Summary: Fall 2023 Fiscal Survey of States

December 19, 2023

States Plan for Slower Budget Growth After Record Surpluses

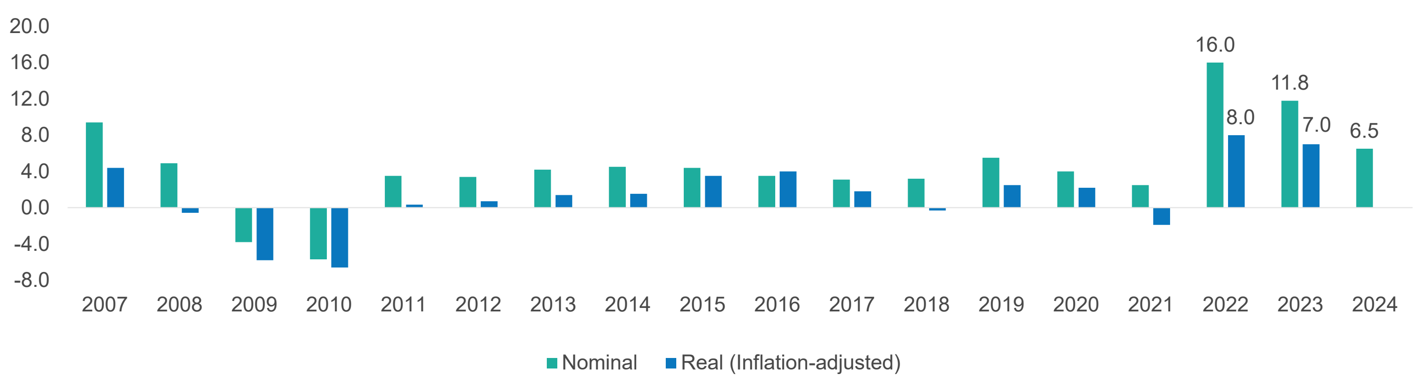
State general fund spending growth in fiscal 2024 is expected to moderate following two consecutive years of double-digit percentage increases. States' enacted budgets for fiscal 2024 provide for total general fund spending 6.5 percent above preliminary actual levels for fiscal 2023. This growth builds upon a 16.0 percent year-over-year spending increase in fiscal 2022 and an additional 11.8 percent bump in fiscal 2023, fueled by strong state tax collections and one-time expenditures from surplus funds. Adjusted for inflation, general fund spending grew 8.0 percent in fiscal 2022 and 7.0 percent in fiscal 2023.

On the revenue side, general fund collections slowed considerably in fiscal 2023, increasing 0.9 percent year-over-year, and are expected to record a decline of 1.8 percent in fiscal 2024 from a high baseline following two consecutive years of double-digit percentage growth in fiscal 2021 and fiscal 2022. The slower revenue growth in fiscal 2023 from the high baseline and decline forecasted for fiscal 2024 reflect the impact of recently enacted tax cuts (both one-time and recurring), a weaker stock market performance in calendar year 2022, slower growth in consumption, changing spending patterns, and lower inflation, among other factors.

Despite the slowdown in revenue growth in fiscal 2023, total state general fund collections exceeded their original revenue forecasts when budgets were enacted by 7.7 percent, with 46 states reporting preliminary actual receipts exceeded original estimates. Fiscal 2024 revenue performance has been a bit more mixed, though most states able to report indicated collections were either meeting or exceeding estimates for the fiscal year to date. Numerous factors are driving variation in revenue performance across states, including differences in tax structures, prevalent industries, demographic shifts, tax policy changes, and the timing of one-time revenues.

Figure 1.

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



Note: Fiscal 2023 figure is based on preliminary actual data; fiscal 2024 figure is based on states' enacted budgets.

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.

After three consecutive years of revenue surpluses for the vast majority of states, rainy day fund balances have grown considerably, with the median balance as a share of general fund spending reaching 12.3 percent as a percentage of general fund expenditures in fiscal 2023. Based on enacted budgets, most states expect further increases in fiscal 2024, with the median balance projected at 13.8 percent of general fund spending. In addition to rainy day funds, states' general fund balances have also seen tremendous growth in recent years. Despite states' plans to spend down some of their prior-year surplus funds, total balances are projected to represent 23.2 percent as a percentage of general fund spending at the end of fiscal 2024 – considerably larger than their pre-pandemic high. While the economy has shown continued resiliency and performed better than expected this year, potential downside risks to the current outlook remain. States' elevated balance levels, coupled with other steps states have taken to strengthen their fiscal position, leave them well-prepared to manage their budgets in the event of a downturn.

