

BETHLEHEM AREA SCHOOL DISTRICT  
2006 TAX STUDY COMMISSION

NOVEMBER 15, 2006

The third meeting of the Bethlehem Area School District Tax Study Commission was held on Wednesday, November 15, 2006, beginning at 6:06 p.m. at the Education Center, 1516 Sycamore Street, Bethlehem, Pennsylvania.

THIRD  
MEETING –  
PUBLIC  
HEARING

Mr. Pfenning opened the meeting and Mr. Majewski called the roll:

MEMBERS  
PRESENT

Members present: James Disario, Donald Doland, Lynn Glancy, Donald Hoffman, Charlene Koch, Robert Pfenning, and Camilla Stemrich - 7.

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 requested that the audience observe a moment of silent meditation.

SILENT  
MEDITATION

Mr. Pfenning introduced the members of the Tax Study Commission and school district administration.

INTRODUCTION  
OF TAX STUDY  
COMMISSION  
MEMBERS

Mr. Pfenning reviewed the process of the Commission to date for the attending public. He then gave a thorough overview of Act 1.

REVIEW

Mr. Pfenning explained that the focus of this meeting is the school district's requirement to have a referendum question and to have a nonbinding recommendation from the independent Tax Study Commission.

Mr. Pfenning stated that the numbers used in his presentation are his numbers, based on the information Mr. Majewski created. He is attempting to simplify and has ignored some information Mr. Majewski has very correctly pointed out to the Commission. He is ignoring the fact that whatever tax is instituted there will be a ramp-up period of getting collections to near 100 percent. He is ignoring the unknown of whether everyone who qualifies for homestead exclusion is getting one and assuming maximum participation. He also rounded some numbers up.

OVERVIEW BY  
MR. PFENNING

Mr. Pfenning presented two pie charts. The chart on the left represents unaudited numbers of 2005-2006 funding. The bulk came from property tax, some from the one-half percent earned income tax, and other taxes such as realty transfer, per capita, and others. Act 1 is revenue neutral. There is no new money. It is simply shifting of tax revenue by adding some new income taxes and covering up some of the existing real estate tax. Anytime you have a tax shift, you will have winners and losers. The same amount of revenue will be coming in to the school district. This program applies only to owner-occupied residences and farms who have submitted the exclusion application and been approved. It does not in any way reduce property taxes of commercial property or rental properties. The landlord does not get a break. At the end of this year, the school district will be mailing the form to residential properties in the two counties. Mr. Pfenning stressed the importance of filling it out and sending it in. The first chart shows what might happen to take away some of the real estate tax and replace it with a new income tax.

Page two of the handout explains the two income tax choices: earned income tax or personal income tax. The personal income tax is a broader tax base. Neither of these includes Social Security, pensions, and IRA withdrawals. It is modeled on existing law of the Pennsylvania income tax return.

Page three is about the rates. Once the number of approved homestead/farmstead exemptions is known, their assessed valuations are listed from maximum to minimum and the middle value is selected – the median assessed valuation. Mr. Pfenning, in his example, assumed there are 30,000 homesteads and farmsteads and their median assessed valuation at that point in time is \$50,000. The state constitution allows for a homestead exclusion and sets both a maximum and minimum. The maximum allowable homestead exclusion is one-half of the median assessed valuation; hence, \$25,000. The minimum homestead exclusion is 25 percent, or \$12,500. Current earned income is about \$2,000,000,000 within the district. Looking at that relationship to the district's personal income tax base which varies a lot from year-to-year, .9 of the total personal income tax is earned income tax. The difference of .1 is interest, dividends, capital gains, gaming winnings, estates, trusts, etc. Mr. Pfenning assumed a \$2,222,000,000 income tax base. Current millage is 36.58. He rounded it up to 37. If you assume maximum participation and enough income taxes must be raised to offset the loss of some real estate tax, the 30,000 approved homesteads are multiplied times the \$25,000 maximum homestead exclusion, times the 37 mills. That produces a revenue amount needed of \$27,750,000. We must get enough earned income tax in to cover the exclusion. For a minimum participation – 30,000 times \$12,500 times 37 mills produces the revenue needed to produce a minimum homestead exclusion given the assumptions above.

Mr. Pfenning translated the amounts above into tax rates. The revenue needed is divided by the tax base. Act 1 requires that it be rounded to the nearest one-tenth of a percent. Maximum exclusion: \$27,750,000 divided by \$2,000,000,000 tax base for income equals a 1.4 percent rate. A .7 percent rate would be needed to produce the same revenue for a minimum exclusion.

Mr. Pfenning said if conversion is to the personal income tax, which is a broader base, the rate goes down: 1.2 percent for maximum exclusion and .6 percent for the minimum exclusion.

Mr. Pfenning stated that these rates will be additional taxes. If the Commission decides, and the school board goes along with it, that a .7 percent EIT rate is needed, that is on top of the existing .5 percent that goes to the school district. The final rate of earned income would be 1.7 percent. The discussion will only be on the new taxes, not existing taxes which will stay in place.

Mr. Pfenning spoke about the actual homestead exclusion or tax relief. At the maximum homestead exclusion amount with all participation it is \$925 estimated savings per year off the real estate tax bill at 37 mills. Minimum would be \$462.50. These numbers will change based on who sends in the forms, what the median assessed value is, what the millage rate is, etc.

Mr. Pfenning spoke about the impact shown on page 4 of his handout.

#### Taxpayer 1

- Wage income of \$45,000
- Investment income from interest, dividends, etc. \$1,000
- Homestead assessment \$50,000

#### Taxpayer 2

- Wage income of \$90,000
- Investment income from interest, dividends, etc. \$10,000
- Homestead assessment \$100,000

#### Taxpayer 3

- Renter having a wage income of \$45,000
- Investment income from interest, dividends, etc. \$1000

#### Retiree

- Wage income zero
- Investment income from interest, dividends, etc. \$5,000
- Homestead assessment \$50,000

He explained maximum and minimum exclusions shown at the bottom of the page. Assessed valuations are different. Under Pennsylvania's equality

concept in the constitution, the relief is going to be the same irregardless of the assessed valuation of the property. All will get the same dollar exclusion. Using the 1.4 and .7 rates of earned income and only using the wage income, you can arrive at the second column of figures.

\$45,000 wage income = additional earned income tax of 1.4 percent \$630, etc.

A retiree with no wage income pays no earned income tax.

The third column shows the net tax impact. Income tax has gone up with property tax relief. It is seen that taxpayer number one pays \$295 less net taxes (maximum exclusion). If minimum exclusion is funded, taxpayer number one would save \$147.50 net taxes. The higher income people having \$90,000 in wages pay more net taxes under this plan. Renters with earned income the same as taxpayer one having the same earned income tax and get no relief; their taxes really go up. Retirees have no additional earned income tax to pay and get the maximum benefit.

If a switch is made to the PIT, wages and investment incomes must be added together to arrive at a personal income base. Using the same factors as the example on earned income tax, again taxpayer number one still wins with the PIT base. Taxpayer number two still loses because it has such a high level of income. Renters still lose. Retired senior citizens having \$5,000 of interest, dividends, capital gains distribution, have an additional PIT of \$60, but are still winners.

Mr. Pfenning stated the intent of Act 1 was property tax relief for seniors, as far as he can read it.

Using his numbers, looking at the math, to him it looks that if you have an earned income tax as a family of between \$65,000 and \$70,000, you will break even. If the family's personal income tax base is in the range of \$75,000 to \$80,000, the family will break even. However, you will lose if income is above those two ranges. If income falls below those two ranges, you will be a winner.

Mr. Scheirer stated that at last night's meeting of the Bethlehem Citizen's Association, the question came up if there is any difference between the EIT and the PIT in the treatment of commuters; for example, people who live near New York City.

Mr. Pfenning replied that he did not have an answer to that. He knows that the state of New York and the state of Pennsylvania do not have a tax reciprocity agreement; whereas, New Jersey, Maryland, parts of Delaware, all of Delaware, do.

Mr. Majewski stated the only area where you may see some benefit are those individuals who may be working in Philadelphia. You would see the Sterling Tax Credits. As far as can be determined, it is a fairly small amount and would not affect the rate significantly. But, some of those credits, under Act 1, will accrue to the district in order to provide a lower rate of taxation. The amount was probably between \$50,000 and \$80,000, so it did not enter into discussions. Other than that, the commuters to New York, he will not see any type of benefit, any type of earned income that they are required to file now with their local taxes that would continue to be filed.

