

STATE BUDGET UPDATE



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SENATE FISCAL AGENCY

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<http://www.senate.michigan.gov/sfa/>

Economic Update

May 2008 Consensus Economic Forecast

- After increasing by 2.2% during 2007, the United States economy is expected to grow by 1.1% in 2008 and 1.8% in 2009; however, the crisis in the financial sector is putting this forecast in doubt.
- Growing fallout from the subprime mortgage problem has caused the crisis in the U.S. financial sector to escalate to a critical level during the last two weeks. The U.S. is facing one of the worst, if not the worst, financial crisis since the Great Depression.
- A broad bad-debt bailout plan is needed to stabilize the financial sector and avert a serious credit crisis, decline in consumer and business confidence, and an overall downturn in economic activity.
- In addition to the turmoil in the financial sector, U.S. economic growth in 2008 and 2009 will be restrained by weakness in the housing markets and higher prices for energy, food, and commodities. Economic growth will be stimulated by the recent reductions in short-term interest rates, strong growth in exports, and the Federal stimulus package.
- It now appears that the United States economy has entered a period of subpar economic growth, often referred to as a growth recession. A growth recession is best characterized by slight growth in Real Gross Domestic Product which coincides with rising unemployment and job losses. Real Gross Domestic Product declined by 0.2% during the fourth quarter of 2007, but growth of 0.9% and 1.9% was recorded during the first and second quarters of 2008.
- Following the 2001 recession, the United States economy did not experience significant employment growth until the summer of 2003. From the summer of 2003 until the end of 2007, United States payroll employment increased by 8.2 million jobs or 6.3%. Following 52 consecutive months of United States payroll employment growth, payroll employment has declined over the past eight months by an average of 75,000 jobs per month.
- The Michigan economy has shown little improvement since the 2001 recession.
- Since the Michigan employment peak in June 2000, Michigan payroll employment has declined by 494,900 jobs or 10.5%.

- Michigan payroll employment in August 2008 was 69,500 jobs below the August 2007 level.
- Since June 2000 Michigan has lost 36.9% of its total manufacturing jobs and has lost 50.0% of its vehicle manufacturing jobs.
- Michigan payroll employment is expected to continue to decline, by 1.8% in 2008 and 1.5% in 2009. The estimated decline in employment during 2009 will mark the ninth consecutive year of payroll employment decline in Michigan.

