

Consensus Revenue Estimating Conference Overview

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House Fiscal Agency**

**House Appropriations Committee
January 22, 2020**



Consensus Revenue Estimating Conference

FORECAST INPUT

University of Michigan
Economic Outlook

National
Economic Forecasts

State
Economic Forecasts

AGENCY FORECASTS:

House Fiscal Agency
Senate Fiscal Agency
Administration

**CONSENSUS
REVENUE
ESTIMATING
CONFERENCE**

FORECAST OUTPUT

Estimates of:

Total
GF/GP Revenue

Total
School Aid Fund
Revenue

School
Foundation Index

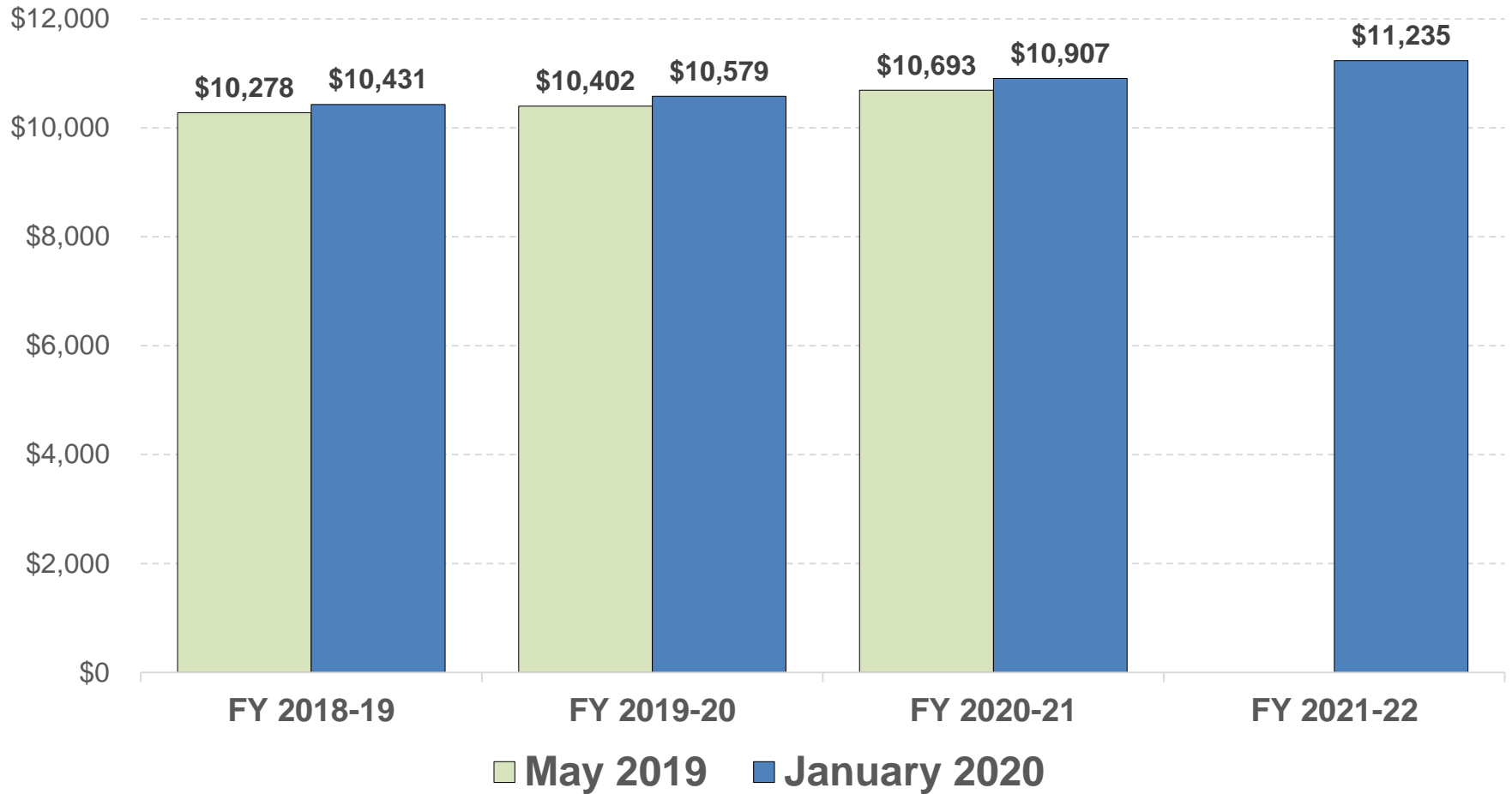
Constitutional
Revenue Limit

Budget
Stabilization Fund
Pay-in/Pay-out

Revenue Estimates

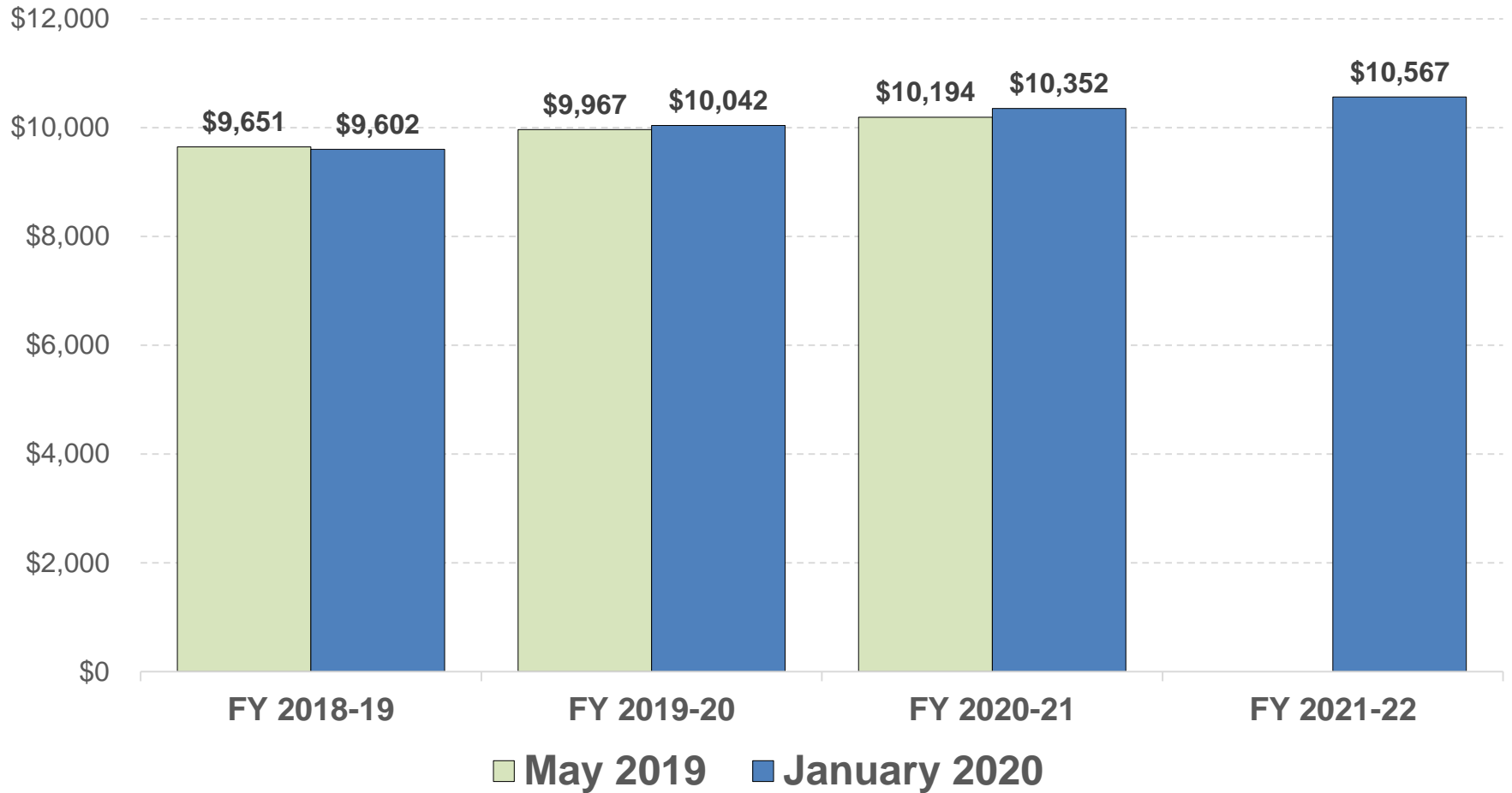
Net Individual Income Tax

(Dollars in Millions)



