



Memo

From the Office of the Town Manager

To: Colchester Selectboard

From: Aaron Frank, Town Manager; Renae Marshall, Deputy Town Manager; Lara Alemy, Finance Director and Robert Vickery, Assessor

Date: November 19, 2024

Re: FY 2026 Draft Municipal Services Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY26 municipal services budget. Revenue changes are in three categories and are explained below in more detail:

1. **Revenues from non-tax sources** supporting operating expenses are expected to increase by \$104,230 or 4.8%.
 - We are expecting user fees and other non-tax revenues to increase based on trends in FY25. These fees help decrease the pressure on property taxes.
2. **Prior year's tax and fee revenues (fund balance) are \$392,000.**
 - We believe we can sustainably budget \$326,000 in fund balance annually to offset increased costs for municipal services, combined with the \$66,000 that has typically been utilized for Selectboard Contingency. For FY26, rather than applying the additional \$66,000 in fund balance to Selectboard Contingency, it will be transferred to the Creek Farm Bridge Fund. This application of fund balance decreases the amount of new municipal services taxes necessary.
3. **Town municipal services taxes are estimated to increase by 4.86% or 3.10 cents to \$0.6700 per \$100 of property value.**
 - This increase includes not only the municipal services budget which is the subject of this memo but also capital items previously approved by the voters.
 - Additionally, it includes an estimate of the growth and investment in value of property in Colchester that will be translated into tax revenues by an act of the independently elected Listers in June 2025.

Non-Tax Revenues

Areas	Proposed FY 26	FY 25	% Change From FY 25	\$ change from FY 25
Non Tax Revenues	\$ 2,296,253	\$ 2,192,024	4.8%	\$ 104,230

Non-tax Revenues: Revenues that come from sources other than the current year's property taxes and fund balance (prior year's tax and fee revenues) are expected to increase by \$104,230 or 4.8%.

This is primarily due to estimates of increased fee-based activity including: A transfer of \$2,369 from the Sewer Fund; transfer of \$10,832 from the Recreation Program Fund; Clerk Fees, \$9,800; Building/Zoning

Permit Fees, \$94,763; \$4,000 increase in Misc. Police Revenue, primarily for marine enforcement, based on actuals; \$2,000 increase in Misc. Recreation Revenue for facility rentals, based on actuals; \$11,388 increase in lease revenue for town property; \$44,786 in General Revenue, primarily for interest earnings; \$13,766 increase for Payment In Lieu of Taxes (PILOT) and Current Use; and \$41,000 increase in use of assigned fund balance.

Expected Decreases in non-tax revenues primarily include: \$3,066 reduction in transfer from the stormwater fund; \$10,398 decrease in State Aid to Highways; \$76,010 decrease in Planning & Zoning Fees

Generally, it is ideal for non-property tax revenues that support operating expenses in the municipal services budget to grow, as a whole, at a rate at least equal to any rate of growth of the municipal services budget. When these revenues do not grow by the same rate as operating expenses in the municipal services budget, property taxes must fund an increased share of the budget. This can be challenging as some of our fees are not indexed or adjusted annually, but rather adjusted through review and ordinance changes or based on legislative decisions. They also change based on services requested and or market demand.

Prior Year Tax and Fee Revenues

Areas	Proposed FY 26	FY 25	% Change From FY 25	\$ change from FY 25
REDUCTION IN FUND BALANCE	\$ 392,000	\$ 351,000	11.7%	\$ 41,000

Reduction in Fund Balance. We intend to use \$392,000 in fund balance (prior year’s revenues exceeding expenses) towards town-wide operating expenses. This is an increase of \$41,000 from FY25.

There are three components of the fund balance to be used:

- \$66,000 in capital transfer for the Creek Farm Bridge Fund. This \$66,000 is typically budgeted annually for Selectboard Contingency, and when unused, remains in the fund balance. This has been an ongoing practice; however, in order to avoid using municipal services tax dollars for the replacement costs for this bridge, we are proposing leveraging this use of fund balance over a period of two or more years, in addition to grant funding, to help cover this cost.
- \$326,000 in revenues exceeding expenses from prior fiscal year operations that reduce the amount of money needed to be raised from FY 2026 municipal services taxes. This is an ongoing practice.

FUND BALANCE: The fund balance services the town in 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 its share of the Statewide Education Taxes, which allows the Colchester School District to avoid borrowing; 3) helps cover the costs when not everyone pays their taxes or less than expected revenue comes in (the town ultimately collects 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 reduces the cost of borrowing by having a healthy financial situation. The town’s 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 as of June 30, 2024 is \$2,078,886 at 14.1% of recurring expenses, assuming the Selectboard approves the FY26 budgeted revenues as proposed.

