

**SENATE FISCAL AGENCY
MEMORANDUM**



DATE: January 13, 2012

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2011-12, FY 2012-13, and FY 2013-14 and School Aid Foundation Allowance Index Estimate for FY 2012-13

The Senate Fiscal Agency, House Fiscal Agency, and Treasury Department held a Consensus Revenue Estimating Conference on January 13, 2012, and unanimously adopted revised revenue estimates for fiscal year (FY) 2011-12 and FY 2012-13, initial estimates for FY 2013-14, and an estimate of the School Aid Foundation Allowance Index for FY 2012-13. 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 is also discussed below.

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2011-12 is \$9,030.5 million, which is up 2.5% or \$217.5 million from the preliminary FY 2010-11 final level. The increase in GF/GP revenue reflects a change from the decline of 21.3% during FY 2008-09 but is less than the growth of 7.9% in FY 2009-10 and 14.8% in FY 2010-11. The increase in GF/GP revenue for FY 2011-12 reflects an improving level of economic activity, although at a slower rate than during FY 2010-11, combined with a number of tax policy changes. Compared with the May 2011 consensus revenue estimate, this revised estimate is up \$278.0 million. In FY 2012-13, GF/GP revenue will total an estimated \$9,034.6 million, which is up 0.0% or \$4.1 million from the revised estimate for FY 2011-12. Compared with the May 2011 consensus revenue estimate, the revised estimate for FY 2012-13 is up \$126.5 million. The small increase in GF/GP revenue in FY 2012-13 is attributable to negative impacts of new or expanded tax credits combined with somewhat weak economic growth. The initial estimate for FY 2013-14 GF/GP revenue is \$9,236.0 million, an increase of 2.2% or \$201.4 million from the revised FY 2012-13 estimate. The stronger growth in FY 2013-14 reflects stability in both tax policy and tax credits combined with a slightly better economy.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$10,763.6 million in FY 2011-12, which is down 4.3% or \$484.6 million from the preliminary final revenue level for FY 2010-11. The decline largely reflects the impact of the tax reform legislation adopted in May 2011. Compared with the May 2011 consensus revenue estimate, this revised estimate is up \$138.3 million. In FY 2012-13, SAF revenue will total an estimated \$11,055.0 million, which is up 2.7% or \$291.4 million from the revised estimate for FY 2011-12, and \$89.8 million above the May 2011 forecast. The initial estimate for SAF revenue in FY 2013-14 is \$11,359.5 million, an increase of 2.8% or \$304.5 million from the revised estimate for FY 2012-13.

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$19,794.1 million in FY 2011-12, down 1.3% or \$267.1 million from the preliminary final revenue level for FY 2010-11, but up \$416.3 million from the May 2011 consensus revenue estimate. For FY 2012-13, GF/GP and SAF revenue will total an estimated \$20,089.6 million, an increase of 1.5% or \$295.5 million from the revised estimate for FY 2010-11. The initial estimate for

GF/GP and SAF revenue forecasts \$20,595.5 million in FY 2013-14, an increase of 2.5% or \$505.9 million from the revised estimate for FY 2012-13.

Table 1

FY 2011-12 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 13, 2012, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
		FY 2011-12						
		Revised Revenue Estimates						
	FY 2010-11 Preliminary Final	Previous FY 2011-12 Consensus Est. May 2011	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2011-12 Revised Consensus Est. 1/13/12	\$ Change from May 2011 Consensus	% Change from FY 2010-11
Net GF/GP Revenue	\$8,813.0	\$8,752.5	\$8,897.1	\$9,004.0	\$9,094.4	\$9,030.5	\$278.0	2.5%
Net SAF Revenue	\$11,248.2	\$10,625.3	\$10,824.5	\$10,790.9	\$10,685.5	\$10,763.6	\$138.3	(4.3%)
Net GF/GP & SAF Revenue	\$20,061.2	\$19,377.8	\$19,721.6	\$19,794.9	\$19,779.9	\$19,794.1	\$416.3	(1.3%)

Table 2

FY 2012-13 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 13, 2012, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
		FY 2011-12						
		Revised Revenue Estimates						
	FY 2011-12 Revised Cons. Est. 1/13/12	Previous FY 2012-13 Consensus Est. May 2011	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2012-13 Revised Consensus Est. 1/13/12	\$ Change from May 2011 Consensus	% Change from FY 2011-12
Net GF/GP Revenue	\$9,030.5	\$8,908.1	\$9,019.5	\$9,067.5	\$9,009.3	\$9,034.6	\$126.5	0.0%
Net SAF Revenue	\$10,763.6	\$10,965.2	\$11,149.8	\$11,091.2	\$10,930.8	\$11,055.0	\$89.8	2.7%
Net GF/GP & SAF Revenue	\$19,794.1	\$19,873.3	\$20,169.3	\$20,158.7	\$19,940.1	\$20,089.6	\$216.3	1.5%

