



# Budget Forecasts, Surpluses, and Deficits

December 2020

## When are economic forecasts prepared?

The commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of general fund revenues and expenditures twice each year—in February and November. Employment levels, wages, sales of taxable goods and services, health care costs, the number of children enrolled in public schools, and numerous other factors influence state expenditures and receipts. MMB's budget forecasts attempt to predict how these factors will collectively impact the state budget during the forecast period.

## How are the forecasts used?

The forecasts inform the governor's budget proposals and the legislature's development of tax and spending laws. In this way, the legislature and governor use the forecasts to enact a balanced general fund budget in which total biennial revenues meet or exceed total expenditures.

The November forecast in even-numbered years informs the governor's initial biennial budget recommendations for the next biennium. For example, the November 2020 forecast provides the revenue and expenditure projections that Governor Tim Walz will use to prepare a preliminary budget proposal for the fiscal years (FY) 2022-2023 biennium, which runs from July 1, 2021, to June 30, 2023. The same November 2020 forecast projected that the state was on track to finish the current FY 2020-2021 biennium with a positive general fund balance.

The February forecast updates the preceding November forecast with the latest economic, revenue, and spending data. Following the February 2021 forecast, Governor Walz will submit revised budget recommendations informed by MMB's latest revenue and expenditure estimates. Similarly, the February 2021 forecast will provide the revenue and expenditure projections that the 2021 Legislature will use to enact a balanced state budget for the FY 2022-2023 biennium. It will also provide the final comprehensive update on the status of general fund revenues and expenditures for the remaining months of the FY 2020-2021 biennium.

The November forecast in odd-numbered years and the February forecast in even-numbered years update revenue and expenditure estimates for the current biennium. Using the projections in the November 2021 and February 2022 forecasts, Governor Walz may propose modifications to the enacted FY 2022-2023 budget. The 2022 Legislature will use the latest projections in the February 2022 forecast to determine whether fiscal changes are required in order to end the FY 2022-2023 biennium with a balanced general fund budget.

## What if a forecast predicts a general fund deficit?

If a balanced budget is enacted but a subsequent forecast anticipates a general fund deficit in the current biennium, the commissioner of MMB may access money in the budget reserve account as needed to pay for all enacted expenditures. If the budget reserve is exhausted and a deficit remains, the commissioner may reduce or delay existing appropriations, commonly referred to as "unallotting." Before tapping the budget reserve or unallotting general fund appropriations, the commissioner must obtain the governor's approval and consult the Legislative Advisory Commission. If the legislature is in session or will soon convene, the governor typically makes recommendations to the legislature on how to resolve the shortfall by law before approving use of the budget reserve or unallotment.

## What if the forecast predicts a general fund surplus?

If a forecast projects a general fund surplus for the current biennium, the commissioner of MMB must allocate the surplus in priority order as follows:

- 1) to the cash flow account, until it reaches \$350 million (currently satisfied)
- 2) to the budget reserve account, until it reaches \$1,596,522,000 (currently surpassed)
- 3) to increase the school aid payment schedule to 90 percent, in increments of one-tenth of 1 percent with any residual amount remaining in the budget reserve (currently satisfied)
- 4) to restore previous school aid reductions and reduce the property tax recognition shift accordingly (currently satisfied)
- 5) to transfer up to \$5 million to the Minnesota 21<sup>st</sup> Century Fund until transfers plus certain cancellations and repayments to the Fund total \$20 million (not fully satisfied)

If a November forecast predicts a surplus and priorities (1) to (5) have been satisfied, MMB must transfer up to 33 percent of the remainder to the budget reserve until it reaches the level recommended by MMB. No later than September 30 each year, MMB must assess the volatility of state tax revenues and report to the legislature any corresponding change in the agency's budget reserve target. As of the November 2020 forecast, the budget reserve balance of \$2.377 billion exceeds MMB's recommended level.

Any surplus remaining after satisfying the five statutory priorities and transferring up to 33 percent of any remainder to the budget reserve is reported in the forecast as a positive general fund balance. For the current FY 2020-2021 biennium, MMB anticipates a positive general fund balance.

## Has the treatment of budget surpluses changed recently?

[Laws 2014, chapter 150](#), required MMB to recommend a budget reserve level (specified as a percentage of nondedicated general fund revenues for the current biennium), to update this percentage each January, and to transfer up to 33 percent of a November forecast surplus to the reserve. [Laws 2015, chapter 77](#), pushed the commissioner's annual update back to September. [Laws 2017, First Special Session chapter 1](#), required MMB to transfer \$22 million of general fund surplus dollars to the Clean Water Fund. MMB performed this \$22 million transfer when the agency's February 2018 forecast projected that a sufficient surplus existed in the general fund for the FY 2018-2019 biennium. [Laws 2020, First Special Session chapter 1](#), required MMB to transfer up to \$5 million of surplus dollars to the Minnesota 21<sup>st</sup> Century Fund after each forecast until these transfers plus other allocations fully replace the \$20 million that the legislature allocated from the Minnesota 21<sup>st</sup> Century Fund for COVID-19 small business emergency loans under [Laws 2020, chapter 71](#).

