

Money Matters

A Publication of the Minnesota House Ways and Means Staff on Government Finance Issues

SUMMARY OF THE FISCAL ACTIONS OF THE 1995 LEGISLATURE

State General Fund Budget for the Fiscal 1996–97 Biennium Totals \$18.8 Billion

Introduction

For the period July 1, 1995 through June 30, 1997 total state general fund spending will be \$18.2 billion, with an additional \$554 million set aside for cash flow and reserve purposes. Available general fund resources will total \$18.8 billion. *The amounts cited in this paper are based on Department of Finance projections released June 30, 1995.*

Table 1. General Fund	\$'s in Millions		
	FY 1996	FY 97	FY 1996-97
Total Resources:			
Balance Forward	\$921.5	\$844.9	\$921.5
Revenues	\$8,835.0	\$9,017.6	\$17,852.6
Total Resources Available	\$9,756.5	\$9,862.5	\$18,774.1
Spending:			
Cash Flow Account	\$350.0	\$350.0	\$350.0
Budget Reserve	\$204.5	\$204.5	\$204.5
Unrestricted Budgetary Balance	\$290.4	\$0.0	\$0.0
Total Spending:	\$9,756.5	\$9,862.5	\$18,774.1

Total general fund expenditures are projected to increase 8.3 percent over FY 1994–95; revenues are expected to increase 5.8 percent. During that same period, inflation is projected to increase 6.1 percent and total personal income in the state is projected to increase 9.6 percent. When revenues and expenditures are compared to the base year doubled (i.e., FY 1995 X 2) to see the projected increases compared to current levels, expenditures are projected to increase by 4.8 percent and revenues decrease 2.3 percent.

Table 2.

(\$ in Millions)	FY 1994-95	FY 1996-97	Percent Change	FY1995 X 2	FY 1996-97	Percent Change
Total Revenues	\$17,746.6	\$18,774.1	5.8%	\$19,220.2	\$18,774.1	(2.32%)
Total Spending (excluding reserves)	\$16,825.1	\$18,219.6	8.3%	\$17,377.2	\$18,219.6	4.8%

Total spending from all funds in FY 1996–97 will be \$29 billion. Federal funds are the second largest fund (\$6.4 billion) after the general fund, followed by highway user tax distribution, special revenue, trunk highway and health care access funds. Most of this non-general fund money is already earmarked in statute for specific programs.

1995 Legislature Faced Significant Budget Challenges

The 1995 Legislature faced a difficult budget situation. Although the November forecast predicted a positive ending balance for FY 1996–97, spending caps adopted in the 1993 session masked the true spending pressures in K–12 education, higher education and human services by over \$700 million. The forecast also showed a continuation of the trend of faster expenditure growth compared to revenue growth and the Cambridge bank case had finally exhausted its appeals, resulting in a \$350 million state cost to pay those owed money under the settlement.

In developing his budget, the Governor maintained the caps in K–12 education and human services, captured money set aside in law in 1994 for the property tax recognition shift, included no money for inflationary increases for state government and set the reserve/cash flow account at \$350 million. When additional money became available in the February forecast and through an error discovered in the fund balance projections, the Governor established an additional reserve at \$311 million.

The final budget approved by the Legislature reallocated funding priorities, including cutting an additional \$135-million from the Governor’s proposal for state programs, and shifted the money to K–12 and higher education, and local aids and credits. It also established a reserve of \$200 million and a cash flow account of \$350 million¹. From the final legislative actions, the Governor vetoed \$9.5 million in spending, mostly in the welfare reform bill (see attached spreadsheet for veto details).

K–12 Largest Component of State Budget, Corrections Fastest Growing

Funding for K–12 education continues to be the largest single component of the state budget. The fastest growing area of the state budget is criminal justice. The appropriation for correctional institutions, for example, increased 24 percent over the prior biennium, although prisons still account for a relatively small proportion (2 percent) of the total state general fund budget. Health care costs, especially long term care, continue to be the major drivers in health and human services spending. In comparison, spending for family support programs (e.g., Aid to Families with Dependent Children, General Assistance/Work Readiness) is projected to decrease next biennium.

Table 3 shows FY 1996–97 general fund spending and spending increases by functional category compared to FY 1994–95 after adjusting for the Governor’s vetoes, and spending projections for FY 1998–99. The K–12 education estimates for FY 1998–99 include new caps passed in the 1995 session, which reduce projected spending by approximately \$357 million.

