

**Section 10: Fund Balance Reserve Policy**

**Effective:** On adoption

**Purpose:** The selectboard of the Town of Norwich believes that sound financial management requires that sufficient funds be maintained by the Town for unanticipated expenditures and revenue shortfalls during the course of the fiscal year as may be caused by economic downturns, natural disasters, and other unforeseen circumstances. Maintaining such funds could help sustain the stability of the Town tax rate and reduce the need for short-term borrowing.

**Authority:** "At an annual or special meeting duly warned, a municipality may establish a reserve fund to be under the control and direction of the legislative branch of the municipality. The reserve fund shall be kept in a separate account and invested as are other public funds and may be expended for such purposes for which established, or when authorized by a majority of the voters present and voting at an annual or special meeting duly warned, for other purposes." 24 VSA 2804(a).

**Policy:** The Town will maintain a balance equal to between 12% and 16% of the general fund operating expenditures as a separate fund, independent of the General Fund in the Reserve Fund. At the end of the fiscal year and after the annual audit, residual funds in excess of 16% will be appropriated by the Selectboard with authorization of the voters at Town Meeting or at a special Town Meeting and will be used for the purpose so voted.

**Procedure:** The reserve fund was established by the voters for the purpose of covering unanticipated revenue shortfalls and paying non-recurring and unanticipated general expenditures of the Town. To this end, the selectboard will only use the reserve fund to alleviate unanticipated short-term budgetary issues such as revenue shortfalls or unforeseen expenses. Any expenditure of the reserve fund for such purposes shall require approval of the selectboard. In accordance with 24 V.S.A. § 2804(a), expenditure of the reserve funds for any other purpose shall require the authorization of the voters at an annual or special town meeting.

Annually, the selectboard will propose fund balance reserve funding through the town budget to maintain the 12-16% range identified herein.

Brochu draft 4/4/21 [Calloway comments 4/7/21](#)/[cb response 4/7/21](#);[mc response 4/14/21](#); [cb 4/14/21](#);[mc response 4/19/21](#)

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**Commented [CC1]:** 4/19/21 Should we be clear here about \*why\* we will appropriate e.g. "At the end of the fiscal year and after the annual audit, residual funds in excess of 16 % will be appropriate by the Selectboard with authorization of the voters at Town Meeting or with a special Town Meeting AND WILL BE USED FOR THE PURPOSE SO VOTED."

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**Commented [HD2]:** The Town does not have a Transportation Fund. Such budget is part of the General Fund (i.e., the total operating budget).

**Commented [CC3]:** FIRST: Is it true that a reserve fund WAS established for this purpose? OR are we recommending that it be done?

SECOND: The statutes separate the Highway fund and the General Fund. I would be concerned about a "reserve fund" to cover expenses for both; perhaps better to have a "reserve fund" for each – with the understanding that it may be ONE "reserve fund" into which is poured and accounted for all the voter-approved reserve fund purposes. To decide that we may want to answer two questions: (1) do we want to co-mingle the General Fund and Highway Fund and if so why, given the statutory structure? (2) is there benefit to keeping them separate so that we can easily separate 'general' expenses which are presumably less costly than 'highway' expenses.

**Commented [C4]:** I do not have an answer to your first question. I'm not even sure where to look.

To answer your second question: we do not currently have a Highway fund "per se". The Designated Funds in the DPW department do carry over. I think the broader question of if we should have a Highway Reserve Fund in addition to the DPW Designated funds needs to be addressed by the entire board. We could propose adding something in this policy but I am not quite sure it is needed. Happy to have you add additional language that addresses your concern. I have also read both 17 and 19 VSA (sections you cited) and can not find the language you are proposing.

**Commented [C5]:** Responding to Marcia comment #4-we have the designated reserve funds for anticipated purchases of large (eg high price) equipment with the DPW designated equipment (... [2])

**Commented [CC6]:** This is from 24 VSA 2804(a) and the VLCT Municipal Treasurer Handbook, page 62, Section I, "Capital Budget" which talks about keeping debt in check by using a reserve f (... [1])

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**Commented [HD7]:** We vote by Australian Ballot, so it's unnecessary to speak to a majority of those present.

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**Deleted:** If an expenditure reduces the reserve fund balance below 75% of the maximum amount authorized by the voters, the selectboard will, as part of its approval,of the annual budget (... [3])

**Page 1: [1] Commented [CC6] Colin Calloway 4/14/21 11:53:00 PM**

This is from 24 VSA 2804(a) and the VLCT Municipal Treasurer Handbook, page 62, Section I, "Capital Budget" which talkjs about keeping debt in check by using a reserve fund "for an anticipated purchase and avoids large "bumps" in the budget caused by the need to purchase a new grader and a new dump truck in the same year."

**Page 1: [2] Commented [C5] Claudette 4/14/21 11:56:00 PM**

Responding to Marcia comment #4-we have the designated reserve funds for anticipated purchases of large (eg high price) equipment with the DPW designated equipment fund as well as paving and bridge designate funds. These funds are part of the general fund. Big question is do we separate theses from the general fund or not.

**Page 1: [3] Deleted Herb Durfee 4/22/21 1:57:00 PM**

Town of Norwich Master Financial Policy Draft date 6/28/2021

Section 5: Debt Management Policy

Effective: Upon Adoption

**Purpose:** The purpose of this Debt Management Policy is to establish the guidelines for the issuance of debt by the Town of Norwich. Debt levels and the related debt service expenditures are important long-term obligations that must be balanced with available short- and long-term resources. This policy also addresses the level of indebtedness that the Town can reasonably expect to incur without jeopardizing its existing financial position.

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Adherence to a debt management policy, along with the utilization of other sound and prudent financial practices and the Town's other financial policies, specifically the Capital Budget & Program Policy and the Fund Balance Reserve Policy, Sections 6 and 10 respectively of the Master Financial Plan, will work together to assure the lending market that the Town is well managed and will meet its obligations in a timely manner.

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Recognizing that the statutory limit for municipal debt is limited to ten times the amount of the last grand list, including any previously contracted indebtedness,<sup>1</sup> the intent of the Debt Management Policy is to ensure a sustainable financial burden for Norwich taxpayers. Therefore, for purposes of Norwich's Debt Management, the overall debt service for the Town and the schools will be considered as part of the process.

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**Authority:** Several Vermont statutes relate to municipal debt management. Those pertinent to the Town of Norwich under Title 24 Municipal and County Government, Chapter 053: Indebtedness include but are not limited to:

- 24 V.S.A. § 1752. Bonds: Issuance
- 24 V.S.A. § 1753. Use of bond proceeds
- 24 V.S.A. § 1755. Submission to Voters
- 24 V.S.A. § 1756. Notice of meeting; authorization
- 24 V.S.A. § 1757. Validation
- 24 V.S.A. § 1758. Conduct of Meetings

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<sup>1</sup> 24 VSA § 1762 Limits

24 V.S.A. § 1762. Limits

24 V.S.A. § 1771. Refunding bonds; authorization

24 V.S.A. § 1773. Temporary Loans

24 V.S.A. § 1774. Record by Treasurer

24 V.S.A. § 1777. Indebtedness Generally, Regulations, Sinking Funds

24 V.S.A. § 1786a. Borrowing for public improvements and capital assets

24 V.S.A. § 1789. Alternative financing of assets

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**Procedures:**

**1.0 Planning and Performance:**

**1.1 Debt management** means adopting and maintaining financial plans for both the issuance of debt and the repayment of debt. The determination to issue new debt should be made as a part of the adoption of the annual capital budget, which prioritizes capital projects and identifies the various funding sources available for those projects. Planning for the repayment of debt will include analysis of the operating budget to determine the ability of the Town to incur the additional debt service required by the new debt.

**Commented [CCI]:** The paragraphs regarding Fund Balance Management Policy AND Capital Budget Policy are both deleted here because they exist as Sections 10 and 6, respectively, in the Norwich Master Financial Plan. To include those paragraphs here would be both duplicating and abbreviating (and potentially confusing) if they were inserted in this policy as well.

**1.2 Conditions for Debt Issuance or the purposes for which the Selectboard will propose the issuance of debt may include short-term borrowing to meet temporary cash flow shortages within the Town’s fiscal year, the use of bonds to initiate a capital project prior to receipt of bond proceeds, and for the acquisition or construction or improvement of land or buildings or infrastructure, and for other public improvements that cannot be financed from current revenues or other resources. See sections herein relative to the use of short-term and long-term debt, below.**

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**1.3 Restrictions on Debt Issuance** will include but may not be limited to usual and customary expenses which are funded through general fund property taxes, as well as any capital improvement or expense which has not been approved by the voters. The intent of this policy is to ensure that Norwich taxpayer debt is restricted to the lowest possible level, at all times, so that Norwich may be both fiscally responsible and affordable for the taxpayers who support it.

