

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 17, 2024

TO: Members of the Michigan Senate

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

RE: Consensus Revenue Estimates for Fiscal Years (FYs) 2023-24, 2024-25, and 2025-26 and School Aid Foundation Allowance Index Estimates for FY 2024-25 and FY 2025-26.

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on May 17, 2024, and unanimously adopted revised revenue estimates for FY 2023-24, FY 2024-25, and FY 2025-26, and estimates of the School Aid Foundation Allowance Index for FY 2024-25 and FY 2025-26. 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.

Similar to the estimates at the January 2024 CREC, the May 2024 CREC forecast expects the US and Michigan economies to grow more slowly than in 2023. While the economy as a whole has fared largely as expected in January 2024, the distribution of activity has not been uniform across different revenue sources. These shifts in revenue change the distribution of expected revenue across different funds and alter the revenue base for subsequent fiscal years. How the May 2024 CREC GF/GP and SAF fund estimates differ from the January 2024 CREC is illustrated in [Figure 1](#).

General Fund/General Purpose

General Fund/General Purpose revenue is expected to fall 0.1% in FY 2023-24 before growing 2.2% in FY 2024-25 and 4.4% in FY 2025-26. The stronger growth rate in GF/GP revenue in FY 2025-26 reflects the expiration of \$550.0 million in Corporate Income Tax (CIT) earmarks that directed revenue to other funds. Estimated GF/GP revenue is above the level estimated in January 2024 in all forecast years, largely due to higher-than-expected revenue from individual income tax withholding, interest earnings, CIT and Insurance Tax revenue, and growth in use tax collections replacing some growth in sales tax revenue ([Figure 1](#)).

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will follow similar trends as GF/GP revenue but at lower levels than expected at the January 2024 CREC ([Figure 1](#)). School Aid Fund revenue is expected to decline 0.4% in FY 2023-24, and then increase 2.0% in FY 2024-25 and 2.3% in FY 2025-26. The decline in SAF revenue in FY 2023-24 reflects declining sales tax revenue as consumers increase spending on services (generally not subject to sales taxes) faster than on goods (which are generally subject to sales tax), reflecting both a historical trend as well as a return to a pre-pandemic spending split between goods and services. The growth in SAF revenue in both FY 2024-25 and FY 2025-26 reflects 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.

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$31.7 billion in FY 2023-24, down 0.3% from the FY 2022-23 level. Combined GF/GP and SAF revenue will increase 2.1% in FY 2024-25 and 3.3% in FY 2025-26. The CREC estimates are above those made in January 2024.

Table 1

FY 2023-24 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) May 17, 2024, Consensus Revenue Estimating Conference (millions of dollars)								
	FY 2023-24 Revised Revenue Estimates					FY 2023-24 Revised Consensus Est. 5/17/24	\$ Change from Jan 2024 Consensus	% Change from FY 2022-23
	FY 2022-23 Final Revenue	Previous FY 2023-24 Consensus Est. Jan 2024	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$13,966.7	\$13,597.4	\$13,948.4	\$13,719.9	\$14,105.3	\$13,948.8	\$351.4	(0.1%)
Net SAF Revenue	\$17,860.0	\$17,946.9	\$17,820.4	\$17,885.3	\$17,677.1	\$17,783.6	(\$163.3)	(0.4%)
Net GF/GP & SAF Revenue	\$31,826.7	\$31,544.3	\$31,768.8	\$31,605.2	\$31,782.4	\$31,732.4	\$188.1	(0.3%)

Table 2

FY 2024-25 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) May 17, 2024, Consensus Revenue Estimating Conference (millions of dollars)								
	FY 2024-25 Revised Revenue Estimates					FY 2024-25 Revised Consensus Est. 5/17/24	\$ Change from Jan 2024 Consensus	% Change from FY 2023-24
	FY 2023-24 Revised Consensus Est. 5/17/24	Previous FY 2024-25 Consensus Est. Jan 2024	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$13,948.8	\$14,022.2	\$14,077.1	\$14,132.8	\$14,546.4	\$14,257.8	\$235.6	2.2%
Net SAF Revenue	\$17,783.6	\$18,307.0	\$18,179.4	\$18,224.5	\$18,117.7	\$18,146.9	(\$160.1)	2.0%
Net GF/GP & SAF Revenue	\$31,732.4	\$32,329.2	\$32,256.5	\$32,357.3	\$32,664.1	\$32,404.7	\$75.5	2.1%

