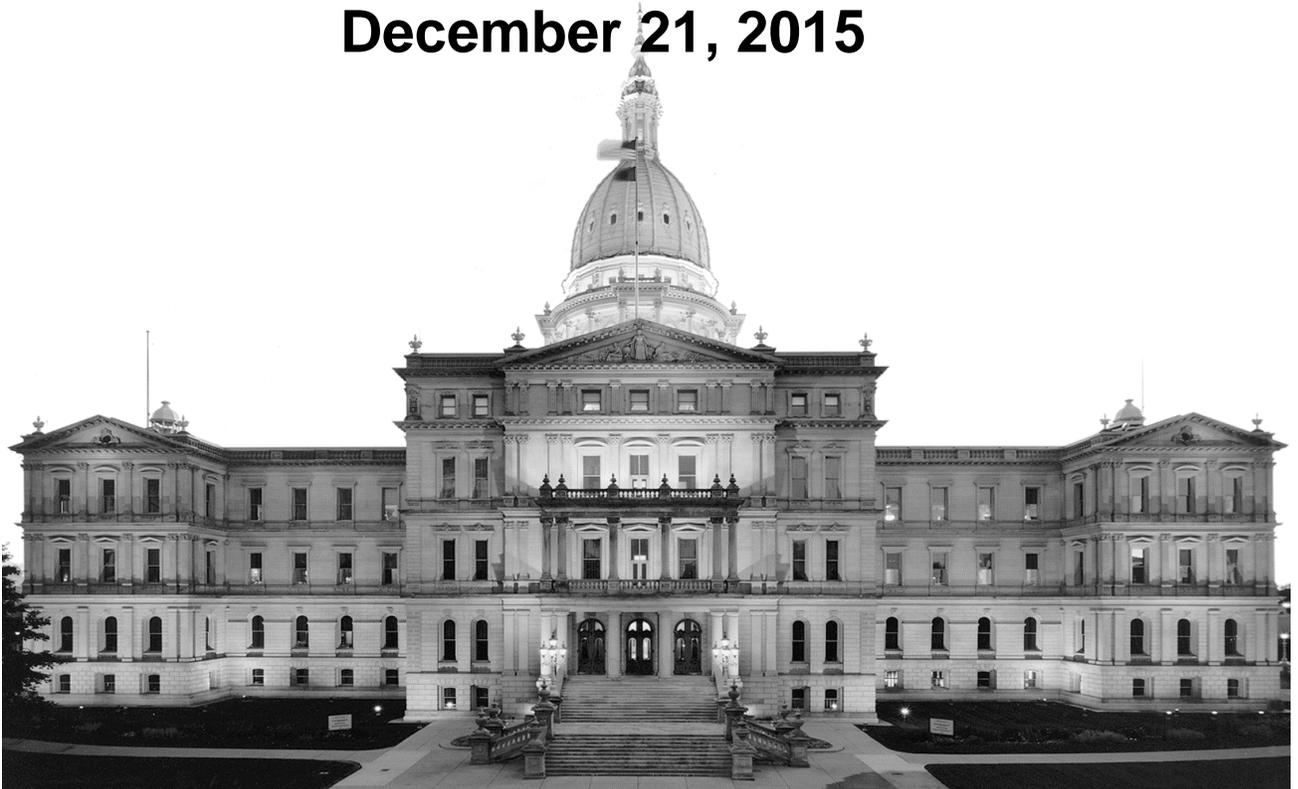


**MICHIGAN'S  
ECONOMIC OUTLOOK  
AND BUDGET REVIEW**

**FY 2014-15, FY 2015-16,  
FY 2016-17, and FY 2017-18**

**December 21, 2015**



# THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge, the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.
2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



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## ***ACKNOWLEDGEMENT***

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## TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY.....</b>	<b>1</b>
<b>ECONOMIC REVIEW AND OUTLOOK.....</b>	<b>3</b>
RECENT U.S. ECONOMIC HIGHLIGHTS.....	3
RECENT MICHIGAN ECONOMIC HIGHLIGHTS.....	9
FORECAST SUMMARY.....	11
FORECAST RISKS.....	13
<b>THE FORECAST FOR STATE REVENUE.....</b>	<b>17</b>
REVENUE OVERVIEW.....	17
FY 2014-15 PRELIMINARY YEAR-END REVENUE.....	22
FY 2015-16 REVISED REVENUE ESTIMATES.....	25
FY 2016-17 REVISED REVENUE ESTIMATES.....	28
FY 2017-18 INITIAL REVENUE ESTIMATES.....	30
MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2014-15 THROUGH FY 2017-18.....	32
REVENUE TRENDS.....	35
SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY.....	36
<b>BUDGET STABILIZATION FUND.....</b>	<b>39</b>
<b>COMPLIANCE WITH STATE REVENUE LIMIT.....</b>	<b>43</b>
THE REVENUE LIMIT.....	43
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED.....	43
REVENUE LIMIT COMPLIANCE PROJECTIONS.....	44
<b>ESTIMATE OF YEAR-END BALANCES.....</b>	<b>46</b>
FY 2014-15 YEAR-END BALANCE ESTIMATES.....	46
FY 2015-16 YEAR-END BALANCE ESTIMATES.....	48
FY 2016-17 STATE BUDGET OUTLOOK.....	49
HICA AND USE TAX SUMMARY.....	51
CONCLUSION.....	52







## **EXECUTIVE SUMMARY**

### **ECONOMIC FORECAST**

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 2.5% during 2015, is predicted to expand 1.9% in 2016, 2.0% in 2017, and 2.2% in 2018. Light vehicle sales are forecasted to rise from 17.4 million units in 2015, to 18.0 million units in both 2016 and 2017, before declining to 17.9 million units in 2018. The unemployment rate is expected to fall from 5.3% in 2015 to 5.1% in 2016, and then rise to 5.3% in both 2017 and 2018. The consumer price index is estimated to increase 1.6% in 2016, and 2.4% in both 2017 and 2018, after increasing 0.1% in 2015.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 2.7% in 2016, 1.2% in 2017, and 1.3% in 2018, after rising 5.6% in 2015. After growing 2.2% in 2015, wage and salary employment is predicted to continue growing, increasing 1.2% during 2016, 1.0% in 2017, and 0.7% in 2018.

### **REVENUE FORECAST**

Preliminary final fiscal year (FY) 2014-15 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$21.9 billion, up 6.8% from FY 2013-14. The increase reflects an improving economy that boosted income tax revenue, and less-than-expected refunds under the Michigan Business Tax (MBT) and individual income tax. Combined GF/GP and SAF revenue for FY 2014-15 is \$320.3 million above the May 2015 consensus estimate.

In FY 2015-16, the economy will grow more slowly than in FY 2014-15, and MBT refunds are expected to increase. As a result, GF/GP and SAF revenue will total an estimated \$22.1 billion, a 0.6% increase from FY 2014-15. The revised FY 2015-16 forecast is \$55.1 million below the May 2015 consensus estimate.

In FY 2016-17, GF/GP and SAF revenue will total an estimated \$22.6 billion, a 2.6% increase from FY 2015-16 but \$80.6 million below the May 2015 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.2 billion, an increase of 2.7% from FY 2015-16 that reflects slower employment growth and increased revenue reductions attributable to personal property tax reform, while SAF revenue will rise to an estimated \$12.4 billion, a 2.5% increase.

In FY 2017-18, GF/GP and SAF revenue will total an estimated \$23.4 billion. This initial estimate for FY 2017-18 is 3.2% higher than the revised estimate for FY 2016-17. As revenue losses related to personal property tax reform increase, MBT refunds are expected to decline and GF/GP revenue will total an estimated \$10.6 billion, an increase of 3.9% from FY 2016-17, while SAF revenue will rise to an estimated \$12.7 billion, a 2.6% increase.

### **YEAR-END BALANCE ESTIMATES**

Based on the accounting of State revenue and expenditures as of December 17, 2015, the Senate Fiscal Agency (SFA) is estimating that the FY 2014-15 GF/GP budget will close the fiscal year with an \$815.9 million balance. The SFA estimates that the FY 2014-15 SAF budget will close the fiscal year with a \$217.4 million balance.

A comparison of the SFA's FY 2015-16 revenue estimates with enacted and projected appropriations leads to a \$701.2 million GF/GP year-end balance. The SFA is now estimating that the FY 2015-16 SAF budget will end the year with a \$59.8 million balance.

Looking ahead at the FY 2016-17 budget, there is a projected GF/GP balance of \$345.4 million if the SFA's FY 2016-17 GF/GP revenue estimate is compared with FY 2016-17 GF/GP estimated expenditures that freeze ongoing and one-time spending at the FY 2015-16 level and are adjusted for caseload and costs, as well as economic factors. If the SFA's FY 2016-17 SAF revenue estimate is compared with the FY 2016-17 SAF estimated expenditures that adjust the FY 2015-16 level of funding for estimated pupils and other costs, the projected SAF surplus is \$17.4 million.

Although the year-end balance estimates are healthy, future budget pressures, such as GF/GP funding for road projects, increases in Medicaid costs, and potential aid for school districts in financial distress, will require more State resources. The magnitude of this requirement will pose challenges to balancing the State's budget going forward.

**SENATE FISCAL AGENCY  
ECONOMIC AND BUDGET SUMMARY**

<b>ECONOMIC PROJECTIONS (Calendar Year)</b>					
	<b>2014 Actual</b>	<b>2015 Estimate</b>	<b>2016 Estimate</b>	<b>2017 Estimate</b>	<b>2018 Estimate</b>
Real Gross Domestic Product (% change)	2.4%	2.5%	1.9%	2.0%	2.2%
U.S. Consumer Price Index (% change)	1.6%	0.1%	1.6%	2.4%	2.4%
Light Motor Vehicle Sales (millions of units)	16.4	17.4	18.0	18.0	17.9
U.S. Unemployment Rate (%)	6.2%	5.3%	5.1%	5.3%	5.3%
Real Michigan Personal Income (% change)	3.0%	5.6%	2.7%	1.2%	1.3%
Michigan Wage & Salary Employment (% change)	1.7%	2.2%	1.2%	1.0%	0.7%

<b>REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)</b>									
	<b>FY 2015-16 Estimate</b>			<b>FY 2016-17 Estimate</b>			<b>FY 2017-18 Estimate</b>		
	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>
GF/GP	\$11,019.1	(\$1,073.5)	\$9,945.7	\$11,335.4	(\$1,117.2)	\$10,218.3	\$11,660.7	(\$1,041.7)	\$10,619.0
% Change	2.7%	---	(2.1%)	2.9%	---	2.7%	2.9%	---	3.9%
School Aid Fund	\$12,099.6	24.4	\$12,124.0	\$12,411.3	10.1	\$12,421.4	\$12,734.8	4.6	\$12,739.5
% Change	2.7%	---	3.0%	2.6%	---	2.5%	2.6%	---	2.6%
Total GF/GP & SAF	\$23,118.7	(\$1,049.1)	\$22,069.6	\$23,746.7	(\$1,107.1)	\$22,639.6	\$24,395.5	(\$1,037.1)	\$23,358.4
% Change	2.7%	---	0.6%	2.7%	---	2.6%	2.7%	---	3.2%
Revenue Limit – Under (Over)		\$8,958.9			\$9,794.6			\$10,656.7	
	<b><u>FY 2014-15 Estimate</u></b>			<b><u>FY 2015-16 Estimate</u></b>			<b><u>FY 2016-17 Estimate</u></b>		
<u>Revision from May Consensus</u>									
GF/GP		\$429.1			\$63.8			\$96.8	
SAF		(108.8)			(118.9)			(177.4)	
<b>Total</b>		<b>\$320.3</b>			<b>(\$55.1)</b>			<b>(\$80.6)</b>	

<b>YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)</b>			
	<b>FY 2014-15 Estimate</b>	<b>FY 2015-16 Estimate</b>	<b>FY 2016-17 Estimate</b>
General Fund/General Purpose.....	\$815.9	\$701.2	\$345.4
School Aid Fund .....	217.4	59.8	17.4
Budget Stabilization Fund (with formula pay-in) .....	498.3	746.3	956.9
Budget Stabilization Fund (with enacted deposits) .....	498.3	612.3	633.5

**ECONOMIC REVIEW  
AND OUTLOOK**



## ECONOMIC REVIEW AND OUTLOOK

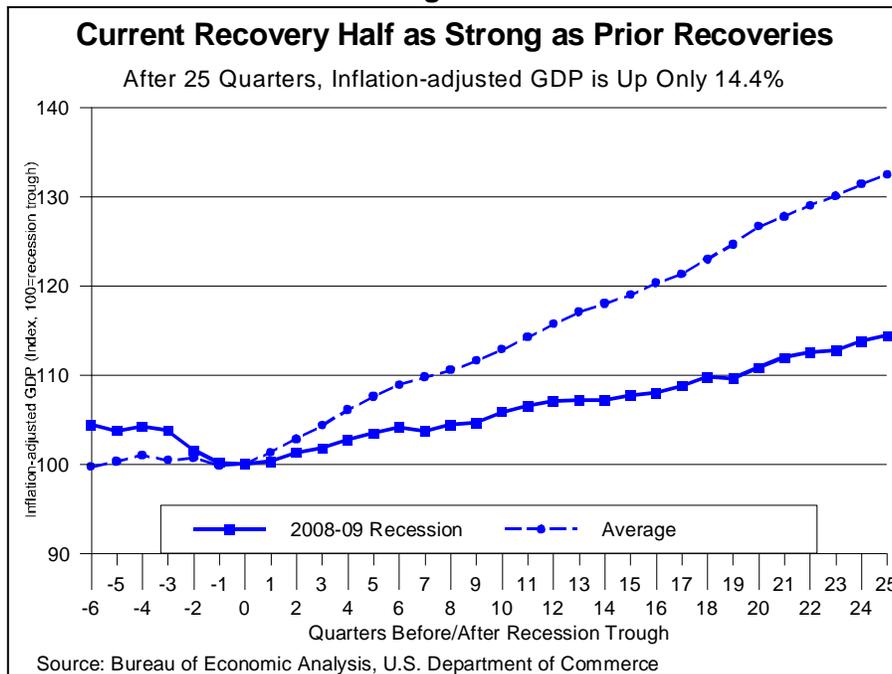
State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2015, 2016, and 2017, as well as a summary of recent economic activity.

### RECENT U.S. ECONOMIC HIGHLIGHTS

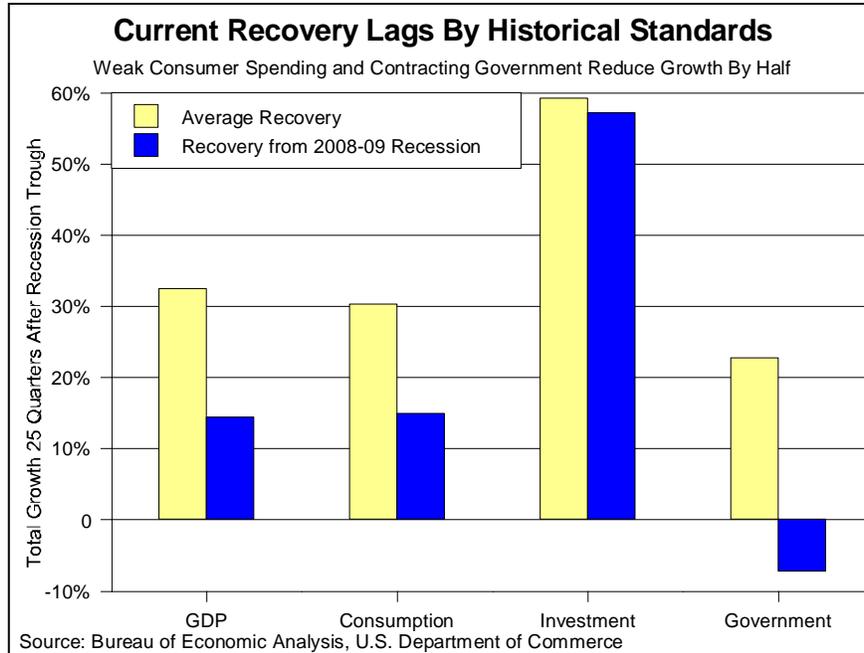
Since the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years, the economy has grown slowly. Many fundamental economic factors remain well below their prerecession peaks, and even factors that have recovered have done so more slowly than during almost any other post-World War II recovery. As of the third quarter of 2015, the economy had been in recovery for 25 quarters after the recession trough in the second quarter of 2009. Four recoveries since World War II have lasted 20 quarters or more, although only three recoveries have lasted 25 quarters or more, and at this point the current recovery is less than half as strong as the average of those recoveries.

Inflation-adjusted Gross Domestic Product (GDP) in the third quarter of 2015 was only 9.5% above the level during the fourth quarter of 2007, when the recession began, and only 14.4% above the level in the second quarter of 2009, when the economy finished contracting ([Figure 1](#)). As a result, the economy has averaged only 2.2% annual growth since the end of the recession, compared with an average of 4.6% annual growth over the other three recoveries since World War II. Consumption expenditures, which on average account for two-thirds of economic activity, also have exhibited weak growth relative to historical standards, with the current recovery averaging 2.2% annual growth, compared with a historical average of 4.3% growth ([Figure 2](#)). Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 1.2% compared with the historical average of 3.3% growth ([Figure 3](#)).

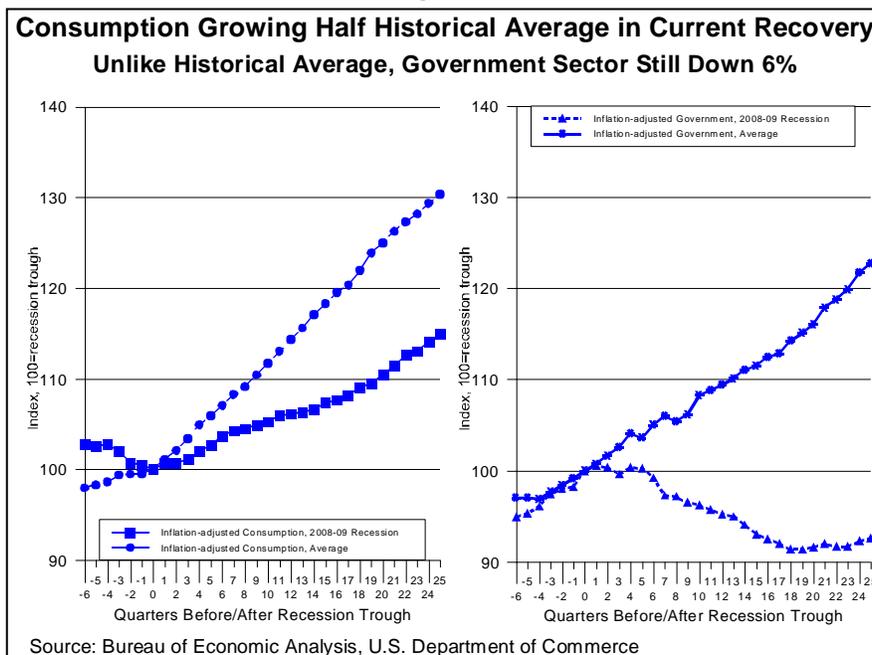
**Figure 1**



**Figure 2**



**Figure 3**



Over the current recovery period, much of the growth in the economy has reflected increases in inventories: goods produced but not sold. For example, during the first three quarters of 2015, inflation-adjusted personal consumption expenditures increased by \$229.5 billion while inflation-adjusted inventories increased \$316.5 billion. Although the rate of inventory growth slowed substantially in the third quarter, the dollar value of the increase was still nearly double the average increase over the 2011-2014 period. While inventory accumulation is generally regarded as good, at least if it is intended, without increased consumption to support the additional production, inventory increases do not represent a sustainable way to expand the economy.

Consumption growth has remained weak for a variety of reasons, and many of the increases have reflected increased purchases of motor vehicles. Consumers have remained risk-averse about spending, especially for big-ticket items and nonessential purchases, as employment growth has remained weak and wage increases have been negligible. Motor vehicle purchases have been an exception due to factors ranging from rising fuel costs (during the first part of the recovery) encouraging the purchase of more fuel-efficient vehicles to the marked increase in the age of the vehicle fleet to the return to vehicle loans to subprime borrowers. Light vehicle sales remained at an 18.1 million unit annual rate over the September-November 2015 period, the highest rate since July 2005, and year-to-date sales in 2015 are on track to match the record set in 2000.

While replacement consumption, where consumers replace durable goods that have simply grown so old that they are no longer considered viable, has accounted for a significant portion of the growth in consumption spending during the recovery, over the last year certain segments of consumption spending have appeared to exhibit more strength. Over the last year, retail sales of building materials and furniture have increased as housing starts and home sales have improved, although sales at appliance stores have declined. Retail spending at restaurants and sporting goods stores also has improved, and overall personal consumption spending has increased 3.2% over the last year.

The gains in consumer spending indicate consumption is returning to its historical position of accounting for the majority of growth in the economy. Over the first three quarters of 2015, consumption spending accounted for approximately 85.8% of the net growth in the economy. However, the improvement in consumer spending is less than what would be expected given wage growth and is being offset by other sectors of the economy.

