

MEMORANDUM



DATE: January 13, 2014
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – January 10, 2014

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 2014 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 2014 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2014 conference. These consensus estimates will be revised or updated at the May 2014 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) 2014, increase by 2.9% in CY 2015, and increase by 3.1% in CY 2016. Michigan personal income is forecast to increase 4.4% in CY 2014 and increase by 4.6% in both CY 2015 and CY 2016.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the preliminary final FY 2012-13 revenue, revised revenue estimates for FY 2013-14 through FY 2014-15, and the initial estimates for FY 2015-16. Net GF/GP and SAF revenue is estimated to increase \$300.3 million or 1.4% in FY 2013-14, increase \$845.8 million or 4.0% in FY 2014-15, and increase \$895.5 million or 4.1% in FY 2015-16.

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

No pay-in's or withdrawals are expected for FY 2013-14. Pay-ins of \$95.7 million are calculated for FY 2014-15 and \$60.3 million for FY 2015-16, respectively. No withdrawals are expected for either 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 \$5.91 billion below the limit in FY 2012-13, \$7.44 billion below in FY 2013-14, \$7.48 billion below in FY 2014-15, and \$8.02 billion below the limit in FY 2015-16.

Table 5: Long Term Revenue Trend

The long term revenue trend for the combined GF/GP and SAF for is 3.1% FY 2016-17 and 3.2% for FY 2017-18.

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 2014-15 and FY 2015-16. 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 2014-15 is 1.0351 and FY 2015-16 is 1.0371. The index would equal a 3.5% increase in the foundation allowance in FY 2014-15 and a 3.7% increase in FY 2015-16.

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

Attachments

Table 1
Consensus Economic Forecast
January 2014

	<u>Calendar 2013 Forecast</u>	<u>% Change from Prior Year</u>	<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>United States</u>								
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	\$15,749	1.8%	\$16,127	2.4%	\$16,595	2.9%	\$17,109	3.1%
Implicit Price Deflator GDP (2009 = 100)	106.6	1.5%	108.1	1.4%	110.0	1.8%	112.1	1.9%
Consumer Price Index (1982-84 = 100)	233.038	1.5%	236.533	1.5%	240.791	1.8%	245.607	2.0%
Consumer Price Index – Fiscal Year (1982-84 = 100)	232.247	1.6%	235.731	1.5%	239.738	1.7%	244.293	1.9%
Personal Consumption Deflator (2009 = 100)	107.2	1.1%	108.5	1.2%	110.1	1.5%	111.9	1.6%
3-month Treasury Bills Interest Rate (Percent)	0.1%		0.1%		0.3%		1.0%	
Aaa Corporate Bonds Interest Rate (Percent)	4.2%		4.7%		4.8%		4.9%	
Unemployment Rate – Civilian (Percent)	7.4%		6.8%		6.4%		5.9%	
Wage and Salary Employment (Millions)	135.9	1.6%	138.0	1.5%	140.3	1.7%	143.1	2.0%
Housing Starts (Millions of Starts)	0.915	17.2%	1.110	21.3%	1.320	18.9%	1.470	11.4%
Light Vehicle Sales (Millions of Units)	15.5	7.6%	16.0	3.2%	16.3	1.9%	16.6	1.8%
Passenger Car Sales (Millions of Units)	7.6	2.7%	7.8	2.6%	7.9	1.3%	8.1	2.5%
Light Truck Sales (Millions of Units)	7.9	12.9%	8.2	3.8%	8.4	2.4%	8.5	1.2%
Big 3 Share of Light Vehicles (Percent)	44.6		44.7%		44.9%		45.0%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,082	1.4%	4,145	1.5%	4,203	1.4%	4,257	1.3%
Unemployment Rate (Percent)	8.7%		8.3%		7.5%		6.7%	
Personal Income (Millions of Dollars)	\$389,418	2.9%	\$406,552	4.4%	\$425,254	4.6%	\$444,815	4.6%
Real Personal Income (Millions of 1982-84 Dollars)	\$177,209	1.2%	\$182,632	3.1%	\$188,025	3.0%	\$193,007	2.6%
Wages and Salaries (Millions of Dollars)	\$197,036	3.9%	\$204,720	3.9%	\$212,500	3.8%	\$220,362	3.7%
Detroit Consumer Price Index (1982-84 = 100)	219.750	1.7%	222.607	1.3%	226.168	1.6%	230.466	1.9%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
January 2014: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

