BOARD OF FINANCE
BUDGET WORKSHOP MINUTES
APRIL 3, 2024

I. CALL TO ORDER

a. Board of Finance Vice Chair Catherine Salchert called the Public Hearing to order at 7:01p.m. in person and via GoToMeeting. . Present: Harry Captain, Carl Gisnarian, Kathleen Johnson, Brian Loveless, Micah Rousey and Cathy Salchert. Called in: Houston Putnam Lowry. A quorum was present.

II. OLD BUSINESS

23/24-08 - FY24/25 Budget: All Three Boards

A. Set Budget Goals and Objectives

Board of Finance Vice Chair Catherine Salchert began the workshop by giving thanks to Christine Pescatore, Board Secretary, Glenn Grube and library staff for setting up the room, and all those who have worked diligently and thoughtfully for months to prepare the proposed budget: Town Manager Brandon Roberston, Assistant Town Manager Grace Tiezzi, Finance Director Tom DiStasio, Jennifer Worsman, Executive Secretary, Town Manager's Office, Superintendent of Schools Dr. Bridget Heston Carnemolla, School Finance Director Susan Russo, Deb Chute, Chair and the members of the Board of Education, Dan Polhamus, Chair and the Members of the Town Council, and of course my fellow members of the Board of Finance.

Tonight, the Board of Finance will discuss and then vote to adopt the budget that will be presented at the Annual Town Meeting on the Budget on Monday May 6 at 7:00 PM. Following Annual Town Budget Meeting, Town residents will have the opportunity to vote yes or no on the adoption of the budget at the Town-wide referendum to be held at the Avon Senior Center on Wednesday May 15 during normal polling hours of 6:00 AM to 8:00 PM. Typically, the Board of Finance sets the new mill rate for real estate on the evening of the budget referendum. Note, that per Avon Town Charter, if fewer than 9 % of the registered voters of Avon turn out to vote on the budget, it is deemed accepted. The 2023 Budget referendum, the no votes slightly exceeded the yes votes, but it passed because we did not meet the threshold. Turnout at the referendum has not met the 9% threshold since 2013.

The budget for FY 24-25 is based on the revaluation that was completed for the October 1, 2023, assessment date. The revaluation resulted in a 19% grand list growth year over year with the assessed values of residential properties going up. Due to the significant growth in the grand list, the mill rate will be lower than the prior year. Prior to determining the revenue needs for the current year, the base mill rate was lowered to 29.27 mills from the previous mill rate of 35.39 to reflect the change in the Grand List attributable to the revaluation.

To generate the revenue required to fund the proposed budget, the Town Council approved an increase in the new base mill rate from 29.27 mills to 30.34 mills. As such, the proposed budget calls for a tax increase of 3.30 %. The members of the Board of Finance have the unenviable task of coming in at the end of the budget process to consider whether to make changes to the budget.

To put the 3.30 % increase in context, let me share some facts to consider on the rate of growth of the Connecticut economy during 2023. On March 29th the Federal Bureau of Economic Analysis reported that Connecticut's real gross domestic product (GDP) grew 3.1 % for the last quarter of 2023. That end of quarter growth was higher than Connecticut's GDP for most of 2023. The GDP for calendar year 2023 grew at a rate of 2.1 %, behind the national average of 2.5 %. Last year's percentage of tax increase in Avon was 2.26 %, so on a straight comparison basis, it exceeded the rate of growth. This year's increase is also larger than the most recent rate of growth, although not by much.

I would like to hear members' thoughts about lowering the percentage of the tax increase to less than the rate of growth, that would be from 3.30 % to 3.00 %, if possible, the assumptions being that tax increases should not outpace earnings. My suggestion is that we consider tweaking the increase, as I am not in favor of cutting staff or programs. Perhaps members can share ideas about addressing use of revenues on hand or revenue assumptions that may allow us to propose lowering the percentage of the tax increase. Let me ask the Town Manager if you have identified any non-tax revenues to add to the budget.

Town Manager, Brandon Robertson explained, as everyone is aware we just went through a real estate reevaluation, once the notices of the reevaluations were sent to the taxpayers, they had a few options to appeal their assessment and that is a long process. During that process, we are building our budget, so we must use the current grand list prior to the appeals process. Since we proposed the budget, the Board of Assessment and Appeals has completed their work and made about $2 million in reductions to the grand list based on taxpayer appeals. The proposed mill rate of 30.34 was based on the grand list prior to the reductions, with the updated reductions the revenues and expenditures are out of balance and do not support the proposed mill rate. To keep the mill rate at 30.34 and not raise it, Finance Director, Tom DiStasio and I looked at the non-tax revenues and are comfortable increasing interest income by about $87,911, with that being the only non-tax revenue adjustment at this point.

