

DATE: February 10, 2009

TO: Members of the Michigan House of Representatives

FROM: Mitchell E. Bean, Director *MB*

RE: Explanation of Unreserved General Fund and School Aid Fund Balances

At final book closing for fiscal year (FY) 2007-08, it was determined that there was an unreserved General Fund (GF) fund balance of \$457,870,000 and an unreserved School Aid Fund (SAF) balance of \$254,595,000. Unreserved fund balances are reported in the balance sheet on page 22 of the *State of Michigan Comprehensive Annual Financial Report - Fiscal Year Ended September 30, 2008*.

These unreserved fund balances consist of two parts: budget lapses, and year-end revenue not spent in FY 2007-08. Both budget lapses and additional revenue carry forward as unreserved fund balances in FY 2008-09. It should be noted that budget lapses occur on a regular basis.

GF/GP budget lapses are monies that were authorized by appropriation, but were not spent in FY 2007-08. A table at the end of this memo reports GF/GP lapse by state department from FY 1992-93 to FY 2007-08. Total lapse has been positive each year since FY 1992-93, and ranged in value from a high of \$176.3 million (FY 1994-95) to a low of \$25.3 million (FY 2000-01).

Additional year-end revenue of \$458 million GF/GP and \$247 million SAF for FY 2007-08 is attributable to a conservative revenue forecast. It is important to note, however, that the Legislature based the FY 2008-09 GF/GP enacted budget on the assumption that a positive unreserved fund balance of \$139.9 million would be available. Similarly, the enacted FY 2008-09 School Aid budget assumed that \$68.7 million of unreserved balance would be available.

An explanation of major budget lapses for FY 2007-08 follows.

Community Health

Approximately 80% of the FY 2007-08 GF/GP lapse in the Department of Community Health (DCH) Budget (\$26.1 million out of \$33.2 million) occurred in the various Medical Services line items, primarily due to lower Medicaid caseload growth. The average annual number of Medicaid eligibles grew by less than one percent in FY 2007-08—its lowest increase in nine years.

The other lapses of more than \$1 million occurred in the Community Substance Abuse Prevention, Education, and Treatment line item and the Community Mental Health line item used to purchase care for patients in state psychiatric hospitals.

Corrections

FY 2007-08 lapse amount for MDOC was \$10,887,000, of which \$10,886,900 was a forced lapse due to the mid-year rate reduction for retiree health care.

Education

The Department of Education lapse amount of \$70,000, representing 1% of its total GF/GP appropriation, was spread amongst various appropriation line items.

Human Services

Although Department of Human Services (DHS) GF/GP lapses were spread throughout its budget, there are several areas with especially prominent lapses.

Two line items which support DHS local office field staff, along with a line item focused on staff training, lapsed a total of \$21.0 million. The Legislature included significant budget increases for new field staff, and hiring delays contributed to this lapse.

Another \$10.6 million was lapsed from the line item funding statewide expansion of the Jobs Education and Training (JET) program, and \$3.8 million was lapsed from employment training and support services. These lines fund support services provided through both DHS and the Department of Energy, Labor, and Economic Growth (DELEG) to low-income households.

The foster care program line item lapsed \$9.2 million, which arose both from caseload declines and the fact that actual expenditures failed to meet budget assumptions regarding Title IV-E case conversions—and the use of funding for new relative licensing contracts.

Caseload declines led to a \$4.0 million GF/GP lapse for day care services and a \$2.1 million lapse for state SSI supplements.

A \$3.8 million GF/GP lapse in the juvenile justice unit was the result of downsizing within public facilities and the bureau, and a \$4.6 million lapse for subsidized guardianship occurred because the program was not implemented during FY 2007-08.

Management and Budget

The \$9.4 million GF/GP lapse for the Department of Management and Budget (DMB) was due to the following:

The State Building Authority (SBA) lapsed \$6.9 million due to lower-than-anticipated payments; actual SBA rent payments depend on when the state actually takes possession of property, signs a lease, or issues bonds.

