



Research Summary

Pennsylvania Economy League

CENTRAL DIVISION

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A RARE OPPORTUNITY TO SAVE ON REAL ESTATE TAX COLLECTION COSTS IN CENTRAL AND EASTERN PENNSYLVANIA COUNTIES

SUMMARY

The fundamental objectives of any tax collection system should be the prompt, safe, and most efficient, economical, and honest collection of all taxes due. Pennsylvania's system for collecting real estate taxes does not meet all these objectives. It is basically unchanged from a century ago and is generally regarded as archaic.

Without changes in state legislation, most counties can directly influence their tax collection system only by modifying the method and/or rate of compensation of their tax collectors. This is a once-in-four-years opportunity which exists until February 15, 2001; it should not be missed.

Data gathered directly from county governments indicate that eight central and eastern Pennsylvania counties (Berks, Cumberland, Dauphin, Lancaster, Lehigh, Luzerne, Lycoming, and York) collected \$287.6 million in county taxes in 1999 and compensated their elected tax collectors more than \$1.7 million. Compensation for collecting these taxes totaled 0.60 percent of the taxes collected and averaged about \$2.27 for each taxable property.

Compensation as a percentage of the taxes collected in these eight counties ranged from 0.23 percent in Lancaster to 1.28 percent in York. Compensation per taxable parcel of real estate ranged from 75 cents in Lancaster to about \$3.32 in York.

If all the counties in this sample collected their 1999 taxes at a cost of compensation equal to the lowest reported cost among these counties (0.23 percent in Lancaster), annual savings of \$1,051,553 in the cost of collecting county taxes would have resulted; if these counties paid their tax collectors 75 cents for each tax bill (like Lancaster), annual savings of about \$1,146,362 would have resulted.

Clearly, there are substantial opportunities for making significant reductions in tax collection costs in these central and eastern Pennsylvania counties, and, likely, in most other counties throughout the Commonwealth.

INTRODUCTION

Most municipalities have an elected official who, by virtue of the position, acts as collection agent for all current real estate taxes levied in that municipality whether the taxing authority is the county, school district, or municipality. Exceptions may exist in home rule counties like Lackawanna and Northampton, where the county has opted to collect its taxes directly; in second class counties and counties subject to special legislation, such as those covered by the “Venango Act” of 1851; in third class cities where some counties have opted to collect their taxes through the county treasurer’s office; in municipalities with home rule charters or optional plans of government which have eliminated this position; and in jurisdictions where no one has sought election to this position or the elected collector has refused or “resigned” from the responsibility of collecting the taxes of one of the taxing jurisdictions—commonly because he or she believed the compensation was too low. In these cases the taxing authorities directly receive their taxes or have delegated this responsibility to banks or other agents.

In addition to the real estate tax, elected tax collectors (or treasurers) also collect other taxes levied by the taxing jurisdictions under the respective codes (per capita, residence, and occupation). Taxes levied by municipalities and school districts under Act 511 (earned income, occupational privilege, and so forth) need not be collected by the elected tax collectors (or treasurers). Local governments imposing taxes under Act 511 have broad flexibility in the selection of the collection agent, and some have established joint or centralized collection arrangements involving other taxing jurisdictions.

The methods and rates of compensation for elected tax collectors are determined by ordinance or resolution of each taxing body prior to February 15 of the year in which the tax collectors are elected. Taxing jurisdictions may not alter the established rates of compensation during the four-year term of office of the tax collector or treasurer. The next election for tax collectors and treasurers is in 2001; therefore, an opportunity for change is at hand.

In January and again at mid-year, PEL issued newsletters alerting public officials and taxpayers that a once-in-four-years opportunity to reduce real estate tax collection costs was approaching and that they needed to begin to do their homework so that they could make the best of this rare cost-saving opportunity. This report complements these “alerts,” demonstrates ways to control tax collection costs, and identifies the potential for annual savings without negatively affecting the tax collection process. Specifically, the report is designed to highlight the cost in terms of direct compensation (i.e., commissions, salaries, or other forms of remuneration) for collecting real estate taxes in ten central and eastern Pennsylvania counties (Berks, Cumberland, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Northampton, and York).

