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# **Minnesota's Financial Outlook**

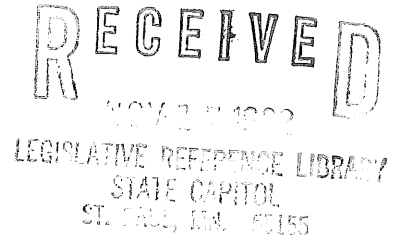
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Department of Finance

# Minnesota's Financial Outlook

Minnesota Department of Finance

9 October 92



The Governor and the Legislature have responsibly resolved three budget shortfalls totalling nearly \$2.5 billion over the past year and a half. The deficits were solved without the massive layoffs, major tax increases and service shut-downs that have plagued other states. The rate of growth in state spending has been reduced to 9.1% for this biennium, by far the lowest rate in the past 20 years.

However, Minnesota still faces an \$837 million deficit in the next biennium, with no rainy day budget reserve. The basic fiscal problem that has historically faced the state, and will continue to confront Minnesota, is a structural imbalance between revenues and expenditures (Chart 1).

- o For the 1994-95 biennium, revenues are projected to grow by \$1.6 billion (11.4%) over the previous two years. This is a healthy increase in the state's capacity to fund its programs.
- o Unfortunately, expenditures will need to grow by 14.8% just to fund exiting programs, and before any new commitments are made. Unless action is taken in the next session, the state will be spending over \$1.6 million more each day than it will be taking in by F.Y. 1995 (Chart 2).

The problem is not a lack of revenue. The problem is spending. Projected 1994-95 spending growth will again exceed the rate of inflation, just as it has for nearly every year of the past two decades. In fact, unless changes are made in the next legislative session, state spending will grow at *twice* the rate of inflation (Chart 3).

For the first Carlson budget, state spending growth was held to near the rate of inflation for the first time in a decade. The only time that state spending grew slower than the rate of inflation was during the Quie years, when the nation experienced double-digit annual inflation.

Spending was *not reduced* to solve the previous shortfall. Only the rate of increase in spending was cut. Even after adjustments are made to account for transfers among program areas, spending did grow and will continue to increase substantially for most state programs (Chart 4).

**Over two-thirds of the state's 1994-95 budget is projected to go to education and human development.** Aids to local units of government and other forms of property tax relief represent nearly 16% of total spending. Only 6% of the state budget funds the operations of state agencies (Chart 5).

**Three spending areas account for 58% of the state's budget, but will generate 88% of all spending growth in 1994-95.** Spending on health care, elementary and secondary education, and local aids and property tax credits is projected to grow the fastest in the next biennium (Chart 6).

**Health care spending is projected to grow by 31% over the prior biennium.** In comparison, all other human development programs will grow by only 5.4%.

- o **Welfare is not the problem.** These programs only account for about 10% of the total human services budget. And, although the number of people who need family and child support services is growing, they have not received adjustments to cover cost of living increases for years.
- o **The principal spending driver for the human services budget is medical care for the elderly and disabled.** Two-thirds of Minnesota's human services budget goes to these programs, where spending is projected to grow at four times the rate of inflation. State payments to private nursing homes and private medical providers will increase over 40%, with about one-half of the increase due to more patients.

**Elementary and secondary education represents the second highest projected spending increase.** Spending on K-12 education will grow by over \$1 billion, an increase of nearly 24% from the previous biennium. Student growth accounts for about one-third of the projected increase in education spending. Another one-third is attributable to inflation, with much of the remainder resulting from previous commitments for program funding increases.

**Local aids and property tax relief are the third major spending growth area.** Projected state transfers to cities, counties and towns will require a 13% increase.

