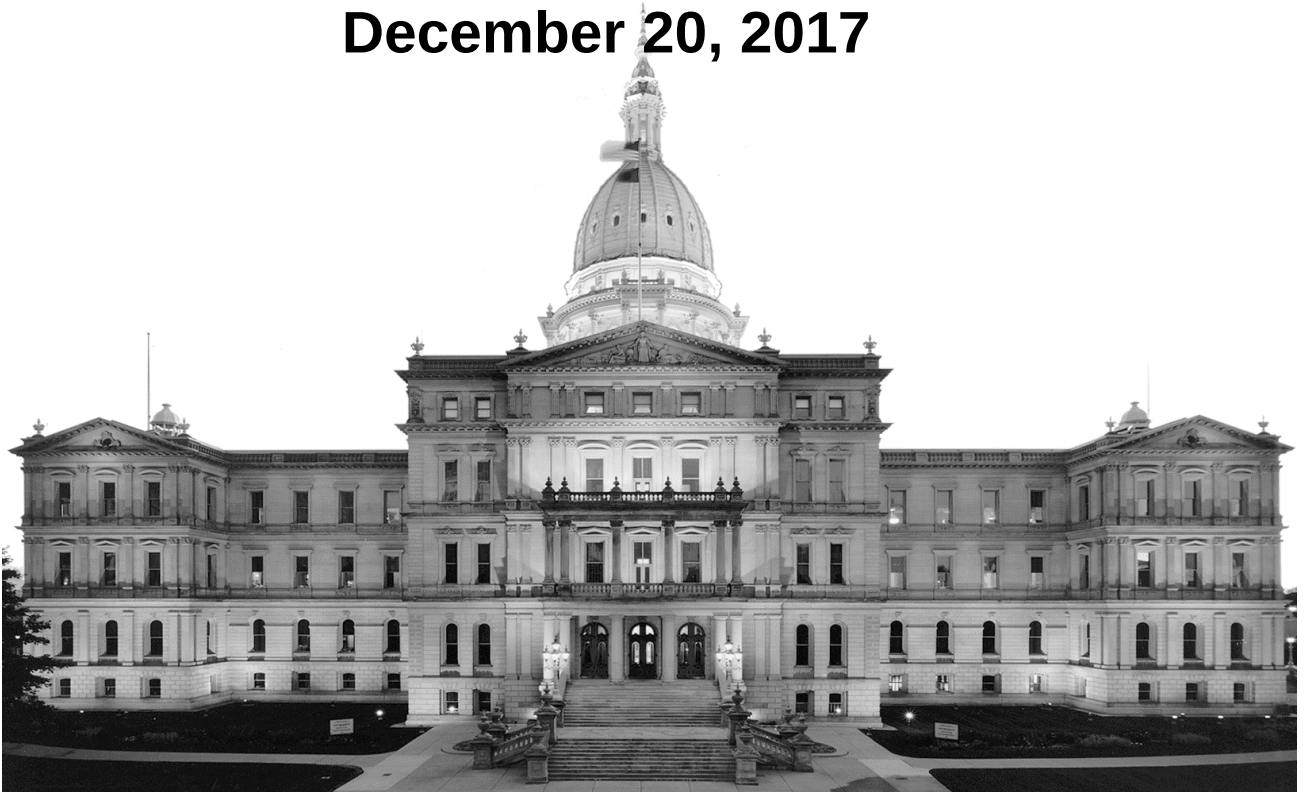


MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

**FY 2016-17, FY 2017-18,
FY 2018-19, and FY 2019-20**

December 20, 2017



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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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing an estimated 2.3% during 2017, is predicted to expand 2.4% in 2018, and 1.9% in both 2019 and 2020. Light vehicle sales are forecasted to decline from 17.5 million units in 2016 to 17.1 million units in 2017, 16.8 million units in 2018, and 16.6 million units in both 2019 and 2020. The unemployment rate is expected to fall from 4.9% in 2016 to 4.4% in 2017, decline to 4.2% in both 2018 and 2019, and reach 4.1% in 2020. The consumer price index is estimated to increase 1.6% in 2018, 1.8% in 2019, and 2.0% in 2020, after increasing 2.1% in 2017.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 2.7% in 2018, 2.5% in 2019, and 2.4% in 2020, after rising 1.2% in 2017. After growing 1.5% in 2017, wage and salary employment is predicted to grow more slowly, increasing 0.9% during 2018, 0.8% in 2019, and 0.9% in 2020.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2016-17 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$22.9 billion, up 3.4% from FY 2015-16, reflecting economic growth that boosted tax revenue, especially from the sales tax, and less-than-expected refunds under the Michigan Business Tax (MBT) that more than offset the increase in use tax revenue earmarked to fund personal property tax reform. Combined FY 2016-17 GF/GP and SAF revenue is \$158.5 million above the May 2017 consensus estimate.

In FY 2017-18, slower growth in the earmark of use tax revenue for personal property tax reform will increase revenue, helping offset declining Corporate Income Tax revenue and slower revenue growth from weaker employment gains. As a result, GF/GP and SAF revenue will total an estimated \$23.3 billion, a 1.9% increase from FY 2016-17. The revised FY 2017-18 forecast is \$70.9 million below the May 2017 consensus estimate.

In FY 2018-19, GF/GP and SAF revenue will total an estimated \$23.7 billion, a 1.7% increase from FY 2017-18 but \$116.5 million below the May 2017 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.2 billion, an increase of 0.1% from FY 2017-18 that reflects increased homestead property tax credits and a new earmark of individual income tax revenue to the Michigan Transportation Fund, adopted as part of the 2015 transportation funding package, as well as slower income and employment growth. School Aid Fund revenue will rise to an estimated \$13.5 billion, a 2.9% increase.

In FY 2019-20, GF/GP and SAF revenue will total an estimated \$24.1 billion. This initial estimate for FY 2019-20 is 1.6% above the revised estimate for FY 2018-19. An increase in the earmark of individual income tax revenue to the Michigan Transportation Fund, adopted as part of the 2015 transportation funding package, will reduce GF/GP revenue growth to 0.4%, so GF/GP revenue will total \$10.3 billion. School Aid Fund revenue will rise to an estimated \$13.8 billion, a 2.6% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 20, 2017, the Senate Fiscal Agency (SFA) is estimating that the FY 2016-17 GF/GP budget will close the fiscal year with a \$643.2 million balance. The SFA estimates that the FY 2016-17 SAF budget will close the fiscal year with a \$381.7 million balance.

A comparison of the SFA's FY 2017-18 revenue estimates with enacted and projected appropriations leads to a \$285.6 million GF/GP year-end balance. The SFA is now estimating that the FY 2017-18 SAF budget will end the year with a \$228.0 million balance.

Looking ahead at the FY 2018-19 budget, there is a projected GF/GP balance of \$1.6 million if the SFA's FY 2018-19 GF/GP revenue estimate is compared with FY 2018-19 GF/GP estimated expenditures that: freeze ongoing and one-time spending at the FY 2017-18 level; adjust for Medicaid caseload and costs; include the Governor's FY 2018-19 School Aid Fund planning budget's \$145.0 million GF/GP grant amount; and add an overall 1.6% increase for other economic factors. If the SFA's FY 2018-19 SAF revenue estimate is compared with the FY 2018-19 SAF estimated expenditures that adjust the FY 2017-18 level of funding for estimated pupils and other costs, the projected SAF surplus is \$544.2 million.

The FY 2016-17 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 2018, but is expected in early January 2018. To the extent that the FY 2016-17 numbers change due to pending accruals and other book-closing issues, the ending balances in this report will be affected.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)					
	2016 Actual	2017 Estimate	2018 Estimate	2019 Estimate	2020 Estimate
Real Gross Domestic Product (% change)	1.5%	2.3%	2.4%	1.9%	1.9%
U.S. Consumer Price Index (% change)	1.3%	2.1%	1.6%	1.8%	2.0%
Light Motor Vehicle Sales (millions of units)	17.5	17.1	16.8	16.6	16.6
U.S. Unemployment Rate (%)	4.9%	4.4%	4.2%	4.2%	4.1%
Real Michigan Personal Income (% change)	1.2%	1.2%	2.7%	2.5%	2.4%
Michigan Wage & Salary Employment (% change)	1.9%	1.5%	0.9%	0.8%	0.9%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (millions of dollars)									
	FY 2017-18 Estimate			FY 2018-19 Estimate			FY 2019-20 Estimate		
		Tax	Net		Tax	Net		Tax	Net
	Baseline	Changes	Available	Baseline	Changes	Available	Baseline	Changes	Available
GF/GP	\$11,341.1	(\$1,109.7)	\$10,231.4	\$11,672.4	(\$1,428.1)	\$10,244.2	\$11,981.4	(\$1,698.5)	\$10,282.8
% Change	2.5%	---	0.4%	2.9%	---	0.1%	2.6%	---	0.4%
School Aid Fund	\$13,081.4	(4.6)	\$13,076.8	\$13,447.1	12.2	\$13,459.3	\$13,801.0	4.3	\$13,805.3
% Change	2.7%	---	3.1%	2.8%	---	2.9%	2.6%	---	2.6%
Total GF/GP & SAF	\$24,422.5	(\$1,114.3)	\$23,308.2	\$25,119.5	(\$1,416.0)	\$23,703.5	\$25,782.4	(\$1,694.2)	\$24,088.1
% Change	2.6%	---	1.9%	2.9%	---	1.7%	2.6%	---	1.6%
Revenue Limit – Under (Over)		\$9,278.0		\$9,776.7			\$10,753.0		
<u>FY 2016-17 Estimate</u>				<u>FY 2017-18 Estimate</u>			<u>FY 2018-19 Estimate</u>		
Revision from May Consensus									
GF/GP	\$81.5			(\$177.2)			(\$245.3)		
SAF	77.0			106.3			128.8		
Total	\$158.5			(\$70.9)			(\$116.5)		

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate
General Fund/General Purpose.....	\$643.2	\$285.6	\$1.6
School Aid Fund	381.7	228.0	544.2
Budget Stabilization Fund (with formula pay-in)	\$710.5	\$888.3	\$958.4
Budget Stabilization Fund (with enacted deposits)	710.5	888.3	923.1

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 2018, 2019, and 2020, 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. Some fundamental economic factors remain well below their prerecession peaks, or nonrecession averages, and even factors that have recovered have done so more slowly than after almost any other post-World War II recession. As of the third quarter of 2017, the economy had been in recovery for 33 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 two recoveries have lasted 33 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 2017 was only 14.5% above the level during the fourth quarter of 2007, when the recession began, and only 19.6% 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 4.5% annual growth over the other two recoveries of 33 months or more 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 2.4% annual growth, compared with a historical average of 4.5% growth. Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 0.8% compared with the historical average of 2.8% growth ([Figure 2](#)).

Figure 1

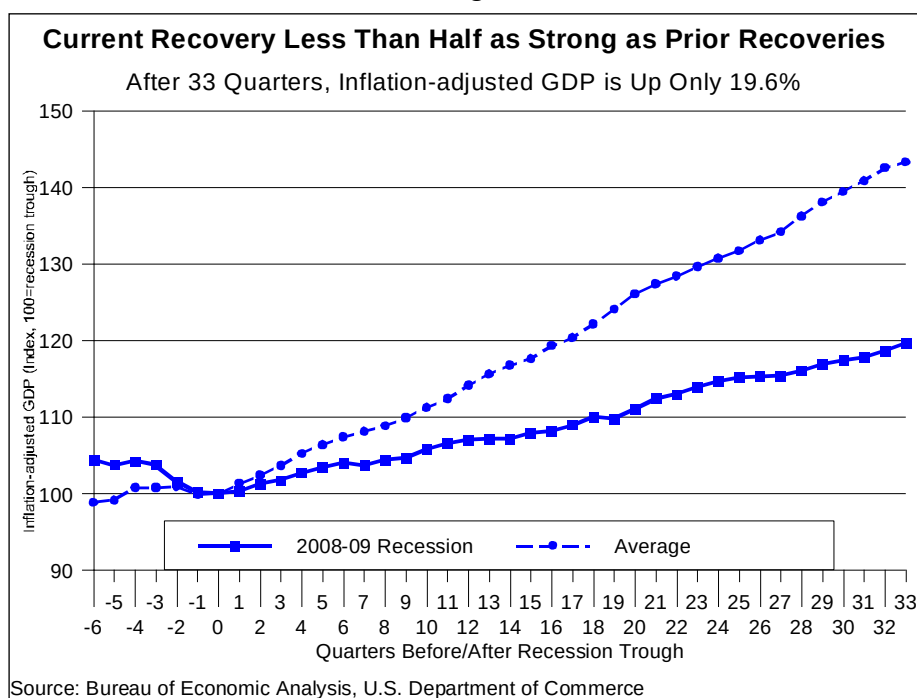
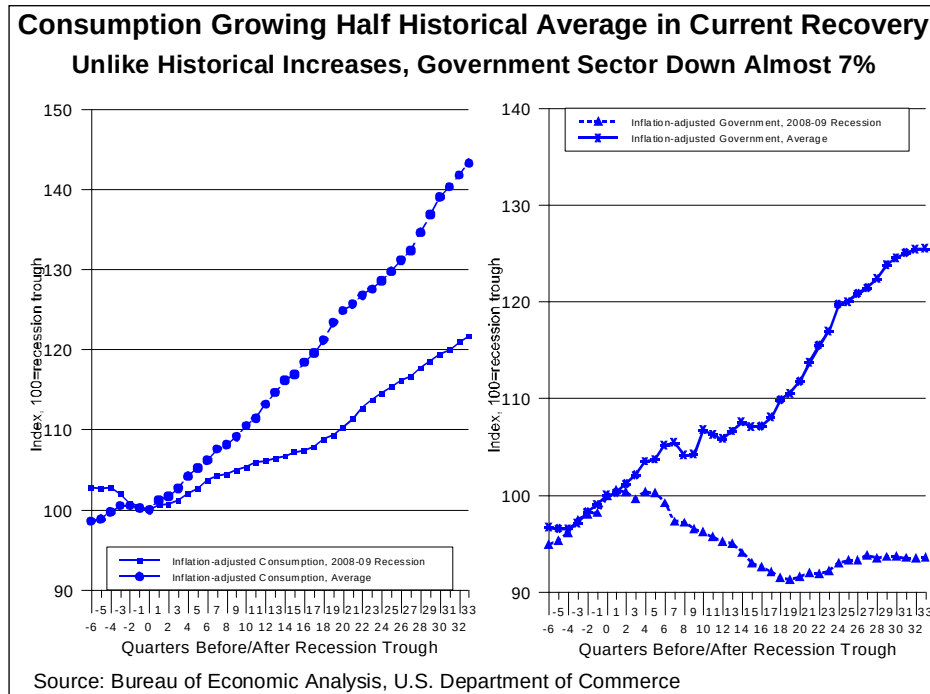


Figure 2



The long-run growth of an economy is generally constrained by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they are able to produce goods and services. While short-term deviations inevitably occur, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced during the current recovery can be attributed to slower rates of both population growth and productivity growth. Despite the slow economic growth after the 2008-2009 recession, since 2011 the economy has consistently outperformed the long-run trend growth suggested by these factors ([Figure 3](#)).

Productivity, as measured by output per hour in the nonfarm business sector, in the third quarter of 2017 was up 1.5% from the third quarter of 2016, the strongest year-over-year growth since the 1.6% rate in the second quarter of 2015. However, productivity growth is far weaker looking at nonfinancial corporations, where productivity in the third quarter of 2017 was only 0.2% above the third quarter of 2016. Based on the first three quarters of 2017, annual productivity growth in the nonfarm business sector during 2017 will be 1.3%, tying the 2015 growth rate and only the second time since 2010 that productivity growth will exceed 1.0%.

During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity has grown by 1.3% or less per year in every year since 2010—the longest and most severe slowdown in productivity experienced since at least World War II ([Figure 4](#)). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries. In addition to influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced since 2010 has boosted employment growth over what it would have been had labor productivity grown at historical rates.

Early in the recovery, much of the economic growth reflected increases in inventories: goods produced but not sold. As consumption growth has improved, it has to some degree been offset by low, or even declining, rates of business investment. Although nonresidential business investment

has exhibited 6.2% annual growth during 2017, residential investment declined in both the second and third quarters of 2017. Investment affects not only current economic growth but also future economic growth: business investment is generally associated with improving the long-run ability of the economy to grow (although in the short run can depress employment growth) and residential investment generally reflects household formation, which influences both construction and consumption.

Figure 3

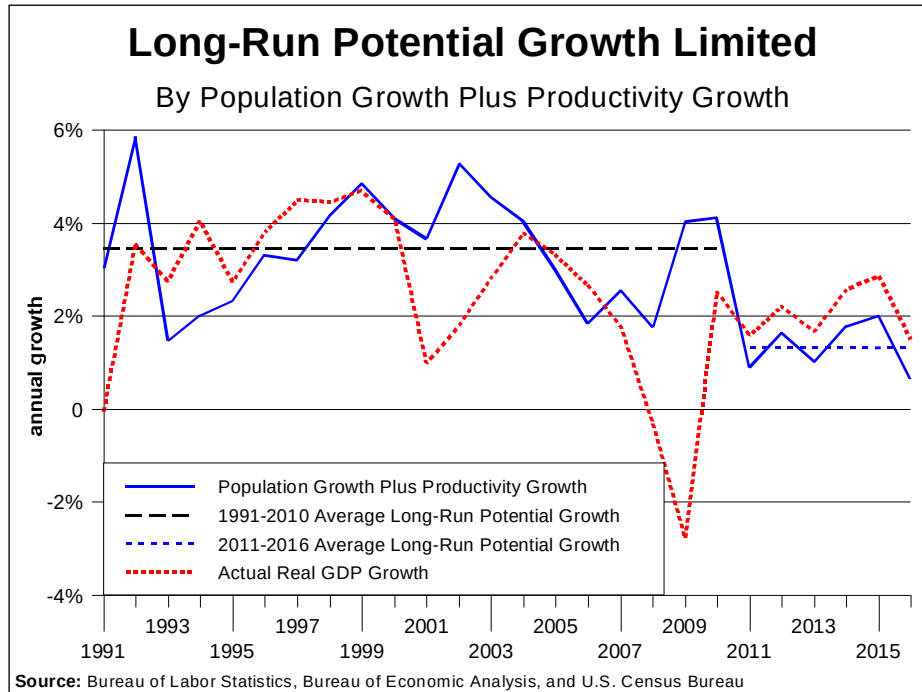
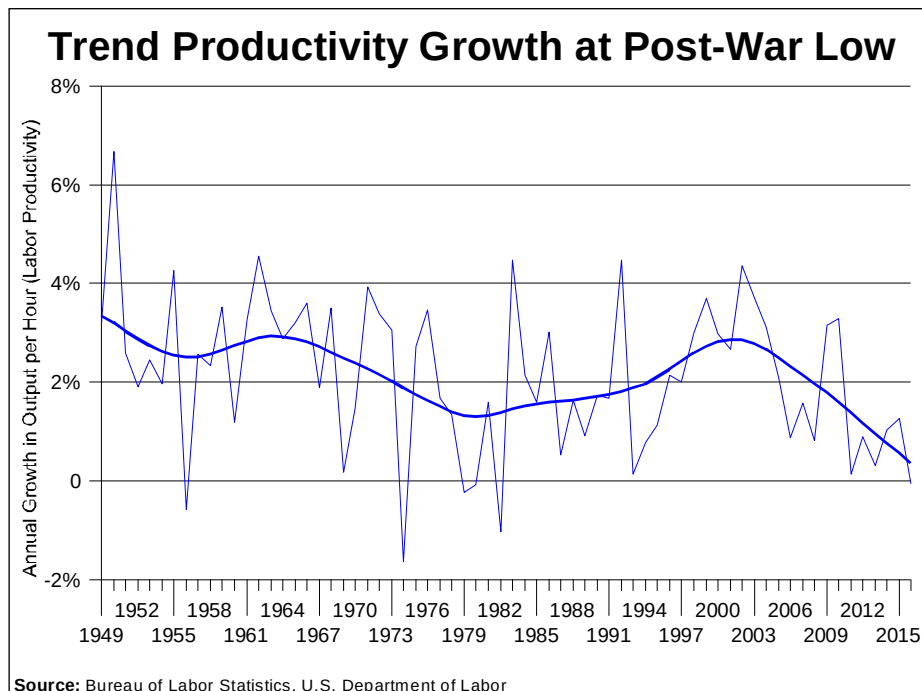


Figure 4



Consumption growth has largely reflected increased purchases of motor vehicles and/or rising debt. Consumers remained risk-averse about spending, especially for big-ticket items and nonessential purchases, as employment growth remained weak and wage increases were 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 peaked at an all-time record of 17.5 million units in 2016, exceeding the previous all-time record of 17.4 million units, set in 2015. Since the recession trough in the second quarter of 2009, personal consumption expenditures on motor vehicles and parts have risen an average of 6.1% per year--more than 1.5 times the growth rate in overall consumer expenditures.

