

State Budgets Basics

State budget decisions should matter to all of us. State budgets affect the quality of life of workers, families, and communities across the nation — they decide the fate of roads, schools, health care, public transportation, clean air and water, and much more. Every year, state policymakers make critical choices about how to provide these services and how to ensure that state revenues are adequate to fund them.

In addition to spending their own funds, states play an important role in implementing federal programs and deciding how to spend federal funds — for example, designing the health services provided under Medicaid, or determining where to invest federal highway and public transit funds. (Both programs require states to provide a share of the funding.) And state budgets are used to distribute funds, from housing to health care to public safety, to support local communities.

Budgets can change, and even save, lives. A state's budget shows its priorities. State budgets play a critical role in addressing residents' needs and creating opportunities for families and communities to thrive. State budgets can also reduce long-standing racial and economic disparities in access to jobs, housing, and education; many advocates say the budget is a "[moral document.](#)" This also means that everyone has a stake in state budget outcomes.

Four Key Features of State Budgets You Should Know About



Fiscal calendar

Most states run their budgets from July 1 through June 30 – their “fiscal year.” The exceptions are New York (whose fiscal year starts April 1), Texas (September 1), and Alabama, Michigan, and Washington, D.C. (October 1).



Balanced budget

States must balance their budgets every year. States must have revenues to cover all spending, which means adequate tax revenues are crucial for sufficient support for state services.



Rainy day funds

States can put money in reserve to help address the impact of unexpected disruptions, such as natural disasters and economic downturns, making these funds essential for sound fiscal management.



Budget funds

State budgets usually include a general fund to cover basic state functions, special state funds that are either supported by specific revenue sources or devoted to a specific purpose, and federal funds that help fund selected state services. Over half of state expenditures come from states’ own funds, with the remainder from federal funds.

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How Are State Budgets Created?

A state’s budget is passed every year, or every other year in states with a two-year or “biennial” budget. The budget process occurs during most states’ legislative session, which usually begins in January. The process starts when the governor submits a proposed budget (in some states this happens before the start of the legislative session). Then it proceeds to the legislature, which holds the lion’s share of authority over the budget’s final form. Over a few months, legislators review and modify the governor’s proposal and add

additional tax and spending measures as they see fit. All states allow the public to weigh in on the budget with their priorities along the way.

1 State Agencies Forecast Revenue

Because state budgets must be balanced annually, the governor cannot create a budget proposal until there is an estimate of how much revenue the state will collect in the upcoming year, often called the “revenue forecast.” The forecast is usually developed by a state finance agency, often in collaboration with the state legislature’s finance office.

2 State Agencies Submit Budget Requests to the Governor

State agencies submit funding requests to the governor based on how much they will need to maintain existing services, meet any one-time needs in the upcoming year, or fund new or expanded initiatives. State agencies often are asked to suggest ways to reduce costs and achieve budgetary savings, to help offset their budget increase needs.

3 Governor Proposes a Budget

The governor considers the information from revenue forecasts, state agency requests, priorities expressed by residents – as well as the governor’s own priorities – and crafts a budget for the coming year. The proposed budget is shared with the legislature and public.

4 Legislature Develops a Final Budget

Each state legislature has a process for reviewing the governor’s budget proposal, hearing from the public, developing its own budget, and approving it. This usually involves breaking the budget into parts that are reviewed by committees, or subcommittees of an overarching budget committee. Those committees hold hearings on the proposed budget, with public testimony on how to improve it. In many states with two chambers, each one develops a budget and then negotiates with the other to reconcile the differences into a jointly approved final budget.

5 Governor Signs or Vetoes the Budget

Once the budget is approved by the state legislature, it goes to the governor who can sign or veto it. In the case of a veto, the legislature can try to override the governor’s opposition, which usually requires a super-majority vote. In most states, the governor can “line-item” veto just parts of the budget.

6 Final Budget Is Implemented

Once the final budget is adopted and the fiscal year begins, the state agencies begin to implement the budget. During the fiscal year, there may be a need or interest in revising the budget, for example, if state revenues come in lower than expected or if the governor wants to shift funds from one program or agency to another. All states have a process for adjusting their budget mid-year.

