

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** May 15, 2020

**TO:** Members of the Michigan Senate

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

**RE:** Consensus Revenue Estimates for FY 2019-20, FY 2020-21 and FY 2021-22, School Aid Foundation Allowance Index Estimate for FY 2020-21, and Pupil Estimates for FY 2019-20, FY 2020-21 and FY 2021-22

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference (CREC) on May 15, 2020, and unanimously adopted revised revenue estimates for fiscal year (FY) 2019-20, FY 2020-21, and FY 2021-22, and revised estimates of the School Aid Foundation Allowance Index for FY 2019-20 and FY 2020-21. 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 2019-20 is \$9,028.2 million, an 18.8%, or \$2.1 billion, decrease from the FY 2018-19 level. In comparison, GF/GP revenue increased 8.1% in FY 2017-18 and 0.9% in FY 2018-19. The change in FY 2019-20 GF/GP revenue primarily reflects the impact of the COVID-19 pandemic, both in terms of the pandemic's effect on economic activity as well as the impact of special tax provisions adopted to stimulate the economy and address liquidity concerns associated with the pandemic. To a lesser extent, the decline in revenue also reflects other Federal tax changes, earmarks of income tax revenue to the Michigan Transportation Fund and the Renew Michigan Fund, and increases in the use tax earmark to the Local Community Stabilization Authority as part of personal property tax reform. The revised FY 2019-20 GF/GP revenue estimate is \$2.0 billion below the January 2020 consensus revenue estimate. In FY 2020-21, GF/GP revenue will total an estimated \$9,279.2 million, an increase of 2.8%, or \$251.0 million, from the revised estimate for FY 2019-20, but \$1.9 billion below the January 2020 consensus revenue estimate. The increase in FY 2020-21 GF/GP revenue primarily reflects economic growth accelerating in the wake of the COVID-19 pandemic more than offsetting increased earmarks of individual income tax and use tax revenue and tax policy changes that increased the personal exemption under the individual income tax. As the economy continues to expand, FY 2021-22 GF/GP revenue will increase to \$10,149.7 million, an increase of 9.4%, or \$870.5 million, from the revised estimate for FY 2020-21. While the revised FY 2021-22 GF/GP revenue estimate is \$1.4 billion below the January 2020 consensus revenue estimate, the growth in GF/GP revenue will be sufficient to trigger a significant rollback of the individual income tax rate in FY 2022-23 under provisions adopted as part of Public Act 180 of 2015. The growth in FY 2021-22 GF/GP revenue primarily reflects continued economic growth in the wake of the COVID-19 pandemic more than offsetting tax policy changes.

**School Aid Fund**

School Aid Fund earmarked tax and lottery revenue will total an estimated \$12,676.7 million in FY 2019-20, a decrease of 6.5%, or \$875.7 million, from the FY 2018-19 level. The decrease in FY 2019-20 SAF revenue also reflects impacts associated with the COVID-19 pandemic. The revised FY 2019-20 SAF estimate is \$1.2 billion below the January 2020 consensus revenue estimate. In FY 2020-21, SAF revenue will total an estimated \$13,180.4 million, a 4.0%, or \$503.7 million, increase from the revised estimate for FY 2019-20, and \$1.1 billion below the January 2020 consensus revenue estimate. The FY 2020-21 SAF revenue estimate

reflects growth in all major SAF revenue sources as the economy begins to recover from the COVID-19 pandemic. Continued gains in employment and income result in a revised estimate of FY 2021-22 SAF revenue of \$13,920.4 million, an increase of 5.6%, or \$740.0 million, from the revised estimate for FY 2020-21. The revised FY 2021-22 SAF estimate is \$719.7 million below the January 2020 consensus estimate.

