
MEMORANDUM



DATE: January 18, 2007

TO: Members of the Michigan House of Representatives

FROM: Mitchell E. Bean, Director

RE: Consensus Revenue Agreement—January 18, 2007

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 2007 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 2007 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the January 2007 conference. The consensus estimates will be revised or updated at the May 2007 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 2.2% in calendar year (CY) 2007 and by 2.7% in CY 2008. Michigan personal income is forecast to grow 2.8% in CY 2007 and by 3.0% in CY 2008.

Table 2: Consensus Estimates of GF/GP and SAF

Provides final estimates for FY 2005-06, revised estimates for FY 2006-07, and initial estimates for FY 2007-08 revenue. Net GF/GP and SAF revenue is estimated to increase \$111.1 million or 0.57% in FY 2006-07 and decline \$ 917.1 million or 4.71% in FY 2007-08.

Much of the \$1,229.7 million decline in FY 2007-08 is due to repeal of the Single Business Tax (SBT). With a full replacement of the SBT, FY 2007-08 SAF revenue would increase by an estimated \$302.9 million, and GF/GP revenue would increase by an estimated \$9.7 million.

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

No pay-in or withdrawal is estimated for FY 2006-07 or FY 2007-08. 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. Total state revenue subject to the limit is estimated to be \$5.24 billion below the limit in FY 2006-07 and \$7.09 billion below the limit in FY 2007-08.

Table 5: Consensus Estimate—Comparison of Pupil Membership Estimates

Reports consensus estimates of pupil membership for FY 2006-07 and FY 2007-08 and notes changes from May 2006 estimates.

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

Reports calculations used to determine the FY 2007-08 revenue adjustment factor which is 1.0191, and the pupil membership adjustment factor, which is 1.0091 for FY 2007-08. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0284 or 2.84%.

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

attachments

Table 1
Consensus Economic Forecast
January 2007

	<u>Calendar 2005 Actual</u>	<u>Calendar 2006 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2007 Forecast</u>	<u>% Change from Prior Year</u>	<u>Calendar 2008 Forecast</u>	<u>% Change from Prior Year</u>
<u>United States</u>							
Real Gross Domestic Product (Billions of 2000 dollars)	\$11,049	\$11,413	3.3%	\$11,664	2.2%	\$11,979	2.7%
Implicit Price Deflator GDP (2000 = 100)	112.7	116.0	3.0%	118.9	2.5%	122.2	2.8%
Consumer Price Index (1982-84 = 100)	195.3	201.7	3.3%	205.9	2.1%	211.7	2.8%
Personal Consumption Deflator (2000 = 100)	111.5	114.6	2.8%	116.7	1.8%	119.4	2.3%
3-month Treasury Bills Interest Rate (Percent)	3.2%	4.7%		4.9%		5.0%	
Aaa Corporate Bonds Interest Rate (Percent)	5.2%	5.6%		5.9%		6.4%	
Unemployment Rate—Civilian (Percent)	5.1%	4.6%		4.6%		4.7%	
Light Vehicle Sales (Millions of units)	16.9	16.5	-2.5%	16.3	-1.2%	16.5	1.1%
Passenger Car Sales (Millions of units)	7.7	7.8	2.0%	7.7	-1.9%	7.7	0.4%
Light Truck Sales (Millions of units)	9.3	8.7	-6.3%	8.7	-0.6%	8.8	1.7%
Import Share of Light Vehicles (Percent)	20.1%	22.2%		22.5%		22.5%	
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	4,384	4,358	-0.6%	4,319	-0.9%	4,293	-0.6%
Unemployment Rate (Percent)	6.7%	6.8%		7.4%		7.7%	
Personal Income (Millions of current dollars)	\$331,304	\$342,900	3.5%	\$352,501	2.8%	\$362,984	3.0%
Real Personal Income (Millions of 1982-84 dollars)	\$173,639	\$174,504	0.5%	\$176,427	1.1%	\$177,238	0.5%
Wages and Salaries (Millions of current dollars)	\$183,652	\$187,509	2.1%	\$189,384	1.0%	\$192,490	1.6%
Detroit Consumer Price Index (1982-84 = 100)	190.8	196.5	3.0%	199.8	1.7%	204.8	2.5%
Detroit CPI (FY) (1982-84 = 100)	189.0	195.9	3.7%	198.4	1.3%	203.4	2.5%

NOTE: Percentages may not calculate exactly due to rounding.

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Table 2
Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)
January 2007

	FY 2005-06	FY 2006-07			FY 2007-08		
	Preliminary <u>Final</u>	January 2007 <u>Consensus</u>	% Change <u>from FY 06</u>	\$\$ Change <u>from FY 06</u>	January 2007 <u>Consensus</u>	% Change <u>from FY 07</u>	\$\$ Change <u>from FY 07</u>
General Fund/General Purpose							
Baseline	\$8,185.8	\$8,265.2	0.97%	\$79.4	\$8,378.2	1.37%	\$113.0
Tax Adjustments	\$80.9	(\$35.2)			(\$1,368.2)		
Net GF-GP Revenue	\$8,266.7	\$8,230.0	-0.44%	(\$36.7)	\$7,010.0	-14.82%	(\$1,220.0)
School Aid Fund Revenue							
Baseline	\$11,085.4	\$11,227.0	1.28%	\$141.6	\$11,512.6	2.54%	\$285.6
Tax Adjustments	(\$3.3)	\$3.0			\$20.3		
Net SAF Revenue	\$11,082.1	\$11,230.0	1.33%	\$147.9	\$11,532.9	2.70%	\$302.9
Total GF-GP and SAF							
Baseline	\$19,271.3	\$19,492.2	1.15%	\$220.9	\$19,890.8	2.04%	\$398.6
Tax Adjustments	\$77.6	(\$32.2)			(\$1,347.9)		
Net GF-GP and SAF	\$19,348.9	\$19,460.0	0.57%	\$111.1	\$18,542.9	-4.71%	(\$917.1)

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Numbers may not calculate exactly due to rounding.

