

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 14, 2016
TO: Members of the Senate
FROM: Ellen Jeffries, 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) 2014-15, FY 2015-16, and FY 2016-17. An agreement also was reached on the first consensus estimate of FY 2017-18 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 in the FY 2014-15, FY 2015-16, and FY 2016-17 GF/GP and SAF budgets. This memorandum provides a brief summary of these revised SFA estimates.

FY 2014-15 Year-End Balance Estimates

The FY 2014-15 State budget was originally based on consensus revenue estimates agreed to in May 2014. At that time, the GF/GP year-end balance was projected to be \$4.3 million, and the projected SAF year-end balance was \$0.2 million. The FY 2014-15 comprehensive annual financial report (commonly referred to as the CAFR) was published on January 12, 2016, and based on this report, the FY 2014-15 GF/GP budget closed the fiscal year with a \$694.7 million balance. The FY 2014-15 SAF budget closed the fiscal year with a \$190.1 million balance.

The first column of [Table 1](#) provides a summary of the current SFA estimate of a \$694.7 million balance in the FY 2014-15 GF/GP budget. The first column of [Table 2](#) provides a summary of the SFA's estimate of a \$190.1 million year-end balance in the FY 2014-15 SAF budget. Pursuant to statutory requirements, the amounts of the year-end balances will carry forward and be available as FY 2015-16 revenue sources. It should be noted that year-end balances of \$170.1 million GF/GP and \$140.5 million SAF had been assumed in June 2015 when the FY 2015-16 budget was being finalized, and were factored into the FY 2015-16 spending plan.

The revised FY 2014-15 balance sheets in this memo include \$524.6 million more in the GF/GP carry-forward year-end balance and \$49.6 million more in the SAF carry-forward year-end balance, than the June 2015 estimate. Of the \$524.6 million-higher GF/GP carry-forward balance, \$309.5 million was due to changes in revenue from the May 2015 consensus and from book-closing revenue adjustments, and actual revenue collected from the managed care use tax was \$28.5 million higher than estimated. These revenue changes were accompanied by higher-than-anticipated year-end lapses of \$201.6 million. Also of note is that of the \$309.5 million revenue change from the May 2015 consensus, approximately \$111.7 million can be attributed to Michigan Business Tax credits that were not posted as part of the FY 2014-15 book-closing process, but will be recognized in FY 2015-16. The SAF's FY 2014-15 year-end balance increase of \$49.6 million from June 2015 is attributed to a revenue loss of \$136.1 million, actual revenue collected from the managed care use tax that was \$17.0 million higher than estimated, book-closing revenue adjustment of a positive \$20.0 million, and cost adjustments and year-end lapses of \$148.7 million that lowered expenditures compared to the June 2015 estimates.

FY 2015-16 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA is now estimating that the FY 2015-16 GF/GP budget year-end balance will be \$495.3 million. The second column of [Table 1](#) provides a summary of this estimate. The estimate includes a projected \$694.7 million budget surplus carried forward from FY 2014-15. The current consensus estimate of FY 2015-16 GF/GP revenue represents a \$38.1 million decrease from the May 2015 consensus revenue estimate upon which the FY 2015-16 budget was based. The SFA estimate of \$10.0 billion for FY 2015-16 GF/GP expenditures has not changed from the estimate published in the SFA's Economic and Budget Review on December 21, 2015. Comparing the January 2016 GF/GP consensus revenue estimate to the SFA's estimate of FY 2015-16 GF/GP expenditures results in a projected year-end balance of \$495.3 million.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA is now estimating that the FY 2015-16 SAF budget will have a year-end balance of \$45.4 million. The second column of [Table 2](#) provides a summary of this estimate. This estimate includes a projected \$190.1 million budget surplus carried forward from FY 2014-15. The current consensus estimate of FY 2015-16 SAF revenue represents a \$111.3 million decrease from the May 2015 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 2015-16 by \$49.1 million. Comparing the January 2016 SAF consensus revenue estimate to the SFA's estimate of FY 2015-16 SAF expenditures results in a projected ending balance of \$45.4 million.