Although consumption has returned to its historical position of accounting for the majority of growth in the economy, it is being offset by other sectors of the economy (most notably investment and net exports) and it has been financed by increased borrowing, particularly since early 2014. Between the third quarter of 2016 and the third quarter of 2017, borrowing activity continued to rise, even as income growth has flattened. Over that four-quarter period, inflation-adjusted consumption spending per person rose at an annual rate of 1.9%, compared with a 0.2% rate of increase in inflation-adjusted wage and salary income per person ([Figure 5](#)). As a result, personal saving as a percentage of disposable personal income decreased in the third quarter of 2017 to the lowest levels since the fourth quarter of 2007--when the recession began. Furthermore, consumer debt rose even more rapidly. Between the third quarter of 2016 and the third quarter of 2017, outstanding consumer debt per person increased at an annual rate of 3.2%, growing more rapidly than either the 0.3% annual rate for income or the 1.9% annual rate for spending. Nonrevolving debt, which includes student loans and motor vehicle loans, and revolving credit (mainly credit card debt) both grew at similar rates over the last year, and on an inflation-adjusted per-person basis, those rates are nearly 10 times the growth rate in personal income and almost double the rate of consumption spending.

Consumer debt has increased even as the share of disposable personal income that must be used to service that debt has remained flat at levels not experienced since the early 1980s ([Figure 6](#)). Just as the composition of consumer debt has changed, so has the cost of servicing that 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. The total financial obligations ratio has risen slightly since the fourth quarter of 2015, as interest rates have started increasing, and is likely to increase as interest rates continue 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, in addition to the jobs lost during the recession. Despite employment gains since 2010, payroll employment did not reach the prerecession peak until May 2014. As of November 2017, payroll employment averaged only 1.6% annual growth since the February 2010 trough and was up only 1.4% from the November 2016 level, after showing as much as a 2.3% year-over-year increase as recently as February 2015, and 1.9% year-over-year growth in April 2016. Year-over-year payroll employment growth has declined slowly during 2017, from 1.6% in January and February, to 1.4% in both October and November. During the first 11 months of 2017 the economy averaged 174,000 new jobs a month, the lowest monthly average since 2011 and the third year of consecutive declines, and not much above the 160,000 increase necessary to keep pace with population growth.

The unemployment rate fell from a peak of 10.0% in October 2009, to 4.1% in November 2017. 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 the December 2009 trough in total employment (as opposed to payroll employment) and September 2014, the labor force averaged 0.3% per year annual growth. In 2016, the labor force grew 1.3%, but that growth has slowed, with the labor force estimated to increase by only 0.7% in 2017. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the September 2017 level of total employment set an all-time record. However, labor force participation during 2017 has remained at the same 40-year lows experienced during since 2013.

Figure 5

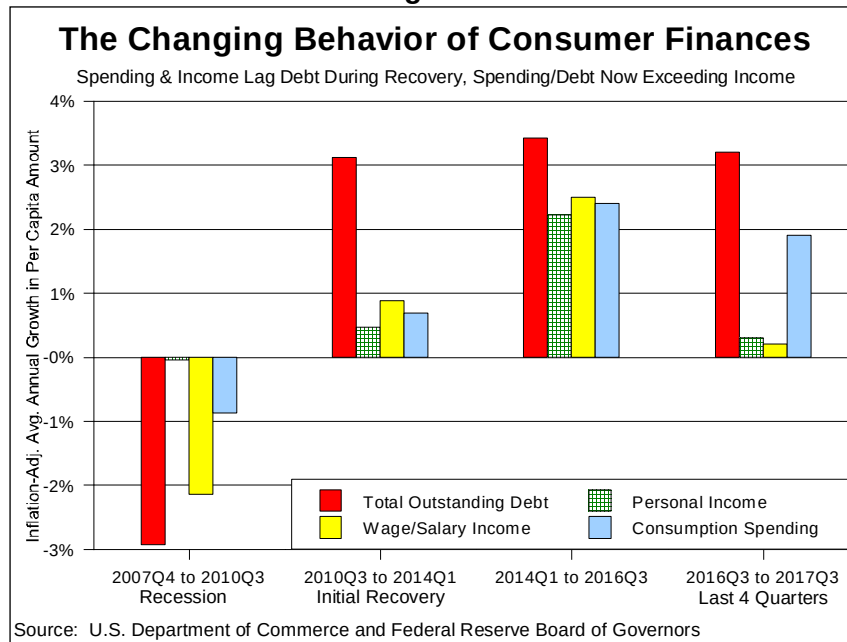
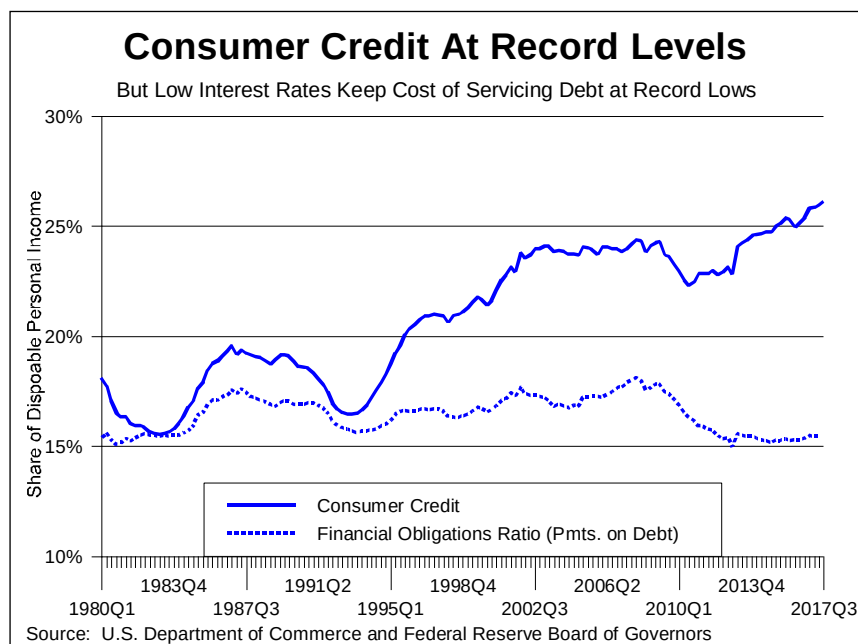
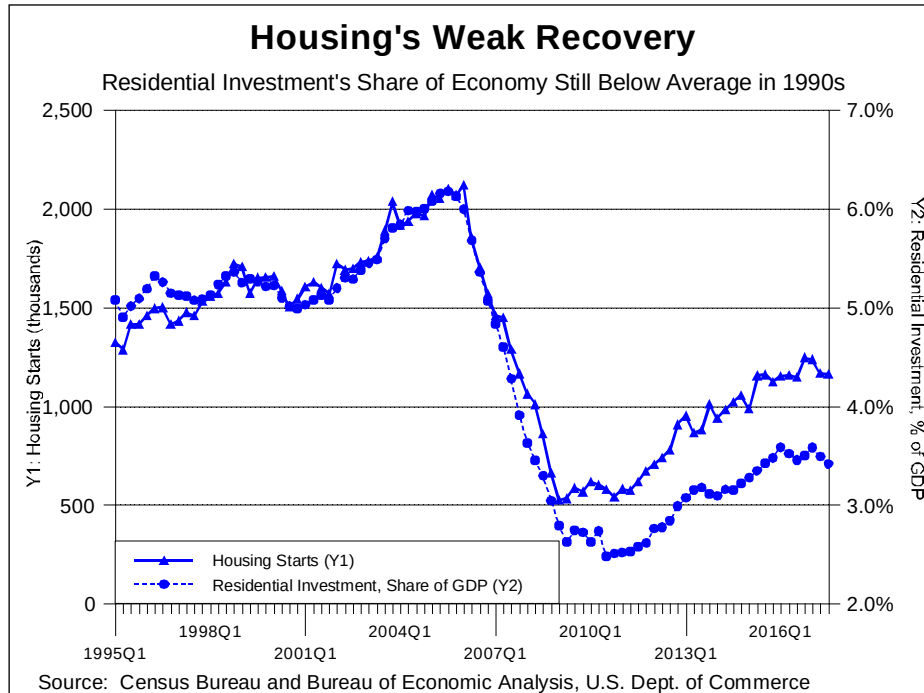


Figure 6



The housing market, which counts as residential investment rather than consumption spending, fell in the second and third quarters of 2017, and remains weak by almost any historical measure--roughly matching housing start levels during the 1979-1982 and 1991 recessions (Figure 7). Housing starts are projected to total approximately 1.19 million units in 2017, the eighth consecutive annual increase in starts, although the 1.9% increase from 2016 will represent the weakest growth in housing starts since the 2008-2009 recession. Furthermore, 2017 will represent the 16th-weakest year of housing starts (based on data available back to 1959), above the nine-year 2008 through 2016 period and the recession years of 1975, 1981, 1982, and 1991. 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 approximately 3.5% of GDP during 2017.

Figure 7

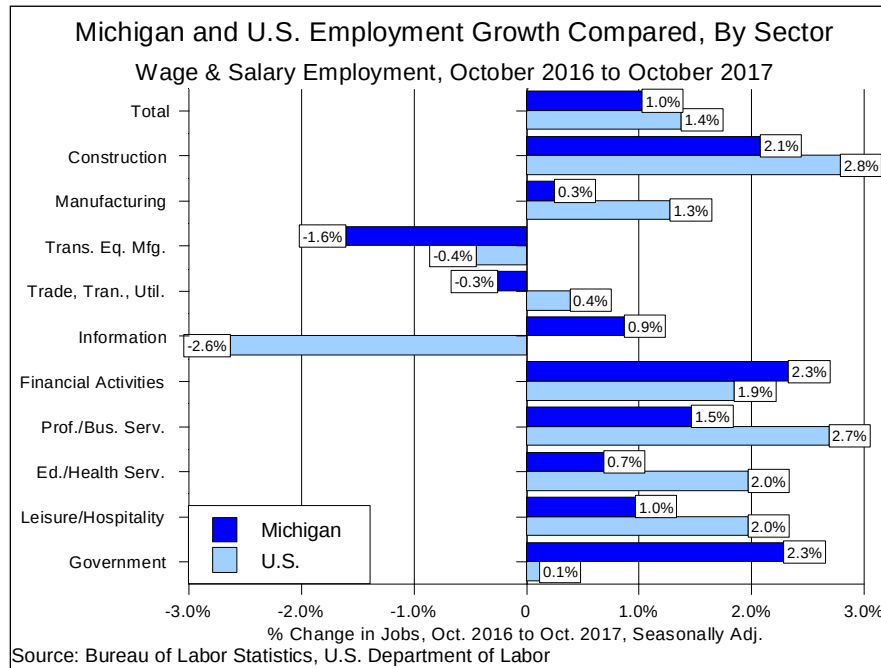


RECENT MICHIGAN ECONOMIC HIGHLIGHTS

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, 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; thus, Michigan lost jobs as a result of 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.

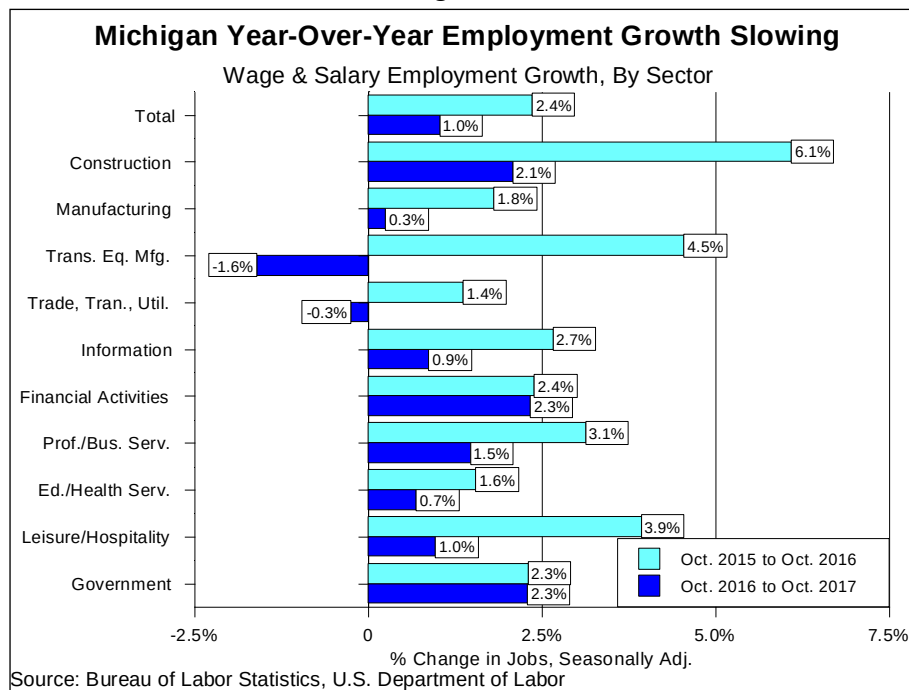
The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 146,000 jobs (34.5%) between June 2009, when the U.S. recession ended, and December 2014, or approximately 2,300 jobs per month (an average annual growth rate of 5.5%). Since December 2014, job growth in manufacturing has slowed, rising 830 jobs per month during 2015, 600 jobs per month during 2016, and 190 jobs per month over the first 10 months of 2017 (0.4% annual growth rate). Employment in the transportation equipment manufacturing sector increased by 65.3% between June 2009 and December 2014, accounting for 69,000 (46.1%) of the manufacturing jobs Michigan gained and 18.2% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly, with the growth rate declining from a 5.5% increase in 2014 to a 3.3% gain in 2016 and an estimated 0.3% increase in 2017.

Figure 8



Between October 2016 and October 2017, Michigan experienced a marked slowdown in the rate of job gains, with employment growth decelerating from 2.4% year-over-year growth in October 2016 to 1.0% growth in October 2017 and Michigan generally growing at a slower rate than the U.S. as a whole (Figure 8). Every major sector exhibited a slower, or even declining, rate of employment growth during the October 2016-October 2017 period than in the preceding twelve months, even accounting for the seasonal patterns of employment in different sectors (Figure 9).

Figure 9



The unemployment rate declined from a high of 14.9% in June 2009 to 3.7% in July 2017. The unemployment rate rose slightly since July 2017, reaching 4.5% in October 2017. The decline between July 2009 and July 2017 was partially attributable to the departure of approximately 93,100 individuals from the labor force in addition to the employment gain of 453,700 jobs. Almost half of the employment gain, representing 190,600 jobs, occurred during 2014 and 2015. Employment rose by another 68,200 jobs between January and April 2017 but two-thirds of those jobs subsequently vanished between June and October, when employment fell by 45,900.

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

	2016 Actual	2017 Estimate	2018 Estimate	2019 Estimate	2020 Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	2.8%	4.1%	4.2%	3.8%	3.9%
Inflation-Adjusted GDP (year-to-year growth)	1.5%	2.3%	2.4%	1.9%	1.9%
Unemployment Rate	4.9%	4.4%	4.2%	4.2%	4.1%
Inflation					
Consumer Price Index (year-to-year growth)	1.3%	2.1%	1.6%	1.8%	2.0%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.3%	1.8%	1.7%	1.9%	1.9%
Interest Rates					
90-day Treasury Bill	0.32%	0.92%	1.45%	1.95%	2.52%
10-year Treasury Bill	1.84%	2.34%	2.76%	3.06%	3.28%
Corporate Aaa Bond	3.67%	3.78%	3.95%	4.15%	4.28%
Federal Funds Rate	0.40%	1.00%	1.55%	2.05%	2.61%
Light Motor Vehicle Sales (millions of units)					
Auto	6.9	6.1	5.8	5.5	5.3
Truck	10.6	11.0	11.1	11.1	11.4
Import Share	22.1%	22.3%	22.5%	23.0%	23.4%
<u>Michigan</u>					
Personal Income (millions)	\$439,361	\$453,099	\$472,384	\$492,620	\$514,150
Year-to-year growth	2.8%	3.1%	4.3%	4.3%	4.4%
Inflation-Adjusted Personal Income (year-to-year growth)	1.2%	1.2%	2.7%	2.5%	2.4%
Wage & Salary Income (millions)	\$222,823	\$230,983	\$239,793	\$248,302	\$258,183
Year-to-year growth	3.8%	3.7%	3.8%	3.5%	4.0%
Detroit Consumer Price Index (year-to-year growth)	1.6%	1.9%	1.5%	1.8%	1.9%
Wage & Salary Employment (thousands)	4,325.6	4,390.1	4,431.4	4,467.7	4,507.7
Year-to-year growth	1.9%	1.5%	0.9%	0.8%	0.9%
Unemployment Rate	4.9%	4.4%	4.2%	4.3%	4.2%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2016 Actual	2017 Estimate	2018 Estimate	2019 Estimate	2020 Estimate
Gross Domestic Product (billions of dollars)	\$18,624.5	\$19,383.6	\$20,192.2	\$20,967.9	\$21,784.6
Year-to-year growth	2.8%	4.1%	4.2%	3.8%	3.9%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2009 dollars)	\$16,716.2	\$17,094.4	\$17,504.6	\$17,839.7	\$18,181.9
Year-to-year growth	1.5%	2.3%	2.4%	1.9%	1.9%
Consumption (billions of 2009 dollars)	\$11,572.1	\$11,884.2	\$12,171.1	\$12,449.1	\$12,749.4
Year-to-year growth	2.7%	2.7%	2.4%	2.3%	2.4%
Business Fixed Investment (billions of 2009 dollars)	\$2,210.4	\$2,311.2	\$2,404.6	\$2,499.2	\$2,592.2
Year-to-year growth	-0.6%	4.6%	4.0%	3.9%	3.7%
Change in Business Inventories (billions of 2009 dollars)	\$33.4	\$21.5	\$58.7	\$44.9	\$39.0
Residential Investment (billions of 2009 dollars)	\$587.4	\$593.7	\$611.9	\$635.1	\$652.5
Year-to-year growth	5.5%	1.1%	3.1%	3.8%	2.7%
Government Spending (billions of 2009 dollars)	\$2,900.2	\$2,897.0	\$2,900.1	\$2,904.7	\$2,902.1
Year-to-year growth	0.8%	-0.1%	0.1%	0.2%	-0.1%
Net Exports (billions of 2009 dollars)	(\$586.2)	(\$608.1)	(\$634.1)	(\$687.3)	(\$748.9)
Exports (billions of 2009 dollars)	\$2,120.1	\$2,185.9	\$2,236.5	\$2,297.8	\$2,363.7
Imports (billions of 2009 dollars)	\$2,706.3	\$2,794.0	\$2,870.6	\$2,985.1	\$3,112.6
Personal Income (year-to-year growth)	2.4%	3.1%	4.4%	4.7%	4.8%
Adjusted for Inflation	1.1%	1.0%	2.7%	2.8%	2.8%
Wage & Salary Income (year-to-year growth)	2.9%	3.3%	5.0%	4.6%	4.7%
Personal Savings Rate	4.9%	3.5%	3.7%	4.3%	4.7%
Capacity Utilization Rate	75.7%	76.3%	77.1%	77.8%	78.5%
Housing Starts (millions of units)	1.174	1.196	1.237	1.255	1.276
Conventional Mortgage Rates	3.7%	4.0%	4.3%	4.7%	4.9%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$697.3)	(\$639.6)	(\$700.8)	(\$803.5)	(\$857.7)

FORECAST SUMMARY

During 2018, both the U.S. and Michigan economies are expected to expand slightly more rapidly than during 2017, but then grow at slightly slower rates in later years. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2018 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 2.4% in 2018, slightly more than the estimated 2.3% increase in 2017. Inflation-adjusted GDP will continue expanding, increasing 1.9% during both 2019 and 2020. The expansion over the forecast period primarily reflects slowing growth in consumption spending, residential and business investment that will more than offset the drag on the economy from increased imports, and a relatively stagnant public sector.

