

Tax terms

Dedicated Tax - A tax from which all revenues are earmarked for a specific purpose, such as schools.
Earned Income Tax - A tax on income from wages and salaries only.
Personal Income Tax - A tax on income from all sources, including earned income and "unearned" income, such as interest and dividends.
Personal Property Tax - A tax on the face value of out-of-state securities and bank deposits. Presently .4% in Luzerne County.
Revenue Neutral - The principle that whatever mix of taxes replaces the present reliance on property taxes, the total amount of taxes won't be higher, at least the first year after reform.

School districts most affected by change

By GRACE R. DOVE
Post Staff

The Pennsylvania School Boards Association (PSBA) is encouraged that school tax reform is coming.

The PSBA favors a House proposal, which proposes a flat statewide income tax coupled with a decrease on property taxes, according to executive director Tom Gentzel.

One alternative that has been proposed, according to State Representative George Hasay, would raise the income tax rate to 3.9 percent and virtually eliminate property taxes as a source of school funding.

Gentzel blames the pressure for tax reform on inadequate state and federal funding of education.

As other funding has decreased, the burden of funding local school districts through property taxes has increased, Gentzel said.

"All school funding is interrelated," he said. "If the state and federal governments were funding education at the same rates that they did 15 years ago, we would have nearly \$1 billion more to work with."

Last year the property tax accounted for 46 percent, or \$6,704,601, of Dallas School District's \$15,692,000 budget.

An additional \$1,994,000 comes from delinquent taxes, interest on investments and Act 511 taxes, the so-called "nuisance taxes."

The district's 158-mill school property tax hasn't changed in the past three years.

Lake-Lehman's property owners contributed \$5,412,606, or 37 percent of the district's \$15,008,276 budget.

The remaining local income - \$1,924,794 - comes from Act 511 taxes.

Lake-Lehman, which serves Noxen Township in Wyoming County, as well as five Luzerne County communities, hasn't changed its 185-mill tax for Luzerne County residents for two years.

Last year changes in market value hit the district's Wyoming County residents with a four-mill tax increase, to 85 mills.

According to district financial manager Ray Bowersox, a district's millage is calculated according to its total market value, computed yearly by each county from the prices of properties sold and their assessed value for tax

purposes.

Because each county assesses taxes at different rates, the state must equalize or average the millage for an accurate comparison, Bowersox said.

The state releases these figures every June, forcing some districts to adjust their budgets to reflect the new figures, as happened last year in Noxen Township.

A personal income tax would give each local district a more equitable tax base and possibly eliminate such situations, Gentzel said.

Although it would shift the burden from all property owners to those most able to pay, a personal income tax wouldn't generate much more revenue than the present property tax does, he said.

"We want local school districts to have a more workable and equitable local tax base," he said. "We're not looking for a windfall."

Under a personal income tax, all income except for Social Security and retirement benefits would be taxed.

Gentzel said that the PSBA is concerned about other parts of the proposed tax reform bills before both houses:

- The formula for calculating millage increases allowed without a referendum is unclear. Although the idea is to keep millage increases on a par with increases in wages, no specific percentage or figure has been stipulated, Gentzel said.

- Enacting a personal income tax could result in the elimination of all Act 511 taxes, which are major sources of funding for some districts, Gentzel said.

- "For example, elimination of an amusement tax could hurt a district which has previously taxed a ski resort or large amusement park, whose users have helped to support the schools in the past," he said.

- Limiting the amount that a school district can borrow for building projects or other major improvements to 50 percent of the district's borrowing base without a public referendum could hamper necessary capital improvements.

A district's borrowing base is an average of its past three years' budgets, Gentzel said. Districts may now borrow up to 250 percent of their borrowing bases for major capital improvements projects.

Property tax

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tunity to adopt tax reform at the local level, by way of a referendum. Some, but far from all, officials also support a requirement that any municipal or school budget that exceeds the prior year by more than the percentage of wage inflation must be put to a vote.

- Local taxing bodies — counties, municipalities and school districts — should be given flexibility to determine what tax structure is best for their needs, or if they care to change at all.

Regular property reassessment is not present in either bill as they now stand (See separate story).

While reining in the property tax because of its inequities and burden on the elderly poor are the most commonly-voiced reasons for reform, there's another factor that is further from the surface of the debate; the property tax simply may not be able to provide the revenue needed to maintain and expand public institutions. Even so stalwart a defender of the taxpayer as Patricia Gold, who was co-founder of the Lake-Lehman Taxpayers' Association and now sits on the school board, thinks schools need more money to function well. "We're going to have to put more money into public education," she says. "I don't think taxpayer associations are against education."

Not everyone agrees. "People are really interested in seeing the brakes put on spending," says David Atkinson, executive assistant to Robert Jubelirer, the Senate Majority Leader. He and other legislators favor the use of referendums not just for making a change, but for any future budgets that require a large increase in taxes, especially those like the property tax that might have been reduced initially.