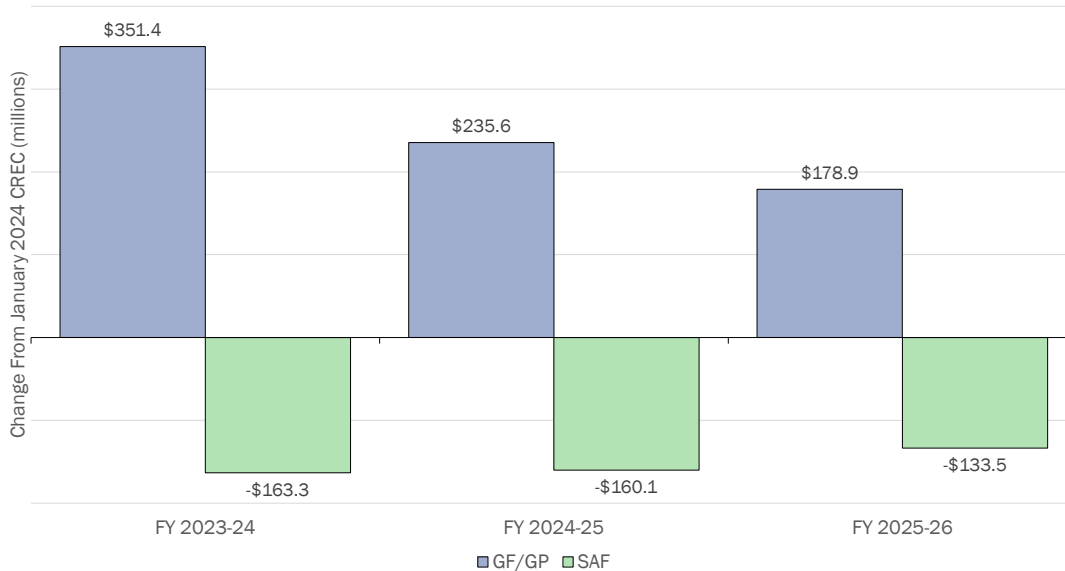
Table 3

FY 2025-26 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) May 17, 2024, Consensus Revenue Estimating Conference (millions of dollars)								
	FY 2025-26 Revised Revenue Estimates					FY 2025-26 Revised Consensus Est. 5/17/24	\$ Change from Jan 2024 Consensus	% Change from FY 2024-25
	FY 2024-25 Revised Consensus Est. 5/17/24	Previous FY 2025-26 Consensus Est. Jan 2024	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$14,257.8	\$14,707.6	\$14,861.2	\$14,769.1	\$15,033.1	\$14,886.5	\$178.9	4.4%
Net SAF Revenue	\$18,146.9	\$18,706.0	\$18,642.0	\$18,620.4	\$18,509.7	\$18,572.5	(\$133.5)	2.3%
Net GF/GP & SAF Revenue	\$32,404.7	\$33,413.6	\$33,503.2	\$33,389.5	\$33,542.8	\$33,459.0	\$45.4	3.3%

Figure 1

Change in Consensus Revenue Estimates

May 2024 Estimates Compared to January 2024 Estimates



Source: May 17, 2024 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 May 2024 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 \$10.3 billion in FY 2022-23 to \$13.3 billion in FY 2025-26, reaching 22.6% 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, but would trigger a suggested pay-in of \$15.7 million for the FY 2025-26 fiscal year, as shown in [Table 4](#). The FY 2023-24 budget provides for a deposit into the Fund of \$117.5 million, which represents a budgeted deposit of \$100.0 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				
May 17, 2024, Consensus Revenue Estimating Conference				
(millions of dollars)				
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue Limit				
Personal Income	\$567,807.0	\$572,325.0	\$599,366.0	\$620,344.0
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$53,884.9	\$54,313.6	\$56,879.8	\$58,870.6
Revenue Subject to the Limit	\$43,610.7	\$43,677.3	\$44,445.0	\$45,589.8
Amount Under (Over) Limit	\$10,274.2	\$10,636.3	\$12,434.8	\$13,280.8
Percent	19.1%	19.6%	21.9%	22.6%
Calculated BSF Transfers		FY 2023-24	FY 2024-25	FY 2025-26
Pay-in		\$0.0	\$0.0	\$15.7
Pay-out		\$0.0	\$0.0	\$0.0

School Aid Foundation Allowance Index

The pupil estimates presented at the May 2024 CREC for the current year, FY 2023-24, show a decrease in the total number of pupils from that estimated at the January 2024 CREC. The FY 2023-24 pupil memberships are estimated at 1,391,200, which is 500 pupil memberships lower than the January 2024 estimate. Compared with FY 2022-23, the number of pupils (attending traditional districts and public school academies) is estimated to have declined 8,029. The decrease of 500 memberships below the January 2024 estimate will reduce State costs. The total foundation allowance cost will be reduced by \$79.2 million because of gains in the taxable value of property and the decreased pupil count. Other cost increases totaling \$160.2 million are included in the CREC balance sheets for a total State cost increase of \$81.0 million compared to enacted appropriations.

Pupil estimates for FY 2024-25 also were updated at the May 2024 conference. The pupil estimate of 1,385,000 memberships presented for FY 2024-25 represents a decrease of 900 pupils from the January 2024 estimate, and a decline of 0.4%, or 6,200 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. Since FY 2021-22, the pupil membership declines have been somewhat offset by pupils returning to the public school system from either nonpublic schools or home schooling, but the estimates for FY 2024-25 and beyond assume that shift has completed. 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 2025-26 also were updated at the May 2024 CREC. The pupil estimate of 1,378,400 memberships presented for FY 2025-26 represents a decrease of 1,200 pupils from the January 2024 estimate, and a decline of 0.5%, or 6,600 pupils, from FY 2024-25. The decline in memberships is estimated to be greater than the decline from FY 2023-24 to FY 2024-25 because the decline in birth rates has accelerated since 2020, which will likely result in a smaller entering kindergarten class.

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 2024-25 is 1.0045 and the revenue adjustment factor is 1.0132. Multiplying these two factors together yields 1.0178 as the FY 2024-25 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2025-26 is 1.0048 and the revenue adjustment factor is 1.0245. Multiplying these two factors together yields 1.0294 as the FY 2025-26 index.

/lms

c: Kathryn Summers, Director