Multi-year budgets for Medicaid and other State-funded health care programs
Prepared by: the Joint Fiscal Office and the Department of Finance & Management

Section 15 of Act 113 of 2016
The Joint Fiscal Office and the Department of Finance and Management, in collaboration with the Agency of Human Services Central Office and the Department of Vermont Health Access, shall consider the appropriate role, if any, of using multi-year budgets for Medicaid and other State-funded health care programs to reduce administrative burden, improve care quality, and ensure sustainable access to care. On or before March 1, 2017, the Joint Fiscal Office and the Department of Finance and Management shall provide their findings and any recommendations for statutory change to the House Committees on Appropriations, on Health Care, and on Human Services and the Senate Committees on Appropriations, on Health and Welfare, and on Finance.

Finance & Management Comment
While not the author of this report, the Administration is supportive of exploring the general concept of two-year budgets and worked with the House Appropriations Committee this year, on submitting two-year budgets for certain agencies and departments. This report, however, is specific to two-year budgets for the Medicaid and other state-funded health care programs. Given the fiscal uncertainty with our federal partners in Washington, we believe the State should hold off on further action towards two-year budgets specific to Medicaid and other state-funded health care programs until we have a better view of how the program will be shaped at the federal level.

Findings & Recommendations

Findings

Multi-year budgets
- Little empirical evidence supports the view that either biennial budgeting or annual budgeting holds clear advantages over the other.
- With the exception of the Pay Act, which uses a two-year budget, Vermont state government uses an annual budget process.
- Only one state (Arizona) employs a “bifurcated” budget in which some state agencies submit annual budgets while others submit biennial budgets.
- A budget adjustment process would likely still be necessary, limiting potential opportunities to reduce administrative burdens.

Multi-year budgets for Medicaid and other State-funded health care programs
- No clear relationship exists between methods of budget preparation (annual or multi-year) and the improvement of “care quality” or the “sustainability of access to care” as presumed in Act 113.
• Many moving pieces and uncertainties currently affect Medicaid and other State-funded health care programs in Vermont – including the continued fluctuations in caseloads and service demands and strong signals from both Congress and President Trump indicating the potential for significant changes to the Affordable Care Act – that make implementing a multi-year budget for Medicaid and other State-funded health care programs particularly problematic at this time.

• In Arizona – the only state with a bifurcated state budget where some agencies within state government submit biennial budgets while other agencies submit annual budgets – the agency that oversees Medicaid submits its budget annually.

Multi-year forecasts
• Multi-year forecasts of revenue and spending can be effective tools in long-term planning, helping legislators identify the potential for future savings or additional demands on state dollars to better allocate budgetary resources.
• Depending on how it is employed, multi-year forecasting of revenue and spending can potentially realize many of the same goals and benefits as multi-year budgeting without authorizing spending authority.
• Vermont statutes currently require a consensus Medicaid forecast process whereby the Joint Fiscal Office (JFO) and the Secretary of Administration provide to the Emergency Board (E-Board) estimates of revenues, caseloads, and per-member per-month expenditures for the “current and the next succeeding years” for each Medicaid eligibility group (MEG).

Recommendations
• Legislative fiscal staff and Administration officials do not have any recommendations for statutory changes.
• Legislative fiscal staff and Administration officials do not recommend moving to biennial or multi-year budgeting – which authorize expenditures – for Medicaid at this time. However, we agree on the value of pursuing more in-depth and robust multi-year projections in Medicaid, particularly to enhance both short-term and long-term planning. This could require additional staff and resources.
• The success of any transition from annual to biennial budgeting will be highly dependent on the legislative and executive branches having an agreed upon process for and exhibiting strong commitments to implementing such a transition.
• Should the legislative and the executive branches pursue multi-year budgeting for Medicaid, in addition to strong commitments among the two branches, the intent, goals and objectives for making such a move should be clear and measurable.