Figure 1

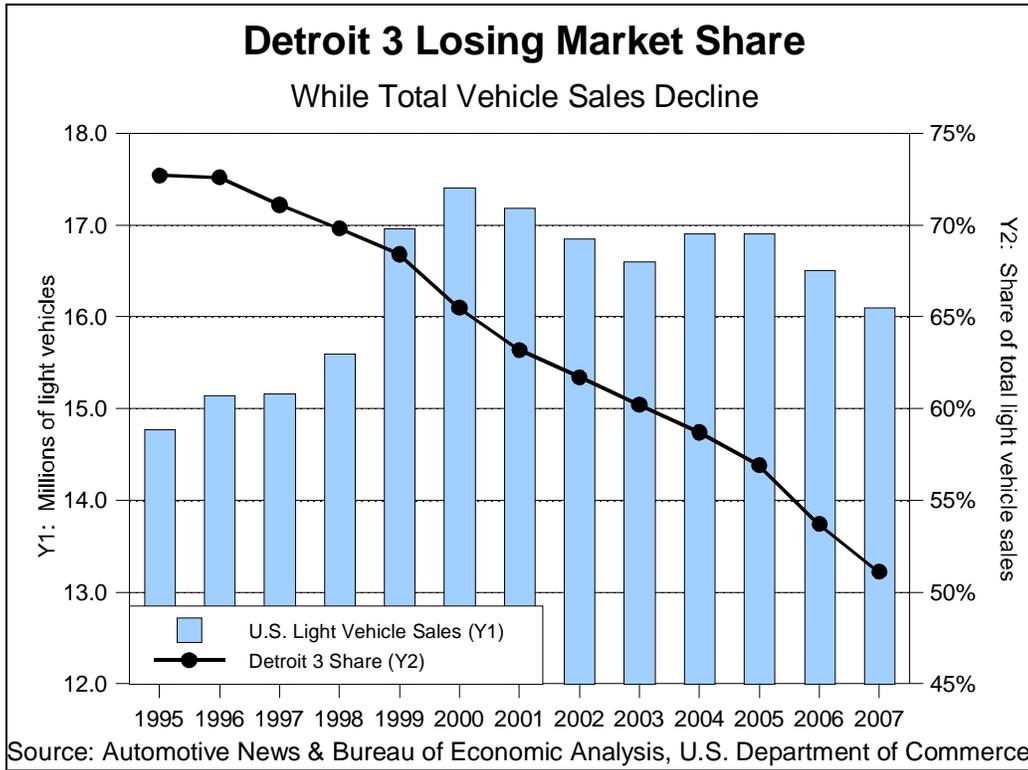


Figure 2

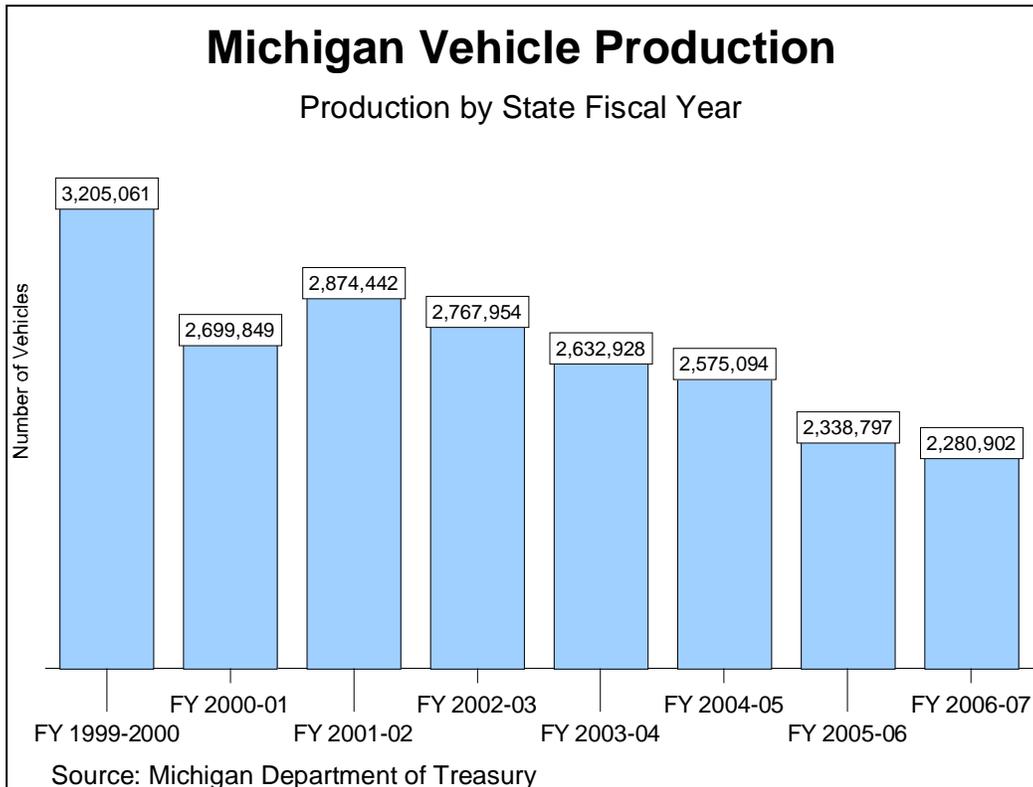


Figure 3

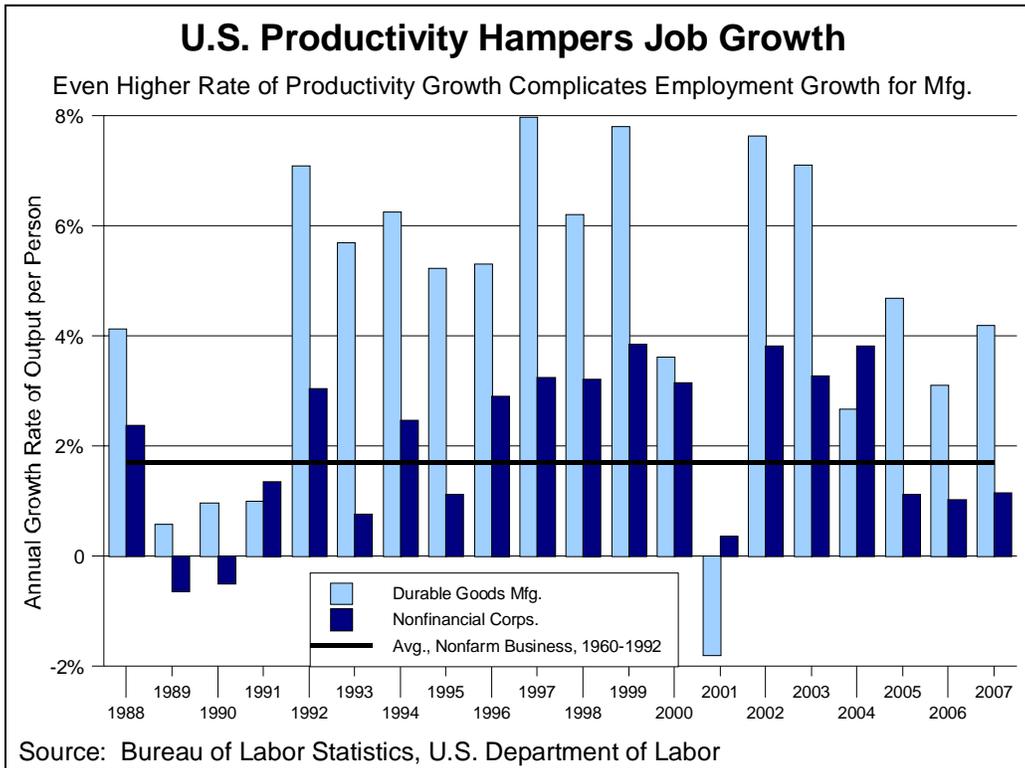


Figure 4

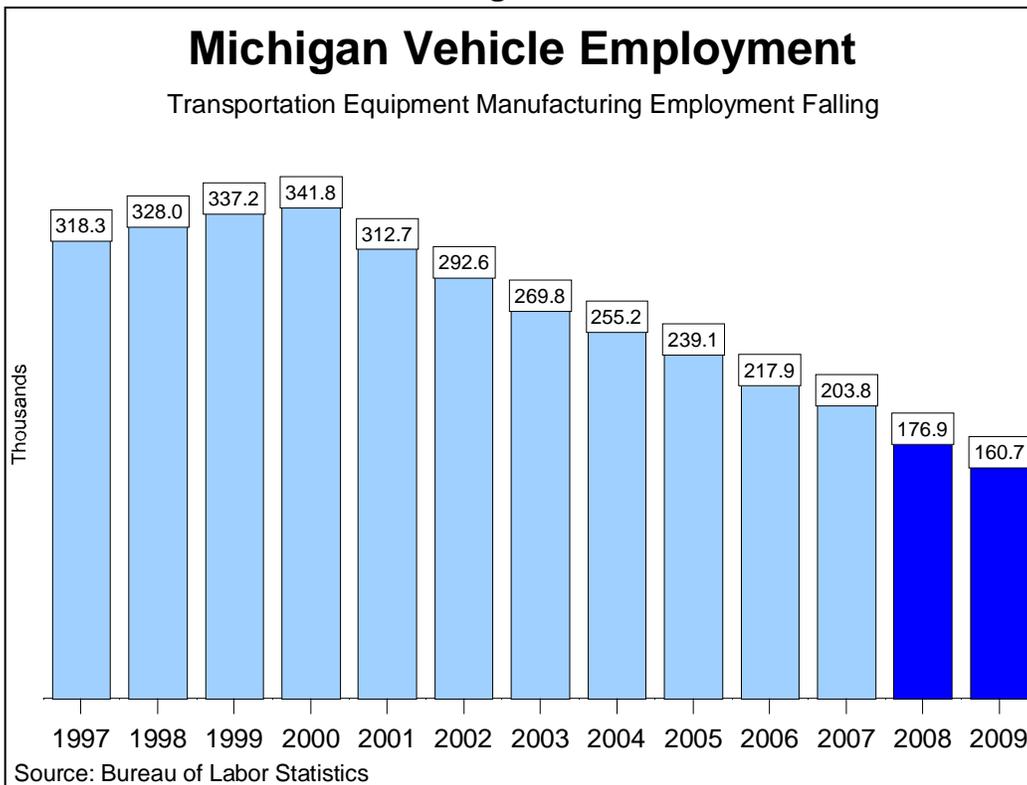


Figure 5

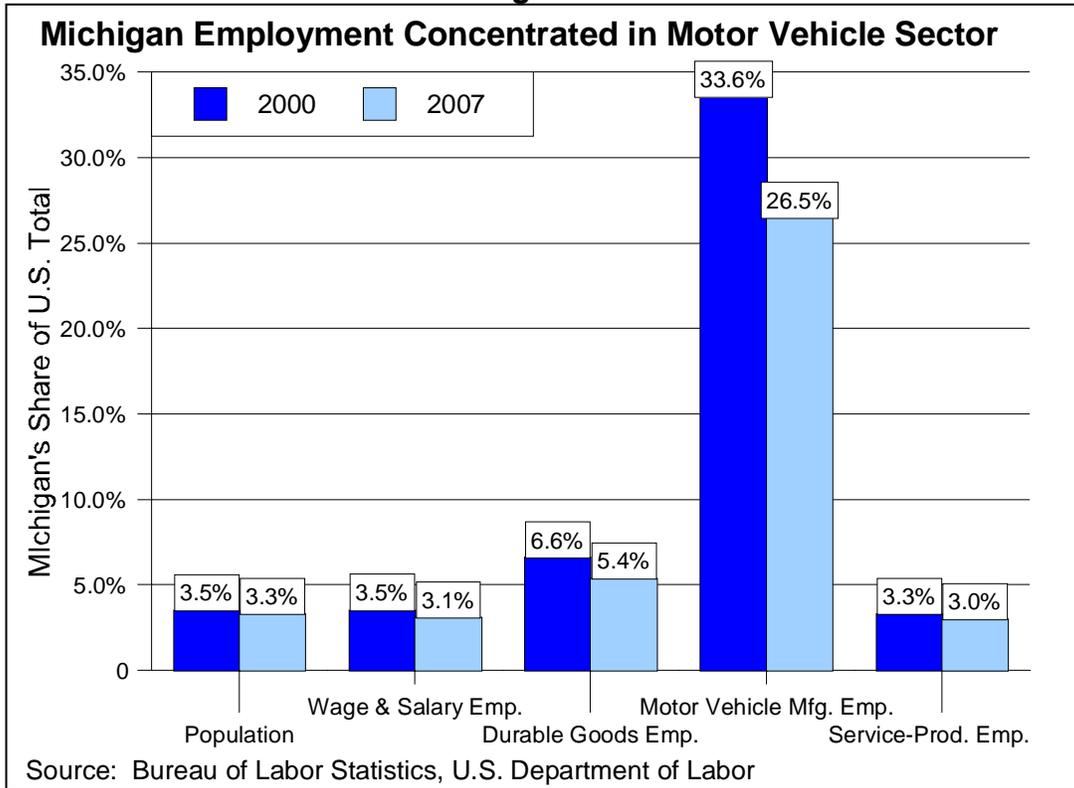


Figure 6

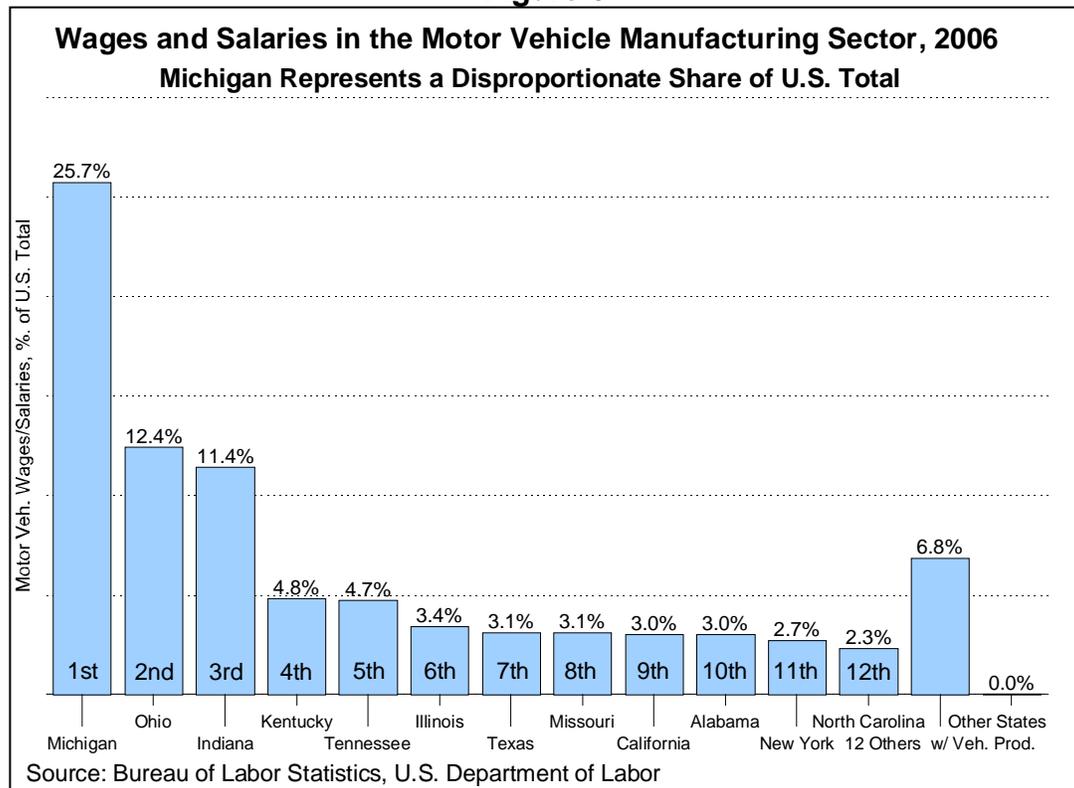


Figure 7

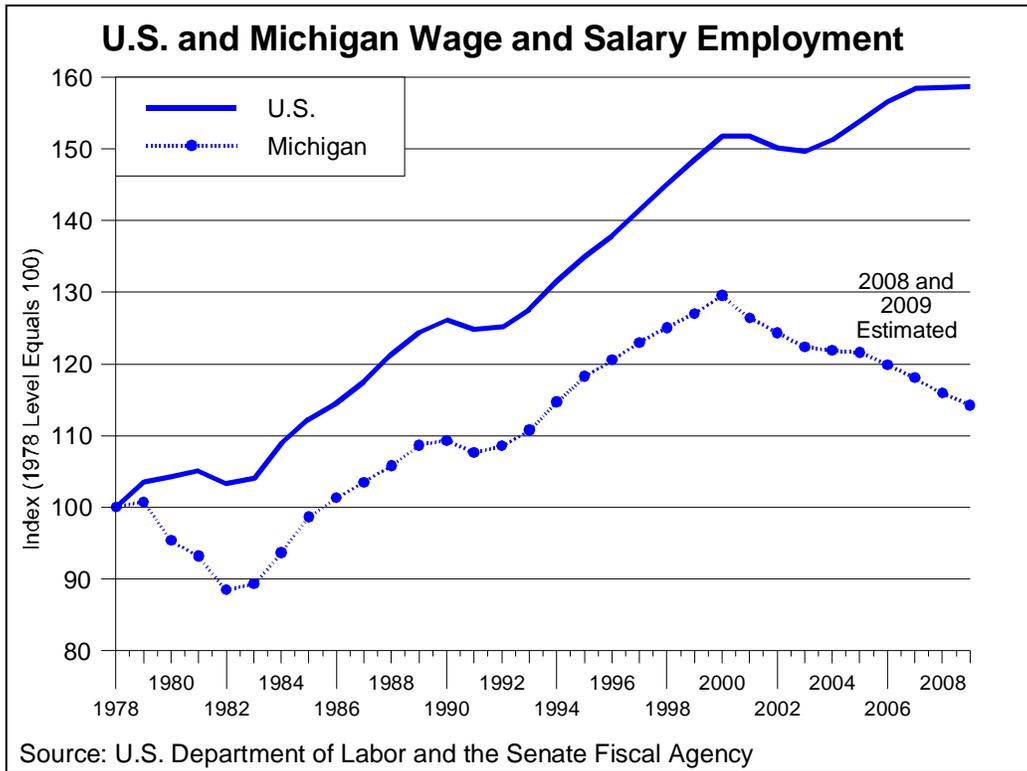


Figure 8

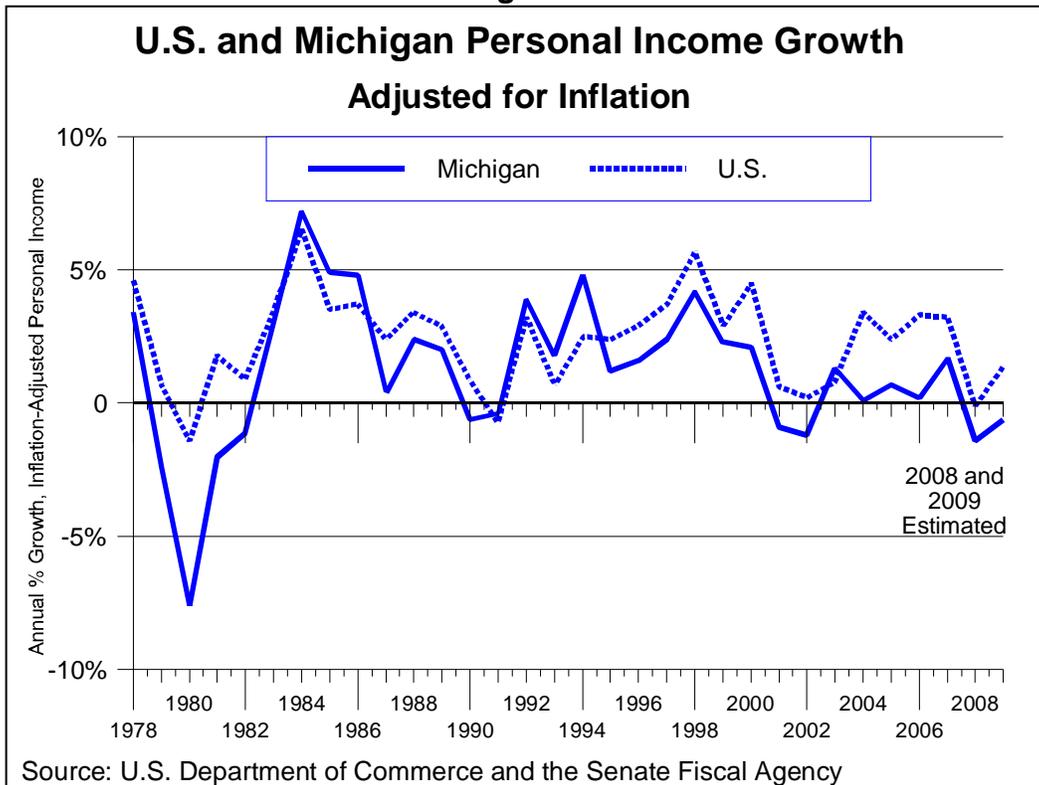


Figure 9

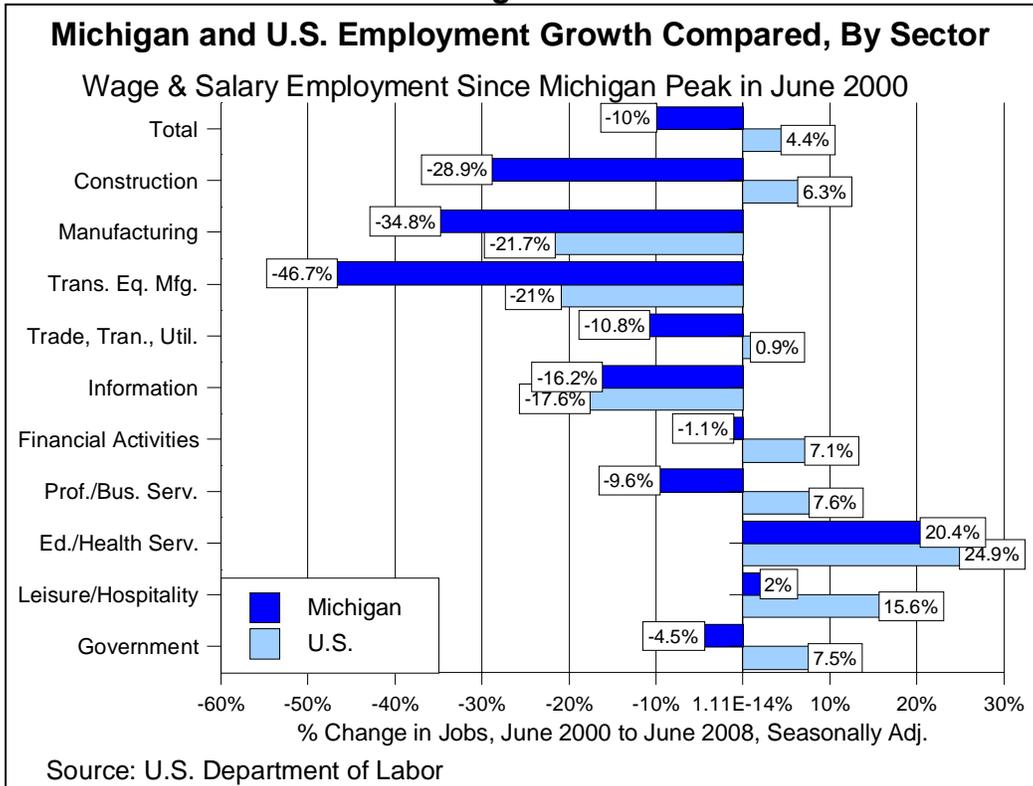


Figure 10

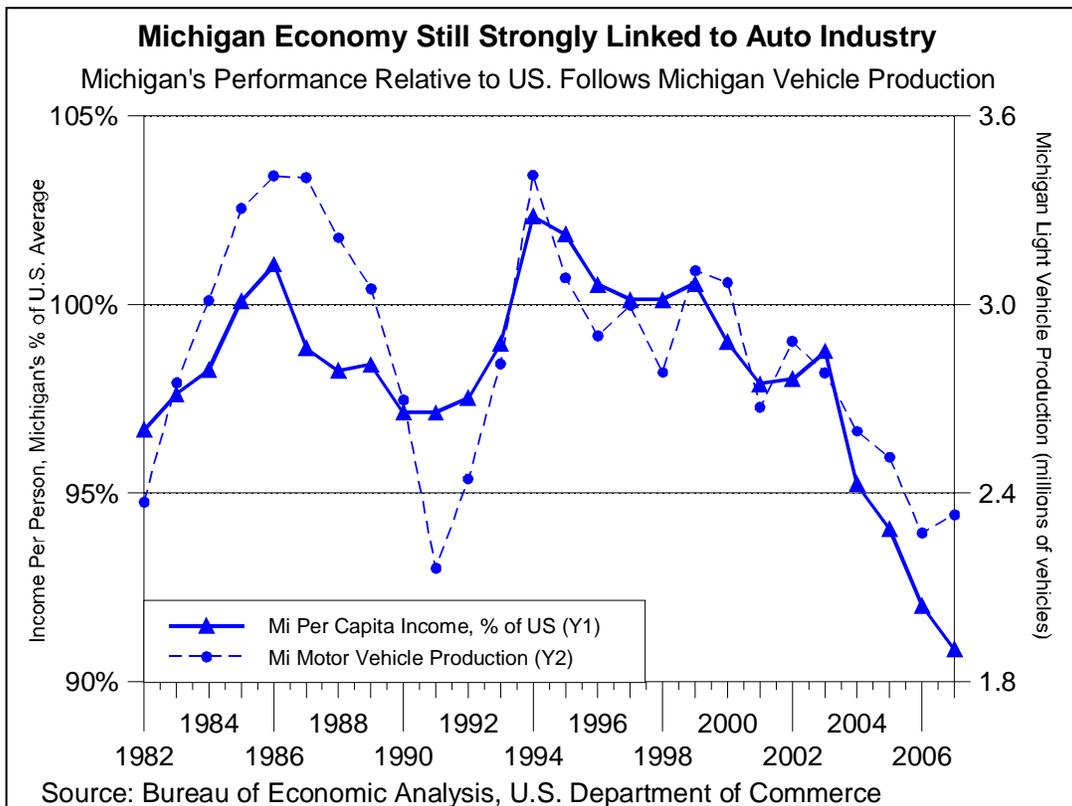


Figure 11

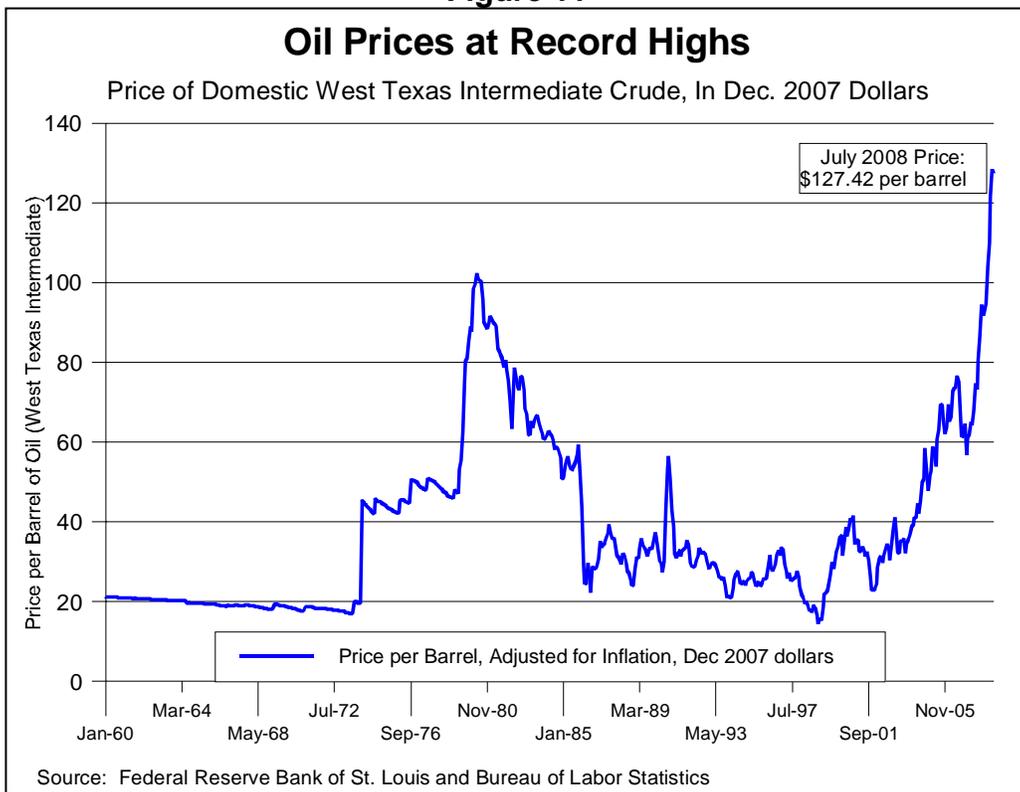


Figure 12

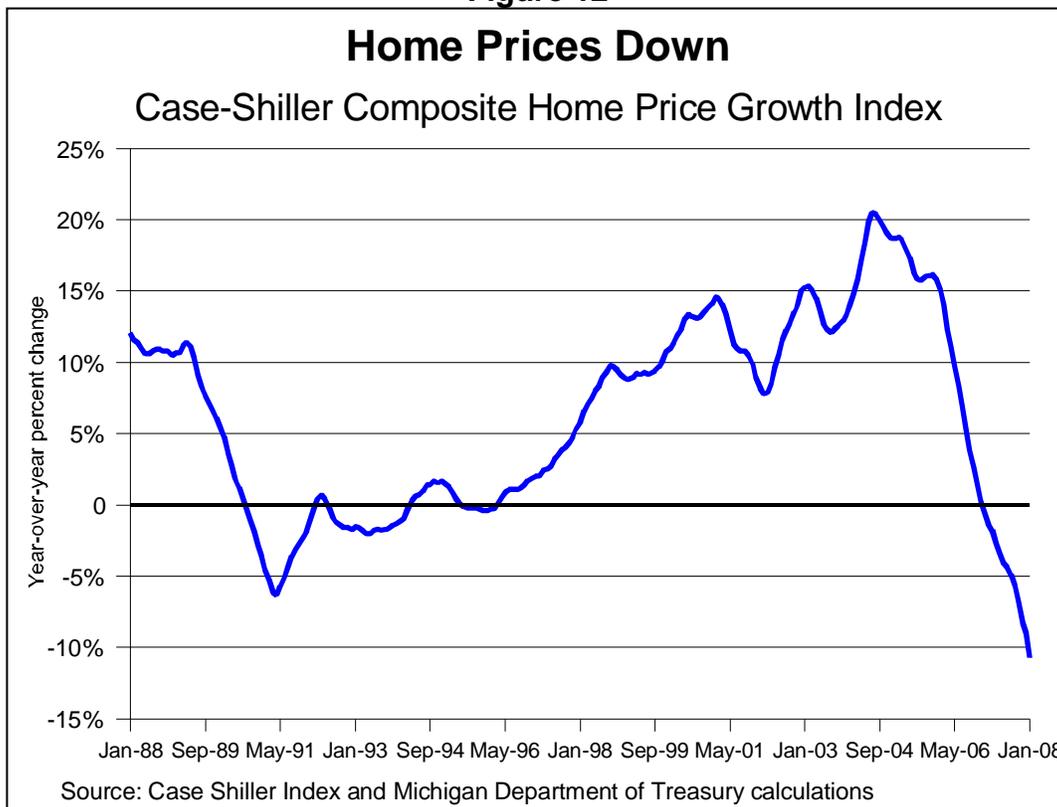
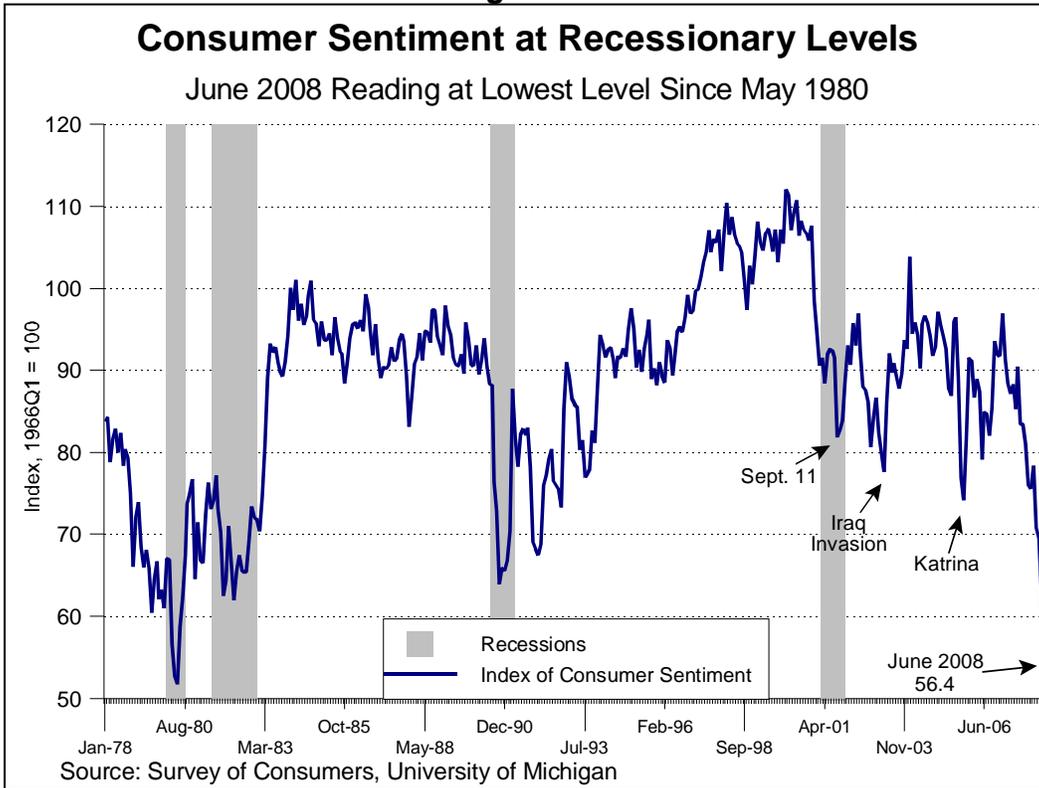


Figure 13



Revenue Estimate Summary

State Revenue Estimate Update

- The enacted FY 2008-09 appropriation bills and the year-to-date FY 2007-08 appropriations are based on the consensus revenue estimates agreed to in May 2008. These consensus revenue estimates when