

SENATE FISCAL AGENCY  
MEMORANDUM



**DATE:** May 15, 2009  
**TO:** Members of the Senate  
**FROM:** Gary S. Olson, Director  
**RE:** Updated Year-End Balance Estimates

Based on the fiscal year (FY) 2008-09 and FY 2009-10 consensus revenue estimates agreed to on May 15, 2009, and actual and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2008-09 and FY 2009-10 year-end balances of the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. This memorandum provides a summary of these revised estimates and provides the Legislature with the scope of the adjustments that will have to be made in the FY 2009-10 State budget to ensure a balance between estimated revenue and appropriations.

**FY 2008-09 Year-End Balance Estimates**

Table 1 provides a summary of the SFA estimate of a \$884.5 million FY 2008-09 GF/GP year-end deficit. This estimate is developed using the consensus revenue estimate, agreed-upon revenue adjustments, the enacted level of appropriations, and projections of additional supplemental appropriations. The Governor and the Legislature are likely to eliminate this projected budget deficit by appropriating Federal funds available to Michigan under provisions of the American Recovery and Reinvestment Act of 2009 (ARRA).

On the revenue side of the FY 2008-09 budget ledger, the SFA is now estimating that GF/GP revenue will total \$8.7 billion. This revenue total includes \$457.9 million of surplus revenue carried forward from FY 2007-08, \$7.4 billion of estimated consensus revenue, \$496.9 million of revenue resulting from reductions in revenue sharing payments to cities, villages, and townships, \$161.5 million of use tax revenue from shifting of funding the Medicaid program, and \$57.0 million of one-time revenue from a variety of sources. These one-time revenue sources were all part of the original FY 2008-09 budget agreement reached between legislative leadership and the Governor.

On the expenditure side of the FY 2008-09 budget ledger, the SFA is now estimating that GF/GP expenditures will total \$9.5 billion. This expenditure total includes \$9.7 billion of initial appropriations for the fiscal year, \$6.9 million of appropriation reductions from enacted supplemental appropriations, pending supplemental appropriations of \$295.2 million, appropriation reductions of \$134.0 million associated with Executive Order 2008-21, appropriation reductions of \$297.6 million associated with Executive Order 2009-22, and \$20.0 million of assumed savings from reforms in State contracting procedures.

The \$295.2 million of pending supplemental appropriations includes projected caseload and cost adjustments in the Departments of Community Health and Human Services, a fund source shift in the Medicaid program, additional Department of Corrections funding for parole services, and an increase in the level of the GF/GP grant to the School Aid Fund. These supplemental appropriation items are anticipated to be approved by the Legislature shortly.

Based on these revenue and appropriation assumptions, the FY 2008-09 GF/GP budget is currently in deficit by \$884.5 million. The State of Michigan is eligible to receive during FY 2008-09 a total of \$1.2 billion of additional Federal funds resulting from the passage of ARRA. These Federal funds include \$289.8 million from the State Fiscal Stabilization Fund portion of ARRA, \$900.1 million from the enhanced Medicaid match rate provisions of ARRA, and \$40.0 million from funding accruals resulting from the enhanced Medicaid match rate. These Federal funds are to be used by the State to help balance the GF/GP budget. Any of these Federal funds not used in FY 2008-09 will be available to help balance the FY 2009-10 GF/GP budget. Based on these estimates, the elimination of the projected \$884.5 million GF/GP budget deficit will leave \$345.4 million of this ARRA funding available in FY 2009-10.

