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BUDGET PROCESS

Biennial Budgeting for the Federal Government

Statement of Susan J. Irving,
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Accounting and Information Management Division
Mr. Chairman, Members of the Committee:

I am pleased to join you as you consider proposals to change the entire budget process from an annual to a biennial cycle. This change has been advocated as a way to advance several objectives: (1) to provide more focused time for congressional oversight of programs by streamlining the congressional budget process and reducing the time Members of the Congress must spend on seemingly repetitive votes; (2) to shift the allocation of agency officials’ time from the preparation of budgets and justifications to improved financial management and analysis of program effectiveness; and (3) to enhance agencies’ abilities to manage their operations by providing more certainty in funding over 2 years.

Almost everyone involved in the current budget process finds it frustrating. The public finds the budget deliberations confusing. Executive branch agencies say it is burdensome and time consuming. How to make the best use of the new perspectives and information provided under the Chief Financial Officers (CFO) Act and the Government Performance and Results Act (GPRA) in the budget and resource allocation process is unclear. Many members of the Congress say the annual budget process seems too lengthy, with its many votes on authorizations, the budget resolution, reconciliation, and appropriations.

At the same time, budget debates are important—and important debates often take time. Budgeting is the process by which we as a nation resolve the large number of often-conflicting objectives that citizens seek to achieve through government action. The budget determines the fiscal policy stance of the government—that is, the relationship between spending and revenues. And it is through the budget process that the Congress and the President reach agreement about the areas in which the federal government will be involved and in what way.

Despite the nearly universal agreement that the current process has problems, changes must be carefully considered. The current budget process is, in part, the cumulative result of many changes made to address previously-identified problems. For example, the Budget Enforcement Act (BEA) was designed to enforce deficit-reduction agreements. With the shift from deficit to surplus has come the question of whether and how to change the process to deal with new
challenges. Our recent work discussing how other countries are dealing with current surpluses can be informative about the character of a new fiscal paradigm for our nation.\textsuperscript{1} Some countries have recognized that using fiscal targets such as debt-to-GDP ratios can be useful to guide decision-making in a world where achieving a current-year balance is no longer sufficient as a fiscal compass.

Although the shift from deficit to surplus does not mark the end of the fiscal challenges you face, it does free you from an exclusive focus on deficit reduction. It may permit taking a longer-term perspective both on commitments and on the role of government. As the Comptroller General has testified recently, there is a need for a serious debate about the role, the performance, and the management of the federal government. However, the Congress has no single established formal mechanism analogous to the budget resolution in which it may articulate performance goals for the broad missions of government, to assess alternative strategies that offer the most promise for achieving these goals, or to define an oversight agenda targeted on the most pressing crosscutting performance and management issues.\textsuperscript{2}

All of these issues come into play as you consider whether to make any changes to the budget process—whether that process remains on an annual cycle or is shifted to a biennial one. For this hearing your staff asked me to discuss state experiences with biennial budgeting, the question of periodicity and availability of funds, and to comment on some technical or implementation issues to consider if you were to shift the federal cycle to a biennial one.

**STATE EXPERIENCES**

Seven states have a biennial legislative cycle and hence also a biennial budget cycle. Of the 43 states with annual legislative cycles, 27 describe their budget cycle as annual, 2—Kansas and

\textsuperscript{1}Budget Surpluses: Experiences of Other Nations and Implications for the United States (GAO/ AIMD-00-23, November 2, 1999).

\textsuperscript{2}Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus (GAO/T-AIMD-00-73, February 1, 2000)
Missouri—describe their cycle as mixed, and 14 describe it as biennial. Table I below shows the legislative and budget cycles of the states.

Table 1: State Legislative and Budget Cycles

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<sup>a</sup>In Kansas, 19 agencies are on a biennial budget cycle.

<sup>b</sup>In Missouri, the operating budget is on an annual cycle while the capital budget is on a biennial cycle.

<sup>c</sup>Although statutorily North Carolina has a biennial legislature, in practice the legislature meets annually, with a shorter session during the second year.
Connecticut has changed its budget cycle from biennial to annual and back to biennial. Since the mid-1960s, 17 other states have changed their budget cycles: 11 from biennial to annual, 2 from annual to mixed, and 4 from annual to biennial.

