

Editor's Notes: 1) "Why," someone might ask, "are you including an article on biennial budgeting in Budget Suggestions for 2014 when 2014 is an even-numbered year? I thought cities could only begin a biennial budget in odd-numbered years." That is true, but an ordinance to start a biennial budget in 2015 must be passed no later than June 30, 2014. And, Budget Suggestions for 2015 will not be published until July 2014. In addition, we did a survey of cities and counties that currently do biennial budgets and one common "tip" was to "start planning early." So, this article is just to remind you that if you are thinking of doing a biennial budget for the 2015-2016 biennium, planning should probably begin in January 2014. We plan on having a webinar on biennial budgeting in January, so that will serve as a reminder.

2) And, on the topic of the survey. I'll be including comments about things I learned from the survey in the text of the article below. My comments are in italics. I got so many terrific comments and tips that I can't pass them all along within the context of the article. I will be asking those who answered my questions for permission to publish their answers. I hope to post them on our biennial budget webpage, www.mrsc.org/subjects/finance/budgets/biennial.aspx, sometime in September.

Biennial Budgets in Washington's Cities and Counties – Revisited¹

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with comments by Judy Cox, Public Finance Consultant, MRSC

Budgeting for a two-year biennium has been permitted for Washington cities since 1985 and for counties since 1995. This article discusses the various experiences of those cities and counties that have switched to a biennial budget and draws some conclusions about the usefulness of such an approach.

Approximately 46 cities and six counties have worked with some form of biennial budget since the legislature created this alternative. While the law generally describes how biennial budgets can be structured, we found there are a variety of approaches being used. Of the 46 cities that have used the multi-year approach, ten have reverted back to a traditional one-year budget and two went back to an annual budget and then switched to a biennial budget again. One county has returned to an annual budget.

Legislative Authority

In 1985, the Washington State Legislature adopted the Municipal Biennial Budget Act, permitting all cities in Washington State to establish a biennial, or a two-year, budget. The legislature granted

¹This article is a revision of one Mike Bailey wrote for Budget Suggestions for 2004.

²These numbers include Bainbridge Island and Seattle, which adopt annual budgets with "endorsed" budgets for the second year, and King County, which started using a biennial budget for some departments in 2013-2014 and plans to switch the remaining departments to a biennial budget in 2015-2016.

the same authority to counties in 1995. The law permits cities and counties to adopt a two-year appropriation. An appropriation represents a local government's legal authority to expend funds. Traditionally, the appropriations have been for one-year terms. Biennial budgets have extended this legal authority so that a city or county legislative body may approve an appropriation, or budget, for a full two-year term without subsequent action (note, however, that a "mid-biennium review" is required and could be considered a subsequent action).

Cities are required to make the decision to use a biennial budget by ordinance. The legislative authority for cities is found under ch. 35.34 RCW (or ch. 35A.34 RCW for code cities). This ordinance must be passed at least six months before the beginning of the biennium, and a biennium must start on an odd numbered year. For instance, to begin using a biennial budget for 2015/2016, a city council must adopt an ordinance choosing to use a biennial budget by June 30, 2014. Once a city is using a biennial budget, it can revert back to an annual budget, by ordinance, at the end of a biennium.

Counties find the authority for biennial budgets in RCW 36.40.250. They have more flexibility in choosing when to start their first biennium and when the ordinance or resolution providing for a biennial budget must be adopted.

Reasons for Using a Biennial Budget

Saves Time. The most common reason we hear for using a twenty-four-month appropriation is to consolidate the amount of effort invested in the budget development and approval process. This is true for the finance staff and the department staff preparing the budget materials, and for the council, which reviews the materials and eventually adopts a budget.

While it is agreed that it takes more effort and time to prepare a twenty-four-month budget than a traditional twelve month budget, it does not take significantly more time. As a result, over the two-year period, there is a substantial time savings. While this benefit may be obvious as it relates to the staff, the council will also realize a significant time savings that can be invested in other matters.

