NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

Fiscal Survey of States

Governors' Proposed Budgets for Fiscal 2026

Data from 50 states, U.S. territories
and the District of Columbia

Spring **2025**

THE NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

Founded in 1945, NASBO is the instrument through which the states collectively advance state budget practices. The major functions of the organization consist of research, policy development, education, training, and technical assistance. These are achieved primarily through NASBO's publications, membership meetings, and training sessions. Association membership is composed of the heads of state finance departments, the states' chief budget officers, and their deputies. All other state budget office staff are associate members. NASBO is an independent professional and education association.

2024-2025 EXECUTIVE COMMITTEE

ACKNOWLEDGMENTS

Kathryn Vesey White collected, compiled and analyzed the data for this survey and authored the report, with assistance from NASBO staff. Brukie Gashaw designed and laid out the report. In addition, the report represents substantial work by budget office staff throughout the United States. NASBO thanks these individuals for their assistance in providing data for this report:

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PREFACE

The *Fiscal Survey of States* is published twice annually by the National Association of State Budget Officers (NASBO). The series began in 1979. The survey presents aggregate and individual data on the states' general fund expenditures and revenues, annual tax and revenue changes, and balances. Beginning in 2023, the survey also includes several U.S. territories and the District of Columbia.

Although not the totality of state spending, general funds are raised from states' own taxes and fees, such as state income and sales taxes. These general funds are used to finance most broad-based state services and are the most important elements in determining the fiscal health of the states. A separate survey that includes total state spending from all fund sources, NASBO's *State Expenditure Report*, is conducted annually.

Thirty states operate on an annual budget cycle, while 20 states operate primarily on a biennial (two-year) budget cycle. Additionally, the District of Columbia (DC), Guam, Puerto Rico, and Virgin Islands operate on an annual budget cycle.

Among the biennial budget states, governors in 17 states proposed two-year budgets for consideration during 2025 legislative sessions covering fiscal 2026 and fiscal 2027.

Forty-six states and Puerto Rico begin their fiscal years in July and end them in June. New York, starts its fiscal year on April 1; Texas starts on September 1; and Alabama, Michigan, DC, Guam, and the Virgin Islands start their fiscal years on October 1.

The field survey on which this report is based was conducted by NASBO from February through May 2025. The surveys were completed by executive budget offices in 50 states, multiple territories, and DC.

Generally, fiscal 2024 data represent actual figures, fiscal 2025 data are estimated figures, and fiscal 2026 data reflect governors' recommended budgets. Unless otherwise noted, all percentage calculations reported in this survey are in nominal terms and not adjusted for inflation.

NASBO staff member Kathryn Vesey White compiled the data and prepared the text for the report.

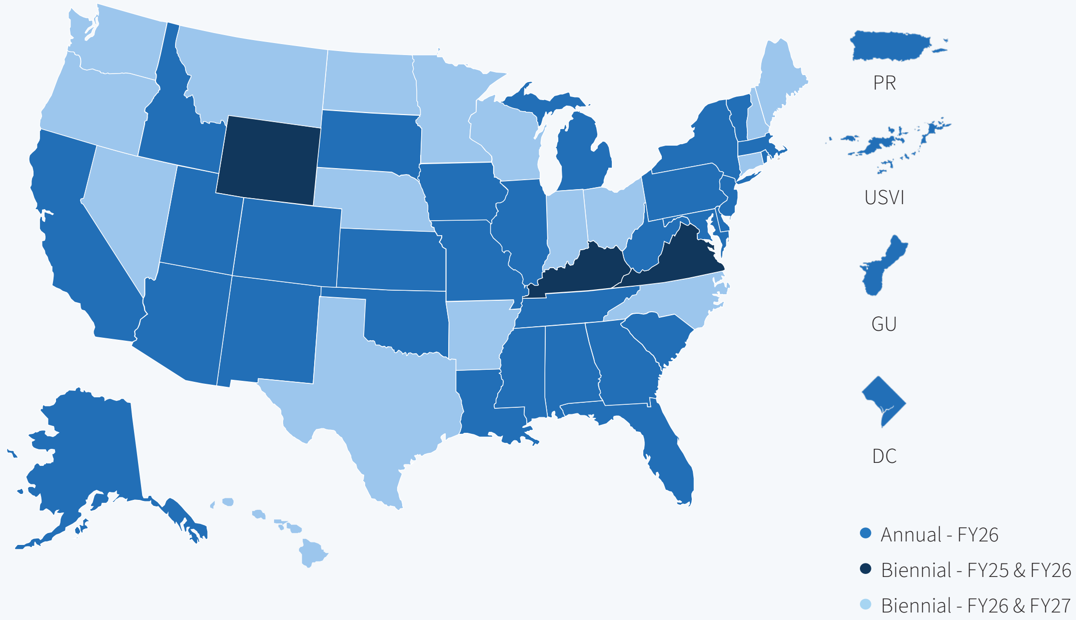
INTRODUCTION

Governors' budget proposals for fiscal 2026 indicate states are in a solid fiscal position but face tighter budget conditions going forward as they plan for flat general fund spending growth in the coming fiscal year. As slow revenue growth is expected to continue for a fourth consecutive year, governors are focused on maintaining structural balance for the next budget cycle while keeping an eye on the out-years. Compared to one year ago, governors' budgets for fiscal 2026 recommend greater use of common management strategies such as targeted spending cuts and hiring freezes, while calling for fewer employee compensation increases and a mix of tax increases and decreases.

According to executive budget recommendations, most states plan to maintain or further increase the size of their rainy day fund balances, which are at all-time highs for many states. Meanwhile, for a third consecutive year, total balances (rainy day funds plus general fund ending balances) are expected to decline in fiscal 2026 as states continue spending down prior-year surplus funds held in their general funds. Even with these actions, general fund balances are expected to end fiscal 2026 still well above historical average, and total balances are projected at a level more than double their highest level pre-COVID-19, measured in nominal dollars.

Annual vs. Biennial Budget Cycles in the States & Territories

This survey analyzes state budgets on an annual basis. However, 19 states budget on a biennial (two-year) basis, and one state (Arkansas) uses a hybrid approach. For biennial states entering a new biennium in fiscal 2026, some of these states provided data on governors' recommendations for fiscal 2027. For states entering the second year of their biennium in fiscal 2026, the governor may have proposed budget revisions or supplemental appropriations for consideration during 2025 legislative sessions.



KEY FINDINGS

General fund spending growth is expected to flatten in governors' budgets for fiscal 2026, reflecting fewer one-time expenditures from surplus funds and limited recurring spending increases.

Updated estimates show general fund spending for fiscal 2025 is coming in higher than originally budgeted, driven in part by mid-year budget actions.

More governors proposed targeted cuts and hiring freezes for fiscal 2026 compared to recent years, while fewer governors recommended employee pay increases.

Slow growth in general fund revenue is expected to continue in fiscal 2026 for a fourth consecutive year, following the two fastest growing years on record in fiscal 2021 and fiscal 2022.

General fund revenue collections for fiscal 2025 are exceeding original estimates in most states.

Governors recommended a mix of tax increases and decrease in fiscal 2026, which would have a minimal net impact on general fund revenue if adopted.

Most states are planning to maintain or increase the size of their rainy day funds in fiscal 2026 according to governors' budgets.

General fund ending balances are expected to continue declining for a third consecutive year in fiscal 2026 but are still projected to remain elevated compared to historical levels.

This edition of the Fiscal Survey of States generally reflects actual fiscal 2024, estimated fiscal 2025, and recommended fiscal 2026 figures for all 50 states, three territories, and the District of Columbia. Unless otherwise noted, aggregate figures and calculations in this report include data from the 50 states only. The report includes data on general fund spending, revenue, rainy day funds and total balances, as well as information on recommended changes to general fund revenue sources and state employee compensation. The data were mostly collected in March and April 2025. All data are reported in nominal terms (not adjusted for inflation) unless otherwise specified.

