

# FY 2012-13 Enacted State Budget and November Forecast Update

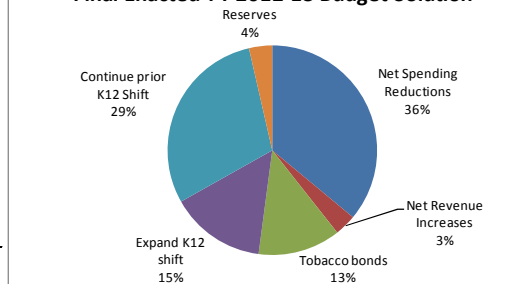
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## Resolving the \$5.0 billion shortfall

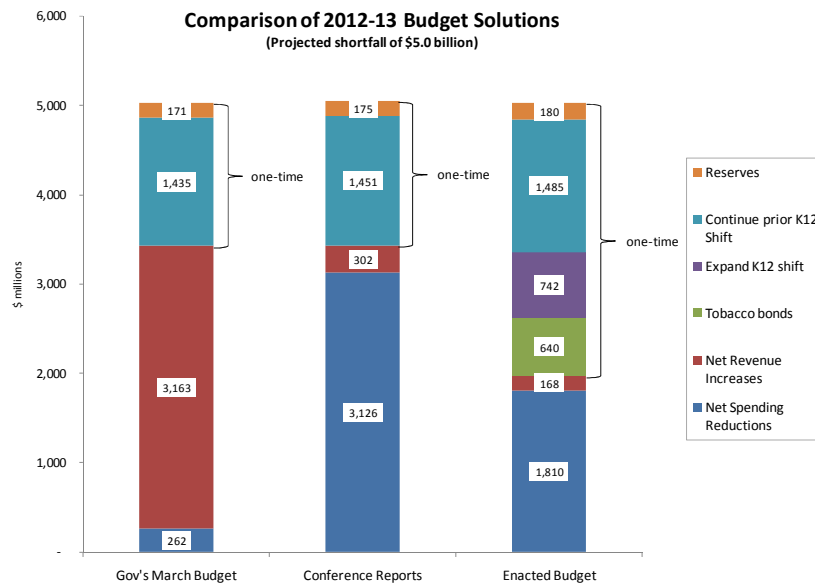
### FY 2012-13 Budget Solution (\$ millions)

Net Spending Reductions	\$1,810
Continue prior K12 Shift	1,485
Expand K12 shift	742
Tobacco bonds	640
Use Reserves	180
Net Revenue Increases	168
	<hr/>
	\$5,025

### Final Enacted FY 2012-13 Budget Solution



## Two-thirds from one-time solutions



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## FY 2012-13 General Fund Budget

(\$ millions)

	<b>Feb 2011 Forecast FY 2012-13</b>	<b>Enacted FY 2012-13</b>	<b>Change</b>
Beginning Balance	941	725	(216)
Revenue	33,330	33,724	394
Expenditures	39,016	34,339	(4,677)
Cash Flow Account	266	95	(171)
Budget Reserve	9	-	(9)
<b>Budgetary Balance</b>	<b>(5,020)</b>	<b>15</b>	

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<b>FY 2012-13 General Fund Budget</b>			
(\$ millions)			
	<b>Feb Forecast</b>	<b>Enacted</b>	
	<b>FY 2012-13</b>	<b>FY 2012-13</b>	<b>Change</b>
<b>Revenues</b>			
Balance Forward	941	725	(216)
Tax Revenues	30,904	31,193	289
Transfers/Other	<u>2,425</u>	<u>2,531</u>	<u>105</u>
<b>Total Resources</b>	<b>34,271</b>	<b>34,449</b>	<b>178</b>
<b>Expenditures</b>			
K-12 Education	14,322	14,545	223
K-12 Shifts	1,302	(907)	(2,208)
Higher Education	2,917	2,566	(351)
Property Tax Aids & Credits	3,502	2,864	(638)
Health & Human Services	12,338	11,372	(966)
Judiciary & Public Safety	1,783	1,807	25
Debt Service	1,181	532	(648)
All Other	<u>1,673</u>	<u>1,559</u>	<u>(114)</u>
<b>Total Expenditures</b>	<b>39,016</b>	<b>34,339</b>	<b>(4,677)</b>
Reserve & Cash Flow	275	95	(180)
<b>Budgetary Balance</b>	<b>(5,020)</b>	<b>15</b>	

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- ## Tails impacts of enacted budget
- Structural gap in the 2012-13 enacted budget continues into the future
  - FY 2014-15 planning estimates had \$1.9 billion shortfall
  - Substantial claims on future resources if/when surpluses occur

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## Improvement in structural outlook, but large gap remained

