

**DATE:** May 13, 2003

**TO:** Members of the House of Representatives

**FROM:** Mitchell E. Bean, Director

**RE:** Consensus Revenue Agreement—May 13, 2003

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 May 2003 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 2003 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 13 conference. The consensus estimates will be revised or updated at the January 2004 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 2.2% in calendar year (CY) 2003 and by 3.7% in CY 2004. In addition, Michigan personal income is forecast to grow 3.1% in CY 2003 and by 5.1% in CY 2004.

**Table 2: Consensus Estimates of GF/GP and SAF**

Provides the final estimates for FY 2001-02 and revised consensus estimates for FY 2002-03 and FY 2003-04 revenues. Net GF/GP and SAF revenue is estimated to increase by \$288.7 million in FY 2002-03, then increase by \$58.1 million or 0.3% in FY 2003-04.

**Table 3: Consensus Estimate - Budget and Economic Stabilization Fund Calculation**

No pay-in or withdrawal from the Budget Stabilization Fund (based on growth in real adjusted personal income [Management and Budget Act, 1984 PA 431, Section 352]) is estimated for FY 2002-03 or FY 2003-04.

**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. It is estimated that total state revenue subject to the limit will be \$4.3 billion below the limit in FY 2002-03 and \$4.8 billion below the limit in FY 2003-04.

**Table 5: Consensus Estimate - Comparison of Pupil Membership Estimates**

Reports consensus estimates of pupil membership for FY 2002-03 and FY 2003-04 and notes changes from January 2003 estimates.

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

Reports calculations used to determine the FY 2003-04 revenue adjustment factor which is 1.0255, and the pupil membership adjustment factor, which is 0.9979 for FY 2003-04. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0233 or 2.33%.

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

attachments

**Table 1**  
**Consensus Economic Forecast**  
**May 2003**

	Calendar 2002 Actual	% Change from Prior Year	Calendar 2003 Forecast	% Change from Prior Year	Calendar 2004 Forecast	% Change from Prior Year
<b>United States</b>						
Real Gross Domestic Product (Billions of Chained 1996 Dollars)	\$9,440	2.4%	\$9,648	2.2%	\$10,005	3.7%
Implicit Price Deflator GDP (1996 = 100)	110.7	1.1%	112.2	1.4%	114.2	1.8%
Consumer Price Index (1982-84 = 100)	179.9	1.6%	183.8	2.2%	187.1	1.8%
3-month Treasury Bills Interest Rate (percent)	1.6		1.2		2.1	
Aaa Corporate Bonds Interest Rate (percent)	6.5		5.8		5.6	
Unemployment Rate - Civilian (percent)	5.8		6.0		5.7	
Light Vehicle Sales (millions of units)	16.7	-1.9%	16.0	-4.2%	16.5	3.1%
Passenger Car Sales (millions of units)	8.1	-4.0%	7.7	-4.7%	7.9	2.6%
Light Truck Sales (millions of units)	8.6	0.2%	8.3	-3.7%	8.6	3.6%
Import Share of Light Vehicles (percent)	19.7		19.8		18.8	
<b>Michigan</b>						
Wage and Salary Employment (thousands)	4,476	-1.8%	4,445	-0.7%	4,507	1.4%
Unemployment Rate (percent)	6.2		6.5		6.1	
Personal Income (millions of dollars)	\$304,491	2.7%	\$313,930	3.1%	\$329,941	5.1%
Real Personal Income (millions of 1982-84 dollars)	\$170,202	0.1%	\$171,869	1.0%	\$177,615	3.3%
Wages and Salaries (millions of dollars)	\$174,702	0.8%	\$179,070	2.5%	\$186,949	4.4%
Detroit Consumer Price Index (1982-84 = 100)	178.9	2.6%	182.7	2.1%	185.8	1.7%

NOTE: Percentages may not calculate exactly due to rounding.

