

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: July 8, 2010
TO: Members of the Senate
FROM: Gary S. Olson, Director
RE: State Budget Update

As of July 1, 2010, the Michigan Legislature has completed action on one of the fiscal year (FY) 2010-11 appropriation bills. The FY 2010-11 appropriation bill for the K-12 School Aid Fund (SAF) was signed into law by the Governor on July 7, 2010. Still pending before the Legislature are all of the other FY 2010-11 appropriation bills. These bills are currently in joint House/Senate conference committees. In addition to the final action on the FY 2010-11 budget, the Legislature also will need to take action to eliminate a projected deficit in the FY 2009-10 General Fund/General Purpose (GF/GP) budget. This memorandum provides a summary of the current Senate Fiscal Agency (SFA) estimates of the projected year-end balances in the FY 2009-10 and FY 2010-11 GF/GP and SAF budgets.

Fiscal Year 2009-10 State Budget Update

Based on the May 2010 consensus revenue estimates and enacted and pending appropriations, the SFA is estimating that the FY 2009-10 GF/GP budget is currently in deficit by \$303.0 million. Table 1 provides a summary of this projected budget deficit.

On the revenue side of the FY 2009-10 GF/GP budget ledger, the SFA estimates that revenue will total \$7.8 billion. This estimate includes a \$177.2 million balance carried forward from FY 2008-09, \$6.7 billion of revenue estimated at the May 2010 consensus revenue estimating conference, \$520.8 million of revenue from enacted revenue sharing reductions, \$20.0 million from a shift in short-term borrowing costs to the SAF budget, and \$357.7 million from the use tax on Health Maintenance Organizations. In addition, the revenue total includes \$41.4 million of one-time revenue with the largest being a \$37.5 million transfer of 21st Century Jobs Fund revenue to the GF/GP budget.

On the expenditure side of the FY 2009-10 GF/GP budget ledger, the SFA estimates that expenditures will total \$8.1 billion. This estimate includes \$8.1 billion of the initial enacted appropriations for the fiscal year, \$5.2 million of enacted supplemental appropriations, a \$43.2 million savings from pending supplemental appropriations, and \$15.0 million of savings from projected year-end appropriation lapses. The \$43.2 million of projected savings from pending supplemental appropriations includes caseload, cost, and fund shifts that have been recommended for approval by the State Budget Office (SBO).

The Legislature and the Governor are anticipated to take action in the next several weeks to eliminate this projected \$303.0 million FY 2009-10 GF/GP budget deficit. The options being discussed to eliminate this projected deficit include appropriation reductions, transferring surplus State restricted fund balances to the GF/GP budget, and borrowing funds to eliminate the deficit.

Table 1

FY 2009-10 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (millions of dollars)	
	July 2010 SFA Estimate
Revenue:	
Beginning Balance	\$177.2
Ongoing Revenue:	
Consensus Revenue Estimate	6,654.9
Revenue Sharing Savings	520.8
Shift Short-Term Borrowing Costs to School Aid Fund	20.0
Use Tax on HMOs (PA 440 of 2008)	357.7
Subtotal Ongoing Revenue	\$7,553.4
One-Time Revenue:	
FY 2008-09 Bookclosing MBT Transfer to SAF Budget	(7.9)
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	1.9
State Services Fee Fund Transfer to General Fund	1.6
Use Tax for Travel Promotion-PA 36 of 2010	(9.5)
21st Century Jobs Fund Transfer to General Fund	37.5
Subtotal One-Time Revenue	\$41.4
Total Estimated Revenue	\$7,772.0
Expenditures:	
Initial Appropriations	\$8,128.0
Appropriation Adjustments:	
Enacted Supplemental Appropriations	5.2
Pending Supplemental Appropriations	(43.2)
Projected Year-End Appropriation Lapses	(15.0)
Subtotal Appropriation Adjustments	(53.0)
Total Estimated Expenditures	\$8,075.0
Projected Year-End Balance	(\$303.0)

On July 1, 2010, the Legislature approved the FY 2010-11 appropriation bill for the K-12 SAF budget. This bill also included adjustments to the FY 2009-10 SAF appropriations. Based on the May 2010 consensus revenue estimate and enacted appropriations, the SFA is estimating that the FY 2009-10 SAF budget is in surplus by \$371.7 million. Table 2 provides a summary of this projected budget surplus.

