

DATE: May 18, 2004

TO: Members of the House of Representatives

FROM: Mitchell E. Bean, Director

RE: Consensus Revenue Agreement—May 18, 2004

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 May 2004 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 2004 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the May 18 conference. The consensus estimates will be revised or updated at the January 2005 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 4.6% in calendar year (CY) 2004 and by 3.7% in CY 2005. In addition, Michigan personal income is forecast to grow 3.3% in CY 2004 and by 5.8% in CY 2005.

Table 2: Consensus Estimates of GF/GP and SAF

Provides the final estimates for FY 2002-03 and the revised consensus estimates for FY 2003-04 and FY 2004-05 revenues. Net GF/GP and SAF revenue is estimated to decrease by \$272.1 million in FY 2003-04 and increase by \$415.0 million or 2.3% in FY 2004-05.

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

No BSF pay-in is estimated for FY 2004-05. 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. It is estimated that total state revenue subject to the limit will be \$4.9 billion below the limit in FY 2003-04 and \$4.7 billion below the limit in FY 2004-05.

Table 5: Consensus Estimate - Comparison of Pupil Membership Estimates

Reports consensus estimates of pupil membership for FY 2003-04 and FY 2004-05 and notes changes from January 2004 estimates.

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

Reports calculations used to determine the FY 2004-05 revenue adjustment factor which is 1.0296, and the pupil membership adjustment factor, which is 0.9986 for FY 2004-05. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0282 or 2.82%.

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

attachments

Table 1
Consensus Economic Forecast
May 2004

	<u>Calendar 2003 Actual</u>	<u>Percent Change from Prior Year</u>	<u>Calendar 2004 Forecast</u>	<u>Percent Change from Prior Year</u>	<u>Calendar 2005 Forecast</u>	<u>Percent Change from Prior Year</u>
<u>United States</u>						
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	\$10,398	3.1%	\$10,876	4.6%	\$11,278	3.7%
Implicit Price Deflator GDP (2000 = 100)	105.6	1.6%	107.7	2.0%	110.6	2.7%
Consumer Price Index (CY) (1982-84 = 100)	184.0	2.4%	188.4	2.4%	193.7	2.8%
Consumer Price Index (FY) (1982-84 = 100)	183.1	2.3%	186.8	2.0%	191.8	2.7%
3-month Treasury Bills Interest Rate (percent)	1.0		1.2		2.5	
Aaa Corporate Bonds Interest Rate (percent)	5.7		5.7		6.0	
Unemployment Rate - Civilian (percent)	6.0		5.5		5.3	
Light Vehicle Sales (millions of units)	16.6	-0.8%	16.7	0.3%	16.9	1.0%
Passenger Car Sales (millions of units)	7.6	-5.9%	7.5	-1.6%	7.6	1.3%
Light Truck Sales (millions of units)	9.0	3.9%	9.2	1.9%	9.3	0.8%
Import Share of Light Vehicles (percent)	19.9		19.8		19.9	
<u>Michigan</u>						
Wage and Salary Employment (thousands)	4,412	-1.2%	4,385	-0.6%	4,451	1.5%
Unemployment Rate (percent)	7.3		6.8		6.5	
Personal Income (millions of dollars)	\$306,820	2.5%	\$316,945	3.3%	\$335,328	5.8%
Real Personal Income (millions of 1982-84 dollars)	\$168,121	0.4%	\$169,762	1.0%	\$174,923	3.0%
Wages and Salaries (millions of dollars)	\$175,759	1.3%	\$178,922	1.8%	\$187,332	4.7%
Detroit Consumer Price Index (CY) (1982-84 = 100)	182.5	2.3%	186.7	2.3%	191.7	2.7%
Detroit Consumer Price Index (FY) (1982-84 = 100)	182.1	2.6%	185.2	1.7%	190.4	2.8%

NOTE: Percentages may not calculate exactly due to rounding.

