

# Biennial Budgets in Washington's Cities and Counties<sup>1</sup>

by Mike Bailey, Finance Director, City of Lynnwood

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

Approximately twenty-five cities and three counties have worked with some form of biennial budgets since the legislature created this alternative. While the law generally describes how biennial budgets can be structured, we found there are a variety of approaches being used. Of the twenty-five cities that have used the multi-year approach, five have reverted back to a traditional one-year budget.

## Legislative Authority

In 1985, the Washington State Legislature adopted the Municipal Biennial Budget Act, permitting all cities in Washington State to establish a biennial, or a two-year budget. The legislature granted the same authority to counties in 1995. The law permits cities and counties to adopt a two-year appropriation. An appropriation represents a local government's legal authority to expend funds. Traditionally, the appropriations have been for one-year terms. Biennial budgets have extended this legal authority so that a city or county legislative body may approve an appropriation, or budget, for a full two-year term without subsequent action.

Cities are required to make the decision for a biennial budget by ordinance. The legislative authority for cities is found under RCW 35.34 (or 35A.34). This ordinance must be adopted at least six months before a biennium can start and a biennium must start on an odd numbered year. For instance, to begin using a biennial budget for 2005/2006, a city council must adopt an ordinance choosing to use a biennial budget by June 30, 2004. Once a city is using a biennial budget, it can revert back to an annual budget, by ordinance, at the end of a biennium.

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

## Reasons for Using a Biennial Budget

*Saves Time.* The most common reason for using a twenty-four-month appropriation seems to be to consolidate the amount of effort invested in the budget development and approval process. This is true of

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<sup>1</sup> Editor's note: Judy Cox of MRSC served as Mike Bailey's research assistant for this article. Any errors of omission and commission regarding how the individual cities and counties are actually doing their biennial budgets are hers alone.

both the staff preparing the budget materials and of the councils who review the materials and eventually adopt a budget.

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

In our case (Lynnwood), we have chosen to invest this time savings in other budget related matters, such as strategic planning and performance measurement. We created a team of managers who oversee our performance management program. This team realized that the significant amount of time devoted to the annual budget made it difficult to invest adequate time in the performance management aspects of our budget and control systems. As a result, the team recommended to the city council that we adopt a biennial budget process. While we are in our first biennium, the success of this strategy is already apparent. This summer and fall, our staff is working to refine its strategic plans. The council will be able to devote time to use these plans more effectively in directing city resources over future years.

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

***Potential Improvement in Policy View.*** A variation on the “Longer Perspective” argument is the substantial time available to the policy makers to strategically address financial issues. When budgeting every year, the focus is on how to balance each budget rather than on overall strategic planning. Finding the time to think strategically was often difficult. The biennium helps create this time and focus attention on future biennia, rather than just finding a way to balance revenues and expenditures.

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

## Reasons Against Using a Biennial Budget

Some cities (five by our count) have tried biennial budgets and reverted back to annual budgets. Their reasons coincide with those we have heard arguing against using a biennial budget.

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

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

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

### Forms of Biennial Budgets

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

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

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

Seattle, for example, appropriates funds for the just first year and displays numbers for the second year in their budget as “planned.”

Seven cities (of the nineteen that we know adopt biennial budgets) and two of the three counties adopt two one-year budgets in their ordinances or resolutions.

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

Six cities and one county show the expenditures in their budget document for the two years together, in a single column. They have “planning” budgets internally for the individual years, but they do not seem to be concerned about their department heads overspending their plans in the first year. One city told me that since they had instituted this system, they have had department heads underspending their budgets in the first year.

Five cities put two columns in their budget documents, but they are just externally disclosed planned amounts. If a department head overexpended the planned amount, he or she would not be in violation of RCW 35.34.210 or RCW 35A.34.210.

Finally, there are two cities that adopt their budgets with an appropriation for the full two years and in their budget show their expenditures in a single column for full two years, but tell their department heads that they are “restricted” in the first year to the internal spending plan.

As you can see, there are a number of ways to do biennial budgets, and it is not always possible to tell from the budget document which approach is being used.

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

## **Requirements for a Biennial Budget**

As previously discussed, an ordinance (or resolution for counties) must be adopted that opts for a biennial budget process. In the case of cities, the biennium must start on an odd-numbered year (2005 would be the next opportunity). The ordinance to use a biennial budget must be adopted at least six months prior to the start of the biennium (again this applies to cities only).

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

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

## **More on Personal Experiences**

Implementing our biennial budget was, in many respects, not overly difficult. There were some problems, especially in fully understanding the extent to which the second year would require changes to the final consideration of budget decisions.

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

I would say the biggest difficulty we had was focusing on the full twenty-four-month period during budget deliberations with the city council. It seemed that our discussions focused far more on the first twelve

months, at the expense of the second half of the biennium. This was so extensive that there was a fair amount of confusion about what the second twelve months included. It didn't help that the contracting economy also significantly complicated the budget process.

Overall, we believe the advantages of the biennial budget significantly outweigh the disadvantages. It is our hope that the discussions in this article have enabled you to evaluate whether a biennial budget is right for you. If you still have questions, feel free to contact me at the City of Lynnwood.

**Cities and Counties That Do Biennial Budgets**

Cities	Started	Ended	Form	Comments
Bellevue	97/98		Appropriation for two years	Each year shown separately in budget document.
Bothell	03/04		Two one-year budgets	
Bremerton	?	2002		New finance director hired late.
Federal Way	97/98		Two one-year budgets	
Kennewick	95-96		Appropriation for two years	Two-year total shown in budget document.
Lakewood	03/04		Two one-year budgets	
Longview	97/98		Appropriation for two years	Two-year amount shown in budget document.
Lynnwood	03/04		Appropriation for two years	Each year shown separately in budget document.
Marysville	?	?		Council felt it lost control.
Mercer Island	91/92		Appropriation for two years	Budget document shows two-year total, but expenditures are "restricted" for second year.
Mill Creek	97/98		Appropriation for two years	Two-year total shown in budget document.
Monroe	91/92	1993		Huge growth made second year hard to forecast.
Mountlake Terrace	03/04		Two one-year budgets	
Normandy Park	99/00		Two one-year budgets	
Oak Harbor	?		Two one-year budgets	
Ocean Shores	03/04		Two one-year budgets	
Olympia	Mid-80s	Mid-80s		New city manager.
Port Angeles	87/88	1993		Did not save enough time.

Cities	Started	Ended	Form	Comments
Redmond	97/98		Appropriation for two years	Two-year total shown in budget document.
Seattle	97/98		Appropriation for one year	Second year shown as "planning" in budget.
Steilacoom	95/96		Appropriation for two years	Two-year total shown in budget document.
Tacoma	91/92		Appropriation for two years	Two-year total shown in budget document.
Toppenish	87/88	1989		
University Place	99/00		Two one-year budgets	
Vancouver	85/86		Appropriation for two years	Budget document shows two-year total, but expenditures are "restricted" for second year.

Counties	Started	Ended	Form	Comments
Clark County	99/00		Appropriation for two years	Two-year total shown in budget document.
Cowlitz County	02/03		Two one-year budgets	
Kitsap County	03/04		Two one-year budgets	