Mr. Majewski said that, annually, persons are filing either an earned income and/or a personal income tax form with the state. Whatever is claimed on the earned income tax report is what would be claimed under Act 1. Whatever is claimed as personal income on the state form is what would be claimed for personal income tax.

Mr. Pfenning stated that the questions on page 5 of his handout are the discussion points for this evening. The first question is, "Should property tax relief be achieved by shifting property taxes to increased income taxes?" The law states that the referendum question must state that. Question two is, "Should the increased income taxes be earned income taxes or personal income taxes?" Question three is, "What should be the rate of an increased tax?" The fourth question is that under Act 1 there is a provision that if an increased earned income tax were used, should an exemption be granted to people whose total income from all sources, not just earnings, is \$12,000 or less. This is the same rule that applies to the \$52 EMS tax that a number of municipalities have adopted. Mr. Pfenning stated that those four questions will be addressed.

Mr. Pfenning opened the floor for public comment. The following persons addressed the Tax Study Commission.

PUBLIC  
HEARING

1. Bill Scheirer, 1890 Eaton Avenue, Bethlehem, said that last night the Bethlehem Citizen's Association decided it needs more information. He spoke as an individual. He thinks there should be some shifting of tax because it is not good when people have to sell their houses if they can't pay property tax. The down side is the people commuting to New York City. He feels sorry for them because they tend to live in houses that are worth more and to earn higher incomes and don't get a benefit out of this. The income tax they would be paying is more than the property tax reduction.

On the question of minimum or maximum exclusion, Mr. Scheirer said, personally, he would say it should be the maximum. But, he thinks at first it should be just the minimum because it will be a wrenching enough change in the whole system.

Mr. Scheirer, on the question of EIT versus PIT, said the personal income tax seems to be more logical because it includes investment income and it is collected by the state. School districts can piggyback on their collection process. The one advantage of the EIT is that it could exclude all income \$12,000 or less. That would help the people who earn little but are renting. It's tempting to side with the EIT on that. It's a close call between EIT and PIT. For the reasons he mentioned, he thinks he is on the side of the PIT. That should be the future of our taxation system. Eventually, we should get rid of the EIT as well as the per capita tax.

2. Richard Matchette, 1890 Eaton Avenue, Bethlehem, said he'll agree that either an earned income tax or a personal income tax should be approved. He was glad to see \$50,000 is an average assessment for homes because a higher figure was in the newspaper for the average from the area. The approximate taxes of an average home of that assessment would be school tax of around \$1,700. City and county taxes would be \$1,100. Total taxes would be \$2,800. Considering the fact of lower paid workers as well as retirees is not just one group, it's the lower paid workers, office workers that don't have college degrees, people who work in stores in downtown Bethlehem, Westgate Mall. There are a lot of people out there that aren't earning all that much. Even if the minimum wage is raised to \$7.15 per hour, that will not help much if you have a home and property taxes of \$2,000 to \$3,000. Yearly income at \$5.15 per hour would be \$10,700. Property taxes would require 26 percent of your annual income. Yearly income at \$10 per hour would be \$20,800. The percentage of yearly income at \$10 per hour for an annual income of \$20,800 would be 13 percent. Of course, there are a lot more expenses. Mr. Matchette strongly urged the Commission to recommend the shift and start taxing based on income which is based on the ability to pay to reduce the school tax. The money from the slots would help but will not too much. If you cut taxes of \$3,000 by \$200 to \$300, that does not help too much. We need much more than that. It should be based on federal income. The more you earn, the more you pay because that is the only fair way to tax people. It's wrong to tax people because of the house they live in since everyone's income is different. Mr. Matchette said that when he retired a few years ago his federal income taxes went way down and state income taxes evaporated because his pension is nontaxable. Yet, his property taxes kept going up and up. He is paying ten to twenty times as much in property taxes as federal and state income taxes.

Returning to the questions, Mr. Matchette said that yes, there should be increased income taxes. Either personal or earned income tax would be fine. The rate of increased tax should be whatever is deemed easier to get through to the voters, the most easily accepted. Concerning a

proposed exemption, that should include only earnings. He thinks if a person is earning under \$12,000 a year the person should not need to pay tax on that. There should at least be a \$12,000 exemption and anything over that could be taxed.

Mr. Pfenning said he agrees with everything he said. However, under Pennsylvania law everybody is going to be taxed the same. So, the federal progressive rates are not possible within the Commonwealth of Pennsylvania. Secondly, "\$12,000 from all sources" is the wording in Act 1. The Commission can't change that. He suggested calling representatives and senators and get them to change it.

3. Albert Gerra, 2702 Poplar Drive, Bethlehem Township, said that there is a widespread fear that the school district's funding is too dependent on property tax. It is nine to one property tax to earned income tax ratio. Looking at the pie chart, it is a little sliver of earned income tax and a big sliver, a big piece of property tax. It doesn't seem outrageous to increase that income tax sliver at 30 percent to raise it to the maximum. That still possibly seems a little unbalanced. To his mind, a fifty-fifty split would seem fair. It's hard to argue that fifty-fifty is unfair. The thing about income tax is people that earn more pay more. There are exceptions: the commuters. Overall, people that earn more pay more. The renters with an income of \$50,000 a year for 50 years, a half percent of \$50,000 is \$250 times 50 is \$12,500 of tax over that 50 years. They could send 10 children to school for that. Rather than promoting how they might suffer a little bit under this new tax, perhaps we should be saying how lucky they've been all this time because they pay a very small amount of tax and can send as many children as they want to the public school system. Asking them to pay a little more doesn't seem outrageous. You could spend a lifetime trying to figure who's going to be winners and losers. Let the voters decide. Pick a sensible plan, put it in front of the voters. They'll decide and, if they want to blame somebody, blame themselves.

Mr. Pfenning said that, since he has done the winners and losers thing ad nauseam, he has said a couple of times to the Tax Study Commission that when you have a tax shift, somebody's ox is going to get gored. He doesn't want people to be shocked when this comes over the horizon and all of a sudden it is announced in the tax bills that arrive July 1. He is trying to make sure that everybody knows and, if they don't like it, they get out and vote against it. If they love it, they get out and vote for it.

4. Max Lampenfeld, Lehigh Township, stated that he falls into the winner group according to Mr. Pfenning's figure. He is a retiree, but he doesn't like the idea of shifting from a property tax to increased income taxes. Everyone says, "Don't tax me. Tax that man behind the tree." We

always want to tax somebody else. He wonders who is behind this move to shift the property taxes. Income can be hidden. Property can't. There are people who can hide their income but you can't hide that mansion on the hill. He thinks the property tax is transparent. You can see. You can't see income and rightfully so. You can see property tax. Taxable assessed values are public knowledge. Stick with a tax that puts the burden of proof on the taxpayer. You've got to have taxes. He is not opposed to taxes. Not many taxes are like that except gasoline taxes. Usage taxes are based on consumption and you don't have to put the burden of proof on the taxpayer. He thinks that the income tax impacts the young, middle class with children, and those at poverty level. He hasn't seen any figures on this. It just seems as though the younger families and so on are impacted more. The renters are going to pay a property tax. Mr. Gerra said if the landlord pays property taxes wouldn't it be included in the rent? Mr. Gerra said he thinks if there is a real concern about low income people paying property taxes, he thinks the proper way to do it is to have an across the board exemption somewhere down line. Wherever that exemption is, if it is on the first \$50,000 or whatever, it is for everybody, rich or poor. Then, tax the balance, as necessary, to get the right amount of revenue. He wants to go on record as opposed to income taxes.

5. Donald Tewell, 3875 Wellington Drive, Bethlehem, stated that he is in favor of tax shifting to the income tax. Being a senior who is retired, of course, he is coming up a winner. If earned income tax is increased, he is really a winner. He thinks the personal income tax is more equitable. On earned income tax, only wages and salaries are taxed. If he is retired and has a million dollars coming in on investments that is not being taxed and he thinks it should be. That is why he prefers a personal income tax on everything that you receive according to your tax return. As far as what rate should be used, he would start at the smallest rate and, if revenues come up short, then change it to a higher rate. For those earning \$12,000, absolutely give them a break.
6. Eileen Trotsky, 1015 Center Street, Bethlehem, explained that she is single and has owned property for 33 years, has paid taxes up the kazoo. She does not have children, but she has been paying for everybody else's children to go to school. She also owns other property for 15 years. She was hoping to sell her property on Center Street. She was paying property school tax for two properties. Being single, it is very difficult to keep paying taxes on the property which she is in a position of thinking of selling because she can't afford it. Her school taxes are \$2,000 a year. She is retired. That amount is two months of her Social Security. She has to live on 10 months income. She feels that there is a way. She thinks people who have children should pay the cost of education.

