

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 12, 2024

TO: Members of the Michigan Senate

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

RE: Consensus Revenue Estimates for Fiscal Years (FYs) 2023-24, 2024-25, and 2025-26 and School Aid Foundation Allowance Index Estimate for FY 2024-25 and FY 2025-26.

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on January 12, 2024, and unanimously adopted revised revenue estimates for FY 2023-24 and FY 2024-25, initial estimates for FY 2025-26, and estimates of the School Aid Foundation Allowance Index for FY 2024-25 and FY 2025-26. 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 estimates also are discussed below.

General Fund/General Purpose

Although the economy slowed in 2023, compared to 2022, the declines were slightly less than estimated at the May 2023 CREC and resulted in preliminary FY 2022-23 revenue declining less than forecasted. The additional revenue in FY 2022-23 is expected to increase the economic base for many taxes in FY 2023-24 and later years. Furthermore, although the CREC predicts that the economy will continue slowing in 2024 and later years, the declines are less than forecasted at the May 2023 CREC. The combination of a larger economic base with smaller declines in economic activity resulted in the January 2024 CREC's increasing the estimates of General Fund revenue in each forecast year compared to the estimates made in May 2023 ([Figure 1](#)). General Fund/General Purpose revenue is expected to fall 2.6% in FY 2023-24 before growing 3.1% in FY 2024-25 and 4.9% in FY 2025-26.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will follow similar trends as GF/GP revenue. School Aid Fund revenue is expected to grow 0.5% in FY 2023-24, and then increase 2.0% in FY 2024-25 and 2.2% in FY 2025-26. The growth in SAF revenue in both FY 2023-24 and FY 2024-25 reflects 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. The CREC estimates for FY 2023-24 and FY 2024-25 are above the estimate made in May 2023 ([Figure 1](#)).

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$31.5 billion in FY 2023-24, down 0.9% from the preliminary revenue level for FY 2022-23. Combined GF/GP and SAF revenue will increase 2.5% in FY 2024-25 and 3.4% in FY 2025-26. The CREC estimates for FY 2023-24 and FY 2024-25 are above the estimates made in May 2023.

Table 1

FY 2023-24 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 12, 2024, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2023-24					FY 2023-24	\$ Change	% Change
	FY 2022-23	Previous	Revised Revenue Estimates					
	Preliminary	FY 2023-24	Treasury	House	Senate	Consensus	from May	from
	Revenue	Est. May 2023	Department	Fiscal	Fiscal	Est. 1/12/24	2023	FY
				Agency	Agency		Consensus	2022-23
Net GF/GP Revenue	\$13,965.9	\$13,238.3	\$13,419.8	\$13,672.3	\$13,656.7	\$13,597.4	\$359.1	(2.6%)
Net SAF Revenue	\$17,859.4	\$17,888.1	\$17,899.5	\$17,992.6	\$17,930.9	\$17,946.9	\$58.8	0.5%
Net GF/GP & SAF Revenue	\$31,825.3	\$31,126.4	\$31,319.3	\$31,664.9	\$31,587.6	\$31,544.3	\$417.9	(0.9%)

Table 2

FY 2024-25 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 12, 2024, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2024-25					FY 2024-25	\$ Change	% Change
	FY 2023-24	Previous	Revised Revenue Estimates					
	Revised	FY 2024-25	Treasury	House	Senate	Consensus	from	from
	Consensus	Consensus	Department	Fiscal	Fiscal	Est. 1/12/24	May 2023	FY
	Est. 1/12/24	Est. May 2023		Agency	Agency		Consensus	2023-24
Net GF/GP Revenue	\$13,597.4	\$13,916.4	\$13,982.0	\$14,003.2	\$14,162.4	\$14,022.2	\$105.8	3.1%
Net SAF Revenue	\$17,946.9	\$18,265.9	\$18,317.3	\$18,282.5	\$18,316.0	\$18,307.0	\$41.1	2.0%
Net GF/GP & SAF Revenue	\$31,544.3	\$32,182.3	\$32,299.3	\$32,285.7	\$32,478.4	\$32,329.2	\$146.9	2.5%

