BUDGET INSTITUTIONS AND FISCAL SUSTAINABILITY IN U.S. STATE GOVERNMENTS[1]

ORÇAMENTO E SUSTENTABILIDADE FISCAL NO GOVERNO DOS ESTADOS UNIDOS

Katherine Willoughby[2]

Abstract: This article is focused on the US institutional experience regarding the public budget at the state level, certain of the influence exerted on fiscal sustainability, also at this governmental level, by the various budgetary institutions related to taxation and public expenditure. After a brief review of federalism as established in the United States, the chapter will explain various budgetary and fiscal laws and rules that structure state government fund flows. The article describes the performance budget, a popular budget reform to improve government performance, transparency, and accountability that many states have attempted. At the end, a description of various constraints on states that may affect their budgets and budget processes is provided.

Keywords: Federalism; State public budget; Budget rules; USA.

Resumo: Este artigo é voltado à experiência institucional estadunidense relativa ao orçamento público em nível estadual, certo da influência exercida sobre a sustentabilidade fiscal, também nessa esfera governamental, pelas variadas instituições orçamentárias atinentes à tributação e à despesa pública. Após uma breve revisão do federalismo conforme estabelecido nos Estados Unidos, o capítulo explicará várias leis e regras orçamentárias e fiscais que estruturam os fluxos de fundos do governo estadual. O artigo descreve o orçamento de desempenho (performance budget), uma reforma orçamentária popular para melhorar o desempenho, a transparência e a responsabilidade de governo que muitos estados tentaram. Ao final, promove-se uma descrição de várias restrições sobre os estados que podem afetar seus orçamentos e processos orçamentários.

Palavras-chave: Federalismo; Orçamento público estadual; Regras orçamentárias; Estados Unidos da América.

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[2] Golembiewski Professor of Public Administration, Department of Public Administration and Policy, School of Public and International Affairs, University of Georgia, Athens, Georgia, United States of America (USA). E-mail: kwilloughby@uga.edu. ORCID: https://orcid.org/0000-0003-4789-5000.

Introduction

This chapter considers the fiscal sustainability of American states in light of numerous budget institutions that influence taxing and spending by these governments. After a brief review of federalism as established in the United States, the chapter will explain various budget and fiscal laws and rules that structure state government fund flows. The chapter describes performance budgeting, a popular budget reform to enhance government performance, transparency and accountability that many states have attempted. The chapter ends with a description of various professional and other strictures on states that can impact their budgets and budget-making processes.

Two points regard fiscal federalism and governance structure in the United States. The first point is that the governmental framework of the United States is just that, a united group of autonomous sub-national governments. In fact, the first words of the U.S. Constitution after "We the People of the United States," claim, "in Order to form a more perfect Union…." After laying out a federal structure of checks and balances, the Tenth Amendment of the Constitution then reminds that, "[t]he powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, respectively, or to the people." This emphasizes that the states established and empowered the U.S. federal government yet retained sovereignty. The second point regards the fact that local governments are not mentioned in the U.S. Constitution. Aronson and Hilley (1986: 10) state it clearly that, "[in the United States], the state-local relationship is not one between sovereign governments. The states are by law the masters of these local governments [and] the relationship is unitary."

That said, United States sub-national governments have rather significant revenue-raising abilities not found in many other sub-national governments in other countries. As self-governing entities, states can develop and implement their own budgets by raising their own revenues, including borrowing money, to pay for services, programs and capital infrastructure. States also afford their local governments the ability to exist and raise revenues—albeit some states provide their local governments more autonomy than others. The relationship of the federal, state and local governments in the United States has changed dramatically over the last 226 years. Today, in spite of the very real strength and influence of the federal government, the states have evolved as James

Madison (2012: 461) predicted in the Federalist Papers, Number XLV— “the powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties, and properties of the People.”

1. Fiscal Federalism in the United States

Examining the history of fiscal federalism in the United States indicates the power of the states vis-à-vis the national government. At the beginning of the 19th century, U.S. federal revenues (per capita, in current dollars) overshadowed those of the states by four to five times, with state revenues just ten percent of total government revenues by 1830 (Wallis, 2000). State share then jumps to 24.4 percent of total government revenues in 1840, but backslides to 13.7 percent by 1900. In 1900, local revenues comprise 49.9 percent of total government revenues and state and local revenues combined, tally 63.7 percent of total government revenues. State spending in the early 19th century fostered the country’s transportation grid, including waterways, roadways and railroads. Such projects were often financed by states with significant private investment and via contracted work (Samuel and Segal, 2007: 03). The top two spending categories of states in the 1800’s included education and “insane asylums” (Zolt, 2009: 447).

