



SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

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CAUCUS INFORMATION ALERT

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Re: Consensus Revenue Estimating Conference

The 2021-22 budget process began this morning as representatives of the House and Senate Fiscal Agencies and the Michigan Department of Treasury met to arrive at “official” revenue estimates as part of their semi-annual Consensus Revenue Estimating Conference (CREC). This meeting helps set the stage for the development of next year’s state budget by providing a snapshot of how revenue in the major state funds is doing to this point in the fiscal year and provides projections for upcoming years. Governor Whitmer’s Executive Budget Recommendation for 2021-22 is expected sometime in the next few weeks and will be based on these figures.

Today’s conference included a look at economic projections in Michigan and beyond. Given the current situation in which we find ourselves – with numerous uncertainties related to COVID-19 and the current transition of power at the federal government level – today’s projections were highly variable. Will President-elect Biden’s latest economic stimulus proposal be enacted? What will Michigan’s employment picture look in the near term? What long-term economic changes will we see as the world adjusts to a “new normal” after experiencing COVID?

Forecasts on the performance of the economy itself made at the last two CREC’s (in May and August, incorporating COVID-19 impacts) were more or less on target. However, revenues for the last few months came in significantly better than projected, making for a very positive conference! There has been a significant shift in consumer spending over the period of the pandemic from services to goods, a shift that has been very helpful for the state’s sales tax. If spending were to return to a higher percentage on services as we emerge from the pandemic, this impact on taxes would potentially reverse (due to the Michigan’s relatively small set of taxes on services). As one example of this trend, average online spending for families jumped from \$110 per month pre-pandemic to \$440 per month at present. Will this spending return to more traditional patterns as we recover, or will we see a permanent decline in spending on things like concerts and movie theater tickets?

Looking forward, the State Education Tax (based on property values) may also be impacted by potentially weaker growth in values in the retail and business/office space sector. But in general, a lengthy, slow recovery is expected with economic performance finally getting back to pre-pandemic levels about a year from now (absent significant future waves of COVID). Vehicle manufacturing is more or less back to pre-pandemic levels, as are light vehicle sales. However, fleet sales continue to struggle based on the impact of COVID on travel, and therefore on the rental car sector.

As discussion turned to specific revenue forecasts, each of the three entities participating in the conference (House Fiscal, Senate Fiscal, and Treasury) had significantly different views on how Michigan's economy will perform over the next couple of years. Estimates on revenues, especially on the General Fund (GF/GP) side, varied by as much as 10% – a number quite a bit higher than what is typically seen. It is also important to note that all of the projections utilized today were based on current law, and do not incorporate any potential federal stimulus. So, these are projections, and projections only. The actual numbers could be much different as we move forward.

With all of that as background, here are the numbers agreed upon by the parties today...

To begin with, final FY 2020 revenue estimation (for the state's fiscal year that ended as of September 30, 2020) came in much better than was projected in August, ending some \$762 million higher. About \$474 million of that increase was in the state's General Fund (GF/GP), with the School Aid Fund (SAF) seeing an increase about \$288 million above the previous forecast. These are very helpful numbers to the state's balance sheet! In fact, overall revenues last year (combining GF/GP and SAF) actually grew by \$104.8 million (0.4%) over the previous year, despite the pandemic! (GF/GP declined by \$345.2 million, while the SAF grew by \$450 million.)

This change from what was projected is probably due in large part to the impact of federal stimulus in propping up the economy. It is also important to note that because the final state budgets enacted in September included significant cuts to balance things as revenues had been anticipated to be, the higher numbers approved today should result in balance sheets for both the GF/GP and SAF that are much healthier than had originally been expected. We expect to receive updated balance sheet overviews from the fiscal agencies very soon.

Looking ahead, the state's School Aid Fund (SAF) is being projected to grow by 0.2% in 2021, 2.8% in 2022, and 2.1% in 2023. In real dollar terms, SAF revenue is being projected to grow by \$27.8 million in the current year, and \$393.5 million in 2023. What is even more important from a budgeting standpoint though is that the current projection is up by almost \$900 million for those two years from the estimate made at the last CREC in August. This is even more great news as next year's budget is developed!

On the General Fund (GF/GP) side, revenues are projected to decrease at a rate of -4.9% in 2021; however, this decrease is also seen as far less than was forecast in August, meaning that there is approximately \$700 million more in GF/GP revenue than was expected when the budget was passed! Looking out for the next two years, GF/GP growth is being projected to rebound significantly at a rate of 6.4% in 2022 and 2.5% in 2023.

When the numbers for the SAF and GF/GP are combined for the current budget year (2021), total revenue was revised upward by more than \$1.2 billion from the numbers established in August and used for this year's budget. More good news for the balance sheet!

Another major factor as we look to next year's budget is the number of pupils among whom the pot of money will be divided. This is another area in which COVID has created much uncertainty. Overall pupil count projections in Michigan continue to decline both this year and for the next two years. There was an especially large drop this year (of some 40,000 students beyond previous projections), with kindergarten numbers down statewide by about 11%. How will those students re-enter the public system (if they do at all)?

From a budgeting standpoint, actual pupil membership counts are based on a blend, and the “superblend” enacted this year (using 75% of the previous year’s pupil count when calculating this year’s count) helped tremendously to smooth out district revenues. With the significantly lower pupil numbers actually in schools this year, next year’s count (and resulting dollars) will also be impacted even if students come back to public schools. However, keep in mind that lower pupil count numbers mean more dollars available for distribution when calculated on a per pupil basis.

So, much of today’s news was positive, and yet it is still very important to point out that this is only January! Things can change markedly between now and the next CREC in May upon which next year’s budget will be based. And as noted above, these are only projections. Nevertheless, there certainly appears to be money available for an increase in school funding as we head to 2021-22. The question will be how large that increase could be – a question impossible to answer at this time.

We will take a deeper dive into these issues next Wednesday when Beth Bullion and Alex Holmden from the State Budget Office join us for a special Zoom session. That session will begin at 1:00 p.m. on Wednesday, January 20. You can join by clicking the link below:

<https://zoom.us/j/93355248784?pwd=eFV3Y2JVMHNhM3UyS2VGNgUwclcrQT09>

This information will also be sent out as a reminder next week.

In the meantime, if you have questions on any of the above, please do not hesitate to ask!



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