

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 12, 2017

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2016-17, FY 2017-18, and FY 2018-19 and School Aid Foundation Allowance Index Estimate for FY 2017-18

The Senate Fiscal Agency, House Fiscal Agency, and Treasury Department held a Consensus Revenue Estimating Conference on January 12, 2017, and unanimously adopted revised revenue estimates for fiscal year (FY) 2016-17 and FY 2017-18, initial estimates for FY 2018-19, and an estimate of the School Aid Foundation Allowance Index for FY 2017-18. 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 2016-17 is \$10,290.1 million, which is up 2.7% or \$274.7 million from preliminary FY 2015-16 final revenue. The increase in GF/GP revenue primarily reflects modest economic growth combined with three noneconomic factors: 1) an increase in insurance tax revenue due to Public Acts 277 and 278 of 2016, which ended the ability of insurance companies to claim tax credits for payments to the Assigned Claims Plan, thus restoring the pre-2013 treatment of these payments, 2) timing issues related to tax credits claimed under the Michigan Business Tax (MBT) by businesses with certificated credits, and 3) the diversion of \$380.9 million of General Fund use tax revenue to the Local Community Stabilization Authority as part of personal property tax reform. Compared with the May 2016 consensus revenue estimate, this revised estimate is \$151.6 million higher. In FY 2017-18, GF/GP revenue will total an estimated \$10,522.7 million, a 2.3% increase that is \$232.6 million greater than the revised estimate for FY 2016-17. Compared with the May 2016 consensus revenue estimate, the revised estimate for FY 2017-18 is down \$84.4 million. This decrease in FY 2017-18 GF/GP revenue reflects expectations of slower economic growth, reduced use tax revenue due to diversions related to personal property tax reform, and a slight increase in MBT credits. The initial estimate for FY 2018-19 GF/GP revenue is \$10,589.3 million, an increase of 0.6% or \$66.6 million from the revised FY 2017-18 estimate. The minimal growth in FY 2018-19 GF/GP revenue reflects declines in income tax revenue resulting from a scheduled expansion of the Homestead Property Tax Credit and the redirection of \$150.0 million to the Michigan Transportation Fund that will mostly offset increased revenue from a slightly better economy.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$12,457.0 million in FY 2016-17, which is up 2.8% or \$338.3 million from the preliminary final revenue level for FY 2015-16. Compared with the May 2016 consensus revenue estimate, this revised estimate is \$54.6 million higher, largely reflecting a higher forecast for lottery revenue based on the success of games during FY 2015-16. In FY 2017-18, SAF revenue will total an estimated \$12,783.1 million, which is up 2.6% or \$326.1 million from the revised estimate for FY 2016-17, and \$22.3 million above the May 2016 forecast. The initial estimate for SAF revenue in FY 2018-19 is \$13,131.5 million, an increase of 2.7% or \$348.4 million from the revised estimate for FY 2017-18.

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$22,747.1 million in FY 2016-17, up 2.8% or \$613.0 million from the preliminary final revenue level for FY 2015-16, and \$206.2 million above the May 2016 consensus revenue estimate. For FY 2017-18, combined GF/GP and SAF revenue will total an estimated \$23,305.8 million, an increase of 2.5% or \$558.7 million from the revised estimate for FY 2016-17. The initial estimate of FY 2018-19 combined GF/GP and SAF revenue totals \$23,720.8 million, an increase of 1.8% or \$415.0 million from the revised estimate for FY 2017-18.

Table 1

FY 2016-17 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 12, 2017, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
			FY 2016-17 Revised Revenue Estimates			FY 2016-17 Revised Consensus Est. 1/12/17	\$ Change from May 2016 Consensus	% Change from FY 2015-16
	FY 2015-16 Preliminary Final	Previous FY 2016-17 Consensus Est. May 2016	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,015.4	\$10,138.5	\$10,310.6	\$10,309.5	\$10,258.9	\$10,290.1	\$151.6	2.7%
Net SAF Revenue	\$12,118.7	\$12,402.4	\$12,473.4	\$12,456.7	\$12,450.5	\$12,457.0	\$54.6	2.8%
Net GF/GP & SAF Revenue	\$22,134.1	\$22,540.9	\$22,784.0	\$22,766.2	\$22,709.4	\$22,747.1	\$206.2	2.8%

Table 2

FY 2017-18 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 12, 2017, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
			FY 2017-18 Revised Revenue Estimates			FY 2017-18 Revised Consensus Est. 1/12/17	\$ Change from May 2016 Consensus	% Change from FY 2016-17
	FY 2016-17 Revised Consensus Est. 1/12/17	Previous FY 2017-18 Consensus Est. May 2016	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,290.1	\$10,607.1	\$10,604.1	\$10,529.6	\$10,474.3	\$10,522.7	(\$84.4)	2.3%
Net SAF Revenue	\$12,457.0	\$12,760.8	\$12,800.8	\$12,773.6	\$12,800.4	\$12,783.1	\$22.3	2.6%
Net GF/GP & SAF Revenue	\$22,747.1	\$23,367.9	\$23,404.9	\$23,303.2	\$23,274.7	\$23,305.8	(\$62.1)	2.5%