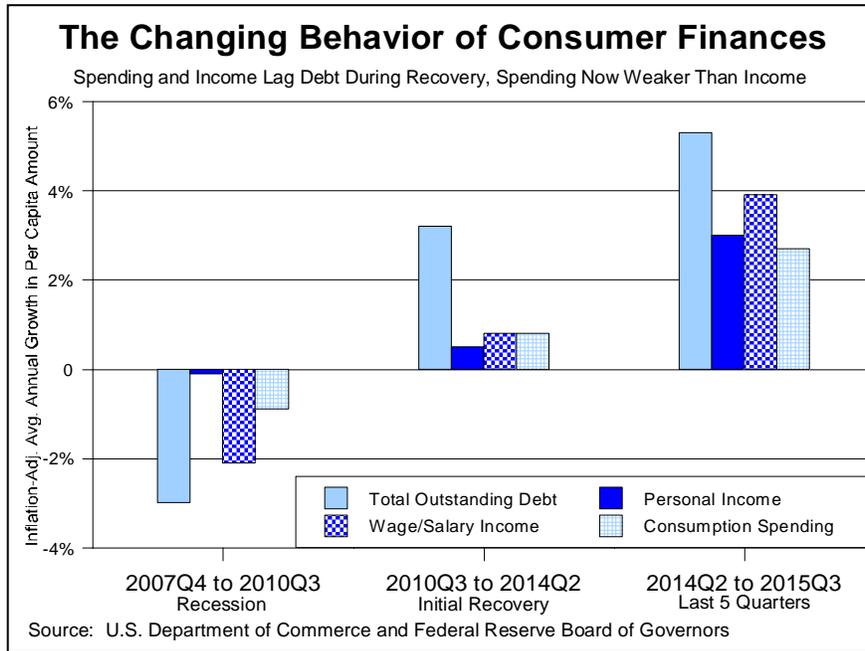
Over much of the current recovery, spending has generally been rising at a faster rate than wage and salary income, despite the weak growth in consumer spending compared with historical standards. However, over the last two years that trend has reversed ([Figure 4](#)). Over the first three quarters of 2015, inflation-adjusted consumption spending per person rose at an annual rate of 2.4%, compared with a 4.0% rate of increase in inflation-adjusted wage and salary income per person. Personal saving as a percentage of disposable personal income has increased in 2015 to the highest levels since 2012, although the saving has not translated into a reduction in consumer debt levels. Over the first three quarters of 2015, outstanding consumer debt per person increased at an annual rate of 6.2%, growing at a faster rate than either income or spending. Nonrevolving debt, which includes student loans and motor vehicle loans, increased at a 7.1% rate during the first three quarters of 2015. Similarly, revolving credit (mainly credit card debt) increased at a 3.9% annual rate over the first three quarters of 2015, a rate more than 1.6 times the growth rate in personal consumption spending.

Consumer debt has increased even as the share of disposable personal income that must be used to service that debt has increased slightly since 2012 ([Figure 5](#)). Just as the composition of consumer debt has changed so has the cost of servicing that debt. While nonrevolving debt has grown more rapidly than revolving debt, the share of disposable personal income required to service mortgage debt has steadily fallen since 2007, largely as a result of monetary policy designed to keep long-term interest rates low. However, the cost of servicing revolving debt, which had fallen between 2007 and 2012 as consumers dealt with the aftermath of the 2008-2009 financial crisis, has increased since 2012. Although the total financial obligations ratio has remained stable over the last year, it is likely to increase once interest rates begin rising.

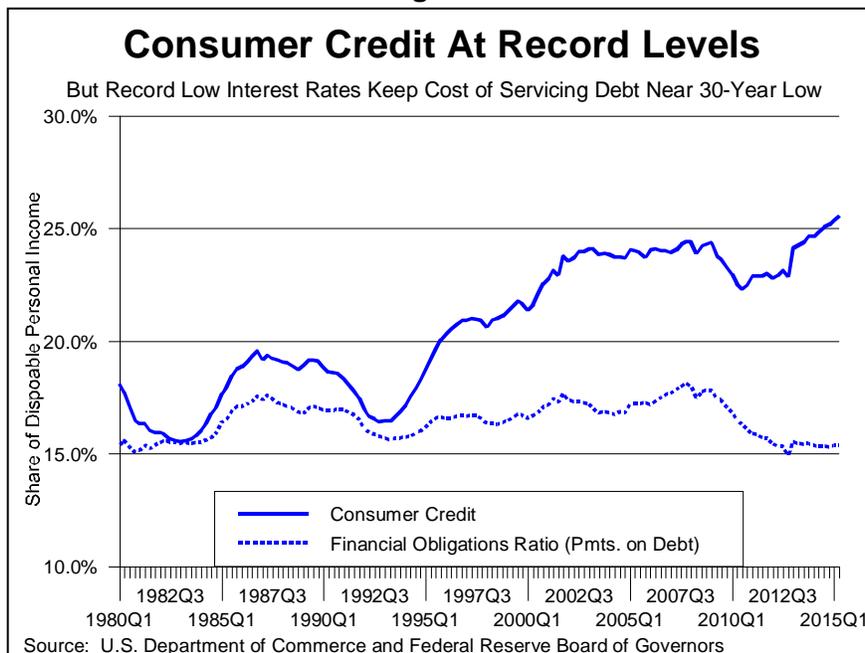
Payroll employment in the United States continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010. Despite employment gains during the last four years, payroll employment did not reach the prerecession

peak until May 2014. As of November 2015, payroll employment has averaged only 1.7% annual growth since the February 2010 trough and was up only 1.9% from the November 2014 level, after showing as much as a 2.3% year-over-year increase as recently as March 2015. Payroll employment growth has remained relatively stable during 2015, with November's 211,000 employment increase virtually identical to the average monthly gain of 210,000 jobs. However, the 210,000 average monthly increase in payroll employment during the first 11 months of 2015 is down 19.2% from the 260,000 job average monthly increase in 2014, and not much above the 160,000 to 175,000 increase necessary to keep pace with population growth.

**Figure 4**



**Figure 5**

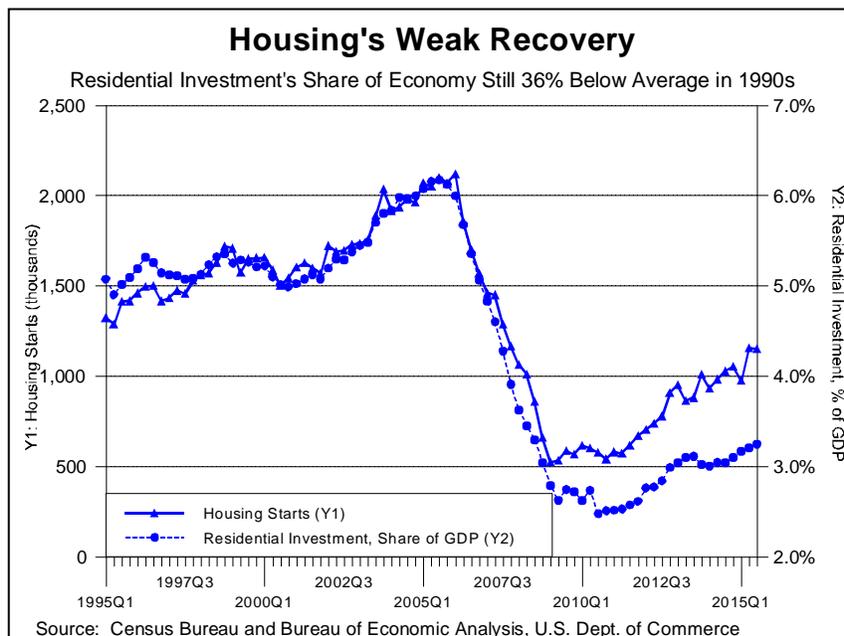


The unemployment rate fell from a peak of 10.0% in October 2009, to 5.0% in November 2015. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Between 2007 and 2013, the labor force averaged 0.2% per year annual growth while in November 2014, the labor force was 0.7% larger than in November 2013. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the November 2015 level of total employment set an all-time record. However, labor force participation has continued to decline, with the September and October 2015 rates of 62.4% the lowest since October 1977.

The housing market, which counts as residential investment rather than consumption spending, continued to improve in 2015, although it remains weak by almost any historical measure -- roughly matching housing start levels during the 1979-1982 and 1991 recessions ([Figure 6](#)). Housing starts are projected to total approximately 1.1 million units in 2015, the sixth consecutive annual increase in starts and a 10.9% increase from 2014. However, 2015 will represent the 11th-weakest year of housing starts (based on data available back to 1959), above the seven-year 2008 through 2014 period and the recession years of 1981, 1982, and 1991. Housing starts in 2015 also will be 46.2% below the prerecession peak of 2.1 million starts in 2005. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and has averaged less than 3.2% of GDP during 2015. In addition, the data suggest that the housing starts that are occurring have lower inflation-adjusted values than those before the recession.

Productivity, as measured by output per worker in the nonfarm business sector, rose at an average annual rate of 2.4% in the second quarter of 2015 and 1.3% in the third quarter, up from the 0.1% decline during 2013 and the 0.9% increase in 2014. During the 1985-to-2005 period, productivity grew by approximately 2.1% per year. In manufacturing, productivity during the third quarter of 2015 grew 2.8%, the strongest increase since the third quarter of 2014. While productivity gains are substantially influenced by nonresidential investment and increase output and income, especially in the long run, productivity can reduce the need for additional workers in the short run.

**Figure 6**



Details for selected economic indicators are presented in [Table 1](#) and [Table 2](#).

**Table 1**  
**THE SENATE FISCAL AGENCY ECONOMIC FORECAST**  
**(Calendar Years)**

	2014	2015	2016	2017	2018
	Actual	Estimate	Estimate	Estimate	Estimate
<b><u>United States</u></b>					
Nominal GDP (year-to-year growth)	4.1%	3.5%	3.7%	3.8%	4.0%
Inflation-Adjusted GDP (year-to-year growth)	2.4%	2.5%	1.9%	2.0%	2.2%
Unemployment Rate	6.2%	5.3%	5.1%	5.3%	5.3%
Inflation					
Consumer Price Index (year-to-year growth)	1.6%	0.1%	1.6%	2.4%	2.4%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.6%	1.0%	1.7%	1.8%	1.8%
Interest Rates					
90-day Treasury Bill	0.03%	0.04%	0.89%	1.84%	2.78%
10-year Treasury Bill	2.54%	2.14%	2.53%	2.89%	3.27%
Corporate Aaa Bond	4.16%	3.92%	4.27%	4.33%	4.44%
Federal Funds Rate	0.09%	0.15%	0.93%	1.93%	2.93%
Light Motor Vehicle Sales (millions of units)					
Auto	16.4	17.4	18.0	18.0	17.9
Truck	7.7	7.6	7.7	7.6	7.5
Import Share	8.7	9.8	10.3	10.4	10.4
	21.0%	21.2%	21.0%	20.6%	20.2%
<b><u>Michigan</u></b>					
Personal Income (millions)	\$403,726	\$420,429	\$439,033	\$455,501	\$473,224
Year-to-year growth	4.1%	4.1%	4.4%	3.8%	3.9%
Inflation-Adjusted Personal Income (year-to-year growth)	3.0%	5.6%	2.7%	1.2%	1.3%
Wage & Salary Income (millions)	\$204,476	\$213,116	\$222,842	\$229,877	\$237,241
Year-to-year growth	4.9%	4.2%	4.6%	3.2%	3.2%
Detroit Consumer Price Index (year-to-year growth)	1.0%	(1.4%)	1.7%	2.5%	2.6%
Wage & Salary Employment (thousands)	4,179.7	4,269.7	4,322.0	4,365.6	4,395.6
Year-to-year growth	1.7%	2.2%	1.2%	1.0%	0.7%
Unemployment Rate	7.3%	5.4%	5.0%	5.1%	5.1%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2014	2015	2016	2017	2018
	Actual	Estimate	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$17,348.1	\$17,958.8	\$18,627.4	\$19,337.6	\$20,104.4
Year-to-year growth	4.1%	3.5%	3.7%	3.8%	4.0%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2009 dollars)	\$15,961.7	\$16,355.2	\$16,674.1	\$16,999.4	\$17,368.9
Year-to-year growth	2.4%	2.5%	1.9%	2.0%	2.2%
Consumption (billions of 2009 dollars)	\$10,875.7	\$11,217.6	\$11,530.0	\$11,824.7	\$12,133.1
Year-to-year growth	2.7%	3.1%	2.8%	2.6%	2.6%
Business Fixed Investment (billions of 2009 dollars)	\$2,148.3	\$2,214.2	\$2,267.9	\$2,334.9	\$2,412.5
Year-to-year growth	6.2%	3.1%	2.4%	3.0%	3.3%
Change in Business Inventories (billions of 2009 dollars)	\$68.0	\$95.6	\$58.2	\$48.6	\$48.0
Residential Investment (billions of 2009 dollars)	\$486.4	\$528.6	\$578.2	\$627.3	\$656.6
Year-to-year growth	1.8%	8.7%	9.4%	8.5%	4.7%
Government Spending (billions of 2009 dollars)	\$2,838.3	\$2,862.1	\$2,910.5	\$2,942.9	\$2,968.6
Year-to-year growth	(0.6%)	0.8%	1.7%	1.1%	0.9%
Net Exports (billions of 2009 dollars)	(\$442.5)	(\$526.5)	(\$659.3)	(\$776.8)	(\$851.8)
Exports (billions of 2009 dollars)	\$2,086.4	\$2,133.5	\$2,133.4	\$2,189.9	\$2,277.6
Imports (billions of 2009 dollars)	\$2,528.9	\$2,660.1	\$2,792.6	\$2,966.7	\$3,129.4
Personal Income (year-to-year growth)	4.4%	4.6%	4.3%	4.3%	4.8%
Adjusted for Inflation	2.7%	4.5%	2.6%	1.9%	2.3%
Wage & Salary Income (year-to-year growth)	5.1%	4.8%	4.2%	3.7%	4.4%
Personal Saving Rate	4.8%	5.2%	5.0%	4.7%	4.7%
Capacity Utilization Rate	78.1%	77.9%	76.9%	76.5%	76.8%
Housing Starts (millions of units)	1.003	1.113	1.234	1.346	1.406
Conventional Mortgage Rates	4.2%	3.9%	4.2%	4.5%	4.8%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$631.5)	(\$594.4)	(\$614.4)	(\$630.9)	(\$633.7)

### **RECENT MICHIGAN ECONOMIC HIGHLIGHTS**

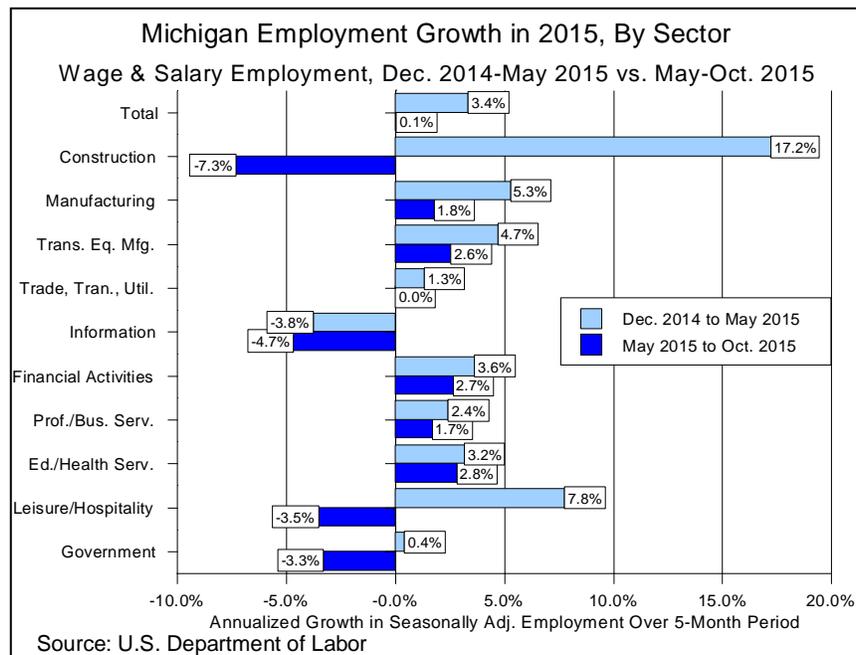
Michigan's economy spent the 2000-to-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, a significant surge in productivity driven by increased competition in the economy. For Michigan, the effect of productivity improvements has been substantial for at least three reasons: 1) there was more room for productivity improvements in the durable goods and motor vehicle manufacturing sectors than in many other sectors, 2) Michigan was, and remains, very disproportionately concentrated in motor vehicle manufacturing, and 3) the motor

vehicle industry has become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment from both higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 144,300 jobs (32.8%) between June 2009, when the U.S. recession ended, and December 2014. During the first five months of 2015, manufacturing employment increased at an annual rate of 5.3%, but in the five-month period from May to October 2015 slowed to a 1.8% annual rate of growth. Employment in the transportation equipment manufacturing sector increased by 61.4% between June 2009 and December 2014, accounting for 70,200 (48.6%) of the manufacturing jobs Michigan gained and 18.5% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly than early in the year, with the growth rate declining from a 4.7% annual rate during the first five months of 2015 to a 2.6% annual rate over the May-October 2015 period.

The most recent five-month period in Michigan has seen a marked slowdown in the rate of job gains, with employment growth decelerating from a 3.4% annual growth rate during the first five months of 2015 to a 0.1% annual growth rate over the subsequent five-month period (May to October 2015). Every major sector other than mining exhibited a slower, or even declining, rate of employment growth during the May-October 2015 period than in the preceding five months, even accounting for the seasonal patterns of employment in different sectors (Figure 7).

**Figure 7**



The unemployment rate declined from a high of 14.9% in June 2009 to 5.0% in October 2015, although the decline was partially attributable to the departure of approximately 166,120 individuals from the labor force in addition to the employment gain of 310,800 jobs. The majority of the employment gain, representing 203,600 jobs, occurred between January 2013 and February 2015.

### **FORECAST SUMMARY**

During 2016, both the U.S. and Michigan economies are expected to expand at a slightly slower rate than during 2015. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2016 and later years, although Michigan is generally expected to grow more slowly than the nation as a whole. [Table 1](#) and [Table 2](#) provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to rise 1.9% in 2016, slightly less than the estimated 2.5% increase in 2015, and continue expanding at about the same rate over the rest of the forecast period, rising 2.0% during 2017 and 2.2% in 2018. The expansion over the forecast period primarily reflects modest consumption growth and improvements in business and residential investment that will more than offset the drag on the economy from increased imports and relatively stagnant public sector growth.

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace capital for labor. The U.S. unemployment rate is expected to decrease from 5.3% during 2015, to 5.1% in 2016, before rising slightly to 5.3% in both 2017 and 2018.

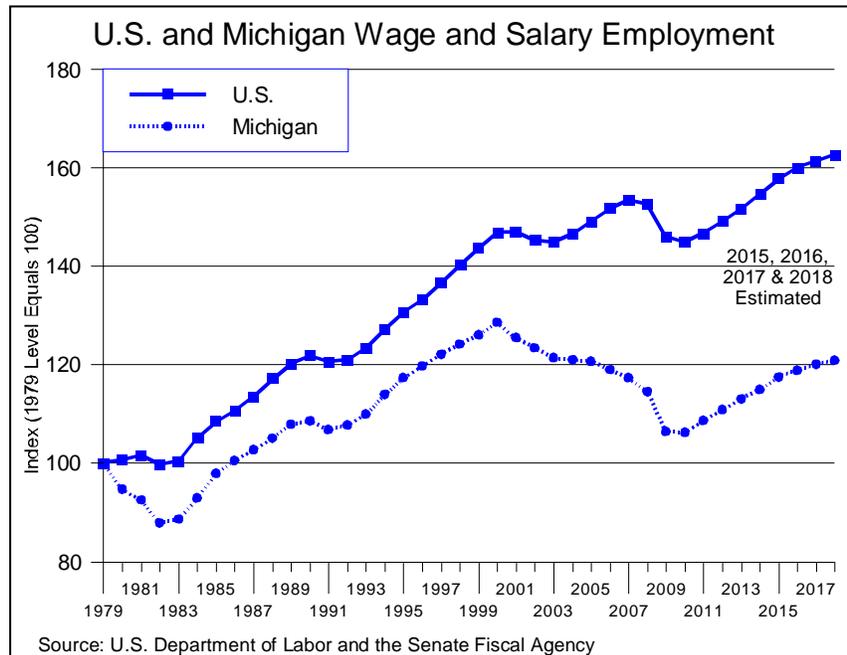
Inflation is not anticipated to be a concern over the forecast period. The U.S. Consumer Price Index is anticipated to increase 0.1% in 2015, followed by increases of 1.6% in 2016, and 2.4% in both 2017 and 2018. Export growth is expected to be tempered in the near term by both weak foreign economies and higher interest rates that will increase the value of the dollar. Productivity, modest domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 1.5% in 2016, 1.2% in 2017, and 1.7% in 2018.

