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BUDGET POLICY

Biennial Budgeting for the Federal Government

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss proposals by the National Performance Review (NPR) to institute biennial budgets and appropriations. Certainly everyone involved in the budget process shares some frustration with it. The public considers it confusing. Executive branch agencies perceive the process as extremely burdensome and time-consuming. Members of the Congress say the process seems lengthy, with too many votes on authorizations, budget resolution, reconciliation, appropriations, and debt limit. And too often the results are not what was expected or hoped for.

Even though there is virtually universal agreement that the current process has problems, changes must be carefully considered. The current process is, in part, the result of many changes designed to address previous problems. The challenge is to design solutions to existing problems without creating new ones. Therefore, proposals for biennial budgets and biennial appropriations must be considered in the context of the entire budget process.

As you know, our concern over the size and persistence of the federal deficit--and the damage we believe it does to the current and future economic health of the nation--has led us to advocate that the Congress and the President agree on a long-term fiscal policy path that results in budget balance or a surplus in a decade. This agreement would set the framework within which debates over the composition of the budget would take place. Rather than being a set of fixed deficit targets, however, it should consist of control mechanisms and discretionary spending caps, as in the Budget Enforcement Act of 1990 (BEA) and the 1993 Omnibus Budget Reconciliation Act.

Biennial budgeting as a mechanism to achieve a longer term budget agreement is not a new idea. The first biennial budgeting bill was introduced in 1977 by former Congressman Panetta, now the Director of the Office of Management and Budget. Numerous other biennial budget bills have been introduced since then. In addition, both former Presidents Reagan and Bush called for biennial budgeting.

The National Performance Review has proposed that the entire budget cycle be changed from annual to biennial. Under this system, the President would submit budgets every 2 years. Authorizations would be for 2 years or longer. Budget resolutions would be adopted every 2 years and appropriations enacted every 2 years. The NPR summary report is silent on the question of reconciliation instructions, but normally they are used only when needed and the actions executing them are often permanent.

We believe that this need not be seen as an all-or-nothing proposal. Budget agreements, authorizations, budget resolutions, and appropriations need not cover the same time period.

We have previously supported the use of multiyear authorizations. There seems little reason to reexamine and reauthorize programs more often than they might actually be changed. Furthermore, multiyear authorizations help both the Congress and the executive branch by providing a longer term perspective within which a program may operate and appropriations be determined. This is the normal practice for most of the non-defense portion of the budget.

We agree with the NPR that a 2-year budget resolution makes sense. In a June 24, 1993, statement to the Joint Committee on the Organization of the Congress, we suggested 2-year binding budget resolutions be used with 2-year reconciliation instructions. Such a change would reduce the burden on the Congress and provide more stability for congressional committee planning without unduly binding future Congresses or reducing congressional oversight.

As I noted earlier, the question of biennial appropriations can be separated from biennial budget resolutions. The two raise quite different questions. Let me turn now more specifically to that issue. I will talk briefly about how biennial budgeting fits into the overall NPR proposals, about state experiences with biennial versus annual budgets, and then come back to the idea of biennial appropriations in the federal government.

OTHER NATIONAL PERFORMANCE REVIEW
PROPOSALS RAISE QUESTIONS ABOUT
IMPLEMENTING BIENNIAL BUDGETING

The NPR recommendation on biennial budgeting is one of several proposals to change the federal budget process. These proposals include the creation of an executive budget resolution, changing the apportionment process, and eliminating the use of full-time equivalent (FTE) ceilings as a means of budgetary control.

The NPR recommendations for changing the budget process, however, must be considered in the context of NPR's many other proposals to change the way the federal government operates. Although these proposals do not deal specifically with the budget process, they affect the ability to forecast future budgeting needs based on past experience. Proposals to reduce federal employment, to close or realign agency field offices, to eliminate federal programs, to improve financial management, and to streamline government procurement will all have some impact on and/or be affected by the budget.

