

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: June 6, 2014
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) 2014-15 target agreement on June 5, 2014. This memo provides a summary of that agreement.

The budget agreement includes FY 2014-15 General Fund/General Purpose (GF/GP) departmental and education appropriation targets of \$10.1 billion, of which \$9.6 billion is considered to be for ongoing GF/GP appropriations and \$486.5 million for one-time GF/GP appropriations. The agreement also includes a one-time GF/GP appropriation of \$94.0 million for the Budget Stabilization Fund.

The budget target agreement includes \$1.2 billion for State revenue sharing payments to local units of government. This amount is a 7.9% increase over FY 2013-14 but is \$20.0 million lower than the Governor's, House-passed, and Senate-passed recommendations. State revenue sharing is funded from State sales tax revenue, a portion of which is constitutionally earmarked, and a portion that is discretionary. The May 2014 consensus revenue estimates recognized \$758.3 million for constitutional revenue sharing, and the budget target agreement provides \$468.0 million for discretionary or "statutory" revenue sharing. The estimated FY 2014-15 \$758.3 million appropriation for constitutional revenue sharing would be \$18.0 million or 2.4% more than the estimated FY 2013-14 appropriation for constitutional revenue sharing; the \$468.0 million discretionary portion that is included in the budget target agreement represents an estimated increase of \$71.4 million or 18.0% over FY 2013-14.

Table 1 lists the FY 2014-15 GF/GP appropriation targets by department or budget area, and includes the \$94.0 million appropriation to the Budget Stabilization Fund. The target agreement does not provide an appropriation for the Michigan Health Savings Sub-Fund. The Governor's original recommendation had contained GF/GP appropriations of \$120.0 million for the Budget Stabilization Fund and \$122.0 million for the Michigan Health Savings Sub-Fund. The House-passed budget included \$100.0 million for the Budget Stabilization Fund but nothing for the Health Savings Sub-Fund while the Senate-passed budget included \$100.0 million for the Health Savings Sub-Fund but nothing for the Budget Stabilization Fund.

The FY 2014-15 GF/GP target balance sheet is outlined in Table 2 and is based on the May 2014 consensus revenue estimate of \$9.8 billion (which is \$220.5 million below the January 2014 consensus estimate) and \$386.7 million of revenue from the managed care use tax contained in enrolled Senate Bill 893. Ongoing discretionary State revenue sharing payments of \$459.2 million combined with one-time State revenue sharing payments of \$8.8 million, reduce GF/GP revenue by \$468.0 million. The \$4.0 million shift of short-term borrowing costs to the School Aid Fund continues, and the target agreement proposal to redirect \$3.0 million of tobacco tax GF/GP revenue to Capitol maintenance (pursuant to provisions of Senate Bill 678) reduces GF/GP revenue by \$3.0 million. Total estimated GF/GP revenue is \$10.2 billion.

On the expenditure side of the FY 2014-15 GF/GP target agreement balance sheet, the \$10.1 billion of target agreement budget area appropriations represents an increase of \$450.1 million or 4.7% over FY 2013-14. Included within this \$450.1 million increase are adjustments of approximately

\$250.0 million in the Department of Community Health for the managed care use tax and the change in the Federal match rate. The FY 2014-15 GF/GP balance sheet also reflects a \$94.0 million appropriation to the Budget Stabilization Fund. Comparing estimated GF/GP revenue to estimated GF/GP expenditures shows an FY 2014-15 projected year-end GF/GP balance of \$2.7 million.