Fiscal federalism in the U.S. throughout the 19th and early 20th centuries was marked by the prominence of local property taxes to fund basic functions of government—education, roads and utilities (Wallis, 2000). State revenues, chiefly commercial-related taxes, fees and charges, were a lesser share of total government revenues. During this time, the federal government maintained a relatively small presence in the national economy, with primary dependence, like the states, on trade-related revenues. These revenues supported the administration of the federal government with relatively little funding in the form of grants, transfers or the like to sub-national governments.

The 16th Amendment to the U.S. Constitution that empowers Congress to tax income (1913) and legislation establishing a central bank (1913) as well as that regarding borrowing money (1917) serve as the foundations for a growing federal influence in the U.S. that continues through the 1900’s. State and local government own-source revenues rise steadily throughout this century as well. In 1948, state and local government receipts make up 25 percent of total government revenues (in current dollars) compared to 75 percent in federal receipts, a noteworthy flip from the previous century. By 1968, state and local receipts comprise 33 percent of total government revenues. Today, U.S. sub-national receipts make up 35 percent of total government revenues, with the federal share at 65 percent.

Wallis (2000: 72) points out that, "national grants now account for roughly a third of state and local revenues. A system of central revenue collection and decentralized expenditure and administration became the standard model for administering programs in education, highways, water and sewage systems, and public welfare." Table 1 presents U.S. federal grants to state and local governments from 1940 to estimated 2022. These grants as a percent of GDP quadrupled from 1940 to 2010 but are estimated to be cut back by almost 20 percent by the year 2022. Though declining as a percent of GDP, these grants are expected to maintain a steady percentage of federal outlays into the 2020's, fluctuating between 16 and 17 percent. Yet, federal funds as a portion of state budgets vary considerably by state. For example, Table 2 shows that in fiscal year 2016, federal revenues made up 21 percent of total governmental funds in Wyoming but more than double that percentage (46 percent) of total governmental funds in Mississippi. (see Tables 1 and 2).

2. Budget Institutions of U.S. State Governments

Every U.S. state government has its own constitution, each representing a specific tradition, culture and interpretation of democracy. Less than half of states (19) have had just one constitution; 25 states have had from two to five. Alabama, Florida and Virginia have had six constitutions each, South Carolina, seven, Georgia ten and Louisiana currently operates under its 11^{th} constitution. Massachusetts' sole constitution was adopted in 1780 and is the oldest American state constitution. Rhode Island has the "youngest" constitution—the state adopted its second constitution in 1986 at the only state constitutional convention to be held in the last three decades. A computer word count indicates that Alabama's constitution is the longest with over 376,000 words. This is because the state allows for local amendments to the constitution (Dinan, 2013: 03). On the other hand, Vermont's constitution is short with just 8,565 words.

States offer multiple methods whereby their constitutions can be changed to accommodate current public mood. Amendment processes are distinguished in terms of the level of "direct democracy" or public input allowed, though various avenues for changing state constitutions are not as limiting as that for changing the U.S. Constitution. The range of options that states provide to their citizens for making constitutional (and statutory) changes spans those initiated by the public directly, with little to no legislative role, to changes put forward by legislatures for the public to approve or reject (Krislove and Katz, 2008: 298). Citizen initiative methods vary across states in terms of the number and specificity of votes required to be successful. Of direct ballot measures put forward to citizens in 49 states from 1977 to 2006, the constitutional legislative referenda is the predominant method of change in law (Krislove and Katz, 2008: 306). Regardless of change method, voters statewide, have the final say regarding any amendment to their respective state's constitution. Popular issues addressed through state constitutional amendments in the recent past include finance and taxation as well as individual rights related to affirmative action, same sex marriage, freedom of religion and the right to bear arms, among others (Dinan, 2013: 03-06).

Important budget rules and institutions in the states that can be found in state constitutions or statutes include balanced budget requirements, debt limitations, tax and expenditure limitations, and supermajority voting requirements related to taxes and state finance. It is unrealistic, however, to provide a definitive list of states that have and employ each and every rule consistently. A fact of life related to law is that it is usually difficult to understand its true meaning—constitutional provisions and statutes are often purposely written in broad, even ambiguous terms that lends itself to leeway in interpretation. The National Conference of State Legislatures (NCSL 2010) explains that the budget institutions of a state and how rules are employed depends upon state history and tradition, who you talk to, judicial precedent and individual interpretation. For example, you are likely to get different answers about the legal foundations for state government budgeting if you talk to those who practice in the field, such as the governor and executive budget staff, state agency personnel, state legislators and their staff versus those who study these systems and structures, such as academic scholars and researchers in evaluation agencies that include the U.S. Government Accountability Office (GAO) as well as the National Association of State Budget Officers (NASBO) and the NCSL. NCSL (2010: 05) explains that in North Dakota, for example, executive budget staff and legislative fiscal staff point to constitutional budget balance requirements that the state must adhere to, while scholars do not find any such requirements, though they confirm that the state has a legal debt restriction (Hou and Smith, 2006).

