

MEMORANDUM



**DATE:** January 16, 2013  
**TO:** Members of the Michigan House of Representatives  
**FROM:** Mary Ann Cleary, Director *MAC*  
**RE:** Consensus Revenue Agreement – January 11, 2013

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 2013 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Budget Director. The State Budget Director is the 2013 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2013 conference. These consensus estimates will be revised or updated at the May 2013 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 1.9% in calendar year (CY) 2013, increase by 2.6% in CY 2014, and increase by 2.9% in CY 2015. Michigan personal income is forecast to increase 2.6% in CY 2013, increase by 4.3% in CY 2014, and increase by 4.4% in CY 2015.

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

Provides the final FY 2011-12 revenue, revised revenue estimates for FY 2012-13 through FY 2013-14, and the initial estimates for FY 2014-15. Net GF/GP and SAF revenue is estimated to decrease \$224.0 million or 1.1% in FY 2012-13, increase \$776.9 million or 3.9% in FY 2013-14, and increase \$711.9 million or 3.4% in FY 2014-15.

**Table 3: Composition of Revenue Estimate Change Since May**

The FY 2012-13 total consensus revenue estimate change of (\$219.4) million consists of (\$233.2) million in tax policy changes enacted since the May 2012 consensus and \$13.6 million in increased revenue due to economic changes. The FY 2013-14 total consensus revenue estimate change of (\$33.4) million consists of (\$55.6) million in tax policy changes enacted since the May 2012 consensus and \$22.2 million in increased revenue due to economic changes.

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

No pay-in's or withdrawals are expected for FY 2012-13 and FY 2013-14. A pay-in of \$9.3 million is calculated for FY 2014-15. 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 \$5.29 billion below the limit in FY 2011-12, \$6.90 billion below in FY 2012-13, \$7.22 billion below in FY 2013-14, and \$7.25 billion below the limit in FY 2014-15.

**Table 6: Long Term Revenue Trend**

The long term revenue trend for the combined GF/GP and SAF for FY 2015-16 is 2.7% and for FY 2016-17 is 3.8%.

**Table 7 and Table 8:**

**Consensus Estimate—School Aid Revenue Adjustment Factor  
and Pupil Membership Adjustment Factor**

Reports consensus estimates of revenue adjustment factor and pupil membership for FY 2013-14 and FY 2014-15. 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 2013-14 is 1.0284 and FY 2014-15 is 1.0335. The index would equal a 2.8% increase in the foundation allowance in FY 2013-14 and a 3.4% increase in FY 2014-15.

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

Attachments

**Table 1**  
**Consensus Economic Forecast**  
**January 2013**

	<u>Calendar 2012 Forecast</u>	<u>% Change from Prior Year</u>	<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>
<b><u>United States</u></b>								
Real Gross Domestic Product (Billions of Chained 2005 Dollars)	\$13,592	2.2%	\$13,850	1.9%	\$14,210	2.6%	\$14,622	2.9%
Implicit Price Deflator GDP (2005 = 100)	115.5	1.9%	117.6	1.8%	119.6	1.7%	121.8	1.8%
Consumer Price Index (1982-84 = 100)	229.558	2.1%	233.843	1.9%	283.306	1.9%	243.282	2.1%
Consumer Price Index – Fiscal Year (1982-84 = 100)	228.526	2.4%	232.718	1.8%	237.146	1.9%	241.942	2.0%
Personal Consumption Deflator (2005 = 100)	115.7	1.7%	117.4	1.5%	119.3	1.6%	121.3	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.1%		0.1%		0.1%		0.2%	
Aaa Corporate Bonds Interest Rate (Percent)	3.7%		3.6%		3.8%		4.0%	
Unemployment Rate – Civilian (Percent)	8.1%		7.8%		7.5%		7.1%	
Wage and Salary Employment (Millions)	133.2	1.4%	134.9	1.3%	137.1	1.6%	139.4	1.7%
Housing Starts (Millions of Starts)	0.771	26.8%	1.044	35.4%	1.293	23.9%	1.400	8.3%
Light Vehicle Sales (Millions of Units)	14.4	13.6%	15.0	4.0%	15.4	2.7%	15.8	2.6%
Passenger Car Sales (Millions of Units)	7.4	19.4%	7.6	2.7%	7.7	1.3%	7.9	2.6%
Light Truck Sales (Millions of Units)	7.0	8.2%	7.4	5.3%	7.7	4.1%	7.9	2.6%
Big 3 Share of Light Vehicles (Percent)	44.4%		44.9%		44.9%		45.0%	
<b><u>Michigan</u></b>								
Wage and Salary Employment (Thousands)	3,987	1.3%	4,023	0.9%	4,071	1.2%	4,124	1.3%
Unemployment Rate (Percent)	8.9%		8.8%		8.2%		7.6%	
Personal Income (Millions of Dollars)	\$370,329	3.4%	\$379,958	2.6%	\$396,296	4.3%	\$413,733	4.4%
Real Personal Income (Millions of 1982-84 Dollars)	\$171,600	1.5%	\$173,034	0.8%	\$177,354	2.5%	\$181,585	2.4%
Wages and Salaries (Millions of Dollars)	\$189,222	3.4%	\$194,520	2.8%	\$201,328	3.5%	\$208,375	3.5%
Detroit Consumer Price Index (1982-84 = 100)	215.809	1.9%	219.585	1.7%	223.449	1.8%	227.852	2.0%
Detroit Consumer Price Index – Fiscal Year (1982-84 = 100)	214.837	2.5%	218.652	1.8%	222.495	1.8%	226.723	1.9%

