



# Memo

## From the Office of the Town Manager

To: Colchester Selectboard

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

Date: November 23, 2022

Re: FY 2024 Draft Municipal Services Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY 24 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 \$224,544 or 12.4%.
  - o We are expecting user fees and other non-tax revenues to increase based on trends in FY 23. These fees help decrease the pressure on property taxes.
  
2. **Prior year's tax and fee revenues (fund balance) are \$376,000.**
  - o Typically, we used \$266,000 in fund balance annually. We believe we can sustainably budget an additional \$60,000 or \$326,000 in total fund balance annually moving forward. We have proposed an additional \$50,000 in FY24 to offset increased costs for municipal services. This application of fund balance decreases the amount of new municipal services taxes necessary.
  
3. **Town property taxes are estimated to increase by 5.75% or 3.3 cents to \$0.6080 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 2023.

### Non-Tax Revenues

Areas	Proposed FY 24	FY 23	% Change From FY 23	\$ Change from FY 23
Non Tax Revenues	\$ 2,030,197	\$ 1,805,654	12.4%	\$ 224,544

**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 \$224,544 or 12.4%.

This is primarily due to estimates of increased fee based activity including: \$26,292 in transfer from the stormwater fund for services performed by staff funded by the municipal services budget; \$10,121 in increased State Payment in Lieu of Tax revenue; \$5,145 in Town Clerk fees; \$88,600 in Building/Zoning

Permits; \$15,000 in Delinquent Tax Fees; \$8,000 in increased recreation facility rental fees; \$15,000 in delinquent tax penalties; \$4,177 increase in transfer from the Sewer Fund due to increased cost of services performed by staff funded by the municipal services budget and \$500 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: \$25,000 in fees for recording and maintaining deeds due to higher interest rates which will likely result in a lower rate of refinancing and property transactions; \$1,000 in Police Ticket Revenue; and, a \$3,000 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.

### Prior Year Tax and Fee Revenues

Areas	Proposed FY 24	FY 23	% Change From FY 23	\$ Change from FY 23
<b>REDUCTION IN FUND BALANCE</b>	<b>\$ 376,000</b>	<b>\$ 324,333</b>	<b>15.9%</b>	<b>\$ 51,667</b>

**Reduction in Fund Balance.** We intend to use \$376,000 in fund balance (prior year's revenues exceeding expenses) towards town-wide operating expenses. This is an increase of \$51,667 from FY 23.

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.
- \$260,000 in revenues exceeding expenses from FY 22 operations that the Selectboard put aside in June 2022 to reduce the amount of money needed to be raised from FY 2024 municipal services taxes. This is an ongoing practice.
- \$50,000 in additional revenues from the fund balance to decrease the amount of property taxes required to account for the increased cost for services in FY24. This amount will be reduced to \$25,000 in FY25 to minimize the amount that will need to be raised by municipal services taxes.

Fund Balance Use	FY24 Plan
Year	Amount
FY24	\$ 50,000
FY25	\$ 25,000
<b>Total</b>	<b>\$ 75,000</b>

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, 2022 is \$2,188,934 at 15.7% of recurring expenses. Assuming the Selectboard approves the FY24 budgeted revenues as proposed, the fund balance will be 15.4% of recurring operating expenses, or \$2,138,934, which is \$177,708 short of two months operating expenses.

Areas	Proposed FY 24	FY 23	% Change From FY 23	\$ Change from FY 23
PROPERTY TAXES	\$ 12,622,189	\$ 11,750,230	7.4%	\$ 871,959

**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 8.3% will not result in a property tax increase of 8.3%. An increase in total taxes of 7.4% will not result in a property tax increase of 7.4%.*** 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 municipal services tax-supported municipal services budget: The Sewer Fund of \$1,349,338, the Stormwater Fund of \$991,615, the Recreation Program Fund of \$942,175, and the Rescue Fund of \$907,629. *Including these other operating funds, the town obtains 34% 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 7, 2023. The elected Board of Listers determines property value in June, based on actual value of taxable property on April 1, 2023.*

*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 24 total property value at \$22,634,367—with seven months remaining until this determination is made in June 2023. This is based on an increase in value resulting from: 1) new permits that were issued after the 2022 grand list was lodged; 2) projects permitted but not completed as of 04/01/2022; 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 66 construction permits used in this estimate that were issued before 9/30/2022 that are currently permitted to be built or were under construction as of 4/01/2022. The list of 66 permits includes new construction, demolitions, and rebuilds. The total estimate of the new construction value is \$18,006,600. This estimate assumes permitted construction will be completed as of 04/01/2023. We are estimating on the aggressive side that most permitted construction will be completed by 4/01/2023. 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.
- Four lot subdivisions, five Planned Unit Developments and two permits that include subdividing a duplex into two condos have been approved and recorded as of 8/30/2022, since the 2022 GL was lodged. The estimated increase to the 2022 property values for these new lots is \$1,086,400. There are some projects currently seeking approvals and would need to be recorded before 4/01/2023 to be considered in the 2023 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 \$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 and water 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 1.05%

