

HOUSE FINANCE COMMITTEE  
PUBLIC HEARING  
PHILADELPHIA NON-RESIDENT WAGE TAX COLLECTION

Public hearing held at the Bensalem  
Township Building, 2400 Byberry Road, Bensalem,  
Pennsylvania, on Wednesday, October 5, 2016, commencing at  
10:05 a.m., before Suzanne Walinsky, a Court Reporter and  
Notary Public, pursuant to notice.

1 APPEARANCES:

2 Chairman Bernard T. O'Neill

3 Chairman Jake Wheatley

4 Representative Tina M. Davis

5 Representative John Lawrence

6 Representative Mary Jo Daley

7 Representative Stephen Kinsey

8 Mark Foreman, Executive Director

9 Jeremy Kiehl, Esquire, Executive Director

10 Representative Todd Stephens

11 Representative Scott Petri

12 Representative Daniel Truitt

13 Representative Becky Corbin

14 Representative Gene DiGirolamo

15 Representative Frank Farry

16 Representative Jerry Knowles

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1 CHAIRMAN O'NEILL: Thank you for coming  
2 out this morning for the hearing by the House Finance  
3 Committee.

4 Before we begin, I just want to let  
5 everybody know that we are being taped for PCN to be  
6 broadcast across the Commonwealth, and we do have a  
7 stenographer.

8 So I ask that you turn -- first of all,  
9 watch what you say because you'll be heard, but also if  
10 you'll please turn off or silence your phones and any  
11 other electronical devices moving forward. Thank you.

12 I want to welcome everybody here for the  
13 House Finance Committee meeting here in Bensalem.

14 We're here to discuss two bills by  
15 Representative Petri and Representative Stephens -- and  
16 you didn't write down the bill numbers. You're fired.

17 Okay. House Bill 2142 by Representative  
18 Stephens and House Bills 2256 and 2257 by Representative  
19 Petri. And they deal with -- which is known as the  
20 Sterling Act, but most people know it as the wage tax, the  
21 Philadelphia wage tax.

22 First of all, before we begin, I want to  
23 thank some people.

24 First, I want to thank Bensalem for  
25 hosting this meeting today, particularly Mayor DiGirolamo,

1 who went out of his way to make sure that we were all  
2 taken care of, and his staff, including Barbara, who  
3 really helped us out a lot to put this all together.

4 I also want to thank Dan Rattigan, who  
5 is the -- is your title president?

6 MR. RATTIGAN: I think so.

7 CHAIRMAN O'NEILL: You think so? Okay.  
8 Oh, there's a third choice for president. No, I'm  
9 kidding.

10 He's president of BCATO, which is the  
11 Bucks County Association of Township Officials, who  
12 brought this to the Committee's attention.

13 And I want to thank Mayor DiGirolamo, who  
14 brought it to BCATO's attention and really was the person  
15 who really worked hard behind this to get moving on this  
16 subject.

17 And I also want to welcome you all to  
18 Chairman DiGirolamo's district here in Bensalem.

19 So we're going to begin. But  
20 Representative Chairman Wheatley, our Minority Chairman,  
21 is on his way, so he'll be here shortly. He called to let  
22 us know that he would be here.

23 So before we begin, I want to introduce  
24 Mayor DiGirolamo to welcome everybody and say a few words  
25 here in Bensalem.

1                   MAYOR DiGIROLAMO: Thank you, Chairman.

2                   Excuse my back.

3                   We welcome you here today --

4                   CHAIRMAN O'NEILL: Should we use the mic  
5                   because we're --

6                   MAYOR DiGIROLAMO: He's done work in here.  
7                   I don't --

8                   CHAIRMAN O'NEILL: Yeah.

9                   MAYOR DiGIROLAMO: Taking too much time.  
10                  Good morning, everybody. Thank you,  
11                  Chairman, for bringing your Committee here, the Finance  
12                  Committee, on a very important subject to all of us here  
13                  in Southeastern Pennsylvania.

14                  We welcome all the testimony. Hopefully,  
15                  we can see where it -- this meeting is very, very  
16                  important to everyone.

17                  I know Philadelphia here, very important  
18                  to them. And, hopefully, we can prove and make some kind  
19                  of progress to where reciprocity can take hold here for  
20                  all of Southeastern Pennsylvania.

21                  Thank you, Mr. Chairman, for being here.

22                  CHAIRMAN O'NEILL: Thank you for having  
23                  us, Mayor.

24                  Also, I'd like to introduce Representative  
25                  DiGirolamo, as we're in his district, just to say a few

1 words.

2 REPRESENTATIVE DIGIROLAMO: I think this  
3 is working.

4 CHAIRMAN O'NEILL: Yeah, they work.

5 REPRESENTATIVE DIGIROLAMO: Are they?  
6 They told us ours wouldn't work.

7 All right. Good morning, everybody.  
8 Welcome. I'm very excited to have you here in the 18th  
9 Legislative District, Bensalem Township.

10 And for those of you who don't know,  
11 Bensalem Township is actually my whole legislative  
12 district, the only one in the whole state where one  
13 township -- one representative represents one township.

14 So we're excited about having you here  
15 today. The mayor did not tell you. We're very, very  
16 proud of Bensalem.

17 Bensalem was voted by Money Magazine last  
18 year one of the 50 best places to live in the United  
19 States of America. Not just Pennsylvania, 50 best places  
20 to live in the United States. So we're very, very proud  
21 of Bensalem.

22 And besides the issue, we're very -- we  
23 really have a very historical background. We were  
24 incorporated in 1692. So over 300 years we've been here  
25 as Bensalem Township.

1                   And something else that I think's going to  
2 make Philadelphia a little angry also, a little bit of  
3 history, our historical society here in Bensalem Township  
4 believes that Benjamin Franklin's kite experiment actually  
5 happened here in Bensalem, in Bucks County, way long ago.

6                   Now, I know that's going to make  
7 Philadelphia angry also besides the issue that we're here  
8 to talk about. But our historical society does believe  
9 that.

10                  So I want to thank the mayor and the  
11 members of Bensalem Council -- Councilman Joe Knowles is  
12 here today, as is Councilman Bryan Allen -- for bringing  
13 this issue to the forefront.

14                  This is really, really an important issue  
15 for not only the surrounding suburbs, but also for the  
16 City of Philadelphia.

17                  So good to have you.

18                  And, Representative O'Neill, welcome and  
19 welcome your Committee.

20                  Thank you.

21                  CHAIRMAN O'NEILL: Thank you.

22                  And for those of you who may not know,  
23 Representative DiGirolamo is the majority chairman of the  
24 House Human Services Committee and does a wonderful job on  
25 behalf of the residents of not only Bensalem, but the

1 entire state, dealing with a lot of our opium and drug  
2 problems throughout the Commonwealth. He's the go-to guy  
3 in the House when it comes to that topic.

4 Before we begin, I'm going to ask the  
5 members to identify themselves that could make it.

6 What we did was we not only invited all  
7 the committee members, but we invited the members from the  
8 Southeast since this does concern the five surrounding  
9 counties in the Southeast here.

10 So when you introduce yourself, if you are  
11 a member of the Finance Committee, would you identify  
12 yourself as being a member of the Finance Committee.

13 Thank you.

14 We'll begin down there with Representative  
15 Davis.

16 REPRESENTATIVE DAVIS: Good morning, Tina  
17 Davis, 141st. I'm right next to Gene and Joe. Hi. I  
18 love Bensalem.

19 REPRESENTATIVE LAWRENCE: John Lawrence, I  
20 serve the 13th Legislative District, which is southwestern  
21 Chester County and a part of Lancaster County, and I serve  
22 on the Finance Committee.

23 REPRESENTATIVE DALEY: Good morning. I'm  
24 Mary Jo Daley. I represent the 148th District in  
25 Montgomery County, and I am a member of the House Finance



1 Committee.

2 REPRESENTATIVE KINSEY: Good morning,  
3 everyone. My name is Stephen Kinsey. I represent the  
4 201st Legislative District, which is part of Philadelphia  
5 County, and I am also a member of the Finance Committee.

6 MR. FOREMAN: Mark Foreman, I'm the  
7 Democratic Executive Director of the Finance Committee.

8 MR. KIEHL: Jeremy Kiehl, Executive  
9 Director for Bernie O'Neill.

10 CHAIRMAN O'NEILL: Good morning again.  
11 I'm Bernie O'Neill. I represent the 29th Legislative  
12 District, which is the center of Bucks County, just a  
13 little bit up the road there.

14 REPRESENTATIVE STEPHENS: I'm Todd  
15 Stephens. I represent a portion of Montgomery County,  
16 Horsham Township, Montgomery Township, piece of Upper  
17 Dublin, and Lower Gwynedd.

18 And I am not a member of the Finance  
19 Committee, but I'm happy to be here today to discuss this  
20 important subject.

21 REPRESENTATIVE PETRI: I'm Representative  
22 Scott Petri, and I represent Solebury, New Hope,  
23 Wrightstown, Northampton, and Upper Makefield.

24 I want to thank the Chairman for being  
25 willing to take on a tough issue and have a hearing.

1 Thank you.

2 REPRESENTATIVE TRUITT: Good morning. I'm  
3 Dan Truitt from the greater West Chester area in Chester  
4 Country. I'm not on the Finance Committee. And I want to  
5 thank the Chairman for including non-committee members in  
6 this event.

7 REPRESENTATIVE CORBIN: Good morning.  
8 Becky Corbin, 155th District in Chester County. I, too,  
9 am not a member of the Finance Committee, but I am the  
10 subcommittee chair on the First Class Cities and Counties  
11 on the Urban Affairs Committee.

12 REPRESENTATIVE DIGIROLAMO: Gene  
13 DiGirolamo again, from Bensalem and the 18th Legislative  
14 District.

15 REPRESENTATIVE FARRY: Representative  
16 Frank Farry, 142nd District, Bucks County, just to the  
17 north of here.

18 CHAIRMAN O'NEILL: And we have  
19 representatives here from Representative Steve  
20 Santarsiero's office as well as Congressman Fitzpatrick's  
21 office. Where is he? Well, as members come in, we'll  
22 introduce them.

23 Oh, yes. And I apologize. And from  
24 Senator Tommy Tomlinson's office is here, too. Bald head  
25 guy right there, which is more than one of us.

1 I say that because he's newly bald-headed.  
2 I mean, literally, I just saw him a couple weeks ago and  
3 he had hair on his head, so...

4 Yeah, you're looking good. Thank you.

5 With that, I'll begin. And we will begin  
6 by having Representative Stephens talk a little about the  
7 bill he introduced, which is House Bill 2142.

8 REPRESENTATIVE STEPHENS: Thank you,  
9 Mr. Chairman. And, again, thanks so much for convening  
10 this hearing and for bringing this subject to light and  
11 really digging into what could be a difficult subject.  
12 Although, frankly, I don't think it should be.

13 You know, I became aware of this issue --  
14 oddly enough, my personal accountant happens to be a  
15 school board member in Montgomery County and he brought  
16 this issue to my attention. He said, You know, you guys  
17 really need to tackle the Sterling Act.

18 And I began digging into it and then, you  
19 know, started looking at the impact that it was having on  
20 the municipalities and school districts in Montgomery  
21 County.

22 And, in particular, our municipalities in  
23 Montgomery County lose about \$19 million. That's the  
24 impact on our municipalities. And our school districts,  
25 the impact is about \$18.6 million. So this is a

1 significant, significant impact on the taxpayers in  
2 Montgomery County.

3 And I happen to live in a household where  
4 my wife works in Philadelphia and, you know, she pays the  
5 city wage tax. And our local municipality and our local  
6 school district don't -- you know, don't receive the  
7 benefit of the income that she makes in Philadelphia by  
8 virtue of this uneven playing field that was established  
9 so many years ago.

10 So I set out to try to remedy that. I  
11 know Representative Petri also has a couple bills.

12 I've got to tell you, I think that the end  
13 result of both bills is the same; it's just the mechanics.

14 And, frankly, I'm indifferent. You know,  
15 if there are experts that think, you know, either one of  
16 our proposals is the best way to accomplish this or even  
17 an alternative way to accomplish this, I'm certainly all  
18 ears and willing to consider anything that remedies  
19 this -- the situation and levels the playing field for our  
20 suburban municipalities as it relates to our residents  
21 that work in the city of Philadelphia and pay wage taxes  
22 there.

23 So thanks again, Mr. Chairman, for  
24 bringing this to the forefront.

25 CHAIRMAN O'NEILL: Great. Thank you.

1                   And Representative Petri with his two  
2 bills, 2256 and 2257.

3                   REPRESENTATIVE PETRI: Thank you,  
4 Mr. Chairman, and thank you committee members.

5                   Before we get to my opening comments about  
6 the Sterling Act, I do want to bring the members's  
7 attention to a slight issue that's appeared in the  
8 newspapers dealing with reciprocity and, in particular, in  
9 New Jersey. And being Southeast members, we've certainly  
10 heard from our constituents about their feeling about this  
11 proposal.

12                   Now, why is that important? That's  
13 important because if that reciprocity agreement continues  
14 to be revoked by the governor of New Jersey, we will have  
15 a little bit of a civil war, so to speak, because, as I  
16 understand it, if you earn more than 75,000, because of  
17 the graduated tax in New Jersey, our municipalities will  
18 also lose the EIT. In other words, the EIT will be phased  
19 out because it's a rate more than 4.07.

20                   So many of our workers, of course, make  
21 more than that in household income and travel to New  
22 Jersey.

23                   And so that makes this issue, again, if  
24 the governor doesn't change the reciprocity piece, even  
25 more critical as far as loss of revenue. And I'm sure

1 some of them are scrambling to calculate what that would  
2 be.

3 On to the issue of the Sterling Act with  
4 regard to Philadelphia. You know, obviously, this was  
5 established a long time ago when we were coming out of the  
6 first great depression. I'll call the recent event the  
7 second great depression. And the mechanics of it, I  
8 think, are going to be important for the Committee.

9 If you're going to consider it, one of the  
10 things you want to balance is the likelihood of keeping  
11 the money, under one approach, which is you pay it in your  
12 township and the township keeps it versus the other  
13 approach is you pay it to the City of Philadelphia and you  
14 hope to get it back someday, somewhere after, you know,  
15 wrangling.

16 Now, obviously, on that score, we know our  
17 municipalities would settle in favor of you pay it locally  
18 and you get a credit in Philly.

19 I'd be interested to hear from the  
20 practitioners about the paperwork associated with this.

21 I think one of the things the Committee  
22 has to consider in its deliberation is the small  
23 businessman, the medium-sized businessman, how much  
24 paperwork is involved and how do you do it, what are the  
25 mechanics, and what's the best way of proceeding?

1                   You know, obviously, in the end, I prefer  
2 my township to be able to keep the EIT and the taxpayer to  
3 get a credit, but I'm interested to hear what the  
4 practitioners say about the complications and the  
5 paperwork to do that.

6                   So I look forward to a robust hearing. I  
7 thank you for even being willing to, you know, consider  
8 this.

9                   We know that in the end this is also a  
10 tough issue for the City of Philadelphia, and I think  
11 we've got to look at numbers and --

12                   But in the end, to me, our townships are  
13 struggling to pay their police, their fire, to keep their  
14 roads in good condition.

15                   And where are our children educated.  
16 Remember, the EIT is largely for education. We're  
17 certainly not educating our children in Philadelphia. So  
18 how do we make this all work? And interested in hearing  
19 what the practitioners have to say.

20                   Thank you.

21                   CHAIRMAN O'NEILL: Thank you.

22                   And we are actually on time, so hopefully  
23 we'll keep it that way.

24                   So we're going to start with our first  
25 testifiers, David Caplan and James Newhard from the

1 Pennsylvania Institute of Certified Public Accountants.

2 So just identify yourselves, gentlemen.

3 And whoever would like to begin.

4 MR. CAPLAN: Is this on? Yes? No? Is  
5 this on? Yes.

6 Good morning, Chairman O'Neill, and all of  
7 you other folks. Welcome to Bensalem, the gambling mecca  
8 of Bucks County.

9 I am David Caplan, and I am a sole  
10 practitioner in Lafayette Hill, Pennsylvania. And I am  
11 also the chairman of the Earned Income Tax Task Force for  
12 PICPA.

13 MR. NEWHARD: Yes. Good morning.

14 Are we on here?

15 MR. CAPLAN: Yeah, I think it is. You got  
16 to lean in.

17 MR. NEWHARD: Okay. Yeah. I should ask  
18 my son who's a performer.

19 My name is Jim Newhard. I am a -- I am a  
20 CPA, a sole practitioner, in Chester County, and, yes, I  
21 pay earned income tax as well.

22 And I am also on the Earned Income Tax Act  
23 32 Task Force on behalf of the Pennsylvania Institute.

24 Thank you for having us here, Chairman,  
25 and Representatives and all other constituencies.



1                   On behalf of the Pennsylvania Institute,  
2 we'd like to thank you for this opportunity to speak.

3                   And we're going to speak mostly as folks  
4 who have a certain expertise in the two pieces of  
5 legislation that impact us; that is, the Act 511 and the  
6 Sterling Act.

7                   To use a colloquialism, don't really have  
8 a dog in the race. We're going to try to present the  
9 facts and then give some basic information. And we assume  
10 that the meat of what you would want us to provide is the  
11 answer to questions because you're going to have specific  
12 scenarios that you're going to want to delve into.

13                   Specifically, the Pennsylvania Institute  
14 is the fourth largest CPA organization in the United  
15 States, and we have in excess of 22,000 members that we  
16 represent and -- in both individuals and in the business  
17 community as well, so all aspects of the taxes here in  
18 Southeastern Pennsylvania for sure.

19                   MR. CAPLAN: So we're here basically to  
20 explain how crediting works, and there are three types of  
21 crediting procedures that affect EIT.

22                   One is what is known as the "super credit"  
23 with Philadelphia; the second is the crediting between Act  
24 511 jurisdictions; and the third is out-of-state crediting  
25 against the EIT.

1                   So we're going to take them one step at a  
2 time. Jim's going to cover the out-of-state credits, and  
3 I'll handle the other two.

4                   The super credit, as you've stated,  
5 Philadelphia's covered by the Sterling Act and all of the  
6 other communities in Pennsylvania are covered by the Local  
7 Tax Enabling Act of 1965, otherwise known as Act 511.

8                   As far as the super credit is concerned,  
9 if -- as an example, if someone lives in a 1 percent  
10 jurisdiction outside of the city and they have two jobs,  
11 one job is outside the city where they earn \$50,000 and  
12 the other is inside the city where they earn a hundred  
13 thousand dollars, in a normal crediting provision, they  
14 would be able to use the city wage tax to offset the local  
15 tax on the hundred thousand. That would be a normal  
16 crediting procedure.

