



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

**FY 2013-14, FY 2014-15,
and FY 2015-16**

May 14, 2014



THE SENATE FISCAL AGENCY

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4. To provide economic and revenue analysis and forecasting.
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8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 1.9% during 2013, is predicted to expand 2.2% in 2014, 2.9% in 2015, and 3.0% in 2016. Light vehicle sales are forecasted to rise from 15.5 million units in 2013, to 16.1 million units in 2014, 16.3 million units in 2015, and 16.4 million units in 2016. The unemployment rate is expected to fall from 7.4% in 2013 to 6.5% in 2014, 6.1% in 2015, and 5.7% in 2016; while the consumer price index is estimated to increase 1.6% in 2014, 1.7% in 2015, and 1.9% in 2016.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.8% in 2014, 2.4% in 2015, and 2.7% in 2016, after rising 1.0% in 2013. Wage and salary employment is predicted to continue growing, increasing 0.6% during 2014, 0.9% in 2015, and 1.0% in 2016.

REVENUE FORECAST

In FY 2013-14, the economy will grow more slowly than in FY 2012-13, and the loss of one-time revenue from FY 2012-13, changes in tax policy, increases in business tax credits, and declines in individual income tax annual payments will almost offset the increases in revenue from other revenue sources and from economic growth. General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated \$20.8 billion, a 0.1% increase from FY 2012-13 that is \$287.6 million below the January 2014 consensus estimate.

In FY 2014-15, GF/GP and SAF revenue will total an estimated \$21.6 billion, a 3.6% increase from FY 2013-14 and \$377.8 million below the January 2014 consensus estimate. General Fund/General Purpose revenue will total an estimated \$9.8 billion, an increase of 4.3% from FY 2013-14, while SAF revenue will rise to an estimated \$11.8 billion, a 3.0% increase. Increased revenue from stronger economic growth during FY 2014-15 will be partially offset by slightly greater reductions in revenue due to business tax credits and tax policy changes.

In FY 2015-16, GF/GP and SAF revenue will total an estimated \$22.4 billion. This revised estimate for FY 2015-16 is 3.7% higher than the revised estimate for FY 2014-15 but \$466.4 million below the January 2014 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.2 billion, an increase of 4.4% from FY 2014-15, while SAF revenue will rise to an estimated \$12.2 billion, a 3.2% increase.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2013-14 GF/GP budget will have a positive ending balance of \$437.5 million. A comparison of the FY 2013-14 SAF revenue estimates and enacted and projected SAF appropriations produces a \$367.6 million SAF surplus.

Comparing the SFA's FY 2014-15 GF/GP revenue estimate, which includes the impact of enacting the Senate-passed Health Insurance Claims Assessment (HICA) legislation, with the appropriation bills as passed by the Senate, leads to a \$151.5 million negative balance in the FY 2014-15 GF/GP budget. This negative balance could be resolved by using funds remaining in the Roads and Risks Reserve Fund and by lowering the Senate-proposed deposit into the Michigan Health Savings Sub-Fund. The SFA's FY 2014-15 SAF revenue estimate, combined with the Senate-passed SAF appropriations and the Senate-passed HICA legislation, results in a \$169.2 million SAF surplus.

If the SFA's FY 2015-16 GF/GP revenue estimate is compared with the FY 2014-15 Senate ongoing appropriation recommendations plus \$200.0 million of one-time appropriations, adjusted for caseload changes, there is a projected \$85.9 million budget surplus. If the SFA's 2015-16 SAF revenue estimate is compared with the 2014-15 Senate-passed SAF appropriations adjusted for FY 2015-16 estimated pupils and other costs, there is a projected \$213.7 million surplus.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)					
	2012 Actual	2013 Actual	2014 Estimate	2015 Estimate	2016 Estimate
Real Gross Domestic Product (% change)	2.8%	1.9%	2.2%	2.9%	3.0%
U.S. Consumer Price Index (% change)	2.1%	1.5%	1.6%	1.7%	1.9%
Light Motor Vehicle Sales (millions of units)	14.4	15.5	16.1	16.3	16.4
U.S. Unemployment Rate (%)	8.1%	7.4%	6.5%	6.1%	5.7%
Real Michigan Personal Income (% change)	1.4%	1.0%	1.8%	2.4%	2.7%
Michigan Wage & Salary Employment (% chng)	2.1%	1.8%	0.6%	0.9%	1.0%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)									
	FY 2013-14 Estimate			FY 2014-15 Estimate			FY 2015-16 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	\$9,811.3	(\$460.6)	\$9,350.7	\$10,256.3	(\$499.2)	\$9,757.0	\$10,696.1	(\$507.5)	\$10,188.6
% Change	(1.5%)	---	(2.2%)	4.5%	---	4.3%	4.3%	---	4.4%
School Aid Fund	\$11,539.3	(\$45.2)	\$11,494.1	\$11,891.4	(\$48.0)	\$11,843.4	\$12,263.0	(\$44.2)	\$12,218.8
% Change	2.3%	---	2.0%	3.1%	---	3.0%	3.1%	---	3.2%
Total GF/GP & SAF	\$21,350.6	(\$505.8)	\$20,844.8	\$22,147.7	(\$547.2)	\$21,600.5	\$22,959.1	(\$551.7)	\$22,407.4
% Change	0.5%	---	0.1%	3.7%	---	3.6%	3.7%	---	3.7%
Revenue Limit – Under (Over)		\$7,465.1			\$7,439.3			\$7,565.9	
	<u>FY 2013-14 Estimate</u>			<u>FY 2014-15 Estimate</u>			<u>FY 2015-16 Estimate</u>		
<u>Revision from May Consensus</u>									
GF/GP		(\$221.8)			(\$289.5)			(\$347.0)	
SAF		(65.9)			(88.4)			(119.4)	
Total		(\$287.7)			(\$377.9)			(\$466.4)	

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)			
	FY 2013-14 Estimate	FY 2014-15 Estimate	FY 2015-16 Estimate
General Fund/General Purpose	\$437.5	(\$151.5)	\$85.9
School Aid Fund	367.6	169.2	213.7
Budget Stabilization Fund	585.7	591.6	600.5

**ECONOMIC REVIEW
AND OUTLOOK**

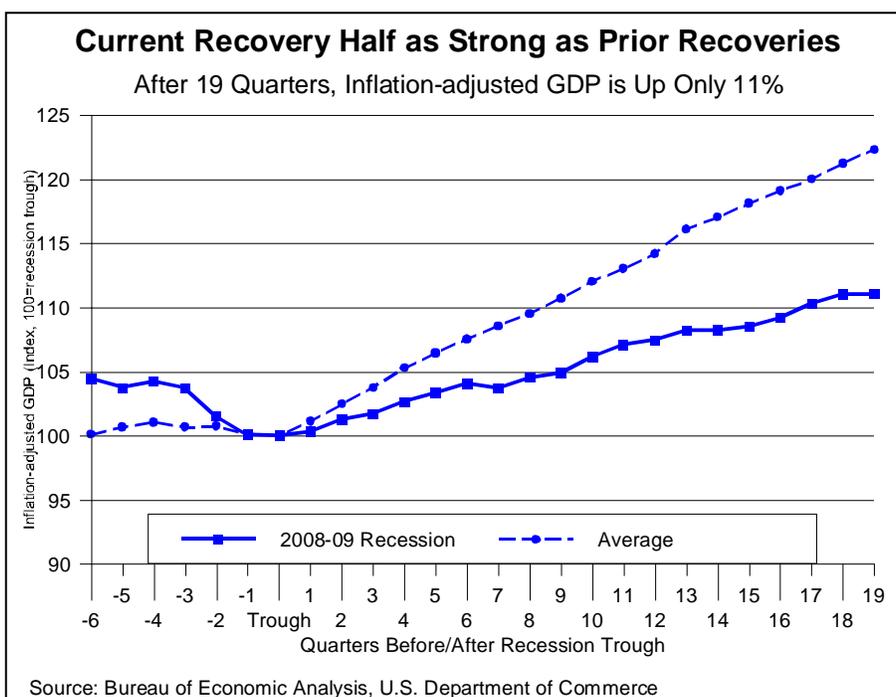
ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2014, 2015, and 2016, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

Since the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years, the economy has grown slowly. Many fundamental economic factors remain well below their prerecession peaks, and even factors that have recovered have done so more slowly than during almost any other post-World War II recovery. As of the first quarter of 2014, the economy had been in recovery for 19 quarters after the recession trough in the second quarter of 2009. Five recoveries since World War II have lasted 19 quarters or more, and at this point the current recovery is approximately half as strong as the average of those recoveries.

Figure 1



Inflation-adjusted Gross Domestic Product (GDP) in the first quarter of 2014 was only 6.3% above the level during the fourth quarter of 2007, when the recession began, and only 11.1% 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 4.3% annual growth over the other five recoveries. Consumption expenditures, which on average account for two-thirds of economic activity, have also exhibited weak growth relative to historical standards, with the current recovery averaging 2.3% annual growth, compared with a historical average of 4.3% growth (Figure 2). However, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 1.6% compared with the historical average of 2.5% growth (Figure 3). Over this recovery, much of the growth in the economy has reflected increases in inventories: goods produced but not sold. For example, during the first three quarters of 2013, increases in inventories accounted for 41.9% of the increase in inflation-adjusted GDP. While inventory accumulation is generally regarded as

good, at least if it is intended, without increased consumption to support the additional production, inventory increases do not represent a sustainable way to expand the economy. Highlighting the unreliable nature of growth built on inventory accumulation, slower rates of inventory building in the already weak first quarter of 2014 (when inflation-adjusted GDP increased only 0.1%) subtracted 0.6 percentage point from the growth rate.

Figure 2

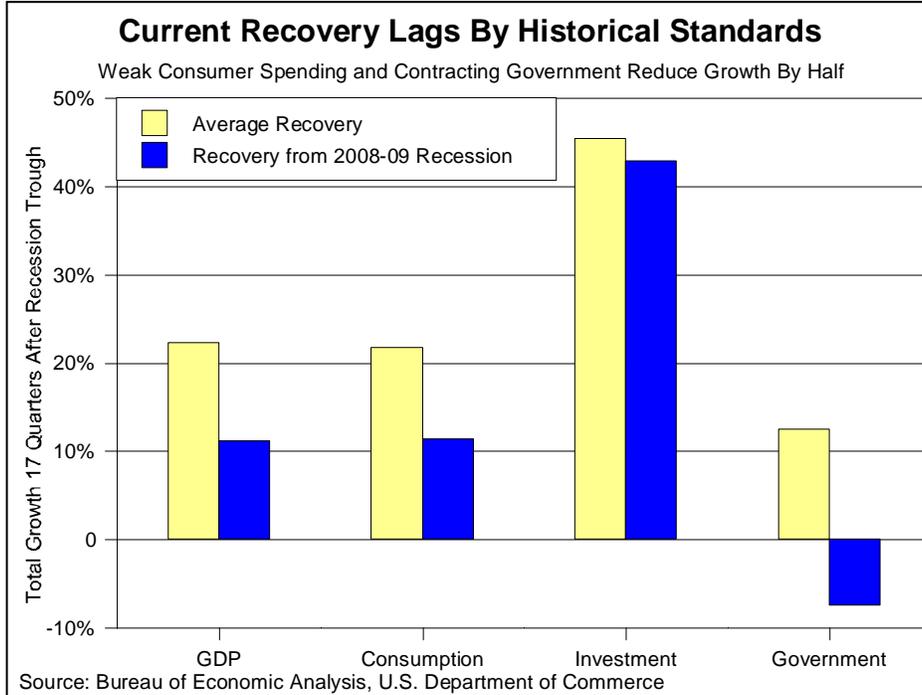
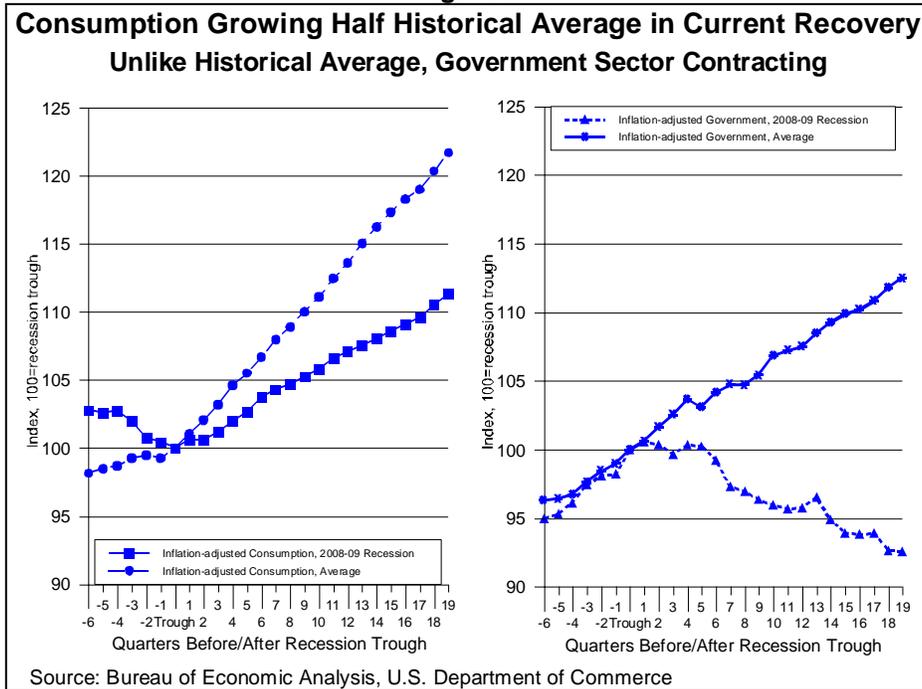


Figure 3



Consumption growth has remained weak for a variety of reasons, and many of the increases have reflected increased purchases of motor vehicles. Consumers have remained risk-averse about spending, especially for big-ticket items and nonessential purchases, as employment growth has remained weak and wage increases have been negligible. Motor vehicle purchases have been an exception due to factors ranging from rising fuel costs' encouraging the purchase of more fuel-efficient vehicles to the marked increase in the age of the vehicle fleet. Replacement consumption, where consumers replace durable goods that have simply grown so old that they are no longer considered viable, has accounted for a significant portion of the growth in consumption spending. Durable goods consumption generally accounts for approximately 8.5% of the economy and 12.3% of consumption spending, but during the first three quarters of 2013 accounted for 22.4% of the economic growth and 43.6% of the growth in consumption spending. In the third quarter of 2013, the growth in durable goods consumption, particularly motor vehicles, accounted for 67.1% of the growth in consumer spending. While the last quarter of 2013 and the first quarter of 2014 do not reflect this pattern, much of the data during those periods reflects anomalous events ranging from extremely inclement weather to significant events that generated substantial economic uncertainty, such as the government shutdown in October 2013 and the combination of changes in monetary policy and leadership of the Federal Reserve Bank over those quarters.

Despite the weak growth in consumer spending, spending is still rising at a faster rate than wage and salary income. Since the recession trough, inflation-adjusted consumption spending has risen by an average of 2.3% per year, while inflation-adjusted wage and salary income has risen by an average of 1.5% per year. Since the first quarter of 2013, both growth rates slowed and the gap between them grew: between the first quarter of 2013 and the first quarter of 2014, inflation-adjusted consumption spending rose at an annual rate of 2.5%, compared with an increase of 1.2% in inflation-adjusted wage and salary income. If these rates are adjusted to account for population growth, inflation-adjusted wage and salary income has risen at an annual rate of 0.5% since the first quarter of 2013 while consumption spending has grown at an annual rate of 1.8%. With wages effectively flat, personal income gains have been driven by increases in nonfarm proprietor's income and increased dividend payments. Consumption growth also appears to be driven by increased borrowing, with outstanding consumer debt rising 7.4% since the fourth quarter of 2012 and 2.8% since the third quarter of 2013 ([Figure 4](#)).

Payroll employment in the United States continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010. Despite gains during 2013, preliminary data for April 2014 indicate that employment was still 113,000 jobs (0.1%) below the January 2008 peak, and employment has averaged only 0.5% annual growth since the February 2010 trough. While manufacturing employment increased 4.1% between February 2010 and March 2012, it has remained flat through 2013 and is still down approximately 1.6 million jobs (12.0%) from the beginning of the recession in December 2007. The unemployment rate fell from a peak of 10.0% in October 2009, to 6.3% in April 2014. However, over that period, the civilian noninstitutional population aged 16 and older has increased an average of 0.33% per year while the labor force has grown an average 0.08% per year. While increased employment has helped reduce the unemployment rate, declines in the labor force also have reduced the pool of individuals who are seeking work. The number of people in the labor force fell in 19 of the last 41 months, and declined by more than 250,000 individuals or more in four of the last nine months. The April 2014 labor force was virtually unchanged from one year ago and was down more than 278,000 individuals from January 2013.

