

DATE: May 17, 2016
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – May 17, 2016

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 2016 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 2016 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 2016 conference. These consensus estimates will be reviewed and updated at the January 2017 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) 2016, 2.6% in CY 2017, and 2.4% in CY 2018. Michigan personal income is forecast to increase 3.7% in CY 2016, 3.9% in CY 2017, and 4.5% in CY 2018.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final FY 2014-15 revenue and revised revenue estimates for FY 2015-16 through FY 2017-18. Relative to FY 2014-15, net GF/GP and SAF revenue is estimated to increase \$20.0 million or 0.1% in FY 2015-16, \$739.4 million or 3.4% in FY 2016-17, and \$827.0 million or 3.7% in FY 2017-18.

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

Calculated pay-ins for FY 2015-16 and FY 2016-17 are \$270.9 million and \$155.7 million, respectively, with no pay-in for FY 2017-18. It should be noted that the deposits to the BSF are not automatic, and that they require an appropriation. 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 \$7.83 billion below the limit in FY 2014-15, \$9.30 billion below in FY 2015-16, \$9.87 billion below in FY 2016-17, and \$9.99 billion below the limit in FY 2017-18.

Table 5: Long Term Revenue Trend

The long term revenue trend for combined GF/GP and SAF revenue is 1.5% growth for FY 2018-19 and 2.3% growth for FY 2019-20.

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 2016-17 and FY 2017-18. 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 2016-17 is 1.0332 and FY 2017-18 is 1.0353. The index would equal a 3.3% increase in the foundation allowance in FY 2016-17 and a 3.5% increase in FY 2017-18.

Table 8: Consensus 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 fall \$2.3 million below current FY 2015-16 appropriated levels and \$8.3 million below both the FY 2016-17 and FY 2017-18 Executive recommendations. Traditional Medicaid GF/GP expenditures are estimated to increase \$90.2 million above current FY 2015-16 appropriated levels and \$40.5 million above both the FY 2016-17 and FY 2017-18 Executive recommendations. While there are no GF/GP costs for the Healthy Michigan Plan in FY 2015-16, increases from the Executive recommendations are estimated for both FY 2016-17 and FY 2017-18: \$1.5 million and \$2.1 million, respectively. Child Development and Care GF/GP expenditures in the Department of Education are expected to fall \$4.7 million below the current FY 2015-16 appropriated level, as well as both the FY 2016-17 and FY 2017-18 Executive recommendations.

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

Attachments

Table 1
Consensus Economic Forecast
May 2016

	<u>Calendar 2015 Actual</u>	<u>Calendar 2016 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2017 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2018 Forecast</u>	<u>% Change from Prior Year</u>
<u>United States</u>							
Real Gross Domestic Product (Billions of Chained 2009 Dollars)	\$16,349	\$16,660	1.9%	\$17,093	2.6%	\$17,503	2.4%
Implicit Price Deflator GDP (2009 = 100)	109.1	110.4	1.2%	112.2	1.6%	114.6	2.1%
Consumer Price Index (1982-84 = 100)	237.017	239.720	1.1%	244.806	2.1%	250.668	2.4%
Consumer Price Index – Fiscal Year (1982-84 = 100)	236.742	238.998	1.0%	243.654	1.9%	249.311	2.3%
Personal Consumption Deflator (2009 = 100)	109.4	110.5	1.0%	112.4	1.7%	114.6	2.0%
3-month Treasury Bills Interest Rate (Percent)	0.04%	0.4%		1.0%		1.6%	
Aaa Corporate Bonds Interest Rate (Percent)	3.9%	3.9%		4.0%		4.2%	
Unemployment Rate - Civilian (Percent)	5.3%	4.9%		4.8%		4.6%	
Wage and Salary Employment (Millions)	141.865	144.280	1.7%	146.010	1.2%	147.910	1.3%
Housing Starts (Millions of Starts)	1.112	1.200	7.9%	1.365	13.8%	1.454	6.5%
Light Vehicle Sales (Millions of Units)	17.4	17.6	1.4%	17.7	0.6%	17.7	0.0%
Passenger Car Sales (Millions of Units)	7.5	7.2	-4.3%	7.3	1.4%	7.4	1.4%
Light Truck Sales (Millions of Units)	9.8	10.4	5.7%	10.4	0.0%	10.3	-1.0%
Big 3 Share of Light Vehicles (Percent)	43.8%	44.0%		44.1%		44.3%	
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	4,244	4,320	1.8%	4,363	1.0%	4,416	1.2%
Unemployment Rate (Percent)	5.4%	5.0%		4.9%		4.7%	
Personal Income (Millions of Dollars)	\$421,044	\$436,623	3.7%	\$453,651	3.9%	\$474,065	4.5%
Real Personal Income (Millions of 1982-84 Dollars)	\$192,516	\$197,938	2.8%	\$201,395	1.7%	\$205,470	2.0%
Wages and Salaries (Millions of Dollars)	\$213,499	\$220,972	3.5%	\$228,264	3.3%	\$237,166	3.9%
Detroit Consumer Price Index (1982-84 = 100)	218.706	220.585	0.9%	225.254	2.1%	230.722	2.4%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
May 2016: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

