MN HOUSE RESEARCH

# Budget Forecasts, Surpluses, and Deficits

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## 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 2022 forecast provides the revenue and expenditure projections that Governor Tim Walz will use to prepare a preliminary budget proposal for the fiscal years (FY) 2024-2025 biennium, which runs from July 1, 2023, to June 30, 2025. The same November 2022 forecast projects that the state is on track to finish the current FY 2022-2023 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 2023 forecast, Governor Walz may submit revised budget recommendations to the legislature. The February 2023 forecast will also inform the legislature's development of a balanced state budget for the FY 2024-2025 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 2023 and February 2024 forecasts, Governor Walz and legislators may consider and enact changes to the FY 2024-2025 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 enacted appropriations, commonly referred to as "unallotment." Before tapping the budget reserve or unalloting 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.

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## 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 $2,377,399,000 (currently surpassed – see below for more information)
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 21st century fund until transfers plus certain cancellations and repayments to the fund total $20 million (fully satisfied)
6) to reduce or eliminate accelerated June liability sales tax remittances (fully satisfied)

If a November forecast predicts a surplus and priorities (1) to (6) 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, which may exceed the budget reserve balance specified under priority (2). 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 2022 forecast, the budget reserve is at MMB's recommended level of $2.852 billion (i.e., 4.8 percent of non-dedicated FY 2022-2023 general fund revenue).

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 2022-2023 biennium, MMB anticipates a positive general fund balance.

## Has the treatment of budget surpluses changed recently?

Laws 2021, First Special Session chapter 13, increased the budget reserve level under surplus allocation priority (2) from $1,596,522,000 to $2,377,399,000. The same law also added priority (6), which required MMB and the Department of Revenue to reduce or, if sufficient surplus dollars were available, fully eliminate a requirement that businesses with annual sales tax liability of $250,000 or more remit their June sales tax collections to the state in June, rather than July. The substantial positive FY 2022-2023 balance estimated in the November 2021 forecast allowed MMB to allocate the $359 million required to fully eliminate this accelerated sales tax remittance requirement.

**For more information:** See the House Research publication *Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit*, November 2018.

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