
MEMORANDUM



DATE: January 14, 2005

TO: Members of the Michigan House of Representatives

FROM: Mitchell E. Bean, Director

RE: Consensus Revenue Agreement—January 13, 2005

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) revenues.

The conference principals at the January 2005 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 2005 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 13 conference. The consensus estimates will be revised or updated at the May 2005 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 grow by 3.2% in calendar year (CY) 2005 and by 3.2% in CY 2006. In addition, Michigan personal income is forecast to grow 4.5% in CY 2005 and by 5.6% in CY 2006.

Table 2: Consensus Estimates of GF/GP and SAF

Provides final estimates for FY 2003-04, revised estimates for FY 2004-05, and initial estimates for FY 2005-06 revenues. Net GF/GP and SAF revenue is estimated to increase by \$708.7 million or 3.8% in FY 2005-06.

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

No BSF pay-in is estimated for FY 2004-05 or FY 2005-06. Pay-in and withdrawal 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 do not exceed the constitutional state revenue limit established in Article IX, Section 26 of the Constitution of the State of Michigan. It is estimated that total state revenue subject to the limit will be \$5.7 billion below the limit in FY 2004-05 and \$5.6 billion below the limit in FY 2005-06.

Table 5: Consensus Estimate—Comparison of Pupil Membership Estimates

Reports consensus estimates of pupil membership for FY 2004-05 and FY 2005-06 and notes changes from December 2004 estimates.

Table 6: Consensus Estimate—School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor

Reports calculations used to determine the FY 2005-06 revenue adjustment factor which is 1.0350, and the pupil membership adjustment factor, which is 1.0030 for FY 2005-06. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0381 or 3.81%.

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

attachments

Table 1
Consensus Economic Forecast
January 2005

	<u>Calendar 2003 Actual</u>	<u>Calendar 2004 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2005 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2006 Estimated</u>	<u>% Change from Prior Year</u>
<u>United States</u>							
Real Gross Domestic Product (Billions of 2000 dollars)	\$10,381	\$10,839	4.4%	\$11,185	3.2%	\$11,540	3.2%
Implicit Price Deflator GDP (2000 = 100)	106.0	108.2	2.1%	110.6	2.2%	113.1	2.3%
Consumer Price Index (1982-84 = 100)	184.0	189.0	2.7%	193.9	2.6%	198.6	2.4%
Personal Consumption Deflator (2000 = 100)	105.5	107.7	2.1%	109.9	2.0%	112.1	2.0%
3-month Treasury Bills Interest Rate (Percent)	1.0%	1.4%		2.4%		3.6%	
Aaa Corporate Bonds Interest Rate (Percent)	5.7%	5.6%		5.7%		6.4%	
Unemployment Rate - Civilian (Percent)	6.0%	5.5%		5.4%		5.3%	
Light Vehicle Sales (Millions of units)	16.6	16.7	0.5%	16.8	0.6%	16.8	0.0%
Passenger Car Sales (Millions of units)	7.6	7.4	-2.8%	7.4	0.0%	7.5	1.4%
Light Truck Sales (Millions of units)	9.0	9.3	3.2%	9.4	1.1%	9.3	-1.1%
Import Share of Light Vehicles (Percent)	19.9%	20.1%		20.6%		21.1%	
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	4,412	4,363	-1.1%	4,376	0.3%	4,420	1.0%
Unemployment Rate (Percent)	7.3%	6.7%		6.9%		6.8%	
Personal Income (Millions of current dollars)	\$314,460	\$322,950	2.7%	\$337,483	4.5%	\$356,382	5.6%
Real Personal Income (Millions of 1982-84 dollars)	\$172,307	\$173,816	0.9%	\$177,342	2.0%	\$183,230	3.3%
Wages and Salary Income (Millions of current dollars)	\$176,493	\$177,728	0.7%	\$184,304	3.7%	\$192,155	4.3%
Detroit Consumer Price Index (1982-84 = 100)	182.5	185.8	1.8%	190.3	2.4%	194.5	2.2%
Detroit CPI (FY) (1982-84 = 100)	182.0	184.4	1.3%	189.2	2.6%	193.2	2.1%

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Table 2
Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)
January 2005

	FY 2003-04	FY 2004-05			FY 2005-06		
	<u>Final</u>	<u>1/13/05 Consensus</u>	<u>% Change from FY 04</u>	<u>\$\$ Change from FY 04</u>	<u>01/13/05 Consensus</u>	<u>% Change from FY 05</u>	<u>\$\$ Change from FY 05</u>
<i>General Fund/General Purpose</i>							
Baseline	\$7,992.8	\$8,123.6	1.64%	\$130.8	\$8,374.5	3.09%	\$250.9
Tax Adjustments	<u>\$49.3</u>	<u>(\$253.8)</u>			<u>(\$218.3)</u>		
Net GF-GP Revenue	\$8,042.0	\$7,869.8	-2.14%	(\$172.2)	\$8,156.2	3.64%	\$286.4
<i>School Aid Fund Revenue</i>							
Baseline	\$10,533.6	\$10,868.8	3.18%	\$335.2	\$11,284.1	3.82%	\$415.3
Tax Adjustments	<u>\$81.5</u>	<u>\$10.0</u>			<u>\$16.8</u>		
Net SAF Revenue	\$10,615.1	\$10,878.8	2.48%	\$263.7	\$11,300.9	3.88%	\$422.1
<i>Total GF-GP and SAF</i>							
Baseline	\$18,526.4	\$18,992.4	2.52%	\$466.0	\$19,658.6	3.51%	\$666.2
Tax Adjustments	<u>\$130.8</u>	<u>(\$243.9)</u>			<u>(\$201.5)</u>		
Net GF-GP and SAF	\$18,657.2	\$18,748.5	0.49%	\$91.3	\$19,457.2	3.78%	\$708.7

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Numbers may not calculate exactly due to rounding.

