

# Fiscal Analysis Department

## Minnesota House of Representatives

---



### ISSUE BRIEF

#### State General Fund Budget Situation November 2008

*When the Legislature adjourned in May 2008, the projected budget for the FY 2008-09 biennium was balanced. The budget for FY 2010-11 was projected to have a \$946 million deficit. This Issue Brief discusses the current budget situation including changes since the end of the 2008 session.*

#### The Current Biennium – FY 2008-09

At the end of the 2008 legislative session, the state was projected to end the FY 2008-09 biennium on June 30, 2009 with a general fund balance of \$6 million. The budget reserve is at \$153 million and the cash flow account is at \$350 million. Determination of these amounts was based on revenues and expenditures from the February 2008 forecast adjusted for changes enacted in 2008 legislation.

Revenue collections for both FY 2008 and FY 2009 have been above forecasted amounts. The chart below shows the variances (in millions of dollars) between actual year-to-date revenue collections compared to forecasted revenues for FY 2008 and FY 2009. Final information for FY 2008 shows revenue is \$391 million above the forecasted amount. In the first quarter of FY 2009, revenue exceeded the forecasted amount by \$58 million. However, revenue in October was \$31 million below the forecasted amount. Monthly revenue variances need to be interpreted cautiously since unpredictable swings can occur depending on the day of the week a month begins or ends and other similar factors. However, the October revenue collections show a downward trend in the three major revenue sources – clearly a concern.

Through October, revenues for this biennium (both FY 2008 and FY 2009) have exceeded the amounts forecasted in February by \$417.6 million – the sum of FY 2008, the first quarter of FY 2009 and October 2008. The chart below shows changes in major revenues from the amounts in the February 2008 forecast.

	<u>FY 2008</u>	<u>First Quarter FY 2009<sup>1</sup></u>	<u>Oct. 2008</u>
Individual Income Tax	\$176.2	\$51.8	-\$36.9
Sales Tax	- 4.4	-20.1	-8.8
Corporate Tax	119.4	22.8	-7.4
Motor Vehicle Sales Tax	9.4	3.4	-0.5
Other Revenues	<u>90.2</u>	<u>0.3</u>	<u>22.2</u>
<b>Total</b>	<b>\$390.8</b>	<b>\$58.2</b>	<b>-31.4</b>

---

<sup>1</sup> First Quarter 2009 is the months of July, August and September 2008.

It should be noted again 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 eight months of the biennium must be considered to complete the biennial budget picture.

### **Next Biennium – FY 2010-11**

The 2009 legislature will be setting a budget for the FY 2010-11 biennium that begins July 1, 2009 and ends June 30, 2011. At the end of the 2008 session, projected expenditures for the FY 2010-11 biennium exceeded projected revenue by \$946 million. Expenditures for FY 2010 and 2011 are set at the same level as in FY 2009 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 2009 that were one time are not continued.

Expenditures for FY 2010-11 include no adjustment for inflation unless such an adjustment is specified in law. The February 2008 forecast rate of inflation was 1.9 percent for FY 2010 and 1.9 percent for FY 2011. (Projected inflation rates will change in the November forecast.) 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 2010-11 expenditures, those expenditures would increase by about \$1 billion. Some have added this projection of inflation in the FY 2010-11 budget to the deficit for FY 2010-11 to suggest a potential deficit of \$2 billion.

#### FY 2010-11 General Fund with Planning Estimate Inflation

End of 2008 Session Projected Budget Deficit	-\$ 946 million
Planning Estimate Inflation at 1.9% in FY 10, 1.9% in FY 11	<u>- 1,041 million</u>
Combined Total	-\$1,987 million

### **November 2008 Budget Forecast**

Minnesota Management & Budget (Department of Finance) will issue a new budget forecast on December 4. That forecast will include the current biennium (FY 2008-09), the biennium that the Legislature will be budgeting for (FY 2010-11), and planning estimates for the following biennium (FY 2012-13).

While revenue for the current biennium has been higher than was forecast, this is a temporary situation. Economic forecasts suggest that economic growth was higher in the early part of calendar year 2008 than the projections used in the state’s February forecast. Economic growth for the remainder of 2008 and into 2009 is projected to be substantially below that expected when the February forecast was issued. Those lower economic growth expectations are consistent with recent economic turmoil and lower employment information. The lower economic growth will result in substantially lower revenue estimates as well as higher spending in certain human service programs as more people are eligible for assistance.

*For more information, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or [bill.marx@house.mn](mailto:bill.marx@house.mn)*