

SENATE FISCAL AGENCY
MEMORANDUM



DATE: July 27, 2009
TO: Members of the Senate
FROM: Gary S. Olson, Director
RE: State Budget Update

On May 15, 2009, the Consensus Revenue Estimating Conference met and agreed upon a revised economic and revenue forecast for Michigan for the current fiscal year and next fiscal year. Immediately following this revenue estimating conference, the Senate Fiscal Agency (SFA) transmitted to your office documents that summarized the economic and revenue estimates agreed to at the conference and also provided updated estimates of the projected year-end balances in the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets based on the revised revenue estimates.

The projected GF/GP and SAF year-end balance estimates have changed slightly over the past two months. This memorandum provides a summary of the projected FY 2008-09 and FY 2009-10 GF/GP and SAF year-end balances. These projected year-end balance numbers are currently the basis of discussions between the Governor and the Legislature regarding final decisions to eliminate projected deficits in both the GF/GP and SAF budgets. The memorandum also provides a summary of the appropriation of Federal funds the State of Michigan has received and will receive under provisions of the American Recovery and Reinvestment Act of 2009 (ARRA).

Fiscal Year 2008-09 Year-End Balance Estimates

Table 1 provides a summary of the current SFA estimate of the projected FY 2008-09 GF/GP year-end budget balance. A comparison of estimated revenue and appropriations leads to a \$983.8 million projected deficit. The State of Michigan is eligible to receive a total of \$1.2 billion of Federal funds through provisions of ARRA that are available to eliminate this projected budget deficit.

The FY 2008-09 GF/GP budget deficit assumes that the Legislature will enact a total of \$369.3 million of pending GF/GP supplemental appropriations that have been recommended by the Office of the State Budget (OSB). Table 2 summarizes these pending GF/GP supplemental appropriations. These supplemental appropriations will fund caseload and cost adjustments in the Departments of Community Health, Human Services, and Corrections and also increase the level of the GF/GP grant to the SAF budget.

The Governor and Legislative Leadership now intend to eliminate this projected FY 2008-09 GF/GP budget deficit of \$983.8 million by the appropriation of available Federal ARRA funds. Based on current estimates, \$983.8 million of the \$1.2 billion of ARRA funding available in FY 2008-09 will be used to balance the FY 2008-09 GF/GP budget. This will leave \$199.6 million of FY 2008-09 ARRA funding available in the FY 2009-10 GF/GP budget.

Table 3 provides a summary of the current SFA estimate of the projected FY 2008-09 SAF year-end budget balance. A comparison of estimated revenue and appropriations leads to a \$429.6 million projected deficit. The Governor recently signed into law Public Act 73 of 2009 which appropriated \$600.0 million of Federal ARRA funding to the FY 2008-09 SAF budget. This funding eliminates the projected \$429.0 million FY 2008-09 deficit and leaves \$171.0 million of FY 2008-09 ARRA funding available in the FY 2009-10 SAF budget.

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

| | Consensus May 2009 |
|--|-------------------------------|
| Revenue: | |
| Beginning Balance | \$457.9 |
| Ongoing Revenue: | |
| Consensus Revenue Estimate | 7,435.3 |
| Revenue Sharing Savings | 497.9 |
| Use Tax on HMOs (PA 440 of 2008)..... | 156.1 |
| Shift Short-Term Borrowing Costs to School Aid Fund | <u>45.0</u> |
| Subtotal Ongoing Revenue | 8,134.3 |
| One-Time Revenue: | |
| 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..... | <u>6.0</u> |
| Subtotal One-Time Revenue..... | 57.0 |
| Total Estimated Revenue | \$8,649.2 |
| Expenditures: | |
| Initial Appropriations..... | \$9,701.4 |
| Enacted Supplemental Appropriations: | |
| 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) |
| Public Act 38 of 2009..... | <u>0.0</u> |
| Subtotal Enacted Supplemental Appropriations | (6.9) |
| Pending Supplemental Appropriations..... | 369.3 |
| Executive Order 2008-21 | (134.0) |
| Executive Order 2009-22 | (297.6) |
| DCH EO 2009-22 Savings Included in Supplemental Base Adjustments | 20.8 |
| Lapse from Contract Savings..... | <u>(20.0)</u> |
| Total Projected Expenditures | \$9,633.0 |
| Projected Year-End Balance | \$(983.8) |
| Federal American Recovery and Reinvestment Act Funding: | |
| ARRA-State Fiscal Stabilization Fund..... | 289.8 |
| ARRA-Federal Medicaid Match Rate | 863.6 |
| ARRA-Federal Medicaid Match Rate Accrual Funding..... | 30.0 |
| Total Federal ARRA Funding | \$1,183.4 |
| Projected Remaining ARRA Funding..... | \$199.6 |

