

MEMORANDUM



DATE: January 10, 2020
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – January 10, 2020

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 2020 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 2020 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2020 conference. These consensus estimates will be revised and updated at the May 2020 conference.

Table 1: Consensus Economic Forecast

Provides estimates of various state and national economic variables. The forecast projects that real gross domestic product (GDP) will increase 1.8% in calendar year (CY) 2020, 1.7% in CY 2021, and 1.5% in CY 2022. Michigan personal income is forecast to increase 3.7% in CY 2020, 3.5% in CY 2021, and 3.4% in CY 2022.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the preliminary final FY 2018-19 revenue, revised revenue estimates for FY 2019-20 and FY 2020-21, and the initial estimates for FY 2021-22. Relative to FY 2018-19, net GF/GP and SAF revenue is estimated to increase \$269.6 million or 1.1% in FY 2019-20, \$574.4 million or 2.3% in FY 2020-21, and \$646.6 million or 2.5% in FY 2021-22.

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

There are no calculated pay-ins or pay-outs for FY 2019-20, FY 2020-21, or FY 2021-22. It should be noted that the deposits to or withdrawals from the BSF are not automatic, and that they require an appropriation. 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 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 \$9.95 billion below the limit in FY 2018-19, \$11.55 billion below in FY 2019-20, \$12.47 billion below in FY 2020-21, and \$13.44 billion below the limit in FY 2021-22.

Table 5: Long Term Revenue Trend

The long term revenue trend for combined GF/GP and SAF revenue is 3.0% growth for FY 2022-23 and 2.9% growth for FY 2023-24.

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 2020-21 and FY 2021-22. 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 2020-21 is 1.0264 and FY 2021-22 is 1.0279. The index would equal a 2.6% increase in the foundation allowance in FY 2020-21 and 2.8% in FY 2021-22.

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

Attachments

Table 1
Consensus Economic Forecast
January 2020

	<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>Calendar 2022 Forecast</u>	<u>% Change from Prior Year</u>
<u>United States</u>								
Real Gross Domestic Product (Billions of Chained 2012 Dollars)	\$19,067	2.3%	\$19,410	1.8%	\$19,740	1.7%	\$20,036	1.5%
Implicit Price Deflator GDP (2012 = 100)	112.3	1.7%	114.2	1.7%	116.5	2.0%	118.9	2.1%
Consumer Price Index (1982-84 = 100)	255.488	1.7%	260.125	1.8%	264.972	1.9%	270.189	2.0%
Consumer Price Index – Fiscal Year (1982-84 = 100)	254.376	1.9%	258.966	1.8%	263.723	1.8%	268.864	1.9%
Personal Consumption Deflator (2012 = 100)	109.7	1.4%	111.6	1.7%	113.5	1.7%	115.5	1.8%
3-month Treasury Bills Interest Rate (Percent)	2.1%		1.5%		1.6%		1.7%	
Unemployment Rate - Civilian (Percent)	3.7%		3.5%		3.5%		3.6%	
Wage and Salary Employment (Millions)	151.390	1.6%	153.360	1.3%	154.890	1.0%	156.130	0.8%
Housing Starts (Millions of Starts)	1.260	0.8%	1.266	0.5%	1.268	0.2%	1.261	-0.6%
Light Vehicle Sales (Millions of Units)	17.0	-1.4%	16.8	-1.0%	16.6	-1.2%	16.4	-1.2%
Passenger Car Sales (Millions of Units)	4.7	-10.8%	4.2	-11.2%	3.7	-11.9%	3.3	-10.8%
Light Truck Sales (Millions of Units)	12.2	2.8%	12.6	2.9%	12.9	2.4%	13.1	1.6%
Big 3 Share of Light Vehicles (Percent)	41.0%		41.6%		40.4%		40.3%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,441	0.5%	4,467	0.6%	4,490	0.5%	4,503	0.3%
Unemployment Rate (Percent)	4.1%		3.8%		3.7%		3.8%	
Personal Income (Millions of Dollars)	\$502,423	3.8%	\$521,013	3.7%	\$539,248	3.5%	\$557,583	3.4%
Real Personal Income (Millions of 1982-84 Dollars)	\$213,944	2.7%	\$217,855	1.8%	\$221,695	1.8%	\$225,086	1.5%
Wages and Salaries (Millions of Dollars)	\$246,423	2.9%	\$256,280	4.0%	\$266,275	3.9%	\$275,860	3.6%
Detroit Consumer Price Index (1982-84 = 100)	234.838	1.1%	239.156	1.8%	243.239	1.7%	247.720	1.8%
Detroit CPI – Fiscal Year (1982-84 = 100)	233.840	1.0%	238.194	1.9%	242.181	1.7%	246.583	1.8%

