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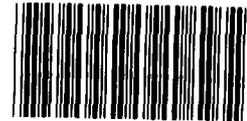
DECEMBER 23, 1982

The Honorable Norman Mineta
Chairman, Task Force on
Enforcement, Credit, and
Multi-year Budgeting
Committee on the Budget
House of Representatives

The Honorable Ed Bethune
Ranking Republican
Task Force on Enforcement,
Credit, and Multi-year
Budgeting
Committee on the Budget
House of Representatives

The Honorable Ralph Regula
Member, Task Force on
Enforcement, Credit, and
Budgeting
Committee on the Budget
House of Representatives

The Honorable Leon E. Panetta
Member, Task Force on
Enforcement, Credit, and
Multi-year Budgeting
Committee on the Budget
House of Representatives



120260

Subject: Biennial Budgeting: The State Examples--
Summary of the Major Issues (GAO/PAD-83-14)

As requested, we are forwarding a part of our overall study on biennial budgeting. This summary briefly discusses the biennial budget processes of Ohio, Wisconsin, and Florida. It is based on data and interviews with executive and legislative officials in the three States. Selected officials in each State have reviewed the portions of the summary that pertain to them.

While budgeting may often be tailored to the unique needs and characteristics of a State, we learned from visiting Ohio, Wisconsin, and Florida that certain aspects of their budget processes are relevant and adaptable to a Federal biennial cycle.

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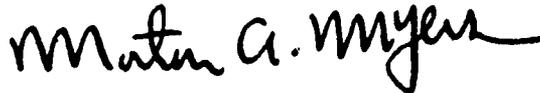
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From their experiences with the biennial process, we also learned that the following elements should be considered if such a process were to be designed for the Federal Government: (1) An effective control and adjustment mechanism is needed with the installation of a 2-year budget cycle. (2) An early consensus on revenue estimates by the executive and legislative branches can substantially reduce revenue estimating problems. (3) Although biennial budgeting allows time for long-term planning, it may not necessarily occur.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this summary until 10 days from the date of the summary. At that time we will send copies to interested parties and make copies available to others upon request.

We are completing our analysis and report writing on our overall study and plan to send a draft of the report to the Office of Management and Budget and the Congressional Budget Office in January.

If there is anything further we can do to assist your Committee, please call on us.



Morton A. Myers
Director

Enclosure

THE STATE EXAMPLES--SUMMARY OF THE MAJOR ISSUES

While budgeting may often be tailored to the unique needs and characteristics of a State, certain elements of each State's budget process are relevant to a Federal biennial cycle. To learn which transposable elements exist at the State level, we visited Ohio, Wisconsin, and Florida. These States have used a biennial budget for years and can supply valuable information about elements that should be considered in designing a biennial process for the Federal Government.

OBJECTIVES, SCOPE, AND METHODOLOGY

Beyond learning which portions of the States' budget processes would be useful to the Federal Government, the visits also allowed us to explore the relevance and appropriateness of a Federal biennial budget, identify any budgeting characteristics of the three States that were unique and unpublicized in our literature searches, and further identify the advantages and disadvantages of a biennial budgeting system.

We chose Ohio, Wisconsin, and Florida for biennial budget analysis because their budget characteristics met the selection criteria that we established for the State studies. Selection criteria included

- States with large budgets and economies;
- States with sophisticated legislatures that convene annually;
- States with rapidly growing outlays and uncontrollable sections of their budgets;
- States that sustain a high level of competition for limited resources;
- States that have witnessed a significant amount of debate the last few years as to whether biennial budgeting is appropriate;
- States that have implemented a biennial budget in a variety of ways; and
- States with different (1) provisions for legislative oversight, (2) annual budget adjustment mechanisms, and (3) authorization/appropriation processes.

Interview and scheduling strategies

Throughout the course of each State study, most of our interviews dealt with the portions of the State budget process that could possibly relate to the congressional budget process.

We knew that certain information would help us understand how the biennial budget process works, the budget is adjusted, expenditures are controlled, and estimates are made. Besides conducting interviews, we also carried out document collection and analysis. The interview schedule was arranged to include meetings with (1) representatives from the State budget office, (2) representatives from the legislative and executive branch knowledgeable in revenue and expenditure estimates, (3) representatives from the State agencies or departments, (4) members of key committees with budget responsibility, (5) staff from key legislative support organizations, and (6) majority leaders of both houses.

