

GAO

Testimony

Before the Committee on Rules and Administration
United States Senate

For Hearing Record
9:30 a.m.
Thursday,
April 28, 1994

BUDGET PROCESS

Biennial Budgeting for the
Federal Government

Statement of Susan J. Irving
Associate Director, Budget Issues
Accounting and Information Management Division



151428 / 059154

Mr. Chairman and Members of the Committee:

I am pleased to present our testimony on the budget process changes contained in S. 1824, specifically the proposal to change the budget process from an annual to a biennial cycle. This change has often been suggested as a way to streamline the budget process 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 them.

Certainly everyone involved in the budget process shares some frustration with it and wishes it could be shortened or less frequent. The public finds it confusing and executive branch agencies find it burdensome and time-consuming. Members of the Congress say the annual budget process seems too lengthy, with its many votes on authorizations, the budget resolution, reconciliation, appropriations, and the debt limit. And, too often, the results are not what was expected or hoped for.

In one sense, nothing could be more important than debates about the budget. It is through the budget process that the Congress and the President reach agreement on the fiscal policy stance of the government--that is, the relationship between spending and revenues--and determine what the federal government will be involved in and the form that involvement will take.

Because the decisions are so important, we expect a great deal from our budget and budget process. We want the budget to be clear and understandable. We want a process that presents the Congress and the American people with the framework needed to understand the significant choices and the information necessary to make the best-informed decisions about federal tax and spending policy. This is not easy.

Although there is virtually universal agreement that the current process has problems, changes must be carefully considered. In fact, the current process is, in part, the cumulative result of many changes made to address previous problems. The challenge is to design solutions to existing problems without creating new ones.

Last June, in a letter to the Joint Committee on the Organization of the Congress, we provided some ideas that could lead to a more streamlined budget process. In October 1993 and March 1994, I testified on proposals for biennial budgeting made by the National Performance Review (NPR)¹ and by the House Members of

¹Budget Policy: Biennial Budgeting for the Federal Government (GAO/T-AIMD-94-4, October 7, 1993).

the Joint Committee on the Organization of the Congress.² Today I am pleased to elaborate on our views of biennial budgeting, including those aspects which could work well for the federal government--among them, 2-year binding budget resolutions--and an aspect which we believe will cause a shift in congressional control and oversight--biennial appropriations. Before discussing biennial budgeting for the federal government, however, let me briefly discuss state experiences with biennial budgeting.

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

Advocates of biennial budgeting often 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, only 11 have biennial budgets. Even these do not present a uniform picture. Nine of the 11 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,³ 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 the President does.

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. Our most recent analysis of this, a 1987 study,⁴ showed that of the 31 states with annual budget cycles, 24 had at one time used biennial budgeting. During the 20-year period from 1968 to 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

²Budget Process: Some Reforms Offer Promise (GAO/T-AIMD-94-86, March 2, 1994).

³Balanced Budget Requirements: State Experiences and Implications for the Federal Government (GAO/AFMD-93-58BR, March 26, 1993).

⁴Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting (GAO/AFMD-87-53FS, July 15, 1987).

- 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.

BIENNIAL BUDGETING AT THE FEDERAL LEVEL

Like the NPR and H.R. 3801, S. 1824 proposes that the entire budget cycle be shifted 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, and appropriations enacted, every 2 years.

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. Multiyear fiscal policy agreements and multiyear 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 would 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.

MULTIYEAR AUTHORIZATIONS AND BIENNIAL BUDGET RESOLUTIONS MAKE SENSE

We have previously supported the use of multiyear authorizations for federal programs. There seems to be 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 can be determined. This is the normal practice for most of the non-defense portion of the budget.

We also agree that a 2-year budget resolution makes sense. In our June 1994, letter to the Joint Committee, we suggested that 2-year binding budget resolutions be used with 2-year reconciliation instructions. Since the Budget Enforcement Act

(BEA), which focuses on a 5-year period, already sets the framework for congressional budget resolutions, the annual budget resolution has become less important. While changes in the world and difficulties in projecting budget estimates over long time periods would, from a practical standpoint, render 5-year binding budget resolutions unworkable, 2-year binding budget resolutions could reduce the burden on the Congress and provide more stability for congressional committee planning. This change would still permit periodic revisions of budget totals and allocations without unduly binding future Congresses or reducing congressional oversight.

