



**General Fund Budget Summary
2010 End-of-Session**

MINNESOTA SENATE
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

August 2010

QUESTIONS

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BACKGROUND

Minnesota operates on a biennial (two-year) budget that runs from July 1, 2009 through June 30, 2011. The February 2010 state budget forecast projected general fund budget deficit of \$994 million for the remainder of the FY 2010-2011 biennium; the projected deficit was somewhat less than the \$1.2 billion projected in November 2009. The \$994 million was in addition to the \$4.6 billion budget deficit (\$6.4 billion before taking any federal stimulus into account) addressed during the 2009 legislative session and through subsequent executive actions.

On April 1, 2010, the Governor signed Chapter 215, a supplemental budget bill passed by the Legislature on March 29, 2010. Chapter 215, along with legislation providing for a revised general assistance medical care (GAMC) program and several other budget related measures, reduced the projected budget deficit from \$994 to \$535 million. Further budget discussions focused largely on how to resolve the remaining deficit, including possible adjustments to the primary education and health and human service budgets, and pending Congressional action to extend a temporary increase in federal medical assistance participation (FMAP) rates. By May, supplemental budget discussions were broadened to also include enactment of a larger budget solution following the Supreme Court's decision regarding the Governor's 2009 unallotments.

On May 5, 2010, the Minnesota Supreme Court upheld a district court ruling finding that the Governor's July 2009 unallotment of funding for a special diet program was not legal. The broad implications of this ruling for all 2009 unallotments effectively increased the overall deficit problem to \$3.425 billion relative to the February forecast, of which \$2.966 billion remained unsolved after taking into account the budget savings already enacted in 2010.

This Issue Brief summarizes the budget actions of the 2010 Regular Session and 1st Special Session, after which the budget has a positive projected balance of \$5.8 million. The budget changes are presented relative to an adjusted February forecast that removes the 2009 unallotment savings from the forecast assumptions consistent with the Supreme Court's decision (see next page).

Reversal of the Governor's 2009 Unallotments

In 2009, the February state budget forecast projected a deficit of \$4.6 billion for FY 2010-11, the biennium that began July 1, 2009. During the 2009 legislative session, the Legislature passed, and the Governor signed, a series of omnibus appropriation bills setting state agency budgets for FY 2010-11. On May 14, 2009, the Governor announced that he would sign the remaining omnibus budget bill, the health and human services budget, resulting in a complete but not yet balanced budget; the FY 2010-11 budget gap had been reduced from \$4.6 to \$2.8 billion. In addition, the Governor stated that he would use unallotment authority under M.S. 16A.152, subd. 4, to make additional reductions to bring the enacted state budget into balance rather than agree to tax increases being considered by the Legislature.

On the final day of the legislative session, the Legislature approved legislation (Chapter 179), providing for tax revenue increases and delays in state payments of K-12 education aid, that would have provided for a balanced General Fund budget for FY 2010-2011. The Governor vetoed Chapter 179 and, as announced, proceeded to approve \$2.8 billion of unallotments and other executive actions in July 2009.

On November 3, 2009, participants whose benefits under the Special Diet Program¹ had been terminated as a result of a \$5.3 million unallotment to that program, filed a complaint in Ramsey County District Court (*Brayton v. Pawlenty*) seeking a restraining order to compel Governor Pawlenty, and the Commissioners of Minnesota Management and Budget and the Department of Human Services, to reinstate funding while the suit was pending. On December 30, 2009, the District Court enjoined the defendants from reducing the allotment for the Special Diet Program retroactive to November 1, 2009. The parties agreed to an expedited appeal to the Minnesota Supreme Court.

On March 15, 2010, the Supreme Court heard oral arguments in *Brayton v. Pawlenty* and on May 5, 2010, the Supreme Court ruled that the unallotment reductions made since July 1, 2009 were not authorized by M.S. 16A.152, subd. 4, because they were made before the Legislature and Executive had enacted a balanced budget. Those unallotments, however, had already been incorporated into the February 2010 budget forecast. The following table summarizes the adjustments made to each budget area to remove the unallotments; the adjusted amounts are the reference point used to describe budget changes made during the 2010 regular Session and 1st Special Session.

