

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 11, 2010
TO: Members of the Senate
FROM: David Zin, Economist
 Kathryn Summers, Chief Analyst
RE: Consensus Revenue Estimates for FY 2009-10 and FY 2010-11 and School Aid Foundation Allowance Index Estimate for FY 2010-11

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, January 11, 2010, and unanimously adopted revised revenue estimates for FY 2009-10, initial estimates for FY 2010-11, and an estimate of the School Aid Foundation Allowance Index for FY 2010-11. 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 and 2, and the School Aid Foundation Allowance Index estimate is also discussed below.

Table 1

**FY 2009-10 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
 January 11, 2010 Consensus Revenue Estimating Conference
 (Millions of Dollars)**

| | | | FY 2009-10 Revised Revenue Estimates | | | FY 2009-10 Revised Consensus Est. 1/11/10 | \$ Change from May 2009 Consensus | % Change from FY 2008-09 |
|------------------------------------|---------------------------------------|--|---|---------------------------|----------------------------|--|--|-----------------------------------|
| | FY 2008-09 Preliminary Final | Previous FY 2009-10 Consensus Est. May 2009 | Treasury Department | House Fiscal Agency | Senate Fiscal Agency | | | |
| Net GF/GP Revenue | \$7,365.6 | \$6,949.7 | \$6,909.9 | \$6,890.8 | \$6,805.6 | \$6,898.4 | (\$51.3) | (6.3)% |
| Net SAF Revenue | \$10,922.2 | \$10,563.0 | \$10,478.6 | \$10,438.2 | \$10,471.3 | \$10,458.1 | (\$105.0) | (4.2)% |
| Net GF/GP & SAF Revenue | \$18,287.8 | \$17,512.7 | \$17,388.5 | \$17,329.0 | \$17,276.9 | \$17,356.5 | (\$156.2) | (5.1)% |

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2009-10 is \$6,898.4 million, which is down 6.3% or \$467.2 million from the preliminary FY 2008-09 final level. While a smaller decline than experienced in FY 2008-09, where GF/GP revenue dropped 21.3%, the continued decrease in GF/GP revenue reflects continued weak economic activity, but also is due in part to the negative impact some new tax credits will have on tax revenue. Compared with the May 2009 consensus revenue estimate, this revised estimate is down \$51.3 million. In FY 2010-11, GF/GP revenue will total an estimated \$6,968.4 million, which is up 1.0% or \$70.0 million from the revised estimate for FY 2009-10. This increase is attributable primarily to a more stable economic situation, such as higher rates of housing starts and vehicle sales, smaller declines in employment, and stable wages; combined with the continued negative impacts of the new tax credits.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$10,458.1 million in FY 2009-10, which is down 4.2% or \$464.1 million from the preliminary final revenue level for FY 2008-09. Compared with the May 2009 consensus revenue estimate, this revised estimate is down \$105.0 million. In FY 2010-11, SAF revenue will total an estimated \$10,480.5 million, which is up 0.2% or \$22.4 million from the revised estimate for FY 2009-10.

Table 2

| FY 2010-11 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 11, 2010 Consensus Revenue Estimating Conference (Millions of Dollars) | | | | | | | |
|---|--|---|---------------------------|----------------------------|--|------------------------------------|-----------------------------------|
| | FY 2009-10 Revised Cons. Est. 1/11/10 | FY 2010-11 Revised Revenue Estimates | | | FY 2010-11 Initial Consensus Est. 1/11/10 | \$ Change from FY 2009-10 | % Change from FY 2009-10 |
| | | Treasury Department | House Fiscal Agency | Senate Fiscal Agency | | | |
| Net GF/GP Revenue | \$6,898.4 | \$7,205.2 | \$6,935.1 | \$6,642.9 | \$6,968.4 | \$70.0 | 1.0% |
| Net SAF Revenue | \$10,458.1 | \$10,607.1 | \$10,380.5 | \$10,530.1 | \$10,480.5 | \$22.4 | 0.2% |
| Net GF/GP & SAF Revenue | \$17,356.5 | \$17,812.3 | \$17,315.6 | \$17,173.0 | \$17,448.9 | \$92.4 | 0.5% |

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$17,356.5 million in FY 2009-10, down 5.1% or \$931.3 million from the preliminary final revenue level for FY 2008-09, and is down \$156.2 million from the May 2009 consensus revenue estimate. For FY 2010-11, GF/GP and SAF revenue will total an estimated \$17,448.9 million, an increase of 0.5% or \$92.4 million from the revised estimate for FY 2009-10.

Revenue Limit

In FY 2008-09, revenue subject to the revenue limit was \$7.7 billion or 23.5% below the constitutional limit. In both FY 2009-10 and FY 2010-11, revenue is expected to continue to fall well below the revenue limit. In FY 2009-10, revenue will fall short of the revenue limit by an estimated \$8.9 billion or 26.9%, and in FY 2010-11, revenue subject to the limit will fall below the limit by an estimated \$7.8 billion or 24.1%. The overwhelming majority of the reduction in the gap between the limit and expected revenue in FY 2010-11 does not reflect higher revenue but lower personal income in 2009, which is used in the calculation for the FY 2010-11 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 suggested withdrawals from the Budget Stabilization Fund equal to \$89.7 million in FY 2009-10 and \$7.0 million in FY 2010-11. These formula-triggered transfers do not occur automatically, but must be appropriated by the Legislature; however, these suggested transfers are not possible at this time given that the current balance in the BSF is only \$2.3 million.

School Aid Foundation Allowance Index

The pupil estimates presented at the January 2010 Consensus Revenue Estimating Conference for the current year, FY 2009-10, show an increase in the total number of pupils from those first estimated at the May 2009 Revenue Estimating Conference. The FY 2009-10 pupil memberships (weighted 75.0% on the September 2009 count plus 25.0% on the prior February 2009 count) are now estimated at 1,597,450, which are 4,950 pupil memberships higher than the May 2009 consensus estimate. Of this total, 3,000 more children enrolled in local school districts than were anticipated, and 1,950 more in charter schools. In fact, it appears as though more children enrolled in public schools in total (local or charter) than were anticipated, with a strong showing in kindergarten.

Initial pupil estimates for the upcoming fiscal year also were presented at the January 2010 conference. The pupil estimate of 1,580,100 memberships presented for FY 2010-11 represents a decline of 1.1%, or 17,350 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. These year-to-year declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$7,151 fewer for each pupil lost at the local school level.

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 1.0110 and the revenue adjustment factor is 0.9798. Multiplying these two factors yields 0.9906 as the foundation allowance index. This would mean that under current law calculations the FY 2010-11 minimum foundation allowance required actually *declines* by 0.99% of \$7,316, or \$68. The new minimum foundation allowance would have to be at least \$7,248, as required under statute. This does not mean, however, that per-pupil funding is guaranteed to be at least \$7,248, since a reduction such as the \$165 per pupil reduction enacted for FY 2009-10 did not statutorily reduce the foundation allowance, but rather reduced total operating funding.

/kjh

c: Gary S. Olson, Director
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