

# **ANALYSIS OF THE POTENTIAL FISCAL IMPACT OF A FINANCE RELATED PETITION**

*November 1, 2007*

**Prepared for the Town of Hermon**

**Prepared by:**



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## **I. Introduction**

The following report was prepared by PolicyOne Research for the Town of Hermon Maine. The report presents data and findings from an analysis of a proposed finance petition being considered in the Town of Hermon. If passed the petition would:

- Require 80% of all fiscal year revenues in excess of expenses be used to reduce the following year's taxes
- Require 20% of all fiscal year revenues in excess of expenses be placed in an escrow fund to be used for emergencies that might arise in the following fiscal year – and if not used in this period, then be used to reduce the following year's taxes
- Prohibit special or other meetings to be held for the expenditure of non-budgeted funds greater than \$25,000
- Prohibit the Town Manager or Town Council from approving the expenditure of funds greater than \$25,000, except in the case of an emergency
- Require any non-budgeted expenditure of funds greater than \$25,000 to be voted on by Hermon citizens by secret ballot at the regular annual town meeting

The purpose of this report is to present data and findings regarding the potential fiscal impact on the Town should the petition be adopted.

## **II. Historical and Recent Fiscal Trends**

The first step in analyzing the potential fiscal impact of the petition is to understand recent Town financial trends. The following findings regarding financial trends are based on a review of Town finances from the Annual Audited Financial Statements from Fiscal Year 1996 through Fiscal Year 2006.

### Revenues & Expenditures

Since 1996 the Town of Hermon has experienced continued growth in General Fund revenues with the largest percentage increases occurring in 2000, 2002, 2004, and 2006. In 1996 revenues in Hermon were \$8,091,651. In 2006, revenues in Hermon reached \$14,226,219 (see Table 1 and Chart 1).

In terms of specific major revenue sources, except for a few exceptions annual intergovernmental revenues (mostly consisting of State aid to education and state revenue sharing) have remained relatively flat compared to excise taxes which have grown considerably. Excise taxes have grown from \$836,855 in 1996 to a level of \$2,107,390 in 2006 (see Table 3 and Chart 3 & 4).

The property tax commitment (dollars to be raised in property taxes) in Hermon experienced high growth between 1996 and 2002. Since then the rate of growth has slowed (see Table 7 and Chart 8). Property valuation experienced a somewhat opposite trend with slow growth between 1996 and 2000 followed by faster growth in more recent year (see Table 7 and Chart 9). This has resulted in the property tax rate rising from 12.25 mills (dollars raised per thousand dollars of property value) in 1996 and 1997 to 16.65 mills in 2003 and then dropping to 14.25 mills in 2006 (see Table 7 and Chart 10).

Like revenues, General Fund expenditures in Hermon experienced continual growth. In 1996 General Fund expenditures in Hermon equaled \$7,892,477 and by 2006 they equaled \$12,052,486 with the largest percentage increases occurring in 1999, 2000, 2002, 2003, and 2004 (see Table 1 and Chart 1).

Since 1998 the Town of Hermon has approved special expenditures for capital improvements, major projects, or emergencies. These have risen and fallen on a sporadic basis annually reaching high levels in 1998, 2000, 2005 and 2007 (see Tables 5 and 6, and Chart 7).

#### Excess Revenues over Expenditures and Fund Balance

Between 1996 and 2006 the annual gap between revenues and expenditures in Hermon has widened, ranging from a low of \$58,075 in 1997 to a high of \$2,173,733 in 2006 (see table 1 and Charts 1 & 2). The gap between revenues and expenditures contributed to growth in the Town's annual Fund Balance. Between 1996 and 2002 the Town's annual Fund Balance at year end ranged between \$1,767, 639 and \$2,824,260. By year end 2006, Fund Balance had increased to \$5,721,638 (see Table 4 and Chart 5). It should be noted that in 2006 while actual Fund Balance at year end was \$5,721,638, in July and November 2006, appropriations from Fund Balance totaling \$1,703,992 were made. Therefore, for purposes of analysis, PolicyOne has calculated an adjusted year ended 2006 Fund Balance of \$4,017,646.

One indicator of fiscal health is the level of Fund Balance at year end as a percent of General Fund expenditures. This measures the ability of a town to fund emergencies and maintain sufficient cash flow without incurring significant additional debt, particularly short-term debt such as tax anticipation notes, TAN's. While the level of Fund Balance that is appropriate for a community varies

depending on the local, regional, state and even national economic environment, the Government Finance Officers Association recommends:

“governments establish a formal policy on the level of unreserved fund balance that should be maintained in the general fund. Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unreserved fund balance, if it is inconsistent with that policy. The adequacy of unreserved fund balance in the general fund should be assessed based upon a government’s own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures. A government’s particular situation may require levels of unreserved fund balance in the general fund significantly in excess of these recommended minimum levels.” (Approved by the Committee on Accounting, Auditing and Financial Reporting and the Committee on Governmental Budgeting and Management, January 30, 2002; Approved by the Executive Board, February 15, 2002.)

Between 1996 and 2003 Fund Balance as a percent of expenditures at the beginning of the fiscal year in Hermon remained between 22% and 28%. Since 2003, Fund Balance as a percent of General Fund expenditures have increase and ranged between 32% and 38%. It should be noted that at the end of Fiscal Year 2006, the percent was initially 48% but in July and November 2006, appropriations from Fund Balance totaling \$1,703,992 were made dropping the percent to 33% (see Table 4 and Chart 6).

### **III. Past and Recent Fiscal Practices in Hermon**

An understanding of the Town’s fiscal policies is also warranted in order to understand the potential fiscal impact of the proposed petition.

The Town has historically maintained a relatively high Fund Balance. There are several primary reasons for this practice in Hermon. First, the Town has attempted to avoid the issuance of tax anticipation notes, TAN’s. TAN’s are short-term borrowing used to pay expenses until other revenue sources come in. Fund Balance has been used in Hermon to provide cash flow until property tax and other revenues are collected or received. In doing so the Town of Hermon has avoided paying interest associated with TAN’s. Second, the Town has in the past maintained a high level of Fund Balance to have sufficient funds on hand to pay for special projects and capital items, as opposed to borrowing solely through bond issuance. Additionally, until recently, in practice the Town did not put

significant money on a regular basis into designated capital accounts to fund capital projects; rather it would fund large components of capital projects out of appropriations from Fund Balance. Finally, the Town has maintained Fund Balance so that it can appropriate funds for tax reduction in future years.

In 2007 the Town of Hermon adopted fiscal policies which altered its past practices regarding Fund Balance. Among the policies included the establishment of guidelines for the level of Fund balance to be maintained as a percent of operating expenditures as follows:

- Minimum of 8.33% (or one month of operating expenditures)
- Target of 16.66% (or two months of operating expenditures)
- Maximum of 25%

The policies also target Fund Balance in excess of the maximum to fund reserve accounts for specific capital or project purposes. If not needed for those purposes, then the excess is targeted for the Credit Reserve/Emergency Fund to fund emergencies and maintain credit rating. While the policy doesn't prohibit the use of Fund Balance to be transferred for tax reduction, it advises against that policy on the grounds of it eventually leading to significant fluctuations in property tax commitments and rates.

#### **IV. Potential Impacts if Petition Was Implemented**

With an understanding of past and recent fiscal trends, policies and practices PolicyOne conducted analysis as to the potential impacts the petition would have on fiscal conditions in Hermon. The analysis focused on two key aspects of the Town's fiscal condition: Fund Balance and tax rate. The analysis is based on actual past financial data and attempts to answer the question of "what would have happened if such a petition was implemented over the past ten years".

In order to conduct the analysis PolicyOne had to make certain assumptions regarding how the components of the petition would be applied in terms of timing. The petition states: "80% of all fiscal year revenues that are in excess of all town expenses for the same fiscal year will be used to reduce the following year's taxes." In practice revenues in excess of expenses will not be known until the close of the fiscal year and completion of annual audit. The fiscal year ends June 30 and starts July 1. The tax rate for the upcoming year is set in the month of April, prior to the start of the July 1 fiscal year. The audit is available in October four months after the close of the fiscal year and seven months after the setting of the tax level/rate. Therefore the following assumptions are made for purposes of this analysis. In practice revenues in excess of expenditures would be known in October. 80% would be held in escrow,

and then applied to reduce the taxes that are set in the following April for the fiscal year, starting the next July 1. 20% would be held in escrow and could be used to fund emergencies that might arise during the current fiscal year, which started the past July 1. The 80% and 20% of revenue excess would not therefore accrue to Fund Balance. As an example as to how the impact model was applied:

Fiscal year 2006-07 – July 1 2006 through June 30 2007

1. Fiscal Year closes June 30 2007
2. October 2007 – Audit results show the level of revenues in excess of expenditures for the 2006-07 Fiscal Year.
  - a. 80% of the excess revenues held in escrow and used to reduce taxes for the 2008-09 fiscal year starting July 1 2008, in which the tax level and rate was set in April 2008.
  - b. 20% of excess revenues held in escrow and could be used to fund emergencies for the 2007-08 Fiscal Year between October 1, 2007 and June 30 2008.
    - i. Any of 20% that is not used for emergencies in the fiscal year 2007-08 (between October 1, 2007 and June 30 2008), goes into escrow to reduce taxes set April 09 for the 2009-10 fiscal year. This is based on the audit for the 2007-08 year that gets completed October 2008.

