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BUDGET ISSUES

Current Status and Recent Trends of State Biennial and Annual Budgeting



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The Honorable William H. Gray, III
Chairman, Committee on Budget
House of Representatives

The Honorable Butler Derrick
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Budget Process
Committee on Budget
House of Representatives

At your request, we conducted a survey to develop an overview of biennial and annual budgeting trends, practices, and experiences in the 50 states. This document summarizes the preliminary results of our survey as of June 1987. The survey reveals a state-level trend away from biennial budgeting.

Our survey was intended to obtain perspectives on the budget process from officials in all 50 states, including both executive and legislative branch officials. We sent questionnaires to 50 state budget officers and also to 110 state legislative staff officials. The legislative officials were selected through coordination with the National Conference of State Legislatures. To date, we have received responses from 75 percent of the questionnaire recipients. For 41 states, we have responses from both executive and legislative officials; for 4 states, we have responses from executive officials only; and for 5 states, we have responses from legislative officials only. In the few instances where responses from a state were factually contradictory, the differences were resolved by using independent data. In general, we accepted and did not verify the responses provided by state officials.

Because of the Congress' current interest in the subject of biennial budgeting, you requested that we provide the results of our survey to date. We think that the trends and patterns observed from the questionnaires returned thus far will not change significantly when the outstanding questionnaires are received. We will notify you should any significant changes result from future responses.

Converting the federal government to biennial budgeting is frequently suggested in budget discussions as well as in bills introduced in the Congress to bring about budget reform for the federal government. Some think that biennial budgeting might reduce budget work load and improve oversight activities. Others think that changing to biennial budgeting might complicate budgeting in terms of revenue and expenditure estimations and also weaken congressional budget control.

Trends and experiences in state government can provide useful information to federal decisionmakers as they consider the various biennial budget proposals. The results of our survey thus far are presented in four appendixes that provide an overview of trends (appendix I) as well as information on states that changed to annual budgeting (appendix II), states that changed to biennial budgeting (appendix III), and the off-year in biennial budgeting (appendix IV). For the purposes of this survey, our questionnaire described a state as practicing biennial budgeting if its legislature approves budgetary amounts for a 2-year period. We refer to the 2-year period as a biennium. The approved funding for a biennium could be either (1) a single budget covering the entire 2-year period or (2) two budgets, each covering half of the biennium.

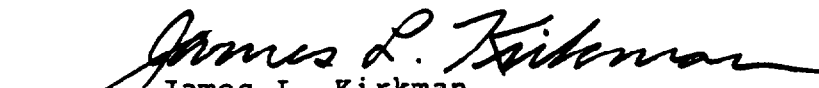
In summary, our survey revealed the following:

- More states currently practice annual budgeting than biennial budgeting. Thirty-one states are on annual cycles, while 19 are on biennial cycles. Of the 19 states that currently have biennial budgeting, 7 have legislatures that meet biennially and therefore cannot have an annual budget cycle.
- The trend has been toward annual budgeting. Of the 31 states currently with annual budget cycles, 24 at some time had biennial budgeting. During the past 20 years, 15 states have changed their cycles, with 12 switching to annual budgeting and 3 to biennial budgeting. In addition, the one state with plans to change its budget cycle is going to change from biennial to annual budgeting.
- Ten states with biennial budgeting allow their governors unilateral authority to make spending adjustments (primarily to avoid a budget deficit), and four states

allow their governors to make limited revenue adjustments unilaterally.

- In states with biennial budgeting, off-year budget adjustments do not consume as much time as regular budgeting. Of the 12 states with biennial budgets whose legislatures meet every year, 7 of the 11 that responded report that they spend much less time on budgeting in the off-year. However, spending and revenue forecasts are less reliable because they cover a longer time.
- The most commonly cited results of changing to an annual budget cycle are improved revenue and spending forecasts and increased time spent on budget activities.

As agreed with your office, we will distribute this report immediately to interested parties and make copies available to others upon request. If you have any questions regarding this work, please call me at (202) 275-9573.