On the revenue side of the FY 2009-10 SAF budget ledger, the SFA estimates that revenue will total \$13.1 billion. This estimate includes \$238.2 million of surplus revenue carried forward from FY 2008-09, \$10.7 billion of revenue estimated at the May 2010 consensus revenue estimating conference, a \$30.2 million GF/GP grant to the SAF budget, \$1.6 billion of ongoing Federal aid, \$450.0 million of temporary Federal aid related to the American Recovery and Reinvestment Act of 2009 (ARRA), and two minor revenue adjustments.

Table 2
FY 2009-10 School Aid Fund
Revenue, Expenditures, and Year-End Balance
(millions of dollars)

	July 2010 SFA Estimate
Revenue:	
Beginning Balance	\$238.2
Restricted Consensus SAF Revenue	10,749.9
GF/GP Grant	30.2
Federal Aid	1,612.3
ARRA-State Fiscal Stabilization Fund	450.0
FY 2008-09 Bookclosing Michigan Business Tax Transfer from GF/GP	7.9
FY 2008-09 Bookclosing Greektown Casino Adjustment	(9.3)
Total Estimated Revenue	\$13,079.2
Expenditures:	
Enacted Appropriation.....	\$12,823.5
Expenditure Adjustments	15.9
Formula Cost Adjustments.....	(122.0)
Additional CEPI Federal Funding.....	15.9
Lower SAF Borrowing Cost from General Fund	(25.8)
Total Appropriations	\$12,707.5
Projected Year-End Balance	\$371.7

On the expenditure side of the FY 2009-10 SAF budget ledger, the SFA estimates that expenditures will total \$12.7 billion. This expenditure total includes enacted appropriations and estimated final spending related to formula funding cost adjustments.

Pursuant to current statutory requirements the projected FY 2009-10 SAF surplus of \$371.7 million will be carried forward into FY 2010-11. The recently enacted FY 2010-11 SAF budget is built on this assumed carry forward balance.

Fiscal Year 2010-11 State Budget Update

As stated earlier, the Legislature has only completed action on the K-12 SAF appropriation bill for FY 2010-11. The other FY 2010-11 appropriation bills are pending in conference committees. Based on the May 2010 consensus revenue estimate, the level of FY 2010-11 GF/GP appropriations approved by the Senate, revised caseload and cost estimates, and updated estimates as to the level of Federal funds assumed in the budget, the SFA is now estimating that the FY 2010-11 GF/GP budget is in deficit by \$525.6 million. Table 3 provides a summary of this estimate.

By mid-May 2010, the Michigan Senate had passed all of the FY 2010-11 appropriation bills. Based on the May 2010 consensus revenue estimate and the level of appropriations in these bills, the FY 2010-11 GF/GP budget was balanced. A key assumption that leads to the budget being in balance was the assumption that Michigan would receive an additional six months of enhanced Medicaid match rate funding from the Federal government.

Table 3

FY 2010-11 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (millions of dollars)	
	July 2010 SFA Estimate
Revenue:	
Beginning Balance	\$0.0
Ongoing Revenue:	
Consensus Revenue Estimate	7,096.6
Proposed Revenue Sharing Freeze	537.2
County Revenue Sharing-Restore Payments	(59.4)
Use Tax on Health Maintenance Organizations	377.3
Shift Short-Term Borrowing Costs to School Aid Fund	45.0
Enhanced Tax Enforcement Revenue.....	15.0
Subtotal Ongoing Revenue	\$8,011.7
Senate-Passed Revenue Adjustments:	
Revenue Sharing Reduction.....	39.5
21st Century Jobs Fund Transfer to GF/GP.....	48.5
Secretary of State IT Work Project Transfer to GF/GP	6.0
State Services Fee Fund Transfer to GF/GP	5.0
Subtotal Proposed Revenue Adjustments	99.0
Total Estimated Revenue	\$8,110.7
Expenditures:	
Senate-Passed Appropriations	7,850.6
Community Health Caseload and Costs	103.6
Community Health Clawback Adjustment.....	94.3
Human Services Caseload and Costs	(12.4)
DHS Children's Rights Lawsuit	37.2
Tobacco Settlement Revenue Shortfall	62.8
Medicaid Benefits Trust Fund/Healthy Michigan Shortfall	39.5
Elimination of Six-Month Medicaid Match Rate Increase	558.9
Savings from Proposed State Employee Retirement Changes	(98.2)
Total Recommended Expenditures	\$8,636.3
Projected Year-End Balance	\$(525.6)

This Federal funding assumption was included in the Governor's budget recommendation, the budget approved by the House of Representatives, and the Senate-passed budget. The assumption was included in the budgets due to the fact that the President and the leadership of the United States House of Representatives and the United States Senate had recommended this enhanced Medicaid match rate funding. On June 25, 2010, the United States Senate failed to generate enough votes to pass the enhanced Medicaid match rate funding assumed in the FY 2010-11 GF/GP budget. While there is still some possibility that the United States Congress could approve the enhanced Medicaid match rate funding at a later date, it appears to the SFA that this assumption needs to be removed from the budget. The removal of this assumption leads to a \$558.9 million GF/GP funding hole in the FY 2010-11 budget.