The housing market, which counts as residential investment rather than consumption spending, improved substantially in 2013, although it remains weak by almost any historical measure ([Figure 5](#)). Housing starts totaled approximately 924,600 units in 2013, an increase of 18.5% from 2012 and the fourth consecutive annual increase in starts. However, despite the increases, 2013 represented the fifth-weakest year of housing starts (based on data available back to 1959), above

only the years 2008 through 2012. Housing starts in 2013 also were 8.8% below the lowest year prior to the 2008-2009 recession. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and has averaged only 3.1% of GDP since the beginning of 2013. In addition, the data suggest that the housing starts that are occurring have lower inflation-adjusted values than those before the recession.

Figure 4

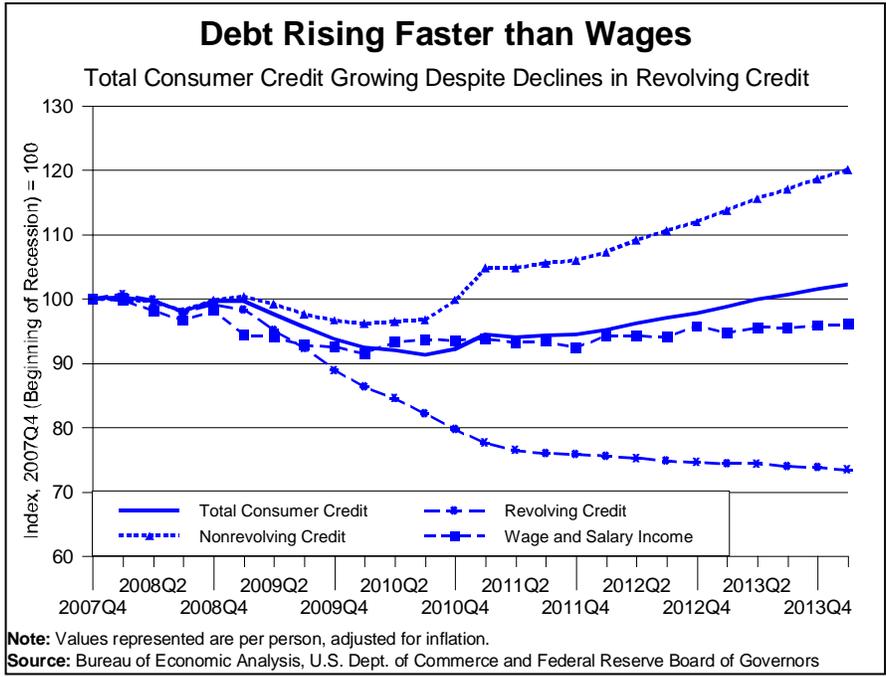
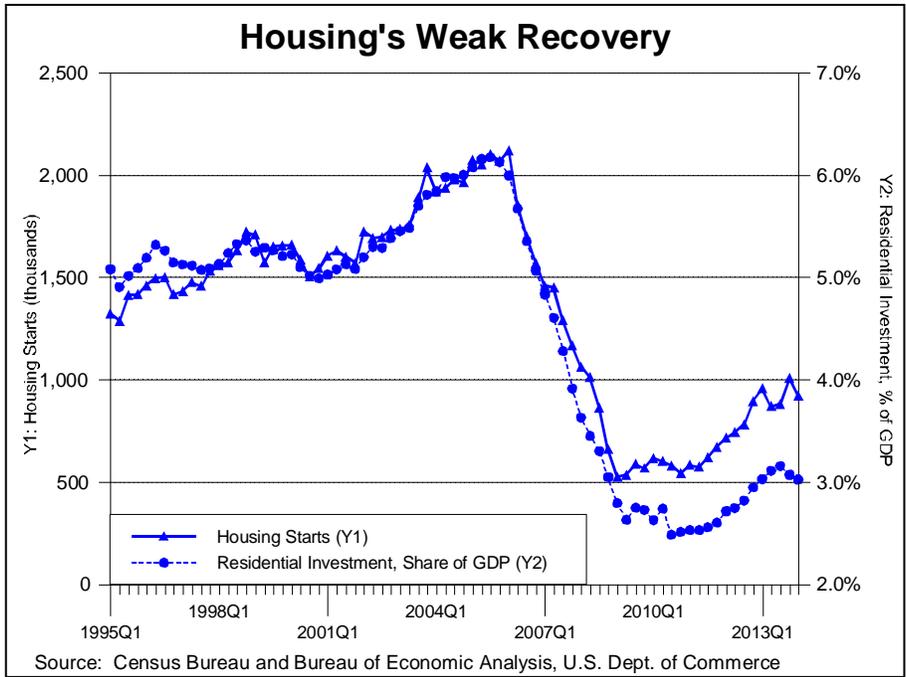


Figure 5



Productivity, as measured by output per worker, rose at an average annual rate of 3.4% between the second quarter and third quarter of 2013, and 2.1% between the third and fourth quarters of 2013, well above the 1.7% average during much of the latter half of the 20th century. While productivity growth fell at an average annual rate of 1.5% during the first quarter of 2014, it is unclear how much of that decline reflects weather-related issues. In manufacturing, productivity during the fourth quarter of 2013 was up 2.7% from the fourth quarter of 2012, and in the first quarter of 2014 it was up 2.0% from the year-ago level. Productivity gains increase output and income, especially in the long run, but reduce the need for additional workers.

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

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST					
(Calendar Years)					
	2012	2013	2014	2015	2016
	Actual	Actual	Estimate	Estimate	Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	4.6%	3.4%	3.8%	4.8%	4.8%
Inflation-Adjusted GDP (year-to-year growth)	2.8%	1.9%	2.2%	2.9%	3.0%
Unemployment Rate	8.1%	7.4%	6.5%	6.1%	5.7%
Inflation					
Consumer Price Index (year-to-year growth)	2.1%	1.5%	1.6%	1.7%	1.9%
GDP Implicit Price Deflator (year-to-year growth)	1.7%	1.5%	1.6%	1.9%	1.8%
Interest Rates					
90-day Treasury Bill	0.09%	0.06%	0.14%	0.28%	0.99%
10-year Treasury Bill	1.80%	2.35%	3.33%	3.64%	3.85%
Corporate Aaa Bond	3.67%	4.23%	4.51%	4.65%	4.70%
Federal Funds Rate	0.14%	0.11%	0.12%	0.28%	1.03%
Light Motor Vehicle Sales (millions of units)					
Auto	14.4	15.5	16.1	16.3	16.4
Truck	7.2	7.6	7.7	7.9	7.9
Import Share	22.1%	21.8%	20.0%	20.6%	20.7%
<u>Michigan</u>					
Personal Income (millions)	\$378,443	\$388,053	\$399,922	\$416,020	\$434,313
Year-to-year growth	3.5%	2.5%	3.1%	4.0%	4.4%
Inflation-Adjusted Personal Income (year-to-year growth)	1.4%	1.0%	1.8%	2.4%	2.7%
Wage & Salary Income (millions)	\$189,640	\$195,866	\$201,375	\$207,867	\$214,707
Year-to-year growth	4.1%	3.3%	2.8%	3.2%	3.3%
Detroit Consumer Price Index (year-to-year growth)	2.0%	1.6%	1.2%	1.6%	1.7%
Wage & Salary Employment (thousands)	4,033.3	4,104.5	4,129.9	4,168.8	4,212.4
Year-to-year growth	2.1%	1.8%	0.6%	0.9%	1.0%
Unemployment Rate	9.1%	8.8%	7.6%	7.2%	6.7%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2012 Actual	2013 Actual	2014 Estimate	2015 Estimate	2016 Estimate
Gross Domestic Product (billions of dollars)	\$16,244.6	\$16,799.7	\$17,442.4	\$18,286.6	\$19,171.3
Year-to-year growth	4.6%	3.4%	3.8%	4.8%	4.8%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2009 dollars)	\$15,470.7	\$15,761.3	\$16,100.2	\$16,570.5	\$17,069.1
Year-to-year growth	2.8%	1.9%	2.2%	2.9%	3.0%
Consumption (billions of 2009 dollars)	\$10,517.6	\$10,727.9	\$11,030.4	\$11,331.6	\$11,665.8
Year-to-year growth	2.2%	2.0%	2.8%	2.7%	2.9%
Business Fixed Investment (billions of 2009 dollars)	\$1,931.8	\$1,984.4	\$2,069.1	\$2,204.3	\$2,337.1
Year-to-year growth	7.3%	2.7%	4.3%	6.5%	6.0%
Change in Business Inventories (billions of 2009 dollars)	\$57.6	\$81.5	\$57.4	\$47.9	\$52.9
Residential Investment (billions of 2009 dollars)	\$433.7	\$486.6	\$514.7	\$605.7	\$669.4
Year-to-year growth	12.9%	12.2%	5.8%	17.7%	10.5%
Government Spending (billions of 2009 dollars)	\$2,963.1	\$2,896.9	\$2,870.6	\$2,887.8	\$2,929.1
Year-to-year growth	(1.0%)	(2.2%)	(0.9%)	0.6%	1.4%
Net Exports (billions of 2009 dollars)	(\$430.8)	(\$412.3)	(\$433.2)	(\$493.5)	(\$570.1)
Exports (billions of 2009 dollars)	\$1,957.4	\$2,010.0	\$2,047.8	\$2,104.2	\$2,179.6
Imports (billions of 2009 dollars)	\$2,388.2	\$2,422.3	\$2,481.0	\$2,597.7	\$2,749.7
Personal Income (year-to-year growth)	4.2%	2.6%	3.7%	4.8%	5.5%
Adjusted for Inflation	2.1%	1.1%	2.0%	3.1%	3.6%
Wage & Salary Income (year-to-year growth)	4.4%	3.1%	3.2%	4.8%	5.2%
Personal Saving Rate	5.6%	4.5%	3.8%	3.9%	4.3%
Capacity Utilization Rate	77.3%	77.9%	78.4%	78.7%	79.7%
Housing Starts (millions of units)	0.781	0.925	1.063	1.285	1.413
Conventional Mortgage Rates	3.7%	4.0%	5.0%	5.2%	5.4%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$1,109.7)	(\$752.1)	(\$655.0)	(\$653.7)	(\$646.1)

RECENT MICHIGAN ECONOMIC HIGHLIGHTS

Michigan's economy spent the 2000-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Manufacturing has experienced a significant surge in productivity, driven by increased competition in the economy. For Michigan, the effect of productivity improvements was substantial, particularly given that there was more room for improvement in the durable goods and motor vehicle manufacturing sectors than in many other sectors, that Michigan was, and remains, very disproportionately concentrated in motor vehicle manufacturing, and that the motor vehicle industries have become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford,

and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment from both productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 106,000 jobs (24.1%) between June 2009, when the U.S. recession ended, and January 2013. However, both total Michigan payroll employment and Michigan manufacturing employment have remained essentially unchanged since January 2013. Employment in the transportation equipment manufacturing sector increased by 48.1% between June 2009 and September 2013, accounting for 47,000 (46.9%) of the manufacturing jobs Michigan gained and 20.0% of the total jobs added in Michigan. While total Michigan employment has remained fairly flat since January 2013, Michigan transportation equipment manufacturing employment has remained relatively flat since only September 2013.

The unemployment rate declined from a high of 14.2% in August 2009 to 7.5% in March 2014, although approximately one-third of the decline is attributable to the departure of approximately 112,145 individuals from the labor force and two-thirds reflect an employment gain of only 218,800 jobs. Prior to January 2014, the decline in the labor force and increased employment were approximately equal in their contribution to reducing the Michigan unemployment rate. After declining in each of the last months of 2013, Michigan's labor force increased in each of the first three months of 2014. Despite the increases in the labor force, employment gains of approximately 75,700 jobs were sufficient to lower the unemployment rate from 8.3% in December 2013 to 7.5% in March 2014. Most of this increase in employment, however, does not appear to reflect traditional payroll jobs. Traditional payroll employment over the same period is estimated to have fallen by 11,000 jobs.

FORECAST SUMMARY

During 2014, both the U.S. and Michigan economies are expected to expand at a slightly faster rate than during 2013. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2014 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 2.2% in 2014, slightly more than the 1.9% increase in 2013. The economy will begin to grow more rapidly, with inflation-adjusted GDP rising 2.9% during 2015 and 3.0% in 2016. The expansion over the forecast period primarily reflects tepid consumption growth and improvements in business and residential investment that will more than offset the drag on the economy from relatively stagnant public sector growth.

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replaces capital for labor, although investment in structures, which represents new facilities, is also expected to exhibit significant growth. The U.S. unemployment rate is expected to decrease from 7.4% during 2013, to 6.5% in 2014, 6.1% in 2015, and 5.7% in 2016.

Inflation is not anticipated to be a concern over the forecast period, despite the assumption of high (but only slowly increasing) energy prices. The U.S. Consumer Price Index (CPI) increased 1.5% in 2013, and is projected to rise 1.6% in 2014, 1.7% in 2015, and 1.9% in 2016. Export growth is

expected to be tempered in the near-term by increases in the value of the dollar as the Federal Reserve continues reducing its purchases of securities and the market anticipates higher interest rates. As foreign economies improve later in the forecast period, healthier export markets and a shift to declines in the value of the dollar will improve U.S. exports. Productivity, weak domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 0.9% in 2014, 1.4% in 2015, and 1.7% in 2016.

In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average (Figures 6 and 7). Inflation-adjusted personal income is projected to increase 1.8% in 2014, after increasing 1.0% during 2013, and then increase 2.4% in 2015 and 2.7% in 2016. Payroll employment is expected to increase 0.6% in 2014, less than the 1.8% experienced during 2013, and then rise 0.9% in 2015 and 1.0% in 2016. Private sector gains in employment during 2014 and 2015 are expected to be partially offset by declines in public sector employment, as State and local governments experience continued budgetary problems (Figure 8). Nationally, light vehicle sales are expected to increase from 15.5 million units in 2013 to 16.1 million units in 2014, 16.3 million units in 2015, and 16.4 million units in 2016. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to slowly decline, from 8.8% in 2013 to 7.6% in 2014, 7.2% in 2015, and 6.7% in 2016.

Compared with the January 10, 2014, Consensus Economic Forecast, both the U.S. and Michigan forecasts are slightly weaker for all forecast years. Weak employment growth, weak income growth, and slowdowns in overseas economies will temper the pace of the U.S. and Michigan recoveries during the forecast period. However, improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation as the government sector contracts.

