



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

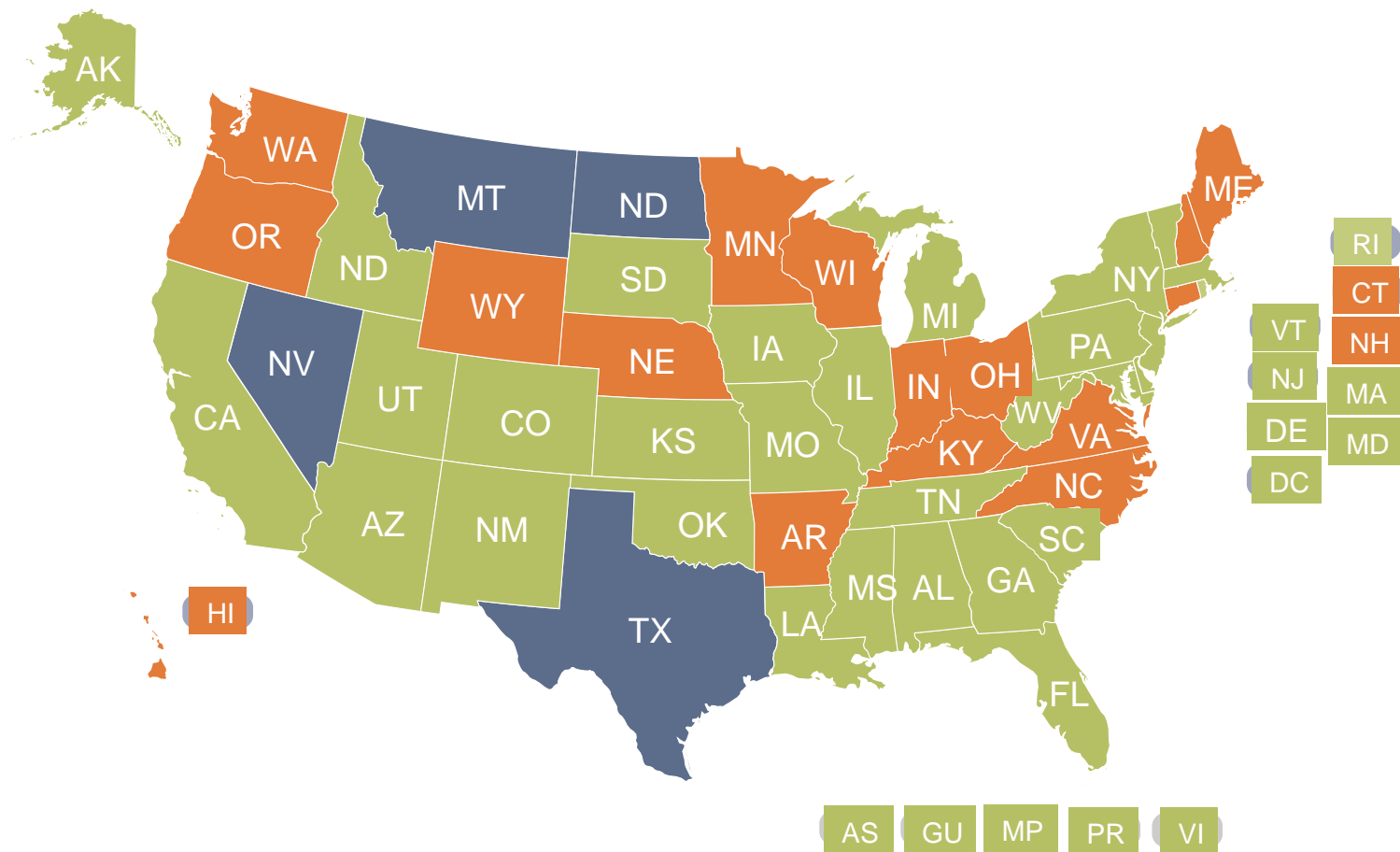
- September – October: Agencies submit budget requests
- January: Governor submits budget to legislature
- February – May: Legislature holds budget hearings
- March – June: Legislature adopts budget
- July 1: New fiscal year begins



