FISCAL SENATE AGENCY

SENATE FISCAL AGENCY
MEMORANDUM

DATE: September 10, 2010

TO: Members of the Senate

FROM: Gary S. Olson, Director

RE: Budget Target Agreement Summary

On September 8, 2010, Governor Jennifer Granholm, House Speaker Andy Dillon, and Senate Majority Leader Michael Bishop signed a document that outlined the provisions regarding an agreement on the fiscal year (FY) 2010-11 State budget. This budget target agreement also included provisions related to final action on the FY 2009-10 State budget. This memorandum provides a summary of the budget target agreement and provides updated estimates of the projected FY 2009-10 and FY 2010-11 year-end balances in both the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets assuming the target agreement is implemented.

Fiscal Year 2009-10 State Budget

Based on the May 2010 consensus revenue estimates and enacted and pending appropriations, the FY 2009-10 GF/GP budget was in deficit by $302.7 million. The budget target agreement eliminates this projected budget deficit. Table 1 provides a summary of the current Senate Fiscal Agency (SFA) estimate of the projected FY 2009-10 GF/GP year-end balance of $2.7 million. The budget target agreement eliminates the projected budget deficit with two policy changes. First, a fund source shift of $208.4 million from GF/GP appropriations to School Aid Fund (SAF) occurs in the Community College budget. This one-time fund source shift is contained in Public Act 158 of 2010. Second, a total of $94.3 million of available Federal funds will be used to offset current GF/GP appropriations in the Medicaid budget. This funding shift from GF/GP appropriations to available Federal funds is contained in Public Act 158 of 2010 and the remaining supplemental appropriation bill, House Bill 5409.

The use of $208.4 million of surplus SAF funds to balance the FY 2009-10 GF/GP budget has an impact on the projected year-end balance in the FY 2009-10 SAF budget. Table 2 provides a summary of the SFA estimate of the year-end balance in the FY 2009-10 SAF budget. Factoring in the $208.4 million use of SAF revenue in the Community College budget, the SFA is now estimating that the FY 2009-10 SAF will close the fiscal year with a $163.3 million balance. The final year-end balance will carry forward into FY 2010-11 and be used to support FY 2010-11 SAF appropriations.

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Table 1

**FY 2009-10 General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(millions of dollars)**

	September 2010 SFA Estimate
Revenue:	
Beginning Balance	$177.2
Ongoing Revenue:	
Consensus Revenue Estimate	6,654.9
Revenue Sharing Savings	520.8
Shift of Short Term Borrowing Costs to School Aid Fund	20.0
Use Tax on HMOs (PA 440 of 2008)	357.7
Subtotal Ongoing Revenue	$7,553.4
One-Time Revenue:	
FY 2008-09 Bookclosing MBT Transfer to SAF Budget	(7.9)
Transportation Economic Development Fund Transfer to General Fund	12.0
Railroad Improvement Fund Transfer to General Fund	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund	1.9
State Services Fee Fund Transfer to General Fund	1.6
Use Tax for Travel Promotion (PA 36 of 2010)	(9.5)
21st Century Jobs Fund Transfer to General Fund	37.5
Subtotal One-Time Revenue	$41.4
Total Estimated Revenue	**$7,772.0**
Expenditures:	
Initial Appropriations	$8,128.0
Appropriation Adjustments:	
Enacted Supplemental Appropriations	(205.7)
Pending Supplemental Appropriations (H.B. 5409)	(135.7)
Professional Development Fund Lapses	(2.3)
Projected Year-End Appropriation Lapses	(15.0)
Subtotal Appropriation Adjustments	($358.7)
Total Estimated Expenditures	**$7,769.3**
Projected Year-End Balance	**$2.7**

Table 2

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

	September 2010 SFA Estimate
Revenue:	
Beginning Balance	$238.2
Restricted Consensus SAF Revenue	10,749.9
GF/GP Grant	30.2
Federal Aid	1,612.3
ARRA-State Fiscal Stabilization Fund	450.0
FY 2008-09 Bookclosing MBT Transfer from GF/GP	7.9
FY 2008-09 Bookclosing Greektown Casino Adjustment	(9.3)
Total Estimated Revenue	**$13,079.2**
Expenditures:	
Enacted Appropriation	$12,823.6
Expenditure Adjustments:	
Formula Cost Adjustments	(122.0)
Lower SAF Borrowing Cost from General Fund	(25.0)
Additional CEPI Federal Funding	10.6
Additional Spending to Meet ARRA MOE	19.7
Other Adjustments (School Bus Inspections, Maxey)	0.6
Fund Source Shift to Community Colleges (P.A. 158 of 2010)	208.4
Total Appropriations	**$12,915.9**
Projected Year-End Balance	**$163.3**

Fiscal Year 2010-11 State Budget

The budget target agreement signed on September 8, 2010, includes specific FY 2010-11 GF/GP appropriation targets for each State department and budget area. Table 3 provides a summary of these GF/GP appropriation targets. The FY 2010-11 GF/GP appropriation targets are approximately $277.0 million below the adjusted level of FY 2010-11 GF/GP appropriations originally proposed by the Governor. The conference committees on the FY 2010-11 appropriation bills will now begin meeting and the expectation is that the signed appropriation bill conference reports will not exceed the GF/GP appropriation levels in Table 3.

