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MULTIYEAR BUDGETING

The term "multiyear budgeting" describes a variety of local government processes for developing operating budgets that encompass more than the typical 12-month period. Local governing-body members often find it difficult to consider in their deliberations the long-term consequences of their decisions or the long-term needs of their communities. This report has been written to help local officials and managers decide whether and to what extent multiyear budgeting will be appropriate for their own governments.

The differences between capital programming documents or long-range financial plans and a multiyear budget are addressed. The report also includes a discussion of advantages and benefits of multiyear budgeting. The difficulties of implementing a budgeting process that encompasses additional years and so adds complexity to an already complicated process are addressed, and suggestions for meeting these difficulties are offered.

A schedule for implementing a multiyear budget is followed by case studies from Topsail Beach, North Carolina; Sandy, Oregon; Boise, Idaho; Hillsborough County, Florida; and Stroudsburg, Pennsylvania. An appendix lists other communities that use multiyear budgeting.

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Multiyear Budgeting

This report was written by James L. Cavenaugh and Pamela S. Caskie. Formerly a consultant and trainer with Pennsylvania's Department of Community Affairs, Mr. Cavenaugh has prepared municipal budgets in several local governments. He served on the Government Finance Officers Association (GFOA) Committee on Governmental Budgeting and Management for six years, chaired the Budget Awards Subcommittee, and has been a reviewer for GFOA's Distinguished Budget Presentation Awards program since 1987. Ms. Caskie is a project manager with Software Systems, Inc., of Gibsonia, Pennsylvania, and implements computerized financial systems for governments across Pennsylvania. She was formerly borough manager of Stroudsburg, Pennsylvania; town manager of Brandon, Vermont; and a consultant with the Municipal Technical Advisory Service of the University of Tennessee.

Budgeting is a major task for any local government, large or small. As laid out in the Budgeting Framework and Recommended Practices of the National Advisory Council on State and Local Budgeting (NACSLB), which was adopted on December 15, 1997, a good budget process:

- Incorporates a *long-term perspective* (emphasis added)
- Establishes linkages to broad organizational goals
- Focuses budget decisions on results and outcomes
- Involves and promotes effective communication with stakeholders
- Provides incentives to government management and employees.

The first two of these criteria point toward multiyear budgeting. It is much easier to incorporate a long-term perspective into the local budget and to link budget items to broad goals when the span of time under consideration is two or more years, rather than the single year commonly covered by local government budgets. This report describes several approaches to multiyear budgeting, outlines the benefits and the barriers, and gives examples of multiyear budgeting in practice.

WHAT IS A MULTIYEAR BUDGET?

A city or county budget fulfills several major functions for the community. As characterized by the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award, a budget document is:

- A policy document that lays out the goals and objectives of the local government and its departments for the coming fiscal year(s)
- A financial plan that explains how the government, in order to accomplish its goals, will spend the revenues it will receive
- An operations guide that provides guidance to program managers
- A communications device, communicating clearly to all users of the budget.

A budget can also be used as a basis for assessing the accountability of the employees to the elected leadership and then of the elected leadership to the citizenry. As such, it is sometimes characterized as an implied contract.

In most cases, the information about a local government's programs and activities changes little from year to year. Decisions, in most instances, are made incrementally; wide, sweeping changes are rare. Staffing levels are usually adjusted only moderately. Normally, operating costs such as expenditures for supplies, equipment, telephone, postage, and office supplies change only to reflect anticipated cost increases. Revenues may fluctuate more widely, depending on the mix of revenues that a locality receives. Barring catastrophic occurrences, however, most fluctuations in revenue have only an incremental impact on a community's budget.

The annual budget process is a massive undertaking. Small communities have an appointed administrator, secretary or manager who compiles the budget while carrying out other full-time duties. Large cities or counties have large staffs of full-time employees dedicated to the process. Nearly every local government's administration organizes its annual plan of work around "budget time."

In most localities, regardless of size, the budget process begins with development of the initial revenue and expenditure projections. Revenue information is usually prepared by the finance or budget

About the research for this report

The authors conducted an extensive search for local governments that were completing budget processes with a multiyear focus. The Government Finance Officers Association (GFOA), through its Distinguished Budget Presentation Awards program, provides separate recognition for communities that submit a biennial budget. Many of the authors' contacts with governments engaged in biennial budgeting came through the submissions for these awards. Internet searches located several communities that not only completed multiyear budgets but also placed their budgets on their Web sites. A list of these Web addresses can be found in the appendix to this report. In addition, announcements in the ICMA and GFOA newsletters drew the names of additional communities.

Communities with a multiyear budget process that are not listed in the appendix and would like to add themselves to the list may contact Christine Ulrich at ICMA: 202/962-3595; culrich@icma.org.

staff, while expenditures are prepared by the department heads or staff of the operating departments. This information is then assembled into a draft budget by the finance or budget staff and submitted to the manager or mayor for review. Following administrative review of the budget figures, a proposed budget (each locality uses its own terms for the various drafts: "requested," "proposed," and "recommended" are but a few possibilities) is prepared and goes to the governing body for review.

Elected officials often have workshop sessions, including meetings with the administrator or manager and some or all of the department heads, to review staff requests. They then hold a public hearing (required in most states) before finally adopting the budget (revenue estimate and spending plan), tax ordinance(s), expenditure appropriations, and related authorizations for the coming year. For all involved—elected officials, finance department employees, department heads, clerical staff, and citizen participants—the process is laborious and time-consuming.

Multiyear budgeting is the process of developing annual budget revenue and expenditure estimates for operating funds for more than one year at a time. The authors of this report have found in an informal survey of local governments around the country that there are several variations on this theme. Most instances of "multiyear budgeting" actually involve forms of biennial budgeting; a few communities identify a third-year budget. A number of communities prepare expenditure and revenue forecasts for five or ten years, but while this information is part of the review process, it is a forecast or plan rather than a formally adopted budget.

Three specific styles of biennial budgeting, as defined by the length of the work cycle and of the appropriation ordinance, stand out.[1] The most rigorous biennial process—sometimes called a two-year, or biennial, budget—determines two years of appropriations. The budget is only reopened in case of a significant change in revenues or expenditures. The threshold for reopening a budget normally is set by the municipal charter or state law. This process has a two-year work cycle, with far more effort expended in the first year, as the two-year document is being developed, and far less in the second year.

A second option is a two-year budget with a one-year appropriation and a *de facto* second year, which is opened only to formally adopt and to comply with state laws. A third type is a one-year budget with a "rolling" second year. Budget planners forecast numbers for the next year as well as for the current budget year; the forecast numbers are used during the next year's budget process as the basis for updating the budget, and then new numbers for the following year are projected.

A two-year appropriation process is allowed, to the authors' knowledge, only in the states of Utah[2] and Washington.[3] All of the work for the two budget years is done in one cycle. A city may begin a budget process only in an odd-numbered year, while, in the following year, there is no budget work done other than the normal review process, which would take place mid-budget cycle regardless of the length of time covered by the budget. The law in Washington, which is permissive, requires this annual review but "allows only adoption of adjustments to the original biennial appropriation that reflect changes in financial conditions, programs, and/or authorizing laws that affect ongoing expenditures." In New Hampshire, the city of Manchester is allowed to implement a two-year budget cycle in accordance with amendments adopted to the city charter.[4]

Most instances of "multiyear budgeting" actually involve forms of biennial budgeting.

The two-year budget with a *de facto* second year attempts to accomplish the same goals as the two-year appropriation process. The municipalities that complete this type of multiyear budget generally do so because the laws in their states do not provide for a biennial appropriation process. They must open their budgets and formally adopt their second years in order to adhere to their states' statutory requirements.

