



Pennsylvania Association of School Business Officials

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Good morning. I am Jay Himes executive director of the PA Association of School Business Officials (PASBO). I would like to thank Chairman Benninghoff and Chairman Mundy and the other members of the House Finance Committee for the opportunity to present our comments on House Bill 1877, which gives school districts and municipalities an option for delinquent property tax collection that can help to reduce the cost of collection producing much needed resources.

PASBO is statewide association with 2,000 members who are K-12 administrators below the rank of superintendent. Our members support classroom learning and student achievement by providing many services required in the day-to-day operations of schools including: finance and accounting, facility management, transportation, food service, technology, purchasing, human resources, communications and safety.

Delinquencies, whether from property taxes, income taxes or other school district taxes exist in every district? We believe it is a serious problem which diverts critical resources at a time when school finances are at a critical stage in some districts created by the simultaneous loss of federal, state and local tax revenue combined with a huge escalation of new costs for mandated school employee pensions (retirement costs for schools will increase by more than \$200 million this year and more than \$250 million next fiscal year). Add to this unbalanced revenue and expense, the lowest Act 1 Index since enactment of the law in 2006 (1.4% for the current fiscal year) and the result is all schools are facing another difficult round of reductions in programs and personnel.

This financial situation has created a "No Dollar Left Behind" approach to identifying expenditure reductions, efficiencies and other cost reduction strategies to balance budgets this year. To make matters worse, there appears to be little likelihood of a significant economic recovery and pension obligations for schools will increase even more in 2013-14 and 2014-15.

The chart on the next page shows the amount of delinquent tax revenue schools have collected over the last five years—totaling \$650 million. To put that amount in perspective for school taxes, it is almost exactly the amount of gaming revenues put into the Property Tax Relief Fund for homestead/farmstead exemptions. While this data is for all school taxes, it is primarily property tax delinquent payments.

Fiscal Year	School Delinquent Tax Revenue	% of Delinquent Taxes to Total School Taxes
2009-10	\$ 141,004,276	1.10%
2008-09	\$ 134,263,465	1.08%
2007-08	\$ 127,513,325	1.01%
2006-07	\$ 120,513,680	0.99%
2005-06	\$ 126,714,676	1.10%

I should also note that this data set does not reflect the universe of the scope of the delinquent tax problem. The data reflects school district collections; it does not show taxes that are uncollectible. As a result, the extent of the problem is understated.

In this economic climate, it is vital for districts to have an aggressive tax collection process in place to assure needed revenues and taxpayer fairness. All levels of government want to maximize current taxes to mitigate future tax increases or new taxes. Taxpayers want to be assured that there is uniformity and consistency -it is the basis of any tax system- federal, state or local.

Hopefully this aspect of our comments reflect the significance and consequences of delinquent tax collection and further demonstrates why our membership is supportive of any legislative effort to make the process more efficient. Unfortunately a significant state mandate stands in the way.

Until the past several years virtually all delinquent property taxes were subject to the provisions of the Real Estate Tax Sale Law (RETSL) of 1947. Under RETSL the tax claim bureaus in all counties except Philadelphia and Allegheny exclusively provide for delinquent property tax collections. Historically, taxes levied during a school district fiscal year (July 1 -June 30) were turned over to the county tax claim bureau at a date after the school taxes were determined to be delinquent (December 31.)

The tax collection process was then subject to an extremely slow process determined in RETSL. While delinquent taxes were turned over in the spring, the action to collect on the delinquency- sale of the delinquent property- typically never was scheduled for at least two years. The RETSL process requires two types of county sales, the upset sale to recover the costs of all liens on the property and later the Tax Sale when the property is sold at whatever price a bidder is willing to pay. This long term process may not result in the full payment of any delinquency as well for a property that is sold at a Tax Sale. As a result, a school district may have dutifully waited years for little or perhaps no return on the delinquent tax.

Moreover, the tax claim bureau sale process can be extended for many additional years. It is not difficult to postpone the Tax Sale process by making partial payments. Some of our members believe that there are some delinquents who have mastered the art of manipulating the RETSL process into a perpetual payment process that avoids any final resolution of delinquency and hence, any revenue to the school district.

The turnover of delinquent property taxes to the tax claim bureau imposes a 5% commission on the amount of the delinquency and interest is added to the late tax payment as well.

Our members generally believe that another state statute, the Municipal Claim and Tax Lien Law (MCTLL) allows for a more effective and more efficient delinquent tax collection process. Under the MCTLL the process moves more rapidly to the benefit in our opinion of the taxing jurisdiction and the taxpayer. The shorter time period between the end of the calendar year (in the case of school taxes) and collection activity minimizes the additional costs and fees to the added to the original delinquency. This statute is used in Allegheny County for property tax delinquent collection and is also used for collection of delinquent municipal service fees such as trash collection and water/sewer user charges.

The MCTLL is proven and effective for schools. Unfortunately where it is utilized by school for delinquent property tax collection, the RESTSL still unfairly mandates payment of the 5% fee to counties. It is essentially a fee resulting in no benefit to the school or its taxpayers. As indicated below our estimate is that the 5% mandated fee to counties is a loss of more than \$25 million.

Total Delinquent Taxes Statewide = \$650,009,422*			
% of Taxes Collected under RETSL	90%	Delinquent Taxes--Property	90%
Total Delinquent Taxes Collected Under RETSL = \$526,507,631			
5% Commission to Counties		\$26,325,381	

* Source PDE

House Bill 1877 will fix the mandate for payment of the 5% commission at the county level by providing a much needed and justified option for schools and municipalities. This remedy will eliminate a cost for schools and municipalities for a service they may not use or want and at the same time remove a penalty for all taxpayers. Under this fee structure ALL school property taxpayers are penalized for delinquent property tax collection. Under the MCTLL the cost of delinquencies is born by the delinquent taxpayer. PASBO supports this bill and urges this committee to approve it. Schools will be provided with additional revenue to address budget needs IF the district opts not to use the county for collection. The bill allows a simple choice and will remove a long standing mandate at a time when additional revenues are needed the most.

The General Assembly has already recognized the scope of the issue and the importance of providing different tools for local governments to address delinquent taxes. In 1998 the General Assembly approved legislation that authorizes the sale of delinquent tax liens for unpaid property taxes. This mechanism allows local taxing bodies to essentially receive a return on the delinquency and allow a third party provider to continue the collection process.

The General Assembly has more recently also enacted legislation to provide more efficiency and uniformity in the collection of Earned Income Taxes by schools and municipalities in the form of Act 32 of 2008. PASBO believes that House Bill 1877 will follow suit in helping schools to be more efficient and provide additional tools for delinquent collection. It provides an option for schools that will benefit the school and its taxpayers.

Thank you again for the opportunity to present our comments on this important legislation. I would be glad to respond to your questions.

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