

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** January 11, 2019

**TO:** Members of the Senate

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

**RE:** Consensus Revenue Estimates for FY 2018-19, FY 2019-20, and FY 2020-21 and School Aid Foundation Allowance Index Estimate for FY 2019-20

The Senate Fiscal Agency, House Fiscal Agency, and Treasury Department held a Consensus Revenue Estimating Conference (CREC) on January 11, 2019, and unanimously adopted revised revenue estimates for fiscal year (FY) 2018-19 and FY 2019-20, initial estimates for FY 2020-21, and an estimate of the School Aid Foundation Allowance Index for FY 2019-20. 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 2018-19 is \$10,700.2 million, which is down 2.2%, or \$245.2 million, from preliminary FY 2017-18 final revenue. The decrease in GF/GP revenue primarily reflects modest economic growth being more than offset by noneconomic factors, namely the diversion of General Fund revenue to other funds. In FY 2018-19, new earmarks totaling \$264.0 million will divert General Fund revenue to the Michigan Transportation Fund, a new earmark will divert another \$69.0 million of General Fund revenue to the Renew Michigan Fund, and the diversion of General Fund use tax revenue to the Local Community Stabilization Authority (created as part of personal property tax reform) will increase from \$410.8 million to \$438.0 million. In addition, a scheduled expansion in the Homestead Property Tax Credit will take effect in FY 2018-19, lowering General Fund revenue by \$205.8 million. Compared with the May 2018 consensus revenue estimate, this revised estimate is \$288.6 million higher, largely reflecting greater-than-expected use tax revenue and corporate income tax revenue during FY 2017-18 affecting the base in subsequent fiscal years. In FY 2019-20, GF/GP revenue will total an estimated \$10,717.8 million, a 0.2% increase that is \$17.6 million above the revised estimate for FY 2018-19. Compared with the May 2018 consensus revenue estimate, the revised estimate for FY 2019-20 is \$199.1 million higher. The minimal increase in FY 2019-20 GF/GP revenue reflects an increase in Michigan Business Tax (MBT) refunds combining with slower economic growth, the continuation of the \$69.0 million earmark to the Renew Michigan Fund, and increases in the revenue diverted to personal property tax reform and the Michigan Transportation Fund. The initial estimate for FY 2020-21 GF/GP revenue is \$10,852.6 million, an increase of 1.3%, or \$134.8 million, from the revised FY 2019-20 estimate. The continued slow growth in FY 2020-21 GF/GP revenue reflects slowing economic growth combining with another increase in revenue earmarked to the Michigan Transportation Fund and Local Community Stabilization Authority.

**School Aid Fund**

School Aid Fund earmarked tax and lottery revenue will total an estimated \$13,550.5 million in FY 2018-19, which is up 1.6%, or \$210.6 million, from the preliminary final revenue level for FY 2017-18. Compared with the May 2018 consensus revenue estimate, this revised estimate is \$23.9 million lower, largely reflecting Public Act 588 of 2018's new reduced earmark of individual income tax revenue to the School Aid Fund. In FY 2019-20, SAF revenue will total an estimated \$13,926.7 million, which is up 2.8%, or \$376.2 million, from

the revised estimate for FY 2018-19, and \$25.9 million above the May 2018 forecast. The initial estimate for SAF revenue in FY 2020-21 is \$14,264.4 million, an increase of 2.4%, or \$337.7 million, from the revised estimate for FY 2019-20. The growth in SAF revenue in both FY 2019-20 and FY 2020-21 reflects a stable earmark of individual income tax revenue as well consistent, but moderate, growth in gross income tax revenue, sales tax revenue, and the State education tax. These three revenue sources account for more than 80% of SAF revenue.

### Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$24,250.7 million in FY 2018-19, down 0.1%, or \$34.6 million, from the preliminary final revenue level for FY 2017-18, but \$264.7 million above the May 2016 consensus revenue estimate. In FY 2019-20, combined GF/GP and SAF revenue will total an estimated \$24,644.5 million, an increase of 1.6% or \$393.8 million from the revised estimate for FY 2018-19 and \$225.0 million more than the May 2018 consensus revenue estimate. The initial estimate of FY 2020-21 combined GF/GP and SAF revenue totals \$25,117.0 million, an increase of 1.9%, or \$472.5 million, from the revised estimate for FY 2019-20.

Table 1

FY 2018-19 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 11, 2019, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2018-19 Revised Revenue Estimates			FY 2018-19 Revised Consensus Est. 1/11/19	\$ Change from May 2018 Consensus	% Change from FY 2017-18
	FY 2017-18 Preliminary Final	Previous FY 2018-19 Consensus Est. May 2018	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,945.4	\$10,411.6	\$10,786.0	\$10,617.1	\$10,599.6	\$10,700.2	\$288.6	(2.2%)
Net SAF Revenue	\$13,339.9	\$13,574.4	\$13,542.6	\$13,503.4	\$13,611.3	\$13,550.5	(\$23.9)	1.6%
<b>Net GF/GP &amp; SAF Revenue</b>	<b>\$24,285.3</b>	<b>\$23,986.0</b>	<b>\$24,328.6</b>	<b>\$24,120.5</b>	<b>\$24,210.9</b>	<b>\$24,250.7</b>	<b>\$264.7</b>	<b>(0.1%)</b>