Using these assumptions and applying it to annual financial data since 1996 resulted in the following findings:

- ❖ The Town would have been able to reduce taxes annually by amounts between \$46,460 and \$895,098. This would have resulted in tax rates ranging between 11.14 mills and 15.64 mills, down from the actual range of 11.95 mills and 16.65 mills (see Tables 8 and 11 and Chart 13).
- ❖ The level of Fund Balance would decline, eventually erode completely and if allowed to, reach negative balances. The percent of Fund Balance as a percent of General Fund expenditures would fall from 20% to below zero (see Tables 8, 9 and 10 and Charts 11 and 12).

Implications of Impacts Resulting from Petition:

There are several fiscal implications that would result from the potential impact if the petition was implemented. There are as follows:

Cash Flow - With the drop in Fund Balance overtime, the Town would eventually lack sufficient cash on hand to support expenses while it awaited property taxes to flow in. Therefore the Town would need to borrow in anticipation of taxes through the issuance of TAN's. According to the Town Manager, based on monthly cash flow and expenses, if Fund Balance dropped \$2 million or more in 2004, 2005, or 2006 or if it dropped below 10% of expenditures in any year, a TAN would be needed. This potential situation occurs in both estimated Fund Balance models analyzed by PolicyOne. Borrowing in anticipation of taxes involves cost due to interest payments.

Lack of Funds Set aside for Capital Projects – If the petition were to pass, beginning at the end of the first year, no revenues in excess of expenditures would be set aside for future capital projects. Therefore, the capital project reserve accounts would cease growing over time. Additionally, as the on-going level of Fund Balance eroded as projected in the models, the Town would lack sufficient funds to make appropriations for existing Fund Balance to pay for capital projects. Both of these would then result in the Town either needing to issue bonds to pay for capital projects, increase taxes and specifically appropriate the funds for capital projects, or both.

Lack of Ability to Increase Fund Balance – In both Fund Balance models prepared for this analysis, Fund Balance diminishes to levels below the Town's minimum desired for fiscal emergencies and over time erodes completely. If the petition were to pass, the Town would lack the ability to make revenue and expenditure adjustments to address insufficient Fund Balance. Simply cutting expenses or increasing revenues would not help increase the Fund Balance, because 80% of any excess revenues over expenditures would be required to be set aside for future tax reduction and 20% targeted for emergencies only.

Bond Rating (costs of borrowing) – taken together, all the potential impacts and implications would eventually impact the Town's Bond Rating. The factors of Fund Balance, the ability to adjust revenues and expenditures over time, the ability to fund major capital items are all factors considered by bond rating agencies. A lower bond rating would increase the Town's cost of borrowing and as indicated above, borrowing would likely be how the Town would need to fund capital projects.

## **V. Conclusion and Recommendations**

The Town's recently adopted policies regarding unrestricted net assets (Fund Balance) and reserves provide protection against the Town raising revenues in excess of what is needed to fund operations, reserves, and emergencies. It also allows the Town to maintain sufficient cash flow. In this sense the recent policies will be achieving some of what the petition proposes to do but in a manner that avoids fiscal risks associated with a lack of adequate Fund Balance. Therefore it is PolicyOne's recommendation for a fiscal health perspective that the Town allows the recently adopted policies to take affect without passing the petition. The Town should continue

to monitor revenues, expenditures, Fund Balance, and capital needs. If changes are desired over time, it is more fiscally prudent to make them to the minimums, maximums, and targets established in the policies rather than through a complete elimination of excess revenues as proposed in the petition. The Town may also want to continue to monitor and if needed adjust its forecast for excise taxes as this is an area that has seen continued growth above projections.

The analysis is fairly complex and based on historical data and assumptions. The Town may want to have this analysis including the data and assumptions reviewed by the Town's auditor and legal counsel and comments provided as to its findings and potential actions to be taken further by the Town. In particular the Town may want to seek further clarification as to the following:

- What is the definition of "emergencies" and "emergency" as used in the petition and how could emergency funds be used?
- If passed would the petition apply to General Funds only or all Governmental Funds? The analysis is based on the assumption that the petition if passed would apply to General Funds and not all Governmental Funds.

**Table 1:**

<b>General Fund Trends - Town of Hermon - 1996-2006</b>						
<b>Year</b>	<b>Revenues</b>	<b>Rev. % Change from Previous Year</b>	<b>Expenditures</b>	<b>Expend. % Change from Previous Year</b>	<b>Revenue in excess of Expenditures</b>	<b>Rev. in excess of Exp. % Change from Previous Year</b>
1996	\$8,091,651		\$7,892,477		\$199,174	
1997	\$8,309,904	2.7%	\$8,251,829	4.6%	\$58,075	-70.8%
1998	\$8,409,588	1.2%	\$8,257,863	0.1%	\$151,725	161.3%
1999	\$8,904,516	5.9%	\$8,812,047	6.7%	\$92,469	-39.1%
2000	\$9,727,827	9.2%	\$9,274,946	5.3%	\$452,881	389.8%
2001	\$9,910,266	1.9%	\$9,602,583	3.5%	\$307,683	-32.1%
2002	\$10,992,424	10.9%	\$10,207,096	6.3%	\$785,328	155.2%
2003	\$11,358,706	3.3%	\$10,765,747	5.5%	\$592,959	-24.5%
2004	\$12,966,565	14.2%	\$11,847,693	10.0%	\$1,118,872	88.7%
2005	\$13,039,621	0.6%	\$11,636,298	-1.8%	\$1,403,323	25.4%
2006	\$14,226,219	9.1%	\$12,052,486	3.6%	\$2,173,733	54.9%

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

Chart 1:

### General Fund Revenues & Expenditures Town of Hermon - 1996-2006

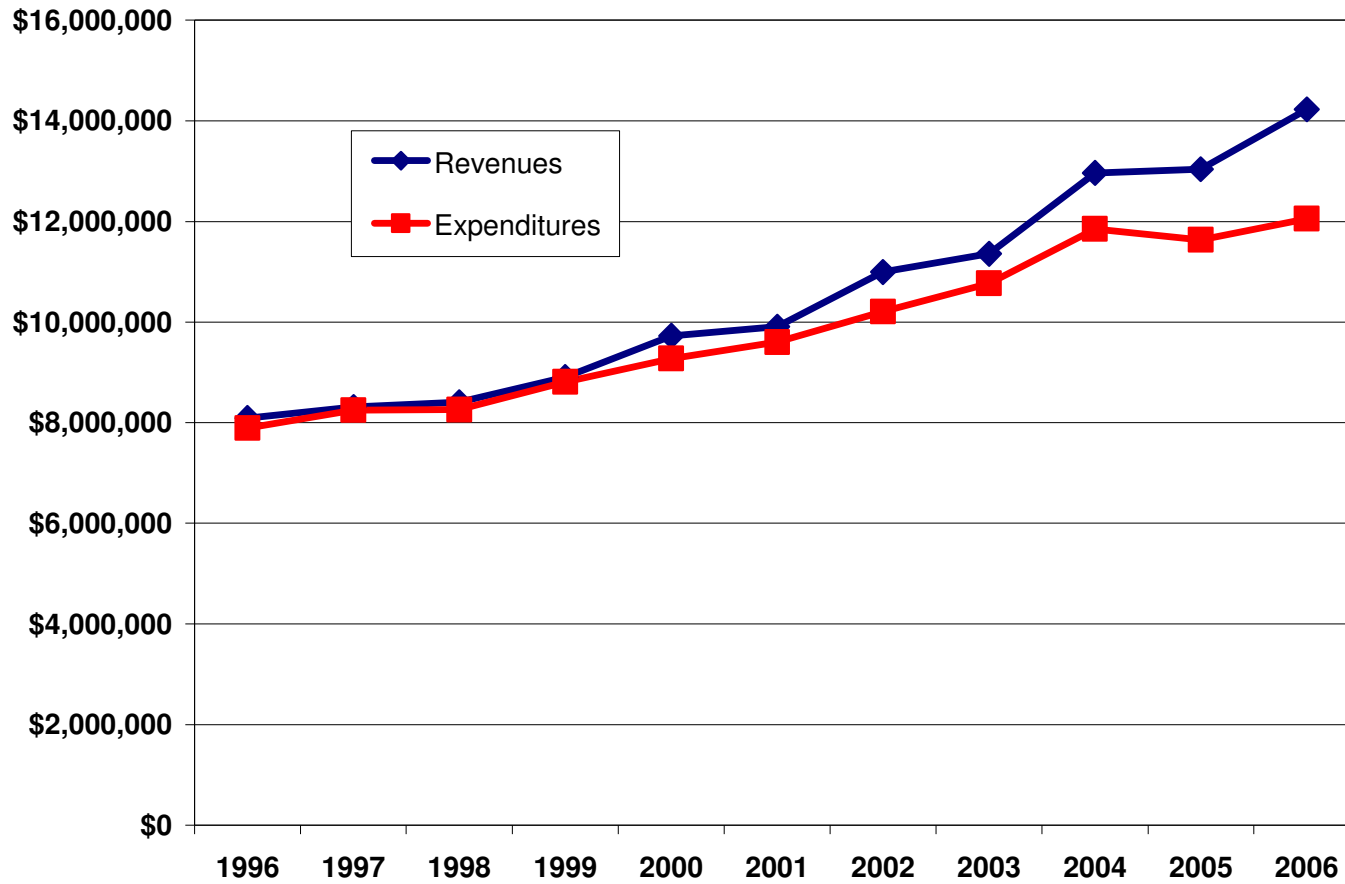
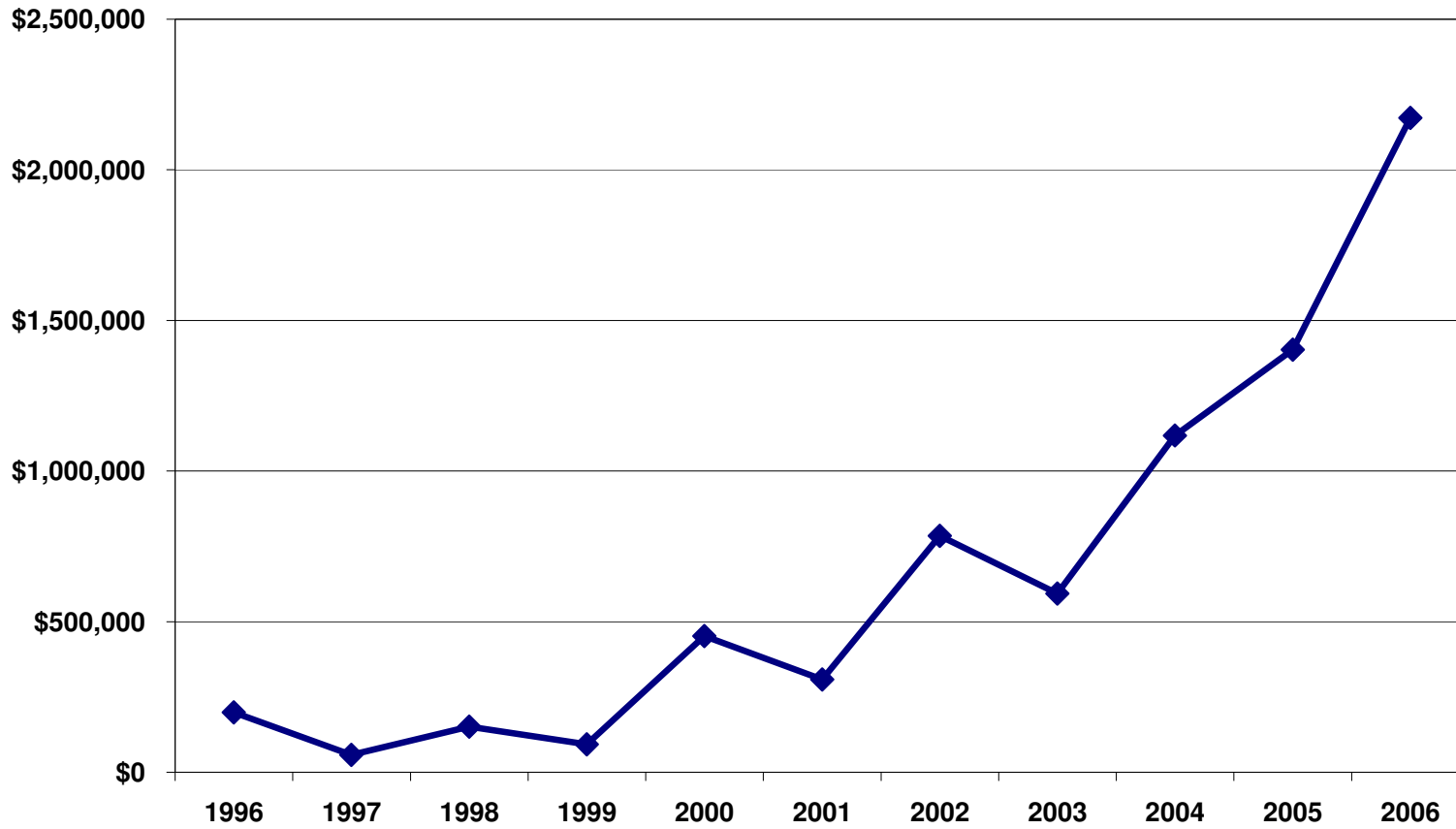


