State General Fund Conditions Continue “Back-to-Normal” Trend

Recent trends in general fund spending, revenue, and balances, along with governors’ budget proposals for fiscal 2025, reflect a gradual return to a more stable, “normal” budget environment in which new money is limited, revenue collections perform close to states’ forecasts, and rainy day funds in most states are on track to record modest growth.

State general fund spending in fiscal 2025 is expected to record an annual decline following multiple years of robust expenditure growth. Governors’ recommended budgets for fiscal 2025 call for total general fund spending 6.2 percent below estimated levels for fiscal 2024. This projected decrease follows general fund expenditure growth of 14.4 percent in fiscal 2024 and 7.2 percent in fiscal 2023, with increases in both years bolstered by sizable one-time expenditures of surplus funds. Despite the overall decrease, 27 governors’ budgets are recommending general fund spending increases in fiscal 2025, and the median annual growth rate for fiscal 2025 is a 1.1 percent increase.

Meanwhile, after multiple years of revenues considerably beating projections in virtually all states and record-setting annual increases in collections in fiscal 2021 and fiscal 2022, revenue growth continues to stabilize as tax collections come more in line with states’ revenue forecasts and growth rates reflect recently enacted tax cuts. Revenue projections for fiscal 2025 used in governors’ budgets are 1.6 percent higher than current revenue estimates for fiscal 2024. This follows essentially flat revenue growth in the aggregate in both fiscal 2023 and fiscal 2024. This recent revenue slowdown following record-breaking revenue growth in fiscal 2021 and fiscal 2022 was expected by states and built into their budgets. The vast majority of states recorded revenue surpluses in fiscal 2023 and most states reported collections for fiscal 2024 are coming in ahead of their original projections. Additionally, after two consecutive years of widespread and sizeable tax cuts, governors’ recommended budgets for fiscal 2025 call for fewer and more targeted tax reductions along with some states proposing tax increases.

Figure 1.
Annual General Fund Spending Changes, Fiscal 2007 To Fiscal 2025 (Percentage Change)

Note: Fiscal 2024 figure is estimated; fiscal 2025 figure is projected based on governors’ recommended budgets.
Most states are on track to end fiscal 2024 with larger rainy day fund balances than the previous year, and a majority of governors are recommending further increases to rainy day funds in their fiscal 2025 budget proposals. These increases build on the significant growth rainy day fund balances have recorded since fiscal 2020 as states directed a portion of their revenue surpluses to reserves. The median rainy day fund balance as a percentage of general fund spending has grown every year since fiscal 2011 and this trend is forecasted to continue, with a median balance projected at 15.0 percent at the end of fiscal 2025 according to governors’ recommended budgets. Total balances (including both ending balances and rainy day funds), meanwhile, are expected to decline in fiscal 2024 and again in fiscal 2025 as states plan to spend down prior-year unanticipated surpluses that have accumulated in their general fund ending balances. States spending down a portion of their large balances is to be expected and in line with routine budget practice, with many states directing these surplus funds to one-time investments.

Despite Overall General Fund Spending Decline, Governors in 27 States Proposed Increases

Governors’ recommended budgets call for general fund spending totaling $1.22 trillion in fiscal 2025, a 6.2 percent decrease compared to estimated spending levels for fiscal 2024. This projected decline follows multiple years of robust spending growth that was driven in large part by one-time expenditures of surplus funds. State general fund spending recorded 7.2 percent growth in fiscal 2023 and is on track for a 14.4 percent increase in fiscal 2024. (See Figure 1.)

Actual spending for fiscal 2023 came in lower and estimated spending for fiscal 2024 came in higher compared to previous figures reported in NASBO’s Fall 2023 Fiscal Survey of States, in part due to states shifting some one-time expenditures from fiscal 2023 to fiscal 2024. Average annual general fund spending growth for all 50 states over three years (fiscal 2023, fiscal 2024 and fiscal 2025) is estimated at 5.2 percent, with a median growth rate over three years of 7.4 percent for the 50 states.

