

SB

141

<TARGET><BILL>SB 141</BILL><SUBJECT>SB
141</SUBJECT><COMM></COMM></TARGET>

Alaska State Senate

Chairman: Senator Kevin Meyer
Senator John Coghill
Senator Cathy Giessel
Senator David Wilson
Senator Dennis Egan



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SENATE STATE AFFAIRS

Tuesday, February 13, 2018
AGENDA NOTES

- I. CALL THE MEETING TO ORDER
 - a. I call the Senate State Affairs meeting to order. Today is Tuesday, and the time now is __:__.

- II. MEMBERS PRESENT
 - a. Roll Call: Senator Giessel, Senator Coghill, Senator Wilson, and Senator Egan.
 - b. Committee Staff Christine Marasigan, Senate Records Christopher Dickrell, and LIO staff max Stanley

- III. TODAY'S AGENDA
 - a. SB 141: Biennial Budget

- IV. SB 141 Biennial Budget
 - a. Bill Introduction: OMB Director Pat Pitney, DCCED Deputy Commissioner Fred Parady and Guy Bell.
 - b. Committee Questions
 - c. Public Testimony
 - d. Committee Discussion
 - e. Review Fiscal Notes: OMB 0
 - f. Committee Action: Hear and hold.

- V. ANNOUNCEMENTS/ADJOURN
 - a. Do committee members have anything they want to bring up at this time?
 - b. Out next meeting is Thursday, February 15th at 3:30 and we will bring up Constitutional Amendment.
 - c. ~~Thank you, have a Happy Valentine's Day tomorrow,~~ the time now is __:__ we are adjourned.

SB 141 Biennial Budget
Senate Rules at the request of the Governor

Bill Introduced: 1/16/18

SB 141 Biennial Budget

This is the Governor's bill relating to a biennial budget, relating to the salary and per diem of members of the legislature and the governor; and providing for an effective date. The bulk of the bill, more than half of the 35 sections are simply conforming changes from "annual" to "biennial." Section 7 on pages 4 and 5 state that if a biennial or interim budget are not passed after the 90 day legislative session, legislators will not be eligible for per diem. Also, in Section 20, page 10 the bill also states that should the Governor not submit a budget by December 15th that the Governor will also not be eligible for compensation.

Potential Issues:

Either of these issues would be a challenge, but it becomes more challenging when you put both transitioning to a biennial budget and attaching pay to deadlines.

- 1) The budget would need to be submitted much, much sooner than December for the legislature to have ample time review (and for new incoming legislators to learn) a biennial budget in 90 days. Even though constitutionally the Legislature can go to 120 days, legislature basically has a 30 day deadline sooner, it would stand to reason that the Governor ought to submit a budget 30 days earlier—say November 15th.
- 2) While the executive branch can tell employees that there is a deadline of December 15th and have consequences if that deadline is not met, the Legislature is a governing body of equals. There are 60 people whose vote represents a constituency in the state and while you can tell them all that there is a deadline of 90 days, you cannot mandate how they vote and they actually need some kind of consensus if a budget is to pass.
- 3) How would this new biennial budget fit with our current election cycle? An advantage to the annual budget cycle is that your newly elected legislators and or Governor are not then tied to a two-year budget cycle after just being elected.
- 4) Assuming that the legislature would still meet annually, the supplemental or interim budget every other year basically would become the

appropriation bill—in this sense it is not any different from an annual budget. Conversely, there may be some departments that are so stable that doing a biennial budget for them makes sense.

- 5) The argument has been made that because the State of Alaska relies so heavily on a volatile source of revenue that a biennial budget is not going to be nimble enough to respond. Imagine if we had a biennial budget cycle in place when the price of oil dropped. If that happens in the beginning of year one, the state would not be able to adjust as quickly.

Legislative History

The concept of a biennial budget has been considered in the past and in fact there was research done in both the 80's (David Teal was the legislative researcher who actually wrote the report) and again in the 90's into transitioning to a biennial budget.

Fiscal Impact:

There is only one fiscal note, it is zero. While yes, there is some thought that this could save money over the long term, I don't think most reasonable people would believe that this is a zero fiscal note. There should be a cost for a transition year and then perhaps a savings five to ten years later.

QUESTIONS:

- On page 5 there is an NCSL Report, April 2011 that is cited stating that 21 of 50 states use biennial budgeting. However that same report states in the introduction that the trend is to abandon biennial budgeting for annual budgeting. "Forty-four states enacted biennial budgets in 1940. Only 19 do now." So stating 21 of 50 states implies that perhaps we should join the biennial bandwagon but in reality 44 states used to have biennial budgets and less than half do that now.
- In order to have ample time for the legislature to review a biennial budget and get it passed, would the Governor then move up the timeline for a state budget to be presented? Say October or November?
- In the seven year review of Recent Alaska History Budget Bills (page 8), two of the seven years had no issues getting both a operating and a capital budget through. Five out of the seven years on this list an operating and a

capital budget was passed within the constitutionally mandated 120 days. Is it perhaps the inability for the last two years to get a budget through that has provided the motivation to move to a biennial budget? Is this proposed change driven by the current relationship between the Administration and the legislature?

