

MEMORANDUM

DATE: May 19, 2020
TO: Members of the Michigan Senate
FROM: Christopher Harkins, Director
RE: **REVISED** - Consensus Revenue Year-End Balance Estimates

Based on the revised consensus revenue estimates agreed to on May 15, 2020, and enacted and projected State appropriations based on fiscal year (FY) 2019-20 Senate-passed budgets, the Senate Fiscal Agency (SFA) has revised its estimates of the year-end balances in the FY 2019-20, FY 2020-21, and FY 2021-22 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. This memorandum provides a brief summary of these revised estimates.

FY 2019-20 Year-End Balance Estimates

The initial FY 2019-20 budget approved by the Legislature was based on a May 2019 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2020 reflected a decrease from the May 2019 estimate for GF/GP revenue, and an increase in the estimate for SAF revenue, still allowing continued 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 those balances had been built into the FY 2020-21 budgets proposed by the Governor.

The May 2020 consensus estimate of FY 2019-20 GF/GP revenue is reduced by \$2.0 billion from the January 2020 consensus revenue estimate, while consensus SAF revenue is down by \$1.2 billion. The SFA's FY 2019-20 estimated GF/GP revenue total of \$9.5 billion includes \$916.2 million of surplus revenue carried forward from FY 2018-19, and negative adjustments of \$490.1 million to reflect statutory State revenue sharing payments. The SFA's FY 2019-20 estimated SAF revenue total of \$14.8 billion includes \$194.7 million of surplus revenue carried forward from FY 2018-19, \$12.7 billion of restricted SAF revenue, a \$62.6 million GF/GP grant, \$75.8 million from the Community District Education Trust Fund, and \$1.8 billion of ongoing Federal aid.

The projected level of FY 2019-20 GF/GP expenditures includes initial ongoing appropriations of \$9.9 billion; initial one-time appropriations of \$175.1 million; enacted supplemental appropriations of \$486.8 million; caseload and cost adjustments of \$209.8 million in the Department of Health and Human Services; an additional GF/GP savings of \$328.8 million resulting from increased Federal match related to the COVID-19 pandemic; and a \$41.9 million repayment to the Federal government for disallowed psychiatric disproportionate share hospital (DSH) payments. Comparing estimated GF/GP revenue to year-to-date GF/GP appropriations, adjusted for SFA assumptions, results in a projected year-end GF/GP deficit of \$1.1 billion. The estimated \$15.9 billion level of SAF expenditures includes enacted K-12 appropriations of \$15.1 billion; consensus cost adjustment reductions of \$79.2 million; enacted supplemental adjustments of \$70.5 million; Community College operations funding of \$414.7 million and partial Higher Education operations funding of \$349.4 million. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF deficit of \$1.1 billion. Combined, the FY 2019-20 GF/GP and SAF are projected at a \$2.2 billion mid-year deficit.

FY 2020-21 Year-End Balance Estimates

The May 2020 consensus estimate of FY 2020-21 GF/GP revenue is reduced by \$1.9 billion from the January 2020 consensus revenue estimate while consensus SAF revenue is down by \$1.1 billion. To provide an estimated FY 2020-21 GF/GP and SAF balance sheet, an assumed continuation of the current year-to-date FY 2019-20 budget is used. Adjustments have been made to reflect the elimination of known one-time appropriations, and increases are assumed relative to employee economics, caseload projections, and statutory changes that take effect in FY 2020-21. The SFA's FY 2020-21 estimated GF/GP revenue total of \$8.9 billion includes consensus revenue of \$9.3 billion; a continuation of FY 2019-20 statutory revenue sharing payments of \$490.1 million, 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 2020-21 estimated SAF revenue total of \$15.1 billion includes \$13.2 billion of restricted SAF revenue; the assumed continuation of a \$62.7 million GF/GP grant; \$78.8 million from the Community District Education Trust Fund; and \$1.8 billion of ongoing Federal aid.

