

**CITY OF MARYSVILLE AGENDA BILL**

**EXECUTIVE SUMMARY FOR ACTION**

**CITY COUNCIL MEETING DATE:** 4/14/2014

AGENDA ITEM: Discussion relating to Biennial Budget	
PREPARED BY: Sandy Langdon, Finance Dir./City Clerk  DEPARTMENT: City Clerk	DIRECTOR APPROVAL:
ATTACHMENTS: MRSC Biennial Budget Presentation Biennial Budgets in Washington Cities and Counties - Revisited (MRSC) Draft Comparison Annual vs. Biennial	
BUDGET CODE:	AMOUNT:

**SUMMARY:**

Biennial budgeting is a two-year budget that is adopted in the odd years as identified under RCW 35A.34. It has several similarities to the annual budget and some differences.

A biennial begins by approving an ordinance at least 6-months before the beginning of the biennium and must start on an odd numbered year. Biennial budgets require a mid-biennium review and modification. This review and modification cannot occur any sooner than eight months (September 1st) after the start of the biennium and no later than the conclusion of the first year of the fiscal biennium. The review and modification requires a public hearing and ordinance adoption.

Biennial budgets are prepared by 36 cities. Two forms of biennial budgets are used: 1) two one-year budgets and 2) appropriation for two years. The two one-year budgets are exactly that. The budgets are prepared as two separate budgets and then adopted in one ordinance. The appropriation for two years has several forms in its preparation but ultimately is adopted as one budget for the two-year period. This is the most common form of biennial budget, 27 of the 36 cities use this form.

Biennial budgeting is considered to assist cities with a forward view and is used as a tool to plan beyond one budget year.

<b>RECOMMENDED ACTION:</b> Staff recommends that Council consider the presentation on biennial budgets and direct staff to begin preparations for a biennial budget for 2015/2106 or to continue with an annual budget for 2015.
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# *Biennial Budgeting*

Presented by Mike Bailey, City of Redmond Finance Director

And

Lynn Nordby, MRSC Public Policy and Management Consultant



# Welcome to the Webinar



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# Biennial Budgeting

# Goals

- At the conclusion of this webinar you will:
  - Understand what a biennial budget is
  - Know what steps are required by state law to implement a biennial budget
  - Understand the “pros and cons” of biennial budgeting
  - Have resources to help you further consider whether a biennial budget is best for you
  - Have some tips and tricks for implementing

# Resources

- Much of today's webinar is based on an article available on MRSC's web site  
[www.mrsc.org](http://www.mrsc.org) (navigate to finance, budget, biennial budget)
- Additional resources are also available on MRSC's web site (including a list of those entities using a biennial budget)
- The GFOA ([www.gfoa.org](http://www.gfoa.org)) also has numerous resources and best practice statements on multi-year budgeting (also available through MRSC website)

# Biennial Budgets

- Budgeting for two years at a time
  - Has been permitted in WA cities since 1985
  - Has been permitted in WA counties since 1995
- To date, several dozen cities and at least six counties are using this approach



# Biennial Budgets

- What is it exactly?
  - A “two-year” appropriation
    - \* Can be a full 24 months worth of budget authority
    - \* Can be adoption of two one-year budgets (limiting the appropriation for each year to a certain limit)
    - \* Can be a one year appropriation and a “plan” for the second year
  - Many new biennial budgets have some type of internal restriction on spending within the biennium

# What is an Appropriation?

- The budget is a tool where the legislative body delegates spending authority to the executive branch
- This delegation of authority is known as an appropriation (aka: budget)
  - Without an appropriation – there is no authority to spend
  - The appropriation is time limited and must be proscriptive (that is you can't retroactively grant this authority)

# Biennial Appropriation

- Based on the biennial budget law and our knowledge of an appropriation...
  - We now know that if you use a “true” biennial budget
    - \* The legislative branch has granted additional authority to the executive branch for the expenditure of funds
  - We also know (from our knowledge of budgets) that appropriations and revenues do not always match

(more about this later)

# How to implement a biennial budget

- Cities must declare a decision to use a biennial budget at least six months prior to the beginning of the biennium
- Counties have *more flexibility* but must also make an official determination (by ordinance or resolution)
- The government can revert to an annual budget, by similar fashion, at the conclusion of a biennium

# Mid-biennium Review

- Cities and counties using the authority for a biennial budget must conduct a mid-biennium review
  - For cities the review no sooner than 8 months after the start of the biennium and be concluded no later than the first year of the biennium
  - Essentially the mid-biennium review needs to occur between *September 1 and December 31* of the 1<sup>st</sup> year
  - For counties the guidelines are less rigid (but the cities requirements are a good rule of thumb!)

