



Budgeting for the Future:

Fiscal Planning Tools Can Show the Way

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Executive Summary

When state policymakers are writing a budget, they should be mindful of the future, not just the present. The state budget is the single most important document that a state government produces each year, and it receives close public scrutiny. It serves as both a financial plan and a policy document — that is, a description of the policies the state intends to pursue in the future. The spending, tax, and other policy decisions that comprise the budget have consequences for a state’s fiscal and economic security that last long beyond the budget year.

Often, however, policymakers focus on the immediate effects of policy decisions and fail to account for their longer-term consequences. Many states, for instance, fail to produce multi-year spending plans, fail to establish sound “rainy day funds,” and/or fail to follow best practices for forecasting revenues, spending commitments, pension obligations and the like. These are proven methods to improve long-term planning, yet they are underutilized.

This report describes the ten key tools that can help states chart their fiscal course accurately and make corrections when needed; it also surveys the 50 states and the District of Columbia on the degree to which they use these tools. It finds that the use of these tools cuts across regional and partisan divides. For instance, Connecticut, Maryland, and Tennessee incorporate most of the ten tools into their budget processes. New Jersey, Oklahoma, and South Dakota incorporate the fewest.

The timing is right for states to adopt a much more rigorous approach to their long-term budget planning. The fiscal crisis of the last few years prompted skepticism about states’ ability to fund public services such as education, health care, and infrastructure. The Great Recession — the most severe recession in seven decades — blasted holes in state budgets from which they have yet to fully recover. State tax revenues remain just below where they were five years ago (after adjusting for inflation) even as costs such as health care have risen faster than general inflation and the number of students, the elderly, and other state residents needing services has grown. Demographic changes such as the aging population are putting increasing pressure on state budgets, while the future course of health care costs, one of the largest parts of state budgets, remains unclear. Also, the federal government, which provides about one-quarter of state and local revenues, is on track to make deep spending cuts (under the 2011 Budget Control Act and sequestration) that could hit states hard.

Despite these fiscal challenges, state-funded services are essential to the nation’s economy and will remain so long into the future. State policymakers should be thinking hard about the future whenever they write a budget, because their decisions will have very big implications many years down the road. They should be asking: Is our state’s future workforce well-suited for the jobs of tomorrow? Will our infrastructure meet emerging needs? Is our tax system sufficiently up-to-date for the 21st century economy? And how will our budget choices today affect our ability to provide residents with a high quality of life for decades to come? Laying out a clear roadmap of the implications of the state budget — using proven, nonpartisan methodologies — can reduce uncertainty and help a state handle the outside shocks that will inevitably arise.

Specifically, to budget wisely for the future, every state needs:

- **A map for the future:** The budget and accompanying documents should include a detailed roadmap of the budget’s immediate and future impacts on the state’s fiscal health.

- **Professional and credible estimates:** Standards and sufficient oversight are needed to guarantee that these analyses of the budget’s impacts are professional, credible, and prepared without political influence.
- **Ways to stay on course:** Mechanisms should be in place to trigger any needed changes during the budget year, before too much damage is done.

These are achievable goals. Every state does these things to at least some extent. And a wide range of government budget experts agree they are needed (see box on page 5). But no state does them nearly as well as they could. The next sections outline the ten tools states should adopt for better fiscal planning.

Mapping the Future Impact of the Budget: Tools 1-3

We identified the ten tools in this report through a survey of existing reports and consultations with experts on state budget analysis. The most obvious first step toward sound long-term budget planning is that the budget should include a description of how today’s choices will affect the state’s future fiscal health. During the budget development process, a state can build in a focus on the long term by including **revenue and spending projections for at least five years** in its annual or biannual plan. These forecasts are most useful when they explain the trends they reveal. For example, they could examine such questions as: “Are debt service costs accelerating due to increased borrowing?” or “Is the design of the sales tax slowing revenue growth?” Producing regular projections forces the governor and legislators to confront the implications of their proposals for years beyond the upcoming budget. It also allows for a better informed debate by the public and outside observers.

States also should require, for bills that affect taxes or spending, timely and accessible **fiscal notes** that estimate the bill’s savings or costs for at least the upcoming five years.

States can further plan for the future by preparing a **current services baseline**, or projection of the cost of continuing to deliver the same quantity and quality of services as in the current budget period. This information allows the public and outside analysts to easily determine how proposed policy changes and program funding levels would affect public services. That, in turn, allows for more informed debates over the trade-offs required to balance the budget.

Ensuring That Projections Are Professional and Credible: Tools 4-6

It is not enough that long-term planning exists; it must also be based on credible, professional information so that it is not ignored. For example, states can depoliticize a critical part of the budget preparation process by creating a **consensus revenue forecast**, which is an agreement among the executive branch and both houses of the legislature on a revenue forecast for upcoming years. Another way to ensure that the fiscal plan is taken seriously is to establish a **non-partisan, professional legislative fiscal office** to provide a check on the information prepared by the executive branch.

Experts Agree on Need for Planning

A wide range of independent experts — including budgeting professionals, bond rating agencies, and academic researchers — have long recognized the importance of forecasting the potential impact of state tax and spending decisions for the long term. For example, eight of the major associations that represent elected officials and professional managers and finance professionals formed a commission called the National Advisory Council on State and Local Government Budgeting in 1999. The top of their list of recommended budget practices states, “A good budget process... incorporates a long-term perspective.”^a Similarly, the head of the General Accounting Office listed “information about the long-term impact of decisions” as the first of four principles for the budget process in 2002 congressional testimony.^b In addition, the criteria used by Moody’s and Standard & Poor’s,^c major bond rating agencies, to determine the fiscal health of governments emphasize the importance of long-term planning.

These organizations — as well as the National Association of Budget Officers, various academics, and others that study public budgeting — all agree that planning ahead is important. They have also identified a number of mechanisms that states can use to carry out this planning. The budgeting tools most commonly identified are multi-year forecasts of base revenues and spending and the impact of changes in tax and spending policy, a consensus process for estimating revenues, rainy day funds, information on the cost of tax exemptions and credits, regular budget status reports, and oversight of debt levels and pension costs. In addition, some budget professionals recommend the use of current services baselines, independent legislative fiscal offices, and sunsets (expiration dates) for tax expenditures.

The ten tools that comprise the list of recommended tools in this report are drawn from this literature. CBPP also enlisted the help of state budget experts from the Rockefeller Institute of Government, the Council of State Governments, the National Association of State Budget Officers, and the Urban Institute to review the list of tools we compiled.^d

a) National Advisory Council on State and Local Budgeting, Government Finance Officers Association, “Recommended Budget Practices: A Framework for Improved State and Local Budgeting,” June 1999.

b) United States General Accounting Office, Testimony before the Committee on the Budget, House of Representatives, Statement of Susan J. Irving, Director, Federal Budget Analysis, April, 25, 2002.

c) See *US States Rating Methodology*, Moody’s Investor Service, April 17, 2013 and *U.S. Public Finance: U.S. State Ratings Methodology*, Standard & Poor’s, January 3, 2011.

d) These experts agreed that these are important and useful mechanisms for state fiscal planning. They do not necessarily endorse each tool as required for each state to plan effectively

Pension costs are often cited as a concern for state budgets, and one key to reducing (or preventing) the accumulation of new, unfunded pension obligations is for a state to determine the level of contributions needed to state pension funds and make those contributions regularly. Because of the complexity this involves, **regular reviews by independent authorities** of the process used to determine pension contribution levels and underlying assumptions are necessary.

Ways to Stay On Course: Tools 7-10

The budget process is not over once the legislature adopts a budget. Some basic elements of a budget forecast, such as inflation, the state of the economy, or the makeup of the state’s population, cannot be known with certainty; even with the best methods, some assumptions will prove

incorrect. A state must be able to manage revenues and spending throughout the year to deal with these uncertainties.

For example, when available revenues fall short of projected spending in the middle of the budget year due to a weak economy, adequate and well-designed **rainy day funds** can reduce the need for damaging service cuts and tax increases. But a state must fill its rainy day fund in good times to prepare for bad times. Formal deposit rules encourage states to make such deposits by making it harder to forgo deposits without attracting the notice of outside observers.

When recessions occur, states must scrutinize all forms of spending. An important tool for this is **oversight of various tax expenditures** (tax credits, deductions, and exemptions that reduce state revenue), which in many ways function as spending through the tax code. This will enable states to make sound choices between the most essential tax expenditures and those the state can forego. For example, states can regularly publish tax expenditure reports that list each tax break and its cost. And states can enact sunset provisions so that tax breaks expire in a specified number of years unless policymakers choose to extend them.

States also need tools for managing their long-term funding commitments. These include their pension obligations to retired state employees and their obligations to repay bonds that were issued to fund the construction of schools, roads, bridges, and other infrastructure. Because of the long-running and fixed nature of these obligations, it is particularly important that states regularly check whether they are meeting these obligations by establishing **prudent rules on pension funding and debt levels**. For example, states should make the full payment required each year to ensure that pension trust funds will be able to cover future costs — or should catch up quickly if they are temporarily unable to make the full payments. Also, to assure that debt service obligations remain affordable, states should establish guidelines for appropriate levels of debt relative to the size of a state's economy.

In addition, a state must monitor the overall balance of the budget between revenues and spending throughout the year. No state will be able to predict all economic ups and downs or budget pressures and design a budget that addresses them all automatically. **Regular revenue and spending status reports** during the course of the fiscal year that combine revised revenue estimates with updated spending projections will shine a light on fiscal problems while there is time to correct them.

Ten Tools for Budgeting for the Future

Here are ten mechanisms states can use to inform long-term planning.

Does the Budget Provide a Map of the Future?

- **Multi-year forecasts of revenues and spending:** projections of revenues and current services spending for at least five years. These projections should be a regular part of the budget and should be detailed and easily accessible.
- **Fiscal notes with multi-year projections:** an established set of guidelines for preparing fiscal notes that estimate the savings, costs, or revenue changes for the current year and at least five future years. Estimates should be easily available.
- **Current services baseline:** a projection of how much it will cost a state in an upcoming budget period to deliver the same quantity and quality of services to residents that it is delivering in the current budget period, taking into account factors such as inflation, expected changes in the number of people utilizing those services, any previously enacted rule changes that have not yet phased in, and ongoing formula-based adjustments.

Are the Projections Professional and Credible?

- **Independent consensus revenue forecast:** a formal mechanism to create consensus among the executive and legislative branches on a revenue forecast.
- **Legislative fiscal office:** a non-partisan agency that analyzes the budget and other bills that affect spending and revenues.
- **Pension oversight:** regular reviews by independent authorities of methods used to determine future pension funding. These reviews should be published and easily accessible to the public.

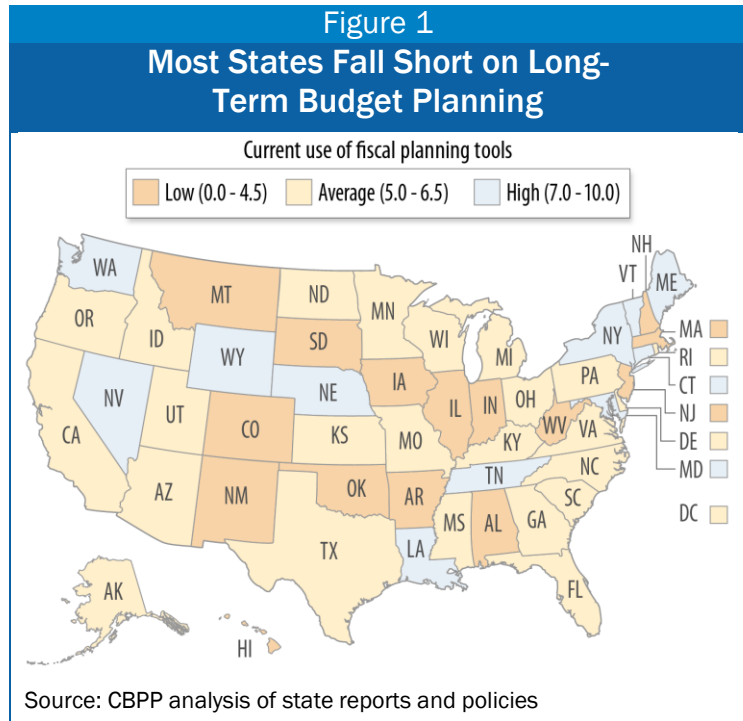
Are Ways to Stay on Course in Place?

- **Well-designed rainy day fund:** a reserve fund designated for situations where state revenues drop or expenditures increase unexpectedly. These funds should not be capped at an inadequate level (below 15 percent of the state budget) and should be governed by rules that encourage deposits in good times and provide notice if deposits are skipped.
- **Oversight of tax expenditures:** expiration dates for tax expenditures after a set number of years to subject them to regular scrutiny of their cost and effectiveness, in addition to tax expenditure reports that list the costs of individual tax breaks.
- **Pension funding and debt level reviews:** recommended standards for pension funding and guidelines for the amount of debt that the state can incur.
- **Budget status reports:** regular reports by a professional fiscal authority on updated revenue and spending projections in order to determine if the budget is on track.

Rating the States

This report grades states on how well they have implemented the tools described above. We evaluated each state on its use of each tool and assigned a score on a simple scale: 0 if the state does not use this tool at all, ½ if it uses the tool but in a way that needs significant improvement, and 1 if the tool is in place, is well designed, and is accessible to the public.¹ Finally, we summed the scores on each of the individual tools to determine an overall score for each state on a scale of one to ten. Figures 1 and 2 show the results. (The District of Columbia is included in counts of states.)