17                   The reason why this is a super credit is  
18 because they can use the amount paid to Philadelphia to  
19 offset their entire tax liability, including the liability  
20 on the 50,000.

21                   So in a case like that, in a 1 percent for  
22 150,000 total, that's \$1,500: 500 on the out-of-city job  
23 and a thousand for the city job.

24                   But in the City, they would pay \$3,500  
25 because it's approximately 3 and a half percent.

1           So instead of using the 3,500 against the  
2 thousand and still paying the 500, they can use the 3,500  
3 against the entire \$1,500 liability, and the \$500 that has  
4 been withheld from the local job they would get as a  
5 refund.

6           They cannot get a refund for excess city  
7 wage tax that they pay. But they can get a refund for  
8 local tax that is withheld that they don't need to cover  
9 their liability. So that's how the super credit works.

10           As far as the inner Act 511 communities  
11 are concerned, the way it works is as follows: You have a  
12 tax -- a non-resident tax where you work and a resident  
13 tax where you live.

14           Act 32 required that the employer withhold  
15 the higher of the two. In most cases, the non-resident  
16 tax does not exceed 1 percent, although there are many  
17 instances where it does.

18           In many cases, the resident tax does  
19 exceed 1 percent; for example, open space for an extra  
20 quarter, there are distressed communities, Act 47 and Act  
21 205, where the resident is higher.

22           So, let's say, for example, you work in a  
23 1 percent and you live in Whitemarsh, where I live, which  
24 is 1 and a quarter percent.

25           You would have 1 and a quarter percent

1 withheld from your pay. The entire 1 and a quarter would  
2 be sent from the work jurisdiction back to the home  
3 jurisdiction because it's higher than the work  
4 jurisdiction.

5 Now, let's take another example where you  
6 live in King of Prussia, which has a zero rate, and you  
7 work in Abington, let's say, which has a 1 percent rate,  
8 you would have 1 percent taken out, which is the higher of  
9 the two, but nothing would get sent back to King of  
10 Prussia because they don't have one.

11 Another example, if you work in a 1.3 and  
12 you live in a 1, you would have 1.3 taken out, as it's the  
13 larger of the two, and 1 percent of that would be sent  
14 home, and the other .3 percent would stay where it is.

15 Now, it's important to understand that  
16 this differs from the Philadelphia situation, where in  
17 Philadelphia, you pay where you work but it stays there.

18 And that's the whole purpose of these  
19 bills, that in the Philadelphia situation, because it's  
20 covered by the Sterling Act, the 3 and a half percent  
21 stays there and you take a credit for your EIT at home,  
22 but they don't actually get the money. They just get a  
23 credit off of the liability.

24 So hopefully that describes those two  
25 types of crediting procedures.

1                   And now Jim will cover out-of-state  
2 credits.

3                   MR. NEWHARD: Okay. We're going to try to  
4 lay this out. And since I don't have pictures, you have  
5 to picture in your mind all these different things. So I  
6 apologize for being in the numbers world, so to speak.

7                   But for a simplicity point of view, we're  
8 looking at different tax laws. So we're going to call  
9 where there are tax laws that impact income taxes, we're  
10 going to call those legal jurisdictions.

11                   And I'm going to use, for example, nine  
12 specific legal jurisdictions that we might encounter in  
13 this part of the world.

14                   In Pennsylvania, we have all five Act 511  
15 jurisdictions, which, surprisingly -- it is not  
16 surprisingly -- is everyone except Philadelphia. So  
17 that's one Act 511's legal jurisdiction.

18                   Philadelphia, covered by the Sterling Act,  
19 is the second legal jurisdiction.

20                   The Commonwealth of Pennsylvania is a  
21 third.

22                   We have -- and then we look at our  
23 neighbors to the north, we have three jurisdictions there:  
24 New York State, New York City, and Yonkers are taxing  
25 jurisdictions.



1 include both Delaware and New York, which basically is the  
2 majority of states who say, If you work in our state, you  
3 pay tax in our state.

4 Interestingly, both of those have some  
5 very unique calculations. I'll just point out in both  
6 earned income taxes and Pennsylvania income taxes there's  
7 no such thing as a true joint return.

8 They're put together as an accommodation,  
9 but each spouse stands on their own as a taxpayer. So  
10 there's no offsetting. Your wife's Philadelphia wage tax  
11 cannot offset your local tax liability.

12 In the case of non-reciprocal legal  
13 jurisdictions, they ignore the crediting. They really  
14 don't care how Pennsylvania treats it. You're going to  
15 pay tax where you work. And then that is going to come  
16 back to a special calculation in your home jurisdiction.

17 In Pennsylvania, to the extent that the  
18 tax is paid in another legal jurisdiction exceed your  
19 Pennsylvania liability on the same income taxed twice --  
20 as Dave mentioned, you're looking -- you know, that this  
21 is the typical crediting situation -- only the income  
22 that's double taxed is eligible for crediting between  
23 legal jurisdictions, except for the other situation that  
24 we've -- with Philadelphia -- with the super credit,  
25 pardon me.

1                   And then if there's anything left over,  
2 for example, most people who work in New York, well above  
3 the 40 -- well above the 3.07 and whatever's above that  
4 can be claimed against the earned income tax liability.

5                   And, again, there's no refund that is  
6 available in that situation.

7                   Interestingly, I mentioned about  
8 consistency within a legal jurisdiction. New York City,  
9 if you work in New York City, you pay the tax. If you  
10 don't work in New York City, you don't -- you're not  
11 subject to the tax.

12                   However, if you work in Yonkers, Yonkers  
13 has a non-resident tax. They give a little bit of an  
14 exemption, and then they -- but then they assess a tax on  
15 non-residents.

16                   So just because they're all within the  
17 same state of New York doesn't mean that they have to be  
18 legally consistent between the two.

19                   So that's a little -- so that same concept  
20 applies, you know, that Philadelphia and Act 511  
21 jurisdictions are separate legal jurisdictions. So they  
22 have different rules.

23                   Obviously, if there's going to be changes,  
24 that's great. We'd be happy to help in that area.

25                   In Pennsylvania there is some -- the



1 earned income taxes and wage taxes affect the jurisdiction  
2 and school districts, so that's an issue.

3 And I know there are some subsidies that  
4 come back from Pennsylvania to those school districts that  
5 are impacted by the Philadelphia wage tax credit.

6 You have final words, Dave?

7 MR. CAPLAN: Yeah, I wanted to touch on  
8 the paperwork issue.

9 The -- right now if you live in  
10 Philadelphia or you work in Philadelphia, you have  
11 Philadelphia tax taken out, but in most circumstances  
12 there is no tax returns due.

13 It's taken out at the rate that it's  
14 supposed to be taken out. And it is only in situations  
15 where, for example, if you live in Philadelphia and you  
16 work for Rutgers University in Camden, they do not take  
17 out Philadelphia tax, and you're on your own.

18 So there is a tax return called an  
19 earnings tax return that you are required to file, and  
20 you're also required to file quarterly estimates  
21 throughout the year and pay Philadelphia.

22 But in most cases, people who work in  
23 Philadelphia that are taxed are taxed at the actual rate  
24 and there is no tax return to file.

25 If this goes through where Philadelphia

1 will be forced to allow a credit for local taxes, that  
2 will require them to have a tax return for every single  
3 person impacted, which means that where 95 percent of the  
4 people affected don't even know that an earnings tax  
5 return exists, that will change substantially.

6 So as far as paperwork is concerned,  
7 you're talking about a huge amount of paperwork change.

8 MR. NEWHARD: Quick thing, just -- I'm  
9 sorry. I don't want to take up too much time. I  
10 apologize.

11 Just Representative Petri talked about the  
12 situation with New Jersey. One of the things that are  
13 concerning people is if you work in -- if live in  
14 Pennsylvania and you work in New Jersey, they don't  
15 withhold Pennsylvania and you do not have to file a New  
16 Jersey return.

17 Where there's non-reciprocity in  
18 jurisdictions, there has to be returns filed for all  
19 jurisdictions. So that everybody who lives in  
20 Pennsylvania who works in New Jersey -- there's 120,000  
21 that they estimate -- they will all have to file New  
22 Jersey returns to calculate a tax.

23 And, again, it would be the same if  
24 we have a -- if that is -- that's the resolution that's  
25 happening with Philadelphia, there would have to be a

1 return.

2 And whether you work in Philadelphia or  
3 you work -- or you live in Philadelphia, there would have  
4 to be returns filed for there as well.

5 MR. CAPLAN: We'd be happy to open it up  
6 to any questions that you have.

7 CHAIRMAN O'NEILL: Thank you.

8 First, I want to let everyone know we've  
9 been joined by my dear friend Representative Jerry Knowles  
10 from Schuylkill County, who's also a member of the Finance  
11 Committee.

12 I have a real quick question when I was  
13 listening to you. I just need a scenario to make this  
14 clear.

15 If I live in Bensalem and work in  
16 Philadelphia, is my Bensalem EIT tax deducted from my  
17 wages? Do you still have to pay it?

18 MR. CAPLAN: No, it is not.

19 CHAIRMAN O'NEILL: Okay. I want to make  
20 that clear.

21 MR. CAPLAN: Yeah. If you have  
22 Philadelphia tax withheld, you do not have local tax  
23 withheld. Yeah. That's it.

24 So in that case, if that's your only job,  
25 you take the Philadelphia tax as a credit and there is no

1 refund because you haven't had anything withheld.

2 CHAIRMAN O'NEILL: All right. Okay.  
3 Great.

4 Does any of the members have a --  
5 Representative Truitt.

6 REPRESENTATIVE TRUITT: Thank you,  
7 Mr. Chairman. Thank you, gentlemen, for your testimony.

8 I have a question to open the can of worms  
9 up just a little bit farther about a sole proprietor.

10 Let's say you have a sole proprietor who  
11 lives in one of the counties surrounding Philadelphia and  
12 works in the city 10, 15 days a year, how does that affect  
13 things?

14 MR. CAPLAN: Okay. So are you talking  
15 about a sole proprietor in Philadelphia as well or a wage  
16 earner in Philadelphia and a sole proprietor outside?

17 REPRESENTATIVE TRUITT: That's -- I'll use  
18 a plumber who lives in Chester County who goes and does a  
19 job in Philadelphia.

20 MR. CAPLAN: Yeah. So --

21 REPRESENTATIVE TRUITT: Who's based in  
22 Chester County, he lives in Chester County, but he works  
23 for a handful of days in the city.

24 MR. CAPLAN: Okay. So in that case,  
25 you're talking about the plumber filing a net profits tax

1 return in Philadelphia, which is essentially the same as  
2 an earned income tax return or city wage tax. It's just  
3 for an independent business as opposed to a wage earner.

4 So the term "net profits tax" you can  
5 substitute for "city wage tax."

6 In a case like that, that person would  
7 file a net profits tax return, pay net profits tax to  
8 Philadelphia, and just like the city wage tax, would take  
9 a credit for that tax against local liability.

10 And in cases like that, you're talking  
11 about in many cases -- my own case, in particular, as a  
12 sole proprietor -- you are talking about a city wage tax  
13 paid or a net profits tax paid that is less than your  
14 total earned income tax liability outside of the city  
15 because most of your business is outside the city, you  
16 just do a little bit in the city.

17 So in a case like that, let's say your  
18 total tax liability outside the city is a thousand dollars  
19 but you pay \$350 to the City, you would now still over  
20 \$650 outside, but you would be paying the 350 to the City.

21 Does that answer your question?

22 REPRESENTATIVE TRUITT: It does. Thank  
23 you.

24 CHAIRMAN O'NEILL: Thank you.

25 Representative Daley.

1 REPRESENTATIVE DALEY: Thank you.

2 So I just have a question about the  
3 reciprocity. So you just explained that there are nine  
4 legal jurisdictions, although I did -- I thought that I  
5 heard you say that Pennsylvania, the state of  
6 Pennsylvania, was also --

7 MR. NEWHARD: Yeah. I realized that as I  
8 said it, I didn't actually put it into my original report.  
9 So that's what happens when you -- it's when my wife  
10 doesn't let me ad lib it, so...

11 REPRESENTATIVE DALEY: So it is --

12 MR. NEWHARD: It is actually.

13 REPRESENTATIVE DALEY: So there's actually  
14 ten --

15 MR. NEWHARD: Yes.

16 REPRESENTATIVE DALEY: -- legal?

17 MR. NEWHARD: Yes.

18 REPRESENTATIVE DALEY: Okay. Just want to  
19 be sure.

20 So my understanding of this bill is that  
21 we're looking at Philadelphia, so the Sterling Act legal  
22 jurisdiction, and then the Act 511 jurisdictions.

23 So if we're going to go -- if we're going  
24 to make this applicable to Philadelphia, why wouldn't it  
25 also then be applicable to the other legal jurisdictions?

1 MR. CAPLAN: I have no idea.

2 MR. NEWHARD: My only assumption is I  
3 would imagine we have no legislative authority over  
4 non-Pennsylvania jurisdictions. That would be my own --

5 MR. CAPLAN: I would open that up to the  
6 two representatives to ask to them.

7 MR. NEWHARD: Obviously, the current  
8 reciprocity agreement between the six states, there is a  
9 provision -- and we've all read it in newspapers lately --  
10 that any state can unilaterally back out of it.

11 But I don't -- you know, that's just an  
12 agreement. That's not a legislative process.

13 MR. CAPLAN: So I guess the question is,  
14 why Philadelphia and not New York and Delaware?

15 REPRESENTATIVE DALEY: That is actually  
16 the question.

17 REPRESENTATIVE PETRI: Well, I would  
18 welcome the opportunity if we had authority over any of  
19 those governors.

20 Can you imagine the loss of revenues to  
21 the Pocono region as everybody gets on the highway and  
22 heads towards New York City.

23 You know, I'd love to have an agreement  
24 with New York City. I have a lot of constituents who  
25 travel to New York City every day.

1 Love to have reciprocity with Delaware.

2 And you've asked an excellent question,  
3 Representative. If you look at the list of cities and  
4 jurisdictions that have reciprocity, there are not as many  
5 as I would have thought.

6 And some are really peculiar. An example,  
7 California has reciprocity with Guam. I don't know why.  
8 Don't know, you know, how that works. But they do.

9 In the area of D.C., D.C., Maryland, and  
10 Virginia have reciprocity. That makes abundant sense  
11 because of the interchange of the economies and movement.

12 I think it makes sense to have more  
13 reciprocity because of the way work forces move today.  
14 But unless you can encourage the governor of Delaware and  
15 the governor of maybe New Jersey and certainly New York --  
16 who I'm sure don't want to give up the revenue --

17 REPRESENTATIVE DALEY: I think you said  
18 that New Jersey was potentially moving towards being  
19 non-reciprocal.

20 REPRESENTATIVE PETRI: Certainly the  
21 governor --

22 REPRESENTATIVE DALEY: That's what I've  
23 read.

24 REPRESENTATIVE PETRI: -- has made that  
25 announcement, but he's indicated that if certain



1 legislative agendas get accomplished in the next few  
2 weeks, days, that he may back off of that.

3 So hopefully he will because that is  
4 something -- I'm sure our phones have all lit up about the  
5 decision to do away with New Jersey reciprocity.

6 Let's face it, it costs our residents  
7 another 3 percent.

8 REPRESENTATIVE DALEY: My concern I guess  
9 is, you know, looking at Pennsylvania -- well, two legal  
10 jurisdictions in the Commonwealth of Pennsylvania: the  
11 Sterling and the Act 511.

12 And I recognize how important it is  
13 because I'm struggling with this because I represent  
14 boroughs and townships that do not have an EIT and school  
15 districts and boroughs and townships that -- and school  
16 districts that do have an EIT.

17 So -- and, quite honestly, I -- for most  
18 of my life before coming to the legislature, I paid the  
19 non-resident wage tax in Philadelphia because that's where  
20 I worked.

21 And, quite honestly -- and where I live  
22 does not have an EIT. So I'm looking at a -- you know,  
23 I'm trying to look at it in that perspective.

24 But I'm also looking at it as a regional  
25 issue in that, you know, New York and Yonkers and

1 Delaware, all these other legal jurisdictions are not  
2 within the Commonwealth. Philadelphia and the Act 511  
3 municipalities and school districts are within the  
4 Commonwealth.

5 We have a letter from the City saying that  
6 potential impact on their budget would be \$180 million.

7 As a representative who represents  
8 first-string suburbs, that worries me. That worries me.

9 And -- because I think that, you know, as  
10 much as we have to look at our districts and how it  
11 impacts our districts, I think it's also really  
12 important -- our districts are within a region. We're in  
13 Southeastern Pennsylvania. And, quite honestly,  
14 Philadelphia is a major driver of the economy in  
15 Southeastern Pennsylvania.

16 So I'm just -- that's -- you know, that  
17 worries me a lot about this legislation. And I know that  
18 we're only at the beginning of talking about it, but I  
19 think that that's something we would definitely have to  
20 consider.

21 And I had one other fleeting thought that  
22 has flown, I think.

23 But if I think of it, I'll raise my hand  
24 again.

25 Thank you.

1 CHAIRMAN O'NEILL: Thank you.

2 Representative Stephens.

3 REPRESENTATIVE STEPHENS: Thank you.

4 And just to follow up a little bit on  
5 Representative Daley's points, you know, as Representative  
6 Petri said, if we were able to achieve reciprocity with  
7 all these other entities and put everybody on a level  
8 playing field, I think that that would be the most  
9 desirable resolution.

10 Unfortunately, we're limited in what we  
11 can do. And I know I brought my bill forward because I  
12 was trying to get as much parity as possible, I mean, and  
13 level the playing field. To the extent that we have  
14 municipalities in Pennsylvania and one of them has a  
15 different set of rules, that's what struck me, and really  
16 what prompted me to introduce my legislation was I just  
17 wanted to level the playing field.

18 And I wanted to pivot off of that and get  
19 back to a comment made about the paperwork and the issues  
20 there.

21 Could you walk me through the  
22 differences and -- I mean, right now we have a situation  
23 where -- you know, so I represent Montgomery County, and,  
24 you know, two of my municipalities have the 1 percent and  
25 the half percent school district and everything else like

1 that.

2                   And so, you know, right now you have folks  
3 who might live in Horsham Township and work in Montgomery  
4 Township, which is the North Penn School District and the  
5 Hatboro-Horsham School District, and, obviously, the  
6 Montgomery Township and Horsham Township.

7                   So how is what would need to happen as it  
8 relates to folks having to file that return in  
9 Philadelphia any different than what is currently  
10 happening for folks who work in a municipality other than  
11 the one in which they live and both municipalities have  
12 that earned income tax in place?

13                   MR. CAPLAN: Okay. So the first issue  
14 that's important to understand is it depends upon how your  
15 bill is structured.