Table 3
FY 2005-06 Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)
January 2005

	<u>CY 2004</u>	<u>CY 2005</u>
Michigan Personal Income	\$322,950 (1)	\$337,483 (1)
Less Transfer Payments	<u>\$48,908</u> (1)	<u>\$51,647</u> (1)
Income Net of Transfers	\$274,042	\$285,836
Detroit CPI	1.837 (2)	1.879 (3)
for 12 months ending	(June 2004)	(June 2005)
Real Adjusted Michigan Personal Income	\$149,179	\$152,101
Change in Real Adjusted Personal Income		2.0%
Excess Over 2%		0.0%
GF-GP Revenue Fiscal Year 2005-05		\$7,869.8

No BSF Pay-In indicated for FY 2005-06

Notes:

1. Personal Income and Transfer Payments: Consensus Forecast, January 2005.
2. Detroit Consumer Price Index: Average of six monthly values reported by BLS for each 12-month period.
3. Detroit Consumer Price Index: Consensus Forecast, January 2005.

Calculation done per MCL 18.1352.

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Table 4
Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)
January 2005

	<u>FY 2002 Actual</u>	<u>FY 2003 Actual</u>	<u>FY 2004 Consensus January 2005</u>	<u>FY 2005 Consensus January 2005</u>	<u>FY 2006 Consensus January 2005</u>
<u>Revenue Subject to Limit</u>					
Consensus					
General Fund General Purpose	8,280.9	\$7,911.7	\$8,010.1	\$7,834.8	\$8,121.2
General Fund Revenue Sharing	1,571.3	\$1,589.1	\$1,580.6	\$1,626.9	1,699.5
School Aid Fund	10,132.9	\$10,714.9	\$10,615.1	\$10,878.8	11,300.9
Transportation	2,211.1	\$2,243.3	\$2,279.3	\$2,216.2	2,307.3
Other Restricted Revenue	<u>\$1,349.8</u>	<u>\$1,602.6</u>	<u>\$1,602.6</u>	<u>\$1,602.6</u>	<u>\$1,602.6</u>
Total Revenue Subject to Limit	\$23,546.0	\$24,061.6	\$24,087.7	\$24,159.2	\$25,031.5
<u>Revenue Limit</u>	<u>CY 2000</u>	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004</u>
Personal Income	\$289,390	\$297,609	\$303,745	\$314,460	\$322,950
Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
Revenue Limit	\$27,463.1	\$28,243.1	\$28,825.4	\$29,842.2	\$30,648.0
1 Percent of Limit	\$274.6	\$282.4	\$288.3	\$298.4	\$306.5
<u>Amount Under (Over) Limit</u>	\$3,917.1	\$4,181.5	\$4,737.7	\$5,683.0	\$5,616.4

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Table 5
January 2005 Consensus Estimate
January 2005 Comparison of Pupil Membership Estimates
FY 2004-05 and FY 2005-06

	<u>December 2004 Consensus Estimate</u>	<u>January 2005 Consensus Estimate</u>	<u>Change From December 2004 Consensus Estimate</u>
<u>FY 2004-05</u>			
Local Districts	1,627,327	1,627,428	101
Public School Academies	<u>82,350</u>	<u>81,672</u>	<u>(678)</u>
Total	1,709,677	1,709,100	(577)
<u>FY 2005-06</u>			
Local Districts	N/A	1,616,300	N/A
Public School Academies	<u>N/A</u>	<u>87,700</u>	<u>N/A</u>
Total	N/A	1,704,000	N/A

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Table 6
January 2005 Consensus Estimate
School Aid Revenue Adjustment Factor
and Pupil Membership Adjustment Factor for FY 2005-06

<u>Revenue Adjustment Factor (Millions of Dollars)</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
Baseline SAF Revenue	\$10,533.6	\$10,868.8	11,284.1
Balance Sheet Adjustments	<u>\$81.5</u>	<u>\$10.0</u>	<u>16.8</u>
Net SAF Estimate	\$10,615.1	\$10,878.8	11,300.9
Adjustments to FY 2005-06 Base	<u>(\$64.7)</u>	<u>\$6.8</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2005-06 Base	\$10,550.4	\$10,885.6	11,300.9
Annual Growth Rate		3.18%	3.82%
<u>School Aid Fund Revenue Calculation for FY 2005-06</u>			
Sum of FY 2003-04 and FY 2004-05	\$10,550.4	+	\$10,885.6 = \$21,436.0
Sum of FY 2004-05 and FY 2005-06	\$10,885.6	+	\$11,300.9 = \$22,186.5
FY 2005-06 Revenue Adjustment Factor			1.0350

Pupil Membership Adjustment Factor

Consensus Estimate FY 2004-05	1,627,428		Local District Pupils
	+ <u>81,672</u>		Public School Academy Pupils
	1,709,100		
Consensus Estimate FY 2005-06	1,616,300		Local District Pupils
	+ <u>87,700</u>		Public School Academy Pupils
	1,704,000		

Estimated FY 2005-06 Pupil Membership Adjustment Factor

$$\begin{aligned}
 \text{FY 2004-05 Pupil Membership} &= 1,709,100 \\
 &\text{divided by} \\
 \text{FY 2005-06 Pupil Membership} &= 1,704,000
 \end{aligned}$$

FY 2005-06 Pupil Membership Adjustment Factor	1.0030
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