SCHOOL EQUITY CAUCUS

Making a difference for the public school children of Michigan

423 W. Ionia Street • Lansing, Michigan 48933
517.482.5110 • fax 517.482.5023
www.schoolequitycaucus.org • caucus@att.net

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Dear Colleague:

Re: January Revenue Conference Predicts Revenue Slowdown

State Revenue Estimating Conferences are held each May and January. The conferences are a significant part of the budget process, during which national and state economic indicators are used to formulate an accurate prediction of revenue available for appropriation.

I attended the January conference this morning. Economists from several outside organizations and Senate Fiscal, House Fiscal, and Treasury Department officials all testified with charts, graphs, data and analyses on the economic situation in the U.S. and, specifically, in Michigan. The forecasts from all presenters were relatively similar with the Senate Fiscal Agency again being the least optimistic.

The consensus indicates that while the national and state economy continues its slow rebound from the "Great Recession", state revenues will increase much slower than anticipated in the May 2012 consensus, due mostly to tax policy changes enacted since May.

Some data coming from the conference follows:

- In **2013-14** there are expected to be **1,532,000** Michigan public school students with **1,384,000** in local districts and **148,000** in public academies – a total of **5,400** fewer students than in the current year. **2014-15** is expected to see a further student population decline of about **6000.**

- General Fund Estimate: (2013) **$8,792,200,000** (down $177.7M from May estimate)
  (2014) **$9,264,400,000** (down $5.4M from May estimate)

- School Aid Estimate: (2013) **$11,127,700,000** (down $41.7M from May estimate)
  (2014) **$11,432,500,000** (down $38.9M from May estimate)

- The FY2014 School Aid Index computation from the School Aid bill language is **<u>1.0284</u>**

The state should continue sustained, but very slow (about 1% per year) economic growth through 2015. The recovery rate remains well below what would be a typical recessionary recovery. The General Fund and School Aid Funds will see significantly less revenue than was anticipated during the May 2012 Revenue Estimating Conference.

At the current rate of recovery, it could still take the rest of the decade, and perhaps beyond, to fully recover the losses the state experienced in the *Great Recession* of 2009.

Issues that could affect the continuing recovery include the European debt crisis, U.S. fiscal policy, how Congress will address the debt ceiling, taxation, and entitlement programs, the slowing Chinese economy, the looming Japanese debt crisis, and consumer confidence.

The country and state still have a long way to go but are making positive strides. Michigan has gone from the economic bottom in 2009 to about middle today. In a recent analysis of state-by-state private sector employment competitive components (considered a key indicator), using data from 2011, Michigan ranks second in employment competitiveness; North Dakota is first.

While SAF revenues appear certain to be less than anticipated, it is still too early to predict a Foundation cut for 2013-14 (one analyst has already predicted a $150 per pupil cut). It is not too early, however, to begin conversations with your legislators about the revenue shortfalls caused mostly by tax policy changes and shifts that have unnecessarily lessened SAF revenues.

We will have more on the Revenue Estimating Conference, the consequences of its projections, and the upcoming General and School Aid Fund budgets during the General Membership Meeting, January 23rd in Kalamazoo and in the next *Caucus Newsletter*.

Sincerely,

Jerry

Gerald A. Peregord
Executive Director