

# Overview - State Budget Situation

The 2001 Legislature considered the allocation of \$28.7 billion in general fund resources for the FY 2002-03 biennium and another \$856 million for FY 2001. The \$28.7 billion for FY 2002-03 was \$2.3 billion above the base level of expenditures and reserves. The \$28.7 billion was also \$1.56 billion above the planning estimate level of expenditure for FY 2002-03.

Inflation is added to the base level expenditures to determine the planning estimates. Planning estimates are used in budget forecasts. In the February 2001 general fund forecast, revenues were projected to exceed planning estimate expenditures by \$1.56 billion.

Figure 1

<b>State General Fund Summary for FY 2002-03 Based on February 2001 forecast Reserves are excluded (Dollars in millions)</b>	
	<b>FY 2002-03</b>
<b>Resources</b>	<b>28,726</b>
Base Level Expenditures	25,320
Reserves	<u>1,109</u>
Difference	2,297
Planning Estimate Inflation	735
<b>Balance</b>	<b><u><u>1,561</u></u></b>

## Fiscal Year 2001

The February 2001 general fund forecast projected that the ending balance for FY 2001 would be \$856.5 million. As of July 16 following the end of the biennium, the FY 2001 ending balance was revised at \$791 million. This amount was used to calculate the 2001 sales tax rebate.

Figure 2

<b>FY 2001 Budget Adjustments (Dollars in millions)</b>	
<b>February Forecast Projected Balance</b>	<b>856.5</b>
<b>Revenue Changes</b>	
Difference	36.5
Legislation - Federal Conformity	4.0
<b>Expenditure Changes</b>	
Tax Rebate Administration	2.2
Transportation	13.7
Disaster Match and Others	8.7
<b>Rebate</b>	<b><u><u>791.3</u></u></b>

Several changes to FY 2001 occurred between the February forecast and the end of the biennium. As of July 16, state revenues are \$41 million lower than projected in the February forecast. Of this amount, \$37 million is due to final revenues being lower than the February projections, the other \$4 million reduction is due to 2001 legislation implementing some federal conformity tax provisions.

Expenditures are \$25 million higher than estimated in the February forecast due to expenditure increases authorized in 2001 legislation. FY 2001 transportation spending was increased \$14 million (primarily to reimburse the highway user fund for revenue loss due to the earlier than anticipated implementation of license tab fee reductions in 2000), judiciary finance spending was increased \$9 million primarily to increase state funds available to match federal disaster funds and \$2 million was appropriated to administer the sales tax rebate.

## FY 2002-03

Total resources available for the FY 2002-03 biennium are projected at \$28.7 billion. The single largest source of revenue is individual income taxes at \$13.026 billion or 45.3 percent of the total general fund revenue. Sales taxes make up \$8.375 billion or 29.2 percent. These two revenue sources make up 74.5 percent or almost three quarters of the total general fund resources available for FY 2002-03. A balance of \$1.109 billion is carried forward from FY 2001. This amount represents balances in the budget reserve, cash flow account and in dedicated reserves.

