

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 13, 2012
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) 2011-12 and FY 2012-13. An agreement also was reached on the first consensus estimate of FY 2013-14 GF/GP and SAF revenue. Based on the revised consensus revenue estimates and enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the year-end balances in the FY 2011-12 and FY 2012-13 GF/GP and SAF budgets. This memorandum provides a brief summary of these revised SFA estimates, as well as a reiteration of the FY 2010-11 year-end balance estimates presented in the SFA's economic outlook and budget review published on December 28, 2011.

FY 2010-11 Year-End Balance Estimates

The FY 2010-11 State budget was originally based on consensus revenue estimates agreed to in May 2010. The revisions of the consensus revenue estimates agreed to in January and May of 2011 projected positive year-end balances in both the GF/GP and SAF budgets. Preliminary unaudited financial statements for the State GF/GP budget and the SAF are required to be published by the end of January, and the comprehensive annual financial report (commonly referred to as the CAFR) is not due until the end of March. Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2010-11 revenue and expenditures from the State Budget Office (SBO) and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the fiscal year with a \$568.3 million balance. The SFA is estimating that the FY 2010-11 SAF budget will close the fiscal year with a \$722.6 million balance.

Table 1 provides a summary of the current SFA estimate of a \$568.3 million balance in the FY 2010-11 GF/GP budget. Table 2 provides a summary of the SFA's estimate of a \$722.6 million year-end balance in the FY 2010-11 SAF budget. Pursuant to statutory requirements, the actual level of the year-end balances will carry forward and be available as FY 2011-12 revenue sources.

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

	SFA Estimate
Revenue:	
Beginning Balance	\$187.2
Ongoing Revenue:	
SFA Revenue Estimate.....	\$7,641.6
Revenue Sharing Freeze for Cities, Villages, Townships.....	629.6
Restore Payments for County Revenue Sharing.....	(112.5)
Shift of Short-Term Borrowing Costs to School Aid Fund	6.9
Use Tax on Health Maintenance Organizations	<u>383.2</u>
Subtotal Ongoing Revenue	\$8,548.8
Non-Ongoing Revenue:	
Liquor Reforms	5.1
Tax Amnesty	60.6
Unclaimed Property Reforms.....	175.4
Lawsuit Settlements.....	1.7
Appropriation to Medicaid Benefits Trust Fund (Public Act 157 of 2011)	(213.8)
Unemployment Insurance Contingent Fund Payable (Interest Repayment)	38.2
Reserve for GASB 54 (First Year Adjustment)	(14.6)
State Budget Office (SBO) Revenue Adjustment (December 21, 2011).....	(8.1)
Lapse Secretary of State Work Project to General Fund/Prior Year Lapses	<u>7.7</u>
Total Estimated GF/GP Revenue	\$8,788.2
Expenditures:	
Initial Appropriations.....	\$8,311.0
Enacted Supplemental Appropriations:	
Public Act 191 of 2010-Grant to Detroit Institute of Arts.....	10.0
Public Act 204 of 2010-Eliminate GF Reimbursement to K-12 for Ren Zones.....	(9.2)
Public Act 49 of 2011-Early Retirement Savings.....	(57.4)
Public Act 50 of 2011-Federal/Restricted Revenue Only	0.0
Public Act 83 of 2011-Medicaid Database; Grants for Flint, Battle Creek.....	3.2
Public Act 83 of 2011-Community Health Caseload/Costs	98.7
Public Act 83 of 2011-Human Services Caseload/Costs.....	(2.0)
Public Act 83 of 2011-Tax Plan Implementation.....	31.9
Public Act 142 of 2011-Health Claims Assessment Implementation.....	1.0
Public Act 157 of 2011-Military & Veterans Affairs, State Police, UI Interest	<u>37.4</u>
Total Year-To-Date Enacted Supplemental Appropriations.....	\$113.6
Projected Year-End Lapses (SBO, November 28, 2011)	(204.7)
Total Estimated GF/GP Expenditures	\$8,219.9
Projected Year-End GF/GP Balance	\$568.3

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

	SFA Estimate
Revenue:	
Beginning Balance	\$255.9
SFA Revenue Estimate	\$11,235.9
<u>Other Revenue Adjustments:</u>	
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.....	316.2
Tax Amnesty	14.7
Liquor Reforms	0.9
Subtotal Other Revenue Adjustments.....	2,212.5
Total Estimated School Aid Fund Revenue.....	\$13,704.3
Expenditures:	
Initial Appropriations (Public Act 110 of 2010)	\$12,864.7
<u>Enacted Supplemental Appropriations:</u>	
Public Act 204 of 2010-Cost Adjustments and Eliminate Ren Zone GF	(46.8)
Public Act 205 of 2010-Federal Education Jobs Fund	70.3
Public Act 217 of 2010-Federal Education Jobs Fund 2x Distribution	246.0
Public Act 62 of 2011-Technical Cost Adjustments/Bus Inspections	(180.0)
Public Act 299 of 2011-Book-Closing Adjustments	27.5
Total Estimated School Aid Fund Expenditures.....	\$12,981.7
Projected Year-End School Aid Fund Balance	\$722.6

