

MEMORANDUM



DATE: August 24, 2020
TO: Members of the Michigan House of Representatives
FROM: Mary Ann Cleary, Director *MAC*
RE: Consensus Revenue Agreement – August 24, 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 August 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 August 2020 conference. These consensus estimates will be reviewed and updated at the January 2021 conference.

Table 1: Consensus Economic Forecast

Provides estimates of various state and national economic variables. Real gross domestic product (GDP) is predicted to decrease 5.3% in calendar year (CY) 2020, then increase 2.7% in CY 2021, and increase 3.1% in CY 2022. Michigan personal income is forecast to increase 2.2% in CY 2020, decrease 2.0% in CY 2021, and increase 4.5% in CY 2022.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final FY 2018-19 revenue and revised revenue estimates for FY 2019-20 through FY 2021-22. Relative to FY 2018-19, net GF/GP and SAF revenue is estimated to decrease \$657.0 million or 2.7% in FY 2019-20, decrease \$972.6 million or 4.1% in FY 2020-21, and increase \$1,407.4 million or 6.1% in FY 2021-22.

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

A pay-out of up to \$287.2 million would be permitted based on statute for FY 2019-20; no pay-outs are anticipated for FY 2020-21 or FY 2021-22. The only calculated pay-in would be \$133.5 for FY 2021-22. It should be noted that the deposits to and withdrawals from the BSF are not automatic, and that they require an appropriation. No pay-outs are expected for any of these 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 \$9.67 billion below the limit in FY 2018-19, \$12.16 billion below in FY 2019-20, \$14.59 billion below in FY 2020-21, and \$14.01 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 1.7% growth for FY 2022-23 and 2.0% 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 0.9934 and FY 2021-22 is 1.0109. The index would have no increase (0.0%) in the foundation allowance in FY 2020-21 and 1.1% increase in FY 2021-22.

Table 8: Consensus Estimate—Human Services and Medicaid Expenditures

Adjustment to May 2020 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 decline \$3.8 million in FY 2019-20, \$21.6 million in FY 2020-21, and \$15.9 million FY 2021-22. Medicaid GF/GP expenditures are estimated to decline \$69.8 million from FY 2019-20 appropriated levels, \$434.2* million in FY 2020-21 and \$97.3 million in FY 2021-22.

* - FY 21 GF/GP figure includes savings of (\$239,674,100) GF/GP due to continuation of the 6.2% increase in Medicaid match rate from October 1, 2020 to December 31, 2020

FY 2019-20 Estimate of Year-End Balances

House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2019-20 estimates are based on year-to-date appropriations, August consensus revenues, and human services and Medicaid expenditure estimates.

- General Fund/General Purpose \$1,397.3 million
- School Aid Fund \$1,038.4 million
- Budget Stabilization Fund \$830.5 million

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

Attachments

Table 1
Consensus Economic Forecast
August 2020

	<u>Calendar 2019 Actual</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)	\$19,092	2.4%	\$18,080	-5.3%	\$18,568	2.7%	\$19,144	3.1%
Implicit Price Deflator GDP (2012 = 100)	112.3	1.7%	113.2	0.8%	114.2	0.9%	115.8	1.4%
Consumer Price Index (1982-84 = 100)	255.657	1.8%	257.806	0.8%	261.805	1.6%	266.993	2.0%
Consumer Price Index – Fiscal Year (1982-84 = 100)	254.376	1.9%	257.702	1.3%	260.710	1.2%	265.813	2.0%
Personal Consumption Deflator (2012 = 100)	109.7	1.4%	110.5	0.8%	111.6	1.0%	113.2	1.4%
3-month Treasury Bills Interest Rate (Percent)	2.1%		0.4%		0.1%		0.1%	
Unemployment Rate - Civilian (Percent)	3.7%		8.9%		7.9%		6.6%	
Wage and Salary Employment (Millions)	150.939	1.4%	142.490	-5.6%	145.910	2.4%	150.000	2.8%
Housing Starts (Millions of Starts)	1.290	3.2%	1.195	-7.4%	1.110	-7.1%	1.190	7.2%
Light Vehicle Sales (Millions of Units)	17.0	-1.4%	13.7	-19.3%	15.0	9.5%	16.1	7.3%
Passenger Car Sales (Millions of Units)	4.7	-10.9%	3.3	-30.1%	3.6	9.1%	3.6	0.0%
Light Truck Sales (Millions of Units)	12.2	2.8%	10.4	-15.0%	11.4	9.6%	12.5	9.6%
Big 3 Share of Light Vehicles (Percent)	41.0%		42.5%		41.9%		41.6%	
<u>Michigan</u>								
Wage and Salary Employment (Thousands)	4,433	0.3%	4,043	-8.8%	4,196	3.8%	4,251	1.3%
Unemployment Rate (Percent)	4.1%		11.7%		9.0%		7.7%	
Personal Income (Millions of Dollars)	\$502,540	3.8%	\$513,596	2.2%	\$503,324	-2.0%	\$525,974	4.5%
Real Personal Income (Millions of 1982-84 Dollars)	\$213,604	2.5%	\$218,257	2.2%	\$211,622	-3.0%	\$217,408	2.7%
Wages and Salaries (Millions of Dollars)	\$246,802	2.7%	\$228,292	-7.5%	\$244,044	6.9%	\$256,490	5.1%
Detroit Consumer Price Index (1982-84 = 100)	235.267	1.3%	235.317	0.0%	237.841	1.1%	241.929	1.7%
Detroit CPI – Fiscal Year (1982-84 = 100)	233.840	1.0%	236.193	1.0%	237.147	0.4%	241.117	1.7%

