



**ISSUE BRIEF**

**State General Fund Budget Situation**  
October 2006

*When the Legislature adjourned in May 2006, the projected budget for the FY 2006-07 biennium was balanced. The budget for FY 2008-09 was projected to have a \$737 million balance not counting the possible effects of a proposed constitutional amendment. This Issue Brief discusses the budget situation including changes since the end of the 2006 session.*

**The Current Biennium – FY 2006-07**

At the end of the 2006 legislative session, the state was projected to end the FY 2006-07 biennium on June 30, 2007 with a general fund balance of \$0. The budget reserve is at \$653 million and the cash flow account is at \$350 million. Determination of these amounts were based on revenues and expenditures from the February 2006 forecast adjusted for changes enacted in 2006 legislation.

Revenue collections through September 2006 have been above forecasted amounts. The chart below shows the variances (in millions of dollars). Final information for FY 2006 shows revenues are \$451 million above the forecasted amount. In the first quarter of FY 2007, revenues have exceeded forecasted amounts by \$73 million. Through September, revenues for this biennium have exceeded the amounts forecasted in February by \$524 million. The chart below shows changes in major revenues from the amounts in the February 2006 forecast.

	<u>FY 2006</u>	<u>First Quarter FY 2007</u>
Individual Income Tax	\$258.8	-\$0.1
Sales Tax	-4.7	-16.8
Corporate Tax	105.7	75.9
Motor Vehicle Sales Tax	-0.1	2.1
Other Revenues	<u>91.3</u>	<u>12.3</u>
Total	\$450.9	\$73.4

Under current law if a balance projected for the end of the current biennium exceeds one half of one percent of revenue for the biennium, the entire balance is designated for a rebate. One half of one percent of biennial revenue is about \$157 million (based on the February forecast, revenues will be re-estimated in the November forecast.

It should be noted that the numbers above show actual revenues to date compared to the forecast. They do not show any potential changes in forecasted spending; any spending changes will be

included in the November forecast. Also, revenue for the remaining nine months of the biennium must be considered to complete the picture.

### **Next Biennium – FY 2008-09**

The 2007 legislature will be setting a budget for the FY 2008-09 biennium that begins July 1, 2007 and ends June 30, 2009. At the end of the 2006 session, projected revenue for the FY 2008-09 biennium exceeded projected spending by \$737 million. Expenditures for FY 2008 and 2009 are set at essentially the same level as in FY 2007 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect the amounts needed to fund that formula or entitlement. Appropriations in FY 2007 that were considered one time are not continued.

Not included in the \$737 million number is the potential effect of a constitutional amendment dedicating more of the motor vehicle sales tax to transportation and transit purposes. If that amendment is passed by the voters in November 2006, the \$737 million balance is reduced by an estimated \$172 million to \$565 million.

Expenditures for FY 2007-09 include no adjustment for inflation unless such an adjustment is specified in law. The February 2006 forecast rate of inflation was 1.9 percent for FY 2008 and 2.0 percent for FY 2009. A “current law” budget can be enacted without adding amounts for inflation, but inflationary pressures will still exist in various programs. If the inflation rates in the February forecast were applied to the projected FY 2008-09 expenditures, those expenditures would increase by about \$954 million. Some have used this projection of inflation in the FY 2008-09 budget to suggest a potential deficit of \$389 million.

#### FY 2008-09 General Fund

End of 2006 Session Projected Budget Balance	\$ 737 million
Transportation/Transit Constitutional Amendment	<u>-172 million</u>
Subtotal	\$ 565 million
Planning Estimate Inflation at 1.9% in 08, 2.0% in 09	<u>- 954 million</u>
Combined Total	-\$ 389 million

Much of the FY 2006 positive balance of \$451 million is due to higher than anticipated individual income tax revenue. This may result in an increase in the base for income tax revenue for future years. An increase in income tax base is but one of many changes that will occur in the projected revenues and expenditures for the FY 2008-09 biennium. For example, current economic forecasts project both slower economic growth and higher inflation that was assumed in the February 2006 forecast.

The Department of Finance will issue a new budget forecast on November 30. That forecast will include the current biennium (FY 2006-07), the biennium that the Legislature will be budgeting for (FY 2008-09), and planning estimates for the following biennium (FY 2010-11).

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