

MEMORANDUM

TO: Town of Essex Selectboard; Greg Duggan, Town Manager; Marguerite Ladd, Deputy Town Manager
FROM: Daniel Roy, Finance Director
DATE: January 4, 2024
SUBJECT: Assignment of FY23 General Fund Balance

Issue

The issue is whether the Selectboard will assign FY23 General Fund Balance as recommended by management.

Discussion

The FY23 audit process is almost complete, and we have reviewed drafts of the financial statements. As of June 30, 2023, the General Fund has a fund balance of \$6,518,158. Total fund balance includes nonspendable, restricted, assigned, and unassigned amounts. Total General fund balance decreased from FY22 to FY23 by \$136,821.

In the prior iteration of this memo, I had included \$600,000 within assignable fund balance that the Selectboard had set aside in FY22 assignments for FY24 tax reduction. This amount, along with \$20,089 in reductions related to closing out the audit have caused a large reduction in the capital transfer assignment request, eliminating prior requests of \$200,000 for Fire Department vehicles, \$170,983 for Public Works Major Equipment, \$100,000 for municipal complex and reducing road reconstruction from \$200,000 to \$50,894.

Per the Town’s Fund Balance Policy, the Selectboard can maintain an unassigned fund balance in the General Fund of up to 15% of the current budget and assign amounts above that threshold or return them to taxpayers. Fifteen percent of the FY24 budget (\$15,401,152) is \$2,310,173.

Nonspendable fund balance represents assets held by the Town that were previously spent and whose values will be used in future years, such as prepaid expenses, security deposits (related to the recent land purchase for the Town of \$150,000) and inventory. Restricted fund balance includes funds with specific legal spending requirements, such as reappraisal funds received from the State. These items are not at the discretion of the Selectboard to assign.

The following table shows nonspendable and restricted fund balance items, no action needed.

Category	FY22 Amount	FY23 Changes	FY23 Amount	Type
Prepaid Expenses & Security Deposits	\$180,857	\$83,380	\$264,237	Nonspendable
Inventory	\$176,730	(\$14,589)	\$162,141	Nonspendable
Reappraisal	\$950,972	\$67,949	\$1,018,921	Restricted
Total	\$1,308,559	\$136,740	\$1,445,299	

After the unassigned and nonspendable/restricted fund balances portions are set aside, there are a group of assigned fund balances that are carryovers from the prior fiscal year and reflect the activity in those groups during FY23. In the case of accrued retirement benefits, the Town is required to set aside leave balances of employees over the age of 55 in the General fund for potential retirees. The next table shows existing fund balance assignment and how they changed during the past fiscal year along with proposed fund balance assignments from staff.

It is important to note here that the Selectboard has discretion over \$1,547,912 of items presented below, which includes the \$300,000 proposed for future tax reduction (FY26 and beyond), \$150,894 of Capital transfers, \$172,018 of one-time assignments, \$600,000 of FY24 tax reduction and \$325,000 in FY25 tax reduction. The items below are management recommendations for use of this \$1,547,912 of General Fund balance. This amount, combined with the

\$1,214,774 of legacy assignments subtotaled below would get us to a total of \$2,762,686 of assigned fund balance for FY23.

The following table shows categories of assigned fund balance and any FY23 changes and updates:

