

MEMORANDUM



DATE: May 18, 2015
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – May 15, 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 May 2015 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Budget Director. The Director of the House Fiscal Agency is the 2015 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 2015 conference. These consensus estimates will be reviewed and updated at the January 2016 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 2.4% in calendar year (CY) 2015, increase by 2.8% in CY 2016, and increase by 2.9% in CY 2017. Michigan personal income is forecast to increase 4.6% in CY 2015, increase by 4.4% in CY 2016, and increase by 4.2% in CY 2017.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final FY 2013-14 revenue and revised revenue estimates for FY 2014-15 through FY 2016-17. Net GF/GP and SAF revenue is estimated to increase \$1,068.9 million or 5.2% in FY 2014-15, increase \$516.7 million or 2.4% in FY 2015-16, and increase \$595.5 million or 2.7% in FY 2016-17.

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

No pay-outs are expected for FY 2014-15, FY 2015-16, or FY 2016-17, although pay-ins are calculated in each of the three years of \$45.1 million, \$243.1 million, and \$118.6 million, respectively. 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). Actual BSF deposit amounts are subject to legislative appropriation.

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 \$8.67 billion below the limit in FY 2013-14, \$8.19 billion below in FY 2014-15, \$9.01 billion below in FY 2015-16, and \$10.04 billion below the limit in FY 2016-17.

Table 5: Long Term Revenue Trend

The long term revenue trend for the combined GF/GP and SAF is a 3.1% increase for FY 2017-18 and a 3.2% increase for FY 2018-19.

Table 6 and Table 7:

**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 potential increase or decrease in the per pupil foundation allowance. The School Aid Index for FY 2015-16 is 1.0400 and FY 2016-17 is 1.0378. The index would equal a 4.0% increase in the foundation allowance in FY 2015-16 and a 3.8% increase in FY 2016-17.

Table 8: Consensus Human Services and Medicaid Expenditures

Reviews consensus gross and GF/GP expenditure estimates for Human Services caseload programs and Medicaid programs. Human Services caseload program GF/GP expenditures are estimated to fall \$1.2 million below FY 2014-15 appropriated levels, and \$12.3 million below FY 2015-16 and \$11.3 million below FY 2016-17 Executive recommendations. Traditional Medicaid GF/GP expenditures are estimated to increase \$14.7 million above current year appropriations, and \$27.1 million above both FY 2015-16 and FY 2016-17 Executive recommendations. Increases are also estimated for Healthy Michigan Plan expenditures, with no GF/GP impact until FY 2016-17 (\$5.4 million above the Executive recommendation). Child Development and Care GF/GP expenditures in the Department of Education are expected to fall \$2.7 million below the FY 2014-15 appropriated level, and \$860,800 below both FY 2015-16 and FY 2016-17 Executive recommendations.

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

Attachments

Table 1
Consensus Economic Forecast
May 2015

	Actual CY 2014	% Change from Prior Year	Forecast CY 2015	% Change from Prior Year	Forecast CY 2016	% Change from Prior Year	Forecast CY 2017	% Change from Prior Year
<u>United States</u>								
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	\$16,086	2.4%	\$16,472	2.4%	\$16,933	2.8%	\$17,424	2.9%
Implicit Price Deflator GDP (2009 = 100)	108.3	1.5%	109.5	1.1%	111.3	1.6%	113.3	1.8%
Consumer Price Index (1982-84 = 100)	236.736	1.6%	237.165	0.2%	241.859	2.0%	247.193	2.2%
Consumer Price Index – Fiscal Year (1982-84 = 100)	236.009	1.6%	236.761	0.3%	240.676	1.7%	245.853	2.2%
Personal Consumption Deflator (2009 = 100)	108.7	1.3%	109.0	0.3%	110.6	1.5%	112.5	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.03%		0.2%		1.2%		2.1%	
Aaa Corporate Bonds Interest Rate (Percent)	4.2%		3.8%		4.2%		4.5%	
Unemployment Rate – Civilian (Percent)	6.2%		5.4%		5.2%		5.1%	
Wage and Salary Employment (Millions)	139.04	1.9%	141.82	2.0%	143.95	1.5%	145.97	1.4%
Housing Starts (Millions of Starts)	1.001	8.2%	1.143	14.2%	1.320	15.5%	1.450	9.8%
Light Vehicle Sales (Millions of Units)	16.4	5.8%	16.9	3.0%	17.1	1.2%	17.1	0.0%
Passenger Car Sales (Millions of Units)	7.7	1.1%	7.7	0.2%	7.8	1.3%	7.9	1.3%
Light Truck Sales (Millions of Units)	8.7	10.4%	9.2	5.5%	9.3	1.1%	9.2	-1.1%
Big 3 Share of Light Vehicles (Percent)	44.3%		44.3%		44.4%		44.5%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,180	1.7%	4,263	2.0%	4,314	1.2%	4,358	1.0%
Unemployment Rate (Percent)	7.3%		5.8%		5.5%		5.4%	
Personal Income (Millions of Dollars)	\$401,901	4.0%	\$420,388	4.6%	\$438,886	4.4%	\$457,319	4.2%
Real Personal Income (Millions of 1982-84 dollars)	\$181,213	2.9%	\$190,467	5.1%	\$195,104	2.4%	\$199,025	2.0%
Wages and Salaries (Millions of Dollars)	\$204,768	4.9%	\$214,187	4.6%	\$221,255	3.3%	\$228,114	3.1%
Detroit Consumer Price Index (1982-84 = 100)	221.784	1.0%	220.715	-0.5%	224.950	1.9%	229.779	2.1%