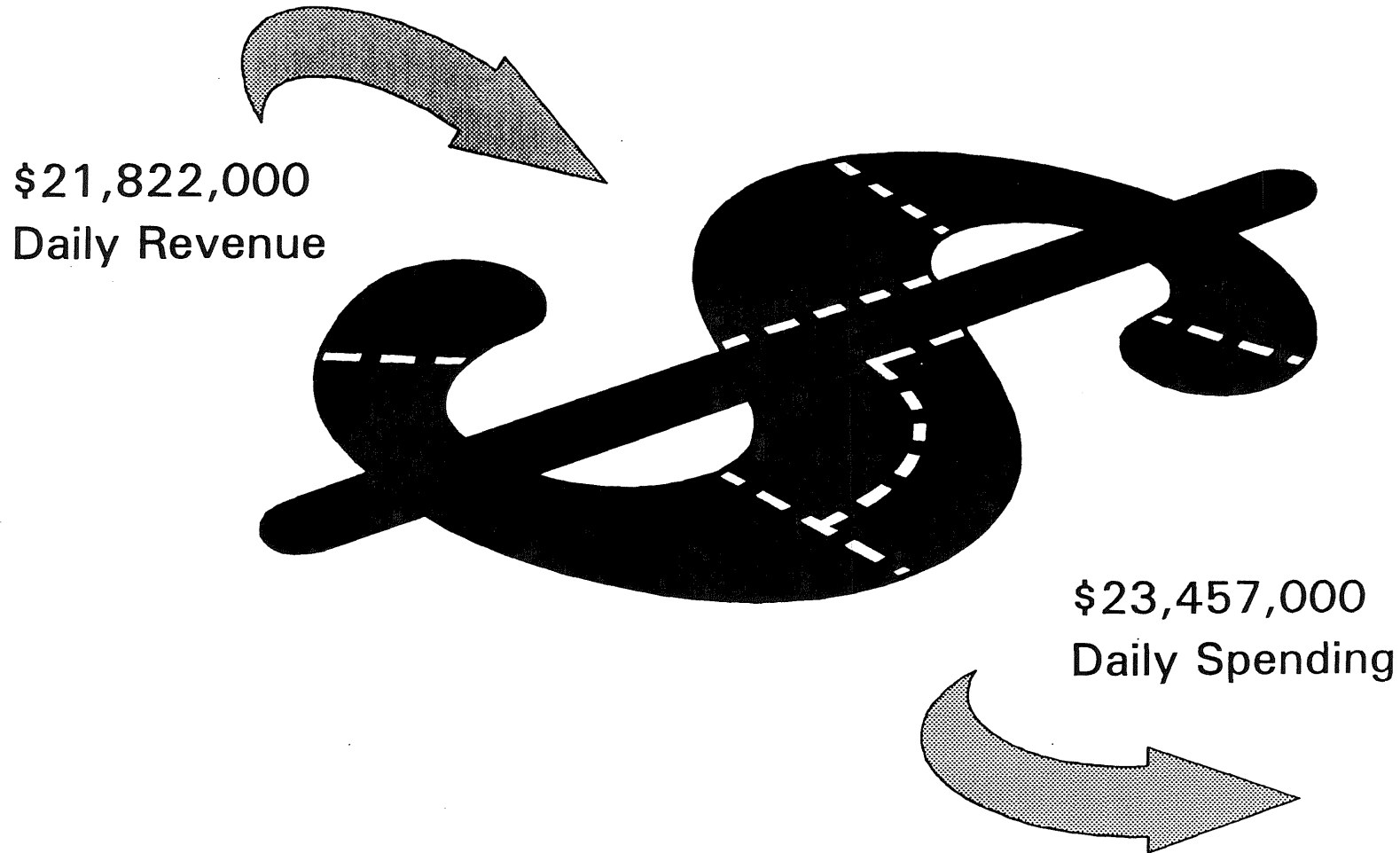
**Spending growth for higher education, state agencies and all other programs is projected to be modest.** State agency spending is projected to increase by 4.5% for the biennium, but the Governor has already directed agencies to absorb inflation and to cut an additional 5%. In other words, state agencies face a total *reduction* of about 10%. And, state agencies are the only program area that actually received less money than they did in the prior biennium.

## Projected Expenditure Growth Will Exceed 1994-95 Revenues

(\$ in Millions)