Sales and Use Taxes

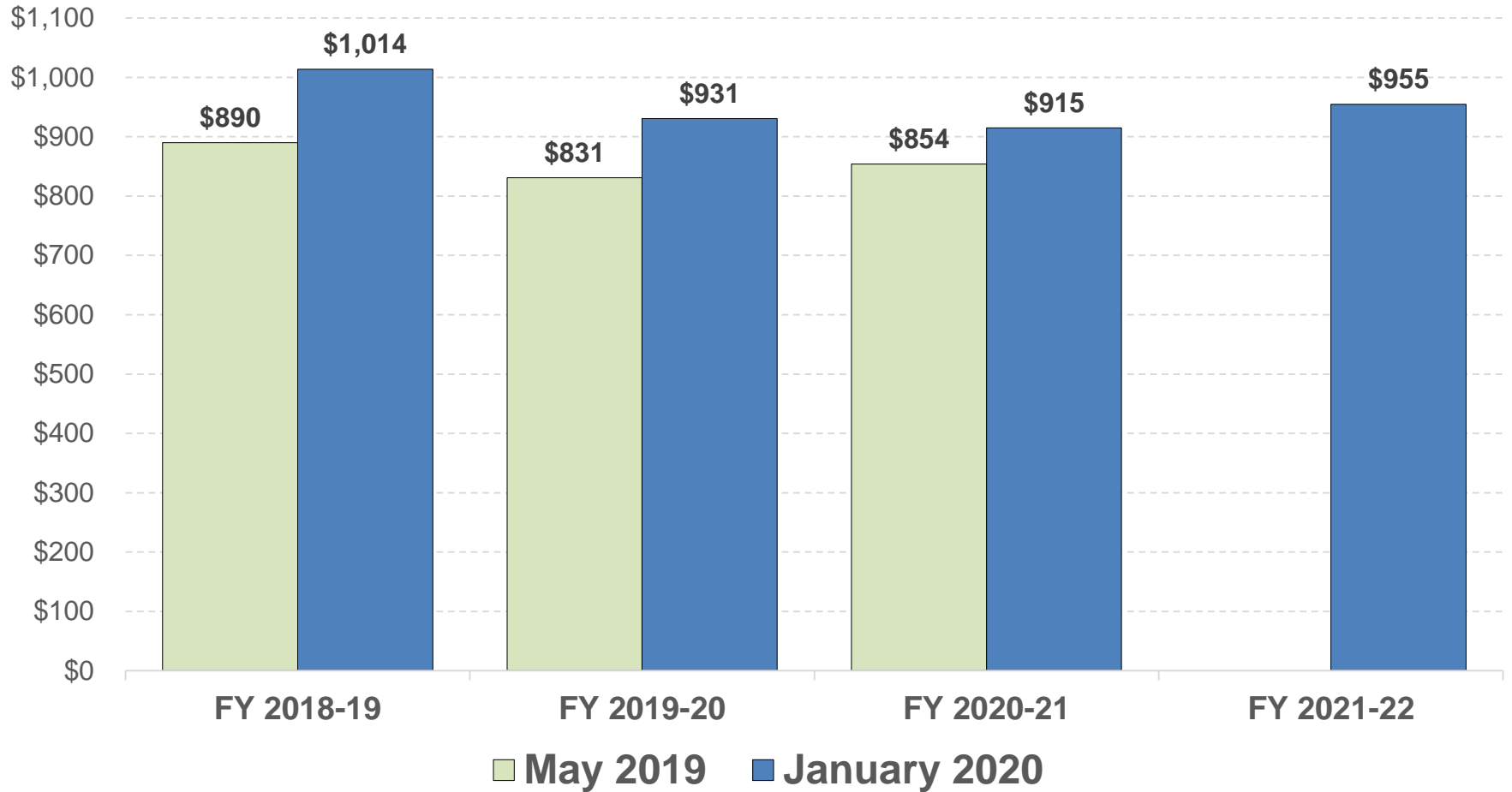
(Dollars in Millions)