Chart 2:

### General Fund Revenues in Excess of Expenditures - Town of Hermon 1996-2006



**Table 2:**

<b>Total Revenue Trends- Town of Hermon - 1996-2006</b>			
<b>Year</b>	<b>Total Revenues</b>	<b>% Change from Previous Year</b>	<b>\$ Change from Previous Year</b>
1996	\$8,091,651		
1997	\$8,309,904	2.7%	\$218,253
1998	\$8,409,588	1.2%	\$99,684
1999	\$8,904,516	5.9%	\$494,928
2000	\$9,727,827	9.2%	\$823,311
2001	\$9,910,266	1.9%	\$182,439
2002	\$10,992,424	10.9%	\$1,082,158
2003	\$11,358,706	3.3%	\$366,282
2004	\$12,966,565	14.2%	\$1,607,859
2005	\$13,039,621	0.6%	\$73,056
2006	\$14,226,219	9.1%	\$1,186,598

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

<b>Property Tax Revenue Trends- Town of Hermon - 1996-2006</b>			
<b>Year</b>	<b>Property Tax Revenues</b>	<b>% Change from Previous Year</b>	<b>\$ Change from Previous Year</b>
1996	\$2,072,810		
1997	\$2,301,776	11.0%	\$228,966
1998	\$2,494,090	8.4%	\$192,314
1999	\$2,665,345	6.9%	\$171,255
2000	\$2,851,001	7.0%	\$185,656
2001	\$3,123,527	9.6%	\$272,526
2002	\$3,942,986	26.2%	\$819,459
2003	\$4,002,881	1.5%	\$59,895
2004	\$4,483,475	12.0%	\$480,594
2005	\$4,661,868	4.0%	\$178,393
2006	\$4,439,419	-4.8%	-\$222,449

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

**Table 3:**

<b>Excise Tax Trends- Town of Hermon - 1996-2006</b>			
<b>Year</b>	<b>Excise Tax Revenues</b>	<b>% Change from Previous Year</b>	<b>\$ Change from Previous Year</b>
1996	\$836,855		
1997	\$850,739	1.7%	\$850,739
1998	\$957,894	12.6%	\$107,155
1999	\$1,126,804	17.6%	\$1,019,649
2000	\$1,251,426	11.1%	\$231,777
2001	\$1,287,350	2.9%	\$1,055,573
2002	\$1,380,323	7.2%	\$324,750
2003	\$1,436,109	4.0%	\$1,111,359
2004	\$1,621,522	12.9%	\$510,163
2005	\$1,895,733	16.9%	\$1,385,570
2006	\$2,107,390	11.2%	\$721,820

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

<b>Intergovernmental Trends- Town of Hermon - 1996-2006</b>			
<b>Year</b>	<b>Intergov. Revenues</b>	<b>% Change from Previous Year</b>	<b>\$ Change from Previous Year</b>
1996	\$4,820,091		
1997	\$4,809,706	-0.2%	-\$10,385
1998	\$4,593,527	-4.5%	-\$216,179
1999	\$4,614,556	0.5%	\$21,029
2000	\$5,353,362	16.0%	\$738,806
2001	\$5,360,516	0.1%	\$7,154
2002	\$5,552,424	3.6%	\$191,908
2003	\$5,677,112	2.2%	\$124,688
2004	\$5,884,046	3.6%	\$206,934
2005	\$6,216,601	5.7%	\$332,555
2006	\$4,959,130	-20.2%	-\$1,257,471

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

Chart 3:

