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BUDGET PROCESS

Issues in Biennial Budget Proposals

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



Mr. Chairman and Members of the Subcommittee:

I am pleased to present our testimony on proposals 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, provide more focused time for congressional oversight of programs 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 these ends. Rather, as I will discuss below, we believe there are aspects which could work well for the federal government and an aspect which will cause a shift in congressional control and oversight—biennial appropriations.

Certainly everyone involved in the budget process shares some frustration with it. The public finds it confusing. Executive branch agencies find it burdensome and time consuming. Many 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, of course, nothing could be more important than debates about the budget—and important debates often take time. Budgeting is the process by which we as a nation resolve the large number of often conflicting objectives that citizens seek to achieve through government action. The budget determines the fiscal policy stance of the government—that is, the relationship between spending and revenues. And it is through the budget process that the Congress and the President reach agreement about the areas in which the federal government will be involved and in what way.

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 the process to be simple—or at least not too complex. We don't want to make the same decisions over and over again. But at the same time we want a process that presents the Congress and the American people with a framework 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.

In October 1993, and in March and April 1994, I testified on proposals for biennial budgeting.¹ Before discussing biennial budgeting for the federal government, however, I'd like briefly to discuss biennial budgeting in the states.

State Experiences With Biennial Budgeting

Advocates of biennial budgeting often point to the experience of individual states. In looking to the states it is necessary to disaggregate them into several categories. First, 8 states have biennial legislative cycles and hence necessarily have biennial budget cycles.² Second, as the table below shows, the 42 states with annual legislative cycles present a mixed picture in terms of budget cycles: 27 describe their budget cycles as annual, 12 describe their budget cycles as biennial and 3 describe their budget cycles as mixed. The National Association of State Budget Officers (NASBO) reports that those states that describe their system as "mixed" have divided the budget into two categories: that for which budgeting is annual and that for which it is biennial.

¹See Budget Policy: Biennial Budgeting for the Federal Government (GAO/T-AIMD-94-4, October 7, 1993), Budget Process: Some Reforms Offer Promise (GAO/T-AIMD-94-86, March 2, 1994), and Budget Process: Biennial Budgeting for the Federal Government (GAO/T-AIMD-94-112, April 28, 1994).

²The following states have biennial legislative cycles: Arkansas, Kentucky, Montana, North Carolina, North Dakota, Nevada, Oregon, and Texas.

Table 1: States With an Annual Legislative Cycle

States with an annual budget cycle		States with a biennial budget cycle	States with a mixed budget cycle
Alaska	Mississippi	Connecticut	Arizona
Alabama	New Jersey	Hawaii	Kansas
California	New Mexico	Indiana	Missouri
Colorado	New York	Maine	
Delaware	Oklahoma	Minnesota	
Florida	Pennsylvania	Nebraska	
Georgia	Rhode Island	New Hampshire	
Iowa	South Carolina	Ohio	
Idaho	South Dakota	Virginia	
Illinois	Tennessee	Washington	
Louisiana	Utah	Wisconsin	
Maryland	Vermont	Wyoming	
Massachusetts	West Virginia		
Michigan			

Connecticut has changed its budget cycle from biennial to annual and back to biennial. In the last 3 decades, 17 other states have changed their budget cycles: 11 from biennial to annual, 3 from annual to mixed, and 3 from annual to biennial.

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. Perhaps significant is the fact that most states that describe their budget cycles as biennial or mixed are small and medium sized. Of the 10 largest states in terms of general fund expenditures, Ohio is the only one with an annual legislative cycle and a biennial budget. According to a State of Ohio official, every biennium two annual budgets are enacted, and agencies are prohibited from moving

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

funds across years. In addition, the Ohio legislature typically passes a “budget corrections bill.”⁴

A few preliminary observations can be made from looking at the explicit design of those states which describe their budget cycle as “mixed” and the practice of those which describe their budget cycle as “biennial.” Different items are treated differently. For example, in Missouri the operating budget is on an annual cycle while the capital budget is biennial. In Arizona “major budget units”—the agencies with the largest budgets—submit annual requests; these budgets are also the most volatile and the most dependent on federal funding. In Kansas the 20 agencies that are on a biennial cycle are typically small, single-program or regulatory-type agencies that are funded by fees rather than general fund revenues. In general, budgeting for those items which are predictable is different than for those items subject to great volatility whether due to the economy or changes in federal policy.

Biennial Budgeting at the Federal Level

S. 1434, like a number of previous bills, 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.

⁴Ohio has also created a Controlling Board which, under certain circumstances, can authorize transfer of funds between items and across fiscal years within an agency. The Board also receives an appropriation that it can allocate to meet unforeseen contingencies. The Board is a joint, bipartisan committee of legislators chaired by Ohio’s Director of its Office of Management and Budget.

Multiyear Authorizations Make Sense; Biennial Budget Resolutions Could Work

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 nondefense portion of the budget.

