

MEMORANDUM



DATE: May 16, 2014
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – May 15, 2014

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 2014 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 2014 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 2014 conference. These consensus estimates will be reviewed and updated at the January 2015 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 2.4% in calendar year (CY) 2014, increase by 3.0% in CY 2015, and increase by 3.2% in CY 2016. Michigan personal income is forecast to increase 3.3% in CY 2014, increase by 4.3% in CY 2015, and increase by 4.6% in CY 2016.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final FY 2012-13 revenue and revised revenue estimates for FY 2013-14 through FY 2015-16. Net GF/GP and SAF revenue is estimated to decrease \$16.7 million or 0.1% in FY 2013-14, increase \$863.7 million or 4.1% in FY 2014-15, and increase \$824.1 million or 3.8% in FY 2015-16.

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

No pay-out is expected for FY 2013-14 and no pay-ins or pay-outs are indicated for FY 2014-15. A pay-in of \$19.7 for FY 2015-16 is expected. 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 was \$5.89 billion below the limit in FY 2012-13, and is estimated to be \$7.74 billion below in FY 2013-14, \$7.63 billion below in FY 2014-15, and \$7.83 billion below the limit in FY 2015-16.

Table 5: Long Term Revenue Trend

The long term revenue trend for the combined GF/GP and SAF for FY 2016-17 is 3.4% and for FY 2017-18 is 3.2%.

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 2014-15 and FY 2015-16. 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 2014-15 is 1.0345 and FY 2015-16 is 1.0385. The index would equal a 3.5% increase in the foundation allowance in FY 2014-15 and a 3.9% increase in FY 2015-16.

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 Medicaid programs within the Department of Community Health. Human Services caseload program GF/GP spending is expected to fall \$31.4 million below FY 2013-14 appropriated levels, \$6.8 million below FY 2014-15 and \$7.7 million below FY 2015-16 Executive recommendations. Medicaid GF/GP expenditures are expected to fall \$28.2 million below current year appropriations, and decrease \$19.9 million FY 2014-15 and FY 2015-16 Executive recommendations.

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

Attachments

Table 1
Consensus Economic Forecast
May 2014

	Actual CY 2013	% Change from Prior Year	Forecast CY 2014	% Change from Prior Year	Forecast CY 2015	% Change from Prior Year	Forecast CY 2016	% Change from Prior Year
<u>United States</u>								
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	\$15,761	1.9%	\$16,140	2.4%	\$16,624	3.0%	\$17,156	3.2%
Implicit Price Deflator GDP (2009 = 100)	106.5	1.4%	108.1	1.5%	110.0	1.8%	112.1	1.9%
Consumer Price Index (1982-84 = 100)	232.957	1.5%	236.670	1.6%	240.798	1.7%	245.393	1.9%
Consumer Price Index – Fiscal Year (1982-84 = 100)	232.247	1.6%	235.640	1.5%	239.668	1.7%	244.192	1.9%
Personal Consumption Deflator (2009 = 100)	107.2	1.1%	108.6	1.3%	110.2	1.5%	112.0	1.6%
3-month Treasury Bills Interest Rate (Percent)	0.1%		0.1%		0.3%		1.0%	
Aaa Corporate Bonds Interest Rate (Percent)	4.2%		4.5%		4.7%		4.8%	
Unemployment Rate – Civilian (Percent)	7.4%		6.5%		6.0%		5.5%	
Wage and Salary Employment (Millions)	136.4	1.7%	138.7	1.7%	141.2	1.8%	143.9	1.9%
Housing Starts (Millions of Starts)	0.925	18.5%	1.055	14.1%	1.315	24.6%	1.501	14.1%
Light Vehicle Sales (Millions of Units)	15.5	7.6%	16.0	3.2%	16.3	1.9%	16.6	1.8%
Passenger Car Sales (Millions of Units)	7.6	2.7%	7.7	1.1%	7.9	2.8%	8.1	2.5%
Light Truck Sales (Millions of Units)	7.9	12.9%	8.3	5.3%	8.4	1.0%	8.5	1.2%
Big 3 Share of Light Vehicles (Percent)	44.6%		44.2%		44.5%		44.7%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,105	1.4%	4,133	0.7%	4,183	1.2%	4,237	1.3%
Unemployment Rate (Percent)	8.8%		7.6%		7.1%		6.6%	
Personal Income (Millions of Dollars)	\$388,053	2.5%	\$400,859	3.3%	\$418,096	4.3%	\$437,328	4.6%
Real Personal Income (Millions of 1982-84 dollars)	\$176,805	1.0%	\$180,423	2.0%	\$185,201	2.6%	\$190,418	2.8%
Wages and Salaries (Millions of Dollars)	\$195,866	3.3%	\$202,134	3.2%	\$209,613	3.7%	\$217,788	3.9%
Detroit Consumer Price Index (1982-84 = 100)	219.481	1.6%	222.177	1.2%	225.752	1.6%	229.667	1.7%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
May 2014: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

