



ISSUE BRIEF

State General Fund Budget Situation December 2017

The latest budget forecast for the state's general fund, released by the Minnesota Management and Budget Department on December 5, 2017, projects a \$188 million negative balance for the current biennium. This is an decrease of \$351 million from the \$163 million balance projected at the end of the 2017 session. The forecast also projects spending will exceed revenue by \$337 million for the FY 2020-21biennium.

The Previous Biennium – FY 2016-17

The ending balance for FY 2017 was \$995 million, \$265 million higher than the \$730 million projected at the end of the 2017 session. Revenue was \$50 million higher than previously projected. Spending in FY 2017 was down \$575 million but \$358 million of that carried forward into FY 2018. The stadium reserve increased by \$2 million because gaming revenue was higher than previously projected.

FY 2017

FY 2017 Balance from End of Session	\$730 million
Increase in Revenue	50 million
Decrease in Spending	<u>575 million</u>
Subtotal	1,355 million
Appropriations Carried Forward	- 358 million
Increase in Stadium Reserve	<u>- 2 million</u>
Balance Carried Forward	\$995 million

Because the FY 2017 ending balance exceeded the projected amount by more than \$10 million, \$10 million was transferred to the disaster contingency account in the special revenue fund in FY 2018. This provision was enacted in the 2017 session.

The Current Biennium – FY 2018-19

At the end of the 2017 sessions, the state was projected to end the FY 2018-19 biennium on June 30, 2019 with a general fund balance of \$163 million. (This amount accounted for the \$730 million that was projected to carry forward from FY 2017 into FY 2018-19.) This \$163 million balance provided funding for the House and Senate only for the first quarter of FY 2018 after the Governor vetoed those appropriations and the Ramsey County District Court ordered funding for those three months. If the Legislature was funded at the level appropriated in the 2017 session the balance would have been lower by about \$114 million. Determination of the FY 2018-19 balance was based on revenues and expenditures from the February 2017 forecast with modifications for legislation enacted in 2017. At the end of the session the budget reserve was projected to have a balance of \$1,603 million and the cash flow account a balance of \$350 million.

The November 2017 budget forecast projects a \$351 million decrease in the budget situation for the FY 2018-19.

The following chart illustrates budget changes in FY 2018-19 since the end of the 2017 session.

<u>FY 2018-19 General Fund Nov. Forecast Changes from May 2017</u>	
Change in FY 2016-17 Balance Carried Forward into FY 2018-19	\$265 million
Change in FY 2016-17 Reserves Carried Forward into FY 2018-19	2 million
Appropriations Carried Forward into FY 2018-19	358 million
Change (Decrease) in Revenues from End of Session	-559 million
Change (Increase) in Spending & Transfers from End of Session	-398 million
Change (Increase) in Reserves	<u>-20 million</u>
Net Change in FY 2018-19 Balance	-\$351 million

For FY 2018-19, revenue is projected to be \$559 million lower than the end of 2017 session estimate. Income tax revenue is \$461 million lower than end of session amount. Corporate tax revenue is projected to be \$155 million lower than the end of session estimate and sales tax revenue is projected to be \$65 million lower.

Total spending for FY 2018-19 is \$398 million higher than June 2017 projections. Health and human service spending is up \$13 million. Spending for education is up \$121 million. State Government spending is up \$207 million. Of the State Government amount \$171 million is because of a carry forward of spending appropriated in FY 2017 for the health insurance premium assistance program.

All of these changes lead to a projected balance at the end of the FY 2018-19 biennium of negative \$188 million. That negative \$188 million does not include funding for the House and Senate past the first quarter of FY 2018. If the appropriation for the House and Senate is restored to the level appropriated in the 2017 session State Government Finance Bill, another \$114 million of spending would occur increasing the projected deficit from \$188 million to \$302 million.

The following chart illustrates the general fund budget situation for FY 2018-19.

Beginning Balance Forward	\$ 995 million
Reserves Carried Forward	1,980 million
Appropriations Carried Forward	358 million
Revenues and other Resources	44,447 million
Expenditures	- 45,955 million
Reserves	<u>- 2,013 million</u>
Balance	- \$ 188 million

The budget reserve is now at \$1.608 billion, \$5 million higher than at the end of session. The cash flow account is unchanged at \$350 million.

Next Biennium – FY 2020-21

As of May 2017, projected revenues for FY 2020-21 biennium exceeded projected expenditures by \$254 million. That number reflected the Governor's veto of funding for the House and Senate, had House and Senate funding been included at the appropriated amount the FY 2020-21 balance would have been \$125 million. Now the projected balance for FY 2020-21 is a negative \$337 million. If legislative funding at

the appropriated level of the previous biennium (\$129 million) is added into the projections FY 2020-21 expenditures would exceed revenue by \$466 million.

Expenditures for FY 2020-21 include no adjustment for inflation unless such an adjustment is specified in law for the particular program.

<u>FY 2020-21 General Fund Nov. 2017 Forecast Changes From May 2017</u>	
Change (Decrease) in Revenues from June 2017	- \$625 million
Change (Decrease) in Expenditures from June 2017	<u>33 million</u>
Net Change	- \$592 million

Major revenue changes from the May 2017 estimates include a \$575 million decrease in individual income tax revenue, a \$54 million decrease in corporate tax revenue and a \$240 million decrease in sales tax.

Health and human service spending is projected to be \$153 million lower and K-12 education spending is projected to be \$133 million higher than in May.

The following chart illustrates the general fund budget situation for FY 2020-21.

Revenues	\$47,646 million
Expenditures	- <u>47,983 million</u>
Balance	- \$337 million

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