

Message from the Chair

March 8, 2010

Re: Biennial Budget?

Dear Colleague:

Few people are as keenly aware as I am about the scorn directed at the legislature for its failure to adopt a budget on time in recent years, most notably, last year. I am deeply troubled about the way in which political and partisan differences play out over the budget table. Like my colleagues, I am committed to make the process work better for our citizens. Such a commitment requires a measured reasonable effort by lawmakers as opposed to a knee-jerk reaction not grounded in history or practicality, such as a return to a two-year budget cycle.

Last year while searching for ways to resolve the budget impasse, I considered the concept of a two-year budget. In reviewing our state's history my staff and I were surprised to learn that five decades ago Pennsylvanians rejected a two year budget cycle. The annual budget requirement was a wise reform that has served us well, recent history notwithstanding. Embracing a two year budget cycle may sound inventive in an era where Pennsylvanians are searching for groundbreaking reform, but a two year budget is impractical in our modern world. **No accounting change will magically resolve core fiscal challenges or the current crisis of public confidence in government.**

Pennsylvania enacted an annual budget for the first time in 1961 after many years of reeling from the repercussions of the Great Depression and subsequent recessions. During the 1930s when Pennsylvania was still using a two-year budgeting system, lawmakers were unable to react efficiently to budget crises because they could not accurately predict the state's income or its needs for economic relief at least two years in advance. Numerous special sessions of the legislature were necessary to deal with the problems of the Depression and its aftermath. As a result, policymakers advanced the idea of an annual budget cycle to better allow government to react to an unpredictable economy. Finally, after adoption of a 1959 Constitutional amendment, the General Assembly enacted its first annual budget in 1961.

When Gov. David L. Lawrence presented the state's first annual budget to the General Assembly, he had to address a large deficit, the result of an economic decline. He noted that, **within a single year, lawmakers would need to eliminate a deficit which accumulated over the prior two-year budget cycle.**

In his budget speech to the General Assembly on January 16, 1961, Gov. Lawrence said:

Time is now an essential factor if the budget process is to have true meaning; the adoption of a Constitutional Amendment instructing us to work on an annual basis gives all of us our marching orders to make prompt decisions as to our taxes and our expenditures.

Many studies have focused over the years on whether two-year budget cycles are advisable at both the state and federal level. A recently updated analysis done by the National Conference of Legislatures (NCSL) provides an excellent non-partisan examination. According to that analysis, many states moved to an annual budget process over the past 70 years, just as Pennsylvania. Forty-four states practiced two-year budgeting in 1940 compared with only 20 states this year when Arkansas moves to annual budgeting. The analysis also says that biennial budgets are more likely in less populous states. Of the ten largest states, only Texas and Ohio have biennial cycles. Recognizing the likelihood of revenue estimating errors and inaccurate cost projections in a two-year budgeting cycle, Texas maintains a reserve fund of about \$2 billion to make a biennial budget work. The NCSL analysis points out that **economic expansions and contractions make state budgets unpredictable regardless of annual or biennial budgets. Longer budget cycles do not isolate states from the external influence of the economy or federal mandates.**

Today we are emerging from the greatest economic downturn since the Great Depression. Given recent history, it is tempting to believe that a two-year budget cycle would result in: more effective long-term planning; more oversight and performance evaluation; more predictability and stability in budgeting; and most importantly, on-time budgets. However, a return to an accounting system already rejected by Pennsylvania's citizens, will not achieve these results.

Are biennial budget cycles critical to promote quality long term planning? States can monitor and plan for future financial trends independent of the budget cycle. Pennsylvania's current Constitution, adopted in 1968, requires the Governor to submit multi-year financial and program projections for the budget year and four succeeding years. **Perhaps policymakers should improve upon these planning requirements, but a biennial budget and long term planning are not interdependent.**

Would a two-year budget provide more quality time for oversight and performance evaluation? NCSL's recent report underscores that many states with annual budgets carry out sophisticated program and performance review through specialized staff and agencies with legislative oversight.

