

DATE: May 18, 2017
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – May 17, 2017

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 2017 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 2017 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 2017 conference. These consensus estimates will be reviewed and updated at the January 2018 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 2.3% in both calendar year (CY) 2017 and CY 2018 before dipping slightly to 2.1% in CY 2019. Michigan personal income is forecast to increase 3.5% in CY 2017, 4.6% in CY 2018, and 4.7% in CY 2019.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final FY 2015-16 revenue and revised revenue estimates for FY 2016-17 through FY 2018-19. Relative to FY 2015-16, combined net GF/GP and SAF revenue is estimated to increase \$583.7 million or 2.6% in FY 2016-17, \$657.9 million or 2.9% in FY 2017-18, and \$440.9 million or 1.9% in FY 2018-19.

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

Statutory formula calculation denotes whether a pay-in or pay-out is suggested. The formula indicates a pay-in for FY 2016-17 of \$150.3, no pay-in for FY 2017-18, and a \$52.0 pay-in for FY 2018-19. It should be noted that the deposits to the BSF are not automatic, and that they require an appropriation. The calculation suggests that no withdrawals are expected for any 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 \$8.52 billion below the limit in FY 2015-16, \$9.14 billion below in FY 2016-17, \$9.52 billion below in FY 2017-18, and \$10.09 billion below the limit in FY 2018-19.

Table 5: Long Term Revenue Trend

The long term revenue trend for combined GF/GP and SAF revenue is 2.2% growth for FY 2019-20 and 2.0% growth for FY 2020-21.

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 2017-18 and FY 2018-19. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the index, the statutorily recommended increase or decrease in the per pupil foundation allowance. The School Aid Index for FY 2017-18 is 1.0335 and FY 2018-19 is 1.0289. The index would equal a 3.4% increase in the foundation allowance in FY 2017-18 and a 2.9% increase in FY 2018-19.

**Table 8: Consensus Estimate—Department of Education
Estimate for Child Development and Care**

Child Development and Care subsidy expenditures in the Department of Education are expected to increase by \$1.0 million Federal funds in the current FY 2016-17 budget compared to the year-to-date appropriation and increase \$4.5 million Federal funds over current year-to-date appropriations for both the FY 2017-18 and FY 2018-19 budgets.

Table 9: Consensus Estimate—Human Services and Medicaid Expenditures

Reviews consensus Gross and GF/GP expenditure estimates for Human Services caseload programs and Medicaid programs. Human Services caseload program GF/GP expenditures are estimated to increase \$8.4 million above current FY 2016-17 appropriated levels and \$146,100 above both the FY 2017-18 and FY 2018-19 Executive recommendations. Medicaid GF/GP expenditures are estimated to fall \$109.2 million below current FY 2016-17 appropriated levels and \$69.5 million below both the FY 2017-18 and FY 2018-19 Executive recommendations.

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

Attachments

Table 1
Consensus Economic Forecast
May 2017

	<u>Calendar 2016 Actual</u>	<u>Calendar 2017 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2018 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2019 Forecast</u>	<u>% Change from Prior Year</u>
<u>United States</u>							
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	\$16,662	\$17,045	2.3%	\$17,437	2.3%	\$17,803	2.1%
Implicit Price Deflator GDP (2009 = 100)	111.4	113.7	2.0%	116.1	2.1%	118.7	2.2%
Consumer Price Index (1982-84 = 100)	240.007	245.905	2.5%	250.555	1.9%	256.101	2.2%
Consumer Price Index – Fiscal Year (1982-84 = 100)	238.939	244.504	2.3%	249.282	2.0%	254.726	2.2%
Personal Consumption Deflator (2009 = 100)	110.7	112.8	1.9%	114.9	1.9%	117.2	2.0%
3-month Treasury Bills Interest Rate (Percent)	0.3%	1.0%		1.7%		2.3%	
Unemployment Rate - Civilian (Percent)	4.9%	4.6%		4.4%		4.4%	
Wage and Salary Employment (Millions)	144.306	146.470	1.5%	148.230	1.2%	149.560	0.9%
Housing Starts (Millions of Starts)	1.174	1.267	7.9%	1.318	4.0%	1.350	2.4%
Light Vehicle Sales (Millions of Units)	17.5	17.0	-2.7%	16.9	-0.6%	16.8	-0.6%
Passenger Car Sales (Millions of Units)	6.9	6.2	-10.1%	6.0	-3.2%	6.0	0.0%
Light Truck Sales (Millions of Units)	10.6	10.8	2.2%	10.9	0.9%	10.8	-0.9%
Big 3 Share of Light Vehicles (Percent)	42.7%	43.0%		42.9%		42.9%	
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	4,326	4,386	1.4%	4,426	0.9%	4,470	1.0%
Unemployment Rate (Percent)	4.9%	5.1%		5.1%		5.0%	
Personal Income (Millions of Dollars)	\$440,292	\$455,702	3.5%	\$476,665	4.6%	\$499,068	4.7%
Real Personal Income (Millions of 1982-84 Dollars)	\$199,104	\$201,640	1.3%	\$207,242	2.8%	\$212,474	2.5%
Wages and Salaries (Millions of Dollars)	\$225,281	\$232,715	3.3%	\$242,256	4.1%	\$252,431	4.2%
Detroit Consumer Price Index (1982-84 = 100)	222.167	227.034	2.2%	231.039	1.8%	236.278	2.3%
Detroit CPI – Fiscal Year (1982-84 = 100)	221.137	225.998	2.2%	230.004	1.8%	234.884	2.1%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
May 2017: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

