

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: October 21, 2009
TO: Members of the Senate
FROM: Gary S. Olson, Director
RE: K-12 School Aid Fund Budget Update

The fiscal year (FY) 2009-10 appropriation bill for the K-12 School Aid Fund (SAF) budget was signed into law by Governor Jennifer Granholm on October 19, 2009. Public Act 121 of 2009 authorizes K-12 SAF appropriations through September 30, 2010. This memorandum provides an update of the enacted FY 2009-10 SAF budget and also reviews the estimates of the balances in the FY 2009-10 SAF budget assuming the enacted appropriation bill.

Table 1 provides a summary of the revenues and expenditures assumed in the FY 2009-10 enacted SAF budget. Estimated revenue totals \$12.9 billion and the level of enacted appropriations total \$12.8 billion. The difference between estimated revenue and enacted appropriations leads to a projected \$123.0 million FY 2009-10 SAF year-end balance.

**Table 1
 FY 2009-10 School Aid Fund
 Revenue, Expenditures, and Year-End Balance
 (millions of dollars)**

	Enacted October 2009
Revenue:	
Beginning Balance.....	\$201.5
Consensus Revenue Estimate	10,563.0
Assumed SAF Revenue Increase	100.0
GF/GP Grant.....	30.2
Federal Aid	1,601.8
ARRA-State Fiscal Stabilization Fund.....	450.0
Total Estimated Revenue.....	\$12,946.5
Expenditures:	
Enrolled Appropriation Bill	\$12,877.5
Governor's Vetoes	(54.0)
Total Appropriations	\$12,823.5
Projected Year-End Balance.....	\$123.0
Summary of ARRA Funding in K-12 School Aid:	
State Fiscal Stabilization Fund FY 2008-09	600.0
State Fiscal Stabilization Fund FY 2009-10	450.0
State Fiscal Stabilization Fund FY 2010-11	184.1
Total ARRA Funding for K-12.....	\$1,234.1

On the revenue side of the FY 2009-10 SAF budget ledger, the sources of revenue included surplus revenue carried forward from FY 2008-09, current year estimated SAF revenue, revenue assumed from tax policy changes not enacted into law, a General Fund/General Purpose (GF/GP) grant to the SAF budget, ongoing Federal aid, and temporary Federal aid resulting from the passage of the American Recovery and Reinvestment Act of 2009 (ARRA). The current Senate Fiscal Agency estimate of surplus FY 2008-09 SAF revenue carried forward into FY 2009-10 equals \$201.5 million. The May 2009 consensus estimate of FY 2009-10 SAF restricted revenue equals \$10.6 billion. The enacted budget assumes \$100.0 million of new SAF revenue resulting from tax policy changes. The Legislature is currently debating the content of these increased SAF revenue sources. The enacted budget includes the appropriation of \$1.6 billion of ongoing Federal aid that is used to fund a variety of programs within the budget. The enacted budget includes the appropriation of \$450.0 million of temporary Federal aid associated with provisions of the ARRA.

On the expenditure side of the FY 2009-10 SAF budget ledger, enacted appropriations total \$12.8 billion. The Legislature approved appropriations of \$12.9 billion and the Governor, through her constitutional line-item veto authority, vetoed \$54.0 million of SAF appropriations approved by the Legislature. The enacted FY 2009-10 SAF appropriations represent a significant reduction from the level of SAF appropriations in place during FY 2008-09.

Table 2 provides a summary of the reductions in FY 2009-10 SAF appropriations compared with the FY 2008-09 funding levels. The major reductions include a \$165 per-pupil reduction, the elimination of the Section 20J payments to certain local school districts, and a 20.0% reduction in the level of State operations support to intermediate school districts. The level of reductions total \$366.1 million of which \$54.0 million are accounted for by vetoes of the Governor.

In summary, the enacted level of FY 2009-10 SAF appropriations is \$123.0 million below the total level of assumed FY 2009-10 SAF revenue. The budget, therefore, is balanced between estimated revenue and appropriations. The key assumptions in this balanced SAF budget include the use of the May 2009 consensus revenue estimates. These revenue estimates are the official revenue estimates of the State at this point in time. Pursuant to statutory requirements, these estimates will be revisited when the consensus revenue estimating conference convenes during January 2010. The second key assumption concerns the assumed level of \$100.0 million of new SAF revenue from tax policy changes. These tax policy changes will have to be put in place in order to avoid a potential revenue shortfall in the SAF budget. It is important to point out that the enacted FY 2009-10 SAF budget will still carry a projected surplus of \$23.0 million even if the assumed revenue increase of \$100.0 million is not enacted.

