



South Dakota Legislative Research Council

Issue Memorandum 98-05

BIENNIAL BUDGETING

Introduction

From time to time the issue of changing from annual to biennial budgeting has presented itself to the Legislators and citizens of South Dakota. This issue memorandum will review South Dakota's past practices as well as national trends surrounding annual versus biennial budgets. It will also consider some of the advantages and disadvantages of each cycle for budgeting.

Budget Cycles: South Dakota's History

South Dakota was first faced with the decision whether to plan its fiscal affairs around an annual or a biennial schedule in January of 1965. The 1963 Legislative Session was the last of South Dakota's regular biennial sessions. During that 1963 Legislative Session, the Legislature provided for a biennial budget for the fiscal years 1964 and 1965. (Note: South Dakota's fiscal year runs from July 1 of a calendar year to June 30 of the next calendar year--so that fiscal year 1964 started on July 1, 1963, and ended on June 30, 1964. For the remainder of this issue memorandum, fiscal year 1964 will be denoted as FY1964, fiscal year 1965 will be denoted as FY1965, and so on.) The 1963 Legislature did this knowing that they would be back in regular session again in 1964, as the Constitution was amended in November of 1962 to provide for regular annual sessions of the South Dakota Legislature. The 1963 Legislature could have chosen to provide for an annual budget for FY1964, and return in January of 1964 to prepare an annual budget for FY1965. The Legislature

returned in 1964, for the first time in regular session in an even-numbered year. Also, for the first time the Legislature was presented with an opportunity to adjust a biennial budget in the second year of a biennial budget. The Legislature took that opportunity and passed a supplemental budget to the FY1965 budget (which was already in place as the second half of the biennial budget enacted by the 1973 Legislature). The 1965 Legislature, like its predecessor in 1963, passed a biennial budget for FY1966 and FY1967. Likewise, the 1966 Legislature passed a supplemental budget for FY1967.

In 1967 Governor Nils Boe addressed the annual/biennial question in his State of the State Address. He said:

To complement our efforts in providing a more adequate and detailed accounting of our expenditures and use of public funds, I am submitting to you for the first time an annual budget as distinguished from the customary biennial budget. To some, such a departure from the previous procedure may be considered undesirable.

With the establishment of the annual Legislative Session, however, sound business practices will not condone attempts to project income receipts and budget expenditures two years into the future. The instability of Federal

programs, the cut-back of Federal funds, the impact of the Vietnam War, and above all, the inability of mortal man to foretell with accuracy the distant future indices of prosperity or recession in my opinion dictates such a revision of our budgetary procedure

Responding to Governor Boe's recommendation, the 1967 Legislature passed an annual budget for FY1968--and left the FY1969 budget for consideration by the 1968 Legislature. The next thirty-one budgets were all annual budgets.

A Brief Digression

South Dakota's budget through appropriations by the Legislature has always been comprised of: (1) A General Appropriations Act (General Bill) for the day-to-day operation of state government and the provision of state services; and (2) Any number of special appropriations bills (Specials) appropriating money for any number of purposes. The discussion in the previous paragraph, and the remainder of this memorandum will focus mainly on the General Bill aspect of the state budget. Also, the focus of this report will be on the

appropriation part of the budget, as opposed to the revenue side of the equation.

The General Bill is a legislative creation, albeit based largely on the Governor's budget recommendations. As a creation of the Legislature, the General Bill may take whatever form the Legislature desires. Thus, the choices are the Legislature's as related to an annual or biennial budget, the level of detail in the General Bill, and any other elements that may relate to the General Bill.

South Dakota's budget laws provide for multiple-year budgeting in two instances. SDCL 4-8-21 allows for a special appropriation to be effective for four years, unless otherwise specified, and SDCL 4-8-22 allows for appropriations for maintenance and repairs to be effective for two years. This allows for appropriations for capital and maintenance projects to be in effect during the construction phase of the projects--which are typically more than one year.

Recent Evolution of Legislative Timetables

An informal look at the evolution of legislative session and budget schedules resulted in the following table.

	LEGISLATIVE CYCLE, 1970	BUDGET CYCLE, 1970	LEGISLATIVE CYCLE, 1984	BUDGET CYCLE, 1984	LEGISLATIVE CYCLE, 1996	BUDGET CYCLE, 1996
ALABAMA	BIENNIAL	BIENNIAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
ALASKA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
ARIZONA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
ARKANSAS	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
CALIFORNIA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
COLORADO	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
CONNECTICUT	BIENNIAL	BIENNIAL	ANNUAL	ANNUAL	ANNUAL	BIENNIAL
DELAWARE	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
FLORIDA	ANNUAL	ANNUAL	ANNUAL	BIENNIAL	ANNUAL	ANNUAL
GEORGIA	ANNUAL	BIENNIAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
HAWAII	ANNUAL	ANNUAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL
IDAHO	ANNUAL	BIENNIAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
ILLINOIS	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL

