

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 11, 2010
TO: Members of the Senate
FROM: Gary S. Olson, 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) 2009-10. An agreement also was reached on the first consensus estimate of FY 2010-11 GF/GP and SAF revenue. This memorandum provides the Senate Fiscal Agency (SFA) estimates of the year-end balances in the FY 2009-10 GF/GP and SAF budgets using the consensus revenue estimates. This memorandum also looks ahead at the FY 2010-11 GF/GP and SAF budgets using the consensus revenue estimates.

FY 2009-10 Year-End Balances

Based on the consensus revenue estimate and enacted and projected appropriations, the SFA is now estimating that the FY 2009-10 GF/GP budget is in balance by \$72.7 million. Table 1 provides a summary of this estimate. This estimate includes a \$176.7 million budget surplus carried forward from FY 2008-09. This is the level of the FY 2008-09 GF/GP budget surplus reported in the preliminary bookclosing report issued by the Office of the State Budget on December 28, 2009. The current consensus estimate of FY 2009-10 GF/GP revenue represents a \$51.3 million decline from the May 2009 consensus revenue estimate upon which the FY 2009-10 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 \$1.1 billion 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 2009-10 SAF budget is in balance by \$53.7 million. This estimate includes a \$229.1 million budget surplus carried forward from FY 2008-09. Table 2 provides a summary of this estimate. This is the level of the FY 2008-09 SAF budget surplus reported in the preliminary bookclosing report issued by the Office of the State Budget on December 28, 2009. The current consensus estimate of FY 2009-10 SAF revenue represents a \$104.9 million decline from the May 2009 consensus revenue estimate upon which the budget was based. Federal ARRA funding is providing for a \$450.0 million revenue increase to the FY 2009-10 SAF budget. On the expenditure side of the FY 2009-10 SAF budget, a projected \$108.0 million appropriation lapse will occur as a result of re-estimations of the amount of local property tax revenue that will be generated from the 18-mill property tax on nonhomestead property. This 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 2009-10
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
 (Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$176.7
Ongoing Revenue:	
Consensus Revenue Estimate	\$6,898.4
Revenue Sharing Savings	495.2
Shift Short-Term Borrowing Costs to School Aid Fund	45.0
Use Tax on HMOs (PA 440 of 2008).....	<u>339.5</u>
Subtotal Ongoing Revenue	7,778.1
One-Time Revenue:	
Transportation Economic Development Fund Transfer to General Fund	12.0
Railroad Improvement Fund Transfer to General Fund	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund	1.5
State Services Fee Fund Transfer to General Fund	1.6
Merit Award Fund Transfer to General Fund	140.0
21 st Century Jobs Fund Transfer to General Fund	<u>37.5</u>
Subtotal One-Time Revenue	198.4
Total Estimated Revenue	\$8,153.2
Expenditures:	
Initial Appropriations	\$8,128.0
Enacted Supplemental Appropriations:	
Public Act 140 of 2009	0.0
Public Act 145 Of 2009	0.0
Other Expenditure Adjustments:	
Employee Concessions	(27.5)
DMB Contract Savings	<u>(20.0)</u>
Subtotal Other Expenditure Adjustments	(47.5)
Total Projected Expenditures	\$8,080.5
Projected Year-End Balance	\$72.7

Table 2
FY 2009-10
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
 (Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$229.1
Consensus Restricted SAF Revenue	10,458.1
Assumed SAF Revenue Increase	0.0
GF/GP Grant	30.2
Federal Aid	1,601.8
ARRA-State Fiscal Stabilization Fund	450.0
Total Estimated Revenue	\$12,769.2
Expenditures:	
Initial Appropriation	\$12,823.5
Formula Cost Adjustments	(108.0)
Total Appropriations	\$12,715.5
Projected Year-End Balance	\$53.7

FY 2010-11 State Budget Outlook

Governor Granholm is required to submit her recommendations for the FY 2010-11 State budget to the Legislature no later than February 12, 2010. The budget recommendation will be balanced between estimated revenue and appropriations. Due to the continuing economic problems forecasted in the State during FY 2010-11, and the heavy reliance on Federal ARRA funding to balance the FY 2009-10 GF/GP and SAF budgets, it can be expected that the budget recommendations submitted to the Legislature will include additional cuts in both GF/GP and SAF appropriations below the levels in place during FY 2009-10. The only likely way to limit the need for additional GF/GP and SAF appropriation reductions during FY 2010-11 will be for the Governor and the Legislature to agree on significant increases in State revenue. This section of the report will examine the outlook for the FY 2010-11 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 2010-11 GF/GP budget. This outlook points to a \$1.2 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. The final revenue assumption concerns the continuation of the transfer of \$140.0 million of surplus Merit Award Trust Fund revenue to the General Fund. These revenue assumptions, combined with the SFA estimate of a GF/GP balance carried forward from FY 2009-10 and the SFA estimate of \$6.6 billion in ongoing GF/GP revenue, lead to total available revenue of \$8.0 billion.

