

DATE: January 20, 2015
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – January 16, 2015

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) revenue.

The conference principals at the January 2015 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Treasurer. The Director of the House Fiscal Agency is the 2015 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2015 conference. These consensus estimates will be revised or updated at the May 2015 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 increase 3.0% in calendar year (CY) 2015, 3.1% in CY 2016, and 2.8% in CY 2017. Michigan personal income is forecast to increase 4.3% in CY 2015, 4.4% in CY 2016, and 4.3% in CY 2017.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the preliminary final FY 2013-14 revenue, revised revenue estimates for FY 2014-15 and FY 2015-16, and the initial estimates for FY 2016-17. Net GF/GP and SAF revenue is estimated to increase \$851.5 million or 4.1% in FY 2014-15, \$586.4 million or 2.7% in FY 2015-16, and \$664.6 million or 3.0% in FY 2016-17.

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

Pay-ins are expected for FY 2014-15, FY 2015-16, and FY 2016-17 in the amounts of \$81.2 million, \$95.0 million, and \$68.0 million, respectively. No withdrawals are expected for any of these years. 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 revenue 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 \$8.72 billion below the limit in FY 2013-14, \$8.51 billion below in FY 2014-15, \$9.36 billion below in FY 2015-16, and \$10.23 billion below the limit in FY 2016-17.

Table 6: Long Term Revenue Trend

The long term revenue trend for combined GF/GP and SAF revenue is 3.2% growth for both FY 2017-18 and FY 2018-19.

Table 7 and Table 8:

**Consensus Estimate—School Aid Revenue Adjustment Factor
and Pupil Membership Adjustment Factor**

Reports consensus estimates of revenue adjustment factor and pupil membership for FY 2015-16 and FY 2016-17. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the index, the increase or decrease in the per pupil foundation allowance. The School Aid Index for FY 2015-16 is 1.0328 and FY 2016-17 is 1.0317. The index would equal a 4.2% increase in the foundation allowance in FY 2015-16 and a 4.1% increase in FY 2016-17.

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

Attachments

Table 1
Consensus Economic Forecast
January 2015

	<u>Calendar 2014 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2015 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2016 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2017 Forecast</u>	<u>% Change from Prior Year</u>
<u>United States</u>								
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	\$16,072	2.3%	\$16,554	3.0%	\$17,067	3.1%	\$17,545	2.8%
Implicit Price Deflator GDP (2009 = 100)	108.4	1.6%	110.1	1.6%	112.0	1.7%	114.0	1.8%
Consumer Price Index (1982-84 = 100)	236.812	1.7%	238.780	0.8%	242.619	1.6%	246.568	1.6%
Consumer Price Index – Fiscal Year (1982-84 = 100)	236.009	1.6%	238.082	0.9%	241.653	1.5%	245.548	1.6%
Personal Consumption Deflator (2009 = 100)	108.7	1.3%	109.6	0.8%	111.1	1.4%	112.7	1.4%
3-month Treasury Bills Interest Rate (Percent)	0.03%		0.3%		1.2%		2.1%	
Aaa Corporate Bonds Interest Rate (Percent)	4.2%		4.3%		4.6%		4.8%	
Unemployment Rate – Civilian (Percent)	6.2%		5.6%		5.4%		5.2%	
Wage and Salary Employment (Millions)	138.907	1.9%	141.550	1.9%	143.810	1.6%	145.820	1.4%
Housing Starts (Millions of Starts)	1.001	8.2%	1.192	19.1%	1.375	15.4%	1.495	8.7%
Light Vehicle Sales (Millions of Units)	16.4	5.8%	16.8	2.4%	17.1	1.8%	17.2	0.6%
Passenger Car Sales (Millions of Units)	7.7	1.1%	7.9	2.8%	8.0	1.3%	8.1	1.3%
Light Truck Sales (Millions of Units)	8.7	10.4%	8.9	2.1%	9.1	2.2%	9.1	0.0%
Big 3 Share of Light Vehicles (Percent)	44.4%		44.7%		44.8%		45.0%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,133	0.7%	4,187	1.3%	4,241	1.3%	4,292	1.2%
Unemployment Rate (Percent)	7.4%		6.9%		6.7%		6.5%	
Personal Income (Millions of Dollars)	\$402,703	4.2%	\$420,019	4.3%	\$438,500	4.4%	\$457,356	4.3%
Real Personal Income (Millions of 1982-84 Dollars)	\$180,993	2.8%	\$187,412	3.5%	\$192,753	2.8%	\$198,086	2.8%
Wages and Salaries (Millions of Dollars)	\$204,768	4.9%	\$212,140	3.6%	\$219,352	3.4%	\$227,249	3.6%
Detroit Consumer Price Index (1982-84 = 100)	222.496	1.4%	224.115	0.7%	227.493	1.5%	230.887	1.5%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
January 2015: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

