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Testimony on Senate Bill 1400

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Chairman Brubaker and Members of the Senate Finance Committee:

Thank you for inviting PASBO to testify on Senate Bill 1400. My name is Rick Vensel, and I am the Business and Operations Manager for South Middleton School District, located in Cumberland County, Pennsylvania.

I also serve as an adjunct professor in the Department of Educational Leadership at Shippensburg University and Widener University teaching graduate level educational school finance. When Act 1 of 2006 was enacted, I was the Business Manager for one of the largest school districts in Pennsylvania to initiate, by public referendum, the shift of increased Earned Income Tax rates for decreased real estate tax. I also served as Chair for PASBO's Act 32 Committee which worked on the change in the collection of Earned Income Tax in Pennsylvania based on Act 32. Additionally, I also served on DCED's Act 32 Implementation Committee.

The tax equity to support education has been and always will be debated. How to successfully fund the education of children of the Commonwealth is the basis of Senate Bill 1400.

Several laws have been enacted over the past fifteen years in attempts to change the funding mix and taxation authority of school districts. Act 50 of 1998, Act 72 of 2004 and Act 1 of 2006 all represent legislation that addresses this issue. All of these acts incorporated the homestead/farmstead exemption process.

My testimony is based on what we have learned from the past legislation, and what we need to consider in designing taxation as is proposed in Senate Bill 1400.

In considering taxation to fund education, several questions need to be asked:

1. The ability to collect the tax;
2. The ability to administer collection of the tax;
3. The consistency and reliability of the revenue source;
4. When distributing revenue to local school districts from the state, what methodologies should be used; and
5. What is the most equitable form of taxation for taxpayers?

These issues are essential in determining how to effectively and adequately provide educational funding for the children of Pennsylvania.

Real estate taxes have historically been the major local revenue source for local educational funding. It has proven to be a reliable source of revenue, collected with relative efficiency by tax collecting bodies, but is, in many ways, inequitable for many classes of taxpayers.

If real estate taxes were totally eliminated in South Middleton School District as proposed by Senate Bill 1400, thirty-five percent of our real estate tax revenue would need to be shifted to the individual taxpayer in one form or another. To eliminate this potential tax shift, a methodology would need to be implemented, as the Homestead/Farmstead exemption, to provide the real estate tax relief. This is the present method used for real estate tax reduction in Act 1 and is used for the distribution of slot machine money and earned income tax money to reduce real estate tax.

Earned Income Tax, the second major source of local revenues for local educational funding, has been established through a combination of Act 511 of 1965, Act 24 of 2001 (elimination of the Occupational Assessment Tax) and of Act 1 of 2006. Act 1 presently gives districts the ability to increase their income tax rates to relieve real estate taxes.

Senate Bill 1400, which proposes to increase the income tax rate to alleviate real estate tax, offers two different income taxes: the Personal Income Tax or Earned Income Tax.

Personal income tax has been an option for local educational funding through public referendum since Act 1 of 2006, but to date no school district in Pennsylvania has enacted a personal income tax. While personal income tax does more equally represent the “ability to pay concept”, it is not a viable option for school districts if we continue to have dueling income taxes with different bases and different collection requirements. We should have one or the other approaches on income but having both income tax options is inefficient.

A local Earned Income Tax, which would be collected through County’s Tax Collection Committee (TCC’s), based on Act 32, can effectively be collected at the local level because of the new Act 32 mechanisms in place. Local TCC’s have the ability to access State tax records to assure appropriate collection. Combined with the new requirements in Act 32, we have in place the opportunity to make the Earned Income Tax collection effective and efficient. Again, both taxes have benefits but we should have state policy that provides a single option so we don’t further fragment the local tax structure.

School districts have the option, through Act 1, of swapping real estate tax for income tax through appropriate referendums. This option, although having limitations, can also serve to eliminate real estate taxes. In the 2007 referendum which every school district participated in, only eight of five hundred school districts approved the switch through referendum. At that time I was the Business Manager for the Chambersburg Area School District, where one of the largest changeovers was completed.

Although the transition was challenging and burdensome, it was an effective method for increasing funding through the Earned Income Tax while applying real estate tax relief through the Homestead/Farmstead Exemption. Several issues in this changeover must be managed such as revenue cash flow delays and other operational issues, and while not perfect, every school district in Pennsylvania currently has this option, on a biannual basis, to swap out a limited portion of real estate tax for income tax.

A sales tax, as proposed in Senate Bill 1400, is an effective value added tax by which to fund education. This tax which would need to be collected at the State level would have the challenge of determining how the revenues would be equitably distributed between school districts. One potential way this could be distributed is through the Homestead/Farmstead Act.

In conclusion, while the Senate Bill 1400 has some valid concepts, several of the elements in the bill would be burdensome or non-functional:

1. The element of total elimination of real estate tax. Elimination of real estate tax not using the homestead/farmstead act would shift a significant burden of taxation to residents/individuals and away from commercial concerns.
2. Dual local income taxes are not a viable option for local educational funding since we would have different collection processes and more confusion by taxpayers.
3. A sales tax or value added tax could be an effective methodology to fund education.
4. In addition, mechanisms exist in Act 1 for communities to reduce real estate taxes by increasing Earned Income Tax, should they desire.

Thank you for the opportunity to share my view on this Senate Bill 1400 and I am available at this time or at any time in the future to answer your questions.