# Mid-biennium Review

- A mid-biennium review must:
  - Consist of any proposed modifications to the adopted biennial budget
  - Be advertised and published in a manner similar to other ordinances of the city (if it results in an ordinance)
  - Include procedures for notice to the members of the council and public
  - Be in the form of an ordinance (if any changes are proposed)

# Mid-biennium Review

- Budget amendments (in general)
  - A biennial budget can be amended
    - \* Like an annual budget  
*(Lots of confusion on this point)*
  - Don't need to wait for the mid-biennium review  
*(we don't)*
  - The notion of an “emergency”
    - \* A state law that could be updated to reality!

# Reasons to use Biennial Budgets

- Saves time
  - Budgeting consumes a lot of organizational capacity
    - \* By only creating a full budget every other year that capacity can be put to other productive uses
    - \* There is some additional work required to create a biennial budget, but...
    - \* The savings of time more than outweighs the extra effort involved (in my experience)



# Reasons to use Biennial Budgets

- Creates organizational capacity (similar to saving time)
  - The capacity created exists both with staff *and* the council / board
  - Many use this capacity to leverage the financial planning
    - \* The biennial budget already is a longer view (see next topic)
    - \* *Long range financial planning* is a “*best practice*” at GFOA
  - Be careful to capture this additional capacity for strategic purposes
    - \* For *both council and administration*

# Reasons to use Biennial Budgets

- The perspective is consistent with *strategic thinking*
  - A budget is an implementation tool of a strategic notion
  - A two year budget is more strategic than a one-year budget (generally speaking – not always true)
  - The two-year format will often “force” the organization to think about issues in a different way
    - \* There is a risk that balancing a one-year budget becomes a “*puzzle to solve*” – rather than a strategic exercise
- You really make positive change in your organization by thinking more strategically!

# Reasons to use Biennial Budgets

- Improved policy perspective
  - Helps identify the issues in a longer time context
    - \* Helps deal with potential “bow-wave” problems of *gimmick budget solutions*
  - Allows adequate time for solutions to be implemented
  - Likely will stretch out the budget process
    - \* This tends to result in being able to be more deliberate in your budget planning effort

# Reasons to use Biennial Budgets

- Political implications
  - Cities are required to implement a biennial budget in a non-election year
    - \* Counties might want to consider a similar construct
  - De-politicizes the budget (*at least a little bit*)

# Reasons not to use Biennial Budgets

- Loss of Control!
  - This is the *primary concern* we hear voiced
  - Council is granting a lot more authority in a 2 year budget
    - \* Some ways to mitigate this concern are coming soon!
  - Can illustrate a *lack of trust*
    - \* Or other underlying political issues for the entity

# Reasons not to use Biennial Budgets

- A change in leadership
  - Either political or appointed
  - Suggests that a “*stable*” organization is a better environment for implementing new challenges to the organization
    - \* Absolutely agree with this notion
    - \* Stability can come in many forms, and be lost in many places (and here I’m referring to political instability)

# Reasons not to use Biennial Budgets

- Difficulty in Forecasting
  - It is absolutely true that it is harder to forecast for twice as long
    - \* Revenue forecasting becomes more difficult – and risky
    - \* Expenditure forecasting is also challenging
      - Compensation strategies are a good example
  - A culture where adjustments are “okay” is important

# Reasons not to use Biennial Budgets

- Squandering the benefits
  - Some of those organizations who reverted back to annual budgets did so due to this challenge
  - They found themselves essentially doing a biennial budget (which is harder) and then doing another budget during the mid-biennium review
  - **Don't do this** 😊
    - \* Adopt a financial policy that says your mid-biennium review will be **limited** (in some way)



# Reasons not to use Biennial Budgets

- It is harder
  - This takes a few forms:
    - \* Software problems may make it complicated  
(not sure I agree – but this is what we've heard)
    - \* The forms used in budgeting need to be modified
    - \* The tendency will be to think about the 1<sup>st</sup> year (only)
  - *Councils may struggle* with the balance between the two years

# Tips and Tricks

- Leverage the benefits
  - Think of your biennial budget in the context of a *longer range financial strategy*
    - \* Create a *financial planning model* of 3 biennia (6 years)
  - Build the budget as a component of this strategy
    - \* The two year view will be supportive of this approach
    - \* It actually *moves the organization toward goals*
    - \* The rating agencies will really love it!