**Table 1**

| <b>FY 2019-20 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT</b> |   |   |                            |                            |                             |  |   |                                 |
|---|---|---|----------------------------|----------------------------|-----------------------------|--|---|---------------------------------|
| <b>General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)</b> |   |   |                            |                            |                             |  |   |                                 |
| <b>May 15, 2020, Consensus Revenue Estimating Conference</b>          |   |   |                            |                            |                             |  |   |                                 |
| <b>(millions of dollars)</b>  |   |   |                            |                            |                             |  |   |                                 |
|   | <b>FY 2019-20 Revised Revenue Estimates</b> |   |                            |                            |                             | <b>FY 2019-20 Revised Consensus Est. 5/15/20</b> | <b>\$ Change from Jan. 2020 Consensus</b> | <b>% Change from FY 2018-19</b> |
|   | <b>FY 2018-19 Final</b>                     | <b>Previous FY 2019-20 Consensus Est. Jan. 2020</b> | <b>Treasury Department</b> | <b>House Fiscal Agency</b> | <b>Senate Fiscal Agency</b> |  |   |                                 |
| Net GF/GP Revenue   | \$11,115.9                                  | \$11,012.1  | \$9,184.8                  | \$9,189.8                  | \$8,713.9                   | \$9,028.2  | (\$1,983.9)                               | (18.8%)                         |
| Net SAF Revenue   | \$13,552.4                                  | \$13,925.5  | \$12,746.3                 | \$12,625.6                 | \$12,598.3                  | \$12,676.7                                       | (\$1,248.8)                               | (6.5%)                          |
| <b>Net GF/GP &amp; SAF Revenue</b>                                    | <b>\$24,668.3</b>                           | <b>\$24,937.6</b>                                   | <b>\$21,931.1</b>          | <b>\$21,815.4</b>          | <b>\$21,312.2</b>           | <b>\$21,704.9</b>                                | <b>(\$3,232.7)</b>                        | <b>(12.0%)</b>                  |

**Table 2**

| <b>FY 2020-21 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT</b> |  |   |                            |                            |                             |  |   |                                 |
|---|--|---|----------------------------|----------------------------|-----------------------------|--|---|---------------------------------|
| <b>General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)</b> |  |   |                            |                            |                             |  |   |                                 |
| <b>May 15, 2020, Consensus Revenue Estimating Conference</b>          |  |   |                            |                            |                             |  |   |                                 |
| <b>(millions of dollars)</b>  |  |   |                            |                            |                             |  |   |                                 |
|   | <b>FY 2020-21 Revised Revenue Estimates</b>      |   |                            |                            |                             | <b>FY 2020-21 Revised Consensus Est. 5/15/20</b> | <b>\$ Change from Jan. 2020 Consensus</b> | <b>% Change from FY 2019-20</b> |
|   | <b>FY 2019-20 Revised Consensus Est. 5/15/20</b> | <b>Previous FY 2020-21 Consensus Est. Jan. 2020</b> | <b>Treasury Department</b> | <b>House Fiscal Agency</b> | <b>Senate Fiscal Agency</b> |  |   |                                 |
| Net GF/GP Revenue   | \$9,028.2  | \$11,194.5  | \$9,267.6                  | \$9,575.4                  | \$9,084.0                   | \$9,279.2  | (\$1,915.3)                               | 2.8%                            |
| Net SAF Revenue   | \$12,676.7                                       | \$14,317.5  | \$13,193.6                 | \$13,099.3                 | \$13,297.5                  | \$13,180.4                                       | (\$1,137.1)                               | 4.0%                            |
| <b>Net GF/GP &amp; SAF Revenue</b>                                    | <b>\$21,704.9</b>                                | <b>\$25,512.0</b>                                   | <b>\$22,461.2</b>          | <b>\$22,674.7</b>          | <b>\$22,381.5</b>           | <b>\$22,459.6</b>                                | <b>(\$3,052.4)</b>                        | <b>3.5%</b>                     |

**Table 3**

| <b>FY 2021-22 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT</b> |  |   |                            |                            |                             |  |   |                                 |
|---|--|---|----------------------------|----------------------------|-----------------------------|--|---|---------------------------------|
| <b>General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)</b> |  |   |                            |                            |                             |  |   |                                 |
| <b>May 15, 2020, Consensus Revenue Estimating Conference</b>          |  |   |                            |                            |                             |  |   |                                 |
| <b>(millions of dollars)</b>  |  |   |                            |                            |                             |  |   |                                 |
|   | <b>FY 2021-22 Initial Revenue Estimates</b>      |   |                            |                            |                             | <b>FY 2021-22 Revised Consensus Est. 5/15/20</b> | <b>\$ Change from Jan. 2020 Consensus</b> | <b>% Change from FY 2020-21</b> |
|   | <b>FY 2020-21 Revised Consensus Est. 5/15/20</b> | <b>Previous FY 2021-22 Consensus Est. Jan. 2020</b> | <b>Treasury Department</b> | <b>House Fiscal Agency</b> | <b>Senate Fiscal Agency</b> |  |   |                                 |
| Net GF/GP Revenue   | \$9,279.2  | \$11,518.5  | \$9,975.8                  | \$10,453.3                 | \$10,088.0                  | \$10,149.7                                       | (\$1,368.8)                               | 9.4%                            |
| Net SAF Revenue   | \$13,180.4                                       | \$14,640.1  | \$13,922.0                 | \$13,918.6                 | \$13,923.9                  | \$13,920.4                                       | (\$719.7)                                 | 5.6%                            |
| <b>Net GF/GP &amp; SAF Revenue</b>                                    | <b>\$22,459.6</b>                                | <b>\$26,158.6</b>                                   | <b>\$23,897.8</b>          | <b>\$24,371.9</b>          | <b>\$24,011.9</b>           | <b>\$24,070.1</b>                                | <b>(\$2,088.5)</b>                        | <b>7.2%</b>                     |

