



ISSUE BRIEF

State General Fund Budget Situation February 2006

The latest budget forecast for the state's general fund, released by the Department of Finance on February 28, 2006, projects an \$88 million balance for the current biennium after current law allocations. This forecast also projects a \$1,091 million general fund balance for the FY 2008-09 biennium.

The Current Biennium – FY 2006-07

The February 2006 state budget forecast projects a positive budget change of \$181 million for the biennium ending June 30, 2007. Under current law, \$93 million of this amount is appropriated to eliminate the school district property tax revenue recognition shift. The remaining \$88 million is an unobligated budget balance. These changes are in addition to the \$701 million budget balance projected in the November 2005 forecast. All of that \$701 million was appropriated to reduce education shifts.

The following chart illustrates the two major components of the \$181 million budget change

<u>FY 2006-07 General Fund Changes from the November 2005 Forecast</u>	
Change (Increase) in Revenues	\$124 million
Change (Decrease) in Expenditures	<u>57 million</u>
Net Change	\$181 million

Several relatively minor changes have occurred in revenues since the November 2005 forecast. Income tax revenues are down \$129 million. Corporate taxes are \$161 million higher. Sales tax revenues are \$2 million lower. Revenues from the mortgage registry tax and the estate tax are each up about \$20 million. Investment income is up \$12 million and department earnings (primarily fees) are up \$11 million.

Projected general fund expenditures in the health and human services area are \$19 million lower than the November 2005 estimates. Projected K-12 Education expenditures are \$12 million lower than the November 2005 estimates prior to adding the \$93 million in spending to eliminate the property tax revenue recognition shift. Spending for debt service is down \$19 million.

The budget reserve is at \$653 million, the cash flow account at \$350 million and the tax relief account has a balance of \$317 million, all unchanged from the November forecast.

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

Beginning Balance	\$ 73 million
Revenues	31,404 million
Expenditures	<u>31,389 million</u>
Balance	\$ 88 million

Next Biennium – FY 2008-09

The February 2006 forecast projects a positive balance of \$1,091million for the FY 2008-09 biennium. This compares to a projection of a positive \$1,235 million balance projected in the November 2005 forecast.

FY 2008-09 General Fund Changes From November 2005

Change (Decrease) in Revenues	-\$140 million
Change (Increase) in Expenditures	<u>3 million</u>
Net Change	-\$143 million

Major revenue changes from the November 2005 forecast estimates include a reduction of \$239 million in projected income tax revenues, an increase of \$136 million in projected corporate tax revenue, and a reduction of \$89 million in projected sales tax revenues. Major expenditure changes from the November 2005 forecast include an increase of \$25 million in K-12 education expenditures (\$\$17 million of which is related to tax shift elimination), a reduction of \$14 million in health and human services expenditures and a reduction of \$18 million expenditures for debt service.

These expenditure projections for FY 2008-09 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 \$943 million to the spending amounts. The revenue numbers also do not include the revenue loss estimated to be \$172 million to the general fund of a proposed constitutional amendment affecting motor vehicle sales tax revenues. Both of those items are shown in the chart below.

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

Revenues	\$ 33,315 million
Expenditures	<u>32,223 million</u>
Balance	\$ 1,092 million
Transportation Constitutional Amendment	<u>172 million</u>
Balance	\$ 920 million
Inflation (CPI rates)	<u>943 million</u>
Balance	\$ - 23 million

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

<http://www.finance.state.mn.us/ffeu/forecasts/2006feb/2006feb.pdf>

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