



# *City of Barre, Vermont*

*“Granite Center of the World”*

Carolyn S. Dawes  
City Clerk/Treasurer

6 N. Main St., Suite 6  
P. O. Box 418  
Barre VT 05641  
Telephone (802) 476-0242  
FAX (802) 476-0264  
cdawes@barrecity.org

**March 12, 2014**

## **Testimony related to S.134 - An Act Related to the Repeal of the Delinquent Property Tax Penalty**

Thank you for this opportunity to address you with regards to S.134. I hope to provide you with concrete information about delinquent tax collection processes and the true costs of collecting delinquencies.

Barre City generates more than 3,100 property tax bills each July, and there are four quarterly installment dates. In accordance with our charter, any payment not made by the due date is considered delinquent and a 3% penalty is applied, along with a 1% interest charge. After 30 days, an additional 5% penalty is assessed. Interest continues to accrue at the rate of 1% per month or part thereof. This two-tiered penalty assessment was a charter change approved by the voters in March 2010.

We traditionally have somewhere around 200 payments that miss the quarterly deadlines. They are each sent a delinquent bill within a week. Additionally, any payments that remain delinquent from previous quarters are also sent another bill. Follow-up bills are sent monthly during the months between quarterly payments. The average total number of bills sent annually is 2,500.

In addition to delinquent property taxes, we deal with delinquent water & sewer bills. They are on a similar quarterly schedule, though the numbers of delinquent water & sewer bills is much higher – the average total number of bills sent annually is 5,600. Penalty and interest charges are applied in the same way as to delinquent taxes, as per:

**24 VSA § 3408.** When an assessment remains unpaid for the space of 30 days, the treasurer of the town shall issue a warrant for its collection directed to the collector of taxes, who shall have the same power to enforce the collection and shall proceed in the same manner as is provided by law for the collection of taxes.

I hold the titles of Tax Collector and Delinquent Tax Collector for the City of Barre, though I receive no additional compensation for holding the titles. The vast majority of the collection work for both delinquent taxes and water/sewer bills is actually done by our delinquent collections clerk – a full time staff position receiving salary and benefits. The person holding this position devotes approximately 35 hours per week to collection of delinquencies, and her duties include:

- Mailing delinquent bills for both taxes and water/sewer on a monthly basis.
- Accepting and accounting for payments of delinquent bills.
- Setting up payment agreements.
- Following up on payment agreements, specifically where the conditions of the agreement have been broken. Arranging for payment/renegotiating the agreements.
- Counseling payers on their options for payment, agreements, etc.
- Following up on physicians’ certificates (water/sewer bills).
- Following statutory procedures for water shut-offs and tax sales.

S.134 proposes to eliminate the penalty charges for delinquencies, however, without those penalty charges, the City of Barre would not cover its costs:

<u>Revenues (from FY2013)</u>	<u>Penalties Collected</u>	<u>Interest Collected</u>
Delinquent Taxes	\$39,556	\$32,921
Delinquent Water & Sewer	\$21,141	\$10,177
<b>TOTALS</b>	<b>\$60,697</b>	<b>\$43,098</b>

<u>Expenses (from FY2013 )</u>	<u>Expenses</u>
Delinquent Collections Clerk salary (88% of salary based on # hours worked)	\$44,100
Postage for mailings	\$4,500
Copies, envelopes, letterhead, etc. for mailings, agreements, and other work-related paperwork	\$5,000
<b>TOTALS</b>	<b>\$53,600</b>

I have not included such expenses as electricity, phone, use of copier, use of printer, etc. On the water/sewer bills, we also have significant additional expenses associated with delivering notices of potential water disconnection – utility department staff time, vehicle time, mileage. A rough estimate of the costs associated with these items is \$5,000/year. This brings the total cost for delinquent collections to an estimated \$58,600 per year.

As you can see, the amount Barre City receives for interest alone is not sufficient to cover the costs.

Mr. Cunningham has made the following statements in his written testimony which I would like to address:

1. **Average cost/time per delinquent bill:** Mr. Cunningham states that the average time it takes to process a tax delinquency is 1.5 hours, and the current penalty translates into \$150-\$200 hourly pay for Delinquent Tax Collectors. In Barre City we handle more than

2,600 unique delinquent bills throughout the year (not counting repeated billings for those accounts that remain unpaid after the first delinquent billing). Even at an hour per bill, that's more than a year's worth of work time (2,080 hours per year, based on a 40 hour work week with no time off/vacations). Taking only the unique delinquent bills into account, the annual revenues – including both penalties & interest – are \$39.93 per bill. Of course, the revenues per bill as a function of the amount of time necessary to collect decrease with every month that goes by; every second, third, fourth, reminder bill sent; every broken payment agreement addressed; every water shut-off notice drafted, sent by certified mail and posted.