The one-year budget with a "rolling" second year calls for an annual budget process that is not actually different from the one conducted by communities with a one-year budget process. The second year is added to the process by forecasting revenues and expenditures two years into the future instead of one. The second-year forecast is then used as the starting point in the development of the budget for the succeeding year. The rigidity of the second-year number is determined by the willingness of the elected officials to leave it untouched. Ideally, in the year following the adoption of the second-year figures, only changes that were not foreseeable should occur to these figures. The concentrated work should be a review of the new second-year numbers. Exhibit 1 shows the flow of a rolling-year budget, using summaries from the police department budget of Greensboro, North Carolina.

WHAT MULTIYEAR BUDGETING IS NOT

Development of a capital budget or capital improvement plan is not a substitute for multiyear operational budgeting, for two reasons:

- The process is usually carried out separately from development of the operating budget, typically in advance of the operating budget.
- The funds designated for capital projects and replacement usually do not compete with funds destined for operational costs. Neither do they cover those operational costs. More than one community has completed a new capital project, for example, a new library or a recreation center, and then had problems finding the operational monies to open the facility.

Many communities complete a long-term expenditure and revenue forecast that is used to estimate the changes in the fund balance if revenues and expenditures continue at the projected levels. This is a useful tool for examining the long-term viability of the community's revenue mix and expenditure habits. But it is neither specific enough nor definitive enough to qualify as multiyear budgeting, as there is no formal commitment to the numbers.

Some communities complete an *internal* multiyear budget that is used for administrative or planning purposes only and not submitted to the governing body for review and consideration. These communities are not discussed in this report because the internal document lacks several important characteristics of a budget. It can, however, be a useful precursor to a more formal multiyear budget.

Finally, developing a long-range financial plan enables a community to begin planning for, and development of, a formal multiyear budget.

WHO IS DOING MULTIYEAR BUDGETING?

Local governments that complete a multiyear budget process are varied in many aspects. Small communities like Topsail Beach, North Carolina, Sandy, Oregon, and New Albany, Ohio (all with populations under 5,000); county metropolitan areas such as Cobb County, Georgia, and Hillsborough County, Florida (with populations of close to a half million or more); and many localities in between are taking advantage of the long-term perspective provided by a budget outlook extending further than one fiscal year.

Exhibit 1 Multiyear Budget Summaries—Greensboro, North Carolina

Police budget summaries for FY 1997-98, 1998-99 and 1999-2000

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
1997-98 Adopted Budget	**Actual**	**Budget**	**Adopted**	**Projected**		
Personnel Costs	$27,190,624	$28,445,340	**$30,260,080**	$32,005,600		
Maintenance & Operations	$ 4,373,928	$ 5,086,760	**$ 5,667,595**	$ 6,024,725		
Capital Outlay	$ 55,005	$ 226,905	**$ 65,395**	$ -		
Total	$31,619,557	$33,759,005	**$35,993,070**	$38,030,325		
1998-99 Adopted Budget		**Actual**	**Budget**	**Adopted**	**Projected**	
Personnel Costs		$28,425,633	$30,260,080	**$32,258,420**	$34,275,815	
Maintenance & Operations		$ 4,657,579	$ 5,568,900	**$ 7,016,520**	$ 7,273,200	
Capital Outlay		$ 319,345	$ 164,090	**$ 427,890**	$ 11,000	
Total		$33,402,557	$35,993,070	**$39,702,830**	$41,560,015	$ -
1999-00 Adopted Budget			**Actual**	**Estimated**	**Adopted**	**Projected**
Personnel Costs			$30,387,049	$32,152,420	**$35,410,665**	$37,130,145
Maintenance & Operations			$ 5,121,072	$ 7,124,265	**$ 7,954,945**	$ 8,521,950
Capital Outlay			$ 152,622	$ 268,305	**$ 47,900**	$ -
Total			$35,660,743	$39,544,990	**$43,413,510**	$45,652,095

NOTE: This table combines extracts from three budget documents so that the reader may compare the figures.

Exhibit 2 Populations of Communities with Biennial Budgets

Population (1990)	Number of Governments
0 - 2,499	2
2,500 - 4,999	3
5,000 - 9,999	4
10,000 - 24,999	8
25,000 - 49,999	14
50,000 - 99,999	17
100,000 - 249,999	10
250,000 - 499,999	4
500,000 and over	7
Total	69

The authors identified 69 local governments that have multiyear budgets, as defined in the first section of this report. They are spread over 17 states and one Canadian province. Most are located on the Pacific Coast. Of the 69 cities and counties, 38 are located in Washington, Oregon, and California.

Most of the local governments completing multiyear budgets are cities or towns. However, at least seven counties use a biennial budget process. The state of Washington's law providing for a true biennial budget applied only to cities until 1995, when the companion law for counties was passed. It is anticipated that several Washington counties will take advantage of this opportunity in the near future. (For an update on biennial budgeting in Washington state, visit the Municipal Research and Services Center Web site at http://www.mrsc.org/finance/biennial.htm.)

Exhibit 2 shows the range of populations of communities using multiyear budgeting.

WHY USE MULTIYEAR BUDGETING?

The advantages of multiyear budgeting, as identified by managers and finance officers who have implemented a multiyear budget, are strikingly similar to the goals of a "good budget" as set forth by the NACSLB (see page 1). Multiyear budgets offer the following advantages.

Incorporate a Long-Term Perspective

Some elected councilmembers tend to focus on the near term, or, more specifically, on their own terms of office. However, because a local government has a permanent existence (barring unusual circumstances such as a merger or dissolution), and because change in the community or the government is usually gradual, most budget-related decisions need to be based on long-term assumptions. For instance, if someone comes before the council to ask for money in the current year, with a multiyear budget the obvious question is "Is that for one year, or should it be included in the second year budget as well?" This opens a dialogue on the true request. Confronted with the reality that the request will impact future budget years, the council is more likely to take a hard look at it.

The former manager of Topsail Beach, North Carolina, put it well in his introductions to the 1996 and 1998 budgets:

> The multiyear forecasting component of the Financial Plan is responsible for looking into the future, allowing the town to identify, react [to], and mitigate potential problems while they are still small and manageable. (1996 Annual Budget)

> Essentially, the goal is to build a fiscal radar that gives the Town more time to react to problems and needs. This is crucial in avoiding unwanted surprises! Using only an annual budget process to manage a municipality's financial and departmental operations will likely produce very little advance notice of problems looming on the horizon. (1998 Annual Budget)

Buffer Budget Decisions from Political Pressures

Many councilmembers want to avoid making unpopular budget decisions in an election year. But putting off a needed tax or fee increase or instituting a hiring freeze because an election is coming can turn an incremental change in the local government's budget into a traumatic jump. Several finance professionals interviewed for this report cited the value of programming both revenue and fee increases and staff changes within a multiyear time frame. Phasing in the unwelcome changes gives all affected parties time to adjust. For example, hiring freezes and attrition are usually more palatable ways to reduce staff size than terminating employees.

Reduce Reliance on Short-Term Grants

Many federal and state grants end after a specified period. Localities are often tempted to apply for short-term grants, even though long-term funding for the service will not be available. Department heads with limited budgets often welcome a state or federal grant, even though the funding has a limited life span. Subjecting the proposed grant application to analysis within a multiyear time frame allows staff more time to develop alternative funding or to include the grant-funded service in the budget so that adjustments can be made as the grant funding declines. In some situations, a multiyear analysis may help local government leaders realize that applying for a particular short-term grant is not a good use of resources because the revenues necessary to continue programs begun or improvements made will not be available.