Board of Finance member Brian Loveless acknowledged that a lot of time and thoughtful consideration was put into this budget, and I commend all of those who contributed. Additionally, Brandons foresight to increase the Unassigned Fund Balance to 15% is extremely prudent and I want to acknowledge that. I don't think the operating budgets for the Town, or the Board of Education are the "issues" per se for this fiscal year, but I do think the capital projects currently being contemplated by the Town Council in the coming years will present some challenges down the road for the residents of Avon. With new capital comes increased expenses, in the coming years if it is the Town Council's desire to move full steam ahead with sizable capital initiatives, I think we'll be left with little wiggle room during the annual budget appropriation process.
To that end, I would be more comfortable voting for a tax increase that is more closely aligned with historical averages than the current one put forth which contemplates a 5.44% spending

increase and a 3.30% tax increase. Historical averages over 10 and 20-years for spending are 3.03% and 3.55%, respectively, and this year we're at 5.44% which is quite a bit above the historical norms. Granted, inflation has reared its ugly head over the past year and we're all paying more for a lot of items, but I'd argue that because of this is precisely why we need to be more fiscally conservative now. Revenues come from only two sources: Taxes & Assessments and Non-Property Tax Sources, with the percentage allocation between the two sources at roughly 85/15. I'd argue that when one component of Non-Property Tax Sources declines (Investment income), which it is surely to do so in next year or two given the current interest rate environment and inverted yield curve, that the residents will have to pick up the shortfall in the form of property tax increases and assessments or we can hope for larger intergovernmental sources, like grants, but hope is not a great strategy. The Town currently has a significant favorable budget variance in other local revenues due to the interest rate environment and let's not use that as cushion to simply prop up spending. With all the above points in mind, I'd like to see a reduction in the additional funding needed of about $250,000, which would bring down the tax increase to 3.04%. It's not a "break the bank" reduction but I do recognize that difficult decisions would have to be made on the expense side of the equation.

Board of Finance member Kathleen Johnson also commented on interest income, stating that we are currently $1.7 million over the budgeted amount in the FY 23-24 budget. Looking at that on an annualized basis assuming rates stay the same we are looking at $2.7 million over the budgeted amount. I would like to see some of that income brought into the FY 24-25 budget, similar to what was done last year with pavement management to help bring the tax increase down to 3%. I really think that there are a lot of people in town that will be hit hard by the reevaluation, most notably the residential homes which make up 24% of the grand list and the condominiums which are 41%, keeping in mind that one quarter of our residents own condominiums. I would be in favor of anything that can bring the tax increase down to 3%.

Board of Finance member Harry Captain asked Brandon how he can make the Board of Finance feel confident in increasing the interest income revenue in the budget. Brandon explained that the current year is trending toward almost $3.4 million for the current fiscal year. Previously in FY 2023 it was $1,947,000 and in FY 2022 it was $155,464,000, although it is volatile, it is a good compromise because if you look forward at the interest rate environment it is not likely to come down immediately, so I am confident we can hit those targets comfortably. I would not be comfortable recommending higher revenue and if we went with a lower revenue number, we may have a situation like we had last year & will likely have this year, where we have a large positive revenue variance at the end of the year. This is not necessarily a bad thing because the only reason we have a pavement management program is we had a positive revenue variance last year that we were able to put an assignment on. Brandon called upon Finance Director, Tom DiStasio, for his input. Tom agreed with what Brandon said regarding the interest rate environment, and that they are not likely to go down in the short term. We will see a line item decrease at some point when the rates do come down and we don't want to put ourselves in a position where we need to increase the tax levy by a significant amount in future budgets to make up for lost interest income.