FY 2016-17 State Budget Outlook

Pursuant to statutory requirements, the Governor must submit a detailed FY 2016-17 State budget recommendation to the Legislature no later than February 12, 2016. This State budget recommendation will continue the debate on the FY 2016-17 State budget. On February 11, 2015, Governor Snyder presented his FY 2015-16 budget and his projections for FY 2016-17. The Legislature subsequently enacted an FY 2015-16 State budget and included language within that budget expressing intent to provide FY 2016-17 appropriations that would be the same as those for FY 2015-16, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2015-16 GF/GP revenue and expenditures produce a projected FY 2016-17 beginning balance of \$495.3 million. If this beginning balance is combined with the January 2016 consensus revenue estimate of \$10.2 billion, and if FY 2016-17 ongoing and one-time appropriations are assumed to remain at the same levels as those of FY 2015-16, with adjustments for caseload, costs, and economic factors, there will be an FY 2016-17 projected year-end GF/GP balance of \$141.3 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 2016-17 SAF budget. The estimated FY 2015-16 SAF revenue and expenditures result in a projected ending balance of \$45.4 million. If this balance is carried forward into FY 2016-17 and is combined with \$12.5 billion of consensus revenue, and if FY 2016-17 SAF expenditures are continued at the FY 2015-16 appropriation level with consensus adjustments for pupils, local property tax valuations, and other costs, there will be an FY 2016-17 projected year-end balance of \$69.7 million. The FY 2016-17 total estimated SAF expenditures assume the continuation of SAF appropriations of \$260.4 million for community colleges and \$205.9 million for universities.

Summary

[Tables 1](#) and [2](#) summarize the projected year-end balances for all three fiscal years, for the GF/GP and School Aid Fund budgets, respectively.

Table 1
FY 2014-15, FY 2015-16, AND FY 2016-17
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2014-15	FY 2015-16	FY 2016-17
Revenue:			
Beginning Balance	\$306.4	\$694.7	\$495.3
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2015)	\$9,724.9	\$9,881.9	\$10,121.5
January 2016 Revenue Estimate Change	309.5	(38.1)	92.4
Consensus Revenue Estimate (Jan. 2016)	\$10,034.4	\$9,843.8	\$10,213.9
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(459.2)	(462.7)	(463.1)
Shift of Borrowing Costs to School Aid Fund	0.0	2.0	3.0
Medicaid Managed Care Use Tax	403.3	420.0	108.0
Data Centers Sales Tax Reimbursement to School Aid Fund ...	0.0	(5.4)	(7.4)
Subtotal Ongoing Revenue	\$9,978.5	\$9,797.7	\$9,854.4
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing	(8.8)	(5.8)	(5.8)
Venture Michigan Fund Tax Vouchers	0.0	0.0	(30.5)
Total Estimated GF/GP Revenue	\$10,276.2	\$10,486.6	\$10,313.4
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations	\$9,594.0	\$9,375.8	\$9,375.8
Initial Ongoing Appropriation for Transportation	0.0	142.0	142.0
Subtotal Ongoing Appropriations	\$9,594.0	\$9,517.8	\$9,517.8
<u>One-Time Appropriations:</u>			
Initial One-Time Appropriations	\$207.0	\$98.3	\$98.3
Initial One-Time Appropriation for Transportation	284.6	258.0	258.0
Initial One-Time Appropriation to Budget Stabilization Fund	94.0	95.0	95.0
Executive Order 2015-5	(102.9)	0.0	0.0
Enacted Supplementals	(291.8)	7.4	0.0
Pending Supplementals/Other Adjustments	0.0	84.8	220.0
Use Tax Actuarial Soundness Cost Reduction	0.0	0.0	(115.0)
Medicaid Actuarial Soundness Annual Adjustment	0.0	0.0	40.0
State Match for Expanded Medicaid (5.0% on Jan. 1, 2017)	0.0	0.0	143.0
State Match Increase for Traditional Medicaid	0.0	0.0	45.0
HICA Rate Increase (Jan. 1, 2017)	0.0	0.0	(60.0)
Bookclosing Adjustment	(1.8)	0.0	0.0
Estimated Lapses	(201.6)	(70.0)	(70.0)
Subtotal One-Time and Other Appropriations	(\$12.5)	\$473.5	\$654.3
Total Estimated GF/GP Expenditures	\$9,581.5	\$9,991.3	\$10,172.1
PROJECTED YEAR-END GF/GP BALANCE	\$694.7	\$495.3	\$141.3

