



Memo

From the Office of the Town Manager

To: Colchester Selectboard
From: Aaron Frank, Town Manager; Geoffrey Urbanik, Deputy Town Manager
and Robert Vickery, Assessor
Date: December 4, 2019
Re: Update - FY 2021 Draft Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY 21 general fund budget. Revenues changes are explained below in three categories:

1. **Revenues from non-tax sources** supporting operating expenses are expected to decrease by \$421,949 or 19.4%
 - This is due to the movement of Colchester Rescue to an enterprise fund, as outlined in the expense memo. This recognizes that Colchester Rescue generates 74% of its \$760,645 annual revenues through user fees and needs flexibility to expand and contract with market conditions (calls for services) vs. a property tax fund based budget which creates more fixed staffing and resource allocation. This change will better meet community needs and maximize the ability to increase services and revenues when calls go up.
 - ***Without this change—and a more accurate measure of the change--revenues from non-tax sources would have increased, by \$68,076 or 3.1%***

2. ***Prior year's tax revenues (fund balance) supporting operating expenses are \$441,000, which includes \$175,000 for new costs of the town-wide fire department.***
 - This is significant and temporary as outlined below. It blunts the tax impact of adding a fire chief and three firefighters to cover weekday daytime when we have an inadequate number of volunteers to respond to respond to a structure fire. This is dangerous and puts life and property at greater risk than I am comfortable with.

3. ***Town property taxes are estimated to increase by 1.02% or 0.56 cents to \$0.5485 per \$100 of property value.***
 - This includes not only the operating budget which is the subject of this memo but also capital items approved by the voters.
 - Additionally it includes an estimate of the growth and investment in value in property in Colchester that will be translated into tax revenues by an act of the independently elected Listers in June 2020.

Non-Tax Revenues supporting operating expenses

Areas	Proposed FY 21	FY 20	% Change From FY 20	\$ Change from FY 20
AMBULANCE	\$ -	\$ 490,025	-100.0%	\$ (490,025)
BUILDING/ZONING PERMITS	\$ 250,000	\$ 250,000	0.0%	\$ -
Tax Penalties & Interest	\$ 90,000	\$ 90,000	0.0%	\$ -
State Payment in Lieu of Taxes	\$ 268,879	\$ 249,172	7.9%	\$ 19,707
Transfer from Cemetery Fund for Maintenance	\$ 35,000	\$ -	100.0%	\$ 35,000
Other Revenues	\$ 1,107,787	\$ 1,094,418	1.2%	\$ 13,369
Subtotal Non Tax Revenues - for operating	\$ 1,751,666	\$ 2,173,615	-19.4%	\$ (421,949)

Generally it is important for non-property tax revenues that support operating expenses in the general fund budget to grow, as a whole, at a rate at least equal to any rate of growth of the general fund budget. When these revenues do not grow by the same rate as operating expenses in the general fund budget, property taxes must fund an increased share of the budget. In other words, property taxes begin to subsidize activities supported by non-tax dollars. This is challenging as most of our fees are not indexed or adjusted annually, but rather adjusted through review and ordinance changes. They also change based on services requested and or market demand. Two examples are demand based development resulting in building and zoning permits and financial market rates resulting in mortgage refinancing resulting in deed recording fees.

One of the most significant changes is the transfer of Rescue into the Rescue Enterprise Fund. This moves revenues and expenses out from under the General Fund, except for the General Fund's supporting contribution. **Equalized for comparison purposes, FY21 our non-tax revenues supporting operating expenses have increased by 3.1% or \$68,076 versus the 0.02% growth in the general fund expenses.**

Due to an increased understanding of two funds the Town came into responsibility for when the elected Cemetery Commission disbanded in favor of a Town operated cemetery service, we have a new transfer to the Town of \$35,000 for maintenance of the cemeteries by our Park and Clerk staff. In future years, the Town will provide \$35,000 towards capital improvements annually to the cemeteries.