Combined Business Taxes

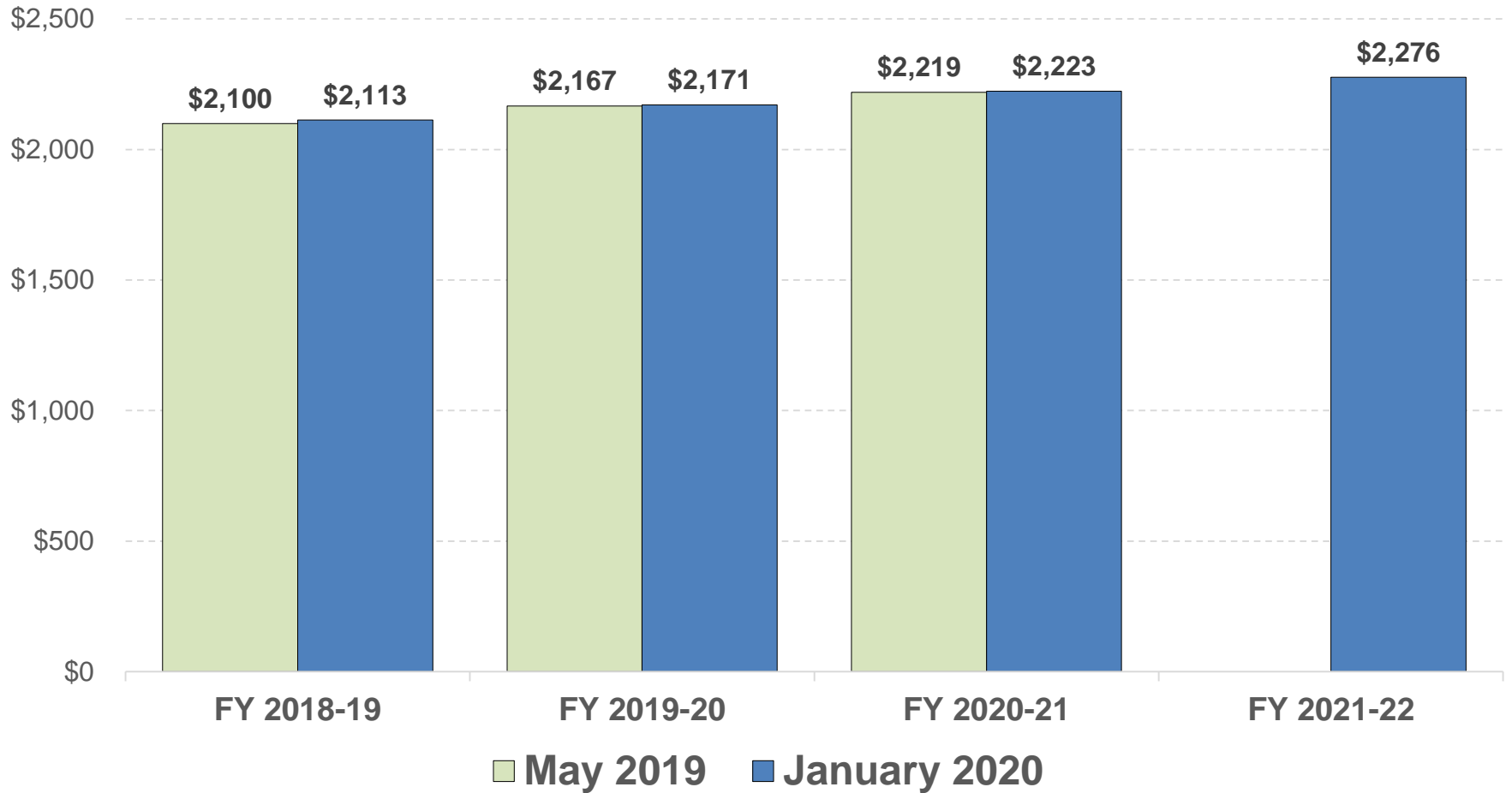
(Corporate Income Tax / Michigan Business Tax / Insurance Company Premiums Taxes)

(Dollars in Millions)



