

Historical Reversion Analysis

09/13/2024

State Budget Outlook Work Group

Presentation to the Economic Revenue and Forecast Council

Reversion Background

- Reversions are the estimated appropriations that will be unspent and revert, making those amounts available for future appropriation.
 - For fiscal years that are closed, official Outlooks use actual reversion amounts.
 - For fiscal years that are not closed, official Outlooks use assumptions adopted by the ERFC.
 - Prior to the Outlook prepared for the enacted 2023-25 biennial budget, the ERFC has directed that reversions be estimated at 0.5% of general fund-state appropriations.
- For the 2024 ERFC Adopted Budget Outlook, the Council directed that reversions be estimated at 0.8% in FY 2024, before returning to 0.5% in FY 2025, FY 2026, and FY 2027.
 - These are the same percentage reversion estimates as those adopted in 2023.
 - These amounts were in addition to ERFC adopted reversion assumptions specifically for K-3 enrollment allocations that are tied to class sizes.

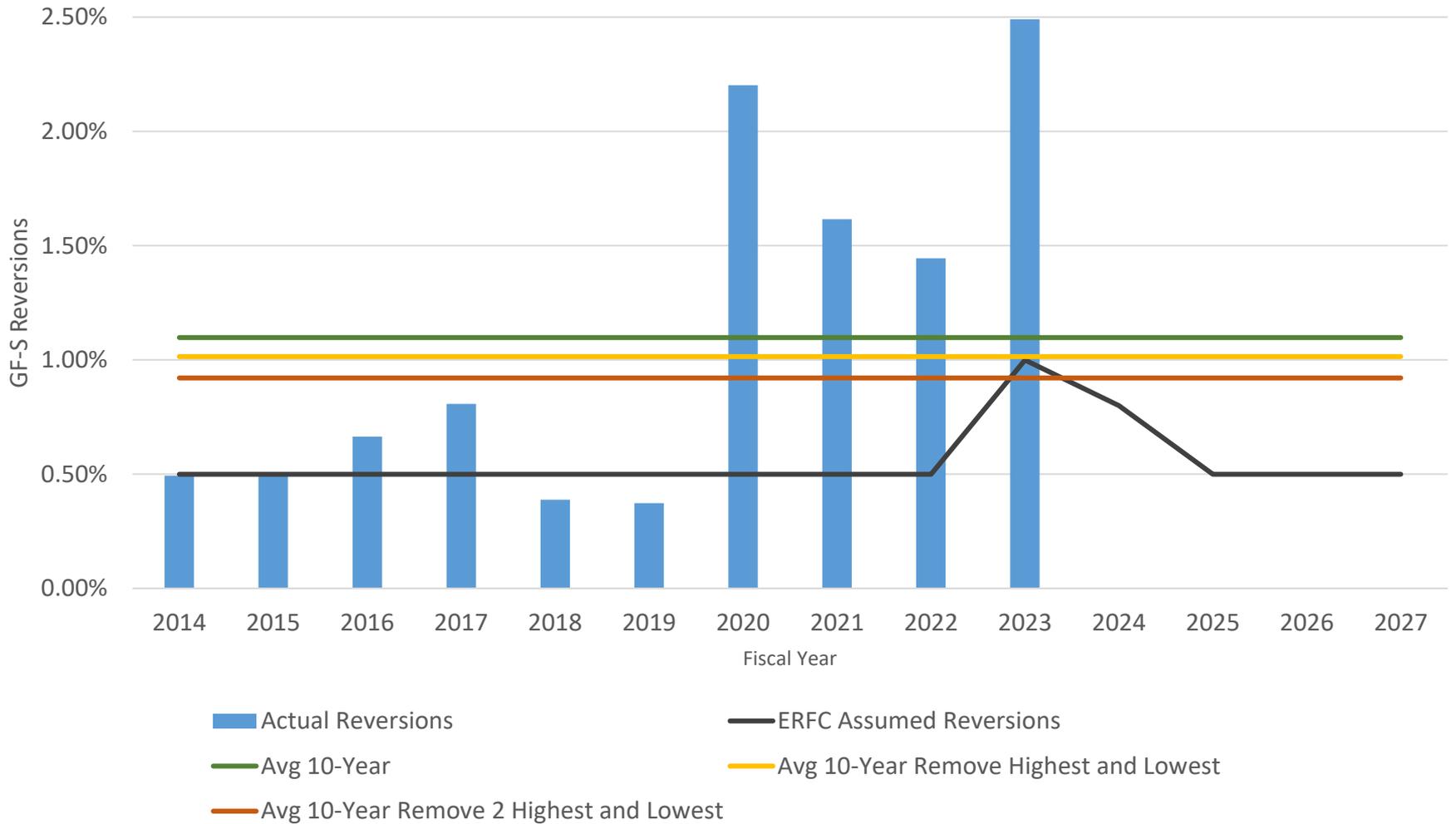
Reversion History

(dollars in millions)

Fiscal Year	Appropriations	Reversions	Percent Reversions
2014	\$ 16,159	\$ 80	0.49%
2015	\$ 16,846	\$ 85	0.50%
2016	\$ 18,293	\$ 121	0.66%
2017	\$ 19,496	\$ 157	0.81%
2018	\$ 20,528	\$ 80	0.39%
2019	\$ 23,023	\$ 86	0.37%
2020	\$ 24,506	\$ 540	2.20%
2021	\$ 24,988	\$ 404	1.62%
2022	\$ 28,379	\$ 410	1.44%
2023	\$ 31,808	\$ 792	2.49%
10-Year Average			1.10%
Remove 1 Highest and 1 Lowest Year			1.01%
Remove 2 Highest and 2 Lowest Years			0.92%

[14](#) Actual reversions in 2015 were \$175.3 million. However, \$90.4 million of that reversion amount was attributable to a Governor veto in the Health Care Authority budget that was put in to unallotted status. Consistent with past practice, this amount is removed from the reversion calculations presented as it is not representative of typical assumed reversions. Page 22

Reversion Scenarios



Budget Impact of Reversion Scenarios

