

FISCAL ISSUE BRIEF



General Fund Budget Recap 2008 Legislative Session

MINNESOTA SENATE
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

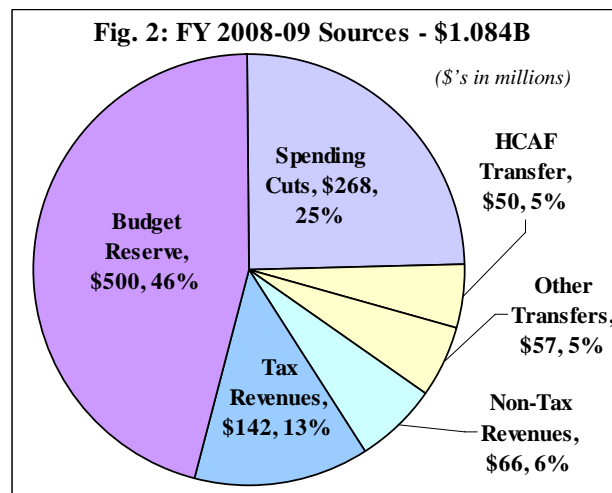
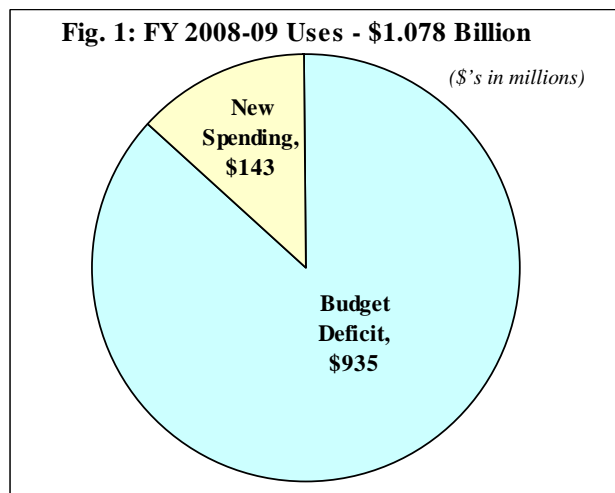
June 2008

The February 2008 state budget forecast projected a \$935 million general fund budget deficit for the current biennium (FY 2008-09). This fiscal issue brief provides an overview of the forecast changes leading to the projected deficit, the actions taken by the 2008 legislature to eliminate the deficit, and the revised budget projections for the FY 2010-2011 planning period.

Amounts summarized reflect all general fund changes made by the 2008 legislature, including those passed early in the session (transportation finance and federal tax conformity), omnibus tax and budget bills, and bills that traveled separately. The 2008 Fiscal Review, an annual report of actions taken by the Minnesota Legislature, will provide a more detailed summary of 2008 changes by budget area, including non-general fund changes.

Snapshot of General Fund Budget Decisions

The 2008 legislature eliminated the projected \$935 million deficit and funded \$143 million of targeted spending increases through a mix of new revenues, spending reductions, fund transfers and use of the budget reserve. The revised general fund budget balance is now a positive \$6 million.



Of the \$1.084 billion directed toward deficit elimination and spending increases, \$500 million, or about 46 percent, is from a reduction in the budget reserve. Reductions to previously enacted

appropriations account for \$268 million or 25 percent of the budget solution while new revenues account for 19 percent. One-time transfers from other state funds account for \$107 million or about 10 percent of the solution, including a \$50 million transfer from the Health Care Access Fund (HCAF) which must be repaid from general fund savings resulting from the health care reforms also enacted in 2008.

FY 2008-2009: From Balanced Budget, to Projected Deficit, and Back to Balance

The FY 2008-2009 biennial budget enacted during the 2007 session, along with the disaster relief provisions enacted during the September 2007 special session, provided for a positive general fund balance of \$294 million. By the February 2008 state budget forecast, as summarized in Table 1, the projected general fund budget balance had declined to a negative \$935 million. The \$1.229 billion change consisted primarily of a \$1.27 billion decline in projected general fund revenues.

