

DATE: May 24, 2011
TO: Members of the Michigan House of Representatives
FROM: Mitchell E. Bean, Director *MB*
RE: Consensus Revenue Agreement—May 16, 2011

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 2011 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 2011 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 2011 conference. These consensus estimates will be reviewed and updated at the January 2012 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 2.5% in calendar year (CY) 2011, increase by 2.9% in CY 2012, and by 3.1% in CY 2013. Michigan real personal income is forecast to increase 2.0% in CY 2011, increase by 1.0% in CY 2012, and 2.4% CY 2013.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final FY 2009-10 revenue and revenue estimates for FY 2010-11 through FY 2012-13. Net GF/GP and SAF revenue is estimated to increase \$1,033.5 or 5.9% in FY 2010-11, increase \$350.7 million or 1.9% in FY 2011-12, and increase \$157.3 million or 0.8% in FY 2012-13.

Table 3: Consensus Estimates of GF/GP and SAF with Tax Plan Impact

Table 3 shows the net revenue estimates by fund with the tax plan as enrolled in House Bills 4361 and 4362. The tax plan has no effect on FY 2010-11 revenue, it is estimated to reduce revenue by \$535.2 million in FY 2011-12, and reduce revenue by \$224.0 million in FY 2012-13. In total (including the tax plan), the FY 2011-12 combined GF/GP and SAF revenue is estimated to decline 1.0% from FY 2010-11; FY 2012-13 revenue is estimated to increase 2.5% from FY 2011-12.

Table 4: Consensus Estimate—Budget and Economic Stabilization Fund (BSF) Calculation

A pay-in of \$255.8 million is estimated for FY 2011-12 and no pay-in or withdrawal is estimated for FY 2012-13. 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 5: 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 \$8.91 billion below the limit in FY 2009-10, \$6.90 billion in FY 2010-11, \$7.17 billion below the limit in FY 2011-12, and \$8.41 billion below the limit in FY 2012-13.

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 2011-12 and FY 2012-13. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase or decrease in the per pupil foundation allowance, which is 1.0334 or an increase of 3.34% in FY 2011-12 and 1.0314 or an increase of 3.14% in FY 2012-13.

Table 8: Consensus Human Services/Community Health Expenditure Estimates

Reviews consensus gross and GF/GP expenditure estimates for Department of Human Services caseload programs and for Medicaid programs within the Department of Community Health. Human Services caseload program GF/GP spending is expected to fall \$2.0 million below FY 2010-11 appropriated levels, and \$5.5 million and \$5.4 million below the FY 2011-12 and FY 2012-13 Executive recommendations, respectively. Conversely, Medicaid GF/GP expenditures are expected to be \$98.7 million above current year appropriations, and \$55.0 million and \$78.8 million above the FY 2011-12 and FY 2012-13 Executive recommendations, respectively.

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

Attachments

Table 1
Consensus Economic Forecast
May 2011

	Calendar 2010 Actual	% Change from Prior Year	Calendar 2011 Estimated	% Change from Prior Year	Calendar 2012 Estimated	% Change from Prior Year	Calendar 2013 Estimated	% Change from Prior Year
<u>United States</u>								
Real Gross Domestic Product (Billions of 2005 dollars)	\$13,248	2.9%	\$13,579	2.5%	\$13,973	2.9%	\$14,406	3.1%
Implicit Price Deflator GDP (2005 = 100)	110.7	1.0%	112.5	1.6%	114.4	1.7%	116.6	1.9%
Consumer Price Index (1982-84 = 100)	218.1	1.6%	224.8	3.1%	229.5	2.1%	234.1	2.0%
Consumer Price Index (FY) (1982-84 = 100)	217.4	1.7%	222.8	2.5%	228.4	2.5%	232.7	1.9%
Personal Consumption Deflator (2005 = 100)	111.1	1.7%	113.7	2.3%	115.7	1.8%	117.7	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.1%		0.1%		0.3%		0.7%	
Aaa Corporate Bonds Interest Rate (Percent)	4.9%		5.0%		5.0%		5.0%	
Unemployment Rate—Civilian (Percent)	9.6%		9.0%		8.8%		8.3%	
Wage and Salary Employment (Millions)	129,818	-0.8%	131,120	1.0%	133,350	1.7%	135,750	1.8%
Housing Starts (Millions of starts)	0.585	5.6%	0.625	6.8%	0.865	38.4%	1.106	27.9%
Light Vehicle Sales (Millions of units)	11.5	10.6%	13.0	13.0%	14.6	12.3%	15.2	4.1%
Passenger Car Sales (Millions of units)	5.7	3.6%	6.7	17.5%	7.5	11.9%	7.7	2.7%
Light Truck Sales (Millions of units)	5.8	18.4%	6.3	8.6%	7.1	12.7%	7.5	5.6%
Big 3 Share of Light Vehicles (Percent)	44.2%		45.6%		45.0%		45.0%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	3,861	-0.3%	3,927	1.7%	3,966	1.0%	4,014	1.2%
Unemployment Rate (Percent)	12.5%		10.2%		9.8%		9.5%	
Personal Income (Millions of current dollars)	\$351,830	2.8%	\$369,070	4.9%	\$379,773	2.9%	\$396,483	4.4%
Real Personal Income (Millions of 1982-84 dollars)	\$171,553	2.0%	\$174,915	2.0%	\$176,638	1.0%	\$180,960	2.4%
Wage and Salary Income (Millions of current dollars)	\$174,256	2.1%	\$182,446	4.7%	\$188,467	3.3%	\$195,440	3.7%
Detroit Consumer Price Index (1982-84 = 100)	205.1	0.8%	211.0	2.9%	215.0	1.9%	219.1	1.9%
Detroit CPI (FY) (1982-84 = 100)	204.7	0.9%	209.4	2.3%	214.2	2.3%	218.1	1.8%