Motivate Key Players to Anticipate Problems

Departments and their staffs are often in a position to anticipate future problems related to providing a specific service. But front-line employees often will not volunteer what they know unless they are asked. For example, a township in the Philadelphia suburbs learned of a major public school "campus" planned a short distance outside the municipal boundary too late to program extra maintenance to counter the effect of school traffic on the municipal roads. Given sufficient warning, officials who developed and approved the budget in the township could have anticipated the additional expenses.

The officials interviewed for this report repeatedly stressed the value of building "thinking ahead" into the culture throughout the organization. If thinking ahead becomes part of the culture, then planning for the long run becomes everyone's responsibility, and surprises like the school construction referred to are much more likely to be anticipated.

Similarly, if likely shifts in state or federal funding patterns that come to the attention of elected officials can be programmed into a multiyear budget, "government by crisis" can be reduced.

Other stakeholders—unions, citizens, and other "customers"—are often in a position to anticipate conditions that will affect municipal services. As the introduction to Topsail Beach's most recent budget notes, all the key players in the budget process can help the municipality develop the "radar" that will help detect problems while they are still on the horizon.

Help Decision Makers Manage Long-Range Budgetary Impacts

Most capital budget outlays and projects have repercussions in the operating budget. For example, a new capital facility will entail operating and maintenance costs once it is in service. Many readers will recall the example of a large public library in southern California that remained closed after completion because there were no funds to operate it. Other examples can be found in every state.

This problem led GFOA to include in its budget award criteria the requirement that budgets disclose the operating-budget impacts of capital outlays. But many other budget decisions have long-range implications, too. Deferring maintenance on roads, public facilities, or government vehicles, for example, will raise costs in the long run. A multiyear budget will show this result, as well as the short-run savings: the overall cost of maintenance deferred from one year to the next will become obvious when reduced costs in one year result in significantly higher costs in the second year.

Vendor announcements, industry publications, and the like often provide advance notice of cost increases. A multiyear budget process gives a locality a way to plan for cost fluctuations and to develop budgets appropriately.

Improve Goal Setting and Assure Citizen Input

Because multiyear budgeting requires the local government to make assumptions about actions in the future as a basis for expenditure estimates, goal setting (normally a fundamental part of long-range planning) becomes virtually mandatory. Long-range planning without clear agreement (and support from the governing body) on the assumptions and possible alternative scenarios can lead to serious organizational conflicts and threaten a manager's career. Good long-range planning efforts *always* include significant opportunities for citizen input, to ensure that plans represent a communitywide vision.

Reduce Budget-Cycle "Burnout"

Budget processes that are truly biennial reduce the "burnout" rate for budget staff and departments as well. While only Washington and Utah, as far as the authors know, allow a two-year appropriation, in other states, local governments can adopt the second year by resolution and make it clear that the secondary resolution is a *de facto* appropriation. Budget staff and department staff involved in budgeting work a little harder when putting together the two-year document but can use their time for other projects in the off year:

- City officials in Boise, Idaho, focus efforts on strategic planning during the off year, when freed from normal budget-cycle work.
- Rate studies or other management analysis efforts can be conducted in the off year.
- The off year provides staff an opportunity to pursue training and research.

Improve the Quality of Revenue Forecasting

Multiyear budgeting can help discourage local government officials from relying on overly optimistic revenue projections to balance the budget. In multiyear budgeting, the emphasis is on creating the forecast for the out years (the years beyond the first budget year) and on fine-tuning projections for the

A note of caution

While their potential usefulness is unquestionable, long-term revenue projections have several problems. First, everything else being equal, the longer the period covered by the projection, the lower its accuracy. Inevitably, the longer the forecast period, the more unexpected events intervene—recessions, inflation, regulation or deregulation, changes in state statutes, natural disasters, the relocation of a major employer. Budget preparers should not rely too heavily on projections for the out years—the years after the budget year. Projections more than three years into the future may be so far off as to mislead public policy choices.

A second difficulty with long-range revenue projections concerns credibility. Such projections depend on a variety of underlying assumptions, all of which must be clearly identified, valid, and defensible. (Clearly identifying the assumptions underlying a long-term forecast has the added benefit of alerting elected officials to important budgetary contingencies.) For example, "If the half-percent sales tax increase is implemented in March, then the first year's revenue will be $3 million." "If inflation remains at 3 percent and there are no new major shopping centers or strip malls, then the sales taxes will increase 6 percent per year." However, if any of these assumptions proves wrong, the credibility of the forecast will be called into question.

Finally, even accurate long-term projections may raise credibility issues. If a local government heeds the warnings of the long-range forecast and takes action to avert the problem, then the problem never occurs. When the budget office next predicts a serious problem, public officials may be skeptical. The very success of long-range forecasting can thus cause a loss of credibility.

Source: Robert L. Bland and Irene S. Rubin, *Budgeting: A Guide for Local Governments* (Washington, D.C.: ICMA, 1997), page 75.

upcoming year. Some revenue sources are difficult to predict, however, and the safe approach when developing a budget for two or three years in the future is to be conservative. Some cities establish a specific fund-balance "reserve for revenue volatility," to provide a "safety net" when budgeting for especially hard-to-predict revenues.

As staff and elected officials gain experience with multiyear revenue projections, the uncertainty of predicting far into the future and the problems with "upping the estimate" as a short-term way to balance the budget will become clear. One veteran has put it well: "You can't pay bills with budget numbers; you can only pay them with cash." A comparison of previous multiyear revenue estimates with actual receipts can help to inform future estimates.

WHAT ARE THE OBSTACLES?

Local governments that have implemented a multiyear budgeting process have reported several obstacles, which seem to fall into three areas: political, managerial, and financial.

Political Obstacles

Some elected officials may be concerned that they will be accused of inattention if they adopt a two-year budget. The elected body, however, can make sure it is in touch with financial events by holding a special budget review quarterly throughout the two-year process.

State opposition to the idea of a multiyear budget is another possibility. However, even if state law mandates yearly appropriations, communities can include more than one year in the spending plan they adopt annually.

Probably the largest obstacle in the political arena is getting elected officials not just to accept the process but actually to commit to it. Even if staff members are committed to a two-year process, very little staff time will be saved if council members, during the *de facto* review of the second-year budget, treat the numbers as if they were seeing them for the first time and as if they required as much supporting work from staff as they did during the first year. But in places where the elected body is committed to the process, this does not occur, and the time savings are real.

Managerial Stumbling Blocks

From the local government management perspective, there are several issues. The first is dealing with department heads. Forecasting numbers two years into the future is difficult, and not all department heads have the long-term perspective necessary to plan work, anticipate increases, or detail spending plans over a multiyear period. Inexperienced department heads tend to underbudget, and department operations can be hampered as a result. Some local governments moving to a multiyear budget process provide department heads with assistance, whether from another department head, from the budget or finance office, or in some cases from the manager.

Even when the local government introduces a rolling budget, department heads will be concerned about their ability to forecast for two years and about how "locked-in" the second-year numbers will be. However, as the process takes hold and as people become comfortable with their ability to plan ahead, this concern will abate. Department heads who continue to resist the concept may develop techniques to keep from dealing with the process, such as working outside appropriate channels: projects or ideas that they failed to advance during the budget process may be generated as "ad hoc ideas" from supportive elected officials. Or they may persist in seeking budget changes to address "emergencies" that "suddenly" develop. Bringing these people around can require more effort on the part of the manager.

Getting started on the biennial process is a management challenge, especially if the local government is planning to use a *de facto* second-year budget. Most local governments choose to start the process with the cycle for the off-election-year budget, so that the second year of the adopted budget coincides with the election period. In some states, however, a newly elected body has the right to open the budget once it has been seated, which can defeat one purpose of the two-year budget process.