7. Elizabeth Culpepper, 2325 Santee Mill Road, Bethlehem, commented that she understands the purpose of this meeting is so that the Commission can get as much information as possible from the public for assistance in making its recommendation. She would like to go on record as saying that she agrees that we need to shift away from the property taxes to some kind of an income tax on earnings. In a few years her husband will be retired. They will be living on a fixed income. They have a very nice piece of property. But their property taxes have gone up phenomenally over the past number of years. She sees them, at some point, being in a position having to sell their property because they will no longer be able to afford to pay property tax. So, she is in favor of some kind of income tax.

Mr. Pfenning said that, as he pointed out initially at the beginning of the meeting, Act 1 also did opt that the low end of the income bracket for senior citizens to get more relief than they used to through the rebate program. Persons who qualify should get in touch with a state representative or senator or area agency on aging to get help on applying for that. That is part of the picture.

Mr. Pfenning announced a seven-minute break at 7:03 p.m. The Commission reconvened at 7:10 p.m.

BREAK

Mr. Pfenning asked how many in the room, excluding board members and district employees, favor some sort of shift from real estate tax to an income tax. On question one, the audience voted 9 to 2 in favor of a shift.

QUESTION 1

Mr. Pfenning asked, if a shift is recommended by the Commission, if the preference is for an earned income tax or a personal income tax base. On question two, six persons voted for earned income tax; five for the personal income tax.

QUESTION 2

Mr. Pfenning questioned the audience's rate preference if the rate was to be set on the tax: minimum, maximum, or some place in between. Three persons voted for the minimum rate. Five persons voted for the maximum rate. Three persons voted for a rate between the minimum and maximum.

QUESTION 3

Mr. Pfenning asked how many are in favor of a \$12,000 exclusion on total income from all sources if an earned income tax is implemented. Eleven persons voted in favor of the exclusion; none were opposed.

QUESTION 4

Dr. Lewis announced that depending on how long the deliberations would last; he may be forced to leave to give testimony at City Hall relative to a zoning variance that the district is seeking.

Mr. Pfenning had no communications or unfinished business.

CHAIRMAN'S  
COMMUNICA-  
TION/  
UNFINISHED  
BUSINESS

Mr. Pfenning made a notation that he attended the Easton Area School District's public hearing on Monday.

Mr. Hoffman announced that corrections need to be made on the minutes of the second Tax Study Commission meeting held October 30, 2006. Incorrect speakers were noted. Mr. Majewski will make the changes in the approved version. A motion was made by Mr. Hoffman and Mr. Glancy to approve the minutes of the second Tax Study Commission meeting held October 30, 2006, as corrected for speaker attributions. The question was called and roll call was as follows: Yea, Mr. Disario, Mr. Doland, Mr. Glancy, Mr. Hoffman, Director Koch, Mr. Pfenning, and Mrs. Stemrich - 7. Motion passed 7 - 0.

APPROVAL OF  
MINUTES

Mr. Pfenning announced that next, to focus the discussion, he would like Commission members to comment on the first question, try to reach a consensus, and take a vote on that piece.

DISCUSSION

Mr. Disario commented that Mr. Majewski went through a great deal of work to put together the document presented at the last meeting which shows a series of assumptions. Of those assumptions, the ones chosen by the Commission will affect answers to the questions one to four. For example, Mr. Pfenning made an assumption that there would be no revenue from gambling in his presentation.

Mr. Disario said he thinks that might not be a good assumption. It might be looked at a little oddly by the citizens of the town where a casino is likely to be placed. His recommendation, before being asked to cast a vote, would be for the Commission to come to an agreement on which assumptions and scenarios it wants to ascribe to. Otherwise, you have no idea what the rates need to be. Although it may be wrong, he thinks it is incumbent upon the Commission to say, "This is what I think is likely to happen."

Mr. Pfenning replied that he understands his opinion. The Commission at its last meeting reached a consensus to exclude the gambling revenues from its consideration.

Mr. Disario said he was absent. He asked why, in the city of Bethlehem, the Commission would decide that there is no income from gambling.

Mr. Pfenning said that, basically, the total gambling revenue is unclear because there are lots of hurdles in the gambling revenue picture. The gambling Act 71 allows for 34 percent of the net terminal gross revenues from the slot machines to go into a fund. Act 71, as amended by Senate Bill 862, shaves at least a percent off the top of that to go to various other things – gambling addiction treatment, police training for illegal gambling, etc. Now

the percentage is at about 33. That goes in the fund. First, \$500,000,000 of cash reserve must be built up. That fund, initially, as he understands Act 1, produces the senior tax rebate money. Next year, the senior tax rebate goes into effect on July 1. Gaming revenues are going to be dwindling in, in the meantime, not anywhere near. Act 71 decided it will borrow from the lottery fund. Then, when there are gaming revenues, that will pay back the lottery fund. It will be a long time before that minimum level is achieved that the state can begin to consider disbursing the gaming income. There are too many unknowns.

Mr. Disario commented that, as a group, the Commission has gone on record saying there will be no net benefit from gambling to this school.

Mr. Pfenning commented that the Commission did not say that. It said, under Act 1, if gambling revenue comes hopping in, it goes into the pie that is divided up amongst the approved household exclusion holders. That is on top of what they get off the income tax. It is an addition. If it runs the exclusion up to the maximum, the funds go over the top and come in to the general fund of the school district. The Commission is not precluding that. It is saying that in setting the Commission's decision on maximum versus minimum and earned income tax versus personal income tax, yes if and when it does come, it will make the pie even sweeter for everybody who is participating. He believes that was the consensus of the Commission at the last meeting.

Mr. Disario asked Mr. Majewski what would happen if monies come in from gambling and the district was already funded to the maximum from income tax.

Mr. Majewski replied that, because Act 1 requires that any additional income tax that has been assessed for the purpose of shifting needs to be used for property tax reductions, whatever tax rate was set must only go for the purpose of tax reduction. If you add gaming on top of that, that will create the pot that will fund the exclusions. It is not, at this point, terribly clear as to what happens if the combination of that will be over and above the calculated maximum. It is quite possible that the district would be required to put that money aside because you can only fund the maximum and maybe use that for future exclusions. It is quite possible that the district would have to revisit the rate of the income tax and lower it so that it would not obtain more than the maximum. That is the most likely end result. Mr. Majewski said that there would be some idea in advance because the way the state is working with the gaming; they need to certify how much money is going to be provided. That is then going to be provided to the school districts that will need to look at their income taxes as a result of Act 1 and, very likely, take action to lower the income tax to stay under the maximum. Mr. Majewski stated his response is that the district would have to lower income tax once it receives gaming.

Mr. Disario said that, if the group in its wisdom decided that and he wasn't present, all right. He is not particularly comfortable with that assumption.

Mr. Pfenning said there are other assumptions. He explained that the first question is philosophical – Does the Commission feel that it is a good public policy to shift some of the burden away from property tax and into an income tax. There are no assumptions involved. There are really no assumptions when you talk about earned income tax and personal income tax; there are no assumptions because it is a question of what kind of tax base to use, narrower or broader. When you get to the third question about the rate, then you must make some assumptions. The fourth question is, again, philosophical.

Mr. Pfenning asked if anyone on the Commission wished to speak on their feelings about a shift in taxes.

DISCUSSION -  
QUESTION 1

Mr. Glancy said he feels that the state of Pennsylvania should be living up to the commitments it made in 1970, but then backed off of in 1980 and 1990 and 2000, and fund public education, statewide, at 50 percent through the personal income tax. If the state was doing that, the school district would be able to give all the property owners in this district a larger rebate than being discussed right now. This is a poor imitation of real tax reform. He is very upset with our state legislature. He thinks they have backed away from a real problem and handed it to local commissions to then hand on to the school boards. He would love to do the maximum PIT because he thinks that is what the state of Pennsylvania should have already done over the last 30 years.

Mr. Pfenning remarked to Mr. Glancy that he is, basically, philosophically, in favor of a shift to an income tax base.

Mr. Glancy agreed, but not the way the state is doing it.