### Excise Tax Revenues Town of Hermon - 1996-2006

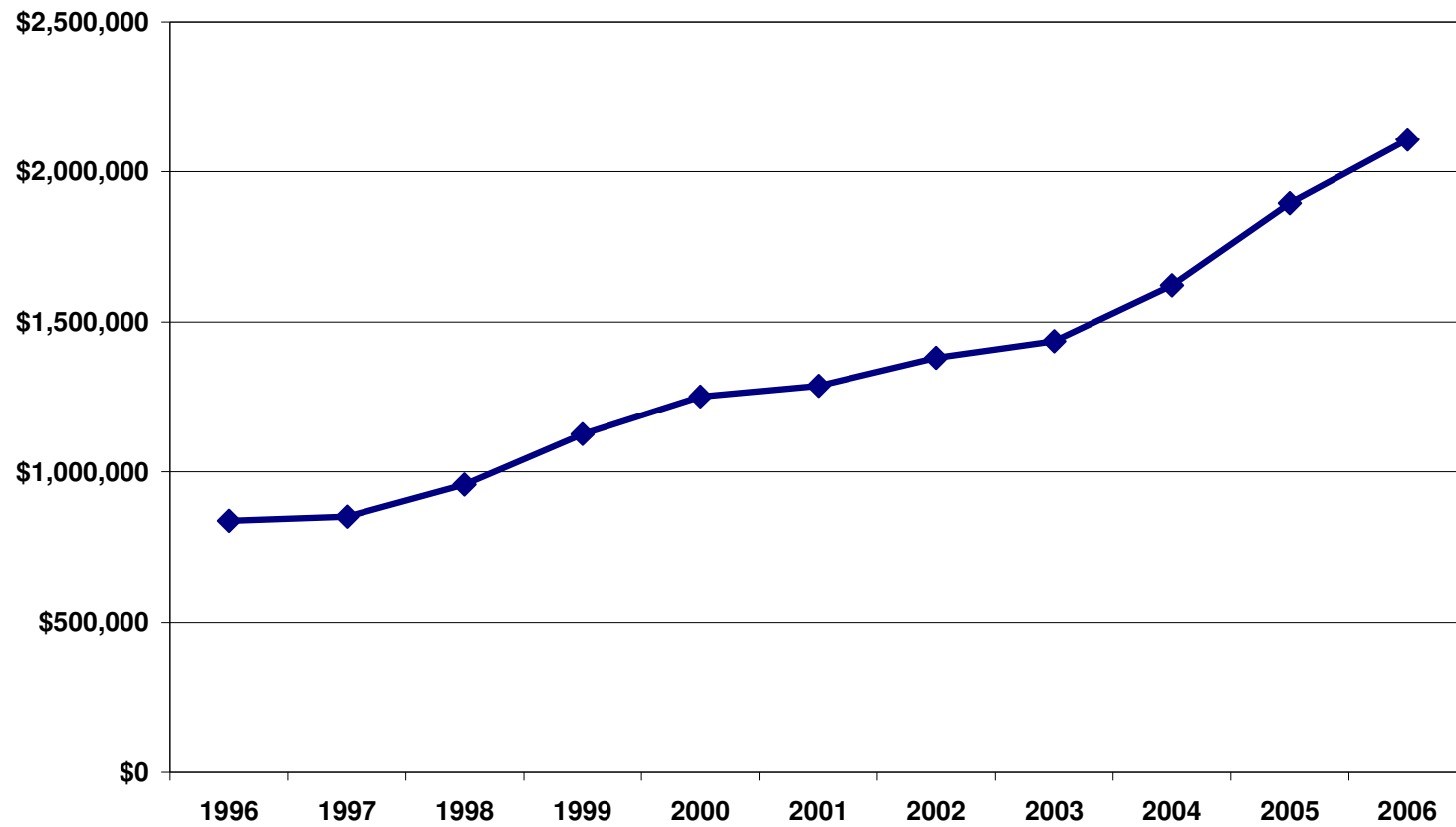
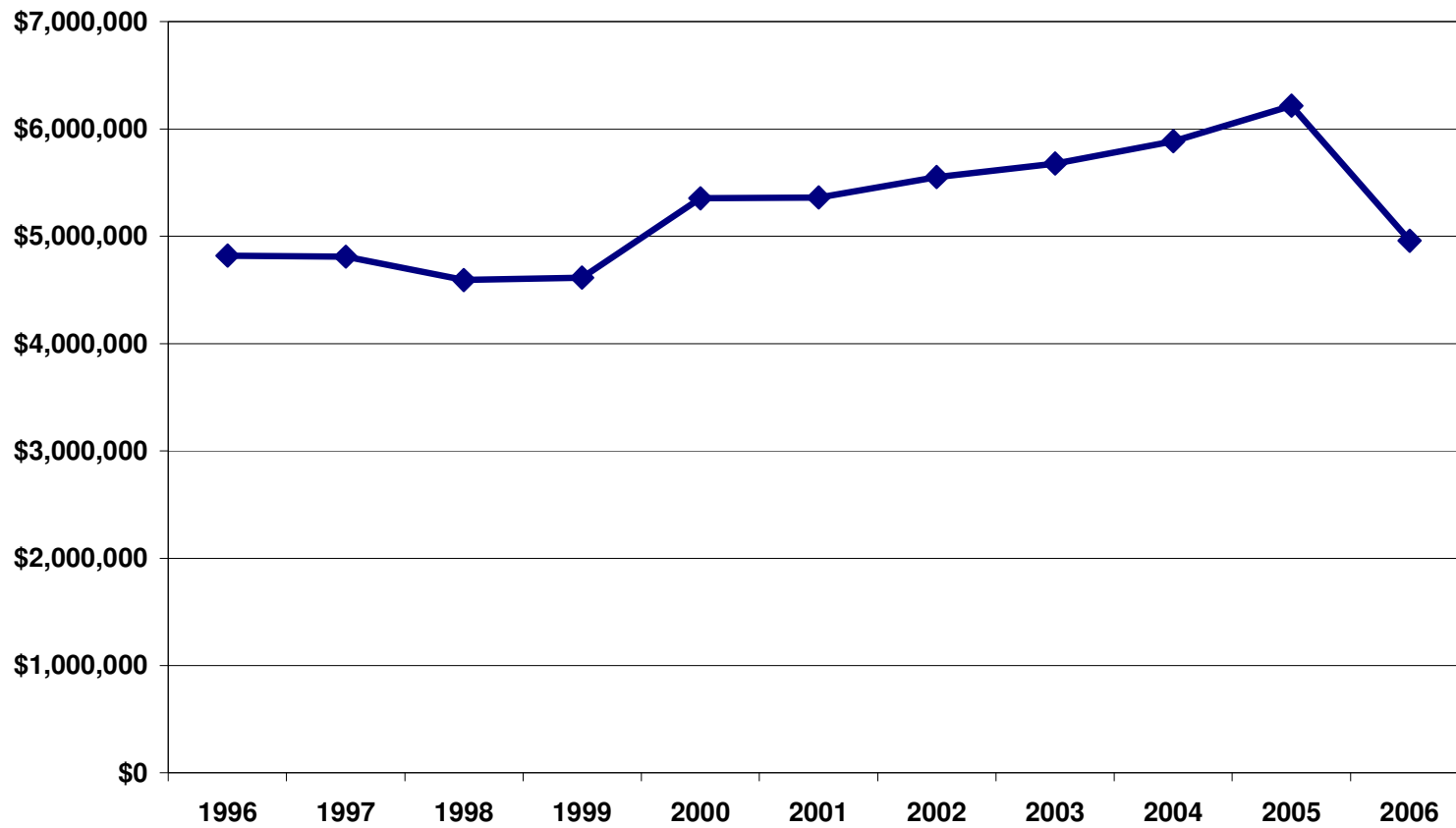


Chart 4:

### Intergovernmental Revenues Town of Hermon - 1996-2006



**Table 4:**

<b>Fund Balance Trends - Town of Hermon 1996-2006</b>						
<b>Year ended June 30</b>	<b>Fund Balance at Year End*</b>	<b>\$ Change from Previous Year</b>	<b>% Change from Previous Year</b>	<b>Fiscal Year Starting July 1</b>	<b>General Fund Expenditures</b>	<b>Fund Balance as % of Gen. Fund Exp.</b>
1996	\$1,767,639			1996	\$7,892,477	22.4%
1997	\$1,825,714	\$58,075	3.3%	1997	\$8,251,829	22.1%
1998	\$1,977,439	\$151,725	8.3%	1998	\$8,257,863	23.9%
1999	\$2,069,908	\$92,469	4.7%	1999	\$8,812,047	23.5%
2000	\$2,591,019	\$521,111	25.2%	2000	\$9,274,946	27.9%
2001	\$2,489,446	-\$101,573	-3.9%	2001	\$9,602,583	25.9%
2002	\$2,824,260	\$334,814	13.4%	2002	\$10,207,096	27.7%
2003	\$3,085,558	\$261,298	9.3%	2003	\$10,765,747	28.7%
2004	\$3,792,103	\$706,545	22.9%	2004	\$11,847,693	32.0%
2005	\$4,387,001	\$594,898	15.7%	2005	\$11,636,298	37.7%
2006	\$5,721,638	\$1,334,637	30.4%	2006	\$12,052,486	47.5%
2006 Adj.	\$4,017,646	-\$369,355	-8.4%	2006	\$12,052,486	33.3%

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

Notes:

\* In 2006 actual Fund Balance at year end was \$5,721,638; however in July and November 2006, appropriations from Fund Balance totaling \$1,703,992 were made. Therefore for purposes of analysis, PolicyOne has calculated an adjusted year ended 2006 Fund Balance of \$4,017,646

Chart 5:

