SENATE FISCAL AGENCY
MEMORANDUM

DATE: January 11, 2018

TO: Members of the Senate

FROM: David Zin, Chief Economist
Kathryn Summers, Associate Director

RE: Consensus Revenue Estimates for FY 2017-18, FY 2018-19, and FY 2019-20 and School
Aid Foundation Allowance Index Estimate for FY 2018-19

The Senate Fiscal Agency, House Fiscal Agency, and Treasury Department held a Consensus Revenue Estimating Conference on January 11, 2018, and unanimously adopted revised revenue estimates for fiscal year (FY) 2017-18 and FY 2018-19, initial estimates for FY 2019-20, and an estimate of the School Aid Foundation Allowance Index for FY 2018-19. The new consensus revenue estimates for General Fund/ General Purpose (GF/GP) and School Aid Fund (SAF) revenue are summarized below and in Tables 1, 2, and 3. The School Aid Foundation Allowance Index estimate also is discussed below.

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2017-18 is $10,307.7 million, which is up 1.1% or $115.4 million from preliminary FY 2016-17 final revenue. The increase in GF/GP revenue primarily reflects modest economic growth partially offset by two noneconomic factors: 1) an increase in tax credits claimed under the Michigan Business Tax (MBT) by businesses with certificated credits, and 2) an increase in the diversion of General Fund use tax revenue to the Local Community Stabilization Authority as part of personal property tax reform. Compared with the May 2017 consensus revenue estimate, this revised estimate is $100.9 million lower, largely reflecting less-than-expected withholding under the individual income tax during FY 2016-17 affecting the base in subsequent fiscal years. In FY 2018-19, GF/GP revenue will total an estimated $10,339.6 million, a 0.3% increase that is $31.9 million greater than the revised estimate for FY 2016-17. Compared with the May 2017 consensus revenue estimate, the revised estimate for FY 2018-19 is down $149.9 million. The minimal increase in FY 2018-19 GF/GP revenue reflects a reduction in MBT refunds largely being offset by expectations of slower economic growth, reduced use tax revenue due to diversions related to personal property tax reform, and declines in income tax revenue resulting from a scheduled expansion of the Homestead Property Tax Credit and the redirection of $150.0 million to the Michigan Transportation Fund. The initial estimate for FY 2019-20 GF/GP revenue is $10,413.5 million, an increase of 0.7% or $73.9 million from the revised FY 2018-19 estimate. The continued slow growth in FY 2019-20 GF/GP revenue reflects slowing economic growth combining with an increase in MBT refunds and the redirection of individual income tax revenue to the Michigan Transportation Fund increasing to $325.0 million.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated $13,084.5 million in FY 2017-18, which is up 3.1% or $399.4 million from the preliminary final revenue level for FY 2016-17. Compared with the May 2017 consensus revenue estimate, this revised estimate is $114.0 million higher, largely reflecting a higher forecast for lottery revenue and an increase in the sales tax base due to greater-than-expected sales tax revenue in FY 2016-17. In FY 2018-19, SAF revenue will total an estimated $13,464.0 million, which is up 2.9% or $379.5 million from the revised estimate for FY 2017-18, and $133.5 million above the May 2017 forecast. The initial estimate for SAF revenue in FY 2019-20 is $13,822.7 million, an increase of 2.7% or $358.7 million from the revised estimate for FY 2019-20.

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Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated $23,392.2 million in FY 2017-18, up 2.3% or $514.8 million from the preliminary final revenue level for FY 2016-17, and $13.1 million above the May 2017 consensus revenue estimate. For FY 2018-19, combined GF/GP and SAF revenue will total an estimated $23,803.6 million, an increase of 1.8% or $411.4 million from the revised estimate for FY 2017-18 and $16.4 million less than the May 2017 consensus revenue estimate. The initial estimate of FY 2019-20 combined GF/GP and SAF revenue totals $24,236.2 million, an increase of 1.8% or $432.6 million from the revised estimate for FY 2018-19.

