An Elected Official's Guide to

Multi-Year Budgeting

By Salomon Guajardo

Government Finance Officers Association

*Government Finance Officers Association
of the United States and Canada
203 N. LaSalle St., Suite 2700
Chicago, IL 60601*

ISBN 0-89125-215-0

LOC no. 99-73510

*First printing, December 1999
Second printing, January 2004
Third printing, November 2006*

CONTENTS

FOREWORD

Over the past decade, there has been a resurgence of interest in multi-year budgeting. Although many states had adopted biennial budgets long ago, local and provincial governments are now considering whether a shift from annual budgeting to a longer time frame is desirable.

The interest in multi-year budgeting has been prompted in part by the realization by governments of the difficulty linking long-term strategic plans with financial planning processes in annual budget cycles. Multi-year budgeting offers governments the opportunity to reduce work hours dedicated to budget development and reallocate that effort toward monitoring, analysis, and innovation. It also converts annual budgeting from a technical task based primarily on the analysis of spending increments to a planning task by forcing consideration of long-term objectives.

But multi-year budgeting may not be for everyone. Local governments desiring to implement a multi-year budget are confronted with some puzzling questions: What are the different types of multi-year budgets? How is multi-year budgeting affected by financial stability? What political and administrative factors should be considered when implementing the multi-year budget? How is the multi-year budget linked to other financial planning processes (e.g., the audit, debt issuance)? How will implementing a multi-year budget affect existing budget policies and processes? Does multi-year budgeting reduce political and/or administrative flexibility?

This *Guide* addresses the issues surrounding multi-year budgeting in a manner that is accessible to elected officials and finance officers. It examines key issues that arise when adopting a multi-year budget. A list is provided of state, county, and city governments using multi-year budgets that have received the Government Finance Officers Association's (GFOA) Distinguished Budget Presentation Award.

GFOA would like to thank Salomon Guajardo, Senior Manager of Public Policy and Research in the GFOA's Research Center, for writing this publication. Additionally, GFOA would like to thank the Santa Clara Valley Water District in San Jose, California, for supporting the research presented here. We also would like to thank Craig Clifford, Accounting and Budget Director, City of Scottsdale, Arizona; Rudolph Muravez, Chief Financial Officer, Santa Clara Valley Water District, San Jose, California; and Ronald Snell, Ph.D., Director of Economic, Fiscal and Human Resources, National Conference of State Legislatures, for reviewing this publication and providing helpful comments.

Jeffrey L. Esser
Executive Director
Government Finance Officers Association

INTRODUCTION TO MULTI-YEAR BUDGETING

Generally, a *multi-year operating budget* refers to the development and formal adoption of an expenditure and revenue document that spans two or more years.

Although local and provincial governments' interest in multi-year budgeting has increased in recent years, multi-year budgeting is not new to the public sector.

At the state level, multi-year budgets have existed since the 18th century. In fact, states were the first to implement multi-year budgets within their jurisdiction. According to the National Conference of State Legislatures (NCSL), 21 states currently have multi-year budgets, whereas 29 states have converted to annual budgeting during the past 50 years (see Exhibit 1).

Throughout the United States, local governments began making the transition from annual budgets to multi-year budgets in the 1970s. This trend continues today.

Exhibit 1
ANNUAL AND BIENNIAL BUDGETING IN STATE GOVERNMENT

Annual Session Annual Budget	Annual Session Biennial Budget	Biennial Session Biennial Budget
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		
Total: 29 states	Total: 14 states	Total: 7 states

Source: Ronald K. Snell, 1997. *Annual and Biennial Budgeting: The Experience of State Governments*. Denver, CO: National Conference of State Legislatures.

Multi-year budgeting and states

Based on research conducted by the NCSL, 44 states had biennial budgets in 1940. Since that time, 24 states have eliminated multi-year budgeting by implementing annual budgets.

Several factors have contributed to the transition from multi-year budgeting to annual budgeting at the state level, including:

- The dependence on personal income and sales taxes as sources of revenue;
- The elimination of part-time state legislatures;
- The increased complexity of state budgets;
- The increased reliance on federal funding;
- The resurgence of state legislative power; and,
- The transition from biennial legislative sessions to annual state legislative sessions.

Although annual budgeting is now more common at the state level, some states have returned to multi-year budgeting. In the late 1980s, Nebraska returned to multi-year budgeting because the state legislature wanted to spend less time on annual budget debates. Connecticut reimplemented multi-year budgeting in 1991. Arizona made a gradual transition to multi-year budgeting from 1993 through 1999, and now has a biennial budget. Other states, such as Michigan and Iowa, have examined the feasibility of re-adopting multi-year budgeting.

According to the NCSL, multi-year budgets are more likely to be found in less populous states with biennial legislatures (i.e., state legislatures that hold one regular legislative session within a two-year period). Annual budgets are more likely to be found in large states with annual legislatures (i.e., state legislatures that have annual legislative sessions).

Exhibit 2 lists the budget type adopted by each state government and whether it has a constitutional, statutory, or constitutional and statutory requirement that mandates the enactment of an annual or multi-year budget.