On a very practical note, if the budget is prepared using financial accounting software, some changes may be required to complete a second-year budget. In many cases, spreadsheet software tailored to budgeting will be used to prepare the budget; the figures are transferred to the budget module of the accounting package when the budget is finalized. In this case, no changes are required, nor impacts encountered.

Financial Disadvantages

From a financial perspective, the most worrisome aspect of multiyear budgeting is the difficulty of forecasting revenues (see again the sidebar on page 6, "A note of caution"). For local governments that routinely make revenue and expenditure forecasts (typically at the fund and major category level) for five to ten years out, moving to biennial budgeting requires making the second-year revenue forecast numbers more precise and detailed, while focusing the majority of effort on budgeting for expenditures. There will be some assurance that these budgets are accurate if a history of forecasting has been established.

Local governments that have not forecast revenues before will have to give some attention to developing accurate projections. Compiling historical trends over several years, evaluating one revenue source against another known factor, and being conservative in the estimates are the best techniques for forecasting revenues accurately. If a community has a healthy fund balance and estimates revenues conservatively, while estimating expenses liberally, then using the fund balance to make up small shortfalls in the second year will probably not be dangerous.

However, budget officers are cautioned against seriously underestimating revenues. First, routine underestimates can lead to mistrust of the budget office and can encourage political leaders to ignore its advice. Second, low estimates can delay capital purchases and pinch departmental staffing. And third, low estimates may create a pool of unallocated resources that are then spent at the discretion of the manager, mayor, or council, thus defeating the purpose of budgeting.[5] Depending on the volatility of the local government's revenues, estimates may or may not be difficult. In any event, it is forecasting these revenues as accurately as possible that is the most important step in the biennial budgeting process.

A white paper on multiyear budgeting

San Luis Obispo, California, has been using multiyear budgeting since 1983. It has posted on its Web site a "white paper" discussing its experience, the benefits of multiyear budgeting, the potential problems, and the issues other cities should consider in moving to a multiyear budget.

The paper includes a statement of goals for multiyear budgeting in San Luis Obispo:

- Integrate our goal-setting and budgetary process.
- Reinforce our commitment to long-term fiscal health by looking beyond a one-year time horizon in our ability to fund operating programs and capital improvements.
- Promote more "orderly spending patterns"—in other words, mitigate against the "use it or lose it" mentality.
- Retain the fiscal control provided by annual budgets.
- Save time and effort in preparing annual budgets.

The city's Web site can be found at http://www.ci.san-luis-obispo.ca.us/finance/multiyear.asp.

IMPLEMENTATION: FIRST STEPS TOWARD MULTIYEAR BUDGETING

Before implementing a multiyear budget process, local officials should ask themselves what they hope to gain. Understanding the objective(s) of the multiyear budgeting process is essential, because the effort to change the organization's understanding at all levels of planning as an integral part of budgeting will be considerable. Review again the possible advantages discussed earlier in this report.

Once the decision has been made to proceed, preparatory steps should be taken in several areas.

Evaluate Revenue Forecasting

Look over the past history of budget estimates and actual budget performance to ascertain your local government's track record on estimates. If your government does not do so, create graphs comparing approved budget revenue estimates with actual receipts. If your government needs to do a better job of estimating revenues, look for trends or leading indicators that can help you estimate revenues. For

Stages and responsibilities: a schedule for implementing a multiyear budget

Not all steps in the following outline will apply to every local government implementing multiyear budgeting. This schedule of major steps is intended to be as inclusive as possible. Governments should adjust the steps, timing, and sequence to fit local needs.

1. Educate the organizational culture:
   - Create a department-head task force on multiyear budgeting.
   - Identify a pilot department for an early "shakedown" test.
2. Develop and adopt a process and calendar:
   - Work with the department-head task force to draft a policy and implementation calendar and to establish budget goals, policies, and procedures.
   - Adopt a multiyear policy statement and implementation calendar (council).
   - Prepare a process/timetable memo and budget instructions for departments.
3. Initiate the budget cycle:
   - Hold departmental kickoff meeting and issue instructions.
   - Plan for implementation sessions with departments.
   - If a pilot department has been identified for early involvement in the new process, respond promptly to requests for assistance or clarification. Compile and publicize a list of frequently asked questions (FAQs).
4. Obtain input early in the process:
   - Hold focus-group meetings with stakeholders, both citizens and departments, to set goals.
   - Conduct a council hearing to get citizen and other stakeholder input.
   - Receive the initial departmental budget submissions.
   - Schedule and hold public meeting(s) to solicit input.
   - Review budget submissions and provide feedback.
   - Conduct a budget review meeting with most or all department heads to review and revise departmental submissions, if adjustments prove necessary.
   - Reiterate and revise revenue estimates.
   - Incorporate human resource analyses (e.g., turnover, step increases) into budgets.
   - Incorporate external cost escalations into the second year (e.g., insurance).
5. Make adjustments as necessary, and prepare a proposed budget for presentation to the council.

example, does building permit activity forecast property tax revenue increases? Does a change in the consumer price index (CPI) predict an increase in sales tax revenue? Use graphs comparing local revenues with national or state statistics to help discover whether there are trends that can inform future estimates.

Establish Procedures and Policies for Department Heads

Ensure that the expenditure budget is completed at the program or departmental level because line-item estimates are too restrictive for multiyear budgets.

Department heads should be expected to predict a second-year budget number, but if they are concerned about publicizing it, their estimates can be used (at least during the first year) by staff only. The manager thus takes responsibility at first for projected budget numbers, which are used for an administrative multiyear budget, rather than a formal (public) one. When you are ready to go public with out-year estimates, ensure that there is a review process in place for the elected officials and an amendment process in place for department heads.

Maintain Continuity

Keep a certain amount of continuity from the single-year budget process to the multiyear budget process, so that users of the budget will be able to compare revenue and expenditure estimates between budgets.

Governments should consider creating and using a multiyear (five- to ten-year) financial plan before undertaking multiyear budgeting. Developing this plan will acclimatize elected officials and operating managers to many of the multiyear budgeting issues mentioned in this report while giving the organization the opportunity to embrace change gradually.

CASE STUDIES IN MULTIYEAR BUDGETING

A number of local governments have been using multiyear budgets for some time. The following case studies present a diverse selection, both geographically and in regard to size:

- Topsail Beach, North Carolina
- Sandy, Oregon
- Boise, Idaho
- Hillsborough County, Florida
- Stroudsburg, Pennsylvania.

Each case study highlights what is important for that municipality. In general, the case histories examine some of the key steps used in beginning and continuing multiyear budgeting and offer some insights into political / policy concerns, financial considerations, and management factors. The factors involved in the changes described should be instructive to local government officials considering multiyear budgeting.

Topsail Beach, North Carolina

Topsail Beach is a very small town: while its summer population reaches 8,500, its permanent population is just 320. It had a $1.4 million budget for 1998 and 16 full-time employees. Its multiyear budget includes the budget year and two out years and is adopted annually as a rolling budget rather than as a biennial or triennial budget.

When Eric Peterson, the manager responsible for developing the multiyear budget, began work in September 1991, he wanted to build on Topsail's already solid process and make it better by achieving five goals:

- Presenting relevant budgetary information in a clear and concise format to make it easier for the town board of commissioners to make well-informed decisions
- Formatting the budget so that it would serve as a "work plan" for the fiscal year
- Incorporating the four major areas necessary to qualify for the GFOA Distinguished Budget Presentation Award (policy document, financial plan, operations guide, and communications device) to make the budget a multi-purpose document
- Encouraging the board to move away from its practice of reviewing the budget by detailed revenue and expenditure line items, toward a program-based review so that the board could focus on "big-picture" issues, thereby decreasing the probability of getting sidetracked on less important items
- Combining the elements of capital programming and financial forecasting with the annual budget process to allow the town to prepare for the future.[6]

The budget process in Topsail Beach begins with departments submitting to the manager operational goals and objectives, new programs or projects, and major capital needs. The mayor, town board, department heads, and town manager then hold a goal-setting retreat, after which the staff prepare a proposed budget that reflects the board's priorities.

