

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 17, 2016
TO: Members of the Senate
FROM: Ellen Jeffries, Director
RE: Consensus Revenue Year-End Balance Estimates

Based on the revised consensus revenue estimates agreed to on May 17, 2016, enacted and projected State appropriations based on FY 2016-17 Senate-passed budgets, and the assumption that the Governor's proposal to adjust insurance tax credits is enacted, the Senate Fiscal Agency (SFA) has revised its estimates of the year-end balances in the fiscal year (FY) 2015-16, FY 2016-17, and FY 2017-18 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. This memorandum provides a brief summary of these revised estimates.

FY 2015-16 Year-End Balance Estimates

The initial FY 2015-16 budget approved by the Legislature was based on a May 2015 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2016 reflected decreases from the May 2015 estimates of \$38.1 million and \$111.3 million, respectively, in GF/GP and SAF revenue, while still allowing surpluses in both the GF/GP and SAF budgets. Under current law, ending balances for both the GF/GP budget and the SAF budget are carried forward into the ensuing fiscal year, and have already been built into the FY 2016-17 budgets proposed by the Governor and the Legislature.

The May 2016 consensus estimate of current-law FY 2015-16 GF/GP revenue is down by \$109.7 million from the January 2016 consensus revenue estimate, while current-law SAF revenue is down by \$64.2 million. The FY 2015-16 estimated GF/GP revenue total of \$10.4 billion includes \$694.7 million of surplus revenue carried forward from FY 2014-15, negative adjustments of \$468.5 million to reflect statutory State revenue sharing payments (both ongoing and one-time), the shift of \$1.0 million in short-term borrowing costs to the School Aid Fund, \$421.0 million of assumed revenue from the Medicaid managed care use tax, and \$60.0 million of revenue retained if proposed statutory adjustments to insurance tax credits are enacted. The FY 2015-16 estimated SAF revenue total of \$14.3 billion includes \$190.2 million of surplus revenue carried forward from FY 2014-15, \$12.1 billion of restricted SAF revenue, a \$45.9 million GF/GP grant, \$9.2 million GF/GP for Early On services related to the Flint water emergency, \$210.5 million from the Medicaid managed care use tax, and \$1.8 billion of ongoing Federal aid.

The projected level of FY 2015-16 GF/GP expenditures includes initial appropriations of \$10.0 billion; supplemental appropriations that encompass \$160.8 million (enacted and pending) for the Flint drinking water emergency and \$186.1 million of other pending appropriations recommended by the Governor; the replacement of \$3.7 million of Merit Award Trust Fund revenue with GF/GP revenue; projected caseload and cost savings of \$4.7 million in the Department of Education's Child Development and Care Program and projected caseload and cost increases in the Department of Health and Human Services of \$87.9 million; and an estimated year-end lapse amount of \$128.8 million. Comparing estimated GF/GP revenue to estimated GF/GP expenditures

results in a projected year-end GF/GP balance of \$168.2 million. The estimated \$14.2 billion level of SAF expenditures includes enacted appropriations of \$14.4 billion; supplemental requests that total a negative \$54.4 million; consensus cost adjustments that increase costs by \$4.0 million; and a School Bond Loan Program adjustment that results in savings of \$89.0 million. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$75.9 million.

FY 2016-17 Year-End Balance Estimates

The May 2016 consensus estimate of current-law FY 2016-17 GF/GP revenue is down by \$75.4 million from the January 2016 consensus revenue estimate while current-law SAF revenue is down by \$83.8 million. The FY 2016-17 estimated GF/GP revenue total of \$10.0 billion includes \$168.2 million of surplus revenue carried forward from FY 2015-16; consensus revenue of \$10.1 billion; a negative adjustment of \$474.4 million to reflect statutory State revenue sharing payments (both ongoing and one-time); the shift of \$3.0 million in short-term borrowing costs to the SAF; \$105.8 million of Medicaid managed care use tax revenue; \$80.0 million of revenue from proposed statutory adjustments to insurance tax credits; and \$38.2 million to pay for Venture Michigan Fund tax voucher liabilities. The FY 2016-17 estimated SAF revenue total of \$14.6 billion includes \$75.9 million of surplus revenue carried forward from FY 2015-16; a \$226.0 million GF/GP grant; \$52.9 million of Medicaid managed care use tax revenue; Federal aid of \$1.8 billion; and \$11.8 million to pay for Venture Michigan Fund tax voucher liabilities.

