

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 13, 2023

TO: Members of the Michigan Senate

FROM: David Zin, Chief Economist
 Ryan Bergan, Senior Fiscal Analyst

RE: Consensus Revenue Estimates for FY 2022-23, FY 2023-24, and FY 2024-25 and School Aid Foundation Allowance Index Estimate for FY 2023-24

The Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury held a Consensus Revenue Estimating Conference (CREC) on January 13, 2023, and unanimously adopted revised revenue estimates for fiscal year (FY) 2022-23 and FY 2023-24, initial estimates for FY 2024-25, and an estimate of the School Aid Foundation Allowance Index for FY 2023-24. 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

Stronger revenue growth in FY 2021-22 is expected to increase the economic base for many taxes in FY 2022-23 and later years. As a result, although the CREC predicts that the economy will slow in 2023, and slower economic growth over the forecast than did May 2022 CREC, estimates of General Fund revenue were increased in each forecast year compared to the estimates made in May 2022 ([Figure 1](#)). General Fund/General Purpose revenue is expected to fall 2.8% in FY 2022-23, before growing 2.1% in FY 2023-24 and 3.0% in FY 2024-25.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will follow similar trends as GF/GP revenue. School Aid Fund revenue is expected to fall 1.1% in FY 2022-23, before growing 1.2% in FY 2023-24 and 2.3% in FY 2024-25. The growth in SAF revenue in both FY 2022-23 and FY 2023-24 reflects moderate growth in gross income tax revenue, sales tax revenue, and the State education tax. These three revenue sources account for more than 80% of SAF revenue. The CREC estimates for FY 2022-23 and FY 2023-24 are above the estimate made in May 2022 ([Figure 1](#)).

Total General Fund/General Purpose and School Aid Fund Revenue

Combined GF/GP and SAF revenue will total an estimated \$32.4 billion in FY 2022-23, down 1.9% from the preliminary final revenue level for FY 2021-22. Combined GF/GP and SAF revenue will increase 1.6% in FY 2023-24 and 2.6% in FY 2024-25. The CREC estimates for FY 2022-23 and FY 2023-24 are above the estimate made in May 2022.

Table 1

FY 2022-23 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 13, 2023, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2022-23 Revised Revenue Estimates					FY 2022-23 Revised Consensus Est. 1/13/23	\$ Change from May 2022 Consensus	% Change from FY 2021-22
	FY 2021-22 Preliminary Final	Previous FY 2022-23 Consensus Est. May 2022	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$15,205.5	\$13,973.5	\$15,130.0	\$14,899.4	\$13,620.7	\$14,777.9	\$804.4	(2.8%)
Net SAF Revenue	\$17,875.2	\$17,195.3	\$17,823.6	\$17,741.5	\$17,059.7	\$17,635.1	\$439.8	(1.3%)
Net GF/GP & SAF Revenue	\$33,080.7	\$31,168.8	\$32,953.6	\$32,640.9	\$30,680.4	\$32,413.0	\$1,244.2	(2.0%)

Table 2

FY 2023-24 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 13, 2023, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2023-24 Revised Revenue Estimates					FY 2023-24 Revised Consensus Est. 1/13/23	\$ Change from May 2022 Consensus	% Change from FY 2022-23
	FY 2022-23 Revised Consensus Est. 1/13/23	Previous FY 2023-24 Consensus Est. May 2022	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$14,777.9	\$14,228.9	\$15,436.1	\$15,102.3	\$13,856.7	\$15,092.2	\$863.3	2.1%
Net SAF Revenue	\$17,635.1	\$17,444.9	\$18,175.9	\$17,980.1	\$17,011.1	\$17,846.0	\$401.1	1.2%
Net GF/GP & SAF Revenue	\$32,413.0	\$31,673.8	\$33,612.0	\$33,082.4	\$30,867.8	\$32,938.2	\$1,264.4	1.6%

