

**2006 SNOHOMISH COUNTY CHARTER REVIEW  
COMMISSION  
BRIEFING PAPER  
BIENNIAL BUDGETING  
MAY 31, 2006**

Prepared by  
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## **Summary**

This briefing paper deals with the issue of biennial or two year budgeting. The commission has expressed strong interest in this issue. Some county officials and citizens support this issue as well. The paper concludes by offering options for the commission to consider in their deliberations.

## **The Issue**

*Shall the Charter be changed to allow the county to budget on a two year basis rather than the current practice of one year?*

The following are relevant sections of the Charter that prescribe annual budgets:

“At least seventy-five days prior to the end of each fiscal year, the county executive shall present to the county council a complete proposed budget and budget message, including an annual budget ordinance which identifies proposed operating and capital appropriations and estimated revenues and reserves necessary to balance the budget.”<sup>1</sup>

“At least thirty days prior to the end of the fiscal year, the county council shall adopt annual budget, tax and revenue ordinances for the next fiscal year. Prior to the adoption of any annual budget ordinance for the next fiscal year, the county council shall hold a public hearing to consider the proposed budget presented by the county executive and shall hold any other public hearings on the budget or any part thereof that it deems advisable. The county council in considering the annual budget ordinance proposed by the county executive, may delete or add items, may reduce or increase the proposed appropriations and may add provisions restricting the expenditure of certain appropriations, provided that the county council shall adopt a six (6) year capital improvement program as an adjunct to the budget, including a balance of proposed expenses and potential revenue sources.”<sup>2</sup>

## **Interest in the Issue**

The issue has generated interest in both elected officials and citizens alike. The following table summarizes input received:

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<sup>1</sup> Section 6.20, Snohomish County Charter

<sup>2</sup> Section 6.50, Snohomish County Charter

4. Biennial Budgeting. Shall the charter be changed to allow the county to budget on a two year basis rather than the current practice of one year?

Yes	No
Survey 60% (70)	Survey 40% (41)
Reardon, Portman, Bart, Ellis, Dantini	Koster, Gossett

Those elected officials in favor of biennial budgeting cited the amount of time spent on preparing and defending the annual budget process and the lack of time to truly measure effectiveness of programs as most of the year is spent in the budget process.

Those opposed cite the lack of any savings a two year budget process might generate, to long of a period to forecast, and supplemental budgets need to be prepared in the second year.

### **Legal Basis for allowing Biennial Budgets**

The state legislature passed a bill in the 1995 legislative session allowing the counties the option to budget on a biennial basis. The bill was codified into RCW 36.40.250 which is attachment 1. The legislative authority may through ordinance or motion allow the county to budget on a biennial basis with a review and modification during the second year. The law also allows counties to repeal the ordinance or rescind the motion and revert back to annual budgets at the end of the current 2 year cycle. The same RCW allows a county to "pilot" biennial budget with one or more funds while budgeting on an annual basis for the rest of the funds.

### **What is Biennial Budgeting?**

Biennial budgeting is the process of developing budget for a two year period rather than the traditional on year period. Generally there is a review and or modification during the second year. The State of Washington currently budgets on a biennial basis with a supplemental budget passed in the second year, while preparing for the next biennial budget.

### **Pros/Cons of Biennial Budgeting<sup>3</sup>**

#### **Pros**

1. Long Range Planning. Allows for a longer time to forecast revenues and expenditures and programs
2. Opportunities for Staff redeployment. Staff can perform other tasks rather than budgeting such as evaluation audit, financial management etc
3. Policy Emphasis. Allows legislative authorities to focus on policy rather than line items

<sup>3</sup> Excerpts taken from Legislative Analyst Report: Biennial Budgeting County of San Francisco; 10/1/2002 #024-02; Biennial Budgets in Washington's Cites and Counties: Bailey, Mike, MRSC.

4. Department/Contractor Flexibility. Provides stability and predictability for contractors.
5. Time Savings. Some report savings in staff time over the two year period.
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**Cons**

1. Loss of Control. Legislative authorities may feel a loss of control over day to day budget matters. Staff and contractors may be less responsive to legislative inquiries
2. Difficulty in Forecasting. Ongoing changes in the operating environment making two year forecasts very difficult
3. State/Federal Funding Uncertainty. Both state and federal governments struggle with their budgets making forecasting uncertain.
4. Unseen Economic impacts. Economic slowdowns, natural disasters could all impact the two year budget quite dramatically
5. Time Savings. Some entities report no staff savings due to the amount of work required to manage the biennial budget
6. Software and Accounting Changes. Current accounting software may need revisions as well as policies and procedures,

**Current Status in Washington State Counties**

County	Form	Comment
Clark	Appropriation for two years	Two year total shown in budget documents
Cowlitz	Two one year budgets	
Kitsap	Two one year budgets	
King		In Charter but not enacted
Whatcom	Two one year budgets	Allows Biennial Budgeting

**Options**

- Status Quo. The Charter Review Commission chooses to leave the Charter unchanged and on an annual budget cycle
- Mandate Biennial Budgeting immediately. Change the wording in Section 6.2 from annual to biennial. This in effect directs the county to start biennial budgeting immediately.
- Provide the county the option to budget on a biennial basis by adding such wording to section 6.20 and 6.50. This would allow the county the time to plan, evaluate and set timelines for implementation.

**Attachments**

1. RCW 36.40.250 Biennial Budgets—Supplemental and emergency budgets
2. Biennial Budgets in Washington's Cities and Counties
3. Legislative Analyst Report; Biennial Budgeting
4. Biennial Budgeting: Do the Drawbacks outweigh the Advantages

**RCW 36.40.250**

**Biennial budgets -- Supplemental and emergency budgets.**

In lieu of adopting an annual budget, the county legislative authority of any county may adopt an ordinance or a resolution providing for biennial budgets with a mid-biennium review and modification for the second year of the biennium. The county legislative authority may repeal such an ordinance or resolution and revert to adopting annual budgets for a period commencing after the end of a biennial budget cycle. The county legislative authority of a county with a biennial budget cycle may adopt supplemental and emergency budgets in the same manner and subject to the same conditions as the county legislative authority in a county with an annual budget cycle.

The procedure and steps for adopting a biennial budget shall conform with the procedure and steps for adopting an annual budget and with requirements established by the state auditor. The state auditor shall establish requirements for preparing and adopting the mid-biennium review and modification for the second year of the biennium.

Expenditures included in the biennial budget, mid-term modification budget, supplemental budget, or emergency budget shall constitute the appropriations for the county during the applicable period of the budget and every county official shall be limited in making expenditures or incurring liabilities to the amount of the detailed appropriation item or classes in the budget.

In lieu of adopting an annual budget or a biennial budget with a mid-biennium review for all funds, the legislative authority of any county may adopt an ordinance or a resolution providing for a biennial budget or budgets for any one or more funds of the county, with a mid-biennium review and modification for the second year of the biennium, with the other funds remaining on an annual budget. The county legislative authority may repeal such an ordinance or resolution and revert to adopting annual budgets for a period commencing after the end of the biennial budget or biennial budgets for the specific agency fund or funds. The county legislative authority of a county with a biennial budget cycle may adopt supplemental and emergency budgets in the same manner and subject to the same conditions as the county legislative authority in a county with an annual budget cycle.