	FY 2013-14			FY 2014-15			FY 2015-16			FY 2016-17				
	<u>FY 2013-14 Preliminary Final</u>	<u>Change From FY 2012-13</u>	<u>\$ Change From May 2014 Consensus</u>	<u>January 2015 Consensus</u>	<u>Change From FY 2013-14</u>	<u>\$ Change From May 2014 Consensus</u>	<u>January 2015 Consensus</u>	<u>Change From FY 2014-15</u>	<u>\$ Change From May 2014 Consensus</u>	<u>January 2015 Consensus</u>	<u>Change From FY 2015-16</u>			
General Fund/ General Purpose														
Baseline	\$9,787.6	-1.7%		\$10,245.4	\$457.8	4.7%	(\$23.0)	\$10,634.6	\$389.2	3.8%	(\$74.2)	\$11,021.8	\$387.2	3.6%
Tax Adjustments	(\$769.1)			(\$744.1)	\$25.0		(\$301.7)	(\$921.4)	(\$177.3)		(\$457.9)	(\$1,021.3)	(\$99.9)	
Net GF/GP Revenue	\$9,018.5	-5.7%	(\$300.8)	\$9,501.4	\$482.9	5.4%	(\$324.6)	\$9,713.2	\$211.8	2.2%	(\$532.1)	\$10,000.6	\$287.4	3.0%
School Aid Fund Revenue														
Baseline	\$11,562.8	2.5%		\$11,949.4	\$386.6	3.3%	\$48.5	\$12,329.8	\$380.4	3.2%	\$27.9	\$12,713.9	\$384.1	3.1%
Tax Adjustments	(\$42.3)			(\$60.2)	(\$17.9)		(\$12.6)	(\$66.1)	(\$5.9)		(\$22.3)	(\$73.0)	(\$6.9)	
Net SAF Revenue	\$11,520.5	2.2%	\$24.2	\$11,889.1	\$368.6	3.2%	\$35.8	\$12,263.7	\$374.6	3.2%	\$5.6	\$12,640.9	\$377.2	3.1%
Total GF/GP and SAF														
Baseline	\$21,350.4	0.5%		\$22,194.8	\$844.4	4.0%	\$25.5	\$22,964.4	\$769.6	3.5%	(\$46.3)	\$23,735.8	\$771.3	3.4%
Tax Adjustments	(\$811.4)			(\$804.3)	\$7.1		(\$314.3)	(\$987.5)	(\$183.2)		(\$480.2)	(\$1,094.2)	(\$106.8)	
Net GF/GP and SAF	\$20,538.9	-1.4%	(\$276.6)	\$21,390.5	\$851.5	4.1%	(\$288.8)	\$21,976.9	\$586.4	2.7%	(\$526.5)	\$22,641.5	\$664.6	3.0%

Numbers may not calculate exactly due to rounding.

