



Research Summary

Pennsylvania Economy League

CENTRAL DIVISION

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Luzerne 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 real estate tax collection costs 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 51 of the boroughs and townships in Luzerne County collected \$6.7 million in real estate taxes in 1999 and compensated their elected tax collectors almost \$135,000, while ten Luzerne County school districts collected \$91.5 million and compensated their elected tax collectors almost \$373,000. Compensation for collecting borough and township real estate taxes totaled 2.02 percent of the taxes collected; compensation for collecting school district taxes was 0.41 percent of the taxes collected.

Reported compensation as a percentage of taxes collected in Luzerne County's boroughs and townships ranged from 0.30 percent to 7.28 percent. In school districts the range was from 0.17 percent to 0.79 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 \$114,689 and \$217,360, respectively, would have resulted. Combined, the annual savings in the cost of collecting borough, township, and school district real estate taxes in Luzerne County would be \$332,049.

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 Luzerne 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 Luzerne 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 Luzerne 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 72 boroughs and townships in Luzerne County, this study covers only 51. Three municipalities did not levy real estate taxes in 1999, in two cases special circumstances prevented use of collection and compensation data, in four instances the information provided proved to be insufficient or incomplete, and in 12 cases municipal officials did not respond to PEL's request for data.

The method of compensation for 32 of the 51 borough and township tax collectors which are covered in this study was commission; 15 were paid a salary; three were paid on a per bill basis; and one used a combination of salary and commission.

Reported commissions in Luzerne County’s boroughs and townships (when it was the exclusive method used) ranged from 2.0 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 \$1.50 to \$2.00 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 51 Luzerne County municipalities (for which data were available and could be used) for collecting \$6,666,049 in municipal real estate taxes in 1999 was \$134,688. The average (mean) compensation as a percentage of total real estate taxes collected was 2.02 percent—up from 1.89 percent in 1995, 1.95 percent in 1991, 1.81 percent in 1987, and 1.87 percent in 1983. (The 1983, 1987, 1991, 1995, and 1999 figures may represent a slightly different number and mix of tax collectors.) (See Table 1 and Exhibit I.)

Table 1

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

Primary Method of Compensation	# of Municipalities	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	32	\$2,680,816	\$ 92,388	3.45%
Salary	15	3,897,985	38,775	0.99
Per Bill	3	84,845	3,350	3.95
Combination	<u>1</u>	<u>2,403</u>	<u>175</u>	7.28
All Municipalities	51	\$6,666,049	\$134,688	2.02%

METHODS AND RATES OF COMPENSATION FOR COLLECTING
SCHOOL REAL ESTATE TAXES

This study covers ten of Luzerne County's school districts; one district did not respond to PEL's request for data. It should be noted that in three of the districts included in this study, the collections and compensation of one or more tax collectors were excluded because of special circumstances; these exclusions represent a substantial portion of the districts' collections.

In six of the county's ten school districts covered in this study, the elected tax collectors were compensated on a per bill basis; three districts paid a salary; and one used a combination of salary and commission. None paid a commission as the exclusive method of compensation. Reported per bill compensation ranged from \$2.00 to \$4.00 for each bill.

The total reported compensation paid to the 59 tax collectors serving the ten Luzerne County school districts included in this study was \$372,907 for collecting \$91,498,382 in real estate taxes in 1999. The average compensation as a percentage of taxes collected was 0.41 percent (up from 0.36 percent in 1995, but down from 0.50 percent, in 1991, 0.68 percent in 1987, and 0.85 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.)

Table 2

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

Primary Method of Compensation	# of School Districts	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	-	\$ -	\$ -	- %
Salary	3	30,459,336	103,030	0.34
Per Bill	6	49,817,618	181,121	0.36
Combination	<u>1</u>	<u>11,221,428</u>	<u>88,756</u>	0.79
All Districts	10	\$91,498,382	\$372,907	0.41%

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 Luzerne 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 \$114,689 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 \$217,360 would have occurred.

The compensation paid to the elected tax collectors included in this sample by the boroughs, townships, and school districts in Luzerne County totaled \$507,594 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 \$332,049 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 Luzerne County and, likely, in most other counties throughout the Commonwealth.

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 a catalyst of change 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 Luzerne County and throughout Pennsylvania.

