Item #6

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Date:	April 24, 2024
To:	Joseph Mooney, Chairman Board of Finance
From:	James Finch, Finance Director
Re	Revaluation and Future Budgets

Background

As the board may recall, last fall I presented draft debt and fund balance policies and in January we discussed the needs and challenges facing the town. During the January presentation I noted that the revaluation would likely shift the tax burdens to residential property taxpayers. As you continue to contemplate these policies and plans I believe it is beneficial that we begin to estimate the impact of revaluation so that we can formulate a strategy moving forward. I should underscore that the revaluation impact is based on very preliminary estimates. Nevertheless, while the final values have yet to be determined it should be clear to even the most casual observer that real estate values have risen dramatically since the last valuation. It is also worth noting that the common belief that revaluation shifts can be offset through a lower mill rate does not necessarily hold with a grand list as diverse as Branford's.

The memorandum is organized as a series of frequently asked questions with some responses excerpted from the town's website, estimated budgets, shift projections and thoughts moving forward.

Section 1. Revaluation

What is Revaluation?

The revaluation program involves the mass reappraisal of all real property in the Town in order to bring about uniformity in property valuations and to assure all property owners that they are paying only their fair share of the cost of community services. Revaluation is not intended to raise revenues. Its purpose is to value all properties by the same standards at the same point in time.

Why is Revaluation Needed?

It will have been five years since the last revaluation of all real estate in the Town of Branford. Meanwhile, constantly changing economic conditions have caused inequities to develop. The solution to this problem is to reappraise all real estate bringing assessment records up to date with present day values.

What Kind of Inequities Exist Now?

Just the normal "hills and valleys" which occur in any community over a period of time. Neighborhoods change and economic climates change, meaning that properties may have become overvalued or under-valued when compared to comparable market properties. The revaluation returns properties to current market values and to their equitable share. It should also be noted that since motor vehicles and personal property values are derived from current market conditions these grand list components will decrease as a percent of the grand list and thus their tax burden will be decreased proportionately.

Why is Branford conducting a Revaluation in 2024? (FY 2026)

The State of Connecticut, under C.G.S §12-62, requires a revaluation of all real estate every five years. State law mandates that the Town of Branford commence the five year cycle for the October 1, 2024 Grand List since the last revaluation was completed in 2019.

There is a growing awareness that local property taxes have become a significant part of the expense of owning real property. Keeping this in mind, revaluations are required to assure property owners of uniformity in property valuations. A revaluation sets new assessed values on a current basis for use by the Assessor.

A successful revaluation requires a significant amount of time spent on careful research and the cooperation of the taxpayers to assure that the new values are accurate and that all property owners will pay their fair share of the property tax burden.

Section 2. Shifting Tax Burdens

This section will attempt to illustrate the potential shift in the tax levy based on the board's recommended budget to the RTM.

What assumptions are used to estimate the changes in the grand list?

Property Class	Increase
Real Estate Residential (Up to 3 Family)	45%
Real Estate Residential (Multi Family)	30%
Real Estate Condominium	50%
Real Estate Residential (Mobile Homes)	Flat
Real Estate Residential (Garages and Docks)	5%
Real Estate Commercial	15%
Real Estate Apartments	20%
Real Estate Industrial and Other	5%
Personal Property	Flat
Motor Vehicles	Flat

As the board may recall, the grand list used to calculate the mill rate for the FY 2025 recommended budget was 3.9 billion and by applying the assumptions above that grand list increases to @5.15 billion.

Exhibit 1 illustrates the value changes for the various components.

What is the resulting tax shift with these changes in grand list components?

In order to accurately measure the impact of the grand list changes one must control for the budget requirements and tax levy. Therefore for the purpose of the analysis I am using the FY 2025 recommended budget with the only change being the grand list and the corresponding mill rate change.

Exhibit 2. Demonstrates the shift in taxes pursuant to the estimated changes in the grand list. Please note that the tax levy remains constant and the mill rate drops. However despite the drop in the mill rate it does not prevent a significant shift in the burden on residential taxpayers. As noted earlier in the memo, the revaluation is about fairness and thus one could argue in the years leading up to the revaluation non-residential properties were subsidizing residential properties. While this argument is logical and compelling I have yet to see it take the sting out of the public's frustration.

Section 3. Exploring a Strategy

Exhibit 2 illustrates the shift in the tax burden to single family and condominium properties is approximately $7.5 million. Moreover, this increase does not reflect the normal budgetary increases since it assumes a constant tax levy. As a result it appears that it is all but inevitable that this shift will be painful.

If the shift in tax burden is inevitable does the town have other options?

If one concedes the inevitability of the shifts then perhaps the focus should land on the year leading up to the revaluation (FY 2025) and the years following the revaluation 2027-2029. I am also aware that these years also include significant investments in public safety both in terms of staffing and structures.

