

**SENATE FISCAL AGENCY
MEMORANDUM**



DATE: January 12, 2024
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) 2022-23, FY 2023-24, and FY 2024-25. An agreement also was reached on the first consensus estimates of FY 2025-26 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 5, 2024. 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 2022-23*	FY 2023-24	FY 2024-25
General Fund/General Purpose	\$3,889.3	\$1,389.4	\$1,753.0
School Aid Fund	2,153.5	525.3	1,111.7

*Preliminary; also, portions of these balances were used to build the FY 2023-24 budget.

YEAR-END BALANCE ESTIMATES

FY 2022-23

It is important to note that the books have not yet been closed for FY 2022-23. Based on the accounting of State revenue and expenditures as of January 12, 2024, the SFA is estimating that the FY 2022-23 GF/GP budget will close the fiscal year with a \$3.9 billion balance. The SFA estimates that the FY 2022-23 SAF budget will close the fiscal year with a \$2.2 billion balance. A portion of those balances was used in support of the FY 2023-24 budget.

FY 2023-24

Under Public Act 180 of 2015, the individual income tax (IIT) rate was reduced to 4.05% during calendar year 2023 because final FY 2021-22 revenue exceeded FY 2020-21 revenue by more than 1.425 applied to the rate of inflation. The balances presented here reflect the recent determination by Court of Claims Judge Elizabeth Gleicher that the IIT reduction is temporary and that the income tax rate returns to 4.25% in 2024.

A comparison of the SFA's FY 2023-24 revenue estimates with enacted and projected appropriations leads to a \$1.4 billion GF/GP year-end balance. The SFA estimates that the FY 2023-24 SAF budget will end the year with a \$525.3 million balance.

FY 2024-25

Looking ahead at the FY 2024-25 budget, comparing the SFA's FY 2024-25 GF/GP revenue estimate with FY 2024-25 GF/GP estimated expenditures results in a projected GF/GP balance of \$1.8 billion. Those estimated expenditures freeze initial ongoing spending at the FY 2023-24 level and include the prior year's ending balance along with various estimated baseline adjustments. Comparing the SFA's FY 2024-25 SAF revenue estimate (plus the prior-year balance estimate) with the FY 2024-25 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs results in a projected SAF year-end balance of \$1.1 billion for FY 2024-25.

HOW BALANCES HAVE CHANGED SINCE ENACTMENT OF THE FY 2023-24 BUDGET

Table 2 shows how the FY 2023-24 year-end balance estimates have changed since the enactment of the FY 2023-24 budget. Notably, the table covers any changes that have occurred to date for both FY 2022-23 and FY 2023-24. As shown, the GF/GP balance is larger than previously estimated by \$1.0 billion. The SAF balance is larger than previously estimated by \$303.0 million.

Table 2

SFA ESTIMATES OF CHANGES IN GF/GP AND SAF BALANCES (Fiscal Year 2023-24, millions of dollars)		
	GF/GP	SAF
Est. Balance after Budget Passage June 2023	\$393.8	\$222.3
Supplementals Enacted after Budget*	(120.4)	(142.1)
Net Est. Lapses/Cost Adjustments after Budget*	579.0	259.0
January 2024 CREC Revenue Adjustments*	<u>537.0</u>	<u>186.1</u>
Estimated Year-End Balances	\$1,389.4	\$525.3
Estimated Change in Year-End Balances	\$995.6	\$303.0

*Table reflects changes that have occurred in both FY 2022-23 and FY 2023-24 that affect the FY 2023-24 year-end balance estimates. They also include supplementals that have been enacted but are not yet effective.

ESTIMATES OF FY 2023-24 ONE-TIME AND ONGOING BALANCES

The GF/GP year-end balance is primarily ongoing in nature, while the SAF balance is primarily one-time in nature. Table 3 breaks down the FY 2023-24 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 2023-24, millions of dollars)		
	GF/GP	SAF
Estimated Ongoing Balance	\$1,056.6	\$117.9
Estimated One-Time Balance	<u>332.8</u>	<u>407.4</u>
Estimated Total Year-End Balance	\$1,389.4	\$525.3

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 2024-25. Please see the SFA's January 5, 2024, *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 2024-25 that is greater than a baseline amount will reduce the gap between ongoing revenue and ongoing expenditure estimates.

