

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** January 15, 2021

**TO:** Members of the Senate

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

**RE:** Consensus Revenue Estimates for FY 2020-21, FY 2021-22, and FY 2022-23 and School Aid Foundation Allowance Index Estimate for FY 2021-22

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on January 15, 2021, and unanimously adopted revised revenue estimates for fiscal year (FY) 2020-21 and FY 2021-22, initial estimates for FY 2022-23, and an estimate of the School Aid Foundation Allowance Index for FY 2021-22. 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 2020-21 is \$10,237.5 million, which is down 4.9%, or \$553.1 million, from preliminary FY 2019-20 final revenue. The decrease in GF/GP revenue primarily reflects modest economic growth being more than offset by noneconomic factors, namely statutory diversions of General Fund revenue to other funds and the loss of additional tax revenue attributable to Federal stimulus measures that were adopted in response to the COVID-19 pandemic. In FY 2020-21, increased earmarks totaling \$669.0 million will divert General Fund revenue to the Michigan Transportation Fund and 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 \$465.9 million to \$491.5 million. In addition, estimated Michigan Business Tax (MBT) credits are expected to increase from \$553.7 million in FY 2019-20, to \$626.9 million in FY 2020-21. Compared with the August 2020 consensus revenue estimate, this revised estimate is \$700.8 million higher, largely reflecting greater-than-expected individual income tax revenue during FY 2019-20 affecting the base in subsequent fiscal years. In FY 2021-22, GF/GP revenue will total an estimated \$10,897.1 million, a 6.4% increase that is \$659.6 million above the revised estimate for FY 2020-21. Compared with the August 2020 consensus revenue estimate, the revised estimate for FY 2021-22 is \$504.6 million higher. The increase in FY 2021-22 GF/GP revenue reflects the combined impact of an improving economy and slower increases in the revenue diverted to personal property tax reform and the Michigan Transportation Fund. The initial estimate for FY 2022-23 GF/GP revenue is \$11,167.1 million, an increase of 2.5%, or \$270.0 million, from the revised FY 2021-22 estimate. The slower growth in FY 2022-23 GF/GP revenue reflects slowing economic growth combined with the revenue impact of an income tax rate trigger enacted in 2015. The trigger requires tax rate reductions whenever General Fund revenue grows faster than 1.425 times the inflation rate. Because of the timing of the recovery from the COVID-19 pandemic, revenue is expected to exceed the limit in FY 2021-22, thus triggering rate reductions beginning January 1, 2023. Under the current forecast, the mandated rate reductions are expected to lower FY 2022-23 General Fund revenue by \$193.0 million and \$439.0 million in FY 2023-24.

**School Aid Fund**

School Aid Fund earmarked tax and lottery revenue will total an estimated \$14,030.2 million in FY 2020-21, which is up 0.2%, or \$27.8 million, from the preliminary final revenue level for FY 2019-20. Compared with the

August 2020 consensus revenue estimate, this revised estimate is \$528.3 million higher, largely reflecting growth from stronger-than-expected sales tax that resulted from stimulus-induced spending during 2020. In FY 2021-22, SAF revenue will total an estimated \$14,423.7 million, which is up 2.8%, or \$393.5 million, from the revised estimate for FY 2020-21, and \$370.2 million above the August 2020 forecast. The initial estimate for SAF revenue in FY 2022-23 is \$14,730.4 million, an increase of 2.1%, or \$306.7 million, from the revised estimate for FY 2021-22. The growth in SAF revenue in both FY 2021-22 and FY 2022-23 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 \$24,267.7 million in FY 2020-21, down 2.0%, or \$505.5 million, from the preliminary final revenue level for FY 2019-20, but \$1,229.1 million above the August 2020 consensus revenue estimate. In FY 2021-22, combined GF/GP and SAF revenue will total an estimated \$25,320.8 million, an increase of 4.3%, or \$1,053.1 million, from the revised estimate for FY 2020-21 and \$874.8 million more than the August 2020 consensus revenue estimate. The initial estimate of FY 2022-23 combined GF/GP and SAF revenue totals \$25,897.5 million, an increase of 2.3%, or \$576.7 million, from the revised estimate for FY 2021-22.

Table 1

FY 2020-21 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 15, 2021, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2020-21 Revised Revenue Estimates			FY 2020-21 Revised Consensus Est. 1/15/21	\$ Change from Aug 2020 Consensus	% Change from FY 2019-20
	FY 2019-20 Preliminary Final	Previous FY 2020-21 Consensus Est. Aug 2020	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,770.6	\$9,536.7	\$10,632.9	\$9,922.2	\$9,722.5	\$10,237.5	\$700.8	(4.9%)
Net SAF Revenue	\$14,002.4	\$13,501.9	\$14,069.2	\$13,976.7	\$13,918.9	\$14,030.2	\$528.3	0.2%
<b>Net GF/GP &amp; SAF Revenue</b>	<b>\$24,773.0</b>	<b>\$23,038.6</b>	<b>\$24,702.1</b>	<b>\$23,898.9</b>	<b>\$23,641.4</b>	<b>\$24,267.7</b>	<b>\$1,229.1</b>	<b>(2.0%)</b>

Table 2

FY 2021-22 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 15, 2021, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2021-22 Revised Revenue Estimates			FY 2021-22 Revised Consensus Est. 1/15/21	\$ Change from Aug 2020 Consensus	% Change from FY 2020-21
	FY 2020-21 Revised Consensus Est. 1/15/21	Previous FY 2021-22 Consensus Est. Aug 2020	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,237.5	\$10,392.5	\$11,072.1	\$10,826.9	\$10,214.0	\$10,897.1	\$504.6	6.4%
Net SAF Revenue	\$14,030.2	\$14,053.5	\$14,425.0	\$14,499.7	\$14,201.6	\$14,423.7	\$370.2	2.8%
<b>Net GF/GP &amp; SAF Revenue</b>	<b>\$24,267.7</b>	<b>\$24,446.0</b>	<b>\$25,497.1</b>	<b>\$25,326.6</b>	<b>\$24,415.6</b>	<b>\$25,320.8</b>	<b>\$874.8</b>	<b>4.3%</b>