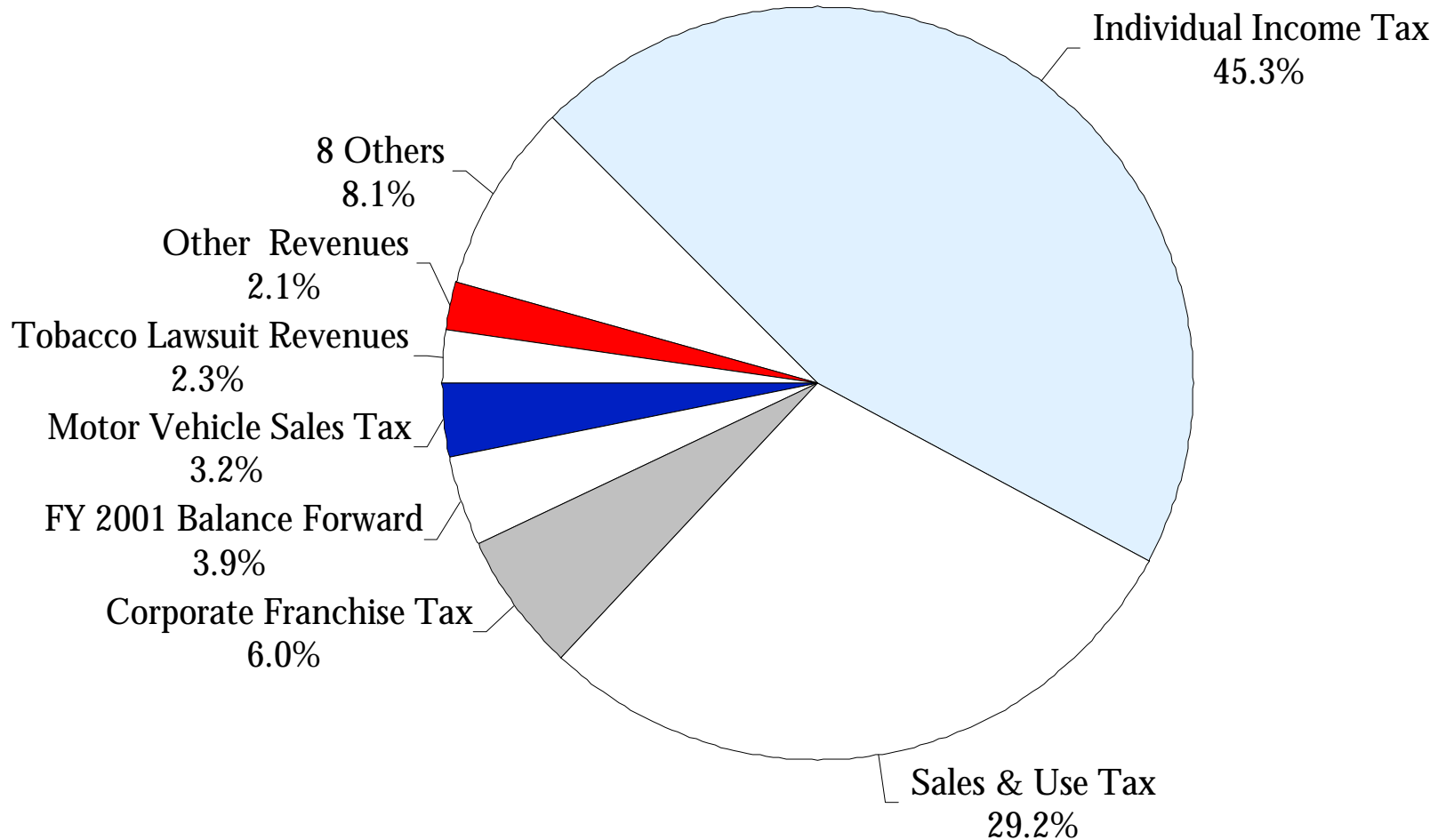
Figure 3

**State General Fund Resources by Major Category  
for FY 2002-03  
Based on February 2001 forecast  
(Dollars in millions)**

	<b>FY 2002-03</b>	<b>% of Total</b>
Individual Income Tax	13,026.3	45.3%
Sales & Use Tax	8,374.6	29.2%
Corporate Franchise Tax	1,720.6	6.0%
Motor Vehicle Sales Tax	911.6	3.2%
Deed & Mortgage Registration	310.8	1.1%
Insurance Gross Earnings & Fire Marshal	377.7	1.3%
Lawful Gambling Taxes	122.2	0.4%
Health Care Provider Tax	262.5	0.9%
Investment Income	175.0	0.6%
Liquor/Tobacco Taxes	460.0	1.6%
Dedicated Revenues	282.6	1.0%
Departmental Earnings (fees)	346.0	1.2%
Tobacco Lawsuit Revenues	657.1	2.3%
Other Revenues	589.6	2.1%
FY 2001 Balance Forward *	1,109.4	3.9%
<b>Total Resources</b>	<b>28,725.9</b>	<b>100.0%</b>

\* The FY 2001 balance forward does not include \$856.5 million designated for a tax rebate.