### Year Ending Fund Balance - Town of Hermon - 1996-2006

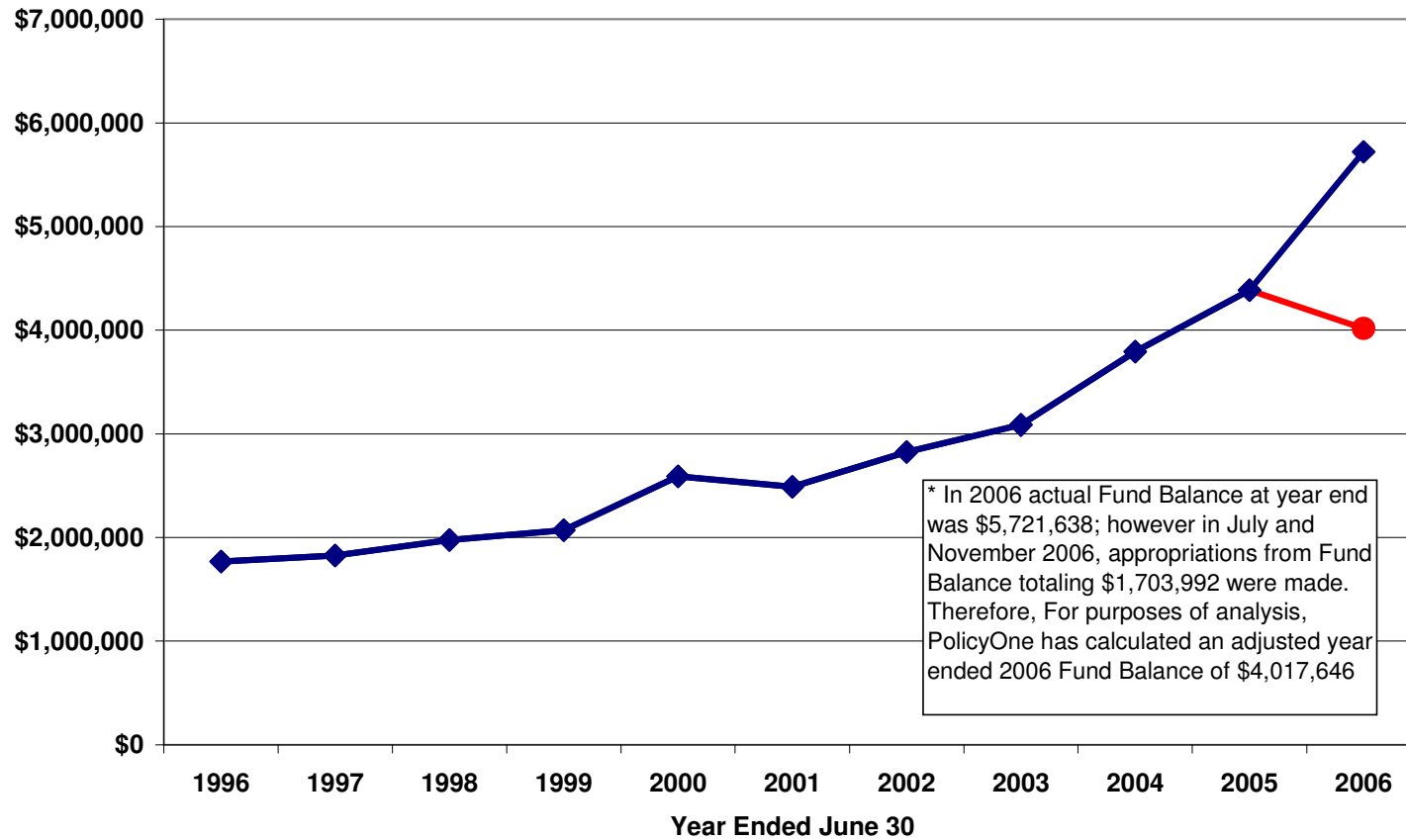
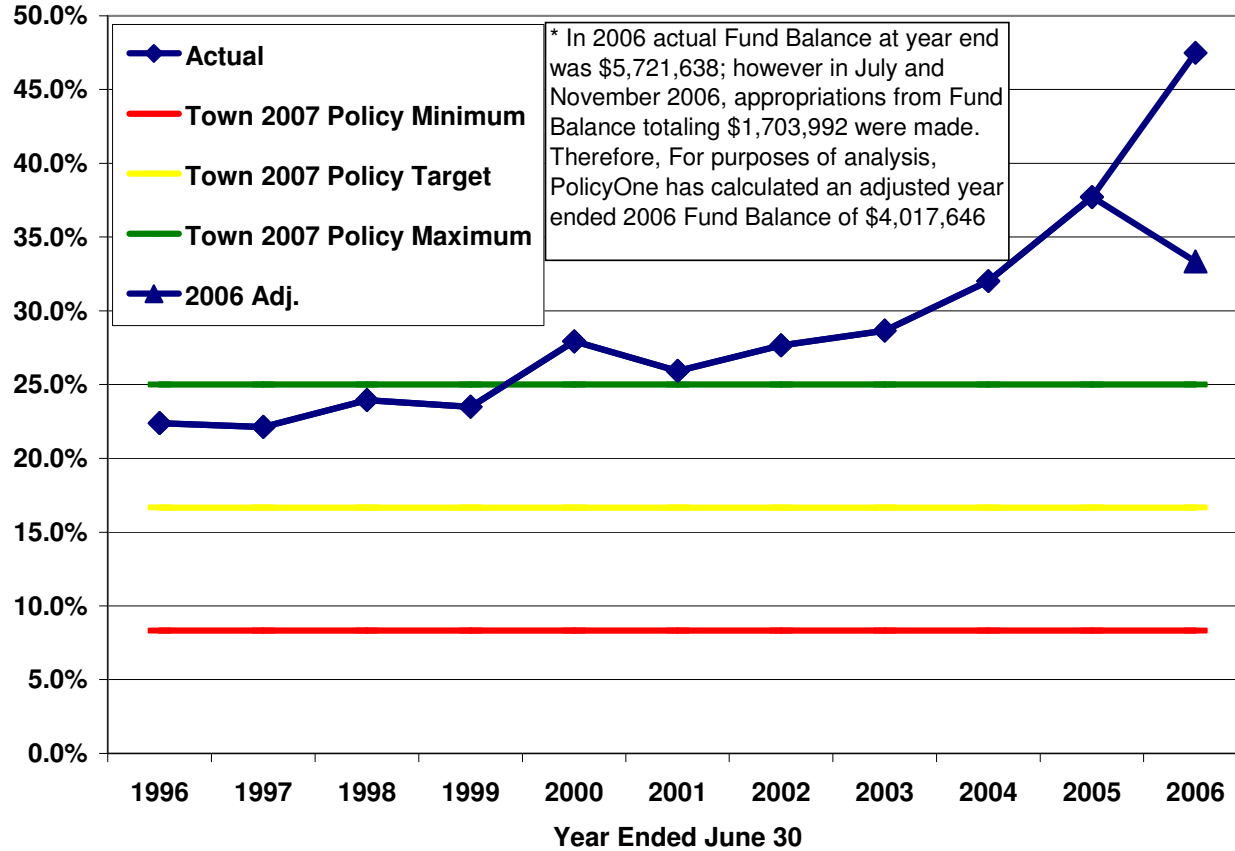


Chart 6:

**Starting Fund Balance as % of General Fund Expenditures - Town of Hermon - 1996-2006**



**Table 5:**

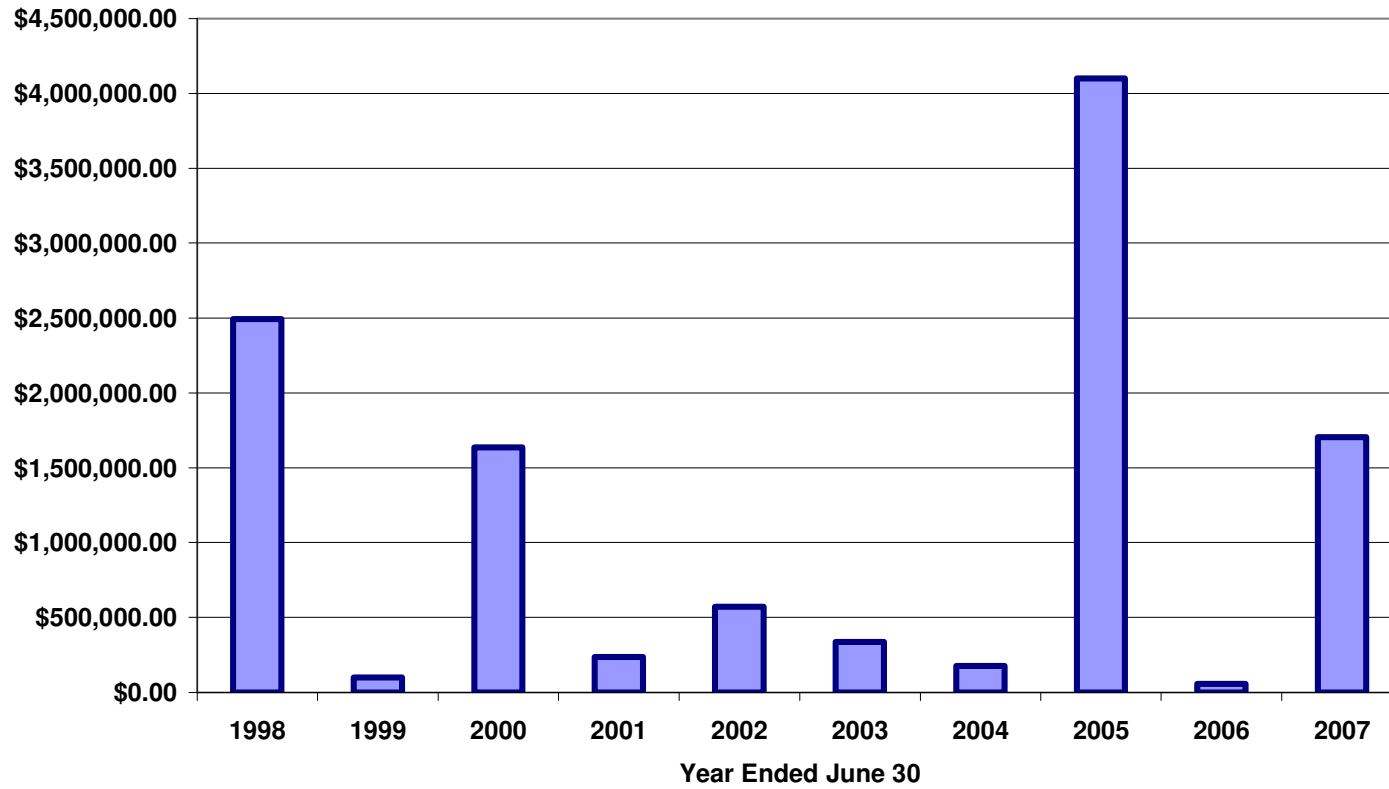
<b>Special Expenditures - Annual Detail - 1997-2007 - Town of Hermon</b>		
<b>Date</b>	<b>Subject Matter</b>	<b>Amount</b>
November 7, 2006	Recreation Reserve	\$188,272.00
November 7, 2006	Public Safety Building	\$953,604.00
July 1, 2006	Alternative Bid Items Renovation and Construction	\$562,116.00
May 18, 2006	Police Cruiser	\$24,638.00
July 28, 2005	Pine Tree Waste	\$32,165.00
June 14, 2005	School construction/minor capital projects	\$3,879,500.00
February 3, 2005	Purchase Conant property	\$23,000.00
January 13, 2005	Town share of Billings Road reconstruction	\$120,000.00
September 9, 2004	Revenue/Expense Transfers	\$37,347.00
August 19, 2004	School/Superintendent Phone System	\$39,500.00
February 18, 2004	F650 Truck Purchase	\$78,000.00
November 5, 2003	Fixed wireless internet service	\$65,000.00
October 22, 2003	Wellhead protection	\$33,108.35
May 7, 2003	Salt Shed Construction	\$35,000.00
October 16, 2002	Space utilization plan	\$26,806.67
August 7, 2002	Highway Capital Reserve	\$275,000.00
May 1, 2002	Land purchase	\$150,000.00
March 20, 2002	Middle school repairs	\$177,953.00
March 6, 2002	Transfer Reserves (from old landfill acct to Highway)	\$68,910.00
September 5, 2001	Land Acquisition - Legal	\$25,000.00
July 11, 2001	LORAP reserve (Fuller rd)	\$150,000.00
September 5, 2000	Land Acquisition - Legal costs and survey	\$37,500.00
July 5, 2000	LORAP reserve and Highway Capital Reserve (Billings rd)	\$200,000.00
May 3, 2000	Elementary and Middle School Repairs	\$1,400,000.00
January 5, 2000	400Kw Generator at High School	\$42,000.00
August 25, 1999	Sewer lines (Coldbrook Rd)	\$194,777.77
October 7, 1998	New Boston Rd. Transfer Station and Recycling Facility	\$100,000.00
May 20, 1998	Water Extension/Wellhead Protection	\$62,700.00
February 4, 1998	Ice Storm	\$30,000.00
November 4, 1997	Extension of public water and sewer service	\$2,400,000.00
Source: Provided by Hermon Town Manager		