Reversion Scenarios Applied to 2025 CFL (dollars in millions)	FY 24¹	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Current ERFC Adopted Assumptions		\$ 164	\$ 176	\$ 172	\$ 173	\$ 175	\$ 859
10-Year Average		\$ 360	\$ 387	\$ 377	\$ 380	\$ 383	\$ 1,887
Remove Highest and Lowest		\$ 333	\$ 358	\$ 348	\$ 351	\$ 354	\$ 1,744
Remove 2 Highest and Lowest		\$ 302	\$ 325	\$ 316	\$ 318	\$ 322	\$ 1,583

Impact of Scenarios on 2025 CFL Budget	FY 25-29 Total Impact (dollars in millions)
Current ERFC Adopted	\$ -
10-Year Average	\$ 1,028
Remove Highest and Lowest	\$ 884
Remove 2 Highest and Lowest	\$ 724

¹ FY 2024 reversions will not be known until late fall. The 2025-27 budget will use actuals when available.

Questions?

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Date: September 13, 2024

Subject: Historical Analysis of General Fund-State Reversions

Background

At the January 11, 2024 meeting of the Economic and Revenue Forecast Council, the ERFC directed the State Budget Outlook Work Group to conduct an analysis of historical reversions, including scenarios adjusted for outliers, for consideration by the ERFC for the purposes of setting reversion assumptions.

Reversion History

For the purposes of the Budget Outlook, reversions are the estimated appropriations that will be unspent and revert, making those amounts available for future appropriation. For fiscal years that are closed, official Outlooks use actual reversion amounts. For fiscal years that are not closed, official Outlooks use assumptions adopted by the ERFC. Prior to the Outlook prepared for the enacted 2023-25 biennial budget, the ERFC has directed that reversions be estimated at 0.5% of general fund-state appropriations. Other accounts included in Outlook calculations (the Workforce Education Investment Account, the Education Legacy Trust Account, the Opportunity Pathways account, and the Fair Start for Kids Account) revert on a biennial (rather than annual) basis and no reversion assumption for fiscal years that are not closed has been made these accounts.

