

In My Opinion

Multi-year Budgeting: A tool to assist local units of government in difficult economic times

By

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By abandoning the traditional annual budget in favor of a biennial budget framework, it is possible for local units of government in Michigan and Genesee County to save time, improve strategic planning capabilities, and enhance overall financial condition. The Genesee County Road Commission has implemented the development of a biennial budget framework consisting of a 'now year' budget and one sequential rolling 'out year' financial plan, which serves as the basis for the follow-on 'now year' budget.

Multi-year budgeting offers a number of potential advantages over annual budgeting, including decreased staff time for preparation, enhanced long-range planning, and improved program evaluation. Multi-year budgeting facilitates the integration of financial and strategic planning, replacing last minute incrementalism with a more strategic approach to resource allocation. Multi-year budgeting forces governments to assess future staffing levels and their effect on the operating budget. The implementation of multi-year budgeting results in a paradigm shift that renders the traditional approach of "fixing things at mid-year" obsolete and replaces that notion with a forward-facing perspective that takes into consideration the long-term financial and operating impacts of spending recommendations.

Local units of governments, such as the Genesee County Road Commission, that budget on a multi-year basis typically employ one of the following variations of biennial budgeting: biennial financial plan, rolling biennial budget, or classic biennial budget. 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. The classic, or traditional, biennial budget is a two-year spending plan in which 24 months of expenditures are approved simultaneously. The implementation of a biennial budget process at the Genesee County Road Commission has resulted in a more planned use of fund balance, better cost controls in large capital projects, and early-on identification of alternatives, which will yield cost savings.

Multi-year budgeting is a financial planning tool, that when adopted and implemented, affords earlier and more options to the governing body than does the traditional annual budget process.

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