The projected \$10.1 billion level of FY 2016-17 GF/GP expenditures includes Senate-passed appropriations of \$10.0 billion; \$51.0 million of GF/GP revenue primarily to replace Michigan Merit Award Trust Fund revenue that was used in FY 2015-16 for Detroit Public Schools cash flow funding; projected caseload and cost savings of \$4.7 million in the Department of Education's Child Development and Care Program and projected caseload and cost increases in the Department of Health and Human Services of \$33.7 million; and consensus estimates of \$18.7 million for an increase in HICA rebates and \$14.9 million to adjust actuarial soundness payments related to the expiration of the Medicaid managed care use tax. Comparing estimated GF/GP revenue with estimated Senate-passed GF/GP expenditures results in a projected negative year-end GF/GP balance of \$160.3 million. The estimated \$14.6 billion level of SAF expenditures are the Senate-passed appropriations because there were no consensus cost adjustments. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of a negative \$40.6 million. Pursuant to constitutional requirements, the negative projected ending balances for both the GF/GP and SAF budgets would need to be resolved during deliberations on the FY 2016-17 budget.

FY 2017-18 Year-End Balances

The May 2016 consensus estimate of current-law FY 2017-18 GF/GP revenue is up by \$7.8 million from the January 2016 consensus revenue estimate, while current-law SAF revenue is down by \$70.3 million. The FY 2017-18 estimated GF/GP revenue total of \$10.2 billion includes a beginning balance of zero; \$10.6 billion of consensus revenue; a negative adjustment of \$469.0 million to reflect statutory State revenue sharing payments (based on the Governor's recommendation); the shift of \$4.0 million in short-term borrowing costs to the SAF; the elimination of Medicaid managed care use tax revenue (which is expected to sunset on January 1, 2017); and \$80.0 million of revenue from proposed statutory adjustments to

insurance tax credits. The FY 2017-18 estimated SAF revenue total of \$14.7 billion, based on the Governor's recommendation, includes consensus revenue of \$12.8 billion; a \$57.4 million GF/GP grant; \$72.0 million from the Detroit Public Schools Trust Fund; the elimination of Medicaid managed care use tax revenue; and \$1.8 billion of Federal aid.

The estimated \$9.9 billion level of FY 2017-18 GF/GP expenditures includes the Governor's FY 2017-18 recommendation for ongoing appropriations and \$29.6 million of projected consensus caseload and cost estimates in the Departments of Education (\$4.7 million savings) and Health and Human Services (\$34.3 million cost). Comparing estimated GF/GP revenue to estimated GF/GP expenditures results in a projected year-end GF/GP balance of \$287.6 million. The estimated \$14.6 billion level of SAF expenditures includes FY 2017-18 appropriations based on the Governor's recommendation, consensus cost adjustments of a negative \$3.0 million, and cost adjustments of a positive \$5.5 million for the Governor's recommended change in pupil blends. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$113.3 million.

Tables 1 and 2 provide a three-year summary of the projected year-end balances for the GF/GP and SAF budgets, respectively. Table 3 outlines the Governor's FY 2016-17 Adjusted Gross and GF/GP appropriation recommendations by budget area, compared with the Senate-passed appropriations.

If you have any questions on these revised SFA estimates, please don't hesitate to contact me at 373-5300 or ejeffries@senate.michigan.gov.

/kjh

Attachments

Table 1
General Fund/General Purpose (GF/GP)
Revenue, Expenditures, and Year-End Balance Estimates
(Millions of Dollars)

