

SENATE FISCAL AGENCY MEMORANDUM

DATE: October 2, 2009

TO: Members of the Senate

FROM: Gary S. Olson, Director

RE: State Budget Update

On October 1, 2009, the Legislature approved a 30-day extension of spending authorization for State departments for fiscal year (FY) 2009-10. Public Act 104 of 2009, signed by Governor Granholm, on October 1, 2009, provides for expenditure authorization for the period October 1, 2009, through October 31, 2009, for State departments, the Judiciary, the Legislature, community colleges, and universities. The amount of the spending authorized during October was generally based on 1/12 of the annual appropriation bills approved by the Legislature for the whole fiscal year period.

The Legislature also has approved the full-year annual appropriation bills for FY 2009-10, with the exception of the annual appropriation bill to fund the K-12 schools. The Legislature has presented a number of the full-year annual appropriation bills to the Governor for her signature and a number of these full-year annual appropriations bills are still in the Senate awaiting final approval of immediate effect. The following FY 2009-10 appropriation bills have been presented to the Governor:

- Senate Bill 237: Agriculture
- Senate Bill 249: Judiciary
- Senate Bill 250: Military and Veterans Affairs
- Senate Bill 254: Transportation
- House Bill 4435: Community Colleges
- House Bill 4437: Department of Corrections
- House Bill 4438: Department of Education
- House Bill 4446: Natural Resources/Environmental Quality

The following bills have not been presented to the Governor, pending a motion to reconsider granting the bills immediate effect by the Senate:

- Senate Bill 243: Energy, Labor, and Economic Growth
- Senate Bill 245: General Government
- Senate Bill 248: Human Services
- Senate Bill 253: State Police
- House Bill 4436: Community Health
- House Bill 4441: Higher Education

This memorandum provides a summary of the FY 2009-10 GF/GP appropriations approved by the Legislature. The memorandum also provides projections of the potential impact of the decisions that were made to balance the FY 2009-10 GF/GP budget on the outlook for the FY 2010-11 GF/GP budget.

Summary of FY 2009-10 Appropriations

As stated earlier, the Legislature has completed action on all of the annual FY 2009-10 appropriation bills, with the exception of the K-12 School Aid appropriation bill. Table 1 provides a summary of the General Fund/General Purpose (GF/GP) appropriations contained in these bills along with reductions in State Restricted revenue-funded appropriations. The table assumes a \$31.8 million GF/GP grant to the K-12 School Aid Fund. The overall level of FY 2009-10 GF/GP appropriations approved by the Legislature totals \$8.0 billion. In addition, the Legislature approved \$346.3 million of reductions in State Restricted revenue appropriations. These reductions in revenue sharing payments, the Transportation Economic Development Fund, a transfer of corporation and securities fees, a transfer from the Railroad Repair Loan Fund, a transfer from the Liquor Purchase Revolving Fund, a transfer from the State Services Fee Fund, the elimination of the Michigan Promise Grant, and a reduction in the appropriation from the 21st Century Jobs Fund all result in additional FY 2009-10 GF/GP revenue that will be used to balance the budget.

The level of FY 2009-10 GF/GP and State Restricted revenue appropriation reductions approved by the Legislature represent a significant reduction from the level of appropriations recommended by Governor Granholm. Based on the Governor's February 2009 budget recommendations, adjusted for revised caseload estimates and the availability of increased Federal funding, the appropriations approved by the Legislature are \$842.8 million below the Governor's recommendation. Table 2 provides a departmental breakdown of these appropriation reductions. The largest reductions to the Governor's appropriation recommendations include the following: revenue sharing reductions - \$148.0 million, the elimination of the Michigan Promise Grant - \$140.0 million, Human Services - \$141.4 million, Community Health - \$124.9 million, Corrections - \$38.2 million, and Higher Education - \$37.9 million.

The level of FY 2009-10 GF/GP appropriations approved by the Legislature also represents a significant reduction from the year-to-date level of FY 2008-09 GF/GP appropriations. Table 3 provides a comparison of FY 2008-09 year-to-date GF/GP appropriations with the levels of FY 2009-10 GF/GP appropriations approved by the Legislature. The FY 2008-09 GF/GP appropriations have been adjusted for pending FY 2008-09 supplemental appropriations not yet enacted by the Legislature. On an overall basis, the FY 2009-10 GF/GP appropriations approved by the Legislature are \$735.1 million or 8.4% below FY 2008-09 year-to-date GF/GP appropriations. Several of the departmental year-to-year comparisons have been affected by the elimination of the Department of History, Arts, and Libraries. This department existed in FY 2008-09 and during FY 2009-10 its programs and functions were transferred to the Departments of Education, Energy, Labor, and Economic Growth, Management and Budget, Natural Resources, and Michigan Strategic Fund Agency.

