

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 14, 2011
TO: Members of the Senate
FROM: David Zin, Chief Economist
 Kathryn Summers, Associate Director
RE: Consensus Revenue Estimates for FY 2010-11 and FY 2011-12 and School Aid Foundation Allowance Index Estimate for FY 2011-12

The Senate Fiscal Agency, House Fiscal Agency, and the Treasury Department held a Consensus Revenue Estimating Conference, January 14, 2011, and unanimously adopted revised revenue estimates for FY 2010-11, initial estimates for FY 2011-12, and an estimate of the School Aid Foundation Allowance Index for FY 2011-12. 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 2010-11 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT
 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
 January 14, 2011, Consensus Revenue Estimating Conference
 (Millions of Dollars)**

			FY 2010-11 Revised Revenue Estimates			FY 2010-11 Revised Consensus Est. 1/14/11	\$ Change from May 2010 Consensus	% Change from FY 2009-10
	FY 2009-10 Preliminary Final	Previous FY 2010-11 Consensus Est. May 2010	Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
	Net GF/GP Revenue	\$6,785.2	\$7,096.7	\$7,226.0	\$7,313.1			
Net SAF Revenue	\$10,816.9	\$10,832.9	\$10,917.8	\$11,048.6	\$10,944.2	\$10,979.1	\$146.2	1.5%
Net GF/GP & SAF Revenue	\$17,602.1	\$17,929.6	\$18,143.8	\$18,361.7	\$18,007.2	\$18,206.9	\$277.3	3.4%

General Fund/General Purpose

The revised consensus estimate for GF/GP revenue from ongoing revenue sources for FY 2010-11 is \$7,227.8 million, which is up 6.6% or \$442.6 million from the preliminary FY 2009-10 final level. The increase in GF/GP revenue reflects a change from the decline of 21.3% during FY 2008-09 and 7.9% in FY 2009-10. The increase in GF/GP revenue reflects an improving level of economic activity, with many of the sectors that exhibited significant declines in recent years showing some stability rather than offsetting growth in other sectors. Compared with the May 2010 consensus revenue estimate, this revised estimate is up \$131.2 million. In FY 2011-12, GF/GP revenue will total an estimated \$7,294.1 million, which is up 0.9% or \$66.3 million from the revised estimate for FY 2010-11. This small increase is attributable to negative impacts of new or expanded tax credits combining with a reduction in the individual income tax rate to offset a significant improvement in revenue resulting from a stronger economy.

School Aid Fund

School Aid Fund earmarked tax and lottery revenue will total an estimated \$10,979.1 million in FY 2010-11, which is up 1.5% or \$162.2 million from the preliminary final revenue level for FY 2009-10. Compared with the May 2010 consensus revenue estimate, this revised estimate is up \$146.2 million. In FY 2011-12, SAF revenue will total an estimated \$11,193.7 million, which is up 2.0% or \$214.6 million from the revised estimate for FY 2010-11.

Table 2

FY 2011-12 REVENUE ESTIMATE COMPARISON & CONSENSUS AGREEMENT General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 14, 2011, Consensus Revenue Estimating Conference (Millions of Dollars)							
	FY 2010-11 Revised Cons. Est. 1/14/11	FY 2011-12 Revised Revenue Estimates			FY 2011-12 Initial Consensus Est. 1/14/11	\$ Change from FY 2010-11	% Change from FY 2010-11
		Treasury Department	House Fiscal Agency	Senate Fiscal Agency			
Net GF/GP Revenue	\$7,227.8	\$7,364.2	\$7,304.9	\$7,030.2	\$7,294.1	\$66.3	0.9%
Net SAF Revenue.....	\$10,979.1	\$11,154.3	\$11,254.5	\$11,137.5	\$11,193.7	\$214.6	2.0%
Net GF/GP & SAF Revenue.....	\$18,206.9	\$18,518.5	\$18,559.4	\$18,167.7	\$18,487.8	\$280.9	1.5%

Total General Fund/General Purpose and School Aid Fund Revenue

Total GF/GP and SAF revenue will total an estimated \$18,206.9 million in FY 2010-11, up 3.4% or \$604.8 million from the preliminary final revenue level for FY 2009-10, and is up \$277.3 million from the May 2010 consensus revenue estimate. For FY 2011-12, GF/GP and SAF revenue will total an estimated \$18,487.8 million, an increase of 1.5% or \$280.8 million from the revised estimate for FY 2010-11.

Revenue Limit

In FY 2009-10, revenue subject to the revenue limit was \$8.9 billion or 26.9% below the constitutional limit. In both FY 2010-11 and FY 2011-12, revenue is expected to continue to fall well below the revenue limit. In FY 2010-11, revenue will fall short of the revenue limit by an estimated \$7.1 billion or 22.1%, and in FY 2011-12, revenue subject to the limit will fall below the limit by an estimated \$7.7 billion or 23.2%. The overwhelming majority of the reduction in the gap between the limit and expected revenue in FY 2010-11 and FY 2011-12 compared with FY 2009-10 does not reflect higher revenue but lower personal income in 2009 and 2010, which is used in the calculation for the FY 2010-11 and FY 2011-12 limit, respectively.

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 suggested contribution to the Budget Stabilization Fund equal to \$7.2 million in FY 2010-11 and no pay-in or withdrawal in FY 2011-12. These 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 January 2011 Consensus Revenue Estimating Conference for the current year, FY 2010-11, show a decrease in the total number of pupils from those estimated at the May 2010 Revenue Estimating Conference. The FY 2010-11 pupil memberships (weighted 75.0% on the September 2010 count plus 25.0% on the prior February 2010 count) are now estimated at 1,569,500, which are 8,200 pupil memberships lower than the May 2010 consensus estimate, representing an error rate on the total blend of 0.5%. Compared with the previous year FY 2009-10, pupils declined more than 26,000. The error in overestimating by 8,200 memberships was split nearly evenly between local districts and charter schools, and will result in a State savings of roughly \$60.0 million. The figures used for the current year have not yet been audited, which means some fluctuations will be seen in the current-year blend when pupils are again estimated in May 2011.

Pupil estimates for the upcoming fiscal year also were presented at the January 2011 Conference. The pupil estimate of 1,548,800 memberships presented for FY 2011-12 represents a decline of 1.3%, or 20,700 pupils, from the current fiscal year. It is believed that the primary reason for the estimated drop in pupil memberships from one year to the next is declining birth rates, accounting for roughly 60.0% of the decline, and the remaining decline is from "unknown" factors such as net out-migration of students with families and the possibility of choosing other methods of education than the public school system. These year-to-year declines in pupil memberships, while costing the State fewer dollars, mean, at a minimum, \$7,146 fewer for each pupil lost at the local school level.

The School Aid Act currently requires that the next year's minimum foundation allowance be at least an amount equal to the prior year's minimum, multiplied by the foundation allowance index determined at the revenue estimating conference, unless an exception is written into the Act to waive this requirement for a given 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 is 1.0134 and the revenue adjustment factor is 1.0163. Multiplying these two factors together yields 1.0299 as the FY 2011-12 foundation allowance index. This would mean that under current law calculations, the FY 2011-12 minimum foundation allowance required should increase by 2.99% of \$7,316, or \$219. The new minimum foundation allowance would have to be at least \$7,535, as required under statute.

/kjh

c: Ellen Jeffries, Director