

DATE: October 14, 2003

TO: Members of the House of Representatives

FROM: Mitchell E. Bean, Director

RE: Consensus Revenue Agreement—October 14, 2003

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 October 2003 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Treasurer. The Director of the House Fiscal Agency is the 2003 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the October 14 conference. The consensus estimates will be revised or updated at the January 2004 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 2.5% in calendar year (CY) 2003 and by 3.7% in CY 2004. In addition, Michigan personal income is forecast to grow 3.3% in CY 2003 and by 3.8% in CY 2004.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final estimates for FY 2001-02 and revised consensus estimates for FY 2002-03 and FY 2003-04 revenues. Net GF/GP and SAF revenue is estimated to decrease by \$14.0 million in FY 2002-03 and decrease by \$234.2 million or 1.3% in FY 2003-04.

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

A BSF withdrawal of \$31.5 million is estimated for FY 2002-03. No pay-in or withdrawal from the BSF (based on growth in real adjusted personal income [Management and Budget Act, 1984 PA 431, Section 352]) is estimated for FY 2003-04.

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 \$4.6 billion below the limit in FY 2002-03 and \$5.3 billion below the limit in FY 2003-04.

Table 5: Consensus Estimate - School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor

Reports calculations used to determine the FY 2003-04 revenue adjustment factor which is 1.0139, and the pupil membership adjustment factor, which is 0.9979 for FY 2003-04. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0118 or 1.18%.

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

attachments

Table 1
Consensus Economic Forecast
October 2003

	Calendar 2002 <u>Actual</u>	% Change from Prior <u>Year</u>	Calendar 2003 <u>Forecast</u>	% Change from Prior <u>Year</u>	Calendar 2004 <u>Forecast</u>	% Change from Prior <u>Year</u>
<u>United States</u>						
Real Gross Domestic Product (Billions of Chained 1996 Dollars)	\$9,440	2.4%	\$9,676	2.5%	\$10,034	3.7%
Implicit Price Deflator GDP (1996 = 100)	110.7	1.1%	112.2	1.4%	113.9	1.5%
Consumer Price Index (1982-84 = 100)	179.9	1.6%	184.0	2.3%	188.0	2.2%
3-month Treasury Bills Interest Rate (percent)	1.6		1.0		1.4	
Aaa Corporate Bonds Interest Rate (percent)	6.5		5.6		5.4	
Unemployment Rate - Civilian (percent)	5.8		6.1		6.1	
Light Vehicle Sales (millions of units)	16.7	-1.9%	16.5	-1.2%	16.6	0.6%
Passenger Car Sales (millions of units)	8.1	-4.0%	7.7	-4.7%	7.6	-1.3%
Light Truck Sales (millions of units)	8.6	0.2%	8.8	2.1%	9.0	2.3%
Import Share of Light Vehicles (percent)	19.7		20.2		19.5	
<u>Michigan</u>						
Wage and Salary Employment (thousands)	4,476	-1.8%	4,427	-1.1%	4,453	0.6%
Unemployment Rate (percent)	6.2		7.1		7.1	
Personal Income (millions of dollars)	\$303,745	2.5%	\$313,769	3.3%	\$325,692	3.8%
Real Personal Income (millions of 1982-84 dollars)	\$169,785	-0.1%	\$171,612	1.1%	\$174,812	1.9%
Wages and Salaries (millions of dollars)	\$173,529	0.1%	\$177,346	2.2%	\$182,844	3.1%
Detroit Consumer Price Index (1982-84 = 100)	178.9	2.6%	182.8	2.2%	186.3	1.9%

NOTE: Percentages may not calculate exactly due to rounding.

*House Fiscal Agency
October 14, 2003*

Table 2
Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)
October 2003

	FY 2001-02	FY 2002-03			FY 2003-04		
	<u>Final</u>	<u>10/14/2003 Consensus</u>	<u>% Change from FY 02</u>	<u>\$\$ Change from FY 02</u>	<u>10/14/2003 Consensus</u>	<u>% Change from FY 03</u>	<u>\$\$ Change from FY 03</u>
<i>General Fund/General Purpose</i>							
Baseline	\$8,280.2	\$8,065.4	-2.59%	(\$214.8)	\$8,243.6	2.21%	\$178.2
Tax Adjustments	<u>\$146.8</u>	<u>(\$180.2)</u>			<u>(\$458.1)</u>		
Net GF/GP Revenue	\$8,427.0	\$7,885.2	-6.43%	(\$541.8)	\$7,785.4	-1.27%	(\$99.8)
<i>School Aid Fund Revenue</i>							
Baseline	\$10,105.3	\$10,099.3	-0.06%	(\$6.0)	\$10,390.7	2.89%	\$291.4
Tax Adjustments	<u>\$28.6</u>	<u>\$562.3</u>			<u>\$136.6</u>		
Net SAF Revenue	\$10,133.9	\$10,661.7	5.21%	\$527.8	\$10,527.3	-1.26%	(\$134.4)
<i>Total GF/GP and SAF</i>							
Baseline	\$18,385.5	\$18,164.8	-1.20%	(\$220.7)	\$18,634.3	2.58%	\$469.5
Tax Adjustments	<u>\$175.4</u>	<u>\$382.1</u>			<u>(\$321.6)</u>		
Net GF/GP and SAF	\$18,560.9	\$18,546.9	-0.08%	(\$14.0)	\$18,312.7	-1.26%	(\$234.2)

NOTE: Percentages may not calculate exactly due to rounding.