	FY 2012-13			FY 2013-14			FY 2014-15			FY 2015-16		
	<u>FY 2012-13 Preliminary Final</u>	<u>Change From FY 2011-12</u>	<u>\$ Change From May 2013 Consensus</u>	<u>January 2014 Consensus</u>	<u>Change From FY 2012-13</u>	<u>\$ Change From May 2013 Consensus</u>	<u>January 2014 Consensus</u>	<u>Change From FY 2013-14</u>	<u>\$ Change From May 2013 Consensus</u>	<u>January 2014 Consensus</u>	<u>Change From FY 2014-15</u>	
General Fund/ General Purpose												
Baseline	\$9,957.6	22.0%		\$9,993.8	\$36.2	0.4%	\$10,485.1	\$491.3	4.9%	\$10,980.9	\$495.8	4.7%
Tax Adjustments	(\$394.9)			(\$421.2)	(\$26.3)	6.7%	(\$438.7)	(\$17.5)	4.2%	(\$445.3)	(\$6.6)	1.5%
Net GF/GP Revenue	\$9,562.8	3.2%	\$373.6	\$9,572.5	\$9.8	0.1%	\$10,046.5	\$473.9	4.9%	\$10,535.6	\$489.1	4.9%
School Aid Fund Revenue												
Baseline	\$11,279.5	-2.9%		\$11,576.8	\$297.3	2.6%	\$11,936.2	\$359.4	3.1%	\$12,337.4	\$401.2	3.4%
Tax Adjustments	(\$10.0)			(\$16.8)	(\$6.8)	68.0%	(\$4.3)	\$12.5	-74.4%	\$0.8	\$5.1	-118.6%
Net SAF Revenue	\$11,269.5	3.6%	\$56.0	\$11,560.0	\$290.5	2.6%	\$11,931.8	\$371.9	3.2%	\$12,338.2	\$406.3	3.4%
Total GF/GP and SAF												
Baseline	\$21,237.1	7.4%		\$21,570.5	\$333.4	1.6%	\$22,421.3	\$850.7	3.9%	\$23,318.3	\$897.0	4.0%
Tax Adjustments	(\$404.9)			(\$438.1)	(\$33.2)	8.2%	(\$443.0)	(\$5.0)	1.1%	(\$444.5)	(\$1.5)	0.3%
Net GF/GP and SAF	\$20,832.3	3.4%	\$429.8	\$21,132.5	\$300.3	1.4%	\$21,978.3	\$845.8	4.0%	\$22,873.8	\$895.5	4.1%

Numbers may not calculate exactly due to rounding.

