# Information Session

## Basics of Municipal Finance & Understanding a Budget

Not on the **Town Meeting Member** email list? Contact clerk@norwoodma.gov.

# Special & Annual Town Meeting

Reminder

**Monday, May 11th at 6:30 PM**
**Thursday, May 14th at 6:30 PM**

**Coakley Middle School Auditorium**

Not on the **Town Meeting Member** email list? Contact clerk@norwoodma.gov.

# Upcoming Dates

Access documents related to the Annual and Special Town Meetings.

| Hybrid | Hybrid | |
|---|---|---|
| **MON May 4** | **WEDS MAY 6** | **MON MAY 11** |
| Annual and Special Town Meeting Articles at Norwood High School GSU Room | Community Preservation Act Articles and Petitioner Articles at Norwood High School GSU Room | Town Meeting Begins at the Coakley Middle School Auditorium |
| All begin at 6:30 PM | | |

# Basics of Municipal Finance

# Tax Rate

**Understanding Property Taxes**

The property tax rate is determined by two key factors:

- **Total tax levy** (the amount the Town needs to raise through taxes to fund the budget for the year)
    - The total tax levy is determined after accounting for other sources of revenue, such as state aid, local fees, fines, and any reserves
- **Tax base** is the total assessed value of all taxable property
- Levy ÷ Assessed Value = Tax Rate

While residents often focus on the **tax rate**, a more accurate measure of impact is the **average tax bill**, which reflects what homeowners actually pay

# Single-Family Tax Bill Comparison

| Municipality | Single-Family Values | Single-Family Parcels | Average Single-Family Value | Single-Family Tax Bill | Single-Family Tax Bill as % of Value | DOR Income Per Capita | Average Tax Bill as a % of Income | Rank |
|---|---|---|---|---|---|---|---|---|
| Dover | 3,162,582,300 | 1,854 | 1,705,816 | 19,088 | 1.12 | 318,974 | 5.98 | 9 |
| Needham | 12,980,359,700 | 8,423 | 1,541,061 | 16,690 | 1.08 | 147,409 | 11.32 | 15 |
| Westwood | 5,693,207,322 | 4,552 | 1,250,705 | 16,097 | 1.29 | 135,759 | 11.86 | 19 |
| Sharon | 4,484,074,264 | 5,358 | 836,893 | 14,353 | 1.72 | 88,555 | 16.21 | 25 |
| Walpole | 5,514,548,800 | 6,636 | 831,005 | 10,346 | 1.25 | 71,359 | 14.50 | 58 |
| Dedham | 5,393,102,900 | 6,651 | 810,871 | 9,974 | 1.23 | 72,174 | 13.82 | 67 |
| Easton | 4,362,983,700 | 5,818 | 749,911 | 9,441 | 1.26 | 64,872 | 14.55 | 80 |
| Foxborough | 3,055,183,382 | 4,405 | 693,572 | 9,016 | 1.30 | 67,325 | 13.39 | 89 |
| Canton | 4,812,688,500 | 5,541 | 868,560 | 8,468 | 0.98 | 77,093 | 10.98 | 107 |
| Stoughton | 4,070,258,881 | 6,716 | 606,054 | 7,157 | 1.18 | 41,387 | 17.29 | 157 |
| Norwood | 4,209,659,045 | 5,851 | 719,477 | 7,065 | 0.98 | 57,096 | 12.37 | 162 |
| Randolph | 3,972,230,440 | 7,269 | 546,462 | 6,328 | 1.16 | 33,893 | 18.67 | 202 |

Rank reflects the Single-Family Tax Bill comparison among 350 communities.

*Data from the Department of Revenue/Division of Local Services - April 2026*

# Proposition 2 ½ & The Levy

- Massachusetts law (Ch. 59, §21C) limits how much a town can raise in property taxes each year.
- **The Levy Limit:** The maximum amount the Town is allowed to raise through property taxes each year. It increases by 2.5% annually, plus any new growth from new construction or improvements.
- **The Levy Ceiling:** An absolute cap; the Town can never levy more than 2.5% of the total assessed value of all taxable property, regardless of other factors.
- **New Growth:** Additional levy capacity generated by new construction, renovations, or changes in property use.
    - Added to the levy limit each year on top of the 2.5% increase.
- Norwood typically budgets below the levy limit, meaning there is “excess levy capacity”.
    - The Town could raise more in taxes than it currently does.

