

Summary: Spring 2023 Fiscal Survey of States

June 22, 2023

State Budget Growth Slows Following Multiple Years of Rapid Increases

State general fund spending growth in fiscal 2024 is expected to slow following two consecutive years of sharp increases, which were driven in part by an uptick in one-time expenditures. Governors' recommended budgets for fiscal 2024 call for total general fund spending 2.5 percent above estimated levels for fiscal 2023. This modest growth follows a record-setting 16.8 percent year-over-year spending increase in fiscal 2022 and an additional 12.6 percent bump estimated for fiscal 2023. Adjusted for inflation, general fund spending grew 8.1 percent in fiscal 2022 and an estimated 4.4 percent in fiscal 2023.

Similarly, on the revenue side, growth in state tax collections has slowed considerably following double-digit percentage increases recorded in fiscal 2021 and fiscal 2022. Based on current estimates at the time of data collection, revenues are on track to decline slightly by 0.3 percent in fiscal 2023 and are forecasted to decline again in fiscal 2024 by 0.7 percent based on revenue forecasts used in governors' budgets. This revenue

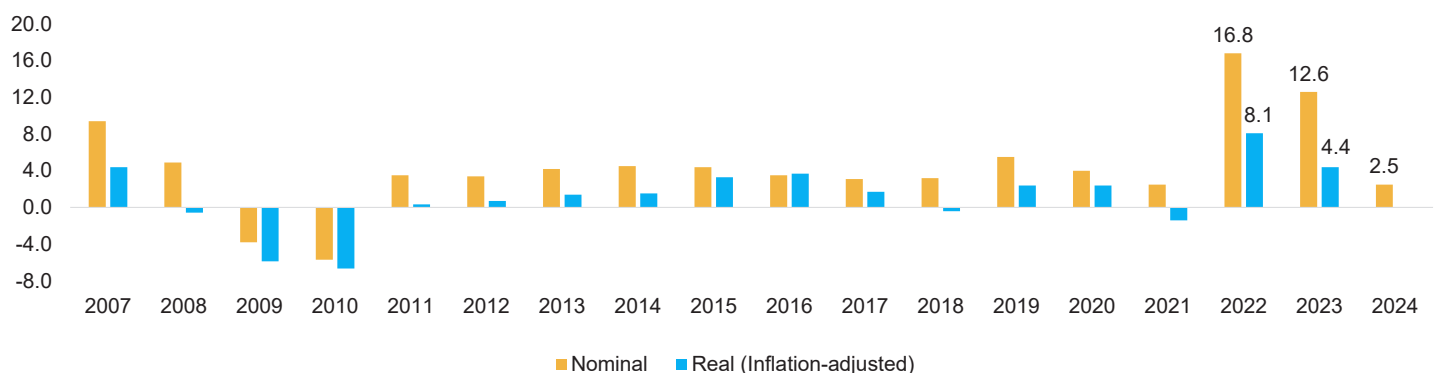
slowdown is from a very high baseline set in fiscal 2022 and reflects the impact of recently enacted or proposed tax cuts (including both one-time and recurring actions), a slower pace of economic growth, and weaker stock market performance and capital gains.

Despite the estimated decline in general fund collections, current revenue estimates for fiscal 2023 are outperforming revenue forecasts when budgets were enacted by 6.5 percent, a reflection of how state revenues have continued to exceed earlier expectations in the vast majority of states this year. More recent revenue performance has been a bit more mixed, and governors' budgets for fiscal 2024 are generally based on conservative revenue forecasts in light of the ongoing economic uncertainty amidst high interest rates, inflationary pressures, weakening consumer spending, and a possible recession on the horizon.

States continue to plan for a possible economic downturn by bolstering their rainy day funds or "savings accounts" during this time of strong state fiscal conditions. Most states are on

Figure 1.

Annual General Fund Spending Changes, Fiscal 2007 To Fiscal 2024 (Percentage Change)



Note: Fiscal 2024 figure is based on governors' recommended budgets.

track to end fiscal 2023 with larger rainy day fund balances than they had the previous year, building on two years of substantial increases in reserves, and the median rainy day fund balance in fiscal 2023 is estimated at 12.0 percent as a share of general fund spending. Total balances, which include rainy day funds and general fund ending balances, also saw tremendous growth in fiscal 2021 and fiscal 2022, reaching 37.3 percent as a share of general fund spending by the end of fiscal 2022. Total balances are estimated to decline in fiscal 2023 and fiscal 2024 as states spend down some of their elevated general fund balances, including on one-time uses such as paying off debt, supplemental pension payments, capital construction, economic development, and other expenditures to strengthen their fiscal resiliency over the longer term.