Areas	Proposed FY 26	FY 25	% Change From FY 25	\$ change from FY 25
PROPERTY TAXES	\$ 14,248,439	\$ 13,394,194	6.4%	\$ 854,246

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 municipal services budget increase of 6.3% will not result in a municipal services tax rate increase of 6.3%. An increase in total taxes of 6.4% will not result in a municipal services tax rate increase of 6.4%. 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.

Approximately 16% of the municipal services budget is obtained from non-tax funding. The town has four operating funds outside of the property tax supported municipal service budget: The Sewer Fund of \$1,864,030, the Stormwater Fund of \$1,120,204, the Recreation Program Fund of \$978,804, and the Rescue Fund of \$1,020,900. *Including these other operating funds, the town obtains 35% of its revenues from sources other than property taxes.*

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 4, 2025. The elected Board of Listers determines property value in June, based on actual value of taxable property on April 1, 2025.*

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

We have estimated the FY26 total property value at \$2,299,240,700—with seven months remaining until this determination is made in June 2025. This is based on an increase in value resulting from: 1) new permits that were issued after the 2024 grand list was lodged; 2) projects permitted but not completed as of 04/01/2024; 3) subdivisions that have been recorded to date; 4) estimated losses as a result of appeals, Error and Omissions (E&O), exemptions; and 5) electric/gas utilities depreciating and adjustments to their market value. More specifically:

- There are 59 construction permits used in this estimate that were issued before 09/30/2024 that are currently permitted to be built or were under construction as of 04/01/2024. The list of 59 permits includes new construction, demolitions, and rebuilds. The total estimate of the new construction value is \$16,876,400. This estimate assumes permitted construction will be completed as of 04/01/2025. We are estimating on the aggressive side that most permitted construction will be completed by 04/01/2025. It is unknown how many new buildings will be completed, still under construction, or not started, and how many new permits will be taken out over the winter.
- One 10-lot and one 2-lot subdivision, a 23-Unit PUD, a 12-Unit PUD, and a 4-Unit PUD have been approved and recorded as of 09/30/2024, since the 2024 GL was lodged. The estimated increase to the 2024 property values for these new lots is \$4,484,700. There are some projects currently seeking approvals and would need to be recorded before 04/01/2025 to be considered in the 2025 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 the increase in value.

- There is an estimated \$3,000,000 growth in pools, decks, sheds, interior renovations, additions, and other capital improvements.
- An increase of \$500,000 in expected increases in property values from gas and electric utility investments exceeding 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 values are higher than many other areas in the state. We have a diverse geography with 27 miles of Lake Champlain shoreline, and 12 miles of river shoreline with hills and valleys that produce beautiful scenery. Colchester has approximately 10,000 working age adults and a variety of employers with a combined total of 10,000 jobs. 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
- An addition of voter-approved capital funding which we are now mandated to pay
- A grand list increase of 1.04% compared with the amount in the FY 25 Tax Warrant.

Our estimate is that the tax rate will increase by about 3.10 cents per hundred dollars of property valuation, or 4.86%. This would result in a tax rate of \$0.6700 per hundred dollars of assessed property value.

FY 26 Colchester Municipal Budget - Draft for Public Consideration**A. Draft FY 2026 Municipal Budget**

General Fund (GF) Operating Budget	\$	16,936,693
GF Non-property tax revenues	\$	(2,688,253)
GF Property tax based budget	\$	14,248,439
Debt Service	\$	308,708
LOT Revenues to Pay Debt Service	\$	(308,708)
Voter Approved Multi-Year Capital Plans	\$	1,154,611
Total Capital and Debt Funding	\$	1,154,611
Property Tax Based Operating and Capital Funding	\$	15,403,051

B. Draft Changes in Budget Net of Non Property Tax Revenues

FY 25 Net Operating Budget and Capital Funding	\$	14,539,000
FY 26 Draft Net Operating Budget and Capital Funding	\$	15,403,051
Increase	\$	864,051

C. Projected FY 2026 Municipal Grand List

Estimated Colchester Property Values	\$	2,299,240,700
Estimated Grand List (value divided by 100)	\$	22,992,407

D. Projected FY 2026 Municipal Tax Rate

Property Tax Based Operating Budget/Capital Funding	\$	15,403,051
Estimated Grand List	\$	22,992,407
Property Tax Based Budget divided by Grand List	\$	0.6700

E. Estimated Municipal Tax Rate Changes

Estimated 2026 Tax Rate*	\$	0.6700
2025 Tax Rate	\$	0.6389
<i>Projected Change in Tax Rate</i>	<i>\$</i>	<i>0.0310</i>
FY 26 Projected Tax Rate increase (Estimate Only)		4.9%

