Budgeting in the States

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Overview

- No two states budget the same
- Goals:
  - Better understand the budget process
  - Better understand state tax structures
  - Gain an understanding of the similarities and differences in how your state budgets

Budget Timeline

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- September – October: Agencies submit budget requests
- January: Governor submits budget to legislature
- February – May: Legislature holds budget hearings
- March – June: Legislature adopts budget
- July 1: New fiscal year begins

Annual vs. Biennial Budgeting

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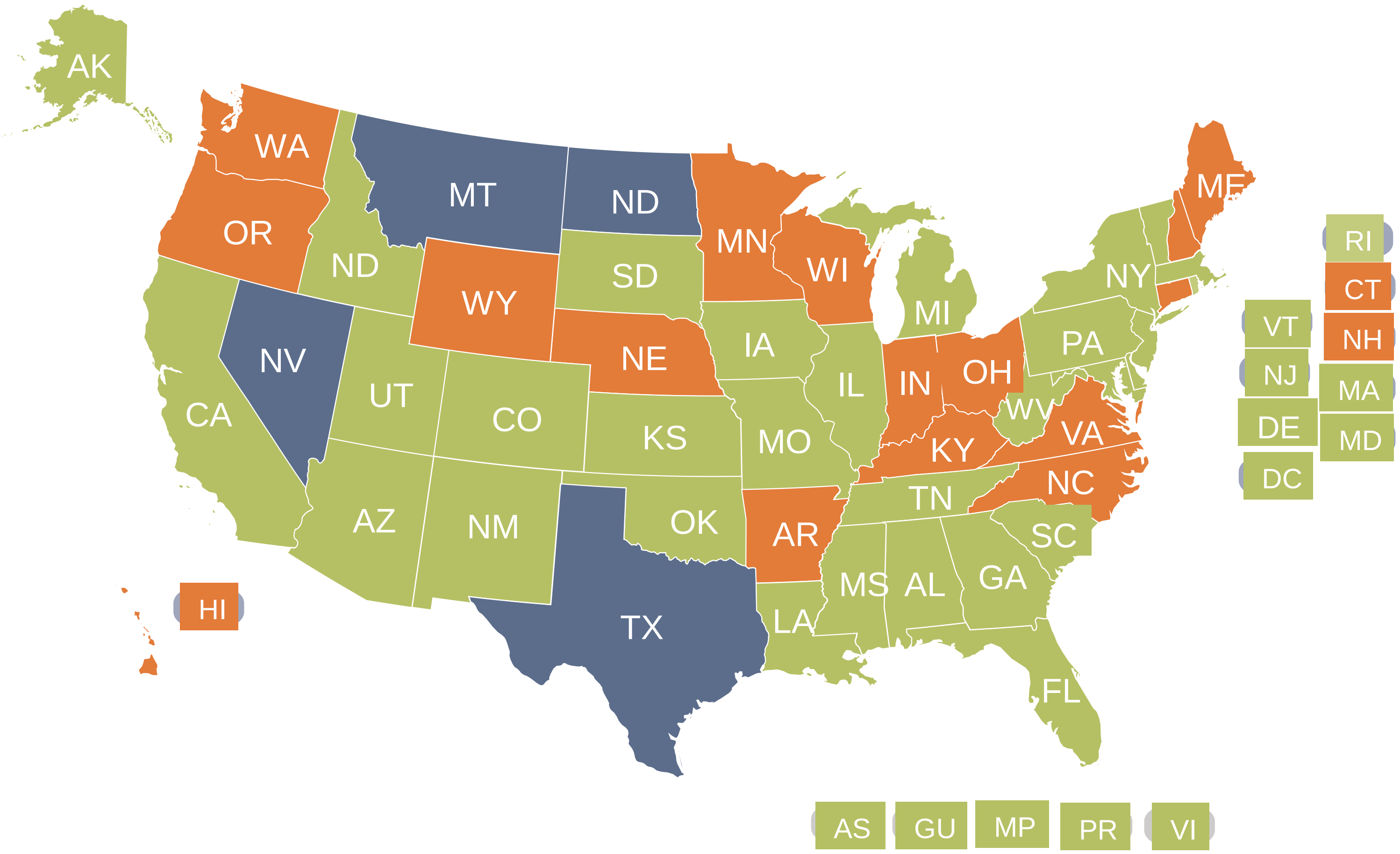
30 states have an annual budget and annual sessions

16 states have annual sessions and a biennial budget

4 states have a biennial budget and biennial sessions



Types of Budgeting

- Incremental
- Performance-based
- Zero-base
- Mixed approach

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- Traditional budgeting approach
- Most common budgeting approach
- Uses previous year as baseline
- Focuses on inputs rather than outcomes
- Comes under scrutiny during economic downturns.