	FY 2015-16	FY 2016-17	FY 2017-18
	Gov's Rec.	Sen-Passed	Gov's Rec.
Revenue:			
Beginning Balance	\$694.7	\$168.2	\$0.0
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2016).....	\$9,843.8	\$10,213.9	\$10,599.3
May 2016 Revenue Estimate Change	<u>(109.7)</u>	<u>(75.4)</u>	<u>7.8</u>
Consensus Revenue Estimate (May 2016).....	\$9,734.1	\$10,138.5	\$10,607.1
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(462.7)	(469.0)	(469.0)
Shift of Borrowing Costs to School Aid Fund.....	1.0	3.0	4.0
Medicaid Managed Care Use Tax	421.0	105.8	0.0
Insurance Tax Credit Amendments	<u>60.0</u>	<u>80.0</u>	<u>80.0</u>
Subtotal Ongoing Revenue	\$9,753.4	\$9,858.3	\$10,222.1
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(5.8)	(5.4)	0.0
Venture Michigan Fund Tax Vouchers.....	0.0	(38.2)	0.0
Total Estimated GF/GP Revenue	\$10,442.3	\$9,982.9	\$10,222.1
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations	\$9,517.8	\$9,700.9	\$9,689.9
<u>One-Time and Other Appropriations:</u>			
Initial One-Time Appropriations	\$98.3	\$318.2	\$0.0
Initial One-Time Appropriation for Transportation	258.0	10.4	0.0
Appropriation to Budget Stabilization Fund	95.0	0.0	0.0
Enacted Supplementals	35.0	0.0	0.0
Supplemental Request #2016-4 (Michigan Infrastructure Fund)	165.0	0.0	0.0
Supplemental Request #2016-4 (Multiple Departments).....	15.9	0.0	0.0
PA 24 of 2016-Flint Water Emergency Water Bill Credits	30.0	0.0	0.0
SB 777-Flint Water Emergency (Request #2016-6)	91.8	0.0	0.0
SB 777-Flint Water Emergency-K-12 Early On (Request #2016-7)	9.2	0.0	0.0
Replace Merit Award Trust Fund with General Fund	3.7	51.0	0.0
Caseload/Cost Adjustments for DOE (savings)/DHHS (costs)	83.2	29.0	29.6
Increase for Health Insurance Claims Assessment Rebate	0.0	18.7	0.0
Adjust Actuarial Soundness for DHHS Use Tax Expiration.....	0.0	14.9	0.0
Estimated Average Baseline Adjustments.....	0.0	0.0	215.0
Estimated Lapses	<u>(128.8)</u>	<u>0.0</u>	<u>0.0</u>
Subtotal One-Time and Other Appropriations	\$756.3	\$442.3	\$244.6
Total Estimated GF/GP Expenditures	\$10,274.1	\$10,143.1	\$9,934.5
PROJECTED YEAR-END GF/GP BALANCE.....	\$168.2	(\$160.3)	\$287.6

Table 2
School Aid Fund (GF/GP)
Revenue, Expenditures, and Year-End Balance Estimates
(Millions of Dollars)

	FY 2015-16	FY 2016-17	FY 2017-18
	Gov's Rec.	Sen-Passed	Gov's Rec.
Revenue:			
Beginning Balance	\$190.2	\$75.9	\$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2016).....	\$12,131.6	\$12,486.2	\$12,831.1
May 2016 Revenue Estimate Change	<u>(64.2)</u>	<u>(83.8)</u>	<u>(70.3)</u>
Consensus Revenue Estimate (May 2016).....	\$12,067.4	\$12,402.4	\$12,760.8
Other Revenue Adjustments:			
General Fund/General Purpose Grant.....	45.9	226.0	57.4
General Fund Supplemental Request 2016-7 (Flint Early On).....	9.2	0.0	0.0
Detroit Public Schools Trust Fund	0.0	0.0	72.0
Medicaid Managed Care Use Tax	210.5	52.9	0.0
Federal Ongoing Aid.....	<u>1,775.8</u>	<u>1,818.6</u>	<u>1,818.6</u>
Subtotal Ongoing Revenue	\$14,108.8	\$14,499.9	\$14,708.8
Non-ongoing Revenue:			
Venture Michigan Fund Tax Vouchers.....	0.0	(11.8)	0.0
Total Estimated School Aid Fund Revenue.....	\$14,299.0	\$14,564.0	\$14,708.8
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	\$13,846.5	\$14,071.5	\$14,093.3
Enacted Supplementals	4.3	0.0	0.0
Supplemental Request 2016-5 (Cost Adjustments)	(73.6)	0.0	0.0
Consensus Cost Adjustments (May 2016)	4.0	0.0	(3.0)
Additional Costs to Change Pupil Blend.....	0.0	0.0	5.5
Partially Fund Community Colleges with School Aid Fund.....	256.7	260.4	260.9
Partially Fund Higher Education with School Aid Fund	<u>205.2</u>	<u>237.1</u>	<u>237.3</u>
Subtotal Ongoing Appropriations	\$14,243.1	\$14,569.0	\$14,594.0
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations.....	49.8	35.6	1.5
Supplemental Request 2016-5 (Water Testing/Reform Office)	10.0	0.0	0.0
Supplemental Request 2016-7 (Flint Early On Services)	9.2	0.0	0.0
School Bond Loan Fund Adjustment	<u>(89.0)</u>	<u>0.0</u>	<u>0.0</u>
Subtotal One-Time and Other Appropriations.....	(\$20.0)	\$35.6	\$1.5
Total Estimated School Aid Fund Expenditures	\$14,223.1	\$14,604.6	\$14,595.5
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$75.9	(\$40.6)	\$113.3

