

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: August 24, 2020

TO: Members of the Michigan Senate

FROM: David Zin, Chief Economist
 Steve Angelotti, Associate Director

RE: Consensus Revenue Estimates for Fiscal Year (FY) 2019-20, FY 2020-21 and FY 2021-22, Caseloads and Expenditure Estimates for Department of Health and Human Services for FY 2019-20, FY 2020-21 and FY 2021-22

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference (CREC) on August 24, 2020, and unanimously adopted revised revenue estimates for FY 2019-20, FY 2020-21, and FY 2021-22, as well as revised estimates of the School Aid Foundation Allowance Index for FY 2020-21 and FY 2021-22 and expenditures estimates for the Department of Health and Human Services (DHHS). 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 DHHS estimates also are discussed below.

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2019-20 is \$10,296.8 million, a 7.4%, or \$819.1 billion, decrease from the FY 2018-19 level. In comparison, GF/GP revenue increased 8.1% in FY 2017-18 and 0.9% in FY 2018-19. The change in FY 2019-20 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 provisions and Federal 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 2019-20 GF/GP revenue estimate is \$1.3 billion above the May 2020 consensus revenue estimate but remains \$715.3 million below the January 2020 estimate.

In FY 2020-21, GF/GP revenue will total an estimated \$9,536.7 million, a decrease of 7.4%, or \$760.1 million, from the revised estimate for FY 2019-20. While the revised FY 2020-21 GF/GP estimate is \$257.5 million above the May 2020 consensus revenue estimate, it is \$1.7 billion less than the January 2020 consensus estimate. The decrease in FY 2020-21 GF/GP revenue primarily reflects the acceleration of economic growth in the wake of the COVID-19 pandemic being more than offset by the loss of Federal stimulus measures (and their associated revenue impact) as well as increased earmarks of individual income tax and use tax revenue and tax policy changes that increased the personal exemption under the individual income tax. As the economy continues to expand, FY 2021-22 GF/GP revenue will increase to \$10,392.5 million, an increase of 9.0%, or \$855.8 million, from the revised estimate for FY 2020-21. While the revised FY 2021-22 GF/GP revenue estimate is \$242.8 million above the May 2020 consensus revenue estimate, it is \$1.1 billion below the January 2020 consensus revenue estimate. Furthermore, the growth in GF/GP revenue will be sufficient to trigger a rollback of the individual income tax rate in FY 2022-23 under provisions adopted as part of Public Act 180 of 2015. 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.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$13,714.4 million in FY 2019-20, an increase of 1.2%, or \$162.0 million, from the FY 2018-19 level. The increase in FY 2019-20 SAF revenue also

reflects impacts associated with the COVID-19 pandemic. The revised FY 2019-20 SAF estimate is \$1.0 billion above the May 2020 consensus revenue estimate but \$211.1 million below the January 2020 estimate. In FY 2020-21, SAF revenue will total an estimated \$13,501.9 million, a 1.5% decrease that is \$212.5 million below the revised estimate for FY 2019-20. The revised FY 2020-21 estimate is \$321.5 million above the May 2020 consensus revenue estimate, but \$815.6 million below the January 2020 estimate. The FY 2020-21 SAF revenue estimate reflects growth in the economy as it begins to recover from the COVID-19 pandemic being more than offset by the loss of Federal stimulus measures. Continued gains in employment and income result in a revised estimate of FY 2021-22 SAF revenue of \$14,053.5 million, a 4.1% increase that is \$551.6 million above the revised estimate for FY 2020-21. The revised FY 2021-22 SAF estimate is \$133.1 million above the May 2020 consensus revenue estimate but \$586.6 million below the January 2020 consensus estimate.

Table 1

| FY 2019-20 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) August 24, 2020, Consensus Revenue Estimating Conference (millions of dollars) | | | | | |
|--|------------------------|--|--|---|--------------------------------|
| | FY 2018-19 Final | Previous FY 2019-20 Consensus Est. May 15, 2020 | FY 2019-20 Revised Consensus Est. 8/24/20 | \$ Change from May 15, 2020 Consensus | % Change from FY 2018-19 |
| Net GF/GP Revenue | \$11,115.9 | \$9,028.2 | \$10,296.8 | \$1,268.6 | (7.4%) |
| Net SAF Revenue | \$13,552.4 | \$12,676.7 | \$13,714.4 | \$1,037.7 | 1.2% |
| Net GF/GP & SAF Revenue | \$24,668.3 | \$21,704.9 | \$24,011.2 | \$2,306.3 | (2.7%) |

Table 2

| FY 2020-21 REVENUE ESTIMATE COMPARISON AND CONSENSUS ESTIMATE General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) August 24, 2020, Consensus Revenue Estimating Conference (millions of dollars) | | | | | |
|---|--|--|--|---|--------------------------------|
| | FY 2019-20 Revised Consensus Est. 8/24/20 | Previous FY 2020-21 Consensus Est. May 15, 2020 | FY 2020-21 Revised Consensus Est. 8/24/20 | \$ Change from May 15, 2020 Consensus | % Change from FY 2019-20 |
| Net GF/GP Revenue | \$10,296.8 | \$9,279.2 | \$9,536.7 | \$257.5 | (7.4%) |
| Net SAF Revenue | \$13,714.4 | \$13,180.4 | \$13,501.9 | \$321.5 | (1.5%) |
| Net GF/GP & SAF Revenue | \$24,011.2 | \$22,459.6 | \$23,038.6 | \$579.0 | (4.1%) |

