The Budget Cycle and Line-Item Veto

30

states budgeted annually in 2015.

How and When States Make Their Budgets

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Although most states produce a budget annually, 20 states produce a budget every other year for the upcoming two fiscal years, or biennially. The budget process typically starts in the governor's office, where agencies submit funding requests based on guidance from the governor before debate moves to the legislature. Most governors can veto specific items in the final budget, and this is known as a line-item veto.[1]

Annual or Biennial Budgeting?

Policymakers in favor of biennial budgeting have touted many of its purported benefits, including lower spending, better planning, and more time for program evaluation. The evidence, however, is mixed on whether biennial budgeting offers more benefits than the more common annual budget cycle.

- **Do biennial budgets reduce spending?** One quantitative 50-state study that used data from 1960 to 1985 found that states that budget biennially actually spend more than states that budget annually. Another 47-state study using data from 1970 to 1998 also found higher spending in states with biennial budgets after controlling for factors that might influence government spending, such as population income per capita, urban and rural populations, and population age.

- **Do biennial budgets help states plan?** A 2015 study used data from 1960 to 2012 and found that spending is less volatile in states that budget biennially because the two-year budgeting time frame forces longer-term planning by state policymakers. Biennial budgeting allows deficits in one year to be offset in the next fiscal year and managed without an abrupt cut to public services.

A 2011 study, however, found that revenue forecasting errors are twice as large in states that budget biennially as in states that budget annually. Biennial budgeting may require states to create "further ahead" revenue forecasts that are more prone to error.

THE STATE BUDGET CYCLE

In 46 states, the fiscal year begins on July 1, with the remaining states starting on the first of April (New York), September (Texas), or October (Alabama and Michigan).

BUDGET TIMELINE

Step 1: The executive budget office provides guidance to state agencies by setting budgeting baselines and articulating policy priorities.

Step 2: The executive budget office prepares the governor's budget based on agency requests and the state's revenue estimates.

Step 3: The governor finalizes and submits the proposed budget to the legislature.

Step 4: The legislature holds budget hearings, considers the governor's budget proposal, and passes its own version of the budget, which it then sends to the governor for a final signature.

Step 5: The governor signs or vetoes the legislature's budget, potentially using a line-item veto on specific provisions.

Although these are the most common steps, exceptions apply. In Texas, for example, both the governor's office and the independent Legislative Budget Board provide guidance to state agencies, and the governor is less influential early in the budget process.

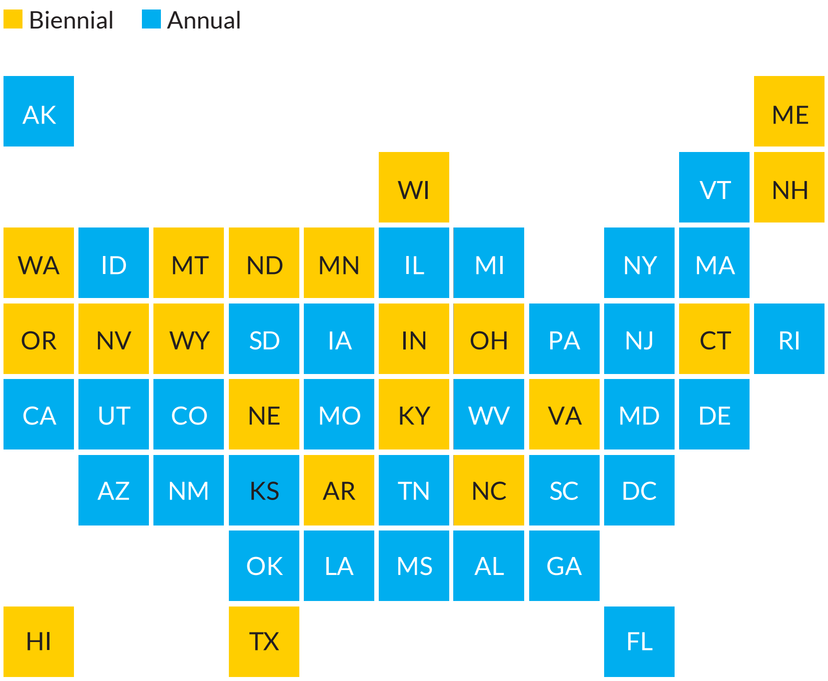
The Line-Item Veto

In 2015, 44 states and the District of Columbia permitted the governor to veto specific items in the budget. In some states, the governor can veto an entry or amount; other states restrict the scope of the veto. Although the line-item veto is a common and popular institution and is often lauded as a way to rein in unnecessary spending, it's not clear that it achieves this effect in practice.

One classic study looked at 1982 data on 50 states and found that the line-item veto reduced state spending only when the governor and legislature were controlled by different parties. A 2003 study confirmed these results, again finding a decrease in per capita spending and taxes from line-item vetoes only under a divided government. Some studies that use different methodological approaches, however, find the line-item veto exhibits no effect on state spending.

One study on governors' use of the line-item veto in the 1980s found that, rather being a tool of fiscal restraint, it allows the governor to exercise influence and achieve a budget that reflects their preferences rather than the legislature's. A 2006 case study on Georgia concurs, finding that the line-item veto is not used to reduce spending but to protect executive budget priorities. Under a divided government, the line-item veto power can help reduce state spending, but it is otherwise used as a tool to advance the governor's budget priorities.

Budgeting Timeline in the States, 2015



STATUTORY PROCEDURE FOR WHEN NO BUDGET IS PASSED

California
State has continuing appropriation authority for federal mandates, some multiple-year appropriations, constitutionally mandated school apportionments, court cases, and payments required under labor law.

Massachusetts
Governor and legislature approve temporary budget, with appropriations based on prior fiscal year budget.

North Carolina
State has continuing budget authority.

Rhode Island
State makes monthly appropriations based on prior fiscal year budget; debt service on general obligation bonds not subject to limitations.

Utah
State adopts budget base within first 10 days of legislative session.

Wisconsin
State appropriates based on prior fiscal year's budget.

[1] For more information, see Megan Randall and Kim Rueben, *Sustainable Budgeting in the States: Evidence on State Budget Institutions and Practices* (Washington, DC: Urban Institute, 2017).

Source: National Association of State Budget Officers, *Budget Processes in the States* (Washington, DC: National Association of State Budget Officers, 2015).

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