

Subject: Two-Year Budgeting	
Purpose: Briefing	
Analysts: Aron Trombka & Blaise DeFazio, Senior Legislative Analysts	Committee: Directly to Full Council
Keywords: #OMB, Two-Year Budgeting	

DESCRIPTION/ISSUE

Chief Administrative Officer Andrew Kleine and Office of Management and Budget Director Rich Madaleno will present to the Council the Executive's proposal for two-year operating budget.

This report contains

Staff Memorandum
County Executive Two-Year Budget Proposal Summary
OLO Memorandum to Councilmembers

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M E M O R A N D U M

July 3, 2019

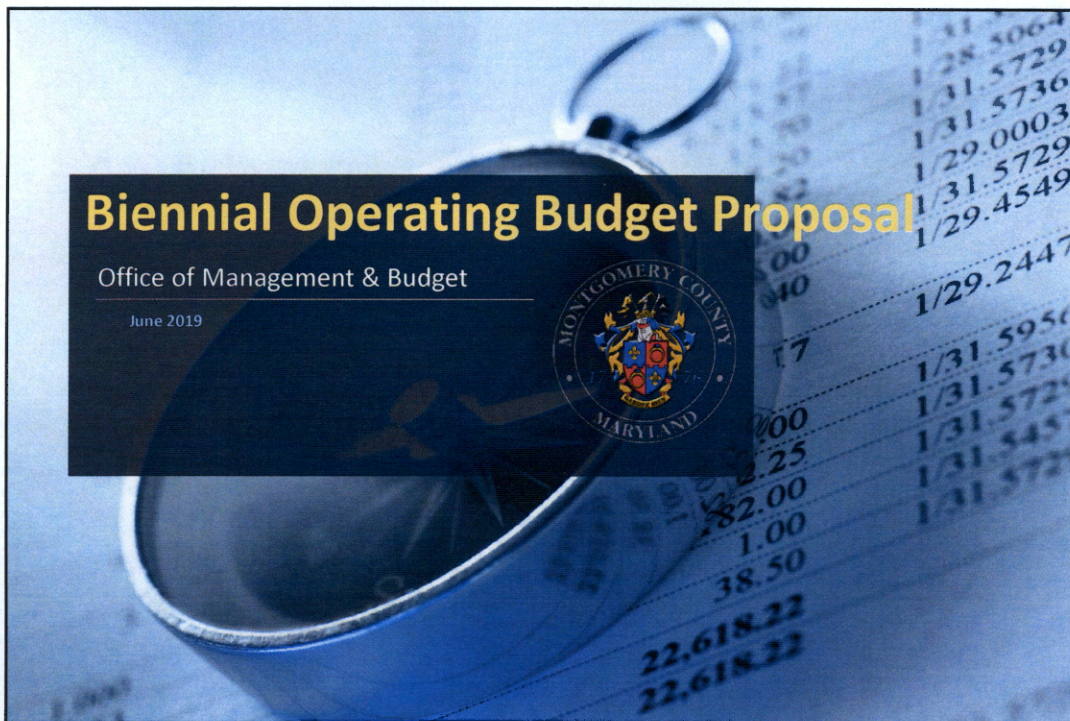
TO: County Council

FROM: Blaise DeFazio, Senior Legislative Analyst *BD*
Aron Trombka, Senior Legislative Analyst *AT*
Office of Legislative Oversight

SUBJECT: Briefing – Two-Year Budgeting


The Council President requested the Executive brief the County Council on his current thinking regarding implementation of a two-year (biennial) operating budget. On July 9, Chief Administrative Officer Andrew Kleine and Office of Management and Budget Director Rich Madaleno will present to the Council the Executive's proposal for two-year operating budget. The Executive provided the attached summary of their proposal (see © 1 – 12).

Last month, Office of Legislative Oversight staff distributed to Councilmembers a memorandum with background information about two-year budgeting. A copy of that memorandum appears on © 12-15.



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Current Practice




- Budget development process approximately August to March with Council review April to May
- Department staff spend approximately seven to nine months participating in the operating budget development process

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Other Jurisdictions




- King County –
 - True 24-month budget, appropriated for two years
 - CE submits budget in late September, adopted prior to Thanksgiving for 1/1 FY (2019-2020 budget)
 - Practice - 3 supplemental budgets per biennium
 - The first supplemental (amendment) Year 1 March –
 - lapsed funding from the previous budget/reappropriated if needed
 - Errata and Technical corrections

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Other Jurisdictions



- King County –
 - Second supplemental (omnibus) Year 1 - September
 - Policy decisions/revenue changes
 - Grants
 - State
 - Third supplemental (omnibus) Year 2 – May
 - Grants
 - Resulted in major staff time savings:
 - 80 to 90 percent of staff time redirected to program evaluation, monitoring, and business planning in mid-biennium

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Other Jurisdictions



- ❑ Seattle –
 - Moved from an annual to a modified biennial budget.
 - The City Council formally adopts the budget for the first year of the biennium and endorses the budget for the second year.
 - The second year budget is based on the City Council endorsement and is formally adopted by the City Council after a midbiennial review. (no change to the charter)
 - Budget development begins in February and concludes no later than October 2 with the Mayor submitting a proposed operating and CIP budget to the City Council.

