

BETHLEHEM AREA SCHOOL DISTRICT
2006 TAX STUDY COMMISSION

OCTOBER 30, 2006

The second meeting of the Bethlehem Area School District Tax Study Commission was held on Monday, October 11, 2006, beginning at 6:10 p.m. at the Education Center Dining Room, 1516 Sycamore Street, Bethlehem, Pennsylvania.

SECOND
MEETING

Mr. Pfenning opened the meeting and called the roll:

MEMBERS
PRESENT

Members present: Donald Doland, Lynn Glancy, Donald Hoffman, Charlene Koch, Robert Pfenning, and Camilla Stemrich - 6. Members absent: James Disario - 1.

Others present: Dr. Joseph A. Lewis, Bethlehem Area School District Superintendent; Stanley J. Majewski, Jr., Bethlehem Area School District Assistant to the Superintendent for Finance and Administration, and interested citizens.

OTHERS
PRESENT

At this point in the meeting, the Pledge of Allegiance was recited.

PLEDGE OF
ALLEGIANCE

Mr. Pfenning reminded persons wishing to speak that the Tax Study Commission has a very limited purpose and that is to study the existing tax structure and recommend to the school board either a PIT or EIT to be implemented and determine the rate. Everything else is outside of the Commission's purview. He hopes comments from the floor will be focused as closely as possible on that purpose. The following persons addressed the Tax Study Commission:

COURTESY
OF THE
FLOOR TO
VISITORS

1. Bill Scheirer, 1890 Eaton Avenue, Bethlehem, said that he noticed the agenda does not include approval of the minutes of the previous meeting.

Mr. Pfenning replied that it is not printed on the agenda, but it will be presented.

Mr. Pfenning stated one item of unfinished business, in a sense, will be the approval of the minutes of the October 11, 2006, meeting as distributed. Mr. Hoffman moved to approved the minutes of the October 11, 2006, Tax Study Commission meeting. Mr. Glancy seconded the motion. The motion carried by voice vote.

Mr. Pfenning pointed out two web sites of interest. The Saucon Valley School District web site tax study commission link has copies of all their presentations to date and are nearly up to date on their minutes. Northampton Area School District web site has a link to their tax commission's first

meeting. They paid for a presentation from an outfit in Harrisburg containing some of the data to be presented tonight.

Mr. Majewski pointed out that now that the Commission has taken action to approve the minutes, those will be posted on the school district web site.

Director Koch added the PSBA web site also has information on Act 1.

Mr. Pfenning said that there is also a link, the www.pde.state.pa.us/proptax also has some information.

Mr. Majewski explained that page 3 of this report, Act 1 Analysis – Data Requirements, contained information concerning property tax, earned income tax, and other taxes which give a total of local revenue, total general fund revenues, and percentage of revenues provided by local taxes for the years beginning 2000-01 through 2005-06. Information from 2000-01 through 2004-05 is audited information and is supplied to the Pennsylvania Department of Education. The year 2005-06 at this point is unaudited. It is final and is in the process of being submitted to Department of Education. He feels confident in its accuracy.

ACT 1
ANALYSIS BY
MR. MAJEWSKI

Mr. Majewski explained assessed valuation. Real estate tax starts with the assessed value of a home. The county level is responsible for being able to gather all of the information about the market value and taxable assessed value in Lehigh and Northampton Counties. Their rates are 50 percent of market value will give the taxable assessed value. You would then take that number, divide it by 1,000, then multiply it by the millage rate and the result is the tax dollar. Therefore, when looking at increasing the real estate tax revenue there are two factors: millage rate and increase in assessed value. Over the five-year period between 2002-01 through 2005-06, the assessed values of the Bethlehem Area School District have increased at an average of 1.67 percent per year.

Mr. Majewski stated that for individuals who are wage earners, there is a one percent local tax. That one percent local tax is split .5 of one-half of one percent coming to the school district and one-half of one percent going to the local municipality. In Bethlehem Area School District, collections range from \$8,335,866 in 2000-01 and stands at \$9,980,379 in 2005-06. The incremental annual gain from earned income tax has been 3.67 percent.

Other Taxes are listed to give the Commission some idea that there are other taxes than property taxes and income taxes. These are taxes that the Commission would not have any recommendation to make to the school board; however, they are part of the overall funding stream. Other taxes include per capita, real estate transfer, mercantile, and various delinquent taxes.

Total district general fund revenue in 2000-01 was \$115,856,022. In 2001-02 real estate tax collections comprised 55.57 percent of all revenue. Earned income tax comprised 7.2 percent. Total local revenue compared to all revenue was 68.64 percent. Other revenue not included in that may include state revenue – approximately 23 percent of the budget, and other local revenue that is not tax related. The largest component of that is investment income, interest income from monies that the school district that are collected and invested and will generate additional funds to keep down taxes.

Over the years, real estate taxes have become a larger component of the overall revenue at 56.98 percent. Earned income tax has shrunk a bit to 6.28 percent of the total revenue. Total local taxes, as compared to all district revenue, is 69.4 percent. Approximately 70 percent of the district is funded through taxes.

Mr. Majewski directed the audience to page 5. Another component of the Act 1 Tax Study Commission presentation is demographic information. The most recent demographic information is from the U.S. 2000 Census. This will help in understanding not just the age ranges of our population, but income levels, too. Bethlehem Area School District is comprised of five municipalities: the City of Bethlehem, Bethlehem Township, the Borough of Freemansburg, Hanover Township, and the Borough Fountain Hill. Each, individually, is fairly unique. On the aggregate, 26.12 percent of our population is under the age of 19. The largest span of 56.55 percent is between age 20 and 64. Persons of Ages 65 and up are 17.33% of the population. You will see some differences within the municipalities. It is very difficult to determine impact of a decision on groups younger than 65. The seniors are the ones who will probably benefit the most from a shift from real estate taxes to income taxes.