Figure 6

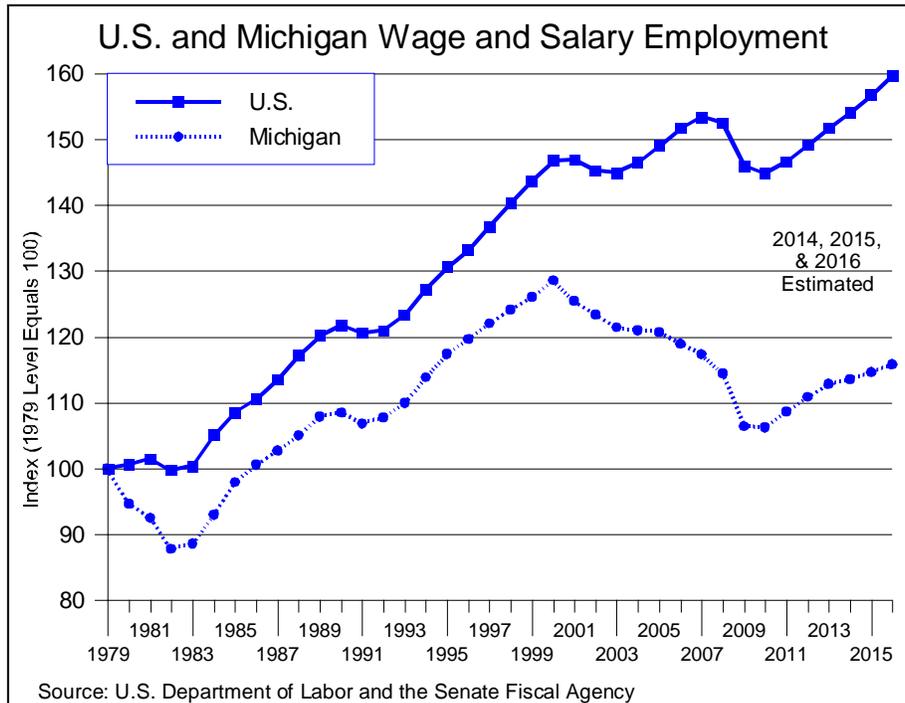


Figure 7

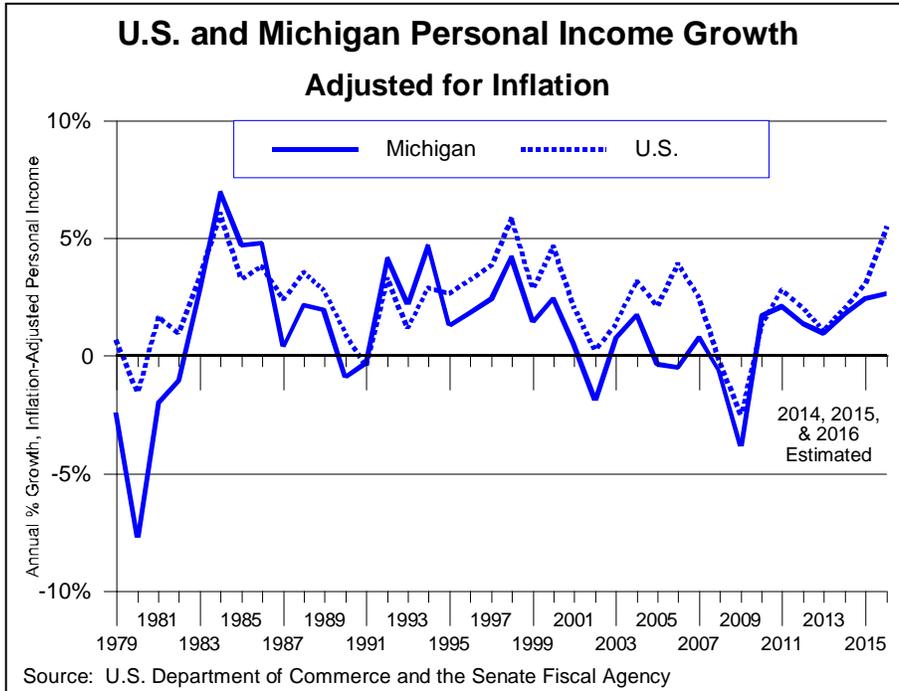
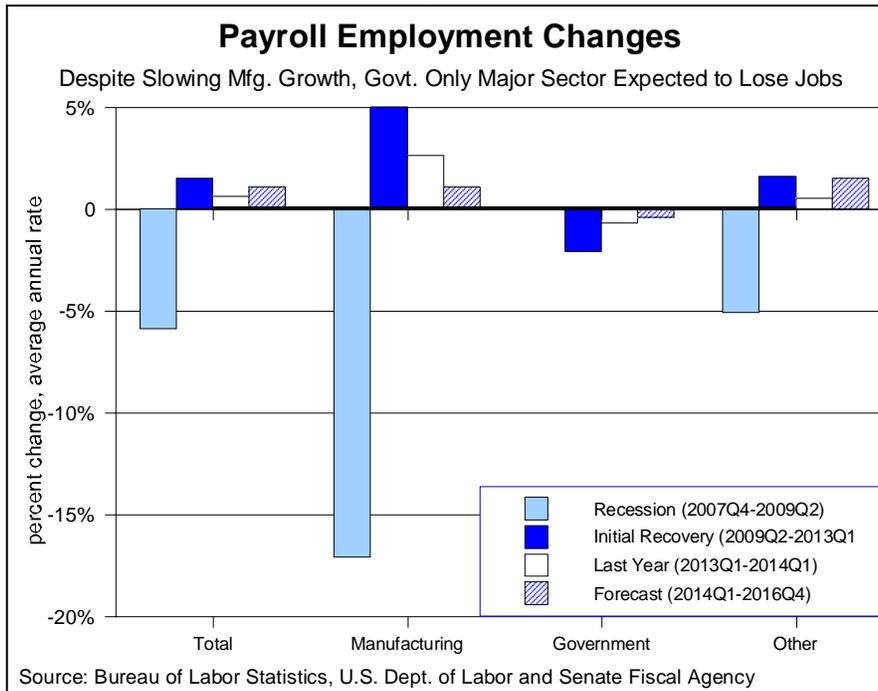


Figure 8



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 often occurs after recessions not associated with financial collapses.

Currently, the economy appears to be somewhat trapped in a lower-than-average growth pattern. Consumers remain cautious, despite the growing economy, pressured by both slow wage growth and weak employment growth. As a result, consumers have largely waited for stronger improvements in the economy before engaging in spending beyond replacement spending. The business sector, facing demand that may not support additional hiring, has engaged in capital investment and limited wage growth, even as profits have risen. As a result, both the business sector and consumer sector are largely waiting on the other to show a substantial change for the better before increasing economic activity. The forecast does not expect any large change, either positive or negative, to break either sector of it this pattern. As a result, the economy grows under the forecast period, but continues to exhibit growth rates that remain substantially below historical norms.

Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession have induced consumers to rein in their spending, pushing the saving rate significantly higher. However, not only did consumers need to save at a far higher rate than exhibited to offset their losses in home equity and in the stock market, but over the last four quarters the saving rate has declined again and outstanding debt has begun increasing. Limited income growth and high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the late 2000s and, if capital markets accommodated higher demands for additional credit, growth would be stronger than forecasted.

Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. However, personal income fell more slowly over that time period, indicating that consumers engaged in a large amount of precautionary savings: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is believed 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. If consumer spending primarily represents deferred purchases and consumers continue spending in the near future only at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

The durability of consumer spending represents the primary determinant of the accuracy of the forecast. As indicated earlier, purchases of motor vehicles dominated consumption growth during much of 2013 and expenditures have risen more rapidly than incomes since mid-2011, especially for much of the past year. The forecast assumes that consumers will continue to reduce saving rates but that consumption will be limited by flat wages and limited access to additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than

predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

The Labor Market. During 2011, Michigan experienced a marked decline in the unemployment rate, outpacing drops in the unemployment rate nationally. With Michigan posting the first annual job gains since 2000 during 2011 and 2012, the decline in the unemployment rate would appear to reflect rising employment levels. However, while job gains have helped reduce the unemployment rate, a significant factor causing the unemployment rate to decline over this period has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

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

How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent that these individuals face limited incomes and reduced income growth, consumption and investment are depressed, lowering economic growth and reducing tax revenue. To the extent that these individuals enter (or re-enter) the labor force, the unemployment rate is not likely to decrease much and may actually increase. To the extent these individuals find employment, the economy will improve, but at the expense of reducing the 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.

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.

Weak markets for housing, credit, and employment, coupled with high energy prices and substantial debt burdens, are expected to exert a dragging force on any increases in demand over the forecast period. For Michigan, both employment gains and improvements in economic growth will be restrained by slowing growth in vehicle sales, as little growth is expected beyond replacement demand, the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains, and sales levels are nearing the levels experienced in much of the last decade. On the other hand, compared with the prior decade, the Detroit 3 share of the sales mix is expected to remain fairly stable ([Figure 9](#)). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles ([Figure 10](#)).

Figure 9

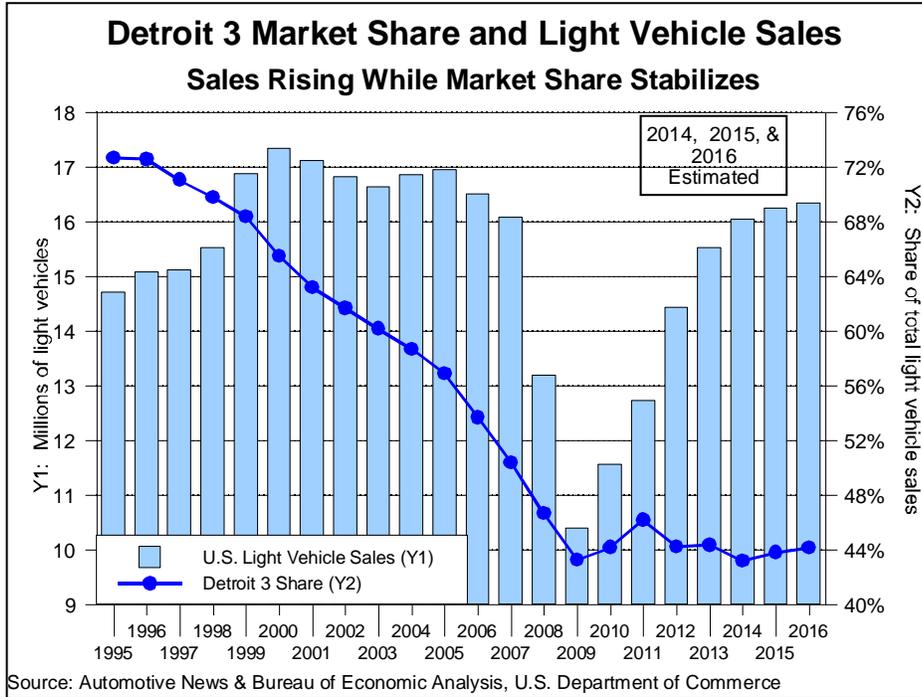
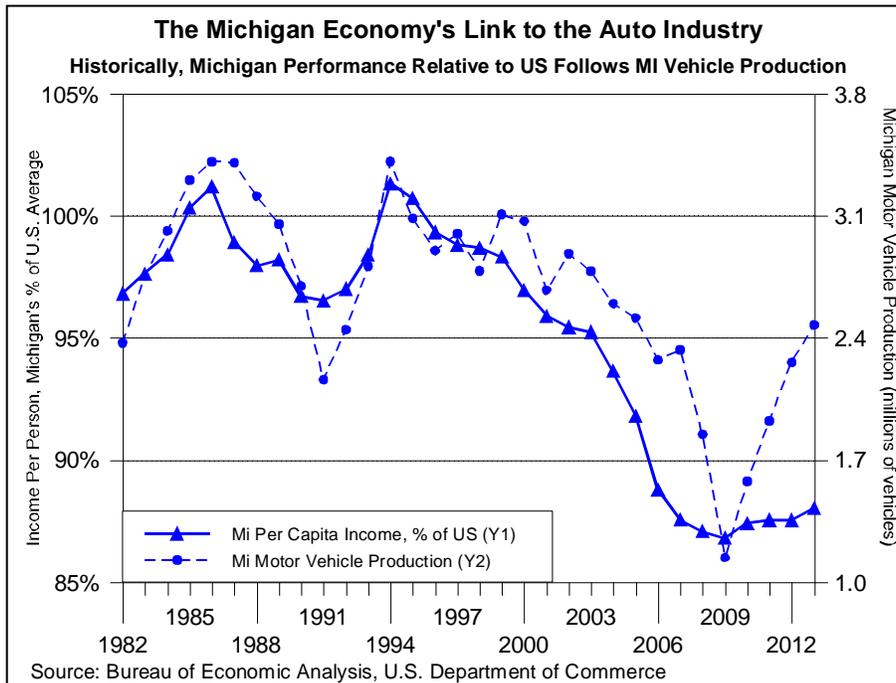


Figure 10



Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the additional demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (68.2%, a decline of approximately 241,300 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. As identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, and despite the fact that as of March 2014 Michigan had regained 284,700 of the 861,100 jobs lost between April 2000 and July 2009, 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 increase slightly in 2014, remain relatively flat through 2015, and increase slightly again in 2016. The transportation equipment manufacturing sector's ability to continue pushing Michigan employment and income gains higher than those in many other states will continue to diminish as the growth rate in light vehicle sales slows. Overall employment in Michigan is expected to grow slightly, with many of the employment gains over the forecast period largely offset by declines in State and local government employment. However, 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 is unlikely until a meaningful recovery occurs in both the financial sector and the housing industry, and consumers have improved their debt-to-income ratios. These changes, which are expected to take years, will need to occur at both the national and statewide levels before Michigan will experience substantial economic growth on a sustained basis.

**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) revised estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2013-14, FY 2014-15, and FY 2015-16. 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 budgets from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2013-14 and FY 2014-15 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2013-14, FY 2014-15, and FY 2015-16 are presented in [Table 3](#) and are summarized below.

FY 2013-14 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$20.8 billion in FY 2013-14.
- This revised estimate for FY 2013-14 is nearly the same as FY 2012-13 final revenue, up 0.1% or \$12.6 million over FY 2012-13.
- The revenue projected for FY 2013-14 is lowered by adjustments for Michigan Business Tax (MBT) refunds for certificated credits and the projected impact of a variety of tax policy changes. Combined, these adjustments and changes will lower FY 2013-14 revenue by \$567.9 million.
- The revised estimate for FY 2013-14 is \$287.6 million below the January 2014 consensus revenue estimate.

FY 2014-15 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$21.6 billion in FY 2014-15.
- This revised estimate for FY 2014-15 is up 3.6% or \$755.7 million from the revised estimate for FY 2013-14. The projected revenue increase in FY 2014-15 reflects stronger economic growth in 2015 than in 2014.
- Changes in the estimated impact of certificated credits on MBT revenue combine with tax policy changes to lower GF/GP and SAF revenue by \$574.0 million in FY 2014-15.
- The revised estimate for FY 2014-15 is \$377.8 million below the January 2014 consensus revenue estimate.

FY 2015-16 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$22.4 billion in FY 2015-16.
- This revised estimate for FY 2015-16 is up 3.7% or \$806.9 million from the revised estimate for FY 2014-15.
- Changes in the estimated impact of certificated credits on MBT revenue combine with tax policy changes to lower GF/GP and SAF revenue by \$575.4 million in FY 2015-16.
- As in FY 2014-15, the revenue increase in FY 2015-16 reflects improvements in the level of economic activity.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2012-13 THROUGH FY 2015-16				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(Millions of Dollars)				
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Final	Revised Est.	Revised Est.	Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	\$9,957.4	\$9,811.3	\$10,256.3	\$10,696.1
Tax Changes Not In Baseline	(394.9)	(460.6)	(499.2)	(507.5)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	5,931.0	5,827.2	6,015.5	6,262.1
MBT, Corp. Income Tax, SBT & Insur. Tax	961.7	703.0	840.5	937.1
Other Taxes	2,262.5	2,460.1	2,545.0	2,631.4
Total Taxes	9,155.2	8,990.3	9,401.0	9,830.6
Nontax Revenue	407.3	360.5	356.0	358.0
TOTAL GF/GP REVENUE	\$9,562.5	\$9,350.7	\$9,757.0	\$10,188.6
SCHOOL AID FUND				
Baseline SAF	\$11,279.6	\$11,539.3	\$11,891.4	\$12,263.0
Tax Changes Not In Baseline	(10.0)	(45.2)	(48.0)	(44.2)
TOTAL SAF REVENUE	\$11,269.7	\$11,494.1	\$11,843.4	\$12,218.8
BASELINE GF/GP AND SAF REVENUE	\$21,237.0	\$21,350.6	\$22,147.7	\$22,959.1
Tax & Revenue Changes	(404.8)	(505.8)	(547.2)	(551.7)
GF/GP & SAF REV. AFTER CHANGES	\$20,832.2	\$20,844.8	\$21,600.5	\$22,407.4
SALES TAX	\$7,153.8	\$7,275.0	\$7,546.1	\$7,812.8
Percent Change				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	8.8%	(1.5%)	4.5%	4.3%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	23.1	(1.8)	3.2	4.1
MBT, Corp. Income Tax, SBT & Insur. Tax	(38.1)	(26.9)	19.6	11.5
Other Taxes	(2.1)	8.7	3.5	3.4
Total Taxes	5.5	(1.8)	4.6	4.6
Nontax Revenue	(27.9)	(11.5)	(1.2)	0.6
TOTAL GF/GP REVENUE	3.4%	(2.2%)	4.3%	4.4%
SCHOOL AID FUND				
Baseline SAF	(2.9)	2.3	3.1	3.1
TOTAL SAF REVENUE	3.6%	2.0%	3.0%	3.2%
BASELINE GF/GP AND SAF REVENUE	2.3	0.5	3.7	3.7
GF/GP & SAF REV. AFTER CHANGES	3.5%	0.1%	3.6%	3.7%
SALES TAX	2.9%	1.7%	3.7%	3.5%
Note: FY 2012-13 is the base year for baseline revenue.				

Historical Perspective

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period, although growth in FY 2013-14 is slight. The projected growth rates are 0.1% in FY 2013-14, 3.6% in FY 2014-15, and 3.7% in FY 2015-16. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period.