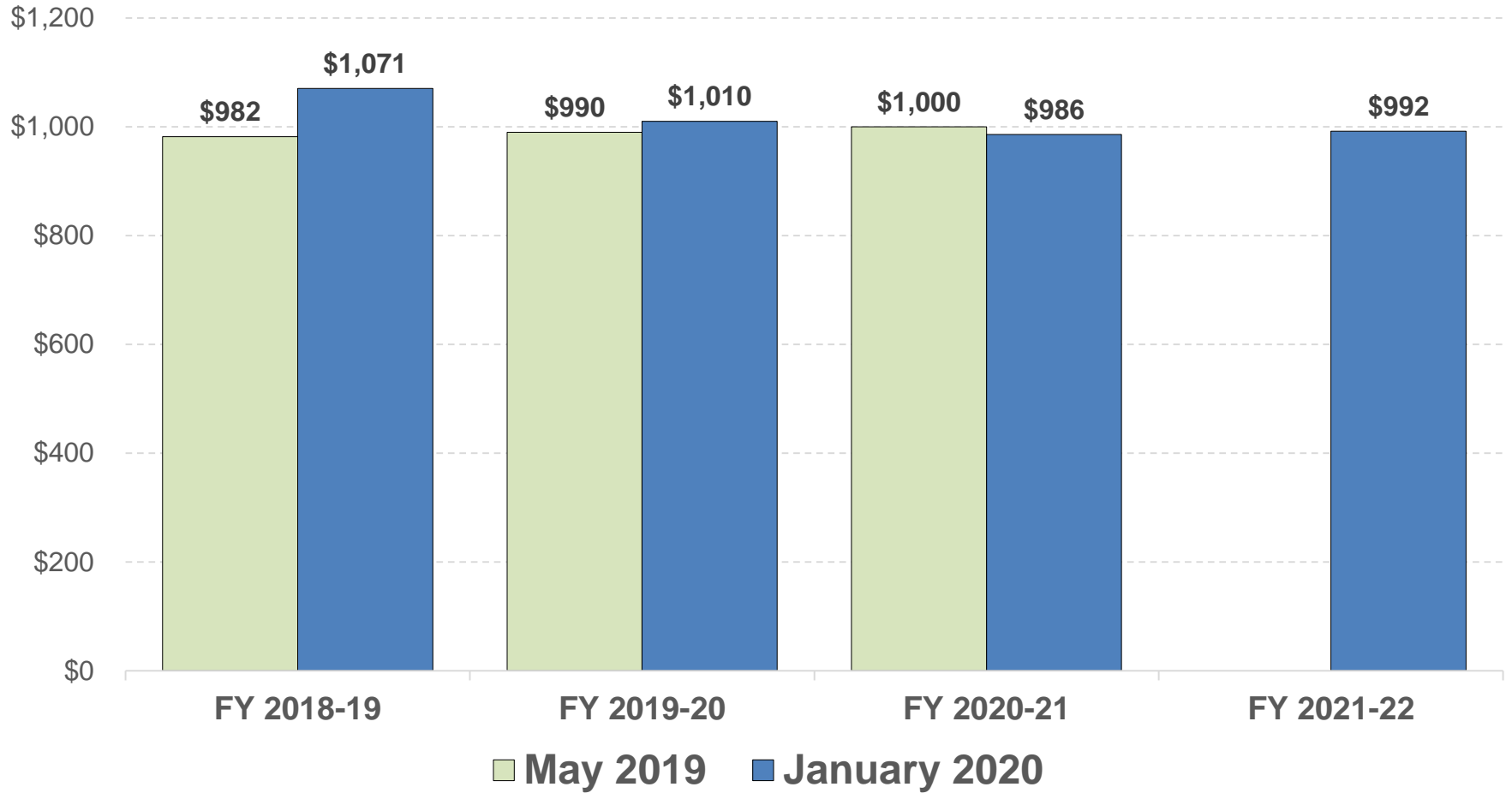
State Education Tax (SET)

(Dollars in Millions)



Lottery Transfer

(Dollars in Millions)



January 2020 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2018-19			Change from May 2019 Consensus
	January 2020 Consensus	Change From FY 2017-18		
General Fund/General Purpose (GF/GP)	\$11,108	\$91	0.8%	\$256
School Aid Fund (SAF)	13,560	258	1.9%	78
Total Revenue	\$24,668	\$349	1.4%	\$334

Note: Numbers may not add due to rounding.

January 2020 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2019-20			Change from May 2019 Consensus
	January 2020 Consensus	Change From FY 2018-19		
General Fund/General Purpose (GF/GP)	\$11,012	(\$96)	(0.9%)	\$235
School Aid Fund (SAF)	13,926	366	2.7%	86
Total Revenue	\$24,938	\$270	1.1%	\$321

Note: Numbers may not add due to rounding.

January 2020 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2020-21			Change from May 2019 Consensus
	January 2020 Consensus	Change From FY 2019-20		
General Fund/General Purpose (GF/GP)	\$11,195	\$182	1.7%	\$274
School Aid Fund (SAF)	14,318	392	2.8%	138
Total Revenue	\$25,512	\$574	2.3%	\$412

Note: Numbers may not add due to rounding.

