
MEMORANDUM



DATE: May 16, 2008
TO: Members of the Michigan House of Representatives
FROM: Mitchell E. Bean, Director
RE: Consensus Revenue Agreement—May 16, 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) revenue.

The conference principals at the May 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 May 2008 conference. The consensus estimates will be revised or updated at the January 2009 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 1.1% in calendar year (CY) 2008 and by 1.8% in CY 2009. Michigan personal income is forecast to grow 1.4% in CY 2008 and by 1.9% in CY 2009.

Table 2: Consensus Estimates of GF/GP and SAF

Provides revenue estimates for FY 2006-07 (final), FY 2007-08 (revised), and FY 2008-09 (revised). Net GF/GP and SAF revenue is estimated to increase \$1,067.5 million or 5.5% in FY 2007-08 and increase \$52.9 million or 0.3% in FY 2008-09.

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

A withdrawal is estimated for both FY 2007-08 and 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 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 \$4.98 billion below the limit in FY 2007-08 and \$5.93 billion below the limit in FY 2008-09.

Table 5: Consensus Estimate— School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor

Reports consensus estimates of pupil membership for FY 2007-08 and FY 2008-09 and notes changes from January 2008 estimates. Also reports calculations used to determine the FY 2008-09 revenue adjustment factor, which is 0.9970, and pupil membership adjustment factor, which is 1.0161. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0131 or 1.31%.

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

attachments

Table 1
Consensus Economic Forecast
May 2008

	<u>Calendar 2006 Actual</u>	<u>Calendar 2007 Estimated</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	\$11,567	2.2%	\$11,694	1.1%	\$11,904	1.8%
Implicit Price Deflator GDP (2000 = 100)	116.6	119.7	2.7%	122.5	2.4%	125.9	2.8%
Consumer Price Index (1982-84 = 100)	201.6	207.3	2.8%	215.8	4.1%	222.1	2.9%
Personal Consumption Deflator (2000 = 100)	114.7	117.6	2.5%	121.5	3.3%	124.3	2.3%
3-month Treasury Bills Interest Rate (Percent)	4.7%	4.4%		1.6%		1.8%	
Aaa Corporate Bonds Interest Rate (Percent)	5.6%	5.6%		5.1%		4.6%	
Unemployment Rate—Civilian (Percent)	4.6%	4.6%		5.3%		5.8%	
Light Vehicle Sales (Millions of units)	16.5	16.1	-2.4%	14.9	-7.5%	15.0	0.7%
Passenger Car Sales (Millions of units)	7.8	7.6	-2.4%	7.2	-5.2%	7.3	1.4%
Light Truck Sales (Millions of units)	8.7	8.5	-2.4%	7.7	-9.6%	7.7	0.0%
Import Share of Light Vehicles (Percent)	22.4%	23.3%		24.0%		25.0%	
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	4,327	4,262	-1.5%	4,185	-1.8%	4,123	-1.5%
Unemployment Rate (Percent)	6.9%	7.2%		7.6%		8.3%	
Personal Income (Millions of current dollars)	\$341,337	\$353,376	3.5%	\$358,324	1.4%	\$365,132	1.9%
Real Personal Income (Millions of 1982-84 dollars)	\$173,620	\$176,574	1.7%	\$174,028	-1.4%	\$173,048	-0.6%
Wages and Salaries (Millions of current dollars)	\$185,169	\$189,019	2.1%	\$189,208	0.1%	\$190,532	0.7%
Detroit Consumer Price Index (1982-84 = 100)	196.6	200.1	1.8%	205.9	2.9%	211.0	2.5%
Detroit CPI (FY) (1982-84 = 100)	195.9	199.0	1.6%	204.4	2.7%	209.7	2.6%

NOTE: Percentages may not calculate exactly due to rounding.

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

	FY 2006-07 <u>Final</u>	FY 2007-08			FY 2008-09		
		<u>May 2008 Consensus</u>	<u>% Change from FY 07</u>	<u>\$\$ Change from FY 07</u>	<u>May 2008 Consensus</u>	<u>% Change from FY 08</u>	<u>\$\$ Change from FY 08</u>
<i>General Fund/General Purpose</i>							
Baseline	\$8,280.5	\$8,120.9	-1.9%	(\$159.6)	\$8,102.1	-0.2%	(\$18.8)
Tax Adjustments	\$38.0	\$1,043.2	2645.3%	\$1,005.2	\$782.6	-25.0%	(\$260.6)
Net GF-GP Revenue	\$8,318.5	\$9,164.1	10.2%	\$845.6	\$8,884.6	-3.1%	(\$279.5)
<i>School Aid Fund Revenue</i>							
Baseline	\$11,149.7	\$11,119.5	-0.3%	(\$30.2)	\$11,079.8	-0.4%	(\$39.7)
Tax Adjustments	\$3.4	\$255.6	7417.6%	\$252.2	\$627.6	145.5%	\$372.0
Net SAF Revenue	\$11,153.1	\$11,375.0	2.0%	\$221.9	\$11,707.4	2.9%	\$332.4
<i>Total GF-GP and SAF</i>							
Baseline	\$19,430.2	\$19,240.4	-1.0%	(\$189.8)	\$19,181.8	-0.3%	(\$58.6)
Tax Adjustments	\$41.4	\$1,298.7	3037.0%	\$1,257.3	\$1,410.2	8.6%	\$111.5
Net GF-GP and SAF	\$19,471.6	\$20,539.1	5.5%	\$1,067.5	\$20,592.0	0.3%	\$52.9

Numbers may not calculate exactly due to rounding.

