

MEMORANDUM

DATE: May 21, 2021
TO: Members of the Michigan Senate
FROM: Christopher Harkins, Director
RE: May Consensus Revenue Year-End Balance Estimates

Based on the revised consensus revenue estimates agreed to on May 21, 2021, the enacted fiscal year (FY) 2020-21 appropriations, pending supplementals, and projected State appropriations based on Senate-passed FY 2021-22 budgets, the Senate Fiscal Agency (SFA) has revised its estimates of the year-end balances in the FY 2020-21, FY 2021-22, and FY 2022-23 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. This memorandum provides a summary of these revised estimates.

FY 2020-21 Year-End Balance Estimates

The initial FY 2020-21 budget approved by the Legislature was based on an August 2020 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2021 reflected an increase from the August 2020 estimate for both GF/GP and SAF revenue, allowing continued surpluses in both budgets. The May 2021 consensus estimate of FY 2020-21 GF/GP revenue was increased by \$1.0 billion from the January 2021 consensus revenue estimate, while consensus SAF revenue also was increased by \$1.0 billion. The May consensus estimates coupled with enacted appropriations and SFA projected expenditures for May 2021 resulted in a projected year-end balance of \$2.8 billion GF/GP and \$1.7 billion SAF.

The FY 2020-21 GF/GP revenue is increased by \$1.0 billion from the January consensus revenue estimate. In addition to the estimated increase in ongoing revenue, the SFA's FY 2020-21 estimated GF/GP revenue total of \$13.3 billion includes \$2.4 billion of surplus revenue carried forward from FY 2019-20; a negative adjustment totaling \$490.1 million to reflect statutory State revenue sharing payments; a balance sheet adjustment to increase unassigned fund balances that were equally reduced in FY 2019-20; \$5.7 million of reimbursement for the implementation of recreational marijuana; \$2.6 million reduction from redirection of restricted revenue; and a transfer of \$800,000 of GF/GP-equivalent funds to the GF.

The FY 2020-21 SAF revenue is increased by \$1.0 billion from the January consensus estimate. The SFA's FY 2020-21 estimated SAF revenue total of \$20.4 billion includes \$1.2 billion of surplus revenue carried forward from FY 2019-20; \$15.0 billion of restricted SAF revenue; a \$51.0 million GF/GP grant; \$79.8 million from the Community District Education Trust Fund (CDTF); and \$1.8 billion of ongoing Federal aid. Additionally, the SAF revenue total includes one-time increases of \$2.3 billion from Federal COVID-19 funding.

The projected level of FY 2020-21 GF/GP expenditures includes initial ongoing appropriations of \$10.3 billion; initial one-time appropriations of \$272.3 million; enacted supplemental appropriations of \$320.3 million; caseload and cost reductions from the May consensus, adjusted to reflect Senate-passed budgets, of \$7.5 million in the Department of Health and Human Services (DHHS); a revised total GF/GP savings of \$631.1 million resulting from increased Federal match related to the COVID-19 pandemic

through the end of the fiscal year; a \$62.8 million repayment to the Federal government for disallowed psychiatric disproportionate share hospital (DSH) payments; \$35.0 million deposit into the Budget Stabilization Fund, \$77.2 million of pending Senate supplementals; and a restricted fund shift of \$13.0 million. Comparing estimated GF/GP revenue to year-to-date GF/GP appropriations, adjusted for SFA assumptions, results in a projected year-end GF/GP balance of \$2.8 billion.

The estimated \$18.7 billion level of SAF expenditures includes initial enacted K-12 appropriations of \$15.4 billion; consensus cost adjustment reductions of \$39.2 million; initial one-time appropriations of \$95.0 million; enacted supplemental adjustments of \$1.0 billion; \$1.4 billion in pending Federal COVID-19-related appropriations; Community College operations funding of \$425.7 million; and partial Higher Education operations funding of \$356.1 million. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF surplus of \$1.7 billion. Combined, the FY 2020-21 GF/GP and SAF are projected at a \$4.6 billion year-end surplus.

FY 2021-22 Year-End Balance Estimates

The May 2021 consensus estimate of FY 2021-22 GF/GP revenue is increased by \$776.0 million from the January 2021 consensus revenue estimate while consensus SAF revenue is increased by \$707.3 million. The SFA's estimated FY 2021-22 GF/GP and SAF balance sheets use the Senate-passed budget bills for FY 2021-22 as a base for expenditures. The SFA's FY 2021-22 estimated GF/GP revenue total of \$14.1 billion includes \$2.8 billion of FY 2020-21 year-end carried forward; consensus revenue of \$11.7 billion; Senate-passed FY 2021-22 statutory revenue sharing payments of \$490.5 million and \$9.8 million of statutory revenue sharing increases, which reduce GF/GP revenue by that amount; \$75.0 million in positive revenue adjustment from the continued repurchase of Venture Michigan Fund II vouchers; and \$2.6 million in the redirection of available restricted revenue. The FY 2021-22 estimated SAF revenue total of \$18.8 billion includes \$1.7 billion of FY 2020-21 projected year-end balance carried forward; \$15.1 billion of restricted SAF revenue; a \$50.3 million GF/GP grant; \$72.0 million from the CDTF; \$1.8 billion of ongoing Federal aid; and \$13.6 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

