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STATE OF MAINE
ONE HUNDRED AND SEVENTH LEGISLATURE

LOCAL AND COUNTY GOVERNMENT

December 20, 1976

Senator Jerrold B. Speers, Chairman
Legislative Council
State House
Augusta, Maine 04333

Dear Senator Speers:

In accordance with House Paper 1760, directing the Committee on Local and County Government to study the Fiscal years of the state, county and local governments, we enclose here the final report of the Committee.

Respectfully submitted,

Phillip Jackson (JCH)
Philip C. Jackson, Senate Co-Chairman
Local and County Government Committee

Everett Dam (JCH)
C. Everett Dam, House Co-Chairman
Local and County Government Committee

enclosures

REPORT OF THE LOCAL AND COUNTY
GOVERNMENT COMMITTEE:

STUDY ON CHANGING FISCAL
YEARS. H.P. 1760.

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Dorothy B. Kelley
Wayne C. Gray

LEGISLATIVE ASSISTANT - Jonathan Hull

INTRODUCTION

The 107th Legislature, during its Regular Session, ordered the Joint Standing Committee on Local and County Government to study the fiscal years of the State and local and county governments, and to study, in particular, the desirability of uniformity in fiscal years, and the effect of the federal fiscal year cycle on State, county and local governments. (A copy of the Study Order is attached as appendix A.)

Under present law, the State is on a fiscal year cycle of July-June (5 MRSA §1501) and counties are on a calendar fiscal year cycle (30 MRSA § 252). The fiscal year of municipalities vary, with most municipalities on a calander year cycle (300 in 1975) and the remainder on a bewildering array of cycles that mostly end in the first quarter. (see appendix B for list of non-calendar cycles for municipalities.) The numerous "independent" agencies of state government and quasi-municipal agencies use either a July-June cycle or a calendar cycle. (see pp. 6-7 for these cycles.) School Administrative Districts are now required to adopt a July to June cycle prior to July 1, 1977, under legislation enacted during the First Special Session of the 107th Legislature (P.L. 1975, c. 651, §1).

Until this year the federal government had also used a July-June fiscal year cycle. However, the Congressional Budget and Impoundment Act of 1974 (P.L. 93-344, section 501) required a change in the federal fiscal year cycle from the July-June cycle to an October-September cycle, effective this year, beginning on October 1, 1976. According to the Committee reports on this Act, the basic reason for this change was to allow more time for the new Congressional budget approval and appropriations procedures. (Senate Reports 93-576 and 93-688; House Reports 93-658).

COMMITTEE PROCEDURE

The Committee held five meetings on the question of changing State, County or local fiscal years. During these meetings the Committee analyzed the effect of the new federal fiscal year on each level of state government, the present fiscal year cycles in use in the state and their interaction, and effects of altering these cycles. A public hearing on these issues was held on July 29, 1976, at which representatives of the state, various independent and quasi-municipal agencies, the counties and municipalities presented their views on proposed changes in current fiscal year cycles and the effect of the federal cycle change. The staff of the Committee was also directed to discuss the federal cycle change and its impact on state financing with the Office of Management and Budget and the First Regional Council, and to discuss changes in state cycles with various representatives of independent and quasi-municipal agencies.

The Committee reviewed its final report and the accompanying draft legislation at its meeting on December 8, 1976, and after discussion unanimously voted to submit the draft legislation, and this report, for legislative action during the 108th First Regular Session.

REPORT

The Committee makes the following recommendations:

1. No change should be made, at this time, in the State's fiscal year cycle.

2. No change should be made, at this time, in the fiscal year cycles of independent state agencies or quasi-municipal agencies.

3. No change should be made, at this time, in the fiscal year cycles of counties. However, changes should be made in the statutory provisions governing preparation of county budgets and legislative approval of these budgets, in order to speed up the budget approval process.

4. Municipalities should not be required to adopt a uniform July-June fiscal year cycle.

In reaching these conclusions, the Committee made the following findings:

1. State fiscal year cycle.

The State is currently on a July-June fiscal year cycle (5 MRSA §1501). This cycle usually allows adequate time for the Legislature to debate and adopt a state budget prior to the beginning of the fiscal year, though occasionally the Legislature is rushed in completing its final considerations prior to the July 1 deadline. This cycle has also caused difficulties at the beginning of a new administration because of the lack of time available for a new Governor to organize and prepare his own budget.

The effect of the new federal cycle on state financing is still unclear. It seems that most federal funds received in the state over the next year will still be based on the July-June cycle. However, no basic pattern of the federal implementation of the new fiscal year cycle is yet apparent on the state level, though the transition period seems generally to be a continuation of past patterns. Most federal agencies are attempting to minimize the disruption by continuing old funding patterns on the State level; but some are trying to complete the transition as rapidly as possible and are thus implementing new cycles for the disbursement of funds. From discussions with federal officials it appears that there are significant differences between the Congressional and Executive branches on the timing to be applied for budgetary and grant decisions and disbursements under the new cycle. Further, there appears to be some question, also, of the permanence of the new cycle and future possible changes.

If, however, the new cycle is permanent and becomes the basis for federal funding decisions, two problems will become readily apparent. First, accounting and financial reporting for federal and state requirements will need to be handled separately. This would create an extra administrative and accounting burden on all programs that utilize both federal and state funds. The second problem will be the discontinuity created in policy and implementation planning. The discontinuity between the federal and state cycles can be viewed as either a three month lag (the federal cycle beginning three months after the state cycle) or as a nine month advance notice (the federal cycle beginning nine months before the state cycle). In planning for state expenditures and the use of federal funds, the choice between these conceptual views is significant. The "lag" concept will mean, at the very least, that the state will not know what federal funds or programs will be available at the time it is attempting to plan state expenditures. The "advance notice" concept could give definitive federal expenditures in the state, but may raise problems with the long planning period of 9 or more months. This issue will be further complicated by the use of "grant periods" and "program periods" that may have little relationship to either the federal or state cycles.