Note: Percentages may not calculate exactly due to rounding.

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Table 2
May 2011: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

			FY 2010-11			FY 2011-12			FY 2012-13		
	FY 2009-10 Final	% Change From FY 2008-09	May 2011 Consensus	Change From FY 2009-10		May 2011 Consensus	Change From FY 2010-11		May 2011 Consensus	Change From FY 2011-12	
General Fund/General Purpose											
Baseline	\$6,505.9	-3.8%	\$7,248.3	11.4%	\$742.4	\$7,549.5	4.2%	\$301.2	\$7,852.9	4.0%	\$303.4
Tax Adjustments	\$279.3		\$275.8	-1.3%	(\$3.5)	\$101.5	-63.2%	(\$174.3)	(\$335.7)	-430.7%	(\$437.2)
Net GF/GP Revenue	\$6,785.2	-7.9%	\$7,524.1	10.9%	\$738.9	\$7,651.0	1.7%	\$126.9	\$7,517.2	-1.7%	(\$133.8)
School Aid Fund Revenue											
Baseline	\$10,808.9	-0.8%	\$11,109.0	2.8%	\$300.1	\$11,302.4	1.7%	\$193.4	\$11,585.1	2.5%	\$282.7
Tax Adjustments	\$8.1		\$2.5	-69.1%	(\$5.6)	\$32.9	1,216.0%	\$30.4	\$41.3	25.5%	\$8.4
Net SAF Revenue	\$10,816.9	-1.0%	\$11,111.5	2.7%	\$294.6	\$11,335.3	2.0%	\$223.8	\$11,626.4	2.6%	\$291.1
Total GF/GP and SAF											
Baseline	\$17,314.7	-2.1%	\$18,357.3	6.0%	\$1,042.5	\$18,851.9	2.7%	\$494.6	\$19,438.0	3.1%	\$586.1
Tax Adjustments	\$287.4		\$278.3	-3.2%	(\$9.1)	\$134.4	-51.7%	(\$143.9)	(\$294.4)	-319.0%	(\$428.8)
Net GF/GP and SAF	\$17,602.1	-3.8%	\$18,635.6	5.9%	\$1,033.5	\$18,986.3	1.9%	\$350.7	\$19,143.6	0.8%	\$157.3

Numbers may not calculate exactly due to rounding.

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Table 3
Consensus Estimates of GF/GP and SAF with Tax Plan Impact Under HB 4361 & HB 4362
(Millions of Dollars)

	FY 2011	FY 2012			FY 2013			
	<u>May 2011 Consensus</u>	<u>May 2011 Consensus Before Tax Plan</u>	<u>Tax Plan</u>	<u>May 2011 Consensus After Tax Plan</u>	<u>Change from January</u>	<u>May 2011 Consensus Before Tax Plan</u>	<u>Tax Plan</u>	<u>May 2011 Consensus After Tax Plan</u>
Net GF/GP Revenue Growth	\$7,524.1 10.9%	\$7,651.0 1.7%	\$154.7 ⁽¹⁾	\$7,805.7 3.7%	\$511.6	\$7,517.2 -1.7%	\$438.0	\$7,955.2 1.9%
Net SAF Revenue Growth	\$11,111.5 2.7%	\$11,335.3 2.0%	(\$689.9)	\$10,645.4 -4.2%	(\$548.3)	\$11,626.4 2.6%	(\$662.1)	\$10,964.3 3.0%
Combined GF/GP and SAF Growth	\$18,635.6 5.9%	\$18,986.3 1.9%	(\$535.2)	\$18,451.1 -1.0%	(\$36.7)	\$19,143.6 0.8%	(\$224.0)	\$18,919.6 2.5%