Exhibit 2
BUDGET CYCLE OF STATE GOVERNMENTS BY BUDGET TYPE

State	Annual Budget	Biennial Enactment of Two Annual Budgets	Biennial Enactment of a True Biennial Budget	Legislative Authority for Budgeting Period
Alabama	✓			Constitutional & statutory
Alaska	✓			Statutory
Arizona		✓		Statutory
Arkansas		✓		Constitutional & statutory
California	✓			Constitutional
Colorado	✓			Statutory
Connecticut		✓		Statutory
Delaware	✓			Constitutional
Florida	✓			Constitutional
Georgia	✓			Statutory
Hawaii		✓		Constitutional
Idaho	✓			Statutory
Illinois	✓			Constitutional
Indiana			✓	Constitutional
Iowa	✓			Statutory
Kansas	✓			Statutory
Kentucky		✓		Constitutional
Louisiana	✓			Constitutional
Maine		✓		Statutory
Maryland	✓			Constitutional
Massachusetts	✓			Constitutional
Michigan	✓			Statutory

continued

continued

Exhibit 2
BUDGET CYCLE OF STATE GOVERNMENTS BY BUDGET TYPE

State	Annual Budget	Biennial Enactment of Two Annual Budgets	Biennial Enactment of a True Biennial Budget	Legislative Authority for Budgeting Period
Minnesota			✓	Constitutional & statutory
Mississippi	✓			Constitutional
Missouri	✓			Constitutional
Montana		✓		Statutory
Nebraska		✓		Statutory
Nevada		✓		Constitutional
New Hampshire			✓	Statutory
New Jersey	✓			Constitutional
New Mexico	✓			Statutory
New York	✓			Constitutional & statutory
North Carolina			✓	Statutory
North Dakota			✓	Statutory
Ohio		✓		Statutory
Oklahoma	✓			Statutory
Oregon			✓	Statutory
Pennsylvania	✓			Constitutional
Rhode Island	✓			Constitutional
South Carolina	✓			Constitutional & statutory
South Dakota	✓			Statutory
Tennessee	✓			Statutory
Texas			✓	Constitutional
Utah	✓			Constitutional & statutory

continued

continued

Exhibit 2
BUDGET CYCLE OF STATE GOVERNMENTS BY BUDGET TYPE

State	Annual Budget	Biennial Enactment of Two Annual Budgets	Biennial Enactment of a True Biennial Budget	Legislative Authority for Budgeting Period
Vermont	✓			Statutory
Virginia		✓		Statutory
Washington			✓	Constitutional & statutory
West Virginia	✓			Statutory
Wisconsin		✓		Statutory
Wyoming			✓	Statutory
Total	29	12	9	

Source: National Conference of State Legislatures, 1999.

Multi-year budgeting and counties

The extent to which multi-year budgeting has been practiced at the local government level is unclear. Some states have prohibited their counties and/or cities from adopting multi-year budgets. Special districts have been restricted from implementing multi-year budgets by their state legislatures and enabling acts.

Nonetheless, a growing number of local governments have been adopting multi-year budgets since the 1970s.

At the county level, few counties had multi-year budgets until recently. According to a 1996 survey on biennial budgeting, only two of the 35 largest U.S. counties had a biennial budget. However, a review of the Government Finance Officers Association's (GFOA) historical records shows that numerous counties have made the transition from an annual budget to a biennial budget. In fact, several counties have received the GFOA Distinguished Budget Presentation Award for their biennial budgets, including:

- Chesterfield County, Virginia;
- Cobb County, Georgia;
- Hillsborough County, Florida;
- Loudoun County, Virginia;
- Mesa County, Colorado;
- Oakland County, Michigan; and,
- Washtenaw County, Michigan.

According to the GFOA Distinguished Budget Presentation Award Program's statistics, the number of counties with multi-year budgets that have participated in the program has increased.

One reason why few county governments have multi-year budgets is that their state governments prohibit them from adopting these budgets. In the State of Washington, for example, county governments were prohibited from adopting multi-year budgets until 1997. By contrast, Washington city and towns have had the option of converting from an annual budget to a multi-year budget since 1985.

Multi-year budgeting and cities

Cities have been adopting multi-year budgets since the 1970s. For instance, in 1973, Raleigh, North Carolina, adopted a five-year operating budget to complement its five-year capital budget. Raleigh adopted a five-year budget to answer these budgetary questions:

- What will the existing programs cost five years from now?
- Will the existing sources of revenue be sufficient to provide a desirable level of service in the years to come?
- Given a five-year growth rate, what new programs will be needed in the next five years?
- Will the revenue sources be adequate to cover these needs?
- Where does the efficiency and effectiveness of the various functions and programs need to be improved in the next five years in order to balance revenues with expenditure needs?

At present, Raleigh has a biennial budget.

In California, the passage of Proposition 13 in 1978 provided the impetus for cities to adopt multi-year budgets. Because Proposition 13 restricted annual property tax rate increases, California counties and cities lost millions in property tax revenues. As a partial response to this loss of revenue, California cities developed and adopted multi-year budgets to mitigate the long-term fiscal impact of Proposition 13 and the future loss of property tax revenue. By 1996, over 35 California cities had adopted multi-year budgets. The City of Moreno Valley joined the ranks of cities with multi-year budgets by implementing its biennial budget in 1998.

