

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 16, 2015
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) 2013-14, FY 2014-15, and FY 2015-16. An agreement also was reached on the first consensus estimate of FY 2016-17 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 2013-14, FY 2014-15, and FY 2015-16 GF/GP and SAF budgets. This memorandum provides a brief summary of these revised SFA estimates.

FY 2013-14 Year-End Balance Estimates

The FY 2013-14 State budget was originally based on consensus revenue estimates agreed to in May 2013. The revisions of the consensus revenue estimates agreed to in January and May 2014 projected positive year-end balances in both the GF/GP and SAF budgets. The comprehensive annual financial report (commonly referred to as the CAFR) was published on January 13, 2015, and based on this report, the GF/GP budget closed the fiscal year with a \$306.4 million balance. The FY 2013-14 SAF budget closed the fiscal year with a \$455.1 million balance.

The first column of Table 1 provides a summary of the current SFA estimate of a \$306.4 million balance in the FY 2013-14 GF/GP budget. The first column of Table 2 provides a summary of the SFA's estimate of a \$455.1 million year-end balance in the FY 2013-14 SAF budget. Pursuant to statutory requirements, the amounts of the year-end balances will carry forward and be available as FY 2014-15 revenue sources. It should be noted that year-end balances of \$438.2 million GF/GP and \$294.8 million SAF had been assumed in June 2014 when the FY 2014-15 budget was being finalized, and were factored into the FY 2014-15 spending plan.

The revised FY 2013-14 balance sheets in this memo include \$131.8 million less in the GF/GP carry-forward year-end balance and \$160.3 million more in the SAF carry-forward year-end balance, than the June 2014 estimate. Of the \$131.8 million-lower GF/GP carry-forward balance, \$300.8 million was due to changes in revenue from the May 2014 consensus, \$44.6 million was lost from book-closing adjustments, and actual revenue collected from the managed care use tax was \$8.9 million lower than estimated. These revenue losses were nearly offset by higher than anticipated year-end lapses of \$260.7 million. Also of note is that of the \$300.8 million revenue change from the May 2014 consensus, approximately \$225.0 million can be attributed to Michigan Business Tax credits that were posted as part of the FY 2013-14 book-closing process. The SAF's FY 2013-14 year-end balance increase of \$160.3 million from June 2014 is due to a revenue increase of \$24.2 million as well as cost adjustments and year-end lapses of approximately \$137.0 million that lowered expenditures compared to the June 2014 estimates.

FY 2014-15 Year-End Balance Estimates

Based on the consensus revenue estimate and enacted appropriations, the SFA is now estimating that the FY 2014-15 GF/GP budget is out of balance by \$330.0 million. The second column of Table 1 provides a summary of this estimate. The estimate includes a projected \$306.4 million budget surplus carried forward from FY 2013-14. The current consensus estimate of FY 2014-15 GF/GP revenue represents a \$324.6 million decrease from the May 2014 consensus revenue estimate upon which the FY 2014-15 budget was based. The SFA estimate of \$10.0 billion for FY 2014-15 GF/GP expenditures has not changed from the estimate published in the SFA's Economic and Budget Review on December 19, 2014. Comparing the January 2015 GF/GP consensus revenue estimate to the SFA's estimate of FY 2014-15 GF/GP expenditures results in a projected negative ending balance of \$330.0 million.

Based on the consensus revenue estimate and enacted and projected expenditures, the SFA is now estimating that the FY 2014-15 SAF budget is in balance by \$293.4 million. The second column of Table 2 provides a summary of this estimate. This estimate includes a projected \$455.1 million budget surplus carried forward from FY 2013-14. The current consensus estimate of FY 2014-15 SAF revenue represents a \$35.8 million increase from the May 2014 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 2014-15 by \$96.0 million. Comparing the January 2015 SAF consensus revenue estimate to the SFA's estimate of FY 2014-15 SAF expenditures results in a projected ending balance of \$293.4 million.

