

## Sources of Revenue Considered in the 2006 Legislative Session

As the Governor and Legislature consider a supplemental budget for the 2006 Legislative Session, there are a number of financial resources they are proposing to use.

### ***General Fund Resources***

The state's February Forecast identifies an \$88 million general fund surplus in the FY 2006-07 biennium and a \$317 million balance in the Tax Relief Account (which is one-time revenue). The February Forecast also projects a surplus for FY 2008-09 of \$1.09 billion. However, this surplus dwindles to \$149 million if the impact of inflation on spending is taken into account.

### ***Reserves***

The state has rebuilt its reserves back up to pre-recession levels, with \$653 million in the Budget Reserve and \$350 million in the Cash Flow Account. These resources are intended to provide financial stability for the state in the event of an economic downturn and to address short-term cash flow issues over the course of the year. Decision-makers could tap into these funds, but such action could hurt Minnesota's bond rating and increase borrowing costs for the state.

### ***Dedicated Funding Sources***

The Health Care Access Fund (HCAF) is projected to have a \$122 million balance by the end of the FY 2006-07 biennium. This special fund collects money through health care provider taxes and premiums from MinnesotaCare enrollees. Created in 1992, the HCAF was intended to provide low-cost health care for working Minnesotans, so use of these funds for other purposes is controversial.

The state also receives federal Temporary Assistance for Needy Families (TANF) funds. TANF funds can only be used for federally-approved activities to assist families moving from welfare to work. However, legislators sometimes "refinance" by using TANF funds to pay for TANF-related purposes currently being paid for using state general fund dollars. This refinancing "frees up" general fund dollars for other purposes. The state is projected to have a balance of \$27.6 million in the TANF Reserve Fund by the end of the FY 2006-07 biennium. However, refinancing TANF funds compromises the state's ability to meet new federal requirements regarding its welfare-to-work programs. If the state does not meet the new requirements, it faces penalties in terms of lost federal TANF funds and required increases in state TANF-related spending, which would have a \$24 million general fund impact in FY 2008-09.

### ***Resources at Risk***

There is the potential that the state may lose a significant state revenue source in the next few months. The State Supreme Court has yet to rule on the legality of the Health Impact Fee that was passed during the 2005 Legislative Session. If the court rules against the state, legislators could face a budget hole of at least \$368 million for the FY 2006-07 biennium.

Regarding the FY 2008-09 biennium, general fund resources will be \$172 million lower if a constitutional amendment to dedicate all of the motor vehicle sales tax to transportation passes in November 2006.<sup>1</sup>

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<sup>1</sup> See Minnesota Budget Project, *Minnesota's Budget Surpluses May Be Short-Lived*, [www.mncn.org/bp/surpluses06.pdf](http://www.mncn.org/bp/surpluses06.pdf).

The table below describes the impact of the Governor's 2006 Supplemental Budget proposal as introduced in mid-March, the House's budget resolution and targets as approved in late March and early April, and the Senate budget proposal as it passed the Senate Finance Committee and Senate Tax Committee in mid-April.<sup>2</sup> These figures may change as the legislative process continues. The table will be updated once the House and Senate have passed their final budgets on the floor.

<b>Resources</b>	<b>Governor</b>	<b>House</b>	<b>Senate</b>
\$88 million general fund surplus in FY 2006-07	Uses both the \$88 million and \$317 million <ul style="list-style-type: none"> <li>• \$102 million for budget fixes and emergency items</li> <li>• \$144 million for initiatives</li> <li>• \$159 million added to the Budget Reserve (see below)</li> </ul>	Uses \$88 million for unspecified net spending increases <sup>3</sup>	Uses \$44 million for net spending increases in the major finance bills and \$44 million for net spending increases in the tax bill
\$317 million from the Tax Relief Account <sup>4</sup>		\$317 million can be used for state tax reductions only (\$268 million of this is contingent on the state prevailing in the Health Impact Fee court case)	Uses \$159 million for net spending increases in the major finance bills and \$157 million for net spending increases in the tax bill
\$653 million in the Budget Reserve	Increases Budget Reserve to \$809 million <sup>5</sup>	Decrease by \$1 million <sup>6</sup>	No change
\$350 million in the Cash Flow Account	No change	Increase by \$1 million <sup>6</sup>	No change
\$122 million balance in the Health Care Access Fund for FY 2006-07 biennium	Uses \$59 million for health-related purposes, but not for MinnesotaCare or health care for low-income or working families	Uses \$122 million (\$102 million of this is contingent on the state prevailing in the Health Impact Fee court case)	Uses \$39 million for MinnesotaCare and health care for low-income or working families and for health information technology grants
\$27.6 million in TANF Reserve Fund for FY 2006-07 biennium	Refinances \$10 million to fund early childhood initiative	Refinances \$27.5 million in TANF for unspecified spending	Uses \$21 million for child care assistance and the Minnesota Family Investment Program
\$1.09 billion surplus in FY 2008-09 (\$149 million if inflation is taken into account)	Uses \$366 million	Uses \$577 million	Uses \$337 million, but also raises \$36 million in revenues

<sup>2</sup> The Senate tax proposal discussed here includes provisions in SF3131, which has passed the Senate floor, and SF3550, which has passed the Tax Committee.

<sup>3</sup> New spending over \$88 million could be offset by cuts to current spending or increases in fees or other non-general fund revenues.

<sup>4</sup> These are funds left at the end of the FY 2004-05 biennium. Despite the name "Tax Relief Account," this fund does not have any statutorily designated purpose and the money is available to the Legislature for any purpose.

<sup>5</sup> The Governor originally recommended increasing the Budget Reserve to \$811 million, but later issued two updates appropriating \$1 million to operate and maintain a recreational site scheduled to be closed and \$2 million to increase law enforcement in Minneapolis.

<sup>6</sup> The House budget resolution decreases the Budget Reserve by \$1 million and increases the Cash Flow Account by \$1 million. This was done as a technicality to allow the resolution to be taken up on the House floor for a second vote.