Particular budget institutions can vary wildly among the states, too. For instance, most state balance provisions regard just a portion of the entire state budget, the general fund. This fund is a governmental fund supported predominantly by state taxes to pay for general operations of the government. General fund only balance requirements leave out numerous other components of an entire state budget. Balanced budget requirements range in stringency, with the strictest being inclusive of four components—1) that the governor submit a balanced budget to the legislature, 2) the legislature pass a balanced budget (the appropriations bill), 3) the governor sign a balanced budget into law, and 4) the state end the fiscal year "in balance". States may be obligated to any mix of these requirements. That is, law may stipulate that the governor submit a balanced budget (general fund only), but not require the legislature to pass a balanced budget or that the budget be balanced at the end of the fiscal year. Most states (44) have legal provisions for the weakest budget constraint, that the governor submit a balanced budget to the state legislature, while fewer (41) require the legislature to pass a balanced budget, and fewer still (40) require the governor to sign a balanced budget into law. Thirty-nine states have do not have any legal stipulation that allows carry forward of a budget deficit into the next fiscal year (NASBO, 2015: 50-54). According to NASBO (2015: 52), just over half of states (26) have constitutional, statutory and/or policy provisions that hold the government to all four balanced budget components—the greatest constraint.

States issue debt (sell bonds) mostly to fund expensive capital projects that will provide benefits to residents and others over the long term as opposed to funding ongoing expenditures. NASBO (2015: 55-56) finds that ten states do not have any policy to limit authorized debt although these states might have a policy to limit debt service. Seven states (Arkansas, California, Montana, New Hampshire, New Mexico, Oklahoma, and Oregon) do not have specific policies regarding debt or debt service. Alaska is unique in having a constitutionally established "Permanent Fund" which reaps revenues from mining oil reserves. The revenues in this fund are invested with earnings from investments available for the legislature to appropriate and dividends from the account are paid to state residents annually.[1] Alaska's policy limiting debt service is determined by oil revenues realized (NASBO, 2015: 55). State government borrowing may be limited in specified dollar amounts, may be tied to a particular proportion of general fund revenues, require approval by the legislature or voters, and/or may be subject to review by a debt management committee or commission. Twenty-three states indicate no policy limiting debt service or the costs associated with borrowing (NASBO, 2015: 55-56).

NASBO (2015, pp.61-62) indicates 28 states have tax and expenditure limitations (TELs). Waisanen (2010) finds that most state TELs are spending limits, though states may have only taxing limits or both tax and spend limits. Several states require voter approval of tax increases, while most (15) require supermajority voting of both chambers of the state legislature for tax increases. Supermajority voting requirements of state legislatures stipulate passing laws for new taxes or tax increases by three-fifths, two-thirds or three-fourths, rather than by a simple majority. NCSL (2010) counts 15 states with supermajority voting requirements to pass tax increases and three states engage the more stringent voter approval requirement for tax increases—Colorado, Missouri and Washington. Some states also require supermajority voting by legislators to pass appropriation bills, in part or whole. According to NCSL (2008), nine states have such requirements related to the budget. Arkansas, California and Rhode Island require a supermajority vote to pass appropriation bills each fiscal year; Connecticut, Hawaii, Illinois, Maine, Mississippi and Nebraska stipulate the supermajority vote "under certain conditions" that may relate to certain state functions, regard local interests, as exceptions when the budget is not passed on time, or if a budget gap exists (NCSL 2008). Regarding spending limitations, most are found in state code (15); seven states provide such limits in their constitution and five have both constitutional and statutory expenditure limits (Kioko, 2011). States may tie their TELs to an economic index of some sort, like inflation, personal income or population.

It is relevant to note that there is no consensus on the effects of the budget rules and institutions explained above. While states serve as "laboratories" in the sense that they offer up a rich variety of budget structures and processes, this variety has been problematic to determining exactly which or what mix of constitutional provision, law or policy will consistently lead to strong fiscal health, a thriving economy and happy residents. "Few generalities can be drawn from [the research about TELs because no two are exactly the same" (Stallman and Deller, 2011: 113). As suggested above, the common perception is that restrictions on government taxing and spending will help to impose fiscal restraint on the part of states to balance their budgets, conduct work efficiently, and foster a strong business climate.

Certainly, these types of budget rules serve as a first barrier that orients decision makers to be alert to deficit reduction and fiscal conservatism. Debt limits can keep state taxes and borrowing low and pressure states to continually mine other revenues to finance programs, projects and infrastructure (Poterba, 1996: 38-40). Poterba (1996) adds that voter mobility might work in conjunction with these rules to pressure states to engage in fiscal discipline. That is, voters can move to states that provide the mix of services they want and collection of taxes and other charges and fees that they are willing to bear. A collection of rules together has the best chance of imposing greater deficit control in a state. For example, Inman (1996, p. 4) finds budget balancing rules have the best chance of effect if engaged collectively, including constitutional provision for the rule (making it harder to amend), a requirement of balance at the end of the fiscal year (the "no carryover" provision that bans a deficit to carry forward into the next fiscal year), transparent enforcement of the rule by an independent agency (state courts) , and assignment by this agency of significant penalties (such as court control over an agency's budget) should the rule be broken.