Mr. Majewski spoke about what communities tend to benefit most from that shift from real estate taxes to income taxes. In the Borough of Freemansburg, 12.55 percent of their population is 65 and older; in Bethlehem Township, 14.77 percent; in Hanover Township, 17.78 percent, in the City of Bethlehem, 17.92 percent, and in the Borough of Fountain Hill has the highest percentage of individuals 65 and older, 20.98 percent.

Regarding income levels, 28.43 percent of the population of Bethlehem Area School District has an income less than \$25,000. Approximately one half of the population has an income between \$25,000 and \$75,000. Twenty-one percent have an income of \$75,000 or more. At the high end of \$75,000 or more, 15.89 percent of individuals in the City of Bethlehem have that level of income. In the City of Bethlehem, 15.89 percent of individuals have income of \$75,000 or more; in Bethlehem Township, 36.26 percent; the Borough of Freemansburg, 12.38 percent; Hanover Township, 38.97 percent, and the Borough of Fountain Hill, 10.72 percent.

Mr. Majewski stated that in the Borough of Fountain Hill, individuals tend to be older and there tends to be less affluent individuals there. The Townships of Bethlehem and Hanover, primarily Bethlehem Township, tend to be younger and more affluent. Hanover Township appears to be, on average, the same number of retirees as the district as a whole, but their income levels tend to be higher than the other municipalities.

Mr. Majewski spoke about individual 16 years and older as shown on page six. That includes people who are students who may be going to college, retirees. Approximately 60 percent of individuals are actively in the labor force. Approximately 40 percent are not in the labor force. The largest occupation on the U.S. Census is Management, professional and other related occupations.

Mr. Majewski stated that property use, also shown on page six, becomes significant in the decision process. In the Bethlehem Area School District, approximately two-thirds of individuals, amounting to 27,803 persons, have owner-occupied housing. That will become significant later because those are the people who are, potentially, eligible for a homestead/farmstead exclusion, if they file and are approved. Other information that should be kept in mind is that one-third of the population of Bethlehem Area School District are renters. A shift from real estate to income taxes would not in any way benefit the renters. That is a population that would be adversely impacted to varying degrees, based on a shift.

Mr. Majewski spoke about gaming revenue, shown on page eight. At this point there is no gaming revenue. The state is still in the process of putting together the mechanism to be able to distribute licenses. When gaming begins and revenue is being obtained, it will at least be at a certain level sufficient to be able to meet the requirements of the state for distribution. There are four components in determining the index for the distribution of gaming revenue. The term "Property Tax Reduction Index" is seen frequently in newspapers and other reading. The property tax reduction index is a calculated number that will distribute funds to all the school districts. It takes the four components shown into consideration.

- Personal Income per ADM. ADM stands for average daily membership. A student who starts the year with our district and ends the year with us, that student will calculate to 1.0 average daily membership. That is not the case with all students. Some stay only one-half of the year and would be the equivalent of one-half of an average daily membership. Personal income is divided by the average daily membership to arrive at a ranking of the Bethlehem Area School District compared to its peers in the state of Pennsylvania. Bethlehem Area School District is 137th out of 501 school districts. That means our district is more wealthy per student according to our personal income than the average school district.

- Market Value/Personal Income Aid Ratio refers to the market value of all properties, the personal income and generates an aid ratio of .4686. The ratio of .50 is generally considered to be average. Our district is considered to be slightly wealthier than the average school district in Pennsylvania. Mr. Majewski stated when he first came to the district 12 years ago, the aid ratio was about .34. Relatively speaking to the state, the district has decreased in wealth.
- Equalized Mills will take all of the taxes and create an equalized mill equivalent. Every school district has a different mix of taxes. Most are very similar because the state only allows certain taxes to be used by school districts. This is a comparison of taxation between one school district and another. This is the formula the state will use. The term "Equalized Mill" is not a number that would equal the millage rate on the real estate tax bills. It is an attempt by the state to be able to compare one district to the other on how heavily its communities are taxed. Our district equalized mill number stands at 21.6. More importantly, it is slightly higher than the average equalized millage rate in the state of Pennsylvania.
- School Tax Ratio is a measure of tax effort. Again, Bethlehem Area School District is slightly higher than the average school district in Pennsylvania. That is by design. The way the state calculates its funding formula is that the poorer districts get a higher level of support. The wealthier districts are generally considered to be required to support themselves. It makes perfect sense that since the school district is considered slightly wealthier than most other school districts in Pennsylvania that our tax effort will be expected to be slightly higher.

Mr. Majewski stated that the four components result in a property tax reduction index of .935.

Mr. Majewski explained examples on page nine showing how much money would be available to the Bethlehem Area School District based on the current index number, the ADM number, and the constant to calculate how each district is to receive funding.

- If \$400,000,000 is to be distributed our district would get approximately \$3,129,000.
- If \$750,000,000 is to be distributed our district would get approximately \$5,868,000.
- If \$1,000,000,000 is to be distributed our district would get approximately \$7,824,000.

Mr. Majewski directed the Commissioners to page 11 regarding the impact of a shifting of taxes, primarily focusing on the earned income tax. In the demographic information of homeowner there were 27,803. That was

rounded up to 28,000 as the estimate of eligible homestead/farmsteads. Maximum participation means that 100 percent of that 28,000 will apply and be approved. For this purpose, it is assumed that 75 percent of those with properties will apply and be approved. Less than 7,000 were returned during Act 72 period when there were no gaming revenues in sight. He is expecting that number to be significantly higher this time.

Mr. Majewski explained that the EIT revenue during the 2005-06 year unaudited number was \$9,980,379, the most recent earned income tax figure on record. The minimum increase is not one percent. It can be lower. In some illustrations, one percent is used because it is a number than can easily be extrapolated up and down.

Mrs. Stemrich asked verification that one percent is the maximum.

