



# Memo

## From the Office of the Town Manager

To: Colchester Selectboard  
 From: Aaron Frank, Deputy Town Manager/CFO  
 Cc: Dawn Francis, Town Manger  
 Date: December 5, 2016  
 Re: FY 2018 Draft Budget - Revenues

This memo provides information about major revenue changes for the draft FY 18 general fund budget.

Revenues which are proposed to increase by more than 6% AND more than \$15,000 are noted below in five categories:

- Revenues from non-tax sources supporting operating expenses that increase by \$110,902 or 6.2%
- Revenues not supporting operating expenses that decrease by \$56,742 or 31%
- Prior year's tax revenues supporting operating expenses that increase by \$56,870 or 37%
- Total prior year revenues (fund balance) of \$336,661 is being used to reduce property taxes
- Town property taxes are estimated to be increased by 0.62% or 1/3 of one cent to \$0.5473 per \$100 of property value

### Non-Tax Revenues supporting operating expenses

Areas	Proposed FY 18	FY 17	% Change From FY 17	\$ Change from FY 17
AMBULANCE	\$ 393,318	\$ 376,649	4.4%	\$ 16,669
BUILDING/ZONING PERMITS	\$ 250,000	\$ 235,218	6.3%	\$ 14,782
Wastewater Fund Transfer to General Fund for Services	\$ 130,189	\$ 102,606	26.9%	\$ 27,583
Other Revenues	\$ 1,120,287	\$ 1,068,419	4.9%	\$ 51,868
<b>Subtotal Non Tax Revenues - for operating</b>	<b>\$ 1,893,794</b>	<b>\$ 1,782,892</b>	<b>6.2%</b>	<b>\$ 110,902</b>

**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 development activity.

For the FY 17 Budget, we reviewed our fees for services, considering both the costs of the services provided and the price of fees in our market. Fees were adjusted and we are still seeing the benefits of those fees in our FY 18 budget. We reduced delinquent tax penalties which cost about \$17,000 in revenue but reduces the impact of late payments on late paying taxpayers. One area that is difficult to adjust is the \$120,000 that we receive annually in Town Clerk recording fees as they are determined by State statute.

In this year where we have focused on fee increases, our non-tax revenues supporting operating expenses have grown by 4.9% vs the 2.4% growth in the general fund expenses.

**Ambulance:** Revenues are projected to increase by 4.4%. This is a combination of growth in number of calls and a 4.25% rate increase implemented November 1, 2016. Because federally funded insurance does not increase along with our rate increase, a 4.25% rate increase may only result in a 2% revenue increase.

**Building permits:** Building permits rates were increased in FY 17. The increase of 6.3% is based on an expected increase in permits in FY 18.

**Wastewater fund transfer** to General Fund for services has increased by \$27,583 to \$130,189. This transfer is to cover the staff time and overhead costs affiliated with operating the Town’s wastewater system that is funded by user fees. The wastewater fund does not pay for any employees directly. The transfer is based on a review of both the actual time spent by DPW staff on wastewater issues and a review of overhead rates (how much general management and central support time is spent supporting departments). The wastewater fund was over-paying for direct staff but under-paying on overhead costs. We are seeking to make an adjustment of overhead and overtime so as to avoid any rate spikes in the wastewater rates.

**Other Revenues:** This is the sum of all sixty other revenue line items and their changes which, individually, did not meet the threshold of a 6% increase or decrease AND \$15,000.

<b>Revenues not supporting operating expenses</b>				
<b>Areas</b>	<b>Proposed FY 18</b>	<b>FY 17</b>	<b>% Change From FY 17</b>	<b>\$ Change from FY 17</b>
TRANSFER FROM Reserve Fund for Malletts Bay infrastructure planr	\$ -	\$ 82,742	-100.0%	\$ (82,742)
REDUCTION IN ASSIGNED FUND BALANCE - For Leave Time	\$ 100,000	\$ 100,000	0.0%	\$ -
REDUCTION IN ASSIGNED FUND BALANCE - Dispatch Leave Time	\$ 26,000	\$ -		\$ 26,000
<b>Subtotal Revenues - Not from FY 17 Taxes non-operating</b>	<b>\$ 126,000</b>	<b>\$ 182,742</b>	<b>-31.1%</b>	<b>\$ (56,742)</b>

**Transfer from Reserve Fund for Malletts Bay Infrastructure (for economic development):** In FY 17 we made a one-time transfer of \$82,742 from a reserve fund for “Malletts Bay Infrastructure” to the Park Capital Plan. This transfer will not be made in FY 18.

