

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 30, 2007
TO: Members of the Senate
FROM: Gary S. Olson, Director
RE: Balancing the Fiscal Year 2006-07 Budget

On Friday, May 25, 2007, leadership of the Senate and House of Representatives reached an agreement with the Governor's office to eliminate the remaining projected deficits in the FY 2006-07 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. The Legislature is currently working on enacting the legislation that will be necessary to fully implement this budget-balancing agreement. The components of the budget-balancing agreement include appropriation reductions, funding delays, the transfer of State restricted funds to the General Fund, and the borrowing against future tobacco settlement dollars. This memorandum provides a summary of this budget-balancing agreement.

FY 2006-07 General Fund/General Purpose Budget

Table 1 provides a summary of the estimated FY 2006-07 GF/GP revenue and expenditures and the proposal to eliminate the remaining budget deficit of \$294.0 million. The projected deficit of \$294.0 million is built on the assumption that the Governor signs into law Senate Bill 436, a supplemental appropriation bill, which was presented to the Governor on May 30, 2007. The \$294.0 million projected deficit also assumes that the Legislature implements \$167.9 million of State restricted revenue transfers to the General Fund. These State restricted revenue transfers were negotiated as part of the overall budget-balancing solution but will require statutory changes to be implemented. The components of the \$167.9 million of State restricted fund transfers include \$35.0 million from the Convention Facilities Fund, \$5.3 million from the Comprehensive Transportation Fund, \$30.0 million from the 21st Century Jobs Fund, \$0.5 million of various restricted revenue from the Department of Labor and Economic Growth, \$20.0 million from the Michigan Conservation Corps Endowment Fund, \$70.0 million from the Refined Petroleum Fund, and \$7.2 million from the State Campaign Fund. The projected \$294.0 million deficit also assumes that the Legislature enacts into law several supplemental appropriation bills still pending for the Departments of Corrections, Community Health, and Human Services.

The remaining projected FY 2006-07 GF/GP deficit of \$294.0 million will be eliminated by a \$90.0 million transfer from the Michigan Higher Education Loan Authority and \$204.0 million of borrowing against future tobacco settlement revenue. The \$90.0 million of funds transferred from the Michigan Higher Education Loan Authority represents surplus funds that have accumulated in these student loan accounts administered by the Department of Treasury. This one-time transfer should not have an impact on the level of student loans provided by the Authority. The \$204.0 million of one-time revenue generated from borrowing against future tobacco settlement revenue is an expansion of borrowing undertaken in 2006 to fund the 21st Century Jobs Fund. The impact of this borrowing will be to reduce the future level of tobacco settlement revenue available to fund programs in the State budget.

Table 1
FY 2006-07
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	May 30, 2007 SFA Estimate
Revenue	
Beginning Balance.....	\$ 2.5
Ongoing Consensus Revenue Estimate.....	8,187.5
Revenue Sharing Freeze.....	544.6
Shift Short-Term Borrowing Costs to School Aid Fund	22.8
Forensic Center Settlement Revenue	7.8
Liquor Purchase Revolving Fund Transfer to General Fund.....	4.0
Consumer Finance Fees Transfer to General Fund.....	7.0
Executive Order 2007-3 (Revenue Items).....	35.7
Total Revenue	\$8,811.9
Expenditures	
Enacted Appropriations	\$9,222.8
Supplemental Appropriations (Public Act 3 of 2007).....	17.6
Supplemental Appropriations (Public Act 7 of 2007).....	0.0
Executive Order 2007-3 (Appropriation Reductions).....	(274.2)
Proposed Supplemental Appropriations (Corrections Health Care).....	23.3
Proposed Supplemental Appropriations (Pension Health Shift).....	22.3
Projected Supplemental Appropriations (Medicaid Shortfall).....	138.5
Projected Supplemental Appropriations (Human Services Shortfall).....	34.0
Projected Supplemental Appropriations (Corrections Shortfall).....	20.0
Supplemental Appropriations (S.B. 436 GF/GP Funding).....	69.5
Pending Restricted Revenue Transfer to General Fund	(167.9)
Total Expenditures	\$9,105.9
Projected Year-End Balance.....	\$(294.0)
Proposals to Eliminate Remaining Deficit:	
Tobacco Securitization Borrowing	\$204.0
Higher Education Loan Authority Transfer to General Fund	90.0
Subtotal Proposals to Eliminate Deficit	\$294.0

FY 2006-07 School Aid Fund Budget

Table 2 provides a summary of the estimated FY 2006-07 SAF revenue and expenditures and the proposal to eliminate the remaining budget deficit of \$202.8 million. The estimate of a \$202.8 million deficit is based on current law revenue and appropriation assumptions. The budget-balancing proposal would eliminate the remaining deficit by borrowing against future tobacco settlement revenue. This \$202.8 million of tobacco settlement revenue borrowing for the School Aid Fund would be combined with the \$204.0 million of tobacco settlement borrowing to be used to eliminate the projected GF/GP budget deficit. The total tobacco settlement borrowing of \$406.8 million is anticipated to carry annual debt service costs of between \$40.0 million and \$46.0 million annually. The exact annual cost of paying principal and interest on this borrowing will not be known until the bonds which will accomplish this borrowing are structured and sold to investors. It is estimated that these annual debt service obligations will continue for approximately 20 years.

Table 2
FY 2006-07
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	May 30, 2007 SFA Estimate
Revenue	
Beginning Balance.....	\$ 0.0
Ongoing Consensus Revenue Estimate.....	11,077.2
GF/GP Grant.....	35.0
Federal Aid	1,411.2
PSERS Retirement Contribution Rate (Mark to Market)	175.6
PSERS Interest Only on Unfunded Accrued Liability	86.4
Reduce Lottery Advertising	5.0
Total Revenue	\$12,790.4
Expenditures	
Enacted Appropriations	\$13,093.8
Midland Property Tax Case	24.8
Refinance of Debt Service Payments (Public Act 6 of 2007)	(40.4)
Reduce Various Categorical Grants (Public Act 6 of 2007)	(5.0)
Appropriation Lapses.....	(80.0)
Total Expenditures	\$12,993.2
Projected Year-End Balance.....	\$ (202.8)
Proposal to Eliminate Remaining Deficit:	
Tobacco Securitization Borrowing.....	\$ 202.8

If you have any questions on the FY 2006-07 budget balancing proposal please contact my office at 373-5300.

/kjh

- c: Tom Davis, Senate Majority Policy Office
 Mike Byrne, Senate Democratic Staff
 Ellen Jeffries, Deputy Director