

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 17, 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 and FY 2017-18

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, May 17, 2016, and unanimously adopted revised revenue estimates for FY 2015-16, FY 2016-17, and FY 2017-18, and revised estimates of the School Aid Foundation Allowance Index for FY 2016-17 and 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, 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 2015-16 is \$9,734.1 million, a 3.0% or \$300.3 million decline from the FY 2014-15 level. The decrease in GF/GP revenue differs from the 11.3% increase experienced in FY 2014-15. The change in GF/GP revenue reflects falling corporate profits and weaker-than-expected collections from the sales tax, penalties and interest, and the severance tax more than offsetting increases in individual income tax withholding. Compared with the January 2016 consensus revenue estimate, this revised estimate is down \$109.7 million. In FY 2016-17, GF/GP revenue will total an estimated \$10,138.5 million, an increase of 4.2% or \$404.4 million from the revised estimate for FY 2015-16 but \$75.4 million below the January 2016 consensus revenue estimate. The increase in FY 2015-16 GF/GP revenue primarily reflects a decrease in refundable credits under the Michigan Business Tax (MBT), continued growth in individual income tax withholding, and a recovery in corporate income tax revenue. As the economy continues to slowly expand, revenue will increase to a revised estimate for FY 2017-18 GF/GP revenue of \$10,607.1 million, an increase of 4.6% or \$468.6 million from the revised estimate for FY 2016-17 that is \$7.8 million above the January 2016 consensus revenue estimate. The more rapid revenue growth in FY 2017-18 primarily reflects continued economic growth combined with a reduced loss from refundable MBT credits.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$12,067.4 million in FY 2015-16, an increase of 2.7% or \$320.3 million from the FY 2014-15 level. Strong growth in Lottery revenue, improvements in both State Education Tax and real estate transfer tax collections due to the improving housing market, and stronger individual income tax withholding more than make up for weak sales tax collections. However, the weaker-than-expected sales tax collection result in the estimate being down \$64.2 million from the January 2016 consensus revenue estimate. In FY 2016-17, SAF revenue will total an estimated \$12,402.4 million, a 2.8% or \$335.0 million increase from the revised estimate for FY 2015-16, but \$83.8 million below the January 2016 consensus revenue estimate. The FY 2016-17 SAF revenue estimate reflects growth in all major revenue sources, but accounts for the reduced sales tax base in FY 2015-16. Continued slow gains in employment and income result in a revised estimate of FY 2017-18 SAF revenue of \$12,760.8 million, an increase of 2.9% or \$358.4 million from the revised estimate for FY 2016-17 that is \$70.3 million less than the January 2016 consensus estimate.

Table 1

FY 2015-16 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2016, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
			FY 2015-16			FY 2015-16 Revised Consensus Est. 5/17/16	\$ Change from Jan. 2016 Consensus	% Change from FY 2014-15
	FY 2014-15 Final	Previous FY 2015-16 Consensus Est. Jan. 2016	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,034.4	\$9,843.8	\$9,791.2	\$9,752.8	\$9,699.4	\$9,734.1	(\$109.7)	(3.0%)
Net SAF Revenue	\$11,747.1	\$12,131.6	\$12,062.3	\$12,073.5	\$12,075.3	\$12,067.4	(\$64.2)	2.7%
Net GF/GP & SAF Revenue	\$21,781.5	\$21,975.4	\$21,853.5	\$21,826.3	\$21,774.7	\$21,801.5	(\$173.9)	0.1%

Table 2

FY 2016-17 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2016, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
			FY 2016-17			FY 2016-17 Revised Consensus Est. 5/17/16	\$ Change from Jan. 2016 Consensus	% Change from FY 2015-16
	FY 2015-16 Revised Consensus Est. 5/17/16	Previous FY 2016-17 Consensus Est. Jan. 2016	Revised Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$9,734.1	\$10,213.9	\$10,267.5	\$10,113.4	\$10,006.3	\$10,138.5	(\$75.4)	4.2%
Net SAF Revenue	\$12,067.4	\$12,486.2	\$12,410.8	\$12,409.6	\$12,388.8	\$12,402.4	(\$83.8)	2.8%
Net GF/GP & SAF Revenue	\$21,801.5	\$22,700.1	\$22,678.3	\$22,523.0	\$22,395.1	\$22,540.9	(\$159.2)	3.4%

