



**ISSUE BRIEF**

**State General Fund Budget Forecast**  
December 2004

*The latest state budget forecast for the state's general fund released by the Department of Finance on December 1, 2004 projects an additional \$495 million for the current biennium and a \$700 million deficit for the FY 2006-07 biennium. This compares to June 2004 projections for a \$594,000 balance for the FY 2004-05 biennium and a \$397 million deficit for the FY 2006-07 biennium.*

**The Current Biennium – FY 2004-05**

In June 2004 the state was projected to end the FY 2004-05 biennium on June 30, 2005 with a general fund balance of \$594,000. Determination of this amount was based on revenues and expenditures from the February 2004 forecast with modifications for 2004 legislative actions and governor's actions to balance the budget.

The November 2004 budget forecast projects a \$0 balance for the general fund as of June 30, 2004. However, the forecast for FY 2004-05 has improved \$495 million over the June 2004 estimates but the amount of the change is already allocated under current law to the cash flow account (\$350 million), the budget reserve (\$27 million) and to reduce an education payment shift (\$118 million) resulting in the \$0 balance. The following chart illustrates budget changes since June 2004.

<u>FY 2004-05 General Fund Changes from June 2004</u>	
End of Session Projected Balance	\$ .6 million
Change (Increase) in Revenues from End of Session	455.0 million
Change (Decrease) in Expenditures from End of Session	33.8 million
Change (Decrease) in Reserves from End of Session	<u>6.0 million</u>
Balance Before Allocations	\$495.0 million

Allocation under current law of the \$495 million balance is the following:

Cash Flow Account	350 million
Budget Reserve	27 million
Education Payment Shift from 80%/20% to 82%/18%	118 million

The most significant change from the February forecast and end of the 2002 session numbers is that income tax revenues are projected to be \$362 million higher than previously forecast. Projected expenditures in the health care area increased \$39 million from the June 2004 numbers.

The following chart illustrates the overall general fund budget picture for FY 2004-05.

<u>FY 2004-05 Budget</u>	
Beginning Balance	\$ 369 million
Revenues and other Resources	28,673 million
Expenditures	28,039 million
Reserves	<u>1,003 million</u>
Balance	\$ 0 million

### **The Next Biennium – FY 2006-07**

The 2005 legislature will be setting a budget for the biennium beginning July 1, 2005 and ending June 30, 2007. In June 2004, projected expenditures for the FY 2006-07 biennium exceeded projected revenues by \$398 million. Now that deficit is projected to be \$700 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 that amounts needed to fund the formula or entitlement in law. Appropriations in FY 2005 that were considered one-time are not continued. Some reductions in FY 2005 were also considered one-time and are not continued. Expenditures for FY 2006-07 include no adjustment for inflation unless such an adjustment is specified in law.

<u>FY 2006-07 General Fund Changes From End of Session</u>	
End of Session Projected Budget Balance	-\$398 million
Change (Increase) in Revenues from End of Session	+ 254 million
Change (Increase) in Expenditures from End of Session	<u>- 556 million</u>
Net Adjusted Balance	-\$700 million

Major changes from the end of session estimates include a \$280 million in projected income tax revenues, an increase of \$205 million in higher education expenditures due to enrollment increases and an increase of \$309 million in health and human services expenditures due to health care costs. However, related to the general fund increase in health and human services expenditures is a \$174 million decrease in spending in the health care access fund in FY 2006 and 2007.

The following chart illustrates the overall general fund budget picture for FY 2006-07.

<u>FY 2006-07 Budget</u>	
Revenues	\$ 29,478 million
Expenditures	<u>30,177 million</u>
Balance	-\$ 700 million

### **The Following Biennium – FY 2008-09**

When budget decisions are being made for the FY 2006-07 biennium, the implications of those decisions on revenues and expenditures for the FY 2008-09 biennium will be tracked. In this forecast, projections for FY 2008-09 show revenues exceeding expenditures by \$490 million for that biennium. Expenditure numbers for FY 2008 and 2009 also 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 that amounts needed to fund the formula or entitlement in law. Expenditure estimates for FY 2008-09 do not include any amounts for inflation.

The following chart illustrates the overall general fund budget picture for FY 2008-09.

<u>FY 2008-09 Budget</u>	
FY 2008-09 Revenues	\$31,816 million
FY 2008-09 Expenditures	<u>31,326 million</u>
Difference	\$ 490 million

The complete November 2004 general fund budget forecast document issued by the Department of Finance is at: <http://www.finance.state.mn.us/ffeu/forecasts/2004nov/2004nov.pdf>

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