

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: May 21, 2021

TO: Members of the Michigan Senate

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

RE: Consensus Revenue Estimates for Fiscal Year (FY) 2020-21, FY 2021-22, and FY 2022-23, School Aid Foundation Allowance Index Estimate for FY 2021-22, and Pupil Estimates for FY 2020-21, FY 2021-22, and FY 2022-23

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference (CREC) on May 21, 2021, and unanimously adopted revised revenue estimates for FY 2020-21, FY 2021-22, and FY 2022-23, and revised estimates of the School Aid Foundation Allowance Index for FY 2021-22. 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

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2020-21 is \$11,276.8 million, a 4.7%, or \$501.2 million, increase from the FY 2019-20 level. In comparison, GF/GP revenue increased 8.1% in FY 2017-18 and 0.9% in FY 2018-19, but fell 3.1% in FY 2019-20. The change in FY 2021-21 GF/GP revenue primarily reflects the impact of the COVID-19 pandemic, both in terms of the pandemic's effect on economic activity as well as the impact of special tax and spending provisions adopted to stimulate the economy and address liquidity concerns associated with the pandemic. To a lesser extent, the decline in revenue also reflects other Federal tax changes, earmarks of income tax revenue to the Michigan Transportation Fund and the Renew Michigan Fund, and increases in the use tax earmark to the Local Community Stabilization Authority as part of personal property tax reform. The revised FY 2020-21 GF/GP revenue estimate is \$1.0 billion above the January 2021 consensus revenue estimate. In FY 2021-22, GF/GP revenue will total an estimated \$11,673.1 million, an increase of 3.5%, or \$396.3 million, from the revised estimate for FY 2020-21, and \$776.0 million above the January 2021 consensus revenue estimate. The increase in FY 2021-22 GF/GP revenue primarily reflects the acceleration of economic growth in the wake of the COVID-19 pandemic more than offsetting increased earmarks of use tax revenue and the loss of most Federal COVID-19-related stimulus measures. The estimated growth in GF/GP revenue would not be sufficient to trigger a rollback of the individual income tax rate in tax year 2023 under provisions adopted as part of Public Act 180 of 2015. As the economy continues to expand, FY 2022-23 GF/GP revenue will increase to \$12,270.7 million, an increase of 5.1%, or \$597.6 million, from the revised estimate for FY 2021-22. The growth in FY 2021-22 GF/GP revenue primarily reflects continued economic growth in the wake of the COVID-19 pandemic more than offsetting tax policy changes. The revised GF/GP estimate for FY 2022-23 is \$1.1 billion above the January 2021 consensus revenue estimate and the forecasted growth would be sufficient to trigger a small decrease in the individual income tax rate for tax year 2024.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$15,032.4 million in FY 2020-21, an increase of 7.4%, or \$1.0 billion, from the FY 2019-20 level. The increase in FY 2020-21 SAF revenue also reflects impacts associated with the COVID-19 pandemic, particularly a shift from purchases of services (which generally are not subject to sales and use taxes) to goods purchases (which are subject to sales tax, and

approximately 73% of sales tax revenue is directed to the School Aid Fund), and higher spending from stimulus payments. The revised FY 2020-21 SAF estimate is \$1.0 billion above the January 2021 consensus revenue estimate. In FY 2021-22, SAF revenue will total an estimated \$15,131.0 million, a 0.7%, or \$98.6 million, increase from the revised estimate for FY 2020-21, and \$707.3 million above the January 2021 consensus revenue estimate. The FY 2021-22 SAF revenue estimate reflects growth in most major SAF revenue sources as the economy recovers from the COVID-19 pandemic, although sales and use tax revenue growth will be slowed as consumers return to purchasing more services and from the absence of any significant Federal stimulus impacts. Continued gains in employment and income result in a revised estimate of FY 2022-23 SAF revenue of \$15,427.6 million, an increase of 2.0%, or \$296.6 million, from the revised estimate for FY 2021-22. The revised FY 2022-23 SAF estimate is \$697.2 million above the January 2021 consensus estimate.

Table 1

FY 2020-21 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 21, 2021, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2020-21					FY 2020-21	\$ Change	% Change
	FY	Previous	Revised Revenue Estimates					
	2019-20	FY 2020-21	Treasury	House	Senate	Consensus	Jan. 2021	FY
	Final	Consensus	Department	Fiscal	Fiscal	Est. 5/21/21	Consensus	2019-20
		Est. Jan. 2021		Agency	Agency			
Net GF/GP Revenue	\$10,775.6	\$10,237.5	\$11,204.6	\$11,242.2	\$11,323.5	\$11,276.8	\$1,039.3	4.7%
Net SAF Revenue	\$13,990.4	\$14,030.2	\$14,895.3	\$15,078.4	\$15,140.6	\$15,032.4	\$1,002.2	7.4%
Net GF/GP & SAF Revenue	\$24,766.0	\$24,267.7	\$26,099.9	\$26,320.6	\$26,464.1	\$26,309.2	\$2,041.5	6.2%