# Tips and Tricks

- Leverage the benefits
  - Use the “*off budget year*” to build out other capacity
    - \* Examples include: performance measures, financial policies, long-range financial planning, capital planning, etc.
  - Build trust with frequent “check-ins” on budget
    - \* Mitigate the concerns about loss of control with a very high level of communication

# Tips and Tricks

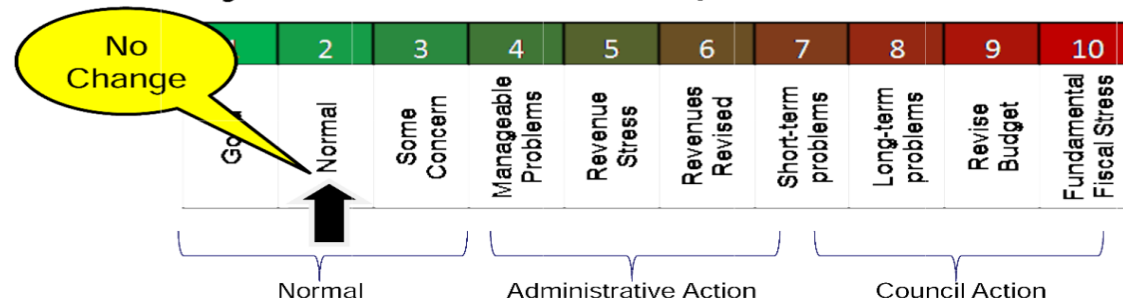
- Guard against the concerns
  - Create a structure that assures council that fiscal restraint will occur in a 24 month budget
    - \* *Can include controls in the adopting ordinance*
    - \* *Need to exercise the high level of communication*
  - Advise how the original forecasts turned out
    - \* *Since forecasting is more difficult, compare the forecast to actual results (and indicate when this suggests corrections are needed)*

# Communicate Often



## "Big Picture"

- Financial condition is - Normal
- Financial accountability
  - Public Administration and Finance Committee - monthly
  - City Council - quarterly
  - City Administration – weekly (as needed)



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See Redmond's financial reporting on our web site  
<http://www.redmond.gov/Government/FinancesandBudget/FinancialReports/>



## Hear from some of the cities and counties using Biennial Budgeting

- Observations
- Tips
- Options
- Contrary opinions



- Not going through a full budget process in the second year breaks the “continuous budgeting cycle”
- SAO still requires an annual report – Close the year but not the budget
- Requires a longer view – Opportunity for strategic thinking
- 24+ month financial projections are harder and more potentially volatile
- “Memories aren’t always as long as the budget cycle”
- Well worth the effort



- Start early – Plan carefully
- Be thoroughly familiar with the process, laws, MRSC’s resources
- Agree on the process before you start
- Keep the Council/Board well informed along the way – NO SURPRISES
- Use the time freed up in the second year for special projects
- Monitor budget and overall economy - Watch for trends
- Mid Budget year can focus on capital plans, rates and fees, special studies





- A single two year budget
- Two one year budgets
- A one year budget with a second year “spending plan”
- Budget amendments - Always

# Cons – *“Tried it, didn’t like it.”*



- Council felt that it was losing control
- Wasn't responsive in a falling economy
- Didn't save enough time
- Annual budget more flexible
- So many budget amendments it seemed just as time consuming as doing an annual budget

# Questions?





*Thank you for attending our webinar.*

*Editor's Notes: 1) "Why," someone might ask, "are you including an article on biennial budgeting in Budget Suggestions for 2014 when 2014 is an even-numbered year? I thought cities could only begin a biennial budget in odd-numbered years." That is true, but an ordinance to start a biennial budget in 2015 must be passed no later than **June 30, 2014**. And, Budget Suggestions for 2015 will not be published until **July 2014**. In addition, we did a survey of cities and counties that currently do biennial budgets and one common "tip" was to "start planning early." So, this article is just to remind you that if you are thinking of doing a biennial budget for the 2015-2016 biennium, planning should probably begin in January 2014. We plan on having a webinar on biennial budgeting in January, so that will serve as a reminder.*