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**Town of Norwich Fund Balance Management Policy:** is designed to provide the operating funds of the Town with a sufficient level of unreserved, undesignated fund balance or net assets to maintain financial stability, and to provide adequate cash flow to avoid the need for short term revenue anticipation notes or tax anticipation notes. *This policy may be updated to create an Emergency Designated Fund with an annual appropriation approved by voters.* ¶  
**Town of Norwich Capital Budget Policy:** is designed to provide for the orderly funding of capital needs of the Town, including the use of capital reserve funds to avoid the need for incurring long term debt to purchase vehicles and equipment, and to minimize the amount of long term debt required for the acquisition of land, buildings, and infrastructure. *During annual review of the Capital Budget the Selectboard and Town Manager should ascertain shortfalls in appropriations of Designated Funds and decide how to close these “funding gaps.” The SB should also decide if new investments in Capital projects should be made.* ¶

**1.4 24 V.S.A. § 1755: Submission to Voters:**

(a)9(1) “On a petition signed by at least ten percent of the voters of a municipal corporation the proposition of incurring a bonded debt to pay for public improvements shall be submitted to the qualified voters thereof at any annual or special meeting to be held for that purpose, or, when the legislative branch of a

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municipal corporation at a regular or special meeting called for such purpose shall determine by resolution passed by a vote of a majority of those members present and voting, that the public interest or necessity demands improvements, and that the cost of the same will be too great to be paid out of the ordinary annual income and revenue, by a majority of the members present and voting, it may order the submission of the proposition of incurring a bonded debt to pay for public improvements to the qualified voters of such municipal corporation at a meeting to be held for that purpose.”

**2.0 Types of Debt:**

**2.1 Short Term Debt** should be limited to borrowing to cover short-term, temporary cash flow shortages within the Town’s fiscal year through the use of tax anticipation notes in those instances where there is an inadequate level of cash flow, or through the use of bond anticipation notes when cash is required to initiate a capital project prior to the receipt of bond proceeds. The selectboard should manage the Town’s finances so as to avoid the use of short-term debt when possible.<sup>2</sup>

**2.1.1 Disaster Relief Debt.** In recognition of climate change and severe consequences the Town has experienced already and could likely experience in future, Disaster Relief Debt shall be arranged for, and limited to, providing stabilization of town safety and security when an unplanned-for event has occurred and state and/or federal emergency assistance is not yet available. In such circumstances, monies for relief should come first from the Town’s Designated Disaster Relief Fund, to be voted at annual meeting, and then from the appropriate fund for the situation e.g. the former Undesignated Funds, and/or Highway Funds, and then if necessary by establishing a line of credit with a local bank. Any such line of credit would be treated as Short Term Debt pending receipt of government funds and/or vote at an annual or special town meeting.

**2.2 Long Term Debt** shall be issued for the acquisition, construction, or improvement of land, buildings, or infrastructure, that cannot be financed from current revenues or other resources. Current year budget appropriations and accumulated reserve funds should be used to minimize the amount of long term borrowing that is required.

<sup>2</sup> See VLCT Model Policy “Model Debt Management Policy and Guidance,” here: <https://www.vlct.org/sites/default/files/documents/Resource/Model%20Debt%20Management%20Policy%20with%20Guidance.docx>

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Commented [CC3]: Further to recommendations from Herb Durfee we are recommending a Designated Disaster Relief Fund to be funded annually.

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Commented [CC5]: During the 2017 flooding disaster all existing funding was used as necessary and available.

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**Cash Flow Shortages:** In this case debt can be used to cover short term, temporary cash flow shortages, generally within the Town’s fiscal year, either through the use of revenue anticipation notes or tax anticipation notes in those unusual instances where the Fund Balance Management Policy does not provide an adequate level of cash flow, or through the use of bond anticipation notes when cash is required to initiate a capital project prior to the receipt of bond proceeds. The Town should manage its finances in such a manner to avoid the use of short term debt when possible. *Should this section include the use of a line of credit from a bank as was the case during recovery from the July 2017 storm?* ¶

**Leasing: Under V.S.A. section 1789(a)** “a municipality, including a fire district, either singly or as a participant in an interlocal contract entered into under sections 4901 and 4902 of this title may acquire personal property, fixtures, technology, and intellectual property, by means of leases, lease-purchase agreements, installment sales agreements, and similar agreements wherein payment and performance on the part of the municipality is conditioned expressly upon the annual approval by the municipality of an appropriation sufficient to pay ¶ [1]

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Whenever possible, long-term debt should not be used to pay for 100% of the cost of the acquisition or improvement of capital assets. The use of long-term debt financing to finance the purchase of vehicles and equipment should be avoided except in emergencies, or unless it can be demonstrated that it is financially beneficial to do so.

**2.2.1 24 VSA § 1777** The Town can use Sinking Funds as appropriate to retire a debt before its term. "

"When a municipal corporation has established or provided a sinking fund for the retirement of a bond issue or other debt, the fund so established or provided shall be kept intact and separate from other monies at the disposal of such corporation, shall be accounted for as a pledged asset for the purpose of retiring such obligations, and shall not be appropriated or used for the current expenses of such corporation." Id.

**3.0 Debt Issuance Process.** Most municipalities in the state utilize the Vermont Municipal Bond Bank to issue general obligation debt, so their procedures detail the debt issuance process. Under other circumstances, the debt management policy would include discussion of the sale process, the use of professionals to assist in the issuance process, bond rating goals, disclosure requirements, and rating agency relations<sup>3</sup>.

**4.0 Purpose of Debt:**

**4.1 General Obligation Debt,** funded by general fund property taxes, shall be used for projects that provide a general benefit to Town residents, and that cannot otherwise be self-supporting. Debt incurred for use by an enterprise fund, even if backed by a general obligation pledge of the Town, shall be self-supporting and repaid solely from the revenues of such fund, unless a general benefit to Town residents can be demonstrated<sup>4</sup>.

**5.0 Debt and Debt Service Limits:**

**5.1 VLCT Guidelines:** VLCT recommends in its Model Debt Management Policy<sup>5</sup> and Guidance, that "A limit on the amount of outstanding debt that is allowed should be included in the policy. This limit can be expressed in terms of a percentage of assessed value or as an amount per capita. A limit on the amount of annual debt service (principal and interest) should also be specified. This limit can be expressed

<sup>3</sup> See <https://www.vlct.org>

<sup>4</sup> See <https://www.vlct.org>

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**Projections:** The Town will conservatively project the revenue sources that will be utilized to repay any additional debt, and will analyze the impact on taxpayers of both the additional debt service as well as any additional operating expenses resulting from the improvement, to determine whether new debt should be issued and to structure the appropriate repayment terms for each debt issue. ¶

**Maturity:** The maturity of long term debt shall be kept as short as possible to minimize the overall impact on the taxpayers during the life of the debt, while at the same time not so short that the repayment will create an unreasonable burden. In no event shall the life of the debt exceed the life of the improvement being financed. **V.S.A. 1786(a):** "The voters of a municipality may authorize specific public improvements and the acquisition of capital assets and finance the same, temporarily or permanently, through debt instruments other than bonds for a term not to exceed the reasonably anticipated useful life of the improvements or assets as provided in this section." ¶

as a percentage of revenues or expenditures, including coverage requirements for revenue debt, or as an amount per capita.”

**5.2 Limits: 24 V.S.A. § 1762**

- a) A municipal corporation shall not incur an indebtedness for public improvements which, with its previously contracted indebtedness, shall, in the aggregate, exceed ten times the amount of the last grand list of such municipal corporation. Bonds or obligations given or created in excess of the limit authorized by this subchapter and contrary to its provisions shall be void.
- b) However, the provisions of this subchapter as to the debt limit shall not apply to bonds issued under section 1752 or 1754 of this title, relating to the ordinary expenses of a municipality. (Amended 2011, No 155 (Adj. Sess.), section 10.)

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**5.3 Debt Ratios.** The following guidelines<sup>6</sup> will be used when determining if debt should be issued:

**5.3.1** As limited by law<sup>7</sup> a town cannot incur indebtedness which, with its previously contracted indebtedness, in the aggregate exceeds ten (10) times the Grand List (\$7,960,381)<sup>8</sup> less any previously contracted indebtedness.<sup>9</sup> However, it is the intent of this policy to keep the total town indebtedness, and thus the per capita indebtedness, as low as possible. To that end, the Selectboard is mindful of the current tax level

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¶ a) Net General Fund bonded debt as a percentage of total assessed valuation should not exceed 1%. Other guidelines may be adopted as needed and appropriate.¶

Commented [CC15]: Note that under this formula the per capita indebtedness would be astronomical: Maximum 10 times the Grand List is \$79,603,810 divided by 3,414 population equals per capita debt of \$23,316.

<sup>6</sup> See VLCT Model Policy, “Model Debt Management Policy and Guidance,” here: <https://www.vlct.org/sites/default/files/documents/Resource/Model%20Debt%20Management%20Policy%20with%20Guidance.docx>

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<sup>7</sup> 24 V.S.A. § 1762

“(a) A municipal corporation shall not incur an indebtedness for public improvements which, with its previously contracted indebtedness, shall, in the aggregate, exceed ten times the amount of the last grand list of such municipal corporation. Bonds or obligations given or created in excess of the limit authorized by this subchapter and contrary to its provisions shall be void.

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“(b) However, the provisions of this subchapter as to the debt limit shall not apply to bonds issued under section 1752 or 1754 of this title, relating to the ordinary expenses of a municipality. (Amended 2011, No. 155 (Adj. Sess.), § 10.)

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<sup>8</sup> May 26, 2021 Grant List, here: <http://norwich.vt.us/wp-content/uploads/2021/05/2021-GL-Abstract-05-26-2021.pdf>

<sup>9</sup> “(a) A municipal corporation shall not incur an indebtedness for public improvements which, with its previously contracted indebtedness, shall, in the aggregate, exceed ten times the amount of the last grand list of such municipal corporation. Bonds or obligations given or created in excess of the limit authorized by this subchapter and contrary to its provisions shall be void.” 24 V.S.A. § 1762(a)

per capita, the existing debt load, and the proposed new homestead tax<sup>10</sup>:

**5.3.1.1** The current tax level per capita: The Grand List (\$7,960,381) divided by the 2021 estimated population on the Town website (3,414) equates to a current per capita tax of \$2,331.