| FY 2010-11 Deficit: Before and After Unallotment Reversal <i>(\$'s in Thousands)</i> | February Forecast | Unallotment Reversal | Adj. February Forecast |
|--|--------------------------|-----------------------------|-------------------------------|
| Total Resources (a) | 30,458,094 | (16,873) | 30,451,255 |
| Spending by Budget Area | | | |
| K-12 Education | 11,607,047 | 1,730,674 | 13,337,721 |
| Higher Education | 2,858,555 | 100,154 | 2,958,709 |
| Tax Aids and Credits | 3,082,686 | 375,377 | 3,458,063 |
| Health & Human Services* | 9,016,035 | 200,421 | 9,216,456 |
| Agriculture & Veterans | 252,067 | 985 | 253,052 |
| Environment & Energy | 364,468 | 3,628 | 368,096 |
| Economic Develop. & Housing | 272,404 | 1,234 | 273,638 |
| Transportation | 192,547 | 3,297 | 195,844 |
| Public Safety | 1,076,680 | 158 | 1,076,838 |
| Judiciary | 742,505 | 0 | 742,505 |
| State Government | 638,872 | 3,513 | 642,385 |
| Debt Service & Capital Projects | 983,033 | 0 | 983,033 |
| Dedicated Funding & Other | 15,599 | 3,870 | 19,469 |
| Total Spending (b) | 31,102,498 | 2,423,311 | 33,525,809 |
| Cashflow Account Reserve (c) | 350,000 | | 350,000 |
| Projected Budget Balance (a-b-c) | (994,404) | (2,430,150) | (3,424,554) |

* Unallotment reversal and adjusted forecast include a \$540,000 federal ffp not included in MMB post-session documents.

¹ The special diet program is a component of Minnesota Supplemental Aid program administered by the Dept. of Human Services.

General Fund Budget Balance — End of 2010 Legislative Session

As summarized in Table 1 below, following the actions taken by the 2010 Legislature, general fund resources are now projected to total \$30.7 billion for FY 2010-11, an increase of \$711.0 million relative to the adjusted February forecast¹. Transfers from other funds and one-time refund delays account for most resource changes. General fund spending totals \$30.9 billion, \$2.6 billion less than the adjusted February forecast. Of the \$2.6 billion spending change, \$2.0 billion is attributable to changes in K-12 aid payments and the timing of when school districts recognize the receipt of property tax revenues. \$674 million is attributable to other spending changes.

| Table 1 FY 2010-2011 General Fund Budget Summary of Resources and Spending <i>(Dollars in Millions)</i> | | | |
|---|------------------------------------|------------------|---------------------------|
| | <u>Adjusted Feb. Forecast*</u> | <u>Changes</u> | <u>Current Budget</u> |
| Balance Forward | 446.9 | | 446.9 |
| Current Revenues | <u>30,004.1</u> | **711.0 | ** <u>30,715.1</u> |
| Total Resources | 30,451.0 | 711.0 | 31,162.3 |
| Total Spending*** | 33,525.8 | (2,635.3) | 30,890.5 |
| Budget Reserve | 0 | 0 | 0 |
| Cash Flow Account | 350 | (84) | 266 |
| Budget Balance | (3,424.6) | 3,430.3 | 5.8 |

* Reflects the February 2010 forecast adjusted to reflect reversal of the Governor's 2009 unallotments.

** Includes \$177.7 million of transfers from the HCAF to general fund related to the MA expansion provisions; If the transfers were shown as net spending as per MMB documents, revenues would be \$30.537 billion and spending would be \$30.713 billion.

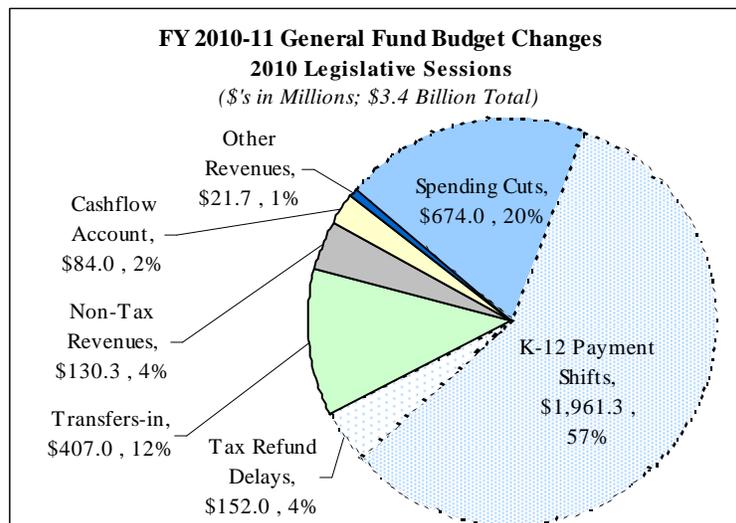
*** K-12 aid payment and property tax recognition shifts account for \$1.961 of the \$2.635 billion spending change.

