

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 16, 2018

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2017-18, FY 2018-19 and FY 2019-20 and School Aid Foundation Allowance Index Estimate for FY 2018-19 and FY 2019-20

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, May 16, 2018, and unanimously adopted revised revenue estimates for FY 2017-18, FY 2018-19, and FY 2019-20, 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, 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 2017-18 is \$10,463.6 million, a 2.6% or \$268.1 million increase from the FY 2016-17 level. In comparison, GF/GP revenue decreased 1.7% in FY 2016-17. The change in FY 2017-18 GF/GP revenue reflects stronger sales tax and income tax withholding, as well as additional estimated individual income tax payments in response to Federal tax changes. The revised FY 2017-18 estimate is \$155.9 million higher than the January 2018 consensus revenue estimate. In FY 2018-19, GF/GP revenue will total an estimated \$10,411.6 million, a decrease of 0.5% or \$52.0 million from the revised estimate for FY 2017-18, but \$72.0 million above the January 2018 consensus revenue estimate. The decrease in FY 2018-19 GF/GP revenue primarily reflects continued economic growth being more than offset by tax policy changes related to the 2015 transportation funding package (which reduced FY 2018-19 GF/GP revenue by \$355.8 million by earmarking \$150 million in individual income tax to the Michigan Transportation Fund and expanding the Homestead Property Tax Credit by \$205.8 million), and taxpayers making lower estimated and annual payments (and/or claiming larger refunds) as a result of the additional estimated payments made in FY 2017-18. As the economy continues to slowly expand, FY 2019-20 GF/GP revenue will increase to \$10,518.7 million, an increase of 1.0% or \$107.1 million from the revised estimate for FY 2017-18, and \$105.2 million above the January 2018 consensus revenue estimate. The growth in FY 2019-20 GF/GP revenue primarily reflects continued economic growth more than offsetting tax policy changes related to the 2015 transportation funding package, which increased the earmark in individual income tax to the Michigan Transportation Fund to \$325.0 million, and increases in the personal exemption taxpayers may claim under the individual income tax, which were enacted in response to Federal tax reform.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$13,244.0 million in FY 2017-18, an increase of 4.4% or \$558.9 million from the FY 2016-17 level. The increase in FY 2017-18 SAF revenue reflects strong growth in sales tax revenue plus improvements in both State Education Tax and real estate transfer tax collections due to the improving housing market. The revised FY 2017-18 SAF estimate is \$159.5 million above the January 2018 consensus revenue estimate. In FY 2018-19, SAF revenue will total an estimated \$13,574.4 million, a 2.5% or \$330.4 million increase from the revised estimate for FY 2017-18, and \$110.4 million above the January 2018 consensus revenue estimate. The FY 2018-19 SAF revenue estimate reflects growth in all major SAF revenue sources. Continued gains in employment and income result in a revised estimate of FY

2019-20 SAF revenue of \$13,900.8 million, an increase of 2.4% or \$326.4 million from the revised estimate for FY 2018-19 that is \$78.1 million above the January 2018 consensus estimate.

Table 1

FY 2017-18 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 16, 2018, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2017-18			FY 2017-18 Revised Consensus Est. 5/16/17	\$ Change from Jan. 2018 Consensus	% Change from FY 2016-17
	FY 2016-17 Final	Previous FY 2017-18 Consensus Est. Jan. 2018	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,195.5	\$10,307.7	\$10,485.8	\$10,441.2	\$10,467.5	\$10,463.6	\$155.9	2.6%
Net SAF Revenue	\$12,685.1	\$13,084.5	\$13,219.6	\$13,201.3	\$13,264.5	\$13,244.0	\$159.5	4.4%
Net GF/GP & SAF Revenue	\$22,880.6	\$23,392.2	\$23,705.4	\$23,642.5	\$23,732.0	\$23,707.6	\$315.4	3.6%

Table 2

FY 2018-19 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 16, 2018, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2018-19			FY 2018-19 Revised Consensus Est. 5/16/18	\$ Change from Jan. 2018 Consensus	% Change from FY 2017-18
	FY 2017-18 Revised Consensus Est. 5/16/18	Previous FY 2018-19 Consensus Est. Jan. 2018	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,463.6	\$10,339.6	\$10,441.9	\$10,433.2	\$10,364.6	\$10,411.6	\$72.0	(0.5%)
Net SAF Revenue	\$13,244.0	\$13,464.0	\$13,538.6	\$13,513.9	\$13,629.0	\$13,574.4	\$110.4	2.5%
Net GF/GP & SAF Revenue	\$23,707.6	\$23,803.6	\$23,980.5	\$23,947.1	\$23,993.6	\$23,986.0	\$182.4	1.2%