**5.3.1.2** The current existing debt load in Norwich is \$2,522,732 as of 06/30/2020<sup>11</sup>, meaning the amount of **current debt is approximately 30 percent of the Grand List**. The Auditors recommended no more than \$3,000,000 to \$4,000,000<sup>12</sup> in total Norwich debt being somewhere between 37 to 50 percent of the Grand List. See chart Grand List versus Outstanding Debt attached as Debt Management Policy Exhibit "A."

**5.3.1.3** Vermont bill S13 is predicted to raise *Norwich's equalized homestead tax rate approximately 53 cents, from \$1.77 to \$2.30.*

**5.3.2** Given existing debt, existing tax levels, and proposed homestead tax increase, if Norwich incurs another \$1,000,000 of total debt service (principal and interest), **the percentage of debt will be 44 percent of the current Grand List**. Therefore, pending the expected increase in the Norwich homestead tax rate, Norwich should not incur any new debt in 2021.

**5.3.3** **Current Debt Limits**. Net General Fund bonded debt as a percentage of total assessed valuation should not exceed X% .. Other guidelines may be adopted as needed and appropriate.

**6.0 Characteristics of Debt Structure.** Debt management policies should address the structure of debt issuance, including repayment provisions (level principal payments or level debt service payments), maturity guidelines, the use of debt service funds, and the investment of any bond proceeds (including a discussion of arbitrage regulations)<sup>13</sup>.

**7.0 Repayment of Debt:**

**7.1 Projections:** The Town will conservatively project the revenue sources that will be utilized to repay any debt, and will analyze the impact on taxpayers of both the additional debt service as well as any additional operating expenses resulting

<sup>10</sup> See <https://lifo.vermont.gov/assets/Subjects/Equalized-Pupil-Weighting/31f695302d/FY20AnalysisProposedEqaulizedPupilWeights-v2.pdf> regarding S13 and projected increases in the Homestead Tax.

<sup>11</sup> See Audit Report for the Year Ended June 30,2020, "2020 Financial Statement FINAL" page 8 Table V "Outstanding Debt at Year-End."

<sup>12</sup> See Auditor's discussion in Selectboard Meeting dated 12/02/2020 starting at minute 2:44:18 on CATV.

<sup>13</sup> See VLCT Model Policy, "Model Debt Management Policy and Guidance," here: <https://www.vlct.org/sites/default/files/documents/Resource/Model%20Debt%20Management%20Policy%20with%20Guidance.docx>

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- Commented [CC16]: The Board needs to talk about this vis-à-vis more input from the Auditor. We are already at 31 percent and Auditor says we should not go beyond 38 percent debt.
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- Commented [CC18]: The word additional does not appear in the VLCT Model Policy and, if included here, could possibly imply that the paragraph intends to exclude any pre-existing debt. So without the word additional we more clearly express that this applies to old and new debt.
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from the improvement, to determine whether new debt should be issued and to structure the appropriate repayment terms for each debt issue.

**7.2 Maturity:** The maturity of long-term debt shall be kept as short as possible to minimize the overall impact on the taxpayers during the life of the debt. At the same time, it should not be so short that the repayment will create an unreasonable burden. In no event shall the life of the debt exceed the life of the improvement being financed. See 24 V.S.A. §1786(a) et seq.

**Commented [CC19]:** I deleted the paragraph below which is only the first of three subsections in 24 VSA 1786 because the other ones discuss loans less than and more than 5 years and are or could be similarly relevant. Citing only subsection (a) might give the wrong impression e.g. that there is no distinction for length of loans.

**Deleted:** *According to an email (3/8/2021) from Neil Fulton which Mary Layton solicited, an earlier section of this policy included the above statement, also a per capita limit of \$700, also that "General Fund debt service (principal and interest) as a percentage of total general fund expenditures should not exceed 8%." This version was developed by former Finance Director Roberta Robinson and reviewed by the Finance Committee before adoption. There was "concern about Norwich's portion of the school debt with the major building projects and, if the SB was going to exceed the recommended limits, there would be a discussion of overall debt faced by Norwich taxpayers including school district and fire district before incurring additional debt." This type of concern may come into play with the recent passage of S13, described in a memo by School Board member Neil Odell, included in the June 7, 2021 Minutes of the Norwich Childcare Committee, as "Proposed change in education funding formula could lead to significant increases in Norwich's local education tax rate." He later states that " According to a preliminary analysis of the proposed equalized pupil weighting changes by the Joint Fiscal Office, applied to FY20 Norwich and Dresden school budgets, **Norwich's equalized homestead tax rate would jump about 53 cents, from \$1.77 to \$2.30.** That means that if the new weights are implemented, Norwich tax bills could increase by a third on average."*

Draft 06-28-2021

Grand List v. Outstanding Debt

Exhibit "A"

Grand List	Current Outstanding Debt	Source of Current Outstanding Debt	Statutory limit	Statutory Formula for Amount of Allowed Debt	Current Debt as a Percent of the Grand List	Auditor's Recommended Debt Limit	Auditor's Debt Limit Percentage for 3,000,000 debt	Auditor's Debt Limit Percentage for 3,500,000 debt	Auditor's Debt Limit Percentage for 4,000,000 debt
7,960,381	2,522,732	Audit Report for the Year Ended June 30, 2020, "2020 Financial Statement FINAL," page 8, Table V, "Outstanding Debt at Year-End"	24 VSA 1762(a) and (b) are reprinted in Footnote 7 of the Debt Management Policy Draft dated 06/28/2021.	$(7,960,381 \times 10) - 2,522,732 =$ <b>\$77,081,078</b>	<b>32 percent</b> $(2,522,732 \div 7,960,381 = 0.31691096)$	3,000,000 - 4,000,000	<b>38 percent</b> $(3,000,000 \div 7,960,381 = 0.37686638)$	<b>44 percent</b> $(3,500,000 \div 7,960,381 = 0.43967745)$	<b>50 percent</b> $(4,000,000 \div 7,960,381 = 0.50248851)$

Simplified chart showing the percentage increase of debt.

Grand List	Current Outstanding Debt	Current Debt as a Percent of Grand List	Total additional Debt would be
7,960,381	2,522,732	32%	\$0
7,960,381	3,000,000	38%	477,268
7,960,381	3,500,000	44%	977,268
7,960,381	4,000,000	50%	1,477,268

Memorandum

To: Norwich Selectboard

From: Marcia Calloway and Mary Layton

Date: June 29, 2021

Re: Debt Management Policy Draft dated June 29, 2021

The attached Debt Management Policy draft is presented for your review, together with an Exhibit “A.”

Process. We incorporated the VLCT Model Debt Management Policy throughout the draft document enclosed. Statutory citations with corresponding procedures are provided to explain the allowed forms and limits of debt and authorization by voters. Where statutory provisions are clear, we have set out the requirements; where choices are allowed, we have pointed out the issues for the Board and demonstrated the effects.

Issues. Four key issues informed our work.

- The statutory limit for municipal debt;
- The current level of indebtedness of the town;
- The probability of future environmental, or otherwise, disasters; and
- The expected increase in the Homestead Tax. See
  - Summary of S13 by Neil Odell regarding proposed change in education funding formula which could lead to significant increases in Norwich’s local education tax rate, here: <http://norwich.vt.us/wp-content/uploads/2021/06/06-07-2021-draft-minutes.pdf>
  - Summary from a report to the Vermont legislature, Joint Fiscal Office, here: <https://ljfo.vermont.gov/assets/Subjects/Equalized-Pupil-Weighting/31f695302d/FY20AnalysysProposedEqaulizedPupilWeights-v2.pdf>

Highlighted sections for the Board’s attention.

- 1.3 Restrictions on Debt Issuance – “The intent of this policy is to ensure that Norwich taxpayer debt is restricted to the lowest possible level, at all times, so that Norwich may be both fiscally responsible and affordable or the taxpayers who support it.”
- 2.1.1 Disaster Relief Debt – We are recommending the creation of a Designated Disaster Relief Fund.
- 2.2.1 Sinking Funds – We are suggesting the creation of Sinking Fund for retirement of bond issue or other debt as appropriate.
- 4.1 General Obligation Debt – We are interested in investigating the possibility of using “enterprise funds” where appropriate.
  - From the Vermont State Auditor's report: “Enterprise funds account for services provided to the general public, government, and non-state government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.” <https://auditor.vermont.gov/sites/auditor/files/documents/Vermont%20CAFR%20-%202019.pdf> Examples:
    - Ludlow had one that was used for public buildings etc. See their minutes here: [https://www.ludlow.vt.us/vertical/sites/%7B78E8DA21-0D46-4486-AF59-9D2B5A1048F3%7D/uploads/December\\_20\\_2012.pdf](https://www.ludlow.vt.us/vertical/sites/%7B78E8DA21-0D46-4486-AF59-9D2B5A1048F3%7D/uploads/December_20_2012.pdf)
    - Massachusetts defined and used it as follows:
      - "An enterprise fund is considered the best practice to promote and maintain long-term financial sustainability for water, sewer and stormwater activities. An enterprise fund is a separate accounting and financial reporting mechanism for which revenues and expenditures are segregated into a fund with financial statements separate from all other governmental activities. An enterprise fund identifies the total direct and indirect costs to provide the service and the sources and amounts of revenues that support the service for which a fee is charged in exchange for service. Direct costs generally consist of personnel services, expenses and capital outlay, which are budgeted and accounted for in the

enterprise fund. Indirect costs are expenditures budgeted and accounted for in the general fund on behalf of the enterprise fund, which are allocated to the enterprise fund for funding. Examples of indirect costs are central service department costs (accounting, treasury, collections, law and the like), insurances and fringe benefits that are not budgeted and accounted for in the enterprise fund." <https://www.mass.gov/files/documents/2017/10/11/best-practice-enterprise-funds.pdf>

