

**TAXES MADE FUN!**



**2010**  
EDITION

# **NORWICH FINANCES**

FOR

# **YANKEES**

**EVERYTHING  
YOU WANTED  
TO KNOW  
ABOUT TAXES,  
BUT WERE  
AFRAID TO  
ASK!**

**YANKEES AND  
YUPPIES WANT TO  
KNOW!**



Norwich Finance Committee

# Norwich Finances for Yankees<sup>1</sup>

By Stephen N. Flanders for the Norwich Finance Committee<sup>2</sup>

April 28, 2010

## ***What Do Norwich Property Taxes Pay for?***

Norwich property owners pay about \$ 14.5 M in property taxes (FY 2011 figure). For homestead holders, approximately 22% of Norwich property taxes support the town government.<sup>3</sup> The remaining 78% accrue to the Norwich School District, divided between the Marion Cross Elementary School and the Dresden School District assessment for Norwich's middle school and high school students. Both school budgets include support of Supervisory Administrative Union 70. This is illustrated in Figure 1.

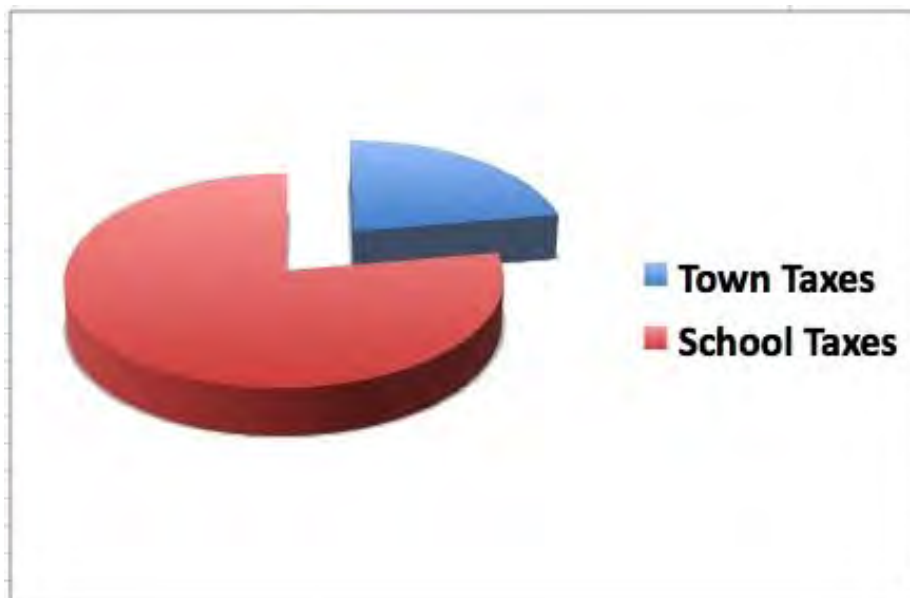


Figure 1. What Norwich Property Taxes Pay for.

The Town budget includes government spending, monetary articles and other assessments. Of the total school taxes, approximately 40% goes to Marion Cross School and the rest to the Dresden assessment.

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<sup>1</sup> Accepted by the Norwich Selectboard on April 28, 2010. Presented to the Selectboard as a "living document," subject to updates and corrections.

<sup>2</sup> The NFC thanks Neil Fulton for his thorough review and comments of the previous draft. Members of the public are encouraged to offer suggestions for improvement.

<sup>3</sup> And Windsor County government (approximately \$65,500 in FY11).

Both the town and the school district publish their current and proposed budgets on the web.<sup>4</sup>

**What are the Public Financial Entities of Norwich?**

There are two separate major forms of governance in town, the town government and the Norwich School District. Each sets its budgets and reports to the voters independently of the other. Figure 2 gives a general depiction of the reporting lines of responsibility of the various town entities to the voters. Note that the Town Clerk, Treasurer, Board of Civil Authority, the Board of Abatement, and Listers are elected by and report independently to the voters.

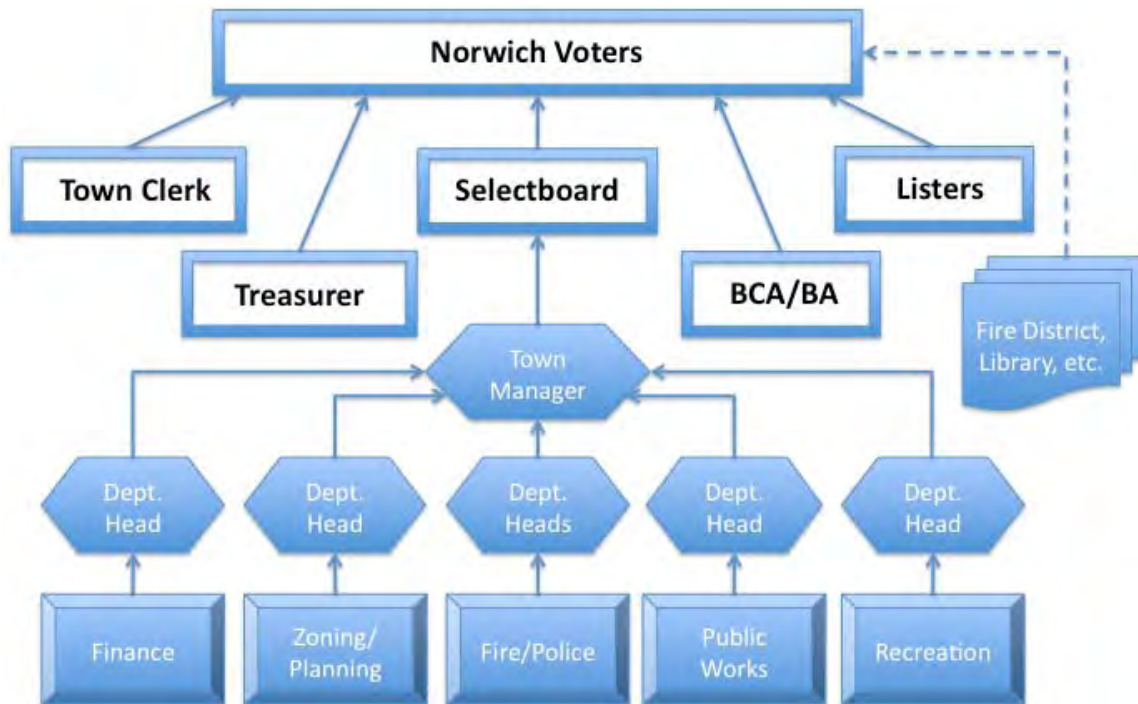


Figure 2. Reporting Responsibility Chart of the Principal Town Offices. (This is not a complete depiction of town offices, commissions, etc.)