Our estimate of state payment in lieu of taxes has increased based on prior year payments. We receive no tax revenues from the federal and state governments despite the need to provide them services. The State of Vermont provides the Town with payment in lieu of taxes, although it is determined by the State and less than property taxes. Given it is not legally required, we are quite thankful for it.

Other Revenues: This is the sum of all sixty four other revenue line items and their changes which, individually only changed by \$13,369 or 1.2%.

Prior Year Tax Revenues supporting operating expenses

Areas	Proposed FY 21	FY 20	% Change From FY 20	\$ Change from FY 20
REDUCTION IN FUND BALANCE	\$ 441,000	\$ 266,000	65.8%	\$ 175,000

This budget proposes use of \$441,000 in fund balance to offset tax revenues to cover expenses proposed in the budget.

Reduction in Fund Balance – for operating expenses. We intend to continue using \$266,000 in fund balance (prior year's revenues exceeding expenses) towards town-wide operating expenses. In addition, in FY 21 we are proposing an additional \$175,000 in fund balance to offset costs related to the operation of a town-wide fire department. The companion memo on expenses explains the reasons for this in detail.

Here is background and future fiscal implications of using fund balance to help fund the costs of weekday, daytime firefighters to address the deficit in firefighting coverage:

GRANT: In 2018, and 2019 the Malletts Bay Fire Department applied for a grants to fund three firefighters to provide daytime coverage for the entire town—the service areas of both Fire Departments. The grant would have allowed the Town to phase in funding for the firefighters over three years, and would have saved over \$300,000 in local taxpayer funds over the phase-in period. Unfortunately in 2018, Vermont was one of 4 states which did not receive a grant; in 2019 we were one of 2 states that did not receive a grant.

FINANCING: At this point, the danger to life and property is too great to keep trying for a federal grant. We need to finance daytime firefighters on our own. What is proposed is to use some of the Town's fund balance. Fund balance is what individuals think of as a savings account for emergencies or what businesses call working capital. The budget intends that this year, the Town will use \$175,000 in Fund Balance, and decrease by the use \$58,333 annually in steps over three years, not unlike the grant. This will consume a total of \$350,000 of the fund balance.

Fund Balance Use	
Year	Amount
FY 21	\$ 175,000
FY 22	\$ 116,667
FY 23	\$ 58,333
Total	\$ 350,000

This approach will allow the Town to phase in the expense of daytime firefighting coverage, resulting in a safer situation than we have now with a lack of available staff to respond. Essentially it addressed two of the outlined uses of the fund balance, to address emergencies, and to avoid tax spikes, which is what would occur if we were to fund all the new costs of the daytime firefighters without using the fund balance.

FUND BALANCE: The fund balance services the Town in a multiple ways: 1) it serves to provide cash flow, to avoid borrowing between the beginning of the fiscal year and 45 days later when taxes are first due; 2) it allows the Town to pay the Colchester School District it's share of the Statewide Education Taxes, which allows the Colchester School District to avoid borrowing; 3) help cover the costs when not everyone pays their taxes or less than expected revenue comes in (the Town ultimately collect all taxes but it can take a number of years); 4) expenses could exceed budget when there is a natural disaster or an unusual or extended public safety response; 5) and reducing the cost of borrowing by having a healthy financial situation. The Town fund balance policy is available [here](#).

The Selectboard passed a policy on fund balance in 2016 with a range of general fund fund-balance of 13% to 17% of recurring expenses. The fund balance is currently at 13.4% of recurring expenses, up only slightly from the previous year. The fund balance is similar to having more money in a personal or business bank account than one has in annually recurring expenses. This avoids costly borrowing to pay bills and also provides some level of protection for unplanned expenses or natural disasters (the Town has no insurance for its most expensive assets-roads and bridges).

Subtotal Revenues - Not from FY 21 Taxes	\$ 2,192,666	\$ 2,439,615	-10.1%	\$ (246,949)
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The decrease in revenues is predominately due to the difference between the temporary increased use of the fund balance of \$175,000, and the removal of the rescue revenues of \$490,025 to the rescue enterprise fund.