### General Fund Structural Balance

(\$ millions)	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2014-15</u>
Feb '11 Forecast (& Ch 8)			
Revenue	17,312	17,991	
Spending	<u>19,668</u>	<u>20,061</u>	
Structural	(2,356)	(2,069)	(4,425)
Enacted Budget Planning Estimates			
Revenue	17,311	17,985	
Spending	<u>18,543</u>	<u>18,645</u>	
Structural	(1,232)	(660)	(1,891)

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## Structural gap in enacted budget continued in future

(\$ millions)	<u>FY 2010-11</u>	<u>Enacted FY 2012-13</u>	<u>Planning Est. FY 2014-15</u>	<u>2014-15 vs. 2012-13</u>
Current Resources	30,662	33,724	35,296	1,572
Total Expenditures	<u>30,168</u>	<u>34,339</u>	<u>37,187</u>	2,849
Structural	494	(615)	(1,891)	

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## Future contingencies

- Current law directs allocation of budget surplus
- Claims on future surpluses have grown in number and amount
- \$3.6 billion of claims on resources at the time the FY 2012-13 budget was enacted

Contingent Commitment	\$ millions
Cash Flow Account	\$255
Budget Reserve	653
School Payment Delays	2,125
K12 Prop Tax Recognition Shift	565
Other	<u>26</u>
Total contingent spending	\$3,624

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## November 2011 Forecast

- Surplus of **\$876 million** projected for FY 2012-13
- Nearly two-thirds of the surplus due to prior biennium (FY 2011 close-out):
  - Actual revenues **\$358 million higher**
  - Actual spending closed **\$205 million lower**
- Economic growth projections now lower than assumptions underlying enacted 2012-13 budget
  - Lower growth eliminated the effect of the higher revenue base (FY 2012-13 revenue forecast now \$24 million lower)

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## Where did the surplus come from?

Source of variance	Amount
2011 Tax Revenues	\$337 million
2011 HHS Expenditure Savings	\$149 million
2012-13 HHS Expenditure Savings	\$308 million
Everything else (net)	\$ 82 million
<b>November Forecast Surplus</b>	<b>\$876 million</b>

Unanticipated revenues and lower spending in the prior biennium contribute the greatest proportion of the FY 2012-13 projected surplus.

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## Slower economic growth expected

Global Insight Forecast of Annual Percent Change in Real GDP

Global Insight Forecast	CY 2011	CY 2012	CY 2013
February 2011	3.2 %	2.9 %	3.1 %
November 2011*	1.8 %	1.6 %	2.5 %

\*For November's baseline, Global Insight assumed continuation of the federal payroll tax cut, as well as continuation of extended Unemployment Insurance benefits. Both provisions were assumed to have stimulative economic effects. Federal policymakers may revisit this issue. A two-month extension was enacted at the close of 2011.

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## Statutory Allocations

- By law, the entire forecast balance is allocated to prior commitments (M.S. 16A.152)
- \$255 million to restore cash flow account to full \$350 million level
- \$621 million to restore Budget Reserve (now at \$648 million; statutory max is \$653 million)

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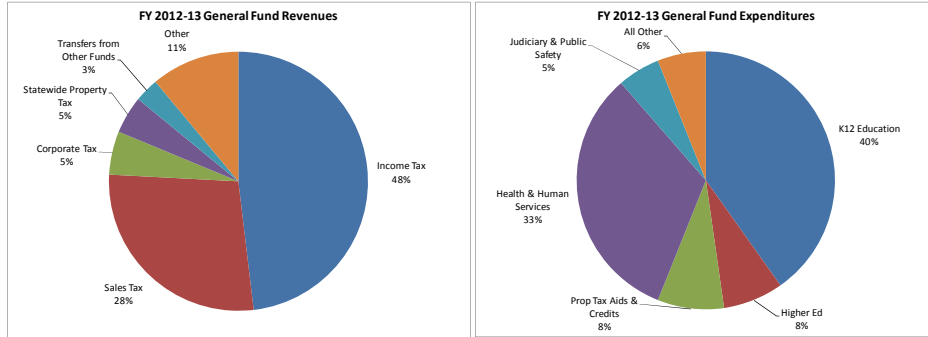
## Structural outlook also improved in November Forecast

(\$ millions)	<u>Actual FY 2010-11</u>	<u>Nov '11 Fcast FY 2012-13</u>	<u>Nov '11 Fcast FY 2014-15</u>	<u>2014-15 vs. 2012-13</u>
Current Resources	30,803	33,700	35,718	2,017
Total Expenditures	<u>29,962</u>	<u>33,990</u>	<u>37,017</u>	3,027
Structural	842	(290)	(1,300)	