- In FY 2014-15, ongoing GF/GP revenue is forecast to be 5.6% or \$580.0 million below the FY 2007-08 level. In FY 2015-16, GF/GP revenue is forecast to be close to \$148.4 million below the level in FY 2007-08, and will remain \$492.0 million or 4.6% below the peak revenue in FY 1999-2000.
- In FY 2013-14, ongoing SAF revenue will be 0.2% (\$18.8 million) below the FY 2007-08 peak. In FY 2014-15, ongoing SAF revenue will surpass the previous record SAF revenue in FY 2007-08 by 2.9% or \$330.5 million. Growth is projected to continue in FY 2015-16, with SAF revenue estimated at \$705.9 million or 6.1% above the FY 2007-08 record level.

Baseline GF/GP and SAF revenue is forecast to increase by 0.5% in FY 2013-14 and then increase by 3.7% in FY 2014-15 and 3.7% FY 2015-16. Figure 11 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the revised estimate for FY 2015-16. During this 30-year period, GF/GP and SAF baseline revenue declined during three periods: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budget problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue will increase each year during the forecast period.

Figure 11

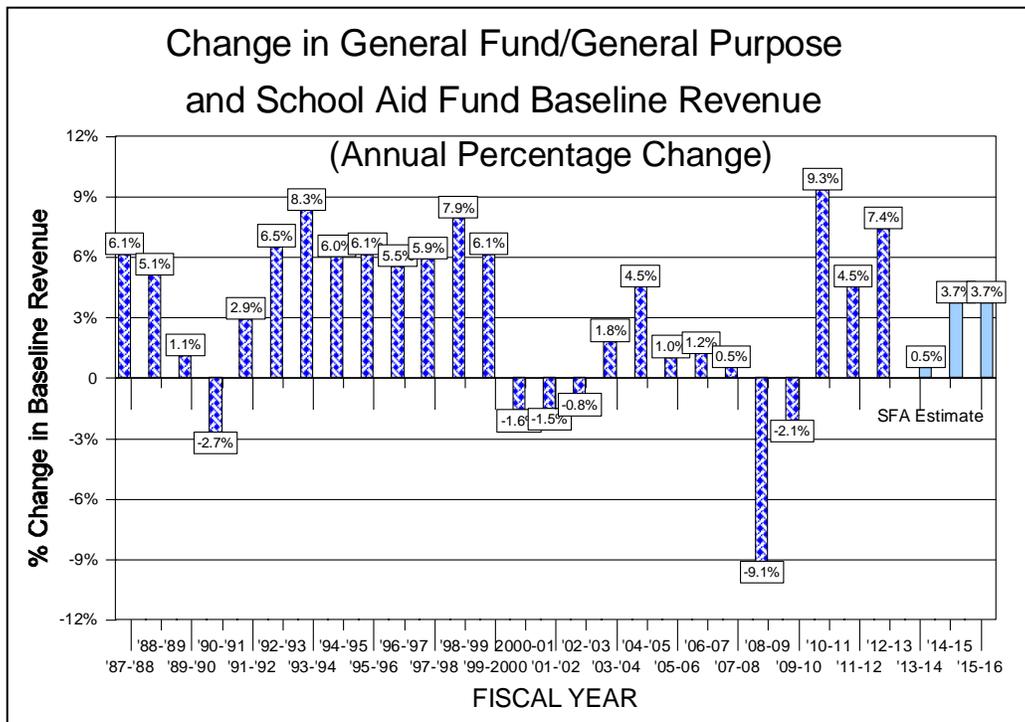


Figure 12 compares the FY 1995-96 through FY 2015-16 estimates for both the GF/GP and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 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 \$9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during the recession of FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since

FY 1991-92, as shown in [Figure 13](#). With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2014-15 will be approximately 8.6% (or \$923.6 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of \$10,188.6 million in FY 2015-16 will remain below the peak revenue in FY 1999-2000, by \$492.0 million. On a long-term, inflation-adjusted basis, however, it is necessary to go back to FY 1967-68 to find a comparable level of GF/GP revenue. Fiscal Year 2015-16 GF/GP revenue is forecast to be 2.0% (or \$185.1 million) below the FY 1968-69 level if adjusted for inflation.

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 in FY 2011-12 SAF revenue declined substantially as a result of tax changes. Ongoing SAF revenue is expected to grow consistently through the forecast period at 2.0% in FY 2013-14, 3.0% in FY 2014-15, and 3.2% in FY 2015-16. In FY 2015-16, SAF revenue is predicted to be approximately 74.5% (\$4.5 billion) above the revenue level in FY 1994-95 without accounting for inflation, and 7.2% (or \$845.5 million) below if adjusted for inflation, as shown in [Figure 14](#).

Figure 12

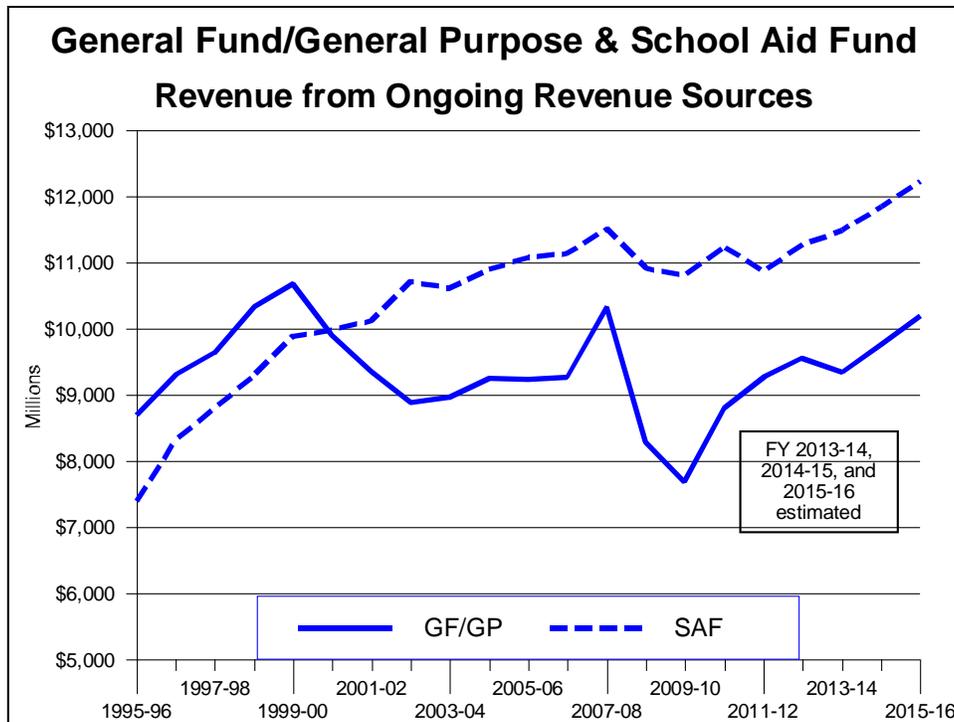


Figure 13

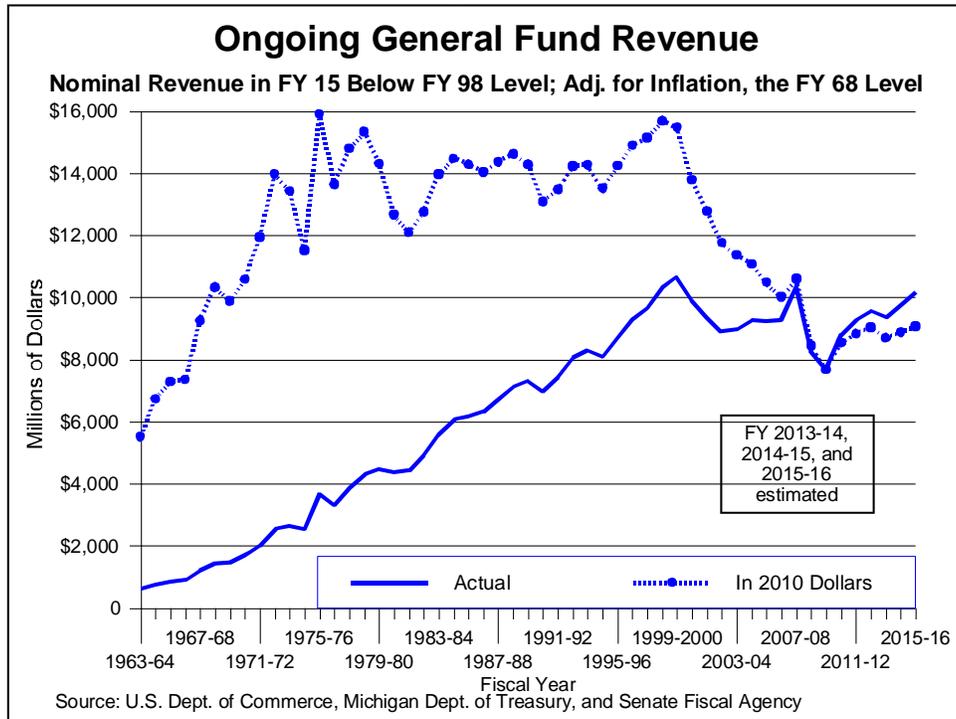
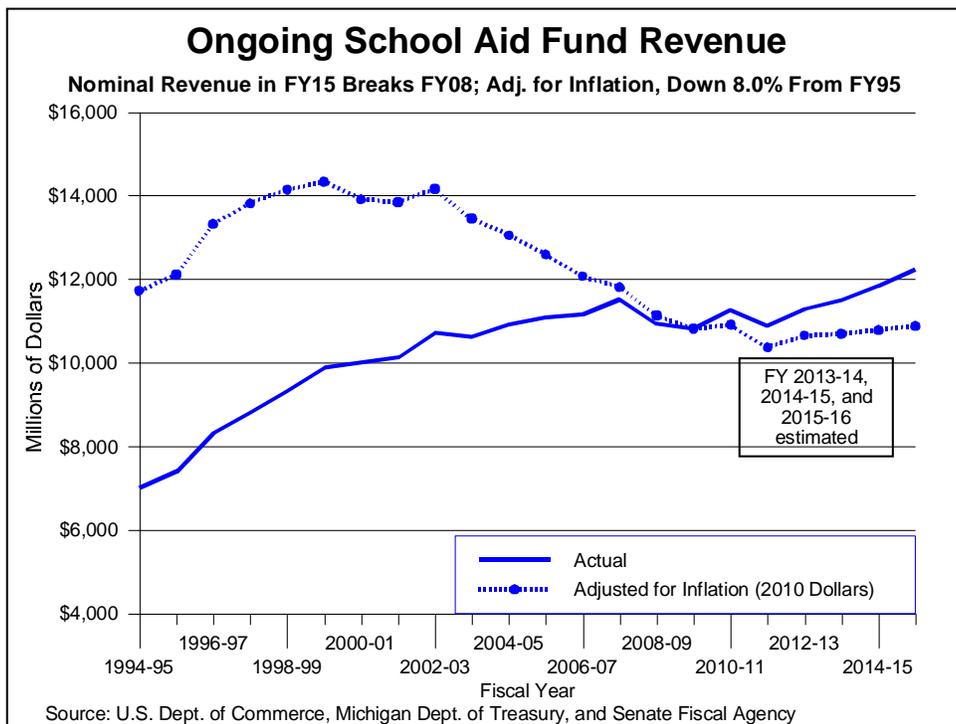


Figure 14



FY 2013-14 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will total an estimated \$20.8 billion in FY 2013-14, which is up 0.1% or \$12.6 million from FY 2012-13.
- The revised estimate for FY 2013-14 is \$287.6 million below the January 2014 consensus estimate.

Economic activity in Michigan is expected to grow more slowly during FY 2013-14 than in FY 2012-13, with baseline GF/GP and SAF growth estimated at 0.5% above FY 2012-13 baseline revenue. Net revenue is expected to grow more slowly because of the loss of several one-time tax policy events that generated additional revenue in FY 2012-13, including the revenue from unclaimed property audits and increased income tax revenue from individuals' taking dividends and capital gains in anticipation of tax increases associated with the "fiscal cliff" events of December 2012. Tax collections in the first half of FY 2013-14 appear to have been depressed by the Federal government shutdown and related uncertainty in the last quarter of 2013 and the unusually severe winter weather. The revised estimates for FY 2013-14 GF/GP and SAF revenue are summarized in Table 4.

Tax Policy Changes

Several tax policy changes are expected to affect revenue in FY 2013-14. These include continued revenue reductions due to MBT credits, changes in the law related to Blue Cross Blue Shield of Michigan that will affect the tax on insurers, the first full year of a phased-in exemption on the trade-in value of a motor vehicle, and the implementation of new legislation (Public Act 3 of 2014) that will reduce collections of unpaid business taxes.

Business Tax Changes. Some business taxpayers continue to file under the MBT Act in order to claim refundable tax credits, under an "option" tax. The value of these credits is expected to total \$535.9 million in FY 2013-14. The cost of the refundable credits is offset to a small extent by collection under the option tax of \$39.5 million in FY 2013-14.

Reduction of Personal Liability for Unpaid Business Taxes Due. Public Act 3 of 2014, which took effect on February 6, 2014, is expected to reduce GF/GP and SAF tax revenue by \$67.7 million in FY 2013-14. Public Act 3 narrowed the definition of the responsible party from whom the Department of Treasury can recover unpaid business taxes and restricted the circumstances under which recovery can be pursued. In FY 2013-14, these changes are estimated to reduce GF/GP revenue by \$39.6 million, SAF revenue by \$28.1 million and other funds, primarily constitutional revenue sharing, by \$5.7 million.

Insurance Tax Changes. The 2012 legislation that allowed Blue Cross Blue Shield of Michigan to change from a tax-exempt nonprofit firm to a nonprofit mutual insurer has been implemented and is expected to increase GF/GP revenue by \$40.0 million during FY 2013-14.

Sales Tax. Public Act 160 of 2013 provides an exemption that excludes a portion of the value of a trade-in of a motor vehicle, watercraft, or recreational vehicle from the sales tax, imposing the so-called sales tax on the difference. While the exemption will be phased in over many years, the first revenue impacts will occur during FY 2013-14, lowering sales tax revenue by \$22.1 million, with the SAF bearing \$16.2 million of the reduction. The revenue loss from this exemption will increase in future years as the phase-in progresses.

Individual Income Tax. Indexing the personal exemption for inflation is estimated to reduce GF/GP and SAF revenue by \$11.0 million in FY 2013-14.

State Education Tax. The phase-in of personal property tax reform, which began in January 1, 2014, is estimated to reduce SAF revenue from the State Education Tax by \$9.9 million in FY 2013-14.

While personal property tax reform will have an impact in FY 2013-14, whether the reform will continue to affect revenue in future fiscal years depends on the results of a ballot proposal that will be decided in August 2014. If the proposal is approved by the voters, the phase-in will continue and future State revenue will be reduced. As a result, the policy changes for FY 2014-15 and later years are not fully incorporated into statute and thus are not included in the policy changes described in this section for those fiscal years. However, because the potential changes are relevant to budget targets for future fiscal years, the impact of a continued phase-in of personal property tax reform is included in the last section of this report, dealing with year-end fund balances.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated \$9.4 billion in FY 2013-14, a decrease of 2.2% or \$211.8 million from FY 2012-13.
- The revised GF/GP estimate is \$221.8 million below the January 2014 consensus revenue estimate.

General Fund/General Purpose revenue is expected to be lower in FY 2013-14 than in the prior year. While the economy is expected to grow during 2014, tax collections were weak in the first half of the fiscal year, due in part to the impact of the severe winter weather. Annual payments under the Individual Income Tax are expected to decline 29.1% in FY 2013-14 from the FY 2012-13 level. In FY 2012-13, annual payments increased 68.0% as a result of a strong stock market and many taxpayers taking capital gains and/or receiving dividend payments in anticipation of potential tax changes associated with the "fiscal cliff" crises at the end of 2012. While a portion of this decline also reduces SAF revenue, the majority of the decline reduces GF/GP revenue.

The cost of refundable credits preserved after the elimination of most parts of the MBT is expected to increase in FY 2013-14. Previously awarded refundable tax credits will reduce tax revenue by approximately \$505.0 million in FY 2013-14. Similarly, although Corporate Income Tax (CIT) revenue is expected to grow 14.6%, the loss of revenue from the refundable tax credits will more than offset those gains and payments under the MBT option tax. Combined MBT/CIT revenue is expected to decline by \$330.8 million in FY 2013-14. The revised GF/GP revenue estimate for FY 2013-14 is summarized in Table 4.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.5 billion in FY 2013-14, which is up 2.0% or \$224.4 million from FY 2012-13.
- This revised SAF revenue estimate for FY 2013-14 is \$65.9 million below the January 2014 consensus revenue estimate.