The solution to these "problems" and the consequences of implementing them can be determined only after some experience with the new federal cycle and its implementation by various federal agencies. At this time the effect of the new federal cycle in the state appears to be minimal and uncertain. Only after the new federal cycle is operating smoothly and all adjustments to it have been made on the federal level will it be possible to assess the consequences to the state.

However, it is certain that any change in the state fiscal year cycle will cause significant changes within the state, particularly in the timing of the state budget preparation and approval, the fiscal years of independent state agencies, school administrative districts and other governmental units closely linked to state financing, and in state financial reporting and accounting periods. Changing the state fiscal cycle will be a time consuming administrative burden to the state and will cause at least minor disruption in many areas, and thus should be recommended only when the reasons for it are clear and compelling. At this time, the change in the federal fiscal year does not seem to provide those clear and compelling reasons.

Recommendation:

No change should be made in the State's fiscal year cycle, at this time. Because of the uncertainty in the permanence of the new federal cycle and the uncertainty of the effects of that change on the state level, any change in the state fiscal year cycle should await further experience.

2. Fiscal year cycles of independent state agencies and quasi-municipal agencies.

Most independent state agencies and quasi-municipal agencies are on either a July-June cycle or a calendar cycle. In many of these agencies, the specific cycle is not mandated by law but left to the discretion of the agencies. (School administrative districts are one example of mandated cycles (see below.)). Generally, these agencies either have their funding inextricably bound to another governmental unit, and thus adopt a fiscal year cycle compatible with the cycle of their funding source; or they have numerous sources of funds or are independently funded and choose their fiscal year cycle for administrative convenience. In some cases these agencies have to meet legal obligations that make changing their fiscal years extremely difficult. It appears in most cases that these agencies are not unduly effected by the change in the federal cycle, but may be effected by a change in the state cycle.

The following agencies illustrate these conclusions:

Maine State Housing Authority. F.Y.: Calendar.

The calendar fiscal year of the Authority is part of its trust indentures, and thus would be extremely complex to change. The Authority is presently satisfied with the fiscal year cycle, and is not unduly affected by the change in the federal fiscal year, or by the difference between the Authority's and the State's cycle.

Maine Turnpike Authority. F.Y.: Calendar.

Same comment as above.

Maine Guarantee Authority. F.Y.: July-June.

The Authority uses the present state cycle for convenience, and would probably continue to employ the same cycle as the state if the state cycle changed.

University of Maine. F.Y.: July-June.

The University presently utilizes the state cycle, but has not studied the possible consequences of any changes in the state cycle or the results of the federal change.

Maine Maritime Academy. F.Y.: July-June.

The Academy receives both federal and state funds and thus the accounting will become complicated if the State and Federal governments are on different cycles. The Academy is tentatively interested in an October-September cycle, the largest factor being the summer cruise. This cruise ends in September, and thus the current fiscal year cycle has to be held open or bookkeeping devices have to be used that are inconsistent with the "natural" expenditure-receipt cycle, which seems to fall more easily into the October-September cycle.

Veterans Small Business Loan Authority. F.Y.: July-June.

The Authority uses the present state cycle for convenience, and is not substantially affected by changes in either the federal or state cycles, as it is independently funded.

Maine State Lottery. F.Y.: July-June

Same comment as above, however the transfer of "excess" revenues to the state would make the Lottery's cycle effect state revenues to some degree.

Criminal Justice Planning and Assistance Agency. F.Y.: July-June.

This Agency receives 90% federal funding, and state and local matching and administrative funding. Because the federal grants are available for three years, the federal change in the cycle will not have an immediate undue impact on Agency operations. They would prefer to continue their cycle with the State's cycle.

Maine State Retirement System. F.Y.: July-June.

The System receives almost all its revenues from the State, and from other local governmental agencies that participate in the System. It is not affected by the change in the federal cycle. It would continue to use the same cycle as the state, and would change if the State changed.

Vocational-Technical Institutes. F.Y.: July-June.

The Institutes receive both federal and state funding. The federal change is anticipated to have little affect, at least in the short-run, as the federal Department of Health, Education and Welfare is making provisions for allowing advance funding to cover the interval between the July and October cycles.

Regional Planning Commissions. F.Y.: Calendar or July-June.

The R.P.C.'s are on either a calendar cycle or a July cycle for their fiscal year. The calendar cycle is used to meet the schedule for assessments and appropriations by towns. The July cycle is used because of the state cycle. They receive both federal, state and local revenues, and thus may be accounting for funds on three or more different cycles. The federal change will not have an immediate affect on the R.P.C.'s because adjustments are being made in the federal system (see above). The most important point for R.P.C.'s is to see some uniformity in fiscal years, because of the diverse sources of funds.

School Administrative Districts. F.Y.: Calendar or July-June.

Prior to this year, School Administrative Districts and other school administrative units employed various fiscal year cycles, many related to municipal fiscal years, but most on either a calendar or July-June cycle. As of July 1, 1977, however, all administrative units are required to utilize the July-June cycle for school budgets (P.L. 1975, c. 651, §1; 20 MRSA §3453-A). As of July 29, 1975 413 out of the 497 municipalities had transferred to the July-June cycle for school budgeting purposes, and all school administrative districts were utilizing the July-June cycle for 1977. This mandated change to a uniform July-June cycle for school administrative purposes was required because of the relationship between state finances and school finances. The change in the federal fiscal cycle will apparently have little affect on school finances or accounting. However, any change in the state fiscal year cycle would probably require an identical change in the cycle mandated for school purposes.

Hospital Administrative Districts. F.Y.: Calendar.

