



State Fiscal Outlook: Minnesota and the Nation

***One Minnesota
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Current Fiscal Situation: Overview



State Fiscal Overview

- ❑ **The “Great Recession” was an extremely difficult fiscal period for states in all regions**

- ❑ **Fiscal 2013 projections show aggregate expenditures and revenues continue to improve**
 - ❑ **For many states, general fund revenues and expenditures still below fiscal 2008**

- ❑ **States recovering, but not recovered; resources remain tight**

- ❑ **Federal uncertainty in a number of areas**
 - ❑ **Federal spending expected to decline**



Federal Overhang...

- **Sequestration Cuts now scheduled for March 1, 2013**
- **Debt Ceiling will need to be raised in February or March**
- **Many program authorizations set to expire**
- **“Grand bargain” Tax Reform?**

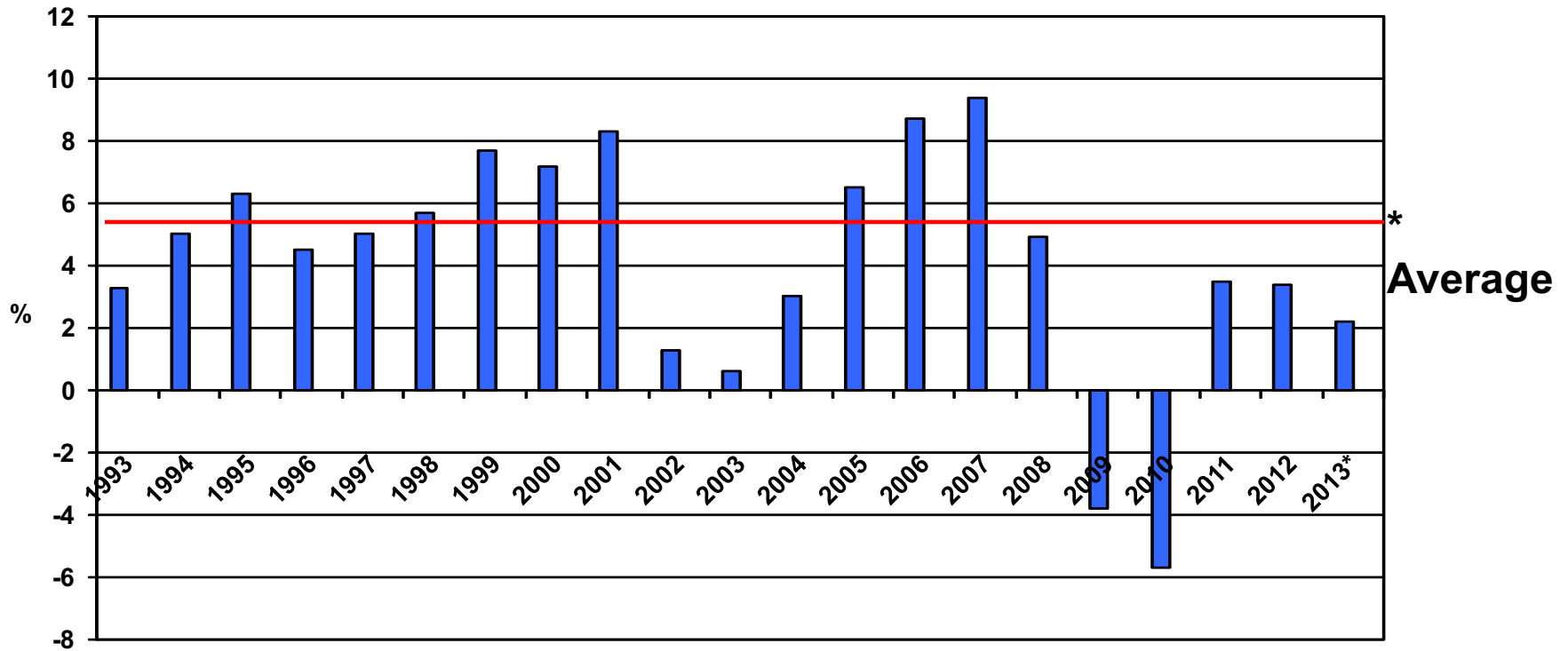


Current Fiscal Situation: Indicators



3 Years of Slow GF Growth Following 2 Years of Declines

General Fund Expenditure Growth (%)



* Average

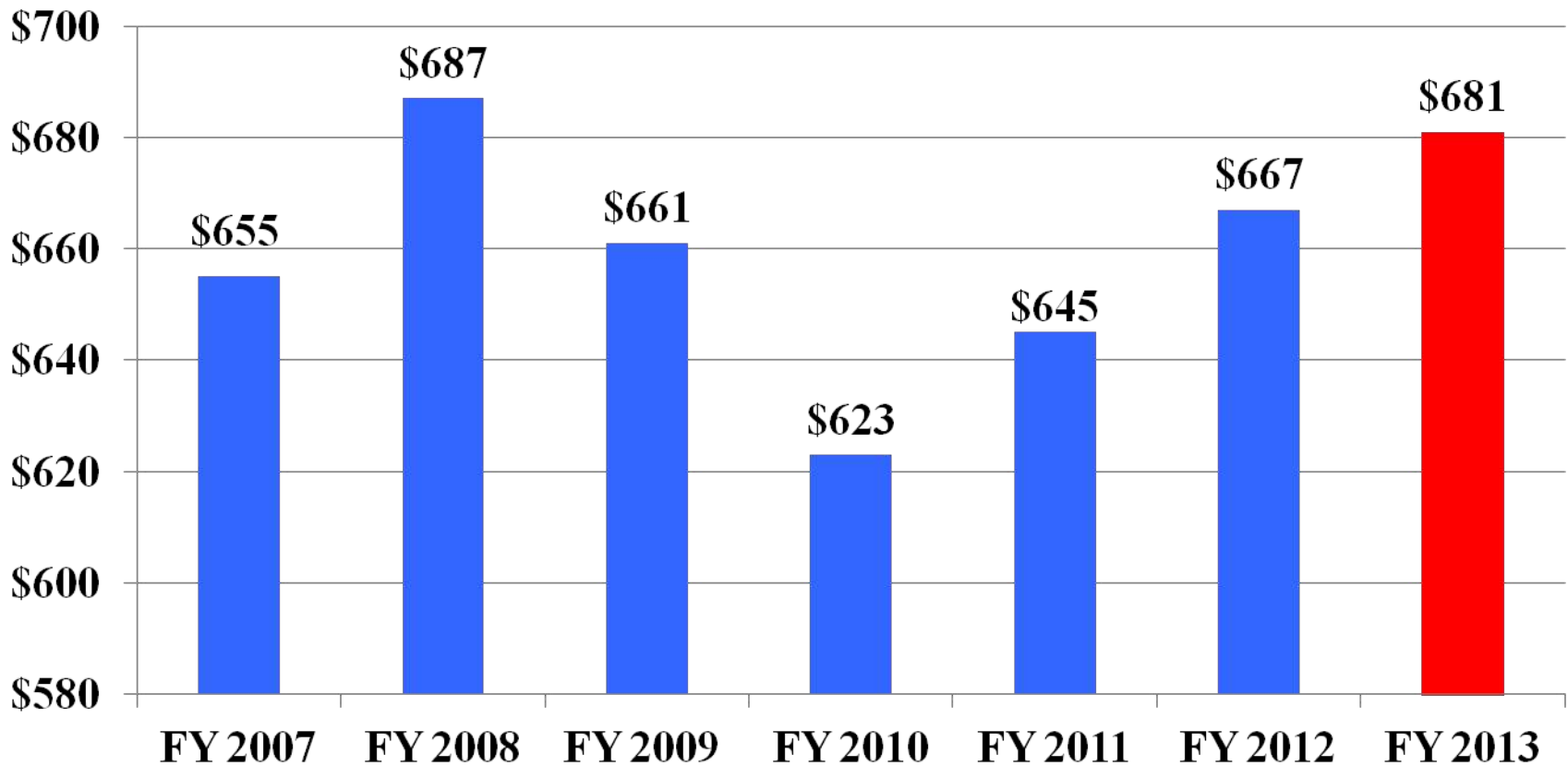
*35-year historical average rate of growth is 5.6 percent appropriated

