NHMA
NEW HAMPSHIRE MUNICIPAL ASSOCIATION
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Budget Basics

NH Town Clerks and Tax Collectors Certification Program

August 11, 2023

KATHERINE HECK,
GOVERNMENT FINANCE ADVISOR

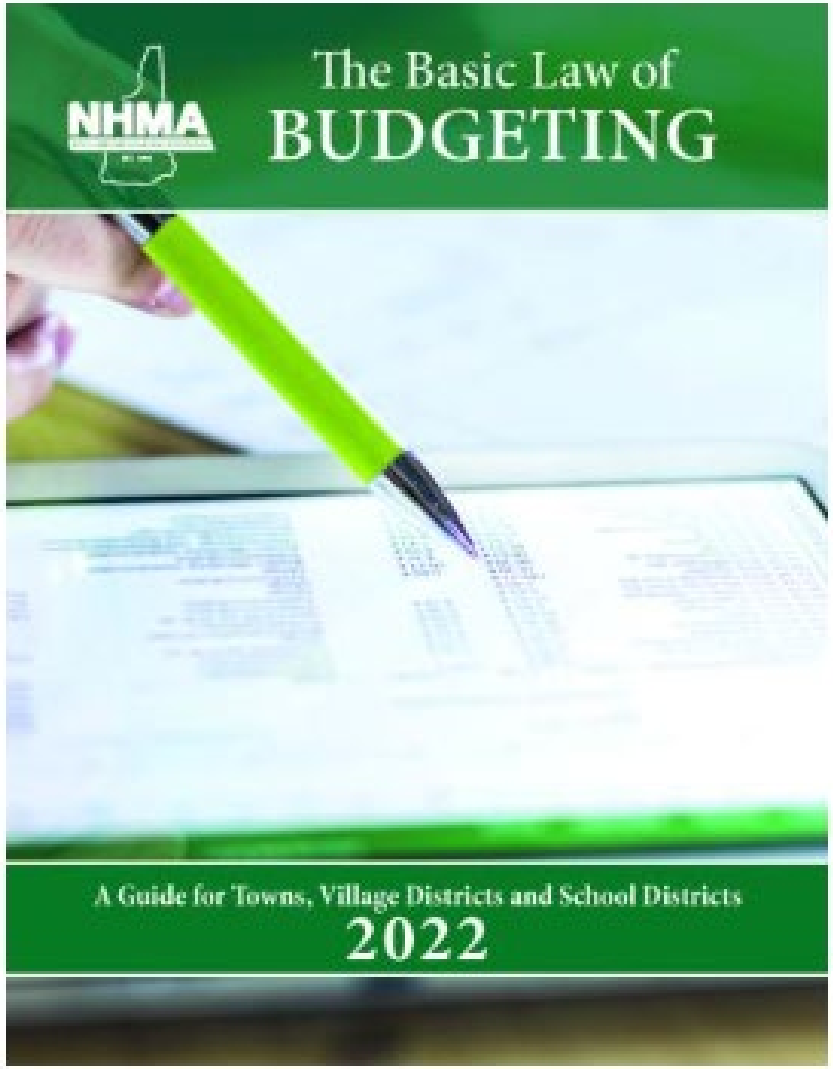
Today's Presentation Agenda

- General Principles
- Key Players
- Budget & Annual Meeting
- Budget Law Basics

Basic Law of Budgeting
New Edition September 2022
Supplement due out September 2023

- Available for digital purchase on NHMA's website: https://www.nhmunicipal.org/store

The Basic Law of Budgeting: A Guide for Towns, Village Districts, and School Districts



General Principle:
Authority of Towns /Cities/ Schools

LOCAL GOVERNMENT RECEIVES ITS AUTHORITY FROM THE STATE

NO HOME RULE AUTHORITY IN NEW HAMPSHIRE

AUTHORITY IS USUALLY FOUND IN STATUTE (RSA) OR RULES

MAY VS *SHALL*

General Principles

- Home Rule?

- ***All*** power comes from legislature.
- Find a law that allows action, either express or necessarily implied.
- Not enough to say "no law says we can't do it."
  - *Girard v. Allenstown*, 121 N.H. 268 (1981).

General Principle: Budgeting Laws

- RSA Ch. 32 (Municipal Budget Law)
- RSA Ch. 33 (Bonds)
- RSA Ch. 35 (Capital Reserve Funds)
- RSA Ch. 31 (Powers & Duties)
- RSA Ch. 39 (Town Meeting)
- RSA Ch. 21-J (DRA)

General Principle: Budget Laws

- RSA Chapter 32 applies to all towns, school districts and village districts adopting budget at annual meeting (including SB 2).

- SB 2 towns, also see RSA 40:13.

- *City and towns charters – special provisions.*

- RSA 44:2 – statutes relating to towns also apply to cities.

General Principles:

Purpose of Budget Law

- Provide uniformity in the manner of appropriating and spending public funds … including those towns, schools and village districts which do not operate with budget committees. RSA 32:1

General Principles

- Violators may be removed from office under RSA 32:12
  - Petition to superior court
  - Budget committee or any interested person may initiate
  - Removal is not automatic
- DRA can ***disallow appropriations*** made in violation of budget law.

The Annual Meeting Process: Key Players

- Legislative Body
- Governing Body
- Budget Committee

Key Players

- **Legislative body:** town meeting, school or village district meeting, city council, board of mayor and aldermen.

- **Governing body:** board of selectmen, school board, district commissioner, city council, board of mayor and aldermen.

- **Budget Committee**- Official vs Advisory

Key Players:

Budget Committees

- Not required
- Official: adopted by legislative body under RSA 32:14
- Advisory: unofficial, established by selectmen or legislative body but ***not*** under RSA 32:14

Whose Budget Is It?

- Budget = recommended “plan” for spending
- Only the voters adopt a budget!
- Budget cuts & *Brentwood School District v. Brentwood Budget Committee* case

The Town Meeting/ Legislative Body/Voters

Approves all appropriations

Votes to create and fund common municipal funds

Citizen authority to propose appropriations by petition

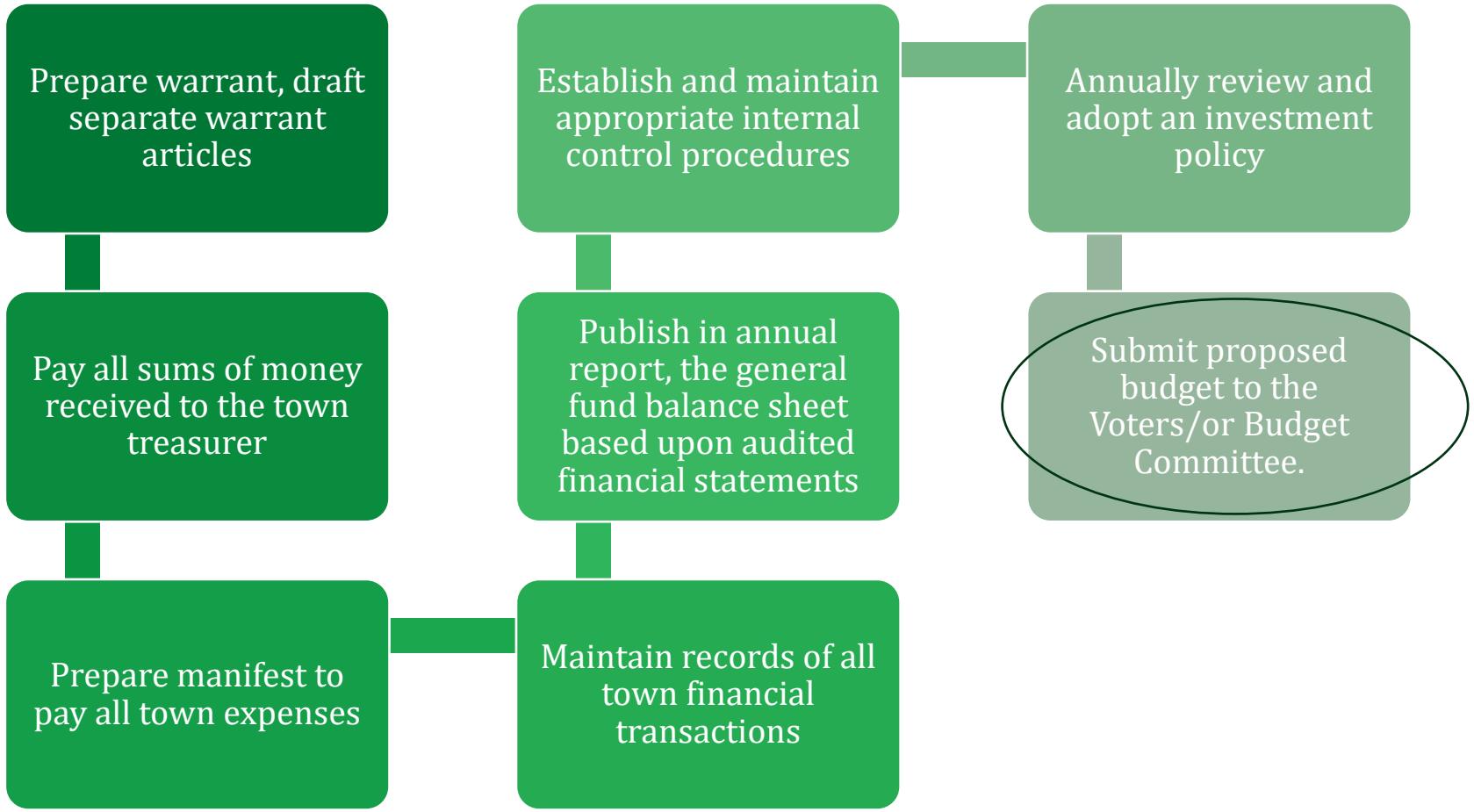
May amend separate articles to reduce or zero out appropriations