James L. Kirkman
Associate Director

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OVERVIEW OF TRENDS

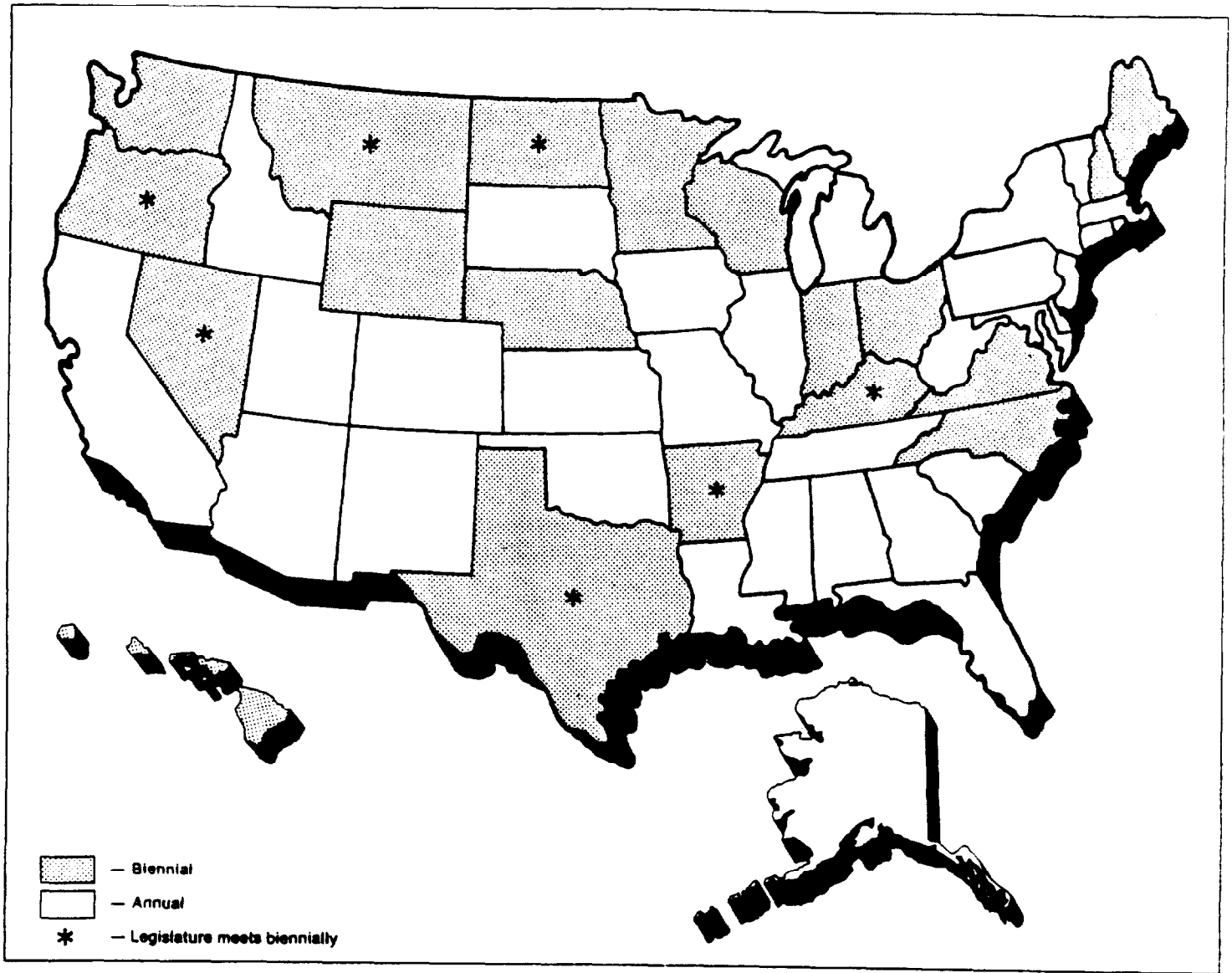
Supporters of biennial budgeting believe that a biennial budget cycle would be an improvement over an annual system and would promote efficiency in the federal government. Benefits cited to justify converting the federal government to a biennial budget cycle are derived from the individual states' experiences with biennial budgeting. In fact, most states--and especially those with large budgets--use an annual budget cycle, and the trend is toward annual budgeting.

MOST STATES HAVE ANNUAL BUDGETING

As of June 1987, 31 states have an annual budget cycle and 19 states have a biennial budget cycle.¹ The 31 states that have an annual budget cycle are Alabama, Alaska, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Missouri, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Vermont, and West Virginia. The 19 states that have a biennial budget cycle are Arkansas, Hawaii, Indiana, Kentucky, Maine, Minnesota, Montana, Nebraska, Nevada, New Hampshire, North Carolina, North Dakota, Ohio, Oregon, Texas, Virginia, Washington, Wisconsin, and Wyoming. Seven of these 19 states have legislatures that meet every other year, and therefore, in these states, biennial budgeting is part of a broader biennial legislative approach. Twelve of the states with biennial budgeting have legislatures that meet every year. Figure I.1 identifies the type of current budget cycle used by each state and shows the geographic distribution of states that budget annually and biennially.

¹One state has been counted as having biennial budgeting, but it is experimenting with annual budgeting on a trial basis between 1987 and 1989. A decision on whether to change permanently to annual budgeting will be made in 1989.

Figure I.1: Annual and Biennial Budgeting States in 1987



STATES WITH LARGE TOTAL EXPENDITURES HAVE ANNUAL BUDGETING

The data show a correlation between the size of a state's budget and the type of budget cycle used. Eight of the 10 largest states (based on 1985 expenditures) use an annual budget cycle similar to what is currently being used by the federal government. Also, as illustrated by figures I.2 and I.3, the states with biennial budgets account for 36 percent of the total number of states but 28 percent of the total expenditures.

