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Most States End Fiscal 2023 With a Budget Surplus as Revenues Exceed Forecasts: NASBO Budget Blog

Most states ended fiscal 2023 with a budget surplus as tax collections once again came in above projections. Entering fiscal 2023, states assumed smaller revenue levels following double-digit growth in tax collections in both fiscal 2021 and fiscal 2022. While year-over-year revenue collections grew at record high levels of 16.6 percent in fiscal 2021 and 16.3 percent in fiscal 2022, states forecasted fiscal 2023 revenues would decline 3.1 percent in their originally enacted budgets. States forecasted less revenue growth in fiscal 2023 due to several factors, including the high baseline established in fiscal 2022; the impact of both recurring and one-time tax policy changes; the assumption of slower economic growth, weaker capital gains, and modest declines in consumption; and consumer behavior shifting towards spending more on services (less often taxed) rather than goods. As fiscal 2023 progressed, many states saw higher than projected growth in tax collections and revised revenue forecasts upward for the remainder of fiscal 2023. Whereas original forecasts projected a 3.1 percent decline in revenue in fiscal 2023, revised forecasts assumed only a 0.3 percent annual decline, according to the [Spring 2023 Fiscal Survey of States](#).

To date, the vast majority of states who have reported full-year fiscal 2023 tax collections have come in above original forecasts, with many also seeing revenues above revised forecasts, leading to a third consecutive year of surpluses. While most states have reported budget surpluses, the amount in nearly all cases has been less than the substantial surpluses seen in fiscal 2022. States are examining the best use of these smaller surpluses, including further building up rainy day funds, reducing unfunded pension liabilities, paying down debt, investing in education and other spending priorities, and providing tax relief, while also focusing on ensuring one-time revenues are not used for ongoing obligations.

As states prepared to move into fiscal 2024, they were anticipating a small decline in tax collections partly due to economic uncertainty at the time revenue estimates were adopted. [Recommended budgets](#) for fiscal 2024 are based on general fund revenues totaling \$1.17 trillion, which would represent a slight decline of 0.7 percent compared to estimated fiscal 2023 levels. In recent years states have taken steps to prepare for a slowdown in tax collections through actions including using one-time funds for one-time purposes, paying down debt, making supplemental pension payments, and increasing the size of rainy day funds to record levels.

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