

Summary: Fall 2022 Fiscal Survey of States

December 16, 2022

Growth in State Budgets and Reserves Remain Strong After Two Years of Record-Breaking Increases and Surpluses

State fiscal conditions remain strong in fiscal 2023, following record-breaking increases in general fund revenue in fiscal 2021 and spending in fiscal 2022. Enacted budgets for fiscal 2023 provide for a 6.7 percent increase in general fund spending compared to preliminary actual levels for fiscal 2022. This follows 18.3 percent spending growth in fiscal 2022, the highest annual spending increase ever recorded in the *Fiscal Survey of States* since its inception in 1979. Adjusted for inflation, general fund spending grew 9.6 percent in fiscal 2022.

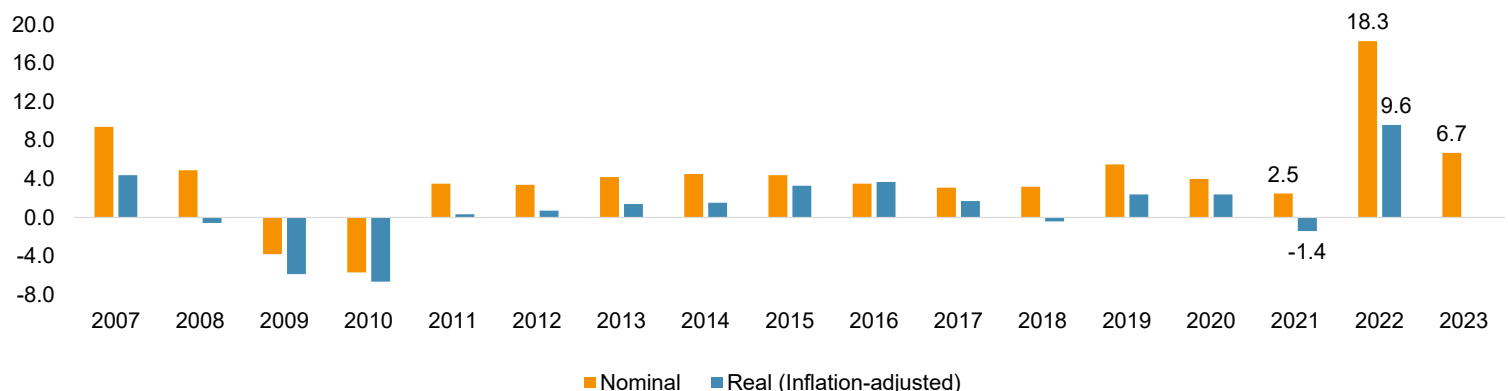
States saw two consecutive years of double-digit percentage revenue growth and collections far exceeding budget forecasts in fiscal 2021 and fiscal 2022. States experienced annual general fund revenue growth of 16.6 percent in fiscal 2021, the highest

annual revenue increase in the history of the Fiscal Survey, followed by 14.5 percent in fiscal 2022. Adjusted for inflation, general fund revenue grew 12.7 percent in fiscal 2021 and 5.8 percent in fiscal 2022.

Revenue projections in enacted budgets for fiscal 2023 are 3.1 percent lower than preliminary actual collections for fiscal 2022. However, this decline is largely attributable to differences in timing of fiscal 2022 figures and fiscal 2023 estimates. More recent collections data for fiscal 2023 suggest that general fund revenues will continue to grow year-over-year, albeit at a slower rate compared to the rapid growth observed the past two years. Thirty-three states already reported revenues exceeding original budget forecasts for fiscal 2023 in this survey.

Rainy day funds reached new heights in fiscal 2022, after already growing 58 percent in fiscal 2021, and are projected to increase further in fiscal 2023. Total balances (including general fund ending balances plus the amounts in states' rainy day funds) have seen tremendous growth over the past two

Figure 1. Annual General Fund Spending Changes, Fiscal 2007 To Fiscal 2023 (Percentage Change)



Note: Fiscal 2023 figure is based on states' enacted budgets.

years, roughly tripling in size from fiscal 2020 to fiscal 2022. According to enacted budgets, states plan to spend down some of these prior-year balances in fiscal 2023, 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.

Spending Continues to Grow in Fiscal 2023 Budgets Following Largest Ever Increase in Fiscal 2022

Enacted budgets call for general fund spending totaling \$1.16 trillion in fiscal 2023, a 6.7 percent increase over preliminary actual spending levels for fiscal 2022. This increase follows rapid spending growth in fiscal 2022, when general fund spending increased 18.3 percent – the highest growth rate ever recorded in the *Fiscal Survey of States*. Overall, 40 states are projecting general fund spending increases in fiscal 2023, while 10 states are forecasting declines. Fiscal 2023 budgets that states reported on in this survey were enacted as early as spring 2021 for some biennial states and as late as summer 2022. Upward revisions to revenue forecasts since budget enactment may increase spending levels for fiscal 2023.