Translating state budget laws, practices, and experiences to the federal level is always difficult. As we noted in our review of state balanced budget practices\(^3\) state budgets fill a different role, may be sensitive to different outside pressures, and are otherwise not directly comparable. State legislatures generally don’t separate the authorization and appropriation function. In about one-third of the states appropriations are contained in a single appropriations act. It also appears that they make less use than does the Congress of tools like multiyear funding. The length of a legislature’s session may be limited. In addition, governors often have more unilateral power over spending than the President does.

In your deliberations this year the experience of three states—Ohio, Connecticut, and Arizona—may be of particular interest. Of the five largest states in terms of general fund expenditures, Ohio is the only one with both an annual legislative cycle and a biennial budget.\(^4\) Connecticut shifted to a biennial budget cycle for 1993-94 with the avowed purpose of improving the quality of oversight, and it now is in its fourth biennium. Beginning in 1993, Arizona took a phased approach to shifting from annual to biennial budgeting, and this year is in the second year of the first biennium in which the entire budget is on a biennial basis. Although we have not completed our examination of just how biennial budgeting works in these states, I will discuss each briefly based on preliminary work and interviews with some state officials.

**Ohio**

Ohio has had a biennial budget cycle since the early 1900s. In odd-numbered years the legislature adopts two 1-year operating budgets. Appropriations for most state agencies are

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\(^3\)Balanced Budget Requirements: State Experiences and Implications for the Federal Government (GAO/AFMD-93-58BR, March 26, 1993).

\(^4\)Of the 10 largest only Texas, Ohio and North Carolina have a biennial budget cycle. Texas has a biennial legislative cycle. Although statutorily on a biennial legislative cycle, in practice the North Carolina legislature meets annually.
contained in a single bill.\textsuperscript{5} In even-numbered years the legislature adopts two capital bills—a capital re appropriations bill dealing with projects previously appropriated but not completed and a separate capital budget for new projects. If there are legislative changes in the appropriations, they may either be included in the capital reappropriations bill and/or in a corrective bill. However, we are told that significant changes are rare.

In Ohio, there is no mandate for increased legislative oversight in the second year. The legislature generally has a shortened session in this year and spends its time on the capital bills and business other than the budget.

Adjustments during the biennium are generally handled by the Controlling Board. The Director of the Governor’s Budget Office or his designee chairs this Board—we were told this is usually the Deputy Director of the Office of Budget and Management. Its other six members are members of the legislature.\textsuperscript{6} One official described the Controlling Board as legislative oversight. This Board approves all contracts over $25,000 (or $75,000 for larger institutions). It also has broad powers over spending. The Board may authorize increased spending from dedicated revenues, fees, federal reimbursements, or private grants. We were told that agencies may begin new projects if approved by the Controlling Board. Although under its general authority the Board cannot increase or decrease General Revenue Fund appropriations, it can move such funds across years and between purposes within an agency within a single biennium. The Governor in Ohio has authority to unilaterally reduce spending in any area if necessary to ensure the fiscal year ends in balance.

\textsuperscript{5}Separate bills are prepared for the Bureau of Workers’ Compensation, the Industrial Commission, and the non-general revenue fund portions of the budget for the Departments of Transportation and Public Safety. In the fiscal year 2000-01 biennium, Ohio also enacted a separate bill for education-related agencies for the first time.

\textsuperscript{6}Other members are the Chair of the Finance and Appropriations Committee of the House of Representatives, the Chair of the Finance Committee of the Senate, two members of the House appointed by the Speaker of the House, and two members of the Senate appointed by the President of the Senate.
Connecticut

Beginning in 1993 Connecticut converted its budget cycle from annual to biennial. In odd-numbered years the Governor proposes and the legislature adopts two 1-year budgets. The Governor’s budget proposal is reviewed by the legislature’s Appropriations and Finance Committees. Appropriations for all state agencies are contained in a single bill. In even-numbered years the Governor transmits a report on the status of the enacted budget along with any recommendations for revisions or adjustments.

