

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 10, 2020

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2019-20, FY 2020-21, and FY 2021-22 and School Aid Foundation Allowance Index Estimate for FY 2020-21

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on January 10, 2020, and unanimously adopted revised revenue estimates for fiscal year (FY) 2019-20 and FY 2020-21, initial estimates for FY 2021-22, and an estimate of the School Aid Foundation Allowance Index for FY 2020-21. 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 2019-20 is \$11,012.1 million, which is down 0.9%, or \$95.9 million, from preliminary FY 2018-19 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 2019-20, increased earmarks totaling \$468.0 million will divert General Fund revenue to the Michigan Transportation 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 \$438.0 million to \$465.9 million. In addition, estimated Michigan Business Tax (MBT) credits are expected to increase from \$511.5 million in FY 2018-19, to \$636.0 million in FY 2019-20. Compared with the May 2019 consensus revenue estimate, this revised estimate is \$235.2 million higher, largely reflecting greater-than-expected individual income tax during FY 2018-19 affecting the base in subsequent fiscal years and a reduced estimate for MBT credits. In FY 2020-21, GF/GP revenue will total an estimated \$11,194.5 million, a 1.7% increase that is \$182.4 million above the revised estimate for FY 2019-20. Compared with the May 2019 consensus revenue estimate, the revised estimate for FY 2020-21 is \$274.0 million higher. The increase in FY 2020-21 GF/GP revenue reflects the combined impact of slowing economic growth and slower increases in the revenue diverted to personal property tax reform and the Michigan Transportation Fund. The initial estimate for FY 2021-22 GF/GP revenue is \$11,518.5 million, an increase of 2.9%, or \$324.0 million, from the revised FY 2020-21 estimate. The more rapid growth in FY 2021-22 GF/GP revenue reflects continued slowing in economic growth combining with a flat earmark in revenue directed to the Michigan Transportation Fund, allowing more of the growth in individual income tax revenue to remain in the General Fund.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$13,925.5 million in FY 2019-20, which is up 2.7%, or \$365.5 million, from the preliminary final revenue level for FY 2018-19. Compared with the May 2019 consensus revenue estimate, this revised estimate is \$85.7 million higher, largely reflecting policy changes to collect more sales tax from online retailers. In FY 2020-21, SAF revenue will total an estimated \$14,317.5 million, which is up 2.8%, or \$392.0 million, from the revised estimate for FY 2019-20, and \$138.0 million above the May 2019 forecast. The initial estimate for SAF revenue in FY 2021-22 is \$14,640.1 million, an increase of 2.3%, or \$322.6 million, from the revised estimate for FY 2020-21. The growth

in SAF revenue in both FY 2020-21 and FY 2021-22 reflects 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 \$24,937.6 million in FY 2019-20, up 1.1%, or \$269.6 million, from the preliminary final revenue level for FY 2018-19, and \$320.9 million above the May 2019 consensus revenue estimate. In FY 2020-21, combined GF/GP and SAF revenue will total an estimated \$25,512.0 million, an increase of 2.3% or \$574.4 million from the revised estimate for FY 2019-20 and \$412.0 million more than the May 2019 consensus revenue estimate. The initial estimate of FY 2021-22 combined GF/GP and SAF revenue totals \$26,158.6 million, an increase of 2.5%, or \$646.6 million, from the revised estimate for FY 2020-21.

Table 1

FY 2019-20 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 10, 2020, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2019-20 Revised Revenue Estimates			FY 2019-20 Revised Consensus Est. 1/10/20	\$ Change from May 2019 Consensus	% Change from FY 2018-19
	FY 2018-19 Preliminary Final	Previous FY 2019-20 Consensus Est. May 2019	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$11,108.0	\$10,776.9	\$10,968.8	\$10,970.7	\$11,095.1	\$11,012.1	\$235.2	(0.9%)
Net SAF Revenue	\$13,560.0	\$13,839.8	\$13,905.2	\$13,940.4	\$13,934.7	\$13,925.5	\$85.7	2.7%
Net GF/GP & SAF Revenue	\$24,668.0	\$24,616.7	\$24,874.0	\$24,911.1	\$25,029.8	\$24,937.6	\$320.9	1.1%