We also agree that a 2-year budget resolution is worth considering. Especially in an era of multiyear spending caps and multiyear reconciliation instructions, a 2-year budget resolution may not be a major change. However, a way would have to be found to update the Congressional Budget Office's (CBO) forecast and baseline against which legislative action is "scored." As you know, CBO scores legislation on the economic assumptions in effect at the time of the budget resolution. Even under the current system there are years when this practice presents problems: in 1990 the economic slowdown was evident during the year, but consistent practice meant that bills reported in compliance with reconciliation instructions were scored on the assumptions in the budget resolution.⁵ If budget resolutions were biennial, this problem of outdated assumptions would be greater—some sort of update in the "off year" would be necessary. We have also said that we believe that at a time when major efforts are under way to reduce the deficit, there should be some way to look back and track progress against any multiyear fiscal policy plan. Such a formal "lookback" would be even more critical under a biennial budget resolution.⁶

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.

⁵See *Budget Process: Issues Concerning the 1990 Reconciliation Act* (GAO/AIMD-95-3, October 7, 1994).

⁶See, for example *Budget Process: Issues Concerning the 1990 Reconciliation Act* (GAO/AIMD-95-3, October 7, 1994); *Budget Policy: Issues in Capping Mandatory Spending* (GAO/AIMD-94-155, July 18, 1996); and *Budget Process: Evolution and Challenges* (GAO/T-AIMD-96-129, July 11, 1996).

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. That is the difference between the periodicity of decisions and the periodicity of funds. 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. Not all funds expire on September 30 of each year. First, because budget decisions about mandatory programs and entitlements—which constitute nearly two-thirds of federal spending—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 36 percent of federal outlays in fiscal year 1995.⁷

Even within that 36 percent of the budget on an annual appropriation 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, 1995, without further congressional action.

To the extent that biennial budgeting is proposed as a way to ease a budget execution problem, the Congress has shown itself willing and able to meet that need under the current annual cycle.

The federal government has had some experience with biennial budgets. The 1986 Defense Authorization Act directed the Department of Defense

⁷See Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations, 1996 (GAO/AIMD-96-79, May 31, 1996) and Budget Account Structure: A Descriptive Overview (GAO/AIMD-95-179, September 18, 1995).

(DOD) to submit a biennial budget for fiscal years 1988 and 1989 and every 2 years thereafter. DOD submitted 2-year budgets for a number of fiscal years. 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, major changes in financial management or IRM systems, or major changes in mission. In its efforts to bring the budget into balance, the Congress is currently considering major changes in the scope and methods of delivering government services. The very magnitude of these changes raises questions about whether a shift to biennial appropriations could or should be made at the same time.

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’s 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, the Congress has already addressed this budget execution problem for many of these programs by giving them some multiyear funding. While a shift of the entire cycle would ease planning and increase predictability for all program managers, multiyear or advance funding can 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 how the Congress chooses 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. Oversight has often been conducted in the context of agency requests for funds. 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. Although it could be argued that the existence of fixed-dollar caps on discretionary spending mean that multiyear decisions have already been made, that is so only at the aggregate level. The Congress has retained the right to rearrange priorities within those caps. A shift to a biennial appropriations cycle could lessen that flexibility.

We have long advocated regular and rigorous congressional oversight of federal programs. Such oversight should examine both the design and effectiveness of federal programs and the efficiency and skill with which they are managed. Through the Chief Financial Officers Act and the Government Performance and Results Act, the Congress has put in place the building blocks to improved accountability—both for the taxpayer's dollar and for results. Congressional involvement in reviewing agency strategic plans and in develop performance indicators will be critical to the success of these efforts. However, it is not necessary to change the budget and appropriations cycle to have effective congressional oversight. Indeed, as I mentioned before, the regular appearance before Appropriations committees historically has provided one vehicle for oversight. This brings me back to my main point: the decision on whether the budget and appropriations cycle should be annual or biennial is fundamentally a decision about the form and forum the Congress wishes to use to affect agency programs and operations.

Conclusions

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 those 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 Subcommittee may have.

Related GAO Products

Budget Process: Evolution and Challenges (GAO/T-AIMD-96-129, July 11, 1996).

Correspondence to Chairman Horn, Information on Reprogramming Authority and Trust Funds (GAO/AIMD-96-102R, June 7, 1996).

Correspondence to Chairman Kasich, Budgeting for Federal Insurance (GAO/AIMD-96-73R, March 22, 1996).

Budget Process: Issues Concerning the Reconciliation Act (GAO/AIMD-95-3, October 7, 1995).

Budget Issues: Earmarking in the Federal Government (GAO/AIMD-95-216FS, August 1, 1995).

Budget Issues: History and Future Directions (GAO/T-AIMD-95-214, July 13, 1995).

Budget Structure: Providing an Investment Focus in the Federal Budget (GAO/T-AIMD-95-178, June 29, 1995).

Correspondence to Chairman Wolf, Transportation Trust Funds (GAO/AIMD-95-95R, March 15, 1995).

Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155, July 18, 1994).

Budget Process: Biennial Budgeting for the Federal Government (GAO/T-AIMD-94-112, April 28, 1994).

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

Budget Policy: Investment Budgeting for the Federal Government (GAO/T-AIMD-94-54, November 9, 1993).

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Correspondence to Chairmen and Ranking Members of House and Senate Committee on the Budget Committees and Chairman of Former House Committee on Government Operations (B-247667, May 19, 1993).

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