The multiyear budget process has evolved over time. An early change was a move to a program format: line items in the budget document were condensed instead of being presented in full detail, and budget narratives stressed what was being accomplished rather than what was being spent. Then, a citizen guidance survey was added in 1992. The survey was mailed to the town's property owners well in advance of the goal-setting retreat, and the survey responses helped town officials identify problems and needs in the community. This practice has continued in alternate years.

Exhibit 3 Comparison of Budgets (General Fund Revenues)—Topsail Beach, North Carolina

FY 1995–1996 Annual Budget and FY 1996–1998 Financial Plan

FY 1994–1995 Estimated	FY 1995–1996 Budget	FY 1996–1997 Projected	FY 1997–1998 Projected
$784,433	$779,150	$795,200	$1,064,600

FY 1996-1997 Annual Budget and FY 1997-1999 Financial Plan

FY 1994-1995 Actual	FY 1995-1996 Estimated	FY 1996-1997 Budget	FY 1997-1998 Projected	FY 1998-1999 Projected
$821,087	$904,767	$866,800	$1,007,700	$857,500

FY 1997-1998 Annual Budget and FY 1998-2000 Financial Plan

FY 1995-1996 Actual	FY 1996-1997 Estimated	FY 1997-1998 Budget	FY 1998-1999 Projected	FY 1999-2000 Projected
$891,956	$1,038,135	$972,000	$1,154,200	$922,350

FY 1998-1999 Annual Budget and FY 1999-2001 Financial Plan

FY 1996-1997 Actual	FY 1997-1998 Estimated	FY 1998-1999 Budget	FY 1999-2000 Projected	Projected
$1,127,561	$1,025,736	$1,062,512	$1,093,685	$1,155,851

Finally, the town moved to a multiyear format, presenting in the budget document two projected years in addition to the proposed annual budget. As can be seen in Exhibit 3, which compares figures from four successive budget documents, there is a degree of change in both directions. The reader should be aware that two hurricanes hit Topsail Beach in 1996. The fiscal year runs from July 1 to June 30 of the following year.

The budget documents for Topsail Beach show an unusually large general-fund carryover balance, typically more than 50 percent of the year's expenditures, instead of the 5 to 10 percent usually suggested. In justifying this higher level of carryover, the FY 1996 budget pointed out that "Topsail Beach needs to maintain its [fund] balance at an exceptionally strong level for several reasons . . . a barrier-island community constantly faces the threat of major disasters (e.g., hurricanes, nor'easters, tornadoes, and flooding) . . . ." The FY 1998 annual budget message echoes this beach resort's special concerns: "Large reserves allowed Topsail Beach to take immediate action in responding to Hurricane Fran's destruction. The absence of strong fund balances would have severely restricted the Town's ability to take quick and effective measures to secure the Town, immediately start cleanup operations, restore the protective sand dune system, etc."

The message in the FY 1997-1998 annual budget discusses the financial plan format and its purpose:

> This is the third year the combination budget and multiyear financial planning format has been used in reviewing the Town's operational and financial plans. This document combines the major components of an annual budget, capital improvement program (CIP), and financial forecast to create the FY1998-2000 Financial Plan for Topsail Beach. The purpose of this Budget/Financial Plan is to do more than just list revenues and expenditures. It is intended to be an easily understood document that identifies important issues facing the community, goals, policies, as well as information about financial condition and municipal operations.

The discussion continues:

> The multiyear forecasting component of the Financial Plan encourages the Town to look toward the future and to identify, address, and mitigate potential problems before they become unmanageable. The plan also allows everyone to see how today's decisions will affect the financial condition of the Town over the next three fiscal years. Essentially, the goal is to build a "fiscal radar" that gives the Town more time to react to problems and needs. Limited response time to deal with problems often means a governing body faces many unnecessary pressures and is forced to take drastic action. If the Board is aware of a potential problem in advance, it will have greater flexibility and time to calmly develop reasonable solutions to address the issue(s) at hand.

According to Eric Peterson, there was a direct tie-in between the large fund balance and the onset of multiyear budgeting. He points out that without the long-term perspective to bring out the need for financial stability in a town faced with a high likelihood of a natural disaster, the large fund balance would have been impossible to justify.[7]

The use of multiyear budgeting in Topsail Beach has survived a change in managers and may well help explain the town's ability to survive the storm damage that could have devastated its main industry: tourism.[8]

Sandy, Oregon

Sandy, with a population of 5,012, has a city manager with a strong financial background: Scott Lazenby was previously management and budget director in Glendale, Arizona. In addition to a biennial budget, the town of Sandy uses the expenditure-control budget technique described in *Reinventing Government* by David Osborne and Ted Gaebler.[9]

Sandy's expenditure-control budgeting affords some important advantages. As the city's budget message points out: "A key feature of expenditure-control budgeting is that department managers are allowed to carry over savings from one fiscal year into the next fiscal year. This policy eliminates the 'spend it or lose it' incentive that is built into traditional budget systems."

Before adopting multiyear budgeting, Sandy had taken preliminary steps. The city had been preparing a five-year, long-term financial plan for many years and a five-year capital improvements plan as well. Its first two-year budget was adopted for 1993–1995. The out year in each Sandy budget is only adopted *de facto*, as state law requires the adoption of appropriation ordinances annually.

A portion of a departmental spreadsheet is shown in Exhibit 4. In addition to a "Budget" and a "Year End Estimate" column, it includes two years of "Actual" figures, plus columns for the two years of the biennial budget. The columns referring to "Carryover Allocation" relate to Sandy's expenditure-control budget. The departments prepare line-item estimates for planning purposes only; they are held only to the departmental bottom line, with carryovers available for use the following year, subject to council approval.

Another unusual budgeting technique used in Sandy is the attaching of departmental revenues to the relevant department, so that each presents a "net" budget. Obviously, departments such as the police have few significant revenues besides grants, some fines, and certain fees.

Sandy has kept the biennial budget even though faced with a major financial crisis—a statewide revenue-limitation measure known as Ballot Measure 47. Rather than abandon the biennial budget, Sandy elected to adopt a two-part policy until the impact of Measure 47 on city revenues was known: (1) not to cut city programs, and (2) to delay one-time discretionary expenditures.

Sandy's key officials have "learned to appreciate how much time and headache [the biennial budget] saves us every other year," so they don't try to sneak changes into the second year because "making a change would open the floodgates." But this does not mean that the budget is unresponsive and unchanging: "We *do* make adjustments for things like unanticipated grants, newly formed special assessment districts, etc."[10]

According to its current budget documents, Sandy's biennial budget offers the following benefits:

- It is policy-based. The decision to use a two-year budget has been based partly on the fact that many of the city council's goals are long-term. The two-year budget format can better show how resources are being allocated toward these goals.
- It strengthens the city's financial management: "The two-year budget . . . forces us into the self-discipline of balancing the budget on realistic projections of ongoing revenues, rather than merely getting by [for] another year by spending down fund balances or inflating revenue estimates."[11]
- It uses staff time efficiently. During an off year, staff use the time normally allocated to budget preparation to review programs and service levels thoroughly and to develop the five-year capital improvement plan.