Note:

1. Excludes \$25 million cost to implement the tax changes.

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Table 4
May 2011: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	Pay-In/Transfer for FY 2011-12		Pay-In/Transfer for FY 2012-13	
	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2011</u>	<u>CY 2012</u>
Michigan Personal Income	\$351,830 ⁽¹⁾	\$369,070 ⁽²⁾	\$369,070 ⁽²⁾	\$379,035 ⁽²⁾
Less Transfer Payments	\$81,535 ⁽¹⁾	\$81,943 ⁽²⁾	\$81,943 ⁽²⁾	\$84,073 ⁽²⁾
Income Net of Transfers	\$270,295	\$287,127	\$287,127	\$294,962
Detroit CPI for 12 months ending	2.045 ⁽³⁾ (June 2010)	2.062 ⁽⁴⁾ (June 2011)	2.062 ⁽⁴⁾ (June 2011)	2.095 ⁽⁴⁾ (June 2012)
Real Adjusted Michigan Personal Income	\$132,157	\$139,273	\$139,273	\$140,820
Change in Real Adjusted Personal Income		5.4%		1.1%
Excess over 2%		3.4%		0.0%
GF/GP Revenue	FY 2010-11	\$7,524.1	FY 2011-12	\$7,651.0
BSF PAY-IN / (PAY-OUT)	FY 2011-12	\$255.8 ⁽⁵⁾	FY 2012-13	No Pay-In or Pay-Out ⁽⁵⁾

Notes:

1. Personal Income and Transfer Payments BEA October 2010.
2. Personal Income and Transfer Payments: Consensus Forecast, May 2011.
3. Detroit Consumer Price Index: Average of six monthly values reported by BLS for each 12-month period.
4. Detroit Consumer Price Index: Consensus Forecast, May 2011.
5. Calculation per MCL 18.1352.

Table 5
May 2011 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	<u>FY 2007-08</u> <u>Actual</u>	<u>FY 2008-09</u> <u>Actual</u>	<u>FY 2009-10</u> <u>Consensus</u> <u>May 2011</u>	<u>FY 2010-11</u> <u>Consensus</u> <u>May 2011</u>	<u>FY 2011-12</u> <u>Consensus</u> <u>May 2011</u>	<u>FY 2012-13</u> <u>Consensus</u> <u>May 2011</u>
<u>Revenue Subject to Limit</u>						
Consensus						
General Fund General Purpose	\$9,343.8	\$7,334.4	\$6,764.4	\$7,502.1	\$7,628.0	\$7,494.2
General Fund Revenue Sharing	\$1,665.5	\$1,568.3	\$1,519.3	\$1,578.5	\$1,623.3	\$1,668.1
School Aid Fund	\$11,512.9	\$10,922.2	\$10,816.9	\$11,111.5	\$11,335.3	\$11,626.4
Transportation	\$2,068.5	\$1,999.1	\$1,999.7	\$2,065.4	\$2,142.4	\$2,160.0
Other Restricted Revenue	\$3,125.5	\$3,014.7	\$3,165.4	\$3,323.7	\$3,489.8	\$3,664.3
Total Revenue Subject to Limit	\$27,716.3	\$24,838.6	\$24,265.7	\$25,581.2	\$26,218.9	\$26,613.0
<u>Revenue Limit</u>						
Personal Income	<u>CY 2006</u> \$341,075	<u>CY 2007</u> \$345,885	<u>CY 2008</u> \$349,612	<u>CY 2009</u> \$342,302	<u>CY 2010</u> \$351,830	<u>CY 2011</u> \$369,070
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$32,368.0	\$32,824.5	\$33,178.2	\$32,484.5	\$33,388.7	\$35,024.7
1 Percent of Limit	\$323.7	\$328.2	\$331.8	\$324.8	\$333.9	\$350.2
Amount Under (Over) Limit	\$4,651.7	\$7,985.9	\$8,912.5	\$6,903.3	\$7,169.8	\$8,411.7

Numbers may not calculate exactly due to rounding.

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Note: Calculation does not include the tax changes included in HB 4361 and HB 4362.

