



ISSUE BRIEF

State General Fund Budget Situation
December 2003

The latest budget forecast for the state's general fund, released by the Department of Finance on December 3, 2003, projects a \$185 million deficit for the current biennium. This forecast also projects a \$394 million negative balance for the FY 2006-07 biennium.

The Previous Biennium – FY 2002-03

Actions taken in the 2003 legislative session were projected to lead to a \$180.4 million general fund balance on June 30, 2003. Primarily due to the earlier than expected receipt of federal flexible grant funds, the ending balance was \$284 million. Of the \$284 million, \$180.4 million was planned to carry forward from FY 2003 to FY 2004 as part of the budget adopted in the 2003 session. The remaining balance of \$104 million was transferred to the budget reserve. (This transfer was made under 2002 Laws, Chapter 374, Article 8, Section 7.) In addition to the \$284 million, \$85 million of previously authorized appropriations not spent in FY 2002-03 were carried forward into FY 2004-05.

The Current Biennium – FY 2004-05

At the end of the 2003 legislative session, the state was projected to end the FY 2004-05 biennium on June 30, 2005 with a general fund balance of \$0. Determination of this amount was based on revenues and expenditures from the February 2002 forecast with modifications for 2003 legislative actions. Also, at the end of session the budget reserve was projected to have a balance of \$521.8 million (this excluded the effect of the receipt of the federal flexible grant).

The November 2003 budget forecast projects a net change of -\$184.5 million for the general fund for the FY 2004-05 biennium. The following chart illustrates budget changes since the end of the 2003 session.

<u>FY 2004-05 General Fund Changes from End of 2003 Session</u>	
Change in FY 2003 Balance Forward	+\$188.5 million
Change (Decrease) in Revenues from End of Session	- 406.6 million
Change (Decrease) in Expenditures from End of Session	+ 143.3 million
Change (Increase) in Reserves from End of Session	<u>- 109.7 million</u>
Net Adjusted Balance	-\$184.5 million

The most significant change from the February forecast and end of the 2003 session estimates is that income tax revenues are projected to be \$490 million lower. Of this amount, \$103 million is due to conforming to federal income tax changes. This change was enacted by the 2003

legislature but not counted in end of session numbers because the change was contingent on receipt of the federal flexible grant.

Sales tax revenues are projected to be \$124 million lower and corporate taxes are projected to be \$140 million higher than in the February forecast.

Projected general fund expenditures in the health and human services area are \$93 million lower than the end of session estimates. This reduction in state spending is due to a variety of changes including the receipt of federal funds, correction of a data error and lower than expected HMO payment rates. Projected K-12 Education expenditures are also \$93 million lower than the end of session estimates due to lower than projected enrollments.

The following chart illustrates the general fund budget situation for FY 2004-05.

Beginning Balance	\$ 368.9 million
Revenues and other Resources	28,235.3 million
Expenditures	28,157.4 million
Reserves	<u>631.4 million</u>
Balance	\$ - 184.5 million

Next Biennium – FY 2006-07

At the end of the 2003 Legislative sessions, a balance of \$526 million was projected for the end of the FY 2006-07 biennium. Expenditures for FY 2006-07 include no adjustment for inflation unless such an adjustment is specified in law for the particular program.

<u>FY 2006-07 General Fund Changes From End of Session</u>	
Change (Decrease) in Revenues from End of Session	-\$914 million
Change (Increase) in Expenditures from End of Session	<u>- 6 million</u>
Net Change	-\$920 million

Major revenue changes from the end of session estimates include a reduction of \$538 million in projected income tax revenues and a reduction of \$458 million in projected sales tax revenues. Major expenditure changes from the end of session include a reduction of \$132 million in K-12 Education expenditures and an increase of \$88 million in health and human services expenditures.

The following chart illustrates the general fund budget situation for FY 2006-07.

Revenues	\$ 29,383 million
Expenditures	<u>29,777 million</u>
Balance	\$ - 394 million

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