

Multiyear Budgeting

This article discusses the practices of local governments that adopt multiyear budgets—why they do so and how these budgets work.

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Budgets. . .every community has one. But if you look a little deeper, there are some nuances in the public government's budgetary realm that are worth exploring. This article will discuss the practices of cities and towns that adopt multiyear budgets—why they do so and how these budgets work.

Most local governments adopt annual operating budgets and multiyear capital improvement budgets. The logic is pretty simple: State or provincial law requires an annual budget and many major capital projects require multiple years to complete. In essence, an annual budget meets the letter of the law and with capital expenditures, it is necessary to plan ahead in order to secure the funds to pay for large expenditures and complete complex projects.

But some local governments have gone beyond the state annual budget minimum requirement and opted to develop a longer term operating horizon that helps them plan

further out on their day-to-day services and also to provide justification for their revenue and expenditure predications.

Novi, Michigan, develops a single budget that spans three years, even though Michigan state law requires an annual budget. The city lays out all of the relevant budget policies that guide the proposed revenues and expenditures (see [http://www.cityofnovi.org/City-Services/City-Manager/Budget-and-Multi-Year-Financial-Plan-\(Current-and/Budget2014-2015Final.aspx\)](http://www.cityofnovi.org/City-Services/City-Manager/Budget-and-Multi-Year-Financial-Plan-(Current-and/Budget2014-2015Final.aspx))). The financial plan is embedded in the full annual budget document in order to provide context for the upcoming proposed expenditures and revenue policies.

Thus, as the budget is approved each year, the three-year budget is extended out by one year. Assistant City Manager Victor Cardenas says that “A multiyear approach allows you to see where we are, where we are going, and where we plan to be.”

San Luis Obispo, California, has been doing annual budgets that span two years since 1983. In a white paper authored in 2007, the staff describes how developing a two-year plan helps everyone keep an eye on the future and ensures that activities being undertaken are sustainable and desirable. Says Michelle Bulow, finance administrative assistant, “Our two-year budget reinforces 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.”

Lethbridge, Alberta, Canada, has been using three-year budgets for more than a decade. Staff members say that their 2012–2014 budget, although considerable work to prepare, allows them to plan, evaluate, and improve programs throughout a three-year cycle.

In 2013, council terms changed from three-year to four-year terms. So Lethbridge is now moving to a four-year budget to match those elected officials’ terms. Director of Corporate Services Cory Wright says, “Multiyear budgeting has been fantastic for us. It also prepares the city for any unforeseen circumstances that may require a nimble response in order to avoid serious consequences.”

Calgary, Alberta, Canada, got approval to begin development of three-year budgets in 2004, bringing its first multiyear budget into place for 2006–2008. Today, staff members undertake four-year budgets and recently approved the 2015–2018 operating budget.

They note in the budget document that while the Canadian Municipal Government Act requires balanced operating budgets for each calendar year, there is nothing to prohibit the governing body from approving more than one budget at the same time.

Sarah Woodgate, manager in the chief financial officer’s department, says, “Multiyear budgeting allows approval of longer-term funding, which supports the identification and achievement of our strategic goals.”

The [Washtenaw County, Michigan](#), Board of Commissioners approved its first quadrennial budget this year for fiscal years 2014–2017. Where in the past, they had used two-year budgets, the staff and elected officials felt the community would be better served through a focus on financial sustainability, stability, and organizational service delivery.

In their case, long-term labor agreements and a culture of reinvention of government service delivery underscored the commitment to long-term planning. Washtenaw has a rolling multiyear budget; one budget is created every four years, but the budget is reaffirmed with minor adjustments annually.

County Administrator Verna McDaniel says, “A rolling, multiyear budget reduces political problems. Since budget reaffirmation occurs annually and the board has two-year terms, the budget is less likely to be a part of the political fray.”

WHY GO MULTIYEAR?

What are the rewards and risks of completing a multiyear budget? All five of the communities listed above agree that multiyear budgets promote these positive results:

- Planning long term so that long-term goals can be achieved.
- Providing residents with more certainty about the direction of local government services, finances, and tax levels.
- Making more strategic use of the governing body’s time in reviewing budgets and the administration’s time in preparing them.
- Focusing on continuous improvement and implementation and not just planning.
- Retaining the benefits of an annual budget through quarterly reviews and “tweaking.”
- Having the ability to incorporate operating costs linked to the capital improvement plan.
- Instilling discipline to control spending plan changes.
- Promoting more orderly spending patterns; in other words, mitigate against the use-it-or-lose-it mentality.
- Allowing elected officials to see how important programs get implemented over time when they are timed to the council/commission election cycle.

Likewise, these communities agreed that some fundamentals have to be in place in order for multiyear budgets to succeed:

- Take seriously the goal-setting process with elected officials and through survey results with residents.
- Thoughtfully convert those goals into implementable programs.
- Have the discipline to stay with the plan and not dramatically change course in order to fund a favorite “program of the month.”

- Establish reasonable time frames and organizational responsibility for achieving them.
- Allocate sufficient resources for the top priorities and constantly review to discourage “mission creep” or a gradual shift in objectives.

According to a [San Luis Obispo, California, white paper](#) prepared on its multiyear budget, an organization should ask several important questions before embarking on a new process like this type of budget:

- Most fundamentally, what do you hope to accomplish if you adopt an approach such as this?
- What is your current organizational culture in terms of departmental versus centralized control of the budget? Is this something you want to change?
- Is integrating strategic planning and the budget process a high priority? Do you have a process for that now, and will a multiyear approach improve it?

The [Alliance for Innovation](#) is undertaking its first two-year budget planning for calendar years 2015–2016. Guided by its board-approved strategic plan and member survey results, the Alliance wants to focus its small staff’s energies and its organization’s resources on accomplishing goals that matter.

Moving forward, our organization will focus on what we do, why, and the results our efforts will produce, and not just on “How much does it cost?”