Budget Questions and Requests for Information
2013-14 Recommended Budget
QUESTION #6

QUESTION: When did the Town borrow for the Library expansion and what is the relationship between those borrowings and increases in the tax rate?

RESPONDENT: Kenneth C. Pennoyer, Business Management Director
Roger Stancil, Town Manager

RESPONSE: The debt fund tax rate was established in 2008-09 at a rate (11 cents) that approximated the amount of debt service due in FY2008-09 plus a small amount for a reserve for new debt ($56,000). The debt management rate was shown as a separate rate in 2009-10 and reduced to 9.3 cents because of revaluation. The rate was not set to immediately address the Library Bonds. It was set at a level that addressed existing debt with a little overage with the understanding that with our decreasing annual debt service payments (between FY08 and FY11 debt service on existing debt declined almost $1 million) we would be in a position to issue the Library bonds in a few years without raising the tax. In other words, our declining annual debt service payments created the capacity for the Library bonds over time with the debt fund rate remaining at the original level. We continue to espouse that philosophy that any new debt issues should be within the capacity of the debt management fund to service that debt so it could be handled without any tax increase for capital.

You can say that we did not increase taxes specifically to fund the Library, however maintaining the Debt Management Fund tax rate at a constant level while our annual debt service payments decreased had the same effect. If we had maintained the debt fund tax to mirror our debt service obligations, we would have decreased the rate incrementally to match our declining debt service. In fact, we accomplished a version of that in 2011-12 when we shifted 1.8 cents from the debt management fund to the General Fund, to address increasing costs without a tax increase.

In Fall of 2008 we did not know how bad the financial crisis would get and speculation was rampant. In this environment, which occurred after the adoption of the FY09 budget and the Debt Management Plan, our focus was on conserving resources and avoiding new long-term commitments. Council delayed the library bond sale in the uncertain climate. When the bonds were sold, we benefitted from the lower interest rates and the use of Build America Bonds.

I hope this makes sense. There is no straight yes or no answer to the question of whether we raised taxes for the Library. We raised taxes to meet existing debt obligations before the Library debt was issued and we maintained that rate while our debt obligations declined in order to eventually afford the Library debt.

The first table below shows the timing of the issuance of the 2003 Referendum Debt, with the Library debt shown separately. The second table is a 15 year history of the Town property tax rate. Please note that for the shaded revaluation years the rate increase is calculated from the revenue neutral rate and is different from the amounts reflected in the other columns.

2003 Bond Referendum

	Library	Other	Total
2004 Issuance	$ 500,000	$ 3,500,000	$ 4,000,000
2006 Issuance	1,500,000	3,450,000	4,950,000
2010 Issuance	14,260,000	6,150,000	20,410,000
Total	$ 16,260,000	$ 13,100,000	$ 29,360,000

Tax Rate History

	General Fund	Transit	Debt	Total	Increase	
FY1999-00	52.40	3.90	-	56.30		
FY2000-01	53.50	4.30	-	57.80	1.50	
FY2001-02	46.10	4.30	-	50.40	5.20	**
FY2002-03	51.00	4.30	-	55.30	4.90	
FY2003-04	50.20	5.10	-	55.30	-	
FY2004-05	51.60	5.90	-	57.50	2.20	
FY2005-06	47.40	4.80	-	52.20	2.90	**
FY2006-07	47.40	4.80	-	52.20	-	
FY2007-08	47.40	4.80	-	52.20	-	
FY2008-09	42.30	4.80	11.00	58.10	5.90	
FY2009-10	36.00	4.10	9.30	49.40	(0.40)	**
FY2010-11	36.00	4.10	9.30	49.40	-	
FY2011- 12	37.80	4.10	7.50	49.40	-	
FY2012-13	37.80	4.10	7.50	49.40	-	
FY2013-14*	38.80	5.10	7.50	51.40	2.00	

* Recommended

** Revaluation year - increase calculated from revenue neutral rate