Figure I.2: States Having Annual or Biennial Budgets in 1985

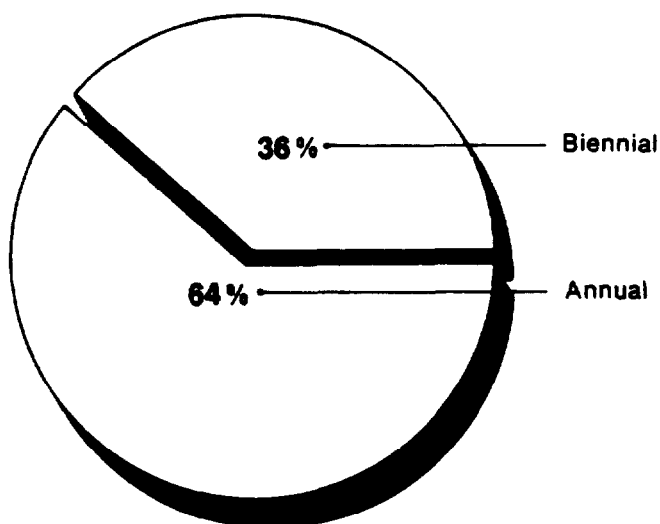
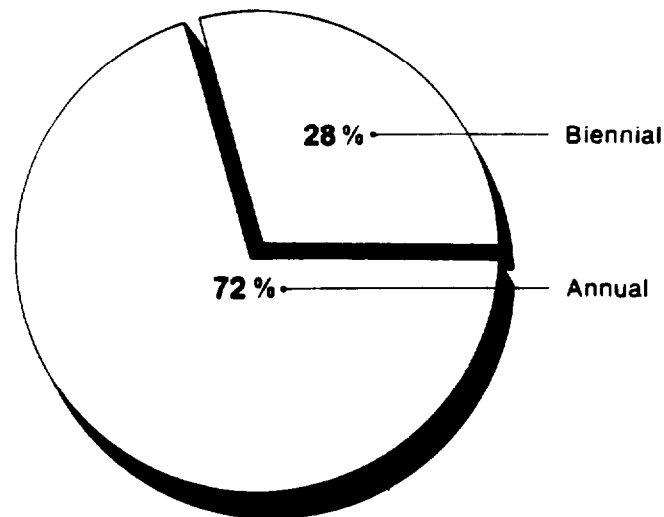


Figure I.3: Expenditures in 1985 by States Having Annual or Biennial Budgets



Source: State Government Finances in 1985 (U.S. Bureau of the Census)
[Most Current Data Available at Time of Report]

THE TREND HAS BEEN AWAY FROM BIENNIAL BUDGETING

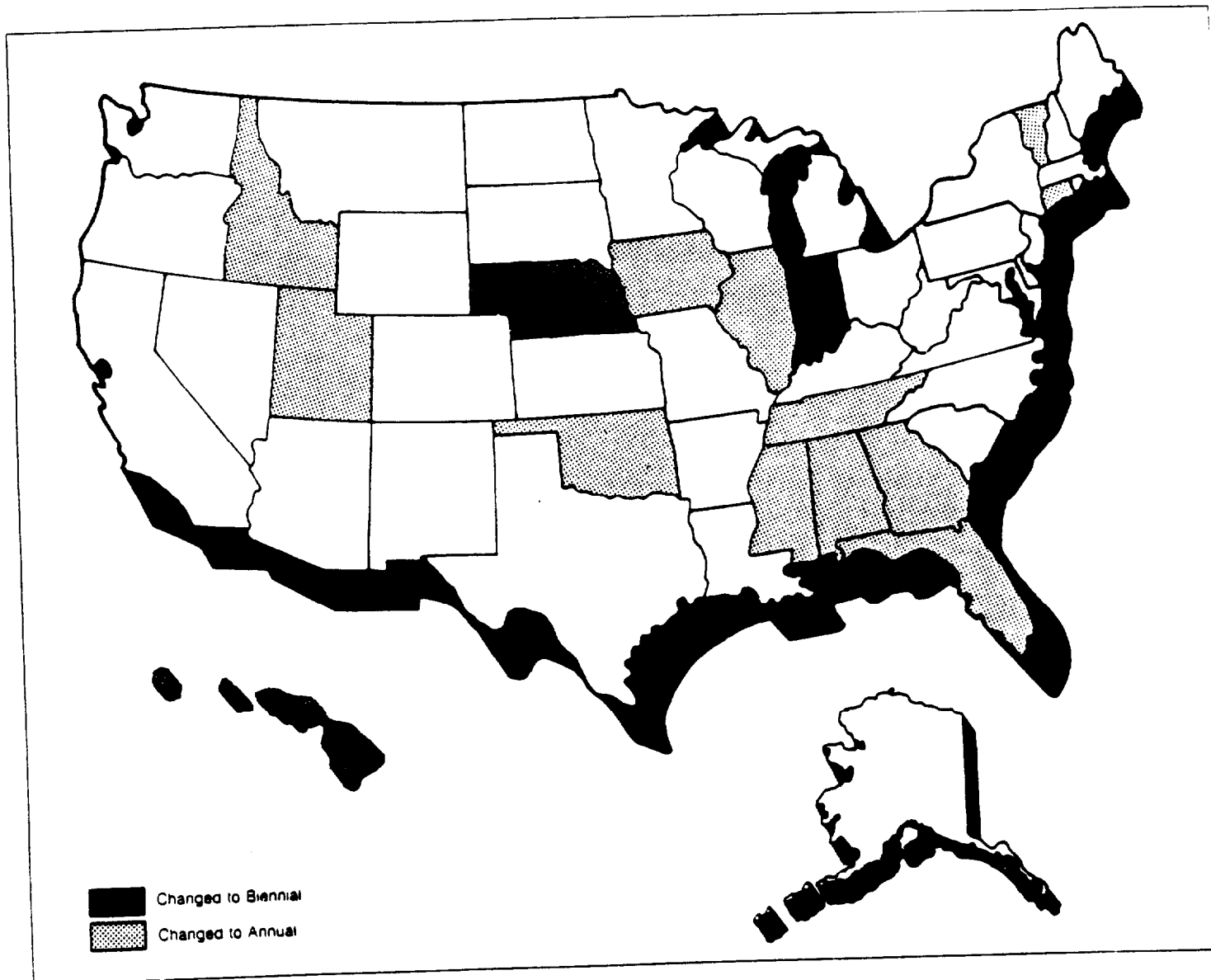
Because much of the current federal-level debate about biennial budgeting revolves around what the individual states have done, we sought to determine whether there is a state-level trend toward or away from biennial budgeting. Of the 31 states that currently have annual budget cycles, 24 at one time practiced biennial budgeting. We asked whether states had changed to their current budgeting cycles within the last 20 years, and 15 states report changes; of these 15, 12 states changed to annual budgeting and 3 changed to biennial budgeting. The 12 states that have changed their budget cycles from biennial to annual (and the year of each state's first annual budget) are Oklahoma (1968), Utah (1969), Illinois (1970), Tennessee (1970), Connecticut (1971), Mississippi (1971), Idaho (1972), Georgia (1974), Alabama (1975), Vermont (1978), Florida (1981),² and Iowa (1983).³ The three