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source: City of Seattle 2013-2014 Proposed Budget
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Other Jurisdictions



- ❑ San Mateo County –
 - Implemented a two-year budget process to improve financial planning and to create more time for performance improvement efforts.
 - Every odd numbered year in June, the County Manager submits a proposed spending plan for next two fiscal years to the Board of Supervisors (BOS).

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source: County of San Mateo FY2018-2019 Adopted Budget

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Other Jurisdictions



- ❑ San Mateo County –
 - BOS makes any final changes to Years 1 and 2 in September and adopts the final budget in October
 - The Year one budget is then referred to as the “Adopted Budget” and Year two as the “Recommended Budget”

source: County of San Mateo FY2018-2019 Adopted Budget

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County Charter




- After consultation with the County Attorney, it was determined that there are no legal issues associated with implementation of a biennial operating budget and no required changes to the county charter
 - The budget will be appropriated each year
 - There are no proposed changes to voting requirements, and no changes to the submission date.

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Advantages




- Reduce executive and council staff time devoted to budget development
- Improve long-term fiscal and strategic planning
- Strengthen performance management
- Improve fiscal discipline
- Implement without changes to County charter – use a similar amendment, annual appropriation process as the CIP

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Potential Hurdles



- Revenue forecasting
- Expenditure challenges – structural deficits and variable events (i.e. storms and unpredictable events - positive or negative)
- Outside agency funding
- Labor agreements

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Decision Points



- ❑ What cycle? Capital and Operating together
 - Administratively, it is prudent to position the operating and capital budgets together on the same cycle since the two are heavily interrelated.
 - The biennial (Year 2) CIP is currently aligned with the election cycle which gives newly elected officials breathing room and an opportunity to learn about the budget process, the story behind the budget and county programs.

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Decision Points



- Scope of funds to be included: The proposal is to include all tax-supported funds at a minimum to accomplish meaningful benefits in Year 2 – opportunities for program evaluation and analysis and to determine if programs are achieving the desired outcomes.
 - Potentially All funds
- Mid-Biennium amendment process and time frame
- Grants will move to a two-year cycle
- Align labor contracts with the biennial budget

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Draft Biennial Budget Framework



- ❑ **Year 1:** Approved Budget with an endorsed year two
 - Yearly appropriation (does not require charter amendment)
 - Year two budgets assumptions:
 - Reflect multi-year plans for turning the curve and achieving outcomes – Long-term strategic planning
 - Legally mandated requirements
 - Contract escalators
 - Personnel projections (advocate for two-year labor agreements)
 - Assumptions for outside agencies
 - OBIs as a result of the capital improvements program

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Draft Biennial Budget Framework




- ❑ **Year 2:** Endorsed Budget – implement a mid-biennium review process that consists of proposed modifications to the endorsed budget; similar to the CIP.
 - Mid-biennium amendment criteria:
 - Revenue changes (taxes, fees and fines)
 - Adjustments for outside agency requests
 - Negotiated compensation agreements as necessary
 - Leverage or mitigate impacts of outside funding sources (Fed, State, and/or other funding opportunities)
 - Unanticipated issues

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Preparing for Biennial Budgeting




- ❑ Outcome Budgeting requires looking at the priority and performance of every county government program.
- Each program will have four types of performance measures:
 - How much did we do?
 - How well did we do it?
 - Is anyone better off?
 - How are we promoting equity?
- Departments will use Turn the Curve thinking to improve performance.

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Preparing for Biennial Budgeting

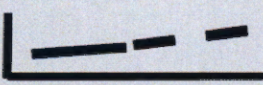


Turn-the-Curve Thinking: Applied

Department and measure: _____

1. How are we doing?
2. What is the story behind the curve?
 - What implicit assumptions did you surface and challenge?
 - Insights?
 - Root causes in order of priority.
3. What do we propose to do to turn the curve?
 - Three best ideas.
 - Include partners with a role to play.

Forecast:
Where is the trend line headed if we do nothing different (based on the story behind the curve)?



- ✓ Ask "Why?" five times.
- ✓ Disaggregate.
- ✓ Don't jump to solutions.

