

Economic Forecasts, Budget Surpluses, and Budget Shortfalls

When are economic forecasts prepared?

The commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of state revenues and expenditures twice each year—in February and November.

What are the forecasts used for?

The November forecast in even-numbered years becomes the basis for the governor’s budget recommendations to the legislature. The November 2016 forecast provides the revenue and expenditure projections that the governor will use to develop the budget proposal for the fiscal year 2018-2019 biennium, which runs from July 1, 2017, to June 30, 2019. The November 2016 forecast also shows that the state is on track to finish the fiscal year 2016-2017 biennium with a positive balance.

The February forecast modifies the preceding November’s forecast with any new data that’s available. The February 2017 forecast will provide the revenue and expenditure projections that the legislature will use in adopting a budget for the fiscal year 2018-2019 biennium. Following the February forecast, the governor will submit modifications to the budget proposal developed from the November forecast, which are called “supplemental budget recommendations.” The February 2017 forecast will also provide an update on the status of revenues and expenditures in the current biennium.

The November forecast in odd-numbered years and the February forecast in even-numbered years also provide updates on revenues and expenditures in the current biennium. Using the projections of the November 2017 and February 2018 forecasts, the governor may make additional “supplemental budget recommendations” proposing changes to the fiscal year 2018-2019 budget during the 2018 legislative session. The legislature will use the projections in the February 2018 forecast to ensure that the fiscal year 2018-2019 biennium closes with a balanced budget.

What if a forecast shows a budget shortfall?

If a forecast projects a shortfall for the *general fund in the current biennium*, the commissioner of MMB may reduce the budget reserve account as needed to balance revenues with expenditures. If there isn’t enough money in the budget reserve to balance the general fund in the current biennium, and if a balanced budget has been enacted for the biennium, then the commissioner may also reduce outstanding appropriations, commonly referred to as “unalloting.” Before reducing the budget reserve or unalloting appropriations, the commissioner must obtain the approval of the governor and must consult with the Legislative Advisory Commission. When the legislature is in session, the governor typically makes recommendations to the legislature on how to resolve the shortfall before approving use of the budget reserve or unalloting.

What if the forecast shows a budget surplus?

If a forecast shows a surplus for the *general fund in 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 deposited in the budget reserve (currently satisfied)
4. to restore previous school aid reductions and reduce the property tax recognition shift accordingly (currently satisfied).

If a November forecast projects a surplus and priorities (1) to (4) have been satisfied, 33 percent of the surplus is transferred to the budget reserve, until the reserve reaches the percentage of the current biennium's revenues recommended as a reserve. The commissioner must update the percentage each September based on a review of the adequacy of the reserve and the volatility of Minnesota's tax structure. Under this requirement, the commissioner transferred \$334 million to the budget reserve after the November 2016 forecast, bringing the amount in the reserve to \$1.930 billion.

Any surplus remaining after meeting the four priorities and making the 33 percent transfer is reported in the forecast as a "positive unrestricted budgetary general fund balance." For the fiscal year 2016-2017 biennium, this balance is \$678 million.

What are recent changes to treatment of budget surpluses?

[Laws 2014, chapter 150](#), required the commissioner to recommend a budget reserve level specified as a percentage of current biennium revenues, to update the 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.

For more information: Contact legislative analyst Colbey Sullivan at 651-296-5047 or Nina Manzi at 651-296-5204. Also see the House Research publication [Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit](#), December 2010.

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