

# Fiscal Analysis Department

## Minnesota House of Representatives



### ISSUE BRIEF

#### State General Fund Budget Situation November 2018

*After the 2018 legislative session adjourned the projected general fund budget for the FY 2018-19 biennium had a \$288 million balance. For FY 2020-21 revenue was projected to exceed spending by \$194 million. This Issue Brief discusses the current budget situation including revenue changes since the end of the 2018 legislative session. MMB will release a new state budget forecast on December 5.*

#### The Current Biennium – FY 2018-19

At the end of the 2018 legislative session, the state was projected to end the FY 2018-19 biennium on June 30, 2019 with a general fund balance of \$288 million. The budget reserve is now at \$1,720 million<sup>1</sup> and the cash flow account is at \$350 million.

#### The Current Biennium – FY 2018-19 in Millions of Dollars

Balance Forward from FY 2017	\$ 1,255
Reserves Carried Forward	2,079
Projected Revenue	44,848
Projected Spending	- 45,765
Budget Reserve	- 1,720
Other Reserves	- 407
Balance	\$ 288

General Fund revenue collections for FY 2018 (ending June 30, 2018) exceeded the amount projected in the February 2018 forecast (adjusted for 2018 session actions) by \$376 million. Also, revenues for the first four months of FY 2019 have exceeded the forecasted amount by \$322 million. The chart below shows the variances (in millions of dollars) between actual year-to-date revenue collections compared to forecasted revenues for FY 2018 and the first four months of FY 2019.

	<u>FY 2018</u>	<u>First Four Months FY 2019</u>	<u>Total</u>
Individual Income Tax	\$332	\$111	\$443
Sales Tax	- 36	- 23	-59
Corporate Tax	13	109	122
Other Revenues	<u>66</u>	<u>125</u>	<u>191</u>
<b>Total</b>	<b>\$376</b>	<b>\$322</b>	<b>\$698</b>

Through October, revenues for this biennium (FY 2018 and FY 2019 combined) have exceeded the amounts forecasted in February 2018 by \$698 million – the sum of FY 2018 and the first four months of FY 2019 (July - October 2018) variances.

<sup>1</sup> At the end of the 2018 session the budget reserve was \$1.583 million. Since then \$89.9 million has canceled from the 2017 appropriation for health insurance premium assistance to the budget reserve and \$47 million has been transferred to the budget reserve from the excess reserve in the worker's compensation assigned risk plan.

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 revenue picture. In addition to the revenue numbers, changes in forecasted spending must also be considered. Final spending information for FY 2018 and projected spending changes for FY 2019 will be included in the November 2018 forecast.

At the time of the November 2018 forecast 33 percent of any projected budget balance for the FY 2018-19 biennium is transferred to the budget reserve.

### **Next Biennium – FY 2020-21**

The 2019 legislature will be setting a budget for the FY 2020-21 biennium that begins July 1, 2019 and ends June 30, 2021. At the end of the 2018 legislative session, projected revenues for the FY 2020-21 biennium exceeded projected spending by \$194 million. Expenditures for FY 2020 and 2021 are set at the same level as in FY 2019 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 2019 that were one time are not continued. The chart below shows the FY 2020-21 general fund budget picture in millions of dollars.

FY 2020-21 Projected Revenue	48,136
FY 2020-21 Projected Spending	<u>-47,943</u>
Difference	\$ 194 <sup>i</sup>

Any budget balance unspent in FY 2019 will also be available in the FY 2020-21 biennium.

Revenue numbers will be updated from the February forecast based on actual experience since then and also for projected economic growth. While revenue has come in higher than forecasted in February, future economic growth is projected to be lower than at the time of the February forecast as measured by gross domestic product (GDP).

Expenditures for FY 2020-21 include no adjustment for inflation unless such an adjustment is specified in law. The February 2018 forecast rate of inflation (consumer price index or CPI) was 2.7 percent for FY 2020 and 2.6 percent for FY 2021. (Projected inflation rates for those years will 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 2020-21 expenditures, those expenditures would increase by about \$1,224 million.

### **November 2018 Budget Forecast**

Minnesota Management & Budget will release a new budget forecast on December 5. That forecast will include projected revenues and expenditures for the current biennium (FY 2018-19), the biennium that the 2019 Legislature will be budgeting for (FY 2020-21), and the first planning estimates for the following biennium (FY 2022-23 – the “tails” years).

The Governor is required to submit budget recommendations to the Legislature by February 19, 2019. Those budget recommendations will be based on the November 2018 forecast. An updated state budget forecast will be issued at the end of February.

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<sup>i</sup> Note: All dollars are in millions, totals may not sum exactly due to rounding.