Based on preliminary actual data (as well as estimates for some states), general fund spending totaled \$1.08 trillion in fiscal 2022, an 18.3 percent increase over fiscal 2021 levels. This steep increase is driven by a number of factors, including the high rate of inflation; states spending down surplus funds from fiscal 2021 (and fiscal 2022) on one-time investments; a shift from

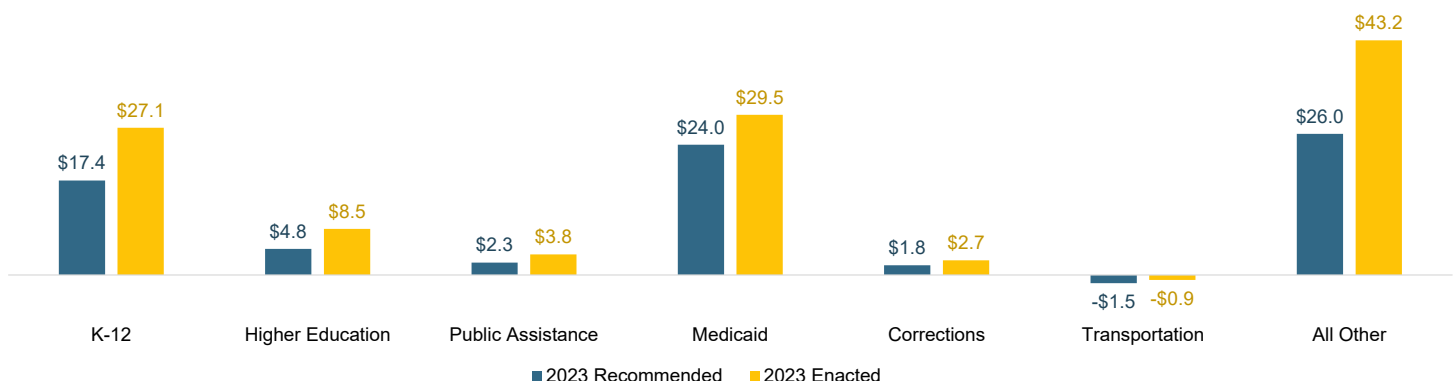
a reliance on federal funds to general funds in certain areas; a lower baseline in fiscal 2021, when some states made budget cuts in anticipation of revenue shortfalls; and the inclusion of federal COVID-19 funds in expenditure amounts for a few states. Adjusted for inflation, general fund spending in fiscal 2022 grew 9.6 percent.¹ (See **Figure 1.**)

Enacted Budgets for Fiscal 2023 Call for Significant Increases in Nearly All Program Areas

Enacted budgets for fiscal 2023 provided for \$113.9 billion in additional general fund appropriations compared to enacted levels in fiscal 2022. This is greater than the already sizeable increases projected in governors' proposed budgets for fiscal 2023, as reported on in NASBO's *Spring 2022 Fiscal Survey*. Similar to what transpired last year, enacted budgets for fiscal 2023 ended up being considerably larger than what governors proposed, thanks to upward revisions in revenue projections. (See **Figure 2.**)

All program areas would see substantial net increases in general fund appropriations according to enacted budgets for fiscal 2023 except transportation, a program area that is primarily funded by special fund sources outside of the general fund. The "all other" category received the largest net increase, followed by Medicaid and then K-12 education as the second and third largest recipients of new funds, respectively. Some states provided further detail on enacted appropriation changes in the "all other" category, including both recurring and nonrecurring

Figure 2.
General Fund Appropriation Changes By Program Area (In Billions)*



*Fiscal 2023 recommended and enacted spending changes are compared to enacted appropriation levels for fiscal 2022.