FY 2011-12 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA is now estimating that the FY 2011-12 GF/GP budget is in balance by \$627.9 million. [Table 3](#) provides a summary of this estimate. The estimate includes a projected \$568.3 million budget surplus carried forward from FY 2010-11. The current consensus estimate of FY 2011-12 GF/GP revenue represents a \$278.0 million increase from the May 2011 consensus revenue estimate upon which the FY 2011-12 budget was based.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA is now estimating that the FY 2011-12 SAF budget is in balance by \$119.3 million. [Table 4](#) provides a summary of this estimate. This estimate includes a projected \$722.6 million budget surplus carried forward from FY 2010-11. The current consensus estimate of FY 2011-12 SAF revenue represents a \$138.3 million increase from the May 2011 consensus revenue estimate upon which the budget was based. On the expenditure side of the SAF budget, there are consensus K-12 adjustments for pupils and local property taxes that add \$63.3 million in costs for FY 2011-12.

Table 3
FY 2011-12
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
 (Millions of Dollars)

	January 2012 SFA Estimate
Revenue:	
Beginning Balance	\$568.3
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate (January 13, 2012)	\$9,030.5
Revenue Sharing Payments	(300.0)
One-Time Appropriation for Revenue Sharing	(30.0)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	12.0
Subtotal Ongoing Revenue	\$8,712.5
<u>Non-Ongoing Revenue:</u>	
Northville Sale (Balloon Payment, Oct. 14, 2011)	6.5
Use Tax on Health Maintenance Organizations	200.7
Total Estimated GF/GP Revenue	\$9,488.0
Expenditures:	
Initial Ongoing Appropriations	\$8,275.2
Auditor General Boilerplate Appropriation	0.9
One-Time Appropriations	171.6
One-Time Appropriation to Budget Stabilization Fund.....	255.8
Projected Lapse from State Building Authority Bond Sale.....	(19.8)
Employee Concessions.....	(145.0)
Payment for Other Post-Employment Benefits	140.0
<u>Enacted Supplementals:</u>	
Public Act 38 of 2011: Tax Plan Implementation	1.0
Public Act 267 of 2011-UI Bonding, Michigan Finance Authority	1.0
Public Act 275 of 2011-Heating Assistance	10.0
Public Act 278 of 2011-Multiple Departments.....	169.4
Total Estimated GF/GP Expenditures	\$8,860.1
Projected Year-End GF/GP Balance	\$627.9

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

	January 2012 SFA Estimate
Revenue:	
Beginning Balance	\$722.6
Consensus Revenue Estimate (January 13, 2012)	\$10,763.6
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant	118.6
Federal Ongoing Aid	1,653.3
Nontax Revenue Adjustments.....	(8.0)
Subtotal Other Revenue Adjustments.....	\$1,763.9
Total Estimated School Aid Fund Revenue.....	\$13,250.1
Expenditures:	
Initial Ongoing K-12 Appropriations	\$12,203.6
K-12 Cost Adjustments (Consensus Estimate, Jan. 2012)	63.3
Partially Fund Community Colleges with School Aid Fund	195.9
Partially Fund Higher Education with School Aid Fund	200.0
<u>One-Time Appropriations:</u>	
MI Public School Employees Retirement System (MPERS) Payments	155.0
K-12 Best Practices.....	154.0
MPERS Retirement Obligation Reform Reserve Fund	133.0
Partially Restore K-12 Small Class Size Grants	13.5
Subtotal One-Time Appropriations.....	\$455.5
Pending Supplemental: H.B. 4445 (As Passed the Senate).....	12.5
Total Estimated School Aid Fund Expenditures.....	\$13,130.8
Projected Year-End School Aid Fund Balance	\$119.3

FY 2012-13 State Budget Outlook

Governor Snyder is expected to submit his recommendations for the FY 2012-13 State budget to the Legislature on February 9, 2012. The Governor's budget recommendation will continue the debate on the FY 2012-13 State budget because the Governor presented his projections for FY 2012-13 last year. The Legislature enacted an FY 2011-12 State budget that included language expressing intent to provide FY 2012-13 appropriations that would be the same as those for FY 2011-12, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2011-12 GF/GP revenue and expenditures produce a projected ending balance of \$627.9 million. If this balance is carried forward into FY 2012-13, and if FY 2012-13 GF/GP expenditures are essentially frozen at the FY 2011-12 ongoing appropriation level with adjustments for caseload and costs, there would be an FY 2012-13 projected year-end balance of \$656.9. Table 5 outlines these assumptions.