In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average ([Figures 8 and 9](#)). Inflation-adjusted personal income is projected to increase 2.7% in 2016, 1.2% in 2017, and 1.3% in 2018, compared with a predicted 5.6% increase during 2015 that is boosted above the nominal increase by a negative inflation rate. Payroll employment is expected to increase 1.2% in 2016, roughly half the 2.2% growth rate estimated for 2015, and then increase more slowly in future years, rising 1.0% in 2017 and 0.7% in 2018. Private sector gains in employment during 2016 and 2017 are expected to be fairly modest, although above the nearly flat employment predicted in the government sector. Nationally, light vehicle sales are expected to increase from an estimated 17.4 million units in 2015 to a record 18.0 million units in both 2016 and 2017, before declining slightly to 17.9 million units in 2018. In Michigan, higher vehicle sales, stability in the housing market, and the tepid national economy are expected to maintain the unemployment rate at 5.0% in 2016, and 5.1% in both 2017 and 2018, compared with the estimated 5.4% for 2015.

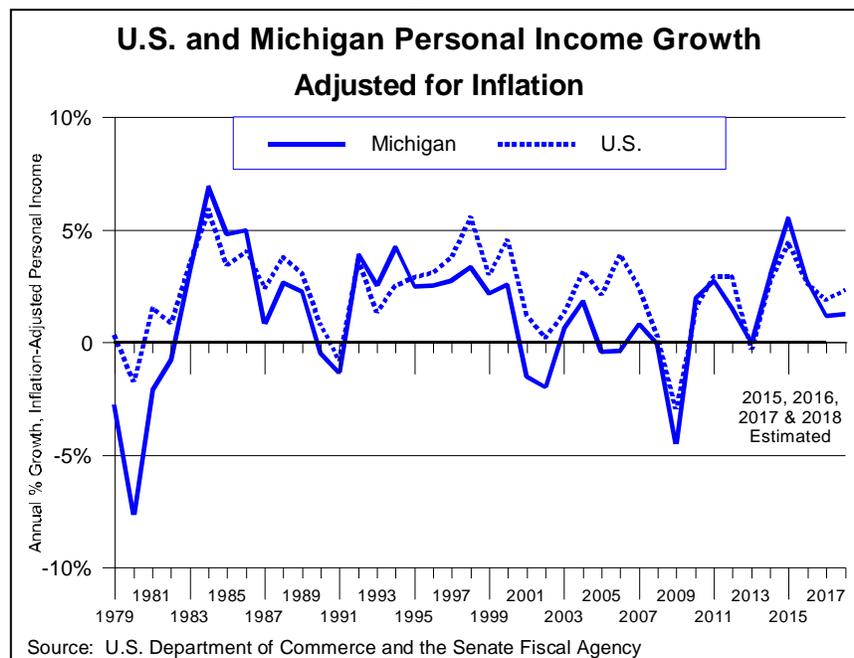
Compared with the May 15, 2015, Consensus Economic Forecast, the U.S. forecast is slightly weaker in both 2016 and 2017, while the Michigan forecast is slightly stronger in 2016 and slightly weaker in 2017. However, neither the U.S. nor the Michigan forecast exhibits particularly strong economic growth. Weak employment growth, weak income growth, and slowdowns in overseas

economies will temper the pace of the U.S. and Michigan recoveries during the forecast period. However, improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation.

**Figure 8**



**Figure 9**



## **FORECAST RISKS**

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. However, unexpected changes in economic fundamentals often represent the greatest source of error. The challenge for the current forecast is to determine when the economy will complete the adjustments required to exhibit consistent growth. Such turning points are difficult to predict and adjustments after financial collapses such as occurred during the 2008-2009 recession often take longer than after recessions not associated with financial collapses.

**Consumer Behavior.** The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession have induced consumers to rein in their spending, pushing the saving rate significantly higher. Despite stock market gains since the recession, consumers needed to save at a far higher rate than exhibited to offset their losses in home equity and stock market drops during the recession. Over the last three quarters the saving rate has risen, but outstanding debt has continued to increase. Income growth has improved but high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption once interest rates start rising, beginning in December 2015. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the mid-2000s and, if capital markets accommodated higher demands for additional credit, growth would be stronger than forecasted.

Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. However, personal income fell more slowly over that time period, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much real growth in the underlying consumption trend is actually occurring. During 2015, consumption growth, especially when compared to wage and salary income growth, suggests that consumers are perhaps becoming more cautious. Information from the Survey of Consumers suggests that some groups have lowered their expectations regarding the economy and are adapting to more frugal, and more risk-averse, spending patterns. If consumer spending primarily represents deferred purchases and consumers continue spending in the near future only at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

The durability of consumer spending represents the primary determinant of the accuracy of the forecast. As indicated earlier, purchases of motor vehicles have dominated consumption growth during much of the 2013-2015 period. The forecast assumes that consumers will slightly decrease their saving rates and that consumption will be limited by flat wages and limited access to and/or use of additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

**The Labor Market.** While the Michigan unemployment rate has declined since 2009, reduced labor market participation has played a greater role in lowering the Michigan unemployment rate than what has occurred in the national rate. Job gains have helped reduce the unemployment rate, but a significant factor causing the unemployment rate to decline over this period has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals' giving up searching for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that such individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages as the economy continues to recover.

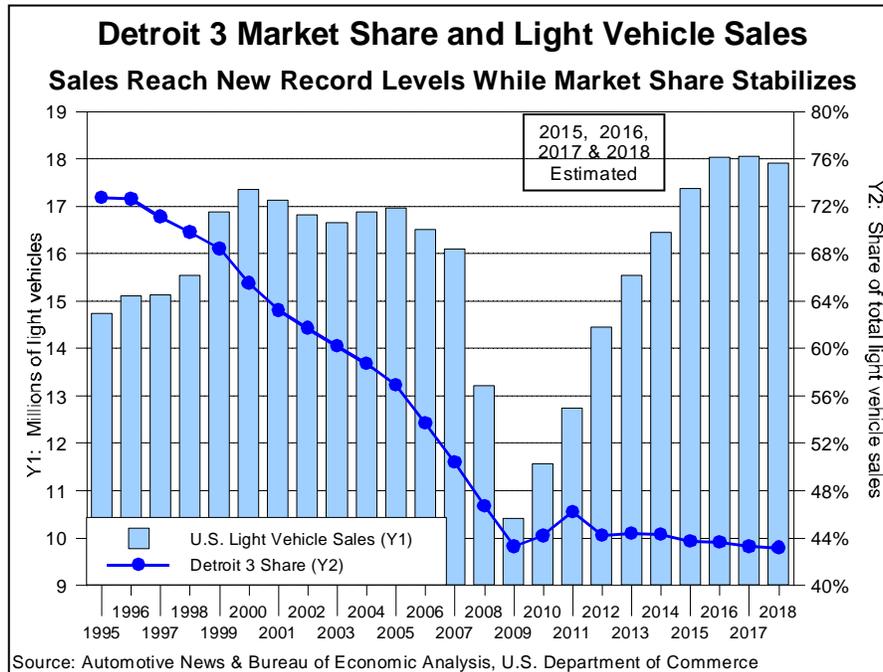
How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent that these individuals face limited incomes and reduced income growth, consumption and investment are depressed, lowering economic growth and reducing tax revenue. To the extent that these individuals enter (or re-enter) the labor force, the unemployment rate is not likely to decrease much and may actually increase. To the extent these individuals find employment, the economy will improve, but at the expense of reduced income gains that other workers might realize from an improving economy. As a result, both nationally and in Michigan, the large number of individuals who have left the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. The forecast assumes that the labor force will increase at a slightly greater rate than population, but at a slower rate than new jobs will be created. As a result, employment gains are anticipated but wage growth is expected to be relatively modest.

**Michigan's Situation.** While over the last decade Michigan's employment situation fared worse than the national average, and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not particularly inconsistent with other states' when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) experienced weaker job performance during the last decade, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Similarly, as the vehicle market has recovered, Michigan has generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception has been that states with large energy sectors have grown quite rapidly as oil prices remained high, although with the declines in oil prices over the last year, these states are likely to face challenges.) For Michigan, both employment gains and improvements in economic growth will be restrained by slowing growth in vehicle sales, as little growth is expected beyond replacement demand, the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains, and sales levels are nearing the levels experienced in much of the last decade. While the level of vehicle sales is quite high, the potential growth in those levels is less than it has been in years, and by 2018 the level will be declining -- although sales volumes will remain elevated when compared to historical levels.

Compared with the prior decade, the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 10). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles.

Figure 10

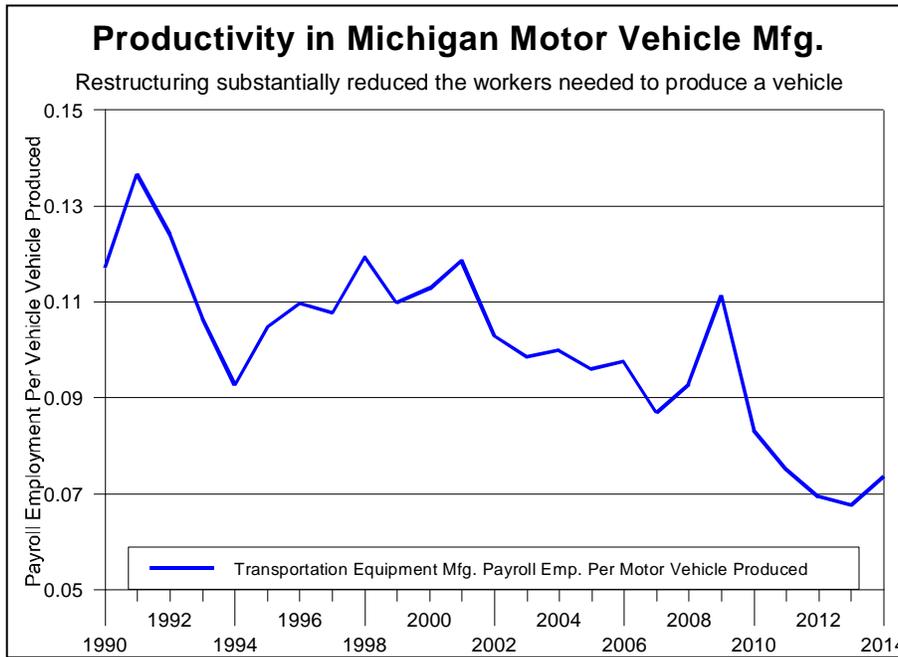


Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the additional demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted (Figure 11). While Michigan payroll employment returned to the January 2008 level (the U.S. prerecession peak) during 2015, as identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the prerecession peak) again until sometime in the next decade.

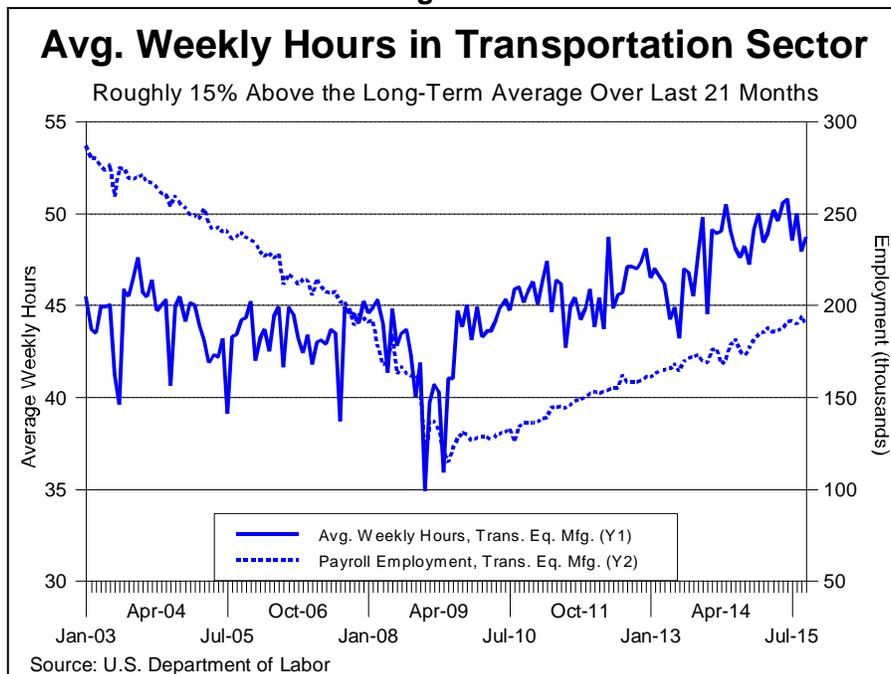
The forecast expects employment levels in the transportation equipment manufacturing sector to remain relatively flat over the forecast period. Overall employment in Michigan is expected to grow slightly, with all of the growth in private sector employment. The most significant risks to the Michigan economy under the forecast reflect the limited upward potential unless a sector other than motor vehicles begins to show substantial growth. Over the forecast, light vehicle sales are expected to remain at record levels that, in the long-run, are unsupportable. Similarly, while average weekly hours are also at record highs, firms have shown limited willingness to add employees and the record levels of output are being met by the current employment base (Figure 12). Any growth in the motor vehicle sector will be relatively nominal because output is already at high levels. However, with rising labor costs and all of the risk regarding vehicle sales being on the downside, any substantial growth in the Michigan economy will likely need to originate from a different sector and be strong enough to exceed the flat-to-downward trajectory the motor vehicle industry will exhibit over the next decade.

As a result, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, significant and sustained growth at both the national and statewide levels is unlikely to occur until the housing industry completes a meaningful recovery, consumers exhibit improved debt-to-income ratios and growing wages, and the substantial level of risk-aversion that is permeating both the consumer and business sides of the economy is reduced.

**Figure 11**



**Figure 12**



**FORECAST FOR  
STATE REVENUE**



## **THE FORECAST FOR STATE REVENUE**

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The preliminary year-end revenue for FY 2014-15 is presented along with the revised estimates for FY 2015-16 and FY 2016-17 and the initial revenue estimates for FY 2017-18. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, the revenue estimate represents the revenue generated from ongoing revenue sources and generally does not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2014-15, FY 2015-16, and FY 2016-17 are discussed in the last section of this report.

### **REVENUE OVERVIEW**

The preliminary final GF/GP and SAF revenue for FY 2014-15, along with the revised estimates for FY 2015-16 and FY 2016-17, and the initial estimates for FY 2017-18 are presented in Table 3 and are summarized below.

#### **FY 2014-15 Preliminary Final Revenue**

- GF/GP and SAF revenue is expected to total \$21.9 billion in FY 2014-15.
- This year-end estimate for FY 2014-15 increased 6.8% or \$1,389.3 million from the actual revenue for FY 2013-14, in contrast to the 1.4% decline in FY 2013-14.
- The revenue projected for FY 2014-15 reflects increases over the depressed revenue of FY 2013-14 which was reduced by large refunds paid under the Michigan Business Tax (MBT). Revenue was lowered significantly by MBT refunds for certificated credits, although these refunds were less than in FY 2013-14. Revenue was buoyed by increased individual income tax collections and reduced individual income tax refunds. Revenue growth also reflected growth in the State Education Tax (SET) and higher real estate transfer tax collections. These positive factors were offset in part by lower sales tax collections which declined by 0.9% in FY 2014-15.
- The preliminary final estimate for FY 2014-15 is \$320.3 million above the May 2015 consensus revenue estimate.

#### **FY 2015-16 Revised Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$22.1 billion in FY 2015-16.
- This revised estimate for FY 2015-16 is up 0.6% or \$141.3 million from the revised estimate for FY 2014-15. The projected revenue increase in FY 2015-16 reflects continued economic growth forecast for the year, but at a slower rate than in FY 2014-15.
- The revised estimate for FY 2015-16 is \$55.1 million below the May 2015 consensus revenue estimate.

### **FY 2016-17 Revised Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$22.6 billion in FY 2016-17.
- The revised estimate for FY 2016-17 is up 2.6% or \$570.0 million from the revised estimate for FY 2015-16.
- The revised estimate for FY 2016-17 is \$80.6 million below the May 2015 consensus revenue estimate.
- The revenue increase in FY 2016-17 reflects a somewhat slower Michigan economy in FY 2016-17 than in FY 2015-16.

### **FY 2017-18 Initial Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$23.4 billion in FY 2017-18.
- This initial estimate for FY 2017-18 is 3.2% or \$718.8 million more than the revised estimate for FY 2016-17.
- The revenue increase in FY 2017-18 reflects forecasted growth in Michigan economic activity, at a slightly faster rate than in FY 2016-17.

### **Historical Perspective**

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 0.6% in FY 2015-16, 2.6% in FY 2016-17, and 3.2% in FY 2017-18. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period.
- GF/GP revenue is projected to remain below the record FY 1999-2000 level throughout the forecast period. In FY 2017-18, GF/GP revenue is projected to exceed the recent revenue peak that occurred in FY 2007-08.
- The revised estimate for GF/GP revenue from ongoing sources in FY 2014-15 is 4.9% (\$526.6 million) below the record FY 1999-2000 level and 1.8% (\$183.0 million) below the most recent peak reached in FY 2007-08. In FY 2015-16, ongoing GF/GP revenue is forecast to be 6.9% (\$735.0 million) below the FY 1999-2000 level. In FY 2016-17, GF/GP revenue is expected to remain 1.1% (\$118.8 million) below the FY 2007-08 recent peak and 4.3% (\$462.4 million) below the level in FY 1999-2000. FY 2017-18 is projected to exceed the FY 2007-08 recent peak by 2.7% (\$282.0 million), however, revenue will remain 0.6% (\$61.6 million) below the FY 1999-2000 record level.
- The School Aid Fund has regained the amounts lost during the Great Recession. Revenue in FY 2013-14 surpassed the previous peak revenue in FY 2007-08. In FY 2014-15 the SAF increased again and is expected rise annually through FY 2017-08. Projected growth rates are 2.2% in FY 2014-15, 3.0% in FY 2015-16, 2.5% in FY 2016-17, and 2.6% in FY 2017-18.

Baseline revenue growth is forecast to increase each year during the forecast period. Figure 13 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2017-18. During this 32-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budget problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 5.7% in FY 2014-15. Baseline GF/GP and SAF revenue (using the updated FY 2014-15 base) is expected to grow at approximately 2.7% in FY 2015-16, FY 2016-17, and FY 2017-18.

Table 3

<b>SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2014-15 THROUGH FY 2017-18</b>				
<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND</b>				
<b>(Millions of Dollars)</b>				
	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
	<b>Prelim. Final</b>	<b>Revised Est.</b>	<b>Revised Est.</b>	<b>Initial Est.</b>
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue <sup>1)</sup>	\$10,729.5	\$11,019.0	\$11,343.6	\$11,671.0
Tax Changes Not In Baseline	(575.5)	(1,073.4)	(1,125.4)	(1,052.0)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	6,478.3	6,641.3	6,818.9	7,050.4
MBT, Corp. Income Tax, SBT & Insur. Tax	832.0	426.9	733.1	854.7
Other Taxes	2,446.2	2,494.6	2,294.6	2,341.7
Total Taxes	9,756.5	9,562.8	9,846.6	10,246.8
Nontax Revenue	397.5	382.8	371.6	372.2
<b>TOTAL GF/GP REVENUE</b>	<b>\$10,154.0</b>	<b>\$9,945.7</b>	<b>\$10,218.3</b>	<b>\$10,619.0</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	\$11,840.2	\$12,154.9	\$12,467.9	\$12,793.1
Tax Changes Not In Baseline	(65.9)	(30.9)	(46.5)	(53.7)
<b>TOTAL SAF REVENUE</b>	<b>\$11,774.4</b>	<b>\$12,124.0</b>	<b>\$12,421.4</b>	<b>\$12,739.5</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>	<b>\$22,569.7</b>	<b>\$23,173.9</b>	<b>\$23,811.5</b>	<b>\$24,464.1</b>
Tax & Revenue Changes	(641.4)	(1,104.3)	(1,171.9)	(1,105.7)
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>\$21,928.3</b>	<b>\$22,069.6</b>	<b>\$22,639.6</b>	<b>\$23,358.4</b>
Sales Tax <sup>2)</sup>	\$7,282.0	\$7,498.3	\$7,683.6	\$7,883.5
<b>PERCENT CHANGE</b>				
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	9.6%	2.7%	2.9%	2.9%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	14.6	2.5	2.7	3.4
MBT, Corp. Income Tax, SBT & Insur. Tax	66.5	(48.7)	71.7	16.6
Other Taxes	(1.0)	2.0	(8.0)	2.1
Total Taxes	13.1	(2.0)	3.0	4.1
Nontax Revenue	1.1	(3.7)	(2.9)	0.2
<b>TOTAL GF/GP REVENUE</b>	<b>12.6%</b>	<b>(2.1%)</b>	<b>2.7%</b>	<b>3.9%</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	2.4%	2.7%	2.6%	2.6%
<b>TOTAL SAF REVENUE</b>	<b>2.2%</b>	<b>3.0%</b>	<b>2.5%</b>	<b>2.6%</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>	<b>5.7%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.7%</b>
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>6.8%</b>	<b>0.6%</b>	<b>2.6%</b>	<b>3.2%</b>
Sales Tax <sup>2)</sup>	(1.0%)	3.0%	2.5%	2.6%
<sup>1)</sup> FY 2013-14 is the base year for baseline revenue. The FY 2013-14 base year is used in this table and Table 4 for the purpose of comparisons to FY 2013-14. Elsewhere in the report, the revised FY 2014-15 baseline estimates are used. The change in the baseline affects the size of tax adjustments. It does not change net revenue estimates for any year.				
<sup>2)</sup> Sales tax is total sales tax, not just the GF/GP and SAF portions.				