There are currently only three operational Hospital Administrative Districts in the State: H.A.D. #1, Penobscot Valley Hospital, Lincoln; H.A.D. #3, Cary Memorial Hospital, Caribou; and H.A.D. #4, Mayo Memorial Hospital, Dover-Foxcroft. (H.A.D.'s #2 and #5 are currently not operating) The finances of H.A.D.'s are the same as that of private hospitals, with the major federal and state impact coming from Medicare-Medicaid funding. The major influences in choice of the fiscal year are the federal and state reporting and record keeping requirements. The present fiscal year structure of federal and state government also creates some cash flow problems, but these may not be remedied by changes in fiscal year cycles.

Miscellaneous. F.Y.: Mostly calendar or July-June cycles.

There are numerous other special districts in the State, such as Airport Authorities, Cemetary Districts, local Housing Authorities, Recreational Centers and Districts, Soil and Water Conservation Districts, Transit Districts, Sewer or Sanitary Districts, and a Watershed District. These Districts and Authorities are almost all on either calendar or July-June cycles, with the calendar cycle predominant. Their problems are essentially the same as those of municipalities and quasi-municipal agencies.

The change in the federal fiscal year cycle seems to have had a minimal effect on most of the independent state or quasi-municipal agencies. Where federal funds are a significant proportion of agency expenditures, the federal source has apparently made adjustments to minimize or remove any resulting disruption or administrative burden. As the eventual consequences of the change in the federal cycle is still unclear, most agencies relying on federal funds should remain on their present cycles until they can assess the need to change.

It is clear, however, that a change in the state fiscal year cycle would require certain agencies to change also, particularly School Administrative Districts. To mandate a change from the July-June cycle so soon after requiring uniformity on that cycle would create serious confusion and disruption in school budgeting and administration. This is particularly true when the transition to the July-June cycle is still incomplete. Thus, mandating changes in the cycles of independent state agencies or quasi-municipal agencies does not seem to be supported by strong arguments, unless the state cycle is changed. And changing the state cycle may cause undue disruption in these agencies, that does not seem, at this time, to be offset by significant reasons for change. As many of these agencies may change their fiscal year cycles without legislative direction, they may respond to the new federal year as they find necessary. Further, the reasons for uniformity of cycles among these agencies seem to be outweighed by the unique situation of each agency and its relationship to various sources of funding. If the state does not adopt the new federal cycle, the requirement of uniformity may make accounting and administration even more difficult for agencies relying heavily on federal funding.

Thus, it appears that mandating both uniform fiscal year cycles and adoption of the federal or state cycle by each of these agencies should only be recommended after careful and deliberate study of each agency and for clear and compelling reasons. Such reasons are not apparent at this time.

Recommendation:

No change should be made, at this time, in the fiscal year cycles of independent state agencies or quasi-municipal agencies, nor should their fiscal year cycles be made uniform. Because of the recent mandate for uniform fiscal year cycles for school purposes, the varying situations of each agency, and the recommendation of not changing the state cycle, any requirement for uniformity or for changing cycles should be left at the discretion of the agency where not presently mandated, and these cycles presently set by statute should remain unchanged.

3. Counties, fiscal year cycle.

The counties are currently on a calendar fiscal year cycle, which is apparently required by statute (30 MRSA §252). The most important influence on the choice of a county cycle is the major source of financing, the county property tax. The county tax is collected through the municipalities, and thus the tax must be determined and apportioned prior to municipal commitments and collection. Because counties have traditionally used the same cycle for budget purposes and tax purposes, the budget must also be completed prior to municipal commitment. Thus, with the traditional municipal cycle beginning in the first quarter and traditional municipal commitment occuring in the second, the counties have utilized a calendar fiscal year cycle. This county calendar cycle has in turn influenced the choice of cycles of many quasi-municipal agencies that rely on county funding.

In the past, the calendar cycle has posed only one major problem for counties: because of the time required for legislative debate and approval of the county budget at the beginning of each Regular Session, the biennial county budget was usually not approved before the first three to six months of expenditures under that budget had elapsed. This problem has traditionally been resolved by allowing the counties to continue expenditures under the previous biennium's budget until the new budget was approved. However, this problem may become more acute in the future because of the mandated change to annual county budgets as of 1977. (P.L. 1975, c. 716). With annual budgets approved by the Legislature, the counties will be operating without approved budgets for an uncertain length of time at the beginning of every year. If past experience in approving county budgets is a guide, budgets are unlikely to be approved before April, at the earliest. Thus, counties will be operating and making expenditures without approval for 1/4 to 1/2 of every year.

Another "problem" that has some bearing on the choice of county fiscal year cycles is the use of tax-anticipation loans. Under the calendar cycle, the county begins expenditures under a new budget on January 1st. However, the actual cash receipt of county taxes does not begin until September or later, thus leaving at least 9 months of expenditures that must be covered by borrowing. This occurs because of municipal collections of county taxes and the calendar cycle. (I.E. The county apportions its tax on municipalities in March or April. The municipalities in turn levy their taxes, including the county tax, in June or July and begin collecting it in August and September. As municipal collections proceed, municipalities will usually pay the county tax in September through November, though because of the laxness of late payment penalties some have on occasion delayed county payments until late in December.) This is a "problem" only in the sense that the cost of such borrowing could be reduced by reducing the length of time between beginning expenditures and receiving tax payments. Shifting counties to a July-June cycle, with budget approval and tax commitment and collection time schedules remaining unchanged, would reduce this time by 6 months, thus saving interest charges for that period.

For these reasons the Committee seriously considered the possibility of recommending a change to a July-June fiscal year cycle for counties. (As part of this consideration the Committee considered possible transitions to a new cycle, which raise other problems. See appendix C.) However, the Committee decided not to recommend this change at this time, because of possible changes in county government, particularly in county financing and budget approval. The present county fiscal year cycle has proved adequate in the past and will probably continue to be so, with the changes that the Committee recommends. Changing the cycle at this time, while the future of county government is still unclear and while the issues of county financing and budget approval are still unresolved, would only further confuse and complicate the decisions that have to be made. Thus, the Committee has decided to recommend no change in the cycle until the issues of financing and budget determination have been resolved.