16                   If your bill is structured for  
17 Philadelphia to just write a check that is equivalent to  
18 the amount lost, there is no tax return in Philadelphia  
19 necessary.

20                   However, if the method of doing it is to  
21 instead of right now filing a local tax return and taking  
22 a credit for Philadelphia, instead you file a Philadelphia  
23 tax return and take a credit for local, if that's the  
24 methodology, then you have a change in paperwork because  
25 you now have a return in Philadelphia that is not

1 currently being done.

2           Outside of the city, everybody files local  
3 tax returns no matter what the situation. You could work  
4 and live in the same township and you file one. You could  
5 work and live in two different townships and file one.  
6 You could live in one and work in Philadelphia and you  
7 file one.

8           Any way you look at it, if you are subject  
9 to local earned income tax, you're filing a tax return.  
10 However, the opposite does not apply as far as  
11 Philadelphia is concerned.

12           And one other thing I think is important  
13 to understand -- and Jim mentioned it briefly -- is I know  
14 you had mentioned about the school districts losing money,  
15 but there is a provision in the allocation of school  
16 district funds from the State that the ones that are  
17 losing, based upon the super credit, get more money.

18           So as it stands right now, they are  
19 somewhat compensated for that.

20           REPRESENTATIVE STEPHENS: Well, my  
21 understanding is in Montgomery County that average  
22 compensation is about 79 percent of what they lose of the  
23 Sterling Act funding.

24           MR. CAPLAN: That's possible.

25           REPRESENTATIVE STEPHENS: And, in essence,

1 that money was supposed to be directed towards property  
2 tax relief, if I'm not mistaken. I think that's where the  
3 funding structure comes from, if I'm not mistaken there.

4 MR. CAPLAN: Well, in the sense that  
5 school tax as we know it, which is a property tax, is a  
6 very large part of the property tax that's paid that is  
7 earmarked for the school district.

8 If the school district gets more money for  
9 this, then the property taxes don't have to be as high.

10 So, yes, you're correct.

11 REPRESENTATIVE STEPHENS: Right.

12 And -- but -- so I guess mechanically  
13 what's happening is our residents who work in Philadelphia  
14 are sending their earned income tax dollars to  
15 Philadelphia.

16 And then what's happening is the State is  
17 backfilling that revenue into -- 80 percent -- or 79  
18 percent in Montgomery County's case -- back into the local  
19 school districts.

20 And so it just seems we have this big --  
21 we have this big shift of money going around to  
22 accommodate, again, one municipality that has a different  
23 set of rules.

24 And that's, to me, what was troubling and  
25 what I was trying to address.

1 MR. CAPLAN: You're absolutely right.

2 REPRESENTATIVE STEPHENS: Thanks.

3 MR. CAPLAN: That --

4 MR. NEWHARD: That it's different.

5 MR. CAPLAN: It is different, yes. It is  
6 a -- it feels like a shell game. The money kind of gets,  
7 you know, circled around, and Philadelphia does do it  
8 differently.

9 However, that doesn't mean that they're  
10 not allowed to or that they shouldn't be. It's just the  
11 fact is, yes, you're correct.

12 So, I mean, obviously, that's up to you  
13 guys to figure out whether it's right or not. But -- but,  
14 yeah, what you say is correct, absolutely.

15 REPRESENTATIVE STEPHENS: So just to close  
16 the loop, there is a way to achieve this without requiring  
17 all of those additional filings, and, alternatively, even  
18 if we did do something that required those additional  
19 filings, that would be no more of a burden than every  
20 local taxpayer faces in the suburban counties today.

21 MR. CAPLAN: Well, actually it would be  
22 because if they're filing an EIT return and now on top of  
23 that they have to file a Philadelphia return, it would be  
24 an added burden.

25 Of course, we wouldn't complain because

1 we'd make more money, so --

2 REPRESENTATIVE STEPHENS: Sure.

3 MR. CAPLAN: Yeah. They both would get  
4 our fees. Yeah.

5 MR. NEWHARD: I would point out the  
6 problem with the one idea of bypassing any local -- any  
7 tax return from Philadelphia, it creates a loss of  
8 oversight, auditability. Okay.

9 And that's a really -- that's a  
10 significant part. Even about Act 32, one of the things is  
11 getting all these consolidated tax collection and then  
12 somebody making sure, you know, the 2,900-plus  
13 jurisdictions that are EIT jurisdictions in Pennsylvania  
14 are all actually getting what's due to them.

15 If -- so that I would -- I would suspect  
16 that we may need a tax return for Philadelphia just so  
17 it's auditable for transparency, verification, and  
18 oversight.

19 MR. CAPLAN: Good point.

20 REPRESENTATIVE STEPHENS: Is there -- I  
21 promise this will be the last question, Mr. Chairman. I  
22 apologize.

23 Is there a reason why your local tax  
24 return couldn't be -- I mean, is there a reason why a copy  
25 of that couldn't just be --



1 MR. CAPLAN: Thank you.

2 REPRESENTATIVE STEPHENS: -- transmitted  
3 to Philadelphia for --

4 MR. CAPLAN: Yes.

5 MR. NEWHARD: 66 mile-an-hour fastball.

6 MR. CAPLAN: That it couldn't be given to  
7 Philadelphia?

8 REPRESENTATIVE STEPHENS: Yeah.

9 MR. CAPLAN: Or that it couldn't be part  
10 of the Pennsylvania return? See, that's what I thought  
11 you were going to ask.

12 REPRESENTATIVE STEPHENS: Whichever one  
13 you think is great. I like --

14 MR. CAPLAN: Well, that's --

15 REPRESENTATIVE STEPHENS: I liked your --

16 MR. CAPLAN: -- was waiting for, so I  
17 don't know.

18 REPRESENTATIVE STEPHENS: Reaction, so  
19 I'll take it.

20 No, but, I mean, in all honesty, if -- you  
21 know --

22 MR. NEWHARD: Combined return.

23 REPRESENTATIVE STEPHENS: Isn't there  
24 already a return that you are --

25 MR. CAPLAN: Combined return.

1                   REPRESENTATIVE STEPHENS: Submitting that  
2 could be just provided to Philadelphia and the information  
3 could be used from there?

4                   MR. CAPLAN: It could be. It's a little  
5 tricky for a lot of reasons.

6                   First of all, you're looking at a turf war  
7 because you've got a Philadelphia Department of Revenue  
8 that is not going to want to combine themselves with the  
9 EIT jurisdictions.

10                  That's -- I mean, that's just a turf war  
11 issue.

12                  MR. NEWHARD: Collections.

13                  MR. CAPLAN: I think -- yeah, collections,  
14 as far as collections are concerned, you're looking at two  
15 different types of collections. You've got the  
16 Berkheimers and the Keystones of the state versus a  
17 Philadelphia, you know.

18                  You're looking at -- it's difficult to  
19 combine the two. I'm not saying it can't be done or that  
20 it shouldn't be done. I'm saying from a logistical  
21 perspective, I think you're looking at a difficult  
22 situation.

23                  MR. NEWHARD: And Governor Rendell signed  
24 Act 32 in 2008. In 2010, we came up with statewide  
25 unification of forms.



1 testimony.

2 So a question: How many cities across the  
3 country have something similar to the Sterling Act? As I  
4 understand it, it's very few or Philadelphia may even be  
5 the only.

6 MR. CAPLAN: The Sterling Act applies to  
7 first class cities and, obviously, there's only one in  
8 Pennsylvania.

9 REPRESENTATIVE PETRI: Right.

10 MR. CAPLAN: I think that it's easier to  
11 look at the fact that I believe there are 12 states in the  
12 country that have any kind of local tax.

13 REPRESENTATIVE PETRI: That's what I  
14 thought. It was similar --

15 MR. CAPLAN: Yeah.

16 REPRESENTATIVE PETRI: -- in the dozen  
17 range.

18 MR. CAPLAN: Most of them are ones and  
19 twos. Like Delaware is Wilmington. New York is New York  
20 City and Yonkers.

21 There are four that are really major,  
22 those being Pennsylvania, Ohio, Michigan, and I believe  
23 Kentucky.

24 Other than that, the rest of them are very  
25 minor.

1                   And if you look at Pennsylvania, we have  
2 twice the number of jurisdictions that have a local earned  
3 income tax than the entire rest of the country put  
4 together.

5                   MR. NEWHARD: Maryland has a local tax,  
6 but they have consolidated that onto their state return,  
7 every county.

8                   MR. CAPLAN: And it's a county tax.

9                   MR. NEWHARD: It's a county. Yeah.

10                  REPRESENTATIVE PETRI: So one of the  
11 debates that always occurs in Appropriations when revenue  
12 comes in, and members ask it frequently, is -- and you  
13 addressed part of the issue -- why do we have to file all  
14 these different returns?

15                  Why can't there be some sort of  
16 consolidated return and the information's reported and the  
17 funds are shared?

18                  But I wanted to get your reaction on one  
19 aspect. Let's assume for a moment that the legislature  
20 decides that the Philadelphia School District should have  
21 its own taxing authority, just like all the other school  
22 districts, that the funds are segregated from city  
23 council, wouldn't we need a formal process similar to what  
24 we're talking about, and isn't it much more transparent  
25 and audible -- auditable -- still not said right --

1 subject to audit than our current situation?

2                   You know, it seems to me that this --  
3 we're going to --

4                   MR. CAPLAN: Good question.

5                   REPRESENTATIVE PETRI: -- we're going to  
6 use the funding formula and kick some -- back some money  
7 to the schools isn't very transparent.

8                   And, certainly, when we're making  
9 decisions isn't obvious to us. We don't see those  
10 numbers.

11                   MR. CAPLAN: I think you make a good  
12 point. I think if you look at tax practice throughout the  
13 country, there are lots of things that could be done  
14 better or could be done differently.

15                   I would not argue that that would  
16 certainly make it better. Yes, it would be more  
17 paperwork, but it would be auditable.

18                   And, you know, I guess right now there is  
19 no separate authority for the school district, so it's all  
20 under city council, and they do their black magic and  
21 figure it out.

22                   But, yeah, I certainly think it would be  
23 preferable to do that. Yeah.

24                   REPRESENTATIVE PETRI: Just a last  
25 comment. I know that we're starting to extend time, but

1 this was an important panel so we can understand the  
2 mechanics.

3 To your comment, Representative Daley, I  
4 think Philadelphia and how we make this up to them is an  
5 important discussion item, and a tough one, in a budget  
6 process, but thanks.

7 MR. CAPLAN: Representative Daley, do you  
8 have another question for the members?

9 REPRESENTATIVE DALEY: No, I'll hold it  
10 because I think we're close to time.

11 CHAIRMAN O'NEILL: Okay. Thank you. I  
12 appreciate it. Great.

13 Gentlemen, thank you for being with us  
14 here today. We really appreciate it.

15 MR. CAPLAN: Thank you.

16 CHAIRMAN O'NEILL: And I'm sure we'll be  
17 reaching out to you again.

18 We've been joined by Chairman Wheatley.  
19 Chairman Wheatley is here.

20 Also, we've been joined in the audience by  
21 former representative Melissa Murphy Weber. Welcome.

22 MS. MURPHY WEBER: Thank you,  
23 Representative.

24 CHAIRMAN O'NEILL: Our next panel is the  
25 Pennsylvania School Board Association. Stuart -- am I

1 saying it right -- Knade?

2 MR. KNADE: Knade. That's correct, sir.

3 MR. CAPLAN: Thank you.

4 Mark Miller and Jason Confair.

5 Gentlemen, if you'll introduce yourselves  
6 and someone may begin. And while you're doing that, I'm  
7 going to run to the --

8 MR. MILLER: Mark Miller, President-Elect  
9 of the Pennsylvania School Boards Association and a school  
10 director in Centennial School District here in Bucks  
11 County.

12 MR. KNADE: Chairman O'Neill, Chairman  
13 Wheatley, I'm Stuart Knade, the Senior Director of Legal  
14 Services for the School Boards Association.

15 MR. CONFAIR: Hi, I'm Jason Confair. I'm  
16 a partner with the Lancaster law firm of Kegel Kelin Almy  
17 & Lord. I'm here helping PSBA as an expert witness.

18 I do a lot of EIT work throughout the  
19 state, including as solicitor of the Chester County Tax  
20 Collection Committee, which obviously has a stake in this  
21 here.

22 MR. KNADE: And my role here is to give  
23 you a brief overview of what we -- how we see the problem.

24 I think a lot of that work has already  
25 been accomplished, so that'll save us a lot of time. I



1 won't need to repeat what the previous panel did insofar  
2 as explaining how the super credit works, which is really  
3 our main focus today.

4 And in terms of technical questions,  
5 that's what Jason's here for. He does a lot of work in  
6 this area in representing tax collection committees and  
7 school districts in these kinds of matters.

8 Mr. Miller, as a school director in the  
9 Centennial School District, has information that I think  
10 you'll find very enlightening about the specific financial  
11 impact in his school district and others like it in the  
12 state.

13 So I can skip over the part where I  
14 explain how the super credit works and where the Sterling  
15 Act came from and how they interplay because we've already  
16 covered that ground. So I want to kind of go to straight  
17 to our concerns.

18 House Bill 2257 does three distinct  
19 things. The first thing it does is it fixes the super  
20 credit problem by clarifying that it's the same wages,  
21 that the credit can only be taken against the same wages,  
22 so that the credit for what is the wage tax paid in  
23 Philadelphia does not wipe out the resident tax in the  
24 place of residence completely unless it's, you know --  
25 where it wouldn't have otherwise without the super credit.

1 I just want to take an aside here. The  
2 previous panel commented that there's a -- you know, an  
3 extra reimbursement from the State to offset the wage tax  
4 lost by the surrounding municipalities and school  
5 districts.

6 I'm not sure that actually applies to the  
7 super credit. And I'm saying I'm not sure, I don't know.

8 But the super credit's a relatively recent  
9 anomaly, so I'm not sure of the mechanism. And while it  
10 may compensate for other wage tax that surrounding  
11 municipalities lose because of the Sterling Act, but I'm  
12 not sure it accounts for the super credit. I would have  
13 to check on that.

14 So I would ask you to leave that as a  
15 question mark. I'm not sure -- I don't think districts  
16 are being made entirely whole for what the super credit  
17 costs them.

18 So it is important to fix it, even  
19 without, you know, the concern about shuffling money, the  
20 shell -- I think somebody referred to it as a shell game.  
21 And there's an awful lot of that in this line of work.

22 So it does that by clarifying that it's  
23 the same wages. Great. It does two other things.

24 The first other thing it does is it  
25 eliminates the paragraph of Section 317 of the Local Tax

1 Enabling Act which has, since 1947, sort of grandfathered  
2 taxes levied under prior laws, specifically the Sterling  
3 Act.

4 And that's why the primacy works  
5 differently when it comes to the Philadelphia wage tax  
6 than it does in any other taxing Act 511 jurisdiction,  
7 which -- where the resident tax takes first dibs on a  
8 payment.

9 Again, and anything you pay where you work  
10 gets credited against the resident tax -- or I'm sorry --  
11 the other way around. What you pay in the resident tax  
12 gets credited against any wage tax due where you work  
13 except in Philadelphia.

14 So by deleting that paragraph, it  
15 basically eliminates the Sterling Act dominance or  
16 primacy, as I -- I'm used to calling it.

17 More technical level, Jason's your man in  
18 terms of that. And as far as dollar impact, Mark's your  
19 man.

20 So let me -- and that's not something  
21 that -- for all the reasons I think that have been  
22 illustrated so far in the discussion today, that question  
23 about the Sterling Act primacy we think is going to be  
24 very, very vigorously debated, and contentiously.

25 Although, it doesn't directly impact the

1 School District of Philadelphia. One of the members of  
2 the School Boards Association, a very important member of  
3 the School Boards Association, the School District of  
4 Philadelphia does get about \$100 million from the City.

5 So if the City takes a -- I forget what  
6 the number was earlier -- about \$160 million hit as a  
7 result of that, there's -- certainly very possible it  
8 could have some indirect impacts. So we have that  
9 concern.

10 But, more importantly, the concern is that  
11 if the fix of the super credit is tied to that other  
12 issue, we're worried that the super credit might not get  
13 done.

14 And so our really -- our real bottom line  
15 before you today is if we could separate the two so  
16 that -- the debate about the Sterling Act primacy in  
17 general can happen separately and the reasons and the  
18 reasoning on each side debated separately without  
19 necessarily holding up the fix of the super credit, which  
20 can be done very simply the way House Bill 2257 does.

21 We have one other worry about 2257, and  
22 that's where it removes the words "under this chapter" in  
23 multiple places throughout.

24 And what that does is probably not  
25 something that -- I'm not sure that's fully understood,

1 but that would change -- that would expand the crediting  
2 base, which means the types of taxes -- and they were  
3 alluded to earlier. Some for open space, some for  
4 distressed municipalities and so on -- that right now are  
5 not subject to the crediting offset for taxes paid in  
6 other jurisdictions.

7 By expanding that crediting base, that has  
8 the potential to cause further revenue loss to  
9 municipalities and divert further money out of state.

10 And Jason can explain that far better than  
11 I can at a technical level.

12 So with that -- and I -- and we've laid it  
13 out pretty well in our written testimony, including some  
14 technical observations about the other two bills, 2256 and  
15 2142, where we think there's some more kind of technical  
16 wording issues that might defeat what they're trying to  
17 do, and we'd be happy to work with staff to go into those  
18 further on that.

19 So with that, I will invite your questions  
20 to my colleagues here. And we thank you very much for  
21 your attention today.

22 CHAIRMAN O'NEILL: Great. Thank you,  
23 gentlemen.

24 I apologize. I had to step out of the  
25 room.

1 I do have one question. Do you have any  
2 idea of the financial impact on the school districts in  
3 the five-county area?

4 MR. MILLER: Yes. I'll handle that one.

5 Speaking for Centennial School District,  
6 which is typical of most of the districts surrounding  
7 Philadelphia, we're not the largest, we're not the  
8 smallest.

9 We are comprised of three townships:  
10 Warminster Township -- actually, it's two townships and a  
11 borough, so we're Warminster Township, Upper Southampton  
12 Township, and Ivyland Borough.

13 Ivyland Borough has 65 residents who work  
14 in Philadelphia; Upper Southampton has 1,407; Warminster  
15 Township has 1,547, a total of 3,019 residents working in  
16 Philadelphia.

17 And we calculate that the earned income  
18 tax loss for the district is \$821,430. And you have to  
19 remember that that is split with the Township, so it's an  
20 equal impact for the three townships collectively.

21 I thought it would be interesting just to  
22 look to what that money would do in Centennial School  
23 District --

24 CHAIRMAN O'NEILL: But before you go on to  
25 that, do you know what the impact -- does anybody have any

1 idea what the impact would be for all the  
2 school districts? I mean, like, there's 13 in Bucks  
3 County. What, there's -- I forget how many are in  
4 Montgomery County.

