FISCAL ISSUE BRIEF

$935 Million General Fund Deficit
February 2008 Forecast

MINNESOTA SENATE
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The state general fund budget forecast released February 28 projects a $935 million deficit for the current biennium (FY 2008-09). For FY 2010-11, the shortfall is projected to grow by $2.124 billion after inflation, to a total of $3.058 billion. For FY 2008-09, the deficit reflects a decline in the general fund balance of $562 million since the previous forecast and $1.229 billion since the end of the 2007 regular and special sessions.

Almost all of the change is attributable to a decline in projected revenues. Compared to the end-of-session, projected revenues are down $1.27 billion while spending is up $97 million. The February forecast does not include the general fund impact of the recently enacted transportation finance bill.

Current General Fund Position

The 2007 regular legislative session ended with a positive general fund balance of $373 million, after Governor's vetoes. The balance dropped to $294 million after the special session and is now a negative $935 million for the biennium ending June 30, 2009. After adjusting for inflation and the recently enacted Transportation Finance Bill (Act 152), the FY 2008-09 general fund balance is a negative $939 million. For FY 2010-11, the general fund imbalance is a negative $2.214 billion, reflecting $90.3 million of budget tails in Act 152 attributable primarily to the dedication of revenues from the motor vehicle sales tax on leased vehicles.

February 2008 General Fund Forecast
Change from 2007 End-of-Special Session
(in millions)

	FY2008-09	FY2010-11
Ending Balance (9/07)	**294**	**1,463**
Decreased Revenue Projections	-1,270	-1,799
Increased Spending Projections	97	423
Change in Balance Carry-Fwd.*	106	-1,261
Appropriations Carry-Forward	33	
Estimated Inflation		*-1,038*
Forecast Balance (02/08)*	**-935**	**-3,058**
Transportation Finance Bill	*-4*	*-90*
Adjusted Balance	***-939***	***-3,148***

* Budget balance amounts assume that negative balances carryforward forward. However, the effect of the Minnesota Constitutional language that authorizes issuance of certificates of indebtedness only within a biennium is that the general fund budget must be brought into balance by the end of the biennium. As a result, some action would need to be taken to prevent the negative balance of $935 million from rolling forward leaving a FY2010-11 imbalance of $2.214 billion.

QUESTIONS

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Revenue Changes

FY 2008-09 revenues are projected to be $32.541 billion, a decline of $1.27 billion since the end of last legislative session. As illustrated by the table below, estimated revenues have declined for all major tax types with the exception of the statewide property tax levy, which is a set levy amount indexed to the implicit price deflator for government expenditures.

Change in Projected General Fund Revenues
2007 End-of-Session –v- February Forecast
($'s in millions)

	FY 2008-09		FY 2010-11	
	Dollars	**Percent Chg.**	**Dollars**	**Percent Chg.**
2007 End-of-Session Revenue	**33,812**		**36,843**	
Tax Revenue Changes				
Individual Income	(222)	-1.4%	(665)	-3.7
Sales	(287)	-3.0	(640)	-0.6
Corporate	(449)	-20.3	(178)	-8.7
Motor Vehicle	(24)	-7.6	(16)	-12.9
Statewide Levy	40	2.3	73	4.9
Other Taxes	(291)	-11.6	(372)	-14.0
Subtotal, Change in Tax Revenue	(1,233)	-3.9	(1798)	-5.2
Non-Tax Revenues	(3)	-0.2	(14)	-0.9
Dedicated Receipts, Transfers	(34)	-4.0	13	1.7
February Forecast Revenues	**32,541**	**-3.8**	**35,044**	**-5.2**

Revenues are now projected to be $200.6 million, or 0.6 percent, higher in FY 2008-09 than in FY 2006-07. Income tax revenues were up $91 million in November but are now projected to be down $313 million, for a net decline of $222 million since the end-of-session. While corporate tax collections make up only about 6.5 percent of general fund revenues, the $449 million decline in the corporate tax revenue forecast reflects the largest change in both dollar and percentage terms.

Spending Changes

FY 2008-09 spending is now projected to be $34.718 billion, an increase of $97 million over the end-of-special session estimates, or about 0.2 percent. Since the end-of-session, E-12 expenditures are up $24 million related primarily to projected increases in pupil counts, and health and human services spending is up $64 million due to anticipated enrollment growth in health care and public assistance programs related to the worsening economic conditions. While spending for property tax aid and credit programs is down somewhat since November, this spending is up a net of $43 million since the end-of-session due to largely to increased property tax refunds reported in the November. The spending growth in selected budget areas is partially offset by lower projected spending for debt service due to lower interest rates and higher premiums.

General Fund Spending by Budget Division, FY 2008-09 ($'s in millions)	End-of-Session	February Forecast	Change
E-12 Education	13,781	13,805	24
Higher Education	3,155	3,155	**
Health & Human Services*	9,728	9,792	64
Agriculture & Veterans	184	187	3
Environment, Energy & Nat Resources	413	416	3
Economic Development	423	431	8
Public Safety	1,136	1,136	**
Judiciary	750	750	-
Transportation**	249	250	**
State Government	656	664	8
Property Tax Aids & Credits	3,109	3,152	43
Debt Service & Capital Projects	934	889	(45)
Other	101	91	(10)
Total*	**34,621**	**34,718**	**97**

*Includes $32.667 million shown in the forecast as a reserve account for county targeted case management costs. **Less than $500,000; rounded to zero.

For FY 2010-11, spending is now projected to be $36.130 billion, an increase of $423 million over the end-of-special session estimates.

Budget Reserve and Cash Flow Accounts

The general fund budget reserve and cash flow account are unchanged at $653 million and $350 million, respectively. While the cash flow account is designed to offset imbalances that occur between cash inflows and outflows within the biennium, the budget reserve is available to ensure general fund budget balance in conformity with the Minnesota Constitutional prohibition on general fund borrowing across biennia.

M.S. 16A.152, subd. 4 (a), specifies the conditions under which the Commissioner of Finance shall use the budget reserve. The statutory language and legislative history suggests that the executive must use the budget reserve to eliminate a budget imbalance before exercising its authority to unallot unexpended appropriations. Under M.S. 16A.152, if the Commissioner of Finance determines that probable receipts for the general fund will be less than anticipated and that the amount available for the remainder of the biennium will be less than needed, the Commissioner shall, with the approval of the Governor, and after consulting with the Legislative Advisory Commission, reduce the amount in the budget reserve to balance expenditures with revenues. Statutes do not specify the timing of when the Commissioner makes such a determination or must take action, except that action must occur in time to prevent an imbalance by the close of the biennium.

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 and follow the links to the Office of Counsel, Research, and Fiscal Analysis.