

MEMORANDUM

DATE: August 24, 2020
TO: Members of the Michigan Senate
FROM: Christopher Harkins, Director
RE: Consensus Revenue Year-End Balance Estimates; August Revision

Based on the revised consensus revenue estimates agreed to on August 24, 2020, and enacted and projected State appropriations based on fiscal year (FY) 2019-20 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 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 an increase from the May 2019 estimate for both GF/GP and SAF revenue, still allowing continued surpluses in both the GF/GP and SAF budgets. The May 2020 consensus estimate of FY 2019-20 GF/GP revenue was reduced by \$2.0 billion from the January 2020 consensus revenue estimate, while consensus SAF revenue was down by \$1.2 billion. The May consensus estimates coupled with enacted appropriations and SFA projected expenditures for May 2020 resulted in a projected year-end deficit of \$1.1 billion GF/GP and \$1.1 billion SAF.

After the May 2020 consensus estimate, a series of actions have eliminated the current-year deficit. On July 22, 2020, Governor Whitmer issued Executive Order (EO) 2020-155 and a letter recommending the lapse of multiple prior-year work projects. Additionally, a negative general supplemental bill, Public Act (PA) 144 of 2020, and a SAF supplemental bill, PA 146 of 2020, were used to bring the current fiscal year back into balance. A series of statutory implementation bills redirecting restricted fund balances to the General Fund also are being used to close the current year deficit. Details of these actions can be found in the SFA memorandum "Executive Order 2020-155 Reduction and Supplementals to Balance Fiscal Year 2019-20", dated July 22, 2020.

The August 2020 consensus estimate of FY 2019-20 GF/GP revenue is increased by \$1.3 billion from the May 2020 consensus revenue estimate, while consensus SAF revenue is increased by \$1.0 billion. The SFA's FY 2019-20 estimated GF/GP revenue total of \$11.0 billion includes \$916.2 million of surplus revenue carried forward from FY 2018-19; a negative adjustment totaling \$393.5 million to reflect statutory State revenue sharing payments, after a \$96.5 million reduction of statutory revenue sharing payments was made in PA 144 of 2020 (a reduction in sales tax revenue is reflected as a positive GF/GP offset on the balance sheet); a \$3.8 million reduction of revenue associated with the mid-year implementation of PA 126 of 2020; \$10.0 million of reimbursement for the implementation of recreational marihuana; \$7.6 million reduction from redirection of restricted revenue; and \$165.7 million in restricted revenue redirected to the GF pending statutory changes. The SFA's FY 2019-20 estimated SAF revenue total of \$17.1 billion includes \$194.7 million of surplus revenue carried forward from FY 2018-19; \$13.7 billion of restricted SAF revenue; a \$62.6 million GF/GP grant; \$75.9 million from the Community District Education Trust Fund; and \$1.8 billion of ongoing Federal aid. Additionally, the SAF revenue total includes one-time increases from PA 146 of 2020: \$350 million from the Budget Stabilization Fund,

\$712.0 million of Federal Coronavirus Relief Fund (CRF), \$211.0 million of additional GF/GP support, \$31.9 million of funding from the Michigan Public School Employees Retirement System (MPERS) Reserve Fund, \$9.7 million from the Talent Investment Fund, and \$3.9 million in work project lapses.

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 reductions from the May consensus of \$73.6 million in the Department of Health and Human Services (DHHS); a total GF/GP savings of \$478.8 million resulting from increased Federal match related to the COVID-19 pandemic through the end of the fiscal year; and a \$41.9 million repayment to the Federal government for disallowed psychiatric disproportionate share hospital (DSH) payments. The FY 2019-20 GF/GP expenditures also include mid-year reductions totaling \$832.3 million from EO 2020-155 and PA 144 of 2020, increased GF/GP contributions to the SAF of \$211.0 million, and \$80.8 million in reductions resulting from lapsed work projects. 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 \$1.4 billion. The estimated \$16.1 billion level of SAF expenditures includes initial enacted K-12 appropriations of \$15.1 billion; consensus cost adjustment reductions of \$89.2 million; enacted supplemental adjustments of \$59.9 million; Community College operations funding of \$414.7 million and partial Higher Education operations funding of \$349.4 million; and a net of \$225.2 million in expenditure adjustments associated with PA 146 of 2020. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF surplus of \$1.0 billion. Combined, the FY 2019-20 GF/GP and SAF are projected at a \$2.4 billion year-end surplus.