Table 3
January 2014: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2013-14 Pay-In / FY 2012-13 Pay-Out Calculation		FY 2014-15 Pay-In / FY 2013-14 Pay-Out Calculation		FY 2015-16 Pay-In / FY 2014-15 Pay-Out Calculation	
	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2014</u>	<u>CY 2015</u>
Michigan Personal Income	\$378,443 ⁽¹⁾	\$389,418 ⁽²⁾	\$389,418 ⁽²⁾	\$406,552 ⁽²⁾	\$406,552 ⁽²⁾	\$425,254 ⁽²⁾
Less Transfer Payments	<u>\$82,360 ⁽¹⁾</u>	<u>\$85,028 ⁽²⁾</u>	<u>\$85,028 ⁽²⁾</u>	<u>\$88,854 ⁽²⁾</u>	<u>\$88,854 ⁽²⁾</u>	<u>\$94,630 ⁽²⁾</u>
Income Net of Transfers	\$296,083	\$304,390	\$304,390	\$317,698	\$317,698	\$330,624
Detroit CPI for 12 months ending	2.144 ⁽³⁾ (June 2012)	2.182 ⁽³⁾ (June 2013)	2.182 ⁽³⁾ (June 2013)	2.210 ⁽⁴⁾ (June 2014)	2.210 ⁽⁴⁾ (June 2014)	2.241 ⁽⁴⁾ (June 2015)
Real Adjusted Michigan Personal Income	\$138,115	\$139,500	\$139,500	\$143,731	\$143,731	\$147,514
Change in Real Adjusted Personal Income		1.0%		3.0%		2.6%
Amount Under 0%		N/A		N/A		N/A
Between 0% and 2%		1.0%		1.0%		N/A
Excess Over 2%		N/A		N/A		0.6%
GF/GP Revenue	FY 2012-13	\$9,562.8	FY 2013-14	\$9,572.5	FY 2014-15	\$10,046.5
BSF PAY-IN⁽⁵⁾	FY 2013-14	No Pay-In	FY 2014-15	\$95.7	FY 2015-16	\$60.3
BSF PAY-OUT⁽⁵⁾	FY 2012-13	No Pay-Out	FY 2013-14	No Pay-Out	FY 2014-15	No Pay-Out

Notes:

1. Personal Income and Transfer Payments: BEA October 2013.
2. Personal Income and Transfer Payments: Consensus Forecast, January 2014.
3. Detroit Consumer Price Index, Exponential average of the six monthly values reported by BLS for each 12 month period.
4. Detroit Consumer Price Index: Consensus Forecast, January 2014.
5. Calculation done per MCL 18.1352.

Table 4
January 2014 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	FY 2011-12 Actual	FY 2012-13 Consensus January 2014	FY 2013-14 Consensus January 2014	FY 2014-15 Consensus January 2014	FY 2015-16 Consensus January 2014
<u>Revenue Subject to Limit</u>					
Consensus					
Net General Fund/General Purpose	\$9,265.2	\$9,562.8	\$9,572.5	\$10,046.5	\$10,535.6
General Fund Revenue Sharing	\$715.2	\$719.7	\$743.2	\$790.1	\$858.4
Net School Aid Fund	\$10,878.7	\$11,269.5	\$11,560.0	\$11,931.8	\$12,338.2
Transportation	\$2,107.4	\$2,099.7	\$2,160.7	\$2,178.6	\$2,198.5
Other Restricted Revenue	\$4,376.4	\$4,445.3	\$4,455.5	\$4,553.3	\$4,656.0
Less: Federal Aid	(\$54.8)	(\$22.5)	(\$20.0)	(\$20.0)	(\$20.0)
Total Revenue Subject to Limit	\$27,288.4	\$28,074.3	\$28,472.0	\$29,480.3	\$30,566.6
<u>Revenue Limit</u>					
Personal Income	CY 2010 \$342,663	CY 2011 \$358,152	CY 2012 \$378,443	CY 2013 \$389,418	CY 2014 \$406,552
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$32,518.7	\$33,988.6	\$35,914.2	\$36,955.8	\$38,581.8
Revenue Subject to Limit	\$27,288.4	\$28,074.3	\$28,472.0	\$29,480.3	\$30,566.6
Amount Under (Over) Limit	\$5,230.4	\$5,914.4	\$7,442.3	\$7,475.5	\$8,015.2

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</u>	<u>FY 2018</u>
Net GF/GP Revenue	\$10,911.5	\$11,304.9
Growth	3.6%	3.6%
Net SAF Revenue	\$12,671.8	\$13,024.8
Growth	2.7%	2.8%
Combined GF/GP and SAF	\$23,583.3	\$24,329.7
Growth	3.1%	3.2%