5 MR. KNADE: I took a look at what it would  
6 take to put that together, given all the different --

7 CHAIRMAN O'NEILL: I can only imagine.  
8 It's probably --

9 MR. KNADE: How many people work in the  
10 city, how many don't.

11 CHAIRMAN O'NEILL: Yes.

12 MR. KNADE: And it would be a rather  
13 gargantuan task. But --

14 CHAIRMAN O'NEILL: Is there a ballpark?

15 MR. KNADE: -- I worry that any number  
16 that you look at also has to be -- it should also take  
17 into account the 24 of the 62 school districts in  
18 Montgomery, Bucks, Delaware, and Chester Counties that  
19 don't even levy a tax because of this. And you've got to  
20 think about what they're losing, with air quotes there,  
21 because they have foregone the levying of the tax.

22 And, by the way, if the Sterling Act -- as  
23 we point out in our written testimony, if the Sterling Act  
24 primacy is undone, they wouldn't immediately benefit  
25 because they would have to go through a vote of referendum

1 in order to levy for the first time.

2 CHAIRMAN O'NEILL: Right.

3 MR. CONFAIR: Mr. Chairman, just directly  
4 to your question and Chester County, which I had explained  
5 when you left the room for a moment, I'm the solicitor for  
6 the Tax Collection Committee there.

7 And according to our collector, the school  
8 district loss is approximately \$3,221,153 a year. The  
9 municipal loss is 4,800,357 per year.

10 With the super credit, based on our  
11 estimations, a subset of that problem being roughly  
12 between 1 and 2 million, as Stuart had alluded to, if that  
13 problem is fixed and separated from what I'll call the  
14 primacy, or the dominancy problem, that fix would bring  
15 about 1 to 2 million back to Chester County and it  
16 wouldn't cost the City a penny.

17 So there's really kind of two issues here  
18 we're trying to work on. But at least in Chester County,  
19 that's the aggregate impact.

20 Back when we litigated the super credit  
21 case a few years ago, the data indicated that the losses  
22 in Montgomery and Bucks County were actually far greater  
23 than those in Chester County.

24 So I think in terms of looking at an  
25 overall picture, the data that you're seeing in Chester



1 County is perhaps at a lower end.

2 CHAIRMAN O'NEILL: All right. Thank you.  
3 I interrupted you. So are you guys  
4 finished?

5 MR. MILLER: I was only going to  
6 illustrate the impact of the incoming funds, that like  
7 most districts, we have a wish list of things that we want  
8 to do, but we can't because we don't have the funding for  
9 it.

10 In Centennial School District, we  
11 consolidated six school districts into -- six elementary  
12 schools into three with the purpose in mind of being able  
13 to implement full-day kindergarten.

14 The last of those schools came online in  
15 2013 and we still haven't been able to do that yet.

16 So taking that \$821,430 and looking at  
17 some of the things on the want-to-do list, we would take  
18 300,000 of that and hire three full-time employees in one  
19 of the elementary schools.

20 It's not the total cost, but it is one of  
21 the items in one of the buildings.

22 400,000 would allow us to purchase 1,800  
23 devices, Chromebooks or similar, and that would get us  
24 into our future-ready position, which is something we've  
25 been wanting to do since 2012. Again, didn't have the

1 money.

2 Two years ago we stalled some of our bus  
3 purchases. We routinely replace buses on a ten-year  
4 cycle; some buses each year. Over the decade, we replace  
5 the whole fleet.

6 So we didn't buy one twenty-passenger  
7 wheelchair lift bus because our current -- one of our  
8 current vehicles is long past its useful life. It's  
9 probably a propane version.

10 And we would take \$24,430 of the balance  
11 and we would apply that toward curriculum materials for  
12 our ESL program, which, again, is only a partial amount.

13 CHAIRMAN O'NEILL: Great.

14 Well, as a resident and taxpayer in  
15 Centennial School District, what you're telling me is  
16 you'll be adding services and you won't be raising my  
17 taxes?

18 MR. MILLER: I wish I could.

19 MR. KNADE: Well, and to that point --

20 CHAIRMAN O'NEILL: Well, you know, you'll  
21 get an extra million dollars, I mean, you know.

22 MR. MILLER: With some other help, we  
23 could say that. We have PSERS. We have the funding for  
24 charter schools.

25 CHAIRMAN O'NEILL: Right. Thank you.

1 MR. KNADE: And, Chairman O'Neill, that's  
2 a very good point that I was hoping to underscore before  
3 we concluded.

4 And that is, we're grateful to the  
5 Committee for looking at ways to take some of the pressure  
6 off property taxes, and I know all of our member school  
7 districts would love to have some resources available to  
8 allow them to do -- to take some of the pressure off  
9 property taxes, and that's kind of what it's all about  
10 here today.

11 CHAIRMAN O'NEILL: Thank you.

12 Chairman Wheatley, question.

13 CHAIRMAN WHEATLEY: Thank you,

14 Mr. Chairman. Thank you, Mr. Chairman.

15 Thank you.

16 Can you hear me now?

17 So I want to thank you all for being here  
18 this morning. And as I was listening to the prior panel,  
19 a question popped in my head and I just want to pose it  
20 for you all.

21 Do you see the Philadelphia -- City of  
22 Philadelphia as vital to your region?

23 MR. MILLER: Absolutely.

24 CHAIRMAN WHEATLEY: In what ways?

25 MR. MILLER: They create jobs that are

1 not -- the people who work in Philadelphia live in our  
2 districts. They're still a benefit to our own districts.

3 The jobs that -- let's take Comcast for an  
4 example. My neighbor works for Comcast in Philadelphia,  
5 but he's still a vital contributor to our own district and  
6 to our own municipality. He wouldn't be there if Comcast  
7 weren't drawing jobs to Philadelphia.

8 CHAIRMAN WHEATLEY: So would you say  
9 Philadelphia just as a job center, or is there other  
10 benefits that the City gives as a vital entity for your  
11 region?

12 MR. KNADE: Well, I think that your  
13 questions are -- illustrate exactly what I was trying to  
14 allude to before, which is there are -- this is going to  
15 be something that is to be vigorously debated, the value  
16 of Philadelphia as a center of the economy, which I think  
17 Representative Daley pointed out earlier.

18 Probably explains why it was grandfathered  
19 back in 1947 in the first place when similar taxing  
20 authority to the Sterling Act was extended to other  
21 municipalities, and for all the reasons that your  
22 questions point to.

23 So that's exactly why we'd like to see the  
24 super credit problem get fixed, which doesn't cost the  
25 City anything, and done separately, and then let's have

1 that other debate because there's a lot to talk about.

2 CHAIRMAN WHEATLEY: And I appreciate that  
3 because one of the things as I have become the Democratic  
4 Chair of the Finance Committee and I've been very  
5 interested in doing is for us to take a real serious look  
6 at our taxing policies because I don't think we've  
7 modernized them since they were created.

8 I think we've just added on. We've kind  
9 of maneuvered some things. But our economy has  
10 drastically changed since we institutionalized a lot of  
11 these things.

12 And simultaneously while we are trying to  
13 figure out what are some of the changes that need to be  
14 happening or modernizations, we need to have a serious  
15 dialogue about what are the things that we are raising  
16 money for.

17 Because I think if we did that in a  
18 combination, a lot of these issues we can resolve in a way  
19 that benefits everyone.

20 But as we try to do this piecemeal, when  
21 we move one piece or change one piece, we automatically  
22 are going to impact another piece in a way that is  
23 sometimes unintentional and sometimes is intentional.

24 I don't believe that we should move things  
25 that will critically hurt the center of our economic

1 engines and cultural lifestyles.

2 Now, I'm not from the Southeast, so I can  
3 say that without worrying about any political blowback.

4 But it's the same throughout our state.  
5 Because, just like you have Philly and your surrounding  
6 suburbs that are around there, we have Allegheny County  
7 and the city of Pittsburgh. And the taxing policies don't  
8 support -- in my general belief -- do not support our new  
9 economy in a way that is sustainable.

10 And so I would give the prior panel some  
11 of the points that you made, some of the validity that it  
12 has. But I don't know if changing right now without doing  
13 a broader discussion -- now, the super credit issue is  
14 something that I think we can look at and see what are  
15 impacts and what are some changes that could be possibly  
16 had.

17 But I think if we're talking about moving  
18 money that's going to have financial impacts to either the  
19 City or the surrounding region, it needs to be done in an  
20 overall modernization of our taxing policy that fits our  
21 new economy and what we're trying to achieve as a  
22 Commonwealth.

23 So that's just the points I wanted to  
24 make --

25 MR. MILLER: I think that's very

1 important. You know, as you say, when you talk about what  
2 the money's raised for, it should be what it's used for.

3 If you ask the City of Philadelphia what  
4 they really want, if Stuart is correct as to a hundred  
5 million dollars they would lose, there's other money  
6 that's being spent in Philadelphia that unjustly enriches  
7 operators of charter schools.

8 If you asked the School District of  
9 Philadelphia, you know, that would be an area where no  
10 more money has to be raised, but if it's directed into the  
11 classroom where it belongs, that relief would be probably  
12 \$400,000,000.

13 So it -- you know, every piece affects  
14 something else. And I think your idea of having a larger  
15 discussion would be welcomed by the School Boards  
16 Association, at the very least.

17 MR. KNADE: And in terms of your  
18 observation about the antiquity of our tax system and its  
19 complex nature and the value of a more -- I don't want to  
20 use the word "holistic" because I think that word gets  
21 overused -- but a more comprehensive approach, if that's  
22 achievable -- of course, that's always the big question  
23 mark -- we couldn't agree with you more.

24 CHAIRMAN O'NEILL: Thank you.

25 Representative Kinsey.

1                   REPRESENTATIVE KINSEY: Good morning,  
2 gentlemen. You have to excuse me, I actually have a  
3 little cold, so I sound a little differently. I used to  
4 sound like Jake, but I sound different now.

5                   I think my question really relates to just  
6 trying to understand the complexity. And I know that this  
7 hearing will not allow the totality of comprehending  
8 what's being proposed.

9                   But I heard the gentleman talk about the  
10 school district, your particular school district. But  
11 then I thought I heard earlier that the State sort of  
12 compensates some of the various school districts through  
13 state taxes or the money that's given back to the school  
14 districts, if I'm not incorrect.

15                   So I guess my question alludes to, you  
16 know, the Sterling Act has been enacted I guess since the  
17 '30s and then maybe the '40s, but -- so how -- and I'll  
18 use you, sir, for an example, your Colonial School  
19 District. Over the past, let's just say, five years, have  
20 you simply been losing money? I mean --

21                   And, again, recognizing the Sterling Act  
22 has been in place for a while, but I guess the problem  
23 that you talked about if there was additional dollars. I  
24 guess what I'm trying to ask is, has the State been given,  
25 for instance, your district, substantial money to sustain



1 or are you just simply seeing a loss because of the wage  
2 taxes that are being paid in Philadelphia?

3 MR. MILLER: Well, what the wage -- we've  
4 never had the income from the wage tax.

5 REPRESENTATIVE KINSEY: Okay. So --

6 MR. MILLER: So that's not a factor in our  
7 district.

8 I think you said Colonial. We're  
9 Centennial --

10 REPRESENTATIVE KINSEY: Okay. I'm sorry.  
11 Centennial.

12 MR. MILLER: -- School District.  
13 Not a problem.

14 But there are things that go on every  
15 year. Let's go back to 2011. In that year the State  
16 pulled \$500,000,000 out of public education. Okay.

17 School districts had to make up that money  
18 to continue to be current with the services that we were  
19 already providing. That eliminates the ability to bring  
20 in new services.

21 And in many districts, it caused the  
22 districts to either spend down their fund balance or to  
23 curtail services.

24 We were fortunate at that time that we  
25 were able to spend down some of our fund balance, keep our

1 services level, but we didn't add services.

2 Another \$500,000,000 was pulled out in  
3 2012. So the same process happened. All the time, PSERS  
4 costs were beginning to escalate higher.

5 So -- but this would not change our  
6 current structure. But if the money were coming in,  
7 Centennial School District and all of the others  
8 surrounding Philadelphia certainly would find a way to use  
9 it.

10 REPRESENTATIVE KINSEY: Okay. And, you  
11 know, I appreciate you sharing that. And I actually did  
12 not join the legislature until 2013.

13 So some of those things you talked about,  
14 maybe I could go back and review. Those were prior to me  
15 even being elected, but thanks for sharing.

16 MR. KNADE: I think it's also worth  
17 keeping in mind that in a lot of this, you know,  
18 allocation to replace lost revenue and all that operates a  
19 lot -- greatly in theory rather than in practice, because  
20 until just recently -- and thanks to the hard work of this  
21 Committee and others -- we now have a basic education  
22 funding formula.

23 CHAIRMAN O'NEILL: You're welcome.

24 MR. KNADE: But only -- thank you very  
25 much.

1                   Now, it's only right now applying to new  
2 money. But we operated for a lot of years where the  
3 bottom line number that Mark's district and others got  
4 really wasn't based on a whole lot of formulaic  
5 calculations.

6                   So it's very hard to answer your question,  
7 which is a good one.

8                   MR. MILLER: Yeah, let me put one other  
9 item into your thought process.

10                   If everything remained the same, status  
11 quo, in our income, our district would still have an  
12 additional \$600,000 expense this year, this coming year,  
13 that we don't have the previous year just for PSERS.

14                   REPRESENTATIVE KINSEY: Sure. Okay.  
15 Thank you.

16                   Thank you, Mr. Chairman.

17                   CHAIRMAN O'NEILL: Thank you.

18                   Representative Truitt.

19                   REPRESENTATIVE TRUITT: Thank you,  
20 Mr. Chairman.

21                   So I put my process engineering hat on  
22 here and I drew a diagram. And I was thinking about the  
23 fact, you know, an employer sends some money to the State,  
24 they send some money to a local tax collection agency.  
25 That local tax collection agency sends some money to the

1 school districts and some money to municipalities. The  
2 State sends some money to school districts.

3 It's a complex chart and it's a web that  
4 seems to me it could be simplified. And I think we have  
5 an opportunity simultaneously with the legislation that's  
6 going on here.

7 We -- we're compensating 499 school  
8 districts, potentially, for money they lose through the  
9 Sterling Act.

10 So if we eliminated the Sterling Act and  
11 compensated one school district for what it loses by  
12 eliminating the Sterling Act, it seems to me that would  
13 simplify things greatly.

14 But I was also wondering if we had a --  
15 and this came from a conversation I had with  
16 Representative Petri.

17 Suppose that the state tax return was  
18 modified so that we could collect all state and local  
19 taxes on one form since the State's already sending money  
20 to school districts and municipalities.

21 And then on that form, you know, the  
22 State's computer system would just make an adjustment to  
23 the -- your subsidy that you get from the State and your  
24 basic education subsidy. Another line item, here's your  
25 local tax remittance that came through the Department of

1 Revenue.

2 How much money would that save school  
3 districts if you didn't have to collect your own taxes and  
4 it just came in?

5 MR. KNADE: I have to -- and PSBA's kind  
6 of been -- as much sense as that makes from a process --  
7 and I'll borrow your hat -- your process engineering hat,  
8 Representative Truitt -- as much sense as that makes,  
9 there's wariness about that that -- some of which -- I  
10 understand to a certain degree there's a wariness that the  
11 money will go to the State, but it isn't going to come  
12 back the way it's supposed to.

13 And that's really -- I don't think anybody  
14 questions the logic of -- and the savings that that might  
15 produce.

16 But I know that among our membership,  
17 there's a wariness about that.

18 REPRESENTATIVE TRUITT: Before  
19 Representative O'Neill's funding formula was enacted, I  
20 would have had the same concern.

21 But now things are a lot more predictable  
22 in terms of your other line items. And this would be a  
23 separate line item in your -- you know, your payment from  
24 the State, saying, This the amount of local tax that we've  
25 collected on your behalf. Just like a business collects

1 sales taxes from its customers, we remit that exact amount  
2 to the State.

3 But -- so I understand your wariness  
4 there. But do you have a sense of how much money a school  
5 district spends on tax collection efforts?

6 And I know the guys from Keystone  
7 Collections and Berkheimer are probably going to be  
8 waiting for me in the parking lot, but --

9 MR. CONFAIR: I mean, typically rates or  
10 costs to collection, it depends how a county's collection  
11 mechanism is structured. There's really two fundamental  
12 options.

13 One would be you hire a Keystone or a  
14 Berkheimer and pay them a fixed commission, which  
15 typically ranges from 1.3 in the more populous, prosperous  
16 counties, to perhaps 1.71 -- 5, 1.8 in more rural, less  
17 populous areas.

18 And then you have basically tax bureaus  
19 that are government agencies; they're run by the school  
20 districts and municipalities on the local level, and they  
21 operate on a cost-to-collection basis, they don't charge  
22 a, per se, commission.

23 But typically if you try to compare apples  
24 to apples, they're around 1.3, 1.4, 1.5. So I really  
25 think the relevant calculus would be, you know, you'd have

1 to take kind of a rate across the state, 1.5, 1.6,  
2 calculate that, and then weigh that against the cost of  
3 what it would entail to build up the Department of Revenue  
4 to handle that additional work.

5 Now, from the taxpayer's perspective,  
6 obviously, it's a bit cleaner because you're just putting  
7 it in one return.

8 REPRESENTATIVE TRUITT: Sure.

9 MR. CONFAIR: Where the state and local  
10 level, of course, local businesses, that's right.

11 In terms of aggregate savings, though, I  
12 mean, I'm -- that's beyond my skill set to kind of  
13 calculate that. But I would assume there'd be some.

14 REPRESENTATIVE TRUITT: If you're saying  
15 it's in the 1.5 percent range, and I think we collect on  
16 the order of \$12 billion of school taxes locally, so 1 and  
17 a half percent of \$12 billion is a lot of money.

18 MR. CONFAIR: Oh, absolutely.

19 REPRESENTATIVE TRUITT: Okay.

20 MR. CONFAIR: Absolutely.

21 REPRESENTATIVE TRUITT: Thank you.

22 MR. CONFAIR: Absolutely. Absolutely.

23 MR. KNADE: And I think, you know, when  
24 you're talking about the earned income tax collection  
25 system, it's one thing, and then we have an even more --

1 even more fragmented system of real estate tax collection  
2 that goes back to before the Civil War, I think.

3 So those costs are --

4 MR. CONFAIR: Astronomical.

5 MR. KNADE: -- vary wildly from place to  
6 place and --

7 CHAIRMAN O'NEILL: One of the things this  
8 committee did in Act 32, that's before the legislature  
9 right now, is that we made all the forms in the state  
10 uniform, with a grace period, I think, until 2020.