²Florida has a biennial budget system by law, but the legislature appropriates a budget annually.

³Iowa passed a law in 1986 to change to annual budgeting. However, since 1983 the Iowa legislature has been passing annual budgets only.

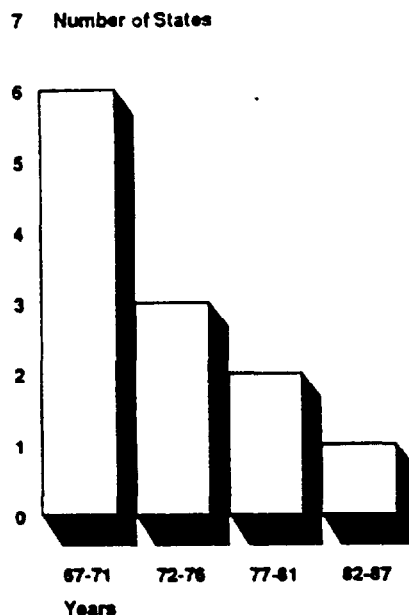
states that changed their budget cycles from annual to biennial (and the year of each state's first biennial budget) are Hawaii (1968), Indiana (1978), and Nebraska (1987). Figure I.4 illustrates the geographic distribution of states that changed budgeting cycles during the 20-year period from 1967 to 1987.

Figure I.4: Changes in State Budgeting Cycles
Between 1967 and 1987



For the 12 states that changed to annual budgeting between 1967 and 1987, figure I.5 shows the number of states that changed during various time periods. It shows that nine states changed at least 11 years ago, two states changed between 1977 and 1981, and one state changed after 1982.

Figure I.5: States That Changed to Annual Budgeting



Concerning the three states that changed from annual to biennial budgeting, one state (Hawaii) changed 19 years ago, another state (Indiana) changed 9 years ago, and the third state (Nebraska) changed in July 1987.

We also asked if any states have firm plans (that is, laws enacted) to change their current budget cycles to either annual or biennial, when they would do so, and what they expect to achieve in so doing. One state (Wisconsin) is considering a change to an annual budget cycle and has undertaken a 2-year experiment beginning in 1987. In 1989 Wisconsin will determine whether to make the change permanent. Under the state's current biennial budget cycle, the legislature meets annually and, every other year, approves two separate 1-year budgets for the biennium.

Improvements or benefits Wisconsin expects with the change to annual budgeting are as follows:

- more accurate economic projections and therefore more reliable revenue and expenditure estimates,
- a significant reduction in the need for haphazard budget repair bills (that is, ad hoc adjustments of agency appropriations),
- more opportunities to assess program cost projections and to adjust statutes in response to outside driving factors,
- encouragement for budgetmakers to focus more directly on permanent sources of tax revenues as a means of funding ongoing program expenditures, and
- an opportunity to more quickly recognize lower priorities and reduced funding needs and to reappropriate funds to higher priorities.

STATES THAT CHANGED TO ANNUAL BUDGETING

Learning why states changed from biennial budgeting may be useful in deciding whether to convert the federal budget to a biennial cycle. Therefore, we asked officials from the 12 states that changed from biennial to annual budgeting a series of questions related to the reasons for changing, the benefits and problems incurred, and the effects the change had on legislative activities, the balance of power between the legislature and the governor, and several executive and legislative issues.

STATES CHANGED TO ANNUAL BUDGETING
FOR SEVERAL REASONS

Responses from the 12 states indicate a variety of reasons for making the change to an annual budget cycle. Generally, both executive and legislative branch officials provide the same reasons for changing. Some examples of the reasons given include the following:

- to gain greater accuracy in estimating revenues and/or financial needs,
- to improve legislative control over budgetary matters,
- to avoid having the executive branch spend time developing a budget for the second year of the biennium when the legislature only "straight-lines" the first-year appropriations for the second year,
- to be better able to respond to rapid changes in revenue and/or program needs, and
- to make the budget cycle correspond with a change to annual meetings of the legislature.

PROBLEMS OF CHANGING TO ANNUAL BUDGETING

Respondents from all but 1 of the 12 states that have changed to annual budgeting during the last 20 years report that the annual process has problems as well as benefits. Respondents vary in their answers, indicating that the annual process

- requires the almost continual involvement of agency and budget division staff in budget formulation to the detriment of effective budget execution and program analysis,

- encourages short-term fiscal decisions that hinder the development of a long-range fiscal plan,
- extends the length of legislative sessions, and
- requires the executive and legislative branches to use extensive resources to prepare and approve budgets.

