



Memo

From the Office of the Town Manager

To: Colchester Selectboard

From: Aaron Frank, Town Manager; Lara Aley, Finance Director; and Robert Vickery, Assessor

Date: December 6, 2021

Re: Update - FY 2023 Draft Municipal Services Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY 23 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 \$116,667 or 6.9%.
 - o We are expecting user fees and other non-tax revenues to increase based on trends in FY 21. These fees help decrease the pressure on property taxes.

2. **Prior year's tax and fee revenues (fund balance) are \$324,333.**
 - o Typically, we used \$266,000 in fund balance annually. We believe we can sustainably budget \$324,333 in fund balance annually now. This decreases the amount of new property taxes necessary.

3. **Town property taxes are estimated to increase by 2.5% or 1.4 cents to \$0.5733 per \$100 of property value.**
 - o This increase includes not only the municipal services budget which is the subject of this memo but also capital items approved by the voters.
 - o 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 2022.

Non-Tax Revenues

Areas	Proposed FY 23	FY 22	% Change From FY 22	\$ Change from FY 22
Non Tax Revenues	\$ 1,805,654	\$ 1,688,987	6.9%	\$ 116,667

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 \$116,667 or 6.9%.

This is primarily due to estimates of increased fee based activity including: \$20,733 in transfer from the stormwater fund for services performed by staff funded by the municipal services budget; \$17,380 in increased State Payment in Lieu of Tax revenue; \$17,000 in Town Clerk fees; \$15,000 in Building/Zoning Permits; \$13,000 in Police ticket revenue; \$10,000 in fees for recording and maintaining deeds; \$7,500 in Delinquent Tax Fees; \$7,000 in increased recreation facility rental fees; \$5,000 in delinquent tax penalties; and \$1,200 in fees for right of way permits to work in or cut open town roads and sidewalks.

Expected Decreases in non-tax revenues primarily include: a \$35,000 decrease in transfer from the Cemetery Fund (although this is offset by a reduction in expenses in the same amount); \$116,667 reduction in fund balance which was due to the temporary, planned, and incrementally phased out funding of expanded fire services with one time funding (now discontinued); \$6,744 decrease in transfer from the Sewer Fund due to a decrease in cost of services performed by staff funded by the municipal services budget; and, a \$2,000 increase in Veterans Property Tax Exemptions (this is a tax credit to Disabled Veterans which we reflect as a negative revenue and which increases taxes for others to pay for the exemption.)

Generally, it is important 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 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.

Importantly, your town staff have not budgeted one-time grant revenues to cover annually recurring operating expenses. This causes either an abrupt discontinuation of services when the grant stops or an unwelcome tax spike if the service is continued after the grant is used up. We do not believe this is responsible or in keeping with the principles of a community that has, in its town charter, a requirement not to overspend the budget by more than 4% without voter approval. We are thankful that the town will benefit from receiving one-time federal grant funds, as we all pay our shares of federal taxes. We expect to present a future recommendation to use one-time grant funds on capital funding, which is authorized separately from your municipal services budget.

Prior Year Tax and Fee Revenues

Areas	Proposed FY 23	FY 22	% Change From FY 22	\$ Change from FY 22
REDUCTION IN FUND BALANCE	\$ 324,333	\$ 441,000	-26.5%	\$ (116,667)

Reduction in Fund Balance. We intend to continue using \$324,333 in fund balance (prior year's revenues exceeding expenses) towards town-wide operating expenses. This is a decrease of \$116,667 from FY 21 when we were temporarily using fund balance to ease into the cost of paid firefighters for weekday daytime when we did not have enough volunteers to fight a building fire.

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

- \$66,000 in Selectboard Contingency for unplanned items. This \$66,000 is budgeted annually and when unused, remains in the fund balance. This is an ongoing practice.
- \$200,000 in revenues exceeding expenses from FY 21 operations that the Selectboard in June 2021 put aside to reduce the revenues that needed to be raised from FY 2023 taxes. This is an ongoing practice.
- \$58,333 in additional revenues from the fund balance. We believe that we can consistently use this amount annually in addition to the \$200,000 designated by the Selectboard.