INDIANA	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL
IOWA	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	ANNUAL
KANSAS	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
KENTUCKY	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
LOUISIANA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
MAINE	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	BIENNIAL	BIENNIAL
MARYLAND	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
MASSACHUSETTS	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
MICHIGAN	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
MINNESOTA	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL
MISSISSIPPI	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
MISSOURI	BIENNIAL	BIENNIAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
MONTANA	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
NEBRASKA	BIENNIAL	BIENNIAL	ANNUAL	ANNUAL	ANNUAL	BIENNIAL
NEVADA	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
NEW HAMPSHIRE	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL
NEW JERSEY	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
NEW MEXICO	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
NEW YORK	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
NORTH CAROLINA	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	BIENNIAL	BIENNIAL
NORTH DAKOTA	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
OHIO	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL
OKLAHOMA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
OREGON	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
PENNSYLVANIA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
RHODE ISLAND	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
SOUTH CAROLINA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
SOUTH DAKOTA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
TENNESSEE	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
TEXAS	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL	BIENNIAL
UTAH	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
VERMONT	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
VIRGINIA	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL
WASHINGTON	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL
WEST VIRGINIA	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL	ANNUAL
WISCONSIN	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	BIENNIAL	BIENNIAL
WYOMING	BIENNIAL	BIENNIAL	ANNUAL	BIENNIAL	ANNUAL	BIENNIAL

Frequency of Legislative/ Budget Cycle	1970	1984	1996
Annual/Annual	26	30	30
Annual/Biennial	3	12	10
Biennial/Biennial	21	8	10

Source: The Book of the States, 1970-71, 1984-85, and 1996-97 Editions

The visible trend has been away from biennial legislative sessions. Since 1970, eleven fewer states engage in biennial legislative sessions. It should, however, be noted that not all states fall neatly into the annual/biennial scheme. This is because several states have constitutions that prescribe biennial sessions but allow for special sessions that in effect become a regular session during the second year of the biennium. Of those states that have switched to annual sessions, some have chosen to retain biennial budgeting, while others, like South Dakota, have gone to annual budgeting along with annual legislative sessions.

Annual Sessions and Biennial Budgets-- Some Observations

If South Dakota were to adopt a biennial budget process, it would join ten other states in that practice. These states currently are Connecticut, Hawaii, Indiana, Minnesota, Nebraska, New Hampshire, Ohio, Virginia, Washington, and Wyoming. The activity in the second year of the biennium in these states varies. Each of the ten states engages in some type of supplemental budget during the second year of the biennium. Generally, the legislative workload is not as great in crafting the supplemental budget as compared to the workload in crafting the original budget. This, however, is not the case in Hawaii and Connecticut. In these two states, the level of activity related to the supplementary budget is nearly the same as the original budget.

The philosophy behind the biennial budget is to allow the Legislature to attend to special issues, capital budgets, and program review and evaluation during the second year of the biennial budget. While these things have happened, they have not happened to the degree as was originally thought. According to some, the prospect of proposing new

initiatives and budget modifications is sometimes too great a temptation for governors and legislators to leave the second year of a biennial budget to simple budget corrections and planned reviews.

In 1985 the South Dakota Legislature's Interim Committee on Legislative Procedure studied the issue of biennial budgeting. Senator Calvin Hultman from Iowa (a state that had a biennial budget at the time) and Mr. William Pound with the National Conference of State Legislatures testified to the interim committee. Senator Hultman related the experience of the Iowa Legislature. He stated that in Iowa, annual versus biennial budgeting is a partisan issue, with the Democrats favoring annual budgeting, and the Republicans favoring biennial budgeting. Mr. Pound provided the committee with an overview of budgeting practices around the nation. Following the testimony and committee questions and discussion, the committee voted seven to one to table the matter of biennial budgeting.

The Pros and Cons

Whether one prefers one budget timetable to another is largely a matter of taste--determined largely by factors such as familiarity and custom--or a desire for change. With that in mind the following are some arguments on each side of the issue.

Annual budgeting is better because:

- (1) Annual budgeting allows the Legislature to react more quickly to changing conditions such as revenue shortfalls or new federal impacts on state budgets.
- (2) Annual budgeting requires a shorter look into the uncertain future.
- (3) Annual budgeting keeps the Legislature involved in the process on a more consistent

basis, and therefore more familiar with the budget.

(4) Annual budgeting is consistent with the federal budget and most units of local government--which are also on an annual budget cycle.

(5) Annual budgeting is consistent with the nature's one year cycle--if biennial budgeting is better than annual budgeting, is a three or four cycle even better?

(6) Most biennial budgets with the inevitable supplementary budget in the second year are in effect annual budgets anyway.

Biennial budgeting is better because:

(1) A biennial budget avoids unnecessary repetition because many budgets are sufficiently stable to be projected for more than one year--and necessary adjustments can be made in the second year.

(2) A biennial budget allows for program review, capital budgets, or other special considerations every other year.

(3) A biennial budget allows for legislators on budget committees to have a broader focus on state issues during the second year.

(4) A biennial budget inherently provides for better long-term planning.

Conclusion

The National Conference of State Legislatures (NCSL) authored a publication in May of 1995 entitled, "Fundamentals of Sound State Budgeting Practices". The NCSL publication probably best got to the heart of the issue by citing, "In reality, a state can develop a good system of executive and legislative fiscal and program planning and controls under either an annual or biennial budget. The system would work differently with the alternative timespans, but could be effective using either approach." And further citing, "The arguments used to justify and refute both annual and biennial budgets remain essentially unchanged and unproven. The success of a budget cycle seems to depend on the commitment of state officials to good implementation rather than on the method itself."

This issue memorandum was written by Dale Bertsch, Chief Analyst for Fiscal Research and Budget Analysis for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.