Mr. Hoffman stated he would concur with everything Mr. Glancy said. Also, when talking about a shift from property taxes, it must be remembered that it is not all real property, the discussion is about homesteads. Philosophically, he thinks that is a good idea, to make a statement that the homestead is sacred, something that shouldn't be taxed. If taxes are going to be shifted, that is the place to shift it from as far as property taxes go. The district would still be getting the taxes from investment property and commercial property. The homestead is the big issue for senior citizens. Mr. Hoffman said he agrees that property taxes are a good way to fund municipal governments and county governments, but school districts should not be funded by property taxes. He agrees with Mr. Glancy that the legislature, constitutionally, should be footing the bill. It should be coming through a revenue stream through the state, not through local taxes. If it came up to vote for the maximum PIT, he would do that. If the Commission makes that recommendation and the school board would go along with it, and it would be passed on the referendum, that would

send a message to the legislature that the people agree with that. This is not a scientific representation of our population, but you see a lot of support for that idea. If the shift goes to an income tax or personal income tax, it makes it easy for the legislature to grab some of their responsibility that it should have in the first place without making a lot of changes in the law.

Mrs. Stemrich said she, personally and philosophically, is opposed to the shift. She hears the message that the community thinks the shift is necessary.

Mr. Doland said he feels that the earned income tax should be primary. His feeling, as he expressed at the first meeting, is that a lot of people during working years put away for retirement. Now, if you hit them with a PIT, you get the best of both worlds and hit them with everything. He thinks it is a good idea to shift taxes.

Mr. Pfenning asked Mr. Disario if he feels a shift from real estate to income taxes is a good thing from a public policy point of view.

Mr. Disario said that he does. He would not call it a "shift from." It is a partial shift. "Shift from" implies that there will be no property taxes. He thinks the district should relieve some of the burden up to the maximum amount of \$900 per homeowner.

Director Koch said she definitely agrees with Mr. Glancy about the 50 percent the state should be paying. That battle has been going on for years. Pennsylvania is second lowest in the country as far as how much the state contributes to education. The only state lower is Mississippi. Now, the state is putting the job on local school boards to shift this small amount. It is a step in the right direction, not a big enough step. She would definitely go along with the shift.

Mr. Pfenning, for the record, said he thinks it is desirable to move toward a shift. The state model for funding education is income tax. He thinks that is a good model to be followed even at the local level. He thinks it would take care of some folks who are being squeezed out of their properties because of the reliance on property taxes. He senses that among the Commission they have a consensus. He asked if the members were comfortable with him making a statement to the record that there is a consensus among Commission members that it should shift some property taxes to some form of income tax. All members agreed on that consensus.

Mr. Pfenning asked, assuming the Commission wants some income tax, what kind of tax it should be: earned income tax (flat rate on a small segment of income) or personal income tax (broader based flat rate tax).

DISCUSSION -  
QUESTION 2

Mr. Doland said he thinks earned income tax is a better base even though the personal does include the earned income tax. Personal income tax will cover a lot of investments made by people who are now in their mid seventies and early eighties that worked many years. Some are still working, as he is, to pay the present real estate taxes. If you taxed PIT that would be some of the investment taxes on what people receive as dividends, interest, etc. That helps those people pay their present property taxes, as far as he is concerned. If you tax more of that, it will be that much harder for them to pay the property tax which will stay. It would be hitting people twice.

Director Koch agreed with what Mr. Doland said. It has always bothered her regarding the personal income tax with the state that it discourages seniors from saving their money and squirreling away that little nest egg for when they get older by taxing them on it. Instead, she thinks the state and the school districts should be encouraging people to save money for their old age, rather than expect that the government is going to pay for them and take care of them when they get older. She was very happy about the idea of taking earned income tax because it would not be hurting the seniors. The personal income tax will.

Mrs. Stemrich asked if the personal tax is yet an option.

Mr. Pfenning replied that, technically, he believes the answer is still no. Mr. Majewski confirmed that information. Mr. Pfenning said it is in the law. The hinge is on the Pennsylvania Revenue Department giving its procedures out because they will probably get stuck with collecting it. They are still working on those procedures. It has already begun moving through the process. He feels that this Commission is within its prerogative and probably should say, philosophically, that it wants this or this. But, if we can't pass something and put something to a vote that is not possible, then we must use the alternative. If the majority of the Commission felt that personal income tax was the way to go, in the resolution to the board, it should say that it is doing this fully aware that maybe by the end of February, when the board must finally vote on this recommendation, it won't be able to do it, but that if it can, the Commission would prefer to board to do so.

Dr. Lewis told Mr. Pfenning he thinks he is right that this Commission could support a resolution with a contingency. If the Commission felt, philosophically, it wanted to support the PIT, that could be part of its recommendation, contingent upon the Department of Revenue having protocol standards in place. If not, the Commission could recommend that the board revert back to the EIT.

Mr. Majewski said that he knows that the changes to the collection regulations have been drafted and have been proposed. However, they have not been acted upon. He suspects that, with the holiday season coming, we will not see

any movement. Come spring, there likely will be another focus with the legislature and they may act on it. He believes it is not going to be a priority. He agrees with the statement Dr. Lewis made that if the Commission is going to make a recommendation for PIT it really should have a qualification attached to it because he is not convinced that it is going to be an option for the 2007 year.

Mr. Disario said he would favor an earned income tax for a couple reasons. One is that PIT would tax people on money or assets that they have been taxed on in the past. It would place that burden primarily on the people you are trying to give relief to. Second, if we look at the assumptions, it is 10 percent additional income, looking at taking 10 percent of one percent. The income base on personal income is only 10 percent greater than the earned income, according to the numbers presented. The district will tax it, possibly, one percent more. He asked if this tax would still be paid through the current method. Mr. Majewski said he is correct. Obviously, there is no vehicle to deal with it since the revised PIT collection regulations have not been approved. Philosophically, he doesn't think personal income tax is a good idea. Practically, he doesn't think there will be a benefit to the district to do it. So, he would be an advocate of an earned income tax.

Mr. Hoffman said that, philosophically, he would be in favor of a personal income tax. While he acknowledges the arguments about seniors being taxed on interest and dividend income, that is where you get your ox being gored part of the equation. You also must think about a risk you have here – other forms of personal income are net gain or loss from the sale, exchange or disposition of property; net income or loss from rents, realties, patents, copyrights; estates and trusts income; gambling and lottery winnings. These four categories represent income that you would associate with people that go by the methodology of “work harder or work smarter not harder.” It seems to him that analogy might be instead of whose ox is getting gored being concerned about people having to pay a tax on interest income or dividends that maybe there are people whose ox is out in the alfalfa field walking around eating for free. We're not the only ones around allowing that to happen. He doesn't understand why federal income is on a personal income tax system; state income tax is, as well. He owned a rental property at one time and was shocked to see that he wasn't taxed on income from the rent. It didn't make sense to him. There are a lot of people that make all of their income from rentals. He has friends that do that. He agrees that it is a miniscule amount to be concerned about and the cost to correct it could eat up some of it. He does not see that it is fair that people with those four sources of income, which might be quite substantial for those individuals, should get away with not paying that tax. The person who is paying the personal income tax, punching a time clock, does not have an avenue of escape.

Mr. Pfenning asked Mr. Majewski if his data for the PIT figures for the base came with a breakdown into those eight classes or was one lump sum.

Mr. Majewski replied that it was one lump sum and would have come directly from the Commonwealth.

Mr. Pfenning remarked that there is no perspective of how much falls into the four classes that Mr. Hoffman is concerned about.

Mr. Majewski stated that is correct.

Mr. Glancy said that he thinks the state of Pennsylvania should already be giving this community tax relief through the personal income tax. The personal income tax is a broader tax and a fairer tax. If the district uses the personal income tax, it can use a lower rate than using earned income tax. He believes a personal income tax is a better way to go.

Mrs. Stemrich said she thinks she is coming to the side of the earned income tax. Her reasoning is that the people who fall into those four categories as mentioned by Mr. Hoffman are going to get the least relief from this tax shift. Based on the assessed value of their homes whether they have a \$500,000 home or a \$35,000 home, the tax amount will be the same for everybody. She really feels that they will get the least tax relief.

Mr. Pfenning said one of the things the Tax Study Commission is supposed to look at is the reliability of the tax base. He asked Mr. Majewski and Dr. Lewis which base the school district would feel more comfortable with as it grows in terms of a more reliable source of income.

Mr. Majewski said that he has considerable history with the earned income tax and PIT has not been a tax that the school district has collected. The district does not have an abundance of data on personal income tax. Therefore, he is much more comfortable projecting out the earned income tax receipts as well as looking at any impact that an increase would have on the school system as well as the amount that could be made available for the homestead exclusion. A personal income tax would come directly from the Commonwealth and it would be a leap of faith that their information is going to be accurate and usable for school district purposes.