In a study that examines the relationships between TELs, state business climates and economic performance, Stallman and Deller (2011) measure the limitations along a continuum from most restrictive to nonexistent. Their model also includes numerous measures of economic performance, strength of the business climate, and development capacity. They find that there are no real differences in states, given the different levels of constraint imposed by TELs. They determine that more restrictive TELs are not related to better business climate and economic performance. "From a policy perspective, the results suggest that TELs by themselves are not associated with higher levels of business climate and economic performance by states (Stallman and Deller, 2011: 134-135). TELs do have the effect of taking decision making about state finances out of the hands of elected officials and perhaps restricting the ability of a state to manage well (or even marginally) through an economic downturn. During a recession, state revenues shrivel up as income and sales taxes and other revenue receipts drop, and expenditures increase with expanding public demand for services and support (Waisanen, 2010). Current research by Moody's Analytics explains that most U.S. states today would not be able to weather even a moderate downturn in the coming years very well, which means that TELs could contribute to even more fiscal stress in the future. Specifically, "16 states have the funds they need for the next recession, 19 states have most of the funds they need for the next recession, and 15 states have significantly less funds than they need for the next recession" (White, Yaros and Merollo, 2017: 01).

3. Performance Budgeting

Performance budgeting is a reform that requires developing, using and reporting measures of agency performance and program outcomes throughout the budgeting process. It is thought that this added information into the public budgeting process can increase decision makers' attention to the return on investment related to government programs, services and projects. The requirement for performance data throughout the budget process is expected to enhance transparency of government operations as well as improve accountability of those conducting the work.

Lu, Willoughby and Arnett (2009: 270) present a comprehensive list of performance budgeting laws in the states, defining such performance code broadly as "that which stipulates measurement of government performance and the application of such measurement to the budgeting process." This list was updated by Lu and Willoughby in 2012, added in new legislation in Pennsylvania (2011), and indicated at the time that 40 states had some sort of performance budgeting law. The Pennsylvania code (Title 71, Chapter 41, §4104) is illustrative of how broadly performance budgeting may be defined. In this case, the law enumerates the responsibilities of an independent fiscal office to include development and assessment of "performance measures for executive programs and departments and evaluation of performance measures and results, including measures that are outcome based, including activity cost analysis, measures of status improvement of recipient populations, economic outcomes and performance benchmarks against similar state programs….[as well as] analysis of the executive budget, including budgetary projections, economic outlook and economic impact that can include performance recommendations to secure greater efficiency and economy."

Table 3 presents the evolution of performance budgeting laws in states. These laws indicate a wide range of components applicable to a budgeting system; possible requirements might include assignment of responsibilities regarding performance measurement development and/or the review and revision of program goals and objectives, establishment of benchmarks and/or long-range or other strategic plans, assessment of costs, the conduct of trend analysis, evaluation of alternatives, consideration of efficient and effective use of resources, and periodic evaluation, performance auditing and/or measurement and results reporting. It is important to emphasize that just because a state may have some type of performance budgeting "on the books" (in law) this does not necessarily mean that the state applies the reform well or at all. Also, of the eight states with no law currently requiring performance budgeting, each may still engage performance budgeting under executive mandate. Also, states may have legislated the reform in the past but the law has since been repealed. Finally, some states may have a tradition of using performance measures for budgeting, even though such use is not required by law, executive mandate or informal policy.

It may not be a surprise then, that research about performance budgeting and its impact on state budgets, like that of TELs and other such rules and institutions, is inconclusive. For example, there is little evidence that public officials establish budgets and pass appropriation bills based strictly on measures of agency or program performance or on indications of improved or declining performance. Lu, Willoughby and Arnett (2009) examined performance budgeting laws and the reform's practice in state governments and determined that those states with laws that are more specific about how measurement must be used and integrated into the budget process are more likely to make strong use of performance information for resource allocation decisions. States with strong "budgeting for performance" systems have "more comprehensive" laws requiring shared responsibilities (across executive and legislative branches) related to using performance measures in the budget process (Lu, Willoughby and Arnett, 2009). In later research comparing states that have performance budgeting laws to those without such laws, Lu, Willoughby and Arnett (2011: 91) find that states with robust performance budgeting systems "are more likely to have legal foundations that incorporate a broader array of performance measurement development, protocols and oversight" for budgetary decision making. These states are also more likely to have laws that require development of a government-wide strategic plan and input from citizens into the budget process. This research provides a good case for developing laws that are specific (for example, assigning responsibility for measurement development, review and reporting) as well as comprehensive (requiring performance measurement reporting and assessment throughout the budget process). Lu and Willoughby (2015) developed a model regarding state practice of performance budgeting. Independent variables included existence and comprehensiveness of performance budgeting law, evidence of performance management, and measures of the political, economic and demographic nature of states. A model of these variables and their influence on the dependent variable, strength of practice of performance budgeting, indicates that the existence and content of law matters to the practice of the reform. Also, a culture of performance management further advances strength of practice of performance budgeting.