In the State of Washington, the number of cities with multi-year budgets has increased since 1985, when the state legislature allowed cities and towns to adopt biennial budgets. The cities that have had success with multi-year budgets include:

- Bellevue;
- Federal Way;
- Kennewick;
- Mabton;
- Mercer Island;
- Mill Creek;
- Oak Harbor;
- Redmond;
- Renton;
- Seattle;
- Spokane;
- Steilacoom;
- Tacoma; and,
- Vancouver.

Given this historical trend, its seems likely that more counties and cities will move from annual budgets to multi-year budgets. It also seems likely that state legislatures will authorize their local governments to address long-term concerns through the multi-year budgeting process.

Multi-year budgeting and special districts

The extent to which multi-year budgeting has been practiced at the special district level has not been examined systematically. However, a few special districts have transitioned from an annual budget to a multi-year budget. For example, in 1998, the Contra Costa Water District in Concord, California, implemented its first multi-year budget. In 1999, the Santa Clara Valley Water District in San Jose, California, converted to a multi-year budget with the assistance of GFOA consultants.

Rationale for multi-year budgeting

The rationale for making the transition from an annual budget to a multi-year budget includes:

- Greater emphasis on management and service delivery;
- Greater emphasis on program evaluation and monitoring;
- Improved long-term planning;
- Redeployment of human resources to activities other than budget preparation; and,
- Reduction in staff time spent on budget development.

Which of the NACSLB's Recommended Practices does multi-year budgeting best address?

Multi-year budgeting requires governments to take a long-term perspective when making decisions to undertake new initiatives and fund existing programs and services over multiple years. In so doing, the multi-year budget process lends itself to meeting numerous National Advisory Council on State and Local Budgeting (NACSLB) recommended practices (RP), such as:

- Identify broad goals (RP 3.1);
- Develop programs and evaluate delivery mechanisms (RP 6.1);
- Develop budget guidelines and instructions (RP 8.2);
- Develop mechanisms for coordinating budget preparation and review (RP 8.3);
- Develop procedures to facilitate budget review, discussion, modification, and adoption (RP 8.4);
- Conduct long-range financial planning (RP 9.1);
- Prepare revenue projections (RP 9.2);
- Prepare expenditure projections (RP 9.4); and,
- Monitor, measure and evaluate program performance (RP 11.1).

A complete set of the NACSLB's recommended practices is available in the council's 1998 publication *Recommended Budget Practices: A Frame-*

work for Improved State and Local Government Budgeting, available from the Government Finance Officers Association in Chicago, Illinois.

BASIC QUESTIONS

What is a multi-year budget?

A *multi-year budget* is a document that authorizes a government's appropriations (i.e., planned expenditures) and anticipated revenues for two or more consecutive budgetary years. This document may be a biennial budget, a three-year budget, or a five-year budget. A multi-year budget also may consist of a biennial budget with one or two financial plans that serve as the tentative spending plans for the out-years (i.e., the first year appropriations are formally adopted, whereas the subsequent year "appropriations" are not).

How does a multi-year budget differ from an annual budget?

Multi-year budgets differ from annual budgets in that appropriations and revenues are detailed for two or more separate budgetary periods. Annual budgets are spending documents that detail a government's appropriations and revenues for only one 12-month period.

What are the common types of multi-year budgets used by governments?

The common types of multi-year budgets used by governments are as follows:

1. The *rolling multi-year budget* is a spending document that has detailed appropriations and anticipated revenues for two or more budgetary periods, but each spending plan is approved individually each year.

2. The *"classic" (traditional) multi-year budget* is a spending plan that has detailed appropriations and anticipated revenues for two or more budgetary periods. Both the spending plan and the revenue plan for each budgetary year are approved at the same time.

Why do governments implement multi-year budgets?

Governments implement multi-year budgets for several reasons, such as to:

- Improve financial management;
- Improve long-range and strategic planning;
- Improve program monitoring and evaluation;
- Link operating and capital activities and spending;
- Reallocate and redeploy staff to other functions and activities;
- Reduce “opportunism” to increase department, division, and/or unit budget appropriations from year to year; and,
- Reduce staff time dedicated to budget development.

Although some of these activities can be met without implementing a multi-year budget (e.g., reallocate staff to other functions and activities), multi-year budgeting can bring these activities to the forefront by requiring department directors and their budget officers to systematically address each activity during budget development.

What are the potential disadvantages of producing a multi-year budget? How can they be overcome?

The potential disadvantages of producing a multi-year budget include:

- An unstable local economy may present difficulties in forecasting revenues and expenditures;
- Legislative acts and resolutions may be needed to accommodate multi-year budgeting;
- Legislative bodies may perceive a loss of budgetary control and oversight;
- Projecting expenditures and revenues may be difficult for some departments, divisions, and/or units;
- The audit function may need to be expanded;
- The budget process may need to incorporate new policies and processes;
- The multi-year budget may not take into account ongoing economic and environmental changes; and,
- Transitioning from an annual budget to a multi-year budget may foster staff turnover by increasing the workload of the budget staff during the first year of the multi-year budget.