In order to lessen some of the problems that will occur with the implementation of annual county budgets, however, the committee did approve certain minor changes in the deadlines for county budgets and in the provisions regulating municipal payments of county taxes. The committee recommends that the schedule for approving county budgets should be advanced by approximately three weeks and legislation be enacted to amend the county's power to charge interest on delinquent tax payments (legislation attached, appendix D). The object of advancing the schedule is to provide sufficient time to report the county budget bill out of Committee by January 31st, and to have it finally approved by the Legislature prior to February 15th. By concentrating on the county budgets in the early part of the Legislative Session, when the legislative pace is slow, the Committee will be able to rapidly complete its work on these budgets. With approval of county budgets in February, the period of unbudgeted expenditures would be reduced from four to six months to six weeks. A change in the provisions for interest on delinquent taxes will tend to reduce some anticipatory borrowing by counties, by increasing the incentive to pay those taxes when due. These recommendations will reduce the problems of county financing that result from the use of the calendar fiscal year cycle, while not further complicating any changes that might be proposed for county government.

Recommendations:

1. No change should be made in the fiscal year cycle of counties, at this time.

2. The county budget approval procedure should be improved to provide earlier legislative consideration and approval of budgets, as follows:

   A. The date for the submission of draft budgets to the Secretary of State (30 MRSA §253) should be advanced from January 20 to January 1.

   B. The other statutorily prescribed dates for budgetary actions (30 MRSA §§252 & 253) should also be advanced approximately three weeks.

   C. The date for apportionment of county taxes should be advanced from April to March.

   D. County budgets should be reported out of the Legislative Committee prior to January 31, and should be finally approved by the Legislature prior to February 15.

3. The Counties' power to collect interest on delinquent tax accounts (36 MRSA §891&892) should be changed to parallel the

authority given to municipalities. The interest percentage should be set by the Commissioners, up to a maximum of 1% a month. No change should be made in the date county taxes are due.

4. Municipal fiscal year cycles.

Most municipalities in the state currently use a calendar fiscal year cycle (approximately 300 of the 496 municipalities used the calendar cycle in 1975). The remaining municipalities use a bewildering array of cycles, with most ending during the first quarter of the year (January to March), but with one municipal cycle ending as early as November 30th, and some others as late as June 30th. (see appendix B.)

Though municipalities may receive federal, state and local revenues, and also may collect and disburse county or state-mandated taxes, the most important influences on their choice of a fiscal year cycle appears to be the date of the town meeting and the school budget fiscal year. Town meetings in this state have traditionally been held in March, which has caused towns to use a cycle that ended during the January through March quarter. School budget cycles have traditionally used the same cycle, because the bulk of their revenues came from the town budgets. However, with the adoption of the present pattern of school financing in 1969, with its increase in state funding and equalization, the state fiscal year cycle became a much more important influence on the municipal cycle. At the time of adopting the new school financing pattern, the Regular Session of the 104th Legislature also enacted legislation to require all municipalities to adopt the state's July-June fiscal year cycle. (P.L. 1969, c. 369). But, during the subsequent Special Session this statute was rapidly repealed (P.L. 1969, c. 543) and a study of the problems of different fiscal year cycles was ordered. This study essentially concluded that a mandated change in municipal fiscal years was inappropriate, though municipalities should be encouraged to adopt a fiscal year cycle that was identical to the state fiscal year cycle. (First Summary Report to the One Hundred and Fifth Legislature, Vol. I. Legislative Research Committee, Jan. 1971, pp. 58-66.) The problems related to distribution of state financial aid and to the assessment and payment of school taxes were partially solved by other methods, and municipalities were again allowed to choose their own cycles. Most remained on their traditional fiscal year cycles. However, the problems were not adequately resolved in this manner, and in the Special Session of the 107th Legislature, legislation was enacted to require all school budgets, whether municipal or special district, to be on a July-June cycle, and also to allow, but not require, municipalities to shift their general budgets to a July-June cycle (P.L. 1975, c. 651). By July of this year at least three municipalities had indicated their interest in shifting the entire municipal budget to the state cycle.

The effect of the change in the federal fiscal year cycle on municipalities is unknown at present, for the same reasons its effect on independent state agencies and quasi-municipal agencies is unknown. However, as most municipal cycles have not coincided with the federal cycle in the recent past, the continuation of the situation is not likely to present any novel or insoluble problems. A change in the state cycle would probably require another change in the school budget cycles, to keep them uniform with the state. Such a change would cause major confusion and disruption, as the large majority of municipalities have only begun to consider changing to the present state cycle as mandated under P.L. 1975, c. 651. To initiate a second change before the first is implemented and adjusted to, would be to court political and administrative disaster.

Similarly, a change in the county cycle could have a major effect on the present budget setting and tax commitment-collecting procedures on the municipal level, and thus result in further disruption of adjustments in the municipal fiscal year cycle. Actual direct disruption could be avoided by continuing the present county apportionment and payment schedules within a new county budget cycle, but confusion and minor disruptions on the municipal level may nonetheless result. These reasons carried weight in the Committee's recommendations that the State and County fiscal year cycles remain unchanged at this time.

Mandating a change to a uniform municipal fiscal year cycle identical to the state cycle also seemed unnecessary, especially in view of the adoption and subsequent repeal of such a provision just a few years ago. The requirement that all school budgets use the state cycle will probably provide a strong incentive for many municipalities to shift to using the state cycle for all municipal purposes, and yet allows municipalities the choice of doing so. This provision will solve the most significant difficulties that arise from having different state and municipal cycles, without removing the local choice of municipal fiscal year cycles. In the future, this provision will probably tend to bring many municipal fiscal year cycles into conformity with the state cycle. As the Committee recommends no change in the cycles of the state and counties, and municipalities already have strong incentives to adopt the state cycle, the Committee also recommends no mandated change in the municipal fiscal year cycle.