The SFA's estimated \$11.4 billion level of FY 2020-21 GF/GP expenditures includes an ongoing initial appropriation from FY 2019-20 of \$9.4 billion, with additional ongoing expenditures from enacted FY 2019-20 supplementals of \$255.2 million; consensus caseload adjustments, cost increases, and audit finding costs for the Department of Health and Human Services of \$878.6 million; employee economic increases of \$109.0 million; costs associated with the phase-in of statutorily mandated indigent defense grants of \$36.5 million; Tuition Incentive Program cost increases assumed at \$9.0 million; \$59.2 million continued repayment to the Federal government for DSH payments; and other current service budget adjustments totaling \$76.2 million. Comparing estimated GF/GP revenue with SFA estimated baseline GF/GP appropriations, adjusted for caseload and cost increases, results in a projected year-end GF/GP deficit of \$2.5 billion. The SFA's estimated \$16.1 billion level of SAF expenditures are the projected current services appropriations continued into FY 2020-21, adjusted with consensus cost increases of \$222.3 million, and continued SAF appropriations for Community Colleges and Higher education adjusted for known Michigan Public School Employees Retirement System (MPERS) costs. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF deficit of \$962.7 million.

FY 2021-22 Year-End Balance Estimates

The May 2020 consensus estimate of FY 2021-22 GF/GP revenue is reduced by \$1.4 billion from the January 2020 consensus revenue estimate, and consensus SAF revenue is down by \$719.7 million. The FY 2021-22 estimated GF/GP revenue total of \$9.7 billion includes \$10.1 billion of consensus revenue, the assumed continuation of the projected FY 2020-21 statutory State Revenue Sharing payments of \$490.1 million, and the continued revenue adjustment of \$75.0 million from the repurchase of Venture Michigan Fund II vouchers. The FY 2021-22 estimated SAF revenue total of \$15.9 billion includes consensus revenue of \$13.9 billion; a continuation of the assumed \$62.7 million GF/GP grant; \$72.0 million from the Community District Education Trust Fund; and \$1.8 billion of Federal aid.

The estimated \$11.2 billion level of FY 2021-22 GF/GP expenditures includes the ongoing appropriations assumed to continue from FY 2020-21; the continuation of ongoing costs associated with FY 2019-20 supplementals totaling \$265.2 million, \$610.9 million of projected consensus caseload increases, base cost adjustments, and audit findings in the Department of Health and Human Services, \$159.0 million in additional costs associated with State employee compensation; \$10.8 million of increased State Building Authority rent; costs related to indigent defense and increased tuition incentive program, repayment of Federal DSH money, and other current service budget

adjustments assumed in FY 2020-21. Comparing estimated GF/GP revenue to estimated GF/GP expenditures results in a projected year-end GF/GP deficit of \$1.4 billion.

The estimated \$16.2 billion level of SAF expenditures includes the continuation of the assumed current services budget projected for FY 2020-21, consensus cost adjustments of \$97.9 million, and the continued use of SAF funds for Community College and Higher Education at \$431.5 million and \$357.2 million, respectively. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF deficit of \$334.4 million.

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 the FY 2020-21 and FY 2021-22 GF/GP and SAF projected budget balances assume that there will be no prior-year ending balance to be carried forward into the succeeding fiscal year and that any negative balances are resolved. Actions taken to reduce FY 2019-20 shortfalls that are continued in FYs 2020-21 and 2021-22 will reduce the projected deficits in those fiscal 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.