*2) And, on the topic of the survey. I'll be including comments about things I learned from the survey in the text of the article below. **My comments are in italics**. I got so many terrific comments and tips that I can't pass them all along within the context of the article. I will be asking those who answered my questions for permission to publish their answers. I hope to post them on our biennial budget webpage, [www.mrsc.org/subjects/finance/budgets/biennial.aspx](http://www.mrsc.org/subjects/finance/budgets/biennial.aspx), sometime in September.*

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

By Mike Bailey, Finance Director, City of Redmond,  
with comments by Judy Cox, Public Finance Consultant, MRSC

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

Approximately 46 cities and six<sup>2</sup> counties have worked with some form of biennial budget 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 46 cities that have used the multi-year approach, ten have reverted back to a traditional one-year budget and two went back to an annual budget and then switched to a biennial budget again. One county has returned to an annual 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

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<sup>1</sup>This article is a revision of one Mike Bailey wrote for *Budget Suggestions for 2004*.

<sup>2</sup>These numbers include Bainbridge Island and Seattle, which adopt annual budgets with "endorsed" budgets for the second year, and King County, which started using a biennial budget for some departments in 2013-2014 and plans to switch the remaining departments to a biennial budget in 2015-2016.

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 (note, however, that a "mid-biennium review" is required and could be considered a subsequent action).

Cities are required to make the decision to use a biennial budget by ordinance. The legislative authority for cities is found under ch. 35.34 RCW (or ch. 35A.34 RCW for code cities). This ordinance must be passed *at least six months before the beginning of the biennium, and a biennium must start on an odd numbered year*. For instance, to begin using a biennial budget for 2015/2016, a city council must adopt an ordinance choosing to use a biennial budget by June 30, 2014. 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 we hear for using a twenty-four-month appropriation is to consolidate the amount of effort invested in the budget development and approval process. This is true for the finance staff and the department staff preparing the budget materials, and for the council, which reviews the materials and eventually adopts a budget.

While it is agreed that it takes more effort and time to prepare a twenty-four-month budget than a traditional twelve month budget, 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 (Redmond), we invest this time savings in other budget-related matters, such as strategic planning, special project analysis, and performance measurement. Many local government best practices are difficult to implement due to time constraints, and a good example is improved performance management. The significant amount of time devoted to each annual budget can make it difficult to invest adequate time in these other topics, including the performance management aspects of our budget systems. This realization is what specifically led to the recommendation to the Lynnwood city council (when I was working for that city) that it adopt a biennial budget process. In the first biennium, the success of this strategy was already apparent. It enabled staff to refine strategic plans in the "off-budget year" (that is the year during which you would typically be doing an annual budget, but don't need to because of the biennial budget). The council was also able to devote time to review and use the plans more effectively in directing city resources over future years.

In Redmond, we have been able to use the "off-budget year" to develop a Long Range Financial Strategy, conduct studies (such as on our fleet operation, development fees, indirect cost allocation, and others), and work on improving performance management. In addition, Redmond

uses a time-intensive “Budgeting for Outcomes” (BFO) budget model. This approach takes almost a full year to complete. The biennial budget provides us an opportunity to use the BFO approach and not be constantly budgeting. We also use the off-budget year to assess the lessons learned in our prior BFO process and make improvements each cycle.

*Almost every entity noted the time savings of a biennial budget. And, they had a multitude of different ways to use the freed-up time. Not having to produce a budget document in the “off” year was mentioned as a big plus by many entities. One city pointed out the extra time provides flexibility to make adjustments in workload when delays occur or something comes up that needs to be dealt with.*

**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 Budget Practices”)<sup>3</sup>. Some cities and counties use these “financial plans” to guide the. for 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 the budget itself. A biennial budget extends the planning horizon of the legal budget appropriation. A budget is an inexact estimate of revenues and authorization of permitted expenditures. The longer view emphasizes the planning aspect of budgeting and this can be good, but it can also introduce difficulties to the process related to forecasting (discussed below).

