

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 10, 2020
TO: Members of the Senate
FROM: Christopher Harkins, Director
RE: Consensus Revenue 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) 2018-19, FY 2019-20, and FY 2020-21. An agreement also was reached on the first consensus estimate of FY 2021-22 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 that were included in the SFA's *Economic Outlook and Budget Review* that was published on December 30, 2019. This memorandum provides a brief summary of these revised estimates.

FY 2018-19 Year-End Balance Estimates

The FY 2018-19 State budget was based on consensus revenue estimates agreed to in May 2018. The revenue numbers illustrated in Table 1 for FY 2018-19 final remain preliminary as the State's bookclosing has not been finalized and the FY 2018-19 comprehensive annual financial report (commonly referred to as the CAFR) has not yet been published. However, based on year-to-date accounting reports of FY 2018-19 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is projecting that the FY 2018-19 GF/GP budget will close the fiscal year with an \$828.9 million balance. The FY 2018-19 SAF budget is projected to close the fiscal year with a \$212.4 million balance. Changes to these preliminary final figures, which may result from a pending FY 2018-19 supplemental request from the State Budget Office (Supplemental Request 2019-7) and bookclosing, could increase or decrease the amount of projected balance in FY 2018-19 and, therefore, may affect future year revenue.

The first column of Table 1 provides a summary of the current SFA estimate of a \$828.9 million balance in the FY 2018-19 GF/GP budget. The first column of Table 2 provides a summary of the SFA's estimate of a \$212.4 million year-end balance in the FY 2018-19 SAF budget. Pursuant to statutory requirements, the amounts of the year-end balances will carry forward and be available as FY 2019-20 revenue sources. It should be noted that year-end balances of \$640.1 million GF/GP and \$49.3 million SAF had been assumed in September 2019 when the FY 2019-20 budget was being finalized, and were factored into the FY 2019-20 spending plan.

The revised FY 2018-19 balance sheets in this memorandum include \$188.8 million more in the GF/GP carry-forward year-end balance and \$163.1 million more in the SAF carry-forward year-end balance, than the September 2019 estimate. The higher GF/GP carry-forward balance is due primarily to increases in revenue assumptions from the May 2019 consensus and estimated year-end lapses of \$56.2 million. Similarly, the higher SAF carry-forward balance is due to estimated year-end lapses of \$85.4 million and revenue adjustments of \$77.7 million.

FY 2019-20 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA now is estimating that the FY 2019-20 GF/GP budget year-end balance will be \$634.3 million. The second column of [Table 1](#) provides a summary of this estimate. The estimate includes a projected \$828.9 million budget surplus carried forward from FY 2018-19. The current consensus estimate of FY 2019-20 GF/GP revenue represents a \$235.2 million increase from the May 2019 consensus revenue estimate upon which the FY 2019-20 budget was based. Comparing the total estimated GF/GP revenue (based on the January 2020 consensus revenue estimate) to the SFA's estimate of FY 2019-20 GF/GP expenditures results in a projected year-end balance of \$634.3 million. A detailed description of the assumptions made relative to FY 2019-20 expenditures can be found in the SFA's *Economic Outlook and Budget Review*, which was published on December 30, 2019.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA now is estimating that the FY 2019-20 SAF budget will have a year-end balance of \$262.6 million. The second column of [Table 2](#) provides a summary of this estimate. This estimate includes a projected \$212.4 million budget surplus carried forward from FY 2018-19. The current consensus estimate of FY 2019-20 SAF revenue represents an \$85.7 million increase from the May 2019 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 for FY 2019-20 by \$3.4 million. Comparing the total estimated SAF revenue (based on the January 2020 consensus revenue estimate) to the SFA's estimate of FY 2019-20 SAF expenditures results in a projected ending balance of \$262.6 million.

FY 2020-21 State Budget Outlook

Pursuant to statutory requirements, the Governor must submit a detailed FY 2020-21 State budget recommendation to the Legislature within 30 days after it convenes, or 60 days if the Governor is newly elected. Governor Whitmer must submit her budget recommendation before February 8, 2020. This budget recommendation will initiate the debate on the FY 2020-21 State budget.

The estimated FY 2019-20 GF/GP revenue and expenditures produce a projected FY 2020-21 beginning balance of \$634.3 million. If this beginning balance is combined with estimated ongoing GF/GP revenue (based on the January 2020 consensus revenue estimate) of \$10.5 billion, and if FY 2020-21 ongoing and one-time departmental appropriations are assumed to remain at the same levels as those of FY 2019-20, with adjustments for caseload, costs, and economic factors, there will be an FY 2020-21 projected year-end GF/GP balance of \$536.0 million. The third column of [Table 1](#) outlines these assumptions.

The third column of [Table 2](#) provides a summary of the SFA's outlook for the FY 2020-21 SAF budget. The estimated FY 2019-20 SAF revenue and expenditures result in a projected ending balance of \$262.6 million. If this balance is carried forward into FY 2020-21 and is combined with \$14.3 billion of ongoing SAF revenue (based on the January 2020 consensus revenue estimate) and \$2.1 billion of other assumed revenue, and if FY 2020-21 SAF expenditures are continued at the FY 2019-20 appropriation level with consensus adjustments for pupils, local property tax valuations, and other costs, there will be an FY 2020-21 projected SAF year-end balance of \$555.7 million. The FY 2020-21 total estimated SAF expenditures assume the continuation of SAF appropriations for community colleges and universities of \$781.8 million

Summary

Tables 1 and 2 summarize the projected year-end balances for all three fiscal years, for the GF/GP and SAF budgets, respectively. The SFA also is publishing today a memorandum that summarizes the consensus revenue estimates for FYs 2019-20, 2020-21, and 2021-22 and the School Aid Foundation Allowance Index Estimates for FYs 2020-21 and 2021-22. Please see the SFA's December 30, 2019, *Economic Outlook and Budget Review* for more details on the revenue and balance sheet assumptions. If you have any questions on any of the Consensus Revenue Estimating Conference issues, please contact me at 517-373-2768 or at charkins@senate.michigan.gov.

