

Town of Moultonborough Optional Fiscal Year Presentation



What You Need to Know

- Cities and towns can change their budget year from a December 31 year-end to a June 30 year end under RSA 31:94-a.
- Currently most cities and a relatively small number of NH towns are operating on a fiscal year running from July 1 – June 30.
- Currently our school district, the State of New Hampshire and Carroll County are all running on a July 1 – June 30 fiscal year.

Benefits and Challenges

Benefits

- Aligns the towns fiscal year with the school, state and county.
- Allows for budget approval prior to start of the fiscal year.
- Aligns tax payments/cash flow with the tax billing cycling.
- Allows for a town meeting vote to change from a March to a May town meeting date.

Challenges

- Requires an 18-month budget approval at town meeting.
- Can present a drain on cash during the process.
- Requires major vendor cooperation to adjust some payment schedules in including the school district in some cases.
- Requires cooperation from all in house stakeholders i.e. department heads, town committees, trust fund trustees and Select Board.
- Minimize a one-time impact on town portion of tax rate.

How Do We Do It?

- At town meeting 2020 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 in 2021. The 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, 2021 to June 30, 2022. This budget should limit capital expenditures to ones that can be purchased with CRFs, limit or suspend contributions to trust and capital reserve funds and not use fund balance as a source of revenue except at tax rate setting.

How Do We Do It? cont.

- A 12-month budget is presented at the 2022 town meeting for the new fiscal year running from July 1, 2022 to June 30, 2023.
- Dealing with the shortage of revenue is the biggest challenge to the process puzzle.
 - A. With the current two billing systems for property taxes, tax revenue is received twice in the calendar year; approximately July 1 and December 1. Therefore we receive tax revenue mostly in arrears with a calendar fiscal year.
 - B. During the 18-month budget transitional period we will also only receive tax revenue from two bills again 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.

How Much Will It Take?

- In FY19 the town meeting approved \$13,370,678 in operating and capital expenditures. \$4,324,414 in revenue other than property taxes plus \$1,896,934 from fund balance was applied against the \$12,759,000 along with \$206,168 in credits and overlay leaving an amount to be raised by taxes of \$7,355,498. The Town tax rate is: \$2.18
- Example of the transitional budget: Total Expenditures: \$16,200,000 less estimated non-property tax revenue of \$5,200,000 plus credits and overlay estimate of \$350,000 leaving an amount to be raised by taxes in 2021 of \$11,350,000. Estimated tax rate: \$3.24 The use of additional fund balance at tax rate setting time could lower the estimated tax rate as well as growth in the assessed valuation.
- Note: This process has no impact on the school or county tax rates.

How to Soften The Impact

- *Just Do It Method:* This would create a one-time spike in the town tax rate and allow for moving forward in 2021. You could soften the impact to the revenue shortage by using a portion of the fund balance at tax rate setting time. Up to \$2.5mil. could possibly be used. This may leave the Town under the current policy minimum.
- *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 2023 or 2025.
- *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. Our tax billing software doesn't currently allow for this.

Next Steps

1. A decision to move forward
2. Determine the method of addressing the revenue shortage
3. Develop a timeline for implementation
4. Prepare an informational presentation for voters
5. Present the information to the voters
6. Seek voter approval at annual town meeting
7. Implement transition

Questions?