

## THE LONG VIEW

### *Would a two-year budget cycle improve policy in Massachusetts?*

PHIL PRIMACK

Even in the best of times—periods of strong economic activity, when public revenues increase regularly and spending decisions are easy—the state budget process is not easy. Caught in a swirl of dueling interests, needs, and politics, the annual budget battle in Massachusetts has become an unending battle for marginal advantage among political and policy interests. Even in 2000, when the Commonwealth’s economy and revenue streams were still healthy, the budget process was especially long and contentious.

Now, with fiscal times far tougher, the public is re-discovering Bismarck’s observation that the legislative process is similar to making sausages—what happens in the process is a lot uglier than what emerges at the end.

Leading experts on the legislative process say it might be time for Massachusetts to consider shifting from an annual to a biennial budgeting process. The Massachusetts Taxpayers Foundation (MTF) plans to file legislation next session to implement a biennial budget system in Massachusetts. MTF has not finalized its plan, but its broad goal is to establish a process by which agencies would consider long-term spending needs as they draft annual budgets.

Some form of biennial budgeting could offer a better way to develop and plan both programs and budgets, advocates on all points along the political spectrum say. The argument is simple: Having to face the budget battle only every other year frees up agency staffs, members of the legislative and executive branches and others to focus on performance. Program management could also improve without the constant need to write and rewrite budgets.

Currently, 23 states utilize some level of biennial budgeting, according to the National Association of State Budget Officers (NASBO). In some states, only a limited number of agencies, most of them smaller, operate on such a system. In a few states, the entire op-

erational budget is for a two-year cycle, often aligned with legislatures that meet either biennially or, as is the case in Massachusetts, meet in a long-session, short-session annual sequence.

“Even when we have on-time budgets, very little in state government encourages long-term planning and strategic thinking, and the annual budget cycle just exacerbates the problem,” said MTF President Michael Widmer. “Biennial budgeting is not a panacea. It won’t deal with the realities of recessions or falling revenues or eliminate the need for year-to-year decisions. But in a climate where ‘long-term’ is now seen as three months, anything that would force planning and discussion out a year or two is certainly beneficial.”

If Massachusetts adopted a biennial budget system, it would be going against recent national patterns.

While 44 states practiced biennial budgeting in 1940, only 23 states now use some form of biennial budgeting. These states tend to be less populous, have relatively small budgets, and have legislatures that meet biennially or for just short sessions in the off year. While some biennial states vest greater budgetary power to the executive branch—Iowa, Indiana, South Carolina, and South Dakota allow their governors unlimited power to transfer funds among state agencies, for example—some are similar to Massachusetts with its relatively strong legislative control on budgets.

The biennial budget states do not all follow the same system. Few apply biennial budgeting to all

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line-item agencies. The more common pattern is for states to place a limited number of agencies on a biennial budget, though some states that started with such limited application are now expanding the number of biennially budgeted agencies. Most biennial states also have systems in place to evaluate and make off-year budget adjustments, though the nature and power of these systems varies widely.

If the main argument for biennial budgets is that they enable better planning and evaluation, why, then, has the practice been so relatively limited? A November 2000 report by Ronald K. Snell for the National Conference of State Legislatures explained it this way:

A shift to annual budgeting tended to follow the move to annual sessions, as state budgets became larger and more complicated and as federal grant-in-aid programs to state and local government became increasingly prominent in the 1960s and 1970s. At the same time, state finances became more dependent upon personal income and sales taxes, enlarging the revenue stream and making it somewhat less stable than in the past, adding another reason for adoption of annual budgets.

Still, proponents of the biennial approach say the system has clear advantages, including a better ability to do long-term planning, lower costs for the budgeting process and sufficient time for careful performance evaluation of programs and agencies. But various studies over time have reached no clear conclusion about which budgeting system is “better.” In 1972, for instance, the Council of State Governments offered this finding:

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.

In his NCSL report nearly three decades later, Snell found that “state experience does not make a clear case for the superiority of either biennial or annual budgeting over the other.” Testifying in February 2000 before Congress—which regularly raises but then discards its own proposals for federal biennial budgeting—Snell said: “I think that partisanship, fiscal circumstances,

and policy issues are equally important at any given time. Any state’s budget process, annual or biennial, may run to a smooth conclusion in one budget session and be hesitant, quarrelsome, divisive and unsatisfactory in another budget session, depending on how those various issues interact.”