NOTE: Percentages may not calculate exactly due to rounding.

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

			FY 2014-15			FY 2015-16			FY 2016-17		
	Final FY 2013-14	% Change From FY 2012-13	May 2015 Consensus	Change From FY 2013-14		May 2015 Consensus	Change From FY 2014-15		May 2015 Consensus	Change From FY 2015-16	
General Fund/General Purpose											
Baseline	\$9,787.7		\$10,479.5	\$691.8	7.1%	\$10,831.3	\$351.8	3.4%	\$11,196.7	\$365.4	3.4%
Tax Adjustments	(\$769.1)		(\$754.6)	\$14.5		(\$949.4)	(\$194.8)		(\$1,075.2)	(\$125.8)	
Net GF/GP Revenue	\$9,018.6	-5.7%	\$9,724.9	\$706.3	7.8%	\$9,881.9	\$157.0	1.6%	\$10,121.5	\$239.6	2.4%
School Aid Fund Revenue											
Baseline	\$11,562.9		\$11,949.1	\$386.2	3.3%	\$12,265.0	\$315.9	2.6%	\$12,626.3	\$361.3	2.9%
Tax Adjustments	(\$42.3)		(\$65.9)	(\$23.6)		(\$22.1)	\$43.8		(\$27.5)	(\$5.4)	
Net SAF Revenue	\$11,520.6	2.2%	\$11,883.2	\$362.6	3.1%	\$12,242.9	\$359.7	3.0%	\$12,598.8	\$355.9	2.9%
Total GF/GP and SAF											
Baseline	\$21,350.6		\$22,428.6	\$1,078.0	5.0%	\$23,096.3	\$667.7	3.0%	\$23,823.0	\$726.7	3.1%
Tax Adjustments	(\$811.4)		(\$820.5)	(\$9.1)		(\$971.5)	(\$151.0)		(\$1,102.7)	(\$131.2)	
Net GF/GP and SAF	\$20,539.2	-1.4%	\$21,608.1	\$1,068.9	5.2%	\$22,124.8	\$516.7	2.4%	\$22,720.3	\$595.5	2.7%

Numbers may not calculate exactly due to rounding.

Table 3
May 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	
	<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 (MPI)	\$401,901 ⁽¹⁾	\$420,388 ⁽²⁾	\$420,388 ⁽²⁾	\$438,886 ⁽²⁾	\$438,886 ⁽²⁾	\$457,319 ⁽²⁾
Less Transfer Payments	<u>\$87,481 ⁽¹⁾</u>	<u>\$92,555 ⁽²⁾</u>	<u>\$92,555 ⁽²⁾</u>	<u>\$96,998 ⁽²⁾</u>	<u>\$96,998 ⁽²⁾</u>	<u>\$101,653 ⁽²⁾</u>
Income Net of Transfers	\$314,420	\$327,833	\$327,833	\$341,888	\$341,888	\$355,666
Detroit CPI for 12 months ending	2.210 ⁽³⁾ (June 2014)	2.206 ⁽⁴⁾ (June 2015)	2.206 ⁽⁴⁾ (June 2015)	2.230 ⁽⁴⁾ (June 2016)	2.230 ⁽⁴⁾ (June 2016)	2.274 ⁽⁴⁾ (June 2017)
Real Adjusted Michigan Personal Income	\$142,247	\$148,583	\$148,583	\$153,343	\$153,343	\$156,394
Change in Real Adjusted Personal Income		4.5%		3.2%		2.0%
Amount Under 0%		N/A		N/A		N/A
Between 0% and 2%		2.0%		2.0%		2.0%
Excess Over 2%		2.5%		1.2%		NA
GF/GP Revenue	FY 2014-15	\$9,724.9	FY 2015-16	\$9,881.9	FY 2016-17	\$10,121.5
BSF PAY-IN⁽⁵⁾	FY 2015-16	\$243.1	FY 2016-17	\$118.6		
BSF PAY-OUT⁽⁵⁾	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: U.S. Bureau of Economic Analysis May 2015.
2. Personal Income and Transfer Payments: Consensus Forecast, May 2015.
3. Detroit Consumer Price Index, Exponential average of six monthly values reported by U.S. Bureau of Labor Statistics for each 12 month period.
4. Detroit Consumer Price Index: Consensus Forecast, May 2015.
5. Calculation done per MCL 18.1352. Does not include the \$17.5 million deposit required under 2014 PA 186.

