

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 14, 2011
TO: Members of the Senate
FROM: Ellen Jeffries, Director
RE: Updated State Budget Year-End Balance Estimates

The Consensus Revenue Estimating Conference reached agreement today on revised General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue estimates for fiscal year (FY) 2010-11. An agreement also was reached on the first consensus estimate of FY 2011-12 GF/GP and SAF revenue. This memorandum provides the Senate Fiscal Agency (SFA) estimates of the year-end balances in the FY 2010-11 GF/GP and SAF budgets using the consensus revenue estimates. This memorandum also looks ahead at the FY 2011-12 GF/GP and SAF budgets using the consensus revenue estimates.

FY 2010-11 Year-End Balances

Based on the consensus revenue estimate and enacted and projected appropriations, the SFA is now estimating that the FY 2010-11 GF/GP budget is in balance by \$364.7 million. Table 1 provides a summary of this estimate. This estimate includes a \$205.2 million budget surplus carried forward from FY 2009-10. This is the level of the FY 2009-10 GF/GP budget surplus reported in the preliminary unaudited financial statement issued by the State Budget Office on December 29, 2010. The current consensus estimate of FY 2010-11 GF/GP revenue represents a \$131.2 million increase from the May 2010 consensus revenue estimate upon which the FY 2010-11 budget was based. It is important to point out that Federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA) is directly supporting almost \$760.0 million of funding that would have to be funded by GF/GP fund sources absent these temporary Federal funds.

Based on the consensus revenue estimate, enacted appropriations, and projected year-end appropriations lapses, the SFA is now estimating that the FY 2010-11 SAF budget is in balance by \$523.8 million. Table 2 provides a summary of this estimate. This estimate includes a \$272.6 million budget surplus carried forward from FY 2009-10. This is the level of the FY 2009-10 SAF budget surplus reported in the preliminary unaudited financial statement issued by the State Budget Office on December 29, 2010. The current consensus estimate of FY 2010-11 SAF revenue represents a \$146.2 million increase from the May 2010 consensus revenue estimate upon which the budget was based. Temporary Federal ARRA funding provides for more than \$500.0 million in revenue for the FY 2010-11 SAF budget. On the expenditure side of the FY 2010-11 SAF budget, a projected \$180.0 million appropriation lapse will occur as a result of re-estimations of the pupil counts and the amount of local property tax revenue that will be generated from the 18-mill property tax on nonhomestead property. The increase in local property tax revenue has the impact of reducing costs in the SAF budget below the amount assumed in the initial budget.

Table 1
FY 2010-11
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	Jan. 2011 SFA Estimate
Revenue:	
Beginning Balance.....	\$205.2
Ongoing Revenue:	
Consensus Revenue Estimate	7,227.8
Shift of Short-Term Borrowing Costs to School Aid Fund.....	15.0
Revenue Sharing Freeze Cities, Villages, and Townships	612.0
County Revenue Sharing-Restore Payments	(114.7)
Use Tax on Health Maintenance Organizations	377.3
Enhanced Tax Enforcement Revenue	15.0
Liquor Reforms	9.1
Subtotal Ongoing Revenue	\$8,141.5
One-Time Revenue:	
Tax Amnesty.....	61.8
Unclaimed Property Reforms	166.0
Convention Facilities Transfer to General Fund	5.0
Lapse Secretary of State Work Project to General Fund.....	6.0
Subtotal One-Time Revenue.....	\$238.8
Total Estimated Revenue.....	\$8,585.5
Expenditures:	
Initial Appropriations	\$8,301.8
State Employees Retirement Savings.....	(81.0)
Total Proposed Expenditures	\$8,220.8
Projected Year-End Balance	\$364.7

Table 2
FY 2010-11
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	Jan. 2011 SFA Estimate
Revenue:	
Beginning Balance	\$272.6
Consensus Estimate of Restricted SAF Revenue	10,979.1
Revenue Adjustments:	
GF/GP Grant to School Aid Fund	18.6
Ongoing Federal Aid	1,677.8
American Recovery and Reinvestment Act Funding	184.3
Federal Education Jobs Fund of 2010	316.3
Enhanced Tax Enforcement Revenue	2.3
Lottery Reform	0.0
Tax Amnesty Proposal	26.1
Liquor Reforms	0.9
Subtotal Revenue Adjustments	\$2,226.3
Total Estimated School Aid Fund Revenue	\$13,478.0
Expenditures:	
Enacted Initial Appropriations - PA 110 of 2010	\$12,838.5
Race to the Top State Funding - PA 110 of 2010	26.2
Supplemental Appropriations - PA 204 of 2010	(46.8)
Supplemental Appropriations - PA 205 of 2010	70.3
Supplemental Appropriations - PA 217 of 2011	246.0
Projected Year-End Appropriation Lapses:	
Pupil Estimates	(65.0)
Special Education Costs	(80.0)
Taxable Value Estimates	(5.0)
Cash-flow Borrowing Costs	(30.0)
Total Projected Expenditures	\$12,954.2
Projected Year-End School Aid Fund Balance	\$523.8

FY 2011-12 State Budget Outlook

Governor Snyder is required to submit his recommendations for the FY 2011-12 State budget to the Legislature no later than March 12, 2011, but he is expected to submit them prior to that date. The budget recommendation will be balanced between estimated revenue and appropriations. Although the economy is forecasted to begin improving in FY 2010-11 and FY 2011-12, the heavy reliance on Federal ARRA funding and other one-time revenue to balance the FY 2010-11 GF/GP budget means that the budget recommendations submitted to the Legislature are likely to include additional cuts in GF/GP appropriations below the levels in place during FY 2010-11. One way to limit the need for additional GF/GP appropriation reductions during FY 2011-12 would be for the Governor and the Legislature to agree on significant changes in State revenue. This section of the report will examine the outlook for the FY 2011-12 GF/GP and SAF budgets assuming the Governor and the Legislature decide to continue current-law tax policy.