Harry thanked everyone for all the work that went into the budget and re-emphasized that there are many levels of review that go into our budget review process. It starts with the paid staff on both the municipal side and the Board of Education and then it is reviewed by the volunteer

members of the Board of Education and Town Council and then the Board of Finance. I am comfortable with the 5.44% increase year over year in the total spend based on where inflation is or was (around 8%), we are well under the inflation number, the economy is roaring, and people are spending, the economy is basically very much based on the spend of the American people and it's still going strong. We are in a community that is relatively wealthy and has a lot of investments, which are all doing relatively well. The upside is, is, times are good, we're not spending or increasing the budget above inflation, we're under inflation. So, I have, I have a little less concern, I hear what my colleagues are saying about upcoming capital improvements.
On the same side, we are going to be seeing some of our capital items, or some of our debt, coming off the books. We don't have some of the problems that other municipalities have regarding unfunded pension liabilities, those are going to be going down or coming off.
At this time, I will be open to hearing arguments or suggestions from either the of the boards or the council as to where they might take it down, but right now I am comfortable with where the spend is at.

Board of Finance member Micah Rousey thinks it's important to look at the rate of increase of spending 5.4%, but also recognize that because there is good work in obtaining grant funding from our higher government areas that our tax increase is only 3.3%. So, being able to spend more money but asking your populace for not that much I think it is, it's pretty good.
With that, I'm very comfortable with the 3.3% tax increase and while I would love to throw out a number and say, hey, can you get it to that? I can't look at the budget and tell you where, and I don't think it's fair to suggest it should come down without saying where you think it should come down, because then that kind of puts you on the line of saying, well, this part of the school shouldn't get that funding, maybe we wait a year or two for repairing a roof at the high school, which sounds like a bad idea, right? Like everybody, I would like to pay less taxes, but I see nothing but responsibility in the best interests of Avon in this budget. I'm very proud to be involved in this process, I have been a member of the public in municipalities that were not this responsible and it's just refreshing to see this.

Board of Finance member Carl Gisnarian thanked all for their work and dedication to Avon, it is appreciated year after year. On the grand list, Brandon, can you clarify why the grand list comparison we received for our March meeting shows residential houses at 24% but most houses increased by 30%. Brandon explained that the grand list comparison showed the change in the grand list from 2022-2023 of $400,560,426 which was a 24% increase to the grand list dated October 1, 2023, for residential homes year-over-year. There is a book available in the Town Manager’s office that is available for anyone to look at that shows all the residential properties by street, and you can look to see how the different areas are impacted by the market. Carl thanked Brandon and stated that he is fine with the 3.3% increase.

Board of Finance member Houston Putnam Lowry stated that no one is ever happy with a reevaluation, but there is an appeal process for those who wish to do so. If they've done it, great, that means we must come up with some extra money for the budget if not it means they didn't take advantage of the remedies. I don't see anything obvious that we should cut. We had, in fact we have borrowed against our physical assets by not paving the roads for a long time, thank goodness, we had the ARPA money so we could fix that. So, while I would wish the number would be smaller, I think this is a responsible number. Will it hit some people hard, yes, because there has valuations went up, will it hit some people very lightly or will their taxes go down, the short answer is yes. It's not like we're paving the roads with gold but we're being responsible to take care of our infrastructure.

Board member Cathy Salchert had one thought about a potential source of revenue.
When we did the assignments on fund balance this year, we put $500,000 into a capital improvement fund that doesn't really have a purpose yet, it was like a savings bank, from which to grow and I'm just wondering, based on the number that would start out, if we took $250,000 out of that & put it into budget, that would bring it down to 3%. The reason for saying that is it's not, that this is irresponsible in any way, shape, or form to have this fund, but it's that not everyone is doing well, even wealthy communities like Avon. As resident Diane Hornaday pointed out the other night, there are other programs that are being cut because of the pandemic, coming to an end. If we can meet people where they are right now and add a little bit more back for people that are going to have to pay more like the people in the condos and the people who are not going to be able to make ends meet. Another statistic that I saw was the Alice number, which is Asset Limited Income Constrained Employed households. 69% of all households in Connecticut cannot afford basics including housing, childcare, food, and transportation, the communities where they live. Maybe that's not a lot in Avon, but some have that problem, so a little bit may make a difference. My final point would be it is not unprecedented to use that amount of money in a reevaluation year. Typically, you would use it because the grand list didn't grow. This year, as the presentation pointed out, the actual growth was smaller than the increase when you adjust for the reevaluation.

In response to a question from Harry, Brandon and Tom explained that to get down to a 3% tax increase, it would take approximately $289,305 in budget reductions and the effect a resident would see on a net assessment of $350,000 would be about $31.50 for the year. As far as the capital improvement fund goes it does have value for the Town, or it would have not been recommended and at this time there are a of a few capital projects that have been percolating where this fund would be a potential source of funding to address the needs. It gives us a little bit more flexibility, and then as a board, you need to offset that against what you're trying to achieve in terms of savings for the residents.