Practice "dialogue." "Suspend" your assumptions.

Include ideas that are:

- a. Off the wall
- b. No-cost/low-cost
- c. Highest "leverage" (on the curve) and feasible

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Preparing for Biennial Budgeting



- Directors, managers and employees are being trained on Turn the Curve and already using it for department performance agreements.
- The mid-biennium would provide time to develop program-level Turn the Curve plans, review performance, make adjustments, conduct more rigorous evaluation, etc.
- The administration hopes to collaborate with Council staff in reviewing program performance.

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Preparing for Biennial Budgeting



- OMB's technology and process team is preparing for implementation of both outcomes based and two-year budgeting by examining system needs, augmentation of the process and modifications to the budget publication.
- The BASIS system is nimble and can accommodate changes to existing and creation of new modules to implement biennial budgeting.
- Acting as a change agent, OMB staff will proactively assist departments in thinking through long-range budget planning and provide training on changes to the system.

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Department Feedback



- MCPL - The time used to organize the requisite data for budget development, and the many deadlines for budget data entry, impacts the amount of focus that administrative staff should put towards research and analysis.
- Biennial budget development will allow time to develop strategies for improved service delivery and streamlined procedures.

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Department Feedback



- HHS – Biennial budgeting will allow senior leadership to spend more time on planning and analysis across the Department and give managers more time to focus on service delivery.
- MCFRS – A two-year budget will allow for better planning related to the timing and size of recruit classes.

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Department Feedback



- DGS - Time savings from moving from a one-year cycle to a two-year cycle, which frees up personnel time to address other matters directly mission-related.
- The new cycle will allow the budget team to focus on data mining and budget management, identifying opportunities for improvement and cross-departmental collaboration.
- The department will have an extended period to track and document performance, which in turn will better inform budget proposals.

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Department Feedback



- DHCA – A biennial budget approach will be more efficient and lead to greater strategic thinking and better management of resources – departments are not constructing a budget immediately after finishing one. This is especially true for DHCA because a large portion of general fund resources are supported with restricted revenue. Biennial budgeting gives the department an opportunity to better plan how to utilize resources and respond to customer needs.
- The time savings provides increased flexibility to monitor results.

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MEMORANDUM

June 7, 2019

TO: County Council

FROM: Blaise DeFazio, Senior Legislative Analyst *BD*
Aron Trombka, Senior Legislative Analyst *AT*

SUBJECT: Background Information: Two-Year Budgeting

On July 9, Chief Administrative Officer Andrew Kleine and OMB Director Rich Madaleno will update the Council on the Executive Branch's latest thinking regarding a two-year operating budgeting cycle. This memo poses questions related to two-year budgeting and answers based on a literature search about two-year budgeting (also known as "biennial budgeting").

1. Which governments approve annual operating budgets? Which approve biennial operating budgets?

The Federal Government approves annual operating budgets. A bill introduced in the Senate in each of the last two sessions would amend Federal law to require biennial budget resolutions and appropriations. The bill was referred to Committee the Budget; no Committee action has been scheduled to date.¹

At present, 30 states approve annual operating budgets; 20 state approve biennial budgets.² Over the past seven decades, the trend among state governments has been to annual budgeting. In 1940, a total of 44 states adopted biennial budgets. The most recent transitions to annual budgeting occurred in 2009 in Arkansas and in 2011 in Oregon.³ As of this year, Iowa has switched from annual to biennial budgeting.⁴

All Maryland counties enact annual operating budgets.⁵

¹ S.284, 116th Congress, *Biennial Budgeting and Appropriations Act*, <https://www.congress.gov/bill/116th-congress/senate-bill/284/all-actions?overview=closed#tabs>

² National Conference of State Legislatures, *FY 2019 State Budget Status*, <http://www.ncsl.org/research/fiscal-policy/fy-2019-budget-status.aspx>; see also footnote #4.

³ National Conference of State Legislatures, *State Experiences with Annual and Biennial Budgeting*, April 2011, <http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx>

⁴ Iowa Program and Budget Fiscal Years 2020-2021, https://dom.iowa.gov/sites/default/files/documents/2019/01/fy2020.2021bib_0.pdf

⁵ Maryland Association of Counties, *Dates for County Budget Submission to Commissioners/County Council and Dates for Approval*. <https://www.mdcounties.org/DocumentCenter/View/26/Budget-Submission-and-Adoption-Dates?bidId=>

2. What are the different types of biennial budgeting?

Most states with biennial operating budgets enact separate budgets for each of the two fiscal years at one time. Two states (North Dakota and Wyoming) enact a single two-year budget.⁶ Most states with biennial operating budgets allow budget amendments for either the first- or second-year appropriations.