The figures on taxes collected and compensation paid which are presented in this study were gathered using a brief survey form which was mailed to each county. It was designed to identify the methods and rates of compensation of their elected tax collectors, total real estate taxes collected in 1999, the compensation paid, and other relevant data. The figures utilized in this study are “as

reported” by the respective county officials—not by the individual tax collectors. The same approach was utilized in 1996. But, in carrying out prior studies of this type, data were obtained directly from the reports of tax collectors filed with the Pennsylvania Department of Community Affairs. These reports listed, among other items, the amount of taxes collected for each jurisdiction, compensation paid, and expenses incurred. Act 48 of 1994 repealed the requirement that tax collectors annually file these reports with the Department. More recent legislation (Act 169 of 1998) requires that tax collectors regularly file reports with the taxing jurisdictions they serve detailing the taxes collected using standard forms provided by the Department of Community and Economic Development. However, these reports were not available in time to aid in PEL’s analysis.

PEL wishes to acknowledge the cooperation of each of the counties which participated in the data gathering phase of this study.

In addition to providing direct compensation, taxing jurisdictions generally underwrite many of the costs incurred by tax collectors including postage, printing, and stationery, as well as the premiums on the tax collectors’ bonds, and are responsible for the employer’s share of social security costs. These expenses are not included in this study as part of the cost of collecting taxes. It should also be noted that in some cases tax collectors incur costs for which they are not reimbursed by the taxing bodies. In these cases the total compensation figures cited in this report would be offset by the unreimbursed expenses, and, therefore, the figures would not be fully comparable with those of tax collectors who have all their costs reimbursed. The costs of compensation presented in this report, however, clearly reflect the amounts which were reported by the counties to have been paid to the elected tax collectors for the collection of real estate taxes in 1999.

It should also be noted that in some cases real estate tax collections and the corresponding compensation reported to PEL may have included data on per capita, occupation, and/or other taxes or charges. References to real estate tax collections and compensation should be understood to include some per capita, occupation, and/or other taxes, fees, or charges in those cases where the collections and compensation were combined. Some of the data reported to PEL may also include prior years’ and/or delinquent taxes, penalties, and interest.

A companion series of reports addresses real estate tax collection costs in the boroughs, townships, and school districts in ten central and eastern Pennsylvania counties (Berks, Cumberland, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Northampton, and York), and a single composite report covering about 500 municipalities and 114 school districts in these counties has also been issued.

METHODS AND RATES OF COMPENSATION FOR COLLECTING COUNTY REAL ESTATE TAXES

While data were sought on the real estate taxes collected and compensation paid in each of the 510 municipalities in Berks, Cumberland, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne,

Lycoming, Northampton, and York counties, this study covers only eight counties and 406 tax collectors. Lackawanna and Northampton were excluded because they collect their taxes directly under authority of their home rule charters; these two counties represent 78 of the 510 municipalities. Within the eight counties included in this study, collections and compensation in 25 municipalities were excluded—primarily, the ten cities in these counties because of the traditional nature of the tax collection function in third class cities, municipalities which have eliminated their tax collectors under authority of a home rule charter or optional plan of government, and municipalities where, due to vacancies or for other reasons, the county collects its taxes directly. In some instances these exclusions may represent a substantial portion of the county's collections and compensation.

Just one of the counties which are covered in this study paid their elected tax collectors a commission, five compensated exclusively on a per bill basis, and two paid a salary or stipend plus an amount per bill. In the county compensating on a commission basis (Cumberland) commissions ranged from 1.0 percent (on the first \$300,000 collected) to 0.5 percent on collections above that level. The county also reported a "cap" which limits a tax collector's compensation in any year from exceeding that of the prior year by more than 5.0 percent. Per bill payments (where this was the exclusive method used) ranged from 75 cents (in Lancaster) to \$3.00 (in Luzerne). Two of the six counties which paid on a per bill basis (Berks and Lehigh) used a sliding scale which decreased the rate per bill as the number of bills increased. One of the two counties which compensate using a salary plus a per bill amount (Dauphin) provided a \$1,000 base salary to all tax collectors plus \$1.50 for each bill but "capped" the compensation at \$30,000 per tax collector; the other (York) paid a base stipend ranging from \$300 to \$1,500 (depending on the number of bills processed) plus \$2.10 for each bill. (See Exhibit I.)