Mr. Majewski replied that it is absolutely not. You are able to have an EIT rate higher than one percent. There is no requirement of the school board to increase above one percent, but it can. It can be increased in one tenth of one percent increments. A rate higher than one percent can be recommended. However, there is no requirement to increase it above one percent.

Mr. Majewski stated that the current EIT received by the school district is one half of one percent. The municipality receives one half of one percent. The total EIT for the wage tax in paychecks is one percent. If that would be increased by an additional one percent, that translates into a 200 percent increase in earned income tax revenue for the school district. Overall, since the rate is at one percent, if a recommendation was made of one percent, the increase is 100 percent. In any year that an earned income tax is increased, the cash flow does not always keep up with the rate by the time employers change their systems, collect and remit the appropriate amount, the district collects it through the final filings. There is a phase-in until 100 percent is seen. For purposes of illustration, it is assumed that 60 percent will be received within the first year of implementation, 90 percent received in the second year, and by the third year people will be doing what they need to do and 100 percent will be collected. Using the \$9,980,379 EIT collected last year, increase or technically double that amount, assuming the 60 percent collection rate in the first year, that translates as \$11,976,455. By year three, full collection, the district would collect \$19,960,758. This is the pool of money without any gaming that could be used, assuming one percent increase, to shift to income tax lowering real estate tax.

Mr. Majewski explained that median assessed value is important with the law because there are minimums and maximums concerning shifting, funding, and creating those homestead/farmstead exclusions. The median assessed value is based upon all the approved homestead/farmstead applications. It is only those who submit it and are approved that would be considered in the

calculation of the median assessed value. The only information he had was the returns that were sent out during 2005 during Act 72 (less than 7,000 were sent in), so the \$49,525 median assessed value could be significantly different. Right now, the district is in the process of preparing for the mailings. The number of approved homesteads/farmsteads will probably not be known until May 2007.

Mr. Pfenning asked Mr. Majewski if he has any way to speculate what he thinks it will turn out to be.

Mr. Majewski replied that to speculate what it will be would be he would have to give information that he probably could not support with any type of documentation. He chooses not to speculate right now. Likely, it would be greater.

Mrs. Stemrich pointed out that a variable is that it was 28,000 in 2000.

Mr. Majewski said that is correct. There were almost 28,000 in the year 2000. That has probably grown some but it is not going to be significantly higher than 28,000. We have seen commercial developments that have had a number of residential properties that have come on board, but it is highly unlikely that that would number into the thousands.

Mr. Pfenning asked if there is a filing deadline for homestead/farmstead exclusion.

Mr. Majewski said there will be a deadline during March. The counties are required to certify, as they are doing the review, the number of approved homestead applications. They are required to get that information to the district by May 1.

Director Koch asked why 60 percent cash flow is acceptable.

Mr. Majewski replied that it is not acceptable. It is reality. If on July first the decision was made that the district would be increasing the earned income tax, the very first quarter when the word gets out, very few employers would probably start changing their payroll systems. When the district or its agents starts sending out final year tax returns at the end of the year, that is when folks start realizing that they have been under withheld. You will start to see much of that money coming in. But in the first year, by the time it gets received it may be the summer of the following year.

Mrs. Stemrich asked if a taxpayer doesn't have to make that up when filing taxes on April 15.

Mr. Majewski replied that they do, but they will receive extensions if some

don't file. You must still anticipate lower cash flow. For his purpose, he will assume 60 percent. If it comes in slightly higher than that, that is wonderful.

Mr. Pfenning commented that usually the employer will take the rate of the local school district because that is what the tax collector sends him. First you have to get them to sign that the Bethlehem Area is outside of it. Then, the money has to move around. He doubts, coming out of this procedure, that there will be a nice one percent rate like there has been.

Mr. Majewski said that is the point he wanted to make. When you look at all the school districts, the earned income tax rate very likely will bounce all over. Depending on the decision each district makes to either fund the minimum, maximum, or somewhere in between, you have that continuum of earned income tax rates that all of these agencies and employers need to deal with. As a fairly large employer, Mr. Majewski said it is highly likely that a number will be picked and we will withhold a certain number which is no different than most other employers instead of having all the different municipalities and then let them worry about the difference.

Mr. Majewski said that you can see some of the differences between real estate taxes and earned income tax. Real estate taxes are billed on July 1. Between escrow payments coming in and individuals trying to make the discount date, a lot of cash flow is up front in the year. The money is invested which means you can generate interest income to help reduce real estate tax revenue. A shift to earned income tax in various amounts will impact the investment income throughout the year. There is a cash flow concern with the shifting. In the law, the maximum amount of homestead exclusion a district can provide is 50 percent of the median assessed value. So, even if the Commission wanted to do better, by law that is the ceiling, whether offset by personal income tax, earned income tax, or if gambling comes, a combination of the two. That is the legal ceiling for exclusions. Conversely, there is a minimum. The minimum is 50 percent of the maximum. If you assume a \$49,525 median assessed value, 50 percent of that is \$24,763 and the current millage is 36.58. They are used to calculate the maximum exclusion per homestead of \$905.81. Mr. Majewski reviewed the calculation: Divide the \$24,763 by 1,000, multiply that times 36.58 equals \$905.81. That is the current exclusion maximum. The minimum is 50 percent of that or \$452.91.

Mr. Pfenning stated that it is true if an earned income or personal income tax rate is set up that achieves the maximum exclusion allowed through that, then the gaming revenue that is allocated would flow in to the school district and tend to reduce income tax.

Mr. Majewski commented that gaming revenue is a segue way into one of the next slides he will show.

Mr. Majewski stated that on slide #12, the approximation of the earned income tax, where it says minimum, should have said one percent; it is not the minimum, it is assuming one percent. Page 12 demonstrates the impact to taxpayers with approved homestead/farmsteads and the factor of gaming in the future. He pointed out that the amount of \$11,976,455 is the 60 percent collection in the first year.