Staff members of our own Appropriations Committees conduct considerable spending oversight in the course of reviewing annual budget requests. Limiting this review to every other year, could actually reduce oversight by the General Assembly. Even if off-year performance evaluation is required, policymakers should ask themselves which is more effective: oversight detached from the purse strings or oversight conducted in conjunction with annual spending proposals? Effective oversight also is weakened when mid-term spending or revenue corrections are considered on an ad hoc basis and not within the context of a comprehensive budget. **The bottom line is that a two-year budget cycle can relax budget discipline and legislative oversight when spending review requirements are less frequent.**

Would a two-year budget increase predictability and stability in budgeting? Accurately predicting revenue estimates and key program costs two years into the future is nearly impossible. Therefore, **budgets passed too far in advance increase the probability of significant imbalances and insure that state legislatures return mid-term to enact adjustments to revenue estimates and spending.** Policymakers *should plan* for the long term based on trends and their best understanding of the future but ultimately budgets must be balanced based on short term information.

The importance of **accurate revenue estimates** is one of the reasons most states have moved away from biennial budgets. In 2009, Speaker Robbie Wills of Arkansas attributed his state's change to annual budgeting to the difficulties of forecasting revenues too far in advance. In Connecticut, one of the few states in recent years to switch back to a biennial process, the two-year budget has not met revenue expectations and as a result second-year revisions are often extensive (NCSL, January 2010).

The importance of **accurate spending estimates** is another reason states stay away from biennial budgets. Such a large portion of state spending is for programs driven by federal mandates or assumptions that react strongly to changes in economic and demographic trends. Medical-related appropriations and retirement costs are prime examples in Pennsylvania. These cost drivers alone will bring lawmakers back to the budget table annually regardless of what accounting cycle is imposed. Under the current annual budget cycle, agencies begin to prepare spending requirements at least two years before the close of a new budget year. A biennial budget would require planning begin up to three years in advance. Even under an annual budget, we often see agencies revise initial spending projections in the spring of a budget year, due to the nature of certain programs.

Also note that **if the goal of long-term planning is to provide more predictable funding to recipients, policymakers should question whether protecting the status quo is advisable.** If spending decisions are made only once every two years, the process of reexamining and amending budget priorities slows. Smaller appropriations that might not receive much scrutiny in an annual budget may receive even less attention in a biennial budget. In other words, strong constituencies that protect lower-priority discretionary programs may be empowered.

Would a biennial cycle insure on-time budget passage? Under the best of circumstances, crafting a one-year budget is a challenge. Reaching agreement for a two-year budget would be far more complex, time consuming and further hinder timely passage. Administrations have different priorities than the legislature; Democrats and Republicans fight for their beliefs; public needs vary widely in a state so diverse. **I share the conviction that the people of Pennsylvania deserve a timely budget; however, an artificially imposed accounting change is not the prescription for delivering an on-time budget to our constituents.** In the end, imperfect predictions two years in advance would require lawmakers annually to revisit the budget anyway.

The biennial budget was already rejected by Pennsylvanians decades ago. I remain committed to join Pennsylvanians, Democrats and Republicans, and accept the challenge to improve our government and I believe that means a resounding **no** to a two-year budget.



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To read more see:

“Annual and Biennial Budgeting: The Experience of State Governments” by Ron Snell, National Conference of State Legislatures, updated January 2010.
<http://www.ncsl.org/default.aspx?tabid=12658#point4>

“Biennial Budgeting: Do the Drawbacks Outweigh the Advantages?” by Robert Greenstein and James R. Horney, Center on Budget and Policy Priorities, June 16, 2006.
<http://www.cbpp.org/cms/index.cfm?fa=view&id=394>

Woodside, Robert E., Pennsylvania Constitutional Law. Sayre: Murrelle Printing Co., 1985.

Pa Constitution, Article VII, Section 12 and Section 610 of Act 175 of 1929.