**State Capitol Week in Review**

December 11, 2020

LITTLE ROCK – One of the most important duties for legislators is to set spending levels for state agencies.

The level of state government spending determines how much of a surplus is left at the end of the fiscal year.

One of the legislature’s most important decisions is how much of a surplus to accumulate, and what to do with it. One option is to lower taxes, which lowers the available surplus because it decreases revenue for government. Another option is to spend the surplus on one-time capital projects. It can also be transferred to programs that have been affected by spending cuts.

Another option is to place the surplus in a “rainy day” fund, to be available in periods of financial crisis. That option will be seriously considered by legislators during the 2021 regular session that begins in January.

The legislature has the constitutional authority to appropriate tax revenue and set government spending levels. That authority is often called “the power of the purse strings.” By designating where tax dollars are spent, the legislature officially determines the state’s priorities on education, transportation, health care, tax rates and many other areas of public policy.

As the head of the executive branch, the governor presents a balanced budget plan to the legislature as a starting point. Legislators modify that budget plan to reflect their priorities. When the regular session is finished next spring the state will have an official budget for Fiscal Year 2022, which begins on July 1, 2021.

In a letter accompanying his presentation of a balanced budget, the governor proposed increasing the amount in the state’s long-term reserve fund from about $185 million now to about $420 million after the next two fiscal years.

General revenue from state taxes will amount to an estimated $5.68 billion this year. It is forecast to increase to $5.8 billion next fiscal and $6 billion the following fiscal year.

Larger reserve funds improve the state’s bond ratings, which saves agencies money on building projects. It is well known in state government that Arkansas does not deficit spend, which means that unlike Washington we don’t used borrowed money to pay for ongoing operational costs.

However, universities and state agencies issue bonds for buildings and capital improvements. Issuing bonds is a way of borrowing money for one-time expenses. For example, last week the Arkansas Highway Commission voted to refinance a series of bonds in order to take advantage of low interest rates.

Over the past five years, tax cuts enacted by the legislature have slowed the growth of state revenue by several hundred million dollars a year.

The state is on pace to accumulate a healthy budget surplus, even after taking into account the loss of revenue from those tax reductions, and the drop in tax collections due to the economic effect of the pandemic.

Surpluses are created because Arkansas legislators consistently adopt very conservative budgets for state government. Also, Arkansas operates under a balanced budget law called the Revenue Stabilization Act, which requires state agencies to reduce spending if an economic downturn results in reduced revenue from sales and income taxes.