

# Fiscal Analysis Department

## Minnesota House of Representatives

---



### ISSUE BRIEF

#### State General Fund Budget Situation November 2014

After the Legislature adjourned the 2014 legislative session, the projected budget for the FY 2014-15 biennium was balanced. The budget for FY 2016-17 was projected to have a positive balance of \$603 million. This Issue Brief discusses the current budget situation including revenue changes since the end of the 2014 legislative session. MMB will release a new state budget forecast on December 4.

#### The Current Biennium – FY 2014-15

At the end of the 2014 legislative session, the state was projected to end the FY 2014-15 biennium on June 30, 2015 with a general fund balance of \$32.3 million. The budget reserve is now at \$811 million and the cash flow account is at \$350 million.

The Current Biennium – FY 2014-15 in Millions of Dollars (as of the end 2014 session)

Balance Forward from FY 2013	\$ 705
Reserves Carried Forward	1,006
Projected Revenue	39,092
Projected Spending	- 39,587
Reserves	<u>- 1,184</u>
Balance	\$ 32

General Fund revenue collections for FY 2014 (ending June 30, 2014) exceeded the amount projected in the February 2014 forecast (adjusted for 2014 session actions). Revenues for the first three months of FY 2015 have been less than the forecasted amount. The chart below shows the variances (in millions of dollars) between actual year-to-date revenue collections compared to forecasted revenues for FY 2014 and the first quarter of FY 2015. Final information for FY 2014 shows revenue collected was \$185.5 million above the forecasted amount. In the first quarter of FY 2015, revenue collected was \$45.7 million less than the forecasted amount.

Through September, revenues for this biennium (FY 2014 and FY 2015 combined) have exceeded the amounts forecasted in February by \$139.8 million – the sum of FY 2014 and the first quarter of FY 2015 (July, August and September 2014) variances. The chart below shows variances in major revenues from the amounts projected in the February 2014 forecast.

	<u>FY 2014</u>	<u>First Quarter FY 2015<sup>1</sup></u>	<u>Total</u>
Individual Income Tax	\$194.0	-\$25.6	168.4
Sales Tax	35.5	- 5.5	30.0
Corporate Tax	-59.1	55.5	- 3.6
Other Revenues	<u>15.1</u>	<u>- 70.1</u>	<u>- 55.0</u>
<b>Total</b>	<b>\$185.5</b>	<b>-\$45.7</b>	<b>\$139.8</b>

---

<sup>1</sup> First Quarter 2015 is the months of July, August and September 2014.

It should be noted again that the numbers above show actual revenues to date compared to the forecast. Projected revenue for the remaining eight months of the biennium must be considered to complete the biennial budget picture. In addition to the revenue numbers changes in forecasted spending must also be considered; these spending changes will be included in the November 2014 forecast.

Delays in state aid payments to school districts have been repaid, the last adjustment being made at the time of the November 2013 forecast.

### **Next Biennium – FY 2016-17**

The 2015 legislature will be setting a budget for the FY 2016-17 biennium that begins July 1, 2015 and ends June 30, 2017. At the end of the 2014 legislative session, projected revenues for the FY 2016-17 biennium exceeded projected spending by \$603.5 million. Expenditures for FY 2016 and 2017 are set at the same level as in FY 2015 for each program except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect the amounts needed to fund that formula or entitlement. Appropriations in FY 2015 that were one time are not continued. The chart below shows the FY 2016-17 general fund budget picture in millions of dollars.

Balance Forward from FY 2015	\$ 32
Reserves Carried Forward	1,184
FY 2016-17 Projected Revenue	42,293
FY 2016-17 Projected Spending	-41,745
Reserves	<u>- 1,161</u>
Balance	\$ 603

Expenditures for FY 2016-17 include no adjustment for inflation unless such an adjustment is specified in law. The February 2014 forecast rate of inflation (consumer price index – CPI) was 1.7 percent for FY 2016 and 1.8 percent for FY 2017. (Projected inflation rates may change in the November forecast.) A “current law” budget can be enacted without adding amounts for inflation, but inflationary pressures will still exist in various programs. If the inflation rates in the February forecast were applied to the projected FY 2016-17 expenditures, those expenditures would increase by about \$731 million.

### **November 2014 Budget Forecast**

Minnesota Management & Budget will release a new budget forecast on December 4. That forecast will include projected revenues and expenditures the current biennium (FY 2014-15), the biennium that the 2015 Legislature will be budgeting for (FY 2016-17), and the first planning estimates for the following biennium (FY 2018-19).

The Governor is required to submit budget recommendations to the Legislature by January 27 or February 17 if the Governor had not been Governor the previous year. These budget recommendations will be based on the November 2014 forecast. An updated budget forecast will be issued at the end of February.

*For more information, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or [bill.marx@house.mn](mailto:bill.marx@house.mn)*