



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: November 27, 2020

Re: Update - FY 2022 Draft Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY 22 general fund budget. Revenues changes are in three categories and are explained below in more detail:

1. **Revenues from non-tax sources** supporting operating expenses are expected to decrease by \$18,830 or 1.1%
 - o This decrease in non-tax revenue is due to the current and continued economic slowdown related to COVID.

2. **Prior year's tax and fee revenues (fund balance) are \$441,000, which includes \$175,000 in costs of the town-wide fire department.**
 - o The use of the \$175,000 for department costs is temporary as outlined below. It blunts the tax impact of adding a fire chief and three firefighters to provide weekday daytime fire service when we have an inadequate number of volunteers to respond to a structure fire.

3. **Town property taxes are estimated to increase by 2% or 1.1 cents to \$0.5592 per \$100 of property value.**
 - o This includes not only the operating 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 2021.

Non-Tax Revenues

Areas	Proposed FY 22	FY 21	% Change From FY 21	\$ Change from FY 21
Non Tax Revenues	\$ 1,732,836	\$ 1,751,666	-1.1%	\$ (18,830)

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 decrease by \$18,830 or 1%. This is primarily due to decreased fee based activity related to COVID.

Expected Decreases in non-tax revenues primarily include: \$19,000 in reduced passport fees; \$15,000 in reduced revenues for park facility rentals; \$14,000 in reduced fines due to less assertiveness in upholding tickets issued by the Colchester Police for State traffic law violations by the State Traffic Court; \$9,000 in reduced passport photo fees; \$4,000 in dog license fees where we saw fewer registrations due to COVID; \$3,000 in contracted police work to provide safety mostly at road construction sites; \$3,000 in additional Veterans Property Tax Exceptions (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); \$2,600 in reduced right of way permits to work in or cut open town roads and sidewalks; \$2,746 in reduced transfer from the Stormwater fund to the general fund for services performed by staff not funded directly by the Stormwater fund; \$2,000 in reduced interest earnings due to the interest rate decrease; and \$2,000 in reduced fines due to less assertiveness in upholding tickets issued by the Colchester Police for Colchester traffic law violations by the State Traffic Court.

Expected Increases in non-tax revenues primarily include: \$45,000 in increased clerk recording fees and \$9,297 in State Highway Aid.

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. This is challenging as most of our fees are not indexed or adjusted annually, but rather adjusted through review and ordinance changes. They also changed based on services requested and or market demand. *Most of the fees which are expected to decrease in FY 21 and FY 22 should come back over time.*

Prior Year Tax and Fee Revenues

Areas	Proposed FY 22	FY 21	% Change From FY 21	\$ Change from FY 21
REDUCTION IN FUND BALANCE	\$ 441,000	\$ 441,000	0.0%	\$ -

Reduction in Fund Balance. We intend to continue using \$441,000 in fund balance (prior year's revenues exceeding expenses) towards town-wide operating expenses. This is no change from FY 21.

There are a few different components of the fund balance to be used:

- \$66,000 in Selectboard Contingency for unplanned items of which \$50,000 is for general unplanned expenses and \$17,000 is for possible interest expenses to cover interest on a loan, if needed, to cover State Education Taxes since the Town has to pay the State Education Taxes regardless of whether it collects the taxes from the taxpayers. 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 20 operations that the Selectboard in June 2020 put aside to reduce the revenues that needed to be raised from FY 2022 taxes. This is an ongoing practice.
- \$175,000 to offset costs related to the operation of a town-wide fire department. The companion memo on expenses explains the reasons for this in detail.

Here are the fiscal implications of using fund balance to help fund the costs of weekday, daytime firefighters to address the deficit in firefighting coverage:

BASIS FOR CHANGE: The fire chiefs from Colchester Center and Malletts Bay asked the Town Selectboard to add paid firefighters during weekday daytime when we have inadequate coverage to respond to a structure fire. *This was a dangerous situation that was improved by providing three career staff during the daytime when there are not enough volunteers in Town during weekday daytime to protect life and property from fires.*

PRIOR FINANCING: Last year, in our budget process, the Selectboard and ultimately the voters, through their approval of the budget, agreed to the funding plan to use the fund balance to mute the tax impact of employing a full time chief and three firefighters for weekday daytime. Fund balance is what individuals think of as a savings account for emergencies or what businesses call working capital. The budget intended that the Town would will use \$175,000 in Fund Balance in FY 21, and decrease the use by \$58,333 annually in steps over three years. The plan was to consume a total of \$350,000 of the fund balance.

