

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 18, 2007

TO: Members of the Senate

FROM: Jay Wortley, Senior Economist
 Kathryn Summers-Coty, Chief Analyst

RE: Consensus Revenue Estimates for FY 2006-07 and FY 2007-08 and School Aid Foundation Allowance Index Estimate for FY 2007-08

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, May 18, 2007, and unanimously adopted revised revenue estimates for FY 2006-07 and FY 2007-08, and an estimate of the School Aid Foundation Allowance Index for FY 2007-08. 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 2006-07 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 18, 2007, Consensus Revenue Estimating Conference								
(dollars in millions)								
FY 2006-07								
REVISED REVENUE ESTIMATES								
	Final FY 2005-06	Previous FY 2006-07 Consensus Estimate 01/07	Treasury Department	House Fiscal Agency	Senate Fiscal Agency	FY 2006-07 Revised Consensus Estimate 5/18/07	\$ Change from January 2007 Consensus	% Change from FY 2005-06
Net GF/GP Revenue	\$8,266.0	\$8,230.0	\$8,174.9	\$8,168.7	\$8,223.2	\$8,187.5	\$(42.5)	(0.9)%
Net SAF Revenue	\$11,082.1	\$11,230.0	\$11,074.0	\$11,115.6	\$11,087.6	\$11,077.2	\$(152.8)	(0.0)%
Net GF/GP & SAF Rev	\$19,348.2	\$19,460.0	\$19,248.9	\$19,284.3	\$19,310.8	\$19,264.7	\$(195.3)	(0.4)%

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2006-07 is \$8,187.5 million. This revised estimate of GF/GP revenue is down \$78.5 million or 0.9% from the FY 2005-06 final level. Compared with the January 2007 consensus revenue estimate, this revised estimate is down \$42.5 million. In FY 2007-08, GF/GP revenue will total an estimated \$6,919.7 million. This revised estimate for GF/GP revenue in FY 2007-08 is down \$1.27 billion or 15.5% from the revised estimate for FY 2006-07. This sharp decline reflects the fact that the single business will be repealed at the end of 2007. If it is assumed that all revenue from the single business tax is replaced by some other tax or taxes the estimate for GF/GP revenue in FY 2007-08 would equal \$8,109.2 million, which represents a 1.0% decrease from the FY 2006-07 estimate.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$11,077.2 million in FY 2006-07, which is down \$4.9 million from the FY 2005-06 final level. Compared with the consensus estimate adopted in January 2007, this revised estimate is down \$152.8 million. In FY 2007-08, SAF revenue will total an estimated \$11,285.0 million. This revised SAF revenue estimate for FY 2007-08 is up \$207.8 million or 1.9% from the revised estimate for FY 2006-07, but is down \$247.9 million from the January 2007 consensus estimate.

Table 2

FY 2007-08 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 18, 2007, Consensus Revenue Estimating Conference								
(dollars in millions)								
FY 2007-08								
REVISED REVENUE ESTIMATES								
	FY 2006-07 Revised Consensus Estimate 05/18/07	Previous FY 2007-08 Consensus Estimate 01/07				FY 2007-08 Revised Consensus Estimate 5/18/07	\$ Change from January 2007 Consensus	% Change from FY 2005-06
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$8,187.5	\$7,010.0	\$6,988.5	\$6,875.5	\$6,914.9	\$6,919.7	\$(90.3)	(15.5)%
Net SAF Revenue	\$11,077.2	\$11,532.9	\$11,284.3	\$11,286.1	\$11,284.5	\$11,285.0	\$(247.9)	1.9%
Net GF/GP & SAF Rev	\$19,264.7	\$18,542.9	\$18,272.8	\$18,161.6	\$18,199.4	\$18,204.7	\$(338.2)	(5.5)%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$19,264.7 million in FY 2006-07, which is down \$83.5 million or 0.4% from the final revenue level for FY 2005-06. This revised estimate is down \$195.3 million from the January 2007 consensus estimate. For FY 2007-08, total GF/GP and SAF revenue will total an estimated \$18,204.7 million, which represents a decrease of \$1,060.0 million or 5.5% from the revised estimate for FY 2006-07. This revised GF/GP and SAF revenue estimate for FY 2007-08 would equal \$19,394.2 million, a 0.7% increase, if it is assumed that all single business tax revenue is replaced.

Revenue Limit

Revenue subject to the revenue limit fell short of the revenue limit by \$4.9 billion or 16.1% in FY 2005-06. In FY 2006-07 and FY 2007-08, it is estimated that the gap between revenue subject to the limit and the revenue limit will continue to grow even larger. In FY 2006-07, revenue will fall below the constitutional revenue limit by an estimated \$5.5 billion, or 17.6%, and in FY 2007-08, revenue will fall below the limit by an estimated \$7.4 billion or 22.9%.

Budget Stabilization Fund

Based on the consensus economic forecast, the statutory budget stabilization formula (based on the change in real Michigan personal income less transfer payments) triggers a transfer out of the Budget Stabilization Fund (BSF) of \$49.1 million in FY 2006-07 and \$34.6 million in FY 2007-08. In order for transfers from the BSF to actually occur, they must be appropriated by the Legislature, however, these transfers will not occur because there is currently only about \$2.0 million in the BSF.

School Aid Foundation Allowance Index

The pupil estimates presented at the May 2007 Consensus Revenue Estimating Conference for FY 2006-07 show a decrease in the total number of pupils from those estimated at the January 2007 Revenue Estimating Conference. The FY 2006-07 pupil memberships (weighted 75.0% on the September 2006 count plus 25.0% on the prior February 2006 count) now are estimated at 1,681,175, which are 1,425 pupil memberships lower than the January 2007 consensus estimate. The reason for the decline in the May estimate is due to auditing of previously reported pupil counts.

Pupil estimates for the upcoming fiscal year also were updated at the May 2007 conference. The pupil estimate of 1,665,600 memberships presented for FY 2007-08 represents a decline of 0.93%, or 15,575, from the current fiscal year. It is believed the primary reason for this estimated drop in pupil memberships is declining birth rates; in other words, larger classes are exiting the K-12 system than are coming into kindergarten. These declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$7,085 fewer for each pupil lost at the local school level.

The School Aid Act requires that the next year's basic foundation allowance increase by at least the minimum amount calculated using the pupil index and revenue 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. 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 1.0094 and the revenue adjustment factor is 1.0082. Multiplying these two factors yields 1.0177 as the foundation allowance index. This would mean that the FY 2007-08 basic foundation allowance should increase by at least 1.77% applied to the FY 2006-07 basic foundation allowance of \$7,085, or \$125.

We hope you find this information useful. If you have any questions or need any additional information, please call us at 373-2768.

/kjh

c: Tom Davis, Senate Majority Policy Office
Mike Byrne, Senate Democratic Office
Gary S. Olson, Director
Ellen Jeffries, Deputy Director