# Prop. 2½ Overrides

- A vote to permanently increase property taxes beyond the annual limit set by Proposition 2½.
- The Board of Selectmen votes to place the question on the ballot; a majority vote of registered voters is required for approval.
- Town Meeting may vote a contingent appropriation in anticipation of a favorable ballot result.
- If approved, the tax increase becomes a permanent part of the tax base.

# The Budget Process

- Fiscal Year:  July 1 – June 30.
- The budget development process is a lengthy multi-step process; begins in October.
- Town Department Requests > General Manager.
- School Department Requests > Superintendent > School Committee.
- All budgets > Budget Balancing > Board of Selectmen/Finance Commission.
    - All public meetings open to residents.
- Annual Town Meeting in May is the final step for approval of the next fiscal year’s budget (FY2027).

# What the Budget Represents

- A clear statement of community priorities, showing how and where public funds are allocated
- Represents a snapshot in time
  - An informed estimate of anticipated costs for the upcoming fiscal year
- Includes departmental operating budgets and shared municipal expenses
- Reflects a largely fixed cost structure, with changes made incrementally each year
- Serves as an official financial record — used for accounting, compliance, and transparency

# Sample Departmental Budget

**TOWN OF NORWOOD**
**FISCAL 2027 OPERATING BUDGET - SUMMARY OF DETAIL ACCOUNTS**

| Line | Accounts & Descriptions | FY2023 Actual | FY2024 Actual | FY2025 Actual | FY2026 Budget | FY2027 Request |
|---|---|---|---|---|---|---|
| | **1-GENERAL GOVERNMENT** | | | | | |
| | 135-FINANCE & ACCOUNTING | | | | | |
| | *0001-SALARIES* | | | | | |
| 28 | 011351-511000: SAL-DEPT HEAD | 182,198 | 178,937 | 185,000 | 193,077 | 195,499 |
| 29 | 011351-511600: SAL-FULL TIME | 227,201 | 246,930 | 269,901 | 296,332 | 303,192 |
| 30 | 011351-511700: SAL-PART TIME | - | - | 4,000 | 4,000 | - |
| 31 | 011351-514100: LONGEVITY PAY | 750 | 750 | 750 | 850 | 850 |
| | **0001-SALARIES TOTAL** | **410,149** | **426,617** | **459,651** | **494,259** | **499,541** |
| | *0002-OPERATING EXPENSES* | | | | | |
| 32 | 011352-524100: EXPENSE-EQUIP REPL/REPAIR | 100 | - | 167 | - | - |
| 33 | 011352-542100: OFFICE SUPPLIES | 900 | 525 | 1,880 | 1,300 | 1,300 |
| 34 | 011352-571100: TRAVEL ALLOWANCE | - | 134 | - | - | - |
| 35 | 011352-573100: DUES & SUBSCRIPTIONS | 940 | 450 | 869 | 1,100 | 1,100 |
| 36 | 011352-573300: CONFERENCES | 1,202 | 2,764 | 3,636 | 4,500 | 4,500 |
| 37 | 011352-578200: MISC EXPENSES | 22,554 | 361 | 277 | 1,200 | 700 |
| 38 | 011352-579600: TRAINING/SCHOOL | 1,268 | 4,107 | 5,703 | 4,300 | 4,800 |
| 39 | 011352-595700: UNPAID BILLS | 32,787 | 21,566 | 2,141 | - | - |
| | **0002-OPERATING EXPENSES TOTAL** | **59,751** | **29,907** | **14,673** | **12,400** | **12,400** |
| | 135-FINANCE & ACCOUNTING TOTAL | $469,900 | $456,523 | $474,323 | $506,659 | $511,941 |

# Revenue Sources

Review revenue data analytics from MA Division of Local Services. **(Use drop-down to choose Norwood.)**

- Tax Levy
  - Property taxes; includes a 2.5% annual increase plus estimated new growth and debt exclusion from the middle and high school construction projects
- Local Receipts
  - Motor vehicle excise tax, Meals and Room taxes, PILOTs (Payments in Lieu of Taxes), Ambulance revenues, School Based Medicaid Program, Building Permits, Licenses, Fees, Fines, etc
- State Aid
  - Funding received from the Commonwealth to support public education (Chapter 70 Aid) and General Government operations (Unrestricted General Government Aid - UGGA)
- Other Sources
  - Free Cash
    - Certified surplus funds from prior fiscal year