			FY 2013-14			FY 2014-15			FY 2015-16		
	Final FY 2012-13	% Change From FY 2011-12	May 2014 Consensus	Change From FY 2012-13		May 2014 Consensus	Change From FY 2013-14		May 2014 Consensus	Change From FY 2014-15	
General Fund/General Purpose											
Baseline	\$9,957.5		\$9,876.3	(\$81.2)	-0.8%	\$10,268.4	\$392.1	4.0%	\$10,708.8	\$440.4	4.3%
Tax Adjustments	(\$394.9)		(\$557.0)	(\$162.1)		(\$442.4)	\$114.6		(\$463.5)	(\$21.1)	
Net GF/GP Revenue	\$9,562.6	3.4%	\$9,319.3	(\$243.3)	-2.5%	\$9,826.0	\$506.7	5.4%	\$10,245.3	\$419.3	4.3%
School Aid Fund Revenue											
Baseline	\$11,279.7		\$11,541.2	\$261.5	2.3%	\$11,900.9	\$359.7	3.1%	\$12,301.9	\$401.0	3.4%
Tax Adjustments	(\$10.0)		(\$44.9)	(\$34.9)		(\$47.6)	(\$2.7)		(\$43.8)	\$3.8	
Net SAF Revenue	\$11,269.7	3.6%	\$11,496.3	\$226.6	2.0%	\$11,853.3	\$357.0	3.1%	\$12,258.1	\$404.8	3.4%
Total GF/GP and SAF											
Baseline	\$21,237.2		\$21,417.5	\$180.3	0.8%	\$22,169.3	\$751.8	3.5%	\$23,010.7	\$841.4	3.8%
Tax Adjustments	(\$404.9)		(\$601.9)	(\$197.0)		(\$490.0)	\$111.9		(\$507.3)	(\$17.3)	
Net GF/GP and SAF	\$20,832.3	3.5%	\$20,815.6	(\$16.7)	-0.1%	\$21,679.3	\$863.7	4.1%	\$22,503.4	\$824.1	3.8%

Numbers may not calculate exactly due to rounding.

Table 3
May 2014: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2013-14 Pay-In / FY 2012-13 Pay-Out Calculation		FY 2014-15 Pay-In / FY 2013-14 Pay-Out Calculation		FY 2015-16 Pay-In / FY 2014-15 Pay-Out Calculation	
	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2015</u>	<u>CY 2016</u>
Michigan Personal Income (MPI)	\$388,053 ⁽¹⁾	\$400,859 ⁽²⁾	\$400,859 ⁽²⁾	\$418,096 ⁽²⁾	\$418,096 ⁽²⁾	\$437,328 ⁽²⁾
Less Transfer Payments	<u>\$85,163 ⁽¹⁾</u>	<u>\$88,825 ⁽²⁾</u>	<u>\$88,825 ⁽²⁾</u>	<u>\$94,510 ⁽²⁾</u>	<u>\$94,510 ⁽²⁾</u>	<u>\$99,897 ⁽²⁾</u>
Income Net of Transfers	\$302,890	\$312,034	\$312,034	\$323,586	\$323,586	\$337,431
Detroit CPI for 12 months ending	2.182 ⁽³⁾ (June 2013)	2.206 ⁽⁴⁾ (June 2014)	2.206 ⁽⁴⁾ (June 2014)	2.239 ⁽⁴⁾ (June 2015)	2.239 ⁽⁴⁾ (June 2015)	2.275 ⁽⁴⁾ (June 2016)
Real Adjusted Michigan Personal Income	\$138,813	\$141,448	\$141,448	\$144,517	\$144,517	\$148,327
Change in Real Adjusted Personal Income		1.9%		2.2%		2.6%
Amount Under 0%		N/A		N/A		N/A
Between 0% and 2%		1.9%		2.0%		2.0%
Excess Over 2%		N/A		0.2%		0.6%
GF/GP Revenue	FY 2013-14	\$9,319.3	FY 2014-15	\$9,826.0	FY 2015-16	\$10,245.3
BSF PAY-IN⁽⁵⁾	FY 2014-15	No Pay-In	FY 2015-16	\$19.7		
BSF PAY-OUT⁽⁵⁾	FY 2013-14	No Pay-Out	FY 2014-15	No Pay-Out	FY 2015-16	No Pay-Out

