



City of Long Beach
Working Together to Serve

Memorandum

Date: March 16, 2010

To: Patrick H. West, City Manager

From: Lori Ann Farrell, Director of Financial Management

For: Members of the Budget Oversight Committee

Subject: Biennial Budget (Two-Year Budget)

Historically, various states and agencies have used multi-year budgeting when the economy is facing a downturn and the elected bodies want to ensure responsible and carefully planned spending. Please note, however, that some of these very agencies have diverted to single year budgets as the economic environment has worsened to gain better control on spending and to react more quickly as needed.

Local governments that budget on the multi-year basis typically employ one of the following variations of biennial budgeting:

- The biennial financial plan is characterized by an annual appropriation linked to a tentative, unenforceable spending plan for the following year;
- The rolling biennial budget is a two-year spending plan comprised of two one-year appropriations that are adjusted annually; and
- The classic, or traditional, biennial budget is a two-year spending plan in which 24 months worth of expenditures are approved simultaneously.

Some of the strengths and weaknesses of multi-year budgeting include:

Strengths:

- Improves long-range and strategic planning;
- Integrates long-term goal-setting with the budgetary process;
- Encourages a more policy-oriented budget process;
- Strengthens performance management;
- Promotes more "orderly spending patterns", it mitigates against the "use it or lose it" mentality;
- Retains the fiscal control provided by annual budgets; and

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- Reduces costs associated with printing an annual budget document.

Weaknesses:

- Difficulty of projecting revenues for more than a single year;
- Can represent a challenge of converting to multi-year budgeting from an annual budget process; and
- Increases the workload during the first year of the multi-year budget cycle.

Based on the City's charter requirements and current budget system software in place, the rolling biennial budget would be the best suited for the City since the City Charter requires an annual appropriation process. The rolling biennial budget is flexible enough to allow revisions and adjustments as necessary, while providing a clear plan of fiscal discipline for two years at a time.

An alternative option is to implement a multi-year Strategic Plan that includes a traditional one-year budget, but provides a multi-year outlook so that future, out year deficits are taken into strong consideration in the annual budget development process. With significant structural deficits projected for Fiscal Years 11, 12, 13 and 14, it is imperative that the City makes fiscally sound and sustainable decisions for the long term. By opting to face the continuing fiscal crisis in a more organized and systematic way, either a biennial budget or an annual budget coupled with a 2-5 year Strategic Plan can accomplish those goals.

CC: MAYOR AND MEMBERS OF THE CITY COUNCIL
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