Recommendation:

No change should be made in present law, because municipalities already have both an incentive and the authority to change their fiscal year cycle and no clear and compelling reason is apparent to uniformly require a rapid adoption of that cycle.

CONCLUSION

The Committee believes that it is too early to fully assess the effect of the change in the federal fiscal year cycle. Most federal agencies who expend funds in this state are apparently attempting to adjust their procedures to the State fiscal year cycle, and the permanence of the federal change seems to be in some doubt. Thus, the Committee recommends that no change in fiscal year cycles be made in response to the federal change until the full implementation on the federal level is completed and the effects of the change in this state can be identified. The Legislature should continue to study this question until the federal implementation is clear and the effects in the state are known and analyzed.

Certain changes in the county budget approval and tax collection procedures are recommended to meet problems that exist independent of the federal cycle change. These minor adjustments should resolve these problems. The proposed legislation to solve these problems is attached to this report (appendix D.).

ATTACHMENTS:

Appendix A.	Study Order
Appendix B.	List of municipalities with non-calendar fiscal year cycles.
Appendix C,	Memorandum on transitions required for changing county fiscal year cycles.
Appendix D.	Draft Legislation.

APPENDIX A

STATE OF MAINE

In House

Ordered,

Whereas, the State Legislature provides approximately $175,000,000 annually in financial assistance to Maine cities and towns for programs such as education, highways, revenue sharing, general assistance, sewerage treatment and numerous other municipal aid programs; and

Whereas, the State Legislature is annually confronted with taking immediate action on appropriation issues affecting communities, within the time constraints and pressures on municipal officials to prepare local budgets for adoption, so that the amount of state financial assistance can be accurately reflected in municipal budgets; and

Whereas, both the Legislature and communities would benefit from having fiscal years that are similar; and

Whereas, L.D. 1452 provides a July 1st - June 30th fiscal year for all school units starting on July 1, 1977; and

Whereas, the Congress of the United States has enacted a change in the federal fiscal year to an October 1st - September 30th fiscal period; and

Whereas, local communities will have great difficulty attempting to comply with three or four different fiscal years; now, therefore, be it

Ordered, the Senate concurring, that the Legislative Council be authorized, through the Joint Standing Committee on Local and County Government to study the problems pertaining to uniform fiscal years including but not limited to:

1. The need for uniform state, county and municipal fiscal years;

FORM O-65

2. The impact of the change in the federal fiscal year on state, county and municipal governments;

3. The impact upon present payment schedules for the collection of property taxes;

4. State revenue sources necessary to enable implementation of any fiscal year change; and

5. Means to minimize the necessity for tax anticipatory borrowing; and be it further

Ordered, that the Local and County Government Committee report the results of its study, together with any implementing legislation to the next special or regular session of the Legislature; and be it further

Ordered, upon passage in concurrence, that suitable copies of this Order be transmitted forthwith to said agencies as notice of this directive.

HP1760

(Greenlaw)
NAME: Lawrence P. Greenlaw, Jr.
TOWN: Stonington

Cosponsor: Carey of Waterville
Richard J. Carey

IN SENATE CHAMBER Read
and TABLED BY SEN. SPEERS OF KENNEBEC

JUN 23 1975

PENDING Passage
HARRY N. STARBRANCH, Secretary

HOUSE OF REPRESENTATIVES
READ AND PASSED
JUN 20 1975

CLERK
SENT UP FOR CONCURRENCE

APPENDIX B
Municipalities not on Calendar Cycle

Municipalities	'75 Year Close
Abbott	Jan. 31
Action	Jan. 31
Addison	Feb. 18
Albion	Feb. 1
Alexander	Feb. 20
Allagash Plt.	Jan. 31
Alna	Jan. 31
Amity	Feb. 26
Amherst	Mar. 7
Athens	Feb. 15
Atkinson	Jan. 31
Auburn	Mar. 31
Aurora	Feb. 28
Baileyville	Jan. 31
Bancroft	Feb. 28
Baring Plt.	Feb. 20
Bath	Mar. 31
Bay Pt. Vill.	June 30
Beddington	Feb. 1
Belfast	Mar. 15
Belmont	Feb. 1
Benedicta	Jan. 31
Benton	Feb. 10
Biddeford	Nov. 30
Bingham	Jan. 31
Blaine	Feb. 14
Boothbay	Jan. 31
Bowerbank	Jan. 31
Bradford	Jan. 31
Bradley	Mar. 3
Bridgewater	Feb. 18
Brighton	Feb. 20
Brooks	Feb. 1
Burlington	Mar. 3
Burnham	Feb. 5
Cambridge	Jan. 15
Canaan	Feb. 15
Caratunk Plt.	Feb. 15
Carroll	Feb. 28
Carthage	Jan. 31
Cary Plt.	Mar. 5
Castine	Jan. 31
Castle Hill	Feb. 10
Caswell	Jan. 31
Chapman	Jan. 10
Charleston	Jan. 31
Charlotte	Mar. 4
Cherryfield	Jan. 31
Chester	Jan. 31
Clifton	Mar. 4

Municipalities	'75 Year Close
Clinton	Feb. 1
Codyville Plt.	Mar. 6
Columbia	Feb. 28
Cooper	Feb. 28
Cornish	Jan. 31
Cornville	Feb. 1
Columbia Falls	Feb. 28
Corinna	Jan. 31
Crawford	Feb. 20
Cushing	Jan. 15
Cutler	Feb. 28
Cyr Plt.	Mar. 1
Damariscotta	Jan. 1
Danforth	Jan. 10
Dayton	Feb. 1
Deer Isle	Jan. 15
Deblois	Feb. 11
Dedham	Feb. 1
Denniston Plt.	Feb. 20
Dennysville	Mar. 6
Detroit	Jan. 31
Dixmont	Feb. 1
Drew Plt.	Feb. 18
Durham	Jan. 31
Eagle Lake	Feb. 21
E Plt.	Jan. 31
East Brook	Mar. 1
East Machias	Mar. 14
Easton	Feb. 15
E. Millinocket	Jan. 31
Eddington	Feb. 9
Edinburg	Feb 28
Eliot	Feb. 10
Elliotsville	Jan. 31
Embden	Feb. 1
Enfield	Feb. 25
Etna	Jan. 31
Exeter	Feb. 1
Fort Kent	Jan. 31
Frankfort	Jan. 31
Franklin	Mar. 1
Freedom	Jan. 31
Frenchville	Jan. 31
Friendship	Jan. 15
Garfield Plt.	Feb. 28
Gilead	Feb. 22
Grand Falls Plt.	Mar. 11
Grand Isle	Jan. 31
Grand Lake Stream Plt	Feb. 28
Great Pond Pt.	Mar. 10
Greenbush	Feb. 28
Greenfield	Feb. 28
Greenville	Jan. 31

