National Conference of State Legislatures

LEGISBRIEF

Briefing Papers on the Important Issues of the Day

March 2016

Vol. 24, No. 12

Revenue Estimating in the States

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Revenue estimating is one of the most important parts of the state budgeting process. Before the governor and legislature can allocate funds, they must know how much is available to spend. The estimates also are used throughout the year to track the state's fiscal situation and determine if mid-year budget cuts are necessary. Estimating the amount of revenue a state will receive in a given fiscal year may sound straightforward, but accurate forecasts rely on many factors, and states use a variety of strategies for determining the forecast.

In many states, the executive branch is responsible for preparing the state's official revenue estimate. It is the primary responsibility of the legislature in a handful of states, and about half the states use a consensus revenue estimate that involves both the executive and legislative branches.

A consensus forecasting process can be structured many different ways. In Tennessee, for example, The State Funding Board, which adopts revenue estimates, votes on revenue growth ranges after listening to expert testimony. In Connecticut, the governor's budget agency and the legislature's fiscal office meet to agree on revenue estimates. If they cannot reach an agreement, the state comptroller issues a forecast equal to, or between the estimates of, the two groups.

Many states rely on a group of experts to forecast revenues. Hawaii's estimates are determined by the Council on Revenues, an advisory group of economists, some of whom are appointed by the Legislature and some by the governor. In Oklahoma, the Tax Commission uses an in-house economist, an economist from Oklahoma State University and a private sector economist for revenue estimates. The Revenue Forecast Technical Committee in Indiana is comprised of fiscal aides to the House and Senate party caucuses, an appointee of the governor and the chief revenue forecaster from the State Budget Agency. A number of states also include academic institutions in the process. Kentucky's revenue estimating group includes four university economists.

The impact of revenue estimates also varies from state to state. In many states, the revenue estimate is binding on the state budget. The legislature and governor cannot approve a budget that appropriates more money than the revenue estimate. Some states have even more stringent rules. In Oklahoma, the Constitution limits appropriations to no more than 95 percent of the revenue estimate, and in Mississippi and Delaware, the limit is 98 percent of the official revenue estimate. In Texas, the comptroller must certify that funds are available before the budget bill is sent to the governor.

Did You Know?

- Nearly half of U.S. states use a consensus revenue estimate.
- Some states restrict the amount of projected revenue available for appropriation.
- Washington passed a four-year balanced budget requirement in 2012.

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In the states where the revenue estimate is not binding on the state budget, the governor or legislature may propose a budget that exceeds the official revenue estimate. However, balanced budget requirements, as well as state tradition, usually keep budgets in line with projections.

Official state revenue estimates typically are settled before the start of the legislative session, when lawmakers will debate the next budget. In a state that has a biennial budget, official estimates might be adopted only every two years. Many states officially update their forecast once or twice a year, but most also provide unofficial updates. In Montana—one of four states that adopt a biennial budget and holds biennial legislative sessions—official revenue estimates are provided only before the start of a legislative session, but unofficial estimates are provided as often as necessary. Several other states have processes in which estimates are updated on an as-needed basis. In Connecticut, the executive branch issues quarterly revenue updates, and in Delaware, the forecast is updated six times a year.

Many states have honed their revenue forecasting process over decades, creating a process that works for each state's unique situation. Whatever the estimating process, the estimate is vitally important to the overall budgeting process.

State Action

The revenue forecasting process in the states does not change often. However, in 2012 Washington implemented a new four-year budget outlook, which affects state revenue forecasting. The outlook requires lawmakers to pass a budget that is balanced four years out, or two biennial budget cycles. The outlook is not binding on lawmakers but, rather, is intended to show the impact of a current biennium's budget on the next biennial budget.

To forecast revenues for the outlook, the Economic and Revenue Forecast Council applies historic growth rates to many areas of the budget. The Council also forecasts growth in current entitlement plans, assumes continuation of current programs, and also accounts for any enacted legislation with a future implementation date. When creating the four-year budget outlook, the group uses the greatest revenue estimate, or an assumed 4.5 percent growth rate for the second biennium if the revenue forecast is less than 4.5 percent. Time will tell how the four-year budget outlook will affect Washington's budget process.

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Additional Resources

National Association of State Budget Officers, "Budget Processes in the States," 2015

Washington, Economic and Revenue Forecast Council