OVERVIEW OF THE BIENNIAL BUDGETING CYCLE

Key dates and events

The fiscal year in Ohio, Wisconsin, and Florida runs from July 1 through June 30, and biennial budgets are passed in odd-numbered years. The timeframe of key events for preparing and enacting the budget in the three States is generally about the same. For example:

- The budget formulation process in the three States generally begins 12 months before the start of the fiscal year (approximately June/July of the even-numbered year) with the budget office issuing budget instructions to the agencies.
- Agency budget requests are received by the respective State budget office no later than October/November of the even-numbered year.
- The Governor of each State delivers the executive budget proposal to the legislature in January/February of the odd-numbered year. (In Ohio, if a new Governor is to take office in January, the executive budget delivery date is slipped to March 15.)
- Budget deliberation proceedings, which vary slightly in the three States, are scheduled to conclude in June of the odd-numbered year, at which time the budget, complete with any legislative revisions, is sent back to the Governor for his signature. On July 1 of the odd-numbered year, a new biennium begins.

Key participants in the States

While executive and legislative participants in the State budget formulation process are somewhat similar in structure and responsibility, marked differences exist among the States and some of the governmental groups that devise the biennial budget.

Executive participants

In Ohio, Wisconsin, and Florida, the Governors and the States' budget offices are responsible for preparing the budget. These budget offices are (1) the Office of Budget and Management (OBM) in Ohio, (2) the State Budget Office (SBO) in Wisconsin, and (3) the Office of Planning and Budget (OPB) in Florida. Of these agencies, no two are completely alike in responsibility; however, they do share some common duties. For example:

--All three budget offices are involved in preparing the Governor's budget.

--All three budget offices oversee their respective State agencies.

--All three budget offices control and supervise State expenditures.

While similarities do exist among the States and their executive budget offices, some roles and responsibilities in budget review are different. For instance, the offices estimate revenues and oversee programs/agencies (discussed in later sections) differently.

Legislative participants

In the Ohio, Wisconsin, and Florida legislatures, two distinct groups participate in the review and drafting of a biennial budget: the legislative committees and the legislative staff organizations.

Legislative committees--The Ohio budget review begins in the House with the Finance - Appropriations Committee (House Finance Committee), the only House committee that has primary responsibility for reviewing the budget. The committee's spending recommendations, resulting from budget review, act as both program authorization and funding. Since committee membership is fairly large and careful scrutiny of agency budget requests is desirable, the Finance Committee is divided into subcommittees that review the budget by subject area. When the subcommittees are finished considering the budget, they refer the budget to the full committee for review of the bill section by section, and as a total package. Once the House passes the budget bill, the package is sent to the Senate Finance Committee for deliberations and approval. If differences arise between the two houses, a conference committee is appointed to iron out the disagreements and achieve the needed consensus to approve the measure and send it to the Governor.

In Wisconsin, the Joint Finance Committee (JFC) is the only legislative committee that has been given statutory responsibility for reviewing all proposals involving spending, including the biennial budget and annual review bills (see page 5). The

JFC has 14 members--7 from each house. The committee is also authorized to make both spending and revenue recommendations. Its spending recommendations serve as both program authorization and funding. Other standing committees may have some effect on the budget by reviewing portions of the budget, holding hearings if they so desire, and then conveying their wishes to the JFC for its consideration. Once the JFC approves the budget bill, it is then referred to the originating chamber for action. If the two houses disagree over the bill, the traditional resolution mechanism has been the conference committee. However, because of the vast scope of the budget bill, the preferred method in recent years has been to successfully pass narrowing amendments between the houses dealing only with the points of difference. This process is continued until all items of difference are resolved.

Florida's procedures for formulating a budget proposal are slightly different from Wisconsin's and Ohio's. In Florida, after the Governor submits the budget, the House and Senate appropriations committees meet separately and develop preliminary policy guidelines. These two sets of guidelines are independent of each other and independent of the executive. The guidelines contain instructions on how to calculate the cost of programs the committee members want to emphasize and information on new programs. The guidelines do not contain specific programmatic directives. After each appropriation committee has completed action on the budget bill, it goes to the floor for action. If problems arise with the budget bill between the two chambers, members of a conference committee are appointed by the presiding officers to resolve the differences. When the conference meets, amendments may be added to the budget bill before reporting the bill out to the House and Senate (voted up or down without change).