NOTE: Percentages may not calculate exactly due to rounding.

**Table 2**  
**January 2013: Revenue Comparison and Consensus Estimates of GF/GP and SAF**  
**(Millions of Dollars)**

	FY 2011-12			FY 2012-13			FY 2013-14			FY 2014-15		
	FY 2011-12 Final	Change From FY 2010-11	\$ Change From May 2012 Consensus	January 2013 Consensus	Change From FY 2011-12	\$ Change From May 2012 Consensus	January 2013 Consensus	Change From FY 2012-13	\$ Change From May 2012 Consensus	January 2013 Consensus	Change From FY 2013-14	\$ Change From May 2012 Consensus
<b>General Fund/ General Purpose</b>												
Baseline	\$8,164.6	6.6%		\$8,320.6	\$156.0	1.9%	\$8,680.7	\$360.1	4.3%	\$8,964.8	\$284.1	3.3%
Tax Adjustments	\$1,100.6			\$471.7	(\$628.9)	-57.1%	\$583.7	\$112.0	23.7%	\$675.2	\$91.5	15.7%
<b>Net GF/GP Revenue</b>	<b>\$9,265.2</b>	<b>5.1%</b>	<b>\$200.8</b>	<b>\$8,792.3</b>	<b>(\$472.9)</b>	<b>-5.1%</b>	<b>\$9,264.4</b>	<b>\$472.1</b>	<b>5.4%</b>	<b>\$9,640.0</b>	<b>\$375.6</b>	<b>4.1%</b>
<b>School Aid Fund Revenue</b>												
Baseline	\$11,613.7	3.1%		\$11,856.7	\$243.0	2.1%	\$12,159.2	\$302.5	2.6%	\$12,521.8	\$362.6	3.0%
Tax Adjustments	(\$734.9)			(\$729.0)	\$5.9	-0.8%	(\$726.7)	\$2.3	-0.3%	(\$753.0)	(\$26.3)	3.6%
<b>Net SAF Revenue</b>	<b>\$10,878.8</b>	<b>-3.3%</b>	<b>\$2.7</b>	<b>\$11,127.7</b>	<b>\$248.9</b>	<b>2.3%</b>	<b>\$11,432.5</b>	<b>\$304.8</b>	<b>2.7%</b>	<b>\$11,768.8</b>	<b>\$336.3</b>	<b>2.9%</b>
<b>Total GF/GP and SAF</b>												
Baseline	\$19,778.3	4.5%		\$20,177.3	\$399.0	2.0%	\$20,839.9	\$662.6	3.3%	\$21,486.6	\$646.7	3.1%
Tax Adjustments	\$365.7			(\$257.3)	(\$623.0)	-170.4%	(\$143.0)	\$114.3	-44.4%	(\$77.8)	\$65.2	-45.6%
<b>Net GF/GP and SAF</b>	<b>\$20,144.0</b>	<b>0.4%</b>	<b>\$203.5</b>	<b>\$19,920.0</b>	<b>(\$224.0)</b>	<b>-1.1%</b>	<b>\$20,696.9</b>	<b>\$776.9</b>	<b>3.9%</b>	<b>\$21,408.8</b>	<b>\$711.9</b>	<b>3.4%</b>