**Table 6:**

<b>Special Expenditures - Annual Summary - FY 1998-2007 - Town of Hermon</b>	
<b>Fiscal Year Ended June 30</b>	<b>Special Expenditures</b>
1998	\$2,492,700.00
1999	\$100,000.00
2000	\$1,636,777.77
2001	\$237,500.00
2002	\$571,863.00
2003	\$336,806.67
2004	\$176,108.35
2005	\$4,099,347.00
2006	\$56,803.00
2007	\$1,703,992.00

Chart 7:

**Special Expenditures - Town of Hermon - Annual Summary  
FY 1997-2006**



**Table 7:**

<b>Property Tax Trends - Town of Hermon - 1996-2006</b>						
<b>Year Ended June 30</b>	<b>Property Tax Commitment</b>	<b>Comm. % Change from Previous Year</b>	<b>Total Valuation (Municipal Basis)</b>	<b>Val. % Change from Previous Year</b>	<b>Mil Rate</b>	<b>Mil Rate % Change from Previous Year</b>
1996	\$2,113,981		\$172,569,100		12.25	
1997	\$2,237,252	5.8%	\$182,632,800	5.8%	12.25	0.0%
1998	\$2,357,233	5.4%	\$197,257,300	8.0%	11.95	-2.4%
1999	\$2,741,415	16.3%	\$200,103,300	1.4%	13.70	14.6%
2000	\$2,873,522	4.8%	\$209,746,100	4.8%	13.70	0.0%
2001	\$3,221,417	12.1%	\$235,139,900	12.1%	13.70	0.0%
2002	\$4,034,170	25.2%	\$247,495,100	5.3%	16.30	19.0%
2003	\$4,042,377	0.2%	\$242,785,400	-1.9%	16.65	2.1%
2004	\$4,246,916	5.1%	\$278,486,300	14.7%	15.25	-8.4%
2005	\$4,674,074	10.1%	\$297,711,720	6.9%	15.70	3.0%
2006	\$4,547,492	-2.7%	\$319,122,246	7.2%	14.25	-9.2%

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Town of Hermon

Chart 8:

### Property Tax Commitment - Town of Hermon - 1996-2006

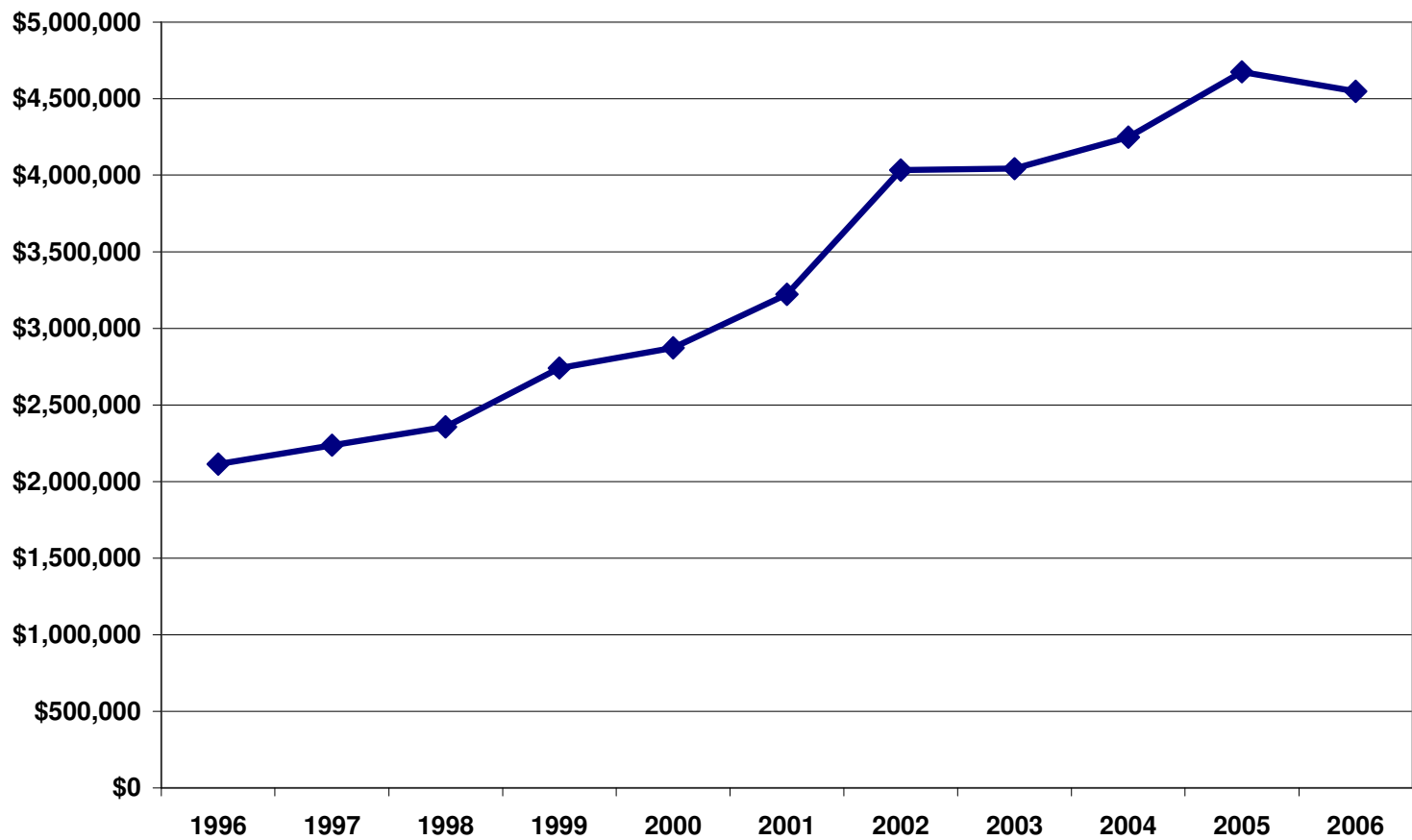


Chart 9:

