

**Cumberland
Fire District**
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CFD Finance Memorandum

**TO: Bruce Lemois, Fire Committee
Chairman**
FROM: Tom Bruce, Finance Director
DATE: 7/14/15
**RE: Recommendations: 2015 Fire Tax
Potential Changes in Payment
Terms.**

1. **Lowering of Interest Rate on Past Due Amounts:**

For the meeting of 7/14/15, I recommend that the Fire Committee (FC) not consider lowering the interest rate charged by the CFD to a value of twelve percent (12%), and should consider maintaining the current interest rate of 16%.

Our current interest rate is antiquated as compared to current and sustained economic standards. Our District interest rate related to the charging of past due punitive interest expense needs a slight downward adjustment. It is slightly high, in that it is currently not consistent with sustained long term economic best practice regarding late payment interest rates applied in our vertical industry and similar industries.

2. **Extension of the 2015 Annual Late Payment Grace Period:**

I recommend that the Fire Committee refrain from adjusting the established 8/1/15 late payment grace period ending date. The District needs to avoid affecting our expected collection amounts and preserve adequate cash flow performance.

We also should not adjust this particular 8/1 annual grace period ending date in order to sustain consistency of taxpayer expectations and payment behavior over the long term for future annual tax years. These long term expectations and the resulting payment behavior of our taxpayer group could adversely affect our collection and balanced budget performance if this one year/one time date change is made to our standard annual grace period.

Our taxpayers, to a significant extent, will generally delay payment if date requirements are relaxed and, in turn, they will then expect the same extended grace period for future tax years.

Please be advised that as of today, which is one day prior to the 7/15/15 bill payment due date, the District has collected 2015 Fire Tax Bill revenue exceeding \$2.7 million which equates to over 38% of the total amount of our current 2015 tax levy.

Our taxpayers, representing this 38% portion, and who have already adhered to the 7/15/15 -2- payment due date requirement may believe that the grace period extension is not fair and equitable

because only delinquent taxpayers will benefit by additional time without incurring interest expense. Taxpayers will feel that they are not receiving fair and equal treatment because their payment preceded the decision and indication of an actual grace period date extension.

Sufficient and updated collection data as of and available July 24 will be relayed to Committee members for our regular FC July 28 meeting. At the FC meeting on the 28th, the Committee certainly has the option to address this issue based on meaningful data including the total number of taxpayers with a past due status.

However based on reasons listed above, I again recommend that the August 1 grace period ending date for this year and all subsequent years should not be adjusted.

3. District Offering of Taxpayer Payment Plans:

Based on certain factors, I recommend that the CFD should not offer taxpayer payment plans. These factors include a resulting and adverse effect to the timely collection of necessary cash resources required by our regular operations.

Payment plan participants as a group typically exhibit a significant plan default rate. At times, taxpayers are able to avoid and not be subject to the periodic tax sale process because of their commitment made in a newly executed payment plan. However, their status of good standing, developed by their brief adherence to plan requirements, is frequently lost as a result of non-compliance to agreed-upon payment plan requirements.

Again, I do not recommend payment plans. However if the District were to choose to offer plans, please be advised that we would be very likely to elect to charge late payment interest during the plan period in the same manner as the Town of Cumberland as well as most municipalities and similar organizations. Equal treatment to all taxpayers needs to be provided by the taxing authority. If payment plan participants are not be subject to interest, then the District must avoid discriminatory treatment in regard to other delinquent taxpayers not participating in a payment plan, by not charging interest to any delinquent taxpayers.

If the Fire Committee wishes to proceed and approve the offering of payment plans, it should be accomplished at the first regular meeting in August. This timing will allow for the review of current and meaningful statistics regarding the number and amounts outstanding of delinquent taxpayers of the 2015 annual bill.

Please let me if I may provide and/or research additional information pertaining to these matters.