The total reported compensation paid to the 406 elected tax collectors in the eight counties (for which data were available) for collecting \$287,567,542 in county real estate taxes in 1999 was \$1,712,027. The aggregate compensation as a percentage of total taxes collected was 0.60 percent (up from 0.56 percent in 1995 but down from 0.79 percent in 1995, 1.12 percent in 1991, 1.25 percent in 1987, and 1.66 percent in 1983). (The 1983, 1987, 1991, 1995, and 1999 figures may represent a slightly different number and mix of tax collectors.) The range in compensation costs as a percentage of taxes collected was from 0.23 percent in Lancaster to 1.28 percent in York. Based on the estimated number of taxable properties in the municipalities included in each county, the cost of compensation was \$2.27 per parcel. The range was from 75 cents per parcel in Lancaster to \$3.32 in York. (See Exhibit II.)

Many factors affect the compensation a jurisdiction pays to collect each real estate tax. These include the volume of taxes, the method and rate of compensation of the tax collector, and the promptness of the taxpayers. However, a review of data contained in this series of studies clearly suggests that there is a strong relationship between the method of compensating tax collectors and the relative cost of collection.

The aggregate cost of collection as a percentage of taxes collected in the five counties which compensated purely on a per bill basis was 0.50 percent in 1999 or \$2.04 per parcel; in the county which compensated on a commission basis the aggregate cost was 0.86 percent of taxes collected and

\$2.03 per parcel. In the counties compensating on a combined salary or stipend/per bill basis, the cost of compensation was 0.73 percent of taxes collected and \$2.83 per tax bill.

WHAT CAN BE DONE TO CONTROL TAX COLLECTION COSTS?

Only changes in state law will permit the centralized collection of all county, municipal, and school real estate and other code taxes, which unquestionably would be much more reliable and cost-effective than the present system. Under existing law, the easiest way to bring about reductions in cost is for taxing jurisdictions to adjust the method and/or rate of compensation. If all counties in this sample collected their 1999 taxes at a cost of compensation equal to the lowest reported cost (Lancaster's—0.23 percent), an annual savings of \$1,051,553 would have resulted. The range in potential savings is from \$46,329 in Dauphin to \$385,110 in York. Similarly, if all the counties compensated their tax collectors at 75 cents for each tax bill (like Lancaster), an annual savings of \$1,146,362 would have resulted. The range in potential savings using this approach is from \$76,660 in Lycoming to \$363,688 in York. (See Table 1.)

Table 1

Potential Savings in Tax Collection Costs
Ten Central and Eastern Pennsylvania Counties
 1999

County	1999 Compensation	Potential Savings Based on Collecting at the Lowest Cost:	
		As a % of Taxes Collected ^{1/}	Per Taxable ^{2/}
Berks	\$ 257,897	\$ 126,526	\$ 167,717
Cumberland	173,069	126,941	109,178
Dauphin	161,673	46,329	100,384
Lackawanna	<u>3/</u>	<u>3/</u>	<u>3/</u>
Lancaster	76,745	—	—
Lehigh	157,118	70,768	95,904
Luzerne	310,440	221,737	232,830
Lycoming	105,407	74,142	76,660
Northampton	<u>3/</u>	<u>3/</u>	<u>3/</u>
York	<u>469,779</u>	<u>385,110</u>	<u>363,688</u>
Total	\$1,712,027	\$1,051,553	\$1,146,362

^{1/} Lancaster's compensation cost of 0.23 percent of taxes collected.

^{2/} Lancaster's compensation cost of 75 cents per bill.

^{3/} The county government collects its taxes directly under authority of its home rule charter.

The cost of collecting each \$100 of real estate taxes in the counties covered by this report has declined significantly since PEL issued its first analysis of this type. The unit cost of collecting county taxes decreased by almost two-thirds from 1.66 percent in tax year 1983 to 0.60 percent in 1999. (While the decrease in the unit cost is strongly influenced by changes in the methods and/or rates of compensation, the rise in the volume of taxes levied is also a factor.)

Had there been no change in the unit cost of collecting each \$100 of county real estate taxes since tax year 1983, the current cost would be almost three times higher. More significantly, the cumulative cost of collecting county real estate taxes from the mid-1980s through 1999 would have been about \$40 million greater.

