MEMORANDUM

HOUSE FISCAL AGENCY

DATE: October 21, 2009

TO: House Appropriations Committee

FROM: Mitchell E. Bean, Director

RE: Potential School Aid Fund Revenue Shortfalls

House Members and the press have asked a number of questions about a potential fiscal year (FY) 2009-10 School Aid Fund (SAF) revenue shortfall and the potential implications of a revenue shortfall for the K-12 budget.

Yesterday, Tuesday, October 20, 2009, House Fiscal Agency (HFA) staff met with Department of Treasury staff who had expressed a concern about SAF revenue. Treasury estimates that FY 2008-09 SAF revenue will be short approximately $71 million and that FY 2009-10 SAF revenue is likely to be short approximately $129 million. Members will recall that HFA reported that through September, SAF revenue was running approximately $65 million below projections.

House Fiscal Agency agrees that it is plausible that FY 2008-09 revenue will be short $71 million -- but it is by no means certain at this point in time for the following reasons:

- Most October revenue collections, and some November revenue collections will accrue back to FY 2008-09 -- last year approximately $1.7 billion, or 15.8 percent of the total SAF revenue, accrued to the prior fiscal year.

- Other adjustments happen at the end of the year as well, and final year-end revenues will not be known until final book closing, which will likely happen in late December.

House Fiscal Agency also agrees that it is plausible that FY 2009-10 SAF revenue projections will be lowered by as much as $129 million at the next Consensus Revenue Estimating Conference (CREC) which by law, will take place in January 2010. It is important to note that consensus estimates can only be changed at a meeting of the CREC, which has not occurred.

There are a number of actions which the Administration and/or the Legislature may determine are appropriate:

- Because the Governor vetoed approximately $54 million in HB 4447, and approximately $184 million of State Fiscal Stabilization Fund money is still available for K-12, they could choose to wait-and-see if any further action needs to be taken.

- If the Administration believes the K-12 budget is short and should be reduced, they can offer a negative supplemental to further reduce the budget, or issue a letter to the Legislature that would trigger a pro ration after 30 days.

- If the legislature chooses to do so, they can allow a pro ration to occur. The legislature could also decide to raise enough revenue to eliminate the need for further cuts, or to offer their own negative supplemental that would reduce the budget and eliminate a shortfall.

Members should also be aware that the K-12 budget assumed $100 million of new revenue. Those revenues have not yet been identified. If all or part of them are not identified, the budget will be out of balance.

If you have any questions about this matter, please contact me.