Mr. Majewski spoke about the possibility of a flat rate and if gaming comes, referring the Commission back to the slide showing various levels and our index and the amount of money the Bethlehem Area School District would receive. That creates a total pot to be distributed. On page 12 "Total Available for Year 1" starting from left to right at \$11,976,455 and ending on the right at \$19,800,475. That is the amount distributed to create the exclusion. That would mean in the way of a homestead/farmstead exclusion. In the early years, that minimum/maximum that was discussed earlier really doesn't come into play very much. But, if the one percent was kept and you get gaming, you will see that in year three, maximum participation is \$992.31; minimum participation is \$1,323.08. Both of those numbers are over the legal maximum.

Mr. Majewski stated that the minimum is 50 percent of the maximum. He explained what it would take to fund just the minimum if you used earned income tax. To fund the minimum the additional EIT rate at assumed maximum participation .64 percent or at minimum participation an additional .48 percent. Mr. Majewski explained how these rates were calculated. The corrections on page 12a are:

- Year 1 – At Minimum Participation \$362.33
- Year 2 – At Minimum Participation 543.49
- Year 3 – At Minimum Participation 603.88

Mr. Majewski stated that page 13 shows providing the maximum benefit under law. The earned income tax rates that would be required are shown. In year one, if there are no gaming funds, to provide the maximum homestead/farmstead exclusion requires an EIT rate of 1.27 percent. The Commission may not recommend 1.27 because it must be in one-tenth increments. That is not the total rate, it is the increase. The net rate would be 1.77 percent coming to the district.

Mrs. Stemrich questioned if 100 percent of this revenue must reduce property tax, none is revenue for the schools.

Mr. Majewski replied every dollar except two percent.

Dr. Lewis added that there is two percent wiggle room because you have to round to the nearest tenth.

Mr. Pfenning stated that none of Mr. Majewski's numbers use that two percent wiggle room.

Mr. Majewski stated that is correct. His intent is for the Commission to understand the concepts more than, at this point, considering all the nuances of every number.

Mrs. Stemrich questioned if the Commission doesn't make a recommendation to increase the percentage enough to fund the maximum.

Mr. Majewski said in considering earned income tax you can range between the minimum and the maximum. The maximum participation at the minimum homestead exclusion, the rate was .64. The maximum is 1.27. The Commission can recommend anything in between those two rates.

Mr. Majewski reviewed the differences between earned income tax and personal income tax on page 15. Earned income tax is on taxable compensation combined with net profits. Personal income, as shown on page 16, includes all earned income tax plus seven other classes of income.

- Interest
- Dividends
- Net profits
- Net gains
- Gambling or lottery winnings

Mr. Majewski explained to what extent personal income tax is generating revenue greater than earned income tax as shown on page 17. The fourth column from the left shows the earned income tax, adding to that dividend and interest income, then adding miscellaneous income to total a personal income tax number. For those who may wonder why it is so easy to get the personal income tax number, Department of Revenue has been in the personal income tax business for a long time. It has only been when they started consideration for Act 72 and Act 1 that people started paying attention to more than the earned income tax number, so there is a comparison. Earned income tax is approximately 91 percent of personal income tax. When considering establishing PIT as a shift instead of EIT, it would be 91 percent of the earned income tax rate. If EIT requires one percent, PIT would require .91 percent to get the same amount of revenue.

Mr. Majewski explained page 18. Under the maximum participation the rate is 1.27 percent. A personal income tax at 91 percent of that would result in a PIT rate of 1.16 percent. He reminded the Commissioners that local school districts still do not have the legal ability to collect personal income tax.

Mr. Majewski suggested that the Commission members look through the Hypothetical Taxpayer Analysis examples of how the winners and losers would be distributed. He reviewed some of the examples.

Mr. Majewski reviewed pages 28 through 31 as a different approach to try to show the impact using various taxpayer profiles for taxpayers of various income and investment income, homeowners, and renters. In reviewing these profiles it should be remembered that the value of a home does not matter regarding the homestead exclusions. The exclusion will not increase or decrease based upon the assessed value of the property.

Mr. Majewski concluded his presentation. The purpose of Act 1 is nothing more than shifting taxes from real estate to income taxes. Act 1 sets the framework for tax shifting and future tax increase containment. Potential winners under Act 1 are elderly homeowners with no earned income or personal income. Any shift would give them reduction of taxes. Other potential winners are lower income homeowners. Potential loser include renters because any shift to income tax is going to increase their tax liability. Since they are not homeowners, it would not reduce their real estate taxes. The person who owns that home cannot apply for a homestead exclusion because that is not their personal residence. There is no savings to be passed on to the renter. . Other potential losers include higher income homeowners, homeowners who do not file the application for homestead/farmstead exemptions who are eligible to do so. Mr. Majewski stated whether there is gaming or not, as long as the Commission makes a recommendation, the school board decides to shift to income tax, and, ultimately, the taxpayers decide they want a shift to income tax, there will be savings. Elderly persons with significant personal income, if personal income tax is adopted, are also potential losers under Act 1.

SUMMARY/
CONCLUSIONS

At the suggestion of Mr. Pfenning, the Commission took a short break at 7:15 and reconvened at 7:22 p.m.

BREAK

Mrs. Stemrich asked confirmation that the Commission needs to recommend some EIT or PIT or the Commission can recommend nothing.

COMMISSION
DISCUSSION

Mr. Majewski said that she is correct. Many school districts in the Delaware Valley area do not have an earned income tax now so they are considering recommending nothing. Locally, a couple district's tax commissions seem to be leaning towards the minimum. Mr. Majewski said that no matter what the Commission decides do to, he guarantees that of the 501 school districts there will be some that decide the same thing. Decisions will be all over the range – either to do nothing or somewhere between the calculated minimum and maximum.

Mrs. Stemrich asked how long this decision would be effective, if it is re-

evaluated every year, and if it does not generate enough revenues because there is not the minimal or maximum participation or other variables.

