F I S C A L   I M P A C T   R E P O R T

SPONSOR Moore **ORIGINAL DATE** 1-24-06 **LAST UPDATED** **HB** 300

SHORT TITLE Biennial Budget Pilot Project **SB**

ANALYST Hadwiger

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB199.

SOURCES OF INFORMATION
LFC Files
"Annual and Biennial Budgeting: The Experience of State Governments" (NCSL, October 2004)
"Moving New Mexico Forward: FURTHER ALONG," Office of the Governor, August 2004
Department of Finance and Administration

SUMMARY

Synopsis of Bill

House Bill 300 would create a four-year (two-cycle) biennial budget pilot project. In this pilot project, state agencies with annual budgets under $5 million would operate under biennial budgets; all other state agencies would continue to operate under annual budgets. The bill modifies existing statutory language to allow the biennial budget pilot project.

The bill provides for a joint biennial budget pilot project staff evaluation team (two staff members from the Department of Finance and Administration State Budget Division and two from the Legislative Finance Committee) to monitor the biennial budget process including:

1. determining base-line data for each participating agency's costs and staff time consumed to produce and attend hearings on the annual budget requests as well as agency performance data and the need for budget adjustment requests and supplemental/deficiency requests;
2. compare base-line data with comparable data during the pilot project;
3. if funding is available, contract for an external evaluation of the pilot project;
4. regularly report and consult with a LFC subcommittee appointed to oversee the pilot project; and

5. provide an annual report to the New Mexico Legislative Council, Legislative Finance Committee and Governor by August 1 of each year, as well as provide a final report in August 2010 with recommendations with regard to continuation of biennial budgeting in New Mexico.

The evaluation team could exempt agencies from participation in the pilot project.

The pilot project would begin in FY08 and end in FY11.

The biennial budget for small agencies would be approved, implemented and modified according to the schedule below:

ODD-NUMBERED YEARS	***BUDGET ACTIVITY***
By January 10	Governor submits biennial budget request to legislature.
January-March	Legislature adopts biennial budget
By May 1	Each agency submits operating budget to the Department of Finance and Administration (DFA) to implement the approved budget for the ensuing two years.
By June 15	DFA sends supplemental budget forms to be submitted by state agencies that plan to request a deficiency or supplemental appropriation.
June 30	Close of biennium; unexpended general fund appropriations revert to the general fund.
By September 1	Agencies submit requests for supplemental and deficiency appropriations.
EVEN-NUMBERED YEARS	
By January 5	Governor submits supplemental and deficiency budget to legislature.
By June 15	DFA sends biennial budget request forms to agencies
By September 1	Agencies submit performance-based biennial budget requests to DFA and the LFC

Significant Issues

Currently, executive and legislative agencies devote considerable time and expense to prepare, approve and implement annual budgets for small state departments that might be reduced through a biennial budget process. Small agencies, many of which have five employees or fewer, are currently required to produce an annual budget request volume, submit it to the Department of Finance and Administration (DFA) and to the Legislative Finance Committee (LFC), attend up to three legislative hearings and one executive meeting on the request, reply to questions about the request from DFA and LFC analysts, and submit annual operating budgets to the Department of Finance and Administration to implement the adopted budget. Additionally, staff in both DFA and LFC review the annual requests in detail, prepare and edit text and budget recommendations, and prepare and edit appropriation amounts for the General Appropriation Act. This is a labor-intensive process that yields little benefit for many agencies whose budgets do not change substantially from year to year or for which changes could be handled more efficiently through supplemental budget requests midway in a biennium.

A biennial budget process should not result in inflexible budgets for small agencies. During session in the middle of a biennium, they might still receive appropriations for across-the-board pay increases or for other across-the-board increases provided in the General Appropriations Act, as well as be allowed to submit requests for supplemental appropriations if contingencies arise that were not anticipated when the biennial budget was prepared.

There are several possible advantages of biennial budgeting:

1. The Legislature and Executive could devote more time to consideration of major policy issues confronting the state by reducing time devoted to crunching the numbers and holding hearings on small agency annual budgets.
2. Reduction of time devoted to number crunching could free up resources for oversight of all agencies by the LFC and DFA.
3. Biennial budgeting may reduce government spending by reducing the need to process volumes of paper for annual budget requests and the need for overtime, per diem, supplies and other costs related to annual budget preparation.
4. Biennial budgets would increase predictability for state agencies by providing long-term commitments to programs and policies.

According to DFA, the current annual budgeting process has been seen as time-consuming for state agencies; biennial budgeting would 'free up' time for those involved in the process to manage for outcomes because agencies would only have to build a budget every two years and supplement the appropriated budget with requests for a deficiency and/or supplemental during the interim year.

Prior to 1940, 44 states used biennial budgets. According to a study by the National Conference of State Legislatures (NCSL), the number of states with biennial budgets declined through the 1970s, primarily because legislatures shifted from biennial sessions to annual sessions and adjusted their budget cycles accordingly. In the last decade, this trend has reversed somewhat. Connecticut returned to biennial budgeting in 1991; Arizona enacted a biennial budget in 1999, now limited to smaller state agencies. In all, today 21 states adopt budgets biennially. Both President Bill Clinton and President George W. Bush recommended biennial budgeting at the federal level in their FY2001 and FY2002 budget submissions to Congress.

In *Moving New Mexico Forward: Further Along*, Governor Bill Richardson's administration recommended adoption of a biennial budget model similar to that in this bill, affecting 34 agencies with budgets under $5 million.

The primary challenge to successful implementation of a biennial budgeting system is accurate identification of agency needs two years out. It is possible that the supplemental appropriation process will provide a mechanism to address unanticipated needs.

PERFORMANCE IMPLICATIONS

In comments on a similar bill last year, DFA noted that the biennial budget process would assist the smaller agencies by only requiring the time consuming budget development process on alternate years. The agency would have more time to manage, implement and measure their performance goals. DFA and LFC would not need to review every state agency's budget annually, but would review requests for supplemental and deficiency appropriations which could be significant for some agencies. The process would allow for more time for the management and oversight of budgets.

FISCAL IMPLICATIONS

Biennial budgeting should result in savings from reduced paperwork and staff time devoted to preparation, review, and implementation of annual budgets. To the extent that DFA and LFC staff devote greater time to performance and policy review, these savings may be partially offset.

In comments on a similar bill last year, DFA indicated that expenditures will decrease in budget preparation time and resources for state agencies as well as the State Budget Division, and LFC every other year. Decreases may be seen in overtime, comp time, office supplies, and per diem rates in years without a budget request. However, funds could be then reallocated for training, site visits and other activities related to management and oversight.

DFA anticipated that additional staff time would be required to implement the biennial budget pilot project. To hold down this cost, DFA suggested that the pilot project be limited to ten agencies.

ADMINISTRATIVE IMPLICATIONS

DFA noted that the administration of biennial budgeting will occur at the agency level, State Budget Division and the Legislature. Currently, both the State Budget Division and LFC have responsibilities during the request, appropriation and operating aspects of the budget process. These aspects include the statutory deadlines for the budget submissions and performance measures development and release of budget recommendations, and the hearings that the LFC schedules with each agency. DFA indicated that each agency involved in the budgeting process has sufficient staff and resources to carry out the legislation. The resources and staff would have to reallocate the work hours and associated costs for the tasks associated with each year of the biennial budget.

DH/mt