**Figure 13**

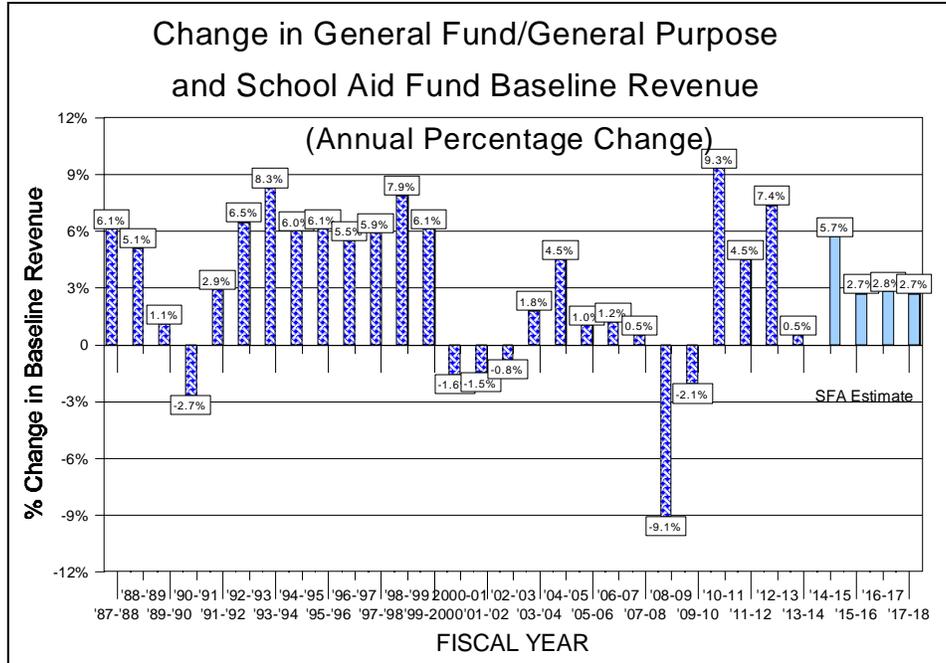


Figure 14 compares the FY 1995-96 through FY 2017-18 estimates for both the GF/GP revenue and the SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to \$9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during the recession of FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 15, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2015-16 will be approximately 6.9% (or \$735.0 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of \$10.2 billion in FY 2016-17 is 4.3% below the peak, and initial estimates for FY 2017-18 are 0.6% below the peak level. In inflation-adjusted terms, however, FY 2017-18 GF/GP revenue is estimated to be 2.5% (or \$232.0 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10 and tax code reforms reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2017-18, SAF revenue is predicted to be approximately 72.3% (\$5.3 billion) above the revenue level in FY 1995-96 (without accounting for inflation) and 10.6% (\$1.3 billion) below if adjusted for inflation, as shown in Figure 16.

Figure 14

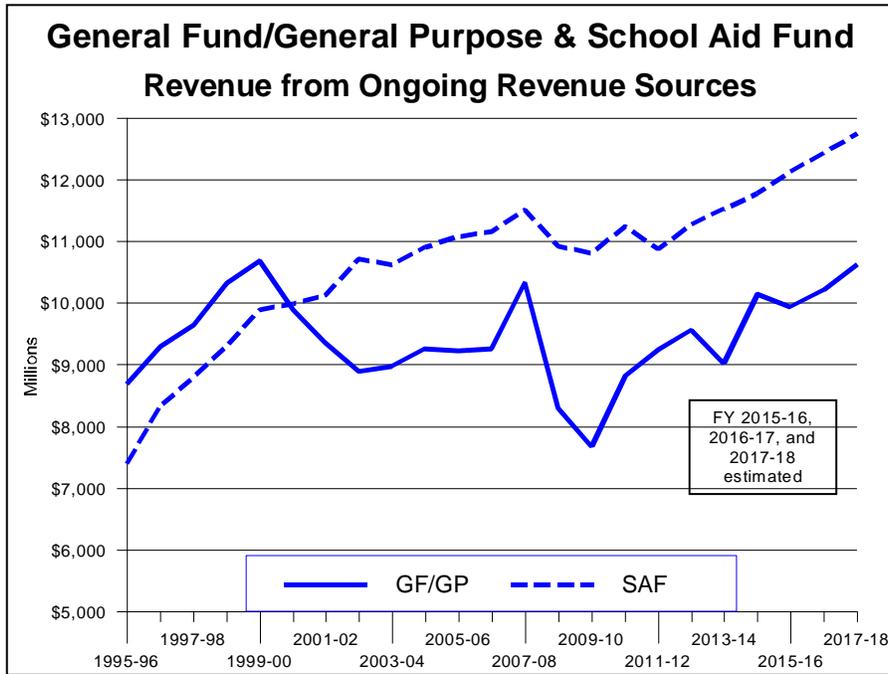


Figure 15

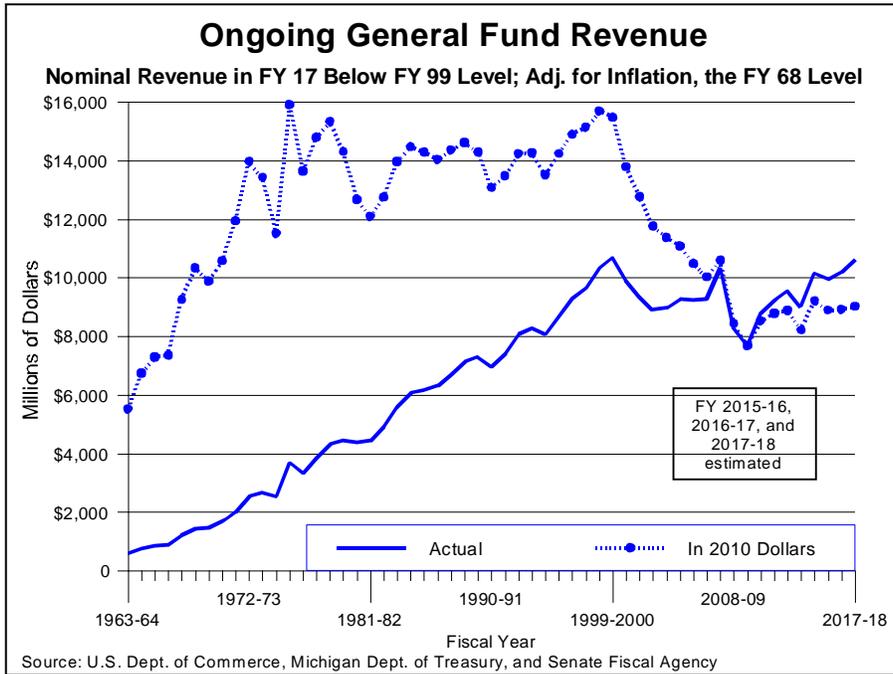
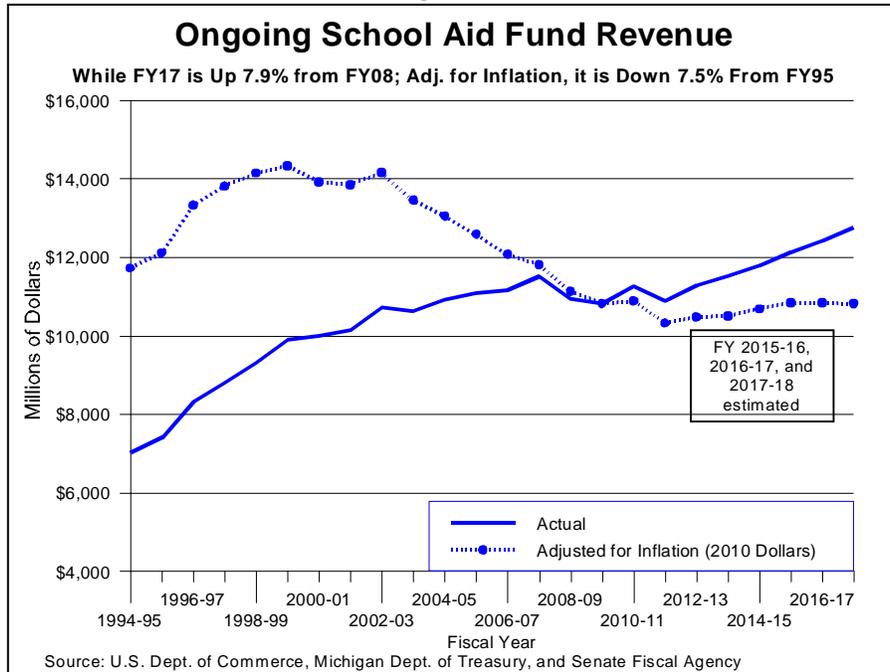


Figure 16



**FY 2014-15 PRELIMINARY YEAR-END REVENUE**

- General Fund/General Purpose and SAF revenue increased an estimated 6.8% in FY 2014-15 compared with FY 2013-14.
- The revenue increase in FY 2014-15 primarily reflects increases in individual income tax revenue and lower refunds paid under the MBT.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$21.9 billion in FY 2014-15, which is 6.8% above the FY 2013-14 revenue level, as presented in Table 4. The increase in FY 2014-15 reflected the end of some one-time effects that reduced FY 2013-14 collections and growth in tax revenue, primarily in the individual income tax. In FY 2013-14 revenue was reduced by noneconomic issues and some tax policy changes. These included shifts that increased revenue in FY 2012-13 and reduced collections in FY 2013-14 such as Federal tax changes that moved State revenue from FY 2013-14 into FY 2012-13 in anticipation of the "fiscal cliff". The timing of claims and processing of large MBT refunds that were lower than expected in FY 2012-13 and higher than expected in FY 2013-14 resulted in reductions in revenue that for the most part do not carry forward in FY 2014-15. The preliminary final revenue level for FY 2014-15 is \$320.3 million above the May 2015 consensus revenue estimate. Most of the revenue increase from the May 2015 estimates reflects increased individual income collections, which were \$230.4 million higher than expected. Individual income tax refunds also were \$76.8 million less than expected, which further increased individual income tax revenue. MBT refunds were \$179.1 million less than the May 2015 consensus estimate. This change resulted in MBT refunds of \$550.4 million in FY 2014-15, instead of the \$729.5 million in refunds estimated in May. Sales tax collections were a weak spot in the State revenue picture, declining 0.9% or \$63.9 million from FY 2013-14. Sales tax ended the year \$221.8 million below the May 2015 consensus estimate. Baseline GF/GP and SAF revenue increased 5.7% in FY 2014-15. However, one-time noneconomic factors, primarily the change in the timing of MBT refund claims, increased the growth rate to 6.8%.

**Table 4**  
**FY 2014-15 PRELIMINARY FINAL REVENUE**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
**(Millions of Dollars)**

	FY 2013-14 Final	FY 2014-15 Prelim. Final	Change from FY 2013-14		\$ Change from 05/15 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$9,787.6	\$10,729.5	\$941.9	9.6%	\$250.0
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(769.1)	(575.5)	193.6	---	179.1
<u>Personal Income Tax</u>					
Gross Collections	9,909.5	10,691.0	781.5	7.9	230.4
Less: Refunds	(1,895.6)	(1,693.3)	202.3	(10.7)	76.8
Net Income Tax Collections	8,013.9	8,997.7	983.8	12.3	307.2
Less: Earmarking to SAF Campaign Fund	(2,357.6) (0.8)	(2,519.4) 0.0	(161.7) 0.8	6.9 (100.0)	(28.7) 0.8
Net Income Tax to GF/GP	\$5,655.4	\$6,478.3	\$822.9	14.6%	\$279.3
<u>Other Taxes</u>					
Corporate Income Tax	906.4	1,077.7	171.3	18.9	48.0
Michigan Business Tax	(723.3)	(572.0)	151.3	(20.9)	179.1
Sales Use	1,170.0	1,139.8	(30.2)	(2.6)	(41.5)
Cigarette	926.6	960.3	33.7	3.6	14.1
Insurance Company Premiums	192.9	188.1	(4.8)	(2.5)	5.6
Telephone & Telegraph	362.2	322.4	(39.8)	(11.0)	(79.6)
Oil & Gas Severance	48.0	41.8	(6.2)	(12.9)	(5.2)
All Other	61.0	30.4	(30.6)	(50.2)	(8.6)
	26.0	89.7	63.7	245.6	7.3
Subtotal Other Taxes	\$2,969.8	\$3,278.2	\$308.4	10.4%	\$119.2
Total Nontax Revenue	393.3	397.5	4.2	1.1	30.5
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$9,018.5</b>	<b>\$10,154.0</b>	<b>\$1,135.5</b>	<b>12.6%</b>	<b>\$429.1</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$11,562.8	\$11,840.2	\$277.4	2.4%	(\$108.8)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(42.3)	(65.9)	(23.6)	---	0.0
Sales Tax	5,349.9	5,291.7	(58.2)	(1.1)	(167.1)
Use Tax	463.8	477.4	13.6	2.9	4.4
Lottery Revenue	734.1	784.1	50.0	6.8	4.1
State Education Property Tax	1,804.2	1,857.6	53.4	3.0	7.3
Real Estate Transfer Tax	233.4	258.4	25.0	10.7	1.6
Income Tax	2,357.6	2,519.4	161.7	6.9	28.7
Casino Tax	106.9	110.8	3.9	3.6	(0.2)
Other Revenue	470.6	475.0	4.5	0.9	12.4
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$11,520.5</b>	<b>\$11,774.4</b>	<b>\$253.9</b>	<b>2.2%</b>	<b>(\$108.8)</b>
<b>BASELINE GF/GP AND SAF</b>	<b>\$21,350.4</b>	<b>\$22,569.7</b>	<b>\$1,219.3</b>	<b>5.7%</b>	<b>\$141.2</b>
Tax & Revenue Changes	(811.4)	(641.4)	170.0	---	179.1
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$20,539.0</b>	<b>\$21,928.3</b>	<b>\$1,389.3</b>	<b>6.8%</b>	<b>\$320.3</b>
Sales Tax <sup>2)</sup>	\$7,345.9	\$7,282.0	(\$63.9)	(0.9%)	(\$221.8)

<sup>1)</sup> FY 2013-14 is the base year for baseline revenue in FY 2014-15.

<sup>2)</sup> Sales tax is total sales tax, not just the GF/GP and SAF portions.

## **Tax Policy Changes**

Several tax policy changes affected revenue in FY 2014-15. These included continued revenue reductions due to MBT credits, changes in the law related to Blue Cross Blue Shield of Michigan that affects the tax on insurers, the first full year of a phased-in exemption on the trade-in value of a motor vehicle, and the implementation of new legislation (Public Act 3 of 2014) that will reduce collections of unpaid business taxes.

**Business Tax Reform.** Some business taxpayers continue to file under the MBT Act in order to claim refundable tax credits, under an "option" tax. The value of these MBT credits is expected to total \$550.4 million in FY 2014-15.

**Sales Tax.** Public Act 160 of 2013 provides an exemption that excludes a portion of the trade-in value of a motor vehicle, watercraft, or recreational vehicle from the sales tax, imposing the so-called sales tax on the difference. While the exemption will be phased in over many years, FY 2014-15 was the second year of impact and sales tax revenue was lowered by \$33.1 million, with the SAF bearing \$23.4 million of the reduction. The revenue loss from this exemption will increase in future years as the phase-in progresses.

**Use Tax.** The use tax will be reduced in FY 2014-15 by a large taxpayer refund of \$17.0 million and a payment of \$1.0 million related to a court decision. These changes will reduce GF/GP revenue by \$11.3 million and SAF revenue by \$5.7 million.

**State Education Tax.** The phase-in of personal property tax reform, which began in January 1, 2014, reduced SAF revenue from the SET by an estimated \$10.0 million in FY 2014-15. Proposal 1 was approved by the voters in August 2014; thus, the phase-in of personal property tax changes will continue and future State revenue will be reduced.

## **General Fund/General Purpose**

- General Fund/General Purpose revenue totaled an estimated \$10.2 billion in FY 2014-15, which is up 12.6% or \$1,135.5 million from FY 2013-14.
- Compared with the May 2015 consensus estimate, GF/GP revenue for FY 2014-15 has been revised upward by \$429.1 million.

General Fund/General Purpose revenue is higher in FY 2014-15 than in the prior year. The economy is estimated to have grown during 2015. Individual income tax withholding is higher than expected, quarterly and annual payments under the individual income tax are expected to increase 18.5% in FY 2014-15 from the FY 2013-14 level, and refunds are lower than the previous estimate.

The cost of refundable credits preserved after the elimination of most parts of the MBT declined in FY 2014-15 after a large increase in the prior year. This decline is expected to result in part from the timing of claims, which appear to have been delayed until FY 2015-16. Previously awarded refundable tax credits will reduce tax revenue by approximately \$550.4 million in FY 2014-15. Corporate Income Tax (CIT) revenue is expected to grow 18.9%. Combined MBT and CIT revenue is expected to increase by \$322.6 million in FY 2014-15. The revised GF/GP revenue estimate for FY 2014-15 is summarized in Table 4.

## **School Aid Fund**

- School Aid Fund revenue from all earmarked taxes and the lottery totaled \$11.8 billion in FY 2014-15, which is up 2.2% or \$253.9 million from FY 2013-14.
- This preliminary final SAF revenue for FY 2014-15 is \$108.8 million below the May 2015 consensus revenue estimate.

The 2.2% increase in SAF revenue in FY 2014-15 was lower than expected. Sales tax contributions to the SAF declined 1.1% in FY 2014-15. This was offset by increases in the Real Estate Transfer Tax of 10.7%, and an increase of 6.9% in the individual income tax contribution to the SAF. The SET grew by 3.0% as property values recovered. Revenue from the use tax increased by 2.9%. Lottery revenue increased by 6.8% as instant games were offered online. The preliminary final SAF revenue for FY 2014-15 is summarized in [Table 4](#).

## **FY 2015-16 REVISED REVENUE ESTIMATES**

- General Fund/General Purpose and SAF revenue are projected to total an estimated \$22.1 billion in FY 2015-16, an increase of 0.6% in FY 2015-16 compared with FY 2014-15.
- The revenue increase in FY 2015-16 reflects slower economic growth and fewer revenue reductions than in FY 2014-15.

The level of economic activity in Michigan is expected to increase more slowly in FY 2015-16 than during FY 2014-15. As a result, baseline GF/GP and SAF revenue is expected to increase 2.7% in FY 2015-16. Total GF/GP and SAF revenue will reach an estimated \$22.1 billion in FY 2015-16, an increase of 0.6% or \$141.3 million from the preliminary final figure for FY 2014-15. The revised estimate of GF/GP and SAF revenue for FY 2015-16 is summarized in [Table 5](#).

## **Tax Policy Changes**

As in FY 2014-15, tax policy changes are expected to reduce revenue during FY 2015-16, with the most significant reduction coming from business tax credits.

**Business Tax Reform.** The value of refundable MBT credits is estimated to increase in FY 2015-16, from \$550.4 million in FY 2014-15 to \$1,008.9 million in FY 2015-16. These credits reduce GF/GP revenue. Battery credits (which will peak in FY 2015-16), and other certificated credits, are projected to increase. Furthermore, a significant portion of the FY 2014-15 decline in refunds are estimated to be claimed in FY 2015-16.

**Sales Tax.** The enactment of affiliate nexus provisions in Public Act 553 of 2014 is estimated to increase sales tax revenue by \$60.0 million in FY 2015-16, of which \$10.0 million is GF/GP, \$44.0 million is SAF, and \$6.0 million is other funds, primarily constitutional revenue sharing. The revenue estimates also assume enactment of Senate Bill 616 as passed by the Legislature on December 15, 2015. This bill provide a sales tax exemption for data centers that is expected to reduce sales tax revenue by \$12.0 million; of this amount \$2.0 million is GF/GP, \$8.8 million is SAF, and \$1.2 million is other funds. Estimates also assume enactment of Senate Bill 613 that transfers to aviation-related funds a portion of the sales tax on aviation fuel, reducing GF/GP revenue by \$7.9 million. The revenue reduction due to phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to increase to \$39.8 million in FY 2015-16, lowering GF/GP revenue by \$4.8 million, SAF revenue by \$29.2 million, and other funds, primarily constitutional revenue sharing, by \$5.8 million.