There was a discussion on taking current year favorable results and apply them to FY 25 budget. Tom explained that non-tax revenue sources like interest income and inter-governmental grants could erode and fluctuate over time and to build them into our FY 25 budget, we could be setting ourselves up for a future hole in the budget needs to be filled by some other revenue source, that likely, would be a drastic property tax increase.

Brandon reminded everyone that right now, there is a cap on car tax rate of 32.46, so for Town's with mill rates over 32.46 a state grant covers the difference in revenue collections, which is received in the next fiscal year. In FY 25 we're going to be under that cap, which means we're not going to get the grant state, so that's going to hit in FY 26, so that could negatively impact our revenue picture. If the plan is to rely on interest income in FY 25, keep in mind you will be dialing back by in FY26, for the state grant and possibly the interest income at the same time.
My recommendation is that is something you want to do; I would not vote for future revenue.
I would make an expenditure reduction.

Kathleen expressed that saying we can't come up with another quarter of a million dollars to bring that down to 3% seems kind of silly, as it currently appears that the same thing's going to happen at the end of this year as last year because we are looking at two point six million dollars more interest income than we had budgeted in this one line item and we're going to have that same year end discussion that took us several months to get through to decide what to do more than three point five million dollars which was put into different places, such as pavement management for this year. Looking at a tax increase every year and having surpluses in the last two years – it’s a message.

In response to Kathleen, Town Council Chair, Dan Polhamus explained, we are not at the end of the year, and I agree it is unlikely that interest rates are about to plummet, but things like Covid happened quickly that can have a negative impact on the budget. I tend to agree with Harry that inflation is a better target and for several years we have been under inflation. I do not see where we should make changes in the Capital Projects, most have been in the works for many years. The year I came on the Town Council we were probably within a year of going out to bond and putting a lot of money in debt service for pavement management. We did not need to do that due to the year-end transfers and positive revenues, so in my opinion, we have spent responsibly and reduced future costs. It is easy to focus on the current year, but we need to look forward to future generations and the welfare of the people. I would like to keep the increase at the 3.3% and not use the Capital fund, as emergency costs can come up in moment’s notice and they will.

Micah added that much of today’s spend in the budget falls into the category of making up for deferred maintenance. When we get to the point where we are properly maintaining our infrastructure, and not spending to make up for the past of not doing so, we’ll see our spend come down.

Cathy inquired regarding the comment from the public hearing regarding the ability to put more funds into the Social Services budget if needed to assist with the program funding cuts. Brandon replied that they are aware of the situation and are in the process of looking into it but is separate from this budget process.

Town Council member, Margaret Bratton, stated there are three things that I usually am concerned about each year, one of them is every five years the reevaluation and the other two being the compounding tax increases and the ability to pay that does get brought up in Avon, that average doesn't get spread across household. So, anyone listening, it's going to affect people differently, So, I always like to acknowledge that. I have been consistently concerned about this year's revaluations for certain segments, where some people are going to potentially, have tax decreases, but others are going to have some large increases. So, I just, I don't, I hope you don't mind, I'm just going to say I don't mind if we caucus, again, as a town council to see if there's any way to reduce this recommendation with advice from our Town Manager and Finance Director. I agree, I don't want a cliff, as has happened before in the budget process from year over year, but I would just in general for the town, prefer to be closer to 3%.

Board of Education Chair, Debra Chute spoke on behalf of the Board of Education. Clearly, we're all stewards of the town budget as a whole and we also put a lot of time into this, and I value all of you for participating, as much as we participated. Obviously, we represent the Board of Education, and that's who we must be stewards of. We never come to any of these presentations slightly disrespectful of where people are coming from, and you know that. We are very mindful of trying to keep the number as low as possible, because we ourselves are taxpayers, too. We have legal obligations that put us in a position where we can't budge on certain increases, and we already were above the 2.84% we normally would want to bring to the table, just for special education and other obligations that we have which we can't budge on. We're very proud of what we spoke to, stating the things that our students are accomplishing; We are very lucky to have that as well as the parents that encourage their students, but we're really scraping to keep what we already have so that people can see the effort and the work that goes into the standards that we have set. I just want to be clear that we have the discussion, before ever coming to you, if we had to cut, where would you take that from? It's people, there's nothing we could eliminate from our budget that wouldn't impact staff. So, that means existing staff, you saw, were splitting a social worker between two elementary schools, so we're not giving the students something grand here. I just want to be mindful of that, as much as I know, round numbers are great and preferable, if it's really $31 per person to keep the budgets that we presented, I just hope you'll consider that.