What does this approach consist of and what are the guardrails or targets?

To provide a level of consistency with the analysis I shared in January, I stayed with the projected expenditure levels for FY 27-29 as a basis for the analysis. The goal for these future years will be to keep the mill rate increase under 3.5%. The target for FY 2025 is to limit the mill rate increase to 2%.

Exhibit 3 shows the projected increase in the mill rates using additional fund balance as a tool to limit the mill rate increases in the years following the revaluation. This leaves the previously identified considerations (January 24. 2024 letter) on the table.

- Selling assets and using the proceeds to offset costs.
- Reallocating existing cash balances on soon to be closed out projects. (WIS)
- Identify non-tax dollars to support debt payments. (Foote Trust)
- Work with Branford's delegation to secure grant funding for capital projects.
- Identify opportunities through the Inflation Reduction Act
- Evaluate opportunities to reduce pension liabilities with an eye toward reducing future payments.
- Continue to seek grant dollars to offset the costs of resiliency projects.

Section 4. Fund Balance Policy

As we are aware, the board is considering a fund balance policy which strives to maintain a level of fund balance between 20-25%. Therefore I have used this range as a basis for a developing a rough model to conceptually illustrate the use of fund balance at various target levels. The model assumes targets of 25%, 22.5% and 20% with a beginning balance of $49 million as of 6/30/2024.

Please see Exhibits 4-6

These preliminary forecasts show that the only policy that survives under these scenarios is the 20% target. The analysis also underscores that small changes in percentage targets can produce dramatic results. It is also important to recall that expenditures are being driven by 4% increases in education spending (largest department) and the aforementioned public safety increases. Finally the budgets contemplate issuing debt to fund $76 million in capital improvements.

Conclusion

As I noted in my January memo my purpose is to provide a reasonable plan that is logical and budget sensitive while simultaneously striking a balance between services and tax requirements. It is worth underscoring that this memo and accompanying attachments are not intended to analyze and account for every possible situation and undoubtedly changes in interest rates, construction costs and unanticipated events and opportunities may alter the projections. Therefore it will be required for the board to revisit the plan on an annual basis and adjust accordingly to meet budgetary objectives.

Exhibit 1. Estimated changes in the grand list.

	Value	% of GL	Value	% of GL
Real Estate Residential (Up to 3 Family) (1)	1,891,549,595	48.49%	2,742,746,913	53.25%
Real Estate Residential (Multi Family)	325,778,301	8.35%	423,511,791	8.22%
Real Estate Residential (Condominium)	432,229,900	11.08%	648,344,850	12.59%
Real Estate Residential (Mobile)	4,715,800	0.12%	4,715,800	0.09%
Real Estate Residential (Garages and Docks)	4,131,300	0.11%	4,337,865	0.08%
	2,658,404,896	68.15%	3,823,657,219	74.24%
Real Estate Commercial	394,361,740	10.11%	453,516,001	8.81%
Real Estate Apartments	79,665,550	2.04%	95,598,660	1.86%
Real Estate Industrial & Other	191,250,509	4.90%	200,813,034	3.90%
Total	665,277,799	17.06%	749,927,695	14.56%
Personal Property	242,816,730	6.22%	242,816,730	4.71%
Motor Vehicle	334,198,087	8.57%	334,198,087	6.49%
Total	3,900,697,512	100.00%	5,150,599,732	100.00%

Exhibit 2. Estimate Tax Levy Changes by Property Type

	Mill Rate 30.66	Mill Rate 23.22		
Tax Levy	119,601,785	119,601,785	Increase	%
Real Estate Residential (Up to 3 Family) (1)	57,998,014	63,689,171	**5,691,157**	9.81%
Real Estate Residential (Multi Family)	9,988,897	9,834,343	(154,554)	-1.55%
Real Estate Residential (Condominium)	13,252,878	15,055,179	**1,802,301**	13.60%
Real Estate Residential (Mobile)	144,594	109,505	(35,089)	-24.27%
Real Estate Residential (Garages and Docks)	126,672	100,729	(25,943)	-20.48%
Real Estate Commercial	12,091,778	10,531,069	(1,560,709)	-12.91%
Real Estate Apartments	2,442,676	2,219,891	(222,785)	-9.12%
Real Estate Industrial & Other	5,864,054	4,663,068	(1,200,986)	-20.48%
Personal Property	7,445,159	5,638,434	(1,806,726)	-24.27%
Motor Vehicle	10,247,062	7,760,395	(2,486,667)	-24.27%
	119,601,785	119,601,785	0	0.00%