Table 3

FY 2017-18 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 17, 2016, Consensus Revenue Estimating Conference								
(Millions of Dollars)								
			FY 2017-18			FY 2017-18 Revised Consensus Est. 5/17/16	\$ Change from Jan. 2016 Consensus	% Change from FY 2016-17
	FY 2016-17 Revised Consensus Est. 5/17/16	Previous FY 2016-17 Consensus Est. Jan. 2016	Initial Revenue Estimates					
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$10,138.5	\$10,599.3	\$10,797.1	\$10,536.8	\$10,426.8	\$10,607.1	\$7.8	4.6%
Net SAF Revenue	\$12,402.4	\$12,831.1	\$12,808.2	\$12,731.4	\$12,737.4	\$12,760.8	(\$70.3)	2.9%
Net GF/GP & SAF Revenue	\$22,540.9	\$23,430.4	\$23,605.3	\$23,268.2	\$23,164.2	\$23,367.9	(\$62.5)	3.7%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$21,801.5 million in FY 2015-16, up 0.1% or \$20.0 million from the FY 2014-15 level, and \$173.9 million below the January 2016 consensus revenue estimate. In FY 2016-17, GF/GP and SAF revenue will total an estimated \$22,540.9 million, an increase of 3.4% or \$739.4 million from the revised estimate for FY 2015-16, but \$159.2 million below the January 2016 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$23,367.9 million in FY 2017-18, a 3.7% or \$827.0 million increase from the revised estimate for FY 2016-17 that is \$62.5 million below the January 2016 consensus revenue estimate.

Revenue Limit

In FY 2013-14, revenue subject to the revenue limit was \$8.5 billion or 23.6% below the constitutional limit. In FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18 revenue is expected to continue to fall well below the revenue limit. In FY 2014-15, revenue fell short of the estimated revenue limit by an estimated \$7.8 billion or 21.4%. The May 2016 consensus estimates forecast that in FY 2015-16 revenue will fall below the limit by an approximately \$9.3 billion or 24.3%. Similarly, the May 2016 consensus estimate forecasts FY 2016-17 revenue will be \$9.9 billion or 24.7% below the limit, and that in FY 2017-18 revenue will be \$10.0 billion or 24.1% 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 \$270.9 million in FY 2015-16 and \$155.7 million in FY 2016-17, but no pay-in during FY 2017-18. The estimates do not calculate any withdrawals in any fiscal year. The Legislature has already appropriated \$112.5 million into the Budget Stabilization Fund in FY 2015-16, including 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 2016 Consensus Revenue Estimating Conference for the current year, FY 2015-16, show a decrease in the total number of pupils from those reported at the January 2016 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 1,496,000, which are 200 pupil memberships higher than the January 2016 consensus estimate. Students enrolled in dropout recovery programs have now been included in the pupil counts, which explains the difference.

Revised pupil estimates for the upcoming fiscal years also were presented at the May 2016 conference. The pupil estimate of 1,484,500 memberships presented for FY 2016-17 represents a decline of 0.8%, or 11,500 pupils, from the current fiscal year. However, this is only 1,500 pupil memberships lower than the estimate presented back in January for the upcoming fiscal year. For FY 2017-18, the revised pupil memberships now total 1,474,500, also a decrease of 1,500 from the initial estimate for FY 2017-18 presented in January; this represents another 10,000 pupil decline from the revised estimate for FY 2016-17. The primary reason for the 1,500 decline in the estimates below the January estimates simply reflects slight adjustments in local and charter school populations compared to previous estimates. These year-to-year changes in pupil memberships equate to a minimum of \$7,391 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 2016-17 is 1.0077 and the revenue adjustment factor is 1.0253. Multiplying these two factors yields 1.0332 as the foundation allowance index. This would mean that the recommended increase in the minimum foundation allowance using these calculations would yield a 3.32% increase applied to the minimum foundation allowance (currently \$7,391), or \$245. The new minimum foundation allowance would be calculated to be at least \$7,636 under these calculations.

/kjh

c: Ellen Jeffries, Director