**Personal Property Tax Reform.** Beginning in FY 2015-16, statute directs that a portion of the use tax will be levied by the Local Stabilization Authority to reimburse eligible local units for revenue losses incurred due to personal property tax reforms that exempted a portion of eligible manufacturing personal property from property taxation beginning in FY 2015-16. As a result, GF/GP revenue will be reduced by \$96.4 million in FY 2015-16. FY 2015-16 is the first year of revenue from the Essential Services Assessment (included in Public Act 92 of 2014), a State specific tax levied by the State on certain personal property that is otherwise exempt from property taxation. This will increase GF/GP revenue by \$55.0 million in FY 2015-16. The continuing phase-in of personal property tax exemptions is estimated to reduce SAF revenue from the SET by \$20.9 million in FY 2015-16.

### **General Fund/General Purpose Revenue**

- General Fund/General Purpose revenue will total an estimated \$9.9 billion in FY 2015-16, a decrease of 2.1% or \$208.4 million from FY 2014-15.
- The revised GF/GP estimate is \$63.8 million above the May 2015 consensus revenue estimate.

Although economic growth continues during 2016 and baseline GF/GP revenue is expected to increase 2.7%, tax collections will decrease in FY 2015-16. This is due to an increase in MBT refunds which are predicted to peak in FY 2015-16, new tax exemptions, and the beginning of the use tax earmark for reimbursements under personal property tax reform. The revised GF/GP revenue estimates for FY 2015-16 are summarized in Table 5.

### **School Aid Fund**

- School Aid Fund revenue will total an estimated \$12.1 billion in FY 2015-16, an increase of 3.0% or \$349.6 million from FY 2014-15.
- The revised SAF estimate is \$118.9 million below the May 2015 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in every major revenue source. Baseline SAF revenue is expected to increase by 2.7%. The Real Estate Transfer Tax is expected to increase by 6.4% and income tax contributions to the SAF are projected to increase by 4.1%. Sales tax revenue allocated to the SAF, its largest revenue source, is expected to increase by 3.2% over the prior year. The expansion of iLottery gaming options is expected to have a minor impact on increasing SAF revenue, while revenue from the SET is expected to increase by 1.7% from the FY 2014-15 level. The revised SAF revenue estimates for FY 2015-16 are summarized in Table 5.

**Table 5**  
**FY 2015-16 REVISED REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
(Millions of Dollars)

	FY 2014-15 Prelim. Final	FY 2015-16 Revised Est.	Change from FY 2014-15		\$ Change from 05/15 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$10,731.9	\$11,019.1	\$287.2	2.7%	\$187.8
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(577.9)	(1,073.5)	(495.6)	---	(124.1)
<u>Personal Income Tax</u>					
Gross Collections	10,691.0	11,018.2	327.2	3.1	258.5
Less: Refunds	(1,693.3)	(1,752.6)	(59.3)	3.5	67.4
Net Income Tax Collections	8,997.7	9,265.6	267.9	3.0	325.9
Less: Earmarking to SAF Campaign Fund	(2,519.4) 0.0	(2,623.5) (0.8)	(104.1) (0.8)	4.1 ---	(61.6) 0.0
Net Income Tax to GF/GP	\$6,478.3	\$6,641.3	\$163.0	2.5%	\$264.3
<u>Other Taxes</u>					
Corporate Income Tax	1,077.7	1,135.1	57.4	5.3	74.9
Michigan Business Tax	(572.0)	(1,002.9)	(430.9)	---	(113.5)
Sales Use	1,139.8	1,175.7	35.9	3.1	(67.1)
Cigarette	960.3	918.6	(41.7)	(4.3)	19.7
Insurance Company Premiums	188.1	183.9	(4.2)	(2.2)	3.5
Telephone & Telegraph	322.4	304.7	(17.7)	(5.5)	(107.8)
Oil & Gas Severance	41.8	40.0	(1.8)	(4.3)	(6.0)
All Other	30.4	26.0	(4.4)	(14.5)	(15.3)
Subtotal Other Taxes	89.7	140.4	50.7	56.5	(10.5)
Subtotal Other Taxes	\$3,278.2	\$2,921.5	(\$356.7)	(10.9%)	(\$222.1)
Total Nontax Revenue	397.5	382.8	(14.7)	(3.7)	21.5
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,154.0</b>	<b>\$9,945.7</b>	<b>(\$208.4)</b>	<b>(2.1%)</b>	<b>\$63.8</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$11,786.1	\$12,099.5	\$313.4	2.7%	(\$165.5)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(11.8)	24.4	36.2	---	46.5
Sales Tax	5,291.7	5,459.3	167.6	3.2	(231.6)
Use Tax	477.4	507.5	30.1	6.3	10.0
Lottery Revenue	784.1	791.0	6.9	0.9	0.0
State Education Property Tax	1,857.6	1,889.1	31.5	1.7	27.2
Real Estate Transfer Tax	258.4	275.0	16.6	6.4	6.6
Income Tax	2,519.4	2,623.5	104.1	4.1	61.6
Casino Tax	110.8	112.5	1.7	1.5	(0.2)
Other Revenue	475.0	466.1	(8.9)	(1.9)	7.4
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$11,774.4</b>	<b>\$12,124.0</b>	<b>\$349.6</b>	<b>3.0%</b>	<b>(\$118.9)</b>
<b>BASELINE GF/GP AND SAF</b>	\$22,518.0	\$23,118.7	\$600.7	2.7%	\$22.4
Tax & Revenue Changes	(589.7)	(1,049.1)	(459.4)	---	(77.6)
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$21,928.3</b>	<b>\$22,069.6</b>	<b>\$141.3</b>	<b>0.6%</b>	<b>(\$55.1)</b>
Sales Tax <sup>2)</sup>	\$7,282.0	\$7,498.3	\$216.3	3.0%	(\$323.4)

<sup>1)</sup> FY 2014-15 is the base year for baseline revenue.

<sup>2)</sup> Sales tax is total sales tax, not just the GF/GP and SAF portions.

## **FY 2016-17 REVISED REVENUE ESTIMATES**

Michigan's economy is expected to continue growing during FY 2016-17, with personal income growing less rapidly than in FY 2015-16. Total GF/GP and SAF revenue will reach an estimated \$22.6 billion in FY 2016-17, an increase of 2.6% or \$570.0 million from the revised estimate for FY 2015-16. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.7% in FY 2016-17, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2016-17 is summarized in Table 6.

### **Tax Policy Changes**

Tax policy changes affecting FY 2016-17 revenue are quite similar to those affecting FY 2015-16. The largest adjustments are again due to MBT refunds.

**Business Tax Reform.** Revenue in FY 2016-17 will be reduced by the ongoing MBT credits, however, the expected reduction of \$743.9 million in FY 2016-17 is smaller than the reduction in FY 2015-16, due in part to the expiration of a portion of the battery credits. All of the impact of the MBT credits reduces GF/GP revenue. Public Act 282 of 2014, which made other adjustments in the MBT, also will reduce GF/GP revenue by \$5.6 million in FY 2016-17.

**Sales Tax.** The revenue reduction due to phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to increase to \$47.0 million in FY 2016-17. This change reduces GF/GP revenue by \$5.6 million, SAF revenue by \$34.5 million, and other funds by \$6.9 million. The affiliate nexus changes which will apply the sales tax to additional internet commerce will increase sales tax revenue by \$62.0 million in FY 2016-17; of that amount, \$10.3 million is GF/GP, \$45.5 million is SAF, and \$6.2 million affects other funds, primarily constitutional revenue sharing. The sales tax exemption for data centers passed by the Legislature on December 15, 2015, will reduce sales tax revenue by \$16.1 million in FY 2016-17; this consists of \$2.7 million GF/GP, \$11.8 million SAF, and \$1.6 million in other funds.

**Personal Property Tax Reform.** FY 2016-17 is the second year that use tax revenue will be earmarked for payments to local governments for reimbursement of property tax revenue losses due to the phase-in of personal property tax exemptions. In FY 2016-17, \$380.9 million of use tax revenue will be restricted for these local payments, resulting in a reduction of \$380.9 million in GF/GP revenue. This revenue loss will be offset in part by the implementation of the Essential Services Assessment, a specific tax on eligible manufacturing personal property that is exempt from property taxation. In its second year, the Essential Services Assessment will increase GF/GP revenue by \$73.1 million. The SET also will be reduced by the expanding tax exemptions, which will reduce SAF revenue by \$21.1 million.

**Individual Income Tax.** It is projected the personal exemption will increase in FY 2016-17 due to the indexing of the personal exemption. The increased personal exemption will reduce income tax revenue by \$30.2 million in FY 2016-17; this consists of \$23.0 million GF/GP and \$7.2 million SAF. Revenue also will be reduced by \$0.4 million (\$0.3 million GF/GP, \$0.1 million SAF) for reductions in taxable income pursuant to the first year of the Michigan Achieving a Better Life Experience (ABLE) Act which allows deductions for a limited amount of deposits to accounts that benefit eligible persons with disabilities.

**Table 6**  
**FY 2016-17 REVISED REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
(Millions of Dollars)

	FY 2015-16 Revised Est.	FY 2016-17 Revised Est.	Change from FY 2015-16		\$ Change from 05/15 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$11,019.1	\$11,335.4	\$316.3	2.9%	\$138.7
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(1,073.5)	(1,117.2)	(43.7)	---	(41.9)
<u>Personal Income Tax</u>					
Gross Collections	11,018.2	11,320.2	302.0	2.7	211.8
Less: Refunds	(1,752.6)	(1,805.1)	(52.5)	3.0	58.4
Net Income Tax Collections	9,265.6	9,515.1	249.5	2.7	270.2
Less: Earmarking to SAF Campaign Fund	(2,623.5) (0.8)	(2,695.4) (0.8)	(71.9) 0.0	2.7 0.0	(50.4) 0.0
Net Income Tax to GF/GP	\$6,641.3	\$6,818.9	\$177.6	2.7%	\$219.7
<u>Other Taxes</u>					
Corporate Income Tax	1,135.1	1,156.7	21.6	1.9	64.0
Michigan Business Tax	(1,002.9)	(738.2)	264.7	(26.4)	(8.0)
Sales Use	1,175.7	1,198.2	22.5	1.9	(84.9)
Cigarette	918.6	672.7	(245.9)	(26.8)	21.5
Insurance Company Premiums	183.9	181.1	(2.8)	(1.5)	3.0
Telephone & Telegraph	304.7	314.6	9.9	3.2	(111.7)
Oil & Gas Severance	40.0	41.0	1.0	2.5	(3.6)
All Other	26.0	27.9	1.9	7.3	(17.6)
Subtotal Other Taxes	140.4	173.7	33.3	23.7	(8.8)
Total Nontax Revenue	\$2,921.5	\$3,027.7	\$106.2	3.6%	(\$146.1)
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$9,945.7</b>	<b>\$10,218.3</b>	<b>\$272.6</b>	<b>2.7%</b>	<b>\$96.8</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$12,099.5	\$12,411.3	\$311.8	2.6%	(\$215.0)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	24.4	10.1	(14.3)	---	37.6
Sales Tax	5,459.3	5,599.9	140.6	2.6	(287.1)
Use Tax	507.5	526.8	19.3	3.8	10.9
Lottery Revenue	791.0	794.8	3.8	0.5	(2.2)
State Education Property Tax	1,889.1	1,942.4	53.3	2.8	35.4
Real Estate Transfer Tax	275.0	286.3	11.3	4.1	6.9
Income Tax	2,623.5	2,695.4	71.9	2.7	50.4
Casino Tax	112.5	114.2	1.7	1.5	(0.2)
Other Revenue	466.1	461.6	(4.5)	(1.0)	8.5
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,124.0</b>	<b>\$12,421.4</b>	<b>\$297.4</b>	<b>2.5%</b>	<b>(\$177.4)</b>
<b>BASELINE GF/GP AND SAF</b>	<b>\$23,118.7</b>	<b>\$23,746.7</b>	<b>\$628.0</b>	<b>2.7%</b>	<b>(\$76.3)</b>
Tax & Revenue Changes	(1,049.1)	(1,107.1)	(58.0)	---	(4.3)
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$22,069.6</b>	<b>\$22,639.6</b>	<b>\$570.0</b>	<b>2.6%</b>	<b>(\$80.6)</b>
Sales Tax <sup>2)</sup>	\$7,498.3	\$7,683.6	\$185.3	2.5%	(\$406.7)

<sup>1)</sup> FY 2014-15 is the base year for baseline revenue.

<sup>2)</sup> Sales tax is total sales tax, not just the GF/GP and SAF portions.

### **General Fund/General Purpose Revenue**

- General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2016-17, an increase of 2.7% or \$272.6 million from FY 2015-16.
- The revised GF/GP estimate is \$96.8 million above the May 2015 consensus revenue estimate.

General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2016-17, an increase of 2.7% or \$272.6 million from the revised estimate for FY 2015-16. Baseline GF/GP revenue is expected to increase 2.9%. The revised GF/GP revenue estimates for FY 2016-17 are summarized in [Table 6](#).

### **School Aid Fund**

- School Aid Fund revenue will total an estimated \$12.4 billion in FY 2016-17, an increase of 2.5% or \$297.4 million from FY 2015-16.
- The revised SAF estimate is \$177.4 million below the May 2015 consensus revenue estimate.

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.4 billion in FY 2016-17, an increase of \$297.4 million, or 2.5%, from the revised estimate for FY 2015-16. The forecasted increase in SAF revenue again reflects growth in all major earmarked revenue sources, plus additional impact from expansion of iLottery. The SAF revised revenue estimates for FY 2016-17 are summarized in [Table 6](#).

### **FY 2017-18 INITIAL REVENUE ESTIMATES**

Michigan's economy is expected to continue growing during FY 2017-18. Personal income will grow at a slightly faster rate than in FY 2016-17, although growth in wage and salary employment is projected to slow somewhat. Total GF/GP and SAF revenue will reach an estimated \$23.4 billion in FY 2017-18, an increase of 3.2% or \$718.8 million from the revised estimate for FY 2016-17. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.7% in FY 2017-18, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2017-18 is summarized in [Table 7](#).

### **Tax Policy Changes**

Tax policy changes affecting FY 2017-18 are similar to those affecting FY 2016-17. Use tax revenue of \$410.8 million in FY 2017-18 will be restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and reduce GF/GP revenue by \$410.8 million. Partially offsetting the reduction, the Essential Services Assessment which will increase GF/GP revenue by \$79.2 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by \$21.2 million due to the phase-in of additional tax exemptions. Michigan Business Tax refunds will contribute to the MBT lowering GF/GP revenue by \$637.1 million, although the reduction will be smaller than in FY 2016-17 due to the phase-out of battery credits. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$54.7 million, of which \$40.1 million is a reduction to the SAF.

### **General Fund/General Purpose Revenue**

General Fund/General Purpose revenue will total an estimated \$10.6 billion in FY 2017-18, an increase of 3.9% or \$400.8 million from the revised estimate for FY 2016-17. Baseline GF/GP revenue is expected to increase 2.9%. The initial GF/GP revenue estimates for FY 2017-18 are summarized in [Table 7](#).

**Table 7**  
**FY 2017-18 INITIAL REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
(Millions of Dollars)

	FY 2016-17 Revised Est.	FY 2017-18 Initial Est.	Change from FY 2016-17	
			Dollar Change	Percent Change
<b>GENERAL FUND/GENERAL PURPOSE:</b>				
<b>Baseline Revenue<sup>1)</sup></b>	\$11,335.4	\$11,660.7	\$325.3	2.9%
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(1,117.2)	(1,041.7)	75.5	---
<u>Personal Income Tax</u>				
Gross Collections	11,320.2	11,683.4	363.2	3.2
Less: Refunds	(1,805.1)	(1,850.3)	(45.2)	2.5
Net Income Tax Collections	9,515.1	9,833.1	318.0	3.3
Less: Earmarking to SAF Campaign Fund	(2,695.4) (0.8)	(2,781.9) (0.8)	(86.5) 0.0	3.2 0.0
Net Income Tax to GF/GP	\$6,818.9	\$7,050.4	\$231.5	3.4%
<u>Other Taxes</u>				
Corporate Income Tax	1,156.7	1,170.0	13.3	1.1
Michigan Business Tax	(738.2)	(637.1)	101.1	(13.7)
Sales	1,198.2	1,229.3	31.1	2.6
Use	672.7	677.7	5.0	0.7
Cigarette	181.1	179.1	(2.0)	(1.1)
Insurance Company Premiums	314.6	321.8	7.2	2.3
Telephone & Telegraph	41.0	42.1	1.1	2.7
Oil & Gas Severance	27.9	29.9	2.0	7.2
All Other	173.7	183.6	9.9	5.7
Subtotal Other Taxes	\$3,027.7	\$3,196.4	\$168.7	5.6%
Total Nontax Revenue	371.6	372.2	0.6	0.2
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,218.3</b>	<b>\$10,619.0</b>	<b>\$400.8</b>	<b>3.9%</b>
<b>SCHOOL AID FUND:</b>				
<b>Baseline Revenue<sup>1)</sup></b>	\$12,411.3	\$12,734.8	\$323.5	2.6%
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	10.1	4.6	(5.5)	---
Sales Tax	5,599.9	5,745.9	146.0	2.6
Use Tax	526.8	544.1	17.3	3.3
Lottery Revenue	794.8	797.0	2.2	0.3
State Education Property Tax	1,942.4	2,003.3	60.9	3.1
Real Estate Transfer Tax	286.3	292.6	6.3	2.2
Income Tax	2,695.4	2,781.9	86.5	3.2
Casino Tax	114.2	115.9	1.7	1.5
Other Revenue	461.6	458.8	(2.8)	(0.6)
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,421.4</b>	<b>\$12,739.5</b>	<b>\$318.1</b>	<b>2.6%</b>
<b>BASELINE GF/GP AND SAF</b>	<b>\$23,746.7</b>	<b>\$24,395.5</b>	<b>\$648.8</b>	<b>2.7%</b>
Tax & Revenue Changes	(1,107.1)	(1,037.1)	70.0	---
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$22,639.6</b>	<b>\$23,358.4</b>	<b>\$718.8</b>	<b>3.2%</b>
Sales Tax <sup>2)</sup>	\$7,683.6	\$7,883.5	\$199.9	2.6%

1) FY 2014-15 is the base year for baseline revenue.

2) Sales tax is total sales tax, not just the GF/GP and SAF portions.

## **School Aid Fund**

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.7 billion in FY 2017-18, an increase of \$318.1 million, or 2.6%, from the revised estimate for FY 2016-17. The forecasted increase in SAF revenue reflects growth in all major earmarked revenue sources, plus growth in the lottery. Total SAF revenue in FY 2017-18 is projected to exceed the peak reached in FY 2007-08 by \$1.2 billion or 10.7%. The initial SAF revenue estimates for FY 2017-18 are summarized in [Table 7](#).

## **MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2014-15 THROUGH FY 2017-18**

**Transportation Package.** The major changes included in the transportation package enacted in November 2015 do not affect the General Fund from FY 2014-15 through FY 2017-18. The earmark of income tax revenue to the Michigan Transportation Fund and the increase in the homestead property tax exemptions will first reduce General Fund revenue in FY 2018-19, which is beyond the forecast period covered by this report.

**Individual Income Tax.** The income tax generated an estimated \$9.0 billion in FY 2014-15, which represents an increase of 12.3% from FY 2013-14. Income tax withholding in FY 2014-15 was 5.7% above the level in FY 2013-14, reflecting both higher employment levels and an increase in average hours, particularly in the manufacturing sector where much of the increase in hours was compensated under overtime provisions. However, individual income tax revenue also was boosted by strong growth in both annual and quarterly payments, which reflect both increased liabilities from tax year 2014 and individuals' locking in capital gains in anticipation of higher interest rates in 2016. Higher incomes also reduced refunds paid under individual income tax. Compared with the May 2015 consensus revenue estimates, preliminary FY 2014-15 individual income tax revenue is \$307.2 million higher, and the revised individual income tax estimates for FY 2015-16 and FY 2016-17 are \$325.9 million and \$270.2 million higher, respectively. Individual income tax revenue is directed to both the General Fund and the School Aid Fund. The School Aid Fund receives 23.8% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds).