The level of FY 2009-10 GF/GP appropriations approved by the Legislature represents a balanced budget utilizing the State's May 2009 consensus revenue estimates. Table 4 provides a summary of estimated FY 2009-10 GF/GP revenue and expenditures. Based on estimated revenue, appropriations approved by the Legislature, State Restricted fund transfers to the GF/GP budget, and the appropriation of available Federal American Recovery and Reinvestment Act (ARRA) funding, the FY 2009-10 GF/GP budget is in deficit by \$6.7 million. This projected imbalance will be eliminated by \$209.4 million of Federal ARRA funding carried forward from FY 2008-09. This leads to a final FY 2009-10 GF/GP year-end balance of \$202.7 million. This surplus ARRA funding will be available to support FY 2010-11 GF/GP appropriations.

Table 1

FY 2009-10 General Fund/General Purpose Conference Reports (actual dollars)	
Department/Budget Area	FY 2009-10 Conference Reports
Agriculture	\$30,588,400
Attorney General	28,785,000
Capital Outlay.....	0
Civil Rights	11,706,400
Community Colleges	299,360,500
Community Health.....	2,308,666,100
Corrections.....	1,870,190,400
Education	19,429,600
Energy, Labor, and Economic Growth	55,143,100
Environmental Quality	26,950,500
Executive.....	4,823,700
Higher Education.....	1,507,705,200
History, Arts, and Libraries.....	0
Human Services.....	860,268,600
Information Technology.....	0
Judiciary	153,132,800
Legislative Auditor General	11,619,800
Legislature.....	104,764,900
Management & Budget	295,274,300
Military and Veterans Affairs	36,425,500
Natural Resources	16,723,900
School Aid	31,800,000
State	17,955,400
State Police	267,259,200
Transportation	0
Treasury-Debt Service	64,663,000
Treasury-Operations	60,166,000
Treasury-Revenue Sharing	0
Treasury-Strategic Fund	27,135,700
Employee Concessions.....	(27,500,000)
DMB Contract Savings.....	(20,000,000)
Other Adjustments	(10,000,000)
Total GF/GP	\$8,053,038,000
<u>Restricted Revenue Reductions:</u>	
Revenue Sharing	(\$148,005,200)
Transportation Economic Development Fund.....	(12,000,000)
Railroad Repair Loan Fund Transfer	(5,750,000)
Liquor Purchase Revolving Fund/Corporation Fees.....	(1,452,200)
State Services Fee Fund.....	(1,600,000)
Merit Award Trust Fund.....	(140,000,000)
21 st Century Jobs Fund	(37,500,000)
Total Restricted Revenue	(\$346,307,400)

Table 2

FY 2009-10 General Fund/General Purpose Conference Reports/Enrolled Appropriations (actual dollars)			
Department/Budget Area	FY 2009-10 Adjusted Gov's Rec.	FY 2009-10 Conf. Reports	Dollar Difference
Agriculture	\$33,987,100	\$30,588,400	(\$3,398,700)
Attorney General	31,983,300	28,785,000	(3,198,300)
Capital Outlay.....	0	0	0
Civil Rights	12,320,100	11,706,400	(613,700)
Community Colleges	299,360,500	299,360,500	0
Community Health.....	2,433,548,200	2,308,666,100	(124,882,100)
Corrections	1,908,399,600	1,870,190,400	(38,209,200)
Education	24,605,700	19,429,600	(5,176,100)
Energy, Labor, and Economic Growth .	75,944,400	55,143,100	(20,801,300)
Environmental Quality	33,127,900	26,950,500	(6,177,400)
Executive	5,317,300	4,823,700	(493,600)
Higher Education.....	1,545,605,200	1,507,705,200	(37,900,000)
History, Arts, and Libraries.....	0	0	0
Human Services.....	1,001,630,700	860,268,600	(141,362,100)
Information Technology.....	0	0	0
Judiciary	158,785,900	153,132,800	(5,653,100)
Legislative Auditor General	12,486,800	11,619,800	(867,000)
Legislature.....	112,994,200	104,764,900	(8,229,300)
Management & Budget	315,264,500	295,274,300	(19,990,200)
Military and Veterans Affairs	39,487,200	36,425,500	(3,061,700)
Natural Resources	18,445,700	16,723,900	(1,721,800)
School Aid	40,800,000	31,800,000	(9,000,000)
State	28,214,200	17,955,400	(10,258,800)
State Police	278,474,500	267,259,200	(11,215,300)
Transportation	0	0	0
Treasury-Debt Service	66,663,000	64,663,000	(2,000,000)
Treasury-Operations	68,722,700	60,166,000	(8,556,700)
Treasury-Revenue Sharing	212,000	0	(212,000)
Treasury-Strategic Fund	30,685,500	27,135,700	(3,549,800)
Employee Concessions.....	(27,500,000)	(27,500,000)	0
DMB Contract Savings	0	(20,000,000)	(20,000,000)
Other Adjustments	0	(10,000,000)	(10,000,000)
Total GF/GP.....	\$8,549,566,200	\$8,053,038,000	(\$496,528,200)
Restricted Revenue Reductions:			
Revenue Sharing		(\$148,005,200)	(\$148,005,200)
Transportation Econ. Dev. Fund		(12,000,000)	(12,000,000)
Railroad Loan Fund Transfer		(5,750,000)	(5,750,000)
Liquor Purchase Rev. Fund/Corp. Fees		(1,452,200)	(1,452,200)
State Services Fee Fund.....		(1,600,000)	(1,600,000)
Merit Award Trust Fund.....		(140,000,000)	(140,000,000)
21st Century Jobs Fund		(37,500,000)	(37,500,000)
Total Restricted Revenue		(\$346,307,400)	(\$346,307,400)
Total Reductions from Gov's Rec. ...			(\$842,835,600)

