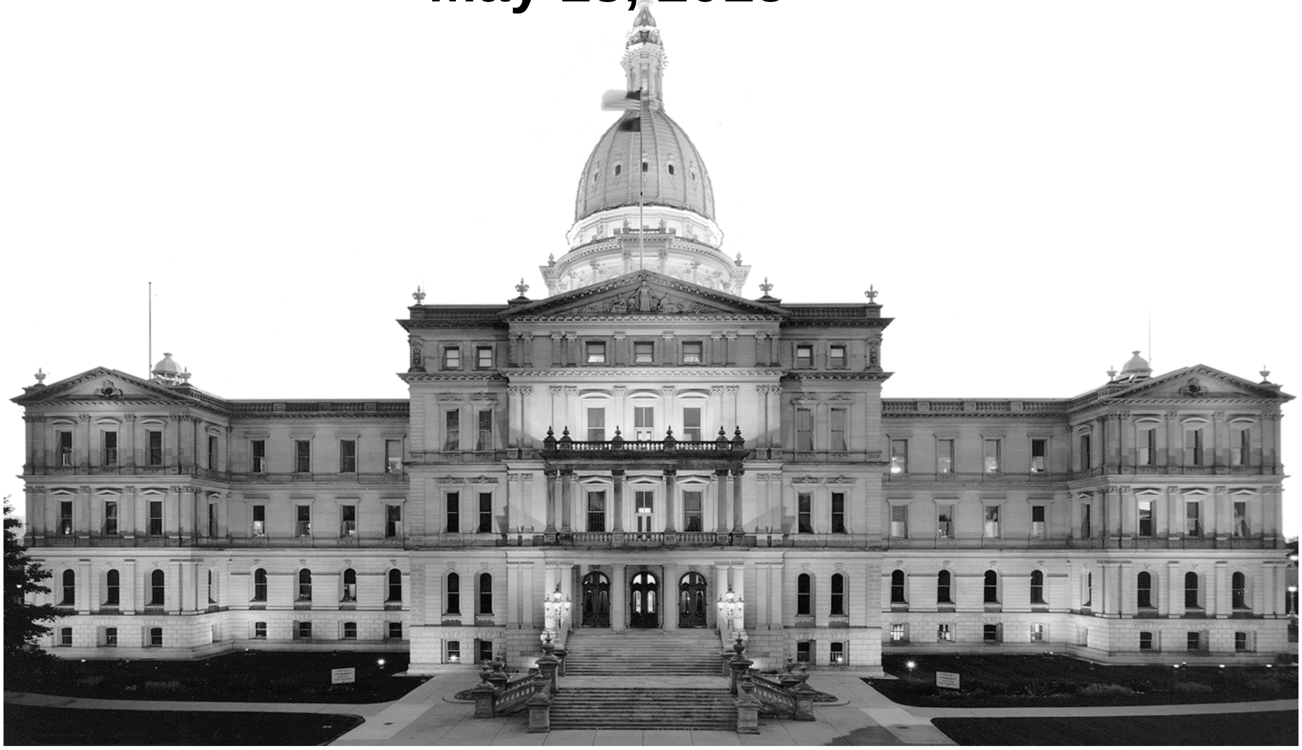
Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2014-15, FY 2015-16, and FY 2016-17

May 13, 2015



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THE SENATE FISCAL AGENCY

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

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

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ACKNOWLEDGEMENT

This Economic Outlook and Budget Review was prepared and written by Ellen Jeffries, Director; David Zin, Chief Economist; Elizabeth Pratt, Fiscal Analyst; and Kathryn Summers, Associate Director of the Senate Fiscal Agency. Karen Hendrick, Executive Assistant, coordinated the production of this report.

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 2.4% during 2014, is predicted to expand 2.1% in 2015, 2.6% in 2016, and 2.9% in 2017. Light vehicle sales are forecasted to rise from 16.4 million units in 2014, to 17.0 million units in 2015 and 17.2 million units in 2016, before declining back to 17.0 million units in 2017. The unemployment rate is expected to fall from 6.2% in 2014 to 5.5% in 2015, 5.3% in 2016, and 5.1% in 2017; while the consumer price index is estimated to increase 0.3% in 2015, 1.9% in 2016, and 1.7% in 2017.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 5.0% in 2015 (which includes an extra push from a negative inflation rate), 2.6% in 2016, and 1.9% in 2017, after rising 2.9% in 2014. Wage and salary employment is predicted to continue growing, increasing 1.5% during 2015, 0.9% in 2016, and 0.7% in 2017.

REVENUE FORECAST

In fiscal year (FY) 2014-15, Michigan's employment gains will continue and personal income will grow more rapidly than in FY 2013-14. Significant capital gains during 2014 have boosted annual income tax payments and corporate income is growing significantly. As a result, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated $21.6 billion, a 5.1% increase from FY 2013-14. Compared to the January 2015 consensus estimates, the GF/GP estimate is $257.9 million higher, while weaker sales tax collections have helped lower the SAF estimate by $68.5 million.