combined with enacted appropriations, lead to balanced General Fund/General Purpose (GF/GP) and School Aid Fund budgets for both FY 2007-08 and FY 2008-09.
- Since the consensus revenue estimates were agreed to in May 2008, the State has recorded four months of actual revenue collections. A comparison of these actual revenue collections with the consensus revenue estimates, leads to the conclusion that actual revenue collections are very close to the consensus revenue estimates.
- The FY 2008-09 GF/GP consensus revenue estimate is \$8.9 billion. This represents a 3.0% decline from the FY 2007-08 GF/GP consensus revenue estimate. The FY 2008-09 GF/GP consensus revenue estimate reflects a \$110.0 million reduction from the impact of the Federal stimulus package on State revenue and an \$110.0 million reduction from the recently enacted subsidies for the film industry. The FY 2008-09 GF/GP consensus revenue estimate also is impacted by a \$133.6 million reduction to reflect the first year of a two-year phase-in of a new earned income tax credit.
- The FY 2008-09 SAF consensus revenue estimate is \$11.7 billion. This represents a 2.9% increase from the FY 2007-08 SAF consensus revenue estimate. The FY 2008-09 SAF consensus revenue estimate reflects the significant impact of the decline in the housing market on the State education property tax and the real estate transfer tax.
- During FY 2008-09 net income tax revenue is estimated to decline by 3.1%, sales tax collections are estimated to decline by 0.1%, use tax collections are estimated to decline by 1.6%, State education tax collections are estimated to decline by 1.0%, and the real estate transfer tax is estimated to decline by 6.4%.

Table 1

May 2008 Consensus Revenue Estimate Summary (Millions of Dollars)				
	FY 2006-07 Actual	FY 2007-08 May Consensus	Dollar Change	Percentage Change
General Fund/General Purpose	\$ 8,318.5	\$ 9,164.1	\$ 845.6	10.2%
