

## FISCAL YEAR 2026 BUDGET NARRATIVE

Macroeconomic conditions during the last four years have been exceptionally difficult for everyone on a budget. Prices have risen at their fastest pace in forty years. They increased even faster in areas that predominate the budgets of small, rural towns like Pomfret. The cost of paving has nearly doubled since 2020. Highway equipment prices are substantially higher than forecast just two years ago. Liability and health insurance premiums increased nearly 20% in the last year alone.

After holding the line on municipal spending for the last several years, the Selectboard has concluded that a more significant increase this year is not only advisable, but unavoidable. As detailed below, the proposed FY 2026 budget increases spending by 6.9%. This is driven by many factors, but chief among them are increased saving for future paving projects and highway equipment purchases, and increased spending on non-discretionary items like insurance and emergency services. These categories alone account for nearly the entire amount of the proposed spending increase.

Nonetheless, the Selectboard believes the proposed budget is responsible and will best serve the town and taxpayers now and in the future. Prepared during eight public meetings with input from town officials, employees, volunteers and residents, this budget embodies a large amount of feedback received by the Selectboard. We believe it accurately reflects residents' expectations for how the town should operate today while prudently planning for the Pomfret of tomorrow.

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The combined Fiscal Year 2026 Town and Highway budget of \$2,007,578 (including voted appropriations) is 6.9% higher than Fiscal Year 2025's total budget of \$1,877,779. The Fiscal Year 2026 budget represents an increase compared to Fiscal Year 2025 (for the reasons explained below), and is 14.6% above the average combined budget for the last five years (Fiscal Years 2022 through 2026). If the voters approve all voted appropriations and re-appropriate a portion of the prior year's unassigned fund General Fund balance to offset current year taxes to be raised, the amount to be raised in taxes for Fiscal Year 2026 will be 13.7% higher than in Fiscal Year 2025 (\$1,348,875 versus \$1,186,262).

The General Fund finished Fiscal Year 2024 with an unassigned fund balance (sometimes referred to as a "surplus") of \$146,426 and the Highway Fund finished Fiscal Year 2024 with an unassigned fund balance of minus \$4,067. The unassigned fund balance in the General Fund was budgeted to end Fiscal Year 2024 at \$79,144. The significantly larger than budgeted balance arose from \$62,966 in greater than budgeted revenues and \$4,316 in lower than budgeted expenditures. The unassigned fund balance in the Highway Fund (a negative amount) arose from \$29,084 in greater than budgeted revenues (excluding a \$3,305 transfer from the Highway Rainy Day Reserve Fund), which were offset by \$33,151 in greater than budgeted expenditures.

The primary drivers of the greater than budgeted General Fund revenue were collections of delinquent taxes, interest income and state grant payments. Collection of delinquent taxes is not anticipated to be significant revenue sources going forward as recent collection efforts have substantially reduced the amount of delinquent taxes now outstanding. There were no significant drivers of the marginally lower than budgeted General Fund expenses. The primary drivers of the greater than budgeted Highway Fund revenue were state grant and aid payments. The primary drivers of the greater than budgeted Highway Fund expenses were payroll, fuel costs and town highway repairs.

Including all voted appropriations, the proposed Fiscal Year 2026 General Fund budget is 4.7% higher than the Fiscal Year 2025 budget (\$615,875 versus \$588,428) and 13.0% above the average General

Fund budget for the last five years. The primary drivers of this year-over-year increase are generally increasing costs in the current high inflation macroeconomic climate, and specifically building repairs, law enforcement and professional fees.

To offset these increased costs, the Selectboard proposes to apply \$87,856 of the Fiscal Year 2024 unassigned General Fund balance as revenue in Fiscal Year 2026. This is only a portion of the \$146,426 General Fund balance available to reduce current taxes to be raised. Due to the size of the current fund balance and the likelihood that future fund balances will be significantly lower, the Selectboard believes it is prudent to retain some of the available fund balance in order to reduce the likelihood that significant municipal tax increases (and/or expenditure reductions) will be necessary to replace this non-recurring revenue source in future years.

The proposed Fiscal Year 2026 Highway Fund budget is 7.9% higher than the Fiscal Year 2025 budget (\$1,391,703 versus \$1,289,351) and 15.3% above the average Highway Fund budget for the last five years. The primary drivers of this year-over-year increase are generally increasing costs in the current high inflation macroeconomic climate, and specifically paving, insurance premiums, fuel costs and equipment expenses.

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The Selectboard recognizes that the proposed Fiscal Year 2026 budget entails a larger than usual increase in spending. This is due in part to macroeconomic conditions beyond our control that are driving up costs generally, not just in Pomfret. It also results from our desire to anticipate future needs through realistic capital planning and commensurate reserve funding, and our limited ability to reduce or avoid non-discretionary spending in areas like insurance and emergency services.

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