The projected 2.0% increase in SAF revenue in FY 2013-14 reflects tepid growth in revenue from the sales tax and the individual income tax. Revenue from the Real Estate Transfer Tax is expected to rise by 13.9% due to improvement in the housing market, yet the increase in revenue from the State Education Tax is expected to be a scant 0.3%. However, revenue from the use tax and the lottery is expected to increase 7.3% and 7.8%, respectively, from the FY 2012-13 level. In FY 2013-14, the SAF is projected to approach but not surpass the previous peak revenue, experienced in FY 2007-08. Revenue in FY 2013-14 is forecast to be \$18.8 million under the FY 2007-08 level. The revised SAF revenue estimate for FY 2013-14 is summarized in Table 4.

Table 4

FY 2013-14 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2012-13 Final	FY 2013-14 Revised Est.	Change from FY 2012-13		\$ Change from 01/14 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	\$9,957.4	\$9,811.3	(\$146.1)	(1.5%)	(\$182.4)
Tax Changes Not In Baseline	(394.9)	(460.6)	(65.7)	---	(39.3)
Revenue After Tax Changes					
<u>Personal Income Tax</u>					
Gross Collections	9,964.5	9,964.6	0.1	0.0	(171.0)
Less: Refunds	(1,694.2)	(1,763.6)	(69.4)	4.1	(69.4)
Net Income Tax Collections	8,270.3	8,201.0	(69.3)	(0.8)	(240.4)
Less: Earmarking to SAF	(2,338.5)	(2,372.8)	(34.3)	1.5	40.5
Campaign Fund	(0.8)	(1.0)	(0.2)	25.0	0.0
Net Income Tax to GF/GP	\$5,931.0	\$5,827.2	(\$103.8)	(1.8%)	(\$199.9)
<u>Other Taxes</u>					
Corporate Income Tax	783.1	897.4	114.3	14.6	47.4
Michigan Business Tax	(75.8)	(520.9)	(445.1)	---	(30.9)
Sales	1,003.5	1,134.2	130.7	13.0	(12.0)
Use	838.3	927.5	89.2	10.6	7.9
Cigarette	187.9	186.4	(1.5)	(0.8)	(1.6)
Insurance Company Premiums	301.4	336.5	35.1	11.6	(21.5)
Telephone & Telegraph	46.5	45.0	(1.5)	(3.2)	0.0
Oil & Gas Severance	59.5	70.7	11.2	18.8	8.7
All Other	79.8	86.3	6.5	8.1	(17.9)
Subtotal Other Taxes	\$3,224.2	\$3,163.1	(\$61.1)	(1.9%)	(\$19.9)
Total Nontax Revenue	407.3	360.5	(46.8)	(11.5)	(2.0)
GF/GP REV. AFTER TAX CHANGES	\$9,562.5	\$9,350.7	(\$211.8)	(2.2%)	(\$221.8)
SCHOOL AID FUND:					
Baseline Revenue	\$11,279.6	\$11,539.3	\$259.7	2.3%	(\$37.5)
Tax Changes Not In Baseline	(10.0)	(45.2)	(35.2)	---	(28.4)
Revenue After Tax Changes					
Sales Tax	5,206.2	5,293.2	87.0	1.7	(54.6)
Use Tax	432.4	463.8	31.4	7.3	3.9
Lottery Revenue	734.3	791.4	57.1	7.8	46.4
State Education Property Tax	1,771.1	1,777.1	6.0	0.3	(20.9)
Real Estate Transfer Tax	202.3	230.4	28.1	13.9	13.0
Income Tax	2,338.5	2,372.8	34.3	1.5	(40.5)
Casino Tax	110.7	104.3	(6.4)	(5.8)	(9.7)
Other Revenue	474.2	461.1	(13.1)	(2.8)	(3.5)
SAF REV. AFTER TAX CHANGES	\$11,269.7	\$11,494.1	\$224.4	2.0%	(\$65.9)
BASELINE GF/GP AND SAF	\$21,237.0	\$21,350.6	\$113.6	0.5%	(\$219.9)
Tax & Revenue Changes	(404.8)	(505.8)	(101.0)	---	(67.7)
GF/GP & SAF REV. AFTER CHNGS	\$20,832.2	\$20,844.8	\$12.6	0.1%	(\$287.6)
SALES TAX	\$7,153.8	\$7,275.0	\$121.2	1.7%	(\$74.4)
Note: FY 2012-13 is the base year for baseline revenue.					

FY 2014-15 REVISED REVENUE ESTIMATES

The level of economic activity in Michigan is expected to increase slightly more rapidly in FY 2014-15 than during FY 2013-14. Total GF/GP and SAF revenue will reach an estimated \$21.6 billion in FY 2014-15, an increase of 3.6% or \$755.7 million from the revised estimate for FY 2013-14. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.7% in FY 2014-15, substantially stronger than the estimated 0.5% growth in the prior year. The revised estimate of GF/GP and SAF revenue for FY 2014-15 is summarized in Table 5.

Tax Policy Changes

As in FY 2013-14, tax policy changes are expected to reduce revenue during FY 2014-15, with the most significant reduction coming from business tax credits.

Business Tax Reform. The value of refundable MBT credits is expected to increase to \$540.0 million in FY 2014-15, somewhat higher than in FY 2013-14. All of the impact of these credits reduces GF/GP revenue.

Reduction of Personal Liability for Unpaid Business Taxes. The impact of Public Act 3 of 2014 will increase in FY 2014-15, when it will be in effect on a full-year basis. The changes are expected to lower GF/GP and SAF revenue by \$104.7 million in FY 2014-15, reducing GF/GP revenue by \$61.4 million and SAF revenue by \$43.3 million in FY 2014-15.

Insurance Tax Changes. As mentioned previously, the 2012 legislation that allowed Blue Cross Blue Shield of Michigan to change from a tax-exempt nonprofit firm to a nonprofit mutual insurer will increase GF/GP revenue. The first full-year impact is expected in FY 2014-15, and will increase GF/GP revenue by an estimated \$75.0 million.

Sales Tax. The GF/GP and SAF revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to increase to \$28.3 million in FY 2014-15, reducing GF/GP revenue by \$4.0 million and School Aid Fund revenue by \$24.3 million.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated \$9.8 billion in FY 2014-15, an increase of 4.3% or \$406.3 million from FY 2013-14.
- The revised GF/GP estimate is \$289.4 million below the January 2014 consensus revenue estimate.

Continued economic growth during 2015 will result in increased tax collections during FY 2014-15. Baseline GF/GP revenue is expected to increase 4.5%. Business tax collections are expected to exhibit less volatility as refund claims become more consistent. The initial GF/GP revenue estimates for FY 2014-15 are summarized in Table 5.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.8 billion in FY 2014-15, which is up 3.0% or \$349.3 million from the revised estimate for FY 2013-14.
- This revised SAF revenue estimate for FY 2014-15 is \$88.4 million below the January 2014 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in every major revenue source. Baseline SAF revenue is expected to increase by 3.1%. New lottery games are expected to have a minor impact on

increasing SAF revenue, while revenue from the State Education Tax is expected to increase by 2.8% from the FY 2013-14 level. The initial SAF revenue estimates for FY 2014-15 are summarized in Table 5.

Table 5
FY 2014-15 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2013-14 Revised Est.	FY 2014-15 Revised Est.	Change from FY 2013-14		\$ Change from 01/14 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	\$9,811.3	\$10,256.3	\$445.0	4.5%	(\$228.9)
Tax Changes Not In Baseline	(460.6)	(499.2)	(38.6)	---	(60.5)
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	9,964.6	10,281.8	317.2	3.2	(242.8)
Less: Refunds	(1,763.6)	(1,817.0)	(53.4)	3.0	(73.0)
Net Income Tax Collections	8,201.0	8,464.8	263.8	3.2	(315.8)
Less: Earmarking to SAF	(2,372.8)	(2,448.3)	(75.5)	3.2	57.6
Campaign Fund	(1.0)	(1.0)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$5,827.2	\$6,015.5	\$188.3	3.2%	(\$258.2)
<u>Other Taxes</u>					
Corporate Income Tax	897.4	923.0	25.6	2.9	33.0
Michigan Business Tax	(520.9)	(460.0)	60.9	(11.7)	(20.0)
Sales	1,134.2	1,187.4	53.2	4.7	(10.4)
Use	927.5	958.4	30.9	3.3	1.7
Cigarette	186.4	182.2	(4.2)	(2.3)	(2.7)
Insurance Company Premiums	336.5	387.5	51.0	15.2	(19.5)
Telephone & Telegraph	45.0	45.0	0.0	0.0	0.0
Oil & Gas Severance	70.7	72.5	1.8	2.5	0.0
All Other	86.3	89.5	3.2	3.7	(9.8)
Subtotal Other Taxes	\$3,163.1	\$3,385.5	\$222.4	7.0%	(\$27.7)
Total Nontax Revenue	360.5	356.0	(4.5)	(1.2)	(3.5)
GF/GP REV. AFTER TAX CHANGES	\$9,350.7	\$9,757.0	\$406.3	4.3%	(\$289.4)
SCHOOL AID FUND:					
Baseline Revenue	\$11,539.3	\$11,891.4	\$352.1	3.1%	(\$44.8)
Tax Changes Not In Baseline	(45.2)	(48.0)	(2.8)	---	(43.7)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,293.2	5,491.1	197.9	3.7	(50.2)
Use Tax	463.8	479.2	15.4	3.3	0.9
Lottery Revenue	791.4	795.0	3.6	0.5	44.0
State Education Property Tax	1,777.1	1,827.3	50.2	2.8	(22.0)
Real Estate Transfer Tax	230.4	241.0	10.6	4.6	11.9
Income Tax	2,372.8	2,448.3	75.5	3.2	(57.6)
Casino Tax	104.3	107.5	3.2	3.1	(10.5)
Other Revenue	461.1	454.0	(7.1)	(1.5)	(4.9)
SAF REV. AFTER TAX CHANGES	\$11,494.1	\$11,843.4	\$349.3	3.0%	(\$88.4)
BASELINE GF/GP AND SAF	\$21,350.6	\$22,147.7	\$797.1	3.7%	(\$273.7)
Tax & Revenue Changes	(505.8)	(547.2)	(41.4)	---	(104.2)
GF/GP & SAF REV. AFTER CHNGS	\$20,844.8	\$21,600.5	\$755.7	3.6%	(\$377.8)
SALES TAX	\$7,275.0	\$7,546.1	\$271.1	3.7%	(\$68.4)

Note: FY 2012-13 is the base year for baseline revenue.

FY 2015-16 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2015-16. Personal income and employment will rise at slightly faster rates than in FY 2014-15. Total GF/GP and SAF revenue will reach an estimated \$22.4 billion in FY 2015-16, an increase of 3.7% or \$806.9 million from the revised estimate for FY 2014-15. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.7% in FY 2015-16, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2015-16 is summarized in Table 6.

Tax Policy Changes

Tax policy changes affecting FY 2015-16 revenue mirror those affecting FY 2014-15 revenue. Revenue in FY 2015-16 will be reduced by the continuation of MBT refunds due to ongoing tax credits, though the expected reduction of \$540.0 million in FY 2015-16 is the same as the reduction in FY 2014-15. The insurance tax paid by Blue Cross Blue Shield of Michigan as a nonprofit mutual insurer will increase revenue to the General Fund by \$75.0 million. The Public Act 3 limitations on the collection of unpaid business taxes will reduce revenue by \$104.8 million, which consists of a reduction of \$62.5 million to the General Fund and a decrease of \$42.3 million to the SAF. The sales tax exemption on motor vehicle trade-ins will reduce GF/GP and SAF revenue by approximately \$34.0 million, of which \$29.2 million is a reduction to the SAF. The full-year impact of several new lottery games is expected to increase SAF revenue by approximately \$40.0 million in FY 2015-16.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2015-16, an increase of 4.4% or \$431.6 million from the revised estimate for FY 2014-15. Baseline GF/GP revenue is expected to increase 4.3%. The initial GF/GP revenue estimates for FY 2015-16 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.2 billion in FY 2015-16, an increase of \$375.4 million, or 3.7%, from the revised estimate for FY 2014-15. The forecasted increase in SAF revenue reflects growth in all major earmarked revenue sources, plus the additional impact from several new lottery games. Total SAF revenue in FY 2015-16 is projected to exceed the peak reached in FY 2007-08 by \$705.6 million. The initial SAF revenue estimates for FY 2015-16 are summarized in Table 6.

Table 6

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

	FY 2015-15 Revised Est.	FY 2015-16 Revised Est.	Change from FY 2014-15		\$ Change from 01/14 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	\$10,256.3	\$10,696.1	\$439.8	4.3%	(\$284.8)
Tax Changes Not In Baseline	(499.2)	(507.5)	(8.3)	---	(62.2)
Revenue After Tax Changes					
<u>Personal Income Tax</u>					
Gross Collections	10,281.8	10,639.9	358.1	3.5	(298.7)
Less: Refunds	(1,817.0)	(1,843.2)	(26.2)	1.4	(80.0)
Net Income Tax Collections	8,464.8	8,796.7	331.9	3.9	(378.7)
Less: Earmarking to SAF	(2,448.3)	(2,533.6)	(85.3)	3.5	70.9
Campaign Fund	(1.0)	(1.0)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$6,015.5	\$6,262.1	\$246.6	4.1%	(\$307.8)
<u>Other Taxes</u>					
Corporate Income Tax	923.0	978.1	55.1	6.0	34.7
Michigan Business Tax	(460.0)	(437.0)	23.0	(5.0)	(20.0)
Sales	1,187.4	1,232.7	45.3	3.8	(13.3)
Use	958.4	992.1	33.7	3.5	(4.6)
Cigarette	182.2	179.6	(2.6)	(1.4)	(2.0)
Insurance Company Premiums	387.5	401.0	13.5	3.5	(19.5)
Telephone & Telegraph	45.0	45.0	0.0	0.0	0.0
Oil & Gas Severance	72.5	75.0	2.5	3.4	7.5
All Other	89.5	102.0	12.5	14.0	(19.1)
Subtotal Other Taxes	\$3,385.5	\$3,568.5	\$183.0	5.4%	(\$36.3)
Total Nontax Revenue	356.0	358.0	2.0	0.6	(3.0)
GF/GP REV. AFTER TAX CHANGES	\$9,757.0	\$10,188.6	\$431.6	4.4%	(\$347.1)
SCHOOL AID FUND:					
Baseline Revenue	\$11,891.4	\$12,263.0	\$371.6	3.1%	(\$74.4)
Tax Changes Not In Baseline	(48.0)	(44.2)	3.8	---	(45.0)
Revenue After Tax Changes					
Sales Tax	5,491.1	5,685.9	194.8	3.5	(63.0)
Use Tax	479.2	496.0	16.8	3.5	(2.3)
Lottery Revenue	795.0	801.0	6.0	0.8	36.0
State Education Property Tax	1,827.3	1,886.8	59.5	3.3	(19.0)
Real Estate Transfer Tax	241.0	255.0	14.0	5.8	14.7
Income Tax	2,448.3	2,533.6	85.3	3.5	(70.9)
Casino Tax	107.5	110.9	3.4	3.2	(11.1)
Other Revenue	454.0	449.6	(4.4)	(1.0)	(3.8)
SAF REV. AFTER TAX CHANGES	\$11,843.4	\$12,218.8	\$375.4	3.2%	(\$119.4)
BASELINE GF/GP AND SAF	\$22,147.7	\$22,959.1	\$811.4	3.7%	(\$359.3)
Tax & Revenue Changes	(547.2)	(551.7)	(4.5)	---	(107.2)
GF/GP & SAF REV. AFTER CHNGS	\$21,600.5	\$22,407.4	\$806.9	3.7%	(\$466.4)
SALES TAX	\$7,546.1	\$7,812.8	\$266.7	3.5%	(\$86.0)
Note: FY 2012-13 is the base year for baseline revenue.					

MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2013-14 THROUGH FY 2015-16

Individual Income Tax. In FY 2013-14, a decline in annual payments and additional refunds resulted in a projected decrease in net income tax collections of 0.8%. Annual payments under the Individual Income Tax are expected to decline 29.1% in FY 2013-14 from the FY 2012-13 level. In FY 2012-13, annual payments increased 68.0% as a result of a strong stock market and many taxpayers taking capital gains and/or receiving dividend payments in anticipation of potential tax changes associated with the "fiscal cliff" crises at the end of 2012. While a portion of this decline also reduces SAF revenue, the majority of the decline reduces GF/GP revenue.

Public Act 3 of 2014, which reduced the ability of the Department of Treasury to recover certain unpaid business taxes from business purchasers, in some cases, and corporate officers, partners, or other parties, is also estimated to reduce income tax revenue by \$14.8 million in FY 2013-14 (a loss of \$3.5 million to the SAF), \$22.8 million in FY 2014-15 (a \$5.4 million loss to the SAF), and \$23.7 million in FY 2015-16 (\$5.6 million loss to SAF).

