

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

State General Fund Budget Forecast December 2012

The latest budget forecast for the state's general fund released by the Minnesota Management and Budget Department on December 5, 2012 projects a \$1.33 billion balance for the current biennium but then a \$1.095 billion deficit by the end of the FY 2014-15 biennium. This compares to August 2012 end of special session projections for a \$0 million balance for the FY 2012-13 biennium and a \$1.079 billion deficit for the FY 2014-15 biennium.

The Current Biennium – FY 2012-13

In August 2012, after a special session for disaster relief, the state was projected to end the FY 2010-11 biennium on June 30, 2013 with a general fund balance of \$0 million. Determination of this amount was based on revenues and expenditures from the February 2012 forecast with modifications for 2012 legislative enactments.

The November 2012 budget forecast projects a \$1.033 billion balance for the general fund as of June 30, 2013. However, that total amount is allocated under current law to increase the education aid payment percent (school shift) and a small amount is added to the budget reserve. The following chart illustrates budget changes since the August 2012 end of session estimates.

FY 2010-11 General Fund Changes from August 2012

End of Special Session Projected Balance	\$ 0.0 million
Change (Increase) in Revenues from End of Session	1,076.4 million
Change (Decrease) in Expenditures from End of Session	261.6 million
Change (Increase) in Reserves	<u>- 7.9 million</u>
Subtotal	\$1,330.1 million
Increase in Education Aid Payments	1,323.8 million
Additional Change (Increase) in Reserves	<u>6.3 million</u>
Balance	\$ 0.0 million

The most significant revenue changes from the February forecast and end of the 2012 session numbers are that corporate tax revenues are projected to be \$335 million higher, income taxes are projected to be \$232 million higher, and sales tax receipts are projected to be \$152 million higher. Other revenues are up \$332 million. The single largest items in this is an increase of \$139 million in prior year adjustments due to corrected accounting of federal Medicaid payments for several previous years.

Projected expenditures in health and human services is down \$196 million, most of it due to changes in medical assistance. Spending for debt service dropped \$39 million due to a smaller than expected bond sale in 2012 and lower than projected interest rates.

The following chart illustrates the overall general fund budget picture for FY 2012-13.

FY 2012-13 Budget

Beginning Balance	\$ 1,289 million
Revenues and other Resources	34,944 million
Expenditures	- 35,222 million
Reserves	- <u>1,011 million</u>
Balance	\$ 0 million

The Next Biennium – FY 2014-015

The 2013 legislature will be setting a budget for the biennium beginning July 1, 2013 and ending June 30, 2015. At the end of the 2012 session, projected expenditures for the FY 2014-15 biennium exceeded projected revenues by \$1.079 billion. Now FY 2014-15 projected expenditures are expected to exceed projected revenues by \$1.096 billion, an increase of \$17 million. In determining the spending level, expenditures for FY 2014 and 2015 are set at the same level as in FY 2013 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect that amounts needed to fund the formula or entitlement in law. Appropriations in FY 2013 that were considered one-time are not continued. Expenditures for FY 2014-15 include no adjustment for inflation unless such an adjustment is specified in law.

FY 2014-15 General Fund Changes From End of Session

End of Session Projected Budget Deficit	- \$1,079.2 million
Change (Decrease) in Revenues from End of Session	- 67.9 million
Change (Decrease) in Expenditures from End of Session	42.6 million
Change (Decrease) in Reserves	<u>8.9 million</u>
Balance	- \$1,095.6 million

Major changes from the end of session estimates include a \$547 million reduction in individual income tax revenue, a \$124 million increase in sales tax revenue and a \$136 million increase in corporate tax revenue. About half of the reduction in income tax revenue is due to lower wage growth and the other half is due to projected lower capital gains realizations.

Health and human service spending is projected to be \$185 million less than the end of session estimates. Costs for debt service are up \$114 million because the debt service costs on what were called the tobacco bonds are now being paid from the general fund rather than a different fund. Revenue from the tobacco settlement is up by a similar amount because that revenue now comes directly to the general fund.

The following chart illustrates the overall general fund budget picture for FY 2014-15.

FY 2014-15 Budget

Revenues	\$35,793 million
Expenditures	36,866 million
Change (Increase) in Reserves	<u>23 million</u>
Balance	- \$ 1,096 million

The Following Biennium – FY 2016-17

When budget decisions are being made for the FY 2014-15 biennium, the implications of those decisions on revenues and expenditures for the FY 2016-17 biennium will be tracked. In this forecast, projections for FY 2016-17 show revenues exceeding expenditures by \$263 million for that biennium. Expenditure numbers for FY 2016 and 2017 also are set at essentially the same level as in FY 2015 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect that amounts needed to fund the formula or entitlement in law. Expenditure estimates for FY 2016-17 do not include amounts for inflation.

The following chart illustrates the overall general fund budget picture for FY 2016-17.

FY 2016-17 Budget

FY 2016-17 Revenues	\$38,702 million
FY 2016-17 Expenditures	<u>38,439 million</u>
Difference	\$ 263 million

The complete November 2012 general fund budget forecast document issued by Minnesota Management & Budget is at: <http://www.mmb.state.mn.us/doc/fu/12/complete-nov12.pdf>

For more information, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or at bill.marx@house.mn