- I can understand that a biennial budget has the potential for cost cutting, time savings, and better long-term planning. However, we currently rely on a revenue source that is volatile, and an annual budgeting process could more nimbly react to a shortfall or windfall. While there is a mechanism for dealing with a shortfall—i.e. an interim/supplemental bill to fund budget overruns, is there a mechanism for ratcheting back budgets in the interim years? Would departments that saved simply have their budgets cut for the next biennial or would they be allowed to have spending authority on funds that were not expended?

“An Act relating to a biennial budget; relating to the salary and per diem of members of the legislature and the governor; and providing for an effective date.”

Section by Section Analysis

1. Conforming amendment to AS 14.30.630(b), Special Education Services Agency, to recognize the change from annual to biennial budgeting.
2. Conforming amendment to AS 18.23.300(b), Electronic Health Information Exchange System, to recognize the change from annual to biennial budgeting.
3. Conforming amendment to AS 22.30.040, Commission on Judicial Conduct, to recognize the change from annual to biennial budgeting.
4. Conforming amendment to AS 23.30.009 (a), Alaska Workers’ Compensation Appeals Commission, to recognize the change from annual to biennial budgeting.
5. Conforming amendment to AS 23.30.241(b), Department of Public Safety, Special Officers as Employees, to recognize the change from annual to biennial budgeting. NOTE: should also include AS 23.30.242, Members of state boards and commissions as employees.
6. Amends AS 24.10.100, Salary of legislators, suspending legislator salaries if operating, capital and mental health appropriations bills have not been passed by the legislature on or after the 90th day of its regular session. Salary payments would resume once such bills had passed the legislature, or on the first day of the next regular session, whichever occurs first. NOTE: This section makes reference to new AS 37.04.014(g) and (h), which set out the legislature’s responsibilities under the proposed biennial budget process.
7. Amends AS 24.10.130(b), Moving expenses and per diem allowance, to cancel legislator per diem if operating, capital and mental health appropriation bills have not been passed by the legislature on or after the 90th day of its regular session. Per diem payments would restart once such bills had passed the legislature, or on the first day of the next regular session, whichever occurs first. NOTE: This section makes reference to new AS 37.04.014(g) and (h), which set out the legislature’s responsibilities under the proposed biennial budget process.

8. Amends AS 24.10.130(c), Moving expenses and per diem allowance, for conformity with Section 7.
9. Conforming amendment to AS 24.20.130, Legislative Council budget, to recognize the change from annual to biennial budgeting.
10. Conforming amendment to AS 24.20.132, Legislative budget and expenses, to recognize the change from annual to biennial budgeting.
11. Conforming amendment to AS 24.55.080(c), Ombudsman budget, to recognize the change from annual to biennial budgeting.
12. Conforming amendment to AS 26.27.100(b), Alaska Aerospace Corporation, to recognize the change from annual to biennial budgeting.
13. Conforming amendment to AS 37.05.555(b), University of Alaska building fund, to recognize the change from annual to biennial budgeting.
14. Conforming amendment to AS 37.05.600(b), Alaska veterans' cemetery fund, to recognize the change from annual to biennial budgeting.
15. Amends AS 37.07.010, Executive Budget Act, Statement of Policy, to change budget duration reference from annual to biennial.
16. Amends AS 37.07.014(e), Responsibilities of legislature, to change budget duration references from annual to biennial.
17. Amends AS 37.07.014, Responsibilities of legislature, by adding a new subsection (g), requiring passage of comprehensive biennial appropriations bills in a legislature's first session. Also amends AS 37.07.014, Responsibilities of legislature, by adding a new subsection (h), requiring passage of an interim appropriation bill authorizing unanticipated operating and capital expenditures for the second fiscal year of a biennium in a legislature's second session.
18. Amends AS 37.07.020(a), Responsibilities of Governor, to require submission of a biennial budget, beginning on December 15, 2018, and every two years thereafter. The proposed expenditures for each agency are to be presented separately by fiscal year.
19. Amends AS 37.07.020(b), Responsibilities of Governor, to require the Governor to submit six-year capital improvement plans and 10-year fiscal year plans at the same time as the biennial budgets.
20. Amends AS 37.07.020, Responsibilities of Governor, by adding a new subsection (f) addressing the Governor's second year of biennium budget responsibilities, beginning in 2019, and a new subsection (g) adding a