Compared with January 2014 consensus revenue estimates, the revised net individual income tax estimate for FY 2013-14 is down \$240.4 million and the revised estimate for FY 2014-15 is down \$315.8 million. These changes in income tax revenue will affect both GF/GP revenue and SAF revenue. The School Aid Fund receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds), including the refund payments for the homestead property tax credit and the earned income tax credit.

Sales Tax. As employment has stabilized and the economy has continued to grow, consumers and businesses have become less cautious, increasing spending on items subject to the sales tax. While consumption is forecast to increase, the rate is below that experienced in a typical economic recovery. Furthermore, Public Act 3 of 2014 is expected to reduce sales tax collections by \$29.4 million in FY 2013-14, \$45.4 million in FY 2014-15, and \$47.0 million in FY 2015-16, with reductions to GF/GP revenue, the SAF, and constitutional revenue sharing. As a result of economic conditions and tax changes, sales tax revenue will total an estimated \$7.3 billion in FY 2013-14, which is 1.7% above the level in FY 2012-13. Sales tax collections are expected to exceed the projected rate of inflation, rising 3.7% in FY 2014-15, to \$7.5 billion, and 3.5% in FY 2015-16, to \$7.8 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with January 2014 consensus revenue estimates, the revised sales tax estimate for FY 2013-14 is \$74.4 million lower and the revised estimate for FY 2014-15 is down \$68.4 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes only constitutional revenue sharing earmarks; to reflect the significant portion of sales tax revenue earmarked statutorily to 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.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, can be volatile. Use tax revenue is expected to increase 9.5% in FY 2013-14 to \$1.4 billion. The growth rate slows in later years due to rising interest rates that will make business investment more expensive. In FY 2014-15, use tax receipts will total an estimated \$1.4 billion, an increase of 3.3% from the revised estimate for FY 2013-14, and \$1.5 billion in FY 2015-16, an increase of 3.5%. Compared with the January 2014 consensus

revenue estimates, the FY 2013-14 estimate for use tax collections has been revised upward by \$11.8 million and the FY 2014-15 estimate is up \$2.6 million. The GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF.

Tobacco Taxes. Tax collections from the cigarette and other tobacco products taxes will total an estimated \$935.0 million in FY 2013-14, a decrease of 2.3% from FY 2012-13. In FY 2014-15, tobacco tax revenue is expected to decline another 2.3%, to \$913.9 million, before falling 1.7% in FY 2015-16, to \$898.1 million. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. Casino tax revenue is expected to decline by 5.8% during FY 2013-14. Increased competition from new casinos in Ohio has reduced this revenue. As the economy continues to improve and the novelty of the Ohio casinos declines, a portion of the lost casino tax revenue will be recovered. As a result, casino tax revenue is expected to rebound in FY 2014-15, rising 3.1% to \$107.5 million. Growth is expected to continue in the subsequent year, with projected increases in the casino tax revenue of 3.2% in FY 2015-16. These estimates are lower than the January 2014 consensus, however, with reductions of \$9.7 million in the FY 2013-14 estimate and a decrease of \$10.5 million in FY 2014-15.

State Education Property Tax. Weakness in the housing sector drove State Education Tax revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and increased taxable values are expected to result in growth in this tax beginning in FY 2013-14, with collections expected to rise 0.3%, to \$1.8 billion. As the housing market improves in later years, State Education Tax revenue is expected to increase 2.8% in FY 2014-15 and 3.3% in FY 2015-16. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Lottery. Net lottery revenue was revised upward in the current forecast with projected growth of 7.8% in FY 2013-14. This will result in a deposit to the SAF of an estimated \$791.4 million, an increase of \$46.4 million from the January 2014 consensus estimate. Lottery revenue is expected to increase 0.5% in FY 2014-15, to \$795.0 million, and 0.8% in FY 2015-16, to \$801.0 million. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax/Corporate Income Tax. Legislation adopted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% of the revenue of 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 largely to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to grow over the forecast period, as profits improve, although the CIT is expected to be a more volatile tax than the MBT.

The MBT refunds are expected to have a significant negative impact on business tax revenue. Estimated MBT credits claimed are projected to reduce State revenue by \$535.9 million in FY 2013-14 and \$540.0 million in both FY 2014-15 and FY 2015-16. Several factors add uncertainty to these estimates. While 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 they may reduce the number of years for which a business is eligible for a credit. 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. These revisions, timing, and processing issues create uncertainty in the estimates.

Public Act 3 of 2014 reduced the ability of the Department of Treasury to recover certain unpaid business taxes from corporate officers, partners, or other parties. These changes, which are effective in FY 2013-14, are estimated to reduce CIT revenue by \$20.1 million in FY 2013-14, \$31.0 million in FY 2014-15, and \$32.9 million in FY 2015-16.

In FY 2013-14, CIT revenue is expected to increase 14.6%, but increased MBT credits and remaining refunds for the Single Business Tax will cause net business tax revenue from the MBT, CIT, and SBT to decline 44.5% in FY 2013-14. The revised estimate for business taxes in FY 2013-14 is \$366.5 million, which is \$16.5 million above the January 2014 consensus estimate. Net revenue from the MBT and CIT (and remaining refunds under the SBT) is projected to increase by 23.6% or \$86.5 million in FY 2014-15 to \$453.0 million. Growth continues the following year with an estimated increase in business tax revenue of 18.3% or \$83.1 million in FY 2015-16. Total business taxes are estimated at \$536.1 million in FY 2015-16. All remaining MBT revenue (and the payment of refunds), and all of the CIT revenue, is allocated to the General Fund.

REVENUE TRENDS

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

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

Based on a longer-term view of Michigan's economy for FY 2016-17 and FY 2017-18, net GF/GP revenue is expected to increase 4.7% in FY 2016-17, to \$10.7 billion, while SAF revenue will increase 3.5%, to \$12.6 billion. In FY 2017-18, net GF/GP revenue is expected to increase 4.3%, to \$11.1 billion, while SAF revenue will increase 3.3%, to \$13.1 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 7, 8, and 9 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2013-14, FY 2014-15, and FY 2015-16. 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 2013-14, FY 2014-15, and FY 2015-16 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2013-14 was made in December 2011 at \$20.1 billion (after being adjusted to a common baseline), as shown in [Table 7](#). This estimate was increased by \$694.9 million at the January 2012 Consensus Revenue Estimating Conference and that revised estimate was decreased by \$413.2 million at the May 2012 Consensus Revenue Estimating Conference. The January 2013 Consensus Revenue Estimating Conference then lowered the estimate for FY 2013-14 revenue by \$133.4 million. The May 2013 Consensus Revenue Estimating Conference increased the estimate for FY 2013-14 by \$269.9 million. The Senate Fiscal Agency's revised estimate for FY 2013-14 presented in this report decreases the baseline estimate by \$213.6 million below the January 2014 consensus estimate, to \$20.3 billion.

Table 7
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2013-14
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 28, 2011	\$8,892.4	\$11,224.3	\$20,116.7
January 14, 2012 ^{a)}	9,426.7	11,384.8	20,811.6
May 9, 2012	8,989.5	11,446.0	20,435.5
May 16, 2012 ^{a)}	8,903.1	11,495.3	20,398.4
December 28, 2012	8,744.6	11,400.4	20,145.0
January 11, 2013 ^{a)}	8,812.2	11,452.8	20,265.0
May 13, 2013	9,017.1	11,474.2	20,491.3
May 15, 2013 ^{a)}	9,044.3	11,490.6	20,534.9
December 19, 2013	9,148.1	11,620.1	20,768.2
January 10, 2014 ^{a)}	8,932.9	11,576.8	20,509.7
May 13, 2014	8,756.8	11,539.3	20,296.1
Change From Previous Estimate:			
Dollar Change	(\$176.1)	(\$37.5)	(\$213.6)
Percent Change	-2.0%	-0.3%	-1.0%
Change From Initial Estimate:			
Dollar Change	(\$135.6)	\$315.0	\$179.4
Percent Change	-1.5%	2.8%	0.9%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2012-13; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2014-15 was made in December 2012 at \$20.4 billion, as shown in [Table 8](#). This estimate was increased by \$420.6 million at the January 2013 Consensus Revenue Estimating Conference, and then increased again by \$319.3 million at the May 2013 Consensus Revenue Estimating Conference. The January 2014 Consensus Revenue Estimating Conference made an additional increase of \$157.9 million. The Senate Fiscal Agency's revised estimate for FY 2014-15 presented in this report decreases the baseline estimate by \$270.3 million below the January 2014 consensus estimate, to \$21.1 billion.

[Table 9](#) shows that the initial baseline GF/GP and SAF estimate for FY 2015-16 was made in December 2012 at \$22.4 billion. The January 2014 Consensus Revenue Estimating Conference decreased that figure by \$177.5 million. The Senate Fiscal Agency's revised estimate for FY 2015-16 included in this report is \$21.8 billion, \$353.7 million below the January 2014 consensus estimate.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2014-15 (Millions of Dollars)			
Forecast Date	GF/GP	SAF	Total
December 28, 2012	\$8,803.6	\$11,629.9	\$20,433.5
January 11, 2013 ^{a)}	9,068.4	11,785.7	20,854.1
May 13, 2013	9,174.2	11,803.0	20,977.2
May 15, 2013 ^{a)}	9,343.6	11,829.8	21,173.4
December 19, 2013	9,529.0	11,993.3	21,522.3
January 10, 2014 ^{a)}	9,395.1	11,936.2	21,331.3
May 13, 2014	9,169.6	11,891.4	21,061.0
Change From Previous Estimate:			
Dollar Change	(\$225.5)	(\$44.8)	(\$270.3)
Percent Change	-2.4%	-0.4%	-1.3%
Change From Initial Estimate:			
Dollar Change	\$366.0	\$261.5	\$627.5
Percent Change	4.2%	2.2%	3.1%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2012-13; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2015-16 (Millions of Dollars)			
Forecast Date	GF/GP	SAF	Total
December 19, 2013	\$9,970.3	\$12,394.9	\$22,365.2
January 10, 2014 ^{a)}	9,850.3	12,337.4	22,187.7
May 13, 2014	9,571.0	12,263.0	21,834.0
Change From Previous Estimate:			
Dollar Change	(\$279.3)	(\$74.4)	(\$353.7)
Percent Change	-2.8%	-0.6%	-1.6%
Change From Initial Estimate:			
Dollar Change	(\$399.3)	(\$131.9)	(\$531.2)
Percent Change	-4.0%	-1.1%	-2.4%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2012-13, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**BUDGET
STABILIZATION FUND**

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977. The BSF 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 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 General Fund/General Purpose (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.

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

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of \$55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled \$189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of \$73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case.

Table 10 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 2011-12. Also presented in this table are the SFA's estimates for FY 2013-14, FY 2014-15, and FY 2015-16. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 15, and the estimated economic stabilization trigger calculations for FY 2013-14, FY 2014-15, and FY 2015-16 are presented in Table 11.

FY 2013-14, FY 2014-15, and FY 2015-16

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula does not trigger any payments into or out of the Fund for FY 2013-14, although a deposit of \$75.0 million has been appropriated. The growth in Michigan personal income is estimated at 1.6% in calendar year 2014 and 1.8% in calendar

year 2015; thus, no deposit or withdrawal from the Fund is expected to be triggered in FY 2014-15 or FY 2015-16. Table 10 shows calculated transfers out of, or into, the BSF as well as year-end projected balances.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2015-16 ESTIMATE (Millions of Dollars)				
Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
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
Senate Fiscal Agency estimates:				
2013-14 ^{a)}	75.0	5.1	0.0	585.7
2014-15	0.0	5.9	0.0	591.6
2015-16	0.0	8.9	0.0	600.5

a) Pay-in appropriated in Public Act 59 of 2013.

Figure 15

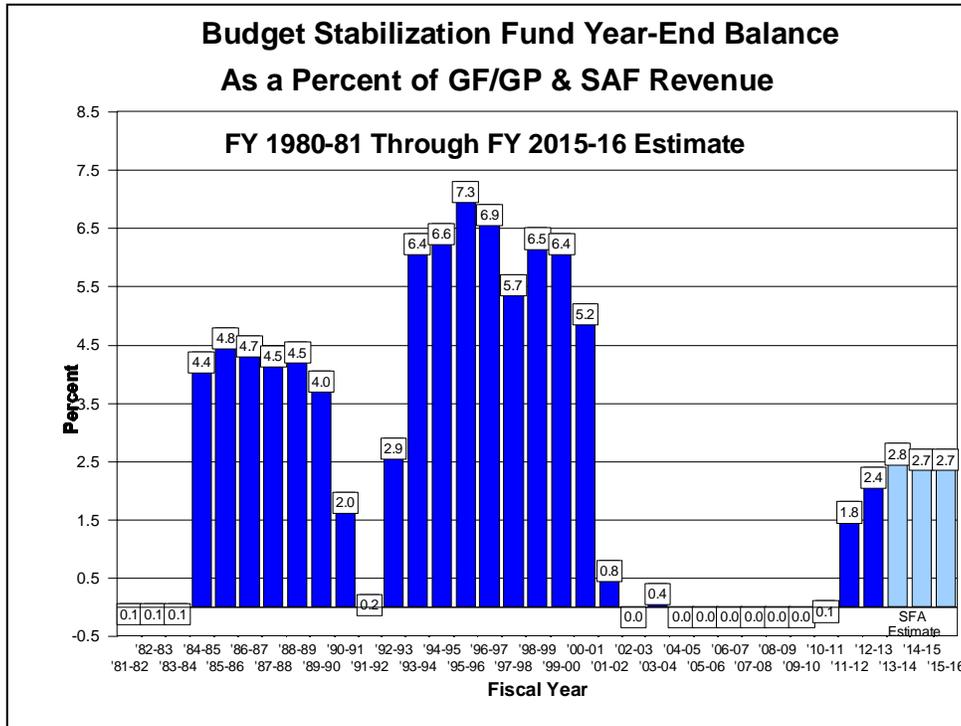


Table 11

**ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2013-14, FY 2014-15, and FY 2015-16
(Millions of Dollars)**

	CY 2013	CY 2014	CY 2015	CY 2016
Michigan Personal Income (MPI)	\$388,053	\$399,922	\$416,020	\$434,313
Less: Transfer Payments	85,163	88,853	94,575	100,010
Subtotal	\$302,890	\$311,068	\$321,445	\$334,303
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.182	2.206	2.239	2.275
Equals: Real Adjusted MPI	\$138,819	\$141,041	\$143,547	\$146,970
Percent Change from Prior Year		1.60%	1.78%	2.38%
Excess Over 2.0%		0.00%	0.00%	0.00%
	FY 2013-14	FY 2014-15	FY 2015-16	
Multiplied by: Estimated GF/GP Revenue	\$9,350.7	\$9,757.0	\$10,188.6	
Equals: Transfer to the BSF	\$0.0	\$0.0	\$0.0	
OR Transfer from the BSF	\$0.0	\$0.0	\$0.0	
Note: Numbers may not add due to rounding. Table does not include dollars transferred to or from the BSF at the discretion of the Legislature, which are separate from the calculated trigger.				
CY = Calendar Year; FY = Fiscal Year				

**COMPLIANCE WITH
STATE REVENUE LIMIT**

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit 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 revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. The largest gap between revenue and the limit occurred in FY 2008-09, when State revenue was \$8.0 billion below the revenue limit. Revenue remained substantially below the limit for FY 2009-10 through FY 2012-13. 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 2013-14 through FY 2015-16.

THE REVENUE LIMIT

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

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

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to income tax and business taxpayers, 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 the SFA's revenue estimates for FY 2013-14, FY 2014-15, and FY 2015-16, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2013-14

In FY 2013-14, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2012. The Bureau of Economic Analysis' estimate of Michigan personal income in calendar year 2012 equals \$378.4 billion, resulting in a revenue limit of \$35.9 billion for FY 2013-14. Based on the SFA's revised revenue estimates for FY 2013-14, revenue subject to the revenue limit will equal an estimated \$28.4 billion, and will fall below the limit by \$7.5 billion, or 20.8%, in FY 2013-14. The gap between estimated revenue and the limit will increase during FY 2013-14 due to the 0.8% increase in revenue subject to the limit, which is lower than the 3.5% increase in personal income during 2012. The 2012 increase in personal income increases the FY 2013-14 revenue limit by \$1.2 billion.

