

## **Easy Way for Towns to Save Big Money**

By Gerald Cross

Counties, boroughs, townships and school districts, many of which are scrambling to lower costs in the face of rising expenses to avoid tax increases or reduced services, can collectively save millions of dollars by exercising a once-in-four-year opportunity to change the method of pay for elected tax collectors.

The Pennsylvania Economy League has found through numerous studies that certain compensation approaches for tax collectors are significantly less costly than others. But local government bodies must act swiftly if a change in type or amount of pay for an elected tax collector is warranted. The state only allows adjustments to be made every four years. Governing bodies must set the rates for incoming tax collectors by February 15, 2013.

There are three basic types of compensation for elected tax collectors: commission, salary or per bill payment. Some jurisdictions use a combination of methods. PEL past studies have clearly shown that commission-based pay costs significantly more than the other methods. Not only are commissions more expensive, they have no bearing on the amount of work performed to collect the tax and instead are a reflection of the amount of tax collected.

Under the commission method, tax collectors receive a percentage of the bill. Thus, the more tax owed, the more the tax collector receives. An increase in the assessed valuation of a property or in the millage rate produces increased commissions, but the tax collector workload remains the same. Also, large tax bills generate large commissions, yet they are no more expensive to handle than small ones. In contrast, not only are salary and per bill compensation more logical and more in keeping with the work performed, they tend to be less costly as well.

A PEL 2003 study of boroughs and townships in 12 Central and Eastern Pennsylvania Counties found that the 267 municipalities that used commission-based pay spent 2.81 percent of the taxes collected for the service. Tax collectors earning a per bill fee received 1.06 percent of the taxes collected, while those working on salary made 0.79 percent of taxes collected.

As a result, those paying commission had an average cost of compensation that was almost three-fourths higher than the overall average and about three and one-half times higher than the average for those that paid a salary.

Regardless of the method used, governing bodies must act now to reduce costs by changing compensation methods, capping commissions, lowering per bill fees and salaries or freezing compensation at current levels, among other options. School districts in particular have been successful at shrinking costs, but over the years many other jurisdictions have saved hundreds of thousands of dollars individually by altering payment methods.

Governing bodies can determine how to adjust the method and rate of compensation for their tax collectors through three steps:

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

Unfortunately, despite documentation suggesting the potential for major savings, many jurisdictions let the opportunity slip by. Remember, local governments that fail to act by February 15 deadline will have no chance to make changes for another four years.

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