

# Bond Case Briefs

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## State Strategies for Maintaining a Balanced Budget.

### **Case studies offer lessons on identifying and managing nonrecurring revenue**

Many states ended 2017 flush with unexpected cash. Federal legislation that caps some tax deductions beginning in 2018 prompted many Americans to prepay their state and local taxes. While this surprise revenue was positive news for state budgets, several policymakers struck a cautious tone.

“This is not a windfall,” Robert Mujica, director of the New York State Division of the Budget, said in January 2018. He predicted that the bump in tax collections would be offset by a corresponding drop in receipts in the year ahead.

In fact, states have seen one-time revenue spikes like this before. In 2013, several of them recorded unexpected revenue boosts when many investors—anticipating an increase in federal capital gains taxes—took stock market profits before the change went into effect. Many states grappled with how to treat this influx of cash. While most of the spike in revenue came from annually collected sources like personal and corporate taxes, the nature of the increase meant some of the gains might be temporary.

Utah, for example, initially projected that individual income tax revenue in 2013 would grow by 7.8 percent. (The final numbers showed that growth was actually 16 percent.) State economists believed the higher tax revenue was temporary and suggested that policymakers treat 90 percent of it as a nonrecurring, or onetime, event. Taking the cue, lawmakers spent the unexpected revenue on short-term priorities such as the construction of a courthouse for juvenile hearings. And the next fiscal year, the state planned conservatively, accurately anticipating a substantial decline in tax collections.

Not all states planned—or fared—as well. Despite cautious forecasts, seven states missed their April 2014 individual income tax revenue estimates by more than 10 percent. In Kansas, revenue from this source had beaten projections in 2013 after the state cut its taxes, causing lawmakers to be optimistic about future revenue. However, revenue came in 28 percent under the forecast, leading the state to draw down reserves that it has yet to rebuild.

### **Common Sources of Nonrecurring State Revenue**

#### Examples of revenue that may be one-time in nature

- Extraordinary growth in tax collections (especially from volatile sources)
- General fund ending balance
- Cash shift from other state accountants (such as rainy day funds)
- Large legal settlements
- Temporary state tax increases
- One-time transfers from the federal government

These events underscore the importance of identifying and managing nonrecurring revenue. Failure to do so does not affect only one year's budget; it can often create or perpetuate a fiscal imbalance that lasts several years. Conversely, when states regularly allocate nonrecurring revenue to one-time priorities, they can mitigate potential budget problems before they form.

While budget challenges from nonrecurring revenue exist in every state, there is no universal practice for how to manage or define this revenue. Economists, budget officers, and policymakers in some states formally distinguish it from revenue that is expected to be collected in future years, while others rely on informal and ad hoc ways to track the revenue.

To identify and evaluate state approaches to detecting and managing nonrecurring revenue, The Pew Charitable Trusts examined practices in all 50 states—focusing on policies codified in state statutes and constitutions.

**This report includes case studies that highlight the range of strategies that states use, with the goal of informing policymakers of promising practices. The featured strategies include:**

Techniques states use to identify nonrecurring revenue:

- Case study 1. Alabama: Defining certain revenue sources as recurring or nonrecurring.
- Case study 2. Tennessee: Separating a volatile tax source into recurring and nonrecurring parts.
- Case study 3. Utah: Separating all major tax sources into recurring and nonrecurring parts.

Techniques states use to manage nonrecurring revenue:

- Case study 4. Louisiana: Limiting nonrecurring revenue to specific appropriations.
- Case study 5. Florida: Limiting the amount of nonrecurring revenue that pays for ongoing costs.
- Case study 6. Washington: Analyzing whether expected future spending is balanced by recurring revenue.

**Based on this research, Pew recommends that states consider the following when deciding how to identify and manage nonrecurring revenue:**

- Develop definitions for this revenue and regularly report on its ability to cover ongoing costs.
- Treat abnormal growth in annually collected taxes as nonrecurring revenue.
- Create guidance to ensure that nonrecurring revenue is used on one-time spending commitments.

[Download State Strategies for Maintaining a Balanced Budget.](#)

## **The Pew Charitable Trusts**

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