Traditionally, biennial budgeting has been advocated as a way to advance several objectives: (1) to shift the allocation of agency officials' time from the preparation of budgets and justifications to improved financial management and analysis of program effectiveness, (2) to reduce the time Members of the Congress must spend on seemingly repetitive votes, and hence permit increased oversight, and (3) to reduce uncertainty about longer term funding levels and allocations and hence improve program management and results. However, shifting the entire cycle--authorizations, budget resolutions, and appropriations--to a biennial one may not be necessary to achieve these objectives.

As I noted earlier, biennial appropriations can be considered separate from biennial budget resolutions because the two raise quite different questions. Let me turn now specifically to that issue.

THE CURRENT ANNUAL APPROPRIATION CYCLE
PERMITS FLEXIBLE PERIODS OF FUND
AVAILABILITY

In considering whether the federal government should shift to a biennial budget, it is important to recognize the critical 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 decisions are made--from annual to biennial budget decisions. Too often, however, the idea is discussed as though it were necessary to change the frequency of decisions in order to change the length of time funds are available.

However, as you know, this is a misconception. The federal budget today is not composed entirely of annually enacted appropriations of 1-year moneys. Thus, not all funds expire on September 30 of each year. Because budget decisions about mandatory programs and entitlements are not made annually, the debate about annual versus biennial appropriations deals with less than half of the budget. Annually enacted appropriations apply to that portion of the budget known as discretionary

spending--about 39 percent of federal outlays in fiscal year 1993.

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 two-thirds 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 was available for obligation beyond September 30, 1993, 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 not approved a full 2-year budget, and thus the appropriation committees have not provided appropriations for the second year.

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 Congress is currently considering or may be asked to consider major changes in the scope and methods of delivering government services. The very magnitude of the changes the NPR envisioned, for example, 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.

POTENTIAL EFFECTS OF BIENNIAL APPROPRIATIONS

For agency officials--both agency budget officers and program managers--the arguments for biennial budgeting may seem quite strong. Currently, agency budget officers spend several months every year preparing a "from-the-ground-up" budget with voluminous written justifications. 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 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 audited 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 and the agency's leadership and on what the Congress demanded of the agencies.

For agency program managers, the interest in biennial budgets is slightly different. Although preparation and analysis for the annual budget preparation and submission process is time-consuming and burdensome for program managers, they are likely to have a greater interest in how long money is available for use. Especially in some programs, such as defense procurement and education programs, multiyear appropriations tend to smooth program functioning. However, as noted above, many of these programs already receive some multiyear funding. While a shift of the entire cycle would ease planning and increase predictability for all program managers, multiyear or advance funding could be provided for those programs for which 1-year money seriously impairs program effectiveness without that shift.

Regardless of the potential benefits to agencies, the decision on biennial budgeting will depend on the Congress's choice about how it wishes to exercise its constitutional authority over appropriations and its oversight functions. Annually enacted appropriations have long been a basic means of exerting and enforcing congressional policy. A 2-year appropriation cycle could lessen congressional influence or control over program and spending matters, largely because the process would afford fewer scheduled opportunities to affect agency programs and budgets.