BENEFITS OF CHANGING TO ANNUAL BUDGETING

We also asked officials from the states that changed to annual budget cycles to provide any benefits they saw in having an annual cycle. Some illustrative responses note that the annual process

- allows development of shorter-range revenue estimates and a revenue/spending plan that more accurately reflect the needs of the state,
- provides an opportunity to adjust and make changes to expenditures and revenues more frequently as economic and other factors change,
- allows more opportunity for involvement of individual legislators as well as elimination of a 20-month period of relative inactivity on appropriations,
- requires fewer adjustments or supplementals in order to balance and/or meet state obligations, and
- avoids the legislature's having to delegate authority to the governor to make changes in the off-year of the biennium.

EFFECTS OF CHANGING FROM A BIENNIAL TO AN ANNUAL BUDGET CYCLE

Past studies of biennial budgeting practices among various states have revealed several possible effects of changing budget cycles. Therefore, our questionnaire asked respondents to indicate the effect that changing budget cycles had on (1) "general legislative activities," (2) the balance of power between the legislature and the governor, and (3) several executive and legislative issues, such as budget adjustments, long-range planning, budgeting activities, nonbudgeting activities, and budget estimates.

Effect on General Legislative Activities

Since changing budget cycles has a direct effect on the activities of the legislature, we asked officials in the 12 states whether they believed the change to annual budgeting strengthened or weakened "general legislative activities." The responses from the 12 states that changed to annual budgeting can be summarized as follows:

- in five states, the legislative and executive respondents agree that "general legislative activities" were strengthened;
- in one state, legislative and executive respondents agree that there was no effect;
- in one state with just the legislative response, no effect is indicated; and
- in five states, the legislative and executive respondents do not agree on the effects on "general legislative activities."

Effect on Balance of Power

We also asked how the change to annual budgeting affected the balance of power between the legislature and the governor. The responses are summarized as follows:

- in five states, the legislative and executive respondents agree that the legislature's power increased;
- in three states, legislative and executive respondents agree that there was no noticeable change;
- in one state with just the legislative response, no noticeable change is indicated; and
- in three states, the legislative and executive respondents do not agree on the effects on the balance of power between the legislature and governor.

Effects on Several Executive and Legislative Issues

In addition, we asked officials from the 12 states to address how the change to annual budgeting affected several executive and legislative branch issues, which can be grouped into five broad categories: budget adjustments, long-range planning, budgeting activities, nonbudgeting activities, and accuracy of estimates.

Tables II.1 and II.2 record the officials' responses, which include "greatly increased" (GI), "somewhat increased" (SI), "no impact" (NI), "somewhat decreased" (SD), and "greatly decreased" (GD). Those questions with "no response" (NR) are so indicated.

Table II.1: Executive Responses About the Effects of Changing From a Biennial to an Annual Budget

<u>Issues</u>	<u>GI</u>	<u>SI</u>	<u>NI</u>	<u>SD</u>	<u>GD</u>	<u>NR</u>
Budget adjustments						
Supplemental appropriations	1	2	4	3	1	0
Adjustments by governor to prior enacted spending amounts	0	2	6	2	1	0
Adjustments by governor to prior enacted revenue amounts	0	2	6	2	0	1
Long-range planning						
Long-range planning by governor	0	0	5	5	0	1
Long-range planning by legislature	0	0	4	4	1	2
Budgeting activities						
Time spent by legislature on budgeting activities	6	3	1	1	0	0
Time spent by executive branch on budgeting activities	5	2	3	1	0	0
Nonbudgeting activities						
Time spent by legislature on nonbudgeting activities	5	1	3	2	0	0
Time spent by executive branch on program analysis and other nonbudgeting activities	0	3	3	4	1	0
Accuracy of estimates						
Accuracy of revenue estimates	2	5	4	0	0	0
Accuracy of spending estimates	2	5	2	1	0	1

Note: This table includes responses from only 11 states.

Table II.2: Legislative Responses About the Effects of Changing From a Biennial to an Annual Budget

<u>Issues</u>	<u>GI</u>	<u>SI</u>	<u>NI</u>	<u>SD</u>	<u>GD</u>	<u>NR</u>
Budget adjustments						
Supplemental appropriations	2	1	3	3	3	0
Adjustments by governor to prior enacted spending amounts	0	3	4	5	0	0
Adjustments by governor to prior enacted revenue amounts	1	1	4	4	0	2
Long-range planning						
Long-range planning by governor	0	1	7	2	1	1
Long-range planning by legislature	1	0	8	1	1	1
Budgeting activities						
Time spent by legislature on budgeting activities	5	4	2	1	0	0
Time spent by executive branch on budgeting activities	4	4	3	1	0	0
Nonbudgeting activities						
Time spent by legislature on nonbudgeting activities	1	3	6	2	0	0
Time spent by executive branch on program analysis and other nonbudgeting activities	1	2	7	1	1	0
Accuracy of estimates						
Accuracy of revenue estimates	4	5	3	0	0	0
Accuracy of spending estimates	3	4	4	1	0	0

Budget adjustments: The responses show no strong pattern on whether changing to an annual budget cycle results in increases or decreases in supplementals and other adjustments to enacted amounts. There is, however, a slight indication of decreased adjustments, particularly in the responses of the legislative staff officials. One half (16) of the total number (32) of executive responses to the three questions relating to supplementals and other adjustments indicate no impact from changing to an annual cycle. The remaining executive responses are divided between those that indicate a decrease in adjustments (9) and those that indicate an increase (7). Of the total number (34) of legislative branch responses, about one third (11) indicate no impact; and of those showing an impact (23), most (15) indicate a decrease in adjustments.

