

Budget Forecasts, Surpluses, and Deficits

December 2021

When are budget 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. MMB's budget forecasts attempt 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 enact and maintain 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 budget recommendations for the next biennium. For example, the November 2020 forecast provided the revenue and expenditure projections that Governor Tim Walz used to prepare a budget proposal for the fiscal year (FY) 2022-2023 biennium, which runs from July 1, 2021, to June 30, 2023. The same November 2020 forecast projected that the state was on track to finish the FY 2020-2021 biennium, which ended on June 30, 2021, with a positive general fund balance.

The February forecast updates the preceding November forecast with the latest economic, revenue, and spending data. Following the February 2021 forecast, Governor Walz submitted a revised budget proposal informed by MMB's latest revenue and expenditure estimates. The February 2021 forecast also established the budgetary framework in which the 2021 Legislature enacted a balanced state budget for the FY 2022-2023 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 2021 and February 2022 forecasts, Governor Walz and legislators may consider and enact changes to the FY 2022-2023 budget.

What if a forecast predicts a general fund deficit?

If a balanced budget is enacted but a subsequent forecast anticipates a general fund deficit in the current biennium, the commissioner of MMB may access money in the budget reserve account as needed to pay for all enacted expenditures. If the budget reserve is exhausted and a deficit remains, the commissioner may reduce or delay enacted appropriations, commonly referred to as "unallotment." Before tapping the budget reserve or unallotting general fund appropriations, the commissioner must obtain the governor's approval 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 by law 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 \$2,377,399,000 (currently surpassed – see below for more information)
- 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)
- 5) to transfer up to \$5 million to the Minnesota 21st Century Fund until transfers plus certain cancellations and repayments to the fund total \$20 million (not fully satisfied)
- 6) to reduce or eliminate accelerated June liability sales tax remittances (currently satisfied)

If a November forecast predicts a surplus and priorities (1) to (6) have been satisfied, MMB must transfer up to 33 percent of the remainder to the budget reserve until it reaches the level recommended by MMB, which may exceed the budget reserve balance specified under priority (2). 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 target. As of the November 2021 forecast, the budget reserve is at MMB’s recommended level of \$2.656 billion.

Any surplus remaining after satisfying the six statutory priorities and transferring up to 33 percent of any remainder to the budget reserve is reported in the forecast as a positive general fund balance. For the FY 2022-2023 biennium, as of the November 2021 forecast, MMB anticipates a significant positive general fund balance.

Has the treatment of budget surpluses changed recently?

[Laws 2020, First Special Session chapter 1](#), added surplus allocation priority (5). It requires MMB to transfer up to \$5 million of a general fund surplus to the Minnesota 21st Century Fund with each forecast until these transfers plus other allocations fully replace the \$20 million that the legislature transferred from the Minnesota 21st Century Fund for COVID-19 small business emergency loans under [Laws 2020, chapter 71](#).

[Laws 2021, First Special Session chapter 13](#), increased the budget reserve level under surplus allocation priority (2) from \$1,596,522,000 to \$2,377,399,000. The same law also added priority (6), which applies only to November forecasts and requires MMB and the Department of Revenue to reduce or, if sufficient surplus dollars are available, fully eliminate a requirement that businesses with annual sales tax liability of \$250,000 or more remit their June sales tax collections to the state in June, rather than July. This change effectively undoes a budgetary “shift” that state lawmakers previously implemented to help erase a projected general fund deficit.

For more information: See the House Research publication [Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit](#), November 2018.



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