



Pennsylvania Association of School Business Officials

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**Testimony of the PA Association of School Business Officials
House Finance Committee
House Bill 2091
May 21, 2008
Jay Himes, Executive Director**

Good morning. I am Jay Himes executive director of the PA Association of School Business Officials (PASBO). I would like to thank Chairman Levdansky and Chairman Nickol and the other members of the House Finance Committee for the opportunity to present our comments on requirements for collection of property taxes.

PASBO is statewide association with 2,000 members who are K-12 administrators below the rank of superintendent and an additional 1,000 product and service providers in the education marketplace. Our members support classroom learning and student achievement by providing many services required in the day-to-day operations of schools including: finance, facility management, transportation, food service, technology, purchasing, human resources, communications and safety.

We all know the old Benjamin Franklin adage that there is certainty only for death and taxes. We could probably add a few guaranteed things in our lives to this list. Most of us would view a mortgage in order to purchase a home as an absolute as well. There are only a few who are fortunate enough to make in most cases their largest single purchase without the benefit of debt. We all like options but death, taxes and usually mortgages are for most people mandatory.

Taxes and mortgages typically converge via third party payments. Again, most of us who are residential property owners have someone pay our local real estate taxes whether for our school, county or municipality. Long term residents who have reached the financial milestone of a home without a mortgage are in the minority. Those who fall in this category are far outnumbered by those who have not been financially freed from the mortgage burden. As a result, property taxes are collected for a majority of residential properties via third parties. We would estimate that about 2/3rds of residential properties have school property taxes paid by their mortgage company or bank escrow agent.

With these numbers across the state, it is stunning and incredulous to comprehend a situation where a local tax collector would prohibit school property tax payments via escrow agents. It is unfortunate that with all of the important and pressing issues awaiting action by the General Assembly that you are dealing with a problem that simply should not exist from either a legal or a practical perspective.

Local tax collectors and the process generally are subject to the Local Tax Collection Law originally enacted in 1945. The law governs counties, municipalities and school districts except for Philadelphia and Allegheny County. It is hard to imagine the statutory basis under the Local Tax Collection Law for refusing a property tax payment from an escrow agent.

Section 10B of the law requires a notice to delinquent taxpayers that states in part,

"If your real estate taxes are to be paid from an escrow account established in connection with your mortgage, you should contact the company managing your escrow account."

Clearly from the provision in the law, the General Assembly recognized the legitimate role of escrow agents making property tax payments on behalf of home owners. Certainly, this language would not appear in the law if there was any prohibition contained elsewhere in the statute.

Additionally, there would not be a specific prohibition against anyone making a property tax payment on behalf of another taxpayer. Presumably no tax collector would reject a payment made by a spouse, parent or adult child of another taxpayer for example.

The purpose of tax collection is to assure timely and efficient collection of taxes for use by taxing entities. Utilizing escrow accounts for payment of local property taxes is not only practical but it can be efficient as well. We may have all seen the somewhat complicated escrow calculations attached to our mortgage statements. The escrow adjustment process assures that funds are available for tax payments in the discount period which for school taxes is the first two months of the fiscal year. It is a win-win situation. School districts receive revenues at the beginning of the fiscal year which allows adequate cash flow to plan the year's expenses and taxpayers receive a 2% discount on their taxes.

Tax collectors should facilitate this process but it appears that the Northumberland County situation in Rep. Phillips district is creating barriers to timely payment and holding taxpayers hostage in this high stakes battle between the tax collector and escrow agents.

We would acknowledge that local tax collection, whether property taxes or the local Earned Income Tax or any other Act 511 tax, is not easy. Tax collection laws in the state have not been overhauled in decades. As this committee knows, on the Earned Income Tax issue, there is a significant effort to restructure the collection process. We generally support changes to the tax collection system to make it more efficient. Specifically in terms of House Bill 2091 we would generally urge that the General Assembly refrain from enacting legislation addressing a local issue. However this appears to be such an unfair situation and requires a solution. While it should not be necessary, House Bill 2091 is an appropriate remedy.

But in addition to remedying a single and hopefully isolated incident, we would suggest that the committee look at more expansive solutions as well. First it appears that this situation cries for more than a voluntary approach to tax collector training which is administered by the PA Department of Community and Economic Development under Act 25 of 2001. It does not appear that Mr. Snyder has taken advantage of this training. We would recommend that a review of the law would be in order to determine if this unfortunate situation provides the impetus for making the training mandatory. Certainly in the intervening seven years since its enactment, there has been a sufficient transition period that would allow for change in the law.

As another recommendation, we would suggest that the committee look at whether a local taxing jurisdiction could establish the DC&ED training as a requirement for its tax collectors. Using the Shikellamy School District as an example, the district could require its property tax collectors to be trained as a local option. If there was no state certification held by a tax collector for the district, the district could collect its own property taxes.

We would also take another approach as well. We believe school districts should be given clear statutory authority to collect its own taxes. The current fragmentation in property tax collection is no longer justifiable and certainly lacks efficiency. Our property tax collection "system" is not systematic. You have and will hear the call for a major restructuring of the Earned Income Tax Collection "system" in the state e.g. Senate Bill 1063. The same arguments also apply to property tax collection. We are stuck in a system that has outlived its effectiveness.

I would suggest that the current situation in Rep. Phillips' district would not exist where a school district could collect its own taxes as a significant number do now. There are best practices where the school district and the escrow agents work together to assure accuracy and proper identification of property taxpayers and amounts.

The district can create an electronic list for escrow agents and require the agent to remit in electronic form that is downloadable into the district accounting system. This process maximizes technology on the school district end and on the escrow agent side to prevent miscoded tax bill records.

PASBO thanks you for the opportunity express our support for House Bill 2091 and provide comments on collection of school property taxes. I would be glad to respond to any questions you may have.

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