**Where General Fund Resources Come From**  
**FY 2002-03 General Fund = \$28.7 Billion**  
**Based on February 2001 Forecast**



## FY 2002-03 General Fund Budget

Of the \$28.7 million available, 30.5 percent was appropriated for K-12 education. Adding that together with appropriations for higher education and family and early childhood education, 42.3 percent of the budget was appropriated to the education areas. However, a significant portion of the 14.3 percent appropriated for property tax aids and credits will also be payments to school districts to eliminate the general education levy beginning in FY 2003 and to reduce other school property tax levies.

Expenditures for programs in the health and human services area accounted for 22.2 percent of the available funds. Two other significant points are the \$235 million that was left unspent to deal with the economic uncertainty and \$31 million added to the budget reserve to bring the total reserves to \$1.14 billion.

Figure 5

**State General Fund Allocations by Major Category  
for FY 2002-03  
Based on 2001 Special Session  
(Dollars in millions)**

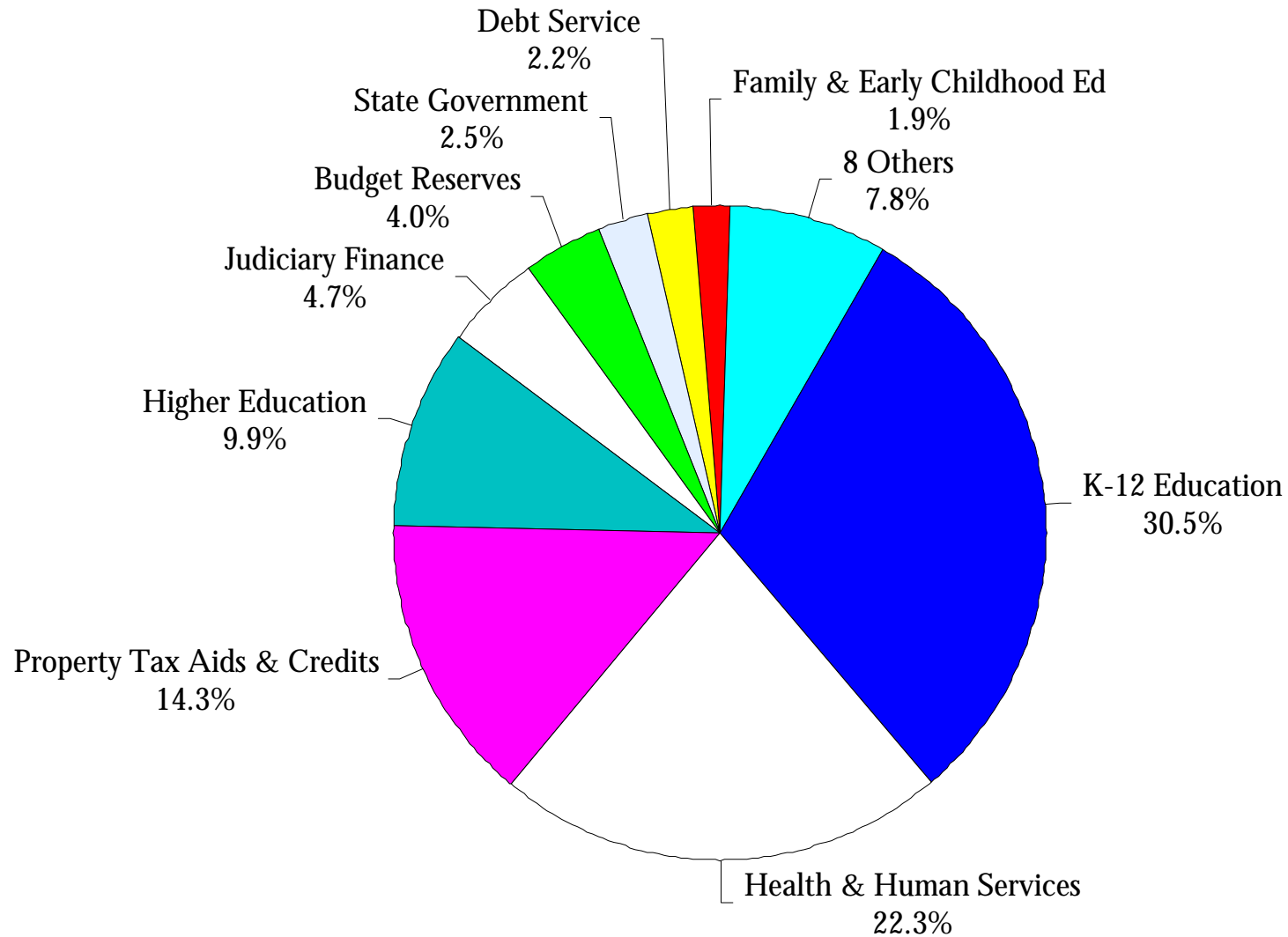
State Tax Reductions	*	114.9	0.4%
Property Tax Aids & Credits	*	4,109.3	14.3%
K-12 Education		8,758.2	30.5%
Family & Early Childhood Ed		544.0	1.9%
Higher Education		2,844.3	9.9%
Health & Human Services		6,391.7	22.3%
Environment		418.6	1.5%
Agriculture		129.0	0.4%
Economic Development		363.9	1.3%
Judiciary Finance		1,350.9	4.7%
State Government		712.7	2.5%
Transportation		215.0	0.7%
Debt Service		629.7	2.2%
Budget Reserves		1,140.0	4.0%
Other		426.0	1.5%
Tobacco Endowment		343.4	1.2%
Unspent-Budget Balance		235.0	0.8%
<b>Total</b>		<b>28,726.7</b>	<b>100.0%</b>