While the legislative review is the most visible part of the state budget process, the complete budget-writing endeavor spans a year. This means that while efforts to shape state budget choices should follow the budget cycle, they can happen at any time.

Where Does the Money for State Budgets Come From?

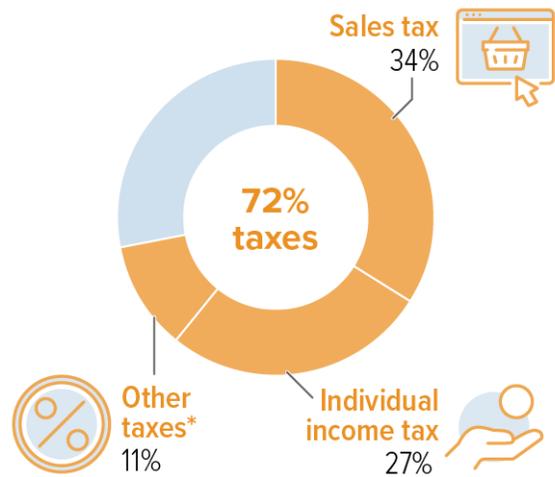
The main source of state revenue is state taxes, which consist primarily of personal income taxes and general sales taxes. States also collect smaller amounts of revenue from corporate income taxes, “selective” sales taxes on items such as motor fuel and tobacco, and statewide property taxes, although in most states the property tax is levied only by local governments.

Most states have income and sales taxes, but some do not. Those with no income tax are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. States without sales tax are Alaska, Delaware, Montana, New Hampshire, and Oregon.

In addition to taxes, states raise revenue through fees (such as for a driver’s license), fines for violating state laws, charges for services (such as park entrance fees), lotteries, and other sources.

State Taxes Are Major Source of State Revenue

General revenue from states’ own sources, 2019



*Other taxes include corporate income tax (4%), property tax (1%), and other miscellaneous taxes.

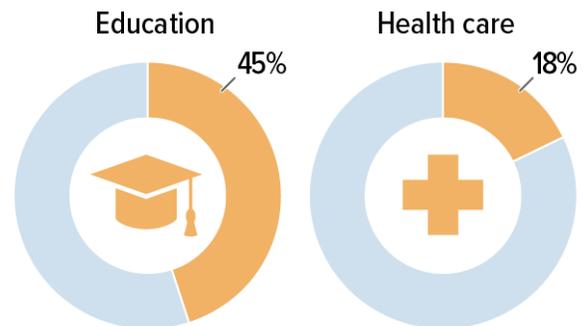
Source: U.S. Census Bureau

What Do States Spend Their Money On?

Across the nation, over half of what states spend goes to education (pre-K-12 and college) and health care. That funding pays for teachers and other staff, classroom technology and supplies, and after-school activities. It provides affordable, quality health insurance to workers, children, and families who might otherwise go without or be forced to rely on costly emergency care. States also fund a wide variety of other services, such as transportation, corrections, pensions and health benefits for public employees, care for people with mental health conditions and developmental disabilities, assistance to low-income families, economic development, environmental protection, state police, parks and recreation, and aid to local governments.

Over Half of States' Spending Goes to Education and Health Care

General fund expenditures, fiscal year 2021



Note: Education spending includes K-12 and higher education.

Source: National Association of State Budget Officers

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How to Participate in Your State's Budget Process

Public participation in the budget process can make a difference. Advocates — whether individuals or organizations — can and should share their priorities with the governor's office and members of the state legislature before and during the formal budget process.

While the governor is preparing the budget proposal, residents can contact the governor's office to voice support for programs or initiatives that rely on state funding. Residents can also ensure that their voices are heard by testifying at public hearings offered by states' legislative budget committees.

Writing, calling, and emailing legislators, including your own representative and those serving on the budget committees, regarding a program or initiative is another effective method.

The final budget negotiations are key for advocacy, lobbying, and engaging legislators and the public. This is a critical opportunity to tap into your local advocacy organizations and meet with legislators about items in the budget that are important to you.

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