Municipalities	'75 Year Close
Guilford	Jan. 31
Hamlin Plt.	Mar. 10
Hammond Plt.	Feb. 28
Hanover	Jan. 31
Harmony	Feb. 1
Harrington	Feb. 15
Hartford	Jan. 15
Hartland	Jan. 15
Haynesville	Jan. 11
Hebron	Jan. 31
Hersey	Feb. 28
Highland Plt.	Jan. 31
Hodgdon	Feb. 14
Holden	Jan. 31
Hope	Jan. 31
Hudson	Feb. 1
Isle au Haut	Jan. 31
Islesboro	Jan. 31
Jackman	Jan. 31
Jackson	Feb. 1
Jonesboro	Mar. 1
Kenduskeag	Jan. 31
Kennebunkport	Jan. 1
Kingsburg Plt	Feb. 20
Knox	Feb. 15
LaGrange	Jan. 31
Lakeville Pt.	Mar. 11
Levant	Jan. 31
Liberty	Jan. 31
Lincoln Plt.	Feb. 20
Linneus	Feb. 15
Lincolnville	Feb. 1
Littleton	Mar. 3
Livermore	Jan. 5
Lowell	Feb. 28
Lubec	Feb. 28
Lucerne-in-Maine Village	Feb. 15
Ludlow	Feb. 28
Lyman	Jan. 25
Machias	Feb. 10
Machiasport	Feb. 28
Madawaska	Jan. 31
Madrid	Fed. 1
Magalloway Plt.	Jan. 31
Mapleton	Jan. 31
Mariaville	Feb. 28
Marshfield	Mar. 10
Mars. Hill	Jan. 31
Masardis	Feb. 8
Mattawakeag	Feb. 28
Mayfield	Feb. 10

Municipalities	'75 Year Close
Meddybemps	Mar. 1
Medway	Jan. 31
Milbridge	Jan. 31
Milford	Feb. 28
Minot	Jan. 31
Monhegon Plt.	Feb. 5
Monroe	Jan. 31
Manson	Jan. 31
Montville	Feb. 20
Moose River	Feb. 15
Moro Plt.	Feb. 27
Morrill	Feb. 18
Moscow	Feb. 15
Mashville Plt.	Mar. 1
Newburgh	Feb. 15
Newcastle	Jan. 31
New Canada	Feb. 28
Newfield	Jan. 31
New Gloucester	Jan. 31
New Limerick	Feb. 28
Newport	Jan. 31
New Sweden	Feb. 20
Northfield	Mar. 4
Northport	Feb. 1
Oakland	Jan. 31
Ogunquit Sewer Dist.	Apr. 30
Orient	Feb. 7
Otis	Feb. 1
Oxbow Plt.	Mar. 8
Palmyra	Feb. 10
Parkman	Feb. 1
Passadumkegg	Jan. 31
Pembroke	Mar. 15
Perham	Feb. 12
Perry	Feb. 6
Peru	Jan. 9
Phillips	Jan. 31
Pittston	Jan. 31
Plt.#21	Mar. 5
Plt.#14	Feb. 21
Pleasant Ridge Plt.	Feb. 1
Plymouth	Feb. 10
Portage Lake	Jan. 31
Porter	Jan. 31
Princeton	Feb. 20
Randolph	Jan. 31
Reed Plt.	Feb. 14
St. John Plt.	Feb. 28
Sandy River Plt.	Feb. 15
Sanford Sewerage Dist.	Dec. 31

Municipalities	'75 Year Close
Searsmont	Feb. 1
Sebec	Jan. 31
Seboeis	Feb. 18
Sidney	Jan. 31
Smithfield	Feb. 5
Solon	Jan. 31
Somerville	Feb. 15
South Bristol	Jan. 31
Springfield	Feb. 28
Standish	Jan. 31
Stetson	Feb. 16
Sumner	Jan. 25
Swans Isl.	Jan. 15
Swanville	Jan. 31
Telmodge	Feb. 22
Temple	Feb. 1
Plt. of the Forks	Feb. 10
Thorndike	Feb. 10
Topsfield	Mar. 15
Troy	Mar. 3
Union	Jan. 15
Unity	Feb. 15
Vanceboro	Feb. 15
Veazie	Feb. 7
Veazie Sewer Dist.	Feb. 7
Vienna	Feb. 10
Vinalhaven	Jan. 3
Wade	Feb. 18
Waite	Feb. 28
Waldo	Feb. 4
Wallagrass	Feb. 28
Waltham	Mar. 1
Washburn	Feb. 14
Wayne	Jan. 31
Wesley	Mar. 1
West Bath	Jan. 31
Westfield	Feb. 20
Westforks	Feb. 10
West Gardiner	Feb. 1
Westmanland Plt.	Feb. 28
Weston	Feb. 15
Westport	Feb. 8
Whitneyville	Feb. 28
Whiting	Feb. 28
Willimantic	Feb. 1
Wilton	Jan. 31
Winn	Jan. 25
Windsor	Jan. 31
Winterville Plt.	Feb. 28
Woodland	Feb. 20
York Beach Village	Jan. 31
York Sewer Dist.	June 30

APPENDIX C

Transition problems will be apparent in a shift from the calendar to July-June cycle. With the assumption of an 18 month transition (18 mo., or 9 mo. - 9 mo., or 12 mo. - 6 mo. or 6 mo. - 12 mo.,) the following problems are apparent:

A. A significant one-time increase in county taxes to cover the "18 month" budget (approximately 1 1/2 times the normal amount); or two county apportionments and tax payments within the "18 month" period, which would have one fall in March-April and a second in August-September (6-12) or December-January (12-6).