May amend budget to reduce (or increase) total bottom line appropriation

Can zero out line-item appropriations in DRA budget form

Key Players:
Governing Body –Budget Role

*21:48 Governing Body. – the term "governing body" shall mean the board of selectmen in a town, the board of aldermen or council in a city or town with a town council, the school board in a school district or the village district commissioners in a village district



Key Players:

Official Budget Committee Duties and Responsibilities

To prepare the budget as provided in RSA 32:5, and, if the municipality is a town, the budgets of any school district or village district wholly within the town, unless the warrant for such meeting does not propose any appropriation.

To confer with the governing body or bodies and with other officers, department heads and other officials, relative to estimated costs, revenues anticipated, and services performed to the extent deemed necessary by the budget committee. It shall be the duty of all such officers and other persons to furnish such pertinent information to the budget committee.

To conduct the public hearings required under RSA 32:5, I.

To forward copies of the final budgets to the clerk or clerks, as required by RSA 32:5, VI, and, in addition, to deliver 2 copies of such budgets and recommendations upon special warrant articles to the respective governing body or bodies at least 20 days before the date set for the annual or special meeting, to be posted with the warrant.

The parties are set forth in RSA 32:15

- 3-12 members at large, 3-year terms
- Ex officio members of governing bodies
- No full-time employees

The mission is in RSA 32:16

- Prepare the budget for submission to the voters
- Confer with governing bodies and departments
- Conduct the public hearings
- Forward budget documents for inclusion in the warrant

OFFICIAL BUDGET COMMITTEE
The Statutory Scheme

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Status of Ex-Officio Budget Committee Members

- The membership of an elected municipal budget committee is prescribed by RSA 32:15 and shall include one member ***each*** from the select board, school board and village district located in town.
- These Ex-Officio members serve as full voting members of a municipal budget committee – this is not optional, it is mandatory.
- Budget Committees cannot by procedural rule make these Ex-Officio representatives non-voting members: *Town of Hudson and Hudson School District v. Hudson Budget Committee* – Hillsborough County Superior Court- Case No. 2022-CV-00223, 8/15/22

Summary of the Official Budget Committee Responsibilities

- Review current year's expenditures
- Review proposals, request information
- Prepare budget
- Schedule and hold budget hearings
- Forward final proposed budget to governing body
- Complete 10% Sheet
- Approve Emergency Expenditure Requests
- **Does not control spending**

Know the Structure

- Official Budget Committee
  - Schedules when selectmen and departments must provide proposed budget
- No official Budget Committee
  - Selectmen decide when department heads submit their proposed budgets
- Town Manager
  - Collects budgets from departments and forwards to Selectmen by January 31

  - Charter Government?

Budget Development

Department heads prepare estimated expenditures and revenue projections and submit to governing body. RSA 32:4. (library trustees may directly submit their proposed budget to budget committee – RSA 202-A:11, II)

Towns with Town Manager – the manager provides the governing body with an estimate of the probable expenditures of the town for the ensuing fiscal year, along with an estimate of revenues. RSA 37:6, V

Select Board reviews information provided under RSA 32:4 and RSA 37:6, V and submits their budget recommendations to the budget committee.

Budget Committee prepares the budget as provided in RSA 32:5, and if authorized under RSA 40:14-b, a default budget under RSA 40:13. RSA 32:16, I.

Lots of Meetings

- ***Budget Committee/Governing Body Meetings***: unlimited number, public meeting rules only (RSA 91-A).
- ***Budget Hearings***: on or before certain dates, 7 days notice, limited agenda.
- ***Deliberative Session (SB2)***: date and notice requirements, more limited agenda.

SB 2 –

Official Ballot Referendum

- 2 sessions for meetings, dates differ from traditional meeting dates.
- **First session** (deliberative), voters discuss and amend articles.
- **Second session –** voting and elections
  - Vote on articles as set by first session
  - Ballot vote only, no discussion or amendment.

SAMPLE BALLOT

OFFICIAL BALLOT
ANNUAL TOWN ELECTION
LONDONDERRY, NEW HAMPSHIRE
MARCH 10, 2009

TOWN CLERK

INSTRUCTIONS TO VOTERS

A. TO VOTE, completely fill in the OVAL to the RIGHT of your choice(s) like this: ●
B. Follow directions as to the number of candidates to be marked for each office.
C. To vote for a person whose name is not printed on the ballot, write the candidate's name on the line provided and completely fill in the OVAL.

TOWN COUNCIL — Three Year Term — Vote for not more than One

- DANA E. COONS
- "JOE" GREEN
- DANIEL LEKAS
- "CRIS" NAVARRO
- SEAN O'KEEFE
- TAMMY SIEKMANN
- (Write-in)

BUDGET COMMITTEE — Three Year Term — Vote for not more than Two

- RICHARD DILLON
- TODD JONCAS
- ADAM NATHANIEL WAITT
- (Write-in)
- (Write-in)

TRUSTEE OF LEACH LIBRARY — Three Year Term — Vote for not more than Two

- BETSY MCKINNEY
- VICKI STACHOWSKE
- (Write-in)
- (Write-in)

TRUSTEES OF TRUST FUNDS — Three Year Term — Vote for not more than One

- "BOB" SAUR
- "DAN" TAMBURELLO
- (Write-in)

ARTICLES

ARTICLE NO. 2 *[BOND ISSUE FOR REPLACEMENT OF NORTHWEST SUBSTATION]*

To see if the Town will vote to raise and appropriate **ONE MILLION NINE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS ($1,975,000)** for the purpose of constructing a replacement fire substation in North/West Londonderry.

Said sum to be raised by the issuance of serial bonds or notes not to exceed **ONE MILLION NINE HUNDRED THOUSAND DOLLARS ($1,900,000)** under and in compliance with the provisions of the Municipal Finance Act (NH Revised Statutes Annotated Chapter 33) and to authorize the Town Council to issue and negotiate such bonds or notes, to determine the rate(s) of interest thereon and to take such other actions as may be necessary to effect the issuance, negotiation, sale and delivery of such bonds or notes as shall be in the best interest of the Town of Londonderry, and to authorize the Town Council to accept any funds from the State of New Hampshire, the Federal Government, and private sources, as may become available, and pass any vote relating thereto; and further, to raise and appropriate **SEVENTY FIVE THOUSAND DOLLARS ($75,000)** for the first year's interest payment and bond issuance cost on said bond, and to authorize the transfer of the June 30 fund balance in that amount for this purpose. (Ballot Vote – 60% approval required) YES ○ NO ○

(If passed, this article will require the Town to raise $0 in property taxes, resulting in a tax rate impact of $0.00 in FY 10; $190,000 in property taxes, resulting in a tax rate impact of $0.06 in FY 11; and $185,250 in property taxes, resulting in a tax rate impact of $0.06 in FY12, based upon projected assessed values.)