- requirement the Governor's salary be suspended and per diem entitlement be withheld if a budget is delivered after the December 15 due date. Salary and per diem payments would resume on the first day after such appropriation bills are made public, unless the failure to make the appropriations bills public is because of technical difficulties beyond the governor's control.
21. Amends AS 37.07.040, Office of Management and Budget, to recognize and clarify OMB's biennial budget responsibilities.
 22. Amends AS 37.07.050(a), Agency responsibilities, to recognize and clarify state agency biennial budget responsibilities.
 23. Amends AS 37.07.060(a), Governor's recommendation, to make reference to new biennial requirement for presentation of the operating and capital budget and fiscal plans. Also amends AS 37.07.060(b), Governor's recommendation, which would change a Governor's budget message and explanatory report to a joint session of the legislature from annually to every two years.
 24. Amends AS 37.07.070, Legislative review, to recognize change from annual to biennial budgeting and deadlines for submission of amendments by the governor to the legislature.
 25. Amends AS 37.07.080(b), Program execution, to make operation plans a biennial activity.
 26. Amends AS 37.07.120, Definitions, by adding definitions of "biennial budget" and "interim budget."
 27. Amends AS 37.14.005(a), relating to submission of mental health appropriations, to recognize the change from annual to biennial budgeting.
 28. Conforming amendment to AS 37.14.415, Exxon Valdez State Trustees, to recognize the change from annual to biennial budgeting.
 29. Conforming amendment to AS 38.04.020(e), Commissioner of Natural Resources, Land Disposal Bank, to recognize the change from annual to biennial budgeting
 30. Conforming amendment to AS 39.30.050, Old Age and Survivors Insurance, Federal territorial agreement, FICA administration fund, to recognize the change from annual to biennial budgeting.
 31. Amends AS 43.08.035(c), Commissioner of revenue and revenue anticipation note reporting, to make it a two-year forecast requirement, consistent with new biennial budget requirement.

32. Conforming amendment to AS 44.21.045(e), Information services fund, to recognize the change from annual to biennial budgeting.
33. Conforming amendment to AS 44.85.110, Bond bank authority, to recognize the change from annual to biennial budgeting.
34. Conforming amendment to AS 47.80.090(8), Governor's council on disabilities and special education, to recognize the change from annual to biennial budgeting
35. July 1, 2018 effective date.



Office of Budget and Management

John R. Kasich
Governor

Timothy S. Keen
Director

February 2, 2018

Dear Mr. Bell:

Ohio has long used a biennial operating budget process which consists of two single year appropriations measures adopted each odd numbered year (the first year of the general assembly). Our biennial budget process is an outgrowth of a provision contained in the Ohio Constitution that limits appropriations made by the Ohio General Assembly to a period of no more than two years. I believe the biennial budget process offers a number of advantages to the executive and legislative branches of government as well as individuals who participate in the state budgeting process.

Ohio's budget process offers a longer planning horizon, which benefits the development of the executive budget proposal and the legislature as they are deliberating on the budget. Additionally, a two-year budget cycle also provides grant or subsidy recipients (schools, community organizations, etc.) with greater predictability in funding than an annual budget.

A biennial budget allows the state budget office to focus on more than just the development of an executive budget. Rather, the office can work on budget implementation and other projects that directly impact the state's finances. Budget analysts have time to learn about the agencies they are working with and the programs they are funding outside of the budget development process. It also gives the budget office time to make improvements regarding the planning and process surrounding the budget. State agencies benefit from a biennial budget because it allows agencies to shift the allocation of time from preparation of the budget to improved fiscal management within the agency and to improving the efficiency and effectiveness of state programs leading to better services for Ohioans.

From a legislative perspective, it provides more time for legislative oversight activities and non-budget priorities. Ohio also develops and considers our capital budget in even numbered years (the second year of the general assembly) a second year allowing legislators more time to focus on capital items.

It is for these reasons that I am a proponent of a biennial budgeting process in Ohio, and I strongly recommend other states and the federal government consider the use of a biennial budget. I look forward to following the news as Alaska debates this important issue. Please feel free to contact me should you have any additional questions.

Sincerely,

Timothy S. Keen
Director

STATE EXPERIENCES WITH ANNUAL AND BIENNIAL BUDGETING:

Ronald K. Snell
National Conference of State Legislatures

April 2011

INTRODUCTION

The trend among state governments for the past 70 years has been to abandon biennial budgeting for annual budgeting. Forty-four states enacted biennial budgets in 1940. Only 19 do now.

One reason for the change was the resurgence of state legislative power in the middle of the 20th century. Legislatures' growing role in state government can be measured by the shift from biennial to annual legislative sessions. In 1940 only four state legislatures held annual sessions—and Alabama's legislature met only once every four years. In 2011, only four states still have biennial sessions—Montana, Nevada, North Dakota and Texas. Two changes came recently: Arkansas with its first annual session in 2009, and Oregon with its first in 2011.