Table 4 provides a summary of the SFA estimate of a projected FY 2010-11 GF/GP year-end balance of $6.9 million, assuming the budget target agreement is implemented. This year-end balance estimate contains several policy changes that will impact on revenue and appropriations that were included in the signed budget target agreement.

In terms of proposed revenue changes related to the budget target agreement, a total of $249.9 million of new GF/GP revenue is included in the target agreement. These revenue changes include revenue from a tax amnesty proposal, revenue from statutory changes in unclaimed property, revenue from liquor law reforms, revenue from the transfer of surplus convention facilities funds to the GF/GP budget, and the lapsing of a work project account to the GF/GP budget.

Table 3

FY 2010-11 General Fund/General Purpose Appropriation Targets	
Department/Budget Area	**FY 2010-11 GF/GP Target**
Agriculture	$30,297,100
Attorney General	28,559,400
Civil Rights	10,975,700
Community Colleges	295,880,500
Community Health	2,430,451,900
Corrections	1,918,546,200
Education	21,914,100
Energy, Labor, & Economic Growth	47,607,900
Executive	4,630,800
Higher Education	1,543,378,500
Human Services	930,064,600
Judiciary	152,073,100
Legislative Auditor General	11,155,000
Legislature	100,574,300
Military & Veterans Affairs	36,424,700
Natural Resources & Environment	41,309,400
School Aid	18,642,400
State	13,910,800
State Police	260,383,200
Technology, Management & Budget-Operations	57,878,200
Technology, Management & Budget-SBA Debt Service	241,870,600
Transportation	0
Treasury-Debt Service	42,118,300
Treasury-Operations	56,038,000
Treasury-Revenue Sharing	0
Treasury-Strategic Fund	22,781,500
State Employees Retirement Savings	(60,000,000)
Total	**$8,257,466,200**

The tax amnesty proposal is expected to result in $61.8 million of increased GF/GP revenue and $26.1 million of increased SAF revenue. The tax amnesty proposal would allow delinquent taxpayers in Michigan the opportunity to avoid penalties if back tax obligations are paid in full. Taxpayers taking advantage of the tax amnesty proposal would still be required to pay interest on delinquent taxes. Michigan ran a tax amnesty program in both 1986 and 2002. This tax amnesty program will be modeled after the 1986 program and will include a significant advertising component to make delinquent taxpayers aware of the opportunity to avoid penalties on delinquent taxes.

The unclaimed property proposal involves statutory changes in the process under which abandoned bank accounts, insurance policies, and other financial instruments are turned over to the State. The proposal includes changes in both the due date that abandoned property is turned over to the State and shortening the period under which certain types of property are deemed to be abandoned. The proposal will provide a significant one-time revenue infusion to the State, but it will not have an impact on the ability of individuals or businesses to eventually claim and receive abandoned property. This proposal will result in a $168.0 million FY 2010-11 GF/GP revenue increase.

Table 4

FY 2010-11 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (millions of dollars)

	September 2010 SFA Estimate
Beginning Balance	$2.7
Ongoing Revenue:	
Consensus Revenue Estimate	7,096.7
Shift Short-Term Borrowing Costs to School Aid Fund	45.0
Proposed Revenue Sharing Freeze	537.2
County Revenue Sharing-Restore Payments	(59.4)
Use Tax on Health Maintenance Organizations	377.3
Enhanced Tax Enforcement Revenue	15.0
Subtotal Ongoing Revenue	$8,011.8
One-Time Budget Target Revenue Proposals:	
Tax Amnesty	61.8
Unclaimed Property Reforms	168.0
Liquor Reforms	9.1
Convention Facilities Transfer to General Fund	5.0
Lapse Secretary of State Work Project to General Fund	6.0
Subtotal One-Time Revenue	$249.9
Total Estimated Revenue	**$8,264.4**
Expenditures:	
Target Appropriations	$8,317.5
State Employees Retirement Savings	(60.0)
Total Proposed Expenditures	**$8,257.5**
Projected Year-End Balance	**$6.9**

