SENATE FISCAL AGENCY
MEMORANDUM

DATE: January 14, 2022

TO: Members of the Michigan Senate

FROM: David Zin, Chief Economist
Ryan Bergan, Fiscal Analyst

RE: Consensus Revenue Estimates for FY 2021-22, FY 2022-23, and FY 2023-24 and School Aid Foundation Allowance Index Estimate for FY 2022-23

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on January 14, 2022, and unanimously adopted revised revenue estimates for fiscal year (FY) 2021-22 and FY 2022-23, initial estimates for FY 2023-24, and an estimate of the School Aid Foundation Allowance Index for FY 2022-23. 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 2021-22 is $12,449.7 million, which is down 3.9%, or $501.0 million, from preliminary FY 2020-21 final revenue. The decrease in GF/GP revenue primarily reflects modest economic growth being more than offset by noneconomic factors, namely the loss of additional tax revenue (some of which included 2021 payments on 2020 activity) attributable to Federal stimulus measures that were adopted in response to the COVID-19 pandemic and a gradual return of consumer spending to a more traditional split between goods (generally subject to sales and use taxes) and services (generally except from sales and use taxes). In FY 2021-22, 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 $491.5 million to $521.3 million. In addition, estimated Michigan Business Tax (MBT) credits are expected to increase from $499.6 million in FY 2020-21 to $604.3 million in FY 2021-22. Compared with the May 2021 consensus revenue estimate, this revised estimate is $776.6 million higher, largely reflecting a stronger forecast in individual income tax withholding during FY 2021-22 and greater-than-expected corporate income tax revenue during FY 2020-21 affecting the base in subsequent fiscal years. In FY 2022-23, GF/GP revenue will total an estimated $12,892.1 million, a 3.6% increase that is $442.4 million above the revised estimate for FY 2021-22. Compared with the May 2021 consensus revenue estimate, the revised estimate for FY 2022-23 is $621.4 million higher. The increase in FY 2022-23 GF/GP revenue reflects the combined impact of an improving economy. The initial estimate for FY 2023-24 GF/GP revenue is $13,314.3 million, an increase of 3.3%, or $422.2 million, from the revised FY 2022-23 estimate. The increase in FY 2023-24 GF/GP revenue reflects continuing economic growth.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated $16,078.2 million in FY 2021-22, which is up 0.2%, or $27.9 million, from the preliminary final revenue level for FY 2020-21. Compared with the May 2021 consensus revenue estimate, this revised estimate is $947.2 million higher, largely reflecting a portion of the stronger-than-expected sales tax revenue during FY 2020-21 carrying through to the sales tax base in FY 2021-22; gains from new taxes earmarked to the School Aid Fund, such as the Marihuana Excise Tax and taxes on newly allowed gaming activity such as internet gaming and sports betting; and strong growth

201 N. Washington Square ● *Suite 800 - The Victor Center* ● *Lansing, Michigan*
Telephone: (517) 373-2768 ● *Fax: (517) 373-1986*

Recycled Paper

in revenue from the real estate transfer tax. In FY 2022-23, SAF revenue will total an estimated $16,246.6 million, which is up 1.0%, or $168.4 million, from the revised estimate for FY 2021-22, and $819.0 million above the May 2021 forecast. The initial estimate for SAF revenue in FY 2023-24 is $16,557.6 million, an increase of 1.9%, or $311.1 million, from the revised estimate for FY 2022-23. The growth in SAF revenue in both FY 2022-23 and FY 2023-24 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 $28,527.9 million in FY 2021-22, down 1.6%, or $473.1 million, from the preliminary final revenue level for FY 2020-21, but $1,723.8 million above the May 2021 consensus revenue estimate. In FY 2022-23, combined GF/GP and SAF revenue will total an estimated $29,138.7 million, an increase of 2.1%, or $610.8 million, from the revised estimate for FY 2021-22 and $1,440.4 million more than the May 2021 consensus revenue estimate. The initial estimate of FY 2023-24 combined GF/GP and SAF revenue totals $29,872.0 million, an increase of 2.5%, or $733.3 million, from the revised estimate for FY 2022-23.

Table 1

FY 2021-22 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
January 14, 2022, Consensus Revenue Estimating Conference
(millions of dollars)

| | FY 2020-21 Preliminary Final | Previous FY 2021-22 Consensus Est. May 2021 | FY 2021-22 Revised Revenue Estimates | | | FY 2021-22 Revised Consensus Est. 1/14/22 | $ Change from May 2021 Consensus | % Change from FY 2020-21 |
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	$12,950.7	$11,673.1	$12,637.7	$12,386.4	$12,308.2	$12,449.7	$776.6	(3.9%)
Net SAF Revenue	$16,050.3	$15,131.0	$16,015.2	$16,117.6	$15,917.2	$16,078.2	$947.2	0.2%
Net GF/GP & SAF Revenue	$29,001.0	$26,804.1	$28,652.9	$28,504.0	$28,225.4	$28,527.9	$1,723.8	(1.6%)