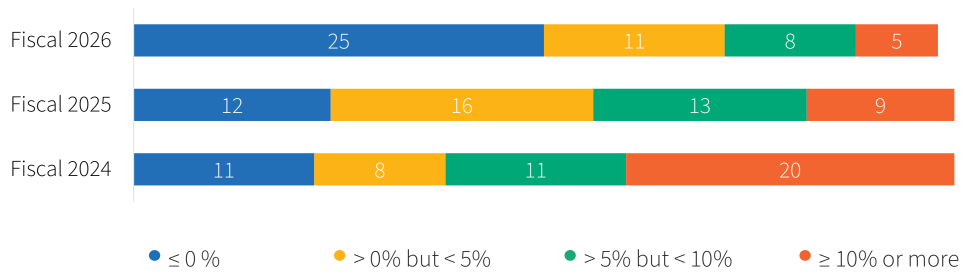
GENERAL FUND SPENDING

General fund spending growth continues to decelerate based on governors' recommended budgets for fiscal 2026, as states expect limited new revenue and plan for fewer one-time expenditures. This follows multiple years of elevated spending levels driven by large revenue surpluses and an uptick in one-time investments.

Expenditure Growth Flattens in Governors' Budgets for Fiscal 2026

According to governors' budget recommendations, state general fund spending in fiscal 2026 is expected to see fairly flat growth in the aggregate, as budget conditions tighten. Total general fund spending is recommended at $1.31 trillion in fiscal 2026[1]. This represents an annual increase of 0.8 percent compared to estimated fiscal 2025 levels, with a median growth rate of 0.0 percent. Twenty-four states are forecasting general fund spending to decline and one state is expecting zero growth in fiscal 2026, while 11 states are expecting positive growth of less than 5 percent, eight states expect growth between 5 and 10 percent, and five states are forecasting growth greater than 10 percent. (See **Figure 1**)

FIGURE 1.
Annual Percentage Change in General Fund Spending (Number of States)



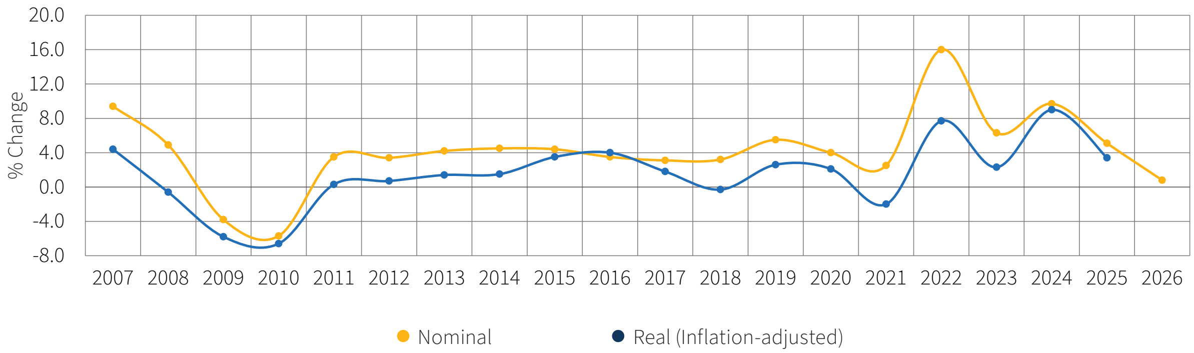
Fiscal 2024 reflects changes from fiscal 2023 (actual) to fiscal 2024 (actual). Fiscal 2025 reflects changes from fiscal 2024 (actual) to fiscal 2025 (estimated). Fiscal 2026 reflects changes from fiscal 2025 (estimated) to fiscal 2026 (recommended). Expenditure amount and percentage change for fiscal 2026 were not available for Texas at the time of reporting.

Updated General Fund Spending Estimates for Fiscal 2025 Higher Than Budgeted

Updated estimates for fiscal 2025, which for many states also incorporate governors' recommended mid-year revisions or adjustments for the current fiscal year, show general fund expenditures exceeding original appropriation levels when states first adopted their budgets. Estimated expenditures for fiscal 2025 in this survey total $1.30 trillion, representing a 5.1 percent increase over fiscal 2024 levels. Adjusted for inflation, general fund spending is estimated to increase 3.4 percent in fiscal 2025 compared to the prior year. (See **Figure 2**)

Total estimated general fund spending for fiscal 2025 in this survey is approximately $44 billion greater than enacted budget projections reported in NASBO's *Fall 2024 Fiscal Survey*. The increase in estimated spending compared to original budgets is driven in part by recommended or approved supplemental appropriations to support expenditure needs. A later section in this report provides more details on mid-year spending actions for fiscal 2025. Additionally, expenditures are likely coming in higher than budgeted due to the impacts of surplus funds. Some states may be spending down prior-year and current year surplus funds in fiscal 2025 that were not anticipated when original budgets were adopted, while some may be incurring expenditures for multi-year projects that may have been budgeted for upfront in a prior year but are showing up as actual or estimated expenditures in the year they were used.[2]

FIGURE 2.
Annual Percentage Change in Total General Fund Spending, Fiscal 2007 To Fiscal 2026



Fiscal 2025 is estimated; fiscal 2026 is projected based on governors' recommended budgets. The state and local government implicit price deflator quarterly data provided by the Bureau of Economic Analysis National Income and Product Account Tables, Table 3.9.4., Line 33, is used to determine real changes in spending.

State Spending from All Sources

This report captures only state general fund spending. General fund spending represents the primary component of expenditures from revenue derived from taxes and other resources which have not been earmarked to other funds. According to the most recent edition of NASBO's *State Expenditure Report*, general fund spending comprised 38.5 percent of total state spending in fiscal 2024, while federal funds made up 34.2 percent, other state funds made up 25.9 percent, and bonds made up the remaining 1.4 percent.

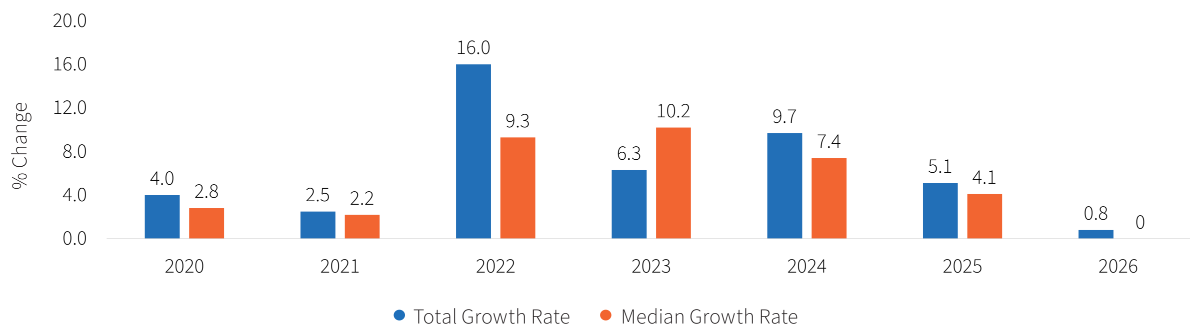
Program Area	Share of General Fund Expenditures by Function	Share of Total State Expenditures by Function
Medicaid	18.7%	29.8%
K-12 Education	33.6%	18.9%
Higher Education	9.4%	8.7%
Transportation	1.8%	8%
Corrections	5.6%	2.7%
Public Assistance	.9%	1%
All Other	29.9%	30.8%

General Fund Spending Saw Robust Growth for Third Consecutive Year in Fiscal 2024

General fund expenditures in fiscal 2024 totaled $1.24 trillion, 9.7 percent above spending levels in fiscal 2023. This followed growth of 16.0 percent in fiscal 2022 and 6.3 percent in fiscal 2023. Spending growth in all three years (fiscal 2022, fiscal 2023, and fiscal 2024) was considerably driven by one-time investments, as states spent down a portion of revenue surpluses accumulated between fiscal 2021 and fiscal 2024. On a median basis, general fund spending grew 7.4 percent in fiscal 2024, following median increases of 9.3 percent in fiscal 2022 and 10.2 percent in fiscal 2023. Significant spending fluctuations, particularly in large states, can have an outsized impact on total growth rates; therefore, the median annual change is typically more indicative of overall state spending trends. (See **Figure 3**)

FIGURE 3.