In our case (Redmond), we invest this time savings in other budget-related matters, such as strategic planning, special project analysis, and performance measurement. Many local government best practices are difficult to implement due to time constraints, and a good example is improved performance management. The significant amount of time devoted to each annual budget can make it difficult to invest adequate time in these other topics, including the performance management aspects of our budget systems. This realization is what specifically led to the recommendation to the Lynnwood city council (when I was working for that city) that it adopt a biennial budget process. In the first biennium, the success of this strategy was already apparent. It enabled staff to refine strategic plans in the "off-budget year" (that is the year during which you would typically be doing an annual budget, but don't need to because of the biennial budget). The council was also able to devote time to review and use the plans more effectively in directing city resources over future years.

In Redmond, we have been able to use the "off-budget year" to develop a Long Range Financial Strategy, conduct studies (such as on our fleet operation, development fees, indirect cost allocation, and others), and work on improving performance management. In addition, Redmond

uses a time-intensive “Budgeting for Outcomes” (BFO) budget model. This approach takes almost a full year to complete. The biennial budget provides us an opportunity to use the BFO approach and not be constantly budgeting. We also use the off-budget year to assess the lessons learned in our prior BFO process and make improvements each cycle.

Almost every entity noted the time savings of a biennial budget. And, they had a multitude of different ways to use the freed-up time. Not having to produce a budget document in the “off” year was mentioned as a big plus by many entities. One city pointed out the extra time provides flexibility to make adjustments in workload when delays occur or something comes up that needs to be dealt with.

Longer Perspective. Another advantage for the use of a biennial budget is the longer perspective it gives the organization in its budgetary planning. Multi-year financial planning has been a recommended practice for a long time (see “Government Finance Officers Association Recommended Budget Practices”) . Some cities and counties use these “financial plans” to guide the. for formal budgeting that occurs each year. These financial plans do not have the form of an appropriation in an ordinance, so while they help provide focus, they do not take the place of the budget itself. A biennial budget extends the planning horizon of the legal budget appropriation. A budget is an inexact estimate of revenues and authorization of permitted expenditures. The longer view emphasizes the planning aspect of budgeting and this can be good, but it can also introduce difficulties to the process related to forecasting (discussed below).

A city administrator used a vivid analogy to emphasize the benefits of a longer perspective: “It forces us to think longer term and take longer term actions. In an environment of diminishing resources, it is fairly easy to kick the can down the road and save the tough budget-balancing decisions for the next year. With a biennial budget, it is harder to do that. If you are going to kick the can, you have to kick it harder and further.”

And a finance director almost waxed poetic: [A biennial budget] shifts the eyes of the organization up to look out two years rather than just one year ahead....[H]elpful in extending the financial vision for an organization (a six-year forecast now becomes three biennial budgets)

Another finance director finds a biennial budget to be “more transparent on full program costs” when a new program may only incur some of the costs in the first year.

Potential Improvement in Policy View. A variation on the “Longer Perspective” argument is the substantial time available to the policy makers to strategically address financial issues. When budgeting every year, the focus is on how to balance each budget rather than on overall strategic planning. Finding the time to think strategically is not the normal course of business and is often difficult. The biennium helps create this time and focus attention on future biennia, rather than just finding a way to balance revenues and expenditures.

³“Long-Term Financial Planning,” GFOA Best Practice, 2008<http://www.gfoa.org/downloads/LongtermFinancialPlanningFINAL.pdf>.

The off-budget year allows the council to invest time on strategic issues. For example, I've already mentioned the Long Range Finance Strategy developed in Redmond: Redmond has also developed a Capital Investment Strategy (CIS) in the off-budget year. This tool extends the capital facilities plan out to the planning horizon used in the Comprehensive Plan. The CIS looks out twenty years into the future and assesses the capital investments needed to provide the infrastructure that supports our land-use plans.