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<sup>4</sup> The proposed Town Budget is published annually at [http://www.norwich.vt.us/boards\\_and\\_committees/selectboard](http://www.norwich.vt.us/boards_and_committees/selectboard). The proposed school budgets are found at [http://www.sau70.org/this\\_month/budget\\_info.htm](http://www.sau70.org/this_month/budget_info.htm). Past town and school budgets are found in past town reports at <http://www.norwich.vt.us/reports>.

## **Town Government**

**Selectboard** – The Norwich Selectboard is the town’s legislative body. It comprises five town residents.

**Reports to:** The Voters

**Primarily Funded by:** Town property taxes.

**Town Clerk** – The Town Clerk is an elected position. The Town Clerk's office handles all recording of such documents, as deeds, mortgages, and liens, births, deaths, and marriages, as well as voter registration, dog licenses, hunting and fishing licenses, notarizing documents, dump stickers and trash cards and burn permits. This office can also renew state registrations for motor vehicles, snowmobiles, and boats.<sup>5</sup>

**Reports to:** The Voters

**Town Treasurer** – The Town Treasurer is an elected position. The Treasurer signs town checks after the Selectboard has certified them for payment. <sup>6</sup> The Treasurer invests the funds of the Town with the approval of the Selectboard. The Treasurer offers advice to the Selectboard on the auditors’ report. The Treasurer also sits on the Norwich Finance Committee and the Board of Abatement.<sup>7</sup>

**Reports to:** The Voters

**Boards of Abatement and Civil Authority** – The Boards of Abatement (BA) and Civil Authority (BCA) comprise members elected to other town positions. The BA addresses requests for reduction in property taxes due to taxpayer exigencies. The BCA oversees the checklist to determine voter eligibility and hears appeals on assessments.<sup>8</sup>

**Reports to:** The Voters

**Listers** – The Listers (assessors) are charged by State statute with assessing every property in town at its "fair market value" as of April 1 for the Grand List. The taxes generated for the Town and School budgets are based on the final Total Real Estate Value of the Grand List. <sup>9</sup> In 2009, the basis for the FY 2010 tax year, the Education Grand List was just over \$702 M. The 2009 Municipal Grand list was just under \$700 M. The town report provides details about the grand list.<sup>10</sup>

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<sup>5</sup> [http://www.norwich.vt.us/town\\_departments/town\\_clerk](http://www.norwich.vt.us/town_departments/town_clerk)

<sup>6</sup> § 1576. Town treasurer; record of orders

<sup>7</sup> [http://www.norwich.vt.us/town\\_departments/town\\_clerk](http://www.norwich.vt.us/town_departments/town_clerk)

<sup>8</sup> [http://www.norwich.vt.us/town\\_departments/town\\_clerk](http://www.norwich.vt.us/town_departments/town_clerk)

<sup>9</sup> [http://www.norwich.vt.us/town\\_departments/listers](http://www.norwich.vt.us/town_departments/listers)

<sup>10</sup>The state uses the previous calendar year’s Grand List as of 31 December to determine the **education tax rate**, which it gives the town in late June of the current calendar year. However, the town levies **town taxes** based on the Grand List lodged in late June, using assessed values, as of April 1 of the current calendar year.

- **Determination of the Grand List:** The Grand List valuations starts with the estimated fair market value of a property is the price which the property will bring in the market when offered for sale and purchased by another in an arms-length transaction, taking into consideration all the elements of the availability of the property, its use both potential and prospective, any functional deficiencies, and all other elements such as age and condition which combine to give property a market value. Next, the estimated fair market value is multiplied by the equalization ratio for that class of property, and with respect to all other property to arrive at the “assessed value” of each property.<sup>11</sup>The sum of the appraisal values form the Grand List. Some properties are exempt from taxation, while others (e.g. “current use”) are assessed at a lower rate than market value. The Grand List is set, based on the value of the property on 1 April of each year. Since some properties are exempt from either town or school taxation, the *Grand List* is represented in Eq. 1.

$$\text{Grand List} = \sum_{\text{All properties}} (\text{Non-Exempt Value}_{\text{Property}}) \quad (1)$$

The **Municipal** and **Education** grand lists each comprise a different set of exempt properties.

- **Classes of Property:** For the purposes of education funding, all real property is classified as either homestead (when there is an owner-occupied residence) or non-residential (for all other property). A statewide education tax is imposed on these two classes of property at different rates. The basis for this classification is the **Homestead Declaration** (HS-122). Any property that is not a homestead is non-residential property.

**Reports to:** The Town Voters

**Primarily Funded by:** Town property taxes and state grant funds.

**Administration** – The administration includes the Town Manager’s office, the Finance Office, the Town Clerk, and the Planning Department.

**Primarily Funded by:** Town property taxes, licensing, recording and permitting fees.

- **Town Manager’s Office.** The town manager is the town’s administrative authority that manages the affairs of the Town of Norwich under the direction of the Selectboard. The Town Manager has general supervision of the affairs of the Town, is the administrative head of all departments of Town government and is responsible for their efficient administration. This includes:<sup>12</sup>
  1. Acting as general purchasing agent.
  2. Supervising the police and fire departments and other town departments

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<sup>11</sup> <http://www.leg.state.vt.us/statutes/fullsection.cfm?Title=32&Chapter=121&Section=03481>

<sup>12</sup> <http://web.valley.net/files/norwichvt/townmanagerjobdescription.pdf>

3. Serves as Road Commissioner
4. Is the Emergency Management Director
5. Collecting taxes.
6. Supervision of town employees and assisting the Selectboard in negotiating collective bargaining contracts.

