

Changing the Municipal Budget Cycle from Calendar Year to Fiscal Year

Background

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 on a different cycle. Though the law does not specify what towns can change the budget cycle to, those that do change it have regularly chosen July 1 through June 30 of the following year. 24 V.S.A. § 1683(c). Of the 244 responses to VLCT's 2021-2022 Compensation and Benefits Survey, 154 towns reported that they operate on a fiscal year budget from July 1 through June 30, and 90 towns operate on a calendar year budget. Towns wishing to change from a default calendar year budget cycle to a July through June fiscal year budget cycle may use the following information to guide the process.

Discussion

Towns considering a switch from calendar year budget cycle to a fiscal year budget cycle should consider the advantages, disadvantages, and requirements of making the switch. Before getting too far along in the process, towns should consult their governance charter to ensure the budget cycle is not explicitly defined. In the case that it is, a charter change would also be required to make the conversion. Reasons to maintain the status quo of a calendar year budget cycle may include inertia, or "we've always done it this way." Simply put, if town officers and voters have become accustomed to the calendar year budget cycle and there is no pressing need or desire to switch, it may be easier for the town to continue as is. The transition period will require preplanning and likely a special town meeting to vote on the change and/or the transition budget.

There are, however, clear advantages to operating on a fiscal year budget cycle, such as:

- 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.
- Having the school and town on the same budget cycle also aligns the time period covered by property tax bills including both municipal and school taxes.
- 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. 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.

- In the event of a failed budget on town meeting day, there is time to have a second vote prior to the new fiscal year starting, further ensuring no operating expenses are incurred before a budget is approved.
- Both Independent and Elected Auditors will have more time to perform their duties between July and the publication of the Annual Report after the new year.
- 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.
- The end of the calendar year is a hectic time for payroll reporting. Moving the end of the fiscal year to June will help relieve the pressure on finance staff.
- Operating on a July to June fiscal year, allows for the final cash flow report detailing reconciled amounts due for education taxes to be finalized within the same budget cycle they are billed.

There are two steps in the transition. First, the voters must authorize the change from calendar year to fiscal year. After that is complete, the town will prepare a transitional budget covering either a six-month or eighteen-month period for the voters to vote on. This transitional budget will bridge the gap between the calendar year and fiscal year. Whether to opt for a six-month or eighteen-month transitional budget will depend on circumstances within each town. For example, for a town that collects taxes only once per budget year having eighteen months of property taxes on one tax bill may not be palatable for the selectboard or the taxpayers.

Having a well-designed transition plan written in clear language that is easily and readily communicated to voters and taxpayers will make the transition much smoother.

Logistics for Setting Up the Transition

1. The first step in changing from a calendar year to a fiscal year is to vote at an annual or special meeting to do so.
 - a. State statute governs the way (from the floor or Australian ballot) 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 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. Any change will remain in effect until amended.
 - b. This first vote is just to authorize the change and not to also approve a budget. Although no specific statute applies, it is reasonable to conclude from similar voting situations that the town must vote on whether to switch over to a fiscal year at one meeting and then vote on the actual budget at a subsequent meeting.
2. The second step is to hold a vote at a subsequent town meeting to adopt the transitional budget for either a six-month period or an eighteen-month period.
 - a. To move from a Jan-Dec period to a Jul-Jun period that initial gap covering January through June must be dealt with.

Six-Month Transitional Budget

January 2022 – December 2022 Default Calendar Year Budget	Jan – Jun 2023 Transitional Budget	July 2023 – June 2024 First Fiscal Year Budget
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Sample Timeline

- March 2022 Annual Meeting: Vote to Approve the 2022 Calendar Year budget as normal
Vote to Approve the switch to Fiscal Year budgeting
- Fall 2022 Special Meeting: Vote to Approve the Jan – Jun 2023 Transitional Budget
- March 2023 Annual Meeting: Vote to Approve the Jul 2023 – Jun 2024 Fiscal Year Budget

Benefits

- Shorter transition time from calendar year to fiscal year.
- Total expenditures on a six-month budget will be much lower than the eighteen-month budget which may be more acceptable to voters.
- If a town already collects taxes twice per year the six-month tax bill won't look much different from the annual tax bill.

Challenges

- 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.
- Taxpayers accustomed to seeing one tax bill per year will receive two – one for the transition period and one for the first full fiscal year – all within the same calendar year.
- With either approach, ensure that extra attention is given to how the school taxes are included on the property tax bill. It is imperative that taxes covering a specific time period are not billed twice or equally as challenging, inadvertently not billed at all.

Eighteen-Month Transitional Budget

Jan – Dec 2022 Default Calendar Year Budget	January 2023 – June 2024 Transitional Budget	July 2024 – June 2025 First Fiscal Year Budget
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Sample Timeline

March 2022 Annual Meeting: Vote to Approve the 2022 Calendar Year budget as normal
Vote to Approve the switch to Fiscal Year budgeting

Fall 2022 Special Meeting or
March 2023 Annual Meeting: Vote to Approve the Jan 2023 – Jun 2024 Eighteen Month
Transitional Budget

March 2024 Annual Meeting: Vote to Approve the Jul 2024 – Jun 2025 Fiscal Year Budget

Benefits

- Special Fall meeting may not be required if the eighteen-month budget is voted on at the regular annual meeting.

Challenges

- Longer transition time from calendar year to fiscal year.
- Total expenditures on an eighteen-month budget will be much higher than voters are accustomed to seeing on a regular twelve-month budget which may lead to confusion and misperception for voters unaware of the reason for a longer budget period.
- If the town collects taxes once per year, a tax bill covering eighteen months may be unmanageable for taxpayers.
- With either approach, ensure that extra attention is given to how the school taxes are included on the property tax bill. It is imperative that taxes covering a specific time period are not billed twice or equally as challenging, inadvertently not billed at all.

Final Thoughts

Ultimately, the decision of whether to make the budget cycle change rests with the voters. The decision and reasons for it will vary from town to town. For towns making the change, it is imperative that elected officials understand the timeline of the transitional budget and the impact it will have on taxpayers to effectively communicate to constituents. Both the six-month and eighteen-month option will result in a tax bill that is different from prior years. Clearly communicating this anomaly to taxpayers in advance of mailing will help both the taxpayers and town staff in the long run. Consider a tax bill insert explaining what is happening and a post on the town website.