Table 3
January 2015: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2014-15 Pay-In / FY 2013-14 Pay-Out Calculation		FY 2015-16 Pay-In / FY 2014-15 Pay-Out Calculation		FY 2016-17 Pay-In / FY 2015-16 Pay-Out Calculation		FY 2016-17 Pay-In / Pay-Out Calculation	
	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2016</u>	<u>CY 2017</u>
Michigan Personal Income ⁽¹⁾	\$386,471	\$402,703	\$402,703	\$420,019	\$420,019	\$438,500	\$438,500	\$457,356
Less Transfer Payments ⁽¹⁾	\$85,163	\$88,825	\$88,825	\$94,510	\$94,510	\$99,897	\$99,897	\$105,591
Income Net of Transfers	\$301,308	\$313,878	\$313,878	\$325,509	\$325,509	\$338,603	\$338,603	\$351,765
Detroit CPI ⁽²⁾ for 12 months ending	2.182 (June 2013)	2.210 (June 2014)	2.210 (June 2014)	2.225 (June 2015)	2.225 (June 2015)	2.254 (June 2016)	2.254 (June 2016)	2.293 (June 2017)
Real Adjusted Michigan Personal Income	\$138,088	\$142,026	\$142,026	\$146,265	\$146,265	\$150,196	\$150,196	\$153,426
Change in Real Adjusted Personal Income		2.9%		3.0%		2.7%		2.2%
Amount Under 0%		N/A		N/A		N/A		N/A
Between 0% and 2%		2.0%		2.0%		2.0%		2.0%
Excess Over 2%		0.9%		1.0%		0.7%		0.2%
GF/GP Revenue	FY 2013-14	\$9,018.5	FY 2014-15	\$9,501.4	FY 2015-16	\$9,713.2	FY 2016-17	\$10,000.6
BSF PAY-IN⁽³⁾	FY 2014-15	\$81.2	FY 2015-16	\$95.0	FY 2016-17	\$68.0		
BSF PAY-OUT⁽³⁾	FY 2013-14	No Pay-Out	FY 2014-15	No Pay-Out	FY 2015-16	No Pay-Out	FY 2016-17	No Pay-Out

Notes:

1. Personal Income and Transfer Payments: CY 2013 is from the U.S. Bureau of Economic Analysis, October 2014. Subsequent years are January 2015 consensus estimates.
2. Detroit Consumer Price Index, CY 2013 and CY 2014 are exponential averages of the six monthly values reported by U.S. Bureau of Labor Statistics for the July through June period. Subsequent years are January 2015 consensus estimates.
3. Calculation done per MCL 18.1352.

Table 4
January 2015 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	FY 2012-13 Actual	FY 2013-14 Consensus January 2015	FY 2014-15 Consensus January 2015	FY 2015-16 Consensus January 2015	FY 2016-17 Consensus January 2015
Revenue Subject to Limit					
Consensus					
Net General Fund General Purpose	\$9,562.5	\$9,018.5	\$9,501.4	\$9,713.2	\$10,000.6
General Fund Revenue Sharing	\$719.7	\$730.5	\$774.1	\$792.7	\$821.5
Net School Aid Fund	\$11,269.7	\$11,520.5	\$11,889.1	\$12,263.7	\$12,640.9
Transportation	\$2,099.7	\$2,160.7	\$2,178.6	\$2,198.5	\$2,200.0
Other Restricted Revenue	\$3,812.0	\$3,790.6	\$3,855.1	\$3,922.9	\$3,994.0
Less: Federal Aid	(\$22.5)	(\$30.9)	(\$30.0)	(\$30.0)	(\$30.0)
Total Revenue Subject to Limit	\$27,441.1	\$27,189.9	\$28,168.3	\$28,861.0	\$29,627.0
Revenue Limit					
	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
Personal Income	\$358,152	\$378,443	\$386,471	\$402,703	\$420,019
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$33,988.6	\$35,914.2	\$36,676.1	\$38,216.5	\$39,859.8
Revenue Subject to Limit	\$27,441.1	\$27,189.9	\$28,168.3	\$28,861.0	\$29,627.0
Amount Under (Over) Limit	\$6,547.5	\$8,724.3	\$8,507.8	\$9,355.5	\$10,232.8

Numbers may not calculate exactly due to rounding.

