

# **Consensus Revenue Agreement**

## **Executive Summary**

**January 12, 2017**

**Economic and Revenue Forecasts**  
**Fiscal Years 2017, 2018 and 2019**



### **Principals**

**Nick Khouri**  
**State Treasurer**

**Ellen Jeffries, Director**  
**Senate Fiscal Agency**

**Mary Ann Cleary, Director**  
**House Fiscal Agency**

### **Staff**

**Jay Wortley**  
**Michigan Department of Treasury**

**David Zin**  
**Senate Fiscal Agency**

**Jim Stansell**  
**House Fiscal Agency**

**Table 1**  
**Consensus Economic Forecast**

January 2017

|   | Calendar<br>2015<br>Actual | Calendar<br>2016<br>Forecast | Percent<br>Change<br>from Prior<br>Year | Calendar<br>2017<br>Forecast | Percent<br>Change<br>from Prior<br>Year | Calendar<br>2018<br>Forecast | Percent<br>Change<br>from Prior<br>Year | Calendar<br>2019<br>Forecast | Percent<br>Change<br>from Prior<br>Year |
|---|----------------------------|------------------------------|---|------------------------------|---|------------------------------|---|------------------------------|---|
| <b>United States</b>  |                            |                              |   |                              |   |                              |   |                              |   |
| Real Gross Domestic Product<br>(Billions of Chained 2009 Dollars) | \$16,397                   | \$16,660                     | 1.6%                                    | \$16,993                     | 2.0%                                    | \$17,316                     | 1.9%                                    | \$17,680                     | 2.1%                                    |
| Implicit Price Deflator GDP<br>(2009 = 100)                       | 110.0                      | 111.4                        | 1.3%                                    | 113.4                        | 1.8%                                    | 115.6                        | 1.9%                                    | 117.9                        | 2.0%                                    |
| Consumer Price Index<br>(1982-84 = 100)                           | 237.017                    | 239.925                      | 1.2%                                    | 244.879                      | 2.1%                                    | 249.777                      | 2.0%                                    | 255.504                      | 2.3%                                    |
| Consumer Price Index - Fiscal Year<br>(1982-84 = 100)             | 236.742                    | 238.939                      | 0.9%                                    | 243.767                      | 2.0%                                    | 248.490                      | 1.9%                                    | 254.017                      | 2.2%                                    |
| Personal Consumption Deflator<br>(2009 = 100)                     | 109.5                      | 110.7                        | 1.1%                                    | 112.6                        | 1.7%                                    | 114.6                        | 1.8%                                    | 116.9                        | 2.0%                                    |
| 3-month Treasury Bills<br>Interest Rate (percent)                 | 0.05                       | 0.3                          |   | 0.8                          |   | 1.4                          |   | 2.1                          |   |
| Aaa Corporate Bonds<br>Interest Rate (percent)                    | 3.9                        | 3.6                          |   | 3.9                          |   | 4.1                          |   | 4.3                          |   |
| Unemployment Rate - Civilian<br>(percent)                         | 5.3                        | 4.9                          |   | 4.7                          |   | 4.7                          |   | 4.7                          |   |
| Wage and Salary Employment<br>(millions)                          | 141.865                    | 144.319                      | 1.7%                                    | 146.200                      | 1.3%                                    | 147.520                      | 0.9%                                    | 148.850                      | 0.9%                                    |
| Housing Starts<br>(millions of starts)                            | 1.112                      | 1.164                        | 4.7%                                    | 1.226                        | 5.3%                                    | 1.270                        | 3.6%                                    | 1.335                        | 5.1%                                    |
| Light Vehicle Sales<br>(millions of units)                        | 17.4                       | 17.5                         | 0.4%                                    | 17.2                         | -1.5%                                   | 17.0                         | -1.2%                                   | 16.9                         | -0.6%                                   |
| Passenger Car Sales<br>(millions of units)                        | 7.5                        | 6.9                          | -8.2%                                   | 6.5                          | -5.8%                                   | 6.4                          | -1.5%                                   | 6.3                          | -1.6%                                   |
| Light Truck Sales<br>(millions of units)                          | 9.9                        | 10.6                         | 6.9%                                    | 10.7                         | 1.3%                                    | 10.6                         | -0.9%                                   | 10.6                         | 0.0%                                    |
| Big 3 Share of Light Vehicles<br>(percent)                        | 43.6                       | 42.9                         |   | 43.0                         |   | 43.2                         |   | 43.0                         |   |
| <b>Michigan</b>   |                            |                              |   |                              |   |                              |   |                              |   |
| Wage and Salary Employment<br>(thousands)                         | 4,244                      | 4,329                        | 2.0%                                    | 4,376                        | 1.1%                                    | 4,420                        | 1.0%                                    | 4,464                        | 1.0%                                    |
| Unemployment Rate<br>(percent)                                    | 5.4                        | 4.6                          |   | 4.6                          |   | 4.8                          |   | 4.7                          |   |
| Personal Income<br>(millions of dollars)                          | \$424,807                  | \$440,101                    | 3.6%                                    | \$457,265                    | 3.9%                                    | \$474,183                    | 3.7%                                    | \$493,625                    | 4.1%                                    |
| Real Personal Income<br>(millions of 1982-84 dollars)             | \$194,237                  | \$198,076                    | 2.0%                                    | \$201,330                    | 1.6%                                    | \$204,870                    | 1.8%                                    | \$208,937                    | 2.0%                                    |
| Wages and Salaries<br>(millions of dollars)                       | \$214,703                  | \$224,580                    | 4.6%                                    | \$232,215                    | 3.4%                                    | \$239,414                    | 3.1%                                    | \$247,793                    | 3.5%                                    |
| Detroit Consumer Price Index<br>(1982-84 = 100)                   | 218.706                    | 222.188                      | 1.6%                                    | 227.122                      | 2.2%                                    | 231.456                      | 1.9%                                    | 236.255                      | 2.1%                                    |