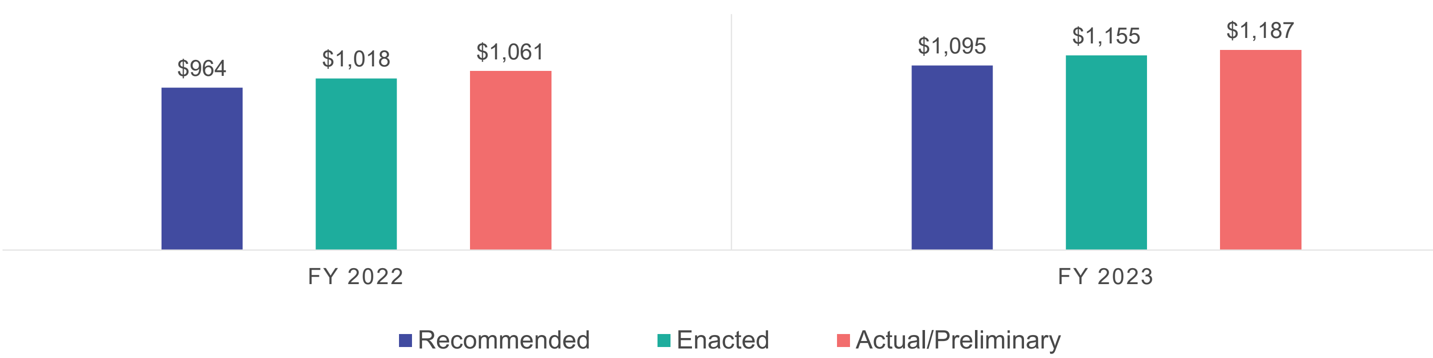
Slower Spending Growth Expected in Fiscal 2024 After Two Years of Double-Digit Percentage Increases

Enacted budgets for fiscal 2024 call for general fund spending totaling $1.26 trillion, which represents growth of 6.5 percent compared to preliminary actual 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. Thirty-four states are projecting year-over-year increases in general fund spending in their budgets for fiscal 2024. For more information on enacted budgets, including key spending initiatives by program area, see *Summaries of Fiscal Year 2024 Enacted Budgets*, available on NASBO's website.[1]

In fiscal 2023, state general fund spending totaled $1.19 trillion, representing annual growth in the aggregate of 11.8 percent. This increase followed 16.0 percent growth in fiscal 2022, the highest annual growth rate recorded in the *Fall Fiscal Survey* in more than 40 years. Higher inflation, spending on one-time investments from surplus funds, a shift towards greater reliance on general funds in place of expiring federal funds in certain areas, and a lower baseline in fiscal 2021 all contributed to spending growth in fiscal 2022 and fiscal 2023. Adjusted for inflation, general fund spending grew 8.0 percent in fiscal 2022 and 7.0 percent in fiscal 2023.[2] (See **Figure 1.**)

Figure 2.

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



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

The 11.8 percent general fund spending growth rate for fiscal 2023 is considerably higher than previously estimated based on states' enacted budgets reported in NASBO's *Fall 2022 Fiscal Survey*. 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 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

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, eight states reported use of this strategy in enacted budgets for fiscal 2024. Also in fiscal 2024 enacted budgets, six states used hiring freezes and/or eliminated vacant positions, 11 states reported using prior-year fund balances, and seven states reported using 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 their reserves. (See **Figure 3.**)

Regarding mid-year budget actions, states also reported on spending changes made in the middle of fiscal 2023 in quantitative terms. Overall, 21 states reported adopting net mid-year increases in general fund spending for fiscal 2023 while nine states reported decreases compared to their originally enacted budgets, resulting in a net mid-year increase of $7.9 billion. For the states that reported net mid-year increases in general fund spending, these included disaster relief appropriations; one-time investments supported by surplus funds, such as for economic development and capital projects; and other supplemental appropriations to address additional needs. Among the nine states reporting net mid-year cuts, only one state attributed these cuts to a revenue shortfall, while the others reported these reductions resulted from caseload adjustments, underspending in some areas, and other appropriations that were not needed. (See **Figure 4.**)

Widespread State Employee Pay Increases in Fiscal 2024, Reflecting a Tight Labor Market

Forty states, the District of Columbia (DC), Guam, and Puerto Rico reported adopting across-the-board (ATB) pay increases 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 continued to keep the number of states adopting across-the-board pay increases elevated. Additionally, 16 states, DC and Guam adopted at least some merit increases. Some states also adopted other modifications to employee compensation in fiscal 2024

Figure 3.