A shift to annual budgeting followed the move to annual sessions, as state budgets grew larger and more complicated and as federal grant-in-aid programs to state and local governments became increasingly prominent in the 1960s and 1970s. The move to annual budgeting also coincided with the greater volatility in state revenues that resulted from increasing reliance on sales and personal income taxes. Although such historic changes have not moved all states to annual budgeting, the trend has been clear. One surprising complaint about biennial budgets is that they are time-consuming. An editorial writer in Maine opined in 2010 that:

The state's two-year budget format is an incredible time-waster. Executive departments spend endless hours charting spending over two years (really almost three, from the start of planning), and rarely find numbers that stick. The Legislature spends many more hours trying to make the document work, and instead ends up crafting multiple supplemental budgets to fix the first one.

Two-year budgets are a historical accident—at one time the Legislature didn't meet every year. And no other entity the state deals with—federal, county, municipal or business—uses the biennial format. Scrap it, except for capital investment.¹

In Oregon, plans for the state's first annual session in 2011 included a plan to revise its biennial budget during the Legislative Assembly's second annual session in 2012. The budget chairs wrote:

We are using the tool of the February session in 2012 that the voters have provided for us by setting out what comes down to a hybrid—a two-year budget with a plan for significant revision, if required, in year two. By holding back \$310 million in a supplemental ending balance from the second year funding levels, we maintain the flexibility needed to address

another financial downturn should it occur between June 30 of this year and the start of the February 2012 session. If revenue is stable or up, the supplemental ending balance can be returned to the funding levels for year two of the budget, with flexibility to adjust if needed to address specific needs. If revenue is down, the supplemental ending balance will serve as a financial reserve to provide stability to the state's programs and services.²

The Oregon leaders' concern for the accuracy of their state's revenue forecasts is not unusual. Speaker Robbie Wills of Arkansas attributed his state's change to annual budgeting in 2009 partly to the difficulties of forecasting revenues as far in advance as biennial budgeting requires. Speaker Wills noted the special problems term-limited legislators encountered with biennial legislative sessions and budgets: inadequate opportunity to familiarize themselves with the budget and the process.³

Changes have not all been in one direction, however. A few states have moved from annual to biennial budgeting over the past 20 years or have changed back and forth, because of partisan politics, uncertainty as to which worked better, or both. Connecticut returned to biennial budgeting in 1991, reversing the decision lawmakers made to adopt annual budgeting when the state began annual legislative sessions in 1971. Arizona made a gradual transition from annual to biennial budgeting in the 1990s, and completed the process with the enactment of a biennial budget in 1999. Then, in 2002, it shifted to a bifurcated system under which larger agencies receive annual budgets while biennial budgeting continues for smaller agencies. Kansas uses a similar system. All changes are listed in Appendix 1.

Biennial budgeting states generally enact separate budgets for two fiscal years at once. True biennial budgeting—enacting a single two-year budget—is rare, although still practiced in North Dakota and Wyoming (table 1). North Dakota has biennial sessions as well. Although the Wyoming legislature meets annually, in the non-budget year its session is scheduled for only 20 days. Oregon also has enacted a consolidated biennial budget in the recent past, but the co-chairs' proposal for the 2011-2013 biennium breaks out proposed appropriations for the two fiscal years separately.⁴

Table 1 classifies states according to their budget schedules. It includes Arizona and Kansas as annual budget states based on the preponderance of their budget.

TABLE 1. ANNUAL AND BIENNIAL BUDGETING STATES
 (Boldface indicates the 10 most populous states in 2010.)

ANNUAL SESSION ANNUAL BUDGET (31 states)	ANNUAL SESSION BIENNIAL BUDGET (15 states)	BIENNIAL SESSION BIENNIAL BUDGET (4 states)
Arizona+ Alabama Alaska Arkansas California Colorado 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 West Virginia	Connecticut Hawaii Indiana Kentucky Maine Minnesota Nebraska New Hampshire North Carolina Ohio Oregon Virginia Washington Wisconsin Wyoming*	Montana Nevada North Dakota* Texas

*Biennial budget states that enact a consolidated two-year budget. Other biennial budget states enact two annual budgets at one time.

+Annual budget states where smaller agencies receive biennial budgets.

As Table 1 indicates, biennial budgets are more likely to be found in the less populous states, as are biennial legislatures. Among the 10 largest states—whether measured by population or by legislative appropriations—only Ohio and Texas use biennial budgets, and only Texas has regular biennial sessions of the legislature.

These are the other questions this report examines:

1. Are there significant differences in budget practices between states with annual and biennial budgets?
2. What are the advantages and disadvantages of a biennial budget?
3. Does a biennial budget improve planning and make budgets more predictable?
4. Do biennial budgets require revisions more frequently than annual budgets?
5. Do biennial budget states spend more money than annual budget states?

1. Are there significant differences in budget practices between states with annual and biennial budgets?

State budgeting practices vary widely for reasons of politics and history, making it difficult to identify one reason for the differences. Biennial and annual budgets, however, do not appear to be the cause of significant differences in budgeting practices.

There does not appear to be any consistent relationship between state budget and legislative cycles and governors' powers to cut budgets or transfer funds among agencies or programs. A governor's power to reduce budgets or make transfers varies greatly from state to state, but it does not appear to be related to the kind of budgets or legislative sessions in the state.