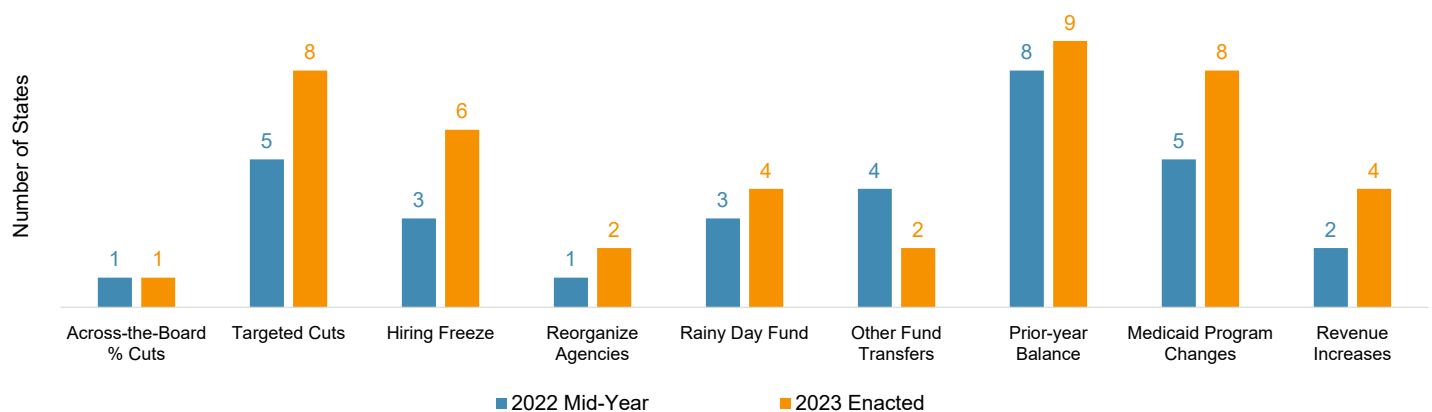
investments in areas such as disaster response, housing and homelessness, public health and human services, environmental protection, economic development, and information technology. Other one-time expenditures reported in this category and supported largely with surplus funds include supplemental pension payments, deposits to rainy day funds, paying down debt, and capital construction projects.

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 fiscal 2023 enacted budgets, only eight states reported making targeted spending cuts and one state reported making across-the-board cuts. The use of personnel actions was minimal as well in fiscal 2023, with six states continuing or implementing hiring freezes and none imposing furloughs. Similarly low use of various budget balancing tools was reported for the middle of fiscal 2022 as well. Nine states reported using prior-year fund balances in fiscal 2023 enacted budgets, after eight states reported doing so in the middle of fiscal 2022. (See **Figure 3.**)

Figure 3.
State Budget Management Strategies



Regarding mid-year budget actions, states also reported on spending changes considered or adopted in the middle of fiscal 2022 in quantitative terms. Overall, 27 states reported net mid-year increases in general fund spending for fiscal 2022, while five states reported decreases compared to their enacted budgets. Among the five states that reported net mid-year cuts, none reported these cuts were made in response to a revenue shortfall. Rather, states with decreases reported the reductions were attributed to lower spending needs or in areas where federal assistance was able to be used in place of general funds. For the states that reported net mid-year increases in general fund spending, these included supplemental appropriations for fiscal 2022 to address additional spending needs as well as one-time expenditures using surplus funds for capital construction, paying off debt, rainy day fund deposits, and supplemental pension payments.

States Increase Employee Compensation to Compete in a Tight Labor Market

This survey also found states are actively increasing employee compensation in response to a tight labor market, high inflation, and strong revenue performance in the states recently. Thirty-seven states reported adopting across-the-board salary increases for at least some employee categories in fiscal 2023, a much larger number of states compared to the past couple of years and the same number that reported doing so in fiscal 2020, before the onset of the COVID-19 crisis. Before fiscal 2020, the number of states reporting across-the-board pay increases had not been that high since fiscal 2007 (prior to the

Great Recession). In fiscal 2023, across-the-board percentage increases ranged from 1.0 percent to 10.0 percent, with a median increase of 3.0 percent. In addition to across-the-board increases, some states also adopted merit increases and other modifications, including one-time bonuses, longevity payments, and targeted salary increases. (See **Figure 4.**)

49 States Report Collections Exceeded Budget Projections in Fiscal 2022

General fund collections for fiscal 2022 from all revenue sources exceeded original projections used to adopt budgets in 49 out of 50 states, according to preliminary actual data. This marked the second consecutive year when virtually all states saw tax collections outperform budget forecasts. In the aggregate, fiscal 2022 general fund collections exceeding original forecasts by an extraordinary 20.5 percent. Additionally, 33 states reported collections were coming in above their original projections for fiscal 2023 at the time of survey completion, while seven states said they were on target, one state was lower, and the remaining states were unable to report so early in the fiscal year. (See **Figure 5.**)

Revenues Expected to Continue Growing Following Rapid Growth in Revenue Collections in Fiscal 2021 and Fiscal 2022