DMB lapsed \$1.4 million due to savings from land sales; these funds are not appropriated, so they are lapsed at the end of the year.

There were 12 additional line items in the DMB budget that had GF/GP lapses. The main lapses were \$561,976 for Budget and Financial Management and \$404,940 for IT funding.

School Aid

The School Aid Budget lapsed \$5.8 million GF/GP in FY 2007-08 because the required Renaissance Zone reimbursement from the General Fund to the School Aid Fund was lower than anticipated. The reimbursement compensates the School Aid Fund for lost School Education Tax revenue due to renaissance zones. The appropriation is based on estimates which were higher than actual costs for the year.

State Police

The largest lapses in the Department of State Police (DSP) occurred in the following line items:

- At-Post Troopers – \$2.9 million (mainly due to a change in the retiree health care rate)
- Fleet Leasing – \$726,500 (due to a mid-year fuel cost change that DMB sets each year)
- Operational Support – \$241,700
- Aviation Program – \$106,700
- Federal Antidrug Initiatives – \$163,900
- Criminal Investigations – \$376,400

The remainder of the lapses are likely related to reduced spending by DSP due to taking over the Detroit crime lab; DSP did not know much the initial investigation would cost, and the details for the takeover costs have yet to be determined. In Senate Appropriations Committee testimony last week, during discussion of legislative transfers, the State Police captain in charge of the DNA/Forensics labs said he would need an additional \$5 million to hire 45 new scientists to process all of the DNA samples and reduce the current backlog.

Treasury

The Department of Treasury lapse of \$15.99 million in GF/GP for FY 2008 was spread through 30 different line items.

The majority of the lapse, \$12.8 million, was from savings for General Obligation (G.O.) Debt Service due to bond refinancing: \$7.1 million for Clean Michigan Initiative, \$4.2 million for Quality of Life, \$1.5 million for Great Lakes Water Quality.

A \$252,000 lapse due to savings for the School Bond Loan Program.

A \$762,600 lapse for the Senior Citizen's Coop Housing grants, which was due to fewer-than-anticipated housing units qualifying for local government reimbursement of exempted property taxes.

A \$400,000 lapse occurred because appropriated funds (to implement the tax on services) were not needed due to repeal of the tax.

Reductions in operations line items accounted for approximately \$1.5 million in lapsed funds.