Table 1					
Comparison of FY 2008-09 General Fund Budget Balance, 2007 End-of-Session, Feb. 2008 Forecast, and Current					
(\$'s in millions)	2007 End- of-Session	<i>Forecast Changes</i> *	Feb. 08 Forecast	<i>2008 Leg. Changes</i>	Current Budget
Resources:					
Balance Forward	2,106	139	2,245		2,245
Revenues & Transfers-in	33,812	(1,270)	32,542		32,857
Tax Revenue Changes				142	
Non-Tax Revenue Changes				66	
<u>Transfers-In</u>				<u>107</u>	
Net Change				315	
Uses:					
Expenditures	34,621	98	34,718		34,593
Additional Spending				143	
<u>Spending Reductions</u>				<u>(268)</u>	
Net Change				(125)	
Reserves	1,003		1,003	(500)	503
Budget Balance (Resources – Uses)	294		(935)		6

* For more information on these forecast changes see Fiscal Issue Brief posted at <http://www.senate.mn/departments/fiscalpol/reports/index.php?ls=85#header>.

As summarized in the two shaded columns of Table 1, FY 2008-09 general fund revenues are now projected to total \$32.857 billion, \$315 million more than the February forecast, and spending is projected to total \$34.592 billion, \$126 million less than the February forecast. The changes in revenues and spending, along with \$500 million from the budget reserve, results in a positive projected general fund balance of \$6 million for the biennium ending June 30, 2009.

FY 2010-2011

As summarized in Table 2, FY 2010-11 general fund revenues are now projected to total \$35.187 billion, \$143 million more than the February forecast, and spending is projected to total \$36.133 billion, \$3 million more than the February forecast. As a result, the budget shortfall for FY 2010-11 is now projected to be \$940 million before considering the potential impact of price-inflation on the costs of delivering state government services, and \$2.0 billion if planning estimate inflation is included.

<i>(\$'s in millions)</i>	Feb. 08 Forecast	<i>2008 Legislative Changes</i>	FY 2010-11
Resources:			
Balance Forward	1,003		509
Reduced Budget Reserve		(500)	
Unreserved FY08-09 Balance		6	
Revenues & Transfers-in	35,044		35,187
Tax Revenue Changes		63	
Non-Tax Revenue Changes		76	
<u>Transfers-In</u>		<u>4</u>	
Net Change		143	
Uses:			
Expenditures	36,130		36,133
Additional Spending		352	
<u>Spending Reductions</u>		<u>(349)</u>	
Net Change		3	
Reserves	1,003		503
Budget Balance (Resources – Uses)	(1,086)		(940)
<i>Planning Estimate Inflation</i>	<i>(1,040)</i>		<i>(1,040)</i>
<i>Inflation Adjusted Shortfall</i>	<i>(2,126)</i>		<i>(1,980)</i>

The lower carry-forward attributable to the reduced budget reserve and the minimal budgetary balance projected for the current biennium (\$6 million) results in a negative budgetary balance¹ (\$940 million) that is very similar the projected structural imbalance² of \$946 million for FY 2010-11, reflecting the condition that ongoing revenues are expected to be less than ongoing spending.

¹“Budgetary balance” refers to the amount expected to be left on the bottom line after expenditures and reserves have been subtracted from total available resources, including carry-forwards from previous biennia, and is consistent with the constitutional expectation that the budget be balanced.

² “Structural balance” is a measure that indicates the sustainability of current revenue and spending patterns by comparing whether biennial revenues are greater than biennial spending.

Spending Changes

FY 2008-09 spending is now projected to be \$34.593 billion, a net decrease of \$125.3 million relative the February 2008 forecast. As summarized in Table 3, that net decrease reflects appropriation increases of \$142.9 million and appropriation reductions of \$268.3 million.

Table 3 summarizes the general fund appropriation changes made by the 2008 legislature by budget area, including new spending and spending cuts for FY 2008-09. While the summary table primarily reflects the provisions of the omnibus supplemental budget bill (HF1812, ch. 363) and the omnibus tax bill (HF 3149, ch. 366), it also incorporates general fund appropriation changes carried in the transportation finance bill (ch. 152), the health care reform bill (ch. 358), the I35-W Bridge Victims Compensation bill (ch. 288) and other bills.

Of the \$142.9 million in new spending for the current biennium, 101.0 million, or 71 percent, is for one-time spending priorities and \$7.5 million is spending necessary to leverage new revenues, such as the bank data match proposal and expanded tax compliance efforts funded reflected in the state government budget.

