

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 17, 2017

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2016-17, FY 2017-18 and FY 2018-19 and School Aid Foundation Allowance Index Estimate for FY 2017-18 and FY 2018-19

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, May 17, 2017, and unanimously adopted revised revenue estimates for FY 2016-17, FY 2017-18, and FY 2018-19, and revised estimates of the School Aid Foundation Allowance Index for FY 2017-18 and FY 2018-19. 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, and the School Aid Foundation Allowance Index estimate is also discussed below.

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2016-17 is \$10,111.3 million, a 1.0% or \$95.9 million increase from the FY 2015-16 level. In comparison, GF/GP revenue decreased 0.2% in FY 2015-16. The change in FY 2016-17 GF/GP revenue reflects falling corporate profits and slow growth in collections from the individual income tax. Compared with the January 2017 consensus revenue estimate, this revised estimate is down \$178.8 million. In FY 2017-18, GF/GP revenue will total an estimated \$10,408.6 million, an increase of 2.9% or \$297.3 million from the revised estimate for FY 2016-17 but \$114.1 million below the January 2017 consensus revenue estimate. The increase in FY 2017-18 GF/GP revenue primarily reflects a decrease in refundable credits under the Michigan Business Tax (MBT) and stronger growth in individual income tax withholding. As the economy continues to slowly expand, revenue will increase to a revised estimate for FY 2018-19 GF/GP revenue of \$10,489.5 million, an increase of 0.8% or \$80.9 million from the revised estimate for FY 2017-18 that is \$99.8 million below the January 2017 consensus revenue estimate. The weak revenue growth in FY 2018-19 primarily reflects continued economic growth mostly being offset by tax policy changes related to the 2015 transportation funding package, which both earmarked \$150 million in individual income tax to the Michigan Transportation Fund and expanded the Homestead Property Tax Credit by \$205.8 million-- thereby reducing General Fund revenue by \$355.8 million in FY 2018-19.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$12,609.9 million in FY 2016-17, an increase of 4.1% or \$491.2 million from the FY 2015-16 level. The increase in FY 2016-17 SAF revenue reflects strong growth in sales tax revenue plus improvements in both State Education Tax and real estate transfer tax collections due to the improving housing market. The revised FY 2016-17 SAF estimate is \$152.9 million above the January 2017 consensus revenue estimate. In FY 2017-18, SAF revenue will total an estimated \$12,970.5 million, a 2.9% or \$360.6 million increase from the revised estimate for FY 2016-17, and \$187.4 million above the January 2017 consensus revenue estimate. The FY 2017-18 SAF revenue estimate reflects growth in all major SAF revenue sources. Continued gains in employment and income result in a revised estimate of FY 2018-19 SAF revenue of \$13,330.5 million, an increase of 2.8% or \$360.0 million from the revised estimate for FY 2017-18 that is \$199.0 million above the January 2017 consensus estimate.

Table 1

FY 2016-17 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2017, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2016-17 Revised Revenue Estimates			FY 2016-17 Revised Consensus Est. 5/17/17	\$ Change from Jan. 2017 Consensus	% Change from FY 2015-16
	FY 2015-16 Final	Previous FY 2016-17 Consensus Est. Jan. 2017	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,015.4	\$10,290.1	\$10,178.1	\$10,066.4	\$10,002.0	\$10,111.3	(\$178.8)	1.0%
Net SAF Revenue	\$12,118.7	\$12,457.0	\$12,611.3	\$12,611.4	\$12,594.8	\$12,609.9	\$152.9	4.1%
Net GF/GP & SAF Revenue	\$22,134.1	\$22,747.1	\$22,789.4	\$22,677.8	\$22,596.8	\$22,721.2	(\$25.9)	2.7%

Table 2

FY 2017-18 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2017, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2017-18 Revised Revenue Estimates			FY 2017-18 Revised Consensus Est. 5/17/17	\$ Change from Jan. 2017 Consensus	% Change from FY 2016-17
	FY 2016-17 Revised Consensus Est. 5/17/17	Previous FY 2017-18 Consensus Est. Jan. 2017	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,111.3	\$10,522.7	\$10,443.2	\$10,369.7	\$10,318.9	\$10,408.6	(\$114.1)	2.9%
Net SAF Revenue	\$12,609.9	\$12,783.1	\$12,966.9	\$12,992.4	\$12,931.7	\$12,970.5	\$187.4	2.9%
Net GF/GP & SAF Revenue	\$22,721.2	\$23,305.8	\$23,410.1	\$23,362.1	\$23,250.6	\$23,379.1	\$73.3	2.9%