\* The new statewide property tax is included in the Property Tax Aids & Credits.

# Allocation of General Fund Resources

FY 2002-03 General Fund = \$28.7 Billion

Based on 2001 Special Session



**FY 2002-03 Budget Changes - Fiscal Bill Targets**

When targets are set for the finance bills, those targets consider the total general fund impact of the bill. With the exception of the tax bill, the fiscal effect of the finance bill is primarily a result of expenditures. (The Tax Bill is responsible for the expenditures for the property tax aids and credits but often makes substantial changes in the collection of state tax revenues as well.) However, many finance bills do make changes in non-tax revenues as well. Non-tax revenue changes are primarily in the form of fee changes.

Revenue increases in a bill allow for a higher level of expenditures. For example, if the general fund target for a bill is \$500 million but the bill also contains fee increases of \$2 million, the total expenditures in the bill can be \$502 million. The \$502 million of expenditures minus the \$2 million of revenue increases results in a net fiscal impact of \$500 million.

For purpose of setting targets, the net general fund impact of the bill is the number that is measured. However, when considering changes in total general fund expenditures, the expenditure number only must be considered. Changes in revenue are a separate calculation. *Figure 7* shows the revenue, expenditure and net general fund effects of fiscal bills passed in the 2001 Special Session. Some bills such as Higher Education had no revenue changes so the expenditures and net impact are the same. Most bills had some revenue changes.

Figure 7

**General Fund Fiscal Impact - 2001 Session**

(Dollars in thousands)

**1. General Fund - Expenditures**

	<b>FY 02</b>	<b>FY 03</b>	<b>FY 02-03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 04-05</b>
K-12 Education	4,308,186	4,450,316	<b>8,758,502</b>	4,498,320	4,533,105	<b>9,031,425</b>
Family & Early Childhood Ed	273,571	270,471	<b>544,042</b>	276,113	280,565	<b>556,678</b>
Higher Education	1,380,089	1,464,164	<b>2,844,253</b>	1,477,496	1,477,496	<b>2,954,992</b>
Environment	203,568	206,632	<b>410,200</b>	205,316	205,587	<b>410,903</b>
Agriculture	64,422	64,630	<b>129,052</b>	64,501	62,286	<b>126,787</b>
Health & Human Services	3,049,457	3,372,200	<b>6,421,657</b>	3,519,036	3,753,249	<b>7,272,285</b>
Judiciary - HHS Bill	413,000	429,246	<b>842,246</b>	439,992	448,459	<b>888,451</b>
Judiciary - Transportation Bill	254,640	264,308	<b>518,948</b>	266,475	269,998	<b>536,473</b>
Economic Development	194,120	195,860	<b>389,980</b>	183,836	183,706	<b>367,542</b>
State Government	393,481	381,130	<b>774,611</b>	376,370	378,041	<b>754,411</b>
Transportation	117,426	98,708	<b>216,134</b>	96,401	96,380	<b>192,781</b>
Taxes	1,853,825	3,006,687	<b>4,860,512</b>	3,199,984	3,249,979	<b>6,449,963</b>
Debt Service	297,087	332,652	<b>629,739</b>	324,861	333,191	<b>658,052</b>
Claims Bill (Ch 169)	251	0	<b>251</b>	0	0	<b>0</b>
Budget Reserve	31,000	0	<b>31,000</b>	31,000	0	<b>31,000</b>