¹Legislation also passed requiring that any additional unrestricted money available be placed into the reserve, up to \$220 million. At the end of session, an additional \$4 million in the unrestricted balance brought the current reserve estimate to \$204 million. If the November forecasts in odd-numbered years show additional money available (over the \$220 million), it is to be used to reduce the education property tax levy recognition percent.

Table 3. Planning Estimates		<i>\$ in Millions</i>		
	FY 1994-95	FY 1996-97	% Change	FY 1998-99
K-12 Education Aids	\$5,165.2	\$5,894.1	14.1%	\$5,950.7
Recognition shift buy down	\$172.0	(\$187.4)	NA	\$0.0
Total K-12 Aids	\$5,337.2	\$5,706.7	6.9%	\$5,950.7
Higher Education	\$2,095.4	\$2,144.4	2.3%	\$2,160.7
Local Aids & Credits	\$2,384.8	\$2,406.4	0.9%	\$2,430.4
Other Major Local Assistance*	\$645.3	\$827.4	28.2%	\$925.1
Health Care	\$2,765.3	\$3,314.4	19.9%	\$4,076.5
Family Support	\$543.1	\$512.6	(5.6%)	\$591.2
State Operated Institutions	\$798.5	\$842.6	5.5%	\$951.9
Legis., Judicial, Const. Officers	\$425.5	\$458.4	7.8%	\$478.7
State Agency Operations & Grants	\$1,301.3	\$1,338.1	2.8%	\$1,382.3
Debt Service	\$404.6	\$520.6	28.7%	\$653.7
Estimated Cancellations	(\$15.0)	(\$20.0)	33.3%	(\$20.0)
Dedicated Expenditures	\$139.1	\$168.0	20.8%	\$168.0
Total Spending	\$16,825.1	\$18,219.7	8.3%	\$19,749.2
Cash Flow Account/Reserve/ Unrestricted Balance	\$921.5	\$554.5	(39.8%)	\$0.0
Total:	\$17,746.6	\$18,774.1	5.8%	\$19,749.2

*Other major local assistance funding includes Community Social Services , Community Health Services, Community Corrections, ethanol development subsidies, and the long-term care alternative grant program.

A Variety of Fiscal Issues Were Addressed in the Session

Spending for the MinnesotaCare program was continued. Income eligibility for the program may be increased to 135 percent of the federal poverty level in October 1995, depending on federal budget actions, and the commissioner of human services is to make a recommendation during the 1996 session regarding increasing the income cap to 150 percent of federal poverty for FY 1997. The ending balance for the Health Care Access fund— if eligibility is increased to 135 percent—will be \$218 million in FY 1998–99.

The final legislative action on the Cambridge Bank Case provides for the settlement to be paid in full by the end of FY 1996–97 biennium. The state will bond for the total cost of the judgment, using non-tax general fund revenues (e.g., departmental earnings), paying off the debt over eight years. This plan is \$20 million less costly in the next biennium than the Governor's original proposal, which would have paid a portion of the judgment through a direct appropriation the first year.

A welfare reform bill was passed, with projected net savings of \$13.7 million when the Governor's vetoes are included. The Work Readiness program was eliminated and funding for child care increased (in the Omnibus Human Services bill) by approximately \$16 million.

The final level of transit funding included a \$14 million increase for programs administered by the Metropolitan Council, which is still below the level the transit authority said it needs to maintain current service levels. A \$754 million appropriation from the Trunk Highway Fund for state road construction represents a \$51 million increase over last biennium. A gas tax increase was not approved.

Local aids and credits will increase \$22 million over last biennium. Money shifted from general property tax relief (non-school HACA) to more targeted relief for Criminal Justice Aid. Other major increases in state assistance to local governments includes long term care alternative grants and group residential housing grants.

In K-12 education financing, the formula was increased \$55 and several mandates were eliminated to give districts more flexibility. Spending for higher education will increase to a level \$104 million over the caps which had been in place; however, most of the funding is one-time and will not be included in the base for the following biennium. Tuition increases are expected at all the systems and the University. Spending for environmental and natural resources essentially maintained current spending levels except for increases in selected areas, including ethanol subsidies.

