



# Research Summary

## Pennsylvania Economy League

CENTRAL DIVISION

December 2000

### York 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 59 of the boroughs and townships in York County collected \$15.0 million in real estate taxes in 1999 and compensated their elected tax collectors more than \$325,000, while 11 of York County's school districts collected \$136.4 million and compensated their elected tax collectors more than \$450,000. Compensation for collecting borough and township real estate taxes totaled 2.17 percent of the taxes collected; compensation for collecting school district taxes was 0.33 percent of the taxes collected.

Reported compensation as a percentage of taxes collected in York County's boroughs and townships ranged from 0.68 percent to 8.86 percent. In school districts the range was from 0.09 percent to 0.72 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 \$223,484 and \$327,581, respectively, would have resulted. Combined, the annual savings in the cost of collecting borough, township, and school district real estate taxes in York County would be \$551,065.**

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 York 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 York 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 York 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 71 boroughs and townships in York County, this study covers only 59. One municipality did not levy a real estate tax in 1999, in one instance the information provided proved to be insufficient or incomplete, and in ten cases municipal officials did not respond to PEL's request for data.

The primary method of compensation for 48 of the 59 borough and township tax collectors which are covered in this study was commission; three were paid a salary; five were paid on a per bill basis; and for three, compensation was based on a combination of methods.

Reported commissions in York County's boroughs and townships (when it was the exclusive method used) ranged from 1.25 percent to 5.5 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 exclusively on a per bill basis, the reported range was from 35 cents to \$2.65 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 59 York County municipalities (for which data were available and could be used) for collecting \$15,021,020 in municipal real estate taxes in 1999 was \$325,626. The average (mean) compensation as a percentage of total real estate taxes collected was 2.17 percent—down from 2.60 percent in 1995, 3.68 percent in 1991, 2.76 percent in 1987, and 2.86 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 48 York County municipalities which paid their tax collectors on a commission basis in 1999, compensation as a percentage of taxes collected was higher than in those which compensated on any other basis identified—2.69 percent. This figure is more than double the average for those that paid on a per bill or flat salary basis. (See Table 1 and Exhibit I.)

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

This study covers 11 of York County's 15 school districts. The York City School District was excluded because of the nature of the traditional tax collection mechanism in third class cities; one district was excluded because it has no elected tax collectors and, instead, collects its taxes directly; in one instance the information provided proved to be insufficient or incomplete; and in one case school officials did not respond to PEL's request for data.

Table 1

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

Primary Method of Compensation	# of Municipalities	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	48	\$ 9,157,759	\$246,612	2.69%
Salary	3	3,049,064	39,425	1.29
Per Bill	5	1,970,734	23,532	1.19
Combination	<u>3</u>	<u>843,464</u>	<u>16,057</u>	1.90
All Municipalities	59	\$15,021,020	\$325,626	2.17%

In seven of the 11 school districts covered in this study, elected tax collectors were compensated on a per bill basis; the other four districts paid a salary. Reported per bill compensation when it was the exclusive method of compensation used ranged from \$1.00 to \$2.50 for each bill.

The total reported compensation paid to the 52 tax collectors serving the 11 York County school districts for which data were available and could be used was \$450,298 for collecting \$136,352,154 in real estate taxes in 1995. The average compensation as a percentage of taxes collected was 0.33 percent (down from 0.38 percent in 1995, 0.63 percent in 1991, 0.71 percent in 1987, and 0.92 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 seven York County school districts which paid their tax collectors on a per bill basis in 1999, compensation as a percentage of taxes collected was 0.33 percent—the same as the average for those compensated on a flat salary basis and the same as the overall average. (See Table 2 and Exhibit II.)

Table 2

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

Primary Method of Compensation	# of School Districts	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Commission	-	\$ -	\$ -	- %
Salary	4	50,853,151	165,713	0.33
Per Bill	7	85,499,003	284,585	0.33
Combination	-	-	-	-
All Districts	11	\$136,352,154	\$450,298	0.33%

#### 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 York 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 \$223,484 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 \$327,581 would have occurred.

The compensation paid to the elected tax collectors included in this sample by the boroughs, townships, and school districts in York County totaled \$775,925 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 \$551,065 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 York County and, likely, in most other counties throughout the Commonwealth.

The cost of collecting each \$100 of real estate taxes in York 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-quarter from 2.86 percent in tax year 1983 to 2.17 percent in 1999; the unit cost of collecting school district taxes has dropped by about two-thirds from 0.92 percent to 0.33

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 York County since tax year 1983, the current cost would be approximately 33 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 almost three times higher. More significantly, the cumulative cost of collecting borough and township real estate taxes in the interim years would have been about \$1.5 million greater, and the cumulative cost of collecting school district real estate taxes would have been \$11.3 million higher.

Combined, current real estate tax collection costs in 1999 would have been higher by about \$900,000, and the cumulative costs to York County taxpayers from the mid-1980s through 1999 would have been about \$12.8 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 York County.

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 York County and throughout Pennsylvania.

