

**SENATE FISCAL AGENCY
MEMORANDUM**



DATE: January 15, 2021
TO: Members of the Senate
FROM: Christopher Harkins, 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) 2019-20, FY 2020-21, and FY 2021-22. An agreement also was reached on the first consensus estimates of FY 2022-23 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* that was published on January 5, 2021. This memorandum provides a brief summary of these revised estimates.

FY 2019-20 Year-End Balance Estimates

The FY 2019-20 State budget was based on consensus revenue estimates agreed to in May 2019. The revenue numbers illustrated in Table 1 for FY 2019-20 final remain preliminary as the State's bookclosing has not been finalized and the FY 2019-20 comprehensive annual financial report (commonly referred to as the CAFR) has not yet been published. However, based on year-to-date accounting reports of FY 2019-20 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is projecting that the FY 2019-20 GF/GP budget will close the fiscal year with an \$2.5 billion balance. The FY 2019-20 SAF budget is projected to close the fiscal year with a \$1.2 billion balance. Changes to these preliminary final figures, which may result from a pending FY 2019-20 transfer request from the State Budget Office (Legislative Transfer Request 2020-9) and bookclosing, could increase or decrease the amount of projected balance in FY 2019-20 and, therefore, may affect future year revenue.

The first column of Table 1 provides a summary of the current SFA estimate of a \$2.5 billion balance in the FY 2019-20 GF/GP budget. The first column of Table 2 provides a summary of the SFA's estimate of a \$1.2 billion year-end balance in the FY 2019-20 SAF budget. Pursuant to statutory requirements, the amounts of the year-end balances will carry forward and be available as FY 2020-21 revenue sources. It should be noted that year-end balances of \$1.6 billion GF/GP and \$869.4 million SAF were assumed in September 2020 when the FY 2020-21 budget was being finalized and were factored into the FY 2020-21 spending plan.

The revised FY 2019-20 balance sheets in this memorandum include \$879.6 million more in the GF/GP carry-forward year-end balance and \$308.0 million more in the SAF carry-forward year-end balance, than the September 2020 estimate. The higher GF/GP carry-forward balance is due primarily to \$473.6 million of increased revenue assumptions when compared to the August 2020 consensus and \$402.2 million of estimated year-end lapses in addition to previous SFA lapse estimates. Similarly, the higher SAF carry-forward balance is due to estimated revenue adjustments of \$288.0 million and year-end lapses of \$20.0 million.

FY 2020-21 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA now is estimating that the FY 2020-21 GF/GP budget year-end balance will be \$1.8 billion. The second column of [Table 1](#) provides a summary of this estimate. The estimate includes a projected \$2.5 billion budget surplus carried forward from FY 2019-20. The current consensus estimate of FY 2020-21 GF/GP revenue represents a \$700.8 million increase from the August 2020 consensus revenue estimate upon which the FY 2020-21 budget was based. Comparing the total estimated GF/GP revenue (based on the January 2021 consensus revenue estimate) to the SFA's estimate of FY 2020-21 GF/GP expenditures results in a projected year-end balance of \$1.8 billion. A detailed description of the assumptions made relative to FY 2020-21 expenditures can be found in the SFA's *Economic Outlook and Budget Review*, which was published on January 5, 2021.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA now is estimating that the FY 2020-21 SAF budget will have a year-end balance of \$922.2 million. The second column of [Table 2](#) provides a summary of this estimate. This estimate includes a projected \$1.2 billion budget surplus carried forward from FY 2019-20. The current consensus estimate of FY 2020-21 SAF revenue represents an \$528.3 million increase from the August 2020 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 2020-21 by \$80.9 million. Comparing the total estimated SAF revenue (based on the January 2021 consensus revenue estimate) to the SFA's estimate of FY 2020-21 SAF expenditures results in a projected ending balance of \$922.2 million.