Executive Summary
Vermont’s state budget is built, debated, passed and signed on an annual basis. Section 15 of Act 113 of 2016 required the Joint Fiscal Office (JFO) and the Department of Finance and Management (F&M), in collaboration with the Agency of Human Services (AHS) Central Office and the Department of Vermont Health Access (DVHA) to “consider the appropriate role, if any, of using multi-year budgets for Medicaid and other State-funded health care programs to reduce administrative burden, improve care quality, and ensure sustainable access to care.” The JFO and the aforementioned departments have not found any evidence that a multi-year budget will

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1 32 V.S.A. § 305a
necessarily “reduce administrative burden, improve quality, or ensure sustainable access to care” as presumed in the legislative language but do agree that value exists in making multi-year budget projections for Medicaid and other state-funded health care programs, particularly for understanding and planning for out-year implications of policy decisions.

In considering the appropriate role of multi-year budgets in Medicaid, it is valuable to look at the experience of other states that utilize biennial budgets. The following considerations explore the use of multi-year budgets in general, touching upon potential implications for Medicaid and other health care programs in Vermont. This document also discusses the potential role of exploring more robust multi-year projections of revenues and expenditures in lieu of considering a multi-year budget approach.

Biennial (Multi-year) Budgets

The concept of “biennial” or “multi-year” budgeting may mean different things to different audiences. For this report, these terms refer to the act of approving spending authority through the appropriation process.

Although the language in Act 113 was specific to the use of multi-year budgets for “Medicaid and other State-funded health care programs,” no other state employs biennial budgets for specific programs (such as Medicaid or other State-funded health care programs) only and annual budgets for the rest of state government. That said, at least one state (Arizona) does currently utilize a bifurcated budget in which some state agencies have biennial budgets while others have annual budgets. In this document, we looked at the experience of states that utilize biennial budgets in general (and not just specific to Medicaid or other State-funded health care programs).

In 1940, 44 states enacted biennial budgets. Today less than half the states employ biennial budgets. According to the National Conference of State Legislatures (NCSL), one of the reasons for this change was the resurgence of state legislative power in the middle of the 20th century. In 1940 only four state legislatures held annual sessions. Now only four states do not – Montana, Nevada, North Dakota, and Texas.

As state budgets became larger and more complicated, more and more states moved to annual budgets. Today, state programs are even more complicated, serving more people and spending more money, which requires more time and effort in budgeting. Also, as States became more reliant on federal grants, there was an initial sense that aligning budgeting timeframes would allow for easier compliance and administration of those funds. State’s dependence on income and sales tax also grew during this period. Utilizing annual budgeting was a way to address the unpredictability of these revenue sources.

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Currently, it appears that 29 states have annual budgets, 20 states have biennial or multi-year budgets, and one state – Arizona – employs both annual and biennial budgets depending on the state agency.

### Annual and Biennial Budgets

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<th>Annual Budgets</th>
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The majority of states with biennial budgeting enact separate budgets for two fiscal years at the same time although a few states (such as North Dakota and Wyoming) enact consolidated two-year budgets. And whether a state utilizes annual budgets or biennial budgets (or both), each state budget process is still relatively unique. Arizona has a “bifurcated” budget in which most state agencies submit a biennial budget request. However, larger state agencies, including the agency that oversees Medicaid, submit an annual budget request. Arkansas used to have a similar system where 20 or so fee-funded agencies submitted biennial budgets while the rest were done annually. However, the state recently switched to a multi-year budget where in year one of the biennium, three years are budgeted (e.g. SFY’16, ‘17 and ‘18) and an adjustment for the two out-years (SFY’17 and ‘18) occurs in the second year.

Iowa, although technically not a biennially budgeting state, began a “hybrid” or “modified biennial” budget process in 2011; in odd-numbered years a full budget is passed for the next fiscal year and a partial (50%) budget is passed for the following year. For instance, during the 2015 session, a full FY 2016 budget and a partial FY 2017 budget are passed. During the 2016 session a full FY 2017 is passed. Iowa has switched back and forth between annual and biennial budgeting more than any other state. It adopted annual budgeting in 1975, switched back to biennial budgeting in 1979, and then switched back again to annual budgeting in 1983.

