

MEMORANDUM



DATE: January 11, 2019
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – January 11, 2019

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 2019 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Treasurer. The State Treasurer is the 2019 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2019 conference. These consensus estimates will be revised or updated at the May 2019 conference.

Table 1: Consensus Economic Forecast

Provides estimates of various state and national economic variables. Real gross domestic product (GDP) is predicted to increase 2.6% in calendar year (CY) 2019, 1.8% in CY 2020, and 1.5% in CY 2021. Michigan personal income is forecast to increase 3.8% in CY 2019, and 3.9% in both CY 2020 and CY 2021.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the preliminary FY 2017-18 revenue, revised estimates for FY 2018-19 and FY 2019-20, and the initial estimates for FY 2020-21. Relative to FY 2017-18, total net GF/GP and SAF revenue is estimated to decrease \$34.6 million in FY 2018-19, before increasing \$393.8 million in FY 2019-20 and \$472.5 million in FY 2020-21.

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

There is no pay-in calculated for FY 2018-19, although a \$100.0 million appropriation has been made (2018 PA 618). Based on the pay-in calculations for FY 2019-20 and FY 2020-21, no pay-ins are indicated, and no pay-outs are recommended in any of the three fiscal years. Pay-ins and pay-outs 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 revenues exceed or fall below 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 \$10.41 billion below in FY 2018-19, \$11.19 billion below in FY 2019-20, and \$11.97 billion below the limit in FY 2020-21.

Table 5: Long Term Revenue Trend

The long term revenue trend for combined GF/GP and SAF revenue is 2.9% growth for FY 2021-22 and 2.8% growth for FY 2022-23.

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 2019-20 and FY 2020-21. 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 2019-20 is 1.0292 and FY 2020-21 is 1.0291. The index would equal a 2.9% increase in the foundation allowance in both FY 2019-20 and FY 2020-21.

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

Attachments

Table 1
Consensus Economic Forecast
January 2019

	<u>Calendar 2018 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2019 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2020 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2021 Forecast</u>	<u>% Change from Prior Year</u>
<u>United States</u>								
Real Gross Domestic Product (Billions of Chained 2012 Dollars)	\$18,574	2.9%	\$19,057	2.6%	\$19,400	1.8%	\$19,691	1.5%
Implicit Price Deflator GDP (2012 = 100)	110.4	2.3%	112.8	2.2%	115.5	2.4%	118.2	2.3%
Consumer Price Index (1982-84 = 100)	250.999	2.4%	256.424	2.2%	262.128	2.2%	268.273	2.3%
Consumer Price Index – Fiscal Year (1982-84 = 100)	249.749	2.4%	254.940	2.1%	260.753	2.3%	266.606	2.2%
Personal Consumption Deflator (2012 = 100)	108.3	2.1%	110.4	1.9%	112.7	2.1%	115.1	2.1%
3-month Treasury Bills Interest Rate (Percent)	1.9%		2.7%		3.0%		3.4%	
Unemployment Rate - Civilian (Percent)	3.9%		3.6%		3.6%		3.7%	
Wage and Salary Employment (Millions)	149.041	1.6%	151.130	1.4%	152.640	1.0%	153.560	0.6%
Housing Starts (Millions of Starts)	1.258	4.6%	1.275	1.4%	1.300	2.0%	1.320	1.5%
Light Vehicle Sales (Millions of Units)	17.1	-0.2%	16.8	-1.8%	16.6	-1.2%	16.5	-0.6%
Passenger Car Sales (Millions of Units)	5.2	-14.5%	4.6	-11.5%	4.1	-10.9%	4.0	-2.4%
Light Truck Sales (Millions of Units)	11.9	7.6%	12.2	2.5%	12.5	2.5%	12.5	0.0%
Big 3 Share of Light Vehicles (Percent)	41.6%		41.5%		41.3%		41.2%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,428	1.3%	4,464	0.8%	4,486	0.5%	4,504	0.4%
Unemployment Rate (Percent)	4.4%		3.9%		3.9%		3.9%	
Personal Income (Millions of Dollars)	\$477,760	3.8%	\$495,915	3.8%	\$515,256	3.9%	\$535,351	3.9%
Real Personal Income (Millions of 1982-84 Dollars)	\$205,524	1.3%	\$209,066	1.7%	\$212,709	1.7%	\$216,432	1.8%
Wages and Salaries (Millions of Dollars)	\$241,713	4.3%	\$250,657	3.7%	\$260,182	3.8%	\$269,548	3.6%
Detroit Consumer Price Index (1982-84 = 100)	232.460	2.5%	237.205	2.0%	242.235	2.1%	247.353	2.1%
Detroit CPI – Fiscal Year (1982-84 = 100)	231.441	2.6%	235.834	1.9%	241.024	2.2%	246.024	2.1%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
January 2019: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