School Aid Fund	11,153.1	11,375.0	221.9	2.0
Total GF/GP & SAF	\$19,471.6	\$20,539.1	\$1,067.5	5.5%
	FY 2007-08 May Consensus	FY 2008-09 May Consensus	Dollar Change	Percentage Change
General Fund/General Purpose	\$ 9,164.1	\$ 8,884.6	\$(279.5)	(3.0)%
School Aid Fund	11,375.0	11,707.4	332.4	2.9
Total GF/GP & SAF	\$20,539.1	\$20,592.0	\$ 52.9	0.3%

**FY 2008-09
Enacted Budget**

Fiscal Year 2008-09 Enacted Budget

The enacted FY 2008-09 State budget can best be characterized as a continuation type of budget. The enacted budget is developed assuming no increases in State taxes or fees. The funding of most State programs is continued at the current year levels with adjustments included for caseload costs in the human services and health care areas.

The enacted budget includes \$43.8 billion of Adjusted Gross appropriations. This represents a 0.8% increase from the current level of appropriations. State Spending from State Resources appropriations totals \$28.4 billion. This represents a 0.03% decline from the current level of appropriations. General Fund/General Purpose (GF/GP) appropriations total \$9.7 billion. This represents a 2.8% decline from the current level of appropriations.

The enacted budget contains several major new programs or program expansions. The No Worker Left Behind Program will receive \$15.0 million of GF/GP funding for the retraining of dislocated workers. The Nursing Corps Program will receive \$5.0 million of GF/GP funding for the expanded training of nurses in the State. The K-12 School Aid Fund budget includes \$15.0 million for a small high school program.

Operations funding increases for Community Colleges averaged 2.0% and operations funding increases for universities were 1.0%. The portion of revenue sharing payments to cities, villages, and townships authorized by State law, received a 2.0% funding increase.

