



**Minnesota’s General Fund Budget
November 2008 Forecast**

MINNESOTA SENATE
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

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QUESTIONS

Contact Matt Massman, Lead Fiscal Analyst, at 651/297-8057 or matt.massman@senate.mn.

The November 2008 State Budget Forecast—released December 4, 2008—projects a deficit of \$426 million for the current biennium (FY 2008-2009) that ends June 30, 2009, and an additional \$4.8 billion shortfall for the FY 2010-2011 biennial budget which is yet to be enacted by the Legislature. The combined \$5.3 billion shortfall for the next two and one-half years would an additional \$650 million higher including estimated inflation on current law spending. Relative to the May 2008 end-of-session, the budget condition reflects a significant deterioration in projected revenues that parallels overall economic conditions, including a \$412 million decline in estimated FY 2008-2009 revenues and a \$3.3 billion decline in projected FY 2010-2011 revenues. Planning estimates for FY 2012-2013 suggest that the structural imbalance between revenues and expenditures will persist into the foreseeable future without changes to bring annual revenues and expenditures into balance.

\$426 Million Deficit for the Current Biennium

In May 2008 the legislative session ended with a positive projected general fund balance of \$6 million for FY 2008-09. The negative \$426 million balance now projected for the biennium ending June 30, 2009 (FY 2008-09) reflects a substantial turn in projected revenues, particularly given that monthly revenue collection reports had exceeded the previous forecast by a cumulative \$420 million prior to the November forecast, reflecting a slight over performance of the economy in FY 2008 relative to February forecast.

FY 2008-2009 General Fund Budget Change from End-of-Special Session <i>(in millions)</i>	
	FY2008-09
Ending Balance (5/08)	6
Decrease in Revenue from 05/08	-412
Increase in Spending from 05/08	18
Increase in Reserves from 05/08	2
Adjusted Balance (11/08)	-426

The net change of \$432 million (from a positive \$6 million to a negative \$426 million) includes a \$412 million decrease in projected revenues, an \$18 million net increase in anticipated spending, and a \$2 million increase in budget reserve attributable to existing statutory language that automatically

requires any ‘excess balances’ in the worker’s compensation assigned risk plan to be swept into the general fund reserve. The largest revenue changes are a \$291 decrease in projected income tax revenues and a \$145 million. Projected expenditures are up a net \$18 million, including a \$63 million increase in health and human services and an \$18 million decrease in K-12 education.

The Next Biennium—FY 2010-2011

After taking into account 2008 legislative actions (2008 End-of-Session), projected expenditures exceeded projected resources by \$946 million for FY 2010-2011. Since May, the projected shortfall for FY 2010-2011 has declined to a negative \$4.847 billion before including a \$650 million estimate of inflationary pressures, or about negative \$5.5 billion after inflation. Most of the change is attributable to an expected drop in revenues consistent with the current recession and expected slow recovery.

FY 2010-2011 General Fund Budget Change from End-of-Special Session <i>(in millions)</i>	
	FY2010-11
Ending Balance (5/08)	6
Decrease in Revenue from 05/08	-412
Increase in Spending from 05/08	18
Increase in Reserves from 05/08	2
Adjusted Balance (11/08)	-426

FY 2010-11 revenues are now projected to be \$31.866 billion, a decline of \$3.321 billion, or 9.4 percent, since May 2008 end-of-session projections of \$35.187 billion. As summarized in the table below, lower revenues are anticipated for all categories of tax revenues with expected income tax collections showing the largest dollar change and corporate collections the largest percentage decline.

Forecast Revenue Changes, FY 2010-11 <i>(\$'s in millions)</i>		
	Dollar Change	Percent Change
Individual Income	(1,748)	(10.1%)
Sales	(826)	(8.7)
Corporate	(640)	(31.3)
Motor Vehicle	(10)	(9.0)
Other Taxes	(100)	(2.6)
Subtotal, Taxes	(3,324)	(10.1)
Non-Tax Revenues	(25)	(1.7)
Dedicated Receipts, Transfers	29	3.8
Total Revenues	(3,324)	(9.4)

FY 2010-11 spending is now projected to be \$36.713 billion, an increase of \$581 million over the \$36.132 billion projected as of May 2008 end-of-session. Of the \$581 million, \$498 million is attributable to anticipated increases in health and human services spending related primarily to expected increases in eligibility for health care programs as the economy declines and employees lose jobs and/or health care benefits. The following table shows spending by Senate budget division, as projected by the November forecast.

**Projected FY 2010-11 General Fund Spending
by Budget Division, November 2008 Forecast**
(\$'s in millions)

E-12 Education	13,903
Higher Education	3,158
Health & Human Services*	11,490
Agriculture & Veterans	176
Environment, Energy & Nat Resources	335
Economic Development	315
Public Safety	1,115
Judiciary	752
Transportation	220
State Government	624
Property Tax Aids & Credits	3,419
Debt Service & Capital Projects	1,097
Other	110
Total*	36,713

Planning Estimates for the FY 2012-2013 Biennium

Consistent with the November budget forecast projections for a slow economic recovery beginning in late 2009, a structural gap between revenues and expenditures is expected to continue into the future. On a biennial budget basis, the shortfall for FY 2012-2013 is projected to be \$4.604 billion before planning estimate inflation, and \$6.754 billion if cumulative inflation were assumed on top of current law spending. The table below highlights anticipated continuation of structural budget challenges if action is not taken to bring annual revenues and spending into balance.

Projected Structural Balances—General Fund					
November 2008 Forecast (\$'s in millions)					
	<u>FY 2008-09</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Current Revenues	32,445	15,454	16,412	16,888	17,670
Projected Expenditures	34,612	18,070	18,643	19,297	19,865
Structural Balance	(2,167)	(2,616)	(2,231)	(2,409)	(2,195)

Selected Other Funds

Minnesota Management and Budget also forecasts revenues, expenditures and budget balance for other major state funds. In addition to the projected shortfalls in the general fund, the projected balances for selected other major funds—based on current law revenues and spending (appropriations)—are below.

Projected Fund Balances*—Selected Major Non-General Funds November 2008 Forecast (<i>\$'s in millions</i>)				
	FY 2010	FY 2011	FY 2012	FY 2013
Health Care Access Fund	213.4	114.1	18.0	(83.3)
Special Revenue Fund	151.3	136.2	118.9	101.7
Trunk Highway Fund	(40.3)	(49.0)	(15.5)	49.0
Federal TANF Reserve Fund	10.6	0	-	3
Workforce Development Fund	4	4.2	4.4	4.4

* Balances amounts reflect cumulative balance from year-to-year.

The complete November 2008 general fund budget forecast document issued by Minnesota Management and Budget (formerly the Department of Finance) is available at: <http://www.mmb.state.mn.us/forecast>.

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.