This article is supported by: Town Council - (Yes: 3-2-0) Budget Committee - (Yes: 7-0-0)

ARTICLE NO. 3 *[BOND ISSUE FOR HIGHWAY RECONSTRUCTION]*

To see if the Town will vote to raise and appropriate **ONE MILLION FORTY-EIGHT THOUSAND DOLLARS ($ 1,048,000)** for the reconstruction of roads.

Said sum to be raised by the issuance of serial bonds or notes not to exceed **ONE MILLION DOLLARS ($1,000,000)** under and in compliance with the provisions of the Municipal Finance Act (NH Revised Statutes Annotated Chapter 33) and to authorize the Town Council to issue and negotiate such bonds or notes, to determine the rate(s) of interest thereon and to take such other actions as may be necessary to effect the issuance, negotiation, sale and delivery of such bonds or notes as shall be in the best interest of the Town of Londonderry, and to authorize the Town Council to accept any funds from the State of New Hampshire, the Federal Government, and private sources, as may become available, and pass any vote relating thereto and further, to raise and appropriate **FORTY EIGHT THOUSAND DOLLARS ($48,000)** for the first year's interest payment and bond issuance costs on said bond and to authorize the transfer of the June 30 fund balance in that amount for this purpose. (Ballot Vote – 60% approval required) YES ○ NO ○

(If passed, this article will require the Town to raise $0 in property taxes, resulting in a tax rate impact of $0.00 in FY 10; $140,000 in property taxes, resulting in a tax rate impact of $0.04 in FY 11; and $136,000 in property taxes, resulting in a tax rate impact of $0.04 in FY12, based upon projected assessed values.)

This article is supported by: Town Council - (Yes: 5-0-0) Budget Committee - (Yes: 7-0-0)

Annual Meeting : Procedural Requirements for Valid Appropriations (Budget Creation)

- ✓ Public budget hearing
- ✓ Disclosure of purpose and amounts at hearing (including sub-account information)
- ✓ Disclosure of default budget at first budget hearing
- ✓ Budgeting on gross basis
- ✓ Recommendations
- ✓ Warrant Notice
- ✓ Listing of all appropriations and separate warrant articles on posted budget

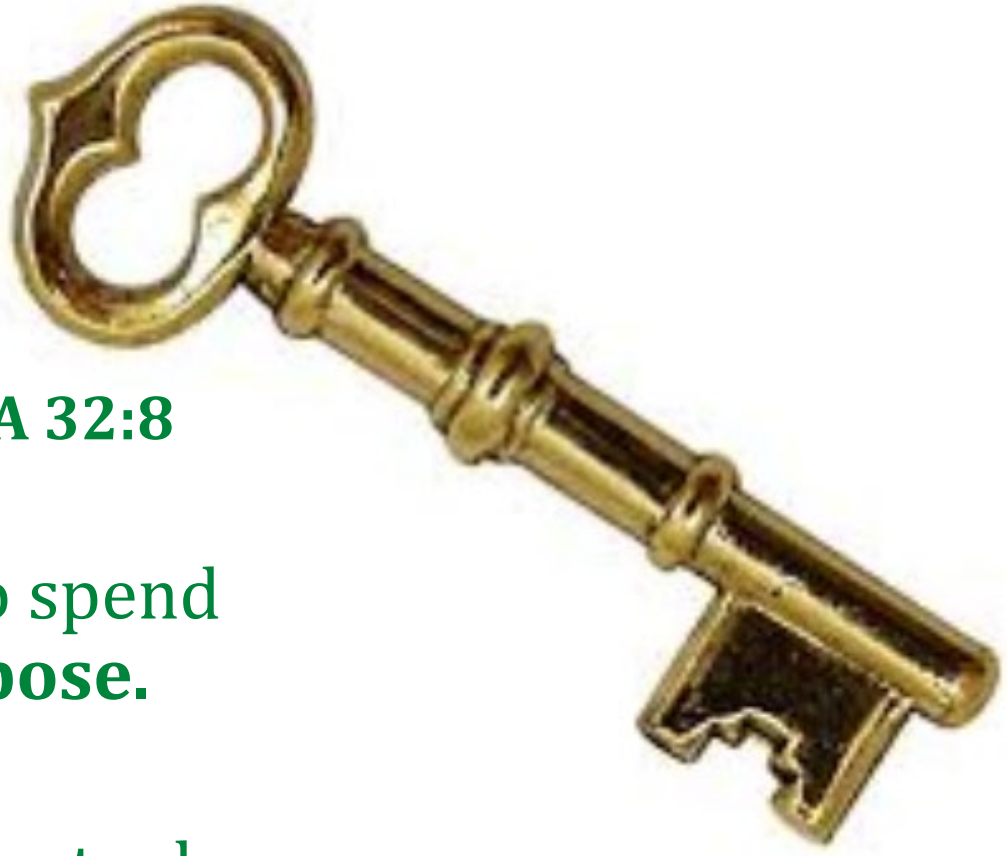
Three Potential Times for Budget Modifications

- Governing body may modify the request of any municipal department prior to submitting its proposed budget to the budget committee. (RSA 32:4 ; 32:17)
- Budget committee may modify the proposed budget during the budget preparation process. (This may be either before or after the statutorily required public hearing.) (RSA 32:3 & 32:5)
- Town meeting may see a voter make a motion to modify the budget

7 Key Budget Concepts

- Appropriations
- Gross Basis Budgeting
- Warrant Notice and Amendments
- No Spending Without an Appropriation
- Lapse of Appropriations
- Transfer of Appropriations
- 10% Limitation in Budget Committee Towns

Key Concept #1



Appropriations

- **No Spending without an Appropriation- RSA 32:8**

- Legislative body policy decision, vote to spend an amount of money for a **specified purpose.**

- Authorization to spend money; not the actual spending of money.

Appropriations

- **Raise**: identify the source of funds, otherwise taxation.
- **Appropriate**: set apart a certain sum for a specified purpose.
- **Purpose**: goal or aim to be accomplished through expenditure of public funds
- Not limited to DRA MS-636 or MS-737 form.

Appropriations

What are "proper public purposes"? Per RSA 31:4, it's any public purpose not prohibited by N.H. Constitution or by any law.

- Public purpose vs. public benefit.
- Implied authority to appropriate.

Appropriations

- Incidental private benefit may be legal
  - Main purpose: to promote public welfare
  - *Quid pro quo* – ability to enforce
  - Obligation to benefit municipality

No Means No RSA 32:10, I (e)

- ***IF***
  - Budget line item reduced to zero or
  - Separate warrant article with appropriation defeated reduced to zero.
- ***THEN***
  - That “purpose” is deemed to be one where no appropriation is made.
  - No money may be spent for that defeated purpose during the ensuing fiscal year.

Appropriations

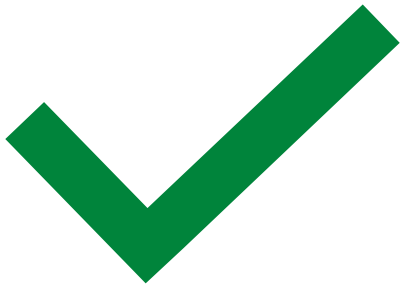
- How specific should articles be?

- Legislative body (voters) set policy but may want to leave governing body flexibility on the details.

- Too specific - may not be able to act

- Always state ***specific amount.***

Appropriations



Warrant Articles:
Specificity vs. Flexibility

"To see if the town will raise and appropriate $30,000 to purchase the black Ford F250 currently for sale at Greg's Used Auto Shop."