Table 3

FY 2009-10 General Fund/General Purpose Conference Reports (actual dollars)				
Department/Budget Area	FY 2008-09 Adjusted Year-To-Date	FY 2009-10 Conference Reports	% Change From FY 2008-09 YTD	% Change From FY 2008-09 YTD
Agriculture	\$28,546,100	\$30,588,400	\$2,042,300	7.2%
Attorney General	29,918,200	28,785,000	(1,133,200)	-3.8%
Capital Outlay	700	0	(700)	-100.0%
Civil Rights	11,860,900	11,706,400	(154,500)	-1.3%
Community Colleges	299,360,500	299,360,500	0	0.0%
Community Health ¹⁾	2,473,752,600	2,308,666,100	(165,086,500)	-6.7%
Corrections ¹⁾	1,967,641,400	1,870,190,400	(97,451,000)	-5.0%
Education	7,074,600	19,429,600	12,355,000	174.6%
Energy, Labor, and Economic Growth	59,635,300	55,143,100	(4,492,200)	-7.5%
Environmental Quality	38,579,700	26,950,500	(11,629,200)	-30.1%
Executive	5,038,100	4,823,700	(214,400)	-4.3%
Higher Education ¹⁾	1,577,367,200	1,507,705,200	(69,662,000)	-4.4%
History, Arts, and Libraries	38,246,000	0	(38,246,000)	-100.0%
Human Services ¹⁾	1,099,066,500	860,268,600	(238,797,900)	-21.7%
Information Technology	0	0	0	na
Judiciary	156,472,000	153,132,800	(3,339,200)	-2.1%
Legislative Auditor General	12,047,800	11,619,800	(428,000)	-3.6%
Legislature	109,471,400	104,764,900	(4,706,500)	-4.3%
Management and Budget	288,901,900	295,274,300	6,372,400	2.2%
Military and Veterans Affairs	37,472,700	36,425,500	(1,047,200)	-2.8%
Natural Resources	9,891,900	16,723,900	6,832,000	69.1%
School Aid	78,000,000	31,800,000	(46,200,000)	-59.2%
State	24,795,800	17,955,400	(6,840,400)	-27.6%
State Police	269,752,200	267,259,200	(2,493,000)	-0.9%
Transportation	0	0	0	na
Treasury-Debt Service	67,608,500	64,663,000	(2,945,500)	-4.4%
Treasury-Operations	69,810,700	60,166,000	(9,644,700)	-13.8%
Treasury-Revenue Sharing	106,000	0	(106,000)	-100.0%
Treasury-Strategic Fund	27,741,100	27,135,700	(605,400)	-2.2%
Employee Concessions	0	(27,500,000)	(27,500,000)	na
DMB Contract Savings	0	(20,000,000)	(20,000,000)	na
Other Adjustments	0	(10,000,000)	(10,000,000)	na
Total GF/GP	\$8,788,159,800	\$8,053,038,000	(\$735,121,800)	-8.4%

¹⁾ FY 2008-09 is adjusted for the expected enactment of ARRA funds to replace General Fund in DCH (\$848.7 million), DHS (\$15.0 million), and Higher Education (\$68.2 million), and a \$10.0 million pending supplemental in Corrections.

