



**Written Testimony on
House Bill 1409
House Urban Affairs Committee
November 12, 2013**

The Pennsylvania School Boards Association (PSBA) appreciates the opportunity to provide comments and express our concerns with the proposed amendment to House Bill 1409. PSBA is a nonprofit statewide association representing the 4,500 elected officials who govern the commonwealth's public school districts. PSBA is a membership-driven organization, pledged to the highest ideals of local lay leadership for public schools and working to support reform for the betterment of public education that prepares students to be productive citizens, and promote the achievements of public schools, students and local school boards. House Bill 1409 would provide a comprehensive re-write of the Real Estate Tax Sales Law (RETSL), updating the foreclosure process for tax delinquent property, while providing protections for delinquent property owners.

Background

School districts are very reliant on local property taxes, especially in these times of lean state and federal support for education. Local property taxes comprise, on average, about two-thirds of a district's revenue¹ and fund essential programs, such as special education. Under current law, school districts are required to send out their annual property tax bill by July 1 each year. Taxpayers then have several options when it comes to paying these bills. First, a taxpayer may pay his or her property tax bill within 60 days and receive a 2% discount on the total due. For the next 60 days, taxpayers must pay the face value of their property tax bill. From that point until December 31, the taxpayer will be responsible for paying a small penalty in addition to his or her property taxes. Property taxpayers may also opt to pay their property taxes in installments. These school property taxes, whether paid on August 1 or December 31, are collected by the local elected tax collector and turned over to the county.

If, however, a taxpayer has not paid his or her property taxes by December 31, the taxes are considered delinquent and are no longer within the jurisdiction of the local elected tax collector. At this point, a school district has two options regarding the collection of these delinquent taxes. The school district can allow the county to collect these delinquent taxes or the school district can choose to have the delinquent taxes collected by its delinquent tax collector, who is appointed by the school board. This appointed delinquent tax collector is granted all authority and power given to a local elected or county tax collector. Having the option to choose is important to school districts in collecting the revenue owed to fully operate their schools

¹ *Funding, Formulas, and Fairness: What Pennsylvania can learn from other states' education funding formulas*, 2013, p. 12.

because some districts have a strong preference for one method or the other based on local experience and the successful rate of collection a preferred collector might have.

House Bill 1409 Concerns

PSBA continues to believe there are some unanswered questions about the impact of the legislation on school districts and taxpayers, which we will take this opportunity to address.

First, in establishing the tax collection bureaus in House Bill 1409 with Amendment A03864, PSBA is concerned that local authority will be compromised since school districts currently have the choice to ask the county or a third party to collect delinquent real estate taxes. The legislation would eliminate this option, requiring school districts to use the tax collection bureau, and only the bureau has the authority to determine if they would like to use a third party. Eliminating this right for school boards to decide what is in their best interest would place a tremendous restriction on school districts, permitting them to collect and enforce tax claims only through county tax bureaus.

The PSBA policy platform specifically recognizes the importance of protesting the right of school boards to use entities other than local county tax claims offices for the collection of delinquent real estate taxes. Language in House Bill 1409 is problematic because many school districts have found using a third party debt collector to be immensely beneficial in saving costs, reducing the time it takes to resolve delinquency, and significantly increasing the overall rate of delinquencies resolved. For example, Penn Manor School District contracted with a third party tax collector in 2005 and experienced a significant increase in the amount of delinquent property taxes collected over county services. During February alone, Penn Manor's collected delinquent property tax revenue rose by over 260% and the increase over seven months was over 50% higher than county collections during that same period (See Appendix A).

House Bill 1409 includes a provision currently provided for in RETSL that requires local taxing authorities, including school districts, to remit 5% of all delinquent real estate taxes collected to the tax collection bureau. Currently, this fee must be paid to the county tax bureau even if a school district utilizes a third party to collect and enforce its tax claims. It has been our opinion that if a school district appoints a delinquent tax collector to do the work instead of the county bureau, there is simply no reason that they should be paid a commission or fee. However, in Section 9013 of the amendment to House Bill 1409 would not only reestablish that fee from current law, now to be paid to the bureau, but it states that other reasonable fees for services and additional penalties may be charged to the taxing district (Sections 9003 and 9013).