Table 3
FY 2010-11
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Projected Revenue:	
Beginning Balance	\$72.7
Ongoing Revenue:	
Consensus Revenue Estimate	6,968.4
Shift Short-Term Borrowing to School Aid Fund	45.0
Revenue Sharing Freeze	427.3
Use Tax on HMOs.....	363.3
Merit Award Trust Fund Transfer to General Fund	140.0
Subtotal On-Going Revenue	7,944.0
Total Estimated Revenue	\$8,016.7
Potential Appropriations:	
FY 2009-10 Year-to-Date Appropriations.....	\$8,128.0
Remove FY 2009-10 ARRA Funding	1,071.3
FY 2010-11 ARRA Funding	(209.6)
Human Services Caseload/Cost	55.0
TANF Contingency Fund Offset	70.0
Medicaid Caseload/Costs	202.0
Federal Medicaid Match Rate Savings	(260.0)
State Employee Contractual Increases.....	120.0
Potential Appropriations	\$9,176.7
Projected Budget Imbalance.....	\$(1,160.0)

On the expenditure side of the FY 2010-11 GF/GP budget outlook, the SFA is assuming that FY 2009-10 GF/GP appropriations are frozen at the FY 2009-10 levels and adjusted only for statutory and caseload costs and the reduction in the amount of Federal ARRA funding that will be available to support the FY 2010-11 GF/GP budget.

During FY 2009-10, Federal ARRA funding will support \$1.1 billion of GF/GP appropriations. The level of Federal ARRA funding available to support FY 2010-11 GF/GP appropriations will decline to \$209.6 million, thus creating an \$861.7 million Federal funding hole in the budget. This Federal funding alone accounts for 10.6% of the entire level of FY 2009-10 GF/GP appropriations. Other expenditure adjustments included in the SFA outlook include a \$55.0 million increase in the Department of Human Services budget due to caseload and cost increases, a \$70.0 million GF/GP cost increase from the elimination of Temporary Assistance for Needy Families Federal contingency funding that was supporting appropriations in the Department of Human Services budget, a \$202.0 million GF/GP cost increase from Medicaid caseload and costs, a \$260.0 million GF/GP cost savings from an increase in the base Federal Medicaid match rate Michigan will receive during FY 2010-11, and a projected \$120.0 million GF/GP cost increase from State employee contractual issues. These contractual issues include a 3.0% salary increase for State employees effective October 1, 2010, and anticipated increases in health insurance costs and retirement costs for State employees.

Therefore, the SFA is projecting that under these assumptions FY 2010-11 GF/GP appropriations will total \$9.2 billion. 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.

These FY 2010-11 GF/GP assumptions lead to the projected \$1.2 billion imbalance between estimated revenue and appropriations. This imbalance equates to 12.6% of the projected FY 2010-11 spending base.

Table 4 provides an overview of the outlook for the FY 2010-11 SAF budget. This outlook points to a \$423.0 million imbalance between estimated revenue and appropriations. The 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 the current level of the GF/GP grant to the SAF at the FY 2009-10 level. The final important revenue assumption involves the level of Federal ARRA funding in the budget. During FY 2009-10, Federal ARRA funding will support \$450.0 million of SAF expenditures. The FY 2010-11 SAF budget will be supported by \$184.1 million of Federal ARRA funding.

On the expenditure side of the FY 2010-11 SAF budget, the SFA's current services baseline assumes a freeze in SAF appropriations at the FY 2009-10 levels. This means the base per-pupil funding and categorical aid programs are continued at the current-year levels. The expenditure adjustments built into the SFA estimate of FY 2010-11 SAF expenditures include estimates of the number of pupils, estimates of taxable property values, and estimates of special education costs.

These FY 2010-11 SAF assumptions lead to a \$423.0 million imbalance between revenue and expenditures. Eliminating this projected SAF budget imbalance with a pro-rata reduction in per-pupil funding would equate to a \$268-per-pupil funding reduction. This represents a 3.7% reduction in the minimum per-pupil funding levels.

Table 4
FY 2010-11
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Projected Revenue:	
Beginning Balance.....	\$53.7
Consensus Restricted SAF Revenue	10,480.5
GF/GP Grant.....	30.2
Federal Aid	1,602.0
Remaining Federal ARRA Funding	184.1
Total Estimated Revenue	\$12,350.5
Potential Appropriations:	
FY 2009-10 Current Services Baseline	12,773.5
Potential Appropriations.....	\$12,776.5
Projected Budget Imbalance	\$(423.0)

The major question that will be facing the Governor and the Legislature involving the FY 2010-11 GF/GP and SAF budgets 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 increases in State tax revenue. In many respects this was the same debate between the Governor and the Legislature regarding the FY 2009-10 State budget. The outcome of this debate almost certainly will be the key policy decision made regarding the FY 2010-11 State budget.

/kjh

- c: Ellen Jeffries, Deputy Director
- Tom Davis, Senate Majority Policy Office
- David Ettinger, Senate Democratic Office