

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 11, 2013
TO: Members of the Senate
FROM: Ellen Jeffries, Director
RE: Updated State Budget Year-End Balance Estimates

The Consensus Revenue Estimating Conference reached agreement today on revised General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue estimates for fiscal year (FY) 2011-12, FY 2012-13, and FY 2013-14. An agreement also was reached on the first consensus estimate of FY 2014-15 GF/GP and SAF revenue. Based on the revised consensus revenue estimates and enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the year-end balances in the FY 2011-12, FY 2012-13, and FY 2013-14 GF/GP and SAF budgets. This memorandum provides a brief summary of these revised SFA estimates.

FY 2011-12 Year-End Balance Estimates

The FY 2011-12 State budget was originally based on consensus revenue estimates agreed to in May 2011. The revisions of the consensus revenue estimates agreed to in January and May of 2012 projected positive year-end balances in both the GF/GP and SAF budgets. Preliminary unaudited financial statements for the State GF/GP budget and the SAF are required to be published by the end of January, and the comprehensive annual financial report (commonly referred to as the CAFR) is not due until the end of March. Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2011-12 revenue and expenditures from the State Budget Office (SBO) and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the fiscal year with a \$987.4 million balance. The SFA is estimating that the FY 2011-12 SAF budget will close the fiscal year with a \$254.1 million balance.

Table 1 provides a summary of the current SFA estimate of a \$987.4 million balance in the FY 2011-12 GF/GP budget. Table 2 provides a summary of the SFA's estimate of a \$254.1 million year-end balance in the FY 2011-12 SAF budget. Pursuant to statutory requirements, the actual level of the year-end balances will carry forward and be available as FY 2012-13 revenue sources. It should be noted that year-end balances of \$743.2 million GF/GP and \$194.6 million SAF had been assumed in May 2012 when the FY 2012-13 budget was being finalized, and were factored into the FY 2012-13 spending plan. These revised balance sheets include an additional \$303.7 million in carry-forward revenue of which \$244.2 million is GF/GP and \$59.5 million is SAF.

Table 1
FY 2011-12
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$553.7
Ongoing Revenue:	
Consensus Revenue Estimate	\$9,265.2
Revenue Sharing Payments	(300.0)
One-Time Appropriation for Revenue Sharing	(40.0)
Contingency Plan Restricted Revenue Transfer to GF	0.9
Shift of Short-Term Borrowing Costs to School Aid Fund	2.1
Book-Closing Adjustments.....	(13.0)
Subtotal Ongoing Revenue	\$8,915.2
Non-Ongoing Revenue:	
Use Tax on Health Maintenance Organizations (includes enrolled HB 5267).....	\$127.5
Total Estimated GF/GP Revenue	\$9,596.4
Expenditures:	
Initial Ongoing Appropriations	\$8,275.1
Auditor General Boilerplate Appropriation	0.4
Initial One-Time Appropriations.....	171.6
Enacted Supplementals:	
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)
Public Act 192 of 2012: Capital Outlay Construction Authorizations	0.0
Public Act 236 of 2012: Multiple Departments.....	11.7
Public Act 296 of 2012: Mortgage Settlement/Other	0.9
Public Act 465 of 2012: Community College Fund Shift to School Aid Fund	(63.7)
Public Act 476 of 2012: Contingency Savings Plans.....	(87.8)
Other Adjustments:	
Savings from One-Time OPEB Appropriation	(19.4)
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 Year-End Lapses	(75.5)
Total Estimated GF/GP Expenditures	\$8,246.3
One-Time Appropriations to Budget Stabilization Fund (\$255.8M + \$106.9M)	\$362.7
Projected Year-End GF/GP Balance	\$987.4