On the revenue side of the FY 2010-11 GF/GP budget ledger, the SFA estimates that revenue will total \$8.1 billion. This revenue total includes \$7.1 billion of revenue estimated at the May 2010 consensus revenue estimating conference, \$537.2 million of revenue from a freeze in revenue sharing payments, a \$59.4 million revenue reduction attributed to increased revenue sharing payments to counties, \$377.3 million from the use tax on Health Maintenance Organizations, \$45.0 million from a shifting of a portion of short-term cash flow borrowing costs to the SAF budget, and \$15.0 million of enhanced tax enforcement revenue. In addition, the Senate-passed appropriation bills included \$99.0 million of additional revenue from reductions in revenue sharing payments, a transfer of 21st Century Jobs Fund revenue to the GF/GP budget, and two other small restricted fund revenue transfers to the GF/GP budget.

On the expenditure side of the FY 2010-11 GF/GP budget ledger, the SFA estimates that expenditures will total \$8.6 billion. This expenditure total includes the level of GF/GP appropriations approved by the Senate, agreed-upon caseload, costs and restricted revenue adjustments, the elimination of the \$558.9 million of assumed Federal funds from the six-month extension of the enhanced Medicaid match rate, an adjustment related to the timing of Federal Medicare clawback savings included in the budget, and \$98.2 million of assumed GF/GP savings from proposed reforms in the State Employees Retirement System (SERS). These SERS reforms have been recommended by the Governor and passed by the Senate, but have not been acted on by the House of Representatives.

The projected FY 2010-11 GF/GP budget deficit of \$525.6 million equals 6.1% of the projected FY 2010-11 GF/GP appropriations as approved by the Senate. It will now be up to the Governor and the Legislature to develop an agreement to eliminate this projected budget deficit.

Table 4 provides a summary of the current SFA estimates regarding the projected year-end balance in the FY 2010-11 SAF budget. Based on the budget signed into law by the Governor on July 7, 2010, the FY 2010-11 SAF budget is in surplus by \$237.1 million.

On the revenue side of the FY 2010-11 SAF budget ledger, the SFA estimates that revenue will total \$13.1 billion. This revenue total includes a \$371.7 million surplus carried forward from FY 2009-10, \$10.8 billion of revenue estimated at the May 2010 Consensus Revenue Estimating Conference, a \$30.2 million GF/GP grant to the SAF budget, \$1.7 billion of ongoing Federal aid, \$184.3 million of temporary Federal funding related to the ARRA, and a small amount of revenue from tax enforcement and lottery reforms.

On the expenditure side of the FY 2010-11 SAF budget ledger, the SFA estimates that expenditures will total \$12.9 billion. This includes the \$12.9 billion of enrolled appropriations approved by the Legislature and savings of \$900,000 due to vetoes by the Governor. The Legislature also authorized the expenditure of \$26.2 million of appropriations to fund requirements of the Race to the Top legislation if Michigan is unsuccessful in receiving a Federal grant to fund this program.

Table 4
FY 2010-11 School Aid Fund
Revenue, Expenditures, and Year-End Balance
(millions of dollars)

	July 2010 SFA Estimate
Revenue:	
Beginning Balance	\$371.7
Consensus Revenue Estimate	10,832.9
Revenue Adjustments:	
GF/GP Grant to School Aid Fund	30.2
Federal Aid	1,682.9
ARRA-State Fiscal Stabilization Fund	184.3
Enhanced Tax Enforcement Revenue	2.3
Lottery Reform	5.0
Subtotal Tax Policy Proposals	1,904.7
Total Estimated School Aid Fund Revenue.....	\$13,109.3
Expenditures:	
Enrolled Initial Appropriations	\$12,846.9
Governor's Vetoes.....	(0.9)
Contingency Race to the Top Funding	26.2
Total Projected Expenditures	\$12,872.2
Projected Year-End School Aid Fund Balance	\$237.1

If you have any questions on the information in this memorandum, please do not hesitate to call my office.

/kjh