The SFA's estimated \$11.1 billion level of FY 2021-22 GF/GP expenditures includes a Senate-passed ongoing initial appropriation of \$11.1 billion, with an estimated \$156.7 million of one-time appropriations. The GF/GP expenditures also include May revisions to previous consensus caseloads in the DHHS, adjusted for Senate-passed budgets, to increase costs by \$484,000; revised savings estimates to the continuation of Federal match related to the COVID-19 pandemic through the first quarter of the fiscal year that reduce GF/GP expenditures by \$220.9 million; \$13.6 million of additional GF/GP obligation for expenditures exceeding the revenue from the CDTF; employee economic increases of \$3.1 million; State Building Authority savings of \$14.7 million; \$68.2 million continued repayment to the Federal government for DSH payments; and \$35.0 million of first-year costs associated with the Flint Settlement Debt payments. Comparing estimated GF/GP revenue with Senate-passed GF/GP appropriations results in a revised projected year-end GF/GP balance of \$3.0 billion.

The SFA's estimated \$16.5 billion level of SAF expenditures are the Senate-passed FY 2021-22 appropriations, adjusted for consensus cost savings of \$24.0 million, and SAF appropriations for Community Colleges (\$434.7 million) and Higher education (\$361.4 million). Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$2.3 billion.

FY 2022-23 Year-End Balance Estimates

The May 2021 consensus estimate of FY 2022-23 GF/GP revenue is increased by \$1.1 billion from the January 2021 consensus revenue estimate, and consensus SAF revenue is increased by \$697.2 million.

The FY 2022-23 estimated GF/GP revenue total of \$14.8 billion includes \$12.3 billion of consensus revenue, the assumed continuation of the Senate-passed FY 2021-22 statutory State Revenue Sharing payments totaling \$500.3 million, and \$75.0 million from the repurchase of Venture Michigan Fund II vouchers. The FY 2021-22 estimated SAF revenue total of \$19.6 billion includes \$2.3 billion of projected year-end carry-forward from FY 2021-22; consensus revenue of \$15.4 billion; a continuation of the \$50.3 million GF/GP grant; \$72.0 million from the CDTF; \$1.8 billion of Federal aid; and \$15.6 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

The estimated \$11.0 billion level of FY 2022-23 GF/GP expenditures includes the ongoing appropriations assumed to continue from the Senate-passed FY 2021-22 budget bills; an increase of \$506,900 from consensus caseload increases, adjusted for Senate-passed budgets; \$15.6 million to cover costs estimated to exceed revenue from the CDTF; \$35.0 million to continue the Flint Settlement Debt service; and \$70.0 million in estimated other current service budget adjustments. Comparing estimated GF/GP revenue to estimated GF/GP expenditures results in a projected year-end GF/GP balance of \$3.6 billion.

The estimated \$16.5 billion level of SAF expenditures includes the continuation of the Senate-passed FY 2021-22 budget bills, consensus cost reductions of \$68.8 million, and the continued use of SAF funds for Community College and Higher Education at \$440.8 million and \$362.5 million, respectively. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$3.2 billion.

Tables 1 and 2 provide a three-year summary of the projected year-end balances for the GF/GP and SAF budgets, respectively. It also should be noted that any actions taken to increase expenditures in FY 2020-21 will reduce the available carry-forward in future years. Similarly, changes from the FY 2021-22 Senate-passed budget bills will affect potential year-end balances and the amount of carry-forward into future years.

If you have any questions on these revised SFA estimates, please do not hesitate to contact me at 373-5300 or charkins@senate.michigan.gov.

Table 1
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
 (millions of dollars)

