

**SENATE FISCAL AGENCY
MEMORANDUM**



DATE: January 13, 2023
TO: Members of the Michigan Senate
FROM: Kathryn R. Summers, 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) FY 2021-22, FY 2022-23, and FY 2023-24. An agreement also was reached on the first consensus estimates of FY 2024-25 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*, which was published on January 11, 2023. This memorandum provides a brief summary of these revised estimates, and Table 1 below compiles the balances into a summary table.

Table 1

SFA ESTIMATES OF YEAR-END BALANCES USING CREC REVENUE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2021-22*	FY 2022-23	FY 2023-24
General Fund/General Purpose.....	\$7,330.9	\$5,112.7	\$6,796.3
School Aid Fund.....	4,514.9	4,118.3	5,482.2

*Preliminary; also, portions of these balances were used to build the FY 2022-23 budget.

YEAR-END BALANCE ESTIMATES

FY 2021-22

It is important to note that the books have not yet been closed for FY 2021-22. Based on the accounting of State revenue and expenditures as of January 12, 2023, the SFA is estimating that the FY 2021-22 GF/GP budget will close the fiscal year with a \$7.3 billion balance. The SFA estimates that the FY 2021-22 SAF budget will close the fiscal year with a \$4.5 billion balance. A portion of those balances was used in support of the FY 2022-23 budget.

According to Public Act 180 of 2015, the individual income tax (IIT) rate will be reduced if final FY 2021-22 book-closing revenue exceeds FY 2020-21 revenue by more than 1.425 applied to the rate of inflation. The determination of whether the rate will be reduced will occur after book-closing and publication of the Annual Comprehensive Financial Report (ACFR). As of the date of publication of this memorandum, based on year-to-date accounting reports of FY 2021-22 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is projecting that the growth in FY 2021-22 GF/GP revenue above FY 2020-21 revenue would trigger a reduction in the IIT rate.

The estimated reduction in GF/GP revenue from a reduction in the IIT is roughly \$435.0 million in FY 2022-23 and \$657.0 million in FY 2023-24. However, actions taken or determinations made between now and book-closing (and the publication of the ACFR) will affect the determination of how much (if any) of a reduction in the IIT would be required.



The balances presented in this memorandum use the SFA's estimates of a reduction in the GF/GP due to a reduction in the IIT rate. Again, however, these are estimates and will change depending on final book-closing of FY 2021-22 GF/GP revenue.

FY 2022-23

A comparison of the SFA's FY 2022-23 revenue estimates with enacted and projected appropriations, combined with an estimate of the impact of a reduction in the IIT rate, leads to a \$5.1 billion GF/GP year-end balance. The SFA estimates that the FY 2022-23 SAF budget (which would not be affected by an IIT rate adjustment) will end the year with a \$4.1 billion balance.

FY 2023-24

Looking ahead at the FY 2023-24 budget, comparing the SFA's FY 2023-24 GF/GP revenue estimate with FY 2023-24 GF/GP estimated expenditures, combined with an estimate of the ongoing impact of a reduction in the IIT rate, results in a projected GF/GP balance of \$6.8 billion. Those estimated expenditures freeze initial ongoing spending at the FY 2022-23 level and include the prior-year's ending balance along with various baseline adjustments. Comparing the SFA's FY 2023-24 SAF revenue estimate (plus the prior-year balance estimate) with the FY 2023-24 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs results in a projected SAF year-end balance of \$5.5 billion for FY 2023-24.

HOW BALANCES HAVE CHANGED SINCE ENACTMENT OF THE FY 2022-23 BUDGET

Table 2 shows how the FY 2022-23 year-end balance estimates have changed since the enactment of the FY 2022-23 budget. Notably, the table covers any changes that have occurred to date for both FY 2021-22 and FY 2022-23. As shown, the estimated GF/GP balance is larger than previously anticipated by \$1.3 billion. Similarly, the estimated SAF balance is larger than anticipated by \$885.3 million.

Table 2

SFA ESTIMATES OF CHANGES IN GF/GP AND SAF BALANCES (Fiscal Year 2022-23, millions of dollars)		
	GF/GP	SAF
Est. Balance after Budget Enactment	\$3,785.1	\$3,233.0
Supplementals Enacted after Budget*	-986.8	-12.2
Est. Lapses/Cost Adjustments after Budget*	918.8	-26.9
January 2023 CREC Revenue Adjustments*	1,830.2	924.4
Estimated Impact of IIT Reduction**	<u>-434.6</u>	<u>0</u>
Estimated Year-End Balances	\$5,112.7	\$4,118.3
Estimated Change in Year-End Balances	\$1,327.6	\$885.3

*Table reflects changes that have occurred in both FY 2021-22 and FY 2022-23 that affect the FY 2022-23 year-end balance estimates.

