

## **BUDGET AND FINANCE FREQUENTLY ASKED QUESTIONS (FAQs)**

### **1. BUDGET DEVELOPMENT**

#### **What did the adoption of the School District Charter do to change the approval of Local Budgets?**

Before the District Charter, all School District annual meetings were assembled in a centralized location to listen to presentations and to discuss, debate, amend and vote on whether to approve or defeat the proposed articles. Voters who attended the meeting, became the “legislative body” of the District. Some people felt disenfranchised because attendance was small, and absentee voting on the warrant articles was not available. In essence, the small group of people assembled were making decisions regarding budgets and other articles for the whole School District. Because of this, some believed a new method of voting on appropriations needed to be developed. So, to expand the voters’ access to voting on the expenditure of local funds, the Senate passed RSA 40:13 which created a local option for Towns and Districts to adopt a one size fits all procedure for voting by official ballot known as SB2. The legislature also passed laws allowing Towns and School Districts to design their own procedures for official ballot voting by adopting an official ballot charter. Whether choosing to follow SB2 or adopting a local official ballot charter, each Town/School District had to vote to enable the change to official ballot voting on “money” articles. Those that did, now have the Deliberative Session, which allows for discussion and amendments, but which delays the actual voting which takes place on election day using an official ballot. The Londonderry School District chose to develop and adopt a local official ballot charter.

#### **What is a Default Budget?**

##### **RSA 40:13, IX:**

- a. “Operating budget” as used in this subdivision means “budget,” as defined in RSA 32:3, III, exclusive of “special warrant articles,” as defined in RSA 32:3, VI, and exclusive of other appropriations voted separately.
- b. "Default budget" as used in this subdivision means the 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. For the purposes of this paragraph, one-time expenditures shall be appropriations not likely to recur in the

succeeding budget, and eliminated positions shall not include vacant positions under recruitment or positions redefined in the proposed operating budget, as determined by the governing body, unless the provisions of RSA 40:14-b are adopted, of the local political subdivision. In calculating the default budget amount, the governing body shall follow the statutory formula which may result in a higher or lower amount than the proposed operating budget.

- c. "Contracts" as used in this subdivision means contracts previously approved, in the amount so approved, by the legislative body in either the operating budget in either the operating budget authorized for the previous year or in a separate warrant article for a previous year.

Please note the district's Charter has a slightly different definition of default budget in Article IV.B it is:

"Default Budget" means the amount calculated by starting with the amount of the appropriations contained in the operating budget authorized for the previous fiscal year, reduced and increased as the case may be by:

- 1) debt service,
- 2) contracts previously incurred,
- 3) salary and other related employee costs [benefits, taxes] previously incurred, and
- 4) other obligations previously incurred or mandated by law and reduced by one-time expenditures contained in the operating budget.

For the purposes of this paragraph, one-time expenditures shall be appropriations not likely to recur in the succeeding budget, as determined by the School Board.

The "Default Budget" is not in fact a budget. It is an "amount" that will be raised if the proposed operating budget is defeated. If the Default Budget is adopted because of the defeat of the Proposed Operating Budget, the amount raised and appropriated may be expended on any purpose contained in the School Board's Proposed Operating Budget that was defeated. The total amount available for expenditure when operating under the Default Budget will not exceed the default amount plus the amount appropriated by separate and special warrant articles except as otherwise provided by laws such as, but not limited to, RSA 32:9-11, RSA 198:20b, RSA 186-C:13, II, and RSA 186-C:18, X.

For the purposes of this Section IV.B, "previously incurred" means on or before the first session of the Annual Meeting at which the default budget is presented to voters.

### **What is the Proposed Budget?**

**RSA 32:3:** The School Administration through a series of public “workshop” meetings presents to the School Board the Administration’s proposed budget. The budget must meet the financial obligations of the School District based on goals and objectives, curriculum, legal and debt obligations of the School District. The School Board, after listening to the Administration, and after deliberations, at a public meeting, finalizes the budget that it will propose to the voters of the School District. Whatever level of appropriations is approved by voters becomes the District’s operating budget for the next fiscal year which starts on July 1 and runs to June 30. All appropriations in any fiscal year (with some exceptions) lapse on June 30<sup>th</sup> of each year.

### **How is a Default Budget Calculated?**

First, you start with the current budget as approved by the voters, remove all special warrant articles and items of a one-time nature that will not likely recur in the succeeding proposed budget. Items in the operating budget that are designated "one time" items can be anything that is appropriated in the current operating budget that is not commonplace or which has not appeared consistently in past budgets.

After removing all special warrant articles and one-time items, the default budget is adjusted for changes in bonded debt, contractual obligations, Federal and State mandates and other obligations previously incurred, and items mandated by law. Examples of contractual and other obligations previously incurred or mandated by law are employee salary and benefits previously approved by voters via employee labor contractual increases, facility requirements for providing a healthy and safe learning environment, ongoing and new contracts, increases in the required contribution for State retirement, and special education costs driven by individualized education programs per State and Federal guidelines.