Dr. Lewis replied that the act doesn't provide for the continuation of the Commission. The board, in essence, dictates rates. Therefore, we could not revisit next year a change in both or neither or one of each. The act is silent on passing years. It is determined by the School Code that the board sets the rates.

Mr. Doland asked what would happen if the county reassesses the property and the assessment goes up.

Dr. Lewis replied that there is always a containment clause in any reassessment. That would apply. In other words, the district cannot have a windfall.

Mr. Pfenning asked if it isn't true that Act 1 requires a PIT.

Dr. Lewis replied that it requires a referendum. Regardless of what the Commission says, the board must ask the public. They are required to run front-end referendum.

Mr. Pfenning asked if the board isn't required to implement what is recommended to the voters – EIT or PIT. That is how he read the act.

Dr. Lewis replied that there has to be a referendum question.

Mr. Pfenning questioned that it can't be a zero rate.

Mr. Majewski said that the school board can take the position that they will not shift taxes, but there needs to be a referendum question asking the voting public if they will support that.

Mr. Pfenning commented that he had read that every two years these tax study commissions could be resurrected.

Mr. Majewski stated he has heard that there is a possibility that tax study commissions, although he is not sure it would be this tax study commission or a newly appointed commission, may be resurrected, but that's not determined currently under the law.

Mr. Pfenning, on reassessment, asked if it is not true that overall it is revenue neutral; however, for some individual taxpayers may see a greater percentage increase in their assessed value than another.

Mr. Majewski replied that in the first year it may not end up being neutral.

There can be a 10 percent gain. After that, it would be prevented from receiving a windfall.

Director Koch said she was thinking about the people who don't get around to signing up to get their homestead/farmstead exemption. If they come to the point of realizing they have made a big mistake, she asked how much time they must wait until they can apply.

Dr. Lewis replied that they must wait until the following year.

Mr. Majewski said another impact which has nothing to do with signing the application, is selling the home. The exemption is not transferable.

Director Koch stated that this is something the district must make people aware of.

Mr. Majewski said the district will be mailing an application to everyone and publicizing it in the newspaper. Hopefully neighbors will encourage other neighbors to send it in. It will be a very short form. More folks getting it in will result in more individuals benefiting from the shifting.

Mr. Hoffman asked, since Bethlehem straddles two counties, if both counties assess approximately at the same time.

Mr. Majewski replied that for many years it was very fortunate that both counties approximated 50 percent market to assessed values. They paralleled each other very well. This will probably be the first year that they have to take a look at having different millage rates primarily because market values have increased at different rates than in the past. There is enough of a difference where there will probably need to be two separate millage rates.

Mr. Pfenning stated that Lehigh County has already approached Northampton County at a public council meeting and proposed doing a joint reassessment of the two counties together and then, eventually, getting towards basing an automatic annual based on sales. It is an open issue.

Mr. Doland referred to Mr. Majewski's comments and scenarios about renters on page 30. He believes there are some rebate programs for lower incomes.

Mr. Majewski stated that the profile is exclusive of any rebate programs. Those programs are in place irrespective of what is done through the Commission and Act 1.

Mr. Pfenning asked what percentage of the \$9,740,170 other tax collections is from per capita taxes.

Mr. Majewski replied that it is approximately \$500,000. That has been consistent for years and years.

Mr. Pfenning said that when gaming revenue is discussed, he noted that Mr. Majewski used the 34 percent rate of play for total gross revenue and revenue generated. Mr. Pfenning said his guestimate is that probably the reality of gaming revenue is going to fall someplace between scenario one and scenario two.

Mr. Pfenning commented that from a collection point of view, it looks to him that a PIT would be smoother than an EIT because probably Pennsylvania will collect that, since the Pennsylvania income tax returns are already keyed by school district.

Mr. Pfenning as talked about earlier, with individual employers scattered in lots of different districts, it will be a nightmare to try to keep the rates. It is done at the state level utilizing the school district number which must be listed on the return; it is going to be much easier.

Mr. Majewski said that the Department of Education is not going to take on that problem because of all the different rates to be used.

Mr. Pfenning said that would probably be pretty easy for them to do.

Mr. Pfenning commented that the Commission is halfway through its useful life. He is looking for guidance as to how the Commission will make a decision. Act 1 simply says that the Local Tax Study Commission shall determine how tax policies of the school district could be improved by the implementation of either an EIT or PIT. Basically, the guidance in the act is that the Commission should be looking to improve the tax policies. That is not a lot of guidance. Saucon Valley District's administrator stressed fairness, equity, and the ability to pay as factors in looking at setting a tax policy. A first question is who should pay? If there was an extreme of no public funding whatsoever of education, that would lead us towards those parents who could afford to paying for education of their children in private schools. Maybe some charities would provide some scholarships. Then, the bulk of children wouldn't get educated. Clearly, that has been unacceptable as a society. When talking tax policy you must look at the issue of regressive versus progressive type taxation. With Pennsylvania's equality constitutional limitations, it is hard to get progressive. You might argue that real estate tax is a progressive tax in that people living in more expense market value houses pay more taxes. The Commission must struggle with deciding if EIT or PIT is a better tax base. Clearly, the PIT is a broader base of taxation. Since it includes more income, even though it is a flat rate of taxation, perhaps that also has some degree of progressivity. Mr. Pfenning asked the Commission members for any off the cuff feelings on who should pay for education.

Mr. Doland said, going with PIT, a lot of the seniors retired rely on their investment income for a living. They have no other income and pay their taxes accordingly. Looking at PIT which includes earned income tax, but these seniors have no earned income and only live on their investments. He tends to move away from PIT.

Mr. Pfenning stated that the senior citizen has some nontaxable income in the form of Social Security and any pension, but Mr. Doland is correct about any asset income. There is that issue that the expanded base does lower some axes.