Approximately 17% of the general fund budget is obtained from non-tax funding. The Town has five operating funds outside of the property tax supported General Fund: the Sewer Fund of \$1,185,365, the Public Safety Dispatch Fund of \$507,646, the Stormwater Fund of \$848,769, the Recreation Program Fund of \$1,082,105, and in FY 21 the Rescue Fund of \$760,645. *Including these other operating funds, the Town obtains 38% of its revenues from sources other than property taxes.*

Property taxes fund the difference between expenses and non-property tax revenues. Focusing first on expenses helps to minimize the requirements for funding from any source. Evaluating non-property tax revenues as often as feasible is our next approach to meeting service demands. *Revenue from property taxes is the last resort in funding the budget "net" of other revenues.*

A net budget increase of 0% will not result in a property tax increase of 0%. This is due to growth in the grand list (value of all taxable property in Town) and the Town's responsibility to fund voter approved capital projects, capital funding, and debt in addition to the annual operating budget.

The Charter requires the manager to present a budget of expenses and non-tax revenues.

State statutes and the Town Charter separate the functions of budgeting and property valuation into independent boards and separate time schedules, so that they may not influence each other. This results in a significant separation in budget timing and property valuation. *Citizens vote on the budget March 3, 2020. The elected Board of Listers determines property value in June, based on actual value of taxable property on April first.*

We have discussed practices of estimating grand list growth with our peer communities. All are conservative in the estimate if one is made, as too aggressive an estimate can result in a higher than advertised tax rate increase. We have found the consensus to be an estimate of about 2/3 the prior year actual growth, unless there is strong advance evidence to suggest something otherwise.

We have estimated the FY 21 total property value at \$21,939,174—with seven months remaining until this determination is made in June 2020. This is based on an increase in value resulting from: 1) new permits that were issued after the 2019 grand list was lodged; 2) projects permitted as of but not completed as of 04/01/2019; 3) subdivisions that have been recorded to date; 4) estimated losses as a result of appeals, Error and Omissions (E&O), and exemptions; and 5) electric - gas utilities depreciating and adjustments to their market value. More specifically:

- There are 85 new construction permits used in this estimate that were issued before 09/30/2019 that are currently permitted to be built or were under construction as of 04/01/2019. The list of 85 permits includes new construction, demolitions, and rebuilds. The total estimate of the new construction value is \$20,470,000. This estimate assumes permitted construction will be completed as of 04/01/2020. It is unknown how many new building will still be completed, still under construction, or not started and how many new permits will be taken out over the winter.
- Three new subdivisions have been approved and recorded as of 09/30/2019 since the 2019 GL was lodged. The estimated increase to the 2020 property values for these new lots is \$2,726,100. There are some projects currently seeking approvals and would need to be recorded before 4/1/2020 to be considered in the 2020 property values. According to Vermont law, subdivisions are not valued until plats are recorded. Frequently developers obtain approval but do not record plats until they are ready to develop, thus delaying increase in value.
- There is an estimated \$4,000,000 growth in pools, decks, sheds, interior renovations, addition, and other capital improvements.
- An increase of \$821,300 to add back list total value, due estimated appeals that did not materialize, or did not succeed.
- A decrease of \$2,500,000 in expected reductions to property values from gas and electric utility depreciation.

The Town cannot control the rate of development to increase the grand list. While infrastructure development such as sewer in strategic areas is important and can encourage development, we do not own the property, nor do we control the demand for development. We are fortunate to have a community in inner Chittenden County where property value is higher than some other areas in the state and where property values have not tanked as has happened elsewhere in the nation. We have a very diverse geography with 27 miles of Lake Champlain shoreline, and 12 miles of river shoreline with hills and valleys that produces beautiful scenery. We work to encourage private development that fits within our community's character, but ultimately the re-development and development of land is a private sector decision. Given we have limited land to develop, we may be better off with steady development rather than a big influx, considering the costs of accommodating the additional service demands which accompany development.

Summary

Assuming:

- The expenses and non-tax revenues noted above
- We addition of voter approved capital funding which we are now mandated to pay
- A grand list increase of 1.18%

Our estimate is that the tax rate will increase by about 0.56 cents per hundred dollars of property valuation, or 1.02%. This would result in a tax rate of \$0.5485 per hundred dollars of property value.