**2. General Fund - Non-tax Revenue Changes**

	<b>FY 02</b>	<b>FY 03</b>	<b>FY 02-03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 04-05</b>
K-12 Education	165	165	330	165	165	330
Family & Early Childhood Ed	0	0	0	0	0	0
Higher Education	0	0	0	0	0	0
Environment	(3,229)	(5,143)	(8,372)	(5,101)	(4,851)	(9,952)
Agriculture	18	17	35	17	17	34
Health & Human Services	17,741	12,245	29,986	8,874	7,071	15,945
Judiciary - HHS Bill	1,085	7,984	9,069	14,781	14,977	29,758
Judiciary - Transportation Bill	618	624	1,242	624	624	1,248
Economic Development	13,907	12,135	26,042	43	(20)	23
State Government	26,786	35,117	61,903	23,032	26,625	49,657
Transportation	550	550	1,100	550	550	1,100
Taxes	300	300	600	300	300	600
Tobacco Settlement to Endowment	(227,236)	(116,177)	(343,413)	0	0	0

**3. General Fund - Net Expenditures and Non-tax Revenue Changes**

	<b>FY 02</b>	<b>FY 03</b>	<b>FY 02-03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 04-05</b>
K-12 Education	4,308,021	4,450,151	<b>8,758,172</b>	4,498,155	4,532,940	<b>9,031,095</b>
Family & Early Childhood Ed	273,571	270,471	<b>544,042</b>	276,113	280,565	<b>556,678</b>
Higher Education	1,380,089	1,464,164	<b>2,844,253</b>	1,477,496	1,477,496	<b>2,954,992</b>
Environment	206,797	211,775	<b>418,572</b>	210,417	210,438	<b>420,855</b>
Agriculture	64,404	64,613	<b>129,017</b>	64,484	62,269	<b>126,753</b>
Health & Human Services	3,031,716	3,359,955	<b>6,391,671</b>	3,510,162	3,746,178	<b>7,256,340</b>
Judiciary - HHS Bill	411,915	421,262	<b>833,177</b>	425,211	433,482	<b>858,693</b>
Judiciary - Transportation Bill	254,022	263,684	<b>517,706</b>	265,851	269,374	<b>535,225</b>
Economic Development	180,213	183,725	<b>363,938</b>	183,793	183,726	<b>367,519</b>
State Government	366,695	346,013	<b>712,708</b>	353,338	351,416	<b>704,754</b>
Transportation	116,876	98,158	<b>215,034</b>	95,851	95,830	<b>191,681</b>
Taxes	1,853,525	3,006,387	<b>4,859,912</b>	3,199,684	3,249,679	<b>6,449,363</b>
Tobacco Settlement to Endowment	227,236	116,177	<b>343,413</b>	0	0	<b>0</b>
Debt Service	297,087	332,652	<b>629,739</b>	324,861	333,191	<b>658,052</b>
Claims Bill (Ch 169)	251	0	<b>251</b>	0	0	<b>0</b>
Budget Reserve	31,000	0	<b>31,000</b>	31,000	0	<b>31,000</b>

General fund expenditures for FY 2002-03 are expected to be \$27.6 billion. Current biennium revenues are expected to be \$27.9 billion. In addition to expenditures, the budget reserve is increased \$31 million and a budget balance or “bottom line” of \$235 million is projected as of June 30, 2003. *Figure 8* illustrates the general fund budget situation for the FY 2002-03 biennium.

