

July 2002

ANALYSIS OF 2001-03 GENERAL FUND BUDGET STATUS**2001-03 GENERAL FUND BUDGET
CHANGES**

Due to significant reductions in estimated revenues for the 2001-03 biennium as reported by the Office of Management and Budget on July 9, 2002, the general fund balance on June 30, 2003, is projected to be a negative \$43.3 million rather than a positive \$12 million projected at the end of the 2001 legislative session. The decrease in the projected general fund balance is due to the anticipation of 2001-03 biennium estimated revenues being nearly \$65 million (3.8 percent) less than projected at the end of the 2001 legislative session.

Major areas of projected general fund revenue reductions compared to the original legislative forecast include:

- Individual income taxes, projected to decrease by \$53.6 million (11.9 percent), from \$450.8 million to \$397.2 million.
- Corporate income taxes, projected to decrease by \$19.7 million (18.9 percent), from \$104.4 million to \$84.7 million.
- Interest income projected to decrease by \$10.1 million (48.1 percent), from \$21 million to \$10.9 million.

In order to address the projected \$43.3 million negative general fund ending balance and provide a positive June 30, 2003, balance, the Governor is proposing to:

- Utilize the contingent transfer of an additional \$25 million from the Bank of North Dakota as authorized in Section 12 of 2001 House Bill No. 1015, subject to Budget Section approval;
- Reduce executive branch agency general fund budgets by 1.05 percent through the budget allotment process to generate \$17.6 million of savings; and
- Ask the legislative and judicial branches to voluntarily reduce general fund spending by 1.05 percent to generate \$737,000 of savings in the form of general fund turnback. Attached as Appendix A is a copy of the allotment amounts by agency prepared by the Office of Management and Budget.

The following schedule compares the 2001-03 biennium general fund budget as approved by the 2001 Legislative Assembly to the revised budget forecast, including the additional transfer of \$25 million from the Bank of North Dakota and budget allotments as ordered by Governor Hoeven on July 9, 2002:

	2001 Legislative Assembly Projection	2002 Revised Forecast	Change
July 1, 2001, balance	\$52,662,700	\$62,240,652	\$9,577,952
Estimated revenues	1,614,373,393	1,549,713,860	(64,659,533)
Transfers	91,942,314	116,713,164 ¹	24,770,850
Total available	\$1,758,978,407	\$1,728,667,676	(\$30,310,731)
Appropriations - Executive branch	\$1,676,786,639	\$1,659,180,379 ^{2,3}	(\$17,606,160) ²
Appropriations - Legislative and judicial branches	70,197,074	70,197,074 ⁴	0
Anticipated turnback - Legisla- tive and judicial branches	0	(737,069) ⁴	(737,069)
Total appropriations	\$1,746,983,713	\$1,728,640,384	(\$18,343,329)
Estimated balance - June 30, 2003	\$11,994,694	\$27,292 ³	(\$11,967,402)

¹ Includes the contingent transfer of an additional \$25 million from the Bank of North Dakota as authorized in Section 12 of 2001 House Bill No. 1015. This transfer requires Budget Section approval.

² The appropriations approved by the 2001 Legislative Assembly have been reduced by \$17,606,260 as directed by Governor Hoeven through the budget allotment process provided for in North Dakota Century Code (NDCC) Section 54-44.1-12. The judicial and legislative appropriations are not subject to this provision.

³ The appropriations amount does not include only potential deficiency appropriations that may be requested of the 2003 Legislative Assembly for the 2001-03 biennium. Preliminary estimates are that the request for deficiency appropriations could be at least \$16.2 million, consisting of \$12 million for the Division of Emergency Management for 1997-2001 disasters and \$4.2 million at the University of North Dakota and North Dakota State University for the state's share of disasters.

⁴ Although exempted from the budget allotment process in NDCC Section 54-44.1-12, the Governor has asked the legislative and judicial branches of government to reduce spending to generate savings equal to the 1.05 percent budget allotment applied to other agencies. If the legislative and judicial branches reduce spending to this extent, approximately \$737,000 of general fund money will be available as turnback.

BANK OF NORTH DAKOTA TRANSFERS AND PROFITS

In accordance with Section 11 of 2001 House Bill No. 1015, the 2001-03 biennium general fund budget includes a transfer of \$60 million from Bank of North Dakota profits, \$10 million more than the transfer made during the 1999-2001 biennium. In addition, the Governor is proposing to transfer an additional \$25 million pursuant to Section 12 of 2001 House Bill No. 1015 to provide for the anticipated 2001-03 revenue shortfall. This \$25 million transfer is subject to **Budget Section approval**. The Bank's profits for calendar year 2001 were \$33 million, \$2 million more than estimated profits of \$31 million. The \$31 million is based on one-half of the 2001-03 biennium profit estimate of \$62 million. The Bank is currently anticipating profits of \$31.3 million for calendar year 2002.