In addition, the Cash Flow Account was reduced from \$350 million to \$266 million. As a result, \$86 million of general fund resources became unobligated and available for improving general fund budget balance. After taking all revenue, spending and reserve changes into account, the general fund has a positive projected balance of \$5.8 million for FY 2010-11. The state general fund currently has no budget reserve available for offsetting additional budget shortfalls that might arise.

¹ The adjusted February forecast refers to the February 2010 state budget forecast adjusted to reflect the Minnesota Supreme Court decision on the Governor's 2009 unallotments. See page 2 for more detail.

Overview of 2010 Budget Changes

Table 2 and the chart below summarize the major components of the budget deficit solution enacted as part of the 2010 Regular Session and 1st Special Session. Spending reductions, including delays in payments to school districts, account for about 77 percent of the enacted budget changes. Further, the \$674 million of spending reductions is net of \$133.3 million transferred into the general fund from the HCAF to support increased appropriations from the general fund; excluding the transfers-in and the associated increases in general fund appropriations would show larger budget cuts.



Resource Change Summary

The \$711.0 million of resource changes account for about 21 percent of the budget solution. However, only a portion of that amount is due to increases in revenues not already being collected by state government, such as an increase of \$26.9 million in tax collections resulting from enhanced tax compliance efforts. Non-tax revenues increased \$130.3 million.

Tax refund delays and transfers-in from other state funds include:

- \$152 million saved in FY 2011 by directing that corporate tax refunds be delayed by up to 180 days with interest paid after 90 days and all refunds being paid in the beginning of the next biennium (4 percent of budget solution);
- \$313.7 million transferred from the HCAF for appropriations for GAMC (\$46 million) and MA expansion (\$177.7 million), and \$40 million to be repaid to the HCAF from the general fund in FY 2012;
- \$48 million transferred from the Closed Landfill Investment Fund (CLIF) to the General

- Fund with appropriations to repay CLIF from the General Fund beginning in FY 2015; and
- \$45.3 million transferred from other funds, such as the fire safety account in the special revenue fund (\$10.5 million), the Petroleum Cleanup Fund (\$8.0 million), and various health and human services dedicated accounts (\$10.5 million).

| Table 2 Overview of General Fund Budget Changes <i>(Dollars in Millions)</i> | | |
|---|-------------------|-------------------|
| | FY 2010-11 | FY 2012-13 |
| Major Revenue Changes | | |
| Delays in Tax Refunds | 152.0 | -152.0 |
| Increased Tax Compliance | 26.9 | 53.7 |
| Other Tax Revenues | -2.5 | -16.8 |
| Transfers from HCAF | 313.7 | 523.2 |
| Transfers from Other Funds | 93.3 | 3.0 |
| Non-Tax Revenues | 130.3 | 122.6 |
| Dedicated Revenues | -2.7 | -5.3 |
| Total Revenue Changes | 711.0 | 528.4 |
| Major Spending Changes | | |
| K-12 Aid Payment Delays | -1,385.1 | 1,385.1 |
| K-12 Property Tax Recognition Shift | -576.2 | -110.6 |
| Higher Education Institutions | -146.6 | -104.8 |
| Renters Refund | -52.3 | 0 |
| Local Government Aids | -404.3 | -105.0 |
| Health and Human Services | 43.7 | 826.8 |
| All Other Spending Reductions | -114.5 | -153.1 |
| Total Spending** | -2,635.3 | 1,738.4 |
| Cash Flow Account Change | -84.0 | 0 |
| Total Change | -3,430.3 | 1,210.0 |

Most of the \$130.3 million of new non-tax revenues are attributable to a few changes, including:

- \$75.9 million related to federal disproportionate-share hospital reimbursements, drug cost rebates and other revenues related to GAMC program revisions;
- \$28.0 million from emergency federal temporary assistance for needy families (TANF) funds; and
- \$14 million required payment from the state Assigned Risk Pool.