Mr. Doland said he thinks everybody should pay for education because his daughter was educated in the Bethlehem system. Somebody who is retired helped pay for that.

Mrs. Stemrich agreed that everybody is responsible.

Director Koch said she is committed to public education, obviously. Being a historian, she knows that when public schools were started it was the feeling of the people who formed public schools that the wealthy people had a responsibility to contribute toward the education of the poor children who would not be educated otherwise. If we don't do that, there is a tremendous class system and a small group of very wealthy, well-educated children, but an extremely large group of uneducated. We have a responsibility to educate those children. It takes money out of our pockets. She also feels very strongly that a break must be given seniors wherever possible and to people having difficulty paying. She thinks if we switch to the earned income tax, that will be done. It will be kinder and more helpful to the seniors than starting to tax their investments.

Mr. Doland commented that, like Director Koch said, there are two classes – wealthy and well educated and those that possibly are not educated. You might as well pay for those that aren't educated to get an education because you will pay for them one way or another down the road.

Mr. Pfenning said that when he walked into the school district building a couple months ago to turn in his application, there was what looked like a retired couple leaving having “paid their dues to the king” and their comment to him, not knowing his reason for being there, was that it may get so bad, they will have to move. Senior citizens do get more generous rebates under this. That is one issue and there are a couple other issues one must look at. He asked Mr. Majewski approximately how much the average renter pays through his or her rent towards school district taxes. Obviously, the landlord is paying school district property taxes.

Mr. Majewski replied that the information is not available.

Mr. Pfenning commented that it looks like the renters get gored badly if you raise the earned income tax.

Mr. Majewski said real estate tax exemption decisions are made under Act 1. There is no relief for renters under Act 1.

Dr. Lewis said there is no relief for the landlord so there is no relief for the renter.

Mr. Pfenning stated that if he is reading it correctly, in Act 1 there is the possibility that the school district could recommend a \$12,000 exemption from earned income tax.

Mr. Majewski said the Commission could make that recommendation with earned income tax. Additionally, for information purposes, the EMST exemption is now \$12,000.

Mr. Pfenning said that it is the same level – \$12,000. It is earned income tax. Specifically on the earned income tax, there is a provision in the act for the school board to recommend that in their recommendation of changing a policy.

Mr. Pfenning said that every time you peel away something it lessens revenue. In looking at the numbers, this Commission might say to the school board that to lessen the impact on the low-income renters, a break might be allowed. Then, all the numbers must be redone.

Mr. Doland said that is why he brought up the question about the renters earlier. Automatically, when you think of renters you presume you're talking about low-income people who would be adversely affected by this. But there are also higher-income renters who made a conscious decision not to invest in real estate.

Mr. Pfenning said that the Pennsylvania Department of Education's figures were that the median or average household renter income was about half of the residential homeowner's income.

Dr. Lewis commented that it is on page 20. It is only for those whose total income from all sources is less than \$12,000. It is not a reduction of tax-worth dollar. You must file a return. The district could exempt them from any payment of tax on EIT or PIT.

Mr. Pfenning said he wanted to make sure that everybody understood that there is a safety net for that income level.

Mr. Doland, on the question about who should pay taxes, said when he thinks

about where the revenue should come from to pay for education, he looks at the three levels of government and the way that they most effectively collect taxes. Then, he looks at who, constitutionally, is responsible to provide education. The federal government's most effective way of collecting tax revenue is through income taxes and excise taxes and these. The state government uses sales tax and an income tax, primarily. Local governments use property tax. Going from there and looking at where the obligation lies, constitutionally, to provide education, that lies with the state, specifically. even though the state does not provide adequate funding.

Mr. Doland stated that if you want to think about where the revenue should come from, the fact that it is a state obligation should be considered and the state makes its income from sales tax and income taxes. It might make more sense to take the burden off of property taxes and shift it to income because of the logic of where the responsibility lies and where the revenue is coming from. He believes if that was done, should the state decide to deal more with its responsibility, the revenue proportions might be more aligned to make it easier for the state to do that.

Mr. Pfenning remarked that there are also proposals by some to raise the state sales tax to fund education.

Director Koch commented that it is so true. Pennsylvania is the second lowest state in the country. Only Mississippi is lower in its contribution to education. This is not something to be proud of. The amount paid by Pennsylvania used to be around 50 percent. It keeps going down. They will tell you that they have increased the amount they pay, but that has not increased in terms of percent. Our costs are going up by leaps and bounds. The state is so far behind in their obligations made way back when they first formed public education.

Mr. Doland said it is plainly stated in the state constitution that it is the legislature's responsibility to provide for the education of the Commonwealth's children.

Director Koch pointed out that the state constantly gives more mandates to school districts but do not pay the costs associated with them.

Mr. Pfenning stated that, looking forward to the next meeting on November 15, where the Commission will probably come pretty close to a tentative recommendation, asked if there is any additional information any Commission members would like to receive from Mr. Majewski to help in the decision. No one requested additional information. It was agreed that if Commission members have questions, they should call Mr. Majewski before the next meeting.

Mr. Majewski said that if he receives a question that is of general information, he will communicate that to all the members.

Dr. Lewis asked if the members are satisfied with the information provided.

Mrs. Stemrich said she is stuck on the fact that our property values have increased significantly since the 2000 data. She asked if there is any more current information available about what might happen to that median assessed income.

Mr. Majewski said he tried to use the most current information available. Mailings are being prepared. That information won't be available until May, well beyond the Commission's existence and the deadline for school board recommendation and action.

Mrs. Stemrich asked why Mr. Majewski thinks there might be a higher percentage participation, if it is just because of more education about it.

Mr. Majewski replied that Act 72 was mostly based upon gaming. Gaming was many years in the future. The procrastinator in many was saying, "I will get around to it next year. It doesn't really matter. Why should I bother this year?"