Again, the estimated FY 2022-23 ending balances may change when the State's book-closing process is completed and the ACFR is published. If the FY 2022-23 numbers change because of final supplemental spending or other book-closing issues, the ending balances in this report would change. Additional policy changes or supplemental appropriations for FY 2022-23 or FY 2023-24 also would change the ending balances for FYs 2022-23, 2023-24, and money available for FY 2024-25.

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.

/lms

Table 4
FY 2022-23, 2023-24, AND 2024-25
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	Year-to- Date FY 2022-23	Year-to- Date FY 2023-24	Baseline FY 2024-25
Revenue:			
Beginning Balance.....	\$7,463.5	\$3,889.3	\$1,389.4
Ongoing Revenue:			
Consensus Revenue Estimate (May 2023)	\$13,788.0	\$13,238.3	\$13,916.4
SFA Forecast Revenue Change (January 2024).....	177.9	359.1	105.8
SFA Forecast Revenue Estimate (January 2024)	\$13,965.9	\$13,597.4	\$14,022.2
SFA Adjustments: Restore temporary revenue losses to baseline (Jan 2024)	1,080.8	778.4	550.0
Adjusted CREC Forecast Ongoing Revenue Estimate (Jan 2024).....	\$15,046.7	\$14,435.1	\$14,712.4
Other Ongoing Revenue Adjustments:			
Liquor Purchase Revolving Fund (rolled into base beg. FY 24)	(18.5)	0.0	0.0
Revenue Sharing Payments	(525.6)	(551.8)	(551.8)
Subtotal Ongoing Revenue.....	\$14,502.6	\$13,883.3	\$14,160.6
Non-Ongoing Revenue:			
Legal Settlements/Redirection of Restricted Revenue	(\$2.6)	(\$2.6)	(\$2.6)
Three-year RAP earmark.....	(50.0)	(50.0)	(50.0)
Three-year CIT SOAR earmark	(500.0)	(500.0)	(500.0)
Income tax reduction (ie, trigger)	(530.8)	(228.4)	0.0
Revenue Sharing One-Time Payments	(4.9)	(10.5)	0.0
Subtotal Non-Ongoing Revenue	(\$1,088.3)	(\$791.5)	(\$552.6)
Total Estimated GF/GP Revenue Including Beginning Balance.....	\$20,877.8	\$16,921.9	\$14,857.3
Total Estimated GF/GP Revenue Excluding Beginning Balance	\$13,414.3	\$13,032.6	\$13,467.8
Expenditures:			
Ongoing Appropriations:			
Initial/Baseline Appropriations	\$11,963.6	\$12,727.6	\$12,726.0
Michigan Achievement Scholarship Cost Adjustment	0.0	0.0	50.0
Potential baseline adjustments (DHHS and other areas)	0.0	0.0	250.0
Ongoing Community District Trust Fund GF payment.....	0.0	32.8	68.8
Ongoing appropriation changes (Filter First admin plus MiLEAP)	0.0	7.0	9.5
Subtotal Ongoing Appropriations.....	\$11,963.6	\$12,767.4	\$13,104.3
One-Time and Other Appropriations:			
One-Time Appropriations.....	\$3,292.3	\$2,466.0	\$0.0
Budget Stabilization Fund Deposit.....	100.0	100.0	0.0
Potential settlement costs (UIA) or other risks.....	0.0	142.0	0.0
Supplementals	2,492.0	98.7	0.0
Estimated lapses of items being reappropriated in HB 4292	(15.0)	(44.0)	0.0
Treasury boilerplate appropriation	50.0	0.0	0.0
Additional K-12 GF for CDTF (moved to ongoing).....	22.4	0.0	0.0
Net out ARP-HCBS from HB 4437	(189.7)	0.0	0.0
Lapses that were reappropriated.....	(227.2)	0.0	0.0
Additional departmental lapses (from 12/15 report).....	(500.0)	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$5,024.8	\$2,765.1	\$0.0
Total Estimated GF/GP Expenditures	\$16,988.4	\$15,532.5	\$13,104.3
PROJECTED YEAR-END GF/GP BALANCE (Total)	\$3,889.3	\$1,389.4	\$1,753.0
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)	\$2,539.0	\$1,056.7	\$916.2
PROJECTED YEAR-END GF/GP BALANCE (One-Time)	\$1,350.4	\$332.8	\$836.8

