

MEMORANDUM

DATE: May 19, 2023
TO: Members of the Michigan Senate
FROM: Kathryn R. Summers, Director
RE: May Consensus Revenue Year-End Balance Estimates Based on Senate Budgets

Based on the revised consensus revenue estimates agreed to on May 19, 2023, the enacted fiscal year (FY) 2022-23 appropriations, pending supplementals, and projected State appropriations based on Senate-passed FY 2023-24 budgets, the Senate Fiscal Agency (SFA) has revised its estimates of the year-end balances in the FY 2022-23, FY 2023-24, and FY 2024-25 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. 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.....	\$2,592.7	\$923.1	\$1,289.4
School Aid Fund	\$3,903.5	\$2,101.3	\$2,646.7

FY 2022-23 Year-End Balance Estimates

The initial FY 2022-23 budget approved by the Legislature was based on the May 2022 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2023 reflected an increase from the May 2022 estimate for both GF/GP and SAF revenue, allowing continued surpluses in both the GF/GP and SAF budgets. The May 2023 consensus estimate of FY 2022-23 GF/GP revenue was decreased by \$989.9 million from the January 2023 consensus revenue estimate due to changes in tax policy and earmarks of Corporate Income Tax (CIT) revenue, while consensus SAF revenue was increased by \$106.5 million. The consensus estimates coupled with enacted appropriations and SFA projected expenditures for May 2023 result in a projected year-end balance of \$2.6 billion GF/GP and \$3.9 billion SAF.

The FY 2022-23 GF/GP revenue is decreased by \$989.9 million from the January consensus revenue estimate. In addition to the estimated decrease in ongoing revenue, the SFA's FY 2022-23 estimated GF/GP revenue total of \$20.2 billion includes \$7.5 billion of surplus revenue carried forward from FY 2021-22; a negative adjustment totaling \$525.6 million to reflect statutory State revenue sharing payments; and a \$2.6 million reduction from redirection of restricted revenue.

The projected level of FY 2022-23 GF/GP expenditures includes initial ongoing appropriations of \$12.0 billion; initial one-time appropriations of \$3.3 billion; enacted supplemental appropriations of \$2.5 billion; caseload and cost reductions from the May 2023 consensus of \$439.8 million in the Department of Health and Human Services (DHHS); and numerous other one-time and ongoing spending items. 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 \$2.6 billion.

The FY 2022-23 SAF revenue is increased by \$106.5 million from the January consensus estimate. The SFA's FY 2022-23 estimated SAF revenue total of \$24.9 billion includes \$4.6 billion of surplus revenue carried forward from FY 2021-22; \$17.6 billion of restricted SAF revenue; a \$124.2 million GF/GP grant; \$72.0 million from the Community District Education Trust Fund (CDTF); and \$2.2 billion of ongoing Federal aid. Additionally, the SAF revenue total includes \$414.2 million from Federal COVID-19 funding and \$140.4 million from the Michigan Public School Employees Retirement System (MPERS) Reserve Fund.

The estimated \$21.0 billion level of SAF expenditures includes initial enacted K-12 appropriations of \$17.7 billion; consensus cost adjustments of \$53.0 million; initial one-time appropriations of \$1.8 billion; \$454.4 million in pending supplemental appropriations; Community College operations funding of \$529.8 million; and partial Higher Education operations funding of \$347.9 million. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF surplus of \$3.9 billion. Combined, the FY 2022-23 GF/GP and SAF are projected at a \$6.5 billion year-end surplus.

FY 2023-24 Year-End Balance Estimates

The May 2023 consensus estimate of FY 2023-24 GF/GP revenue is decreased by \$1.8 billion from the January 2023 consensus revenue estimate, again reflecting enacted tax changes and CIT earmarks, while consensus SAF revenue is increased by \$42.1 million. The SFA's estimated FY 2023-24 GF/GP and SAF balance sheets use the Senate-passed budget bills for FY 2023-24 as a base for expenditures. The SFA's FY 2023-24 estimated GF/GP revenue total of \$15.5 billion includes \$2.6 billion of FY 2022-23 year-end carry-forward; consensus revenue of \$13.2 billion; Senate-passed FY 2023-24 ongoing statutory revenue sharing payments of \$551.8 million, and \$26.7 million in one-time revenue sharing payments, which reduce GF/GP revenue by that amount; and \$2.6 million in the redirection of available restricted revenue.