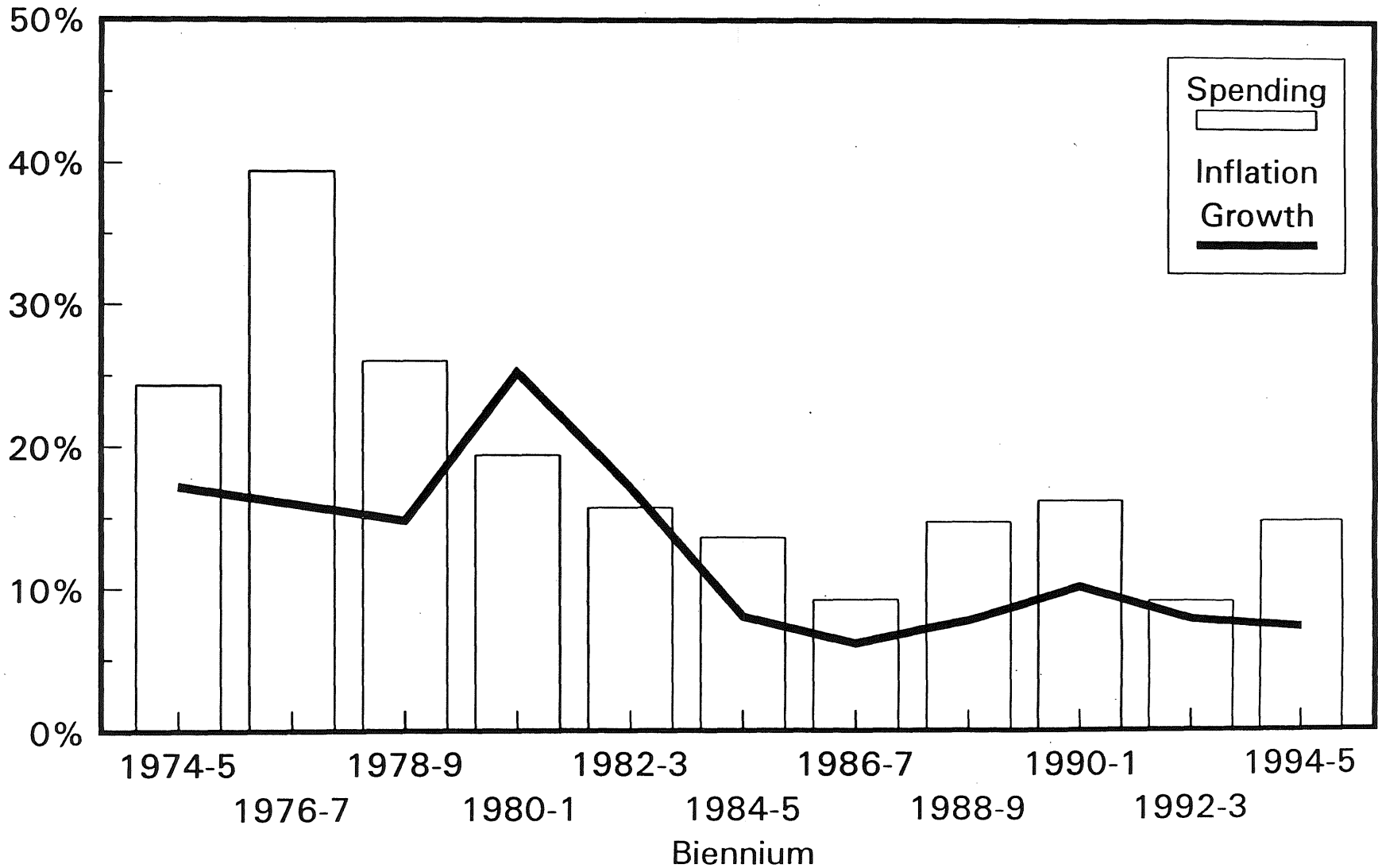
	<u>1992-93</u>	<u>1994-95</u>	<u>% Change</u>
Beginning Balance	\$555	\$242	
Revenues	14,133	15,747	11.4%
Expenditures	14,446	16,586	14.8%
Cash Flow Account	240	240	
Ending Balance	\$ 2	(\$837)	

By Fiscal 1995, The State Will Be Spending  
Over \$1.6 Million More Each Day Than It Will Be Taking In