*Fiscal '13 numbers are Source: NASBO Fall 2012 Fiscal Survey of States



FY 2013 Appropriated Spending Still \$5.9 Billion Below FY 2008

General Fund Spending: FY 2007-FY 2013

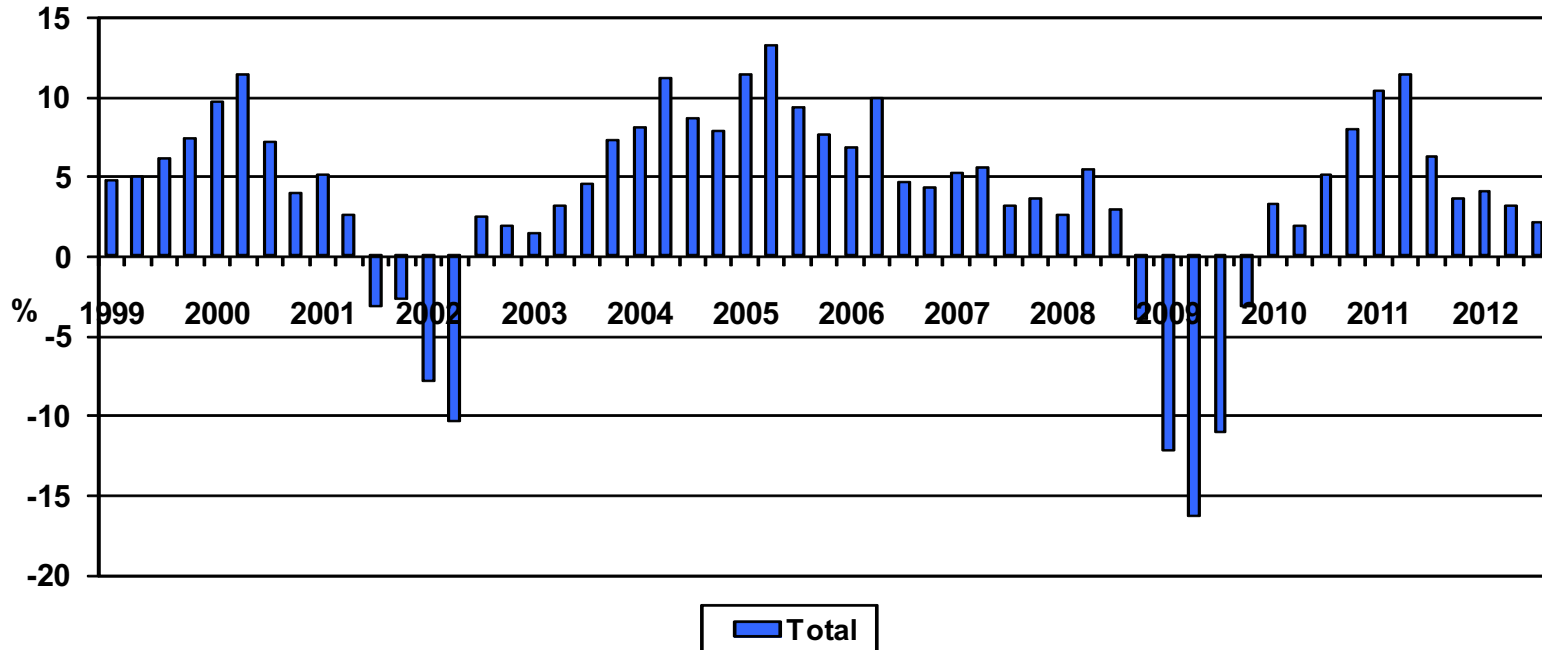


Source: NASBO Fall 2012 Fiscal Survey of States



State Revenue Continues to Grow in 3rd Quarter, but at Slower Rate

Year-Over-Year Real Change in Quarterly State Tax Revenue

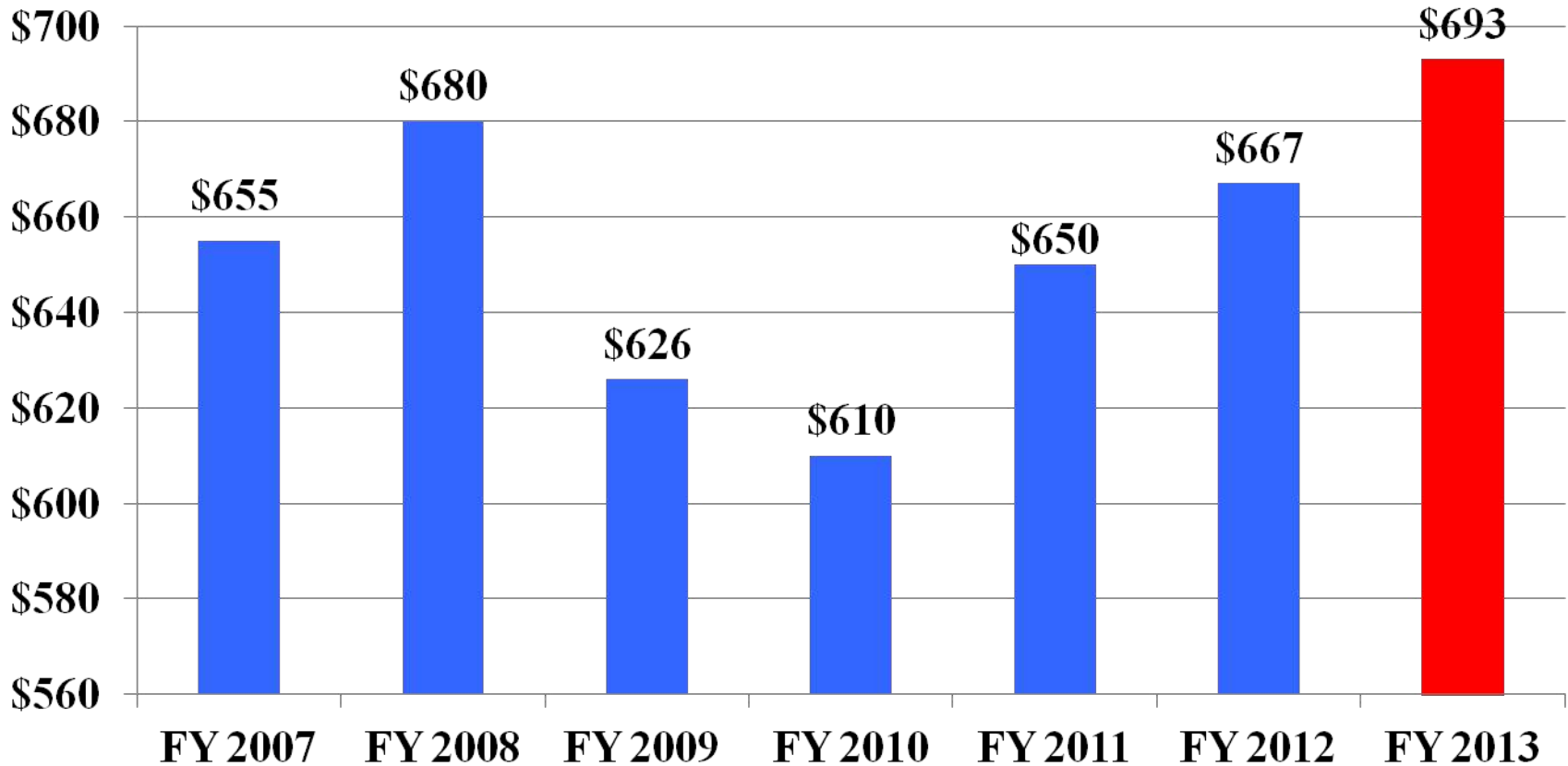


Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census



FY 2013 General Fund Revenue is Expected to Surpass FY 2008 by \$13B

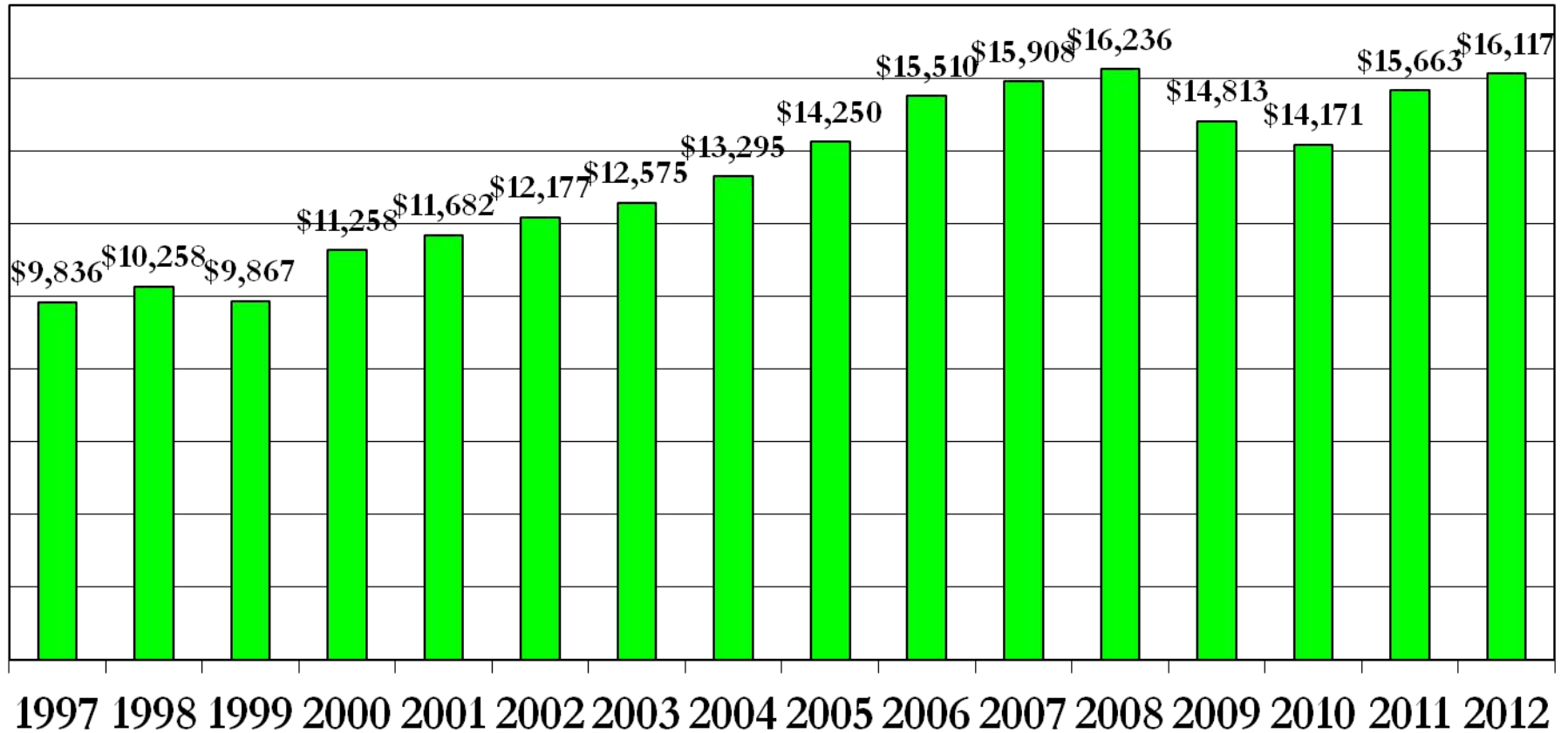
General Fund Spending: FY 2007-FY 2013



Source: NASBO Fall 2012 Fiscal Survey of States



Minnesota GF Revenue: 1997-2012



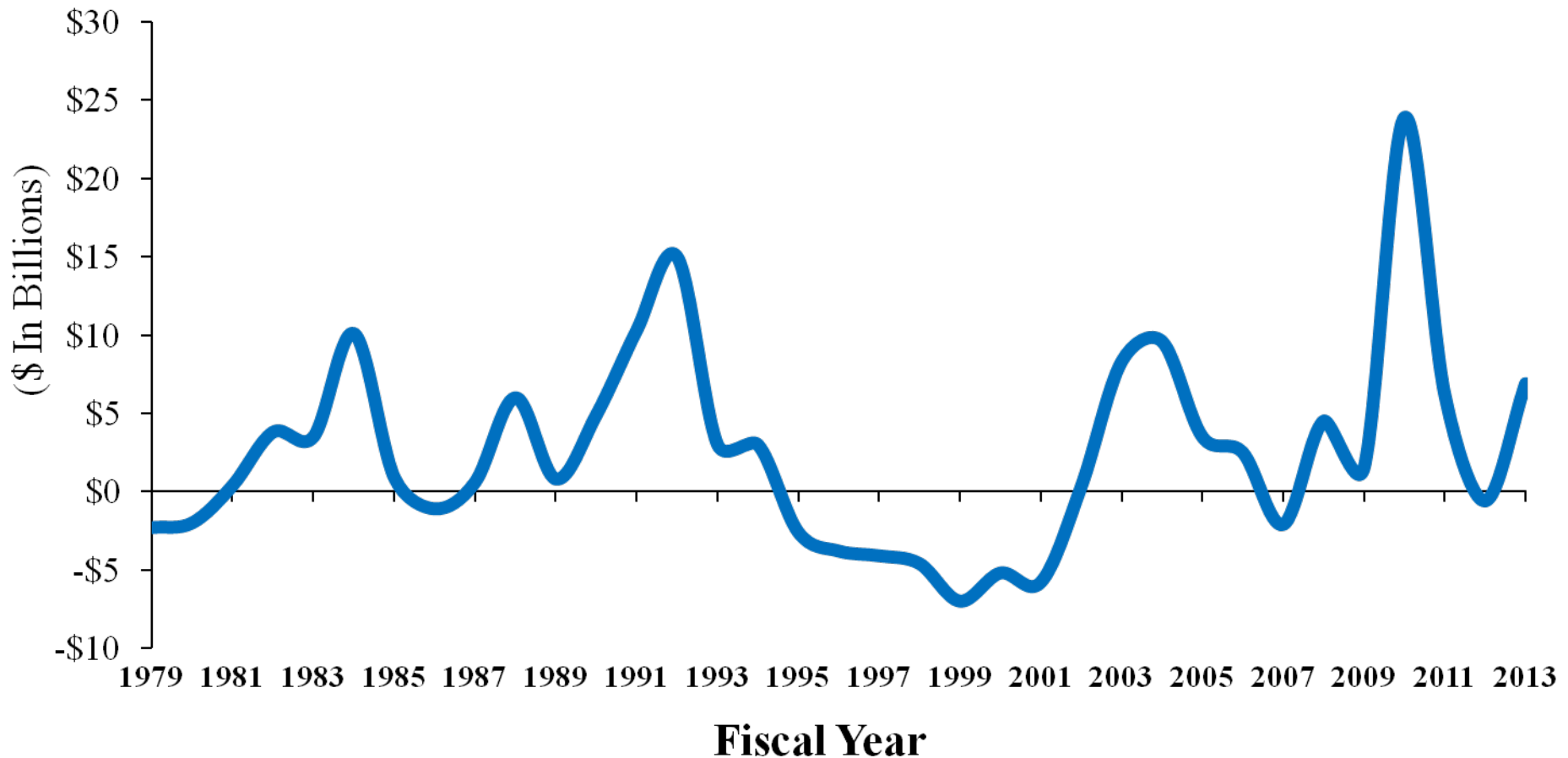
(estimated)

Source: NASBO State Expenditure Report



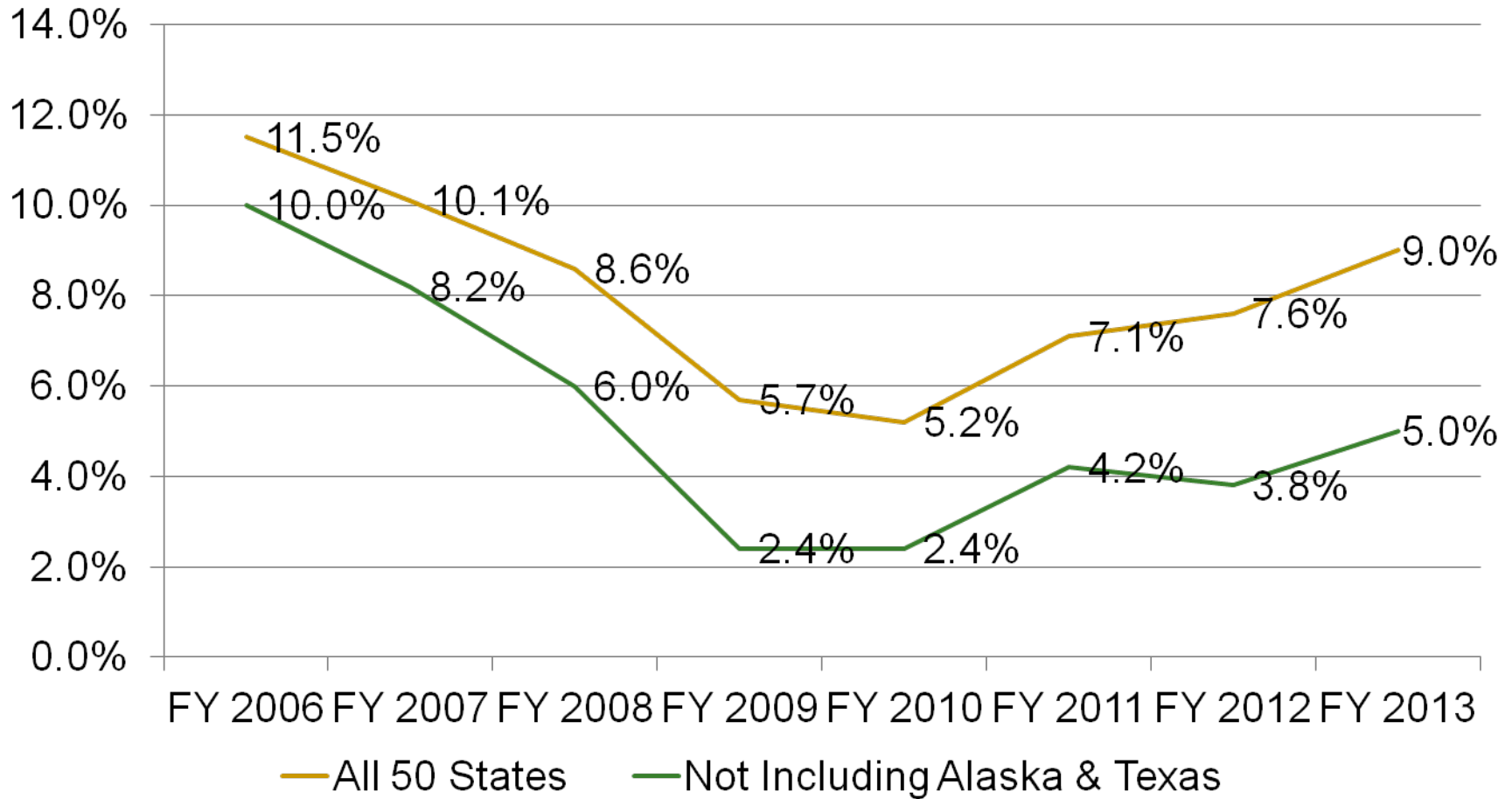
States Enact \$6.9 Billion in Additional Taxes and Fees

Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2013





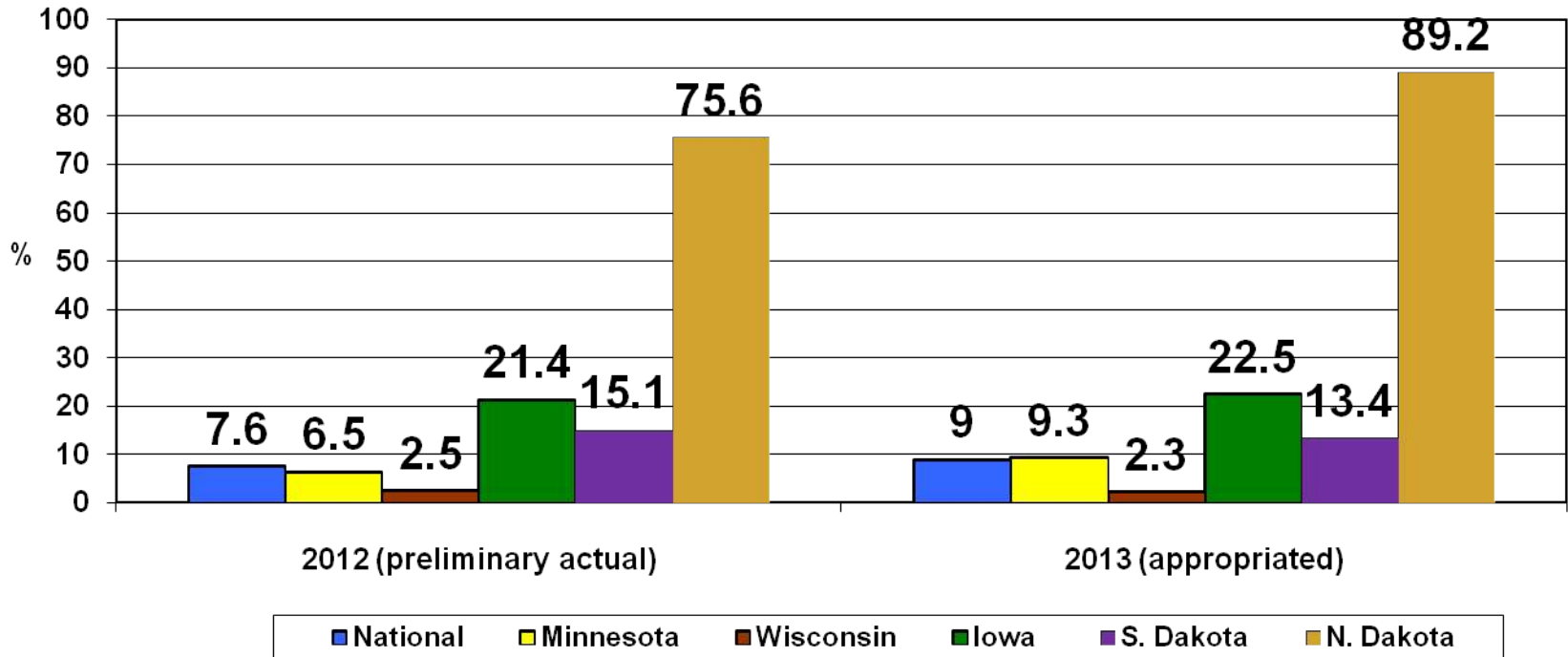
States Continue To Rebuild Budgetary Reserves After Recession





Balances in MN and Selected States

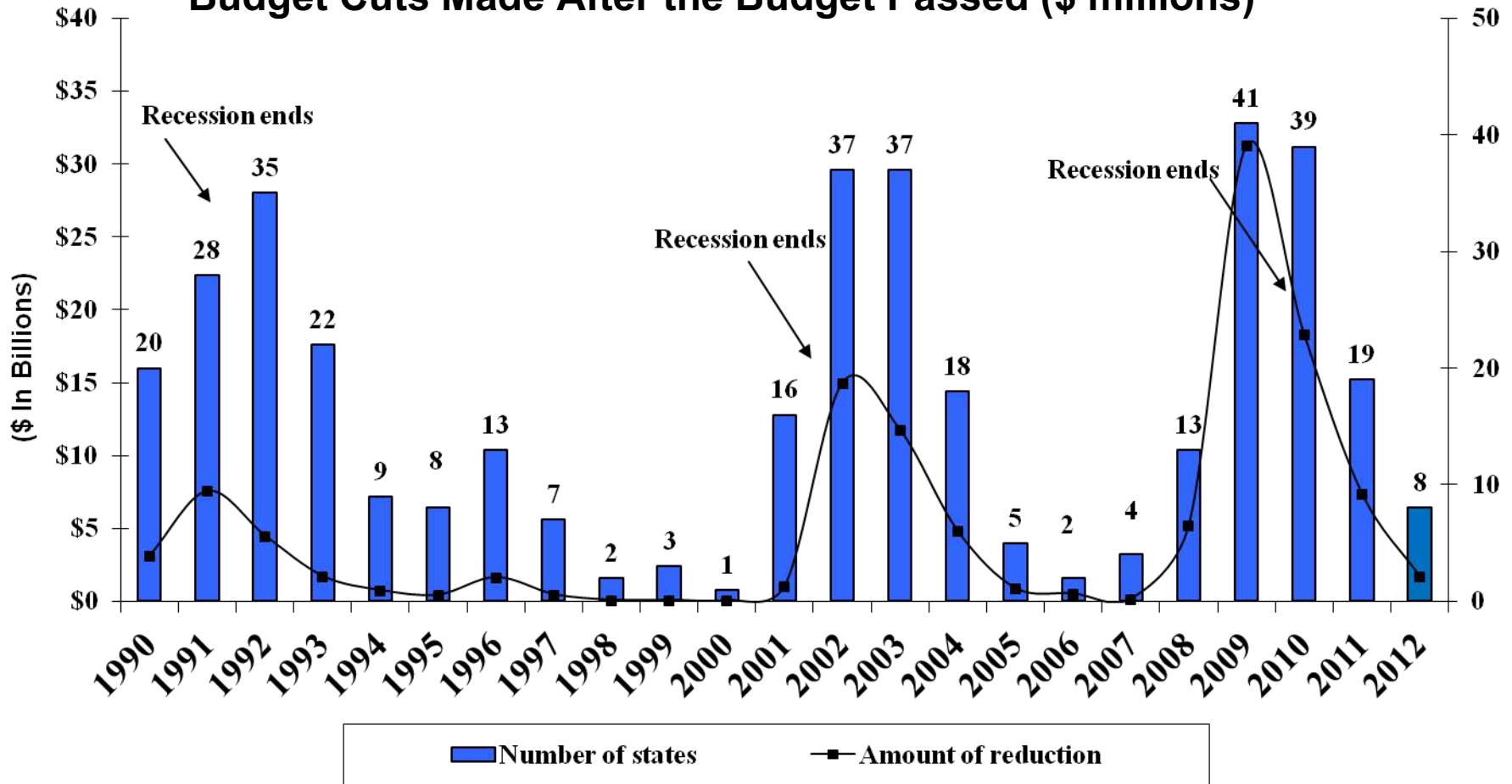
Total Balances as a Percent of Expenditures





Minimal Midyear Budget Cuts in FY 2012, 8 States Cut \$1.7 Billion

Budget Cuts Made After the Budget Passed (\$ millions)



Source: NASBO Fall 2012 Fiscal Survey



Strategies Used to Reduce or Eliminate Budget Gaps, FY 2013

- **Reduce Local Aid: 8 states**
- **Layoffs: 9 states**
- **Furloughs: 3 states**
- **Cuts to Employee Benefits: 9 states**
- **Across-the-Board Cuts: 13 states**
- **Targeted Cuts: 21 states**
- **Rainy Day Fund: 4 states**
- **Reorganize Agencies: 10 states**