Total Property Valuation - Town of Hermon - 1996-2006

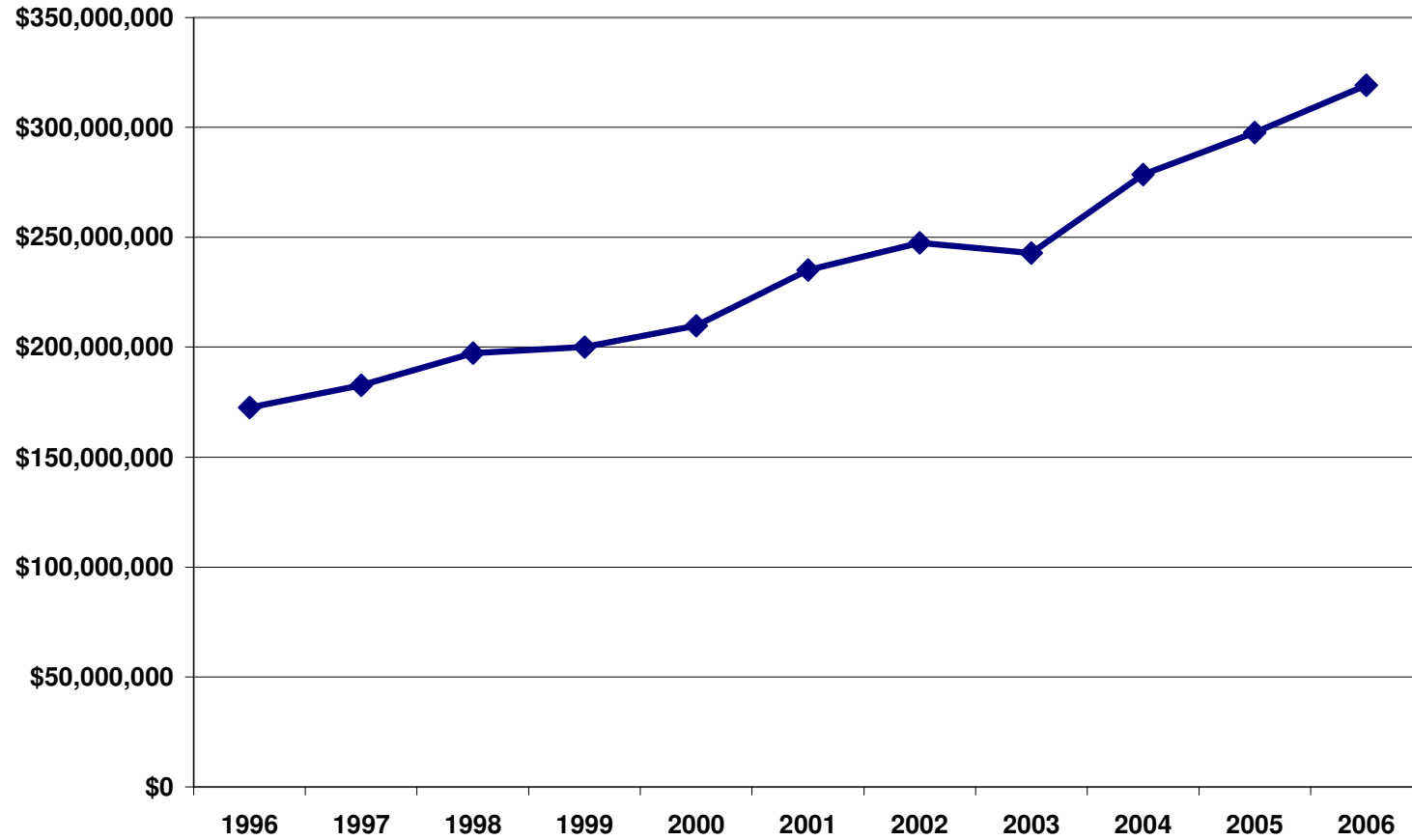
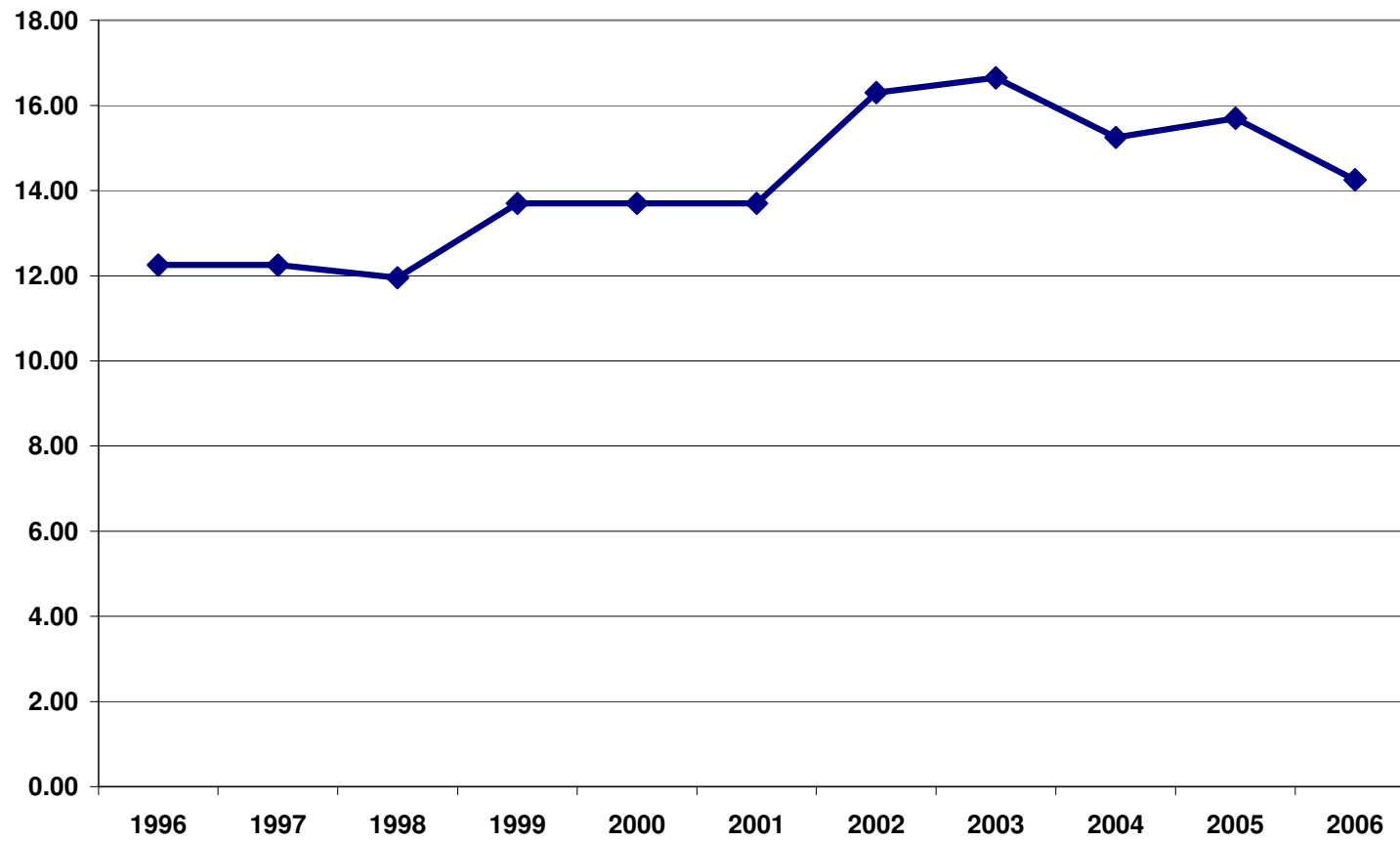


Chart 10:

Property Tax Mil Rate - Town of Hermon - 1996-2006



**Table 8:**

General Fund Trends - Town of Hermon - 1996-2006									
Actual Historical Revenues and Expenditures				Impacts from Proposed Petition					
Year Ended June 30	Revenues	Expenditures	Revenue in Excess of Expenditures	Fund Balance Reduction	Fiscal Year Fund Balance Reduction is Applied	80% of Excess Revenues to Reduce Taxes 2 Years Later	Fiscal Year Tax Reduction is Applied	20% to Emergency Escrow 1 Year Later	Fiscal Year Emergency Funds Can be Used
1996	\$8,091,651	\$7,892,477	\$199,174	\$199,174	1997	\$159,339	1998	\$39,835	1997
1997	\$8,309,904	\$8,251,829	\$58,075	\$58,075	1998	\$46,460	1999	\$11,615	1998
1998	\$8,409,588	\$8,257,863	\$151,725	\$151,725	1999	\$121,380	2000	\$30,345	1999
1999	\$8,904,516	\$8,812,047	\$92,469	\$92,469	2000	\$73,975	2001	\$18,494	2000
2000	\$9,727,827	\$9,274,946	\$452,881	\$452,881	2001	\$362,305	2002	\$90,576	2001
2001	\$9,910,266	\$9,602,583	\$307,683	\$307,683	2002	\$246,146	2003	\$61,537	2002
2002	\$10,992,424	\$10,207,096	\$785,328	\$785,328	2003	\$628,262	2004	\$157,066	2003
2003	\$11,358,706	\$10,765,747	\$592,959	\$592,959	2004	\$474,367	2005	\$118,592	2004
2004	\$12,966,565	\$11,847,693	\$1,118,872	\$1,118,872	2005	\$895,098	2006	\$223,774	2005
2005	\$13,039,621	\$11,636,298	\$1,403,323	\$1,403,323	2006	\$1,122,658	2007	\$280,665	2006
2006	\$14,226,219	\$12,052,486	\$2,173,733	\$2,173,733	2007	\$1,738,986	2008	\$434,747	2007