FY 2020-21 Year-End Balance Estimates

The August 2020 consensus estimate of FY 2020-21 GF/GP revenue is increased by \$257.5 million from the May 2020 consensus revenue estimate while consensus SAF revenue is increased by \$321.5 million. 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 \$10.5 billion includes \$1.4 billion of FY 2019-20 year-end carry forward; consensus revenue of \$9.5 billion; a continuation of FY 2019-20 statutory revenue sharing payments of \$490.1 million, which reduce GF/GP revenue by that amount; \$15.0 million reduction of revenue assumed from the full-year implementation of PA 126 of 2020; \$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 \$16.5 billion includes \$1.0 billion of FY 2019-20 projected year-end balance carried forward; \$13.5 billion of restricted SAF revenue; the assumed continuation of a \$62.7 million GF/GP grant; \$78.4 million from the Community District Education Trust Fund; and \$1.8 billion of ongoing Federal aid.

The SFA's estimated \$10.9 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 totaling \$240.9 million; August revisions to previous consensus caseloads in the DHHS reduce those anticipated expenditures by \$216.1 million; the assumption of the continued increased Federal match related to the COVID-19 pandemic through the first quarter of the fiscal year reduces GF/GP expenditures by \$239.7 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 revised projected year-end GF/GP deficit of

\$384.6 million. The SFA's estimated \$16.1 billion level of SAF expenditures are the projected current services appropriations continued into FY 2020-21 (restoring the FY 2019-20 reductions to State aid under PA 146 of 2020), adjusted with consensus cost increases of \$211.9 million, \$45 million to enact the pupil blend formula change related to the recently enacted "Return to Learn" package (PAs 147-149 of 2020), and continued SAF appropriations for Community Colleges and Higher education adjusted for known MPSERS costs. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$372.2 million.

One item that is not included in the SFA's estimated expenditure for FY 2020-21, or future fiscal years, is the agreement reached by the State and the Plaintiffs' Counsel for Flint water-related civil lawsuits announced on August 20, 2020. The \$600.0 million settlement agreement has not yet been formally completed, though it is expected to be completed within 45 days. Given that the settlement has not been finalized, and details are not yet fully public, it is prudent to note this obligation, but it is not yet carried on the balance sheet.

FY 2021-22 Year-End Balance Estimates

The August 2020 consensus estimate of FY 2021-22 GF/GP revenue is increased by \$242.8 million from the May 2020 consensus revenue estimate, and consensus SAF revenue is increased by \$133.1 million. The FY 2021-22 estimated GF/GP revenue total of \$10.0 billion includes \$10.4 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 adjustments of \$15.0 million related to PA 126 of 2020 and \$75.0 million from the repurchase Venture Michigan Fund II vouchers. The FY 2021-22 estimated SAF revenue total of \$16.4 billion includes; \$372.2 million of projected year-end carry-forward from FY 2020-21; consensus revenue of \$14.1 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 \$11.0 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 \$250.9 million, a reduction of \$113.1 million from previously projected consensus caseload increases, base cost adjustments, and audit findings in the DHHS, \$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 \$1.1 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 \$103.7million, 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 balance of \$185.5 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 2021-22 GF/GP budget balance assumes 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 the FY 2020-21 shortfall that are continued in FY 2021-22 will reduce the projected deficit in that fiscal year.

