Introduction
State governments spent more than $1.9 trillion in fiscal year 2016. That spending is authorized by state budgets that are approved by legislatures and begin with a budget recommendation made by the governor. Through their constitution, laws and practices, each state has defined a budget process. The budget process is where each state determines public priorities by allocating financial resources among competing claims. Tax policy changes are often also done as a part of the budget process.

States generally have two types of budgets: operating and capital. The operating budget funds the day-to-day operations of agencies and programs, while the capital budget funds the acquisition or construction of major capital items, including land, buildings and equipment.

Balanced Budget Requirements
State governments must match up their income with their spending. Forty-six states have a formal balanced budget requirement.

Revenue Estimates
States develop revenue forecasts upon which the budget is based, often through a formal revenue-estimating group with varying degrees of participation by the legislative branch and appointed citizen experts.

Budget Instructions, Agency Requests, Reviews and Governor Decisions
One of the first steps in the budget process is the issuance of budget instructions to state agencies for the preparation of budget requests. Agencies usually submit their budget requests by the end of October for review by the budget office. The state budget office is responsible for the analysis of agency requests and, based on the governor’s decisions, puts together the budget proposal.

Governors submit their budget recommendations most often between mid-December and early February.

Legislative Review and Adoption of the Budget
A governor’s budget proposal is reviewed by the legislature through the winter and spring. Often, each chamber of the legislature approves its own version of the budget, and a conference committee then resolves the differences between the two. A budget will take the form of one or multiple appropriation bills. Adoption of the budget occurs in the spring in time for the beginning of the fiscal year.

Unlike the federal budget process, it is rare for a state legislature to fail to adopt appropriations in time for the start of the next fiscal year.

Executing and Monitoring the Budget
The implementation of the budget is an extensive process that includes management, control, monitoring and performance review mechanisms. The state budget office and legislative oversight committees play key roles for the purpose of midyear interventions and as an important feedback loop for the next budget cycle.

When budgeted revenues fall short, states make mid-year adjustments which can include budget cuts, transfers of funds, and the use of rainy day fund reserves, to maintain a balanced budget. Approval by the state legislature in the following year for supplemental funding occurs in limited instances when necessary spending exceeds budget authority.

Gubernatorial Line-Item Veto Authority
In addition to the ability to veto whole budget bills, 44 states give the governor the power of a line-item veto over budget bills. With that power, a governor may veto individual items contained in an appropriation bill while leaving the rest of the bill to become law. Thirty-eight states require a super majority for the legislature to override the governor’s line-item veto, a power used by governors to limit spending and influence the legislative budget process.

The Budget Cycle
Thirty states do budgets each year, while the remaining 20 states have a biennial budget, covering the next two fiscal years. The fiscal year runs from July 1 through June 30 in 46 states.

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