We have previously reported that if the Congress decides to

implement a 2-year budget at the appropriation account level, it should proceed cautiously by testing it on a limited basis. Good candidates for a limited test would be organizations or programs which are relatively stable and for which there are no obvious impediments. Impediments would be activities that hamper the forecasting of budgetary needs for the 2-year period, such as a major reorganization or major changes in financial management systems. The very magnitude of the changes the NPR envisioned raises questions about whether a shift to biennial appropriations could or should be made at the same time. The Congress needs to consider the relationship between massive organizational change--such as realigning field offices or functions or combining functions--and appropriations cycles.

STATE EXPERIENCES WITH BIENNIAL BUDGETING
MAY BE RELEVANT TO THE FEDERAL GOVERNMENT

Supporters of biennial budgeting, and the NPR summary report, argue that a biennial budget cycle would reduce the amount of time spent on repetitious, detailed budget preparations, thus allowing more time for program evaluation and oversight. Advocates also point to the experience of individual states.

Overall, however, the states present a mixed picture. Although 19 states currently have a biennial budget cycle, 8 of those states have biennial legislative cycles and hence could not have an annual budget cycle. Of the 42 states with annual legislative cycles, 11 have biennial budgets. Even these do not present a uniform picture. Nine of these adopt two 1-year budgets every other year, while 2 adopt a single budget for the biennium.

Translating state budget laws, practices, and experiences to the federal level is always difficult. As we noted in our review of state balanced budget practices,¹ state budgets fill a different role, may be sensitive to different outside pressures, and are otherwise not directly comparable. In addition, governors often have more unilateral power over spending than does a President.

However, even with those caveats, the state experience may offer some insights for your deliberations. First, and perhaps most significant, the trend in state budget process changes has been away from biennial budgeting. In a 1987 study² we found that of the 31 states with annual budget cycles, 24 at one time used biennial budgeting. During the 20-year period from 1968 to 1987,

¹Balanced Budget Requirements: State Experiences and Implications for the Federal Government (GAO/AFMD-93-58BR, March 26, 1993).

²Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting (GAO/AFMD-87-53FS, July 15, 1987).

15 states changed budget cycles; 12 moved from biennial to annual while only 3 moved from annual to biennial. According to representatives from the 12 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.

In analyzing the state experiences for lessons relevant to the federal government, the second significant piece of information is that most states with biennial budgets are small and medium sized. Of the 10 largest states in terms of expenditures, Ohio is the only one with an annual legislative cycle and a biennial budget.

THE FEDERAL GOVERNMENT'S ANNUAL
BUDGET CYCLE PERMITS FLEXIBLE PERIODS
OF FUND AVAILABILITY

In considering whether the federal government should shift to a biennial budget, it is important to recognize a very important distinction between how often budget decisions are made and how long the money provided for agency use is available. Biennial budgeting proposals seek to change the frequency with which budget decisions are made--from annual budget decisions to biennial ones. Too often, however, the idea is discussed as though it were necessary to change the frequency of budgeting decisions in order to change the length of time funds are available.

However, as you know, this is a misconception. The bulk of the current federal budget is not made up of annual appropriations of 1-year monies. Not all funds expire September 30 of every year. Because budget decisions about mandatory programs and entitlements are not made on an annual basis, the debate about annual versus biennial appropriations deals with less than half of the budget. Annual appropriations apply to that portion of the budget known as discretionary spending--about 39 percent of federal outlays in fiscal year 1992.

Even within that 39 percent of the budget on an annual budget cycle, not all appropriations were for 1-year funds. The Congress has routinely provided multiple-year or no-year appropriations for accounts or for projects within accounts when it seemed to make sense to do so. Indeed, about 70 percent of the accounts on an annual appropriation cycle contained some multiple-year or no-year funds. For these accounts, some prior

year and/or current year authority remained available for obligation beyond September 30, 1992, without further congressional action.