Like Redmond, many of the entities spend their extra time the second year developing new policies or fine-tuning existing ones. One city mentioned that the biennial budget helps with contract negotiations – they have put all their contracts, including labor, on the same cycle.

Political Implications. Currently, an annual budget means that every other budget is developed in the context of local elections for many of the policy makers. By design, the city biennial budget is considered in non- election years, as the biennium must be started in odd-numbered years. Counties can also choose this timing as well. Even if politics do not complicate the budget decision making, the elections take a significant amount of a policy maker's time and attention.

Reasons Against Using a Biennial Budget

Some cities (12 by our count) and one county have tried biennial budgets and reverted back to annual budgets. (Two of those 12 cities have subsequently returned to biennial budgets.) Their reasons coincide with those we have heard arguing against using a biennial budget.

Loss of Control. One of the concerns expressed was a loss of control over budgeted expenditures. While we are not aware of examples of serious budget problems attributed to the use of a biennial budget, loss of control was identified as a problem significant enough to lead some cities to revert back to an annual budget. In one of these situations, the city council felt it lacked adequate control over the budget and initiated the return to an annual budget.

Two respondents reported that the "council feels as if it is losing something." One person emphasized that the staff and administration need the council's trust. Another said he reminded the council that the city could always go back to an annual budget if it wanted to; this reassured them.

Providing enough time for deliberations so the council does not feel pressured was another suggestion for raising the council's comfort level. "Let there be as many meetings as required. Don't rush the Council. If time runs out before the agenda is complete, move it to the next meeting. We schedule all the meetings up front and add an additional meeting or two in the event we need it. Therefore, the worst case would be not having to meet."

A number of cities commented that their councils liked having the extra time to work on non-budget issues; that the council thought a biennial budget provided a better use of the city resources than an annual one.

⁴A copy of the report, "Redmond's Financial Strategy: A six-year long-range financial strategy," Revision No. 1, Adopted November 15, 2011, can be found at www.mrsc.org/govdocs/r42lfrs.pdf.

Change in Leadership. In a few examples, a new finance director or new city manager did not want to use a biennial budget. The reasons stated were concern over the extended term of the forecasts and the potential for changes in economic conditions. This is more likely in situations where someone new to the city is faced with making these important recommendations.

Difficulty in Forecasting. Another reason cited against the use of biennial budgets is the difficulty in forecasting revenues and variable expenditures. Two-year budgets require all the estimates and forecasts, which were already difficult enough to do for twelve months, now be done for a twenty-four-month period. Forecasting sales taxes, medical benefit costs, changes in pay for staff, and many other variables in a budget can be tricky. It is more than twice as tricky for twice the period of time. Changes in the economy, in state and local laws, and other changes may further complicate the ability to develop accurate estimates for budget development.

I asked a few cities whether the anticipated time savings from a biennial budget were taken up by trying to balance the budget during the recession. One city said they began talking about reductions right after adopting the 2009-2010 budget, and it seemed as if it was "all budget, all the time" during that biennium. I suspect that I would have received more answers like this one if I had asked a specific question rather than simply saying "What do you like least about a biennial budget?" Another respondent commented on the cumulative effect in the second year of receiving revenues lower than forecast in the first year. He also pointed out that "budget deficits tend to be larger in scale when looking at a two-year period and therefore are inherently more difficult to resolve, although the reality in some cases is that you do have a longer period of time to address the deficit."

Some cities, which in "normal times" allowed their department heads to have lots of flexibility in spending their budget (see below), noted that during the recession they watched first year expenditures more closely and warned their departments that funds remaining from year 1 would only be available to them for year 2 expenditures with the approval of the finance director. Of course, in some cities, year 1 under expenditures are never available to the departments, even in "good" years.

Not realizing the anticipated time savings due to an extensive mid-biennium process. I've heard an entity that tried a biennial budget and then reverted back to an annual budget (and since then reverted back again to a biennial budget) explain that they just didn't see the anticipated time savings during the off-budget year. This was true as a result of either the staff (but usually the city council) wanting the process to include virtually all the normal steps of a traditional budget process. The concern was that the extra effort to do a biennial budget did not result in any efficiencies in the off-budget year – so why do it!