Table 2

FY 2020-21 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 10, 2020, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2020-21 Revised Revenue Estimates			FY 2020-21 Revised Consensus Est. 1/10/20	\$ Change from May 2019 Consensus	% Change from FY 2019-20
	FY 2019-20 Revised Consensus Est. 1/10/20	Previous FY 2020-21 Consensus Est. May 2019	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$11,012.1	\$10,920.5	\$11,065.0	\$11,178.5	\$11,301.5	\$11,194.5	\$274.0	1.7%
Net SAF Revenue	\$13,925.5	\$14,179.5	\$14,283.0	\$14,349.7	\$14,337.8	\$14,317.5	\$138.0	2.8%
Net GF/GP & SAF Revenue	\$24,937.6	\$25,100.0	\$25,348.0	\$25,528.2	\$25,639.3	\$25,512.0	\$412.0	2.3%

Table 3

FY 2021-22 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 10, 2020, Consensus Revenue Estimating Conference (millions of dollars)							
	FY 2020-21 Revised Consensus Est. 1/10/20	FY 2021-22 Initial Revenue Estimates			FY 2021-22 Initial Consensus Est. 1/10/20	\$ Change from FY 2020-21 Consensus	% Change from FY 2020-21
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$11,194.5	\$11,329.0	\$11,557.7	\$11,695.0	\$11,518.5	\$324.0	2.9%
Net SAF Revenue	\$14,317.5	\$14,585.5	\$14,694.4	\$14,666.1	\$14,640.1	\$322.6	2.3%
Net GF/GP & SAF Revenue	\$25,512.0	\$25,914.5	\$26,252.1	\$26,361.1	\$26,158.6	\$646.6	2.5%

Revenue Limit

In FY 2017-18, revenue subject to the constitutional revenue limit was \$8.7 billion, or 21.0%, below the limit. In FY 2018-19 through FY 2021-22, revenue is expected to continue to fall well below the revenue limit. In FY 2018-19, revenue is estimated to have fallen short of the revenue limit by approximately \$9.9 billion, or 22.8%, a decrease that reflects the 2.4% revenue growth in FY 2018-19 exceeding the 4.8% increase in personal income in 2017 (the year used to compute the FY 2018-19 revenue limit). In FY 2019-20, revenue subject to the limit will fall below the limit by an estimated \$11.5 billion, or 25.1%, reflecting the dynamics of a projected 1.9% increase in revenue subject to the limit compared to the 5.2% growth in income (that is projected to increase the FY 2019-20 limit by almost \$2.3 billion). Revenue is estimated to fall short of the limit by \$12.5 billion or 26.2% in FY 2020-21, and by \$13.4 billion, or 27.2%, in FY 2021-22. 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 2018-19, FY 2019-20, FY 2020-21, or FY 2021-22 (based on the change in real Michigan personal income less transfer payments). Similarly, the estimates would not trigger a suggested pay-in for FY 2019-20, FY 2020-21, or FY 2021-22. The current FY 2019-20 budget provides for a deposit into the Fund of \$17.5 million, which represents 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 2020 CREC for the current year, FY 2019-20, show a slight increase in the total number of pupils from those estimated at the May 2019 CREC. The FY 2019-20 pupil memberships (weighted 90.0% on the September 2019 count plus 10.0% on the previous February 2019 count) are now estimated at 1,460,900, which is 1,500 pupil memberships higher than the May 2019 consensus estimate, representing a change in the estimate of 0.1%. Compared with the previous year, FY 2018-19, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined 9,939.

The increase of 1,500 memberships above the May 2019 estimate will result in additional State costs of roughly \$12.0 million. These State costs are offset by State savings related to higher taxable values than previously estimated. Other relatively minor cost adjustments are anticipated for the current year budget, leading to overall State savings of \$3.4 million estimated for FY 2019-20 (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 2020.

Pupil estimates for the 2020-21 fiscal year (which were estimated at the May 2019 CREC) also were presented at the January 2020 conference. The pupil estimate of 1,453,600 memberships presented for FY 2020-21 represents an increase of 2,600 pupils above the earlier estimate, and a decline of 0.5%, or 7,300 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, \$8,111 (which is the amount of the minimum foundation allowance) less for each pupil at the local school level.

Pupil estimates for FY 2021-22 also were presented (for the first time) at the January 2020 CREC. The initial estimates for planning purposes show another drop of 6,600 pupil memberships compared to the estimate for FY 2020-21. Strict declines in population would indicate a steeper drop than 6,600, but the estimate reflects the potential for additional enrollment from outside the trends for traditional public school population, and the trend in enrolling students for two years of kindergarten.

The School Aid Act currently requires the CREC 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 2020-21 is 1.0050 and the revenue adjustment factor is 1.0213. Multiplying these two factors together yields 1.0264 as the FY 2020-21 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2021-22 is 1.0046 and the revenue adjustment factor is 1.0232. Multiplying these two factors together yields 1.0279 as the FY 2021-22 index.

/lms

c: Christopher Harkins, Director