NOTE: Percentages may not calculate exactly due to rounding.

Table 2
January 2020: Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)

	FY 2018-19			FY 2019-20			FY 2020-21			FY 2021-22				
	FY 2018-19 Preliminary Final	Change From FY 2017-18	\$ Change From May 2019 Consensus	January 2020 Consensus	Change From FY 2018-19	\$ Change From May 2019 Consensus	January 2020 Consensus	Change From FY 2019-20	\$ Change From May 2019 Consensus	January 2020 Consensus	Change From FY 2020-21			
General Fund/ General Purpose														
Baseline	\$12,330.6	0.9%		\$12,524.9	\$194.3	1.6%	(\$18.8)	\$12,897.6	\$372.7	3.0%	\$38.8	\$13,229.7	\$332.1	2.6%
Tax Adjustments	(\$1,222.6)			(\$1,512.8)	(\$290.2)		\$254.0	(\$1,703.1)	(\$190.3)		\$235.2	(\$1,711.2)	(\$8.1)	
Net GF/GP Revenue	\$11,108.0	0.8%	\$256.3	\$11,012.1	(\$95.9)	-0.9%	\$235.2	\$11,194.5	\$182.4	1.7%	\$274.0	\$11,518.5	\$324.0	2.9%
School Aid Fund Revenue														
Baseline	\$13,621.8	2.3%		\$13,874.9	\$253.1	1.9%	\$40.8	\$14,212.3	\$337.4	2.4%	\$70.8	\$14,531.9	\$319.6	2.2%
Tax Adjustments	(\$61.8)			\$50.6	\$112.4		\$44.9	\$105.2	\$54.6		\$67.2	\$108.3	\$3.1	
Net SAF Revenue	\$13,560.0	1.9%	\$77.7	\$13,925.5	\$365.5	2.7%	\$85.7	\$14,317.5	\$392.0	2.8%	\$138.0	\$14,640.1	\$322.6	2.3%
Total GF/GP and SAF														
Baseline	\$25,952.4	1.6%		\$26,399.8	\$447.4	1.7%	\$22.0	\$27,109.9	\$710.1	2.7%	\$109.6	\$27,761.6	\$651.7	2.4%
Tax Adjustments	(\$1,284.4)			(\$1,462.2)	(\$117.8)		\$298.9	(\$1,597.9)	(\$135.7)		\$302.4	(\$1,602.9)	(\$5.0)	
Net GF/GP and SAF	\$24,668.0	1.4%	\$334.0	\$24,937.6	\$269.6	1.1%	\$320.9	\$25,512.0	\$574.4	2.3%	\$412.0	\$26,158.6	\$646.6	2.5%

Numbers may not calculate exactly due to rounding.