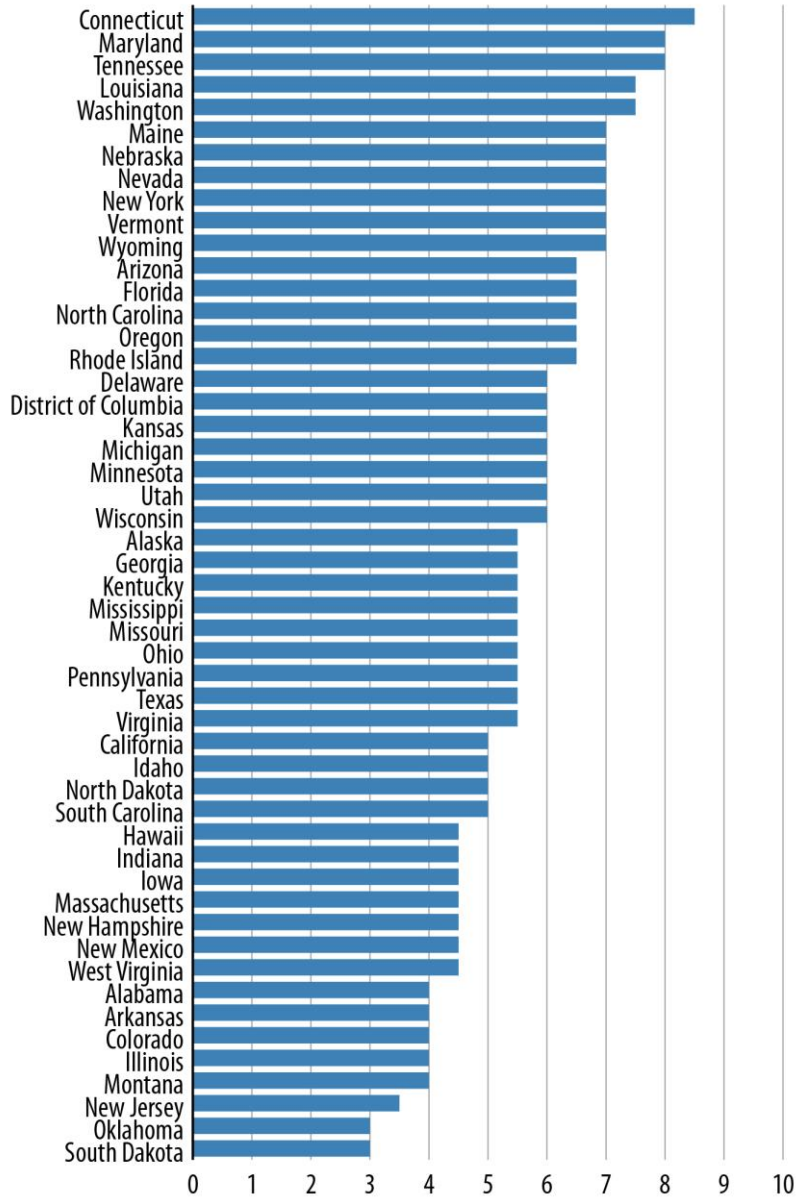
Sound planning is not a partisan or a regional practice. (See Table 1.) For example, New York (the prototypical liberal northern state) and Louisiana (a southern state with a much more conservative bent) both do relatively good jobs of planning ahead, while there is much room for improvement in both Alabama and Massachusetts. These examples also show that the ability to look ahead does not dictate a particular set of tax or spending programs. Rather, it allows a state to see and plan for the future effects of whatever policy is being proposed, whether an expansion of assistance for low-income students or the elimination of a state's income tax.



¹ Accessible means that the analysis generated by the tool is summarized clearly and easily available to the public online, rather than an internal report.

Figure 2

States' Use of Fiscal Planning Tools Varies Widely



NOTE: 0 is Worst; 10 is Best

Table 1
Summary of State Scores

State	Map for the Future			Professional and Credible Projections			Ways to Stay on Course				Overall Score	Rank
	Multi-year Forecasts	Multi-year Fiscal Notes	Current Services Baselines	Consensus Revenue Estimates	Legislative Fiscal Offices	Pension Oversight	Rainy Day Funds	Tax Expenditure Oversight	Pension and Debt Policy	Budget Status Reports		
Alabama	0	0	0	0	1	0.5	1	0	1	0.5	4.0	44
Alaska	0.5	1	1	0	1	0	1	0	0.5	0.5	5.5	24
Arizona	0.5	0.5	1	0	1	0.5	1	0	1	1	6.5	12
Arkansas	0	0.5	0	0	1	0	1	0	1	0.5	4.0	44
California	0	0	0.5	0	1	1	1	0.5	0	1	5.0	33
Colorado	1	0.5	0	0	1	0	0	0.5	0	1	4.0	44
Connecticut	1	1	1	1	1	0	1	0.5	1	1	8.5	1
Delaware	0.5	0.5	0	1	1	0	0.5	0.5	1	1	6.0	17
D.C.	1	0.5	0	0	1	0.5	0.5	0.5	1	1	6.0	17
Florida	0	0.5	0	1	1	0.5	1	0.5	1	1	6.5	12
Georgia	1	0.5	0	0	0.5	0.5	1	0.5	1	0.5	5.5	24
Hawaii	1	0	0	1	0	0	0.5	0	1	1	4.5	37
Idaho	0	0	0.5	0	1	0.5	1	0.5	1	0.5	5.0	33
Illinois	0	0	0	0	1	1	0	0.5	0.5	1	4.0	44
Indiana	0	0.5	0	1	0	0	1	0	1	1	4.5	37
Iowa	0	0.5	0	1	1	0.5	0.5	0	0	1	4.5	37
Kansas	1	0.5	1	1	1	1	0	0	0	0.5	6.0	17
Kentucky	0	0.5	0	1	1	0.5	1	0.5	0	1	5.5	24
Louisiana	0.5	1	1	1	1	0.5	0.5	0.5	1	0.5	7.5	4
Maine	0.5	0.5	0	1	1	0.5	1	0.5	1	1	7.0	6
Maryland	1	1	1	1	1	0.5	1	0.5	0	1	8.0	2
Massachusetts	0	0	0	1	0	0.5	1	0.5	0.5	1	4.5	37
Michigan	0.5	0.5	0	1	0.5	0.5	1	0.5	0.5	1	6.0	17
Minnesota	1	1	0	0	0.5	1	1	0.5	0.5	0.5	6.0	17
Mississippi	0	0	0	1	1	0.5	1	0.5	1	0.5	5.5	24
Missouri	0	0.5	0	1	1	1	0.5	0.5	0	1	5.5	24
Montana	0	0.5	1	0	1	0.5	0	0.5	0	0.5	4.0	44
Nebraska	1	0.5	0	1	1	1	1	0	1	0.5	7.0	6
Nevada	0	0.5	1	1	1	0	1	0.5	1	1	7.0	6
New Hampshire	0	0.5	1	0	1	0	1	0	0.5	0.5	4.5	37
New Jersey	0	0.5	0	0	1	0	1	0	0.5	0.5	3.5	49
New Mexico	0.5	0.5	0	1	1	0	1	0	0	0.5	4.5	37
New York	1	0	1	1	0	1	0.5	0.5	1	1	7.0	6
North Carolina	0	1	0	0.5	1	0.5	1	0.5	1	1	6.5	12
North Dakota	0	0.5	1	0	1	0.5	1	0.5	0	0.5	5.0	33
Ohio	0	0.5	0	0	1	1	1	0.5	0.5	1	5.5	24
Oklahoma	0	0	0	0	0.5	0	1	0.5	0	1	3.0	50
Oregon	0	1	1	0	1	1	0.5	1	0.5	0.5	6.5	12
Pennsylvania	1	0.5	0	0	0.5	0.5	1	0.5	0.5	1	5.5	24
Rhode Island	1	0.5	0	1	0.5	0.5	1	0	1	1	6.5	12

Table 1 (Cont'd)
Summary of State Scores

State	Map for the Future			Professional and Credible Projections			Ways to Stay on Course				Overall Score	Rank
	Multi-year Forecasts	Multi-year Fiscal Notes	Current Services Baselines	Consensus Revenue Estimates	Legislative Fiscal Offices	Pension Oversight	Rainy Day Funds	Tax Expenditure Oversight	Pension and Debt Policy	Budget Status Reports		
South Carolina	0	0	0	1	0	1	1	0	1	1	5.0	33
South Dakota	0	0	0	0	1	0.5	0.5	0	1	0	3.0	50
Tennessee	1	0.5	1	1	0.5	1	1	0.5	1	0.5	8.0	2
Texas	0	1	0	0	1	1	1	0.5	0.5	0.5	5.5	24
Utah	0	0.5	0	1	1	0	1	0.5	1	1	6.0	17
Vermont	0.5	0.5	0.5	1	1	0.5	1	0.5	0.5	1	7.0	6
Virginia	1	1	0	1	0	0	1	0.5	0.5	0.5	5.5	24
Washington	1	1	1	1	0.5	0	1	0.5	0.5	1	7.5	4
West Virginia	1	0.5	0	0	0	0.5	1	0	1	0.5	4.5	37
Wisconsin	0	0.5	0	0	1	1	1	0.5	1	1	6.0	17
Wyoming	0	0.5	1	1	1	0.5	1	0	1	1	7.0	6
Count of Scores (number of states)												
0	27	11	33	23	7	15	4	17	11	1		
0.5	8	30	3	1	8	23	9	33	14	20		
1	16	10	15	27	36	13	38	1	26	30		

*See notes after Table 12. 0= Does not use; 0.5 = needs improvement; 1=well designed.

I. The Benefits of Budgeting for the Future

Budgeting for the future brings many benefits to a state and its residents. Long-term planning can:

Provide a more realistic time horizon. Long-term planning allows the state’s policymakers and residents to consider the future consequences of the budget and tax choices made each year. The standard one- to two-year state budget cycle creates an artificial horizon. A longer-term focus allows for the sustained effort that is needed for many initiatives that will take longer to bear fruit.

Improve stability. Better fiscal planning strengthens state initiatives by ensuring more predictable funding for programs. It is difficult to implement programs effectively if funding varies significantly and unpredictably from year to year. For example, a state may expand pre-kindergarten funding in a year when revenues are growing, but school districts will likely hesitate to hire and train the needed staff if they have reason to believe the state funding will not continue the next year. The best employees may also be reluctant to work on new initiatives if the program may be eliminated at any point because the full cost was not recognized and planned for.

Encourage priority-setting. Long-term budget planning facilitates other types of planning by community leaders, public officials, and others. For example, it requires asking what the state’s workforce will look like; evaluating the condition of the state’s roads, bridges, and school buildings; and examining demographic trends. With this information, policymakers can decide whether to expand or scale back particular investments in higher education, health care, infrastructure, and other areas.

Reduce public uncertainty. Long-term budget planning reduces uncertainty for individuals and businesses about what services they will receive and what taxes they will owe. A clearer view of what the future holds for taxes and services can improve a state’s business climate and improve attitudes towards government. Businesses often argue that they need more certainty about future tax levels for planning purposes. In addition, the need to address persistent shortfalls contributes to dissatisfaction with government, weakening support for education, health care, and other investments that contribute to the state’s economic growth. When a state must raise taxes merely to continue existing programs or when taxes remain constant but services deteriorate, the public may conclude that government is wasteful.

Allow for course corrections. Having a plan and including indicators that signal when the budget is off course can enable policymakers to make corrections that can prevent larger problems, even when they result from economic forces out of policymakers’ control. For example, provisions that encourage the replenishment of rainy day funds in good times will lessen the need for unplanned tax increases or spending cuts when the economy slows.

Looking ahead also can help a state avoid “solutions” that only worsen future problems. Skipping pension payments, or relying too much on debt, can address short-term budget pressures but do long-term damage to a state’s budget. States are less likely to rely on these measures when they are highlighted and their implications are debated in public view.

Of course, planning ahead by estimating the long-term cost of a program or a tax break and building in funding does not replace the need to evaluate the effectiveness of initiatives each year in the budget process. Rather, it will enrich these evaluations.

II. A Map for the Future

There are three key tools that together create a roadmap of the budget’s immediate and future impacts on the state’s fiscal health: multi-year budget forecasts, multi-year fiscal notes, and current services baselines. This chapter describes each one in turn.

Tool #1: Multi-Year Forecasts of Revenues and Spending

Long-term planning begins with estimating the future course of both sides of the budget: revenues and spending.

When a state adopts a budget, analysts prepare projections of revenues and spending for the budget year (or two, in the case of states with a biennial budget) and sometimes for additional years. One- or two-year estimates allow a state to adopt a near-term balanced budget as their laws typically require, but they don’t facilitate longer-term planning.

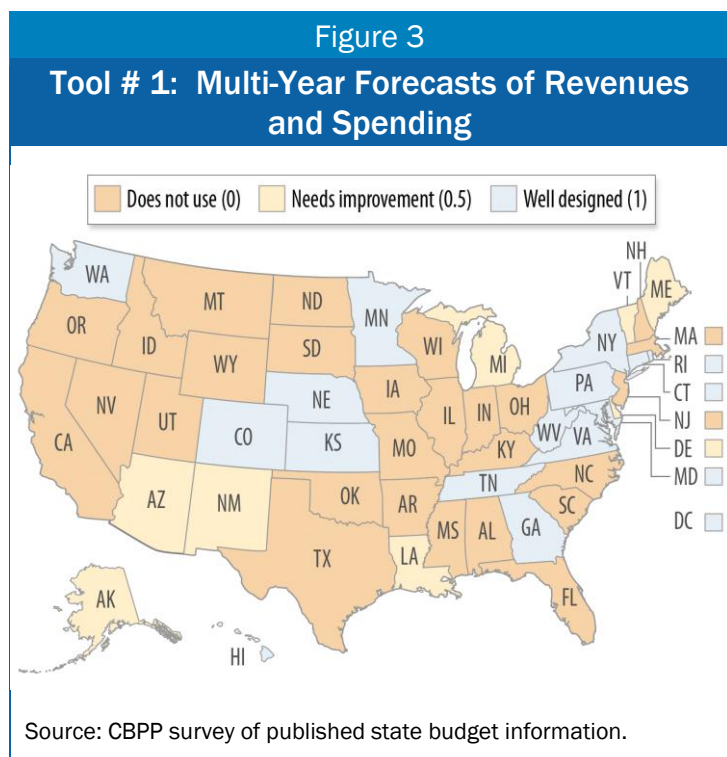
Multi-year projections should be provided not just for the total budget, but also for program areas or departments and for individual programs. Aggregated or summary data are useful because they show big-picture trends, but sometimes they mask large changes within individual programs or areas.

These projections should be a regular part of the budget and should be detailed and easily accessible so that the public and others can weigh in on proposals.

Why This Tool Is Important

Budget numbers change over time as a result of inflation, population growth, changes in income, and other factors. So the fact that a state’s revenue stream is sufficient to finance programs and policies in one period does not guarantee it will be sufficient in the next.

A multi-year budget projection can provide an early warning sign of unbalanced budgets to come — or, conversely, an early alert of a budget surplus. And they can signal how a state’s spending patterns may be changing, providing opportunities for course corrections.



Accurate information on the short- and long-term costs of tax and spending proposals reduces the need for the unplanned spending cuts or tax increases that can result when a program or tax cut turns out to be unaffordable.

Policymakers or technical staff in budget offices or legislative fiscal analyst offices are sometimes reluctant to provide longer-term projections. They may argue that even short-term estimates often prove inaccurate and that foreseeing economic conditions five years out is even harder. While that is true, a best estimate is better than none at all; even an estimate for a fifth year that is 10 percent off, for example, would give policymakers a better understanding of the future impact of policies enacted today than they otherwise would have in most states.

Features of Multi-Year Revenue and Spending Forecasts

- The state prepares either revenue or spending projections for at least one year beyond the upcoming budget.
- Revenue projections are broken down by revenue source.
- State spending forecasts are detailed to at least the agency or function level.

The overall grade for this tool is 0 if the state projects neither revenues nor spending beyond the upcoming budget, $\frac{1}{2}$ if it projects both revenues and spending without a detailed breakdown or projects only one of these but with a detailed breakdown, and 1 if it projects both revenues and spending with a detailed breakdown for at least one.

Current Practices

Some 24 states prepare revenue projections that extend beyond the upcoming budget, and 19 of them provide a breakdown by revenue source. (See Table 3.)

The situation is worse for spending estimates. Only 18 states project spending beyond the upcoming budget, and only 13 provide detail at the agency or budget function (education, health care, etc.) level. In addition, few of these spending estimates attempt to show the full cost of continuing programs at the same level after accounting for changes in costs and caseloads. For more information on state spending projections, see the discussion of current services baselines later in this paper.