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8 Arizona Health Care Cost Containment System (AHCCCS) is Arizona’s Medicaid Agency.
Despite the long-term trend towards annual budgeting, many states have considered moving back to biennial budgets over the last decade or so. In 2011 alone, the Governors of Iowa, Michigan, Florida and Pennsylvania considered transitioning to biennial budgets. Talks of biennial budgets at the federal level have also come up periodically. Conversely, Texas, which has a biennial legislative session, held discussions in 2010 of moving to annual legislative sessions to deal with the challenges some lawmakers associated with biennial budgeting.\(^9\) Whether enacting annual or multi-year budgeting, state lawmakers have been pondering switching from their current budget situations for over a decade and will continue to do so based on their unique situations.

**History of Two-Year Budgets in Vermont**

Prior to 1961, Vermont’s General Assembly met every two years. In 1961 it started to meet every year but not on a consistent basis, until 1968 when the decision was made to convene annually going forward. Up to this point Vermont had a two-year budget, which reflected the historical schedule of the General Assembly meeting every two years.

**Fiscal Year 1970 and 1971**

The FY 1970 budget (Act 142 of 1969) began the transition to one-year budgets by appropriating FY 1970 in full while putting a placeholder of $1 for each appropriation for FY 1971. Act 300 of 1970 repealed the $1 placeholders and replaced them with a one-year budget for FY 1971. Then Act 30 of 1971 adjusted the FY 1971 budget. Fiscal years 1972 through 1979 were one-year budgets.

**Fiscal Year 1980 and 1981**


**Fiscal Year 1984 and 1985**

Act 95 of 1983 was a two-year budget for fiscal years 1984 and 1985. However, in a special session, the FY 1984 budget was amended directing the Secretary of Administration to restrict the FY 1984 general fund expenditures to a level not exceeding 96.4 percent of the amounts appropriated in Act 95, with some exceptions.\(^10\) Fiscal Year 1984 was adjusted once again in Act 97 of 1984. Fiscal year 1985 was also adjusted twice.\(^11\)

Since 1986, Vermont has continued to pass one-year budgets every year.

**Annual vs. Biennial**

There is no empirical evidence indicating that either annual or biennial budgeting is superior over the other. Some of the advantages that often get attributed to each are listed in the chart below.

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**Advantages often attributed to Annual Budgeting vs. Biennial Budgeting**\(^12\)

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\(^10\) Act 1 of the 1983 special session

\(^11\) Act 253 of 1984 and Act 5 of 1985 (also dubbed the “Second Budget Adjustment Act for Fiscal Year 1985”)

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<th>Annual Budgeting</th>
<th>Biennial Budgeting</th>
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<tr>
<td>More time devoted to budget analysis</td>
<td>Less time-consuming to prepare, present and adopt</td>
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<td>Increases accuracy of estimates</td>
<td>More conducive to long-term planning</td>
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<tr>
<td>Enhances budget oversight with more frequent legislative review</td>
<td>Creates more certainty for beneficiaries, providers and other stakeholders who are affected by state-level decisions</td>
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<tr>
<td>Greater opportunity for legislative control over federal funds</td>
<td>Provides greater opportunity for program review and evaluation</td>
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<tr>
<td>Reduced need for supplemental appropriations and special sessions</td>
<td>Allows legislators more time to concentrate on major non-budget policy issues</td>
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However, states that have switched from annual to biennial budgeting haven’t necessarily spent more time on program evaluation and oversight, achieved cost-savings, or freed up more legislative time. It is difficult to predict what advantages, if any, Vermont might realize if the state were to switch to biennial budgeting for Medicaid and its other state health care programs given its own unique characteristics and structure relative to other states. For instance, House members in other states might be on multiple committees and subcommittees, where in Vermont, House members are only on one committee, which means that other than a several fewer legislative days spent debating the budget bill, the legislature as a whole wouldn’t necessarily see significant amounts of additional time freed up for other major policy issues.

Should policy-makers in Vermont consider transitioning the Medicaid budget, or even the entire state budget, from annual to biennial (or “multi-year”), several issues should be taken into consideration.

**Timing**

Under Vermont’s current annual budget process, the Secretary of Administration releases initial budget instructions to state agencies usually around late August or early September – 10 months prior to the start of the next fiscal year. If state agencies were to do biennial two-year budgets, then planning would begin 22 months prior to the second year of the biennium. Predicting program needs, enrollments, social and economic conditions, and new policy initiatives that far in advance is already difficult under the current budget cycle. Authorizing expenditures even farther in advance could be problematic, placing more pressure on the subsequent budget adjustment.