	FY 2015-16		FY 2016-17			FY 2017-18			FY 2018-19		
	<u>Final</u>	<u>Change From FY 2014-15</u>	<u>May 2017 Consensus</u>	<u>Change From FY 2015-16</u>		<u>May 2017 Consensus</u>	<u>Change From FY 2016-17</u>		<u>May 2017 Consensus</u>	<u>Change From FY 2017-18</u>	
General Fund/ General Purpose											
Baseline	\$10,978.9		\$11,180.1	\$201.2	1.8%	\$11,586.3	\$406.2	3.6%	\$11,948.1	\$361.8	3.1%
Tax Adjustments	(\$960.1)		(\$1,068.8)	(\$108.7)		(\$1,177.7)	(\$108.9)		(\$1,458.6)	(\$280.9)	
Net GF/GP Revenue	\$10,018.8	-0.2%	\$10,111.3	\$92.5	0.9%	\$10,408.6	\$297.3	2.9%	\$10,489.5	\$80.9	0.8%
School Aid Fund Revenue											
Baseline	\$12,181.6		\$12,609.0	\$427.4	3.5%	\$12,941.9	\$332.9	2.6%	\$13,270.2	\$328.3	2.5%
Tax Adjustments	(\$62.9)		\$0.9	\$63.8		\$28.6	\$27.7		\$60.3	\$31.7	
Net SAF Revenue	\$12,118.7	3.2%	\$12,609.9	\$491.2	4.1%	\$12,970.5	\$360.6	2.9%	\$13,330.5	\$360.0	2.8%
Total GF/GP and SAF											
Baseline	\$23,160.5		\$23,789.1	\$628.6	2.7%	\$24,528.2	\$739.1	3.1%	\$25,218.3	\$690.1	2.8%
Tax Adjustments	(\$1,023.0)		(\$1,067.9)	(\$44.9)		(\$1,149.1)	(\$81.2)		(\$1,398.3)	(\$249.2)	
Net GF/GP and SAF	\$22,137.5	1.6%	\$22,721.2	\$583.7	2.6%	\$23,379.1	\$657.9	2.9%	\$23,820.0	\$440.9	1.9%

Numbers may not calculate exactly due to rounding.

Table 3
May 2017: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2016-17 Pay-In / FY 2015-16 Pay-Out Calculation		FY 2017-18 Pay-In / FY 2016-17 Pay-Out Calculation		FY 2018-19 Pay-In / FY 2017-18 Pay-Out Calculation		FY 2018-19 Pay-In / Pay-Out Calculation	
	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2016</u>	<u>CY 2017</u>	<u>CY 2017</u>	<u>CY 2018</u>	<u>CY 2018</u>	<u>CY 2019</u>
Michigan Personal Income ⁽¹⁾	\$424,807	\$440,292	\$440,292	\$455,702	\$455,702	\$476,665	\$476,665	\$499,068
Less Transfer Payments ⁽¹⁾	\$91,439	\$94,033	\$94,033	\$97,823	\$97,823	\$103,281	\$103,281	\$108,827
Income Net of Transfers	\$333,368	\$346,259	\$346,259	\$357,879	\$357,879	\$373,384	\$373,384	\$390,241
Detroit CPI ⁽²⁾ for 12 months ending	2.195 (June 2015)	2.202 (June 2016)	2.202 (June 2016)	2.250 (June 2017)	2.250 (June 2017)	2.290 (June 2018)	2.290 (June 2018)	2.336 (June 2019)
Real Adjusted Michigan Personal Income	\$151,890	\$157,247	\$157,247	\$159,057	\$159,057	\$163,046	\$163,046	\$167,065
Change in Real Adjusted Personal Income		3.5%		1.2%		2.5%		2.5%
Amount Under 0%		N/A		N/A		N/A		N/A
Between 0% and 2%		2.0%		1.2%		2.0%		2.0%
Excess Over 2%		1.5%		N/A		0.5%		0.5%
GF/GP Revenue	FY 2015-16	\$10,018.8	FY 2016-17	\$10,111.3	FY 2017-18	\$10,408.6	FY 2018-19	\$10,489.5
BSF PAY-IN⁽³⁾	FY 2016-17	\$150.3	FY 2017-18	No Pay-In	FY 2018-19	\$52.0	FY 2018-19	No Pay-Out
BSF PAY-OUT⁽³⁾			FY 2016-17	No Pay-Out	FY 2017-18	No Pay-Out	FY 2018-19	No Pay-Out