The county legislative authority shall hold a public hearing on the proposed county property taxes and proposed road district property taxes prior to imposing the property tax levies.

[1997 c 204 § 3; 1995 c 193 § 1.]

**NOTES:**

**Reviser's note:** 1995 c 193 directed that this section be added to chapter 36.32 RCW. Since this placement appears inappropriate, this section has been codified as part of chapter 36.40 RCW.

# Biennial Budgets in Washington's Cities and Counties<sup>1</sup>

by Mike Bailey, Finance Director, City of Lynnwood

Budgeting for a two-year biennium has been permitted for Washington cities since 1985 and for counties since 1995. This article will discuss the various experiences of those cities and counties that have switched to a biennial budget and draw some conclusions about the usefulness of such an approach.

Approximately twenty-five cities and three counties have worked with some form of biennial budgets since the legislature created this alternative. While the law generally describes how biennial budgets can be structured, we found there are a variety of approaches being used. Of the twenty-five cities that have used the multi-year approach, five have reverted back to a traditional one-year budget.

## Legislative Authority

In 1985, the Washington State Legislature adopted the Municipal Biennial Budget Act, permitting all cities in Washington State to establish a biennial, or a two-year budget. The legislature granted the same authority to counties in 1995. The law permits cities and counties to adopt a two-year appropriation. An appropriation represents a local government's legal authority to expend funds. Traditionally, the appropriations have been for one-year terms. Biennial budgets have extended this legal authority so that a city or county legislative body may approve an appropriation, or budget, for a full two-year term without subsequent action.

Cities are required to make the decision for a biennial budget by ordinance. The legislative authority for cities is found under RCW 35.34 (or 35A.34). This ordinance must be adopted at least six months before a biennium can start and a biennium must start on an odd numbered year. For instance, to begin using a biennial budget for 2005/2006, a city council must adopt an ordinance choosing to use a biennial budget by June 30, 2004. Once a city is using a biennial budget, it can revert back to an annual budget, by ordinance, at the end of a biennium.

Counties find the authority for biennial budgets in RCW 36.40.250. They have more flexibility in choosing when to start their first biennium and when the ordinance or resolution providing for a biennial budget must be adopted.

## Reasons for Using a Biennial Budget

*Saves Time.* The most common reason for using a twenty-four-month appropriation seems to be to consolidate the amount of effort invested in the budget development and approval process. This is true of

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<sup>1</sup> Editor's note: Judy Cox of MRSC served as Mike Bailey's research assistant for this article. Any errors of omission and commission regarding how the individual cities and counties are actually doing their biennial budgets are hers alone.

both the staff preparing the budget materials and of the councils who review the materials and eventually adopt a budget.

While it is agreed that it takes more effort and time to prepare a twenty-four-month budget than one for the traditional twelve months, it does not take *significantly* more time. As a result, over the two-year period, there is a substantial time savings. While this benefit may be obvious as it relates to the staff, the council will also realize a significant time savings that can be invested in other matters.

In our case (Lynnwood), we have chosen to invest this time savings in other budget related matters, such as strategic planning and performance measurement. We created a team of managers who oversee our performance management program. This team realized that the significant amount of time devoted to the annual budget made it difficult to invest adequate time in the performance management aspects of our budget and control systems. As a result, the team recommended to the city council that we adopt a biennial budget process. While we are in our first biennium, the success of this strategy is already apparent. This summer and fall, our staff is working to refine its strategic plans. The council will be able to devote time to use these plans more effectively in directing city resources over future years.

**Longer Perspective.** Another advantage for the use of a biennial budget is the longer perspective it gives the organization in its budgetary planning. Multi-year financial planning has been a recommended practice for a long time (see "Government Finance Officers Association Recommended Practices"). Some cities and counties use these "financial plans" to guide the formal budgeting that occurs each year. These financial plans do not have the form of an appropriation in an ordinance, so while they help provide focus, they do not take the place of a budget. A biennial budget extends the planning horizon of the official budget appropriation itself. This can be good, but it can also introduce difficulties to the process related to forecasting (discussed below).

**Potential Improvement in Policy View.** A variation on the "Longer Perspective" argument is the substantial time available to the policy makers to strategically address financial issues. When budgeting every year, the focus is on how to balance each budget rather than on overall strategic planning. Finding the time to think strategically was often difficult. The biennium helps create this time and focus attention on future biennia, rather than just finding a way to balance revenues and expenditures.

**Political Implications.** Currently, an annual budget means that every other budget is developed in the context of elections for many of the policy makers. By design, the city biennial budget is considered in non-election years, as the biennium must be started in odd-numbered years. Counties can also choose this timing as well. Even if politics do not complicate the budget decision-making, the elections take a significant amount of a policy maker's time.

## **Reasons Against Using a Biennial Budget**

Some cities (five by our count) have tried biennial budgets and reverted back to annual budgets. Their reasons coincide with those we have heard arguing against using a biennial budget.

**Loss of Control.** One of the concerns expressed was a loss of control over budgeted expenditures. While we are not aware of any examples of serious budget problems attributed to the use of a biennial budget, loss of control was identified as a problem significant enough to lead some cities to revert back to an annual budget. In one of these situations, the city council felt it lacked adequate control over the budget and initiated the return to an annual budget.

**Change in Leadership.** In a few examples, a new finance director or new city manager did not want to use a biennial budget. The reasons stated were concern over the extended term of the forecasts and the potential for changes in economic conditions. This is more likely in situations where someone new to the city is faced with making these important recommendations.

**Difficulty in Forecasting.** Another reason cited against the use of biennial budgets is the difficulty in forecasting variable expenditures. Two-year budgets require that all the estimates and forecasts, which were already difficult enough to do for twelve months, are now to be done for a twenty-four-month period. Forecasting sales taxes, medical benefit costs, changes in pay for staff, and many other variables in a budget can be tricky. It is *more* than twice as tricky for twice the period of time. Changes in the economy, in state and local laws, and other changes may further complicate the ability to develop accurate estimates for budget development.

## Forms of Biennial Budgets

The concept of a two-year appropriation is pretty straightforward and just like it sounds. Rather than a twelve-month window during which the appropriated funds can be legally committed to accomplish the purpose of the government, a biennium provides for a twenty-four-month window. However, while a true biennial budget simply doubles the length of time for which the budget is effective, many cities and counties have adopted variations of this theme.

The reasons why governments choose to use a biennium, and some of the arguments against such a choice, help describe some of the various forms of biennial budgets that we see in use today. The two-year budget is touted as an opportunity to widen the budget planning horizon and allow more long-term thinking to be a part of the financial planning that the budget represents. This is one of the most common reasons we hear for the use of a biennial budget. On the other hand, we *do not* hear governments choosing this approach because of the greater latitude it provides staff to spend their appropriation over the course of the twenty-four months.