Enacted budgets for fiscal 2023 are based on general fund revenues totaling \$1.13 trillion. While this would represent a 3.1 percent decline compared to fiscal 2022 levels, more recent collections data suggest that revenues will continue to grow

year-over-year. The decline is due primarily to differences in timing of fiscal 2022 collections data and fiscal 2023 estimates. Most states reported preliminary actual figures for fiscal 2022, which came in higher than was estimated when states put together their forecasts used to adopt budgets for fiscal 2023. Based on more current revenue collection data, it is expected that general fund revenues will continue to grow in fiscal 2023, albeit at a slower rate compared to the rapid growth observed for two consecutive years in fiscal 2021 and fiscal 2022. Among 14 states able to report more current projections for fiscal 2023, all reported upward revisions compared to the estimates used in enacted budgets. Moreover as mentioned previously, 33 states (out of 41 reporting) indicated that collections were coming in ahead of original forecasts.

States reported in this survey fiscal 2022 general fund revenue totaled \$1.17 trillion, representing a 14.5 percent increase compared to fiscal 2021 levels. This marked the second consecutive year that states experienced double-digit percentage growth in general fund revenues. States reported fiscal 2021 general fund revenues totaling \$1.02 trillion, representing a sharp 16.6 percent increase over fiscal 2020 actual collections – the highest annual growth rate ever recorded in the *Fiscal Survey of States*. Recent employment growth, the economic impacts of federal stimulus, elevated consumer demand, higher business profits, and a strong stock market performance in 2020 and 2021 all likely contributed to revenue gains in fiscal 2021 and fiscal 2022. The impacts of inflation on both consumer prices and wages also contributed to revenue growth, especially in fiscal 2022. It should be noted

Figure 4.
State Employee Compensation Changes

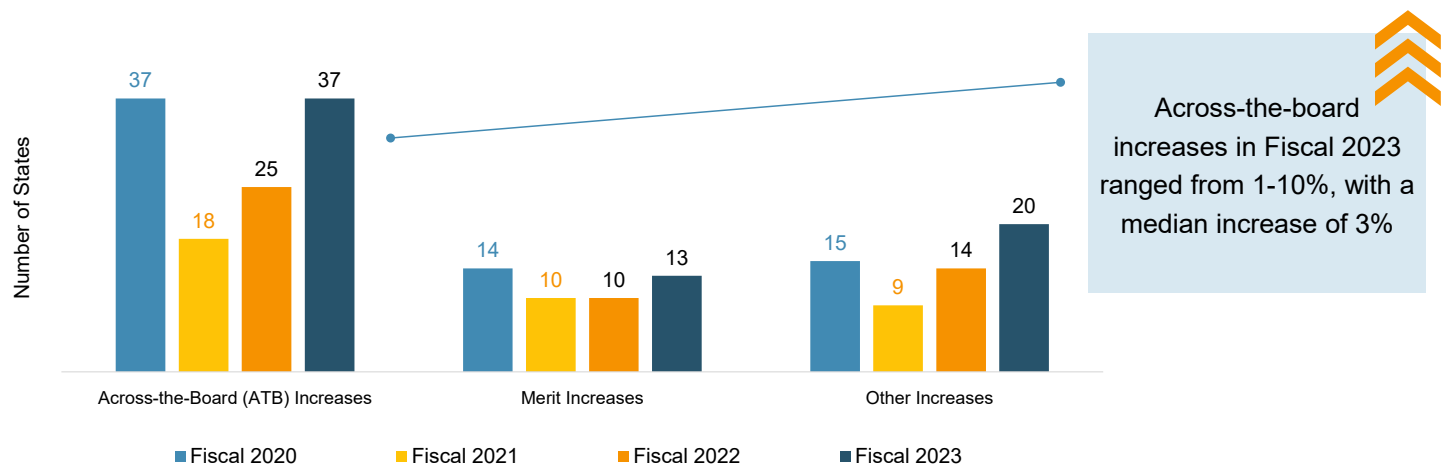
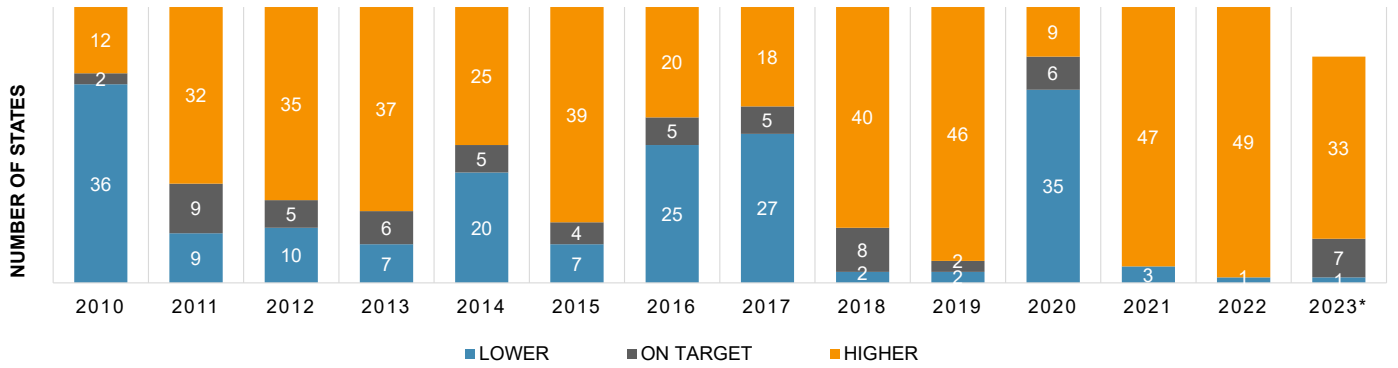