Source: NASBO Fall 2012 Fiscal Survey of States

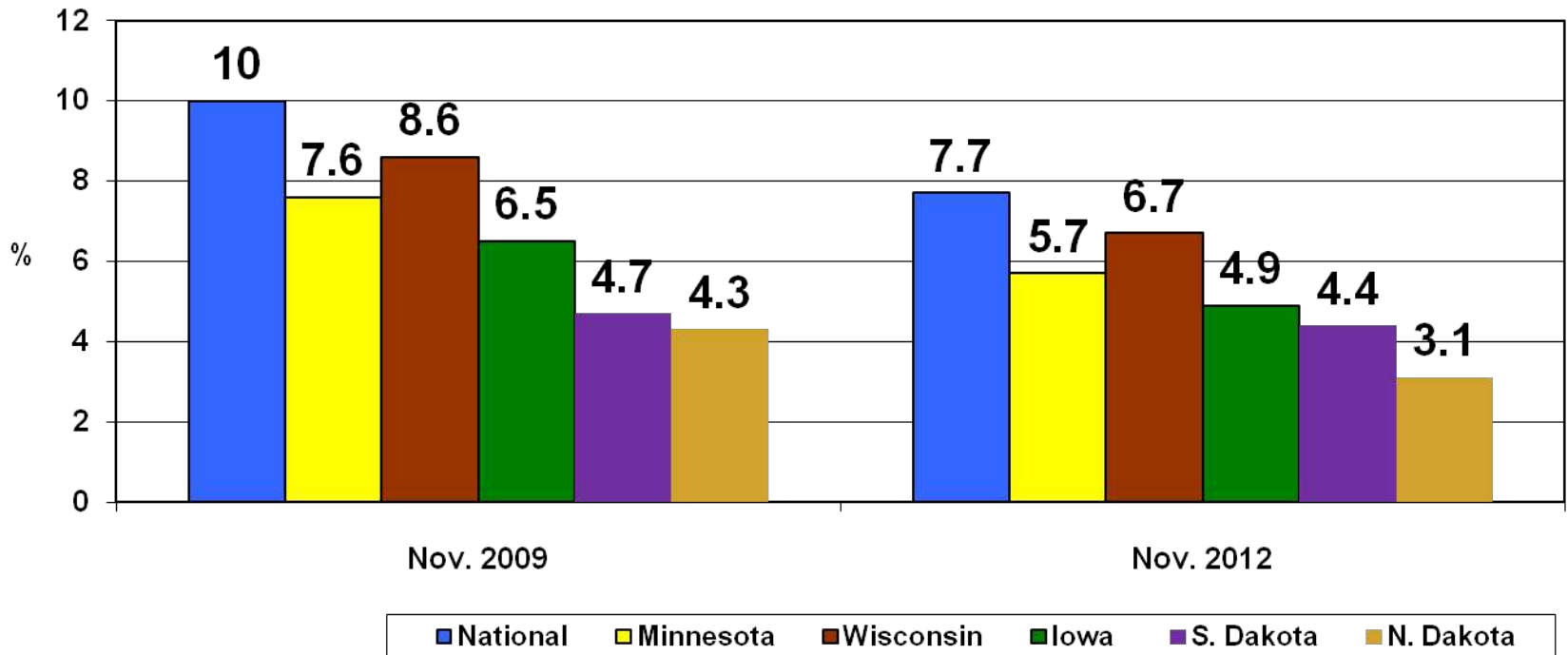


Current Fiscal Situation: Economic Overview



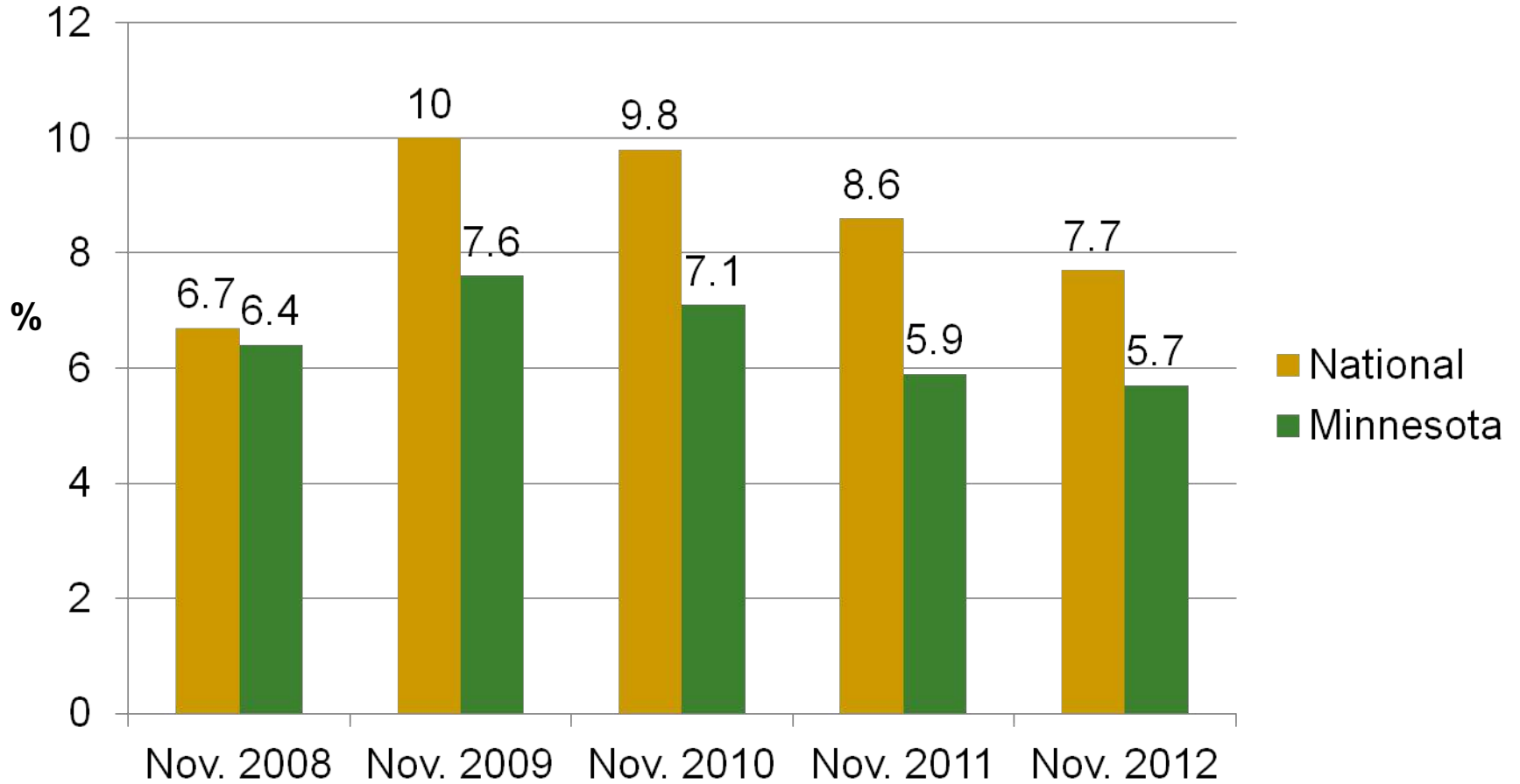
Unemployment Rate in MN and Selected States

Nov. 2009 and Nov. 2011 Unemployment Rates





National Unemployment Rate Compared to MN



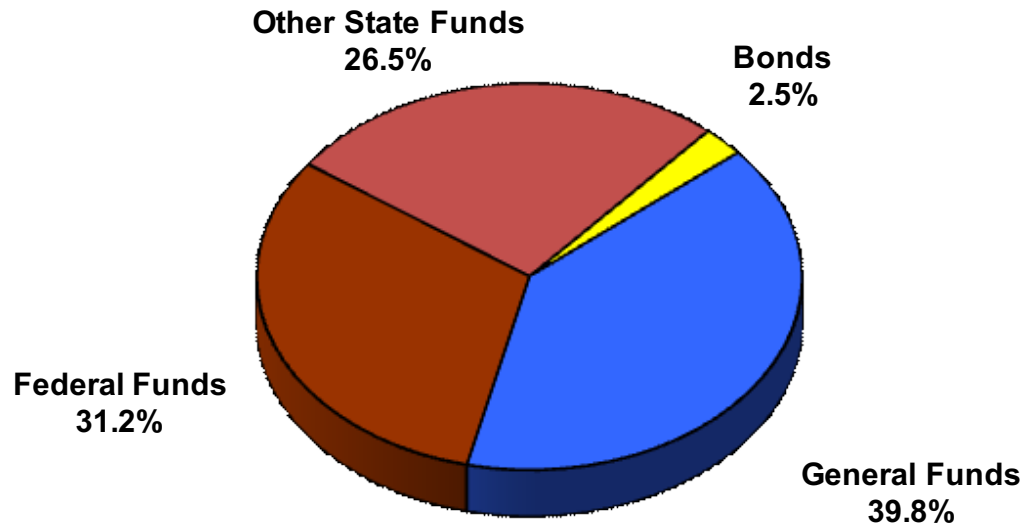
Source: U.S. Department of Labor, Bureau of Labor Statistics



