Calendar Year to Fiscal Year Budget Process

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What are the pros and cons of switching from a calendar year to fiscal year budget? What is the process?

By default under Vermont 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. 24 V.S.A. § 1683(c). Of the 192 responses to VLCT's 2017-2018 Compensation and Benefits Survey, 123 towns reported that they operate on a fiscal year budget, while only 63 towns operate on a calendar year budget.

Towns considering switching to a fiscal year should consider the advantages, disadvantages, and requirements of making the switch. Reasons to maintain the status quo of a calendar year may include inertia, or, "we've always done it this way." Simply put, if town officers—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. The transition period will require substantial planning and perhaps an extra (special) town meeting to vote on a transitional budget. The transition may also complicate payroll records and income tax reporting that are required to be done by calendar year.

On the other hand, there are clear advantages to switching to a fiscal year budget:

- The school and town will be on the same budget schedule; thus, they should be able to better plan their expenditures concurrently, such as capital projects.
- The town voters get to approve the budget in March for the tax year that starts in July. Therefore, no operating expenses are incurred before budget approval.

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This is in contrast to the calendar year basis in which the town operates from January 1 until town meeting with no budget in place. Relatedly, tax collection may start soon after the beginning of the fiscal year, thus reducing or eliminating the need to borrow money for operating expenses.

- Auditors will have more time to perform their statutory duties, as they can audit the town books and accounts in July and August and prepare the town report by December or January.
- Winter highway maintenance costs are in a single-year budget cycle.
- The town's fiscal year will coincide with the state's fiscal year for highway and other funding.
- There is room to schedule the annual budget vote for May or June, by which time the grand list will have been completed and the legislature will have adjourned (probably) so that more information will be available about state funding and statutory changes.

To change from a calendar year budget to a fiscal year one, the town must vote an annual or special town meeting. State statute governs the way (Australian ballot or not) your town votes on the question of changing its fiscal year. The default method of voting is from the floor, but if your town votes to decide this particular question by Australian ballot or if it has already voted to decide all public questions by that method, then the vote must be by Australian ballot. Although no specific statute applies, it is reasonable to conclude from similar voting situations that the town must vote on whether or not to switch over to a fiscal year at one meeting and then vote on the actual budget at a subsequent meeting. Towns making the move to a fiscal year can adopt a transitional six-month budget for the period January 1 to June 30 or adopt a single, transitional 18-month budget. Following are examples of 18-month and six-month transitions.

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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 March 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	Default calendar year budget
2019-2020	March 2019 annual town meeting	January 1, 2019, through June 30, 2020	18-month transitional budget
2020-2021	March 2020 annual town meeting	July 1, 2020, through June 30, 2021	First 12-month fiscal year budget adopted

One challenge of the 18-month transitional budget option is that 18 months of taxes will be lumped into one budget. However, the town could vote to spread the payments out into quarterly payments (i.e., four property tax installments) to make the actual paying of taxes less burdensome.

A six-month transition budget would require a January 2019 special town meeting budget vote, for a budget operating for a six-month period (January 2019 through June 30, 2019). Then the town would vote in March 2019 (at its annual town meeting)

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for a fiscal year, 12-month budget (July 1, 2019, through June 30, 2020).

Year	Date of Town Budget Vote	Budget Schedule	Notes
2018-2019	March 2018 annual town meeting	January 1, 2018, through December 31, 2018	Default calendar year budget
2019-2020	Fall/winter '19 or '20 special town meeting budget vote	January 1, 2019, through June 30, 2019	6-month transitional budget
	March 2019 annual town meeting	July 1, 2019, through June 30, 2020	First 12-month fiscal year budget adopted

The difficulty with this method is that it requires the selectboard to call a special town meeting to vote on two separate budgets within a few months, which usually means increased election and administrative costs. However, the advantage over the 18-month option is a shorter transitional period to a fiscal year.

Towns considering changing their budget year may want to survey the budgeting schedule of their neighbors; intermunicipal agreements and other contracts may be easier to administer when cooperating towns adopt their budgets concurrently. Finally, note that a town governance charter may explicitly set a town's budgeting schedule, effectively prohibiting the town from switching to a fiscal year or vice versa.

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