Dr. Lewis said there was no guarantee of any gaming revenue coming forth in the year the exemption was requested, so there was little impetus unless there was a miracle. The district spend \$50,000 doing the mailings, knowing full well that no one was going to get anything, yet creating work for our business division and the postal service. This time around, the gaming licenses are going out. Some are in place already. The public is probably a little more well informed that there will be something. Act 1 requires every school district to become a player. Act 72 was an option. Everyone campaigning in this election is touting that they have something to do with property tax reduction because it is a popular mantra. He thinks the public is hearing that and that Mr. Majewski's analysis is probably right on the mark. Dr. Lewis said he estimates between a 50 and 75 percent return in year one.

Mr. Pfenning said, as the Commission reaches its decision, Mr. Majewski's projections showed the impact of gaming revenues at different levels. He is wondering whether or not, as the Commission moves forward, it should treat gaming revenue simply as a bonus down the pike and look the various impacts using zero from gaming.

Some additional discussion by the members and Mr. Majewski.

Mr. Pfenning stated he gathers that the consensus of the Commission is to look at this issue ignoring gaming revenue. The members agreed with him.

Mr. Pfenning said, according to his reading of Act 1, the Tax Study Commission must make a recommendation to a public meeting of the school board. He asked if that public meeting with the school board must be done prior to the end of 90 days.

Mr. Majewski replied that if the Commission has not made the recommendation after 90 days, there is no further opportunity to make a recommendation and the Commission disbands.

Mr. Pfenning stated that the Commission has a meeting scheduled for November 15. The Commission must also schedule a public hearing. Mr. Majewski has noted that at the conclusion of the public hearing, the commission will probably reach a recommendation. Another meeting is the public meeting of the school directors. Mr. Pfenning said he thinks to have an effective public meeting, the public must be given something to react to. He thinks the Commission must develop a preliminary recommendation. He asked if the Tax Study Commission agrees with that approach of opening the public meeting with a suggested recommendation. The Commission members agreed.

Mr. Pfenning asked the Commission is it thinks it will be able to reach the tentative recommendation on November 15, based on what it knows so far.

Mr. Hoffman asked if the tentative recommendation would be communicated to the public to entice them to the public hearing.

Mr. Pfenning stated that will be an issue.

Dr. Lewis commented that November 15 is the next Tax Commission meeting. December 11 is when the recommendation must be presented to the board. The public hearing must be scheduled somewhere between the two dates.

Mr. Majewski said it is known that every Commission member can attend. It is also a date that Dr. Lewis and he are available. There is still time to advertise properly for a public hearing. If the Commission wishes, he will begin to advertise that public hearing that day prior to the Commission meeting.

Mr. Pfenning replied that on November 15 the Commission must come to a tentative recommendation. He does not think the Commission will be ready for the public hearing.

Mr. Majewski pointed out that the difficult after that is the closeness of the Thanksgiving holiday.

Dr. Lewis asked Mr. Majewski if he had any dates in mind for the public hearing.

Mr. Majewski said he was hoping to consider the 15th. Beyond the 15th several folks who are unavailable. Pushing it to December becomes even more difficult to have a public hearing. During the week of the 15th would be perfect. Mr. Majewski explained that his thought is that, if a public hearing is advertised for the 15th and part of the advertisement to try to entice people to come out is that a decision is going to be drafted for the recommendation and that their voices are to be heard prior to a decision to be made by the Commission. He thinks it is a perfect opportunity, if the Commission agrees, to combine advertising for the public hearing followed by the Commission meeting. Hear the public's comments, then craft the recommendation.

Mr. Pfenning said he agrees with Mr. Majewski in terms of what has to happen at the public hearing. His only concern is he thinks something is needed to open that public hearing, to give the public the Commission's thoughts on what they think they will recommend. That would require a meeting of the Commission again prior to November 15.

Mr. Majewski said that as chair of the Tax Study Commission, Mr. Pfenning would direct the public hearing. He is sure that Commission will be opening the meeting with the discussion of where you're at and then following up afterwards with a recommendation after public comment.

Mr. Pfenning said he thinks the Commission already gave him the agreement that it does wish to open with some sort of proposal, which means it has to make.

Mrs. Stemrich said she thinks it is a good point about the dates and holidays and November 15. Her concern for the 15th is what the Commission will present for the public hearing.

Mr. Doland said that it makes sense to have the public hearing, then go into deliberations and try to wrap around the information and opinions and try to come up with something.

Mr. Majewski remarked that interested parties will be in attendance.

Dr. Lewis suggested putting Mr. Majewski's presentation on the web and also with a question in an article as well as on the web that this Commission is studying whether or not to shift some of the property tax burden to EIT or PIT. Information would be on the web for public review. The hearing would be conducted for the first half hour, hour, or whatever is required hearing all parties who come forward.

Mr. Doland asked if it could be simplified more than that since the PIT option collection mechanism, at this point, doesn't even exist.

Dr. Lewis said the Commonwealth is near finalizing PIT collection regulations that would allow PIT as an option.

Mr. Hoffman said what he was going to say is that the Commission could make a recommendation just to shift from property taxes to income taxes, then let the board decide whether it will be EIT or PIT, and it is just the matter of a few percent.

Mr. Majewski indicated that the Commission should identify a percentage – earned income tax or personal income tax.

Mr. Pfenning said his only concern as an attendee at public meetings is that he must be motivated to get to that meeting and know what is being discussed. He thinks the folks that will be negatively impacted or positively impacted should be encouraged to come out and rally behind their respective cause. He is concerned the public hearing will not engender enough comment unless the public gets something, such as a tentative recommendation, to talk about.

Dr. Lewis suggested moving on the courtesy of the floor and then moving to a decision about how to hold the meeting. Therefore, Mr. Pfenning offered courtesy of the floor. The following persons addressed the Board of School Directors.

COURTESY OF
THE FLOOR TO
VISITORS

1. Bill Scheirer, 1890 Eaton Avenue, Bethlehem, commented about the last slide showing that potential losers are renters. Those could be renters with taxable income. A renter who is existing on Social Security and pension would not be a loser because that income is not taxable.

