

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 10, 2025

TO: Members of the Michigan Senate

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

RE: Consensus Revenue Estimates for Fiscal Years (FYs) 2024-25, 2025-26, and 2026-27 and School Aid Foundation Allowance Index Estimate for FY 2025-26 and FY 2026-27

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on January 10, 2025, and unanimously adopted revised revenue estimates for FY 2024-25 and FY 2025-26, initial estimates for FY 2026-27, and estimates of the School Aid Foundation Allowance Index for FY 2025-26 and FY 2026-27. 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

While the economy exhibited solid growth during 2024, compared to 2023, Michigan income gains were slightly stronger than estimated at the May 2024 CREC, which resulted in preliminary FY 2023-24 revenue growing rather than exhibiting the slight decline that was forecasted. The additional revenue in FY 2023-24 is expected to increase the economic base for many taxes in FY 2024-25 and later years. Furthermore, although the CREC predicts that the economy will grow more slowly in 2025 and later years, economic growth will be sufficient to allow revenue to continue rising over the forecast. The combination of a larger tax base with consistent economic growth resulted in the January 2025 CREC's increasing the estimates of General Fund revenue in each forecast year compared to the estimates made in May 2024 ([Figure 1](#)). General Fund/General Purpose revenue is expected to increase 1.0% in FY 2024-25, 5.2% in FY 2025-26 and 1.7% in FY 2026-27. The faster growth in FY 2025-26 reflects the expiration of \$550.0 million in corporate income tax earmarks that currently divert revenue away from the General Fund.

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 2.3% in FY 2024-25 and FY 2025-26, before increasing 2.5% in FY 2026-27. The increases in SAF revenue reflect 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 2024-25 and FY 2025-26 are above the estimate made in May 2024 ([Figure 1](#)).

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$33.2 billion in FY 2024-25, up 1.8% from the preliminary revenue level for FY 2023-24. Combined GF/GP and SAF revenue will increase 3.6% in FY 2025-26 and 2.1% in FY 2026-27. The CREC estimates for FY 2024-25 and FY 2025-26 are above the estimates made in May 2024.

Table 1

FY 2024-25 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 10, 2025, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2024-25 Revised Revenue Estimates					FY 2024-25 Revised Consensus Est. 1/10/25	\$ Change from May 2024 Consensus	% Change from FY 2023-24
	FY 2023-24 Preliminary Revenue	Previous FY 2024-25 Consensus Est. May 2024	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$14,501.1	\$14,257.8	\$14,479.4	\$14,695.4	\$15,128.1	\$14,715.5	\$457.7	1.5%
Net SAF Revenue	\$18,085.4	\$18,146.9	\$18,404.7	\$18,492.5	\$18,491.8	\$18,459.6	\$312.7	2.1%
Net GF/GP & SAF Revenue	\$32,586.4	\$32,404.7	\$32,884.1	\$33,187.9	\$33,619.9	\$33,175.1	\$770.4	1.8%

Table 2

FY 2025-26 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 10, 2025, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2025-26 Revised Revenue Estimates					FY 2025-26 Revised Consensus Est. 1/10/25	\$ Change from May 2024 Consensus	% Change from FY 2024-25
	FY 2024-25 Revised Consensus Est. 1/10/25	Previous FY 2025-26 Consensus Est. May 2024	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$14,715.5	\$14,886.5	\$15,184.2	\$15,527.5	\$16,003.2	\$15,477.7	\$591.2	5.2%
Net SAF Revenue	\$18,459.6	\$18,572.5	\$18,838.0	\$18,857.6	\$18,917.9	\$18,891.5	\$319.0	2.3%
Net GF/GP & SAF Revenue	\$33,175.1	\$33,459.0	\$34,022.2	\$34,385.1	\$34,921.1	\$34,369.2	\$910.2	3.6%