Annual Percentage Change in General Fund Spending, Total vs. Median



Fiscal 2025 is estimated; fiscal 2026 is projected based on governors' recommended budgets.

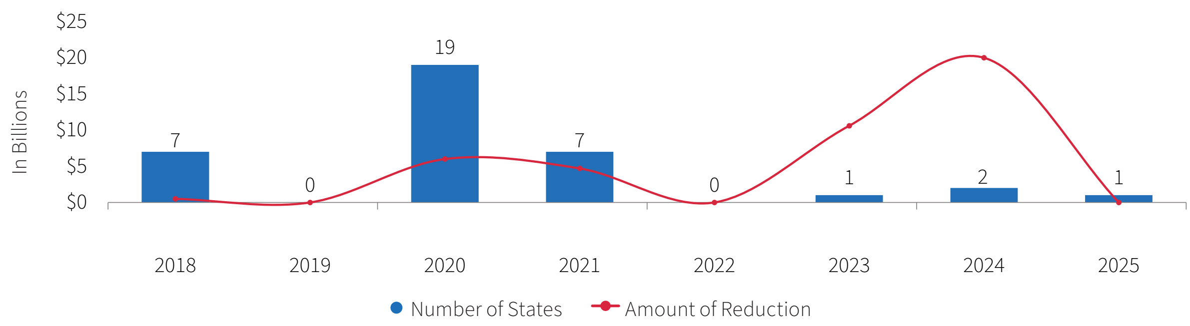
Mid-Year Budget Actions Lead to Higher Spending in Fiscal 2025

States reported on mid-year spending actions recommended by governors and already enacted or approved for fiscal 2025. These reflect formal actions through executive authority or legislation to revise spending levels upward or downward compared to originally enacted budgets. Overall, 22 states reported net increases in general fund spending from mid-year budget actions, while four states reported net decreases and one state reported a decrease without a specified funding amount. On net, states' mid-year spending actions are estimated to increase general fund expenditures by $20.8 billion. Among the five states that reported net reductions in general fund spending, only one state attributed these cuts to a revenue shortfall in fiscal 2025. (See **Figure 4**)

More Targeted Cuts and Hiring Freezes Proposed for Fiscal 2026

In order to manage their budgets, particularly in an economic downturn, states employ a variety of strategies and tools, including spending reductions, personnel actions, efficiency savings, and one-time measures, along with revenue changes. Given stable fiscal conditions in most states, reported use of most budget management strategies continues to be limited. However, there was an uptick in the number of governors recommending targeted spending cuts and hiring freezes /eliminating vacant

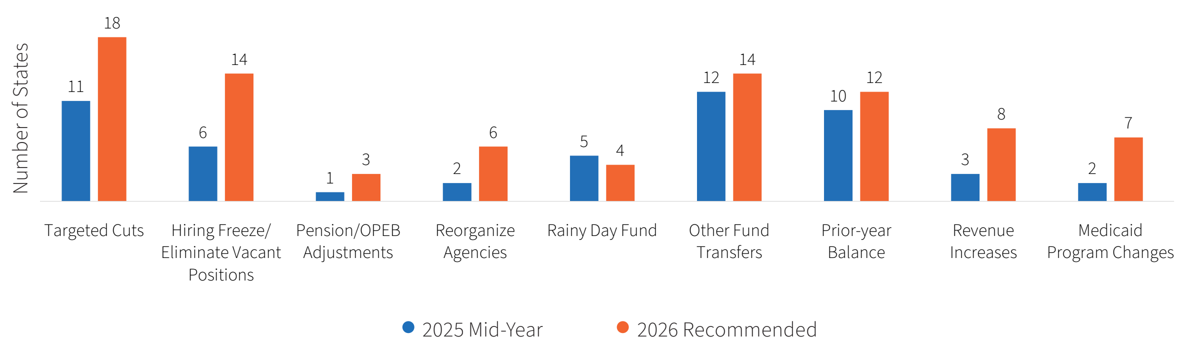
FIGURE 4.
Budget Cuts Made After The Budget Passed Due to a Revenue Shortfall, Fiscal 2018 to Fiscal 2025



For fiscal 2025, one state reported mid-year budget cuts of an unspecified amount due to a revenue shortfall.

positions compared to recent years, signaling tighter budget conditions ahead as states also exercise caution while they face fiscal and economic uncertainty. In their recommendations for fiscal 2026, at least 18 governors proposed targeted cuts and at least 14 governors proposed eliminating vacant positions / hiring freezes. By comparison, in their budgets for fiscal 2025 introduced one year prior, 10 governors proposed targeted cuts and four governors proposed hiring freezes. States also reported on strategies used or recommended for the middle of the current fiscal year, fiscal 2025. (See **Figure 5**)

FIGURE 5.
State Budget Management Strategies, Fiscal 2025 Mid-Year and Fiscal 2026 Recommended

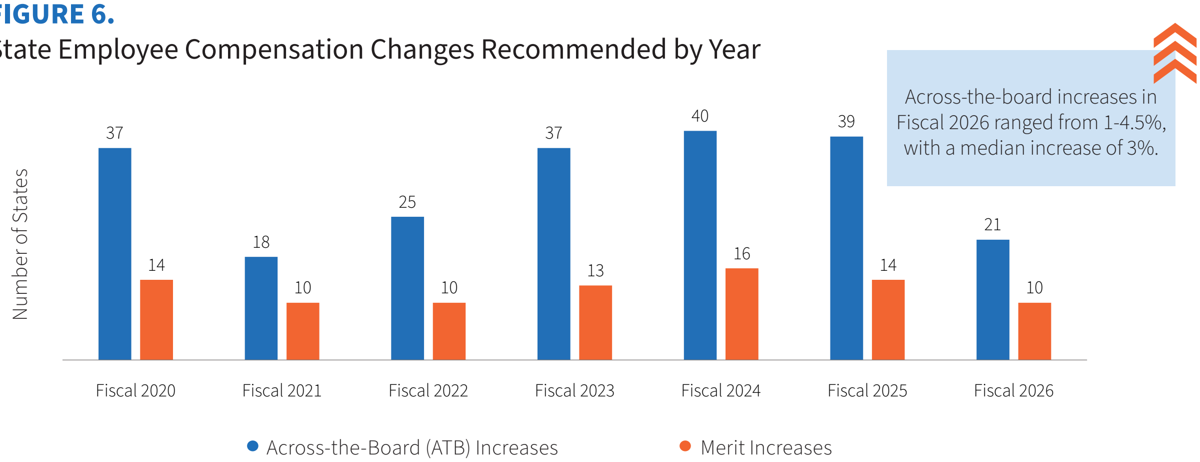


Data shown reflect how states reported in this survey edition on strategies used in the middle of fiscal 2025 and in recommended budgets for fiscal 2026.

Fewer State Employee Pay Increases Recommended in Fiscal 2026

States also reported on recommended employee compensation changes for fiscal 2026 in this survey. Twenty-one states reported across-the-board (ATB) increases proposed for fiscal 2026, a smaller number than last year when 31 governors recommended ATB increases. Among the states recommending across-the-board increases, the median increase for fiscal 2026 is 3.0 percent, the same level as in fiscal 2025 recommendations. Ten states reported proposed merit increases in fiscal

FIGURE 6.
State Employee Compensation Changes Recommended by Year



Fiscal 2026 reflects governors' recommendations, while fiscal 2020 to fiscal 2025 reflect enacted/adopted compensation packages. Not all governors make employee pay recommendations in their budgets; therefore, the number of enacted/adopted changes tend to be higher.

2026. (See **Figure 6**) The decline in the number of governors recommending pay increases in their budgets for fiscal 2026 may be driven by several factors, including tighter budget conditions, slowing inflation, and more slack in the labor market. It should also be noted that not all governors make recommendations on employee pay in their budgets, and in some states pay increases are largely driven by collective bargaining agreements.