2. **Compensation for delinquent collector:** Mr. Cunningham's testimony frequently refers to an acceptable hourly wage of \$13-\$15, however, he doesn't take the true costs into consideration –including FICA, social security, benefits, etc. The Barre City delinquent collections clerk receives a base hourly rate of approximately \$19/hour (\$39,500/year), however, her annual compensation is more than \$50,000 and even at this compensation level, the amount of interest collected isn't sufficient to cover the expense. So by extrapolation, a lower hourly wage would create an even greater discrepancy.
3. **Interest charges at 1% per month for first 3 months, then increased to 1.5%.**As Mr. Cunningham states that statute allows interest rates to increase after the first 3 months. He also states most payers settle up within six months. The City of Barre – by its charter – maintains the interest rate at 1% throughout the life of the delinquency. In an effort to cover all my bases, I calculated the percentage amount of delinquent taxes and water/sewer collected in the first ninety days, which averages 56%. I then calculated the amount of interest the City would collect should the charter be changed to allow for the increased interest rate beginning with the 4<sup>th</sup> month of delinquency. The estimated additional interest payments collected is \$8,000. When added to the interest being currently collected, that still leaves us under the amount necessary to cover the costs of delinquent collections.
4. **Collection of taxes – not a question of how much, but of when:** While this is essentially true, the City of Barre has on numerous occasions lost tax and water/sewer revenue when a taxpayer has declared bankruptcy. This is also true if a property is put up for tax sale, yet there are no interested parties for its purchase. The municipality will continue to carry what is essentially an uncollectable debt on its books. The City of Barre has one such property – the owners are no longer in business, their bills are returned as undeliverable, the property has contamination issues, so is unattractive to any potential buyer, including the City. We have reduced the grand list value to nearly zero so as not to continue to accrue uncollectable taxes, but the outstanding taxes to date (not including penalties & interest) are over \$14,000 – funds we will never collect.
5. **Nature of the work to be done:** Mr. Cunningham says the nature of the work done by the delinquent tax collector is approximately the same as the work done by assistant clerks and treasurers. In Barre City, we have a full time clerk/treasurer, a full time assistant clerk, a full time assistant treasurer and a full time delinquent collections clerk, and I can assure you the duties performed by each are quite varied, and there is no

additional time in the workdays to take on additional duties. The work done by the delinquent collections clerk calls for some unique skills; she is an advisor and counselor, a listening ear and shoulder to cry on, and she must take a significant amount of abuse from people who are acting out.

6. **Borrowing money to solve cash flow problems:** Mr. Cunningham says the probability of a municipality needing to borrow money for cash flow when “a few taxpayers” have gone delinquent does not take all circumstances into consideration. While it is true municipalities are most “flush” immediately following a tax or water/sewer bill collection, there are also significant immediate expenses. With regards to taxes, we are required by statute to make our payments to the schools within 20 days of the tax collection dates. While we can withhold an amount based on the delinquency rate, it is still a lot of money that must be paid in a very short period of time – considerably less than the 6 months Mr. Cunningham uses in his testimony. In Barre City, for example, we collect approximately \$3.3 million in taxes per quarter. The amounts due to the local and union high schools total \$1.4 million – leaving \$1.9 million to continue operations until delinquent taxes are finally collected. With average monthly operating expenses of \$860,000, the remaining funds give us a little more than 2 months of operating funds, which doesn’t get us to the next tax collection deadline.
7. **The work is not that hard:** I must admit I take exception to this comment. As I discussed above, the position calls for a significant amount of special interpersonal skills, a thick skin and empathy. It most definitely is not easy work.

I do not support the elimination of the penalty, and so do not support this bill. As I have tried to demonstrate through my testimony, interest fees alone would not be sufficient to cover the true costs of delinquent collections. There are a number of other factors at play, and the job takes a considerable amount of time and expertise – skills on which it is difficult to place a dollar value. Those who do this work are to be commended and supported.

Thank you once again for this opportunity to testify today.