Table 3

FY 2018-19 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2017, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2018-19 Initial Revenue Estimates			FY 2018-19 Revised Consensus Est. 5/17/17	\$ Change from Jan. 2017 Consensus	% Change from FY 2017-18
	FY 2017-18 Revised Consensus Est. 5/17/17	Previous FY 2018-19 Consensus Est. Jan. 2017	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,408.6	\$10,589.3	\$10,507.6	\$10,494.4	\$10,401.2	\$10,489.5	(\$99.8)	0.8%
Net SAF Revenue	\$12,970.5	\$13,131.5	\$13,294.6	\$13,360.5	\$13,310.4	\$13,330.5	\$199.0	2.8%
Net GF/GP & SAF Revenue	\$23,379.1	\$23,720.8	\$23,802.2	\$23,854.9	\$23,711.6	\$23,820.0	\$99.2	1.9%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$22,721.2 million in FY 2016-17, up 2.7% or \$587.1 million from the FY 2015-16 level, and \$25.9 million below the January 2017 consensus revenue estimate. In FY 2017-18, GF/GP and SAF revenue will total an estimated \$23,379.1 million, an increase of 2.9% or \$657.9 million from the revised estimate for FY 2016-17, and \$73.3 million above the January 2017 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$23,820.0 million in FY 2018-19, a 1.9% or \$440.9 million increase from the revised estimate for FY 2017-18 that is \$99.2 million above the January 2017 consensus revenue estimate.

Revenue Limit

In FY 2014-15, revenue subject to the revenue limit was \$7.4 billion or 20.2% below the constitutional limit. In FY 2015-16, FY 2016-17, FY 2017-18, and FY 2018-19 revenue is expected to continue to fall well below the revenue limit. In FY 2015-16, revenue fell short of the estimated revenue limit by an estimated \$8.5 billion or 22.2%. The May 2017 consensus estimates forecast that in FY 2016-17 revenue will fall below the limit by an approximately \$9.1 billion or 22.7%. Similarly, the May 2017 consensus estimate forecasts FY 2017-18 revenue will be \$9.5 billion or 22.8% below the limit, and that in FY 2018-19 revenue will be \$10.1 billion or 23.3% below the limit. The increase in the gap between the limit and expected revenue over the forecast reflects revenue growth in those fiscal years that is less than the growth in personal income.

Budget Stabilization Fund

Based on the consensus economic forecast, it is estimated that the statutory budget stabilization formula (based on the change in real Michigan personal income less transfer payments) will trigger pay-ins of \$150.3 million in FY 2016-17 and \$52.0 million in FY 2018-19, but no pay-in during FY 2017-18. The estimates do not calculate any withdrawals in any fiscal year. The Legislature has already appropriated \$75.0 million into the Budget Stabilization Fund in FY 2016-17, plus an earmarked deposit of \$17.5 million per year of tobacco settlement revenue pursuant to repayments associated with a withdrawal involved with the City of Detroit bankruptcy settlement. 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 May 2017 Consensus Revenue Estimating Conference for the current year, FY 2016-17, have not changed from those reported at the January 2017 Revenue Estimating Conference. The FY 2016-17 pupil memberships (weighted 90.0% on the September 2016 count plus 10.0% on the prior February 2016 count) remain estimated at 1,490,700, of which 1,337,700 are in traditional local districts and 153,000 are in public school academies.

Pupil estimates for the upcoming fiscal years also were presented at the May 2017 conference. The pupil estimate of 1,486,500 memberships presented for FY 2017-18 represents a decline of 0.3%, or 4,200 pupils, from the current fiscal year. This is the same as the estimate presented back in January for the upcoming fiscal year. For FY 2018-19, the pupil memberships remain estimated at 1,482,000, a decrease of 4,500 from the estimate for FY 2017-18. These year-to-year changes in pupil memberships equate to a minimum school district loss of \$7,511 per pupil.

The School Aid Act currently requires that the revenue estimating conference calculate a foundation allowance index to assist the Legislature in determining the basic foundation allowance for the subsequent state fiscal year. Under current law, the foundation allowance 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 2017-18 is 1.0028 and the revenue adjustment factor is 1.0306.

Multiplying these two factors yields 1.0335 as the foundation allowance index. This would mean that the recommended increase in the minimum foundation allowance using these calculations would yield a 3.35% increase applied to the minimum foundation allowance (currently \$7,511), or \$252. The new minimum foundation allowance would be calculated to be at least \$7,763 under these calculations.

/lms

c: Ellen Jeffries, Director