

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 19, 2023

TO: Members of the Michigan Senate

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

RE: Consensus Revenue Estimates for FY 2022-23, FY 2023-24, and FY 2024-25 and School Aid Foundation Allowance Index Estimate for FY 2023-24 and FY 2024-25

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on May 19, 2023, and unanimously adopted revised revenue estimates for fiscal year (FY) 2022-23, FY 2023-24, and FY 2024-25, and revised estimates of the School Aid Foundation Allowance Index for FY 2023-24. 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 CREC predicts that job growth will slow over the forecast from the growth experienced in 2022, and generally the same economic growth as forecasted at the January 2023 CREC. However, the revenue impacts from legislation, including legislation adopted since the January 2023 CREC, exceed the revenue impacts from the estimated economic changes. As a result, estimates of General Fund revenue were decreased in each forecast year compared to the estimates made in January 2023 ([Figure 1](#)). General Fund/General Purpose revenue is expected to fall 9.4% in FY 2022-23 and 4.0% in FY 2023-24, before growing 5.1% in FY 2024-25.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will follow similar trends as GF/GP revenue, although the magnitude of the changes will be less because of the greater stability of tax revenue directed to the SAF and hold-harmless provisions of legislation intended to reduce the SAF revenue impact of any changes. School Aid Fund revenue is expected to fall 0.8% in FY 2022-23, before growing 0.8% in FY 2023-24 and 2.1% in FY 2024-25. The growth in SAF revenue in both FY 2023-24 and FY 2024-25 reflects moderate 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 in all years are above the estimate made in January 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 2022-23, down 4.7% from the final revenue level for FY 2021-22. Combined GF/GP and SAF revenue will decrease 1.3% in FY 2023-24 and increase 3.4% in FY 2024-25. The CREC estimates for all fiscal years are below the estimate made in January 2023.

Table 1

FY 2022-23 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 19, 2023, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2022-23					FY 2022-23	\$ Change	% Change
	Revised Revenue Estimates							
	FY	Previous	Treasury	House	Senate	Revised	from Jan	from
	2021-22	FY 2022-23	Department	Fiscal	Fiscal	Consensus	2023	from
	Final	Consensus		Agency	Agency	Est. 5/19/23	Consensus	FY
		Est. Jan. 2023						2021-22
Net GF/GP Revenue	\$15,212.0	\$14,777.9	\$13,542.4	\$13,793.0	\$13,968.1	\$13,788.0	(\$989.9)	(9.4%)
Net SAF Revenue	\$17,881.0	\$17,635.1	\$17,629.3	\$17,960.3	\$17,730.7	\$17,741.6	\$106.5	(0.8%)
Net GF/GP & SAF Revenue	\$33,093.0	\$32,413.0	\$31,171.7	\$31,753.3	\$31,698.8	\$31,529.6	(\$883.4)	(4.7%)

