

January 11, 2024

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Preparation of the Governor’s 2024 Supplemental Operating Budget Outlook

The State Budget Outlook Work Group (work group) poses the following issue for the Economic and Revenue Forecast Council (ERFC) to provide guidance in the preparation of the Outlook for the proposed Governor’s 2024 Supplemental Operating Budget.

1. Additional Reversions Assumption. The proposed Governor’s 2024 supplemental operating budget outlook assumes additional general fund-state (general fund) reversions. For the purposes of the Budget Outlook, reversions are the estimated appropriations that will be unspent and revert to the state for re-appropriation.

Prior to the outlook prepared for the enacted 2023-25 biennial budget, the ERFC has directed that reversions be estimated at approximately 0.5% of general fund appropriations. Actual reversion levels have been larger than typical in the past four years.

On June 5, 2023, the ERFC directed that reversions for the enacted 2023-25 biennial operating budget be estimated as 1% of general fund appropriations in FY 2023, 0.8% of general fund appropriations in FY 2024, before returning to 0.5% of general fund appropriations in FY 2025, FY 2026, and FY 2027. These levels were assumed in the outlook published for the conference budget in April 2023. These reversion assumptions are in addition to ERFC adopted reversion assumptions for K-3 enrollment allocations that are tied to class sizes.

The Governor’s 2024 supplemental operating budget proposal assumes reversions of 1.2% of general fund appropriations in FY 2024 and FY 2025, before returning to 0.5% of general fund appropriations in FY 2026 and FY 2027. The higher reversion assumptions for FY 2024 and FY 2025 result in reduced expenditure projections of \$131 million in FY 2024 and \$245 million in FY 2025, totaling \$376 million over the four-year outlook period.

Table 1 shows the recent history of actual general fund reversions and the reversion percentage.

Table 1. Historical GFS Appropriations and Actual Reversions, FY 2018 – FY 2023

(\$ in Millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GFS Appropriations	\$ 20,528	\$ 23,023	\$ 24,506	\$ 24,988	\$ 28,379	\$ 31,808
Actual GFS Reversions	\$ 80	\$ 86	\$ 540	\$ 404	\$ 410	\$ 792
Percentage	0.4%	0.4%	2.2%	1.6%	1.4%	2.5%

Note: In addition to annual general fund reversions, there have been reversions from the other three NGF-O accounts which are appropriated and revert on a biennial rather than annual basis. Over the last three biennia, the reversions from the other three NGF-O accounts were as follows:

- 2017-19 biennium: \$1 million
- 2019-21 biennium: \$23 million
- 2021-23 biennium: \$33 million

Table 2 provides a comparison of the amount of reversions that would be included in the Outlook using the assumptions proposed by the Governor to those adopted by the ERFC in June 2023.

Table 2. Comparison of Reversions Using Governor’s Proposal vs. Enacted Outlook Assumptions

(\$'s in Millions)	FY 2024	FY 2025	FY 2026	FY 2027
Governor’s Proposed GFS Appropriations	\$32,822	\$35,060	\$35,214	\$35,845
Governor’s Proposed Reversion Assumptions	1.2%	1.2%	0.5%	0.5%
Reversions Using Governor’s Reversion Assumptions	\$394	\$421	\$176	\$179
June 2023 ERFC Adopted Outlook Reversion Assumptions	0.8%	0.5%	0.5%	0.5%
Reversions Using June 2023 ERFC Adopted Reversion Assumptions	\$263	\$175	\$176	\$179
Difference in Reversions	\$131	\$245	\$0	\$0

Question: Does the ERFC want the Governor’s Budget Outlook being prepared by the work group to assume the \$376 million savings from additional general fund reversions?