# Where Does Your Tax Dollar Go? - Expenditure Categories

- **General Government - 4%**
  - Selectmen, General Manager, Finance Commission, Finance & Accounting, Assessors, Treasurer, Town Counsel, Human Resources, Information Technology, Town Clerk, Elections and Community Development
- **Public Safety - 14%**
  - Police, Fire, Building Commissioner. Emergency Management and Traffic Control/Fire Alarms
- **Infrastructure - 6%**
  - Public Works, Engineering, Road Maintenance, Snow & Ice Removal, Waste Collection, Airport, Cemetery and Parks Maintenance
- **Health & Human Services - 1%**
  - Board of Health, Council on Aging and Veterans Services
- **Culture & Recreation - 2%**
  - Library, Recreation and Celebrations
- **Shared Costs - 35%**
  - Facilities, Debt Service, State and County Assessments, Regional Schools, Retirement/Pension, Workers Compensation, Health Insurance, Medicare, Capital Equipment, Liability Insurance, Reserve Fund and Transfers to Permanent Funds
- **Education - 38%**
  - Norwood Public Schools

# Debt Service

Debt service refers to the repayment of money the Town borrows to fund major capital projects such as building repairs, facility upgrades, or the purchase of large equipment.

- **Comparable to a Loan:** Just like a home mortgage or auto loan, the Town must repay the borrowed amount over time, with interest.
- **Credit Rating Matters:** The interest rate on these loans is influenced by the Town's credit rating. In Norwood's case, bond buyers look to the Standard & Poor's rating, which currently stands at AA+, indicating very high credit quality and very low credit risk.
- **Borrowing Restrictions:** By law, municipalities cannot borrow money to cover operating expenses or to balance the annual budget—borrowing is strictly for capital investments.

# Debt Service

Prop. 2½: State law that restricts the amount of property taxes a community can raise in a given year and in total. A community may not raise property taxes by more than 2.5% of the total taxable value of the community.

Three types of debt service:

**Within the Levy**
Debt for lawful projects funded within the Town's regular operating budget. These payments are subject to the same limitations as other budget items under Proposition 2½.

**Outside the Levy (Debt Exclusion)**
Debt approved by both Town Meeting and voters to be paid outside the limits of Proposition 2½. It is funded through a temporary property tax surcharge and tied to a specific project—for example, the Coakley Middle School building project.

**Paid by Utilities**
Debt associated with water, sewer, light, and broadband projects. These costs are not paid through taxes but are instead covered by revenues from customer rates (i.e., utility bills).

# Debt Service

**Town Debt Overview (as of July 2025)**

- **Total Outstanding Debt**: $195,829,874
  - General $ 39,697,600 School $105,247,400
  - Water & Sewer $ 28,409,874 Electric & Cable $ 22,475,000

**FY27 Annual Debt Payments – General Fund/Schools**

- **Inside the Levy** (within the regular operating budget): $4,653,370
- **Outside the Levy** (Debt Exclusion, funded by temporary tax increases): $7,855,415
  - **Debt Exclusion Details**
    - **High School Project**
      - FY27 Payment: $1,482,165 | Final Payment Year: 2035
    - **Middle School Project**
      - FY27 Payment: $6,373,250 | Final Payment Year: 2048

# Capital Planning

**Capital Improvement Plan (CIP)** A multi-year plan that identifies, prioritizes, and funds major infrastructure and equipment needs.

- **Capital Outlay Committee**
  - Reviews and prioritizes capital requests from all departments.
  - Presents Capital Plan at the Fall Town Meeting for voter approval.

- **Capital Included in Annual Operating Budget**
  - Allows for regular, planned replacement of vehicles, equipment, and technology.
  - Reduces reliance on debt financing for smaller recurring purchases.

# Community Preservation Act (CPA)

- A state program (M.G.L. Ch. 44B) that allows communities to raise funds for open space, historic preservation, community housing, and recreation.
- Norwood is a 1% CPA community -- a 1% surcharge is added to property tax bills and is matched in part by the Commonwealth through the CPA Trust Fund.

CPA funds are kept in a separate dedicated account -- they do not flow through the General Fund and are not included in the operating budget totals.