Method of Compensation, Real Estate Taxes Collected, Compensation,
and Compensation as a Percentage of Taxes Collected
Luzerne County Boroughs and Townships ^{1/}
1999

<u>Municipality</u>	Primary Method of Compensation ^{2/}	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
BOROUGHS:				
Ashley	1	\$106,200	\$2,124	2.00%
Avoca	2	77,366	2,500	3.23
Bear Creek Village	1	7,337	359	4.89
Conyngham	1	206,614	4,144	2.01
Courtdale	DNR	DNR	DNR	DNR
Dallas	DNR	DNR	DNR	DNR
Dupont	1	115,309	2,000	1.73
Duryea	1	197,066	3,000	1.52
Edwardsville	2	290,000	4,000	1.38
Exeter	DNR	DNR	DNR	DNR
Forty Fort	2	355,812	3,000	0.84
Freeland	1	165,402	3,540	2.14
Harveys Lake	1	143,868	7,193	5.00
Hughestown	ID	ID	ID	ID
Jeddo	4	2,403	175	7.28
Kingston ^{HR/}	SC	SC	SC	SC
Laflin	1	104,675	2,094	2.00
Larksville	2	215,810	1,900	0.88
Laurel Run	3	31,862	566	1.78
Luzerne	1	133,830	6,540	4.89
Nescopeck	ID	ID	ID	ID
New Columbus	1	4,457	203	4.56
Nuangola	DNR	DNR	DNR	DNR
Penn Lake Park	2	12,865	300	2.33
Plymouth	2	220,451	2,300	1.04
Pringle	1	20,258	880	4.34
Shickshinny	3	24,043	1,089	4.53
Sugar Notch	1	28,534	1,548	5.42
Swoyersville	2	175,856	2,700	1.54
Warrior Run	1	44,737	1,342	3.00
West Hazleton	2	351,378	1,400	0.40
West Pittston	2	235,000	4,800	2.04
West Wyoming	1	141,886	7,094	5.00
White Haven	2	82,560	1,200	1.45
Wyoming	2	189,875	4,000	2.11
Yatesville	DNR	DNR	DNR	DNR
TOWNSHIPS:				
Bear Creek	1	36,728	1,836	5.00
Black Creek	DNR	DNR	DNR	DNR
Buck	DNR	DNR	DNR	DNR
Butler	DNR	DNR	DNR	DNR

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

Luzerne 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
TOWNSHIPS (Continued):				
Conyngham	1	\$ 45,661	\$2,170	4.75%
Dallas	1	183,958	7,460	4.06
Dennison	1	9,022	451	5.00
Dorrance	1	63,152	2,526	4.00
Exeter	1	86,297	2,218	2.57
Fairmount	1	29,543	1,449	4.91
Fairview	1	166,048	4,092	2.46
Foster	1	87,299	4,365	5.00
Franklin	1	43,431	2,172	5.00
Hanover*	DNR	DNR	DNR	DNR
Hazle	2	489,276	2,500	0.51
Hollenback	ID	ID	ID	ID
Hunlock	1	30,000	1,700	5.67
Huntington	1	31,974	1,596	4.99
Jackson	1	137,659	6,882	5.00
Jenkins	2	173,925	2,750	1.58
Kingston ^{HR/}	NT	NT	NT	NT
Lake	1	37,683	1,884	5.00
Lehman	DNR	DNR	DNR	DNR
Nescopeck	ID	ID	ID	ID
Newport *	DNR	DNR	DNR	DNR
Pittston	DNR	DNR	DNR	DNR
Plains*	2	889,544	2,625	0.30
Plymouth	1	61,000	1,981	3.25
Rice	3	28,940	1,695	5.86
Ross	1	36,000	1,600	4.44
Salem	NT	NT	NT	NT
Slocum	NT	NT	NT	NT
Sugarloaf	2	138,266	2,800	2.03
Union	1	23,917	1,460	6.10
Wilkes-Barre ^{HR/}	SC	SC	SC	SC
Wright	1	151,271	4,483	2.96

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

HR/ = Home Rule Charter Municipality

NT = No real estate tax levied

SC = Special circumstances prevented use of data

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.

PEL:CD December 2000

Exhibit II

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

Luzerne County School Districts^{1/}

1999

School Districts	Primary Method of Compensation ^{2/}	Taxes Collected	Compensation	
			Amount Paid \$	As a % of Taxes Collected
Crestwood	3	\$7,136,180	\$26,565	0.37%
Dallas ^{3/}	3	5,546,235	27,756	0.50
Greater Nanticoke Area	DNR	DNR	DNR	DNR
Hanover Area	3	7,197,367	12,536	0.17
Hazleton Area ^{3/}	3	19,477,580	44,539	0.23
Lake-Lehman	3	7,257,566	46,016	0.63
Northwest Area	3	3,202,690	23,709	0.74
Pittston Area	4	11,221,428	88,756	0.79
Wilkes-Barre Area ^{3/}	2	8,620,621	34,000	0.39
Wyoming Area	2	7,310,575	30,598	0.42
Wyoming Valley West	2	14,528,140	38,432	0.26

^{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/} Figures of at least one tax collector are excluded because of special circumstances.

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