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 2019-20 Year-To- Date	FY 2020-21 SFA Estimate	FY 2021-22 SFA Estimate
Revenue:			
Beginning Balance	\$916.2	\$1,405.0	\$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (May 2020).....	\$9,028.2	\$9,279.2	\$10,149.7
Consensus Revenue Estimate Change	<u>1,268.6</u>	<u>257.5</u>	<u>242.8</u>
Consensus Revenue Estimate (August 2020)	\$10,296.8	\$9,536.7	\$10,392.5
Other Revenue Adjustments:			
Revenue Sharing Payments.....	(\$490.1)	(\$490.1)	(\$490.1)
Revenue Sharing Reduction (PA 144 of 2020)	96.5	0.0	0.0
PA 126 of 2020	(3.8)	(15.0)	(15.0)
VMF II Voucher Purchase.....	<u>0.0</u>	<u>75.0</u>	<u>75.0</u>
Subtotal Ongoing Revenue.....	\$9,899.5	\$9,106.6	\$9,962.4
Non-ongoing Revenue:			
Implementation of Recreational Marihuana	\$10.0	0.0	0.0
Redirection of Restricted Revenue	(7.6)	(2.6)	0.0
Restricted Revenue Redirect (Pending Statutory Changes).....	165.7	0.0	0.0
GF-equivalent lapsed work projects	<u>0.6</u>	<u>0.0</u>	<u>0.0</u>
Subtotal Non-Ongoing Revenue.....	\$168.6	(\$2.6)	0.0
Total Estimated GF/GP Revenue.....	\$10,984.3	\$10,509.1	\$9,962.4
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	240.9	250.9
Health and Human Services Caseload and Costs: May	190.1	878.6	610.9
Health and Human Services: August Adjustments	(73.6)	(216.1)	(113.1)
Estimated GF/GP Offset for COVID-19 FMAP Adj. (Jan-Dec) ..	(478.8)	(239.7)	0.0
EO 2020-155 and PA 144 of 2020 GF Adjustments	(832.3)	0.0	0.0
Additional One-Time K-12 Contribution	211.0	0.0	0.0
Lapsed Work Project Balances	(80.8)	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	(\$360.8)	\$953.7	\$1,099.5
Total Estimated GF/GP Expenditures	\$9,579.2	\$10,893.7	\$11,039.5
PROJECTED YEAR-END GF/GP BALANCE	\$1,405.0	(\$384.6)	(\$1,077.1)

Note: This balance sheet does not yet reflect any expenditures related to the \$600.0 million settlement between the State of Michigan and the Flint water-related civil lawsuits announced Aug. 20, 2020.

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	\$1,038.4	\$372.2
Ongoing Revenue:			
Consensus Revenue Estimate (May 2020)	\$12,676.7	\$13,180.4	\$13,920.4
Consensus Revenue Estimate Change.....	<u>1,037.7</u>	<u>321.5</u>	<u>133.1</u>
Consensus Revenue Estimate (August 2020).....	\$13,714.4	\$13,501.9	\$14,053.5
Other Revenue Adjustments:			
General Fund/General Purpose Grant.....	\$62.6	\$62.7	\$62.7
Community District Education Trust Fund	75.9	78.4	72.0
Federal Ongoing Aid	<u>1,749.6</u>	<u>1,806.9</u>	<u>1,806.9</u>
Subtotal Ongoing Revenue	\$15,602.5	\$15,449.9	\$15,995.1
Non-Ongoing Revenue:			
Budget Stabilization Fund Deposit.....	\$350.0	\$0.0	\$0.0
Federal CRF	712.0	0.0	0.0
One-time GF Deposit	211.0	0.0	0.0
Reserve Fund for MPSERS	31.9	0.0	0.0
Talent Investment Fund Deposit	9.7	0.0	0.0
CEPI Work Project Lapse	<u>3.9</u>	<u>0.0</u>	<u>0.0</u>
Subtotal Non-Ongoing Revenue	\$1,318.5	\$0.0	\$0.0
Total Estimated School Aid Fund Revenue	\$17,115.7	\$16,488.2	\$16,367.2
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	\$15,106.8	\$15,077.4	\$15,289.3
Cost Adjustments (January/May 2020)	(89.2)	211.9	103.7
Enacted Supplementals (PA 162 of 2019)	59.9	0.0	0.0
Enacted Pupil Blend Formula Change (PA 147-149 of 2020)	0.0	45.0	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.....	\$15,841.6	\$16,116.1	\$16,181.7
One-Time and Other Appropriations:			
Enacted Supplemental (PA 162 of 2019).....	\$10.7	\$0.0	\$0.0
Enacted Supplemental (PA 146 of 2020).....	<u>225.2</u>	<u>0.0</u>	<u>0.0</u>
Subtotal One-Time and Other Appropriations	\$235.8	\$0.0	\$0.0
Total Estimated School Aid Fund Expenditures	\$16,077.4	\$16,116.1	\$16,181.7
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$1,038.4	\$372.2	\$185.5

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