Examples

Minnesota regularly prepares financial reports that project revenues and spending and estimate the resulting budget surplus or shortfall. These projections allow the state to adopt a budget that takes into account the effect on future years. For example, in November 2012, an improving economy resulted in higher-than-expected revenues for Minnesota's two-year, fiscal year 2012 - 2013 budget. This, coupled with lower-than-projected spending in some areas, meant that the state was likely to end the budget cycle with a positive balance.

However, projections revealed that Minnesota faced budget shortfalls for the next two-year budget cycle. In addition, the state had previously balanced its budget with a school funding payment shift — a one-time measure that had to be undone once revenues recovered — which

would expand the upcoming budget hole. On top of this, policymakers favored expanding education funding to improve K-12 education and making college tuition more affordable.

The multi-year projections informed the state’s budget-making in 2013. Rather than use the temporary surplus to fund education increases, which would have been unsustainable, the state also included a tax increase in the budget, ensuring that the education funding was paid for on an ongoing basis; the tax increase was large enough also to reduce the size of future shortfalls.

Tool #2: Fiscal Notes With Multi-Year Projections

States typically enact a single budget bill, but many other bills filed during a legislative session propose tax or spending policy changes that will cost or save the state money. If states aren’t careful, such changes can throw the budget out of balance.

So states should produce high-quality fiscal notes — official state estimates of the savings or cost of proposed legislation — for any bills with significant budgetary impact.

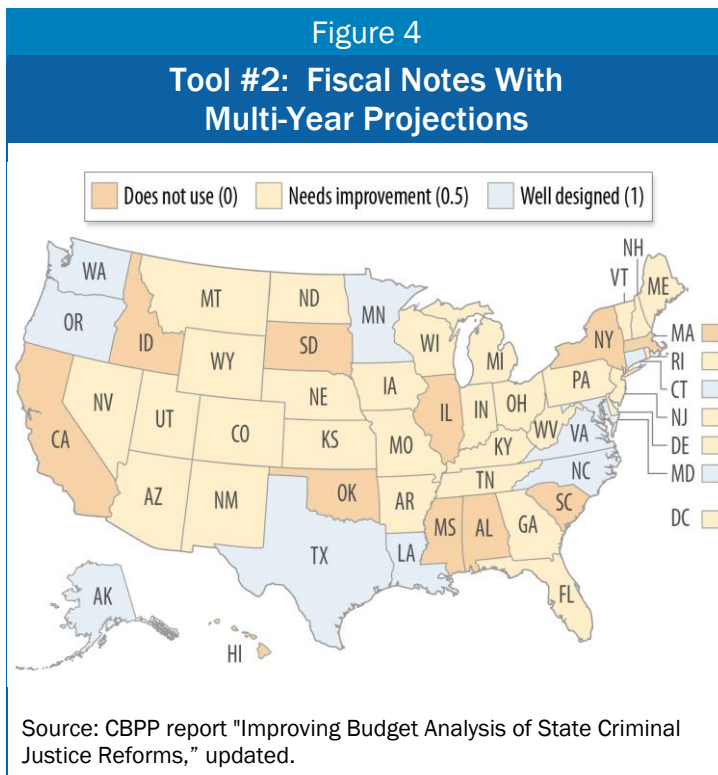
These fiscal notes should be consistent, properly researched, detailed, and accessible.²

For purposes of fiscal planning, of course, it is particularly important that notes accurately estimate the fiscal impact for at least five years into the future.

Why This Is Important

By improving fiscal notes and including projected costs, states can help legislators recognize any future savings or additional demands on state revenues and better allocate scarce budgetary resources. Without an official certification of whether the savings or costs of proposed program or tax changes are permanent, lawmakers and the public cannot evaluate their full impact.

² A 2012 analysis by CBPP and the American Civil Liberties Union examined fiscal notes for significant adult sentencing and corrections bills enacted between 2008 and 2011. The analysis provides insight into the fiscal note practices of the states and lays out best practices for writing fiscal notes. See Michael Leachman, Inimai M. Chettiar, and Benjamin Geare, “Improving Budget Analysis of State Criminal Justice Reforms: A Strategy for Better Outcomes and Saving Money,” Center on Budget and Policy Priorities and the American Civil Liberties Union, January 11, 2012.



In fact, policymakers routinely design changes in spending programs or the tax code so that they have a modest budget impact in the initial year or biennium but a much larger one in subsequent years. This enables policymakers to squeeze their initiatives into annual or biennial balanced-budget requirements, leaving to subsequent policymakers the problem of how to balance future budgets.

On the other hand, some reforms that produce substantial long-term savings, such as certain changes to education policy or criminal justice practices, require modest up-front costs. If states consider the up-front costs but not the future savings, they may miss those longer-term benefits. Similarly, states that omit long-term impacts risk enacting policies whose high future costs may squeeze the rest of the budget later on.

Current Practices

Features of a Fiscal Note That Includes the Long-Term Impact

- The state should regularly publish estimates of the cost of revenue and spending proposals for more than *one* year.
- For proposals that are phased in, the state should publish estimates of the costs for each year until the measure is fully effective.
- Ideally, the state should regularly publish estimates of the cost or revenue-raising potential of new initiatives for at least *five* years.

The overall grade for this tool is 0 if the state does not prepare fiscal notes or the notes include only one year of cost or savings information, $\frac{1}{2}$ if it prepares fiscal notes with projections that cover more than one year and/or multi-year projections for measures that phase in, and 1 if it always prepares fiscal notes with projections that cover at least five years.

Often, official state estimates of the savings or costs of proposed legislation either do not exist or lack the information necessary to good long-term decision-making. For example, in a recent Center on Budget and Policy Priorities study of state criminal justice legislation, about 15 percent of fiscal notes did not estimate a budgetary impact or indicated only that the impact was a generically positive or negative one. Even when an estimate is prepared, most states fail to examine proposals' fiscal impacts beyond a year or two, as Table 4 shows. Only ten states regularly produce fiscal notes that include projected costs and revenues for at least five years.

Examples

Fiscal notes that enable policymakers to take the long view are particularly essential for some highly cost-effective reforms with upfront costs. For example, in 2007 Texas faced a rapidly growing prison population that the non-partisan Legislative Budget Board estimated would require at least \$2 billion in new prison building by 2012. In response, the legislature enacted a reform plan that required, in the first two years after enactment, \$241 million in spending on treatment programs and alternatives to prison for technical parole and probation violations. By reducing the need for prison beds over the next five years, the reform package allowed the state to avoid the \$2 billion in

Features of a Current Services Baseline

The state has a current services baseline in some form and, at a minimum, compares the budget request to a current services projection for the upcoming fiscal year.

- The state projects the current services baseline beyond the current budget.
- The state publishes current service projections as part of the regular budget process — in the governor’s recommendations, the enacted budget, or both.
- Assumptions such as inflation and caseload projections are clearly defined, and the current services baseline is easy to find and accessible in public budget documents.
- Estimates are detailed down to individual programs or line-items.

The overall grade for this tool is 0 if the state does not prepare a current services baseline at some level for one year, ½ if it prepares such a baseline that meets less than half of the additional criteria listed above, and 1 if it prepares such a baseline that satisfies half or more of the criteria.

state’s current practices is next to impossible without a published current services baseline.

A current services baseline (sometimes called a “current services budget”) is a reality check in the budget process. It indicates what the state would have to spend on a given program, such as health care for poor children, property tax reductions for senior citizens, or economic development assistance to businesses, in order to maintain the program in its current form,⁴ taking into account factors such as:

- Inflation and other changes in the per-person cost of providing the programs and services. (General inflation is not always the appropriate measure of these cost changes. In health programs, for example, medical cost growth would be more appropriate.)
- Any expected changes in the number of people utilizing those services and benefits due to population growth or other factors.
- Any previously enacted rule changes that have not yet phased in, ongoing formula-based adjustments (such as a school funding formula based in part on population growth), and other factors that would require statutory changes to undo.

A current services baseline *excludes* the impact of proposed *policy* changes, such as changes in school funding formulas or Medicaid eligibility. This approach allows policymakers and the public to compare the baseline to a proposed or enacted budget allotment to see whether the budget reflects a spending cut or increase.

States should include a clear and complete description of the assumptions used to estimate the current services baseline so that analysts can decide if the strictly-defined baseline would be sufficient to maintain programs at recent levels. For example, spending in the base might be

⁴ The specific name of current services-type analyses can differ by state. These analyses are also called continuation budgets or maintenance budgets, among other things.

uncharacteristically low because of spending cuts due to a recession or atypically high as the result of response to a natural disaster. In addition, there may be statutory provisions — such as New York’s cap on school aid spending growth — that restrict spending below the amount needed to maintain current services. Detailed information on the assumptions used allow outside observers to decide if circumstances require additional adjustments.⁵

Why This Is Important

A current services baseline improves state budgeting and planning in several ways:

- **It provides an honest assessment of the state’s overall fiscal health compared to the current year.** Before debate begins on a spending plan for the upcoming fiscal year, policymakers should know what the state’s basic fiscal situation is. Will the state likely have enough resources to expand or maintain services at current levels, or must it cut programs or raise revenues to balance its budget? States already know what the revenue side of the budget looks like from their baseline revenue forecasts, as noted above. But revenues alone can paint a misleading picture of a state’s budgetary position. When revenue is growing strongly, as in the late 1990s, a current services baseline provides a clear picture of how much surplus revenue is likely to exist after the state meets its current spending needs. During an economic downturn, as in recent years, a current services baseline allows an honest evaluation of the size of the budget shortfall. It can also warn of future problems, for the budget as a whole or for a particular program.
- **It helps legislators and the public understand a proposed budget’s likely consequences for a specific service or program.** If a governor’s budget includes more dollars for Medicaid, those added dollars may simply be needed to maintain the current program in the face of higher medical costs or an increase in the caseload; without a baseline, the public will not be able to judge whether the proposed “increase” represents an expansion of the program. But if the budget proposes higher spending for a given service *than the amount in the current services baseline*, communities and individuals can expect to receive higher levels of services.
- **It provides a neutral, consistent way to evaluate policy changes across agencies and functions.** It can be difficult to understand how much of a particular service a proposed funding level would actually provide. In some states, there is little consistency among programs in the way budget information is presented, and some agencies may not publish information on how much spending would be needed to continue current policies.
- **It can improve government efficiency.** A regular, thorough examination of each program’s costs and caseload can help policymakers and the public identify inefficiencies and programs that are no longer needed. And it can help “right-size” programs, avoiding over- or under-funding them.

⁵ States can also address this issue by preparing alternative baselines. For example, it could be problematic to establish a current services baseline right after a recession, when expenditures are well below the level required to adequately serve residents. As an alternative, a state could compare current spending levels with the cost of providing a *pre-recession* level of services and then provide this “pre-recession services baseline” alongside its current services baseline to further inform decision-making about how best to manage its economic recovery.

- **It can allow for the implementation of sensible budget controls such as PAYGO.**
Regularly preparing a current services baseline would be an important step towards implementing PAYGO (pay-as-you-go) budgeting — a requirement that the costs of proposed spending increases or revenue reductions be fully offset through other spending cuts or revenue increases for a specified number of years.⁶

Current Practices

Current services baselines have been an important part of the federal budget process for three decades. They serve as a common basis for “scoring” (determining the cost or savings of) changes to existing programs. An agreed-upon baseline is an important element of the current debate over future federal deficits; the extent of the problem and the impact of proposed spending cuts or revenue increases would not be known without current services projections.

Some 18 states regularly prepare some form of current services baseline, although their comprehensiveness varies significantly and three need significant improvement. (See Table 5.)

Examples

The Connecticut governor’s proposed budget includes an estimate of the cost of continuing programs at current-law levels. Table 2 shows the governor’s proposed funding for fiscal year 2011-12 for the Department of Public Health.

Agency Programs by Total Funds (net of reimbursements)	2010-2011 Estimated	2011-2012 Current Services	2011-2012 Recommended
Health Initiatives	163,249,013	164,095,232	156,965,352
Regulatory Services	20,371,606	17,734,158	17,458,302
Commissioner’s Programs	7,796,061	7,616,922	7,483,054
Laboratory Services	10,994,973	14,253,591	12,188,805
Healthcare Systems	17,327,215	18,315,153	18,158,611
Agency Management Services	8,198,355	10,687,238	9,898,357
Other Public Health	29,785,881	32,010,664	31,886,389
Total - Gross	257,723,104	264,712,958	254,038,870
Less turnover	0	-1,200,000	-1,200,000
Total - Net	257,723,104	263,512,958	252,838,870

In 2011, Connecticut’s current services budgeting practice allowed policymakers to spot at a glance that the governor was proposing a substantial cut in the Department’s budget. What would have looked like a fairly modest \$5 million cut was, in fact, a more significant \$10 million cut when

⁶ For more information, see *PAYGO: Improving State Budget Discipline While Retaining Flexibility*, Iris J. Lav, Center on Budget and Policy Priorities, September 22, 2011.

compared with the actual cost of continuing current programs. This led legislators to dig deeper into the budget, where they learned that among other changes, the governor had proposed reducing or cutting funding for an AIDS program and a childhood lead poisoning contract. In the adopted budget, the legislature reversed some of these cuts.

III. Professional and Credible Projections

Good planning requires the most accurate and trustworthy information possible about expected revenues and spending. States can improve that information by estimating future revenues through consensus, by ensuring legislators have access to independent, professional fiscal analysis, and by regularly reviewing the methods used to determine future pension costs.

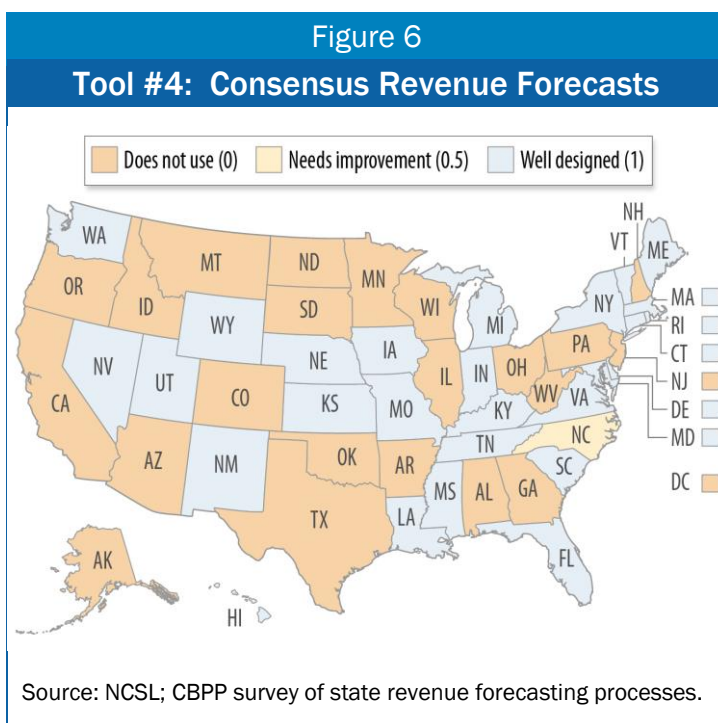
Tool #4: Independent Consensus Revenue Forecasts

Policymakers are more likely to have constructive debates about future policies if they are not simultaneously arguing over whose revenue forecast is correct. A consensus revenue forecast — an agreement between the executive and legislative branches on a revenue forecast for the upcoming year — allows debate to focus on substantive policy issues within a common budget framework.