Figure 5.

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



*Fiscal 2023 is ongoing; figures are subject to change, and not all states were able to report this early in the fiscal year.

at least a few states included federal COVID-19 relief funds deposited into their general funds in their reported fiscal 2022 revenue amounts. Adjusted for inflation, general fund revenues grew 12.7 percent in fiscal 2021 and 5.8 percent in fiscal 2022. (See **Figure 6.**)

The three largest sources of general fund revenue – sales taxes, personal income taxes and corporate income taxes – all saw robust growth in fiscal 2021 and fiscal 2022. On a percentage basis, corporate income taxes, which tend to be a more volatile revenue source, saw the steepest increases in both years. Personal income taxes saw the next steepest increase in fiscal 2021, thanks in part to the shift in the tax deadline in calendar year 2020 that led some states to recognize some revenue in fiscal 2021 instead of fiscal 2020. Sales taxes saw the second steepest increase in fiscal 2022 due to strong consumer spending and the impacts of inflation on sales prices. “All other”

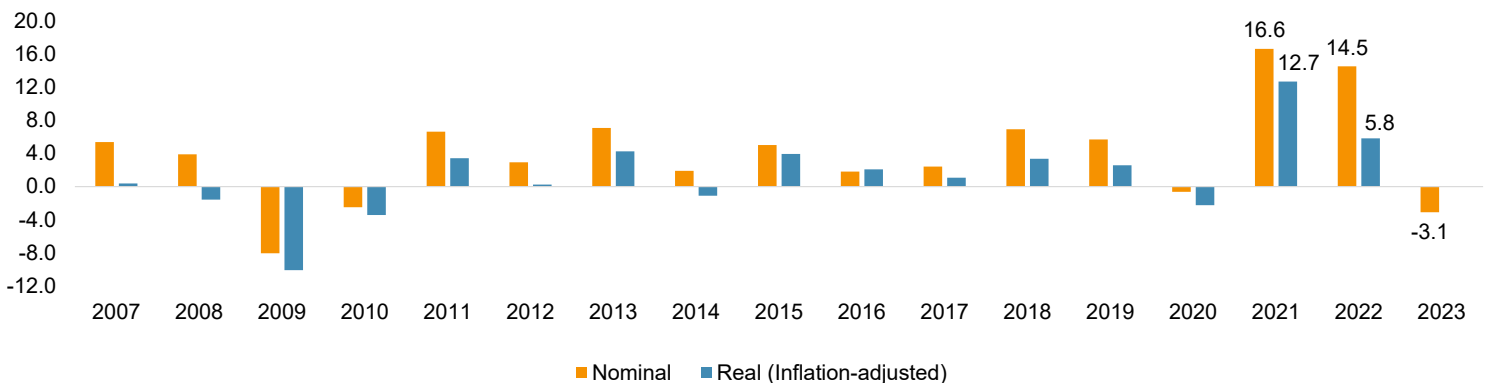
revenue, which is comprised of many different sources including cigarette taxes, severance taxes, insurance taxes, fees, transfers in/out of other state fund sources, and certain federal revenues deposited into the general fund for some states, also saw steep increases in both years. This was likely partly driven by rising gas prices that boosted severance tax collections, as well as one-time fund transfers (including federal funds in some cases) recorded in this category. (See **Figure 7.**)

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

Figure 6.

