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 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 2018 forecast provided the revenue and expenditure projections that Governor Tim Walz used to prepare a preliminary budget proposal for the fiscal years (FY) 2020-2021 biennium, which runs from July 1, 2019, to June 30, 2021. The same November 2018 forecast projected that the state was on track to finish the FY 2018-2019 biennium, which ended on June 30, 2019, 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 2019 forecast, Governor Walz submitted revised budget recommendations informed by the latest revenue and expenditure estimates. The February 2019 forecast also established the budgetary framework in which the 2019 Legislature enacted a balanced state budget for the FY 2020-2021 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 2019 and February 2020 forecasts, Governor Walz may propose modifications to the enacted FY 2020-2021 budget. The 2020 Legislature will use the latest projections in the February 2020 forecast to determine whether changes are required to end the FY 2020-2021 biennium 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 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 a deficit remains after the budget reserve is exhausted, 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 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 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 $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 predicts a surplus and priorities (1) to (4) 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. 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 2019 forecast, the budget reserve is at MMB’s recommended level of $2.36 billion.

Any surplus remaining after satisfying the four 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 2020-2021 biennium, MMB anticipates a positive general fund balance.

Has the treatment of budget surpluses changed recently?

Laws 2014, chapter 150, required MMB to recommend a budget reserve level (specified as a percentage of nondedicated general fund revenue for the current biennium), to update this percentage each January, and to transfer up to 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 a requirement to transfer $22 million of general fund surplus dollars to the Clean Water Fund. MMB performed this $22 million transfer when the agency’s February 2018 forecast projected that a sufficient surplus existed in the general fund for the FY 2018-2019 biennium.

For more information: See the House Research publication *Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit*, November 2018.