FY 2021-22 State Budget Outlook

Pursuant to statutory requirements, the Governor must submit a detailed FY 2021-22 State budget recommendation to the Legislature within 30 days after it convenes, or 60 days if the Governor is newly elected. Governor Whitmer must submit her budget recommendation before February 12, 2021. This budget recommendation will initiate the debate on the FY 2021-22 State budget.

The estimated FY 2020-21 GF/GP revenue and expenditures produce a projected FY 2021-22 beginning balance of \$1.8 billion. If this beginning balance is combined with estimated ongoing GF/GP revenue, based on the January 2021 consensus revenue estimate and adjusted for anticipated revenue adjustments, of \$10.5 billion, and if FY 2021-22 ongoing and one-time departmental appropriations are assumed to remain at the same levels as those of FY 2021-22, with adjustments for caseload, costs, and economic factors, there will be an FY 2021-22 projected year-end GF/GP balance of \$1.7 billion. 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 2021-22 SAF budget. The estimated FY 2020-21 SAF revenue and expenditures result in a projected ending balance of \$922.2 million. If this balance is carried forward into FY 2021-22 and is combined with \$14.4 billion of ongoing SAF revenue (based on the January 2021 consensus revenue estimate) and \$1.9 billion of other assumed revenue, and if FY 2021-22 SAF expenditures are continued at the FY 2020-21 appropriation level with consensus adjustments for pupils, local property tax valuations, and other costs, there will be an FY 2021-22 projected SAF year-end balance of \$1.1 billion. The FY 2021-22 total estimated SAF expenditures assume the continuation of SAF appropriations for community colleges and universities of \$789.7 million.

Summary

[Tables 1](#) and [2](#) 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 2020-21, 2021-22, and 2022-23 and the School Aid Foundation Allowance Index Estimates for FYs 2021-22 and 2022-23. Please see the SFA's January 5, 2021, *Economic Outlook and Budget Review* for more details on the revenue and balance sheet assumptions.

If you have any questions on any of the Consensus Revenue Estimating Conference issues, please contact me at (517) 373-2768 or at charkins@senate.michigan.gov.

Table 1
FY 2019-20, 2020-21, AND 2021-22
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	FY 2019-20	FY 2020-21	FY 2021-22
Revenue:			
Beginning Balance	\$916.2	\$2,484.7	\$1,798.6
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (August 2020)	\$10,296.8	\$9,536.7	\$10,392.5
Consensus Revenue Estimate Change	473.8	700.8	504.6
Consensus Revenue Estimate (January 2021)	\$10,770.6	\$10,237.5	\$10,897.1
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(\$490.1)	(\$490.1)	(\$490.1)
Revenue Sharing One-Time Reduction	96.5	0.0	0.0
PA 126 of 2020	(3.8)	0.0	0.0
Shift VMFII to Voucher Purchase.....	0.0	0.0	75.0
Subtotal Ongoing Revenue	\$10,373.3	\$9,747.4	\$10,482.0
<u>Non-ongoing Revenue:</u>			
Reimbursement for Implementation of Recreational Marijuana.....	\$10.0	\$0.0	\$0.0
Legal Settlements/Redirection of Restricted Revenue	(7.6)	(2.6)	0.0
Restricted Revenue Redirected to GF	165.7	0.0	0.0
GF-equivalent Lapsed Work Projects	0.6	0.0	0.0
GF-equivalent /Restricted Revenue.....	0.0	0.8	0.0
Coronavirus Relief Fund: Interest Earnings	5.8	0.0	0.0
Subtotal Non-Ongoing Revenue	\$174.4	(\$1.8)	\$0.0
Total Estimated GF/GP Revenue	\$11,463.9	\$12,230.4	\$12,280.6
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Appropriations	\$9,940.0	\$9,865.0	\$9,865.0
DHHS Base and Caseload Adjustments	169.3	704.5	378.8
Subtotal Ongoing Appropriations	\$10,109.3	\$10,569.5	\$10,243.8
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$175.1	\$272.3	\$0.0
Estimated GF/GP Offset from COVID FMAP Increase	(523.3)	(719.0)	0.0
Enacted Supplementals (PAs 154 and 162 of 2019)	261.0	0.0	0.0
Enacted Supplementals (PAs 66 and 67 of 2020)	225.7	0.0	0.0
Enacted Supplementals (PAs 144, 146, 150, and 165 of 2020)	(154.4)	0.0	0.0
Executive Order Reductions (EO 2020-155)	(620.0)	0.0	0.0
Pending Supplemental (PA 257 of 2020).....	0.0	243.3	0.0
Estimated Employee Economic Adjustments	0.0	0.0	87.6
Reimbursement of Federal Disallowed Psych DSH Costs	0.0	62.8	62.8
DHHS Audit Findings.....	0.0	0.0	23.0
SBA Rent Increases	0.0	0.0	10.8
Current Services Budget Adjustment.....	0.3	5.0	46.8
TEDF Restricted Revenue Shift.....	0.0	(13.0)	0.0
CRF/GF Backfill	0.0	0.0	146.0
BSF Deposit.....	0.0	35.8	0.0
Lapsed Work Projects.....	(80.8)	0.0	0.0
Estimated Lapses	(413.8)	(25.0)	0.0
Subtotal One-Time and Other Appropriations.....	(\$1,130.2)	(\$137.8)	\$377.0
Total Estimated GF/GP Expenditures	\$8,979.2	\$10,431.7	\$10,620.9
PROJECTED YEAR-END GF/GP BALANCE	\$2,484.7	\$1,798.6	\$1,659.7

