



# Research Summary

## Pennsylvania Economy League

CENTRAL DIVISION

December 2000

### Cumberland County

#### A RARE OPPORTUNITY TO SAVE ON REAL ESTATE TAX COLLECTION COSTS IN BOROUGHES, TOWNSHIPS, AND SCHOOL DISTRICTS

##### 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, local officials can directly influence the real estate 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 municipalities and school districts indicate that 26 of the boroughs and townships in Cumberland County collected \$7.0 million in real estate taxes in 1999 and compensated their elected tax collectors almost \$111,000, while eight of Cumberland County's nine school districts collected \$117.0 million and compensated their elected tax collectors more than \$417,000. Compensation for collecting borough and township real estate taxes totaled 1.60 percent of the taxes collected; compensation for collecting school district taxes was 0.36 percent of the taxes collected.

Reported compensation as a percentage of taxes collected in Cumberland County's boroughs and townships ranged from 0.54 percent to 12.34 percent. In school districts the range was from 0.16 percent to 0.59 percent.

**If all boroughs and townships collected their 1999 real estate taxes at a cost of compensation equal to the lowest reported cost in the county, and school districts did likewise, annual savings of \$73,353 and \$230,164, respectively, would have resulted. Combined, the annual savings in the cost of collecting borough, township, and school district real estate taxes in Cumberland County would be \$303,517.**

While it may be unrealistic to expect that all taxing jurisdictions will reach this goal, it is clear that there is substantial opportunity for making significant reductions in real estate tax collection costs in Cumberland County's boroughs, townships, and school districts.

## 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 a county, school district, or municipality. Exceptions may exist in home rule counties like Lackawanna and Northampton, where the county government 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 boroughs, townships, and school districts in Cumberland County.

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 borough, township, and school district in the county. It was designed to identify the methods and rates of compensation of their elected tax collector, 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 municipal and school 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 municipalities and school districts 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 municipalities and school districts 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, such as garbage fees or street light assessments. 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 report will relate real tax collection costs in Cumberland County's jurisdictions to those of about 500 municipalities and 114 school districts in ten central and eastern Pennsylvania counties: Berks, Cumberland, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Northampton, and York. The cost of collecting county taxes in these areas will be the subject of a separate report.

**METHODS AND RATES OF COMPENSATION FOR COLLECTING  
BOROUGH AND TOWNSHIP REAL ESTATE TAXES**

While data were sought on the real estate taxes collected and compensation paid in each of the 33 boroughs and townships in Cumberland County, this study covers only 26. One municipality did not levy a real estate tax in 1999, in one instance special circumstances prevented use of collection and compensation data, and in five cases municipal officials did not respond to PEL's request for data.

The primary method of compensation for 19 of the 26 borough and township tax collectors which are covered in this study was commission, while the other seven were paid a salary.

Reported commissions in Cumberland County's boroughs and townships (when it was the exclusive method used) ranged from 0.75 percent to 5.0 percent and may vary depending on whether collections occur during the discount, face, or penalty periods, or whether taxes are from prior years. Some municipalities may base compensation on a sliding scale according to the volume of taxes collected or tax bills handled, and some, after establishing their rates of compensation, may place "caps" on the total compensation that can be paid to the tax collectors. (The same may be true for school districts.)

The total reported compensation paid to the tax collectors in the 26 Cumberland County municipalities (for which data were available and could be used) for collecting \$6,950,518 in municipal real estate taxes in 1999 was \$110,885. The average (mean) compensation as a percentage of total real estate taxes collected was 1.60 percent—up from 1.43 percent in 1995 and 1.49 percent in 1987, but down from 1.61 percent in 1991 and 1.78 percent in 1983. (The 1983, 1987, 1991, 1995, 1999 figures may represent a slightly different number and mix of tax collectors.)

Many factors affect the compensation a jurisdiction pays to collect each real estate tax dollar. These include the volume of taxes, the method and rate of compensation of the tax collector, and the promptness of the taxpayers. However, 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.

In the 19 Cumberland County municipalities which paid their tax collectors on a commission basis in 1999, compensation as a percentage of taxes collected (2.52 percent) was more than double the average for those which paid a salary. (See Table 1 and Exhibit I.)