**Reduction in Assigned Fund Balance – for leave time expenses.** As was done in FY 17, and for FY 18 we will transfer assigned fund balance to a leave time fund, for leave time expenses exceeding the annual budget. The Town has, as of July 1, 2016, an unfunded leave time liability of \$390,282, down from nearly \$700,000 three years ago. While we properly disclose this liability in our financial statements, we feel it is more fiscally responsible to fund the liability, at least in part, from employee vacancy savings which result in annual budget surpluses. This will allow the Town to pay out earned leave without exceeding the operating budget. The FY 16 budget surplus of \$270,661 is budgeted as revenue for FY 18 and provides for the \$100,000 in leave time funding. While this funding supports operating expenses, they are expenses accrued from prior years operations, and to the extent which payment of leave time expenses might cause the Town to exceed the budget it is appropriate to draw funding for such expenses from a reserve fund.

**Reduction in Assigned Fund Balance – for dispatch leave time expenses.** In FY 17, we created a Dispatch enterprise fund, so as to better measure expenses so the costs can be properly shared with Milton, which pays about 40% of the Dispatch funds expenses. The Dispatch enterprise fund inherited \$28,704 in leave time liability that was transferred to the Dispatch Enterprise Fund from the General Fund upon creation of the Dispatch Enterprise Fund. This is a one-time transfer of \$26,000 and in the future the Dispatch fund will be expected to fund its own leave time liabilities.

## Prior Year Tax Revenues supporting operating expenses

Areas	Proposed FY 18	FY 17	% Change From FY 17	\$ Change from FY 17
REDUCTION IN FUND BALANCE	\$ 210,661	\$ 153,791	37.0%	\$ 56,870

**Reduction Fund Balance – for operating expenses.** In FY 18 we are proposing both an increase in use of fund balance (prior year's revenues exceeding expenses) and an increase in use towards operating expenses.

## Total Prior Year Tax Revenues

Areas	Proposed FY 18	FY 17	% Change From FY 17	\$ Change from FY 17
REDUCTION IN FUND BALANCE	\$ 336,661	\$ 336,533	0.0%	\$ 128

**This budget proposes use of \$336,661 in fund balance to offset tax revenues to cover expenses proposed in the budget.**

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 13.3% of recurring expenses. 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 18 Taxes	\$ 2,230,455	\$ 2,119,425	5.2%	\$ 111,030
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Approximately 18% of the general fund budget is obtained from non-tax funding. The Town has three operating funds outside of the property tax supported General Fund: the Sewer Fund of \$ 1,103,091, the Public Safety Dispatch Fund including \$232,759 (40%) from the Town of Milton, and the Recreation Program Fund, which provides recreation programming, of about \$911,390. *Including these other operating funds, the Town obtains 36% of its revenues from sources other than property taxes.*

PROPERTY TAXES	\$ 10,221,870	\$ 10,035,834	1.9%	\$ 186,036
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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.*

**A net budget increase of 1.9% will not result in a property tax increase of 1.9%.** This is due to growth in the grand list (value of all taxable property in Town).

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 and the Board of Listers determine 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 18 property value at \$2,098,683,111. This is based on an increase in value of \$23,694,511 (1.14%) resulting from:

- 2015 and 2016 permitted construction value of \$12,952,000 and estimating \$12,304,100 (95%) percent will likely to be complete as of 4/1/17. This is not a guarantee as permits are valid for one year but are constantly extended for additional years at no charge.
- Addition of \$210,000 in mobile home improvements
- Assuming that all subdivision plats approved will be filed by 4/1/17 and thus be taxable at a total amount of \$6,994,400 (not a guarantee)
- Estimating the value of \$3,500,000 in improvements to outbuildings, porches, pools, additions, exterior and interior renovations to be completed by 4/1/17
- Reduction in value of mobile homes due to equity adjustments in the amount of \$2,000,000
- Removing the reservation of a portion of the grand list of potential appeals due to the Class A office space review in 2016 and adding in a small reservation for property under appeal, for which the Town would owe both Town and School taxes if the Town's position is not upheld. This is a net increase in value of \$2,685,711

