



**ISSUE BRIEF**

**State General Fund Budget Situation**  
December 2002

*The latest state budget forecast for the state's general fund released by the Department of Finance on December 4, 2002 projects a \$356 million deficit for the current biennium and an additional \$4.2 billion deficit for the FY 2004-05 biennium. This compares to projections for a \$319 million balance for the FY 2002-03 biennium and a \$1.55 billion deficit for the FY 2004-05 biennium when the Legislature adjourned in May 2002.*

**The Current Biennium – FY 2002-03**

At the end of the 2002 legislative session, the state was projected to end the FY 2002-03 biennium on June 30, 2003 with a general fund balance of \$318 million. Determination of this amount was based on revenues and expenditures from the February 2002 forecast with modifications for 2002 legislative actions.

The November 2002 budget forecast projects a \$356 million deficit for the general fund as of June 30, 2002. The following chart illustrates budget changes since the end of the 2002 session.

| <u>FY 2002-03 General Fund Changes from End of Session</u> |                     |
|--|---------------------|
| End of Session Projected Balance                           | \$318 million       |
| Change (Decrease) in Revenues from End of Session          | -574 million        |
| Change (Increase) in Expenditures from End of Session      | - 76 million        |
| Change (Increase) in Reserves from End of Session          | - <u>24 million</u> |
| Net Adjusted Balance                                       | -356 million        |

This is a net change of \$650 million since the end of the 2002 session. \$24 million remains in the budget reserve because legislation specifies that certain amounts are transferred to the budget reserve rather than to general fund as unrestricted revenue.

The most significant change from the February forecast and end of the 2002 session is that income tax revenues are projected drop of \$769 million in income taxes. Projected expenditures in the health care area increase \$107 million from the end of session. All other changes in the forecast result in greater revenues or lesser expenditures for a net gain to the general fund of \$226 million.

The following chart illustrates the general fund budget situation for FY 2002-03.

|                              |                   |
|------------------------------|-------------------|
| Beginning Balance            | \$ 1,574 million  |
| Revenues and other Resources | 25,194 million    |
| Expenditures                 | 27,100 million    |
| Reserves                     | <u>24 million</u> |
| Balance                      | \$ - 356 million  |

### Next Biennium – FY 2004-05

The 2003 legislature will be setting a budget for the biennium beginning July 1, 2003 and ending June 30, 2005. At the end of the 2002 legislative session, projected expenditures for the FY 2004-05 biennium exceeded projected revenues by \$1,553 million. Expenditures for FY 2004 and 2005 are set at essentially the same level as in FY 2003 except that appropriations for those programs where a formula or entitlement is set in law are adjusted to reflect that amounts needed to fund the formula or entitlement in law. Appropriations in FY 2003 that were considered one time are not continued.

Expenditures for FY 2004-05 include no adjustment for inflation unless such an adjustment is specified in law. This is a change from previous years when “planning estimate inflation” was added to expenditures for the next biennium. (A law passed in 2002 removed planning estimate inflation from the expenditures numbers.)

|  |                     |
|--|---------------------|
| <u>FY 2004-05 General Fund Changes From End of Session</u> |                     |
| End of Session Projected Budget Balance                    | -\$1,553 million    |
| Change (Decrease) in Revenues from End of Session          | - 1,634 million     |
| Change (Increase) in Expenditures from End of Session      | - 926 million       |
| Change (Increase) in Reserves from End of Session          | <u>- 92 million</u> |
| Net Adjusted Balance                                       | -\$4,205 million    |

Major changes from the end of session estimates include a reduction of \$1,634 million in projected income tax revenues and an increase of \$617 million in health and human services expenditures.

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

|                   |                    |
|-------------------|--------------------|
| Revenues          | \$ 26,857 million  |
| Expenditures      | 30,975 million     |
| Reserves Increase | <u>86 million</u>  |
| Balance           | \$ - 4,204 million |

**The Following Biennium – FY 2006-07**

When budget decisions are being made for the FY 2004-05 biennium, the implications of those decisions on revenues and expenditures for the FY 2006-07 biennium will be tracked. In this forecast, projections for FY 2006-07 show expenditures exceeding revenues by \$2,266 million for that biennium.

|                         |                       |
|-------------------------|-----------------------|
| FY 2006-07 Revenues     | \$29,987 million      |
| FY 2006-07 Expenditures | <u>32,253 million</u> |
| Difference              | -\$ 2,266 million     |

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