Budget Timeline

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

	FY21 Actual	FY22 Actual	FY23 Target	FY23 Q1	FY23 Q2	FY23 Q3	Rating
Jobs created due to economic development department efforts	5,012	5,263	4,000	811	14		Y
Rural jobs created	871	1,766	1,320	175	14		G
Average wage of jobs created due to economic development department efforts (in thousands)	\$70.6	\$61.4	\$47.5	\$54.9	\$64.4		Y
Jobs created through business relocations facilitated by the New Mexico partnership	147	64	2,250	17	0		R
Potential recruitment opportunities submitted by the New Mexico Partnership	60	\$42	60	18	13		G
Wages of jobs created in excess of prevailing local wages (in thousands)	\$24,948	232	\$5,000	\$10.9	\$16.3		G
Private sector investment in MainStreet districts, in millions	\$58	69	\$30	\$7.8	\$11.8		G
Number of company visits to New Mexico for projects managed by the New Mexico Partnership	9	21	12	6	4		G
Private sector dollars leveraged by each dollar through Local Economic Development Act	128:1	\$42	20:1	17:1	0		Y
Jobs created through the use of Local Economic Development Act funds	3,058	2,100	3,000	496	0		Y
Workers trained by Job Training Incentive Program	3,356	2,841	1,900	737	178		Y
Program Rating	Y	Y					G

- 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

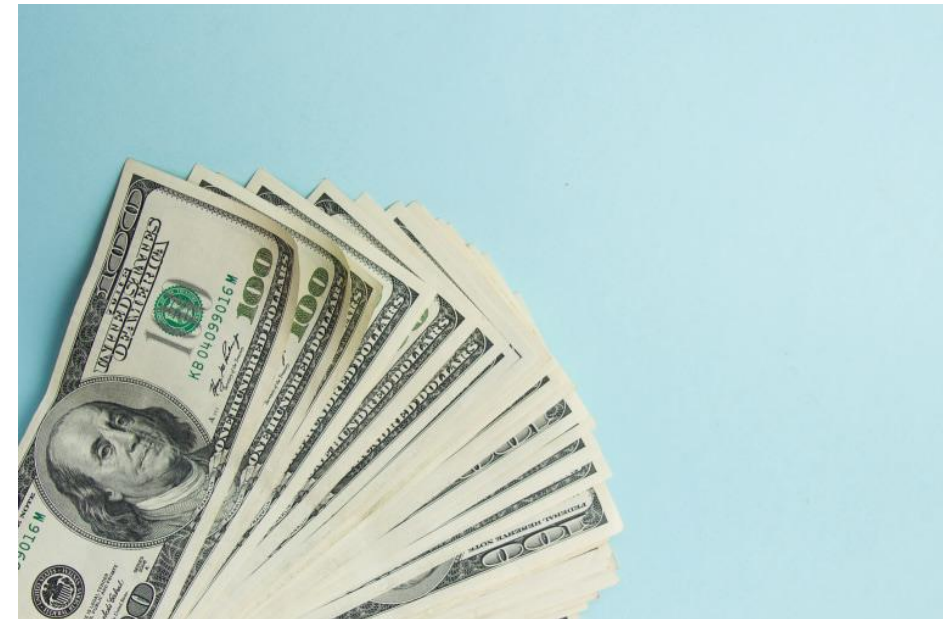
Source: NASBO, 2021

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 an appropriations/budget committee in both chambers
- Some states have a 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
- Subcommittees

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

- The legislature appropriates funds
- In practice, the governor's proposed budget drives the discussion
- In a handful of states, the legislature drafts an independent budget
- Governors tend to have more control over state budgets in the interim

- 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



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 funds?
 - Do they trigger authorization?