The 2023 ERFC Adopted Budget Outlook adopted a reversion assumption of 1% in FY 2023 and 0.8% in FY 2024, before returning to the historical assumption of 0.5% ongoing. For the 2024 ERFC Adopted Budget Outlook, the Council directed that the same assumptions be used (0.8% in FY 2024, before returning to 0.5% in FY 2025, FY 2026, and FY 2027). As in past years, these amounts were in addition to ERFC adopted reversion assumptions specifically for K-3 enrollment allocations that are tied to class sizes.

Reversion Scenario Analysis

Budget Outlook Technical Workgroup staff compiled data on the last 10 years of general fund-state reversions. Those amounts are as follows:

Fiscal Year	Appropriations	Reversions	Percent Reversions
2014	\$ 16,159	\$ 80	0.49%
2015¹	\$ 16,846	\$ 85	0.50%
2016	\$ 18,293	\$ 121	0.66%
2017	\$ 19,496	\$ 157	0.81%
2018	\$ 20,528	\$ 80	0.39%
2019	\$ 23,023	\$ 86	0.37%
2020	\$ 24,506	\$ 540	2.20%
2021	\$ 24,988	\$ 404	1.62%
2022	\$ 28,379	\$ 410	1.44%
2023	\$ 31,808	\$ 792	2.49%

Prior to 2020, reversions averaged 0.54% of general fund-state appropriations with a range between 0.37% and 0.81%. During and after the COVID-19 pandemic era reversions have been consistently higher. From 2020 to 2023, reversions averaged 1.94% of general fund-state appropriations with a range between 1.44% and 2.49%.

There are a variety of factors that may have contributed to reversions being higher during and after the COVID-19 pandemic. The pandemic may have presented challenges expending appropriated funds due to capacity issues in state agencies. Additionally, spending restrictions were enacted early in FY 2020 given the uncertain fiscal implications of the pandemic. After FY 2020, policy level budget increases coupled with state agency and contractor workforce shortages may have created delays and other challenges implementing new programs contained in those budgets, leading to increased reversions.

FY 2024 reversions, which will be available in November or December 2024, will be a key indicator on whether these trends are continuing or if they have subsided. If actual FY 2024 reversions are closer to historical averages, it could be a sign that the post-

¹ Actual reversions in 2015 were \$175.3 million. However, \$90.4 million of that reversion amount was attributable to a Governor veto in the Health Care Authority budget that was put in to unallotted status. Consistent with past practice, this amount is removed from the reversion calculations presented as it is not representative of typical assumed reversions.

