

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on January 22, 1996 in Room 123-S of the Capitol.

All members were present except: Senator Moran, Senator Rock

Committee staff present: Alan Conroy, Legislative Research Department
Norman Furse, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee: Alan Conroy, Legislative Research Department

Others attending: See attached list

It was moved by Senator Salisbury and seconded by Senator Vancrum that bill drafts 5 RS 1535, 5 RS 1548, 5 RS 1555, 5 RS 1579, 5 RS 1716, 5 RS 1772 be introduced as requested by the Division of the Budget. The motion carried on a voice vote. Senator Salisbury noted that the Commerce Committee has scheduled a hearing regarding the Kansas Value Added Center (the subject of 5 RS 1548) for Friday, January 26. The Chairman announced that KTEC will have national representatives appear before the Senate Commerce and House Economic Development Committees this week, and members of the Ways and Means Committee are invited to attend those meetings.

Alan Conroy, Chief Fiscal Analyst, Legislative Research Department, presented information regarding biennial budgeting (Attachment 1). His presentation focused on the history of the budgetary process in Kansas as well as other states, the various biennial budgeting processes in selected states and the benefits perceived by those states, arguments for annual and biennial budget cycles, and, finally, recent changes in the budget process in Kansas. In discussing the biennial budgeting cycle in Nebraska, it was noted that revenue adjustments can be made on an annual basis to adjust budget shortfalls.

Mr. Conroy told members that if Kansas implemented a budgetary process similar to that of Arizona, Education, SRS, Regents and their institutions, KDOT, Human Resources, Corrections, KPERS, Health and Environment, the mental health and mental retardation hospitals, the Lottery, Commerce and Housing, KTEC, and Kansas, Inc. would be appropriated annually and the remaining agencies would be appropriated biannually. In response to a question, he stated that those agencies would constitute approximately 93% of the all funds budget. Members asked if there was data illustrating the effect of biennial budgeting on growth and expenditures and if it's typical to start the biennium in odd numbered years. Responding to Senator Salisbury, Mr. Conroy stated that some states that have adopted biennial budgeting are not hesitant to hold special sessions. Senator Karr noted that Kansas had implemented biennial budgeting for the fee agencies and queried whether there was a bill on the fee agencies. It was noted that six fee agencies have appealed and the subcommittee will hear those; a few recommendations for budget changes by the Governor were folded into the general government bill.

Because members expressed interest in pursuing biennial budgeting, the Chairman stated that more information would be gathered.

It was moved by Senator Salisbury and seconded by Senator Karr that the minutes of the January 16 and 17 meetings be approved. The motion carried on a voice vote.

The Chairman adjourned the meeting at 11:55 A.M. The next meeting is scheduled for January 23, 1996.

MEMORANDUM

Kansas Legislative Research Department

300 S.W. 10th Avenue
Room 545-N -- Statehouse
Topeka, Kansas 66612-1504
Telephone (913) 296-3181 FAX (913) 296-3824

January 20, 1996

To: Senate Ways and Means Committee
From: Alan Conroy, Chief Fiscal Analyst
Re: Biennial Budgeting -- Other States' Experiences

BACKGROUND

The frequency of the budget cycle differs across the states. In some states, the budget cycle is annual, requiring a new budget each fiscal year. A biennial budget, on the other hand, requires the preparation of a new budget every other year. In most cases, the frequency of the budget cycle corresponds with the frequency of the state's legislative session -- that is, most states with annual legislative sessions have annual budget cycles while those states with biennial sessions have biennial budgets.

In Kansas, from statehood until 1877, the legislature met in regular session each year. For the next 78 years, through 1955, regular sessions were held biennially in the odd-numbered years. So that the legislature could meet to review and adopt an annual budget instead of the previous biennial ones, a constitutional amendment was adopted in 1954 which required a budget session, limited to 30 calendar days, to consider budgetary and related revenue matters only. The first budget session was held in 1956. At the November, 1966 election, the voters approved a constitutional amendment which provided for annual general sessions. The session in the odd-numbered year was of unlimited duration unless the legislature itself adopted restrictions. In the even-numbered years, the session was limited to 60 calendar days unless two-thirds of the elected members of each house voted to extend it. An amendment adopted at the 1974 general election extended the duration of the session held in the even-numbered years to 90 calendar days, still subject to extension by a vote of two-thirds of the elected membership of each house.

Since 1940, until recent years, the trend in budgeting among state governments has been a shift from biennial budgeting to annual budgeting. In 1940, 44 states adopted biennial budgets. Today, only 21 states adopt biennial budgets. Part of this shift is due to more states providing for annual rather than biennial legislative sessions. Other states shifted to annual budgets in the 1970s in order to more rapidly respond to expanding federal domestic spending during that time period. Also, another reason for the shift to annual budgeting has been to allow more rapid budget adjustments in the face of fluctuating revenues as states have become more dependent on revenue from income taxes.