Table 3

FY 2019-20 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 16, 2018, Consensus Revenue Estimating Conference								
(millions of dollars)								
			FY 2019-20			FY 2019-20 Revised Consensus Est. 5/16/18	\$ Change from Jan. 2018 Consensus	% Change from FY 2018-19
	FY 2018-19 Revised Consensus Est. 5/16/17	Previous FY 2019-20 Consensus Est. Jan. 2018	Initial Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,411.6	\$10,413.5	\$10,474.2	\$10,463.3	\$10,594.1	\$10,518.7	\$105.2	1.0%
Net SAF Revenue	\$13,574.4	\$13,822.7	\$13,870.0	\$13,832.1	\$13,976.4	\$13,900.8	\$78.1	2.4%
Net GF/GP & SAF Revenue	\$23,986.0	\$24,236.2	\$24,344.2	\$24,295.4	\$24,570.5	\$24,419.5	\$183.3	1.8%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$23,707.6 million in FY 2017-18, up 3.6% or \$827.0 million from the FY 2016-17 level, and \$315.4 million above the January 2018 consensus revenue estimate. In FY 2018-19, GF/GP and SAF revenue will total an estimated \$23,986.0 million, an increase of 1.2% or \$278.4 million from the revised estimate for FY 2017-18, and \$182.4 million above the January 2018 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$24,419.5 million in FY 2019-20, a 1.8% or \$433.5 million increase from the revised estimate for FY 2018-19 that is \$183.3 million above the January 2018 consensus revenue estimate.

Revenue Limit

In FY 2015-16, revenue subject to the revenue limit was \$8.1 billion or 21.2% below the constitutional limit. In FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20 revenue is expected to continue to fall well below the revenue limit. In FY 2016-17, revenue fell short of the estimated revenue limit by an estimated \$8.6 billion or 21.8%. The May 2018 consensus estimates forecast that in FY 2017-18 revenue will fall below the limit by approximately \$8.7 billion or 20.8%. Similarly, the May 2018 consensus estimate forecasts FY 2018-19 revenue will be \$9.0 billion or 21.1% below the limit, and that in FY 2019-20 revenue will be \$9.8 billion or 22.1% below the limit. The increase in the gap between the limit and expected revenue over the forecast 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 \$13.6 million in FY 2018-19 and \$47.9 million in FY 2019-20, but no pay-in during FY 2017-18. The estimates do not calculate any withdrawals in any fiscal year. The Legislature has already appropriated \$150.0 million into the Budget Stabilization Fund in FY 2017-18, 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 2018 Consensus Revenue Estimating Conference for the current year, FY 2017-18 show an increase of 1,500 pupils from those reported at the January 2018 Revenue Estimating Conference. The FY 2017-18 pupil memberships (weighted 90.0% on the October 2017 count plus 10.0% on the prior February 2017 count) are 1,485,000, of which 1,337,800 are in traditional local districts and 147,200 are in public school academies. There are two reasons for the increase from January to May: one new public school academy opened after the fall count, and full-time equated pupils (FTEs) are now being reported under Section 23a, for dropout recovery programs.

Updated pupil estimates for the upcoming fiscal years also were presented at the May 2018 conference. The pupil estimate of 1,480,000 memberships presented for FY 2018-19 represents a decline of 0.3%, or 5,000 pupils, from the current fiscal year. This is the same 1,500 increase above the January estimate as is the increase in the estimate for the current fiscal year. For FY 2019-20, the estimate for pupil memberships increases by 1,000 above the January estimate, for a total of 1,476,000, which represents a decrease of 4,000 from the estimate for FY 2018-19. These year-to-year changes in pupil memberships equate to a minimum school district loss of \$7,631 per pupil.

The School Aid Act currently 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 2018-19 is 1.0034 and the revenue adjustment factor is 1.0324. Multiplying these two factors yields 1.0359 as the foundation allowance index. This would mean that the recommended increase in the minimum foundation allowance using these calculations would yield a 3.59% increase applied to the minimum foundation allowance (currently \$7,631), or \$274. The new minimum foundation allowance would be calculated to be at least \$7,905 under these calculations.

/lms

c: Ellen Jeffries, Director