

What is a lockbox?

Lockbox refers to a payment collection service offered to municipalities primarily by banks. Under a lockbox system, residents receive return envelopes with the particular bill, which directs property tax, utility or motor vehicle excise payments, normally mailed to a city or town hall, to a bank location. Bills are imprinted with a bar code or alpha-numeric code identifying the property owner, the type of payment and the amount enclosed. The envelopes are opened by machine, payment information is extracted electronically, and checks are deposited to a municipal bank account. An accounting of daily receipts is reported to the city or town collector.

Because lockbox daily reports are in a selected electronic format, payment information is frequently uploaded into city or town's collections software automatically. As a result, staff time is freed-up as manual posting decreases and greater posting accuracy may result. A municipality's cash flow improves as well from the immediate deposit of receipts. Be aware however that not all financial software packages allow data uploads.

A lockbox service is a good option to offset an increase in the collector's volume of work. This typically occurs when a tax collector is converted to a town collector and begins receiving other payments, i.e., charges for water, sewer, trash, etc. in addition to property taxes and excises. A lockbox also helps reduce in-house workloads when a collector's office loses a position or staff hours are cut back.

Before engaging a lockbox service, a city or town should conduct a cost-benefit analysis. The cost for a lockbox service is initially based on the anticipated volume of payments and a per piece rate. Agreed upon rules dictate whether out of the ordinary payments are accepted or returned to the municipality for processing. For instance, will the lockbox service process payments that are greater or less than the amount indicated on the bill? In a complete agreement, charges apply to the lockbox service, to the handling of rejects and to banking services.