Background on State Spending Trends

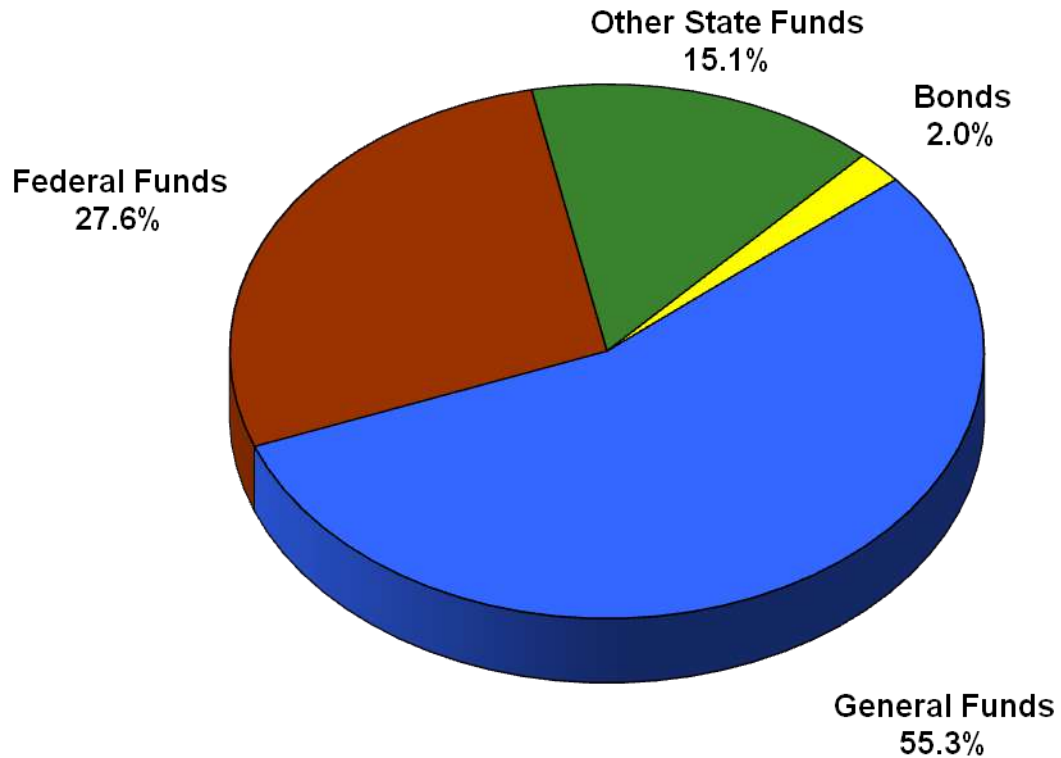
Spending by Funding Source (Percentage)

Total State Expenditures By Funding Source, Estimated Fiscal 2012



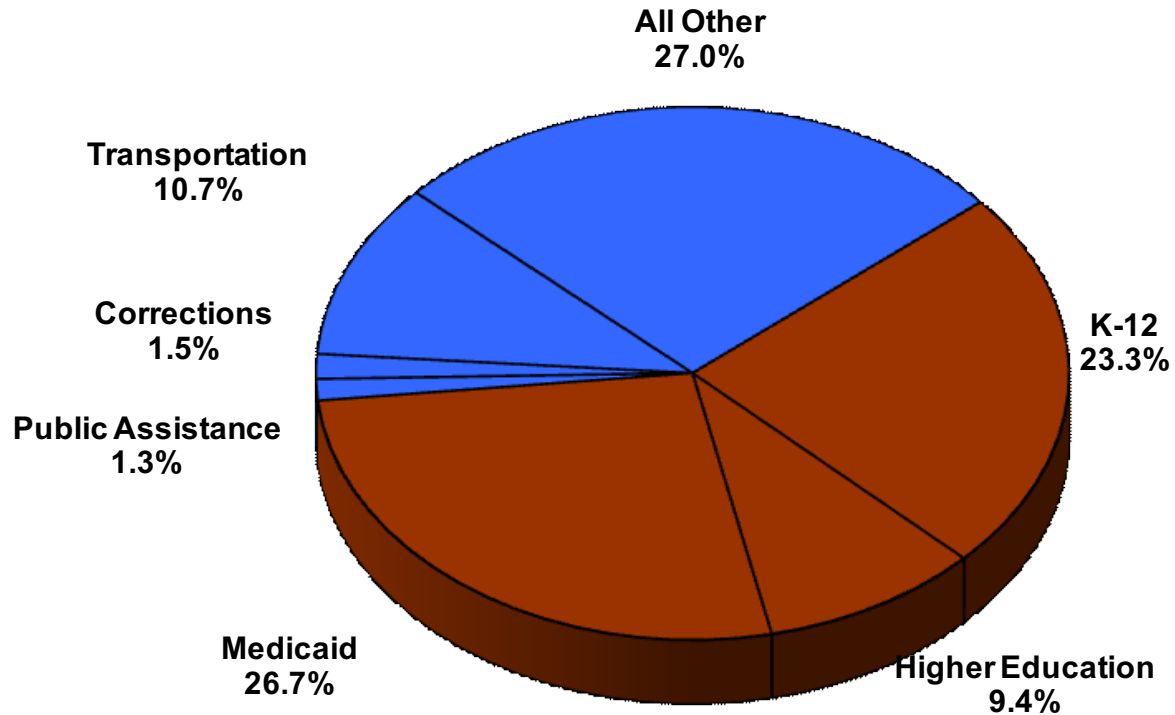
MN Spending by Funding Source (Percentage)