State Budget Management Strategies

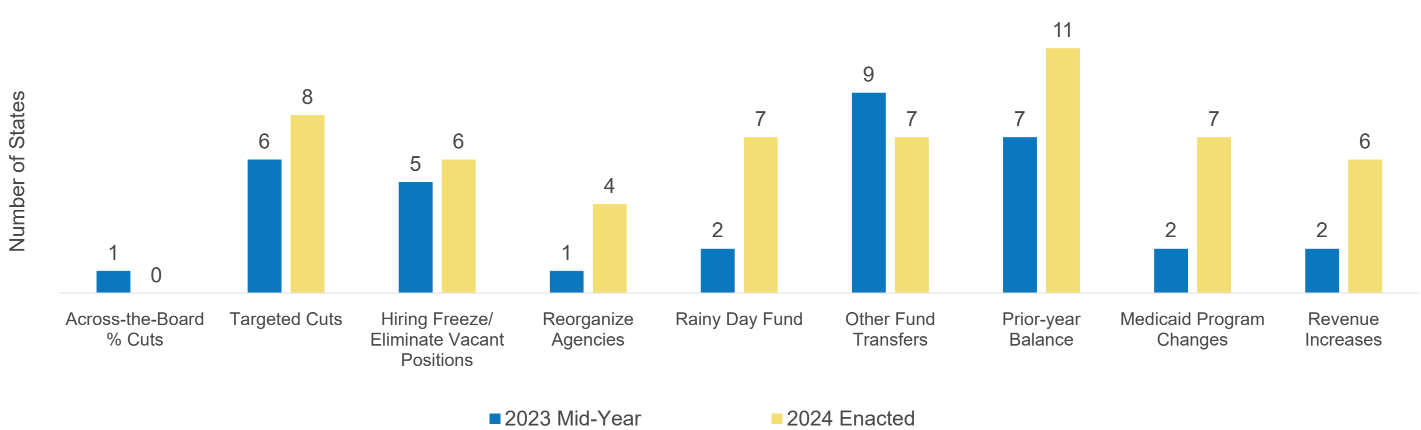
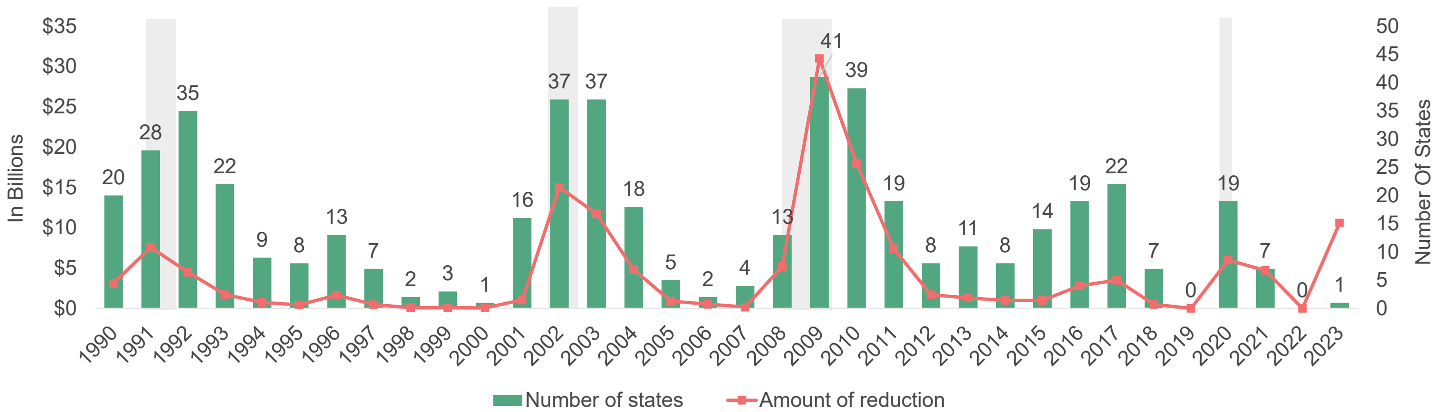


Figure 4.

Budget Cuts Made After The Budget Passed Due to a Revenue Shortfall



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.

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 12.0 percent, with a median pay raise of 5.0 percent. (See **Figure 5.**)

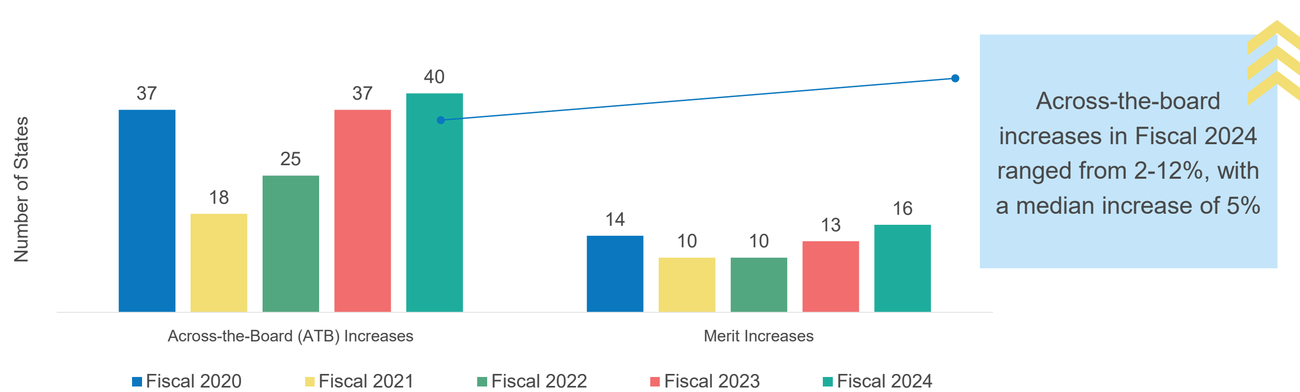
General Fund Revenue Growth Slows After Two Fastest Growing Years on Record

