

**SENATE FISCAL AGENCY  
MEMORANDUM**



**DATE:** November 15, 2005  
**TO:** Members of the Senate  
**FROM:** Gary S. Olson, Director  
**RE:** Update on FY 2004-05 State Budget

The Office of the State Budget (OSB) is expected to complete the final accounting of fiscal year (FY) 2004-05 State revenue and expenditures by January 1, 2005. Between today and the final accounting of revenue and expenditures, the OSB is calculating the actual level of revenue and expenditures that will be accrued to FY 2004-05. Based on a preliminary analysis by the Senate Fiscal Agency (SFA) it now appears that when the final accounting of revenue and expenditures is completed, the FY 2004-05 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets should close the fiscal year with positive year-end balances. This memorandum discusses the current SFA estimates of the FY 2004-05 GF/GP and SAF year-end balances.

**FY 2004-05 General Fund/General Purpose Year-End Balance**

Table 1 provides a summary of the SFA's estimate of the FY 2004-05 GF/GP year-end balance. The SFA is estimating that when a final accounting of revenue and expenditures is completed the year-end balance will equal \$171.2 million. Pursuant to provisions of the Management and Budget Act, the actual level of the final FY 2004-05 GF/GP year-end balance will carry forward into FY 2005-06.

This projected FY 2004-05 GF/GP year-end balance of \$171.2 million represents a significant improvement from the SFA estimates released after the August 17, 2005, meeting of the Consensus Revenue Estimating Conference. The primary reason for the projected improvement in the FY 2004-05 GF/GP year-end balance involves changes in the estimated level of GF/GP revenue. As outlined in Table 1, the SFA is now estimating that actual FY 2004-05 GF/GP revenue will exceed the August 17, 2005, consensus revenue estimate by \$189.0 million. This revenue increase can be primarily attributed to four factors.

**Estate Tax Collections:** The SFA is now estimating that revenue collected from the estate tax will exceed the August 17, 2005, consensus estimate by \$73.5 million. This increase can be attributed to one large estate tax payment that was remitted to the State during September 2005.

**Use Tax Collections:** The SFA is now estimating that revenue collected from the use tax will exceed the August 17, 2005, consensus estimate by \$32.5 million. This increase can be attributed to a large settlement of an outstanding use tax payment and overall strength in the collections from this tax.

**Income Tax Collections:** The SFA is now estimating that net revenue deposited in the GF/GP budget from the income tax will exceed the August 17, 2005, consensus estimate by \$45.0 million.

million. This revenue increase can be attributed to an increase in income tax payments and a slight decline in income tax refunds paid.

**Single Business Tax Collections:** The SFA is now estimating that revenue collected from the single business tax will exceed the August 17, 2005, consensus estimate by \$47.0 million. This revenue increase results from general increase in payments.

**Table 1**  
**FY 2004-05**  
**General Fund/General Purpose**  
**Revenue, Expenditures, and Year-End Balance**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$ 0.0
<b>On-Going Revenue:</b>	
Consensus Revenue Estimate.....	7,994.0
Revenue Above Consensus Estimate .....	189.0
Revenue Sharing Adjustments .....	506.3
Interfund Borrowing Costs .....	20.0
Pharmaceutical Tax Credit Adjustment .....	10.0
Subtotal Ongoing Revenue .....	8,719.3
<b>Non Ongoing Revenue:</b>	
Sale of Surplus State Property.....	15.5
Merit Award Trust Fund Transfer (PA 360 of 2004).....	5.2
Tobacco Settlement Trust Fund Transfer (PA 360 of 2004).....	1.8
Restricted Fund Transfers to General Fund .....	16.4
Withdrawal from Budget Stabilization Fund (PA 188 of 2005) .....	81.3
Escheats Enforcement.....	2.5
Subtotal Non-ongoing Revenue .....	122.7
<b>Total GF/GP Revenue.....</b>	<b>\$8,842.0</b>
<b>Expenditures:</b>	
Initial Enacted Appropriations.....	\$8,699.4
Supplemental Appropriations (PA 352 of 2004).....	43.0
Supplemental Appropriations (PA 358 of 2004).....	8.5
Supplemental Appropriations (PA 518 of 2004).....	99.5
Supplemental Appropriations (PA 468 of 2004).....	0.2
Supplemental Appropriations (PA 10 of 2005).....	0.0
Supplemental Appropriations (PA 11 of 2005).....	40.0
Supplemental Appropriations (PA 11 of 2005).....	30.0
Supplemental Appropriations (PA 109 of 2005).....	57.3
Supplemental Appropriations (PA 200 of 2005).....	8.9
Executive Order 2005-7 (GF/GP Reductions).....	(284.1)
Executive Order 2005-7 (Lapses/Revenue Shifts).....	(11.9)
Projected Year-End Appropriation Lapses .....	(20.0)
<b>Total GF/GP Expenditures .....</b>	<b>\$8,670.8</b>
<b>Year-End Balance .....</b>	<b>\$ 171.2</b>

These adjustments attributed to the estate tax, use tax, income tax, and single business tax account for the majority of the \$189.0 million increase in the GF/GP revenue estimate from the August 17, 2005, consensus estimate. These numbers will certainly change as the final accounting of FY 2004-05 GF/GP revenue is completed over the next six weeks.

