

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

State General Fund Budget Situation February 2008

The latest budget forecast for the state's general fund, released by the Department of Finance on February 28, 2008, projects a \$935 million deficit for the current biennium. This forecast also projects a \$1,086 million general fund deficit for the FY 2010-11 biennium. The forecast does not include the impacts of the recently enacted Transportation Finance Bill.

The Current Biennium – FY 2008-09

The February 2008 state budget forecast projects a negative balance of \$935 million for the biennium ending June 30, 2009. This February forecast adds \$562 million to the projected deficit as compared to the November 2007 forecast projection of a negative balance of \$373 million.

The following chart illustrates the \$562 million budget change from the November 2007 forecast:

<u>FY 2008-09 General Fund Changes from the November 2007 Forecast</u>	
Change (Decrease) in Revenues	-\$530.4 million
Change (Increase) in Expenditures	<u>31.3 million</u>
Net Change	\$561.7 million

Several changes have occurred in revenues since the November 2007 forecast. Income tax revenues are down \$313 million. Corporate taxes are \$139 million lower.

Projected general fund expenditures in the health and human services area are \$41 million higher than the November 2007 estimates. Projected K-12 Education expenditures are \$17 million higher than in the November 2007 estimates. Spending for debt service is down \$7 million.

The budget reserve is at \$653 million, the cash flow account at \$350 million, both unchanged from the November forecast.

The following chart illustrates the updated general fund budget situation for FY 2008-09.

Beginning Balance	\$ 1,241.9 million
Revenues	32,541.9 million
Expenditures	<u>34,718.4 million</u>
Balance	- \$ 934.6 million

The transportation funding bill, enacted on February 25, is not included in these numbers. That bill will add \$3.6 million to the general fund deficit in FY 2008-09.

Next Biennium – FY 2010-11

The February 2008 forecast projects a negative balance of \$1,086 million for the FY 2010-11 biennium. This compares to a projection of a negative \$211 million balance projected in the November 2007 forecast.

<u>FY 2010-11 General Fund Changes From November 2007</u>	
Change (Decrease) in Revenues	-\$669 million
Change (Increase) in Expenditures	<u>206 million</u>
Net Change	-\$875 million

Major revenue changes from the November 2007 forecast estimates include a reduction of \$460 million in projected income tax revenues and a reduction of \$100 million in projected sales tax revenues. Major expenditure changes from the November 2007 forecast include an increase of \$71 million in K-12 education expenditures and an increase of \$141 million in health and human services expenditures.

These expenditure projections for FY 2010-11 include no general adjustment for inflation. A few expenditure programs do include inflation because that adjustment is specified in law. Adding an estimated amount to expenditures for inflation at the consumer price indicator (CPI) amounts would add approximately \$1,040 million to the spending amounts.

The following chart illustrates the general fund budget situation for FY 2010-11.

Revenues	\$ 35,044 million
Expenditures	<u>36,130 million</u>
Balance	-\$ 1,086 million
<i>Inflation (CPI rates)</i>	<u>1,040 million</u>
<i>Balance with inflation</i>	-\$ 2,126 million

The transportation funding bill, enacted on February 25, is not included in these numbers. That bill will add \$93 million to the general fund negative balance projections for FY 2010-11.

The complete Department of Finance February 2008 forecast document is at:

<http://www.finance.state.mn.us/ffeu/forecasts/2008feb/2008feb.pdf>

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