



April 28, 2004

The Honorable Richard R. Goyette  
City of Chicopee  
17 Springfield Street  
Chicopee, MA 01013

Dear Mayor Goyette,

It was a pleasure meeting with you and your financial officers on April 8. I am writing to follow up on the conversation we had on quarterly property tax billing and the potential financial benefits to the City of Chicopee.

Prior to FY91, all Massachusetts communities issued property tax bills semi-annually (MGL Ch. 59 §57 and Ch. 60 §§3 & 3A). However, beginning in 1991, the legislature provided a local option allowing quarterly tax billing (MGL Ch. 59 §57C). Using this system, a community issues bills four times a year – due on the first of August, November, February and May. This system is designed to provide a community with a more evenly distributed flow of tax revenues, a potential to increase investment income, and reduce, if not eliminate, tax anticipation borrowing costs. At this time, 207 of 351 municipalities have adopted quarterly tax billing.

Currently, Chicopee issues semi-annual property tax bills. This system requires the assessors to finalize valuations and the city to balance its budget by late summer. Then the tax rate can be approved in September, allowing the bills to be mailed on or before October 1. During a revaluation year or other year where there are valuation related delays, a community has the option to submit a “pro-forma” recapitulation sheet and issue a preliminary tax bill in the fall pending finalization of its values (MGL Ch. 59 §23D and Ch. 60 §§3 & 3A). Historically, Chicopee has not taken advantage of this option. If a community does not pursue these options it must issue two actual bills. Between FY02-04, Chicopee has been relatively late in issuing its first half tax bill, between 48 and 81 days, or an average of 59 days. Often, communities are hard pressed to issue the tax bill timely if the assessors have not finalized values by late summer, the state’s budget is not final until late fall, and/or the local budget is not balanced.

Beginning in FY05, all communities will be required to review and analyze the property sales data and business income & expense statements in order to make interim year adjustments to property values where necessary. To date, Chicopee, like many communities, has updated its values only when it completes a triennial recertification. This practice often results in large value increases in the third year, surprising the taxpayers. With interim year value adjustments, taxpayers may experience smoother increases in values. However, it will add to the assessing office’s workload and could add further delays to setting the tax rate. Because of this delay in the receipt of revenues, a community may find it necessary to issue tax anticipation notes to meet its cash flow needs. Thus far, Chicopee has avoided doing this, due to ample cash reserve balances.

In a quarterly tax billing system, a community automatically issues the first two estimated tax bills based on the prior year’s actual assessment. These bills are mailed on or before July 1 and October 1 with

due dates of August 1 and November 1, respectively. These bills may be mailed separately, increasing postage costs. However, many communities issue them together in June without incident, in some cases resulting in early November payments. Because the new tax rate does not need to be approved until December, in time for the January 1 mailing of the third (and often fourth) quarter bills, the assessing office has additional time to perform its duties. Given the fact that the tax rate is set comparatively late in Chicopee, quarterly billing would allow the city to receive tax revenue prior to getting its tax rate set.

Quarterly billing may result in some increased costs. A one-time programming cost could be incurred if the community's software needs to be updated. Recurring costs could be an increase in postage, lock-box, and bill form fees. Lock-box fees would probably be the highest of these additional costs. If the city were to send out twice as many bills to approximately 11,000 taxpayers, at a worst-case estimation of a \$0.17 processing fee per receipt, there would be an annual increase of \$3,740 to the lock-box budget. To offset this and other additional expenses, quarterly billing provides a significant increase in revenue. Table 1 shows how switching to a quarterly system would improve the city's cash flow and investment income.

**TABLE 1: Investment Income Gained from Projected FY05 Quarterly Tax Payments**

Quarterly Tax Billing	Billed	Collected	Additional Interest Generated			Total
			8/1-11/1	11/1-12/30	2/1-5/1	
July 1 (due August 1)	12,192,633	11,912,202	31,527	20,218		51,745
October 1 (due November 1)	12,192,633	11,912,202		20,218		20,218
January 1 (due February 1)	13,282,680	12,977,178			33,225	33,225
April 1 (due May 1)	13,282,680	12,977,178				0
	50,950,625	49,778,761	31,527	40,436	33,225	105,188

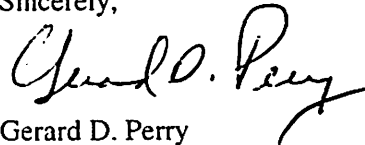
To arrive at an estimate of the FY05 tax levy, we added 2.5% and the FY05 new growth estimate (used in the FY05 Municipal Revenue Growth Factor) to the FY04 levy. Using this projected Committed Levy of \$50,950,625 and the three-year collection average of 97.67%, Chicopee could collect approximately \$49.8 million in property tax revenue in FY05. In both tax systems, the same amount of levy is billed and collected. In a quarterly system, the first two quarterly payments are due Aug 1 and Nov 1. Over the last three years, in the current semi-annual system, the first bill has been sent out, on average, 59 days late, making the due date, on average, Dec 30. Therefore, Table 1 has the calculated interest for the period Aug 1-Nov 1, as well as the interest from Nov 1-Dec 30, representing the additional investment income that Chicopee could realize in a quarterly system. Additional interest also accrues after the third quarter due date of Feb 1, three months before revenue would be received under the semi-annual system. Because the quarterly system improves the cash flow, an additional \$105,000 is generated in investment income. The current Massachusetts Municipal Depository Trust (MMDT) annual percentage rate (APR) of 1.05% was used to generate this estimate. Using the average interest rate for the last three fiscal years (3.33%), the additional revenue would be approximately \$343,000. The high watermark in the last five years was 6.00% in FY01. In that case, the city would generate over \$620,000 in FY05. Clearly, the financial benefits far outweigh the increased costs, and the difference becomes even more significant as interest rates go back up.

A quarterly tax payment system may only be used in communities that have accepted MGL Ch. 59 §57C and specified that the acceptance is for the purpose of adopting or establishing a quarterly tax payment system. Acceptance and adoption requires a majority vote of the Board of Aldermen. If Chicopee were to accept the statute before July 1, 2004, the quarterly tax payment system must be implemented for FY05 unless the Board of Aldermen votes specifically to designate another implementation date. If Chicopee is intending to implement the quarterly tax payment system for FY05, it should vote to accept the statute and establish the system as soon as possible in order to allow sufficient time for the assessors and collector to prepare for the July 1 preliminary tax billing.

The Department of Local Services has written an Informational Guideline Release (IGR) on the subject of the quarterly tax billing system. To find more detailed information, please go to [http://www.dls.state.ma.us/PUBL/IGR/2004/igr04\\_202.pdf](http://www.dls.state.ma.us/PUBL/IGR/2004/igr04_202.pdf).

In closing, I would like to thank you for allowing the Division of Local Services to assist the city in its ongoing effort to improve its financial management. If you have any further questions about this issue or any other issue regarding municipal finance during your tenure as Mayor, please do not hesitate to contact me directly at (617) 626-2134.

Sincerely,



Gerard D. Perry  
Acting Deputy Commissioner

GDP/LH