Fiscal 2024 Proposed Budgets Call for Modest Spending Growth After Two Years of Double-Digit Percentage Increases

Governors’ budgets for fiscal 2024 call for general fund spending totaling \$1.23 trillion, which represents growth of 2.5 percent compared to estimated levels for fiscal 2023. This modest increase builds upon the high baseline established after two consecutive years of double-digit percentage growth in general fund spending – growth that was partially driven by one-time expenditures using surplus funds. The median growth rate for fiscal 2024 is higher at 4.0 percent, with 32 states projecting increases. For more information on governors’ budgets, including key spending initiatives by program area, see [Summaries of Fiscal Year 2024 Proposed Budgets](#) (April 25, 2023), available on NASBO’s website.¹

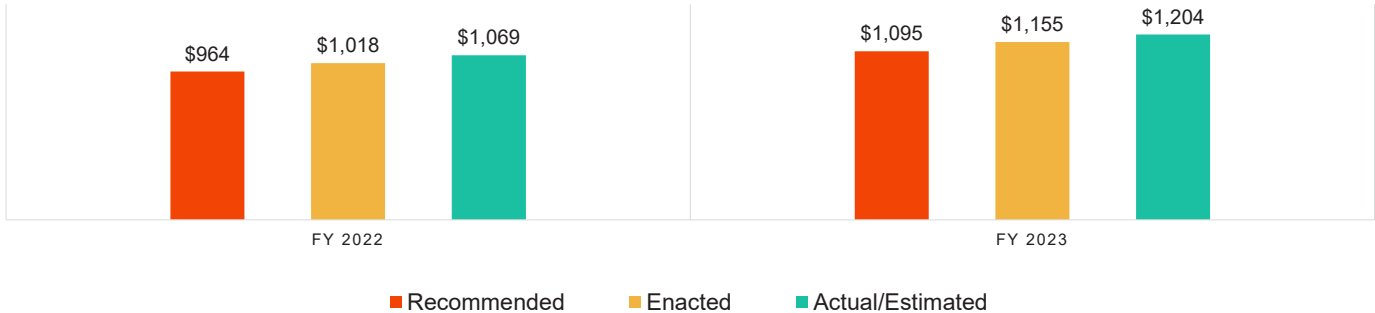
Fiscal Data from U.S. Territories and the District of Columbia Now Included

For the first time in the history of the Fiscal Survey, general fund spending, revenue and balance data are included in the full report for multiple U.S. territories – Guam, Puerto Rico, and the U.S. Virgin Islands (USVI) – as well as the District of Columbia (DC). Unless otherwise noted, aggregate figures cited in the text and charts of this summary and the full report include data from the 50 states only to allow for comparisons to historical survey data.

In fiscal 2023, states are on track to record total general fund spending of \$1.20 trillion, representing annual growth in the aggregate of 12.6 percent. This followed fiscal 2022, when total general fund spending grew 16.8 percent over fiscal 2021 levels. This spending growth rate is the highest annual increase recorded in the *Fiscal Survey* since its inception in 1979. Spending growth in both fiscal 2022 and fiscal 2023 was driven in part by an uptick in one-time expenditures using surplus funds, a shift from a reliance on temporary federal funds towards general funds in certain program areas, and high inflation. The spending increase recorded in fiscal 2022 was also attributable to a lower baseline in fiscal 2021, when some states reduced spending based on forecasted revenue declines early in the pandemic. Adjusted for inflation, general fund spending increased 8.1 percent in fiscal 2022 and is estimated to increase 4.4 percent in fiscal 2023.² (See **Figure 1.**)

The 12.6 percent estimated spending growth rate for fiscal 2023 in this survey is considerably higher than previously projected based on states’ enacted budgets reported in NASBO’s *Fall*

Figure 2.
General Fund Spending Estimates By Fiscal Year at Different Points in Time (\$ in Billions)



¹Sources for figures: FY 2022 – Spring 2021 Fiscal Survey (recommended); Fall 2021 Fiscal Survey (enacted); Spring 2023 Fiscal Survey (actual)
FY 2023 – Spring 2022 Fiscal Survey (recommended); Fall 2022 Fiscal Survey (enacted); Spring 2023 Fiscal Survey (estimated)

2022 Fiscal Survey, and even higher than what governors first recommended for fiscal 2023. A similar trend of actual expenditures exceeding proposed and enacted budgets can be observed when looking at data for fiscal 2022. This can be partly attributed to states recommending and approving mid-year spending increases (especially for one-time purposes) in response to revenues exceeding original forecasts for both years. (See **Figure 2.**)

States Continue to Make Limited Use of Budget Management Strategies, Given Strong Fiscal Conditions

In order to manage their budgets, particularly in an economic downturn, states employ a variety of strategies and tools, including spending reductions (across-the-board or targeted), revenue changes, personnel actions, efficiency savings, and one-time measures. Given strong fiscal conditions currently in most states, budget management strategies reported in this survey were minimal and targeted.

In managing their fiscal 2023 budgets in the middle of the year, just six states reported making targeted cuts; additionally, six states reported use of this strategy in recommended budgets for fiscal 2024. Also in fiscal 2024 proposed budgets, five states recommended hiring freezes or eliminating vacant positions in fiscal 2023, 10 states reported using prior-year fund balances, and eight states reported recommending other fund transfers. Among the states reporting rainy day funds as a management strategy, it should be noted some states interpreted this to include depositing excess funds into these reserves. (See **Figure 3.**)