**Table 1**  
**FY 2008-09**  
**GENERAL FUND/GENERAL PURPOSE**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>Consensus May 2009</b>
<b>Revenue:</b>	
Beginning Balance .....	\$457.9
<b>Ongoing Revenue:</b>	
Consensus Revenue Estimate .....	7,435.3
Revenue Sharing Savings .....	496.9
Use Tax on HMOs (PA 440 of 2008) .....	161.5
Shift Short-Term Borrowing Costs to School Aid Fund .....	45.0
Subtotal Ongoing Revenue .....	8,138.7
<b>One-Time Revenue:</b>	
Treasury-Insurance Escheats Revenue .....	25.0
Treasury-Secondary Collections.....	6.0
21st Century Fund Transfer to General Fund.....	10.0
Tourism Borrowing Transfer to General Fund.....	10.0
TEDF Transfer to General Fund .....	6.0
Subtotal One-Time Revenue.....	57.0
<b>Total Estimated Revenue .....</b>	<b>\$8,653.6</b>
<b>Expenditures:</b>	
Initial Appropriations.....	\$9,701.4
<b>Enacted Supplemental Appropriations:</b>	
Public Act 279 of 2008.....	0.0
Public Act 286 of 2008.....	0.0
Public Act 553 of 2008.....	0.0
Public Act 3 of 2009.....	0.0
Public Act 7 of 2009.....	0.0
Public Act 23 of 2009.....	0.0
Public Act 24 of 2009.....	(6.9)
Subtotal Enacted Supplemental Appropriations .....	(6.9)
Pending Supplemental Appropriations.....	295.2
Executive Order 2008-21 .....	(134.0)
Executive Order 2009-22 .....	(297.6)
Lapse from Contract Savings.....	(20.0)
<b>Total Projected Expenditures .....</b>	<b>\$9,538.1</b>
<b>Projected Year-End Balance .....</b>	<b>\$(884.5)</b>
<b>Federal American Recovery and Reinvestment Act Funding:</b>	
ARRA-State Fiscal Stabilization Fund.....	\$289.8
ARRA-Federal Medicaid Match Rate .....	900.1
ARRA-Federal Medicaid Match Rate Accrual Funding.....	40.0
<b>Total Federal ARRA Funding .....</b>	<b>\$1,229.9</b>
<b>Projected Remaining ARRA Funding.....</b>	<b>\$345.4</b>

Table 2 provides a summary of SFA's estimate of a \$429.0 million FY 2008-09 SAF budget deficit. This estimate is developed using the consensus revenue estimate and actual and projected SAF appropriations. The Governor and the Legislature are likely to eliminate this projected budget deficit by appropriating Federal funds available under provisions of ARRA.

**Table 2**  
**FY 2008-09**  
**SCHOOL AID FUND**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>Consensus May 2009</b>
<b>Revenue:</b>	
Beginning Balance .....	\$247.1
Consensus Revenue Estimate .....	10,943.7
GF/GP Grant .....	78.0
Federal Aid .....	1,562.0
<b>Total Estimated Revenue .....</b>	<b>\$12,830.8</b>
<b>Expenditures:</b>	
Initial Appropriations.....	\$13,378.9
<b>Formula Funding Adjustments:</b>	
Taxable Values/MBT/TIFA.....	(39.6)
Reduced Pupil Counts .....	(50.0)
Renaissance Zone Reimbursements.....	(22.0)
CEPI Reductions.....	(1.5)
School Bond Loan Fund Adjustment .....	1.0
Executive Order 2009-22 Reduction to 21st Century Schools .....	(7.0)
Subtotal Formula Funding Adjustments.....	(119.1)
<b>Total Projected Expenditures .....</b>	<b>\$13,259.8</b>
<b>Projected Year-End Balance .....</b>	<b>\$(429.0)</b>
<b>Federal American Recovery and Reinvestment Act Funding:</b>	
ARRA - State Fiscal Stabilization Fund.....	\$1,302.4
<b>Remaining ARRA State Fiscal Stabilization Funding.....</b>	<b>\$873.4</b>

On the revenue side of the FY 2008-09 budget ledger, the SFA is now estimating that SAF revenue will total \$12.8 billion. This revenue total includes \$247.1 million of surplus revenue carried forward from FY 2007-08, \$10.9 billion of estimated consensus revenue, \$78.0 million from a GF/GP grant to the SAF, and \$1.6 billion of Federal aid appropriated in the initial SAF budget.

On the expenditure side of the FY 2008-09 budget ledger, the SFA is now estimating that SAF expenditures will total \$13.3 billion. This expenditure total includes \$13.4 billion of initial appropriations for the fiscal year and \$119.1 million of projected formula funding adjustments related to revisions in pupil counts, changes in property tax valuations, renaissance zone property tax reimbursements, and other minor formula funding adjustments.

Based on these revenue and appropriation assumptions, the FY 2008-09 SAF budget is currently in deficit by \$429.0 million. The State of Michigan is eligible to receive \$1.3 billion of Federal funds under the State Fiscal Stabilization Fund portion of ARRA. These Federal funds must be used by states to avoid reductions in operations funding for K-12 school districts, universities, and community colleges. Michigan will likely use \$429.0 million of these total funds of \$1.3 billion to eliminate the projected FY 2008-09 SAF budget deficit. This will leave a total of \$873.4 million of ARRA State Fiscal Stabilization Funds available to support education programs during FY 2009-10.