Table 2

FY 2022-23 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
January 14, 2022, Consensus Revenue Estimating Conference
(millions of dollars)

| | FY 2021-22 Revised Consensus Est. 1/14/22 | Previous FY 2022-23 Consensus Est. May 2021 | FY 2022-23 Revised Revenue Estimates | | | FY 2022-23 Revised Consensus Est. 1/14/22 | $ Change from May 2021 Consensus | % Change from FY 2021-22 |
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	$12,449.7	$12,270.7	$13,011.1	$12,831.7	$12,832.5	$12,892.1	$621.4	3.6%
Net SAF Revenue	$16,078.2	$15,427.6	$16,411.1	$16,210.9	$16,055.1	$16,246.6	$819.0	1.0%
Net GF/GP & SAF Revenue	$28,527.9	$27,698.3	$29,422.2	$29,042.6	$28,887.6	$29,138.7	$1,440.4	2.1%

Table 3

		FY 2023-24 Initial Revenue Estimates					
	FY 2022-23 Revised Consensus Est. 1/14/22	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	**FY 2023-24 Initial Consensus Est. 1/14/22**	$ Change from FY 2022-23 Consensus	% Change from FY 2022-23
Net GF/GP Revenue	$12,892.1	$13,471.9	$13,222.2	$13,222.5	$13,314.3	$422.2	3.3%
Net SAF Revenue	$16,246.6	$16,803.5	$16,511.5	$16,320.7	$16,557.7	$311.1	1.9%
Net GF/GP & SAF Revenue	$29,138.7	$30,275.4	$29,733.7	$29,543.2	$29,872.0	$733.3	2.5%

Table title: **FY 2023-24 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT / General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) / January 14, 2022 Consensus Revenue Estimating Conference / (millions of dollars)**

Revenue Limit

In FY 2019-20, revenue subject to the constitutional revenue limit was $11.9 billion, or 25.9%, below the limit. In FY 2020-21 through FY 2023-24, revenue is expected to continue to fall well below the revenue limit. In FY 2020-21, revenue is estimated to have fallen short of the revenue limit by approximately $8.3 billion, or 17.8%, an increase that reflects 12.7% revenue growth in FY 2020-21 compared to the 1.6% increase in personal income in 2019 (the year used to compute the FY 2020-21 revenue limit), which is projected to increase the FY 2020-21 limit by almost $721.4 million. In FY 2021-22, revenue subject to the limit will fall below the limit by an estimated $12.2 billion, or 24.1%, reflecting the dynamics of a projected 0.4% decrease in revenue subject to the limit compared to the 8.0% growth in income. Revenue is estimated to fall short of the limit by $14.0 billion, or 26.4%, in FY 2022-23, and by $13.3 billion, or 25.0%, in FY 2023-24. 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 2020-21, FY 2021-22, FY 2022-23, or FY 2023-24 (based on the change in real Michigan personal income less transfer payments). However, the estimates would trigger a suggested pay-in for FY 2021-22 of $51.8 million, no pay-in for FY 2022-23, and a pay-in of $148.3 million in FY 2023-24. The current FY 2021-22 budget provides only 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 2022 CREC for the current year, FY 2021-22, show a decrease in the total number of pupils from those estimated at the May 2021 CREC. The FY 2021-22 pupil memberships are now estimated at 1,406,000, which is 27,500 pupil memberships lower than the May 2021 consensus estimate, representing a change in the estimate of -1.9%. Compared with the previous year, FY 2020-21, in which the blend was calculated as a 'superblend' that heavily weighted the calculations based on FY 2019-20 pupils, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined 43,814 in terms of the calculated blends. However, the actual pupil decline occurred in FY 2020-21, not in the current year, but was masked by the use of the 'superblend' to pay districts.

The Fall 2020-Fall 2021 decline in full-time equated pupils was only about 200 pupils. The remaining decline in membership is caused by reverting the blend calculation from the FY 2020-21 superblend method (75% of FY 2019-20 blend + 25% of FY 2020-21 blend) to the normal blend calculation (10% of prior year February count + 90% of current year Fall count). In May 2021, the CREC forecasted that most of the pupils who left the public school system in FY 2020-21 would return quickly. The forecast now is that these pupils will return more gradually over the next several years (if at all), resulting in significant negative revisions to the pupil count estimates for FY 2021-22 and FY 2022-23.

The decrease of 27,500 memberships below the May 2021 estimate will result in State savings of roughly $239.3 million. Other State savings and cost adjustments totaling $83.7 million are included in the CREC balance sheets for total State savings of $323.0 million compared to enacted appropriations.

Pupil estimates for FY 2022-23 also were updated at the January 2022 conference. The pupil estimate of 1,401,200 memberships presented for FY 2022-23 represents a decrease of 22,300 pupils below the May 2021 estimate, and a decline of 0.3%, or 4,800 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; however, this will be somewhat offset by pupils returning to public schools from the pandemic. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean (at a minimum) $8,700 (which is the amount of the minimum foundation allowance) less for each pupil at the local school level.

Pupil estimates for FY 2023-24 also were presented (for the first time) at the January 2022 CREC. The initial estimates for planning purposes show another drop of 5,200 pupil memberships compared to the revised estimate for FY 2022-23. Strict declines in population would indicate a steeper drop than 5,200, but the estimate reflects the potential for more pupils to return to a more or less 'normal' enrollment pattern by FY 2023-24.

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 2022-23 is 1.0034 and the revenue adjustment factor is 1.0047. Multiplying these two factors together yields 1.0081 as the FY 2022-23 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2023-24 is 1.0037 and the revenue adjustment factor is 1.0181. Multiplying these two factors together yields 1.0219 as the FY 2023-24 index.

/lms

c: Kathryn Summers, Director