

## Minnesota Faces Steep Revenue Shortfall

It is evident that Minnesota lawmakers will be wrestling with another record state budget deficit.

Tax revenues have fallen short of expectations. On October 19<sup>th</sup>, State Economist Tom Stinson reported to the Subcommittee on a Balanced Budget that tax receipts for the first quarter of the state's fiscal year 2010, which began July 1, were short of the original forecast by 1.7 percent or \$52 million.

However, Stinson and other state officials indicated that this is not the worst of the fiscal problems Minnesota is facing. The 2012-13 biennium will likely start with a budget deficit of at least \$4.4 billion and that number could end up as high as \$7.2 billion after accounting for inflation and the Governor's 2009 unallotments and vetoes, according to Stinson and House Chief Fiscal Analyst Bill Marx.

In addition, Minnesota faces what officials call a "fiscal trap" due to long-term demographic trends that are expected to reduce the state's tax revenue base. The demographics of an aging population are going to make tax increases more difficult as Baby Boomers will likely resist proposals to raise taxes while they are trying to save money for retirement. An aging population also requires more state health care spending, making it more difficult to fund other government services. According to state officials, the purported key to escaping this "fiscal trap" would be to increase worker productivity, which would necessarily require additional expenditures for infrastructure and education.

The three largest areas of expenditure in the state budget are health and human services, K-12 education and higher education, constituting 75% of general fund expenditures. They are likely to absorb the largest cuts in future budgets. Of the current 2010-11 operating budget (\$31.33 billion), 28.9% (\$9.06 billion) is allotted to health and human services, 37.1% (\$11.63 billion) to K-12, and 9.1% (\$2.86 billion) to higher education.