Lu and Willoughby (2012) also controlled for political, social and economic factors across states with performance budgeting laws and found that:

✓ States with a longer history of having performance budgeting law indicate higher current ratios (liquidity) and lower expenditures per capita (service-level solvency).

✓ States with the strongest performance budgeting systems (as practiced) indicate lower long term liability ratios.

Collectively, such findings suggest some long term benefits to state fiscal health, given the consistent practice of performance budgeting. Scott Pattison (2011), past Executive Director of NASBO and now Chief Executive Officer and Executive Director of the National Governor's Association, has commented that performance budgeting in the states does add value to the decision arena. Performance information more fully differentiates between effective and non-effective government operations, programs and services and can provide stronger justification for public officials when making budgetary trade-offs. NASBO (2014) investigated Virginia's performance budgeting system and explains that leaders in that state recognize that performance budgeting is certainly not a "cure-all for making hard budget decisions…it's informative rather than determinative in making budget decisions."

4. Other Constraints and Influences on State Budgeting

In addition to the laws, rules and institutions that bind states in their budget making and fiscal flexibility as described above, other factors structure state budgeting systems and practices. Credit rating agencies judge the risk of investing in states that borrow for infrastructure and other reasons. The Governmental Accounting Standards Board (GASB) provides standards for financial accounting and reporting that states (and U.S. local governments) must follow to justify their adherence to strong accountability and transparency—considerations of credit rating agencies when assessing government credit risk. Also, numerous professional organizations provide "best practices" that can help states to strengthen their budgeting and financial management. Evidence of the execution of such practices can assist states when going to market for funding in addition to advancing their budgeting more generally. Each of these factors is explained below.

5. Credit Ratings

As noted earlier, state governments generally borrow to pay for capital projects. Unlike the U.S. federal government that has national fiscal policy responsibilities (economic stabilization and growth) which necessitate the use of debt primarily to finance budget deficits, United States sub-national governments consider credit and use debt differently. When state governments need to borrow money, they issue debt securities that must be rated for credit risk; a state's credit rating or the rating on a particular issue will determine the rate of interest paid—the higher the credit rating the lower the cost of borrowing. Therefore, credit ratings are very important to those making decisions about state budgets.

Credit rating agencies conduct analyses of this risk, determining the likelihood that the government is fiscally healthy enough to pay back the debt with interest and over time. Analysts with these agencies examine the characteristics of governments across a number of factors, including political framework and stability, economic aspects such as tax laws, bases and rates, current and future prospects of revenue sources and availability, population characteristics and wealth, budgetary management and health, and debt burden, management policies and practices. Some websites publish comparative data across years, such as Ballotpedia (accessible at: https://ballotpedia.org/State_credit_ratings). The data accessed there recently indicates Standard & Poor's ratings of state credit from 2004 to 2017 (Ballotpedia, 2017). The data indicate 14 states with the highest rating, AAA; 14 with the next highest rating, AA+. Thirteen states reach AA, six are rated AA-, Kentucky receives an A+ and New Jersey, an A-. Illinois' long standing budget problems are evidenced by its BBB- rating from Standard & Poor in 2017 (Ballotpedia 2017). A dozen states have the coveted "Triple-Triple" credit rating—Aaa from Moody's and AAA from both Standard & Poor's and Fitch. These states include Delaware, Georgia, Indiana, Iowa, Maryland, Missouri, North Carolina, South Dakota, Tennessee, Texas, Utah and Virginia (The Pew Trusts 2017). Many of these states have held onto the "gold standard" of credit ratings for multiple decades.

6. GASB Standards and Professional Guidelines

Governments in the U.S. and around the world are subject to various accounting, financial management and performance reporting standards that impact their budgets and budgeting processes. Private accounting standards are set by the International Accounting Standards Board (IASB) that publishes International Financial Reporting Standards (IFRS), formerly called International Accounting Standards (IAS). Public accounting standards are developed by the Public Sector Committee of the International Federation of Accountants (IFAC PSC) in New York that produces International Public Sector Accounting Standards (IPSAS). Globally, governments have various research institutions, foundations and professional associations that provide budgeting, financial management and accounting guidelines, as well. These include the International Budget Partnership, The World Bank, International Monetary Fund, and the European Group for Public Administration, to mention a few. Governments that issue debt, of course, are subject to credit assessment by credit rating agencies, such as those mentioned above.

