

**SENATE FISCAL AGENCY
MEMORANDUM**



DATE: January 12, 2017
TO: Members of the Senate
FROM: Ellen Jeffries, 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) 2015-16, FY 2016-17, and FY 2017-18. An agreement also was reached on the first consensus estimate of FY 2018-19 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 in the FY 2015-16, FY 2016-17, and FY 2017-18 GF/GP and SAF budgets. This memorandum provides a brief summary of these revised SFA estimates.

FY 2015-16 Year-End Balance Estimates

The FY 2015-16 State budget was originally based on consensus revenue estimates agreed to in May 2015. At that time, the GF/GP year-end balance was projected to be \$17.6 million, and the projected SAF year-end balance was \$50.2 million. The FY 2015-16 comprehensive annual financial report (commonly referred to as the CAFR) has not yet been published, but based on year-to-date accounting reports of FY 2015-16 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the Senate Fiscal Agency is projecting that the FY 2015-16 GF/GP budget will close the fiscal year with a \$608.6 million balance. The FY 2015-16 SAF budget is projected to close the fiscal year with a \$168.2 million balance.

The first column of Table 1 provides a summary of the current SFA estimate of a \$608.6 million balance in the FY 2015-16 GF/GP budget. The first column of Table 2 provides a summary of the SFA's estimate of a \$168.2 million year-end balance in the FY 2015-16 SAF budget. Pursuant to statutory requirements, the amounts of the year-end balances will carry forward and be available as FY 2016-17 revenue sources. It should be noted that year-end balances of \$135.3 million GF/GP and \$104.2 million SAF had been assumed in June 2016 when the FY 2016-17 budget was being finalized, and were factored into the FY 2016-17 spending plan.

The revised FY 2015-16 balance sheets in this memo include \$473.3 million more in the GF/GP carry-forward year-end balance and \$64.0 million more in the SAF carry-forward year-end balance, than the June 2016 estimate. Of the \$473.3 million-higher GF/GP carry-forward balance, \$281.3 million was due to changes in revenue from the May 2016 consensus. These revenue changes were accompanied by higher-than-anticipated year-end lapses of \$198.1 million. Also of note is that of the \$281.3 million GF/GP revenue change from the May 2016 consensus, approximately \$152.1 million can be attributed to Michigan Business Tax credits that were not posted as part of the FY 2015-16 book-closing process, but may be recognized in a future fiscal year. The SAF's FY 2015-16 year-end balance increase of \$64.0 million from June 2016 is primarily attributed to a revenue increase of \$51.3 million, as well as year-end lapses and other adjustments that lowered expenditures compared to the June 2016 estimates.

FY 2016-17 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA is now estimating that the FY 2016-17 GF/GP budget year-end balance will be \$479.7 million. The second column of [Table 1](#) provides a summary of this estimate. The estimate includes a projected \$608.6 million budget surplus carried forward from FY 2015-16. The current consensus estimate of FY 2016-17 GF/GP revenue represents a \$151.6 million increase from the May 2016 consensus revenue estimate upon which the FY 2016-17 budget was based, although \$80.0 million of this increase had already been assumed on the balance sheet due to the adoption of insurance tax credits. The SFA estimate of \$10.1 billion for FY 2016-17 GF/GP expenditures has not changed from the estimate published in the SFA's Economic Outlook and Budget Review on December 19, 2016. Comparing the total estimated GF/GP revenue (based on the January 2017 consensus revenue estimate) to the SFA's estimate of FY 2016-17 GF/GP expenditures results in a projected year-end balance of \$479.7 million.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA is now estimating that the FY 2016-17 SAF budget will have a year-end balance of \$143.5 million. The second column of [Table 2](#) provides a summary of this estimate. This estimate includes a projected \$168.2 million budget surplus carried forward from FY 2015-16. The current consensus estimate of FY 2016-17 SAF revenue represents a \$54.6 million increase from the May 2016 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 2016-17 by \$15.5 million. Comparing the total estimated SAF revenue (based on the January 2017 consensus revenue estimate) to the SFA's estimate of FY 2016-17 SAF expenditures results in a projected ending balance of \$143.5 million.

FY 2017-18 State Budget Outlook

Pursuant to statutory requirements, the Governor must submit a detailed FY 2017-18 State budget recommendation to the Legislature no later than February 11, 2017. This State budget recommendation will continue the debate on the FY 2017-18 State budget. On February 10, 2016, Governor Snyder presented his FY 2016-17 budget and his projections for FY 2017-18. The Legislature subsequently enacted an FY 2016-17 State budget and included language within that budget expressing intent to provide FY 2017-18 appropriations that would be the same as those for FY 2016-17, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2016-17 GF/GP revenue and expenditures produce a projected FY 2017-18 beginning balance of \$479.7 million. If this beginning balance is combined with total estimated GF/GP revenue (based on the January 2017 consensus revenue estimate) of \$10.5 billion, and if FY 2017-18 ongoing and one-time departmental appropriations are assumed to remain at the same levels as those of FY 2016-17, with adjustments for caseload, costs, and economic factors, there will be an FY 2017-18 projected year-end GF/GP balance of \$267.5 million. 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 2017-18 SAF budget. The estimated FY 2016-17 SAF revenue and expenditures result in a projected ending balance of \$143.5 million. If this balance is carried forward into FY 2017-18 and is combined with \$14.7 billion of ongoing revenue (based on the January 2017 consensus revenue estimate), and if FY 2017-18 SAF expenditures are continued at the FY 2016-17 appropriation level with consensus adjustments for pupils, local property tax valuations, and other costs, there will be an FY 2017-18 projected SAF year-end balance of \$273.7 million. The FY 2017-18 total estimated SAF expenditures assume the continuation of SAF appropriations of \$260.9 million for community colleges and \$237.3 million for universities, adjusted for the cap on employee retirement costs.