Regarding mid-year budget actions, states also reported on spending changes considered or adopted in the middle of fiscal 2023 in quantitative terms. Overall, 23 states reported recommending or adopting net mid-year increases in general fund spending for fiscal 2023 while just five states reported decreases compared to their originally enacted budgets, resulting in a net mid-year increase of \$10.5 billion. For the states that reported net mid-year increases in general fund spending, these included supplemental appropriations for fiscal 2023 to address additional spending needs, as well as one-time uses of surplus funds such as taxpayer refunds and paying off debt. Among the five states reporting net mid-year cuts, only one state attributed these cuts to a revenue shortfall, while the others reported these reductions resulted from lower spending needs or the use of federal assistance in place of general funds. (See **Figure 4.**)

Governors Call for Pay Increases to Compete in a Tight Labor Market

Thirty-three states reported proposed across-the-board (ATB) pay increases for at least some employee categories in fiscal 2024. Similar to the circumstances last year when states adopted budgets for fiscal 2023, a tight labor market, high inflation, and strong state fiscal conditions helped keep the number of states proposing across-the-board pay increases elevated. Additionally, 14 states proposed at least some merit increases. Some states also proposed other modifications to employee compensation in fiscal 2024 including one-time bonuses, longevity payments or step increases, and targeted salary increases for certain employee groups. Among the states that reported an average ATB percentage increase, the rate of

Figure 3.
State Budget Management Strategies

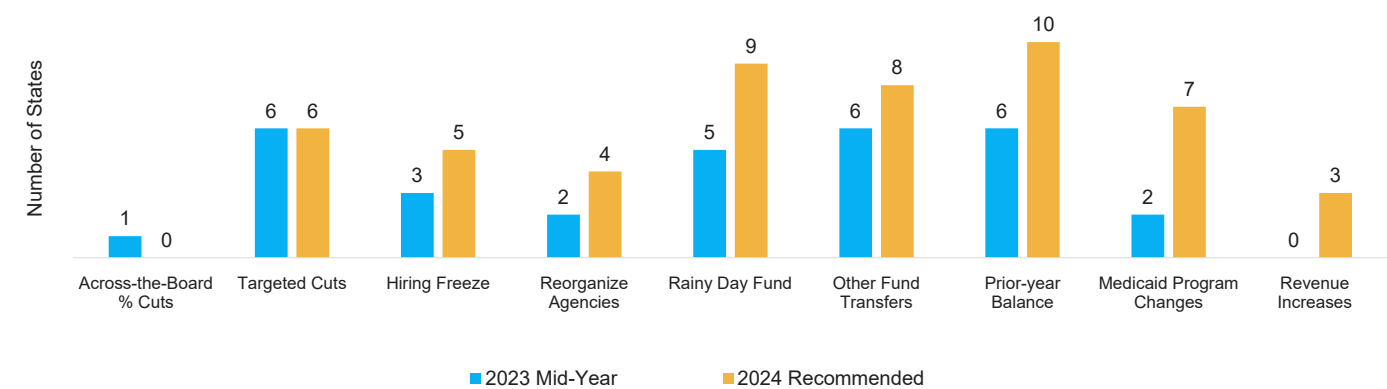
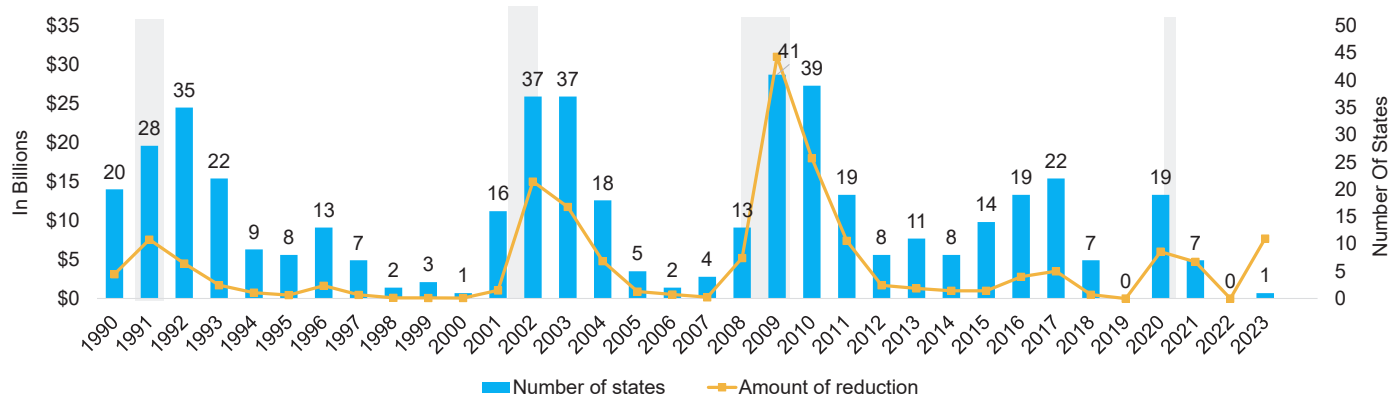


Figure 4.

Budget Cuts Made After The Budget Passed



Gray boxes denote recessionary periods, based on a July-June fiscal year calendar that most states follow. Recession dates are as follows: Early 1990s recession (July 1990 to March 1991); Early 2000s recession (March 2001 to November 2001); Great Recession (December 2007 to June 2009); COVID-19 Recession (February 2020 – April 2020).

Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a revenue shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.

increases ranged from 2.0 to 10.0 percent, with a median pay raise of 5.0 percent. (See **Figure 5**.)

