
MEMORANDUM



DATE: January 11, 2008

TO: Members of the Michigan House of Representatives

FROM: Mitchell E. Bean, Director

RE: Consensus Revenue Agreement—January 11, 2008

Pursuant to the Management and Budget Act Sections 367(a) through 367(f), the Consensus Revenue Estimating Conference establishes an official economic forecast of major variables of the national and state economies and establishes a forecast of anticipated state General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenues.

The conference principals at the January 2008 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Treasurer. The Director of the Senate Fiscal Agency is the 2008 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2008 conference. The consensus estimates will be revised or updated at the May 2008 conference.

Table 1: Consensus Economic Forecast

Provides estimates of various state and national economic variables. The forecast indicates that real gross domestic product (GDP) will grow by 1.8% in calendar year (CY) 2008 and by 2.6% in CY 2009. Michigan personal income is forecast to grow 1.3% in CY 2008 and by 2.8% in CY 2009.

Table 2: Consensus Estimates of GF/GP and SAF

Provides final estimates for FY 2006-07, revised estimates for FY 2007-08, and initial estimates for FY 2008-09 revenue. Net GF/GP and SAF revenue is estimated to increase \$1,128.9 million or 5.8% in FY 2007-08 and increase \$464.6 million or 2.3% in FY 2008-09.

Table 3: Consensus Estimate—Budget and Economic Stabilization Fund (BSF) Calculation

A \$175.7 million withdrawal is estimated for FY 2007-08, and a \$27.6 million withdrawal is estimated for FY 2008-09. Pay-ins and withdrawals from the BSF are based on growth in real adjusted personal income (Management and Budget Act, 1984 PA 431, Section 352).

Table 4: Consensus Estimate—Constitutional Revenue Limit Calculation

Reports calculations of the amounts that revenues exceed or do not exceed the constitutional state revenue limit established in Article IX, Section 26 of the Constitution of the State of Michigan. Total state revenue subject to the limit is estimated to be \$5.07 billion below the limit in FY 2007-08 and \$5.45 billion below the limit in FY 2008-09.

Table 5: Consensus Estimate—Comparison of Pupil Membership Estimates

Reports consensus estimates of pupil membership for FY 2007-08 and FY 2008-09 and notes changes from May 2007 estimates.

Table 6: Consensus Estimate—School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor

Reports calculations used to determine the FY 2008-09 revenue adjustment factor which is 1.0054, and the FY 2008-09 pupil membership adjustment factor, which is 1.0155. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0210 or 2.1%.

If you have any questions regarding this information, please do not hesitate to call.

attachments

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Table 1
Consensus Economic Forecast
January 2008

	<u>Calendar 2006 Actual</u>	<u>Calendar 2007 Actual</u>	<u>Change from Prior Year</u>	<u>Calendar 2008 Forecast</u>	<u>Change from Prior Year</u>	<u>Calendar 2009 Forecast</u>	<u>Change from Prior Year</u>
<u>United States</u>							
Real Gross Domestic Product (Billions of 2000 dollars)	\$11,319	\$11,568	2.2%	\$11,776	1.8%	\$12,082	2.6%
Implicit Price Deflator GDP (2000 = 100)	116.6	120.0	2.6%	122.6	2.2%	125.8	2.6%
Consumer Price Index (1982-84 = 100)	201.6	207.2	2.8%	213.0	2.8%	218.3	2.5%
Personal Consumption Deflator (2000 = 100)	114.7	117.5	2.5%	120.2	2.3%	122.6	2.0%
3-Month Treasury Bills Interest Rate (Percent)	4.7%	4.4%		3.5%		4.0%	
10-Year Treasury Bills Interest Rate (Percent)	4.8%	4.7%		4.4%		4.8%	
Aaa Corporate Bonds Interest Rate (Percent)	5.6%	5.6%		5.5%		5.8%	
Unemployment Rate—Civilian (Percent)	4.6%	4.6%		5.1%		5.3%	
Light Vehicle Sales (Millions of units)	16.5	16.1	-2.5%	15.7	-2.5%	16.0	1.9%
Passenger Car Sales (Millions of units)	7.8	7.5	-3.6%	7.4	-1.3%	7.5	1.4%
Light Truck Sales (Millions of units)	8.7	8.6	-1.4%	8.3	-3.5%	8.5	2.4%
Import Share of Light Vehicles (Percent)	22.4%	23.6%		24.3%		24.5%	
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	\$4,341	\$4,280	-1.4%	\$4,199	-1.9%	\$4,165	-0.8%
Unemployment Rate (Percent)	6.9%	7.2%		8.2%		8.7%	
Personal Income (Millions of current dollars)	\$341,075	\$352,672	3.4%	\$357,256	1.3%	\$367,260	2.8%
Real Personal Income (Millions of 1982-84 dollars)	\$173,487	\$175,896	1.4%	\$173,847	-1.2%	\$174,719	0.5%
Wages and Salaries (Millions of current dollars)	\$185,173	\$189,062	2.1%	\$187,739	-0.7%	\$190,367	1.4%
Detroit Consumer Price Index (1982-84 = 100)	196.6	200.5	2.0%	205.5	2.5%	210.2	2.3%
Detroit CPI (FY) (1982-84 = 100)	195.9	199.0	1.6%	204.2	2.6%	208.9	2.3%