Lawmakers should also be mindful of the relationship between multi-year budgets and two-year gubernatorial terms. When a new Governor is elected in November, currently the incoming administration has a very short window – between the November elections and January when the budget is required to be presented to the legislature – to put together their budget priorities for the coming fiscal year. With biennial budgeting the incoming administration could be presented with this same short window but for their two-year budget priorities which could be very challenging given the transition that usually happens during this time, including the swearing in which also happens in January. Under such circumstances an incoming Administration would likely have to rely on the budget adjustment process for major policy initiatives and priorities which is not ideal.

Virginia adopts biennial budgets in even-numbered years and amends them in odd-numbered years. This schedule allows an incoming administration time to set their budget priorities. The
governor of Virginia is elected for a four year term. New Hampshire, on the other hand, which is the only state other than Vermont, that has two-year gubernatorial terms, uses biennial budgets which are adopted in odd-numbered years.

The need for budget adjustment remains
Given the uncertainty of economic, social and other conditions that inform assumptions and projections, it is certain that some kind of budget adjustment process would still be needed. To deal with changes resulting from unforeseen economic conditions, technical issues, changes in federal laws and/or shortcomings in projections, many states that have biennial budgets also have fairly thorough “supplemental” budget processes, which “effectively makes the budget cycle annual in practice.”13 As a result, significant budgeting activity could take place under a budget adjustment process, diminishing any potential advantages or justifications for doing a multi-year budget. This point can be particularly relevant in times of significant uncertainty, particularly at the federal level.

Agreement on Process is Important
In 2000, the U.S. General Accounting Office (GAO) looked at the experiences of Arizona, Connecticut, and Ohio in transitioning from annual to biennial budgets in the 1990s. The GAO found that agreement between the legislative and executive branch regarding the off-year budget process was key for a transition to a biennial budget process to be effective.14 Should Vermont consider creating a multi-year budget for Medicaid, establishing a process that is agreed upon and adhered to by both the legislative and executive branches will be critical, particularly for the role and expectations of budget adjustment. For instance, should there be statutory limits on budgetary changes? Should budgetary changes only address corrective items, mandatory changes, and/or technical adjustments? Should budget adjustment allow new policy initiatives? Should the budget be two separate one-year budgets or a consolidated two-year budget? According to the GAO report, Connecticut in the 1990s had not developed a process to limit changes in the off-year. Because commitment to the biennial budget process was lacking, time spent on budget-related activities in the first and second years of the biennium were similar.15 And multiple reports spanning 1972 through 2000 similarly concluded that a good system is more dependent on program planning and controls as well as the commitment of state officials than on whether the method was annual or biennial.16,17,18

Prior to moving to any kind of biennial budget process, both the legislative and executive branches should agree on how the process will work and have firm commitments to seeing it through. The absence of any such agreements between the branches could diminish any of the potential values of transitioning to a biennial budget.

In addition to setting up a process, the legislature and the executive branch should also make the intent clear by establishing specific goals, objectives, and/or performance measures they want to

17 Public Affairs Research Council of Louisiana Results of PAR Survey on Annual State Budgeting. (1982).
18 Snell, R. State Experiences with Annual and Biennial Budgeting (2011).
achieve in making such a change as well as dedicate sufficient staff time and resources to the endeavor.

Multi-year projections
Many states, regardless of whether they implement annual or biennial budgets, do multi-year budget and revenue projections although to varying degrees of detail. According to a study from the Center on Budget and Policy Priorities (CBPP), 24 states prepare revenue projections (of which 19 states provide a breakdown by revenue sources) and 18 states project spending beyond the upcoming budget although very few attempt to show estimates of the full cost of continuing programs at the same level (steady state) after accounting for changes in costs and caseloads.\(^\text{19}\)

In New York, the Division of the Budget submits a multi-year state financial plan along with its annual budget proposal. This financial plan includes projected revenues and expenditures for the current year, the upcoming fiscal year, and three subsequent out-years.\(^\text{20}\) Unlike a multi-year budget, it does not authorize expenditures.