After Two Fastest Growing Years on Record, Revenues Are on Track for Small Declines in Fiscal 2023 and Fiscal 2024

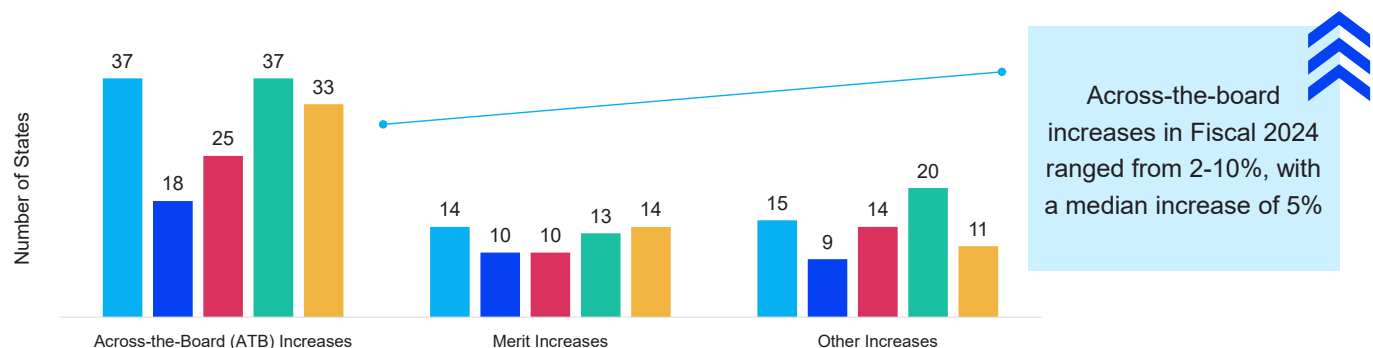
Recommended budgets for fiscal 2024 are based on general fund revenues totaling \$1.17 trillion, which would represent a 0.7 percent decline compared to fiscal 2023 current estimates. Governors' budgets for fiscal 2024 are generally based on conservative revenue forecasts in light of the ongoing economic uncertainty amidst high interest rates, inflationary pressures, weakening consumer spending, and a possible recession on the horizon. Despite this slight projected decline and as a result of the significant year-over-year growth in revenues in fiscal

2021 and fiscal 2022, projected revenues for fiscal 2024 in the aggregate are roughly 32 percent above fiscal 2019 (pre-pandemic) levels (without adjusting for inflation). Among the states reporting more current estimates for fiscal 2024 than those used in governors' budgets, states were fairly evenly split between those making upward versus downward revisions.

States reported in this survey fiscal 2023 general fund revenue totaling \$1.18 trillion. This marks a slight decline of 0.3 percent from a very high baseline following two consecutive years of double-digit percentage increases in revenue in fiscal 2021 and fiscal 2022. This decline reflects the impact of recent tax cuts, a slowdown in the pace of economic growth, weaker stock market performance and capital gains, and the high baseline in fiscal 2022.

Figure 5.

State Employee Compensation Changes

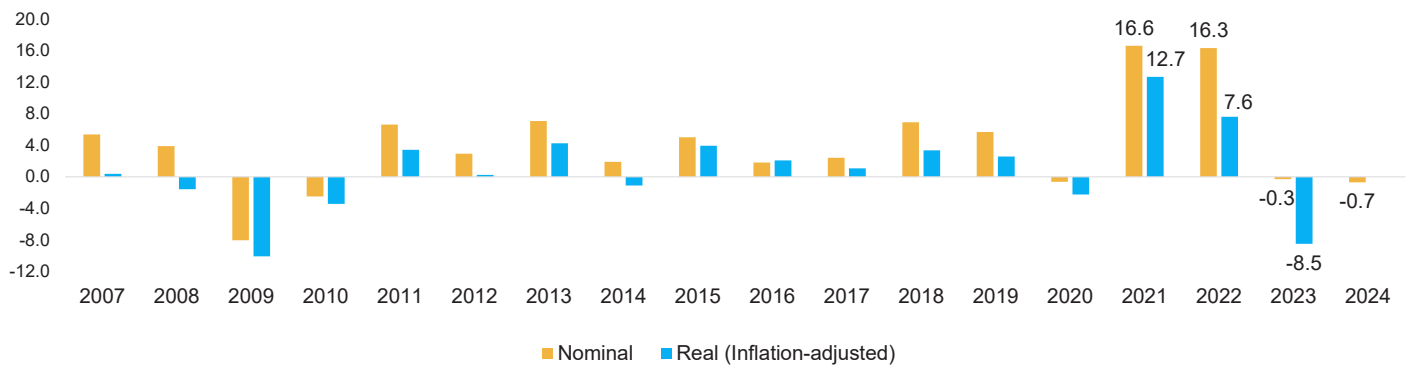


Across-the-board increases in Fiscal 2024 ranged from 2-10%, with a median increase of 5%

*Fiscal 2024 figures represent employee compensation changes in governors' recommended budgets.

Figure 6.

Annual General Fund Revenue Changes, Fiscal 2007 To Fiscal 2024 (Percentage Change)



Note: Fiscal 2023 figure is estimated as of spring 2023 and fiscal 2024 figure is projected based on governors' recommended budgets.

