



Memo

From the Office of the Town Manager

To: Colchester Selectboard

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

Date: November 20, 2023

Re: Update - FY 2025 Draft Municipal Services Budget - Revenues

This memo provides information about major revenue changes forecasted for the draft FY 25 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 \$161,827 or 8.0%.
 - o We are expecting user fees and other non-tax revenues to increase based on trends in FY 24. These fees help decrease the pressure on property taxes.

2. **Prior year's tax and fee revenues (fund balance) are \$351,000.**
 - o Typically, we used \$266,000 in fund balance annually. We believe we can sustainably budget \$326,000 in fund balance annually moving forward, and an additional \$25,000 in FY25, a total of \$351,000 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 4.63% or 2.82 cents to \$0.6381 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 2024.

Non-Tax Revenues

Areas	Proposed FY 25	FY 24	% Change From FY 24	\$ Change from FY 24
Non Tax Revenues	\$ 2,192,024	\$ 2,030,197	8.0%	\$ 161,827

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 \$161,827 or 8.0%.

This is primarily due to estimates of increased fee-based activity including: \$10,711 in transfer from the stormwater fund for services performed by staff funded by the municipal services budget; \$25,941 increased State Aid to Highways; \$42,533; Planning & Zoning Fees \$30,410; \$90,559 increase in lease

revenue for town property as well as \$30,393 in General Revenue, primarily for interest earnings.

Expected Decreases in non-tax revenues primarily include: a \$7,000 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.); \$53,057 reduction in transfer from the sewer fund due to transitioning services that were previously performed by staff to a contracted service provider; \$6,100 decrease in Clerk Fees for copies of maps and certified vital records; \$25,000 decrease in assigned fund balance

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.

Prior Year Tax and Fee Revenues

Areas	Proposed FY 25	FY 24	% Change From FY 24	\$ Change from FY 24
REDUCTION IN FUND BALANCE	\$ 351,000	\$ 376,000	-6.6%	\$ (25,000)

Reduction in Fund Balance. We intend to use \$351,000 in fund balance (prior year's revenues exceeding expenses) towards town-wide operating expenses. This is a decrease of \$25,000 from FY 24 which had a higher budget and tax increase that we were seeking to offset.

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 prior fiscal year operations that to reduce the amount of money needed to be raised from FY 2025 municipal services taxes. This is an ongoing practice.
- \$25,000 in additional revenues from the fund balance to decrease the amount of property taxes required to account for the increased cost for services in FY25. This amount is reduced from \$50,000 in FY24 to minimize the amount that will need to be raised by municipal services taxes.

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, 2023 is \$2,041,984 at 14.1% of recurring expenses. Assuming the Selectboard approves the FY25 budgeted revenues as proposed, the fund balance will be 13.9 %, of recurring operating expenses, or \$2,016,984 which is \$395,493 short of two months operating expenses.

Areas	Proposed FY 25	FY 24	% Change From FY 24	\$ Change from FY 24
PROPERTY TAXES	\$ 13,394,194	\$ 12,622,187	6.1%	\$ 772,007

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 6.0% will not result in a property tax increase of 6.0%. An increase in total taxes of 6.1% will not result in a property tax increase of 6.1%. 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 property tax supported municipal service budget: The Sewer Fund of \$1,759,985, the Stormwater Fund of \$1,069,405, the Recreation Program Fund of \$998,278, and the Rescue Fund of \$1,152,310. *Including these other operating funds, the town obtains 36% 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 5, 2024. The elected Board of Listers determines property value in June, based on actual value of taxable property on April 1, 2024.*

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 \$22,789,300—with seven months remaining until this determination is made in June 2024. This is based on an increase in value resulting from: 1) new permits that were issued after the 2023 grand list was lodged; 2) projects permitted but not completed as of 04/01/2023; 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 61 construction permits used in this estimate that were issued before 07/30/2023 that are currently permitted to be built or were under construction as of 04/01/2023. The list of 61 permits includes new construction, demolitions, and rebuilds. The total estimate of the new construction value is \$18,774,900. This estimate assumes permitted construction will be completed as of 04/01/2024. We are estimating on the aggressive side that most permitted construction will be completed by 04/01/2024. 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.
- Five 5-lot subdivisions have been approved and recorded as of 08/30/2023, since the 2023 GL was lodged. The estimated increase to the 2023 property values for these new lots is \$376,200. There are some projects currently seeking approvals and would need to be recorded before 04/01/2024 to be considered in the 2024 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 \$500,000 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 1.02%

Our estimate is that the tax rate will increase by about 2.82 cents per hundred dollars of property valuation, or 4.63%. This would result in a tax rate of \$0.6381 per hundred dollars of assessed property value.