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# General Fund, Sources & Uses

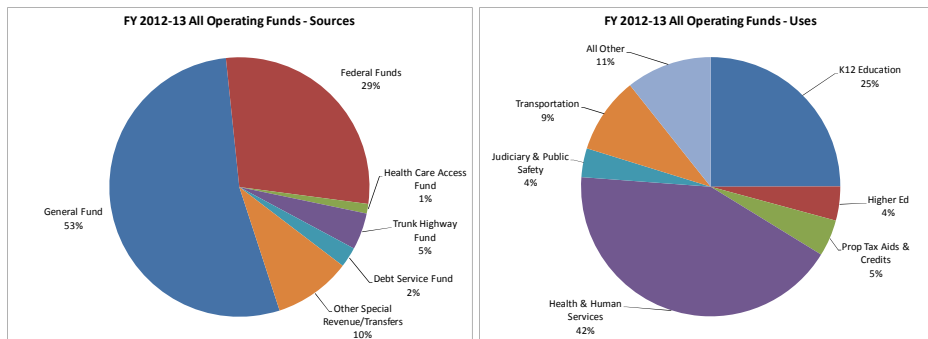
\$33.990 billion, Nov 2011 Forecast



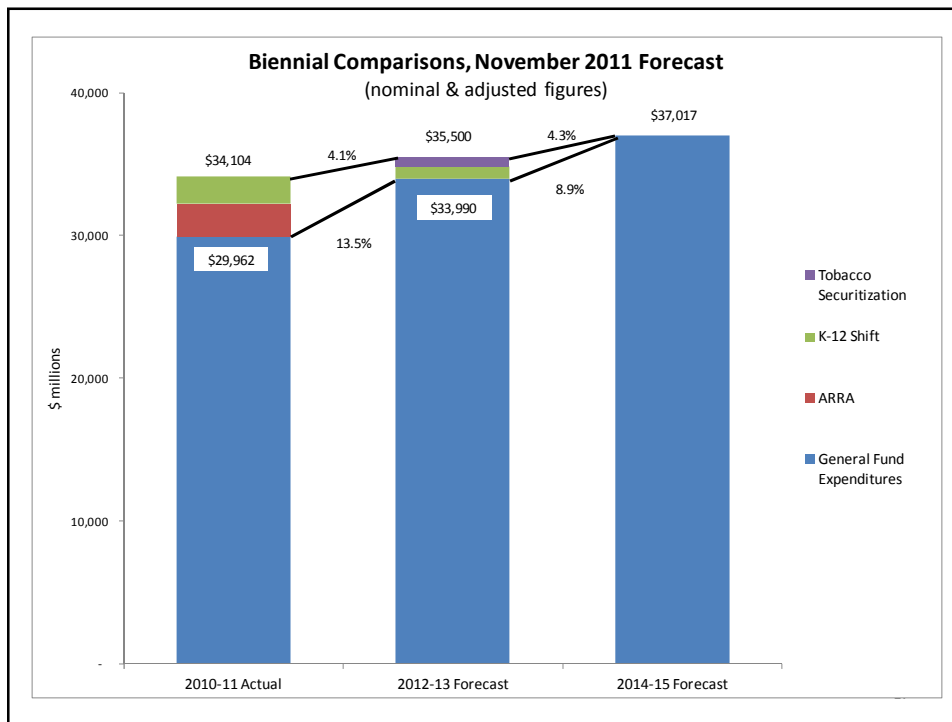
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# All Funds, Source & Uses

\$62.097 billion, Nov 2011 Forecast



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## Other fiscal items of interest

- Tobacco securitization bond sale
  - State sold \$757 million in bonds, 4.75% interest rate
  - Enacted budget relied on \$640 million of net proceeds
- January Economic Update
  - Revenues exceeded forecast by \$62 million, economic outlook on track
- Any forecast improvement already spoken for
  - First \$5 million to finish Budget Reserve restoration
  - Beyond \$5 million, school payment shifts will begin to be repaid.

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## Non-General Fund Items of Note

- Outdoor Heritage Fund – no enacted appropriations for FY 2013
- Game & Fish Fund – significant structural imbalance; small budgetary balance for FY 2013
- Health Care Access Fund – projected zero balance for FY 2013, significant structural surplus in tails

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## Bonding

- Even-year legislative session traditionally has a focus on the Capital Budget (aka, “Bonding bill”)
- Sale of General Obligation Bonds is primary means of financing capital construction
- Limitations on borrowing; limitations on uses of bond proceeds
- Forecast assumes that \$775 million of new GO bonds will be authorized this session
  - Higher amount will require additional debt service
  - Lower amount will result in savings

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