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James A. Smith, Town Administrator

Town of Sutton  
Office of the Town Administrator

October 20, 2008

Dear Residents of the Town of Sutton,

I am writing to give you some background and information on Article Number 1 on tonight's fall Town meeting warrant on whether the Town should adopt MGL Ch 59 Section 57C, Quarterly Tax Payment System to be effective for Fiscal Year 2010. This change will not go into effect until FY2010 with your first quarterly bill due August 1<sup>st</sup> of 2009.

The Town of Sutton currently uses the semi-annual tax payment system with tax bills being due in 2 equal installments on or around November 1, and May 1, of each fiscal year. The fiscal year begins July 1, meaning that the Town must operate each fiscal year for four months without its most significant revenue source and then wait until the final 2 months of the fiscal year to collect the last half of the tax commitments.

With the need to pay bills and payroll starting July 1<sup>st</sup>, the Town has relied upon Free Cash and fund balance to get through the first months of the fiscal year without property tax revenue. As the fiscal picture continues to tighten, and with the appropriation of all free cash, the Town has had the need to place an annual article on the Town Meeting Warrant authorizing borrowing in anticipation of revenue. While we have not had to borrow and pay interest costs, with the reductions in free cash and no revenue coming in until the fall, it becomes more and more challenging. Beyond the interest costs, the bond rating agencies may also have a problem with this type of borrowing. With the institution of quarterly billing in Massachusetts in 1990, communities that switched to quarterly billing have seen dramatic decreases in the need to borrow in anticipation of revenue.

In addition to trying to avoid borrowing in anticipation of revenue and the associated costs, receiving quarterly property tax payments in August would allow the Town to pay the contribution to the County retirement system in one upfront payment versus two semi-annual payments at a savings in Fiscal Year 2010 of approximately \$12,550. In addition, the Town currently pays our entire Property and Casualty Insurance premium in July to realize a savings of 2% off our premiums or approximately \$3,560. Under the current system, to pay both bills in July would cost the Town approximately \$750,000 and would make it more difficult to meet all our obligations prior to November 1<sup>st</sup> when the first semi-annual bill is due.

Furthermore, while not the focus of this proposal, the quarterly tax payment system would allow the Town to receive a slight increase in investment income as a result of having approximately one quarter of the annual property tax levy or \$4,000,000 earning interest effective August 1<sup>st</sup> versus November 1<sup>st</sup>.

The costs involved with switching to quarterly billing would be minimal. The Town would still send out two mailings per year. The first mailing would be the preliminary bills and have 2 bill coupons and 2 envelopes. The first bill would be due August 1<sup>st</sup> and the second bill would be due November 1<sup>st</sup>. The 3<sup>rd</sup> and 4<sup>th</sup> bills would be actual bills and they would be mailed out in December with a due date of February 1<sup>st</sup> and May 1<sup>st</sup> respectively. Each preliminary bill due in August and November would each be 25% of the amount billed in the previous year. The third and fourth bills would be "actual" bills and they would reflect changes in valuation and annual tax increases.

While there will be changes predominantly in the Treasurer/Collector's office and the Assessor's office, the greatest impact will likely be on the staff of the Treasurer/Collector's office. Currently we have a department head and a clerk running the full operation. It may be necessary to consider part-time clerical help to address the increase in bill payment. This can be done through hiring of a part-time clerk or possible reassignment of existing clerical help during busy times. We will evaluate the need for staffing adjustments throughout implementation of this process and recommend changes as we see the need.

The other change that will impact the average taxpayer will be changes in the timetable for exemptions and abatements. Currently exemptions and abatements are due 30 days after the first semi-annual bill is sent out. With the new quarterly system, abatements and exemptions will have to wait until after the first actual bill is mailed. The first actual 1/4ly bill is mailed by December 31<sup>st</sup> and exemptions and abatements must be filed by February 1<sup>st</sup> or 30 days after the mailing of the first 1/4ly bill.

As you can see there will be a need for significant public outreach and education to help make this transition successful. However, if done well, the Town can significantly improve its cash flow and avoid potential borrowing costs in anticipation of revenue. If you have any questions regarding this change please feel free to call me at Town Hall at 508-865-8720 or just stop by if you are in the area. Thank you.

Sincerely,

James Smith  
Town Administrator