Notes:

1. Personal Income and Transfer Payments: CY 2015 is from the U.S. Bureau of Economic Analysis, October 2016. Subsequent years are May 2017 consensus estimates.
2. Detroit Consumer Price Index, CY 2015 and CY 2016 are calculated based on values reported by U.S. Bureau of Labor Statistics for the July through June period. Subsequent years are May 2017 consensus estimates.
3. Calculation done per MCL 18.1352.

Table 4
May 2017 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	FY 2014-15 Final	FY 2015-16 Consensus May 2017	FY 2016-17 Consensus May 2017	FY 2017-18 Consensus May 2017	FY 2018-19 Consensus May 2017
<u>Revenue Subject to Limit</u>					
Consensus					
Net General Fund General Purpose	\$10,041.0	\$10,018.8	\$10,111.3	\$10,408.6	\$10,489.5
Constitutional Revenue Sharing	\$754.0	\$751.9	\$784.9	\$793.5	\$815.2
Net School Aid Fund	\$11,747.1	\$12,118.7	\$12,609.9	\$12,970.5	\$13,330.5
Transportation	\$2,205.7	\$2,193.0	\$2,732.3	\$2,930.8	\$3,104.0
Other Restricted Revenue	\$4,568.3	\$4,727.5	\$4,963.9	\$5,187.2	\$5,446.6
Less: GF/GP Federal Aid	\$38.5	\$18.8	\$25.0	\$25.0	\$25.0
Total Revenue Subject to Limit	\$29,277.6	\$29,791.1	\$31,177.3	\$32,265.6	\$33,160.8
<u>Revenue Limit</u>					
	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2017</u>
Personal Income	\$386,471	\$403,726	\$424,807	\$440,292	\$455,702
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$36,676.1	\$38,313.6	\$40,314.2	\$41,783.7	\$43,246.1
Total Revenue Subject to Limit	\$29,277.6	\$29,791.1	\$31,177.3	\$32,265.6	\$33,160.8
Amount Under (Over) Limit	\$7,398.5	\$8,522.5	\$9,136.9	\$9,518.1	\$10,085.3

Numbers may not calculate exactly due to rounding.

Note: CY 2013 Personal Income is used for the FY 2015 revenue limit calculation, CY 2014 for FY 2016, CY 2015 for FY 2017, CY 2016 for FY 2018 and CY 2017 for FY 2019.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>
Net GF/GP Revenue	\$10,638.9	\$10,752.7
Growth	1.4%	1.1%
Net SAF Revenue	\$13,703.6	\$14,088.3
Growth	2.8%	2.8%
Combined GF/GP and SAF	\$24,342.5	\$24,841.0
Growth	2.2%	2.0%