Table 2
PENDING FY 2008-09
GENERAL FUND/GENERAL PURPOSE
SUPPLEMENTAL APPROPRIATION REQUESTS
 (Millions of Dollars)

| Budget (Supplemental Request) | |
|---|----------------|
| History, Arts, and Libraries (Records Center Lease) | \$0.6 |
| Civil Rights (Offset of Reduced Federal Funds) | 0.3 |
| Corrections (Parole Funding Increase) | 20.0 |
| Corrections (Health Care Cost Increase) | 10.0 |
| Community Health (Switch QAAP to Use Tax) | 152.9 |
| Community Health (Caseload/Utilization Adjustments) | 156.9 |
| Community Health (One-Time Facility Closure Costs) | 8.0 |
| Human Services (Caseload/Utilization Adjustments)..... | (21.6) |
| School Aid Fund (Increase GF/GP Grant to SAF) | 44.2 |
| Treasury (Blackstone Settlement Funding Shift) | (2.0) |
| Total Pending Supplemental Appropriation Requests..... | \$369.3 |

Table 3
FY 2008-09
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
 (Millions of Dollars)

| | Consensus May 2009 |
|--|-------------------------------|
| Revenue: | |
| Beginning Balance | \$247.1 |
| Consensus Revenue Estimate | 10,943.7 |
| GF/GP Grant | 78.0 |
| Federal Aid | 1,562.0 |
| Total Estimated Revenue | \$12,830.8 |
| Expenditures: | |
| Initial Appropriations | \$13,378.9 |
| Formula Funding Adjustments | (119.1) |
| Total Projected Expenditures | \$13,259.8 |
| Projected Year-End Balance | \$(429.0) |
| Federal American Recovery and Reinvestment Act Funding: | |
| ARRA-State Fiscal Stabilization Fund Appropriation to K-12 (PA 73 of 2009) | 600.0 |
| Balance Forward to FY 2009-10 | \$171.0 |

Fiscal Year 2009-10 Year-End Balance Estimates

Table 4 provides a summary of the current SFA estimate of the projected FY 2009-10 GF/GP year-end budget balance. A comparison of estimated revenue and the Governor's appropriation recommendations leads to a projected \$1.8 billion imbalance. This estimate does not assume any change in tax or fee policy from current law and does not factor in the potential use of any available Federal ARRA funds.

Table 4
FY 2009-10
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

| | Consensus May 2009 |
|--|-------------------------------|
| Revenue: | |
| Beginning Balance | \$0.0 |
| Ongoing Revenue: | |
| Consensus Revenue Estimate | \$6,949.7 |
| Revenue Sharing Savings | 355.7 |
| Revenue Sharing Revision (OSB, June 18, 2009) | 23.1 |
| 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 | \$7,713.0 |
| Total Estimated Revenue | \$7,713.0 |
| Expenditures: | |
| Governor's Appropriation Recommendations | \$8,959.4 |
| Employee Concessions | (27.5) |
| Remove GF/GP Fund Shift to Federal Stimulus Funding | 500.1 |
| Community Health Caseload/Utilization Adjustment | 104.3 |
| Human Services Caseload/Utilization Adjustment | (63.4) |
| Total Projected Expenditures | \$9,472.9 |
| Projected Year-End Balance | (\$1,759.9) |
| Governor's Proposed Tax and Fee Increases: | |
| Proposed Tax Increases | \$129.1 |
| Proposed Fee Increases | 24.1 |
| Proposed Enhanced Tax Enforcement | 13.2 |
| Total Proposed Tax and Fee Increases | \$166.4 |
| Federal American Recovery and Reinvestment Act Funding: | |
| ARRA Funding Remaining from FY 2008-09 | \$199.6 |
| ARRA-Federal Medicaid Match Rate (FY 2009-10 Funding) | 973.0 |
| Total FY 2009-10 ARRA Funding | \$1,172.6 |

The Governor's budget submitted to the Legislature in February 2009 did include a recommendation for \$166.4 million of increased GF/GP revenue through the enactment of several proposed tax and fee increases. These proposals have yet to be considered by either the House of Representatives or the Senate. The Senate recently passed FY 2009-10 appropriation bills that reduced the level of GF/GP appropriations recommended by the Governor by approximately \$900.0 million. A total of \$1.2 billion of Federal ARRA funding is available that could be utilized to reduce the projected budget deficit. This includes \$199.6 million of ARRA funds not utilized in FY 2008-09. The projected \$1.8 billion FY 2009-10 GF/GP budget imbalance likely will be eliminated by utilizing a combination of reductions to the level of appropriations recommended by the Governor, tax and fee increases, and the use of available Federal ARRA funds.

Table 5 provides a summary of the current SFA estimate of the projected FY 2009-10 SAF year-end balance. A comparison of estimated revenue and the Governor's appropriation recommendation leads to a projected \$958.6 million imbalance. This estimate does not assume any change in tax or fee policy from current law and does not factor in the potential use of any available Federal ARRA funds.