There are numerous standard-setting and oversight organizations of the U.S. federal and sub-national governments. These institutions, circulars, offices and firms provide accounting and financial management (and in some cases performance related) reporting requirements, pronouncements, guidelines and "best practices" that impact how budgeting is conducted. Accounting standards regard how the flow of money into and out of public agencies is recognized and recorded. The U.S. federal government receives its guidance from a mix of offices—including the Office of Management and Budget (OMB), the Office of Federal Financial Management, the Government Accountability Office (GAO), the Financial Systems Integration Office (FSIO, which has since closed and was the former Joint Financial Management Improvement Program JFMIP) and the Federal Accounting Standards Advisory Board (FASAB)—and laws such as the Federal Managers' Financial Integrity Act and the Chief Financial Officers Act, and numerous circulars that provide very specific requirements for financial accounting, management, auditing and reporting. The U.S. federal financial accounting system is extremely complex involving the intersection of history, laws, policies, practices and technologies.

U.S. state and local governments look to the Governmental Accounting Standards Board (GASB) for concepts statements and guidelines regarding financial accounting and financial performance reporting. GASB contributes to the generally accepted accounting principles (GAAP) that these governments use when accounting for and managing fund flows. Important changes to how these sub-national governments account and report on their resources include GASB Statement No. 34, which introduced basic rather than general purpose financial statements, emphasized major versus non-major funds over fund types, and the presentation of government-wide governmental fund financial statements in modified and full accrual basis of accounting formats. In 2012, GASB approved Statements 67 and 68 to update financial reporting practices related to state and local government pension plans. State and local governments are now working to meet these guidelines that were developed to promote greater clarity of public pension obligations and more accurate measurement of these liabilities (and thus governments' future obligations).

State budgeting is also impacted by the pronouncements of professional associations like the Government Finance Officers Association (GFOA) that develop research, training and conferences regarding the many subtopics within public budgeting and financial management. The policy statements, alone, that are produced by this association cover:

- ✓ Accounting, auditing and financial reporting
- ✓ Budgeting and financial management
- ✓ Intergovernmental relations and federal fiscal policy
- ✓ Public employee pension and benefits administration
- ✓ Tax-Exempt financing and the municipal bond market
- ✓ Treasury and investment management

In addition, this association produces research reports, conducts training and holds conferences to disseminate information to public budgeting and finance officers about the state of the practice and innovations in the field.

Conclusion

While U.S. state governments have relatively expansive powers of governance, specifically, to raise revenues and determine expenditures, they operate within a complex web of constraints. States are beholden to a multitude of budget rules and institutions—no two of the 50 are alike in terms of the laws and provisions that structure each state's budgeting process. Importantly, states must adhere to the U.S. Constitution and historically, the federal government has provided significant streams of revenue to states in the form of grants. On the other hand, over the last few decades, states are wary of putting too much faith in these dollars, given growing levels of federal debt and other obligations that push out funding to lower level governments.

State constitutions and statutes that require budget balance, limit taxing, borrowing and spending, or require more than a simple majority approval for revenue changes, can contribute to lean governments but also restrict choices. Reforms that require the use and reporting of agency and program performance measures contribute to the structure of budgeting relationships, too, and can add value to budgeting processes—supplying information that can clarify both the costs and results of government operations and activities to elected officials, public managers and citizens. But, such reforms are not costless. Any type of new structure requires learning, training, and practiced execution to work, much less to work well or at least in the manner promised and/or expected. U.S. states are further bound in terms of managing their credit risk to reach and maintain strong fiscal health—their borrowing costs are directly related to this risk. Finally, standards-setting agencies like the GASB and GFOA provide "best practices" and guidelines for public budgeting and financial management that further structure and constrain how budgeting and financial management are conducted in U.S. state governments.

Table 1: U.S. Federal Grants to State and Local Governments, 1940 to 2022 (estimated)

