10 year in EIT. We get---

11 MAJORITY CHAIRMAN BENNINGHOFF: But the rate of that
12 is?

13 MR. MUMMERT: 1 percent. We're at 1 percent.

14 We get some delinquent tax collections, about
15 \$775,000. Interest earnings have dwindled to next to nothing
16 now. I think we get \$75,000. Federal revenues, we get about
17 \$300,000 to \$400,000, which is about 1 percent, less than
18 1 percent. I'm trying to think of the other major sources. I
19 can't think of them off the top of my head.

20 MAJORITY CHAIRMAN BENNINGHOFF: Well, you're close
21 enough, and I would appreciate you filling in the rest of the
22 information.

23 MR. MUMMERT: Sure.

24 MAJORITY CHAIRMAN BENNINGHOFF: Thank you.

25 Representative Cox, I believe, would like to round

1 things up.

2 REPRESENTATIVE COX: Thank you for your testimony.

3 I'd like to offer some comments in regard to your
4 testimony. I take issue with a few of them.

5 In the course of working on this legislation, I
6 continue to hear the term "stable and predictable" for school
7 property taxes, and while I agree with you from a practical
8 standpoint that they are in fact stable and predictable because
9 people pay them, the collection rate you mentioned, 97 percent,
10 96.8, and wherever you end up landing, it's still a very high
11 collection percentage. And I think what we fail as Legislators
12 often to do is to take a look at why a tax is so stable and why
13 a tax is so predictable, and what my constituents tell me and
14 what constituents of a lot of the Members of the House tell
15 them is that the reason it's stable and predictable is because
16 it's the threat of losing their home.

17 It's the first tax they pay. They would rather
18 evade income taxes on some level, you know, skip reporting this
19 or that, and, you know, obviously they're not going to tell us
20 all the ins and outs of that. But when you look at a tax being
21 stable and predictable, I can walk around this room with a
22 loaded shotgun and have fairly stable and predictable results
23 as to how many people with a gun pointed at their face are
24 going to hand me their money. And while losing your home may
25 not rise to the level of losing your life, it's a significant

1 loss and it's a loss that I'm no longer willing to allow
2 Pennsylvanians to be faced with.

3 People will go through any, any possible changes in
4 their lives -- they will go back to work after being retired
5 for years; they will put a second mortgage or they'll put a
6 mortgage back on their home; they'll get a reverse mortgage;
7 you know, they'll do just about anything, they'll go into their
8 retirement savings -- all just to save their homes.

9 And so the stable, predictable part of the property
10 tax, I understand that yes, in fact it is, but I think it's
11 egregious that we as a Legislature would allow that to
12 continue, and that is one of the reasons, it's the primary
13 reason why I put this bill out there. The time has come to
14 give property owners a little more security in their homes.

15 You also mentioned that, you know, you find it funny
16 that we're not going after local and county taxes. As you can
17 imagine, that's a little bit larger financial nut to crack.
18 And I can count on one hand, I can probably count on one hand
19 the number of Legislators in the House that have had people
20 come into their offices screaming about either their local or
21 their county property taxes. They have not yet risen to the
22 level of being threatening to them. And so, you know, in our
23 position as Legislators, you tackle the big egg first and try
24 to crack it and figure out how to fry it and do whatever we're
25 going to do with it.

1 So while I would love to have this be an
2 all-sweeping approach, because I do think ownership is
3 compromised by any property tax, we have to figure out a
4 starting point, and school property taxes are the most
5 damaging.

6 The other comment you made repeatedly in your
7 testimony was that people will end up paying more in total
8 taxes. I'm going to toss out some fairly basic numbers, and in
9 trying to keep this simple, I'm going to start with a household
10 income of \$100,000. You know, whether that's one or two people
11 working, let's say it's a \$100,000 household income, and let's
12 say their property taxes are \$5,000. If they have \$75,000 of
13 that \$100,000 that's available to them to spend in one way or
14 another, let's take a look at the impact there.

15 On \$100,000, a 1-percent increase, which we're doing
16 a little bit less, a 1-percent increase in the personal income
17 tax would be an additional \$1,000 in personal income tax. If
18 we look at only 25 -- and I'm lopsiding this on purpose for
19 effect. If we say of their \$75,000 in disposable income they
20 use \$25,000 of that on only existing sales and use tax
21 purchases -- the goods that they're buying are already taxed
22 with that \$25,000 -- that comes up to \$250 as an increase,
23 because we're going up 1 percent. So our total right now is
24 \$1,250. That's before we look at any new sales and use tax,
25 the expanded base, et cetera. Even if they somehow find a way

1 to spend \$50,000 on goods and services that are not currently
2 taxed, even if they can spend \$50,000 on newly taxable items,
3 that still only brings in \$3,500 for the State. And so the
4 grand total there is \$4,750. They got rid of a \$5,000 property
5 tax bill. They're \$250 on the high side, and I believe that to
6 be an exaggerated account of people's disposable income and so
7 forth.

8 So I'm really struggling, as I mentioned in my
9 earlier testimony, I know there are going to be some people in
10 some areas that have incredibly low property taxes. It may be
11 the guy making \$100,000 in your district or the family making
12 \$100,000 is only paying \$2,000 in property taxes, and so
13 somehow they are going to, you know, see a little bit of a net
14 loss in that sense. So I can't sit here and say that this
15 legislation will not have any losers, but what I can do is say
16 that it will place the burden more squarely on the shoulders of
17 those who do have the continuing ability to pay -- those who
18 are employed; those who are making choices about what they're
19 spending.

20 So the consumption tax is probably one of the most
21 fair. When you look at a sales tax, I get to decide whether I
22 want to shop at that new Target or Walmart or wherever the case
23 may be. So the choice is mine as far as when I'm spending, how
24 much I'm spending, and it leaves me in control. And there's
25 one thing that people need in this economy, and that's

1 stability -- stability to stay in their homes; stability to
2 make choices of when and how they spend. So I would
3 challenge your statement that people will pay more in total
4 taxes.

5 By and large, David Baldinger's site, ptcc.us, has
6 a calculator on it. There will be some people that go on the
7 Web site and punch in their numbers and they end up showing
8 that they lose 150, 250 bucks, but they like the fact that they
9 own their home so that they're supportive of this bill.

10 There will be, by and large, a huge number of
11 people, though, huge numbers of people that will benefit from
12 homeownership and a financial benefit of a broadening of the
13 base, you know, 3 million taxpayers versus 12 million
14 taxpayers. The math is pretty simple there when you're
15 spreading it across 12 million shoulders rather than 3 million.
16 And that's not even to mention anybody coming in from outside
17 the State who will pay those additional sales taxes.

18 So I appreciate your testimony, but I do disagree
19 with some of your conclusions, and again, thank you for coming
20 in today.

21 MR. MUMMERT: Thank you.

22 MAJORITY CHAIRMAN BENNINGHOFF: Thank you,
23 Mr. Mummert.

24 And thank you, Representative Cox, and to all the
25 testifiers. This meeting stands adjourned.

1 Just as a repeat, we will have another hearing on
2 June 4. Have a great day and a good week. Thanks.

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4 (The hearing concluded at 12:12 p.m.)
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1 I hereby certify that the foregoing proceedings are
2 a true and accurate transcription produced from audio on the
3 said proceedings and that this is a correct transcript of the
4 same.

5
6 Debra B. Miller

7 Committee Hearing Coordinator/

8 Legislative Reporter

9 Notary Public

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11 Penny Wolfe

12 Transcriptionist

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