These provisions significantly reduce the ability for school districts to manage their own collection of delinquent tax revenue while also cutting into that revenue with unnecessary fees and a process that could be more effective and less costly by contracting directly with their own third party tax collector. House Bill 1409 could be greatly enhanced by allowing school districts the flexibility and autonomy to administer this process locally without additional fees. Doing so would ensure that more delinquent real estate tax revenue is collected and used for its intended purpose of providing public education.

Finally, questions remain in House Bill 1409 with the proposed amendment regarding the implementation of hardship protections for property owners in Section 9014. As proposed, the

tax collection bureau is charged with determining whether an undue hardship exists for a taxpayer, instead of the taxing authority. PSBA has concerns about this decision being placed with the tax collection bureau in this manner. More importantly, the language fails to provide guidance regarding eligibility requirements for undue hardship that would address the circumstances where a taxpayer would be entitled to relief. House Bill 1409 also fails to provide the taxing entity with a role in making decisions regarding delinquent taxpayers at this stage.

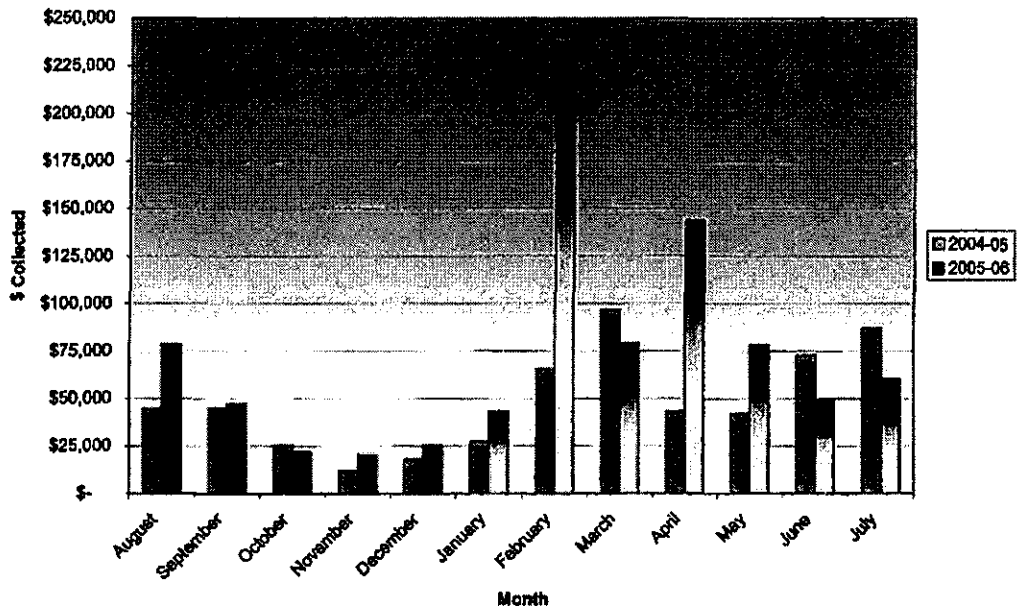
Conclusion

Overall, the amendment language does not address the concerns PSBA has stated previously regarding third party tax collectors and the 5% collection fee, and it actually adds the additional questions pertaining to undue hardships. We fear that this proposal would create additional bureaucracy and cost for our members, while limiting their local decision-making authority. On their behalf, we urge the committee to clarify what constitutes an undue hardship, and reconsider the authority granted to the tax collection bureaus and the continuation of the related 5% fee even when districts opt to use a third party contractor. We believe this revised bureau and set of procedures limits local taxing authorities and could decrease efficiency in current collection procedures.

PSBA thanks the committee for the opportunity to provide comments and for the consideration of our concerns in the Real Estate Tax Sale Law reform efforts. We look forward to working with the sponsor and this committee to address our concerns.

Appendix A

Delinquent Tax Collection



Delinquent Tax Update, Chart1

11/13/2008, 12:36 PM