	FY 2017-18			FY 2018-19			FY 2019-20			FY 2020-21				
	<u>FY 2017-18 Preliminary</u>	<u>Change From FY 2016-17</u>	<u>\$ Change From May 2018 Consensus</u>	<u>January 2019 Consensus</u>	<u>Change From FY 2017-18</u>	<u>\$ Change From May 2018 Consensus</u>	<u>January 2019 Consensus</u>	<u>Change From FY 2018-19</u>	<u>\$ Change From May 2018 Consensus</u>	<u>January 2019 Consensus</u>	<u>Change From FY 2019-20</u>			
General Fund/ General Purpose														
Baseline	\$12,181.6	10.1%		\$12,158.5	(\$23.1)	-0.2%	\$282.3	\$12,479.7	\$321.2	2.6%	\$271.5	\$12,783.5	\$303.8	2.4%
Tax Adjustments	(\$1,236.2)			(\$1,458.3)	(\$222.1)		\$6.3	(\$1,761.9)	(\$303.6)		(\$72.4)	(\$1,930.9)	(\$169.0)	
Net GF/GP Revenue	\$10,945.4	7.4%	\$481.8	\$10,700.2	(\$245.2)	-2.2%	\$288.6	\$10,717.8	\$17.6	0.2%	\$199.1	\$10,852.6	\$134.8	1.3%
School Aid Fund Revenue														
Baseline	\$13,322.4	4.6%		\$13,584.5	\$262.1	2.0%	\$9.5	\$13,915.7	\$331.2	2.4%	(\$4.1)	\$14,230.4	\$314.7	2.3%
Tax Adjustments	\$17.5			(\$34.0)	(\$51.5)		(\$33.4)	\$11.0	\$45.0		\$30.0	\$34.0	\$23.0	
Net SAF Revenue	\$13,339.9	5.2%	\$95.9	\$13,550.5	\$210.6	1.6%	(\$23.9)	\$13,926.7	\$376.2	2.8%	\$25.9	\$14,264.4	\$337.7	2.4%
Total GF/GP and SAF														
Baseline	\$25,504.0	7.2%		\$25,743.0	\$239.0	0.9%	\$291.8	\$26,395.4	\$652.4	2.5%	\$267.4	\$27,013.9	\$618.5	2.3%
Tax Adjustments	(\$1,218.7)			(\$1,492.3)	(\$273.6)		(\$27.1)	(\$1,750.9)	(\$258.6)		(\$42.4)	(\$1,896.9)	(\$146.0)	
Net GF/GP and SAF	\$24,285.3	6.1%	\$577.7	\$24,250.7	(\$34.6)	-0.1%	\$264.7	\$24,644.5	\$393.8	1.6%	\$225.0	\$25,117.0	\$472.5	1.9%

Numbers may not calculate exactly due to rounding.