FY 25 Colchester Municipal Budget - Draft for Public Consideration

A. Draft FY 2025 Municipal Budget		
General Fund (GF) Operating Budget	\$	15,937,217
GF Non-property tax revenues	\$	(2,543,024)
GF Property tax based budget	\$	13,394,194
Debt Service	\$	383,886
LOT Revenues to Pay Debt Service	\$	(383,886)
Voter Approved Multi-Year Capital Plans	\$	1,146,395
Total Capital and Debt Funding	\$	1,146,395
Property Tax Based Operating and Capital Funding	\$	14,540,588

B. Draft Changes in Budget Net of Non Property Tax Revenues		
FY 24 Net Operating Budget and Capital Funding	\$	13,757,965
FY 25 Draft Net Operating Budget and Capital Funding	\$	14,540,588
Increase	\$	782,623

C. Projected FY 2025 Municipal Grand List		
Estimated Colchester Property Values	\$	2,278,930,000
Estimated Grand List (value divided by 100)	\$	22,789,300

D. Projected FY 2025 Municipal Tax Rate		
Property Tax Based Operating Budget/Capital Funding	\$	14,540,588
Estimated Grand List	\$	22,789,300
Property Tax Based Budget divided by Grand List	\$	0.6381

E. Estimated Municipal Tax Rate Changes		
Estimated 2025 Tax Rate*	\$	0.6381
2024 Tax Rate	\$	0.6098
<i>Projected Change in Tax Rate</i>	\$	0.0282
FY 25 Projected Tax Rate increase (Estimate Only)		4.6%

COLCHESTER PROPOSED FY 2025 BUDGET

Account	FY23 Budget	FY23 Actual	FY24 Budget	FY25 Budget	\$ Inc/Dec from FY 24	% Inc/Dec from FY 24 Budget
REVENUES						
PROPERTY TAXES	11,750,230	11,763,180	12,622,187	13,394,194	772,007	6.1%
VETERAN EXEMPTION	(30,000)	(45,360)	(33,000)	(40,000)	(7,000)	21.2%
INTEREST DELINQ TAXES	40,000	54,201	55,000	55,000	0	0.0%
PENALTIES DELINQ TAXES	62,500	95,427	77,500	77,500	0	0.0%
RECORDING FEES	185,000	118,223	160,000	160,000	0	0.0%
CLERK FEES	67,155	88,214	72,300	66,200	(6,100)	-8.4%
STATE AID TO HIGHWAYS	206,960	212,694	212,694	238,635	25,941	12.2%
MISC PUBLIC WORKS REVENUE	27,600	31,798	28,100	27,900	(200)	-0.7%
BUILDING/ZONING PERMITS	265,000	320,771	353,600	355,237	1,637	0.5%
PLANNING & ZONING FEES	93,500	108,884	114,600	145,010	30,410	26.5%
MISC POLICE REVENUE	69,500	95,533	68,500	64,500	(4,000)	-5.8%
MISC RECREATION REVENUE	10,000	19,546	18,000	18,000	0	0.0%
GRANT REVENUE	0	18,337	0	0	0	0.0%
TRANSFER FROM SEWER FUND	128,776	128,776	132,953	79,896	(53,057)	-39.9%
TRANSFER FROM STORMWATER	131,520	131,520	157,812	168,523	10,711	6.8%
TRANSFER FROM CEMETERY FUND	0	0	0	0	0	0.0%
GENERAL REVENUE	191,516	351,667	215,090	245,483	30,393	14.1%
833 BLAKELY LEASE REVENUE	30,992	60,733	60,174	150,733	90,559	150.5%
PILOT & CURRENT USE	325,635	356,245	336,874	379,407	42,533	12.6%
REDUCTION IN FUND BALANCE	66,000	0	116,000	66,000	(50,000)	-43.1%
ASSIGNED FUND BALANCE	258,333	0	260,000	285,000	25,000	9.6%
TRANSFER FROM RESERVE FUND	0	0	0	0	0	0.0%
TRANSFERS FROM OTHER FUNDS	0	0	0	0	0	0.0%
Total Revenues	13,880,217	13,910,388	15,028,384	15,937,217	908,834	6.0%