Vassalboro Fiscal Plan

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By Ken Kokernak, *Vassalboro Town Manager*

A fiscal year change and a quarterly tax payment plan are being used in the Town of Vassalboro. Town Manager Ken Kokernak explains how it all came about.

[Please note: this is a scanned copy of the April 1977 Townsman print article; some errors may exist.]

In the early months of 1976, as the town's municipal officers and budget committee members were trying to formulate a budget, they were frustrated in their efforts by the many unknowns concerning appropriations which affected the budget and the resulting tax rate. It was the consensus of municipal officers and budget committee members that no budget process could work well unless the income and expense estimates that a budget would be based on were fairly accurate before any allocations were made. Moreover, the difficulty of trying to formulate a budget without having all the information about school funding, miscellaneous State programs, revenue payments and town valuation was not limited to that year but would be an annual problem. A more reasonable time to formulate a budget would be after April 1, when the town's valuation could be determined and the State Legislature would have at least set the school funding formula. As a result of this thinking, a careful study was made of the proposal to change the start of the fiscal year to a time when the budget process would begin after the basic information. had become available.

In the study, information contained in the article "Implementing a New Fiscal Year," MAINE TOWNSMAN, December 1975 and in 'A Proposal. .. " by Philip Schenck, [r., Town Manager, Farmington, July 8, 1975], as well as in our own town records, was used in developing a case for changing the fiscal year. Evidence found by officers and committee members indicated that a July-June fiscal year would solve the budget formulation problems and allow many advantages not available with a January-December fiscal year. Therefore, the decision to change Was made by the officers in accordance with 30 M.R.S.A. §5151 (3) which gives the municipal officers the authority to set the fiscal year.

Because this article is a report on the change of the fiscal year .in one town, not on the reasons to change, the Cited references provide only the justification. Additionally, the Town of Vassalboro is in a School. Union, which means that all school finances are handled by the town, therefore, not to have changed would have meant keeping two sets of books 011 different fiscal years and incurring additional audit expense.

To accomplish the change several options Were considered, including an eighteen-month budget, a twelve plus a six-month budget, a six plus a twelve-month budget and any combination of time periods extending over an interval of up to six years. The fourth option was immediately ruled out because the law which required school budgets to conform to a July-June fiscal year specified a date within eighteen months. The first two options were discarded because both would have covered a period of time for which school funding information was then unavailable. That left only the six-month followed by a twelve-month option. Ultimately that choice proved wise because it minimized our degree of errors and effectively accomplished the change in as short a time as possible.

The next concern was, how could a six-month budget ending with a near-zero payment of property taxes be financed? That problem was solved by 30 M.R.S.A. § §5110, 5151, passed by the Legislature while the change was being formulated. The cited sections allow a town to raise two taxes using a single valuation and to repay TANs (Tax Anticipation Notes) within 18 months of the fiscal year during which they Were borrowed in order to make a transition to a new year.

These statutes then made two financing options available to the town: (1) either to send tax bills out immediately after the March town meeting, using the 1975 valuation, or (2) to wait for the 1976 valuation and finance the period with a TAN. It was decided to use the 1976 valuation as the basis for the six as well as the twelve-month budget in order to take advantage of new construction and to carry the TAN used during the six-month fiscal period into the twelve-month budget fiscal year.

This meant, however, that the tax bill for the six-month budget, when prepared and mailed, would have to be paid within a relatively short period of time in order to clear the way for a twelve-month fiscal year, during which time an installment payment plan would be tried. Thus, the six-month budget was combed of all expenses which could be deferred to the twelve-month budget, in order to reduce the tax bill for the six-month period as much as possible. The result was a tax rate of 38 percent of the 1975 rate for the six-month period and what later proved to be. a rate of 15.2 percent for the twelve-month budget. The tax rates for the eighteen-month period, annualized and compared to the 1975 rate which had been steady for two years, amounted to a .17 percent increase over the 1974 and 1975 rate.

With the change of the fiscal year the town solved the problem of an unreliable budget process and was given the opportunity to experiment with an installment tax payment plan. Under the January-December fiscal year, the tax year beginning April 1, tax bills could not be prepared and mailed until the sixth month of the year at the earliest, and because the fiscal year ended December 30; only six months remained in which the tax bills had to be paid, Under the July-June fiscal year, however, the payment of property taxes could be spread over twelve months. The officers thought that it would be a good idea to take advantage of this opportunity to arrange partial payment of taxes and to improve the town's cash flow at the same time by instituting an installment payments plan.

The plan, which the town adopted in May 1976, called for taxes in, the amount of $100 or more to be paid in equal or nearly equal installments on or before September 30, 1976, December 31, 1976, March 31, 1977, and June 30, 1977. Taxes less than $100 were due in full December 31, 1976.

The reason for selecting those payment dates was to spread the payment over as long a time as possible within the limits of the fiscal year and to facilitate the calculation of interest on late payments. Interest is charged on the payment if not paid by the due date.

Taxes less than $100, which amounted to 3.55 percent of the total commitment for the new. fiscal year, were not Included in the quarterly payment plan in order to limit the extra work involved with an all handwritten accounting system. In the case of taxes which were hot evenly divisible by four, the remaining number of cents was added to the final installment.

Taxpayers were notified of the payment plan by the inclusion of a four-copy form with the regular tax bill which indicated the payment dates and the amount due for each installment. An advertisement is placed in the local newspapers shortly before the respective due dates as a reminder that an installment is due. However, many taxpayers are remembering to make payment ahead of time, and some have used the quarterly installment forms to develop their own payment plan, paying the taxes early on their own schedule.

Although taxpayers did receive two tax bins in 1976, the amount of tax that had to be paid before December 30, 1976 by taxpayers owing, more than $100 Was less than in 1975. This was because only half of the twelve-month bill was due in addition to the six-month bill. Response by the taxpayers to the quarterly plan has been favorable because it eases the financial impact of their property taxes.

The effect of the combination of changing the fiscal year and instituting a quarterly payment plan on the cash flow of the town has been significant. Cash income has exceeded cash outflow to the extent that tax anticipation borrowing has proved to be unnecessary from the very first month of the 1976-77 fiscal year. Experience had shown the following percent of the commitment collected for the months of the fiscal year for which information is available: first month, .5 percent; second month, 6.1 percent; third, 25 percent; fourth, 31 percent: fifth, 34 percent; sixth, 47 percent; seventh, 50.9 percent; eighth, 52.2 percent; and ninth, 64.8 percent. Total collection of the commitment during 1975 did not amount to 34 percent until the tenth month of the fiscal year.

The value of the changes has been such that the benefits far outweigh the small problems encountered with the change. Municipal officers should not veto a proposal to, change fiscal years before examining the system and giving the voters an opportunity to comment.