## The Connecticut experience

Take the case of Connecticut, whose recent move toward biennial budgeting is especially instructive, given the Nutmeg State’s geographic, economic, and cultural similarities to Massachusetts.

Connecticut shifted to a biennial budget system in 1991. The move was tied to the state’s politically peril-

### How the states do it

Annual session and budget (30 states)	Annual session, biennial budget (13 states)	Biennial sessions and budgets (7 states)
Alabama	Connecticut	Arkansas
Alaska	Hawaii	Kentucky
Arizona	Indiana	Montana
California	Maine	Nevada
Colorado	Minnesota	North Dakota
Delaware	Nebraska	Oregon
Florida	New Hampshire	Texas
Georgia	North Carolina	
Idaho	Ohio	
Illinois	Virginia	
Iowa	Washington	
Kansas	Wisconsin	
Louisiana	Wyoming	
Maryland		
Massachusetts		
Michigan		
Mississippi		
Missouri		
New Jersey		
New Mexico		
New York		
Oklahoma		
Pennsylvania		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Utah		
Vermont		
West Virginia		

ous passage of an income tax. Susan Shimelman, director of the legislature's Office of Fiscal Analysis, said: "The Connecticut experience is that when we needed to do something radically different on the taxing side, we needed to promise the people that we would not convert this new taxing authority into a new runaway spending authority."

Toward that end, Connecticut adopted a biennial budget system under which the legislature meets and adopts two, single-year budgets, each of which must be balanced on its own. The idea was that in the second year, the Legislature would only have to make relatively small budgetary adjustments to a limited number of programs. Smaller agencies, where not much change happens year to year, would not even require hearings on the adjustments.

A decade later, things have not turned out as hoped. Proposed new programs and revisions of existing ones in the off-year have been so common and contentious that some lawmakers are calling for an official return to annual budgeting since that is what they seem to be doing anyway.

Shimelman, who worked for Independent Governor Lowell Weicker when the biennial budget and income tax package was enacted in 1991, agreed that the state's current deficit situation has derailed original hopes for the biennial process. Longer term fiscal planning tends to play second fiddle to solving immediate budget woes, she said. "This is our first experience [since 1991] with difficult choices in having to reduce a budget that has already been passed. The [off-year] appropriation process has taken on the cast of a full budget review again," she said.

Shimelman nonetheless supports the biennial budget system. "I still find it helpful—for government, for the agencies, for advocates—to have a serious document, a serious two-year statement on the table to ensure people that you are using revenue wisely "and in a way that reflects careful planning."

## Key support in Massachusetts

Some significant voices in Massachusetts also see the positive values of making such a two-year budget and planning statement.

"I not only support biennial budgeting, but I proposed it as an important piece of budget reform," said

## The budgeting–performance link

There seems to be a relationship between biennial budgeting and better use of performance based budgeting. With the recent defeat of biennial budgeting in Congress and continued emphasis on performance plans and measures perhaps there needs to be a careful assessment of the whole system for budgeting using the state experience—is there a "package deal" that would tie performance budgeting to biennial budgeting for the whole to be successful?

From *The Budget Analyst*, available at:  
<http://www.budgetanalyst.com/Statexp.htm>.

former Senate Ways and Means Chairwoman Patricia McGovern, who said the effort went no where when she proposed it in the late 1980s. "Right now, the annual budget becomes the biggest sun in the sky, taking up all the energy. A biennial budget would help calm things, and there are always ways to make corrections based on a review of revenues for the second year. This would be a way to contain the growth of the budget, while enabling necessary changes."

Harold Hestnes, former past chairman of MTF and current secretary of the Massachusetts Business Roundtable, said biennial budgeting in Massachusetts could fall victim to the same pitfalls as have occurred in Connecticut. But he said a shift away from "the annual budget circus" is the only way to achieve what he said is the more significant system reform: Performance budgeting, under which goals are set and continued funding depends upon measuring how well they are achieved.

"Performance budgeting has never worked on an annual cycle," said Hestnes. "But if an agency doesn't have to deal with its line-item budget every year, you have a wider window to test whether it is actually achieving its performance goals."

But what about the argument that the sudden freefall in revenue and consequent budget scrambling proves that two-year planning cycles are too long, that it is impossible to predict economic and fiscal conditions so far out?

