



Policy Brief

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Revenue Forecast for Next Biennium: Up 7.5%

The first official forecast for general fund revenues for 1999-2001, \$20,902.5 million, fell about \$350 million below the projections which had been used in budget planning by the governor and legislature. The estimate represents an increase of 7.5% over the current biennium, the forecast for which was essentially unchanged.

The I-601 limit for 1999-2001 is projected to be \$20,538 million, up about 7.3% from the limit for the current biennium of \$19,147 million.

The forecast reflects the turmoil in the Asian financial markets and incorporates an expected decline in aerospace employment. Each of these concerns, while much in today's news, will be felt more fully late in the biennium. Table 1 shows the 1997-99 revised balance sheet. Assuming the budget adjustments made this year do not increase the \$19.1 billion in current appropriations, the ending balance would be about \$874.1 million.

Following the forecast, the governor released a revised fiscal program, designed to maintain an adequate cash reserve through 2001. He trimmed his proposed tax reductions for this biennium by about \$100 million, down to \$144.2 million with reductions for 1999-2001 estimated to be about \$370.4 million, about \$220 million below his original proposal.

With these changes, the governor estimates the reserve at the close of the current biennium will be about \$704 million. With 1999-2001 spending at the I-601 level of \$20.5 billion, reserves would be about \$698 million, or 3.4% of biennial spending.

Most of the governor's proposed tax reduction resulted from a \$35 Motor Vehicle Excise Tax credit (about \$102.2 million of his \$244.1 million plan for the current biennium; the value of the credit in 1999-2001 rises to \$285.5 million). His revised proposal drops the credit to \$30, shrinking the revenue impact for the current and following biennia to \$90.8 million and \$254.0 million, respectively.

No immediate changes were announced in Republican budget plans. As we noted in our February 6 *Policy Brief* on their transportation package, the GOP left reserves of \$742 million and \$700 million for the current and succeeding biennia. As with the governor, the centerpiece of Republican tax relief is a cut in the MVET; their proposed credit of \$40 has a \$366 million impact in 1999-2001. The Three Biennia Balance Sheet released by the House Appropriations Committee shows reserves dropping to \$445 million in 1999-2001 as a result of the new revenue

1997-99 Balance Sheet

General Fund - State

(Dollars in Millions)

Resources

Beginning Balance	512.9
November 1997 Revenue Forecast	19,432.5
February Forecast Change	13.2
Total Resources	19,958.7

Expenditures

1997-99 Appropriations (after vetoes)	19,084.6
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Balances

Ending Balance	874.1
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Source: House and Senate Fiscal Committees, Office of Financial Management

GOP Three Biennia Balance Sheet

General Fund - State

(Dollars in Millions)

	1997-99	1999-01	2001-03
Resources			
Beginning Balance	513	586	251
November 1997 Revenue Forecast	19,446	20,903	22,823
MVET Transfer to Motor Vehicle Fund	(43)	(184)	(206)
MVET tax cut	-	(366)	(393)
Local criminal justice & VRDE transfer	-	(13)	(9)
Potential Other Tax Cuts	(51)	(137)	(163)
Adjusted Revenue Forecast	19,352	20,203	22,053
Total Resources	19,865	20,789	22,304
Expenditures			
Estimated Expenditures	19,085	20,538	22,057
<i>Working I-601 Limit</i>	19,147	20,538	22,057
Balances			
Emergency Reserve	194	194	196
Unrestricted Ending Balance	586	251	245
Total Reserves	780	445	440

Source: House Appropriations Committee

estimate (about 2.2% of biennial spending). Projected “other tax cuts” not yet adopted amount to \$137 million next biennium; pruning these could allow reserves to climb closer to the 2.5% (about \$513 million) the Research Council recommends as a minimum during periods of economic uncertainty.

The cyclical nature of the state revenue flow can be seen by examining the growth rate of the major general fund taxes (sales, B&O, use, public utility, real estate excise, and property) adjusted to remove the effects of inflation and legislative changes in tax rates and bases (see graph). Following the deep recession in the late Sixties, the economy charged back, growing rapidly over the succeeding four biennia. Entering the Eighties, growth slowed, turning negative in the 81-83 biennium, after which the state again experienced a strong, post-recessionary recovery. The national turndown in 1991-93 was comparatively mild here, and the recovery has been generally tepid, excepting the double-digit spike in the current biennium.

Much of the tax cutting since 1996 has been possible because of the discipline imposed by Initiative 601,

the strong economy of the past two years, and the business-tax increases of 1993, which contributed substantially to the surpluses. Now, however, most of that excess has been returned to taxpayers, or pledged to be returned in the future (e.g., B&O reductions, adopted in 1997 to take effect July 1, 1998).

The two MVET credit plans provide tax relief aimed primarily at the individual taxpayer. The revenue loss will be felt primarily in the next biennium. Passage of the credit may represent the last of the broad-based general tax relief measures for the next several years. Just as bow-wave spending (spending promised in one biennium with its greatest impact in the succeeding budget cycle, e.g., salary increases) ties the hands of the next legislature, so too will the tax cuts passed in 1997 and 1998. The current legislature has been prudent in presenting its three biennia profiles, which show the affordability of the current tax relief proposals. There will be, however, little room left for future tax cuts without associated expenditure reduction. Adequate reserves must be maintained.

