Fiscal Analysis Department
Minnesota House of Representatives

Issue Brief

The November 2001 General Fund Budget Forecast

The forecast of general fund revenues and expenditures released by the Department of Finance on December 4, 2001 substantially lowered the projected balances in FY 2002-03 and FY 2004-05 from the end of session estimates and the February 2001 forecast.

Fiscal Year 2002-03 Deficit is $1,953 Million

The general fund balance for the biennium ending June 30, 2003 is projected to be -$1,953 million. This is $2,188 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 end of the 2001 special session.

FY 2002-03 General Fund
(dollars in millions)

	Nov 2001 Change from EOS 01
Revenue Decrease	(2,095)
Expenditure Increase	(85)
Other Changes	(8)
Net Changes	(2,188)
End of 2000 Session Balance	235
Additional Resources Available	**(1,953)**

Note: EOS is End of Special Session

Fiscal Years 2004-05 Planning Estimate Deficit is $2,535 Million

The projected general fund deficit for the FY 2004-05 biennium is -$2,535 million. This is $2,842 million less than the balance left at the end of the 2001 session. On a fiscal year basis, the -$2,535 million is made up of -$1,301 million in FY 2004 and -$1,234 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. Planning estimate inflation is increased from 2.0% used in the February 2001 session and end of session number to 2.5% in this forecast since forecasts of inflation for FY 2004 and 2005 have increased. The increase from 2.0% to 2.5% commits

approximately $231 million additional for the planning estimate inflation. (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 end of 2001 special session numbers.

FY 2004-05 General Fund
(dollars in millions)

	EOS 01 FY 04	Nov 01 FY 04	Change	EOS 01 FY 05	Nov 01 FY 05	Change	EOS 01 FY 04-05	Nov 01 FY 04-05	Change
Forecast Revenues	15,341	14,136	(1,205)	16,168	14,911	(1,257)	31,509	29,047	(2,462)
Forecast Expenditures	14,984	15,069	(85)	15,322	15,386	(64)	30,306	30,455	(149)
Difference	357	(933)	(1,290)	846	(475)	(1,321)	1,202	(1,408)	(2,611)
Planning Estimate Inflation	292	368	76	604	759	155	896	1,127	231
Difference - Amount Available	65	(1,301)	(1,366)	242	(1,234)	(1,476)	307	(2,535)	(2,842)

Fiscal Year 2001 Projected Balance is $158 Million

The general fund balance for the biennium that ended June 30, 2001 is projected to be $158 million. By law (M.S. 16A.1522), this balance must be reserved in a tax relief account. However, the law does not state a specific purpose for the tax relief account; the balance will remain there until appropriated for some purpose. The chart below shows changes for FY 2000-01 from the end of the 2001 special session.

FY 2000-01 General Fund
(dollars in millions)

	Nov 2001 Change from EOS
Revenue Increase	53
Expenditures Decrease	412
Change in Dedicated Reserves	9
Net Changes	474
Appropriation Carried Forward into FY 2002	315
Transfer to Tax Relief Account	158

Revenue and Expenditure Changes for FY 2002-03

Most major revenue sources are down from the February forecast and the end of special session. The next chart shows the changes in the big five revenue sources since the end of the 2001 special session.

The Major General Fund Revenue Sources for FY 2002-03
(Dollars in millions)

	EOS 2001	Nov 2001	Change
Individual Income Tax	13,064	12,191	(873)
Sales Tax	8,321	7,492	(829)
Corporate Income Tax	1,672	1,202	(470)
Motor Vehicle Sales Tax	624	666	42
Statewide Property Tax	888	893	5
Other Revenues	2,981	3,011	30

Expenditure estimates for FY 2002-03 have increased a net $85 million from expenditures amounts at the end of the 2001 special session. The primary changes in expenditures are higher estimates of K-12 Education enrollments and higher health care cost estimates. Expenditures for K-12 education are higher than projected at the end of session, primarily due to increases in the general education program as a result of higher pupil counts. Health and Human Service expenditures are up from the end of session amounts. Within the Health and Human Service area, Medicaid spending is down but expenditures for General Assistance Medical Care (GAMC), Minnesota Family Investment Plan (MFIP) and General Assistance are up. Expenditures for debt service payments are down.

Reserves

The budget reserve contains $653 million. The cash flow account has $350 million. The newly created 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. DRI's control forecast projects a three quarter recession that would end in early calendar year 2002. DRI now assigns a 55 percent probability to its control forecast and assigns a 30 percent probability to a forecast projecting a longer recession. The Department of Finance and the state's Council of Economic Advisors suggests that the risks of this forecast being too positive are much greater than it being too low.

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