### **What are Capital Reserve Funds / Trust Funds, and how are they different than the General Operating Budget?**

All capital reserve/trust funds must be presented as a special article. The article must state the purpose of the fund and state the level of appropriation. These funds can only be spent for the purpose of the fund to which they are appropriated. The funds in capital reserve and trust funds are held by the Town’s trustees of the trust fund and invested to earn interest for the District. When the School Board has been appointed by voters with the authority to expend the funds, the Board may expend the funds in the reserve accounts or trust funds. These funds do not lapse. They serve as the District’s savings accounts.

### **Is the Londonderry School District a Senate Bill 2 (SB2) School District?**

The Londonderry School District is a Charter School District. The Charter spells out the process by which the general fund operating budget and other money articles are discussed and voted. It also lays out the budget process and timeline for public hearings and public notices as well as the wording of the main warrant article for approval of the budget. The Charter, while very similar to SB2 law, has unique provisions regarding publication, the wording of the budget and the definition of the default budget. The fact the School District has a Charter makes the Londonderry School District different than traditional SB2 School Districts.

### **Can the Default Budget be amended at the Deliberative Session?**

No. The District charter, in Article VI.2, specifically states the default budget may only be amended by the School Board. This provision is similar to the provision in SB2, specifically RSA 40:13, XI(b) that states: "This amount shall not be amended by the legislative body."

### **When are the Budgets developed?**

The actual thought process for the FY21-22 budget, begins during the FY20-21 budget process. As the Administration begins to build the FY20-21 budget, items deferred, cut or added can have an effect on the upcoming or next year's budget.

The process for developing the annual School District Budget and other warrant articles begins just after the opening of school. The senior management team begins developing goals, objectives both operational and capital to meet the ongoing needs of the School District. Around the Thanksgiving Holiday, the Superintendent will submit the Administrations' proposed operating budget. During the month of December, the School Board will hold several "budget workshop meetings" where each building principal and District program director will provide details of the budget submitted to the School Board and public. New Hampshire state law requires at least one public hearing where the public is encouraged to provide input to the overall level of appropriations that will be placed on the warrant for a vote. Currently, the Londonderry School District operates under a charter which follows the general calendar of SB2. That calendar requires the School District to hold the first 'deliberative' session, when voters have the opportunity to listen to the presentation, ask questions and the right to make amendments to the proposed articles usually during the first week of February. The approved articles are then voted on by the general public on election day under New Hampshire State law on the second Tuesday in March.

## **2. SURPLUS [ FUND BALANCE]**

### **What is Surplus or Uncommitted Unassigned Fund Balance?**

Year-end surplus can come from two sources: Under expending the budget (appropriations surplus) and/or realizing more revenue than was estimated (revenue surplus). When the operating budget is developed, it is representative of an estimate of the District's future obligations. That process to develop the budget begins almost a year before the School District begins to operate in that fiscal period. As a result, the proposed budget includes assumptions for health insurance rates, energy and supply costs, and a multitude of other items that comprise a budget with almost 1,000 unique accounts. If the estimates are greater than the actual expenditure when closing out the fiscal year, the result is an under expenditure that flows into surplus. The same holds true for revenue estimates if the school district receives more revenue than is estimated then it flows into surplus at year end.

### **How much surplus should the school district retain?**

The School District should use prudent estimates that minimize the probability of having a school system in a deficit position and that allow it to meet its obligations during the school year. Also, School Districts, like Towns and private corporations, are rated by financial agencies such as Standard and Poor's and Moody's. This rating impacts our borrowing rates for long-term capital projects. Investors in the municipal bond market look for entities that have a pattern of financial stability and the necessary resources to meet future bond payment obligations. An appropriate surplus used to reduce taxes at year-end is a desirable outcome in closing out the budget.

### **What purposes can school fund balance be used for?**

RSA 198:4-b,II was adopted by the School District voters. It provides that, "Notwithstanding any other provision of law, a School District by a vote of the legislative body may authorize, indefinitely until specific rescission, the School District to retain year-end unassigned general funds in an amount not to exceed, in any fiscal year, 2.5 percent of the current fiscal year's net assessment pursuant to RSA 198:5, for the purpose of having funds on hand to use as a revenue source for emergency expenditures and over expenditures under RSA 32:11, or to be used as a revenue source to reduce the tax rate." The District's current maximum amount of retention is around \$1,600,000.

In the last legislative session (2020) this statute was amended. It now allows Districts to hold up to 5% of year-end unassigned fund balance and to access that balance only after holding a public hearing after notice of the hearing is published seven days before the hearing.

### **3: IMPORTANT DATES FOR FY2021-22 BUDGET**

January 12, 2021: Deadline for Citizens Petition Articles and to finalize cost items for CBA's.  
Deadline to post and publish public hearing and bond hearing

January 14, 2021: Budget Hearing

January 14, 2021: Bond Hearing [if necessary]

January 25, 2021: Last Date to Post Warrant & Budget for Sessions I and II

February 5, 2021: Deliberative Session

March 9, 2021: Public Election and Budget/Appropriations Approved