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,
- a grand list increase of by 1.14% (This is less than the 2016 increase of 1.86%, but in 2016 we re-assessed our class A office space)

**Our estimate is that the tax rate will increase by about 1/3 of 1 cent per hundred dollars of property valuation, or 0.62%. This would result in a tax rate of \$0.5473 per hundred dollars of property value.**

**FY 18 Colchester Municipal Budget - Draft for Public Consideration**

<b>A. Draft FY 2018 Municipal Budget</b>		
General Fund (GF) Operating Budget	\$	12,452,325
GF Non-property tax revenues	\$	(2,230,455)
<b>GF Property tax based budget</b>	<b>\$</b>	<b>10,221,870</b>
Debt Service	\$	627,964
LOT Revenues to Pay Debt Service	\$	(627,964)
Voter Approved Multi-Year Capital Plans	\$	1,265,006
<b>Total Capital and Debt</b>	<b>\$</b>	<b>1,265,006</b>
<b>Property Tax Based Operating and Capital Budget</b>	<b>\$</b>	<b>11,486,876</b>

<b>B. Draft Changes in Budget Net of Non Property Tax Revenues</b>		
FY 17 Net Operating and Capital Budget	\$	11,287,453
FY 18 Draft Net Operating and Capital Budget	\$	11,486,876
Increase	\$	199,423

<b>C. Projected FY 2018 Municipal Tax Rate</b>		
Estimated Colchester Property Values 4/1/17	\$	2,098,683,111
Estimated Grand List (value divided by 100)	\$	20,986,831
Estimated 2018 Tax Rate*	\$	0.5473
2017 Tax Rate	\$	0.5440
Projected Change in Tax Rate	\$	0.0034
<b>FY 18 Projected Tax Rate increase (Estimate Only)</b>		<b>0.62%</b>
* Property Value divided by 100 multiplied by rate		

**COLCHESTER PROPOSED FY 2018 BUDGET**

<b>Account</b>	<b>FY16 ACTUAL</b>	<b>FY 17 Budget</b>	<b>FY18 Budget</b>	<b>\$ Inc/Dec from FY 17</b>	<b>% Inc/Dec from FY 17 Budget</b>
<b>REVENUES</b>					
PROPERTY TAXES	9,933,658	10,035,834	10,221,870	186,036	1.9%
VETERAN EXEMPTION	0	(21,000)	(31,000)	(10,000)	47.6%
INTEREST DELINQ TAXES	67,793	50,000	60,000	10,000	20.0%
PENALTIES DELINQ TAXES	77,396	63,000	68,000	5,000	7.9%
LIQUOR LICENSES	3,865	4,100	3,800	(300)	-7.3%
LICENSES - TOWN	5,915	4,500	4,500	0	0.0%
DEPT MOTOR VEHICLES	945	850	900	50	5.9%
MARRIAGE LICENSES	1,077	1,200	1,000	(200)	-16.7%
DOG LICENSES	10,875	9,000	10,500	1,500	16.7%
POLICE SPECIAL DETAILS	9,474		3,000	3,000	0.0%
POLICE OFF DUTY	20,655		4,000	4,000	0.0%
STATE PMTS IN LIEU OF TAXES	180,621	168,000	180,000	12,000	7.1%
CURRENT USE HOLD HARMLESS	34,937	26,000	34,000	8,000	30.8%
VLCT INS DISTRIBUTIONS	0	9,000	0	(9,000)	-100.0%
INTEREST EARNINGS	22,542	20,000	21,000	1,000	5.0%
DONATIONS TO LIBRARY	600		0	0	0.0%
MISCELLANEOUS	8,585	12,000	8,000	(4,000)	-33.3%
SUPPORT PAYMENTS	51,832	50,250	52,198	1,948	3.9%
POLICE	1,765	3,000	1,500	(1,500)	-50.0%
CUSI PRIOR PERIOD	10,145			0	0.0%
POLICE ORDINANCE FEES	8,015	2,500	5,000	2,500	100.0%
AMBULANCE	382,157	376,649	393,318	16,669	4.4%
RECORDING FEES	124,189	120,000	122,000	2,000	1.7%
ACCESSORY APT/SEAS CO	700	500	500	0	0.0%
BUILDING/ZONING PERMITS	280,362	235,218	250,000	14,782	6.3%
SEPTIC PERMITS	2,000	1,200	1,500	300	25.0%
DRB - PUBLIC NOTICES	1,550	1,600	1,600	0	0.0%

