

Changing to a Fiscal Year

RSA 31:94 – a



June 13, 2012

Objective Tonight

- To have a discussion on changing the city's accounting period from a calendar year (January to December) to a fiscal year (July to June) and other benefits that may result from such a change.





Objective

- Council has been requesting we change to a fiscal year for some time but funding it was an issue and the ability to pay with a “5th” quarterly bill was only available by legislation in Concord.
- Claremont asked that this funding option be open to anyone changing to a fiscal year and it was approved in 2004.
- Even though approved, the municipality needed to ensure that it could fund the extra months with that 5th quarterly bill. Non-discretionary costs had made the change prohibitive.

Current Status: Calendar Year

- Budget prepared and approved in Nov-Dec of prior year.
- Accounting and spending begins January 1st of current year.
- Tax bills to pay for current year sent out in June and December.



Current Status: Calendar Year

Advantages:

- Everyone is used to it.



Current Status: Calendar Year

Disadvantages

- School, County and State are on a July to June fiscal year. Any downshifting from the state budget leaves us less than 6 month to react since we are already halfway through our budget.
- We often have to borrow money short-term to pay bills or delay payment of bills until receipt of tax money in June & December.
- Often have large outstanding property taxes that are still open as of the end of the “60 day” rule increasing GASB liabilities.
- Many taxpayers (especially those not escrowed and compounded by the recession of the past several years) get 2 large bills each year and often end up overwhelmed and in tax lien.

Current Status: Calendar Year

In Summary:

- We are spending for 6 months before we receive tax payments.



Proposed Change To A Fiscal Year (If Approved)

- Annual budget prepared in January-March of current year. Council would receive it by 60 days prior to July 1 (early May)
- Budget approved by end of May of the current year or City Manager proposal goes into effect.
- Fiscal year spending begins July 1st.
- Timing and or amount of tax bills would change.

Proposed Transition To A Fiscal Year

Advantages:

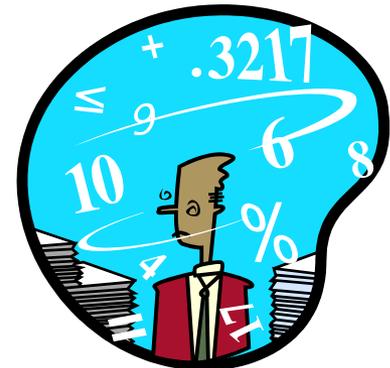
- City on same accounting year as school, state and county.
- Lessens need for potential borrowing costs.
- Improved efficiency in finance department.
- No longer in arrears on our spending requirements
- Money on hand before spending begins. (No living off reserves)



Proposed Transition To A Fiscal Year

Disadvantages:

- Method of budgeting and billing of taxes must be changed.
- Changes what we know and understand; may cause confusion in the short term.



Proposed Change To A Fiscal Year

In Summary:

- We recommend changing to a Fiscal accounting year for the long term advantages as outlined. This will ensure continued sound financial management benefits.
- Let look at some options on ways to convert to a fiscal year.

4 Options To Convert To A Fiscal Year

The Just Do It Method: This method funds the entire 18-month transition budget through taxation. It will result in a one-time increase of approximately 50 percent in the municipal portion of the tax rate.

The Save Ahead Method: [RSA 35:1-a](#) authorizes the establishment of a capital reserve fund to set aside money in anticipation of the change to the optional fiscal year. Utilizing this funding method, a municipality would appropriate money into the reserve fund for use at a future date when the 18-month transition budget is adopted. For example, if a municipality typically raises \$15,000,000 to fund annual town operations, then the anticipated 18-month transition budget would be approximately \$22,500,000 (\$7,500,000 to fund the additional 6-month period). A municipality could plan to appropriate \$2,000,000 each year for four years into a capital reserve fund. At the end of the four-year period, there would be \$8,000,000 plus any interest in the reserve fund to offset the transition year budget and take into effect some inflation. The result would lessen the impact on the tax rate during the transition year since the tax rate impact was spread over the previous four years when the reserve was funded. (But that's still over \$2.50 per \$1,000 on the tax rate for the next 4 years!)

4 Options To Convert To A Fiscal Year

The Bonding Method: [RSA 31:94-d](#) authorizes the issuance of bonds to fund the transition budget. Such bonds are limited to one-third of all taxes assessed and must be repaid within 20 years.