Questions here might include, for example, would an enterprise fund be appropriate for things like:

- the Trustees of Public Funds Green Lending Program?
  - renovations of Tracy Hall?
- 5.3 Debt Ratios. This section attempts to show, explicitly, the amount of debt we currently have and how additional debt relates to the Auditor's recommended limits of debt for Norwich. [See NOTE below regarding the correct formula/data for debt calculations.]
    - 5.3.1 explains the legal limit formula.
      - 5.3.1.1 gives the current Grand List and the per capita burden.
      - 5.3.1.2 gives the current existing debt as found in the year end Audit report for June 30, 2020. The Board may have other information about this number. An Appendix "A" shows in graph form how increased debt effects the percentage of debt in relation to existing debt and the limits suggested by the Auditor.
      - 5.3.2 recommends no new debt in 2021.
  - 5.3.3 "Current Debt Limits". This section needs a decision by the Board as to the percentage of bonded debt based on the information in the preceding sections.

NOTE: Mary has written (06/28/2021) to Bonnie Batchelder for clarification and documentation. Bonnie is away until July 12, 2021.

1. Background.

- a. On 12/02/2020, Bonnie spoke at the Selectboard meeting about the audit dated 06/30/2020. Claudette asked about the upper limit for Norwich debt. On the CATV tape, Bonnie answers "not more than \$3,000,000 or \$4,000,000." Bonnie may have referred to the Town of Norwich ratio of debt to assets and said it was 'good,' referencing a business model of 12:1.
- b. In researching for the Debt Policy draft, we were confused by the definitions of municipal debt, specifically
  - 24 VSA § 1762(a) invoking the **Grand List** as part of the formula for calculating debt limit but 24 VSA § 1762(b) specifically limits that section to debt OTHER than bond debt.
  - Bonnie's comment, and other references, suggest to "municipal debt" looks at **town assets**.

2. Questions

- a. Mary has asked Bonnie, the following questions (Bonnie is away until July 12, 2021):
  - To write a letter confirming what she said in the 12/02/2020 meeting, with context, i.e. how is the municipal debt ratio determined and what is considered "too much?"
  - For clarification if the definition of municipal debt ratio should be looking at municipal **assets** (e.g. buildings etc.) or **Grand List**?
    - i. Note the definition for municipal debt ratios on [investopedia.com](http://investopedia.com), "Net Debt to Assessed Valuation," James Chen, updated June 25, 2019.
- b. Could it be that we should be looking at "**debts**" **other than bonds** separately from "**bond debt**?"
  - Reason for this question
    - 24 VSA § 1762(a) says to look at the Grand List in calculating debt limits;
    - 24 VSA § 1762(b) says debt limit calculation should not include bond debt.

END OF MEMORANDUM

1

Policy for the Acceptance of Gifts

**Purpose:** To provide uniform criteria, procedures, and guidelines for accepting gifts and donations in a responsible, transparent, and accountable manner.

The Town adopted a Policy and Procedures for the Norwich Conservation Fund on May 20, 1996. Requests to acquire or help acquire a property or property interests and/or to defray acquisition related costs, such as legal, surveying and/or appraisal fees for the conservation of land and waters are addressed in that policy.

**Policy:** The Town of Norwich will ensure that gifts are subject to consistent criteria and procedures, have adequate resources for their administration, and have appropriate acknowledgement of the generosity of the donor.

**Authority:**

**Definitions:**

*Beneficiary Department Head* shall mean the Department Head of the Town department, or their designee, for which a donation is designated or intended. The Town Manager or designee shall act as the Beneficiary Department Head if no department is designated or intended.

*Donation* or *Gift* shall mean a monetary (cash) contribution, endowments, bequests, personal property, real property, equipment, in-kind goods or services, or any other asset that the Town has accepted and for which the donor has not received any goods or services in return. For purposes of this Policy, the terms “donation” and “gift” shall be synonymous.

*Donor* shall mean a person or other legal entity that proposes or provides a donation to the Town.

*Endowment* shall mean donations that are restricted to the extent that only earnings, and not principal, may be used for a particular Town department, location or purpose.

*Restricted Donation* shall mean donations designated at donor request for a particular Town department, location, or purpose.

*Unrestricted Donation* shall mean a donation to the Town without any limitations being placed upon its use.

**Procedures**

**General**

- 1) This Policy is intended to guide the manner in which Town staff accept donations on behalf of the Town.

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- 2) Donations do not become the property of the Town until accepted by the Town consistent with this Policy.
- 3) Only Town officials authorized by this Policy may accept donations. Committees appointed by the Selectboard may not accept or solicit donations. Potential donations to committees/commissions appointed by the Selectboard shall be submitted to the Selectboard.
- 4) The Town has no obligation to accept any donation proposed by a donor.
- 5) All donations will be evaluated by the Town prior to acceptance to determine whether the donation is in the Town's best interest and is consistent with applicable Town policies, ordinances, and resolutions.
- 6) The Town does not provide legal, accounting, tax or other such advice to donors. Each donor is ultimately responsible for ensuring their proposed donation meets and furthers the donor's charitable, financial, and estate planning goals.
- 7) The Town must determine whether an expenditure of Town funds, either a direct outlay of Town funds or the use of Town forces and materials, is associated with or required by acceptance of the donation prior to acceptance.
- 8) A donor may restrict a donation for a particular department, location or purpose but not designate the Town official who may use the donation
- 9) No gift will be accepted if there is the possibility of an appearance of a quid-pro-quo relationship.
- 10) The Beneficiary Department Head is responsible for acknowledging receipt of and thanking, on behalf of the Town, the donors of donations.
- 11) The Beneficiary Department Head shall work with the Finance Director or their designee to determine the appropriate accounting for the donation according to procedures established by the Town Manager

**Types of Donations**

Donations may be received in the form of cash or real or personal property. Donations may be Restricted or Unrestricted .

- *Donations of Real Property:* Donations of real property may be accepted upon completion of the following process:
  - 1) The Town Manager shall determine the approximate value of the donation and shall seek Selectboard approval
  - 2) When making such approval, the Selectboard shall consider

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- the appraised value of the donation;
- any expenditures or maintenance obligations for the Town associated with the donation;
- potential liabilities associated with the donation, such as hazardous conditions or environmental concerns;
- whether the donation has any special restrictions, and if so, if those restrictions are acceptable to the Town; and
- any recommendations for conditions of acceptance by Town staff

*Donations of Cash and Real Goods:* Donations of cash and real goods may be accepted upon completion of the following process:

1. The Beneficiary Department Head shall evaluate whether the donation:
  - (a) is in the Town’s best interest and is consistent with applicable Town policies, ordinances, and resolutions;
  - (b) has any special restrictions and if so, if those restrictions are acceptable to the Town;
  - (c) obligates the Town to make an immediate or initial Town expenditure which has not been included in the approved Town budget; and
  - (d) creates a new, one-time or an on-going general maintenance obligation for the Town.
  - (e) If any of the above criteria are met, the Beneficiary Department Head will seek the approval of the Selectboard prior to accepting the gift.
2. The Beneficiary Department Head shall seek approval from the Selectboard to accept, appropriate and expend the donation if the donation requires expenditures in excess of the Beneficiary Department Head’s approved annual department budget.
3. The Beneficiary Department Head shall give notice of the Selectboard’s decision to the donor within 10 business days following the Selectboard’s determination to accept or reject the proposed donation.

Donations of Cash/Real Goods Valued at \$500 or Less: Individual donations with an value of \$499 or less may be accepted by the Beneficiary Department Head.

**Commented [C1]:** Dpt head might not know aggregate value of donations until well after.

Donations of Cash/Real Goods Valued at \$5,000 or Less. Individual donations with an value of \$500 to \$5,000 may be accepted by the Town Manager.

The Beneficiary Department Head shall seek approval from the Town Manager or designee if the donation does not require expenditures that exceed the Beneficiary Department Head’s approved annual budget. The Town Manager may formally accept the donation upon receipt of such approval.

Donations of Cash/Real Goods Valued at \$5,000 or Greater: Individual donations with an value of \$5,000 or greater shall be accepted by the Selectboard.