This does point out a tip that I provide those who have asked me about moving to a biennial budget. If you plan to make the change, it will require discipline to manage the mid-biennium budget review (described below) to be a tune-up of the budget. Those that let the review process become another budgeting free-for-all will soon find any time savings erode into this process.

What to do during the mid-biennial review period appears to be a learning process. A number of cities mentioned this as an issue. One said "...we have moved from being pretty nit-picky about the mid-biennial adjustments to line items and are now more focused on the big picture..."

Software problems: Mike did not mention this, but some of the survey respondents did. "The biggest challenge of biennial budgeting is software limitations," said one. Perhaps they need to contact Walla Walla, which responded, "Our financial software has a budgeting module that works well with biennial budgets."

Forms of Biennial Budgets

The concept of a two-year appropriation is pretty straightforward and is just like it sounds. Rather than a twelve-month window during which the appropriated funds can be legally committed to accomplish the purpose of the government, a biennium provides for a twenty-four-month window. However, while a true biennial budget simply doubles the length of time for which the budget is effective, many cities and counties have adopted variations of this theme.

The reasons why governments choose to use a biennium, and some of the arguments against such a choice, help describe some of the various forms of biennial budgets that we see in use today. The two-year budget is touted as an opportunity to widen the budget-planning horizon and allow more long-term thinking to be a part of the financial planning that the budget represents. This is one of the most common reasons we hear for the use of a biennial budget. On the other hand, we do not hear governments choosing this approach because of the greater latitude it provides staff to spend their appropriation over the course of the twenty-four months.

Some of the concerns about using a biennial approach are that staff may not discipline themselves adequately and may spend more of the budget than they should too early in the biennium. As a result, a number of cities and counties choose to restrict access to the second year of the biennium. This restriction is often implemented through the actual ordinance or resolution adopting the biennial budget itself. In other cases, there is no real limitation, but all the reports and budget analyses are done for each separate year.

Seattle and Bainbridge Island, for example, appropriate funds for only the first year and display numbers for the second year in their budgets as "endorsed."

Nine cities (of the other 34 that we know adopt biennial budgets) and two of the four counties adopt two, one-year budgets in their ordinances or resolutions.

The remaining 25 cities and two counties use a two-year appropriation in their budget ordinances (or resolutions). However, they do not all display this information in their published budgets in the same fashion or really allow expenditures to take place in the manner implied.

For example, as far as I can tell from the survey responses,⁵ 10 of these cities (and one county) do not limit how much their departments can spend in either year of the biennium.⁶ Eight of the cities and the county show the expenditures in their budget documents for the two years together, in a single column. The other two cities display the expenditures in separate columns for the two years

⁵Two cities did not respond to the survey.

⁶An exception was during the recession when some said they did tell departments to hold back on their year 1 expenditures. Then they either captured the savings at the end of the first year to cover revenue shortfalls or told the department heads that they needed finance director or city manager approval to spend them.

of the biennium. Four cities and one county appear to be quite firm in restricting expenditures to those planned or allocated for years 1 and 2. They make no mention of possible exceptions.

If you think of each of these two groups as being at opposite ends of a spectrum, then two of the remaining cities appear to be closer to the more flexible end and seven to the more “firm.” However, these seven all expressed some willingness to work with a department that wanted to spend more than the planned amount for year 1. And, one even allows carryovers from year 1 (not because the finance director favors it, but because the council does.)

So, there are lots of different ways to do biennial budgets—from adopting only the first year and endorsing the second to adopting two annual budgets to adopting a biennial amount and then setting up the “spending rules” in a number of different ways. Cities and counties in different financial situations, in different parts of the state, and with differing philosophies about budgeting should all be able to find some version that works for them.

