



**SENATE FISCAL AGENCY
MEMORANDUM**

DATE: May 25, 2012
TO: Members of the Senate
FROM: Ellen Jeffries, Director
RE: Summary of the Republican Leadership Target Agreement

The Republican Leadership of the House and Senate, along with the Governor, announced a Fiscal Year (FY) 2012-13 budget target agreement on May 23, 2012. This memo provides a summary of that agreement.

The budget agreement includes FY 2012-13 General Fund/General Purpose (GF/GP) appropriation targets of \$9.0 billion, of which \$8.6 billion are considered to be ongoing GF/GP appropriations and \$366.7 million one-time GF/GP appropriations. The agreement also includes a one-time FY 2012-13 GF/GP appropriation of \$140.0 million to the Budget Stabilization Fund. Table 1 lists the FY 2012-13 GF/GP appropriation targets by department and budget area and provides both the ongoing and one-time amounts. Table 2 outlines the specific one-time GF/GP appropriations.

Table 1

FY 2012-13 GENERAL FUND/GENERAL PURPOSE (GF/GP) TARGETS: ONGOING AND ONE-TIME			
Department/Budget Area	Ongoing GF/GP	One-Time GF/GP	Total GF/GP
Agriculture and Rural Development	\$33,863,600	\$2,235,300	\$36,098,900
Attorney General	33,432,500	393,300	33,825,800
Civil Rights.....	11,849,300	104,300	11,953,600
Community Health.....	2,802,091,300	15,346,500	2,817,437,800
Corrections	1,927,482,300	14,003,300	1,941,485,600
Education.....	67,929,100	164,100	68,093,200
Environmental Quality	25,652,300	4,160,100	29,812,400
Executive	4,829,200	58,700	4,887,900
Human Services	975,507,100	35,636,800	1,011,143,900
Judiciary	170,114,600	636,900	170,751,500
Legislative Auditor General	12,820,100	184,800	13,004,900
Legislature	109,412,700	0	109,412,700
Licensing and Regulatory Affairs.....	50,393,400	177,500	50,570,900
Military and Veterans Affairs	32,177,500	6,055,900	38,233,400
Natural Resources.....	17,641,700	2,096,200	19,737,900
State	13,853,200	1,034,900	14,888,100
State Police	312,654,900	4,858,900	317,513,800
Technology, Management, and Budget	384,124,000	21,792,200	405,916,200
Transportation	0	23,000,000	23,000,000
Treasury-Debt Service	135,040,400	0	135,040,400
Treasury-Operations	85,035,600	3,311,500	88,347,100
Treasury-Revenue Sharing	0	0	0
Treasury-Strategic Fund Agency.....	123,560,700	50,140,900	173,701,600
Subtotal State Departments	\$7,329,465,500	\$185,392,100	\$7,514,857,600
Community Colleges	96,516,400	0	96,516,400
Higher Education	1,101,628,300	0	1,101,628,300
School Aid	101,042,400	181,357,600	282,400,000
Subtotal Education.....	\$1,299,187,100	\$181,357,600	\$1,480,544,700
Total State Departments and Education	\$8,628,652,600	\$366,749,700	\$8,995,402,300
Appropriation to Budget Stabilization Fund.....	0	140,000,000	140,000,000
Total GF/GP Appropriations.....	\$8,628,652,600	\$506,749,700	\$9,135,402,300

Table 2
FY 2012-13 ONE-TIME GF/GP APPROPRIATIONS

Budget Area/Program	GF/GP Appropriation
Agriculture and Rural Development	
Rural Development Grants	\$900,000
Private Forestry Program	600,000
Healthy Food Program	500,000
Community Health	
Health and Wellness Initiatives	5,000,000
CHAMPS Diagnostic Coding Project	3,000,000
Community Mental Health Special Populations	3,000,000
Graduate Medical Education	1,450,000
Island Clinics	325,000
Corrections	
Information Technology Adjustments	1,129,500
Education	
Central Michigan University Call Center	50,000
Environmental Quality	
Drinking Water Revolving Fund.....	2,500,000
Wetlands Program.....	1,500,000
Human Services	
State Emergency Relief Energy Services	27,700,000
Before and After School Programs	1,000,000
Inspector General IT Upgrades	1,500,000
Seita Scholars Program	750,000
Juvenile Justice Behavioral Health Study	500,000
Medicaid Eligibility Efficiency Pilot	250,000
Military and Veterans Affairs	
Armory Special Maintenance	2,400,000
Grand Rapids Vets' Home Special Maintenance	1,600,000
Data Upgrades/Digitization of Records	750,000
Jacobetti Vets' Home Special Maintenance	516,000
Veterans Service Enhancements	434,000
County Counselor Accreditation.....	200,000
Natural Resources	
Dam Management.....	2,000,000
School Aid	
Increase Grant to School Aid Fund	181,357,600
State	
Replace Commercial Driver License Fee Revenue	600,000
ExpressSOS Marketing	150,000
State Police	
Replacement of Outdated Equipment/Protective Gear	1,623,700
Michigan International Speedway Traffic Control.....	800,000
Collins Road Rent and Building Occupancy Charges.....	350,000
Technology, Management, and Budget	
Special Maintenance for State Buildings.....	10,000,000
Space Consolidation Fund	7,000,000
Teacher Evaluation Pilot	4,000,000
Transportation	
General Fund Grant	23,000,000
Treasury-Operations	
Legal Services	3,000,000

