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# Calendar Year to Fiscal Year Budget Process

Prepared for:



# Agenda

Overview

What are the advantages and challenges of switching from a calendar year to fiscal year budget?

What is the process?

Funding Options

Next Steps

# Overview

- By default under New Hampshire Law, the town budget operates on a calendar year of January 1 through December 31.
- The law also allows towns to switch to a fiscal year budget that operates from July 1 through June 30 of the following year.

- **RSA 31:94-a** -Optional Fiscal Year. –  
*”Cities and towns and counties, may adopt a single 18 month accounting period running from January 1 of the calendar year following adoption and ending June 30 of the next following year. Thereafter, accounting periods for such towns, cities, and counties shall run from July 1 to June 30 of the following year.”*



# Overview

## 25 Towns and 12 Cities

have adopted the optional fiscal year

|             |
|-------------|
| Berlin      |
| Claremont   |
| Concord     |
| Dover       |
| Franklin    |
| Keene       |
| Laconia     |
| Manchester  |
| Nashua      |
| Portsmouth  |
| Rochester   |
| Somersworth |

|            |
|------------|
| Amherst    |
| Bow        |
| Chester    |
| Derry      |
| Grantham   |
| Hanover    |
| Hebron     |
| Hinsdale   |
| Holderness |
| Hooksett   |
| Hudson     |
| Lee        |

|               |
|---------------|
| Londonderry   |
| Loudon        |
| Merrimack     |
| New Castle    |
| New London    |
| Newmarket     |
| Newport       |
| North Hampton |
| Peterborough  |
| Plymouth      |
| Sanbornton    |
| Stoddard      |
| Winchester    |

# Advantages & Challenges to consider

## ADVANTAGES

The school and town will be on the same budget schedule

Auditors will perform their statutory duties in July, August or September.

Under **RSA 39:1-a** there is room to schedule the annual budget vote for April or May.

The town voters get to approve the budget in March for the tax year that starts in July

More time for Town report preparation when due in January

The town's fiscal year will coincide with the state's fiscal year for highway, meals and rooms and other funding

An April or May town meeting date also changes the timeframe for preparation of the operating budget, lessening the amount of work needed to be completed during November/December

Winter highway maintenance and winter heating fuel costs are in a single-year budget cycle

The legislature will have adjourned (probably) so that more information will be available about state funding and statutory changes

# Advantages

When the optional fiscal year is implemented, the semi-annual billing cycle stays the same (July and December), but the cash flow shifts as a result of the change in the budget year.

The July bill provides cash at the very beginning of the fiscal year.

The December billing then provides cash five months into the fiscal year, rather than at the end of the fiscal year.

One of the *disadvantages* of a March town meeting is that the operating budget isn't adopted until nearly two and a half months into the fiscal year. With the optional fiscal year and an April or May annual meeting, the operating budget is adopted *prior* to the July 1 start date of the fiscal year, thereby providing town officials with a full twelve months to implement any new programs or react to any budgetary changes voted upon by the annual meeting.

An April or May town meeting date also changes the timeframe for preparation of the operating budget, lessening the amount of work needed to be completed during the November/December holiday season, which may be appealing to budget committee members and other municipal officials involved in the budget process. And finally, a later annual meeting date may also provide the opportunity for town meeting participation from those residents who spend the winter months away from home.

# Challenges with the Calendar Year

## With a December 31 calendar year-end:

- the first property tax payments are received around July 1, six months into the fiscal year.
- The second property tax bill is generally due around December 1.
- Property taxes are not paid in full until nearly the end of the fiscal year.
- The municipal billing cycle is in arrears: it provides municipal services for six months (January through June), before receiving property tax revenue for those services. Services are then provided for five more months, before final payment is received in December.

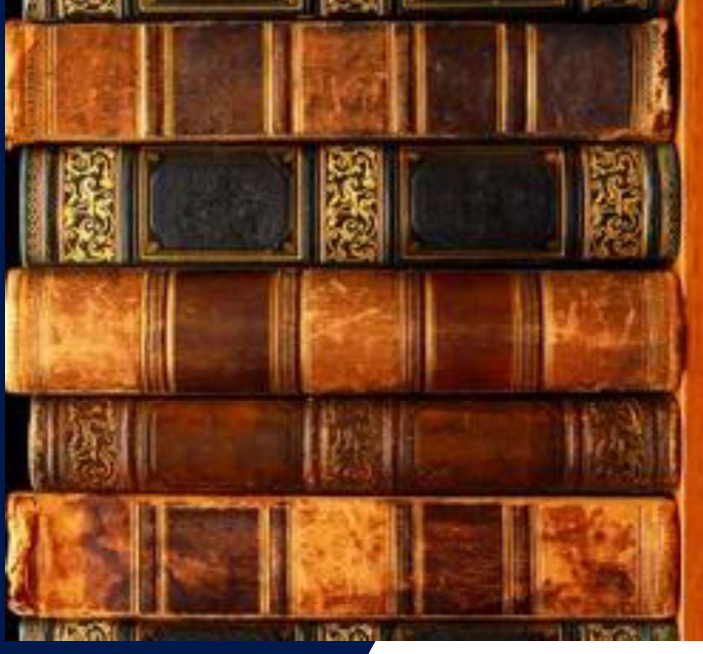
## This calendar year/semi-annual billing cycle may strain cash flow resulting in :

- Hard or soft spending freezes
- Short-term borrowing through tax anticipation notes to meet cash demands prior to receiving property tax revenues.
- Borrowing comes at a price, based upon current interest rates.