Legislative staff organizations--The Legislative Budget Office (Ohio) and the Legislative Fiscal Bureau (Wisconsin) provide many of the same services. Similar responsibilities include (1) estimating revenues and expenditures, (2) analyzing budget requests, and (3) staffing various legislative committees. Unlike Ohio and Wisconsin, Florida does not have a budget office that serves the legislature. Staffs of the appropriations committees perform budget-related work.

Ohio's Legislative Service Commission (LSC) and Wisconsin's Legislative Reference Bureau (LRB) are responsible for preparing drafts of all legislative proposals for inclusion in bills, resolutions, and joint resolutions. In Florida, both houses have bill drafting services.

BUDGET ADJUSTMENT MECHANISMS

Budget adjustments are any changes up or down from the funding levels appearing in the biennial budget as enacted into law. At the State level, these changes can include the movement of funds from (1) program to program, (2) account to account, and

(3) agency to agency. Other types of budget adjustments include supplemental appropriations and rescissions. Ohio, Wisconsin, and Florida have primary budget adjustment mechanisms.

The Controlling Board is Ohio's main budget control and adjustment mechanism. The board, which meets once every 2 weeks, includes one executive level member appointed by the Governor and six appointed legislators. After the legislature and Governor approve the appropriation bills, the Controlling Board approves all transfers of appropriated dollars and certain types of expenditures. Most appropriation transfer authority below the agency appropriation level belongs to the board; however, actions that involve increases or decreases in an agency's appropriation are handled through the Governor's rescission powers (State statute 126.08) and through supplemental appropriations requiring legislative approval. The Controlling Board does have power to increase appropriation authority for revolving accounts (accounts outside the General Fund).

Annual review is an adjustment mechanism that has been used in Wisconsin five times since its inception in 1972. The review, a discretionary power of the Governor, is considered to be a complete evaluation of the State budget in the off-budget year. The mechanism was originally intended as a way to "fine tune" or make mid-cycle adjustments to the budget. However, since the late 1970s, annual review has become much more comprehensive and more like a 1-year budget process. Largely because the annual review process had become overly formalized, the deadline for the submission of the Governor's annual review bill was eliminated. In effect, this ended the formal requirement for a regular annual review, but the Governor retains the discretionary power to use annual review.

Other adjustment mechanisms exist in Wisconsin. For example, the Joint Finance Committee meets quarterly to review and approve or disapprove requests concerning changes in agency appropriations. These changes can be in the form of (1) supplemental appropriations (\$2 million available in 1981-83), (2) transfer of appropriations between State programs, and (3) loans from an appropriation. In Wisconsin's executive branch, the Department of Administration has the authority to give agencies supplemental appropriations for pay plan adjustments and space rental increases without legislative approval. The department may also approve line transfers of funds.

The Administration Commission is Florida's main budget adjustment mechanism. The commission is composed of the State's six cabinet members (independently elected) and the Governor. While the commission cannot spend more than was appropriated or transfer monies between agencies, it can transfer funds between accounts during the biennium. All general revenue requests for

change over \$2,000 are approved or disapproved by the Administration Commission. On the other hand, the Governor has the authority to change any trust fund without seeking the commission's approval.

OVERSIGHT

Oversight and program evaluation of existing programs and agencies in Ohio, Wisconsin, and Florida take place throughout the biennial cycle. During the budget year, oversight involves such techniques as monitoring an agency's performance and hearings on the State budget. Oversight activities that include studies and reports (i.e., management audits and expenditure reviews) are usually considered off-budget year activities.

Legislative oversight

Most of the oversight activities of the Ohio legislature take place when program goals, accomplishments, and fund requests are being examined. These oversight activities in Ohio include (1) special committees set up by the House of Representatives, (2) Legislative Service Commission study committees set up for program review and the study of specific problems, and (3) Legislative Budget Office functions such as fiscal research projects and reviews of spending programs. A more frequent type of oversight is the Controlling Board's review of agency appropriation transfer and expenditure requests.

