



State Budget Notes

THE PROBLEM FACING THE NEW BUDGET

In the State Budget Note of December 2001, CRC provided projections of operating budget gaps confronting the State as the FY2003 budget is developed. On January 15, 2002, the Consensus Revenue Estimating Conference adopted revised forecasts that will be used for the development of the General Fund-General Purpose (GF-GP) and School Aid Fund (SAF) budgets for FY2003. These new forecasts will be reflected in the Governor's budget to be presented on February 7, 2002. In addition, the State released the preliminary financial results from FY2001. The results were more favorable than expected, especially in the School Aid Fund, which fin-

ished with a surplus more than \$200 million larger than the State had projected. The increased School Aid Fund surplus was principally the result of windfalls not likely to repeat themselves in subsequent years. The effect of these results is to make nearly \$200 million more funding in the Rainy Day Fund available to support the FY2003 budget.

The tables included in the December budget note are revised as follows. Included are some other minor revisions in spending items as well:

Table 1
General Fund-General Purpose Budget Summary
Fiscal Years 2002 and 2003
(in millions)

	FY2002	FY2003
Estimated Revenues Before Future Tax Cuts	\$8,758	\$9,022
Incremental FY03 Cost of Jan. 2003 Tax Cuts		(233)
Incremental FY03 Cost of Federal Tax Reform		(65)
Available Revenues	8,758	8,724
Estimated FY02 Appropriations	9,615	9,615
Executive Order Reductions-Permanent	(250)	(250)
Increased Bond Interest		24
Required State Match for Medicaid		75
Corrections Population Increases		60
General Inflation (e.g. pay raises, insurance, utilities)		100
Inflation for Higher Education (3%)		64
Medicaid Cost and Price Increases		50
One-time Budget Adjustments	(430)	
Rainy Day Fund	(155)	
Adjusted Budget	8,780	9,737
Projected Balance Before FY2003 Balancing Actions	(22)	(1,013)
The Structural Budget Problem	(628)	(1,013)

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General Fund-General Purpose

The FY2002 GF-GP revenue forecast is \$50 million below the October Consensus and the FY2002 budget gap worsens as a result. The FY2003 GF-GP revenues are only slightly below the figure included in the December Budget Note and

consequently the general conclusions are essentially unchanged. These projections incorporate additional costs identified in the December Note but excluded from the calculation of the overall problem. Failure to fund these additional costs would have the effect of reducing program services. For FY2003 the state will somehow

have to close a gap of approximately \$1 billion by some combination of spending cuts, one-time budget actions such as money from the Rainy Day fund, and revenue enhancements such as redirecting tobacco settlement revenues and delaying scheduled future tax cuts.

Table 2
School Aid Fund Budget Summary
Fiscal Years 2002 and 2003
(in millions)

	FY2002	FY2003
Estimated Base Revenues	\$10,213	\$10,597
Federal Revenue	205	235
GF-GP Grant	198	198
Rainy Day Fund-Durant Settlement	32	32
Prior Year School Aid Fund Balance	695	
Rainy Day Fund Withdrawal	107	
Available Revenues	11,451	11,062
Estimated FY02 Appropriations	11,458	11,458
Executive Order Reductions-Permanent	(7)	(7)
Foundation Allowance Increase to \$6,700		253
Adjusted Budget	11,451	11,704
Projected Balance Before FY2003 Balancing Actions	(0)	(642)
Structural Budget Problem	(802)	(642)

School Aid Fund

The SAF revenue forecast for FY2002 is \$24 million higher than the October consensus. In addition, the SAF balance carrying into FY2002 from FY2001 increased by \$202 million from earlier estimates. This has the effect of reducing the Rainy Day Fund withdrawal for school aid making a larger amount potentially available to assist in the FY2003 GF-GP and SAF budgets. The projected Rainy Day Fund bal-

ance carrying into FY2003 is approximately \$700 million, with \$67 million already committed to the Durant settlement and transportation bonding.

The FY2003 SAF revenues are \$92 million higher than the figure used in the December budget note and, combined with other minor adjustments reduce the gap for that year from \$756 million to \$642 million. These estimates of the gap include the cost of funding an increase in the

per student foundation allowance from \$6,500 to \$6,700 as originally appropriated in the three-year School Aid budget. There is little likelihood that this increase will be included in the FY2003 budget proposal. Furthermore, in order to avoid cutting school aid spending from the FY2002 level, approximately \$400 million of additional funding, potentially of a one-time nature, will have to be found.

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Assuming that the foundation allowance is maintained at \$6,500, the overall problem between the two

funds totals approximately \$1.4 billion for FY2003. Adopting a multi-year strategic approach to solving this

very large gap remains an important responsibility for state policy-makers to address.

Table 3
Potential General Fund Budget Balancing Actions
(in millions)

Expenditure Reductions	??
Tobacco Settlement Revenues	\$100-200
Medicaid Special Reimbursement Revenues (one-time)	60-100
Continue FY2002 General Revenue Sharing Reductions	68
Postpone January I, 2003 Income Tax Cut	144
Postpone January I, 2003 Single Business Tax Cut	89
Rainy Day Fund Withdrawal (one-time)	500

Table 4
Potential School Aid Fund Budget Balancing Actions
(in millions)

Expenditure Reductions	??
Exclude Funding for \$6,700 Foundation Allowance	\$253
Tobacco Settlement Revenues	100-200
Rainy Day Fund Withdrawal (one-time)	500
Collect All State Education Property Taxes in Summer (one-time)	700
Collect All Local School Operating Taxes in Summer (one-time)	900