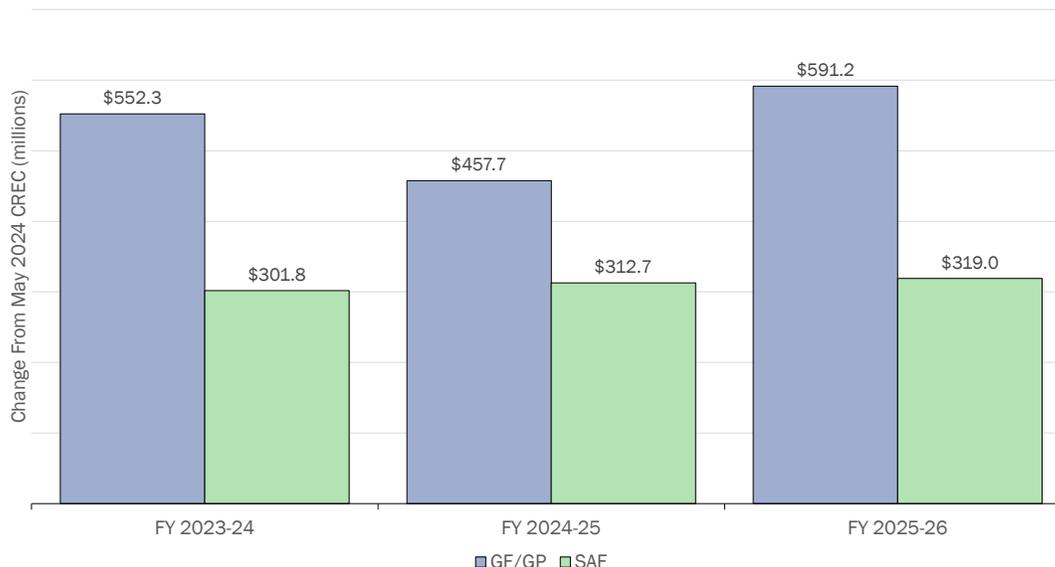
Table 3

FY 2026-27 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT							
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)							
January 10, 2025, Consensus Revenue Estimating Conference							
(millions of dollars)							
	FY 2025-26 Revised Consensus Est. 1/10/25	FY 2026-27 Initial Revenue Estimates			FY 2026-27 Initial Consensus Est. 1/10/25	\$ Change from FY 2025-26 Consensus	% Change from FY 2025-26
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$15,477.7	\$15,444.7	\$15,767.8	\$16,295.8	\$15,743.5	\$265.8	1.7%
Net SAF Revenue	\$18,891.5	\$19,368.3	\$19,146.3	\$19,357.5	\$19,354.5	\$463.0	2.5%
Net GF/GP & SAF Revenue	\$34,369.2	\$34,813.0	\$34,914.1	\$35,653.3	\$35,098.0	\$728.8	2.1%

Figure 1

Change in Consensus Revenue Estimates

January 2025 Estimates Compared to May 2024 Estimates



Source: January 10, 2025 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 2023-24 revenue may not exceed 9.49% of calendar year 2022 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 2025 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 \$10.6 billion in FY 2023-24 to \$16.1 billion in FY 2026-27, reaching 25.3% 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 current 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 2024-25 budget provides for a deposit into the Fund of \$67.5 million, which represents a budgeted deposit of \$50.0 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 10, 2025, Consensus Revenue Estimating Conference				
(millions of dollars)				
	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Revenue Limit				
Personal Income	\$582,021.0	\$613,719.0	\$643,791.0	\$667,612.0
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$55,233.8	\$58,241.9	\$61,095.8	\$63,356.4
Revenue Subject to the Limit	\$44,597.0	\$45,216.5	\$46,511.1	\$47,298.4
Amount Under (Over) Limit	\$10,636.8	\$13,025.4	\$14,584.6	\$16,057.9
Percent	19.3%	22.4%	23.9%	25.3%
Calculated BSF Transfers		FY 2024-25	FY 2025-26	FY 2026-27
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 2025 CREC for the current year, FY 2024-25, show a decrease in the total number of pupils from that estimated at the May 2024 CREC. The FY 2024-25 pupil memberships are estimated at 1,384,300, which is 700 pupil memberships lower than the May 2024 estimate. The estimated number of pupils attending traditional school districts is 2,200 lower than the May 2024 CREC estimate, while the estimated number of pupils attending public school academies increased by 1,500. The trend of increased public school academy pupils being more than offset by decreased traditional school district pupils continues throughout the forecast period. Compared with FY 2023-24, the number of pupils (attending traditional districts and public school academies) is estimated to have declined 6,558. The decrease of 700 memberships below the May 2024 estimate will reduce State costs. The total foundation allowance cost will be reduced by \$56.0 million because of gains in the taxable value of property and the decreased pupil count. Other cost decreases totaling \$24.6 million are included in the CREC balance sheets for a total State cost decrease of \$80.6 million compared to enacted appropriations.

Pupil estimates for FY 2025-26 also were updated at the January 2025 conference. The pupil estimate of 1,377,100 memberships presented for FY 2025-26 represents a decrease of 1,300 pupils from the May 2024 estimate, and a decline of 0.5%, or 7,200 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, which have fallen significantly since 2019. 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 2026-27 also were presented (for the first time) at the January 2025 CREC. The initial estimates show a further drop of 8,000 pupil memberships compared to the revised estimate for FY 2025-26.

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 2025-26 is 1.0052 and the revenue adjustment factor is 1.0258. Multiplying these two factors together yields 1.0311 as the FY 2025-26 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2026-27 is 1.0058 and the revenue adjustment factor is 1.0252. Multiplying these two factors together yields 1.0311 as the FY 2026-27 index.

/lms

c: Kathryn Summers, Director