Despite the aggregate decline projected for fiscal 2025, 27 governors’ budgets are still calling for general fund spending increases, and the median annual growth rate for fiscal 2025 is a 1.1 percent increase. Meanwhile, the median annual increase in general fund spending for fiscal 2024, at 7.6 percent, is significantly lower than total growth for that year. Significant year-over-year fluctuations in spending or revenue in individual states, especially a large state, can impact aggregate growth rates, so the median change can often be a better indicator of average trends across states. (See Figure 2.) For more information on governors’ budgets, including key spending initiatives, see Summaries of Fiscal Year 2025 Proposed Budgets (May 7, 2024), available on NASBO’s website.¹

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¹ Note: Fiscal 2024 figure is estimated; fiscal 2025 figure is projected based on governors’ recommended budgets.
States Make Targeted Use of Budget Management Strategies

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 stable fiscal conditions in most states, reported use of budget management strategies such as spending reductions, revenue increases, and personnel actions was once again fairly minimal and targeted, though slightly elevated compared to the number of strategies reported this time last year when governors proposed their budgets for fiscal 2024.

In managing their fiscal 2024 budgets in the middle of the year, ten states reported making targeted cuts; additionally, ten states reported use of this strategy in recommended budgets for fiscal 2025. Also, 12 states reported using prior-year fund balances, 11 states reported recommending other fund transfers, and nine states reported revenue increases in governors’ budgets for fiscal 2025. (See Figure 3.)

Regarding mid-year budget actions, states also reported on spending changes made in the middle of fiscal 2024 in quantitative terms. Overall, 16 states reported recommending or adopting net mid-year increases in general fund spending for fiscal 2024 while ten states reported decreases compared to their originally enacted budgets, resulting in a net mid-year decrease of $1.7 billion. For the states that reported net mid-year increases in general fund spending, these included supplemental appropriations for fiscal 2024 to address additional spending needs, as well as one-time uses of surplus funds. Among the ten states reporting net mid-year cuts, three states attributed these cuts to a revenue shortfall, while the other seven reported these reductions resulted from lower spending needs or the use of federal assistance in place of general funds. (See Figure 4.)

Most Governors Propose State Employee Pay Increases in Fiscal 2025

Thirty-one states, the District of Columbia (DC), and Puerto Rico reported proposed across-the-board (ATB) pay increases for at least some employee categories in fiscal 2025. Additionally, 14 states, DC and the U.S. Virgin Islands proposed at least some merit increases. Some states also proposed other modifications to employee compensation in fiscal 2025 including one-time bonuses, longevity payments or step increases, and targeted...
salary increases for certain employee groups. Among the states that reported an average percentage ATB increase, the rate of increases ranged from 2.0 to 11.0 percent, with a median pay raise of 3.0 percent. Not all states had information available to report on proposed or planned pay increases for fiscal 2025.

(See Figure 5.)

**Slower General Fund Revenue Growth Expected to Continue**

Recommended budgets for fiscal 2025 are based on general fund revenues totaling $1.20 trillion, which would represent a 1.6 percent increase compared to fiscal 2024 current estimates. The small increase projected in governors’ fiscal 2025 budgets follows essentially flat revenue growth over the previous two years in the aggregate, reflecting the impact of recently enacted tax cuts and preceded by the two fastest-growing years for general fund revenue in Fiscal Survey history in fiscal 2021 and fiscal 2022. (See Figure 6.) On a median basis, general fund revenue is forecasted to increase 1.9 percent in fiscal 2025.