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 replaces capital for labor. The U.S. unemployment rate is expected to fall from 4.4% during 2017, to 4.2% in both 2018 and 2019, before falling to 4.1% in 2020.

Inflation is not anticipated to be a concern over the forecast period, and core inflation (excluding volatile food and energy prices) will generally run below the Federal Reserve Board's target of 2.0%. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.1% in 2017, followed by increases of 1.6% in 2018, 1.8% in 2019, and 2.0% in 2020. The last time the CPI increased more than 2.0% in a year was 2012, when it rose 2.1%. Export growth is expected to improve in the near term as foreign economies strengthen and the value of the dollar declines. Productivity, modest domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs (not shown in the table) expected to increase 1.9% in 2018, 2.4% in 2019, and 2.5% in 2020.

In Michigan, both job growth and personal income growth are expected to remain below the national averages, despite outperforming the national averages in both 2010 and 2011 (Figures 10 and 11). Inflation-adjusted personal income is projected to increase 2.7% in 2018, 2.5% in 2019, and 2.4% in 2020, compared with a predicted 1.2% increase during 2017. Most of the variation in inflation-adjusted income growth over the forecast period reflects changes in inflation; changes in nominal income growth are expected to be relatively small. Payroll employment is expected to increase 0.9% in 2018, slower than the 1.5% growth rate estimated for 2017, and then increase at about the same rate in future years, rising 0.8% in 2019 and 0.9% in 2020. Private sector gains in employment during 2017 and 2018 are expected to be fairly modest, although above the nearly flat employment predicted in the government sector. Nationally, light vehicle sales are expected to decrease from an estimated 17.1 million units in 2017 to 16.8 million units in 2018 and 16.6 million units in both 2019 and 2020. In Michigan, the relatively high (but declining) level of vehicle sales, stability in the housing market, and the modest national economy are expected to result in a fairly stable unemployment rate that will change from an estimated 4.4% in 2017 to 4.2% in 2018, 4.3% in 2019, and 4.2% in 2020.

Compared with the May 17, 2017 Consensus Economic Forecast, forecasted U.S. economic growth is stronger in both 2018 and 2019, while the Michigan forecast is almost unchanged. Both the U.S. and Michigan forecasts predict continued growth, but compared to the May 2017 forecasts, light vehicle and housing sales are lower, and inflationary pressures are lower. Although lower than in 2017, light vehicle sales levels will remain high by historical standards, and provide some stability to the Michigan employment situation.

Figure 10

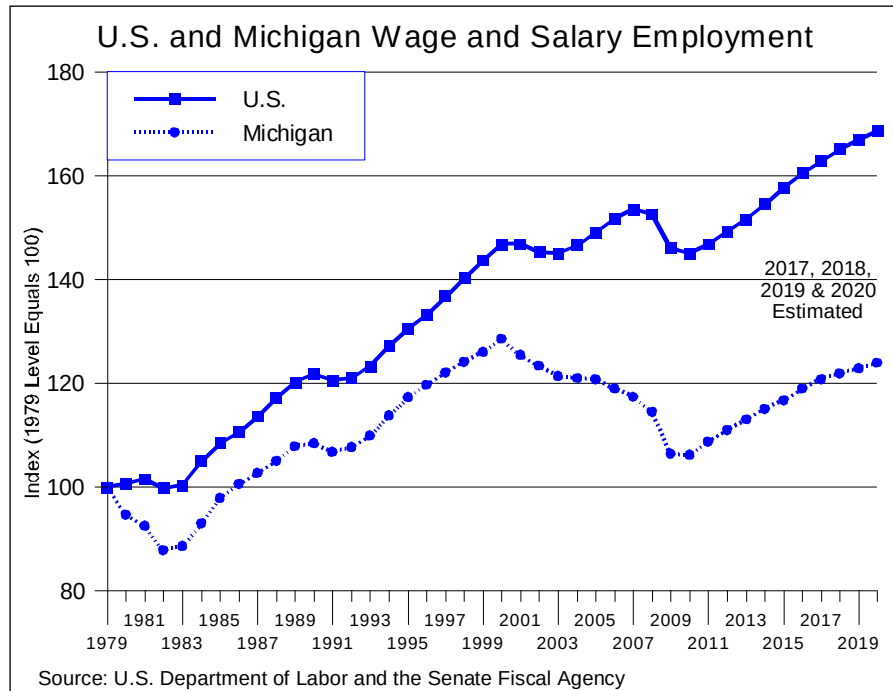
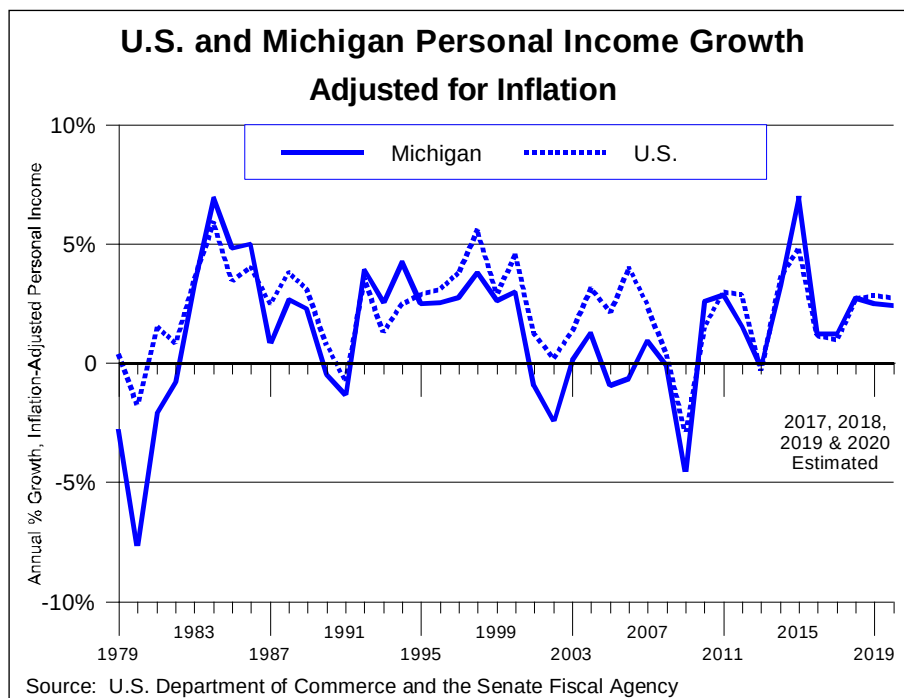


Figure 11



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. Certain expected changes in the national economy create greater uncertainty for this forecast than has been present in most SFA forecasts over the last five years.

Federal Tax Reform. As of the writing of this report, an agreement to reform Federal tax law has not been enacted. The Federal tax reform legislation is expected to have multiple impacts on both national and state economies. The forecast assumes that whatever package is adopted will lower Federal taxes for both businesses and individuals, although the majority of the impact is expected to fall on the business side. The package is expected to add to the deficit, and despite the mostly stimulative nature of policy change, the Federal Reserve is not expected to perceive the changes as highly inflationary or to dramatically increase interest rates--leaving interest rates to rise slowly via two or three nominal rate increases each year.

However, Federal tax reform is likely to affect state tax structures. The forecast assumes that Michigan will decouple from any Federal changes that would dramatically affect State tax revenue, although how such decoupling is accomplished could alter both the economic and the revenue portions of the forecast. One example of the potential impact of Federal tax reform is the impact on the personal exemption. Both the Senate- and House-passed versions of Federal tax reform eliminate the Federal personal exemption. Michigan statute provides a personal exemption based on the number of personal exemptions claimed on the taxpayer's Federal return. If Michigan did not decouple from that Federal tax change, that change could increase State tax revenue by more than \$1.4 billion. (The Michigan Department of Treasury estimates that the personal exemption reduced individual income tax revenue by approximately \$1.4 billion in FY 2016-17.) As a result, the forecast assumes some sort of State-level tax changes will be adopted so that the only meaningful effects on Michigan will reflect the changes in Federal tax liabilities.

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 induced consumers to rein in their spending, pushing the saving rate significantly higher. Over the first three quarters of 2017, the saving rate declined, but outstanding debt 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, even if they are rising slowly. If the saving rate improves more than expected, perhaps to take advantage of higher interest rates, 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 the 2008-2009 recession, 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. The increases in debt-financed consumption may reflect consumers feeling more confident about the future, and thus being willing to make greater spending commitments; but also could reflect consumers needing to replace increasingly older durable goods but lacking enough disposable income to acquire them, and therefore having to assume greater debt. 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.

After the assumption for Federal tax reform, 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-to-2016 period. The forecast assumes that consumers will slightly increase 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 anticipated.

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 since 2009 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 that 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 the rate of population growth, but more slowly than new jobs will be created. As a result, employment gains are anticipated but wage growth is expected to be relatively modest. If job growth rises more rapidly than the labor force increases, it will put upward pressure on wages, making interest rate increases more likely and encouraging firms to make greater investments in labor-saving capital equipment.

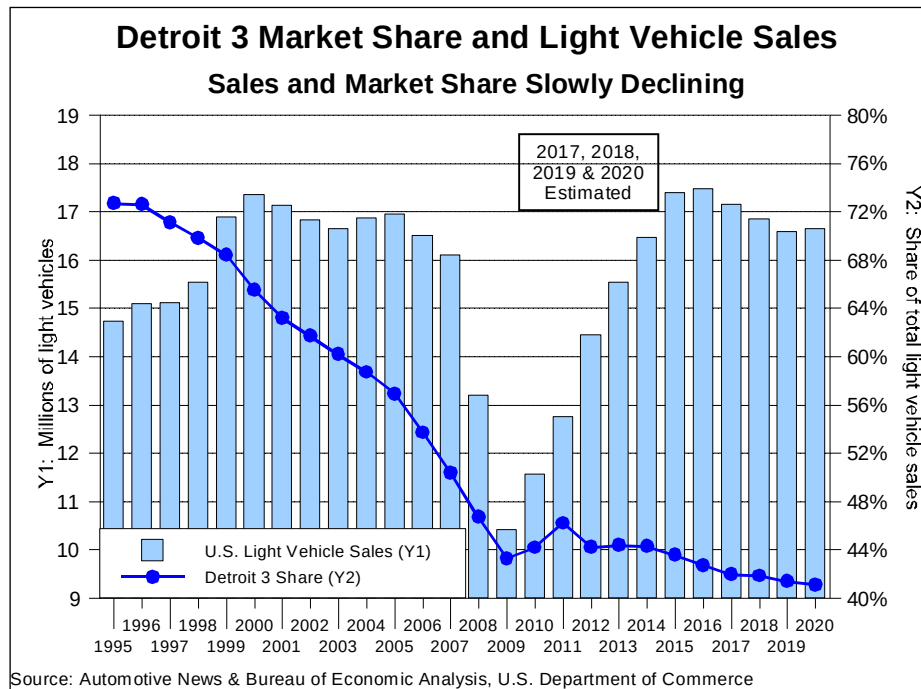
Recession. Economists often argue that recoveries do not "die of old age". While the current recovery is one of the longest in U.S. history, it is still not long enough to be unprecedented. Similarly, few imbalances are apparent in the economy. While debt levels are higher for both individuals and many governments, the ability to service that debt is not at levels that threaten the economy and many countries have been able to exhibit sustained economic growth while servicing proportionally greater debt burdens. Recessions usually result because the economy is weak and experiences some sort of "shock". Often these shocks are political events, such as an embargo, a massive shift in government activity, a policy error by monetary authorities, a war in some part of the world, or a financial shock (such as a stock market crash). In today's international world, these shocks may not need to originate in the United States, but could happen with a major trading partner or affect an area vital to the U.S. economy, and be transmitted through international exchange to the United States.

The forecast does not predict a recession. However, the opportunity for policy errors or international economic events to trigger one is meaningful. Events such as Federal tax reform generate uncertainty and the economy is more vulnerable to shocks during times of uncertainty. Even if the chance of a recession is only 15% per year during each year of the forecast, and each year presents an independent risk of recession (which it does not), probability rules would thus indicate there is a 39% chance of a recession at some point over the course of the entire forecast. Thus, while the forecast does not predict a recession, the chances that one may occur should not be overlooked. Furthermore, as the last two recessions have demonstrated, State tax revenue has become "pro-cyclical", meaning that economic changes often exhibit exaggerated impacts on State tax revenue: for example, a 5% drop in the economy may create an 8% or 10% drop in revenue. As such, if a recession occurs during the forecast period, the economy and revenue may differ substantially from the predictions presented in this forecast.

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 lower oil prices over the last few years, these states are likely to face challenges.) For Michigan, both employment gains and improvements in economic growth will be restrained by stable-to-declining vehicle sales and by strong productivity gains that the vehicle manufacturing sector is expected to continue to exhibit. While the level of vehicle sales is quite high, the potential growth in that level is less than it has been in years, and vehicle sales are already declining from their record levels. Compared with the prior decade, the Detroit 3 share of the sales mix is expected to decline somewhat (Figure 12) due to the strong dollar making imported vehicles comparatively less expensive. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles. While that reliance has declined (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.8% of total Michigan wage and salary income, compared to 5.7% in 2015), Michigan is still heavily dependent on manufacturing-particularly motor vehicle manufacturing-and far more dependent than any other state in the country.

Figure 12



Despite the high, but declining, level forecasted for vehicle sales, much of the 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. 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.

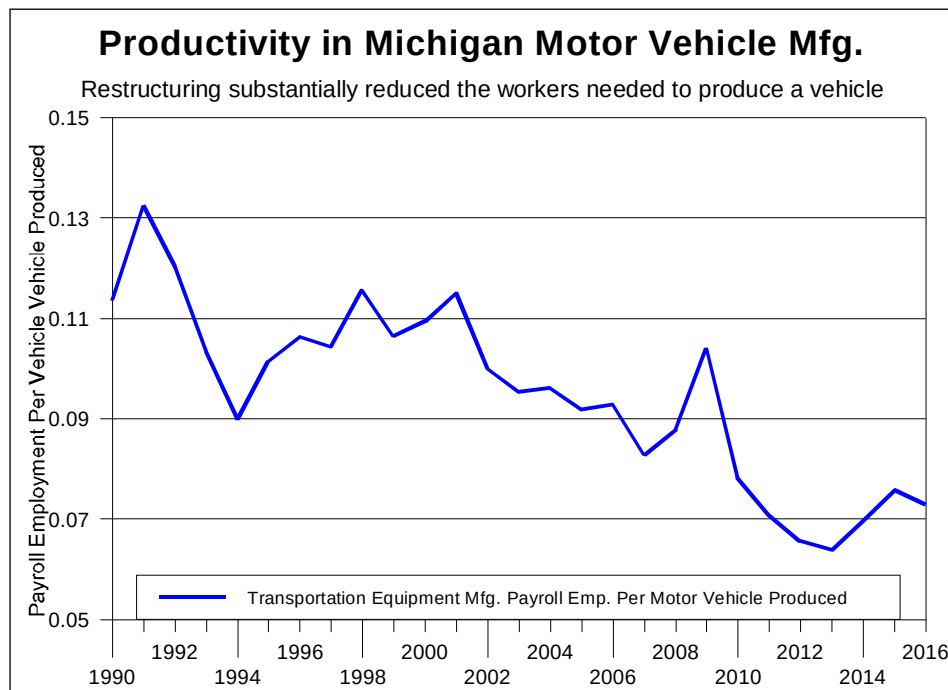
The forecast expects employment levels in the transportation equipment manufacturing sector to decline slightly over the forecast period. Overall employment in Michigan is expected to grow slightly, with virtually all of the growth over the forecast period in private sector employment. The most significant 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 period, light vehicle sales are expected to decline from record levels that, in the long-run, are unsustainable. Average weekly hours are already declining from their record highs, and firms have shown limited willingness to add employees given that the record levels of output have been met by the existing employment base ([Figure 13](#)). However, with a risk of 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.

These risks are on top of an additional risk to the Michigan economy: the future outlook for the automobile manufacturers headquartered in Michigan. A variety of economic factors are in flux for several firms, ranging from the potential for acquisition (perhaps by a foreign company), to cash flow and cash burn issues, to future investment requirements and plans. If profitability increases for vehicle manufacturers, the prospect for the Michigan economy to be better than forecasted is significant. On

the other hand, if a company were to undergo a major restructuring, the Michigan economy would likely experience a significant negative impact. Furthermore, if a firm were to be acquired by another company, the impact could be anything from minimal to significant depending on the impact of the merger on the firm's activities.

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 13



**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 2016-17 is presented along with the revised estimates for FY 2017-18 and FY 2018-19 and the initial revenue estimates for FY 2019-20. 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 2016-17, FY 2017-18, and FY 2018-19 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2016-17, along with the revised estimates for FY 2017-18 and FY 2018-19, and the initial estimates for FY 2019-20 are presented in Table 3 and are summarized below.

FY 2016-17 Preliminary Final Revenue

- GF/GP and SAF revenue is expected to total \$22.9 billion in FY 2016-17.
- This year-end estimate for FY 2016-17 increased 3.4% or \$745.5 million from the actual revenue for FY 2015-16, reflecting increases in the sales tax, Corporate Income Tax (CIT), and individual income taxes, and a reduction in the credit payments under the Michigan Business Tax (MBT). These gains were offset by higher individual income tax refunds and lower use tax revenue.
- The preliminary final estimate for FY 2016-17 is \$158.5 million above the May 2017 consensus revenue estimate.

FY 2017-18 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$23.3 billion in FY 2017-18.
- This revised estimate for FY 2017-18 is up 1.9% or \$428.6 million from the preliminary final revenue for FY 2016-17. The projected revenue increase in FY 2017-18 reflects the continued growth in sales and individual income taxes, offset in part by weaker business tax collections and use tax reductions due to the phase-in of personal property tax reform.
- The revised estimate for FY 2017-18 is \$70.9 million below the May 2017 consensus revenue estimate.