Some of the concerns about using a biennial approach are that staff may not discipline themselves adequately and may spend more of the budget than they should too early in the biennium. As a result, a number of cities and counties choose to restrict access to the second year of the biennium. This restriction is often implemented through the actual ordinance or resolution adopting the biennial budget itself. In other cases, there is no real limitation, but all the reports and budget analysis are done for each separate year.

Seattle, for example, appropriates funds for the just first year and displays numbers for the second year in their budget as "planned."

Seven cities (of the nineteen that we know adopt biennial budgets) and two of the three counties adopt two one-year budgets in their ordinances or resolutions.

The remaining eleven cities and one county use a true, two-year appropriation in their budget ordinances (or resolution) However, they do not all display this information in their published budgets in the same fashion or really allow expenditures to take place in the manner implied.

Six cities and one county show the expenditures in their budget document for the two years together, in a single column. They have "planning" budgets internally for the individual years, but they do not seem to be concerned about their department heads overspending their plans in the first year. One city told me that since they had instituted this system, they have had department heads underspending their budgets in the first year.

Five cities put two columns in their budget documents, but they are just externally disclosed planned amounts. If a department head overexpended the planned amount, he or she would not be in violation of RCW 35.34.210 or RCW 35A.34.210.

Finally, there are two cities that adopt their budgets with an appropriation for the full two years and in their budget show their expenditures in a single column for full two years, but tell their department heads that they are "restricted" in the first year to the internal spending plan.

As you can see, there are a number of ways to do biennial budgets, and it is not always possible to tell from the budget document which approach is being used.

A chart of the cities and counties that use biennial budgets (at least as best we can tell) can be found at the end of this article. Some of the unique characteristics of the individual approaches are listed as well.

### **Requirements for a Biennial Budget**

As previously discussed, an ordinance (or resolution for counties) must be adopted that opts for a biennial budget process. In the case of cities, the biennium must start on an odd-numbered year (2005 would be the next opportunity). The ordinance to use a biennial budget must be adopted at least six months prior to the start of the biennium (again this applies to cities only).

The requirement for cities spells out the steps for developing a biennial budget, while the county statute refers to the annual budget process for guidance. Actually, the required steps for an annual budget development and a biennial budget are very similar. One distinction is the requirement for a "mid-biennium review." This review is to start no sooner than September 1 and be completed by the end of the year. The purpose of the review is essentially to tune up the budget for any needed refinements. The review requires a public hearing if any changes are recommended to the budget. As in many of the other provisions related to biennial budgets, the requirements for the mid-biennium review are spelled out in detail for cities and very generally for counties.

As previously indicated, the decision to revert to an annual budget must be made by ordinance and can be effective only at the end of a biennium.

### **More on Personal Experiences**

Implementing our biennial budget was, in many respects, not overly difficult. There were some problems, especially in fully understanding the extent to which the second year would require changes to the final consideration of budget decisions.

The development of the forms and assumptions used in the budget was pretty straightforward. Adding the second year to the forms was easy, with the exception of the payroll and benefits forms and the forms for new program proposals. While adding a second year to these was not difficult, we had to agree on which assumptions to use for pay and benefits. Based on the formats we chose, the year that different, new programs were to begin was also at times unclear. Our success depended on constant communication and the cooperation of department staff working to develop the budget.

I would say the biggest difficulty we had was focusing on the full twenty-four-month period during budget deliberations with the city council. It seemed that our discussions focused far more on the first twelve

**Budget Suggestions for 2004**

months, at the expense of the second half of the biennium. This was so extensive that there was a fair amount of confusion about what the second twelve months included. It didn't help that the contracting economy also significantly complicated the budget process.

Overall, we believe the advantages of the biennial budget significantly outweigh the disadvantages. It is our hope that the discussions in this article have enabled you to evaluate whether a biennial budget is right for you. If you still have questions, feel free to contact me at the City of Lynnwood.

**Cities and Counties That Do Biennial Budgets**

Cities	Started	Ended	Form	Comments
Bellevue	97/98		Appropriation for two years	Each year shown separately in budget document.
Bothell	03/04		Two one-year budgets	
Bremerton	?	2002		New finance director hired late.
Federal Way	97/98		Two one-year budgets	
Kennewick	95-96		Appropriation for two years	Two-year total shown in budget document.
Lakewood	03/04		Two one-year budgets	
Longview	97/98		Appropriation for two years	Two-year amount shown in budget document.
Lynnwood	03/04		Appropriation for two years	Each year shown separately in budget document.
Marysville	?	?		Council felt it lost control.
Mercer Island	91/92		Appropriation for two years	Budget document shows two-year total, but expenditures are "restricted" for second year.
Mill Creek	97/98		Appropriation for two years	Two-year total shown in budget document.
Monroe	91/92	1993		Huge growth made second year hard to forecast.
Mountlake Terrace	03/04		Two one-year budgets	
Normandy Park	99/00		Two one-year budgets	
Oak Harbor	?		Two one-year budgets	
Ocean Shores	03/04		Two one-year budgets	
Olympia	Mid-80s	Mid-80s		New city manager.
Port Angeles	87/88	1993		Did not save enough time.

**Budget Suggestions for 2004**

<b>Cities</b>	<b>Started</b>	<b>Ended</b>	<b>Form</b>	<b>Comments</b>
Redmond	97/98		Appropriation for two years	Two-year total shown in budget document.
Seattle	97/98		Appropriation for one year	Second year shown as "planning" in budget.
Steilacoom	95/96		Appropriation for two years	Two-year total shown in budget document.
Tacoma	91/92		Appropriation for two years	Two-year total shown in budget document.
Toppenish	87/88	1989		
University Place	99/00		Two one-year budgets	
Vancouver	85/86		Appropriation for two years	Budget document shows two-year total, but expenditures are "restricted" for second year.

<b>Counties</b>	<b>Started</b>	<b>Ended</b>	<b>Form</b>	<b>Comments</b>
Clark County	99/00		Appropriation for two years	Two-year total shown in budget document.
Cowlitz County	02/03		Two one-year budgets	
Kitsap County	03/04		Two one-year budgets	



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City and County of San Francisco

## Board of Supervisors

### Legislative Analyst Report - Biennial Budgeting (File No. 021309)

(OLA # 024-02)

To: Members of the Board of Supervisors

From: Adam Van de Water, Office of the Legislative Analyst

Date: October 1, 2002

RE: Biennial Budgeting (File # 021309)

#### Summary and Scope of Request

Supervisor Maxwell, through the Board of Supervisors, requested that the Office of the Legislative Analyst (OLA) research the potential advantages and disadvantages of enacting a biennial budget, provide a list of local governments that currently enact biennial budgets, and make policy recommendations for the City and County of San Francisco.