Fund Balance Use - FY 21 Plan	
Year	Amount
FY 21	\$ 175,000
FY 22	\$ 116,667
FY 23	\$ 58,333
Total	\$ 350,000

This approach allows the Town to phase in the expense of daytime firefighting coverage, resulting in a safer situation than we have now with a lack of available staff to respond. Essentially it addressed two of the outlined uses of the fund balance, to address emergencies, and to avoid tax spikes, which is what would occur if we were to fund all the new costs of the daytime firefighters without using the fund balance.

LATEST FINANCING: Due to COVID and the fiscal impacts on some of our residents and businesses, we are proposing to use more of the fund balance to stretch out the Town's funding of the full time chief and three firefighters through current year property taxes over a four year period. This will use an additional \$175,000 in fund balance for a total of \$525,000 of the fund balance. Fortunately, we saved some money and added to the fund balance through purchasing, hiring, capital freezes and furloughs this summer so we can afford to do this.

Fund Balance Use - FY 22 Plan	
Year	Amount
FY 21	\$ 175,000
FY 22	\$ 175,000
FY 23	\$ 116,667
FY 24	\$ 58,333
Total	\$ 525,000

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 collect 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 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, 2020 is \$1,657,983 at 12.3% of recurring expenses, which is \$94,000 shy of the minimum goal of 13%. However, we expect to save \$113,000 from the July 2020 furloughs although this will not show up in the fund balance until the audit is completed for FY 2021.

Areas	Proposed FY 22	FY 21	% Change From FY 21	\$ Change from FY 21
PROPERTY TAXES	\$ 11,309,026	\$ 10,938,418	3.4%	\$ 370,609

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 general fund budget increase of 2.7% will not result in a property tax increase of 2.7%. An increase in total taxes of 3.4% will not result in a property tax increase of 3.4%. 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 17% of the general fund budget is obtained from non-tax funding. The Town has five operating funds outside of the property tax supported General Fund: the Sewer Fund of \$1,185,365, the Public Safety Dispatch Fund of \$508,823, the Stormwater Fund of \$962,733, the Recreation Program Fund of \$942,388, and in FY 21 the Rescue Fund of \$786,710. *Including these other operating funds, the Town obtains 37% 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, 2021. The elected Board of Listers determines property value in June, based on actual value of taxable property on April 1, 2021.*

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 22 total property value at \$22,225,872—with seven months remaining until this determination is made in June 2021. This is based on an increase in value resulting from: 1) new permits that were issued after the 2020 grand list was lodged; 2) projects permitted as of but not completed as of 04/01/2020; 3) subdivisions that have been recorded to date; 4) estimated losses as a result of appeals, Error and Omissions (E&O), and exemptions; and 5) electric - gas utilities depreciating and adjustments to their market value. More specifically:

- There are 117 construction permits used in this estimate that were issued before 10/30/2020 that are currently permitted to be built or were under construction as of 04/01/2020. The list of 117 permits includes new construction, demolitions, and rebuilds. The total estimate of the new construction value is \$25,156,900. This estimate assumes permitted construction will be completed as of 04/01/2020. We are estimating on the aggressive side that most permitted construction will be completed by 4/1/2021. 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.
- Eight lot subdivisions have been approved and recorded as of 10/30/2020 since the 2020 GL was lodged. The estimated increase to the 2020 property values for these new lots is \$1,991,100. There are some projects currently seeking approvals and would need to be recorded before 4/1/2020 to be considered in the 2020 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, addition, and other capital improvements.
- An increase of \$376,600 to add back list total value, due estimated appeals that did not materialize, or did not succeed.
- A decrease of \$2,000,000 in expected reductions to property values from gas and electric utility 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 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 produce 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
- An addition of voter approved capital funding which we are now mandated to pay
- A grand list increase of 1.2%

Our estimate is that the tax rate will increase by about 1.12 cents per hundred dollars of property valuation, or 2%. This would result in a tax rate of \$0.5592 per hundred dollars of assessed property value.