Table 3
FY 2007-08 Consensus Estimate for Budget and Economic Stabilization Fund Calculation
(Millions of Dollars)
January 2007

	<u>CY 2006</u>	<u>CY 2007</u>
Michigan Personal Income	\$342,900 (1)	\$352,501 (1)
Less Transfer Payments	\$54,901 (1)	\$58,403 (1)
Income Net of Transfers	\$287,999	\$294,098
Detroit CPI	1.948 (2)	1.980 (3)
for 12 months ending	(June 2006)	(June 2007)
Real Adjusted Michigan Personal Income	\$147,881	\$148,534
Change in Real Adjusted Personal Income		0.4%
		0.0%
GF-GP Revenue Fiscal Year 2006-07		\$8,230.0

FY 2007-08 NO BSF PAY-IN INDICATED

Notes:

1. Personal Income and Transfer Payments: Consensus Forecast, January 2007.
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 2007.
4. Calculation per MCL 18.1352.

Numbers may not calculate exactly due to rounding.

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Table 4
Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)
January 2007

	<u>FY 2003-04</u> <u>Actual</u>	<u>FY 2004-05</u> <u>Actual</u>	<u>FY 2005-06</u> <u>Consensus</u> <u>January 2007</u>	<u>FY 2006-07</u> <u>Consensus</u> <u>January 2007</u>	<u>FY 2007-08</u> <u>Consensus</u> <u>January 2007</u>
<u>Revenue Subject to Limit</u>					
Consensus					
General Fund General Purpose	\$8,010.1	8,273.2	\$8,231.7	\$8,207.0	\$6,987.0
General Fund Revenue Sharing	\$1,580.6	1,618.3	\$1,645.3	\$1,642.8	\$1,682.4
School Aid Fund	\$10,615.1	10,909.9	\$11,082.1	\$11,230.0	\$11,532.9
Transportation	\$2,279.3	2,215.9	\$2,182.5	\$2,225.6	\$2,245.3
Other Restricted Revenue	<u>\$1,899.6</u>	<u>\$2,609.5</u>	<u>\$2,800.0</u>	<u>\$2,900.0</u>	<u>\$3,000.0</u>
Total Revenue Subject to Limit	\$24,384.7	\$25,626.8	\$25,941.7	\$26,205.4	\$25,447.6
<u>Revenue Limit</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004</u>	<u>CY 2005</u>	<u>CY 2006</u>
Personal Income	\$303,745	\$314,460	\$324,134	\$331,304	\$342,900
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$28,825.4	\$29,842.3	\$30,760.3	\$31,440.8	\$32,541.2
1 Percent of Limit	\$288.3	\$298.4	\$307.6	\$314.4	\$325.4
Amount Under (Over) Limit	\$4,440.7	\$4,215.5	\$4,818.7	\$5,235.3	\$7,093.6

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Table 5
Consensus Estimate
January 2007 Comparison of Pupil Membership Estimates
FY 2006-07 and FY 2007-08

	May 2006 Consensus Estimate	January 2007 Consensus Estimate	Change From May 2006 Consensus Estimate
FY 2006-07			
Local Districts	1,591,000	1,585,750	(5,250)
Public School Academies	<u>99,500</u>	<u>96,850</u>	<u>(2,650)</u>
Total	1,690,500	1,682,600	(7,900)
FY 2007-08			
Local Districts	N/A	1,562,400	N/A
Public School Academies	<u>N/A</u>	<u>105,100</u>	<u>N/A</u>
Total	N/A	1,667,500	N/A

Table 6
Consensus Estimate
School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor
for FY 2007-08
January 2007

<u>Revenue Adjustment Factor (Millions of Dollars)</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
Baseline SAF Revenue	\$11,085.4	\$11,227.0	\$11,512.6
Balance Sheet Adjustments	(\$3.3)	\$3.0	\$20.3
Net SAF Estimate	\$11,082.1	\$11,230.0	\$11,532.9
Adjustments to FY 2007-08 Base	<u>\$23.6</u>	<u>\$17.3</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2006-07 Base	\$11,105.7	\$11,247.3	\$11,532.9
Annual Growth Rate		1.27%	2.54%
<u>School Aid Fund Revenue Calculation for FY 2007-08</u>			
Sum of FY 2005-06 and FY 2006-07	\$11,105.7	+	\$11,247.3 = \$22,353.0
Sum of FY 2006-07 and FY 2007-08	\$11,247.3	+	\$11,532.9 = \$22,780.2
FY 2007-08 Revenue Adjustment Factor			1.0191

Pupil Membership Adjustment Factor

Consensus Estimate FY 2006-07	1,585,750		Local District Pupils
	+	<u>96,850</u>	Public School Academy Pupils
	1,682,600		
Consensus Estimate FY 2007-08	1,562,400		Local District Pupils
	+	<u>105,100</u>	Public School Academy Pupils
	1,667,500		

Estimated FY 2007-08 Pupil Membership Adjustment Factor

$$\begin{array}{rcl}
 \text{FY 2006-07 Pupil Membership} & = & 1,682,600 \\
 & & \textit{divided by} \\
 \text{FY 2007-08 Pupil Membership} & = & 1,667,500
 \end{array}$$

FY 2007-08 Pupil Membership Adjustment Factor	1.0091
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