Clearly, PEL's periodic analyses and "calls for action" combined with the positive response on the part of county officials have produced significant savings for the taxpaying public.

During the past two decades some jurisdictions—particularly school districts, but many boroughs and townships and some counties—have concluded that they could collect their taxes at lower unit costs than they were paying their elected tax collectors and have set their rates of compensation accordingly. Some tax collectors have responded by refusing to collect taxes for these jurisdictions at the established levels of compensation and have "resigned" from this responsibility. As a result, some jurisdictions directly collect their taxes, while others have arranged for their school district or county government to collect them, or have delegated responsibility to banks or other agents. In so doing, they have improved efficiency, provided for the safety of their assets, enhanced liquidity and interest earnings, improved reporting, reduced auditing and bonding costs, and realized significant savings. By far the greatest number of examples of this approach exist in Lancaster County, where almost one-half of the municipalities and three-fourths of the school districts collect their taxes in this manner.

Another cost-saving approach has been taken by at least two counties in Pennsylvania with home rule charters—Lackawanna and Northampton. They each have opted to collect their county taxes directly at sizable reductions in costs. Lehigh is the only other county covered in this study which has a home rule charter and which can take a similar approach to the collection of its taxes. Several boroughs and townships have also eliminated the elected tax collector through the adoption of a home rule charter or optional plan of government. Municipalities which have taken this approach have significantly reduced tax collection costs—in fact some actually show a modest "profit" in carrying out this function.

HOW SHOULD YOU GO ABOUT ADJUSTING THE METHOD AND RATE OF COMPENSATION FOR YOUR TAX COLLECTORS?

- Find out how your compensation costs compare with other counties and the municipalities and school districts in your county.

- Find out why some can collect taxes at lower compensation costs.
- Find out if a change in the method and/or rate of compensation for your tax collectors is justified and which method and rate would be most cost-effective.

In considering these questions, it is important to remember that too often the compensation of tax collectors is not related to their responsibilities or workloads. Commissions, for example, are based not on the number of taxables but on the value of the taxables and the tax rate. If commissions are not “capped,” tax rate increases can produce increased compensation without any change in workload. Large tax bills netting large commissions cost no more to handle than small ones. Salary and per bill compensation are more logical and have generally proved to be less costly than commissions.

When it has been determined that a change in the method and/or rate of compensation of the tax collectors is justified, the county should initiate appropriate action in keeping with the terms of the Local Tax Collection Law (72 P.S. 5511.36a) which states that changes in tax collectors’ compensation should be made by ordinance or resolution finally passed or adopted prior to February 15 of the year in which the tax collectors will be elected. Such action must also be consistent with the terms, conditions, and procedures outlined in the county codes.

All appropriate steps should be taken far enough in advance to ensure that all required actions are completed and that the ordinance or resolution is “finally adopted” prior to February 15, 2001.

This report should help county officials to better meet their responsibility to ensure that the functions of their governmental units are carried out in the most cost-effective manner. PEL will join with concerned taxpayers in monitoring the response of all taxing jurisdictions to the data put forth in this report and will remain alert to opportunities to make changes in Pennsylvania’s tax collection law to allow for more modern and less costly real estate tax collection methods.

**REMEMBER, FINAL ACTION BY COUNTY GOVERNMENTS
MUST BE TAKEN PRIOR TO FEBRUARY 15, 2001.**



The Pennsylvania Economy League is a 64-year old nonprofit, nonpartisan organization which serves as a catalyst for the increased effectiveness of state government, and also for the adoption of state policies and programs which will improve the state’s economy and encourage economic development in order to improve the quality of life for the citizens of Pennsylvania. At the local level PEL works to improve government by bringing about the sound financing and the most cost-effective delivery of necessary public services. To these ends, PEL encourages and assists officials of Pennsylvania’s state and local governments in formulating and implementing sound policies and practices through its program of

professional and unbiased research in government finance and management. PEL's efforts are made possible by the voluntary tax deductible memberships of more than 1,000 individuals, businesses, institutions, and associations throughout Pennsylvania.