Long-range planning: The responses to our questions on long-range planning indicate that such planning activities may have decreased somewhat after states changed to annual budgeting. This is indicated mostly by the answers of the executive branch officials. About one half (10) of the executive responses (19 total) state that the change to annual budgeting had an impact, and all of those indicate that the effect was a decrease on long-range planning. Among the legislative branch responses (22 total), over two thirds (15) indicate no impact on long-range planning with the change to annual budgeting; but of those showing an impact (7), most (5) indicate that planning activities decreased after the change.

Budgeting activities: The responses indicate strongly that changing from biennial to annual budgeting resulted in increased time spent by both the executive and legislative branches on budgeting activities. Concerning the impact of annual budgeting on legislative branch work load, most (10) legislative branch responses (12 total) indicate an impact on work load with the change to annual budgeting; and of those that show an impact (10), almost all (9) indicate an increase in time spent on budgeting. A similar pattern appears in the responses of the executive branch officials. Similarly, most (8) legislative and most (7) executive responses indicate that changing to annual budgeting increased executive branch budget work load.

Nonbudgeting activities: We also asked officials whether the time spent on nonbudgeting activities increased or decreased because of the change to annual budgeting. We wanted to know whether the change to annual budgeting resulted in a de-emphasis of nonbudgeting activities. We grouped states into those with legislatures that had been meeting annually before the change and those that had been meeting biennially before the change. We wanted to look separately at the responses from these two groups of

states because we thought that any de-emphasis of nonbudgeting activities might affect the two groups differently.

In the four states where the legislatures had been meeting annually before changing to annual budgeting, the responses from the executive and legislative officials are inconclusive on whether a de-emphasis occurred. One half (4) of the executive responses (8) and more than one half (5) of the legislative responses (8) indicate that changing to annual budgeting had no effect on the level of nonbudgeting activities in the executive and legislative branches. Those that show an impact vary widely with respect to an increase or decrease in time spent on nonbudgeting activities.

In the eight states where the legislatures had been meeting every other year before changing to annual sessions and annual budgeting, the legislative and executive responses differ on the impact of the change. One half (8) of the legislative responses (16) indicate no impact, with those indicating an impact differing on whether the change increased or decreased time spent on nonbudgeting activities. Most (12) of the executive responses (14) indicate that the change to annual budgeting had an effect on the time spent by the executive and legislative branches on nonbudgeting activities. Of the 12 executive responses, 6 relate to only the executive branch and most (4) of these 6 show the change decreasing time spent on nonbudgeting activities; the remaining 6 executive responses relate to only the legislative branch and most (5) of these show the change increasing time spent on nonbudgeting activities.

Accuracy of estimates: With an annual cycle, the time covered by budget estimates is shorter, possibly making projections more accurate. A majority of responses indicate that this is true for both revenue and spending estimates. Over one quarter (6) of the executive branch responses (21 total) indicate no impact; and of those that show an impact (15), most (14) indicate an increase in the accuracy of revenue and spending estimates. Of the legislative branch responses, nearly one third (7) of the responses (24 total) indicate no impact, and of those that show an impact (17), most (16) indicate an increase in the accuracy of revenue and spending estimates.

STATES THAT CHANGED TO
BIENNIAL BUDGETING

In deciding whether to convert the federal budget to a biennial cycle, it may be useful to learn why states have changed from annual budgeting as well as their experiences with changing. However, during the past 20 years, only three states have changed to biennial budgeting, and therefore the facts presented in this appendix must be viewed with some caution. All three of these states' legislatures meet annually and, every other year, approve two separate 1-year budgets for the biennium.

STATES CHANGED TO BIENNIAL BUDGETING
FOR SEVERAL REASONS

Responses from the three states indicate that the change to biennial budgeting was made

- to reduce time debating the budget in the off-year,
- to alleviate the administrative burden of perpetual involvement in the budgeting process,
- to impose a longer-range perspective in budget and fiscal planning,
- to permit more intensive analysis of selected program areas in alternate years, and
- to respond to a shift in political majority in the legislature.

PROBLEMS OF CHANGING TO BIENNIAL BUDGETING

Since one of the three states that changed to biennial budgeting is just beginning its biennium in July 1987, the following problems were reported by two states. Respondents from these states report that spending and revenue forecasts are less reliable because they cover a longer time period.

BENEFITS OF CHANGING TO BIENNIAL BUDGETING

Of the two states that have changed to biennial budgeting and that have had experience with its operation, one reports no benefits and the other reports that

- more time is available in the off-year for the review of program issues and

- biennial budgeting requires departments and programs to consider the long-range implications of their budget requests and their program operations.

EFFECTS OF CHANGING FROM AN ANNUAL BUDGET TO A BIENNIAL BUDGET CYCLE

We asked officials in the two states that have changed to, and have had experience with, a biennial budget cycle what the effects of changing have been. The following sections will address (1) "general legislative activities," (2) balance of power between the legislature and the governor, and (3) several executive and legislative issues, such as budget adjustments, long-range planning, budgeting and nonbudgeting activities, and accuracy of estimates.