FY 21 Colchester Municipal Budget - Draft for Public Consideration

A. Draft FY 2021 Municipal Budget		
General Fund (GF) Operating Budget	\$	13,131,084
GF Non-property tax revenues	\$	(2,192,666)
GF Property tax based budget	\$	10,938,418
Debt Service	\$	502,314
LOT Revenues to Pay Debt Service	\$	(502,314)
Voter Approved Multi-Year Capital Plans	\$	1,095,034
Total Capital and Debt Funding	\$	1,095,034
Property Tax Based Operating and Capital Funding	\$	12,033,452

B. Draft Changes in Budget Net of Non Property Tax Revenues		
FY 20 Net Operating Budget and Capital Funding	\$	11,773,023
FY 21 Draft Net Operating Budget and Capital Funding	\$	12,033,451
Increase	\$	260,428

C. Projected FY 2021 Municipal Grand List		
Estimated Colchester Property Values 4/1/20	\$	2,193,917,400
Estimated Grand List (value divided by 100)	\$	21,939,174

D. Projected FY 2021 Municipal Tax Rate		
Property Tax Based Operating Budget/Capital Funding	\$	12,033,452
Estimated Grand List	\$	21,939,174
Property Tax Based Budget divided by Grand List	\$	0.5485

E. Estimated Municipal Tax Rate Changes		
Estimated 2021 Tax Rate*	\$	0.5485
2020 Tax Rate	\$	0.5429
<i>Projected Change in Tax Rate</i>	<i>\$</i>	<i>0.0056</i>
FY 21 Projected Tax Rate increase (Estimate Only)		1.02%

COLCHESTER PROPOSED FY 2021 BUDGET					
Account	FY19 Actual	FY20 Budget	FY21 Budget	\$ Inc/Dec from FY 20	%Inc/Dec from FY 20 Budget
REVENUES					
PROPERTY TAXES	10,433,016	10,689,804	10,938,418	248,614	2.3%
VETERAN EXEMPTION	(24,910)	(25,000)	(25,000)	0	0.0%
INTEREST DELINQ TAXES	59,466	35,000	35,000	0	0.0%
PENALTIES DELINQ TAXES	73,013	55,000	55,000	0	0.0%
RECORDING FEES	111,058	125,000	130,000	5,000	4.0%
CLERK FEES	82,977	88,200	83,355	(4,845)	-5.5%
STATE AID TO HIGHWAYS	196,705	196,705	197,668	963	0.5%
MISC PUBLIC WORKS REVENUE	28,881	29,900	29,000	(900)	-3.0%
BUILDING/ZONING PERMITS	320,272	250,000	250,000	0	0.0%
PLANNING & ZONING FEES	104,226	89,950	91,775	1,825	2.0%
MISC POLICE REVENUE	65,969	74,500	71,500	(3,000)	-4.0%
MISC RECREATION REVENUE	18,662	19,000	18,500	(500)	-2.6%
AMBULANCE	535,710	490,025	0	(490,025)	-100.0%
TRANSFER FROM SEWER FUND	130,300	134,275	135,944	1,669	1.2%
TRANSFER FROM STORMWATER	110,402	112,826	113,533	707	0.6%
TRANSFER FROM CEMETERY FUND	0	0	35,000	35,000	100.0%
GENERAL REVENUE	356,961	186,429	192,781	6,352	3.4%
833 BLAKELY LEASE REVENUE	27,806	28,570	29,355	785	2.7%
PILOT & CURRENT USE	296,340	283,235	308,255	25,020	8.8%
REDUCTION IN FUND BALANCE	0	66,000	66,000	0	0.0%
ASSIGNED FUND BALANCE	0	200,000	375,000	175,000	87.5%
TRANSFER FROM RESERVE FUND	0	0	0	0	0.0%
TRANSFERS FROM OTHER FUNDS	0	0	0	0	0.0%
Total Revenues	12,926,854	13,129,419	13,131,084	1,665	0.0%