11 And the idea behind it is that all the  
12 collection agencies are using the same form for every  
13 municipality, every school district.

14 And if you live in Butler County and you  
15 move to Bucks County, that's not going to change for you.  
16 So it'll be familiar to you.

17 And you wouldn't believe the pushback  
18 we're getting from the collection agencies. It's huge.

19 MR. CONFAIR: I can speak to that --

20 MR. MILLER: Oh, I would.

21 MR. CONFAIR: -- because I have a huge  
22 pushback.

23 CHAIRMAN O'NEILL: That's for another  
24 debate.

25 MR. KNADE: Yeah. Well.



1 CHAIRMAN O'NEILL: Okay. But anyways --

2 MR. KNADE: Remember, Mr. Confair is --  
3 represents the Tax Collection Committee, he's not  
4 necessarily PSBA, but his response to this could certainly  
5 shed some light on your reservation.

6 CHAIRMAN O'NEILL: Okay. Thank you.

7 Next is Representative Lawrence.

8 REPRESENTATIVE LAWRENCE: Thank you,  
9 Mr. Chairman. It's a little boomy there.

10 My question is, is that you said several  
11 times that if the super credit issue is fixed, there will  
12 be no impact to the City of Philadelphia.

13 MR. CONFAIR: Correct.

14 REPRESENTATIVE LAWRENCE: From a revenue  
15 perspective.

16 MR. CONFAIR: Correct.

17 REPRESENTATIVE LAWRENCE: So just to --  
18 for the benefit of the Committee, there will be additional  
19 monies going to the municipalities --

20 MR. CONFAIR: Correct.

21 REPRESENTATIVE LAWRENCE: But there would  
22 be no impact to the money going to the City of  
23 Philadelphia.

24 MR. CONFAIR: Correct.

25 REPRESENTATIVE LAWRENCE: My assumption

1 is, is that -- you know, where does that money come from?

2 Just I think it's, perhaps, worth stating  
3 for the record that what that represents is a significant  
4 increase in taxes for the taxpayer.

5 Am I --

6 MR. CONFAIR: Some taxpayers.

7 REPRESENTATIVE LAWRENCE: -- incorrect?

8 MR. CONFAIR: Well, I think -- here's kind  
9 of the analogy I would use to make the super credit make  
10 sense.

11 Say, I earn income in Canada and I earn  
12 income in the United States and I pay Canada taxes. I  
13 don't pay Canada for what I earn in the United States.

14 And then I come back home and on my United  
15 States income, I tell the Internal Revenue Service, Could  
16 I please use the money that I paid in tax in Canada on my  
17 Canada income to wipe out my liability to the United  
18 States on my U.S. source income that's not been taxed?

19 And I think the IRS would probably laugh  
20 and hang up the phone.

21 And that's the identical analogy for what  
22 the super credit is on the local level. It's basically  
23 taking a tax payment on another income stream and wiping  
24 out the tax liability on a residential income stream  
25 that's not subject to any other tax.

1                   And so that's why Stuart referred to it as  
2 an anomaly. Really in no other system of tax that I'm  
3 aware of at a national, state, local, anywhere is there  
4 anything such as the so-called super credit.

5                   REPRESENTATIVE LAWRENCE: So I guess my  
6 thought would be -- I mean, I see the value in your  
7 analogy. I do think there's a little bit of apples with  
8 some oranges there.

9                   I think very few people live in  
10 Pennsylvania and work in Canada. And those that do -- my  
11 father-in-law was one of them -- certainly recognize  
12 there's going to be interesting tax repercussions.

13                   Whereas, there's plenty of people who work  
14 in Philadelphia and live in one of the suburban areas.

15                   I guess what my thought would be is this:  
16 That if I were a taxpayer in that situation, right, I  
17 would feel -- I probably think the average person who's in  
18 that situation would feel something along the lines of  
19 this stupid wage tax I've got to pay the City of  
20 Philadelphia, but I've got to pay it. It's part of the  
21 deal of working in the city.

22                   MR. CONFAIR: Sure. Right.

23                   REPRESENTATIVE LAWRENCE: And so that's a  
24 crime.

25                   And you know what? It's really a shame

1 that Bensalem Township doesn't get what they should be  
2 getting, or Centennial School District or whatever it  
3 would be. That's a shame. I think, you know, as a  
4 regular taxpayer, I think that's terrible.

5 But now wait a minute here. You're going  
6 to tell me that through this fix that's being proposed I'm  
7 still going to pay this crummy wage tax, which I hate, and  
8 now I'm going to pay on top of that the local tax.

9 That's the fix that's being proposed  
10 today; am I correct?

11 MR. CONFAIR: Kind of. I mean, I think in  
12 some respects you're conflating the two issues with that  
13 analysis. The two issues being the super credit versus  
14 the primacy issue.

15 REPRESENTATIVE LAWRENCE: Right. Right.

16 MR. CONFAIR: With the primacy issue --

17 REPRESENTATIVE LAWRENCE: Right. But  
18 let's say --

19 MR. CONFAIR: -- with the super credit --

20 REPRESENTATIVE LAWRENCE: I earn \$50,000  
21 in Bensalem and 50,000 in Philadelphia.

22 MR. CONFAIR: Correct.

23 REPRESENTATIVE LAWRENCE: Right now my  
24 3.5 -- is 3.5 the Sterling Act?

25 MR. CONFAIR: 3.49 something.

1                   REPRESENTATIVE LAWRENCE: Okay. 3.5 wipes  
2 out my 1 percent, let's say it is in Bensalem, liability.

3                   MR. CONFAIR: Philly -- because the home  
4 jurisdiction can tax both the Philly income source and the  
5 local income source.

6                   REPRESENTATIVE LAWRENCE: Right.

7                   MR. CONFAIR: So the 3.5 not only wipes  
8 out the Philly income liability, which makes sense, okay,  
9 because that's a double tax situation, you then above and  
10 beyond that get to use that Philly payment to wipe out  
11 your local liability on a local income tax stream that's  
12 otherwise not subject to that tax. So in that sense it  
13 creates a tax exemption.

14                   From the taxpayer's perspective, certainly  
15 I get the fact that they could say, Hey, look, in my  
16 personal situation, as an aggregate bottom line I'm going  
17 to be paying more tax.

18                   But the fundamental fact is right now  
19 those taxpayers are earning income streams in their  
20 residences of jurisdiction that are not taxed in Philly  
21 because the Philly -- where a non-resident tax is  
22 territorial within the city, and they're not taxed at  
23 home.

24                   So while all their neighbors are earning  
25 money right around them in their home and they're paying

1 taxes, these folks aren't paying any tax on their  
2 residential income stream.

3 REPRESENTATIVE LAWRENCE: So --

4 MR. KNADE: And as we point out in our  
5 written testimony, the neighbors are now having to  
6 subsidize the other fellow's wage tax that he pays in  
7 Philadelphia.

8 And that's a fairness issue.

9 REPRESENTATIVE LAWRENCE: I mean, I can  
10 only speak for myself. But I think the likelihood of the  
11 legislature addressing that small issue which would, in  
12 essence, result in a net tax increase for a lot of people,  
13 without addressing the other issues at bay here, I can  
14 only speak for myself, but I think that's extremely  
15 unlikely just because the net effect will end up being  
16 that a number of individuals will see what amounts to a  
17 significant tax increase.

18 So, I mean, certainly I have -- I have a  
19 number of folks who fall into this category. I have folks  
20 in my district, a lot of folks work in Wilmington. Right.  
21 And certainly a lot that work in Philadelphia.

22 So I appreciate very much your answers to  
23 those questions.

24 I appreciate your patience, Mr. Chairman.  
25 Thank you.

1 MR. CONFAIR: And just to rebut one point.  
2 I mean, I don't necessarily think it's a small issue. I  
3 mean, in terms of the analysis we did when we litigated  
4 this issue, it's millions in revenues per county just for  
5 the super credit.

6 So if Chester is losing 8 million, like I  
7 said earlier, roughly, you cut that down, say, 2 million  
8 with state reimbursement to schools, it's a \$6 million  
9 problem. If you wipe out the super credit, that takes the  
10 6 to 4.

11 So it is a significant issue. And it's a  
12 significant issue in a number of counties. And the way we  
13 view it is a way to kind of reach a compromise to fix part  
14 of the problem and then leave a larger debate for a much  
15 longer time period.

16 MR. KNADE: And nobody's being taxed twice  
17 in the same income.

18 REPRESENTATIVE LAWRENCE: Right.

19 CHAIRMAN O'NEILL: Thank you.

20 We have a couple more questions, and I ask  
21 that everybody make them direct because we're a half an  
22 hour behind schedule.

23 Representative Daley.

24 REPRESENTATIVE DALEY: You'll be relieved  
25 to know that Representative Lawrence just asked the

1 question I was going to ask.

2 CHAIRMAN O'NEILL: Did you get your  
3 answer?

4 REPRESENTATIVE DALEY: Yes. Thank you.

5 CHAIRMAN O'NEILL: Thank you.

6 Representative Knowles.

7 REPRESENTATIVE KNOWLES: Thank you Mr. --  
8 thank you, Mr. Chairman.

9 I will not have a question, but I will  
10 have a very brief comment.

11 Chairman Wheatley had mentioned the idea  
12 about our tax system in Pennsylvania being antiquated.

13 That -- I could not agree with him more in  
14 terms of -- particularly where I come from, when you talk  
15 about property taxes, it's the most important issue that  
16 we have in Berks, Schuylkill, and Carbon Counties.

17 Each of us has that one friend who we  
18 believe that God put on earth to drive us crazy. Okay.  
19 That friend of mine's name is John.

20 And when I was county commissioner, he  
21 comes into the courthouse one day, and I think he made  
22 his -- you know, he drove those 17 miles just to come and  
23 bust on me.

24 And he began to complain about taxes.

25 What the hell's wrong with you guys? When are you going



1 to do something? Taxes, taxes.

2 And I get frustrated. And I said, John,  
3 the government needs to provide services, and there's no  
4 such thing as a perfect tax.

5 Oh, he said, there is.

6 I said, Well, tell me what it is.

7 He said, One that I don't have to pay.

8 I mean, doesn't that say it all? And  
9 that's why, in terms of the good representative from out  
10 west in terms of needing to change the system, I agree  
11 with him wholeheartedly. But because of that reason, I  
12 don't see that ever happening.

13 I just wanted to share that story with  
14 you. I know it has no direct connection with your issue,  
15 but people don't want to pay taxes.

16 So thank you very much, Mr. Chairman.

17 CHAIRMAN O'NEILL: Thank you.

18 Last is Chairman Wheatley.

19 CHAIRMAN WHEATLEY: Thank you,

20 Mr. Chairman.

21 I just wanted to clarify something so I'm  
22 clear on what we're talking about.

23 The super credit, if we're talking about  
24 creating a fair system for all taxpayers and one that  
25 could potentially put money back into the surrounding

1 counties without necessarily taking money away from  
2 Philly, would -- and using an example from someone's  
3 testimony, written, if I'm an individual and I'm making  
4 \$300,000 a year and a hundred thousand of that is coming  
5 from my taxable income from Philly wages and the other  
6 200,000 is from wherever I live, then what happens under  
7 the super credit is, once Philly assesses me, I can't -- I  
8 can then, as a taxpayer, claim that wipes me away from my  
9 200 that I should rightfully be paying to my home  
10 municipality or township, correct?

11 MR. KNADE: That is exactly right.

12 MR. CONFAIR: Exactly right.

13 CHAIRMAN WHEATLEY: Okay. So it's not  
14 like this -- it's not like I'm getting taxed twice  
15 necessarily.

16 MR. CONFAIR: You're not.

17 CHAIRMAN WHEATLEY: It's really -- under  
18 this super credit situation, I have found a loophole --

19 MR. CONFAIR: An exemption.

20 CHAIRMAN WHEATLEY: -- that gives me a  
21 benefit versus my neighbors --

22 MR. CONFAIR: Yes. Correct.

23 CHAIRMAN WHEATLEY: -- right?

24 MR. CONFAIR: Precisely.

25 CHAIRMAN WHEATLEY: So what you all are

1 kind of asking for that wouldn't necessarily hit anyone  
2 other than create a fair system for the neighbors who live  
3 in the surrounding counties of Philadelphia who happen to  
4 have people work in Philly but aren't paying their fair  
5 share back home is for us to try to fix that right away  
6 and then look at a longer-term solution around these other  
7 issues that are regional and probably going to be  
8 longer-term fixes.

9 MR. CONFAIR: That's right.

10 And just to kind of dovetail the super  
11 credit issue legally, legally we refer to it as creating  
12 an unconstitutional tax exemption, and when we litigated  
13 this about four years ago -- back in a prior life for me.  
14 I'm getting older now -- we made that argument and the  
15 courts wouldn't address it, wouldn't address it.

16 And one judge wrote to it, and he wrote an  
17 opinion. And he said, You're right. It's an  
18 unconstitutional tax exemption. And that judge is Chief  
19 Justice Saylor.

20 So, you know, the argument has not only a  
21 fairness component, but a legality component and a revenue  
22 component.

23 CHAIRMAN WHEATLEY: Thank you.

24 CHAIRMAN O'NEILL: Thank you, gentlemen.

25 We appreciate your time and effort today.

1                   And I apologize to the people in the  
2 audience and our next panel for our tardiness.

3                   The next panel is the Township and Borough  
4 panel, and that's the Honorable Mayor DiGirolamo; Dan  
5 Rattigan, the President of the Bucks County Association of  
6 Township Officials; Ernie Holling, the President of the  
7 Chester County Association of Township Officials; the  
8 Honorable Melissa Weber, the 1st Vice President of  
9 Montgomery County Association of Township Officials; and  
10 Elam Herr, who is the Assistant Executive Director  
11 Pennsylvania State Association of Township -- Elam, I said  
12 it wrong. I apologize -- Officials.

13                   So if you'll all go down the aisle, and  
14 make sure you speak into the mic because of it being  
15 broadcast. And you may begin, but please introduce  
16 yourselves.

17                   MR. RATTIGAN: Ladies first.

18                   MS. MURPHY WEBER: All right, then. Good  
19 morning still, members of the House Finance Committee.

20                   My name is Melissa Murphy Weber, and I  
21 currently serve as a board of -- on the Board of  
22 Supervisors for Whitpain Township, a Class II Township.

23                   I am the 1st Vice President for the  
24 Montgomery County Association of Township Officials.

25                   So thank you very much for inviting me

1 here today to speak on an issue that I actually have to  
2 commend Bucks County for taking the lead on and  
3 encouraging its neighboring counties to get together and  
4 work as a cohesive voice.

5 So thank you again. Thank you to Bucks.

6 MR. RATTIGAN: My name is Dan Rattigan,  
7 and I am President of BCATO, which is the Bucks County  
8 version of the associations across the state. I am also  
9 the Chairman of the Board of Supervisors of Upper  
10 Makefield Township.

11 Just wanted to tell you that we really,  
12 really appreciate you taking the time to hear our side on  
13 this.

14 This is what makes Pennsylvania great, and  
15 we're hoping that we're successful in getting our point  
16 made.

17 MAYOR DiGIROLAMO: Thank you,  
18 Mr. Chairman, both Chairmans here today, and the panel. I  
19 appreciate everyone being here today. Very, very, very  
20 important to Bensalem Township.

21 And I hope you get to read my written  
22 testimony which will take you through that a little better  
23 probably than the time that I have here today to give  
24 testimony out loud.

25 We are a community of 60,000.

1 Mr. Wheatley, I'd like to touch on something you said that  
2 was really informative to me about changing the way we  
3 tax, we understand that.

4 Just to give you some representation, I  
5 was thinking of what you had said. When my mom and dad  
6 came here to Bensalem from Italy, right, and there wasn't  
7 a Sterling Act yet, they came in the '20s. Right.

8 So in Bensalem, there were 2,500 people.  
9 Okay. It was a farm town. We didn't have people working  
10 in Philadelphia. These weren't any issues back in those  
11 days.

12 And when you look and you -- Bucks County  
13 of how many people live there, our surrounding counties,  
14 today it's enormous numbers, more than live in the city of  
15 Philadelphia if you add up the southeastern counties that  
16 border Philadelphia.

17 So things have dramatically changed, they  
18 have, and I understand that. And in our case, this 1  
19 percent, if we put in, after many years -- I've been mayor  
20 here for 22, it'll be 23 years at the end of this year, we  
21 never raised taxes.

22 We came to the bottom line that we  
23 couldn't make it anymore for our police, for our fire, for  
24 our EMS, all the people that give and serve. We were out  
25 of money. We couldn't do it anymore and serve our

1 community.

2 So we, myself and council, put in an  
3 earned income tax. When we did that, the reasons I didn't  
4 do it before is because of Philadelphia.

5 5,300 of our residents work in  
6 Philadelphia. 5,300 of them. That comes down to 2.7  
7 million, that 1 percent. Just my community. I'm only  
8 speaking for Bensalem now. I'm not speaking for all the  
9 surrounding communities here in Bucks and the other  
10 counties. It's an enormous hit to us.

11 We understand Philadelphia -- look, we  
12 work very, very well with Philadelphia, our police  
13 department; we're good brothers. We work really good  
14 together.

15 This is not something out here to bash  
16 Philadelphia. I want you to understand that.

17 This is something that we have problems  
18 with. And if we -- whatever bill they can work out, the  
19 two bills -- there's actually three bills in there --  
20 whatever can be worked out in something like that to make  
21 it equal, make it equal.

22 I don't even want to tell you what  
23 happened -- you all know what happened in the Supreme  
24 Court last week with the casinos. They wiped out our host  
25 fees.

1 I mean, we're at point as a -- we're a big  
2 community. We're the 9th largest in the state of  
3 Pennsylvania. The largest police force in all of Bucks,  
4 one of the largest.

5 We have major problems. So I'm speaking  
6 for myself -- I'm not being selfish -- but this is what  
7 brought us to this latitude of what do we do next? How do  
8 we try to remedy this problem?

9 So I just wanted to make everybody  
10 understand when you take the surrounding communities, so  
11 that -- or the counties, it's an enormous number. Bucks  
12 County is almost 700,000 alone, just Bucks County.

13 So I just -- and hopefully, again, if  
14 you'll read my written testimony because I know we won't  
15 get a long time to give a verbal here.

16 But I thank you again for all being here  
17 today, and I hope to have another opportunity to address  
18 you.

19 Thank you.

20 CHAIRMAN O'NEILL: Thank you.

21 MR. HOLLING: Hi, Mr. Chairman and members  
22 of the Committee, additional representatives.

23 My name is Ernie Holling. I am the  
24 President of the Chester County Association of Township  
25 Officials, and I'm an elected Supervisor in West Pikeland



1 Township.

2 I did want to make one comment about  
3 something earlier. The relationship between Guam and  
4 California may well have to do with defense contractors  
5 and the Navy with residents living in both places, working  
6 in one and living in the other. So you might find the  
7 reciprocity linked to that.