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**Table 2**  
**Revenue Comparison and Consensus Estimates of GF/GP and SAF**  
(Millions of Dollars)  
**May 2003**

	FY 2001-02	FY 2002-03			FY 2003-04		
	<u>Final</u>	<u>May 13, 2003 Consensus</u>	<u>% Change from FY 02</u>	<u>\$\$ Change from FY 02</u>	<u>May 13, 2003 Consensus</u>	<u>% Change from FY 03</u>	<u>\$\$ Change from FY 03</u>
General Fund/General Purpose							
Baseline	\$8,280.2	\$8,313.8	0.41%	\$33.6	\$8,670.5	4.29%	\$356.7
Tax Adjustments	\$146.8	(\$229.9)			(\$511.8)		
Net GF/GP Revenue	<u>\$8,427.0</u>	<u>\$8,083.8</u>	-4.07%	(\$343.2)	<u>\$8,158.7</u>	0.93%	\$74.9
School Aid Fund Revenue							
Baseline	\$10,105.3	\$10,209.0	1.03%	\$103.7	\$10,629.7	4.12%	\$420.7
Tax Adjustments	\$28.6	\$556.7			\$119.3		
Net SAF Revenue	<u>\$10,133.9</u>	<u>\$10,765.7</u>	6.23%	\$631.8	<u>\$10,749.0</u>	-0.16%	(\$16.7)
Total GF/GP and SAF							
Baseline	\$18,385.5	\$18,522.8	0.75%	\$137.3	\$19,300.2	4.20%	\$777.4
Tax Adjustments	\$175.4	\$326.8			(\$392.5)		
Net GF/GP and SAF	<u>\$18,560.9</u>	<u>\$18,849.6</u>	1.56%	\$288.7	<u>\$18,907.7</u>	0.31%	\$58.1

NOTE: Percentages may not calculate exactly due to rounding.

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**Table 3**  
**Consensus Estimate for Budget and Economic Stabilization Fund Calculation**  
**FY 2002-03 and FY 2003-04**  
**(Millions of Dollars)**  
**May 2003**

	<u>CY 2002</u>	<u>CY 2003</u>
Michigan Personal Income	\$304,491 <sup>(1)</sup>	\$314,588 <sup>(2)</sup>
Less Transfer Payments	\$47,031 <sup>(2)</sup>	\$49,101 <sup>(2)</sup>
Income Net of Transfers	\$257,460	\$265,488
Detroit CPI for 12 months ending	1.729 <sup>(3)</sup> (June 2002)	1.781 <sup>(3)</sup> (June 2003)
Real Adjusted Michigan Personal Income	\$148,907	\$149,078
Change in Real Adjusted Personal Income		0.1%
Between 0 and 2%		0.0%
GF/GP Revenue Fiscal Year 2002-03		\$8,083.8

**BSF Withdrawal not indicated for FY 2002-03**

**BSF Pay-in not indicated for FY 2003-04**

Notes:

1. Personal Income and Transfer Payments: Bureau of Economic Analysis, April 2003 release.
2. Personal Income, Transfer Payments, and Detroit Consumer Price Index: Consensus Economic Forecast of May 2003.
3. Detroit Consumer Price Index: average of six monthly values reported by BLS for each 12-month period and from May 2003 Consensus Forecast.

NOTE: Numbers may not calculate exactly due to rounding.

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**Table 4**  
**Consensus Estimate**  
**Constitutional Revenue Limit Calculation**  
(Millions of Dollars)  
**May 2003**