FY 2018-19 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$23.7 billion in FY 2018-19.
- The revised estimate for FY 2018-19 is up 1.7% or \$395.3 million from the revised estimate for FY 2017-18. The revenue increase in FY 2018-19 reflects continued growth in sales tax and individual income tax collections offset by increased refunds and the first year of the earmark of income tax revenue to the Michigan Transportation Fund, as well as increased homestead property tax credit payments included in the 2015 transportation package.
- The revised estimate for FY 2018-19 is \$116.5 million below the May 2017 consensus revenue estimate.

FY 2019-20 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total \$24.1 billion in FY 2019-20.
- This initial estimate for FY 2019-20 is 1.6% or \$384.6 million more than the revised estimate for FY 2018-19.
- The revenue increase in FY 2019-20 reflects Michigan economic activity growing at a faster rate than in FY 2018-19, but much of the impact on revenue will be offset by the second year of General Fund reductions under the transportation package enacted in 2015. The change in the homestead property tax credit will reduce General Fund income tax collections by \$205.8 million, and the General Fund will be reduced by the \$325.0 million earmark of income tax revenue for the Michigan Transportation Fund in FY 2019-20.

Historical Perspective

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 1.9% in FY 2017-18, 1.7% in FY 2018-19, and 1.6% in FY 2019-20. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and an average increase of 3.1% in the years from FY 2010-11 to FY 2015-16.
- GF/GP revenue is projected to remain below the record FY 1999-2000 level throughout the forecast period and also below the revenue peak that occurred in FY 2007-08. These comparisons do not adjust for inflation.
- The preliminary final GF/GP revenue from ongoing sources in FY 2016-17 is 4.6% (\$487.8 million) below the record FY 1999-2000 level and 1.4% (\$144.2 million) below the most recent peak reached in FY 2007-08, without adjusting for inflation.
- In FY 2017-18, ongoing GF/GP revenue is forecast to be 4.2% (\$449.2 million) below the FY 1999-2000 level and 1.0% (\$105.6 million) below the FY 2007-08 level.
- In FY 2018-19, GF/GP revenue is expected to be less than the FY 2007-08 peak by 0.9% (\$92.8 million). Revenue will remain 4.1% (\$436.4 million) below the FY 1999-2000 highest level.
- GF/GP revenue in FY 2019-20 will be under the FY 2007-08 peak by 0.5% (\$54.2 million) and revenue will remain 3.7% (\$397.8 million) below the FY 1999-2000 record level.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax changes. Revenue in FY 2013-14, FY 2014-15, FY 2015-16, and FY 2016-17 surpassed the previous peak revenue in FY 2007-08.
- The SAF is projected to rise annually from FY 2017-18 through FY 2019-20. Projected growth rates are 3.1% in FY 2017-18, 2.9% in FY 2018-19, and 2.6% in FY 2019-20, without adjusting for inflation.

Baseline revenue is forecast to increase each year during the forecast period. [Figure 14](#) presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2015-16 base year) from FY 1986-87 through the initial estimate for FY 2019-20. During this 33-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 budgetary 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 2.7% in FY 2016-17. Baseline GF/GP and SAF revenue is expected to grow approximately 2.7% in FY 2017-18, 2.9% in FY 2018-19, and 2.7% in FY 2019-20.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2016-17 THROUGH FY 2019-20 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2016-17 Prelim. Final	FY 2017-18 Revised Est.	FY 2018-19 Revised Est.	FY 2019-20 Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$11,086.7	\$11,376.1	\$11,724.1	\$12,050.0
Tax Changes Not In Baseline	(893.9)	(1,144.7)	(1,479.8)	(1,767.2)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	6,732.1	7,099.2	6,987.5	7,052.2
MBT, CIT, SBT & Insur. Tax	792.2	501.0	540.2	483.5
Other Taxes	2,218.5	2,236.9	2,337.4	2,387.0
Total Taxes	9,742.8	9,837.1	9,865.1	9,922.7
Nontax Revenue	450.0	394.3	379.1	360.1
TOTAL GF/GP REVENUE	\$10,192.8	\$10,231.4	\$10,244.2	\$10,282.8
SCHOOL AID FUND				
Baseline SAF	\$12,688.7	\$13,034.4	\$13,397.8	\$13,749.7
Tax Changes Not In Baseline	(1.9)	42.4	61.5	55.6
TOTAL SAF REVENUE	\$12,686.8	\$13,076.8	\$13,459.3	\$13,805.3
BASELINE GF/GP AND SAF REVENUE	\$23,775.4	\$24,410.5	\$25,121.9	\$25,799.7
Tax & Revenue Changes	(895.8)	(1,102.3)	(1,418.4)	(1,711.6)
GF/GP & SAF REV. AFTER CHANGES	\$22,879.6	\$23,308.2	\$23,703.5	\$24,088.1
Sales Tax	\$7,801.3	\$8,007.7	\$8,254.1	\$8,492.8
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	1.0%	2.6%	3.1%	2.8%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	0.4	5.5	(1.6)	0.9
MBT, CIT, SBT & Insur. Tax	111.9	(36.8)	7.8	(10.5)
Other Taxes	(10.1)	0.8	4.5	2.1
Total Taxes	2.0	1.0	0.3	0.6
Nontax Revenue	(3.7)	(12.4)	(3.9)	(5.0)
TOTAL GF/GP REVENUE	1.8%	0.4%	0.1%	0.4%
SCHOOL AID FUND				
Baseline SAF	4.2%	2.7%	2.8%	2.6%
TOTAL SAF REVENUE	4.7%	3.1%	2.9%	2.6%
Baseline GF/GP and SAF Revenue	2.7%	2.7%	2.9%	2.7%
GF/GP & SAF REV. AFTER CHANGES	3.4%	1.9%	1.7%	1.6%
Sales Tax	6.9%	2.6%	3.1%	2.9%
¹⁾ FY 2015-16 is the base year for baseline revenue.				

Figure 14

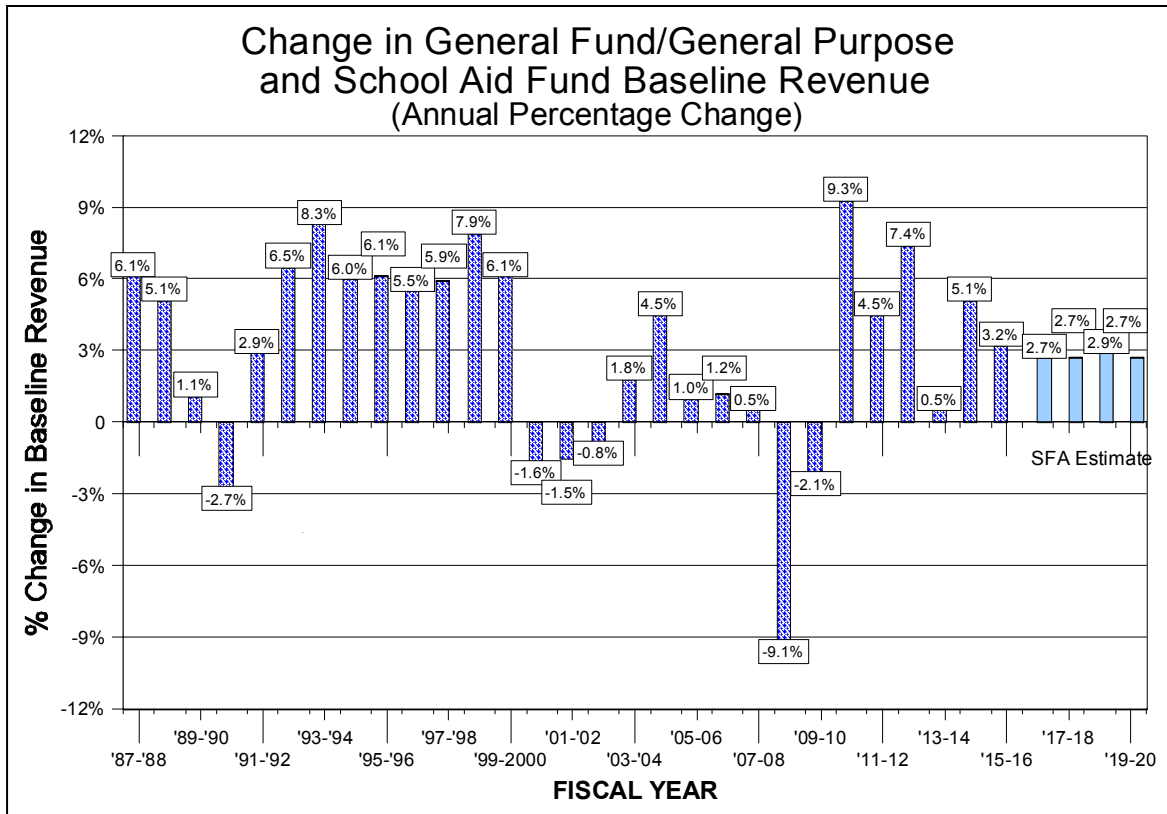


Figure 15 compares FY 1994-95 through estimated FY 2019-20 for both GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 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 \$10.3 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 2008-2009 recession reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 16, 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 2017-18 will be approximately 4.2% (or \$449.2 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 2018-19 is 4.1% below the peak, and initial estimates for FY 2019-20 are 3.7% below the peak level. In inflation-adjusted terms, however, FY 2019-20 GF/GP revenue is estimated to be 9.5% (or \$876.0 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 enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2019-20, SAF revenue is predicted to be approximately 97.1% (\$6.8 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 4.0% (\$473.6 million) below if adjusted for inflation, as shown in Figure 17.

Figure 15

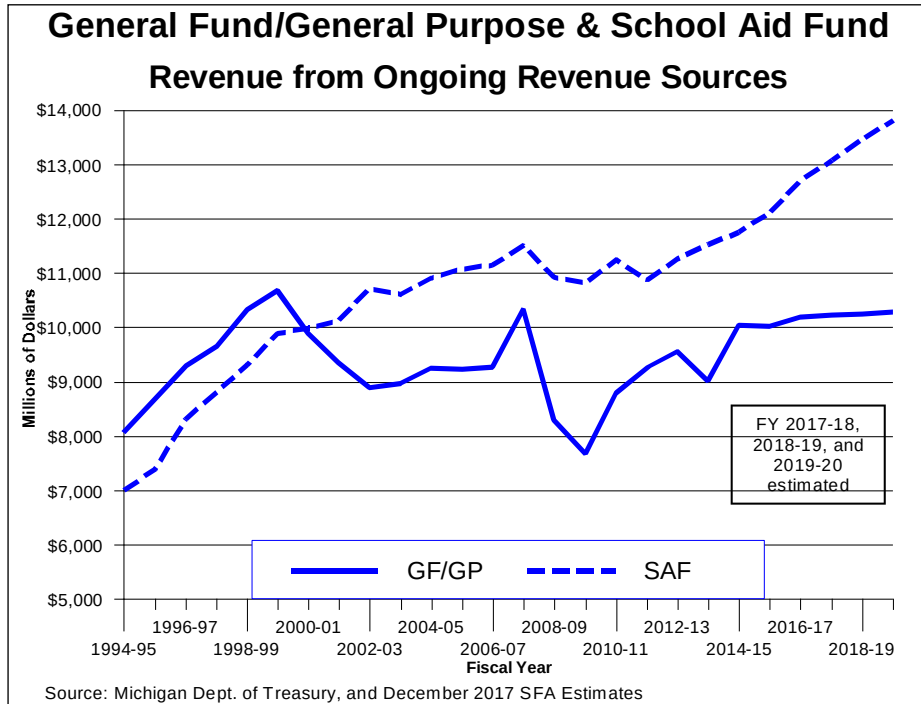


Figure 16

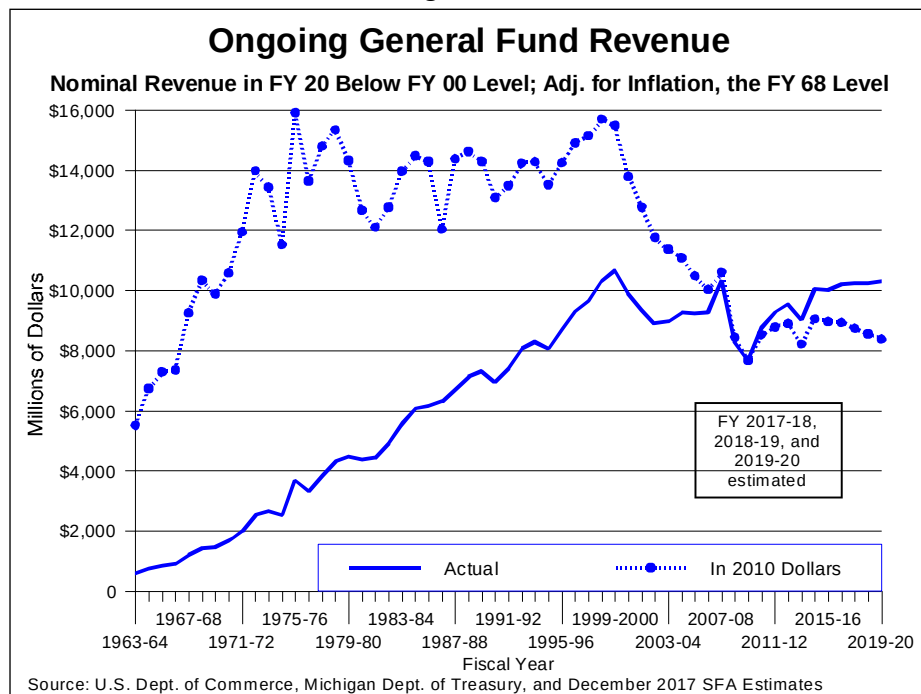
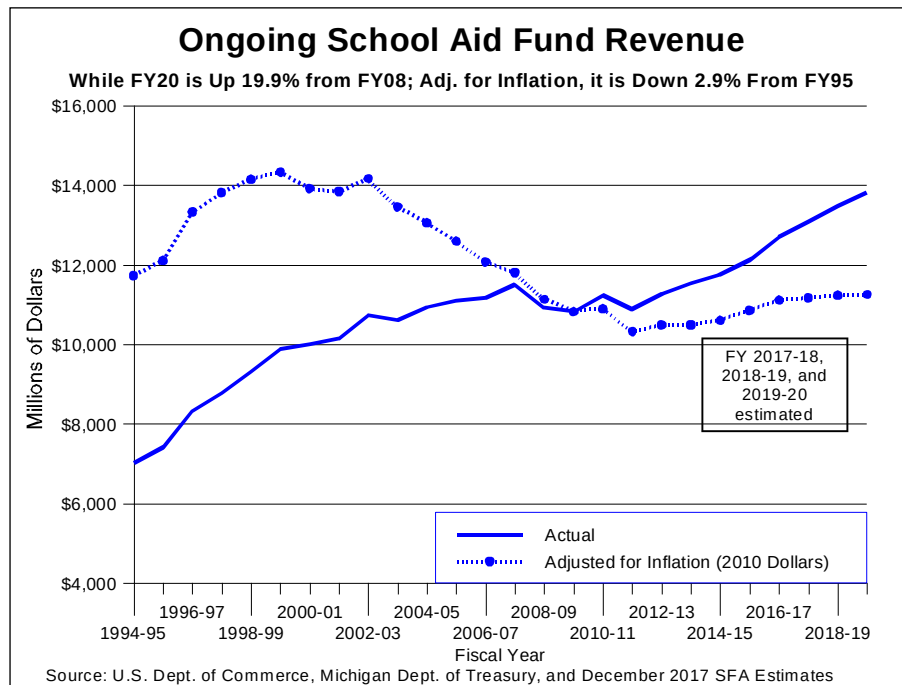


Figure 17



FY 2016-17 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 3.4% in FY 2016-17 compared with FY 2015-16.
- The revenue increase in FY 2016-17 primarily reflects increased sales tax and Corporate Income Tax collections, and reduced MBT credit payments (which increases State revenue). These gains were partially offset by higher refunds paid under the individual income tax and a reduction in use tax revenue due the continuing impact of personal property tax reform.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$22.9 billion in FY 2016-17, which is 3.4% above the FY 2015-16 revenue level, as presented in [Table 4](#). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan Comprehensive Annual Financial Report. Decisions made in the book-closing process regarding the accrual of various types of revenue may change these numbers, in particular with regard to the treatment of business tax credits. The growth rate is higher than the 1.6% increase in FY 2015-16.

The preliminary final GF/GP and SAF revenue level for FY 2016-17 is \$158.5 million above the May 2017 consensus revenue estimate. The largest share of the revenue increase from the May 2017 estimates reflects refunds paid under the MBT that were \$218.2 million lower than expected. This may reflect timing issues and companies can claim these refunds in a subsequent year. Sales tax collections grew at a strong 6.9%, an improvement over the 0.8% growth in FY 2015-16. Sales tax collections ended the year \$106.4 million above the May 2017 consensus estimate. Use tax revenue was \$98.4 million below the May estimate. Collection of unclaimed property (escheats) was \$33.2 million higher than estimated in May 2017. Baseline GF/GP and SAF revenue increased 2.7% in FY 2016-17. However, one-time noneconomic factors, primarily the change in the timing of MBT refund claims, increased the growth rate to 3.4%.

Table 4

FY 2016-17 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	Change from FY 2015-16				\$ Change from 05/17 Consensus
	FY 2015-16 Final	FY 2016-17 Prelim. Final	Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$10,975.5	\$11,086.7	\$111.2	1.0%	(\$93.4)
Tax Changes Not In Baseline	(960.1)	(893.9)	66.2	----	174.9
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	11,241.9	11,410.5	168.6	1.5	(164.9)
Less: Refunds	(1,873.0)	(1,956.8)	(83.8)	4.5	(77.8)
Net Income Tax Collections	9,368.9	9,453.7	84.8	0.9	(242.7)
Less: Earmarking to SAF	(2,662.1)	(2,720.4)	(58.3)	2.2	35.7
Campaign Fund	(0.7)	(1.2)	(0.5)	81.8	(0.4)
Net Income Tax to GF/GP	\$6,706.2	\$6,732.1	\$25.9	0.4%	(\$207.4)
<u>Other Taxes</u>					
Corporate Income Tax	929.8	1,107.4	177.6	19.1	29.4
Michigan Business Tax	(878.9)	(704.6)	174.3	(19.8)	218.2
Sales	1,143.3	1,224.5	81.2	7.1	21.0
Use	931.8	591.6	(340.2)	(36.5)	(71.4)
Cigarette	186.3	186.5	0.2	0.1	0.4
Insurance Company Premiums	329.2	370.7	41.5	12.6	4.4
Telephone & Telegraph	34.7	35.6	0.9	2.6	(1.0)
Oil & Gas Severance	18.9	23.5	4.6	24.3	(1.3)
All Other	146.8	175.5	28.7	19.5	27.3
Subtotal Other Taxes	\$2,841.9	\$3,010.7	\$168.8	5.9%	\$227.0
Total Nontax Revenue	467.3	450.0	(17.3)	(3.7)	61.9
GF/GP REV. AFTER TAX CHANGES	\$10,015.4	\$10,192.8	\$177.4	1.8%	\$81.5
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$12,181.6	\$12,688.7	\$507.1	4.2%	\$79.7
Tax Changes Not In Baseline	(63.0)	(1.9)	61.1	----	(2.8)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,308.8	5,679.4	370.6	7.0	80.3
Use Tax	489.9	495.1	5.2	1.1	(26.9)
Lottery Revenue	888.9	924.1	35.2	4.0	37.1
State Education Property Tax	1,897.0	1,963.1	66.1	3.5	17.2
Real Estate Transfer Tax	289.3	317.1	27.8	9.6	4.4
Income Tax	2,662.1	2,720.4	58.3	2.2	(35.7)
Casino Tax	112.9	113.2	0.3	0.3	(0.8)
Other Revenue	469.8	474.4	4.6	1.0	1.4
SAF REV. AFTER TAX CHANGES	\$12,118.7	\$12,686.8	\$568.1	4.7%	\$77.0
BASELINE GF/GP AND SAF	\$23,157.2	\$23,775.4	\$618.3	2.7%	(\$13.7)
Tax & Revenue Changes	(1,023.1)	(895.8)	127.3	----	172.2
GF/GP & SAF REV. AFTER CHNGS	\$22,134.1	\$22,879.6	\$745.5	3.4%	\$158.5
Sales Tax	\$7,295.6	\$7,801.3	\$505.7	6.9%	\$106.4
¹⁾ FY 2015-16 is the base year for baseline revenue.					