FY 2015-16 State Budget Outlook

Pursuant to statutory requirements, the Governor must submit a detailed FY 2015-16 State budget recommendation to the Legislature no later than February 13, 2015. This State budget recommendation will continue the debate on the FY 2015-16 State budget. On February 5, 2014, Governor Snyder presented his FY 2014-15 budget and his projections for FY 2015-16. The Legislature subsequently enacted an FY 2014-15 State budget and included language within that budget expressing intent to provide FY 2015-16 appropriations that would be the same as those for FY 2014-15, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2014-15 GF/GP revenue and expenditures produce a projected FY 2015-16 beginning balance of zero, assuming that the projected FY 2014-15 deficit of \$330.0 million will be resolved. If there is a zero beginning balance for FY 2015-16 and a consensus revenue reduction of \$532.1 million, and if FY 2015-16 ongoing and one-time appropriations are assumed to remain at the same levels as those of FY 2014-15, with adjustments for caseload and costs in the Departments of Community Health and Human Services, there will be an FY 2015-16 projected year-end GF/GP balance of a negative \$382.9 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 2015-16 SAF budget. The estimated FY 2014-15 SAF revenue and expenditures result in a projected ending balance of \$293.4 million. If this balance is carried forward into FY 2015-16 and if \$5.6 million of additional consensus revenue is assumed, and if FY 2015-16 SAF expenditures are continued at the FY 2014-15 appropriation level with consensus adjustments for pupils, local property tax valuations, and other costs, there will be an FY 2015-16 projected year-end balance of \$517.2 million. The FY 2015-16 total estimated SAF expenditures assume SAF appropriations of \$404.1 million for community colleges and universities and that \$197.1 million of one-time K-12 appropriations are continued.

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 2013-14, FY 2014-15, AND FY 2015-16
GENERAL FUND/GENERAL PUURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

| | FY 2013-14 | FY 2014-15 | FY 2015-16 |
|--|------------------|-------------------|-------------------|
| Revenue: | | | |
| Beginning Balance | \$1,186.6 | \$306.4 | \$0.0 |
| Ongoing Revenue: | | | |
| May 2014 Consensus Revenue Estimate | \$9,319.3 | \$9,826.0 | \$10,245.3 |
| January 2015 Consensus Revenue Change..... | <u>(300.8)</u> | <u>(324.6)</u> | <u>(532.1)</u> |
| January 2015 Consensus Revenue Estimate | \$9,018.5 | \$9,501.4 | \$9,713.2 |
| Other Revenue Adjustments: | | | |
| Revenue Sharing Payments | (370.6) | (459.2) | (462.6) |
| Shift of Short-Term Borrowing Costs to School Aid Fund | 0.0 | 3.0 | 4.0 |
| Managed Care Use Tax (PA 161 of 2014) | 164.6 | 392.9 | 400.8 |
| Affiliate Nexus Sales/Use Tax (PAs 553 and 554 of 2014) | <u>0.0</u> | <u>0.0</u> | <u>10.0</u> |
| Subtotal Ongoing Revenue | \$8,812.5 | \$9,438.1 | \$9,665.4 |
| Non-Ongoing Revenue: | | | |
| One-Time Appropriation for Revenue Sharing | (26.0) | (8.8) | (8.8) |
| Bookclosing Adjustments | (44.6) | 0.0 | 0.0 |
| Venture Michigan Fund Adjustment | 0.0 | (38.1) | (38.1) |
| Total Estimated GF/GP Revenue | \$9,928.5 | \$9,697.6 | \$9,618.5 |
| Expenditures: | | | |
| Initial Ongoing Appropriations | \$8,952.0 | \$9,255.9 | \$9,327.8 |
| Initial One-Time Appropriations..... | 307.9 | 207.0 | 207.0 |
| Initial One-Time Appropriations for Transportation | 121.3 | 284.6 | 284.6 |
| One-Time Appropriation to Budget Stabilization Fund | 75.0 | 94.0 | 0.0 |
| One-Time Appropriation to Roads and Risks Reserve Fund.... | 230.0 | 0.0 | 0.0 |
| Enacted Supplementals | 16.4 | 30.0 | 0.0 |
| Boilerplate Work Project Supplementals..... | 6.5 | 0.0 | 0.0 |
| Actuarial Soundness Adjustment for Managed Care Use Tax | 72.3 | 150.5 | 155.0 |
| Health Insurance Claims Assessment Revenue Shortfall | 101.2 | 187.6 | 187.0 |
| SFA Estimated DCH and DHS Caseload/Cost Adjustments | 0.0 | (110.0) | (110.0) |
| Roads and Risks Reserve Fund Balance | 0.0 | (22.0) | 0.0 |
| Estimated Year-End Lapses | <u>(260.7)</u> | <u>(50.0)</u> | <u>(50.0)</u> |
| Total Estimated GF/GP Expenditures | \$9,622.1 | \$10,027.6 | \$10,001.4 |
| Projected Year-End GF/GP Balance | \$306.4 | (\$330.0) | (\$382.9) |