Table 2 (continued)	
FY 2012-13 ONE-TIME GF/GP APPROPRIATIONS	
Budget Area/Program	GF/GP Appropriation
Treasury-Strategic Fund	
Film Incentive Funding	50,000,000
Subtotal One-Time Appropriations.....	\$341,435,800
State Employee Lump Sum Payments	25,313,900
Subtotal One-Time and Lump Sum Appropriations	\$366,749,700
Appropriation to the Budget Stabilization Fund	140,000,000
Total One-Time GF/GP Appropriations	\$506,749,700

Part of the budget agreement announced by the Leaders is the intent to change State income tax policy to provide tax relief to individuals either through a rate reduction or an adjustment to the personal exemption, or a combination of the two. The cost of the changes in income tax policy discussed during the target meetings is estimated as \$90.0 million over the two fiscal years of FY 2011-12 and FY 2012-13. [Table 3](#) presents an FY 2011-12 GF/GP balance sheet that accounts for a \$45.0 million loss of GF/GP revenue due to the proposed income tax changes and also reflects the May 16, 2012 Consensus Revenue Estimating Conference (CREC) adjustments for revenue as well as caseload and cost adjustments in the Department of Community Health (DCH) and the Department of Human Services (DHS). If estimates for pending supplementals and year-end lapses are included, and FY 2011-12 appropriations to the Budget Stabilization Fund of \$362.7 million are factored in, there is a projected year-end GF/GP ending balance of \$708.5 million. All of this projected balance will be carried forward into FY 2012-13.

[Table 4](#) is the FY 2011-12 School Aid Fund balance sheet which has been adjusted for the May 16, 2012 CREC revenue and cost changes. The projected year-end balance of \$194.6 million will be carried forward into FY 2012-13.

The FY 2012-13 GF/GP target balance sheet is outlined in [Table 5](#) and is based on the Governor's original budget proposal. Adjustments to revenue since the Governor's February 2012 recommendation include the May 16, 2012 CREC revenue changes and target decisions to increase State revenue sharing payments by \$20.0 million, increase the General Fund earmark to the State Trunkline Fund by \$110.0 million, reduce \$45.0 million for the cost of the proposed income tax changes, and lapse \$2.0 million of Liquor Purchase Revolving Fund revenue to the General Fund. These revenue adjustments produce total estimated FY 2012-13 GF/GP revenue of \$9.2 billion.

On the expenditure side of the FY 2012-13 budget, changes to the Governor's original recommendation include Executive revisions of \$12.7 million; caseload and cost adjustments of \$52.7 million and \$52.6 million for DCH and DHS, respectively; target decision to not convert \$27.7 million of DHS Temporary Assistance for Needy Families (TANF) caseload savings to GF/GP savings; target decision to add \$10.0 million to the Department of Treasury for the costs of K-12 dual enrollment; and other target adjustments that increase the Governor's revised recommendation by \$28.3 million. The budget agreement also includes an additional \$10.0 million appropriation over the Governor's original recommendation of \$130.0 million for the Budget Stabilization Fund. When estimated FY 2012-13 GF/GP revenue is compared to estimated total GF/GP expenditures, there is a projected year-end balance of \$18.6 million.

[Table 6](#) provides the FY 2012-13 School Aid Fund target balance sheet using the Governor's original FY 2012-13 recommendation as a base. Adjustments to revenue since the Governor's original recommendation include a May 16, 2012 CREC revenue increase of \$114.5 million and an \$82.4 million increase in the GF/GP grant. On the expenditure side of the FY 2012-13 budget, there are May 16, 2012 CREC cost adjustments of \$37.9 million, additional target spending of \$180.0 million, and a target decision to appropriate \$41.0 million to the MPSERS Retirement Obligation Reform Reserve Fund. Comparing estimated FY 2012-13 School Aid Fund revenue to the estimated FY 2012-13 expenditures, there is a projected year-end balance of \$3.5 million. The

members of the K-12 School Aid Conference Committee will make the final decisions regarding the allocation of appropriations.