More recently, since the mid-1980s, several states have modified their budget practice to a biennial budget, including Nebraska (1987) and Connecticut (1991). In other states, the process has shifted back and forth in recent years, with changes to the process precipitated either by changes in leadership or by uncertainty as to which type of budget cycle is more effective.

*Senate Ways & Means
January 22, 1996
Attachment 1*

STATE BUDGETING PRACTICES

At the current time, annual budgeting continues to be the predominant method of budgeting for state governments in the United States. At the current time, 29 states, including Kansas have annual budgets while 21 enact in whole or in part biennial budgets. Of the 21 states which enact biennial budgets, seven are states which have biennial sessions and 14 are states which have annual sessions. Typically:

- States with biennial budgets enact two annual budgets at once; that is, separate appropriations are made for each of two succeeding fiscal years.
- The extent to which budgeting is truly biennial is dependent upon the degree to which budgets are actually revised during the second year; the degree varies from state to state and from time to time, primarily because of economic and fiscal conditions; more than half of the biennial states conduct entire reviews of agency budgets before the second year of the biennium begins.
- Less populated states are more likely to have biennial budgets; only three of the ten largest states had biennial budgets as of 1993 (North Carolina, Ohio, and Texas).

STATES BUDGETING CYCLES

<u>Annual Session Annual Budget 29 States</u>	<u>Annual Session Biennial Budget 14 States</u>	<u>Biennial Session Biennial Budget Seven States</u>
Alabama	Arizona*	Arkansas
Alaska	Connecticut	Kentucky
California	Hawaii	Montana
Colorado	Indiana	Nevada
Delaware	Maine	North Dakota
Florida	Minnesota	Oregon
Georgia	Nebraska	Texas
Idaho	New Hampshire	
Illinois	North Carolina	
Iowa	Ohio	
KANSAS*	Virginia	
Louisiana	Washington	
Maryland	Wisconsin	
Massachusetts	Wyoming	
Michigan		
Mississippi		
Missouri		
New Jersey		
New Mexico		
New York		
Oklahoma		
Pennsylvania		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Utah		
Vermont		
West Virginia		

* The state has some mixture of annual and biennial budgets.

EXPERIENCES OF SELECTED STATES

As discussed above, the actual manner in which the biennial budget process is implemented varies significantly from state to state. In most states, appropriations are made separately for each year of the biennium, but the degree to which a budget is revisited and revised in the second year varies substantially. The experience of three states with a biennial budget cycle is discussed below. Each of these three states -- Nebraska, Connecticut, and Arizona, has an annual session but a biennial budget.

NEBRASKA

Budget Cycle	Biennial
Is funding for all agencies biennial?	Yes
Are all appropriations made in the same year?	Yes
How is the appropriation made?	Separate appropriations in the same bill for each year of the biennium.

The appropriations are made for all state agencies during the first year of the biennium, as separate appropriations for each agency for each year of the biennium. Another state law enacted at the same time related to collective bargaining for labor contracts for state employees. This law requires that salary adjustments be adopted for a two-year period. Thus, the original budget approved for a biennium includes salary maintenance and cost-of-living adjustments over the two-year period.

Nebraska adopted a biennial budget cycle in 1987. Nebraska has a unicameral legislature which meets for 90 days in the first year of the biennium and 60 days in the second year of the biennium.

According to legislative staff in Nebraska, the off-year cycle, which corresponds to the shorter (60 day) legislative session, has been used to deal primarily with nonappropriations issues. Any requested or recommended budget adjustments are typically incremental in nature.

Benefits Perceived by Nebraska Staff and Legislators

- focus in the second year of the biennium on consequential budget issues and other substantive issues;
- opportunity for more in depth research and financial analysis of substantive proposals; and
- opportunity to “extend the horizon” of budget and revenue planning beyond the next biennium.

Degree of Review in Second Year. Most agency budgets are not revised during the second year. Most adjustments made are incremental and technical in nature.

Link to Performance. There was no explicit link in Nebraska between the decision to change to a biennial budget cycle and greater program and performance review.

CONNECTICUT

Budget Cycle	Biennial
Is funding for all agencies biennial?	Yes
Are all appropriations made in the same year?	Yes
How is the appropriation made?	Separate appropriations in the same bill for each year of the biennium.

The appropriations are made for all state agencies during the first year of the biennium; as separate appropriations for each agency for each year of the biennium. According to legislative staff, one of the main goals of the primary sponsor of the shift to a biennial budget cycle was to allow programmatic review in the second year of the cycle. The thought was that the detailed review could be accomplished during the first year, and that only technical revisions would be required in the second year.