## **Total General Fund/General Purpose and School Aid Fund Revenue**

Total GF/GP and SAF revenue will total an estimated \$21,704.9 million in FY 2019-20, down 12.0%, or \$3.0 billion, from the FY 2018-19 level, and \$3.2 million below the January 2020 consensus revenue estimate. In FY 2020-21, GF/GP and SAF revenue will total an estimated \$22,459.6 million, an increase of 3.5%, or \$754.7 million, from the revised estimate for FY 2019-20, and \$3.1 billion below the January 2020 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$24,070.1 million in FY 2021-22, a 7.2% or \$1,610.5 million increase from the revised estimate for FY 2020-21 that is \$2.1 billion below the January 2020 consensus revenue estimate.

## **Revenue Limit**

In FY 2017-18, revenue subject to the revenue limit was \$8.7 billion, or 21.0%, below the constitutional limit. In FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, revenue is expected to continue to fall well below the revenue limit. While the official report has yet to be released, FY 2018-19 revenue suggests that, in FY 2018-19, revenue fell below the limit by approximately \$9.9 billion, or 22.7%. The May 2020 consensus estimate forecasts FY 2019-20 revenue will be \$14.7 billion, or 32.0%, below the limit, that FY 2020-21 revenue will be \$15.5 billion, or 32.4%, below the limit, and that in FY 2021-22 revenue will be \$12.9 billion, or 27.4%, below the limit. The substantial increases in the gap between the limit and expected revenue in FY 2019-20 and FY 2020-21 reflect revenue growth in the aftermath of the COVID-19 pandemic that is substantially less than the growth in personal income, while the reduced gap in FY 2021-22 reflects improved revenue growth in FY 2021-22 being measured against income declines in 2020 that will be used to calculate the limit.

## **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 no pay-ins in FY 2019-20 or FY 2020-21. The estimates do calculate a pay-in of \$286.7 million in FY 2021-22. The estimates calculate a withdrawal of \$287.2 million in FY 2019-20, but no withdrawals in subsequent years. While no revenue has been appropriated into (or out of) the Budget Stabilization Fund in FY 2019-20, the Fund will receive 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 2020 CREC for the current year, FY 2019-20, show a decrease of 400 pupils from those reported at the January 2020 CREC. The FY 2019-20 pupil memberships (weighted 90.0% on the October 2019 count plus 10.0% on the February 2019 count) are 1,460,500, of which 1,313,300 are in traditional local districts and 147,200 are in public school academies.

Updated pupil estimates for the upcoming fiscal years also were presented at the May 2020 conference. The pupil estimate of 1,452,500 memberships presented for FY 2020-21 represents a decline of 0.5%, or 8,000 pupils, from the current fiscal year, and a decline of 1,100 pupils below the estimate presented in January for FY 2020-21. For the following year, FY 2021-22, the estimate for pupil memberships decreases by 2,000 below the January estimate, for a total of 1,445,000, which represents a decrease of 7,500 from the estimate for FY 2020-21. These year-to-year changes in pupil memberships equate to a minimum school district loss of \$8,111 per pupil.

The School Aid Act currently requires the CREC to calculate a foundation allowance index to assist the Legislature in determining the 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 2020-21 is 1.0055 and the revenue adjustment factor is 0.9755. Multiplying these two factors yields 0.9809 as the foundation allowance index. This would mean that the recommended foundation allowance for the upcoming year would decline by 0.0191 applied to the minimum foundation allowance (currently \$8,111), for a reduction of \$155. The new minimum foundation allowance would be calculated to be \$7,956 under these calculations.

/lms

c: Christopher Harkins, Director