

MINUTES OF THE KANSAS 2000 SELECT COMMITTEE.

The meeting was called to order by Chairperson Kenny Wilk at 1:45 p.m. on February 9, 2000 in Room 526-S of the Capitol.

All members were present except: Representative Richard Alldritt - excused  
Representative Susan Wagle - excused

Committee staff present: Alan Conroy, Legislative Research Department  
Jim Wilson, Revisor of Statutes  
Janet Mosser, Committee Secretary

Conferees appearing before the committee:  
Alan Conroy, Legislative Research Department  
Duane Goossen, Director of the Budget

Others attending: See attached list.

In preparation for hearings on **HB 2004 - Biennial budget estimate for state agencies**, Alan Conroy, Legislative Research Department, briefed the committee on other states' experiences with biennial budgeting (Attachment 1).

Duane Goossen, Director of the Budget, briefed the committee on the advantages and disadvantages of biennial budgeting (Attachment 2).

Questions and discussion followed.

Chairperson Wilk called the committee's attention to **HB 2605 - Kansas department of history and preservation created, transferring powers, duties and functions from state historical society**. A balloon amendment, prepared according to suggestions and recommendations from members of the Executive Board of the Society, was distributed. Jim Wilson, Revisor, reviewed the amendment. He noted that the amendments are only for selected portions of the bill which are required to be amended to effectuate the proposed major policy changes to the bill. If the changes are adopted, there will need to be many other changes to make the conforming changes throughout the remainder of the bill.

Questions and discussion followed.

Chairperson Wilk adjourned the meeting at 2:55 p.m.

The next meeting is scheduled for February 10, 2000.

## KANSAS 2000 SELECT COMMITTEE GUEST LIST

DATE: 2-9-00

NAME	TITLE	REPRESENTING
Joe McLeland		Visiting
David Miller		DOB
Lodea Tranzle		KGC
Keith Haxton		SEAK
Kirstie Russell		Visiting
Takama Statton		Visitor
Judy Wolff		SRS
Jackie Aubert		SRS
Andy Sanchez	Rape Rep	KAPE

February 9, 2000

**To:** House Kansas 2000 Select Committee  
**From:** Alan Conroy, Chief Fiscal Analyst  
**Re:** Biennial Budgeting/Single Appropriation Bill—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.

Kansas 2000 Select Committee

Meeting Date 2-9-00Attachment 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.

As indicated above, there are currently 14 states which have an annual session and a biennial budget. Generally, those states that have a biennial budget adopt the budget during the session in the odd-numbered years. During the off, or even-numbered years, the Legislature deals with budget adjustments based on the latest revenue estimates and any major agency revisions to agency projections (*i.e.*, federal funding changes). Policy and performance issues are also addressed during the even-numbered years. Sometimes, the session during the second-year of the biennium is shorter. Staff contacted each of these 14 states, plus the neighboring states of Colorado, Iowa, and Missouri. Of the 14 states which have an annual session and a biennial budget, 12 have a single or one major appropriation bill. These 12 states include:

Connecticut	North Carolina
Hawaii	Ohio
Indiana	Virginia
Maine	Washington
Minnesota	Wisconsin
New Hampshire	Wyoming

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 <b>each year</b> 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 <b>each year</b> 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 <b>each year</b> 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.

## **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 HB 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."

HB 2564 was not enacted. However, the 1994 Legislature did enact House Sub. for SB 652, changing the budgeting cycle for selected state agencies (20 fee funded 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 11 of the 20 agencies had minor adjustments during this second year of the biennium.

HB 2004 as recommended by the Legislative Budget Committee would require all but three state agencies to submit budget estimates on a biennial basis starting with FY 2002. Only the Department of Education, Department of Social and Rehabilitation Services, and the Department on Aging would continue to submit budget requests annually. Also, under HB 2004, the Director of the Budget and the Director of Legislative Research would be required to estimate State General Fund revenues for an additional out-year. Currently, estimates of State General Fund receipts are made only for the current year and the forthcoming fiscal year.

### SELECTED REFERENCES

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*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.

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Bill Graves  
Governor

Duane A. Goossen  
Director

MEMORANDUM

TO: Kansas 2000 Select Committee

FROM: Duane A. Goossen, Director of the Budget

DATE: February 9, 2000

SUBJECT: Biennial Budgeting

**ADVANTAGES**

1. Full budget process occurs only every other year which may allow more time for policy development or for focusing on specific areas.
2. Facilitates a longer term view of agency activity.
3. Adds a measure of stability to agency budgets.
4. Possible cost savings?

**DISADVANTAGES**

1. Budget is built on revenue estimates that are less accurate.
2. Budget itself may be less accurate and may generate more supplemental requests.
3. Loss of some legislative and executive control.
4. Division of the Budget does not have a database system to support full scale biennial budgeting.

Kansas 2000 Select Committee

Meeting Date 2-9-00

Attachment 2

“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 timespans but could be effective under either approach.”

“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.”

—conclusions from studies cited by Ronald Snell, Director of Economic, Fiscal, Human Resources at NCSL, in an article printed in SPPECTRUM, Winter 1995, p. 24

If we give serious consideration to changing from an annual to a biennial cycle, we should be very, very clear about why we would do that and what we hope to accomplish through the change. I would express skepticism that simply changing mechanics will yield remarkable results. If it's a shorter legislative session we are after, I doubt very much that just changing to a biennial budget will produce it. If we want to focus more broadly on large policy issues, I would again doubt that simply switching to a different method of budgeting will ensure that we do that. Budget processes are simply tools—its how we use them that makes the difference. If we are not reaching the goals we want to reach, perhaps we should employ our tool in a different way. At the very least, we should be sure that it's our tool that is causing the problem, rather than our use of it, before we pick up a new tool.