Governments can safeguard themselves from these potential disadvantages by:

- Amending existing financial and budget policies and procedures;

- Assessing the local economic environment by examining key economic and fiscal indicators;
- Conducting an analysis of the existing revenue structure;
- Updating the budget manual to reflect the changes in the budget processes;
- Documenting and specifying the underlying economic assumptions;
- Effectively communicating the need for a multi-year budget with key stakeholders;
- Establishing a budget review process for ensuring compliance with budget polices, processes, and targets;
- Linking the multi-year budget with the strategic plan, long-range financial plan and revenue forecast, and financial and budgetary policies; and,
- Preparing the budget staff in advance regarding the implementation of the multi-year budget.

TYPES OF MULTI-YEAR BUDGETS

What is a multi-year financial plan?

A *multi-year financial plan* is a document that provides budgetary information on how a government will tentatively fund its departments, programs, and services; how it will address revenue enhancement and collection; and how it will address changes in fiscal health in the future. Because a multi-year financial plan is not a formally adopted spending document (i.e., budget), a government and its subdivisions can amend the financial plan and develop an entirely new budget document freely and without legislative approval. However, a spending document will have to be formally approved by the legislative body (e.g., city council, board of supervisors) at some point.

What is a rolling multi-year budget?

A *rolling multi-year budget* is a document that details a government's appropriations and revenues for two or more budgetary periods where each budget year's appropriations are adopted in each subsequent year.

What is a "classic" multi-year budget?

A *"classic" multi-year budget* is a document that details a government's appropriations (i.e., planned expenditures) and revenues for two or more budgetary periods where the document is adopted at one time. Once this multi-year budget is approved, minor adjustments are made at the end of each budget year to reflect changes in fiscal condition, such as unanticipated revenue shortfalls or unanticipated expenditure increases.

What basic policy statements are contained in multi-year budgets?

Like annual budgets, multi-year budget documents consist of the following policy statements:

- Appropriation limitation;
- Budget amendment and review policy;
- Budget process and calendar;
- Comprehensive financial policies:
    - — Capital budgeting, projects, expenditures, and funding;
    - — Expenditure management (e.g., gap closing initiatives) and forecasting;
    - — Debt issuance policy relating to capital projects, general fund, and special revenue funds;
    - — Grants administration, management, forecasting, and planning;
    - — Reporting; and,
    - — Revenue analysis and forecasting methodology;
- Departmental strategic plans for achieving goals and objectives;
- Fiscal and budgetary control (i.e., carryovers, transfers);
- Government-wide program and service goals and objectives;
- Investment policy and strategy;
- Long-term debt policy;

- Long-term financial plan (i.e., revenue, expenditure, and programmatic planning and initiatives for 5, 10, 15, or 20 years into the future);
- Multi-year budget policies and procedures;
- Revenue analysis, forecast, and trends; and,
- Revenue source descriptions.

What are the underlying expenditure assumptions of multi-year budgets?

There are four basic expenditure assumptions made in multi-year budgeting. They are:

- Expenditures will change incrementally over time;
- Expenditures are manageable and easily controlled;
- Expenditures are predictable; and,
- Extraordinary events will not occur on a regular basis.

What are the underlying revenue assumptions of multi-year budgets?

Because multi-year budgets appropriate funds over two or more budgetary periods, the revenue structure assumptions are:

- Revenues and user fees/charges are predictable;
- The local and regional economy is stable;
- The revenue structure and base are reliable; and,
- There is a general consensus on revenue projections.

IMPLEMENTING MULTI-YEAR BUDGETS

What are the budgetary conditions that are necessary for successfully implementing a multi-year budget?

The budgetary conditions necessary for successfully implementing a multi-year budget within a jurisdiction are as follows:

- Budgetary controls, policies, and processes;
- Clearly defined long-term priorities, goals, and objectives;
- Clearly defined multi-year projects and services with operating and/or capital expenditures;
- Long-term strategic and financial planning;
- Revenue and expenditure forecasting methodology; and,
- Reporting and monitoring policies and processes.

These activities and processes serve as the foundation and linkage between the government's various planning documents and the multi-year budget. Without these budgetary precursors in place and serving as a basis for budget and policy development, the implementation of a multi-year budget within a government will be an arduous task.

What political factors should be considered when implementing a multi-year budget?

When considering the conversion to a multi-year budget, political support from individual legislative members, the chief executive officer (e.g., mayor, city manager, executive director), and departmental directors must be obtained. Because political support is crucial for ensuring that there is agreement on the purpose and intent for implementing a multi-year budget, the following issues should be addressed:

- Do the key stakeholders understand the multi-year budget process?
- Do the key stakeholders view the multi-year process as a threat to their budgetary oversight of programs and services?
- Does the government have the political and legislative authority to adopt and implement a multi-year budget?
- Who are the key supporters of adopting and implementing the multi-year budget?
- Will the implementation of the multi-year budget coincide with the election cycle?

To address these issues, the chief financial officer should present the need, rationale, and benefits of converting to a multi-year budget to elected officials and other key stakeholders.