Table 3

| FY 2021-22 REVENUE ESTIMATE COMPARISON AND CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) August 24, 2020, Consensus Revenue Estimating Conference (millions of dollars) | | | | | |
|--|--|--|--|---|--------------------------------|
| | FY 2020-21 Revised Consensus Est. 8/24/20 | Previous FY 2021-22 Consensus Est. May 15, 2020 | FY 2021-22 Revised Consensus Est. 8/24/20 | \$ Change from May 15, 2020 Consensus | % Change from FY 2020-21 |
| Net GF/GP Revenue | \$9,536.7 | \$10,149.7 | \$10,392.5 | \$242.8 | 9.0% |
| Net SAF Revenue | \$13,501.9 | \$13,920.4 | \$14,053.5 | \$133.1 | 4.1% |
| Net GF/GP & SAF Revenue | \$23,038.6 | \$24,070.1 | \$24,446.0 | \$375.9 | 6.1% |

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$24,011.2 million in FY 2019-20, down 2.7%, or \$657.1 million, from the FY 2018-19 level. The estimate for combined GF/GP and SAF in FY 2019-20 is \$2.3 billion above the May 2020 consensus revenue estimate, but \$926.4 million below the January 2020 estimate. In FY 2020-21, GF/GP and SAF revenue will total an estimated \$23,038.6 million, a decrease of 4.1%, or \$972.6 million, from the revised estimate for FY 2019-20. The revised estimate for GF/GP and SAF revenue in FY 2020-21 is \$579.0 million above the May 2020 consensus revenue estimate but \$2.5 billion below the January 2020 estimate. Combined GF/GP and SAF revenue is predicted to total \$24,446.0 million in FY 2021-22, a 6.1% or \$1,407.4 million increase from the revised estimate for FY 2020-21 that is \$375.9 million above the May 2020 consensus revenue estimate but \$1.7 billion below the January 2020 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, and FY 2021-22, revenue is expected to continue to fall well below the revenue limit. The August 2020 consensus estimate forecasts FY 2019-20 revenue will be \$12.2 billion, or 26.5%, below the limit, that FY 2020-21 revenue will be \$14.6 billion, or 30.6%, below the limit, and that in FY 2021-22 revenue will be \$14.0 billion, or 28.7%, below the limit. The substantial increases in the gap between the limit and expected revenue in FY 2019-20 and FY 2020-21 reflect revenue growth in the aftermath of the COVID-19 pandemic that is substantially less than the growth in personal income, while the reduced gap in FY 2021-22 reflects improved revenue growth in FY 2021-22 measured against income declines in 2020 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-ins in FY 2019-20 or FY 2020-21. The estimates do calculate a pay-in of \$133.5 million in FY 2021-22. The estimates calculate a withdrawal of \$287.2 million in FY 2019-20, but no withdrawals in subsequent years. Public Act 146 of 2020 appropriated \$350.0 million of revenue from the Budget Stabilization Fund in FY 2019-20, to be deposited into the School Aid Fund. During FY 2019-20, the Fund will also 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 August 2020 CREC did not revise the pupil estimates presented at the May 2020 CREC. However, because the August 2020 CREC estimates for School Aid Fund revenue have changed, the new estimates will affect the foundation allowance index the School Aid Act currently requires the CREC to calculate to assist the Legislature in determining the foundation allowance for subsequent State fiscal years. 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 2020-21 is 1.0055 (unchanged from May 2020) and the revenue adjustment factor is 0.9880. Multiplying these two factors yields 0.9934 as the foundation allowance index. This would mean that the recommended foundation allowance for the upcoming year would decline by 0.0066 applied to the minimum foundation allowance (currently \$8,111), for a reduction of \$54. The new minimum foundation allowance would be calculated to be \$8,057 under these calculations.

Base and Caseloads Adjustments for the Department of Health and Human Services

In May, the State Budget Office and the fiscal agencies agreed to base and caseload adjustments for the DHHS. These adjustments included a \$190.1 million GF/GP increase for FY 2019-20, a \$569.4 million GF/GP increase for FY 2020-21, and a \$301.7 million GF/GP increase for FY 2021-22 over the original projected funding need. The FY 2019-20 base/caseload increase in May was more than offset by projected GF/GP savings from the 6.2% increase in the Federal Medicaid match rate for each quarter of the Federal public health emergency. The largest factor in the cost increases was projected increases in the Medicaid and Family Independence Program (FIP) caseloads tied to the contraction of the economy and the increase in unemployment. For FY 2020-21, the projection was for a 310,000 increase in the traditional Medicaid caseload (to well over 2.0 million) and a 185,000 increase in the Healthy Michigan Plan caseload (to over 840,000). The FIP caseload was projected to increase from 14,300 to 28,000.

The State Budget Office and the fiscal agencies met again last week to re-examine the DHHS base and caseload funding need. While the caseloads and costs still would be up compared to the pre-COVID projections, the increases would be far less. The FY 2019-20 cost estimate was reduced by \$73.6 million GF/GP from the May estimate, the FY 2020-21 cost estimate was reduced by \$216.1 million GF/GP compared to May, and the FY 2021-22 cost estimate was reduced by \$113.1 million GF/GP compared to May. In each case, the base and caseload spending still would be greater than what was projected in February (a \$116.5 million GF/GP increase for FY 2019-20, \$347.8 million GF/GP for FY 2020-21, and \$188.6 million GF/GP for FY 2021-22). Furthermore, the increase in the Medicaid match rate is expected to extend until at least December 31, 2020, which will lead to an additional \$239.7 million GF/GP savings in FY 2020-21. The Medicaid and FIP caseload estimates also were revised, with the traditional Medicaid caseload for FY 2020-21 now projected at 1.9 million, the Healthy Michigan Plan caseload for FY 2020-21 projected at just over 850,000, and the FIP caseload at 24,000.

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c: Christopher Harkins, Director