Dr. Lewis said he would concur with Mr. Majewski's assessment, although he and Mr. Majewski lobbied hard a couple weeks ago to convince legislators to accept Mr. Glancy's logic, unsuccessfully. The PIT, if collected by the state in that mechanism that currently exists, would save the taxpayers inordinate dollars just in collection fees. With this current design, you have 501 school districts either collecting this tax or contracting with third party entities to collect it. He sees this as very complex. There could be 501 different rates. From the district's perspective, the ability to judge what potential income will be is getting more difficult. The district is budgeting earlier than ever before in its history. The earned income tax is probably more favorable from that fact.

Director Koch asked if she is correct that if somebody doesn't pay their property tax, a lien is placed against their home for those taxes. Then, when the owner sells the property, those taxes revert to the school district.

Mr. Majewski stated that is correct.

Director Koch asked, in the case of income tax, if a person doesn't pay, if the district can put a lien on their property for that or what can be done if people do not pay an income tax.

Mr. Majewski replied that some of the collection actions are what happens now. With the earned income tax, there are those individuals who are determined to be delinquent. They can and have been taken to the courts. The courts will place a lien on assets or, more likely, garnish wages.

Mr. Pfenning remarked that the bulk of earned income tax is on wages and it is collected at the source. PIT has a lot less source collection. In some ways, stepping back from his personal feelings and looking at a philosophical issue, the broader the tax base, the better it is. If you went with a PIT as opposed to an EIT, the rate would be lower. Therefore, the renters who will get no direct benefit from tax relief would pay a little less. From a policy point of view, he thinks the PIT is a better idea. He will come down on that side. By his count, the opinion is four to three. He asked if someone would be willing to make a motion that the form of taxation under the Tax Study Commission's recommendation be an earned income tax.

Mr. Hoffman suggested that perhaps the Commission should wait on that because he thinks question four brings up an issue.

Mr. Pfenning said that the \$12,000 exclusion is not available under the PIT option. It is listed on page 20. If the Commission votes for a PIT at this level, point 4 is a moot question.

Since the majority seems to lean towards an EIT, Mr. Pfenning asked if someone was willing to move that the Commission recommend an earned income based tax as opposed to a personal income tax. Mr. Disario made such a motion. Mr. Doland seconded the motion. The question was called and roll call was as follows: Yea, Mr. Disario, Mr. Doland, Director Koch, and Mrs. Stemrich - 4. Nay, Mr. Glancy, Mr. Hoffman, and Mr. Pfenning - Motion passed 4 - 3.

ROLL CALL  
RECOMMEND  
EIT

Mr. Pfenning announced that, on the second question, the Commission has agreed there should be a shift of some property tax into the form of an earned income tax.

Mr. Pfenning stated that the Commission can't totally peg a rate. There needs to be a closer knowledge of how many homesteads there are, what the median assessed valuation is, what the millage rate will be. The Commission could state that it would like the maximum or minimum or some place in between. The referendum the school board has to adopt will need to have a rate. He asked Mr. Majewski when the homestead exclusion forms will be sent.

DISCUSSION –  
QUESTION 3

Mr. Majewski stated the forms will go out in December and need to be returned in March. The county is required to provide the school district with certification of the number of approved homesteads and their median assessed value by May 1.

Mr. Majewski mentioned in the law there are provisions to tax at the maximum amount but school boards cannot be required to increase the rate above one percent.

Mr. Pfenning stated that was discussed at the last meeting.

Mr. Majewski stated the Commission can recommend higher. It was not mentioned this evening, for the public.

Mr. Pfenning said he thinks that applies to the minimum exclusion. If you had to do a 1.2 to get to the minimum, you don't have to do it, as he read the law. It is confusing. There is a one percent kicking around in there. He thought that applied to the minimum exclusion.

Mr. Majewski said that the way the law currently states this provision is confusing. The one percent, as it was referred to in the law, was school boards with their recommendation could not be forced higher. If the recommendation was for the maximum to go with a rate of 1.2, the board could not be bound to go higher than 1.0 as well as percentage. It may not affect the recommendation for minimum or maximum; however, he wanted to mention that.

Mr. Pfenning said he thought it said that you can stop at one if you want to, but you can go higher. It was not an absolute cap.

Mr. Majewski said, as far as the Commission is concerned, that is accurate.

Mr. Pfenning stated he is trying to figure out how to reach a consensus on this. The Commission is dealing with an earned income tax. Using his assumptions, there will be a range from maximum 1.4 to minimum .7. The Pennsylvania School Business Officials data is a guide to what the school district neighbors are doing. The Easton Area School District's Tax Study Commission proposed an increase in the earned income tax of .9 percent. He read through the presentation by Saucon Valley and was unable to determine

the outcome. Mr. Majewski has given some indication of what is going on statewide.

Mr. Majewski provided information on a survey taken by the Pennsylvania Association of School Business officials. It just came out today. Of the school districts surveyed, 270 responded. Of those that responded:

- 60.7 percent responded that their tax study commission is considering an EIT increase to produce the minimum homestead exclusion.
- 18.1 percent responded that their tax study commission is considering an EIT increase to produce between the minimum and maximum homestead exclusion.
- 7.8 percent responded that their tax study commission is very divided and has no consensus at this time.
- 5.6 percent responded that their tax study commission is considering converting to the PIT to produce the minimum homestead exclusion.
- 3.7 percent responded that their tax study commission is considering an EIT increase to produce the maximum homestead exclusion.
- 3 percent responded that their tax study commission is considering converting to the personal income tax to produce the maximum homestead exclusion.
- 1.1 percent responded that their tax study commission is considering converting to the personal income tax to produce between the minimum and maximum exclusion.

Mr. Glancy asked Mr. Majewski to group together how many were in the max, in the middle, and minimum, not worrying about earned or personal.

Mr. Majewski stated that 66.3 percent, almost two-thirds of the responding districts, said their district was going to go with the minimum exclusion. Approximately 20 percent were between minimum and maximum. About eight percent had no idea where they were at this point. About six percent were considering the maximum.

Mr. Pfenning said one of the things the Commission must do is consider that information.

Mr. Glancy stated that if he had the chance to make the rules, which he doesn't, he would push this law about the maximum they are allowing. He believes if this was done right, property taxes could be cut in half. He thinks that is what the ultimate goal should be. That is not allowed. He would like to do the maximum. His problem is he doesn't believe the maximum will have a favorable response at the polls. As much as he would love to go to the maximum, he is realistic enough to know that the rate probably needs to be in the middle or closer to the minimum.

Mr. Pfenning commented that one of the speakers from the public indicated that this is starting out with a brand new thing. Therefore, if it is kept at a minimum, it will stir up the least amount of dust, perhaps. That is a political sort of issue. Mr. Pfenning said it might be looked at from an economic development point of view. By that, he means people that want to move in to our district. You might shoot yourself in the foot by running it all the way up the flagpole. On the other side, a counter argument, according to his understanding of Act 1, was that if the maximum exclusion was set on earned income tax and then gaming revenue comes in, that, then, goes into the general pot. He stated that he and Mr. Majewski do not agree on that, but that's ok. If his (Mr. Pfenning) interpretation is correct, if it goes into the general pot, that means commercial property owners, landlords, get some benefit out of the whole deal. So, if you run to the max, you will force the gambling over into perhaps impacting favorably a broader property tax base. It will not get lost. That may be an argument for the max.

Mr. Hoffman, to continue on that, asked if it would also possibly go over into lowering back down the income tax.

Mr. Pfenning said he can't honestly remember. He thinks it is an option.

Mr. Hoffman said that is something important to consider, because when you talk about who's going to get their oxes gored, that might be the rescue mechanism for the people that have their income taxes raised once the gambling money does begin to come. He does believe it will. It won't be as much volume and as quickly as we are asked to believe. He thinks that money could go to salvage people who have had their income taxes raised while giving the most benefit possible to the homestead property exclusion.

Mr. Disario said that it wouldn't help the personal income tax that much. That is something to consider, too, if you voted for the personal income tax. This run over is not going to help the PIT that much. It will be there to help their income, not their dividends and other investment income. Those people are going to be losers, in his opinion, if this happens. So, EIT is his choice to go.

Mr. Pfenning stated that the Commission is already committed to an EIT. The PIT is off the table.