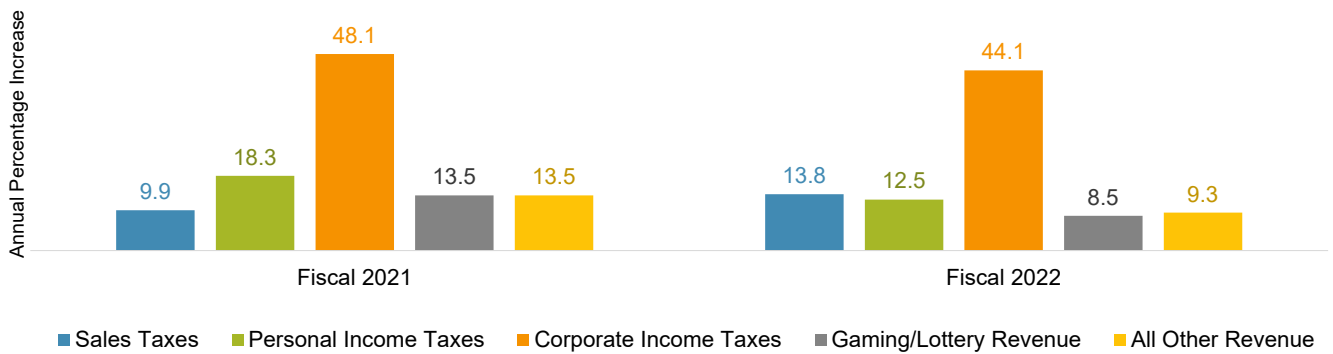
Annual General Fund Revenue Changes, Fiscal 2007 To Fiscal 2023 (Percentage Change)



Note: Fiscal 2023 figure is based on states' enacted budget forecasts. More recent collections data suggest that revenue will continue to grow year-over-year in fiscal 2023.

Figure 7.

Annual Percentage Increase by General Fund Revenue Type



Note: In fiscal 2022, personal income taxes made up 45.0% of general fund revenue, sales taxes 28.5%, corporate income taxes 10.3%, gaming/lottery revenue 0.9%, and all other revenue 15.3%.

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. Two years ago, state revenue estimates reported in the *Fall 2020 Fiscal Survey* predicted that general fund revenue would record an annual decline of 3.5 percent in fiscal 2021. Meanwhile, in this survey, states reported final actual collections for fiscal 2021 increased 16.5 percent over prior-year levels. Most states saw general fund collections come in above their pre-COVID forecasts for fiscal 2021 as well. Similarly, fiscal

2022 revenue collections greatly exceeded expectations when governors’ originally proposed their budgets (as reported in the *Spring 2021 Fiscal Survey*) as well as when states adopted their budgets (reported in the *Fall 2021 Fiscal Survey*). So far, fiscal 2023 revenue estimates are also following an upward trajectory compared to when they were first reported in this survey in the *Spring 2022* edition, and early data suggests this trend will continue. (See **Figure 8**.)

31 States Adopted Tax Cuts in Fiscal 2023

Thirty-one states enacted net decreases in taxes and fees for fiscal 2023, while just five adopted net increases, resulting in a projected net revenue decline of \$16.2 billion for all state funds. Looking only at the impact on general fund revenue, these changes are estimated to reduce revenue on net by \$15.5 billion, representing 1.4 percent of forecasted general fund revenues in fiscal 2023 governors’ budgets. This reduction in

Figure 8.

General Fund Revenue Estimates By Fiscal Year in Different Fiscal Survey Editions (\$ in Billions)²

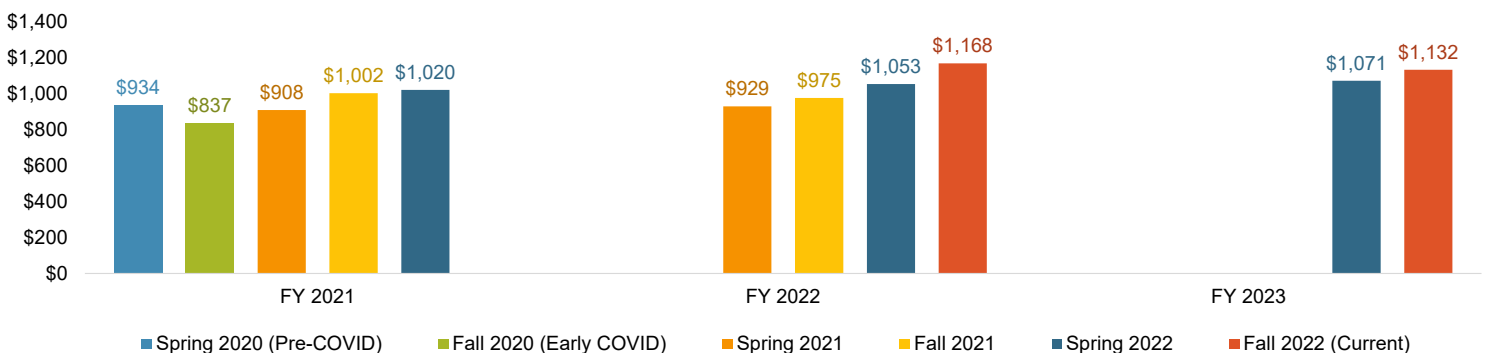











Figure 9.