<b>COLCHESTER PROPOSED FY 2018 BUDGET</b>					
<b>Account</b>	<b>FY16 ACTUAL</b>	<b>FY 17 Budget</b>	<b>FY18 Budget</b>	<b>\$ Inc/Dec from FY 17</b>	<b>%Inc/Dec from FY 17 Budget</b>
DRB/BLA APPLICATIONS	26,000	20,500	22,000	1,500	7.3%
EXCAVATION W/ROW	9,650	12,600	9,000	(3,600)	-28.6%
CERTIFICATES OF OCCUPANCY	24,775	18,000	20,000	2,000	11.1%
GIS INCOME	62	350	350	0	0.0%
STATE WW PERMITS	71,470	33,440	55,000	21,560	64.5%
ORDINANCE AND MAP COPIES	316	400	400	0	0.0%
CERTIFIED COPIES OF VITAL REC	5,367	5,000	5,200	200	4.0%
COPIES AND MAPS	15,047	17,000	16,000	(1,000)	-5.9%
USE OF VAULT	2,564	3,000	2,500	(500)	-16.7%
PASSPORTS	28,315	18,000	25,000	7,000	38.9%
PASSPORT PHOTOS	11,345	7,500	11,200	3,700	49.3%
ROAD MISCELLANEOUS	2,890	2,500	2,700	200	8.0%
DOG CONTROL	1,945	1,500	1,500	0	0.0%
GREEN MOUNTAIN PASSPORTS	440	200	300	100	50.0%
RECREATION	17,508	17,500	17,500	0	0.0%
DISTRICT COURT FINES	21,793	27,000	22,000	(5,000)	-18.5%
FINES	13	1,000	500	(500)	-50.0%
GRANT REIMBURSEMENT	2,571	5,000	2,500	(2,500)	-50.0%
FEDERAL GRANT-PUBLIC SAFETY	7,802			0	0.0%
ACT 68	59,073	54,000	55,000	1,000	1.9%
ACT 60 REIMBURSEMENT	6,874	6,900	6,900	0	0.0%
ANNUAL SCHOOL PAYMENT	23,824	23,433	23,433	0	0.0%
ANN SCH PAYMT MAINTENANCE	18,000	18,540	19,096	556	3.0%
STATE AID TO HIGHWAYS	196,369	196,369	196,337	(32)	0.0%
MARINE ENFORCEMENT	23,541	22,000	22,000	0	0.0%
833 Blakely Lease Revenue	0	26,337	27,061	724	2.7%
Library Grant	0	4,650	4,812	162	3.5%
TRANSFER FROM SEWER FUND	98,895	102,606	130,189	27,583	26.9%
TRANSFER FROM MTN VIEW SW	2,598			0	0.0%
TRANSFER FROM CAP TRANSP	7,000			0	0.0%
TRANSFER FROM W LKSH	4,244	0	0	0	0.0%
TRANSFER FROM FEA SI	3,672	0	0	0	0.0%
REDUCTION IN FUND BALANCE	0	66,000	66,000	0	0.0%
REDUCTION IN ASSIGNED FUND BALANCE	0	187,791	270,661	82,870	44.1%
TRANSFER FR Reserve Fund for Malletts Bay infrastructure planning	0	82,742	0	(82,742)	-100.0%
PROMOTIONAL	20	0	0	0	0.0%
<b>Total Revenues</b>	<b>11,935,635</b>	<b>12,155,259</b>	<b>12,452,325</b>	<b>297,066</b>	<b>2.4%</b>