Incremental Budgeting

Performance-Based Budgeting

- Sets measurable goals for agencies and programs to gauge effectiveness
- Allows agencies more flexibility than line-item budgeting
- Focuses on outcomes
  - Ex. Universities receive funding for students that graduate vs. enrollment
- There are challenges to implementation
- What is the most effective response if goals are not met?

Performance Based Budgeting in New Mexico

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Budget: $10,277 **FTE:** 25

Measure	**FY18 Actual**	**FY19 Actual**	**FY20 Target**	**FY20 Q1**	**Rating**
Jobs created due to economic development department efforts	3.994	3,840	4,500	427	Y
Rural jobs created	2,414	1,376	1,750	86	Y
Jobs created through business relocations and competitive expansions facilitated by the economic development partnership	1,415	617	2,250	0	R
Potential recruitment opportunities generated by the New Mexico Partnership marketing and sales activities	52	53	84	9	Y
Private sector investment in mainstreet districts, in millions	$53.9	$30.7	$11	$6.1	G
Private sector dollars leveraged by each dollar through Local Economic Development Act	36:1	32:1	12:1	20:1	G
Jobs created through the use of Local Economic Development Act funds	2,613	3,586	2,500	295	Y
Workers trained by Job Training Incentive Program	1,736	2,326	2,050	473	G
Program Rating					Y

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Zero Based Budgeting

- In its original form, requires reviewing all agency budgets from $0
- Often involves creating funding "packages" at various levels
- Gains in popularity during economic downturns
- No states use ZBB in its true form, but there are variations
  - Different budgeting scenarios
  - Periodic review

Mixed Approach

- Many states incorporate elements of other types of budgeting into the process, but traditional budgeting continues to be the primary way states budget.
  - Why?

Revenue Forecasting

Executive

10 States

Consensus

28 States

Executive & Legislative

12 States

Source: NASBO, 2021

Balanced Budget Requirements

The Role of Fiscal Notes

- Prepared by executive branch or legislative branch
- Legislation that requires a fiscal note varies by state
- What's in a fiscal note?
  - Direct impact to state budget for 1-2 fiscal years
- What's not in a fiscal note?
  - Limitations of traditional fiscal notes
- Dynamic fiscal notes

Budget and Fiscal Committee Structures

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- Most states have a budget/fiscal committee in both chambers
- 19 States have some sort of joint budget or fiscal committee
  - Some have both with differing responsibilities
    - Oversight and other fiscal responsibilities
    - Jurisdiction over the budget
- Some Joint Committees are very powerful
  - Examples: Arizona, Colorado and Wisconsin

Committee Structure Considerations

- How many legislators are involved?
- What are the pros and cons of a joint structure?
- How streamlined is the process?

Appropriation Bills

- 15 states have one omnibus appropriations bill
- 35 have multiple appropriation bills
  - Many have two, an operations bill and a capital budget bill

BREAK

Legislative Control Over the Budget

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- Only the legislature can appropriate funds
- In practice, the governor's proposed budget drives the discussion
- In six states, the legislature drafts an independent budget
  - Arizona, Colorado, New Mexico, Oklahoma, Mississippi and Texas

Late State Budgets

- What if a budget is not enacted by the start of the fiscal year?
  - Continuing resolutions or temporary spending plans
  - Automatic continuation
  - Courts rule some funding continues
  - Partial or full government shut down
- Which state has gone the longest without a budget?

Control Over the Enacted Budget

- Governors tend to have more control than legislatures
  - Part-time nature of most legislatures
- In a majority of states, the governor has the authority to withhold funds to agencies
  - A threshold exists in some states
- Governors have the authority to transfer funds
- In most states, the governor can spend some unanticipated federal funds without legislative approval

Authority Over Federal Funds

- Most legislatures have the authority to appropriate *anticipated* federal funds
- Things get messy when funds are *unanticipated*
- Considerations
  - In a session or not?
  - Emergency? Or disaster?
  - How much? Do they trigger authorization?