**Reports to:** The Selectboard

- **Finance Office:** The Finance Office is responsible for all accounting functions and tax collection for the Town.<sup>13</sup>

**Reports to:** The Town Manager

- **Zoning and Planning Department:** The Zoning Administrator's primary responsibility is the administration and enforcement of the zoning, and subdivision regulations. Responsibilities also include working with the Planning Commission as Clerk and Planning Coordinator, maintaining the Geographic Information System (GIS) and the Locatable Address System.<sup>14</sup>

**Reports to:** The Town Manager

**Recreation** – Organizes recreation programs and manages the use of the town's recreational facilities.<sup>15</sup>

**Reports to:** The Town Manager

**Primarily Funded by:** User fees and town property taxes.

**Buildings** – All buildings, except for the Fire Department are operated and maintained by Public Works.

**Public Safety** – Public Safety includes the police and fire departments.

- **Police Department:** Comprises three full-time police officers, a full-time police chief, and a full-time administrative assistant. The department also has part-time officers to help cover needed hours. <sup>16</sup>

**Reports to:** The Town Manager

- **Fire Department:** The Norwich Fire Department provides fire, rescue and emergency medical services to Norwich. The members of the department are paid-on-call firefighters who live in Norwich and surrounding communities and give of their time and energy to the department to serve their community. The Fire Chief is a part time, 30 hours per week, salaried employee.<sup>17</sup>

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<sup>13</sup> Town Report of Norwich, Vermont – Fiscal Year 2009, P. II-9

<sup>14</sup> [http://www.norwich.vt.us/town\\_departments/zoning\\_&\\_planning](http://www.norwich.vt.us/town_departments/zoning_&_planning)

<sup>15</sup> [http://www.norwich.vt.us/town\\_departments/recreation](http://www.norwich.vt.us/town_departments/recreation)

<sup>16</sup> <http://www.norwich.vt.us/police/>

<sup>17</sup> <http://www.norwich.vt.us/fire/>

**Reports to:** The Town Manager

**Primarily Funded by:** Town property taxes

**Public Works** – The Norwich Public Works Department performs highway maintenance and repair, runs the town transfer station, and maintains the town's buildings and grounds.

**Reports to:** The Town Manager

**Primarily Funded by:** Town property taxes, solid waste user fees, a share of state gas taxes (paid at the pump and distributed to towns by a formula), and state-administered grants.

## School System

Figure 3 depicts the reporting responsibility for the Norwich School District. Note that the Norwich voters elect the Norwich School Board, which is directly in charge of the Marion Cross School through the management of the SAU 70 and sits on the board of the Dresden School District, which assesses the Norwich School District based on the average daily resident membership of Norwich and Hanover in the district schools.

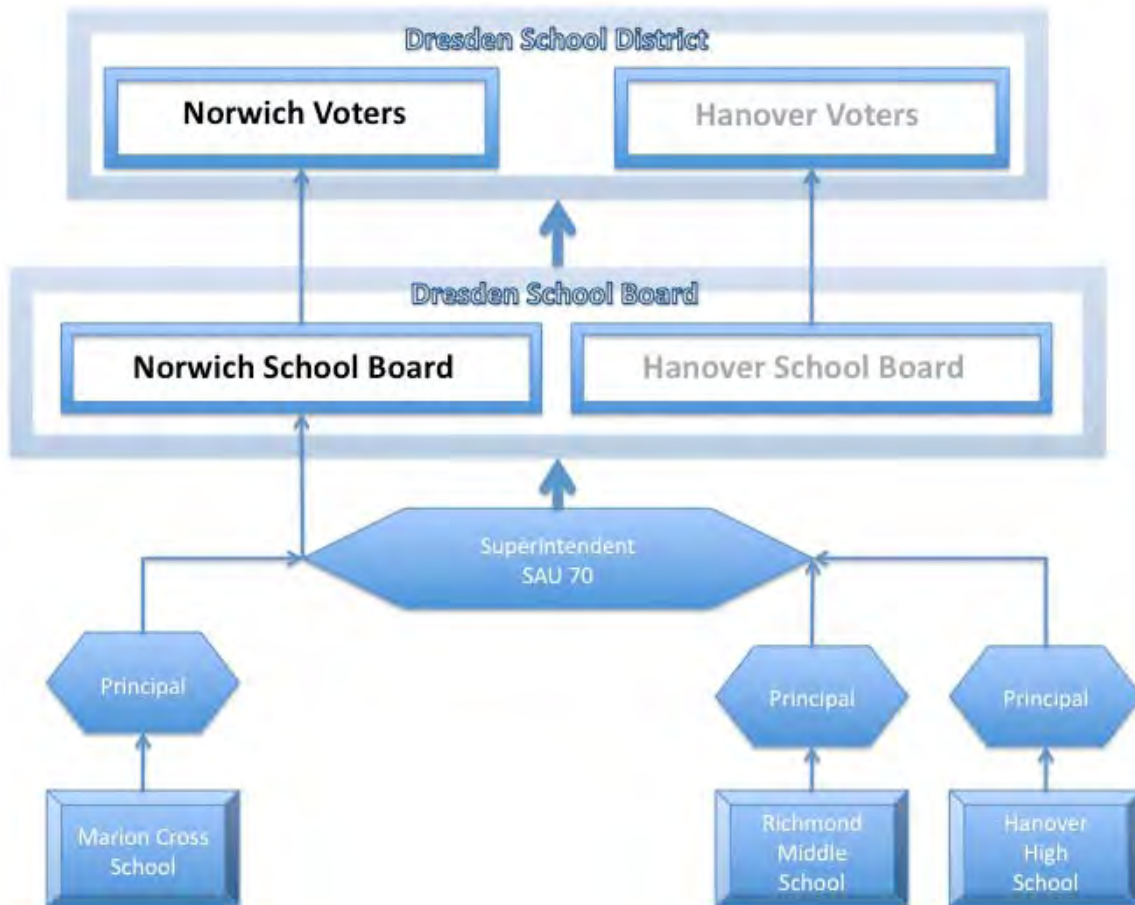


Figure 3. Reporting Responsibility Chart of the Norwich School District.