Mr. Scheirer commented that he and Mr. Pfenning have both gone to City Council meetings where you hear courtesy of the floor at the beginning. Then, Council will vote and there is no explanation of the votes. Sometimes they give the appearance that their minds are already made up beforehand. That is the disadvantage of having a tentative proposal. Yet, you want to have something for people to react to. He favors Dr. Lewis' suggestion of stating the basic questions of should there be property tax relief and how much and should it shift to EIT or PIT and explaining the difference. Also to be included is the question of should there be that \$12,000 exclusion. That is enough for people to come in and say how they feel on these questions. It would be important for the media to convey this in a meaningful manner.

Mr. Scheirer thinks the Commission should not reach its recommendation in the same meeting as the public hearing. Give the

illusion of thinking about it in between. Otherwise, the Commission will fit into what he calls the “city council syndrome” where it looks as though minds were made up and it does not matter what anybody has said at the beginning of the meeting. He urged the Commission to schedule another meeting after the public hearing.

Mr. Scheirer said he would throw PIT out of consideration. Just focus on the EIT piece because that is what is available right now.

About putting information the Beth. Twp. Newsletter on the application for homestead exemption.

Mr. Pfenning said that he respectfully disagrees with Mr. Scheirer. He believes the only thing missing is the part of revenue saying we can work around it. According to the email Mr. Majewski sent to the Tax Study Commission, it is in progress. He thinks a segment of the community would be much concerned about a PIT versus an EIT. Therefore, since the school board will probably be in a position to recommend a PIT if it so chooses, he thinks it has to be on the table.

Mr. Scheirer asked if a recommendation comes from the Commission and it is an EIT driven change, then it is accepted by the school board. Then it has to go to the public event. You can’t change, if the state legislature allows PIT to be implemented, you can’t change that. The PIT referendum will not be part of the referendum. He asked if that is correct.

Dr. Lewis said, “Correct.”

Mr. Scheirer said you get a recommendation to increase the EIT. That gets accepted by the board. That now goes before the public and they may only vote on the EIT increase.

Dr. Lewis said that is correct.

Mr. Scheirer commented that if in January 2007 Governor Rendell will push legislation that allows communities to enact PIT.

Mr. Majewski said that the school board has the option to change to a PIT recommendation on the referendum if they want.

Mr. Scheirer said what he was getting at was if it’s going on the May referendum as an EIT shift, then PIT is not considered.

Dr. Lewis said there is a date that the referendum must be in their hands. Prior to that, the board has the option to choose which income tax to be part of the shift.

Mr. Scheirer commented that could influence the decision.

Dr. Lewis said, "Absolutely."

Mr. Pfenning stated that the legislature has already authorized the PIT. Revenue hasn't gone through the hoops to say it will be done.

There was discussion about the upcoming meetings.

MEETING
SCHEDULE

Mr. Pfenning stated that the public hearing could be on November 15, then go into some deliberations, not making a decision that night. On December 11 when the recommendation must be made to the school board, the Commission can have a wrap-up of deliberations and craft the final recommendation, then present it to the school board.

Mr. Majewski said that if the public comment is going to fill the evening, it would be helpful, if quite a few people show up, he would tend to think it would be a waste of an evening for the Commission if it would not try to make use of the evening. However, if the Commission is looking for another date, he suggested November 29.

Mr. Pfenning polled the Commission on available dates between November 15 and December 11 for an additional meeting. November 15 has already been announced as a Commission meeting. That must be revised as a public hearing at 7 p.m., followed by some discussion. The Commission will meet again on Wednesday, December 6, at 6 p.m. to reach a final recommendation. On Monday, December 11, the Commission will meet with the board.

Director Koch stated she is also chair of the finance committee and she knows what of the turnout is. The committee is lucky if a handful of people come to speak. She is not sure there will be an entire night of people coming to talk. If there is enough time on the 15th to discuss the entire issue and finish, she asked if there is the possibility the Commission might not need the other meeting.

Mr. Pfenning said he appreciates Mr. Scheirer's observation of City Council. Depending on the public comment and if the Commission can effectively weigh the public comment in its decision so as to not give the appearance of coming into the meeting already decided, then the December 6 meeting can be cancelled at the conclusion of the November 15 meeting. December 6 will be set aside in case the Commission must come together again.

Mrs. Stemrich asked who is responsible for the PR.

Dr. Lewis replied that the school district will contact the press and encourage the people to come out and offer comments. The school district will do an ad people will see.

Mr. Pfenning summarized upcoming meetings.

- November 15 – Public Hearing proceeded by appropriate public announcements. At the conclusion of all comment, the Commission will begin discussing what they have heard, what they feel, and move towards a decision. If the Commission can effectively create its recommendation, the December 6 meeting will be cancelled.
- December 6 – Meet to create the recommendation, if not completed on November 15.
- December 11 – Present recommendation to the board.

Mrs. Stemrich asked Mr. Pfenning if, as chairperson, he will be preparing the public meeting presentation.

Mr. Pfenning replied that he will be working with the school district on it.

Mr. Pfenning said the solicitor said something about that at the opening meeting. He said that the only person that can speak for the Commission is the chairperson. Other members can express their individual personal opinions.

Mr. Hoffman said his question was if it is ok to have contact with the Morning Call to coax them to do a news story on this.

Mr. Pfenning supported that action.

Mr. Majewski said that members can speak as individuals but not on behalf of the Tax Study Commission. Unless the majority of the Tax Study Commission votes on something, it is not the position of the Tax Study Commission.

Mr. Glancy and Mr. Hoffman moved to adjourn the meeting which carried by voice vote. The meeting adjourned at 8:38 p.m.

ADJOURNMENT

Attest,

Stanley J. Majewski, Jr.
Board Secretary

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