Changes in dedicated revenues are attributable to a realignment that moves certain dedicated revenues and spending out of the general fund and into other funds but does not change actual revenue and spending levels.

Spending Change Summary

Spending changes account for 77 percent of the budget solution but 57 percent is related to \$1.961 billion of enacted changes in the timing of school aid payments (\$1.385 billion) and the recognition of school district property tax revenues (\$576 million). The unallotments and deferrals approved by the Governor in 2009, along with the accounting changes for property tax revenue recognition, totaled \$1.726 billion. The enacted school aid shift creates a \$1.385 billion aid entitlement to be paid in FY 2012; this entitlement is included in the \$5.8 billion deficit projected for FY 2012-13. Unlike the Governor's unallotment actions, the enacted changes are subject to automatic buy-back provisions set in M.S. 16A.152 if a state budget forecast projects a positive general fund balance at the close of the biennium.

Other major spending reductions included:

- a \$404.3 million reduction to local government aid programs (12 percent of solution);
- a \$146.6 million reduction to higher education systems (4 percent of solution); and
- \$114.3 million in appropriation reductions across various other programs and agencies, including additional reductions to state agencies, property tax relief, and other programs not included above (3 percent of solution).

Excluding the amount offset by transfers into the general fund from the HCAF related to the MA expansion, spending for health and human services would be about \$90 million lower than adjusted forecast.

FY 2010-2011 Spending Changes by Budget Area

FY 2010-11 spending was reduced \$2.635 billion, from \$33.526 billion to \$30.891 billion, including funds transferred into the general fund from the HCAF to be spent on MA expansion. As summarized in Table 3 and its footnote, reductions were made to all budget areas. FY 2010-11 spending is below actual spending levels for FY 2008-09 for all budget areas other than debt service. While the majority of the reductions are reflected in the E-12 education budget, as discussed above, the spending change is almost exclusively attributable to changes in the timing of school aid payments (\$1.385 billion) and the recognition of school district property tax revenues (\$576 million); net reductions to E-12 education other than shifts totaled \$1.961 billion.

Table 3
FY 2010-2011 General Fund Spending
Comparison of the Enacted Budget to Forecast
(Dollars in Millions)

| | FY 2008-09 | Adjusted Feb. Forecast FY 2010-11 | Enacted Changes (2010 Session) | Current Budget FY 2010-11 |
|-------------------------------------|-------------------|--|---------------------------------------|----------------------------------|
| E-12 Education | 13,757,269 | 13,337,721 | (1,949,286) | 11,388,435 |
| Higher Education | 3,113,216 | 2,958,709 | (147,154) | 2,811,555 |
| Property Tax Aids & Credits | 3,069,637 | 3,458,063 | (482,268) | 2,975,795 |
| Health & Human Services* | 9,090,521 | 9,216,456 | 43,782 | 9,260,238 |
| Agriculture & Veterans | 271,411 | 253,052 | (6,989) | 246,063 |
| Environment, Energy & Nat Resources | 401,566 | 368,096 | (17,037) | 351,059 |
| Economic Development | 410,447 | 273,638 | (8,354) | 265,284 |
| Transportation | 253,244 | 195,844 | (27,936) | 167,908 |
| Public Safety | 1,126,292 | 1,076,838 | (7,048) | 1,069,790 |
| Judiciary | 740,383 | 742,505 | (11,978) | 730,527 |
| State Government | 668,011 | 642,385 | (9,339) | 633,046 |
| Debt Service & Capital Projects | 882,646 | 983,033 | (350) | 982,683 |
| Dedicated Spending & Other | 81,762 | 19,469 | (11,338) | 8,131 |
| Total Spending | 33,866,405 | 33,525,809 | -2,635,295 | 30,890,514 |

* FY2010-11 spending for Health and Human Services includes \$177.7 million transferred into the general fund from the HCAF to be spent on MA expansion; netting those transfers out of spending would lower projected FY2010-11 spending to \$9.082 billion, \$133.9 million less than forecast and \$8.0 million less than FY2008-09.

Many state agencies had developed or implemented plans to address the Governor's 2009 unallotments and many of those planned reductions were enacted as part of the budget cuts, including:

- \$100.1 million in higher education;
- \$377.1 million from local government aid and property tax relief appropriations; and
- \$201.0 million from various health and human service programs.