States reported fiscal 2024 general fund revenues are on track to total $1.18 trillion based on current estimates at the time of data collection, representing a 0.6 percent increase compared.
to actual fiscal 2023 levels; adjusted for inflation, this represents an estimated 0.8 percent decrease in real terms. On a median basis, general fund revenues are estimated to record a nominal decline of 1.1 percent in fiscal 2024, reflecting how a majority of states are estimating annual revenue decreases for fiscal 2024. Despite these decreases, most states are beating their revenue projections for fiscal 2024, as discussed later in this summary.

States reported in this survey fiscal 2023 actual general fund revenue collections totaling $1.17 trillion, representing an annual decline of 1.1 percent and marking the first time that actual revenue collections recorded an annual decrease since fiscal 2020. This slight decrease in fiscal 2023 follows two consecutive years of record-breaking general fund revenue growth of 16.6 percent in fiscal 2021 and 16.3 percent in fiscal 2022. Adjusted for inflation, fiscal 2023 revenues declined 5.9 percent. A steep revenue decline in one large state in fiscal 2023 contributed considerably to the overall decline. For the median state, general fund revenues increased 1.9 percent on a nominal basis in fiscal 2023. Despite the slowing in revenue growth in recent years, projected general fund revenues for fiscal 2025 are still roughly 36 percent above their level before the pandemic in fiscal 2019. (See Figure 7.)

All General Fund Revenue Sources on Track for Slow Growth or Modest Declines in Fiscal 2024 and Fiscal 2025

After significant growth in fiscal 2021 and fiscal 2022, sales and use tax collections grew at a slower pace in fiscal 2023 of
5.7 percent and are on track to increase 1.6 percent in fiscal 2024. Meanwhile, after two years of double-digit percentage increases, personal income tax collections slowed in fiscal 2023, declining 9.1 percent compared to fiscal 2022. This decline can be attributed to the impact of tax policy changes (including both recurring and one-time changes), a high baseline in fiscal 2022 that was partially driven by one-time factors, a slower inflation rate, and a weaker stock market performance in calendar year 2022. Personal income tax collections are on track for relatively flat growth in the aggregate with a 0.6 percent estimated increase in fiscal 2024. Total corporate income tax revenues – which tend to be a more volatile revenue source – grew 1.1 percent in fiscal 2023 after two consecutive years of annual growth greater than 40 percent. In fiscal 2024, corporate income tax collections are estimated to decline 3.8 percent. 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 7.2 percent in fiscal 2023 and are estimated to record a 1.8 percent increase in fiscal 2024.

Compared to fiscal 2024 current estimates, fiscal 2025 revenue forecasts in governors’ budgets project 2.4 percent growth in sales and use taxes, 2.9 percent growth in personal income taxes, a 0.8 percent decrease in corporate income taxes, and 2.0 percent decrease in all other general fund revenue. (See Figure 8.)

Figure 8.
Annual Percentage Increase by General Fund Revenue Type

![Figure 8](image)

Note: In fiscal 2023, personal income taxes made up an estimated 41.6% of general fund revenue, sales taxes 30.4%, corporate income taxes 10.5%, and all other revenue 17.5%.

Fiscal 2024 Collections Exceeding Original Revenue Estimates in Most States

Thirty-three states reported general fund collections for fiscal 2024 from all revenue sources (including sales, personal income, corporate income, and other revenues) were coming in higher than original estimates used in enacted budgets. Collections were on target with original estimates in seven states and lower than projected in ten states. This marks a return to more “normal” state revenue performance following the exceptional three consecutive years from fiscal 2021 to fiscal 2023 when nearly all states beat their original revenue forecasts, often by a large margin. (See Figure 9.)

