

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 20, 2022

TO: Members of the Michigan Senate

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

RE: Consensus Revenue Estimates for Fiscal Year (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 May 20, 2022, and unanimously adopted revised revenue estimates for FY 2021-22, FY 2022-23, and FY 2023-24, and revised estimates 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 \$14,179.7 million, a 9.0%, or \$1.2 billion, increase from the FY 2020-21 level. The increase in GF/GP revenue primarily reflects economic growth combining with significantly higher annual payments (which reflect 2021 economic activity) under the individual income tax and corporate income tax and continuing effects of Federal stimulus measures that were adopted in response to the COVID-19 pandemic. In FY 2021-22, 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 credits are expected to increase from \$490.5 million in FY 2020-21 to \$594.3 million in FY 2021-22. Compared with the January 2022 consensus revenue estimate, this revised estimate is \$1.7 billion higher, largely reflecting a stronger forecast in individual income tax withholding and sales taxes during FY 2021-22 and greater-than-expected annual payments under the individual income tax and corporate income tax. In FY 2022-23, GF/GP revenue will total an estimated \$13,973.5 million, a 1.5% decrease that is \$206.2 million below the revised estimate for FY 2021-22. Compared with the January 2022 consensus revenue estimate, the revised estimate for FY 2022-23 is \$1.1 billion higher. The decrease in FY 2022-23 GF/GP revenue reflects the combined impact of an improving economy, economic activity returning to more traditional spending patterns, and the exhaustion of Federal stimulus effects. The revised estimate for FY 2023-24 GF/GP revenue is \$14,228.9 million, an increase of 1.8%, or \$255.4 million, from the revised FY 2022-23 estimate and \$914.6 million above the January 2022 consensus revenue 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 \$17,340.6 million in FY 2021-22, which is up 8.0%, or \$1.3 billion, from the FY 2020-21 level. The revised FY 2021-22 SAF estimate is \$1.3 billion above the January 2022 consensus revenue estimate, and largely reflects stronger-than-expected sales tax revenue and revenue from both casino gaming, internet gaming, and sports betting. In FY 2022-23, SAF revenue will total an estimated \$17,195.3 million, which is down 0.8%, or \$145.3 million, from the revised estimate for FY 2021-22, but \$948.7 million above the January 2022 forecast. The revised estimate for SAF

revenue in FY 2023-24 is \$17,444.9 million, an increase of 1.5%, or \$249.6 million, from the revised estimate for FY 2022-23. The revised FY 2023-24 SAF estimate is \$887.2 million above the January 2022 consensus estimate. The growth in SAF revenue in both FY 2022-23 and FY 2023-24 reflects moderate growth in gross income tax revenue, gaming revenue, and the State education tax.

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$31,520.3 million in FY 2021-22, an increase of 8.5%, or \$2.5 billion, from the FY 2020-21 level, and \$3.0 billion above the January 2022 consensus revenue estimate. In FY 2022-23, combined GF/GP and SAF revenue will total an estimated \$31,168.8 million, a decrease of 1.1%, or \$351.5 million, from the revised estimate for FY 2021-22 but \$2.0 billion more than the January 2022 consensus revenue estimate. The revised estimate of FY 2023-24 combined GF/GP and SAF revenue totals \$31,673.8 million, an increase of 1.6%, or \$505.0 million, from the revised estimate for FY 2022-23 and \$1.8 billion above the January 2022 consensus revenue estimate.

Table 1

FY 2021-22 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 20, 2022, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2021-22			FY 2021-22	\$ Change	% Change
	FY	Previous	Treasury	House	Senate			
2020-21	FY 2021-22	Department				Fiscal	Fiscal	
Final	Consensus		Agency	Agency	Agency			
	Est. Jan. 2022							Est. 5/20/22
						2022	from	
						Consensus	FY	
							2020-21	
Net GF/GP Revenue	\$13,003.7	\$12,449.7	\$14,268.6	\$13,921.0	\$14,339.0	\$14,179.7	\$1,730.0	9.0%
Net SAF Revenue	\$16,056.4	\$16,078.2	\$17,408.9	\$17,387.5	\$17,028.0	\$17,340.6	\$1,262.4	8.0%
Net GF/GP & SAF Revenue	\$29,060.1	\$28,527.9	\$31,677.5	\$31,308.5	\$31,367.0	\$31,520.3	\$2,992.4	8.5%