Table 2
FY 2011-12
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$724.7
Ongoing Revenue:	
Consensus Revenue Estimate	\$10,878.7
General Fund/General Purpose Grant	78.6
Federal Ongoing Aid.....	1,819.0
Miscellaneous Revenue	0.4
Subtotal Ongoing Revenue	\$12,776.7
Non-Ongoing Revenue:	
Use Tax on Health Maintenance Organizations (PA 465 of 2012)	\$65.1
Total Estimated School Aid Fund Revenue.....	\$13,566.5
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 (includes PA 465 of 2012)....	259.6
Partially Fund Higher Education with School Aid Fund	200.0
Federal Expenditures Adjustment.....	161.0
One-Time Appropriations:	
Public School Employees Retirement System (MPERS) Payments	\$155.0
K-12 Best Practices	154.0
MPERS 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)	16.5
Subtotal One-Time Appropriations.....	\$472.0
Estimate of Year-End Lapses	(\$55.1)
Total Estimated School Aid Fund Expenditures.....	\$13,312.4
Projected Year-End School Aid Fund Balance	\$254.1

FY 2012-13 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA is now estimating that the FY 2012-13 GF/GP budget is in balance by \$204.2 million. [Table 3](#) provides a summary of this estimate. The estimate includes a projected \$987.4 million budget surplus carried forward from FY 2011-12. The current consensus estimate of FY 2012-13 GF/GP revenue represents a \$177.7 million reduction from the May 2012 consensus revenue estimate upon which the FY 2012-13 budget was based.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA is now estimating that the FY 2012-13 SAF budget is in balance by \$38.4 million. [Table 4](#) provides a summary of this estimate. This estimate includes a projected \$254.1 million budget surplus carried forward from FY 2011-12. The current consensus estimate of FY 2012-13 SAF revenue represents a \$41.8 million reduction from the May 2012 consensus revenue estimate

upon which the budget was based. On the expenditure side of the SAF budget, there are consensus K-12 adjustments for pupils and local property taxes that reduce costs by \$59.0 million in FY 2012-13.

Table 3
FY 2012-13
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$987.4
Ongoing Revenue:	
Consensus Revenue Estimate	\$8,792.2
Revenue Sharing Payments.....	(350.6)
One-Time Appropriation for Revenue Sharing.....	(20.0)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	3.2
Regulation of Charitable Gaming	(4.0)
Subtotal Ongoing Revenue	\$8,420.8
Non-Ongoing Revenue:	
Reduce Liquor Purchase Revolving Fund Lapse to General Fund.....	(2.0)
Subtotal Non-Ongoing Revenue	(\$2.0)
Total Estimated GF/GP Revenue	\$9,406.2
Expenditures:	
Initial Ongoing Appropriations	\$8,628.5
Initial One-Time Appropriations.....	365.7
Subtotal Initial Ongoing and One-Time Appropriations.....	\$8,994.2
Other Adjustments:	
Estimated Debt Service Savings-Refinancing of SBA Bonds	(\$17.4)
One-Time Appropriation to Budget Stabilization Fund.....	140.0
Caseload and Cost Adjustments for DCH (SFA Estimate)	(70.0)
Health Insurance Claims Assessment Revenue Shortfall.....	130.0
Caseload and Cost Adjustments for DHS (SFA Estimate)	(2.8)
Public Act 305 of 2012 (Agriculture Loan Program).....	15.0
Public Acts 348 and 349 of 2012 (Right-to-Work).....	2.0
Public Act 436 of 2012 (Emergency Manager)	5.8
Public Act 518 of 2012 (Indigent Burial/PILT)	5.2
Subtotal Other Adjustments	\$207.8
Total Estimated GF/GP Expenditures	\$9,202.0
Projected Year-End GF/GP Balance	\$204.2

