



Research Summary

Pennsylvania Economy League

CENTRAL DIVISION

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Lehigh 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 19 of the boroughs and townships in Lehigh County collected \$16.2 million in real estate taxes in 1995 and compensated their elected tax collectors more than \$147,000, while six of Lehigh County's school districts collected \$87.1 million and compensated their elected tax collectors almost \$135,000. Compensation for collecting borough and township real estate taxes totaled 0.91 percent of the taxes collected; compensation for collecting school district taxes was 0.15 percent of the taxes collected.

Reported compensation as a percentage of taxes collected in Lehigh County's boroughs and townships ranged from 0.21 percent to 5.65 percent. In school districts the range was from 0.03 percent to 0.33 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 \$113,016 and \$108,713, respectively, would have resulted. Combined, the annual savings in the cost of collecting borough, township, and school district real estate taxes in Lehigh County would be \$221,729.

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 Lehigh 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 Lehigh 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 Lehigh 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 23 boroughs and townships in Lehigh County, this study covers only 19. In one municipality special circumstances prevented use of collection and compensation data, in one case the information provided proved to be insufficient or incomplete, and in two instances municipal officials did not respond to PEL's request for data.

The primary method of compensation for nine of the 19 borough and township tax collectors which are covered in this study was commission; seven were paid a salary; and three were paid on a per bill basis.

Reported commissions in Lehigh County's boroughs and townships (when it was the exclusive method of compensation used) ranged from 3.0 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. For those compensated on a per bill basis, the reported range was from \$2.25 to \$3.25 for each bill processed. 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 19 Lehigh County municipalities (for which data were available) for collecting \$16,209,202 in municipal real estate taxes in 1999 was \$147,055. The average (mean) compensation as a percentage of total real estate taxes collected was 0.91 percent—up from 0.86 percent in 1995 but down from 2.41 percent in 1991, 2.23 percent in 1987, and 2.03 percent in 1983. (The 1983, 1987, 1991, 1995, and 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 eight Lehigh County municipalities which paid their tax collectors on a commission basis in 1999, compensation as a percentage of taxes collected was much higher than in those which compensated on any other basis identified—2.20 percent. This figure is almost double the average for those compensated on a per bill basis and more than four times the average for those paid a flat salary. (See Table 1 and Exhibit I.)

METHODS AND RATES OF COMPENSATION FOR COLLECTING SCHOOL REAL ESTATE TAXES

This study covers six of Lehigh County's nine school districts; the Allentown School District was excluded because of the nature of the traditional tax collection mechanism in third class cities and two other districts were excluded because school officials did not respond to PEL's request for data.

Table 1

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

Primary Method of Compensation	# of Municipalities	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	9	\$ 3,071,749	\$ 67,727	2.20%
Salary	7	11,004,491	53,887	0.49
Per Bill	3	2,132,961	25,441	1.19
Combination	=	—	—	—
All Municipalities	19	\$16,209,202	\$147,055	0.91%

In two of the six school districts covered in this study, elected tax collectors were compensated on a per bill basis; two districts paid a salary; and two used a combination of salary and per bill compensation. Reported per bill compensation in both districts where it was the exclusive method used was \$2.00 for each bill collected.

The total reported compensation paid to the 18 tax collectors serving the six Lehigh County school districts for which data were available was \$134,836 for collecting \$87,075,890 in real estate taxes in 1999. The average compensation as a percentage of taxes collected was 0.15 percent (the same as in 1995 but down from 0.19 percent in 1991, 0.22 percent in 1987, and 0.31 percent in 1983). (The 1983, 1987, 1991, 1995, and 1999 figures may represent a slightly different number and mix of school districts and tax collectors.)

In the four Lehigh County school districts which paid their tax collectors on a salary or a per bill basis in 1999, compensation as a percentage of taxes collected was about one-half the average for those which paid both a salary and an amount per bill. (See Table 2 and Exhibit II.)