Multi-year forecasts have also helped states rethink the use of one-time funds. In 2012, Minnesota rethought a plan to use one-time funds for a school funding payment shift when a multi-year financial projection showed how it would exacerbate a looming budget hole in the out-years.\(^\text{21,22}\)

Vermont statutes require a Medicaid forecasting process, whereby the Joint Fiscal Office and the Secretary of Administration (or designees) provide to the Emergency Board (E-Board) estimates of revenues, caseloads, and per-member per-month expenditures for the current and succeeding years for each Medicaid eligibility group (MEG).\(^\text{23}\) This “consensus” process has generally included staff from the Legislative Joint Fiscal Office (JFO), Finance and Management, the Agency of Human Services (AHS) Central Office, and the Department of Vermont Health Access (DVHA). As part of this process, a revenue projection for the State Health Care Resources Fund (SHCRF) – which is used to draw federal matching dollars and pay for Vermont’s state-sponsored health programs – is broken down by source of funds. This forecasting process is complicated particularly when there is instability with data, new programs or initiatives come on line, or during times of technical difficulties (such as has been seen with the Vermont Health Connect and redeterminations). As with any forecast, accuracy gets more challenging for each year that is projected out. However, staff should explore ways to make this process more robust and useful for both short-term and long-term planning, including:

1) Seeking opportunities for better coordination with the Green Mountain Care Board regarding hospital budget review, insurance rate filings, and health care expenditure trends and forecasts to improve consistencies and better inform expenditure estimates.

2) Better coordination between the Medicaid budget proposal and any accountable care organizations (ACO) contract negotiations or agreements to ensure consistency.

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\(^{23}\) 32 V.S.A. § 305a
3) Continue exploring opportunities for employing actuarial services as part of the estimating process. This could require additional financial resources.

Conclusion
State budgeting practices, whether annual or biennial, vary greatly due to politics, history, and state dynamics, making it difficult to gauge whether what works for one state would be successful in other states. A 2011 report by NCSL concluded that “there is little evidence that either annual or biennial state budgets hold clear advantages over the other. The evidence is inconclusive on the question of whether biennial budgeting is more conducive to long-term planning than annual budgeting.” The GAO report found that in Connecticut particularly, establishing spending caps, which was part of the same fiscal reform package as moving to biennial budgeting, was more important in affecting the state’s fiscal management than biennial budgeting. A report by the Connecticut Legislative Program Review and Investigations Committee had similar findings saying “Good fiscal controls and planning are possible under either annual or biennial budgeting. Budgeting success seems more dependent on economic conditions and the commitment of decision makers than the length of the budget cycle.”

Policy-makers in several states have considered moving from annual to biennial budgeting, but little empirical evidence suggests such a move would “reduce administrative burden, improve care quality, and ensure sustainable access to care” as specified in Act 113. Nor does there appear to be a clear relationship between the traditional goals of quality and access, and budget preparation practices. And whether administrative burdens for the state can be reduced depends heavily on the process and commitment of those involved. Should Vermont move to a multi-year Medicaid budget, the state would likely continue to need a thorough budget adjustment process, diminishing potential opportunities for reducing administrative burdens to the state. However, a multi-year Medicaid budget (or multi-year projection) could present some predictability, particularly with Medicaid reimbursement rates, which could have positive implications for Medicaid providers.

Vermont policy-makers should consider the value of pursuing more in-depth and robust multi-year Medicaid projections, along with any necessary resources it might require, that may realize many of the same goals and benefits as multi-year budgeting without authorizing spending authority. Given the recent volatility and unpredictability of certain revenues, expenditures, and Medicaid caseloads, utilizing such a multi-year projection, rather than giving spending authority more than a year in advance based on less than ideal data, may help legislatures achieve any intended goals.

Should policy-makers in Vermont consider moving forward with transitioning part of or the entire state budget from annual to biennial (or “multi-year”), we strongly recommend that lawmakers consider the issues of timing, recognize that the need for budget adjustment will still exist, and have a strong agreement among the branches of government as to process, goals, and performance measures regarding how to implement such a change.

24 Snell, R. State Experiences with Annual and Biennial Budgeting (2011).