B. The Legislature will have to make necessary adjustments to change budget estimates for a 12 month period to a final approved budget for an "18 month" period, unless the transition is delayed to allow counties to submit 18 month estimates for the 1978 budget.

C. As "tax anticipation" borrowing is available for only one year, there may develop "cash-flow" problems with an 18 month budget period.

D. A change in fiscal year cycles during 1977 (an emergency bill being passed at the beginning of the First Regular Session of the 108th Legislature) may not provide sufficient time to educate the county officers, particularly Treasurers, in the transition methods, nor to identify and solve various problems that might arise.

POSSIBLE TRANSITIONS:

Two basic questions need answers in determining transitions for counties to the July-June cycle: 1) the effective date of the transition, and 2) the time periods for budgets during the transition. These questions raise details to be considered as follows:

1. Effective date. Presuming that an emergency bill to change the fiscal year cycle can be passed at the beginning of the First Regular Session of the 108th Legislature, the transition can be mandated for either 1977 or 1978. The choice of 1977 may minimize confusion that might arise from changing fiscal year cycles at the same time other major changes in county government are occurring (such as county budget determination). This choice will also rapidly shift counties to the new cycle, probably within a year from now. However, this choice will also minimize the amount of time allowed for Legislators and county and town officials to understand and cope with the transition problems

that might develop from the new cycle. The choice of a 1978 effective date will allow much greater time for the necessary adjustment and understanding of the transition period and new cycle; but it also may complicate any other changes proposed for county government and will delay the implementation of the new cycle until two years from now. Thus neither effective date is ideal, but both are probably acceptable and could be chosen.

2. Transition time periods:

Four basic choices are available for making the transition between the present calendar cycle and the July-June cycle: a 18 month budget, two 9 month budgets, a 6 month budget followed by a 12 month budget, and a 12 month budget followed by a 6 month budget (which would, in effect, be delaying implementation by one year).

For our purposes, the critical issue in examining these choices, is the number of county tax apportionments required. An 18 month budget would require one apportionment during the transition period, probably at the usual apportionment time, that would be 1 1/2 times the usual apportionment amount. Two budgets during the transition period, either a 9-9 , 6-12 or 12-6 plan, would require two county tax apportionments during the transition period, and thus could require a special municipal collection and/or payment of county taxes at an unusual time. The following diagram may clarify this (based on 1977 effective date):

TRANSITIONS

	18 mo	6-12	9-9	12-6
Jan 77	Budget approval for 18 mo. budget	Budget approval for 6 mo. budget; Budget approval for 12 mo. budget	Budget approval for 1st 9 mo. budget	Budget approval for 12 mo. budget; Budget approval for 6 mo. budget
Apr 77	Apportionment of budget	Apportionment for 6 mo. budget	Apportionment for 1st 9 mo. budget; Budget approval for 2cd 9 mo. budget	Apportionment for 12 mo. budget
Jun 77				
Jul 77		Apportionment for 12 mo. budget		
Sep 77	Payment of 18 mo. county tax	Payment of 6 mo. county tax	Payment of 1st 9 mo. county tax; Apportionment for 2cd 9 mo. budget	Payment of 12 mo. county tax; Apportionment for 6 mo. budget
Dec 77		Payment of 12 mo. county tax		
Jan 78	Budget approval for 12 mo. budget on new July cycle	Budget approval for 12 mo. budget on new July cycle	Payment of 2cd 9 mo. county tax; Budget approval for 12 mo. budget on new July cycle	Budget approval for 12 mo. budget on new cycle; Payment of 6 mo. county tax
Apr 78	Apportionment for new cycle budget	Apportionment for new cycle budget	Apportionment for new cycle budget	Apportionment for new budget cycle
Jun 78				

The crucial result of two budgets during the transition period is that municipalities would be required to pay a second county tax bill after they have already sent out and begun to collect municipal taxes for the year. If the same general time frame applicable to the present apportionment of county taxes (adjusted to provide revenues within the budget period) is applied to the transition budgets, the result might be as follows:

1. With a 6-12 plan:

	Municipal payments due:
6 Mo. budget	September
12 Mo. budget	January (approx.)

2. With a 9-9 plan:

	Municipal payments due:
1st 9 Mo. budget	September
2nd 9 Mo. budget	March (approx.)

3. With a 12-6 plan:

	Municipal payments due:
12 Mo. budget	September
6 Mo. budget	May (approx.)

This use of two budgets, thus, might require municipalities either to send out and collect a second tax bill once it knows the amount of county tax imposed by the second transitional budget; or it might require municipalities to "advance" that county tax subject to later collection from municipal tax payers in the next municipal collections. In either event there may be disruption in municipal taxes.

The use of two budgets could also disrupt county finances because of the long delay in collecting county taxes. With the use of either the 6-12 plan or the 9-9 plan, the actual collection of revenues may occur well after the end of the 1st transitional budget "year". Under the 6-12 plan, the budget "year" will end on June 30th, but tax payments would not be due until after September 1st under current law (30 MRSA §254). Under the 9-9 plan, the first budget "year" will end on September 30th, which may or may not allow time for collecting taxes. Thus, counties could be forced to close out their 1st transition budget "year" without the major part of their revenues being received. The simple solution of advancing the payment date for county taxes will probably disrupt municipal finances. At the very least it will force additional borrowing on municipalities. This same problem will affect the 12-6 plan in its second transitional budget "year". The simplest solution to this is that counties and municipalities would be granted the authority to combine the apportionment and collection of taxes for the two transitional budgets, thus avoiding some of these problems. This, in effect, is what the 18 month budget for the transition period does. Thus, the 18 month budget seems to present the fewest problems and least disruption of municipal and county finances.