January 2020 Consensus Revenue Estimates

(Dollars in Millions)

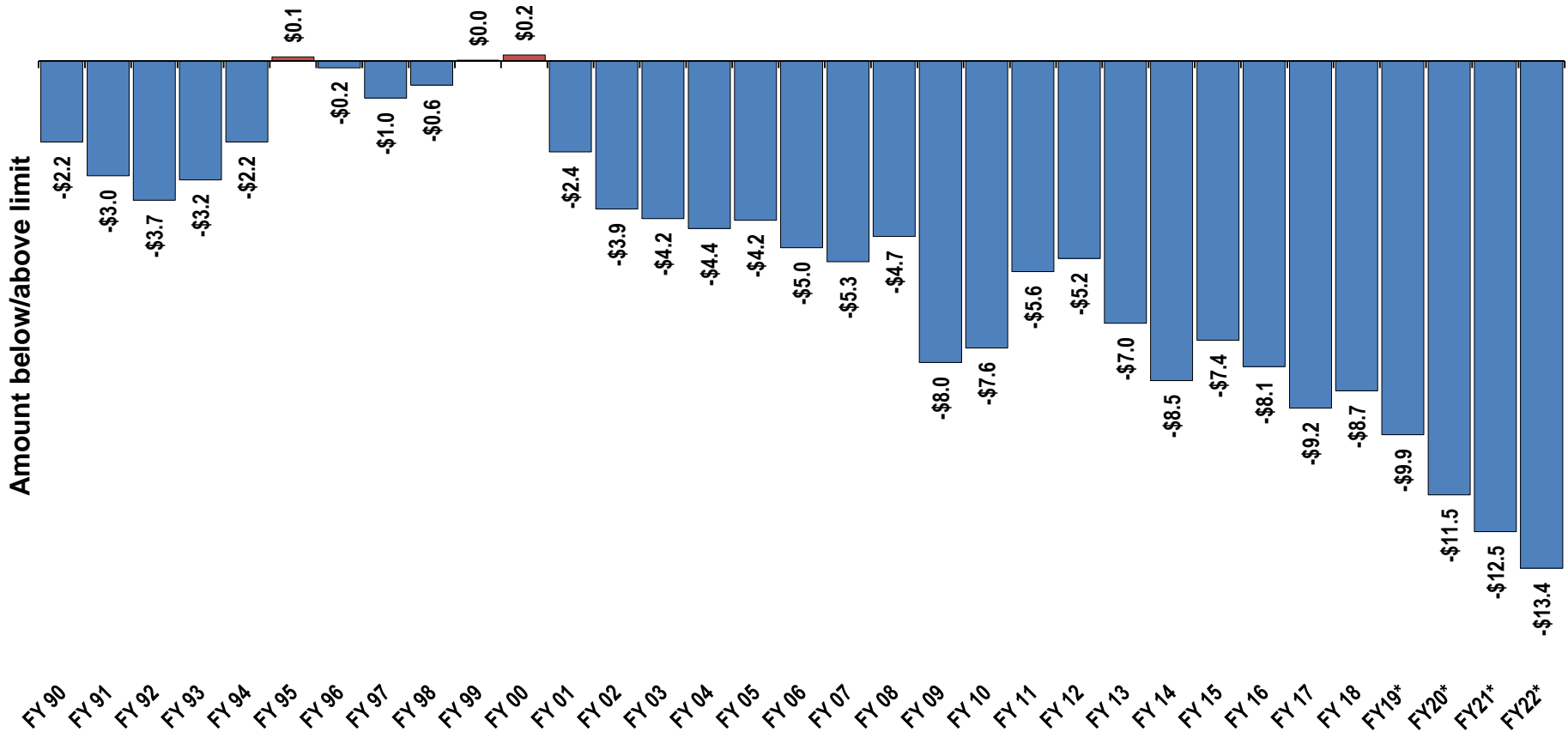
	FY 2021-22			Change from May 2019 Consensus
	January 2020 Consensus	Change From FY 2020-21		
General Fund/General Purpose (GF/GP)	\$11,519	\$324	2.9%	--
School Aid Fund (SAF)	14,640	323	2.3%	--
Total Revenue	\$26,159	\$647	2.5%	--

Note: Numbers may not add due to rounding.