Table 1

			FY 2017-18 Revised Revenue Estimates					
	FY 2016-17 Preliminary Final	Previous FY 2017-18 Consensus Est. May 2017	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2017-18 Revised Consensus Est. 1/11/18	$ Change from May 2017 Consensus	% Change from FY 2016-17
Net GF/GP Revenue	$10,192.3	$10,408.6	$10,353.4	$10,304.7	$10,231.4	$10,307.7	($100.9)	1.1%
Net SAF Revenue	$12,685.1	$12,970.5	$13,105.9	$13,082.9	$13,076.8	$13,084.5	$114.0	3.1%
Net GF/GP & SAF Revenue	$22,877.4	$23,379.1	$23,459.3	$23,387.6	$23,308.2	$23,392.2	$13.1	2.3%

FY 2017-18 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
January 11, 2018, Consensus Revenue Estimating Conference
(millions of dollars)

Table 2

			FY 2018-19 Revised Revenue Estimates					
	FY 2017-18 Revised Consensus Est. 1/11/18	Previous FY 2018-19 Consensus Est. May 2017	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2018-19 Revised Consensus Est. 1/11/18	$ Change from May 2017 Consensus	% Change from FY 2017-18
Net GF/GP Revenue	$10,307.7	$10,489.5	$10,396.4	$10,327.0	$10,244.2	$10,339.6	($149.9)	0.3%
Net SAF Revenue	$13,084.5	$13,330.5	$13,468.1	$13,475.9	$13,459.3	$13,464.0	$133.5	2.9%
Net GF/GP & SAF Revenue	$23,392.2	$23,820.0	$23,864.5	$23,802.9	$23,703.5	$23,803.6	($16.4)	1.8%

FY 2018-19 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
January 11, 2018, Consensus Revenue Estimating Conference
(millions of dollars)

Table 3

FY 2019-20 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
January 11, 2018, Consensus Revenue Estimating Conference
(millions of dollars)

| | FY 2018-19 Revised Consensus Est. 1/11/18 | FY 2019-20 Initial Revenue Estimates | | | FY 2019-20 Initial **Consensus** Est. 1/11/18 | $ Change from FY 2018-19 Consensus | % Change from FY 2018-19 |
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	$10,339.6	$10,458.9	$10,419.9	$10,282.8	$10,413.5	$73.9	0.7%
Net SAF Revenue	$13,464.0	$13,818.1	$13,852.9	$13,805.3	$13,822.7	$358.7	2.7%
Net GF/GP & SAF Revenue	$23,803.6	$24,277.0	$24,272.8	$24,088.1	$24,236.2	$432.6	1.8%

Revenue Limit

In FY 2015-16, revenue subject to the constitutional revenue limit was $8.1 billion or 21.2% below the limit. In FY 2016-17 through FY 2019-20, revenue is expected to continue to fall well below the revenue limit. In FY 2016-17, revenue is estimated to have fallen short of the revenue limit by approximately $8.6 billion or 21.4%, an increase that reflects the 5.0% revenue growth in FY 2016-17 being less than the 5.2% increase in personal income. In FY 2017-18, revenue subject to the limit will fall below the limit by an estimated $9.0 billion or 21.6%, reflecting the dynamics of a projected 3.1% increase in revenue subject to the limit compared to the 3.4% growth in income that is projected to increase the FY 2017-18 limit by $1.4 billion. Revenue is estimated to fall short of the limit by $9.4 billion or 21.8% in FY 2018-19, and by $10.3 billion or 22.9% in FY 2019-20. The magnitude by which revenue falls below the limit reflects the relative growth in personal income used to calculate the limit in those years compared to the growth in revenue. In years in which the magnitude by which revenue falls short of the revenue limit increases, personal income has grown more rapidly than revenue subject to the limit.

