



**November 2007 Forecast
General Fund & Selected Other Funds**

MINNESOTA SENATE
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

November 2007

QUESTIONS

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This Fiscal Issue Brief summarizes the latest state General Fund forecast.

Negative General Fund Budget Balance

The November 2007 Forecast projects a \$373 million negative balance for the biennium ending June 30, 2009 (FY 2008-09) based on current law revenues and spending. The net decline of \$667 million since the end of special session reflects a \$739 million decrease in projected revenues, a \$66 million increase in anticipated spending, and a \$139 million of carryforward from FY 2006-07. By the end of FY 2010-11, the budget imbalance would expand to a negative \$552 million, or a negative \$1.586 billion after inflation.

November 2007 General Fund Forecast Change from End-of-Special Session <i>(in millions)</i>		
	<u>FY2008-09</u>	<u>FY2010-11</u>
Ending Balance (9/07)	294	1,463
Decreased Revenue Projections	-739	-1,130
Increased Spending Projections	66	218
Change in Balance Carry-Fwd.*	106	-294
Appropriations Carry-Forward	33	
Adjusted Balance (11/07)	-373	-179
<i>Estimated Inflation</i>		<i>-1,034</i>
<i>Resources after Inflation</i>		<i>-1,213</i>

*** Elimination of the FY 2008-09 imbalance, which is required by law to be eliminated, would leave the FY 2010-11 projected budget balance at a negative \$179 million before inflation, or \$1.2 billion after inflation.**

Previous Biennium—FY 2006-07

The ending balance for FY 2006-07 was \$106 million higher than anticipated at the end of regular session; that amount carries forward into FY 2008-09 as an unrestricted balance under legislation

enacted in 2007¹. In addition, while unspent appropriations typically cancel at the end of a biennium, \$33 million of unspent FY 2007 appropriations will also carry forward into FY 2008, for a total carryforward of \$139 million.

Current Biennium—FY 2008-09

FY 2008-09 revenues are now projected to be \$33.072 billion, a decline of \$739 million, or 2.2 percent, from the end-of-session projections of \$33.812 million. The reduction in revenues consists largely of decreases in projected revenues from corporate franchise taxes and sales taxes. Despite the anticipated downturn in the economy, income taxes are projected to be up slightly, reflecting that the lower economic growth projections are now being applied to a higher income tax base, which is consistent with the positive balances that occurred last biennium and were subsequently allocated by the Legislature.

	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Individual Income	31	0.2
Sales	(309)	(3.3)
Corporate	(318)	(14.3)
Motor Vehicle	(3)	(1.0)
Statewide Levy	36	2.5
Other Taxes	(184)	(7.6)
Subtotal, Taxes	(747)	(2.4)
Non-Tax Revenues	13	0.8
Dedicated Receipts, Transfers	(5)	(0.6)
Total Revenues	(739)	(2.2)

General Fund Spending by Budget Division, FY 2008-09

(*\$'s in millions*)

	<u>End-of-</u> <u>Session</u>	<u>November</u> <u>Forecast</u>	<u>Change</u>
E-12 Education	13,781	13,788	7
Higher Education	3,155	3,155	**
Health & Human Services*	9,728	9,751	23
Agriculture & Veterans	184	187	3
Environment, Energy & Nat Resources	413	415	2
Economic Development	423	431	8
Public Safety	1,136	1,136	**
Judiciary	750	750	0
Transportation	249	250	**
State Government	656	664	8
Property Tax Aids & Credits	3,109	3,154	45
Debt Service & Capital Projects	934	896	(37)
Other	101	108	7
Total*	34,621	34,687	66

*Includes \$32.667 million shown in the forecast as a reserve account for county targeted case management costs. **Less than \$500,000; rounded to zero.

FY 2008-09 spending is now projected to be \$34.687 billion, an increase of \$66 million over the end-of-special session estimates. Of the \$66 million, \$33 million is appropriations carry-forward from FY 2007 and \$33 million is the net increase in FY 2008-09 program spending levels relative to the budget enacted May 2007. The following table shows spending by Senate budget division, as adjusted by the November forecast.

¹ M.S. 16A.1522, Subd. 4, directs any positive unrestricted balance on June 30 of an odd-numbered year to the Tax Relief Account but Ch. 148, 2007 Laws of Minnesota, included language to by-pass M.S. 16A.1522 and carry-forward any positive balances for FY 2007 into FY 2008.

General Fund Reserve and Cash Flow Account

The General Fund budget reserve and Cash Flow Account are unchanged from the February 2007, and the end-of-session, at \$653 million and \$350 million, respectively.

M.S. 16A.152, subd. 4 (a), specifies the conditions under which the Commissioner of Finance shall use the budget reserve. The statutory language combined with legislative history suggests that the executive must use the budget reserve to eliminate an expected budget imbalance before exercising its authority to unallot unexpended appropriations.

Under M.S. 16A.152, if the Commissioner of Finance determines that probable receipts for the general fund will be less than anticipated and that the amount available for the remainder of the biennium will be less than needed, the Commissioner shall, with the approval of the Governor, and after consulting with the Legislative Advisory Commission, reduce the amount in the budget reserve to balance expenditures with revenues. Statutes do not specify the timing of when the Commissioner makes such a determination or must take action, except that action must occur in time to prevent an imbalance by the close of the biennium.

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budgeted 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.