Table 2

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

Primary Method of Compensation	# of School Districts	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	–	\$ –	\$ –	– %
Salary	2	24,592,094	29,777	0.12
Per Bill	2	45,752,634	58,355	0.13
Combination	<u>2</u>	<u>16,731,162</u>	<u>46,704</u>	0.28
All Districts	6	\$87,075,890	\$134,836	0.15

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 Lehigh 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 \$113,016 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 \$108,713 would have occurred.

The compensation paid to the elected tax collectors included in this sample by the boroughs, townships, and school districts in Lehigh County totaled \$281,891 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 \$221,729 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 Lehigh County and, likely, in most other counties throughout the Commonwealth.

The cost of collecting each \$100 of real estate taxes in Lehigh County has declined significantly since PEL issued its first analysis of this type. The unit cost of collecting borough and township taxes decreased by more than one-half from 2.03 percent in tax year 1983 to 0.91 percent in 1999; the unit cost of collecting school district taxes has dropped by about one-half from 0.31 percent to 0.15 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 Lehigh County since tax year 1983, the current cost would be about double; 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 also be about double. More significantly, the cumulative cost of collecting borough and township real estate taxes in the interim years would have been about \$2.5 million greater, and the cumulative cost of collecting school district real estate taxes would have been \$1.9 million higher.

Combined, current real estate tax collection costs in 1999 would have been higher by about \$317,000, and the cumulative costs to Lehigh County taxpayers from the mid-1980s through 1999 would have been about \$4.4 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 Lehigh 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 Lehigh County and throughout Pennsylvania.

Exhibit I

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

Lehigh County Boroughs and Townships ^{1/}

1999

<u>Municipality</u>	Primary Method of Compen- sation ^{2/}	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
BOROUGHES:				
Alburtis	1	\$ 234,890	\$ 7,048	3.00
Catasauqua	2	634,521	2,000	0.32
Coopersburg	2	416,416	13,500	3.24
Coplay	1	254,845	7,645	3.00
Emmaus	1	1,773,318	12,803	0.72
Fountain Hill	2	757,662	4,400	0.58
Macungie	1	181,563	7,758	4.27
Slatington	3	508,345	5,336	1.05
TOWNSHIPS:				
Hanover ^{HR/}	SC	SC	SC	SC
Heidelberg	1	86,541	4,894	5.65
Lower Macungie	DNR	DNR	DNR	DNR
Lower Milford	3	183,936	9,305	5.06
Lowhill	DNR	DNR	DNR	DNR
Lynn	1	106,074	5,910	5.57
North Whitehall	1	304,046	15,202	5.00
Salisbury*	2	1,400,000	3,000	0.21
South Whitehall*	2	2,976,892	10,000	0.34
Upper Macungie	2	678,000	8,000	1.18
Upper Milford	1	49,804	2,433	4.88
Upper Saucon	3	1,440,680	10,800	0.75
Washington	1	80,668	4,033	5.00
Weisenberg	ID	ID	ID	ID
Whitehall ^{HR/}	2	4,141,000	12,987	0.31

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 3 = Per Bill 5 = Salary and Per Bill
2 = Salary 4 = Salary and Commission 6 = Per Bill and Commission

* = First Class Township

HR/ = Home Rule Charter Municipality

SC = Special circumstances prevented use of data

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.

PEL:CD December 2000

Exhibit II

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

Lehigh County School Districts ^{1/}

1999

<u>School Districts</u>	Primary Method of Compen- sation ^{2/}	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Allentown City ^{3/}	SC	SC	SC	SC
Catasauqua Area	DNR	DNR	DNR	DNR
East Penn	3	\$34,873,541	\$33,523	0.10
Northern Lehigh	5	7,132,800	14,850	0.21
Northwestern Lehigh	5	9,598,362	31,854	0.33
Parkland	DNR	DNR	DNR	DNR
Salisbury Township	2	9,975,636	3,177	0.03
Southern Lehigh	3	10,879,093	24,832	0.23
Whitehall-Copley	2	14,616,458	26,600	0.18

^{1/} 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.

^{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

^{3/} The Allentown School District was excluded because of the nature of the traditional tax collector mechanism in a third class cities.

SC = Special circumstances prevented use of data

DNR = Did not respond to PEL survey

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