House Fiscal Agency
May 18, 2004

Table 2
Revenue Comparison and Consensus Estimates of GF/GP and SAF
(Millions of Dollars)
May 2004

	FY 2002-03	FY 2003-04			FY 2004-05		
	<u>Final</u>	<u>5/18/2004 Consensus</u>	<u>% Change from FY 03</u>	<u>\$\$ Change from FY 03</u>	<u>5/18/2004 Consensus</u>	<u>% Change from FY 04</u>	<u>\$\$ Change from FY 04</u>
General Fund/General Purpose							
Baseline	\$7,944.8	\$8,076.0	1.65%	\$131.2	\$8,417.2	4.22%	\$341.2
Tax Adjustments	<u>\$14.1</u>	<u>(\$209.6)</u>			<u>(\$560.9)</u>		
Net GF-GP Revenue	\$7,958.9	\$7,866.4	-1.16%	(\$92.5)	\$7,856.3	-0.13%	(\$10.1)
School Aid Fund Revenue							
Baseline	\$10,255.7	\$10,446.3	1.86%	\$190.6	\$10,874.2	4.10%	\$427.9
Tax Adjustments	<u>\$459.2</u>	<u>\$89.0</u>			<u>\$86.2</u>		
Net SAF Revenue	\$10,714.8	\$10,535.2	-1.68%	(\$179.6)	\$10,960.4	4.04%	\$425.2
Total GF-GP and SAF							
Baseline	\$18,200.5	\$18,522.3	1.77%	\$321.8	\$19,291.4	4.15%	\$769.1
Tax Adjustments	<u>\$473.3</u>	<u>(\$120.6)</u>			<u>(\$474.7)</u>		
Net GF-GP and SAF	\$18,673.8	\$18,401.7	-1.46%	(\$272.1)	\$18,816.7	2.26%	\$415.0

NOTE: Percentages may not calculate exactly due to rounding.

House Fiscal Agency
May 18, 2004

Table 3
Consensus Estimate for Budget and Economic Stabilization Fund Calculation
FY 2004-05
(Millions of Dollars)
May 2004

	<u>CY 2003</u>	<u>CY 2004</u>
Michigan Personal Income	\$306,820 ⁽¹⁾	\$316,945 ⁽²⁾
Less Transfer Payments	<u>\$48,374</u> ⁽¹⁾	<u>\$51,373</u> ⁽²⁾
Income Net of Transfers	\$258,446	\$265,572
Detroit CPI for 12 months ending	1.814 ⁽³⁾ (June 2003)	1.839 ⁽⁴⁾ (June 2004)
Real Adjusted Michigan Personal Income	\$142,473	\$144,380
Change in Real Adjusted Personal Income		1.3%
Excess over 2%		0.0%
GF/GP Revenue Fiscal Year 2003-04		\$7,866.4

NO BSF Pay-In Indicated for FY 2004-05

Notes:

1. Personal Income and Transfer Payments: Preliminary BEA Release, April 2004.
2. Personal Income and Transfer Payments: Consensus Forecast, May 2004.
3. Detroit Consumer Price Index: Average of six monthly values reported by BLS for each 12-month period.
4. Detroit Consumer Price Index: Consensus Economic Forecast, May 2004.
5. Calculation done per MCL 18.1352.

NOTE: Numbers may not calculate exactly due to rounding.