Summary of Enacted State Revenue Changes, Fiscal 2023

Revenue Type	 Sales Tax	 Personal Income Tax	 Corporate Income Tax	 Cigarette/ Tobacco Tax	 Motor Fuel Tax	 Alcohol Tax	 Gaming/ Lottery Revenue	 Other Tax	 Fees	All Revenue Changes
# of States Enacting Increases	3	2	3	1	0	0	1	6	5	5
# of States Enacting Decreases	19	26	16	2	3	0	1	15	4	31
Net Change (\$ in Millions)	-\$1,621	-\$8,346	-\$4,021	+\$27	-\$1,147	\$0	-\$3	-\$1,218	+\$91	-\$16,237
Net Change – General Fund Only (\$ in Millions)	-\$1,600	-\$8,319	-\$3,989	-\$5.5	-\$650	\$0	-\$10	-\$929	-\$27	-\$15,528

revenues from enacted tax changes marks the largest net tax cut on record in the history of the *Fiscal Survey*, measured in nominal dollars. Measured as a share of general fund revenue, the percentage decrease would be similar to the reductions recorded in the late 1990s and fiscal years 2000-2001. (See **Figure 9.**)

The scale and scope of tax reductions enacted by states for fiscal 2023 reflect strong fiscal conditions and recent surpluses. Enacted tax reductions ranged from targeted, one-time tax relief measures to permanent, broad-based rate reductions – often phased-in over a series of years.

State Balance Levels Reached New All-Time Highs in 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. In fiscal 2021, state rainy day fund balances reached a then new high of \$121.8 billion, a 58 percent increase over fiscal 2020 levels. This steep increase in reserves was largely the result of stronger than anticipated revenue growth in fiscal 2021 that led to large surpluses and additional rainy day fund deposits in many states. Rainy day funds continued growing in fiscal 2022 to total \$134.5

Figure 10.

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

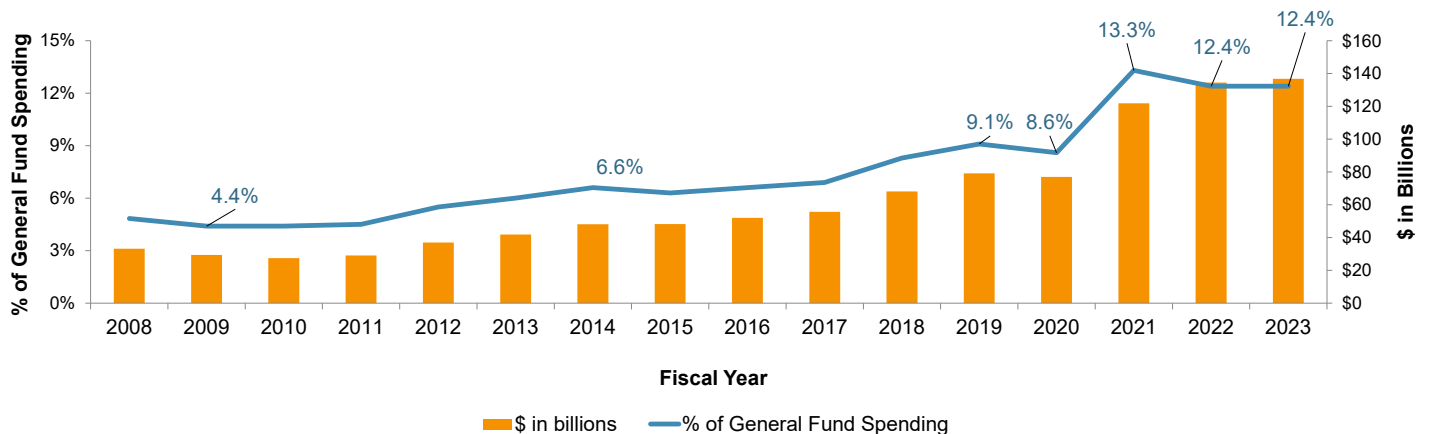
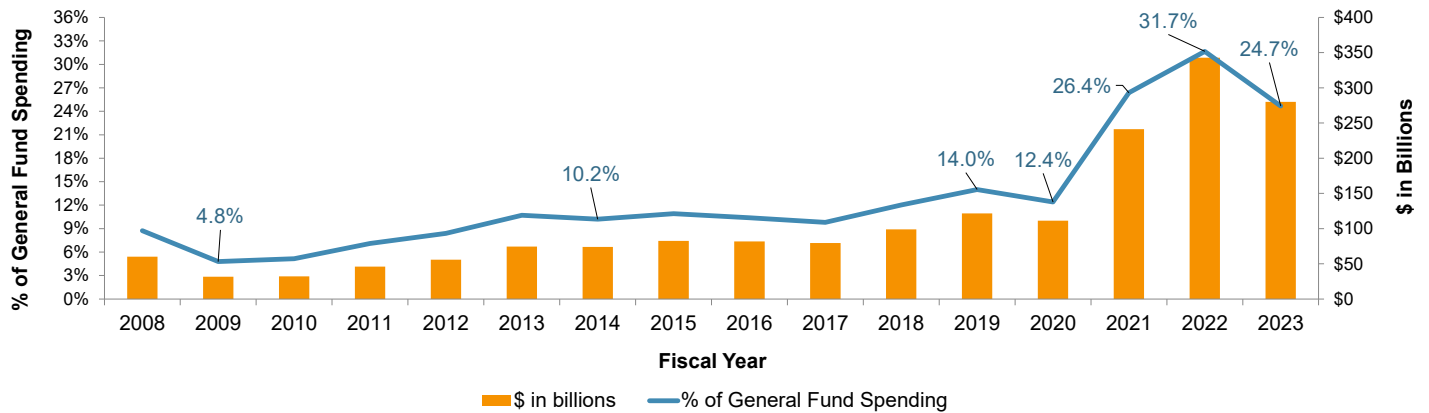