Table 2  
**January 2017 Consensus Forecast**  
(millions)

| <b>Net Revenue Estimates</b> |                    |                               |                               |                                   |                               |                               |                                   |                               |
|------------------------------|--------------------|-------------------------------|-------------------------------|-----------------------------------|-------------------------------|-------------------------------|-----------------------------------|-------------------------------|
|                              | <u>FY 2016</u>     | <u>FY 2017</u>                |                               |                                   | <u>FY 2018</u>                |                               |                                   | <u>FY 2019</u>                |
|                              | <u>Preliminary</u> | <u>May 2016<br/>Consensus</u> | <u>Jan 2017<br/>Consensus</u> | <u>\$ Change<br/>From<br/>May</u> | <u>May 2016<br/>Consensus</u> | <u>Jan 2017<br/>Consensus</u> | <u>\$ Change<br/>From<br/>May</u> | <u>Jan 2017<br/>Consensus</u> |
| <b>Net GF-GP Revenue</b>     | \$10,015.4         | \$10,138.5                    | \$10,290.1                    | \$151.6                           | \$10,607.1                    | \$10,522.7                    | (\$84.4)                          | \$10,589.3                    |
| % Growth                     | -0.2%              | 4.2%                          | 2.7%                          |                                   | 4.6%                          | 2.3%                          |                                   | 0.6%                          |
| \$ Growth                    |                    |                               | \$274.7                       |                                   |                               | \$232.6                       |                                   | \$66.6                        |
| <b>Net SAF Revenue</b>       | \$12,118.7         | \$12,402.4                    | \$12,457.0                    | \$54.6                            | \$12,760.8                    | \$12,783.1                    | \$22.3                            | \$13,131.5                    |
| % Growth                     | 3.2%               | 2.8%                          | 2.8%                          |                                   | 2.9%                          | 2.6%                          |                                   | 2.7%                          |
| \$ Growth                    |                    |                               | \$338.3                       |                                   |                               | \$326.1                       |                                   | \$348.4                       |
| <b>Combined GF-GP/SAF</b>    | \$22,134.1         | \$22,541.0                    | \$22,747.1                    | \$206.2                           | \$23,367.9                    | \$23,305.8                    | (\$62.1)                          | \$23,720.8                    |
| % Growth                     | 1.6%               | 3.4%                          | 2.8%                          |                                   | 3.7%                          | 2.5%                          |                                   | 1.8%                          |
| \$ Growth                    |                    |                               | \$613.0                       |                                   |                               | \$558.7                       |                                   | \$415.0                       |

| <b>Revenue Limit Calculation</b>        |                  |                  |                  |                   |
|---|------------------|------------------|------------------|-------------------|
|   | <u>FY 2016</u>   | <u>FY 2017</u>   | <u>FY 2018</u>   | <u>FY 2019</u>    |
| Personal Income                         | \$403,726        | \$424,807        | \$440,101        | \$457,265         |
| Ratio                                   | 9.49%            | 9.49%            | 9.49%            | 9.49%             |
| Revenue Limit                           | \$38,313.6       | \$40,314.2       | \$41,765.6       | \$43,394.4        |
| Revenue Subject to Limit                | \$29,939.7       | \$31,028.1       | \$32,271.3       | \$33,194.7        |
| <b><u>Amount Under (Over) Limit</u></b> | <b>\$8,373.9</b> | <b>\$9,286.1</b> | <b>\$9,494.3</b> | <b>\$10,199.7</b> |

Note: CY 2014 Personal Income is used for the FY 2016 revenue limit calculation, CY 2015 for FY 2017, CY 2016 for FY 2018, and CY 2017 for FY 2019.

| <b>Long Term Revenue Trend</b> |                |                |
|--------------------------------|----------------|----------------|
|                                | <u>FY 2020</u> | <u>FY 2021</u> |
| <b>Net GF-GP Revenue</b>       | \$10,731.3     | \$10,848.1     |
| Growth                         | 1.3%           | 1.1%           |
| <b>Net SAF Revenue</b>         | \$13,499.0     | \$13,877.8     |
| Growth                         | 2.8%           | 2.8%           |
| <b>Combined GF-GP/SAF</b>      | \$24,230.3     | \$24,725.9     |
| Growth                         | 2.1%           | 2.0%           |

| <b>Budget Stabilization Fund Calculation</b> |                             |                |
|--|-----------------------------|----------------|
| FY 2017 Calculations                         | <b>PAY-IN</b>               | <b>\$140.2</b> |
| FY 2018 Calculations                         | <b>NO PAY-IN OR PAY-OUT</b> |                |
| FY 2019 Calculations                         | <b>NO PAY-IN OR PAY-OUT</b> |                |

| <b>School Aid Index</b>   |                |                |
|---------------------------|----------------|----------------|
|                           | <u>FY 2018</u> | <u>FY 2019</u> |
| Revenue Adjustment Factor | <b>1.0236</b>  | <b>1.0245</b>  |
| Pupil Membership Factor   | <b>1.0028</b>  | <b>1.0030</b>  |
| School Aid Index          | <b>1.0265</b>  | <b>1.0276</b>  |