Effect on General Legislative Activities and Balance of Power

Since changing budget cycles has a direct effect on the activities of the legislature, we asked officials in the two states whether the change to biennial budgeting strengthened or weakened "general legislative activities" and how the balance of power between the legislature and governor was affected. The executive official and the legislative official of one state report that changing from an annual budget to a biennial budget has weakened "general legislative activities" and has somewhat decreased the legislature's balance of power with the governor. The executive official in the other state indicates that there was no effect on "general legislative activities" due to the change to biennial budgeting but that the legislature's balance of power with the governor increased somewhat. We have no response on this question from the legislative officials in this state.

Effects on Several Executive and Legislative Issues

In addition, we asked the officials from the two states to address how the change to biennial budgeting affected executive and legislative branch issues, which can be grouped into five broad categories: budget adjustments, long-range planning, budgeting activities, nonbudgeting activities, and accuracy of estimates. The responses ranged from "increased" to "decreased." (See tables III.1 and III.2.)

Table III.1: Executive Responses About the Effects of Changing From an Annual to a Biennial Budget

<u>Issues</u>	<u>Increase</u>	<u>No impact</u>	<u>Decrease</u>
Budget adjustments			
Supplemental appropriations	1	1	0
Adjustments by governor to prior enacted spending amounts	1	1	0
Adjustments by governor to prior enacted revenue amounts	0	2	0
Long-range planning			
Long-range planning by governor	1	1	0
Long-range planning by legislature	1	1	0
Budgeting activities			
Time spent by legislature on budgeting activities	2	0	0
Time spent by executive branch on budgeting activities	1	1	0
Nonbudgeting activities			
Time spent by legislature on nonbudgeting activities	0	1	1
Time spent by executive branch on program analysis and other nonbudgeting activities	1	1	0
Accuracy of estimates			
Accuracy of revenue estimates	0	2	0
Accuracy of spending estimates	0	1	1

Table III.2: Legislative Responses About the Effects of Changing From an Annual to a Biennial Budget

<u>Issues</u>	<u>Increase</u>	<u>No impact</u>	<u>Decrease</u>
Budget adjustments			
Supplemental appropriations ^a	0	0	0
Adjustments by governor to prior enacted spending amounts	0	1	0
Adjustments by governor to prior enacted revenue amounts	0	1	0
Long-range planning			
Long-range planning by governor	1	0	0
Long-range planning by legislature	1	0	0
Budgeting activities			
Time spent by legislature on budgeting activities	0	0	1
Time spent by executive branch on budgeting activities	0	0	1
Nonbudgeting activities			
Time spent by legislature on nonbudgeting activities	1	0	0
Time spent by executive branch on program analysis and other nonbudgeting activities	1	0	0
Accuracy of estimates			
Accuracy of revenue estimates	0	1	0
Accuracy of spending estimates	0	1	0

^aThe legislative official whose responses are recorded in this table reports that this issue is "not applicable."

Budget adjustments: The executive and legislative officials generally agree that there has been no impact on supplementals and other budgetary adjustments. However, where there is an impact reported, it is an increase. The two legislative responses (both from one state) indicate no impact on adjustments to enacted amounts with the change to biennial budgeting. Among the six executive responses from two states, two indicate an increase in supplementals and other adjustments to enacted amounts, and four indicate no impact.

Long-range planning: The responses to our questions on the effect that changing to biennial budgeting has on long-range planning indicate that such planning has increased. The two legislative responses indicate an increase in long-range planning when changing from an annual to a biennial budget. Two of the four executive responses indicate an increase, while the other two responses indicate that there was no impact on long-range planning.

Budgeting activities: The executive and legislative responses differ with regard to the time spent by both branches on budgeting activities because of the change to biennial budgeting. The executive responses indicate an increase in time spent by both branches on budgeting activities, with two responses indicating an increase in legislative time spent, one indicating an increase in executive time spent, and the last response indicating no impact on executive time spent. The two legislative responses indicate a decrease in time spent by both branches on budgeting activities.

Nonbudgeting activities: We also asked the states whether the time spent on nonbudgeting activities increased or decreased because of the change to biennial budgeting. The executive responses are mixed, with two of the four responses indicating that the change to biennial budgeting had no impact on the time spent by both branches on nonbudgeting activities. One of the four executive responses indicates a decrease in time spent by the legislature on nonbudgeting activities, and one of the four executive responses indicates an increase in time spent by the executive branch on nonbudgeting matters. The two legislative responses indicated an increase in time spent by both branches on nonbudgeting activities.

Accuracy of estimates: The answers to our questions on the effects changing to a biennial budget has on spending and revenue estimates show nearly no effect. Only one of the six executive and legislative responses indicates an effect, which was a decrease in the accuracy of spending estimates.

THE OFF-YEAR IN BIENNIAL BUDGETING

The year after the legislature initially approves budgetary amounts for the biennium is the off-year. Depending on the state's budget cycle, the off-year may occur in either the first or second year of the biennium. Although the legislature devotes less time to budgetary activities in the off-year, adjustments to the budget can be made by both the legislature and governor or by the governor alone.

MOST STATES WITH BIENNIAL BUDGETS
HAVE ONE OF TWO BUDGET CYCLES

In order to determine which budget cycle each of the 19 states with biennial budgets uses, we gathered information on the characteristics of each state's biennial budget cycle. We developed models emphasizing legislative and executive budget activities relating to each year of the biennium and asked officials to select the model that "best describes" their states' biennial budget process. All but two states have budget cycles fitting one of two models. (See table IV.1.)