Boise, Idaho

Boise is the largest city in Idaho, with a population of approximately 170,000. It has had a biennial budgeting process, referred to as a two-year budget (TYB), since the 1994–1995 budget, which became effective October 1, 1994. Its third biennial budget extends through September 30, 1999. Alec Andrus, the city's budget director, guided the transition to multiyear budgeting.

Boise had discussed moving to a TYB for several years before making the change. The mayor saw a two-year budget as a way to promote a long-term view of the city's needs and resources; to reduce the nonproductive work associated with the annual budget process; and to focus on issues, goals, and outcomes rather than on budget mechanics and inputs. The budget staff studied two-year budgets in a number of other cities and drew up a tentative implementation plan.

The transition to the TYB was handled creatively. During preliminary discussions about preparation of the FY 1995 budget, the budget team proposed adopting the FY 1995 budget as the second year of a two-year budget and explained the tentative implementation process for a TYB that staff had developed. The mayor and council embraced the idea and approved putting in place those portions of the TYB

Exhibit 4 A Departmental Spreadsheet—Sandy, Oregon

FY94-95	FY95-96	FY96-97				FY97-98			FY98-99		
ACTUAL	ACTUAL	Budget	Year End Estimate	Savings	Description	Base Request	Carryover Allocation	Budget	Base Request	Carryover Allocation	Budget
$ 312,162	$ 319,181	$ 353,900	$ 342,221	$ 11,679	Salaries	$ -	$ -	$ -	$ -	$ -	$ -
$ 115,845	$ 109,586	$ 139,900	$ 135,283	$ 4,617	Payroll Taxes & Benefits	$ -	$ -	$ -	$ -	$ -	$ -
$ 26,428	$ 43,793	$ 41,200	$ 39,840	$ 1,360	Overtime	$ -	$ -	$ -	$ -	$ -	$ -
0	$ 37,295	$ -	$ -		COPS-FAST	$ -	$ -	$ -	$ -	$ -	$ -
etc.						$ -	$ -	$ -	$ -	$ -	$ -
						$ -	$ -	$ -	$ -	$ -	$ -
$ 553,060	$ 652,049	$ 716,260	$ 692,623	$ 17,655	**TOTAL EXPENDITURES**		$15,000				
					REVENUES						
$ 12,971	$ 13,428	$ 13,000	$ 13,000		State 9-1-1	$25,000		$25,000	$28,000		
$ -	$ 37,295	$ 25,000			Grant - COPS FAST	$15,000		$15,000	$ -		
$ 34,512	$ 45,400	$ 44,000			Court Fines	$45,000		$45,000	$60,000		
etc.											
$ 48,782	$ 97,788	$ 83,700	$ 80,938		TOTAL REVENUES	$88,100		$88,100	$91,100		
$ 504,278	$ 554,261	$ 632,560	$ 617,560		**NET BUDGET**		$15,000	$667,200	$628,550		

Adapted, based on Sandy's FY 1997-98 & 1998-99 Budget

Quarterly report: Boise, Idaho

Typical table of contents
Executive summary
Mayor's comments
Financial summaries:

- Budget-to-actual comparison by major revenue and expenditure categories for the quarter compared with prior quarters
- Projected year-end budget-to-actual comparison by major categories based on quarter information
- Schedule of significant changes and available unobligated funds, including balance sheet changes

Department summaries:

- Significant budget changes (departments have flexibility to move money in their budgets)
- Quarter progress (performance) measures (typically, the five key measures for each department or major function are listed)

Summary schedule of capital projects: budget-to-actual comparison by fund, by project category, and by department
Status report for all approved capital projects during the TYB and for the life of a project
Departmental reports of key issues, financial results and changes, and progress measure explanations.

Note: Quarterly reports are provided for the eight "quarters" in the TYB and are designated QR1 through QR8.

process applicable to second-year budget preparation. Boise's existing budget process already included multiyear planning for capital improvements and a mechanism for budget change proposals. Therefore, FY 1995 could be considered the second year of the FY 1994 budget. FY 1995 was quickly developed from base numbers developed for year one (FY 1994), using budget change proposals developed in the CIP and in operating requests. The process for city council approval of this "mid-biennium budget update" was streamlined.

By moving to the TYB for FY 1995, the city saved a great deal of time for the operating departments, while also testing the TYB instructions developed by staff after they had researched budgeting in other cities. The city council accepted the new budget concept and adopted the FY 1995 budget as the second year of a two-year (1994–1995) budget.

Andrus describes the transition year:

> The transition was a great success. It reduced the expectations associated with this major change in budgeting culture. It was a decisive move to a new system. We learned, however, that the first one did not result in less effort for the budget office—it required more. We were both adopting a budget and creating a new process, and to a degree, a new culture. But it was a great time-saver for the departments, and they loved it. It also was much more efficient for the mayor and council. We in the budget office paid the price with very long hours (longer than the normal, which are very long during budget development) and with a greater-than-usual number of problems to be solved, but it was worth the price.[12]

Like most governments surveyed for this report, Boise must appropriate annually, because state law does not permit a two-year appropriation. However, financial "infrastructure" in place before the conversion to a biennial budget included a five-year capital improvement program and, since 1992, a five-year financial plan. Boise has done long-range revenue and expenditure projections as a budget and financial planning tool for more than 10 years. The city's interest in long-term planning is evidenced by the organizational structure of the division of financial management, which includes, in addition to offices for accounting, budget, and treasury services, an office for long-term financial planning.

An initial attraction of a biennial budget was the administration's desire not to have to revisit every part of a complex financial plan each year. Like many cities, Boise found the budget process exhausting, and the city's management saw the possibility of devoting time and effort in the off years to high-quality analytical studies and improved strategic planning.

The administration worked closely with Boise's city council to ensure that the council's oversight function was maintained and focused while the budget review shifted from an annual process to an every-other-year system. Finance staff worked with the council to determine what kind and amount of information would be of value in carrying out the oversight function. Budget staff continue to provide quarterly reports to the council that incorporate comprehensive responses to any concerns or questions that have been raised and that give members the information they need to provide appropriate policy leadership (see sidebar on this page).

All in all, having had longer-term financial planning tools in place for many years before the conversion to multiyear budgeting made revenue projections a nonissue in Boise. And council concern over responsiveness and flexibility has been addressed by the quarterly budget reviews.

The TYB budget process in Boise begins with development of the five-year financial plan update. The update, prepared by the budget office, includes an economic scan, a review of financial policies, budget preparation timelines for major revenue sources, six-year expenditure and revenue projections, and other budget development guidelines.

Departments are provided with budget development parameters—which specify, for example, guidelines for replacing equipment that is worn out—for the two years for their "base operating budget," for equipment replacement, and for any new or enhanced service proposals.

Each department produces two years of base budget requests for current services, for proposed service changes, and for capital facilities. Budget staff members develop recommendations for both action years in the TYB.

Then, the capital budget proposals prepared by departments are reviewed by internal budget teams to produce citywide recommendations on funding priorities (by fund and by major funding categories).

Because Boise has a strong mayor form of government, the mayor reviews department requests and budget office comments and transmits the proposed TYB to the council.

Next, the city council reviews, modifies, and approves the "preliminary two-year budget," which then goes through the legal adoption process with the necessary hearings and publication.

The second-year section of the two-year budget, having been preliminarily approved by the council at the same time as the first year's budget, is updated in a streamlined review process that focuses only on significant changes that have emerged during year one. Year two of the budget is formally adopted through the required legal process at the beginning of the second year.

Boise, which has been growing steadily, has found that the TYB lends itself to focusing on the longer-term effects of expansion in resources and needs. However, the city has also faced property tax limitations during the last decade. When the state of Idaho significantly reduced property tax growth for Boise, the FY 1998–1999 TYB proved to be an excellent tool for addressing the constrained tax revenues.