Table 3
January 2019: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2018-19 Pay-In Calculation		FY 2019-20 Pay-In / FY 2018-19 Pay-Out Calculation		FY 2020-21 Pay-In / FY 2019-20 Pay-Out Calculation		FY 2020-21 Pay-Out Calculation	
	<u>CY 2017</u>	<u>CY 2018</u>	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2020</u>	<u>CY 2021</u>
Michigan Personal Income ⁽¹⁾	\$460,270	\$477,760	\$477,760	\$495,915	\$495,915	\$515,256	\$515,256	\$535,351
Less Transfer Payments ⁽¹⁾	\$94,679	\$97,122	\$97,122	\$100,978	\$100,978	\$104,714	\$104,714	\$108,672
Income Net of Transfers	\$365,591	\$380,638	\$380,638	\$394,937	\$394,937	\$410,542	\$410,542	\$426,679
Detroit CY CPI ⁽²⁾	2.269	2.325	2.325	2.372	2.372	2.422	2.422	2.474
Real Adjusted Michigan Personal Income	\$161,127	\$163,743	\$163,743	\$166,496	\$166,496	\$169,481	\$169,481	\$172,498
Change in Real Adjusted Personal Income		1.6%		1.7%		1.8%		1.8%
Amount Under 0%		N/A		N/A		N/A		N/A
Between 0% and 2%		1.6%		1.7%		1.8%		1.8%
Excess Over 2%		N/A		N/A		N/A		N/A
GF/GP Revenue	FY 2017-18	\$10,945.4	FY 2018-19	\$10,700.2	FY 2019-20	\$10,717.8	FY 2020-21	\$10,852.6
BSF PAY-IN⁽³⁾	FY 2018-19	No Pay-In	FY 2019-20	No Pay-In	FY 2020-21	No Pay-In	FY 2020-21	No Pay-Out
BSF PAY-OUT⁽³⁾	FY 2017-18		FY 2018-19	No Pay-Out	FY 2019-20	No Pay-Out		

Notes:

1. *Personal Income and Transfer Payments: CY 2017 is from the U.S. Bureau of Economic Analysis, October 2018. Subsequent years are January 2019 consensus estimates.*
2. *Detroit Consumer Price Index, CY 2017 and CY 2018 are calculated based on values reported by U.S. Bureau of Labor Statistics. Subsequent years are January 2019 consensus estimates.*
3. *Calculation done per MCL 18.1352.*

Table 4
January 2019 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	FY 2016-17 Actual	FY 2017-18 Consensus January 2019	FY 2018-19 Consensus January 2019	FY 2019-20 Consensus January 2019	FY 2020-21 Consensus January 2019
Revenue Subject to Limit					
Consensus					
Net General Fund General Purpose	\$10,195.5	\$10,945.4	\$10,700.2	\$10,717.8	\$10,852.6
Constitutional Revenue Sharing	\$796.2	\$816.6	\$841.3	\$860.2	\$884.7
Net School Aid Fund	\$12,685.1	\$13,339.9	\$13,550.5	\$13,926.7	\$14,264.4
Transportation	\$2,719.1	\$2,950.2	\$3,163.0	\$3,376.5	\$3,687.7
Other Restricted Revenue	\$4,722.0	\$4,792.8	\$5,032.4	\$5,284.0	\$5,416.1
Less: GF/GP Federal Aid	\$8.6	\$13.3	\$13.3	\$13.3	\$13.3
Total Revenue Subject to Limit	\$31,109.3	\$32,831.6	\$33,274.1	\$34,151.9	\$35,092.2
Revenue Limit					
	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Personal Income	\$424,807	\$439,361	\$460,270	\$477,760	\$495,915
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$40,314.2	\$41,695.4	\$43,679.6	\$45,339.4	\$47,062.3
Total Revenue Subject to Limit	\$31,109.3	\$32,831.6	\$33,274.1	\$34,151.9	\$35,092.2
Amount Under (Over) Limit	\$9,204.9	\$8,863.8	\$10,405.5	\$11,187.5	\$11,970.1

Numbers may not calculate exactly due to rounding.