Table 5
FY 2012-13
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	January 2012 SFA Estimate
Revenue:	
Beginning Balance	\$627.9
Ongoing Revenue:	
Consensus Revenue Estimate (January 13, 2012)	\$9,034.6
Revenue Sharing Payments	(300.0)
Shift of Short Term Borrowing Costs to School Aid Fund	20.0
Total Estimated GF/GP Revenue	\$9,382.5
Expenditures:	
FY 2011-12 Total Appropriations	\$8,860.1
Remove FY 2011-12 One-Time Appropriations.....	(438.4)
Remove Health Claims Assessment GF/GP Adjustment	(167.3)
Community Health Caseload/Costs	200.0
Medicaid Match Rate Increase (66.14% to 66.39%).....	(25.0)
Increase for Debt Service Payments	46.2
Estimate of Other Cost Increases (3.0%)	250.0
Total Estimated GF/GP Expenditures	\$8,725.6
Projected Year-End GF/GP Balance	\$656.9

The FY 2012-13 GF/GP budget outlook assumes carry-forward funding of \$627.9 million, \$9.0 billion in consensus revenue, and a continuation of State revenue sharing payments at the FY 2011-12 ongoing funding level of \$300.0 million. On the appropriation side of the FY 2012-13 budget outlook, total appropriations are frozen at the FY 2011-12 level of \$8.9 billion; then, one-time appropriations of \$438.4 million and the health claims assessment GF/GP adjustment of \$167.3 million are removed. Additional adjustments factored into this budget outlook include Department of Community Health caseload and cost increases of \$200.0 million, an increase in the Medicaid match rate that saves \$25.0 million, an increase for debt service payments of \$46.2 million, and an estimate of other potential cost increases in the budget of 3.0%, or approximately \$250.0 million.

A comparison of projected FY 2012-13 GF/GP consensus revenue and a continuation type of appropriation base, leads to a projected ending balance of \$656.9 million. If FY 2011-12 one-time GF/GP appropriations of \$427.4 million and one-time State revenue sharing appropriations of \$30.0 million are not removed from the spending base, the FY 2012-13 projected year-end GF/GP balance would be \$194.5 million instead of \$656.9 million.

Table 6 provides a summary of the SFA's outlook for the FY 2012-13 SAF budget. The estimated FY 2011-12 SAF revenue and expenditures result in a projected ending balance of \$119.3 million. If this balance is carried forward into FY 2012-13, and if FY 2012-13 SAF expenditures are frozen at the FY 2011-12 ongoing appropriation level with adjustments for pupils and local property tax valuations, there would be an FY 2012-13 projected year-end balance of \$303.0 million.

Table 6
FY 2012-13
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	January 2012 SFA Estimate
Revenue:	
Beginning Balance	\$119.3
Consensus Revenue Estimate (January 13, 2012)	\$11,055.0
Other Revenue Adjustments:	
General Fund/General Purpose Grant	\$118.6
Federal Ongoing Aid	1,653.3
Nontax Revenue Adjustments.....	3.3
Subtotal Other Revenue Adjustments.....	\$1,775.2
Total Estimated School Aid Fund Revenue.....	\$12,949.5
Expenditures:	
FY 2011-12 Total K-12 Appropriations	\$12,671.6
K-12 Cost Adjustments for FY 2011-12 (Consensus Estimate, Jan. 2012).....	63.3
FY 2011-12 Total Comm. Colleges/Higher Education SAF Appropriations	395.9
Remove FY 2011-12 One-Time Appropriations.....	(455.5)
Remove Funding for FY 2011-12 Supplemental H.B. 4445	(12.5)
K-12 Cost Adjustments for FY 2012-13	(16.3)
Total Estimated School Aid Fund Expenditures.....	\$12,646.5
Projected Year-End School Aid Fund Balance	\$303.0

The FY 2012-13 SAF budget outlook assumes carry-forward funding of \$119.3 million, \$11.1 billion in consensus revenue, a \$118.6 million GF/GP grant, \$1.7 billion in Federal aid, and other revenue adjustments of \$3.3 million. On the appropriation side of the FY 2012-13 SAF budget outlook, total K-12, community college, and university SAF appropriations are frozen at the FY 2011-12 level of \$13.1 billion; then, one-time appropriations of \$455.5 million and the FY 2011-12 pending supplemental funding of \$12.5 million are removed. Additional adjustments for estimates of pupils and local property taxes save \$16.3 million in FY 2012-13 spending.

A comparison of projected FY 2012-13 SAF consensus revenue and a continuation type of appropriation base, leads to a projected ending balance of \$303.0 million. If the FY 2011-12 one-time SAF appropriations of \$455.5 million are not removed from the spending base, the FY 2012-13 projected year-end SAF balance would be a negative \$152.5 million instead of a positive \$303.0 million.

FY 2013-14 State Budget Outlook

The consensus revenue estimates for FY 2013-14 project growth rates of 2.2% and 2.8%, respectively, for the GF/GP and SAF budgets. These growth rates are better than the FY 2012-13 estimated growth rates of 0.0% for GF/GP revenue and 2.7% for SAF revenue. If the consensus revenue estimates are achieved, there should be little difficulty in maintaining ongoing appropriation levels for the General Fund and the School Aid Fund in FY 2013-14.

When the preliminary unaudited financial statements for FY 2010-11 are issued by the State's Office of Financial Management, the SFA will provide updated GF/GP and SAF balance sheets for the fiscal years discussed in this memo. In the meantime, if you have any questions, please contact me at 517-373-5300 or at ejeffries@senate.michigan.gov .

/kjh