Summary

Tables 1 and 2 summarize the projected year-end balances for all three fiscal years, for the GF/GP and School Aid Fund budgets, respectively.

Table 1
FY 2015-16, FY 2016-17, AND FY 2017-18
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2015-16	FY 2016-17	FY 2017-18
Revenue:			
Beginning Balance	\$694.7	\$608.6	\$479.7
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2016)	\$9,734.1	\$10,138.5	\$10,607.1
January 2017 Revenue Estimate Change	281.3	151.6	(84.4)
Consensus Revenue Estimate (January 2017)	\$10,015.4	\$10,290.1	\$10,522.7
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(\$462.7)	(\$465.3)	(\$465.3)
Shift of Borrowing Costs to School Aid Fund	1.3	5.5	6.5
Medicaid Managed Care Use Tax	413.5	105.3	0.0
Subtotal Ongoing Revenue	\$9,967.5	\$9,935.6	\$10,063.9
<u>Non-Ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(\$5.8)	(\$5.8)	(\$5.8)
School Bond Loan Repayments	8.0	0.0	0.0
Redirection of Restricted Revenue	2.6	16.8	0.0
Bookclosing Adjustments	3.3	0.0	0.0
Subtotal Non-Ongoing Revenue	\$8.1	\$11.0	(\$5.8)
Total Estimated GF/GP Revenue	\$10,670.3	\$10,555.2	\$10,537.8
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations	\$9,517.8	\$9,669.0	\$9,669.0
<u>One-Time and Other Appropriations:</u>			
Initial One-Time Appropriations.....	\$356.3	\$306.3	\$306.3
Appropriation to Budget Stabilization Fund.....	95.0	75.0	0.0
Enacted Supplementals	282.7	125.2	0.0
Estimated Baseline, Caseload, Cost Adjustments.....	0.0	(100.0)	295.0
Estimated Lapses.....	(190.1)	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$543.9	\$406.5	\$601.3
Total Estimated GF/GP Expenditures	\$10,061.7	\$10,075.5	\$10,270.3
PROJECTED YEAR-END GF/GP BALANCE	\$608.6	\$479.7	\$267.5

Table 2
FY 2015-16, FY 2016-17, AND FY 2017-18
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2015-16	FY 2016-17	FY 2017-18
Revenue:			
Beginning Balance	\$190.2	\$168.2	\$143.5
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2016)	\$12,067.4	\$12,402.4	\$12,760.8
January 2017 Revenue Estimate Change	51.3	54.6	22.3
Consensus Revenue Estimate (January 2017)	\$12,118.7	\$12,457.0	\$12,783.1
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	55.1	218.9	57.4
Community District Education Trust Fund	0.0	72.0	72.0
Medicaid Managed Care Use Tax	206.8	52.6	0.0
Federal Ongoing Aid	1,775.8	1,818.6	1,818.6
Subtotal Ongoing Revenue	\$14,156.4	\$14,619.1	\$14,731.6
<u>Non-ongoing Revenue:</u>			
Work Project Lapses/Bookclosing Adjustments.....	3.5	0.0	0.0
Total Estimated School Aid Fund Revenue.....	\$14,350.1	\$14,787.3	\$14,874.6
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$13,846.5	\$13,985.8	\$14,102.4
Enacted Supplementals	(169.2)	0.0	0.0
Consensus Estimate of K-12 Cost Adjustments (January 2017)	0.0	(15.5)	0.3
Partially Fund Community Colleges with School Aid Fund.....	256.7	260.4	260.9
Partially Fund Higher Education with School Aid Fund	205.2	237.1	237.3
Subtotal Ongoing Appropriations	\$14,139.2	\$14,467.8	\$14,600.9
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$49.8	\$176.0	\$0.0
Enacted Supplementals	9.5	0.0	0.0
Bookclosing Adjustments	22.4	0.0	0.0
Estimated Lapses.....	(39.0)	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$42.7	\$176.0	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$14,181.9	\$14,643.8	\$14,600.9
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$168.2	\$143.5	\$273.7

The SFA also is publishing today a memo that summarizes the Consensus Revenue Estimates for FYs 2015-16, 2016-17, and 2017-18, and the School Aid Foundation Allowance Index Estimate for FY 2017-18. If you have any questions on any of the Consensus Revenue Estimating Conference issues, please contact me at 517-373-5300 or at ejeffries@senate.michigan.gov.

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