Governors in some states with annual legislatures and budgets have remarkably broad administrative authority over the budget. Governors in Iowa, Indiana, South Carolina and South Dakota have unlimited power to transfer funds among state agencies. Governors in 10 of the states with annual legislative sessions may reduce budgets by unlimited amounts to cope with revenue shortfalls. Governors in only five of the 19 states with biennial budgets have as much power to reduce spending. Thus the budget cycle in itself does not appear to create nor prevent a need for strong executive budget review authority.⁵

2. What are the advantages and disadvantages of a biennial budget cycle?

There is little evidence of clear advantages of either an annual or biennial state budget. In 1972, the Council of State Governments (CSG) examined a number of states that had recently adopted annual budgets for the first time. No clear findings emerged, and the study concluded that:

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.⁶

Analysts at Texas A&M University reviewed the CSG study in the course of their own examination of annual and biennial budgeting in 1984, and came to the same conclusions:

The arguments used to justify and refute both annual and biennial budgets remain essentially unchanged [since 1972]—and unproven. The success of a budget cycle seems to depend on the commitment of state officials to good implementation rather than on the method itself.⁷

Proponents of biennial budgeting cite the major advantages to be cost and time savings. They argue that biennial budgeting is more conducive to long-term planning and allows more time for program review and evaluation than annual budgeting.

Biennial budgeting may reduce executive branch costs (in terms of staff time and salaries) of preparing budgets, since the process is more consolidated than annual budgeting. State experience appears to bear this out, according to the studies cited above. Annual budgets create greater pressures on all budget staff and policymakers than biennial budgets, since closing the previous year's budget, administering the new year's budget and beginning to plan the following year's budget occur almost simultaneously.

In terms of the time a legislature spends on budgeting, nonetheless, the evidence is inconclusive. As reported earlier, biennial budget states tend to return to their budgets in the second year of a biennial session, and not necessarily because of difficult budget conditions. The Washington State Office of Financial Management has observed that "Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget."⁸ The experience of Connecticut, discussed below, suggests it is difficult for legislators to refrain from acting as though they had an annual budget even after they have made a formal change to a biennial budget.

In 2000, NCSL asked legislative fiscal staff in the 13 biennial budget states with annual sessions "Does the legislature spend a smaller proportion of its time on budget issues in the non-budget session than the budget session?" Eleven states responded. Five said that the legislature spent proportionately less time on the budget and five that it spent about the same amount of time. North Carolina staff reported that the legislature spent proportionately more time on the budget in its short session, due to the brevity of the session—three months—and the restrictions on carry-over and new bills.

Respondents noted, however, that the proportion of time spent on the budget in the non-budget sessions varied greatly from year to year. A budget deficit, a substantial revenue surplus or policy issues with significant fiscal implications can cause a legislature to devote a large amount of time to budget issues. The Ohio respondent said, for example, that in a "normal" session, the legislature spends two weeks on budget amendments and corrections in the non-budget year. In the preceding two bienniums, however, fiscal issues surrounding education finance, tobacco settlement revenues and electric utility deregulation had occupied the entire non-budget sessions.

Long-term planning. Evidence from states that have changed from annual to biennial budgeting over the past 40 years fails to show that biennial budgeting is particularly productive for long-term planning. The CSG study in 1972 produced such conflicting evidence that it could neither confirm nor reject the idea. The Texas A&M study of 1984 was also inconclusive on the point, as was the study done by the U.S. General Accounting Office in 1987.⁹ Analysts in Connecticut, however,

emphasized that the governor and legislature greatly improved their long-term budget forecasting and analysis after the state adopted a biennial budget in 1991.

Program Review and Evaluation. A strong argument for biennial budgeting is that it can provide time for administrators and legislators to focus on the results of their decisions and not just the process of budgeting. This was one of the principal arguments that led Connecticut to return to biennial budgeting in 1991. Proponents contended that, "The present system (of annual budgeting) does not allow enough time to review expenditures in depth. Those preparing the budget finish one year and then immediately plunge into the next year's budget."¹⁰ The biennial cycle was intended to focus on making major programmatic and budget decisions in the first year, and to devote the second year to in-depth evaluation of agency programs.

A Connecticut legislative committee that reviewed the biennial budget process in 2003 reported it had not met expectations. "Beginning with the first biennium," the committee observed, "the governor and legislature have proposed new and expanded programs along with significant policy changes in each year of the cycle. As a result, second-year adjustments and revisions are often extensive. There is also no evidence legislators or state agencies give greater attention to program outcomes and performance measures in the second year of the cycle." It recommended, nonetheless, that biennial budgeting be retained to bring a perspective of more than one year to the process and to allow for greater performance evaluation.¹¹

In 2000, NCSL asked legislative fiscal analysts in biennial budget states, "Does the legislature increase its oversight or evaluation of agencies in the non-budget year?" Staff in two states reported that the legislature did increase its oversight activities in the non-budget year. Staff in nine states, however, reported that was not the case. Although intuitively it seems likely that biennial budgeting encourages legislative performance evaluation, the evidence is very weak.