Current estimates for fiscal 2024 general fund revenue reported in this survey were revised upward 1.2 percent from the original estimates used in enacted budgets. By tax type, current estimates for sales and use taxes are up 1.0 percent, personal income taxes are down 1.0 percent, corporate income taxes are up 0.9 percent, and all other general fund revenue are up 7.1 percent compared to original estimates for fiscal 2024. Compared to current estimates for fiscal 2024, collections from all general fund sources combined are coming in higher in 22 states, lower in five states, and on target in 17 states, among the states able to report on revenue performance compared to their most recent forecast.
Summary: Spring 2024 Fiscal Survey of States

24 States Propose Net Tax Decreases in Fiscal 2025

Governors in 24 states recommended net decreases in general fund revenue for fiscal 2025, while net increases were recommended in eight states, resulting in a projected net revenue impact of -$2.5 billion (see Figure 10). Measured as a share of general fund revenue, the impact of these proposed changes is equivalent to roughly 0.2 percent of forecasted general fund revenue in fiscal 2025 budgets. This follows $13.3 billion in net tax reductions enacted for fiscal 2024 and $15.5 billion in reductions for fiscal 2023 – the two biggest years for net tax cuts on record (measured in nominal dollars) in the history of the Fiscal Survey. The smaller scale and scope of tax reductions recommended by governors in their fiscal 2025 budgets relative to the last two years reflect a return to more normal budget conditions by historical standards. The tax changes proposed by governors reported in this survey would also reduce general fund revenue for fiscal 2024 by an additional $3.3 billion, on top of the $13.3 billion in net tax reductions enacted last year for fiscal 2024.

Median Rainy Day Fund Balance as a Percentage of Spending Continues Rising

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, as states deposited a portion of their revenue surpluses into these reserve funds. In fiscal 2023, states continued adding to their reserves, ending the year with rainy day fund balances at a new all-time high of $176.9 billion and a median balance as a percentage of general fund expenditures of 12.3 percent. In fiscal 2024, 33 states are estimating further increases to their rainy day funds, though balance levels in the aggregate are estimated to decline in nominal dollars due mainly to a large decline in one state. The median rainy day fund balance as a percentage of general fund spending is set to rise to an estimated 13.2 percent in fiscal 2024 and a projected 15.0 percent in fiscal 2025 based on governors’ recommended budgets. (See Figure 11.)

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, and to some extent in fiscal 2023 as well. By the end of fiscal 2023, total balances had reached $428.0 billion, more than 3.5 times their aggregate level in nominal dollars at the end of fiscal 2020 and representing 37.6 percent as a percentage of total general fund expenditures in fiscal 2023. By the end of fiscal 2023, total balances had reached $428.0 billion, more than 3.5 times their aggregate level in nominal dollars at the end of fiscal 2020 and representing 37.6 percent as a percentage of total general fund expenditures in fiscal 2023.

As states begin to draw down on their prior-year unanticipated surpluses in their general fund balances, total balances are on track to decline in fiscal 2024 and again in fiscal 2025. State actions to spend down these surplus general funds in their ending balances are to be expected and not considered a signal of fiscal stress. States commonly spend surplus funds on one-time investments, such as paying off debt, making supplemental pension payments, transfer payments to other state funds (e.g., a capital projects fund), refunds to taxpayers, or other uses. In governors' budgets for fiscal 2025, combined ending balances and rainy day funds are projected to total 23.2 percent as a percentage of proposed general fund spending, well exceeding the 14.0 percent aggregate level reached in fiscal 2019 before the pandemic. (See Figure 12.)

Stable Outlook and Slow Budget Growth Ahead for Most States

As states set their spending plans for fiscal 2025, the budget environment they are operating within resembles a “return to normal,” with less one-time surplus money to spend and fewer large swings in revenue forecasts. In this environment, states are weighing the allocation of limited resources towards competing priorities. Consistent with findings from the prior Fall 2023 Fiscal Survey edition, the data in this survey show slowing revenue and expenditure growth is expected to continue, along with more variation in fiscal conditions across states. This variance can be attributed to differences in tax structures, their most prevalent industries, demographic factors, spending and tax policy decisions, timing of one-time expenditures and revenues, and other factors. That said, states overall are in a sound fiscal position with stable revenue outlooks and rainy day funds at or near all-time highs.

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Endnotes