Town Meeting votes to allocate CPA funds to eligible projects -- funds are transferred to allowable categories, not spent directly through the operating budget.

# What is Free Cash?

Free Cash is a surplus of revenue or unspent budget funds from a prior fiscal year. Although often referred to as "undesignated fund balance," this is not its official designation.

It must be certified by the Commonwealth before it can be used and is recertified annually as of June 30.

Free Cash is a one-time revenue source and, as such, is not suitable for funding recurring expenses. Best practice is to use Free Cash for one-time investments, such as capital purchases or contributions to reserves. However, in certain instances, it may be necessary to use it for other purposes, despite not being ideal for ongoing costs.

When used strategically, Free Cash can:

- Buy time to stabilize the budget
- Minimize community impact
- Maintain continuity in service delivery and workforce

## Calculating Free Cash

- Surplus revenue: Revenue collections in excess of estimated revenues
- Budget turn backs: Unexpended appropriations
- Prior year's free cash: The fund balance from June 30 that had not been appropriated for the current year's budget
- Outstanding property taxes: Taxes collected from prior years

## Threats to Free Cash

- Unanticipated Expenditures
- Underestimated benefit liabilities
- Revenue Shortfalls
    - The Town consistently budgets revenues cautiously, helping to mitigate risk

# Free Cash Example #1

An employee earns $1k per week. We have budgeted $52k for the employee this year.

The employee resigns and the position is vacant for 5 weeks. The new employee earns that same salary for the remainder of the year.

The “extra” $5k that would be left in the budget would go to Free Cash.

# Free Cash Example #2

We budgeted $100k as our estimated revenue from building permits.

At the close of the year, we have only received $95k.

The “short” amount of $5k would be deducted from Free Cash.

# Reserve Fund

The Finance Commission Reserve Fund is a designated fund used strictly for unforeseen and emergency expenses that arise during the fiscal year. While some communities may refer to similar funds as a “contingency” or “budget overlay,” these terms are not officially used in Massachusetts.

- **Restricted Use**: The fund is reserved for unforeseen expenses only and requires Finance Commission approval to access; other uses need a Town Meeting vote.
- **Not for Routine Needs**: It cannot be used for known budget shortfalls or planned supplemental appropriations.
- **Supports Stability**: Helps maintain budgetary flexibility and fiscal health; unspent funds close to Free Cash at year-end.

# What is a Stabilization Fund?

- The Town's primary reserve account; often compared to a savings account, it is intended for emergencies and long-term needs. It plays a key role in supporting the Town's AA+ credit rating and overall financial stability.
- Best practice is to maintain a balance equal to 5–10% of total General Fund expenditures.
- Funds from this account can be appropriated for any lawful purpose by a two-thirds vote of Town Meeting.
- Uses include:
  - Covering unexpected expenses (e.g., major equipment failure, storm damage)
  - Addressing revenue shortfalls (e.g., reductions in state aid, economic downturns)
  - Funding unplanned capital needs or urgent repairs

# Revolving Funds

- A fee or charge is collected to cover the cost of providing a service, and the revenue is then spent directly from that fund to deliver the service.
- Most revolving funds retain their balances at the end of the fiscal year and any remaining funds are carried forward to support future operations. While revolving funds are not intended to generate a profit, maintaining a healthy balance ensures that programs remain financially stable and can handle unexpected shortfalls without impacting the general budget.

School Cafeteria Receipts: Cost of providing lunch is paid into the fund by lunch charges; service is paid out of that same fund

Recreation Programs: Users pay a fee for a program or class and the cost of that program or class is paid out of the same fund

# Norwood’s Utility and Enterprise Funds

Norwood manages three self-supporting funds for essential services:

- **Electric**
- **Broadband**
- **Water & Sewer** (operated as a combined **enterprise fund**)

Key principles:

- **Restricted Use**: These funds can only be used for expenses directly related to their respective services.
- **No Tax Support**: General Fund (tax) dollars **cannot** be used to cover utility or enterprise fund expenses.
- **Chargebacks for Shared Services**: A system of **indirect cost allocations** ensures each fund pays its fair share for services like billing, finance, and administrative support provided by the Town.

# Questions?

# Special & Annual Town Meeting

Reminder

Monday, May 11 at 6:30 PM
Coakley Middle School Auditorium

Not on the **Town Meeting Member** email list? Contact clerk@norwoodma.gov.