Table 2
FY 2014-15, FY 2015-16, AND FY 2016-17
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2014-15	FY 2015-16	FY 2016-17
Revenue:			
Beginning Balance	\$455.1	\$190.1	\$45.4
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2015)	\$11,883.2	\$12,242.9	\$12,598.8
January 2016 Revenue Estimate Change	<u>(136.1)</u>	<u>(111.3)</u>	<u>(112.6)</u>
Consensus Revenue Estimate (Jan. 2016)	\$11,747.1	\$12,131.6	\$12,486.2
<u>Other Revenue Adjustments:</u>			
MPSERS Reserve Fund	18.0	0.0	0.0
General Fund/General Purpose Grant.....	33.7	45.9	57.0
General Fund Reimbursement for Data Centers Sales Tax	0.0	5.4	7.4
Medicaid Managed Care Use Tax.....	204.4	210.0	54.0
Federal Ongoing Aid	<u>1,606.5</u>	<u>1,775.8</u>	<u>1,775.8</u>
Subtotal Ongoing Revenue	\$13,609.7	\$14,168.7	\$14,380.4
<u>Non-ongoing Revenue:</u>			
Venture Michigan Fund Tax Vouchers.....	0.0	0.0	(9.5)
Bookclosing Adjustments	20.0	0.0	0.0
Total Estimated School Aid Fund Revenue.....	\$14,084.8	\$14,358.8	\$14,416.3
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$13,494.1	\$13,846.5	\$13,862.6
Public Act 5 of 2015-Consensus Cost Adjustments (Jan. 2015) ...	(96.0)	0.0	0.0
Public Act 85 of 2015-Consensus Cost Adjustments (May 2015) .	(13.0)	0.0	0.0
Public Act 139 of 2015-Great Start Slots	0.0	4.3	4.3
Consensus Estimate of K-12 Cost Adjustments (Jan. 2016).....	0.0	(49.1)	13.4
Partially Fund Community Colleges with School Aid Fund	197.6	256.7	260.4
Partially Fund Higher Education with School Aid Fund	<u>200.5</u>	<u>205.2</u>	<u>205.9</u>
Subtotal Ongoing Appropriations	\$13,783.2	\$14,263.6	\$14,346.6
<u>One-Time Appropriations:</u>			
Initial One-Time K-12 Appropriations.....	\$376.2	\$49.8	\$0.0
University MPSERS Funding	4.0	0.0	0.0
Public Act 5 of 2015-All SAF for Community Colleges	167.1	0.0	0.0
Public Act 5 of 2015-Libraries/Charters MPSERS	2.2	0.0	0.0
Public Act 5 of 2015-University MPSERS Fund Shift	2.0	0.0	0.0
Public Act 5 of 2015-Reduce Extra MPSERS Payment	(88.4)	0.0	0.0
Public Act 5 of 2015-Eliminate Online Nutrition/Health.....	(1.2)	0.0	0.0
Federal Expenditure Adjustments	(201.7)	0.0	0.0
Bookclosing Adjustments to Reserves.....	(3.1)	0.0	0.0
Estimated Lapses.....	<u>(145.6)</u>	<u>0.0</u>	<u>0.0</u>
Subtotal One-Time Appropriations.....	\$111.5	\$49.8	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$13,894.7	\$14,313.4	\$14,346.6
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$190.1	\$45.4	\$69.7

The SFA also is publishing today a memo that summarizes the Consensus Revenue Estimates for FYs 2014-15, 2015-16, and 2016-17, and the School Aid Foundation Allowance Index Estimate for FY 2016-17. If you have any questions on any of the Consensus Revenue Estimating Conference issues, please contact me at 517-373-5300 or at ejeffries@senate.michigan.gov.