Enacted budgets for fiscal 2024 are based on general fund revenues totaling $1.18 trillion, which would represent a 1.8 percent decline compared to fiscal 2023 preliminary actual levels. This decrease reflects in part the impact of recently enacted tax reductions (including both one-time and ongoing changes) as well as lower forecasted corporate tax collections after multiple years of robust growth in that more volatile revenue source. Despite this decline, projected revenues for fiscal 2024 in the aggregate are still roughly 34 percent above fiscal 2019 (pre-pandemic) levels (without adjusting for inflation). This increase over five years was especially driven by the double-digit annual percentage growth recorded in fiscal 2021 and fiscal 2022.

States reported fiscal 2023 general fund revenue totaling $1.20 trillion. This marks a slight increase of 0.9 percent from a very

Figure 5.

State Employee Compensation Changes



high baseline following two consecutive years of double-digit percentage increases in revenue in fiscal 2021 and fiscal 2022. The lower growth rate in fiscal 2023 reflects in part the impact of recent tax cuts (both one-time and recurring), a weaker stock market performance in calendar year 2022, slower growth in consumption and changing spending patterns, and lower inflation.

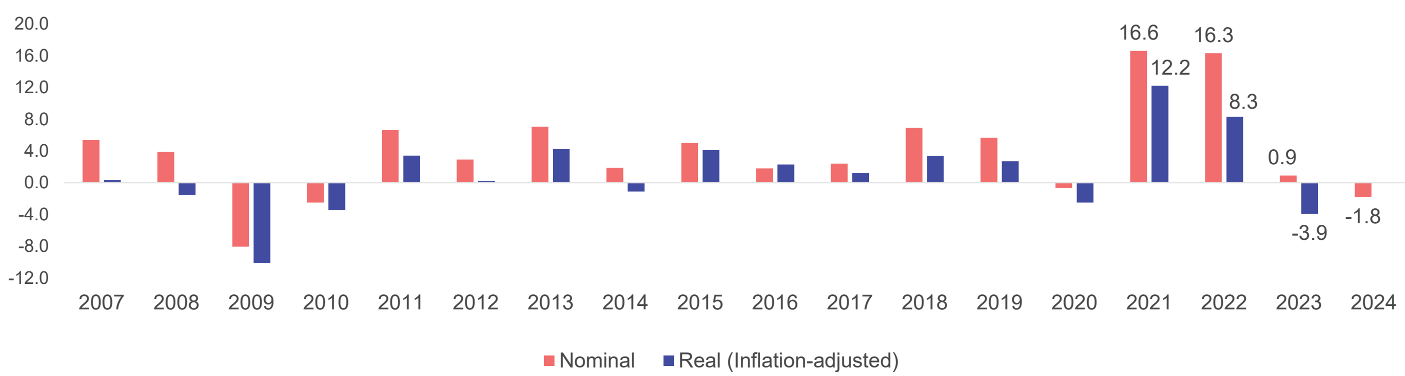
States reported fiscal 2022 general fund revenues totaling $1.19 trillion, representing a 16.3 percent year-over-year increase. This marks the second consecutive year of double-digit percentage growth in revenues, after general fund collections grew 16.6 percent in fiscal 2021 year-over-year. The annual 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 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 also contributed to revenue growth in fiscal 2022. The effect of inflation on both consumer prices and wages also contributed to revenue growth; adjusted for inflation, general fund revenues grew 8.3 percent in fiscal 2022. (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. Sales and use tax collections grew 13.8 percent year-over-year in fiscal 2022 and also came in well ahead of forecast due to pent-up consumer demand, strong economic growth, and the impact of high inflation on prices. In fiscal 2023, sales tax collections grew an additional 5.3 percent from this high baseline, as consumption grew at a slower rate and consumer behavior shifted towards spending more on services rather than goods. Meanwhile, personal income tax collections grew 14.3 percent in fiscal 2022 following already strong growth in fiscal 2021, driven primarily by employment growth, wage increases, and a strong stock market performance in calendar year 2021. For fiscal 2023, personal income taxes declined 5.3 percent, which is partially attributable to the high baseline in fiscal 2022 that involved certain one-time factors, a weaker stock market performance, and the impact of both recurring and one-time tax policy changes. Bolstered by higher corporate profits, corporate income taxes saw tremendous growth in fiscal 2022 for a second consecutive year, increasing 45.4 percent, followed by a further increase of another 5.1 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 12.1 percent in fiscal 2022 and 6.0 percent in fiscal 2023.