On the expenditure side of the FY 2004-05 GF/GP budget ledger, the SFA is now projecting that final expenditures will total \$8.67 billion. This estimate is built on the assumption that universities and community colleges will receive an additional supplemental appropriation of \$13.5 million at the time of the final bookclosing. This appropriation is pursuant to Public Act 11 of 2005. This \$13.5 million appropriation plus a \$16.5 million appropriation already received by the universities and community colleges will fully restore the \$30.0 million of appropriation reductions these institutions received in Executive Order 2005-7. The item that could have an impact on the final level of FY 2004-05 GF/GP expenditures is appropriation lapses. The SFA is estimating that net GF/GP appropriation lapses will equal \$20.0 million. The actual level of these GF/GP appropriations lapses will be determined over the next several weeks as the final accounting of GF/GP expenditures continues.

Assuming a \$171.2 million FY 2004-05 GF/GP year-end balance, this revenue will be carried forward into FY 2005-06. Since the FY 2005-06 GF/GP budget was enacted assuming a zero balance from FY 2004-05, the actual level of the carryforward balance will serve as a reserve to deal with any FY 2005-06 GF/GP budget issues.

#### **FY 2004-05 School Aid Fund Year-End Balance**

Table 2 provides a summary of the SFA estimate of FY 2004-05 SAF year-end balance. The SFA is estimating that when a final accounting of revenue and expenditures is completed the year-end balance will equal \$30.7 million. Pursuant to provisions of the State School Aid Act, the actual level of the final FY 2004-05 SAF year-end balance will carry forward into FY 2005-06.

This projected \$30.7 million SAF year-end balance can be attributed to a slight increase in the estimate of SAF revenue above the amount assumed in the August 17, 2005, consensus revenue estimate. The SFA is now estimating that actual SAF revenue will exceed the consensus estimate by \$29.7 million. The primary factors in this change in the revenue estimate involve a \$10.8 million increase in use tax collections and a \$15.0 million increase in net lottery proceeds.

Assuming a \$30.7 million FY 2004-05 SAF year-end balance, this revenue will be carried forward into FY 2005-06. Since the FY 2005-06 SAF budget was enacted assuming a zero balance from FY 2004-05, the actual level of the carryforward balance will serve as a reserve to deal with any FY 2005-06 SAF budget issues.

The SFA will be providing the Senate with a more detailed report on FY 2004-05 revenue and expenditures when the final accounting of revenue and expenditures is completed. The SFA also will be providing the Senate with an updated economic and revenue forecast for FY 2005-06 and our initial economic and revenue forecast for FY 2006-07 prior to the January 12, 2006, meeting of the consensus revenue estimating conference.

**Table 2**  
**FY 2004-05**  
**School Aid Fund**  
**Revenue, Expenditures, and Year-End Balance**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$ 74.1
Consensus Revenue Estimate .....	10,840.3
Revenues Above Consensus Estimate .....	29.7
<b>Other Revenue Adjustments:</b>	
GF/GP Grant .....	165.2
GF/GP Grant (PA 518 of 2004) .....	99.5
GF/GP Grant (EO 2005-7).....	(99.5)
Federal Aid .....	1,353.6
School Bond Loan Fund Reform Proposal.....	41.1
Write Off of FY 2003-04 Revenue .....	(4.2)
Payments in Lieu of Taxes .....	(2.0)
Subtotal Other Revenue Adjustments .....	1,553.7
<b>Total Estimated Revenue .....</b>	<b>\$12,497.8</b>
<b>Expenditures:</b>	
Enacted Appropriations .....	\$12,527.5
Reduction of Homestead Audit Savings .....	26.6
Reduction of Personal Property Tax Audit Savings .....	13.6
Enhanced Tax Enforcement Savings .....	(3.5)
Appropriation Lapse (Pupils/Taxable Values) .....	(97.1)
<b>Total Estimated Expenditures .....</b>	<b>\$12,467.1</b>
<b>Projected Year-End Balance.....</b>	<b>\$ 30.7</b>

/kjh

c: SFA Staff