Projected Budget Gaps Expected to Increase in the Out-Years

Six states reported closing general fund budget gaps in fiscal 2025 totaling $20.4 billion, while five states report having $732 million in gaps still to close for the current fiscal year. For fiscal 2026, 12 states reported forecasting $9.5 billion in budget gaps prior to incorporating their governors' budget recommendations. Among states that reported through fiscal 2027, 12 states indicated they are forecasting budget gaps totaling a combined $28.3 billion for that year. It is typical for states to report projected budget gaps in the years beyond the current budget cycle (sometimes referred to as the "out-years" or "planning years"), as anticipated growth in expenditure demands commonly outpaces forecasted revenue growth. States use these budget gap projections to plan and adjust spending and/or revenue to achieve structural balance over time.

When interpreting NASBO data on budget gaps, it is important to note that states vary greatly in how they define and measure budget gaps, and not all states have a formal process to identify and report gaps. Moreover, budget gap projections are moving targets and frequently change over the course of the fiscal year.

GENERAL FUND REVENUE

Governors build their general fund spending recommendations based on their states' revenue outlooks. Since states are required to balance their budgets, spending levels are set and adjusted according to how much revenue states expect to collect and total resources projected to be available. State revenues are expected to see another year of modest growth in fiscal 2026 based on forecasts used in governors' budgets. Following multiple years of extraordinary annual growth and several years of substantial revenue surpluses, recent state revenue performance has returned to more normal levels and collections are coming in above but close to forecast for most states.

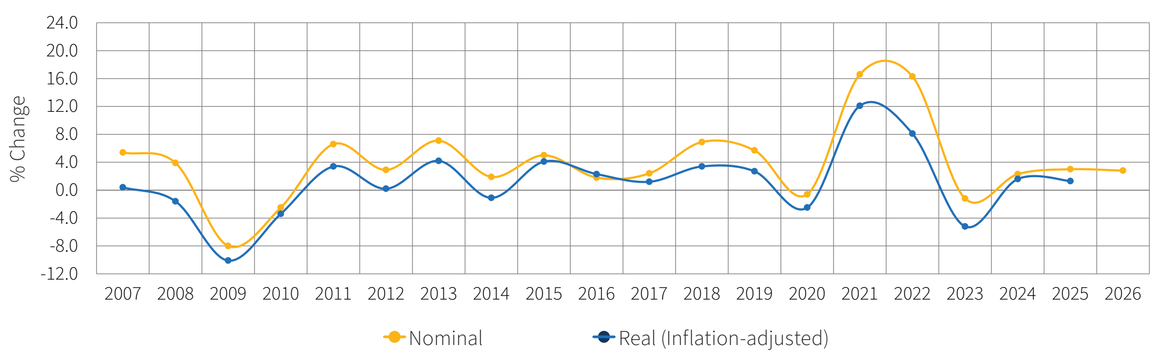
Slow Growth in General Fund Revenue Expected to Continue

After the two fastest growing years on record for general fund revenue in fiscal 2021 and fiscal 2022, growth in revenue collections has been modest in each year since. In fiscal 2023 through estimated fiscal 2025, annual general fund revenue growth on a median basis has been between 1 and 2 percent, with a similar median increase of 2.4 percent expected in fiscal 2026. In the aggregate, general fund revenue is forecasted to grow 2.8 percent in fiscal 2026 to total $1.27 trillion. (See **Figure 7**) Slower revenue growth in recent years can be attributed to slower economic growth and lower inflation, coupled with the impacts of recently adopted tax cuts at the state level. For more discussion, see the section on revenue trends by tax source below.

Total available resources, inclusive of states' revenue, beginning general fund balances, transfers, and other revenue adjustments, are projected at $1.51 trillion. As will be discussed later in this report, states' general fund balances continue to be elevated after accumulating multiple years of substantial surpluses. State actions to spend down a portion of these funds on largely one-time uses are expected to continue, which helps to explain why annual general fund expenditures continue to exceed annual revenues in fiscal 2026 budget recommendations, as they have for the past couple of years.

FIGURE 7.

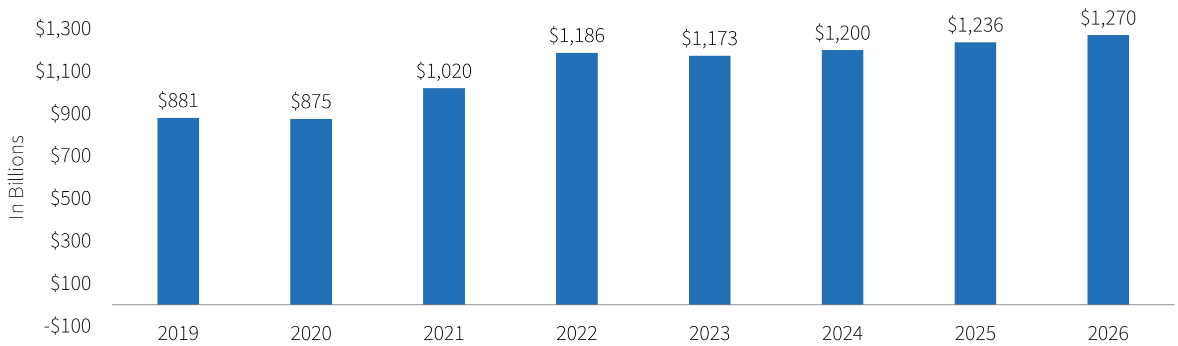
Annual Percentage Change in General Fund Revenue, Fiscal 2007 To Fiscal 2026



Fiscal 2025 is estimated; fiscal 2026 is projected based on governors' recommended budgets. The state and local government implicit price deflator quarterly data provided by the Bureau of Economic Analysis National Income and Product Account Tables, Table 3.9.4., Line 33, is used to determine real changes in revenue.

FIGURE 8.

Annual General Fund Revenue, Fiscal 2019 to Fiscal 2026



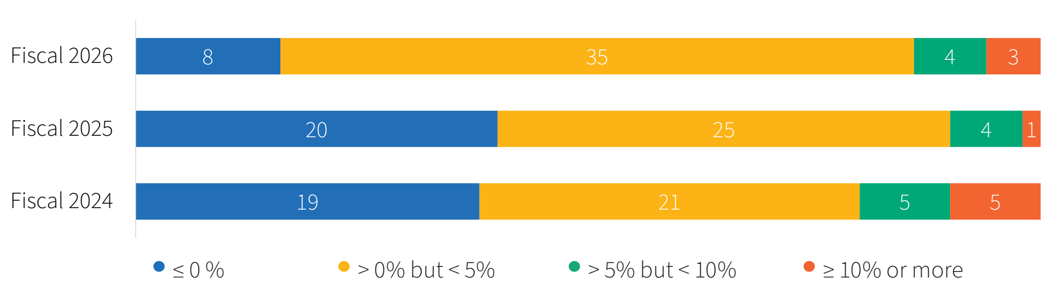
Fiscal 2025 is estimated; fiscal 2026 is projected based on governors' recommended budgets.

In fiscal 2025, general fund revenue is estimated to grow 3.0 percent on a nominal basis, and 1.3 percent after adjusting for inflation, compared to actual collections for fiscal 2024. This follows similar annual growth of 2.3 percent in fiscal 2024 on a nominal basis or 1.6 percent adjusted for inflation. Despite slower revenue growth in recent years, general fund revenue in fiscal 2026 is still estimated to exceed fiscal 2019 levels by 44.2 percent. This speaks to the rapid growth state revenues experienced in fiscal 2021 and fiscal 2022, driven by employment growth, high consumer demand, high inflation, the economic impacts of federal stimulus, and strong stock market gains. (See **Figure 8**)

Overall, 35 states are forecasting positive revenue growth in fiscal 2026 of less than 5 percent on a nominal basis in the forecasts used in governors' budget recommendations. Meanwhile, four states are forecasting growth between 5 and 10 percent and three states are forecasting growth greater than 10 percent, while eight states are forecasting revenue declines or no change. (See **Figure 9**) Variation in year-over-year growth rates across states can be attributed to a range of factors, including differences across states in tax structures, prevalent industries, demographic shifts, recently enacted or proposed tax policy changes, and other factors. How and when some states account for one-time receipts and/or transfers can also have an impact on annual revenue growth.