	FY 2015-16		FY 2016-17			FY 2017-18					
	FY 2014-15 Final	Change From FY 2013-14	May 2016 Consensus	Change From FY 2014-15	May 2016 Consensus	Change From FY 2015-16	May 2016 Consensus	Change From FY 2016-17			
General Fund/ General Purpose											
Baseline	\$10,660.5		\$10,884.1	\$223.6	2.1%	\$11,258.5	\$374.4	3.4%	\$11,669.6	\$411.1	3.7%
Tax Adjustments	(\$626.1)		(\$1,150.0)	(\$523.9)		(\$1,120.0)	\$30.0		(\$1,062.5)	\$57.5	
Net GF/GP Revenue	\$10,034.4	11.3%	\$9,734.1	(\$300.3)	-3.0%	\$10,138.5	\$404.4	4.2%	\$10,607.1	\$468.6	4.6%
School Aid Fund Revenue											
Baseline	\$11,780.9		\$12,059.5	\$278.6	2.4%	\$12,384.9	\$325.4	2.7%	\$12,751.4	\$366.5	3.0%
Tax Adjustments	(\$33.8)		\$7.9	\$41.7		\$17.5	\$9.6		\$9.4	(\$8.1)	
Net SAF Revenue	\$11,747.1	2.0%	\$12,067.4	\$320.3	2.7%	\$12,402.4	\$335.0	2.8%	\$12,760.8	\$358.4	2.9%
Total GF/GP and SAF											
Baseline	\$22,441.4		\$22,943.6	\$502.2	2.2%	\$23,643.4	\$699.8	3.1%	\$24,421.0	\$777.6	3.3%
Tax Adjustments	(\$659.9)		(\$1,142.1)	(\$482.2)		(\$1,102.5)	\$39.6		(\$1,053.1)	\$49.4	
Net GF/GP and SAF	\$21,781.5	6.0%	\$21,801.5	\$20.0	0.1%	\$22,540.9	\$739.4	3.4%	\$23,367.9	\$827.0	3.7%

Numbers may not calculate exactly due to rounding.

Table 3
May 2016: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2015-16 Pay-In / FY 2014-15 Pay-Out Calculation		FY 2016-17 Pay-In / FY 2015-16 Pay-Out Calculation		FY 2017-18 Pay-In / FY 2016-17 Pay-Out Calculation		FY 2017-18 Pay-In / Pay-Out Calculation	
	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2016</u>	<u>CY 2017</u>	<u>CY 2017</u>	<u>CY 2018</u>
Michigan Personal Income ⁽¹⁾	\$403,726	\$421,044	\$421,044	\$436,623	\$436,623	\$453,651	\$453,651	\$474,065
Less Transfer Payments ⁽¹⁾	\$86,899	\$91,527	\$91,527	\$96,102	\$96,102	\$101,004	\$101,004	\$106,560
Income Net of Transfers	\$316,827	\$329,517	\$329,517	\$340,521	\$340,521	\$352,647	\$352,647	\$367,505
Detroit CPI ⁽²⁾ for 12 months ending	2.210 (June 2014)	2.195 (June 2015)	2.195 (June 2015)	2.191 (June 2016)	2.191 (June 2016)	2.223 (June 2017)	2.223 (June 2017)	2.272 (June 2018)
Real Adjusted Michigan Personal Income	\$143,336	\$150,122	\$150,122	\$155,487	\$155,487	\$158,618	\$158,618	\$161,743
Change in Real Adjusted Personal Income		4.7%		3.6%		2.0%		2.0%
Amount Under 0%		N/A		N/A		N/A		N/A
Between 0% and 2%		2.0%		2.0%		2.0%		2.0%
Excess Over 2%		2.7%		1.6%		0.0%		0.0%
GF/GP Revenue	FY 2014-15	\$10,034.4	FY 2015-16	\$9,734.1	FY 2016-17	\$10,138.5	FY 2017-18	\$10,607.1
BSF PAY-IN⁽³⁾	FY 2015-16	\$270.9	FY 2016-17	\$155.7	FY 2017-18	No Pay-In	FY 2017-18	No Pay-Out
BSF PAY-OUT⁽³⁾			FY 2015-16	No Pay-Out	FY 2016-17	No Pay-Out		