Exhibit 3. Estimated Tax Rate Change

	Current Estimated 2025	Revaluation Constant Levy 2025	Revaluation Estimated 2026	Estimated 2027	Estimated 2028	Estimated 2029
Expenditures	135,311,096	135,311,096	143,180,630	149,042,664	155,147,126	161,208,513
Non Tax Revenue	18,340,439	18,340,439	18,340,439	18,340,439	18,340,439	18,340,439
F/B Relief (Additional) or Cuts	0	0	665,000	1,350,000	2,250,000	2,250,000
	18,340,439	18,340,439	19,005,439	19,690,439	20,590,439	20,590,439
Total Tax Requirements	116,970,657	116,970,657	124,175,191	129,352,225	134,556,687	140,618,074
Less State Reimbursements	270,800	270,800	270,800	270,800	270,800	270,800
Less Elderly Tax Relief	386,899	386,899	386,899	386,899	386,899	386,899
Less Allowance for Uncollectible	1,973,429	1,973,429	2,094,299	2,181,153	2,268,467	2,370,158
Total Tax Levy	119,601,785	119,601,785	126,927,189	132,191,077	137,482,853	143,645,931
Collection rate	0.98350	0.98350	0.98350	0.98350	0.98350	0.98350
Grand List (estimated)	3,900,697,512	5,150,599,732	5,150,599,732	5,176,352,730	5,202,234,494	5,228,245,666
Mill Rate	30.66	23.22	24.64	25.54	26.43	27.47
Change	0.77	(7.44)	(6.02)	0.89	0.89	1.05
Percentage	2.58%	-24.27%	-19.63%	2.92%	2.90%	3.42%
GL Increase		1,249,902,220	1,249,902,220	25,752,999	25,881,764	26,011,172
GL %		32.04%	32.04%	0.50%	0.50%	0.50%

GL Growth	1.005	
Non Tax Revenue	1	Flat
Fy 2024 Mill Rate	29.89	

Exhibit 4. Fund Balance Target at 25%

	2025	2026	2027	2028	2029
Beginning Fund Balance 6/30/2024	48,000,000	48,000,000	47,500,000	45,200,000	42,900,000
Add/(Subtract)	-	(500,000)	(2,300,000)	(2,300,000)	(2,300,000)
Ending Fund Balance	48,000,000	47,500,000	45,200,000	42,900,000	40,600,000
Budget for Future Year (25-28)	135,311,096	143,180,630	149,042,664	155,147,126	161,208,513
Fund Balance Target	33,827,774	35,795,158	37,260,666	38,786,782	40,302,128
Target less projected	14,172,226	11,704,843	7,939,334	4,113,219	297,872
Less Fund Balance Appropriated in Future Year	(3,156,000)	(3,156,000)	(3,156,000)	(3,156,000)	(3,156,000)
Supplemental Fund Balance Appropriation			(1,350,000)	(2,250,000)	(2,250,000)
Discretionary Fund Balance	11,016,226	8,548,843	3,433,334	(1,292,782)	(5,108,128)

Exhibit 5. Fund Balance Target at 22.5%

	2025	2026	2027	2028	2029
Beginning Fund Balance 6/30/2024	48,000,000	48,000,000	47,500,000	45,200,000	42,900,000
Add/(Subtract)	-	(500,000)	(2,300,000)	(2,300,000)	(2,300,000)
Ending Fund Balance	48,000,000	47,500,000	45,200,000	42,900,000	40,600,000
Budget for Future Year (25-28)	135,311,096	143,180,630	149,042,664	155,147,126	161,208,513
Fund Balance Target	30,444,997	32,215,642	33,534,599	34,908,103	36,271,915
Target less projected	17,555,003	15,284,358	11,665,401	7,991,897	4,328,085
Less Fund Balance Appropriated in Future Year	(3,156,000)	(3,156,000)	(3,156,000)	(3,156,000)	(3,156,000)
Supplemental Fund Balance Appropriation			(1,350,000)	(2,250,000)	(2,250,000)
Discretionary Fund Balance	14,399,003	12,128,358	7,159,401	2,585,897	(1,077,915)

Exhibit 6. Fund Balance Target at 20%

	2025	2026	2027	2028	2029
Beginning Fund Balance 6/30/2024	48,000,000	48,000,000	47,500,000	45,200,000	42,900,000
Add/(Subtract)	-	(500,000)	(2,300,000)	(2,300,000)	(2,300,000)
Ending Fund Balance	48,000,000	47,500,000	45,200,000	42,900,000	40,600,000
Budget for Future Year (25-28)	135,311,096	143,180,630	149,042,664	155,147,126	161,208,513
Fund Balance Target	27,062,219	28,636,126	29,808,533	31,029,425	32,241,703
Target less projected	20,937,781	18,863,874	15,391,467	11,870,575	8,358,297
Less Fund Balance Appropriated in Future Year	(3,156,000)	(3,156,000)	(3,156,000)	(3,156,000)	(3,156,000)
Supplemental Fund Balance Appropriation			(1,350,000)	(2,250,000)	(2,250,000)
Discretionary Fund Balance	17,781,781	15,707,874	10,885,467	6,464,575	2,952,297