



Memo

From the Office of the Town Manager

To: Colchester Selectboard
 From: Aaron Frank, Town Manager and Robert Vickery, Assessor
 Cc: Geoffrey Urbanik, Deputy Town Manger
 Date: November 28, 2018
 Re: FY 2020 Draft Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY 20 general fund budget.

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

- Revenues from non-tax sources supporting operating expenses are expected to increase by \$15,702 or 0.7%
- Prior year's tax revenues (fund balance) supporting operating expenses are \$266,000, which is the same as FY 19. This serves to reduce the amount of budget supported by property taxes assessed in FY 20 by \$266,000.
- Town property taxes are estimated to increase by 1.3% or 0.7 cents to \$0.5423 per \$100 of property value

Non-Tax Revenues supporting operating expenses

Areas	Proposed FY 20	FY 19	% Change From FY 19	\$ Change from FY 19
AMBULANCE	\$ 490,025	\$ 435,731	12.5%	\$ 54,294
BUILDING/ZONING PERMITS	\$ 250,000	\$ 265,000	-5.7%	\$ (15,000)
Tax Penalties & Interest	\$ 90,000	\$ 125,000	-28.0%	\$ (35,000)
State Payment in Lieu of Taxes	\$ 249,172	\$ 274,082	-9.1%	\$ (24,910)
Other Revenues	\$ 1,094,418	\$ 1,058,100	3.4%	\$ 36,318
Subtotal Non Tax Revenues - for operating	\$ 2,173,615	\$ 2,157,913	0.7%	\$ 15,702

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.

Rescue revenues are driven by service demands and fees. Building and zoning permits are driven by fees and market demand.

For FY20, our non-tax revenues supporting operating expenses have grown by 0.7% versus the 2.4% growth in the general fund expenses. This is due in large part to declining receipts in delinquent taxes and penalties and the State's planned reduction in PILOT funds.

Ambulance: Revenues are projected to increase by 12.5%. This is a combination of growth in number of calls and a rate increase implemented August 1, 2018. Colchester Rescue is now recovering 78% of its operating costs, up from 68% in FY 14.

Delinquent Taxes: The Town has done very well in collecting delinquent taxes and has recently reduced the outstanding balances significantly. With a high collection rate comes lower interest and penalties on delinquent amounts. For FY20 the delinquent tax interest revenue is reduced by \$20,000 (36.4%) and the penalty is reduced by \$15,000 (21.4%), a total of a \$35,000 reduction (28%). A reduction in delinquent taxes, while a cut to non-tax revenues, is a positive indicator as more taxpayers are financially able to pay their taxes.

Building permits: Building permits rates were increased in the middle of FY 17, however, we're seeing a decline in the number of permits issued and we feel based on approved projects that it would be prudent to anticipate fewer building permits in FY20. Therefore, permit fees are decreasing by \$15,000 or -5.7%.

State PILOT Funds: The State of Vermont has been reducing the Payment in Lieu of Taxes provided to the Town for State-owned land that is exempt from taxation. For FY20, the PILOT funding is decreased by \$24,910 or -9.1%.

Other Revenues: This is the sum of all sixty four other revenue line items and their changes which, individually, did not meet the threshold of a 6% increase or decrease AND \$15,000. In total, non-tax revenues in this other category increased by \$36,318 or 3.4%.

Prior Year Tax Revenues supporting operating expenses

Areas	Proposed FY 20	FY 19	% Change From FY 19	\$ Change from FY 19
REDUCTION IN FUND BALANCE	\$ 266,000	\$ 266,000	0.0%	\$ -

This budget proposes use of \$266,000 in fund balance to offset tax revenues to cover expenses proposed in the budget.

Reduction in Fund Balance – for operating expenses. In FY 20 we are proposing no change in use of fund balance (prior year's revenues exceeding expenses) or in use towards operating expenses.

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% 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).

The reduction in use of fund balance is driven by two factors: lack of available fund balance vs. the policy, and a caution of using fund balance for ongoing operating expenses, the concern for which is fully described in the fund balance policy.

Subtotal Revenues - Not from FY 20 Taxes	\$ 2,439,615	\$ 2,423,913	0.7%	\$ 15,702
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Approximately 19% of the general fund budget is obtained from non-tax funding. The Town has four operating funds outside of the property tax supported General Fund: the Sewer Fund of \$1,169,980, the Public Safety Dispatch Fund including \$250,896 (37%) from the Town of Milton, the Stormwater Fund of \$849,737, and the Recreation Program Fund, which provides recreation programming, of about \$1,051,889. The Town anticipates entering a regional dispatch service during FY20 which will change how the town budgets for dispatch, including altering the current relationship with Milton. *Including these other operating funds, the Town obtains 35% 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 2.4% will not result in a property tax increase of 2.4%. 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 5, 2019. 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 20 total property value at \$2,171,059,728—with seven months remaining until this determination is made in June 2019. This is based on an increase in value of \$29,059,728 (1.36%) resulting from: 1) new permits that were issued after the 2018 grand list was lodged; 2) projects permitted as of but not completed as of 04/01/2018; 3) subdivisions that have been recorded to date; 4) estimated value changes resulting from a reassessment of residential apartment buildings; 5) estimated losses as a result of appeals, Error and Omissions (E&O), and exemptions; and 6) electric - gas utilities depreciating and adjustments to their market value. More specifically:

