



**Minnesota’s General Fund Budget  
November 2009 Forecast**

MINNESOTA SENATE  
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

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QUESTIONS

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*The November 2009 State Budget Forecast—released December 2, 2009— projects a further deterioration of General Fund budget conditions despite the budget reductions made to the enacted budget for FY 2010-11 and the Governor’s unallotments and other actions following session. Since the February 2008 state budget forecast—the last forecast to precede the change in budget trend lines due to the recession that began in December 2007—revenue projections for FY 2010-11 have fallen \$5.0 billion, from \$35.0 billion to \$30.0 billion; spending has declined from \$36.1 billion to \$31.3 billion. Relative to the budget enacted in May 2009, and after adjusting for the Governor’s unallotments and other actions, projected revenues have declined by \$1.2 billion while projected spending is largely unchanged. The projected shortfall for FY 2010-11 is now \$1.2 billion. The downward adjustments for FY 2010-11 continue into the planning period with the projected structural imbalance growing from \$4.4 billion to \$5.4 billion, before taking into account funding for the General Assistance Medical Care (GAMC) program or general price inflation.*

**\$1.2 Billion Deficit for the Current Biennium**

Following the 2009 legislative session and the Governor’s unallotments to the enacted budget, the FY 2010-11 budget had a projected balance of zero. Since then, balance forwards from FY 2009 into FY 2010-11 declined \$91 million after a \$147 million decline in FY 2009 revenue that was partially offset by lower than anticipated spending of \$56 million. The lower revenue baseline yields an ongoing downward adjustment in revenues with FY 2010-11 revenues \$1.156 billion lower than anticipated at the end-of-session, of which \$827 million is attributable to a decline in projected income tax revenues. Most other tax revenues are also down relative to the end-of-session while corporate tax is up \$54 million.

<b>FY 2010-2011 General Fund Budget Change from End-of-Session + Unallotments</b> <i>(\$'s in millions)</i>	
	<b><u>FY2008-09</u></b>
<b>Balance after Unallotments (7/09)</b>	<b>0</b>
Change in FY 2009 Closing	-91
Decrease in Revenue	-1,156
Decrease in Spending	44
<b>Revised Ending Balance (11/09)</b>	<b>-1,203</b>

<b>Forecast Revenue Changes, FY 2010-11</b>		
<i>(\$'s in millions)</i>		
	<b><u>Dollar</u></b>	<b><u>Percent</u></b>
	<b><u>Change</u></b>	<b><u>Change</u></b>
Individual Income	(827)	(5.5)
Sales	(32)	(0.4)
Corporate	54	4.4
Motor Vehicle	7	7.7
Statewide Tax Levy	(27)	(1.7)
Other Taxes	(159)	(6.6)
<b>Subtotal, Taxes</b>	<b>(984)</b>	<b>(3.4)</b>
Non-Tax Revenues	(42)	(2.7)
Transfers*	(44)	(7.3)
Dedicated Receipts**, Other	(87)	(39.4)
<b>Total Revenues</b>	<b>(1,156)</b>	<b>(3.7)</b>

\* The change in transfers is largely attributable to suspension of a \$48 million transfer from the HCAF to the General Fund due to a lack of HCAF resources in excess of spending.

\*\* The change in dedicated receipts is largely attributable to administrative steps taken to move dedicated funding streams out of the General Fund and into special funds and is offset by a like reduction in dedicated spending.

The November forecast reflects the automatic enrollment of GAMC eligible clients into MinnesotaCare beginning March 1, 2010, when General Fund support for GAMC ends. Forecast projections for increased demand for MinnesotaCare, along with the auto-enrollment of GAMC clients, is projected to result in Health Care Access Fund (HCAF) spending in excess of available resources for FY 2010-11. As a result, a portion of the General Fund deficit reported in the November forecast is attributable to conditions forecast for the HCAF, including suspension of a \$48 million transfer from HCAF into the General Fund in FY 2011 and a transfer of \$111 million from the General Fund into the HCAF in FY 2011. These two provisions have a net General Fund impact of \$159 million.

<b>Forecast Spending Changes, FY 2010-11</b>		
<i>(\$'s in millions)</i>		
	<b><u>Dollar</u></b>	<b><u>Percent</u></b>
	<b><u>Change</u></b>	<b><u>Change</u></b>
E-12 Education	(56)	(0.4)
K-12 Payment Deferrals	43	
Property Tax Aids & Credits	36	1.1
Health & Human Services	(2)	-
Transfer to HCAF	111	
Debt Service	(123)	(11.4)
Dedicated Spending*	(95)	(70.1)
All Other	43	
<b>Total</b>	<b>(44)</b>	<b>(0.1)</b>

\* The change in dedicated spending is largely attributable to administrative steps taken to move dedicated funding streams out of the General Fund and into special funds and is offset by a like reduction in dedicated receipts.

## The Next Biennium—FY 2012-2013

Projected spending for FY 2012-13 is little changed relative to the end-of-session after adjusting for selected Governor’s unallotments that increase FY 2012-13 liabilities. Declines in revenues continue in the planning period \$1.087 billion lower. The structural imbalance now totals \$5.426 billion before taking into account the possible budget implications of the GAMC program remaining in law, restoration of the school property tax early recognition changes, or an estimate for general price inflation. The use of one-time federal stimulus funding and the forecast treatment of the Governor’s unallotments in FY 2010-11 contribute to a sharp increase in projected General Fund spending from FY 2010-11 to FY 2012-13.