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Consensus May 13, 2003</u>	<u>Consensus May 13, 2003</u>
<b><u>Revenue Subject to Limit</u></b>						
Consensus						
General Fund General Purpose	\$9,382.1	\$9,754.8	\$8,964.9	\$8,402.3	\$8,063.9	\$8,138.7
General Fund Revenue Sharing	\$1,395.0	\$1,470.1	\$1,559.3	\$1,571.3	\$1,597.4	\$1,653.0
School Aid Fund	\$9,309.9	\$9,889.3	\$9,994.1	\$10,133.9	\$10,765.7	\$10,749.0
Transportation	\$2,048.5	\$2,094.9	\$2,118.7	\$2,211.1	\$2,257.3	\$2,347.0
Other Restricted Revenue	\$1,073.2	\$1,153.8	\$1,272.2	\$1,227.4	\$1,227.4	\$1,227.4
<b>Total Revenue Subject to Limit</b>	<b>\$23,208.6</b>	<b>\$24,362.9</b>	<b>\$23,909.2</b>	<b>\$23,546.0</b>	<b>\$23,911.7</b>	<b>\$24,115.1</b>
<b><u>Revenue Limit</u></b>	<b><u>CY 1997</u></b>	<b><u>CY 1998</u></b>	<b><u>CY 1999</u></b>	<b><u>CY 2000</u></b>	<b><u>CY 2001</u></b>	<b><u>CY 2002</u></b>
Personal Income	\$244,329	\$255,039	\$277,296	\$289,390	\$297,609	\$304,491
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$23,186.8	\$24,203.2	\$26,315.4	\$27,463.1	\$28,243.1	\$28,896.2
1 Percent of Limit	\$231.9	\$242.0	\$263.2	\$274.6	\$282.4	\$289.0
<b><u>Amount Under (Over) Limit</u></b>	<b>(\$21.7)</b>	<b>(\$159.7)</b>	<b>\$2,406.2</b>	<b>\$3,917.1</b>	<b>\$4,331.4</b>	<b>\$4,781.1</b>

**Table 5**  
**Consensus Estimate**  
**May 2003 Comparison of Pupil Membership Estimates**  
**FY 2002-03 and FY 2003-04**

	<u>January 2003 Consensus Estimate</u>	<u>May 2003 Consensus Estimate</u>	<u>Change From January 2003 Consensus Estimate</u>
<b>FY 2002-03</b>			
Local Districts	1,648,100	1,647,500	(600)
Public School Academies	<u>67,200</u>	<u>67,421</u>	<u>221</u>
Total	1,715,300	1,714,921	(379)
<b>FY 2003-04</b>			
Local Districts	1,647,000	1,645,900	(1,100)
Public School Academies	<u>71,500</u>	<u>72,600</u>	<u>1,100</u>
Total	1,718,500	1,718,500	0

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**Table 6**  
**May 2003 Consensus Estimate School Aid**  
**Revenue Adjustment Factor and Pupil Membership Adjustment Factor for FY 2003-04**

**Revenue Adjustment Factor (Millions of Dollars)**

	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
Baseline SAF Revenue	\$10,105.3	\$10,209.0	\$10,629.7
Balance Sheet Adjustments	<u>\$28.6</u>	<u>\$556.7</u>	<u>\$119.3</u>
Net SAF Estimate	\$10,133.9	\$10,765.7	\$10,749.0
Adjustments to FY 2003-04 Base	<u>\$91.2</u>	<u>(\$441.0)</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2003-04 Base	\$10,225.1	\$10,324.7	\$10,749.0
Annual Growth Rate		0.97%	4.11%
<u>School Aid Fund Revenue Calculation for FY 2003-04</u>			
Sum of FY 2001-02 and FY 2002-03	\$10,225.1 +	\$10,324.7 =	\$20,549.9
Sum of FY 2002-03 and FY 2003-04	\$10,324.7 +	\$10,749.0 =	\$21,073.7

<b>FY 2003-04 Revenue Adjustment Factor</b>	<b>1.0255</b>
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**Pupil Membership Adjustment Factor**

<b>Consensus Estimate FY 2002-03</b>	1,647,500	Local District Pupils
+	<u>67,421</u>	Public School Academy Pupils
	1,714,921	
<b>Consensus Estimate FY 2003-04</b>	1,645,900	Local District Pupils
+	<u>72,600</u>	Public School Academy Pupils
	1,718,500	

**Estimated FY 2003-04 Pupil Membership Adjustment Factor**

FY 2002-03 Pupil Membership =	1,714,921
divided by	
FY 2003-04 Pupil Membership =	1,718,500

<b>FY 2003-04 Pupil Membership Adjustment Factor (based on May 2003 Consensus)</b>	<b>0.9979</b>
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