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

	Targets SFA Estimate
Revenue:	
Beginning Balance.....	\$553.7
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate (May 2012)	\$9,064.4
Revenue Sharing Payments	(300.0)
One-Time Appropriation for Revenue Sharing	(30.0)
Discussion Amount for Income Tax Policy Changes.....	(45.0)
Contingency Plan Restricted Revenue Transfer to GF	0.9
Shift Short-Term Borrowing Costs to School Aid Fund	2.1
Subtotal Ongoing Revenue	\$8,692.4
<u>Non-ongoing Revenue:</u>	
Use Tax on Health Maintenance Organizations	\$192.6
Total Estimated GF/GP Revenue	\$9,438.7
Expenditures:	
Initial Ongoing Appropriations	\$8,275.1
Auditor General Boilerplate Appropriation.....	0.4
One-Time Appropriations	171.6
<u>Enacted Supplementals:</u>	
Public Act 38 of 2011: Tax Plan Implementation.....	1.0
Public Act 264 of 2011-SERS Reform Implementation	0.0
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
Public Act 53 of 2012: Michigan Employment Relations Commission	0.0
Public Act 64 of 2012: Other Post-Employment Benefits (OPEB)	144.5
Public Act 89 of 2012: Multiple Departments/DCH Fund Shift	(73.4)
<u>Other Adjustments:</u>	
Savings from One-Time OPEB Appropriation	(17.1)
Employee Concessions/Alternative Contingency Plans.....	(87.8)
Caseload and Cost Adjustments for DCH (Consensus Estimate May 2012).....	(103.8)
Caseload and Cost Adjustments for DHS (Consensus Estimate May 2012).....	(75.7)
Reduce General Fund Grant to School Aid	(40.0)
Estimate of Pending Supplementals.....	12.3
Estimate of Year-End Lapses	(20.0)
Total Estimated GF/GP Expenditures.....	\$8,367.5
One-Time Appropriations to Budget Stabilization Fund (\$255.8 million + \$106.9 million) .	\$362.7
Projected Year-End GF/GP Balance	\$708.5

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

	Targets SFA Estimate
Revenue:	
Beginning Balance	\$724.7
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate (May 2012)	\$10,876.1
General Fund/General Purpose Grant	78.6
Federal Ongoing Aid	<u>1,658.0</u>
Subtotal Ongoing Revenue	\$12,612.7
Total Estimated School Aid Fund Revenue	\$13,337.4
Expenditures:	
Initial Ongoing K-12 Appropriations	\$12,203.6
Public Act 29 of 2012 Adjustments	68.4
Cost Adjustments (Consensus Estimate May 2012)	2.9
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>	
Public School Employees Retirement System (MPSERS) Payments	\$155.0
K-12 Best Practices	154.0
MPSERS Retirement Obligation Reform Reserve Fund	133.0
Partially Restore K-12 Small Class Size Grants	13.5
Public Act 29 of 2012 (Kindergarten assessments/grants)	<u>16.5</u>
Subtotal One-Time Appropriations	\$472.0
Total Estimated School Aid Fund Expenditures	\$13,142.8
Projected Year-End School Aid Fund Balance	\$194.6

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

	Targets SFA Estimate
Revenue:	
Beginning Balance	\$708.5
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate (May 2012)	\$8,969.9
Revenue Sharing Payments	(350.6)
One-Time Appropriation for Revenue Sharing.....	(20.0)
Capped One-Year Increase in Sales Tax Earmark to STF and Aeronautics	(110.0)
Discussion Amount for Income Tax Policy Changes	(45.0)
Reduce Liquor Purchase Revolving Fund Lapse to General Fund	(2.0)
Shift Short-Term Borrowing Costs to School Aid Fund.....	3.2
Subtotal Ongoing Revenue.....	\$8,445.5
Total Estimated GF/GP Revenue.....	\$9,154.0
Expenditures:	
<u>Ongoing Appropriations:</u>	
Governor's Recommended Appropriations	\$8,626.8
Governor's Recommended Revisions (March 2012)	12.7
Subtotal Ongoing Appropriations.....	\$8,639.5
<u>One-Time Appropriations:</u>	
Governor's Recommended Appropriations	213.8
Governor's Recommended Appropriation to School Aid Fund	181.4
Subtotal One-Time Appropriations	\$395.2
<u>Target Adjustments:</u>	
Caseload and Cost Adjustments for DCH (Consensus Estimate May 2012)	(52.7)
Caseload and Cost Adjustments for DHS (Consensus Estimate May 2012)	(52.6)
Do Not Convert 50% of TANF Caseload Savings to General Fund	27.7
Dual Enrollment Consensus.....	10.0
Other Target Adjustments	28.3
Subtotal Target Adjustments	(\$39.3)
Total Estimated GF/GP Expenditures	\$8,995.4
One-Time Appropriation to Budget Stabilization Fund	\$140.0
Projected Year-End GF/GP Balance.....	\$18.6

