

Most Areas of State's Budget Cut Significantly From 2002-03 Levels

As a result of budget decisions in the 2003 Special Session, the state's general fund spending is expected to be \$2.509 billion smaller in 2004-05, compared to the 2004-05 base budget. Nearly all major spending areas will see a reduction from their base budget, and many, including Higher Education, Local Government Aids, Agriculture, Jobs and Economic Development, Transportation, and State Government, will actually spend less in 2004-05 — and in 2006-07 — than in 2002-03.

The table below compares the budget decisions made in the 2003 session for each major spending area to the base budget.¹ Three comparisons are made:

- 2004-05 budget decisions compared to the 2002-03 budget. This compares the 2004-05 budget to the previous two-year budget. **The 2004-05 budget is 5.8% higher than the 2002-03 budget, although this largely reflects shifts in education funding, rather than spending increases.**
- 2004-05 budget decisions compared to the 2004-05 base budget.² This shows how the 2004-05 budget decisions are different from what the 2004-05 budget would have been if no changes to current law were made. **The 2004-05 budget is 8.1% smaller than the base budget.**
- 2006-07 budget decisions compared to the 2006-07 base budget. This shows how the 2006-07 budget is different from what the budget would have been if no changes to current law were made. **The 2006-07 budget is 7.2% smaller than the base budget.**

General Fund Spending, \$ in millions

Spending Category	Base Budget			2003 Budget Decisions		Budget Changes		
	2002-03	2004-05	2006-07	2004-05	2006-07	2004-05 budget compared to 2002-03 base	2004-05 budget compared to 2004-05 base	2006-07 budget compared to 2006-07 base
Education	9,978	12,498	12,585	11,883	12,091	19.1%	-4.9%	-3.9%
Higher Education	2,757	2,913	2,902	2,560	2,548	-7.1%	-12.1%	-12.2%
Tax Bill/Local Gov't Aids	3,379	3,279	3,392	2,737	2,923	-19.0%	-16.5%	-13.8%
Health & Human Serv.	6,754	8,089	8,998	7,428	8,327	10.0%	-8.2%	-7.5%
Environment	342	391	393	342	343	-0.2%	-12.7%	-12.8%
Agriculture	105	123	106	91	80	-13.2%	-25.8%	-23.9%
Jobs & Economic Dev.	420	395	393	335	329	-20.2%	-15.1%	-16.1%
Judiciary	1,351	1,527	1,631	1,434	1,507	6.1%	-6.1%	-7.6%
Transportation	318	182	182	161	163	-49.4%	-11.6%	-10.7%
State Government	667	597	596	533	552	-20.1%	-10.7%	-7.5%
Debt Service	581	674	763	674	783	15.9%	0.0%	2.6%
Other	101	142	147	122	126	20.2%	-14.3%	-14.3%
TOTAL SPENDING	26,753	30,810	32,087	28,301	29,771	5.8%	-8.1%	-7.2%

Source: House Fiscal Analysis, *Summary of the Fiscal Actions of the 2003 Legislature*, www.house.mn/fiscal/files/03budsum.pdf.

¹ Base budgets are as measured in the February 2003 forecast. The 2002-03 base budget is adjusted for changes made through unallotment and other changes to FY 2003 made in the 2003 session.

² The 2004-05 and 2006-07 base budgets do not include any inflationary growth over 2002-03 levels, but rather are only adjusted based on forecasted changes, such as changes in school enrollment or expected health care caseloads.

Overall, general fund spending is cut by \$2.509 billion in 2004-05. Another \$1.959 billion in revenues are raised, primarily by eliminating the Tobacco Endowments and transferring the balance (\$1.029 billion) into the general fund, and through various fee increases and other mechanisms. The figures in the table above only include the spending cuts, not the \$930 million in transfers, fee increases, and other revenues that appear in the omnibus spending bills to reach budget targets.³

2004-05 Spending Compared to 2002-03

Comparing 2004-05 to 2002-03, overall spending increases by \$1.548 billion, with the largest increase appearing in Education. However, much of the increase reflects the impact of changes in education funding made in the 2001 Legislative Session, rather than additional resources for education. Under the 2001 property tax reform, the state took over a significant portion of general education funding, which had previously been funded by local property taxes. Approximately \$1 billion of the increase in spending from 2002-03 to 2004-05 comes from the impact of this change. This does not represent an increase in resources for schools, but rather a shift in funding responsibility.

Removing the impact of this \$1 billion increase leaves overall spending growth of around 2%, which is less than the rate of inflation. And in fact, in the majority of spending categories, including Higher Education, Local Government Aid, and Jobs and Economic Development, spending will be less in 2004-05 than it was in 2002-03.

2004-05 Spending Compared to Base Budget

Comparing the 2004-05 budget decisions to the 2004-05 base budget is a better way of understanding what will be different due to decisions made in the 2003 session, because it accounts for the distortions caused by changes in education funding. The base budget describes what it would cost to pay for previously agreed-upon state government commitments. The base budget takes into account changes since the previous biennium in certain “forecasted” programs, particularly education and health care caseloads. When the number of school children decreases, for example, the base budget for education will be smaller than in the previous biennium. That decrease would not represent a reduction of school spending in the sense of cutting back on programs, but rather only reflects demographic trends. Similarly, when the cost of providing a health care procedure increases, the base budget will grow to reflect the higher cost to provide the same level of service to the same number of people. If funding is provided at a lower level than the base budget, then programs will have to change in some way, whether by providing fewer services, serving fewer people, or otherwise changing how programs operate.

The 2004-05 base budget does not include the impact of inflation. If inflation were included, the 2004-05 base budget would be approximately \$1 billion larger. That means that the 8.1% spending reduction is on top of a base budget that has already been eroded by inflation.

2006-07 Spending Compared to Base Budget

The spending cuts made in 2004-05 are not one-time, and their impact will be felt in the following biennium. 2006-07 spending is 7.2% less than the base budget. It is important to recall that in addition to this 7.2% cut, the way forecasts are made assumes that there will be no inflationary increases over 2002-03 levels. In other words, it assumes future legislatures will not provide inflationary increases in program spending or to state employee salaries or benefits above 2002-03 levels. If they wish to do so, that will require new revenues or offsetting spending cuts.

³ For a more detailed listing of the impact of budget decisions on specific programs, see Minnesota Council of Nonprofits/Minnesota Budget Project, *Impact of the Final FY 2004-05 Budget*, www.mncn.org/doc/fy200405.pdf.