FY 2014-15

The estimate for Michigan personal income during 2013 equals \$388.1 billion, suggesting the revenue limit of \$36.8 billion in FY 2014-15, a \$1.1 billion increase in the revenue limit. Based on the SFA's revised revenue estimates for FY 2014-15, revenue subject to the revenue limit will total an estimated \$937.9 billion, which is an increase of \$937.9 million. As a result, revenue subject to the revenue limit will fall below the limit by an estimated \$7.4 billion, or 20.2%, in FY 2014-15. Revenue subject to the limit is estimated to increase 3.3% in FY 2014-15, compared with the 6.1% increase in personal income during 2013, which increases the amount under the revenue limit by \$1.2 billion.

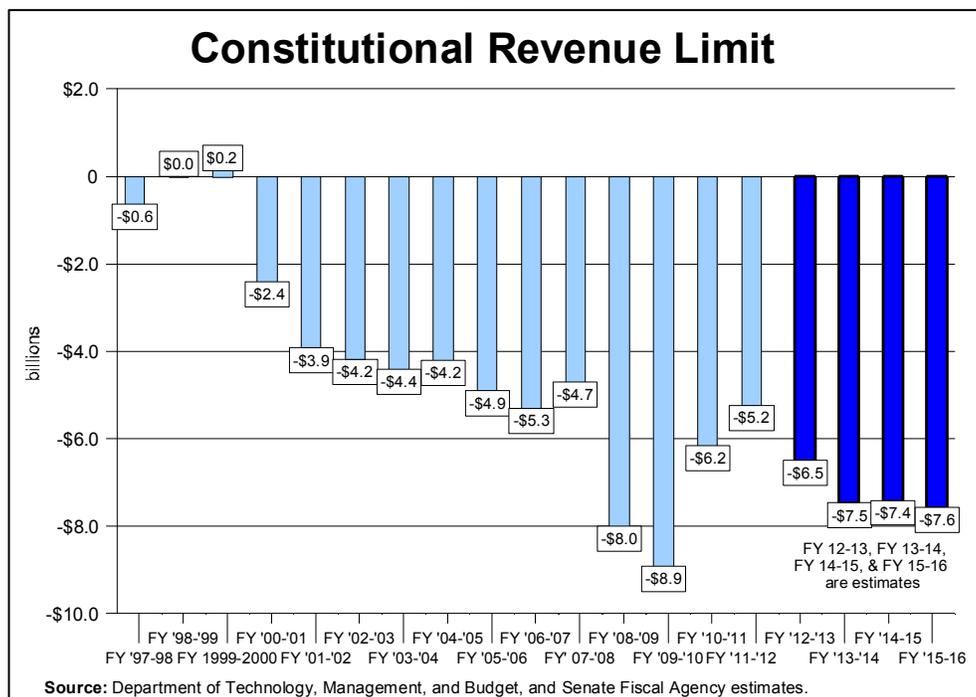
FY 2015-16

The Senate Fiscal Agency estimates that personal income in Michigan during 2014 will equal \$399.9 billion, and as a result, the revenue limit will equal \$38.0 billion in FY 2015-16. Based on the SFA's updated revenue estimates for FY 2015-16, revenue subject to the revenue limit will total an estimated \$30.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$7.6 billion, or 19.9%, in FY 2015-16.

Table 12
COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2011-12 THROUGH FY 2015-16 ESTIMATE
(Millions of Dollars)

	FY 2011-12 Final	FY 2012-13 Estimate	FY 2013-14 Estimate	FY 2014-15 Estimate	FY 2015-16 Estimate
Revenue Subject to Limit					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$9,169.4	\$9,957.4	\$9,811.3	\$10,256.3	\$10,696.1
Constitutional Revenue Sharing (baseline)	707.5	722.2	742.6	765.3	792.3
School Aid Fund (baseline)	11,613.9	11,279.6	11,539.3	11,891.4	12,263.0
Transportation Funds	2,041.4	2,099.7	2,160.7	2,178.6	2,198.5
Other Restricted Non-Federal Aid Revenue	4,450.0	4,583.5	4,721.0	4,862.6	5,008.5
<u>Adjustments:</u>					
GF/GP Federal Aid	(54.8)	(22.5)	(20.0)	(20.0)	(20.0)
GF/GP Balance Sheet Adjustments	95.8	(394.9)	(460.6)	(499.2)	(507.5)
SAF Balance Sheet Adjustments	(734.9)	(10.0)	(45.2)	(48.0)	(44.2)
Total Revenue Subject to Limit	\$27,288.3	\$28,215.0	\$28,449.1	\$29,387.0	\$30,386.7
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014
Amount	\$342,663	\$365,753	\$378,443	\$388,053	\$399,922
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$32,518.7	\$34,709.9	\$35,914.2	\$36,826.3	\$37,952.6
1.0% of Limit	325.2	347.1	359.1	368.3	379.5
Amount Under (Over) Limit	\$5,230.4	\$6,494.9	\$7,465.1	\$7,439.3	\$7,565.9
Percent Below Limit	16.1%	18.7%	20.8%	20.2%	19.9%

Figure 16



**ESTIMATE OF
YEAR-END BALANCES**

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2013-14, FY 2014-15, and FY 2015-16 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report discusses the year-end balances and addresses the issues the members of the Legislature are facing as they attempt to complete action on the FY 2014-15 State budget.

On February 5, 2014, Governor Rick Snyder presented his FY 2014-15 and FY 2015-16 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 10, 2014, fee adjustments of \$2.9 million, \$102.7 million for tax relief, and passage of legislation that would allow Health Insurance Claims Assessment (HICA) revenue to achieve a level of \$400.0 million. The Governor also proposed to deposit \$120.0 million GF/GP into the Budget Stabilization Fund as well as \$122.0 million GF/GP into the new Michigan Health Savings Sub-Fund. The Governor's FY 2014-15 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2014-15 State budget to the Legislature in February 2014, several factors have changed, which will have a direct impact on the final decisions to be made by the Legislature on the State budget. The recent performance of the United States and Michigan economies has generally tracked with the levels assumed at the January 2014 Consensus Revenue Estimating Conference. However, estimates of State income tax annual payments and Michigan sales tax revenue appear to have been overstated in January. This results in a fairly substantial decrease from January to May in the estimates of FY 2013-14 GF/GP revenue and decreases GF/GP revenue estimates for FY 2014-15 and FY 2015-16. The SFA also is estimating a decrease in SAF revenue from the January 2014 consensus for FY 2013-14, as well as decreases from the January 2014 SAF estimates for FYs 2014-15 and 2015-16. However, the impact of the revenue decreases in both the GF/GP and SAF budgets would be mitigated by the enactment of Senate Bill 893, which proposes to reinstate the Medicaid managed care use tax. Senate Bill 913, which is tie-barred to Senate Bill 893, proposes to lower the HICA rate from 1.0% to 0.75%. Both of these bills have been passed by the Senate.

Table 13 provides a summary of the SFA's estimates of the FY 2013-14, FY 2014-15, and FY 2015-16 year-end balances of the GF/GP and SAF budgets; Tables 14 and 15 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and Senate-passed changes to the use tax in Senate Bill 893 along with enacted and projected State appropriations, the FY 2013-14 GF/GP budget will have a surplus of \$437.5 million and the SAF budget will have a surplus of \$367.6 million. Based on current SFA revenue estimates along with Senate-passed State appropriations, Senate-passed changes to the use tax in Senate Bill 893, and SFA estimates of caseload adjustments, the FY 2014-15 GF/GP budget will have a deficit of \$151.5 million and the SAF budget will have a surplus of \$169.2 million. A comparison of the SFA's estimate of FY 2015-16 revenue with FY 2015-16 appropriations continued at the FY 2014-15 Senate-passed ongoing appropriation levels, adjusted for Senate caseload estimates, plus \$200.0 million GF/GP and \$72.2 million SAF one-time appropriations, leads to a projected \$85.9 million GF/GP budget surplus and a projected \$213.7 million SAF surplus. The FY 2015-16 GF/GP budget surplus assumes that the FY 2014-15 projected year-end GF/GP balance is brought to zero.

Table 13

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2013-14 Estimate	FY 2014-15 Estimate	FY 2015-16 Estimate
General Fund/General Purpose	\$437.5	(\$151.5)	\$85.9
School Aid Fund	\$367.6	\$169.2	\$213.7

FY 2013-14 YEAR-END BALANCE

During May and June 2013, the Michigan Legislature approved FY 2013-14 GF/GP budgets that were balanced between estimated revenue and enacted appropriations. The initial budget approved by the Legislature was based on a May 2013 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2014 reflected increases in both GF/GP and SAF revenue, which allowed the enacted FY 2013-14 GF/GP and SAF budgets to remain in balance. The current SFA revenue estimates, which result in decreases in both GF/GP and SAF revenue from the January 2014 consensus, still produce a surplus in the FY 2013-14 GF/GP budget of \$437.5 million and a surplus in the FY 2013-14 SAF budget of \$367.6 million. Under current law, ending balances for both the GF/GP budget and the SAF budget are carried forward into the ensuing fiscal year, and have already been built into the FY 2014-15 budgets proposed by the Governor and the Legislature.

Table 14 provides the details of the SFA's estimate of a \$437.5 million FY 2013-14 GF/GP budget surplus. On the revenue side of the FY 2013-14 GF/GP budget ledger, the SFA now believes that current-law GF/GP revenue will total \$9.4 billion. This projected level of FY 2013-14 GF/GP revenue represents a \$211.8 million or 2.2% decrease from the final level of FY 2012-13 GF/GP revenue. The May 2014 SFA estimate of current-law GF/GP revenue is down \$221.8 million from the January 2014 consensus revenue estimate. The FY 2013-14 estimated GF/GP revenue total of \$10.3 billion includes \$1,186.6 million of surplus revenue carried forward from FY 2012-13, adjustments of \$396.6 million to reflect statutory State revenue sharing payments, the shifting of \$2.5 million in short-term borrowing costs to the School Aid Fund, and \$173.5 million of assumed revenue from the reinstated Medicaid managed care use tax.

Senate Bill 893 passed the Senate on May 8, 2014, and would provide FY 2013-14 revenue for the GF/GP and SAF budgets of \$173.5 million and \$86.8 million, respectively. All of the new GF/GP use tax revenue would be offset by appropriations in the Department of Community Health for required actuarial soundness adjustments of \$72.3 million, and \$101.2 million to partially remedy the estimated \$133.3 million shortfall in HICA revenue. The remaining HICA shortfall of \$32.1 million would be resolved with revenue from the Roads and Risks Reserve Fund, pursuant to Public Act 34 of 2014.

On the expenditure side of the FY 2013-14 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total \$9.9 billion, which includes \$75.0 million in GF/GP appropriations to the State's Budget Stabilization Fund and \$230.0 million to the Roads and Risks Reserve Fund. The Roads and Risks Reserve Fund would have a balance of \$82.9 million of unappropriated funds after the HICA revenue shortfall was resolved.

The projected level of FY 2013-14 GF/GP expenditures reflects an \$887.7 million or 9.9% increase from the final level of FY 2012-13 GF/GP expenditures. The projected level of FY 2013-14 GF/GP expenditures includes enacted appropriations, projected caseload and cost estimates in the Departments of Community Health (\$39.0 million) and Human Services (\$33.5 million), the

actuarial soundness and HICA adjustments mentioned previously, and an estimated year-end lapse amount of \$50.0 million.

Table 15 provides a summary of the SFA estimate of a \$367.6 million FY 2013-14 SAF budget surplus. This surplus estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2013-14 SAF budget ledger, the SFA now believes that current-law SAF revenue will total \$11.5 billion. This projected level of SAF revenue represents a \$224.4 million or 2.0% increase from the final level of FY 2012-13 SAF revenue. The May 2014 SFA estimate of current-law SAF revenue is \$65.9 million below the January 2014 consensus revenue estimate. The FY 2013-14 estimated SAF revenue total of \$14.1 billion includes \$292.0 million of surplus revenue carried forward from FY 2012-13, \$11.5 billion of restricted SAF revenue, a \$234.9 million GF/GP grant (\$180.0 million in ongoing revenue and \$54.9 million in non-ongoing revenue), \$156.0 million of support from the Michigan Public School Employees Retirement System (MPERS) Retirement Obligation Reform Reserve Fund, \$86.8 million in assumed additional use tax revenue from the HICA bill package, and \$1.8 billion of ongoing Federal aid.

On the expenditure side of the FY 2013-14 SAF budget ledger, the SFA now believes that final SAF expenditures will total \$13.7 billion. This projected level of FY 2013-14 SAF expenditures reflects an increase of \$530.5 million above FY 2012-13 SAF expenditures. The \$13.7 billion of projected SAF expenditures includes \$13.4 billion of K-12 funding in the original enacted appropriation bill, negative cost adjustments totaling \$117.3 million, supplemental funding for dissolved districts of \$4.9 million, Federal Race to the Top supplemental funding of \$51.7 million, and other supplemental funding totaling \$13.2 million. As in the prior year, Community Colleges and Higher Education received appropriations of \$197.6 million and \$200.5 million, respectively, from the School Aid Fund.

FY 2014-15 YEAR-END BALANCE

The Legislature has been considering Governor Snyder's FY 2014-15 State budget recommendation since the budget was presented to the Legislature on February 5, 2014. To date, the Senate and House have acted on all of the appropriation bills necessary to implement the budget. Using the Senate-passed appropriation bills as the basis of the FY 2014-15 budget, there would be a negative ending balance for the GF/GP budget and a positive ending balance for the SAF budget.

Table 14 provides a summary of the negative \$151.5 million projected year-end balance in the FY 2014-15 GF/GP budget. This projected balance is based on the FY 2013-14 projected year-end balance carry-forward; the SFA estimate of current-law revenue; revenue adjustments that are part of the Senate-passed appropriation bills, along with Senate Bills 893 and 913; and the Senate-passed appropriation levels.

On the revenue side of the FY 2014-15 GF/GP budget ledger, the SFA now believes that current-law GF/GP revenue will total \$9.8 billion. This projected level of FY 2014-15 GF/GP revenue reflects a \$406.3 million or 4.3% increase from the estimated level of FY 2013-14 GF/GP revenue. The May 2014 SFA estimate of current-law revenue represents a \$289.5 million decrease from the January 2014 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include statutory revenue sharing payments of \$488.0 million, which reduce GF/GP revenue by that amount. The FY 2014-15 estimated GF/GP revenue total of \$10.1 billion assumes enactment of Senate Bills 893 and 913, which would add an estimated \$386.7 million of use tax revenue as part of the HICA revenue shortfall solution. The total estimated GF/GP revenue also reflects the shifting of \$4.0 million in short-term borrowing costs to the School Aid Fund and includes \$19.9 million of GF/GP costs related to personal property tax reform, if the August 2014 ballot proposal is approved.

The Senate-passed appropriation bills provide total GF/GP appropriations of \$9.9 billion. The Senate includes sufficient revenue in the Transportation budget to meet Federal match requirements (\$139.0 million), as well as \$128.5 million in additional GF/GP support for that budget. Based on revised SFA estimates, caseload and cost adjustments in the Department of Community Health (DCH) will lead to a \$17.0 million GF/GP saving, and caseload and cost changes in the Department of Human Services (DHS) will reduce GF/GP appropriations by \$11.4 million. In FY 2014-15, the Medicaid managed care GF/GP use tax revenue of \$386.7 million is estimated to be sufficient to cover \$150.5 million for actuarial soundness and \$187.6 million for the HICA revenue shortfall, leaving a balance of \$48.6 million. However, when the \$236.2 million of GF/GP Medicaid managed care use tax revenue (\$386.7 million total revenue adjusted for the \$150.5 million costs for actuarial soundness) is combined with the estimated \$232.6 million of HICA revenue, it exceeds the \$450.0 million cap in Senate Bill 913 by \$18.8 million. Pursuant to the provisions of Senate Bill 913, this \$18.8 million would be credited to FY 2015-16 HICA obligations.

The Senate-passed budget does not include the Governor's proposed \$120.0 million GF/GP appropriation to the State's Budget Stabilization Fund but does include \$100.0 million of the Governor's request for \$122.0 million GF/GP for a Michigan Health Savings Sub-Fund. Table 16 provides a summary of the Governor's FY 2014-15 Gross and GF/GP budget recommendations compared with the Senate-passed appropriation bills. The Senate-passed appropriation bills are \$90.4 million Gross, and \$50.3 million GF/GP, below the Governor's recommendations. Although the FY 2014-15 GF/GP balance sheet based on the Senate-passed appropriation bills indicates a projected negative ending balance of \$151.5 million, the budget could be balanced by using the remaining amount of \$82.9 million in the Roads and Risks Reserve Fund and lowering the Senate deposit to the Michigan Health Savings Sub-Fund from \$100.0 million to \$30.0 million.