#### Executive Summary

Interest in biennial budget cycles has grown in recent years in response to several factors, including increasing time spent preparing and reviewing budgets and more restrictions on and uncertainty of future revenues. Most governments that have enacted a biennial budget cycle pass two-year spending plans but continue to appropriate funds on an annual basis (a "rolling" biennial budget). A less common form of the biennial budget is the "true" biennial budget, which either appropriates funds for two-year time periods or two consecutive but non-transferable time periods.

According to recent surveys, 12 states, nine of the largest 35 U.S. counties, and 25 California cities currently have some form of a rolling biennial budget and an additional nine states, two major counties and 18 California cities enact "true" biennial budgets.

After discussing the six primary advantages and disadvantages of biennial budget cycles, this report looks at the relevant language contained in the Charter and the Administrative Code governing how it could work in San Francisco. While the City Charter currently requires the Mayor to submit and the Board to approve an annual budget, the Board could enact a non-binding two-year spending plan by ordinance. Additionally, while the Administrative Code contains some provisions requiring long range planning, not all these provisions are currently exercised. The OLA therefore raises seven key issues for the Board's consideration should they wish to pursue the enactment of a biennial budget cycle in San Francisco. These policy considerations provide the foundation for any successful transition to a new budget process and would need to be answered by the Board before enacting a new budget cycle.

**Attachment 3**

### Biennial Budgeting: An Overview

Biennial budgeting has many variants and there are almost as many nuanced forms as there are governments that enact them. Most commonly, governments enact a rolling biennial budget, where the legislative body passes a biennial financial plan but continues to appropriate the funds annually. According to recent surveys<sup>1</sup>, 12 states, nine of the 35 largest U.S. counties, and 25 California cities currently enact rolling biennial budgets (see Appendix A for a list of states, major counties and California cities that enact biennial budgets). The more restrictive, and therefore more rare, "true" biennial budget passes both a biennial financial plan and a biennial appropriation every two years. In these nine additional states, two major counties and 17 California cities, departmental budgets are appropriated for the full two years with a limited mid-cycle or off-year review to adjust for unforeseen changes in revenues or expenditures.

Interest in biennial budgeting has grown in recent years, due in part to growing time spent preparing and reviewing budget documents, recent attention at the federal level, and local government funding uncertainty as a result of state restrictions on property taxes. Proponents of biennial budget cycles contend that reduced Board time spent preparing, reviewing, and approving annual budgets provides more focused time for improved financial management and departmental oversight while forcing policymakers to make financial decisions over longer timeframes.

It was this experience in Texas that brought the issue to the federal level with the Bush administration and prompted reports by the General Accounting Office, Congressional Budget Office (CBO), Office of Management and Budget, Center on Budget and Policy Priorities, and several congressional committees and advocacy groups. In California, the impetus for cities to adopt multi-year budgets came in 1978 with the passage of Proposition 13, which restricted annual property tax rate increases to one percent and created uncertain funding futures for local governments<sup>2</sup>. With approximately ten percent of all California cities enacting some form of a biennial budget, California now has more cities with biennial budget cycles (43 by recent surveys) than any other state.

Opponents of biennial budget cycles counter that funding uncertainty, coupled with a limited ability to predict future economic conditions as well as the potential for reduced departmental accountability, is exactly why most government agencies continue to have annual budget cycles.

### Advantages of Biennial Budgets

Advocates of biennial budgets point to the following six advantages of converting from an annual to a biennial budget cycle:

1. Long range planning - Biennial budgeting can improve long-range and strategic planning, as it requires forecasting expenditures and revenues up to twenty-eight months in advance. This provides longer time horizons to department heads and policymakers as they allocate resources across programs and anticipate future needs. Because the timeline is extended from one year to two, budgeting can be better coordinated with capital improvements, fleet management changes, or other major municipal expenditures. For these reasons, the National Advisory Council on State and Local Budgeting, recommends long-range planning as one of the five essential features of good budgeting<sup>3</sup>.

2. Opportunities for staff redeployment - Biennial budgeting frees some department officials and Board and Mayor's budget staff from annually preparing budget

documents, time that could be spent improving financial management, conducting audits, and/or analyzing program effectiveness. The Board could also use the time in mid-cycle budget years to gather information, formulate policy, and test and evaluate programs.

3. Policy emphasis - Biennial budget cycles could move the Board from line-item consideration of the budget to a longer-range, more policy-driven approach. According to the City of Renton, WA Finance Administrator Victoria Runkle, Washington State officials that recently converted to biennial budgeting found that "the legislative bodies focus on the outcomes of the programs, and less on the actual ways the program was managed." However, as CBO Director Dan Crippen points out, this policy-based approach assumes that Board actions can be separated into issues with and without fiscal impacts, which "could be confusing and might create new difficulties."

4. Department/contractor flexibility - Two-year appropriations provide departments and private and not-for-profit contractors with more certainty in funding over the longer 2-year period and, in some cases, can allow them to adjust spending levels across years within this larger two-year window.

5. Improved cross-year comparisons - In the absence of zero-based budgeting, budgeting over two years could make cross-year comparisons and associated policy decisions easier for the Board of Supervisors to do as specific funding allocations would be projected for two years instead of the current one year.

6. Minimal transition issues - Officials in Arizona and Connecticut, the only states that have converted to biennial budgeting in the last 10 years, say that they did not experience significant transition issues or technical difficulties in shifting to biennial budgeting.

#### Disadvantages of Biennial Budgets

Opponents of biennial budgets point to the following six disadvantages of converting to a biennial budget cycle:

1. Departmental oversight - Departments and contractors may be less responsive to the Board if their budgets were protected for two years. The absence of annual budgetary reviews may further increase the authority of the Mayor's Office, which is responsible for departmental oversight and program implementation. In Ohio and Connecticut - two states that recently converted to a biennial budget cycle but did not expressly design new oversight functions - oversight did not increase in the off year as some proponents had hoped.

2. State and federal funding uncertainty - According to the Mayor's FY 2002/2003 Proposed Balanced Budget, 20.9%, or \$1.03 billion, of the City and County of San Francisco's FY2002-2003 \$4.9 billion budget comes from state, federal and other governmental sources. As these entities operate on an annual budget cycle, it is especially difficult for counties (which typically receive a higher percentage of state and federal funding than do cities<sup>4</sup>) to predict these funding levels as much as 28 months in advance. Further complicating matters is the fact that the federal fiscal year begins October 1, three months after the Charter requires the City and County to pass its budget.

3. Unforeseen events - The limited ability to project future economic and/or programmatic conditions and the inevitability of unforeseen events may lead to a budget process that is biennial in name only. According to the Controller's Office,

biennial budgets would only increase the risk of forecasting future revenue sources - such as hotel, property and sales taxes, a risk already present in the creation of annual budgets. A review of biennial budgets by the Government Finance Officer's Association, found that biennial budgets assume stability and therefore work best in times of economic growth or certainty. Most California cities that currently operate on biennial budget cycles still have annual appropriation cycles for this reason and nearly 90 percent of all California cities continue to budget on an annual basis.