NOTE: Percentages may not calculate exactly due to rounding.

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

	FY 2019-20			FY 2020-21			FY 2021-22				
	FY 2018-19 Final	Change From FY 2017-18	August 2020 Consensus	Change From FY 2018-19	August 2020 Consensus	Change From FY 2019-20	August 2020 Consensus	Change From FY 2020-21			
General Fund/ General Purpose											
Baseline	\$12,338.4		\$12,202.0	(\$136.4)	-1.1%	\$11,631.7	(\$570.3)	-4.7%	\$12,282.9	\$651.2	5.6%
Tax Adjustments	(\$1,222.6)		(\$1,905.2)	(\$682.6)		(\$2,095.0)	(\$189.8)		(\$1,890.5)	\$204.5	
Net GF/GP Revenue	\$11,115.8	0.9%	\$10,296.8	(\$819.0)	-7.4%	\$9,536.7	(\$760.1)	-7.4%	\$10,392.5	\$855.8	9.0%
School Aid Fund Revenue											
Baseline	\$13,614.2		\$13,583.1	(\$31.1)	-0.2%	\$13,283.9	(\$299.2)	-2.2%	\$13,739.4	\$455.5	3.4%
Tax Adjustments	(\$61.8)		\$131.3	\$193.1		\$218.0	\$86.7		\$314.2	\$96.2	
Net SAF Revenue	\$13,552.4	1.9%	\$13,714.4	\$162.0	1.2%	\$13,501.9	(\$212.5)	-1.5%	\$14,053.5	\$551.6	4.1%
Total GF/GP and SAF											
Baseline	\$25,952.6		\$25,785.1	(\$167.5)	-0.6%	\$24,915.6	(\$869.5)	-3.4%	\$26,022.3	\$1,106.7	4.4%
Tax Adjustments	(\$1,284.4)		(\$1,773.9)	(\$489.5)		(\$1,877.0)	(\$103.1)		(\$1,576.3)	\$300.7	
Net GF/GP and SAF	\$24,668.2	1.4%	\$24,011.2	(\$657.0)	-2.7%	\$23,038.6	(\$972.6)	-4.1%	\$24,446.0	\$1,407.4	6.1%

Numbers may not calculate exactly due to rounding.

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

	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 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⁾	\$502,540	\$513,596	\$513,596	\$503,324	\$503,324	\$525,974
Less Transfer Payments ⁽¹⁾	<u>\$105,366</u>	<u>\$140,870</u>	<u>\$140,870</u>	<u>\$113,775</u>	<u>\$113,775</u>	<u>\$117,261</u>
Income Net of Transfers	\$397,174	\$372,726	\$372,726	\$389,549	\$389,549	\$408,713
Detroit CPI ⁽²⁾ for 12 months ending	2.353 (Dec. 2019)	2.353 (Dec. 2020)	2.353 (Dec. 2020)	2.378 (Dec. 2021)	2.378 (Dec. 2021)	2.419 (Dec. 2022)
Real Adjusted Michigan Personal Income	\$168,819	\$158,393	\$158,393	\$163,786	\$163,786	\$168,939
Change in Real Adjusted Personal Income		-6.2%		3.4%		3.2%
Amount Under 0%		-6.2%		N/A		N/A
Between 0% and 2%		N/A		2.0%		2.0%
Excess Over 2%		N/A		1.4%		1.2%
GF/GP Revenue	FY 2019-20	\$10,296.8	FY 2020-21	\$9,536.7	FY 2021-22	\$10,392.5
BSF PAY-IN⁽³⁾	FY 2020-21	No Pay-In	FY 2021-22	\$133.5		
BSF PAY-OUT⁽³⁾	FY 2019-20	\$287.2	FY 2020-21	No Pay-Out	FY 2021-22	No Pay-Out