States reported in this survey fiscal 2022 general fund revenues totaling \$1.19 trillion, representing a sharp 16.3 percent year-over-year increase. This marks the second consecutive year of double-digit percentage growth in revenues, after general fund collections grew 16.6 percent in fiscal 2021 year-over-year. The annual revenue growth experienced in fiscal 2021 and fiscal 2022 represent the two highest growth rates recorded in NASBO's *Fiscal Survey* since its inception in 1979. Employment growth and high consumer demand, as well as a strong stock market performance in calendar year 2021, helped to further drive revenue gains in fiscal 2022. The inclusion of federal aid in general fund revenues in a few states as well as the economic impacts of federal stimulus contributed to revenue growth in fiscal 2022 as well. The effect of inflation on both consumer prices and wages also contributed to revenue growth. Adjusted for inflation, general fund revenues grew 7.6 percent in fiscal 2022 and are estimated to decline 8.5 percent in fiscal 2023. (See **Figure 6.**)

The three largest sources of state general fund revenue – sales taxes, personal income taxes and corporate income taxes – all saw robust growth in fiscal 2021 and fiscal 2022, driven by pent-up consumer demand, strong economic and employment growth, federal stimulus, high inflation and its impacts on prices and wages, strong stock market performance, and higher corporate profits. In fiscal 2023, sales tax collections are on track for slower growth of 4.9 percent but from a high baseline, as consumption slows somewhat and consumer behavior shifts towards spending more on services rather than goods. Personal income taxes are estimated to decline 3.6 percent in fiscal 2023,

which is partially explained by the high baseline in fiscal 2022, some slowing in economic growth and weaker capital gains, and the impact of both recurring and one-time tax policy changes. Corporate income taxes are on track to decline by 5.4 percent in fiscal 2023. All other general fund revenues, which consist of myriad sources that vary by state (cigarette and other excise taxes, severance taxes, gaming and lottery revenue, insurance taxes, fees, etc.) grew 11.4 percent in fiscal 2022 and are estimated to record a 1.1 percent decline in fiscal 2023.

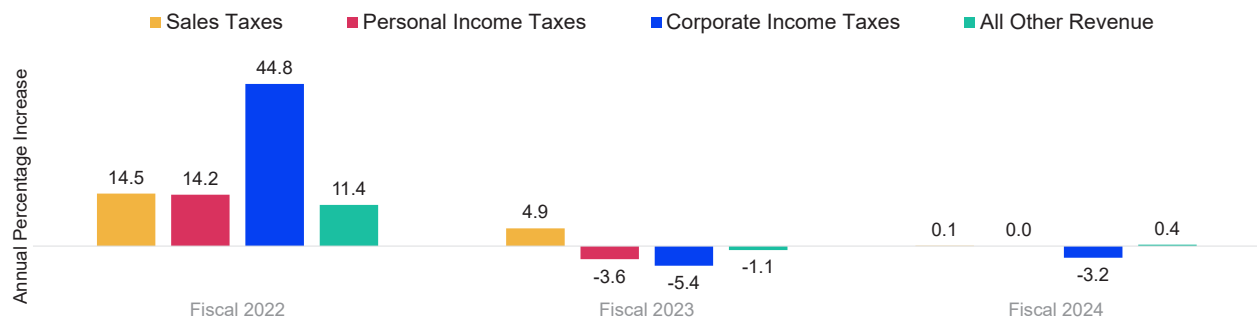
Compared to fiscal 2023 current estimates, fiscal 2024 revenue forecasts in governors' budgets project relatively flat growth in sales taxes and personal income taxes, a 3.2 percent decline in corporate income taxes, and a slight 0.4 increase in all other general fund revenue. (See **Figure 7.**)

45 States Report Revenue Collections Exceeding Original Revenue Projections for Fiscal 2023

While on track to record a slight year-over-year decline, fiscal 2023 revenues are estimated to come in 6.5 percent ahead of original revenue forecasts used in enacted budgets for fiscal 2023, with original forecasts for some biennial budget states dating back to calendar year 2021. At the time of data collection, 45 states reported general fund revenues were coming in ahead of originally enacted revenue forecasts. Compared to current estimates for fiscal 2023, collections were coming in ahead in 23 states, on target in 15 states, and lower in six states. Based on the number of states seeing collections

Figure 7.

Annual Percentage Increase by General Fund Revenue Type



Note: In fiscal 2022, personal income taxes made up an estimated 45.2% of general fund revenue, sales taxes 28.5%, corporate income taxes 10.3%, and all other revenue 16.0%.

exceeding revised estimates, actual revenues for fiscal 2023 may come in higher than estimated in this survey. (See **Figure 8.**)