What political and administrative factors affect the adoption and implementation of multi-year budgets?

Governments wishing to implement a multi-year budget need to consider the following:

- Do current state laws prohibit the adoption and implementation of a multi-year budget?
- Does the executive office have the support of the legislative body (e.g., city council, board of directors, board of supervisors)?
- Does the finance and/or budget office have the support of the chief executive officer (e.g., mayor, city manager, board of directors)?
- Does the finance and/or budget office have the support of department directors?

Political support from the chief executive officer and legislative body is crucial for adopting and implementing a multi-year budget. Put differently, the lack of political support will ensure that budget reform will not take place. To ensure political support for multi-year budgeting, the chief executive officer and the legislative body must be informed of the advantages of implementing a multi-year budget.

Administrative support also is important to ensure that department directors will cooperate in the adoption, development, and implementation of a multi-year budget. To achieve administrative support, the executive office must achieve a consensus about the goals, objectives, procedures, and policies associated with implementing a multi-year budget.

How is the political and administrative environment assessed?

Undertaking a feasibility study before making the transition to a multi-year budget is recommended.

The feasibility study should address whether current state statutes and local ordinances preclude the jurisdiction from adopting a multi-year budget. The study also should assess whether the executive office has the political and administrative support of the legislative body and key stakeholders for adopting and implementing a multi-year budget.

Finally, the feasibility study should assess how the multi-year budget process will affect current financial and budget policies.

What administrative factors should be considered when implementing a multi-year budget?

Converting from an annual budget to a multi-year budget also requires administrative coordination and support between departments and units. These administrative factors should be considered:

- Determining the impact of multi-year budgeting on existing fiscal and budgetary policies and processes;
- Determining the impact of multi-year budgeting on existing programs and services;
- Determining the impact of multi-year budgeting on the existing monitoring process;
- Estimating the amount of staff time necessary for achieving the implementation of multi-year budgeting;
- Estimating the implementation timeframe; and
- How to achieve the coordination and cooperation of budget staff from the various governmental departments and/or units.

These issues can be addressed by making presentations and articulating the need for multi-year budgeting to department directors and their budget staff.

What policy and procedural issues should be considered when implementing a multi-year budget?

Implementing a multi-year budget within a government's existing financial planning and budgeting process requires addressing numerous policy and procedural issues, such as:

- How will budget amendments be carried out during the lifetime of the multi-year budget?
- How will cost overruns and/or department overspending be addressed?
- How will emergency funding for unanticipated events be addressed, with current or future revenues?
- How will short- and long-term projects and activities be prioritized over a multi-year period and incorporated into the budget?
- How will revenue shortfalls be addressed?
- How will existing and future staffing requirements be addressed to accommodate changes in programs and projects?
- How will transfers and reimbursements between funds and programs be addressed?
- How will year-end fund balances between the operating and capital budget be reconciled?
- What will the mid-year and mid-budget cycle review policies and processes include?
- Will fund transfers between budget years be allowed?

- Will unexpended funds be carried over into the next budget year or expire at year-end?

How are new financial policies and procedures instituted?

When a government makes the conversion from an annual budget to a multi-year budget, new financial and budgetary policies need to be developed and implemented. These new policies address issues such as:

- Whether carryovers from one year to the next will be allowed;

- Whether budget adjustments (i.e., increasing or decreasing budget appropriations) will be permitted for all line items or for only specific line items (e.g., capital items only); and/or

- Whether revenue reserves will be used to address unanticipated expenditures.

To implement and institutionalize the new policies, the new policies should be integrated into the budget narrative dealing with budgetary procedures and policies. In addition, the new policies should be included in the government's budget manual.

To ensure that departmental budget staff understands the new financial management and budgetary policies and processes, the new policies should be disseminated to department directors, managers, and budget analysts. More importantly, department directors, managers, and budget analysts should be involved in redesigning the budget manual because:

- They will ensure buy-in;

- They are the people who have to execute the budget manual; and

- They have extensive knowledge of the budgetary process and its nuances.

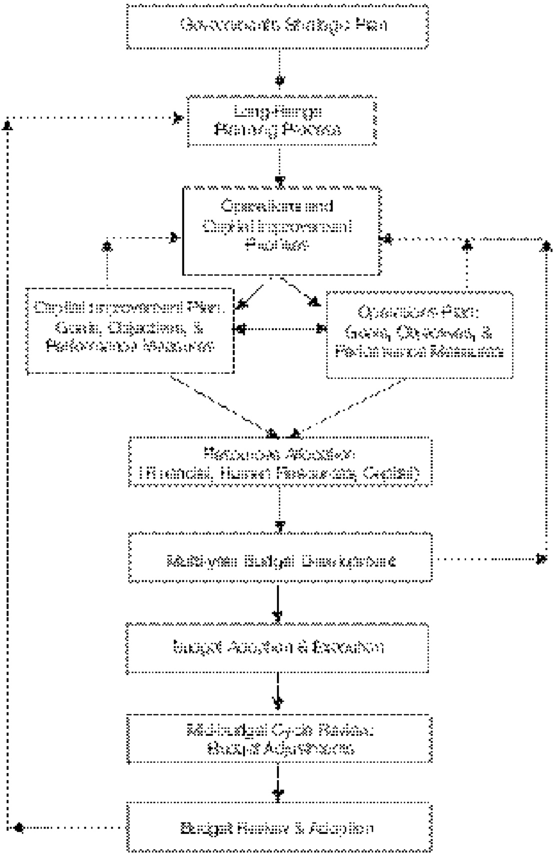
How is the multi-year budget linked to other financial and planning documents?