Table 3

FY 2016-17 ADJUSTED GROSS AND GF/GP APPROPRIATIONS GOVERNOR'S REVISED RECOMMENDATION VERSUS SENATE-PASSED APPROPRIATIONS						
Department/Budget Area	Adjusted Gross Appropriations			GF/GP Appropriations		
	Governor's Revised Rec.	Senate-Passed	Adjusted Gross \$ Difference	Governor's Revised Rec.	Senate-Passed	GF/GP \$ Difference
Agriculture and Rural Development	\$91,268,100	\$92,768,100	\$1,500,000	\$48,036,900	\$49,536,900	\$1,500,000
Attorney General	66,196,100	68,096,100	1,900,000	39,140,500	41,040,500	1,900,000
Civil Rights	15,954,900	16,453,300	498,400	13,021,300	13,519,700	498,400
Community Colleges	399,025,600	399,025,600	0	138,610,800	138,610,800	0
Corrections	2,029,386,100	2,020,807,400	(8,578,700)	1,979,457,900	1,969,457,900	(10,000,000)
Education	316,917,400	321,709,200	4,791,800	76,381,200	80,381,300	4,000,100
Environmental Quality	504,273,700	504,273,700	0	47,686,400	47,686,400	0
Executive	5,636,300	5,636,300	0	5,636,300	5,636,300	0
Health and Human Services	24,694,454,000	24,770,347,700	75,893,700	4,355,003,000	4,350,767,400	(4,235,600)
Higher Education	1,598,654,400	1,599,807,200	1,152,800	1,262,418,500	1,262,418,500	0
Insurance and Financial Services	65,599,600	65,599,600	0	150,000	150,000	0
Judiciary	297,584,000	295,861,400	(1,722,600)	190,057,400	188,334,800	(1,722,600)
Legislative Auditor General	17,893,300	17,893,300	0	15,923,900	15,923,900	0
Legislature	141,253,600	142,753,600	1,500,000	136,577,800	138,077,800	1,500,000
Licensing and Regulatory Affairs	369,621,600	372,659,400	3,037,800	42,791,100	45,813,200	3,022,100
Military and Veterans Affairs	175,898,400	176,608,400	710,000	57,143,600	57,643,600	500,000
Natural Resources	396,528,200	396,778,200	250,000	39,560,000	39,810,000	250,000
School Aid	14,183,112,100	14,107,112,300	(75,999,800)	230,000,000	226,000,000	(4,000,000)
State	238,015,600	218,915,600	(19,100,000)	27,109,600	27,109,600	0
State Police	632,145,700	635,976,100	3,830,400	411,912,800	415,743,200	3,830,400
Talent and Economic Development	1,142,494,300	1,141,680,500	(813,800)	170,088,900	169,275,100	(813,800)
Technology, Management, and Budget	623,687,600	622,087,200	(1,600,400)	504,918,600	500,468,200	(4,450,400)
Transportation	4,121,190,200	4,021,190,200	(100,000,000)	10,400,000	10,400,000	0
Treasury-Debt Service	137,037,000	137,037,000	0	137,037,000	137,037,000	0
Treasury-Operations	506,750,900	507,739,300	988,400	97,908,800	98,408,900	500,100
Treasury-Revenue Sharing	1,255,708,900	1,255,955,300	246,400	0	246,400	246,400
TOTAL BUDGET AREA APPROPS.	\$54,026,287,600	\$53,914,772,000	(\$111,515,600)	\$10,036,972,300	\$10,029,497,400	(\$7,474,900)