Upward Trend for Revenue Forecasts Over Time Continues

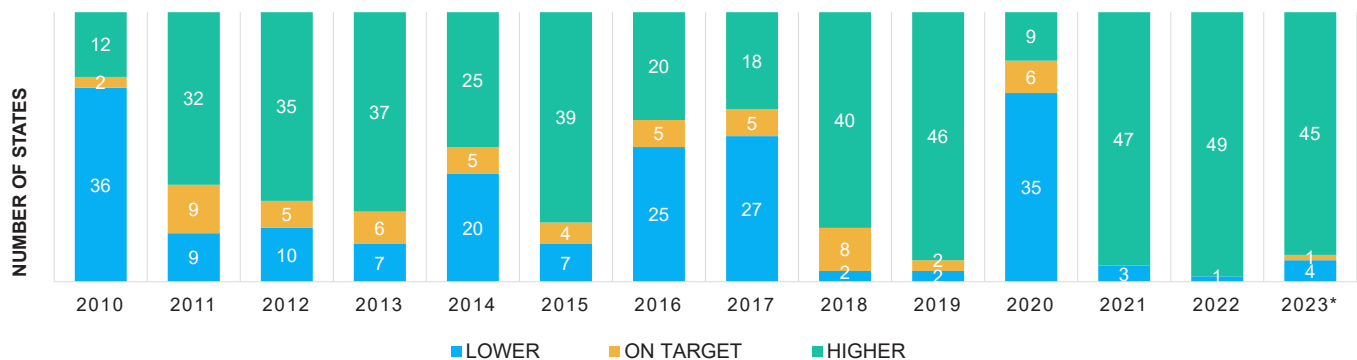
State revenues performed considerably better than was expected earlier in the pandemic for several reasons. First, federal stimulus measures put a lot of additional money into the economy and directly boosted personal income. Second, personal income taxes were not as impacted as expected due to the recession disproportionately affecting low-income workers while high-income earners were relatively insulated. Third, the pandemic's effects on economic activity largely curtailed consumption of services that most states do not tax, while consumption of goods, which are taxed, was less affected.

Fourth, increased online sales tax collections following the U.S. Supreme Court decision in *Wayfair v. South Dakota* helped mitigate sales tax losses.

This trajectory of continued improvement in revenue forecasts has been consistently evident in NASBO's *Fiscal Survey of States* since 2020. Similar to what transpired in fiscal 2021, fiscal 2022 revenue estimates were revised upward at each stage in the budget development process (recommended and enacted) as well as during the budget cycle, with actual collections reported in this survey for fiscal 2022 coming in nearly 22 percent ahead of enacted revenue projections reported in NASBO's *Fall 2021 Fiscal Survey*. So far, fiscal 2023 current estimates are also following an upward trajectory compared to proposed and enacted estimates. (See **Figure 9.**)

Figure 8.

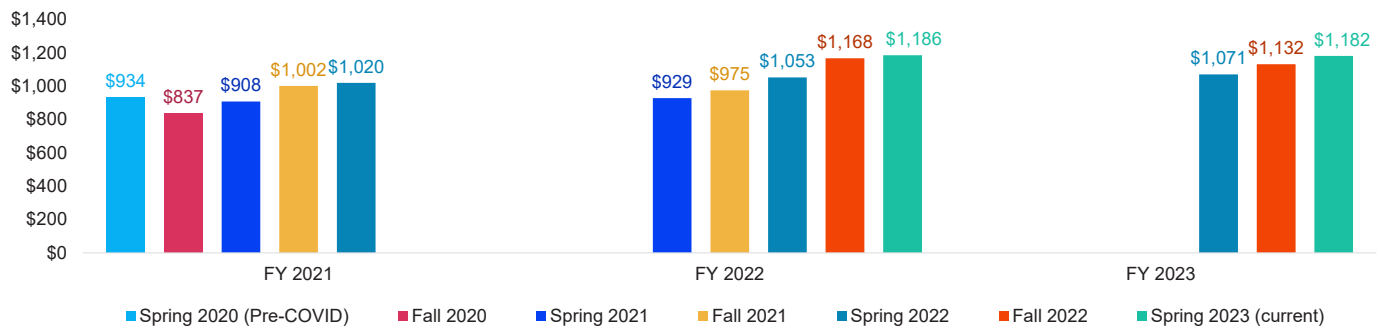
General Fund Revenue Collections Compared To Original Revenue Projections (By Fiscal Year)



*Fiscal 2023 is ongoing and figures are subject to change.

Figure 9.

General Fund Revenue Estimates By Fiscal Year in Different Fiscal Survey Editions (\$ in Billions)



*General fund revenue information reported in the Spring 2020 and Fall 2020 Fiscal Surveys was adjusted for this comparison to account for a change in Ohio's reporting methodology. Beginning in the Spring 2021 Fiscal Survey, Ohio began excluding federal Medicaid reimbursements from its general fund reporting.

Governors in Most States Recommend Net Tax Cuts in Fiscal 2024

Governors in 28 states recommended net decreases in general fund revenue for fiscal 2024, while net increases were recommended in nine states, resulting in a projected net impact on general fund revenue of -\$13.8 billion. Measured as a share of general fund revenue, the impact of these proposed changes is equivalent to roughly 1.2 percent of forecasted general fund revenue in fiscal 2024 budgets, a similar percentage to the reductions recorded in the late 1990s and fiscal years 2000-

2001. The scale and scope of tax reductions recommended by governors in their fiscal 2024 budgets reflect continued strong fiscal conditions. More than half of the estimated fiscal 2024 revenue impact of recommended changes reported in this survey (-\$7.3 billion) is attributable to one-time or temporary revenue actions. This means that the recurring revenue impacts of proposed changes in this survey total an estimated -\$6.5 billion in fiscal 2024. Recommended changes to personal income taxes accounted for most of the net revenue impact estimated (-\$10 billion), with roughly half of those changes (-\$4.9 billion) being one-time in nature. (See **Figure 10.**)

Figure 10.

