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## Issue Brief

# The February 2002 General Fund Budget Forecast

The forecast of general fund revenues and expenditures released by the Department of Finance on February 25, 2002 reduced the projected general fund balances in FY 2002-03 and FY 2004-05 from the November 2001 forecast estimates.

### Fiscal Year 2002-03 Deficit is \$2,289 Million

The general fund balance for the biennium ending June 30, 2003 is projected to be -\$2,289 million. This is \$366 million less than the balance projected in the November 2001 forecast and \$2,524 million less than the balance left at the end of the 2001 special session. (That session ended with a balance of \$235 million.) The chart below shows changes for FY 2002-03 from the November 2001 forecast.

<b>FY 2002-03 General Fund</b>	
<i>(dollars in millions)</i>	
	<b>Feb 2002 Change from Nov 2001</b>
Revenue Decrease	(300)
Expenditure Increase	<u>(36)</u>
	(336)

### Fiscal Years 2004-05 Planning Estimate Deficit is \$3,214 Million

The projected general fund deficit for the FY 2004-05 biennium is -\$3,214 million. This is \$677 million less than the FY 2004-05 balance projected in November 2001 and \$3,520 million less than the balance left at the end of the 2001 session. On a fiscal year basis, the -\$3,214 million is made up of -\$1,673 million in FY 2004 and -\$1,541 million in FY 2005. These are the amounts by which projected expenditures exceed projected revenues and an amount representing the increase in providing services due to inflation. Included in these amounts is planning estimate inflation of 2.5% per year. Planning estimate inflation represents \$368 million in FY 2004 and \$760 million in FY 2005. (The FY 2004-05 planning estimates are used to determine the structural balance for FY 2004-05.) The chart below shows the changes in the various components from the November 2001 forecast numbers.

**FY 2004-05 General Fund**

(dollars in millions)

	Nov 01 FY 04	Feb 02 FY 04	Change	Nov 01 FY 05	Feb 02 FY 05	Change	Nov 01 FY 04-05	Feb 02 FY 04-05	Change
Forecast Revenues	14,136	13,772	(365)	14,911	14,603	(308)	29,047	28,375	(673)
Forecast Expenditures	15,069	15,077	7	15,385	15,385	0	30,454	30,462	8
Difference	(933)	(1,305)	(373)	(475)	(782)	(307)	(1,408)	(2,087)	(680)
Planning Estimate Inflation	368	368	0	760	760	0	1,127	1,127	0
Difference - Amount Available	(1,301)	(1,673)	(372)	(1,234)	(1,542)	(308)	(2,535)	(3,214)	(679)

**Revenue and Expenditure Changes for FY 2002-03**

Individual income tax and corporate income tax revenues are down from the November forecast. The next chart shows the changes in the big five revenue sources from the November forecast.

**The Major General Fund Revenue Sources for FY 2002-03**

(Dollars in millions)

	Nov 2001	Feb 2002	Change
Individual Income Tax	12,191	11,788	(403)
Sales Tax	7,492	7,586	94
Corporate Income Tax	1,202	1,156	(46)
Motor Vehicle Sales Tax	666	693	27
Statewide Property Tax	893	891	3
Other Revenues	3,011	3,041	30

Expenditure estimates for FY 2002-03 have increased a net \$36 million from expenditures amounts in the November 2001 forecast. The primary changes in expenditures are lowers estimates of K-12 education costs, higher health care cost estimates and higher intergovernmental aid payments.

**Reserves**

The budget reserve contains \$653 million. The cash flow account has \$350 million. The tax relief account has \$158 million. The executive branch, after consultation with the legislative advisory

commission, has the authority to use the budget reserve. The cash flow account and the tax relief account cannot be accessed without legislative action.

### **Forecast Background**

This Minnesota forecast is based on data from DRI, a national economic consultant as well as Minnesota economic data. DRI's control forecast projects a gradually strengthening economy. DRI now assigns a 55 percent probability to its control forecast. Now it assigns a 30 percent probability to a more optimistic forecast. (In November, the more pessimistic forecast was assigned a 30 percent probability.) The state's Council of Economic Advisors is still concerned that this expansion could stall and were concerned that the DRI control forecast may be too optimistic for FY 2003 .

### **Budget Balancing Actions**

This forecast does not include the effect of any budget balancing legislation or executive branch actions to balance the budget.

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