Note: CY 2015 Personal Income is used for the FY 2017 revenue limit calculation, CY 2016 for FY 2018, CY 2017 for FY 2019, CY 2018 for FY 2020, and CY 2019 for FY 2021.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>
Net GF/GP Revenue	\$11,200.1	\$11,515.7
Growth	3.2%	2.8%
Net SAF Revenue	\$14,653.3	\$15,063.0
Growth	2.7%	2.8%
Combined GF/GP and SAF	\$25,853.4	\$26,578.7
Growth	2.9%	2.8%

Table 6
January 2019 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2019-20

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>
Baseline SAF Revenue	\$13,322.4	\$13,584.5	\$13,915.7
Balance Sheet Adjustments	\$17.5	(\$34.0)	\$11.0
Net SAF Estimate	\$13,339.9	\$13,550.5	\$13,926.7
Subtotal Adjustments to FY 2019-20 Base	(\$6.5)	\$45.0	\$0.0
Baseline Revenue on an FY 2019-20 Base	\$13,333.4	\$13,595.5	\$13,926.7
Percent Change		1.97%	2.44%
SAF Revenue Adjustment Calculation for FY 2019-20:			
Sum of FY 2017-18 and FY 2018-19	\$13,333.4 +	\$13,595.5	= \$26,928.9
Sum of FY 2018-19 and FY 2019-20	\$13,595.5 +	\$13,926.7	= \$27,522.2
FY 2019-20 Revenue Adjustment Factor			1.0220
<i>Note: Factor is calculated off a FY 2020 base year.</i>			
	<u>May 2018 Consensus Estimate</u>	<u>January 2019 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2018-19			
Local Districts	1,331,500	1,323,700	(7,800)
Public School Academies	<u>148,500</u>	<u>146,700</u>	<u>(1,800)</u>
Total	1,480,000	1,470,400	(9,600)
FY 2019-20			
Local Districts	1,326,000	1,314,200	(11,800)
Public School Academies	<u>150,000</u>	<u>146,000</u>	<u>(4,000)</u>
Total	1,476,000	1,460,200	(15,800)
	<u>FY 2018-19</u>	<u>FY 2019-20</u>	
Consensus Estimate of Pupil Membership	1,470,400	1,460,200	
Pupil Membership Adjustment Factor for FY 2019-20:			
<u>FY 2018-19 Pupil Membership</u>	=	<u>1,470,400</u>	
<u>FY 2019-20 Pupil Membership</u>	=	<u>1,460,200</u>	
FY 2019-20 Pupil Membership Adjustment Factor			1.0070
FY 2019-20 School Aid Index			1.0292

Table 7
January 2019 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2020-21

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>
Baseline SAF Revenue	\$13,584.5	\$13,915.7	\$14,230.4
Balance Sheet Adjustments	(\$34.0)	\$11.0	\$34.0
Net SAF Estimate	\$13,550.5	\$13,926.7	\$14,264.4
Subtotal Adjustments to FY 2020-21 Base	\$68.0	\$23.0	\$0.0
Baseline Revenue on an FY 2020-21 Base	\$13,618.5	\$13,949.7	\$14,264.4
Percent Change		2.43%	2.26%
SAF Revenue Adjustment Calculation for FY 2020-21:			
Sum of FY 2018-19 and FY 2019-20	\$13,618.5 +	\$13,949.7 =	\$27,568.2
Sum of FY 2019-20 and FY 2020-21	\$13,949.7 +	\$14,264.4 =	\$28,214.1
FY 2020-21 Revenue Adjustment Factor			1.0234
<i>Note: Factor is calculated off a FY 2021 base year.</i>			
	<u>May 2018 Consensus Estimate</u>	<u>January 2019 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2019-20			
Local Districts	1,326,000	1,314,200	(11,800)
Public School Academies	150,000	146,000	(4,000)
Total	1,476,000	1,460,200	(15,800)
FY 2020-21			
Local Districts	N/A	1,306,000	N/A
Public School Academies	N/A	146,000	N/A
Total	N/A	1,452,000	N/A
Consensus Estimate of Pupil Membership	<u>FY 2019-20</u> 1,460,200	<u>FY 2020-21</u> 1,452,000	
Pupil Membership Adjustment Factor for FY 2020-21:			
<u>FY 2019-20 Pupil Membership</u>	=	<u>1,460,200</u>	
<u>FY 2020-21 Pupil Membership</u>	=	<u>1,452,000</u>	
FY 2020-21 Pupil Membership Adjustment Factor			1.0056
FY 2020-21 School Aid Index			1.0291