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

	Targets SFA Estimate
Revenue:	
Beginning Balance	\$194.6
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate (May 2012)	\$11,169.5
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant	282.4
Federal Ongoing Aid.....	1,701.0
Subtotal Ongoing Revenue	\$13,152.9
Total Estimated School Aid Fund Revenue	\$13,347.5
Expenditures:	
<u>Ongoing Appropriations:</u>	
Executive Recommendation K-12 Appropriations.....	\$12,537.0
Cost Adjustments (Consensus Estimate May 2012)	37.9
Additional Spending from Targets	180.0
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund.....	200.5
Subtotal Ongoing Appropriations.....	\$13,153.0
<u>One-Time Appropriations:</u>	
Pupil Performance Grants (Executive Rec.)	\$140.0
Consolidation Innovation Grants (Executive Rec.).....	10.0
MPERS Retirement Obligation Reform Reserve Fund.....	41.0
Subtotal One-Time Appropriations	\$191.0
Total Estimated School Aid Fund Expenditures	\$13,344.0
Projected Year-End School Aid Fund Balance	\$3.5

For your information, Table 7 provides a comparison of the FY 2012-13 GF/GP budget targets to the Governor's FY 2012-13 revised recommendation. The GF/GP target appropriations, which include May 16, 2012 CREC caseload and cost adjustments, are \$29.3 million below the Governor's revised recommendation.

Table 7

FY 2012-13 TOTAL GENERAL FUND/GENERAL PURPOSE (GF/GP) APPROPRIATIONS TARGETS COMPARED TO FY 2012-13 GOVERNOR'S REVISED RECOMMENDATION			
Department/Budget Area	FY 2012-13 Governor's Revised Rec.	FY 2012-13 Final Target	Target Change to Governor
Agriculture and Rural Development.....	\$34,160,500	\$36,098,900	\$1,938,400
Attorney General.....	33,690,500	33,825,800	135,300
Civil Rights	11,520,700	11,953,600	432,900
Community Health	2,847,864,700	2,817,437,800	(30,426,900)
Corrections.....	1,982,185,600	1,941,485,600	(40,700,000)
Education	68,043,200	68,093,200	50,000
Environmental Quality.....	29,405,000	29,812,400	407,400
Executive	4,887,900	4,887,900	0
Human Services.....	1,028,796,400	1,011,143,900	(17,652,500)
Judiciary.....	165,751,500	170,751,500	5,000,000
Legislative Auditor General.....	13,004,900	13,004,900	0
Legislature	108,012,700	109,412,700	1,400,000
Licensing and Regulatory Affairs	50,570,900	50,570,900	0
Military and Veterans Affairs.....	34,733,400	38,233,400	3,500,000
Natural Resources	19,637,900	19,737,900	100,000
State.....	14,041,300	14,888,100	846,800
State Police.....	316,891,400	317,513,800	622,400
Technology, Management, and Budget.....	401,916,200	405,916,200	4,000,000
Transportation.....	119,000,000	23,000,000	(96,000,000)
Treasury-Debt Service	135,040,400	135,040,400	0
Treasury-Operations.....	67,931,800	88,347,100	20,415,300
Treasury-Revenue Sharing.....	0	0	0
Treasury-Strategic Fund Agency	148,701,600	173,701,600	25,000,000
Subtotal State Departments.....	\$7,635,788,500	\$7,514,857,600	(\$120,930,900)
Community Colleges.....	96,516,400	96,516,400	0
Higher Education	1,102,389,400	1,101,628,300	(761,100)
School Aid.....	200,000,000	282,400,000	82,400,000
Subtotal Education	\$1,398,905,800	\$1,480,544,700	\$81,638,900
Total State Departments and Education	\$9,034,694,300	\$8,995,402,300	(\$39,292,000)
Appropriation to Budget Stabilization Fund	130,000,000	140,000,000	10,000,000
Total GF/GP Appropriations	\$9,164,694,300	\$9,135,402,300	(\$29,292,000)

The Senate Fiscal Agency will provide details on all of the FY 2012-13 appropriations after the conference reports are adopted. In the meantime, if you have any questions, please contact me at 373-5300 or ejeffries@senate.michigan.gov.

/kjh

c: SFA Fiscal Analysts