In 1991, as part of a fiscal reform initiative, Connecticut adopted a biennial budget cycle beginning with the FY 1994 budget. Until 1971, Connecticut had used a biennial budget and had held only biennial sessions. The state operated under an annual budget cycle from 1971 until 1991.

Connecticut is half-way through its second biennium since changing to a two-year budget cycle. During the first biennium, the Governor made major recommendations during the second year of the cycle, particularly in the area of children's initiatives, which required substantial review through the appropriations process. The second year was perceived to require as much time on the part of the Legislature as did action in previous years on an annual budget. However, the process still did save significant time and effort on the part of state agencies who were not required to prepare complete budget documents, as well as on the part of the Governor's budget staff and the legislative fiscal staff.

The legislative session in Connecticut will begin next month and will be the second year of the second biennium since the switch to a biennial budget process. It appears at this time that the Governor will make only technical adjustments to the budgets. The intention is to focus attention on program performance and performance measures during this session, including extensive public hearings on agency programs.

Benefits Perceived by Connecticut Staff And Legislators

- focus in the second year of the biennium on programs and performance; and
- savings of time and effort on the part of state agencies in preparing detailed budget documents each year.

Degree of Review in Second Year. In theory, the focus is on technical adjustments only during the second year, with most of the time used for greater program and performance review. In the first cycle

since this switch, this intended benefit was not realized as much of the time was spent revisiting previous appropriations and addressing new gubernatorial initiatives.

Link to Performance. The change to a biennial budget cycle was predicated on increasing the opportunity for more in-depth legislative review of agency programs and performance.

ARIZONA

Budget Cycle	Biennial
Is funding for all agencies biennial?	No. Annual appropriations continue to be made for the state's 14 largest agencies, while the other 88 agencies are appropriated on a biennial basis.
Are all appropriations made in the same year?	Yes -- for all biennial agencies
How is the appropriation made?	Separate appropriations in the same bill for each year of the biennium.

Arizona has combined features of annual and biennial budgeting in an attempt to maintain the benefits of annual budgeting while at the same time gaining the benefits of biennial budgeting.

The appropriations are made for all state agencies during the first year of the biennium, but the appropriations for the state's 14 largest agencies are made on an annual basis. In Arizona, 14 agencies receive more than 95 percent of total appropriations. The change removed a large number (88) of very small budgets from annual reconsideration. The appropriation for the 88 biennial agencies are made as separate appropriations for each agency for each year of the biennium.

Arizona adopted a biennial budget cycle for most of its state agencies beginning with the 1995 Legislative Session. A number of years ago Arizona had a biennial session and a biennial budget process but had operated under an annual budget for a number of years prior to the recent shift.

During the second year, the hearing schedule focuses on only the 14 largest agencies, and the committees spend substantially more time on those agencies than in the first year of a biennium. As to the smaller agencies, the Legislature did not schedule significant time to debate the technical adjustments to the budgets made in the second year of the biennium. Instead, most of the work on those budgets in the second year was completed within a ten-day period, with no dedicated hearing time to the agencies. Staff merely explained the adjustments, which in many cases were technical in nature, and the Committee made its recommendations. During this first cycle there were 20-25 of the smaller agencies which did have requests for "policy supplementals" but these were also addressed in the same manner during the same ten-day period. Staff believes the number of requests for "policy supplementals" will decline in future cycles as agencies adapt to planning budget requests for a two-year period.

Benefits Perceived by Arizona Staff And Legislators

- focus in the second year of the biennium on only major state agency budgets;
- increased opportunity for staff to analyze issues associated with major agencies and programs;
- efficiencies in operations for smaller agencies; and
- opportunity for additional program review (see link to performance below).

Degree of Review in Second Year. Most of the biennial agency budgets are not revised during the second year. Most adjustments made are incremental and technical in nature.

Link to Performance. In Arizona, the switch to biennial budgeting for smaller agencies was accompanied by the development of a program review process. Initially, agencies were required to develop plans and evaluation criteria. In 1995, the Legislature designed a plan for a formal process of **program authorization review** intended to link budgets to performance. In Arizona, the sunset process of agency review, through a formal audit, continues. However, a new program authorization review (PAR) was established in conjunction with the appropriations process.

The PAR is not intended to be a formal independent audit. Rather, the agency first conducts a self-assessment of its programs and forwards that assessment to the Governor and the Legislature. The Legislature elected to review ten programs in depth during the first year of the process. Of the ten programs reviewed in depth during the first year, three were eliminated because the "original program purpose" was no longer being served. It is believed that the time afforded for this type of review by shifting many agencies to biennial budgets has given greater credibility to recommendations for program changes or elimination, because a more formal review of the implications of program changes has taken place.