Compared to fiscal 2023 preliminary actuals, fiscal 2024 revenue forecasts in states' enacted budgets expect a 1.3 percent increase in sales and use taxes, a 2.3 percent decrease in personal income taxes, an 8.0 percent decrease in corporate income taxes, and a 2.7 percent decrease in all other general fund revenue. (See **Figure 7.**)

Figure 6.

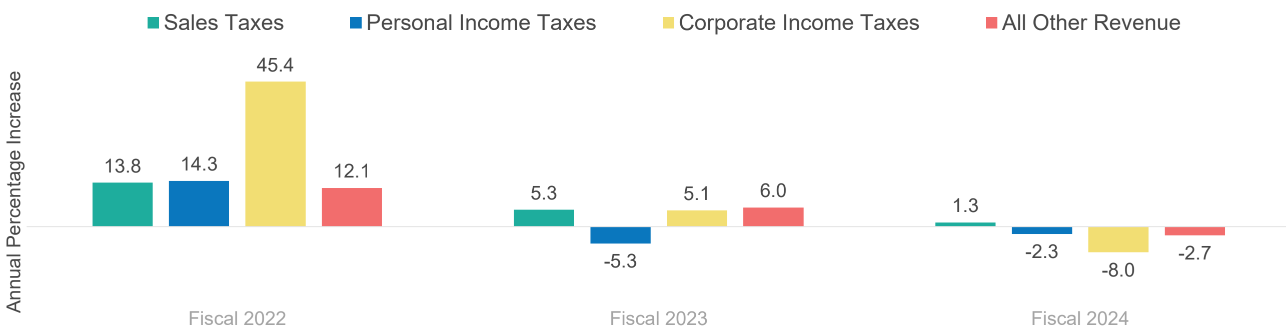
Annual General Fund Revenue Changes, Fiscal 2007 To Fiscal 2024 (Percentage Change)



Note: Fiscal 2023 figure is preliminary actual and fiscal 2024 figure is projected based on states' enacted budgets.

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 28.4%, corporate income taxes 10.3%, and all other revenue 16.1%.

Vast Majority of States Recorded Revenue Surplus for Third Consecutive Year in Fiscal 2023

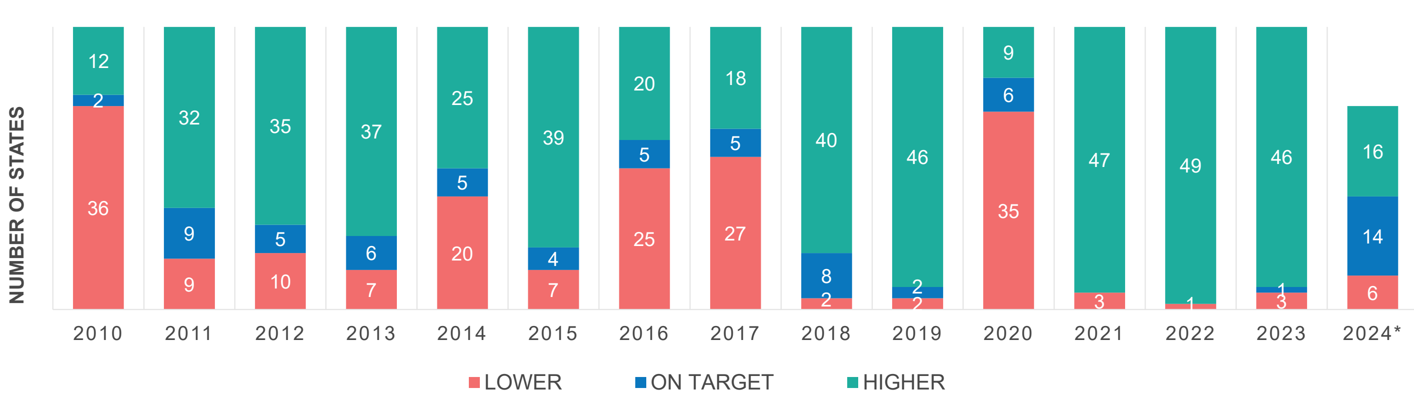
Despite slower year-over-year growth, fiscal 2023 general fund revenue collections came in 7.7 percent ahead of original revenue forecasts used in enacted budgets for fiscal 2023. Forty-six states reported general fund receipts exceeded their original revenue estimates. Among the states able to report at the time of data collection, general fund revenues for fiscal 2024 were exceeding original forecasts at the time of budget enactment for 16 states, on target in 14 states, and below forecast in six states. (See **Figure 8.**)