*A city administrator used a vivid analogy to emphasize the benefits of a longer perspective: “It forces us to think longer term and take longer term actions. In an environment of diminishing resources, it is fairly easy to kick the can down the road and save the tough budget-balancing decisions for the next year. With a biennial budget, it is harder to do that. If you are going to kick the can, you have to kick it harder and further.”*

*And a finance director almost waxed poetic: [A biennial budget] shifts the eyes of the organization up to look out two years rather than just one year ahead....[H]elpful in extending the financial vision for an organization (a six-year forecast now becomes three biennial budgets)*

*Another finance director finds a biennial budget to be “more transparent on full program costs” when a new program may only incur some of the costs in the first year.*

**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 is not the normal course of business and is 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.

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<sup>3</sup>“Long-Term Financial Planning,” GFOA Best Practice, 2008 <http://www.gfoa.org/downloads/LongtermFinancialPlanningFINAL.pdf>.

The off-budget year allows the council to invest time on strategic issues. For example, I've already mentioned the Long Range Finance Strategy developed in Redmond.<sup>4</sup> Redmond has also developed a Capital Investment Strategy (CIS) in the off-budget year. This tool extends the capital facilities plan out to the planning horizon used in the Comprehensive Plan. The CIS looks out twenty years into the future and assesses the capital investments needed to provide the infrastructure that supports our land-use plans.

*Like Redmond, many of the entities spend their extra time the second year developing new policies or fine-tuning existing ones. One city mentioned that the biennial budget helps with contract negotiations – they have put all their contracts, including labor, on the same cycle.*

**Political Implications.** Currently, an annual budget means that every other budget is developed in the context of local 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 and attention.

## Reasons Against Using a Biennial Budget

Some cities (12 by our count) and one county have tried biennial budgets and reverted back to annual budgets. (Two of those 12 cities have subsequently returned to biennial 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 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.

*Two respondents reported that the "council feels as if it is losing something." One person emphasized that the staff and administration need the council's trust. Another said he reminded the council that the city could always go back to an annual budget if it wanted to; this reassured them.*

*Providing enough time for deliberations so the council does not feel pressured was another suggestion for raising the council's comfort level. "Let there be as many meetings as required. Don't rush the Council. If time runs out before the agenda is complete, move it to the next meeting. We schedule all the meetings up front and add an additional meeting or two in the event we need it. Therefore, the worst case would be not having to meet."*

*A number of cities commented that their councils liked having the extra time to work on non-budget issues; that the council thought a biennial budget provided a better use of the city resources than an annual one.*

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<sup>4</sup>A copy of the report, "Redmond's Financial Strategy: A six-year long-range financial strategy," Revision No. 1, Adopted November 15, 2011, can be found at [www.mrsc.org/govdocs/r42lrfs.pdf](http://www.mrsc.org/govdocs/r42lrfs.pdf).



**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 revenues and variable expenditures. Two-year budgets require all the estimates and forecasts, which were already difficult enough to do for twelve months, now 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.

*I asked a few cities whether the anticipated time savings from a biennial budget were taken up by trying to balance the budget during the recession. One city said they began talking about reductions right after adopting the 2009-2010 budget, and it seemed as if it was “all budget, all the time” during that biennium. I suspect that I would have received more answers like this one if I had asked a specific question rather than simply saying “What do you like least about a biennial budget?” Another respondent commented on the cumulative effect in the second year of receiving revenues lower than forecast in the first year. He also pointed out that “budget deficits tend to be larger in scale when looking at a two-year period and therefore are inherently more difficult to resolve, although the reality in some cases is that you do have a longer period of time to address the deficit.”*

*Some cities, which in “normal times” allowed their department heads to have lots of flexibility in spending their budget (see below), noted that during the recession they watched first year expenditures more closely and warned their departments that funds remaining from year 1 would only be available to them for year 2 expenditures with the approval of the finance director. Of course, in some cities, year 1 under expenditures are never available to the departments, even in “good” years.*

**Not realizing the anticipated time savings due to an extensive mid-biennium process.** I've heard an entity that tried a biennial budget and then reverted back to an annual budget (and since then reverted back again to a biennial budget) explain that they just didn't see the anticipated time savings during the off-budget year. This was true as a result of either the staff (but usually the city council) wanting the process to include virtually all the normal steps of a traditional budget process. The concern was that the extra effort to do a biennial budget did not result in any efficiencies in the off-budget year – so why do it!

This does point out a tip that I provide those who have asked me about moving to a biennial budget. If you plan to make the change, it will require discipline to manage the mid-biennium budget review (described below) to be a tune-up of the budget. Those that let the review process become another budgeting free-for-all will soon find any time savings erode into this process.