**Preliminary; actual reduction, if any, will be determined with publication of Annual Comprehensive Financial Report.

ESTIMATES OF ONE-TIME AND ONGOING BALANCES

These year-end balances are primarily one-time in nature. Table 3 breaks down the FY 2022-23 estimated balances into ongoing and one-time. An ongoing balance is estimated by comparing ongoing revenue to ongoing spending, excluding one-time revenue (e.g., a prior-year carryforward) and one-time spending.

Table 3

SFA ESTIMATES OF ONGOING AND ONE-TIME BALANCES (Fiscal Year 2022-23, millions of dollars)		
	GF/GP	SAF
Estimated Ongoing Balance	\$1,779.6	\$1,420.0
Estimated One-Time Balance	<u>3,333.2</u>	<u>2,698.3</u>
Estimated Total Year-End Balance	\$5,112.7	\$4,118.3

Summary

Tables 4 and 5 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 2022-23, 2023-24, and 2024-25 and the School Aid Foundation Allowance Index Estimate for FY 2023-24. Please see the SFA's January 11, 2023, *Economic Outlook and Budget Review* for more details on the revenue and balance sheet assumptions.

Any spending in a given year will reduce the out-year's balance as well as the current year's balance. Both the GF/GP and the SAF sides of the ledger appear to be structurally balanced; in other words, ongoing revenue (not including carryforward balances) is estimated to exceed ongoing (excluding one-time) spending. A caution to the preceding statement is that the succeeding year's expenditure estimates *assume baseline (or flat)* spending. Ongoing spending in FY 2023-24 that is greater than a baseline amount will reduce the gap between ongoing revenue and ongoing expenditure estimates.

Again, the estimated FY 2021-22 ending balances may change when the State's book-closing process is completed and the ACFR is published. If the FY 2021-22 numbers change because of final supplemental spending or other book-closing issues, it would change the ending balances in this report. Additional policy changes or supplemental appropriations for FY 2021-22 or FY 2022-23 also would change the ending balances for FYs 2021-22, 2022-23, and 2023-24.

If you have any questions on any of the Consensus Revenue Estimating Conference issues, please contact me at (517) 373-2768 or at ksummers@senate.michigan.gov.

Table 4
FY 2021-22, 2022-23, AND 2023-24
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	YTD FY 2021-22	YTD FY 2022-23	Estimated FY 2023-24
Revenue:			
Beginning Balance	\$4,362.8	\$7,330.9	\$5,112.7
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2022)	\$12,449.7	12,892.1	13,314.3
Consensus Revenue Change (May 2022).....	1,730.0	1,081.4	914.6
Consensus Revenue Estimate (May 2022)	14,179.7	13,973.5	14,228.9
CREC Forecast Revenue Change (January 2023)	1,025.8	804.4	863.3
CREC Forecast Revenue Estimate (January 2023)	\$15,205.5	\$14,777.9	\$15,092.2
<u>Other Revenue Adjustments:</u>			
Adjustments (PPT hold harmless)	\$0.0	(\$75.0)	(\$75.0)
Income tax trigger (PA 180 of 2015) (WILL CHANGE WITH PUBLICATION OF ACFR)*	0.0	(434.6)	(657.1)
Revenue Sharing Payments	(500.3)	(525.0)	(525.0)
Subtotal Ongoing Revenue	\$14,705.2	\$13,743.3	\$13,835.1
<u>Non-ongoing Revenue:</u>			
Legal Settlements/Redirection of Restricted Revenue	(\$2.6)	(\$2.6)	\$0.0
Revenue Sharing One-Time Payments	0.0	(5.0)	0.0
Subtotal Non-Ongoing Revenue	(\$2.6)	(\$7.6)	\$0.0
Total Estimated GF/GP Revenue	\$19,065.4	\$21,066.6	\$18,947.8
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Appropriations	\$11,031.3	\$11,914.1	\$11,971.7
Subtotal Ongoing Appropriations	\$11,031.3	\$11,914.1	\$11,971.7
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations.....	\$736.2	\$3,292.2	\$0.0
BSF Deposit.....	180.0	0.0	0.0
DHHS savings from extension of temporary FMAP/caseload adj	0.0	(370.0)	(30.0)
Enacted Supplementals.....	1,757.0	995.6	0.0
DHHS CREC Caseloads	(911.1)	0.0	(2.2)
Additional HB 5783 supplemental spending (on top of DHHS)	(684.4)	0.0	0.0
Treasury boilerplate appropriation	0.0	50.0	0.0
Ongoing GF Contribution to K-12	0.0	49.6	49.6
Additional K-12 GF for Community District Trust Fund.....	14.6	22.4	22.4
Additional K-12 GF / GF Deposit for Teacher Recruitment	45.0	0.0	0.0
SOAR Lapse	(233.1)	0.0	0.0
Additional Lapses (12/1)	(211.0)	0.0	0.0
PA 87 of 2021 Boilerplate Appropriations (DEGLE)	10.0	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$703.2	\$4,039.8	\$179.8
Total Estimated GF/GP Expenditures	\$11,734.5	\$15,953.9	\$12,151.5
PROJECTED YEAR-END GF/GP BALANCE (Total)	\$7,330.9	\$5,112.7	\$6,796.3
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)		\$1,779.6	\$1,813.8
PROJECTED YEAR-END GF/GP BALANCE (One-Time)		\$3,333.2	\$4,982.5

