

## FISCAL ISSUE BRIEF



### General Fund Balance Update November Forecast Primer

MINNESOTA SENATE  
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

November 2007

#### QUESTIONS

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#### BACKGROUND

The State Budget Forecast set to be released Friday (November 30) will report on final revenues and expenditures for FY 2007, and provide revised revenue projections and spending estimates for the current biennium (FY 2008-2009) and the FY 2010-11 planning period. This Fiscal Issue Brief summarizes General Fund balances leading into that forecast, including how 2007 legislative actions affected the balances projected in February.

The February 2007 State Budget Forecast estimated a surplus of \$1.013 billion for FY 2006-07. By the end of FY 2008-09, the budgetary balance<sup>1</sup> was projected to reach \$2.163 billion, an additional \$1.150 billion before inflation<sup>2</sup> or \$127 million after inflation. The FY 2010-11 budget balance was projected to be \$4.962 billion, an additional \$2.799 billion excluding carry-forwards and before inflation, or \$308 million after inflation. Actions taken since February allocated most of those resources to various onetime and ongoing uses.

<b>February 2007 Forecast Recap</b>			
<i>(in millions)</i>			
	<u>FY06-07</u>	<u>FY08-09</u>	<u>FY10-11</u>
<b>Beginning Balance</b>	<b>1,393</b>	<b>2,126</b>	<b>3,166</b>
Revenues	32,211	33,678	36,707
Spending	31,478	32,638	33,908
<b>Balance before Reserves</b>	<b>2,126</b>	<b>3,166</b>	<b>5,965</b>
Cash Flow	350	350	350
Budget Reserve	653	653	653
Tax Relief Acct	110		
<b>Budget Balance</b>	<b>1,013</b>	<b>2,163</b>	<b>4,962</b>
<i>Resources excluding Carryforward</i>		<i>1,150</i>	<i>2,799</i>
<i>Estimate Inflation</i>		<i>1,023</i>	<i>2,491</i>
<i>Resources after Inflation</i>		<i>127</i>	<i>309</i>

<sup>1</sup> Budgetary balance is the amount of money anticipated to remain on the bottom line at the end of a biennium after set-asides for reserves. Structural balance is a measure of whether or not revenues for a given fiscal year or biennium are more or less than spending for that fiscal year or biennium, excluding balance carry-forwards from previous fiscal years.

<sup>2</sup> Inflation computed using Department of Finance methodology and February CPI projections.

## General Fund Budget Balance—2007 Legislative Actions

Relative to the February forecast, the budget enacted for FY 2008-2009 increased General Fund spending by \$1.904 billion while revenues were expected to increase \$134 million due largely to increased tax compliance efforts. Those changes, when combined with \$20 million of increased spending in FY 2006-2007 for deficiencies and carryforward authority and \$79 million for flood relief, reduced the projected General Fund budget balance to \$294 million.

Ongoing legislative revenue and spending changes lower the projected General Fund balance to \$1,438 billion for the FY 2010-11 planning period before estimated inflation of \$850 million.

<b>2007 Legislative Changes—General Fund</b>			
<i>(\$'s in millions)</i>			
	<u>FY 2006-07</u>	<u>FY 2008-09</u>	<u>FY 2010-11</u>
<b>Beginning Resources (2/07)</b>	<b>1,013</b>	<b>1,150</b>	<b>2,799</b>
Balance Carryforward		993	294
Revenue Changes (2007 Session)		134	136
Spending Change (2007 Session)	-20	-1,904	-1,791
Special Session Flood Relief		-79	-8
<b>Budget Balance</b>	<b>993</b>	<b>294</b>	<b>1,438</b>
<i>Estimated Inflation</i>			850

## Preliminary FY 2007 Closing and Wrap-up

In addition to legislative actions taken since February, preliminary budget closing information for FY 2007 indicates that the previous biennium ended with a balance of \$1,099 billion, or \$106 million more than anticipated in May. The higher ending balance is attributable primarily to higher than anticipated revenues.

<b>Preliminary FY 2007 Closing</b>			
<i>(\$'s in millions)</i>			
	<u>5/07</u>	<u>Preliminary</u>	
	<u>Enacted</u>	<u>Closing</u>	<u>Change</u>
Beginning Resources (2/07)	1,813	1,813	0
Add: Revenues	16,249	16,379	130
Less: Spending	15,956	15,947	9
Less: Reserves/Carryforward	1,113	1,146	33
<b>Budget Balance</b>	<b>993</b>	<b>1,099</b>	<b>106</b>

The \$106 million higher than anticipated balance from the previous biennium, when combined with the \$294 million projected balance for FY 2008-09 following Special Session, suggests a General Fund balance 'cushion' of about \$400 million leading into the November forecast. For comparison purposes, while changes to both revenues and expenditures may contribute to changes in projected budget balance, a one-percent adjustment to General Fund revenues would be about \$330 million.

<b>General Fund Balance Wrap-up</b>	
<i>(\$'s in millions)</i>	
	<u>FY 2008-09</u>
Ending Balance (9/07)	294
Additional Balance-Forward	106
<b>Revised Budget Balance</b>	<b>400</b>

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budgeted issues related to matters that have been or are likely to be addressed by the Legislature. Senate Fiscal Issue Briefs can be viewed on the Office of Counsel, Research & Fiscal Analysis web site at [www.senate.leg.state.mn.us/departments](http://www.senate.leg.state.mn.us/departments) and follow the links to the Office of Counsel, Research, and Fiscal Analysis.