Mr. Pfenning commented that the Commission must put a number (rate) in the recommendation to the board. Mr. Majewski and he agree on the low end.

Mr. Disario remarked that the Commission is going to make a recommendation and the school board will deal with the reality and create some kind of a referendum. So, the Commission also has the option to use their recommendation to send a message, let the school board deal with the political realities, and make their referendum appropriate as they see.

Mr. Pfenning told Mr. Disario that he doesn't follow his point.

Mr. Disario stated that the Commission's recommendation is nonbinding. What the Commission says is not necessarily going to happen. What the school board will decide to put onto the ballot as a referendum could be different than the Commission's recommendations. Therefore, the Commission has the ability to make a recommendation for a higher property tax relief. Then, the school board does their part.

Mr. Disario said he hoped that the school board would look at the work this group has done and not easily cast it aside. Yes, the board can come up with some other number.

Mr. Disario explained that what he is trying to say is that the board can deal with the political realities and maybe come up with a lower exemption than what the Commission may recommend.

Mr. Disario stated that he doesn't agonize as much about winners or losers. The Commission should say that we have a good school district. Everyone, whether they have a child in school or not, benefits from our school system. It is one of the attractive things about this community. He raised the question if our current tax structure, whether it's fair from the state or not, has reached the point because there have been increases over the last 11 consecutive years, where some people are being forced out of their homes and can the district give some relief. He doesn't think an apartment dweller with two children in school should say that he is not really getting a benefit from the monies he is paying to the school district. He should say that he is getting good value for this tax money.

Mrs. Stemrich said that she thinks, as the Commission looks at the rates, she opts for the more conservative route. She thinks that the renters are going to be the ones that pay the most. She is assuming this will start sometime in the next tax year.

Mr. Majewski stated it will take effect for the 2007-2008 year, if it is approved in May.

Mrs. Stemrich continued by stating on the 2007-2008 tax bills there will be a calculation made to reduce those tax bills based on expected revenue which will be unknown at that point.

Mr. Majewski said that there needs to be a front-end referendum and there are certain assumptions that are included. Whatever is approved with that front-end referendum will not be changed by the information that comes out subsequently from the homestead/farmstead approvals. That will establish the tax as well as the rate.

Mrs. Stemrich asked if the earned income tax will be on income earned in the year 2007, from January to December.

Mr. Majewski said that it will be based upon the district's projections. The additional taxpayer liability will begin July 1, 2007, when the new withholding rate becomes effective.

Mrs. Stemrich said that in 2008, when individuals file their earned income tax return, there will be a certain rate for the first six months and another rate for the last six months.

Mr. Majewski stated that it will tend to be very confusing and she is correct.

Mrs. Stemrich said that the rebates people get or the reduction that people get on their tax bills for 2007-2008 will be projections that may or may not be funded by this tax that is collected. She asked if she is correct that there may not be enough tax collected to fund that.

Mr. Majewski said that is correct. The cash may not equal the amount of exclusions that will be allowed.

Mrs. Stemrich asked what would happen if the amount collected was more than projected.

Mr. Majewski replied that, because it is required to be dollar-per-dollar except for the two percent, that money cannot be used for general purposes. It is to be used for lower real estate taxes. It would have to be put in to a separate pot.

Mrs. Stemrich stated it would be some sort of "true-up" as the district enters 2008.

Mr. Majewski said she is correct. In looking at the way this is going to be viewed, the first year is going to be a very difficult transition year for everybody. The way the state is viewing it, by year two districts should be 90 percent near what is expected. By year three, everything should be in place.

Mrs. Stemrich asked if that includes gaming revenue.

Mr. Majewski said he will not project what is going to happen with gaming revenue. He can only speak to what he knows – the income tax.

Mr. Pfenning polled the Commission members as to preference of a rate to produce minimum, maximum, or in between exclusion.

POLL RE:  
RATE

- Mrs. Koch – in between.
- Mr. Disario – probably maximum, but he would need to look at the assumptions to see what percentage that would require.
- Mr. Doland – somewhere in between.
- Mr. Hoffman – maximum.
- Mr. Glancy – in between.
- Mrs. Stemrich – minimum.

Mr. Pfenning commented that it looks like the Commission is sort of leaning towards the rest of the state in the fact that it is not clearly supporting the maximum. He doesn't think he would support the maximum. He will support in between. Therefore, the Commission is looking at a tax rate that falls someplace between .7 on the low end to a compromise between him and Mr. Majewski of 1.3. At full participation, that is where he thinks it will end up. He would rather look at this as though all the collection problems are out of the way, everybody has their approved homestead exclusion because; ultimately, that is where it will be. If the Commission looks at only the first year when everybody is not going to be paying the taxes and a lot of people don't get their forms in, he thinks the Commission will bias its thinking. His preference is the long term. Four out of seven Commission members said they want some place between minimum and maximum exclusion. Dollar-wise, that is some place between the low \$900s on the max side and the \$450 to \$460 range on the mid dollars. Clearly, from statistics that are statewide, they do not agree and are much more on the minimum. He thinks that probably reflects politics. If voters reject the rate because it is too high, there will not be a shift.

Mrs. Stemrich said she thinks that contradicts the relief part of it. If you go for the maximum, you are going for the maximum available tax relief.

Mr. Pfenning remarked that we know that 33 percent of the households would get no benefit because they are renters. That is a sizeable voting block that he thinks will march to the polls and say they do not want this.

Mr. Disario said that, talking politically; two out of the three households are owner-occupied housing. He thinks, politically, those are the most likely voters, highly concentrated in that area more than in the 33 percent.

Mr. Pfenning remarked that this is true, but people against something are more motivated to vote than people who are for something. He asked if he can correctly state that the Commission has a consensus that it wants to go in between. Now, the Commission must establish a rate. The referendum question has to be worded something like: "Do you favor imposing additional \_\_\_\_\_ percent earned income tax on the Bethlehem Area School District? The revenue generated from the increased tax will be used to reduce taxes on qualified residential properties by \_\_\_\_\_ dollars. The current rate in the school district is .5 percent." The school board will have to fill in those numbers if the Commission doesn't do so. The Commission could say that it wants a rate in between the minimum and the maximum to be decided upon by the board.

Mr. Disario commented to Mr. Pfenning that, in a sense, he is asking how he can frame the question of a rate. He suggested that he say a one percent increase. It is a number that fits in the middle. Then, the Commission would have to decide, from this referendum question what assumptions it has made in order to say that rate equates to \_\_\_\_\_ dollars on home rebates. It doesn't mean the Commission must end up at one percent. Pick a number and see where it would work. To get to the second part of the motion to be presented to the school board, the Commission has to have done the calculation. To do the calculation, the Commission has to have picked some of the assumptions given by Mr. Majewski.

Mr. Pfenning commented that the assumptions cannot be given in the referendum question.

Mr. Disario said that the Commission has to be in agreement on the assumptions it makes its recommendation under.

Mr. Majewski said that would be reflected in the minutes within the discussion.

Mr. Disario said he meant that it should be included as some background information given to the school board.

Mr. Pfenning said, being a realist, if he were on the school board they were going to lean heavily on what Mr. Majewski says because he has all the numbers. They will be looking to him to evaluate what that one percent will mean. He already has that in his information.

Mr. Majewski stated that the information that was presented to the Commission will be the same information that will be provided to the school board.

Mr. Pfenning asked Mr. Majewski if he remembers what that one percent number was. He believes one of the tables had that information.

Mr. Pfenning referred to the bottom of page 11 in Mr. Majewski's handout. He remarked that he doesn't know how the Commission will get around this issue. Obviously, it must deal with year one because that is what the tax bill will be including in July. The ballot question almost has to go with the idea that only 60 percent will be collected in the year and everybody isn't going to sign up for their exclusion. The school district has the option of changing the rate every other year. It can select another tax study commission. If the Commission goes with, as shown on page 11, year one estimated minimum participation, minimum exclusion comes to \$570. He asked if that is what would have to go on the referendum.

Mr. Majewski replied that, because it is the first year, the dollar amount on the referendum question could be a range. The Commission will pick a percentage, but the dollar savings won't be locked in to a certain dollar amount. It will be a range between two numbers.

Mr. Pfenning commented that, personally, he thinks that would make a better referendum question. He asked the Commission members how they felt about one percent as a round compromise.