Figure 8

<b>FY 2002-03 General Fund Budget</b>	
<i>(dollars in millions)</i>	
<b><u>Resources</u></b>	
FY 2001 Balance Forward	1,109.4
Tax and Other Revenues - Feb 2001	27,332.9
Revenue Changes - 2001 Session	267.1
Dedicated Revenues	<u>284.1</u>
<b>Total Resources</b>	<b>28,993.5</b>
<b><u>Expenditures</u></b>	
K-12 Education	8,758.5
Family & Early Childhood Ed	544.0
Higher Education	2,844.3
Property Tax Aids & Credits	4,860.5
Environment	410.2
Agriculture	129.1
Health & Human Services	6,421.7
Judiciary	1,361.2
Economic Development	390.0
State Government	774.6
Transportation	216.1
Debt Service	629.7
Other	(19.7)
Dedicated Expenditures	<u>284.1</u>
<b>Subtotal - Expenditures</b>	<b>27,604.2</b>
Budget Reserve	653.0
Cash Flow Account	350.0
Dedicated Reserves	<u>151.4</u>
<b>Subtotal - Reserves</b>	<b>1,154.4</b>
<b>Totals Expenditures &amp; Reserves</b>	<b>28,758.5</b>
<b>Budget Balance</b>	<b>234.9</b>

General fund expenditures for FY 2002-03 will increase 12.3 percent on a biennial basis over FY 2000-01 based on expenditures anticipated as of the end of the 2001 special session. It is important to note that this is a biennial comparison - the comparison of two fiscal years to the prior two fiscal years. Annual comparisons of spending changes would be considerably lower. *Figure 9* shows the expenditure change for the general fund and for each committee area.

Property tax reductions are achieved by the state making payments to replace those property taxes. Those payments have the effect of increasing state spending. The 2001 Legislature enacted substantial increases in expenditures for property tax aids and credits beginning in FY 2003. If the expenditures for property tax aids and credits had been held at the previously forecasted level for FY 2002-03 and other expenditure areas stayed the same, the general fund expenditure change for FY 2002-03 compared to FY 2000-01 would have been 6.6 percent. *Figure 9* shows these comparisons.

**Change in General Fund Expenditures**

(Dollars in thousand)

	<b>FY 00-01 Biennium</b>	<b>FY 02-03 Biennium</b>	<b>Biennial Change</b>	<b>Percent Change</b>
<b>Expenditures</b>				
K-12 Education	8,112,929	8,758,502	645,573	8.0%
Family & Early Childhood Education	435,948	544,042	108,094	24.8%
Higher Education	2,641,776	2,844,253	202,477	7.7%
Property Tax Aids & Credits	3,310,606	4,860,512	1,549,906	46.8%
Health & Human Services	5,415,530	6,421,657	1,006,127	18.6%
Environment	416,106	410,200	(5,906)	-1.4%
Agriculture	133,031	129,052	(3,979)	-3.0%
Economic Development	467,771	389,980	(77,791)	-16.6%
Judiciary Finance	1,174,197	1,361,194	186,997	15.9%
State Government	779,346	774,611	(4,735)	-0.6%
Transportation	504,005	216,134	(287,871)	-57.1%
Capital Projects - Transportation Bill	62,300		(62,300)	-100.0%
Debt Service	567,191	629,739	62,548	11.0%
Capital Projects	113,850		(113,850)	-100.0%
MVET Transfer	149,804		(149,804)	-100.0%
Other Bills	22,449	251	(22,198)	-98.9%
Dedicated Expenditures	300,948	284,062	(16,886)	-5.6%
Cancellation Adjustment/Other	(17,006)	(20,000)	(2,994)	17.6%
<b>Total General Fund Expenditures</b>	<b>24,590,781</b>	<b>27,604,189</b>	<b>3,013,408</b>	<b>12.3%</b>
Totals without increase in property tax aids	<b>24,590,781</b>	<b>26,209,253</b>	<b>1,618,472</b>	<b>6.6%</b>

**FY 2004-05 Budget**

Based on projected revenues and expenditures, and included 2 percent inflation, the general fund budget for FY 2004-05 is balanced. *Figure 10* illustrates the estimated budget situation for FY 2004-05. Given the current circumstance, the June 30, 2005 balance is projected to be \$437 million. The two percent inflation or “planning estimate inflation” is \$895.6 million. It is important to note that this inflation increase is not part of a budget base but is added for planning purposes.