¹⁾ FY 2015-16 is the base year for baseline revenue.

Tax Policy Changes

Michigan's economy grew during FY 2016-17, with personal income growing at a faster rate than in FY 2015-16. Total GF/GP and SAF revenue reached an estimated \$22.9 billion in FY 2016-17, an increase of 3.4% or \$158.5 million from FY 2015-16. On a baseline basis, GF/GP and SAF revenue increased 2.7% in FY 2016-17, reflecting continued growth in State economic activity. The preliminary final estimate of GF/GP and SAF revenue for FY 2016-17 is summarized in [Table 4](#).

Michigan Business Tax/Corporate Income Tax. The MBT reduced GF/GP revenue by \$704.6 million in FY 2016-17. The ongoing MBT credits continue to reduce revenue; however, the reduction of MBT revenue due to tax credits was smaller than the reduction in FY 2015-16, due in part to the expiration of a portion of the battery credits, which reduced payments from \$238.0 million in FY 2015-16 to \$75.0 million in FY 2016-17. Michigan Economic Growth Authority (MEGA) credits declined from \$534.8 million in FY 2015-16 to \$517.1 million in FY 2017-18. This may reflect the time in which businesses file and are paid credit claims. All of the impact of MBT credits reduces GF/GP revenue. Tax processing issues also affected the MBT and CIT estimates. Collections of \$210.0 million in FY 2016-17 were originally processed as MBT revenue, but subsequently found to be CIT revenue. These processing issues change the allocation of revenue between the MBT and the CIT, but have no net effect on the General Fund. In addition, settlements in tax litigation cases reduced MBT revenue by \$5.0 million in FY 2016-17.

Personal Property Tax Reform. Fiscal year 2016-17 was the second year in which use tax revenue was levied by the Local Community Stabilization Authority (LCSA) and earmarked for payments to local governments for reimbursement of property tax revenue losses due to the phase-in of personal property tax exemptions for eligible manufacturing property. In FY 2016-17, \$380.9 million of use tax revenue was levied by the LCSA and restricted for these local payments, up from \$96.4 million in FY 2015-16, thus reducing GF/GP revenue. This revenue loss was offset in part by the revenue from the Essential Services Assessment, the specific tax on eligible manufacturing personal property that is exempt from property taxation. In its second year, the Essential Services Assessment increased GF/GP revenue by \$84.0 million in FY 2016-17. The State Education Tax (SET) also was reduced by the expanding personal property tax exemptions, which reduced SAF revenue by \$21.1 million. This loss was reimbursed through the General Fund contribution to the School Aid budget in FY 2016-17.

Sales and Use Taxes. The revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to total \$31.6 million in FY 2016-17; reducing GF/GP revenue by \$3.8 million, SAF revenue by \$23.2 million, and other funds by \$4.6 million. The change in sales tax treatment of aviation fuel included in Public Acts 262 and 263 of 2015 will reduce GF/GP revenue by \$7.6 million in FY 2016-17 and redirect that revenue to the State Aeronautics Fund and the Qualified Airport Fund. Use tax revenue was reduced by \$43.1 million due to two large taxpayer refunds, which reduced GF/GP revenue by \$28.7 million and SAF revenue by \$14.4 million.

Insurance Tax. The legislative fix to prior changes regarding the Michigan Automobile Insurance Placement Facility (MAIPF) increased revenue by \$65.0 million.

General Fund/General Purpose

- General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2016-17, an increase of 1.8% or \$177.4 million from FY 2015-16.
- The revised GF/GP estimate is \$81.5 million above the May 2017 consensus revenue estimate.

Baseline GF/GP revenue increased 1.0%; however, revenue adjustments were less negative than in the prior year. These adjustments totaled \$893.9 million, primarily for the cost of MBT credits and personal property tax (PPT) reform, and resulted in an increase in net GF/GP revenue of 1.8%. The

revised GF/GP revenue estimates for FY 2016-17 are summarized in [Table 4](#). The increase of \$81.5 million from the May 2017 consensus estimate for FY 2016-17 reflects lower income tax revenue and MBT credit payments, and higher CIT revenue than previously expected.

School Aid Fund

- School Aid Fund revenue will total an estimated \$12.7 billion in FY 2016-17, an increase of 4.7% or \$568.1 million from FY 2015-16.
- The revised SAF estimate is \$77.0 million above the May 2017 consensus revenue estimate.

The forecasted increase in SAF revenue reflects strong growth in sales tax revenue and growth in all major earmarked tax sources and lottery revenue. The SAF revised revenue estimates for FY 2016-17 are summarized in [Table 4](#).

FY 2017-18 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2017-18. Personal income will grow at a faster rate than in FY 2016-17, although wage and salary employment will grow at a slightly slower rate than in FY 2016-17. Total GF/GP and SAF revenue will reach an estimated \$23.3 billion in FY 2017-18, an increase of 1.9% or \$428.6 million from the preliminary final revenue for FY 2016-17. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.6% in FY 2017-18, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2017-18 is \$70.9 million below the May 2017 forecast and is summarized in [Table 5](#).

Tax Policy Changes

Tax policy changes affecting FY 2017-18 are similar to those affecting FY 2016-17.

Personal Property Tax Reform. Use tax revenue of \$410.8 million in FY 2017-18 will be levied by the LCSA and restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and will reduce GF/GP revenue by \$410.8 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$96.1 million. Personal property tax reform will reduce the SET by \$21.2 million due to the phase-in of additional tax exemptions, although the General Fund will reimburse the SAF by \$42.4 million from GF/GP use tax revenue to replace the loss of SET revenue and to pay the additional foundation allowance cost due to lower local school operating revenue.

Michigan Business Tax/Corporate Income Tax. The Michigan Business Tax will lower GF/GP revenue by \$757.9 million (as refunds will continue to exceed payments), a larger reduction than in FY 2016-17. Fiscal year 2017-18 is the last year in which any battery credits are expected to be claimed. The phase-out of battery credits will be offset by higher expected payments for MEGA tax credits in FY 2017-18. Tax processing issues also will affect FY 2017-18 revenue. Business tax payments of \$55.0 million are reclassified as CIT revenue instead of MBT revenue. This change affects the amounts of CIT and MBT revenue, but does not change total GF/GP revenue.

Sales and Use Taxes. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$35.3 million, of which \$25.9 million is a reduction to the SAF, \$4.2 million GF/GP, and \$5.2 million other funds, primarily constitutional revenue sharing. As a result of changes to Michigan's medical marijuana laws, sales tax collections are expected to increase \$13.2 million in FY 2017-18 (\$2.2 million GF/GP, \$9.7 million SAF, and \$1.3 million other funds). The redirection of sales tax revenue from aviation fuel to the State Aeronautics Fund and the Qualified Airport Fund will reduce GF/GP revenue by \$8.0 million in FY 2017-18. In addition, the use tax will be reduced by two large taxpayer refunds in FY 2017-18.

Insurance Tax. Adjustments to the tax treatment of payments to the MAIPF will increase insurance tax revenue by \$81.6 million in FY 2017-18.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2017-18, an increase of 0.4% or \$38.6 million from the revised estimate for FY 2016-17. Baseline GF/GP revenue is expected to increase 2.5%. Most of the GF/GP revenue growth reflects increased individual income tax collections offset by decreased business tax revenue. The revised GF/GP revenue estimates for FY 2017-18 are \$177.2 million below the May 2017 consensus estimates and are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$13.1 billion in FY 2017-18, an increase of \$390.0 million, or 3.1%, from the revised estimate for FY 2016-17. The forecasted increase in SAF revenue reflects growth in all major earmarked tax sources, less a small reduction in lottery revenue. The revised SAF revenue estimates for FY 2017-18 are \$106.3 million above the May 2017 consensus estimates and are summarized in Table 5.

FY 2018-19 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2018-19. Personal income will grow somewhat more slowly than in FY 2017-18 and wage and salary employment will increase at a slightly lower rate than in FY 2017-18. Total GF/GP and SAF revenue will reach an estimated \$23.7 billion in FY 2018-19, an increase of 1.7% or \$395.3 million from the revised estimate for FY 2017-18. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.9% in FY 2018-19, reflecting continued improvements in the State economy. Estimated GF/GP and SAF revenue is \$116.5 million below the May 2017 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2018-19 is summarized in Table 6.

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2018-19 include several significant transfers from the General Fund to other State funds and the first General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by \$205.8 million due to the expansion of the homestead property tax credit. Income tax revenue will be reduced by another \$150.0 million in FY 2018-19 by the earmark of income tax revenue to the Michigan Transportation Fund. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$22.5 million in FY 2018-19 (\$17.1 million GF/GP and \$5.4 million SAF).

Personal Property Tax Reform. Use tax collections of \$438.0 million in FY 2018-19 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and will reduce GF/GP revenue by \$438.0 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$104.0 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by \$21.3 million due to the phase-in of additional tax exemptions. The General Fund will reimburse this loss and also pay the increased cost of the foundation allowance due to the corresponding reduction in local school operating revenue. This transfer will reduce the General Fund by \$42.9 million and increase the SAF by \$42.9 million.

Other Changes. The Michigan Business Tax will lower GF/GP revenue by \$639.5 million, although the reduction will be smaller than in FY 2017-18. The imposition of sales tax on marijuana is projected to increase sales tax revenue by \$36.3 million (\$6.1 million GF/GP, \$26.6 million SAF, and \$3.6 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$38.8 million, of which \$4.7 is GF/GP, \$28.5 million is SAF, and \$5.7 million other funds. The adjustment in the tax treatment of payments to the MAIPF will increase insurance tax revenue by \$83.2 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2018-19, an increase of 0.1% or \$12.8 million from the revised estimate for FY 2017-18. Baseline GF/GP revenue is expected to increase 2.9%; however, over \$1.4 billion in negative adjustments will reduce net GF/GP growth to 0.1%. The value of tax changes will offset most revenue growth from the improving economy. The initial GF/GP revenue estimates for FY 2018-19 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$13.5 billion in FY 2018-19, an increase of \$382.5 million, or 2.9%, from the revised estimate for FY 2017-18. Baseline SAF revenue growth will be 2.8% in FY 2018-19. Small positive revenue adjustments will boost SAF net revenue growth to 2.9%. Since the most recent SAF revenue decline in FY 2011-12, FY 2018-19 will represent the seventh consecutive year of increases in SAF revenue. From FY 2011-12 to FY 2018-19, SAF revenue is projected to increase by 23.7% or \$2.6 billion. The initial SAF revenue estimates for FY 2018-19 are summarized in Table 6.

Table 5

FY 2017-18 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	Change from FY 2016-17				
	FY 2016-17 Prelim. Final	FY 2017-18 Revised Est.	Dollar Change	Percent Change	\$ Change from 05/17 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,063.6	\$11,341.1	\$277.5	2.5%	(\$245.2)
Tax Changes Not In Baseline	(870.8)	(1,109.7)	(238.9)	----	68.0
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	11,410.5	11,920.9	510.4	4.5	(49.1)
Less: Refunds	(1,956.8)	(1,982.6)	(25.8)	1.3	(55.1)
Net Income Tax Collections	9,453.7	9,938.3	484.6	5.1	(104.2)
Less: Earmarking to SAF	(2,720.4)	(2,838.3)	(117.9)	4.3	11.7
Campaign Fund	(1.2)	(0.8)	0.4	(32.5)	0.0
Net Income Tax to GF/GP	\$6,732.1	\$7,099.2	\$367.1	5.5%	(\$92.5)
<u>Other Taxes</u>					
Corporate Income Tax	1,107.4	847.4	(260.0)	(23.5)	(102.8)
Michigan Business Tax	(704.6)	(757.9)	(53.3)	----	(2.3)
Sales	1,224.5	1,261.8	37.3	3.0	7.9
Use	591.6	566.5	(25.1)	(4.2)	(13.2)
Cigarette	186.5	184.4	(2.1)	(1.1)	0.0
Insurance Company Premiums	370.7	411.5	40.8	11.0	2.6
Telephone & Telegraph	35.6	35.5	(0.1)	(0.3)	(0.5)
Oil & Gas Severance	23.5	24.4	0.9	3.8	(2.6)
All Other	175.5	164.3	(11.2)	(6.4)	5.0
Subtotal Other Taxes	\$3,010.7	\$2,737.9	(\$272.8)	(9.1%)	(\$105.9)
Total Nontax Revenue	450.0	394.3	(55.7)	(12.4)	21.2
GF/GP REV. AFTER TAX CHANGES	\$10,192.8	\$10,231.4	\$38.6	0.4%	(\$177.2)
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$12,733.9	\$13,081.4	\$347.5	2.7%	\$139.5
Tax Changes Not In Baseline	(47.1)	(4.6)	42.5	----	(33.2)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,679.4	5,827.5	148.1	2.6	57.5
Use Tax	495.1	552.3	57.2	11.6	(6.5)
Lottery Revenue	924.1	919.7	(4.4)	(0.5)	32.0
State Education Property Tax	1,963.1	2,032.6	69.5	3.5	30.0
Real Estate Transfer Tax	317.1	319.7	2.6	0.8	4.0
Income Tax	2,720.4	2,838.3	117.9	4.3	(11.7)
Casino Tax	113.2	114.5	1.3	1.1	(0.5)
Other Revenue	474.4	472.2	(2.2)	(0.5)	1.5
SAF REV. AFTER TAX CHANGES	\$12,686.8	\$13,076.8	\$390.0	3.1%	\$106.3
BASELINE GF/GP AND SAF	\$23,797.5	\$24,422.5	\$625.0	2.6%	(\$105.7)
Tax & Revenue Changes	(917.9)	(1,114.3)	(196.4)	----	34.8
GF/GP & SAF REV. AFTER CHNGS	\$22,879.6	\$23,308.2	\$428.6	1.9%	(\$70.9)
Sales Tax	\$7,801.3	\$8,007.7	\$206.4	2.6%	\$78.4
¹⁾ FY 2016-17 is the base year for baseline revenue.					

¹⁾ FY 2016-17 is the base year for baseline revenue.

Table 6

FY 2018-19 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	Change from FY 2017-18				
	FY 2017-18 Revised Est.	FY 2018-19 Revised Est.	Dollar Change	Percent Change	\$ Change from 05/17 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,341.1	\$11,672.4	\$331.3	2.9%	(\$275.7)
Tax Changes Not In Baseline	(1,109.7)	(1,428.1)	(318.4)	----	30.5
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	11,920.9	12,295.8	374.9	3.1	(90.7)
Less: Refunds	(1,982.6)	(2,230.0)	(247.4)	12.5	(46.2)
Net Income Tax Collections	9,938.3	10,065.9	127.6	1.3	(137.0)
Less: Earmarking to SAF	(2,838.3)	(2,927.6)	(89.3)	3.1	21.8
Earmarking to MI Transportation Fund	0.0	(150.0)	(150.0)	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	(1.2)	0.0
Net Income Tax to GF/GP	\$7,099.2	\$6,987.5	(\$111.7)	(1.6%)	(\$115.2)
<u>Other Taxes</u>					
Corporate Income Tax	847.4	762.3	(85.1)	(10.0)	(154.4)
Michigan Business Tax	(757.9)	(639.5)	118.4	(15.6)	(25.4)
Sales	1,261.8	1,299.7	37.9	3.0	8.6
Use	566.5	617.8	51.3	9.1	8.4
Cigarette	184.4	182.0	(2.4)	(1.3)	(0.5)
Insurance Company Premiums	411.5	417.4	5.9	1.4	7.5
Telephone & Telegraph	35.5	36.0	0.5	1.4	0.0
Oil & Gas Severance	24.4	25.2	0.8	3.3	(3.7)
All Other	164.3	176.8	12.5	7.6	10.4
Subtotal Other Taxes	\$2,737.9	\$2,877.7	\$139.8	5.1%	(\$149.1)
Total Nontax Revenue	394.3	379.1	(15.2)	(3.9)	19.0
GF/GP REV. AFTER TAX CHANGES	\$10,231.4	\$10,244.2	\$12.8	0.1%	(\$245.3)
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,081.4	\$13,447.1	\$365.7	2.8%	\$176.9
Tax Changes Not In Baseline	(4.6)	12.2	16.8	----	(48.1)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,827.5	6,007.3	179.8	3.1	64.9
Use Tax	552.3	592.2	39.9	7.2	4.2
Lottery Revenue	919.7	915.0	(4.7)	(0.5)	30.0
State Education Property Tax	2,032.6	2,108.5	75.9	3.7	51.4
Real Estate Transfer Tax	319.7	324.5	4.8	1.5	0.3
Income Tax	2,838.3	2,927.6	89.3	3.1	(21.8)
Casino Tax	114.5	116.0	1.5	1.3	(0.8)
Other Revenue	472.2	468.2	(4.0)	(0.8)	0.6
SAF REV. AFTER TAX CHANGES	\$13,076.8	\$13,459.3	\$382.5	2.9%	\$128.8
BASELINE GF/GP AND SAF	\$24,422.5	\$25,119.5	\$697.0	2.9%	(\$98.8)
Tax & Revenue Changes	(1,114.3)	(1,416.0)	(301.7)	----	(17.7)
GF/GP & SAF REV. AFTER CHNGS	\$23,308.2	\$23,703.5	\$395.3	1.7%	(\$116.5)
Sales Tax	\$8,007.7	\$8,254.1	\$246.4	3.1%	\$88.5
¹⁾ FY 2016-17 is the base year for baseline revenue.					

¹⁾ FY 2016-17 is the base year for baseline revenue.

FY 2019-20 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2019-20. Personal income and wage and salary employment will grow at a slightly faster rate than in FY 2018-19. Total GF/GP and SAF revenue will reach an estimated \$24.1 billion in FY 2019-20, an increase of 1.6% or \$384.6 million from the revised estimate for FY 2018-19. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.6% in FY 2019-20, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2019-20 is summarized in Table 7.

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2019-20 include several significant transfers from the General Fund to other State funds and the increasing General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by \$205.8 million due to the expansion of the homestead property tax credit. Income tax revenue will be reduced by another \$325.0 million in FY 2019-20 by the earmark of income tax revenue to the Michigan Transportation Fund.

Personal Property Tax Reform. Use tax collections of \$465.9 million in FY 2019-20 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption, and will reduce GF/GP revenue by \$465.9 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$111.9 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by \$21.4 million due to the phase-in of additional tax exemptions. The General Fund will reimburse this loss and also pay the increased cost of the foundation allowance due to the corresponding reduction in local school operating revenue. This transfer will reduce the General Fund by \$43.4 million and increase the SAF by \$43.4 million.