Table 5
FY 2021-22, 2022-23, AND 2023-24
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
 (millions of dollars)

	YTD FY 2021-22	YTD FY 2022-23	Estimated FY 2023-24
Revenue:			
Beginning Balance	\$2,922.3	\$4,514.9	\$4,118.3
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (Jan. 2022)	\$16,078.2	\$16,246.6	16,557.7
Consensus Revenue Change (May 2022)	1,262.4	948.7	887.2
Consensus Revenue Estimate (May 2022)	17,340.6	17,195.3	17,444.9
CREC Forecast Revenue Change (Jan 2023)	484.6	439.8	401.1
CREC Forecast Revenue Estimate (Jan 2023)	\$17,825.2	\$17,635.1	\$17,846.0
<u>Other Revenue Adjustments:</u>			
Adjustments	\$0.0	\$0.0	\$0.0
General Fund/General Purpose (GF/GP) Grant	98.1	49.6	49.6
Community District Education Trust Fund	72.0	72.0	72.0
Federal Ongoing Aid	1,822.5	2,191.2	2,242.2
Subtotal Ongoing Revenue	\$19,817.8	\$19,947.9	\$20,209.8
<u>Non-ongoing Revenue:</u>			
Federal Stimulus	\$202.0	\$414.2	\$0.0
Additional Federal Funds	420.7	0.0	0.0
MPSERS Reserve Fund	0.0	140.4	110.0
Additional One-Time GF	45.0	74.6	0.0
GF/GP for DPSCD Addtl Cost Exceeding CDTF \$72m/yr	14.6	22.4	22.4
Subtotal Non-Ongoing Revenue	\$682.3	\$651.6	\$132.4
Total Estimated School Aid Fund Revenue.....	\$23,422.4	\$25,114.4	\$24,460.6
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 State Appropriations	\$14,528.5	\$15,457.2	\$15,535.7
School Aid Federal Funds	2,024.5	2,274.2	2,242.2
State Funds Cost Adjustments (May 2022/Jan 2023)	(355.7)	78.5	287.9
Federal Funds Cost Adjustments (May 2022)	368.7	0.0	0.0
Fund Community Colleges with SAF	428.2	448.6	454.6
Partially Fund Higher Education with SAF	361.4	347.9	347.9
Subtotal Ongoing Appropriations	\$17,355.6	\$18,606.4	\$18,868.3
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$425.1	\$1,871.3	\$110.0
Initial One-Time Community College Appropriations	3.2	81.2	0.0
Fund deposits (MPSERS, Consolidation, Teacher Recruitment)	755.0	425.0	0.0
University MPSERS	300.0	0.0	0.0
FY 22 and FY 23 Supplementals	134.7	12.2	0.0
Lapses	(66.1)	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$1,552.0	\$2,389.7	\$110.0
Total Estimated School Aid Fund Expenditures.....	\$18,907.5	\$20,996.1	\$18,978.3
PROJECTED YEAR-END SAF BALANCE (Total)	\$4,514.9	\$4,118.3	\$5,482.2
PROJECTED YEAR-END SAF BALANCE (Ongoing)		\$1,420.0	\$1,629.4
PROJECTED YEAR-END SAF BALANCE (One-Time)		\$2,698.3	\$3,852.8

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