Table 1
FY 2018-19, 2019-20, FY 2020-21
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
 (millions of dollars)

	FY 2018-19	FY 2019-20	FY 2020-21
Revenue:			
Beginning Balance	\$788.3	\$828.9	\$634.3
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2019)	\$10,851.7	\$10,776.9	\$10,920.5
Consensus Revenue Estimate Change (January 2020).....	256.3	235.2	274.0
Consensus Revenue Estimate (January 2020)	\$11,108.0	\$11,012.1	\$11,194.5
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(\$466.0)	(\$490.1)	(\$490.1)
Income Tax Earmark Change (HB 4125).....	0.0	(173.2)	(179.4)
Subtotal Ongoing Revenue	\$10,642.0	\$10,348.8	\$10,525.0
<u>Non-Ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(\$13.1)	\$0.0	\$0.0
Legal Settlements.....	17.7	0.0	0.0
Revenue from sale of Farnum building	4.5	0.0	0.0
Reimbursement for implementation of recreational marihuana ...	0.0	10.0	0.0
Other Adjustments	(6.3)	0.0	0.0
Subtotal Non-Ongoing Revenue	\$2.8	\$10.0	\$0.0
Total Estimated GF/GP Revenue	\$11,433.1	\$11,187.8	\$11,159.3
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Appropriations.....	\$9,614.6	\$9,946.5	\$9,946.5
Subtotal Ongoing Appropriations	\$9,614.6	\$9,946.5	\$9,946.5
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$406.8	\$168.6	\$0.0
Appropriation to Budget Stabilization Fund.....	100.0	0.0	0.0
Enacted Supplementals (PA 586, 618 of 2018/28, 45,56 of 2019).....	420.2	0.0	0.0
FY 2019-20 Supplementals (PA 154 and 162 of 2019)	0.0	261.0	178.0
Estimated Employee Economic Adjustments	0.0	0.0	90.0
Pending Supplemental Request 2019-7	118.7	0.0	0.0
Baseline DHHS Adjustments	0.0	114.6	315.0
Reimbursement of Federal Disallowed Psych DSH Costs	0.0	62.8	59.2
SBA Rent Increases	0.0	0.0	14.6
Other baseline adjustments	0.0	0.0	20.0
Estimated Lapses.....	(56.2)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$989.5	\$607.0	\$676.8
Total Estimated GF/GP Expenditures	\$10,604.2	\$10,553.5	\$10,623.3
PROJECTED YEAR-END GF/GP BALANCE	\$828.9	\$634.3	\$536.0

Table 2
FY 2018-19, FY 2019-20, AND FY 2020-21
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
 (millions of dollars)

	FY 2018-19	FY 2019-20	FY 2020-21
Revenue:			
Beginning Balance	\$320.5	\$212.4	\$262.6
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2019).....	\$13,482.3	\$13,839.8	\$14,179.5
Consensus Revenue Estimate Change (January 2020).....	77.7	85.7	138.0
Consensus Revenue Estimate (January 2020)	\$13,560.0	\$13,925.5	\$14,317.5
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$87.9	\$62.6	\$62.6
Community District Education Trust Fund.....	72.2	75.4	78.4
Federal Ongoing Aid	1,745.9	1,749.6	1,749.6
Anticipated Income Tax Earmark Change (HB 4125)	0.0	173.2	179.4
Subtotal Ongoing Revenue	\$15,466.0	\$15,986.3	\$16,387.5
<u>Non-Ongoing Revenue:</u>			
Reserve Fund for MPSERS	30.0	1.9	0.0
Mental Health Services and Support Fund	30.0	0.0	0.0
Subtotal Non-Ongoing Revenue	\$60.0	\$1.9	\$0.0
Total Estimated School Aid Fund Revenue.....	\$15,846.5	\$16,200.6	\$16,650.2
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$14,644.7	\$15,106.8	\$15,163.2
Cost Adjustments (December 2019)	0.0	(3.4)	149.5
Enacted Supplemental (PA 162 of 2019)	0.0	59.9	0.0
Fund Community Colleges with School Aid Fund	401.8	414.7	425.7
Partially Fund Higher Education with School Aid Fund.....	499.4	349.4	356.1
Subtotal Ongoing Appropriations	\$15,545.9	\$15,927.4	\$16,094.5
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$120.8	\$0.0	\$0.0
Initial One-Time Community Colleges Appropriations	6.4	0.0	0.0
Initial One-Time Higher Education Appropriations	0.7	0.0	0.0
Enacted Supplementals (PA 586 of 2018 and PAs 58 and 162 of 2019)	45.7	10.7	0.0
Estimated Lapses	(85.4)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$88.2	\$10.7	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$15,634.1	\$15,938.0	\$16,094.5
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$212.4	\$262.6	\$555.7

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