

**ASK THE LEAGUE, MARCH 2015**

**Can the selectboard borrow money without voter approval?**

There are six situations in which a selectboard may borrow funds without voter approval:

1. *Borrowing to paying current expenses so long as the term is one year or less.* 24 V.S.A. § 1786. There is no statutory definition or explanation of a “current expense.” Our rule of thumb is that a current expense is one that will be paid for in a year or less. A current expense could arise from provision of a service or from the acquisition of a public improvement or asset. In our opinion, simply because something is an asset or a public improvement does not mean that it cannot be considered a current expense under 24 V.S.A. § 1786. We view the term of the note (one year or less/more than one year) as the defining characteristic.
2. *Borrowing in anticipation of taxes so long as the term is one year or less and the amount borrowed does not exceed 90% of the municipal taxes assessed for that year.* 24 V.S.A. § 1786.
3. *Borrowing in anticipation of the sale of bonds so long as the term is one year or less.* 24 V.S.A. § 1773(a).
4. *Borrowing in anticipation of grants so long as the term is one year or less.* 24 V.S.A. § 1773(c).
5. *Borrowing from the State Municipal Equipment Loan Fund* for the purchase of tools, equipment and materials necessary for the construction, maintenance, or repair of highways and bridges for a term of five years or less. 19 V.S.A. § 304(a)(3), 24 V.S.A. § 1786a(b).
6. *Alternative financing of personal property, fixtures, technology and intellectual property.* 24 V.S.A. § 1789. The selectboard may enter into leases, lease-purchase agreements, installment sales agreements, and similar agreements to acquire assets for the municipality either singly or as a participant in an interlocal contract. Such agreements, however, must contain a “non-appropriation clause” that states that the annual payments by the municipality must be approved by the voters.

If the municipal borrowing does not fit into any of these situations, there must be specific voter approval at a regular or special town meeting. 24 V.S.A. § 1786a(b) “The voters of a municipality may authorize specific public improvements and the acquisition of capital assets and finance the same, temporarily or permanently, through debt instruments other than bonds for a term not to exceed the reasonably anticipated useful life of the improvements or assets as provided in this section.” 24 V.S.A. § 1786a. If the improvements or assets are to be financed for a term of five years or less, the borrowing is approved at a regular or special town meeting. If the financing is for a term of more than five years, the municipality must go through the traditional bond authorization process, even if the final form of the borrowing is not a bond. 24 V.S.A. §§ 1755, 1756, and 1786a(c).

For more information about the bonding process, see Chapter 17 of the VLCT Selectboard Handbook, which is archived at [www.vlct.org/assets/Resource/Handbooks/VLCT\\_Selectboard\\_Handbook.pdf](http://www.vlct.org/assets/Resource/Handbooks/VLCT_Selectboard_Handbook.pdf).

*Sarah Jarvis, Staff Attorney II  
VLCT Municipal Assistance Center*