Numbers may not calculate exactly due to rounding

**Table 3**  
**Composition of Revenue Estimate Change Since May**  
**(Millions of Dollars)**

	<u>GF/GP</u>	<u>SAF</u>	<u>Total</u>
<b>FY 2012-13 Revenue Estimate Change</b>	<b>(\$177.7)</b>	<b>(\$41.7)</b>	<b>(\$219.4)</b>
<b>Components of Change:</b>			
<b>Policy Changes (Included in Budget)</b>			
Individual Income Tax Rate Change	(\$47.0)	\$0.0	(\$47.0)
Individual Income Tax Personal Exemption Increase	(\$44.0)	(\$12.0)	(\$56.0)
Sales Tax Earmark to Transportation	(\$110.0)	\$0.0	(\$110.0)
Other Tax Changes	<u>(\$11.6)</u>	<u>(\$4.1)</u>	<u>(\$15.7)</u>
Subtotal	(\$212.6)	(\$16.1)	(\$228.7)
<b>Policy Changes "Lame Duck"</b>	<u>(\$4.7)</u>	<u>\$0.2</u>	<u>(\$4.5)</u>
<b>Total Policy Changes</b>	(\$217.3)	(\$15.9)	(\$233.2)
<b>Economic and Other Changes:</b>	<b>\$39.6</b>	<b>(\$25.8)</b>	<b>\$13.6</b>
	<u>GF/GP</u>	<u>SAF</u>	<u>Total</u>
<b>FY 2013-14 Revenue Estimate Change</b>	<b>\$5.4</b>	<b>(\$39.0)</b>	<b>(\$33.6)</b>
<b>Components of Change:</b>			
<b>Policy Changes (Included in Budget)</b>			
Individual Income Tax Rate Change	\$0.0	\$0.0	\$0.0
Individual Income Tax Personal Exemption Increase	(\$27.0)	(\$9.0)	(\$36.0)
Sales Tax Earmark to Transportation	\$0.0	\$0.0	\$0.0
Other Tax Changes	<u>(\$7.8)</u>	<u>(\$2.5)</u>	<u>(\$10.3)</u>
Subtotal	(\$34.8)	(\$11.5)	(\$46.3)
<b>Policy Changes "Lame Duck"</b>	<u>(\$0.6)</u>	<u>(\$8.7)</u>	<u>(\$9.3)</u>
<b>Total Policy Changes</b>	(\$35.4)	(\$20.2)	(\$55.6)
<b>Economic and Other Changes:</b>	<b>\$40.8</b>	<b>(\$18.7)</b>	<b>\$22.2</b>

*Numbers may not calculate exactly due to rounding*

**Table 4**  
**January 2013: Consensus Estimate for Budget and Economic Stabilization Fund Calculation**  
(Millions of Dollars)

	FY 2012-13 Pay-In / FY 2011-12 Pay-Out Calculation		FY 2013-14 Pay-In / FY 2012-13 Pay-Out Calculation		FY 2014-15 Pay-In / FY 2013-14 Pay-Out Calculation	
	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2013</u>	<u>CY 2014</u>
Michigan Personal Income	\$358,152 <sup>(1)</sup>	\$370,329 <sup>(2)</sup>	\$370,329 <sup>(2)</sup>	\$379,958 <sup>(2)</sup>	\$379,958 <sup>(2)</sup>	\$396,296 <sup>(2)</sup>
Less Transfer Payments	<u>\$81,711 <sup>(1)</sup></u>	<u>\$83,442 <sup>(2)</sup></u>	<u>\$83,442 <sup>(2)</sup></u>	<u>\$86,279 <sup>(2)</sup></u>	<u>\$86,279 <sup>(2)</sup></u>	<u>\$91,283 <sup>(2)</sup></u>
Income Net of Transfers	\$276,441	\$286,887	\$286,887	\$293,679	\$293,679	\$305,013
Detroit CPI for 12 months ending	2.083 <sup>(3)</sup> (June 2011)	2.144 <sup>(3)</sup> (June 2012)	2.144 <sup>(3)</sup> (June 2012)	2.178 <sup>(4)</sup> (June 2013)	2.178 <sup>(4)</sup> (June 2013)	2.217 <sup>(4)</sup> (June 2014)
Real Adjusted Michigan Personal Income	\$132,713	\$133,809	\$133,809	\$134,811	\$134,811	\$137,579
Change in Real Adjusted Personal Income		0.8%		0.7%		2.1%
Amount Under 0%		N/A		N/A		N/A
Between 0% and 2%		0.8%		0.7%		N/A
Excess Over 2%		N/A		N/A		0.1%
GF/GP Revenue	FY 2011-12	\$8,969.9	FY 2012-13	\$8,792.2	FY 2013-14	\$9,264.4
<b>BSF PAY-IN<sup>(5)</sup></b>	<b>FY 2012-13</b>	No Pay-In	<b>FY 2013-14</b>	No Pay-In	<b>FY 2014-15</b>	\$9.3
<b>BSF PAY-OUT<sup>(5)</sup></b>	<b>FY 2011-12</b>	No Pay-Out	<b>FY 2012-13</b>	No Pay-Out	<b>FY 2013-14</b>	No Pay-Out