Upward Trend for Revenue Forecasts Over Time

Throughout much of the COVID-19 pandemic and its aftermath, state revenues outperformed forecasts, a trend that is evident in NASBO's *Fiscal Survey of States* in recent years. After forecasted revenues for fiscal 2021 dropped significantly early in the pandemic, estimates were subsequently revised upward and actual general fund revenue collections reported in NASBO's *Fall 2022 Fiscal Survey* were up 22 percent compared to estimates reported in the *Fall 2020 Fiscal Survey* two years prior. Fiscal 2022 followed a similar trajectory, with actual revenues reported in this fall's Fiscal Survey again up roughly 22 percent compared to enacted estimates reported in the *Fall 2021 Fiscal Survey*

Figure 8.

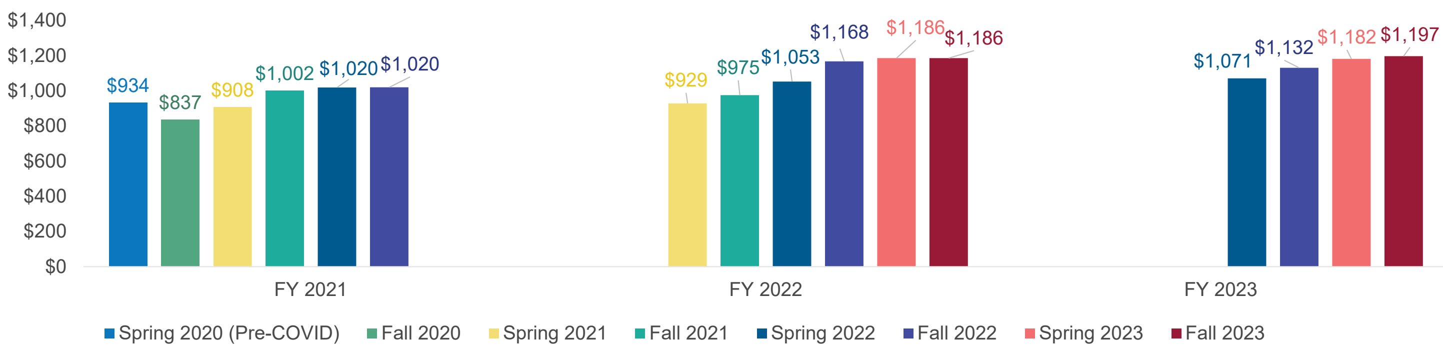
General Fund Revenue Collections Compared To Original Revenue Projections (By Fiscal Year)



**Fiscal 2024 figures were reported early in the fiscal year and are subject to change; not all states were able to report for fiscal 2024 at the time of data collection.*

Figure 9.

General Fund Revenue Estimates/Actuals 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.

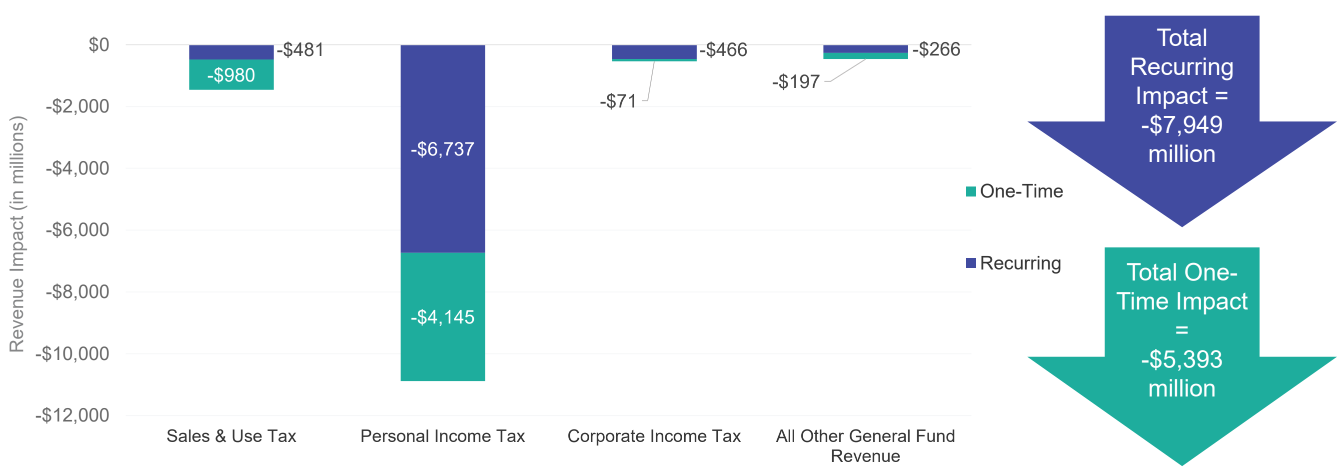
(and up nearly 28 percent compared to the estimates for fiscal 2022 reported in the Spring 2021 Fiscal Survey, based mainly on governors' proposed budgets). While the variance between original estimates and actuals narrowed in fiscal 2023, states in the main experienced a similar upward trajectory in revenue estimates, with preliminary actual collections for fiscal 2023 reported in this survey up roughly 6 percent compared to total revenues reported in the Fall 2022 Fiscal Survey (and up 12 percent compared to revenues reported in the Spring 2022 Fiscal Survey). Numerous factors have contributed to collections consistently exceeding forecasts in recent years, including the role federal aid played in propping up the economy, the impact of newly adopted state laws requiring online sales tax collection coming into the pandemic, higher-income earners being relatively insulated from the pandemic's economic effects, strong wage growth – driven by the impact of inflation and a tight labor market. (See **Figure 9.**)