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

	<u>Final FY 2012-13</u>	<u>May 2015 Consensus FY 2013-14</u>	<u>May 2015 Consensus FY 2014-15</u>	<u>May 2015 Consensus FY 2015-16</u>	<u>May 2015 Consensus FY 2016-17</u>
<u>Revenue Subject to Limit</u>					
Consensus					
Net General Fund General Purpose	\$9,562.5	\$9,018.6	\$9,724.9	\$9,881.9	\$10,121.5
Constitutional Revenue Sharing	\$722.2	\$739.1	\$760.2	\$783.9	\$813.0
Net School Aid Fund	\$11,269.7	\$11,520.6	\$11,883.2	\$12,242.9	\$12,598.8
Transportation	\$2,099.7	\$2,121.7	\$2,204.3	\$2,231.5	\$2,261.0
Other Restricted Revenue	\$3,809.5	\$3,875.0	\$3,943.7	\$4,015.9	\$4,091.7
Less: Federal Aid	(\$22.5)	(\$30.9)	(\$30.0)	(\$30.0)	(\$30.0)
Total Revenue Subject to Limit	\$27,441.1	\$27,244.0	\$28,486.3	\$29,126.1	\$29,856.0
<u>Revenue Limit</u>					
	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2015</u>
Personal Income	\$358,152	\$378,443	\$386,471	\$401,901	\$420,388
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$33,988.6	\$35,914.2	\$36,676.1	\$38,140.4	\$39,894.8
Revenue Subject to Limit	\$339.9	\$359.1	\$366.8	\$381.4	\$398.9
Amount Under (Over) Limit	\$6,547.5	\$8,670.2	\$8,189.8	\$9,014.3	\$10,038.9

Numbers may not calculate exactly due to rounding.

Note: CY 2012 Personal Income is used for the FY 2014 revenue limit calculation, CY 2013 for FY 2015, CY 2014 for FY 2016, and CY 2015 for FY 2017.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Net GF/GP Revenue	\$10,486.8	\$10,862.6
Growth	3.6%	3.6%
Net SAF Revenue	\$12,948.3	\$13,322.9
Growth	2.8%	2.9%
Combined GF/GP and SAF	\$23,435.1	\$24,185.5
Growth	3.1%	3.2%

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

Revenue Adjustment Factor (Millions of \$)

	<u>Final</u> <u>FY 2013-14</u>	<u>Estimate</u> <u>FY 2014-15</u>	<u>Estimate</u> <u>FY 2015-16</u>
Baseline SAF Revenue	\$11,562.9	\$11,949.1	\$12,265.0
Balance Sheet Adjustments	(\$42.3)	(\$65.9)	(\$22.1)
Net SAF Estimate	\$11,520.6	\$11,883.2	\$12,242.9
 Subtotal Adjustments to FY 2015-16 Base	 <u>\$20.2</u>	 <u>\$43.8</u>	 <u>\$0.0</u>
Baseline Revenue on an FY 2015-16 Base	\$11,540.8	\$11,927.0	\$12,242.9
Percent Change		3.35%	2.65%
SAF Revenue Adjustment Calculation for FY 2015-16:			
Sum of FY 2013-14 and FY 2014-15	\$11,540.8 +	\$11,927.0 =	\$23,467.8
Sum of FY 2014-15 and FY 2015-16	\$11,927.0 +	\$12,242.9 =	\$24,169.9

FY 2015-16 Revenue Adjustment Factor	1.0299
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Note: Factor is calculated off a FY 2016 base year.