FIGURE 9.

Annual Percentage Change in General Fund Revenue (Number of States)



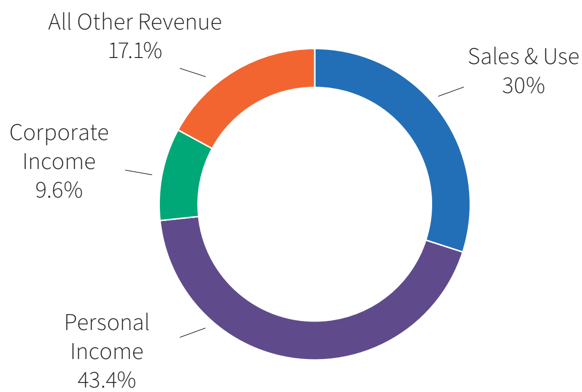
Fiscal 2024 reflects changes from fiscal 2023 (actual) to fiscal 2024 (actual). Fiscal 2025 reflects changes from fiscal 2024 (actual) to fiscal 2025 (estimated). Fiscal 2026 reflects changes from fiscal 2025 (estimated) to fiscal 2026 (recommended).

Revenue Trends by Source: Sales Taxes Growing Slowly While Income Tax Collections Seeing More Fluctuations

In the aggregate, states collect most of their general fund revenue (greater than 80 percent) from three sources: sales and use taxes, personal income taxes, and corporate income taxes. (See **Figure 10**) The remaining share of general fund revenue comes from "all other" sources, including cigarette and tobacco taxes, alcoholic beverage taxes, insurance premium taxes, severance taxes, franchise taxes, gaming taxes and lottery revenue, interest income, licenses and fees for permits, inheritances taxes, and charges for state-provided services.

FIGURE 10.

General Fund Revenue Sources, Fiscal 2026

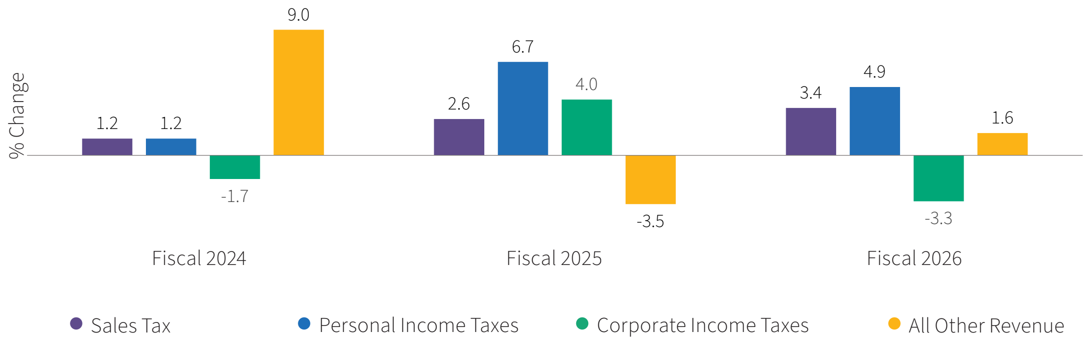


Sales and use taxes are estimated to grow 2.6 percent in fiscal 2025 after growing 1.2 percent in fiscal 2024, reflecting slower consumption growth and the impacts of lower inflation. Personal income taxes, meanwhile, are estimated to grow more quickly in fiscal 2025 at 6.7 percent compared to 1.2 percent growth in fiscal 2024. The slower growth rate in fiscal 2024 is likely attributable in part to the impacts of tax cuts that went into effect that year in some states, as well as one-time tax relief actions reported by states. Meanwhile, personal income tax collections from capital gains were likely aided in both fiscal 2024 and fiscal 2025 by a strong stock market performance in calendar years 2023 and 2024. Total corporate income tax revenues, which tend to be a more volatile revenue source, decreased 1.7 percent in fiscal 2024 and are estimated to increase 4.0 percent in fiscal 2025. (See **Figure 11**)

All other revenues, which as noted above consist of myriad sources that vary by state, grew 9.0 percent in fiscal 2024 and are estimated to decline 3.5 percent in fiscal 2025. Many states use this category to record transfers to/from the general fund and other adjustments, which explains why the figures can often fluctuate significantly year-to-year and occasionally appear as negative.

According to forecasts used in governors' budget recommendations, general fund revenues in fiscal 2026 are projected to increase 3.4 percent from sales and use taxes, 4.9 percent from personal income taxes, and 1.6 percent from all other revenue sources compared to fiscal 2025 current estimates. Meanwhile, corporate income taxes are projected to decrease 3.3 percent on an annual basis. Forecasts used in governors' fiscal 2026 budgets were mostly released in late calendar year 2024 or

FIGURE 11.
Annual Percentage Change by General Fund Revenue Type



Fiscal 2024 reflects changes from fiscal 2023 (actual) to fiscal 2024 (actual). Fiscal 2025 reflects changes from fiscal 2024 (actual) to fiscal 2025 (estimated). Fiscal 2026 reflects changes from fiscal 2025 (estimated) to fiscal 2026 (recommended).

January/February 2025, while some came out earlier or later than that time frame. Thirteen states reported on more current revenue projections for fiscal 2026 than those used in governors' budgets. Among those states, corporate income tax estimates were revised down 1.3 percent and all other revenue was revised down 2.9 percent, while sales and use tax estimates were essentially unchanged and personal income tax estimates were up 1.0 percent.

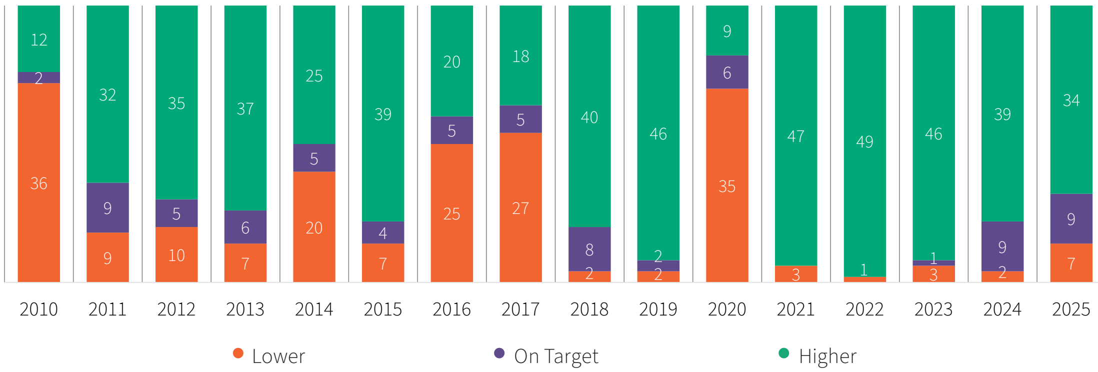
Since the time of data collection, more states have released revised estimates for fiscal 2026. Based on a recent separate analysis by NASBO, in most cases these revised estimates are down compared to previous forecasts.[3] A number of revenue forecasts discussed heightened economic uncertainty partly brought upon by changes at the federal level, while stating a cautious approach is warranted. Specifically, revenue forecasts noted the impact of potential changes in federal spending, federal tax provisions, trade policy including tariffs, federal workforce levels, immigration, geopolitical events, and consumer confidence in explaining the revisions.