Constitutional Revenue Limit

(Dollars in Billions)

Total state tax and other revenue collections are **\$11.5 billion** lower than the limit set in the State Constitution (9.49% of adjusted state personal income) for FY 2020.



*Jan. 2020 Consensus Estimates

January 2020 Consensus Forecast

Budget Stabilization Fund (BSF) Calculation

FY 2019-20: No pay-in or pay-out required

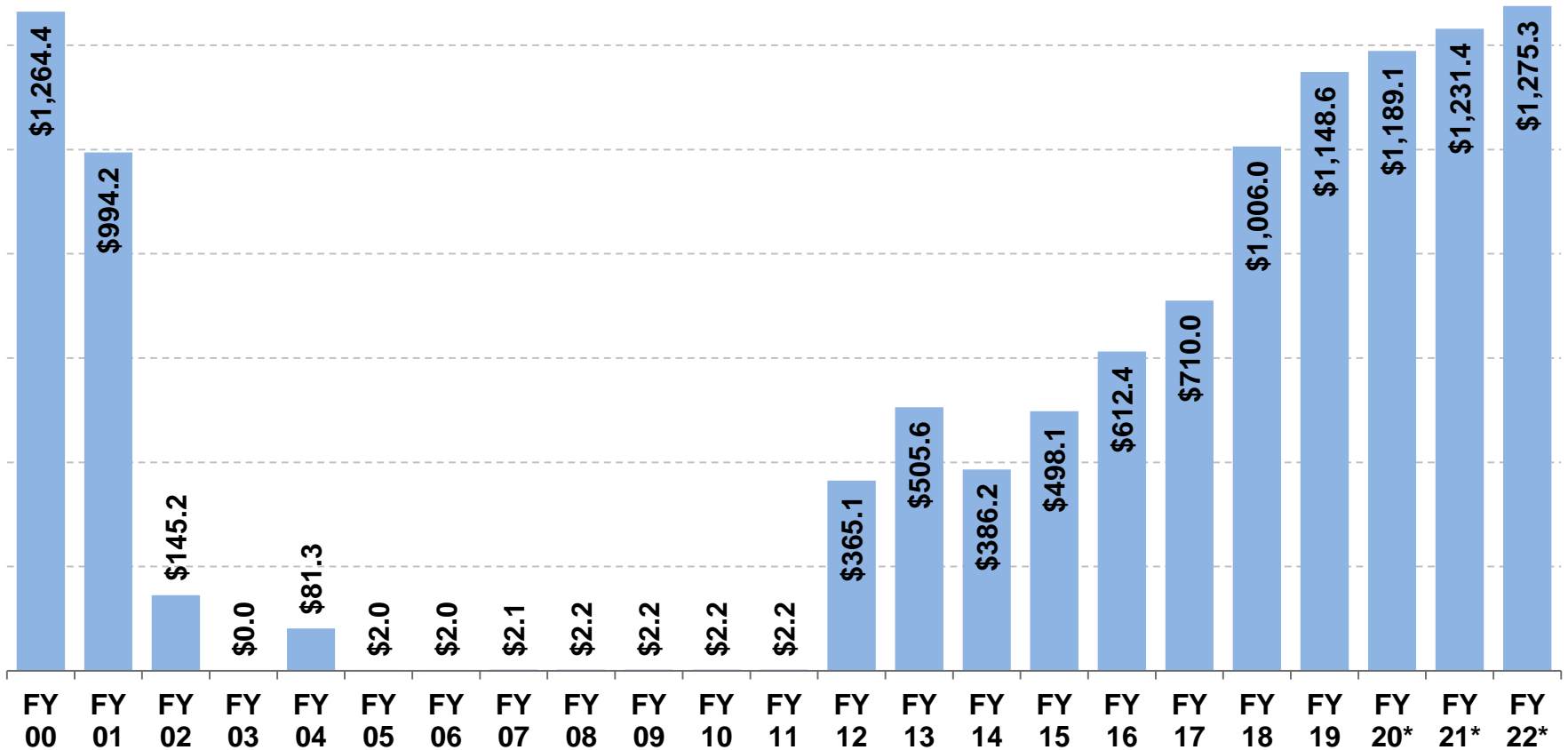
FY 2020-21: No pay-in or pay-out required

FY 2021-22: No pay-in or pay-out required

Budget Stabilization Fund Balance

The estimated FY 2020 BSF balance is 4.8% of combined GF/GP and SAF revenues. With interest and payments tied to the Detroit Bankruptcy, it will increase by about 3.5% a year absent deposits or withdrawals.