37 States Adopt Net Tax Decreases in Fiscal 2024, Led by Personal Income Tax Cuts

Thirty-seven states enacted net decreases in general fund revenue for fiscal 2024, while net increases were adopted in three states, resulting in a projected net impact on general fund revenue of -$13.3 billion. Measured as a share of general fund revenue, the impact of these enacted changes is equivalent to roughly 1.1 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

Figure 10.

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



scope of tax reductions adopted by states in their fiscal 2024 budgets reflect continued strong fiscal conditions. A significant portion of the estimated fiscal 2024 revenue impact of enacted changes reported in this survey (-$5.4 billion) is attributable to one-time or temporary revenue actions. This means that the recurring revenue impacts of enacted changes in this survey total an estimated -$7.9 billion in fiscal 2024. Enacted changes to personal income taxes accounted for most of the net revenue impact estimated (-$10.9 billion), which includes a combination of one-time and recurring changes. (See **Figure 10.**) States also adopted additional tax changes in this survey reduced general fund revenue for fiscal 2023 by an estimated $3.8 billion, after states already enacted reductions last year that were set to reduce fiscal 2023 general fund revenue by an estimated $15.5 billion.

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

Recent balance trends and current reserve 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 $167.3 billion, as states deposited a portion of their revenue surpluses into these reserve funds. While total rainy day fund balances in nominal dollars declined slightly in fiscal 2023 and is projected to decrease again in fiscal 2024 enacted budgets, these declines are mainly attributable to fluctuations in one large state's operating reserve. The median rainy day fund balance, on the other hand, continues to rise.

In fiscal 2023, 41 states reported further increases to their rainy day funds, and the median rainy day fund balance as a percentage of general fund spending rose from 10.8 percent in fiscal 2022 to 12.3 percent in fiscal 2023, and is projected to reach 13.8 percent in fiscal 2024 based on states' enacted budgets. These high rainy day fund levels, coupled with other recent steps states have taken to strengthen their fiscal position, leave states well-prepared to manage their budgets in the event of a downturn. (See **Figure 11.**)

After Tremendous Growth, Total Balances Set 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. At the end of fiscal 2022, total balances reached $402.1 billion, more than 3.5 times their aggregate level in nominal dollars at the end of fiscal 2020, and represented 37.9 percent as a percentage of total general fund expenditures. With the vast majority of states recording revenue surpluses for a third consecutive year in fiscal 2023, total balances ticked up to $406.9 billion, even as states spent down some of their prior-year surpluses during the year. With many states planning to spend a portion of their ending balances and with more "normal" fiscal conditions anticipated this year, total balances are projected to decline in fiscal 2024 budgets. That said, combined ending balances and rainy day funds are still

Figure 11.