Notes:

1. Personal Income and Transfer Payments: BEA October 2012.
2. Personal Income and Transfer Payments: Consensus Forecast, January 2013.
3. Detroit Consumer Price Index, Average of 6 monthly values reported by BLS for each 12 month period.
4. Detroit Consumer Price Index: Consensus Forecast, January 2013.
5. Calculation done per MCL 18.1352.

**Table 5**  
**January 2013 Consensus Estimate**  
**Constitutional Revenue Limit Calculation**  
(Millions of Dollars)

	<u>FY 2010-11 Actual</u>	<u>FY 2011-12 Consensus January 2013</u>	<u>FY 2012-13 Consensus January 2013</u>	<u>FY 2013-14 Consensus January 2013</u>	<u>FY 2014-15 Consensus January 2013</u>
<b><u>Revenue Subject to Limit</u></b>					
Consensus					
General Fund General Purpose	\$8,795.7	\$9,210.4	\$8,772.3	\$9,244.4	\$9,620.0
General Fund Revenue Sharing	\$664.7	\$715.2	\$696.5	\$733.4	\$796.2
School Aid Fund	\$11,248.3	\$10,878.9	\$11,127.7	\$11,432.5	\$11,768.8
Transportation	\$2,028.9	\$2,107.4	\$2,110.0	\$2,121.8	\$2,136.1
Other Restricted Revenue	\$4,510.7	\$4,316.2	\$4,382.1	\$4,389.2	\$4,483.6
<b>Total Revenue Subject to Limit</b>	<b>\$27,248.2</b>	<b>\$27,228.1</b>	<b>\$27,088.5</b>	<b>\$27,921.3</b>	<b>\$28,804.7</b>
<b><u>Revenue Limit</u></b>					
	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>
Personal Income	\$345,933	\$342,663	\$358,152	\$370,329	\$379,958
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
<b>Revenue Limit</b>	<b>\$32,829.0</b>	<b>\$32,518.7</b>	<b>\$33,988.6</b>	<b>\$35,144.2</b>	<b>\$36,058.0</b>
Revenue Subject to Limit	\$27,248.2	\$27,228.1	\$27,088.5	\$27,921.3	\$28,804.7
<b>Amount Under (Over) Limit</b>	<b>\$5,580.9</b>	<b>\$5,290.6</b>	<b>\$6,900.1</b>	<b>\$7,222.9</b>	<b>\$7,253.3</b>

Numbers may not calculate exactly due to rounding.

Note: CY 2010 Personal Income is used for the FY 2012 revenue limit calculation, CY 2011 for FY 2013, CY 2012 for FY 2014, and CY 2013 for FY 2015.

**Table 6**  
**Long Term Revenue Trend**  
**(Millions of Dollars)**

	<u><b>FY 2016</b></u>	<u><b>FY 2017</b></u>
<b>Net GF/GP Revenue</b>	\$9,915.1	\$10,420.6
Growth	2.9%	5.1%
<b>Net SAF Revenue</b>	\$12,081.8	\$12,404.7
Growth	2.7%	2.7%
<b>Combined GF/GP and SAF</b>	\$21,996.9	\$22,825.3
Growth	2.7%	3.8%

**Table 7**  
**January 2013 Consensus Estimate**  
**Revenue Adjustment Factor and Pupil Membership Adjustment Factor**  
**for FY 2013-14**