The Quarterly Billing Method: Started by the City of Concord, this method entails issuing five quarterly bills during the 18-month transition period. There is a 12-month budget, funded by four quarterly bills, and then a separate 6-month budget funded by the fifth quarterly bill. The formula for this method relies on the fact that one-quarter of all taxes assessed (municipal, school and county) provides an amount sufficient to fund 6-months of the municipal budget. After implementation, the city has continued with quarterly billing, still issuing bills twice a year, two bills in June, which are due July 1 and October 1, and two bills in December, which are due January 2 and March 31.

Options To Convert To A Fiscal Year

For many people, the quarterly billing method seems to defy logic. How can five quarterly bills issued in one year not result in double taxation? It doesn't, but that's not necessarily the easiest thing to explain to taxpayers, or to a judge in Concord's case.

But the quarterly billing method did in fact withstand court scrutiny, and in 2004, the provisions of Concord's special legislation were placed into general law under RSA 76:15-aa, available for implementation by any municipality.

Summary of Funding Options for Conversion

Bonding

Advantage: Can Spread out expense up to 20 years

Disadvantage: Creates an additional payment on the tax rate for the next 20 years.

Fund Balance (if you have enough in there)

Advantage: Stabilizes tax rate first year

Disadvantage: DRA must approve minimum balance of reserve funds, must replenish reserve in subsequent years. It will require another source of funding along with the use of the fund balance.

Taxes

Two Options

1. Added on the Tax Rate
2. Quarterly Billing

Funding Options for Conversion

Taxes – Option 1 – Move to a fiscal year but continue with semi-annual billing

Fiscal year with continued semi-annual billing in June and December would require a “one-time” increase of \$1,350 on a property assessed at \$150,000 dollars.

Advantages are continuation of a system we know and are comfortable with. There are no incremental increases in operating costs for this option.

Disadvantages are that one-time increase and the perception it will be a permanent increase. Plus it still doesn't help with the huge bills homeowners receive twice a year.

Funding Options for Conversion

Taxes – Option 2 – Move to a fiscal year and quarterly billing using the 5th quarter

- 6 month budget paid with 1 time “5th Quarter” payment. Quarterly taxes due date thereafter in January, April, July, and October of each year.

Advantages are no one-time tax increase in the rate. Bills are not so overwhelming when received.

Disadvantages are the change to quarterly tax bills which may cause confusion for taxpayers, banks, realtors etc. in the short term.

- One time increased operating costs for required software changes to our computer system. Estimated at \$2,000.

Annual Tax Payments – Option 1

	Apr. 1	July. 1	Oct. 1	Dec. 31	Total
2013 Fiscal Year - semi annual					
<i>(Based upon a home assessed \$150,000</i>		2489		3575	6064
<i>a one time tax increase of \$1086 would occur.</i>					
<i>\$90.00 per month.)</i>					
2014 Fiscal Year - semi annual		2489		2489	4978
2015 Fiscal Year - semi annual		2489		2489	4978

Above Amounts in Subsequent Year Assume No Increase In Tax Rate

Still send and collect twice a year

Annual Tax Payments – Option 2

Due Dates	Apr 1	July 1	Oct 1	Jan 2	Mar 31	Total
2013 with 5 th Quarter (with no tax rate increase)	1086	1086	1086	1086	1086	5430
2014 Fiscal Year - Quarterly Payments		1086	1086	1086	1,088	4346
2015 Fiscal Year - Quarterly Payments		1086	1086	1086	1,088	4346

Above Amounts Assume No Increase In Tax Rate on Home Assessed at \$150,000.

<i>Calendar Year Calculations</i>	<i>Apr 1</i>	<i>July 1</i>	<i>Oct 1</i>	<i>Jan 2</i>	<i>Mar 31</i>	<i>Total</i>
<i>Payments made during 2013</i>	<i>1086</i>	<i>1086</i>	<i>1086</i>	<i>1086</i>		<i>4346</i>
<i>Payments made during 2014</i>		<i>1086</i>	<i>1086</i>	<i>1086</i>	<i>1086</i>	<i>4346</i>

Other Benefits

- Billing quarterly seen as more manageable by citizens
- Improved Financial Cash Flow
- Work distributed more evenly throughout the year



In Summary

- We recommend proceeding with a change to quarterly billing a conversion to a fiscal year with the 2013 budget. We will need an ordinance to proceed with the change and will need to update the code at the same time.
- If council wants to proceed we will draft an ordinance to be ready for the July and August meeting and, if approved, it means we will be presenting an 18 month budget in the fall.

Questions?