Table 4
FY 2012-13
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$254.1
Consensus Revenue Estimate	\$11,127.7
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant.....	282.4
Federal Ongoing Aid	<u>1,701.0</u>
Subtotal Ongoing Revenue	\$13,111.1
Total Estimated School Aid Fund Revenue.....	\$13,365.2
Expenditures:	
<u>Ongoing Appropriations:</u>	
Initial Ongoing K-12 Appropriations (Public Act 201 of 2012)	\$12,750.2
Cost Adjustments (Consensus Estimate)	(59.0)
Additional MPSERS Rate Cap Costs (Granny Clause, Election Extension)	43.0
Partially Fund Community Colleges with School Aid Fund.....	197.6
Partially Fund Higher Education with School Aid Fund	200.5
Public Act 465 of 2012 (PILT Supplemental).....	<u>0.2</u>
Subtotal Ongoing Appropriations	\$13,132.5
<u>One-Time Appropriations:</u>	
Best Practices Grants	\$80.0
Technology Grants.....	50.0
Consolidation Innovation Grants.....	10.0
MPSERS Retirement Obligation Reform Reserve Fund	41.0
Class-Size Grants	<u>13.3</u>
Subtotal One-Time Appropriations.....	\$194.3
Total Estimated School Aid Fund Expenditures.....	\$13,326.8
Projected Year-End School Aid Fund Balance	\$38.4

FY 2013-14 State Budget Outlook

Governor Snyder is expected to submit his recommendations for the FY 2013-14 State budget to the Legislature on February 7, 2013. The Governor's budget recommendation will continue the debate on the FY 2013-14 State budget because the Governor presented his projections for FY 2013-14 last year. The Legislature enacted an FY 2012-13 State budget that included language expressing intent to provide FY 2013-14 appropriations that would be the same as those for FY 2012-13, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2012-13 GF/GP revenue and expenditures produce a projected ending balance of \$204.2 million. If this balance were carried forward into FY 2013-14, and if the Governor's original FY 2013-14 GF/GP expenditure projections were adjusted for caseload and costs and for a potential health claims assessment revenue shortfall, there would be an FY 2013-14 projected year-end balance of \$177.0 million. Table 5 outlines these assumptions.

Table 5
FY 2013-14
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$204.2
Ongoing Revenue:	
Consensus Revenue Estimate	\$9,264.4
Revenue Sharing Payments	(350.6)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	3.6
Regulation of Charitable Gaming	(4.0)
Subtotal Ongoing Revenue	\$8,913.4
Total Estimated GF/GP Revenue	\$9,117.6
Expenditures:	
Governor's Recommendation Ongoing Appropriations (February 2012)	\$8,881.9
Governor's Recommendation One-Time Appropriations (February 2012)	13.6
Subtotal Ongoing and One-Time Appropriations	\$8,895.5
Other Adjustments:	
Caseload and Cost Adjustments for DCH (SFA Estimate)	(\$123.1)
Caseload and Cost Adjustments for DHS (SFA Estimate)	(55.2)
Decrease in Federal Medicaid Match Rate	7.0
Health Insurance Claims Assessment Revenue Shortfall	120.0
Cost Adjustment for Dual Enrollment (SFA Estimate)	5.0
Estimated Increase for Debt Service Payments	9.0
Increase Ongoing General Fund Grant to School Aid Fund	82.4
Subtotal Other Adjustments	\$45.1
Total Estimated GF/GP Expenditures	\$8,940.6
Projected Year-End GF/GP Balance	\$177.0

The FY 2013-14 GF/GP budget outlook assumes carry-forward funding of \$204.2 million, \$9.3 billion in consensus revenue, and a continuation of State revenue sharing payments at the FY 2012-13 ongoing funding level of \$350.6 million. The appropriation side of the FY 2013-14 budget outlook starts with the Governor's GF/GP budget projection of \$8.9 billion and adjusts for caseload and cost savings of \$178.3 million in the Departments of Community Health and Human Services. Additional adjustments factored into this budget outlook include a decrease in the Medicaid match rate that will cost \$7.0 million, a cost increase of \$120.0 million to reflect a potential health claims assessment revenue shortfall, a cost increase of \$5.0 million for the dual enrollment program administered by the Department of Treasury, an estimated increase of \$9.0 million for debt service payments, and an increase of \$82.4 million for the ongoing GF/GP grant to the School Aid Fund. This GF/GP grant increase for School Aid was part of the FY 2012-13 target-setting process.

