

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 15, 2015

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2014-15, FY 2015-16 and FY 2016-17 and School Aid Foundation Allowance Index Estimate for FY 2015-16 and FY 2016-17

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference on May 15, 2015, and unanimously adopted revised revenue estimates for FY 2014-15, FY 2015-16, and FY 2016-17, and revised estimates of the School Aid Foundation Allowance Index for FY 2015-16 and FY 2016-17. 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 2014-15 is \$9,724.9 million, an increase of 7.8% or \$706.3 million from the FY 2013-14 level. The decrease in GF/GP revenue differs from the 5.7% decline in FY 2013-14 and the 3.4% increase during FY 2012-13. The change in GF/GP revenue reflects increasing corporate profits and high individual income tax payments attributable to capital gains realized in 2014. Compared with the January 2015 consensus revenue estimate, this revised estimate is up \$223.5 million. In FY 2015-16, GF/GP revenue will total an estimated \$9,881.9 million, an increase of 1.6% or \$156.9 million from the revised estimate for FY 2014-15 and \$168.7 million above the January 2015 consensus revenue estimate. The modest increase in FY 2015-16 GF/GP revenue primarily reflects smaller gains in employment and income combined with an increase in refundable credits under the Michigan Business Tax (MBT) and lower annual payments under the individual income tax. As the economy continues to expand (although at a slowing rate), revenue will increase to a revised estimate for FY 2016-17 GF/GP revenue of \$10,121.5 million, an increase of 2.4% or \$239.6 million from the revised estimate for FY 2015-16, which is \$120.9 million above the January 2015 consensus revenue estimate. The more rapid revenue growth in FY 2016-17 primarily reflects continued economic growth combined with a reduced loss from refundable MBT credits.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$11,883.2 million in FY 2014-15, an increase of 3.1% or \$362.6 million from the FY 2013-14 level. Weaker sales tax revenue attributable to the harsh winter and falling gas prices offset stronger income tax revenue and higher revenue attributable to an improving housing market, resulting in a revised estimate that is \$5.9 million below the January 2015 consensus revenue estimate. In FY 2015-16, SAF revenue will total an estimated \$12,242.9 million, which is up 3.0% or \$359.7 million from the revised estimate for FY 2014-15, but \$20.8 million below the January 2015 consensus revenue estimate. The FY 2015-16 SAF revenue estimate reflects slower rates of economic growth and low inflation during FY 2014-15 that will limit the revenue increase attributable to the State Education Tax. Continued, but slowing, gains in employment and income result in a revised estimate of FY 2016-17 SAF revenue of \$12,598.8 million, an increase of 2.9% or \$355.9 million from the revised estimate for FY 2015-16, but \$42.1 million less than the January 2015 consensus estimate.

Table 1

FY 2014-15 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 15, 2015, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
	FY 2014-15 Revised Revenue Estimates							
	FY 2013-14 Final	Previous FY 2014-15 Consensus Est. Jan. 2015	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2014-15 Revised Consensus Est. 5/15/15	\$ Change from Jan. 2015 Consensus	% Change from FY 2013-14
Net GF/GP Revenue	\$9,018.6	\$9,501.4	\$9,720.2	\$9,573.4	\$9,759.3	\$9,724.9	\$223.5	7.8%
Net SAF Revenue	\$11,520.6	\$11,889.1	\$11,897.2	\$11,874.8	\$11,820.6	\$11,883.2	(\$5.9)	3.1%
Net GF/GP & SAF Revenue	\$20,539.2	\$21,390.4	\$21,617.4	\$21,448.2	\$21,579.9	\$21,608.1	\$217.6	5.2%

Table 2

FY 2015-16 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 15, 2015, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
	FY 2015-16 Revised Revenue Estimates							
	FY 2014-15 Revised Cons. Est. 5/15/15	Previous FY 2015-16 Cons. Est. Jan. 2015	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2015-16 Revised Consensus Est. 5/15/15	\$ Change from Jan. 2015 Consensus	% Change from FY 2014-15
Net GF/GP Revenue	\$9,724.9	\$9,713.2	\$9,874.7	\$9,779.6	\$9,907.9	\$9,881.9	\$168.7	1.6%
Net SAF Revenue	\$11,883.2	\$12,263.7	\$12,301.9	\$12,245.8	\$12,148.6	\$12,242.9	(\$20.8)	3.0%
Net GF/GP & SAF Revenue	\$21,608.1	\$21,976.9	\$22,176.6	\$22,025.4	\$22,056.5	\$22,124.8	\$147.8	2.4%