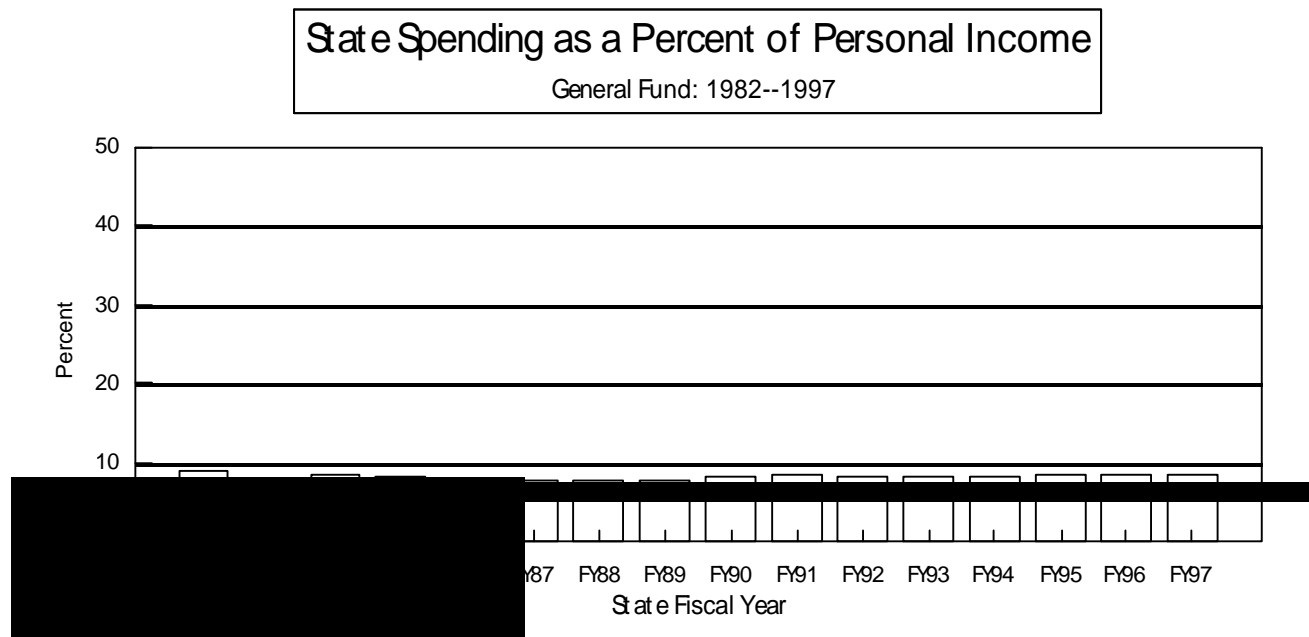
No funding was included in state agency budgets to cover inflationary increases, except for small agencies and the State Board of Investment. Although final figures are not available yet, it appears that total state agency operations expenditures will actually decrease in the FY 1996-97 biennium.

In an effort to increase the efficiency of state government, most legislative commissions will be eliminated in FY 1996, unless the Legislative Coordinating Commission recommends their continuation, and 150 state agency report mandates were abolished. Agency performance reporting requirements were modified to require biennial reports, rather than annual reports.

A \$35.5 million bonding bill was approved, which included \$23.7 million for three maximum effort school loans. Next session, the major bonding bill for the biennium will be debated.

“Price of Government” Targeted to Decline in the FY 1998-99 Biennium

The chart shows the historical trend of state spending as a percent of total personal income in the state.



Total personal income is projected to continue to increase at a faster rate than government spending in Minnesota. Total state and local revenues will be equal to 18.2 percent of total personal income in the state next biennium, and is projected to be 17.8 percent in FY 1998–99.

State general fund spending as a percent of total personal income is projected to be 8.4 percent in FY 1996 and 8.3 percent in FY 1997.

Structural Budget Problems Emerge in the Future

Although the state will end the FY 1996–97 biennium with a substantial bottom line positive balance of \$554 million, spending growth will exceed revenue growth in the following biennium, resulting in a \$257 million projected shortfall, before the reserve and cash flow account are funded.

Table 4.	FY 1996-97	FY 1998-99	Percent Change
Revenues	\$18,774.1	\$19,492.2	3.8%
Expenditures	\$18,219.6	\$19,749.2	8.4%
Balance	\$554.5	(\$257.0)	

The continued budgetary challenges occur because revenues, while increasing, are not increasing as rapidly as expenditures, especially in some of the largest spending areas where demographics are largely driving spending (i.e., health care and education). Added to these factors are the likelihood of cuts in federal funding and uncertainty regarding the economy.

The most recent economic figures indicate that the economy has indeed slowed down, as the Federal Reserve had hoped would occur, and the prospect of high inflation has abated. However, it remains to be seen whether or not a “soft landing,” has been achieved and a recession avoided. Most forecasters, including DRI, remain cautiously optimistic that this has occurred. The next state forecast of revenues and expenditures will be in November, 1995.

Pie charts summarizing general fund revenues and expenditures are published on pages 6 and 7.

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