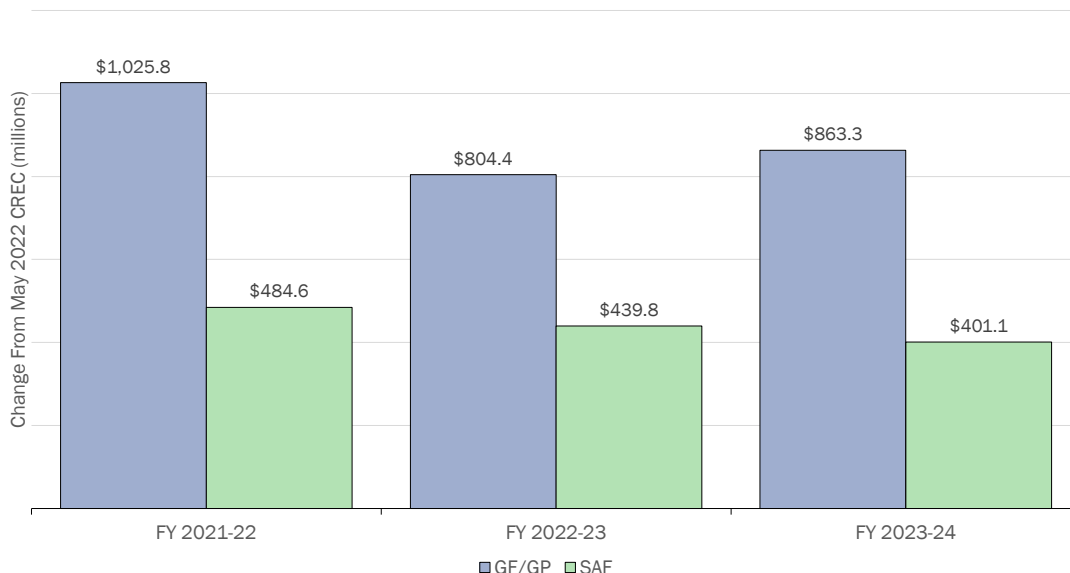
Table 3

FY 2024-25 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
January 13, 2023 Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2024-25 Initial Revenue Estimates					FY 2024-25 Initial Consensus Est. 1/13/23	\$ Change from FY 2023-24 Consensus	% Change from FY 2023-24
	FY 2023-24 Revised Consensus Est. 1/13/23	Treasury Department	House Fiscal Agency	Senate Fiscal Agency				
Net GF/GP Revenue	\$15,092.2	\$15,536.0	\$15,540.9	\$14,759.9	\$15,545.5	\$453.3	3.0%	
Net SAF Revenue	\$17,846.0	\$18,541.2	\$18,385.7	\$17,375.8	\$18,257.6	\$411.6	2.3%	
Net GF/GP & SAF Revenue	\$32,938.2	\$34,077.2	\$33,926.6	\$32,135.7	\$33,803.1	\$864.9	2.6%	

Figure 1

Change in Consensus Revenue Estimates

January 2023 Estimates Compared to May 2022 Estimates



Source: January 13, 2023 Consensus Revenue Estimates

Revenue Limit

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. The limit equals 9.49% of total Michigan personal income for the calendar year before the calendar year in which the fiscal year begins. As a result, FY 2021-22 revenue may not exceed 9.49% of calendar year 2020 personal income. State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments (e.g., Social Security income and Medicaid benefits). It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the US Department of Commerce's Bureau of Economic Analysis. 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.

The January 2023 CREC estimates that total State revenue will remain well below the revenue limit throughout the forecast. As shown in Table 4, the amount by which revenue is below the limit will increase from \$7.1 billion in FY 2021-22 to \$12.0 billion in FY 2024-25, reaching 21.2% of the revenue limit.

Budget Stabilization Fund

Public Act 613 of 2018 made changes to the formulas that calculate withdrawals and deposits into the Budget Stabilization Fund. Based on the consensus economic forecast, the new formula would not trigger an allowable withdrawal from the Budget Stabilization Fund over the forecast, nor would the formula trigger a suggested pay-in in any fiscal year, as shown in Table 4. The current FY 2022-23 budget provides only for a deposit into the Fund of \$17.5 million, which represents the \$17.5 million of tobacco settlement revenue deposited into the Fund to repay the withdrawal associated with the Detroit bankruptcy. Formula-triggered transfers do not occur automatically, but must be appropriated by the Legislature.

Table 4

CONSENSUS CALCULATIONS				
For Budget Stabilization Fund Transfers and Constitutional Revenue Limit				
January 13, 2023, Consensus Revenue Estimating Conference				
(millions of dollars)				
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Revenue Limit				
Personal Income	\$530,809.0	\$567,807.0	\$568,375.0	\$596,225.0
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$50,373.8	\$53,884.9	\$53,938.8	\$56,581.8
Revenue Subject to the Limit	\$43,267.5	\$42,884.4	\$43,573.0	\$44,614.0
Amount Under (Over) Limit	\$7,106.3	\$11,000.5	\$10,365.8	\$11,967.8
Percent	14.1%	20.4%	19.2%	21.2%
Calculated BSF Transfers		FY 2022-23	FY 2023-24	FY 2024-25
Pay-in		\$0.0	\$0.0	\$0.0
Pay-out		\$0.0	\$0.0	NA

School Aid Foundation Allowance Index

The pupil estimates presented at the January 2023 CREC for the current year, FY 2022-23, show an increase in the total number of pupils from those estimated at the May 2022 CREC. The FY 2022-23 pupil memberships are now estimated at 1,399,800, which is 900 pupil memberships higher than the May 2022 consensus estimate. Compared with the previous year, FY 2021-22, the number of pupils (attending both traditional districts and public school academies) is estimated to have declined 5,283.

The increase of 900 memberships above the May 2022 estimate will result in additional State costs; however, the total foundation allowance cost will be reduced by \$33.0 million because gains in the taxable value of property will more than offset the increased pupil cost. Other cost adjustments totaling \$111.5 million are included in the CREC balance sheets for a total State cost increase of \$78.5 million compared to enacted appropriations.

Pupil estimates for FY 2023-24 also were updated at the January 2023 conference. The pupil estimate of 1,393,800 memberships presented for FY 2023-24 represents an increase of 1,800 pupils above the May 2022 estimate, and a decline of 0.4%, or 6,000 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; however, this will be somewhat offset by pupils returning to public schools from the pandemic. These year-to-year overall declines in pupil memberships, while costing the State fewer dollars, mean (at a minimum) \$9,150 (which is the amount of the target foundation allowance) less for each pupil at the local school level.

Pupil estimates for FY 2024-25 also were presented (for the first time) at the January 2023 CREC. The initial estimates for planning purposes show another drop of 5,200 pupil memberships compared to the revised estimate for FY 2024-24. Strict declines in population would indicate a steeper drop than 5,200, but the estimate reflects the potential for more pupils to return to a more or less 'normal' enrollment pattern by FY 2024-25.

The School Aid Act currently requires the CREC 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 Act, 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 2023-24 is 1.0043 and the revenue adjustment factor is 1.0067. Multiplying these two factors together yields 1.0110 as the FY 2023-24 index. Using the consensus estimates for pupils and revenue, the pupil membership adjustment factor for FY 2024-25 is 1.0037 and the revenue adjustment factor is 1.0182. Multiplying these two factors together yields 1.0220 as the FY 2024-25 index.

/lms

c: Kathryn Summers, Director