Legislative Action Expanding Spending Authority

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Connecticut

- Directs the governor to prepare a proposal on ARPA Funds
- Opportunity for legislative input
- Spending must be authorized by the general assembly

Indiana

- Expands legislative powers during an emergency
- Legislature can call themselves into emergency 40-day session
- Expands legislative authority over unanticipated federal funds when the legislature is in session

Kentucky

- Language included in the appropriations bill
- Governor is prohibited from spending any ARPA funds without legislative approval
- Line-item veto overridden by legislature

Breakout Prompt

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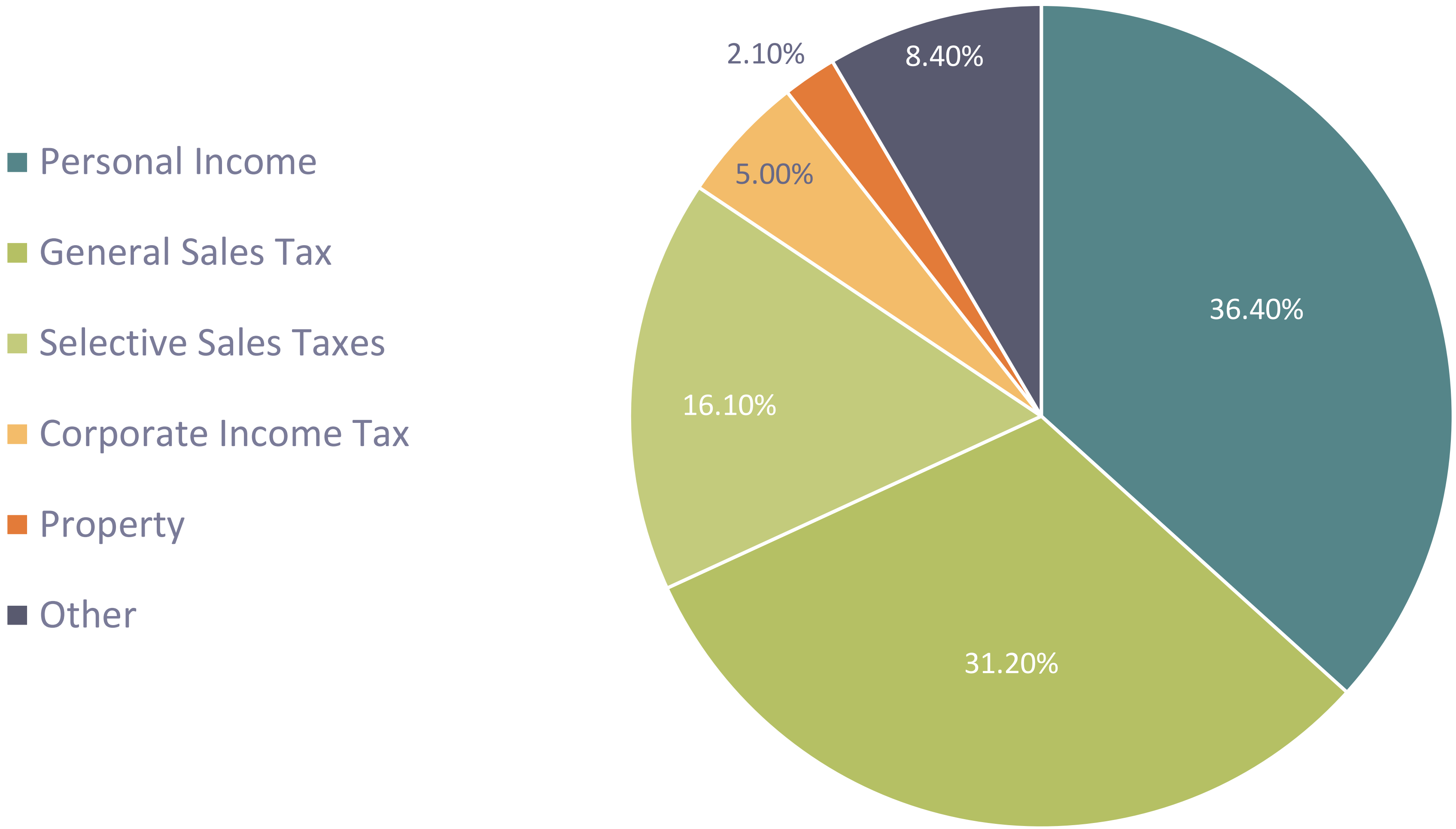
In breakouts of 3-4 people, discuss some of the process issues we've discussed so far. What are some aspects of your state's process that sound like they might be unique? What surprised you about what we've talked about so far?

