



ISSUE BRIEF

State General Fund Budget Situation
October 2004

The Legislature adjourned in May 2004 without resolving a projected \$159.5 million budget deficit for the current biennium (FY 2004-05). After the Legislature adjourned, the Governor implemented directives that balanced the FY 2004-05 budget. After the session and Governor's action, the budget for FY 2006-07 is projected to have a \$400 million deficit. This Issue Brief discusses changes since the end of the 2004 session.

The Current Biennium – FY 2004-05

After the Governor's directives following the end of the 2004 legislative session, the state was projected to end the FY 2004-05 biennium on June 30, 2005 with a general fund balance of \$594,000 and a budget reserve of \$631.4 million (with \$0 in the cash flow account).

Determination of this amount was based on revenues and expenditures from the February 2004 forecast with changes enacted in 2004 legislation and with the directives from the Governor to balance the FY 2004-05 budget.

Revenue collections through October have been above forecasted amounts. The chart below shows the variances (in millions of dollars). Final FY 2004 revenue information showed revenues \$194 million above the forecasted amount. In the first quarter of FY 2005, revenues have exceeded forecasted amounts by \$43 million.

	<u>FY 2004</u>	<u>1st Quarter FY 2005</u>
Individual Income Tax	\$182.7	-\$12.1
Sales Tax	18.3	-5.4
Corporate Tax	-17.6	28.7
Motor Vehicle Sales Tax	-6.6	-4.3
Other Revenues	<u>17.2</u>	<u>36.2</u>
Total	\$194.0	\$43.1

Under current law if any balance is projected at the end of the current biennium first goes to the cash flow account until that account has a balance of \$350 million, then to increase the budget reserve from its current \$631 million to \$653 million, then to and then to reduce two shifts of state aid payments to school districts. Eliminating the education aid shift changes would cost about \$870 million. (These allocations apply to forecasts for a current biennium.)

It should be noted that the numbers above show actual revenues to date compared to the forecast. They do not show any potential changes in forecasted appropriations. Also, revenue for the remaining nine months of the biennium must be considered to complete the picture.

Next Biennium – FY 2006-07

The 2005 legislature will be setting a budget for the FY 2006-07 biennium beginning July 1, 2005 and ending June 30, 2007. After the Governor’s directives following the 2004 session, projected expenditures for the FY 2006-07 biennium exceeded projected revenues by \$398 million. Expenditures for FY 2006 and 2007 are set at essentially the same level as in FY 2005 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect the amounts needed to fund the formula or entitlement in law. Appropriations in FY 2005 that were considered one time are not continued.

Expenditures for FY 2006-07 include no adjustment for inflation unless such an adjustment is specified in law. A law passed in 2002 removed planning estimate inflation from the expenditures numbers.

The February 2004 forecast rate of inflation was 1.4 percent for FY 2006 and 1.7 percent in the February 2004 forecast. A “current law” budget can be enacted without adding amounts for inflation, but inflationary pressures will still exist in various programs. If the inflation rates in the February forecast were applied to the projected FY 2006-07 expenditures, those expenditures would increase by about \$650 million. Some projections of the FY 2006-07 deficit have included those inflation amounts bringing the total FY 2006-07 deficit to over \$1 billion.

FY 2006-07 General Fund

End of 2004 Session Projected Budget Balance	-\$ 398 million
Planning Estimate Inflation at 1.4% in 06, 1.7% in 07	<u>- 650 million</u>
Combined Total	<u>-\$1,048 million</u>

The Department of Finance attributes most of the FY 2004 positive balance of \$194 million to higher than anticipated 2003 individual income tax revenue. This will result in an increase in the base for income tax revenue for future years. An increase in income tax base is but one of many changes that will occur in the projected revenues and expenditures for the FY 2006-07 biennium. For example, current economic forecasts project both slower economic growth and higher inflation that was assumed in the February 2004 forecast.

The Department of Finance will issue a new budget forecast during the first week of December. That forecast will include the current biennium (FY 2004-05), the biennium that the Legislature will be budgeting for (FY 2006-07), and planning estimates for the following biennium (FY 2008-09).

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