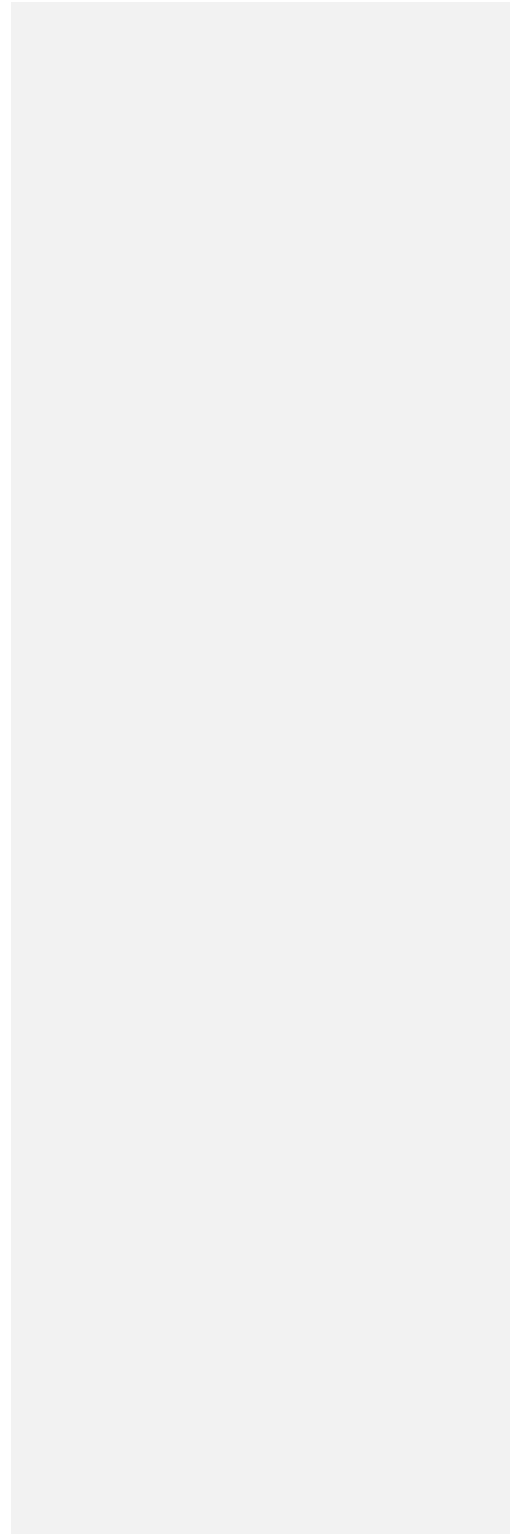
4

The Beneficiary Department Head shall seek approval from the Town Manager or designee if accepting the donation does not require expenditures that exceed the Beneficiary Department Head's approved annual budget.

Upon receipt of such approval, the Beneficiary Department shall seek approval from the Selectboard authorizing the Town to accept the donation.

**Selectboard Notification**

Beneficiary Department Heads will send a regular update, via email, of all rejected cash and non-monetary donation offers with a short description of the reason for rejection, to the Town Manager or his or her designee, who will notify the Selectboard





**Section 3: Cash Receipts, Petty Cash, and Returned Check Policy**

**Effective:** Upon adoption.

**Purpose:** The purpose of this policy is to ensure proper management practices by the Town of Norwich employees are in effect and adhered to when their assigned duties require the processing of cash, checks, and other receipts. The management practices are designed to instill public confidence in Town operations and to provide accurate, reliable, and timely information upon which financial decisions can be made.

**Policy:** The Town Manager will be responsible for the preparation and implementation of internal financial controls (procedures) necessary to carry out this policy’s purpose. Controls/procedures prepared by the Town Manager will be in written format and strictly adhered to by the below named *Authorized Personnel*. Said controls/procedures prepared by the Town Manager shall adhere to the minimum requirements herein.

**Authorized Personnel:** For internal control purposes, only the following individuals are authorized to receive funds on behalf of the Town of Norwich:

- Town Manager
- Town Treasurer
- Finance Director
- Finance Assistant
- Town Clerk
- Assistant Town Clerk
- Police Administrative Secretary/Dispatcher and police officers (only for Police Department functions)
- Transfer Station Head Attendant or stand-in related to vacations or other forms of leave (only for Transfer Station related functions)

**Proper Payee:** All checks, money orders, and credit card payments, regardless of function, must be made payable to the **Town of Norwich, Vermont**. No instruments may be made payable to a Town officer, employee, volunteer, department, committee, board, or group.

**Cash Receipts:** Persons authorized to receive funds on behalf of the Town must issue a fully completed collection receipt for any cash received. The original completed receipt must be issued to the person from whom the cash is received. A copy of the receipt (including notation identifying the budgetary line item to which it’s allocated) must be delivered to the Finance Director/Town Clerk along with the cash. As applicable, a separate copy of the receipt must be retained by the person authorized to receive funds for audit and/or filing purposes. For non-cash related payments, payees requesting a receipt shall be provided one by the respective Authorized Personnel, preferably by the Finance Office.

**Section 3: Cash Receipts, Petty Cash, and Returned Check Policy (Cont...)**

All currency in the amount of twenty (20) dollars and above shall be checked with a counterfeit money detector pen prior to acceptance to verify the bills are not counterfeit.

Cash on the premises will be held to an absolute minimum to ensure safety and maximize return on investments.

**Check Receipts:** Departments receiving checks as payments shall require the maker of the check to make it payable to "Town of Norwich, Vermont". Under no circumstances shall a check for the Town be made payable to an individual or left blank.

Each check shall be inspected to ensure the following:

- Current date (post-dated checks shall not be accepted)
- Proper signature
- No alterations
- Bank name and routing number printed on check
- If temporary check, payer's name and address written on check
- Not a third party check
- Written amount matches numeric amount

No checks shall be cashed. All steps of each counter transaction must be completed, including steps to enter the transaction in the accounting system and to place the receipts in a secured location before a new transaction is started.

**Restrictive Endorsement:** *Immediately up receipt, all checks must be restrictively endorsed with "for deposit only."*

**Safeguarding Funds:** Safeguarding funds prior to deposit with the Finance Office is the responsibility of authorized personnel receiving the funds. All coins, currency, checks, credit card information, and money orders must be retained in a secure place until deposited with the Finance Office in accordance with the section *Preparing and Depositing Funds* below.

**Preparing and Depositing Funds:** Funds collected by authorized persons must be given to the Finance Office according to the following:

- Town Clerk/Assistant Town Clerk – no later than the close of business the day funds are received, unless otherwise enabled by statute.
- Transfer Station Head Attendant – no later than the close of business the day funds are received, except they must be deposited in the Town's secured overnight lockbox whereby they are picked up from the bank by the Finance Office on the next business day.
- Police Administrative Secretary/Dispatcher or police officers – no later than the close of business the following business day funds are received.
- All Other Authorized Personnel – no later than the close of business the day funds are received.

**Commented [HD1]:** Note: I would like to effectuate no cash at the Transfer Station in the near term. However, before doing so, I would like to discuss the timing and procedure for implementation with the Selectboard, staff, and Dan & Whit's (and/or another local business that is open on Saturday's since Tracy Hall is not. By not accepting cash, residents would use coupons or checks to dispose of items, which could be purchased at the Town Office, at the Transfer Station (by check only) or at the local business open on Saturdays. I don't have an issue taking credit cards either, but that would be part of the necessary discussion before any implementation of no cash.

**Section \_\_ : Town Credit/Charge Cards**

**Effective:** Upon adoption.

**Purpose:** Town credit/charge cards (“credit cards”) provide a convenient method of obtaining goods and services for the Town. However, by their nature, credit cards provide an opportunity for unauthorized purchases and fraudulent activity. The purpose of this policy is to establish criteria for the proper use of credit cards when conducting Town business.

**Policy:** The use of the Town credit card and two (2) business charge cards (Staples and Home Depot) are to be used by the Town Manager or with the prior authorization of the Town Manager along with the following requirements:

- Credit cards may not be used for personal purposes, cash advances, or purchases that exceed the cards’ authorized purchase limit.
- The Town Manager is responsible for the credit cards’ protection and custody. The Town credit card is secured by the Finance Office and is only released by the Finance Office personnel for use after approval by the Town Manager.
- The Staples and Home Depot business charge cards are kept by Town Manager designated employees and are used only with permission of the Town Manager and/or the applicable department head. These charge cards are provided to departments for their convenience for purchases because they operate during non-standard work hours.
- Before the close of any day, a Town Manager designated employee shall furnish to their respective department head the itemized, original receipt(s) for any purchases. Thereafter, within five business days of each credit card transaction, the Department Head shall furnish the Finance Department with an itemized receipt(s) and purchase record detailing what was purchased and to what account it should be charged, including the department head’s dated sign-off.
- Expenditures made via the credit cards will further be listed among the bi-weekly A/P Warrants for review and approval by the Selectboard.
- When possible, any balance on a credit card is to be paid in full by the due date to avoid finance and late charges.
- Credit card “rewards” is treated like cash and are the property of the Town.
- The Town Manager may institute additional procedures for the use and management of credit cards to improve internal financial controls.

**Section 3: Cash Receipts, Petty Cash, and Returned Check Policy (Cont...)**

Each person providing funds to the Finance Office must submit a report from the Town’s computer software or a spreadsheet or adding machine tape with each deposit. For any amount equal to or exceeding \$500.00, the Finance Office will count and verify the amount deposited in the presence of the person providing the funds. All deposits made to the Finance Office will be issued a receipt or other written acknowledgement. Each applicable department and the Town Treasurer will receive from the Finance Office a monthly list of deposits that have been verified through the bank statement. Any discrepancies shall be immediately reported to the Finance Director and the Town Manager. Funds must be deposited into FDIC insured bank accounts (or their equivalent as approved by the Town’s professional auditor and the Town Treasurer).

