

In mid-2023 the then-assembly majority manipulated the **tax cap** to set the **borough** and all of us on a course of deficit spending toward a fiscal cliff. Though the worst impacts won't be felt immediately, they're directly ahead. Now some of these same folks propose burning through our reserve fund "cushions" prior to the crash. Passage of Proposition A would partially correct these ill-advised actions and put us back on a course of stability and fiscal responsibility, the original aims of the **tax cap**.

How'd we get here? The prior assembly intentionally and artificially reduced this year's (FY24) levied taxes well below the **tax cap**, and below levels required to meet operational expenses. (See Mayor Ward's July 1, 2023, budget transmittal letter.) Instead of taxing for what it spent, or transparently reducing spending further, that assembly budgeted an eventual \$6 million from **borough** reserves to balance the current budget (this figure includes a later \$4 million addition to education funding).

The prior assembly's deficit spending approach will also impact next year's (FY25's) budget. Unless corrected, it will affect the **tax cap** amount for years to come. Here's why. Each year the voter-approved **tax cap** formula re-sets the amount of taxes that can be collected for the following year. However, the re-set amount is largely determined by the amount of taxes levied the prior year. As a result of FY24's artificially reduced **tax cap**, the amount of **tax** the **borough** can collect in FY25 is locked in at about \$19 million less than the **cap** for FY24, and about \$10.5 million less than the taxes actually levied in FY23. (See 2-8-24 **Borough** Prop A Presentation.)

For the second year in a row this isn't enough to fund operational expenses. FY25's proposed budget would require \$3.5 million out of reserves just to maintain current **borough** funding for operations and education. In short, the prior assembly has set us up to spend more than we take in, year after year. That's not sustainable even in the near term. Opponents of Prop A maintain they support \$10 million in additional local school funding, but urge using reserves rather than adjusting the **tax cap**. That would bring FY25's proposed deficit spending to \$13.5 million. Even if costs/needs do not increase, we burn up our debt service "cushion" in two years. That leaves no earmarked reserve to pay debt service if the state again fails to fund debt reimbursement.

In this scenario, as early as the third year (FY27) we hit a fiscal cliff. We would be on track to go into FY27 spending double-digit millions more than the revenue being collected. The artificially reduced **tax cap** would preclude additional taxes, and reserves would be significantly depleted, leaving no way to pay for existing services or to support education. Prop A opponents have described this as a "bridge" strategy. However, there's been no plausible description of what's on the other side, other than a fiscal cliff. Given the state's ongoing fiscal issues and the political stalemate over education, this is the proverbial bridge to nowhere. On the other hand, if we want to create a fiscal crisis, and an opportunity to slash **borough** services and education funding, the "bridge" strategy is the way to do it.

Prop A opponents also say, wait until we're on the verge of crisis to hold the **tax cap** election.

However the fiduciary duty of public officials and prudence requires we avoid fiscal cliffs and management by crisis. Crisis also doesn't attract development or help retain teachers.

Tax caps are enacted to avoid dramatic and unwarranted increases in taxation. It seems unlikely that voters thought it would be used to dramatically reduce the **cap** and artificially create crises. Restoring \$10 million of last year's \$19 million reduction in the **tax cap** will not destroy the **tax cap** or permit runaway spending. It will give us some flexibility to avoid the fiscal cliff, reduce the impact of chronic state underfunding of the education of our children, and preserve **borough** services.

Proposition A comes down to whether we as a community are willing to pay as we go for the services and public education that we need, use, and value. I hope you'll join me in voting yes to partially correct the past manipulation of the **tax cap** and avoid the coming crisis.