Table IV.1: Biennial Budgeting ModelsModel 1: Legislature meets every year

	<u>First biennium</u>		<u>Second biennium</u>	
<u>Year 1</u>	(Off-year) <u>Year 2</u>	<u>Year 3</u>	(Off-year) <u>Year 4</u>	<u>Year 5</u>
Legislature initially approves budgetary amounts for first biennium.	Legislature and/or governor may make adjustments to first biennium.	Legislature initially approves budgetary amounts for second biennium. Legislature and governor may make adjustments to first biennium.	Legislature and/or governor may make adjustments to second biennium.	Legislature initially approves budgetary amounts for third biennium. Legislature and governor may make adjustments to second biennium.

Model 2: Legislature meets every other year

	<u>First biennium</u>		<u>Second biennium</u>	
<u>Year 1</u>	(Off-year) <u>Year 2</u>	<u>Year 3</u>	(Off-year) <u>Year 4</u>	<u>Year 5</u>
Legislature initially approves budgetary amounts for first biennium.	No adjustments to first biennium by legislature because legislature does not meet. Governor may make adjustments to first biennium.	Legislature initially approves budgetary amounts for second biennium. Legislature and/or governor may make adjustments to first biennium.	No adjustments to second biennium by legislature because legislature does not meet. Governor may make adjustments to second biennium.	Legislature initially approves budgetary amounts for third biennium. Legislature and/or governor may make adjustments to second biennium.

Twelve states report that model 1 "best describes" their budgeting cycle. These states are Hawaii, Indiana, Maine, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Virginia, Washington, Wisconsin, and Wyoming. In these states, the legislature meets every year but adopts a budget only every other year. The budget that is adopted is for a 2-year period. The year following adoption is the off-year, when budgeting activities could be expected to be minimal.

Five states report that model 2 "best describes" their biennial budgeting cycle. These states are Arkansas, Kentucky, Montana, Nevada, and North Dakota. In these states, the legislature meets only every other year to adopt a 2-year budget. Thus, unless a special session is called, there can be no legislative budgetary actions in the off-year because the legislature is not in session.

Because the Congress meets every year, model 1 fits the situation of the federal government more closely than model 2, and therefore, model 1 will be discussed in the remaining sections of this appendix.

LEGISLATURES DEVOTE LESS TIME TO BUDGETARY ACTIVITIES IN THE OFF-YEAR

Biennial budgeting has been proposed for adoption by the Congress as a means of freeing up time for oversight and other nonbudgetary business. The idea of many legislative proposals is to concentrate budgeting into the first year of a Congress, thus establishing an off-year for nonbudgetary activities. However, there are those who believe that so much time might be spent in the off-year making budgetary adjustments that the Congress would have biennial budgeting in name only; there would still be, in effect, annual budgeting.

We asked officials in the 12 states whose legislatures meet annually and which practice biennial budgeting to compare the time that their legislatures devote to budgeting in the off-year to the time devoted to budgeting in the year the budget is approved. We wanted to determine whether these states practice biennial budgeting in name only. Respondents from 11 of the 12 states which have some experience (that is, they did not just change to biennial budgeting) report that their legislatures devote less time to budgetary activities in the off-year as compared to the approval year of the biennium. Seven executive respondents of these 11 states think that the legislature devotes much less time

to budgeting activities in the off-year; six of nine legislative respondents think that the legislature also devotes much less time to budgeting activities in the off-year.

ADJUSTMENT MECHANISMS DURING THE OFF-YEAR

It is possible that the biennial states that experience an off-year in budgeting may do so by giving their governors special powers to make unilateral adjustments in the off-year. This would be consistent with a tradition of special powers--beyond those exercised by the President--held by the chief executives of some state governments. It is assumed that budget adjustments would be needed to reflect changing conditions and budgetary requirements. We wanted to ascertain whether legislatively approved adjustments occur in the off-year in the biennial budgeting states or whether the states' adjustment procedures include unilateral gubernatorial adjustments.

In an effort to determine how the 12 biennial budgeting states that meet annually handle their off-year adjustments, we asked what types of entitlement adjustments they use in their biennial budgeting. Their responses indicate that most states make off-year entitlement program adjustments with supplemental appropriations or other legislation. The following are examples reported:

- passing a supplemental bill in the off-year session,
- increasing entitlement programs through the governor's use of an "economic contingency account" in the event of an emergency,
- financing a shortfall through a reserve account, and
- transferring funds by a controlling board.

We also asked officials in the 12 states what revenue and spending adjustments their governors may make unilaterally in the off-year. Eight states report that the governor has no unilateral adjustment authority with regard to revenues. The unilateral authority cited by the four remaining states is limited. Unilateral authority reported by these states includes authority to receive federal funds and earmarked funds and to adjust nontax revenues such as user fees subject to expenditure limits.

With regard to spending, 10 states indicate that their governors have varying degrees of unilateral authority for

spending adjustments. The various means of adjustment allow some governors to

- reduce spending, but not in excess of amount needed to eliminate any forecast deficit;
- reduce spending but spread reductions proportionally across most state activities;
- order agencies to reduce spending;
- reduce allotments to below the amount of the appropriation and transfer operating funds between appropriations within a department;
- adjust some appropriations of a "sum sufficient" nature, such as debt service, as well as certain other appropriations that are not supported by taxes and that may have spending levels adjusted by the governor, with a report given to the legislature for information;
- allow some transferring of appropriations from one line item to another (program-to-program) within statutory limits; and
- transfer funds from one agency to another, by the state board of finance (comprised of the governor, auditor, and treasurer).

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