**Norwich School District** – The Norwich School District (NSD) operates the Marion W. Cross School, which serves students in grades K – 6. It also is a partner with the Hanover School Board in the direction of the Dresden School District, sending funds and students to middle school and high school in Hanover, New Hampshire. The NSD budget includes all Special Education (SPED) costs and state reimbursement revenue for all Norwich students, pre-school through 12th grade (or 21 years old, whichever comes first). The NSD bears the unreimbursed portion of SPED costs for that age span of Norwich residents.



**Reports to:** The Norwich School Board and the Town of Norwich Voters

**Primarily Funded by:** School property taxes, state aid, state and federal grants, and out-of-district tuition state reimbursements.

**Dresden School District** – The Dresden School District operates middle and high schools. The Frances C. Richmond Middle School is in Hanover, New Hampshire, and educates sixth through eighth grade students from Hanover and seventh and eighth grade students from Norwich, Vermont.<sup>18</sup> Hanover High School is the only public high school in the Dresden School District. Located in Hanover, New Hampshire, it accepts tuition students from several other communities in New Hampshire and Vermont. Enrollment is approximately 786 students, the majority of whom come from the towns of Hanover, NH and Norwich, VT. The school employs 59 full-time faculty members.<sup>19</sup>

**Reports to:** The Dresden School Board (comprising the Norwich and Hanover School Boards) and the Dresden School District voters (comprising the Norwich and Hanover voters).

**Primarily Funded by:** School property taxes, state and federal grants, out-of-district tuition.

**SAU 70** – The School Administrative Unit #70 (SAU 70), provides administrative services to the public schools of Hanover and Norwich. The SAU Board approves its budget in December of each year. The costs for the SAU are then apportioned to the three districts as part of their operating budgets.<sup>20</sup>

**Reports to:** The SAU Board, which is the Dresden School Board (comprising the Norwich and Hanover School Boards).

**Primarily Funded by:** Assessments to the budgets of all the schools under its management.

### **Other Town Entities**

**Norwich Fire District and Municipal Water Department** – The Norwich Fire District is a separate municipality within the Town. Persons residing within the limits of the Fire District are its voters.<sup>21</sup> It owns and, with a staff of three, operates a Municipal Water System in the Village, which provides approximately 310 homes and 20 commercial businesses with potable water. It maintains a well, a reservoir and pump house to maintain an adequate supply of superior potable water and a water supply for fire protection within the Fire District of the Town of Norwich.<sup>22</sup>

The NFD Voters elect the Prudential Committee, the Treasurer, Clerk, Auditor and Moderator. The NFD owns and operates the Water Department.

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<sup>18</sup> <http://www.sau70.org/portalpages/rms.htm>

<sup>19</sup> <http://www.sau70.org/portalpages/hhs.htm>

<sup>20</sup> <http://www.sau70.org/portalpages/hhs.htm>

<sup>21</sup> Town Report of Norwich, Vermont – Fiscal Year 2009, P. IV-2

<sup>22</sup> [http://www.norwich.vt.us/fire\\_district](http://www.norwich.vt.us/fire_district)

The NFD is responsible for construction of some of the village sidewalks, not including snow removal, fire hydrants and the water mains, as well as the water source.

**Reports to:** Norwich Fire District Prudential Committee, which is in turn elected by the voters within the Norwich Fire District.

**Primarily Funded by:** The NFD operates from revenues received from an annual tax on property within the NFD boundaries and the Water Dept is an Enterprise Fund that is self-sustaining by collecting water fees for metered usage and a charge to the town for fire protection water.

**Norwich Cemetery Commission** – The Cemetery Commission is responsible for the care and upkeep and development of the town cemeteries..

**Reports to:** Norwich Voters

**Primarily Funded by:** Town taxes, a trust, and sales of cemetery lots.

### **Other Agencies and Organizations**

The town puts requests for taxpayer support of other agencies and organization on its warrant. These organizations request support that totals about 6% of the sum raised by town property taxes. Those organizations are shown in Table 1. Approximately half of the other monetary article funds (\$162 K for FY 2011) are devoted to the Norwich Public Library (profile, below). The Norwich Selectboard may vote to allow these entities to request funds via the town warrant or they may petition for a monetary article. In 2010, 19 organizations requested a total of \$245 K.<sup>23</sup>

**Norwich Public Library** – The Norwich Public Library is a 501(c)(3) nonprofit organization.<sup>24</sup>

**Reports to:** Norwich Public Library Board of Directors

**Primarily Funded by:** Operating funds come from the town appropriation (less than 53% of the total operating budget, as voted by a separate article), the Annual Appeal campaign, miscellaneous library fees and income from small endowment.

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<sup>23</sup> Town Report of Norwich, Vermont – Fiscal Year 2009, Pp. I-35 & IV-2

<sup>24</sup> <http://www.norwichlibrary.org/>

## ***How Is Norwich Funding Budgeted for and Spent?***

### **Overview**

The town and school budgets are set early in the calendar year (e.g. January, 2010, which is in the 2009-2010 fiscal year or FY 2010) for the following fiscal year (e.g. the 2010-2011 fiscal year or FY 2011) to be voted on in March of the that year (e.g. 2010) on Town Meeting Day and to become effective on July 1 of that year, as follows:

- **Town:** The Selectboard asks the Town Manager to prepare a draft budget. It then reviews and recommends a finalized budget to be put before the voters.
- **School Districts:** The Norwich and Dresden school boards requests that the Assistant Superintendent of Schools for the SAU 70 prepare draft budgets for the Norwich and Dresden school districts. They then review and recommend the finalized budgets to be put before the voters.
- **Budget Guidelines:** During the same period the Norwich Finance Committee (NFC) develops *Budget Guidelines* for the Town and Norwich School District. Together with their Hanover counterparts, empanelled as the Dresden Finance Committee, the NFC helps set the budget guidelines for the Dresden School District.