Table 6
May 2017 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2017-18

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Baseline SAF Revenue	\$12,181.6	\$12,609.0	\$12,941.9
Balance Sheet Adjustments	(\$62.9)	\$0.9	\$28.6
Net SAF Estimate	\$12,118.7	\$12,609.9	\$12,970.5
Subtotal Adjustments to FY 2017-18 Base	\$91.5	\$27.7	\$0.0
Baseline Revenue on an FY 2017-18 Base	\$12,210.2	\$12,637.6	\$12,970.5
Percent Change		3.50%	2.63%
SAF Revenue Adjustment Calculation for FY 2017-18:			
Sum of FY 2015-16 and FY 2016-17	\$12,210.2	+	\$12,637.6
			=
			\$24,847.8
Sum of FY 2016-17 and FY 2017-18	\$12,637.6	+	\$12,970.5
			=
			\$25,608.1
FY 2017-18 Revenue Adjustment Factor			1.0306
<i>Note: Factor is calculated off a FY 2018 base year.</i>			
	<u>January 2017 Consensus Estimate</u>	<u>May 2017 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2016-17			
Local Districts	1,337,700	1,337,700	0
Public School Academies	153,000	153,000	0
Total	1,490,700	1,490,700	0
FY 2017-18			
Local Districts	1,336,500	1,336,500	0
Public School Academies	150,000	150,000	0
Total	1,486,500	1,486,500	0
Consensus Estimate of Pupil Membership	<u>FY 2016-17</u> 1,490,700	<u>FY 2017-18</u> 1,486,500	
Pupil Membership Adjustment Factor for FY 2017-18:			
<u>FY 2016-17 Pupil Membership</u>	=	<u>1,490,700</u>	
<u>FY 2017-18 Pupil Membership</u>	=	<u>1,486,500</u>	
FY 2017-18 Pupil Membership Adjustment Factor			1.0028
FY 2017-18 School Aid Index			1.0335

Table 7
May 2017 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2018-19

Revenue Adjustment Factor (Millions of \$)

	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Baseline SAF Revenue	\$12,609.0	\$12,941.9	\$13,270.2
Balance Sheet Adjustments	\$0.9	\$28.6	\$60.3
Net SAF Estimate	\$12,609.9	\$12,970.5	\$13,330.5
 Subtotal Adjustments to FY 2018-19 Base	 \$59.4	 \$31.7	 \$0.0
Baseline Revenue on an FY 2018-19 Base	\$12,669.3	\$13,002.2	\$13,330.5
Percent Change		2.63%	2.52%
SAF Revenue Adjustment Calculation for FY 2018-19:			
Sum of FY 2016-17 and FY 2017-18	\$12,669.3	+	\$13,002.2
			=
			\$25,671.5
Sum of FY 2017-18 and FY 2018-19	\$13,002.2	+	\$13,330.5
			=
			\$26,332.7

FY 2018-19 Revenue Adjustment Factor

1.0258

Note: Factor is calculated off a FY 2019 base year.

<u>Pupil Membership Adjustment Factor</u>	<u>January 2017</u> <u>Consensus</u> <u>Estimate</u>	<u>May 2017</u> <u>Consensus</u> <u>Estimate</u>	<u>Change</u>
FY 2017-18			
Local Districts	1,336,500	1,336,500	0
Public School Academies	150,000	150,000	0
Total	1,486,500	1,486,500	0
FY 2018-19			
Local Districts	1,330,000	1,330,000	0
Public School Academies	152,000	152,000	0
Total	1,482,000	1,482,000	0

	<u>FY 2017-18</u>	<u>FY 2018-19</u>
Consensus Estimate of Pupil Membership	1,486,500	1,482,000

Pupil Membership Adjustment Factor for FY 2018-19:			
<u>FY 2017-18 Pupil Membership</u>	=	<u>1,486,500</u>	
<u>FY 2018-19 Pupil Membership</u>	=	<u>1,482,000</u>	

FY 2018-19 Pupil Membership Adjustment Factor

1.0030

FY 2018-19 School Aid Index

1.0289

Table 8
May 2017 Consensus Estimate
Department of Education
Estimate for Child Development and Care
FY 2016-17 Through FY 2018-19

	<u>Current Law</u>	<u>Proposed May 2017 Consensus Estimate</u>	<u>Difference from Current Law</u>
Fiscal Year 2017 Total	\$133,966,100	\$135,000,000	\$1,033,900
Fiscal Year 2018 Total		\$138,500,000	\$4,533,900
Fiscal Year 2019 Total		\$138,500,000	\$4,533,900

Table 9
May 2017 Consensus Expenditure Estimate
Department of Health and Human Services
FY 2016-17 Through FY 2018-19

	Gross Change to Originally Proposed/Enacted <u>Appropriation</u>	GF/GP Change to Originally Proposed/Enacted <u>Appropriation</u>
<u>Health Services</u>		
FY 2016-17	\$69,980,800	(\$109,179,000)
FY 2017-18	\$53,729,000	(\$69,539,600)
FY 2018-19	\$53,729,000	(\$69,539,600)
<u>Human Services</u>		
FY 2016-17	(\$2,600,400)	\$8,448,900
FY 2017-18	\$5,119,900	\$146,100
FY 2018-19	\$5,119,900	\$146,100
<u>Total for Department of Health and Human Services</u>		
FY 2016-17	\$67,380,400	(\$100,730,100)
FY 2017-18	\$58,848,900	(\$69,393,500)
FY 2018-19	\$58,848,900	(\$69,393,500)