Appropriations

- **Contingency Funds** – towns may establish contingency funds by ***separate*** warrant article at annual meeting to address unexpected expenses RSA 31:98-a; RSA 32:11. Can not exceed 1% of the amount appropriated during the prior year (excluding capital expenditures and debt service). Must report expenditures in annual report.
- **Prohibited:**
  - Sinking funds for debt payments? No!
  - RSA 33:3 – can not bond to pay for current maintenance and operations, except as specifically provided by law.

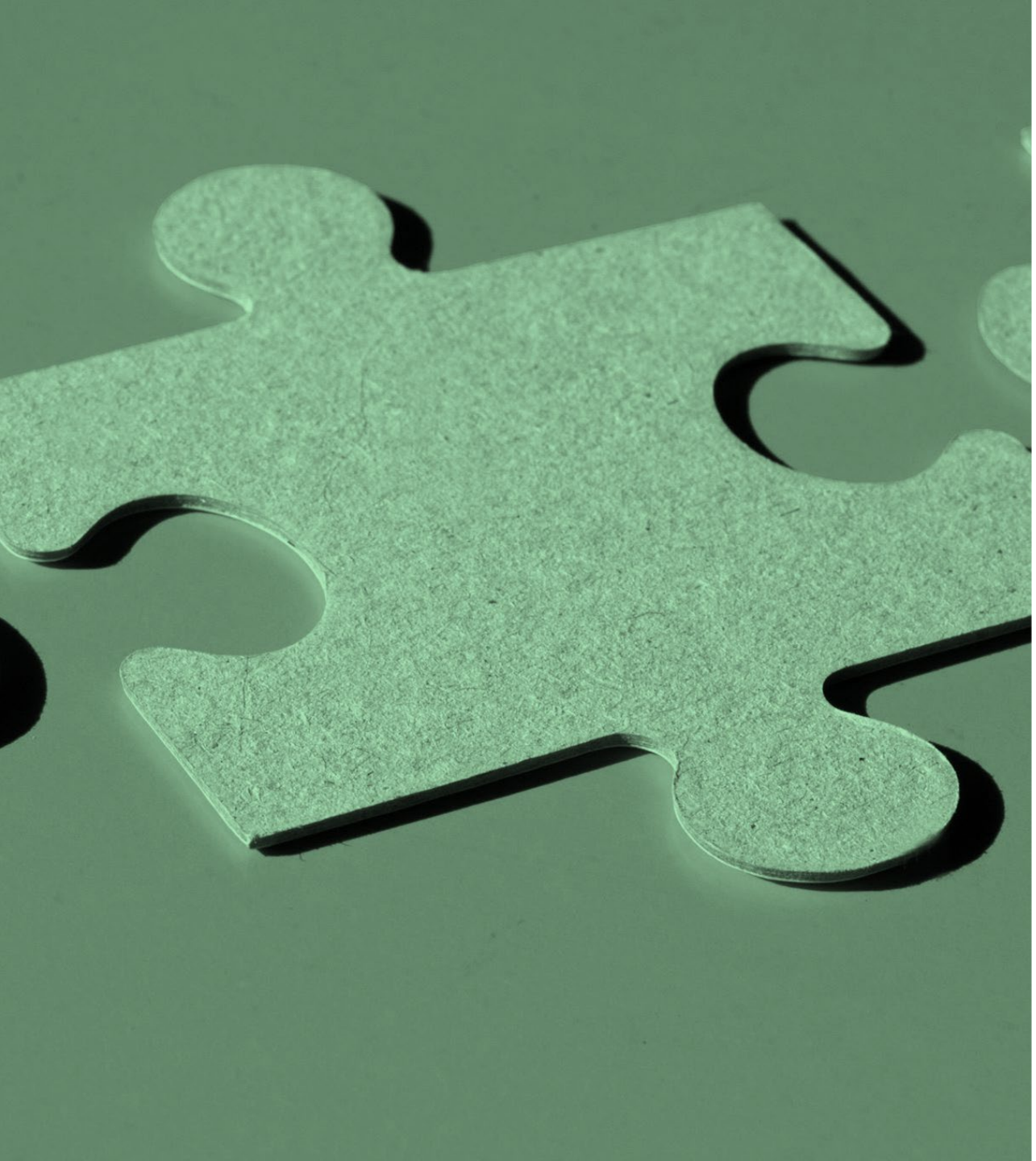
Appropriations

Tax/Spending Caps

- Legislative body may adopt a cap on annual increases in estimated amount of taxes in the proposed budget, RSA 32:5-b and 32:5-c.
- Fixed dollar amount or fixed percentage.
- Only limits ***proposed*** budget.
- If fund balance reduced prior year's taxes, that amount is added back to calculate tax cap.
- Cities may have special tax cap provisions in charter.

Appropriations

- All purposes must be "***discussed or disclosed***" at public hearing, raised by Budget Committee, Selectmen or public.
- New purposes and additional amounts **may** be brought up at a hearing. Budget committee/governing body can take those suggestions…or not.
- After hearing is closed, no new purpose or amount may be added by budget committee or governing body without another hearing. However, budget items can be reduced or eliminated.



Appropriations

Collective Bargaining Agreements

- "Cost Item" - any benefit acquired through collective bargaining whose implementation requires an appropriation.

- Disclose cost items by "submission date" (petitioned article deadline).

Collective Bargaining Agreements

- If cost items aren't agreed on by submission date, need special meeting.
- 'Emergency' court permission required.
- If original article is defeated, special meeting required for revised cost items.
- No court permission needed for another meeting if authorization part of original warrant (RSA 31:5, III).

Key Concept #2

Gross Basis Budgeting

- Budget must show total cost and anticipated revenue from ***all*** sources (estimates?)
- Revenues not shown cannot be spent.
- Include total amount in "raise and appropriate" clause, then break into different revenue sources.

- See DRA technical assistance page for suggested warrant articles http://www.revenue.nh.gov/mun-prop/municipal/technical-assistance.htm

Gross Basis Budgeting
RSA 32:5, III

All anticipated revenue from all sources, not just tax money, must be shown as offsetting revenues to the amounts appropriated for specific purposes.