House Fiscal Agency
May 18, 2004

Table 4
Consensus Estimate
Constitutional Revenue Limit Calculation
(Millions of Dollars)
May 2004

	<u>FY 2001 Actual</u>	<u>FY 2002 Actual</u>	<u>FY 2003 Actual</u>	<u>FY 2004 Consensus May 2004</u>	<u>FY 2005 Consensus May 2004</u>
<u>Revenue Subject to Limit</u>					
Consensus					
General Fund General Purpose	\$8,964.9	\$8,280.9	\$7,911.7	\$7,836.4	\$7,826.3
General Fund Revenue Sharing	\$1,559.3	\$1,571.3	\$1,589.1	\$1,584.7	\$1,648.0
School Aid Fund	\$9,994.1	\$10,132.9	\$10,714.9	\$10,535.3	\$10,960.4
Transportation	\$2,118.7	\$2,211.1	\$2,243.3	\$2,403.2	\$2,346.1
Other Restricted Revenue	<u>\$1,272.2</u>	<u>\$1,349.8</u>	<u>\$1,602.6</u>	<u>\$1,602.6</u>	<u>\$1,602.6</u>
Total Revenue Subject to Limit	\$23,909.2	\$23,546.0	\$24,061.6	\$23,962.1	\$24,383.4
<u>Revenue Limit</u>	<u>CY 1999</u>	<u>CY 2000</u>	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>
Personal Income	\$277,296	\$289,390	\$297,609	\$303,745	\$306,820
Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
Revenue Limit	\$26,315.4	\$27,463.1	\$28,243.1	\$28,825.4	\$29,117.2
1 Percent of Limit	\$263.2	\$274.6	\$282.4	\$288.3	\$291.2
Amount Under (Over) Limit	\$2,406.2	\$3,917.1	\$4,181.5	\$4,863.3	\$4,733.9

Table 5
Consensus Estimate
May 2004 Comparison of Pupil Membership Estimates
FY 2003-04 and FY 2004-05

	<u>January 2004 Consensus Estimate</u>	<u>May 2004 Consensus Estimate</u>	<u>Change From January 2004 Consensus Estimate</u>
FY 2003-04			
Local Districts	1,642,214	1,640,921	(1,293)
Public School Academies	<u>73,786</u>	<u>73,455</u>	<u>(331)</u>
Total	1,716,000	1,714,376	(1,624)
FY 2004-05			
Local Districts	1,639,000	1,637,300	(1,700)
Public School Academies	<u>80,000</u>	<u>79,500</u>	<u>(500)</u>
Total	1,719,000	1,716,800	(2,200)

House Fiscal Agency
May 18, 2004

Table 6
May 2004 Consensus Estimate School Aid Revenue Adjustment
Factor and Pupil Membership Adjustment Factor for FY 2004-05

Revenue Adjustment Factor (Millions of Dollars)

	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>
Baseline SAF Revenue	\$10,255.7	\$10,446.3	\$10,874.2
Balance Sheet Adjustments	<u>\$459.2</u>	<u>\$89.0</u>	<u>\$86.2</u>
Net SAF Estimate	\$10,714.8	\$10,535.2	\$10,960.4
Adjustments to FY 2004-05 Base	(\$373.0)	(\$2.8)	\$0.0
Baseline Revenue on an FY 2004-05 Base	\$10,341.9	\$10,532.4	\$10,960.4
Annual Growth Rate		1.84%	4.06%
School Aid Fund Revenue Calculation for FY 2004-05			
Sum of FY 2002-03 and FY 2003-04	\$10,341.9	+ \$10,532.4	= \$20,874.3
Sum of FY 2003-04 and FY 2004-05	\$10,532.4	+ \$10,960.4	= \$21,492.8

FY 2004-05 Revenue Adjustment Factor	1.0296
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Pupil Membership Adjustment Factor

Consensus Estimate FY 2003-04	1,640,921	Local District Pupils
	+ <u>73,455</u>	Public School Academy Pupils
	1,714,376	
Consensus Estimate FY 2004-05	1,637,300	Local District Pupils
	+ <u>79,500</u>	Public School Academy Pupils
	1,716,800	

Estimated FY 2004-05 Pupil Membership Adjustment Factor

FY 2003-04 Pupil Membership = 1,714,376
divided by
FY 2004-05 Pupil Membership = 1,716,800

FY 2004-05 Pupil Membership Adjustment Factor	0.9986
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