8 I grew up in Southern California, so it's  
9 a slightly familiar thing for me.

10 CHAIRMAN O'NEILL: Interesting.

11 Elam, if you just want to introduce  
12 yourself. I apologize.

13 MR. HERR: Real quick. Elam Herr,  
14 Assistant Executive Director of the State Association of  
15 Township Supervisors.

16 CHAIRMAN O'NEILL: I guess we can begin  
17 with Mr. Rattigan's --

18 MR. RATTIGAN: Hi.

19 CHAIRMAN O'NEILL: -- testimony.

20 MR. RATTIGAN: Well, I submitted my  
21 statement to you guys. There -- there's a lot of  
22 repetition in what our statement said versus what's been  
23 said so far this morning.

24 A couple statistics I want you to think  
25 about. In Bucks County, Bucks County loses about \$6.4

1 million to the City of Philadelphia.

2 To give you an idea of the size separate  
3 from Bensalem, Northampton Township alone loses \$1.3  
4 million.

5 My community, which is a very small  
6 community in Bucks County, loses \$235,000 a year. To us,  
7 that is one mil for our taxpayers.

8 The question isn't a matter of the value  
9 of the city of Philadelphia. The city of Philadelphia,  
10 growing up here in Pennsylvania, it is a wonderful city.

11 I'm going to use a Pennsylvania term. It  
12 is a keystone city to our state, just like the city of  
13 Pittsburgh.

14 It's the municipality's feeling that  
15 there's no question that keystone cities need support if  
16 they have financial difficulties, which it's very clear to  
17 us over the years, the City of Philadelphia has its own  
18 issues they have to deal with.

19 It is the municipality's feeling that it  
20 is the State's obligation to consider that subsidy to that  
21 city that needs the help.

22 To charge the four surrounding counties an  
23 extra tax to assist and make the claim that because our  
24 residents that work in the city of Philadelphia use their  
25 roads and that's the tax for those roads, what about the

1 city of Philadelphia residents that work in our  
2 communities? They use our roads that we also, by the way,  
3 pay for.

4 I think in reality when you look at it,  
5 when EIT tax was started, it was started because your  
6 elected officials, some of which some of you were  
7 supervisors at one point, did not want to charge retirees  
8 higher taxes because they're on fixed incomes.

9 So the thought was charge the people that  
10 are working whose incomes, hopefully, are going up every  
11 year and can absorb that tax.

12 The problem is, is that the municipalities  
13 today are running into trouble financially. We are  
14 looking at unfunded mandates for not only our services,  
15 but also fire, EMS. I don't have to tell you about the  
16 pension crisis that we're all paying into, and the need  
17 for police as we grow, and the higher and higher salaries  
18 that we're having to pay to retain good staff.

19 So what we're asking of you is to consider  
20 a fair playing ground, a ground that would be fair for  
21 all. So that if you want to take the state tax that we're  
22 paying as individuals and you want to subsidize parts of  
23 Philadelphia, Pittsburgh, fine by us.

24 But when it comes to our municipality and  
25 the tax that we collect specifically for our municipality,

1 we need your help.

2 Thank you.

3 CHAIRMAN O'NEILL: All right. Thank you.

4 Ms. Weber.

5 MS. MURPHY WEBER: Thank you.

6 Unlike Representative Kinsey, my voice  
7 probably is typically more like Representative Daley's,  
8 but it is a little bit more like Representative Wheatley  
9 today, so I do apologize.

10 And for your benefit, that will probably  
11 abbreviate my comments because, like every rogue member of  
12 local government, I did not submit to you any written  
13 comments because I tend to absorb information and then  
14 like to just talk freely about it.

15 And I think that this is one of those  
16 issues that you're all getting pummeled with information.

17 We're privileged to have Representative  
18 Daley here; she serves Whitpain Township. She is serving  
19 in the seat that I had the honor of serving, with a few of  
20 my freshman members here, on the Finance Committee.

21 And I understand and appreciate the task  
22 that all of you have. The challenge, though, is to find  
23 that balance because the city of Philadelphia, yes, we do  
24 respect what the city provides to all of our residents.

25 We respect what it provides from a

1 historical, from a cultural, and, certainly, from an  
2 economic engine as a driver significantly employing  
3 members of our towns.

4 The flip side, however, is the balance  
5 comes in that we are being restricted in our tax  
6 abilities.

7 For example, in one of the articles  
8 Philadelphia commented about their opposition to any move  
9 with respect to the Sterling Act because it reduces their  
10 taxability as well as reducing their tax revenue.

11 Well, with all due respect to  
12 Philadelphia, we all, as local governing officials, have a  
13 tax authority that we all have to manage in conjunction  
14 with the tax burden.

15 And we want to, as Representative Petri  
16 and Representative Stephens' bills are trying to suggest,  
17 level that playing field so that we're all budgeting  
18 within the money that is generated within our respective  
19 tax circles.

20 We're giving, in a way, money to the City  
21 of Philadelphia that should be being brought back to the  
22 Townships.

23 We have -- the Townships are aware the  
24 workers are spending their money for their businesses or,  
25 really, for their day-to-day needs, but, more importantly,

1 it's where they're receiving the services that are costing  
2 the municipalities so much money.

3 And I think all of us can say, first and  
4 foremost, it's our law enforcement. The number one  
5 service that -- and the number one budget item for all of  
6 our local governments are our law enforcement officials.

7 I'm married to a member in law  
8 enforcement. I understand the balancing act and the needs  
9 of that and the pension obligations. And I certainly  
10 understand what they do for a living.

11 I also understand how critical they are to  
12 your town. And we all, as your elected officials in those  
13 towns, recognize that and try to satisfy those needs.

14 We have -- we don't want to cut police  
15 officers. We don't want to cut the number of officers  
16 that we can have on staff because we need to afford it.

17 But those are some of the most critical  
18 avenues of funding that our tax dollars go to.

19 Another aspect that it goes to are our  
20 roads and bridges. And I think Bucks County's hit on it.  
21 We're not coming before you -- shockingly, we're not here  
22 with our hands out, saying, Give us State money.

23 To the contrary, we are here with our  
24 brains and our pens ready to work with you to come up  
25 with, as Representative Wheatley suggested, a

1 comprehensive rewrite of how the Philadelphia tax has to  
2 integrate with what the residents in the suburban counties  
3 are paying into Philadelphia.

4 There is a way to do it. I'm not sitting  
5 here today to suggest to you that we have the answer, that  
6 any of one of us.

7 But I think that the fact that we're all  
8 now talking about it, this is what you all can do for us.

9 Yes, you give us a great deal of unfunded  
10 mandates. Yes, you give us ones that we want to  
11 absolutely throw our budget books out the door.

12 I have the benefit, in a way, of kind of  
13 coming at this in the reverse. I was privileged to serve  
14 as a state representative at a very young age.

15 I'm now privileged, at an equally young  
16 age, to serve as a --

17 CHAIRMAN O'NEILL: Get my calculator out.

18 MS. MURPHY WEBER: -- to serve in the  
19 local way.

20 And so I've had that chance to kind of  
21 know the outside from the inside. And so we can all work  
22 together on this. I think that it can be done.

23 I don't think that Philadelphia can stand  
24 back and say, Oh, no, this isn't going to work for us.

25 I think that Philadelphia has to recognize

1 that we too have burdens and obligations to the taxpayer  
2 and to our residents, even though those residents may also  
3 work in the confines of the city.

4           And for statistical purposes, I would like  
5 to share, so that I do keep my hat as the 1st Vice  
6 President of BCATO, but it also actually drives home the  
7 point, because I know that some of these were carried in  
8 various newspaper articles, but in the numbers alone, you  
9 do have that Whitpain -- and we're all using 2014 numbers  
10 because those are the last numbers that Berkheimer has  
11 been able to assemble that we all -- when we were working  
12 on the resolutions to encourage our different  
13 municipalities to come forward, that was the source.

14           So in 2014 Whitpain, only Whitpain, not  
15 Montgomery County as a whole, lost nearly \$1 million,  
16 \$929,000.

17           And that is actually only five-tenths of  
18 the percent -- a .5 percent, I should say, half a percent  
19 that was to Whitpain because we share the other half with  
20 the Wissahickon School District.

21           So in a Whitpain's general fund of \$12.7  
22 million worth of revenue, that is a significant amount of  
23 money.

24           Adding revenue from the Sterling Act would  
25 actually be an 8 percent funding injection into our



1 budget.

2 But now on the county as a whole, the  
3 numbers are much more staggering because of the number of  
4 residents in Montgomery County that do work inside the  
5 city of Philadelphia.

6 Berkheimer has estimated that the total  
7 loss of revenue to all the municipalities across  
8 Montgomery County for the tax year of 2014 was \$19.2  
9 million. That's just a single year.

10 So, again, we want to balance what we  
11 recognize could be the fiscal impact on the City of  
12 Philadelphia, but that doesn't necessarily mean that we  
13 stop the conversation.

14 There's a solution out there. And that's  
15 what we all here are today to encourage that dialogue and  
16 tell you we're all game. We're here to sharpen our  
17 pencils and roll up our sleeves and work with you to come  
18 up with that solution to how we can get this balanced  
19 because we can't keep going back to those same residents  
20 and increasing the millage for their property taxes  
21 because most of it, of course, as we know, goes to the  
22 school district.

23 Now, the flip side is we all have become  
24 very clever at sharpening our pencils locally and being  
25 fiscally constrained by what we have to work with.

1                   But we've also learned how to be creative  
2 in reaching out to form the many private/public  
3 partnerships.

4                   And Whitpain, in particular, and many  
5 municipalities, and I know as I share at the table, we've  
6 been very creative in doing that.

7                   And I think that's something that  
8 Philadelphia can start to look at as well. I can't  
9 imagine -- and I'm not going to sit here to profess to  
10 know about the ins and outs of the Philadelphia revenue  
11 streams, but it's dialogue that is worth having.

12                   So thank you very much for your time.

13                   MAYOR DiGIROLAMO: Thank the very, very  
14 young lady articulating that --

15                   MS. MURPHY WEBER: Thank you, Mayor.

16                   MAYOR DiGIROLAMO: -- so well.

17                   You know, in the state of Pennsylvania  
18 there's over 2,500 municipalities. There's only 104 that  
19 doesn't have the earned income tax out of all of that.

20                   So for many years it didn't affect me and  
21 us here in Bensalem. But when you think of trying to  
22 raise property taxes -- and we're on old community. We  
23 have a lot of people that aren't working, that are retired  
24 and they can't take another dime. That's why we had to go  
25 to the earned income tax.

1                   Having said everything that we're talking  
2 about here -- and, again, I speak for a very large  
3 community -- we had no place to go.

4                   So when you think of losing \$2.7 million  
5 that we lose from Philadelphia from the Sterling Act --  
6 think about that, 2.7 million to a community like this --  
7 that's a lot of money that we -- I don't know how we could  
8 ever make that up.

9                   So we're going to -- this fight has to  
10 continue as far as I'm concerned. And I think all of us,  
11 Bucks County, surrounding counties, we understand it. And  
12 I hope that you do.

13                   And, again, I don't want to keep -- I know  
14 you guys are over. And if we were in the House right now,  
15 you'd probably hit the hammer.

16                   Anyway, but we want to continue this. And  
17 I know you still have people that want to come up.

18                   I have a lot to say, but I -- really, I  
19 thank you again, and hopefully I have an opportunity to do  
20 that.

21                   MR. HOLLING: I'll grab next.

22                   I think the concept of the synergies that  
23 were discussed are the ideal way to approach this.

24                   We all have perspectives on this and bring  
25 it to the table. We did some simple exercises following

1 the Bucks lead and circulated the resolution to the  
2 municipalities in Chester County. We have 56 townships,  
3 16 boroughs, and one city. Out of those, 31 people  
4 returned the resolution.

5 I promised that I would speak for the  
6 minority. One of the resolutions was modified so that it  
7 didn't say that it brought harm to the city of  
8 Philadelphia. Okay. Good idea.

9 An adjacent community said, No, we don't  
10 want to do it at all because of the same reason, but they  
11 didn't come back and modify it.

12 It also looked at we have four  
13 municipalities that don't have EIT, and I talked with two  
14 of them, and they said simply it's because of  
15 Philadelphia. All right.

16 So they're stuck with all of their income  
17 being based on real property taxes contrasted with the  
18 model that we're all looking for of blending it between  
19 the workers and the property owners, which we can't do.

20 I mean, our worst-case scenario in the  
21 region is Delaware County. They have 29 municipalities  
22 that do not have an earned income tax. So they are  
23 totally driven by real estate revenues. Right.

24 And, again, that's not the model we're all  
25 looking for. We talked about school districts and saying,

1 No, we want to lower that.

2 I am a little confused on the school  
3 districts and the money. I spent some time with the  
4 Downingtown people on the money they get from the State.  
5 And that was -- my understanding was under the Tax Relief  
6 Act, which is casino-related revenues, equally distributed  
7 among school districts across the country, and it amounts  
8 to a net, no gain.

9 I get \$200 from the State. I credit the  
10 taxpayer \$200, and we end up with a net, no gain revenue.

11 So I'm not sure what the exercise is  
12 except for leaving the guy at the far end like me, I don't  
13 have to pay as much tax. But net effect to the school  
14 district is no increase in revenue, no change. All right.

15 I do follow along with the point that  
16 maybe in the concept of how we allocate revenues at the  
17 state level, that more focus should be placed on  
18 Philadelphia and its school district.

19 I do have to commend Philadelphia because  
20 this year they won a Blue Ribbon at the Penn School from  
21 the U.S. Department of Education, which indicates one of  
22 the problems that Philadelphia is facing.

23 Between 2008 and 2013, the millennial  
24 population increased from 300,000 to 400,000, a one-third  
25 increase in millennials.



1 before you, Chester County concurs that those are all  
2 actionable items and should be addressed and followed up  
3 on because they're solid moves in the right direction.

4 They may not be perfect moves in that  
5 direction, but they're solid and we need to continue that  
6 process.

7 MR. HERR: Mr. Chairman, you have my  
8 testimony, so I'm not going to read it.

9 And just to highlight a couple parts from  
10 a different perspective, you've heard from the different  
11 counties and from the mayor from Bensalem.

12 I cannot go back to 1932 when this act was  
13 passed, but I can go back to the mid-'70s.

14 And in the mid-'70s, I worked with then  
15 former senator from this area, Craig Lewis, who  
16 implemented a piece of legislation that put a cap on the  
17 non-residents in the Philadelphia area.

18 Today, the rate that the income for a  
19 resident is 3.9004 percent, and the rate for a  
20 non-resident is 3.4741.

21 That's because at that time we wanted --  
22 although it didn't necessarily help the municipalities, it  
23 did help stop the bleeding for future tax-related issues.

24 The act that was passed back in '77 says  
25 that a non-resident cannot be any more than 75 percent of

1 the resident -- Philadelphia resident tax. At the time,  
2 as I said, to stop the bleeding because the resolutions  
3 that were passed back prior to my starting with the  
4 association in '76 dealt with the Sterling Act.

5 And recently, in the last couple years,  
6 resolutions have been passed to address this issue.

7 So, again, it's from the statewide  
8 perspective. Although it only really deals with the five  
9 counties in this area, our members do understand the  
10 concern and the effects that it has on the townships, the  
11 boroughs in the surrounding communities and has supported  
12 that position.

13 The Sterling Act, from the position that  
14 has been taken over those years from the resolutions that  
15 were passed, basically are saying -- again, what the lady  
16 and the gentlemen are saying is that we don't want to hurt  
17 Philadelphia. It isn't that we want to take everything  
18 away -- and excuse me for my back being towards you --  
19 from Philadelphia.

20 But there's -- needs to be a fairness to  
21 get some of the money back into the communities.

22 Representative Knowles talked about  
23 property tax earlier. One of the reasons, you know, you  
24 cannot just do away with a property tax is because of the  
25 Sterling Act and what it would do to the surrounding



1 communities, which was basic, their only tax.

2 Other parts of the state have a similar  
3 issue.

4 So what the Association -- and, again, as  
5 we worked with Craig Lewis back in the '70s, we're willing  
6 to work with the Committee and the representatives to say  
7 we need some type of tax reform, a comprehensive tax  
8 reform that addresses the issues that the surrounding  
9 communities are bringing up, and also Philadelphia.

10 And to Mr. Knowles, just one quick story.  
11 In 1982, to the chairman of the Finance Committee -- not  
12 the same one we have here today --

13 CHAIRMAN O'NEILL: Just his younger  
14 version.

15 MR. HERR: Yes. Younger, I'll go with  
16 that.

17 The chairman asked me at a hearing on the  
18 issue of tax reform, What is the fairest tax?

19 And very similar to your constituent, I  
20 said, The fairest tax is you pay everything, I pay  
21 nothing.

22 Only I went one step further, and I'll ask  
23 you today for the same thing in 2016, write in a provision  
24 in the legislation that says Elam Herr is excluded from  
25 paying the taxes, and that would be the most fair piece of

1 legislation that you could pass.

2 With that, Mr. Chairman, we will take  
3 questions.

4 MR. RATTIGAN: Yeah, just one quick  
5 comment.

6 If I'm sitting up there with you guys,  
7 it's clear, obviously, what we're asking for.

8 But, more importantly, maybe it's  
9 worthwhile to at least discuss a couple ideas that may be  
10 solutions. Right?

11 Because you guys have a really, really  
12 difficult job. And you've got a difficult budget. You've  
13 got the political environment you have to deal with. You  
14 have the reality of your pension system, which is an  
15 issue.

16 And we're simply asking you to give us our  
17 fair share of our tax money and then figure out how to pay  
18 Philadelphia back if Philadelphia justifies the need for  
19 the finances.

20 And that's a really difficult task to take  
21 back to Harrisburg and convince everybody else in  
22 Harrisburg of that need.

23 So what I would ask you to think about is  
24 if you believe that this is actually a reasonable request,  
25 then one such idea might be to consider a phaseout,

1 because none of us in our communities would want to see a  
2 revenue stream come to a halt immediately.

3 If we're going to lose a revenue stream,  
4 the best scenario is a phaseout. Think about that.

5 That's a reasonable approach, at least  
6 from our standpoint, if you agree with what we're asking  
7 is a reasonable ask, so that the City of Philadelphia has  
8 time to adjust, the State has time to adjust financially.

9 And whatever that phaseout period is would  
10 be more than reasonable to us because right now we're not  
11 seeing revenues from anything additional, we'd be thrilled  
12 to death.