Adjustments during the biennium can be handled in one of three ways. As mentioned above, they may be contained in the Governor’s bill for the second year. Also, the Finance Advisory Committee (a joint executive and legislative branch committee) must approve larger transfers between appropriations accounts within an agency. Finally, the Governor, with Finance Advisory Committee approval, has the authority to reduce overall appropriations up to 3 percent of the total appropriation of any fund or up to 5 percent of any appropriation account in cases where a deficit is projected or in cases where there is a change of circumstances.

The main reasons given for a conversion to a biennial budget cycle were that an annual budget process takes too long, is repetitive, and leaves little time for the legislature to carry out its oversight responsibilities. Connecticut’s reform envisioned a process whereby budget activities would take place during the first year with the second year devoted to oversight and any necessary technical adjustments to the budget. However, phone conversations with a senior budget official indicate that this has not been the experience. In practice, the Governor has introduced new policy initiatives for the second year of the biennium. As a result, budget activities in the “off-year” have not been limited to technical adjustments and the legislative calendar, which is shorter in the second year, has been largely consumed by budget-related deliberations.

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1Connecticut had a biennial legislative and budget cycle prior to fiscal year 1971-72 when it changed both its legislative and its budget cycle to annual.
2The Governor has the authority to transfer small amounts of money between accounts without the approval of the Finance Advisory Committee.
3However, grants to towns and the Auditor of Public Accounts may not be reduced.
Arizona

Arizona is currently in the second year of its first full biennial budget. Arizona began its transition to a biennial budget cycle in 1993 when it moved 26 smaller regulatory agencies to a biennial basis. In 1996, all agencies except for the 15 largest were moved to a biennial cycle—bringing the total to about 100. The 15 largest agencies, which represent more than 90 percent of general fund expenditures, were converted to a biennial cycle in fiscal year 1999-2000. In Arizona general funds constitute approximately 50 percent of revenues. The other half is split approximately evenly between federal funds—which are not appropriated but flow directly to the designated agency—and nonappropriated funds—which include user fees, regulatory fees, and revenues enacted through voter initiative.

Arizona linked the shift to a biennial budget cycle with an attempt to increase program review. Beginning in 1993 when Arizona first started its move toward biennial budgeting, the legislature also established a Program Authorization Review (PAR) process whereby agencies were to annually submit self-assessments to the legislative and executive budget offices. The directors of each budget office are to jointly review the self-assessments and submit a report with their findings to the legislature. In 1997 the PAR process was converted to a biennial process, whereby the reviews were to occur in the non-budget years. Finally, in 1999, the legislature modified the program evaluation process further, creating a Strategic Program Area Review (SPAR) process to look more closely at broad program areas. For the first year it was specified that the process would look at three program areas: (1) Arizona Ports of Entry; (2) Domestic Violence programs; and (3) University Extended Education programs.

BIENNIAL BUDGETING AT THE FEDERAL LEVEL

The biennial bills before the Congress would shift the entire budget cycle from annual to biennial. The President would submit a budget every other year. Authorizations would be for 2 years or longer. Budget resolutions would be adopted and appropriations enacted every 2 years.
The Congress would be required to enact two 1-year appropriations. All the biennial budget bills introduced in this Congress provide for this kind of cycle. Most extend the time provided for development of the budget resolution—moving it from April 15 to May 15—and hence shorten the time provided for appropriations action in the first session of a Congress.

Experience with multiyear fiscal policy agreements and multiyear authorizations provides no evidence to suggest that budget agreements, authorizations, budget resolutions, and appropriations need to cover the same time period. Multiyear fiscal policy agreements and multiyear authorizations make a great deal of sense, but they do not require changing the appropriations decision cycle from annual to biennial. If multiyear agreements on spending caps and enforcement regimes are continued, a biennial budget resolution may also be possible. While biennial appropriations could save time for agencies and for the Congress, they would result in a change in the nature of congressional control and oversight. Proposals to change the process should be considered partly on the basis of their effect on the relative balance of power in this debate. Similarly, any mechanisms developed to implement biennial budgeting could have an impact on the balance of power.