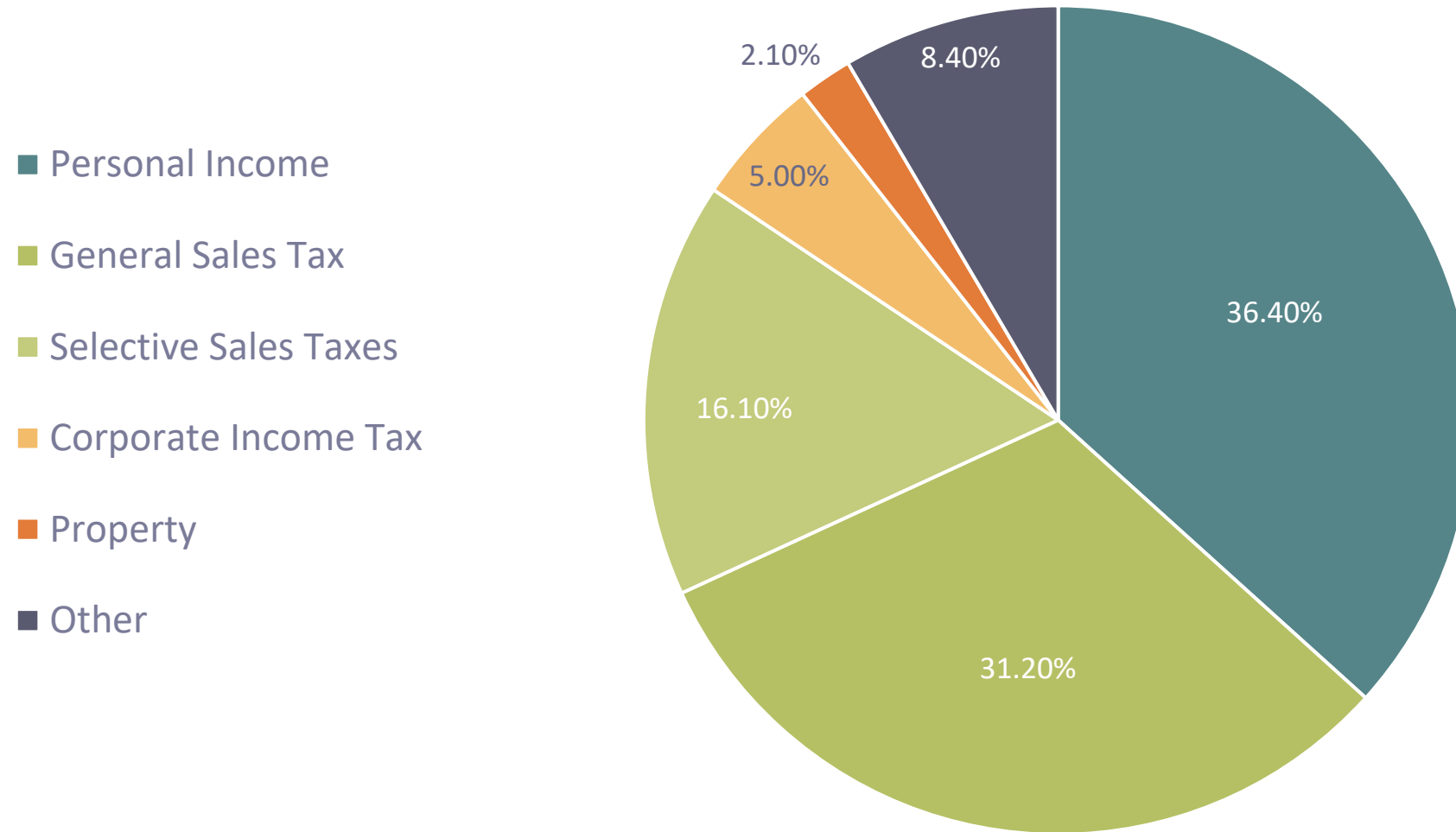
Authority Over Federal Funds

Breakout Prompt

In breakouts of 4-5 people, discuss some of the process issues we've discussed so far.

- Either from our discussion or your research for the homework questions, what is something that surprised you about how your state budgets?
- Are there aspects of your process that you think might be unique to your state?