Table 3

General Fund Spending Changes by Budget Area

(\$'s in millions)	FY 2008-09			FY 2010-11
	<u>New Spending</u>	<u>Spending Reductions</u>	<u>Net Change</u>	<u>Net Change</u>
E-12 Education	46.0	-20.3	25.7	48.6
Higher Education	0.7	-22.4	-21.6	-33.4
Health & Human Services	8.4	-180.7	-172.3	-220.4
Agriculture & Veterans	12.1	-10.6	1.5	9.3
Environment & Energy*	1.4	-8.5	-7.1	-3.7
Economic Development*	8.0	-6.5	1.5	-1.2
Public Safety	0.4	-5.1	-4.7	-10.4
Judiciary	0	-5.5	-5.5	-11.0
Transportation	2.8	-0.2	2.6	-0.4
State Government	7.4	-8.5	-1.1	3.3
Property Tax Aids & Credits	1.6	0	1.6	182.3
Debt Service & Capital Projects	16.1	0	16.1	40.1
Other- Victims Compensation Fund	38.0	0	38.0	0
Total*	142.9	-268.3	-125.3	3.1

* Reflects conference committee jurisdiction; the Fiscal Review will reflect Senate budget jurisdictions.

Budget savings resulting from the continuation of permanent spending reductions into the tails (FY 2010-11) are offset by spending increases in the tails. Relative to the February 2008 forecast, FY 2010-11 spending is projected to be \$3.1 million higher. Permanent spending increases consisted primarily of K-12 education provisions related to eliminating the permanent school fund subtraction

from the general education program and funding for bovine tuberculosis response, veterans programs, nursing homes, debt service and for individual property tax relief and local government aid beginning in calendar year 2009 (FY 2010).

Revenue Changes

FY 2008-09 revenues are projected to be \$32.857 billion, an increase of \$315 billion relative to the February forecast, including an increase of \$107 million in transfers from other funds. As summarized in Table 4, \$109 of the \$142 million of tax revenue increases in FY 2008-09 is attributable to changes in how foreign operating corporations are taxed.

Summary of General Fund Revenue Changes		
<i>(\$'s in millions)</i>	<u>FY 2008-09</u>	<u>FY 2010-11</u>
Feb. 2008 Forecast Revenue	32,542	35,044
<u>Tax Revenue Changes</u>		
Ch. 152 – Transportation Finance	-0.4	-72
Ch. 154 – Federal Tax Conformity	0	-4
Ch. 366 – Omnibus Tax Bill		
Foreign Operating Corporations	109	175
June Accelerated Sales Tax	32	2
<u>Other Tax Provisions</u>	<u>1</u>	<u>-41</u>
Total Tax Revenue Changes	142	60
<u>Non-Tax Revenue Changes</u>		
Ch. 152 – Transportation Finance		-9
Ch. 363 – Omnibus Supplemental Finance		
Elimination of Mutual Fund Fee Cap	21	23
Worker’s Comp. Assigned Risk Plan	15	
Bank Data Matches	10	20
Expanded Tax Compliance Staff	21	42
<u>Other</u>	<u>-1</u>	<u>1</u>
Total Non-Tax Revenue Changes	66	77
<u>Transfers-In Changes</u>		
Ch. 363 – Omnibus Supplemental Finance		
Health Care Access Fund	50	
State Airports Fund	15	
Other Funds	42	3
<u>Ch. 363 – Health Care Reform</u>	<u>0</u>	<u>2</u>
Total Transfer-in Changes	107	5
Total Revenue Changes	315	142
Revised Revenues	32,857	35,186

While most FY 2008-09 revenue increases, other than changes for June accelerated sales tax, carry-forward into the tails, those permanent revenue increases are partially offset by revenue reductions attributable to the dedication of sales taxes on motor vehicle leases enacted in the transportation finance bill and other tax preferences that begin in FY 2010.

Budget Reserve and Cash Flow Accounts

The budget deficit solution reduced the budget reserve from \$653 million to \$153 million. No changes were made to the cash flow account, which remains at \$350 million. As a result, a total of \$503 million remains in these two accounts.

Previously enacted statutory provisions (M.S. 16A.152) provide for the replenishment of the budget reserve up to \$653 million if, on the basis of a forecast of general fund revenues and expenditures, the commissioner of finance determines that there will be a positive unrestricted general fund balance at the close of the biennium.

QUESTIONS

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For more specific information on the individual provisions is available by consulting legislative budget tracking sheets at: <http://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=85>.

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.