House Fiscal Agency
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Table 3
Consensus Estimate for Budget and Economic Stabilization Fund Calculation
FY 2002-03 and FY 2003-04.4
(Millions of Dollars)
October 2003

	<u>CY 2002</u>	<u>CY 2003</u>
Michigan Personal Income	\$303,745 ⁽¹⁾	\$313,769 ⁽²⁾
Less Transfer Payments	<u>\$47,031</u> ⁽²⁾	<u>\$50,746</u> ⁽²⁾
Income Net of Transfers	\$256,714	\$263,022
Detroit CPI for 12 months ending	1.763 ⁽³⁾ (June 2002)	1.814 ⁽³⁾ (June 2003)
Real Adjusted Michigan Personal Income	\$145,612	\$144,996
Change in Real Adjusted Personal Income		-0.4%
Amount Under 0%		-0.4%
GF-GP Revenue Fiscal Year 2002-03		\$7,885.2
BSF Withdrawal indicated for FY 2002-03		\$31.5
BSF Pay-in not indicated for FY 2003-04		

Notes:

1. Personal Income and Transfer Payments: Bureau of Economic Analysis, April 2003 release.
2. Personal Income, Transfer Payments, and Detroit Consumer Price Index: Consensus Economic Forecast of October 2003.
3. Detroit Consumer Price Index: average of six monthly values reported by BLS for each 12-month period and from October 2003 Consensus Forecast.

NOTE: Numbers may not calculate exactly due to rounding.

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Table 4
Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)
October 2003

	<u>FY 1999</u> <u>Actual</u>	<u>FY 2000</u> <u>Actual</u>	<u>FY 2001</u> <u>Actual</u>	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> Consensus October 14, 2003	<u>FY 2004</u> Consensus October 14, 2003
Revenue Subject to Limit						
Consensus						
General Fund General Purpose	\$9,382.1	\$9,754.8	\$8,964.9	\$8,402.3	\$7,865.2	\$7,765.5
General Fund Revenue Sharing	\$1,395.0	\$1,470.1	\$1,559.3	\$1,571.3	\$1,597.9	\$1,611.9
School Aid Fund	\$9,309.9	\$9,889.3	\$9,994.1	\$10,133.9	\$10,661.6	\$10,527.3
Transportation	\$2,048.5	\$2,094.9	\$2,118.7	\$2,211.1	\$2,257.3	\$2,347.0
Other Restricted Revenue	<u>\$1,073.2</u>	<u>\$1,153.8</u>	<u>\$1,272.2</u>	<u>\$1,227.4</u>	<u>\$1,227.4</u>	<u>\$1,227.4</u>
Total Revenue Subject to Limit	\$23,208.6	\$24,362.9	\$23,909.2	\$23,546.0	\$23,609.5	\$23,479.0
Revenue Limit						
Personal Income	\$244,329.0	\$255,039.0	\$277,296.0	\$289,390.0	\$297,609.0	\$303,745.0
Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
Revenue Limit	\$23,186.8	\$24,203.2	\$26,315.4	\$27,463.1	\$28,243.1	\$28,825.4
1 Percent of Limit	\$231.9	\$242.0	\$263.2	\$274.6	\$282.4	\$288.3
Amount Under (Over) Limit	(\$21.7)	(\$159.7)	\$2,406.2	\$3,917.1	\$4,633.6	\$5,346.4

Table 5
October 2003 Consensus Estimate School Aid Revenue Adjustment
Factor and Pupil Membership Adjustment Factor for FY 2003-04

Revenue Adjustment Factor (Millions of Dollars)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>
Baseline SAF Revenue	\$10,105.3	\$10,099.3	\$10,390.7
Balance Sheet Adjustments	<u>\$28.6</u>	<u>\$562.3</u>	<u>\$136.6</u>
Net SAF Estimate	\$10,133.9	\$10,661.7	\$10,527.3
 Adjustments to FY 2003-04 Base	 <u>\$108.0</u>	 <u>\$(425.7)</u>	 <u>\$0.0</u>
Baseline Revenue on an FY 2003-04 Base	\$10,241.9	\$10,235.9	\$10,527.3
Annual Growth Rate		-0.06%	2.85%
 <u>School Aid Fund Revenue Calculation for FY 2003-04</u>			
Sum of FY 2001-02 and FY 2002-03	\$10,241.9	+ \$10,235.9	= \$20,477.8
Sum of FY 2002-03 and FY 2003-04	\$10,235.9	+ \$10,527.3	= \$20,763.2

FY 2003-04 Revenue Adjustment Factor	1.0139
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Pupil Membership Adjustment Factor (May 2003 Consensus)

Consensus Estimate FY 2002-03	1,647,500	Local District Pupils
	+ <u>67,421</u>	Public School Academy Pupils
	1,714,921	
 Consensus Estimate FY 2003-04	 1,645,900	Local District Pupils
	+ <u>72,600</u>	Public School Academy Pupils
	1,718,500	

Estimated FY 2003-04 Pupil Membership Adjustment Factor (May 2003 Consensus)

FY 2002-03 Pupil Membership = 1,714,921
divided by
 FY 2003-04 Pupil Membership = 1,718,500

FY 2003-04 Pupil Membership Adjustment Factor (based on May 2003 Consensus)	0.9979
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