"It's quite feasible to create a two-year budget docu-

ment that is just as accurate as a one-year budget,” said Robert Ciolek, former budget director for the City of Boston. “The art of budgeting is also the art of creating reserves for contingencies.” Of course, the current state budget debate demonstrates how easy it is to dip into such surpluses—MTF has consistently warned about proposals that would tap too deeply and quickly into

the state’s carefully developed reserves. This suggests the need for clearer criteria about when it is acceptable to use reserves, and how much they can be used in a given cycle.

Ciolek, now chief operating officer for the New Bedford Oceanarium, handled Boston’s budgets in the late 1980s and early 1990s, when fiscal conditions were

## At the federal level . . .

### The case for biennial budgeting

H.R. 232 would require that the first session of every Congress be devoted to decision-making on budget and appropriations issues. The President would begin the process by submitting a two-year budget proposal at the beginning of each Congress. Congress would then have to adopt two-year budget resolution, two-year appropriations bills, and a reconciliation bill, if called for by the budget resolution, during the first session of each Congress. The President’s budget and the Congressional budget resolution would cover the two years of the biennium and planning levels for two additional years.

The second session of Congress would be devoted to the consideration of multi-year authorization bills and to the oversight, both by authorizers and by appropriators, of the many programs funded in the federal budget.

The Congressional Budget and Impoundment Control Act of 1974 made certain that Congress was much more directly involved in the many fiscal decisions that must be made at the federal level of government. . . . In the 1960s and 1970s, budget-related votes comprised just over 40 percent of all votes. By 1996, budget votes totaled about 70 percent of all votes.

This has resulted in less time being available for in-depth oversight.... Only twice since the enactment of the 1974 Budget Act has Congress completed the thirteen individual appropriations bills on time. One such occasion was in 1988, the second year of the 1987 two-year Budget Summit Agreement.... I believe that it does make a case that if we have some relief from the annual repetitive decision-making on budget issues, Congress will be in a better position to complete funding legislation on time.

– *Statement of Congressman Ralph Regula, Republican of Ohio, in support of the Comprehensive Budget Process Reform Act of 1999*

### The case against biennial budgeting

The experience of the states—the laboratories of democracy—tell a different story. The lessons from state experiences support annual budgeting:

- Forty-four states had a two-year budget cycle in 1940. Today, only 21 states practice biennial budgeting. Although Arizona and Connecticut shifted from annual to biennial cycles in the 1990’s, the trend is clearly to abandon biennial.
- States with biennial budgets tend to have small or middle-sized budgets. Only one of the top ten state budgets, Ohio, is biennial. In the off-years, in Ohio, a joint, bipartisan committee—the Controlling Board—transfers funds between items and across fiscal years and allocates funds from an “unforeseen contingencies” appropriation.
- States with annual budgets tend to spend less per capita than states with biennial budgets.
- States that shifted from biennial budgeting to annual budgets significantly reduced the need for supplemental appropriations. Biennial states still perform substantial annual reviews to balance their budgets or cede powers to others to make budget decisions in the off-year.
- Biennial budgeting has not led to state executives doing more performance evaluations nor state legislatures doing more oversight.

– *Statement of the late Congressman John Joseph Moakley, Democrat of Massachusetts, on the same bill*

similarly dire. “I had staff whose job it was to prepare different budget projections under different economic scenarios. People at [the Executive Office of] Administration and Finance and on the Ways and Means committees already do at least biennial budgeting—they have budget projections going out several years. It’s not just crystal ball gazing—it’s pretty accurate modeling.” So under one set of economic and revenue circumstances, an agency would be able to pursue its “A” budget; but if revenues shrink or economic outlooks dim, the agency would automatically propose its alternative, lower-level budget “B” budget.

Ciolek has no illusions that biennial budgeting would solve all current process ills: “Whether annual or biennial, the politics of budgeting won’t automatically turn into an interesting, scientific process. But a biennial budget system might actually free up time for lawmakers, the press, agencies and everyone else to concentrate on other things besides the preeminent legislative issue, which has become the annual budget.”

MTF’s Widmer noted that past attempts by McGovern and others to institute biennial budgeting in

Massachusetts have failed. “But the frustration that has built around the current process, especially in the last year, makes these kinds of ideas that have been in the past been dismissed more viable,” Widmer said. “We hope that our legislation will at least stimulate some meaningful discussion about how we do our budgeting here.”

At a time when Massachusetts is poised to elect a new governor and when many leading figures in the state Legislature will be leaving, the idea of a longer and more deliberative budgeting process might merit another look. ❖

#### ABOUT THE AUTHOR

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