4. Time savings - Depending on the strength of restrictions or willingness to avoid making significant technical or policy changes in the off-year, biennial budgeting may not lead to appreciable time savings for the Mayor, Board, or legislative staff. While survey evidence from finance directors in smaller cities suggests that it takes no more time and frequently takes less time to create a biennial budget, there is no guarantee that converting to a biennial budget cycle will reduce the burden on elected officials or staff. For example, even in the absence of an annual budget process, departments must still forecast expenditures and maintain annual budgets to manage cash-flow, the Board must still review departmental performances, the Controller's Office must still complete the Comprehensive Annual Financial Report, the 6-, 9-, and 36-month budget projections and all state requirements.

5. Workload - Biennial budgets may only serve to raise the stakes of budget negotiations - and hence the stress involved and how long they take - during the first of the two years as well as lead to less involvement by the Board in off-years.

6. Software and Accounting Changes - Converting to a biennial budget may require changes to the City and County's budgeting and accounting practices, adding potential additional costs to the City and County.

#### Biennial Budgets and San Francisco Law

##### **Annual Budgets Required by Charter**

The city charter currently mandates the submission of an annual budget and all appropriation ordinances and provides the Board of Supervisors with the authority to require the creation of non-binding multi-year budget plans. Article IX, Section 9.101 of the San Francisco Charter requires the Mayor to "submit to the Board of Supervisors each year an annual proposed budget."

While appropriations must still be made annually, Section 9.101 further states that "the Board of Supervisors by ordinance may require multi-year budget plans and other budget planning strategies to be performed by the several departments and offices of the City and County." The Board of Supervisors could therefore, by ordinance, change to a rolling biennial budget cycle and would need to pass a voter-approved charter amendment to change to a true biennial budget cycle.

##### **Current Long Range Planning Provisions Are Limited**

San Francisco currently has three provisions in place to project revenue and expenditure levels into the future and a fourth will become effective beginning in 2003. While these provisions are meant to assist the Mayor and the Board with their long-range funding decisions, only one - the joint report issued by the Mayor's Budget Office, Controller, and Budget Analyst - is currently presented to the Board to help guide their multi-year decision-making. Full implementation of the authority granted in the following sections could obviate the need for and provide longer-term projections than enactment of a biennial budget.

### 1. Joint Report

First, Section 3.6 of the San Francisco Administrative Code provides that the Mayor, Budget Analyst and Controller jointly prepare a three-year estimated summary budget for the City and County, providing a snapshot of the City's financial condition over the next three years.<sup>5</sup> This approximately 10-page report summarizes preliminary projections of future surpluses and shortfalls *and is currently the only financial projection available to assist the Board in making multi-year funding decisions.*<sup>6</sup> While an invaluable tool for estimating the impacts of major decisions and changes in the current year on conditions in subsequent years, the joint report is in no way intended to express the Mayor or Board's funding priorities and cannot be used to project spending for individual departments or programs.

### 2. Four Year Projections

Second, Section 9.101 of the San Francisco Charter requires the Mayor's annual proposed balanced budget to include a summary containing, "a discussion of trends and projections of revenues and expenditures of the City and County for the subsequent four years." The Mayor's Proposed Budget 2002-2003 issued on June 1 contains cursory mention of trends and projections but no funding estimates for any year beyond the budget year<sup>7</sup>. Rather than projecting these figures for the subsequent four years, more often they summarize these figures for the *prior* three years.

### 3. Three-Year Forward Plans

Third, Section 3.5(b) of the San Francisco Administrative Code requires that,

*Commencing with fiscal year 1998-99, each department, board, commission and agency shall develop and annually review a strategic plan which contains at least a three-year forward plan to reflect policy outcomes from the operations of the respective department, board, commission, or agency consistent with the then-approved budget.*

While it is unknown which of the approximately 60 City and County departments currently develop these forward plans, no department formally presents them to the Board.

### 4. Efficiency Plans

Finally, the Performance and Review Ordinance of 1999 added Section 88.4 to the San Francisco Administrative Code, which states,

*Beginning 2003 and each year thereafter, the head of each department shall prepare and submit to the Mayor by October 1<sup>st</sup> and to the Board of Supervisors by November 1<sup>st</sup> a departmental efficiency plan. Each plan shall include a customer service element, a strategic planning element, an annual performance element, and a performance evaluation element for the previous fiscal year, as set forth more fully below [see Sec. 88.4 for more details]. The plan shall cover a period of not less than three years forward from the fiscal year in which it is submitted.*

In 2000 and 2001, a pilot group of departments (including the Board of Supervisors, Department of Public Works, Recreation and Parks Department, Elections Department

and a few others) began to develop departmental efficiency plans with mixed success. While some elements of these efficiency plans are already practiced citywide (for example, the inclusion of performance measures), many of the details of these efficiency plans will need to be developed for the first time over the course of the next fourteen months. The long-term success of these efficiency plans will depend on each department's acceptance of them and the support they receive in developing them.

### Implementation Considerations for San Francisco

Should the Board of Supervisors wish to consider making the transition to a biennial budget in San Francisco, they must first address the following considerations in greater detail. These questions, which are presented here in no particular order, are critical to the long-term success of any multi-year budget in San Francisco.

- Level of departmental oversight - How accountable and in what way should departments be to the Board of Supervisors? Will guaranteeing two years of funding to departments erode their accountability and responsiveness to the Board? Is the same true for a rolling biennial budget where funds are still appropriated annually? Should funding be connected to program performance or another measure of accountability?
- Political authority and organizational structure - Does the often-adversarial nature of San Francisco's executive/legislative relationship make enacting a biennial budget cycle in San Francisco necessarily more difficult? Does the unique nature of San Francisco's organizational structure (with a strong Mayor and county Board of Supervisors) present difficulties above and beyond those faced by a City Manager or County Chief Administrative Officer form of government? Are there compromises - such as the Board relinquishing some line-item managerial control of department budgets in return for increased program performance and accountability from departments - that could be worked out to improve the nature of this relationship? Would an initial budget retreat between the Mayor and the Board, as practiced in numerous other local governments, prove helpful?
- Role of Key Budget Players - How could the Board utilize the Controller's Office, Budget Analyst's Office, or Legislative Analyst's Office (OLA) more efficiently to advance the long-range planning goals contained in a biennial budget cycle? Should the Budget Analyst continue to look at line-item details or is there a need to amend their contract to look at longer term and/or broader issues? Does the Board plan to change the add-back process and how would this annual process work with a biennial budget?
- True Biennial Budget - If the Board wished to consider enacting a true biennial budget, how feasible would it be to amend the charter? What restrictions, if any, would the Board place on off-year amendments?
- Rolling Biennial Budget - If the Board wished to consider enacting a rolling biennial budget, how binding, if at all, would the goals and projections contained in the two-year financial plan be to passage of the Annual Appropriation and Annual Salary Ordinances? What process would govern the mid-cycle review? How would this process differ from fully implementing those long-range provisions currently contained in the Charter and Administrative Code?
- Transition - How would the Board transition to a biennial budget cycle? Would the first year of the biennial cycle impact the entire budget and all departments or are there reasons to implement gradually and/or only for selected departments?