Other Changes. Michigan Business Tax refunds will lower GF/GP revenue by \$685.1 million, a larger reduction than in FY 2018-19, as MEGA credit payments continue to increase. The imposition of sales tax on marijuana is projected to increase sales tax revenue by \$38.1 million (\$6.4 million GF/GP, \$27.9 million SAF, and \$3.8 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$42.1 million, of which \$5.1 is GF/GP, \$30.9 million is SAF, and \$6.2 million other funds. Under the insurance tax, the adjustment in the tax treatment of payments to the MAIPF will increase revenue by \$85.0 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.3 billion in FY 2019-20, an increase of 0.4% or \$38.6 million from the revised estimate for FY 2018-19. Baseline GF/GP revenue is expected to increase 2.6% due the continued growth in the economy; however, the effects of the transportation package, personal property tax reform, and MBT refunds result in negative tax adjustments of nearly \$1.7 billion. The initial GF/GP revenue estimates for FY 2019-20 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$13.8 billion in FY 2019-20, an increase of \$346.0 million, or 2.6%, from the revised estimate for FY 2018-19. Since the most recent SAF revenue decline in FY 2011-12, FY 2019-20 will represent the eighth consecutive year of increases in SAF revenue. The initial SAF revenue estimates for FY 2019-20 are summarized in Table 7.

Table 7

FY 2019-20 INITIAL REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2018-19 Revised Est.	FY 2019-20 Initial Est.	Change from FY 2018-19	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$11,672.4	\$11,981.4	\$309.0	2.6%
Tax Changes Not In Baseline	(1,428.1)	(1,698.5)	(270.4)	----
Revenue After Tax Changes				
<u>Personal Income Tax</u>				
Gross Collections	12,295.8	12,671.7	375.9	3.1
Less: Refunds	(2,230.0)	(2,276.6)	(46.6)	2.1
Net Income Tax Collections	10,065.9	10,395.1	329.2	3.3
Less: Earmarking to SAF	(2,927.6)	(3,017.1)	(89.5)	3.1
Earmark to MI Transportation Fund	0.0	(325.0)	(150.0)	----
Campaign Fund	(0.8)	(0.8)	0.0	0.0
Net Income Tax to GF/GP	\$6,987.5	\$7,052.2	\$64.7	0.9%
<u>Other Taxes</u>				
Corporate Income Tax	762.3	741.0	(21.3)	(2.8)
Michigan Business Tax	(639.5)	(685.1)	(45.6)	7.1
Sales	1,299.7	1,340.4	40.7	3.1
Use	617.8	616.7	(1.1)	(0.2)
Cigarette	182.0	180.5	(1.5)	(0.8)
Insurance Company Premiums	417.4	427.6	10.2	2.4
Telephone & Telegraph	36.0	36.0	0.0	0.0
Oil & Gas Severance	25.2	25.9	0.7	2.8
All Other	176.8	187.5	10.7	6.1
Subtotal Other Taxes	\$2,877.7	\$2,870.5	(\$7.2)	(0.3%)
Total Nontax Revenue	379.1	360.1	(19.0)	(5.0)
GF/GP REV. AFTER TAX CHANGES	\$10,244.2	\$10,282.8	\$38.6	0.4%
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$13,447.1	\$13,801.0	\$353.9	2.6%
Tax Changes Not In Baseline	12.2	4.3	(7.9)	----
Revenue After Tax Changes				
Sales Tax	6,007.3	6,181.1	173.8	2.9
Use Tax	592.2	606.4	14.2	2.4
Lottery Revenue	915.0	910.0	(5.0)	(0.5)
State Education Property Tax	2,108.5	2,180.8	72.3	3.4
Real Estate Transfer Tax	324.5	328.1	3.6	1.1
Income Tax	2,927.6	3,017.1	89.5	3.1
Casino Tax	116.0	117.5	1.5	1.3
Other Revenue	468.2	464.3	(3.9)	(0.8)
SAF REV. AFTER TAX CHANGES	\$13,459.3	\$13,805.3	\$346.0	2.6%
BASELINE GF/GP AND SAF	\$25,119.5	\$25,782.3	\$662.8	2.6%
Tax & Revenue Changes	(1,416.0)	(1,694.2)	(278.2)	----
GF/GP & SAF REV. AFTER CHNGS	\$23,703.5	\$24,088.1	\$384.6	1.6%
Sales Tax	\$8,254.1	\$8,492.8	\$238.7	2.9%
¹⁾ FY 2016-17 is the base year for baseline revenue.				

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2017-18 THROUGH FY 2019-20

Transportation Package and Individual Income Tax Revenue. The major changes included in the transportation package enacted in November 2015 do not affect the General Fund (or School Aid Fund) in FY 2016-17 and FY 2017-18. However, the transportation package will have a significant impact on General Fund revenue beginning in FY 2018-19, when provisions of the legislation will lower General Fund revenue by \$355.8 million: \$150.0 million for the revenue earmarked to the Michigan Transportation Fund and \$205.8 million for the expansion of the homestead property tax credit. The reduction in General Fund revenue will increase in FY 2019-20 to \$530.8 million: \$205.8 from the expanded homestead property tax credit and \$325.0 million from the increased earmark of individual income tax revenue to the Michigan Transportation Fund.

Federal Tax Reform Interactions with Corporate and Individual Income Tax Revenue. As of the writing of this report, an agreement to reform a Federal tax law has not been enacted. As mentioned in the economics section, the forecast assumes that Federal tax reform is enacted and will reduce both individual and corporate taxes. The economic implications of Federal tax reform are incorporated into the forecast; however, the legal impact of any Federal changes on the Michigan tax structure is excluded. For example, the personal exemption was eliminated in the versions of Federal tax reform passed by each Congressional chamber and the Michigan personal exemption is based on the allowed Federal exemptions. As a result, if Federal tax reform were to eliminate the Michigan personal exemption, it would significantly increase Michigan individual income tax revenue. The forecast assumes that Michigan tax revenue is affected only by the economic implications of Federal tax reform, without addressing the statutory implications on Michigan tax revenue.

Individual Income Tax. Individual income tax revenue will increase by an estimated 5.1% in FY 2017-18, to \$9.9 billion. Unlike in FY 2016-17, when income tax withholding rose only 0.8%, FY 2017-18 withholding will follow a more normal economic pattern and rise 3.8% as wages and employment continue to grow. As economic growth moderates, the growth rate in withholding will then decelerate to 3.0% in FY 2018-19 before rising 3.2% in FY 2019-20. Annual payments are expected to increase 14.6% in FY 2017-18, reflecting stock market gains in 2017, but will decelerate in FY 2018-19 and FY 2019-20. As prices rise in 2018 and 2019, inflation-indexed adjustments for the personal exemption are projected to lower net revenue beginning in FY 2018-19. Baseline income tax revenue is projected to grow 3.6% in FY 2018-19; however, growth in net income tax revenue will slow to 1.3% in that year, reflecting the impacts of the expanded homestead property tax credit. Compared with the May 2017 consensus revenue estimates, the revised estimate for FY 2017-18 individual income tax revenue is \$104.2 million lower and the revised estimate for FY 2018-19 is \$136.9 million lower, reflecting the \$242.7 million by which FY 2016-17 individual income tax revenue fell short of the May 2017 estimates. Individual income tax revenue currently 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), and through FY 2017-18, the GF/GP budget receives the remaining 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds). Beginning in FY 2018-19, the General Fund portion of collections will be reduced by the statutory requirement to deposit a fixed amount of income tax revenue into the Michigan Transportation Fund. These deposits will reduce GF/GP revenue by \$150.0 million in FY 2018-19, \$325.0 million in FY 2019-20, and \$600.0 million in FY 2020-21 and each following year.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax will increase at a slower rate than the 6.9% gain experienced in FY 2016-17 (the second-most rapid growth rate in sales tax revenue since Proposal A increased the sales tax rate from 4% to 6% in May 1994), with sales tax revenue rising 2.6% in FY 2017-18, 3.1% in FY 2018-19, and 2.9% in FY 2019-20. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the 2000s. Compared with the May 2017 consensus revenue estimates, the revised sales tax estimate for FY 2017-18 is \$78.4 million higher while the

revised estimate for FY 2018-19 is up \$88.5 million. Both increases largely reflect the stronger sales tax base exhibited in FY 2016-17, when sales tax revenue exceeded the estimate by \$106.4 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, to vehicle leases, can be volatile. The revised estimate for FY 2017-18 use tax revenue predicts a 1.4% increase, with the growth rate lowered from the estimated 2.5% baseline growth rate by several large use tax refunds that are expected during the fiscal year. Use tax revenue is expected to increase 7.7% in FY 2018-19 and 2.5% in FY 2019-20. However, the portion of use tax revenue received by the State of Michigan is expected to decline. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is being converted into a local use tax used to fund reimbursements to local units affected by personal property tax amendments approved by the voters in August 2014. Payments to the Local Community Stabilization Authority started at \$96.4 million in FY 2015-16, rose to \$380.9 million in FY 2016-17, and will total \$410.8 million in FY 2017-18, \$438.0 million in FY 2018-19, and \$465.9 million in FY 2019-20 as they increase annually to over \$500.0 million by FY 2021-22. Compared with the May 2017 consensus revenue estimates, the FY 2017-18 estimate for combined State and local use tax collections is revised down by \$19.7 million, while the FY 2018-19 estimate is \$12.6 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes will total an estimated \$935.2 million in FY 2017-18, a decrease of 1.1% from FY 2016-17. Tobacco tax revenue is expected to continue its long-term downward trend, declining 1.4% in FY 2018-19 and 0.9% in FY 2019-20. 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. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2017-18, casino tax revenue is projected to total \$114.5 million, a 1.1% increase from FY 2016-17. Casino tax revenue is expected to grow in FY 2018-19 and FY 2019-20, rising 1.3% each year.

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. After increasing 3.5% in FY 2016-17, SET collections are projected to increase another 3.5% in FY 2017-18, and then by 3.7% in FY 2018-19 and 3.4% in FY 2019-20, as the housing market improves and higher inflation allows greater increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue due to the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Changes in the structure of the Powerball game to create larger jackpots, as well as the expansion of iLottery games and the introduction of new lottery games, resulted in an 11.6% increase in net lottery revenue in FY 2015-16 and 4.0% in FY 2016-17. Because those changes are now fully implemented, and due to continued competition from other forms of gaming, lottery revenue is expected to decline by 0.5% per year over the forecast period. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2016-17 to FY 2019-20, lottery revenue is expected to decline from 7.3% to 6.6% of total earmarked SAF revenue, reflecting that lottery revenue will grow more slowly (or even decline) compared to other SAF revenue sources.

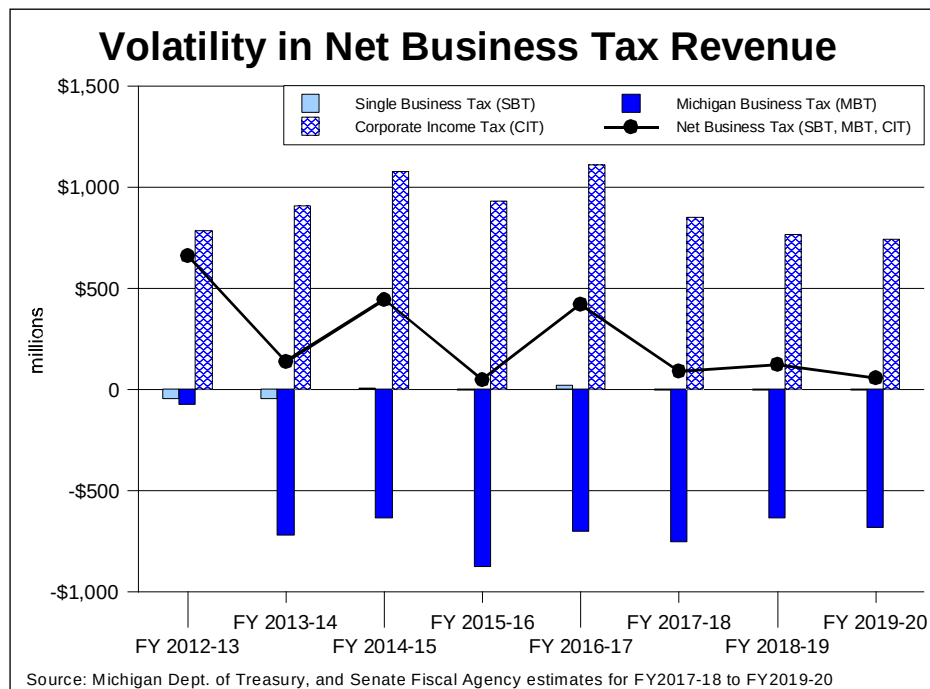
Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the Corporate Income Tax (CIT), which generates about 40% as much revenue as what was received under the MBT. Under the CIT, unincorporated 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 generate positive revenue over the forecast period, although the CIT is expected to be a significantly 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 a negative \$878.9 million (as refunds exceeded revenue) in FY 2015-16 and a negative \$704.6 million in FY 2016-17, net MBT revenue is expected to remain negative over the forecast period as estimated MBT credits are projected to reduce State revenue by between \$600.0 million and \$700.0 million each year. 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 both the Michigan Strategic Fund agency and a number of taxpayers that will claim the largest credits on ways to limit this uncertainty.

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately \$1.0 billion, or approximately 10.4%; and net MBT revenue reduced General Fund revenue by \$878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by \$174.3 million less in FY 2016-17, they still represented a 6.9% reduction in General Fund revenue. As MBT credits (of which Michigan Economic Growth Authority credits represent the majority that may be claimed) decline slightly in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 7.4% in FY 2017-18, 6.2% in FY 2018-19, and 6.7% in FY 2019-20. 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 2016-17, Corporate Income Tax revenue rose 19.1%, after falling 13.7% in FY 2015-16 and growing 18.9% in FY 2014-15, underscoring the potential volatility in Corporate Income Tax revenue (Figure 18). In FY 2015-16, net business tax revenue from the MBT, CIT, and Single Business Tax (SBT) totaled \$44.7 million, down 89.9% from FY 2014-15. The preliminary final estimate for business taxes in FY 2016-17 is \$421.5 million, an 842.1% increase from FY 2015-16 that is \$271.3 million above the May 2017 consensus estimate. However, net business tax revenue in FY 2017-18 is expected to total \$89.5 million, a 78.8% decline from FY 2016-17 that reflects the loss of \$18.7 million in SBT revenue, \$53.3 million more in MBT refunds, and a 23.5% decline in CIT revenue. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) The substantial decline in the CIT in FY 2017-18 also reflects a reduction in accounting adjustments to correct for CIT payments that were originally processed as MBT payments. These corrections result in no overall impact on the General Fund because revenue from both taxes is directed to the General Fund. However, these adjustments are expected to lower MBT revenue by approximately \$210.0 million in FY 2016-17 and \$55.0 million in FY 2017-18, while increasing CIT revenue by the same amount. All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 18



Insurance Taxes. Revenue from Michigan's taxes on insurance companies will total an estimated \$370.7 million in FY 2016-17, a 12.6% increase from FY 2015-16. Public Act 204 of 2012 had transferred Secretary of State functions related to the Assigned Claims Plan and Assigned Claims Facility (ACF) to the Michigan Automobile Insurance Placement Facility (MAIPF). At the time, the legislation was not anticipated to affect insurance tax revenue. However, the legislation had the effect of allowing insurance companies to claim larger credits against their liability and many taxpayers began claiming these credits during FY 2014-15, with FY 2014-15 revenue declining 11.0% from FY 2013-14. Public Acts 277 and 278 of 2016 ended the ability of insurance companies to include MAIPF payments in amounts eligible for a credit. As payments begin to reflect the higher tax liabilities under the legislation, insurance tax revenue is expected to grow more rapidly, rising 11.0% in FY 2017-18, to \$411.5 million.

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 fiscal years in the near future. 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, net GF/GP revenue is expected to increase 1.3% in FY 2020-21, to \$10.4 billion, while SAF revenue will increase 2.8%, to \$14.2 billion. In FY 2021-22, net GF/GP revenue is expected to increase 3.6%, to \$10.8 billion, while SAF revenue will increase 3.1%, to \$14.6 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 2016-17, FY 2017-18, and FY 2018-19. 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 2016-17, FY 2017-18, and FY 2018-19 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2016-17 was made in December 2014, as shown in Table 8. At that time, baseline revenue in FY 2016-17 was estimated at \$23.5 billion. This estimate was increased by \$258.9 million at the January 2015 Consensus Revenue Estimating Conference, then increased another \$87.3 million at the May 2015 Consensus Revenue Estimating Conference. The January 2016 consensus conference increased the estimate by another \$47.0 million, but the May 2016 consensus conference lowered it by \$161.8 million. The January 2017 consensus conference increased the estimate by \$133.4 million, while the May 2017 consensus conference lowered it by \$60.5 million. The Senate Fiscal Agency's revised estimate for FY 2016-17 presented in this report decreases the baseline estimate by \$13.7 million below the May 2017 consensus estimate, to \$23.8 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2017-18 was made in December 2015, as shown in Table 9. At that time, baseline revenue in FY 2017-18 was estimated at \$24.3 billion. This estimate was increased by \$112.2 million at the January 2016 Consensus Revenue Estimating Conference, then decreased by \$86.6 million at the May 2016 Consensus Revenue Estimating Conference. The January 2017 consensus conference increased the estimate by \$6.0 million, while the May 2017 consensus conference lowered it by \$75.9 million. The Senate Fiscal Agency's revised estimate for FY 2017-18 presented in this report increases the baseline estimate by \$127.5 million above the May 2017 consensus estimate, to \$24.4 billion.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2016-17 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
December 19, 2014	\$10,935.3	\$12,549.5	\$23,484.8
January 16, 2015 ^{a)}	11,117.1	12,626.6	23,743.7
May 8, 2015	11,320.6	12,413.5	23,734.1
May 15, 2015 ^{a)}	11,292.0	12,539.0	23,831.0
December 17, 2015	11,438.9	12,380.6	23,819.5
January 14, 2016 ^{a)}	11,440.0	12,438.0	23,878.0
May 13, 2016	11,241.5	12,340.6	23,582.1
May 17, 2016 ^{a)}	11,362.0	12,354.2	23,716.2
December 16, 2016	11,297.1	12,398.0	23,695.1
January 12, 2017 ^{a)}	11,410.1	12,439.5	23,849.6
May 12, 2017	11,109.9	12,594.2	23,704.1
May 17, 2017 ^{a)}	11,180.1	12,609.0	23,789.1
December 20, 2017	11,086.7	12,688.7	23,775.4
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$93.4)	\$79.7	(\$13.7)
Percent Change	-0.8%	0.6%	-0.1%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$151.4	\$139.2	\$290.6
Percent Change	1.4%	1.1%	1.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2015-16.			

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2017-18 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
December 17, 2015	\$11,583.8	\$12,743.5	\$24,327.3
January 14, 2016 ^{a)}	11,603.9	12,835.6	24,439.5
May 13, 2016	11,437.5	12,741.9	24,179.4
May 17, 2016 ^{a)}	11,592.7	12,760.2	24,352.9
December 16, 2016	11,420.1	12,733.8	24,153.9
January 12, 2017 ^{a)}	11,585.2	12,773.7	24,358.9
May 12, 2017	11,499.5	12,901.8	24,401.3
May 17, 2017 ^{a)}	11,341.1	12,941.9	24,283.0
December 20, 2017	11,376.1	13,034.4	24,410.5
<u>Change From Previous Estimate:</u>			
Dollar Change	\$35.0	\$92.5	\$127.5
Percent Change	0.3%	0.7%	0.5%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$207.7)	\$290.9	\$83.2
Percent Change	-1.8%	2.3%	0.3%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2015-16.			