Revenue projections are (or should be) technical in nature, based on the best possible economic forecasts. States generally have some type of in-house forecasting model, but there is variation in whether the governor’s budget office or the legislative fiscal office controls it or whether each branch has its own model. If they each have their own, the dueling forecasts sometimes become a debating point in the political process, and there is a temptation for political leaders to alter a forecast to better accommodate their fiscal agendas.

States can mitigate such temptations by using a consensus forecasting process, in which representatives from the executive and legislative branches — usually aided by testimony and advice from outside economists and advisors — are required to agree on an economic and revenue forecast. Some other states (such as Minnesota) rely instead on a board of economists to prepare the forecasts.⁷

⁷ This process can also serve to make revenue-estimating independent of the political process but are not consensus-revenue estimating when the process is managed by one branch of government.



The best consensus revenue process is one that is well established — that is, one that is required by law or has been prepared for at least ten years — and is produced regularly. Legislative and executive budget-makers should be required to use its estimates, and the process should be transparent, with the forecasting group’s meetings made public and a list of methods and assumptions easily available.

Why This Is Important

While there is not clear statistical evidence that consensus revenue forecasts are more accurate than those prepared by a single branch of government, there is solid reason to think that a *high-quality* forecasting process that is transparent and brings together the perspectives of multiple economic experts is better than a process in which disputes about future revenues are resolved solely through the political process.⁸ Moreover, consensus forecasts remove some of the politics from budget debates, allowing a more open and informed discussion that focuses on the programs to be funded.

Features of a Consensus Revenue Estimating Process

The state develops a revenue projection through an official forecasting group representing both the executive and legislative branches.

- The forecast serves as the official forecast for the budget.
- The consensus forecast is required by statute.
- The forecasting group also includes outside experts, such as an economist from a university or the private sector.
- The forecasting group’s meetings are open to the public or a summary of the proceedings is made public in a timely way.
- The forecast is published and made easily available.

The overall grade for this tool is 0 if the state does not prepare a consensus revenue forecast, ½ if it prepares a forecast that meets fewer than half of the additional criteria above, and 1 if it prepares a forecast that meets half or more of the criteria.

In addition, the major bond rating agencies (Fitch, Moody’s, and Standard & Poor’s) report that good forecasting is one of the characteristics of states with high bond ratings.⁹ For example, Moody’s includes consensus revenue forecasting as one of five “Financial Best Practices.” States receive a higher score on this measure — which is a part of the rating calculation for states — the more of these practices they employ.¹⁰ A low bond rating can increase a state’s borrowing costs.

⁸ *States’ Revenue Estimating: Cracks in the Crystal Ball*, Pew Center on the States, The Nelson A. Rockefeller Institute of Government, March 2011, p. 32.

⁹ Jeffrey M. Tebbs, “Breaking the Stalemate: A Proposal for a Consensus Revenue Forecasting Process,” Connecticut Voices for Children, March 2009.

¹⁰ US States Rating Methodology, Moody’s Investors Services, April 17, 2013, p. 8.

important fiscal measures and helps the public and non-governmental organizations participate in policymaking.

Every state's legislature receives valuable help in fulfilling this oversight function from professional staff who analyze measures that affect revenue collections and spending in the state. These staff may work for individual legislators, committees, or a separate agency. But not all states have a legislative agency or agencies *devoted* to fiscal analysis. Moreover, some states have a single non-partisan fiscal agency that serves both houses of the legislature, while others have a separate agency for each house.

While there are many effective fiscal agencies among these different configurations, research, experience, and common sense suggest that reducing the potential for political influence improves the analysis. A state can achieve this by relying on non-partisan agencies. In addition, a joint agency that staffs both houses of the legislature reduces the potential for technical disagreements between the House and Senate, allowing debates to focus on substantive policy differences. Moreover, agencies are best able to provide unbiased analysis when a significant share of their staff are career (not appointed) employees and thus retain their jobs when party control of the legislature changes.

Why This Is Important

State budgets are complex, and few legislators have training in this area before arriving at the state capital. In many states, term limits have shortened legislators' time in office, reducing their experience with budgeting. Professional staff can fill this gap.

Legislative fiscal offices can also make the budget process more open. Another important role of a legislative fiscal office is to prepare publicly available reports on state budgets and bills. These make for a more informed debate on fiscal matters.

Features of a Legislative Fiscal Office

- A professional legislative agency provides analysis of measures that affect revenue collections and spending. This agency should be non-partisan. That is, it should not serve one party in particular.
- One fiscal agency should serve both houses of the legislature.

The overall grade for this tool is 0 if the state does not have an independent, non-partisan fiscal agency, ½ if multiple agencies serve the legislature, and 1 if it meets both criteria.

Current Practices

Forty-four states have at least one legislative fiscal agency. Of these, all but eight are joint agencies that serve both houses of the legislature. (See Table 7.)

Examples

California established the Legislative Analyst's Office (LAO), the nation's first state legislative fiscal agency, in 1941. The LAO provides professional, non-partisan analysis of the short- and long-

term effects of budgets and tax and spending proposals. Elizabeth Hill, the longtime director of that office who retired in 2008, described the impact of the LAO as follows:

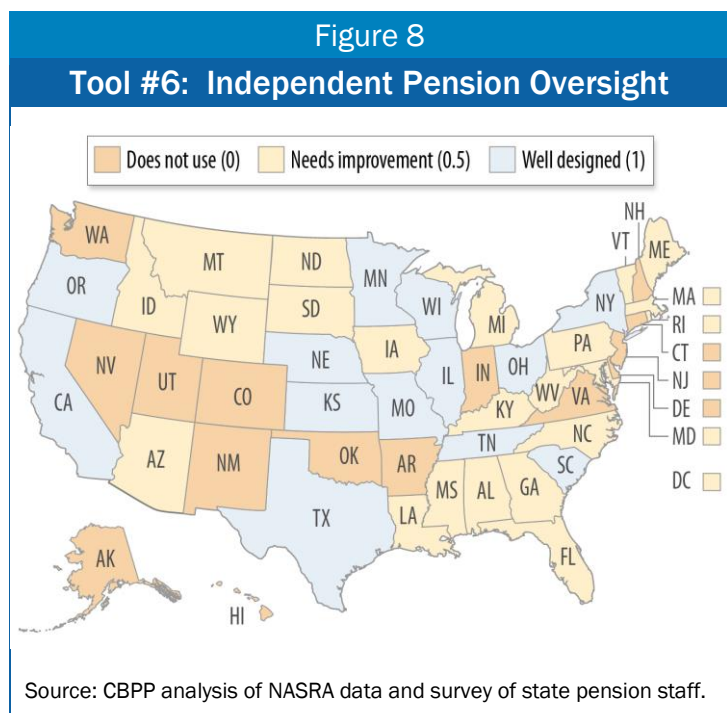
“We are often asked how many of our recommendations are adopted by the Legislature. We do not track such data out of the belief that we are doing our job by getting the best information and advice we have to offer on the table and available to inform decisions. However, recommendations have a long “shelf-life” in the public domain. Even when the Legislature rejects our suggested action, the executive branch or other “players” in the budgetary process often embrace our recommendations. While we do not always “get the credit,” we take satisfaction in influencing the debate from a variety of vantage points. We also have often found that the political climate was not right to make a change in the year that the recommendation was first offered. However, as times and conditions changed, our advice was taken at a future point in time. A long-range view is important in this business.”¹³

The professional, non-partisan staff of independent legislative fiscal offices are the budget insiders who are best able to step back and look beyond the normal one- or two-year budget window. For example, the Maryland Department of Legislative Services is tasked with preparing the annual Spending Affordability Briefing for legislators that examines the effect of current tax and spending policies on the future fiscal health of the state.

Tool #6: Independent Review of Pension Assumptions and Methods

State employee pensions are a long-term commitment for state budgets. Because the determination of the future costs of these commitments is complex, regular reviews of the process of estimating their costs is important to assuring accuracy.

Because pension funding is a long-term endeavor, calculating how much a state should contribute requires specialized knowledge. States must determine the amount of funds that should be set aside each year to pay retiree benefits in the future. This determination requires careful projections of life expectancies, forecasts of inflation, estimates of employee turnover, and other factors, and pension funds hire experts to make these projections. There is a danger that the



¹³ California’s Legislative Analyst’s Office: An Isle of Independence, Elizabeth G. Hill, Spectrum Magazine: The Journal of State Government, Fall 2003.

assumptions underlying the calculations make it seem like the state needs to contribute less than it really does. Over time, such adjustments could leave the pension fund underfunded, requiring larger contributions or benefit cuts in later years.

Yet it is not technical experts but rather state policymakers who determine the actual amount contributed each year. Those policymakers must balance the long-term importance of adequate contributions against other, often more immediate state needs. It is tempting for policymakers to “skip” or shortchange a contribution in a tight budget year on the assumption that it will be made up later

Independent Overview of Pensions

The process used for determining the annual contributions needed to fund new and existing pension obligations should be subject to regular reviews, ideally by outside authorities, and should be accessible to outside analysts.

Specifically:

- Major state-run pension funds should be subject to regular experience studies, or reviews of the assumptions concerning factors that affect future retirement costs.
- Regular audits should be conducted on the actuarial firms that calculate the amounts that the state and employees must contribute each year in order to fund future pension costs.
- Regular experience studies and actuarial audits should be required by statute.

The overall grade for this tool is 0 if the state does not regularly conduct both experience studies and actuarial audits, $\frac{1}{2}$ if the studies are conducted but only one is required by statute, and 1 if both are required by statute.

Regular reviews — by knowledgeable people outside the political process — of the assumptions used to determine the necessary contributions can determine their accuracy and allow course corrections in a timely manner if necessary. In this way, states can help avoid large, unexpected costs or benefit reductions.

Oversight of pension operations takes two major forms. Most pension funds are regularly subject to both “experience studies” and “actuarial audits.” An experience study focuses on the accuracy of the underlying assumptions (concerning employee tenure, age, longevity, and so on) that go into the cost calculations. An actuarial audit is a careful examination of the methods used by the outside and/or staff actuaries.

Why This Is Important

These multiple levels of review and oversight are needed because of the complex nature of funding retirement costs that will not come due for many years. Small changes made in a timely manner can avoid major costs in the future. In addition, bringing in experts who are independent of the political pressures of a state budget process and the employer-employee relationship can provide unbiased information on the fiscal health of pension funds.

Current Practices

All states conduct regular experience studies, but eight states do not require these studies by law. Forty-two states regularly conduct actuarial audits, but only 14 states require these audits by law. (See Table 8.)

IV. Ways to Stay On Course

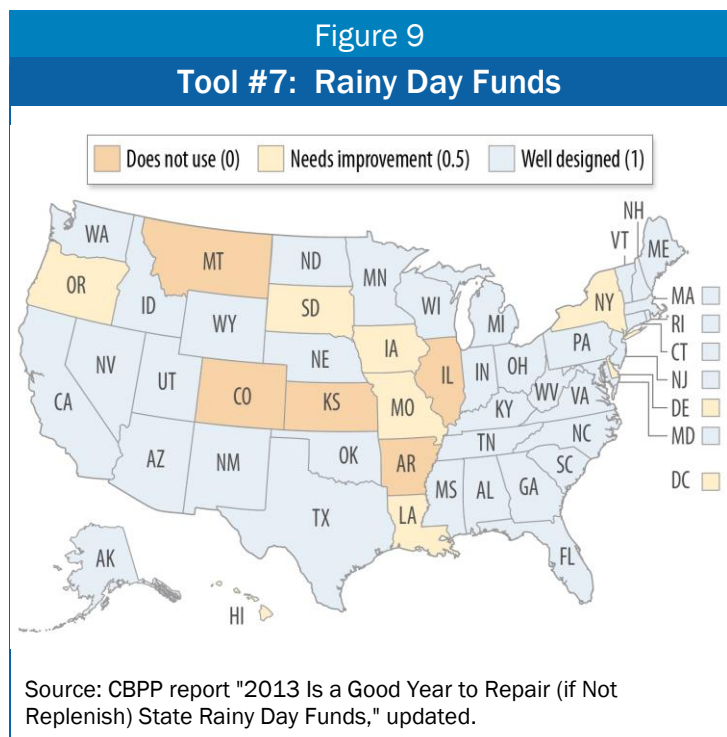
The budget process does not end when a state adopts a budget. The ups-and-downs of the economy and other uncertainties can disrupt the most carefully laid budget plans. To stay on course, states need rainy day funds, regular review of tax expenditures, adequate funding of pensions, debt guidelines, and periodic monitoring of revenue collections and spending.

Tool #7: Well Designed Rainy Day Funds

Sound budgetary planning should include budgeting for those inevitable times when economic downturns cause revenues to decline. Adequate and well designed rainy day funds (budget reserves that states can draw on when recessions or other unexpected events cause revenue declines or spending increases) and other reserves are one of the most important ways states can avoid the need for tax increases or spending cuts if budget forecasts prove wrong.

The roller-coaster economy of the past decade has highlighted the importance of rainy day funds. States entered the Great Recession with the biggest reserves on record, which allowed them to avert some \$20 billion in spending cuts and/or tax increases, yet those reserves filled only a modest share of states' record-setting budget gaps. Because reserves weren't big enough, most states enacted disruptive cuts to education, libraries, health care, human services, aid to local governments, and other areas, and many raised taxes too.

In many states, this inadequate funding reflected poor rainy day fund design as well as lack of foresight. The improving economy now allows states to begin replenishing those funds. But it is just as important for states to improve the *design* of their rainy day funds. The few states that lack such funds should enact them. And states that already have them can change their design so that they will be larger and easier to use in the next recession.



Why This Is Important

Economic recessions are a reality of modern life, so states must plan for them even though their exact size and duration cannot be predicted. Unrestricted general fund balances and designated rainy day funds serve as a state's first line of defense against the budget pressures caused by declining revenues and the rising need for public services during a downturn. These balances played an important role in helping states cope with the last two recessions, those of 2001 and 2007-2009. If the funds had not been available, states would have had to make even deeper cuts in health care, education, and other important services or raise additional revenues — steps that would have further slowed the states' weak economies and left residents without needed services.

In addition, these actions can have a direct effect on a state's economy. Spending cuts reduce overall demand, which can make a downturn deeper. When states cut spending, they lay off employees, cancel contracts with vendors, eliminate or lower payments to businesses and nonprofit organizations that provide direct services, and cut benefit payments to individuals. In all of these circumstances, the companies and organizations that would have received government payments have less money to spend on salaries and supplies, and individuals who would have received salaries or benefits have less money for consumption. This directly removes demand from the economy. So do many tax increases.