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

**York County Boroughs and Townships** <sup>1/</sup>

1999

<u>Municipality</u>	Primary Method of Compen- sation <sup>2/</sup>	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
<b>BOROUGHES:</b>				
Cross Roads	1	\$ 6,150	\$ 246	4.00%
Dallastown	1	103,087	4,312	4.18
Delta	DNR	DNR	DNR	DNR
Dillsburg	1	121,707	3,652	3.00
Dover	DNR	DNR	DNR	DNR
East Prospect	1	19,536	977	5.00
Fawn Grove	1	6,709	257	3.83
Felton	ID	ID	ID	ID
Franklinton	1	17,267	581	3.36
Glen Rock	DNR	DNR	DNR	DNR
Goldsboro	1	18,354	734	4.00
Hallam	1	109,723	5,709	5.20
Hanover	1	1,769,999	24,000	1.36
Jacobus	1	60,025	2,401	4.00
Jefferson	1	14,689	840	5.72
Lewisberry	1	11,437	457	4.00
Loganville	DNR	DNR	DNR	DNR
Manchester	1	96,157	3,846	4.00
Mount Wolf	1	81,275	2,845	3.50
New Freedom	1	142,739	7,655	5.36
New Salem	1	9,839	492	5.00
North York	DNR	DNR	DNR	DNR
Railroad	DNR	DNR	DNR	DNR
Red Lion	DNR	DNR	DNR	DNR
Seven Valleys	1	7,003	385	5.50
Shrewsbury	1	172,217	5,160	3.00
Spring Grove	3	128,273	1,431	1.12
Stewartstown	1	106,053	4,732	4.46
Wellsville	1	5,576	333	5.97
West York	4	186,541	3,244	1.74
Windsor	1	36,027	1,520	4.22
Winterstown	1	7,540	302	4.00
Wrightsville	1	57,025	2,851	5.00
Yoe	6	24,965	2,211	8.86
Yorkana	DNR	DNR	DNR	DNR
York Haven	1	26,828	1,878	7.00
<b>TOWNSHIPS:</b>				
Carroll	1	128,494	5,312	4.13
Chanceford	1	50,797	2,540	5.00
Codorus	1	52,835	2,183	4.13
Conewago	1	195,798	8,816	4.50

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

**York County Boroughs and Townships** <sup>1/</sup>

1999

<u>Municipality</u>	Primary Method of Compen- sation <sup>2/</sup>	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
<b>TOWNSHIPS (continued):</b>				
Dover	4	\$ 631,957	\$10,602	1.68%
East Hopewell	1	35,689	1,428	4.00
East Manchester	1	188,000	7,500	3.99
Fairview	1	718,832	26,597	3.70
Fawn	1	39,698	1,588	4.00
Franklin	1	39,879	1,994	5.00
Heidelberg	1	158,449	10,590	6.68
Hellam	3	460,242	7,665	1.67
Hopewell	1	64,129	4,478	6.98
Jackson	1	84,479	2,634	3.12
Lower Chanceford	1	47,616	2,381	5.00
Lower Windsor	NT	NT	NT	NT
Manchester	3	1,005,300	8,670	0.86
Manheim	1	137,477	5,499	4.00
Monaghan	1	98,043	5,061	5.16
Newberry	1	212,819	12,545	5.89
North Codorus	1	58,795	4,567	7.77
North Hopewell	1	34,691	1,797	5.18
Paradise	1	80,363	5,680	7.07
Peach Bottom	DNR	DNR	DNR	DNR
Penn*	2	1,177,051	8,000	0.68
Shrewsbury	1	27,778	2,479	8.92
Springettsbury	1	3,421,000	39,075	1.14
Springfield	1	63,135	4,304	6.82
Spring Garden*	2	1,378,389	21,425	1.55
Warrington	1	50,000	3,500	7.00
Washington	3	42,738	2,137	5.00
West Manchester	3	334,180	3,630	1.09
West Manheim	DNR	DNR	DNR	DNR
Windsor	1	162,000	7,900	4.88
York*	2	493,623	10,000	2.03

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

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

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

1999

School Districts	Primary Method of Compensation <sup>2/</sup>	Taxes Collected	Compensation	
			Amount Paid	As a % of Taxes Collected
Central York	DNR	DNR	DNR	DNR
Dallastown Area	3	\$21,877,931	\$72,977	0.33
Dover Area	3	11,022,285	33,919	0.31
Eastern York	ID	ID	ID	ID
Hanover Public	3	9,438,338	8,321	0.09
Northeastern	3	9,282,395	28,532	0.31
Northern York County	2	9,373,054	67,300	0.72
Red Lion Area	3	13,855,261	66,627	0.48
South Eastern	3	8,767,198	43,813	0.50
South Western	2	13,262,741	57,000	0.43
Southern York County	SC	SC	SC	SC
Spring Grove Area	3	11,255,595	30,397	0.27
West York Area	2	12,918,026	15,200	0.12
York City <sup>3/</sup>	SC	SC	SC	SC
York Suburban	2	15,299,330	26,213	0.17

<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

<sup>3/</sup> York School District was excluded because of the nature of the traditional tax collection mechanism in a third class city.

SDC = School District collects its taxes directly

SC = Special circumstances prevented use of data

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