In drafting the new fiscal year cycle bill, the Committee should consider these major points of scheduling:

1. The time for the submission of the county budget estimate. (Presently January 20th)

2. The time for apportionment of the county tax (and by implication the time for final legislative approval). (Presently before April 1st)

3. The time for the payment of the county tax. (Presently at a date fixed by the county after September 1st)

If these dates are left as they are presently, there appears to be a strong possibility of reduced borrowing and interest costs for anticipation of taxes, as the county will only be operating for 3 months before tax revenues begin to flow in, as against the present 9 months of operation before revenue receipts begin. However, the Committee may wish to consider altering the apportionment time slightly, to allow more time for legislative consideration and approval of county budgets.

In addition to these considerations, many other changes will have to be made in the statutes to bring dates for reports and other actions into line with the new fiscal year cycle (e.g., surplus funds 30 MRSA §408; annual report 30 MRSA §411, etc.). However, the date changes involved in these sections are almost automatically determined by the end of the fiscal year cycle, and need no special committee consideration.

APPENDIX D

AN ACT to Advance the Schedule for Legislative Approval of County Budgets and to Change the Interest Charges on Delinquent County Taxes.

Sec. 1. 30 MRSA §252, 1st, 2nd and 3rd ¶¶, as last amended by P.L. 1975, c. 716, §1, is further amended to read:

In order to assess a county tax, county commissioners, prior to ~~December 1st~~ November 7th in each year, shall prepare estimates of the sums necessary to defray the expenses which have accrued or may probably accrue for the coming year, including the building and repairing of jails, courthouses and appurtenances, with the debts owed by their counties, and after newspaper notice, written notices of which shall be transmitted by registered or certified mail with return receipt requested to the clerk of each municipality in said county and to each member of the Legislature of said county, hold a public hearing thereon in the county, prior to ~~December 20th~~ December 1st.

Such estimates shall be drawn so as to authorize the appropriations to be made to each department or agency of the county government for the year. Such estimates shall provide specific amounts for personal services, contractual services, commodities, debt service and capital expenditures. Said estimates shall be made on such forms and in such manner as shall be approved by the State Department of Audit. A copy of such estimate shall be distributed to each municipality in said county and to each member of the legislative delegation of said county, at least 10 days prior to ~~meeting of December 20th.~~ the required public hearing.

Copies of such forms shall be transmitted to the county commissioners of each county by the office of the Secretary of State no later than ~~October 10th~~ September 19th of each year.

Sec. 2. 30 MRSA §253, 1st ¶, as last amended by P.L. 1975, c. 716, §2, is further amended to read:

Such estimates shall be recorded by their clerk in a book. A copy of such estimates shall be transmitted by registered mail by the county commissioners to each municipality in their respective counties on or before the ~~20th~~ 1st day of December in each year. A copy thereof shall be signed by the chairman of the county commissioners and attested by their clerk, who shall transmit it to the office of the Secretary of State on or before the ~~20th~~ 1st day of each January, together with the county reports for the 2 preceding years, to be by him laid before the Legislature.

Sec. 3. 30 MRSA §254, as last amended by P.L. 1973, c. 155, is further amended to read:

§254. Apportionment of county tax; warrants

When a county tax is authorized, the county commissioners shall, in ~~April~~ March in the year for which such tax is granted, apportion it upon the towns and other places according to the last state valuation and fix the time for the payment of the same, which shall not be earlier than the first day of the following September. They may add such sum above the sum so authorized, not exceeding 2% of said sum, as a fractional division renders convenient and certify that fact in the record of said apportionment, and issue their warrant to the assessors requiring them forthwith to assess the sum apportioned to their town or place, and to commit their assessment to the constable or collector for collection, and the county treasurer shall immediately certify the millage rate to the State Tax Assessor.

The county may collect delinquent county taxes and charge interest on delinquent county taxes as provided under Title 36, §§891, 892 and 892-A.

Sec. 4. 36 MRSA §892, as last amended by P.L. 1955, c. 399, §1, is further amended to read:

§892. Interest on delinquent state ~~and county~~ taxes

Beginning with the first day of January, following the date on which state ~~or county~~ taxes are levied, interest at 1/2% per month or fraction thereof shall accrue on any unpaid balances that are then due. All provisions of law that relate to the collection of such taxes shall apply to the collection of interest on overdue taxes.

Sec. 5. 36 MRSA §892-A is enacted to read:

§892-A. Interest on delinquent county taxes.

Interest shall accrue on all unpaid balances of the county tax that are then due, beginning on the 60th day after the date for payment set by the county commissioners under Title 30, section 254. County taxes not paid prior to the 60th day after the date for payment are delinquent.

The rate of interest shall be specified by vote of the county commissioners, and a notification of such rate shall be included in the warrant to assessors required under Title 30, section 254. The rate of interest shall not exceed 1% per month or fraction thereof. The specified rate of interest shall apply to delinquent taxes committed during the taxable year until those taxes are paid in full, and the interest shall be added to and become part of the taxes.

STATEMENT OF FACT

The purpose of this bill is to lessen some of the problems that may occur with the implementation of annual county budgets. This bill advances the schedule for preparing and submitting proposed county budgets by approximately three weeks, thus allowing the legislature to consider and approve these budgets prior to February 15th. This will reduce the period during which counties are expending funds without an approved budget. This bill also strengthens the provisions relating to interest on delinquent county taxes, thus reducing to some extent the cost of borrowing money to cover expenditures. This bill is the result of a study ordered by the 107th Legislature on possible changes in state, county, and municipal fiscal years, H.P. 1760.