Features of a Well Designed State Rainy Day Fund

Every state should have a designated rainy day fund.

- There should be no cap on the fund's size; if there is a cap, it should equal at least 15 percent of the state budget.
- The state should be required by law to make deposits to the fund when certain conditions are met, such as when economic growth is expected to be above average in addition to making deposits when the budget ends in surplus.
- There should be no requirement that the funds be replenished in a set amount of time. That is, the state should be able to wait until economic growth has returned to refill the fund.
- There should be no limits on how much of the fund can be withdrawn during a given year.
- The legislature should be able to approve withdrawals from the fund with a simple majority.

The overall grade for this tool is 0 if the state has no rainy day fund, $\frac{1}{2}$ if it has a fund that meets fewer than half of the additional criteria above, and 1 if it has a fund that meets half or more of the criteria.

A well designed rainy day fund can also offset the volatility of some state taxes. For example, an income tax is a key element of a state tax system, in part because it is the only major tax that has kept pace with growing costs over the years. However, it is subject to ups and downs. Rainy day funds help smooth out the ups and downs of income tax collections.

Current Practices

Table 9 summarizes features of state rainy day funds that often need improvement. Ninety percent of states — all but 4 — have functioning rainy day funds, but there is room for improvement. Nine of these funds need significant upgrades and most of the rest fall short in some areas.

The recession highlighted some of the shortcomings of existing rainy day funds. The downturn's lessons for states on rainy day funds include:

- Having a rainy day fund is critical. States with rainy day funds averted over \$20 billion in cuts to services and/or tax increases in the Great Recession (and in the 2001 recession as well). Four states — Colorado, Illinois, Kansas, and Montana — do not have designated rainy day funds.
- States should loosen the caps on the size of their rainy day funds so they can build them up to adequate levels. Rainy day funds would have been even more effective in the Great Recession if they had been larger; one reason they weren't larger is that 36 states cap them at inadequate levels, namely less than 15 percent of the budget. States with overly restrictive caps should either remove the cap or raise it, such as to 15 percent of the budget.
- States should enact rules that prioritize deposits in good times. Most states place a low priority on replenishing their funds, depositing only whatever surpluses are left over at the end of the year. States should integrate rainy day fund transfers into the budget as part of an overall reserve policy that places a high priority on saving.
- States also should ease onerous replenishment rules that discourage states from using these reserves as intended. Ten states and the District of Columbia require rainy day funds to be replenished quickly after they are used, even if economic conditions have not improved. States should ease such rules, which not only create a disincentive to use the fund but place the rainy day fund in competition with other programs for scarce resources during a downturn.
- States should scale back limits on funds' use. Ten states have made their rainy day funds less effective in addressing budget deficits by requiring a supermajority of legislators to release the fund or by arbitrarily limiting how much of the fund can be released at one time.

For more detailed information on the important role that rainy day funds have played in the last two recessions and ways in which states can improve them, see recent CBPP reports.¹⁴

Examples

Rainy day funds proved invaluable in the recent recession. For example, Massachusetts has a well-designed rainy day fund that requires contributions when the economy is growing and allows access in bad times. The balance in the state's rainy day fund grew during the 1990s and again in the mid-2000s so that Massachusetts entered the last two recessions with healthy balances (10 percent in 2001 and 8 percent in 2006). As a result, the state was able to draw on these funds to reduce the size of budget cuts and tax increases needed to weather the recessions that followed.

¹⁴ Elizabeth McNichol, "2013 Is a Good Year to Repair (If Not Replenish) State Rainy Day Funds," Center on Budget and Policy Priorities, January 15, 2013, <http://www.cbpp.org/cms/?fa=view&id=3887> and Elizabeth McNichol and Kwame Boadi, "How and Why States Should Strengthen Their Rainy Day Funds," Center on Budget and Policy Priorities, February 3, 2011, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3387>.

The impact of the last recession, even in well prepared states like Massachusetts, convinced many states that their rainy day funds needed strengthening. As a result, a number of states have improved their rainy day funds in recent years. Since 2009, four states have raised the cap on the amount of funds to be held in the fund: Georgia, Oklahoma, and Virginia raised their caps from 10 percent to 15 percent of the state budget; South Carolina raised its cap from 3 percent to 5 percent — still far too low, but a step in the right direction.

Hawaii, Massachusetts, and Washington State in recent years enacted changes that will improve prospects for replenishing their funds in the future. Hawaii, which previously required any general fund ending balance over 5 percent of the budget to be refunded to taxpayers, gave legislators the choice of providing a tax refund or depositing the funds in the rainy day fund. Massachusetts enacted a requirement that any capital gains tax revenue collections over \$1 billion annually be deposited in the state’s reserves. Washington State voters approved a measure that requires that any “extraordinary” revenue growth — that is, growth that exceeds the five-year average by more than one-third — be deposited in the rainy day fund.

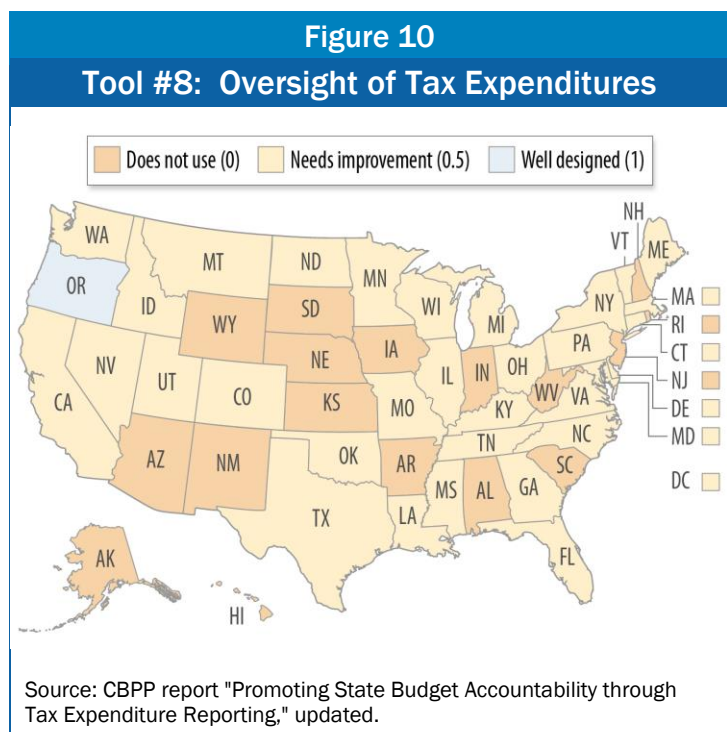
Vermont — which has a number of rainy day funds — did not tap them during the last recession, which increased the pressure for deeper program cuts. In 2012 the state enacted a package of reforms that should make it easier for the state to use its reserves when needed by adding a new fund (the rainy day reserve) that it may use to address budget shortfalls, whatever their cause.

One lesson from recent years is that rainy day fund improvements are popular with voters. Five of the changes described above were put before voters on the November 2010 ballot. These initiatives, in Hawaii, Oklahoma, South Carolina, Virginia, and Washington State, all passed.

Tool #8: Oversight of Tax Expenditures

Good fiscal management and planning require scrutiny of all parts of a state’s budget. Yet the costs of tax breaks — a major dimension of state fiscal policy — often go for years without examination.

Each year states spend tens, maybe hundreds, of billions of dollars through what economists call “tax expenditures” — tax credits, deductions, and exemptions that reduce state revenue. They range from well-known provisions such as the tax deduction for home mortgage interest, to much more hidden corporate subsidies. Tax expenditures cost state treasuries money in much the same way as direct spending for schools, health care, or road construction. And, like direct spending, tax expenditures can be a tool that states can use to accomplish policy goals if they are well designed



There are two key differences, however, between direct spending and tax expenditures. States typically require extensive documentation of each dollar of direct spending and often publish key metrics of what those dollars are purchasing. And direct spending is subject to annual or biannual review through states' normal budget processes. By contrast, most states' policymakers do *not* regularly examine tax expenditures, nor do states document their use to the same extent that they do for on-budget expenditures.

A state can address this inconsistency by regularly publishing a tax expenditure report. Also called a tax expenditure budget, it lists the state's tax breaks and how much each one costs, along with other relevant information that helps policymakers and others evaluate them.

Requiring that tax expenditures "sunset" (expire after a specified number of years) so that they receive regular scrutiny for cost and effectiveness significantly strengthens this oversight. Policymakers can set an expiration date when they enact new tax expenditures and retroactively apply expiration dates to existing tax expenditures.

Why This Is Important

Tax expenditures are large, sometimes equaling or even exceeding the sum of all direct expenditures. Without oversight, tax expenditures can become a hidden driver of a state's budget, locking a state into ongoing and sometimes increasingly costly commitments that it might not otherwise choose. Most tax expenditures are written into the tax code and thus are designed to continue indefinitely — regardless of how costly they become over time. A state can repeal a tax expenditure, but this happens rarely; most often, they are on autopilot.

One reason that tax expenditures tend to last indefinitely is that they are rarely in the public eye. And without information on a particular tax expenditure's costs and benefits, lawmakers cannot make an informed decision on whether its continuation is in the state's interest.

The more that states spend on tax expenditures, the less they have for direct spending programs, or for reductions in tax rates. This tradeoff should be made explicit in order for a state to plan wisely for the future. Yet often it is not.

Regular examination of tax breaks for businesses and individuals — through tax expenditure reports and/or sunsets that require policymakers to renew tax breaks periodically — encourages pruning of ones that are no longer effective. This frees up funds for other purposes.

Current Practices

Only six states — Illinois, Missouri, Nevada, Oregon, Virginia, and Washington — regularly require reauthorization of tax expenditures, even though this is the most effective way to ensure regular review of their cost and effectiveness. (See Table 10.)

Tax expenditure reports are more common, as 38 states (including the District of Columbia) produce some form of report. Unfortunately, many have significant shortcomings:

- Seven of the 38 states omit major taxes from their tax expenditure report.

- Almost every state’s report omits some essential information, such as costs to local governments or the number of households or businesses that benefit.

Some state tax expenditure reports are much better than others, but every state could improve in this area.¹⁵ Oregon, Minnesota, and the District of Columbia publish relatively comprehensive and informative reports that could serve as models. Among the least useful reports are those issued by Colorado and Utah, which omit major taxes, fail to provide cost estimates and other key information for many tax expenditures, and/or are not available online.

Examples

Oregon’s tax expenditure reporting practices have helped the state save money since its first report, released in 1996, showed that a state law exempting lottery winnings from the income tax was costing the state about \$44 million per biennium. Policymakers scaled back the exemption the following year and again in 2001, saving the state more than \$40 million per biennium. More recently, the report helped draw attention to the cost of a tax credit for purchasing gasoline-hybrid vehicles, which had grown from a total of \$6,000 in 1999 to more than \$4.5 million in 2008. The state eliminated the credit in 2009 and now saves up to \$10 million each biennium as a result.

Features of Effective Oversight of Tax Expenditures

A state can regularly assess the cost and effectiveness of tax exemptions, deductions, and credits by building in an expiration date (or “sunset”) or by regularly publishing a list of tax expenditures and their cost.

A sunset provision, which requires reauthorization of each tax break after a specified number of years, builds oversight into the budget process.

A well designed tax expenditure report informs the review process and can be an alternative to sunsets. This report should be updated regularly and easy to access. In addition,

- It should include tax expenditures arising from all major taxes.
- Costs to localities as well as to the state should be estimated.
- The report should be based on current data (i.e., from no more than two years ago).
- The report should include detailed information about each item’s cost, structure, and goal.

The overall grade for this tool is 0 if the state does not require sunsets or produce a tax expenditure report, ½ if it produces a tax expenditure report that meets more than half of these criteria or requires sunsets, and 1 if it requires sunsets and produces a tax expenditure report that meets more than half of the criteria above.

¹⁵ For detailed information on states’ current practices, see Michael Leachman, Dylan Grundman, and Nicholas Johnson, “Promoting State Budget Accountability Through Tax Expenditure Reporting,” Center on Budget and Policy Priorities, updated May 24, 2011, <http://www.cbpp.org/cms/?fa=view&id=3491>.

downturn or fiscal emergency temporarily prevents them from making the full payments.

One reason that some states have failed to make sufficient contributions is that they have legal limits on the amount that the state can contribute each year. In some cases, these limits are lower than the amount needed to fully fund the pension. Removing these limits would give a state the flexibility to make full contributions.

The performance of the investments made by the pension trust funds also has a significant effect on the pension liabilities of a state. Excessively risky investments can lead to the sudden emergence of big funding gaps when the market falls, while excessively conservative investments produce little income and thus require higher-than-needed contributions of state dollars. Some states hire independent advisors to oversee the investment practices of pension administrators. Investment councils made up of experts who do not have a direct stake in benefit payments or state budgets can improve both stability and growth of pension investments.

Debt

Like pension obligations, debt is an important and helpful policy tool for states if it is well-managed over time. Almost all state and local debt is long-term debt incurred to pay for capital expenditures. States issue long-term debt in the form of bonds, primarily for infrastructure projects such as roads and bridges, schools, water systems, and hospitals.¹⁷

Borrowing is an important tool for states because it allows the state to spread out the cost of a bridge, for example, over the years that it will be in use. This has two main advantages. It allows taxpayers who will use the structure to help pay for it. In addition, spreading the financing of large capital projects over the life of the structure makes the projects more affordable by reducing the pressure on a state's budget in any given year and allows the state to undertake large projects in a timely manner.

As part of the annual budget process, states make payments on the debt they have incurred. No state has failed to make payments on general obligation debt (debt secured by the "full faith and credit" of the state) since the 1930s, in part because defaulting on these obligations would significantly impair a state's ability to borrow in the future. The greater risk for states is that they might borrow so heavily that their debt obligations begin to crowd out other parts of the state budget.

States use several methods to limit their indebtedness. The most common way is to set a target or cap for the maximum amount of debt that the state issues.¹⁸ A target is typically a ratio of total indebtedness or total annual debt payments to a measure of a state's resources. Total debt is compared to the total personal income, property values, or population of the state. The annual cost

¹⁷ This section focuses on long-term general obligation debt as this has the most impact on state budgets. States also issue revenue bonds that are paid back with a specific dedicated tax or fee and short-term 'notes' that are quickly paid back with tax collections to assist with cash flow.

¹⁸ For the purposes of these ratios most states define debt as net tax-supported debt as this is the debt that has the most impact on the state budget. This is intended to capture all long-term debt that is paid back with general tax dollars.

of debt payments are most commonly compared to state revenues.¹⁹ Most states evaluate the affordability of new debt using one or both of these types of limits, but some have neither, and a few states are prohibited from issuing general obligation debt.

These targets should be guidelines rather than rigid caps. Policymakers need flexibility if the state faces unusual capital needs resulting from natural disasters, aging infrastructure, or other challenges. Cap calculations based on gross domestic product (GDP) should be based on multi-year averages so that they are smoother, allowing for more consistent planning. Caps should also allow for slightly more borrowing when interest rates are low than when they are high.