Exhibit I

Methods and Rates of Compensation Paid for Collecting County Taxes
Ten Central and Eastern Pennsylvania Counties
 1999

County	Method of Compensation	Rate of Compensation
Berks	Per Bill	First 999 Bills = \$2.25 Per Bill Next 2,001 Bills = \$2.00 Per Bill Over 3,000 Bills = \$1.75 Per Bill
Cumberland	Commission	First \$300,000 Collected = 1.0 Percent Thereafter = 0.5 Percent Compensation Cannot Exceed Prior Year's By More Than 5.0 Percent.
Dauphin	Salary and Per Bill	\$1,000 Per Year Plus \$1.50 For Each Bill With Total Compensation Per Tax Collector Not To Exceed \$30,000
Lackawanna	County Collects ^{1/}	County Collects ^{1/}
Lancaster	Per Bill	75 Cents Per Bill
Lehigh	Per Bill	First 1,000 Bills = \$3.00 Per Bill Next 2,000 Bills = \$2.25 Per Bill Over 3,000 Bills = \$1.75 Per Bill Electronic Transfer = \$0.50 Per Bill
Luzerne	Per Bill	\$3.00 Per Bill
Lycoming	Per Bill	\$2.75 Per Bill
Northampton	County Collects ^{1/}	County Collects ^{1/}
York	Stipend and Per Bill	Up to 500 Bills = \$300 Plus \$2.10 Per Bill 501 to 1,500 Bills = \$500 Plus \$2.10 Per Bill 1,501 to 2,500 Bills = \$700 Plus \$2.10 Per Bill 2,501 to 4,000 Bills = \$1,000 Plus \$2.10 Per Bill 4,001 to 6,500 Bills = \$1,200 Plus \$2.10 Per Bill Over 6,500 Bills = \$1,500 Plus \$2.10 Per Bill

^{1/} The county government collects its taxes directly under authority of its home rule charter.

SOURCE: Survey form mailed by PEL to county officials; responses are "as reported" on survey forms returned to PEL by October 31, 2000.

Exhibit II

Method of Compensation, Real Estate Taxes Collected, Compensation, and Compensation as a Percentage of Taxes Collected and Per Parcel

Ten Central and Eastern Pennsylvania Counties

1999

County	Primary Method of Compensation	# of Municipalities		Taxes Collected ^{2/}	Compensation Paid ^{2/}	Compensation as a % of Taxes Collected	Approx. # of Real Estate Taxables ^{3/}	Compensation per Taxable Parcel
		In County	Included in Study ^{1/}					
Berks	Per Bill	75	74	\$ 57,118,027	\$ 257,897	0.45%	120,240	\$2.14
Cumberland	Commission	33	33	20,055,913	173,069	0.86	85,188	2.03
Dauphin	Salary/Per Bill	40	39	50,149,186	161,673	0.32	81,718	1.98
Lackawanna	<u>4/</u>	40	—	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>
Lancaster	Per Bill	60	44	33,772,037	76,745	0.23	102,326	0.75
Lehigh	Per Bill	24	22	37,500,000	157,018	0.42	81,485	1.93
Luzerne	Per Bill	76	72	38,566,364	310,440	0.80	103,480	3.00
Lycoming	Per Bill	52	52	13,593,433	105,407	0.78	38,330	2.75
Northampton	<u>4/</u>	38	—	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>
York	Stipend/Per Bill	<u>72</u>	<u>70</u>	<u>36,812,582</u>	<u>469,779</u>	1.28	<u>141,454</u>	3.32
Total	—	510	406	\$287,567,542	\$1,712,027	0.60%	754,221	\$2.27

^{1/} Tax collections and compensation for some municipalities had to be excluded: for example, cities were excluded because of the nature of the treasurers' offices in third class cities; also excluded were jurisdictions where special circumstances exist, such as in home rule charter or optional plan municipalities and in those instances where the county collects its taxes directly. These exclusions may represent a substantial portion of the county's collections and compensation.

^{2/} Tax collections and the corresponding compensation of tax collectors may include data on per capita taxes in some counties.

^{3/} Includes taxable real estate parcels only for those municipalities in each county which are covered by this study; that is, the estimated number of parcels is exclusive of the cities and other jurisdictions whose tax collections could not be used in this report.

^{4/} The county government collects its taxes directly under authority of its home rule charter.

SOURCE: County Officials

PEL:CD December 2000