Personnel that handle cash must be bonded or covered by the Town’s liability insurance. Also, personnel that handle cash are required to cross-train with other authorized personnel to account for that person’s periodic absence (e.g., vacation, illness, other forms of leave and absence).

**Petty Cash:** Beginning October 1, 2019, petty cash no longer will be permissible.

**Returned Checks:** A check returned by the bank will be recorded in the accounting system against the revenue in which it was originally posted unless the check is replaced. First-time returned checks will be re-deposited. Upon second receipt of a returned check, the Finance Office will notify the check writer and inform him/her that his/her check did not clear and advise that there is a \$35.00 return check fee due. Thereafter, full payment, including the return check fee, must be in the form of cash, money order, or bank certified check.

**Drop box:** Payments for the Town of Norwich that are not cash can be dropped off in a locked box located in front of Tracy Hall. During the season of tax payments or payments to the Town Clerk, such as dog license payments, the drop box will be checked multiple times during the day to retrieve all payments. Theft or Loss: If a theft or loss is identified, such an occurrence must be reported to the Town Manager, the Town Treasurer, and the Finance Director. The Town Manager shall then report any such theft or loss to the Norwich Police Department. All theft or loss shall be documented in a memorandum to the Town Manager, copied to the Finance Director, the Town Treasurer, and the Selectboard within one (1) business day and such memorandum will be kept on file by the reporting department.

Note: while efforts are made by the Town to secure the drop box and to conduct periodic checks of the drop box are made to ensure collection of those items placed in the drop box, the responsibility of payment and potential loss resides with the payer not the Town (payee). Also, payments placed in the drop box are not a guarantee of payment receipt by the Town according to any applicable deadline (e.g., tax payment deadline).

["Lock Box"??]

**Commented [HD2]:** Note that the monthly Balance Sheet report still shows Petty Cash accounts for Receipts Drawer, Transfer Station, Town Clerk, NPD, and, Recreation. The Town Treasurer and I have discussed this for needed change/update. The NPD and Recreation accounts should be removed with the applicable "bags" and \$100 amounts showed as paid back into the Town's "general fund" (probably through a journal entry to miscellaneous revenue. Also, the remaining named Petty Cash accounts should be renamed to "Receipts Drawer", "Transfer Station Start Up", and "Town Clerk Drawer". This would better reflect that they are not Petty Cash accounts (and shouldn't have been labeled as such).

**Commented [HD3]:** Seth had recommended looking into a system termed "Lock Box". He suggested the following text:  
*Effective XXXX XX, 20XX, property tax payments paid with a check will be accepted via a lockbox service. Property tax payments will be mailed directly to the lockbox and cash will be posted directly to Norwich's bank account. Annually, the lockbox service will provide a copy of its most recent report on internal controls: Standards for Attestation Engagements No. 18 (SOC Report). The Finance Director will evaluate the SOC Report and report their findings to the Selectboard.*

Here's some nutshell insight into the concept:  
<https://www.investopedia.com/terms/l/lockboxbanking.asp> At this time, I do not know if Mascoma offers this service (even digital vs actual mailbox) or something similar. If the Town Treasurer could explore this type of an option, that would be appreciated. ☺

If Mascoma offers the service, I would only support signing up if it's a digital service (i.e., I would not support a USPS version of the lockbox as it's described in the hyperlink above).

Thu, MAY 20,  
2021, 3:25 PM  
(ago)

## INITIAL QUERY TO VLTC -----

to info, bcc: me

Good afternoon,

I am a selectboard member in Norwich, Vermont. By way of disclosure I am also an active status, licensed New Hampshire attorney, retired.

The selectboard is working on updating the town's Master Financial Plan (hereinafter referred to as "MFP") and I am reviewing the section titled "Capital Budget & Program Policy" (hereinafter referred to as "CBP"). I would appreciate some guidance from your staff and ask that this message be forwarded appropriately.

The existing Norwich CBP cites authority from three statutes:

- 24 VSA 4403 -- for implementation of a municipal plan;
- 24 VSA 4430 -- re non-regulatory implementation of a municipal plan; and,
- 24 VSA 4443 -- re adoption, administration and enforcement of a capital budget plan pursuant to a municipal plan developed in accordance with 24 VSA 4382(a)(4).

Based on the cited authority, it seems clear that the existing CBP was written to effectuate a municipal plan. This raises an apparent contradiction:

- The current Norwich municipal plan lists six (6) 'capital budget' items which do not necessarily represent 'capital' expenditures anticipated by the selectboard to the extent that the word 'capital' is normally understood to mean major expenses or projects.<sup>[1]</sup>
- Yet, the selectboard appears to understand the CBP as the basis for any sort of major expense, without regard to the municipal plan.

In an attempt to find a way forward vis-à-vis a 'capital budget' policy, I looked at the VLCT Model Capital Program and Budget Policy. It, too, seems to underscore my reading that the basis of such a policy lies in the municipal plan. The stated "Purpose" of that policy is

"to establish a capital improvement program (CIP) for the Town...in accordance with 24 VSA 4430...[with the CIP being] a five-year financial plan for the construction or acquisition of capital assets."

My questions are:

1. Is it appropriate to write a policy for 'capital' expenditures if the municipal plan does not meet the requirements of 24 VSA 4430 and 24 VSA 4382(a)(4) i.e. where there are no clear recommendations for capital expenditures?
  - "a capital budget and program may be adopted, amended, or repealed by the legislative body of a municipality following one or more public hearings, upon public notice, if a utility and facilities plan as described in subdivision 4382(a)(4) of this title has been adopted by the legislative body in accordance with sections 4384 and 4385 of this title." 24 VSA 4430
  - "A utility and facility plan, consisting of a map and statement of present and prospective community facilities and public utilities showing existing and proposed educational, recreational and other public sites, buildings and facilities, including hospitals, libraries, power generating plants and transmission lines, water supply, sewage disposal, refuse disposal, storm drainage, and other similar facilities and activities, and recommendations to meet future needs for community facilities and services, with indications of priority of need, costs, and method of financing." 24 VSA 4382(a)(4)
2. If expenses are not identified and anticipated by the municipal plan on record, should the MFP address "capital" expenditures (e.g. a new fire truck, a municipal building boiler, a bridge replacement, etc.) in a different format? I.e. would it be best practice to more fully flesh out sections on the General Fund purpose and use (pursuant to 17 VSA 2664) and the Reserve Fund Policy policy and use (pursuant to 24 VSA 2804)?
3. How should 24 VSA 1762 (Limits on indebtedness) and 24 VSA 1767 (Computation of amount of indebtedness) be addressed vis-à-vis municipal plan capital budget planning versus capital expenditures not anticipated or mentioned in the municipal plan?
4. What do towns do if they have no municipal plan?

I am sure that you are inundated with queries and so I thank you in advance for any assistance or guidance you may be able to provide.

Marcia Calloway

- [1](#) For reference, the current Norwich Town Plan lists six (6) capital budget items:
- #2 -- Investigate the use of land owned or controlled by the Town of Norwich for dedicated affordable housing
  - #27 -- Review hybrid and electric options for any municipal vehicle purchase or replacement
  - #30 -- Implement to the best of our abilities the (non-binding) Article 36 from the Town of Norwich 2019 ballot
  - #42 -- Accommodate bicycle and pedestrian safety when rebuilding and upgrading roads and bridges
  - #43 -- Maintain a capital improvement program that is aligned with the goals and objectives of this plan
  - #44 -- Implement the strategic initiatives developed by the town’s Trails Committee

**RESPONSE FROM VLTC GARRETT BAXTER-----**

**Garrett  
Baxter <gbaxter@vlct.org>**  
to Abigail, me

May 24, 2021, 12:05 PM

Good morning Marcia,  
Thank you for your questions and understanding regarding our workload. While it was clear from your e-mail that the Selectboard is working on updating the Town’s Master Financial Plan, what was unclear was whether the Planning Commission, Town Manager and/or its Finance Office was involved in this process. As you’ve probably already ascertained from your time as a Selectperson, Vermont law on municipal budgeting is sparse to say the least which is why a comprehensive understanding draws heavily from disciplines outside the legal profession (e.g. finance, auditing, public administration). Although we can answer some of your questions about legal requirements ourselves, we would ordinarily refer others (particularly those concerning the town’s Master Financial Plan and the overall coordination and implementation of its financial planning) to external consultants. Usually such referrals are only necessary for those municipalities that lack the requisite in-house professional services found in a town manager and/or finance department. Since Norwich already has these resources, we would recommend drawing heavily from both their knowledge, experience, and expertise.

As to the issues and concerns you raised, while the purpose of a capital budget and program as identified under 24 V.S.A. § 4430(c) is to help effectuate the implementation of a “municipal plan” as that term is defined by 24 V.S.A. § 4303(18), a capital budget and plan is only legally required if a town seeks to impose impact fees on new development in town. Impact fees are a means to make new development bear the cost of municipal or school improvements that will have to be made as a consequence of development. A municipality may only impose impact fees if it already has:

- a town plan that has been confirmed by its regional planning commission;
- a capital budget and program adopted pursuant to 24 V.S.A. Chapter 117; and
- developed a reasonable formula to assess impact fees. 24 V.S.A. § 5203.