13 Thank you.

14 MR. HOLLING: If I may. To concur on  
15 that, we had the same thought about an evolution of this  
16 solution contrasted with a start 4 o'clock tomorrow  
17 afternoon, everything changes. So we endorse that.

18 I did want to mention because Elam  
19 mentioned resolutions in the past at PSATS, and I think  
20 most of you are familiar with the process. The body as a  
21 whole votes on resolutions that are submitted by  
22 individual counties and then adopts those. Then they  
23 become guiding principles for PSATS for the next four to  
24 five years.

25 There are two resolutions, one from 2014,

1 one from 2015, that speak to the Sterling Act specifically  
2 and were adopted by the body of the whole, recommending  
3 that PSATS work to change the Sterling Act.

4 So this is not just the four counties  
5 coming to you, but the entire Commonwealth has said this  
6 needs to be looked at. All right. And they, obviously,  
7 are unimpacted by it today.

8 CHAIRMAN O'NEILL: That's a good point.  
9 Thank you.

10 I just have a couple questions and  
11 comments.

12 Mr. Rattigan stated that it was 6.4  
13 million lost in revenue to the townships in Bucks  
14 County --

15 MR. RATTIGAN: Yes.

16 CHAIRMAN O'NEILL: -- as a whole. That's  
17 not including the loss to the school districts?

18 MR. RATTIGAN: Correct.

19 CHAIRMAN O'NEILL: That's just the  
20 townships.

21 MR. RATTIGAN: That's just the townships.

22 CHAIRMAN O'NEILL: So you probably can  
23 double that --

24 MR. RATTIGAN: Yep. Yeah.

25 CHAIRMAN O'NEILL: -- I would assume.

1 Mayor, question. How many -- do you know  
2 how many wage earners there actually are in Bensalem,  
3 roughly, who would be paying either the Sterling Act or  
4 the EIT?

5 MAYOR DiGIROLAMO: I can't give you an  
6 answer, Mr. Chairman, for the simple reason we're in our  
7 first year of the earned income tax, and we're in our  
8 third quarter --

9 CHAIRMAN O'NEILL: Oh, so it's so new,  
10 yeah.

11 MAYOR DiGIROLAMO: I can't give you any  
12 results of that. I apologize for that.

13 CHAIRMAN O'NEILL: But you said there's  
14 50 -- how many --

15 MAYOR DiGIROLAMO: 5,300 of our residents  
16 work in Philadelphia.

17 CHAIRMAN O'NEILL: Okay.

18 MAYOR DiGIROLAMO: And that was back in,  
19 again, 2014. That was --

20 CHAIRMAN O'NEILL: So that's a huge  
21 portion of your working population that is not  
22 contributing to where they live?

23 MAYOR DiGIROLAMO: Oh, a huge, 2.7  
24 million.

25 CHAIRMAN O'NEILL: Great. Thank you.

1 Any -- Chairman Wheatley.

2 CHAIRMAN WHEATLEY: Thank you.

3 And, first, and one of you or all of you,  
4 if we were to address the super credit issue, how much  
5 would that go towards your financial burdens right now?

6 MR. RATTIGAN: Assuming I totally  
7 understand that, the super credit really doesn't affect  
8 us. It affects the school districts.

9 And my understanding of the super credit  
10 goes something like this: Whatever EIT revenue the  
11 districts were to receive, there's a credit that comes  
12 back to them after a one- or two-year period. So they're  
13 receiving some of that revenue back.

14 Municipalities receive none.

15 So if -- another concept might be a super  
16 credit to municipalities with a delayed payment. It's  
17 another option to think about because, again, it's more  
18 than what we have today.

19 Does that make sense?

20 CHAIRMAN WHEATLEY: A delay in the  
21 payment?

22 MR. RATTIGAN: Yes. Because by the time  
23 the numbers are calculated, as you can hear, we have 2014  
24 numbers, so there is a delay in that -- in that revenue if  
25 it goes through the State versus locally.

1                   Locally we see it on a monthly basis  
2 through the employers.

3                   CHAIRMAN WHEATLEY: And my final question.  
4 Has the four counties, have you all engaged in any  
5 conversation with Philadelphia as an entity to talk about  
6 possible solutions together?

7                   MR. RATTIGAN: Good question. I'll take  
8 that one.

9                   We -- we've talked to reporters. And,  
10 naturally, both sides have very good reasons for wanting  
11 to change or keep it the way it is.

12                   We're coming to you because you guys are  
13 the ones that decide what the law is and actually have the  
14 power to make that change.

15                   We'd be happy -- we'd be thrilled to sit  
16 down with Philly and come to you and say, Okay, let's talk  
17 about a solution so that everybody's taken care of the  
18 right way.

19                   CHAIRMAN WHEATLEY: Sure.

20                   I mean, I'm just going to make a comment  
21 now, Mr. Chairman.

22                   And one of the things that I would be very  
23 interested in because I just -- one, we have a plan around  
24 phasing out, hopefully, property taxes. It hasn't been  
25 adopted by anybody other than us, but we have one.

1                   But in doing that, we also talk about  
2 modernization. We talk about regional taxing and sharing  
3 the resources in a way that's very much different than how  
4 we do it today, which is a huge change in culture and  
5 process and requires folks like you all working with folks  
6 like the Philadelphia City and County and Allegheny and  
7 all working together because sometimes if we just leave it  
8 to us in the General Assembly, we will never do anything.

9                   MR. RATTIGAN: Well, to answer your  
10 comment as in regionalization, I can tell you that BCATO,  
11 or the Bucks County municipalities, are looking at  
12 something similar.

13                   So that when we look at services like fire  
14 services, EMS services, which are very, very expensive,  
15 and if you know Frank Farry, Frank Farry has made it very  
16 clear they're reducing volunteer population with the fire  
17 companies.

18                   So we're being forced from a municipal  
19 level to look at regionalization and how to make sure that  
20 communities receive the services they truly need for the  
21 most cost effective way.

22                   CHAIRMAN WHEATLEY: Thank you.

23                   MR. HOLLING: As a follow-up on that same  
24 comment, I think that this Committee could be the  
25 facilitator of us getting together with Philadelphia, all



1 right, because it brings it under your jurisdiction, and  
2 it's a lot -- it's a little bit difficult for us to  
3 arrange those kinds of meetings and have them be  
4 constructive.

5 CHAIRMAN WHEATLEY: Thank you.

6 CHAIRMAN O'NEILL: That's one of the  
7 reasons why we're having the hearing.

8 Thank you.

9 Representative Petri.

10 REPRESENTATIVE PETRI: Yeah. And I want  
11 to thank the Chairman again for holding a hearing because  
12 I think that is really the way you send the shot over the  
13 bow that something might be coming.

14 I want to thank all of you for your data  
15 collection, because until you had the data, we didn't  
16 really know what the size of the problem is.

17 And until you know the size of the  
18 problem, you can't figure out solutions. So it does --  
19 this hearing does start the process.

20 I want to be very clear on a couple  
21 comments. Number one, I am not looking to hurt the City  
22 of Philadelphia.

23 But I don't like -- I've been a member of  
24 the Appropriations Committee, up until this last term, for  
25 eight years. I do not like offline manipulations such as

1 with the school district because then when we're making  
2 decisions, we don't really see the full impact and we  
3 don't know the full impact, for instance, in education if  
4 there's, you know, some money being refunded and we  
5 don't -- we don't see it.

6 So while I appreciate the fact that we get  
7 part of that back, it really isn't transparent, and that's  
8 part of the problem.

9 And this process is not transparent.  
10 You -- in the suburban counties you've done a phenomenal  
11 job, and I want to compliment you, for paying your pension  
12 obligations.

13 That's not true across the state. There  
14 are some areas that have substantially severely distressed  
15 pensions. Don't use that as an option. It's a bad  
16 option, just so we're clear.

17 But I think, as a legislator, one of the  
18 things we ought to be considering as part of this process  
19 is autonomy of the Philadelphia School District for its  
20 own taxing revenue, its own source.

21 I can think of two instances where city  
22 council did something that hurt the School District of  
23 Philadelphia: One was failure to sell PGW when the mayor  
24 had negotiated a deal that would have protected all the  
25 employees and put 400,000,000 into pensions.

1                   And the one more recent is the soda tax.  
2 I thought the soda tax was going to be for additional  
3 revenue for Philadelphia, and it doesn't seem like that's  
4 going to be the case.

5                   So as a suburban legislator, one of the  
6 things that irks me the most -- and it's just a political  
7 reality -- is a constituent comes up to me, says, The  
8 State's running the Philadelphia School District. We  
9 really don't get any reports, we have no input, and it's  
10 all your fault.

11                   And so I think autonomy to the school  
12 district, its own taxing authority, sets that a little bit  
13 straight that they have the ability to fix their own  
14 problems.

15                   And we should be wanting to help that  
16 educational system by segregating some of the taxes so --  
17 the existing revenue so it goes direct and not through  
18 this complicated maze that none of us can figure out.

19                   Just a couple comments.

20                   Thank you.

21                   CHAIRMAN O'NEILL: Thank you.

22                   I just want to thank you all for being  
23 here today. Thank you for bringing this to our attention.

24                   And as a former supervisor, I want to  
25 thank you for your service because I personally know the

1 time and effort you put in on behalf of your communities,  
2 and it's truly appreciated.

3 So thank you.

4 MR. HOLLING: Thank you.

5 CHAIRMAN O'NEILL: I was just told by the  
6 IT gurus that someone's cell phone is very close to the  
7 mic and that's what's causing the noise everybody's  
8 hearing.

9 So if someone -- everybody can pull  
10 their -- I think it's Representative DiGirolamo down  
11 there. We'll blame him because he'll just laugh.

12 Our last testifier is from the City of  
13 Philadelphia is Rob Dubow. He's here. Thank you. He is  
14 the Finance Director for the City of Philadelphia.

15 And I did disperse to all of the members  
16 of the Committee the letter that I received from the -- a  
17 joint letter from the mayor and the president of city  
18 council, so they have that as well.

19 MR. DUBOW: Thank you.

20 CHAIRMAN O'NEILL: You're more than  
21 welcome.

22 Introduce yourself and then --

23 MR. DUBOW: Good afternoon, Chairman  
24 O'Neill and members of the Committee. Thank you for  
25 inviting us to testify today.

1                   My name's Rob Dubow. I'm the Director of  
2 Finance for the City of Philadelphia.

3                   As the Chair said, the mayor and council  
4 president of the City submitted a joint letter to express  
5 their opposition to these bills.

6                   My testimony will echo their concerns  
7 about how these bills would have a devastating impact, we  
8 think not only on Philadelphia, but on the entire  
9 southeastern region.

10                  I won't go into the details of the bills  
11 because I think they've been described pretty well so far.

12                  Our Department of Revenue estimates that  
13 the City would lose about \$180 million of existing tax  
14 revenue under these bills if every jurisdiction enacted a  
15 1 percent earned income tax.

16                  This approximately 180 million in revenue  
17 loss would force the City to either make painful cuts or  
18 substantially increase taxes.

19                  Either of those actions would damage not  
20 only Philadelphia, but the entire region.

21                  For example, the amount of lost revenue  
22 would exceed Philadelphia's combined spending for arts and  
23 culture programs, commerce and economic stimulus  
24 activities, parks and recreation facilities, libraries,  
25 museums, and the Convention Center, all of which drive

1 growth, attract visitors, and benefit the larger region.

2 The potential, approximately, 180 million  
3 loss in revenue is more than double our \$79 million annual  
4 subsidy to SEPTA.

5 If the City were to impose tax increases  
6 in an attempt to compensate for the lost revenue, those  
7 increases would likely drive away jobs and businesses to  
8 help generate economic activity for the entire region.

9 Research from the Wharton School economics  
10 professor Robert Inman demonstrates that the City and  
11 surrounding counties are economically linked. Improving  
12 the economic health of the City helps create suburban jobs  
13 and wages leading to economic growth and increased home  
14 values.

15 Philadelphia has more than one-third of  
16 the five-county region's jobs. We're home to leading  
17 institutions for patient care, medical research, legal  
18 services, and higher education.

19 A \$180 million revenue loss to the City  
20 and the service cuts through tax increases that would have  
21 to follow, again would have a negative impact for the  
22 whole region.

23 For these reasons, we oppose the bills and  
24 urge the House Finance Committee to consider the  
25 significant negative implications.

1                   This concludes my testimony. And I'd be  
2 happy to answer any questions.

3                   CHAIRMAN O'NEILL: Okay. Does anybody  
4 have any questions?

5                   REPRESENTATIVE TRUITT: Thank you,  
6 Mr. Chairman.

7                   And thanks for your testimony.

8                   So --

9                   MR. DUBOW: Sure.

10                  REPRESENTATIVE TRUITT: -- just to make  
11 sure I'm clear on what you're saying, if we could find  
12 some way to make up the \$180 million, everything else is  
13 okay with the bills?

14                  MR. DUBOW: Yeah. If we are held harmless  
15 and, you know, get the growth that we would get from the  
16 tax going forward, right. I mean, obviously, if we're  
17 held harmless, then we're fine.

18                  REPRESENTATIVE TRUITT: Okay. That's a  
19 simple question.

20                  Thank you, Mr. Chairman.

21                  CHAIRMAN O'NEILL: Thank you.

22                  Representative Kinsey.

23                  REPRESENTATIVE KINSEY: Good morning,  
24 Mr. Dubow.

25                  MR. DUBOW: Good morning.

1                   REPRESENTATIVE KINSEY: I live in the city  
2 of Philadelphia, so obviously this is a great concern to  
3 me.

4                   And, really, the previous testifiers, it  
5 was more of an educational piece for me. So I just want  
6 to ask you some questions as it relates to the wage tax  
7 burden.

8                   Has the City of Philadelphia done anything  
9 to lessen the burden for residents as well as  
10 non-resident?

11                  MR. DUBOW: Yeah. We've -- we started  
12 reducing wage tax rates back in '96 and have reduced them  
13 every year with the exception of a couple of years during  
14 the great recession.

15                  Overall, they've gone down by over a  
16 percent, both for residents and non-residents. And, in  
17 part, that's with help from gaming money that the State  
18 provided.

19                  REPRESENTATIVE KINSEY: I guess my other  
20 question is -- and I'm just thinking about, you know, the  
21 city that I live in -- as we talk about individuals who  
22 live outside of the city -- and this might be an outside  
23 question, but I just want to throw it out there -- because  
24 we talked about the jobs that are created within the city  
25 of Philadelphia, but then I'm also thinking about -- I



1 heard somebody mention earlier about the roads getting to  
2 and from and, you know, monies that's paid to improve the  
3 roads here -- I mean in the city of Philadelphia, as well  
4 as a need to improve roads outside of Philadelphia.

5 So then I start thinking about even the  
6 modes of transportation. Like, I know SEPTA's a main -- I  
7 guess a main entity that provides trailways to and from  
8 inside the city as well as outside the city.

9 So as I started drilling down with, let's  
10 just say, SEPTA, doesn't the City pay monies into SEPTA?

11 And then I also think about the impact of  
12 the -- maybe the regions right outside. So does everybody  
13 pay a fair share because, again, you know, that's a  
14 two-way travel?

15 MR. DUBOW: So Philadelphia pays \$79  
16 million to SEPTA annually.

17 REPRESENTATIVE KINSEY: I'm sorry. Do you  
18 know what SEPTA's annual budget is roughly?

19 MR. DUBOW: I don't.

20 REPRESENTATIVE KINSEY: I sit on the  
21 Transportation Committee also, and I had it somewhere  
22 about 1.4 billion.

23 Does that sound right?

24 MR. DUBOW: That sounds about right.

25 REPRESENTATIVE KINSEY: Okay.

1                   So the City, therefore, pays how much  
2 annually?

3                   MR. DUBOW: 79 million.

4                   REPRESENTATIVE KINSEY: I would assume  
5 that that's probably much more than any of the other  
6 surrounding counties which --

7                   MR. DUBOW: It is, yes.

8                   REPRESENTATIVE KINSEY: Okay.

9                   Mr. Chairman, thank you.

10                  CHAIRMAN O'NEILL: Thank you.

11                  Representative Lawrence.

12                  REPRESENTATIVE LAWRENCE: Thank you,  
13 Mr. Chairman.

14                  And, Mr. Dubow, I appreciate you coming to  
15 testify today on a very controversial topic. So I  
16 sincerely appreciate you being here today.

17                  MR. DUBOW: Thank you.

18                  REPRESENTATIVE LAWRENCE: What is the --  
19 generally speaking, the general fund budget of  
20 Philadelphia, \$180 million, what is that as a percentage  
21 of the general fund budget? What's the total budget of  
22 the City of Philadelphia?

23                  MR. DUBOW: Total budget is about \$4  
24 billion. In some ways it makes it seem like we have more  
25 flexibility than we do.

1                   We have a high percent of fixed costs.  
2                   About a quarter of our budget goes to things like  
3                   pensions, contributions to the school district, which, as  
4                   you know under state law, we can't reduce, debt service.

5                   So we actually have limited flexibility in  
6                   our budget, but the total budget's about 4 billion.

7                   REPRESENTATIVE LAWRENCE: So this amount  
8                   of \$180 million, so you said it was \$4 billion, so we're  
9                   looking at, you know, is it 2 percent? 4 percent?

10                  MR. DUBOW: 4.

11                  But then, I mean, again, you're -- if you  
12                  look at our total budget, it's not like we have  
13                  flexibility over all of that budget.

14                  25 percent's just straight fixed cost.  
15                  Another 25 percent is public safety. So there's not -- so  
16                  there's limited flexibility within our budget.

17                  REPERSENTATIVE LAWRENCE: Certainly, and I  
18                  recognize that.

19                  And similar on the State level. Right.  
20                  As we face challenging --

21                  MR. DUBOW: That's correct.

22                  REPRESENTATIVE LAWRENCE: Budget issues on  
23                  the Commonwealth level, there's a limited number of places  
24                  we can go that I would term as truly discretionary  
25                  funding. A lot of it is fixed costs.

1 I guess -- my fundamental issue -- and I  
2 don't want to be -- you know, I don't want to resort to  
3 cliches, but my fundamental issue is that at end of the  
4 day for residents who do not work in the city of  
5 Philadelphia, the wage tax, in my view at least, is the  
6 ultimate taxation without representation. Right.

7 You are paying a not insignificant tax.  
8 It's not a head tax of \$50 a year. It could be  
9 substantial. And, yet, you do not have the ability to  
10 vote for somebody who's on city council or whatever it  
11 might be who, at the end of the day, has the decision on  
12 how to spend that money.

13 Do you have any thoughts on that?

14 MR. DUBOW: No. I mean, for us, it's  
15 people who come into our city, consume our services, and  
16 that's the rationale for imposing the tax.