The initial GF/GP and SAF baseline revenue estimate for FY 2018-19 was made in December 2016, as shown in Table 10. At that time, baseline revenue in FY 2018-19 was estimated at \$25.1 billion. This estimate was increased by \$36.4 million at the January 2017 Consensus Revenue Estimating Conference, and the May 2017 consensus conference increased it by \$95.9 million. The revised Senate Fiscal Agency estimate for FY 2018-19 lowers baseline revenue for FY 2018-19 by \$96.4 million below the May 2017 estimate, to \$25.1 billion.

Table 10
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2018-19
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 16, 2016	\$11,948.3	\$13,137.7	\$25,086.0
January 12, 2017 ^{a)}	12,032.1	13,090.3	25,122.4
May 12, 2017	11,863.4	13,248.9	25,112.3
May 17, 2017 ^{a)}	11,948.1	13,270.2	25,218.3
December 20, 2017	11,724.1	13,397.8	25,121.9
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$224.0)	\$127.6	(\$96.4)
Percent Change	-1.9%	1.0%	-0.4%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$224.2)	\$260.1	\$35.9
Percent Change	-1.9%	2.0%	0.1%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2015-16.			

**BUDGET
STABILIZATION FUND**

BUDGET STABILIZATION FUND

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 2017-18 is based on personal income growth from calendar year 2016 to 2017 and GF/GP revenue in FY 2016-17. Different years are used to calculate a potential pay-out. A pay-out in FY 2017-18 would depend on the change in personal income from calendar year 2017 to calendar year 2018 and the amount of estimated GF/GP revenue in FY 2017-18.

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 recommend 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 2015-16. Also presented in this table are the SFA's estimates for year-end balances for FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20, 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 19, and the estimated economic stabilization trigger calculations and estimated formula deposits for FY 2017-18, FY 2018-19, and FY 2019-20 are presented in Table 12.

FY 2016-17

The BSF ended FY 2015-16 with a balance of \$612.4 million. During FY 2016-17, \$92.5 million was appropriated to the Fund. As noted above, 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, a supplemental appropriation bill, Public Act 340 of 2016, appropriated \$75.0 million to the BSF. Interest earnings are estimated at \$5.6 million in FY 2016-17, resulting in an estimated ending balance of \$710.5 million. The total of the \$17.5 million Trust Fund transfer and the \$75.0 million deposit appropriated to the BSF in FY 2016-17 was \$73.5 million below the formula deposit of \$166.0 million for FY 2016-17 estimated at the time of budget enactment.

FY 2017-18, FY 2018-19, and FY 2019-20

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the statutory formula recommends payments into the Fund in FY 2018-19 and FY 2019-20; however, no payment is recommended for FY 2017-18.

For FY 2017-18, two deposits to the BSF have been enacted. 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 fourth year of reimbursement for the FY 2013-14 payment from the BSF to the Settlement Administration Fund for the Detroit retirement systems). The annual budget, Public Act 107 of 2017, appropriated \$150.0 million of General Fund money to the BSF in FY 2017-18. However, under the current statutory formula, no calculated pay-in to the BSF is anticipated in FY 2017-18. The BSF balance at the end of FY 2017-18 is estimated at \$888.3 million.

Under the current statutory formula, the calculated deposits to the BSF, if appropriated by the Legislature, will be \$52.8 million in FY 2018-19 and \$36.0 million in FY 2019-20. A deposit of \$17.5 million in each of these years already is required under the Trust Fund Act.

Assuming the continuation of the \$17.5 million annual deposit to the BSF under the Trust Fund Act and estimated interest earnings, the BSF ending balance is estimated at \$923.1 million in FY 2018-19 and \$961.4 million in FY 2019-20, as shown in Table 11. If deposits of \$35.3 million (calculated deposit of \$52.8 million less the \$17.5 million Trust Fund deposit) in FY 2018-19 and \$18.5 million (calculated deposit of \$36.0 million less the \$17.5 million Trust Fund deposit) in FY 2019-20 are appropriated, and the Trust Fund Act deposits continue, the year-end balances in the BSF are estimated to increase to \$958.4 million in FY 2018-19, and \$1,016.0 million in FY 2019-20.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2019-20 ESTIMATES (millions of dollars)					
Fiscal Year ^{a)}	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
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 ^{b)}		75.0	0.4	194.8	386.2
2014-15 ^{c)}	\$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
Enacted Deposits and Estimated Interest Earnings:					
2016-17	\$17.5	\$75.0	\$5.6	\$0.0	\$710.5
2017-18 ^{d)}	17.5	150.0	10.3	0.0	888.3
2018-19 ^{e)}	17.5	0.0	17.3	0.0	923.1
2019-20 ^{e)}	17.5	0.0	20.8	0.0	961.4
^{a)} For FY 1998-99 to FY 2015-16 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. FYs 2016-17 to FY 2019-20 include enacted legislation (Public Act 186 of 2017, Public Act 340 of 2016, and Public Act 107 of 2017) and estimated interest earnings. ^{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. ^{c)} 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 annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy. ^{d)} Public Act 107 of 2017 appropriated \$150.0 million. There was no calculated deposit for FY 2017-18. ^{e)} An additional formula deposit of \$52.8 million is estimated for FY 2018-19 and \$36.0 million for FY 2019-20. If deposits in FY 2018-19 were increased by \$35.3 million (from \$17.5 million to \$52.8 million) and deposits in FY 2019-20 were increased by \$18.5 million (from \$17.5 million to \$36.0 million), the BSF would have estimated closing balances of \$958.4 million in FY 2018-19 and \$1,016.0 million in FY 2019-20.					

Figure 19

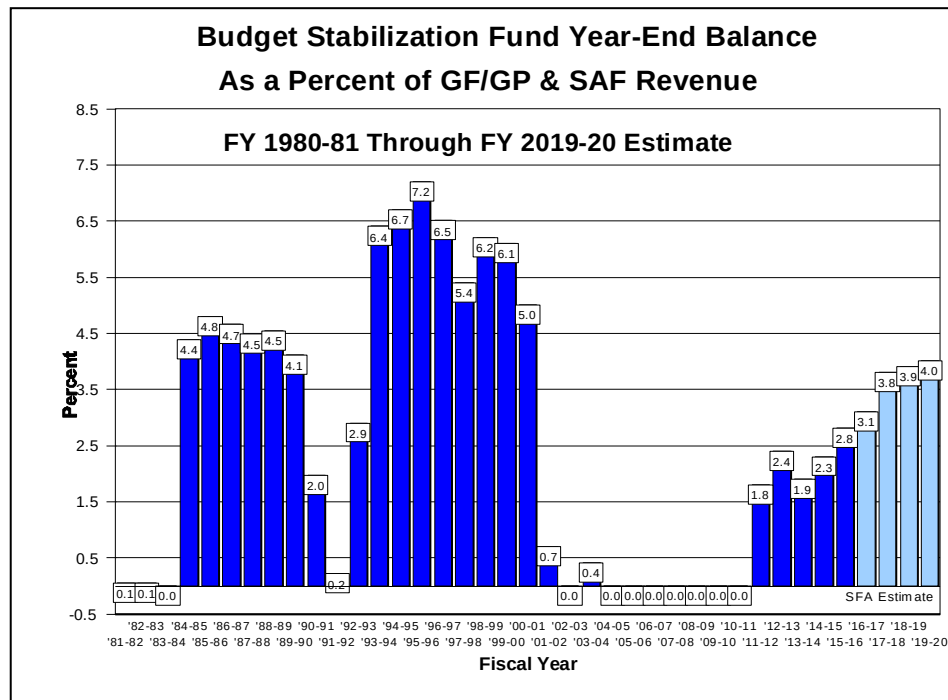


Table 12

**ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20
(Millions of Dollars)**

	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020
Michigan Personal Income (MPI)	\$439,361.5	\$453,099.3	\$472,384.3	\$492,620.4	\$514,150.2
Less: Transfer Payments	93,520.1	95,670.5	100,582.0	105,938.0	110,806.0
Subtotal	\$345,841	\$357,429	\$371,802	\$386,682	\$403,344
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.1975	2.2475	2.2804	2.3172	2.3597
Equals: Real Adjusted MPI	\$157,383	\$159,037	\$163,039	\$166,873	\$170,932
Percent Change from Prior Year		1.05%	2.52%	2.35%	2.43%
Excess Over 2.0%		0.00%	0.52%	0.35%	0.43%
		FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Multiplied by: Estimated GF/GP Revenue		\$10,192.8	\$10,231.4	\$10,244.2	\$10,282.8
Equals: Transfer to the BSF			\$0.0	\$52.8	\$36.0
OR Transfer from the BSF			\$0.0	\$0.0	\$0.0

Note: Numbers may not add due to rounding.
CY = Calendar Year; FY = Fiscal Year

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 tax and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2015-16. The largest gap between revenue and the limit occurred in FY 2013-14, when State revenue was \$8.5 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20, with State revenue forecast to be \$10.5 billion below the limit in FY 2019-20.

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 2016-17, State government revenue could not exceed 9.49% of personal income for calendar year 2015. Given that Michigan personal income for 2015 equaled \$427.2 billion at the time compliance was determined, the revenue limit for FY 2016-17 was \$40.5 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 (e.g., Social Security income and Medicaid benefits). 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.

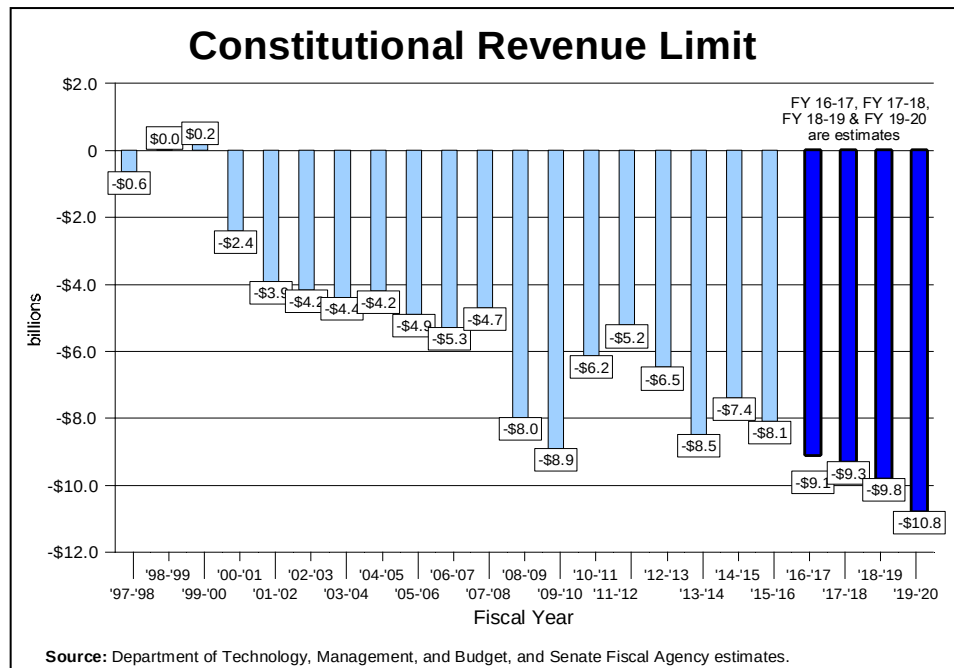
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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 2016-17 and the SFA's revenue estimates for FY 2017-18, FY 2018-19, and FY 2019-20, 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 20](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 13](#).

Figure 20



FY 2016-17

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2015 equals \$427.2 billion, and as a result, the revenue limit equals \$40.5 billion in FY 2016-17, an increase of \$2.2 billion over FY 2015-16. Based on the SFA's revised revenue estimates for FY 2016-17, revenue subject to the revenue limit will equal an estimated \$31.4 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.1 billion, or 22.5%, in FY 2016-17. With personal income growth of 5.8% exceeding the 4.0% growth of revenue subject to the limit, the amount by which the State is under the revenue limit will increase. 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 \$439.4 billion, and as a result, the revenue limit will equal \$41.7 billion in FY 2017-18. Based on the SFA's revised revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated \$32.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.3 billion, or 22.3%, in FY 2017-18. Personal income is expected to grow 2.9% compared to an estimated 3.2% increase in revenue subject to the limit.

FY 2018-19

The Senate Fiscal Agency estimates that personal income in Michigan during 2017 will equal \$453.1 billion, and as a result, the revenue limit will equal \$43.0 billion in FY 2018-19. Based on the SFA's revised revenue estimates for FY 2018-19, revenue subject to the revenue limit will equal an estimated \$33.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.8 billion, or 22.7%, in FY 2018-19. The substantial increase in the Homestead Property Tax Credit, the effects of which will begin during FY 2018-19, accounts for a portion of the significant increase in the amount by which State revenue is projected to be below the limit in FY 2018-19. Additionally, anticipated growth in personal income of 3.1% will outpace the forecasted 2.5% increase in State revenue subject to the revenue limit.

FY 2019-20

The Senate Fiscal Agency estimates that personal income in Michigan during 2018 will equal \$472.4 billion, and as a result, the revenue limit will equal \$44.8 billion in FY 2019-20. Based on the SFA's initial revenue estimates for FY 2019-20, revenue subject to the revenue limit will equal an estimated \$34.1 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$10.8 billion, or 24.0%, in FY 2019-20. Anticipated growth in personal income of 4.3% will outpace the forecasted 2.6% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

Table 13

**COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2015-16 THROUGH FY 2019-20 ESTIMATE
(millions of dollars)**

	FY 2015-16 Final	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
Revenue Subject to Limit					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$10,978.9	\$11,063.6	\$11,341.1	\$11,672.4	\$11,981.4
Constitutional Revenue Sharing (baseline)	751.9	793.2	812.6	836.8	860.6
School Aid Fund (baseline)	12,181.6	12,733.9	13,081.4	13,447.1	13,801.0
Transportation Funds	2,250.6	2,514.6	2,930.8	3,155.0	3,434.3
Other Restricted Non-Federal Aid Revenue	5,067.2	5,219.2	5,375.8	5,537.1	5,703.2
<u>Adjustments:</u>					
GF/GP Federal Aid	(18.8)	(3.7)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(960.1)	(870.8)	(1,109.7)	(1,428.1)	(1,698.5)
SAF Balance Sheet Adjustments	(62.9)	(47.1)	(4.6)	12.2	4.3
Total Revenue Subject to Limit	\$30,188.4	\$31,402.9	\$32,417.4	\$33,222.5	\$34,076.3
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Amount	\$403,726	\$427,199	\$439,361	\$453,099	\$472,384
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$38,313.6	\$40,541.2	\$41,695.4	\$42,999.1	\$44,829.3
1.0% of Limit	383.1	405.4	417.0	430.0	448.3
Amount Under (Over) Limit	\$8,125.2	\$9,138.3	\$9,278.0	\$9,776.7	\$10,753.0
Percent Below Limit	21.2%	22.5%	22.3%	22.7%	24.0%
CY = Calendar Year; FY = Fiscal Year					

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 2016-17 and FY 2017-18. This section also outlines projections for the FY 2018-19 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2016-17, FY 2017-18, and FY 2018-19 GF/GP and SAF budgets. The ongoing FY 2016-17 book-closing process appears to indicate that approximately \$200.0 million of the \$900.0 million of Michigan Business Tax (MBT) credits estimated to be claimed in FY 2016-17, will not be claimed, resulting in a positive impact on the State's FY 2016-17 balance sheet. However, this is offset by the loss of personal income tax revenue, which is approximately \$200.0 million lower than the May 2017 consensus estimate. The final accounting of FY 2016-17 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 a \$643.2 million balance and the SAF budget will have a \$381.7 million balance. A comparison of the SFA estimate of FY 2017-18 revenue with actual and projected appropriations leads to a \$285.6 million GF/GP year-end balance and a \$228.0 million SAF year-end balance.

The outlook for FY 2018-19 points to a GF/GP budget ending balance of \$1.6 million and an SAF ending balance of \$544.2 million.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate
General Fund/General Purpose	\$643.2	\$285.6	\$1.6
School Aid Fund	\$381.7	\$228.0	\$544.2

FY 2016-17 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 2016-17 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 2016-17 fiscal year with a \$643.2 million balance. The SFA is estimating that the FY 2016-17 SAF budget will close the fiscal year with a \$381.7 million balance.

The first column of Table 15 provides a summary of the current SFA estimate of a \$643.2 million balance in the FY 2016-17 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2017-18 revenue source. During the development of the FY 2017-18 budget, an estimated FY 2016-17 carry-forward amount of \$267.4 million in GF/GP revenue was built into the budget for FY 2017-18, so this revised estimate is \$375.8 million above the amount initially estimated as the ending balance for FY 2016-17 that would carry forward into FY 2017-18. This change in the FY 2016-17 ending balance is primarily due to potential book-closing and other revenue adjustments that are expected to reflect a net revenue increase of

\$86.1 million more than the May 2017 estimate, supplemental GF/GP spending since June 2017 of \$3.7 million, and an FY 2016-17 estimated year-end lapse amount of 293.4 million.

On the revenue side of the FY 2016-17 GF/GP budget ledger, the SFA is now estimating that available revenue will total \$10.5 billion. This represents a \$306.4 million, or 2.8%, decrease from the final level of FY 2015-16 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents an \$81.5 million increase from the May 2017 consensus revenue estimate. It is important to recognize that the estimate for MBT revenue had been a negative \$922.8 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 2016-17 is estimated by the SFA to be a negative \$704.6 million due to lower-than-expected refunds that appeared during the book-closing process, resulting in an increase of \$218.2 million in the forecasted MBT amount. Other revenue sources, primarily unclaimed property (escheats) revenue and Corporate Income Tax revenue, also closed the year \$119.8 million over the forecasted amount. However, the SFA is estimating that personal income tax revenue and consumption tax revenue will be \$256.5 million lower than the forecasted amount. The combination of these factors results in the net \$81.5 million increase in revenue from the May 2017 consensus revenue estimate.

On the expenditure side of the FY 2016-17 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$9.8 billion, which includes an appropriation to the Budget Stabilization Fund of \$75.0 million. The \$9.8 billion of expenditures represents a \$345.2 million or 3.4% decrease from the final level of FY 2015-16 GF/GP expenditures.

As [Table 15](#) indicates, enacted net supplemental appropriations for FY 2016-17 totaled \$82.2 million. Of that total, \$43.7 million was related to the Flint drinking water declaration of emergency. For the third consecutive year, there also were larger-than-usual estimated year-end lapses. For FY 2016-17, the lapses amounted to \$278.1 million, primarily in the Department of Health and Human Services (DHHS), which accounted for an estimated \$210.7 million of the total lapses. There also were lapses of \$15.3 million from prior fiscal years, resulting in a combined total lapse amount of \$293.4 million. As mentioned previously, the FY 2016-17 book-closing process is still under way, and any adjustments that occur during that process could have an impact on both the revenue and expenditures recorded for FY 2016-17.