Table 2
FY 2019-20, 2020-21, AND 2021-22
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	FY 2019-20	FY 2020-21	FY 2021-22
Revenue:			
Beginning Balance	\$194.7	\$1,177.4	\$922.2
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (August 2020)	\$13,714.4	\$13,501.9	\$14,053.5
Consensus Revenue Estimate Change	288.0	528.3	370.2
Consensus Revenue Estimate (January 2021)	\$14,002.4	\$14,030.2	\$14,423.7
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$62.6	\$51.0	\$51.0
Community District Education Trust Fund	75.9	77.7	72.0
Federal Ongoing Aid	1,749.6	1,806.9	1,806.9
Subtotal Ongoing Revenue	\$15,890.5	\$15,965.7	\$16,353.6
<u>Non-ongoing Revenue:</u>			
Budget Stabilization Fund Deposit	\$350.0	0.0	0.0
Federal CRF	712.0	0.0	0.0
Talent Investment Fund	9.7	0.0	0.0
One-time GF Deposit	42.0	0.0	0.0
GF/GP for DPSCD Addtl Cost Exceeding CDTF \$72m/yr	0.0	5.0	11.5
Reserve Fund for MPSERS	31.9	0.0	0.0
CEPI Work Project Lapse	3.9	0.0	0.0
Subtotal Non-Ongoing Revenue	\$1,149.6	\$5.0	\$11.5
Total Estimated School Aid Fund Revenue	\$17,234.8	\$17,148.2	\$17,287.3
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$15,106.8	\$15,430.2	\$15,349.3
Cost Adjustments (January 2021)	(89.2)	(80.9)	63.0
Enacted Supplementals (PA 265 of 2018, PA 162 of 2019)	59.9	0.0	0.0
Fund Community Colleges with School Aid Fund	414.7	425.7	428.3
Partially Fund Higher Education with School Aid Fund	349.4	356.1	361.4
Subtotal Ongoing Appropriations	\$15,841.6	\$16,131.0	\$16,202.0
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$0.0	\$95.0	\$0.0
Enacted Supplementals (PA 586 of 2018 and PAs 58,162 of 2019)	10.7	0.0	0.0
Enacted Supplemental (PA 146 of 2020)	225.2	0.0	0.0
Estimated Lapses	(20.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$215.8	\$95.0	\$0.0
Total Estimated School Aid Fund Expenditures	\$16,057.4	\$16,226.0	\$16,202.0
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$1,177.4	\$922.2	\$1,085.3