Oversight activities in Wisconsin are carried out year-round by the Legislative Audit Bureau. Where appropriate, oversight results are keyed into the JFC budget deliberations. In addition, some of the off-budget year research projects conducted by Legislative Fiscal Bureau analysts can be considered program oversight.

Florida's legislature plays an active role in oversight. Two forms of statutory oversight, the Regulatory Reform Act of 1976 and the Sundown Act of 1977, provide for the prospective repeal of regulatory law (62 laws reviewed--13 repealed, 37 re-established with major changes, and 12 re-established with minor changes) and appointive units of government (of 130 appointive units, one-third have been abolished). In addition to the legislation, in early 1981 the House Speaker implemented an oversight program whereby the House's 23 committees are responsible for conducting in-depth evaluations of various State programs overseen by the committees. Another source of legislative oversight in Florida is the Auditor General (a legislative officer) who performs compliance and performance audits.

Executive program evaluation

In Ohio, most executive level program review is performed by OBM personnel. Program review/evaluation is considered an ongoing responsibility of OBM staff. As a result, OBM budget

analysts conduct program reviews within the areas of agencies assigned to them.

Program evaluation activities in Wisconsin are performed by SBO's budget analysts who conduct it according to need during non-peak periods.

Florida has three types of program evaluation. First, the individual departments or agencies perform a "self-oversight," whereby programs are monitored against milestones as they are being executed. Second, the program evaluation unit of OPB makes agency visits to gauge the effectiveness of certain programs. Third, program efficiency is the objective of the Inspector General's oversight activities.

OFF-BUDGET YEAR ACTIVITIES

In recent years, Ohio has spent the off-budget year of the biennium approving and implementing adjustments to the budget, in part because of current economic conditions in the State, as well as in the country. In more stable economic times, legislative off-budget year activities included oversight and the passage of supplemental appropriations. On the executive side, OBM analysts historically have made site visits to their respective agencies/program areas during the off-budget year of the biennium.

In Wisconsin, if the Governor desires an annual review of the budget, then the activities of the executive and legislative branches in the off-budget year are the same as those who are involved in preparing a biennial budget. If there is no annual review, time in the off-budget session may still be spent on a series of budget adjustment bills. If time in the off-budget year allows, SBO budget analysts research budget issues in the agencies for which they are responsible. In the legislature, the JFC holds quarterly meetings to handle budget adjustments (appropriation changes and transfers).

In Florida, as in Ohio and Wisconsin, the Governor submits a budget request consisting of two 1-year appropriations. Even though Florida considers itself a biennial State, the budget process presently resembles an annual process. Current debate in Florida finds the legislature favoring an annual budget process, while the Governor favors a biennial process. Because of this, the legislature decided in 1981 to make annual appropriations while keeping the Governor on a biennial submission schedule. Before 1970, the legislature appropriated funds once every 2 years, as it did in the 1979-81 biennium. Because of Florida's budget procedures, off-budget year activities are similar to activities in the budget year.

REVENUE ESTIMATING

Revenue estimating can be considered a judgmental practice. Under normal conditions, most sets of revenue estimates are

fairly accurate; however, with the unpredictable national and State economies, revenues are becoming increasingly harder to predict.

Estimating in Ohio and Wisconsin

In Ohio and Wisconsin, at least two groups are responsible for calculating future revenues. On the executive side, OBM (Ohio) and the Department of Revenue and SBO (Wisconsin) prepare revenue estimates for the Governor, while the LBO (Ohio) and the LFB (Wisconsin) calculate future receipts for the legislature. According to several members of Ohio's legislature, having the LBO compile the revenue estimates affords the General Assembly with a set of figures that act as a "check and balance" against the administration's estimates. Even though the LBO and LFB estimate revenues for the legislature, each house still considers both sets of figures. The Finance Committees (Ohio) and the Joint Finance Committee (Wisconsin) have the option of using either set of estimates or of choosing their own figures.