Table 6
May 2011 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2011-12

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
Baseline SAF Revenue	\$10,808.8	\$11,109.0	\$11,302.4
Balance Sheet Adjustments	<u>\$8.1</u>	<u>\$2.5</u>	<u>\$32.9</u>
Net SAF Estimate	\$10,816.8	\$11,111.5	\$11,335.3
Adjustments to FY 2011-12 Base	<u>\$24.8</u>	<u>\$30.4</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2011-12 Base	\$10,841.7	\$11,141.9	\$11,335.3
Percent Change		2.77%	1.74%
SAF Revenue Calculation for FY 2011-12:			
Sum of FY 2009-10 and FY 2010-11	\$10,841.7 +	\$11,141.9	= \$21,983.5
Sum of FY 2010-11 and FY 2011-12	\$11,141.9 +	\$11,335.3	= \$22,477.2
FY 2011-12 Revenue Adjustment Factor			1.0225
	<u>January 2011 Consensus Estimate</u>	<u>May 2011 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2010-11			
Local Districts	1,457,400	1,456,800	(600)
Public School Academies	<u>112,100</u>	<u>112,100</u>	<u>0</u>
Total	1,569,500	1,568,900	(600)
FY 2011-12			
Local Districts	1,431,800	1,433,800	2,000
Public School Academies	<u>117,000</u>	<u>118,500</u>	<u>1,500</u>
Total	1,548,800	1,552,300	3,500
Consensus Estimate of Pupil Membership	<u>FY 2010-11</u> 1,568,900	<u>FY 2011-12</u> 1,552,300	
Pupil Membership Adjustment Factor for FY 2011-12:			
<u>FY 2010-11 Pupil Membership</u>	=	<u>1,568,900</u>	
<u>FY 2011-12 Pupil Membership</u>	=	<u>1,552,300</u>	
FY 2011-12 Pupil Membership Adjustment Factor			1.0107
FY 2011-12 School Aid Index			1.0334

Table 7
May 2011 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2012-13

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
Baseline SAF Revenue	\$11,109.0	\$11,302.4	\$11,585.1
Balance Sheet Adjustments	<u>\$2.5</u>	<u>\$32.9</u>	<u>\$41.3</u>
Net SAF Estimate	\$11,111.5	\$11,335.3	\$11,626.4
Adjustments to FY 2011-12 Base	<u>\$30.4</u>	<u>\$0</u>	<u>(\$8.4)</u>
Baseline Revenue on an FY 2011-12 Base	\$11,141.9	\$11,335.3	\$11,617.9
Percent Change		1.74%	2.49%
SAF Revenue Calculation for FY 2012-13:			
Sum of FY 2010-11 and FY 2011-12	\$11,141.9 +	\$11,335.3 =	\$22,477.2
Sum of FY 2011-12 and FY 2012-13	\$11,335.3 +	\$11,617.9 =	\$22,953.2
FY 2012-13 Revenue Adjustment Factor			1.0212

<u>Pupil Membership Adjustment Factor</u>	January 2011 Consensus Estimate	May 2011 Consensus Estimate	<u>Change</u>
FY 2012-13			
Local Districts	N/A	1,414,000	N/A
Public School Academies	<u>N/A</u>	<u>123,000</u>	<u>N/A</u>
Total	N/A	1,537,000	N/A
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	
Consensus Estimate of Pupil Membership	1,552,300	1,537,000	
Pupil Membership Adjustment Factor for FY 2012-13:			
<u>FY 2011-12 Pupil Membership</u>	=	<u>1,552,300</u>	
<u>FY 2012-13 Pupil Membership</u>	=	<u>1,537,000</u>	
FY 2012-13 Pupil Membership Adjustment Factor			1.0100
FY 2012-13 School Aid Index			1.0314

Table 8
May 2011 Consensus Expenditure Estimates
Department of Community Health and Department of Human Services
FY 2010-11 Through FY 2012-13
(Millions of Dollars)

<u>Department of Community Health (DCH)</u>	Gross Change to Originally Proposed/Enacted <u>Appropriation</u>	GF/GP Change to Originally Proposed/Enacted <u>Appropriation</u>
FY 2010-11*	\$198.4	\$98.7
FY 2011-12	\$219.0	\$55.0
FY 2012-13	\$219.0	\$78.8

* = Does not include increased managed care Use Tax revenue which would offset \$12.2 in GF/GP costs and will be reflected on the overall balance sheet.

<u>Department of Human Services (DHS)</u>	Gross Change to Originally Proposed/Enacted <u>Appropriation</u>	GF/GP Change to Originally Proposed/Enacted <u>Appropriation</u>
FY 2010-11	(\$30.9)	(\$2.0)
FY 2011-12	(\$34.4)	(\$5.5)
FY 2012-13	(\$40.8)	(\$5.4)

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