Fiscal 2025 Revenues Exceeding Original Forecasts at Time of Data Collection

At the time of data collection, 34 states reported general fund revenue collections were coming in higher than original estimates used in enacted budgets for fiscal 2025, which for most states will end on June 30, 2025. Meanwhile, nine states reported collections were on target and seven states saw collections coming in lower than original estimates. (See **Figure 12**) Most states reported based on collections data as of February or March 2025; therefore, data in this survey do not generally reflect tax collections in April, an important month for income tax receipts given the April 15 filing deadline. According to recent revenue reports and other documentation, most states saw collections in April come in above projections, with personal income tax receipts performing well.

Based on states' most recent forecasts, current revenue estimates for fiscal 2025 (at the time of data collection) were revised upward by 2.2 percent compared to original estimates for all general fund

FIGURE 12.
General Fund Revenue Collections Compared To Original Revenue Estimates (By Fiscal Year)



Fiscal 2025 is ongoing and figures are subject to change.

sources. Broken down by revenue type, personal income tax estimates were revised up 3.3 percent, corporate income tax estimates were up 3.1 percent, and all other general fund revenue were up 3.0 percent, while sales and use tax estimates were down 0.1 percent compared to original estimates used in enacted budgets for fiscal 2025.

Governors' Budgets for Fiscal 2026 Propose a Mix of Tax Increases and Decreases

Thirty-five states reported on recommended tax policy changes that would have an impact on general fund revenue in fiscal 2026, with governors in 14 states recommending net increases totaling an estimated $5.9 billion, 20 states recommending net decreases in taxes and fees totaling $6.6 billion, and one state recommending a tax decrease without specifying the estimated revenue impact. This yields a net projected impact on general fund revenue of -$680 million compared to what would be collected absent the policy changes, with this cut representing 0.05 percent as a share of forecasted general fund revenue in fiscal 2026. (See **Figure 13**)

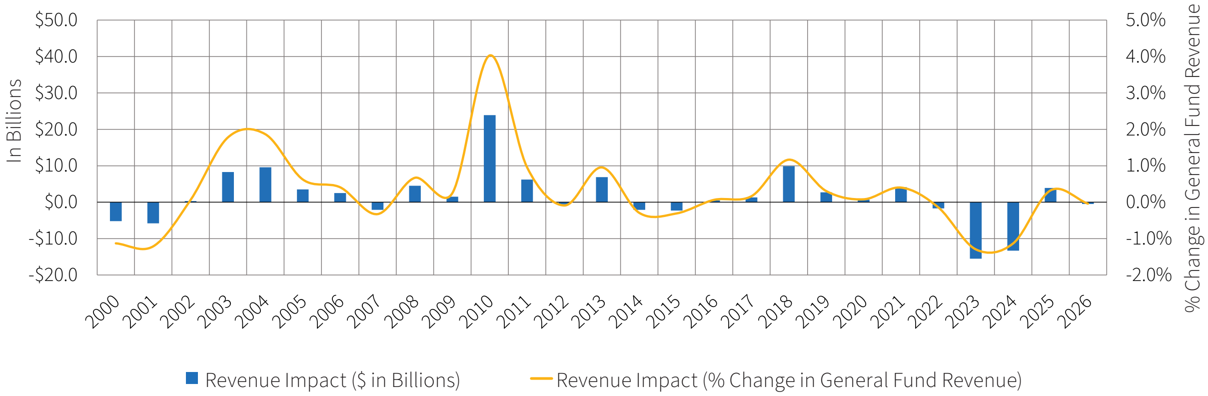
The impacts of tax policy changes vary considerably by state and territory depending on the scale and scope of recommended revenue actions. Among governors recommending tax cuts, the net revenue impacts range from -0.1 percent to -8.2 percent as percentage of total general fund revenue forecasted in fiscal 2026. Meanwhile, among governors proposing tax increases, the net impacts range from +0.1 percent to +5.3 percent as a percentage of forecasted general fund revenues in fiscal 2026.

Included in these estimated revenue impacts are several non-recurring changes that would have a one-time or temporary revenue impact of -$690 million. Excluding these one-time changes, recurring revenue actions reported in this survey would have a near zero impact on general fund revenue.

Additionally, the tax changes recommended by governors and reported in this survey would reduce general fund revenue for the current fiscal year (fiscal 2025) by an additional $853 million. Tax changes reported in this survey affecting fiscal 2025 revenue mostly consist of recurring actions that were

FIGURE 13.

Revenue Impact of State Tax and Fee Policy Changes, Fiscal 2000 to Fiscal 2026



Fiscal 2000-2025 reflect enacted changes; fiscal 2026 reflects recommended changes.

recommended for fiscal 2026 that would also affect fiscal 2025 collections due to their proposed effective date.

As in recent years, personal income taxes saw the greatest number of proposed changes, with six states proposing increases totaling $2.2 billion and 20 states proposing decreases totaling $6.3 billion. Policy changes to sales and use taxes were recommended in 16 states with a net positive impact on revenues from this source, though more states proposed decreases. Changes to corporate income taxes were recommended by 20 governors, with nine proposing increases and 11 proposing decreases. In the all other category, states would collect an estimated $2.3 billion more in general fund revenue, on net, if all recommended actions were adopted. The more significant proposed revenue increases in this category included changes to gaming taxes (including casinos, sports wagering, video gaming), real estate assessments, and taxes on cigarettes, tobacco, and cannabis.[4] (See **Figure 14**)

In addition to tax/fee increases and decreases, some states also reported on recommended revenue measures that would affect general fund revenue, with a total net general fund revenue impact of -$301 million in fiscal 2025 (mid-year) and -$5.5 billion in fiscal 2026. One-time measures reported by New York, including tax rebates and changes to pass-through entity taxes to promote more flexibility had the largest dollar impacts. Revenue measures, as defined in this survey, generally do not affect taxpayer liability and include actions to enforce existing laws, tax amnesties, additional audits and compliance efforts, and changes in how certain tax revenues are diverted to dedicated uses. Additionally, some states report on transfers to or from the general fund, as well as one-time tax relief measures, in this section.

FIGURE 14.
Summary of Recommended General Fund Revenue Changes, Fiscal 2026

Revenue Type	Sales & Use Taxes	Personal Income Taxes	Corporate Income Taxes	All Other Sources	Total General Fund Impact
# of States Recommending Net Increases	6	6	9	13	**14**
# of States Recommending Net Decreases	10	20	11	6	**20**
Total Impact of Increases ($ In Millions)	$1,968	$2,190	$1,242	$2,553	$5,915
Total Impact of Decreases ($ in Millions)	-$1,478	-$6,270	-$643	-$243	-$6,595
Net General Fund Revenue Impact	**$490**	**-$4,080**	**$599**	**$2,311**	**-$680**

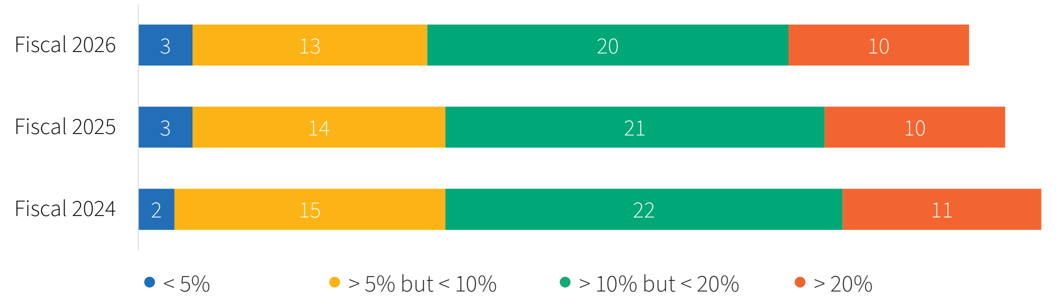
GENERAL FUND BALANCES AND RAINY DAY FUNDS

States' total balance levels, comprised of their rainy day funds and general fund ending balances, have swelled in recent years, driven by substantial unanticipated surpluses that have accumulated. While states continue to spend down a portion of those surplus funds held in their general fund balances for one-time purposes, in line with standard budget practice, ending balances remain elevated compared to historical norms and rainy day fund balances are at near-all-time highs.