• **Timing** - How would a biennial budget be best coordinated with election cycles, union Memorandum of Understanding negotiations, capital projects and utility or rate tax changes? One possibility (sketched out in Appendix B in calendar form and based on the City of Oakland's model) would make next fiscal year (2003-2004) a transitional year, with the first year of the biennial cycle beginning the following year (2004-2005) after the election of a new mayor and as many as six new supervisors.

### Conclusion and Recommendation

Enacting a biennial budget cycle in San Francisco is a policy matter for the Board of Supervisors.

If created carefully, biennial budgets can act as the catalyst to move the Board away from line-item consideration of the budget and toward increased long-range planning while decreasing the annual time spent reviewing budget documents. However, there is nothing inherent in biennial budgeting that assures this transition will take place. Successful implementation of a biennial budget requires careful consideration of many related elements (raised as unanswered questions in the prior section) as well as widespread commitment to the new goals and processes it creates. Unless the Board, Mayor and all departments can clearly foresee the advantages of transitioning to a biennial budget and have the appropriate resources to work toward that goal, the creation of a biennial budget in San Francisco will only establish new requirements for finance managers that do not advance the policy goals of long-range strategic planning.

Should the Board of Supervisors wish to discuss enacting a biennial budget in San Francisco, the Office of the Legislative Analyst recommends calling a hearing to discuss the issue in more detail with key budget players such as the Mayor's Budget Office, the Office of the Legislative Analyst, the Budget Analyst's Office, members of the Board of Supervisors and representatives from several city departments.

Based on the preliminary research contained above, the OLA finds that the easiest form of a biennial budget to implement and the most appropriate for the City and County is the rolling biennial budget beginning in fiscal year 2004-2005. As they still appropriate funds annually, rolling biennial budgets provide departments and city contractors with increased future funding stability while maintaining their annual accountability to the Board. The Board could transition to a rolling biennial budget cycle through passage of an ordinance and adoption of a new budget process. If based on the process currently in place in Oakland, selected key budget-related activities might roughly follow the calendar provided in Appendix B.

#### Appendix A: States, Major U.S. Counties and California Cities that Enact Biennial Budgets

**IMPORTANT NOTE:** Within the categories 'rolling' and 'true' listed above, there is significant variety. Some cities with rolling biennial budgets have non-binding two-year spending plans and continue to appropriate funds annually while some cities with true biennial budgets appropriate funds biennially but make budget adjustments as frequently as every six months. The important distinction made here is that, with the exception of annual or semi-annual budget adjustments, funds are largely appropriated either every year or every other year.

#### Nine States Enact "True" Biennial Budgets"

1. Indiana

2. Minnesota
3. New Hampshire
4. North Carolina
5. North Dakota
6. Oregon
7. Texas
8. Washington
9. Wyoming

Twelve States Enact "Rolling" Biennial Budgets

- 1.
2. Arizona
3. Arkansas
4. Connecticut
5. Hawaii
6. Kentucky
7. Maine
8. Montana
9. Nebraska
10. Nevada
11. Ohio
12. Virginia
13. Wisconsin

*(Source: National Conference of State Legislatures, 1999)*

Two of the Largest 35 U.S. Counties Enact "True" Biennial Budgets\*

- 1.
2. Oakland County, MI

3. Orange County, CA

Five of the Largest 35 U.S. Counties Enact "Rolling" Biennial Budgets

- 1.
2. Cook County, IL
3. Cuyahoga County, OH
4. San Diego County, CA
5. King County, WA
6. Dallas County, TX

*(Source: 1993 survey by Victoria Runkle, Renton, WA Finance Administrator)*

18 California Cities Enact "True" Biennial Budgets\*

- 1.
2. Barstow
3. Berkeley
4. Claremont
5. El Centro
6. Emeryville
7. Hemet
8. Highland
9. Livermore
10. Lodi
11. Los Altos
12. Oakland
13. Paso Robles
14. Pleasanton
15. San Carlos
16. Santa Maria

17. Selma
18. Watsonville
19. Yorba Linda
- 20.

25 California Cities Enact "Rolling" Biennial Budgets

1.
  2. Alameda
  3. Calabasas
  4. Colton
  5. Daly City
  6. Danville
  7. Del Mar
  8. Fullerton
  9. Glendale
  10. Hayward
11. Huntington Beach
12. Laguna Hills
13. Mission Viejo
14. Moreno Valley
15. Palo Alto
16. Palos Verdes Estates
17. Rancho Palos Verdes
18. Redding
19. Redwood City
20. San Luis Obispo
21. San Rafael

- 22. Santa Barbara
- 23. Santa Rosa
- 24. Santee
- 25. Sunnyvale
- 26. West Hollywood

*(Sources: California Society of Municipal Finance Officers 6/17/99 Two Year Budget Appropriation Survey; Government Finance Officers Association Budget Awards; September OLA Telephone Interviews)*

\* - *Many of these cities have annual spending plans for cash flow management purposes.*

<sup>1</sup> National Conference of State Legislatures, 1999; 1993 survey by Victoria Runkle, Renton, WA Finance Administrator; California Society of Municipal Finance Officers 6/17/99 Two Year Budget Appropriation Survey; Government Finance Officers Association Budget Awards; September Telephone Interviews.

<sup>2</sup> According to the Government Finance Officers Association, as a partial response to this loss of millions in property tax revenues, California cities developed and adopted multi-year budgets to mitigate the long-term fiscal impact of Proposition 13 and the future loss of property tax revenue.

<sup>3</sup> "A good budget process is characterized by several essential features. A good budget process: incorporates a long-term perspective, establishes linkages to broad organizational goals, focuses budget decisions on results and outcomes, involves and promotes effective communication with stakeholders, and provide incentives to government management and employees." P. 3 *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*. 1998.

<sup>4</sup> See [http://www.lao.ca.gov/2000\\_reports/calfacts/2000\\_calfacts\\_state-local.html](http://www.lao.ca.gov/2000_reports/calfacts/2000_calfacts_state-local.html).

<sup>5</sup> In 2002, the Mayor's Budget Office, Budget Analyst, and Controller issued their three-year projection for fiscal years 2002/2003 through 2004/2005 to the Mayor and the Board on March 14 and presented their findings to the five-member Budget Committee March 19. At the request of Budget Committee Chair Maxwell and Vice-Chair Peskin, a preliminary outlook for 2003/2004 was subsequently presented to the Mayor and Board on August 13, 2002 to reflect known changes since the March report.

<sup>6</sup> The Controller's six and nine-month reports project financial conditions for the start of the next fiscal year but do not project conditions any further into the future.

<sup>7</sup> The budget year, as opposed to the current year, is the next fiscal year for which the Mayor and the Board propose and appropriate funds respectively.