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, 2021 is \$2,302,509 at 13.1% of recurring expenses. Due to the furloughs, layoffs, spending freezes and reduced services in FY 2021, our fund balance grew from 15% to 17% in just one year. This service cut back was a one-time occurrence in a very uncertain year. This practice, and its resultant impact on growing the fund balance cannot continue. Assuming the Selectboard approves the budgeted revenues as proposed, the fund balance will be 16.2%, of recurring operating expenses, or \$2,178,176 , which is \$67,440 short of two months operating expenses.

Areas	Proposed FY 23	FY 22	% Change From FY 22	\$ Change from FY 22
PROPERTY TAXES	\$ 11,750,230	\$ 11,309,026	3.9%	\$ 441,204

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 2.9% will not result in a property tax increase of 2.9%. An increase in total taxes of 3.9% will not result in a property tax increase of 3.9%. 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 17% 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 \$1,185,365, the Stormwater Fund of \$962,733, the Recreation Program Fund of \$1,042,812, and the Rescue Fund of 827,141. *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 1, 2022. The elected Board of Listers determines property value in June, based on actual value of taxable property on April 1, 2022.*

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 23 total property value at \$22,467,634—with seven months remaining until this determination is made in June 2022. This is based on an increase in value resulting from: 1) new permits that were issued after the 2021 grand list was lodged; 2) projects permitted but not completed as of 04/01/2021; 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 68 construction permits used in this estimate that were issued before 10/30/2021 that are currently permitted to be built or were under construction as of 04/01/2021. The list of 68 permits includes new construction, demolitions, and rebuilds. The total estimate of the new construction value is \$18,304,000. This estimate assumes permitted construction will be completed as of 04/01/2022. We are estimating on the aggressive side that most permitted construction will

be completed by 4/1/2022. It is unknown how many new buildings will still be completed, still under construction, or not started and how many new permits will be taken out over the winter.

- Five lot subdivisions have been approved and recorded as of 10/30/2021 since the 2021 GL was lodged. The estimated increase to the 2021 property values for these new lots is \$515,900. There are some projects currently seeking approvals and would need to be recorded before 4/1/2022 to be considered in the 2022 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 \$5,000,000 growth in pools, decks, sheds, interior renovations, additions, and other capital improvements.
- An increase of \$1,000,000 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 some 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. There are about 10,000 working age adults in Colchester and employers in Colchester have about 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 1.1%

Our estimate is that the tax rate will increase by about 1.14 cents per hundred dollars of property valuation, or 2.5%. This would result in a tax rate of \$0.5733 per hundred dollars of assessed property value.

FY 23 Colchester Municipal Budget - Draft for Public Consideration

A. Draft FY 2023 Municipal Budget		
General Fund (GF) Operating Budget	\$	13,880,217
GF Non-property tax revenues	\$	(2,129,987)
GF Property tax based budget	\$	11,750,230
Debt Service	\$	467,912
LOT Revenues to Pay Debt Service	\$	(467,912)
Voter Approved Multi-Year Capital Plans	\$	1,131,501
Total Capital and Debt Funding	\$	1,131,501
Property Tax Based Operating and Capital Funding	\$	12,881,732

B. Draft Changes in Budget Net of Non Property Tax Revenues		
FY 22 Net Operating Budget and Capital Funding	\$	12,429,288
FY 23 Draft Net Operating Budget and Capital Funding	\$	12,881,732
Increase	\$	452,444

C. Projected FY 2023 Municipal Grand List		
Estimated Colchester Property Values	\$	2,246,763,400
Estimated Grand List (value divided by 100)	\$	22,467,634

D. Projected FY 2023 Municipal Tax Rate		
Property Tax Based Operating Budget/Capital Funding	\$	12,881,732
Estimated Grand List	\$	22,467,634
Property Tax Based Budget divided by Grand List	\$	0.5733

E. Estimated Municipal Tax Rate Changes		
Estimated 2023 Tax Rate*	\$	0.5733
2022 Tax Rate	\$	0.5593
<i>Projected Change in Tax Rate</i>	<i>\$</i>	<i>0.0141</i>
FY 23 Projected Tax Rate increase (Estimate Only)		2.5%