Budget Stabilization Fund

Based on the consensus economic forecast, it is estimated that the statutory budget stabilization formula (based on the change in real Michigan personal income less transfer payments) will not trigger a suggested withdrawal from the Budget Stabilization Fund in FY 2016-17, FY 2017-18, FY 2018-19, or FY 2019-20 and will not trigger a suggested pay-in in FY 2017-18, but will trigger a suggested pay-in of $72.2 million in FY 2018-19 and $31.0 million in FY 2018-19. The current FY 2017-18 budget provides for a deposit into the Fund of $167.5 million, inclusive of the $17.5 million of tobacco settlement revenue deposited into the Fund to repay the withdrawal associated with the Detroit bankruptcy. Formula-triggered transfers do not occur automatically, but must be appropriated by the Legislature.

School Aid Foundation Allowance Index

The pupil estimates presented at the January 2018 Consensus Revenue Estimating Conference (CREC) for the current year, FY 2017-18, show a decrease in the total number of pupils from those estimated at the May 2017 CREC. The FY 2017-18 pupil memberships (weighted 90.0% on the September 2017 count plus 10.0% on the previous February 2017 count) are now estimated at 1,483,500, which is 3,000 pupil memberships fewer than the May 2017 consensus estimate, representing a change in the total blend of 0.2%. Most of the 3,000-pupil decrease can be attributed to one area: a first-time decline in enrollment at public school academies (or, charter schools). Compared with the previous year, FY 2016-17, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined nearly 7,700.

The decrease of 3,000 memberships will result in State savings of roughly $23.0 million. However, additional cash-flow borrowing and special education costs will consume roughly two-thirds of the savings from fewer pupils than the number on which the budget was based. The figures used for the current year have not yet been audited, which means that some fluctuations will be seen in the current-year blend when pupils are again estimated in May 2018.

Pupil estimates for the 2018-19 fiscal year (which had earlier been estimated at the May 2017 CREC) also were presented at the January 2018 conference. The pupil estimate of 1,478,500 memberships presented for FY 2018-19 represents a decrease of 3,500 pupils below the earlier estimate, or a decline of 0.3%, or 5,000 pupils, from the current fiscal year. The primary reason for the estimated drop in pupil memberships from one year to the next is declining birth rates, which actually would account for a much higher drop in estimated pupil memberships, but the estimates include partially offsetting increases predicted due to a continued higher kindergarten enrollment and higher enrollment in shared-time programs. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, $7,631 (the amount of the minimum foundation allowance) less per pupil decrease at the local school level.

Pupil estimates for FY 2019-20 also were presented (for the first time) at the January 2018 CREC. The initial estimates for planning purposes show another drop of 3,500 pupil memberships compared to the estimate for FY 2018-19. Again, strict declines in population would indicate a much steeper drop than 3,500, but the estimate reflects continued higher enrollment in kindergarten and use of shared-time programs, drawing in school population currently not in the public system.

If the higher kindergarten enrollment turns out to be somewhat temporary in nature (perhaps coinciding with the expansion of the Great Start Readiness Program and its enrollment age policies), then it is likely that future pupil estimates will show fewer pupils in membership than estimated currently. Again, population declines (birth rate declines) continue to occur and mean that entering kindergarten classes are significantly smaller than the outgoing senior classes. The estimates presented at the January 2018 CREC recognize those population declines, but mitigate them somewhat due to the higher kindergarten enrollment percentages and a continued anticipated influx of students from outside the current public system in shared-time programs; this is where the risk lies in the pupil forecast.

The School Aid Act currently requires the Consensus Revenue Estimating Conference to determine a pupil membership factor, a revenue adjustment factor, and an index that is to be used to "assist the legislature in determining the basic foundation allowance" for the upcoming year. Under the law, the index is equal to the revenue adjustment factor multiplied by the pupil membership adjustment factor. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2018-19 is 1.0034 and the revenue adjustment factor is 1.0278. Multiplying these two factors together yields 1.0313 as the FY 2018-19 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2019-20 is 1.0024 and the revenue adjustment factor is 1.0275. Multiplying these two factors together yields 1.0300 as the FY 2019-20 index.

/lms

c: Ellen Jeffries, Director