Florida's Revenue Estimation Conference

Florida derives its revenue estimates by means of two 2-day revenue estimation conferences (once for the Governor when he prepares his budget in December and once for the legislature near the end of their budget deliberations in May). A third conference may be held if it appears that revenue projections are way off the mark. This may be done a few months into the fiscal year. The purpose of the conferences is to reach agreement by consensus on a single revenue estimate for the State. This estimate is used by both the Governor and the legislature in the budget process. Staff of the House and Senate Finance and Tax Committees represent the legislature in the conference and are the primary participants, although representatives from the Revenue and Economic Analysis Division of the Office of Planning and Budget participate in the conference for the executive branch. The conference has a rotating chairmanship among the primary participants. Florida's estimation process has been in existence 10 years and has functioned under an annual as well as a biennial system.

PLANNING

The States of Ohio and Wisconsin largely limit their planning to 2 years (the next biennium) and the issues concerning that time period.

In Florida's executive branch, advanced planning includes

--a 10-year outlook by the Governor. This is an overview of what the people can expect the State composition to be in the future (a statement of conditions). It consists of a set of data used to make projections.

- policy guides developed by the Governor from the 10-year outlook. The policy guides, which are broken down by functional area, define an agency's objectives and strategies.
- a 6-year plan. This is an agency response to the Governor's policy guides.

In Florida's legislature, most advance planning is limited to reviewing the policy guides and any planning that is built into the budget process. However, other forms of planning do exist in Florida, including speculative scenarios that are researched by consultants and sponsored by the State's House of Representatives. These scenarios, which cover many different areas (energy, interest structure, water, and education), aid in planning for the future by projecting various conditions and circumstances in the State through the year 2000.

TIMING AND WORKLOAD PROBLEMS

In most budgeting systems, many players are required to do a lot in a short space of time to pass a budget. Part of the appeal of a biennial budget is that it could give all the players more time to operate and could possibly create a less frantic environment in which to make budget decisions.

In Ohio, Wisconsin, and Florida, timing and workload are not considered problems. Legislators in Ohio and Florida believe that the substantial amount of time allotted for committee action during the year is at least partially responsible for the limited workload with which the full legislature must deal while in session. Florida has also taken further steps to insure a minimum of problems in the workload schedule. The actions include

- no committee meetings after the 50th day of the 60-day legislative session.
- no bills can be introduced after the 10th day of the session.
- legislators must track their own bills through committee actions.
- a voluntary restriction in the House of Representatives on the number of bills (8) a legislator may introduce during the session.

BIENNIAL BUDGETING: BENEFITS AND PROBLEMS

A biennial budgeting process received overwhelming support in Ohio, general satisfaction in Wisconsin, and mixed reviews in Florida. While some problems were raised concerning the 2-year

budget cycle, the benefits mentioned seemed to far outweigh the problems.

Benefits

Throughout the course of our State visits, executives and legislators repeatedly mentioned the following benefits of a biennial budget:

- During a 2-year budget cycle, agency personnel can spend time in the off-budget year on managing their agency activities (e.g., operating State programs, monitoring cash flow, etc.).
- Biennial budgeting does not require the State government's (legislative and executive level) full-time attention for budget review every year. Therefore, more time is available to do non-budget activities.
- Biennial budgeting allows a "planned approach" to 2-year budgeting (i.e., through budget preparation, analysis of policy issues, and major budget proposals).

Problems

Just as benefits to a biennial budget process exist, some legislators in the States feel that certain criticisms should also be considered. Such criticisms of a 2-year budget cycle are

- the difficulty in estimating revenues and expenditures and in budgeting for "uncontrollable" items is increased, and
- the legislature has less control over the executive and State agencies.

SUMMARY

While budgeting at the State level is often tailored to the unique needs and characteristics of the State, we did recognize elements in the budget processes of Ohio, Wisconsin, and Florida that would be relevant and adaptable to a Federal biennial cycle. In reviewing the feasibility of a biennial budgeting process, the following elements should be considered:

- With the installation of a 2-year budget cycle, an effective control and adjustment mechanism is necessary, especially during the off-budget year. Adjustment mechanisms in the States we visited include (1) Ohio--Controlling Board, (2) Wisconsin--Annual Review, and (3) Florida--Administration Commission.

- An early consensus on revenue estimates by the executive and legislative branches can substantially reduce revenue estimating problems.
- Although biennial budgeting allows for long-term planning, it may not necessarily occur.
- Not only does biennial budgeting allow more time for oversight activities, but they can occur in a variety of forms.