	SFA Estimates		
	FY 2020-21 Year-To- Date	FY 2021-22 SFA Estimate	FY 2022-23 SFA Estimate
Revenue:			
Beginning Balance	\$2,363.1	\$2,848.7	\$2,978.5
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2021).....	\$10,237.5	\$10,897.1	\$11,167.1
Consensus Revenue Estimate Change	<u>1,039.3</u>	<u>776.0</u>	<u>1,103.6</u>
Consensus Revenue Estimate (May 2021).....	\$11,276.8	\$11,673.1	\$12,270.7
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments.....	(\$490.1)	(\$490.5)	(\$490.5)
Sen. Passed Revenue Sharing increase	0.0	(9.8)	(9.8)
VMF II Voucher Purchase.....	<u>0.0</u>	<u>75.0</u>	<u>75.0</u>
Subtotal Ongoing Revenue.....	\$10,786.7	\$11,247.8	\$11,845.4
<u>Non-ongoing Revenue:</u>			
Implementation of Recreational Marijuana.....	\$5.7	0.0	0.0
Increase unassigned fund balance- inventory.....	155.9	0.0	0.0
GF-equivalent restricted revenue	0.8	0.0	0.0
Redirection of Restricted Revenue	<u>(2.6)</u>	<u>(2.6)</u>	<u>0.0</u>
Subtotal Non-Ongoing Revenue.....	\$159.8	(\$2.6)	0.0
Total Estimated GF/GP Revenue.....	\$13,309.6	\$14,093.9	\$14,823.9
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial/Senate-Passed.....	<u>\$10,329.9</u>	<u>\$11,079.3</u>	<u>\$11,038.5</u>
Subtotal Ongoing Appropriations.....	\$10,329.9	\$11,079.3	\$11,038.5
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$272.3	\$156.7	\$0.0
Consensus DHHS (May '21 adjusted for Sen.-passed)	7.5	0.5	0.5
Budget Stabilization Fund Deposit	35.0	0.0	0.0
Enacted Supplementals	320.3	0.0	0.0
Pending Senate Supplementals (SB36,37).....	77.2	0.0	0.0
Est. GF/GP Offset for COVID-19 FMAP Adj. (Q2'21-Q1'22)	(631.1)	(220.9)	0.0
GF/GP for DPSCD Add'l Cost Exceeding CDTF \$72m/yr	0.0	13.6	15.6
Restricted revenue reduction	(13.0)	0.0	0.0
Defined calculations	0.0	3.1	0.0
State Building Authority rent	0.0	(14.7)	0.0
Flint Settlement Debt Service.....	0.0	35.0	35.0
Reimbursement of Federal Disallowed Psych DHS costs	62.8	62.8	62.8
Other CSB Adjustments	<u>0.0</u>	<u>0.0</u>	<u>70.0</u>
Subtotal One-Time and Other Appropriations	\$131.0	\$36.1	\$183.9
Total Estimated GF/GP Expenditures.....	\$10,460.9	\$11,115.4	\$11,222.4
PROJECTED YEAR-END GF/GP BALANCE	\$2,848.7	\$2,978.5	\$3,601.5

Table 2
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
 (millions of dollars)

	SFA Estimates		
	FY 2020-21 Year-To- Date	FY 2021-22 SFA Estimate	FY 2022-23 SFA Estimate
Revenue:			
Beginning Balance.....	\$1,177.4	\$1,714.2	\$2,256.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2021)	\$14,030.2	\$14,423.7	\$14,730.4
Consensus Revenue Estimate Change.....	<u>1,002.2</u>	<u>707.3</u>	<u>697.2</u>
Consensus Revenue Estimate (May 2021)	\$15,032.4	\$15,131.0	\$15,427.6
Other Revenue Adjustments:			
General Fund/General Purpose Grant.....	\$51.0	\$50.3	\$50.3
Community District Education Trust Fund	79.8	72.0	72.0
Federal Ongoing Aid	<u>1,806.9</u>	<u>1,822.5</u>	<u>1,822.5</u>
Subtotal Ongoing Revenue	\$16,970.0	\$17,075.8	\$17,372.4
Non-Ongoing Revenue:			
Federal Stimulus (PA 3 of 2021 and pending SB 216)	\$2,267.8	\$0.0	\$0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF \$72m/yr	<u>0.0</u>	<u>13.6</u>	<u>15.6</u>
Subtotal Non-Ongoing Revenue	\$2,267.8	\$13.6	\$15.6
Total Estimated School Aid Fund Revenue	\$20,415.3	\$18,803.5	\$19,644.0
Expenditures:			
Ongoing Appropriations:			
Initial K-12/Senate-Passed Appropriations	\$15,430.2	\$15,775.5	\$15,751.5
Consensus Cost Adjustments	(39.2)	(24.0)	(68.8)
Fund Community Colleges with SAF	425.7	434.7	440.8
Partially Fund Higher Education with SAF	<u>356.1</u>	<u>361.4</u>	<u>362.5</u>
Subtotal Ongoing Appropriations.....	\$16,172.7	\$16,547.6	\$16,486.0
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	\$95.0	\$0.0	\$0.0
Enacted Supplementals (PA 3 of 2021)	1,009.2	0.0	0.0
Pending Senate Supplemental (SB 216 and Fed IDEA, lunch)...	<u>1,424.3</u>	<u>0.0</u>	<u>0.0</u>
Subtotal One-Time and Other Appropriations.....	\$2,528.4	\$0.0	\$0.0
Total Estimated School Aid Fund Expenditures	\$18,701.2	\$16,547.6	\$16,486.0
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$1,714.2	\$2,256.0	\$3,157.9

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