The overall budget categories include operating expenses, reserve funds, and bonds.

***Operating expenses*** – Operating expenses are typically the regular and recurring costs of personnel, maintenance of infrastructure, purchase of supplies, utilities, etc. Often, certain transient expenses, such as the execution of grant funding or the payment of debt obligations, is included in this category.

***Reserve funds*** – Reserve funds serve as the town’s or school’s “savings account.”

- **Designated Funds:** *Designated funds* are reserve funds, dedicated to funding the repair or replacement of specific categories of the town’s or school’s capital equipment.
- **Undesignated Fund:** In the case of the town, the *Undesignated Fund* addresses cash flow issues and the possibility that the town’s expenses may exceed its income. The Selectboard monitors the *Undesignated Fund Balance* (UFB), when it sets the town tax rate. It weighs whether to use some of the UFB to reduce taxes or to retain it, according to town policy, to absorb future, unforeseen expenses upon receipt of Town Meeting approval.
- **School Reserve Funds:** The Norwich school district has three reserve funds, one each for building maintenance, special education and the Vermont Construction and Aid Fund. The latter fund offsets Norwich’s contributions to

the construction and remodeling of the Richmond Middle School and Hanover High School.<sup>25</sup>

**Bonds** – Bonds are loans to the town or school, which are obtained for specific purposes, typically a capital project or equipment, to allow the town to spread the cost of the project over a period of time, as one does with a mortgage or car loan. The payments become part of operating expenses. The bond funding is applied to the capital project at the time required. Bonds are voted on separately on Town Meeting Day.

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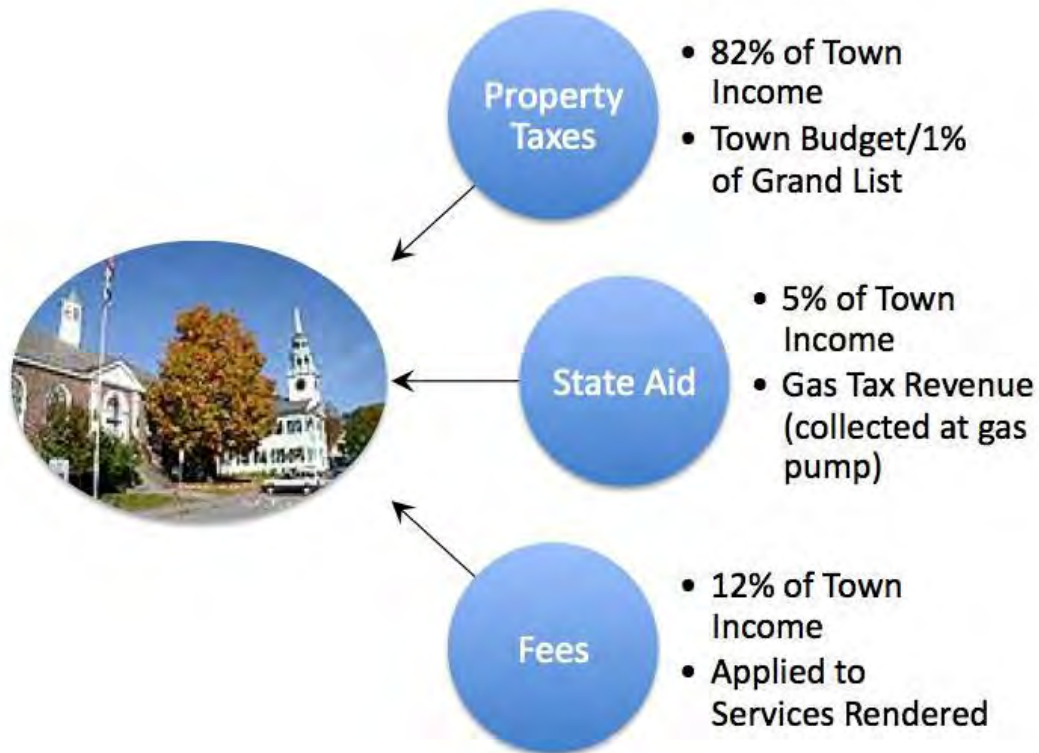
<sup>25</sup> New Hampshire does not allow reserve funds for its schools, so the Richmond Middle School or Hanover High School budgets do not include these.

## ***What Are the Sources of Income for Norwich?***

### **Overview**

Apart from bonds, which are loans for town or school capital projects and are approved by the voters, sources of income for operating the town or school come from taxes, fees, state aid, Federal and state grants or other sources. Because the town and school tax calculations are arrived at differently, they'll receive separate treatment here. Sources of town income are summarized in Figure 4.

Figure 4. Sources of Town Income (Approximate Percentages).



### **Town Income**

**Taxes** – Town property taxes represent **82%** of the town's expected revenue in FY 2011. They cover the portion of the town gross expenditure budget, which is not offset by state aid, fees, grants or other non-tax revenue. They also cover the other monetary articles wherein non-profit organizations, including the Library ask the town to provide support. These comprise **6%** of the town taxes raised.

- **When set:** Taxes are calculated in July, when the previous fiscal year is closed out on the town's accounts, whereby the size of the UFB is known. At that time, the total value of the Grand List is known, typically since late June.