**Sales Tax.** Sales tax revenue during FY 2014-15 was influenced by several different factors that had opposite effects on revenue. Increases in vehicle sales increased the sales tax received from those transactions by 2.1%. However, the increase was more than offset by declines in revenue from other transactions. The decline in gas prices during 2015 helped lower sales tax revenue despite the approximately 5.1% increase in the number of gallons consumed. Historically, such a decline in receipts from gasoline sales would have been largely offset by increased spending on other taxable goods. Risk-averse consumers did not provide as large an offset as would have been suggested historically, and sales tax revenue in FY 2014-15 totaled less than \$7.3 billion, 1.0% below the level in FY 2013-14 and \$221.8 million below the level expected in the May 2015 consensus revenue estimates. In the forecast, consumption is projected to increase, but the increases will be relatively modest. The growth in sales tax collections is expected to exceed the projected rate of inflation in FY 2015-16, rising 3.0% in FY 2015-16, to \$7.5 billion, and 2.5% in FY 2016-17, to \$7.7 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with May 2015 consensus revenue estimates, the revised sales tax estimate for FY 2015-16 is \$323.4 million lower and the revised estimate for FY 2016-17 is down \$406.7 million. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. To reflect the significant

portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

**Use Tax.** Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, can be volatile. Based on preliminary final revenue, use tax revenue increased 3.4% in FY 2014-15; however, tax policy changes will reduce use tax revenue dramatically in future years. Beginning in FY 2015-16, tax policy changes that reflect the impact of personal property tax reforms approved by the voters in August 2014 will substantially lower use tax revenue directed to the General Fund. The personal property tax reforms will divide use tax collections into a State share and a local community stabilization share; under Public Act 80 of 2014, the local share will be levied by the Local Community Stabilization Authority to reimburse municipalities for eligible revenue losses attributable to the exemption of personal property from property taxes. Use tax receipts will total an estimated \$1.5 billion in FY 2015-16, an increase of 5.9% from the preliminary final estimate for FY 2014-15, and \$1.6 billion in FY 2016-17, an increase of 3.8%. Compared with the May 2015 consensus revenue estimates, the FY 2014-15 estimate for use tax collections has been revised upward by \$18.5 million, the FY revised 2015-16 estimate is up \$29.7 million, and the revised FY 2016-17 estimate is up \$32.4 million. Currently, the GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF. How use tax revenue is allocated will change beginning in FY 2015-16 when the SAF will still receive one-third of total use tax revenue, but what was formerly the GF/GP share will be divided between the State General Fund and the Local Community Stabilization Authority. Payments to the Local Community Stabilization Authority start at \$96.4 million in FY 2015-16, rise to \$380.9 million in FY 2016-17 and \$410.8 million in FY 2017-18, and increase annually to over \$500.0 million beginning in FY 2021-22.

**Tobacco Taxes.** Tax collections from the cigarette and other tobacco products taxes increased in FY 2014-15 for the first time since FY 2004-05, when the tax rate was increased. Revenue from tobacco taxes will total an estimated \$953.6 million in FY 2014-15, an increase of 1.4% from FY 2013-14. The growth reflects a permanent increase in revenue that is attributable to legislation adopted to improve tax enforcement regarding tobacco products. In FY 2015-16, tobacco tax revenue is expected to resume its long-term downward trend, declining 2.1% to \$933.3 million, before falling 1.6% in FY 2016-17. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases.

**Casino Tax.** The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2014-15, casino tax revenue totaled an estimated \$110.8 million, a 3.6% increase from FY 2013-14. Casino tax revenue is expected to continue growing in FY 2015-16, rising 1.5% to \$112.5 million. Continued growth is expected in subsequent years, with projected increases in casino tax revenue of 1.5% in both FY 2016-17 and FY 2017-18.

**State Education Property Tax.** Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to \$1.8 billion. As the housing market has continued to improve, SET collections are expected to total slightly less than \$1.9 billion in FY 2014-15, an increase of 3.0% from FY 2013-14. Continuing the trend forecast for the housing market in later years, SET revenue is expected to increase 1.7% in FY 2015-16, 2.8% in FY 2016-17, and 3.1% in FY 2017-18. All of the revenue generated by the SET is earmarked to the SAF.

**Lottery.** Net lottery revenue was \$784.1 million in FY 2014-15, an increase of 6.8% from the FY 2013-14 level. Although iLottery game offerings will be expanded during FY 2015-16 to include several lotto games and promotion spending also will increase during FY 2015-16, revenue growth is expected to slow in FY 2015-16. Lottery revenue is expected to increase 0.9% in FY 2015-16, to \$791.0 million; 0.5% in FY 2016-17, to \$794.8 million; and 0.3% in FY 2017-18, to \$797.0 million. All of the net revenue generated by the lottery is earmarked to the SAF. Depending on the year, Lottery revenue represents approximately 6.2% to 6.6% of total earmarked SAF revenue.

### **Michigan Business Tax/Corporate Income Tax.**

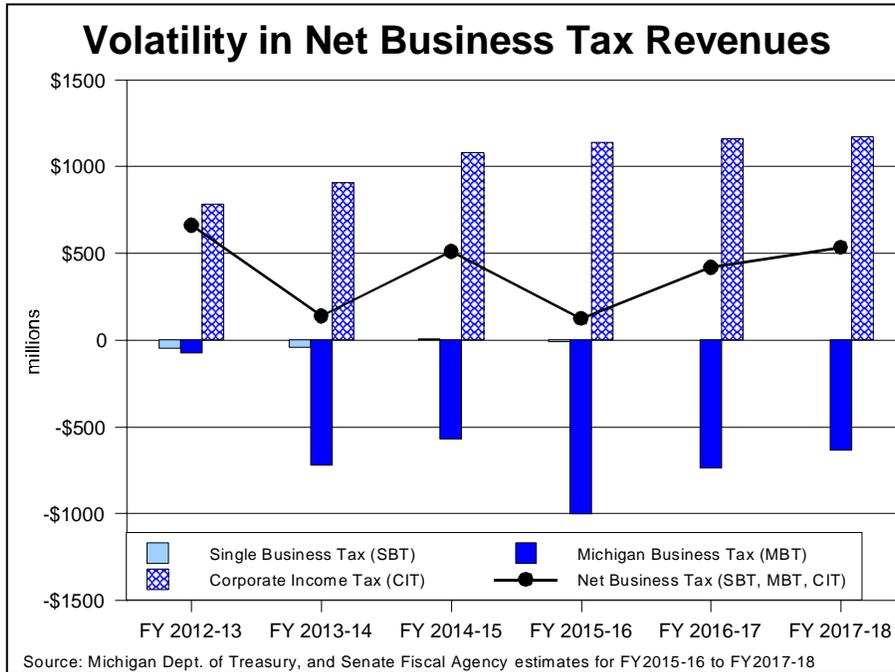
Legislation adopted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the Corporate Income Tax (CIT), which generates about 40% as much revenue as what was received under the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs) do not pay any separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to grow over the forecast period, as profits improve, although the CIT is expected to be a more volatile tax than the MBT.

Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling approximately \$773.3 million in FY 2013-14, estimated MBT credits are projected to reduce State revenue by more than \$500.0 million each year over the forecast period. However, several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund board from time to time amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although in some cases the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates. The administration has been working with a number of taxpayers that will claim the largest credits on ways to limit this uncertainty.

These credits reduce General Fund revenue but also represent a significant portion of the General Fund. Because of the magnitude of these MBT credits, their unpredictable nature can result in large swings in General Fund revenue. Based on preliminary final FY 2014-15 revenue, MBT credits reduced General Fund revenue by \$550.4 million, or approximately 5.4%, although this reduction was \$179.1 million less than expected by the May 2015 consensus revenue estimates. Under the current forecast, a portion of the less-than-expected credits in FY 2014-15 is expected to be claimed in FY 2015-16. As a result of both the change in timing for when these credits are claimed, and a previously expected increase in MBT credits during FY 2015-16, net MBT revenue in FY 2015-16 is expected to total -\$1.0 billion. In addition, MBT credits (of which MEGA credits represent the majority of the credits that may be claimed) are predicted to total 10.2% of General Fund revenue in FY 2015-16, 7.3% in FY 2016-17, and 6.1% in FY 2017-18. Despite the administration's efforts, when these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals and thus limits efforts to correctly predict revenue.

In FY 2014-15, Corporate Income Tax revenue grew 18.9%, and net business tax revenue from the MBT, CIT, and SBT increased 270.2% from \$137.6 million in FY 2013-14 to \$509.6 million. The revised estimate for business taxes in FY 2015-16 is \$122.2 million, a 76.0% decline from FY 2014-15 and \$38.6 million below the May 2015 consensus estimate. Net revenue from business taxes (the MBT and CIT plus remaining refunds under the SBT) is projected to increase by 242.5% in FY 2016-17 to \$418.5 million (Figure 17). All revenue from the CIT, MBT and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 17



**Insurance Taxes.** Revenue from Michigan's taxes on insurance companies will total an estimated \$322.4 million in FY 2014-15, an 11.0% decline from FY 2013-14 and \$79.6 million below the May 2015 consensus revenue estimate. Legislation adopted in 2012, Public Act 204 of 2012, transferred Secretary of State functions related to the Assigned Claims Plan and Assigned Claims Facility (ACF) to the Michigan Automobile Insurance Placement Facility. At the time, the legislation was not estimated to affect insurance tax revenue. However, the legislation apparently allows insurance companies to claim larger credits against their liability and many taxpayers began claiming these credits during FY 2014-15. The forecast assumes credit use will increase in FY 2015-16 and that the credits have permanently lowered insurance tax revenue.

**REVENUE TRENDS**

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law. However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates, and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for earlier fiscal years. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer-term view of Michigan's economy for FY 2018-19 and FY 2019-20, net GF/GP revenue is expected to increase 3.5% in FY 2018-19, to \$11.1 billion, while SAF revenue will increase 2.7%, to \$13.1 billion. In FY 2019-20, net GF/GP revenue is expected to increase 3.5%, to \$11.5 billion, while SAF revenue will increase 2.5%, to \$13.4 billion.

**SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY**

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2014-15, FY 2015-16, and FY 2016-17. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2014-15, FY 2015-16, and FY 2016-17 have been adjusted to reflect a common base year.

**Table 8**

<b>CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2014-15 (Millions of Dollars)</b>			
<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 28, 2012	\$8,779.6	\$11,629.9	\$20,409.5
January 11, 2013 <sup>a)</sup>	9,044.4	11,785.7	20,830.1
May 13, 2013	9,150.2	11,803.0	20,953.2
May 15, 2013 <sup>a)</sup>	9,319.6	11,829.8	21,149.4
December 19, 2013	9,505.0	11,993.3	21,498.3
January 10, 2014 <sup>a)</sup>	9,371.1	11,936.2	21,307.3
May 13, 2014	9,145.6	11,891.4	21,037.0
May 15, 2014 <sup>a)</sup>	9,154.3	11,900.9	21,055.2
December 19, 2014	9,074.0	11,937.0	21,011.0
January 16, 2015 <sup>a)</sup>	9,146.2	11,949.4	21,095.6
May 8, 2015	9,432.4	11,886.6	21,319.0
May 15, 2015 <sup>a)</sup>	9,386.7	11,949.1	21,335.8
December 17, 2015	9,650.2	11,840.2	21,490.4
<b>Change From Previous Estimate:</b>			
Dollar Change	\$263.5	(\$108.9)	\$154.6
Percent Change	2.8%	(0.9%)	0.7%
<b>Change From Initial Estimate:</b>			
Dollar Change	\$870.6	\$210.3	\$1,080.9
Percent Change	9.9%	1.8%	5.3%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2014-15 was made in December 2012 at \$20.4 billion, as shown in [Table 8](#). This estimate was increased by \$420.6 million at the January 2013 Consensus Revenue Estimating Conference, and then increased again by \$319.3 million at the May 2013 Consensus Revenue Estimating Conference. The January 2014 consensus conference increased the estimate by \$157.9 million; then the May 2014 consensus estimate decreased by \$252.1 million. The January 2015 consensus conference increased the estimate by \$40.4 million and the May 2015 consensus estimate increased it by another \$240.2 million. The Senate Fiscal Agency's revised estimate for FY 2014-15 presented in this report increases the baseline estimate by \$154.6 million above the May 2015 consensus estimate, to \$21.5 billion.

**Table 9**

<b>CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2015-16 (Millions of Dollars)</b>			
<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 19, 2013	\$9,946.3	\$12,394.9	\$22,341.2
January 10, 2014 <sup>a)</sup>	9,826.3	12,337.4	22,163.7
May 13, 2014	9,547.0	12,263.0	21,810.0
May 15, 2014 <sup>a)</sup>	9,553.1	12,301.9	21,855.0
December 19, 2014	9,367.3	12,301.7	21,669.0
January 16, 2015 <sup>a)</sup>	9,509.0	12,329.8	21,838.8
May 8, 2015	9,745.2	12,169.5	21,914.7
May 15, 2015 <sup>a)</sup>	9,712.2	12,265.0	21,977.2
December 17, 2015	9,928.3	12,154.9	22,083.2
<b>Change From Previous Estimate:</b>			
Dollar Change	\$216.1	(\$110.1)	\$106.0
Percent Change	2.2%	(0.9%)	0.5%
<b>Change From Initial Estimate:</b>			
Dollar Change	(\$18.0)	(\$240.0)	(\$258.0)
Percent Change	(0.2%)	(1.9%)	(1.2%)
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2015-16 was made in December 2013, as shown in [Table 9](#). At that time, baseline revenue in FY 2015-16 was estimated at \$22.3 billion. This estimate was decreased by \$177.5 million at the January 2014 Consensus Revenue Estimating Conference, and decreased another \$308.7 million at the May 2014 Consensus Revenue Estimating Conference. The January 2015 consensus conference decreased the estimate by another \$16.2 million and the May 2015 consensus estimate increased it by \$138.4 million. The Senate Fiscal Agency's revised estimate for FY 2015-16 presented in this report increases the baseline estimate by \$106.0 million above the May 2015 consensus estimate, to \$22.1 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2016-17 was made in December 2014, as shown in [Table 10](#). At that time, baseline revenue in FY 2016-17 was estimated at \$22.3 billion. This estimate was increased by \$281.2 million at the January 2015 Consensus Revenue Estimating Conference, and increased another \$92.3 million at the May 2015 Consensus Revenue Estimating Conference. The revised Senate Fiscal Agency estimate for FY 2016-17 increases baseline revenue for FY 2016-17 by \$30.7 million, to \$22.7 billion.

**Table 10**  
**CHANGES IN SENATE FISCAL AGENCY**  
**BASELINE REVENUE ESTIMATES FOR FY 2016-17**  
**(Millions of Dollars)**

<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 19, 2014	\$9,651.2	\$12,636.8	\$22,288.0
January 16, 2015 <sup>a)</sup>	9,855.3	12,713.9	22,569.2
May 8, 2015	10,080.9	12,500.8	22,581.7
May 15, 2015 <sup>a)</sup>	10,035.1	12,626.3	22,661.4
December 17, 2015	10,224.2	12,467.9	22,692.1
<u>Change From Previous Estimate:</u>			
Dollar Change	\$189.1	(\$158.4)	\$30.7
Percent Change	1.9%	(1.3%)	0.1%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$573.0	(\$168.9)	\$404.1
Percent Change	5.9%	(1.3%)	1.8%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**BUDGET  
STABILIZATION FUND**



## ***BUDGET STABILIZATION FUND***

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The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977, and subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 10.0% of the combined level of General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income tax payers on returns filed after the end of that fiscal year.

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments (e.g., Social Security income, Medicaid benefits, and worker's compensation) and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total GF/GP revenue.

Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. The withdrawal equals the percentage decline in adjusted real personal income multiplied by the annual GF/GP revenue. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

To calculate the pay-in, the amount of real personal income growth over 2.0% in the prior calendar year is applied to the amount of General Fund revenue in the prior fiscal year. For example, the calculated pay-in for FY 2014-15 is based on personal income growth from calendar year 2013 to 2014 and GF/GP revenue in FY 2013-14. Different years are used to calculate a potential pay-out. A pay-out in FY 2014-15 depends on the change in personal income from calendar year 2014 to calendar year 2015 and the amount of GF/GP revenue in FY 2014-15.

Withdrawals from the BSF also are permitted for State job creation programs in times of high unemployment. When the State's unemployment rate averages between 8.0% and 11.9% during a calendar quarter, 2.5% of the balance in the BSF may be withdrawn during the subsequent quarter and appropriated for projects that will create job opportunities. If the unemployment rate averages 12.0% or higher for a calendar quarter, up to 5.0% of the BSF balance may be withdrawn.

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of \$55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled \$189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of \$73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case. In FY 2013-14, the Legislature transferred \$194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the Detroit bankruptcy. At the same time, Public Act 186 of 2014 amended the Michigan Trust Fund

Act to require the deposit of \$17.5 million from tobacco settlement revenue to the BSF annually for the 21 years from FY 2014-15 through FY 2034-35 to repay that transfer.

Table 11 presents the recent history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2013-14. Also presented in this table are the SFA's estimates for year-end balances for FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18 assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 18, and the estimated economic stabilization trigger calculations and estimated formula deposits for FY 2015-16, FY 2016-17, and FY 2017-18 are presented in Table 12.

### **FY 2014-15**

The BSF ended FY 2013-14 with an estimated balance of \$386.2 million. During FY 2014-15, \$111.5 million was appropriated to the Fund, although there was no statutory requirement for an appropriation. Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of \$17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 through FY 2034-35. In addition to that deposit, the annual budget legislation, Public Act 252 of 2014, appropriated \$94.0 million to the BSF. Interest earnings are estimated at \$0.6 million in FY 2014-15, resulting in an estimated ending balance of \$498.3 million.

### **FY 2015-16, FY 2016-17, and FY 2017-18**

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the statutory formula will trigger payments into the Fund in FY 2015-16 and FY 2016-17; however, no payment will be required in FY 2017-18.

In FY 2015-16, two deposits to the BSF have been enacted already. The enacted budget for FY 2015-16 (Public Act 84 of 2015) appropriated \$95.0 million to the BSF, and a deposit of \$17.5 million of tobacco settlement revenue to the BSF will be made pursuant to the Michigan Trust Fund Act (representing the second year of reimbursement for the FY 2013-14 payment from the BSF to the Detroit retirement systems). Based on growth in inflation-adjusted personal income, under the statutory formula, the deposit to the BSF, if appropriated by the Legislature, would be \$246.5 million in FY 2015-16. This is \$134.0 million above the amounts already appropriated to the BSF in FY 2015-16.

The formula pay-in to the BSF is estimated at \$206.1 million in FY 2016-17. No pay-in is projected for FY 2017-18 pursuant to the statutory formula. A deposit of \$17.5 million in each of these years already is required under the Trust Fund Act. The additional payment to the BSF for FY 2016-17, if appropriated by the Legislature, is estimated at \$188.6 million.

If the additional formula deposits are appropriated and the Trust Fund Act deposits continue, the year-end balance in the BSF is estimated at \$746.3 million in FY 2015-16, \$956.9 million in FY 2016-17, and \$980.1 million in FY 2017-18. If the additional formula deposits are not appropriated, based on the current law appropriation for FY 2015-16 and the continuation of the annual deposit of \$17.5 million required by the Trust Fund Act, the year-end fund balances are estimated at \$612.3 million in FY 2015-16, \$633.5 million in FY 2016-17, and \$654.8 million in FY 2017-18, as shown in Table 11.