Table 2
FY 2013-14, FY 2014-15, AND FY 2015-16
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

| | FY 2013-14 | FY 2014-15 | FY 2015-16 |
|---|-------------------|-------------------|-------------------|
| Revenue: | | | |
| Beginning Balance | \$292.0 | \$455.1 | \$293.4 |
| Ongoing Revenue: | | | |
| May 2014 Consensus Revenue Estimate | \$11,496.3 | \$11,853.3 | \$12,258.1 |
| January 2015 Consensus Revenue Change..... | <u>24.2</u> | <u>35.8</u> | <u>5.6</u> |
| January 2015 Consensus Revenue Estimate | \$11,520.5 | \$11,889.1 | \$12,263.7 |
| Other Revenue Adjustments: | | | |
| General Fund/General Purpose Grant | 95.0 | 95.0 | 95.0 |
| Federal Ongoing Aid..... | 1,571.6 | 1,808.2 | 1,808.2 |
| MPSERS/Education Reserve Fund..... | 156.0 | 18.0 | 0.0 |
| Reimbursement from GF for PPT Reform..... | 0.0 | 19.9 | 30.9 |
| Managed Care Use Tax (PA 161 of 2014) | 85.9 | 196.4 | 200.3 |
| Affiliate Nexus Sales/Use Tax (PAs 553 and 554 of 2014) | <u>0.0</u> | <u>0.0</u> | <u>44.0</u> |
| Subtotal Ongoing Revenue | \$13,429.0 | \$14,026.6 | \$14,442.1 |
| Non-Ongoing Revenue: | | | |
| General Fund/General Purpose Grant | 54.9 | 0.0 | 0.0 |
| Federal Race to the Top Challenge Grant | 51.7 | 0.0 | 0.0 |
| Bookclosing Adjustments | 59.9 | 0.0 | 0.0 |
| Venture Michigan Fund Adjustment | 0.0 | (11.9) | (11.9) |
| Total Estimated School Aid Fund Revenue..... | \$13,887.5 | \$14,469.8 | \$14,723.6 |
| Expenditures: | | | |
| Initial Ongoing Appropriations..... | \$13,168.8 | \$13,494.1 | \$13,494.1 |
| January 2014 Consensus Cost Adjustments | (109.3) | 0.0 | 0.0 |
| May 2014 MPSERS and Other Cost Adjustments..... | 0.0 | 0.0 | 239.6 |
| January 2015 Consensus Cost Adjustments | 20.7 | (96.0) | (128.5) |
| Federal Revenue Reduction | (192.9) | 0.0 | 0.0 |
| Partially Fund Community Colleges with School Aid Fund..... | 197.6 | 197.6 | 197.6 |
| Partially Fund Higher Education with School Aid Fund | <u>200.5</u> | <u>200.5</u> | <u>200.5</u> |
| Subtotal Ongoing Appropriations | \$13,285.4 | \$13,796.2 | \$14,003.3 |
| Initial One-Time Appropriations..... | 193.0 | 376.2 | 197.1 |
| Enacted Supplementals | 69.8 | 0.0 | 0.0 |
| MPSERS Funding for Universities | <u>0.0</u> | <u>4.0</u> | <u>6.0</u> |
| Subtotal One-Time Appropriations..... | \$262.8 | \$380.2 | \$203.1 |
| Estimated Year-End Lapses | (115.8) | 0.0 | 0.0 |
| Total Estimated School Aid Fund Expenditures..... | \$13,432.4 | \$14,176.4 | \$14,206.4 |
| Projected Year-End School Aid Fund Balance | \$455.1 | \$293.4 | \$517.2 |

The SFA also is publishing today a memo that summarizes the Consensus Revenue Estimates for FYs 2013-14, 2014-15, and 2015-16, and the School Aid Foundation Allowance Index Estimate for FY 2015-16. If you have any questions on any of the Consensus Revenue Estimating Conference issues, please contact me at 517-373-5300 or at jeffries@senate.michigan.gov.

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