**Longer Term Perspective is Important**

We have previously supported the use of multiyear authorizations for federal programs. These can help both the Congress and the executive branch by providing a longer-term perspective within which a program may operate and appropriations be determined. Multiyear authorizations are the normal practice for most of the nondefense portion of the budget.

Increasingly, informed budget and policy decisions require an even longer-term perspective. There has been a growing recognition that policymakers need information on the long-term cost consequences of today’s commitments. The long-term costs implied by the government’s current commitments can encumber major shares of future budget resources. Our long-term budget model illustrates that the growth in Social Security and health commitments threatens to crowd out discretionary spending in the long run, assuming a constant tax burden. While the congressional budget process has made progress in considering the longer term in budgeting by requiring a multiyear focus, it does not fully address sustainability issues. We have suggested
that this could be improved for some programs, like employee pension, retiree health, and federal
insurance programs, by adopting accrual measurements in the budget.\textsuperscript{10} Doing so would provide
a more complete picture of the cost of current decisions and thus may encourage timely changes
in these programs to control costs. For other long-term commitments, like social insurance,
which are not considered to be liabilities under current accounting standards but nevertheless
represent a commitment of the government, alternative approaches drawing upon accrual
concepts may be useful to explore and could very well lead to new ways of budgeting for such
commitments. However, while this perspective is important, the uncertainty of long-term
projections argues against incorporating them directly into the budget numbers.

Budgeting always involves forecasting, which itself is uncertain, and the longer the period of the
forecast, the greater the uncertainty. Increased difficulty in forecasting was one of the primary
reasons states gave for shifting from biennial to annual cycles. Among the issues that would
need to be worked out if the Congress moves to a biennial budget cycle are how to update the
Congressional Budget Office (CBO) forecast and baseline against which legislative action is
"scored" and how to deal with unexpected events. The baseline is important because, as you
know, CBO scores legislation based on the economic assumptions in effect at the time of the
budget resolution. Even under the current system there are years when this practice presents
problems: in 1990 the economic slowdown was evident during the year, but consistent practice
meant that bills reported in compliance with reconciliation instructions were scored based on the
assumptions in the budget resolution rather than updated assumptions. However, the economic
slowdown caused spending to increase and federal revenues to decline by more than the savings
projected from the reconciliation act's policy changes.\textsuperscript{11} If budget resolutions were biennial,
this problem of outdated assumptions would be greater—some sort of update in the "off-year"
would be necessary.

\textsuperscript{10}Accrual Budgeting: Experiences of Other Nations and Implications for the United States, (GAO/
AIMD-00-57, February 18, 2000).
\textsuperscript{11}See Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, October 7, 1994).
Annual Appropriation Cycle Permits Flexible Periods of Fund Availability and Changes in Levels Year to Year

In considering whether the federal government should shift to a biennial budget, it is important to recognize the critical distinction between how often budget decisions are made and how long the spending authority provided for agency use is available. That is the difference between the frequency of decisions and the period of availability of funds. To date biennial budget proposals have sought to change the frequency with which decisions are made—from annual to biennial—without changing the periodicity of funds.

Sometimes a shift to biennial appropriations is discussed as though it were necessary to change the frequency of decisions in order to change the length of time funds are available. As you know, however, this is a misconception. First, nearly two-thirds of the budget goes for mandatory programs and entitlements on which decisions are not made annually. Even the remaining portion of the federal budget on an annual appropriations cycle is not composed entirely of 1-year monies. Not all appropriated funds expire on September 30 of each year. The Congress has routinely provided multiyear or no-year appropriations for accounts or for projects within accounts when it seemed to make sense to do so. For example, just looking at the accounts that in fiscal year 2000 were on an annual appropriations cycle shows that over 60 percent of these accounts contained some multiyear or no-year funds. For these accounts, some previously enacted appropriations remain available for obligation beyond September 30, 2000 without further congressional action. The Congress has also responded to situations in which the program year and the fiscal year do not match; for example, education programs routinely receive forward funding. Thus, to the extent that biennial budgeting is proposed as a way to ease a budget execution problem, the Congress has shown itself willing and able to meet that need under the current cycle.

