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BRIEFLY

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State Revenue Forecast Reduced Again

The Revenue Forecast Council met Tuesday, February 19, to revise the general fund revenue forecast for the 2001-03 biennium and to adopt the first forecast of revenues for the 2003-05 biennium. With the release of these forecasts, the magnitude of the fiscal problem facing the state is clearer. From this point on, the budget will be a primary focus of legislative deliberations.

The forecast of revenues for the 2001-03 biennium dropped by \$247 million, to \$20,962 million.

Since the legislature came into session in January 2001 to write a budget for the 2000-03 biennium, the forecast of 2001-03 revenues has been revised five times. In each case the revision has been downward, a total reduction of \$1.37 billion. See Chart 1. The largest decrease, \$813, million came in November forecast, which was the first forecast prepared after the September 11 terrorist attacks.

The \$247 million revenue drop just announced includes a reduction of \$266 million due to worsening economic conditions and a \$19 million gain in estate taxes. In June, the Forecast Council had reduced the revenue forecast under the expectation that changes in the federal estate tax law would cut state estate tax collections. It now appears that state estate tax collections will be unaffected by the federal changes.

Chart 2 presents an updated balance sheet for the 2001-03 biennium.

In late June, the legislature adopted a general fund budget for the 2001-03 biennium that spent \$22,783 million. Under the budget, the state was expected to end the biennium with a \$161 million balance in the general fund and \$446 million in the emergency reserve. Since June, the general fund revenue forecast for the biennium has been reduced by \$1,154 million. At the same time, a lower than anticipated surplus in the 1999-2001 biennium and lower interest rates have reduced the emergency reserve by \$62 million.

With the reduced forecast, general fund appropriations for the biennium exceed revenues by \$1,822 million. At the time that the budget was passed, the excess of appropriations over revenues was \$667 million. This shortfall was covered by transferring \$228 million into the general fund from other accounts (the health services account, the multimodal transportation account, and the treasurers service account) and by drawing down reserves by \$439 million. Now the projected ending balance in the general fund is negative \$994.

This \$994 million negative balance understates the hole in the budget. The state faces a number of "mandatory" expenditures that are not covered by the

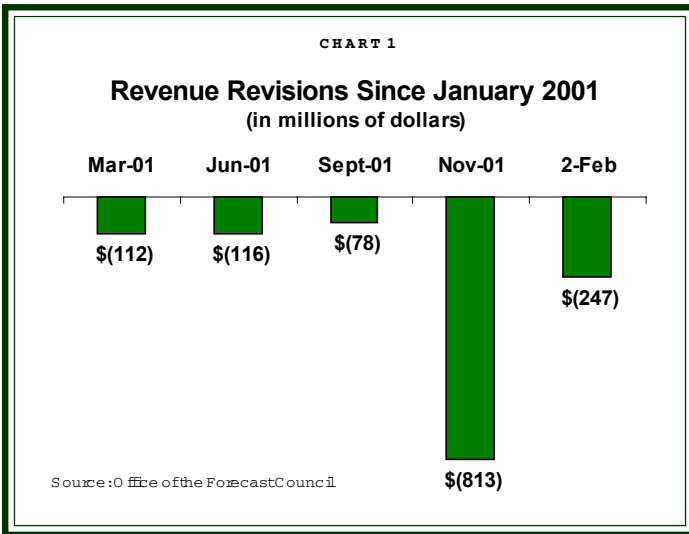




CHART 2
2001-03 General Fund State Balance Sheet
 (February forecast, millions of dollars)

Revenues	20,962	(February forecast, down 1,154 since the budget was adopted in June)	
2001-03 Appropriations	22,783	(June budget; excludes "mandatory" adds for K-12 enrollments, etc)	
General Fund Balance			
Beginning Balance	600		
Revenue Less Appropriations	(1,822)	}	150 from Health Services Account
Transfers	228		70 from Multimodal Account
Ending Balance	<u>(994)</u>		8 from Treasurer's Service Account
Emergency Reserve Fund			
Beginning Balance	462		
Transfer	(70)	To Multimodal Account	
Appropriations	(25)	For Earthquake/Drought/Energy	
Interest	17		
Ending Balance	<u>384</u>		

Source: Research Council compilation from Office of Financial Management and House and Senate Fiscal Committees balance sheet.

\$22,783 million in appropriations. These include the costs of fighting last summer's forest fires, higher than budgeted school enrollments, higher than anticipated social service caseloads, and tort claim costs. Some estimates have placed these costs at more than \$300 million. New forecasts of enrollments and caseloads are due on Wednesday, February 20.

The budget situation will continue to be very tight in the next biennium. The Forecast Council's initial forecast of revenue for the 2003-05 biennium is \$22,790 million. This is only \$7 million more than the amount currently appropriated for 2001-03. And it is \$1,676 less than the preliminary Initiative 601 expenditure limit for the biennium set last November. The situation is made tighter by Initiative 728, which mandates that additional property taxes be transferred from the general fund in FY 2005 to the student achievement account.

CHART 3
2003-05 Looks Very Tight

Forecast 2003-05 Revenues (February 2002)	\$22,790 million
2001-03 Appropriations (June 2001)	\$22,783 million
Initiative 601 Spending Limit for 2003-05 (November 2001)	\$24,466 million

The hole in the 2001-03 budget can be patched in three ways, by increasing revenue, by decreasing expenditures, and transferring additional funds to the general fund. In evaluating alternative courses of actions, it is important to keep in mind that the budget problems extend into 2003-05. The patches chosen must be sustainable. One-time transfers of funds that leave expenditures wildly out of line with revenues only postpone the problem.

And it is also important to remember that tax revenues flow from a healthy business climate. Whatever is done to deal with the current budget difficulties, care should be taken not to degrade the competitiveness of the state's economy.