The following schedule shows an analysis of the Bank's estimated capital structure for the 2001-03 biennium:

June 30, 2001, capital	\$170,500,000
Estimated 2001-03 biennium profits	64,300,000
2001-03 biennium transfers	(60,000,000)
2001-03 biennium contingent transfer	(25,000,000)
June 30, 2003, estimated capital	\$149,800,000

APPROPRIATIONS COMPARISON

The following schedule provides a comparison of 1999-2001 biennium appropriations approved by the Legislative Assembly, 2001-03 biennium original appropriations, and 2001-03 revised appropriations based on the Governor's 1.05 percent budget allotment and anticipated spending reductions of the legislative and judicial branches:

	1999-2001 Legislative Appropriations	2001-03 Legislative Appropriations	2001-03 Revised Appropriations	Percentage Increase 2001-03 Original to 1999-2001	Percentage Increase 2001-03 Revised to 1999-2001
General fund appropriations	\$1,614,882,210	\$1,746,983,713	\$1,728,640,384	8.2%	7.0%

STATE SCHOOL AID

Although general fund support for state school aid and special education aid will be reduced by \$5,500,639 through the budget allotment process, upon order of the Governor, the funding will be replaced with money available in the foundation aid stabilization fund pursuant to Article X, Section 24, of the Constitution of North Dakota. The foundation aid stabilization fund receives 10 percent of oil tax revenues. As a result, state aid to school districts and special education aid will not be reduced from the amounts approved by the Legislative Assembly. The July 1, 2002, balance in the foundation aid stabilization fund prior to using the \$5.5 million to replace the general fund allotment is \$12.1 million, leaving a balance in the foundation aid stabilization fund of \$6.6 million.

SPECIAL FUND BALANCES

Other special fund balances anticipated to be available on June 30, 2003, include:

Community health trust fund (10% of tobacco proceeds)	\$5,195,313
Health care trust fund (intergovernmental funds)	\$41,100,000 ¹
Permanent oil tax trust fund (receives oil tax revenues in excess of \$62 million for a biennium)	\$13,179,298 ²

¹ The Department of Human Services plans to request from the 2003 Legislative Assembly authority to spend \$5 million to address a 2001-03 budget shortfall.

² Pursuant to NDCC Section 57-51.1-07.2, the principal of the permanent oil tax trust fund may only be spent upon a two-thirds vote of the members-elect of each house of the Legislative Assembly. A transfer of \$13,179,298 was made at the end of the 1999-2001 biennium. The July 2002 forecast has reduced oil tax collections below \$62 million and as a result no transfer is anticipated on June 30, 2003.

2003-05 PRELIMINARY GENERAL FUND REVENUE PROJECTION

The Office of Management and Budget's current estimate of the July 1, 2003, general fund balance is \$27,292 before considering any potential 2001-03 biennium deficiency appropriations or agency turnback. This compares to the July 1, 2001, general fund balance of \$62.2 million.

Preliminary 2003-05 biennium general fund revenue projections released by the Office of Management and Budget on July 9, 2002, reflect total revenues and transfers of \$1,711,104,937. This amount is \$4,789,230 more than the original 2001-03 projection made at the end of the 2001 legislative session of \$1,706,315,707. The following schedule compares the special fund transfers included in the 2003-05 preliminary forecast to the 2001-03 original legislative forecast:

	2001-03 Legislative Forecast	2003-05 Preliminary Forecast	Change
Bank of North Dakota	\$60,000,000	\$60,000,000	\$0
Student loan trust fund	9,000,000	9,000,000	0
Mill and Elevator	6,000,000	3,000,000	(3,000,000)
Water development trust fund	9,733,820	9,733,820	0
Lands and minerals trust fund	3,545,102	3,000,000	(545,102)
Gas tax administration	1,363,392	1,363,392	0

	2001-03 Legislative Forecast	2003-05 Preliminary Forecast	Change
Developmental disabilities loan sale	2,000,000	0	(2,000,000)
Financial insti- tutions regula- tory fund	300,000	0	(300,000)
Total	\$91,942,314	\$86,097,212	(\$5,845,102)

Appendix B provides more detailed information on projected revenues for the 2001-03 biennium and preliminary 2003-05 biennium.

ATTACH:2