Table 3
January 2020: Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)

	FY 2019-20 Pay-In Calculation		FY 2020-21 Pay-In / FY 2019-20 Pay-Out Calculation		FY 2021-22 Pay-In / FY 2020-21 Pay-Out Calculation		FY 2021-22 Pay-Out Calculation	
	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2020</u>	<u>CY 2021</u>	<u>CY 2021</u>	<u>CY 2022</u>
Michigan Personal Income ⁽¹⁾	\$484,030	\$502,423	\$502,423	\$521,013	\$521,013	\$539,248	\$539,248	\$557,583
Less Transfer Payments ⁽¹⁾	\$97,776	\$105,110	\$105,110	\$109,070	\$109,070	\$112,964	\$112,964	\$117,054
Income Net of Transfers	\$386,254	\$397,313	\$397,313	\$411,943	\$411,943	\$426,284	\$426,284	\$440,529
Detroit CY CPI ⁽²⁾	2.322	2.348	2.348	2.392	2.392	2.432	2.432	2.477
Real Adjusted Michigan Personal Income	\$166,345	\$169,186	\$169,186	\$172,249	\$172,249	\$175,253	\$175,253	\$177,833
Change in Real Adjusted Personal Income		1.7%		1.8%		1.7%		1.5%
Amount Under 0%		N/A		N/A		N/A		N/A
Between 0% and 2%		1.7%		1.8%		1.7%		1.5%
Excess Over 2%		N/A		N/A		N/A		N/A
GF/GP Revenue	FY 2018-19	\$11,108.0	FY 2019-20	\$11,012.1	FY 2020-21	\$11,194.5	FY 2021-22	\$11,518.5
BSF PAY-IN⁽³⁾	FY 2019-20	No Pay-In	FY 2020-21	No Pay-In	FY 2021-22	No Pay-In	FY 2021-22	No Pay-Out
BSF PAY-OUT⁽³⁾			FY 2019-20	No Pay-Out	FY 2020-21	No Pay-Out		

Notes:

1. Personal Income and Transfer Payments: CY 2016 through CY 2018 values are reported by the U.S. Bureau of Economic Analysis. Subsequent years are January 2020 consensus estimates.
2. Detroit Consumer Price Index, CY 2016 through CY 2018 values are reported by the U.S. Bureau of Labor Statistics. Subsequent years are January 2020 consensus estimates.
3. Calculation done per MCL 18.1352.

Table 4
January 2020 Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)

	FY 2017-18 Actual	FY 2018-19 Consensus January 2020	FY 2019-20 Consensus January 2020	FY 2020-21 Consensus January 2020	FY 2021-22 Consensus January 2020
Revenue Subject to Limit					
Consensus					
Net General Fund General Purpose	\$11,017.1	\$11,108.0	\$11,012.1	\$11,194.5	\$11,518.5
Constitutional Revenue Sharing	\$816.6	\$837.2	\$854.5	\$864.1	\$886.7
Net School Aid Fund	\$13,302.0	\$13,560.0	\$13,925.5	\$14,317.5	\$14,640.2
Transportation	\$2,950.2	\$3,308.4	\$3,658.7	\$3,849.5	\$3,922.5
Other Restricted Revenue	\$4,873.1	\$4,921.8	\$4,946.4	\$4,995.9	\$5,045.8
Less: GF/GP Federal Aid	\$2.9	\$2.1	\$10.0	\$10.0	\$10.0
Total Revenue Subject to Limit	\$32,956.1	\$33,733.3	\$34,387.2	\$35,211.5	\$36,003.7
Revenue Limit					
	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020
Personal Income	\$439,361	\$460,270	\$484,030	\$502,423	\$521,013
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$41,695.4	\$43,679.6	\$45,934.4	\$47,679.9	\$49,444.1
Total Revenue Subject to Limit	\$32,956.1	\$33,733.3	\$34,387.2	\$35,211.5	\$36,003.6
Amount Under (Over) Limit	\$8,739.3	\$9,946.3	\$11,547.2	\$12,468.4	\$13,440.5

Numbers may not calculate exactly due to rounding.

Note: CY 2016 Personal Income is used for the FY 2018 revenue limit calculation, CY 2017 for FY 2019, CY 2018 for FY 2020, CY 2019 for FY 2021, and CY 2020 for FY 2022.