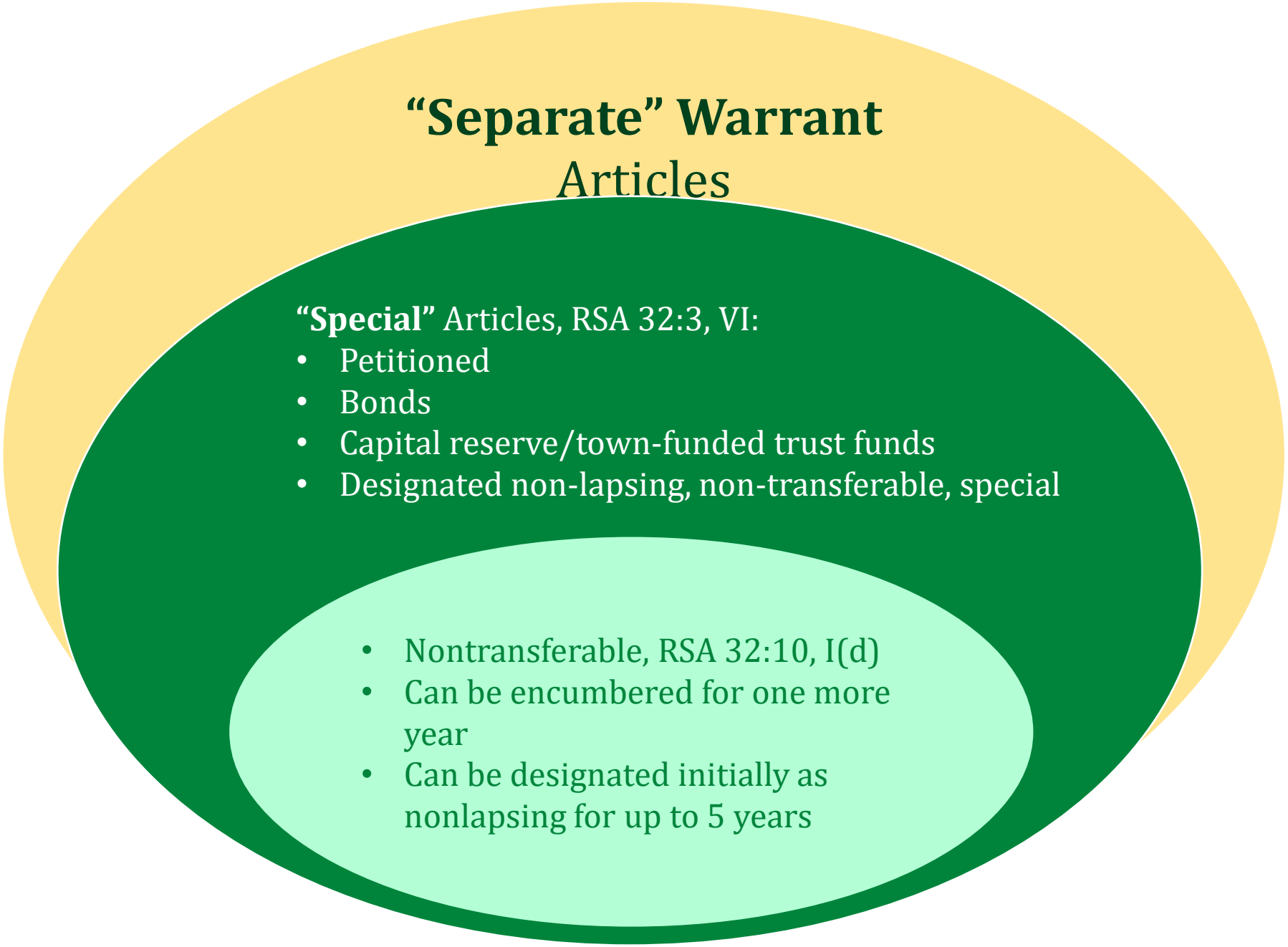
Revenues other than taxes raised may include grants, gifts, bond issues and proceeds of the sale of municipal property.

With a few exceptions revenues not appropriated cannot be spent.

Gross Basis Budgeting

Special Warrant Articles

- Petitioned appropriations articles
- Bond issues
- Appropriation **into or out of** capital reserve or expendable trust funds
- Designated by the governing body as "special," "non-lapsing," "non-transferable"
- Capital project appropriations under RSA 32:7-a (multi-year appropriation)


“Separate” Warrant Articles
“Special” Articles, RSA 32:3, VI:
• Petitioned
• Bonds
• Capital reserve/town-funded trust funds
• Designated non-lapsing, non-transferable, special
• Nontransferable, RSA 32:10, I(d)
• Can be encumbered for one more year
• Can be designated initially as nonlapsing for up to 5 years

General Warrant Article Suggestions

- Disclose gross appropriation
- Disclose revenue sources
- Consider order of articles
- Consider statutory wording and vote requirements
- Contact your municipal attorney for specific warrant article language

Budget Preparation

Whose numbers go on the warrant?

- The Budget Committee, operating budget only. See RSA 32:16
- The DRA form MS737 clearly shows both the select board's proposal and the budget committee proposal

When are the numbers finalized?

- After the budgetary public hearing (RSA 32:5)
- After the budget committee determines its final recommendations on the numbers to be presented

Recommendations
RSA 32:5, V, V-a, V-b

Made by budget committee and governing body, also applies to advisory budget committees

Only on “special warrant articles”, see definition in RSA 32:3, VI

Tally is printed in the warrant by the article, without names of who is for or against

Body takes a vote in a public meeting and records a numerical tally of result

Same concept for estimated tax impact of an article

Recommendations & Numeric Tallies
RSA 32:5, V & V-a

Recommendations:

- Required on special articles, 32:5, V
- Required on collective bargaining cost items, 32:19
- Defects/deficiencies don't affect validity of appropriations, 32:5, V

Olson v. Grafton:

- recommendations on non-money articles allowed by governing body

What Else Goes on Warrant / Ballot?

- Only those things required or permitted by law, nothing extra.
- Actual question, recommendations.
- Estimated tax impact, RSA 32:5, V-b
  - If adopted by legislative body
  - On operating budget and all special articles with a tax impact, as determined by governing body
  - Estimate subject to governing body approval.

Key Concept #3

Notice and Amendments

- Appropriation valid **only if** subject matter appears in warrant (RSA 32:6).
- New purposes/line items cannot be added from the floor of the meeting.
- Whether traditional meeting or SB 2.

Public Hearing

RSA 32:5, I Budget committee holds at least one public hearing not later than 25 days prior to the meeting. Notice 7 days in advance.

Do not finalize the budget until the public hearing has been held

All purposes or amounts of appropriation must be disclosed and discussed at the public hearing,

Even if the budget committee is opposed, or refuses to include the amount in its budget recommendation

Uniform Chart of Accounts and Sub-Accounts

- By Statute and Rule the DRA establishes a uniform chart of accounts, a standard numbering and classification system for accounting by cities and towns. RSA 21-J:13, IV; NH Admin Code Rev 1701.11
- Effective 2021, Municipal Budget Law REQUIRES the governing body to provide to the budget committee sub-account information, defined as "an optional level of accounting, one or more levels below the account level," which, if used, must support the numbering classification system established by the DRA
- Any detail included in sub-accounts must be made available for public inspection at the town's budget hearing and must be included in the information provided to the budget committee
- The new law also requires the governing body to provide information to the budget committee in a format acceptable to the budget committee, but states that this requirement may be satisfied "by providing the assistance of a knowledgeable staff person who will attend the budget committee meetings with access to and the ability to provide the required information."

Amendments

- Voters may amend from the floor (traditional and 1st session of SB 2).

- Proposed appropriations must appear in line items or separate articles.

- Selectmen's/budget committee's budget is advisory only.

- Voters can't restrict later transfers.

Amendments

- Alter mode of funding, generally okay.

- However - DRA has disallowed as failure to warn of subject matter an appropriation to CRF, amended to accomplish purpose this fiscal year

Key Concept # 4

No Spending without Appropriation

- No spending unless that **amount** was appropriated for that **purpose** (RSA 32:8 for towns, RSA 44:2 for cities)
  - Town meeting vote
  - Includes non-tax revenue.

No Spending without Appropriation

Exceptions to the Rule

- Transfers by governing body to a purpose already in the budget, RSA 32:10
- Legal judgments ordered by a court
- DRA permission to overspend bottom line or add appropriation, RSA 32:11
- Prior mandate of federal/state government (welfare or special education)
- Prior contract requiring spending more than appropriated
- Spending Jan. 1 until town meeting, RSA 32:13, II. Must be reasonable in light of prior year, same purposes.

No Spending without Appropriation

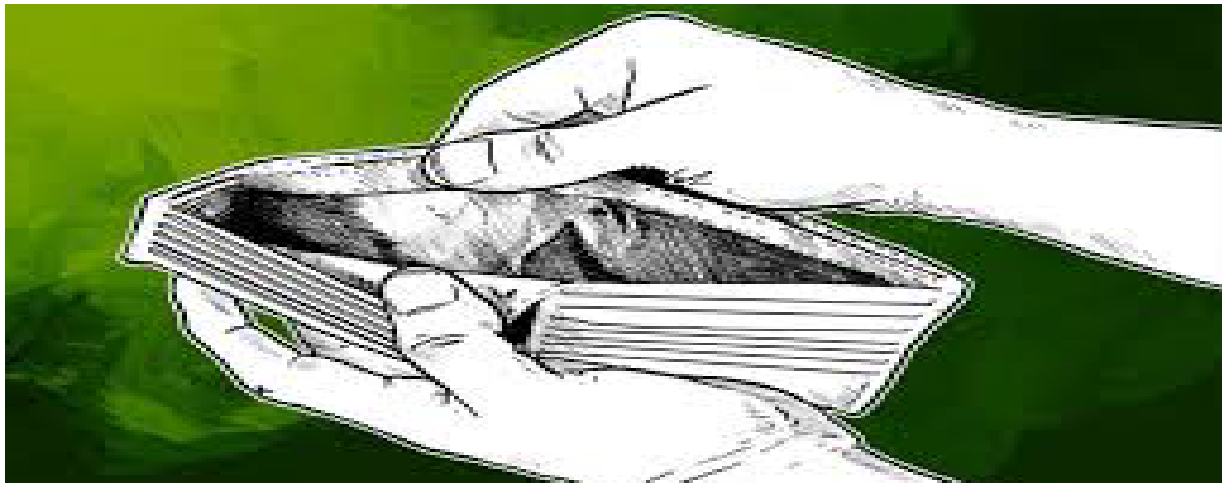
More Exceptions to the Rule

- Unanticipated revenue (RSA 31:95-b) – public hearing required if > $10,000
- Capital Reserve and Trust Funds
- Other funds such as water and sewer
- Multi-year contracts
- Collective bargaining agreements - “Sanbornize”
- Multi-year equipment leases - without escape (non-appropriation) clause it is considered long-term debt, RSA 33:7-e.