Most States Plan to Maintain or Add to Rainy Day Funds in Governors' Budgets

Rainy day fund balances totaled $175.0 billion at the end of fiscal 2024, more than double their aggregate level in fiscal 2019 and near an all-time high. After adjusting the total calculations to account for three states that were not able to report balance projections for fiscal 2025 and/or fiscal 2026, rainy day fund levels in the aggregate are expected to decline by approximately $10 billion in fiscal 2025 and by the same amount again in fiscal 2026. However, the majority of states are expecting to maintain or further grow their rainy day funds in each of those years. In fiscal 2025, 29 states reported estimated increases to their rainy day funds, 13 states were estimating decreases, and six states were expecting no change. In fiscal 2026, 22 states are projecting rainy day fund increases, 14 states are planning for decreases, and 11 states reported no change to their rainy day fund balances, based on governors' recommended budgets.

FIGURE 15.
Rainy Day Fund Balance as a Percentage of General Fund Spending (Number of States)



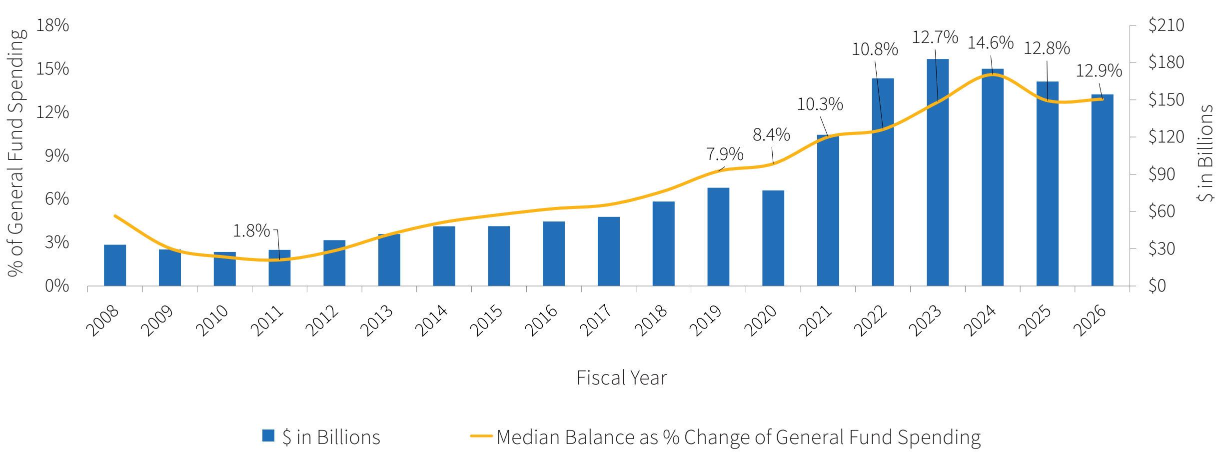
Fiscal 2025 is estimated; fiscal 2026 is projected based on governors' recommended budgets. Georgia and Wisconsin were not able to report on rainy day fund balance projections for fiscal 2025 and fiscal 2026, and Mississippi was not able to report for fiscal 2026. General fund spending amount for fiscal 2026 calculation was not available for Texas.

Among the states projecting decreases to their rainy day fund balances, several indicated planned withdrawals from their rainy day funds in fiscal 2025 and/or fiscal 2026 as a strategy to help manage their budgets. However, in other instances, the projected reductions in reserve balances may be attributable to other factors, including policymaker decisions to direct a portion of the rainy day fund to one-time uses, the inclusion of temporary reserves in prior-year figures, and small adjustments to comply with legal maximum limits.

As a percentage of general fund spending, at least 30 states are expecting to maintain a rainy day fund balance exceeding 10 percent of their general fund expenditures, with 10 states projecting a balance of greater than 20 percent as a share of general fund spending. The vast majority of states hold a rainy day fund balance greater than 5 percent as a percentage of general fund spending. (See **Figure 15**)

The median rainy day fund balance as a percentage of general fund expenditures is projected to tick down to 12.8 percent in fiscal 2025 after reaching an all-time high of 14.6 percent in fiscal 2024. Even while most states expect their rainy day fund balances to increase in nominal dollars, a slight majority of states anticipate declines as a percentage of general fund spending due to increases in spending estimated for fiscal 2025. In other words, the decline in the median rainy day fund balance in fiscal 2025 is the result of estimated expenditures growing faster than estimated reserve balances for the average state. Since spending in fiscal 2025 is still being affected by one-time expenditures, the median rainy day fund balance would be greater as a percentage of ongoing expenditures. Additionally, it should be noted states vary in their methodologies for projecting future rainy day fund balances. The median balance in fiscal 2026 recommended budgets is projected at 12.9 percent. (See **Figure 16**)

FIGURE 16.
Rainy Day Fund Balances in Dollars and Median Balance as a Percentage of General Fund Expenditures



Fiscal 2025 are estimated figures and fiscal 2026 are recommended figures. Total dollar amounts for fiscal 2025 and fiscal 2026 are adjusted to allow for year-over-year comparisons by including most recent rainy day fund balance figure available for states that were unable to report rainy day fund balance projections for those years.

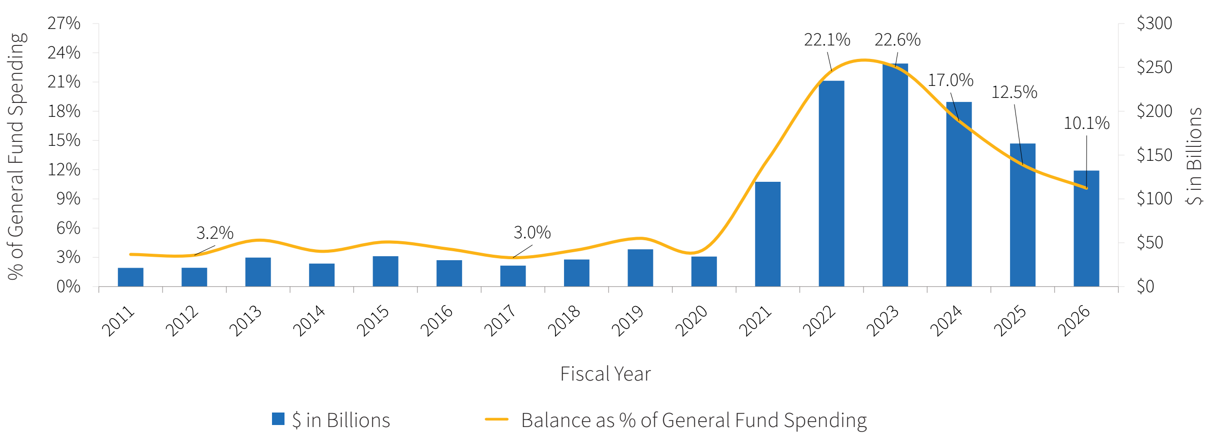
General Fund Balances Continue to Decline but Remain Elevated

States' general fund ending balances swelled in recent years due to several consecutive years of budget surpluses that mainly resulted from revenues exceeding original forecasts. If the rainy day fund is a state's "savings account," the general fund balance may be viewed as more analogous to a "checking account." General fund ending balances typically have fewer restrictions on how and when they may be used and are expected to fluctuate more year-to-year compared with states' rainy day fund balances. From fiscal 2020 to fiscal 2023, states accumulated unanticipated revenue surplus funds totaling $416 billion during that period. Much of those funds accumulated in states' ending balances, causing those balances to increase from $43 billion in fiscal 2019 to an amount nearly six times that level of $254 billion by the end of fiscal 2023. (See **Figure 17**) States holding this amount of funds in their general fund ending balances is extraordinary by historical standards.[5]

