

Economic Forecasts, Budget Surpluses, and Budget Shortfalls

When are economic forecasts prepared?

The commissioner of finance 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 2008 forecast provides the revenue and expenditure projections that the governor will use in developing the budget for the fiscal year 2010-2011 biennium. The November 2008 forecast also tells if the state is on track to finish the fiscal year 2008-2009 biennium with a balanced budget.

The February forecast in odd-numbered years fine-tunes the preceding November’s forecast with data that becomes available early in the calendar year. The February 2009 forecast provides the revenue and expenditure projections that the legislature will use in adopting a budget for the fiscal year 2010-2011 biennium. Following the February forecast the governor may submit modifications to the budget developed from the November forecast, which are called “supplemental budget recommendations.” The February 2009 forecast also provides 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 2009 forecast, the governor may make additional “supplemental budget recommendations” proposing changes to the fiscal year 2010-2011 budget during the 2010 legislative session. The legislature will use the projections in the February 2010 forecast to ensure that the fiscal year 2010-2011 biennium closes with a balanced budget.

What if a forecast shows a budget shortfall?

If a forecast shows a shortfall for the *general fund in the current biennium*, the commissioner of finance 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, the commissioner may also reduce outstanding appropriations, commonly referred to as “unallotting.” Before reducing the budget reserve or unallotting 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 unallotting.

If a forecast shows a shortfall for *any other fund in the current biennium*, the commissioner of finance must reduce the affected agency's allotment to avoid a deficit. As with general fund shortfalls, if the legislature is in session the governor would typically make recommendations on how to resolve the shortfall.

If a forecast shows a shortfall for *the coming biennium*, the governor's budget recommendations must propose revenues and expenditures changes in order for the budget at the close of the coming biennium to be in balance.

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 finance must allocate the surplus in priority order as follows:

- to the cash flow account, until it reaches \$350 million
- to the budget reserve account, until it reaches \$653 million
- to increase the school aid payment schedule to 90 percent
- to restore previous school aid reductions and reduce the property tax recognition shift accordingly

If all these priorities have been met, the remaining surplus is reported in the forecast as a "positive unrestricted budgetary general fund balance." As of the February 2008 forecast, all the statutory priorities have been met.

If a forecast shows a surplus for *the coming biennium*, the governor's budget recommendations may propose revenue reductions and/or expenditure increases, as long as the proposed changes do not result in a projected budget shortfall.

For more information: Contact legislative analyst Kathy Novak at 651-296-9253 or Nina Manzi at 651-296-5204. Also see the House Research publication [Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit, March 2008](#).

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.