#### METHODS AND RATES OF COMPENSATION FOR COLLECTING SCHOOL REAL ESTATE TAXES

This study covers eight of Cumberland County's nine school districts; one district did not respond to PEL's request for data. In three of the districts the elected tax collectors were compensated on a per bill basis; two districts paid a salary as the primary method of compensation; and three use a combination of methods. Reported per bill compensation ranged from \$1.60 to \$2.75 for each bill.

Table 1

Real Estate Taxes Collected and Compensation Paid by Method of Compensation  
Cumberland County Boroughs and Townships  
 1999

Primary Method of Compensation	# of Municipalities	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	19	\$2,308,226	\$ 58,148	2.52%
Salary	7	4,642,292	52,737	1.14
Per Bill	—	—	—	—
Combination	—	—	—	—
All Municipalities	26	\$6,950,518	\$110,885	1.60%

The total reported compensation paid to the 27 tax collectors serving the eight Cumberland County school districts was \$417,418 for collecting \$117,034,009 in real estate taxes in 1999. The average compensation as a percentage of taxes collected was 0.36 percent (up from 0.34 percent in 1995, but down from 0.51 percent in 1991, 0.68 percent in 1987, and 0.75 percent in 1983). (The 1983, 1987, 1991, 1995, and 1999 figures may represent a slightly different number and mix of tax collectors.) (See Table 2 and Exhibit II.)

#### 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 the boroughs and townships in Cumberland County collected their 1999 real estate taxes at a cost of compensation equal to the lowest reported borough and township cost in the county, an annual savings of \$73,353 would have resulted. Similarly, if the county's school districts collected their 1999 real estate taxes at a cost of compensation equal to the lowest reported school district cost in the county, an annual savings of \$230,164 would have occurred.

Table 2

Real Estate Taxes Collected and Compensation Paid by Method of Compensation  
Cumberland County School Districts  
 1999

Primary Method of Compensation	# of School Districts	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	–	\$ –	\$ –	– %
Salary	2	17,882,463	44,000	0.25
Per Bill	3	26,808,190	129,338	0.48
Combination	<u>3</u>	<u>72,343,356</u>	<u>244,080</u>	0.34
All Districts	8	\$117,034,009	\$417,418	0.36%

The compensation paid to the elected tax collectors included in this sample by the boroughs, townships, and school districts in Cumberland County totaled \$528,304 in 1999. If all boroughs and townships collected their 1999 taxes at a cost of compensation equal to the lowest reported cost in the county, and school districts did likewise, a combined annual savings of \$303,516 would have resulted. While it may be unrealistic to expect that all taxing jurisdictions will reach this goal, it is clear that there is a substantial opportunity for making significant reductions in real estate tax collection costs in the boroughs, townships, and school districts in Cumberland County and, likely, in most other counties throughout the Commonwealth.

The cost of collecting each \$100 of real estate taxes in Cumberland County has declined significantly since PEL issued its first analysis of this type. The unit cost of collecting borough and township taxes decreased by about one-tenth from 1.78 percent in tax year 1983 to 1.60 percent in 1999, while the unit cost of collecting school district taxes has dropped by more than one-half from 0.75 percent to 0.36 percent during this period. (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 borough and township real estate taxes in Cumberland County since tax year 1983, the current cost would be more than 10 percent higher; had there been no change in the unit cost of collecting each \$100 of school district real estate taxes during this period, the current cost would be about double. More significantly, the cumulative cost of collecting borough and township real estate taxes in the interim years would have

been about \$180,000 greater, and the cumulative cost of collecting school district real estate taxes would have been \$6.4 million higher.

Combined, current real estate tax collection costs in 1999 would have been higher by about \$500,000, and the cumulative costs to Cumberland County taxpayers from the mid-1980s through 1999 would have been about \$6.6 million higher. Clearly, PEL's periodic analyses and "calls for action" combined with the positive response on the part of municipal and school officials have produced significant savings for the taxpaying public in Cumberland County.

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 the school district or the 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 involves the elimination of 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. Similarly, Lackawanna and Northampton counties--both of which have Home Rule Charters—have opted to collect their county taxes directly at sizable reductions in costs.