Table 2

Enacted P.A. 121 of 2009			
Comparing FY 2008-09 Appropriations to Enacted FY 2009-10 School Aid Reductions			
Program	FY 2008-09 Current Appropriation	Enacted P.A. 121 of 2009 Reductions	Percent Reduction
\$165 Per Pupil Reduction.....	\$7,316	(263,000,000)	-2.26%
Section 20j VETO.....	\$51,500,000	(51,500,000)	-100.0%
ISD 20% Sec. 81 Reduction.....	81,721,100	(16,344,300)	-20.0%
Nondistrict School Readiness	15,150,000	(7,575,000)	-50.0%
Vocational Education.....	29,611,300	(3,000,000)	-10.1%
Vocational Education Earmark to Oakland ISD – VETO.	388,700	(388,700)	-100.0%
Adult Education	24,000,000	(2,000,000)	-8.3%
Small High Schools	8,000,000	(8,000,000)	-100.0%
Dearborn's At-Risk Payment.....	5,875,100	(1,468,800)	-25.0%
Child/Adolescent Health.....	4,742,900	(1,185,700)	-25.0%
Math/Science Centers.....	3,500,000	(875,000)	-25.0%
MEAP and MME Program Changes	28,130,700	(1,500,000)	-5.3%
Michigan Virtual University	2,250,000	(562,500)	-25.0%
Interagency Early Childhood – Legislative Reduction.....	2,125,000	(531,200)	-25.0%
Interagency Early Childhood – VETO of Remainder	2,125,000	(1,593,800)	-75.0%
Grosse Pointe/Harper Woods Pilot Programs.....	1,500,000	(1,500,000)	-100.0%
School Bus Inspections.....	1,436,500	(1,436,500)	-100.0%
Youth Challenge.....	1,295,100	(652,800)	-50.4%
Redford Union, Chippewa Valley, Clintondale	850,000	(850,000)	-100.0%
Early Childhood Investment Corporation	6,750,000	(750,000)	-11.1%
Gifted & Talented (Adv. And Accelerated) – VETO.....	285,000	(285,000)	-100.0%
Cultural Access Grants – VETO.....	100,000	(100,000)	-100.0%
After School Math.....	725,000	(725,000)	-100.0%
Central Michigan University Lending Library.....	100,000	(100,000)	-100.0%
Kalamazoo Pre College Engineering – VETO.....	75,000	(75,000)	-100.0%
Federal After-School Partnership Earmark – VETO	50,000	(50,000)	-100.0%
Newsline.....	80,000	(80,000)	-100.0%
Total Enacted Reductions		(\$366,129,300)	

FY 2010-11 School Aid Fund Budget Outlook

The use of \$450.0 million of non-ongoing ARRA Federal funding to help balance the FY 2009-10 SAF budget, along with the assumed assumption of a \$100.0 million SAF revenue increase in FY 2009-10 only, does have an impact on the outlook of the FY 2010-11 SAF budget. During the budget negotiations over the past several months, the Senate Fiscal Agency, the House Fiscal Agency, and the Office of the State Budget have provided the Governor and Legislative Leadership with projections regarding the FY 2010-11 SAF budget. Table 3 provides an update of these estimates based on the level of appropriation reductions assumed in the enacted FY 2009-10 SAF appropriation bill. As outlined in Table 3, the outlook for the FY 2010-11 SAF budget is based on several key assumptions:

1. School Aid Fund restricted revenue will increase by 3.0% over the FY 2009-10 consensus revenue estimate.
2. The \$100.0 million of assumed SAF revenue increase built into the FY 2009-10 SAF budget does not continue into FY 2010-11. This is consistent with the revenue enhancement bills approved by the Senate on October 8, 2009.
3. The FY 2010-11 SAF budget assumes that the projected FY 2009-10 SAF year-end balance of \$123.0 million is available to support FY 2010-11 appropriations.
4. The presumed level of FY 2010-11 SAF appropriations is funded at the enacted FY 2009-10 levels. This assumes the \$165 per-pupil reduction and the savings from the elimination of funding for Section 20J local school districts and all of the other FY 2009-10 SAF appropriation reductions continue in FY 2010-11.
5. The balance of the Federal ARRA funding for K-12 school districts not appropriated in FY 2009-10, \$184.1 million, will be available in FY 2010-11.

Table 3

FY 2009-10 and FY 2010-11 School Aid Fund Revenue, Expenditures, and Year-End Balances (millions of dollars)		
	FY 2009-10 Estimate	FY 2010-11 Estimate
Revenue:		
Beginning School Aid Fund Balance.....	\$201.5	\$123.0
Estimated SAF Baseline Revenue.....	10,563.0	10,882.7
Proposed SAF Revenue Increases.....	100.0	0.0
ARRA – SFSF	450.0	184.1
GF/GP Grant to School Aid.....	30.2	30.2
Federal Funds	1,601.8	1,601.8
Total Estimated Revenue	\$12,946.5	\$12,821.8
Expenditures:		
Appropriations-Enacted/Current Service Baseline.....	12,823.5	12,810.1
Total Estimated Expenditures.....	\$12,823.5	\$12,810.1
Total Estimated Year-End Balance.....	\$123.0	\$11.7

The outlook points to the fact that the appropriation reductions enacted in FY 2009-10 will have to continue into FY 2010-11. This outlook is built on the key assumption of no changes to the May 2009 consensus estimate of FY 2008-09 and FY 2009-10 SAF revenue and a 3.0% assumed revenue growth in FY 2010-11. Any downward revisions in the revenue estimates will necessitate additional SAF appropriations reductions in FY 2010-11, absent any increased revenue being approved for the SAF budget.

/kjh

c: Ellen Jeffries, Deputy Director