

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

State General Fund Budget Forecast December 2020

The latest budget forecast for the state's general fund released by the Minnesota Management and Budget Department on December 1, 2020 projects a \$636 million balance for the current biennium and a \$638 million deficit by the end of the FY 2022-23 biennium. This compares to a \$2.314 billion deficit for the FY 2020-21 biennium projected in the end of 2020 Special Session 5 and a \$6.853 billion negative balance by the end of the FY 2022-23 biennium. Both of these FY 2022-23 numbers include carry forward from the FY 2020-21 balance.

The Current Biennium – FY 2020-21

In October 2020, after the 2020 Fifth Special Legislative Session, the state was projected to end the FY 2020-21 biennium on June 30, 2021 with a general fund deficit of \$2.214 billion. Determination of this amount was based on revenues and expenditures from the May 2020 Interim Budget Update and February 2020 forecast with modifications for 2020 legislative session and special session enactments.

The November 2020 budget forecast projects a \$636 million balance for the general fund as of June 30, 2021. The following chart illustrates budget changes since the October 21, 2020 end of special session estimates following Special Session 5.

FY 2020-21 General Fund Changes from End of 2020 Special Session 5

End of Special Session Projected Balance	- \$2,314 million
Change (increase) in Revenues from Spec Session 5	1,912 million
Change (decrease) in Expenditures from Spec Session 5	1,053 million
Change (increase) in Stadium Reserve	<u>15 million</u>
Balance	+ \$ 636 million

The most significant revenue changes from the May Budget Update and end of the 2020 Special Session 5 numbers are a \$500 million increase in income tax revenue, a \$808 million increase in sales tax revenue and a \$390 million increase in corporate income tax. Projected expenditures in health and human services are down \$919 million, most of it due to changes in medical assistance..

The following chart illustrates the overall general fund budget picture for FY 2020-21.

FY 2020-21 Budget

Beginning Balance	\$ 3,971 million
Revenues	47,100 million
Expenditures	- 47,627 million
Total Reserves	- <u>2,808 million</u>
Balance	\$ 636 million

The Next Biennium – FY 2022-23

The 2021 legislature will be setting a budget for the biennium beginning July 1, 2021 and ending June 30, 2023. At the end of 2020 Special Session 5, projected spending for the FY 2022-23 biennium exceeded projected revenue by \$4.996 billion. (This amount, plus the deficit from FY 2021 carried forward equaled the \$6.85 billion deficit projected for FY 2022-23.) Now FY 2022-23 projected spending is expected to exceed projected revenue by \$1.6216 billion, a decrease of \$3.380 billion. In determining the spending level, expenditures for FY 2022 and 2023 are set at the same level as in FY 2021 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect that amounts needed to fund the formula or entitlement in law. Other expenditures for FY 2022-23 include no adjustment for inflation. Appropriations in FY 2021 that were considered one-time are not continued

FY 2022-23 General Fund Changes From End of 2020 Special Session 5

Change (Increase) in Carry Forward from FY 2021	\$2,964 million
Change (Increase) in Revenues from End of Spec Session 5	2,970 million
Change (Decrease) in Expenditures from End of Session	410 million
Change (Decrease) in Stadium Reserve	<u>129 million</u>
Total Changes	\$6,215 million

Major changes from the end of Special Session 5 estimates include a \$1.808 billion increase in individual income tax revenue and a \$976 million increase in sales tax revenue.

Health and human service spending is projected to be \$250 million less than the end of Special Session 5 estimates.

The following chart illustrates the overall general fund budget picture for FY 2022-23.

FY 2022-23 Budget

FY 2021 Balance Carried Forward	\$ 3,444 million
Revenues	49,494 million
Expenditures	- 51,110 million
Total Reserves	- <u>2,466 million</u>
Balance	- \$ 638 million

Under current law \$491.369 million is cancelled from the budget reserve to the general fund on July 1, 2021 (the first day of FY 2022). This was part of a budget agreement to end the 2019 session.

The Following Biennium – FY 2024-25

When budget decisions are being made for the FY 2022-23 biennium, the implications of those decisions on revenues and expenditures for the FY 2024-25 biennium will be tracked. In this forecast, projections for FY 2024-25 show expenditures exceeding revenue by \$552 million for that biennium. Expenditure numbers for FY 2024 and 2025 also are set at essentially the same level as in FY 2023 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect that amounts needed to fund the formula or entitlement in law. Expenditure estimates for FY 2024-25 do not include amounts for inflation unless those adjustments are required by law.

The following chart illustrates the overall general fund budget picture for FY 2024-25.

FY 2024-25 Budget

FY 2024-25 Revenues	\$53,085 million
FY 2024-25 Expenditures	<u>53,637 million</u>
Difference	- \$ 552 million

The complete November 2020 general fund budget forecast document issued by Minnesota Management & Budget is at: <https://mn.gov/mmb-stat/000/az/forecast/2020/budget-and-economic-forecast/november-2020-forecast.pdf>

For more information, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or at bill.marx@house.mn