/lms

Table 1

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

	SFA Estimates		
	FY 2019-20 Year-To- Date	FY 2020-21 SFA Estimate	FY 2021-22 SFA Estimate
Revenue:			
Beginning Balance	\$916.2	\$0.0	\$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2020).....	\$11,012.1	\$11,194.5	\$11,518.5
SFA Revenue Estimate Change.....	<u>(1,983.9)</u>	<u>(1,915.3)</u>	<u>(1,368.8)</u>
SFA Revenue Estimate (May 2020)	\$9,028.2	\$9,279.2	\$10,149.7
Other Revenue Adjustments:			
Revenue Sharing Payments.....	(\$490.1)	(\$490.1)	(\$490.1)
VMF II Voucher Purchase	<u>0.0</u>	<u>75.0</u>	<u>75.0</u>
Subtotal Ongoing Revenue	\$8,538.1	\$8,864.1	\$9,734.6
Non-ongoing Revenue:			
Implementation of Recreational Marihuana	\$10.0	0.0	0.0
Redirection of Restricted Revenue.....	<u>(7.6)</u>	<u>(2.6)</u>	<u>0.0</u>
Subtotal Non-Ongoing Revenue.....	\$2.4	(\$2.6)	0.0
Total Estimated GF/GP Revenue	\$9,456.7	\$8,861.5	\$9,734.6
Expenditures:			
Ongoing Appropriations:			
Initial/Senate-Passed.	<u>\$9,940.0</u>	<u>\$9,940.0</u>	<u>\$9,940.0</u>
Subtotal Ongoing Appropriations.....	\$9,940.0	\$9,940.0	\$9,940.0
One-Time and Other Appropriations:			
Estimated One-Time Appropriations.....	\$175.1	\$0.0	\$0.0
Enacted Supplementals	486.8	255.2	265.2
Health and Human Services Caseload and Costs	209.8	878.6	610.9
Estimated GF/GP Offset for COVID-19 FMAP Adj. (Jan-June) .	(328.8)	0.0	0.0
Defined calculations.....	0.0	109.0	159.0
State Building Authority rent increase.....	0.0	0.0	10.8
Indigent Defense Grants.....	0.0	36.5	36.5
Tuition Incentive Program cost increases.....	0.0	9.0	9.0
Reimbursement of Federal Disallowed Psych DHS costs.....	41.9	59.2	59.2
Other CSB Adjustments.....	<u>0.0</u>	<u>76.2</u>	<u>76.2</u>
Subtotal One-Time and Other Appropriations	\$584.7	\$1,423.7	\$1,226.9
Total Estimated GF/GP Expenditures	\$10,524.7	\$11,363.8	\$11,166.9
PROJECTED YEAR-END GF/GP BALANCE	(\$1,068.0)	(\$2,502.2)	(\$1,432.3)

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

	SFA Estimates		
	FY 2019-20 Year-To- Date	FY 2020-21 SFA Estimate	FY 2021-22 SFA Estimate
Revenue:			
Beginning Balance	\$194.7	\$0.0	\$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2020)	\$13,925.5	\$14,317.5	\$14,640.1
Consensus Revenue Estimate Change.....	<u>(1,248.8)</u>	<u>(1,137.1)</u>	<u>(719.7)</u>
Consensus Revenue Estimate (May 2020)	\$12,676.7	\$13,180.4	\$13,920.4
Other Revenue Adjustments:			
General Fund/General Purpose Grant	\$62.6	\$62.7	\$62.7
Community District Education Trust Fund.....	75.8	78.8	72.0
Federal Ongoing Aid.....	<u>1,759.6</u>	<u>1,806.9</u>	<u>1,806.9</u>
Subtotal Ongoing Revenue	\$14,574.7	\$15,128.8	\$15,862.0
Non-Ongoing Revenue:			
Reserve Fund for MPSERS	<u>\$1.9</u>	<u>\$0.0</u>	<u>\$0.0</u>
Subtotal Non-Ongoing Revenue.....	\$1.9	\$0.0	\$0.0
Total Estimated School Aid Fund Revenue	\$14,771.3	\$15,128.8	\$15,862.0
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations.....	\$15,106.8	\$15,087.4	\$15,309.7
Cost Adjustments (January/May 2020).....	(79.2)	222.3	97.9
Enacted Supplementals (PA 162 of 2019).....	59.9	0.0	0.0
Fund Community Colleges with SAF	414.7	425.7	431.5
Partially Fund Higher Education with SAF	<u>349.4</u>	<u>356.1</u>	<u>357.2</u>
Subtotal Ongoing Appropriations.....	\$15,851.6	\$16,091.5	\$16,196.4
One-Time and Other Appropriations:			
Enacted Supplementals (PA 162 of 2019).....	<u>\$10.7</u>	<u>\$0.0</u>	<u>\$0.0</u>
Subtotal One-Time and Other Appropriations	\$10.7	\$0.0	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$15,862.2	\$16,091.5	\$16,196.4
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	(\$1,090.9)	(\$962.7)	(\$334.4)