NOTE: Percentages may not calculate exactly due to rounding.

House Fiscal Agency
January 11, 2008

Table 2
Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)
January 2008

	FY 2006-07	FY 2007-08			FY 2008-09		
	<u>Final</u>	<u>January 2008 Consensus</u>	<u>% Change from FY 07</u>	<u>\$\$ Change from FY 07</u>	<u>January 2008 Consensus</u>	<u>% Change from FY 08</u>	<u>\$\$ Change from FY 08</u>
General Fund/General Purpose							
Baseline	\$8,279.7	\$8,093.5	-2.3%	(\$186.2)	\$8,163.9	0.9%	\$70.4
Tax Adjustments	\$38.0	\$1,153.0	2,934.2%	\$1,115.0	\$1,029.8	-10.7%	(\$123.2)
Net GF-GP Revenue	\$8,317.7	\$9,246.5	11.2%	\$928.8	\$9,193.7	-0.6%	(\$52.8)
School Aid Fund Revenue							
Baseline	\$11,149.7	\$11,150.8	0.0%	\$1.1	\$11,277.6	1.1%	\$126.8
Tax Adjustments	\$3.4	\$202.4	5,852.9%	\$199.0	\$593.0	193.0%	\$390.6
Net SAF Revenue	\$11,153.1	\$11,353.1	1.8%	\$200.0	\$11,870.6	4.6%	\$517.5
Total GF-GP and SAF							
Baseline	\$19,429.4	\$19,244.3	-0.9%	(\$185.1)	\$19,441.5	1.0%	\$197.2
Tax Adjustments	\$41.4	\$1,355.4	3,173.9%	\$1,314.0	\$1,622.8	19.7%	\$267.4
Net GF-GP and SAF	\$19,470.8	\$20,599.7	5.8%	\$1,128.9	\$21,064.3	2.3%	\$464.6

House Fiscal Agency

Numbers may not calculate exactly due to rounding.

January 11, 2008

Table 3
Consensus Estimate for Budget and Economic Stabilization Fund Calculation
FY 2006-07, FY 2007-08, and FY 2008-09
(Millions of Dollars)
January 2008

	<u>CY 2007</u>	<u>CY 2008</u>	<u>CY 2009</u>
Michigan Personal Income	\$352,672 (1)	\$357,256 (1)	\$367,260 (1)
Less Transfer Payments	<u>\$58,276 (1)</u>	<u>\$61,656 (1)</u>	<u>\$65,540 (1)</u>
Income Net of Transfers	\$294,396	\$295,600	\$301,720
Detroit CPI for 12 months ending	1.984 (2) (June 2007)	2.032 (3) (June 2008)	2.080 (3) (June 2009)
Real Adjusted Michigan Personal Income	\$148,385	\$145,500	\$145,031
Change in Real Adjusted Personal Income		-1.9%	-0.3%
Amount Under 0%		-1.9%	-0.3%
GF/GP Revenue FY 2007-08		\$9,246.5	
BSF Payout Calculated for FY 2007-08		(175.7)	
GF/GP Revenue FY 2008-09			\$9,193.7
BSF Payout Calculated for FY 2008-09		(27.6)	

Notes:

1. Personal Income and Transfer Payments: Consensus Forecast, January 2008.
2. Detroit Consumer Price Index: Average of six monthly values reported by BLS for each 12-month period.
3. Detroit Consumer Price Index: Consensus Forecast, January 2008.
4. Calculation per MCL 18.1352.