Fiscal Year	In Millions of Dollars				In Billions of Constant (FY 2009) Dollars				As Percentages of Federal Outlays				As Percentages of GDP			
	Total	Payments for Individuals	Capital Investment	Remainder	Total	Payments for Individuals	Capital Investment	Remainder	Total	Payments for Individuals	Capital Investment	Remainder	Total	Payments for Individuals	Capital Investment	Remainder
1940	872	298	442	132	15.4	3.8	7.3	4.4	9.2	3.1	4.7	1.4	0.9	0.3	0.5	0.1
1980	91,385	33,052	22,570	35,764	264.6	76.8	54.7	133.1	15.5	5.6	3.8	6.1	3.3	1.2	0.8	1.3
1990	135,325	77,431	27,185	30,708	224.5	116.1	45.7	62.7	10.8	6.2	2.2	2.5	2.3	1.3	0.5	0.5
2000	285,874	186,534	48,655	50,685	366.4	225.9	68.6	71.9	16.0	10.4	2.7	2.8	2.8	1.8	0.5	0.5
2010	608,390	391,427	93,274	123,689	599.1	385.3	93.7	120.1	17.6	11.3	2.7	3.6	4.1	2.6	0.6	0.8
2011	606,766	392,713	96,546	117,507	583.7	378.6	94.9	110.3	16.8	10.9	2.7	3.3	3.9	2.6	0.6	0.8
2012	544,569	364,095	85,212	95,262	512.4	343.6	81.0	87.8	15.4	10.3	2.4	2.7	3.4	2.3	0.5	0.6
2013	546,171	379,008	78,431	88,732	505.6	352.5	73.2	79.9	15.8	11.0	2.3	2.6	3.3	2.3	0.5	0.5
2014	576,967	412,466	78,938	85,563	525.4	377.9	72.1	75.3	16.5	11.8	2.3	2.4	3.4	2.4	0.5	0.5
2015	624,354	463,392	77,244	83,718	565.1	422.2	69.7	73.1	16.9	12.6	2.1	2.3	3.5	2.6	0.4	0.5
2016	660,818	495,711	79,698	85,409	593.5	447.9	71.6	73.9	17.2	12.9	2.1	2.2	3.6	2.7	0.4	0.5
2017 est.	686,303	515,688	79,829	90,786	601.7	455.1	70.0	76.7	16.9	12.7	2.0	2.2	3.6	2.7	0.4	0.5
2018 est.	703,392	533,515	82,506	87,371	601.9	460.2	70.2	71.6	17.2	13.0	2.0	2.1	3.5	2.7	0.4	0.4
2019 est.	741,670	552,073	100,098	89,499	619.2	465.5	82.6	71.1	17.1	12.7	2.3	2.1	3.5	2.6	0.5	0.4
2020 est.	777,472	569,317	110,529	97,626	633.0	469.3	88.4	75.3	17.4	12.7	2.5	2.2	3.5	2.6	0.5	0.4
2021 est.	800,862	585,652	119,233	95,977	636.2	471.9	92.5	71.8	17.3	12.7	2.6	2.1	3.5	2.5	0.5	0.4
2022 est.	793,538	594,298	103,888	95,352	615.5	468.1	78.2	69.2	16.4	12.3	2.2	2.0	3.3	2.4	0.4	0.4

NOTE: Total outlays include off-budget outlays; however, all grant outlays are from on-budget accounts. Grants that are both payments for individuals and capital investment are shown under capital investment. In this table, capital investment is used as shorthand for Major Public Physical Capital Investment as shown on Table 9.2.
SOURCE: U.S. Office of Management and Budget, Historical Tables, Table 12.1 – Summary Comparison of Total Outlays for Grants to State and Local Governments: 1940-2022 (in Current Dollars, as Percentages of Total Outlays, as percentages of GDP, and in Constant (FY2009) Dollars). Available at: https://www.whitehouse.gov/omb/budget/Historicals

Table 2. State Taxes and Federal Revenue as % of Total State Governmental Funds, Fiscal Year 2016 in Selected States

State	Total Governmental Funds (FY2016) from				Total Governmental Funds ($ in billions)
	State Tax Receipts ($ in billions)		Federal Grants ($ in billions)		
Wyoming	($ 1.5)	**38%**	($ 0.8)	**21%**	$ 3.9
Kansas	($ 7.4)	**59%**	($ 3.9)	**31%**	$12.6
Wisconsin	($16.3)	**57%**	($ 9.4)	**33%**	$28.5
Illinois	($35.5)	**57%**	($21.8)	**35%**	$62.3
Maine	($ 3.8)	**51%**	($ 2.9)	**39%**	$7.4
Georgia	($20.7)	**51%**	($15.9)	**39%**	$40.4
Texas	($47.9)	**43%**	($44.3)	**40%**	$111.3
Rhode Island	($ 3.3)	**48%**	($ 2.9)	**42%**	$6.9
California	($115.8)	**56%**	($88.1)	**43%**	$205.7
Mississippi	($ 6.9)	**42%**	($ 7.5)	**46%**	$16.4

Source: State Comprehensive Annual Financial Reports, for the year ending June 30, 2016, Statement of Revenues, Expenditures, and Changes in Fund Balances for each state, see below.