Notes:

1. Personal Income and Transfer Payments: CY 2018 and CY 2019 are from the U.S. Bureau of Economic Analysis. Subsequent years are August 2020 consensus estimates.
2. Detroit Consumer Price Index: CY 2019 value as reported by the U.S. Bureau of Labor Statistics. Subsequent years are August 2020 consensus estimates.
3. Calculation done per MCL 18.1352.

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

	<u>FY 2018-19</u> <u>Consensus</u> <u>August 2020</u>	<u>FY 2019-20</u> <u>Consensus</u> <u>August 2020</u>	<u>FY 2020-21</u> <u>Consensus</u> <u>August 2020</u>	<u>FY 2021-22</u> <u>Consensus</u> <u>August 2020</u>
<u>Revenue Subject to Limit</u>				
Consensus				
Net General Fund General Purpose	\$11,115.8	\$10,296.8	\$9,536.7	\$10,392.4
Constitutional Revenue Sharing	\$837.2	\$822.3	\$816.3	\$811.1
Net School Aid Fund	\$13,552.4	\$13,714.4	\$13,501.9	\$14,053.6
Transportation	\$3,308.4	\$3,658.7	\$3,849.5	\$3,922.5
Other Restricted Revenue	\$5,199.6	\$5,295.8	\$5,401.8	\$5,563.8
Less: GF/GP Federal Aid	(\$2.1)	(\$15.0)	(\$10.0)	(\$10.0)
Total Revenue Subject to Limit	\$34,011.3	\$33,773.0	\$33,096.2	\$34,733.4
<u>Revenue Limit</u>				
	<u>CY 2017</u>	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>
Personal Income	\$460,270	\$484,030	\$502,540	\$513,596
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$43,679.6	\$45,934.4	\$47,691.0	\$48,740.3
Total Revenue Subject to Limit	\$436.8	\$459.3	\$476.9	\$487.4
Amount Under (Over) Limit	\$9,668.3	\$12,161.4	\$14,594.9	\$14,006.9

Numbers may not calculate exactly due to rounding.

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

Table 5
August 2020 Consensus Estimate
Long Term Revenue Trend
(Millions of Dollars)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>
Net GF/GP Revenue	\$10,430.6	\$10,534.2
Growth	0.4%	1.0%
Net SAF Revenue	\$14,422.6	\$14,815.1
Growth	2.6%	2.7%
Combined GF/GP and SAF	\$24,853.2	\$25,349.3
Growth	1.7%	2.0%

Table 6
August 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	\$13,614.2	\$13,583.1	\$13,283.9
Balance Sheet Adjustments	(\$61.8)	\$131.3	\$218.0
Net SAF Estimate	\$13,552.4	\$13,714.4	\$13,501.9
Subtotal Adjustments to FY 2020-21 Base	\$279.8	\$86.7	\$0.0
Baseline Revenue on an FY 2020-21 Base	\$13,832.2	\$13,801.1	\$13,501.9
Percent Change		-0.22%	-2.17%
SAF Revenue Adjustment Calculation for FY 2020-21:			
Sum of FY 2018-19 and FY 2019-20	\$13,832.2 +	\$13,801.1 =	\$27,633.3
Sum of FY 2019-20 and FY 2020-21	\$13,801.1 +	\$13,501.9 =	\$27,303.0
FY 2020-21 Revenue Adjustment Factor			0.9880
<i>Note: Factor is calculated off a FY 2021 base year.</i>			
	<u>January 2020 Consensus Estimate</u>	<u>May 2020 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor *</u>			
FY 2019-20			
Local Districts	1,313,500	1,313,300	(200)
Public School Academies	147,400	147,200	(200)
Total	1,460,900	1,460,500	(400)
FY 2020-21			
Local Districts	1,305,200	1,303,600	(1,600)
Public School Academies	148,400	148,900	500
Total	1,453,600	1,452,500	(1,100)
Consensus Estimate of Pupil Membership	<u>FY 2019-20</u> 1,460,500	<u>FY 2020-21</u> 1,452,500	
Pupil Membership Adjustment Factor for FY 2020-21:			
<u>FY 2019-20 Pupil Membership</u>	=	<u>1,460,500</u>	
<u>FY 2020-21 Pupil Membership</u>	=	<u>1,452,500</u>	
FY 2020-21 Pupil Membership Adjustment Factor *			1.0055
FY 2020-21 School Aid Index			0.9934