Table 11

<b>BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2017-18 ESTIMATE (Millions of Dollars)</b>				
<b>Fiscal Year<sup>a)</sup></b>	<b>Pay-In</b>	<b>Interest Earned</b>	<b>Pay-Out</b>	<b>Fund Balance</b>
1998-99	\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	9.1	1.8	156.1	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.0	0.0	2.2
2011-12	362.7	0.2	0.0	365.1
2012-13	140.0	0.5	0.0	505.6
2013-14 <sup>b)</sup>	75.0	0.4	194.8	386.2
<b>Enacted Deposits and Estimated Interest Earnings:</b>				
2014-15 <sup>c)</sup>	\$111.5	\$0.6	\$0.0	\$498.3
2015-16 <sup>d)</sup>	112.5	1.5	0.0	612.3
2016-17 <sup>e)</sup>	17.5	3.7	0.0	633.5
2017-18 <sup>f)</sup>	17.5	3.8	0.0	654.8
<p>a) For FY 1998-99 to FY 2013-14 the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FY 2014-15 to FY 2017-18 include enacted legislation and estimated interest earnings.</p> <p>b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of \$194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.</p> <p>c) Pay-ins that total \$111.5 million were appropriated in FY 2014-15. PA 252 of 2014 appropriated \$94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of \$17.5 million of tobacco settlement revenue to the BSF as the first repayment of the withdrawal related to the Detroit bankruptcy.</p> <p>d) There is a difference of \$134.0 million between the enacted deposit of \$112.5 million in FY 2015-16 (the \$17.5 million deposit authorized by the Trust Fund Act plus the \$95.0 million deposit appropriated in PA 84 of 2015) and the estimated formula pay-in of \$246.5 million.</p> <p>e) There is a difference of \$188.6 million between the \$17.5 million already authorized by the Trust Fund Act and the estimated formula pay-in of \$206.1 million.</p> <p>f) A deposit of \$17.5 million is authorized by the Trust Fund Act. The estimated formula pay-in is \$0.</p>				

Figure 18

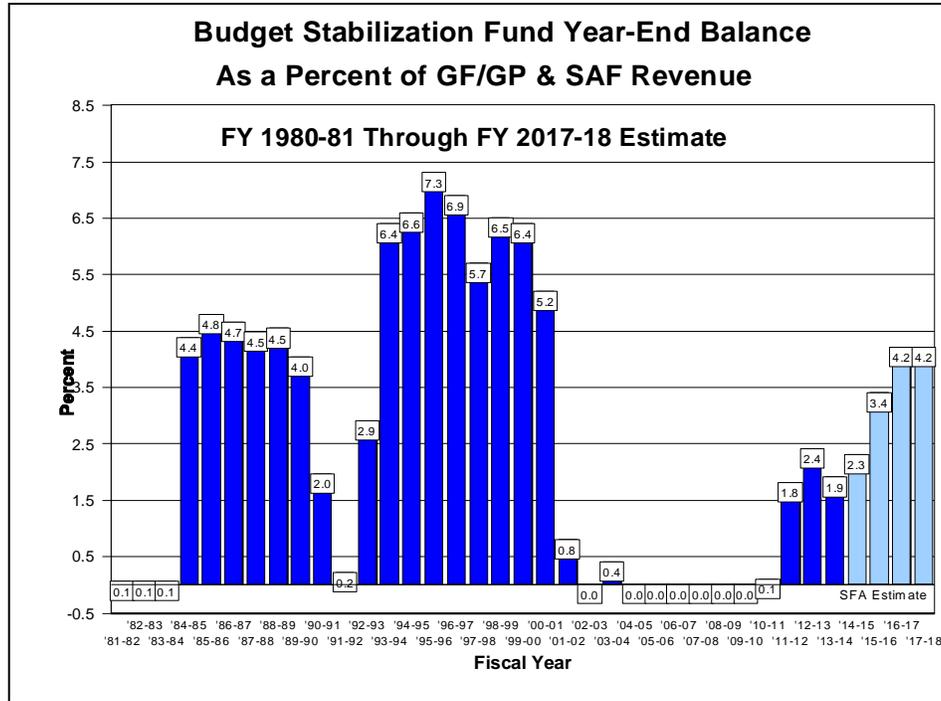


Table 12

**ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER**  
**FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18**  
(Millions of Dollars)

	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Michigan Personal Income (MPI)	\$403,726	\$420,429	\$439,033	\$455,501	\$473,224
Less: Transfer Payments	86,899	91,446	95,391	99,684	104,415
Subtotal	\$316,827	\$328,983	\$343,642	\$355,817	\$368,810
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.210	2.197	2.205	2.252	2.310
Equals: Real Adjusted MPI	\$143,380	\$149,728	\$155,825	\$158,029	\$159,692
Percent Change from Prior Year		4.43%	4.07%	1.41%	1.05%
Excess Over 2.0%		2.43%	2.07%	0.00%	0.00%
		<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Multiplied by: Estimated GF/GP Revenue		<b>\$10,154.0</b>	<b>\$9,945.6</b>	<b>\$10,218.2</b>	<b>\$10,619.0</b>
Equals: Transfer to the BSF			\$246.5	\$206.1	\$0.0
OR Transfer from the BSF			\$0.0	\$0.0	\$0.0

**Note:** Numbers may not add due to rounding. Table does not include dollars transferred to or from the BSF at the discretion of the Legislature, which are separate from the calculated trigger.

CY = Calendar Year; FY = Fiscal Year

**COMPLIANCE WITH  
STATE REVENUE LIMIT**



## **COMPLIANCE WITH STATE REVENUE LIMIT**

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by \$109.6 million. This was due to new State revenue being generated as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the limit in FY 2007-08 despite increases in the income and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2013-14. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will remain well below the revenue limit in FY 2014-15 through FY 2017-18. In the past, the largest gap between revenue and the limit occurred in FY 2013-14, when State revenue was \$8.5 billion below the revenue limit. In FY 2014-15, it is estimated that the gap narrowed to \$7.8 billion. For the future, it is estimated that size of this gap will increase each year during FY 2015-16, FY 2016-17, and FY 2017-18, with the amount that State revenue is below the limit forecast to increase to \$10.7 billion in FY 2017-18.

### **THE REVENUE LIMIT**

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year prior to the calendar year in which the fiscal year begins. For example, in FY 2009-10, State government revenue could not exceed 9.49% of personal income for calendar year 2008. Given that Michigan personal income for 2008 equaled \$349.6 billion at the time compliance was determined, the revenue limit for FY 2009-10 was \$33.2 billion.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees, and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments. It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the U.S. Department of Commerce's Bureau of Economic Analysis.

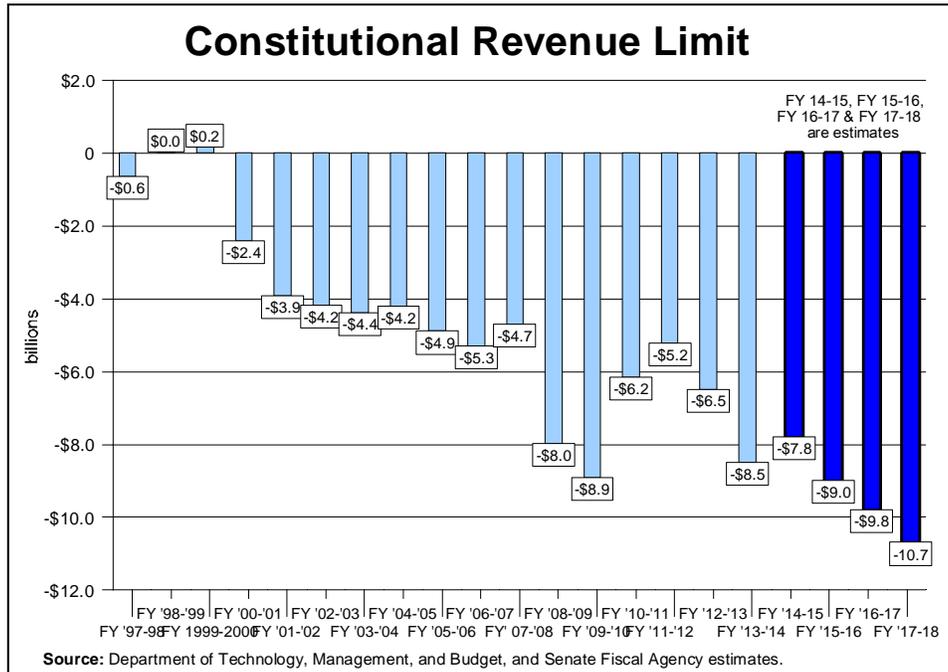
### **REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED**

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to payers of individual income and business taxes, on a pro rata basis. These refunds would be given to taxpayers who file an individual income tax return or a Michigan Business Tax or Corporate Income Tax return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report which determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

**REVENUE LIMIT COMPLIANCE PROJECTIONS**

Based on preliminary final revenue for FY 2014-15 and the SFA's revenue estimates for FY 2015-16, FY 2016-17, and FY 2017-18, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 19. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 13.

**Figure 19**



**FY 2014-15**

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2013 equals \$388.0 billion, which results in a revenue limit equal to \$36.8 billion in FY 2014-15. This is an increase of \$904.9 million in the revenue limit from FY 2013-14. Based on the SFA's revised revenue estimates for FY 2014-15, revenue subject to the revenue limit will equal an estimated \$29.0 billion, which is an increase of \$1.6 billion from FY 2013-14. Revenue subject to the revenue limit will fall below the limit by an estimated \$7.8 billion, or 21.1%, in FY 2014-15. Revenue subject to the limit is estimated to increase 5.9% in FY 2014-15, compared with the 2.5% increase in personal income during 2013. When revenue growth is higher than increases in personal income, the amount by which the State is under the revenue limit declines.

**FY 2015-16**

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2014 equals \$403.7 billion, and as a result, the revenue limit equals \$38.3 billion in FY 2015-16, an increase of \$1.5 billion over FY 2014-15. Based on the SFA's revised revenue estimates for FY 2015-16, revenue subject to the revenue limit will equal an estimated \$29.4 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.0 billion, or 23.4%, in FY 2015-16. With personal income growth of 4.1% exceeding the 1.1% growth of revenue subject to the limit, the amount by which the State is under the revenue limit will increase.

**FY 2016-17**

The Senate Fiscal Agency estimates that personal income in Michigan during 2015 will equal \$420.4 billion, and as a result, the revenue limit will equal \$39.9 billion in FY 2016-17. Based on the SFA's revised revenue estimates for FY 2016-17, revenue subject to the revenue limit will equal an estimated \$30.1 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.8 billion, or 24.5%, in FY 2016-17. Personal income is expected to grow at 4.1% compared to an estimated 2.6% increase in revenue subject to the limit, resulting in an increase in the amount by which the State is under the revenue limit. The loss of use tax revenue due to personal property tax reform largely accounts for the significant increase in the amount by which State revenue is projected to be below the limit in FY 2016-17.

**FY 2017-18**

The Senate Fiscal Agency estimates that personal income in Michigan during 2016 will equal \$439.0 billion, and as a result, the revenue limit will equal \$41.7 billion in FY 2017-18. Based on the SFA's initial revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated \$31.0 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$10.7 billion, or 25.6%, in FY 2017-18. Again, the loss of use tax revenue due to personal property tax reform largely accounts for the significant increase in the amount by which State revenue is projected to be below the limit in FY 2017-18. Additionally, anticipated growth in personal income of 4.4% will continue to outpace the forecasted 3.0% increase in State revenue subject to the revenue limit.

**Table 13**  
**COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT**  
**SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION**  
**FY 2013-14 THROUGH FY 2017-18 ESTIMATE**  
**(Millions of Dollars)**

	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
	<b>Final</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>Revenue Subject to Limit</b>					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$9,787.7	\$10,729.5	\$11,019.0	\$11,343.6	\$11,671.0
Constitutional Revenue Sharing (baseline)	729.9	760.1	768.1	788.3	809.5
School Aid Fund (baseline)	11,562.9	11,840.2	12,154.9	12,467.9	12,793.1
Transportation Funds	2,121.7	2,204.3	2,231.5	2,261.0	2,290.9
Other Restricted Non-Federal Aid Revenue	4,072.5	4,194.7	4,320.5	4,450.2	4,583.7
<u>Adjustments:</u>					
GF/GP Federal Aid	(30.9)	(38.5)	(35.0)	(35.0)	(35.0)
GF/GP Balance Sheet Adjustments	(769.1)	(575.5)	(1,073.4)	(1,125.4)	(1,052.0)
SAF Balance Sheet Adjustments	(42.3)	(65.9)	(30.9)	(46.5)	(53.7)
<b>Total Revenue Subject to Limit</b>	<b>\$27,432.5</b>	<b>\$29,048.9</b>	<b>\$29,354.7</b>	<b>\$30,104.1</b>	<b>\$31,007.5</b>
<b>Revenue Limit</b>					
<u>Personal Income:</u>					
Calendar Year	<b>CY 2012</b>	<b>CY 2013</b>	<b>CY 2014</b>	<b>CY 2014</b>	<b>CY 2016</b>
Amount	\$378,443	\$387,978	\$403,727	\$420,429	\$439,033
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$35,914.2	\$36,819.1	\$38,313.7	\$39,898.7	\$41,664.2
1.0% of Limit	359.1	368.2	383.1	399.0	416.6
<b>Amount Under (Over) Limit</b>	<b>\$8,481.7</b>	<b>\$7,770.3</b>	<b>\$8,958.9</b>	<b>\$9,794.6</b>	<b>\$10,656.7</b>
Percent Below Limit	23.6%	21.1%	23.4%	24.5%	25.6%
CY = Calendar Year; FY = Fiscal Year					



**ESTIMATE OF  
YEAR-END BALANCES**



**ESTIMATE OF YEAR-END BALANCES**

This section of the Senate Fiscal Agency's (SFA's) report provides details of the estimated year-end balances of the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets for FY 2014-15 and FY 2015-16. This section also outlines projections for the FY 2016-17 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2014-15, FY 2015-16, and FY 2016-17 GF/GP and SAF budgets. Unlike FY 2013-14, when there was a large unanticipated negative Michigan Business Tax (MBT) revenue adjustment during the book-closing process, the ongoing FY 2014-15 book-closing process appears to indicate that approximately \$180.0 million of MBT credits will not be claimed, resulting in a positive impact on the State's FY 2014-15 balance sheet. The final accounting of FY 2014-15 revenue and appropriations has not been completed, but the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have an \$815.9 million balance and the SAF budget will have a \$217.4 million balance. A comparison of the SFA estimate of FY 2015-16 revenue with actual and projected appropriations leads to a \$701.2 million GF/GP year-end balance and a \$59.8 million year-end SAF balance.

The outlook for FY 2016-17 points to a GF/GP budget ending balance of \$345.4 million and an SAF ending balance of \$17.4 million.

**Table 14**

<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)</b>			
	<b>FY 2014-15 Estimate</b>	<b>FY 2015-16 Estimate</b>	<b>FY 2016-17 Estimate</b>
General Fund/General Purpose	\$815.9	\$701.2	\$345.4
School Aid Fund	\$217.4	\$59.8	\$17.4

**FY 2014-15 YEAR-END BALANCE ESTIMATES**

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. A comprehensive annual financial report (commonly referred to as the CAFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2014-15 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the FY 2014-15 fiscal year with an \$815.9 million balance. The SFA is estimating that the FY 2014-15 SAF budget will close the fiscal year with a \$217.4 million balance.

The first column of Table 15 provides a summary of the current SFA estimate of an \$815.9 million balance in the FY 2014-15 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2015-16 revenue source. During the development of the FY 2015-16 budget, an estimated FY 2014-15 carry-forward amount of \$170.1 million in GF/GP revenue was built into the budget for FY 2015-16, so this revised estimate is \$645.8 million above the amount initially estimated as the ending balance for FY 2014-15 that would carry forward into FY 2015-16. This change in the FY 2014-15 ending balance is primarily due to an increase of approximately \$400.0 million of combined revenue from the MBT and the State's personal

income tax, as well as an FY 2014-15 year-end lapse amount that is approximately \$200.0 million higher than initially projected.

On the revenue side of the FY 2014-15 GF/GP budget ledger, the SFA is now estimating that revenue will total \$10.4 billion. This represents a \$470.7 million or 4.7% increase from the final level of FY 2013-14 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a \$429.1 million increase from the May 2015 consensus revenue estimate. It is important to recognize that a significant portion of the increase can be attributed to the fact that the estimate for MBT revenue had been a negative \$751.1 million due primarily to the impact of the redemption of certificated credits issued to various businesses by the Michigan Strategic Fund Agency under now-expired provisions of the MBT Act. Using the most recent data from the Department of Treasury, net MBT revenue for FY 2014-15 is estimated by the SFA to be a negative \$572.0 million due to several accruals that are expected to appear during the book-closing process, resulting in an increase of \$179.1 million in the forecasted MBT amount. Other revenue sources, primarily individual income tax withholding and income tax refunds, also closed the year over the forecasted amount. The combination of these factors resulted in the \$429.1 million increase in revenue from the May 2015 consensus revenue estimate.

On the expenditure side of the FY 2014-15 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$9.6 billion, which includes an appropriation to the Budget Stabilization Fund of \$94.0 million, and a \$284.6 million GF/GP appropriation to the Department of Transportation. The \$9.6 billion of expenditures represents a \$38.8 million or 0.4% decrease from the final level of FY 2013-14 GF/GP expenditures.

As [Table 15](#) indicates, enacted supplemental appropriations for FY 2014-15 totaled a negative \$291.8 million but this consists of various positive and negative amounts, including \$76.2 million in the Department of Technology, Management, and Budget for Venture Michigan Fund tax vouchers and \$30.0 million in the Department of State Police for disaster assistance. As part of an overall FY 2014-15 budget-balancing package, negative supplemental appropriations were included in Public Acts 5 and 6 of 2015, which reduced GF/GP funding in various budget areas by \$419.7 million, and in Executive Order 2015-5, which reduced GF/GP appropriations in various State departments by \$102.9 million. For the second consecutive year, there also were larger-than-usual estimated year-end lapses; for FY 2014-15, the lapses amounted to \$201.6 million, primarily in the Department of Health and Human Services (DHHS), which accounted for \$126.4 million of the total lapses.

The first column of [Table 16](#) provides a summary of the FY 2014-15 SFA estimate of a \$217.4 million year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2015-16 revenue source. As mentioned previously, the FY 2015-16 budget was developed assuming that funds carried forward from FY 2014-15 would be used for FY 2015-16 appropriations. When the FY 2015-16 budget was developed, the assumption was that \$140.5 million would be available at the FY 2014-15 year-end and carried forward; the estimate now is that \$217.4 million is available, or \$76.9 million more than earlier projected. The additional \$76.9 million in the estimated year-end balance reflects two factors: lower projected revenue offset by lower anticipated costs.

On the revenue side of the FY 2014-15 SAF budget ledger, the SFA is now estimating revenue will total \$14.1 billion. This represents a \$224.6 million or 1.6% increase from the final level of FY 2013-14 SAF revenue; in FY 2014-15, there was \$34.9 million more in Federal aid than in FY 2013-14, \$116.2 million less in GF/GP support of the School Aid budget, and expected growth in SAF-earmarked revenue. However, the current SFA estimate of ongoing SAF revenue for FY 2014-15 (excluding GF/GP and Federal revenue) represents a \$108.8 million decrease from the May 2015 consensus revenue estimate. The estimate also includes \$204.4 million in Medicaid managed care use tax revenue.

On the expenditure side of the FY 2014-15 SAF budget ledger, the SFA is now estimating expenditures will total \$13.9 billion. This represents a \$462.3 million or 3.4% increase from the final level of FY 2013-14 SAF expenditures. The estimated final level of FY 2014-15 SAF expenditures includes the initial ongoing K-12 appropriation of \$13.5 billion, \$376.2 million in one-time K-12 appropriations, K-12 cost adjustments of a negative \$109.0 million, enacted supplementals totaling negative \$87.4 million, Federal expenditure adjustments of negative \$201.7 million, book-closing reserve adjustments of negative \$3.1 million, and estimated K-12 year-end lapses of \$145.6 million. It should also be noted that the estimated final level of FY 2014-15 SAF expenditures includes \$571.2 million of appropriations to the Community Colleges and Higher Education budgets.

### **FY 2015-16 YEAR-END BALANCE ESTIMATES**

On June 3, 2015, the Michigan Legislature completed action on the initial set of FY 2015-16 appropriation bills. The FY 2015-16 initially enacted budget was balanced based on the May 2015 consensus estimates. At the time the initial budget was enacted, the SFA was projecting only a \$17.6 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2015-16 GF/GP year-end balance is \$701.2 million. At the same time, based on the May 2015 consensus revenue estimate, the SFA was projecting a \$50.2 million year-end balance in the SAF budget. The current SFA estimate of the FY 2015-16 SAF year-end balance is \$59.8 million.

The second column of Table 15 provides a summary of the current SFA estimate of a \$701.2 million year-end balance in the FY 2015-16 GF/GP budget. The increase in the projected level of the FY 2015-16 GF/GP year-end balance results primarily from a larger carry-forward balance from FY 2014-15 (\$645.8 million more than expected) and an estimated increase of \$63.8 million from the revenue amount estimated at the May 2015 consensus revenue conference.

On the revenue side of the FY 2015-16 GF/GP budget ledger, the SFA is now estimating that revenue will total \$10.7 billion. This estimate includes a projected \$815.9 million balance carried forward from FY 2014-15, \$9.9 billion of revenue from ongoing sources, and a \$5.8 million revenue reduction due to a one-time appropriation for State revenue sharing. The total estimated GF/GP revenue of \$10.7 billion represents a \$293.3 million, or 2.8%, increase from the FY 2014-15 estimate. The current SFA estimate of FY 2015-16 GF/GP revenue represents a \$63.8 million increase from the May 2015 consensus revenue estimate. This upward revision in revenue is primarily the result of estimates of an increase in State personal income tax revenue.

On the expenditure side of the FY 2015-16 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$10.0 billion. This total includes \$9.4 billion of ongoing appropriations in the initial appropriation bills (excluding the Department of Transportation), \$98.3 million in one-time appropriations in the initial appropriation bills (excluding the Department of Transportation), \$400.0 million of GF/GP appropriations in the Department of Transportation, and a one-time appropriation of \$95.0 million to the Budget Stabilization Fund. Since the initial budget was passed, two GF/GP supplemental appropriations have been enacted: \$7.2 million for the City of Flint's water system and \$200,000 for the Court of Claims to administer tax appeals. In addition, there are \$84.8 million of potential supplemental requests for new drugs to treat Hepatitis C and cystic fibrosis (\$79.5 million), a reserve for voting machines (\$5.0 million), and \$250,000 for a pension supplement for low-income State Police retirees. The \$70.0 million of estimated year-end lapses reflects the projected ongoing portion of the \$126.4 million of FY 2014-15 DHHS lapses.

The second column in Table 16 provides a summary of the current SFA estimate of a \$59.8 million year-end balance in the FY 2015-16 SAF budget. The increase in the projected level of the FY 2015-16 SAF year-end balance (\$9.6 million more than originally estimated) results primarily from a larger carry-forward balance from FY 2014-15 (\$76.9 million more than expected) while revenue is

estimated to decrease by \$118.9 million from the amount estimated at the May 2015 consensus revenue conference. In addition, costs in FY 2015-16 are now estimated to be \$47.1 million lower than appropriated.