Notes:

1. Personal Income and Transfer Payments: U.S. Bureau of Economic Analysis May 2014.
2. Personal Income and Transfer Payments: Consensus Forecast, May 2014.
3. Detroit Consumer Price Index, Exponential average of six monthly values reported by U.S. Bureau of Labor Statistics for each 12 month period.
4. Detroit Consumer Price Index: Consensus Forecast, May 2014.
5. Calculation done per MCL 18.1352.

Table 4
May 2014 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	<u>Final FY 2011-12</u>	<u>Final FY 2012-13</u>	<u>May 2014 Consensus FY 2013-14</u>	<u>May 2014 Consensus FY 2014-15</u>	<u>May 2014 Consensus FY 2015-16</u>
<u>Revenue Subject to Limit</u>					
Consensus					
Net General Fund General Purpose	\$9,246.5	\$9,562.6	\$9,319.3	\$9,826.0	\$10,245.3
General Fund Revenue Sharing	\$707.5	\$719.7	\$730.5	\$774.0	\$843.1
Net School Aid Fund	\$10,878.9	\$11,269.7	\$11,496.3	\$11,853.3	\$12,258.1
Transportation	\$2,107.4	\$2,099.7	\$2,160.7	\$2,178.6	\$2,198.5
Other Restricted Revenue	\$4,402.8	\$4,473.0	\$4,484.6	\$4,583.9	\$4,688.1
Less: Federal Aid	(\$54.8)	(\$22.5)	(\$20.0)	(\$20.0)	(\$20.0)
Total Revenue Subject to Limit	\$27,288.3	\$28,102.2	\$28,171.5	\$29,195.7	\$30,213.0
<u>Revenue Limit</u>					
Personal Income	\$342,663	\$358,152	\$378,443	\$388,053	\$400,859
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$32,518.7	\$33,988.6	\$35,914.2	\$36,826.2	\$38,041.5
Revenue Subject to Limit	\$325.2	\$339.9	\$359.1	\$368.3	\$380.4
Amount Under (Over) Limit	\$5,230.4	\$5,886.4	\$7,742.7	\$7,630.5	\$7,828.5

Numbers may not calculate exactly due to rounding.

Note: CY 2011 Personal Income is used for the FY 2013 revenue limit calculation, CY 2012 for FY 2014, CY 2013 for FY 2015, and CY 2014 for FY 2016.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Net GF/GP Revenue	\$10,673.0	\$11,060.6
Growth	4.2%	3.6%
Net SAF Revenue	\$12,588.5	\$12,938.2
Growth	2.7%	2.8%
Combined GF/GP and SAF	\$23,261.5	\$23,998.8
Growth	3.4%	3.2%

Table 6
May 2014 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2014-15

Revenue Adjustment Factor (Millions of \$)

	<u>Final</u> <u>FY 2012-13</u>	<u>Estimate</u> <u>FY 2013-14</u>	<u>Estimate</u> <u>FY 2014-15</u>
Baseline SAF Revenue	\$11,279.7	\$11,541.2	\$11,900.9
Balance Sheet Adjustments	(\$10.0)	(\$44.9)	(\$47.6)
Net SAF Estimate	\$11,269.7	\$11,496.3	\$11,853.3
 Subtotal Adjustments to FY 2014-15 Base	 (<u>\$37.6</u>)	 (<u>\$2.7</u>)	 <u>\$0.0</u>
Baseline Revenue on an FY 2014-15 Base	\$11,232.1	\$11,493.6	\$11,853.3
Percent Change		2.33%	3.13%
SAF Revenue Adjustment Calculation for FY 2014-15:			
Sum of FY 2012-13 and FY 2013-14	\$11,232.1 +	\$11,493.6 =	\$22,725.7
Sum of FY 2013-14 and FY 2014-15	\$11,493.6 +	\$11,853.3 =	\$23,346.9

FY 2014-15 Revenue Adjustment Factor	1.0273
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Note: Factor is calculated off a FY 2015 base year.