NOTE: Numbers may not calculate exactly due to rounding.

House Fiscal Agency
January 11, 2008

Table 4
Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)
January 2008

	<u>FY 2004-05</u> <u>Actual</u>	<u>FY 2005-06</u> <u>Actual</u>	<u>FY 2006-07</u> <u>Consensus</u> <u>January 2008</u>	<u>FY 2007-08</u> <u>Consensus</u> <u>January 2008</u>	<u>FY 2008-09</u> <u>Consensus</u> <u>January 2008</u>
<u>Revenue Subject to Limit</u>					
Consensus					
General Fund General Purpose	\$8,273.2	8,245.9	\$8,298.9	\$9,226.5	\$9,173.7
General Fund Revenue Sharing	\$1,618.3	1,645.5	\$1,613.8	\$1,630.2	\$1,615.5
School Aid Fund	\$10,909.9	11,082.1	\$11,153.1	\$11,353.2	\$11,870.6
Transportation	\$2,215.9	2,174.5	\$2,096.3	\$2,108.0	\$2,124.0
Other Restricted Revenue	\$2,609.5	\$2,666.1	\$2,833.3	\$2,982.8	\$3,139.7
Total Revenue Subject to Limit	\$25,626.8	\$25,814.2	\$25,995.4	\$27,300.6	\$27,923.5
<u>Revenue Limit</u>	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007
Personal Income	\$314,460	\$324,134	\$331,304	\$341,075	\$351,648
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$29,842.3	\$30,760.3	\$31,440.8	\$32,368.0	\$33,371.4
1 Percent of Limit	\$298.4	\$307.6	\$314.4	\$323.7	\$333.7
Amount Under (Over) Limit	\$4,215.5	\$4,946.2	\$5,445.4	\$5,067.4	\$5,447.9

Numbers may not calculate exactly due to rounding.

House Fiscal Agency
January 11, 2008

Table 5
Consensus Estimate
January 2008 Comparison of Pupil Membership Estimates
FY 2007-08 and FY 2008-09

	May 2007 Consensus <u>Estimate</u>	January 2008 Consensus <u>Estimate</u>	Change From May 2007 Consensus <u>Estimate</u>
FY 2007-08			
Local Districts	1,561,300	1,554,634	(6,666)
Public School Academies	<u>104,300</u>	<u>99,221</u>	<u>(5,079)</u>
Total	1,665,600	1,653,855	(11,745)
FY 2008-09			
Local Districts	N/A	1,525,600	N/A
Public School Academies	N/A	<u>103,000</u>	N/A
Total	N/A	1,628,600	N/A

Table 6
January 2008 Consensus Estimate School Aid Revenue Adjustment
Factor and Pupil Membership Adjustment Factor for FY 2008-09

<u>Revenue Adjustment Factor (Millions of Dollars)</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Baseline SAF Revenue	\$11,149.7	\$11,150.8	\$11,277.6
Balance Sheet Adjustments	\$3.4	\$202.4	\$593.0
Net SAF Estimate	\$11,153.1	\$11,353.1	\$11,870.6
Adjustments to FY 2008-09 Base	\$589.6	\$390.6	\$0.0
Baseline Revenue on an FY 2008-09 Base	\$11,742.7	\$11,743.8	\$11,870.6
Annual Growth Rate		0.01%	1.08%
<u>School Aid Fund Revenue Calculation for FY 2008-09</u>			
Sum of FY 2006-07 and FY 2007-08	\$11,742.7	+ \$11,743.8	= \$23,486.4
Sum of FY 2007-08 and FY 2008-09	\$11,743.8	+ \$11,870.6	= \$23,614.3

FY 2008-09 Revenue Adjustment Factor	1.0054
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Pupil Membership Adjustment Factor

Consensus Estimate FY 2007-08	1,554,634	Local District Pupils
	+ 99,221	Public School Academy Pupils
	1,653,855	
Consensus Estimate FY 2008-09	1,525,600	Local District Pupils
	+ 103,000	Public School Academy Pupils
	1,628,600	

Estimated FY 2008-09 Pupil Membership Adjustment Factor

FY 2007-08 Pupil Membership = 1,653,855
divided by
 FY 2008-09 Pupil Membership = 1,628,600

FY 2008-09 Pupil Membership Adjustment Factor	1.0155
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