Table 3

<b>FY 2022-23 REVENUE ESTIMATE COMPARISON &amp; CONSENSUS AGREEMENT</b> <b>General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)</b> <b>January 15, 2021 Consensus Revenue Estimating Conference</b> <b>(millions of dollars)</b>							
	FY 2021-22 Revised Consensus Est. 1/15/21	FY 2022-23 Initial Revenue Estimates			FY 2022-23 Initial Consensus Est. 1/15/21	\$ Change from FY 2021-22 Consensus	% Change from FY 2021-22
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,897.1	\$11,411.9	\$10,859.0	\$10,452.8	\$11,167.1	\$270.0	2.5%
Net SAF Revenue	\$14,423.7	\$14,734.4	\$14,791.0	\$14,493.4	\$14,730.4	\$306.7	2.1%
<b>Net GF/GP &amp; SAF Revenue</b>	<b>\$25,320.8</b>	<b>\$26,146.3</b>	<b>\$25,650.0</b>	<b>\$24,946.2</b>	<b>\$25,897.5</b>	<b>\$576.7</b>	<b>2.3%</b>

### Revenue Limit

In FY 2018-19, revenue subject to the constitutional revenue limit was \$9.7 billion, or 22.1%, below the limit. In FY 2019-20 through FY 2022-23, revenue is expected to continue to fall well below the revenue limit. In FY 2019-20, revenue is estimated to have fallen short of the revenue limit by approximately \$11.4 billion, or 24.8%, an increase that reflects 1.5% revenue growth in FY 2019-20 compared to the 5.2% increase in personal income in 2018 (the year used to compute the FY 2019-20 revenue limit) that is projected to increase the FY 2019-20 limit by almost \$2.3 billion. In FY 2020-21, revenue subject to the limit will fall below the limit by an estimated \$12.5 billion, or 26.8%, reflecting the dynamics of a projected 1.1% decrease in revenue subject to the limit compared to the 1.6% growth in income. Revenue is estimated to fall short of the limit by \$14.1 billion or 28.6% in FY 2021-22, and by \$12.0 billion, or 24.9%, in FY 2022-23. 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 trigger an allowable withdrawal from the Budget Stabilization Fund in FY 2019-20 of \$287.2 million but no withdrawals in FY 2020-21, FY 2021-22 or FY 2022-23 (based on the change in real Michigan personal income less transfer payments). Similarly, the estimates would not trigger a suggested pay-in for FY 2020-21, FY 2021-22, or FY 2022-23. The current FY 2020-21 budget provides for a deposit into the Fund of \$52.5 million, which represents the \$17.5 million of tobacco settlement revenue deposited into the Fund to repay the withdrawal associated with the Detroit bankruptcy and an additional \$35.0 as a result of Public Act 166 of 2020. 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 2021 CREC for the current year, FY 2020-21, show a decrease in the total number of pupils from those estimated at the May 2020 CREC. The FY 2020-21 pupil memberships (weighted 75% on the FY 2019-20 blend plus 25% on what would have been the 'normal' FY 2020-21 blend, namely 90.0% on the October 2020 count plus 10.0% on the previous February 2020 count) are now estimated at 1,449,100, which is 3,400 pupil memberships lower than the May 2020 consensus estimate, representing a change in the estimate of 0.2%. Compared with the previous year, FY 2019-20, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined 11,951 in terms of the calculated blends.

The actual pupil counts in the fall of 2020 were significantly lower than the previous year; but the 'superblend' calculation for the pupil memberships adopted at the CREC provided a 75% weight on the previous-year blend, thereby masking the actual reduction in pupils enrolled in public schools, but providing funding stability to districts in the face of potentially unstable or negative enrollment patterns during COVID-19. The actual pupil counts in the fall of 2020 were roughly 53,000 lower than those of fall 2019.

The decrease of 3,400 memberships below the May 2020 estimate will result in State savings of roughly \$29.0 million; however, the budget had added \$45.0 million to pay for the superblend (enacted in August 2020), which, because of the precipitous decline in actual pupil memberships, is now not needed. Total savings from declines in pupils is estimated at \$71.0 million. Other State savings and cost adjustments totaling \$10.0 million are included in the CREC balance sheets for total State savings of \$81.0 million compared to enacted appropriations.

Pupil estimates for FY 2021-22 (which were first estimated at the May 2020 CREC) also were updated at the January 2021 conference. The pupil estimate of 1,434,500 memberships presented for FY 2021-22 represents a decrease of 10,500 pupils below the earlier estimate, and a decline of 0.1%, or 14,600 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 and, for FY 2021-22, a continuation of a portion of pupil loss from FY 2020-21 due to the pandemic. 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 2022-23 also were presented (for the first time) at the January 2021 CREC. The initial estimates for planning purposes show another drop of 8,500 pupil memberships compared to the estimate for FY 2021-22. Strict declines in population would indicate a steeper drop than 8,500, but the estimate reflects the potential for pupils returning to a more or less 'normal' enrollment pattern by FY 2022-23, 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 Act, 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 2021-22 is 1.0102 and the revenue adjustment factor is 1.0111. Multiplying these two factors together yields 1.0214 as the FY 2021-22 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2022-23 is 1.0060 and the revenue adjustment factor is 1.0207. Multiplying these two factors together yields 1.0268 as the FY 2022-23 index.

/lms

c: Christopher Harkins, Director