Table 1
FY 2014-15
General Fund/General Purpose (GF/GP) Targets
Ongoing and One-Time

Department/Budget Area	Total GF/GP
Agriculture and Rural Development	\$45,916,200
Attorney General.....	38,267,100
Civil Rights.....	13,448,200
Community Health	3,239,701,400
Corrections.....	1,980,798,400
Education	82,083,000
Environmental Quality	40,875,900
Executive	5,916,100
Human Services	995,452,600
Insurance and Financial Services	150,000
Judiciary.....	186,527,400
Legislative Auditor General	14,937,300
Legislature	127,420,700
Licensing and Regulatory Affairs.....	40,033,800
Military and Veterans Affairs.....	49,154,500
Natural Resources	48,591,500
State.....	17,539,000
State Police.....	384,171,000
Technology, Management, and Budget	479,098,500
Transportation.....	286,147,900
Treasury-Debt Service.....	152,395,000
Treasury-Operations.....	117,018,300
Treasury-Revenue Sharing	0
Treasury-Strategic Fund Agency.....	244,642,500
Subtotal State Departments	\$8,590,286,300
Community Colleges.....	167,110,800
Higher Education	1,214,902,000
School Aid.....	114,900,000
Subtotal Education	\$1,496,912,800
Total State Departments and Education	\$10,087,199,100
Budget Stabilization Fund.....	\$94,000,000
Michigan Health Savings Sub-Fund.....	0
TOTAL GF/GP APPROPRIATIONS.....	\$10,181,199,100

Table 2
FY 2014-15
General Fund/General Purpose (GF/GP)
Revenue, Expenditures, and Year-End Balance Estimates
(Millions of Dollars)

	<u>SFA Estimate</u>
Revenue:	
Beginning Balance	\$438.2
<u>Ongoing Revenue:</u>	
January 2014 Consensus Revenue Estimate	\$10,046.5
May 2014 Consensus Revenue Change	<u>(220.5)</u>
May 2014 Consensus Revenue Estimate	\$9,826.0
<u>Other Revenue Adjustments:</u>	
Managed Care Use Tax Revenue/HICA Relief (SBs 893/913)	386.7
Revenue Sharing Payments	(459.2)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	4.0
Redirect Tobacco Tax GF Revenue for Capitol Maintenance	<u>(3.0)</u>
Subtotal Ongoing Revenue	\$9,754.5
<u>Non-Ongoing Revenue:</u>	
One-Time Appropriation for Revenue Sharing.....	<u>(8.8)</u>
Total Estimated GF/GP Revenue	\$10,183.9
Expenditures:	
FY 2014-15 Target Appropriations	\$10,087.2
One-Time Appropriation to Budget Stabilization Fund	<u>94.0</u>
Total Estimated GF/GP Expenditures	\$10,181.2
PROJECTED YEAR-END GF/GP BALANCE	\$2.7

The FY 2014-15 budget target agreement includes \$11.6 million more in GF/GP appropriations than the Senate-passed budget bills. Table 3 provides a comparison of the GF/GP target appropriations to the Senate-passed GF/GP appropriations that are adjusted for caseload, the managed care use tax, and the use of the Roads and Risks Reserve Fund.

Table 4 provides the FY 2014-15 School Aid Fund (SAF) target balance sheet using the May 2014 consensus revenue estimate of \$11.9 billion (which is \$78.5 million below the January 2014 consensus estimate), a \$114.9 million GF/GP grant (\$19.9 million of the GF/GP grant is reimbursement related to personal property tax reform if the August ballot initiative is approved), \$1.8 billion of Federal aid, \$18.0 million from the Michigan Public School Employees Retirement System Reserve Fund, and \$193.4 million of revenue from the managed care use tax contained in enrolled Senate Bill 893. On the expenditure side of the FY 2014-15 SAF target balance sheet, there are \$13.9 billion of K-12 appropriations as well as appropriations of \$197.6 million and \$204.5 million, for community colleges and universities, respectively. Comparing estimated SAF revenue to estimated SAF expenditures shows an FY 2014-15 projected year-end SAF balance of \$0.2 million. The members of the individual K-12 School Aid, Community Colleges, and Higher Education Conference Committees will make the final decisions regarding the allocation of the FY 2014-15 appropriations.

The Senate Fiscal Agency will provide details on all of the FY 2014-15 appropriations after the conference reports are adopted. In the meantime, if you have any questions, please contact me at 373-5300 or jeffries@senate.michigan.gov.