On the revenue side of the FY 2015-16 SAF budget ledger, the SFA is now estimating that revenue will total \$14.4 billion. This estimate includes a \$217.4 million balance carried forward from FY 2014-15, \$12.1 billion of ongoing State Restricted SAF revenue, an enacted \$45.9 million GF/GP grant to the SAF budget, and \$1.8 billion of ongoing Federal aid. The current SFA estimate of total FY 2015-16 SAF revenue represents a \$263.1 million or 1.9% increase from the projected level of FY 2014-15 SAF revenue, which is driven by an increase in appropriated Federal funds compared to prior-year actual grants received, a lower beginning balance than in FY 2014-15, and growth in restricted SAF revenue. However, the current estimate of FY 2015-16 State Restricted SAF revenue is \$118.9 million lower than the May 2015 consensus estimate. The estimate also includes \$203.3 million in Medicaid managed care use tax revenue, and \$8.8 million GF/GP reimbursement for data centers' sales tax exemptions.

On the expenditure side of the FY 2015-16 SAF budget ledger, the SFA is now estimating that expenditures will total \$14.3 billion. This expenditure estimate includes \$13.8 billion of ongoing K-12 appropriations in the initial appropriation bill, \$49.8 million in one-time appropriations in the initial appropriation bill, a \$4.3 million supplemental, and negative cost adjustments totaling \$47.1 million.

The \$47.1 million in reduced anticipated expenditures stems from more pupils than estimated (cost of \$10.0 million), adjustments in taxable values and associated impacts (savings of \$46.7 million), higher special education costs than anticipated (cost of \$28.7 million), and \$39.1 million in other anticipated reductions in line items to reflect lapses and lower costs in the prior year (including debt service on the School Bond Loan Fund, school breakfast costs, and Renaissance Zone reimbursements). It also should be noted that the estimated level of FY 2015-16 SAF expenditures includes \$461.9 million of appropriations to the Community Colleges and Higher Education budgets. The projected level of FY 2015-16 SAF expenditures represents a \$420.7 million or 3.0% increase from the projected level of FY 2014-15 SAF expenditures, of which \$169.3 million (1.2%) is from higher Federal funds appropriated than received in the prior year, and the remaining \$251.4 million (1.8%) is the change in State-funded appropriations.

### **FY 2016-17 STATE BUDGET OUTLOOK**

Pursuant to statutory requirements, the Governor must submit a detailed FY 2016-17 State budget recommendation to the Legislature no later than February 12, 2016. This State budget recommendation will continue the debate on the FY 2016-17 State budget. On February 11, 2015, Governor Snyder presented his FY 2015-16 budget and his projections for FY 2016-17. The Legislature subsequently enacted an FY 2015-16 State budget and included language within that legislation expressing intent to provide FY 2016-17 appropriations that would be the same as those for FY 2015-16, with adjustments for caseload, costs, economic factors, and available revenue.

If a beginning balance of \$701.2 million is carried forward into FY 2016-17 and the SFA's new revenue estimate is assumed, and if FY 2016-17 appropriations are essentially frozen at FY 2015-16 levels (with an adjustment of \$215.0 million for caseload and costs, economics, and other issues), there will be an FY 2016-17 projected year-end GF/GP balance of \$345.4 million. The third column of Table 15 outlines these assumptions.

On the revenue side of the FY 2016-17 budget ledger, the SFA is projecting that total estimated GF/GP revenue will equal \$10.5 billion. This estimate assumes a beginning balance of \$701.2 million and SFA-estimated revenue of \$10.2 billion, which represents an increase of \$96.8 million from the May 2015 consensus estimate. This upward revision in revenue is again primarily the result of

increases in the State's personal income tax revenue, along with predicted stable, slow growth in the economy for FY 2016-17. The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2015-16 level (\$462.7 million) plus \$436,100 to account for the estimated cost of counties projected to exhaust their revenue sharing reserve funds and return to the State-paid program. Revenue from the Medicaid managed care use tax begins to phase out in FY 2016-17 because the Federal government will disallow its use as match revenue for Medicaid beginning on January 1, 2017. There are also revenue adjustments of \$11.8 million and \$30.5 million, respectively, to account for reimbursement to the School Aid Fund for data centers' sales tax exemption and payment for Venture Michigan Fund tax vouchers.

On the appropriation side of the FY 2016-17 budget ledger, the SFA estimate assumes the continuation of appropriations at the FY 2015-16 levels for both ongoing and one-time GF/GP appropriations. Adjustments of \$215.0 million are then made to add: \$16.2 million for caseload and costs in the Department of Education and DHHS, \$152.3 million for new drugs to treat Hepatitis C and cystic fibrosis, \$5.0 million to retain a voting machine reserve, \$41.2 million for economic factors, and \$250,000 for a pension supplement for low-income State Police retirees. The FY 2016-17 appropriation estimates also include a net savings of \$75.0 million for Medicaid actuarial soundness, a \$143.0 million State match cost for expanded Medicaid, \$45.0 million for a match rate increase for traditional Medicaid, \$60.0 million savings due to the Health Insurance Claims Assessment (HICA) rate increase on January 1, 2017, and continuation of the \$70.0 million lapse estimate for DHHS. These assumptions lead to total estimated FY 2016-17 GF/GP expenditures of \$10.2 billion and a projected year-end GF/GP balance of \$345.4 million.

The third column of [Table 16](#) provides a summary of the SFA's outlook for the FY 2016-17 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2015-16 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of \$17.4 million for FY 2016-17.

On the revenue side of the FY 2016-17 SAF budget outlook, the SFA is estimating that revenue will total \$14.4 billion, the same as in FY 2015-16. This estimate assumes a carry-forward of \$59.8 million from FY 2015-16, a decrease in the level of School Aid Fund revenue of \$177.4 million from the May 2015 consensus forecast, a GF/GP grant of \$68.8 million, and estimated Federal aid continuing at \$1.8 billion. The estimate also includes \$50.8 million in Medicaid managed care use tax revenue, which represents one-quarter of a year's collections since the tax expires on January 1, 2017, and is a decline of \$152.5 million from FY 2015-16.

On the appropriation side of the FY 2016-17 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$14.3 billion. This funding level assumes that SAF appropriations of \$466.3 million for community colleges and universities are continued and that \$22.7 million of the one-time K-12 appropriations (out of \$49.8 million in FY 2015-16) are continued and rolled into ongoing costs. One-time funding items that are not continued for this analysis include technology infrastructure grants (\$23.5 million), teacher certification test updates (\$1.8 million), a parent university pilot project (\$1.0 million), a teacher reading instruction test (\$0.5 million), and career planning tools (\$0.6 million).

In addition, the SFA estimate of a continuation level of K-12 funding takes into account updated estimates as to the number of students in local school districts and preliminary estimates of local property tax valuations, special education costs, debt service costs, and Michigan Public School Employees' Retirement System (MPERS) rate cap costs (the sum of which in May 2015 was projected to decrease \$33.7 million below FY 2015-16 costs, but which is now projected to increase \$29.9 million due to a higher estimate for pupils and special education costs, continued adjustments to taxable values, and other refinements in estimated costs).

A comparison of projected FY 2016-17 SAF current law revenue and a continuation of current spending leads to an estimated ending balance of \$17.4 million, which equates to roughly \$12 on a per-pupil basis. Again, this estimate assumes a continuation of both ongoing and roughly 46% of the one-time appropriations, a slight increase in GF/GP support of the K-12 budget, and continued SAF support of \$466.3 million for community colleges and universities.

One revenue source that may be available to appropriate in the K-12 budget in the future, if necessary or desired, is the MPSERS escrow account, which has accumulated since July 1, 2010. This account received employee 3.0% contributions as prescribed under Public Act 75 of 2010, and today totals more than \$500.0 million. During 2012, discussions of calculations related to prefunding retiree health care in the MPSERS plan noted that appropriations from the escrow account likely would be necessary in order to keep a structurally balanced K-12 budget. However, a clarification from the courts may be necessary as to the availability of the funds in this account, before their expenditure.

### **HICA AND USE TAX SUMMARY**

The Health Insurance Claims Assessment was reduced from 1.0% to 0.75% on July 1, 2014. The HICA is applied to medical claims with certain exemptions (such as federally run programs like Medicare and Veterans' Administration health services). The tax will revert to 1.0% when the Federal government no longer accepts the Medicaid managed care use tax as a match. The Federal government has made it clear that this will occur at the end of the current two-year legislative session, which is at the end of calendar year 2016. The HICA tax itself would sunset on December 31, 2017.

A 6.0% Medicaid managed care use tax was reinstated effective April 1, 2014. This tax applies to Medicaid managed care organizations that provide physical health and behavioral health services to the "traditional" Medicaid population as well as the Medicaid expansion population. Because two-thirds of this use tax revenue goes to the General Fund and one-third to the School Aid Fund, the reinstatement of the tax affects both the General Fund and the School Aid Fund.

The Federal government requires states to pay actuarially sound rates to Medicaid managed care organizations. When a change in policy increases or decreases costs to Medicaid managed care organizations, the state must adjust the capitation rates paid to those organizations. The 6.0% use tax effectively increases costs to such organizations by about 6.0%; therefore, payment rates were increased by that amount on April 1, 2014. The use tax increased State revenue and thus managed care costs by \$607.7 million in FY 2014-15. The payment rates for Medicaid managed care organizations were increased by \$607.7 million Gross in FY 2014-15, at a final cost of \$150.0 million GF/GP, with the rest being Federal Medicaid matching funds. A similar adjustment of \$150.5 million GF/GP was made based on the projected Medicaid managed care use tax revenue of \$610.0 million in FY 2015-16 and \$152.5 million in the first quarter of FY 2016-17 (before the Federal government stops matching the revenue at the end of calendar year 2016).

The balance sheets for both the GF/GP and SAF budgets reflect each of these policy changes. General Fund revenue is increased by \$403.3 million in FY 2014-15, \$406.7 million in FY 2015-16, and \$101.7 million for the first quarter of FY 2016-17 to reflect the General Fund portion of the Medicaid managed care use tax. School Aid Fund revenue is increased by \$204.4 million in FY 2014-15, \$203.3 million in FY 2015-16, and \$50.8 million for the first quarter of FY 2016-17 to reflect the School Aid Fund portion of the Medicaid managed care use tax.

The GF/GP balance sheet also reflects the GF/GP portion of the actuarial soundness adjustment for the Medicaid managed care use tax, with \$150.5 million built into the ongoing appropriations for FY 2015-16 costs and FY 2016-17 savings of \$115.0 million compared to FY 2015-16 as the use tax expires at the end of calendar year 2016.

Finally, the GF/GP balance sheet for FY 2016-17 reflects the January 1, 2017, reversion of the HICA rate from 0.75% to 1.0% when the Federal government no longer allows matching of the Medicaid managed care use tax. This will increase HICA revenue by \$60.0 million over the remainder of FY 2016-17, leading to an equivalent reduced GF/GP need. The scheduled sunset of HICA on December 31, 2017, will not affect the FY 2016-17 budget but will significantly increase GF/GP costs in FY 2017-18 and beyond.

## **CONCLUSION**

Although the GF/GP budget is estimated to end FY 2014-15, FY 2015-16, and FY 2016-17 with healthy year-end balances, there are several budgetary pressures looming in subsequent fiscal years that could mitigate the extension of these large positive balances. For example, in the Department of Health and Human Services, under current policy and Federal guidance, it will cost at least \$601.0 million more GF/GP revenue to run the same Medicaid program in FY 2017-18 as the State is running in FY 2015-16.

There are three major factors in this cost increase: 1) statements by the Federal government that it will not provide Medicaid match for dollars collected under the Medicaid managed care use tax after January 1, 2017, which will reduce available net GF/GP Medicaid managed care use tax revenue by \$253.0 million in FY 2017-18 compared to FY 2015-16 (as well as reduce available School Aid Fund revenue by about \$210.0 million below FY 2015-16 levels); 2) the January 1, 2017, sunset of the Health Insurance Claims Assessment (HICA), which will reduce HICA revenue by \$130.0 million in FY 2017-18 compared to FY 2015-16 and result in a similar GF/GP spending increase; and 3) the requirement that the State provide matching funds (5% during calendar year 2017 and 6% during calendar year 2018), to support Medicaid expansion starting January 1, 2017, which will result in an estimated GF/GP cost of \$218.0 million in FY 2017-18, compared to zero in FY 2015-16.

It also should be noted that this amount will be even greater in FY 2018-19, with the HICA sunset revenue loss reaching \$212.0 million and the cost of Medicaid expansion growing to \$260.0 million GF/GP. This, along with the \$253.0 million use tax revenue loss noted above, will lead to a cost increase of \$725.0 million GF/GP. In other words, to run the same Medicaid program in FY 2018-19, barring any policy changes, it will cost \$725.0 million GF/GP more than it will cost to run the program in FY 2015-16. This analysis does not take into account the usual year-to-year increases in Medicaid costs tied to caseload, case mix, drug cost, and actuarial soundness, which would increase these figures.

Another future budget pressure is the GF/GP fiscal impact of the transportation funding legislation enacted in November 2015. Current SFA estimates indicate an FY 2018-19 GF/GP revenue loss of \$355.8 million, rising to \$814.0 million in FY 2021-22. These figures do not include the potential effect of the income tax rate reduction that could be triggered beginning in FY 2022-23.

Compared with the GF/GP budget, the SAF budget is in worse shape, with lower estimated ending balances for all three fiscal years displayed in this analysis. School Aid Fund revenue is lower than the May 2015 consensus revenue conference estimate primarily due to the low growth in State sales tax revenue. There also could be future budget pressures for both the GF/GP and SAF budgets, if legislation is enacted to stabilize financially distressed school districts.

The FY 2014-15 estimated ending balances may change when the State's final comprehensive annual financial report is published, which is not required by law until the end of March 2016, but is expected in early January 2016. To the extent that the FY 2014-15 numbers change due to pending accruals or other issues, the ending balances for FY 2015-16 and FY 2016-17 will be affected. Also, to the extent that policy changes are enacted during 2016, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 14, 2016, Consensus Revenue Estimating Conference. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2016-17 State budget, as well as for subsequent fiscal years.

**Table 15**  
**FY 2014-15, FY 2015-16, AND FY 2016-17**  
**GENERAL FUND/GENERAL PURPOSE (GF/GP)**  
**REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES**  
**(Millions of Dollars)**

	FY 2014-15	FY 2015-16	FY 2016-17
<b>Revenue:</b>			
Beginning Balance	\$306.4	\$815.9	\$701.2
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2015) .....	\$9,724.9	\$9,881.9	\$10,121.5
Senate Fiscal Agency Revenue Estimate Change .....	429.1	63.8	96.8
Senate Fiscal Agency Revenue Estimate (December 2015).....	\$10,154.0	\$9,945.7	\$10,218.3
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments .....	(459.2)	(462.7)	(463.1)
Shift of Borrowing Costs to School Aid Fund .....	0.0	1.5	2.5
Medicaid Managed Care Use Tax.....	403.3	406.7	101.7
Data Centers Sales Tax Reimbursement to School Aid Fund .....	0.0	(8.8)	(11.8)
Subtotal Ongoing Revenue .....	\$10,098.1	\$9,882.4	\$9,847.6
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing .....	(8.8)	(5.8)	(5.8)
Venture Michigan Fund Tax Vouchers.....	0.0	0.0	(30.5)
Bookclosing Adjustments .....	3.5	0.0	0.0
<b>Total Estimated GF/GP Revenue .....</b>	<b>\$10,399.2</b>	<b>\$10,692.5</b>	<b>\$10,512.5</b>
<b>Expenditures:</b>			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations .....	\$9,594.0	\$9,375.8	\$9,375.8
Initial Ongoing Appropriation for Transportation .....	0.0	142.0	142.0
Subtotal Ongoing Appropriations .....	\$9,594.0	\$9,517.8	\$9,517.8
<u>One-Time Appropriations:</u>			
Initial One-Time Appropriations.....	\$207.0	\$98.3	\$98.3
Initial One-Time Appropriation for Transportation.....	284.6	258.0	258.0
Initial One-Time Appropriation to Budget Stabilization Fund .....	94.0	95.0	95.0
Executive Order 2015-5 .....	(102.9)	0.0	0.0
Enacted Supplementals .....	(291.8)	7.4	0.0
Pending Supplementals/Other Adjustments .....	0.0	84.8	215.0
Use Tax Actuarial Soundness Cost Reduction .....	0.0	0.0	(115.0)
Medicaid Actuarial Soundness Annual Adjustment .....	0.0	0.0	40.0
State Match for Expanded Medicaid (5.0% on Jan. 1, 2017) .....	0.0	0.0	143.0
State Match Increase for Traditional Medicaid.....	0.0	0.0	45.0
HICA Rate Increase (Jan. 1, 2017) .....	0.0	0.0	(60.0)
Estimated Lapses.....	(201.6)	(70.0)	(70.0)
Subtotal One-Time and Other Appropriations .....	(\$10.7)	\$473.4	\$649.3
<b>Total Estimated GF/GP Expenditures .....</b>	<b>\$9,583.3</b>	<b>\$9,991.3</b>	<b>\$10,167.1</b>
<b>PROJECTED YEAR-END GF/GP BALANCE .....</b>	<b>\$815.9</b>	<b>\$701.2</b>	<b>\$345.4</b>

Table 16

**FY 2014-15, FY 2015-16, AND FY 2016-17  
SCHOOL AID FUND (SAF)  
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES  
(Millions of Dollars)**

	FY 2014-15	FY 2015-16	FY 2016-17
<b>Revenue:</b>			
Beginning Balance .....	\$455.1	\$217.4	\$59.8
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2015) .....	\$11,883.2	\$12,242.9	\$12,598.8
Senate Fiscal Agency Revenue Estimate Change .....	(108.8)	(118.9)	(177.4)
Senate Fiscal Agency Revenue Estimate (Dec. 2015) .....	\$11,774.4	\$12,124.0	\$12,421.4
<u>Other Revenue Adjustments:</u>			
MPERS Reserve Fund.....	18.0	0.0	0.0
General Fund/General Purpose Grant .....	33.7	45.9	57.0
General Fund Reimbursement for Data Centers Sales Tax .....	0.0	8.8	11.8
Medicaid Managed Care Use Tax.....	204.4	203.3	50.8
Federal Ongoing Aid .....	1,606.5	1,775.8	1,775.8
Subtotal Ongoing Revenue .....	\$13,637.0	\$14,157.8	\$14,316.8
<u>Non-ongoing Revenue:</u>			
Venture Michigan Fund Tax Vouchers.....	0.0	0.0	(9.5)
Bookclosing Adjustments .....	20.0	0.0	0.0
<b>Total Estimated School Aid Fund Revenue.....</b>	<b>\$14,112.1</b>	<b>\$14,375.2</b>	<b>\$14,367.1</b>
<b>Expenditures:</b>			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations .....	\$13,494.1	\$13,846.5	\$13,862.6
Public Act 5 of 2015-Consensus Cost Adjustments (Jan. 2015)	(96.0)	0.0	0.0
Public Act 85 of 2015-Consensus Cost Adjustments (May 2015).	(13.0)	0.0	0.0
Public Act 139 of 2015-Great Start Slots .....	0.0	4.3	4.3
SFA Estimate of K-12 Cost Adjustments (Dec. 2015).....	0.0	(20.1)	16.5
Partially Fund Community Colleges with School Aid Fund .....	197.6	256.7	260.4
Partially Fund Higher Education with School Aid Fund.....	200.5	205.2	205.9
Subtotal Ongoing Appropriations .....	\$13,783.2	\$14,292.6	\$14,349.7
<u>One-Time Appropriations:</u>			
Initial One-Time K-12 Appropriations .....	\$376.2	\$49.8	\$0.0
University MPERS Funding .....	4.0	0.0	0.0
Public Act 5 of 2015-All SAF for Community Colleges.....	167.1	0.0	0.0
Public Act 5 of 2015-Libraries/Charters MPERS .....	2.2	0.0	0.0
Public Act 5 of 2015-University MPERS Fund Shift.....	2.0	0.0	0.0
Public Act 5 of 2015-Reduce Extra MPERS Payment.....	(88.4)	0.0	0.0
Public Act 5 of 2015-Eliminate Online Nutrition/Health .....	(1.2)	0.0	0.0
Federal Expenditure Adjustments .....	(201.7)	0.0	0.0
Bookclosing Adjustments to Reserves .....	(3.1)	0.0	0.0
Estimated Lapses .....	(145.6)	(27.0)	0.0
Subtotal One-Time Appropriations.....	\$111.5	\$22.8	\$0.0
<b>Total Estimated School Aid Fund Expenditures.....</b>	<b>\$13,894.7</b>	<b>\$14,315.4</b>	<b>\$14,349.7</b>
<b>PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....</b>	<b>\$217.4</b>	<b>\$59.8</b>	<b>\$17.4</b>