Table 6
January 2014 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2014-15

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>
Baseline SAF Revenue	\$11,279.4	\$11,576.8	\$11,936.2
Balance Sheet Adjustments	(\$10.0)	(\$16.8)	(\$4.3)
Net SAF Estimate	\$11,269.4	\$11,560.0	\$11,931.8
 Subtotal Adjustments to FY 2014-15 Base	 <u>\$5.7</u>	 <u>\$12.5</u>	 <u>\$0.0</u>
Baseline Revenue on an FY 2014-15 Base	\$11,275.1	\$11,572.4	\$11,931.8
Percent Change		2.64%	3.11%
SAF Revenue Adjustment Calculation for FY 2014-15:			
Sum of FY 2012-13 and FY 2013-14	\$11,275.1	+	\$11,572.4
		=	\$22,847.5
Sum of FY 2013-14 and FY 2014-15	\$11,572.4	+	\$11,931.8
		=	\$23,504.3
FY 2014-15 Revenue Adjustment Factor			1.0287
<i>Note: Factor is calculated off a FY 2015 base year.</i>			
	<u>May 2013 Consensus Estimate</u>	<u>January 2014 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
<u>FY 2013-14</u>			
Local Districts	1,383,000	1,374,400	(7,600)
Public School Academies	<u>147,500</u>	<u>147,900</u>	<u>400</u>
Total	1,530,500	1,523,300	(7,200)
<u>FY 2014-15</u>			
Local Districts	1,359,000	1,354,000	(5,000)
Public School Academies	<u>165,500</u>	<u>160,000</u>	<u>(5,500)</u>
Total	1,524,500	1,514,000	(10,500)
	<u>FY 2013-14</u>	<u>FY 2014-15</u>	
Consensus Estimate of Pupil Membership	1,523,300	1,514,000	
Pupil Membership Adjustment Factor for FY 2014-15:			
<u>FY 2013-14 Pupil Membership</u>	=	<u>1,523,300</u>	
FY 2014-15 Pupil Membership	=	1,514,000	
FY 2014-15 Pupil Membership Adjustment Factor			1.0061
FY 2014-15 School Aid Index			1.0351

Table 7
January 2014 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	\$11,576.8	\$11,936.2	\$12,337.4
Balance Sheet Adjustments	(\$16.8)	(\$4.3)	\$0.8
Net SAF Estimate	\$11,560.0	\$11,931.8	\$12,338.2
 Subtotal Adjustments to FY 2015-16 Base	 \$17.6	 \$5.1	 \$0.0
Baseline Revenue on an FY 2015-16 Base	\$11,577.5	\$11,936.9	\$12,338.2
Percent Change		3.10%	3.36%
SAF Revenue Adjustment Calculation for FY 2015-16:			
Sum of FY 2013-14 and FY 2014-15	\$11,577.6 +	\$11,936.9 =	\$23,514.5
Sum of FY 2014-15 and FY 2015-16	\$11,936.9 +	\$12,338.2 =	\$24,275.1
FY 2015-16 Revenue Adjustment Factor			1.0323
<i>Note: Factor is calculated off a FY 2016 base year.</i>			
	<u>May 2013 Consensus Estimate</u>	<u>January 2014 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
<u>FY 2015-16</u>			
Local Districts	N/A	1,337,000	N/A
Public School Academies	N/A	170,000	N/A
Total	N/A	1,507,000	N/A
	<u>FY 2014-15</u>	<u>FY 2015-16</u>	
Consensus Estimate of Pupil Membership	1,514,000	1,507,000	
Pupil Membership Adjustment Factor for FY 2015-16:			
<u>FY 2014-15 Pupil Membership</u>	= 1,514,000		
<u>FY 2015-16 Pupil Membership</u>	= 1,507,000		
FY 2015-16 Pupil Membership Adjustment Factor			1.0046
FY 2015-16 School Aid Index			1.0371