Table 3

FY 2014-15 Ongoing and One-Time GF/GP Appropriations Targets Compared to Adjusted Senate-Passed Budget			
Department/Budget Area	FY 2014-15 Senate-Passed ¹⁾	FY 2014-15 Final Target	Target Change to Senate
Agriculture and Rural Development	\$48,876,200	\$45,916,200	(\$2,960,000)
Attorney General	35,467,200	38,267,100	2,799,900
Capital Outlay	0	0	0
Civil Rights	13,573,200	13,448,200	(125,000)
Community Colleges	323,910,800	167,110,800	(156,800,000)
Community Health.....	3,206,251,700	3,239,701,400	33,449,700
Corrections	1,972,575,800	1,980,798,400	8,222,600
Education	85,025,000	82,083,000	(2,942,000)
Environmental Quality	40,875,900	40,875,900	0
Executive	5,916,100	5,916,100	0
Higher Education.....	1,214,902,000	1,214,902,000	0
Human Services	995,202,600	995,452,600	250,000
Insurance and Financial Services	100	150,000	149,900
Judiciary	185,742,900	186,527,400	784,500
Legislative Auditor General	15,337,300	14,937,300	(400,000)
Legislature.....	127,420,700	127,420,700	0
Licensing and Regulatory Affairs	25,033,800	40,033,800	15,000,000
Military and Veterans Affairs	49,412,400	49,154,500	(257,900)
Natural Resources	46,841,500	48,591,500	1,750,000
School Aid	30,000,000	114,900,000	84,900,000
State	17,939,000	17,539,000	(400,000)
State Police	383,161,400	384,171,000	1,009,600
Technology, Management, and Budget	478,348,300	479,098,500	750,200
Transportation	267,547,900	286,147,900	18,600,000
Treasury-Debt Service	152,395,000	152,395,000	0
Treasury-Operations	115,918,300	117,018,300	1,100,000
Treasury-Revenue Sharing	0	0	0
Treasury-Strategic Fund Agency	231,892,500	244,642,500	12,750,000
Total GF/GP Budget Area Appropriations ..	\$10,069,567,600	\$10,087,199,100	\$17,631,500
Budget Stabilization Fund	\$0	\$94,000,000	\$94,000,000
Michigan Health Savings Sub-Fund.....	100,000,000	0	(100,000,000)
TOTAL GF/GP APPROPRIATIONS	\$10,169,567,600	\$10,181,199,100	\$11,631,500

¹⁾ The Department of Community Health is adjusted for caseload, managed care use tax, and Roads and Risks Reserve Fund; the Department of Human Services is adjusted for caseload.

Table 4
FY 2014-15
School Aid Fund
Revenue, Expenditures, and Year-End Balance Estimates
(Millions of Dollars)

Revenue:	
Beginning Balance	\$294.8
<u>Ongoing Revenue:</u>	
January 2014 Consensus Revenue Estimate	\$11,931.8
May 2014 Consensus Revenue Change	(78.5)
May 2014 Consensus Revenue Estimate	\$11,853.3
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant	95.0
Federal Ongoing Aid	1,808.2
MPSERS/Education Reserve Fund	18.0
Personal Property Tax (PPT) Reform (If Ballot Approved)	(10.0)
GF/GP Reimbursement for PPT Reform (If Ballot Approved) ..	19.9
Managed Care Use Tax Revenue (SBs 893/913)	193.4
Subtotal Ongoing Revenue	\$13,977.8
Total Estimated School Aid Fund Revenue.....	\$14,272.6
Expenditures:	
FY 2014-15 Target Appropriations for K-12.....	\$13,870.3
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund	204.5
Total Estimated School Aid Fund Expenditures.....	\$14,272.4
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$0.2

/kjh

c: Tom Davis, Senate Majority Policy Office
 David Ettinger, Senate Democratic Office
 Senate Fiscal Agency Fiscal Analysts