In line with routine budgeting practices, states have spent down a portion of these surplus funds in recent years, largely on one-time investments, rainy day fund deposits, and transfers to other funds for specific purposes. As a result, general fund ending balances declined from their all-time high to $211 billion in fiscal 2024, and they are projected to decrease further in fiscal 2025 and again in fiscal 2026. This dynamic is the main driver behind the recent declines states have recorded in total balances, defined by NASBO as the sum of states' general fund ending balances and rainy day fund balance. Despite these declines, the vast majority of states still hold total balances representing 10 percent or more as a percentage of general fund expenditures. (See **Figure 18**)

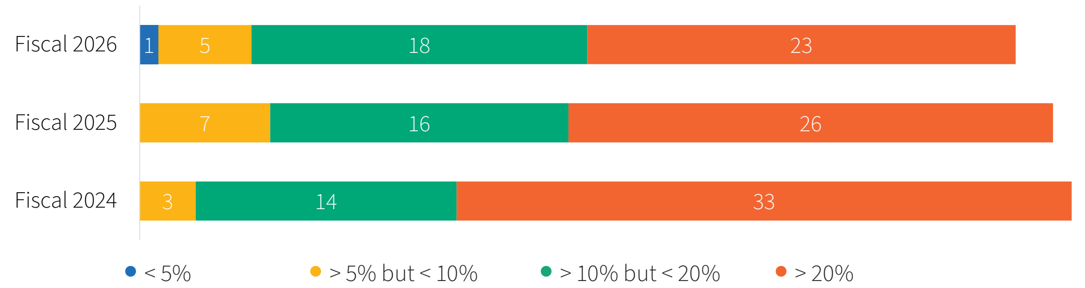
It should be noted that for some states, the rainy day fund balance is a discrete account within the general fund and therefore shows up in a state's reported general fund ending balance in the Fiscal Survey. This is accounted for in NASBO's calculations of total balances to avoid double counting. Total balances have begun to decline from their peak level in fiscal 2023 but remain significantly elevated

FIGURE 17.
General Fund Ending Balances in Dollars and as a Percentage of General Fund Expenditures



General fund ending balances shown here have been adjusted to exclude any designated rainy day funds held within a state's general fund. Fiscal 2025 are estimated figures and fiscal 2026 are recommended figures.

FIGURE 18.
Total Balance as a Percentage of General Fund Spending (Number of States)

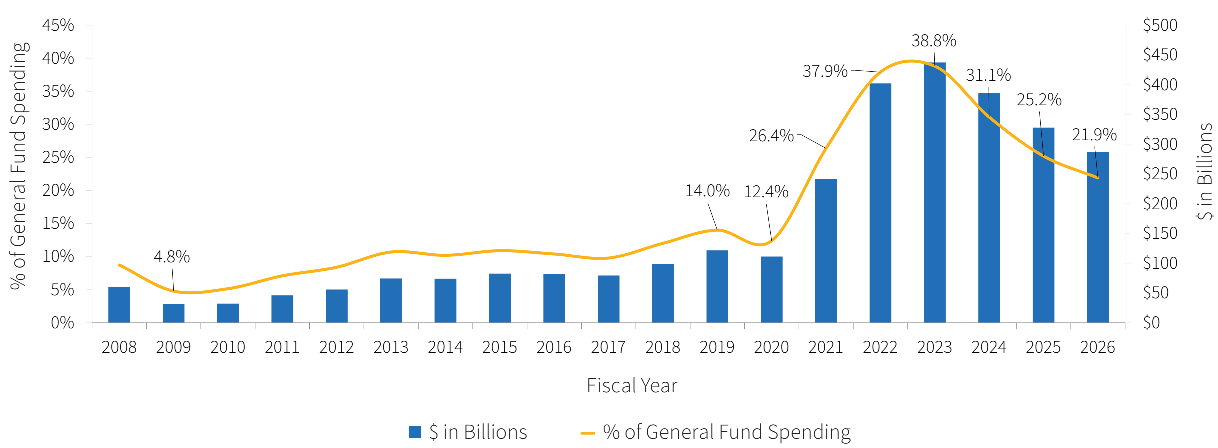


Total balance is defined as the rainy day fund balance combined with general fund ending balance. Fiscal 2025 is estimated; fiscal 2026 is projected based on governors' recommended budgets. Wisconsin was not able to report on a complete balance projection for fiscal 2025 and fiscal 2026, and Mississippi and Texas were not able to report for fiscal 2026.

compared to the pre-COVID landscape, projected at 25.2 percent as a percentage of general fund expenditures in fiscal 2025 and 21.9 percent in fiscal 2026 recommended budgets. (See **Figure 19**)

It is also worth noting that "total balances" only include rainy day funds and general fund ending balances. States hold additional balances in a range of other special purpose funds not included in these figures. In fact, a number of states directed one-time surplus funds in recent years to special purpose funds (for example, a capital projects fund or environmental/conservation fund). Those transfers may or may not show up in their expenditure figures depending on states' Fiscal Survey reporting practices.

FIGURE 19.
Total Balances in Dollars and as a Percentage of General Fund Expenditures



Total balance is defined as the rainy day fund balance combined with general fund ending balance. Fiscal 2025 are estimated figures and fiscal 2026 are recommended figures. Total dollar amounts for fiscal 2025 and fiscal 2026 are adjusted to allow for year-over-year comparisons by including most recent total balance figure available for states that were unable to report complete balance projections for those years.

BUDGET OUTLOOK

States overall are in a sound fiscal position with rainy day funds at near all-time highs, low debt by historical standards, and strong credit ratings. At the same time, they are facing a constrained budgetary environment created by increasing ongoing spending demands, slowing revenue growth, and federal fiscal uncertainty as they enter fiscal 2026.

Fiscal 2025 revenue collections seem on track to exceed original forecasts and midyear spending adjustments are increasing expenditure expectations above original appropriations in 22 states. Additionally, among the five states that reported net reductions in general fund spending, only one state attributed these cuts to a revenue shortfall in fiscal 2025.

As states and territories set their spending plans for fiscal 2026, they expect tightening budget conditions, with general fund ongoing expenditure projections outpacing revenue growth in a number of states. On the spending side, top budget pressures including Medicaid, employee health care, education including school choice initiatives, housing affordability, and disaster preparation and response. On the revenue side, states are dealing with a slowing economy and the recurring impacts of recent tax cuts, which together are translating into slower revenue growth. A growing number of states have downgraded revenue projections for fiscal 2026 from those reported in this survey, citing economic uncertainty, changes in federal spending and employment, tariff policies, and other contributing factors. States are also monitoring developments at the federal level. These include possible tax changes that would affect state revenue collections for those conforming to the federal tax code, reductions in federal funding, and new cost-sharing or other requirements tied to federal grants, all of which may necessitate mid-year action by states.

ENDNOTES

[1] Proposed general fund spending amount for fiscal 2026 was not available for Texas at the time of reporting. To allow for year-over-year comparisons, the fiscal 2026 general fund spending total was calculated using fiscal 2026 spending figures for 49 states plus Texas's fiscal 2025 general fund spending estimate.

[2] For more discussion on surplus funds, see NASBO, "The Impact of Surplus Funds on State Budget Budgets in Recent Years" (March 11, 2025), available at https://budgetblog.nasbo.org/budgetblogs/blogs/kathryn-white/2025/03/11/impact-of-surplus-budget-in-recent-years.

[3] NASBO, "States' Revenue Forecasts Mostly Revised Down Over Recent Months" (May 6, 2025), available at https://budgetblog.nasbo.org/budgetblogs/blogs/brian-sigritz/2025/05/06/states-revenue-forecasts-mostly-revised-down-over.

[4] For more discussion recommended tax policy changes, see NASBO, "Governors Recommend a Wide Variety of Tax Changes for Fiscal 2026" (April 1, 2025), available at https://budgetblog.nasbo.org/budgetblogs/blogs/brian-sigritz/2025/04/01/governors-recommend-a-wide-variety-of-tax-changes.

[5] For more discussion, see NASBO, "The Impact of Surplus Funds on State Budget Budgets in Recent Years" (March 11, 2025), available at https://budgetblog.nasbo.org/budgetblogs/blogs/kathryn-white/2025/03/11/impact-of-surplus-budget-in-recent-years.