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

- Find out how your compensation costs compare with others.
- 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 collector 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 collector is justified, the taxing jurisdiction 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 respective borough, township, or school district codes.

**No matter what type of jurisdiction is involved, 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 public 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 LOCAL TAXING JURISDICTIONS  
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 in Cumberland County and throughout Pennsylvania.

Method of Compensation, Real Estate Taxes Collected, Compensation,  
and Compensation as a Percentage of Taxes Collected  
**Cumberland County Boroughs and Townships** <sup>1/</sup>  
1999

Municipality	Primary Method of Compen- sation <sup>2/</sup>	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
<b>BOROUGHES:</b>				
Camp Hill	2	\$1,200,000	\$6,500	0.54%
Carlisle	SC	SC	SC	SC
Lemoyne	2	398,767	4,000	1.00
Mechanicsburg	1	428,746	9,727	2.27
Mt. Holly Springs	DNR	DNR	DNR	DNR
New Cumberland	1	515,370	3,865	0.75
Newburg	1	1,430	72	5.00
Newville	1	77,013	3,158	4.10
Shippensburg	DNR	DNR	DNR	DNR
Shiremanstown	1	98,282	1,688	1.72
Wormleysburg	1	232,885	6,987	3.00
<b>TOWNSHIPS:</b>				
Cooke	1	19,810	1,016	5.13
Dickinson	1	8,526	1,052	12.34
East Pennsboro*	2	941,771	10,000	1.06
Hampden*	2	370,000	7,000	1.89
Hopewell	DNR	DNR	DNR	DNR
Lower Allen*	2	950,069	9,100	0.96
Lower Frankford	1	8,929	446	4.99
Lower Mifflin	1	3,048	258	8.47
Middlesex	1	220,556	6,770	3.07
Monroe	1	61,582	3,982	6.47
North Middleton	1	371,205	4,068	1.10
North Newton	1	14,343	985	6.87
Penn	DNR	DNR	DNR	DNR
Shippensburg	NT	NT	NT	NT
Silver Spring	2	582,252	10,137	1.74
South Middleton	1	169,093	10,266	6.07
South Newton	1	6,584	493	7.49
Southampton	1	48,475	2,457	5.07
Upper Allen*	2	199,433	6,000	3.01
Upper Frankford	1	12,610	518	4.11
Upper Mifflin	1	9,739	341	3.50
West Pennsboro	DNR	DNR	DNR	DNR

Exhibit I

Footnotes:

1/ In some cases real estate tax collections and the corresponding compensation reported to PEL may include data on per capita, occupation, and/or other taxes or charges; such as, garbage collection fees or street light assessments. As such, references to real estate tax collections and compensation should be understood to include other taxes or charges in some cases.

2/ Methods of Compensation:

1 = Commission

2 = Salary

3 = Per Bill

4 = Salary and Commission

5 = Salary and Per Bill

6 = Per Bill and Commission

\* = First Class Township

NT = No real estate tax levied

ID = Insufficient data provided

DNR = Did not respond to PEL survey

SOURCE: Survey form mailed by PEL to municipal 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

Cumberland County School Districts<sup>1/</sup>

1999

<u>School Districts</u>	Primary Method of Compen- sation <sup>2/</sup>	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Big Spring	3	\$ 6,745,749	\$ 26,886	0.40%
Camp Hill	DNR	DNR	DNR	DNR
Carlisle Area	4	15,571,696	25,346	0.16
Cumberland Valley	5	29,373,141	122,369	0.42
East Pennsboro Area	2	10,131,683	22,000	0.22
Mechanicsburg Area	3	12,718,913	74,949	0.59
Shippensburg Area	3	7,343,528	27,503	0.37
South Middleton	2	7,750,780	22,000	0.28
West Shore	6	27,398,519	96,365	0.35

<sup>1/</sup> In some cases real estate tax collections and the corresponding compensation reported to PEL may include data on per capita and/or other taxes. As such, references to real estate tax collections and compensation should be understood to include other taxes in some cases.

<sup>2/</sup> Methods of Compensation:  
 1 = Commission  
 2 = Salary  
 3 = Per Bill  
 4 = Salary and Commission  
 5 = Salary and Per Bill  
 6 = Per Bill and Commission

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

PEL:CD December 2000