Dollars in Millions



* HFA Estimate

Balance Sheets

General Fund Balance Sheet

	FY 2019-20	Baseline FY 2020-21
BEGINNING BALANCE	\$838.0	\$591.8
REVENUE		
General Fund (GF/GP) Revenue	\$11,012.1	\$11,194.5
Revise the income tax earmark to SAF (HB 4125)	(\$173.2)	(\$179.4)
Misc. Revenue	\$2.4	\$0.0
Revenue Sharing	<u>(\$490.1)</u>	<u>(\$490.1)</u>
TOTAL REVENUE	\$10,351.3	\$10,525.0
EXPENDITURES		
Initial Ongoing/Baseline Est.	\$10,002.6	\$10,019.9
One-time Appropriations	\$310.8	\$0.0
Economics/DHHS caseload	\$158.6	\$534.0
GF to School Aid	\$62.7	\$45.0
<u>State Psych DHS penalty</u>	<u>\$62.8</u>	<u>\$59.2</u>
TOTAL EXPENDITURES	\$10,597.5	\$10,658.1
TOTAL ENDING BALANCE	\$591.8	\$458.7

Medicaid Spending Pressures

Medicaid Program

- The 23% enhanced federal match rate increase for Children's Health Insurance Program (CHIP) will phase out and the last phase down of the Healthy Michigan Plan federal match to 90% will occur. Projected FY 2020-21 GF/GP funding increase of **\$55 million**.
- Medicaid cost adjustments for medical utilization, inflation, and actuarial soundness are projected to increase 3% annually. Projected FY 2020-21 GF/GP funding increase of **\$175 million**.
- One-time GF/GP replacement of restricted funds totaling **\$45 million**.

Medicaid Psychiatric Disproportionate Share Hospital Disallowance

- Possible federal repayment for psychiatric hospital claims made on Medicaid from FY 2000-01 to FY 2008-09 – Total **\$195 million** with repayment over 3-years.
- Additional federal audit “look back” costs related to other Health and Human Services programs could total **\$23 million**.

Additional Spending Pressures

Baseline Costs for FY 2020-21

- Full year funding Indigent Defense Standards 1-4 additional funding increase of **\$36 million**.
- Employee economics includes salary increase and retirement costs estimated increase of **\$90 million**.
- Annualizing MSP trooper school **\$10 million**.

Unknown Potential Costs

- Legal settlements:
 - Department of Corrections
 - Unemployment Insurance Agency (UAI)
 - Flint water
- Adopted Legislation
 - Raise the Age (FY 2021-22)
 - Indigent Defense Standards 5-8

School Aid Fund Balance Sheet

	FY 2019-20	Baseline FY 2020-21
BEGINNING BALANCE	\$212.3	\$262.7
REVENUE		
School Aid Fund (SAF) Revenue	\$13,925.5	\$14,317.5
Revise the income tax earmark to SAF (HB 4125)	\$173.2	\$179.4
General Fund/General Purpose (GF/GP)	\$62.7	\$45.0
Other Restricted Funds	\$77.3	\$72.0
<u>Federal Funds</u>	<u>\$1,749.6</u>	<u>\$1,749.6</u>
TOTAL REVENUE	\$15,988.3	\$16,363.5
EXPENDITURES		
School Aid (Adj for lapses/consensus revisions)	\$15,173.8	\$15,307.6
Community Colleges	\$414.7	\$425.7
<u>Higher Ed</u>	<u>\$349.4</u>	<u>\$356.1</u>
TOTAL EXPENDITURES	\$15,937.9	\$16,089.4
TOTAL ENDING BALANCE	\$262.7	\$536.8

Major School Aid Budget Issues

Baseline Costs for FY 2020-21

- Baseline costs are expected to decline by **\$59 million** based on declining pupils, growing local property tax values, and rising special education costs.
- MPSERS experience study revised mortality and other assumptions which will increase costs by an estimated **\$189 million**.
- A foundation allowance increase ranging from \$100-\$200, would cost approximately **\$250 million**.

Summary

- **Projected FY 2019-20 ending balance**
 - **\$592 million** General Fund balance
 - **\$263 million** School Aid Fund balance
- **Projected FY 2020-21 resources above/below baseline budget**
 - **\$459 million** General Fund
 - **\$537 million** School Aid Fund balance



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