While the agency reductions previously identified for unallotment by the Governor were enacted as part of the budget actions taken during 2010, the supplemental budget changes enacted in 2010 also included reductions to all budget areas beyond the unallotments.

GAMC and MA Expansion

Incorporated into the spending changes for health and human services, as well as some revenue

changes discussed above, are appropriations related to two significant policy changes taken up during the 2010 session:

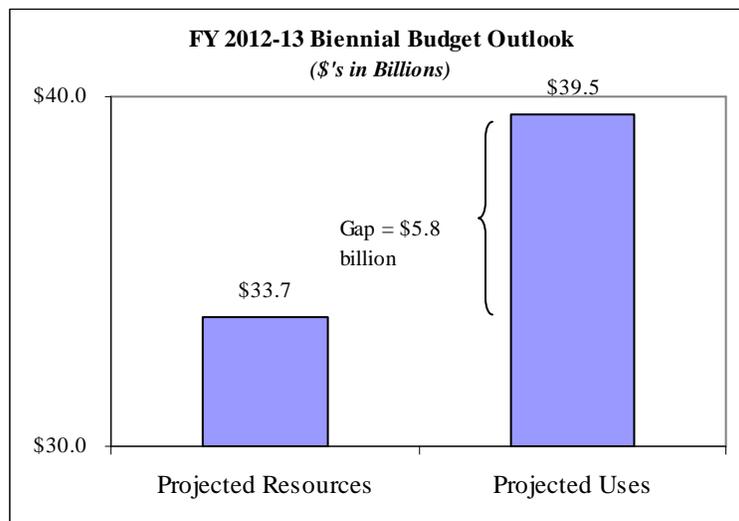
- revision of the GAMC program with the previous program set to end in Spring 2010 due to a lack of funding following a veto of the FY 2011 appropriation for this program during the 2009 session; and
- appropriations and related transfers between the HCAF and General Fund to support the expansion of the Medical Assistance (MA) program to cover persons with income under 75 percent of federal poverty level contingent on the Governor taking action to implement the option.

GAMC changes were enacted in Chapter 200 and the MA expansion option provisions were included in Chapter 1, 1st Special Session. Both of these laws included various revenue, transfer and appropriation changes affecting general fund and HCAF balance.

Greater detail on these changes and other program and agency budget reductions are available from legislative tracking spreadsheets posted on our website or the 2010 Fiscal Review.

FY 2012-2013 — Planning Estimates

As summarized by the chart below, a substantial budget gap of \$5.8 billion, or about 15 percent of projected general fund spending, is estimated for FY 2012-13. This amount does not include the planning estimate for inflation of \$1.2 billion based on the February forecast.



The projected budget gap for FY 2012-13 is little changed from that projected in February 2010. As summarized in Table 4 below, the budget changes enacted during the 2010 Regular Session and 1st Special Session resulted in modest net changes to resources and spending for FY 2012-13. The \$523 million increase in estimated resources reflects, almost entirely, an increase in transfers from the HCAF to the general fund to support the ongoing costs of MA expansion if the Governor exercises contingent authority to implement the program.

| Table 4 FY 2012-2013 General Fund Planning Estimates <i>(Dollars in Millions)</i> | | | |
|--|------------------------------|----------------|--------------------------------------|
| | February Forecast | Changes | Current Planning Estimate |
| Balance Forward | 350 | (78) | 272 |
| Current Revenues | <u>32,907</u> | <u>523</u> | <u>33,430</u> |
| Total Resources (a) | 33,257 | 445 | 33,702 |
| Total Spending (b) | 38,696 | 505 | 39,201* |
| Budget Reserve | 0 | | 0 |
| Cash Flow Account (c) | 350 | (84) | 266 |
| Budget Balance (a-b-c) | (5,789) | (24) | (5,765)* |

* Does not include any planning estimated for inflation (estimated to be \$1.2 billion).

As summarized in Table 5, permanent reductions were made to most budget areas. Greater detail on these changes and other program and agency budget reductions are available from legislative tracking spreadsheets posted on our website or the 2010 Fiscal Review.

