

Good Morning Everyone:

The FY25 budget that is presented on the warrant is not balanced. Proposed expenditures total 5,424,827.33 and the current estimate of revenues is 5,349,283.06. The result is an unbalanced budget or budget deficit of 75,544.27.

This situation has not occurred for many years. Since the adoption of Prop 2 ½ all cities and towns cannot exceed the annual levy limit that is calculated for each community. In our case, if we vote in all of the proposed line items on the warrant, the town will exceed the levy limit by the 75,544.27.

The following is an attempt to explain the situation and the plan to ultimately balance the budget.

If you look at the Budget Summary, which is the first page on the Finance Committee's handout, you will see a number of cells that are highlighted in gray. These amounts are estimates and will eventually change when the amounts become final.

An example of a revenue estimate would be the State Aid Cherry Sheet which is found on line 29 and the current estimate is 904,045.00. There are five versions of the Cherry Sheets with the final usually posted at the end of June or the beginning of July. This version is the 2nd. The other highlighted revenues should all be known after July or by mid-November at the latest.

On the expenditure side- one example of a budget estimate would be Vocational Education. The current estimate is the (best guess) based on the number of students from Worthington that applied to attend the Smith Vocational school next year. Unfortunately, that number will not be known until school starts in September and how many seats are available at Smith to admit new students.

The pages after the Budget Summary list all appropriations for the past three years and the proposed for the FY25 budget. Line number 160 is the total operating budget. Every line item above it is raised thru taxation and is

subject to the levy limit and is used in the calculation of the budget deficit in the FY25 proposed budget.

All line items below 160 are one time or capital appropriations and because they are funded from available funds and not taxation they do not affect the deficit or the tax rate.

After all estimates are known and if the budget is still unbalanced the plan to balance possibly would be to increase the amount estimated for Local Estimated Receipts which are non-tax revenues that the town collects such as MVE excise, licenses, fees, fines, permits, interest earnings etc. If the budget is still unbalanced, a Special Town Meeting will be called to most likely appropriate from the General Stabilization Fund to eliminate the deficit.

One final explanation. The budget deficit was not created just with the FY25 budget, but rather, it was increases to past budgets that accumulated from past years. These past increases were masked by something called "excess taxing capacity".

This unused taxing capacity is taxation that was not used in any given year. The town's actual tax levy was under its' yearly levy limit and therefore did not tax to the allowable yearly limit. This unused taxation carries forward and can be used in subsequent years.

Line 80 on the Budget Summary shows that prior to FY24 excess capacity was over 200,000. When the tax rate was approved for this year FY24 excess capacity dropped to 66,321. This was a red flag for what was to come for future budgets.

As we reviewed the FY25 budget requests, we asked department heads to reduce their requested budgets to help balance the deficit. The original requests created over a 106,000.00 deficit. To provide basically the same level of service, those reductions to the requests were only able to reduce the budget deficit down to the 75,544.