The federal government has had some experience with biennial budgets. The 1986 Defense Authorization Act directed the Department of Defense (DOD) to submit a biennial budget for fiscal years 1988 and 1989 and every 2 years thereafter. DOD submitted 2-year budgets for fiscal years 1988 and 1989, 1990 and 1991, and 1992 and 1993. However, the authorization committees have chosen not to approve a full 2-year budget, and the appropriation committees have not provided appropriations for the second year.

POTENTIAL EFFECTS OF BIENNIAL APPROPRIATIONS ON THE FEDERAL GOVERNMENT

For agency officials--especially agency budget officers--the arguments for biennial budgeting may seem quite strong. Currently, these officials spend several months every year preparing a "from the ground up" budget with justification. Much of this work is repetitious. In contrast, requests for supplemental appropriations are handled on an exception basis. Only those agencies requesting supplemental appropriations prepare and present justifications, and those justifications are less complex than those for the annual budget. If, under a biennial appropriations process, the "off-year" updates, amendments, or adjustments were treated like supplemental appropriations, the savings in agency time could be significant, even if the Congress required--as seems reasonable--that agencies submit financial and spending reports every year.

Would agency time and energy be shifted to improved financial management or better program evaluation? I suspect that would depend on the President, the agency's leadership, and on what the Congress demanded of the agencies.

Regardless of the potential benefits to agencies, the decision on biennial budgeting must depend on the Congress' choice about how it wishes to exercise its constitutional authority over appropriations and its oversight functions. Annual appropriations have long been a basic means of exerting and enforcing congressional policy. A 2-year appropriation cycle could change that control.

While biennial budgeting might allow for more oversight and other legislative initiatives, it has some potential drawbacks. It could lessen congressional influence or control over program and spending matters, largely because the budget and appropriation processes would afford fewer scheduled opportunities to affect agency programs and budgets.

Also, some of the expected savings in agency staff budget formulation may be achieved if another NPR recommendation--the executive budget resolution--is effectively implemented. This recommendation, which can be implemented without legislative action, is designed to reduce the number of budget alternatives and justifications an agency must produce by providing each agency with fixed targets to use in preparing its budget submission.

WHEN SHOULD A BIENNIAL BUDGET BEGIN?

The Congress needs to address the question of timing if it wishes to change to a biennial appropriation cycle for all or most agencies and programs. The NPR suggests that the first biennium begin October 1, 1996, to cover fiscal years 1997 and 1998. After that, bienniums would begin October 1 of each even numbered year. According to the summary report, in off-years the President would submit only amendments for exceptional areas of concern, emergencies, or other unforeseen circumstances. Under this approach, a newly elected President and Congress could be faced with operating under the previously enacted budget for approximately 21 months.

In previous testimony, we said that if the Congress decided to change to a biennial budget cycle, concentrating budget activity in the first session of each Congress and oversight in the second session makes the most sense. Under this approach, the biennium would begin October 1 of odd-numbered years, and thus budgets would be adopted during the first year of a President's term and at the start of each new Congress. This would prevent a situation in which a new Congress and a new President would face the prospect of operating for nearly 2 years under an earlier approved budget. Otherwise, the pressure for major changes in the off-year would be great.

CONCLUSIONS

We believe that multi-year fiscal policy agreements and multi-year authorizations make a great deal of sense, but they do not require changing the appropriations decision cycle from annual to biennial.

While biennial appropriations could save time for agencies, they could result in a shift in congressional control and oversight. Proposals to change the process should be viewed partly in the context of their effect on the relative balance of power in this debate.

While budgeting always involves forecasting (an inherently uncertain business), the longer the period of the forecast the more 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, such as some of the NPR proposals, will make budget forecasting more difficult. Moving from an annual to a biennial cycle at the same time may not be wise, given that the program changes are likely to create the need for major budgeting changes in the second year of a biennium. If this happens, biennial budgets would exist only in theory.

Biennial appropriations would be neither the end of congressional control nor the solution to many budget problems. The questions for the Congress are, how does it want to exercise its constitutional authority over appropriations and in what forum will it conduct its oversight responsibilities?

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Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions you or the other Subcommittee Members may have at this time.

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