To be sure, how much a state should borrow is a policy decision that should reflect a state's infrastructure needs, the current cost of debt, and expected revenue growth. In today's economic climate, for instance, some experts argue that the current low interest rates make this a good time for states to consider debt financing, while others feel that states and local governments have incurred too much long-term debt already.²⁰ But because each decision to issue a bond is a policy choice that will affect the state for decades into the future, guidelines are needed to prevent one generation's decisions from pre-empting those of the next.

Why This Is Important

For most states at present, neither excessive borrowing nor high debt service payments pose a major problem. Pension costs were less than 4 percent of state and local budgets in fiscal year 2012 (the most current year available), while state payments for interest on general obligation debt averaged less than 3 percent of state budgets, according to Census data for fiscal year 2011.²¹ But that doesn't mean states shouldn't monitor these measures closely. Already, a few states have incurred large unfunded pension obligations, often because they have failed to make adequate contributions. Similarly, a few states have relied too heavily on borrowing, and the resulting debt service payments put pressure on the state's budget. Given the other constraints on state finances, all states should keep a careful eye on these costs.

Current Practices

Even with the constraints on state revenue that resulted from the Great Recession, some 26 states have made full or close-to-full contributions to their major pension plans in recent years. More will likely be able to afford this as the economy recovers. Because income from the assets of trust funds plays such a large role in funding pensions, a number of states (24) have independent investment councils to oversee the investment practices of pension administrators. (See Table 11.)

States also pay close attention to the amount of debt incurred. Thirty-three states have some kind of guidelines for the amount of debt (or debt service) allowed.

¹⁹ *Assessing the Affordability of State Debt*, Jennifer Weiner, New England, Public Policy Center, Research Report 13-2, Federal Reserve Bank of Boston, December 2013.

²⁰ Ibid.

²¹ Ibid, p. 22.

Features of a Prudent Pension and Debt Policy

For pensions under the state's control:

- There should be no restrictions that impede full payment of normal annual pension costs.
- The state should generally make the actuarially determined annual required contribution.
- Independent investment councils should oversee the investment mix of assets in the pension trust fund.

For debt:

- States should set guidelines for the amount of debt or debt service that the state can incur and regularly monitor debt levels.

The overall grade for this tool is 0 if the state does not make full contributions to pension trust funds and meets only one of the other criteria; $\frac{1}{2}$ if it fails to make full pension contributions but meets two or more of the other criteria; and 1 if it makes full pension contributions regardless of the other criteria.

Tool #10: Budget Status Reports

A state budget will only stay on course if revenue collections and spending do not vary significantly from the projections included when a budget is enacted.

The state budget process does not (or at least it should not) end when the legislature adopts and the governor approves a budget for the next year or two. Throughout the year, revenues and fees are collected, and payments are made to non-profits, groups, individuals, businesses, and employees to carry out the functions of the state. Tracking spending and revenue collections throughout the year and taking corrective measures if needed will significantly improve a state's fiscal outlook and reduce the likelihood of a year-end shortfall.

On the spending side, this monitoring should take the form of regular reports that compare the amount spent each month to the amount that the state expected to spend when the budget was adopted. In areas that cost more than expected, the state can put cost-saving measures in place or reallocate resources within the budget to prevent shortfalls or service reductions.

States should also carefully monitor revenue collections. Changes in the state or national economy can push revenues well above or below budget estimates that were prepared well before the state budget year began. Monthly reports can catch problems before they become too large. In addition, states should make a regular practice of re-estimating revenues during the budget year to take account of changing economic circumstances and adjust for assumptions that may not be accurate.

Features of Budget Status Reports

A state needs regular information on revenue collections and spending throughout the budget year in order to avoid budget gaps.

- The state should publish *updated* revenue projections at least once each fiscal year.
- The state should monitor and report on the amount actually spent compared to the previous year at least monthly.
- The state should report on the amount of revenue collected compared to estimates at least monthly.

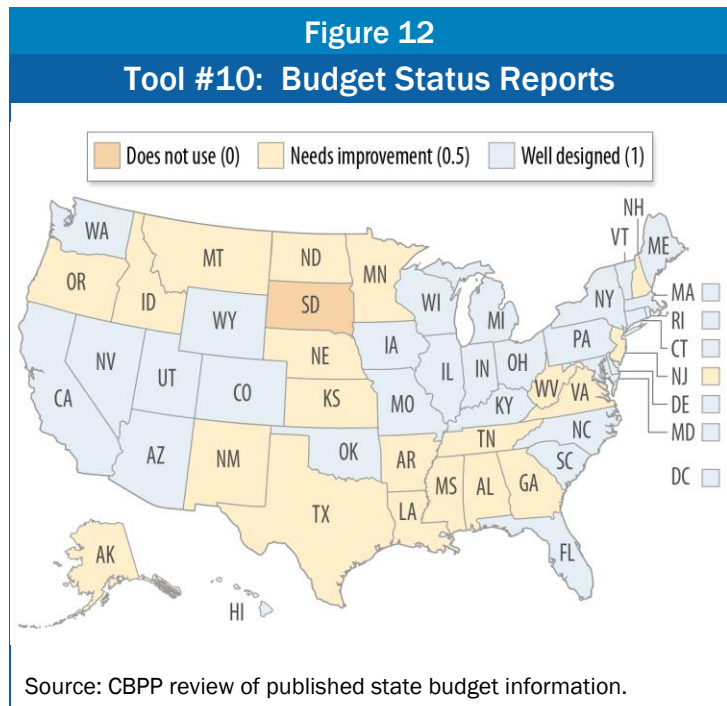
The overall grade for this tool is 0 if a state doesn't produce revenue or spending status reports or an updated revenue projection during the budget year, ½ if it produces either revenue or spending status reports or an updated revenue projection, and 1 if it produces at least two of these measures.

Why This Is Important

Ongoing monitoring of spending and revenues helps a state make adjustments as needed during the year, reducing the need for larger program cuts or tax increases if the state waited to address shortfalls until the end of the year.

Current Practices

Most states track revenue collections on a monthly or quarterly basis, but few regularly publish detailed comparisons of actual spending to the amount budgeted. (See Table 12.) Forty-three states prepare monthly revenue status reports. Over two-thirds of the states (35) prepare a second revenue estimate at some point during the budget year to compare collections to the original estimates. But on the spending side, only eleven states prepare detailed spending reports that compare the amount spent to the amount initially budgeted.



Examples

Connecticut's state comptroller issues monthly reports on state revenues and spending to date and projected deficits. These reports have often prompted mid-budget corrections. For example, in 2009 the state cut spending and raised taxes in November, five months into the fiscal year, when it became clear that revenues were going to fall short of original projections and the state faced a projected shortfall of \$470 million.

By recognizing the problem early, the state balanced the budget with spending cuts that were a smaller percentage of the budget than would have been required if it had not acted until later in the budget year, since these cuts were spread out over the remaining 7 months of the fiscal year.

V. Appendix A: Summary Tables

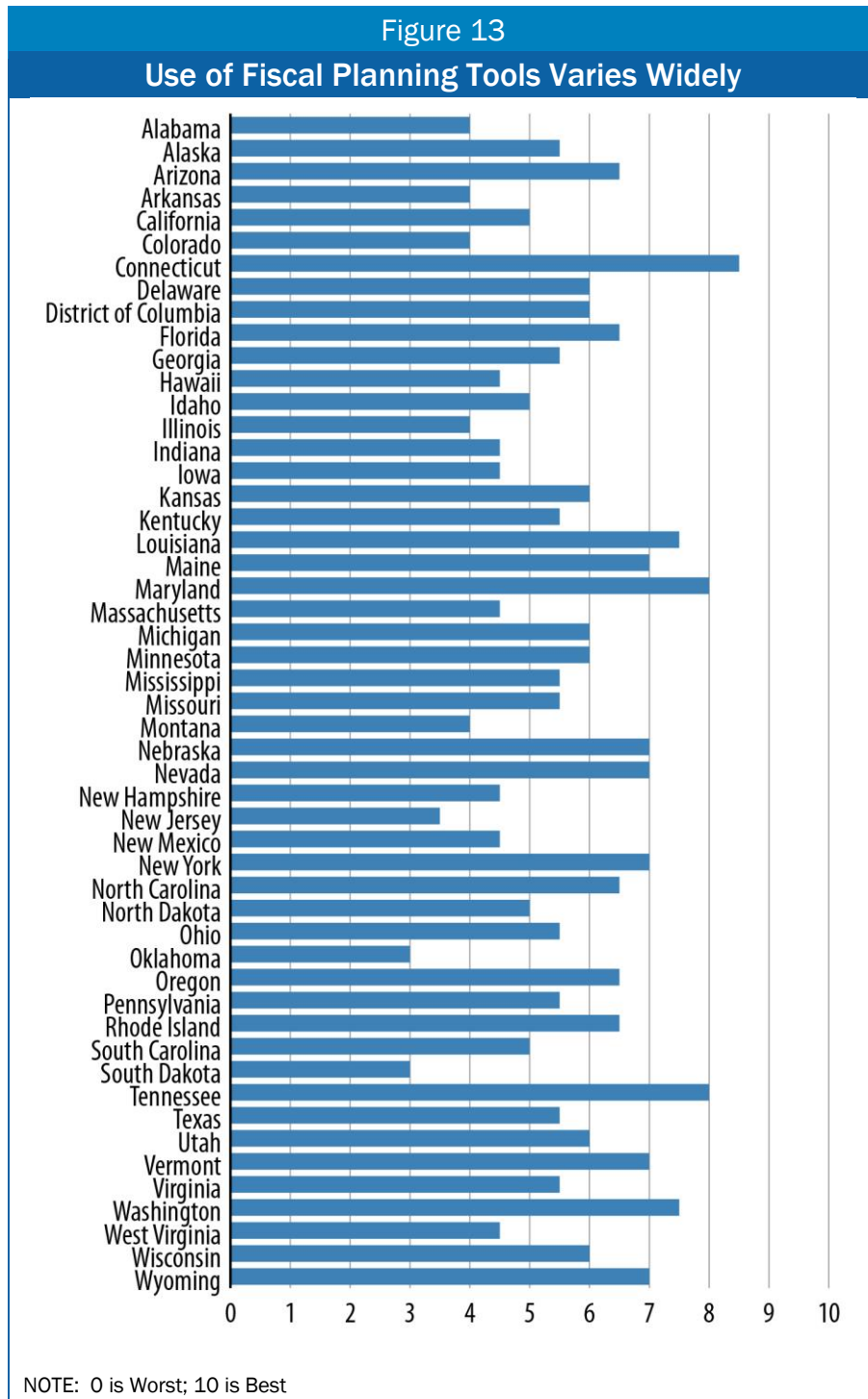


Table 3

Tool #1: Multi-year Forecasts of Revenues and Spending

State	Revenue Forecast Extends Past Budget Year	Revenue Forecast is Detailed	Spending Forecast Extends Past Budget Year	Spending Forecast is Detailed	Score
Alabama	0	0	0	0	0
Alaska	1	0	1	0	0.5
Arizona	1	0	1	0	0.5
Arkansas	0	0	0	0	0
California	0	0	0	0	0
Colorado	1	1	1	0	1
Connecticut	1	1	1	1	1
Delaware	1	1	0	0	0.5
District of Columbia	1	1	1	1	1
Florida	0	0	0	0	0
Georgia	1	0	1	1	1
Hawaii	1	1	1	1	1
Idaho	0	0	0	0	0
Illinois	0	0	0	0	0
Indiana	0	0	0	0	0
Iowa	0	0	0	0	0
Kansas	1	0	1	1	1
Kentucky	0	0	0	0	0
Louisiana	1	1	0	0	0.5
Maine	1	1	0	0	0.5
Maryland	1	1	1	1	1
Massachusetts*	0	0	0	0	0
Michigan	1	1	0	0	0.5
Minnesota	1	1	1	1	1
Mississippi	0	0	0	0	0
Missouri	0	0	0	0	0
Montana	0	0	0	0	0
Nebraska	1	1	1	0	1
Nevada	0	0	0	0	0
New Hampshire	0	0	0	0	0
New Jersey	0	0	0	0	0
New Mexico	1	1	0	0	0.5
New York	1	1	1	1	1
North Carolina	0	0	0	0	0
North Dakota	0	0	0	0	0
Ohio	0	0	0	0	0
Oklahoma	0	0	0	0	0
Oregon	0	0	0	0	0
Pennsylvania	1	1	1	1	1
Rhode Island	1	1	1	1	1
South Carolina	0	0	0	0	0
South Dakota	0	0	0	0	0
Tennessee	1	0	1	1	1
Texas	0	0	0	0	0
Utah	0	0	0	0	0
Vermont*	1	1	0	0	0.5
Virginia	1	1	1	1	1
Washington	1	1	1	0	1
West Virginia	1	1	1	1	1
Wisconsin	0	0	0	0	0
Wyoming	0	0	0	0	0
TOTAL	24	19	18	13	

Source: Table 7 from NASBO's "Budget Processes in the States" (2008) and CBPP review of published state budget information: <http://www.nasbo.org/publications-data/budget-processes-in-the-states>.
See Notes after Table 12.

Table 4

Tool #2: Fiscal Notes With Multi-year Projections

State	Estimates costs for more than		Score
	one year	Estimates costs for 5 years or more	
Alabama	0	0	0
Alaska	1	1	1
Arizona	1	0	0.5
Arkansas	1	0	0.5
California	0	0	0
Colorado	1	0	0.5
Connecticut	1	1	1
Delaware	1	0	0.5
District of Columbia	1	0	0.5
Florida	1	0	0.5
Georgia	1	0	0.5
Hawaii	0	0	0
Idaho	0	0	0
Illinois	0	0	0
Indiana	1	0	0.5
Iowa	1	0	0.5
Kansas	1	0	0.5
Kentucky	1	0	0.5
Louisiana	1	1	1
Maine	1	0	0.5
Maryland	1	1	1
Massachusetts	0	0	0
Michigan	1	0	0.5
Minnesota	1	1	1
Mississippi	0	0	0
Missouri	1	0	0.5
Montana	1	0	0.5
Nebraska	1	0	0.5
Nevada	1	0	0.5
New Hampshire	1	0	0.5
New Jersey	1	0	0.5
New Mexico	1	0	0.5
New York	0	0	0
North Carolina	1	1	1
North Dakota	1	0	0.5
Ohio	1	0	0.5
Oklahoma	0	0	0
Oregon	1	1	1
Pennsylvania	1	0	0.5
Rhode Island	1	0	0.5
South Carolina	0	0	0
South Dakota	0	0	0
Tennessee	1	0	0.5
Texas	1	1	1
Utah	1	0	0.5
Vermont	1	0	0.5
Virginia	1	1	1
Washington	1	1	1
West Virginia	1	0	0.5
Wisconsin	1	0	0.5
Wyoming	1	0	0.5
TOTAL	40	10	

Source: CBPP report "Improving Budget Analysis of State Criminal Justice Reforms: A Strategy For Better Outcomes and Saving Money" and review of published state fiscal note information: <http://www.cbpp.org/cms/?fa=view&id=3654>.

See Notes after Table 12.