Table 5
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>
Net GF/GP Revenue	\$11,907.2	\$12,278.2
Growth	3.4%	3.1%
Net SAF Revenue	\$15,038.7	\$15,445.0
Growth	2.7%	2.7%
Combined GF/GP and SAF	\$26,945.9	\$27,723.2
Growth	3.0%	2.9%

Table 6
January 2020 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	\$13,621.8	\$13,874.9	\$14,212.3
Balance Sheet Adjustments	(\$61.8)	\$50.6	\$105.2
Net SAF Estimate	\$13,560.0	\$13,925.5	\$14,317.5
Subtotal Adjustments to FY 2020-21 Base	\$167.0	\$54.6	\$0.0
Baseline Revenue on an FY 2020-21 Base	\$13,727.0	\$13,980.1	\$14,317.5
Percent Change		1.84%	2.41%
SAF Revenue Adjustment Calculation for FY 2020-21:			
Sum of FY 2018-19 and FY 2019-20	\$13,727.0 +	\$13,980.1 =	\$27,707.1
Sum of FY 2019-20 and FY 2020-21	\$13,980.1 +	\$14,317.5 =	\$28,297.6
FY 2020-21 Revenue Adjustment Factor			1.0213
<i>Note: Factor is calculated off a FY 2021 base year.</i>			
	<u>May 2019 Consensus Estimate</u>	<u>January 2020 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2019-20			
Local Districts	1,313,800	1,313,500	(300)
Public School Academies	145,600	147,400	1,800
Total	1,459,400	1,460,900	1,500
FY 2020-21			
Local Districts	1,305,600	1,305,200	(400)
Public School Academies	145,400	148,400	3,000
Total	1,451,000	1,453,600	2,600
Consensus Estimate of Pupil Membership	<u>FY 2019-20</u> 1,460,900	<u>FY 2020-21</u> 1,453,600	
Pupil Membership Adjustment Factor for FY 2020-21:			
<u>FY 2019-20 Pupil Membership</u>	=	<u>1,460,900</u>	
<u>FY 2020-21 Pupil Membership</u>	=	<u>1,453,600</u>	
FY 2020-21 Pupil Membership Adjustment Factor			1.0050
FY 2020-21 School Aid Index			1.0264

Table 7
January 2020 Consensus Estimate
Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2021-22

<u>Revenue Adjustment Factor (Millions of \$)</u>			
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>
Baseline SAF Revenue	\$13,874.9	\$14,212.3	\$14,531.9
Balance Sheet Adjustments	\$50.6	\$105.2	\$108.3
Net SAF Estimate	\$13,925.5	\$14,317.5	\$14,640.2
Subtotal Adjustments to FY 2021-22 Base	\$57.7	\$3.1	\$0.0
Baseline Revenue on an FY 2021-22 Base	\$13,983.2	\$14,320.6	\$14,640.2
Percent Change		2.41%	2.23%
SAF Revenue Adjustment Calculation for FY 2021-22:			
Sum of FY 2019-20 and FY 2020-21	\$13,983.2 +	\$14,320.6 =	\$28,303.8
Sum of FY 2020-21 and FY 2021-22	\$14,320.6 +	\$14,640.2 =	\$28,960.8
FY 2021-22 Revenue Adjustment Factor			1.0232
<i>Note: Factor is calculated off a FY 2022 base year.</i>			
	<u>May 2019 Consensus Estimate</u>	<u>January 2020 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor</u>			
FY 2020-21			
Local Districts	1,305,600	1,305,200	(400)
Public School Academies	145,400	148,400	3,000
Total	1,451,000	1,453,600	2,600
FY 2021-22			
Local Districts	N/A	1,298,000	N/A
Public School Academies	N/A	149,000	N/A
Total	N/A	1,447,000	N/A
	<u>FY 2020-21</u>	<u>FY 2021-22</u>	
Consensus Estimate of Pupil Membership	1,453,600	1,447,000	
Pupil Membership Adjustment Factor for FY 2021-22:			
<u>FY 2020-21 Pupil Membership</u>	=	<u>1,453,600</u>	
<u>FY 2021-22 Pupil Membership</u>	=	<u>1,447,000</u>	
FY 2021-22 Pupil Membership Adjustment Factor			1.0046
FY 2021-22 School Aid Index			1.0279