# Other Considerations

Reasons to maintain the status quo of a calendar year may include:

- Tradition.
- Town officials, employees —and perhaps the voters too—have become accustomed to the calendar year budget schedule and there is no pressing need to switch, it may be easier for town to continue as is.
- This 18th month budget allocation can put significant constraints on the town's available cash. In this case, the previous year's municipal tax rate will be inflated due to the 18-month budget.
- This creates the need to either raise taxes, borrow money, utilize savings, or some combination thereof.



# 18-Month Budget Pitfalls to Avoid

Under the law, the semi-annual bill is one-half of the previous year's tax rate. In this case, the previous year's municipal tax rate will be inflated due to the 18-month budget.

Analyze the town cash position.

Be sure to budget for the possibility of a TAN note ( NH RSA 33:7).

Estimate the availability of Unreserved Fund Balance to off-set the tax rate prior to moving this process forward.

Carefully consider Inflation, COLA's, salary and wage adjustments, newly created positions, costs for goods and service.

Involve the voters early in the process.

Implement transition process in collaboration with town departments and officials, as this process will impact all areas of government.

The budgetary year should not be confused with the tax year (April to April), which will not change in this transition process.

Develop a "fall back" 12-month budget in the event the 18-month budget is not adopted.

# Process for Moving Forward

- At a future town meeting advise the voters of the Board's interest in adopting the optional fiscal year and solicit a vote on the change.
- Prepare an 18-month and a 12-month budget for Town meeting the following year.
  - A 12-month is the fall back budget in the event voters don't approve the 18-month budget.
- The 18-month budget will cover the time period from January 1, 20-- to June 30, 20--.
  - 18-month budget considerations –
    - limit capital expenditures to ones that can be purchased with Capital Reserve Funds
    - limit or suspend contributions to trust and capital reserve funds
    - Fund balance should only be used at the tax rate setting.

# Municipal Budget Law

## All Towns operate under Municipal Budget Law:

- Conversion to the optional fiscal year requires:
    - Unanimous vote of the Select Board
    - Approval of 2/3 majority of the budget committee
- Or
- Warrant Article adopted by a majority of legal voters

## In Towns without an Official Budget Committee

- Conversion to the optional fiscal year requires:
  - Warrant Article adopted by a majority of legal voters

# The Revenue Puzzle

Revenue shortage is the biggest challenge to this process.

- The current two billing system allows for property tax revenue to be received twice in the calendar year; approximately July 1 and December 1.
  - Tax revenue mostly in arrears with a calendar fiscal year.
  - What is approved in March is not collected until December.
- During the 18-month budget transitional period the town will also only receive tax revenue from two bills, July and December.
  - Example: 1/1/21 – 6/30/22 budget period only includes one December 1, tax bill and one July 1 tax bill leaving a shortage of tax revenue for the additional six-month transition period.



# Funding Options

## 4 Possible strategies to lessen the impact of the conversion



*Just Do It Method:* This would create a one-time spike in the town tax rate and begin the process for moving forward in 2023.



*Save Ahead Method:* Establish a capital reserve fund setting funds aside over three – five years to offset the revenue short fall. This would delay the transition until 2025 or 2027.



*Bonding Method:* Borrow the funds for the revenue shortage and pay back over time smoothing the spike in the tax rate.



*Additional Tax Billing:* this could add a 5-quarter tax bill process to the transition year. This would spread the impact over 5 bills vs, two semiannual.

# Funding Options Explained

Just Do It Method: This would create a one-time spike in the town tax rate and begin the process for moving forward in 2023.

Discussion- soften the impact to the revenue shortage by using a portion of the fund balance at tax rate setting time.

How much fund balance could possibly be used?

This may leave the Town under the current policy minimum.

Result = a one-time increase of approximately 50 percent in the municipal portion of the tax rate.

There would be no effect on the school, state education or county tax rates.

The cost of the transition budget is funded in one year, and then it's over and done with!

To avoid taxpayer "sticker shock," this funding method should be broadly publicized and well understood by citizens prior to implementation.

# Funding Options Explained



*Save Ahead Method:* Establish a capital reserve fund setting funds aside over three – five years to offset the revenue short fall. This would delay the transition until 2025 or 2027.

**RSA 35:1-a** authorizes the establishment of a capital reserve fund to set aside money in anticipation of the change to the optional fiscal year.

Utilizing this funding method, a municipality would appropriate money into the reserve fund for use at a future date when the 18-month transition budget is adopted.

# Funding Options Explained

Bonding Method: Borrow the funds for the revenue shortage and pay back over time smoothing the spike in the tax rate.

