

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

State General Fund Budget Situation December 2019

The latest budget forecast for the state's general fund, released by the Minnesota Management and Budget Department on December 5, 2019, projects a \$1.332 billion positive balance for the current biennium. This is an increase of \$1.09 billion from the \$242 million balance projected at the end of the 2019 legislative session. The forecast also projects that revenue will exceed spending by \$220 million for the FY 2022-23biennium.

The Previous Biennium – FY 2018-19

The ending balance for FY 2019 was \$1.421 billion, \$815 million higher than the \$606 million projected at the end of the 2019 session. Revenue was \$802 million higher than previously projected. Spending in FY 2019 was down \$90 million but \$71 million of that spending carried forward as spending into FY 2020. The stadium reserve increased by \$5 million because gaming revenue was higher than previously projected.

FY 2019

FY 2019 Balance from End of Session	\$606 million
Increase in Revenue	802 million
Decrease in Spending	<u>90 million</u>
Subtotal	1,498 million
Appropriations Carried Forward	- 71 million
Increase in Stadium Reserve	- <u>5 million</u>
Balance Carried Forward	\$1,421 million

Because the FY 2019 ending balance exceeded the balance projected at the end of session by more than \$63 million, three contingent appropriations enacted in the 2019 session became effective. \$20 million was transferred to the disaster contingency account in the special revenue fund in FY 2020. Another \$30 million was appropriated for school safety grants in FY 2020 and \$13 million will be appropriated for Metro Mobility in FY 2021.

The Current Biennium – FY 2020-21

At the end of the 2019 sessions, the state was projected to end the FY 2020-21 biennium on June 30, 2021 with a general fund balance of \$242 million. (This amount accounted for the \$606 million that was projected to carry forward from FY 2019 into FY 2020-21.) Determination of that FY 2020-21 balance was based on revenues and expenditures from the February 2019 forecast with modifications for legislation enacted in 2019. At the end of the session the budget reserve was projected to have a balance of \$2.074 million and the cash flow account a balance of \$350 million.

The November 2019 budget forecast projects a \$1,090 million increase in the budget balance for the FY 2020-21 biennium compared to the end of 2019 session estimates.

The following chart illustrates budget changes in FY 2020-21 since the end of the 2019 session.

<u>FY 2020-21 General Fund Nov. Forecast Changes from May 2019</u>	
Change in FY 2018-19 Balance Carried Forward into FY 2020-21	\$815 million
Change in FY 2018-19 Reserves Carried Forward into FY 2020-21	5 million
Appropriations Carried Forward into FY 2020-21	71 million
Change (Increase) in Revenues from End of Session	501 million
Change (Decrease) in Spending & Transfers from End of Session	7 million
Change (Increase) in Reserves	<u>-309 million</u>
Net Change in FY 2018-19 Balance	\$1,090 million

For FY 2020-21, revenue is projected to be \$501 million higher than the end of 2019 session estimate. Income tax revenue is \$493 million higher than end of session amount. Corporate tax revenue is projected to be \$294 million lower than the end of session estimate, sales tax revenue is projected to be \$252 million higher and cigarette and tobacco products tax revenue is projected to be \$87 million lower.

Total spending for FY 2020-21 is \$7 million lower than May 2019 projections. Health and human service spending is down \$97 million. Spending for education is down \$24 million. Tax aids and credits spending is up \$61 million. Spending for debt service is down \$51 million.

All of these changes lead to a projected balance at the end of the FY 2020-21 biennium of positive \$1,332 million. As noted in the chart above this is an increase of \$1,090 million over the end of 2019 session estimate.

The following chart illustrates the general fund budget situation for FY 2020-21.

Beginning Balance Forward	\$ 1,421 million
Reserves Carried Forward	2,480 million
Appropriations Carried Forward	71 million
Revenues and other Resources	48,656 million
Expenditures	- 48,463 million
Reserves	<u>- 2,833 million</u>
Balance	\$ 1,332 million

The budget reserve is now at \$2,359 million, \$284 million higher than at the end of session. The budget reserve is also now at the amount recommended by MMB, at 4.9 percent of biennial revenues. The cash flow account is unchanged at \$350 million.

Next Biennium – FY 2022-23

As of May 2019, projected expenditures for FY 2022-23 biennium exceeded projected revenues by \$576 million. As of the November 2019 forecast FY 2022-23 revenues are now projected to exceed projected spending by \$220 million, a positive change of \$796 million. The projected balance for the end of FY 2022-23 is \$1,919 million. It is important to note that FY 2022-23 balance includes the balance from FY 2020-21 carried forward of \$1,332 million. It is also important to note that current law reduces the budget reserve in FY 2022 by \$491 million. That amount, which was needed at the end of the 2019 session to maintain a balance in FY 2022-23, also contributes to the FY 2022-23 budget balance.

Expenditures for FY 2022-23 include no adjustment for inflation unless such an adjustment is specified in law for the particular program. MMB estimates that adding an inflation amount at the level of the consumer price index (CPI) would add \$1,211 million to the projected spending. The calculation of this amount excludes areas of the budget that already have an inflation adjustment and debt service that is not affected by inflation.

<u>FY 2022-23 General Fund Nov. 2019 Forecast Changes From May 2019</u>	
Change (increase) in Revenues from May 2019	\$801 million
Change (Increase) in Expenditures from May 2019	<u>-5 million</u>
Net Change	\$796 million

Major revenue changes from the May 2019 estimates include a \$523 million increase in individual income tax revenue, a \$198 million increase in sales tax revenue and a \$98 million decrease in cigarette and tobacco products tax revenue.

Spending for tax aids and credits is projected to be \$51 million higher than at the end of session and spending for debt service is projected to be \$27 million lower. Spending change in other areas is less than \$20 million in any one area.

The following chart illustrates the general fund budget situation for FY 2022-23.

Revenues	\$51,477 million
Expenditures	- <u>51,257 million</u>
Balance	\$ 220 million

The November forecast document issued by MMB is at:

<https://mn.gov/mmb-stat/000/az/forecast/2019/budget-and-economic-forecast/nov19-final-report.pdf>

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