3. Does a biennial budget improve planning and make budgets more predictable?

Planning a biennial budget requires a 30-month revenue forecast, compared with 18 months for an annual budget. As Speaker Wills of Arkansas commented, the difference is significant. A 2011 analysis of the accuracy of state revenue estimates from 1987 through 2009 indicates that the average error of estimate for biennial states was 2.18 percent, more than twice the 1.04 percent average for annual budgeting states. The volatility of state revenue sources was the prime cause of miscalculations.¹² Such averages do not mean that revenue forecasts in biennial states are always less accurate than those in annual budget states. Some biennial states have a more accurate forecasting record than some annual states. Overall, though, the statistics suggest the greater difficulty of forecasting revenues accurately in biennial budget states.

Biennial budgeting requires a longer commitment of policy direction and funding than does annual budgeting. It also means that agency personnel may have to spend less time in budget planning and presentations than under a system of annual budgeting. Does this mean more predictability and certainty of planning for them and for legislative committees? The answer is generally yes, but the difference may in fact be small.

State governments tend to budget incrementally, beginning with the current level of expenditures and dividing up any additional resources in proportion to previous program budgets. Unless there is significant economic change, state budgets rarely impose dramatic changes in agency budgets. Sixty percent to 70 percent of most states' general fund appropriations goes to programs not susceptible to sweeping changes in funding or design: elementary, secondary and higher education; corrections; and Medicaid and other entitlement programs. Regardless of the budget cycle, continuity is built in to state budgets.

Even so, economic cycles can disrupt budgets. Seventy percent of state tax revenue comes from sales and income taxes, which are very sensitive to the health of the economy. The recessions of 2000 and 2007-2009 and the slow recovery from the last recession seriously distorted state budgets regardless of the length of their budget cycles. Budget cycles cannot insulate states from external factors such as the condition of the economy.

4. Do biennial budgets require revisions more frequently than annual budgets?

Revisions in enacted budgets, often called supplemental appropriations, declined after a state shifted from biennial to annual budgeting, according to the CSG and Texas A&M studies. But in recent years, supplemental appropriations have been necessary in many states, not just those with biennial budgets, because of fluctuating revenues and cost overruns in state programs.

During the past 20 years, many state budgets have been hit by revenue shortfalls and expenditure overruns. The former tended to occur in the three largest state tax sources—general sales taxes, personal income taxes, and corporate income taxes—in which a small error in the estimate can create a significant effect in dollars. Expenditure overruns have frequently occurred in Medicaid and other social service programs, as well as other programs.

Annual legislative sessions allow for timely responses to such issues and ensure that requests for supplemental appropriations will be reviewed in the context of the entire state budget, which is true regardless of the budget cycle. Legislatures with biennial sessions might have to be called into special session to revise the budget.

NCSL's statistics on the number of legislative special sessions, however, indicate that states with biennial legislative sessions have fewer special sessions than all states, on average. Of the six legislatures that have or until recently had biennial sessions—Arkansas, Montana, Nevada, North Dakota, Oregon and Texas—only Texas had more special sessions than the national average from 1981 through 2010. Texas's special sessions have generally been for non-budgetary reasons, since the governor and Legislative Budget Board have extensive powers of revision over enacted budgets. There is no evidence that biennial budgets are particularly conducive to calls for special sessions.¹³

The extent to which budgets are actually revised during the second year of a biennium varies from state to state and from time to time, largely depending on economic and fiscal conditions. Connecticut's experiences revising and adjusting the budget to account for new programs have been about as time-consuming as enacting the full budget. Ohio's experience has been the opposite: Except for the regularly scheduled enactment of a capital budget in the off-year, the biennial budget usually receives a few adjustments that can be dealt with expeditiously.

5. *Do biennial budget states spend more money than annual budget states?*

The possibility that biennial budgeting results in smaller state budgets than annual budgeting was raised and rejected in NCSL's first study of annual and biennial budgeting.¹⁴ Since then, one researcher, Paula Kearns, found a statistical association between higher state per capita spending and annual budgeting. Kearns was careful to note that she found only a correlation and not a cause and effect relationship between the two. Also, her measure of state spending omitted state subsidies to local governments, for no stated reason. Since those subsidies constitute, on average, more than 30 percent of state spending, their inclusion could have changed the results. Kearns's research also did not correct for the fact that some states are responsible for a much greater share of total state and local government expenditures than other states. For those reasons, her findings do not settle the question whether one budget cycle or another affects the overall level of state spending.¹⁵

CONCLUSION

There is little evidence that either annual or biennial state budgets hold clear advantages over the other. The evidence is inconclusive on the question whether biennial budgeting is more conducive to long-term planning than annual budgeting, although some evidence indicates that biennial budgeting is more favorable to program review and evaluation. Biennial budgeting is likely to reduce budgeting costs somewhat for executive agencies, but it also is likely to reduce legislators' familiarity with budgets. States with biennial budgets and biennial legislative sessions do not appear to give greater authority over budget revision to governors than other states. Forecasting is likely to prove more accurate in annual budget states than in biennial budget states, possibly reducing the need for supplemental appropriations and special legislative sessions. This study has found no convincing evidence that the length of the budget cycle, in itself, determines how efficiently a state enacts a budget and whether it requires extensive change during the course of its administration.