**FY 2009-10 Year-End Balance Estimates**

Table 3 provides a summary of the SFA estimate of a \$1.6 billion FY 2009-10 GF/GP budget deficit. This estimate is developed using the consensus revenue estimate, the Governor's recommendation for increases in taxes and fees, and the Governor's appropriation recommendations. The table also provides an estimate of the total amount of Federal ARRA funding that will be available during FY 2009-10 that could be used to help balance the budget.

**Table 3**  
**FY 2009-10**  
**GENERAL FUND/GENERAL PURPOSE**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>Consensus May 2009</b>
<b>Revenue:</b>	
Beginning Balance .....	\$0.0
<b>Ongoing Revenue:</b>	
Consensus Revenue Estimate .....	6,949.7
Revenue Sharing Savings.....	429.9
Shift Short-Term Borrowing Costs to School Aid Fund.....	45.0
Use Tax on HMOs (PA 440 of 2008) .....	<u>334.8</u>
Subtotal Ongoing Revenue .....	7,759.4
<b>Other Revenue Adjustments:</b>	
Proposed Tax Increases.....	129.5
Proposed Fee Increases.....	24.1
Proposed Enhanced Tax Enforcement.....	<u>12.8</u>
Subtotal Other Revenue Adjustments.....	166.4
<b>Total Estimated Revenue .....</b>	<b>\$7,925.8</b>
<b>Expenditures:</b>	
Governor's Appropriation Recommendations .....	\$8,960.0
Remove GF/GP Fund Shift to Federal Stimulus Funding .....	500.0
Community Health Caseload/Utilization Adjustment.....	151.0
Human Services Caseload/Utilization Adjustment.....	<u>(63.4)</u>
<b>Total Projected Expenditures .....</b>	<b>\$9,547.6</b>
<b>Projected Year-End Balance .....</b>	<b>\$(1,621.8)</b>
<b>Federal American Recovery and Reinvestment Act Funding:</b>	
ARRA Funding Remaining from FY 2008-09 .....	345.4
ARRA-Federal Medicaid Match Rate (FY 2009-10 Funding).....	<u>949.0</u>
<b>Total FY 2009-10 ARRA Funding .....</b>	<b>\$1,294.4</b>

On the revenue side of the FY 2009-10 budget ledger, the SFA is now estimating that GF/GP revenue will total \$7.9 billion. This revenue total includes \$6.9 billion of estimated consensus revenue, \$429.9 million of revenue resulting from reductions in revenue sharing payments to cities, villages, and townships, \$45.0 million from shifting a portion of short-term cash flow borrowing costs from the General Fund to the School Aid Fund, \$334.8 million from using a use tax increase to fund Medicaid providers, and a total of \$166.4 million of increased GF/GP revenue from the proposed tax and fee increases included in the Governor's budget. The revenue sharing savings are built on the assumption that statutory revenue sharing payments to cities, villages, and townships during FY 2009-10 are frozen at the levels paid in FY 2007-08. This would be a continuation of the policy in place during FY 2008-09. The revenue sharing savings assume the State fully meets its statutory obligations regarding revenue sharing payments to counties.

Table 4 provides a summary of the FY 2009-10 proposed tax and fee increases included in the Governor's GF/GP and SAF budget recommendations. The Governor's GF/GP budget recommendation includes \$129.5 million of revenue from proposed tax increases, \$24.1 million of increased fee revenue, and \$12.8 million of increased revenue from enhanced tax enforcement initiatives. The Governor's SAF budget recommendation includes \$47.0 million of revenue from proposed tax increases, \$3.2 million of increased revenue from enhanced tax enforcement initiatives, and \$15.0 million of increased revenue from State Lottery expansions.