Five proposed changes in liquor policy are included in the budget target agreement. The first change is assumed additional revenue from increased enforcement in liquor bootlegging laws. This change will allow the Michigan Liquor Control Commission to hire more enforcement agents and utilize technology in an effort to reduce the importation of illegal liquor into the State and lead to increased regulated liquor sales. The second change is to allow liquor companies to include value added packaging with the sale of bottles of liquor. Such value added packaging is likely to include attaching to a bottle of liquor a mixer or soda product in an effort to increase overall liquor sales. The third change is to allow for the liquor industry to attach instant rebate coupons to liquor sales. Such coupons would allow liquor customers to realize the value and savings of the coupon at the retail establishment. Under current law only mail in coupons are allowed on liquor sales. The fourth change is to allow limited sampling of liquor at retail stores. The fifth change is to allow for the licensing of individuals or businesses to conduct auctions of wine products. The proposal calls for a $50,000 license fee for such wine auctions. In total, these proposed liquor law changes are expected to increase FY 2010-11 GF/GP revenue by $9.1 million and SAF revenue by $0.9 million.

The final two revenue changes included in the budget target agreement are a $5.0 million transfer of surplus Convention Facilities Fund revenue to the GF/GP and the transfer to the GF/GP of $6.0 million of an existing information technology work project in the Department of State. These two transfers of surplus revenue should not have an impact on existing planned expenditures in either the Convention Facilities Fund or the Department of State.

On the expenditure side of the FY 2010-11 budget target agreement, a key assumption involves $60.0 million of assumed GF/GP savings from proposed changes in the State Employees Retirement System (SERS). The proposed SERS savings result from the combination of an enhanced retirement proposal, increased employee contributions to retiree health care costs and assumptions concerning the replacement rate of State employees retiring under the enhanced retirement. The SERS proposal includes a 1.6 limited time multiplier for State employees, currently eligible to retire, who take advantage of the enhanced retirement opportunity. The proposal also includes a 1.55 limited time multiplier for State employees with a combination of age and years of State service of 80 who are not currently eligible to retire, and employees with 30 years of State service who are not currently eligible to retire. The current law multiplier for the SERS is 1.5 times years of service. It is estimated that approximately 11,400 State employees will be eligible to retire under this proposal.

The SERS proposal also includes a provision to require all State employees who stay in the State workforce after the limited early retirement window to begin contributing a portion of their salary to fund State employee retiree health care costs. This proposal would require that employees contribute 1.0% of their salary beginning on October 1, 2010. This employee contribution would increase to 1.5% of salary on October 1, 2011, to 2.0% of salary on October 1, 2012, to 2.5% of salary on October 1, 2013, and to 3.0% of salary effective on October 1, 2014. The savings on the SERS proposal are also built on the assumption that only two out of three State employees who retire under the enhanced retirement proposal will be replaced.

Table 5 provides a summary of the SFA estimate of a projected $93.3 million FY 2010-11 SAF year-end balance. The Legislature enacted a FY 2010-11 SAF appropriation bill in August 2010. The current issue involving the FY 2010-11 SAF budget is the distribution of $316.3 million of additional Federal funding that has been allocated to Michigan under provisions of the Education Jobs Fund Act of 2010. The Governor and the Legislature are currently debating the distribution of these Federal funds. The State will distribute these Federal funds through Michigan's primary education funding formula, but the exact distribution of these funds was not part of the signed budget target agreement.

Table 5

FY 2010-11 School Aid Fund
Revenue, Expenditures, and Year-End Balance
(millions of dollars)

	September 2010 SFA Estimate
Beginning Balance	$163.3
Consensus Revenue Estimate	$10,832.9
Revenue Adjustments:	
GF/GP Grant to School Aid Fund	18.6
Federal Aid	1,677.8
American Recovery and Reinvestment Act Funding	184.3
Federal Education Jobs Fund	316.3
Enhanced Tax Enforcement Revenue	2.3
Lottery Reform	5.0
Tax Amnesty Proposal	26.1
Proposed Liquor Reforms	0.9
Subtotal Revenue Adjustments	$2,231.3
Total Estimated School Aid Fund Revenue	**$13,227.5**
Expenditures:	
Enacted Initial Appropriations	$12,838.6
Race to the Top State Funding	26.2
School Bond Loan Fund Refinancing Proposal	(40.0)
Distribution of Federal Education Jobs Fund	316.3
Pending Supplemental Appropriations	2.3
Total Projected Expenditures	**$13,134.2**
Projected Year-End Balance	**$93.3**

/kjh

c: Ellen Jeffries, Deputy Director
Senate Fiscal Agency Fiscal Analysts