*What to do during the mid-biennial review period appears to be a learning process. A number of cities mentioned this as an issue. One said “...we have moved from being pretty nit-picky about the mid-biennial adjustments to line items and are now more focused on the big picture...”*

**Software problems:** *Mike did not mention this, but some of the survey respondents did. “The biggest challenge of biennial budgeting is software limitations,” said one. Perhaps they need to contact Walla Walla, which responded, “Our financial software has a budgeting module that works well with biennial budgets.”*

## Forms of Biennial Budgets

The concept of a two-year appropriation is pretty straightforward and is 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 analyses are done for each separate year.

Seattle and Bainbridge Island, for example, appropriate funds for only the first year and display numbers for the second year in their budgets as “endorsed.”

Nine cities (of the other 34 that we know adopt biennial budgets) and two of the four counties adopt *two, one-year budgets* in their ordinances or resolutions.

The remaining 25 cities and two counties use a two-year appropriation in their budget ordinances (or resolutions). 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.

*For example, as far as I can tell from the survey responses,<sup>5</sup> 10 of these cities (and one county) do not limit how much their departments can spend in either year of the biennium.<sup>6</sup> Eight of the cities and the county show the expenditures in their budget documents for the two years together, in a single column. The other two cities display the expenditures in separate columns for the two years*

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<sup>5</sup>Two cities did not respond to the survey.

<sup>6</sup>An exception was during the recession when some said they did tell departments to hold back on their year 1 expenditures. Then they either captured the savings at the end of the first year to cover revenue shortfalls or told the department heads that they needed finance director or city manager approval to spend them.

*of the biennium. Four cities and one county appear to be quite firm in restricting expenditures to those planned or allocated for years 1 and 2. They make no mention of possible exceptions.*

*If you think of each of these two groups as being at opposite ends of a spectrum, then two of the remaining cities appear to be closer to the more flexible end and seven to the more “firm.” However, these seven all expressed some willingness to work with a department that wanted to spend more than the planned amount for year 1. And, one even allows carryovers from year 1 (not because the finance director favors it, but because the council does.)*

*So, there are lots of different ways to do biennial budgets—from adopting only the first year and endorsing the second to adopting two annual budgets to adopting a biennial amount and then setting up the “spending rules” in a number of different ways. Cities and counties in different financial situations, in different parts of the state, and with differing philosophies about budgeting should all be able to find some version that works for them.*

A chart of the cities and counties that use biennial budgets (at least as best we can tell) may 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 (2015 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 in RCW 35A.34.130 for a “mid-biennium review and modification.” This review and modification is to start no sooner than September 1 and be completed by the end of the year. The purpose of the review and modification is essentially to tune up the budget for any needed refinements (or make larger changes, if needed). This review and modification process requires public hearings, if any modifications to the budget are recommended. As in many of the other provisions related to biennial budgets, the requirements for the mid-biennium review and modification 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 a biennial budget was, in many respects, not overly difficult. 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 a

contracting economy also significantly complicated the budget process. However, we got much better at looking at the full 24 months in subsequent cycles.

The development of the forms and the assumptions used in the budget was pretty straightforward. Adding the second year to the forms was relatively 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 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've implemented a biennial budget in Lynnwood, set the stage for reverting back to the biennial approach in Renton, and inherited a very mature biennial budget process in Redmond. Overall, I believe the advantages of the biennial budget significantly outweigh the disadvantages. It is my 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 Redmond.

**Cities and Counties That Do Biennial Budgets**

<b>Cities</b>	<b>Started</b>	<b>Form</b>	<b>Comments</b>
Auburn	2009-2010	Two one-year budgets	
Bainbridge Island	2009-2010	Appropriation for one-year	"Endorsed" budget for second year.
Battle Ground	2009-2010	Appropriation for two years	Expenditures restricted each year to administrative allocations in budget document.
Bellevue	1997-1998	Appropriation for two years	Each year shown separately in budget document. Like flexibility of two years, but monitor departments annually.
Bonney Lake	2007-2008	Appropriation for two years	Separate years shown as "Estimated Allocations" in budget ordinance. Department heads restricted to those amounts.
Bothell	2003-2004	Appropriation for two years	"True biennial budget –department heads have full authority to spend in any way they see fit..."