Exhibit 3 diagrams the linkage between the multi-year budget and other planning documents of a government. As the exhibit illustrates, a government's strategic plan serves as the foundation for developing long-range planning documents, operating and capital improvement priorities, and making decisions about resource allocations. Because these documents provide a general direction for a government and its departments, the multi-year budget utilizes the various planning documents to make appropriations over an extended period of time.

Exhibit 3 also shows how the multi-year budget provides feedback loops to the priority setting processes and long-range business and planning documents. The feedback loops ensure that budget appropriations are congruent with overall goals, objectives, and priorities. Additionally, the feedback loops serve to refine the long-range planning documents and priorities.

Exhibit 3

MULTI-YEAR BUDGET DEVELOPMENT FRAMEWORK



What type of information should a multi-year budget document include?

In addition to meeting the GFOA Distinguished Budget Presentation Awards Program's criteria (see *Budget Awards Program: Illustrations and Examples of Program Criteria*), the multi-year budget document should provide information on the following:

- Government-wide program and service delivery goals and objectives;
- Departmental strategic plans, goals, and objectives;
- Appropriation limitations;
- Budget amendment and review policies;
- Budget calendar;
- Budget process;
- Debt management;
- Fiscal policy;
- Investment strategies;
- Long-term financial plan;
- Long-term goals;
- Revenue sources;
- Revenue enhancement initiatives;
- Revenue projections and forecasting methodology; and,

- Staffing requirements.

The inclusion of this information will ensure that the budget document is linked to the government's long-term financial management and planning documents.

ASSESSING THE BUDGETARY IMPACT ON EXISTING PROCESSES

How does implementing a multi-year budget affect existing budget processes?

Moving to a multi-year budget requires new financial and budgetary policies and processes. To assess the magnitude of implementing a multi-year budget on existing budget processes and policies, Exhibit 4 presents a matrix that can be used to gauge the impact of the multi-year budget process on priority setting, long-range planning, debt management policies, and other financial management policies and processes.

Conducting this analysis will help the government identify strengths and weaknesses in existing financial management and budgetary policies and processes. This analysis also will reduce the likelihood of overlooking important activities that may drastically impact the development of a multi-year budget.

Exhibit 4
ASSESSING THE POLICY IMPACT OF THE MULTI-YEAR BUDGET PROCESS

Items	No Impact	Low Impact	Moderate Impact	High Impact	Uncertain About Impact
Top-down Project Priority Setting					
Bottom-Up Project Priority Setting					
Long-Range Planning Documents					
Extraordinary or Emergency Events					
Contracts and Service Delivery					
Debt Management/ Issuance					
Debt service payments					
Bond proceeds					
Fixed Assets					
Acquisition					
Maintenance					
Capital Improvement Projects					
Project completion					
On-going operating/ maintenance costs					
Grant Planning & Forecasting					
Non-Capital Improvement Expenditures/Programs					
Rejustification of Expenditure Items					
Changes of Revenue Source Rates and Bases					
Rate structure changes					
Legislative impact					
Staffing Levels (Increase/Decrease)					
Collective Bargaining Agreements					

How does the existing priority-setting process affect the multi-year budget?

Because a government's priority-setting processes determine which projects and services are crucial, the priority-setting process has a significant impact on the development of a multi-year budget.

Specifically, the priority-setting process determines the funding level and duration of each project or service that is undertaken. Thus, a government's operating and capital priorities should be incorporated into the multi-year budget with their appropriate funding levels specified.

A shift in priorities from one year to the next also will affect the multi-year budget. If the shift in priorities occurs during the mid-cycle or mid-year of the multi-year budget, the budget will need to be amended to accommodate the shift in priorities. The extent of the budget amendments will depend on the nature of the priorities, such as whether or not the shift in priorities involves multiple work units from different departments and units.

Meeting legal requirements also will affect the budget amendment process. For example, is a resolution and legislative approval necessary to transfer appropriations between fund accounts?

How does the long-term financial planning process affect the multi-year budget?

A government's long-term financial planning process also has a significant impact on the development of a multi-year budget (see Exhibit 3).

In particular, the long-term financial document specifies a government's plan of action for addressing revenue increases or decreases, service delivery levels, and options for dealing with citizen preferences. These long-term activities, in turn, determine how the government will utilize its limited financial resources. The government's utilization of its limited resources is then articulated within the multi-year budget document.

How does existing debt management affect the multi-year budget?

The development of a multi-year budget also is affected by a government's use of debt. The extent to which debt service increases is related to:

- The size of the debt;
- The payment schedule; and
- The frequency to which new debt is incurred.