The K-12 School Aid appropriation bill includes an increase in per pupil funding, ranging from \$56 to \$112 per pupil. Districts at the bottom end of per pupil funding will receive a \$112 increase; those at the top will receive \$56. Early childhood funding is increased by \$10.0 million. This early childhood funding increase is split between the School Readiness Program and increased funding to the Early Childhood Investment Corporation.

Funding for major State programs in the Department of Community Health, Department of Human Services, and the Department of Corrections largely reflect a continuation of past spending practices adjusted for projected caseloads and costs.

State employees during FY 2008-09 will not receive a general salary increase as a result of actions by the State Civil Service Commission.

Table 2

**FY 2007-08 General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)**

	SFA Estimate
Revenue:	
Beginning Balance	\$259.1
<u>Ongoing Revenue:</u>	
Ongoing Consensus Revenue Estimate	9,164.1
Revenue Sharing Freeze	577.5
Shift Short-Term Borrowing Costs to School Aid Fund	<u>22.8</u>
Subtotal Ongoing Revenue	9,764.4
<u>One-Time Revenue:</u>	
Sale of Northville State Property	22.9
Juror Compensation Fund Transfer to General Fund.....	2.3
Comprehensive Transportation Fund Transfer to General Fund.....	5.0
Transportation Economic Development Fund Transfer to General Fund	13.0
Financial Institutions Fund Shift to General Fund.....	2.0
Tobacco Settlement Refinancing (PA 101 of 2008)	<u>60.0</u>
Subtotal One-Time Revenue	105.2
Total Estimated Revenue	\$10,128.7
 Expenditures:	
Initial Enacted Appropriations.....	\$9,856.3
<u>Supplemental Appropriations:</u>	
Public Act 113 of 2008	41.2
Public Act 98 of 2008	60.0
<u>Supplemental Appropriations (Public Act 279 of 2008):</u>	
Tobacco Revenue Funding Shortfall	74.1
Medicaid Benefits Trust Fund Shortfall	9.2
Community Health Caseload Year-End Lapse.....	(26.9)
Detroit Zoo Transitional Funding	4.5
Agriculture Supplemental	0.4
Higher Education (Fund Source Shift GF/GP to TANF)	(91.9)
Human Services (Fund Source Shift TANF to GF/GP)	91.9
Management and Budget (Group Insurance Charge to Federal Gov't)....	21.5
State Police Supplemental	<u>0.5</u>
Subtotal Pending Supplemental Appropriations.....	83.3
<u>Projected Year-End Appropriation Lapses:</u>	
Group Insurance Year-End Lapses.....	(21.5)
Other Year-End Appropriation Lapses	<u>(30.0)</u>
Subtotal Year-End Appropriation Lapses.....	(51.5)
Total Projected Expenditures	\$9,989.3
Projected Year-End Balance	\$ 139.4

Source: Senate Fiscal Agency, October 1, 2008

Table 3

FY 2008-09 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	\$ 139.4
Consensus Revenue Estimate	8,884.6
Revenue Sharing Freeze	558.7
Revenue Sharing Increase (2.0%)	(8.1)
Shift Short-Term Borrowing Costs to School Aid Fund	45.0
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
Sale of Surplus State Property-Northville	6.5
Total Estimated Revenue	\$9,683.1
Expenditures:	
Enacted Appropriations	\$9,701.4
Lapse from Contract Savings	(20.0)
Total Projected Expenditures	\$9,681.4
Projected Year-End Balance	\$ 1.7

Source: Senate Fiscal Agency, October 1, 2008

Table 4

FY 2007-08 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	\$ 82.4
Ongoing Consensus Revenue Estimate	11,375.0
GF/GP Grant to School Aid Fund	34.9
Federal Revenue	1,476.0
Total Estimated Revenue	\$12,968.3
Expenditures:	
Initial Enacted Appropriations.....	\$13,006.0
<u>Supplemental Appropriations:</u>	
Public Act 112 of 2008	(108.2)
Midland Property Tax and Enbridge Energy Pipeline Settlements...	12.9
Projected Year-End Appropriation Lapses.....	(11.0)
Total Projected Expenditures	\$12,899.7
Projected Year-End Balance	\$ 68.6

Source: Senate Fiscal Agency, August 6, 2008

Table 5

FY 2008-09 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	\$ 68.6
Consensus Revenue Estimate.....	11,707.4
GF/GP Grant	40.8
Federal Aid	1,562.0
Total Estimated Revenue	\$13,378.8
Expenditures:	
Appropriation Target	\$13,378.9
Total Projected Expenditures	\$13,378.9
Projected Year-End Balance	\$ (0.1)

Source: Senate Fiscal Agency, June 25, 2008

Pending Fiscal Issues in the Legislature

Fiscal Issues

Public Act 221 of 2007 created a task force for the purpose of reviewing the adequacy of transportation funding in the State. The task force will make preliminary recommendations for transportation funding in the State by October 31, 2008. These funding recommendations will include detailed proposals for future transportation revenue sources. Estimated FY 2007-08 State transportation revenue generated from fuel taxes and vehicle registration fees is \$133.0 million or 6.4% below the actual level of revenue collected during FY 2003-04.

The financial situation of the Detroit Public Schools is currently in a very tenuous position. The Senate Fiscal Agency has distributed to the Senate two memorandums, dated August 4, 2008, and August 15, 2008, which outline the fiscal issues facing the Detroit Public Schools. While the Detroit Public Schools have passed a budget that would lead to a balanced budget over the next two fiscal years, the major issue involves the implementation of the assumptions in the budget, including the layoff of approximately 1,700 Detroit Public School employees.

The U.S. financial/housing crisis has become much more severe since the May consensus economic and revenue estimates were adopted. This serious financial problem is not good news for the economic outlook and, even if though a bailout plan was enacted, this crisis will probably have a negative impact on the economic and revenue estimates for FY 2008-09 and FY 2009-10.

FY 2009-10 Budget Outlook

Fiscal Year 2009-10 State Budget Outlook

- The FY 2009-10 State budget is likely to be characterized by restrained growth in spending as a result of projected moderate economic growth, State tax policy and mandated increases in appropriations.
- The FY 2009-10 GF/GP budget will be impacted by the use of one-time revenue sources supporting base appropriations during the prior fiscal year, the continuing phase-in of the earned income tax credit and statutory appropriation increases that will have to be funded during the fiscal year.
- One-time revenue sources used in the FY 2008-09 GF/GP budget include the following:
 - \$139.9 million beginning balance carried forward from FY 2007-08;
 - \$25.0 million of one-time escheats revenue;
 - \$10.0 million of a one-time 21st Century Jobs Fund transfer;
 - \$10.0 million from a one-time transfer of tourism promotion revenue;
 - \$6.0 million from a one-time Transportation Economic Development Fund transfer; and
 - \$6.5 million from the sale of surplus State property.
- The second year of a two-year phase-in of the earned income tax credit under the income tax will reduce FY 2009-10 GF/GP revenue by \$160.0 million compared with the revenue impact included in the FY 2008-09 GF/GP budget.
- Statutory appropriation increases that will need to be funded in the FY 2009-10 GF/GP budget but not included in base FY 2008-09 GF/GP appropriations include:
 - \$150.0 million of Medicaid caseload, cost, and utilization;
 - \$60.0 million of increased costs for the Michigan promise grant;
 - \$49.0 million of increased cost for statutory revenue sharing payments to counties;
 - \$39.0 million of increased debt service cost for tobacco securitization borrowing;
 - \$60.0 million for State employee salary and fringe benefit cost increases; and
 - \$40.0 million for other debt service cost increases.
- The FY 2009-10 GF/GP budget will benefit by \$160.0 million from an increase in the Federal match rate in the Medicaid program.
- The projected growth rate in appropriations in the FY 2009-10 State School Aid budget will primarily depend on the growth in State School Aid Fund revenues. At this point in time, a reasonable assumption is 3.0% growth.