A chart of the cities and counties that use biennial budgets (at least as best we can tell) may be found at the end of this article. Some of the unique characteristics of the individual approaches are listed as well.

Requirements for a Biennial Budget

As previously discussed, an ordinance (or resolution for counties) must be adopted that opts for a biennial budget process. In the case of cities, the biennium must start on an odd-numbered year (2015 would be the next opportunity). The ordinance to use a biennial budget must be adopted at least six months prior to the start of the biennium (again this applies to cities only).

The requirement for cities spells out the steps for developing a biennial budget, while the county statute refers to the annual budget process for guidance. Actually, the required steps for an annual budget development and a biennial budget are very similar. One distinction is the requirement in RCW 35A.34.130 for a “mid-biennium review and modification.” This review and modification is to start no sooner than September 1 and be completed by the end of the year. The purpose of the review and modification is essentially to tune up the budget for any needed refinements (or make larger changes, if needed). This review and modification process requires public hearings. If any modifications to the budget are recommended. As in many of the other provisions related to biennial budgets, the requirements for the mid-biennium review and modification are spelled out in detail for cities and very generally for counties.

As previously indicated, the decision to revert to an annual budget must be made by ordinance and can be effective only at the end of a biennium.

More on Personal Experiences

Implementing a biennial budget was, in many respects, not overly difficult. I would say the biggest difficulty we had was focusing on the full twenty-four-month period during budget deliberations with the city council. It seemed that our discussions focused far more on the first twelve months, at the expense of the second half of the biennium. This was so extensive that there was a fair amount of confusion about what the second twelve months included. It didn't help that a

contracting economy also significantly complicated the budget process. However, we got much better at looking at the full 24 months in subsequent cycles.

The development of the forms and the assumptions used in the budget was pretty straightforward. Adding the second year to the forms was relatively easy, with the exception of the payroll and benefits forms and the forms for new program proposals. While adding a second year to these was not difficult, we had to agree on which assumptions to use for pay and benefits. Based on the formats we chose, the year that new programs were to begin was also at times unclear. Our success depended on constant communication and the cooperation of department staff working to develop the budget.

I've implemented a biennial budget in Lynnwood, set the stage for reverting back to the biennial approach in Renton, and inherited a very mature biennial budget process in Redmond. Overall, I believe the advantages of the biennial budget significantly outweigh the disadvantages. It is my hope that the discussions in this article have enabled you to evaluate whether a biennial budget is right for you. If you still have questions, feel free to contact me at the City of Redmond.

Cities and Counties That Do Biennial Budgets

Cities	Started	Form	Comments
Auburn	2009-2010	Two one-year budgets	
Bainbridge Island	2009-2010	Appropriation for one-year	"Endorsed" budget for second year.
Battle Ground	2009-2010	Appropriation for two years	Expenditures restricted each year to administrative allocations in budget document.
Bellevue	1997-1998	Appropriation for two years	Each year shown separately in budget document. Like flexibility of two years, but monitor departments annually.
Bonney Lake	2007-2008	Appropriation for two years	Separate years shown as "Estimated Allocations" in budget ordinance. Department heads restricted to those amounts.
Bothell	2003-2004	Appropriation for two years	"True biennial budget –department heads have full authority to spend in any way they see fit..."

Cities	Started	Form	Comments
Burien	2009-2010	Appropriation for two years	Each year shown separately in budget document and year 1 spending is restricted, but may carryover to year 2.
Federal Way	1997-1998	Two one-year budgets	
Fife	2013-2014	Appropriation for two years	"Conditions" council puts on spending more like two one-year budgets.
Hoquiam	2009-2010	Appropriation for two years	Budget document contains two-year appropriation. Their department heads are "good" with budgets and don't overspend.
Kelso	2013-2014	Two one-year budgets	
Kenmore	2013-2014	Appropriation for two years	True biennial budget. Planned amounts for each year shown in budget, "but department heads can spend entire appropriation in year 1."
Kennewick	1995-1996	Appropriation for two years	Two-year total shown in budget document. Basic policy is no limitations on how much can be spent in any one year.
Kirkland	2005-2006	Appropriation for two years	Two-year total shown in budget document. Departments create budgets for each year, but can go over. Usually can carry forward unspent funds from year 1.
Lake Forest Park	2007-2008	Two one-year budgets	