ARGUMENTS FOR ANNUAL AND BIENNIAL BUDGET CYCLES

As noted, the trend towards annual budgeting may be shifting. Typically, current reformers assume that biennial budgeting is superior to annual budgeting because of the greater opportunities provided through a biennial cycle for performance review, planning, and evaluation. Vice-President Al Gore's *National Performance Review* endorses a national biennial budget. Specifically, the report indicates that "biennial budgeting will not make our budget decisions easier, for they are shaped by competing interests and priorities. But it will eliminate an enormous amount of busy work that keeps us from evaluating programs and meeting customer needs."

Advantages often cited in favor of biennial budgeting are that:

1. it enhances stability in agencies and provides greater opportunity for long-range planning;
2. it allows more time for program review and evaluation;
3. the process is less expensive;

4. the process is less time-consuming;
5. it allows the Legislature more time for review and debate of nonbudget issues; and
6. it allows legislators to focus on major policy issues instead of routine budget detail.

By contrast, proponents of an annual budget cycle believe that annual review:

1. increases the time that legislators and state officials devote to budget analysis and deliberation;
2. enhances the Legislature's budget oversight capabilities by providing for frequent supervision and review of executive branch activities;
3. increases the accuracy of revenue and expenditure estimates and allows more rapid adjustments to changing conditions;
4. gives the Legislature greater opportunity to exercise control over federal funds; and
5. reduces the need for supplemental appropriations and special sessions.

"The arguments used to justify and refute both annual and biennial budgets remain essentially unchanged . . . and unproved. The success of a budget cycle seems to depend on the commitment of state officials to good implementation rather than on the method itself."

The major studies which have been done, in 1972, in 1984, and in 1987 have, however, found little evidence of a clear advantage to one budget cycle over another. It is uncertain whether a biennial cycle is more conducive to long-term planning than is annual budgeting. However, there appears to be some evidence that biennial budgeting is more conducive to program review and evaluation and that it is likely to reduce budgeting costs for execu-

tive agencies. However, several states' experiences would suggest that it may also reduce the level of familiarity of legislators with the budgets.

KANSAS -- RECENT CHANGES TO THE BUDGET CYCLE

During the 1993 interim, the Legislative Budget Committee discussed possible changes in the state budget process. The Committee recommended introduction of H.B. 2564 to shift 53 state agencies from annual to biennial budgets, beginning with budget submissions in the fall of 1994. Many of the 53 agencies recommended by the Committee were "fee agencies" and the others were ones which the Committee believed did not require annual consideration by the Governor and Legislature. Under the Committee's proposal, 60 agencies would still submit budgets each year. The Committee recommended that "they should be reviewed annually because they account for a large part of the expenditures from the SGF and from all funds." The Committee concluded that shifting 53 agencies to biennial budgets would "relieve them of the time and expense of annual budget preparation, and the Governor, Division of the Budget, fiscal staff of the Research Department, and Legislature would not have to review those budgets every year."

H.B. 2564 was not enacted. However, the 1994 Legislature did enact House Sub. for S.B. 652, changing the budgeting cycle for selected state agencies to a biennial budget cycle. The provisions of the current law include:

- The agencies required to submit biennial budgets are those funded through fees and that perform regulatory or licensing activities. They are comprised of the occupational and professional licensing agencies and the financial institution regulatory agencies, commonly referred to as the "fee agencies."
- Appropriations are made separately for each year of the biennium.
- The agencies are not required to submit new budget requests in the second year of the cycle. However, agencies may submit requested adjustments to the approved expenditure limits.

The 1995 Legislature approved the first biennial budget for these agencies, authorizing expenditures for FY 1996 and FY 1997. Only six of the 20 agencies have requested adjustments during this second year of the biennium. The Governor has also recommended adjustments designed to reflect salary changes, such as modifications to fringe benefit rates and implementation of the recommended merit pool for unclassified employees.

SELECTED REFERENCES

Annual and Biennial Budgeting: The Experience of State Governments. Denver, CO: National Conference of State Legislatures, forthcoming.

Annual or Biennial Budgets? Lexington, KY: Council of State Governments, 1972.

Annual versus Biennial Budgeting: The Arguments, the Evidence. Denver, CO: National Conference of State Legislatures, 1987.

Current Status and Recent Trends of State Biennial and Annual Budgeting. Washington, D.C.: U.S. General Accounting Office, 1987.

Corina L. Eckl, *Legislative Authority Over the Enacted Budget.* Denver, CO: National Conference of State Legislatures, 1992.

Albert Gore, *Creating a Government that Works Better & Costs Less, Report of the National Performance Review.* Washington, D.C.: U.S. Government Printing Office, 1993.

Charles W. Wiggins and Keith E. Hamm, *Annual versus Biennial Budgeting?* College Station, Texas: Texas A&M University, 1984.