c: Key Staff

GENERAL FUND/GENERAL PURPOSE (GF/GP) LAPSES

<u>Department/Budget Area</u>	<u>FY 1992-93</u>	<u>FY 1993-94</u>	<u>FY 1994-95</u>	<u>FY 1995-96</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>
Agriculture	\$1,184,000	\$978,000	\$484,000	\$316,000	\$184,000	\$248,000	\$140,000	\$30,000
Attorney General	117,000	103,000	24,000	332,000	141,000	148,000	208,000	174,000
Civil Rights	276,000	284,000	87,000	169,000	18,000	32,000	390,000	236,000
Civil Service	1,495,000			11,000				
Colleges and Universities	9,000	19,000	55,000	195,000	120,000	430,000	448,000	1,017,000
Community Health	12,434,000	1,503,000	45,141,000	35,673,000	35,407,000	40,024,000	52,120,000	73,621,000
Corrections	15,676,000	10,414,000	6,158,000	13,478,000	18,129,000	14,314,000	854,000	1,266,000
Education	624,000	561,000	4,585,000	1,503,000	639,000	2,671,000	1,792,000	308,000
Environmental Quality				999,000	135,000	29,000	44,000	85,000
Executive Office	46,000	7,000	59,000	123,000	30,000	21,000	5,000	113,000
Human Services	8,848,000	24,218,000	97,204,000	26,758,000	905,000	33,050,000	6,000	8,000
Judiciary	52,000	84,000	964,000	7,135,000	35,000	344,000	104,000	277,000
Labor & Economic Growth	1,598,000	1,549,000	3,350,000	3,969,000	1,897,000	12,860,000	2,874,000	2,317,000
Legislature	4,237,000	1,879,000	2,019,000	1,606,000	1,357,000	1,324,000	534,000	469,000
Management & Budget	3,325,000	22,415,000	8,634,000	21,015,000	31,505,000	29,463,000	19,433,000	35,694,000
Military & Veterans Affairs	228,000	1,695,000	1,483,000	339,000	411,000	343,000	590,000	605,000
Natural Resources	1,065,000	19,000	950,000	1,297,000	28,000	627,000	262,000	63,000
State	949,000	286,000	1,211,000	827,000	363,000	1,123,000	1,124,000	483,000
State Police	3,745,000	243,000	2,151,000	1,370,000	545,000	577,000	1,220,000	313,000
Treasury	3,564,000	2,571,000	1,715,000	3,103,000	1,315,000	1,025,000	14,850,000	9,383,000
FY TOTAL	\$59,472,000	\$68,828,000	\$176,274,000	\$120,218,000	\$93,164,000	\$138,653,000	\$96,998,000	\$126,462,000
Department/Budget Area	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Agriculture	\$267,000	\$1,265,000	\$695,000	\$906,000	\$28,000	\$335,000	\$112,000	\$17,000
Attorney General	548,000	886,000	852,000	2,338,000	916,000	56,000	86,000	326,000
Civil Rights	247,000	991,000	652,000	164,000	178,000	34,000	596,000	667,000
Civil Service		65,000		455,000	758,000	429,000		
Colleges and Universities	692,000	257,000	170,000	8,142,000	984,000	2,087,000	918,000	527,000
Community Health	5,000	18,111,000	6,830,000	(12,955,000)	36,701,000	61,281,000	63,869,000	33,173,000
Corrections	1,205,000	7,368,000	24,964,000	40,522,000	1,158,000	2,000	2,793,000	10,887,000
Education	942,000	1,068,000	491,000	2,801,000	1,422,000	1,116,000	1,296,000	5,854,000
Environmental Quality	45,000	1,984,000	1,988,000	2,091,000	74,000	569,000	467,000	358,000
Executive Office	37,000	19,000	21,000	186,000	36,000	46,000	162,000	147,000
History, Arts, & Libraries		2,004,000	1,000	368,000	14,000	18,000	384,000	138,000
Human Services	2,530,000	12,621,000	34,049,000	37,684,000	42,000	808,000	43,957,000	71,399,000
Judiciary	1,088,000	207,000	11,000	1,188,000	2,000	10,000	13,000	321,000
Labor & Economic Growth	725,000	3,560,000	3,411,000	1,070,000	46,000	16,000	5,984,000	681,000
Legislature	309,000	169,000	443,000	579,000	1,052,000	169,000	492,000	221,000
Management & Budget	12,771,000	10,618,000	8,311,000	6,434,000	6,369,000	1,201,000	6,612,000	9,362,000
Military & Veterans Affairs	508,000	683,000	703,000	965,000	112,000	238,000	1,424,000	597,000
Natural Resources	630,000	395,000	676,000	674,000	182,000	491,000	59,000	44,000
State	1,420,000	1,421,000	1,227,000	1,609,000	1,234,000	2,097,000	1,066,000	2,497,000
State Police	19,000	57,000	17,000	2,604,000	710,000	(2,691,000)	1,576,000	4,725,000
Treasury	1,305,000	1,905,000	9,346,000	10,235,000	3,024,000	8,409,000	4,279,000	15,988,000
Payroll expenditure adjustment				(20,367,000)				
FY TOTAL	\$25,293,000	\$65,654,000	\$94,858,000	\$87,693,000	\$55,042,000	\$76,721,000	\$136,145,000	\$157,929,000

Note: Overspent amounts appear as negative numbers.

House Fiscal Agency: February 10, 2009