Budget Suggestions for 2014

Cities	Started	Form	Comments
Lakewood	2011-2012	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts. Previously had biennial budget for 2003-2004 and 2005-2006.
Longview	1997-1998	Appropriation for two years	Each year shown separately in budget document for planning purposes. Departments only need to "stay within biennial appropriation."
Lynnwood	2003-2004	Appropriation for two years	Each year shown separately in budget document.
Mercer Island	1991-1992	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Mill Creek	1997-1998	Appropriation for two years	Budget document shows biennial amount. "No first year guidelines. We expect them to do right thing."
Mountlake Terrace	2003-2004	Two one-year budgets	
Normandy Park	1999-2000	Two one-year budgets	
Oak Harbor	1989-1990	Two one-year budgets	
Redmond	1997-1998	Appropriation for two years	Gives complete latitude to departments to spend for biennium, monitoring and offering counsel when needed, which is not very often.
Renton	2011-2012	Two one-year budgets	Previously had biennial budget for 1999-2000 biennium only.

Cities	Started	Form	Comments
Sammamish	2007-2008	Appropriation for two years	Separate years shown for "Reference" in budget ordinance. Departments restricted to those amounts, but will work with one that wants to spend more in year 1.
SeaTac	2013-2014	Appropriation for two years	Separate years shown for "Reference" in budget ordinance. Departments do have flexibility, but they are tracked on annual amounts.
Seattle	1997-1998	Appropriation for one year	"Endorsed" budget for second year.
Steilacoom	1995-1996	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Sumner	2009-2010	Appropriation for two years	Two year total shown in budget document and department heads "have generous discretion in managing appropriations."
Tacoma	1991-1992	Appropriation for two years	
Tukwila	2009-2010	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Tumwater	2011-2012	Appropriation for two years	Each year shown separately in budget so finance director knows timing for cash flow purposes. No penalty for overspending year 1.
University Place	1999-2000	Two one-year budgets	

Budget Suggestions for 2014

Cities	Started	Form	Comments
Vancouver	1985-1986	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
Walla Walla	2009-2010	Appropriation for two years	Each year shown separately in budget document and department heads are restricted to those amounts.
West Richland	2013-2014	Appropriation for two years	True biennial budget.
Woodinville	2005-2006	Appropriation for two years	Each year shown separately in budget document. Can carryover year 1 savings.

Counties	Started	Form	Comments
Benton	2011-2012	Appropriation for two years	"Line item budgeting."
Clark	1999-2000	Appropriation for two years	Manages its budget at the category level. "100s" and "200s" (salaries and benefits) may not be moved to other categories and require a transfer.
Cowlitz	2002-2003	Two one-year budgets	
King	2013-2014		Started using biennial budget for some departments.
	2015-2016		Will use biennial budget for all departments.
Whatcom	2005-2006	Two one-year budgets	

Cities and Counties That Have Ceased to Do Biennial Budgets

City/County	Started	Ended	Comments
Bremerton	?	2003	New finance director.
Edmonds	2007-2008	2011	Council and staff turnover.
Marysville	?	?	Council felt it lost control.
Monroe	1991-1992	1993	Huge growth made second year hard to forecast.
Ocean Shores	2003-2004	2009	
Olympia	Mid 1980's	Mid 1980's	New city manager.
Port Angeles	1987-1988	1993	Did not save enough time.
Puyallup	2009-2010	2011	One-year budget has more flexibility.
Sunnyside	2011-2012	2013	Anticipated benefits not realized because of demand for adjustments.
Toppenish	1987-1988	1989	
Yelm	2009-2010	2011	
Kitsap County	2003-2004	2007	