Memorandum

To: Select Board

From: Town Manager Waltz

Re: Determination of Amount of Surplus to Be Allocated to Reduce Tax Commitment

Date: September 4, 2024

Finance Director Ricker, Assessor Hennessey, Assistant Town Manager Emerson and myself met to develop three scenarios for your consideration regarding the amount of unallocated surplus to use to offset this years' net tax commitment.

Scenario 1. When this year's budget was developed, it was anticipated that surplus in the amount of $1,873,754 would be used to offset the tax commitment. Once the final numbers from the county, school and revenue sources from the State are considered, this results in a net increase of the tax commitment of approximately 5.5%. As stated in my previous memorandum, this is a large number, but capital expenses were also increased by $1M in this year's budget, so it was anticipated that surplus would be used to fund the one-time capital expenditures.

Scenario 2. In order to reduce the amount of surplus used to the amount utilized last year ($353,000), plus the $1M in increased capital expenditures, the amount of surplus used would be reduced to $1,353,000. This would result in a net commitment which is 8% more than last year.

Scenario 3. A third scenario for consideration would expend $2,300,000 of surplus. While $1M of this covers increased capital costs and $1.3M would essentially be offsetting "normal expenses" (though in the past couple years, the "normal" expenses include between $1.75M and $2M of capital expenses). This would result in a net commitment which is approximately 3.5% more than last year.

Staff recommends Scenario 3. While this is more surplus than we would generally recommend spending, it largely offsets capital expenses rather than general operating expenses. A significant factor in the staff recommendation is that the senior tax stabilization program expired last fiscal year, so approximately 20% of our taxpayers will in effect be getting two year's worth of tax increases in a single year. Reducing the net tax commitment to 3.5% more than last year will help offset the sticker shock. Following this rationale, it might be tempting to allocate even more surplus to reducing the net commitment, but the more surplus we use, the more risk there is of a "yo-yo" tax rate in the future where it is reduced significantly in one year and raised significantly the next. The goal is to avoid this and keep the rate relatively smooth.

It should be noted that the rate of increase in the net tax commitment may or may not be the increase in any one person's particular bill. In order to preserve our state reimbursements, Assessor Hennessey makes annual market adjustments to everyone’s assessments. In general, higher value properties see more or an increase in their bills than lower ones due to the fact that their value often increases disproportionately.

Proposed Motion: ***Move to apply ________________________________ of unallocated surplus to the FY 25 ttax commitment.***