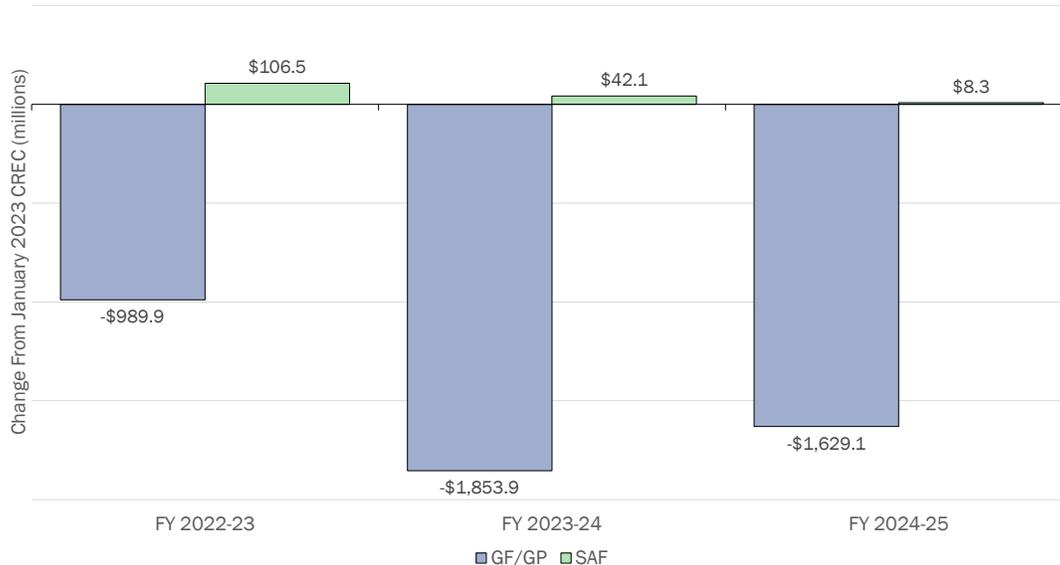
Table 2

FY 2023-24 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 19, 2023, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2023-24					FY 2023-24	\$ Change	% Change
	Revised Revenue Estimates							
	FY 2022-23	Previous	Treasury	House	Senate	Revised	from	from
	Revised	FY 2023-24	Department	Fiscal	Fiscal	Consensus	Jan. 2023	FY
	Consensus	Consensus		Agency	Agency	Est. 5/19/23	Consensus	2022-23
	Est. 5/19/23	Est. Jan 2023						
Net GF/GP Revenue	\$13,788.0	\$15,092.2	\$13,048.0	\$13,129.2	\$13,599.7	\$13,238.3	(\$1,853.9)	(4.0%)
Net SAF Revenue	\$17,741.6	\$17,846.0	\$17,721.4	\$18,050.8	\$17,821.4	\$17,888.1	\$42.1	0.8%
Net GF/GP & SAF Revenue	\$31,529.6	\$32,938.2	\$30,769.4	\$31,180.0	\$31,421.1	\$31,126.4	(\$1,811.8)	(1.3%)

Table 3

FY 2024-25 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 19, 2023, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2024-25					FY 2024-25	\$ Change	% Change
	Initial Revenue Estimates							
	FY 2023-24	Previous	Treasury	House	Senate	Revised	from	from
	Revised	FY 2023-24	Department	Fiscal	Fiscal	Consensus	Jan. 2023	FY
	Consensus	Consensus		Agency	Agency	Est. 5/19/23	Consensus	2023-24
	Est. 5/19/23	Est. Jan 2023						
Net GF/GP Revenue	\$13,238.3	\$15,545.5	\$13,859.6	\$13,727.7	\$14,588.6	\$13,916.4	(\$1,629.1)	5.1%
Net SAF Revenue	\$17,888.1	\$18,257.6	\$18,058.4	\$18,343.3	\$18,230.0	\$18,265.9	\$8.3	2.1%
Net GF/GP & SAF Revenue	\$31,126.4	\$33,803.1	\$31,918.0	\$32,071.0	\$32,818.6	\$32,182.3	(\$1,620.8)	3.4%

Figure 1
Change in Consensus Revenue Estimates
 May 2023 Estimates Compared to January 2023 Estimates



Source: May 19, 2023 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 2023 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 \$7.7 billion in FY 2021-22 to \$12.9 billion in FY 2024-25, reaching 22.9% 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 current FY 2022-23 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.

Table 4

CONSENSUS CALCULATIONS				
For Budget Stabilization Fund Transfers and Constitutional Revenue Limit				
May 19, 2023, Consensus Revenue Estimating Conference				
(millions of dollars)				
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Revenue Limit				
Personal Income	\$537,493.0	\$567,807.0	\$570,065.0	\$593,438.0
Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
Revenue Limit	\$51,008.1	\$53,884.9	\$54,099.2	\$56,317.3
Revenue Subject to the Limit	\$43,334.7	\$42,231.3	\$42,122.9	\$43,433.9
Amount Under (Over) Limit	\$7,673.4	\$11,653.6	\$11,976.3	\$12,883.4
Percent	15.0%	21.6%	22.1%	22.9%
Calculated BSF Transfers		FY 2022-23	FY 2023-24	FY 2024-25
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 May 2023 CREC for the current year, FY 2022-23, show a decrease in the total number of pupils from those estimated at the January 2023 CREC. The FY 2022-23 pupil memberships are now estimated at 1,399,100, which is 700 pupil memberships lower than the January 2023 consensus estimate. Compared with the previous year, FY 2021-22, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined 5,983.

The decrease of 700 memberships below the January 2023 estimate will result in reduced State costs. The total foundation allowance cost will be reduced by \$39.0 million both because of decreased pupil cost and gains in the taxable value of property. Other cost adjustments totaling \$17.8 million are included in the CREC balance sheets for a total State cost reduction of \$21.2 million compared to the January 2023 CREC estimates.

Pupil estimates for FY 2023-24 also were updated at the May 2023 conference. The pupil estimate of 1,393,600 memberships presented for FY 2023-24 represents a decrease of 200 pupils below the January 2023 estimate, and a decline of 0.4%, or 5,500 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; however, this will be somewhat offset by pupils returning to public schools from the pandemic. 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) less for each pupil at the local school level.

Updated pupil estimates for FY 2024-25 also were presented at the May 2023 CREC. The pupil estimate of 1,388,500 memberships presented for FY2024-25 represents a decrease of 100 pupils below the January 2023 estimate, and a decline of 0.4%, or 5,100 pupils, from FY 2023-24. Strict declines in population would indicate a steeper drop than 5,100, but the estimate reflects the potential for more pupils to return to a more or less 'normal' enrollment pattern by FY 2024-25.

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 2023-24 is 1.0039 and the revenue adjustment factor is 1.0071. Multiplying these two factors together yields 1.0110 as the FY 2023-24 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2024-25 is 1.0037 and the revenue adjustment factor is 1.0201. Multiplying these two factors together yields 1.0239 as the FY 2024-25 index.

/lms

c: Kathryn Summers, Director