	<u>January 2015</u> <u>Consensus</u> <u>Estimate</u>	<u>May 2015</u> <u>Consensus</u> <u>Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2014-15			
Local Districts	1,356,700	1,356,400	(300)
Public School Academies	<u>151,300</u>	<u>151,300</u>	<u>0</u>
Total	1,508,000	1,507,700	(300)
FY 2015-16			
Local Districts	1,336,000	1,335,000	(1,000)
Public School Academies	<u>159,000</u>	<u>158,000</u>	<u>(1,000)</u>
Total	1,495,000	1,493,000	(2,000)
	<u>FY 2014-15</u>	<u>FY 2015-16</u>	
Consensus Estimate of Pupil Membership	1,507,700	1,493,000	
Pupil Membership Adjustment Factor for FY 2015-16:			
<u>FY 2014-15 Pupil Membership</u>	=	<u>1,507,700</u>	
<u>FY 2015-16 Pupil Membership</u>	=	<u>1,493,000</u>	

FY 2015-16 Pupil Membership Adjustment Factor	1.0098
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FY 2015-16 School Aid Index	1.0400
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Table 7
May 2015 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2016-17

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>Final</u> <u>FY 2014-15</u>	<u>Estimate</u> <u>FY 2015-16</u>	<u>Estimate</u> <u>FY 2016-17</u>
Baseline SAF Revenue	\$11,949.1	\$12,265.0	\$12,626.3
Balance Sheet Adjustments	(\$65.9)	(\$22.1)	(\$27.5)
Net SAF Estimate	\$11,883.2	\$12,242.9	\$12,598.8
Subtotal Adjustments to FY 2016-17 Base	<u>\$38.4</u>	<u>(\$5.4)</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2016-17 Base	\$11,921.6	\$12,237.5	\$12,598.8
Percent Change		2.65%	2.95%
SAF Revenue Adjustment Calculation for FY 2016-17:			
Sum of FY 2014-15 and FY 2015-16	\$11,921.6 +	\$12,237.5 =	\$24,159.1
Sum of FY 2015-16 and FY 2016-17	\$12,237.5 +	\$12,598.8 =	\$24,836.3
FY 2016-17 Revenue Adjustment Factor			1.0280
<i>Note: Factor is calculated off a FY 2017 base year.</i>			
	<u>January 2015</u> <u>Consensus</u> <u>Estimate</u>	<u>May 2015</u> <u>Consensus</u> <u>Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2015-16			
Local Districts	1,336,000	1,335,000	(1,000)
Public School Academies	<u>159,000</u>	<u>158,000</u>	<u>(1,000)</u>
Total	1,495,000	1,493,000	(2,000)
FY 2016-17			
Local Districts	1,317,000	1,316,000	(1,000)
Public School Academies	<u>164,000</u>	<u>163,000</u>	<u>(1,000)</u>
Total	1,481,000	1,479,000	(2,000)
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	
Consensus Estimate of Pupil Membership	1,493,000	1,479,000	
Pupil Membership Adjustment Factor for FY 2016-17:			
<u>FY 2015-16 Pupil Membership</u>	=	<u>1,493,000</u>	
FY 2016-17 Pupil Membership	=	1,479,000	
FY 2016-17 Pupil Membership Adjustment Factor			1.0095
FY 2016-17 School Aid Index			1.0378

Table 8
May 2015 Consensus Expenditure Estimates
Human Services and Medicaid Programs
FY 2014-15 Through FY 2016-17
(Millions of Dollars)

<u>Human Services</u>				
Estimates for Expenditures				
	Total Increase/(Decrease)			
	<u>Gross</u>		<u>GF/GP</u>	
Fiscal Year 2015	(\$22,701,900)		(\$1,206,000)	
Change from Current Law				
Fiscal Year 2016	(\$42,691,800)		(\$12,293,300)	
Change from Executive Recommendation				
Fiscal Year 2017	(\$36,622,100)		(\$11,323,100)	
Change from Executive Recommendation				
<u>Medicaid</u>				
Estimates for Expenditures				
	Non-HMP Medicaid Expenditures		Healthy Michigan Plan Expenditures	
	Total Increase/(Decrease)		Total Increase/(Decrease)	
	<u>Gross</u>		<u>Gross</u>	
	<u>GF/GP</u>		<u>GF/GP</u>	
Fiscal Year 2015	\$65,397,200	\$14,746,800	\$124,747,200	\$0
Change from Current Law				
Fiscal Year 2016	\$85,732,000	\$27,145,400	\$144,664,900	\$0
Change from Executive Recommendation				
Fiscal Year 2017	\$85,732,000	\$27,145,400	\$144,664,900	\$5,424,900
Change from Executive Recommendation				
<u>Department of Education</u>				
Estimates for Child Development and Care Expenditures				
	Total Increase/(Decrease)			
	<u>Gross</u>		<u>GF/GP</u>	
Fiscal Year 2015	(\$6,555,700)		(\$2,703,500)	
Change from Current Law				
Fiscal Year 2016	(\$7,303,300)		(\$860,800)	
Change from Executive Recommendation				
Fiscal Year 2017	(\$7,303,300)		(\$860,800)	
Change from Executive Recommendation				