Table 4

FY 2009-10 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (actual dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	\$0.0
Ongoing Revenue:	
Consensus Revenue Estimate	\$6,949.7
Revenue Sharing Savings	355.7
Revenue Sharing Revision (OSB, June 18, 2009, Adjusted for 2010 Start)	10.2
Shift Short-Term Borrowing Costs to School Aid Fund	45.0
Use Tax on HMOs (PA 440 of 2008)	339.5
Subtotal Ongoing Revenue	\$7,700.1
Total Estimated Revenue	\$7,700.1
Expenditures:	
Conference/Enrolled Appropriations	8,053.0
Revenue Sharing Reductions	(148.0)
Transportation Economic Development Fund Reductions	(12.0)
Railroad Improvement Fund Transfer	(5.8)
Liquor Purchase Revolving Fund/Corporate Fees Reductions	(1.5)
State Services Fee Fund	(1.6)
Promise Grant Elimination	(140.0)
Transfer from 21st Century Jobs Fund	(37.5)
Total Projected Expenditures	\$7,706.7
Projected Year-End Balance	(\$6.7)
Federal American Recovery and Reinvestment Act Funding:	
ARRA Funding Remaining from FY 2008-09	209.4
Projected ARRA Year-End Balance to FY 2010-11	\$202.7
Addendum:	
Federal ARRA Appropriations:	
Enhanced Medicaid Match Rate	\$973.0
ARRA Funding in Higher Education	68.2
ARRA Funding Carried Forward from FY 2008-09	209.4
Total ARRA Funding Appropriated in FY 2009-10	\$1,250.6

During FY 2009-10 a total of \$1.2 billion of Federal ARRA funds are available to support the GF/GP budget. This includes the \$209.4 million of ARRA surplus funding carried forward from FY 2008-09, \$973.0 million of ARRA funding supporting the Medicaid program, and \$68.2 million of ARRA funding used to offset GF/GP appropriation reductions in the Higher Education budget. The actual amount of ARRA funding that will be expended in the FY 2009-10 GF/GP budget is \$1.0 billion, leaving \$202.7 million of ARRA funding carried forward into FY 2010-11.

FY 2010-11 General Fund/General Purpose Budget Outlook

The use of over \$1.0 billion of non-ongoing Federal ARRA funding to balance the FY 2009-10 GF/GP budget does have an impact on the outlook of the FY 2010-11 GF/GP 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 GF/GP budget. Table 5 provides an update of these estimates based on the level of appropriation reductions assumed in the FY 2009-10 appropriation bills approved by the Legislature. As outlined in Table 5, the outlook for the FY 2010-11 GF/GP budget points to a \$782.9 million potential imbalance. This estimate is built on several key assumptions:

1. GF/GP revenue will increase by approximately 4.0% over the FY 2009-10 consensus estimates.
2. There are no changes in current tax law during FY 2010-11.
3. The appropriation reductions approved by the Legislature in FY 2009-10 are continued in FY 2010-11.
4. The presumed level of FY 2010-11 GF/GP appropriations assumes a freeze in appropriations at the current-year level. The only adjustments are for projected caseloads and increases in such areas as employee costs and health care costs.
5. A total of \$412.3 million of Federal ARRA funding will be available for appropriation, including \$202.7 million of surplus ARRA funding carried forward from FY 2009-10.

Table 5

FY 2009-10 and FY 2010-11 General Fund/General Purpose Revenue, Expenditures and Year-End Balances (millions of dollars)		
	FY 2009-10	FY 2010-11
Revenue	\$7,700.1	\$8,032.4
Adjusted Executive Recommendation	9,522.6	10,070.5
Projected Shortfall	(\$1,822.5)	(\$2,038.1)
<u>PROPOSED SOLUTIONS</u>		
<u>Target Proposal (September 30, 2009)</u>		
Appropriation Reductions	\$842.8	\$842.8
Revenue Changes	0.0	0.0
Federal ARRA Funding	973.0	209.6
ARRA/GF Carryforward	209.4	202.7
Projected Ending Balance	\$202.7	(\$782.9)

If this projected FY 2010-11 GF/GP imbalance is eliminated by additional appropriation reductions, the reductions would be equal to 9.7% of FY 2009-10 GF/GP appropriations.

/kjh

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