Table 4

<b>GOVERNOR'S PROPOSED TAX AND REVENUE INCREASES: FY 2009-10</b>			
<b>(Millions of Dollars)</b>			
	<b>State Government Fiscal Impact</b>		
	<b>GF/GP</b>	<b>School Aid Fund</b>	<b>Total</b>
<b>Proposed Tax/Revenue Increase</b>			
<b>Sales &amp; Use Taxes</b>			
Eliminate exemptions for international calls, WATS, 800 call centers, & interstate private networks.	\$9.7	\$4.8	\$14.5
Reduce exemption for interstate truck and trailer purchases.	14.0	7.0	21.0
Reduce the sales tax bad debt deduction by 20%.	3.2	8.8	12.0
Reduce sales tax collection allowance by 20%.	0.8	2.3	3.1
Send letters reminding businesses use tax is due on out-of-state purchases.	1.7	0.8	2.5
<b>Subtotal Sales &amp; Use Taxes:</b>	<b>\$29.4</b>	<b>\$23.7</b>	<b>\$53.1</b>
<b>Income Tax</b>			
Eliminate oil and gas expense double deduction.	\$3.1	\$1.0	\$4.1
Create auto correction system to identify common errors on income tax returns, freeing staff to identify additional errors.	3.7	0.4	4.1
Suspend the indexed increase in the personal exemption for tax years 2009 and 2010.	46.4	10.6	57.0
<b>Subtotal Income Tax</b>	<b>\$53.2</b>	<b>\$12.0</b>	<b>\$65.2</b>
<b>Tobacco Tax</b>			
Double the other tobacco products tax from 32% to 64% of the wholesale price to make tax comparable with cigarette tax.	\$45.0	\$0.0	\$45.0
Reduce the tobacco tax collection allowance by 20%.	1.9	1.3	3.2
<b>Subtotal Tobacco Tax</b>	<b>\$46.9</b>	<b>\$1.3</b>	<b>\$48.2</b>
<b>Liquor Revenue</b>			
Double the retail license fee.	\$10.4	\$0.0	\$10.4
Create new permit to allow liquor sales from 2 a.m. to 4 a.m.	4.6	0.0	4.6
Create new permit to allow liquor sales before noon on Sunday.	9.1	0.0	9.1
<b>Subtotal Liquor Revenue</b>	<b>24.1</b>	<b>0.0</b>	<b>24.1</b>
<b>Other Tax and Revenue Increases</b>			
Commercial rental property: Exempt from property tax and assess new specific tax.	\$0.0	\$10.0	\$10.0
Tax enforcement: Increase effort to make sure businesses comply with tax filing requirements.	7.8	3.2	11.0
Lottery: Increase ticket terminals and advertising.	0.0	15.0	15.0
"Cybershame": Publicize names of major delinquent taxpayers.	5.0	0.0	5.0
<b>Subtotal Other</b>	<b>\$12.8</b>	<b>\$28.2</b>	<b>\$41.0</b>
<b>Total Proposed Taxes</b>	<b>\$166.4</b>	<b>\$65.2</b>	<b>\$231.6</b>

On the expenditure side of the FY 2009-10 budget ledger, the SFA is now assuming that GF/GP expenditures will total \$9.5 billion. This estimate is based on the Governor's recommended level of GF/GP appropriations, an adjustment to eliminate the \$500.0 million of Federal ARRA funding assumed in the Governor's budget, and revised estimates of the GF/GP appropriations needed to reflect the current estimates of caseloads and cost utilization factors in the Departments of Community Health and Human Services. The Governor's FY 2009-10 GF/GP appropriation recommendations did include \$608.5 million of reductions from the prior fiscal year. A majority of these appropriation recommendations were in the Departments of Community Health, Corrections, and Human Services, and the Higher Education budget.

Based on these revenue and appropriation assumptions, a deficit of \$1.6 billion in the FY 2009-10 GF/GP budget is currently projected. During FY 2009-10, Michigan will have a total of \$1.3 billion of Federal ARRA funding that could be used to help eliminate this projected GF/GP budget deficit. This ARRA funding total includes \$345.4 million of FY 2008-09 ARRA funding remaining from FY 2008-09 and \$949.0 million of FY 2009-10 ARRA funding from the temporary increase in the Federal Medicaid match rate. It is important to note that Michigan will receive only \$239.0 million of Federal ARRA funding during FY 2010-11. Therefore, the greater amount of Federal ARRA funding used to help balance the FY 2009-10 GF/GP budget will lead to significant funding shortfalls during FY 2010-11. The key to balancing the GF/GP budget over the next two fiscal years will likely involve the ability of the Governor and the Legislature to spread the remaining Federal ARRA funding over both FY 2009-10 and FY 2010-10 in some sort of equal amounts.

Table 5 provides a summary of the SFA estimate of a \$763.8 million FY 2009-10 SAF year-end deficit. This estimate is developed using the consensus revenue estimate, the Governor's proposed revenue enhancements, and the Governor's recommendations for appropriations. The Legislature will now be responsible for passing an FY 2009-10 SAF budget that is balanced between estimated revenue and appropriations. The \$763.8 million projected budget deficit will have to be eliminated through the use of one-time Federal ARRA funding, appropriation reductions below the level already assumed in the Governor's budget recommendation, or revenue adjustments beyond the level assumed in the Governor's budget, or a combination of those approaches.