- **How calculated:** The voter-approved gross expenditure budget of the town minus estimated revenues from fees, grants, etc. and adjusted by estimated tax adjustments and available undesignated fund balance plus the sum of the voter-approved separate articles (Eq. 2) divided by 1% of the Grand List determines the tax rate (Eq. 5), expressed as dollars per \$100 of valuation. Each property owner receives a tax bill for the town and school taxes. The town tax for each property reflects the tax rate, multiplied times its valuation divided by 100(Eq. 6).

$$\text{Raised from Property Taxes} = \text{Expenditure Budget} - \text{MA} + \text{TA} + \text{LAT} \quad (2)$$

Where:

$$\text{MA} = \text{Monetary Articles}^{26} \quad (3)$$

$$\text{TA} = \text{Total Adjustments}^{27} \quad (4)$$

$$\text{LAT} = \text{Local Agreement Taxes}^{28} \quad (4)$$

$$\text{Town Tax Rate} = \text{Raised from Property Taxes} / 1\% * \text{Grand List Taxable Value} \quad (5)$$

$$\text{Town Tax}_{\text{Property}} = \text{Town Tax Rate} * \text{Taxable Value}_{\text{Property}} / 100 \quad (6)$$

**State Aid** – State aid (intergovernmental revenue) represents **5%** of the town’s revenue in FY 2011. It comes to the town to offset its expenses in the following areas, among others:

- **Vermont Highway Tax:** Offsets the road maintenance activities of Public Works.
- **Vermont Act 60:** Norwich receives these funds from the state to help defray the cost of property reassessment in order to maintain a valid comparison of local property values across towns. Such a comparison is the basis for the state to determine each town’s share in support of education within the state.
- **State of Vermont Lister Training:** Funds the training of listers in their duties.
- **Pilot payments:** Are received in lieu of taxes for income-exempt property.

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<sup>26</sup> *Monetary Articles* include the assessments for non-profit organizations that voters approve.

<sup>27</sup> *Total Adjustments* is the sum of a payment from the Undesignated Fund and an Allowance for Tax Adjustments.

<sup>28</sup> *Local Agreement Rate* is to raise forgone taxes as a result of locally voted exemptions or tax stabilization agreements.

- **Education Tax Retainer:** The education tax retainer mitigates expenses the town incurs in administrating the HS-122 Homestead Declaration provided by property owners.

**Fees** – Fees include license and permitting revenue and service fee revenue. They amount to **12%** of the town’s total income. These include primarily:

- **Trash Coupons:** The sale of these coupons helps offset the cost of operating the town transfer station.
- **Recreation Program Fees:** These fees pay for a substantial portion of Norwich’s recreational program.

**Grants:** From time to time, Norwich receives special-purpose grant funding. Such money can be spent without town meeting approval.

**Other:** Miscellaneous income amounts to about 2% of the town’s income.

### School Income

**Taxes** – School property taxes represent **88%** (proposed for FY 2011) of the Norwich School District’s revenue in FY 2011. They cover the portion of the Dresden and Marion Cross School Assessments, which is not offset by revenues Local Sources, State Sources, and Interfund Transfers (see below). These non-tax revenues cover **12%** of the Norwich School District appropriation.

Sources of school income for the Norwich School District are shown in Figure 5.

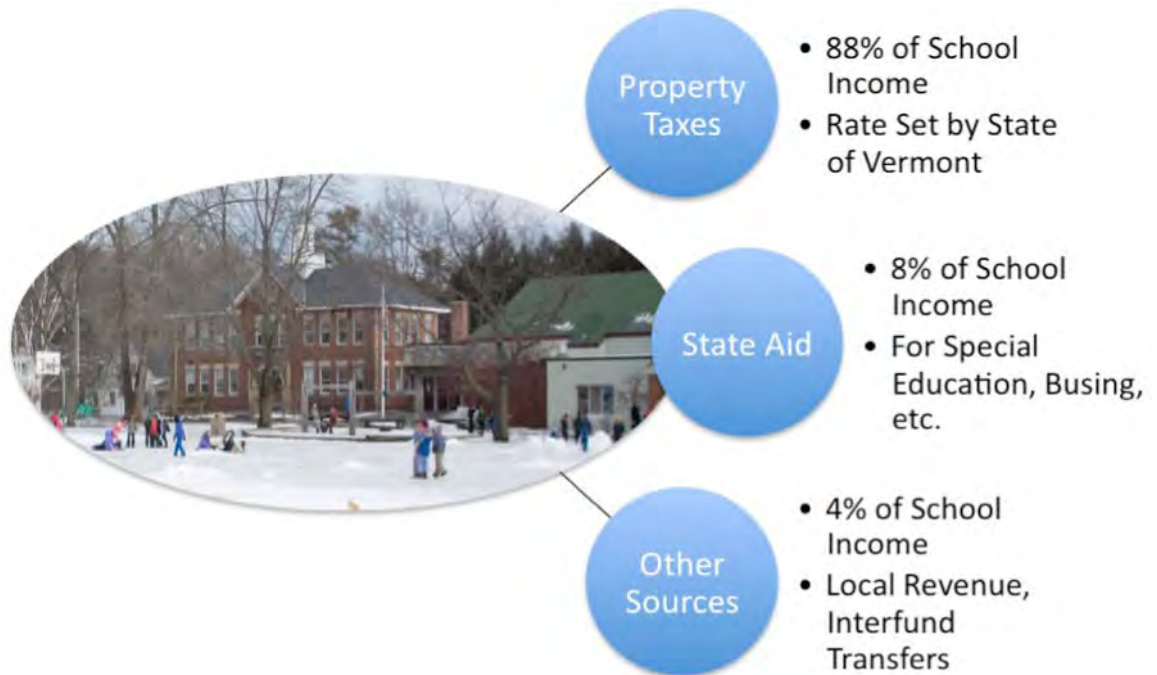


Figure 5. Sources of Norwich School District Income (Approximate Percentages).

- **When set:** Taxes are calculated in July, when the previous fiscal year is closed out on the town's accounts, whereby the size of the UFB is known. At that time, the total value of the Grand List is known, typically late June. The state sends notice on or about June 30 of the education tax rates to be levied.
- **How calculated:** The calculation follows these steps (An examples is seen in *Appendix A*):
  1. The voter-approved school assessment of the Norwich School District (the total of that from the Marion Cross School and Norwich's share of the Dresden School District) is set.
  2. From this value are subtracted the revenues Local Sources, State Sources, and Interfund Transfers (Eq. 7).

$$\text{Education Spending} = \text{MC School} + \text{Dresden Assess} - \text{Revenues} - \text{Fund Balance} \quad (7)$$

3. Using the total number of equalized students, as of October 1 of the current fiscal year, the estimated cost per equalized pupil is calculated, using the education spending, calculated in (Eq. 8).

