CITY OF CAMBRIDGE

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To Robert W. Healy, City Manager

Date April 13, 1990

From James P. Maloney
Assistant City Manager/Fiscal Affairs

Reference Council Order #52

Subject COSTS AND SAVINGS OF IMPLEMENTING QUARTERLY TAX BILLS

BACKGROUND

In an attempt to ease cash flow and revenue problems currently being experienced in many Massachusetts cities and towns, the Legislature has enacted a new local option law that allows for quarterly tax billings rather than semi-annual billings. Effective July 1, 1990, this local option legislation will allow cities and towns to collect property tax four times a year instead of twice, which could result in increased investment income, reduced borrowing costs and improved cash flow for communities that accept this option. Although, the City of Cambridge has not issued any tax anticipation notes for the past three fiscal years, it could benefit from the interest earning potential as well as the improved cash flow.

The City currently mails property tax bills twice a year, usually by October 1 and April 1, with due dates of November 1 and May 1, respectively. During most fiscal years, actual tax bills are issued for both the first half and second half payments. In contrast, if the City implemented a quarterly billing system, tax payments would be due on the first of August, November, February and May, and the first two payments would be based on an estimated bill. The Assessors would make a preliminary tax commitment each year in sufficient time for preliminary tax bills to be mailed by July 1. The preliminary tax would be based on 50 percent of the prior year's net tax on the property. Thus, the first two quarterly payments would be equal to one half of the prior year's total tax bill. After the City sets the tax rate and the Assessors calculate the tax commitment, the actual tax bills would be issued. The final two quarterly payments will be equal to the actual tax due minus the first and second payments. This is similar to the already established system of using estimated bills, but would include two additional, accelerated payments.

COSTS

Several costs would be associated with converting to a quarterly billing system, including software changes to the existing revenue collection system, additional staff for the Assessing Department to handle the increased workload, and increased fees from the lockbox service that processes the City's tax payments. Some of these costs would be one-time conversion costs, and some would be annual costs. The following summarizes the major cost factors.

Computer System: $60,000 One Time Cost
In order to implement a quarterly billing system, the City's automated revenue collection system would need significant software programming changes. Because of legal issues concerning continued technical support, changes of this magnitude to the revenue collection system must be made by MISTI, the software vendor for the City's financial information system. The Data Processing Department estimates that approximately four months would be needed to develop a quarterly billing system, including programming and testing the revisions. The cost for software changes could be at least $30,000. In addition, the purchase of additional disk storage to handle the doubling of account transaction activity will be necessary. The cost for a new disk would be $30,000.

Staff Requirements: $15,000 -$30,000 Annual Cost
Converting to a quarterly billing system would increase the workload in both the Assessing and Finance Departments. According to the Department of Revenue guidelines, the Assessors must update the legal file prior to making the preliminary tax commitment. Therefore, the Assessing Department must identify all real property parcels and personal property accounts that will be subject to taxation in the coming tax year, and update the file for the following: ownership changes as of January 1; lot splits, subdivisions and condominium conversions as of January 1; and personal property accounts as of January 1. In order to make the preliminary tax commitment in sufficient time for the City to issue preliminary tax bills by July 1, the Assessing Department would have to complete the legal file update approximately three months earlier than with the semi-annual billing system. At minimum, a data entry clerk would be needed for six months each year to assist in updating the file. The cost of one full time clerk, including salary and benefits, is approximately $30,000.

Mailing and Processing Costs: $26,000 Annual Cost
The following additional mailing and processing costs would be incurred should the City convert to quarterly billing:

Bills, envelopes:	$ 6,000
Mailing cost (.025 X 40,000)	$10,000
Lockbox	$10,000
TOTAL	

Other
Initially, at least, the quarterly tax billing system will be confusing to taxpayers. Not only will they be receiving estimated bills for the first one or two quarters, but the first bill will go out in July, due in August, when many people are vacationing.

REVENUE/SAVINGS

The most important benefit to the City would be the increased investment income that could be generated. The City would receive about 50 percent of the property tax payments three months earlier than it would if bills were issued semi-annually. The Finance Department estimates that approximately $1,000,000 in additional interest could be earned by investing this tax revenue for an additional three months. The table below shows this calculation.

FY 90 Tax Levy	$109,510,683
FY 89 Collection Rate	96.35%
50% of Collected Levy	$ 52,756,771
90 Day Invest @ 8.0%	$ 1,055,135

Another major benefit of the quarterly billing cycle is improved cash flow, which would allow communities to reduce or eliminate costly short term borrowing. Although the City of Cambridge has not issued any tax anticipation notes since fiscal year 1987, borrowing may be necessary in future fiscal years.

CONCLUSION

Clearly, the proposed quarterly tax billing system will be of financial benefit to the City and it is my recommendation that the City adopt such a system. However, I recommend that quarterly billing not be implemented until July of 1991. This recommendation is based on the following: First, I am concerned that there would not be adequate time to educate the public about the change. While it is true that many of our residents make tax payments to a bank escrow account and would not be affected by this change, many others, particularly the elderly, pay the City directly. For these taxpayers, the remaining time before the first FY 1991 bill would go out (July 1, 1990) may not be enough for them to adjust their household budgets. If the City Council were to accept this statute in the fall of 1990, an orderly education process could take place and result in less problems for taxpayers. Secondly, the quarterly billing system will have a major impact on the work schedules of the Tax Collector's, Assessor's and Data Processing departments. I do not believe this change could be accomplished in such a short time frame without confusion and potential errors. Finally, another bill, which recommends maintaining the semi-annual billing process, but moving the due dates up to July 1 and January 1, is currently before the Legislature. Should this bill be approved, the City may want to consider implementing this system instead of the quarterly billing system.

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

May 7, 1990

To The Honorable, The City Council:

In response to Council Order No. 52, dated March 12, 1990, relative to costs and savings of implementing quarterly tax bills, attached please find a report from James P. Maloney, Assitant City Manager for Fiscal Affairs.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
enclosure

Agenda # 9 S-476

Response to Council Order # 52 of March 12, 1990 regarding costs and savings of implementing quarterly tax bills.

In City Council,

May 7, 1990

Placed on file