Key Concept #5

Lapse of Appropriations

- Authority to spend **lapses at year end**
  - Year end = fiscal year end
- Unspent appropriations become part of fund balance which is the net amount of:
  - Unexpended **appropriations, plus**
  - **Excess revenues received**; less
  - Uncollected taxes and unpaid liabilities.

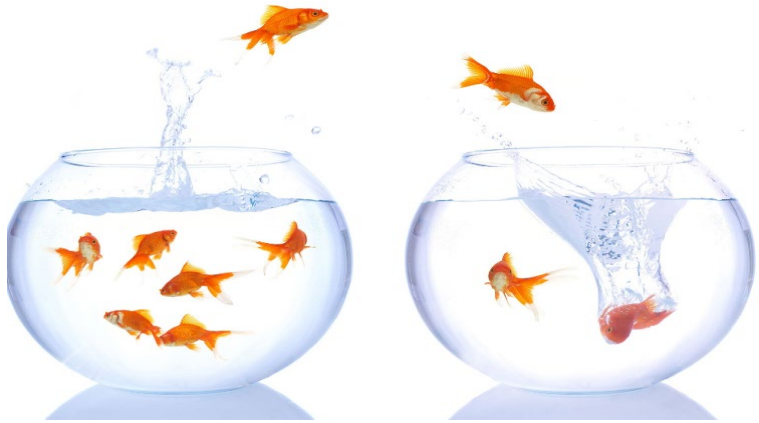


Lapse of Appropriations

Exceptions to Lapse Rule

- Encumbered funds (contracted obligations)
- Special warrant article
- Bonds
- Anticipated grants (RSA 32:7, IV)
- Enterprise Funds/Capital Reserve Funds/Revolving Funds etc.

Key Concept #6



Transfer of Appropriations

- Governing body may transfer from one purpose to another, RSA 32:10.
- Not **out** of special warrant articles, but can transfer into.
- Public record must be kept.
- Cannot overspend the bottom line.

Transfer of Appropriations

- *Sullivan v. Hampton*, 153 N.H. 690 (2006)
  - Affirms governing body's "unfettered" authority to transfer.
  - Applies to ordinary operating budget or default budget in SB 2 towns.
  - No limit on the number of transfers.

Transfer of Appropriations

- Failed separate articles = “No Means No!”
- Purpose deleted, amount zeroed, or failed separate appropriations article, ***means no appropriation is made for that purpose:***
    - Spend no money for that purpose
    - Transfer no money to that purpose.

Transfer of Appropriations

- **Why is "no means no" so difficult?**
  - No one is policing it. Not AG's Office, not DRA, not SOS.
- **How to avoid problems? Planning!**
  - Duplicate proposals – discuss what meeting is doing.
  - Appropriation and CRF – explain which (if any) money the meeting really wants to use.

Problems to Avoid

- Change of Purpose (“Stay at Home test”)
- Improper Use of CRF
- Agents of CRF Not Warned
- Made “Non-Lapsing” From Floor
- Not Warned
- Did Not Gross Appropriate
- No Recommendations on Special Warrant Articles
- No “Sum Certain”

Key Concept #7

Budget Committees

- Official Budget Committee, adopted under RSA 32:14.

- Advisory Committees are allowed
  - Elected, or appointed by selectmen
  - 10% limitation does not apply
  - Selectmen's budget is posted with the warrant.

Official Budget Committee

Purpose: "To assist voters in the prudent appropriation of public funds" RSA 32:1.

Budget committee is supposed to second-guess the governing body.

Don't personalize differences.

At the end of the day, the voters decide what the budget will be.

Official Budget Committee

10% Limitation

•Total amount appropriated by town meeting can't exceed 10% **more** than total amount recommended by budget committee.

• Affects bottom line only, not individual line items (purposes).

The 10% Rule

RSA 32:18 limits the appropriation voted to no more than 10% above budget committee recommendation

A significant check and balance on spending by governing body, or legislative body or both

Forces governing body to improve the quality of its presentation and justification for spending

Prevents tyranny by the budget committee by allowing legislative body freedom to change

Official Budget Committee

10% Calculation:

Total appropriations recommended by budget committee, ***less*** "fixed charges"

- Bonds
- Notes (except TANs)
- State/federal mandatory assessments

Exceptions

Fixed charges not counted, RSA 32:18

- Bonds and Notes, interest and principal
- Charges imposed by other governments

Bond requests recommended by governing body, RSA 32:18-a

- Prevents non-recommendation by budget committee from keeping issue from the voters

Collective bargaining agreements, RSA 32:19

- As with bonds, assures the voters consider the matter

Official Budget Committee

10% Limitation Exceptions

- Bond article not recommended by budget committee in its entirety, **if** governing body adds magic language to warrant article to override the 10% limit.
- CBA cost items **not** recommended are automatically exempt from 10% rule.

Tax & Spending Caps and 10% Limitation

- Tax & Spending Caps, RSA 32:5-b; 32:5-c.
  - Limitation on annual increase
  - Adopted by voters
  - Fixed percentage or fixed dollar amount
  - Proposed amount to be raised by taxes can't exceed prior year by more than cap
  - Voters can exceed cap through amendments at town meeting
- 10% Limitation in Official Budget Committee towns
  - Can't appropriate more than 10% more than budget committee's total recommended appropriations
  - Certain exclusions from total

Duty of Cooperation between Governing Body and Budget Committee

Required by RSA 32:16 and 17, but no definition beyond “pertinent information”

At least as broad as a Right to Know Law request

Does not appear to require a department or board to perform multiple “what if” analyses

Does not appear to allow a department or board to keep formulae or computations in a spreadsheet hidden or confidential.

Necessary Knowledge

Driven by the budget law, RSA 32, and the form of government adopted in your municipality

Work backward from the town meeting date:

Final Budget posting date	Budgetary public hearing(s)	Department budgets to BOS/BC

NHMA Important Dates Calendar: https://www.nhmunicipal.org/resources-publications/calendars-ical/list?field_important_calendar_categor_tid=1046

DEFAULT BUDGET CACULATION

(A budget committee must be authorized under RSA 40:14-b, a default budget under RSA 40:13, IX(b) for submission to each annual or special meeting of the voters of the municipality.)

Default Budget Procedure

Disclosed and presented for questions and discussion at first budget hearing

Line-item changes must be available at budget hearing:

- Appropriations in last year's budget
- Reductions and increases, including identification of specific items that constitute a change by account code and the reason for change
- One-time expenditures
- Reductions for eliminated positions

Discussion and debate of default budget at deliberative session (not amended)

SB 2 & The Default Budget: RSA 40:13

As long as statutory formula is used, default budget may be higher or lower than last year's budget

Default budget is amount of the same appropriations as contained in the operating budget authorized for the previous year . . .

- reduced and increased, as the case may be, by debt service, contracts, and other obligations previously incurred or mandated by law, and
- reduced by one-time expenditures contained in the operating budget and by ***salaries and benefits of positions that have been eliminated in the proposed budget.***
- RSA 40:13, IX(b)

DEFAULT BUDGET
RSA 40:13, IX, X & XI

- If operating budget rejected by voters, then the default budget is adopted
- Governing body can accept default budget or call a special town meeting to consider adoption of a revised operating budget
- Default budget prepared by governing body or budget committee if town meeting chooses

Shepherding the Budget
Open Question- What are the Final Steps?