$$\text{ES/Equalized Pupil} = \text{Education Spending} / \text{Estimated Equalized Students} \quad (8)$$

4. Act 60 of 2009 set the statewide per-pupil average from the prior year is used to calculate the excess spending base. When a town's per-pupil budgeted expenses exceed 125% of this number, passes the excess spending threshold. Any budgeted expenses in excess of the threshold must be matched with a payment to the state to help fund education in other towns that are below the threshold. A town learns whether it is a receiving or sending town in late March.
5. The homestead education tax rate in each municipality depends upon the local per pupil spending, which, divided by the state-wide *Base Amount* of student spending gives a *District Spending Adjustment* (Eq. 9, a ratio expressed as a percentage).

$$\text{DSA} = ( \text{ES/Equalized Pupil} ) / \text{Base amount} \quad (9)$$

Where:

$$\text{DSA} = \text{District Spending Adjustment} \quad (10)$$

6. The District Spending Adjustment times the Statewide Educational Tax Rate gives the *Equalized Homestead Tax*.

$$\text{Equalized Homestead Tax} = \text{DSA} * \text{District Spending Adjustment} \quad (11)$$

7. The Equalized Homestead Tax is then divided by the *Common Level of Appraisal (CLA)* to give the *Nominal Tax Rate*. The same steps apply by dividing the statewide *Non Residential Tax Rate* by the *CLA* to give the *Nominal Non-Residential Tax Rate*. The *CLA* is a figure, calculated at the state level for each town listed values and sales data, that is intended to



reflect the degree to which a town is under (or over) valued in its property appraisals.<sup>29</sup>

$$\text{Nominal Tax Rate} = \text{Equalized Homestead Tax} / \text{CLA} \quad (12)$$

8. Each property owner receives a tax bill for the town and school taxes. The school tax for each property reflects the Nominal Tax Rate (or Nominal Non-Residential Tax Rate), multiplied by its assessed valuation/100

$$\text{School Tax}_{\text{Property}} = \text{Nominal Tax Rate} * \text{Taxable Value}_{\text{Property}} / 100 \quad (13)$$

**Local Revenue Sources** – Constitute **1%** of the total revenue. They include out-of-town tuition, rental of district property, interest income, etc.

**State Revenue Sources** – Constitute **8%** of the total revenue. They include funds for Special Education costs, bus transportation, plus other items.

**Interfund Transfers** – Constitute **3%** of the total revenue. The state reimburses school districts for 30% of “approved” school construction costs. The Norwich School District has set aside these funds to address budget shortfalls upon the discontinuation of payments from Dartmouth College in FY 2010. A Special Education fund is available for any unforeseen expenses in that area.

**State aid to property tax payers** – The state assesses an education tax on all properties. This comes back to property taxpayers, who qualify for income sensitivity.<sup>30</sup>

- **Who Qualifies:** Income Sensitivity For Vermont Homesteads affects primary homeowners with household incomes up to \$90,000, who now qualify for a tax break.
- **Sizes of Cap on Property Tax:** Taxpayers covered by the “income sensitivity” provision are not required to pay more than 1.8% times the district spending adjustment of their prior year’s household income toward the education portion of their tax bill on their primary home and up to two acres. For Norwich taxpayers that’s about 3%. Households with prior-year incomes under \$47,000 is reduced further to having to pay no more than 5% of prior year’s income in combined state and local property taxes on a home and two acres or no more than 2% with income under \$10,000.

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<sup>29</sup> <http://www.voicesforvtkids.org/wp-content/uploads/Documents/CLAbooklet-final-2006.pdf>

<sup>30</sup>

<http://www.vermontrealestatetoday.com/newsletter/vtrealestatetaxes.html#Income%20Sensitivity>

## **What Are the Measures of Affordability for Norwich?**

### **Overview**

In times of normal economic growth, there are at least four approaches to assess affordability. They are to set net expenditure budgets for town and school that compare one year's budget to that of the next. If the comparison is constant, then one of the following ratios (Eq. 14-18) will be one, depending on which of the following four criteria one chooses:

**Constant Amount to Be Raised by Taxes** – This approach (Eq. 14) attempts to keep taxes in control by controlling the portion of the expenditure budget for the town and the Norwich School District educational spending that must be raised by property taxes. This approach ignores the state-controlled setting of tax rates and CLA, described, above. This approach works better for town taxes.

$$\text{Net Expenditure Budget}_{\text{NFY}} / \text{Net Expenditure Budget}_{\text{CFY}} = 1 \quad (14)$$

**Constant Tax Rate** – This approach (Eq. 15) requires forecasting the CLA, the State Nonresidential Tax Rate, the State Educational Tax Rate and the grand list value. As demonstrated in *Appendix A*, there are quite a few steps required to back-calculate the total Norwich School District assessment that would render a constant school tax rate. A constant tax rate would still allow growth in total town spending, as long as new value was added to the Grand List through property development.

$$\text{Tax Rate}_{\text{NFY}} / \text{Tax Rate}_{\text{CFY}} = 1 \quad (15)$$

**Constant Ratio of Taxes to Grand List** – If the ratio of property taxes to the Grand List remains constant (Eq. 16), then property tax bills would remain constant. If the Grand List grows with value-added improvements to property or a reappraisal, this then allows the town and school to have a larger net expenditure budget or educational spending level. Note that incomes may fall with respect to property values and this approach would not then measure affordability.

$$(\text{Taxes Raised}_{\text{NFY}} / \text{GLTV}_{\text{NFY}}) / (\text{Taxes Raised}_{\text{CFY}} / \text{GLTV}_{\text{CFY}}) = 1 \quad (16)$$

Where:

$$\text{GLTV} = \text{Grand List Taxable Value} \quad (17)$$

**Constant Ratio of Taxes to Adjusted Gross Income** – If the ratio of property taxes to the sum of the Adjusted Gross Income (AGI), reported by Norwich residents, remains constant (Eq. 18), then affordability of property taxes would remain constant. If the aggregate AGI of town residents grows, this then allows the town and school to have a larger net expenditure budget or educational spending level. Unfortunately, AGI data lag behind the current year by three years, so it's hard to know how the value changes, going forward.

$$(\text{Taxes Raised}_{\text{NFY}} / \text{AGI}_{\text{NFY}}) / (\text{Taxes Raised}_{\text{CFY}} / \text{AGI}_{\text{CFY}}) = 1 \quad (18)$$

These are ways to predict what a responsible budget might be that Norwich voters will pass on the next Town Meeting Day. A range of votes is possible:

- **Robust Budget:** One segment of voters would be among those comprising a 51% majority to approve a budget with lots of “nice-to-have” features.
- **Lean Budget:** Another segment of voters would be among those comprising a 51% majority that substantially lowers taxes by allowing the town’s infrastructure and other services to decline significantly.
- **Responsible Budget:** A budget that falls between the lean and robust ends of the spectrum should attract the largest majority.