Table 5
FY 2022-23, 2023-24, AND 2024-25
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	Year-to- Date FY 2022-23	Year-to- Date FY 2023-24	Baseline FY 2024-25
Revenue:			
Beginning Balance.....	\$4,622.5	\$2,153.5	\$525.3
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2023)	\$17,741.6	\$17,888.1	\$18,265.9
SFA Forecast Revenue Change (January 2024)	117.8	58.8	41.1
SFA Forecast Revenue Estimate (January 2024)	\$17,859.4	\$17,946.9	\$18,307.0
SFA Adjustments: Remove temporary revenue gains from baseline (Jan 2024)	(102.6)	(9.7)	0.0
Adjusted CREC Forecast Ongoing Revenue Estimate (Jan 2024).....	\$17,756.8	\$17,937.2	\$18,307.0
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose (GF/GP) Grant	\$48.6	\$49.8	\$49.8
Community District Education Trust Fund	72.0	72.0	41.0
Federal Ongoing Aid	2,199.0	2,204.8	2,200.8
Subtotal Ongoing Revenue.....	\$20,076.4	\$20,263.7	\$20,598.6
<u>Non-Ongoing Revenue:</u>			
Federal Stimulus	\$414.2	\$0.0	\$0.0
Additional Federal Funds	27.9	0.0	0.0
Income tax reduction (ie, trigger)	102.6	9.7	0.0
Restricted Funds (MPERS, Infrastr, Others)	165.8	737.8	84.1
Revenue Deposits - Infrastructure/MPERS	(425.0)	0.0	0.0
School Aid Stabilization Fund Interest	168.0	0.0	0.0
Additional One-Time GF	75.6	38.2	0.0
GF/GP for DPSCD Add'l Cost Exceeding CDTF \$72m/yr	22.4	32.8	68.8
Subtotal Non-Ongoing Revenue	\$551.5	\$818.5	\$152.9
Total Estimated SAF Revenue Including Beginning Balance.....	\$25,250.4	\$23,235.7	\$21,276.8
Total Estimated SAF Revenue Excluding Beginning Balance.....	\$20,627.9	\$21,082.2	\$20,751.5
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$15,457.2	\$16,934.8	\$16,993.0
School Aid Federal Funds.....	2,274.2	2,204.8	2,200.8
State Funds Cost Adjustments	0.0	57.8	31.0
Federal Funds Cost Adjustments.....	27.9	0.0	0.0
Fund Community Colleges with School Aid Fund.....	448.6	496.2	488.9
Partially Fund Higher Education with School Aid Fund.....	347.9	452.3	451.8
Subtotal Ongoing Appropriations	\$18,555.8	\$20,145.8	\$20,165.1
<u>One-Time and Other Appropriations:</u>			
Initial One-Time Appropriations (K12, CC, HE)	\$2,152.5	\$2,442.5	\$0.0
Fund deposits (MPERS, Consolidation, Teacher Recruitment)	1,959.0	0.0	0.0
Supplementals	581.5	122.1	0.0
Lapses (1/11/24 estimate)	(152.0)	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$4,541.0	\$2,564.6	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$23,096.9	\$22,710.4	\$20,165.1
PROJECTED YEAR-END SAF BALANCE (Total)	\$2,153.5	\$525.3	\$1,111.7
PROJECTED YEAR-END SAF BALANCE (Ongoing)	\$1,520.6	\$117.9	\$433.5
PROJECTED YEAR-END SAF BALANCE (One-Time)	\$632.9	\$407.4	\$678.2