Final step:	• Town Meeting
The tasks:	• Pre-meeting education and advocacy • Presentation, discussion and questions at deliberative session or town meeting
SB2:	• Additional challenge is to get voters out to both deliberative session and election day to hear and consider the proposals.

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Permissible Forms of Advocacy

All questions are fair at the budgetary public hearing

Before the meeting:

- Handouts from budget committee sessions with simplified messages
- Post on website
- Press releases
- Discuss at other public meetings/hearings

The Voters Make the Decisions

This audience (voters) is different

Will have less time consider the details

- Diverse levels of experience
- Diverse interests and priorities
- Some are already with you, some already against
  - Your target is the third group – the ones you can educate
- In the end, it is their collective will that must be determined and implemented

The Budget Cycle is Continuous

Other forms of Spending

- Transfers, RSA 32:10
- Legal judgments, RSA 32:9
- DRA permission, RSA 32:11
- Spending prior to town meeting, RSA 32:13
- Unanticipated revenue, RSA 31:95-b
- Capital reserve/trust funds
- Other statutory funds
- Certain multi-year appropriations

What is a "Fund"?

A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with liabilities and balances, which are ***segregated*** for the purpose of carrying on ***specific activities*** or ***attaining certain objectives*** in accordance with special ***regulations, restrictions or limitations.***

Town Report

- Which of these funds exist in your municipality?

- Where to look?
  - Treasurer's report
  - Trustees of Trust Funds report
  - Budget form
  - Warrant articles
  - Audit report

Financing Local Government

- Reserve Funds (Savings Accounts)
- User Fees
- Special Revenue or Revolving Funds
- Bonds or Notes
- Lease Agreements
- Tax Increment Financing
- “A Little Help From My Friends”
- Grants
- State Aid
- General Fund Balance
- Property Tax

Where Does Revenue Come From?

- Outside entities in the form of gifts or grants.
- Municipal appropriations (general taxation) or fund balance.
- User fees or charges.
- Bonds or notes (borrowing)

REVENUE SOURCES

State-Aid

- Education Funding
- Highway Block Grant
- Meals and Rooms
- Environment Grants

Municipal Revenue

- Property Tax
  - Interest/Penalties on Taxes
- Motor Vehicle Fees
- Business Licenses & Permits
- Building Permit Fees
- Other Licenses, Permits and Fees
- Solid Waste Fees
- Other Fees/Taxes
- Recreation Fees/Revenue
- Parking Fines and Fees
- Utility Fees

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Bond Issues and Borrowing

RSA 32, 33, RSA 40

Debt Limit –the total amount of debt that may be outstanding at any one time.

This limit is calculated as a percentage of the total market value (equalized assessed value) of all taxable property in town.

- 3 % for cities,
- 3 % for towns,
- 1 % for village districts and
- 7 % for school districts.

The total debt limit for any municipality that contains an overlapping political subdivision (such as a school district and town that cover the same geographic area) can be limited to 9.75 percent. RSA 33:4-a and 33:4-b.

Debt limit exceptions-

- Sewer Treatment Plants ordered by NHDES (RSA 33:5);
- Water Treatment Facilities ordered by NHDES (RSA 33:5-a);
- Voluntary Sewer Projects (RSA 33:5-b);
- Qualified Utilities (RSA 33:6-b)
- Solid Waste Management (RSA 33:6-e) Site Cleanups (RSA 33:6-d)
- Qualified Broadband Projects (RSA 33:6-f)

Tax anticipation notes do not count as part of the municipality's total debt limit.

Special debt limits are provided for cooperative school districts under RSA 195.

Tax increment finance bonds issued under RSA 162-K are exempt from debt limit requirements.

Certain Multi-Year Expenditures

Lease/purchase agreements, RSA 33:7-e

- With escape clause (simple majority)
- Without escape clause (supermajority vote)

Capital projects, RSA 32:7-a

- Identified capital projects
- 2/3 or 3/5 majority vote
- Up to 5 years

Capital Reserve Funds, RSA 35:1

- may be used for lease/lease purchase payments.

Appropriations for Capital Projects RSA 32:7-a

A "capital project" for this purpose is one for which a town may issue bonds under RSA 33:3 or RSA 33:3-c. These include:

- the acquisition of land;
- planning relative to public facilities;
- the construction, reconstruction, alteration and enlargement or purchase of public buildings;
- for other public works or improvements of a permanent nature including broadband infrastructure;
- for the purchase of departmental equipment of a lasting character;
- for the payment of judgments;
- for economic development (including public-private partnerships involving capital improvements, loans and guarantees); and
- preliminary expenses associated with proposed public work or improvement of a permanent nature (including public buildings, water works, sewer systems, solid waste facilities and broadband infrastructure).

(a) identify the specific project,

(b) state the term of years of the appropriation (up to five years),

(c) state the total amount of the appropriation, and

(d) state the amount to be appropriated in each year of the term.

The article must pass by a 2/3 vote (3/5 vote in official ballot referendum towns).

For each year after the first year, the amount designated for that year as provided in the original warrant article will be deemed "appropriated" without further vote by the legislative body

Classified as "special warrant articles" RSA 32:3, VI

ESTABLISH A BASELINE FOR BUDGET DEVELOPMENT

- **Level- Services Budget**
  - Delivers in the upcoming year the same services that were delivered the previous year.
  - Allows the local government to analyze the cost of delivering the same service year over year.
    - Can be challenging to project increases to goods and services.
    - May not respond to changing needs and priorities.

- **Level- Funding Budget**
  - Allocates the same amount of money each year.
  - Does not necessarily deliver level services.
    - Due to rising costs automatically creates service cuts.
    - Decreases in revenues also results in cuts.
    - Tends to be Inflexible.

Rethinking Budget Development

A budget is a political instrument that: weighs policy priorities against available public resources; is a statement of policy and values.

Traditional Budget Method:

- **Incremental and line-item budgeting** uses last year's budget becomes next year's budget with changes around the margin.
- Useful during times of economic stability.
- May cause local governments to be slow to adapt to changing conditions.

Other Budget Methods to consider:

- **Zero-base budgeting-** builds a budget from the ground up, starting from zero.
- **Priority-based budgeting** model which is based on building the budget around the community's priorities.
  - Includes accountability elements that connect the investment of public funds to the delivery of public good.
- **Performance Budgeting- Budgeting for Outcomes**.
  - Uses Performance measures include inputs (resources used), outputs (program activities), efficiency measures (ratio of inputs to outputs), and outcomes (the actual results of programs and services).

Or a combination of all of the above.

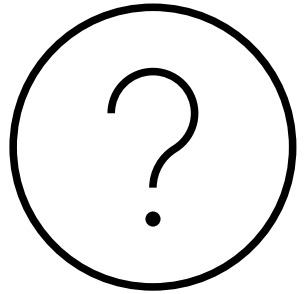
REVIEW REVENUE ANAYSIS AND FORECAST

Typically, governments build budgets around projections of future revenue.

When costs grow faster than expected, officials may have to revise those plans and/or shortchange certain priorities.

- Anticipates resource availability;
- Guides decisions around expanding services to the community, changing the salaries and benefits of public employees, and adjusting tax rates;
- Gauges financial sustainability of existing policies and programs;
- Provides warning about potential imbalances in the government's financial future;
- Generates data for discussion about what the fiscal future might look like and what actions can be taken.
- *"In the absence of a formal forecast, a common assumption is that the future will not be much different than the past – an assumption that could be seriously flawed." GFOA*

MUNICIPAL REVENUE ESTIMATES



Are actual revenues tracking equal to or above estimates in the current budget cycle?