State General Fund Tax Reliance



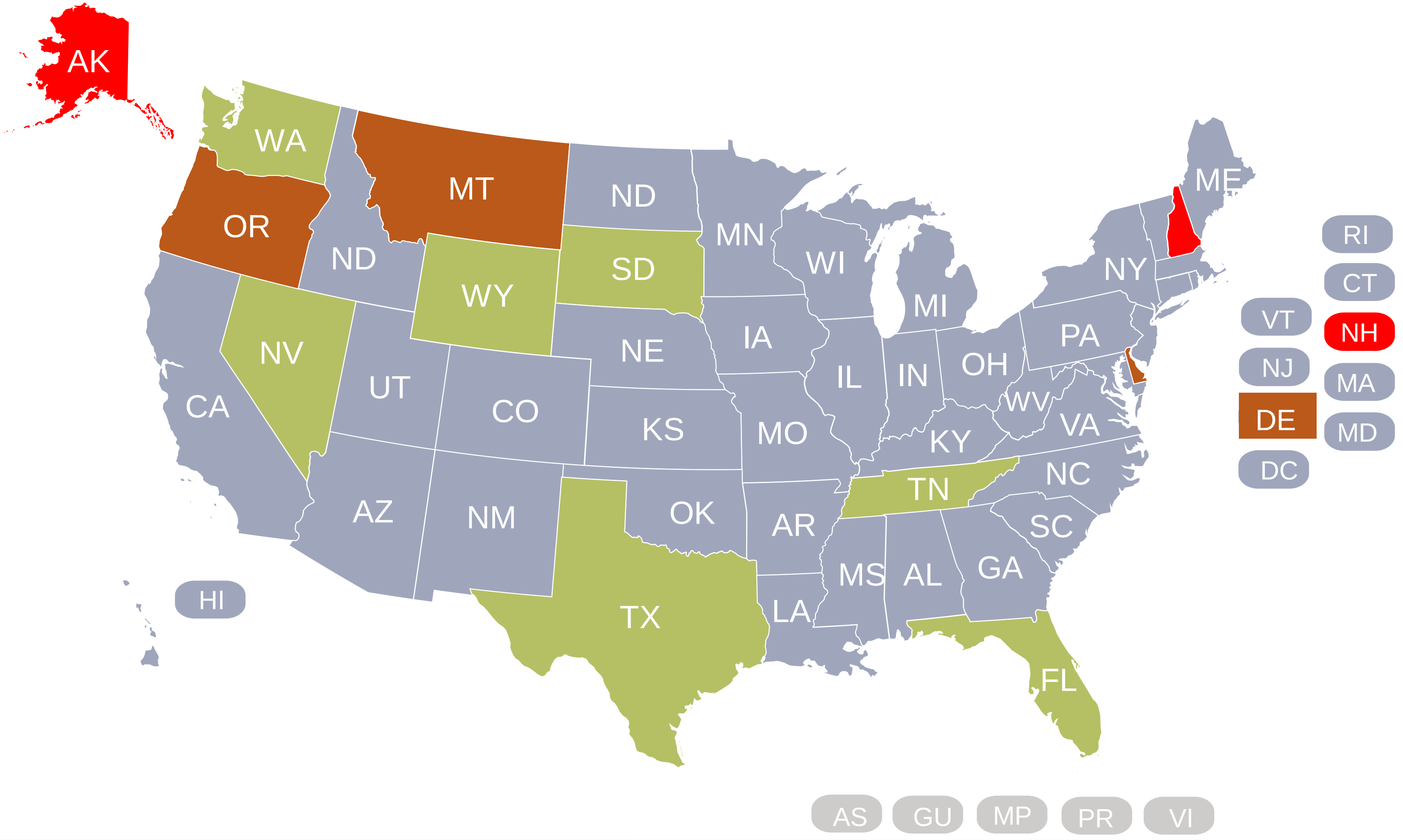
State Tax Structures

States without Personal Income or Sales Taxes

7 No Personal Income Tax

3 No Sales Tax

2 No PIT or Sales Tax



Restraints on State Budgeting

- Thirty states have some sort of tax or expenditure limitation
  - Revenue limits
  - Expenditure limits
  - Appropriations limited to percentage of revenue estimates
- Unique examples:
  - TABOR in Colorado is the most stringent TEL limitation
  - Oregon "Kicker" law

Restraints on State Budgeting

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- Earmarking State Taxes
  - On average, states earmark about 25 percent of revenue
  - Pros
    - Creates a dedicated funding source for programs
  - Cons
    - Decreases flexibility during an economic downturn

Wrap-Up

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- State budgeting is complex and nuanced
- No two states have the same process
- There's no wrong way to budget
- States develop a process that works with their traditions and priorities

Thank you!

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