Notes:

1. Personal Income and Transfer Payments: CY 2014 is from the U.S. Bureau of Economic Analysis, October 2015. Subsequent years are May 2016 consensus estimates.
2. Detroit Consumer Price Index, CY 2014 and CY 2015 are exponential averages of the six monthly values reported by U.S. Bureau of Labor Statistics for the July through June period. Subsequent years are May 2016 consensus estimates.
3. Calculation done per MCL 18.1352.

Table 4
May 2016 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	FY 2013-14 Final	FY 2014-15 Consensus May 2016	FY 2015-16 Consensus May 2016	FY 2016-17 Consensus May 2016	FY 2017-18 Consensus May 2016
<u>Revenue Subject to Limit</u>					
Consensus					
Net General Fund General Purpose	\$9,018.6	\$10,034.4	\$9,734.1	\$10,138.5	\$10,607.1
Constitutional Revenue Sharing	\$739.1	\$754.0	\$744.1	\$756.9	\$781.4
Net School Aid Fund	\$11,520.6	\$11,747.1	\$12,067.4	\$12,402.4	\$12,760.8
Transportation	\$2,121.7	\$2,205.7	\$2,275.7	\$2,514.6	\$2,930.8
Other Restricted Revenue	\$4,063.5	\$4,141.6	\$4,223.8	\$4,309.9	\$4,400.3
Less: GF/GP Federal Aid	\$30.9	\$38.5	\$35.0	\$35.0	\$35.0
Total Revenue Subject to Limit	\$27,432.6	\$28,844.3	\$29,010.1	\$30,087.3	\$31,445.4
<u>Revenue Limit</u>					
	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2016</u>
Personal Income	\$378,443	\$386,471	\$403,726	\$421,044	\$436,623
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$35,914.2	\$36,676.1	\$38,313.6	\$39,957.1	\$41,435.5
Total Revenue Subject to Limit	\$27,432.6	\$28,844.3	\$29,010.1	\$30,087.3	\$31,445.4
Amount Under (Over) Limit	\$8,481.6	\$7,831.8	\$9,303.5	\$9,869.8	\$9,990.1

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, and CY 2016 for FY 2018.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>
Net GF/GP Revenue	\$10,597.9	\$10,754.7
Growth	-0.1%	1.5%
Net SAF Revenue	\$13,121.5	\$13,503.3
Growth	2.8%	2.9%
Combined GF/GP and SAF	\$23,719.4	\$24,258.0
Growth	1.5%	2.3%

Table 6
May 2016 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2016-17

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
Baseline SAF Revenue	\$11,780.9	\$12,059.5	\$12,384.9
Balance Sheet Adjustments	(\$33.8)	\$7.9	\$17.5
Net SAF Estimate	\$11,747.1	\$12,067.4	\$12,402.4
 Subtotal Adjustments to FY 2016-17 Base	 <u>\$51.3</u>	 <u>\$9.6</u>	 <u>\$0.0</u>
Baseline Revenue on an FY 2016-17 Base	\$11,798.4	\$12,077.0	\$12,402.4
Percent Change		2.36%	2.69%
SAF Revenue Adjustment Calculation for FY 2016-17:			
Sum of FY 2014-15 and FY 2015-16	\$11,798.4 +	\$12,077.0 =	\$23,875.4
Sum of FY 2015-16 and FY 2016-17	\$12,077.0 +	\$12,402.4 =	\$24,479.4
FY 2016-17 Revenue Adjustment Factor			1.0253
<i>Note: Factor is calculated off a FY 2017 base year.</i>			
	<u>January 2016</u> <u>Consensus</u> <u>Estimate</u>	<u>May 2016</u> <u>Consensus</u> <u>Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2015-16			
Local Districts	1,344,100	1,344,400	300
Public School Academies	<u>151,700</u>	<u>151,600</u>	<u>(100)</u>
Total	1,495,800	1,496,000	200
FY 2016-17			
Local Districts	1,332,000	1,331,000	(1,000)
Public School Academies	<u>154,000</u>	<u>153,500</u>	<u>(500)</u>
Total	1,486,000	1,484,500	(1,500)
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	
Consensus Estimate of Pupil Membership	1,496,000	1,484,500	
Pupil Membership Adjustment Factor for FY 2016-17:			
<u>FY 2015-16 Pupil Membership</u>	=	<u>1,496,000</u>	
<u>FY 2016-17 Pupil Membership</u>	=	<u>1,484,500</u>	
FY 2016-17 Pupil Membership Adjustment Factor			1.0077
FY 2016-17 School Aid Index			1.0332