CONCLUSIONS

We support the portions of S. 1824's biennial budgeting proposal related to multiyear authorizations and biennial budget resolutions. We believe that multiyear fiscal policy agreements and multiyear 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 would also 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 (which itself is uncertain), the longer the period of the forecast, the greater

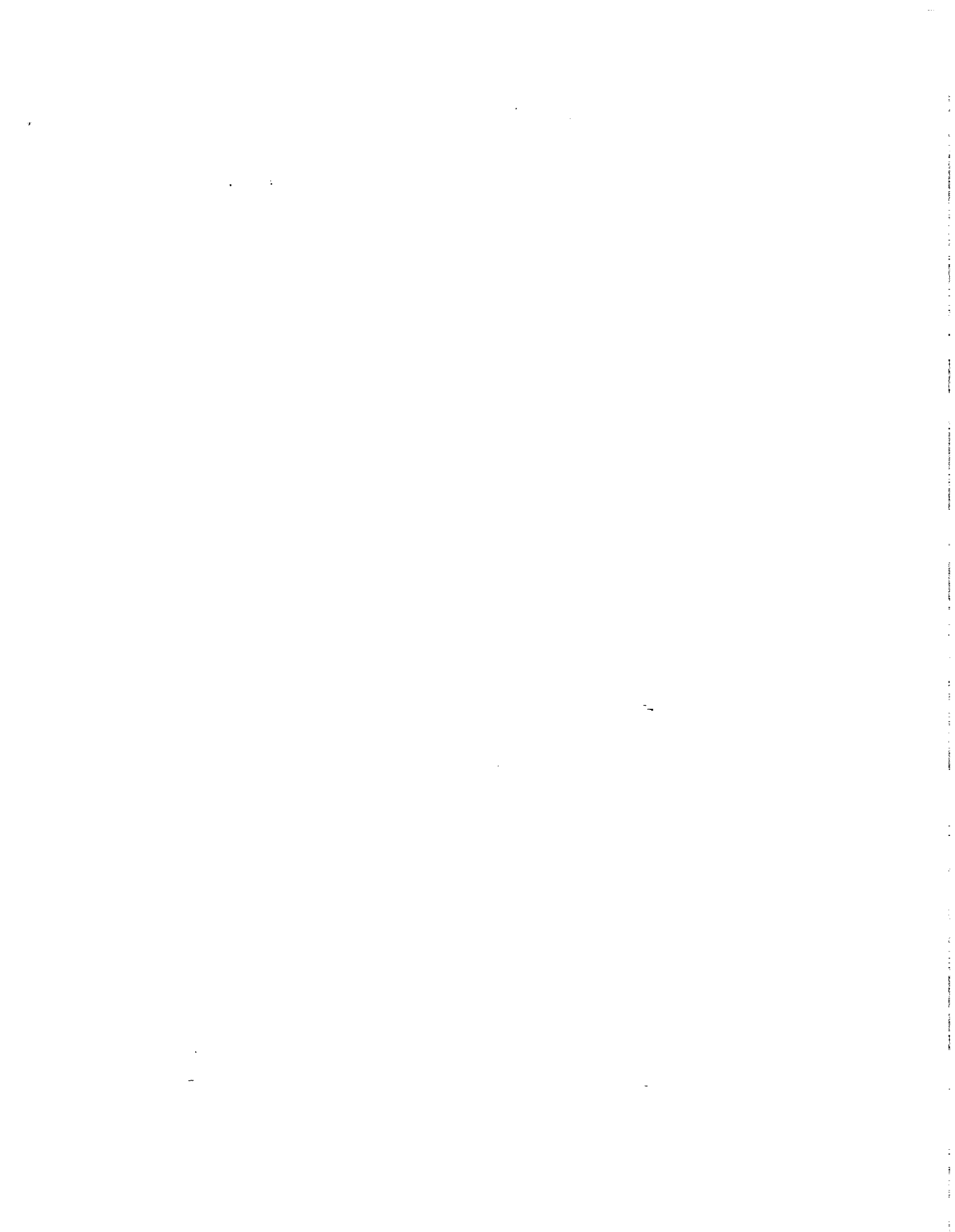
the uncertainty. Increased difficulty in forecasting was one of the primary reasons states gave for shifting from biennial to annual cycles. Dramatic changes in program design or agency structure, such as the Congress is considering in many areas, will make budget forecasting more difficult. Moving from 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.

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 wish to exercise its constitutional authority over appropriations and in what forum will it conduct its oversight responsibilities?

- - - - -

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you or Members of the Committee may wish to submit for the record.

(935141)



Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.**

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