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

| | Consensus May 2009 |
|--|-------------------------------|
| Revenue: | |
| Beginning Balance | \$0.0 |
| Consensus Revenue Estimate | 10,563.0 |
| GF/GP Grant | 40.8 |
| Federal Aid | 1,561.8 |
| Total Estimated Revenue | \$12,165.6 |
| Expenditures: | |
| Governor's Appropriation Recommendation | \$12,963.6 |
| Consensus Cost Adjustments for Pupils and Taxable Values | 31.0 |
| ARRA Adjustment: Restore Foundation Reductions | 113.3 |
| ARRA Adjustment: Restore ISD Operations Reductions | 16.3 |
| Total Potential Expenditures | \$13,124.2 |
| Projected Year-End Balance | (\$958.6) |
| Governor's Proposed Tax and Fee Increases: | |
| Proposed Tax Increases | \$47.0 |
| Proposed Enhanced Tax Enforcement | 3.2 |
| Proposed Lottery Revenue Increase | 15.0 |
| Total Proposed Tax and Fee Increases | \$65.2 |
| Federal American Recovery and Reinvestment Act Funding: | |
| Federal Aid-ARRA-FY 2008-09 Surplus | \$171.0 |
| Federal Aid-ARRA-FY 2009-10 Remaining | 634.1 |
| Total Federal ARRA Funding | \$805.1 |

The Governor's budget submitted to the Legislature in February 2009 did include a recommendation for \$65.2 million of increased SAF revenue through the enactment of several proposed tax and fee increases. These proposals have yet to be considered by either the House of Representatives or the Senate. The Senate recently passed a FY 2009-10 SAF appropriation bill that reduced the level of SAF appropriations recommended by the Governor by \$412.7 million. This level of appropriation reductions, combined with the amount of Federal ARRA funds available, will provide for stable funding for K-12 school districts in FY 2009-10 and FY 2010-11, after the \$412.7 million of appropriation reductions are factored in. The total amount of Federal ARRA funding available to support the K-12 SAF budget is \$805.1 million. This includes \$171.0 million of surplus ARRA funds from FY 2008-09 and \$634.1 million available in FY 2009-10. Negotiations are currently underway between the Governor and Legislative Leadership regarding the proposed solutions to eliminate the FY 2009-10 SAF budget deficit.

It is important to note that any solution to eliminate projected FY 2009-10 GF/GP and SAF budget imbalances will involve the use of an extensive level of one-time Federal funds available under provisions of ARRA. The Governor and the Legislature will have to carefully balance the use of these one-time funds to support ongoing appropriations. Failure to take this into account will almost certainly lead to large imbalances in the FY 2010-11 State budget.

Federal Stimulus Funding Update

President Obama on February 17, 2009, signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA provides for \$787.0 billion of stimulus to the national economy including \$500.0 billion of spending increases and \$287.0 billion of tax reductions.

The State of Michigan will receive approximately \$6.7 billion of direct Federal ARRA funding that will be subject to the State budget appropriation process. These funds are split between \$3.7 billion of funding that Michigan can use to help balance the GF/GP and SAF budgets and \$3.0 billion of funding dedicated for specific purposes by the Federal government. Table 6 provides an update of the major categories of ARRA funding authorized for Michigan.

The Federal funds in Table 6 include the Federal ARRA funds that have been authorized to Michigan as of this date. The State of Michigan is likely to receive additional Federal funds subject to the State appropriation process that are distributed on a competitive basis by the Federal government. The funds in Table 6 do not include Federal ARRA funds that are directly passed to local government units in Michigan and it does not include the impact that Michigan taxpayers are receiving from Federal tax policy changes that were an important component of ARRA.

Table 6
AMERICAN RECOVERY AND REINVESTMENT ACT
SUMMARY OF FEDERAL FUNDS APPROPRIATED IN MICHIGAN
(Millions of Dollars)

| | |
|---|------------------|
| Federal Aid to Balance State Budget: | |
| Enhanced Medicaid Funding (Balance GF/GP Budget) | \$2,076.2 |
| State Fiscal Stabilization Fund (Balance GF/GP Budget)..... | 289.8 |
| State Fiscal Stabilization Fund (Balance Education Budgets) | 1,302.4 |
| Subtotal to Balance State Budgets | \$3,668.4 |
| Restricted Federal Aid Programs: | |
| Transportation Projects | \$903.4 |
| K-12 Special Education Programs | 426.3 |
| K-12 At-Risk Programs..... | 465.1 |
| Workforce Training Programs | 202.1 |
| Environmental Cleanup Projects..... | 237.0 |
| Low Income Home Weatherization Programs | 244.0 |
| Food Assistance Programs | 150.0 |
| Energy Programs | 108.8 |
| Unemployment Assistance..... | 84.4 |
| All Other Restricted Programs | 189.7 |
| Subtotal Restricted Programs | \$3,010.8 |
| Total Appropriated Federal ARRA Funding | \$6,679.2 |

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c: Ellen Jeffries, Deputy Director
 Tom Davis, Senate Majority Policy Office
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