Note: CY 2011 Personal Income is used for the FY 2013 revenue limit calculation, CY 2012 for FY 2014, CY 2013 for FY 2015, and CY 2014 for FY 2016.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Net GF/GP Revenue	\$10,381.3	\$10,748.5
Growth	3.8%	3.5%
Net SAF Revenue	\$12,992.2	\$13,368.3
Growth	2.8%	2.9%
Combined GF/GP and SAF	\$23,373.5	\$24,116.8
Growth	3.2%	3.2%

Table 6
January 2015 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2015-16

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
Baseline SAF Revenue	\$11,562.8	\$11,949.4	\$12,329.8
Balance Sheet Adjustments	(\$42.3)	(\$60.2)	(\$66.1)
Net SAF Estimate	\$11,520.5	\$11,889.2	\$12,263.7
Subtotal Adjustments to FY 2015-16 Base	(\$23.8)	(\$5.9)	\$0.0
Baseline Revenue on an FY 2015-16 Base	\$11,496.7	\$11,883.3	\$12,263.7
Percent Change		3.36%	3.20%
SAF Revenue Adjustment Calculation for FY 2015-16:			
Sum of FY 2013-14 and FY 2014-15	\$11,496.7 +	\$11,883.3 =	\$23,380.0
Sum of FY 2014-15 and FY 2015-16	\$11,883.3 +	\$12,263.7 =	\$24,147.0
FY 2015-16 Revenue Adjustment Factor			1.0328
<i>Note: Factor is calculated off a FY 2016 base year.</i>			
	<u>May 2014 Consensus Estimate</u>	<u>January 2015 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2014-15			
Local Districts	1,352,500	1,356,700	4,200
Public School Academies	159,500	151,300	(8,200)
Total	1,512,000	1,508,000	(4,000)
FY 2015-16			
Local Districts	1,133,400	1,336,000	2,600
Public School Academies	170,000	159,000	(11,000)
Total	1,503,400	1,495,000	(8,400)
	<u>FY 2014-15</u>	<u>FY 2015-16</u>	
Consensus Estimate of Pupil Membership	1,508,000	1,495,000	
Pupil Membership Adjustment Factor for FY 2014-15:			
<u>FY 2014-15 Pupil Membership</u>	=	<u>1,508,000</u>	
<u>FY 2015-16 Pupil Membership</u>	=	<u>1,495,000</u>	
FY 2015-16 Pupil Membership Adjustment Factor			1.0087
FY 2015-16 School Aid Index			1.0418

Table 7
January 2015 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2016-17

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
Baseline SAF Revenue	\$11,949.4	\$12,329.8	\$12,713.9
Balance Sheet Adjustments	(\$60.2)	(\$66.1)	(\$73.0)
Net SAF Estimate	\$11,889.2	\$12,263.7	\$12,640.9
Subtotal Adjustments to FY 2016-17 Base	(\$12.8)	(\$6.9)	\$0.0
Baseline Revenue on an FY 2016-17 Base	\$11,876.4	\$12,256.8	\$12,640.9
Percent Change		3.20%	3.13%
SAF Revenue Adjustment Calculation for FY 2016-17:			
Sum of FY 2014-15 and FY 2015-16	\$11,876.4 +	\$12,256.8 =	\$24,133.2
Sum of FY 2015-16 and FY 2016-17	\$12,256.8 +	\$12,640.9 =	\$24,897.7
FY 2016-17 Revenue Adjustment Factor			1.0317
<i>Note: Factor is calculated off a FY 2017 base year.</i>			
	<u>May 2014 Consensus Estimate</u>	<u>January 2015 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2015-16			
Local Districts	1,133,400	1,336,000	2,600
Public School Academies	170,000	159,000	(11,000)
Total	1,503,400	1,495,000	(8,400)
FY 2016-17			
Local Districts	N/A	1,317,000	N/A
Public School Academies	N/A	164,000	N/A
Total	N/A	1,481,000	N/A
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	
Consensus Estimate of Pupil Membership	1,495,000	1,481,000	
Pupil Membership Adjustment Factor for FY 2016-17:			
<u>FY 2015-16 Pupil Membership</u>	=	<u>1,495,000</u>	
<u>FY 2016-17 Pupil Membership</u>	=	<u>1,481,000</u>	
FY 2016-17 Pupil Membership Adjustment Factor			1.0095
FY 2016-17 School Aid Index			1.0414