

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

State General Fund Budget Situation

October 2010

At the end of the 2010 legislative session and first special session, the general fund budget for FY 2010-11 was projected to have a \$5.6 million balance. The general fund budget for FY 2012-13 was projected to have a \$5.76 billion deficit. This Issue Brief reviews those figures and updates them for actions taken in the 2010 second special session. It also discusses some issues related to the FY 2012-13 budget.

General Fund Budget Situation

The Current Biennium - FY 2010-11 – As of May 2010

| | |
|------------------------------|-------------------|
| Balance Forward From FY 2009 | 96,921 |
| Projected Revenue | 30,537,704 |
| Use of Cash Flow Account | 84,000 |
| <u>Projected Spending</u> | <u>30,713,069</u> |
| Balance | 5,556 |

The end of 2010 session fund balance showed a budget balance of \$5.556 million for the current biennium.

During the 2010 Second Special Session (Oct. 18) general fund spending was decreased by \$230.122 million as a result of acknowledging additional federal FMAP (federal matching assistance percentages) funds. The additional FMAP funds were a result of Public Law 111-226 that extended higher FMAPs for six additional months – January – June of 2011.

Spending was increased by \$38.416 million for disaster programs. The net general fund change was a decrease of \$191.706 million. After the special session but prior to the November forecast the general fund balance for FY 2010-11 is now \$197.262 million (the \$5.556 million balance from end of session plus the \$191.706 million net change in special session).

Adjustments in the 2010 Second Special Session for FY 2010-11

| | |
|--|----------------|
| End of Session Fund Balance | 5,556 |
| Changes Due to Additional FMAP Funds | 230,122 |
| <u>Additional Spending for Disaster Relief</u> | <u>-38,476</u> |
| Balance after Second Special Session | 197,262 |

MMB has reported that general fund revenue for FY 2010 (ending June 30, 2010) was \$76.6 million below the forecasted amount. Spending and other adjustments to the FY 2010 budget were down \$67.7 million. The net of these changes in that FY 2010 ended with a balance \$8.9 million lower than anticipated at the end of the 2010 session.

Revenue for the first quarter of FY 2011 (July 1 – Sept. 30, 2010) has been \$54.865 million above the forecasted amount. Information on spending changes for FY 2011 will be updated in the November forecast.

The Next Biennium – FY 2012-13 - As of May 2010

| | |
|------------------------------|-------------------|
| Balance Forward from FY 2011 | 5,556 |
| Projected Revenue | 32,907,287 |
| <u>Projected Spending</u> | <u>38,678,720</u> |
| Balance | -5,765,877 |

Due to the actions in the 2010 Second Special Session, the balance carried forward from FY 2011 into FY 2012-13 would be \$191.7 million higher than previously projected. That would reduce the projected FY 2012-13 deficit from \$5.766 Billion to \$5.575 billion.

FY 2012-13 spending at \$38.678 billion is \$7.965 billion (25.9%) higher than spending in FY 2010-11. FY 2012-13 is substantially higher than FY 2010-11 in a large part because FY 2010-11 spending has been lowered by two major one-time items:

1. \$2.149 billion by replacing state spending with federal stimulus (ARRA) funds, and
2. \$1.961 billion in two K-12 education shifts.

Both of these actions allowed the state to support higher spending in FY 2010-11 than actual general fund revenue would support.

The one “easy” item to reduce spending in FY 2012-13 would be making the 70%/30% education aid payment shift permanent (under current law the education payments return to 90%/10% in FY 2012). That change would reduce state spending in FY 2012-13 by \$1.385 billion still leaving a deficit of \$4.19 billion.

Minnesota Management and Budget is scheduled to release the November general fund budget forecast on December 2010. That forecast will present revised budget number for FY 2010-11, FY 2012-13 and the first projections for FY 2014-15.

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