FY 22 Colchester Municipal Budget - Draft for Public Consideration

A. Draft FY 2022 Municipal Budget		
General Fund (GF) Operating Budget	\$	13,482,862
GF Non-property tax revenues	\$	(2,173,836)
GF Property tax based budget	\$	11,309,026
Debt Service	\$	485,105
LOT Revenues to Pay Debt Service	\$	(485,105)
Voter Approved Multi-Year Capital Plans	\$	1,120,308
Total Capital and Debt Funding	\$	1,120,308
Property Tax Based Operating and Capital Funding	\$	12,429,334

B. Draft Changes in Budget Net of Non Property Tax Revenues		
FY 21 Net Operating Budget and Capital Funding	\$	12,034,388
FY 22 Draft Net Operating Budget and Capital Funding	\$	12,429,334
Increase	\$	394,946

C. Projected FY 2022 Municipal Grand List		
Estimated Colchester Property Values 4/1/21	\$	2,222,587,200
Estimated Grand List (value divided by 100)	\$	22,225,872

D. Projected FY 2022 Municipal Tax Rate		
Property Tax Based Operating Budget/Capital Funding	\$	12,429,334
Estimated Grand List	\$	22,225,872
Property Tax Based Budget divided by Grand List	\$	0.5592

E. Estimated Municipal Tax Rate Changes		
Estimated 2022 Tax Rate*	\$	0.5592
2021 Tax Rate	\$	0.5480
<i>Projected Change in Tax Rate</i>	<i>\$</i>	<i>0.0112</i>
FY 22 Projected Tax Rate increase (Estimate Only)		2.0%

COLCHESTER PROPOSED FY 2022 BUDGET

Account	FY20 Actual	FY21 Budget	FY22 Budget	\$ Inc/Dec from FY 21	%Inc/Dec from FY 21 Budget
REVENUES					
PROPERTY TAXES	10,685,309	10,938,418	11,309,026	370,609	3.4%
VETERAN EXEMPTION	(27,781)	(25,000)	(28,000)	(3,000)	12.0%
INTEREST DELINQ TAXES	56,427	35,000	35,000	0	0.0%
PENALTIES DELINQ TAXES	99,857	55,000	55,000	0	0.0%
RECORDING FEES	207,981	130,000	175,000	45,000	34.6%
CLERK FEES	66,713	83,355	50,155	(33,200)	-39.8%
STATE AID TO HIGHWAYS	202,572	197,668	206,965	9,297	4.7%
MISC PUBLIC WORKS REVENUE	26,830	29,000	26,400	(2,600)	-9.0%
BUILDING/ZONING PERMITS	269,824	250,000	250,000	0	0.0%
PLANNING & ZONING FEES	168,765	91,775	91,575	(200)	-0.2%
MISC POLICE REVENUE	68,555	71,500	56,500	(15,000)	-21.0%
MISC RECREATION REVENUE	11,261	18,500	3,000	(15,500)	-83.8%
AMBULANCE	541,191	0	0	0	0.0%
TRANSFER FROM SEWER FUND	134,275	135,944	135,520	(424)	-0.3%
TRANSFER FROM STORMWATER	112,826	113,533	110,787	(2,746)	-2.4%
TRANSFER FROM CEMETERY FUND	0	35,000	35,001	1	0.0%
GENERAL REVENUE	241,924	192,781	191,516	(1,265)	-0.7%
833 BLAKELY LEASE REVENUE	28,570	29,355	30,163	808	2.8%
PILOT & CURRENT USE	307,258	308,255	308,255	0	0.0%
REDUCTION IN FUND BALANCE	0	66,000	66,000	0	0.0%
ASSIGNED FUND BALANCE	0	375,000	375,000	0	0.0%
TRANSFER FROM RESERVE FUND	0	0	0	0	0.0%
TRANSFERS FROM OTHER FUNDS	0	0	0	0	0.0%
Total Revenues	13,202,357	13,131,084	13,482,863	351,780	2.7%