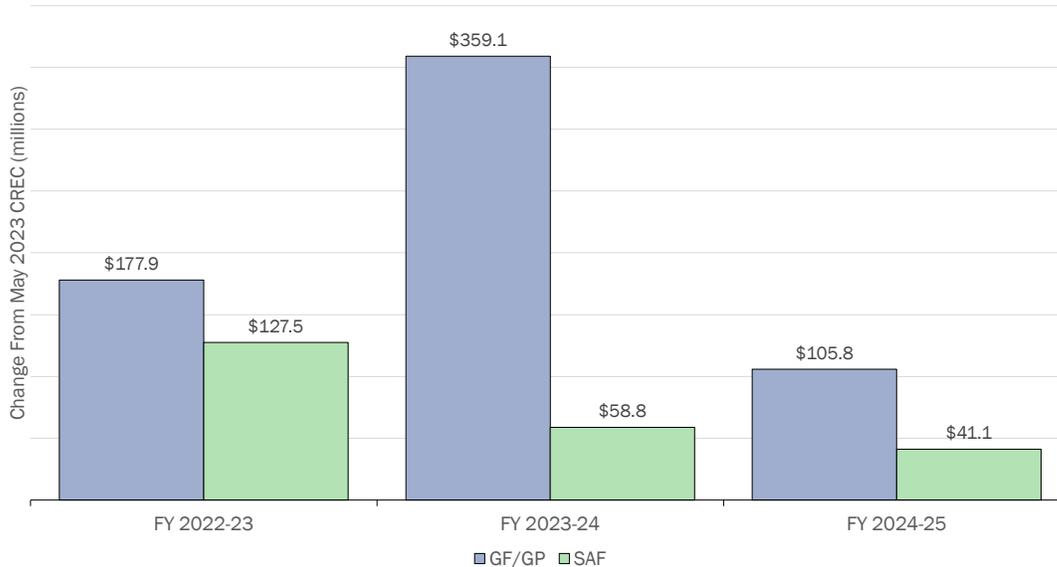
Table 3

FY 2025-26 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 12, 2024, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2025-26					FY 2025-26	\$ Change	% Change
	FY 2024-25	Initial Revenue Estimates			Initial			
	Revised	Treasury	House	Senate	Consensus	from FY	from	
	Consensus	Department	Fiscal	Fiscal	Est. 1/12/24	2024-25	FY	
	Est. 1/12/24		Agency	Agency		Consensus	2024-25	
Net GF/GP Revenue	\$14,022.2	\$14,681.9	\$14,628.5	\$14,837.5	\$14,707.6	\$685.4	4.9%	
Net SAF Revenue	\$18,307.0	\$18,728.5	\$18,664.2	\$18,633.8	\$18,706.0	\$399.0	2.2%	
Net GF/GP & SAF Revenue	\$32,329.2	\$33,410.4	\$33,292.7	\$33,471.3	\$33,413.6	\$1,084.4	3.4%	

Figure 1

Change in Consensus Revenue Estimates

January 2024 Estimates Compared to May 2023 Estimates



Source: January 12, 2024 Consensus Revenue Estimates

Revenue Limit

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. The limit equals 9.49% of total Michigan personal income for the calendar year before the calendar year in which the fiscal year begins. As a result, FY 2022-23 revenue may not exceed 9.49% of calendar year 2021 personal income. State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments (e.g., Social Security income and Medicaid benefits). It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the US Department of Commerce's Bureau of Economic Analysis. 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.

The January 2024 CREC estimates that total State revenue will remain well below the revenue limit throughout the forecast. As shown in Table 4, the amount by which revenue is below the limit will increase from \$11.9 billion in FY 2022-23 to \$14.2 billion in FY 2025-26, reaching 24.3% of the revenue 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 over the forecast, nor would the formula trigger a suggested pay-in in any fiscal year, as shown in Table 4. The FY 2023-24 budget provides for a deposit into the Fund of \$117.5 million, which represents a budgeted deposit of \$100.0 million plus \$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.

Table 4

CONSENSUS CALCULATIONS				
For Budget Stabilization Fund Transfers and Constitutional Revenue Limit				
January 12, 2024, Consensus Revenue Estimating Conference				
(millions of dollars)				
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue Limit				
Personal Income	\$567,807.0	\$572,325.0	\$596,935.0	\$617,231.0
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$53,884.9	\$54,313.6	\$56,649.1	\$58,575.2
Revenue Subject to the Limit	\$41,985.2	\$41,959.2	\$43,021.9	\$44,362.7
Amount Under (Over) Limit	\$11,899.7	\$12,354.4	\$13,627.2	\$14,212.5
Percent	22.1%	22.7%	24.1%	24.3%
Calculated BSF Transfers		FY 2023-24	FY 2024-25	FY 2025-26
Pay-in		\$0.0	\$0.0	\$0.0
Pay-out		\$0.0	\$0.0	\$0.0

School Aid Foundation Allowance Index

The pupil estimates presented at the January 2024 CREC for the current year, FY 2023-24, show a decrease in the total number of pupils from that estimated at the May 2023 CREC. The FY 2023-24 pupil memberships are estimated at 1,391,700, which is 1,900 pupil memberships lower than the May 2023 estimate. Compared with FY 2022-23, the number of pupils (attending traditional districts and public school academies) is estimated to have declined 7,529. The decrease of 1,900 memberships below the May 2023 estimate will reduce State costs. The total foundation allowance cost will be reduced by \$72.2 million because of gains in the taxable value of property and the decreased pupil count. Other cost increases totaling \$130.0 million are included in the CREC balance sheets for a total State cost increase of \$57.8 million compared to enacted appropriations.

Pupil estimates for FY 2024-25 also were updated at the January 2024 conference. The pupil estimate of 1,385,900 memberships presented for FY 2024-25 represents a decrease of 2,600 pupils from the May 2023 estimate, and a decline of 0.4%, or 5,800 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. Since FY 2021-22, the pupil membership declines have been somewhat offset by pupils returning to the public school system from either nonpublic schools or home schooling, but the estimates for FY 2024-25 and beyond assume that shift has completed. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean (at a minimum) \$9,150 (which is the amount of the target foundation allowance for cyber charter schools) less for each pupil at the local school level.

Pupil estimates for FY 2025-26 also were presented (for the first time) at the January 2024 CREC. The initial estimates show a further drop of 6,300 pupil memberships compared to the revised estimate for FY 2024-25. The decline in memberships is estimated to be greater than the decline from FY 2023-24 to FY 2024-25 because the decline in birth rates has accelerated since 2020, which will likely result in a smaller entering kindergarten class.

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 2024-25 is 1.0042 and the revenue adjustment factor is 1.0177. Multiplying these two factors together yields 1.0220 as the FY 2024-25 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2025-26 is 1.0046 and the revenue adjustment factor is 1.0235. Multiplying these two factors together yields 1.0282 as the FY 2025-26 index.

/lms

c: Kathryn Summers, Director