Table 2

FY 2019-20 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 11, 2019, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2019-20 Revised Revenue Estimates			FY 2019-20 Revised Consensus Est. 1/11/19	\$ Change from May 2018 Consensus	% Change from FY 2018-19
	FY 2018-19 Revised Consensus Est. 1/11/19	Previous FY 2019-20 Consensus Est. May 2018	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,700.2	\$10,518.7	\$10,783.9	\$10,655.8	\$10,655.9	\$10,717.8	\$199.1	0.2%
Net SAF Revenue	\$13,550.5	\$13,900.8	\$13,932.7	\$13,858.2	\$13,936.9	\$13,926.7	\$25.9	2.8%
<b>Net GF/GP &amp; SAF Revenue</b>	<b>\$24,250.7</b>	<b>\$24,419.5</b>	<b>\$24,716.6</b>	<b>\$24,514.0</b>	<b>\$24,592.8</b>	<b>\$24,644.5</b>	<b>\$225.0</b>	<b>1.6%</b>

Table 3

<b>FY 2020-21 REVENUE ESTIMATE COMPARISON &amp; CONSENSUS AGREEMENT</b> <b>General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)</b> <b>January 11, 2019, Consensus Revenue Estimating Conference</b> <b>(millions of dollars)</b>							
	FY 2019-20 Revised Consensus Est. 1/11/19	FY 2020-21 Initial Revenue Estimates			FY 2020-21 Initial Consensus Est. 1/11/19	\$ Change from FY 2019-20 Consensus	% Change from FY 2019-20
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,717.8	\$10,822.1	\$10,888.7	\$10,919.8	\$10,852.6	\$134.8	1.3%
Net SAF Revenue	\$13,926.7	\$14,252.6	\$14,162.8	\$14,342.6	\$14,264.4	\$337.7	2.4%
<b>Net GF/GP &amp; SAF Revenue</b>	<b>\$24,644.5</b>	<b>\$25,074.7</b>	<b>\$25,051.5</b>	<b>\$25,262.4</b>	<b>\$25,117.0</b>	<b>\$472.5</b>	<b>1.9%</b>

### Revenue Limit

In FY 2016-17, revenue subject to the constitutional revenue limit was \$9.2 billion, or 22.8%, below the limit. In FY 2017-18 through FY 2020-21, revenue is expected to continue to fall well below the revenue limit. In FY 2017-18, revenue is estimated to have fallen short of the revenue limit by approximately \$8.9 billion, or 21.3%, a decrease that reflects the 5.5% revenue growth in FY 2017-18 exceeding the 4.6% increase in personal income in 2016 (the year used to compute the FY 2017-18 revenue limit). In FY 2018-19, revenue subject to the limit will fall below the limit by an estimated \$10.4 billion, or 23.8%, reflecting the dynamics of a projected 1.3% increase in revenue subject to the limit compared to the 3.5% growth in income (that is projected to increase the FY 2018-19 limit by \$2.0 billion). Revenue is estimated to fall short of the limit by \$11.2 billion or 24.7% in FY 2019-20, and by \$11.9 billion, or 25.4%, in FY 2020-21. 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

Public Act 613 of 2018 made changes to the formulas that calculate withdrawals and deposits into the Budget Stabilization Fund. Based on the consensus economic forecast, the new formula would not trigger an allowable withdrawal from the Budget Stabilization Fund in FY 2017-18, FY 2018-19, FY 2019-20, or FY 2020-21 (based on the change in real Michigan personal income less transfer payments) and will not trigger a suggested pay-in in FY 2018-19, FY 2019-20, or FY 2020-21. The current FY 2018-19 budget provides for a deposit into the Fund of \$117.5 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 2019 CREC for the current year, FY 2018-19, show a decrease in the total number of pupils from those estimated at the May 2018 CREC. The FY 2018-19 pupil memberships (weighted 90.0% on the September 2018 count plus 10.0% on the previous February 2018 count) are now estimated at 1,470,400, which is 9,600 pupil memberships fewer than the May 2018 consensus estimate, representing a change in the estimate of 0.7%. Compared with the previous year, FY 2017-18, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined 13,100.

The decrease of an additional 9,600 memberships will result in State savings of roughly \$75.0 million. These State savings, along with State savings related to higher taxable values than previously estimated, will be partially offset by additional cash-flow borrowing and special education costs, leading to overall State savings of \$58.9 million estimated for FY 2018-19 (compared to the costs 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 estimated again in May 2019.

Pupil estimates for the 2019-20 fiscal year (which were estimated at the May 2018 CREC) also were presented at the January 2019 conference. The pupil estimate of 1,460,200 memberships presented for FY 2019-20 represents a decrease of 15,800 pupils below the earlier estimate, or a decline of 0.7%, or 10,200 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. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$7,871 (which is the amount of the minimum foundation allowance) less for each pupil at the local school level.

Pupil estimates for FY 2020-21 also were presented (for the first time) at the January 2019 CREC. The initial estimates for planning purposes show another drop of 8,200 pupil memberships compared to the estimate for FY 2019-20. Strict declines in population would indicate a steeper drop than 8,200, but the estimate reflects the potential for additional enrollment from outside the trends for traditional public school population.

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 2019-20 is 1.0070 and the revenue adjustment factor is 1.0220. Multiplying these two factors together yields 1.0292 as the FY 2019-20 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2020-21 is 1.0056 and the revenue adjustment factor is 1.0234. Multiplying these two factors together yields 1.0292 as the FY 2020-21 index.

/lms

c: Christopher Harkins, Director