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

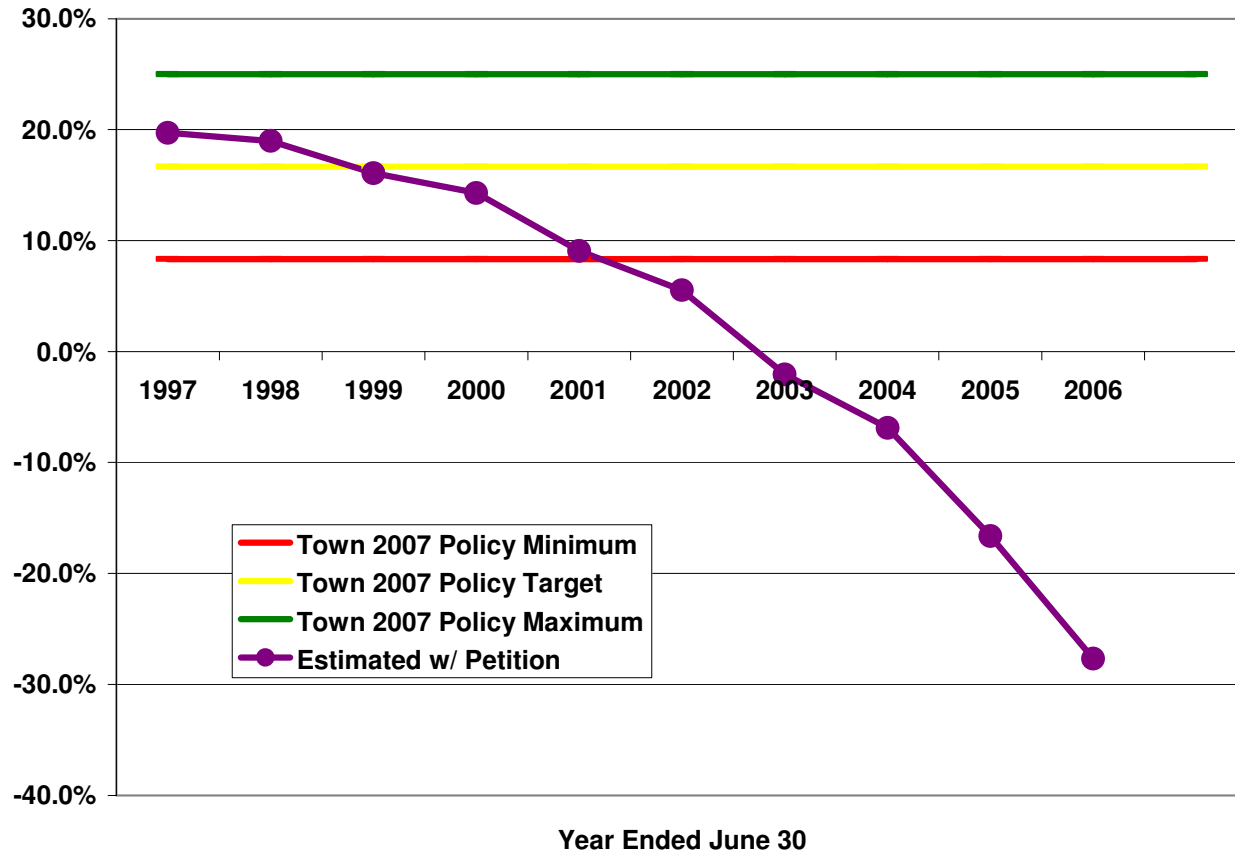
**Table 9:**

<b>Fund Balance Impact Model 1- Town of Hermon 1996-2006</b>						
<b>Year ended June 30</b>	<b>Initial Fund Balance at Year End</b>	<b>Reduction Due to Petition based on Designation of Excess Revenues</b>	<b>Estimated Fund Balance Resulting Under Petition</b>	<b>Fiscal Year Starting July 1</b>	<b>General Fund Expenditures</b>	<b>Estimated Fund Balance as % of Gen. Fund Exp.</b>
1996	\$1,767,639			1996		
1997	\$1,825,714	\$199,174	\$1,626,540.00	1997	\$8,251,829	19.7%
1998	\$1,626,540	\$58,075	\$1,568,465.00	1998	\$8,257,863	19.0%
1999	\$1,568,465	\$151,725	\$1,416,740.00	1999	\$8,812,047	16.1%
2000	\$1,416,740	\$92,469	\$1,324,271.00	2000	\$9,274,946	14.3%
2001	\$1,324,271	\$452,881	\$871,390.00	2001	\$9,602,583	9.1%
2002	\$871,390	\$307,683	\$563,707.00	2002	\$10,207,096	5.5%
2003	\$563,707	\$785,328	-\$221,621.00	2003	\$10,765,747	-2.1%
2004	-\$221,621	\$592,959	-\$814,580.00	2004	\$11,847,693	-6.9%
2005	-\$814,580	\$1,118,872	-\$1,933,452.00	2005	\$11,636,298	-16.6%
2006	-\$1,933,452	\$1,403,323	-\$3,336,775.00	2006	\$12,052,486	-27.7%

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

Chart 11:

**Model 1 - Estimated Impact of Petition on Fund Balance as % of General Fund Expenditures - Town of Hermon - 1997-2006**



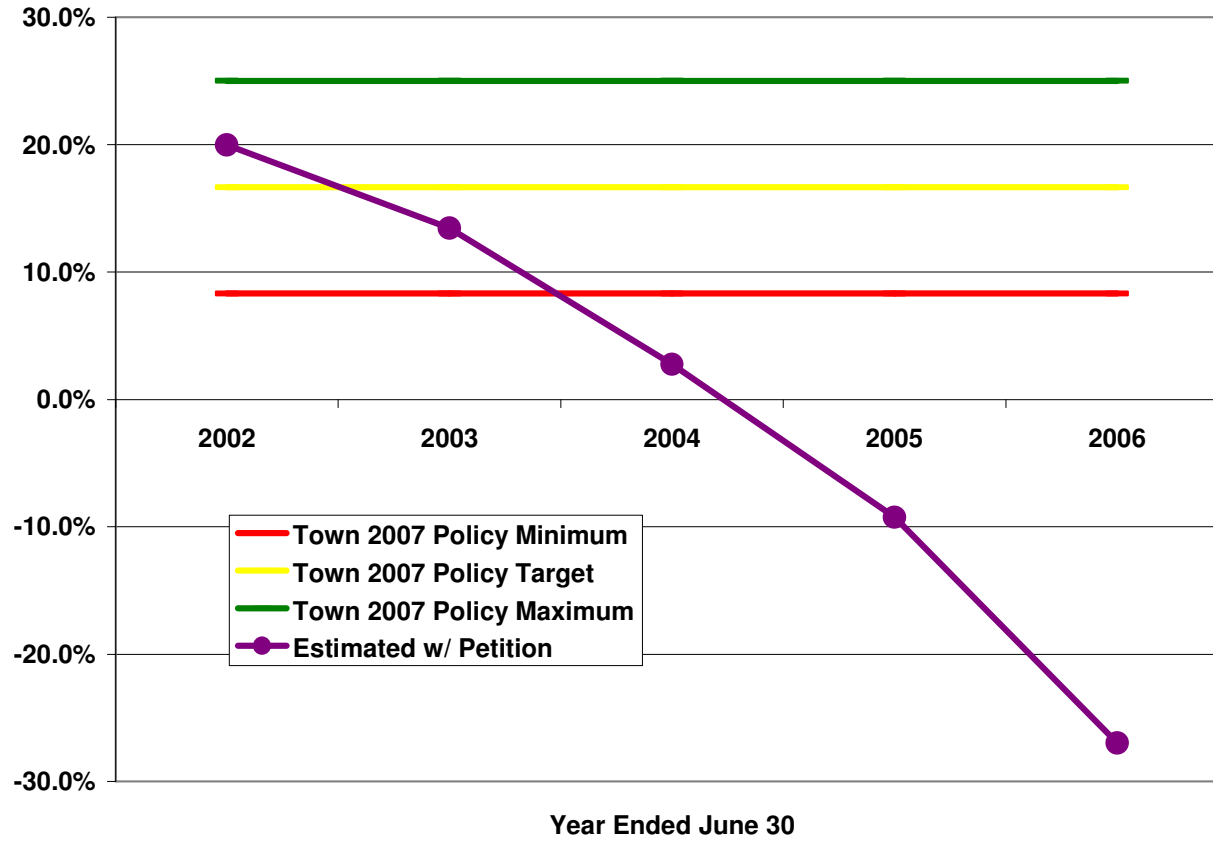
**Table 10:**

<b>Fund Balance Impact Model 2- Town of Hermon 1996-2006</b>						
<b>Year ended June 30</b>	<b>Initial Fund Balance at Year End</b>	<b>Reduction Due to Petition based on Designation of Excess Revenues</b>	<b>Estimated Fund Balance Resulting Under Petition</b>	<b>Fiscal Year Starting July 1</b>	<b>General Fund Expenditures</b>	<b>Estimated Fund Balance as % of Gen. Fund Exp.</b>
2002	\$2,824,260	\$785,328	\$2,038,932.00	2002	\$10,207,096	20.0%
2003	\$2,038,932	\$592,959	\$1,445,973.00	2003	\$10,765,747	13.4%
2004	\$1,445,973	\$1,118,872	\$327,101.00	2004	\$11,847,693	2.8%
2005	\$327,101	\$1,403,323	-\$1,076,222.00	2005	\$11,636,298	-9.2%
2006	-\$1,076,222	\$2,173,733	-\$3,249,955.00	2006	\$12,052,486	-27.0%

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, Town of Hermon

Chart 12:

**Model 2 - Estimated Impact of Petition on Fund Balance as % of General Fund Expenditures - Town of Hermon - 1997-2006**



**Table 11:**

<b>Property Tax Impacts - Town of Hermon - 1996-2006</b>						
<b>Year Ended June 30</b>	<b>Property Tax Commitment</b>	<b>Reduction Due to Petition based on Designation of 80% of Excess Revenues</b>	<b>Estimated Property Tax Commitment Under Petition</b>	<b>Actual Total Valuation (Municipal Basis)</b>	<b>Actual Mil Rate</b>	<b>Estimated Mil Rate Under Petition</b>
1996	\$2,113,981			\$172,569,100	12.25	
1997	\$2,237,252			\$182,632,800	12.25	
1998	\$2,357,233	\$159,339	\$2,197,894	\$197,257,300	11.95	11.14
1999	\$2,741,415	\$46,460	\$2,694,955	\$200,103,300	13.70	13.47
2000	\$2,873,522	\$121,380	\$2,752,142	\$209,746,100	13.70	13.12
2001	\$3,221,417	\$73,975	\$3,147,442	\$235,139,900	13.70	13.39
2002	\$4,034,170	\$362,305	\$3,671,865	\$247,495,100	16.30	14.84
2003	\$4,042,377	\$246,146	\$3,796,231	\$242,785,400	16.65	15.64
2004	\$4,246,916	\$628,262	\$3,618,654	\$278,486,300	15.25	12.99
2005	\$4,674,074	\$474,367	\$4,199,707	\$297,711,720	15.70	14.11
2006	\$4,547,492	\$895,098	\$3,652,394	\$319,122,246	14.25	11.45

Source: Prepared by PolicyOne Research from Annual Audited Financial Statements, Town of Hermon

Chart 13:

**Estimated Impact of Petition on Property Tax Mil Rate  
Town of Hermon - 1996-2006**

