Fiscal Analysis Department
Minnesota House of Representatives

Issue Brief

General Fund Revenue and Expenditure Forecasts
Changes from Previous Forecast
August 2005

Any forecast of state revenues and formula driven expenditures for a specific time period is likely to vary from the final data for that time period. The goal of state budget forecasters is to present the most likely scenario given current economic data, the state economic situation, and other data affecting the forecast. Subsequent forecasts for the same time period are based on more recent data and are very likely to project different revenue and expenditure numbers.

Minnesota law requires the Commissioner of Finance to prepare forecasts of state revenues and expenditures twice each year. These forecasts must be presented in February and November. The November forecast usually shows a greater variance from the previous forecast than does the February forecast. This is logical since the November forecast variance occurs over a nine month period, the February forecast occurs only three months after the November forecast.

Each subsequent forecast highlights the variance from the previous forecast. A forecast also takes into account any intervening legislative action. For a long period in the mid and late 1990s, forecast variances were positive. Forecast variances in 2001, 2002 and 2003 were negative. Recent forecast variances have been positive.

These forecast variances, for the most part, represent what becomes called a “surplus” or “deficit” once the forecast is released. A surplus could be larger than the forecast variance if the laws enacted in the previous legislative session left an available balance or money on “the bottom line.” A surplus could be less than the forecast variance if the enacted laws put into place a mechanism to use some of a potential surplus. The same adjustments could apply to a deficit. As an example, legislation enacted in 1999 made a $50 per pupil unit increase in the K-12 general education formula contingent on the November 1999 forecast indicating that adequate resources were available. This used $43 million of the variance indicated by the November 1999 forecast. In a similar manner, the 2001 Legislature left $235 million unspent - that amount reduced the deficit project by the November 2001 forecast.

The chart on the following pages shows changes in the general fund revenue and expenditure forecasts presented in the months listed. Changes are compared to the previous forecast. Legislation passed between forecasts may also impact the revenues and expenditures being forecast. These forecast variances represent changes within a biennium once the budget has been enacted for that biennium. (As an example, the number shown for the November 2002 forecast is for the FY 2002-03 biennium and does not include the FY 2004-05 biennium.)

The first forecast done after the previous biennium is closed out includes any balance carried forward from that previous biennium. For example, the November 1999 forecast for FY 2000-01 included a $453 million balance carried forward from the close of FY 1999. In some case there is may be no balance forward because current law directs that balance elsewhere. For example, the balance for the biennium ending June 30, 2001 was directed to a tax relief account, a reserve account in the general fund.

The years listed indicate the biennium for which the forecast applies.

The graph on the final page illustrates the forecast variances since November 1989.

Forecast Date	Change	Biennium Affected
Nov.1986	Forecast up $11 million	1986-87
Jan. 1987	Forecast up $92.7 million	1986-87
Mar. 1987	Forecast up $28 million	1986-87
Jan. 1988	Forecast up $223 million	1988-89
Nov. 1988	Forecast up $531 million	1988-89
Mar. 1989	Forecast up $63 million	1988-89
Nov. 1989	Forecast down $178 million (Includes negative carry forward of $20 million from FY 89)	1990-91
Feb. 1990	Forecast up $16 million	1990-91
Nov. 1990	Forecast down $179 million	1990-91
Mar. 1991	Forecast up $23 million	1990-91
Nov. 1991	Forecast down $394 million (Includes positive carry forward of $31 million from FY 91)	1992-93
Feb. 1992	Forecast down $277 million (a)	1992-93
Nov. 1992	Forecast up $215 million	1992-93
Mar. 1993	Forecast up $197 million	1992-93

Nov. 1993	Forecast up $414 million	1994-95
	(Includes positive carry forward of $118 million from FY 93)	
Mar. 1994	Forecast up $193 million	1994-95
Nov. 1994	Forecast up $138 million	1994-95
Feb. 1995	Forecast up $115 million	1994-95
Nov. 1995	Forecast up $824 million	1996-97
	(Includes positive carry forward of $135 million from FY 95)	
Feb. 1996	Forecast up $49 million	1996-97
Nov. 1996	Forecast up $792 million	1996-97
Feb. 1997	Forecast up $344 million	1996-97
Nov. 1997	Forecast up $1.328 billion (b)	1998-99
	(Includes positive carry forward of $364 million from FY 97)	
Feb. 1998	Forecast up $592 million	1998-99
Nov. 1998	Forecast up $1.526 billion (c)	1998-99
Feb. 1999	Forecast up $282 million	1998-99
Nov. 1999	Forecast up $1.597 billion (d)	2000-01
	(Includes positive carry forward of $453 million from FY 99)	
Feb. 2000	Forecast up $229 million	2000-01
Nov. 2000	Forecast up $915 million	2000-01
Feb. 2001	Forecast down $66 million	2000-01
Nov. 2001	Forecast down $2,101 million (e)	2002-03
Feb. 2002	Forecast down $336 million	2002-03
Nov. 2002	Forecast down $356 million	2002-03
Feb. 2003	Forecast down $14 million	2002-03
Nov. 2003	Forecast down $185 million	2004-05
	(Includes positive carry forward of $180.4 million from FY 03.)	