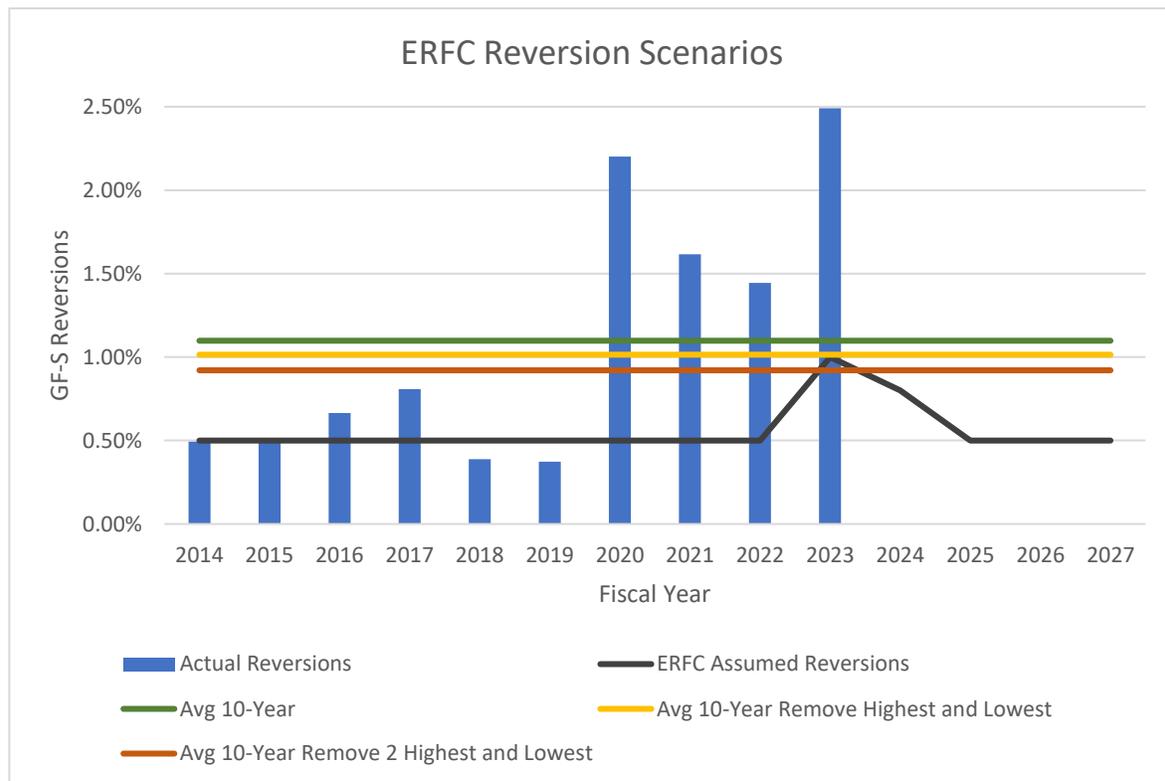
pandemic reversion trend has subsided. However, it is not known at this time whether that will be the case.

Staff prepared three scenarios consistent with ERFC direction requesting scenarios removing outlier years.

Reversion Scenarios

10-Year Average	1.10%
Remove 1 Highest and 1 Lowest Year	1.01%
Remove 2 Highest and 2 Lowest Years	0.92%

The chart below depicts historical reversion amounts compared to the ERFC adopted reversion assumptions and the three scenarios outlined above:



Budget Impacts of Reversion Scenarios

Budget outlook workgroup staff also applied the three reversion scenarios to the 2024 Supplemental Budget Outlook to demonstrate the impact that those assumptions would have on the Outlook. It is important to note that FY 2024 is now a closed period, and any future assumptions will not impact actual reversions for FY 2024. Actual reversions for FY 2024 will be known in late fall or early winter 2024.

Reversion Scenarios Applied to 2025 CFL (Dollars in Millions)	FY 24²	FY 25	FY 26	FY 27	FY 28	FY 29	Total
Current ERFC Adopted Assumptions		\$ 164	\$ 176	\$ 172	\$ 173	\$ 175	\$ 859
10-Year Average		\$ 360	\$ 387	\$ 377	\$ 380	\$ 383	\$ 1,887
Remove Highest and Lowest		\$ 333	\$ 358	\$ 348	\$ 351	\$ 354	\$ 1,744
Remove 2 Highest and Lowest		\$ 302	\$ 325	\$ 316	\$ 318	\$ 322	\$ 1,583

The following table shows the difference from the three reversion scenarios presented to the total reversion amounts adopted and included in the 2024 Supplemental Budget Outlook:

Impact of Scenarios on 2025 CFL Budget	FY 25-29 Total Impact (dollars in millions)
Current ERFC Adopted	\$ -
10-Year Average	\$ 1,028
Remove Highest and Lowest	\$ 884
Remove 2 Highest and Lowest	\$ 724

² FY 2024 reversions will not be known until late fall. The 2025-27 budget will use actuals when available.