Table 5
FY 2012-2013 Planning Estimate Spending by Budget Area
(Dollars in Thousands)

| | February Forecast | Changes | Current Planning Est. |
|--|------------------------------|------------------|--------------------------|
| E-12 Education | 14,363,321 | 1,258,256 | 15,621,577 |
| Higher Education | 3,025,674 | (109,090) | 2,916,584 |
| Property Tax Aids & Credits | 3,633,304 | (178,934) | 3,454,370 |
| Health & Human Services* | 11,696,249 | 826,754 | *12,523,003 |
| Agriculture & Veterans | 249,415 | (4,192) | 245,223 |
| Environment, Energy & Nat Resources | 363,154 | (17,593) | 345,561 |
| Economic Development | 263,592 | (10,880) | 252,712 |
| Transportation | 196,770 | (16,598) | 180,172 |
| Public Safety | 1,087,608 | (17,249) | 1,070,359 |
| Judiciary | 741,812 | (16,162) | 725,650 |
| State Government | 650,296 | 20,532 | 670,828 |
| Debt Service & Capital Projects | 1,200,012 | (4,282) | 1,195,730 |
| Dedicated Spending & Other | -8,146 | 7,771 | (375) |
| Total Spending | 37,463,061 | 1,215,222 | 39,201,394 |

* FY2012-13 spending for Health and Human Services includes \$523.2 million transferred into the general fund from the HCAF to be spent on MA expansion; netting those transfers out of spending would lower projected FY2012-13 spending to \$12.0 billion, \$303.6 million more than forecast.

State Cash Flow Conditions and Changes

In addition to efforts to balance the general fund budget, the state has also faced cash management challenges. While budget balance is a measure of budget resources compared to budget uses, cash flow refers to the movement, or timing, of cash into and out of the state treasury. Because revenues do not come in the treasury on the same schedule as spending occurs out of the treasury—a large portion of revenues do not materialize until the end of the fiscal year—the state manages cash flow to ensure sufficient cash is available to pay the state’s bills on any given day.

State law allows cash from multiple funds (accounts) to be used to pay general fund obligations as needed throughout the year with the borrowed cash being restored by the end of the fiscal year. The group of funds across which cash may be borrowed is referred to as the statutory general fund and it includes the general fund, the health care access fund and many other special revenue funds.

Legislation passed in 2010 took several steps to improve cash flow, including:

- allowing for faster remittance to the state treasury of sales taxes collected by businesses;
- allowing for faster remittance to the state treasury of the statewide business property tax collected by counties;

- changes to the timing of when state appropriations to higher education institutions are paid to the higher education systems; and
- adjustments made to the authority to delay school payments (for more information on this change see the 2010 Fiscal Review).

As illustrated in Table 6, for FY 2011, after taking into account the budget actions taken during the 2010 legislative sessions, a negative cash position is projected in three months; an additional six months are projected to have a daily cash low-point below the minimum \$400 million advised by Minnesota Management and Budget officials. State law provides the Commissioner of Minnesota Management and Budget with various steps that can be taken to ensure sufficient cash is available, including private sector borrowing and delaying payments to school districts based on an established formula; the use of these potential cash management actions is not included in the Table 6 estimates.

| Table 6 Summary of FY 2011 Cash Flow Conditions, As of 2010 End-of-Session* (\$'s in thousands) | | |
|---|-----------------------------------|---|
| Month | General Fund Low Point | Statutory General Fund Low Point |
| July 2010 | (34,049) | 1,549,596 |
| August 2010 | (891,476) | 727,773 |
| September 2010 | (1,292,688) | 385,903 |
| October 2010 | (1,662,366) | 23,443 |
| November 2010 | (1,683,237) | 8,525 |
| December 2010 | (1,759,425) | (277,251) |
| January 2011 | (1,403,527) | 73,555 |
| February 2011 | (1,642,711) | 137,704 |
| March 2011 | (2,129,835) | (387,506) |
| April 2011 | (2,091,880) | (396,724) |
| May 2011 | (1,566,065) | 145,159 |
| June 2011 | (1,135,809) | 572,771 |
| Ending Cash Balance | 593,259 | 2,282,901 |

* Estimates provided by Minnesota Management and Budget.

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budget issues related to matters that have been or are likely to be addressed by the Legislature. Senate Fiscal Issue Briefs can be viewed on the Office of Counsel, Research & Fiscal Analysis web site at www.senate.leg.state.mn.us/departments and follow the links to the Office of Counsel, Research, and Fiscal Analysis.