A hybrid annual/biennial budgeting approach is also possible. In Kansas, for example, budgeting for twenty of the approximately 100 departments and agencies occurs biennially, while all others operate with an annual budget.⁷ Similar to Montgomery County's current budget process, Missouri enacts its operating budget on an annual cycle and its capital budget on a biennial cycle.⁸

3. What are the benefits of biennial operating budgets?

OLO conducted a literature search and found the following suggested benefits of biennial budgeting:

- Biennial budgeting reduces the amount of resources devoted to budget preparation and analysis. Executive branch departments, relieved of the need to develop and defend budget proposals as frequently, can better oversee and manage their programs.
- Biennial budgets relieve the pressure on staff who, under an annual budget cycle, would spend nearly the entire year closing the previous year's budget, administering the new year's budget and planning the following year's budget.
- Biennial budgeting allows more time for program review and evaluation. Major programmatic and budget decisions will be determined in the first year and the second year can be devoted to in-depth evaluation for agency programs.
- Large portions of an operating budget remain substantially unchanged from year to year and do not need the same extensive level of budget review each year. A biennial cycle builds continuity in budgeting for programs that are not susceptible to significant annual changes in funding or design.
- Biennial budgeting increases certainty for program managers regarding the level of future funding.

⁶ National Conference of State Legislatures, *State Experiences with Annual and Biennial Budgeting*, April 2011, <http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx>

⁷ Midwest Council of State Governments, *Iowa, Michigan Consider Bucking Long-Time Trend that Has Seen States Move Away From Use of Biennial Fiscal Cycles in Favor of Annual Budgets*, April 2011, <https://www.csgmidwest.org/policyresearch/april2011budgetcycle.aspx>

⁸ Jessica Tollestrup, Congressional Research Service, *Biennial Budgeting: Options, Issues, and Previous Congressional Action*, February 2, 2015, <https://fas.org/sgp/crs/misc/R41764.pdf>

4. What are the shortcomings of biennial operating budgets?

OLO's literature search identified the following suggested shortcomings of biennial budgeting:

- As some revenue sources are volatile, two-year revenue forecasting is more challenging than one-year forecasting. Biennial budgeting creates greater chance for error in revenue estimating for the second year.
- As a result of unforeseen economic, environmental, or social changes in a community, program decisions in the first year may be outdated by the second year.
- Biennial budgeting may generate an excessive amount of amendments during the off-year, negating time saved for review and evaluation. Second-year adjustments and revisions may be extensive due to new and expanded programs implemented in the first year.
- Experience from states with biennial budgets indicate that agency managers and legislators do not give greater attention to program outcomes and performance measures in the second year of the cycle (see next question).
- Biennial budgeting cedes some authority from the legislative branch to the executive branch of government.

5. Have there been any independent assessments of the merits of biennial budgeting?

In 2011, the National Conference of State Legislatures (NCSL) published a report examining the experience of state governments with annual and biennial budgeting methods. The NCSL report does not find justification to deem either method as a preferred practice:

There is little evidence of clear advantages of either an annual or biennial state budget... In reality, a state can develop a good system of executive and legislative fiscal and program planning and controls under either an annual or biennial budget. The system would work differently with the alternative time spans, but could be effective under either approach.⁹

The NCSL report finds that the length of the budget cycle is not a primary determinant of budget outcomes and concludes that "the success of a budget cycle seems to depend on the commitment of state officials to good implementation rather than on the method itself."¹⁰

A 2015 analysis by the Congressional Research Service (CRS) found that a budget cycle often does not necessarily affect the amount of time spent by the Executive and Legislative branches on budget matters. As stated by the CRS:

⁹ National Conference of State Legislatures, *State Experiences with Annual and Biennial Budgeting*, April 2011, <http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx>

¹⁰ Ibid.

The state experience does not provide any single answer concerning biennial budgeting. Some states that operate under an annual cycle have significant portions of their budget enacted on a two-year cycle.... Conversely, some states with biennial cycles do a significant portion of their budgeting on an annual basis.¹¹

6. *What factors specific to the State of Maryland and Montgomery County would affect biennial budgeting?*

Several aspects of budgeting in Maryland and Montgomery County are based on single year calculations and would need to be projected for the second year of a biennial budget. These items include Maintenance of Effort funding for MCPS, intergovernmental aid, retirement and group health costs, and employee contracts.

c: Councilmember Chiefs of Staff
Chris Cihlar
Marlene Michaelson

¹¹ Jessica Tollestrup, Congressional Research Service, *Biennial Budgeting: Options, Issues, and Previous Congressional Action*, February 2, 2015, <https://fas.org/sgp/crs/misc/R41764.pdf>