<b>FY 2012-2013 General Fund Budget Change from End-of-Session + Unallotments</b> <i>(\$'s in millions)</i>	
	<b><u>FY2012-13</u></b>
<b>Ending Balance (7/09)</b>	<b>(4,431)</b>
Decrease in Revenue	-1,087
Decrease in Spending	92
<b>Revised Ending Balance (11/09)</b>	<b>(5,426)</b>
<i>General Assistance Medical Care (GAMC)</i>	-928
<i>School Property Tax Recognition</i>	-562
<i>Planning Estimate Inflation</i>	-1,179

As summarized in the table below, a portion of the biennial change in spending is attributable to the expiration of federal funds included in the American Recovery and Reinvestment Act (ARRA) of 2009 that temporarily supported general fund programs and contributed to narrowing the gap between revenues and expenditures for FY 2010-11. After adjusting for these major one-time actions, spending is projected to increase about 6.7 percent.

<b>Preliminary Comparison of Projected Biennial Spending—Adjusted*</b> <b>FY 2010-11 –v- Planning Estimates for FY 2012-13</b> <i>(\$'s in millions)</i>				
	<b><u>FY 2010-11</u></b>	<b><u>FY 2012-13</u></b>	<b><u>Dollar Difference</u></b>	<b><u>Percent Change</u></b>
November Forecast Spending	<b>31,286</b>	<b>38,644</b>	7,358	23.5 %
<i>One-time Payment Delays</i>	<i>1,749</i>			
<i>Use Federal ARRA funds</i>	<i>2,078</i>			
<b>Adjusted FY 2010-11 Spending</b>	<b>35,113</b>		3,532	10.1 %
<i>Repayment of FY 2010-11 Payment Delays</i>		<i>1,187</i>		
<b>Adjusted FY 2012-13 Spending</b>	<b>35,113</b>	<b>37,457</b>	<b>2,344</b>	<b>6.7 %</b>

\* Adjusted for major one-time payment delays and use of temporary federal stimulus to fund the continuation of General Fund programs.

The November forecast assumes the continuation of those current programs supported by the General Fund. Because unallotments of current law appropriations reduce spending while the forecast assumes continuation of current laws (appropriations or forecast spending based on projected utilization for entitlement programs), the Governor’s FY 2010-11 unallotments do not

lower spending estimates for the planning period. Further, some unallotments and delays reflect changes in the timing of entitlement payments. Nonetheless, the \$5.426 billion gap between projected revenues (\$33.218 billion) and projected spending (\$38.644 billion), a 16.3 percent difference relative to spending, illustrates the scope of the budget challenge for the coming biennium.

While the overall trendline for General Fund revenues has shifted downward, revenues for FY 2012-13 are expected to grow from \$29.986 billion to \$33.218 billion, a 10.8 percent increase. By comparison, FY 2010-11 General Fund spending is now projected to total \$31.286 billion and rise to \$38.644 billion for FY 2012-13, a 23.5 percent increase. The table below summarizes structural budget conditions—structural balance is a comparison of current year revenues to current year spending, both of which, as illustrated in the above table, can both be influenced by timing changes used to achieve budget balance.

<b>Projected Structural Balances—General Fund</b>						
<b>November 2009 Forecast</b>						
<i>(\$'s in millions)</i>						
	<u><b>FY 2008</b></u>	<u><b>FY 2009</b></u>	<u><b>FY 2010</b></u>	<u><b>FY 2011</b></u>	<u><b>FY 2012</b></u>	<u><b>FY 2013</b></u>
Current Revenues	16,680	15,388	14,614	15,372	16,023	17,195
Current Spending	<u>17,005</u>	<u>16,861</u>	<u>14,919</u>	<u>16,367</u>	<u>19,680</u>	<u>18,964</u>
Structural Balance	(325)	(1,473)	(305)	(995)	(3,657)	(1,769)

#### Cash Flow Conditions — FY 2010-11

Separate from budget balance, it appears increasingly likely that the state will need to utilize short-term borrowing to meet its cash flow needs. Cash flow projections completed prior to the November forecast estimated daily cash balances for the statutory general fund<sup>1</sup> below \$500 million for at least some days in March, April and May of 2010. The General Fund is expected to have negative average monthly balances for most of FY 2010. Minnesota Management and Budget (MMB) has reported that it has been exploring various cash management and short-term borrowing options, including continued corporate refund delays, administrative payment delays, a line of credit or other borrowing options. For more information on MMB cash flow analysis visit <http://www.commissions.leg.state.mn.us/lcftp/meetingmaterials.htm>.

<sup>1</sup> The statutory general fund refers to all state funds (General, Health Care Access, MnSCU, Special Revenue, etc.) but excludes trust funds and constitutionally dedicated funds.

## Selected Other Funds

The Department of Minnesota Management and Budget also forecasts revenues, expenditures and budget balance for non-general funds. In addition to the projected shortfalls in the general fund, the projected balances for selected other funds—based on current law revenues and spending (appropriations)—are below.

<b>Projected Fund Balances*—Selected Non-General Funds</b>				
<b>November 2009 Forecast (<i>\$'s in millions</i>)</b>				
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Health Care Access Fund	166.4	0	(371.1)	(839.1)
Special Revenue Fund	196.7	139.3	86.4	42.9
Trunk Highway Fund	31.4	123.7	157.1	205.1

\* Balances amounts reflect cumulative balance from year-to-year.

The complete November 2009 general fund budget forecast document issued by Minnesota Management and Budget (formerly the Department of Finance) is available at: <http://www.mmb.state.mn.us/forecast>.

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budgeted issues related to matters that have been or are likely to be addressed by the Legislature. Senate Fiscal Issue Briefs can be viewed on the Office of Counsel, Research & Fiscal Analysis Web site at [www.senate.leg.state.mn.us/departments](http://www.senate.leg.state.mn.us/departments) and follow the links to the Office of Counsel, Research, and Fiscal Analysis.