State Budget Processes: A Comparative Analysis

By Heather Perkins [1]

Tuesday, September 12, 2017 at 02:39 PM

How do states develop and manage their budgets, and how does this process vary across states? The latest edition of NASBO’s Budget Processes in the States report provides self-reported data from all 50 states and the District of Columbia on many aspects of state budget practices, such as: the budget calendar, revenue forecasting, gubernatorial budget authority, balanced budget requirements, tax and expenditure limitations, debt restrictions, approaches to budget development, rainy day funds, tools to monitor and control expenditures, and the use of performance measures.

About the Author
Kathryn Vesey White is a senior policy analyst at the National Association of State Budget Officers, where she covers state budget process issues, including the use of data and evidence in budgeting. She also monitors state funding and policy developments in education and economic development, and authors the semiannual Fiscal Survey of States.

Introduction
The process of developing, enacting and executing a state budget involves many actors, guided by laws, regulations, public priorities and external variables. NASBO’s Budget Processes in the States report, most recently updated in 2015, provides a comparative analysis of the timeline, authorities, restrictions, decision-making tools and other aspects of budgeting practices that vary across the states. This article highlights a number of these elements, which have important implications for understanding how states allocate scarce public resources.

Developing the Budget: Timeline & Participants
The state budget cycle varies by state, though most states follow a similar pattern. First, the state budget office (in the executive branch) sends instructions to state agencies to follow in preparing their budget requests. These instructions provide a uniform template for presenting financial and descriptive information, and set limits on certain types of requests and expectations depending on the fiscal environment. Agencies submit these requests to the budget office, which develops the executive budget proposal based on the governor’s priorities. The governor’s budget deadline is typically set in state law, and ranges across states from November to March, with January being the most common month of submission to the legislature. The legislature holds committee hearings as it deliberates various portions of the budget, and once an agreement is reached, passes the budget. The budget then goes to the governor for approval; generally, the governor must sign it in order for it to become law. The governor may also use line item veto power, if authorized, to revise the budget.
Forty-six states begin their fiscal year on July 1. New York starts on April 1, Texas on Sept. 1, and Alabama, Michigan and the District of Columbia on Oct. 1. Unlike at the federal level, states rarely fail to adopt a budget before the start of the next fiscal year. Also, not all states enact a budget every year. Twenty states operate on a biennial budget cycle, meaning they adopt a budget for two fiscal years at a time. However, a number of biennial states routinely revise their spending levels for the second year of the biennium in what is known as a supplemental budget. In addition, states generally have separate budgets for operating expenditures and capital expenditures. NASBO’s *Budget Processes in the States* report primarily focuses on the former.

Revenue forecasting is a key component of budget development. Since states are required to balance their budgets (as discussed further below), it is crucial for state policymakers to have access to timely revenue estimates to inform budgetary decisions. States vary in their forecasting approaches and the agencies responsible for revenue forecasting. Roughly half of states reported using a consensus revenue forecasting group, typically comprised of representatives from the executive and legislative branches, and sometimes appointed citizen experts from academia or business. In states without a consensus forecasting process, the executive and legislative branches may each prepare their own forecasts independently, or the forecast may be developed solely by the budget office or another entity.

**Budget Authority and Limitations**

While state legislatures have primary control over appropriations, governors have substantial budgetary power as well. Besides submitting their budget proposals for lawmakers’ consideration and signing enacted appropriations bills, governors in 44 states have line item veto power. Additionally, in 33 states, the executive branch has the authority to withhold appropriations from agencies during the fiscal year under certain conditions, for example when revenues come in below budget projections.

All states operate within certain budget restrictions. Forty-six states reported having a legal balanced budget requirement, meaning the governor’s proposed budget, legislature’s enacted budget, and/or the budget signed by the governor is required by constitution or by statute to be balanced; 39 states are not permitted to carry over a deficit, effectively meaning the state is required to execute a balanced budget. Forty-three states have a limit on total outstanding debt and/or debt service. State debt is typically issued to finance capital projects and other expenditures that will benefit taxpayers over a long period of time. Additionally, 28 states had tax and expenditure limitations, which restrict the overall level or growth of revenues or spending, and are often tied to growth in personal income, population or inflation.

**Budget Approach, Procedures and Tools**

States use various methodologies to make budget decisions. Most states develop budgets on an incremental basis, whereby they start with a baseline (current spending or service levels) and focus most attention on justifications for spending increases or decreases relative to that base. In addition, a number of states named program budgeting as their main budget approach; this can also be incremental in practice but brings more focus to programs or activities as the primary budget units, and incorporates information on program missions, goals and effectiveness to help policymakers understand the broader implications of their funding decisions. Many states use elements of performance budgeting—allocating resources based on measurable results—to inform funding decisions as well. As another NASBO report explains, “Whether states use a performance-based approach to budgeting is not typically a straightforward ‘yes’ or ‘no’ answer; in fact, performance budgeting use at the state level should probably be viewed along a continuum from minimal to extensive use, with significant variation on how this is accomplished.”
States also turn to a number of budgeting tools and practices to plan for unforeseen circumstances and promote budget stability. For example, nearly all states have at least one rainy day fund or budget stabilization fund. States generally have rules whereby surplus revenues, a portion of a specific, often more volatile, revenue source (such as severance tax revenues), and/or direct appropriations are deposited into these reserve funds. Often, these funds are only able to be expended if certain conditions are met, such as during a revenue shortfall. Most states also maintain separate reserve funds set aside specifically for natural or manmade disasters.

**Monitoring and Executing the Budget**

State budgeting is a continual process—it does not stop with budget enactment. Throughout the budget cycle, states monitor expenditures (and revenues) to ensure funding needs are met and state resources are sufficient to fulfill spending obligations, and take mid-year actions when necessary. Thirty-two states issue interim expenditure monitoring reports, most often on a monthly basis, and 31 state budget offices use allotments to control the timing of expenditures by prescribing what portion of an appropriation may be expended or encumbered during a given period.

Another budget execution tool at the disposal of many budget offices and state agencies is the authority to shift funds around (within certain limits). For example, the state budget office may transfer appropriations between departments in 15 states, between programs within a department in 34 states, and between spending categories within a program in 28 states.

**Measuring and Managing Performance**

Beyond the question of whether a state uses “performance budgeting,” NASBO asked states how they collect, report and use performance measures, with a special focus on the role played by executive budget offices in these activities. Forty states require performance measures as part of each agency budget request, and most of those states include them in the budget document. Additionally, 22 states reported that the budget office is charged with development, implementation and/or oversight of the state’s performance management system. Most states that reported serving this function also indicated that they conduct management reviews of departments and/or provide management consulting services to departments.

How do states actually use performance measures? They are most commonly used to support internal agency or program management (in 42 states), followed by informing the executive budget recommendations, program evaluation, and strategic planning and setting priorities. Twenty-two states also reported using performance measures to inform legislative appropriations. As state spending demands continue to grow faster than revenues, the use of performance data and evidence to inform budgeting and management will remain an important area for state policymakers, particularly as advances in technology continue to enhance capacity for data analysis and presentation.

**Notes**

1 National Association of State Budget Officers, Budget Processes in the States (Spring 2015), 8–9.
2 For more detail on how states budget for capital spending, see NASBO’s Capital Budgeting in the States report (Spring 2014).
3 Budget Processes in the States (Spring 2015), 31–32.
4 Ibid, 49.
5 Ibid, 41.