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

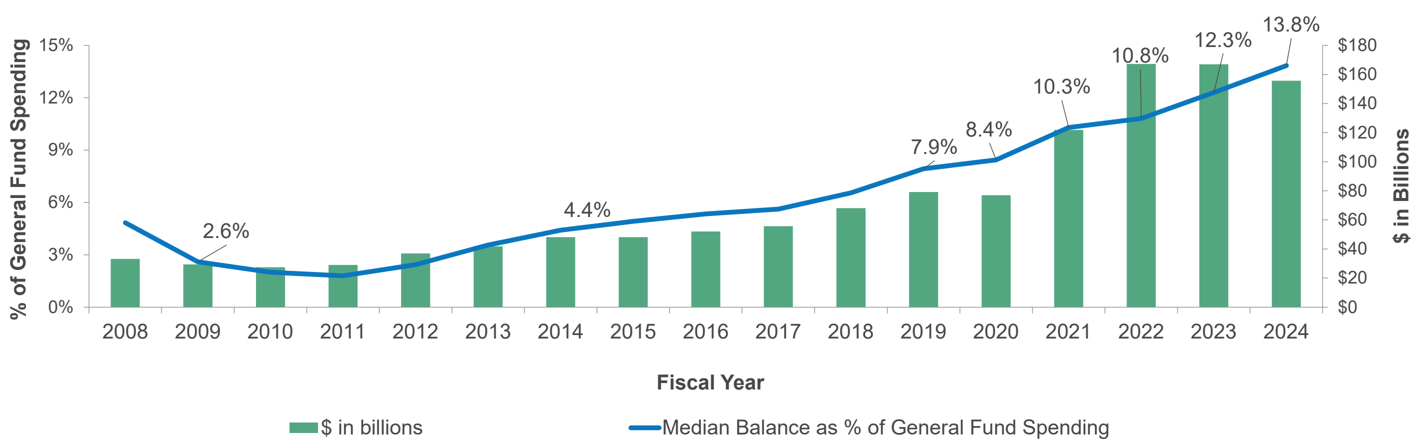
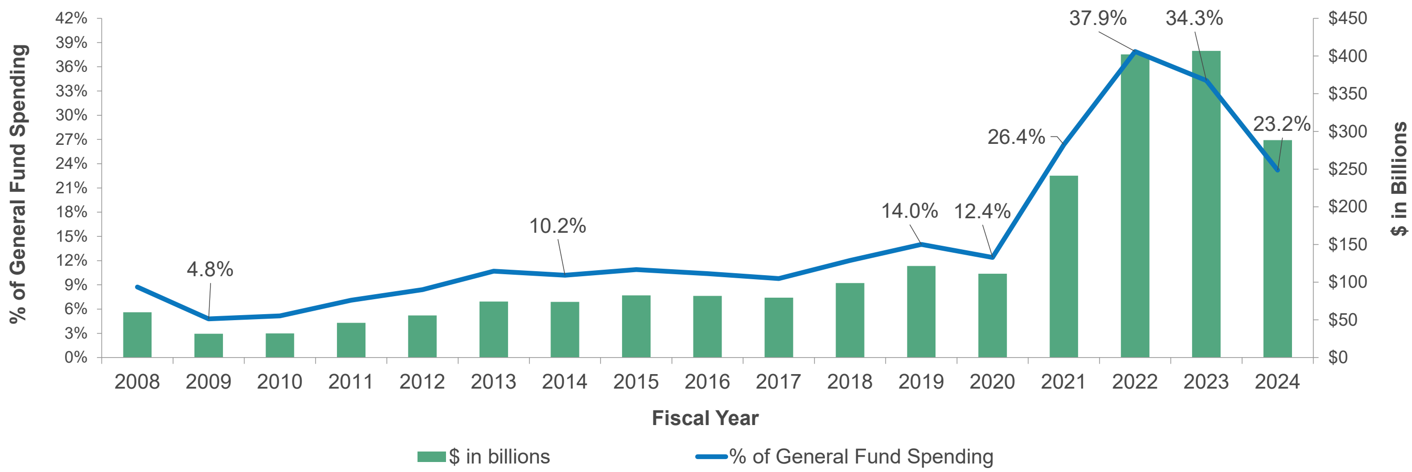


Figure 12.

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



expected to total 23.2 percent as a percentage of general fund expenditures, considerably above their pre-COVID-19 high in fiscal 2019 and roughly double their level going into the Great Recession. (See **Figure 12.**)

Stable Outlook for States and a Return to More "Normal" Budget Conditions

As this survey is released, most states are preparing governors' budget recommendations for fiscal 2025 ahead of 2024 legislative sessions. After extraordinary revenue growth in fiscal 2021 and fiscal 2022, a third consecutive year of widespread revenue surpluses in fiscal 2023, and multiple years marked by an uptick in one-time expenditures supported with these surplus funds, most states are expecting a return to more "normal" fiscal conditions in this next budget cycle and the need to weigh the allocation of limited resources towards competing priorities. The data in this survey indicate slowing revenue and expenditure growth overall in fiscal 2024, along with more variation in fiscal conditions across states, driven by differences in tax structures, industries, demographics, tax policy changes, and the timing of one-time revenues. Many states' enacted revenue forecasts for fiscal 2024 reported in this survey were developed in spring 2023 and assumed a mild recession scenario, which economists have since deemed less probable. That said, potential downside risks to the current outlook remain. With their all-time high rainy day fund balances and strong total balances, coupled with other recent steps to strengthen their fiscal resiliency, states are well-positioned to manage their budgets through uncertainty and a possible downturn.

Endnotes

[1] National Association of State Budget Officers, Summaries of Fiscal Year 2024 Enacted Budgets (October 11, 2023), available at https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Issue%20Briefs%20/Summaries_of_Fiscal_Year_2024_Enacted_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 November 29, 2023), is used for inflation adjustments. Quarterly averages are used to calculate fiscal year inflation rates.

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