

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 14, 2016

TO: Members of the Senate

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

RE: Consensus Revenue Estimates for FY 2015-16, FY 2016-17, and FY 2017-18 and School Aid Foundation Allowance Index Estimate for FY 2016-17

The Senate Fiscal Agency, House Fiscal Agency, and Treasury Department held a Consensus Revenue Estimating Conference on January 14, 2016, and unanimously adopted revised revenue estimates for fiscal year (FY) 2015-16 and FY 2016-17, initial estimates for FY 2017-18, and an estimate of the School Aid Foundation Allowance Index for FY 2016-17. 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 2015-16 is \$9,843.8 million, which is down 1.9% or \$190.6 million from preliminary FY 2014-15 final revenue. The decline in GF/GP revenue primarily reflects modest economic growth that is more than offset by three noneconomic factors: 1) a decrease in insurance tax revenue due to the revenue impact of increased credits being claimed as a result of 2012 legislation that transferred the administration of the Assigned Claims Plan from the Secretary of State to the Michigan Automobile Insurance Placement Facility, 2) timing issues related to tax credits claimed under the Michigan Business Tax (MBT) by businesses with certificated credits, and 3) the diversion of \$96.4 million of General Fund use tax revenue to the Local Community Stabilization Authority as part of personal property tax reform. Compared with the May 2015 consensus revenue estimate, this revised estimate is \$38.1 million lower. In FY 2016-17, GF/GP revenue will total an estimated \$10,213.9 million, which is up 3.8% or \$370.1 million from the revised estimate for FY 2015-16. Compared with the May 2015 consensus revenue estimate, the revised estimate for FY 2015-16 is up \$92.4 million. This increase in FY 2016-17 GF/GP is largely attributable to increases from an improving economy and fewer MBT credits that more than offset the increase in use tax diversions. The initial estimate for FY 2017-18 GF/GP revenue is \$10,599.3 million, an increase of 3.8% or \$385.4 million from the revised FY 2016-17 estimate. The growth in FY 2017-18 GF/GP revenue reflects relative 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 \$12,131.6 million in FY 2015-16, which is up 3.3% or \$384.5 million from the preliminary final revenue level for FY 2014-15. Compared with the May 2015 consensus revenue estimate, this revised estimate is down \$111.3 million, largely due to a decline in sales tax revenue experienced in FY 2014-15. In FY 2016-17, SAF revenue will total an estimated \$12,486.2 million, which is up 2.9% or \$354.6 million from the revised estimate for FY 2015-16, and \$112.6 million below the May 2015 forecast. The initial estimate for SAF revenue in FY 2017-18 is \$12,831.1 million, an increase of 2.8% or \$344.9 million from the revised estimate for FY 2016-17.

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$21,975.4 million in FY 2015-16, up 0.9% or \$193.9 million from the preliminary final revenue level for FY 2014-15, but \$149.4 million below the May 2015 consensus revenue estimate. For FY 2016-17, combined GF/GP and SAF revenue will total an estimated \$22,700.1 million, an increase of 3.3% or \$724.7 million from the revised estimate for FY 2015-16. The initial estimate of FY 2017-18 combined GF/GP and SAF revenue totals \$23,430.4 million, an increase of 3.2% or \$730.3 million from the revised estimate for FY 2016-17.

Table 1

FY 2015-16 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 14, 2016, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
	FY 2014-15 Preliminary Final	Previous FY 2015-16 Consensus Est. May 2015	FY 2015-16 Revised Revenue Estimates			FY 2015-16 Revised Consensus Est. 1/14/16	\$ Change from May 2015 Consensus	% Change from FY 2014-15
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,034.4	\$9,881.9	\$9,959.4	\$9,687.6	\$9,945.6	\$9,843.8	(\$38.1)	(1.9%)
Net SAF Revenue	\$11,747.1	\$12,242.9	\$12,181.4	\$12,083.0	\$12,124.0	\$12,131.6	(\$111.3)	3.3%
Net GF/GP & SAF Revenue	\$21,781.5	\$22,124.8	\$22,140.8	\$21,770.6	\$22,069.6	\$21,975.4	(\$149.4)	0.9%

Table 2

FY 2016-17 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 14, 2016, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
	FY 2015-16 Revised Consensus Est. 1/14/16	Previous FY 2016-17 Consensus Est. May 2015	FY 2016-17 Revised Revenue Estimates			FY 2016-17 Revised Consensus Est. 1/14/16	\$ Change from May 2015 Consensus	% Change from FY 2014-15
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$9,843.8	\$10,121.5	\$10,347.9	\$10,068.6	\$10,218.2	\$10,213.9	\$92.4	3.8%
Net SAF Revenue	\$12,131.6	\$12,598.8	\$12,571.5	\$12,424.8	\$12,421.4	\$12,486.2	(\$112.6)	2.9%
Net GF/GP & SAF Revenue	\$21,975.4	\$22,720.3	\$22,919.4	\$22,493.4	\$22,639.6	\$22,700.1	(\$20.2)	3.3%

