

## Budget Forecasts, Surpluses, and Deficits

### *When are economic forecasts prepared?*

The commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of general fund revenues and expenditures twice each year—in February and November. Employment levels, wages, sales of taxable goods and services, health care costs, the number of children enrolled in public schools, and numerous other factors influence state expenditures and receipts. The forecast attempts to predict how these factors will collectively impact the state budget during the forecast period.

### *How are the forecasts used?*

The forecasts inform the governor's budget proposals and the legislature's development of tax and spending laws. In this way, the legislature and governor use the forecasts to develop and enact a balanced general fund budget in which total biennial revenues meet or exceed total expenditures.

The November forecast in *even-numbered* years informs the governor's initial biennial budget recommendations to the legislature. For example, the November 2016 forecast provided the revenue and expenditure projections for Governor Mark Dayton's preliminary budget proposal for the fiscal year 2018-2019 biennium, which runs from July 1, 2017, to June 30, 2019. The same November 2016 forecast projected that the state was on track to finish the fiscal year 2016-2017 biennium with a positive general fund balance.

The February forecast updates the preceding November forecast with any new economic, revenue, and spending data. Following the February 2017 forecast, Governor Dayton submitted revised budget recommendations informed by the latest revenue and expenditure estimates. Similarly, the February 2017 forecast provided the revenue and expenditure projections that the 2017 Legislature used to enact a state budget for the fiscal year 2018-2019 biennium. It also provided the final comprehensive update on the status of general fund revenues and expenditures in the remaining months of the fiscal year 2016-2017 biennium.

The November forecast in *odd-numbered* years and the February forecast in *even-numbered* years update revenue and expenditure estimates for the current biennium. Using the projections in the November 2017 and February 2018 forecasts, Governor Dayton may propose modifications to the enacted fiscal year 2018-2019 budget. The 2018 Legislature will use the latest projections in the February 2018 forecast to determine whether budgetary changes are needed for the fiscal year 2018-2019 biennium to close with a balanced general fund budget.

### *What if a forecast predicts a general fund deficit?*

If a balanced budget is enacted but a subsequent forecast projects a general fund deficit in the *current* biennium, the commissioner of MMB may access funds in the budget reserve account as needed to pay for all enacted expenditures. If there is not

enough money in the budget reserve to balance the general fund in the current biennium, the commissioner may also selectively reduce or delay existing appropriations, commonly referred to as “unallotting.” Before reducing the budget reserve or unallotting general fund appropriations, the commissioner must obtain the approval of the governor and consult the Legislative Advisory Commission. If the legislature is in session or will soon convene, the governor typically makes recommendations to the legislature on how to resolve the shortfall before approving use of the budget reserve or unallotment.

***What if the forecast predicts a general fund surplus?***

If a forecast projects a general fund surplus for the current biennium, the commissioner of MMB must allocate the surplus in priority order as follows:

1. to the cash flow account, until it reaches \$350 million (currently satisfied)
2. to the budget reserve account, until it reaches \$1,596,522,000 (currently surpassed)
3. to increase the school aid payment schedule to 90 percent, in increments of one-tenth of 1 percent with any residual amount remaining in the budget reserve (currently satisfied)
4. to restore previous school aid reductions and reduce the property tax recognition shift accordingly (currently satisfied)
5. to the Clean Water Fund until \$22 million has been transferred (unsatisfied – no money transferred to the Clean Water Fund to date)

If a November forecast projects a surplus and priorities (1) to (5) have been satisfied, MMB must transfer 33 percent of the remainder to the budget reserve until it reaches the balance recommended by MMB. No later than September 30 each year, MMB must assess the volatility of state tax revenues and report to the legislature any corresponding change in the agency’s budget reserve benchmark.

Any surplus remaining after satisfying the five statutory priorities and transferring 33 percent of any remainder to the budget reserve is reported in the forecast as a positive general fund balance. For the fiscal year 2018-2019 biennium, as of the November 2017 forecast there is a projected deficit, or negative balance, in the general fund.

***What are recent changes to the treatment of budget surpluses?***

[Laws 2014, chapter 150](#), required MMB to recommend a budget reserve level (specified as a percentage of general fund revenues for the current biennium), to update this percentage each January, and to transfer 33 percent of a November forecast surplus to the reserve. [Laws 2015, chapter 77](#), pushed the commissioner’s annual update back to September. [Laws 2017, first special session, chapter 1](#), added the requirement to transfer \$22 million of general fund surplus dollars to the Clean Water Fund.

**For more information:** Contact legislative analyst Colbey Sullivan at 651-296-5047. Also see the House Research publication [Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit](#), December 2010.

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