Mr. Majewski added that at one percent, if you assume 28,000, take that \$19,960,000 divided by 28, it is going to approximate \$712 of homestead exemption. That is based upon 100 percent participation. It is rare to get 100 percent participation in anything. That would set the floor. It could be higher, which is why you are looking at a range. If it is assumed that 26,000 or 25,000 might be the more likely number, that will create a dollar figure. It may be between \$712 and something higher than that could be the anticipated homestead exclusion. In round figures, it is about 700 plus dollars.

Dr. Lewis asked Mr. Pfenning if he is talking about a one percent increase or one percent total.

Mr. Pfenning replied he is speaking about one percent additional earned income tax above the existing .5 percent. Total tax bill would be a two percent earned income tax of which the school district would get 1.5 percent.

DISCUSSION –  
QUESTION 4

Mr. Disario remarked that there is something with question four that would tie in to this because if the Commission would recommend to grant the exemption for people with incomes of \$12,000 or less it would have implications, as well. The one percent would be in the higher range with the ramifications of that decision.

Mr. Pfenning said he wants to jump to question four to get that off the table or on the table, based on some prior comments.

Mr. Disario asked if the Commission could ask that Mr. Majewski, later, provide a sheet stating what the one percent is. He knows he has said it was \$704.

Mr. Majewski interjected that one percent is \$712. If you assume about 25,000, you are looking at almost \$800 as the exclusion. The range, very likely, will be between \$700 and \$800 per approved homestead exclusion at one percent.

Mr. Disario stated that would be after it is up and running for three years.

Mr. Majewski stated that is correct. That is another issue. If you look at that because of the timing, whether it is handled on a cash basis or an accrual basis. How it is to be recorded is still up for discussion. The school district is on an accrual basis of accounting. It means, even though you don't collect the cash, if it is an obligation that you can reasonably expect, you recognize it as revenue. You do not consider the cash. He would have to set up that as a receivable, the difference between the two, so that as the money is coming in, the district is replacing the cash. He would suspect when looking at this, please assume full payout. If it says one percent will generate \$19,960,000, assume that he will be recording revenue of \$19,960,000 irrespective what the cash is going to be.

Mr. Pfenning remarked that as the number of participants gets away from the maximum, the pie has fewer slices, bigger pieces. That is why he went from seven to eight when he dropped the numbers.

Mr. Majewski said that before the school board is going to make its recommendation for the language on the resolution, the letters will be out. He will be monitoring the returns of the homestead applications to have a better idea closer to the requirement for the school board to create that language of how many homestead applications are going to be completed and returned. In that calculation, the range will be created so that the number on the referendum question will be more accurate.

Mr. Pfenning asked Mr. Majewski because he raised the issue at the last meeting, from a tax collectors point of view, if an exemption gives him palpitations or negative feelings as an unworkable exclusion.

Mr. Majewski replied that it is not an unworkable exclusion. He would have to coordinate the exclusion with the municipalities. Even though the EMST tax shows \$12,000, the EIT exemptions for the municipalities don't have the same exclusion. The confusion that may create, not just having different tax rates in the two halves of the year, is now they must look at if you are filing with the one-half of one-percent for municipality, do not include \$12,000 as an exemption, but for the school district portion, you need to include that. Taxpayer confusion will be somewhat greater. The only thing that gives him palpitations is the confusion it will create when the forms go out. The loss of the additional revenue for those under \$12,000 is probably not going to be significant enough to create concern on his part. He is concerned about the additional confusion it may create in filing reports at the end of the year.

Mr. Pfenning commented that even if he is looking at a tax return preparer, if the earned income tax is in front of him, if he reads the law correctly, it says \$12,000 from all sources.

Mr. Majewski confirmed, "All sources."

Mr. Pfenning stated that the form doesn't even include a listing of "all sources." As long as you attach a W-2 showing less than \$12,000, you say that you're good. But if that person went to Pocono Downs and won a jackpot resulting in \$20,000 from all sources, and is avoiding taxes. Philosophically, it sounds great. But he agrees that you have to collect it.

Director Koch said that they won't know at the beginning of the year whether or not all of these people are going to earn \$12,000. There will be an amount of people who had these payroll deductions done all along. Then, when they get to the end of the year without earning \$12,000, they must go to somebody and ask for their money back.

Mr. Majewski said that Act 1 forces employers to make a decision. They won't make a decision on the \$12,000. That will be a tax return matter. They will withhold it from dollar one. The amount they will withhold could be all over. Every school district could potentially have a different EIT rate. The reconciliation of who owes how much will occur at the end of the year when tax returns are filed. Mr. Majewski stated that, as an employer, he will be forced to make a decision as to how much earned income tax will be deducted. He will not make a decision to look at what school district a person lives in and withhold that district's amount. It will be a flat dollar amount. The employee will work that out with their municipality or the school district.

Mr. Disario asked, under the general umbrella of the \$12,000, what actually happened with the \$52.

Mr. Majewski said that it was the emergency management services tax. That has been recently renamed to local services tax.

Mr. Disario remarked that you pay a \$52 tax whether you hit the threshold or not. It comes out of your paycheck, a simple one-time payment. The employer takes the \$52 out. Now, if you were to apply to get that money back and they don't know how many employers you might have, he asked what they say. The employee must go to a contracted tax company in Hanover Township. They want you to submit your W2 statements along with the form, plus your tax return. You really can't do this until some time after you have paid your other taxes. You must submit that. Within 90 days, they will remit the amount of money to you. He asked how many persons making \$6,000 will get \$60 back. It is a lot of paper work. It is nice to do the exemption, but the fact is, based on what is done with the other tax, not a whole lot of people are going to appeal for a refund of that money.

Mrs. Stemrich asked if the rate is increased by one percent, if the \$12,000 applies to the whole 1.5 percent or only the one percent increase.

Mr. Pfenning and Mr. Majewski replied that it would apply to the one percent increase.

Mrs. Stemrich remarked that not only would you not exclude it for the additional EIT, but you also don't exclude it for the existing EIT.

Mr. Majewski said that was the point he was trying to make. The year-end tax return is going to tend to be very complicated and much lengthier than the one-page form in use now.

Mr. Hoffman stated that he agrees with that concern. It might cause somebody in that income level to have to go to H&R Block to get somebody to figure it out. It could cost more than the \$60 to have that done. Also, although things like this feel good on an empathy standpoint, it also creates a firewall that causes people to decide not to make more money because they will have to pay a tax.

Mr. Pfenning stated he thinks the Commission has consensus about the exemption. He asked if someone would make a motion that the Commission institute a \$12,000 exclusion on all sources of income. Mr. Hoffman made the motion. Mr. Glancy seconded the motion. The question was called and roll call was as follows: Yea, Mr. Doland and Mr. Glancy - 2. Nay, Mr. Disario, Mr. Hoffman, Director Koch, Mr. Pfenning, and Mrs. Stemrich - 5. Motion failed 2 - 5.

ROLL CALL  
RECOMMEND  
\$12,000 EXCLUSION  
(FAILED)

Mr. Pfenning directed the discussion back to setting the rate. He thinks there is a consensus of a one percent increase.

Mr. Disario commented that, since this is the heart of what the Commission has done as a committee, he would like to see the piece of paper that says, "Here is what the best estimate is. Here are the assumptions. This is what the Commission is voting on." If everyone else wants to vote, that is ok.

Mr. Pfenning announced a seven-minute break at 8:48 p.m. The Commission reconvened at 9:03 p.m.

BREAK

Mr. Pfenning announced that he thinks the Commission is getting close to a resolution. The remaining question is that of a rate. He stated that Mr. Majewski's report, pages 20 and 21, show calculations at one percent. Page 20 deals with no gaming with maximum persons submitting applications. Page 21 shows no gaming with minimum participation. The first column is year one, estimated, which is what will have to be in the referendum question. Hopefully, that will give Mr. Disario the feel, if the Commission accepts the

FUTHER DISCUSSION -  
QUESTION 3

parameters of no gaming, which this Commission has, showing maximum and minimum participation. Mr. Majewski's assumptions were on page 28.

Mr. Majewski stated that was based upon the U.S. census in 2000, showing over 27,000 households, which he rounded to 28,000.

Mr. Pfenning stated that minimum participation means that Mr. Majewski guesstimated that 70 percent would apply in year one.

Mr. Pfenning said those are the assumptions that are key. It will be an exclusion amount between \$712 and \$950. The exclusion is expressed in dollars. He asked Mr. Majewski if, on the bill, it will be expressed in assessed valuation.

Mr. Majewski said it will be shown as assessed value. It will show exclusion. It will be an assessment and that will be translated into dollars with the bill.