The federal government has had some experience with requirements for a biennial budget. The 1986 Defense Authorization Act directed the Department of Defense (DoD) to submit a biennial budget for fiscal years 1988 and 1989 and every 2 years thereafter. DoD has submitted 2-year budgets to the first session of a Congress for most biennia since then, including for the biennium
that would have begun with fiscal year 2000. However, it has never received both authorizations and appropriations to cover a biennium. Thus, it then submits a 1-year budget to the second session of a Congress to request appropriations for the second year of the biennium. According to a DoD official, this attempt to implement biennial budgeting has created additional workload, as DoD routinely must prepare budget justifications for the second year of the biennium twice.

**Implementation Issues: Integration With BEA, GPRA**

If BEA is extended, there are a number of technical issues to be considered in terms of the integration of any biennial budget cycle with the BEA. For example, would biennial budgeting change the timing of the BEA-required sequestration reports? How would sequestrations be applied to the 2 years in the biennium and when would they occur? For example, if annual caps are continued and are exceeded in the second year of the biennium, when would the Presidential Order causing the sequestration be issued? Would the sequestration affect both years of the biennium? We would be happy to work with your staff on these and other technical issues should you wish.

The interaction between biennial budgeting and GPRA presents several challenges. These are especially important given the expressed desire to use a shift to biennial budgeting as a way to increase and improve oversight. At a minimum, as recognized in several of the bills that have been introduced, there would need to be conforming calendar changes in GPRA. However, if a shift to a biennial cycle is intended to facilitate oversight, integration will need to go beyond such calendar adjustments to thinking about the purposes of GPRA and how it can best assist congressional decision-making. Again, we would be happy to work with your staff on the integration of these initiatives.

**Potential Effects of Biennial Appropriations**

For agency budget officials—both agency budget officers and program managers—the arguments for biennial budgeting may seem quite strong. Currently, agency budget officers
spend several months every year preparing a “from-the-ground-up” budget with voluminous written justifications. Much of this work is repetitious. In contrast, requests for supplemental appropriations are handled on an exception basis. Only those agencies requesting supplemental appropriations prepare and present justifications, and those justifications are less complex than for the annual budget. If, under a biennial appropriations process, the “off-year” updates, amendments, or adjustments were treated like supplemental appropriations, the savings in agency time could be significant, even if the Congress required—as seems reasonable—that agencies submit performance reports and audited financial and spending reports every year.

Would agency time and energy be shifted to improved financial management or better program evaluation? That is likely to depend on the President’s and the agency’s leadership and on what the Congress demanded of the agencies.

For agency program managers, the interest in biennial budgets is slightly different. Although preparation and analysis for the annual budget preparation and submission process is time-consuming and burdensome for program managers, they are likely to have a greater interest in how long money is available for use. For managers with program cycles that are longer than or different from a single fiscal year, multiyear appropriations tend to smooth program functioning. However, as noted above, the Congress has already addressed this budget execution problem for many of these programs by giving them some multiyear funding. While a shift of the entire cycle would ease planning and increase predictability for all program managers, multiyear or forward funding can be provided for those programs for which 1-year money seriously impairs program effectiveness.

Regardless of the potential benefits to agencies, the decision on biennial budgeting will depend on how the Congress chooses to exercise its constitutional authority over appropriations and its oversight functions. Annual enacted appropriations have long been a basic means of exerting and enforcing congressional policy. Oversight has often been conducted in the context of agency requests for funds. A 2-year appropriation cycle would change—and could lessen—congressional influence over program and spending matters, since the process would afford fewer scheduled opportunities to affect agency programs and budgets. Even in an era of fixed-
dollar caps on discretionary spending, the Congress has retained the right to rearrange priorities within the aggregate cap. Indeed, at the individual account level year-to-year volatility is much greater than the volatility of appropriations in the aggregate. For example, while overall discretionary appropriations were changing by only 2 to 4 percent per year between fiscal years 1995 and 1998, 37 percent or more of the individual accounts changed by more than +/-10 percent. In addition, appropriations subcommittees may feel a need to provide more flexible budget execution tools to program managers—in the form of greater multiyear funding, lump sum appropriations, and/or transfer authority—to address the greater uncertainty associated with lengthened funding horizons.