Table 6

FY 2009-10 General Fund/General Purpose Budget Outlook (Millions of Dollars)	
	SFA Estimate
Potential Revenue:	
Beginning Balance	\$ 0.0
FY 2008-09 On-Going Estimated Revenue	9,486.2
Assume 3.0% Revenue Growth in FY 2009-10	284.6
Earned Income Tax Credit Incremental Cost	(160.0)
Total Estimated Revenue	\$9,610.8
Potential Expenditures:	
Freeze Appropriations at FY 2008-09 Levels.....	\$9,681.4
<u>Statutory Appropriation Adjustments:</u>	
Medicaid Federal Match Rate Savings	(160.0)
Medicaid Caseload, Cost and Utilization Adjustments	150.0
Michigan Promise Grant Cost Increase	60.0
County Revenue Sharing Phase-In	49.0
Tobacco Securitization Debt Service Cost Increase	39.0
State Employee Economics	60.0
Other Debt Service Increases	40.0
Subtotal Statutory Appropriation Increases.....	238.0
Total Potential Expenditures	\$9,919.4
Imbalance Revenue Less Expenditures.....	\$(308.6)

Recent Appropriation History

Table 7

Adjusted Gross Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	36,953.3	1,535.6	4.3
2001-02	38,751.3	1,798.0	4.9
2002-03	39,553.1	801.8	2.1
2003-04	39,115.3	(437.8)	(1.1)
2004-05	39,909.5	794.2	2.0
2005-06	41,322.7	1,413.2	3.5
2006-07	41,851.8	529.1	1.3
2007-08	43,484.1	1,632.3	3.9
2008-09	43,837.4	353.3	0.8
Change FY 2000-01 to FY 2008-09		6,884.1	18.6

State Spending from State Resources Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,761.6	1,182.6	4.8
2001-02	26,086.8	325.2	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,802.5	(218.0)	(0.8)
2004-05	26,285.3	482.8	1.9
2005-06	27,704.0	1,418.7	5.4
2006-07	27,928.6	224.6	0.8
2007-08	28,429.8	501.2	1.8
2008-09	28,422.2	(7.6)	(0.03)
Change FY 2000-01 to FY 2008-09		2,660.6	10.3

General Fund/General Purpose Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,770.1	(60.8)	(0.7)
2004-05	8,690.8	(79.3)	(0.9)
2005-06	9,106.3	415.5	4.8
2006-07	9,118.7	12.4	0.1
2007-08	9,980.7	862.0	9.5
2008-09	9,701.4	(279.3)	(2.8)
Change FY 2000-01 to FY 2008-09		(43.0)	(0.4)

Table 8

State Spending from State Resources Appropriations Total Compared with Selected Budget Areas (Millions of Dollars)				
Department/Budget Area	FY 2002-03 Appropriations	FY 2008-09 Enacted	Dollar Change	Percent Change
Community Health	\$3,259.4	\$4,958.0	\$1,698.6	52.1%
Corrections	1,655.6	2,027.6	372.0	22.5
Human Services	1,199.6	1,346.1	146.5	12.2
K-12 School Aid	11,334.6	11,816.9	482.3	4.3
Community Colleges	310.9	299.4	(11.5)	(3.7)
Higher Education ¹⁾	1,839.4	1,761.7	(77.7)	(4.2)
Revenue Sharing ²⁾	1,250.0	1,085.5	(164.5)	(13.2)
All Other Programs	5,171.0	5,127.0	(44.0)	(0.9)
Total State Spending	\$26,020.5	\$28,422.2	\$2,401.7	9.2%
ADDENDUM				
Federal Government Outlays (millions)	\$2,160,117	\$3,133,000		45.0%
Michigan Personal Income (millions)	313,503	353,376		12.7
Detroit Consumer Price Index	182.0	209.7		15.2

1) Includes funding for grants and financial aid.
2) Excludes Revenue Sharing paid to counties in FY 2002-03.

Table 9

School Aid Fund Appropriation History (Millions of Dollars)			
Fiscal Year	State-Funded Appropriations	Dollar Change	Percent Change
1997-98	\$9,307.4	\$749.1	8.8%
1998-99	9,495.1	187.7	2.0
1999-2000	9,957.6	462.5	4.9
2000-01	10,732.3	774.7	7.8
2001-02	11,220.6	488.3	4.5
2002-03	11,334.6	114.0	1.0
2003-04	11,059.3	(275.3)	(2.4)
2004-05	11,113.5	54.2	0.5
2005-06	11,308.1	194.6	1.8
2006-07	11,597.0	288.9	2.6
2007-08	11,421.8	(175.2)	(1.5)
2008-09	11,816.9	395.1	3.5

Senate Fiscal Agency, July 31, 2008

Table 10

K-12 Schools Minimum Foundation Allowance (Millions of Dollars)			
Fiscal Year	Enacted Per Pupil	After Proration	Percent Change
1999-2000	\$5,700	\$5,700	N/A
2000-01	6,000	6,000	5.3%
2001-02	6,500	6,500	8.3
2002-03	6,700	6,626	1.9
2003-04	6,700	6,626	0.0
2004-05	6,700	6,700	1.1
2005-06	6,875	6,875	2.6
2006-07	7,108	7,085	3.4
2007-08	7,204	7,204	1.4
2008-09	7,316	7,316	1.6
Nine-Year Change	\$1,616	\$1,616	
Nine-Year % Change	28.4%	28.4%	

Table 11

Pupil Membership History FY 1994-95 to FY 2008-09				
Blend Calculation	Fiscal Year	Local Districts	Charter Schools	Total
50/50	1994-95	1,593,306	0	1,593,306
50/50	1995-96	1,610,130	4,790	1,614,920
50/50	1996-97	1,634,074	11,520	1,645,594
60/40	1997-98	1,651,011	19,202	1,670,213
60/40	1998-99	1,656,186	31,109	1,687,295
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,402
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,584,435	96,627	1,681,062
75/25	2007-08	1,553,568	98,987	1,652,555
75/25	2008-09 Est.	1,523,800	102,500	1,626,300