## **Appendix B: Potential Rolling Biennial Budget Calendar?**

**Selected Key Activities Based on Oakland, CA**

**Next Fiscal  
Year =  
Transition  
Year (FY 03-  
04)**

	July - Aug	Sept - Oct	Nov - Dec	Jan - Feb	Mar - April	May - June
<b>Mayor/Board</b>	Pass FY03-04 Budget, AAO, ASO		Budget Retreat: Review Perf. Measures & Objectives			Mayor's Proposed Balanced Budget Submittal; Budget Deliberations
<b>Staff</b>	Review Details/ Procedures of Transition to Biennial Budget		Budget Instructions to Depts			Budget Support
<b>Public</b>	Public Participation	Budgetary Focus Groups or Surveys	Election: Mayor, 6 Supervisors			Public participation

**1st Yr. Of  
Biennial (FY  
04-05)**

	July - Aug	Sept - Oct	Nov - Dec	Jan - Feb	Mar - April	May - June
<b>Mayor/Board</b>	Pass FY04-05/05-06 Budget, AAO, ASO				Receive Proposed 2nd year of Approved FY04-05/05-06 Budget	Mayor's Proposed Balanced Budget Submittal; Budget Deliberations
<b>Staff</b>			Supplemental Budget Instructions to Depts		Audits, Review of Programs, Financial Mgmt	Budget Support
<b>Public</b>	Public Participation	Budgetary Focus Groups or Surveys				Public participation

**2nd Yr. Of  
Biennial (FY  
05-06)**

	July - Aug	Sept - Oct	Nov - Dec	Jan - Feb	Mar - April	May - June
<b>Mayor/Board</b>	Pass FY05-06 AAO, ASO		Budget Retreat: Review Perf. Measures & Objectives			Mayor's Proposed Balanced Budget Submittal; Budget Deliberations
<b>Staff</b>	Review Details/ Procedures of Biennial Budget		Budget Instructions to Depts			Budget Support

*Public*      Public      Budgetary  
Participation      Focus  
Groups or  
Surveys      Public participation

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## BIENNIAL BUDGETING: DO THE DRAWBACKS OUTWEIGH THE ADVANTAGES?

by Robert Greenstein

The House of Representatives may consider a proposal to move the federal budget from an annual to a biennial cycle during consideration of a scaled-down version of H.R. 853, the Comprehensive Budget Process Reform Act of 1999, that is tentatively scheduled for the week of May 8. Legislation to institute biennial budgeting has also been introduced in the Senate by Budget Committee Chairman Pete Domenici and reported by the Senate Governmental Affairs Committee. That legislation may be considered by the Senate in the next few months. Proponents of biennial budgeting present it as a reform that will lead to more thoughtful and deliberative budgeting and allow more time for Congressional oversight.

Biennial budgeting is likely to have many effects, however, not all of which are positive. Many budget experts believe, in fact, that the disadvantages of biennial budgeting outweigh the advantages and make it an unwise course to pursue. The General Accounting Office, among others, has expressed reservations about moving from annual to biennial appropriation bills.<sup>1</sup>

It also may be noted that the majority of states, including nearly all large states, use annual rather than biennial budgeting, and that about half the states have abandoned biennial budgeting in recent decades because of problems it was causing. The GAO has reported that the number of states that moved from biennial to annual budgeting over the past 30 years is nearly four times the number that moved from annual to biennial budgeting. The experience of large states is essentially one of having tried biennial budgeting and discarded it.

This analysis examines the limitations of biennial budgeting.

### Budgeting Too Far in Advance

Biennial budgeting involves working on budgets very far in advance. Agencies would begin to put together budgets for the second year of a two-year cycle *at least 28 months* before the year would start and 40 months before the year ends. Federal agencies typically begin working no later than June on the budget the President submits the following January or February for the fiscal year that will commence the following October. Under biennial budgeting, agencies would begin working in June on a two-year budget, the second year of which would not commence for 2 1/3 years.

Similarly, OMB and the White House usually make the key decisions on the President's budget in November and December. These decisions would come 22 to 23 months before the beginning — and 34 to 35 months before the end — of the second year of a biennial cycle.

*The experience of large states is essentially one of having tried biennial budgeting and discarded it.*

Such long lead times would result in decisions that become outdated. During the intervening period, there would inevitably be findings concerning the effectiveness of various programs and changes needed in those programs from GAO reports, Inspector Generals' reports, and research studies. Under biennial budgeting, a year may be lost before these findings and developments can be reflected in budget decisions.

### **GAO Cautions about Biennial Budgeting**

"This change [biennial budgeting] has often been suggested as a way to streamline the budget process, provide more focused time for congressional oversight of programs and, by providing funding for a longer period of time, enhance agencies' ability to manage their operations. While these are laudable goals, shifting the entire annual budget cycle to a biennial one is not necessary to achieve these ends....

"Advocates of biennial budgeting often point to the experience of individual states. In looking to the states it is necessary to disaggregate them into several categories. First, 8 states have biennial legislative cycles and hence necessarily have biennial budget cycles. Second...the 42 states with annual legislative cycles present a mixed picture in terms of budget cycles: 27 describe their budget cycles as annual, 12 describe their budget cycles as biennial and 3 describe their budget cycles as mixed.

"...the state experience may offer some insights for your deliberations. Perhaps significant is the fact that most states that describe their budget cycles as biennial or mixed are small and medium sized. Of the 10 largest states in terms of general fund expenditures, Ohio is the only one with an annual legislative cycle and a biennial budget....

"We have previously reported that if the Congress decides to implement a 2-year budget at the appropriation level, it should proceed cautiously by testing it on a limited basis....

"While budgeting always involves forecasting, which itself is uncertain, the longer the period of the forecast, the greater the uncertainty. Increased difficulty in forecasting was one of the primary reasons states gave for shifting from biennial to annual cycles. Dramatic changes in program design or agency structure...will make budget forecasting more difficult. Moving from an annual to a biennial appropriations cycle at the same time may not be wise, given that there may be program changes which could in turn create the need for major budgeting changes in the second year of a biennium. If this happens, biennial budgeting would exist only in theory."

- from "Issues in Biennial Budget Proposals," Testimony of Susan J. Irving, Associate Director for Budget Issues, Accounting and Information Management Division, General Accounting Office, before the Senate Committee on Governmental Affairs, July 24, 1996.

Substantial changes in economic conditions also can occur in the intervening period. Biennial budgeting would make it harder for the federal government to respond expeditiously to changes in such conditions. Because decisions relating to the second year of the two-year-cycle would be made so far in advance, it would be more difficult for the government to use fiscal policy to help stabilize the U.S. economy when the economy weakened unless significant changes were made during the second year of a biennial budget cycle.

Biennial budgeting also would make it more difficult for the President and Congress to respond promptly to other types of problems as they arise. Problems such as an unexpected increase in AIDS cases or in the incidence of another disease, or a rise in drug trafficking, could arise and necessitate a response. So could international developments that bear on the nation's military or foreign aid posture.

If a need for resources in a particular area unexpectedly emerged, finding the funds to meet the need would be more difficult under a biennial budgeting regimen. Securing the needed funds could entail rescinding funds appropriated for other programs for the second year of a two-year cycle, something that generally is difficult to do. By contrast, under annual budgeting, no appropriations decisions would yet have been made for the second year. It always is easier to shift funds *before* appropriations bills are enacted than afterward. As a result, the need for supplemental appropriations that are in addition to other funding would likely increase under biennial budgeting.