APPENDIX 1. STATES THAT HAVE CHANGED THEIR BUDGET CYCLES SINCE 1968

FROM BIENNIAL TO ANNUAL APPROPRIATIONS

Alabama – 1975
Arkansas -- 2010
Florida -- 1971
Georgia – 1974
Idaho – 1972
Iowa -- 1983
Illinois – 1970
Kentucky -- 2001
Mississippi -- 1971
Missouri – 1972
Oklahoma -- 1968
Tennessee – 1970
Utah -- 1969
Vermont – 1978 .

FROM ANNUAL TO BIENNIAL APPROPRIATIONS

Arizona – 1999
Hawaii – 1968
Nebraska -- 1987

FROM BIENNIAL TO ANNUAL TO BIENNIAL

Connecticut – to annual in 1971, to biennial in 1991.
Indiana – to annual in 1975, to biennial in 1978
Nebraska – to annual in 1972, to biennial in 1987
North Carolina – to annual in 1973, to biennial in 1975

FROM BIENNIAL TO ANNUAL TO BIENNIAL TO ANNUAL

Iowa – to annual in 1975, to biennial in 1979, to annual in 1983

Sources: NCSL surveys of legislative fiscal officers, 1987, 1994; 2008; GAO, 1987.

NOTES:

¹ Douglas Rooks, "Fixing the State's Budget Process, Brunswick, Maine, *Times-Record*, Aug. 19, 2010.

² Oregon Legislative Assembly, Joint Committee on Ways and Means, *Oregon's 2011-13 Co-Chairs' Budget*, March 29, 2011; http://www.leg.state.or.us/comm/lfo/2011_13CoChairBudget.pdf.

³ Speaker Robbie Wills, Arkansas House of Representatives, interview with author, April 23, 2009.

⁴ *Oregon's 2011-13 Co-Chairs' Budget*.

⁵ See, for example, NCSL, "Executive Authority to Cut the Enacted Budget" (September 2008) at <http://www.ncsl.org/default.aspx?tabid=12589>; NCSL, "Legislative Role in Cutting the Enacted Budget" (August 2008) at <http://www.ncsl.org/default.aspx?tabid=12524>; and National Association of State Budget Officers, *Budget Processes in the States: 2008* (Washington, D.C.: NASBO, 2008); <http://www.nasbo.org/Publications/BudgetProcessintheStates/tabid/80/Default.aspx>.

⁶ Council of State Governments, *Annual or Biennial Budgets?* (Lexington, Ky.: CSG., 1972), 23.

⁷ Public Affairs Research Council of Louisiana, "Results of PAR Survey on Annual vs. Biennial State Budgeting" (Baton Rouge, La.: PARCL, 1982).

⁸ Office of Financial Management, *Washington State Budget Process* (Olympia, Wash.: Office of Financial Management, July 2009), 1.

⁹ Charles W. Wiggins and Keith E. Hamm, "Annual Versus Biennial Budgeting?" Public Policy Paper No. 7 (Austin, Texas: Public Policy Resources Laboratory, Texas A&M University, 1984), III-15; U.S. General Accounting Office, *Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting* (Washington, D.C.: U.S. GAO, 1987).

¹⁰ [Connecticut] Commission to Study the Management of State Government, *Final Implementation Report* (Hartford, Conn.: CSCMG, 1991).

¹¹ Connecticut General Assembly, Legislative Program Review and Investigations Committee, *Connecticut Budget Process: Findings and Recommendations* (Hartford, Conn.: Conn. General Assembly, December 9, 2003).

¹² The median errors of estimate showed a similar but smaller difference: 2.06 percent for biennial states and 1.4 percent for annual budget states. These errors of estimate were calculated separately for the 20 states that had biennial budgets and the 30 that had annual budgets from 1987 to 2009. Arizona and Kansas were counted as annual budget states. The data on which the calculations are based appear in Pew Center on the States and Rockefeller Institute of Government, *States' Revenue Estimating: Cracks in the Crystal Ball* (Washington, D.C.: Pew Center on the States, March, 2011), 41, Appendix B.

¹³ Brenda Erickson, NCSL Legislative Management Program, provided the statistics summarized in this paragraph.

¹⁴ Barbara Yondorf, "Annual versus Biennial Budgeting: The Arguments, the Evidence: A Presentation to the Wisconsin Assembly Ways and Means Committee, Jan. 26, 1987," (Denver, Colo.: National Conference of State Legislatures, 1987).