Because the operating budget typically is used to make debt service payments, the change in—and the budget impact of—debt service need to be reflected in the multi-year budget.

How do changes to revenue source rates affect the multi-year budget?

Revenue projections are used to determine whether a government can increase its funding levels of departments, programs, and services. From a multi-year perspective, multi-year revenue estimates are much less accurate than annual estimates because the forecasts are carried out for several years into the future. As such, changes in revenue source rates can have a drastically positive or negative affect on a government's overall spending level and its multi-year budget.

When changes in the revenue source rates occur during the mid-cycle or mid-year of a multi-year budget, the budget needs to be amended and the funding levels of departments, programs, and services need to be adjusted appropriately.

Similarly, if the changes to revenue source rates occur during the development of the multi-year budget, revenue projections need to be reestimated and appropriations need to be adjusted to reflect the change in financial condition.

One safeguard against unpredictable revenue sources is to establish reserves where a percentage of excess revenue is set aside for future shortfalls.

How do human resources and personnel management policies impact the multi-year budget?

Personnel expenditures consume a large percentage of a government's operating budget. Thus, monitoring personnel requirements and trends across departments and units is important to assess the rate at which personnel-related expenditures are increasing or decreasing.

To assess the impact of the personnel trends on the multi-year budget, future departmental personnel needs must be estimated. These estimates should project attrition rates, position vacancy rates, replacement rates, and wage rates.

Additionally, because the priority-setting process should determine where staffing levels need to be increased or decreased, departmental personnel requirements should be linked to the government's priorities to ensure that programs and services are properly staffed. By estimating future personnel needs, the budget staff can make appropriate adjustments within the multi-year budget to accommodate for changes in staffing levels.

How do existing collective bargaining agreements impact the multi-year budget?

Collective bargaining agreements can have a significant impact on a government's multi-year budget.

During the development of the multi-year budget, the expiration of existing collective bargaining agreements may make it more difficult for the budget staff to estimate salaries, pension contributions, overtime rates, and other items for two or more years.

To plan for and minimize the impact that collective bargaining agreements can have on multi-year budgets, the budget staff needs to analyze the collective bargaining provisions, understand the proposed changes in working conditions, and attempt to estimate the budgetary impact of the arbiter's decision.

How do extraordinary or emergency events impact the multi-year budget?

Multi-year budgets can be affected by extraordinary or emergency events. For example, emergency repairs may require the transfer of funds across departments or budget items, thereby affecting programs, projects, and service delivery. Emergency repairs also may require the use of revenue reserves or future revenue to address the unexpected expenditures.

To minimize the budgetary impact of extraordinary or emergency events, "contingency" polices to address unexpected expenditures should be in place (e.g., how to deal with floods, severe winter conditions, power outages, and so forth). These policies should address whether current or future revenues should be used, whether revenue reserves should be used, or whether unexpended budget appropriations will be used.

Additionally, the "contingency" policies should specify the process for obtaining budgetary approval for addressing the extraordinary event, such as introducing a budget resolution and obtaining city council approval.

How does the implementation of a multi-year budget affect the annual audit?

The extent to which the annual audit process changes will depend on the type of multi-year budget implemented. For instance, if a rolling biennial budget is adopted (a two-year budget with the first and second year appropriations being adopted in separate years), the annual audit will be conducted at the end of the first year, with another annual audit occurring at the end of the second year.

If a traditional (classic) biennial budget is adopted, the audit can take place at the end of the first and second year or at the end of the second year. Whether the audit is conducted for each year of the biennial budget or only in the second year depends on what is the legal spending authority. If the first year's appropriation is the legal spending authority for the first year, then an annual audit should be performed to compare budget-to-actual expenditures. If the legal spending authority is the two-year appropriation, then the audit should be performed at the end of the second year.

In general, implementing a multi-year budget does not affect the annual audit since most states require that each spending plan contained in the multi-year budget be adopted annually.

For instance, in Scottsdale, Arizona, the first year of the biennial budget is the "adopted" spending plan and the second year's appropriations are "approved." At the end of the first year, Scottsdale goes through an abbreviated review process for any critical changes, holds required public meetings, and then formally adopts the second year's spending plan. The city's auditors only examine the adopted-to-current year actuals one year at a time.

Additionally, at the end of the first year, the budget review focuses on "changes to approved" and allows the city some discretion and flexibility for the second year of the multi-year budget.

How does the development and implementation of a multi-year budget affect debt issuance?

Because debt issuance has a multi-year component, issuing debt should be coordinated with developing a multi-year budget.

If a government has a good long-term financial planning process, implementing a multi-year budget does not affect debt issuance. Put differently, good financial policies and planning should include multi-year debt forecasts. The multi-year budget only adopts the debt expenditure appropriation. However, cash flow planning may be more difficult because of market or rate changes, the refinancing of previous debt issuance, or the timing of a bond sale.

How does the implementation of a multi-year budget affect a government's bond rating?

Generally, bond rating agencies look positively on multi-year budgets. To bond rating agencies, the implementation of a multi-year budget demonstrates financial management sophistication and a solid grasp of long-term financial planning. In short, to bond rating agencies, multi-year budgets can demonstrate a government's commitment to addressing its long-range financial issues and concerns.