Feb. 2004	Forecast up $25 million	2004-05
Nov. 2004	Forecast up $495 million (f)	2004-05
Feb. 2005	Forecast up $175 million (g)	2004-05

Notes:
(a) The $277 million is a net figure after accounting for $49 million of court overturned vetoes not previously accounted for.

(b) The $1.328 billion includes $81 million allocated for education tax credits and $826 million to the property tax reform account. These items were enacted by a mechanism that was triggered by the amount the unrestricted balance available as of the November forecast.

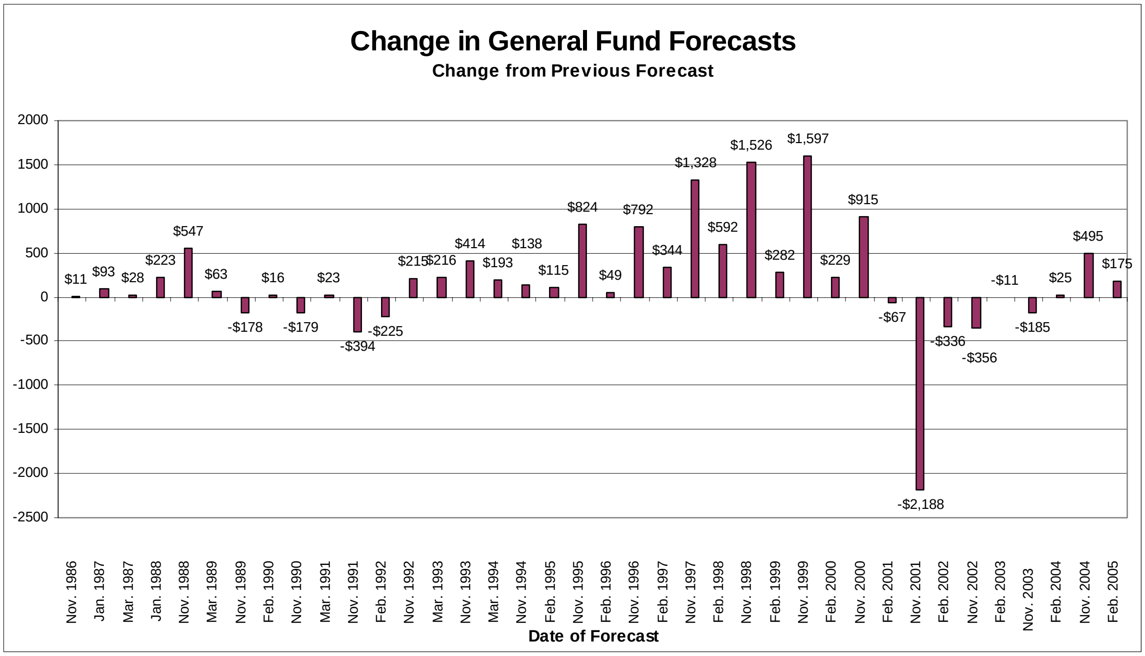
(c) The $1.526 billion includes $400 million allocated to replace bonds for capital projects, $200 million to a tax reform account and $9 million to the budget reserve.

(d) The $1.597 billion includes $50 million for an additional sales tax rebate and $43 million a $50 per pupil unit increase in the K-12 general education formula for FY 2001. These items were enacted by mechanisms that were triggered by the amount the unrestricted balance available as of the close of FY 1999 and the November forecast.

(e) The forecast change was a negative $2,101 million but the end of 2001 session balance was $235 million leaving a net deficit of $1,953 million.

(f) The positive variance of $495 million was allocated as follows: $350 million to the cash flow account, $27 million to bring the budget reserve to $653 million and the remaining $118 million to decrease the education aid payment shift.

(g) The positive variance of $175 million was allocated as flows: $25 million to return the budget reserve to $653 million (a deficiency bill passed earlier in the 2005 session appropriated $25 million from the budget reserve) and $150 million to decrease the education aid payment shift.



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