*Figure 10*

<b>FY 2004-05 General Fund Budget</b>	
<i>(Dollars in millions)</i>	
<b>Resources</b>	
FY 2003 Balance Forward	1,389.4
Tax and Other Revenues	31,398.1
Dedicated Revenues	<u>307.9</u>
<b>Total Resources</b>	<b>33,095.4</b>
<b>Expenditures</b>	
K-12 Education	9,031.4
Family & Early Childhood Ed	556.7
Higher Education	2,955.0
Property Tax Aids & Credits	6,450.0
Environment	397.9
Agriculture	126.8
Health & Human Services	7,272.3
Judiciary	1,425.0
Economic Development	367.5
State Government	754.4
Transportation	192.8
Debt Service	658.1
Other	(5.0)
Dedicated Expenditures	307.9
Planning Estimate Inflation	<u>895.6</u>
<b>Subtotal - Expenditures</b>	<b>31,386.3</b>
Budget Reserve	684.0
Cash Flow Account	350.0
Dedicated Reserves	<u>225.2</u>
<b>Subtotal - Reserves</b>	<b>1,259.2</b>
<b>Totals Expenditures &amp; Reserves</b>	<b>32,645.5</b>
<b>Budget Balance</b>	<b>449.9</b>

**The Surplus**

The February 2001 general fund forecast showed a general fund “surplus” of \$1.561 billion for FY 2002-03. In discussing how the surplus was used, it is important to know what the forecast measured and how the “surplus” was determined . The forecast compares total resources expected to be available during the FY 2002-03 biennium to forecasted expenditures for the same period. For FY 2002-03, the expenditure amounts included “planning estimate” inflation of two percent per year. These inflation amounts are added to the base level appropriations for forecast purposes. Planning estimate inflation totaled \$735 million for FY 2002-03. This \$735 million was already counted as an expenditure so it was not part of the \$1.561 billion surplus. *Figure 11* shows how the “surplus” for FY 2002-03 was allocated. A negative amount indicates that the final enacted expenditure for that area was less than the forecasted amount (the forecast included two percent inflation per year).

Figure 11

**Distribution of the General Fund "Surplus" for FY 2002-03  
End of Special Session (EOSS) compared to February forecast**  
(These February forecast numbers include planning estimate inflation.)

*(Dollars in millions)*

	Feb Pl Est	EOSS	Difference	Percent
Tax Aids and Credits, other tax changes	3,570.5	4,224.2	653.7	41.9%
K-12 Education	8,618.0	8,758.2	140.2	9.0%
Higher Education	2,749.0	2,844.2	95.2	6.1%
Family & Early Childhood Ed	560.4	544.0	(16.4)	-1.1%
Environment & Agriculture	547.8	547.6	(0.2)	-0.0%
Health and Human Services	6,388.6	6,391.7	3.1	0.2%
Economic Development	376.3	363.9	(12.3)	-0.8%
Judiciary/Crime Prevention	1,271.5	1,350.9	79.3	5.1%
State Government	728.1	712.7	(15.4)	-1.0%
Transportation	184.9	215.0	30.1	1.9%
Debt Service	620.7	629.7	9.1	0.6%
Budget Reserve		31.0	31.0	2.0%
Endowment for Academic Health Ctr		343.4	343.4	22.0%
Other Bills	15.0	0.3	(14.7)	-0.9%
Not Spent - Budget Balance		235.0	235.0	15.1%
<b>Total Change</b>			<b>1,561.0</b>	<b>100.0%</b>

**For additional information on overall budget issues, contact Bill Marx, Chief Fiscal Analyst, at 296-7176 or [bill.marx@house.leg.state.mn.us](mailto:bill.marx@house.leg.state.mn.us)**