Table 5

Tool #3: Current Services Baselines

State	Has a Current Services Baseline	Baseline Extends Beyond Current Budget	Regular Part of Governor's or Enacted Budget	Baseline Is Accessible and Assumptions Are Clear	Estimates Provided at Detailed Level	Score
Alabama	0	0	0	0	0	0
Alaska	1	1	1	1	1	1
Arizona	1	1	1	1	1	1
Arkansas	0	0	0	0	0	0
California	1	1	0	0	0	0.5
Colorado	0	0	0	0	0	0
Connecticut	1	1	1	1	1	1
Delaware	0	0	0	0	0	0
District of Columbia*	0	0	0	0	0	0
Florida	0	0	0	0	0	0
Georgia	0	0	0	0	0	0
Hawaii	0	0	0	0	0	0
Idaho	1	0	0	0	0	0.5
Illinois	0	0	0	0	0	0
Indiana	0	0	0	0	0	0
Iowa	0	0	0	0	0	0
Kansas	1	0	1	0	1	1
Kentucky	0	0	0	0	0	0
Louisiana	1	0	1	0	1	1
Maine	0	0	0	0	0	0
Maryland	1	0	1	1	0	1
Massachusetts	0	0	0	0	0	0
Michigan	0	0	0	0	0	0
Minnesota*	0	0	0	0	0	0
Mississippi	0	0	0	0	0	0
Missouri	0	0	0	0	0	0
Montana	1	0	1	1	1	1
Nebraska	0	0	0	0	0	0
Nevada	1	0	1	1	1	1
New Hampshire	1	0	1	0	1	1
New Jersey	0	0	0	0	0	0
New Mexico	0	0	0	0	0	0
New York	1	1	1	1	1	1
North Carolina*	0	0	0	0	0	0
North Dakota	1	0	1	0	1	1
Ohio	0	0	0	0	0	0
Oklahoma	0	0	0	0	0	0
Oregon	1	0	1	0	1	1
Pennsylvania	0	0	0	0	0	0
Rhode Island	0	0	0	0	0	0
South Carolina	0	0	0	0	0	0
South Dakota	0	0	0	0	0	0
Tennessee	1	0	1	0	1	1
Texas	0	0	0	0	0	0
Utah	0	0	0	0	0	0
Vermont	1	0	1	0	0	0.5
Virginia	0	0	0	0	0	0
Washington	1	0	1	0	1	1
West Virginia	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0
Wyoming	1	0	1	0	1	1
TOTAL	18	5	16	7	14	

Source: CBPP report "The Current Services Baseline: A Tool for Understanding Budget Choices" (updated) and review of published current services budget information: <http://www.cbpp.org/cms/?fa=view&id=3602>.

See Notes after Table 12.

Table 6

Tool #4: Consensus Revenue Estimates

State	Consensus Group Estimates Official Forecast	Forecast Is Binding	Consensus Forecast Is Required by Statute	Forecasting Group Includes Non-government Experts	Deliberations Are Accessible to Public	The Forecast Is Published and Made Easily Available	Score
Alabama	0	0	0	0	0	0	0
Alaska	0	0	0	0	0	0	0
Arizona	0	0	0	0	0	0	0
Arkansas	0	0	0	0	0	0	0
California	0	0	0	0	0	0	0
Colorado	0	0	0	0	0	0	0
Connecticut	1	1	1	0	1	1	1
Delaware	1	1	1	1	1	1	1
District of Columbia	0	0	0	0	0	0	0
Florida	1	1	1	0	1	1	1
Georgia	0	0	0	0	0	0	0
Hawaii	1	1	1	1	1	1	1
Idaho	0	0	0	0	0	0	0
Illinois	0	0	0	0	0	0	0
Indiana	1	1	0	1	1	1	1
Iowa	1	1	1	1	1	1	1
Kansas	1	1	0	1	1	1	1
Kentucky	1	1	1	1	1	1	1
Louisiana	1	1	1	1	1	1	1
Maine	1	1	1	1	1	1	1
Maryland	1	1	1	0	1	1	1
Massachusetts	1	1	1	1	1	1	1
Michigan	1	1	1	0	1	1	1
Minnesota*	0	0	0	0	0	0	0
Mississippi	1	1	1	1	1	1	1
Missouri	1	1	0	1	0	1	1
Montana	0	0	0	0	0	0	0
Nebraska	1	1	1	1	1	0	1
Nevada	1	1	1	1	1	1	1
New Hampshire	0	0	0	0	0	0	0
New Jersey	0	0	0	0	0	0	0
New Mexico	1	1	1	0	1	1	1
New York	1	0	1	0	1	1	1
North Carolina	1	1	0	0	0	1	0.5
North Dakota	0	0	0	0	0	0	0
Ohio	0	0	0	0	0	0	0
Oklahoma	0	0	0	0	0	0	0
Oregon	0	0	0	0	0	0	0
Pennsylvania	0	0	0	0	0	0	0
Rhode Island	1	1	1	0	1	1	1
South Carolina	1	1	1	0	0	1	1
South Dakota	0	0	0	0	0	0	0
Tennessee	1	0	1	1	1	1	1
Texas	0	0	0	0	0	0	0
Utah	1	1	1	1	1	1	1
Vermont	1	0	1	0	1	1	1
Virginia	1	1	1	1	1	1	1
Washington	1	1	1	0	1	1	1
West Virginia	0	0	0	0	0	0	0
Wisconsin	0	0	0	0	0	0	0
Wyoming	1	1	0	1	0	1	1
TOTAL	28	25	23	17	24	27	

Source: Email communications with National Conference of State Legislatures' staff and CBPP review of published state revenue forecasting processes: <http://www.nasbo.org/publications-data/budget-processes-in-the-states>.

See Notes after Table 12.

Table 7

Tool #5: Legislative Fiscal Offices

State	Has An Independent, Non-partisan Fiscal Agency or Agencies	There Is Only One Fiscal Agency That Serves Both Houses of the Legislature	Score
Alabama	1	1	1
Alaska	1	1	1
Arizona	1	1	1
Arkansas	1	1	1
California	1	1	1
Colorado	1	1	1
Connecticut	1	1	1
Delaware	1	1	1
District of Columbia	1	1	1
Florida	1	1	1
Georgia	1	0	0.5
Hawaii	0	0	0
Idaho	1	1	1
Illinois	1	1	1
Indiana	0	0	0
Iowa	1	1	1
Kansas	1	1	1
Kentucky	1	1	1
Louisiana	1	1	1
Maine	1	1	1
Maryland	1	1	1
Massachusetts	0	0	0
Michigan	1	0	0.5
Minnesota	1	0	0.5
Mississippi	1	1	1
Missouri	1	1	1
Montana	1	1	1
Nebraska	1	1	1
Nevada	1	1	1
New Hampshire	1	1	1
New Jersey	1	1	1
New Mexico	1	1	1
New York	0	0	0
North Carolina	1	1	1
North Dakota	1	1	1
Ohio	1	1	1
Oklahoma	1	0	0.5
Oregon	1	1	1
Pennsylvania	1	0	0.5
Rhode Island	1	0	0.5
South Carolina	0	0	0
South Dakota	1	1	1
Tennessee	1	0	0.5
Texas	1	1	1
Utah	1	1	1
Vermont	1	1	1
Virginia	0	0	0
Washington	1	0	0.5
West Virginia	0	0	0
Wisconsin	1	1	1
Wyoming	1	1	1
TOTAL	44	36	

Source: NCSL "State Legislative Fiscal Offices Sites" and CBPP review of state fiscal offices:

<http://www.ncsl.org/research/fiscal-policy/state-legislative-fiscal-offices-sites.aspx>.

See Notes after Table 12.

Table 8
Tool #6: Pension Oversight

State	Regular Experience Study Conducted	Regular Actuarial Audit Conducted	Experience Study Required by Statute	Actuarial Audit Required by Statute	Score
Alabama	1	1	1	0	0.5
Alaska	1	0	1	0	0
Arizona	1	1	1	0	0.5
Arkansas	1	0	1	0	0
California	1	1	1	1	1
Colorado	1	1	0	0	0
Connecticut	0	0	0	0	0
Delaware	1	1	0	0	0
District of Columbia	1	1	1	0	0.5
Florida	1	1	0	1	0.5
Georgia	1	1	1	0	0.5
Hawaii	1	0	0	0	0
Idaho	1	1	1	0	0.5
Illinois	1	1	1	1	1
Indiana	1	0	1	0	0
Iowa	1	1	1	0	0.5
Kansas	1	1	1	1	1
Kentucky	1	1	1	0	0.5
Louisiana	1	1	1	0	0.5
Maine	1	1	1	0	0.5
Maryland	1	1	1	0	0.5
Massachusetts	1	1	1	0	0.5
Michigan	1	1	1	0	0.5
Minnesota	1	1	1	1	1
Mississippi	1	1	1	0	0.5
Missouri	1	1	1	1	1
Montana	1	1	1	0	0.5
Nebraska	1	1	1	1	1
Nevada	1	1	0	0	0
New Hampshire	1	0	1	0	0
New Jersey	1	0	1	0	0
New Mexico	1	1	0	0	0
New York	1	1	1	1	1
North Carolina	1	1	1	0	0.5
North Dakota	1	1	1	0	0.5
Ohio	1	1	1	1	1
Oklahoma	1	0	1	0	0
Oregon	1	1	1	1	1
Pennsylvania	1	1	1	0	0.5
Rhode Island	1	1	1	0	0.5
South Carolina	1	1	1	1	1
South Dakota	1	1	1	0	0.5
Tennessee	1	1	1	1	1
Texas	1	1	1	1	1
Utah	1	1	0	0	0
Vermont	1	1	1	0	0.5
Virginia	1	1	0	0	0
Washington	1	0	1	0	0
West Virginia	1	1	1	0	0.5
Wisconsin	1	1	1	1	1
Wyoming	1	1	1	0	0.5
TOTAL	50	42	42	14	

Source: CBPP analysis of data from National Association of State Retirement Administrators and Survey of state pension offices: <http://www.publicfundsurvey.org/publicfundsurvey/index.htm>. See Notes after Table 12.

Table 9
Tool #7: Rainy Day Funds

State	Has a Rainy Day Fund	No Cap or Cap 15% or More of General Fund	Deposit Required by Law	No Rule Requiring Replenishment by Set Time	No Limit on Use	Legislature Can Approve Use with Simple Majority	Score
Alabama	1	0	1	0	1	1	1
Alaska	1	1	1	0	1	1	1
Arizona	1	0	1	1	0	1	1
Arkansas	1	0	0	1	1	1	1
California	1	0	1	1	1	1	1
Colorado	0	0	0	0	0	0	0
Connecticut	1	0	0	1	1	1	1
Delaware	1	0	0	1	1	0	0.5
District of Columbia	1	0	1	0	0	1	0.5
Florida	1	0	1	0	1	1	1
Georgia	1	1	0	1	1	1	1
Hawaii	1	0	0	1	1	0	0.5
Idaho	1	0	1	1	0	1	1
Illinois	0	0	0	0	0	0	0
Indiana	1	0	1	1	0	1	1
Iowa	1	0	0	0	1	1	0.5
Kansas	0	0	0	0	0	0	0
Kentucky	1	0	0	1	1	1	1
Louisiana	1	0	1	1	0	0	0.5
Maine	1	0	0	1	1	1	1
Maryland	1	1	1	1	1	1	1
Massachusetts	1	1	1	1	1	1	1
Michigan	1	0	1	1	0	1	1
Minnesota	1	0	1	1	1	1	1
Mississippi	1	0	1	1	1	1	1
Missouri	1	0	0	0	0	0	0.5
Montana	0	0	0	0	0	0	0
Nebraska	1	1	0	1	1	1	1
Nevada	1	1	1	1	1	1	1
New Hampshire	1	0	0	1	1	1	1
New Jersey	1	0	0	1	1	1	1
New Mexico	1	1	0	1	1	1	1
New York*	1	0	0	0	1	1	0.5
North Carolina	1	0	0	1	1	1	1
North Dakota	1	0	0	1	1	1	1
Ohio	1	0	0	1	1	1	1
Oklahoma	1	1	0	1	0	1	1
Oregon	1	0	1	1	0	0	0.5
Pennsylvania	1	1	0	1	1	0	1
Rhode Island	1	0	1	0	1	1	1
South Carolina	1	0	1	0	1	1	1
South Dakota	1	0	0	1	1	0	0.5
Tennessee	1	0	1	1	0	1	1
Texas	1	0	1	1	1	0	1
Utah	1	0	0	1	1	1	1
Vermont	1	0	0	1	1	1	1
Virginia	1	1	1	1	0	1	1
Washington	1	0	1	1	1	1	1
West Virginia	1	0	0	1	1	1	1
Wisconsin	1	0	0	1	1	1	1
Wyoming	1	1	0	1	1	1	1
TOTAL	47	11	22	38	36	39	

Source: CBPP report "2013 Is a Good Year to Repair (if Not Replenish) State Rainy Day Funds.", (updated) <http://www.cbpp.org/cms/?fa=view&id=3887>. See notes after Table 12.

Table 10
Tool #8: Oversight of Tax Expenditures

State	Mandatory Sunset Provision on Tax Expenditures	Tax Expenditure Report Regularly Published and Available Online	Report Covers all Major Taxes	Report Shows Cost To Localities Separately	Report Includes Current Data	Report Includes Description and Rationale	Score
Alabama	0	0	0	0	0	0	0
Alaska	0	0	0	0	0	0	0
Arizona	0	1	1	0	0	0	0
Arkansas	0	0	0	0	0	0	0
California	0	1	1	1	1	0	0.5
Colorado	0	1	1	0	1	0	0.5
Connecticut	0	1	1	1	1	1	0.5
Delaware	0	1	1	0	1	1	0.5
District of Columbia	0	1	1	1	1	1	0.5
Florida	0	1	1	1	1	0	0.5
Georgia	0	1	0	1	1	0	0.5
Hawaii	0	0	0	0	0	0	0
Idaho	0	1	1	0	1	0	0.5
Illinois	1	1	1	0	0	0	0.5
Indiana	0	0	0	0	0	0	0
Iowa	0	0	0	0	0	0	0
Kansas	0	1	1	0	0	0	0
Kentucky	0	1	1	0	1	0	0.5
Louisiana	0	1	1	0	1	1	0.5
Maine	0	1	1	0	1	1	0.5
Maryland	0	1	1	1	1	0	0.5
Massachusetts	0	1	1	0	1	0	0.5
Michigan	0	1	1	1	1	0	0.5
Minnesota	0	1	1	1	1	0	0.5
Mississippi	0	1	1	0	1	1	0.5
Missouri	1	0	0	0	0	0	0.5
Montana	0	1	1	1	1	1	0.5
Nebraska	0	1	1	0	0	0	0
Nevada	1	0	0	0	0	0	0.5
New Hampshire	0	1	0	0	1	0	0
New Jersey	0	1	0	0	1	0	0
New Mexico	0	0	0	0	0	0	0
New York	0	1	1	0	1	0	0.5
North Carolina	0	1	1	0	1	0	0.5
North Dakota	0	1	0	1	1	0	0.5
Ohio	0	1	1	0	1	0	0.5
Oklahoma	0	1	1	0	1	0	0.5
Oregon	1	1	1	1	1	1	1
Pennsylvania	0	1	1	0	1	1	0.5
Rhode Island	0	1	0	0	0	0	0
South Carolina	0	0	0	0	0	0	0
South Dakota	0	1	1	0	0	0	0
Tennessee	0	1	1	1	1	0	0.5
Texas	0	1	1	1	1	0	0.5
Utah	0	1	0	1	1	0	0.5
Vermont	0	1	1	0	1	0	0.5
Virginia	1	1	0	0	0	1	0.5
Washington	1	0	0	0	0	0	0.5
West Virginia	0	0	0	0	0	0	0
Wisconsin	0	1	1	0	1	0	0.5
Wyoming	0	0	0	0	0	0	0
TOTAL	6	38	31	14	31	10	

Source: CBPP report "Promoting State Budget Accountability Through Tax Expenditure Reporting." (updated) <http://www.cbpp.org/cms/?fa=view&id=3491>.