**Table 5**  
**FY 2009-10**  
**SCHOOL AID FUND**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>Consensus May 2009</b>
<b>Revenue:</b>	
Beginning Balance .....	\$0.0
Consensus Revenue Estimate .....	10,563.0
GF/GP Grant .....	40.8
Proposed Tax Increases .....	47.0
Proposed Enhanced Tax Enforcement .....	3.2
Proposed Lottery Revenue Increase.....	15.0
Federal Aid .....	1,561.8
<b>Total Estimated Revenue .....</b>	<b>\$12,230.8</b>
<b>Expenditures:</b>	
Governor's Appropriation Recommendation .....	\$12,963.6
Consensus Cost Adjustments for Pupils and Taxable Values .....	31.0
<b>Total Potential Expenditures.....</b>	<b>\$12,994.6</b>
<b>Projected Year-End Balance .....</b>	<b>\$(763.8)</b>

On the revenue side of the FY 2009-10 budget ledger, the SFA is now estimating that SAF revenue will total \$12.2 billion. This revenue total includes \$10.6 billion of estimated consensus revenue, a \$40.8 million GF/GP grant to the SAF budget, \$47.0 million of revenue from proposed tax increases, \$3.2 million of revenue from enhanced tax enforcement initiatives, \$15.0 million of increased State lottery revenue, and \$1.6 billion of Federal ongoing education funding.

On the expenditure side of the FY 2009-10 budget ledger, the SFA is now estimating that SAF expenditures will total \$13.0 billion. This expenditure estimate represents the SAF appropriations recommendations of the Governor adjusted for changes in SAF formula funding costs. It is important to point out that the Governor's FY 2009-10 SAF appropriation reductions did include reductions of \$165.6 million. These recommended appropriation reductions included a \$59 reduction in the foundation allowance, a 20.0% reduction in operating subsidies for intermediate school districts, and numerous other small reductions.

This projected FY 2009-10 SAF budget deficit of \$763.8 million likely will be addressed by the Legislature through a combination of appropriation reductions and the use of Federal ARRA funding available under the State Fiscal Stabilization Fund portion of ARRA.

As previously mentioned, Michigan will receive a total of \$1.3 billion of Federal funding as a result of the State Fiscal Stabilization Fund portion of ARRA. This portion of the Federal stimulus funding must be used, pursuant to Federal statutory requirements, to avoid reductions in operations appropriations for K-12 school districts, community colleges, and universities during FY 2008-09, FY 2009-10, and FY 2010-11. [Table 6](#) provides the SFA estimates of Michigan's potential use of this Federal fund source during FY 2008-09 and FY 2009-10.

**Table 6**

<b>DISTRIBUTIONS FROM THE STATE FISCAL STABILIZATION FUND K-12 SCHOOL DISTRICTS AND UNIVERSITIES (Millions of Dollars)</b>	
<b>Total Available State Fiscal Stabilization Education Funding</b>	<b>\$1,302.4</b>
<u>Use of Funding:</u>	
FY 2008-09 K-12 Revenue Shortfall	(429.0)
Remaining Funds for FY 2009-10	\$873.4
<u>Potential FY 2009-10 Uses of Remaining Funds:</u>	
FY 2009-10 K-12 Revenue Shortfall	\$(763.8)
FY 2009-10 K-12 Restore \$59 Foundation Allowance Reductions in Gov's Budget	(113.3)
FY 2009-10 K-12 Restore ISD Reduction in Gov's Recommendation	(16.3)
FY 2009-10 Higher Education Restore 3.2% Reduction in Gov's Recommendation	(46.6)
FY 2009-10 Restore Cuts to MSU Cooperative Extension & Ag. Experiment Station	(31.9)
Subtotal	\$(971.9)
<b>Shortfall in State Fiscal Stabilization Fund in FY 2009-10</b>	<b>\$(98.5)</b>

The first use of the \$1.3 billion of State Fiscal Stabilization Fund dollars will be the \$429.0 million necessary to eliminate the projected FY 2008-09 SAF budget deficit. This leaves \$873.4 million of funding available for FY 2009-10 and FY 2010-11. As illustrated in [Table 6](#), the potential demands on the remainder of this funding during FY 2009-10 could exceed the amount of Federal revenue available. These demands include the elimination of the FY 2009-10 SAF budget deficit, the restoration of the foundation allowance reduction and the intermediate school districts reductions included in the Governor's budget recommendations, and the restoration of FY 2009-10 operating reductions to universities included in the Governor's budget recommendation. Under this scenario, the potential demands on the Fund exceed available Federal revenue by \$98.5 million. This scenario leaves no Federal State Fiscal Stabilization Fund dollars available to support education programs in FY 2010-11.

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