Table 3

FY 2016-17 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 15, 2015, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
	FY 2016-17 Initial Revenue Estimates							
	FY 2015-16 Revised Cons. Est. 5/15/15	Previous FY 2015-16 Cons. Est. Jan. 2015	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2016-17 Initial Consensus Est. 5/15/15	\$ Change from Jan. 2015 Consensus	% Change from FY 2014-15
Net GF/GP Revenue	\$9,881.9	\$10,000.6	\$10,117.6	\$10,007.9	\$10,161.3	\$10,121.5	\$120.9	2.4%
Net SAF Revenue	\$12,242.9	\$12,640.9	\$12,699.3	\$12,592.0	\$12,469.0	\$12,598.8	(\$42.1)	2.9%
Net GF/GP & SAF Revenue	\$22,124.8	\$22,641.5	\$22,816.9	\$22,599.9	\$22,630.3	\$22,720.3	\$78.8	2.7%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will amount to an estimated \$21,608.1 million in FY 2014-15, up 5.2% or \$1,068.9 million from the FY 2013-14 level, and \$217.6 million above the January 2015 consensus revenue estimate. In FY 2015-16, GF/GP and SAF revenue will total an estimated \$22,124.8 million, an increase of 2.4% or \$516.7 million from the revised estimate for FY 2014-15, and \$147.8 million above the January 2015 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$22,720.3 million in FY 2016-17, a 2.7% or \$595.5 million increase from the revised estimate for FY 2015-16, which is \$78.8 million above the January 2015 consensus revenue estimate.

Revenue Limit

In FY 2012-13, revenue subject to the revenue limit was \$6.5 billion or 19.3% below the constitutional limit. In FY 2013-14, FY 2014-15, FY 2015-16, and FY 2016-17, revenue is expected to continue to fall well below the revenue limit. In FY 2013-14, revenue fell short of the estimated revenue limit by an estimated \$8.7 billion or 24.1%. The May 2015 consensus estimates forecast that in FY 2014-15, revenue will fall below the limit by an approximately \$8.2 billion or 22.3%. Similarly, the May 2015 consensus estimates forecast that FY 2015-16 revenue will be \$9.0 billion or 23.6% below the limit, and that in FY 2016-17 revenue will be \$10.0 billion or 25.2% below the limit. The increase in the gap between the limit and expected revenue over the forecast period 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 \$45.1 million in FY 2014-15, \$243.1 million in FY 2015-16, and \$118.6 million in FY 2016-17. The estimates do not calculate any withdrawals in any fiscal year. The Legislature has already appropriated \$111.5 million into the Budget Stabilization Fund in FY 2014-15, including an earmarked deposit of \$17.5 million per year of tobacco settlement revenue pursuant to repayments associated with a withdrawal related to 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 2015 Consensus Revenue Estimating Conference for the current year, FY 2014-15, show a slight decrease in the total number of pupils from those reported at the January 2015 Revenue Estimating Conference. The FY 2014-15 pupil memberships (weighted 90.0% on the September 2014 count plus 10.0% on the February 2015 count) are now estimated at 1,507,700, which is 300 pupil memberships lower than the January 2015 consensus estimate. The September count used for the current year has now been audited, and an actual pupil count for February, which was only an estimate in January, is now available; both account for the reduction and will save the State approximately \$2.2 million.

Revised pupil estimates for the upcoming fiscal years also were presented at the May 2015 conference. The pupil estimate of 1,493,000 memberships presented for FY 2015-16 represents a decline of 1.0%, or 14,700 pupils, from the current fiscal year. However, this is only 2,000 pupil memberships lower than the estimate presented in January for the upcoming fiscal year. For FY 2016-17, the revised pupil memberships now total 1,479,000, also a decrease of 2,000 from the initial estimate for FY 2016-17 presented in January; this represents a decline of another 14,000 pupils from the revised estimate for FY 2015-16. The 2,000-pupil decline in the estimates below the January estimates simply represents a baseline adjustment from the 300-pupil reduction in the current year, as well as adjustments in local

and charter school populations compared with previous estimates given further review of birth rate data. These year-to-year changes in pupil memberships equate to minimum State savings of \$7,251 per pupil, based on the minimum foundation allowance in the current year.

The School Aid Act 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 2015-16 is 1.0098 and the revenue adjustment factor is 1.0299. Multiplying these two factors yields 1.0400 as the foundation allowance index. This means that the recommended increase in the minimum foundation allowance using these calculations would yield a 4.0% increase applied to the minimum foundation allowance (currently \$7,251), or \$290. The new minimum foundation allowance would be at least \$7,541 for FY 2015-16 under these calculations. For FY 2016-17, the pupil membership adjustment factor is 1.0095 and the revenue adjustment factor is 1.0280. Multiplying these two factors yields 1.0378 as the foundation allowance index. This means that the recommended increase in the minimum foundation allowance for FY 2016-17 would be a 3.78% increase applied to the minimum foundation enacted for FY 2015-16. The Legislature and Governor can enact a foundation allowance that differs from the formula described above.

/kjh

c: Ellen Jeffries, Director