Shifting the entire budget and appropriations cycle to a biennial one is likely to require the reexamination of a number of congressional processes. How would the rules of each body need to be changed to facilitate the desired operation of such a cycle? What new mechanisms might be created and how would they work? For example, the question of how to respond to changing conditions becomes increasingly important if appropriations are to be enacted every 2 years. A biennial cycle is likely to increase the number of unexpected developments between appropriations. Already the Congress adjusts its annual spending decisions as it responds to emergencies or changes in the world that occur within the year. Over a 2-year period there are likely to be more such outside events demanding “adjustments.” How would those be handled?

Integration of GPRA with a biennial cycle also raises a number of questions beyond adjusting the dates. Among the questions are: How will annual performance reports be used in a biennial cycle? Will the President’s governmentwide performance plan submitted with his biennial budget reflect performance goals and measures on an annual or a biennial basis? Agencies will be expected to prepare performance plans including annual goals and measures covering each year of the biennium—how will these affect the governmentwide performance plan? Agencies will still be expected to submit annual performance reports—how are these to be used in a biennial cycle?

We have long advocated regular and rigorous congressional oversight of federal programs. Such oversight should examine both the design and effectiveness of federal programs and the
efficiency and skill with which they are managed. In testimonies before both the House and Senate Budget Committees last month\(^{12}\) the Comptroller General offered some organizing themes or questions for use in structuring systematic oversight. As a result of recent reform efforts, the Congress will soon begin receiving more consistent and complete information about the costs, efficiency, and effectiveness of federal programs and activities. However, to be fully useful, this information must become a routine component of congressional authorization, oversight, and appropriations processes. While individual authorization and oversight committees are well-suited to address performance or financial issues affecting individual agencies or programs, many of the key performance questions are not confined to, and cannot be addressed effectively on, an agency-by-agency or committee-by-committee basis. In his testimony last month, the Comptroller General suggested that the Congress could consider the need for mechanisms that would allow it to more systematically focus its oversight on problems with the most serious and systemic weaknesses and risks. One possible approach would involve modifying the current budget resolution to include a “performance resolution” to permit the Congress to respond to, and present a coordinated congressional perspective on, the President’s governmentwide performance plan.

In this context, we note that several of the bills make a substantive change to the budget act by requiring that GPRA plans and reports be reviewed by each committee of jurisdiction. These bills go on to say that each committee “may provide its views on such plans or reports to the Budget Committee.” This represents an expansion of the scope of what is colloquially known as “views and estimates reports.” It is unclear just how this information would be used by the Budget Committee—the bills do not amend the content of the budget resolution or provide for a companion “performance resolution,” as suggested in our earlier testimony. However, since one of the consequences of a biennial process will be fewer opportunities to respond to executive agency plans, some structured forum for responding to the President’s governmentwide plan may be useful.

\(^{12}\)Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus (GAO/T-AIMD-00-73, February 1, 2000) and Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance (GAO/T-AIMD-00-96, February 17, 2000).
CONCLUSION

Mr. Chairman, we have testified before that the decision to change the entire budget process to a biennial one is fundamentally a decision about the nature of congressional oversight. Whether a biennial cycle offers the benefits sought will depend heavily on the ability of the Congress and the President to reach agreement on how to respond to uncertainties inherent in a longer forecasting period. If biennial appropriations bills are changed rarely, the planning advantages for those agencies that do not now have multiyear or advance appropriations may be significant.

Whether a biennial cycle would in fact reduce congressional workload and increase the time for oversight is unclear. As I noted above, most current proposals actually shorten the time available for appropriations action in the first session of the Congress—the session in which all appropriations action is supposed to take place—by reducing the time between completion of congressional action on the budget resolution and the beginning of the biennium at issue by 1 month.

Mr. Chairman, biennial budgeting would bring neither the end of congressional control nor the guarantee of improved oversight. It would require a change in the nature of that control. If the Congress decides to proceed with a change to a biennial budget cycle—including a biennial appropriations cycle—careful thought will need to be given to implementation issues. We stand willing to assist your staff either with those technical and implementation questions or with other approaches to improved oversight under the current annual cycle.