*State of California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016, prepared by State Controller's Office, page 42. Available at: [https://www.sco.ca.gov/Files-ARD/CAFR/cafr16web.pdf];

*State of Georgia, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016, prepared by State Accounting Office, page 32. Available at: [https://sao.georgia.gov/sites/sao.georgia.gov/files/related_files/site_page/sao-16-cafr.pdf];

*State of Illinois, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, prepared by the Comptroller, page 38. Available at: [http://illinoiscomptroller.gov/ioc-pdf/CAFR_2016.pdf];

*State of Kansas, Comprehensive Annual Financial Report, July 1, 2015 to June 30, 2016, prepared by Office of the Chief Financial Officer, page 27. Available at: [http://admin.ks.gov/docs/default-source/cfo/cafr/2016-cafr.pdf?sfvrsn=12] (Note: Include as federal grants both operating and capital);

*State of Maine, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, prepared by the Office of the State Comptroller, page 26. Available at: [http://www.maine.gov/osc/finanrept/cafr.shtml]

*State of Mississippi, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, prepared by Department of Finance and Administration, page 34. Available at: [http://www.osa.ms.gov/documents/agencies/2016cafr.pdf];

*State of Rhode Island, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016, prepared by Department of Administration, Office of Accounts and Control, page 42. Available at: [http://controller.admin.ri.gov/documents/Financial%20Reports//118_Comprehensive%20Annual%20Financial%20Report_06-30-2016.pdf]

*State of Texas, Comprehensive Annual Financial Report, Fiscal Year Ended August 31, 2016, prepared by Texas Comptroller of Public Accounts, page 40. Available at: [https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2016/]

*State of Wisconsin Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, prepared by the State Controller's Office, page 44. Available at: [http://doa.wi.gov/Documents/DEBF/Financial%20Reporting/CAFR/CAFR2016%20Links.pdf];

*State of Wyoming Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, prepared by CAFR Division of State Auditor's Office, page 42. Available at: [https://sites.google.com/a/wyo.gov/sao/publications].

Table 3: States with Performance Budgeting Law, by Year

1998	2008	2012	2016
n=33	n=39	n-40	n=43
Alabama	Alabama	Alabama	Alabama
Arizona	Alaska	Alaska	Alaska
California	Arizona	Arizona	Arizona
Connecticut	California	California	California
Delaware	Colorado	Colorado	Colorado
Florida	Connecticut	Connecticut	Connecticut
Georgia	Delaware	Delaware	Delaware
Hawaii	Florida	Florida	Florida
Idaho	Georgia	Georgia	Georgia
Illinois	Hawaii	Hawaii	Hawaii
Iowa	Idaho	Idaho	Idaho
Kentucky	Illinois	Illinois	Illinois
Louisiana	Indiana	Indiana	Indiana
Maine	Iowa	Iowa	Iowa
Michigan	Kentucky	Kentucky	Kansas
Minnesota	Louisiana	Louisiana	Kentucky
Mississippi	Maryland	Maryland	Louisiana
Montana	Michigan	Michigan	Maryland
Nebraska	Minnesota	Minnesota	Michigan
Nevada	Mississippi	Mississippi	Minnesota
North Carolina	Missouri	Missouri	Mississippi
Ohio	Montana	Montana	Missouri
Oklahoma	Nebraska	Nebraska	Montana
Oregon	Nevada	Nevada	Nebraska
Rhode Island	New Jersey	New Jersey	Nevada
South Carolina	New Mexico	New Mexico	New Hampshire
South Dakota	Ohio	Ohio	New Jersey
Texas	Oklahoma	Oklahoma	New Mexico
Utah	Oregon	Oregon	North Carolina
Vermont	Rhode Island	Pennsylvania	Ohio
Washington	South Carolina	Rhode Island	Oklahoma
Wisconsin	Tennessee	South Carolina	Oregon
Wyoming	Texas	Tennessee	Pennsylvania
	Utah	Texas	Rhode Island
	Vermont	Utah	South Carolina
	Virginia	Vermont	Tennessee
	Washington	Virginia	Texas
	Wisconsin	Washington	Utah
	Wyoming	Wisconsin	Vermont
		Wyoming	Virginia
			Washington
			Wisconsin
			Wyoming

NOTE: 2016 state list compiled by Georgia State University MPA GRA Anna Sexton in spring, 2016, reviewing previous dataset and conducting new state law search. This list has then been reviewed by Yi Lu and Katherine Willoughby. 1998-2012 state lists developed from previously published research:

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Lu, Y., Willoughby, K. and Arnett, S. (2011). "Performance budgeting in the American states: What's law got to do with it?" *State and Local Government Review*, 43(2), 79-94.

Lu, Y., Willoughby, K. and Arnett, S. (2009). "Legislating results: Examining the legal foundations of PBB systems in the states." *Public Performance and Management Review*, 33(2), 266-287.

Melkers, J. and Willoughby, K. (1998). "The state of the states: Performance-based budgeting requirements in 47 out of 50," *Public Administration Review*, 58(1), 66-73.

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[1] Information about Alaska's Permanent Fund is available at: https://apfc.org/who-we-are/history-of-the-alaska-permanent-fund/