

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 17, 2019

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2018-19, FY 2019-20 and FY 2020-21, School Aid Foundation Allowance Index Estimate for FY 2019-20, and Pupil Estimates for FY 2018-19, FY 2019-20, and FY 2020-21

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference (CREC) on May 17, 2019, and unanimously adopted revised revenue estimates for fiscal year (FY) 2018-19, FY 2019-20, and FY 2020-21, and revised estimates of the School Aid Foundation Allowance Index for FY 2018-19 and FY 2019-20. 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 2018-19 is \$10,851.7 million, a 1.5%, or \$165.4 million, decrease from the FY 2017-18 level. In comparison, GF/GP revenue increased 8.1% in FY 2017-18. The change in FY 2018-19 GF/GP revenue reflects slow growth in sales tax and income tax withholding, as well as strong annual individual income tax payments in response to Federal tax changes, and increased corporate income tax payments more than offsetting \$333.0 million of earmarks of income tax revenue to the Michigan Transportation Fund and the Renew Michigan Fund, and increased Homestead Property Tax Credits. The revised FY 2018-19 estimate is \$151.5 million higher than the January 2019 consensus revenue estimate. In FY 2019-20, GF/GP revenue will total an estimated \$10,776.9 million, a decrease of 0.7%, or \$74.8 million, from the revised estimate for FY 2018-19, but \$59.1 million above the January 2019 consensus revenue estimate. The decrease in FY 2019-20 GF/GP revenue primarily reflects weaker economic growth being insufficient to offset increased earmarks of individual income tax revenue, totaling \$537.0 million, and tax policy changes that increased the personal exemption under the individual income tax. As the economy continues to slowly expand, FY 2020-21 GF/GP revenue will increase to \$10,920.5 million, an increase of 1.3%, or \$143.6 million, from the revised estimate for FY 2019-20, and \$67.9 million above the January 2019 consensus revenue estimate. The growth in FY 2020-21 GF/GP revenue primarily reflects continued economic growth more than offsetting tax policy changes to the personal exemption and individual income tax earmarks that increase to \$669.0 million.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$13,482.3 million in FY 2018-19, an increase of 1.4%, or \$180.3 million, from the FY 2017-18 level. The increase in FY 2018-19 SAF revenue reflects slow growth in sales tax revenue combining with strong growth in State Education Tax collections being somewhat offset by declining use tax revenue and tax policy changes that reduced the earmark of individual income tax revenue to the School Aid Fund. The revised FY 2018-19 SAF estimate is \$68.2 million below the January 2019 consensus revenue estimate. In FY 2019-20, SAF revenue will total an estimated \$13,839.8 million, a 2.7%, or \$357.5 million, increase from the revised estimate for FY 2018-19, and \$86.9 million below the January 2019 consensus revenue estimate. The FY 2019-20 SAF revenue estimate reflects growth in all major SAF revenue sources. Continued gains in employment and income result in a revised estimate of FY

2020-21 SAF revenue of \$14,179.5 million, an increase of 2.5%, or \$339.7 million, from the revised estimate for FY 2019-20 that is \$84.9 million below the January 2019 consensus estimate.

Table 1

FY 2018-19 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2019, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2018-19			FY 2018-19 Revised Consensus Est. 5/17/19	\$ Change from Jan. 2019 Consensus	% Change from FY 2017-18
	FY 2017-18 Preliminary Final	Previous FY 2018-19 Consensus Est. Jan. 2019	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$11,017.1	\$10,700.2	\$10,843.6	\$10,805.1	\$10,938.5	\$10,851.7	\$151.5	(1.5%)
Net SAF Revenue	\$13,302.0	\$13,550.5	\$13,466.8	\$13,497.6	\$13,432.2	\$13,482.3	(\$68.2)	1.4%
Net GF/GP & SAF Revenue	\$24,319.1	\$24,250.7	\$24,310.4	\$24,302.7	\$24,370.7	\$24,334.0	\$83.3	0.1%

Table 2

FY 2019-20 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2019, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2019-20			FY 2019-20 Revised Consensus Est. 5/17/19	\$ Change from Jan. 2019 Consensus	% Change from FY 2018-19
	FY 2018-19 Revised Consensus Est. 5/17/19	Previous FY 2019-20 Consensus Est. Jan. 2019	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,851.7	\$10,717.8	\$10,805.7	\$10,766.2	\$10,725.3	\$10,776.9	\$59.1	(0.7%)
Net SAF Revenue	\$13,482.3	\$13,926.7	\$13,900.6	\$13,881.2	\$13,716.6	\$13,839.8	(\$86.9)	2.7%
Net GF/GP & SAF Revenue	\$24,334.0	\$24,644.5	\$24,706.3	\$24,647.4	\$24,441.9	\$24,616.7	(\$27.8)	1.2%