Table 7
May 2016 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2017-18

Revenue Adjustment Factor (Millions of \$)

	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Baseline SAF Revenue	\$12,059.5	\$12,384.9	\$12,751.4
Balance Sheet Adjustments	\$7.9	\$17.5	\$9.4
Net SAF Estimate	\$12,067.4	\$12,402.4	\$12,760.8
Subtotal Adjustments to FY 2017-18 Base	\$1.5	(\$8.1)	\$0.0
Baseline Revenue on an FY 2017-18 Base	\$12,068.9	\$12,394.3	\$12,760.8
Percent Change		2.70%	2.96%
SAF Revenue Adjustment Calculation for FY 2017-18:			
Sum of FY 2015-16 and FY 2016-17	\$12,068.9 +	\$12,394.3	= \$24,463.2
Sum of FY 2016-17 and FY 2017-18	\$12,394.3 +	\$12,760.8	= \$25,155.1

FY 2017-18 Revenue Adjustment Factor

1.0283

Note: Factor is calculated off a FY 2018 base year.

	January 2016 Consensus Estimate	May 2016 Consensus Estimate	Change
<u>Pupil Membership Adjustment Factor</u>			
FY 2016-17			
Local Districts	1,332,000	1,331,000	(1,000)
Public School Academies	154,000	153,500	(500)
Total	1,486,000	1,484,500	(1,500)
FY 2017-18			
Local Districts	1,320,000	1,319,000	(1,000)
Public School Academies	156,000	155,500	(500)
Total	1,476,000	1,474,500	(1,500)
Consensus Estimate of Pupil Membership	<u>FY 2016-17</u> 1,484,500	<u>FY 2017-18</u> 1,474,500	
Pupil Membership Adjustment Factor for FY 2017-18:			
<u>FY 2016-17 Pupil Membership</u>	=	1,484,500	
<u>FY 2017-18 Pupil Membership</u>	=	1,474,500	

FY 2017-18 Pupil Membership Adjustment Factor

1.0068

FY 2017-18 School Aid Index

1.0353

Table 8
May 2016 Consensus Expenditure Estimates
Human Services and Medicaid Programs
FY 2015-16 Through FY 2017-18
(Millions of Dollars)

Department of Health and Human Services
Estimates for Human Services Caseloads and Expenditures

	Total Increase/(Decrease)	
	<u>Gross</u>	<u>GF/GP</u>
Fiscal Year 2016 Change from Current Law	(\$15,661,900)	(\$2,274,800)
Fiscal Year 2017 Change from Executive Recommendation	(\$25,104,200)	(\$8,289,200)
Fiscal Year 2018 Change from Executive Recommendation	(\$25,104,200)	(\$8,289,200)

Department of Health and Human Services
Estimates for Medicaid Expenditures

	Non-HMP Medicaid Expenditures		Healthy Michigan Plan Expenditures	
	Total Increase/(Decrease)		Total Increase/(Decrease)	
	<u>Gross</u>	<u>GF/GP</u>	<u>Gross</u>	<u>GF/GP</u>
Fiscal Year 2016 Change from Current Law	\$319,589,900	\$90,156,800	(\$523,778,000)	\$0
Fiscal Year 2017 Change from Executive Recommendation	\$151,594,700	\$40,491,000	\$117,050,500	\$1,529,900
Fiscal Year 2018 Change from Executive Recommendation	\$151,594,700	\$40,491,000	\$117,050,500	\$2,065,300

Department of Education
Estimates for Child Development and Care Expenditures

	Total Increase/(Decrease)	
	<u>Gross</u>	<u>GF/GP</u>
Fiscal Year 2016 Change from Current Law	(\$3,500,000)	(\$4,700,000)
Fiscal Year 2017 Change from Executive Recommendation	\$2,100,000	(\$4,700,000)
Fiscal Year 2018 Change from Executive Recommendation	\$2,100,000	(\$4,700,000)