Figure 11.

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



billion, another all-time high; this growth was widespread, with 43 states recording year-over-year increases. According to enacted budgets, a majority of states plan to continue increasing their rainy day funds in fiscal 2023. As a share of general fund spending, total rainy day fund balances reached 13.3 percent in fiscal 2021 and dropped slightly to 12.4 percent in fiscal 2022 due to the significant increase in expenditures that year. (See **Figure 10.**) The median rainy day fund balance as a share of general fund spending was 10.3 percent in fiscal 2021 and 11.6 percent in fiscal 2022, and is expected to tick up slightly to 11.9 percent in fiscal 2023. While reserve levels continue to vary by state, 44 states reported rainy day fund balances representing at least 5 percent of their general fund expenditures in fiscal 2022 – including 30 states with balances exceeding 10 percent of spending.

Total balances include general fund ending balances and the amounts in states’ budget stabilization or rainy day funds. In fiscal 2021, total balances more than doubled to reach a then new high of \$241.3 billion, equivalent to 26.4 percent of total general fund spending that year. The median balance was even higher, at 27.1 percent, for fiscal 2021. This rapid growth in state balance levels was driven mostly by revenues beating state forecasts – by a considerable margin in many cases. Based primarily on preliminary actual data, state total balance levels continued to grow rapidly in fiscal 2022 from an already high baseline, reaching \$342.9 billion, or 31.7 percent as a percentage of general fund spending. In states’ enacted budgets for fiscal 2023, total balance levels are expected to decline; this likely reflects states’ plans to spend down a portion

of their larger-than-expected ending balances from the prior year, including for one-time investments. (See **Figure 11.**) Additionally, fiscal 2023 balance projections in this survey are likely to be less up-to-date (and less reflective of more recent improvements in revenue performance) than fiscal 2022 balance figures that were reported based on preliminary actual data for most states.

State Budget Outlook: Making Strategic Investments to Build Resiliency

As this survey is released, most states are approaching the midpoint in fiscal 2023 and preparing to introduce their governors’ budget proposals for fiscal 2024 (and fiscal 2025 in the case of states with biennial budgets). After two consecutive years of robust revenue growth and widespread budget surpluses, states are on track to record another year of revenue growth in fiscal 2023. That said, there is some downside risks to the economic outlook that states are watching closely and considering in their budgetary decision-making. By using surplus funds for one-time investments in capital construction, paying down debt, and making supplemental pension payments, states are strengthening their fiscal resiliency over the longer term. With rainy day fund and total balance levels at record levels, states have a strong fiscal cushion and are more prepared than ever to weather a possible economic downturn. States also continue to leverage federal aid from the American Rescue Plan Act to support residents and businesses affected by the pandemic and make strategic investments to strengthen the resilience of their economies and communities.

Endnotes

- ¹ 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 October 27, 2022), is used for inflation adjustments. Quarterly averages are used to calculate fiscal year inflation rates.
- ² 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.

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