#### **Biennial Budgeting May Protect the Status Quo**

Biennial budgeting also may hinder broader effects to reorder federal budget priorities. Securing

shifts in priorities often involves challenging the *status quo* and taking on strong constituencies that protect various lower-priority discretionary programs. Because of resistance to such shifts in priorities, funding shifts tend to occur incrementally; each year, appropriation levels for lower-priority programs can be nudged down somewhat, while important new initiatives can be ratcheted up somewhat. If appropriations decisions are made only once every two years, however, the process of reordering budget priorities may proceed more slowly. Lower-priority programs are likely to be reduced at slower rates, because appropriators and Congress at large tend not to take big bites out of existing programs at one time. While biennial budgeting represents change in the budget process, it can serve to *reduce* the degree of change in budget decisions.

### **Biennial Budgets Will Have to Be Revised Frequently**

As these observations about changes in needs over a two-year cycle suggest, biennial budgeting is not likely to work in the real world in the way it appears on paper. The pressures to revise the budget during the two-year period will be strong, likely leading to frequent budget revisions and supplemental bills on a much larger scale than in the past.

Budget revisions and supplementals often involve less-rigorous Congressional analysis of larger budget matters than does the regular budget process. The revisions that will occur under a biennial budgeting

process may, in the end, result in nearly as much budgeting activity as under the current annual budget process, but with much of the budget revision activity being conducted on an *ad hoc* basis rather than as part of the more comprehensive examination of budget priorities the regular budget process provides.

### **Will Biennial Budgeting Improve Congressional Operations?**

One argument made on behalf of biennial budgeting is that it will improve Congressional operations, giving Congress more time for oversight. This argument appears to be overstated. What is traditionally thought of as oversight is done primarily by authorizing committees, which do not operate on an annual budget cycle. Switching from annual to biennial budgeting is unlikely to have a major effect on the amount of time authorizing committees have to evaluate programs over which they exercise jurisdiction.

Furthermore, a significant amount of oversight is conducted by the appropriations committees in the course of reviewing agency budget requests each year. By limiting this review of agency budgets to every other year, biennial appropriations could actually reduce the amount of oversight Congress conducts even if authorizing committees increased their efforts in this area. As then CBO Director June O'Neill testified in 1997, "further Congressional oversight that is divorced from the purse strings may be less effective than oversight conducted through annual

### **Limits on Discretionary Spending Heighten the Need for Annual Appropriations**

Whether Congress establishes new statutory caps on discretionary spending or sets discretionary spending limits through the Congressional budget resolution process, limits on discretionary spending are likely to remain rather constraining. Finding even modest funding for promising initiatives is likely to remain difficult.

One way appropriators attempt to find resources to fund priority items is by closely scrutinizing the budgetary needs of each program on an annual basis. Occasionally, certain programs turn out not to need as much as they normally receive on an annual basis because of particular circumstances in a program in a given year. This can free up monies for other programs. For example, suppose a large transportation project that received funds last year has experienced delays in getting started. Last year's appropriation may not yet have been fully spent, resulting in extra funds being available to the project this year. Appropriators might decide to provide the project with a little less new funding this year, enabling themselves to shift some funding to another program or project with a temporary but pressing need, such as addressing Y2K computer problems.

The ability to find money in one program to shift to another program with a greater need is dependent to some degree upon appropriators' being able to conduct a detailed annual assessment of programmatic spending and needs. This would be less likely to occur under biennial budgeting. If extra money turned up in a particular project during a biennial budget cycle, there would be much less opportunity to shift these funds to a program with a more pressing need.

appropriations hearings linked to agency funding requests.”<sup>2</sup>

In addition, the General Accounting Office has noted: “We have long advocated regular and rigorous Congressional oversight of federal programs....However, it is not necessary to change the budget and appropriations cycle to have effective Congressional oversight.”<sup>3</sup>

### **Will Biennial Budgeting Improve Program Planning?**

Another argument sometimes made for biennial budgeting is that it will provide greater certainty for, and thus better planning by, federal agencies and state and local governments. Many of the programs for which certainty and advance planning are most important, however — such as most education programs — already are “forward-funded” (that is, funded a year in advance). Forward-funding does provide for more certainty and advance planning, but if it is desirable to expand the list of forward-funded programs, that can be done without moving the entire federal budget to biennial budgeting.

### **State Actions to Drop Biennial Budgeting**

States often are referred to as “laboratories of democracy” and their experiences are studied for clues to improving federal government performance. *Yet states have a clear pattern of abandoning biennial budgeting and moving to annual budgeting*, rather than moving in the other direction.

As Lawton Chiles observed a decade ago, some 44 states used biennial budgeting in 1940, but fewer than half that number do now. Most of the states still using biennial budgeting are small or medium-sized states.

The experience of the larger states is essentially one of having tried biennial budgeting and dropped it in favor of annual budgeting. The GAO has reported that over the past three decades, the number of states that have moved from biennial to annual budgeting is nearly four times the number that have moved from annual to biennial budgets. The GAO has written that according to officials in states that changed to annual budgeting, “reasons for doing so included gaining greater accuracy in estimating revenues and financial needs, improving legislative control over budgetary matters, and being better able to respond to rapid changes in revenues and program needs.”<sup>4</sup>

There may be a lesson here. If biennial budgeting was tried and found wanting by large state governments given the responsibilities they shoulder, is it likely to prove appropriate for an entity with the

*Pressures to revise the budget during the two-year period will be strong, likely leading to frequent budget changes and to supplemental bills on a much larger scale than in the past.*

far more extensive domestic and international responsibilities of the U.S. government?

In short, the disadvantages of biennial budgeting are likely to outweigh the advantages. The apparent drawbacks are sufficiently serious that if federal policymakers wish to pursue biennial budgeting, the procedure should first be tested on an experimental basis with a limited number of budget accounts, as the GAO has suggested. (See box on page 3.) Another possibility worth exploring may be to institute biennial budget resolutions but maintain annual appropriations; if new, realistic discretionary spending caps are established several years in advance, biennial budget resolutions may be a possibility. A decision to switch the entire federal government to both biennial budget resolutions *and* biennial appropriations bills, however, is premature. It would appear to be unwise to adopt such a proposal until it has been demonstrated that the serious questions surrounding biennial budgeting can be satisfactorily addressed.

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#### **Notes:**

1. See “Issues in Biennial Budget Proposals,” Testimony of Susan J. Irving before the Senate Committee on Governmental Affairs, GAO, July 24, 1996.
2. Statement of CBO Director June E. O’Neill on S.261, The Biennial Budgeting and Appropriations Act, submitted to the Senate Committee on Governmental Affairs, April 23, 1997.
3. *Ibid.*
4. See “Biennial Budgeting for the Federal Government,” Testimony of Susan J. Irving, GAO, before the Senate Committee on Rules and Administration, April 28, 1994.