The SFA's estimated \$14.6 billion level of FY 2023-24 GF/GP expenditures includes a Senate-passed ongoing initial appropriation of \$12.9 billion, and an estimated \$2.1 billion of one-time appropriations. The GF/GP expenditures also include May revisions to previous consensus caseloads in the DHHS that reduce costs by \$61.3 million; \$28.2 million of additional GF/GP obligation for expenditures exceeding the revenue from the CDTF; and all other items contained within the Senate-passed budgets. Comparing estimated GF/GP revenue with Senate-passed GF/GP appropriations results in a revised projected year-end GF/GP balance of \$923.1 million.

The FY 2023-24 estimated SAF revenue total of \$24.5 billion includes \$3.9 billion of FY 2022-23 projected year-end balance carried forward; \$17.9 billion of restricted SAF revenue; a \$90.0 million GF/GP grant; \$72.0 million from the Community District Education Trust Fund; \$2.2 billion of ongoing Federal aid; and \$28.2 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

The SFA's estimated \$22.4 billion level of SAF expenditures are the Senate-passed FY 2023-24 appropriations for School Aid, adjusted for consensus costs of \$155.2 million, and ongoing SAF appropriations for Community Colleges (\$499.5 million) and Higher Education (\$352.3 million). Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$2.1 billion.

FY 2024-25 Year-End Balance Estimates

The May 2023 consensus estimate of FY 2024-25 GF/GP revenue is decreased by \$1.6 billion from the January 2023 consensus revenue estimate, and consensus SAF revenue is increased by \$8.3 million. The FY 2024-25 estimated GF/GP revenue total of \$12.9 billion includes \$923.1 million of assumed carry-forward from FY 2023-24, \$13.9 billion of consensus revenue, and the assumed continuation of the Senate-passed FY 2023-24 ongoing statutory State Revenue Sharing payments totaling \$551.8 million. The FY 2024-25 estimated SAF revenue total of \$22.7 billion includes \$2.1 billion of projected year-end carry-forward from FY 2023-24; consensus revenue of \$18.3 billion; a continuation of \$49.5 million as the GF/GP grant; \$72.0 million from the Community District Education Trust Fund; \$2.2 billion of Federal aid; and \$32.8 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

The estimated \$12.9 billion level of FY 2024-25 GF/GP expenditures includes the ongoing appropriations assumed to continue from the Senate-passed FY 2023-24 budget bills; a decrease of \$111.2 million from consensus caseload increases; \$32.8 million to cover costs estimated to exceed revenue from the CDTF; and other current service budget adjustments. Comparing estimated GF/GP revenue to estimated GF/GP expenditures results in a projected year-end GF/GP balance of \$1.3 billion.

The estimated \$20.1 billion level of SAF expenditures includes the continuation of the Senate-passed FY 2023-24 budget bills, consensus cost decreases of \$105.5 million, and the continued use of SAF funds for Community College and Higher Education at \$505.5 million and \$352.3 million, respectively. Comparing estimated SAF revenue to estimated SAF expenditures results in a projected year-end SAF balance of \$2.6 billion.

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 any actions taken to increase expenditures in FY 2022-23 will reduce the available carry-forward in future years. Similarly, changes from the FY 2023-24 Senate-passed budget bills will affect potential year-end balances and the amount of carry-forward into future years.

If you have any questions on these revised SFA estimates, please do not hesitate to contact me at 373-5300 or ksummers@senate.michigan.gov.