¹⁵ Paula S. Kearns, "The Determinants of State Budget Periodicity: An Empirical Analysis," *Public Budgeting and Finance*, 13, no. 1 (March 1993): 40-58.

SB 141

An Act relating to a biennial budget and to salary
and per diem for members of the legislature and the
governor...

Presentation to Senate State Affairs Committee

February 13, 2018



THE STATE
of **ALASKA**

Office of Management and Budget
www.omb.alaska.gov

“I am filing legislation that would move us to a more efficient, effective biennial budget process...

It also would mandate that if the governor does not produce the next fiscal year's budget by the statutory deadline of December 15, the governor's pay stops. If the legislature doesn't pass a budget by the 90th day of the legislative session, their pay stops.”

- *Governor Bill Walker, 2018 State of the State*



Biennial Budget Proposal

- Section 17 (legislator responsibilities) and 18 (governor responsibilities).
- As drafted, two single year appropriations measures adopted the first session of each legislature would apply to each of the operating, mental health and capital budgets.
- Second legislative session would be focused on non-budget matters, but will include an interim appropriation bill or bills authorizing unanticipated operating and capital expenditures for the second year of the biennium.

Biennial Budget: The Benefits

- Longer planning horizon
- Greater funding predictability for the **general public**, state and local service providers—school districts; marine highways; fish and game, etc.
- Shift allocation of **state agency** energy from budget development and presentation to improvements to program efficiency and effectiveness to better serve the public.
- For the **legislature**, it provides more time for oversight activities and policy priorities.

• *Paraphrased from a letter in support of biennial budgeting from Timothy S. Keen, OMB Director, State of Ohio*



21 of 50 states use biennial budgeting

Connecticut
Hawaii
Indiana
Kentucky
Maine
Minnesota
Montana
Nebraska
Nevada

New Hampshire
North Carolina
North Dakota
Ohio
Oregon
Texas
Virginia
Washington
Wisconsin
Wyoming

Mixed

Arizona (16 annual budgets)
Kansas (biennial for 10 years)

In the same report:

44 states enacted biennial budgets in 1940. Only 19 do now.

Source: NCSL Report, April 2011



THE STATE
of **ALASKA**

Consequences for missing budget deadlines.....



Appropriations Deadlines Proposal

- Sections 6 and 7 (Legislature) and 20 (Governor)
 - Require the Legislature pass a budget by the deadline set by the Alaska public in 2006—the 90th day of a session.
 - The consequence for not doing so: beginning on day 91 of the legislative session, legislators would forfeit per diem and their salaries would be withheld until a budget is passed.
 - The Governor’s salary and per diem would be withheld for as long as he or she is late in submitting the budget bill to the Legislature and the public after the December 15 statutory deadline.



Recent Alaska History Budget Bills

Year	Deadline (90 th Day)	Operating Budget Passage Date	Difference	Capital Budget Passage Date	Difference
2017	4/16/2017	6/22/2017	67	7/27/2017	103
2016	4/17/2016	5/31/2016	44	5/31/2016	44
2015	4/19/2015	4/27/2015	8	4/27/2015	8
2014	4/20/2014	4/20/2014	0	4/25/2014	5
2013	4/14/2013	4/14/2013	0	4/14/2013	0
2012	4/15/2012	4/15/2012	0	4/15/2012	0
2011	4/17/2011	5/6/2011	19	5/14/2011	27

Source: BASIS



California Example

- State of California Proposition 25, passed in 2008.
 - Constitutional amendment requiring its legislature to pass a budget on time or forfeit pay for each day the budget is delayed.
 - From 1980 to 2010, a thirty-year period, twenty-five budgets passed late. In 2008, the budget was 100 days late.
 - In 2011, the first year under Proposition 25, after legislator pay was cut off, the budget was passed 12 days late.
 - Since 2012, the California legislature has passed the budget on time each year.

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version:	SB 141
Fiscal Note Number:	1
(S) Publish Date:	1/16/2018

Identifier: 0774-GOV-OMB-1-11-18
 Title: BIENNIAL BUDGET
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

Department: Various (for Fiscal Notes only)
 Appropriation: Various
 Allocation: Executive Branch
 OMB Component Number: 0

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2019 Request	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed? n/a

Why this fiscal note differs from previous version/comments:

Initial version.

Prepared By:	Caroline Schultz, Policy Analyst	Phone:	(907)465-4663
Division:	Office of Management and Budget	Date:	01/11/2018 12:00 AM
Approved By:	Pat Pitney, Director	Date:	01/11/18
Agency:	Office of Management and Budget		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

Analysis

This legislation changes Alaska's budget process from annual to biennial. While no immediate or direct savings are projected as a result of this legislation, it is anticipated that state agency efficiencies will occur through the implementation of biennial budgeting, allowing agencies to focus scarce staff resources on prudent financial management and long-range planning.