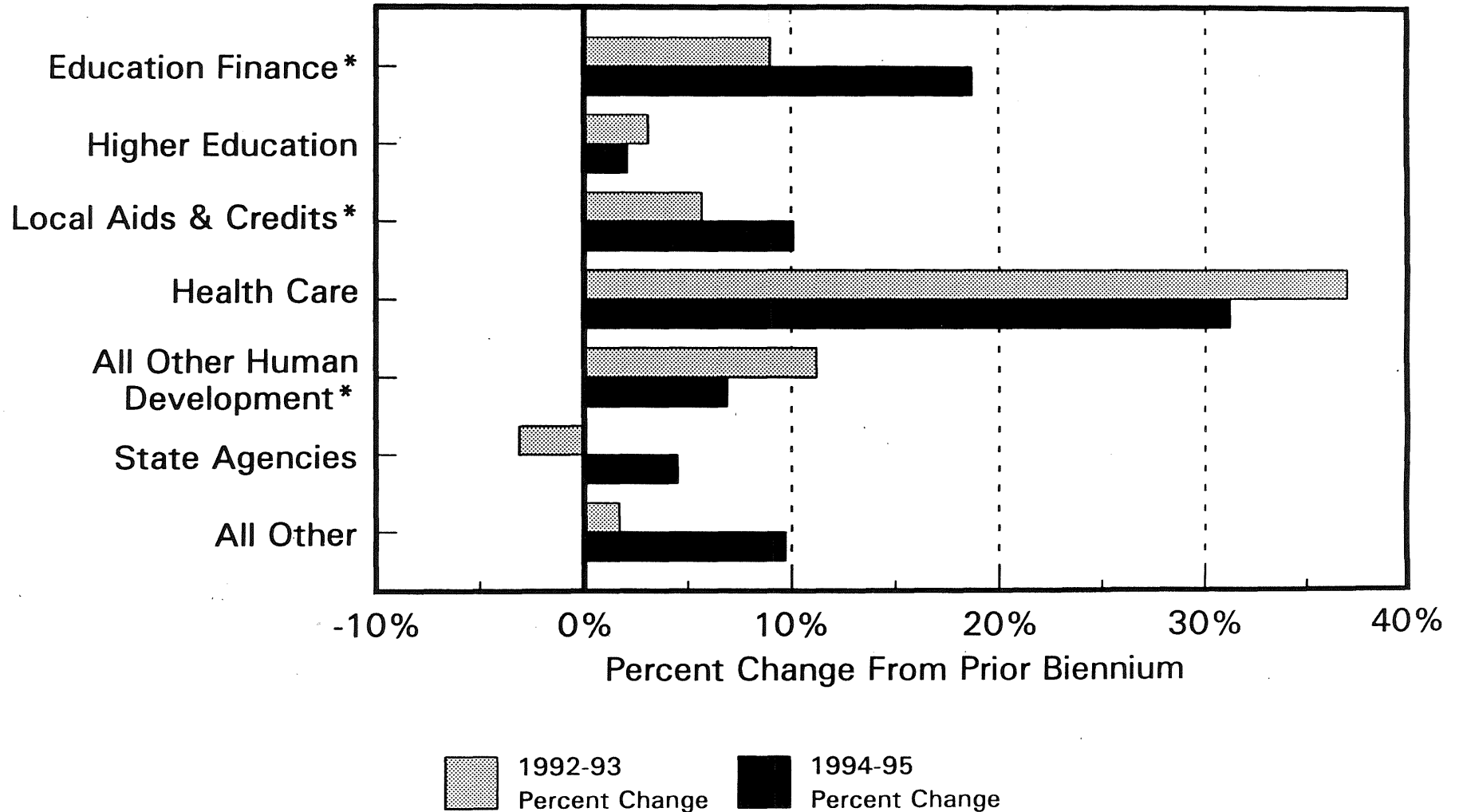


# Projected 1994-95 Spending Growth Will Be Twice the Rate of Inflation

Percent Change

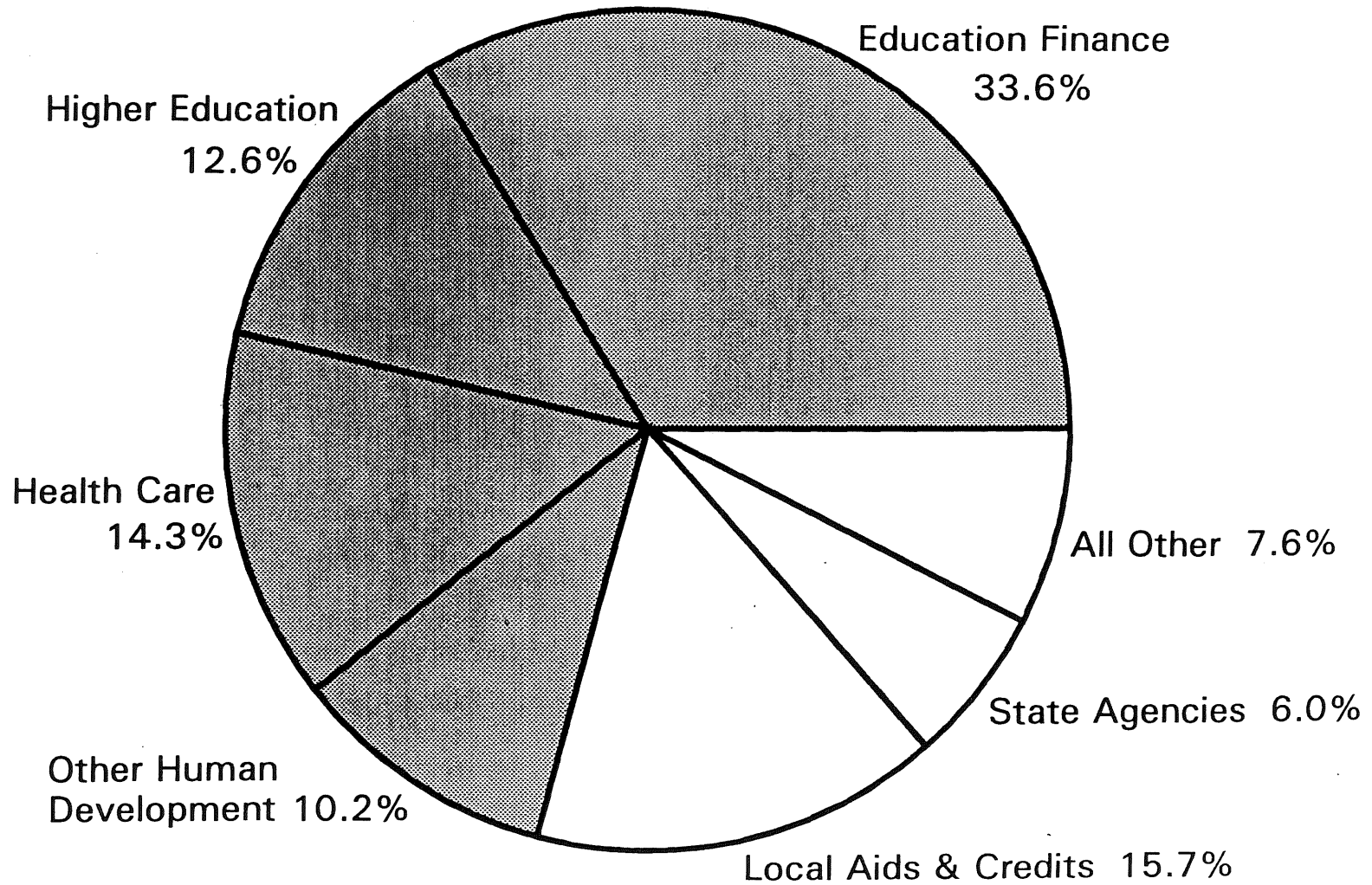


# Spending Was Not Reduced to Solve the Previous Shortfall Only the Rate of Increase Was Cut



\* Adjusted for Comparability.

# Over Two-Thirds of the State's 1994-95 Budget Will Go To Education and Human Development





Three Spending Areas Account For 58% Of The State Budget,  
But 88% Of All Projected Spending Growth

(\$ in Millions)

	<u>1992-93</u>	<u>1994-95</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Major Spending Categories:</b>				
* Education Finance	\$4,365	\$5,400	\$1,035	23.7%
Higher Education	1,983	2,024	42	2.1%
* Local Aids & Credits	2,221	2,517	296	13.3%
Human Development				
* Health Care	1,750	2,296	546	31.2%
All Other	1,551	1,635	84	5.4%
State Agencies	913	954	41	4.5%
All Other	1,113	1,221	107	9.6%
Subtotal	13,897	16,047	2,150	15.5%
Dedicated Expenditures	549	539	(10)	-1.8%
<b>Total Spending</b>	<b>\$14,446</b>	<b>\$16,586</b>	<b>2,140</b>	<b>14.8%</b>