MN Total State Expenditures By Funding Source, Estimated Fiscal 2012



MN Total State Expenditures

MN Total Expenditures by Function, Estimated Fiscal 2012

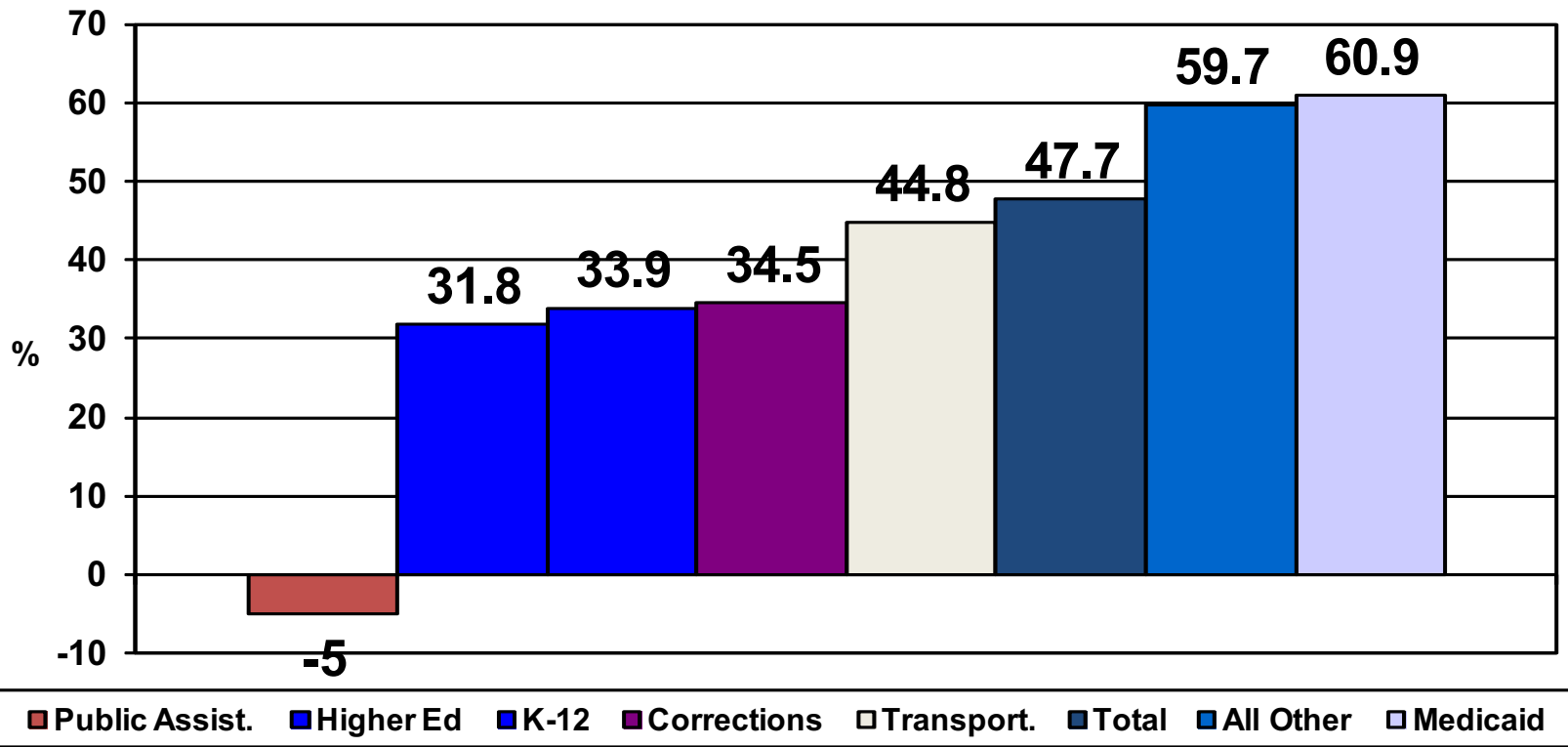


Source: NASBO State Expenditure Report



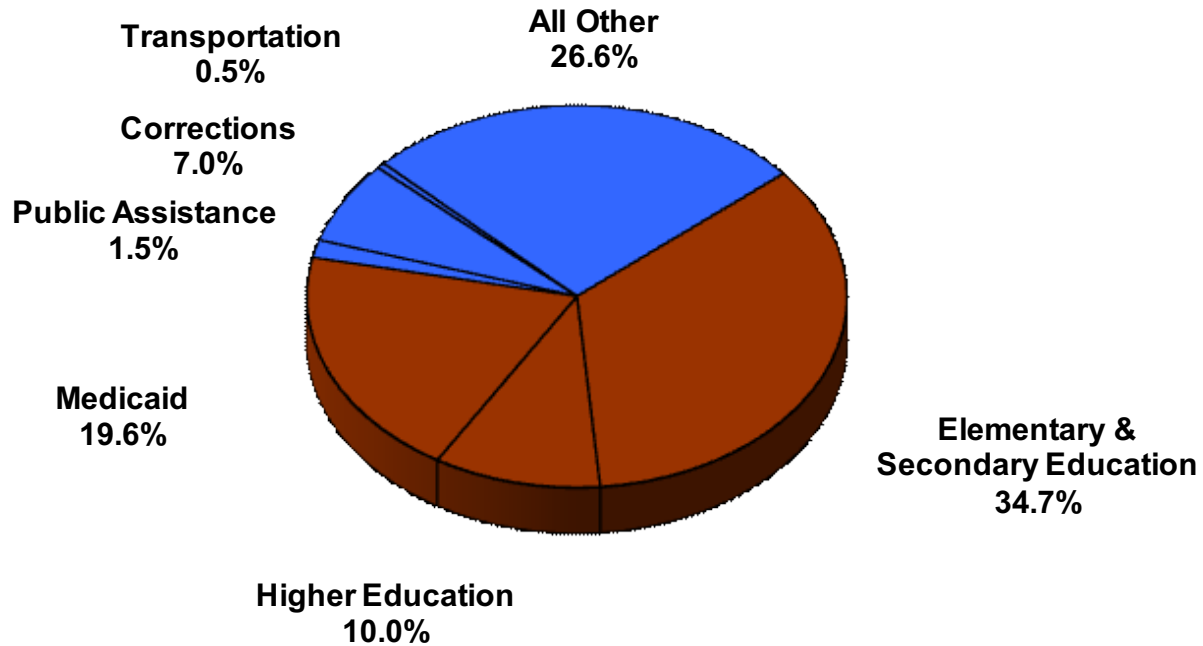
Total Expenditures Percentage Growth in Spending Categories Over 10 Years

Percentage Growth in Spending Categories
Between Fiscal 2003 and Fiscal 2012 (Total Funds)