* Pupil membership was not adjusted in the August Consensus Revenue Estimating Conference.

Table 7
August 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	\$13,583.1	\$13,283.9	\$13,739.4
Balance Sheet Adjustments	\$131.3	\$218.0	\$314.2
Net SAF Estimate	\$13,714.4	\$13,501.9	\$14,053.6
Subtotal Adjustments to FY 2021-22 Base	\$182.9	\$96.1	\$0.0
Baseline Revenue on an FY 2021-22 Base	\$13,897.2	\$13,598.1	\$14,053.6
Percent Change		-2.15%	3.35%
SAF Revenue Adjustment Calculation for FY 2021-22:			
Sum of FY 2019-20 and FY 2020-21	\$13,897.2 +	\$13,598.0 =	\$27,495.2
Sum of FY 2020-21 and FY 2021-22	\$13,598.0 +	\$14,053.5 =	\$27,651.5
FY 2021-22 Revenue Adjustment Factor			1.0057
<i>Note: Factor is calculated off a FY 2022 base year.</i>			
	<u>January 2020 Consensus Estimate</u>	<u>May 2020 Consensus Estimate</u>	<u>Change</u>
<u>Pupil Membership Adjustment Factor *</u>			
FY 2020-21			
Local Districts	1,305,200	1,303,600	(1,600)
Public School Academies	148,400	148,900	500
Total	1,453,600	1,452,500	(1,100)
FY 2021-22			
Local Districts	1,298,000	1,296,000	(2,000)
Public School Academies	149,000	149,000	0
Total	1,447,000	1,445,000	(2,000)
	<u>FY 2020-21</u>	<u>FY 2021-22</u>	
Consensus Estimate of Pupil Membership	1,452,500	1,445,000	
Pupil Membership Adjustment Factor for FY 2021-22:			
<u>FY 2020-21 Pupil Membership</u>	=	<u>1,452,500</u>	
<u>FY 2021-22 Pupil Membership</u>	=	<u>1,445,000</u>	
FY 2021-22 Pupil Membership Adjustment Factor *			1.0052
FY 2021-22 School Aid Index			1.0109

* Pupil membership was not adjusted in the August Consensus Revenue Estimating Conference.

Table 8
August 2020 Consensus Expenditure Estimate
Department of Health and Human Services
FY 2019-20 Through FY 2021-22

**August 2020 Consensus Expenditure Adjustments to May Consensus Agreed to by
the State Budget Office, the Senate Fiscal Agency, and the House Fiscal Agency**

<u>Human Services Base Funding</u>	Gross Change to May 2020 Consensus	GF/GP Change to May 2020 Consensus
FY 2019-20	(\$3,270,000)	(\$3,776,000)
FY 2020-21	(\$21,427,200)	(\$21,613,900)
FY 2021-22	(\$14,526,000)	(\$15,888,900)
<u>Health Services Base Funding</u>		
FY 2019-20	\$316,254,500	(\$69,776,800)
FY 2020-21	(\$635,338,100)	(\$434,180,900) *
FY 2021-22	(\$317,669,100)	(\$97,253,400)
<u>Total for Department of Health and Human Services</u>		
FY 2019-20	\$312,984,500	(\$73,552,800)
FY 2020-21	(\$656,765,300)	(\$455,794,800) *
FY 2021-22	(\$332,195,100)	(\$113,142,300)

* FY 21 GF/GP figure includes savings of (\$239,674,100) GF/GP due to continuation of the 6.2% increase in Medicaid match rate from October 1, 2020 to December 31, 2020