***Our estimate is that the tax rate will increase by about 3.30 cents per hundred dollars of property valuation, or 5.75%. This would result in a tax rate of \$0.6080 per hundred dollars of assessed property value.***

**FY 24 Colchester Municipal Budget - Draft for Public Consideration**

<b>A. Draft FY 2024 Municipal Budget</b>		
General Fund (GF) Operating Budget	\$	15,028,386
GF Non-property tax revenues	\$	(2,406,197)
<b>GF Property tax based budget</b>	<b>\$</b>	<b>12,622,189</b>
Debt Service	\$	452,849
LOT Revenues to Pay Debt Service	\$	(452,849)
Voter Approved Multi-Year Capital Plans	\$	1,139,221
<b>Total Capital and Debt Funding</b>	<b>\$</b>	<b>1,139,221</b>
<b>Property Tax Based Operating and Capital Funding</b>	<b>\$</b>	<b>13,761,411</b>

<b>B. Draft Changes in Budget Net of Non Property Tax Revenues</b>		
FY 23 Net Operating Budget and Capital Funding	\$	12,878,554
FY 24 Draft Net Operating Budget and Capital Funding	\$	13,761,411
<b>Increase</b>	<b>\$</b>	<b>882,857</b>

<b>C. Projected FY 2024 Municipal Grand List</b>		
Estimated Colchester Property Values	\$	2,263,436,700
<b>Estimated Grand List (value divided by 100)</b>	<b>\$</b>	<b>22,634,367</b>

<b>D. Projected FY 2024 Municipal Tax Rate</b>		
Property Tax Based Operating Budget/Capital Funding	\$	13,761,411
Estimated Grand List	\$	22,634,367
<b>Property Tax Based Budget divided by Grand List</b>	<b>\$</b>	<b>0.6080</b>

<b>E. Estimated Municipal Tax Rate Changes</b>		
Estimated 2024 Tax Rate*	\$	0.6080
2023 Tax Rate	\$	0.5750
<i>Projected Change in Tax Rate</i>	<i>\$</i>	<i>0.0330</i>
<b>FY 24 Projected Tax Rate increase (Estimate Only)</b>		<b>5.7%</b>

**COLCHESTER PROPOSED FY 2024 BUDGET**

Account	FY21 Actual	FY22 Budget	FY22 Actual	FY23 Budget	FY24 Budget	\$ Inc/Dec from FY 23	% Inc/Dec from FY 23 Budget
<b>REVENUES</b>							
PROPERTY TAXES	10,919,109	11,309,026	11,323,902	11,750,230	12,622,189	871,959	7.4%
VETERAN EXEMPTION	(29,656)	(28,000)	(33,133)	(30,000)	(33,000)	(3,000)	10.0%
INTEREST DELINQ TAXES	70,132	35,000	61,960	40,000	55,000	15,000	37.5%
PENALTIES DELINQ TAXES	106,775	55,000	99,736	62,500	77,500	15,000	24.0%
RECORDING FEES	243,900	175,000	186,382	185,000	160,000	(25,000)	-13.5%
CLERK FEES	53,413	50,155	87,943	67,155	72,300	5,145	7.7%
STATE AID TO HIGHWAYS	260,414	206,965	229,865	206,960	212,694	5,734	2.8%
MISC PUBLIC WORKS REVENUE	29,817	26,400	27,458	27,600	28,100	500	1.8%
BUILDING/ZONING PERMITS	268,779	250,000	276,566	265,000	353,600	88,600	33.4%
PLANNING & ZONING FEES	94,109	91,575	114,859	93,500	114,600	21,100	22.6%
MISC POLICE REVENUE	316,565	56,500	78,192	69,500	68,500	(1,000)	-1.4%
MISC RECREATION REVENUE	11,409	3,000	17,806	10,000	18,000	8,000	80.0%
GRANT REVENUE	56,418	0	19,826	0	0	0	0.0%
TRANSFER FROM SEWER FUND	135,944	135,520	135,520	128,776	132,953	4,177	3.2%
TRANSFER FROM STORMWATER	113,533	110,787	110,787	131,520	157,812	26,292	20.0%
TRANSFER FROM CEMETERY FUND	35,000	35,000	35,000	0	0	0	0.0%
GENERAL REVENUE	289,121	191,516	218,012	191,516	215,090	23,574	12.3%
833 BLAKELY LEASE REVENUE	30,618	30,163	47,733	30,992	60,174	29,182	94.2%
PILOT & CURRENT USE	307,769	308,255	333,191	325,635	336,874	11,239	3.5%
REDUCTION IN FUND BALANCE	0	66,000	0	66,000	116,000	50,000	75.8%
ASSIGNED FUND BALANCE	0	375,000	0	258,333	260,000	1,667	0.6%
TRANSFER FROM RESERVE FUND	0	0	0	0	0	0	0.0%
TRANSFERS FROM OTHER FUNDS	0	0	0	0	0	0	0.0%
<b>Total Revenues</b>	<b>13,313,168</b>	<b>13,482,862</b>	<b>13,371,604</b>	<b>13,880,217</b>	<b>15,028,386</b>	<b>1,148,170</b>	<b>8.3%</b>