<b><u>Revenue Adjustment Factor (Millions of \$)</u></b>			
	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>
Baseline SAF Revenue	\$11,613.9	\$11,856.7	\$12,159.3
Balance Sheet Adjustments	(\$735.0)	(\$729.0)	(\$726.8)
Net SAF Estimate	\$10,878.9	\$11,127.8	\$11,432.5
Subtotal Adjustments to FY 2013-14 Base	\$8.2	\$2.2	\$0.0
Baseline Revenue on an FY 2013-14 Base	\$10,887.2	\$11,130.0	\$11,432.5
Percent Change		2.23%	2.72%
SAF Revenue Adjustment Calculation for FY 2013-14:			
Sum of FY 2011-12 and FY 2012-13	\$10,887.2 +	\$11,130.0 =	\$22,017.1
Sum of FY 2012-13 and FY 2013-14	\$11,130.0 +	\$11,432.5 =	\$22,562.5
<b>FY 2013-14 Revenue Adjustment Factor</b>			<b>1.0248</b>
<i>Note: Factor is calculated off a FY 2014 base year.</i>			
	<b><u>May 2012 Consensus Estimate</u></b>	<b><u>January 2013 Consensus Estimate</u></b>	<b><u>Change</u></b>
<b><u>Pupil Membership Adjustment Factor</u></b>			
<b>FY 2012-13</b>			
Local Districts	1,412,500	1,407,100	(5,400)
Public School Academies	129,000	130,300	1,300
<b>Total</b>	<b>1,541,500</b>	<b>1,537,400</b>	<b>(4,100)</b>
<b>FY 2013-14</b>			
Local Districts	1,390,000	1,384,000	(6,000)
Public School Academies	153,000	148,000	(5,000)
<b>Total</b>	<b>1,543,000</b>	<b>1,532,000</b>	<b>(11,000)</b>
Consensus Estimate of Pupil Membership	<b><u>1,537,400</u></b>	<b><u>1,532,000</u></b>	
Pupil Membership Adjustment Factor for FY 2013-14:			
<u>FY 2012-13 Pupil Membership</u>	=	<u>1,537,400</u>	
<u>FY 2013-14 Pupil Membership</u>	=	<u>1,532,000</u>	
<b>FY 2013-14 Pupil Membership Adjustment Factor</b>			<b>1.0035</b>
<b>FY 2013-14 School Aid Index</b>			<b>1.0284</b>

**Table 8**  
**January 2013 Consensus Estimate**  
**Revenue Adjustment Factor and Pupil Membership Adjustment Factor**  
**for FY 2014-15**

<b><u>Revenue Adjustment Factor (Millions of \$)</u></b>			
	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>	<b><u>FY 2014-15</u></b>
Baseline SAF Revenue	\$11,856.7	\$12,159.3	\$12,521.8
Balance Sheet Adjustments	(\$729.0)	(\$726.8)	(\$753.0)
Net SAF Estimate	\$11,127.8	\$11,432.5	\$11,768.8
Subtotal Adjustments to FY 2014-15 Base	(\$24.0)	(\$26.2)	\$0.0
Baseline Revenue on an FY 2014-15 Base	\$11,103.7	\$11,406.3	\$11,768.8
Percent Change		2.72%	3.18%
SAF Revenue Adjustment Calculation for FY 2014-15:			
Sum of FY 2012-13 and FY 2013-14	\$11,103.7 +	\$11,406.3 =	\$22,510.0
Sum of FY 2013-14 and FY 2014-15	\$11,406.3 +	\$11,768.8 =	\$23,175.1
<b>FY 2014-15 Revenue Adjustment Factor</b>			<b>1.0295</b>
<i>Note: Factor is calculated off a FY 2015 base year.</i>			
	<b><u>May 2012 Consensus Estimate</u></b>	<b><u>January 2013 Consensus Estimate</u></b>	<b><u>Change</u></b>
<b><u>Pupil Membership Adjustment Factor</u></b>			
<b><u>FY 2014-15</u></b>			
Local Districts	N/A	1,361,000	N/A
Public School Academies	N/A	165,000	N/A
<b>Total</b>	<b>N/A</b>	<b>1,526,000</b>	<b>N/A</b>
	<b><u>FY 2013-14</u></b>	<b><u>FY 2014-15</u></b>	
Consensus Estimate of Pupil Membership	1,532,000	1,526,000	
Pupil Membership Adjustment Factor for FY 2014-15:			
<u>FY 2013-14 Pupil Membership</u>	=	<u>1,532,000</u>	
<u>FY 2014-15 Pupil Membership</u>	=	<u>1,526,000</u>	
<b>FY 2014-15 Pupil Membership Adjustment Factor</b>			<b>1.0039</b>
<b>FY 2014-15 School Aid Index</b>			<b>1.0335</b>