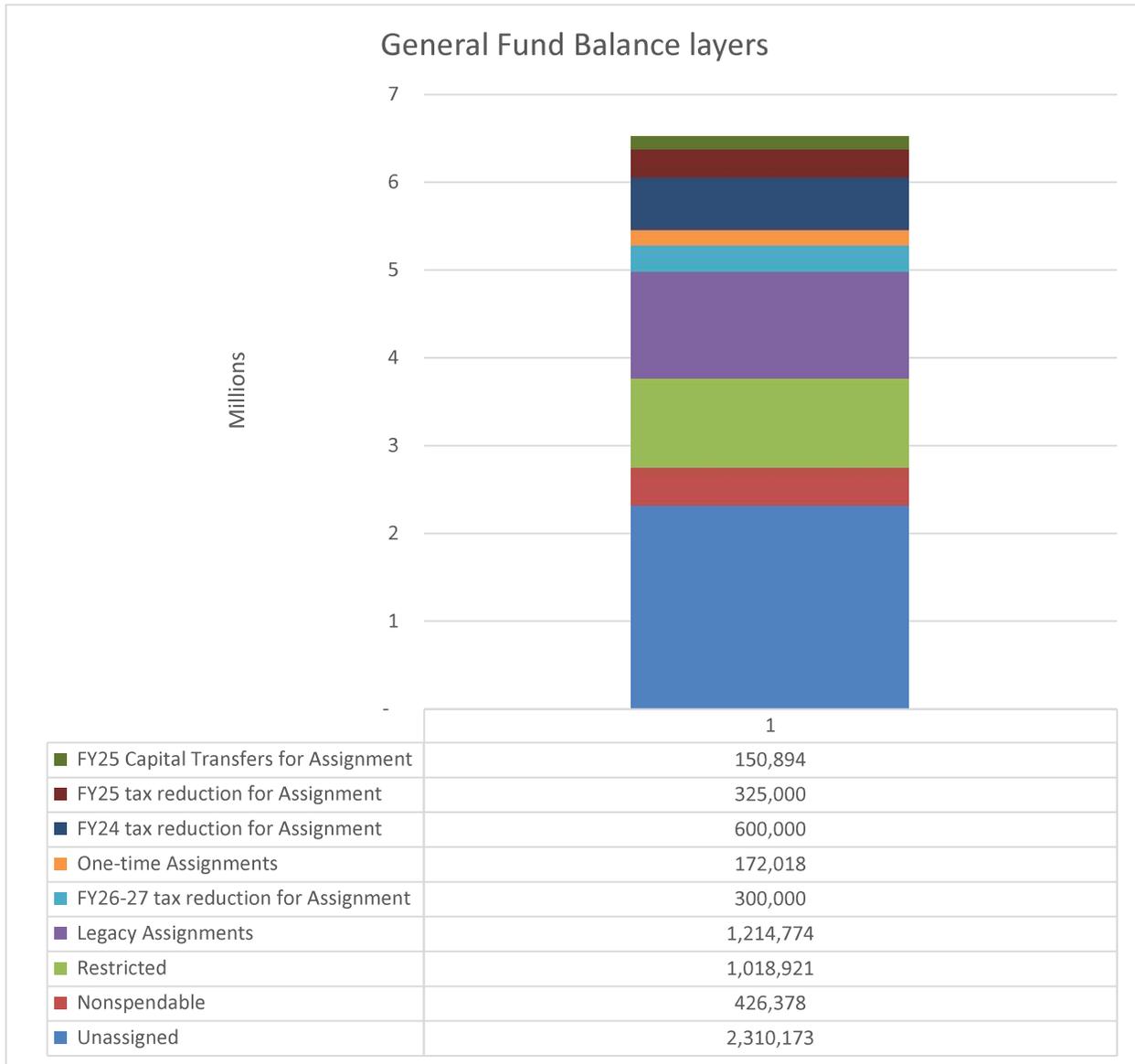
<i>Proposed Legacy Assignments</i>	FY22 Amount	FY23 Activity	FY23 Amount	Notes
Economic Development -EBPA	\$9,713	\$0	\$9,713	Assigned
Planning Reserve	\$56,069	\$8,099	\$64,168	Assigned
Accrued Retirement Benefits	\$294,764	\$327,705	\$622,469	Assigned
Records Preservation	\$324,539	(\$57,476)	\$267,063	Assigned
Reduce Property Taxes in FY23	\$361,000	(\$361,000)	\$0	Used in FY23
Community Justice Center	\$89,063	\$28,564	\$117,627	Assigned
Conservation Fund	\$57,979	\$15,863	\$73,842	Assigned
Police Vehicle	\$70,000	(\$21,000)	\$49,000	One vehicle FY23, added FY24
Assigned - Personnel Costs	\$103,000	(\$103,000)	\$0	Eliminating prior assignment
Assigned - Merger Related Cost	\$90,661	(\$90,661)	\$0	Eliminating prior assignment
Health and Wellness	\$4,800	\$6,092	\$10,892	Unused portion of FY22 & FY23
Subtotal	\$1,461,588	(\$246,814)	\$1,214,774	
Assigned –Future tax reduction	\$596,733	(\$296,733)	\$300,000	Proposed for FY26 and FY27
Combined Legacy Assignments	\$2,058,321	(\$543,547)	\$1,514,774	
Proposed Capital Transfers				
Road Reconstruction			\$50,894	
New Salt Shed			\$100,000	
Total Capital Transfers			\$150,894	
One-time Assignments				
Proposed FY25 assignments				
MainTrac tablets - Parks/Facil.			\$3,100	Proposed for FY25 Budget
Information Technology Exp.			\$5,000	Proposed for FY25 Budget
First Responder Study			\$25,000	Proposed for FY25 Budget
Economic Development Report			\$40,000	Proposed for FY25 Budget
FY25 Subtotal			\$73,100	
Proposed FY24 assignments				
Fire Dept equipment - FY23			\$48,268	To be delivered in FY24
Fuel tracking inventory			\$15,000	Proposed for FY24 work
Intersection upgrade project			\$35,650	Proposed for FY24 work
FY24 Subtotal			\$98,918	
Total One-time Assignments			\$172,018	
Combined Assignments				
FY24 Tax Reduction			\$600,000	FY24 Property tax reduction
FY25 Tax Reduction			\$325,000	FY25 Property tax reduction
Combined Assignments			\$2,762,686	

We propose to assign \$300,000 for future tax reduction, which includes FY26 and FY27. \$600,000 was set aside in the previous budget cycle for use towards FY24 tax reduction. The \$325,000 previously proposed by management to reduce FY25 taxes is presented above as a more specific assignment of fund balance.

The one-time items reflected in this group total \$172,018 and cover a wide range of departments and uses. As a

reminder, these one-time uses of fund balance are used to fill gaps in the budget for non-continuous items. Also presented here are \$150,894 of Capital project assignments, specifically assigned to road reconstruction and a new salt shed. In the prior fiscal year, the Selectboard approved a \$200,000 transfer of fund balance to Capital projects within the undesignated line item of that fund.

The following chart is intended to illustrate the elements of General Fund Balance, which totals \$6,518,158 as of the end of FY23, with more discretionary items being at the top of the chart:



Cost

No cost.

Recommendation

Staff recommends that fund balance be assigned in the amounts indicated above.