- There are 61 new buildings as of 11/15/2018 that are currently permitted to be built or were under construction as of 04/01/2018. The total estimate of the new construction value is \$19,072,400. This estimate assumes most permitted new construction will be completed as of 04/01/2019. 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.
- Four new subdivisions have been approved and recorded as of 11/15/2018 since the 2018 GL was lodged. The estimated increase to the 2019 property values for these new lots is \$3,793,900. There are four subdivisions that have been approved but not recorded and are not part of this estimate. There are some projects currently seeking approvals and would need to be recorded before 4/1/2019 to be considered in the 2019 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.
- The Assessor's Office is conducting a reassessment of all residential apartment complexes with 4 or less units. The estimated change in the property valuation is \$1,000,000. Because the work cannot be finalized until after April 1, 2019 and has only just begun, this estimate includes an allowance from possible appeals of increased assessments.
- An increase of \$4,193,428 to add back list total value, due estimated appeals that did not materialize, or did not succeed FY18 when we changed the values of a Commercial Apartments.
- A decrease of \$2,000,000 in expected reductions to property values from gas and electric utility depreciation.
- A decrease of \$1,000,000 in expected reductions to the property values from errors and omissions, Appeals, and exemptions.

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 1.36%

Our estimate is that the tax rate will increase by about .7 cents per hundred dollars of property valuation, or 1.3%. This would result in a tax rate of \$0.5423 per hundred dollars of property value.

FY 20 Colchester Municipal Budget - Draft for Public Consideration

A. Draft FY 2020 Municipal Budget		
General Fund (GF) Operating Budget	\$	13,129,419
GF Non-property tax revenues	\$	(2,439,615)
GF Property tax based budget	\$	10,689,804
Debt Service	\$	517,844
LOT Revenues to Pay Debt Service	\$	(517,844)
Voter Approved Multi-Year Capital Plans	\$	1,084,451
Total Capital and Debt	\$	1,084,451
Property Tax Based Operating and Capital Budget	\$	11,774,255

B. Draft Changes in Budget Net of Non Property Tax Revenues		
FY 19 Net Operating and Capital Budget	\$	11,463,409
FY 20 Draft Net Operating and Capital Budget	\$	11,774,255
Increase	\$	310,846

C. Projected FY 2020 Municipal Grand List		
Estimated Colchester Property Values 4/1/19	\$	2,171,059,728
Estimated Grand List (value divided by 100)	\$	21,710,597

D. Projected FY 2020 Municipal Tax Rate		
Property Tax Based Operating and Capital Budget	\$	11,774,255
Estimated Grand List	\$	21,710,597
Property Tax Based Budget divided by Grand List	\$	0.5423

E. Estimated Municipal Tax Rate Changes		
Estimated 2020 Tax Rate*	\$	0.5423
2019 Tax Rate	\$	0.5352
<i>Projected Change in Tax Rate</i>	<i>\$</i>	<i>0.0071</i>
FY 20 Projected Tax Rate increase (Estimate Only)		1.34%

