Budgeting in the States
Erica MacKellar
National Conference of State Legislatures
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
○ 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

- 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
○ 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

<table>
<thead>
<tr>
<th>Measure</th>
<th>FY18 Actual</th>
<th>FY19 Actual</th>
<th>FY20 Target</th>
<th>FY20 Q1</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs created due to economic development department efforts</td>
<td>3,994</td>
<td>3,840</td>
<td>4,500</td>
<td>427</td>
<td>Y</td>
</tr>
<tr>
<td>Rural jobs created</td>
<td>2,414</td>
<td>1,376</td>
<td>1,750</td>
<td>86</td>
<td>Y</td>
</tr>
<tr>
<td>Jobs created through business relocations and competitive expansions facilitated by the economic development partnership</td>
<td>1,415</td>
<td>617</td>
<td>2,250</td>
<td>0</td>
<td>R</td>
</tr>
<tr>
<td>Potential recruitment opportunities generated by the New Mexico Partnership marketing and sales activities</td>
<td>52</td>
<td>53</td>
<td>84</td>
<td>9</td>
<td>Y</td>
</tr>
<tr>
<td>Private sector investment in mainstreet districts, in millions</td>
<td>$53.9</td>
<td>$30.7</td>
<td>$11</td>
<td>$6.1</td>
<td>G</td>
</tr>
<tr>
<td>Private sector dollars leveraged by each dollar through Local Economic Development Act</td>
<td>36:1</td>
<td>32:1</td>
<td>12:1</td>
<td>20:1</td>
<td>G</td>
</tr>
<tr>
<td>Jobs created through the use of Local Economic Development Act funds</td>
<td>2,613</td>
<td>3,586</td>
<td>2,500</td>
<td>295</td>
<td>Y</td>
</tr>
<tr>
<td>Workers trained by Job Training Incentive Program</td>
<td>1,736</td>
<td>2,326</td>
<td>2,050</td>
<td>473</td>
<td>G</td>
</tr>
<tr>
<td><strong>Program Rating</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

Zero Based Budgeting
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

- 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

- 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
○ 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?

Late State Budgets
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
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

#### 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

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**Connecticut**

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**Kentucky**

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Breakout Prompt

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

- Personal Income
- General Sales Tax
- Selective Sales Taxes
- Corporate Income Tax
- Property
- Other

- 36.40%
- 31.20%
- 16.10%
- 8.40%
- 5.00%
- 2.10%
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

- 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

- 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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