Table 3

FY 2020-21 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2019, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2020-21			FY 2020-21 Revised Consensus Est. 5/17/19	\$ Change from Jan. 2019 Consensus	% Change from FY 2019-20
	FY 2019-20 Revised Consensus Est. 5/17/19	Previous FY 2020-21 Consensus Est. Jan. 2019	Initial Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,776.9	\$10,852.6	\$10,911.5	\$10,953.1	\$10,895.4	\$10,920.5	\$67.9	1.3%
Net SAF Revenue	\$13,839.8	\$14,264.4	\$14,266.8	\$14,206.4	\$14,043.6	\$14,179.5	(\$84.9)	2.5%
Net GF/GP & SAF Revenue	\$24,616.7	\$25,117.0	\$25,178.3	\$25,159.5	\$24,939.0	\$25,100.0	(\$17.0)	2.0%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$24,334.0 million in FY 2018-19, up 0.1%, or \$14.9 million, from the FY 2017-18 level, and \$83.3 million above the January 2019 consensus revenue estimate. In FY 2019-20, GF/GP and SAF revenue will total an estimated \$24,616.7 million, an increase of 1.2%, or \$282.7 million, from the revised estimate for FY 2018-19, and \$27.8 million below the January 2019 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$25,100.0 million in FY 2020-21, a 2.0% or \$483.3 million increase from the revised estimate for FY 2019-20 that is \$17.0 million below the January 2019 consensus revenue estimate.

Revenue Limit

In FY 2016-17, revenue subject to the revenue limit was \$9.2 billion, or 22.8%, below the constitutional limit. In FY 2017-18, FY 2018-19, FY 2019-20, and FY 2020-21, revenue is expected to continue to fall well below the revenue limit. While the official report has yet to be released, FY 2017-18 revenue suggests that, in FY 2017-18, revenue fell below the limit by approximately \$8.8 billion, or 21.2%. The May 2019 consensus estimate forecasts FY 2018-19 revenue will be \$10.5 billion, or 24.1%, below the limit, that FY 2019-20 revenue will be \$11.4 billion, or 25.3%, below the limit, and that in FY 2020-21 revenue will be \$12.1 billion, or 26.0%, below the limit. The substantial increases in the gap between the limit and expected revenue in FY 2018-19 reflects revenue growth that, primarily due to tax policy changes, is substantially less than the growth in personal income, while the increases in later years continue that trend.

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 no pay-ins in FY 2018-19, FY 2019-20, or FY 2020-21. Similarly, the estimates do not calculate any withdrawals in any fiscal year. The Legislature has already appropriated \$100.0 million into the Budget Stabilization Fund in FY 2018-19, in addition to an earmarked deposit of \$17.5 million per year of tobacco settlement revenue pursuant to repayments associated with a withdrawal involved with 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 2019 CREC for the current year, FY 2018-19, show an increase of 100 pupils from those reported at the January 2019 CREC. The FY 2018-19 pupil memberships (weighted 90.0% on the October 2018 count plus 10.0% on the February 2018 count) are 1,470,500, of which 1,324,000 are in traditional local districts and 146,500 are in public school academies.

Updated pupil estimates for the upcoming fiscal years also were presented at the May 2019 conference. The pupil estimate of 1,459,400 memberships presented for FY 2019-20 represents a decline of 0.8%, or 11,100 pupils, from the current fiscal year, and a decline of 800 pupils below the estimate presented in January for FY 2019-20. For the following year, FY 2020-21, the estimate for pupil memberships decreases by 1,000 below the January estimate, for a total of 1,451,000, which represents a decrease of 8,400 from the estimate for FY 2019-20. These year-to-year changes in pupil memberships equate to a minimum school district loss of \$7,871 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 2019-20 is 1.0076 and the revenue adjustment factor is 1.0191. Multiplying these two factors

yields 1.0268 as the foundation allowance index. This would mean that the recommended increase in the minimum foundation allowance using these calculations would yield a 2.68% increase applied to the minimum foundation allowance (currently \$7,871), or \$211. The new minimum foundation allowance would be calculated to be at least \$8,082 under these calculations.

/lms

c: Christopher Harkins, Director