Table 3
May 2008 Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	Pay-In/Out for FY 2007-08		Pay-In/Out for FY 2008-09	
	CY 2007	CY 2008	CY 2008	CY 2009
Michigan Personal Income	\$353,376	\$358,324 ⁽¹⁾	\$358,324 ⁽¹⁾	\$365,132 ⁽¹⁾
Less Transfer Payments	\$56,619	\$62,958 ⁽¹⁾	\$62,958 ⁽¹⁾	\$66,924 ⁽¹⁾
Income Net of Transfers	\$293,757	\$295,366	\$295,366	\$298,208
Detroit CPI for 12 months ending	1.986 ⁽²⁾ (June 2007)	2.030 ⁽³⁾ (June 2008)	2.030 ⁽³⁾ (June 2008)	2.080 ⁽³⁾ (June 2009)
Real Adjusted Michigan Personal Income	\$147,914	\$145,523	\$145,523	\$143,339
Change in Real Adjusted Personal Income		-1.6%		-1.5%
Amount Under 0%		-1.6%		-1.5%
GF-GP Revenue		\$9,164.1		\$8,884.6
CALCULATED BSF PAY-OUT		(\$146.6) ⁽⁴⁾		(\$133.3) ⁽⁴⁾

(1) Personal Income and Transfer Payments: Consensus Forecast, May 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, May 2008.

(4) Calculation per MCL 18.1352.

NOTE: Numbers may not calculate exactly due to rounding.

House Fiscal Agency
May 16, 2008

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

	<u>FY 2004-05</u> <u>Actual</u>	<u>FY 2005-06</u> <u>Actual</u>	<u>FY 2006-07</u> <u>Actual</u>	<u>FY 2007-08</u> <u>Consensus</u> <u>May 2008</u>	<u>FY 2008-09</u> <u>Consensus</u> <u>May 2008</u>
<u>Revenue Subject to Limit</u>					
Consensus					
General Fund General Purpose	\$8,273.2	\$8,245.9	\$8,299.7	\$9,144.1	\$8,864.7
General Fund Revenue Sharing	1,618.3	1,645.5	\$1,613.8	\$1,652.3	\$1,635.9
School Aid Fund	10,909.9	11,082.1	\$11,153.1	\$11,375.1	\$11,707.4
Transportation	2,215.9	2,174.5	\$2,119.4	\$2,134.1	\$2,162.3
Other Restricted Revenue	\$2,609.5	\$2,666.1	\$2,932.4	\$3,085.0	\$3,236.1
Total Revenue Subject to Limit	\$25,626.8	\$25,814.2	\$26,118.4	\$27,390.5	\$27,606.3
<u>Revenue Limit</u>					
Personal Income	\$314,460	\$324,134	\$331,304	\$341,075	\$353,376
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$29,842.3	\$30,760.3	\$31,440.7	\$32,368.0	\$33,535.4
1 Percent of Limit	\$298.4	\$307.6	\$314.4	\$323.7	\$335.4
Amount Under (Over) Limit	\$4,215.5	\$4,946.2	\$5,322.4	\$4,977.5	\$5,929.1

Numbers may not calculate exactly due to rounding.

House Fiscal Agency
May 16, 2008

Table 5
May 2008 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2008-09

	<u>January 2008</u> Consensus <u>Estimate</u>	<u>May 2008</u> Consensus <u>Estimate</u>	<u>Change</u>
FY 2007-08			
Local Districts	1,554,634	1,553,568	(1,066)
Public School Academies	<u>99,221</u>	<u>98,987</u>	<u>(234)</u>
Total	1,653,855	1,652,555	(1,300)
FY 2008-09			
Local Districts	1,525,600	1,523,800	(1,800)
Public School Academies	<u>103,000</u>	<u>102,500</u>	<u>(500)</u>
Total	1,628,600	1,626,300	(2,300)

Revenue Adjustment Factor (Millions of \$)

	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Baseline SAF Revenue	\$11,149.7	\$11,119.5	\$11,079.8
Balance Sheet Adjustments	<u>\$3.4</u>	<u>\$255.6</u>	<u>\$627.6</u>
Net SAF Estimate	\$11,153.1	\$11,375.0	\$11,707.4
Adjustments to FY 2008-09 Base	<u>\$624.2</u>	<u>\$372.1</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2008-09 Base	\$11,777.3	\$11,747.1	\$11,707.4
Annual Growth Rate		-0.26%	-0.34%
SAF Revenue Calculation for FY 2008-09:			
Sum of FY 2006-07 and FY 2007-08	\$11,777.3	+	\$11,747.1 = \$23,524.4
Sum of FY 2007-08 and FY 2008-09	\$11,747.1	+	\$11,707.4 = \$23,454.5

FY 2008-09 Revenue Adjustment Factor	0.9970
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Pupil Membership Adjustment Factor

	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Consensus Estimate of Pupil Membership	1,652,555	1,626,300

Calculate Pupil Membership Adjustment Factor:

FY 2007-08 Pupil Membership Estimate *divided by* FY 2008-09 Pupil Member Estimate

FY 2008-09 Pupil Membership Adjustment Factor	1.0161
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