- ✓ What is the tax collection rate compared to prior years?
- ✓ What percentage of tax-payers are self-pay vs. escrow?
- ✓ What is the tax and utility delinquency rate compared to prior years?
- ✓ Are you receiving an increased number of foreclosure notices?
- ✓ Are you receiving an unusually high number of abatement applications?
- ✓ Have home sales slowed or increased in your municipality or district?
- ✓ Is motor vehicle registration revenue tracking at or above plan?
- ✓ When was the last time fees were reviewed across all departments to align with cost recovery goals?

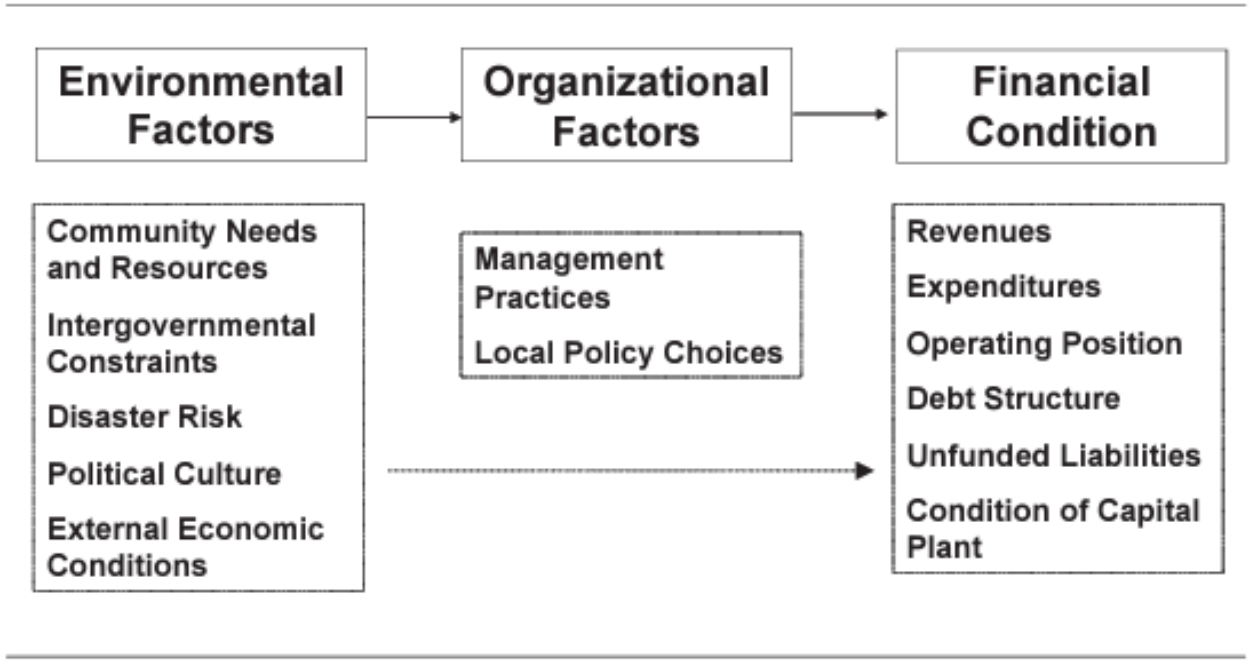
UNDERSTANDING THE FISCAL CONDITION

After Revenue has been Analyzed and Forecasted But *Before* Expenditures can be determined-

Fiscal Capacity is affected by a combination of environmental, fiscal and organizational factors, including decisions and actions of the governing board.

Local governments and School Districts can take a comprehensive approach that focuses on both external and internal fiscal indicators that are easy to measure, evaluate and understand.

Use a financial indicator system that is comprehensive enough to match the complexity of your government (cities and counties might have a very different fiscal indicator system than rural towns) to produces regular, reliable reports for decision making.



Source: Adapted from Evaluating Financial Condition: A Handbook for Local Governments. ICMA, 2003

Environmental factors include measures of community needs and resources such as population, property value and poverty, and economic factors such as inflation, personal income and employment.

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NH Community Profiles

MEDIAN HOUSEHOLD INCOME (MHI) IN PAST 12 MONTHS (IN 2020 INFLATION-ADJUSTED DOLLARS) By City /Town : https://www.des.nh.gov/sites/g/files/ehbemt341/files/documents/2020-01/mhi-table.pdf

EXPENDITURE ANAYLSIS – *Options to Measure Inflation*

Local governments are under considerable pressure to relate their spending and taxation levels to cost inflation for transparency.

In developing the budget, apply the indices that work best as a predictor –

Consumer Price Index (CPI). Often used in setting cost-of-living adjustments (COLAs)

The Employment Cost Index (ECI) details the changes in the costs of labor for businesses in the United States. This index, readily available each quarter, is used to monitor inflation by measuring changes in labor costs for wages and salaries. Information is provided by the U.S. Bureau of Labor Statistics.

The Producer Price Index (PPI) measures the price changes of commodities at different stages of processing.

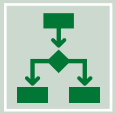
The Gross Domestic Product (GDP) deflator, mostly used in national accounts, is designed to reflect current expenditure patterns in an economy, and therefore focuses on new domestically produced final goods and services.

The Construction Price Index (CPI), used by the U.S. Department of Commerce, reflects the changes in the cost of construction materials and skilled and unskilled labor. It is a composite derived from separate indices for construction of commercial facilities, residential housing, utilities and highways.

The Education Price Index (EPI) for elementary and secondary school spending, compares current salary grids for teachers with a base year, and uses selected sub-indices from the CPI and the Industry Product Price Index as proxies for price increases for non-salary items purchased by school boards.

The Municipal Cost Index (MCI), published by the American City and County magazine, estimates the rate of inflation for purchases by American municipalities. The MCI is a composite index, a weighted average of more detailed price indices measuring consumer price cost fluctuations (using the CPI), industrial commodity wholesale prices (using the PPI), and construction contract costs (using the Construction Price Index).

Rank and Prioritize Expenditures



Create a predetermined clear, objective set of criteria to evaluate all projects, programs and services.

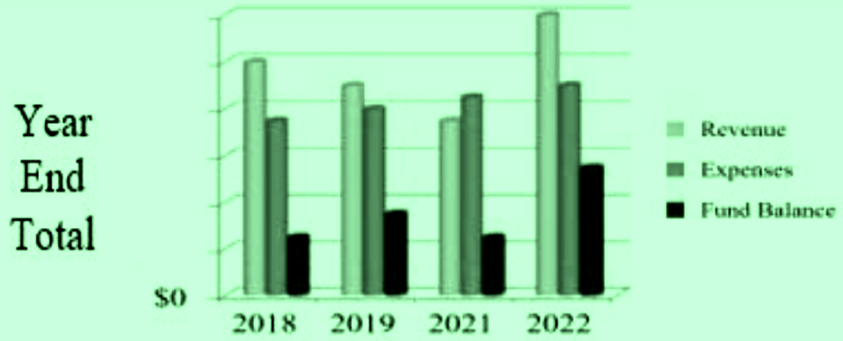
Promote procedural justice in the allocation of limited resources.

Ensure existing assets are maintained before embarking on new initiatives.

Consideration if there is a current asset/program/service that is in the budget but no longer fits the needs of the community then it could be retired/discontinued, and resources re-directed.

FUND BALANCE

Fund Balance is the total accumulation of operating surpluses and deficits since the beginning of a local government's existence.



The Fund Balance Formula:
Fund Balance = Assets – Liabilities

Operating Surplus / Deficit

The difference between a unit's revenues and expenditures for a fiscal year.

Revenues – Expenditures =Operating Surplus / (Deficit)

The natural revenue cycle within a local government is directly tied to fund balance reserves allows for the prudent management of financial resources throughout the year.

When cash flow is under stress, a municipality may issue short term debt to cover the gap, requiring an interest cost to maintain steady operations and introducing risk.

Adequate fund balance negates that need, saving resources that would otherwise be spent on servicing the cost of that debt.

A strong fund balance will allow the municipality to meet cash flow needs, complete scheduled projects, and provide a contingency in the case of an emergency or disruption in revenues.

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Questions?

New Hampshire Municipal Association
603-224-7447

Katherine Heck
kheck@nhmunicipal.org