Table 3

FY 2018-19 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 12, 2017, Consensus Revenue Estimating Conference (Millions of Dollars)							
	FY 2017-18 Revised Consensus Est. 1/12/17	FY 2018-19 Initial Revenue Estimates			FY 2018-19 Initial Consensus Est. 1/12/17	\$ Change from FY 2017-18 Consensus	% Change from FY 2017-18
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,522.7	\$10,736.9	\$10,493.5	\$10,469.5	\$10,589.3	\$66.6	0.6%
Net SAF Revenue	\$12,783.1	\$13,159.1	\$13,107.5	\$13,140.5	\$13,131.5	\$348.4	2.7%
Net GF/GP & SAF Revenue	\$23,305.8	\$23,896.0	\$23,601.0	\$23,610.0	\$23,720.8	\$415.0	1.8%

Revenue Limit

In FY 2014-15, revenue subject to the constitutional revenue limit was \$7.4 billion or 20.2% below the limit. In FY 2015-16 through FY 2018-19, revenue is expected to continue to fall well below the revenue limit. In FY 2015-16, revenue will fall short of the revenue limit by an estimated \$8.4 billion or 21.9%, an increase that reflects 2.3% revenue growth in FY 2015-16 being less than the 5.1% increase in personal income. In FY 2016-17, revenue subject to the limit will fall below the limit by an estimated \$9.3 billion or 23.0%, reflecting the dynamics of a projected 3.6% increase in revenue subject to the limit compared to the 4.6% growth in income that is projected to increase the FY 2016-17 limit by \$2.0 billion. Revenue is estimated to fall short of the limit by \$9.5 billion or 22.7% in FY 2017-18, and by \$10.2 billion or 23.5% in FY 2018-19. 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.

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 not trigger a suggested withdrawal from the Budget Stabilization Fund in FY 2015-16, FY 2016-17, or FY 2017-18, but will trigger a suggested pay-in of \$140.2 million in FY 2016-17, and no pay-in in either FY 2017-18 or FY 2018-19. However, the current FY 2016-17 budget provides for a deposit into the Fund of only \$92.5 million, approximately \$47.7 million less than the calculated pay-in of \$140.2 million. 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 January 2017 Consensus Revenue Estimating Conference (CREC) for the current year, FY 2016-17, show an increase in the total number of pupils from those estimated at the May 2016 CREC. The FY 2016-17 pupil memberships (weighted 90.0% on the September 2016 count plus 10.0% on the previous February 2016 count) are now estimated at 1,490,700, which is 6,200 pupil memberships higher than the May 2016 consensus estimate, representing a change in the total blend of 0.4%. Most of the 6,200-pupil increase can be attributed to two areas: a higher kindergarten enrollment than predicted, and more enrollment of shared-time pupils (i.e., nonpublic or home-schooled pupils who enroll in a public school for noncore classes). Compared with the previous year, FY 2015-16, the number of pupils is estimated to have declined nearly 5,300.

The increase of 6,200 memberships will result in a State cost of roughly \$47.0 million. However, savings in the budget from higher-than-anticipated taxable values (generating more local revenue in support of the foundation allowance) and lower-than-anticipated special education costs will offset the additional costs due to the higher pupil blend. The figures used for the current year have not yet been audited, which means that some fluctuations will be seen in the current-year blend when pupils are again estimated in May 2017.

Pupil estimates for the 2017-18 fiscal year (which had earlier been estimated at the May 2016 CREC) also were presented at the January 2017 conference. The pupil estimate of 1,486,500 memberships presented for FY 2017-18 represents an increase of 12,000 pupils above the earlier estimate, but a decline of 0.3%, or 4,200 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, which actually would account for a much higher drop in estimated pupil memberships, but the estimates include partially offsetting increases predicted due to a continued higher kindergarten enrollment and higher enrollment in shared-time programs. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$7,511 less for each pupil at the local school level.

Pupil estimates for FY 2018-19 also were presented (for the first time) at the January 2017 CREC. The initial estimates for planning purposes show another drop of 4,500 pupil memberships compared to the estimate for FY 2017-18. Again, strict declines in population would indicate a much steeper drop than 4,500, but the estimate reflects continued higher enrollment in kindergarten and use of shared-time programs, drawing in school population currently not in the public system.

If the higher kindergarten enrollment turns out to be somewhat one-time in nature (perhaps coinciding with the expansion of the Great Start Readiness Program and its enrollment age policies), then it is likely that future pupil estimates will show fewer pupils in membership than estimated currently. Again, population declines (birth rate declines) continue to occur and mean that entering kindergarten classes are significantly smaller than the outgoing senior classes. The estimates presented at the January 2017 CREC recognize those population declines, but mitigate them somewhat due to the higher kindergarten enrollment percentages and a continued anticipated influx of students from outside the current public system in shared-time programs; this is where the risk lies in the pupil forecast.

The School Aid Act currently requires the Consensus Revenue Estimating Conference 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 law, 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 2017-18 is 1.0028 and the revenue adjustment factor is 1.0236. Multiplying these two factors together yields 1.0265 as the FY 2017-18 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2018-19 is 1.0030 and the revenue adjustment factor is 1.0245. Multiplying these two factors together yields 1.0276 as the FY 2018-19 index.

/lms

c: Ellen Jeffries, Director