Will the people vote on it?

As presently written, the Senate measure would require voter approval when a municipal budget projects a revenue increase greater than the prior year's consumer

price index. School budgets would have to go the voters if a proposed millage rate increased by more than the statewide average weekly wage. The bill also eliminates the occupation tax, per capita tax and residence tax. However, the Senate's intention to provide great flexibility to local bodies could mean individual towns or districts would retain the "nuisance" taxes, according to Robert Greenwood, of the Pennsylvania Economy League.

Allowing voters new power over government budgets is not universally popular. State Representative Phyllis Mundy (D-120) voices a common concern. "The referendum issue is problematic," she says. "The climate is no new taxes of any kind for any reason." But she says there are sometimes good reasons to raise or lower taxes.

State Senator Charles Lemmond also has reservations. The bill "probably will pass with some form of referendum. I can be convinced that it's a real concern," he says. Lemmond favors the initial referendum so that voters can decide if their community or school district should change the tax structure, but he's against voter approval on each budget.

"I have no problem with that (referendum)," says Luzerne County commissioner Jim Phillips. "The (PA Association of County Commissioners) is against it." Phillips says the group contends officials were elected to make tax and budget decisions and should be left alone to do so.

Guy Ciarrocchi, executive director of the Senate Finance Committee, explained the reason to allow voters to approve budgets simply. "The theory is that we don't want school districts spending money faster than their residents are earning it," he says.

Ciarrocchi pointed out that the Senate bill adds another wrinkle to fiscal control by voters. A school district now may borrow an

amount up to 2 1/2 times its annual budget for building projects before a referendum is required; under the Senate bill that would be reduced to 50%. But, like other spokesmen, Ciarrocchi emphasized that local bodies would have the option to change their tax structure or keep it the same.

All the concern in government circles appears not to be matched among the electorate. Lemmond says he has sent hundreds of letters about the reform plan and received little comment in return. Mundy hasn't heard much, either. "Everybody complains about property taxes, but I've seen no concerted effort for local tax reform," outside of Harrisburg she said.

How much change?

It's hard to find anyone with firm estimates of the effect of tax reform on property owners. One of them is Ciarrocchi, who also serves as an aide to Senator Melissa Hart (R-40), who chairs the Senate Finance Committee.

"It's possible to determine fairly firm numbers of the effect on the county level," he says, although it's more difficult on the local and school level. Ciarrocchi says that if a county, and the municipalities and school districts within it adopt tax reform, property taxes will go down 30 to 40%.

The more a community relies on the property tax now, the greater will be the savings if income or sales taxes replace it. Thus, a largely residential community with high average incomes would see property taxes decline the most.

Reducing property taxes could create new problems while solving others. Representative Phyllis Mundy says she preferred a 1989 tax reform plan to the present one in part because it would have taxed residential and commercial property at different rates. She fears that if property taxes are reduced by a uniform percentage, towns and school districts which

are home to large industries will see their budgets shrink excessively.

Bob Greenwood of the PEI agrees. One option would be "uniform reduction of taxes," in which each property's valuation is reduced by the same amount, say \$10,000. That would provide a larger benefit to homeowners than to factories. But Greenwood also feels reassessment should be the first priority of tax reform legislation, or the uniform amount will have widely varying impact across the state.

Some themes run through interviews with players on the tax reform stage: that whatever finally emerges will have bipartisan support, will require some form of voter approval and will lower property taxes for many homeowners. Otherwise, the details remain to be resolved.

Reassessment

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reassessment simply make good business sense. "Prudent management would encourage a regular and systematic process of reassessment," he says.

Patricia Gold, a Lake-Lehman school director and co-founder of the district taxpayers' association, is more blunt. "You'll get reassessment when you get politicians who don't care about being re-elected," she says.

State Representative George Hasay appears to agree. When asked why reassessment wasn't in the reform bill, he cited two Columbia County commissioners who were tossed out of office after the county reassessed property a couple of years ago.

So, is there any reason to think reassessment will make its way into a tax reform bill? Probably not, although money may be provided for counties that might want to tackle the job. Of course, then the county leaders would have to tackle the issue, and face near certain resistance if not revolt.

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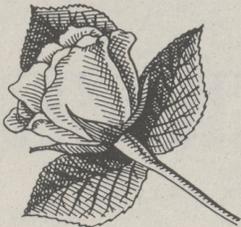
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State legislators to address business group

The Back Mountain Business and Professional Association will host area legislators at the group's meeting next week.

State Representatives Phyllis Mundy and George Hasay, and Lisa Baker of State Senator Charles Lemmond's office are expected to speak about activity in the State Legislature relating to small business. The meeting will take place Wednesday, May 11, beginning at 7:45 a.m. in Merrick Hall on the campus of College Misericordia.

A buffet breakfast is included in the \$5 charge, which is payable at the door. Non-members are invited to attend this meeting to learn more about the BMBPA. For information, call Bart Slocum at 675-1167.



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