Table 2

FY 2021-22 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT								
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)								
May 21, 2021, Consensus Revenue Estimating Conference								
(millions of dollars)								
	FY 2021-22					FY 2021-22	\$ Change	% Change
	FY 2020-21	Previous	Revised Revenue Estimates					
	Revised	FY 2021-22	Treasury	House	Senate	Consensus	Jan. 2021	FY
	Consensus	Consensus	Department	Fiscal	Fiscal	Est. 5/21/21	Consensus	2020-21
	Est. 5/21/21	Est. Jan. 2021		Agency	Agency			
Net GF/GP Revenue	\$11,276.8	\$10,897.1	\$11,639.8	\$11,755.8	\$11,571.4	\$11,673.1	\$776.0	3.5%
Net SAF Revenue	\$15,032.4	\$14,423.7	\$15,242.4	\$15,132.7	\$15,020.9	\$15,131.0	\$707.3	0.7%
Net GF/GP & SAF Revenue	\$26,309.2	\$25,320.8	\$26,882.2	\$26,888.5	\$26,592.3	\$26,804.1	\$1,483.3	1.9%

Table 3

FY 2022-23 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) May 21, 2021, Consensus Revenue Estimating Conference (millions of dollars)								
	FY 2021-22 Revised Consensus Est. 5/21/21	Previous FY 2022-23 Consensus Est. Jan. 2021	FY 2022-23 Initial Revenue Estimates			FY 2022-23 Revised Consensus Est. 5/21/21	\$ Change from Jan. 2021 Consensus	% Change from FY 2021-22
			Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$11,673.1	\$11,167.1	\$12,261.6	\$12,376.5	\$12,074.8	\$12,270.7	\$1,103.6	5.1%
Net SAF Revenue	\$15,131.0	\$14,730.4	\$15,577.6	\$15,419.6	\$15,291.7	\$15,427.6	\$697.2	2.0%
Net GF/GP & SAF Revenue	\$26,804.1	\$25,897.5	\$27,839.2	\$27,796.1	\$27,366.5	\$27,698.3	\$1,800.8	3.3%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$26,309.2 million in FY 2020-21, up 6.2%, or \$1.5 billion, from the FY 2019-20 level, and \$2.0 billion below the January 2021 consensus revenue estimate. In FY 2021-22, GF/GP and SAF revenue will total an estimated \$26,804.1 million, an increase of 1.9%, or \$494.9 million, from the revised estimate for FY 2020-21, and \$1.5 billion above the January 2021 consensus revenue estimate. Combined GF/GP and SAF revenue is predicted to total \$27,698.3 million in FY 2022-23, a 3.3%, or \$894.2 million, increase from the revised estimate for FY 2021-22 that is \$1.8 billion above the January 2021 consensus revenue estimate.

Revenue Limit

In FY 2018-19, revenue subject to the revenue limit was \$9.7 billion, or 22.1%, below the constitutional limit. In FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23, revenue is expected to continue to fall well below the revenue limit. While the official report has yet to be released, FY 2019-20 revenue suggests that, in FY 2019-20, revenue fell below the limit by approximately \$11.4 billion, or 24.9%. The May 2021 consensus estimate forecasts FY 2020-21 revenue will be \$10.5 billion, or 22.4%, below the limit; that FY 2021-22 revenue will be \$13.3 billion, or 26.5%, below the limit; and that in FY 2022-23 revenue will be \$13.5 billion, or 26.3%, below the limit. The substantial increases in the gap between the limit and expected revenue in FY 2019-20 and FY 2021-22 reflect revenue growth during the COVID-19 pandemic and in the pandemic's aftermath that is substantially less than the growth in personal income, while the reduced gap in FY 2020-21 reflects strong revenue growth in FY 2020-21 measured against the slow growth in income during 2019 that will be used to calculate 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 trigger no pay-in for FY 2021-22 but does calculate a pay-in of \$29.2 million in FY 2022-23. The estimates do not calculate a withdrawal in FY 2020-21, FY 2021-22 or FY 2022-23. In addition to the \$35.0 million already appropriated into the Budget Stabilization Fund for FY 2020-21, the Fund will receive 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 2021 CREC for the current year, FY 2020-21, show an increase of 400 pupils from those reported at the January 2021 CREC. The FY 2020-21 pupil memberships (weighted 75.0% on the 'traditional' 90/10 blend plus 25.0% on the FY 2019-20 blend) are 1,449,500, of which 1,301,200 are in traditional local districts and 148,300 are in public school academies.

Updated pupil estimates for the upcoming fiscal years also were presented at the May 2021 conference. The pupil estimate of 1,433,500 memberships presented for FY 2021-22 represents a decline of 1.1%, or 16,000 pupils, from the 'superblend' in place for the current fiscal year, and a decline of 1,000 pupils below the estimate presented in January for FY 2021-22. For the following year, FY 2022-23, the estimate for pupil memberships decreases by 2,500 below the January estimate, for a total of 1,423,500, which represents a decrease of 10,000 from the estimate for FY 2021-22. These year-to-year changes in pupil memberships equate to a minimum school district loss of \$8,111 per pupil.

The School Aid Act currently requires the CREC to calculate a foundation allowance index to assist the Legislature in determining the 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 2021-22 is 1.0112 and the revenue adjustment factor is 1.0354. Multiplying these two factors yields 1.0470 as the foundation allowance index. This would mean that the recommended foundation allowance for the upcoming year would increase by 0.047 applied to the minimum foundation allowance (currently \$8,111), for an increase of \$381. The new minimum foundation allowance is calculated to be \$8,492 under these calculations.

/lms

c: Christopher Harkins, Director