



ISSUE BRIEF

State General Fund Budget Situation February 2004

The latest budget forecast for the state's general fund, released by the Department of Finance on February 27, 2004, projects a \$160 million deficit for the current biennium. This forecast also projects a \$442 million negative general fund balance for the FY 2006-07 biennium.

The Current Biennium – FY 2004-05

The February 2004 state budget forecast projects a negative balance of \$159.5 million for the biennium ending June 30, 2005. This amount is \$25 million more positive than the projection of a negative \$184.5 million in the November 2003 forecast.

The December 2004 budget forecast projects a net change of \$25.0 million for the general fund for the FY 2004-05 biennium as compared to the November 2003 forecast. The following chart illustrates the components of those budget changes.

<u>FY 2004-05 General Fund Changes from the November 2003 Forecast</u>	
Change (Decrease) in Revenues	- \$20.9 million
Change (Decrease) in Expenditures	- <u>45.9 million</u>
Net Change	+\$25.0 million

Several relatively minor changes have occurred in revenues since the November 2003 forecast. Income tax revenues are down \$87 million. Corporate taxes are \$58 million lower. Sales tax revenues \$54 million higher. Revenues from the insurance gross premiums tax, mortgage and deed registration taxes and unclaimed property sales are up.

Projected general fund expenditures in the health and human services area are \$15 million lower than the November 2003 estimates. Projected K-12 Education expenditures are \$30 million lower than the November 2003 estimates. Of the K-12 Education change, \$16 million is due to increased state aid savings due to the property tax revenue recognition shift.

The budget reserve is at \$631.4 million, unchanged from the November forecast.

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

Beginning Balance	\$ 368.9 million
Revenues and other Resources	28,214.4 million
Expenditures	28,111.4 million
Reserves	<u>631.4 million</u>
Balance	\$ - 159.5 million

Next Biennium – FY 2006-07

The February 2004 forecast projects a negative balance of \$442 million for the FY 2006-07 biennium. This compares to a projection of a negative \$394 million balance projected in the November 2003 forecast. Expenditure projections for FY 2006-07 include no adjustment for inflation unless such an adjustment is specified in law for the particular program.

<u>FY 2006-07 General Fund Changes From November 2003</u>	
Change (Decrease) in Revenues	-\$124 million
Change (Increase) in Expenditures	<u>- 76 million</u>
Net Change	-\$48 million

Major revenue changes from the November 2003 forecast estimates include a reduction of \$40 million in projected income tax revenues, a reduction of \$66 million in projected corporate tax revenue, and a reduction of \$27 million in projected sales tax revenues. Major expenditure changes from the November 2003 forecast include a reduction of \$37 million in K-12 Education expenditures and a reduction of \$40 million in health and human services expenditures.

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

Revenues	\$ 29,260 million
Expenditures	<u>29,702 million</u>
Balance	\$ - 442 million

The budget reserve is again projected to be \$631.4 million in FY 2006-07. Any actions to change the reserve amount in the current biennium will also affect the reserve amount in FY 2006-07.

The complete Department of Finance February 2003 forecast document is at:

<http://www.finance.state.mn.us/ffeu/forecasts/2004feb/2004feb.pdf>

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