**RSA 31:94-d** authorizes the issuance of bonds to fund the transition budget.

Such bonds are limited to one-third of all taxes assessed and must be repaid within 20 years.

The debt resulting from the issuance of these bonds is not included in the computation of the municipality's debt limit.

# Funding Options Explained



*Additional Tax Billing:* this could add a 5-quarter tax bill process to the transition year. This would spread the impact over 5 bills vs, two semiannual.

This entails issuing five quarterly bills during the 18-month transition period.

The formula for this method relies on the fact that, one-quarter of all taxes assessed (municipal, school and county) provided an amount sufficient to fund 6-months of the municipal budget.

Some tax billing software doesn't currently allow for this without changes or upgrades

# Next Steps

A decision to move forward

Determine the method of addressing the revenue shortage

Develop a timeline for implementation

Prepare an informational presentation for voters

Present the information to the voters

Seek voter approval at annual town meeting

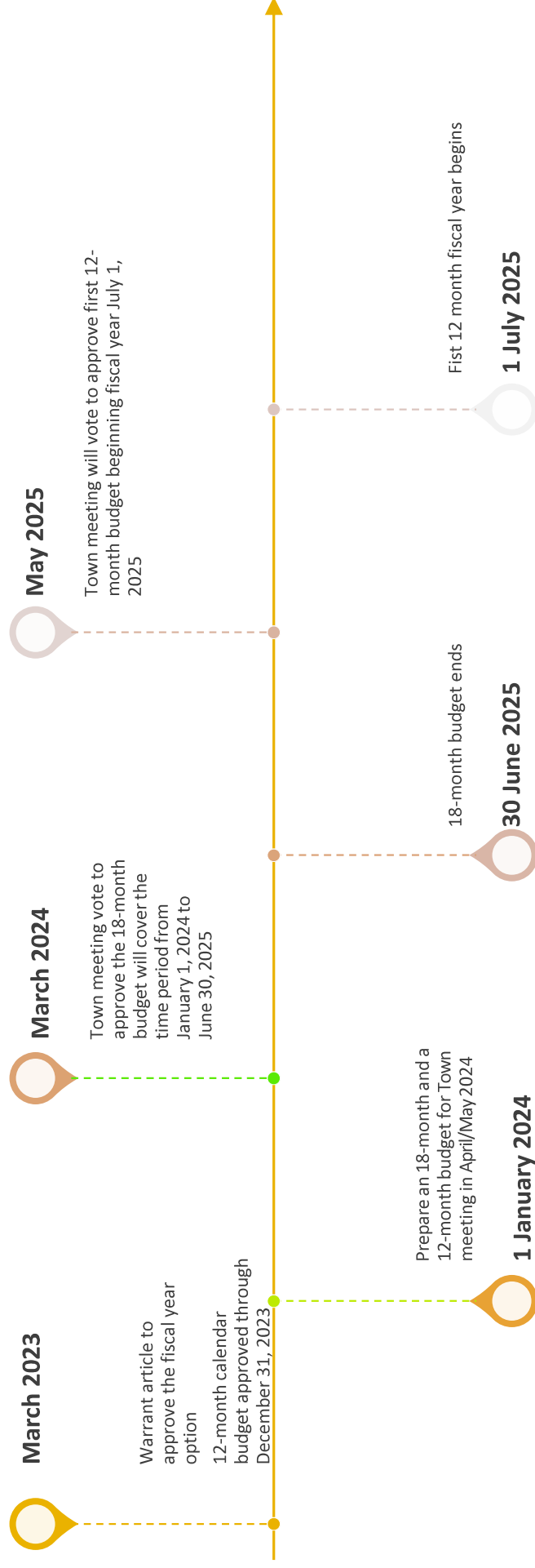
Implement transition

## SAMPLE TIMELINE

An 18-month transition budget begins when the town votes in March 2019 for an 18-month budget (January 1, 2019, through June 30, 2020). Then the town votes in April or May of 2020 for a normal 12-month budget (July 1, 2020, through June 30, 2021).

| Year      | Date of Town Budget Vote           | Approved Budget Operating Period           | Notes                                                                             |
|-----------|------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------|
| 2018-2019 | March 2018 annual town meeting     | January 1, 2018, through December 31, 2018 | 12 month calendar year budget.<br>Approval to adopt optional fiscal year in 2019. |
| 2019-2020 | March 2019 annual town meeting     | January 1, 2019, through June 30, 2020     | 18-month transitional budget                                                      |
| 2020-2021 | April/May 2020 annual town meeting | July 1, 2020, through June 30, 2021        | First 12-month fiscal year budget adopted                                         |

# SAMPLE TIMELINE



# Sample Warrant Article

## Town Meeting

To see if the Town will vote to approve the Select Board's and the Advisory Budget Committee's recommendation to change the Town's fiscal year from a calendar year (January 1 – December 31) to an alternate fiscal year (July 1 – June 30) and to instruct the Select Board to present to the voters at the 2021 town meeting an eighteen (18) month budget to complete this transition in accordance with RSA 31:94-a.





# Thank You.



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