The first column of [Table 16](#) provides a summary of the FY 2016-17 SFA estimate of a \$381.7 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 2017-18 revenue source. As stated earlier, the FY 2017-18 budget was developed assuming that funds carried forward from FY 2016-17 would be used for FY 2017-18 appropriations. When the FY 2017-18 budget was developed, the assumption was that \$271.7 million would be available at the FY 2016-17 year-end and carried forward; the estimate now is that \$381.7 million is available, or \$110.0 million more than projected before. The additional \$110.0 million in the estimated year-end balance reflects two factors: higher projected State revenue and lower-than-anticipated costs (i.e., lapses).

On the revenue side of the FY 2016-17 SAF budget ledger, the SFA is now estimating that available revenue will total \$14.8 billion. This represents a \$612.0 million or 4.3% increase from the final level of FY 2015-16 SAF revenue; in FY 2016-17, there was \$32.5 million more in Federal aid than in FY 2015-16, \$123.9 million more in GF/GP support of the School Aid budget, and expected growth in SAF-earmarked revenue. The current SFA estimate of ongoing SAF revenue for FY 2016-17 (excluding GF/GP, Medicaid managed care use tax, and Federal revenue) represents a \$77.0 million increase from the May 2017 consensus revenue estimate. The estimate also includes the final \$58.0 million in Medicaid managed care use tax revenue, the annual \$72.0 million appropriation from the

Community District Education Trust Fund (to cover the local share of the Detroit Community District's foundation allowance), and \$2.5 million from the Drinking Water Emergency Reserve Fund.

On the expenditure side of the FY 2016-17 SAF budget ledger, the SFA is now estimating that expenditures will total \$14.4 billion. This represents a \$398.5 million or 2.8% increase from the final level of FY 2015-16 SAF expenditures. The estimated final level of FY 2016-17 SAF expenditures includes the initial ongoing K-12 appropriation of \$14.0 billion, \$176.0 million in initial one-time K-12 appropriations, and enacted supplementals totaling a negative \$107.9 million, along with estimated K-12 bookclosing adjustments (primarily in Federal funds) totaling a negative \$147.6 million. It also should be noted that the estimated final level of FY 2016-17 SAF expenditures includes \$497.5 million of appropriations to the Community Colleges and Higher Education budgets.

FY 2017-18 YEAR-END BALANCE ESTIMATES

On June 22, 2017, the Michigan Legislature completed action on the initial set of FY 2017-18 appropriation bills. The FY 2017-18 initially enacted budget was balanced based on the May 2017 consensus estimates. At the time the initial budget was enacted, the SFA was projecting only a \$13.3 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2017-18 GF/GP year-end balance is \$285.6 million. At the same time, based on the May 2017 consensus revenue estimate, the SFA was projecting a \$7.4 million year-end balance in the SAF budget. The current SFA estimate of the FY 2017-18 SAF year-end balance is \$228.0 million.

The second column of [Table 15](#) provides a summary of the current SFA estimate of a \$285.6 million year-end balance in the FY 2017-18 GF/GP budget. The increase in the projected level of the FY 2017-18 GF/GP year-end balance results primarily from a larger carry-forward balance from FY 2016-17 (\$375.8 million more than expected), an estimated decrease of \$177.2 million from the revenue amount estimated at the May 2017 consensus revenue conference, and estimated net GF/GP spending reductions of \$80.2 million.

On the revenue side of the FY 2017-18 GF/GP budget ledger, the SFA is now estimating that available revenue will total \$10.4 billion. This estimate includes a projected \$643.2 million balance carried forward from FY 2016-17, \$10.2 billion of revenue from ongoing sources, a \$465.9 million reduction to reflect ongoing State revenue sharing payments, a \$5.8 million reduction due to a one-time appropriation for State revenue sharing, and several State Restricted revenue adjustments that transfer \$5.8 million from GF/GP revenue. The total estimated ongoing GF/GP revenue of \$9.8 billion represents a \$78.0 million, or 0.8%, decrease from the FY 2016-17 estimate. The current SFA estimate of FY 2017-18 ongoing GF/GP revenue represents a \$177.2 million decrease from the May 2017 consensus revenue estimate. The downward revision in revenue reflects a decrease in total tax revenue of nearly \$200.0 million offset slightly by an increase of about \$20.0 million of nontax revenue.

On the expenditure side of the FY 2017-18 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$10.1 billion. This total includes \$9.8 billion of ongoing appropriations in the initial appropriation bills, \$257.3 million in one-time appropriations in the initial appropriation bills, a one-time appropriation of \$150.0 million to the Budget Stabilization Fund, and \$39.8 million of enacted and enrolled supplemental appropriations. The balance sheet also includes an additional \$120.0 million of estimated caseload and cost adjustments to reflect the projected ongoing portion of the \$210.7 million of FY 2016-17 Department of Health and Human Services (DHHS) lapses.

The second column in [Table 16](#) provides a summary of the current SFA estimate of a \$228.0 million year-end balance in the FY 2017-18 SAF budget. The increase in the projected level of the FY 2017-18 SAF year-end balance (\$220.6 million more than originally estimated) results primarily from a larger carry-forward balance from FY 2016-17 (\$110.0 million more than expected) while net ongoing

revenue is estimated to increase by \$106.3 million from the amount estimated at the May 2017 consensus revenue conference. In addition, costs in FY 2017-18 are now estimated to be \$9.4 million lower than appropriated, and an enacted supplemental increased SAF costs (net of a \$1.3 million increase in GF/GP revenue) by \$5.1 million.

On the revenue side of the FY 2017-18 SAF budget ledger, the SFA is now estimating that available revenue will total \$15.4 billion. This estimate includes a \$381.7 million balance carried forward from FY 2016-17, \$13.1 billion of ongoing State Restricted SAF revenue, an enacted \$215.0 million GF/GP grant to the SAF budget, the annual deposit of \$72.0 million from the Community District Education Trust Fund, and \$1.7 billion of ongoing Federal aid. The current SFA estimate of total FY 2017-18 SAF revenue represents a \$655.0 million or 4.4% increase from the projected level of FY 2016-17 SAF revenue, which is driven primarily by a larger carry-forward than the previous year (\$213.5 million), a \$109.2 million increase in Federal funds, and growth in restricted SAF revenue (\$389.9 million). The current estimate of FY 2017-18 State Restricted SAF revenue is \$106.3 million higher than the May 2017 consensus estimate.

On the expenditure side of the FY 2017-18 SAF budget ledger, the SFA is now estimating that expenditures will total \$15.2 billion. This expenditure estimate includes \$14.3 billion of ongoing K-12 appropriations in the initial appropriation bill, \$6.4 million in enacted supplemental appropriations, \$312.4 million in one-time appropriations in the initial appropriation bill, and cost adjustments totaling a negative \$9.4 million (primarily a combination of lower costs due to fewer pupils). It also should be noted that the estimated level of FY 2017-18 SAF expenditures includes \$636.6 million of appropriations to the Community Colleges and Higher Education budgets.

The projected level of FY 2017-18 SAF expenditures represents an \$808.7 million or 5.6% increase from the projected level of FY 2016-17 SAF expenditures. Of the total increase, \$139.1 million is from fully funding Community Colleges with SAF revenue along with other increases for postsecondary purposes, \$200.0 million is for a one-time Michigan Public School Employees' Retirement System (MPERS) payment toward unfunded liabilities, \$23.1 million is for new MPERS reform costs, \$109.2 million is from an increase in Federal appropriations, and the remaining \$337.3 million is the change in State-funded appropriations. Three areas can explain 95% of the \$337.3 million increase: the per-pupil foundation allowance increase in the K-12 budget (\$153.0 million), the increase in At Risk funding (\$120.0 million), and the \$49.0 million cost increase associated with the change in the assumed rate of return in MPERS.

FY 2018-19 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2018-19 State budget recommendation to the Legislature no later than February 9, 2018. This State budget recommendation will continue the discussion of the FY 2018-19 State budget. On February 8, 2017, Governor Snyder presented his FY 2017-18 budget and his projections for FY 2018-19. The Legislature subsequently enacted an FY 2017-18 State budget and included language within that legislation expressing intent to provide FY 2018-19 appropriations that would be the same as those for FY 2017-18, with adjustments for caseload, costs, economic factors, and available revenue.

If a beginning balance of \$285.6 million is carried forward into FY 2018-19 and the SFA's new revenue estimate is assumed, and if FY 2018-19 appropriations are essentially frozen at FY 2017-18 levels (with a net upward adjustment of \$14.5 million for caseload and costs, economics, and other issues), the FY 2018-19 projected year-end GF/GP balance is \$1.6 million. The third column of [Table 15](#) outlines these assumptions.

On the revenue side of the FY 2018-19 budget outlook, the SFA is projecting that total estimated GF/GP revenue available will equal \$10.1 billion. This estimate assumes a beginning balance of

\$285.6 million and SFA-estimated ongoing revenue of \$9.8 billion, which represents a decrease of \$245.3 million from the May 2017 consensus estimate. This downward revision in revenue is primarily the result of the SFA's projection of modest growth in the economy that is somewhat offset by income tax earmarks from the transportation package enacted in 2015 (\$150.0 million) and the related loss of revenue from the change in the homestead property tax credit (\$205.8 million). The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2017-18 level (\$465.9 million ongoing and \$5.8 million one-time) with an additional \$0.3 million required for three new counties projected to exhaust their revenue sharing reserve funds and return to the State-paid program during FY 2018-19. Revenue from the Medicaid managed care use tax expired on January 1, 2017, so it is not included as a revenue source on either the FY 2017-18 or the FY 2018-19 balance sheet.

On the appropriation side of the FY 2018-19 budget outlook, the SFA estimate assumes the continuation of appropriations at the FY 2017-18 levels for both ongoing and one-time GF/GP appropriations. Adjustments of a net \$14.5 million are then made to: continue the \$120.0 million of DHHS savings from prior-year lapses; lower the GF/GP grant to the School Aid Fund by \$70.0 million to reflect the GF/GP amount (\$145.0 million) that was included in the Governor's planning budget for FY 2018-19; add \$35.0 million and \$30.0 million for State match requirements for traditional Medicaid and expanded Medicaid, respectively; add \$25.0 million for Medicaid actuarial soundness; and increase the overall ongoing GF/GP budget (excluding Medicaid) by 1.6% (the FY 2018-19 SFA estimate for the change in the Detroit CPI), or \$114.5 million, to reflect potential economic and other costs. These assumptions lead to total estimated FY 2018-19 GF/GP expenditures of \$10.1 billion and a projected year-end GF/GP balance of \$1.6 million.

The third column of [Table 16](#) provides a summary of the SFA's outlook for the FY 2018-19 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2017-18 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of \$544.2 million for FY 2018-19.

On the revenue side of the FY 2018-19 SAF budget outlook, the SFA is estimating that available revenue will total \$15.7 billion, an increase of \$222.6 million, or 1.4%, above FY 2017-18. This estimate assumes a carry-forward of \$228.0 million from FY 2017-18, an increase in the level of School Aid Fund revenue of \$128.8 million from the May 2017 consensus forecast, a GF/GP grant of \$145.0 million (a decline of \$70.0 million from FY 2017-18), a continuation of the \$72.0 million deposit from the Community District Education Trust Fund, and estimated Federal aid continuing at \$1.7 billion. The estimate also reflects the use of the remaining \$31.9 million in revenue from the MPSERS reserve fund, to partially pay for \$37.6 million in MPSERS reform costs that began in FY 2017-18.

On the appropriation side of the FY 2018-19 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$15.0 billion. This funding level assumes that SAF appropriations of \$636.6 million for community colleges and universities are continued (with another \$20.0 million for additional MPSERS costs) and that \$128.5 million in one-time K-12 appropriations are continued (an increase of \$39.2 million for the MPSERS assumed rate of return rollback from 7.75% to 7.5%). As mentioned above, \$37.6 million in MPSERS reform costs presumably will be funded in FY 2018-19, but a one-time FY 2017-18 MPSERS payment of \$200.0 million to pay down unfunded liabilities is assumed not to be continued.

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 school districts and preliminary estimates of local property tax valuations, special education costs, debt service costs, and MPSERS rate cap costs. The SFA is estimating that pupils will decrease in FY 2018-19 by 2,000 from the level estimated in May 2017, to reflect a moderately lower number of pupils actually enrolled in FY 2017-18 compared to the estimate. The overall level of pupils for FY 2018-19 estimated by the SFA reflects a decline of 3,600 pupils from FY 2017-18. There are some anticipated savings from local taxable values, and combining those savings

with pupil savings will mostly offset increases in special education costs, cash flow borrowing costs, and other baseline cost adjustments, leaving a \$29.7 million net baseline cost increase.

A comparison of projected FY 2018-19 SAF current-law revenue and a continuation of current spending leads to an estimated ending balance of \$544.2 million, which equates to roughly \$368 on a per-pupil basis. Again, this estimate assumes a continuation of both ongoing and one-time appropriations (with the exception of the discontinuation of \$200.0 million for a one-time payment to reduce MPSERS liabilities), a decrease in GF/GP support of the K-12 budget, and SAF support of \$656.6 million for community colleges and universities.

CONCLUSION

Although the GF/GP and SAF budgets are estimated to end FY 2016-17 and FY 2017-18 with healthy year-end balances, there are several budgetary pressures looming in subsequent fiscal years that are likely to mitigate the extension of these large positive balances. For example, in the Department of Health and Human Services, under current policy and Federal guidance, the Federal match rate for Medicaid expansion will gradually drop from 95.0% in calendar year 2017 to 90.0% in calendar year 2020 and beyond. This change will increase GF/GP costs for the expansion, also known as the Healthy Michigan Plan, by over \$200.0 million by FY 2019-20. Other potential cost increases could occur due to the continued development of new expensive pharmaceutical products. As these products become part of the standard of care, Medicaid pharmaceutical costs will increase at a rate greater than the usual inflationary adjustments.

Another budgetary pressure, beginning in FY 2018-19, is the GF/GP 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.

Among other longer-term budget constraints are: the phase-in of personal property tax reform, estimated to cost \$380.9 million in FY 2016-17, which will grow to an estimated cost of \$572.0 million in FY 2026-27; certificated tax credits that are estimated to cost \$600.0 million to \$700.0 million annually until 2028, then decline, and end in 2032; and financial and infrastructure issues for local units of government.

Also, it should be noted that, as of the writing of this report, an agreement to reform Federal tax law has not been enacted. The Federal tax reform legislation is expected to have multiple impacts on both national and state economies. The forecast assumes that whatever package is adopted will lower Federal taxes for both businesses and individuals. However, Federal reform is likely to affect state tax structures. The SFA forecast assumes that Michigan will decouple from any Federal changes that would dramatically affect State revenue, although how such decoupling is accomplished could alter both the economic and revenue portions of the forecast.

The FY 2016-17 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 2018, but is expected in early January 2018. To the extent that the FY 2016-17 numbers change due to pending accruals or other issues, the ending balances for FY 2017-18 and FY 2018-19 will be affected. Also, to the extent that policy changes are enacted during 2018, 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 11, 2018, 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 2018-19 State budget, as well as for subsequent fiscal years.

Table 15

FY 2016-17, FY 2017-18, AND FY 2018-19 GENERAL FUND/GENERAL PURPOSE (GF/GP) REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES (millions of dollars)			
	FY 2016-17	FY 2017-18	FY 2018-19
Revenue:			
Beginning Balance	\$604.4	\$643.2	\$285.6
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2017)	\$10,111.3	\$10,408.6	\$10,489.5
Senate Fiscal Agency Revenue Estimate Change	81.5	(177.2)	(245.3)
Senate Fiscal Agency Revenue Estimate (December 2017)	\$10,192.8	\$10,231.4	\$10,244.2
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(465.3)	(465.9)	(466.2)
Medicaid Managed Care Use Tax	116.0	0.0	0.0
Subtotal Ongoing Revenue	\$9,843.5	\$9,765.5	\$9,778.0
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing	(5.8)	(5.8)	(5.8)
Hewlett Packard/VW Settlement Proceeds	21.2	0.0	0.0
Redirection of Restricted Revenue	15.0	(5.8)	0.0
School Bond Loan Repayments	4.0	0.0	0.0
Subtotal Non-Ongoing Revenue	\$34.4	(\$11.6)	(\$5.8)
Total Estimated GF/GP Revenue	\$10,482.3	\$10,397.1	\$10,057.8
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations	\$9,669.0	\$9,784.4	\$9,784.4
<u>One-Time and Other Appropriations:</u>			
Initial One-Time Appropriations	\$306.3	\$257.3	\$257.3
Appropriation to Budget Stabilization Fund	75.0	150.0	0.0
Enacted/Enrolled Supplementals	82.2	39.8	0.0
Decrease in Traditional Medicaid Federal Match Rate	0.0	0.0	35.0
Decrease in Expansion Medicaid Federal Match Rate	0.0	0.0	30.0
Medicaid Actuarial Soundness	0.0	0.0	25.0
Lower GF Grant to SAF Per Gov's Planning Budget	0.0	0.0	(70.0)
DHHS Caseload and Cost Adjustments	0.0	(120.0)	(120.0)
Ongoing Increase of 1.6% (Excluding Medicaid)	0.0	0.0	114.5
Estimated Lapses	(293.4)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$170.1	\$327.1	\$271.8
Total Estimated GF/GP Expenditures	\$9,839.1	\$10,111.5	\$10,056.2
PROJECTED YEAR-END GF/GP BALANCE	\$643.2	\$285.6	\$1.6

Table 16

FY 2016-17, FY 2017-18, AND FY 2018-19 SCHOOL AID FUND (SAF) REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES (millions of dollars)			
	FY 2016-17	FY 2017-18	FY 2018-19
Revenue:			
Beginning Balance	\$168.2	\$381.7	\$228.0
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2017)	\$12,609.9	\$12,970.5	\$13,330.5
Senate Fiscal Agency Revenue Estimate Change	77.0	106.3	128.8
Senate Fiscal Agency Revenue Estimate (Dec. 2017)	\$12,686.9	\$13,076.8	\$13,459.3
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$179.0	\$215.0	\$145.0
Community District Education Trust Fund	72.0	72.0	72.0
Medicaid Managed Care Use Tax	58.0	0.0	0.0
Federal Ongoing Aid	1,617.7	1,726.9	1,726.9
Subtotal Ongoing Revenue	\$14,613.6	\$15,090.7	\$15,403.2
<u>Non-ongoing Revenue:</u>			
SAF Deposit Into MPSERS Reserve Fund	\$0.0	(\$55.0)	\$0.0
Reserve Fund for MPSERS	0.0	23.1	31.9
Drinking Water Emergency Reserve Fund	2.5	0.0	0.0
Preliminary Bookclosing Adjustments	1.2	0.0	0.0
Subtotal Non-Ongoing Revenue	\$3.7	(\$31.9)	\$31.9
Total Estimated School Aid Fund Revenue	\$14,785.5	\$15,440.5	\$15,663.1
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$13,985.8	\$14,266.5	\$14,266.5
Enacted Supplementals	(107.9)	6.4	0.0
SFA Cost Adjustments (December 2017)	0.0	(9.4)	29.7
Fund Community Colleges with School Aid Fund	260.4	398.3	413.3
Partially Fund Higher Education with School Aid Fund	237.1	238.3	243.3
Subtotal Ongoing Appropriations	\$14,375.4	\$14,900.1	\$14,952.8
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$176.0	\$89.3	\$128.5
Fund MPSERS UAAL Payment	0.0	200.0	0.0
MPSERS K-12 New Reform Costs	0.0	23.1	37.6
Preliminary Bookclosing Adjustments	(147.6)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$28.4	\$312.4	\$166.1
Total Estimated School Aid Fund Expenditures	\$14,403.8	\$15,212.5	\$15,118.9
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$381.7	\$228.0	\$544.2