COLCHESTER PROPOSED FY 2020 BUDGET

Account	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Budget	FY20 Budget	\$ Inc/Dec from FY 19	% Inc/Dec from FY 19 Budget
REVENUES							
PROPERTY TAXES	9,933,658	10,018,446	9,998,930	10,392,413	10,689,804	297,391	2.9%
VETERAN EXEMPTION	-	-	-	(25,000)	(25,000)	-	0.0%
INTEREST DELINQ TAXES	67,793	51,947	33,920	55,000	35,000	(20,000)	-36.4%
PENALTIES DELINQ TAXES	77,396	73,718	55,172	70,000	55,000	(15,000)	-21.4%
LIQUOR LICENSES	3,865	4,350	5,110	4,000	4,200	200	5.0%
LICENSES - TOWN	5,915	4,485	4,040	4,500	4,500	-	0.0%
DEPT MOTOR VEHICLES	945	804	654	800	800	-	0.0%
MARRIAGE LICENSES	1,077	917	510	1,000	700	(300)	-30.0%
DOG LICENSES	10,875	10,772	11,665	10,750	11,000	250	2.3%
POLICE SPECIAL DETAILS	9,474	11,211	16,589	4,000	7,000	3,000	75.0%
POLICE OFF DUTY	20,655	32,825	23,214	15,000	15,000	-	0.0%
STATE PMTS IN LIEU OF TAXES	180,621	281,598	270,792	274,082	249,172	(24,910)	-9.1%
CURRENT USE HOLD HARMLESS	34,937	32,240	33,055	33,055	34,063	1,008	3.0%
VLCT INS DISTRIBUTIONS	-	9,758	-	-	-	-	0.0%
INTEREST EARNINGS	22,542	25,006	23,619	20,000	24,000	4,000	20.0%
DONATIONS TO LIBRARY	600	-	-	-	-	-	0.0%
TRANSFER FROM MB REDEVEL	-	82,989	-	-	-	-	0.0%
MISCELLANEOUS	8,638	15,914	13,838	10,000	10,000	-	0.0%
FORFEITURE OF RETIRE	-	3,655	-	-	-	-	0.0%
SUPPORT PAYMENTS	51,832	52,494	53,135	52,882	54,529	1,647	3.1%
POLICE	1,765	1,528	1,760	1,500	1,500	-	0.0%
POLICE ORDINANCE FEES	8,015	4,250	10,140	5,000	10,000	5,000	100.0%
CUSI-PRIOR PERIOD	10,145	-	-	-	-	-	0.0%
AMBULANCE	382,157	397,710	515,008	435,731	490,025	54,294	12.5%
TECH RESCUE REIMBURSEMENT	-	867	645	-	-	-	0.0%
RECORDING FEES	124,189	128,737	113,386	125,000	125,000	-	0.0%
ACCESSORY APT/SEAS CO	700	1,400	560	500	500	-	0.0%
BUILDING/ZONING PERMITS	280,362	299,490	231,849	265,000	250,000	(15,000)	-5.7%
SEPTIC PERMITS	2,000	1,600	1,000	1,500	1,500	-	0.0%
DRB - PUBLIC NOTICES	1,550	1,900	1,350	1,600	1,600	-	0.0%
DRB/BLA APPLICATIONS	26,000	21,200	26,909	22,000	22,000	-	0.0%
EXCAVATION W/ROW	9,650	7,511	6,670	7,000	7,000	-	0.0%
CERTIFICATES OF OCCUPANCY	24,775	25,450	25,950	22,000	23,000	1,000	4.5%
GIS INCOME	62	184	50	200	200	-	0.0%
STATE WW PERMITS	71,470	39,605	50,900	40,000	40,000	-	0.0%
ORDINANCE AND MAP COPIES	316	176	149	200	150	(50)	-25.0%
CERTIFIED COPIES OF VITAL REC	5,367	6,084	6,180	6,000	6,000	-	0.0%
COPIES AND MAPS	15,047	17,303	15,974	17,000	17,000	-	0.0%
USE OF VAULT	2,564	2,769	2,211	2,500	2,500	-	0.0%
PASSPORTS	28,315	29,565	21,285	25,000	29,000	4,000	16.0%
PASSPORT PHOTOS	11,345	11,897	9,467	11,200	12,200	1,000	8.9%
ROAD MISCELLANEOUS	2,890	2,957	3,296	2,700	2,900	200	7.4%
DOG CONTROL	1,945	1,630	375	1,500	1,500	-	0.0%
GREEN MOUNTAIN PASSPORTS	440	285	303	300	300	-	0.0%
RECREATION	17,508	20,185	20,844	18,000	19,000	1,000	5.6%
TRIATH/WTR CAN/CAUSEWAY	-	-	96,718	-	-	-	0.0%
DISTRICT COURT FINES	21,793	14,014	21,829	13,000	17,500	4,500	34.6%
FINES	13	1,245	13,723	1,000	1,000	-	0.0%
GRANT REIMBURSEMENT	2,571	39,095	47,750	5,000	5,000	-	0.0%
ACT 68	59,073	59,060	61,848	55,000	60,000	5,000	9.1%
ACT 60 REIMBURSEMENT	6,874	6,907	6,939	6,900	8,900	2,000	29.0%
ANNUAL SCHOOL PAYMENT	23,824	24,489	24,765	24,000	24,000	-	0.0%
ANN SCH PAYMT MAINTENANCE	18,000	18,540	19,096	19,669	20,000	331	1.7%
STATE AID TO HIGHWAYS	196,369	196,337	196,354	196,354	196,705	351	0.2%
BOATING SAFETY GRANT	7,802	-	-	-	-	-	0.0%
DONATIONS	-	636	-	-	-	-	0.0%
MARINE ENFORCEMENT	23,541	21,844	25,154	22,000	22,000	-	0.0%
833 BLAKELY LEASE REVENUE	-	26,337	27,061	27,806	28,570	764	2.7%
LIBRARY GRANT	-	-	-	4,981	-	(4,981)	-100.0%
TRANSFER FROM SEWER FUND	98,895	102,606	130,189	130,300	134,275	3,975	3.1%
TRANSFER FROM STORMWATER FUND	-	-	107,710	110,403	112,826	2,423	2.2%
TRANSFER FROM CTP	7,000	-	-	-	-	-	0.0%
TRANSFER FROM MTN VIEW SW	2,598	-	-	-	-	-	0.0%
TRANSFER FROM W LKSH	4,244	-	-	-	-	-	0.0%
TRANSFER FROM FEA SI	3,672	-	-	-	-	-	0.0%
REDUCTION IN FUND BALANCE	-	-	-	66,000	66,000	-	0.0%
CASH OVER/SHORT	(53)	(21)	(127)	-	-	-	0.0%
ASSIGNED FUND BALANCE	-	-	-	200,000	200,000	-	0.0%
PROMOTIONAL	20	20	-	-	-	-	0.0%
Total Revenues	11,935,635	12,248,522	12,389,513	12,816,326	13,129,419	313,093	2.4%