Summary of Net One-Time and Recurring Revenue Impacts of Recommended Changes by Tax Type, Fiscal 2024

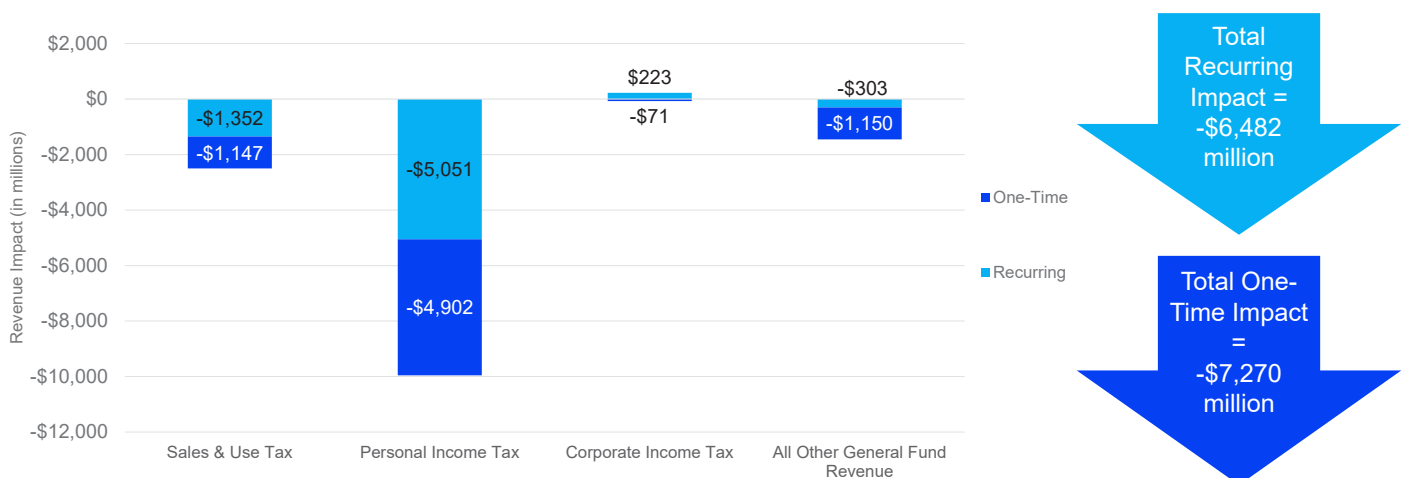
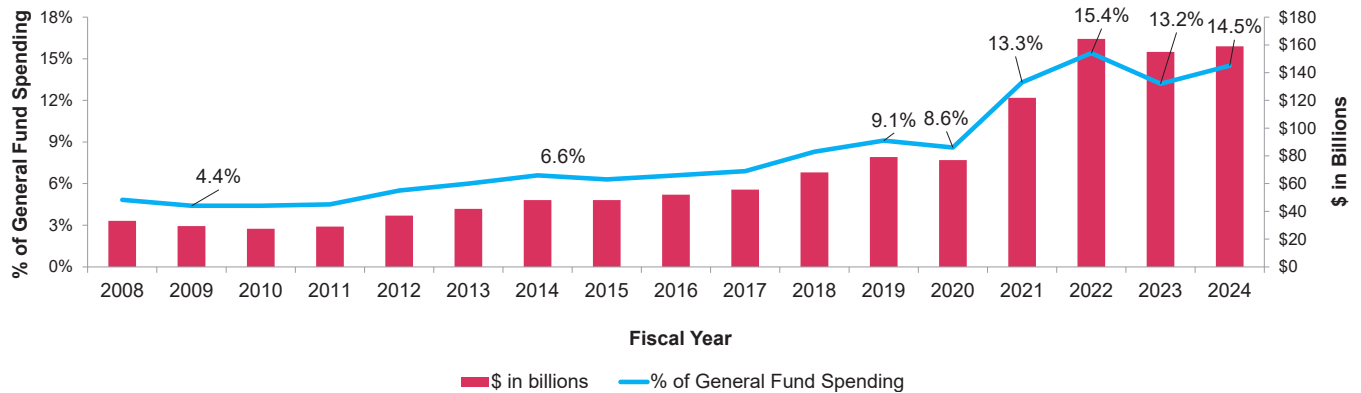


Figure 11.

Rainy Day Fund Balances in Dollars and as a Percentage of General Fund Expenditures



Rainy Day Funds Remain at All-Time Highs After Steep Rise from Fiscal 2020 to Fiscal 2022

Recent balance trends and current fund policies demonstrate how states have taken actions to strengthen their rainy day funds, also known as budget stabilization funds. From fiscal 2020 to fiscal 2022, rainy day fund balances more than doubled from \$77.0 billion to \$164.3 billion, as states deposited a portion of their revenue surpluses into these reserve funds. In fiscal 2023, 39 states are estimating further increases to their rainy day funds, though balance levels in the aggregate are estimated to decline in nominal dollars and as a share of general fund spending. (See **Figure 11.**) The median rainy day fund balance as a share of general fund spending, meanwhile, is set to rise from 11.5 percent in fiscal 2022 to an estimated 12.0 percent in fiscal 2023 and a projected 13.5 percent in fiscal 2024 based on governors' recommended budgets. As states face ongoing economic uncertainty, these high rainy day fund levels, coupled with other recent steps states have taken to bolster their fiscal resiliency, leave states well-prepared to manage their budgets through a possible downturn.