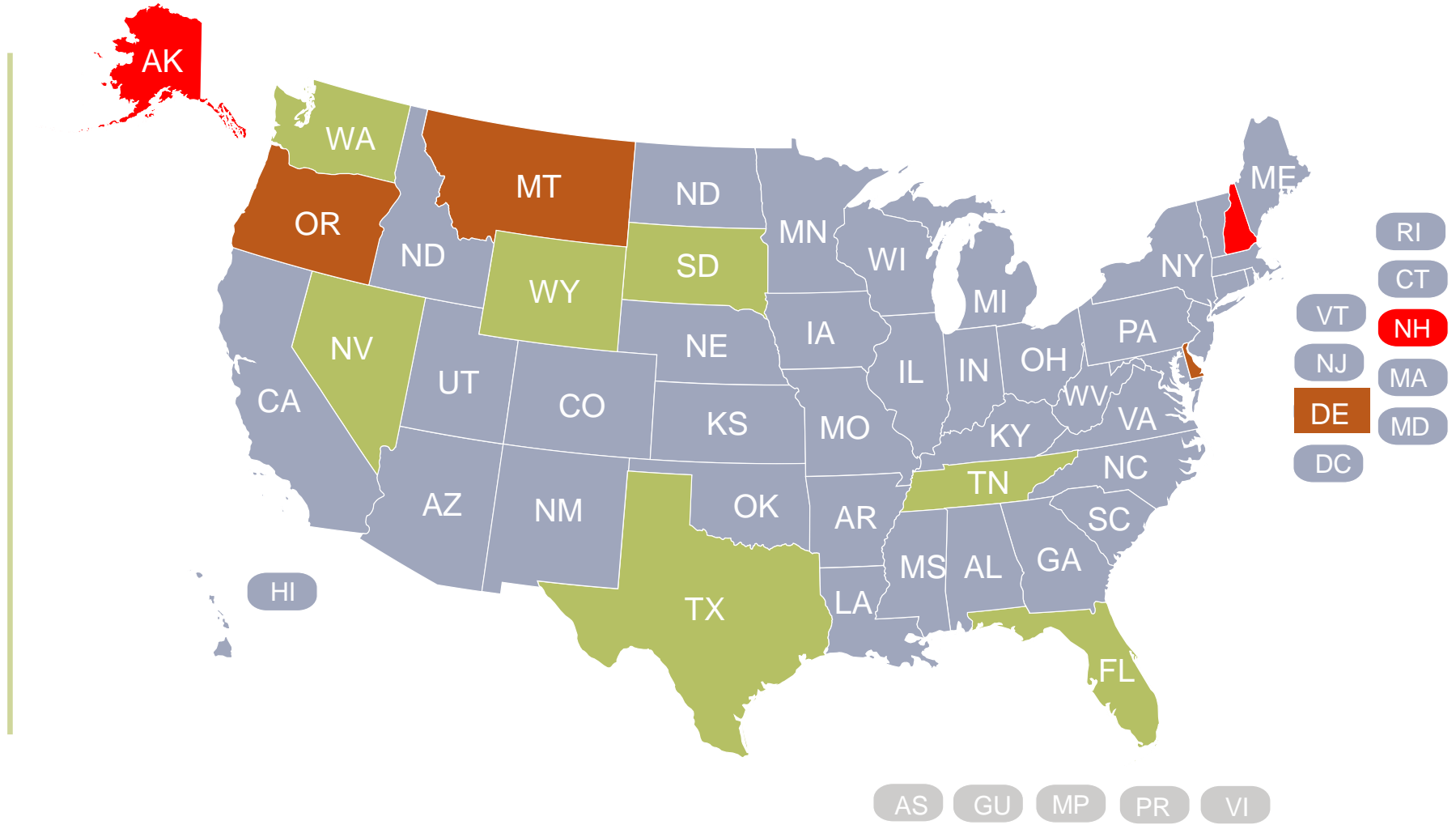
State General Fund Tax Reliance



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

○ 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 process
- States develop a process that works with their traditions and priorities

Thank you!

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