

# Fiscal Analysis Department

## Minnesota House of Representatives

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### ISSUE BRIEF

#### State General Fund Budget Forecast

December 2008

*The latest budget forecast for the state's general fund released by the Department of Finance on December 4, 2008 projects a \$426 million deficit for the current biennium and an additional \$4.847 billion deficit for the FY 2010-11 biennium. This compares to May 2008 end of session projections for a \$6 million balance for the FY 2008-09 biennium and a \$946 million deficit for the FY 2010-11 biennium*

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

In May 2008 the state was projected to end the FY 2006-07 biennium on June 30, 2007 with a general fund balance of \$6 million. Determination of this amount was based on revenues and expenditures from the February 2008 forecast with modifications for 2008 legislative enactments.

The November 2008 budget forecast projects a \$426 million deficit for the general fund as of June 30, 2009. The following chart illustrates budget changes since the May 2008 end of session estimates.

#### **FY 2008-09 General Fund Changes from May 2008**

End of Session Projected Balance	\$ 6.1 million
Change (Decrease) in Revenues from End of Session	- 412.1 million
Change (Increase) in Expenditures from End of Session	18.4 million
Change (Increase) in Reserves	<u>1.9 million</u>
<b>Balance</b>	<b>- \$426.3 million</b>

The most significant changes from the February forecast and end of the 2008 session numbers are that income tax revenues are projected to be \$291 million lower than previously forecast and sales tax receipts are projected to be \$145 million lower than previous estimates. Projected expenditures in the health and human services area increased \$63 million from the May 2008 numbers but projected K-12 education expenditures decreased \$41 million.

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

**FY 2008-09 Budget**

Beginning Balance	\$ 1,242 million
Revenues and other Resources	32,445 million
Use of Reserves	498 million
Expenditures	<u>34,611 million</u>
<b>Balance</b>	<b>- \$ 426 million</b>

**The Next Biennium – FY 2010-011**

The 2009 legislature will be setting a budget for the biennium beginning July 1, 2009 and ending June 30, 2011. In May 2008, projected expenditures for the FY 2010-11 biennium exceeded projected revenues by \$946 million. Now that deficit is projected to be \$4.847 billion. In determining the spending level, expenditures for FY 2010 and 2011 are set at essentially 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 that amounts needed to fund the formula or entitlement in law. Appropriations in FY 2009 that were considered one-time are not continued. Expenditures for FY 2010-11 include no adjustment for inflation unless such an adjustment is specified in law.

**FY 2010-11 General Fund Changes From End of Session**

End of Session Projected Budget Deficit	- \$ 946 million
Change (Decrease) in Revenues from End of Session	-3,321million
Change (Increase) in Expenditures from End of Session	<u>580 million</u>
<b>Net Adjusted Balance</b>	<b>- \$4,847 million</b>

Major changes from the end of session estimates include a \$1.748 billion reduction in individual income tax revenue, a \$826 million reduction in sales tax revenue and a \$640 million reduction in Corporate tax revenue. Health and human service spending is projected to increase \$498 million primarily because the weakening economy makes more persons eligible for health care programs. Debt service spending is up \$45 million due to higher projected interest rates.

The following chart illustrates the overall general fund budget picture for FY 2010-11.

**FY 2010-11 Budget**

Revenues	\$31,866 million
Expenditures	<u>36,713 million</u>
<b>Balance</b>	<b>- \$ 4,847 million</b>

### **The Following Biennium – FY 2012-13**

When budget decisions are being made for the FY 2010-11 biennium, the implications of those decisions on revenues and expenditures for the FY 2012-13 biennium will be tracked. In this forecast, projections for FY 2012-13 show expenditures exceeding revenues by \$4.604 billion for that biennium. Expenditure numbers for FY 2012 and 2013 also are set at essentially the same level as in FY 2011 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 2012-13 do not include any amounts for inflation.

The following chart illustrates the overall general fund budget picture for FY 2012-13.

#### **FY 2012-13 Budget**

FY 2012-13 Revenues	\$34,558 million
FY 2012-13 Expenditures	<u>39,162 million</u>
<b>Difference</b>	<b>- \$ 4,604 million</b>

The complete November 2008 general fund budget forecast document issued by Minnesota Management & Budget (the Department of Finance) is at:

<http://www.mmb.state.mn.us/doc/fu/08/complete-nov08.pdf>

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