Staff reactions to the biennial budget have been positive: budget staff and others now have an off year in which to accomplish tasks that have been postponed during the budget "crunch." In 1997, at the holiday recognition gala, employees honored the TYB as the most significant process improvement of the last several years.

Hillsborough County, Florida

Providing law enforcement, paramedic services, fire protection, parks and recreational facilities, code enforcement, and road maintenance services to the cities of Tampa and Temple Terrace and to the unincorporated areas within its jurisdiction, Hillsborough County (population 834,000) has a complex budget of $2.2 billion. As in most counties, a number of constitutional officers are elected along with the governing body, thus making for a complicated decision-making process. (The county administrator is appointed by the board of commissioners.)

The county's first biennial budget was adopted three years ago, for FY 1996–1997. The county uses a modified "zero-based" budgeting process, separating organizational outputs into four levels: mandated, essential, preferred, and discretionary.

In any local government with a tight revenue picture, reducing the need to make difficult budget decisions in an election year is an attractive prospect. Hillsborough County's biennial budget cycle is timed to work well with the governing body's two-year terms: when the commissioners are facing an election, the budget is in its second year. New elected officials become involved in preparation of the next two-year budget early in their first term.

Finances in the county had been relatively stable when a biennial budget was being considered, so that revenue projections were not a major concern. And, when the area headed into an economic downturn, necessitating severe cutbacks, the two-year perspective enabled the county to phase in staff reductions and to give departments a year's notice of impending cuts. Thus, the pain was spread over 24 months and allowed planning for the downsizing process.

As noted, Hillsborough County has some independently elected officials, such as the sheriff, public defender, tax collector, property appraiser, and others. Because the county sheriff provides law enforcement services to more than 917 square miles of unincorporated area within the county, these law enforcement activities represent a significant portion of the budget that is somewhat independent of the governing board of county commissioners. As a result, the directives for budget preparation are typically followed in a more general fashion than those for the agencies falling directly under the county board. Of course, this will be the case in any jurisdiction with independently elected officials whose offices are represented in the budget.

In Hillsborough County, the biennial budget process operates as follows:

- Departments are asked to estimate the year-end expenditure level for each budgeted line item and to review projections for the two budget years generated by the budget preparation software (a locally developed spreadsheet template).
- Each department is asked to provide a six-year operating impact estimate for capital projects in the budget-year capital improvement program.
- After completing line-item continuation-level budgets, departments are asked to develop "decision units" for the initial year of the budget. These are sets of inputs, such as personnel and operating costs, that make a measurable contribution (assessed with performance measures when possible) to the achievement of the departmental purpose.
- Decision units, which reflect cost summaries for both budget years, are prioritized by the budget

staff according to county priorities, taking into consideration mandates, revenue impacts, grant match requirements, and the like. The long-range aspect of a new or startup decision unit is clear when the second-year costs, reflecting 12 months of operation, are significantly higher than costs for the first year.

Staff in Hillsborough County report that with two years of costs shown in the budget, the governing body is more aware of long-term concerns and long-term funding requirements of proposed new programs.

Labor contracts and other contracts, which traditionally have one-year terms, have presented a stumbling block because a renegotiated or reopened labor contract can have a significant impact on budgeted costs. To address this problem, the county has gone, where possible, to two-year contracts with price protection and escalator clauses.

Stroudsburg, Pennsylvania

Stroudsburg is a borough, of 5,300 people in northeastern Pennsylvania. Pamela Caskie, Stroudsburg's borough manager from 1992 until 1996 and a co-author of this report, discovered an unfortunate combination of budget-straining factors when she became manager:

- Stroudsburg had routinely augmented revenues with its fund balance, so that the year-end carryover that would normally provide "operating capital" was depleted.
- The borough's infrastructure was aging, and long-range capital planning was nonexistent.
- Some members of the council had a NIMTO (Not In My Term of Office) mentality when it came to budget planning for the long term.
- The borough was completely built out, so that expansion of the tax base would involve a slow process of redevelopment.
- Budget balancing was viewed as making incremental changes—offsetting spending increases with small cuts here and there—rather than as making significant changes.
- The revenue stream was weak because of dependence on property revenues (property values were not increasing) and on the earned-income tax (a revenue source unique to Pennsylvania that was not well supported due to unemployment and a significant elderly population).

The new borough manager's first task was to balance the operating budget, which she did through some grantsmanship, some careful labor contract bargaining, and some limited contracting out for services. Drawing up a capital budget and plan was more difficult, and implementation was a challenge because of the pattern of short-range budgeting decisions, such as deferring replacements for worn-out capital equipment.

Caskie developed a multiyear budget (adding one out year) as a way of showing the council the out-year consequences of budget decisions. A "rolling" budget model was used, with no difference in budget-development work cycles from year to year and with limited changes anticipated in successive years, as the out-year figures from the existing budget were converted into budget-year figures for the next cycle.

The first budget cycle was used to acquaint staff with the tasks involved in projecting revenues and expenditures; the out-year figures were used administratively rather than as part of the formal budget document, although the council was apprised of the effort. The second cycle produced a document presenting revenue and expenditure projections for the budget year plus a "planned" out year. The borough council's reaction was one of interest, but—probably because the out year was a plan and not a proposal to be adopted formally—the councilmembers did not get much involved in the meaning and impact of the figures for the "planned" year.

Use of the multiyear budget lasted the remainder of Caskie's term of employment as borough manager, proving useful during that time as a planning and information-sharing document. When she left the position, the financial picture, while bleak, was no longer near crisis point. Caskie's successor, however, did not continue with a multiyear budget.

If lessons are to be learned from Stroudsburg's experience, the borough's short history of multiyear budgeting should be examined under the three criteria discussed elsewhere in this report: policy / political, managerial, and financial concerns:

Policy/political concerns. The members of the borough council had only two budget cycles to become familiar with the presentation of "planned-year" figures in the budget. In comparison, most jurisdictions that the authors encountered in this study had been using a long-term financial forecast before moving to multiyear budgeting. It seems quite likely that until at least one important budget decision has been influenced by the out-year figures in a multiyear budget, the organizational culture will not change appreciably.

In Stroudsburg, when Caskie's successor did not provide for the two-year budget, the elected body did not object. They had not "bought into" the new process themselves. Perhaps more in-depth discussion with councilmembers about the two-year budget and more debate with them over financial projection assumptions would have increased their involvement in the multiyear process and inspired more commitment—enabling the process to survive the change in managers.

Managerial considerations. Use of multiyear budgeting for two budget cycles was certainly enough to train the operating departments in forecasting work programs and costs as a basis for estimating out-year figures in the multiyear budget. It is not clear, however, whether the operating departments took this undertaking seriously, given that the municipal governing body's actions were not constrained by the out-year figures in the budget document. While many operating departments in governments with a multiyear budget appreciate the benefits of stability, these will only be realized when the governing body buys into the budget forecasts so that budgeting decisions can become more predictable and stability can, in fact, be realized.

Financial concerns. The mechanics and techniques of revenue estimation and expenditure forecasting are within the control of management in most governments, as long as revenues are reasonably predictable. But in a small government like Stroudsburg, with limited professional staff, succeeding at the basics of financial management—accounting and reporting, tax collection, cash management, and the like—must take priority over learning new techniques of revenue estimation and expenditure forecasting.

[1] In soliciting local government examples of multiyear budgeting through national publications, the authors deliberately left the term undefined in order to learn how it was being defined *operationally*.

[2] Utah Municipal Code Title 10 (10-6-105) Fiscal period–Annual or biennial.