Table 3 provides an overview of the outlook for the FY 2011-12 GF/GP budget. This outlook points to a \$1.1 billion imbalance between estimated revenue and appropriations. This estimate is developed using several key revenue assumptions. The first assumption is that no increases in State revenue are enacted. The second assumption involves a continuation of a freeze in the level of statutory revenue sharing payments paid to cities, villages, townships, and counties. Another set of assumptions involves several pending Federal Medicaid issues. There are potential Federal disallowances totaling \$215.0 million for Medicaid payments made for the Center for Forensic Psychiatry, the Huron Valley Center, family planning waivers, and special pharmaceutical services. In addition, there have been discussions about whether or not the use tax on Health Maintenance Organizations, which is estimated to provide \$392.0 million in revenue for FY 2011-12, will be allowed to continue. None of these pending Federal Medicaid issues have been resolved and their impact is not included in the FY 2011-12 GF/GP budget outlook. These revenue assumptions, combined with the SFA estimate of a GF/GP balance carried forward from FY 2010-11 and the SFA estimate of \$7.3 billion in ongoing GF/GP revenue, lead to total available revenue of \$8.5 billion.

Table 3
FY 2011-12
STATE BUDGET OUTLOOK
GENERAL FUND/GENERAL PURPOSE
(Millions of Dollars)

	Jan. 2011 SFA Estimate
Revenue:	
Beginning Balance.....	\$364.7
Consensus Revenue Estimate	7,294.1
Other Revenue Adjustments:	
Revenue Sharing Freeze Cities, Villages, and Townships	641.6
County Revenue Sharing Payments	(152.0)
Use Tax on Health Maintenance Organizations	392.0
Shift of Short-Term Borrowing Costs to School Aid Fund.....	20.0
Tax Amnesty.....	(49.8)
Unclaimed Property Reforms	35.0
Subtotal Other Revenue Adjustments.....	\$886.8
Current Law GF/GP Revenue	\$8,545.6
Appropriations:	
FY 2010-11 Enacted GF/GP Appropriations.....	\$8,220.8
Appropriation Adjustments:	
Enhanced Medicaid Match Rate	520.0
Human Services Emergency TANF Funds	239.0
Medicaid One-Time VEBA Payment	160.0
Medicaid Caseload/Costs.....	210.0
Federal Medicaid Match Rate	(35.0)
Human Services Caseload/Costs/Full Year Staffing Levels	91.0
General Obligation Bond Debt Restructuring.....	83.3
State Police One-Time Revenue Adjustments.....	5.8
State Employee Economic Costs	103.7
Subtotal Funding Adjustments	\$1,377.8
Adjusted FY 2011-12 GF/GP Appropriation Base	\$9,598.6
Potential Funding Imbalance	(\$1,053.0)

On the expenditure side of the FY 2011-12 GF/GP budget outlook, the SFA is assuming that FY 2011-12 GF/GP appropriations are frozen at the FY 2010-11 levels and adjusted only for statutory and caseload costs and the reduction in the amount of Federal ARRA funding and other one-time revenue that will be available to support the FY 2011-12 GF/GP budget. During FY 2010-11, Federal ARRA funding will support \$760.0 million of GF/GP appropriations, and none of this revenue is available for FY 2011-12. This projection assumes a freeze in statutory revenue sharing payments to cities, villages, townships, and counties and a freeze in State support to Michigan's public universities and community colleges. Therefore, the SFA is projecting that under these assumptions FY 2011-12 GF/GP appropriations will total \$9.6 billion.

These FY 2011-12 GF/GP assumptions lead to the projected \$1.1 billion imbalance between estimated revenue and appropriations. This imbalance equates to 11.0% of the projected FY 2011-12 spending base.

Table 4 provides an overview of the outlook for the FY 2011-12 SAF budget. This outlook points to a potential year-end balance of \$410.3 million.

Table 4
FY 2011-12
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	Jan. 2011 SFA Estimate
Revenue:	
Beginning Balance	\$523.8
Consensus Estimate of Restricted SAF Revenue	11,193.7
Ongoing Federal Funds	1,677.8
GF/GP Grant to SAF	18.6
Enhanced Tax Enforcement Revenue	2.3
Lottery Reforms.....	0.0
Liquor Reforms.....	0.9
Tax Amnesty	(11.2)
Current Law SAF Revenue	\$13,405.9
Expenditures:	
Continuation Appropriation Level.....	\$12,995.6
Potential Year-End Balance	\$410.3

On the expenditure side of the FY 2011-12 SAF budget, the SFA's current services baseline assumes a freeze in SAF appropriations at the FY 2010-11 levels. This means the base per-pupil funding (including Federal aid) and categorical aid programs are continued at the current-year levels. The expenditure adjustments built into the SFA estimate of FY 2011-12 SAF expenditures include estimates of the number of pupils, estimates of taxable property values, and estimates of special education costs.

The major question that will be facing the Governor and the Legislature involving the FY 2011-12 GF/GP budget will likely involve the debate between additional significant reductions in appropriations to balance the budget or a lessening of these appropriation reductions to be offset by changes in State tax revenue.

c: Tom Davis, Senate Majority Policy Office
 David Ettinger, Senate Democratic Office