See Notes after Table 12.

Table 11

Tool #9: Pension and Debt Policy

State	Major State Pensions:				Score
	Have No Restrictions on Making ARC	Made 95% ARC on Average (2005-2009)*	Have an Independent Investment Council	Guidelines for Debt or Debt Service	
Alabama	1	1	0	0	1
Alaska	1	0	0	1	0.5
Arizona	1	1	0	0	1
Arkansas	1	1	0	0	1
California	0	0	1	0	0
Colorado	0	0	0	0	0
Connecticut	1	1	1	1	1
Delaware	1	1	1	1	1
District of Columbia	1	1	0	1	1
Florida	1	1	0	1	1
Georgia	1	1	0	1	1
Hawaii	1	1	0	1	1
Idaho	1	1	0	0	1
Illinois	1	0	1	1	0.5
Indiana	1	1	0	0	1
Iowa	0	0	1	0	0
Kansas	0	0	0	0	0
Kentucky*	0	0	1	0	0
Louisiana	1	1	0	1	1
Maine	1	1	0	1	1
Maryland	0	0	0	1	0
Massachusetts	1	0	0	1	0.5
Michigan	1	0	1	0	0.5
Minnesota	0	0	1	1	0.5
Mississippi	1	1	0	1	1
Missouri	1	0	0	0	0
Montana	0	0	1	0	0
Nebraska	1	1	1	0	1
Nevada	0	1	0	1	1
New Hampshire	1	0	0	1	0.5
New Jersey	1	0	1	0	0.5
New Mexico	0	0	0	1	0
New York	1	1	1	1	1
North Carolina	1	1	1	1	1
North Dakota	0	0	1	0	0
Ohio	0	0	1	1	0.5
Oklahoma	0	0	0	0	0
Oregon	1	0	1	1	0.5
Pennsylvania	1	0	0	1	0.5
Rhode Island	1	1	1	1	1
South Carolina	1	1	1	1	1
South Dakota	1	1	1	0	1
Tennessee	1	1	1	1	1
Texas	0	0	1	1	0.5
Utah	1	1	0	1	1
Vermont	1	0	1	1	0.5
Virginia	1	0	0	1	0.5
Washington	1	0	1	1	0.5
West Virginia	1	1	1	1	1
Wisconsin	1	1	0	1	1
Wyoming	0	1	0	1	1
TOTAL	36	26	24	33	

Source: CBPP analysis of data from Boston College's Public Plans Database and New England Public Policy Center.

See Notes after Table 12.

Table 12
Tool #10: Budget Status Reports

State	Revenue Forecast Updated at Least Once Per Year	Publishes Expenditure Report That Compares Actual and Budgeted Spending	Publishes Monthly Revenue Report That Compares Actual and Budgeted Revenues	Score
Alabama	0	0	1	0.5
Alaska	1	0	0	0.5
Arizona	1	1	1	1
Arkansas	0	0	1	0.5
California	1	1	1	1
Colorado	1	1	1	1
Connecticut	1	1	1	1
Delaware	1	1	1	1
District of Columbia	1	0	1	1
Florida	1	0	1	1
Georgia	0	0	1	0.5
Hawaii	1	0	1	1
Idaho	0	0	1	0.5
Illinois	1	1	1	1
Indiana	1	0	1	1
Iowa	1	0	1	1
Kansas	1	0	0	0.5
Kentucky	1	0	1	1
Louisiana	1	0	0	0.5
Maine	1	0	1	1
Maryland	1	0	1	1
Massachusetts	1	0	1	1
Michigan	1	1	1	1
Minnesota	1	0	0	0.5
Mississippi	0	0	1	0.5
Missouri	0	1	1	1
Montana	0	0	1	0.5
Nebraska	0	0	1	0.5
Nevada	1	0	1	1
New Hampshire	0	0	1	0.5
New Jersey	0	0	1	0.5
New Mexico	1	0	0	0.5
New York	1	1	1	1
North Carolina	1	1	1	1
North Dakota	1	0	0	0.5
Ohio	0	1	1	1
Oklahoma	1	0	1	1
Oregon	1	0	0	0.5
Pennsylvania	1	0	1	1
Rhode Island	1	0	1	1
South Carolina	1	0	1	1
South Dakota	0	0	0	0
Tennessee	0	0	1	0.5
Texas	0	0	1	0.5
Utah	1	0	1	1
Vermont	1	0	1	1
Virginia	0	0	1	0.5
Washington	1	0	1	1
West Virginia	0	0	1	0.5
Wisconsin	1	0	1	1
Wyoming	1	0	1	1
TOTAL	35	11	43	

Source: CBPP review of published state budget information.
See Notes after Table 12.

Notes to Tables 3 through 12

The footnotes for tables 3 through 12 are organized alphabetically by state. Within each state the notes are organized by Tool #/table. That is, notes for Table 4 which summarizes the scores for Tool 6 will be listed as Tool 6/Table 4.

District of Columbia

Tool #3 (Table 5) Caseload projections are not included in the District's current services estimation process.

Kentucky

Tool 9 (Table 11) Kentucky recently enacted pensions changes and will be paying 100 percent of ARC in future years under the new law.

Massachusetts

Tool #1 (Table 3) The current administration has established a "Long-Term Fiscal Policy Framework" that looks at multi-year expenditures and revenues but lacks sufficient detail to be considered a full current services baseline.

Minnesota

Tool #3 (Table 5) Inflation for education expenditures is not included in Minnesota's current services estimation process.

Tool #4 (Table 6) Rather than using a consensus process, Minnesota's revenue estimating process relies on outside experts making it essentially independent of both the executive and legislative branches.

New York

Tool #7 (Table 9) New York has two rainy day funds. Both were reviewed.

North Carolina

Tool #3 (Table 5) Inflation had been routinely included in North Carolina's current services estimation process, but this practice stopped in recent years

Vermont

Tool #1 (Table 3) Although the executive budget contains expenditure amounts for future years, they are flat estimates and forecasts of expected changes.

VI. Appendix B: Methodology

This report grades states on how well they have implemented the tools described in the body of the report. Center on Budget and Policy Priorities staff evaluated each state on its use of each tool and assigned a score on a simple scale: 0 if the state does not use this tool at all, ½ if it uses the tool but in a way that needs significant improvement, and 1 if the tool is in place, is well designed, and is accessible to the public.²² Finally, we summed the scores on each of the individual tools to determine an overall score for each state on a scale of one to ten.

The ten tools that comprise the list of recommended tools in this report were drawn from a review of literature on long-term budget planning by public policy experts, academics, and public finance professionals. CBPP also enlisted the help of state budget experts from the Rockefeller Institute of Government, the Council of State Governments, and the Urban Institute to review the list of tools we compiled.²³

The table below summarizes the criteria used to determine the score for each state for each tool.²⁴

Tool	Criteria	Scoring
#1 Multi-year forecasts of revenues and spending	<ul style="list-style-type: none"> The state should prepare either revenue or spending projections for at least one year beyond the upcoming budget. Revenue projections should be broken down by revenue source. State spending forecasts should be detailed to at least the agency or function level. 	<p>0 - state projects neither revenues nor spending beyond the upcoming budget</p> <p>½ - state projects both revenues and spending without a detailed breakdown or projects only one of these but with a detailed breakdown</p> <p>1 - state projects both revenues and spending with a detailed breakdown for at least one</p>
#2 Fiscal notes with multi-year projections	<ul style="list-style-type: none"> The state should regularly publish estimates of the cost of revenue and spending proposals for more than one year. For proposals that are phased in, the state should publish estimates of the costs for each year until the measure is fully effective. 	<p>0 - state does not prepare fiscal notes or the notes include only one year of cost or savings information</p> <p>½ - state prepares fiscal notes with projections that cover more than one year and/or multi-year projections for measures that phase in</p> <p>1 - state prepares fiscal notes with projections that cover at least five years</p>

²² Accessible means that the analysis generated by the tool is summarized clearly and easily available to the public online, rather than an internal report.

²³ These experts agreed that these are important and useful mechanisms for state fiscal planning. They do not necessarily endorse each tool as required for each state to plan effectively.

²⁴ Reference to the current or upcoming budget refer to a two-year in states that budget on a biennial basis – Connecticut, Hawaii, Indiana, Kentucky, Maine, Minnesota, Montana, Nebraska, Nevada, New Hampshire, North Carolina, North Dakota, Ohio, Oregon, Texas, Virginia, Washington, Wisconsin, and Wyoming.

Tool	Criteria	Scoring
	<ul style="list-style-type: none"> Ideally, the state should regularly publish estimates of the cost or revenue-raising potential of new initiatives for at least five years. 	
#3 Current services baselines	<p>The state should have a current services baseline in some form and, at a minimum, compares the budget request to a current services projection for the upcoming fiscal year.</p> <ul style="list-style-type: none"> The state should project the current services baseline beyond the current budget. The state should publish current service projections as part of the regular budget process – in the governor’s recommendations, the enacted budget, or both. Assumptions such as inflation and caseload projections should be clearly defined, and the current services baseline is easy to find and accessible in public budget documents. Estimates should be detailed down to individual programs or line-items. 	<p>0 - state does not prepare a current services baseline at some level for one year ½ - state prepares such a baseline that meets less than half of the additional criteria listed above 1 - state prepares such a baseline that satisfies half or more of the criteria</p>
#4 Independent consensus revenue forecasts	<ul style="list-style-type: none"> The state should develop a revenue projection through an official forecasting group representing both the executive and legislative branches. The forecast should serve as the official forecast for the budget. The consensus forecast should be required by statute. The forecasting group should also include outside experts, such as an economist from a university or the private sector. The forecasting group’s meetings should be open to the public or a summary of the proceedings should be made public in a timely way. The forecast should be published and made easily available. 	<p>0 - state does not prepare a consensus revenue forecast ½ - state prepares a forecast that meets fewer than half of the additional criteria above 1 - state prepares a forecast that meets half or more of the criteria</p>
#5 Independent legislative fiscal offices	<ul style="list-style-type: none"> A professional, nonpartisan, legislative agency should provide analysis of measures that affect revenue collections and spending. One fiscal agency should serve both houses of the legislature. 	<p>0 - the state does not have an independent, non-partisan fiscal agency ½ - multiple agencies serve the legislature 1 - state meets both criteria</p>

Tool	Criteria	Scoring
#6 Independent review of pension assumptions and methods	<ul style="list-style-type: none"> Major state-run pension funds should be subject to regular experience studies, or reviews of the assumptions concerning factors that affect future retirement costs. Regular audits should be conducted on the actuarial firms that calculate the amounts that the state and employees must contribute each year in order to fund future pension costs. Regular experience studies and actuarial audits should be required by statute. 	<p>0 - the state does not regularly conduct both experience studies and actuarial audits</p> <p>½ - the studies are conducted but only one is required by statute</p> <p>1 - both are required by statute</p>
#7 Well designed rainy day funds	<p>Every state should have a designated rainy day fund.</p> <ul style="list-style-type: none"> There should be no cap on the fund's size; if there is a cap, it should equal at least 15 percent of the state budget. The state should be required by law to make deposits to the fund when certain conditions are met, such as when economic growth is expected to be above average in addition to making deposits when the budget ends in surplus. There should be no requirement that the funds be replenished in a set amount of time. That is, the state should be able to wait until economic growth has returned to refill the fund. There should be no limits on how much of the fund can be withdrawn during a given year. The legislature should be able to approve withdrawals from the fund with a simple majority. 	<p>0 - state has no rainy day fund</p> <p>½ - state has a fund that meets fewer than half of the additional criteria</p> <p>1 - if it has a fund that meets half or more of the criteria</p>
#8 Oversight of tax expenditures	<p>A state should build in an expiration date (or "sunset") for tax expenditures.</p> <p>A state should regularly publish a list of tax expenditures and their cost. This report should be updated regularly and easy to access. In addition,</p> <ul style="list-style-type: none"> It should include tax expenditures arising from all major taxes. Costs to localities as well as to the state should be estimated. The report should be based on current data (i.e., from no more than two years ago). The report should include detailed information about each item's cost, structure, and goal. 	<p>0 - state does not require sunsets or produce a tax expenditure report,</p> <p>½ - state produces a tax expenditure report that meets more than half of these criteria or requires sunsets</p> <p>1 - state requires sunsets and produces a tax expenditure report that meets more than half of the criteria above</p>

Tool	Criteria	Scoring
#9 Prudent rules for pensions funding and debt	<p>For pensions under the state's control:</p> <ul style="list-style-type: none"> • There should be no restrictions that impede full payment of normal annual pension costs. • The state should generally make the actuarially determined annual required contribution. • Independent investment councils should oversee the investment mix of assets in the pension trust fund. <p>For debt:</p> <ul style="list-style-type: none"> • States should set guidelines for the amount of debt or debt service that the state can incur and regularly monitor debt levels. 	<p>0 - state does not make full contributions to pension trust funds and meets only one of the other criteria</p> <p>½ - state fails to make full pension contributions but meets two or more of the other criteria</p> <p>1 - state makes full pension contributions regardless of the other criteria</p>
#10 Budget status reports	<ul style="list-style-type: none"> • The state should publish updated revenue projections at least once each fiscal year. • The state should monitor and report on the amount actually spent compared to the previous year at least monthly. • The state should report on the amount of revenue collected compared to estimates at least monthly. 	<p>0 - state doesn't produce revenue or spending status reports or an updated revenue projection during the budget year</p> <p>½ - state produces either revenue or spending status reports or an updated revenue projection</p> <p>1 - state produces at least two of these measures.</p>

The scores for each state were determined by a survey of state websites or using existing surveys. The surveys used are noted on the tables in the body of the report. For most states, the results were reviewed by staff of the state organizations that form the State Fiscal Analysis Initiative. The results for four states that are not part of the network were reviewed by the following:

- Florida – Dr. James Zingale, consultant
- Nevada – Victoria Carreon, Guinn Center for Public Policy
- South Carolina – John Ruoff, The Ruoff Group
- Tennessee – Connie B. Hardin, consultant

In all cases, the Center on Budget and Policy Priorities determined the final scores for the states.