2015  
ANNUAL  
BUDGET

DRAFT COMPARISON ANNUAL vs. BIENNIAL

2015  
BIENNIAL  
BUDGET

2016 BIENNIAL  
BUDGET

DATE	ITEM	COMMENT	DATE	DATE
	4th Quarterly Report to Council	Final Year-End financials available and carry-forward budget adjustments.		Jan
	1st Quarterly Report to Council			Apr
Jul 9	Headcount Worksheets	Finance prepares and distributes headcount worksheets. ( by 2nd Mon. in Sept. RCW 35A.33.030)	Jul 9	N/A
Jul 23	Employee Worksheets Due	Departments return updated employee worksheets to the Finance Department	Jul 23	N/A
Jul 25	Budget Worksheets to Depts	Finance prepares and distributes budget packets to departments	Jul 25	N/A
	2nd Quarterly Report to Council			Jul
August	Revenue Projections	Finance meets with departments to assist with revenue projections.	August	N/A
Aug 22	Budget Worksheets Due (Expenditures /Program Requests)	Departments return updated <u>expenditure worksheets</u> and <u>budget requests</u> to the Finance Department	Aug 22	N/A
	Begin Mid-biennial Review and Modification/Status Worksheet to Depts.	No earlier than 9/1 RCW 35A34.130		Sept 1
Sept 12	Finance Distributes Updated Budget Info	Finance distributes updated budget worksheets for review by <b>Departments</b> . Submit corrections to <b>Finance</b>	Sept 12	Sept 11
Sept 22 -26	Management Budget Meeting	Management meets to review budget strategic model w/Finance	Sept 22 -26	Sept 21-25
Sept 29-Oct 3	Management/Department Budget Meetings	Management meets with <b>Departments</b> to review individual budget information	Sept 29-Oct 3	Sept 8 2
Sept 22	Budget Estimates	Finance files budget estimates with the Clerk's office (by 4th Mon. in Sept. RCW 35A.33.030)	Sept 22	N/A
Oct 6-10	Management Team Budget Workshops	Management meets with <b>Departments</b> to review new budget requests	Oct 6-10	N/A
Oct 6	State of the City	Administration & Finance presentation to council (RCW 35A.33 by 1 <sup>st</sup> Mon in Oct)	Oct 6	N/A
Oct 6-10	Budget Workshop Preparation	Finance Department organizes documents for Council Budget Workshop	Oct 6-10	N/A
	3rd Quarterly Report to Council			Oct
Oct 22	Finance Committee Meeting	Meet with <b>Finance Committee</b> regarding Council Budget Workshop	Oct 22	Oct 21
Oct 20-24	Mayor's Budget Message Preparation	Mayor prepares Mayor's Budget Message (by 10/31)	Oct 20-24	N/A
Oct 20	Distribution and hearing date set	Proposed budget delivered to Council with Mayor's Budget Message (60 days before the ensuing fiscal yr. RCW 35A33.052). <b>Council</b> sets public hearing date	Oct 20	N/A
Oct 27-31	Council Workshop	<b>Schedule</b> Council Workshop during this week	Oct 27-31	N/A
Nov 3-7	Organize Proposed Budget Document	Finance prepares results of workshop into the Proposed Budget Document	Nov 3-7	N/A
Nov 15 & 22	Notice of Filing of Proposed Budget and Property Tax Levy Setting	<b>Clerk</b> publishes notice of filing of proposed budget & property tax levy setting w/city clerk & publishes notice of public hearing on final budget once a week for two consecutive weeks (no later than 1 <sup>st</sup> 2 wks in November)	Nov 15 & 22	Nov 7 & 14 Budget Modification/Property Tax Levy Hearing Notice
Nov 24	Property Tax Levy Hearing/Adoption	<b>Council</b> adopts ordinance setting property tax levy (by 11/30)	Nov 24	Nov 23
Nov 24	Public Hearing	Proposed Budget public hearing (by 1 <sup>st</sup> Monday in Dec)	Nov 24	Nov 23 Budget Modification
Nov 24	Adoption of Budget	<b>Council</b> adopts Budget Ordinance (by 12/31)	Nov 24	Nov 23 Adoption of Budget Modification
Dec 15	Sales Tax Annexation Resolution	Finance presents to Council for approval	Dec 15	Dec 14
Dec 15-Jan 5	Prepare and Publish Final Budget Document	Finance completes and publishes final budget document	Dec 15-Jan 5	N/A