<u>Pupil Membership Adjustment Factor</u>	January 2014 Consensus Estimate	May 2014 Consensus Estimate	Change
FY 2013-14			
Local Districts	1,375,400	1,374,800	(600)
Public School Academies	<u>147,900</u>	<u>147,800</u>	<u>(100)</u>
Total	1,523,300	1,522,600	(700)
FY 2014-15			
Local Districts	1,354,000	1,352,500	(1,500)
Public School Academies	<u>160,000</u>	<u>159,500</u>	<u>(500)</u>
Total	1,514,000	1,512,000	(2,000)
Consensus Estimate of Pupil Membership	<u>FY 2013-14</u> 1,522,600	<u>FY 2014-15</u> 1,512,000	
Pupil Membership Adjustment Factor for FY 2014-15:			
<u>FY 2013-14 Pupil Membership</u>	=	<u>1,522,600</u>	
FY 2014-15 Pupil Membership	=	1,512,000	

FY 2014-15 Pupil Membership Adjustment Factor	1.0070
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FY 2014-15 School Aid Index	1.0345
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Table 7
May 2014 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2015-16

Revenue Adjustment Factor (Millions of \$)

	<u>Final FY 2013-14</u>	<u>Estimate FY 2014-15</u>	<u>Estimate FY 2015-16</u>
Baseline SAF Revenue	\$11,541.2	\$11,900.9	\$12,301.9
Balance Sheet Adjustments	(\$44.9)	(\$47.6)	(\$43.8)
Net SAF Estimate	\$11,496.3	\$11,853.3	\$12,258.1
 Subtotal Adjustments to FY 2015-16 Base	 <u>\$1.1</u>	 <u>\$3.8</u>	 <u>\$0.0</u>
Baseline Revenue on an FY 2015-16 Base	\$11,497.4	\$11,857.1	\$12,258.1
Percent Change		3.13%	3.38%
SAF Revenue Adjustment Calculation for FY 2015-16:			
Sum of FY 2013-14 and FY 2014-15	\$11,497.4 +	\$11,857.1 =	\$23,354.5
Sum of FY 2014-15 and FY 2015-16	\$11,857.1 +	\$12,258.1 =	\$24,115.2

FY 2015-16 Revenue Adjustment Factor	1.0326
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Note: Factor is calculated off a FY 2016 base year.

<u>Pupil Membership Adjustment Factor</u>	January 2014 Consensus Estimate	May 2014 Consensus Estimate	Change
FY 2014-15			
Local Districts	1,354,000	1,352,500	(1,500)
Public School Academies	<u>160,000</u>	<u>159,500</u>	<u>(500)</u>
Total	1,514,000	1,512,000	(2,000)
FY 2015-16			
Local Districts	1,337,000	1,333,400	(3,600)
Public School Academies	<u>170,000</u>	<u>170,000</u>	<u>0</u>
Total	1,507,000	1,503,400	(3,600)

	<u>FY 2014-15</u>	<u>FY 2015-16</u>
Consensus Estimate of Pupil Membership	1,512,000	1,503,400

Pupil Membership Adjustment Factor for FY 2015-16:			
FY 2014-15 Pupil Membership	=	<u>1,512,000</u>	
FY 2015-16 Pupil Membership	=	1,503,400	

FY 2015-16 Pupil Membership Adjustment Factor	1.0057
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FY 2015-16 School Aid Index	1.0385
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Table 8
May 2014 Consensus Expenditure Estimates
Department of Community Health and Department of Human Services
FY 2013-14 Through FY 2015-16
(Millions of Dollars)

Department of Community Health (DCH)

Estimate for Medicaid Expenditures

	<u>Total Increase / (Decrease)</u>	
	Gross Change	GF/GP Change
FY 2013-14	(\$115.3)	(\$28.2)
Change from Current Law		
FY 2014-15	(\$57.8)	(\$19.9)
Change from Executive Recommendation		
FY 2015-16	(\$57.8)	(\$19.9)
Change from Executive Recommendation		

Department of Human Services (DHS)

Estimate for Caseloads and Expenditures

	<u>Total Increase / (Decrease)</u>	
	Gross Change	GF/GP Change
FY 2013-14	(\$56.9)	(\$31.4)
Change from Current Law		
FY 2014-15	(\$5.9)	(\$6.8)
Change from Executive Recommendation		
FY 2015-16	(\$8.0)	(\$7.7)
Change from Executive Recommendation		