Table 3

FY 2013-14 REVENUE ESTIMATE COMPARISON & CONSENSUS ESTIMATE								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 13, 2012, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
		FY 2013-14						
		Initial Revenue Estimates						
	FY 2012-13 Revised Consensus Est. 1/13/12	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2012-13 Initial Consensus Est. 1/13/12	\$ Change from FY 2011-12	% Change from FY 2011-12	
Net GF/GP Revenue	\$9,034.6	\$9,240.2	\$9,279.3	\$9,199.8	\$9,236.0	\$201.4	2.2%	
Net SAF Revenue	\$11,055.0	\$11,474.0	\$11,372.7	\$11,199.1	\$11,359.5	\$304.5	2.8%	
Net GF/GP & SAF Revenue	\$20,089.6	\$20,714.2	\$20,652.0	\$20,398.9	\$20,595.5	\$505.9	2.5%	

Revenue Limit

In FY 2009-10, revenue subject to the revenue limit was \$7.6 billion or 22.9% below the constitutional limit. In FY 2010-11 through FY 2013-14, revenue is expected to continue to fall well below the revenue limit. In FY 2010-11, revenue will fall short of the revenue limit by an estimated \$6.2 billion or 18.9%, and in FY 2011-12, revenue subject to the limit will fall below the limit by an estimated \$6.2 billion or 19.0%. The overwhelming majority of the reduction in the gap between the limit and expected revenue in FY 2010-11 and FY 2011-12 compared with FY 2009-10 does not reflect higher revenue as much as lower personal income in 2009 and 2010, which is used in the calculation for the FY 2010-11 and FY 2011-12 limit, respectively. In FY 2012-13, the amount by which revenue is estimated to fall short of the limit is expected to increase to \$7.6 billion or 22.0%, and in FY 2013-14 the gap will rise to a record high of \$7.9 billion, although it will only be 22.2% below the constitutional 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 a suggested withdrawal from the Budget Stabilization Fund equal to \$27.1 million in FY 2011-12. No suggested pay-in or withdrawal would be triggered in FY 2012-13 or FY 2013-14. These formula-triggered transfers do not occur automatically, but must be appropriated by the Legislature. The current FY 2011-12 budget appropriates \$255.8 million to be deposited into the fund.

School Aid Foundation Allowance Index

The pupil estimates presented at the January 2012 Consensus Revenue Estimating Conference for the current year, FY 2011-12, show a slight increase in the total number of pupils from those estimated at the May 2011 Revenue Estimating Conference. The FY 2011-12 pupil memberships (weighted 90.0% on the September 2011 count plus 10.0% on the prior February 2011 count) are now estimated at 1,552,800, which are 500 pupil memberships higher than the May 2011 consensus estimate, representing an error rate on the total blend of 0.03%. Compared with the previous year FY 2010-11, pupils declined more than 15,300.

While the blend is officially only 500 pupils different than the previous estimate, there was a change in the formula used to calculate the blend. Previously, when the pupils were estimated last May, the formula used was "75/25" (75.0% weight on September count plus 25.0% weight on the previous February), but during the final budget process, the formula was changed to "90/10" for FY 2011-12. Had the formula remained at 75/25, then the blend actually would have been closer to 2,000 pupils higher than the previous May estimate, rather than the 500 pupils in the consensus estimate.

Pupil estimates for the upcoming fiscal year also were re-estimated at the January 2012 Conference. The pupil estimate of 1,542,900 memberships presented for FY 2012-13 represents a decline of 0.6%, or 9,900 pupils, from the current fiscal year. It is believed that the primary reason for the estimated drop in pupil memberships from one year to the next is declining birth rates, though the rate of declining is slowing as outside factors (including economic factors) stabilize.

Pupil estimates for the 2013-14 fiscal year were presented for the first time at the January 2012 Conference. The consensus estimate of 1,536,000 represents a decline of 0.4%, or 6,900 pupils, from the estimate presented for 2012-13 memberships. Again, declines in the size of the class entering kindergarten, compared with the class size exiting 12th grade, comprises most of the decline. These year-to-year declines in statewide pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$6,846 fewer for each pupil lost at the local school level.

Breaking down the overall estimates, there is a steady trend predicted in growth of charter schools, or public school academies, in each fiscal year, along with a consistent decline predicted for local school districts. Charter schools are anticipated to grow from roughly 120,000 pupils in FY 2011-12 to 128,000 students in FY 2012-13 and to 138,000 students in FY 2013-14, a growth of 15.0% over the next two years. At the same time, the estimates presented for traditional districts indicate a decline from nearly 1,433,000 pupils in FY 2011-12 to about 1,415,000 pupils in FY 2012-13 and to an estimated 1,398,000 pupils in FY 2013-14, a decline of 2.4% over the next two years.

The School Aid Act currently requires that the next year's minimum foundation allowance be at least an amount equal to the prior year's minimum, multiplied by the foundation allowance index determined at the revenue estimating conference, unless an exception is written into the Act to waive this requirement for a given 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 is 1.0064 and the revenue adjustment factor is 1.0239. Multiplying these two factors together yields 1.0305 as the FY 2012-13 foundation allowance index. This would mean that under current law calculations, the FY 2012-13 minimum foundation allowance required should increase by 3.05% of \$6,846, or \$209. The new minimum foundation allowance would have to be at least \$7,055, as required under statute.

/kjh

c: Ellen Jeffries, Director