Mr. Pfenning said he thinks the numbers show pretty closely what the range would be with a one percent increase.

Mr. Disario questioned the first block, one percent exclusion is \$427. He asked what changes in block two.

Mr. Majewski stated years one, two, and three are assuming cash flow differences of 60 percent, 90 percent, and 100 percent. There is some consideration right now that the revenue would be recognized anyway, so if you focus on year three, it shows what we will deal with if he says this is the amount of exclusion with the referendum question. You are really looking at one percent generating between \$712 to \$950 worth of exclusion which will be refined throughout the spring as applications are turned in. He will then be able to provide a more narrow range for the actual referendum question.

Mr. Disario questioned that the assumption is 100 percent tax collection.

Mr. Majewski replied that the assumption will be 100 percent. The district will recognize 100 percent of the financial liability. The district will not assume 100 percent tax collection. The rest will be shown as a receivable and then may be collected in future years. It will be collected minus the two percent, the variable.

Mr. Pfenning asked for a motion that the Commission should recommend to the school board that there be an additional earned income tax of one percent and that the dollar exclusion will be specified by administration to the school board as it gets closer to the dollar within a range.

Mr. Disario pointed out that the recommendation could say that, because the

Commission's assumption will be between \$713 and \$950, "to be adjusted." These are the numbers the Commission is working on and that Mr. Majewski will have the opportunity to adjust the numbers as more information becomes available.

Mr. Disario and Mr. Pfenning spoke briefly about the proper wording of the Commission's recommendation. Mr. Pfenning said that a motion is needed suggesting that the school board propose the following referendum question: "Do you favor imposing an additional one percent earned income tax in the Bethlehem Area School District? Revenue generated from the increase will be used to reduce taxes on residential properties by a range of \$712 to \$950." Mr. Disario made the motion as worded by Mr. Pfenning. Mr. Doland seconded the motion. The question was called and roll call was as follows: Yea, Mr. Disario, Mr. Doland, Mr. Glancy, Mr. Hoffman, Director Koch, Mr. Pfenning, and Mrs. Stemrich - 7. Motion passed 7 - 0.

ROLL CALL  
RECOMMEND  
1% ADDITIONAL  
EIT

Mr. Pfenning stated he will make a presentation to the board on December 11. He asked Director Koch if the recommendation as worded is sufficient for the board or if it must have more detail.

ADDITIONAL  
PROCEDURES  
OF TAX STUDY  
COMMISSION

Director Koch said she can't speak for the rest of the board. She thinks what the Commission has proposed is the result of a very thoughtful process. She would certainly agree to it and encourage other board members to accept it. Legally, she doesn't know if the Commission needs to add other language.

Mr. Majewski said he will check with the solicitor to determine what is required. If it is required that the recommendation be presented at a public meeting, verbally, and that is all that is required, he will communicate that to the chairman. If more is required, he will communicate that and they will work on language that would comply with everything that has been adopted at this meeting.

Mr. Pfenning asked if the Commission must hold its meeting on the sixth of December to present the recommendation at another public meeting.

Mr. Majewski said he believes this will require him to get a legal opinion. He will get back to Mr. Pfenning with an answer. (Legal counsel was not present at the meeting.)

Director Koch said it is her understanding, from what Mr. Majewski said, that whatever additional wording may need to be on the recommendation has absolutely nothing to do with this committee and their decision, but is merely a decision from the attorney.

Mr. Majewski said he will make the assumption, without speaking to the attorney, that since that would not require any additional action of the

Commission, he does not see that it would have to be done in public at another advertised meeting. It would not change the recommendation. It will be for an EIT increase of one percent and will identify the range. As long as it has those components, he believes the Commission will be fine without another public meeting requirement. He will get confirmation of that.

Mr. Pfenning said he had asked Mr. Majewski what he is to do at the board meeting on December 11. He has told him that he should present the resolution and then fill in background, as he wishes, about how the committee reached that recommendation. Mr. Pfenning asked the Commission members if it is acceptable that he e-mail his remarks for the meeting to the Commission members for any comments or revisions.

Mr. Hoffman offered a reminder to reply only to Mr. Pfenning, not reply to all.

Mr. Glancy stated that he is very dissatisfied with this law. He thinks it is a very poor law and will be very hard to implement. He doesn't think it is doing what needs to be done in the state of Pennsylvania. He thinks the legislators ran away from their responsibilities and left it to the Commission and the school boards to do something. He thinks comments to that effect should be made.

Mr. Pfenning asked if the rest of the Commission agrees that he should give some sort of thoughts to the school board and the world as he speaks on December 11.

Mr. Glancy said his question is, "Do they have to be reminded of it." He assumes that the school board is educated enough to run the school district to know what the obligation of the Commonwealth is.

Mr. Hoffman stated it would be for the public that is listening. This is the lesser of the evils presented and the Commission must take advantage of whatever little pieces they give. This is a little piece.

Mr. Glancy asked if he is talking about the school board or to the press.

Mr. Pfenning replied that it would be a statement to the school board.

Mr. Glancy said no one will be there to hear it.

Mr. Hoffman said that is his personal opinion.

Mr. Glancy said it could be included. He doesn't know that he shares the distinction between an increased income or an increased municipal income tax.

Mr. Hoffman told Mr. Glancy that he seems to be recommending that he would rather have an increased state income tax. It is late to get into this discussion. That would have been no increase in cost to collect if the state had done it, because they could have changed the number on the form. They didn't have to do anything else. The district will have to either pay people more, hire a Berkheimer, do something else to make this work. It will be additional expense to the school district. He asked why the state made 500 school districts go through this.

Mr. Glancy stated that comments being made at the board meeting could promote audience people to contact their representatives.

Mr. Majewski commented that he thinks what Mr. Glancy is saying is that when you take a look at \$20,000,000 of the EIT, there is nothing in the law that indicates that the school district will be reimbursed for the additional \$500,000 worth of tax collection costs that will be required to implement this law.

Mr. Disario asked why that is, since the district already collects an earned income tax.

Mr. Majewski replied that it is a percentage of every dollar collected. Tax collectors collect it for the district, either by law or by hire. As an example, the city is required to collect it for the city. The Borough of Fountain Hill has an elected earned income tax collector. Berkheimer performs this service in other places. Bethlehem Township has Berkheimer. It costs in a range of between 2.25 percent and 2.35 percent for every dollar collected of EIT.

Mr. Pfenning asked if it is the consensus of the Commission that it can express to the public that, having gone through the process of reviewing this law and trying to come up with an implementation scheme, it is not totally comfortable with all provisions and the way it was presented and restricted to the Commission.

Director Koch suggested that when he speaks about the way it was presented he should make clear that it was not Mr. Majewski and how he presented it, but the state government and how they presented the law itself.

Mr. Hoffman said he doesn't disagree with anything that Mr. Glancy is thinking or expressing, but he has a concern that whatever presentation Mr. Pfenning will make to the school board should be as simple as possible. Maybe, at the spot for public comment during the meeting, individuals from the Commission may wish to offer other opinions. That might be the avenue to do that.

Mr. Pfenning said, if it is acceptable to the Commission, he will present the recommendation and then yield the floor to other Commission members wishing to comment.

Mr. Pfenning asked if the following is acceptable to the Commission: he will provide his remarks in advance for reaction, individual members will have the floor after his presentation, if so desired, to speak about the law. Unless required by law to meet again on December 6 at a public meeting to adopt additional language, there will not be a meeting until Monday, December 11, at the regular school board meeting.

Mr. Pfenning thanked Commission members for their good process. He is also appreciative of very thoughtful public comments.

Director Koch thanked the Commission on behalf of the board. The district has been lucky to have every member.

Mr. Majewski said that after the December 11 presentation, one of the items that will be on the agenda before the board to consider will be the discharge of the Tax Study Commission. If persons feel more comfortable making a comment as an individual, not as a Tax Study Commission member, the second courtesy of the floor would allow for that comment because the Tax Study Commission will no longer be in existence.

The following person addressed the Tax Study Commission.

1. William Scheirer, 1890 Eaton Avenue, Bethlehem, said that he wanted to encourage each and every one to say to the school board, "Let's abolish the per capita tax."

COURTESY OF  
THE FLOOR TO  
VISITORS

Mr. Doland and Mrs. Stemrich moved to adjourn the meeting which carried by voice vote. The meeting adjourned at 9:29 p.m.

ADJOURNMENT

Attest,

Stanley J. Majewski, Jr.  
Tax Study Commission Secretary