Unfortunately, it’s difficult to predict what budget most voters would vote for. In addition, one must avoid a situation where the majority votes for a budget that the minority cannot afford. Fortunately, income sensitivity rebates to property taxes help avoid this for school taxes, which are two thirds of the total funds levied through property taxes

## ***What is the Role of the Norwich Finance Committee?***

### **Statement of Purpose**

The Norwich Finance Committee (NFC) is composed of seven Norwich residents: six who are appointed to serve on the NFC by the Selectboard, and the elected Town Treasurer. These seven along with the seven appointed members of the Hanover Finance Committee comprise the Finance Committee for the Dresden School District.

The NFC has advisory oversight responsibilities in the creation of annual budgets for the Town of Norwich, the Norwich School District and, together with the Hanover Finance Committee, the Dresden School District. The NFC researches budgets, policies, contracts, and practices that affect Norwich town and school finances. It renders non-binding advisory recommendations, based on its findings. The NFC provides input in formulating the request for proposal (RFP) for an independent auditor of the town's finances and reviews the resulting report.

The NFC elects a Chair, Vice-chair and Secretary from among its members.

Vacancies of the NFC are filled by appointment of the Selectboard to serve until the next Town Meeting elections for elected positions or to complete the vacated term for appointed positions.

Members of the NFC serve without compensation.

### **Skill Set**

The Norwich Finance Committee strives to apply the following skills:

- Connect with town residents on their town and school-spending priorities.
- Research on-line material.
- Follow national economic conditions and trends
- Connect economic conditions and trends to the Norwich-Hanover footprint.
- Understand the many elements of town and school budgets and how they are determined.
- Understand both town and school business practices, e.g. services provided, staffing levels, reserve funds, etc.
- Understand how taxes are determined from budgets and the grand list.
- Read an audit report.
- Analyze financial material, using on-line sources and spreadsheets.
- Develop useful town and school financial recommendations
- Write reports.
- Discuss controversial matters with fellow NFC members, constructively.
- Attend a minimum three hours of late-afternoon meetings and four hours of evening meetings per month over a term of three years.

### **Schedule**

Refer to Table 1 for the typical schedule for the NFC during the year:

Table 1. Recurring tasks of the Norwich Finance Committee

<b>Calendar Year</b>	<b>Budget Guidelines/Approval</b>	<b>Financial Status Review</b>	<b>Other</b>
January	Town <b>budget statement</b> Norwich School District <b>budget statement</b>	Quarterly Town Budget Review	
February		Debt service	Town eating day Income sensitivity
March	Review results of votes on Town and School budgets		<b>Elect officers.</b> Special topics
April	Capital expenditure guidelines?	Quarterly Town Budget Review	
May	Town <b>budget guidelines.</b> —Begin Discussion		Addresses for receiving school meeting notices.
June	Norwich School District budget <b>guidelines</b> —Begin Discussion		
July	<b>UFB</b> —set <b>tax rate</b> Norwich school <b>budget guidelines</b>	Quarterly Town Budget Review	
August	No Meeting		
September	Schedule for VT construction aid funds Norwich teachers <b>contract guidelines</b>	Security of deposits.	Norwich town audit
October	Labor Negotiation Guidelines	Quarterly Town Budget Review	Norwich town audit
November	Allocation of VT construction aid		Coverage assignments
December	Norwich town <b>budget</b> versus <b>guidelines</b> Norwich School District <b>budget</b> versus <b>guidelines</b>		

**Appendix A:**

**School Tax Calculation Worksheet**

<b>NORWICH SCHOOL DISTRICT</b>		
<b>Base Case: Current Fiscal Year (CFY)</b>		
Tax Rate Calculation		
	Item	Estimated CFY
	<b>1 Marion Cross School</b>	\$4,470,023
	<b>2 plus Dresden Assessment</b>	5,917,124
	<b>2a Total Expenditures</b>	10,387,147
	<b>3 less Revenues and Fund Balance (excl Voc Aid)</b>	1,439,281
	<b>4 equals Education Spending</b>	\$8,947,866
	<b>5 Estimated equalized pupils</b>	610.61
Calculation of Excess Spending Obligation	<b>6 Adjusted ES/Eq Pupil</b>	\$14,654
	<b>6a Net Debt per Eq pupil</b>	\$1,358
	<b>7 Adjusted ES/Eq Pupil for purposes of Excess Spending</b>	\$13,296
	<b>8 Excess Spending Threshold</b>	\$14,549
	<b>9 Per pupil Spending above/(below) Threshold</b>	(1,253)
	<b>10 Per pupil figure for Calculating District Adjustment</b>	\$14,654
	<b>11 Base Amount</b>	\$8,544
	<b>12 District Spending Adjustment</b>	171.512%
	<b>13 Statewide Ed Tax Rate</b>	\$0.882
	<b>13a Equalized Homestead Tax</b>	\$1.5127
	<b>14 Common level of appraisal</b>	91.40%
	<b>15 Estimated nominal tax rate</b>	\$1.6551
	<b>16 Income Sensitivity Percentage</b>	.309%
	<b>17 Non Residential Tax Rate</b>	\$1.372
	<b>18 Divide by CLA</b>	91.40%
	<b>19 Nominal Non-Residential Tax Rate</b>	\$1.5011