Table 15 provides the details of the SFA estimate of a \$169.2 million balance in the FY 2014-15 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue, assumed use tax revenue from the HICA package, and the Senate-passed K-12 School Aid, Community Colleges, and Higher Education appropriation bills.

On the revenue side of the FY 2014-15 SAF budget, the SFA now believes that current-law SAF revenue will total \$11.8 billion. This projected level of FY 2014-15 SAF revenue is \$349.3 million or 3.0% above the estimated level of FY 2013-14 SAF revenue. The May 2014 SFA estimate of restricted SAF revenue represents an \$88.4 million decrease from the January 2014 consensus revenue estimate. The estimate of total SAF revenue of \$14.3 billion includes \$367.6 million of surplus SAF revenue carried forward from FY 2013-14, a \$30.0 million GF/GP grant to the SAF budget, \$1.8 billion of ongoing Federal aid, \$18.0 million from the MPERS Retirement Obligation Reform Reserve Fund, \$9.9 million from personal property tax reform, and assumed additional use tax revenue from the HICA bill package totaling \$193.4 million.

On the expenditure side of the FY 2014-15 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals \$13.8 billion. The SFA estimates that there will be \$24.0 million of negative FY 2014-15 formula funding cost adjustments as a result of revised pupil and taxable value estimates. The Senate concurred in part with the Governor's recommendation to partially fund the Community Colleges budget with \$197.6 million of SAF revenue and the Higher Education budget with \$200.5 million of SAF revenue. The FY 2014-15 Senate-passed K-12 appropriation bill does not include the Governor's recommendations for best practices, pupil performance payments, or MPERS cost offset grants, but instead directs that funding to a per-pupil foundation allowance increase of \$300 for the minimum and \$150 for the basic, with a net guaranteed increase of at least \$75 per pupil once the elimination of categoricals is calculated. The Senate also appropriates an increase of \$65.0 million for school readiness grants, \$5.0 million for converting buses from diesel to

natural gas, \$2.0 million for strict discipline academies, and a deposit of \$32.4 million into an Education Reserve Fund. The Senate's budget does not fund teacher evaluations or the Michigan Virtual University as proposed by the Governor, but the dollars for those items are reflected on the balance sheet as potential other funding needs in the event conference decisions require their appropriation.

The Senate's SAF balance sheet also reflects the continued use of SAF revenue to partially support the Community Colleges and Higher Education budgets. However, in the Senate-passed version of the Community Colleges budget, the SAF allocation was reduced by \$150.0 million from the current year, leaving \$47.6 million SAF support (and conversely, the K-12 budget saw a \$150.0 million GF/GP reduction from the current year). The SAF allocation in the Higher Education budget for FY 2014-15 is \$15.0 million higher than for FY 2013-14, with that increase intended for MPSERS cost relief for the seven participating universities.

FY 2015-16 BUDGET OUTLOOK

When Governor Snyder presented his FY 2014-15 budget on February 5, 2014, he also proposed anticipated appropriations for FY 2015-16. The FY 2014-15 appropriation bills passed by the House and the Senate include references to anticipated FY 2015-16 appropriations, which are only expressions of an intent to appropriate those funds for FY 2015-16.

Table 14 provides a summary of the \$85.9 million projected year-end balance in the FY 2015-16 GF/GP budget. This projected balance is based on carrying forward a zero balance from FY 2014-15, the SFA estimate of current-law revenue, appropriations continued at the FY 2014-15 Senate-passed ongoing level plus \$200.0 million of one-time appropriations, and revised caseload and cost estimates for the DCH and DHS.

On the revenue side of the FY 2015-16 GF/GP budget ledger, the SFA now believes that GF/GP current-law revenue will total \$10.2 billion. This projected level of GF/GP FY 2015-16 revenue reflects a \$431.6 million or 4.4% increase from estimated current-law GF/GP revenue for FY 2014-15. The May 2014 SFA estimate of current-law GF/GP revenue represents a decrease of \$347.0 million from the January 2014 consensus revenue estimate. The FY 2015-16 estimated GF/GP revenue total of \$10.0 billion assumes the same \$488.0 million GF/GP cost for statutory State Revenue Sharing payments as in FY 2014-15; a continued phase-in of the costs (\$107.0 million) related to personal property tax reform, if the ballot proposal is approved; \$417.0 million in use tax revenue from the HICA bill package; and the shifting of \$5.0 million in short-term borrowing costs to the School Aid Fund.

On the expenditure side of the FY 2015-16 budget ledger, if the Senate's FY 2014-15 ongoing appropriation level of \$9.4 billion is continued along with \$200.0 million of one-time appropriations, adjusted for caseload and cost savings of \$28.4 million for the Departments of Community Health and Human Services, and there are estimated costs of \$155.0 million for managed care actuarial soundness and \$187.0 million for the HICA revenue shortfall (taking into account the \$18.8 million of possible HICA credits), then total FY 2015-16 GF/GP expenditures are estimated to be \$9.9 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of \$85.9 million.

Table 15 provides a summary of the \$213.7 million projected year-end balance in the FY 2015-16 SAF budget. This projected balance is based on the FY 2014-15 projected year-end carry-forward balance, the SFA estimate of current-law revenue, the assumed additional use tax revenue from the HICA bill package, and the continuation of the FY 2014-15 Senate appropriation levels, adjusted for pupil counts and other costs.

On the revenue side of the FY 2015-16 SAF budget ledger, the SFA now believes that current-law SAF revenue will total \$12.2 billion. This projected level of FY 2014-15 SAF revenue reflects a \$375.4 million or 3.2% increase from estimated current-law SAF revenue for FY 2014-15. The May 2014 SFA estimate of current-law SAF revenue represents a \$119.4 million decrease from the January 2014 consensus revenue estimate. The FY 2015-16 estimated SAF revenue total of \$14.5 billion also assumes a GF/GP grant of \$30.0 million, use of the \$32.4 million transferred in the Senate's K-12 bill for FY 2014-15 to the Education Reserve Fund, \$1.8 billion in ongoing Federal aid, \$10.0 million from personal property tax reform, and assumed additional use tax revenue from the HICA bill package totaling \$208.3 million.

On the expenditure side of the FY 2015-16 budget ledger, when the Senate's FY 2014-15 recommendations are continued into FY 2015-16 and adjusted for the MPERS rate cap, funding formula, and other baseline costs totaling \$194.3 million, total FY 2015-16 SAF expenditures are estimated to be \$14.3 billion. The Senate's FY 2015-16 SAF budget estimate continues to fund Community Colleges at \$47.6 million and Higher Education at \$215.5 million, from SAF revenue.

Table 14
FY 2013-14, FY 2014-15, AND FY 2015-16
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2013-14	FY 2014-15	FY 2015-16
Revenue:			
Beginning Balance	\$1,186.6	\$437.5	\$0.0
<u>Ongoing Revenue:</u>			
January 2014 Consensus Revenue Estimate	\$9,572.5	\$10,046.5	\$10,535.6
May 2014 SFA Revenue Change	(221.8)	(289.5)	(347.0)
May 2014 SFA Revenue Estimate	\$9,350.7	\$9,757.0	\$10,188.6
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(370.6)	(459.2)	(459.2)
Shift of Short-Term Borrowing Costs to School Aid Fund	2.5	4.0	5.0
Personal Property Tax Reform (If Ballot Approved)	0.0	(19.9)	(107.0)
Managed Care Use Tax Revenue/HICA Relief (SBs 893/913)	173.5	386.7	417.0
Subtotal Ongoing Revenue.....	\$9,156.1	\$9,668.6	\$10,044.4
<u>Non-Ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing	(26.0)	(28.8)	(28.8)
Total Estimated GF/GP Revenue.....	\$10,316.7	\$10,077.3	\$10,015.6
Expenditures:			
Initial Ongoing Appropriations.....	\$8,952.0	\$9,416.1	\$9,416.1
Initial One-Time Appropriations	429.2	403.0	200.0
Medicaid Expansion Savings.....	(87.8)	0.0	0.0
One-Time Appropriation to Budget Stabilization Fund	75.0	0.0	0.0
One-Time Appropriation to Roads and Risks Reserve Fund	230.0	0.0	0.0
One-Time Appropriation to Health Savings Sub-Fund	0.0	100.0	0.0
Enacted Supplementals.....	229.8	0.0	0.0
DCH/DHS Consensus Caseload/Cost Adjustments.....	(72.5)	(28.4)	(28.4)
Actuarial Soundness Adjustment for Managed Care Use Tax	72.3	150.5	155.0
Health Insurance Claims Assessment Revenue Shortfall	101.2	187.6	187.0
Estimated Year-End Lapses	(50.0)	0.0	0.0
Total Estimated GF/GP Expenditures	\$9,879.2	\$10,228.8	\$9,929.7
PROJECTED YEAR-END GF/GP BALANCE	\$437.5	(\$151.5)	\$85.9

Table 15
FY 2013-14, FY 2014-15, AND FY 2015-16
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2013-14	FY 2014-15	FY 2015-16
Revenue:			
Beginning Balance	\$292.0	\$367.6	\$169.2
Ongoing Revenue:			
January 2014 Consensus Revenue Estimate	\$11,560.0	\$11,931.8	\$12,338.2
May 2014 SFA Revenue Change	(65.9)	(88.4)	(119.4)
May 2014 SFA Revenue Estimate	\$11,494.1	\$11,843.4	\$12,218.8
Other Revenue Adjustments:			
General Fund/General Purpose Grant	180.0	30.0	30.0
Federal Ongoing Aid	1,764.5	1,808.2	1,808.2
MPERS/Education Reserve Fund.....	156.0	18.0	32.4
Personal Property Tax Reform (If Ballot Approved).....	0.0	9.9	10.0
Additional Revenue from Senate Changes to Use Tax/HICA.....	86.8	193.4	208.3
Subtotal Ongoing Revenue.....	\$13,681.4	\$13,902.9	\$14,307.7
Non-Ongoing Revenue:			
General Fund/General Purpose Grant	54.9	0.0	0.0
Federal Race to the Top Challenge Grant.....	51.7	0.0	0.0
Total Estimated School Aid Fund Revenue	\$14,080.0	\$14,270.5	\$14,476.9
Expenditures:			
Initial Ongoing Appropriations.....	\$13,168.8	\$13,665.7	\$13,899.2
Consensus Cost Adjustments.....	(109.3)	0.0	0.0
SFA May 2014 Cost Adjustments.....	(8.0)	(24.0)	(17.7)
Potential Additional Funding Needs	0.0	52.4	46.4
Partially Fund Community Colleges with School Aid Fund	197.6	47.6	47.6
Partially Fund Higher Education with School Aid Fund	200.5	200.5	200.5
Subtotal Ongoing Appropriations.....	\$13,449.6	\$13,942.2	\$14,176.0
Initial One-Time Appropriations	193.0	111.7	72.2
Enacted Supplementals.....	69.8	0.0	0.0
MPERS Funding for Universities.....	0.0	15.0	15.0
Other Adjustments (Education Reserve)	0.0	32.4	0.0
Subtotal One-Time Appropriations	\$262.8	\$159.1	\$87.2
Total Estimated School Aid Fund Expenditures	\$13,712.4	\$14,101.3	\$14,263.2
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$367.6	\$169.2	\$213.7

Table 16
FY 2014-15 GROSS AND GF/GP APPROPRIATIONS
GOVERNOR'S REVISED RECOMMENDATION VERSUS SENATE-PASSED
(Includes both ongoing and one-time appropriations)

Department/Budget Area	Gross Appropriations			GF/GP Appropriations		
	Governor's Revised Rec.	Senate-Passed	Gross \$ Difference	Governor's Revised Rec.	Senate-Passed	GF/GP \$ Difference
Agriculture & Rural Development	\$82,494,300	\$82,596,900	\$102,600	\$44,876,200	\$48,876,200	\$4,000,000
Attorney General	91,022,300	91,022,400	100	35,467,100	35,467,200	100
Capital Outlay	0	0	0	0	0	0
Civil Rights	16,769,200	16,769,200	0	13,573,200	13,573,200	0
Community Colleges	371,524,900	371,524,900	0	173,910,800	323,910,800	150,000,000
Community Health	17,374,567,800	17,492,902,100	118,334,300	2,938,968,800	3,058,969,100	120,000,300
Corrections	2,049,921,700	2,025,901,600	(24,020,100)	1,990,198,400	1,972,575,800	(17,622,600)
Education	326,576,100	326,662,100	86,000	84,939,000	85,025,000	86,000
Environmental Quality	504,091,800	502,591,900	(1,499,900)	40,875,900	40,875,900	0
Executive	5,916,100	5,916,100	0	5,916,100	5,916,100	0
Higher Education	1,512,494,100	1,527,494,100	15,000,000	1,214,902,000	1,214,902,000	0
Human Services	5,621,313,700	5,600,879,000	(20,434,700)	1,011,636,400	1,002,000,000	(9,636,400)
Insurance and Financial Services	65,284,700	65,134,800	(149,900)	150,000	100	(149,900)
Judiciary	288,517,600	286,983,100	(1,534,500)	187,277,400	185,742,900	(1,534,500)
Legislative Auditor General	21,758,800	22,558,800	800,000	14,537,300	15,337,300	800,000
Legislature	131,570,500	131,930,500	360,000	127,060,700	127,420,700	360,000
Licensing & Regulatory Affairs	531,588,200	530,761,000	(827,200)	25,033,800	25,033,800	0
Military & Veterans Affairs	166,543,700	167,201,600	657,900	48,754,500	49,412,400	657,900
Natural Resources	382,935,400	382,935,400	0	46,841,500	46,841,500	0
School Aid	13,797,139,600	13,777,434,300	(19,705,300)	180,000,000	30,000,000	(150,000,000)
State	224,384,900	224,112,300	(272,600)	17,939,000	17,939,000	0
State Police	639,323,000	638,563,400	(759,600)	383,921,000	383,161,400	(759,600)
Technology, Management & Budget	1,282,204,200	1,264,704,000	(17,500,200)	495,848,500	478,348,300	(17,500,200)
Transportation	3,670,098,600	3,682,498,600	12,400,000	255,147,900	267,547,900	12,400,000
Treasury-Debt Service	152,395,000	152,395,000	0	152,395,000	152,395,000	0
Treasury-Operations	545,436,400	543,436,400	(2,000,000)	117,918,300	115,918,300	(2,000,000)
Treasury-Revenue Sharing	1,252,967,600	1,252,967,600	0	0	0	0
Treasury-Strategic Fund Agency	1,019,429,900	1,012,029,900	(7,400,000)	229,292,500	231,892,500	2,600,000
Total Budget Area Appropriations	\$52,128,270,100	\$52,179,907,000	\$51,636,900	\$9,837,381,300	\$9,929,082,400	\$91,701,100
Budget Stabilization Fund	\$120,000,000	\$0	(\$120,000,000)	\$120,000,000	\$0	(\$120,000,000)
Michigan Health Savings Sub-Fund	122,000,000	100,000,000	(22,000,000)	122,000,000	100,000,000	(22,000,000)
TOTAL GF/GP APPROPRIATIONS	\$52,370,270,100	\$52,279,907,000	(\$90,363,100)	\$10,079,381,300	\$10,029,082,400	(\$50,298,900)

CONCLUSION

Although the FY 2013-14 estimated GF/GP and SAF year-end balances are reasonably healthy, at \$437.5 million and \$367.6 million, respectively, those funds will be needed to help balance the FY 2014-15 GF/GP and SAF budgets. When these FY 2013-14 year-end balance amounts are carried forward and combined with Senate budget recommendations, the estimate for the FY 2014-15 GF/GP year-end balance is a negative amount but the budget could be brought into balance by using the remaining dollars in the Roads and Risks Reserve Fund and lowering the Senate's deposit into the Health Savings Sub-Fund. The FY 2014-15 SAF year-end balance is estimated to be a positive \$169.2 million. The SFA estimates an FY 2015-16 GF/GP year-end balance of \$85.9 million, with \$213.7 million estimated as the SAF year-end balance for FY 2015-16.

It should be noted that all of the projected ending balances in this report assume enactment of Senate Bills 893 and 913, as passed by the Senate. Also, only one of the SFA year-end balances described in this report (FY 2013-14 GF/GP) includes an estimate for year-end lapses of funds that could increase the levels of the year-end balances. Year-end book-closing adjustments, which may be either positive or negative, cannot be known at this time. There are also other important policy issues related to the condition of infrastructure and municipalities in the State that may have an impact on the final form of the State's budget.

All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections (presented in "The Forecast for State Revenue" section of this report) which the SFA will take to the May 15, 2014, Consensus Revenue Estimating Conference. At that time, a consensus is expected to be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used to develop the final appropriation targets for the FY 2014-15 State budget.