Table 1

GENERAL FUND/GENERAL PURPOSE (GF/GP) REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES (millions of dollars)			
	SFA Estimates		
	FY 2022-23 Year-To-Date	FY 2023-24 SFA Estimate	FY 2024-25 SFA Estimate
Revenue:			
Beginning Balance.....	\$7,463.5	\$2,592.7	\$923.1
Ongoing Revenue:			
CREC Forecast Revenue Estimate (January 2023)	\$14,777.9	\$15,092.2	\$15,545.5
CREC Forecast Revenue Change (May 2023).....	(989.9)	(1,853.9)	(1,629.1)
Subtotal: Unadjusted CREC Forecast (May 2023)	\$13,788.0	\$13,238.3	\$13,916.4
SFA Adjustments: Restore temporary revenue losses to baseline (May 2023) .	1,080.8	1,162.4	550.0
Adjusted CREC Forecast Ongoing Revenue Estimate (May 2023)	\$14,868.8	\$14,400.7	\$14,466.4
Other Ongoing Revenue Adjustments:			
Adjustments (PPT hold harmless)	(\$75.0)	(\$75.0)	(\$75.0)
CIT Housing Earmark - built into ongoing revenues	0.0	0.0	0.0
Sales tax removal for delivery and installation - built into ongoing revenues....	0.0	0.0	0.0
Senate Bill 127 Community Foundation Endowment Fund.....	0.0	(3.3)	(3.3)
Senate Bill 128 food bank donations	0.0	(18.7)	(18.7)
Retirement income tax changes (HB 4001) - built into ongoing revenues .	0.0	0.0	0.0
EITC (HB 4001) - built into ongoing revenues	0.0	0.0	0.0
Liquor Purchase Revolving Fund - authorized distribution agent adjustment ..	(18.5)	(19.1)	(19.7)
Revenue Sharing Payments	(525.6)	(551.8)	(551.8)
Subtotal Ongoing Revenue.....	\$14,249.7	\$13,732.8	\$13,797.9
Non-ongoing Revenue:			
Legal Settlements/Redirection of Restricted Revenue.....	(\$2.6)	(\$2.6)	(\$2.6)
Moving forward one-year impact of EITC (SB 144)	(384.0)	0.0	0.0
Three-year CIT SOAR earmark	(50.0)	(50.0)	(50.0)
Three-year CIT RAP earmark.....	(500.0)	(500.0)	(500.0)
Income tax reduction (ie, trigger) - 4/10/23: AG opinion 1-year impact	(530.8)	(228.4)	0.0
Revenue Sharing One-Time Payments	(4.9)	(26.7)	0.0
Subtotal Non-Ongoing Revenue.....	(\$1,472.3)	(\$807.7)	(\$552.6)
Total Estimated GF/GP Revenue Including Beginning Balance.....	\$20,240.9	\$15,517.9	\$14,168.4
Total Estimated GF/GP Revenue Excluding Beginning Balance	\$12,777.4	\$12,925.2	\$13,245.3
Expenditures:			
Ongoing Appropriations:			
Initial Senate Appropriations.....	\$11,963.6	\$12,859.0	\$12,857.4
Ongoing reserve for audit, legal, statutory, and other costs.....	0.0	100.0	100.0
Ongoing Community District Trust Fund GF payment	0.0	28.2	32.8
Subtotal Ongoing Appropriations	\$11,963.6	\$12,987.2	\$12,990.2
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	\$3,292.3	\$2,148.8	\$0.0
BSF Deposit.....	0.0	200.0	0.0
Fund shift Corrections payroll with revenue loss SFRF	0.0	(700.0)	0.0
Enacted Supplementals	2,530.4	0.0	0.0
Exec Rec Supplementals (2023-2 and 2023-3)	816.7	0.0	0.0
Remove Exec Rec supplementals to show baseline	(816.7)	0.0	0.0
Restore FMAP and caseload savings from exec rec Supplementals.....	(517.5)	0.0	0.0
CREC forecast of adjustments in FMAP, caseloads, child care	77.7	(61.3)	(111.2)
Senate supplemental items	29.3	0.0	0.0
Reserve for audit, legal, statutory, other costs.....	200.0	20.0	0.0
Treasury boilerplate appropriation	50.0	0.0	0.0
Additional K-12 GF for Community District Trust Fund (moved to ongoing)....	22.4	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$5,684.5	\$1,607.6	(\$111.2)
Total Estimated GF/GP Expenditures	\$17,648.2	\$14,594.8	\$12,879.0
PROJECTED YEAR-END GF/GP BALANCE (Total).....	\$2,592.7	\$923.1	\$1,289.4
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)	\$2,286.1	\$745.6	\$807.7
PROJECTED YEAR-END GF/GP BALANCE (One-Time).....	\$306.6	\$177.5	\$481.7