That doesn’t mean however that a municipality can’t have a capital budget and program or some other more informal capital asset planning tool unrelated, whether in whole or in part, to the implementation of its municipal plan. A capital budget and program is after all just a planning tool. It doesn’t bind the town legally in any respect. One of the primary reasons to develop a capital budget and program is that it forces the selectboard to set priorities and to plan ahead. This can help to smooth out those fluctuations in the budget where two or more major expenses occur in a single year, causing a sudden rise in the tax rate. Planning ahead, in the form of timing these expenses for different years or setting up a reserve fund in anticipation of certain expenses, will help eliminate

some of those deviations. While it's certainly helpful and sensible to tie such planning efforts to the town's municipal plan it isn't legally required nor is there any consequence for failing to do so - outside of being able to impose the aforementioned impact fees. Ultimately, the selectboard should adopt whatever financial planning tool that it finds most useful to the board and beneficial to the town.

If the selectboard or town manager is interested in information about consultants, please contact Abby Friedman, MAC Director, copied on this message.

I hope this helps. Stay safe and take care.

Sincerely,

*Garrett A. Baxter*

Garrett A. Baxter, Esq.  
Senior Staff Attorney, Municipal Assistance Center  
Vermont League of Cities and Towns  
1-800-649-7915

For the latest information VLCT has on COVID-19, please go to our website: <https://www.vlct.org/coronavirus>.

Due to COVID-19, the VLCT Municipal Assistance Center (MAC) is experiencing a high volume of questions and therefore it may take longer than usual for MAC to respond. Please also understand that if your question is unrelated to COVID-19 or is not an urgent matter, our response time will be extended. If you have an urgent matter and you haven't received a response from MAC, please contact your municipal attorney.

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**REPLY FROM CALLOWAY -----**

**Marcia**

May 24, 2021, 1:35 PM (20 hours ago)

**Calloway <msbcalloway@gmail.com>**

to Garrett, Abigail, bcc: me

Dear Garrett,

Thank you very much for your response and for confirming what I was thinking i.e. that we need to look at the Master Financial Plan with a view to a capital budget pursuant to 24 VSA Chapter 117 and whatever 'other' 'capital budget' planning we want to record in that plan. We are without a Finance Director at the moment but the Town Manager is involved in the process. To that extent, I am grateful to have Abby's information.

Unless you ask me not to, I will share this correspondence with the rest of the Selectboard as I believe it will be helpful as we work through the Master Financial Plan.

Again, sincere thanks for your time.

All best wishes,

Marcia Calloway

**CONFIRMING RESPONSE FROM VLCT BAXTER -----**

**Garrett Baxter**

May 24, 2021, 2:09 PM (19 hours ago)

to me, Abigail

Good afternoon Marcia,

You're very welcome. Also, please feel free to share our correspondence with rest of the Selectboard and to reach out to Abby as needed.

All the best.

Sincerely,

*Garrett A. Baxter*

Garrett A. Baxter, Esq.  
Senior Staff Attorney, Municipal Assistance Center  
Vermont League of Cities and Towns  
1-800-649-7915

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**Section 6: Capital Budget & Program Policy for Operational Planning**

**Effective:** Upon Adoption

**Purpose:** The purpose of this Capital Budget & Program Policy for Operational Planning is to establish and maintain a capital budget and program policy process for the Town of Norwich. This policy is specifically separate from the “capital budget” provided for in 24 VSA §§ 4403, 4430, and 4443. Those statutes being expressly tied to such capital budget requests associated with an appropriately adopted and currently effective municipal (a.k.a “town”) plan.

**Policy:** The Capital Budget for Operational Planning will undergo preliminary review in the Spring prior to being taken up in the Fall/Winter budget season. The CBP will be reviewed and updated annually in conjunction with the Operational Planning process.

**Authority:** 24 VSA §§ 4403, 4430, and 4443 allows the Selectboard to adopt a capital budget program to effectuate the implementation of a ‘municipal plan’ and is only legally required if a town seeks to impose impact fees on new development in town. This policy is not related to any municipal/town plan. Municipalities are not prohibited from instituting a ‘capital budget and program or other informal capital asset planning tool which is unrelated, either in whole or in part, to the implementation of its municipal plan<sup>1</sup>.

**Procedures:**

**1. Capital Budget and Program:**

- a. **Capital Budget:** A capital budget shall list and describe the capital projects to be undertaken during the coming fiscal year, consistent with the town's Master Comprehensive/Operational Plan and the estimated cost of those projects, and the proposed method of financing
- b. **Capital Program:** A capital program for purposes of Operational Planning is a plan of capital projects proposed to be undertaken during the coming year but which may be in contemplation of associated needs in future years, specifying the estimated cost of those projects, and the proposed method of financing.

<sup>1</sup> E-mail from Garret Baxter, Esq., VLCT, May 24, 2021 on record in Selectboard Trello document repository.

cb proposed new 5/4/21; msc comments added 6/3/21.

**Commented [SR1]:** Roger Arnold Comment:  
Determine if policy is consistent with statute (24 VSA 1762; 1767)

**Commented [SR2]:** Claudette Brochu Comment:  
Capital Budget and Plan: Determine the date by which the Town Manager presents CBP to the Selectboard. I propose that the date be well in advance of the presentation of the operational budget. Add a sentence that clearly states the Selectboard will determine the priorities (based on TM and Dpt head input). Also set a date by which the Planning Commission input (if any) must be received.

**Commented [CC3]:** 24 VSA 1762 is about maximum debt limit. “24 V.S.A. § 1762)

(a) A municipal corporation shall not incur an indebtedness for public improvements which, with its previously contracted indebtedness, shall, in the aggregate, exceed **ten times the amount of the last grand list** of such municipal corporation. Bonds or obligations given or created in excess of the limit authorized by this subchapter and contrary to its provisions shall be void.

**Commented [CC4]:** 24 VSA 1767 is about how to compute the max debt limit. “24 V.S.A. § 1767)

- **Computation of amount**
- (a)(1) In determining the amount of municipal indebtedness permitted by this subchapter, obligations created for current expenses, for a water supply or for electric lights, and temporary loans created in anticipation of the collection of taxes and necessary for meeting current expenses shall not be taken into account.
- (2) Sinking funds and other monies set aside for the sole purpose of paying outstanding bonds shall be deducted.
- (b) The provisions of this section and of section 1762 of this title shall not apply when the charter of a municipal corporation or special act otherwise limits its indebtedness.

**Commented [SR5]:** Mary Layton Comment:  
The Capital Budget and Program Policy would benefit in my opinion from an edit under "Policy: The Selectboard will adopt a six year Capital Budget & Program (CPB) for the Town of Norwich through the annual Budget process." The Capital Budget will undergo preliminary review in the Spring prior to being taken up in the Fall/Winter budget season. "The CPB will be reviewed and updated annually."

**Commented [SR6]:** Marcia Calloway Comment:  
Page 17 Capital Debt – Policy


The policy says the Selectboard will adopt a six-year Capital Budget & Program. When was the last one done? Where is it?

**Commented [SR7]:** Marcia Calloway Comment:  
Page 17 Capital Budget and Program paragraph 1. a.

Existing MFP language: "a. A Capital Budget: A capital budget shall list and describe the capital projects to be undertaken during (... [1]

**Deleted:** each of the following five years

**Commented [CC8]:** The clause below is deleted because it is based on the VLCT CBP model which is about municipal plans. That time frame would be consistent with the DHCD Planning Manual recommended long-term planning of 6 years. However no time frame is required in this document because this CBP is for Operational Planning, a term which the Selectboard has been using to describe the capital budgeting needs for one (1) year ahead.

- c. **Capital Project:** A capital project for purposes of Operational Planning is any one or more of the following:
  - Any physical betterment or improvement, including furnishing, machinery, apparatus, or equipment for that physical betterment or improvement when first constructed or acquired.
  - Any preliminary studies and surveys relating to any physical betterment or improvement **which has been approved by the voters and/or the Selectboard as part of the town's Master Comprehensive/ Operational Plan.**
  - Land or rights in land to further the purposes of the current Operational Plan.
  - Any combination of the above cited items.
- d. **Capital Expenditures:** For purposes of capital projects related to Operational Planning, a capital expenditure is defined as any expenditure for land, land improvements, buildings, building improvements, vehicles, or equipment costing more than \$5,000 and any expenditure for infrastructure (e.g. roads, bridges, and storm water collection system) costing more than **\$10,000.**
- e. The CBP for Operational Planning will be arranged to indicate the **Order of Priority**, consistent with the Town's Master Comprehensive/Operational Plan, of each capital project and to state for each project the following:
  - i. A description of each proposed project and the estimated total cost of the project.
  - ii. The proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established by vote and creation of Reserve or Sinking Funds; the amount estimated to be received from the federal or state government; the amount to be financed by impact fees; and the amount to be financed by the issuance of obligations (see section 5 Debt Management Policy above), showing the proposed type(s) of obligation, together with the proposed period of usefulness for which they are proposed to be issued.
  - iii. An estimate of the effect, if any, upon operating costs of the Town, consistent with the town's Master Comprehensive/Operational Plan.
  - iv. 
- f. Annually, the capital budget and program for Operational Planning should be updated consistent with the town's Master Comprehensive/Operational Plan.
- g. Annually, the capital budget portion of the capital budget and program should be incorporated into the Selectboard's proposed budget for voter

**Commented [SR9]:** Marcia Calloway Comment:  
 Page 17 Capital Budget and Program paragraph 1.c.  
 Existing MFP language:  
 "c. Capital Project: A capital project is any one or more of the following:  
 •Any physical betterment or improvement, including furnishing, machinery, apparatus, or equipment for that physical betterment or improvement when first constructed or acquired.  
 •Any preliminary studies and surveys relating to any physical betterment or improvement.  
 •Land or rights in land.  
 •Any combination of the above cited items."  
**Amendment Suggested:**  
 "c. Capital Project: A capital project is any one or more of the following:  
 •Any physical betterment or improvement, including furnishing, machinery, apparatus, or equipment for that physical betterment or improvement when first constructed or acquired.  
 •Any preliminary studies and surveys relating to any physical betterment or improvement **which has been approved by the voters and/or the Selectboard as part of the town's Master Comprehensive/ Operational Plan.**  
 • Land or rights in land.  
 •Any combination of the above cited items."

