

State Budget Forecast Brings Good News

By [Thomas J. Hanson](#) on December 02, 2011

Quick Summary

Minnesota Management and Budget (MMB) announced an \$876 million projected State budget surplus on December 1. The story of this forecast is simple. For the past year, Minnesota collected more revenue than they anticipated while expenditures were lower than projected. As a result, the 2010-2011 biennium ended with a surplus on June 30. This extra money was then carried into the 2012-2013 biennium. Going forward, for the remainder of the 2012-2013 biennium, MMB's forecast is very cautious. It projects that Minnesota will collect less revenue which will be more than offset by a decrease in expected expenditures. The two charts below illustrate this.

Forecast for FY 2012-13

(\$ in millions)	Nov Forecast	Change from Feb. Forecast
Beginning Balance	\$1,289	\$564
Revenues	33,700	(24)
Spending	33,991	(348)
Cash Flow Acct	95	0
Budget Reserve	27	27
Balance	\$876	\$861

Key Changes in FY 2012-13 Budget	(\$ in millions)
Balance at end of session	\$15
FY 2011 actual revenues	358
FY 12-13 forecast revenues	(24)
FY 2011 actual spending	(205)
FY 12-13 forecast spending	(348)
FY 12 deposit to reserve	27
New Balance (allocated to reserves)	\$876

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Why is there a surplus when everybody was predicting a deficit?

Revenue trends in the forecast were actually similar to what was predicted. It was the expenditure reductions that were the surprise.

The State actually collected \$358 million more in FY 2010-2011 than was anticipated. The official MMB Economic Updates in September and October confirmed this trend. Despite this increase in revenue, MMB's forecast expresses uncertainty in future revenue collections due to weakness in the economy. It is predicted that revenues will decline in the remainder of the 2012-2013 biennium by \$24 million.

The complete surprise in the forecast was the \$553 million reduction in spending. Lower human services spending accounts for more than 80 percent of the reduction of \$205 million in FY 2011, and \$348 million in FY 2012-13. Most of the savings occurs in the Medical Assistance program where a variety of factors contributed to lower spending growth.

What's next?

No budget decisions will be made before the February 2012 Forecast and these numbers are confirmed by another forecast. Under existing law, the State budget reserve must be replenished if the surplus holds up.