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

	SFA Estimates		
	FY 2022-23 Year-To-Date	FY 2023-24 SFA Estimate	FY 2024-25 SFA Estimate
Revenue:			
Beginning Balance.....	\$4,622.5	\$3,903.5	\$2,101.3
<u>Ongoing Revenue:</u>			
CREC Forecast Revenue Estimate (January 2023)	\$17,635.1	\$17,846.0	\$18,257.6
CREC Forecast Revenue Change (May 2023)	106.5	42.1	8.3
Subtotal: Unadjusted CREC Forecast (May 2023)	\$17,741.6	\$17,888.1	\$18,265.9
SFA Adjustments: Remove temporary revenue gains from baseline (May 2023)	(102.6)	(9.7)	0.0
Adjusted CREC Forecast Ongoing Revenue Estimate (May 2023)	\$17,639.0	\$17,878.4	\$18,265.9
<u>Other Revenue Adjustments:</u>			
Adjustments.....	\$0.0	\$0.0	\$0.0
General Fund/General Purpose Grant.....	48.6	49.8	49.5
Community District Education Trust Fund	72.0	72.0	72.0
Federal Ongoing Aid.....	2,199.0	2,199.0	2,199.0
Subtotal Ongoing Revenue.....	\$19,958.6	\$20,199.2	\$20,586.4
<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) - 4/10/23	102.6	9.7	
MPSERS Reserve Fund	140.4	202.0	0.0
Infrastructure and Consolidation Fund	0.0	100.0	0.0
Revenue Deposits - Infrastructure/MPSERS	(425.0)	0.0	0.0
Additional One-Time GF	75.6	40.2	0.0
GF/GP for DPSCD Addtl Cost Exceeding CDTF \$72m/yr.....	22.4	28.2	32.8
Subtotal Non-Ongoing Revenue	\$358.1	\$380.1	\$32.8
Total Estimated SAF Revenue Including Beginning Balance	\$24,939.2	\$24,482.8	\$22,720.5
Total Estimated SAF Revenue Excluding Beginning Revenue.....	\$20,316.7	\$20,579.2	\$20,619.2
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 State Appropriations.....	\$15,457.2	\$17,206.4	\$17,122.4
School Aid Federal Funds.....	2,274.2	2,199.0	2,199.0
State Funds Cost Adjustments	53.0	155.2	(105.5)
Federal Funds Cost Adjustments.....	35.7	0.0	0.0
Fund Community Colleges with SAF	448.6	499.5	505.5
Partially Fund Higher Education with SAF	347.9	352.3	352.3
Subtotal Ongoing Appropriations	\$18,616.6	\$20,412.5	\$20,073.8
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations (School Consolidation)	\$1,871.3	\$1,405.8	\$0.0
Initial One-Time Community College Appropriations	81.2	63.2	0.0
Fund deposits (MPSERS, Consolidation, Teacher Recruitment)	0.0	500.0	0.0
University MPSERS	0.0	0.0	0.0
Supplementals	454.4	0.0	0.0
Adjust to bookclose	0.0	0.0	0.0
Enacted FY 22 and FY 23 Supplementals (including SB 8)	12.2	0.0	0.0
Lapses	0.0	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$2,419.1	\$1,969.0	\$0.0
Total Estimated School Aid Fund Expenditures	\$21,035.7	\$22,381.5	\$20,073.8
PROJECTED YEAR-END SAF BALANCE (Total).....	\$3,903.5	\$2,101.3	\$2,646.7
PROJECTED YEAR-END SAF BALANCE (Ongoing)	\$1,430.7	(\$58.1)	\$407.2
PROJECTED YEAR-END SAF BALANCE (One-Time).....	\$2,472.8	\$2,159.4	\$2,239.6