17 REPRESENTATIVE LAWRENCE: Right. I  
18 guess -- and I see that -- you know, that argument can be  
19 taken to its logical nth degree. You know, I mean, as I  
20 drive to Florida, I've driven through how many states  
21 where unless I stop to, you know, buy a gallon of gas, you  
22 know, in essence I'm getting something for free by driving  
23 on their roads.

24 You know, if I live in one municipality in  
25 Chester County and I drive up a township road to another

1 township, in essence, I'm not paying for that road. In  
2 some way -- although, you know, you could say the liquid  
3 fuels tax pays for it to some extent.

4 And I appreciate -- you know, I don't want  
5 to get bogged down on SEPTA. You know, I am mindful of  
6 the fact that we are borrowing -- the Pennsylvania  
7 Turnpike is borrowing \$450 million a year to fund mass  
8 transit under Act 89 and previous legislation enacted  
9 under the Rendell administration.

10 I would argue the Turnpike Commission has  
11 absolutely nothing to do with mass transit and they are  
12 borrowing that money.

13 I believe we are looting the Turnpike to  
14 fund mass transit that way. It is, I believe, wrong.

15 But just to -- if we were going to have a  
16 conversation about the funding for SEPTA, I don't know  
17 that this is the proper forum; that's a very broad  
18 conversation in general.

19 I guess my -- I have a couple other  
20 questions, but I'm sure there are other members who'd like  
21 to ask, so I'll leave it at that.

22 So I appreciate very much your testimony.

23 MR. DUBOW: Thank you.

24 REPRESENTATIVE LAWRENCE: Thank you,  
25 Mr. Chairman, for your patience.

1 CHAIRMAN O'NEILL: Thank you,  
2 Representative.

3 Representative Daley.

4 REPRESENTATIVE DALEY: Thank you,  
5 Mr. Chairman.

6 And, Mr. Dubow, thank you for being here  
7 today.

8 I'm just curious, how does the population  
9 of Philadelphia change during a typical workday?

10 In other words, how many people are coming  
11 into the city for jobs?

12 MR. DUBOW: There are, you know, tens of  
13 thousands of people who come in every day. I think the  
14 number from the -- it may be like 160,000, I think.

15 REPRESENTATIVE DALEY: And what's the  
16 population of Philadelphia?

17 MR. DUBOW: Philadelphia's population is  
18 about 1.5 million.

19 REPRESENTATIVE DALEY: 1.5 million.

20 And 160,000, you said?

21 MR. DUBOW: Just from the five-county  
22 area.

23 REPRESENTATIVE DALEY: Okay. Thanks.

24 And I just want to add my appreciation for  
25 your being here today because clearly it's a discussion

1 that requires Philadelphia's input, and -- so thank you  
2 for what you do.

3 MR. DUBOW: Thank you.

4 CHAIRMAN O'NEILL: Thank you.

5 Representative Corbin.

6 REPRESENTATIVE CORBIN: Thank you for your  
7 testimony this morning.

8 Since you referred to this letter that we  
9 all received a copy of, I want to ask a question about it.

10 The statement in here is if the City were  
11 to impose tax increases in an attempt to compensate for  
12 the lost revenue, those increases would likely drive away  
13 jobs and businesses that help generate economic activity  
14 for the entire region.

15 Is that a statement that's specific and  
16 unique to Philadelphia or is that something you would say  
17 would apply to anywhere in the Commonwealth?

18 MR. DUBOW: I think it's probably true  
19 anywhere. I think Philadelphia, we have a relatively high  
20 tax burden, so I think our taxes are already high.

21 So I think probably increases for us have  
22 a bigger impact than other places.

23 REPRESENTATIVE CORBIN: Okay. Thank you.

24 CHAIRMAN O'NEILL: Thank you.

25 Representative Stephens.

1 REPRESENTATIVE STEPHENS: Thank you,  
2 Mr. Chairman.

3 Thank you for taking the time to share  
4 your perspective on this.

5 As we -- during your testimony, a couple  
6 things prompted a few questions from me because -- and to  
7 follow up with Representative Corbin's question, I think  
8 the point is the issues that you might have financially in  
9 absorbing this \$180 million loss are the same issues that,  
10 frankly, all of our municipalities and school districts  
11 have to face as well.

12 Yet, they are foregoing that revenue  
13 because of this one single provision that the State has  
14 applied to Philadelphia and only Philadelphia.

15 So, you know, when you look at that, I  
16 think you said one-third of the five-county -- five-county  
17 jobs is in Philadelphia? Was that your quote there?

18 MR. DUBOW: Yes.

19 REPRESENTATIVE STEPHENS: Okay. So  
20 two-thirds of the jobs are in the four collar counties.

21 Along those lines, you know, to follow up  
22 on Representative Daley's question, the population of the  
23 city only increases by 160,000 in terms of employees?  
24 That's how many suburban --

25 MR. DUBOW: From the five -- from the five



1 counties, that's right.

2 REPRESENTATIVE STEPHENS: Right.

3 Just by way of comparison, I represent  
4 entirely two municipalities: Horsham Township and  
5 Montgomery Township. Each of them has more employees than  
6 residents.

7 So, you know, the number of folks that are  
8 coming in is, as a percentage, you know, dramatically  
9 higher if you're only talking 160,000 out of 5 million.

10 And if I'm not mistaken, I think more  
11 people from Philadelphia work in Montgomery County than  
12 the reverse.

13 MR. DUBOW: One thing. You said out of 5  
14 million. Out of 1.5 million.

15 REPRESENTATIVE STEPHENS: I'm sorry. Out  
16 of 1.5 million. Okay.

17 So I think more people commute from  
18 Philadelphia to Montgomery County for work than the  
19 reverse, if I'm not mistaken.

20 Do you happen to know if that's --

21 MR. DUBOW: I'm not -- I'm not sure.

22 REPRESENTATIVE STEPHENS: All right. Do  
23 the surrounding counties contribute to SEPTA as well?

24 MR. DUBOW: They do.

25 REPRESENTATIVE STEPHENS: Do you know what

1 those figures are?

2 MR. DUBOW: I don't. Those are,  
3 obviously, much smaller than Philadelphia's contribution.

4 REPRESENTATIVE STEPHENS: Right.

5 Do you know the percentage of SEPTA riders  
6 that are Philadelphia residents versus each of the  
7 counties?

8 And I guess really the crux of that  
9 question is, is the payment proportional to ridership in  
10 terms of the residency?

11 MR. DUBOW: Right. And I'm not -- I'm not  
12 sure of the answer to that.

13 REPRESENTATIVE STEPHENS: Okay.

14 You know, I guess just to close it out,  
15 one of the things that I just -- I hope we can impress  
16 upon the City is that all of our municipalities are facing  
17 all the same financial pressures that you are; yet,  
18 they're not getting the favorable treatment that the state  
19 law is providing the City of Philadelphia.

20 And so in terms of leveling the playing  
21 field, which is the aim of my legislation, that was the  
22 impetus behind it.

23 And so that I hope that the City will work  
24 with the stakeholders. You know, there was a  
25 conversation, I think an olive branch extended, in an

1 effort to try to come up with a resolution that might  
2 blunt some of the impact to the City of Philadelphia.

3 And I would just hope that -- and  
4 encourage the City to maybe give some thought to ways that  
5 we might be able to help level this playing field in a  
6 manner that might be acceptable to the City of  
7 Philadelphia.

8 MR. DUBOW: Yeah. And we understand that  
9 other governments are facing, you know, real financial  
10 challenges, and we're happy to have, you know, ongoing  
11 discussions.

12 We just can't face legislation that costs  
13 us \$180 million a year.

14 REPRESENTATIVE STEPHENS: I guess just to  
15 close, back in the day when the Sterling Act was  
16 implemented and all these other provisions came about, I  
17 guess those municipalities probably said the same thing,  
18 but they ended up taking the hit which today results in a  
19 \$180 million hit to those municipalities.

20 MR. DUBOW: I don't think that at the time  
21 in the 1930s, that it had that kind of impact.

22 We've over time -- we've had this tax for  
23 almost 90 years; it's something that, you know, has been a  
24 part of our budget so that it would be a major change.

25 CHAIRMAN O'NEILL: Representative Petri.

1                   REPRESENTATIVE PETRI:  Have you had a  
2 chance to determine the financial impact of the --  
3 Governor Christie's proposal to eliminate the reciprocity  
4 to the City of Philadelphia in your budget?

5                   MR. DUBOW:  Yeah.  So our analysis is that  
6 while it would have impact on taxpayers in Philadelphia,  
7 on the government we think the impact would be pretty  
8 small.

9                   We don't think that would be an impact on  
10 our government.  It would be an impact on our taxpayers.

11                   REPRESENTATIVE STEPHENS:  Okay.  So you  
12 don't anticipate a loss of revenue?

13                   MR. DUBOW:  No.

14                   REPRESENTATIVE PETRI:  Okay.

15                   Just one comment for Representative  
16 Kinsey.  I agree with some of your thoughts on SEPTA.

17                   There's an interesting study you want to  
18 grab, a University of Penn professor.  He basically says  
19 that our -- first of all, all transportation systems are  
20 subsidized at some level.  The airlines are subsidized by  
21 government.  The roads and bridges are subsidized.

22                   But he also says that the lack of cohesive  
23 fiscal policy between the Bridge Commission and the  
24 parking authorities create a disincentive to use of  
25 ridership for SEPTA.  And so I think there's some

1 solutions there that I'd love to explore with you to --

2 We should follow the example of New York.

3 New York has a system that really encourages ridership,

4 which then, of course, reduces the cost to all taxpayers.

5 CHAIRMAN O'NEILL: Thank you.

6 Representative Wheatley.

7 CHAIRMAN WHEATLEY: Thank you,

8 Mr. Chairman.

9 I want to thank you for being here and for  
10 providing testimony.

11 As I'm sitting here, I'm trying to figure  
12 out how best we could work together to improve the  
13 situation.

14 And one of the things that I just keep  
15 going back to in my own mind is a few years ago,  
16 Philadelphia was able to convince national parties, both  
17 the Republicans and just recently the Democrats, to come  
18 into the region and hold their conventions.

19 I'm assuming they had regional  
20 implications when that happened. It wasn't just a benefit  
21 to Philadelphia; it was a benefit to the whole region and  
22 to the Commonwealth.

23 We had the Pope visit. That was a major  
24 boom, or, some would say, not so much. But it was a  
25 regional attraction; it wasn't just a Philadelphia

1 attraction. And it wasn't just regional; it was the  
2 Commonwealth that benefited.

3 So when we get into these discussions,  
4 rarely do I take the stance that it's a either/or case.  
5 Right.

6 It's really trying to figure out how do we  
7 make sure what we do strengthens Philadelphia and the  
8 region because ultimately Philadelphia being strong helps  
9 the region to be strong, and the region being strong helps  
10 the Commonwealth to become stronger.

11 And this is why I keep going back to our  
12 current ways of taxing. Right. I mean, we're picking  
13 on -- I'm not going to say picking. We're focusing in on  
14 an issue that is an issue, and it happens to be that  
15 Philadelphia is, in some belief, benefiting from a system  
16 that was developed in 1932, a policy that was done in  
17 1932, and then just been added onto since then.

18 Instead of us saying, Okay, let's look at  
19 how we tax in general and let's see -- because your needs  
20 are not just going to be the 180 million that you  
21 currently get from this taxing policy.

22 Because I'm assuming you expect that you  
23 will continue to grow economically, there'll be more and  
24 more people coming in, so this number could grow over  
25 time, or maybe not.

1                   But I don't think you want to -- I don't  
2 think you want us to resolve this 180 million for you --

3                   MR. DUBOW:    Correct.

4                   CHAIRMAN WHEATLEY:  -- and then change the  
5 system and then it goes away because I think that could be  
6 problematic in the future.

7                   So if we're going to do a change and it's  
8 going to be a substantial change -- like you said, this  
9 has been a part of Philadelphia's budget since 1932 -- and  
10 it's going to be a substantial change, then we should do  
11 it in a holistic approach or an approach that tries to  
12 resolve as much of the total taxing challenges that we  
13 have and not just done in a way that will eventually get  
14 us back here five years from now anyway, in my opinion.

15                   Because if we do this next year and we  
16 create instantly, or phased in in three years, and we  
17 don't also figure out how we deal with the regional  
18 challenges that are happening -- that first happens in  
19 Philadelphia, it's going to be a problem anyway.

20                   So I'm not saying that we don't need to  
21 engage in a conversation.  And I'm hoping that you all,  
22 from a local perspective, are talking and figuring out  
23 from a regional approach what are the things that you all  
24 can come to Harrisburg jointly and say we need as a  
25 region, one that fills in Philadelphia's needs and one

1 that allows for other municipalities that surround  
2 Philadelphia to deal with its four critical things:  
3 pensions, fire, EMS, the growth of your administrations  
4 and your staffing. All that should be something that, as  
5 a region, you come to Harrisburg and ask us to do.

6 But we should do it in the concept -- or a  
7 context of an overall change in our taxing policies that's  
8 going to be sustainable and growing over time and it's not  
9 going to be pitting the surrounding areas versus its heart  
10 in Philadelphia as a final solution.

11 That's just all I'm saying. And I'm  
12 hoping that with the energy that we have in this Committee  
13 and the will that we have on this Committee that those can  
14 be some conversations that we help and a course of action  
15 that we can undertake that can get us to a regional  
16 solution and not one that pits Philly against its suburban  
17 brothers and sisters.

18 So thank you for being here.

19 MR. DUBOW: Thank you.

20 CHAIRMAN O'NEILL: Thank you.

21 I just have one, I guess, question or  
22 comment.

23 I live barely a mile from -- a little over  
24 a mile from the Warminster train station, the SEPTA  
25 station, and I'm amazed at the number of people coming out



1 of Philadelphia to that train station to work in my area  
2 in Warminster.

3 And if I'm not mistaken, the County  
4 actually provides a bussing service for them as well -- I  
5 forget what it's called -- so that they can get to their  
6 jobs because of the difficulty being in suburban areas of  
7 not having a car when they're driving up.

8 They pay the city wage tax; they don't pay  
9 a tax to my local because they're residents of the city.

10 So they pay the 3.9, whatever it is, and  
11 none of that -- is that correct -- so none of it comes  
12 back to --

13 MR. DUBOW: That's right.

14 CHAIRMAN O'NEILL: Yeah. Okay.

15 MR. DUBOW: Is the question you had  
16 before.

17 CHAIRMAN O'NEILL: Yeah.

18 So basically what we have is a  
19 double-edged sword. And, you know, I've kind of taken in  
20 everything that has been said.

21 We deal in our area with the complaints of  
22 the taxes going up so high because our schools have never  
23 gotten their fair share, the hold harmless and all these  
24 other things.

25 Now with the new funding formula, that may

1 change a little, but that may take seven years before it  
2 even becomes whole.

3 We also deal with the large issue with the  
4 police and fire, that you heard from the Townships and the  
5 mayor and everyone.

6 So when I look at 180 million and I'm look  
7 at comparing that to 4 billion, and then I'm looking at  
8 what we're losing and comparing it to the percentage of  
9 what our townships are losing and what our local residents  
10 are picking up to support your 180 million, that  
11 percentage is much higher.

12 So that there is, I guess, great argument  
13 on both sides for this --

14 MR. DUBOW: And I just --

15 CHAIRMAN O'NEILL: -- legislation.

16 MR. DUBOW: -- want to emphasis \$180  
17 million is a lot of money for us.

18 It's a significant portion of the  
19 discretionary part of our budget. And there would be --  
20 you know, we'd have to take really severe actions to  
21 compensate for that.

22 CHAIRMAN O'NEILL: No, and I fully  
23 understand that. And some of my closest friends in the  
24 House are members of the Philadelphia delegation and --  
25 you know, so I've already heard from them about this as

1 well, so...

2 But I thank you for your testimony.

3 MR. DUBOW: Thank you for having me.

4 CHAIRMAN O'NEILL: I just want to -- I  
5 guess no one -- Gene, you have a comment?

6 REPRESENTATIVE DIGIROLAMO: Yeah, real  
7 quick.

8 CHAIRMAN O'NEILL: Go ahead.

9 REPRESENTATIVE DIGIROLAMO: Off subject,  
10 on something a little bit different.

11 A story just came out in the newspaper  
12 about a little 7-year-old girl who got on a school bus and  
13 told the bus driver that she had to dress herself this  
14 morning because she couldn't wake her mom and dad up.

15 And the bus driver called the police. And  
16 they went there, and both her parents were dead in the  
17 bedroom from a drug overdose.

18 I know there are discussions in the City  
19 about holding these drug companies accountable for the  
20 mess that they've created.

21 And I just want to implore upon you to do  
22 everything you can to make that possible in reality  
23 because we've got to do something about this epidemic.

24 So I know the mayor is very interested in  
25 that. So I just want to implore upon you, we need to do

1 something about that to hold these drug companies  
2 accountable for this heartbreaking tragedy that's  
3 occurring all across the state of Pennsylvania.

4 Thank you.

5 MR. DUBOW: Thank you.

6 CHAIRMAN O'NEILL: Thank you, Gene.

7 I just want to thank everybody. Mayor, I  
8 want to thank you again for hosting the Committee.

9 I want to thank Dan Rattigan and the  
10 members of the Bucks County Association for bringing this  
11 to our attention, and the members who came here today, as  
12 well as the two members who authored the bills.

13 We have a lot of work to do on this. My  
14 plan is to move forward to see what we can come to and to  
15 bring the City on board and see what we can work out.

16 I intend to address it much like I did Act  
17 32 by bringing all of the parties together and -- because  
18 the local townships are being hurt greatly by this.

19 But at the same time, we -- as many  
20 people have said, we don't want to hurt the city because  
21 we are -- I remember when I was 21, 22, 23 years old and I  
22 used to love to go down to the city.

23 Now I don't want to drive home at night  
24 anyway, so...

25 But thank you much.

1 Yes, Mayor?

2 MAYOR DiGIROLAMO: There's a lunch for  
3 your representatives right behind this chair.

4 CHAIRMAN O'NEILL: Oh, thank you.  
5 Appreciate that.

6 Does anybody else have any questions or  
7 comments?

8 Seeing none, I thank everybody for coming,  
9 and I thank all the testifiers.

10 (Hearing concluded at 12:42 p.m.)

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CERTIFICATION

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I, SUZANNE WALINSKY, a Court Reporter and Commissioner of Deeds, hereby certify that the foregoing is a true and accurate transcript of the deposition of said witness who was first duly sworn by me on the date and place herein before set forth.

I FURTHER CERTIFY that I am neither attorney nor counsel for, not related to nor employed by any of the parties to the action in which this deposition was taken; and further that I am not a relative or employee of any attorney or counsel employed in this action, nor am I financially interested in this case.



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SUZANNE WALINSKY  
Court Reporter and  
COMMISSIONER OF DEEDS