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**Commented [SR10]:** Marcia Calloway Comment:  
 Page 17 Capital Budget and Program paragraph 1.c., 1.f., and 1.g.  
 Existing MFP language:  
 "e. The CBP will be arranged to indicate the Order of Priority of each capital project and to state for each project the following:  
 i. A description of each proposed project and the estimated total cost of the project.  
 ii. The proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established Designated and Special Purpose funds; the amount estimated to be received from the federal or state government; the amount to be financed by impact fees; and the amount to be financed by the issuance of obligations (see section 5 Debt Management Policy above), showing the proposed type(s) of obligation, together with the proposed period of usefulness for which they are proposed to be issued.  
 iii. An estimate of the effect, if any, upon operating costs of the Town. (... [2])"

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**Deleted:** Annually, the Planning Commission may submit recommendations to the Town Manager and the Selectboard for the capital budget and program that shall be in conformance with the Town Plan and consistent with the town's Master Comprehensive/Operational Plan.

**Commented [CC11]:** The clause (below) is deleted because a separate CPB for municipal planning would need to be created when and if any municipal plan is approved which recommends projects appropriately requiring capital projects.

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approval, consistent with the *town's Master Comprehensive/Operational Plan*, at the March Town Meeting.

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**2. Designated Funds:** In conjunction with the Town's Debt Management Policy, the Town Manager shall annually, as applicable, propose funding (i.e., new appropriations) of Designated (voted) Reserve funds to accumulate resources to pay for items included in the capital budget and program. Such funds would be voted at annual or special meeting as provided by 24 VSA 2804 Reserve Funds. The use of such Designated Reserve Funds should minimize large fluctuations in the tax rate and will reduce the need for incurring additional debt. Other capital improvements may be funded by bond issuance.

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**3. Priority Criteria:** Capital projects will receive a higher priority if they meet some or most of these criteria:

**Deleted:** and Special Purpose

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**Deleted:** or through the operating budget.

- Meets a policy goal or fulfills a strategic objective of the Town's Operational Plan.
- Is required under a state or federal mandate, law, or regulation.
- Will mitigate or eliminate a known safety hazard.
- Will maintain and improve the delivery of public services to the majority of the population.
- Will improve the quality of existing infrastructure.
- Non-tax based revenue and/or State or federal grant funds are available to assist in funding the project.

**Commented [CC12]:** The clause below is deleted because the purpose of a capital budget policy is to be able to plan for large purchases which are beyond the scope of the operating ("keep the lights on") budget.

**Commented [CC13]:** The clause below is deleted because this capital budget plan is not authorized for town plan capital budget projects. The latter would need a separate CBP consistent with the statutes cited for municipal plan capital budgeting.

**Deleted:** and its adopted Town Plan

...

**Deleted: Effective: On adoption**

**Purpose:** The purpose of this Capital Program and Budget Policy is to establish a capital improvement program (CIP) for the Town of Norwich. The capital assets of the Town and their condition are critical to the quality of services provided to the municipality. A CIP is a five-year financial plan for the construction or acquisition of capital assets. It provides for the planning of future financial resources and financing of projects (including allocations from current operating budgets, funding of capital reserves, or the use of capital debt). A CIP also identifies the future financial resources required to operate and maintain capital assets once they have been acquired. Through a CIP, the Town can plan future operating budget expenditures, debt repayment requirements, and potential reserve fund needs in order to better manage its long-term financial position.

**Policy:** The selectboard will adopt a five-year CIP for the Town of Norwich. This plan will include the Town's plan of capital projects proposed to be undertaken during each of the following five years, the estimated cost of those projects, and the proposed method of financing. The selectboard will review and update the CIP annually. The CIP will be presented to the selectboard by ????

**Authority: 24 V.S.A. § 4430**

**Deleted:**

**Procedure:** The CIP will be arranged to indicate order of priority of each capital project and to state for each project the following: (1) a description of each proposed project and the estimated total cost of the project; (2) the proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established reserve funds, the amount estimated to be received from the federal or state government, the amount to be financed by impact fees, and the amount to be financed by the issuance of debt obligations, showing the proposed type or types of obligations, together with the period of probable usefulness for which they are proposed to be issued; and (3) an estimate of the effect, if any, upon operating costs of the municipality.

Each year, the selectboard will develop a capital budget that lists and describes the capital expenditures to be undertaken by the Town during the coming fiscal year. As resources are available, the capital budget will be incorporated into the current year operating budget.

**CAPITAL EXPENDITURES.** For purposes of the CIP, a capital expenditure is defined as any expenditure for any physical betterment or improvement, including furnishings, machinery, apparatus, or equipment for that physical betterment or improvement when first constructed or acquired; any preliminary studies at

**Deleted:**

**Designated/Special Purpose RESERVE FUNDS** funds. In conjunction with the Town's debt management policy, the selectboard shall annually propose funding of reserve funds created in accordance with 24 V.S.A. § 2804 to accumulate resources to pay for any of the capital expenditures included in the CIP. The use of such reserve funds should minimize large fluctuations in the tax rate and will reduce the need for incurring additional debt. Other capital improvements may be funded by bond issue or through the operating budget.

**PRIORITY CRITERIA.** Capital projects and/or capital assets will receive a higher priority if they meet some or most of the following criteria:

1. → The project or asset meets a policy goal or fulfills a strategic objective of the selectboard.
2. → The project or asset is required under a state or federal mandate, law, or regulation.
3. → The project or asset will mitigate or eliminate a known safety hazard.

cb proposed new 5/4/21; msc comments added 6/3/21.

**Page 1: [1] Commented [SR7] Seth Robertson 5/4/21 11:57:00 PM**

Marcia Calloway Comment:

Page 17 Capital Budget and Program paragraph 1.a.

Existing MFP language: "a. A Capital Budget: A capital budget shall list and describe the capital projects to be undertaken during the coming fiscal year, the estimated cost of those projects, and the proposed method of financing."

**Amendment suggested:**

"a. A Capital Budget: A capital budget shall list and describe the capital projects to be undertaken during the coming fiscal year, **consistent with the town's Master Comprehensive/Operational Plan** and the estimated cost of those projects, and the proposed method of financing."

**Page 2: [2] Commented [SR10] Seth Robertson 5/4/21 11:57:00 PM**

Marcia Calloway Comment:

Page 17 Capital Budget and Program paragraph 1.e., 1.f., and 1.g.

Existing MFP language:

"e. The CBP will be arranged to indicate the Order of Priority of each capital project and to state for each project the following:

- i. A description of each proposed project and the estimated total cost of the project.
- ii. The proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established Designated and Special Purpose funds; the amount estimated to be received from the federal or state government; the amount to be financed by impact fees; and the amount to be financed by the issuance of obligations (see section 5 Debt Management Policy above), showing the proposed type(s) of obligation, together with the proposed period of usefulness for which they are proposed to be issued.
- iii. An estimate of the effect, if any, upon operating costs of the Town.
- iv. Annually, the Planning Commission may submit recommendations to the Town Manager and the Selectboard for the capital budget and program that shall be in conformance with the Town plan.

f. Annually, the capital budget and program should be updated.

g. Annually, the capital budget portion of the capital budget and program should be incorporated into the Selectboard's proposed budget for voter approval at the March Town Meeting.

**Amendment suggested:**

"e. The CBP will be arranged to indicate the **Order of Priority**, **consistent with the town's Master Comprehensive/Operational Plan**, of each capital project and to state for each project the following:

- i. A description of each proposed project and the estimated total cost of the project.
- ii. The proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established **by vote and creation of Reserve or Sinking Funds**; ~~Designated and Special Purpose funds~~; the amount estimated to be received from the federal or state government; the amount to be financed by impact fees; and the amount to be financed by the issuance of obligations (see section 5 Debt Management Policy above), showing the proposed type(s) of obligation, together with the proposed period of usefulness for which they are proposed to be issued.
- iii. An estimate of the effect, if any, upon operating costs of the Town, **and consistent with the town's Master Comprehensive/Operational Plan**.

- iv. Annually, the Planning Commission may submit recommendations to the Town Manager and the Selectboard for the capital budget and program that shall be in conformance with the Town plan **consistent with the town's Master Comprehensive/Operational Plan.**
  
- f. Annually, the capital budget and program should be updated **consistent with the town's Master Comprehensive/Operational Plan.**
- g. Annually, the capital budget portion of the capital budget and program should be incorporated into the Selectboard's proposed budget for voter approval, **consistent with the town's Master Comprehensive/Operational Plan,** at the March Town Meeting.

▲ Page 4: [3] Deleted Colin Calloway 6/3/21 8:00:00 AM ▼

▲ Page 4: [4] Deleted Colin Calloway 6/3/21 8:01:00 AM ▼