Although multi-year budgeting is viewed positively by rating agencies, a government's multi-year budget implementation does not guarantee a bond rating increase.

SUCCESSFUL MULTI-YEAR BUDGET IMPLEMENTATIONS

Annually since 1984, the Government Finance Officers Association's (GFOA) Distinguished Budget Presentation Awards Program has recognized and encouraged state and local governments that prepare exemplary budgets. Each budget submission is peer reviewed and evaluated against 26 criteria developed by experts in state and local government budgeting.

A partial list of state and local governments that have received GFOA's Distinguished Budget Presentation Award for their multi-year budgets follows.

Which state governments have received the GFOA Distinguished Budget Presentation Award for their multi-year budget?

Of the several states that have multi-year budgets, the following state governments have received the GFOA Distinguished Budget Presentation Award for their multi-year budgets:

State	Recent Award Date
Arizona	1995
North Dakota	1997
Ohio	1997

Which county governments have received the GFOA Distinguished Budget Presentation Award for their multi-year budget?

Several county governments have received the GFOA Distinguished Budget Presentation Award for their multi-year budgets. They are as follows:

County	Recent Award Date
Mesa County, Colorado	1998
Hillsborough County, Florida	1998
Orange County, Florida	1998
Cobb County, Georgia	1997
Oakland County, Michigan	1998
Washtenaw County, Michigan	1998
Chesterfield County, Virginia	1998
Loudoun County, Virginia	1996

Which city governments have received the GFOA Distinguished Budget Presentation Award for their multi-year budget?

Numerous cities have received the GFOA Distinguished Budget Presentation Award for their multi-year budget. These award-winning city governments include:

City	Recent Award Date
City and Borough of Juneau, Alaska	1999
City of Scottsdale, Arizona	1997
City of Berkeley, California	1995
City of Claremont, California	1998
City of Daly City, California	1999
City of Gardena, California	1997
City of Highland, California	1998
City of Laguna Hills, California	1998
City of Livermore, California	1997
City of Lodi, California	1998
City of Los Altos, California	1998
City of Manhattan Beach, California	1996
City of Mission Viejo, California	1998
City of Oakland, California	1998
City of Redondo Beach, California	1999
City of San Clemente, California	1997
City of San Luis Obispo, California	1998
City of Santa Maria, California	1999
City of Saratoga, California	1998
City of Sunnyvale, California	1999
City of Watsonville, California	1998
City of West Hollywood, California	1999
City of Arvada, Colorado	1998
City of Fort Collins, Colorado	1998
City of Grand Junction, Colorado	1998
City of Montrose, Colorado	1998
City of Sterling, Colorado	1997
City of Boise, Idaho	1998
City of Wichita, Kansas	1996
City of Grand Blanc, Michigan	1997
City of Cincinnati, Ohio	1997
City of Upper Arlington, Ohio	1997
City of Portland, Oregon	1999
City of Sandy, Oregon	1998
City of Watauga, Texas	1998

City of Bellevue, Washington	1997
City of Federal Way, Washington	1997
City of Kennewick, Washington	1997
City of Mercer Island, Washington	1995
City of Mill Creek, Washington	1997
City of Seattle, Washington	1997
City of Vancouver, Washington	1995

SUMMARY

The number of local governments adopting multi-year budgets has increased over the past 20 years. In so doing, many of these governments have improved their financial, budget, and strategic planning practices and processes. These governments also have improved the linkage between their various management and financial policy documents and the budget document. Additionally, these governments have benefited from a reduction in staff time allocated to budget development by placing a greater emphasis on achieving long-term goals and objectives.

SUGGESTED READINGS

Chapman, Steve. December 1998. Implementing Multi-year Budgeting in the City of Moreno Valley, California. *Government Finance Review:* 58-59.

Clifford, Craig. August 1998. Linking Strategic Planning and Budgeting in Scottsdale, Arizona. *Government Finance Review*: 9-14.

Foundation for State Legislatures and National Conference of State Legislatures. May 1995. *Fundamentals of Sound State Budgeting Practices*. Washington, DC: National Conference of State Legislatures.

International City/County Management Association. November 1994. Multi-year Budgeting. *MIS Report*. Washington, DC: International City/County Management Association.

___________. June 1999. Multiyear Budgeting. *Service Report*. Washington, DC: International City/County Management Association.

Mercer, James L. February 1973. The Five-year Operating Budget. *Government Finance Review*: 28-31.

National Advisory Council on State and Local Budgeting. 1998. *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*. Chicago, IL: Government Finance Officers Association.

Powdar, Juliet C. 1999. *Budget Awards Program: Illustrations and Examples of Program Criteria*. Chicago, IL: Government Finance Officers Association.

Runkle, Victoria A. 1997. Biennial Budgeting Survey Results. Unpublished paper.

Snell, Ronald K. January 1997. *Annual and Biennial Budgeting: The experience of state governments*. Washington, DC: National Conference of State Legislatures.

Sutberry, Tom. August 1998. Biennial Budgeting in Washington Cities and Counties. *Government Finance Review*: 46-47.