A comparison of projected FY 2013-14 GF/GP consensus revenue and a continuation type of appropriation base, leads to a projected GF/GP ending balance of \$177.0 million.

Table 6 provides a summary of the SFA's outlook for the FY 2013-14 SAF budget. The estimated FY 2012-13 SAF revenue and expenditures result in a projected ending balance of \$38.4 million. If this balance were carried forward into FY 2013-14, and if FY 2013-14 SAF expenditures were frozen at the FY 2012-13 ongoing appropriation level with adjustments for pupils, local property tax valuations, and prefunding costs for the Michigan Public School Employees Retirement System (MPERS), there would be an FY 2013-14 projected year-end balance of a negative \$4.3 million.

Table 6
FY 2013-14
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$38.4
Consensus Revenue Estimate	\$11,432.5
Other Revenue Adjustments:	
General Fund/General Purpose Grant	101.0
Federal Ongoing Aid	1,701.0
MPERS Retirement Obligation Reform Reserve Fund.....	<u>174.0</u>
Subtotal Ongoing Revenue	<u>\$13,408.5</u>
Total Estimated School Aid Fund Revenue	<u>\$13,446.9</u>
Expenditures:	
Ongoing Appropriations:	
FY 2012-13 K-12 Appropriations.....	\$12,750.2
Cost Adjustments (Consensus Estimate).....	302.9
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund.....	<u>200.5</u>
Subtotal Ongoing Appropriations.....	<u>\$13,451.2</u>
Total Estimated School Aid Fund Expenditures	<u>\$13,451.2</u>
Projected Year-End School Aid Fund Balance.....	<u>(\$4.3)</u>

The FY 2013-14 SAF budget outlook assumes carry-forward funding of \$38.4 million, \$11.4 billion in consensus revenue, a \$101.0 million GF/GP grant, \$1.7 billion in Federal aid, and an appropriation of \$174.0 million from the MPERS Retirement Obligation Reserve Fund, leaving the balance in the Reserve Fund at zero. On the appropriation side of the FY 2013-14 SAF budget outlook, total K-12, community college, and university SAF appropriations are frozen at the FY 2012-13 ongoing level of \$13.1 billion and one-time appropriations of \$63.3 million are removed. Additional adjustments for estimates of pupils and local property taxes and a continuation of the prefunding of MPERS obligations, increase costs by an estimated \$302.9 million in FY 2013-14.

A comparison of projected FY 2013-14 SAF consensus revenue and a continuation type of appropriation base, leads to a projected SAF ending balance of a negative \$4.3 million.

FY 2014-15 State Budget Outlook

The consensus revenue estimates for FY 2014-15 project growth rates of 4.1% and 2.9%, respectively, for the GF/GP and SAF budgets. These growth rates compare to the FY 2013-14 estimated growth rates of 5.4% for GF/GP revenue and 2.7% for SAF revenue. If the consensus revenue estimates are achieved, there should be the ability to maintain ongoing appropriation levels for the General Fund and the School Aid Fund in FY 2014-15.

Summary

Table 7 provides a summary of the revised GF/GP and SAF estimated year-end balances for FYs 2011-12, 2012-13, and 2013-14.

Table 7

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND SUMMARY OF ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
General Fund/General Purpose	\$987.4	\$204.2	\$177.0
School Aid Fund	\$254.1	\$38.4	(\$4.3)

When the preliminary unaudited financial statements for FY 2011-12 are issued by the State's Office of Financial Management, the SFA will provide updated GF/GP and SAF balance sheets for the fiscal years discussed in this memo. In the meantime, if you have any questions, please contact me at 517-373-5300 or at ejeffries@senate.michigan.gov.

/kjh