Table 2

FY 2022-23 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 20, 2022, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2022-23			FY 2022-23	\$ Change	% Change
	FY 2021-22	Previous	Treasury	House	Senate			
Revised	FY 2022-23	Department				Fiscal	Fiscal	
Consensus	Consensus		Agency	Agency	Agency			
Est. 5/20/22	Est. Jan. 2022							Est. 5/20/22
						Consensus	FY	
							2021-22	
Net GF/GP Revenue	\$14,179.7	\$12,892.1	\$14,063.2	\$14,304.5	\$13,631.4	\$13,973.5	\$1,081.4	(1.5%)
Net SAF Revenue	\$17,340.6	\$16,246.6	\$17,637.0	\$17,072.3	\$16,620.3	\$17,195.3	\$948.7	(0.8%)
Net GF/GP & SAF Revenue	\$31,520.3	\$29,138.7	\$31,700.2	\$31,376.8	\$30,251.7	\$31,168.8	\$2,030.1	(1.1%)

Table 3

FY 2023-24 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) May 20, 2022, Consensus Revenue Estimating Conference (millions of dollars)								
			FY 2024-25			FY 2023-24 Revised Consensus Est. 5/20/22	\$ Change from Jan. 2022 Consensus	% Change from FY 2022-23
	FY 2022-23 Revised Consensus Est. 5/20/22	Previous FY 2023-24 Consensus Est. Jan. 2022	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$13,973.5	\$13,314.3	\$14,010.9	\$14,703.5	\$14,064.7	\$14,228.9	\$914.6	1.8%
Net SAF Revenue	\$17,195.3	\$16,557.7	\$17,798.9	\$17,407.1	\$16,871.6	\$17,444.9	\$887.2	1.5%
Net GF/GP & SAF Revenue	\$31,168.8	\$29,872.0	\$31,809.8	\$32,110.6	\$30,936.3	\$31,673.8	\$1,801.8	1.6%

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 \$7.9 billion, or 17.0%. The decrease in the amount by which revenue is less than the limit reflects 13.7% revenue growth in FY 2020-21 exceeding the 1.6% increase in personal income in 2019 (the year used to compute the FY 2020-21 revenue limit). In FY 2021-22, revenue subject to the limit will fall below the limit by an estimated \$8.8 billion, or 17.4%, reflecting the dynamics of a projected 7.5% increase in revenue subject to the limit compared to the 8.0% growth in income. Revenue is estimated to fall short of the limit by \$11.5 billion, or 21.7%, in FY 2022-23, and by \$11.9 billion, or 22.0%, 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 \$36.4 million and no pay-in for either FY 2022-23 or 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 May 2022 CREC for the current year, FY 2021-22, show a decrease of 900 pupils from those estimated at the January 2022 CREC. The FY 2021-22 pupil memberships now are estimated at 1,405,100, of which 1,254,700 are in traditional local districts and 150,400 are in public school academies. 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 44,714 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).

Updated pupil estimates for the upcoming fiscal years also were presented at the May 2022 CREC. The pupil estimate of 1,398,900 memberships presented for FY 2022-23 represents a decline of 0.4%, or 6,200 pupils, from the current fiscal year, and a decline of 2,300 pupils below the estimate presented in January for FY 2022-23. For the following year, FY 2023-24, the estimate for pupil memberships decreases by 4,000 below the January estimate, for a total of 1,392,000, which represents a decrease of 0.5%, or 6,900 pupils, from the estimate for FY 2022-23. These year-to-year changes in pupil memberships equate to a minimum school district loss of \$8,700 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 2022-23 is 1.0044 and the revenue adjustment factor is 1.0341. Multiplying these two factors yields 1.0387 as the foundation allowance index. This would mean that the recommended foundation allowance for the upcoming year would increase by 3.87% applied to the target foundation allowance (currently \$8,700), for an increase of \$337. The new target foundation allowance is calculated to be \$9,037 under these calculations.

/lms

c: Kathryn Summers, Director