

# UNDERSTANDING PREVIOUS YEARS' SURPLUS

By Charlie Darling  
Beacon staff

Of all the things that affect the Town portion of our property tax bill, Previous Years' Surplus (PYS) is perhaps the most mysterious. To try to clear up some of the mystery, I've been asking questions. Here's what I've learned.

**Q: Where does PYS come from?**

A: The Previous Years' Surplus account is a "bucket" into which the Town puts any money that's left over in the Town's General Fund at the end of the fiscal year. (The General Fund is the Town's operating account in which it keeps general revenues and from which it pays expenses. The General Fund is different than Capital Reserve Accounts or Trust Funds, which are each earmarked for a special purpose.)

There can be money left over in the General Fund when:

- a budgeted expense that was to be paid for from the General Fund goes down – a project gets changed or cancelled, for example, or we spend less on winter road maintenance than expected.
- fees that go into the General Fund come in at a higher than expected rate – people buy and register more new cars than expected, for example.

Andover's Board of Selectmen tries to have something left over each year to put into the PYS account. According to Dennis Fenton, Chairman of the Board of Selectmen, "We budget expenses honestly, and income is budgeted conservatively. There is also unanticipated income each year which helps. We don't spend money just because it is in the budget. With what is left over, the Town is able to maintain a savings account called Previous Years' Surplus."

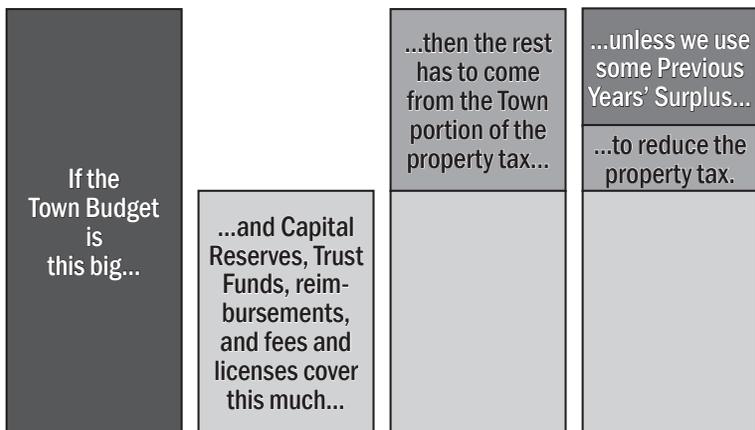
**Q: What is PYS used for?**

The Selectmen or Town Meeting can use money that's in the PYS account in the next budget year to cover any budgeted expenses. The Selectmen are the first to consider using PYS. When a given year's budget is being prepared and the Selectmen have developed a pretty good idea of how much of the budget will be covered by

- Capital Reserve Accounts and Trust Funds,
- reimbursements from the state or federal governments, and
- fees, licenses, and taxes other than the property tax,

then they may make a commitment to use enough PYS money that the remaining amount needed to balance the budget works out to a certain number. That remaining must be covered by the Town portion of our property tax bills.

When the Selectmen make that commitment, the money they commit from PYS is that much less that we have to raise through the Town portion of the property tax, and our tax bills are that much lower that year. (Keep in mind, however, that the Town portion of our property tax bill was only about 11% of our total property tax bill. The other



**Using Previous Years' Surplus To Lower The Property Tax**

89% is controlled by the school district, the county, and the fire department budgets and isn't affected by what the Selectmen do with PYS.)

When the Selectmen don't make that commitment, every penny that doesn't come from Capital Reserve Accounts, Trust Funds, reimbursements, and fees, licenses, and taxes other than the property tax has to come from the Town portion of the property tax, so our tax bills that year are that much higher.

(In certain circumstances, and with a lot of red tape, the PYS can also be used to deal with unexpected budget overruns. But even all the extra expenses caused by last year's harsh winter and damaging spring rains weren't quite enough to make that necessary, so it's not something that happens very often.)

If the Selectmen and Town Meeting don't use all the PYS in a given year, it carries over and is available the next year. PYS is not a "use it or lose it" deal. It's like a savings account that grows when you add to it and shrinks when you withdraw from it.

**Q: Is Previous Years' Surplus an inexhaustible source of funds?**

Certainly not. Like a savings account, it can shrink to nothing if the Selectmen or Town Meeting spend it all.

**Q: Why not spend it all every year to keep taxes as low as possible?**

That's certainly possible, and some towns do that. The downside of that approach is that in a year when Town budgets rise sharply or other sources of revenue shrink dramatically, the available PYS might not be enough to keep the Town portion of the property tax from rising sharply.

Dennis outlines the Board of Selectmen's position on using PYS:

"We could spend the entire PYS each year, but the end result is a Town tax rate that swings up and down depending on the budget voted that year. It also leaves no chance, for example, to build an addition to the Town Office without an increase in the Town tax rate, which we were able to do at the time our addition was completed a few years ago.

"This year the Bradley Lake Road bridge has to be replaced. That came as a big surprise. We will use our savings account, which is the money from PYS,

to pay for it without raising the Town portion of the property tax rate.

"Our position has been, as has prior Boards', to use up to \$100,000 a year of PYS to reduce the Town portion of the property tax. We believe this lets us get projects done in a more timely manner and for fewer dollars in the long run, and at the same time keeps a lower tax rate.

"Again this year, we'll use money from PYS to keep the Town portion of the property tax rate the same as it has been for several years, even through there are big-ticket items in this year's budget."

**Q: When someone at Town Meeting moves to amend a warrant article to pay for that article out of PYS, what's that all about?**

That depends. If it's just that one warrant article that has such an amendment, and if the Selectmen have already made the commitment to use a certain amount of PYS to keep the Town portion of the property tax rate at a certain level, and if the amount of the warrant article in question is less than or equal to the amount that the Selectmen have already committed to take out of PYS, then the motion has no effect – the Selectmen were planning anyway to do what the amendment says.

The only time such an amendment would have any effect would be if the total amount to be taken out of PYS by all the warrant articles so amended were greater than the amount that the Selectmen had already committed to taking out of PYS. In that case, the new, higher amount would come out of PYS, and the Town portion of the property tax would be lower than it would otherwise have been.

One last note. For fear of losing perspective, it's important to restate that we've only been talking about the Town budget and the Town portion of the property tax. That was only about 11% of the total property tax bill this year, with the rest being made up by the school district, fire departments, and county. So even if the Selectmen or Town Meeting do use PYS to keep the Town portion of the property tax the same, our tax bills can still go up – perhaps dramatically – based on increases in the other departments.

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