Superintendent of Schools, Dr. Bridget Heston Carnemolla reminded everyone that the Governor's budget is not set, which has an impact on the Town's budget as well. For example, we are unsure if there will be additional mandates or excess costs for special education, at this time we do not know what the reimbursement will be for the expenses that have been made in the current year.

Brandon reiterated that the Board of Education revenue budget for this year is a work in progress and if they don't hit the revenue targets, it must be made up with overages in such areas as investment income, which is a perfect example of why we should not agree to use revenue in the current fiscal year to reduce the future FY budget.

Town Council member, Anthony Weber explained that he 100% gets the idea that projecting interest income in the future is a bad idea because if we started to rely on that source, it is a variable source that fluctuates, we're trying to budget for that then all of a sudden, it can drop, and we are in trouble, you can look around other towns who have gone down that route, you can see what happens to them, they have those cliffs. He asked how does the Town project these possible cliffs and work to smooth them out?

Tom explained that we tend to try to put ourselves in a position where we don't build those sorts of cliffs into the future, so as a result, it allows us to maintain stability with respect to how we're going to change the tax levy on a year-to-year basis, despite the fact that we have some volatile revenue sources that theoretically could be much higher, that will be budgeted in one or two particular years, but we try to keep in mind the fact that what goes up must come down and make sure that we're not building a sort of cliff, that needs to be filled later on.

Anthony looked back historically to 2000 and you can see spikes in tax increase between 5% - 7% and spending increase as much as 11% in 2002. Since he has been on the Town Council, they have tried to keep those numbers flat and would hope that if we ever got to an 11% spike,

we would realize we did not manage this correctly. Yes, we have a piggy bank, but when we withdraw from the piggy bank, we must put it back and dipping into those piggy banks to decrease our budget, is when that thing is going to happen in the future suddenly happens and it cost more because I wasn't able to save enough for it.
As much as I'd like to dig into that $500,000 savings bank, and maybe offset it with savings that we currently have, we would then have to replace that. I am on a fixed income as a teacher and I'm grateful to have made a living off teaching, but my average increase is about 2% so I am voting for something that hurts me but is the right thing to do for the Town.

B. Adopt Final Recommended Budget

RESOLVED: On a motion to reduce the FY 24-25 Town Budget tax increase from 3.30 % to 3.00 % by made by Kathleen Johnson, seconded by Brian Loveless, the Board of Finance voted:

In discussion, Micah voiced his opinion that the motion was a mistake, in essence, borrowing from the future. It seems foolhardy to go against the professionals who created this budget.
Carl seconded Micah's sentiments, suggesting the proposed reduction is pinching pennies for little reason. Harry mentioned this is the 16th public budget in his 3rd community that he has been involved in. He has experienced poor management in communities. Avon is in a good place and getting to 3% only for that sake is the wrong thing to do. Houston said he would vote against the motion. Cathy said she was convinced to vote against it as well. Harry added his concern regarding condominium owners and the relatively high increase in values.

Johnson and Loveless voted in favor; Captain, Gisnarian, Lowry, Rousey and Salchert were opposed.
Motion rejected 2-5-0.

RESOLVED: On a motion to approve the FY 24-25 Town Budget as proposed made by Micah Rousey, seconded by Houston Putnam Lowry the Board of Finance voted:

Captain, Gisnarian, Lowry, Rousey and Salchert voted in favor; Johnson and Loveless were opposed.
Motion carried 5-2-0.

C. Sign Call of the May 6, 2024, Town and Budget Meeting

III: ADJOURN
On a motion made by Cathy Salchert, seconded by Micah Rousey it was voted:

RESOLVED: That the Board of Finance adjourn the meeting at 8:23 p.m.

Captain, Gisnarian, Johnson, Loveless, Lowry, Rousey and Salchert voted in favor.
Motion carried 7-0-0.

Minutes are official only after approval by the Board of Finance, usually at its next meeting.

Respectfully Submitted,

4/12/2024

X

Signed by: 4076d14e-c6c6-47e4-87a6-04602192bb06

Micah Rousey, Secretary

Attest: Christine Pescatore, Clerk

All referenced material is available to the public in the Town Manager's Office.