[3] The two-year budget law, authorized by RCW 35.34 and amended by RCW 35A.34, was adopted in 1985. For more information, see Municipal Research and Services Center of Washington, http://www.mrsc.org/finance/biennial.htm,

[4] Senate Bill 152 of the 1997 session of the New Hampshire state legislature.

[5] See Robert L. Bland and Irene S. Rubin, *Budgeting: A Guide for Local Governments* (Washington, D.C.: ICMA, 1997), page 75.

6 Eric J. Peterson, "Building a Better Budget through Trust and Communication," *Government Finance Review* (October 1995).

7 Telephone interview with James L. Cavenaugh.

8 For more information on budgeting in Topsail Beach, North Carolina, see Eric J. Peterson, "Building a Better Budget through Trust and Communication," *Government Finance Review* (October 1995). Peterson developed multiyear budgeting in Topsail Beach while serving as town manager.

9 David Osborne and Ted Gaebler, *Reinventing Government* (Reading, Mass. Addison-Wesley Pub. Co., 1992). See Chapter 4, "Mission- Driven Government," pages 119–122.

10 E-mail from Scott Lazenby, city manager, Sandy, Oregon, to James L. Cavenaugh, dated 3/3/98.

11 From City of Sandy, Budget for Fiscal Years 1997-98 and 1998-99, p. 8.

12 E-mail from Alec Andrus, budget director, Boise, Idaho, to James L. Cavenaugh, dated 3/12/98.

APPENDIX LOCAL GOVERNMENTS WITH MULTIYEAR BUDGETS

City	State	Web Site	Population
Juneau	AK	juneau.lib.ak.us	26,751
Scottsdale	**AZ**	**http://ww.ci.scottsdale.az.us/budget/budget.asp**	**130,099**
Berkeley	CA	http://www.ci.berkeley.ca.us/	102,724
Claremont	CA	http://ci.claremont.ca.us/	32,503
Daly City	CA	http://www.ci.daly-city.ca.us/	92,311
Gardena	CA	http://www.ci.gardena.ca.us/	51,481
Laguna Hills	CA	http://www.ci.laguna-hills.ca.us/	22,719
Livermore	CA	http://ww.ci.livermore.ca.us/	56,000
Lodi	CA	http://www.lodi.gov/	56,173
Los Altos	CA	http://www.ci.los-altos.ca.us/	26,303
Manhattan Beach	CA	http://www.ci.manhattan-beach.ca.us/	32,063
Mission Viejo	**CA**	**http://www.ci.mission-viejo.ca.us/**	**72,820**
Oroville	CA	http://www.oroville-city.com/	11,960
Palo Alto	CA	http://www.city.palo-alto.ca.us/homepage.html	55,900
Redondo Beach	CA	http://www.redondo.org/	60,167
San Buenaventura	CA	http://www.ci.ventura.ca.us/	92,575
San Clemente	CA	http://www.scag.org/homepages/san_clemente /Home-page.htm	41,100
San Luis Obispo	**CA**	**http://www.ci.san-luis-obispo.ca.us/finance /multiyear.asp**	**41,958**
Santa Barbara	CA	http://www.ci.santa-barbara.ca.us/	85,571
Santa Maria	CA	http://www.ci.santa-maria.ca.us/	68,121
Saratoga	CA	http://www.abag.ca.gov/abag/local_gov/city/ Saratoga.htm	28,061
Selma	CA	http://www.ci.selma.ca.us/	14,757
Sunnyvale	**CA**	**http://www.ci.sunnyvale.ca.us/city-budget-1999/**	**117,229**
Union City	CA	http://www.ci.union-city.ca.us/	64,085
Watsonville	CA	http://www.ci.watsonville.ca.us/	33,352
Arvada	CO	http://www.ci.arvada.co.us/	89,261
Castle Rock (Town)	CO	http://www.castlerock.org/frhome.html	14,798

City	State	Web Site	Population
Ft Collins	**CO**	**http://www.ci.fort-collins.co.us/city_hall/budget/index.htm**	**87,758**
Grand Junction	CO	http://www.ci.grandjct.co.us	32,893
Mesa Co. (Grand Junction)	**CO**	**http://www.co.mesa.co.us/**	**93,145**
Montrose	CO	http://www.montrose.org/city/index.html	8,854
Sterling	CO	N/A	10,431
Vail (Town)	CO	http://ci.vail.co.us/	3,659
Gainesville	FL	http://www.state.fl.us/gvl/	99,015
Hillsborough Co. (Tampa)	**FL**	**http://www.hillsboroughcounty.org/mbd/pub.html**	**834,504**
Orange Co. (Orlando)	FL	http://www.citizens-first.co.orange.fl.us/Dept/Fiscal/omb/98_Budget/index.htm	677,491
Cobb Co. (Marietta)	GA	http://www.cobb-net.com/	566,203
Boise	ID	http://www.ci.boise.id.us/	157,452
Urbandale	IW	http://www.urbandale.org/	36,344
Wichita	KS	http://www.ci.wichita.ks.us/	304,000
Winnipeg	MB	http://www.mbnet.mb.ca/city/html/govern/citygov.htm	636,000
Grand Blanc	MI	http://www.grandblancmi.org/coc/aboutgb.html	8,111
Oakland Co. (Pontiac)	MI	http://www.co.oakland.mi.us/	1,176,488
Washtenaw Co. (Ann Arbor)	MI	http://www.co.washtenaw.mi.us/	282,937
Greensboro	**NC**	**http://www.ci.greensboro.nc.us/budget/default.htm**	**183,521**
Hillsborough	NC	http://www.ci.hillsborough.nc.us/Hillsborough/	4,263
Topsail Beach	NC	N/A	415
Cincinnati	**OH**	**http://www.ci.cincinnati.oh.us/budget.html**	**364,040**
Upper Arlington	OH	http://www.ua-ohio.net/	34,128
Portland	**OR**	**http://www.ci.portland.or.us/finance/adopted/index.htm**	**503,891**
Sandy	OR	http://www.ci.sandy.or.us/	4,152
Spartanburg	SC	http://www.cityofspartanburg.org/	43,467
Watauga	TX	http://www.ci.watauga.tx.us/	23,179
Park City	UT	http://www.ditell.com/Government/PCMC.html	6,504
Chesterfield Co. (Chesterfield)	**VA**	**http://www.co.chesterfield.va.us/**	**209,274**
Loudoun Co. (Leesburg)	VA	http://www.state.va.us/loudoun/	120,000
Bellevue	**WA**	**http://www.ci.bellevue.wa.us/fsearch.htm**	**104,000**
Clark Co. (Vancouver)	WA	http://www.co.clark.wa.us/	300,000
Federal Way	WA	http://www.ci.federal-way.wa.us/Citygov/	75,960
Kennewick	WA	http://www.ci.kennewick.wa.us/home.htm	42,155
Mabton	WA	N/A	1,597
Mercer Island	WA	http://www.ci.mercer-island.wa.us/	21,550
Oak Harbor	WA	N/A	20,599
Renton	WA	http://www.ci.renton.wa.us/	46,270
Seattle	WA	http://www.ci.seattle.wa.us/	536,600
Spokane	WA	http://www.spokanecity.org/	184,058
Steilacoom (Town)	WA	N/A	5,800
Tacoma	WA	http://www.ci.tacoma.wa.us/default.asp	176,664
Vancouver	**WA**	**http://www.ci.vancouver.wa.us/vancmo/budget99/budget.htm**	**54,651**

NOTE: Localities in bold post their budgets on their Web site. ICMA welcomes additions to this list. Contact Christine Ulrich at 202/962-3595; culrich@icma.org.

Multiyear Budgeting

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