General Fund: Medicaid & Education 64.3%

General Fund Expenditures by Function, Estimated Fiscal 2012

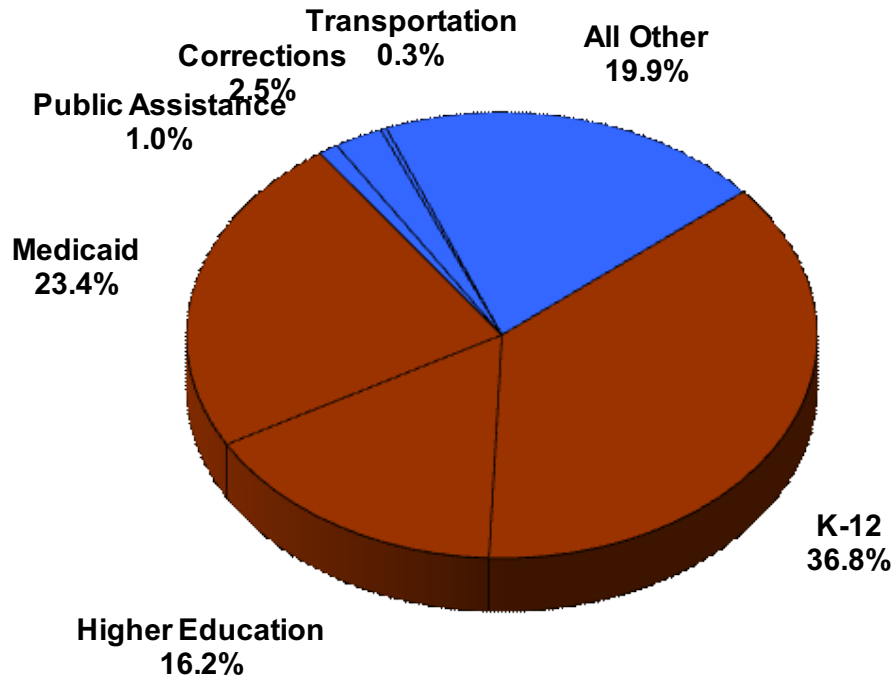


Source: NASBO State Expenditure Report



MN General Fund: Medicaid & Education 76.4%

General Fund Expenditures by Function, Estimated Fiscal 2012

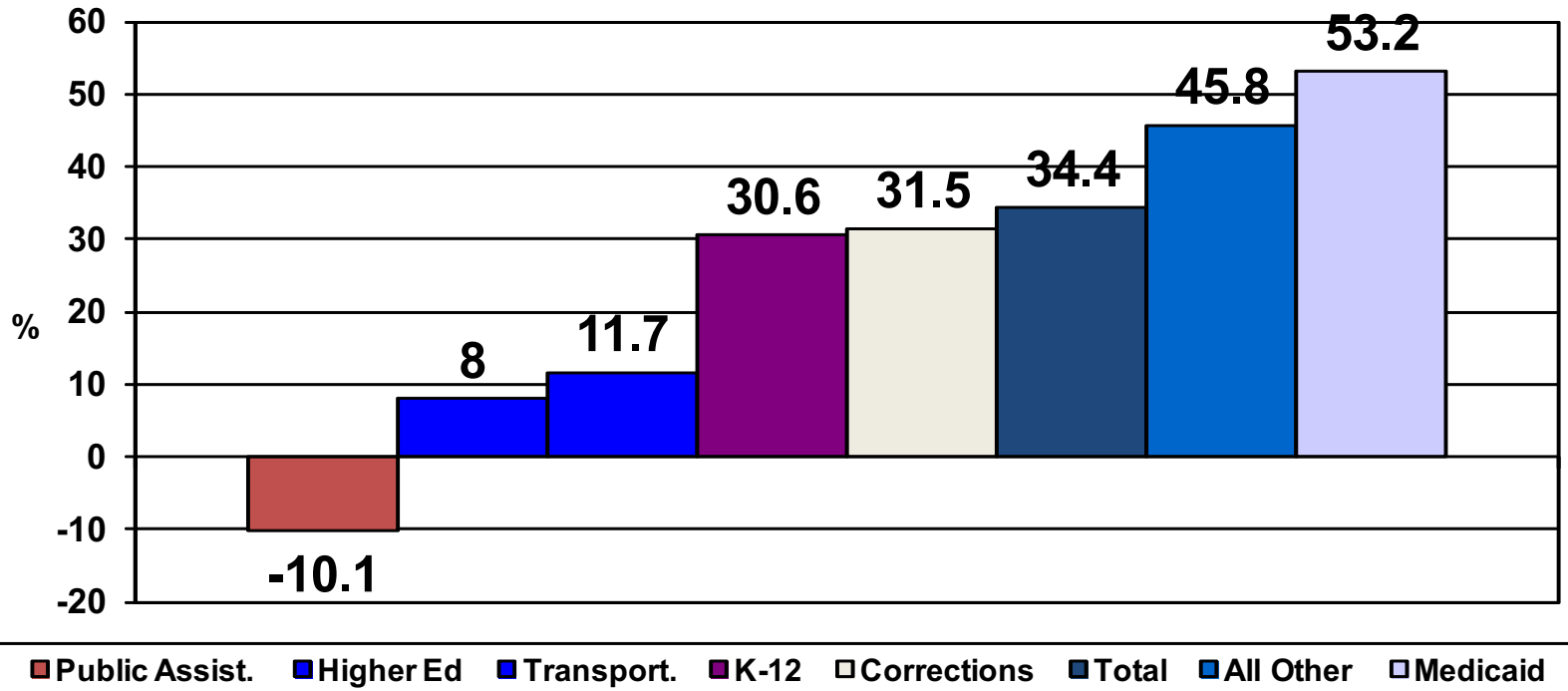


Source: NASBO State Expenditure Report



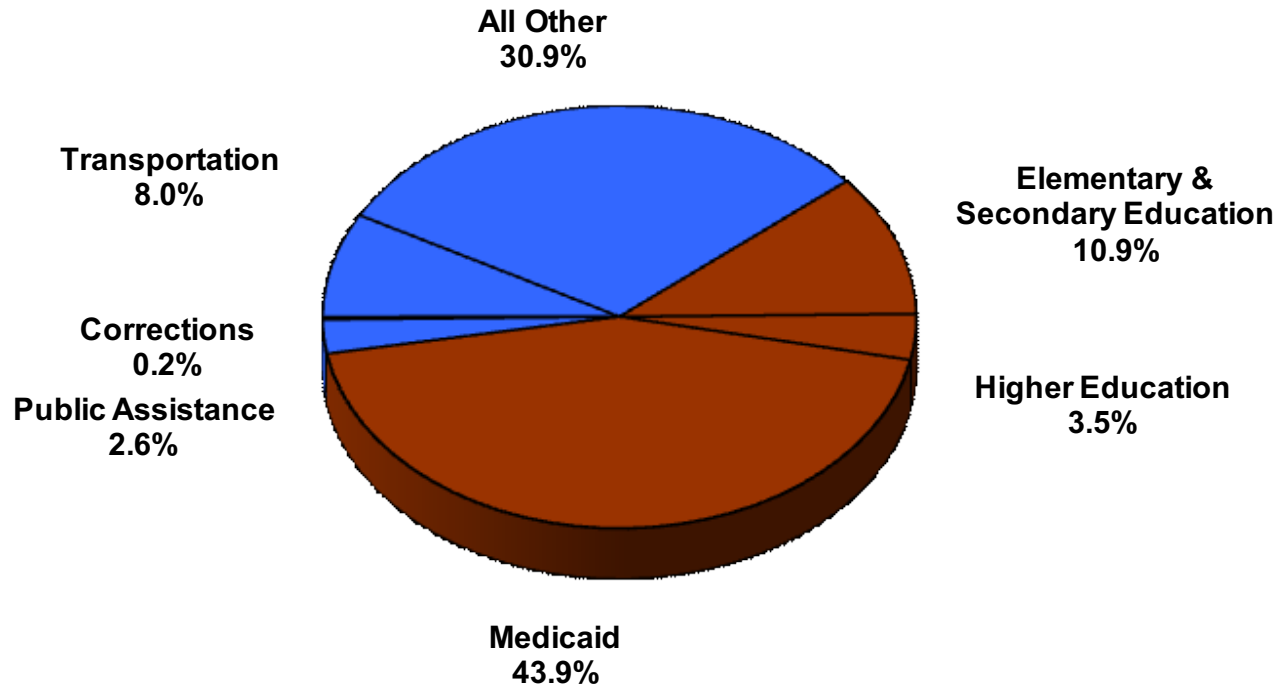
General Fund Percentage Growth in Spending Categories Over 10 Years

Percentage Growth in Spending Categories
Between Fiscal 2003 and Fiscal 2012 (General Funds)



State Spending from Federal Funds

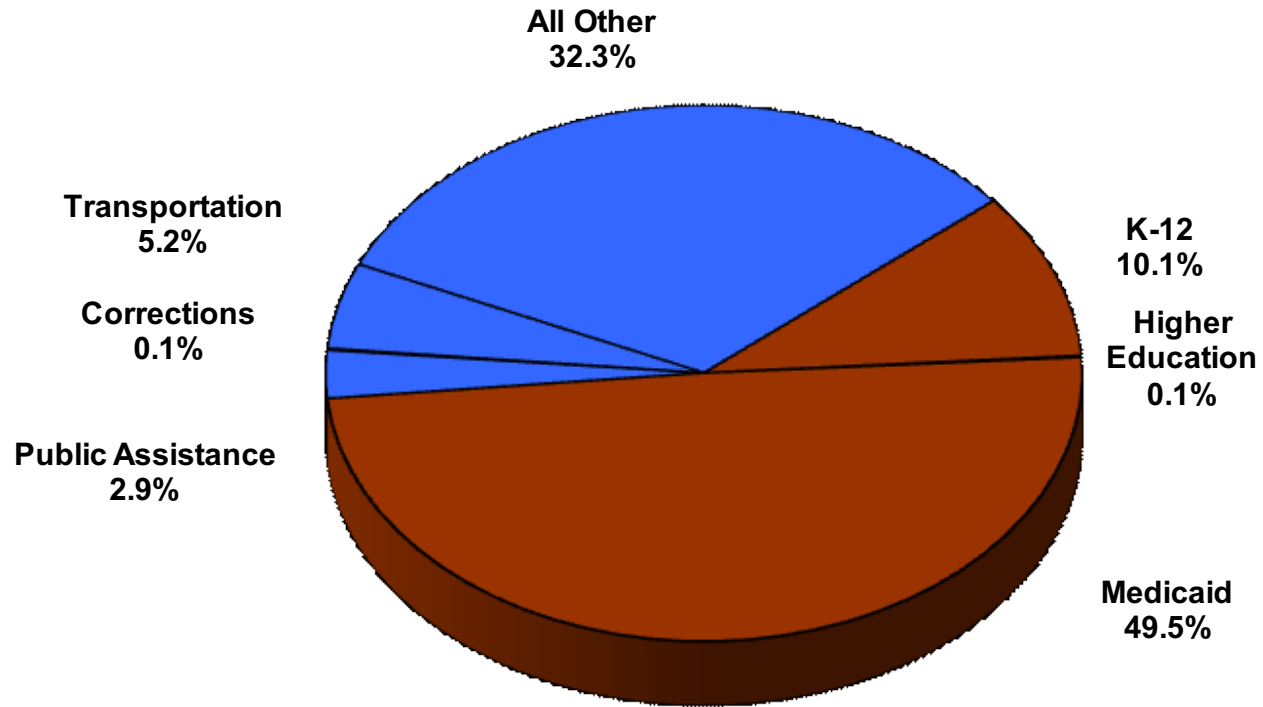
Federal Funds Spending, Estimated Fiscal 2012





MN State Spending from Federal Funds

Federal Funds Spending, Estimated Fiscal 2012



Source: NASBO State Expenditure Report



Promising Practices



Promising Financial Management Practices

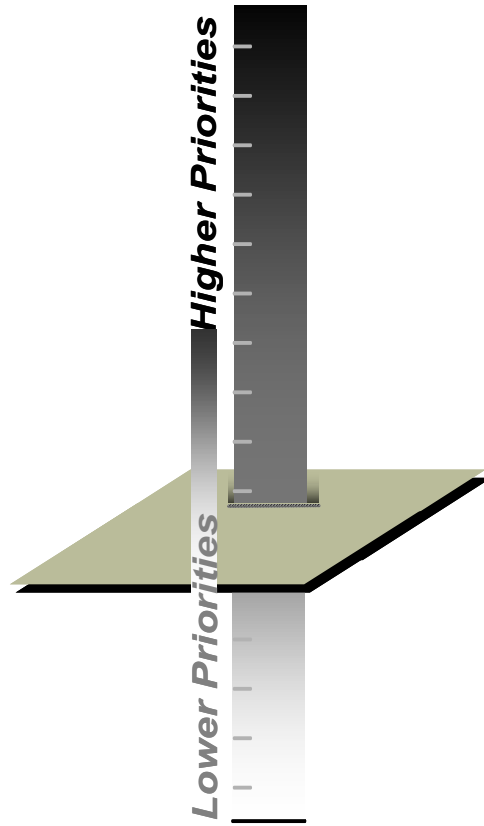
- Use contingencies
- Prudent use of debt
- Rainy day funds and reserves
- One time only revenue for one time only!
- Use of performance information
- Avoiding bad practices in good times



Focus on Outcomes

- Focus on results and ***outcomes***
- Spend funds for effective programs
- Improve management

Model: The “Drilling Rig”





Outlook



State Fiscal Outlook

- **Austere state budgets for at least the next several years (Slow revenue growth, ARRA declines, economic uncertainty)**
- **Health care reform, federal government will have an impact**
- **Tough competition for general funds and limited federal funds**
- **Dealing with long-term liabilities**
- **States will continue to make painful choices**



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