Table 3

FY 2017-18 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 14, 2016, Consensus Revenue Estimating Conference (Millions of Dollars)							
	FY 2016-17 Revised Consensus Est. 1/14/16	FY 2017-18 Initial Revenue Estimates			FY 2017-18 Initial Consensus Est. 1/14/16	\$ Change from FY 2016-17 Consensus	% Change from FY 2016-17
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,213.9	\$10,714.2	\$10,455.2	\$10,619.0	\$10,599.3	\$385.4	3.8%
Net SAF Revenue	\$12,486.2	\$12,934.3	\$12,780.0	\$12,739.5	\$12,831.1	\$344.9	2.8%
Net GF/GP & SAF Revenue	\$22,700.1	\$23,648.5	\$23,235.2	\$23,358.5	\$23,430.4	\$730.3	3.2%

Revenue Limit

In FY 2013-14, revenue subject to the constitutional revenue limit was \$8.5 billion or 23.6% below the limit. In FY 2014-15 through FY 2017-18, revenue is expected to continue to fall well below the revenue limit. In FY 2014-15, revenue will fall short of the revenue limit by an estimated \$7.8 billion or 21.4%, a decline that reflects the 5.1% revenue growth in FY 2014-15 exceeding the estimated 2.1% increase in personal income. In FY 2015-16, revenue subject to the limit will fall below the limit by an estimated \$9.1 billion or 23.8%, reflecting the dynamics of a projected 1.2% increase in revenue subject to the limit compared with the 4.5% growth in income during 2014 that is projected to increase the FY 2015-16 limit by \$1.6 billion. Revenue is estimated to fall short of the limit by \$9.6 billion or 24.1% in FY 2016-17, and by \$10.1 billion or 24.3% in FY 2017-18. 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 compared with the prior year, 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 2014-15, FY 2015-16, or FY 2016-17, but will trigger suggested pay-ins of \$250.9 million in FY 2015-16, \$196.9 million in FY 2016-17, and \$10.2 million in FY 2017-18. However, the current FY 2015-16 budget provides for only a \$112.5 million deposit into the Fund, approximately \$138.4 million less than the calculated pay-in of \$250.9 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 2016 Consensus Revenue Estimating Conference for the current year, FY 2015-16, show an increase in the total number of pupils from those estimated at the May 2015 Revenue Estimating Conference. The FY 2015-16 pupil memberships (weighted 90.0% on the September 2015 count plus 10.0% on the prior February 2015 count) are now estimated at 1,495,800, which is 1,000 pupil memberships higher than the adjusted May 2015 consensus estimate, representing an error rate on the total blend of less than 0.1%. The May 2015 consensus estimate was adjusted by a change in the pupil membership blend formula contained and funded in the State School Aid Act for FY 2015-16.

Compared with the previous year, FY 2014-15, the number of pupils is estimated to have declined more than 12,200. The overestimation of 1,000 memberships will result in State savings of roughly \$7.5 million. 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 2016.

Pupil estimates for the 2016-17 fiscal year (which had earlier been estimated at the May 2015 conference) also were presented at the January 2016 conference. The pupil estimate of 1,486,000 memberships presented for FY 2016-17 represents a decline of 0.7%, or 9,800 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 higher kindergarten enrollments, shared-time participation, and enrollment growth in early/middle colleges. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$7,391 less for each pupil at the local school level.

Pupil estimates for FY 2017-18 also were presented (for the first time) at the January 2016 Consensus Revenue Estimating Conference. The initial estimates for planning purposes show another drop of 10,000 pupil memberships compared with the estimate for FY 2016-17. Again, strict declines in population would indicate a steeper drop than 10,000, but the estimate reflects continued increased participation in the areas of kindergarten enrollment, shared-time, and early/middle colleges, as noted above. If that participation does not continue to grow or is not at least maintained at current levels, pupil declines will be larger than forecasted.

The School Aid Act currently requires the minimum foundation allowance for a year to be at least an amount equal to the prior year's minimum, multiplied by the foundation allowance index determined at the Consensus 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 1.0066 and the revenue adjustment factor is 1.0287. Multiplying these two factors yields 1.0355 as the FY 2016-17 foundation allowance index. This means that under current law calculations, the FY 2016-17 minimum foundation allowance required should increase by 3.55% of \$7,391, or \$262. The new minimum foundation allowance would have to be at least \$7,653, as required under statute, although the Legislature can enact a change to this requirement.

/kjh

c: Ellen Jeffries, Director