After Tremendous Growth, Total Balances Are Expected to Decline but Remain at Levels Well Above Historical Average

Total balances include general fund ending balances and the amounts in states' rainy day funds. General fund balances have

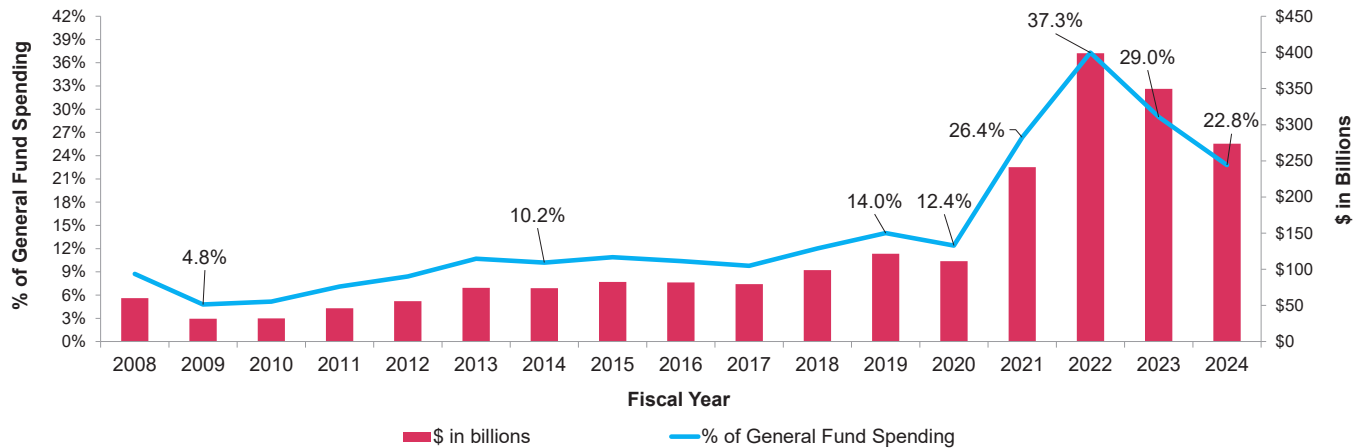
swelled in recent years as a result of revenues far exceeding the revenue forecasts used in enacted budgets for fiscal 2021 and fiscal 2022. By the end of fiscal 2022, total balances had reached \$398.8 billion, more than 3.5 times their aggregate level in nominal dollars at the end of fiscal 2020 and representing 37.3 percent as a share of total general fund expenditures in fiscal 2022. As states begin to draw down on those ending balances, directing them in large part to one-time investments or transfers to other state funds, total balances are on track to decline in fiscal 2023 and again in fiscal 2024. In governors' budgets for fiscal 2024, combined ending balances and rainy day funds are projected to total 22.8 percent as a share of proposed general fund spending, which still well exceeds the 14.0 percent aggregate level reached in fiscal 2019 before the pandemic. These elevated total balance levels provide a budgetary cushion for states amidst some signs of an economic slowdown. (See **Figure 12.**)

State Budget Outlook: States Are Financially Well-Prepared as They Plan for Slower Growth Ahead

As this survey is released, states have either enacted their budgets for fiscal 2024 or are working towards enactment before the end of fiscal 2023. After double-digit percentage general fund revenue increases in fiscal 2021 and fiscal 2022, with virtually all states seeing collections exceed original forecasts in both years, most states appear on track to end fiscal 2023 with revenue surpluses for a third consecutive year. This extraordinary revenue growth recently helped lead to double-

Figure 12.

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



digit percentage increases in general fund spending in fiscal 2022 and fiscal 2023, with significant one-time expenditures from surplus funds recorded in both years. Heading into fiscal 2024, state revenue and spending growth are showing signs of returning to more normal levels based on the data reported in this survey. Meanwhile, rainy day fund balances are projected to remain at or near all-time highs in fiscal 2024 according to governors' budgets. Total balances, which include general

fund ending balances and rainy day funds, are also expected to remain well above the historical average by the end of fiscal 2024, even after states tap their ending balances for one-time investments or other fund transfers. These elevated balance levels, combined with other recent steps to bolster their fiscal resiliency, leave states well-prepared to manage their budgets through a possible downturn.

If you would like additional information, please contact Kathryn Vesey White at kwhite@nasbo.org or 202-624-5949.

Endnotes

¹ National Association of State Budget Officers, *Summaries of Fiscal Year 2024 Proposed Budgets* (April 25, 2023), available at https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Issue%20Briefs%20Summaries_of_Fiscal_Year_2024_Proposed_Budgets.pdf

² The state and local government implicit price deflator cited by the Bureau of Economic Analysis National Income and Product Account Tables, Table 3.9.4., Line 33 (last updated on May 25, 2023), is used for inflation adjustments. Quarterly averages are used to calculate fiscal year inflation rates.