In FY 2015-16, GF/GP and SAF revenue will total an estimated $22.1 billion, a 2.2% increase from FY 2014-15 and $79.6 million above the January 2015 consensus estimate. General Fund/General Purpose revenue will total an estimated $9.9 billion, an increase of 1.5% from FY 2014-15 that reflects slower employment growth, the initial revenue reductions attributable to personal property tax reform, lower capital gains realizations, and slower growth in corporate profits, while SAF revenue will rise to an estimated $12.1 billion, a 2.8% increase.

In FY 2016-17, GF/GP and SAF revenue will total an estimated $22.6 billion, a 2.6% increase from the revised estimate for FY 2015-16 and $11.1 million less than the January 2015 consensus estimates. As revenue losses related to personal property tax reform increase and the economy grows more slowly, General Fund/General Purpose revenue will total an estimated $10.2 billion, an increase of 2.6% from FY 2015-16, while SAF revenue will rise to an estimated $12.5 billion, a 2.6% 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 2014-15 GF/GP budget will have a positive ending balance of $242.5 million. A comparison of the FY 2014-15 SAF revenue estimates and enacted and projected SAF appropriations produces a $77.7 million SAF surplus.

Comparing the SFA's FY 2015-16 GF/GP revenue estimate with the appropriation bills as passed by the Senate (adjusted for caseload and other cost issues), leads to a $455.9 million balance in the FY 2015-16 GF/GP budget. The SFA's FY 2015-16 SAF revenue estimate, combined with the Senate-passed SAF appropriations (adjusted for pupil counts and other cost issues), results in a $167.4 million negative balance in the FY 2015-16 SAF budget. If surplus GF/GP revenue were used to offset the SAF shortfall, the GF/GP ending balance would be lowered from $455.9 million to $288.5 million.

If the SFA's FY 2016-17 GF/GP revenue estimate is compared with the FY 2016-17 ongoing GF/GP appropriations recommended by the Governor (adjusted for current Health Insurance Claims Assessment policy), along with the continuation of the Senate's FY 2015-16 one-time GF/GP appropriations, and adjusted for caseload and cost changes, there is a projected $485.2 million GF/GP budget surplus. If the SFA's FY 2016-17 SAF revenue estimate is compared with the SFA's FY 2016-17 expenditure estimate (based on a continuation of FY 2015-16 Senate-passed appropriations, adjusted for FY 2016-17 estimated pupils and other costs), there is a projected $55.1 million SAF budget shortfall.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)	2013 Actual	2014 Actual	2015 Estimate	2016 Estimate	2017 Estimate
Real Gross Domestic Product (% change)	2.2%	2.4%	2.1%	2.6%	2.9%
U.S. Consumer Price Index (% change)	1.5%	1.6%	0.3%	1.9%	2.0%
Light Motor Vehicle Sales (millions of units)	15.5	16.4	17.0	17.2	17.0
U.S. Unemployment Rate (%)	7.4%	6.2%	5.5%	5.3%	5.1%
Real Michigan Personal Income (% change)	(0.2%)	2.9%	5.0%	2.6%	1.9%
Michigan Wage & Salary Employment (% change)	1.9%	1.7%	1.5%	0.9%	0.7%

REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF)
(Millions of Dollars)

	FY 2014-15 Estimate			FY 2015-16 Estimate			FY 2016-17 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$10,519.3	($760.0)	$9,759.3	$10,856.8	($948.9)	$9,907.9	$11,225.3	($1,064.0)	$10,161.3
% Change	7.5%	---	8.2%	3.2%	---	1.5%	3.4%	---	2.6%
School Aid Fund	$11,886.6	($66.0)	$11,820.6	$12,169.5	($20.9)	$12,148.6	$12,500.8	($31.8)	$12,469.0
% Change	2.8%	---	2.6%	2.4%	---	2.8%	2.7%	---	2.6%
Total GF/GP & SAF	$22,405.9	($826.0)	$21,579.9	$23,026.3	($969.8)	$22,056.5	$23,726.1	($1,095.8)	$22,630.3
% Change	4.9%	---	5.1%	2.8%	---	2.2%	3.0%	---	2.6%
Revenue Limit – Under (Over)		$8,115.0			$8,936.8			$9,952.2	

	FY 2014-15 Estimate	FY 2015-16 Estimate	FY 2016-17 Estimate
Revision from Jan. Consensus			
GF/GP	$257.9	$194.7	$160.7
SAF	(68.5)	(115.1)	(171.9)
Total	$189.4	$79.6	($11.1)

YEAR-END BALANCE ESTIMATES
(Fiscal Year, Millions of Dollars)

	FY 2014-15 Estimate	FY 2015-16 Estimate	FY 2016-17 Estimate
General Fund/General Purpose	$242.5	$455.9	$485.2
School Aid Fund	77.7	(167.4)	(55.1)
Budget Stabilization Fund (with formula pay-in)	498.3	709.2	834.5
Budget Stabilization Fund (with enacted deposits)	498.3	517.3	537.9

ECONOMIC REVIEW AND OUTLOOK

ECONOMIC REVIEW AND OUTLOOK

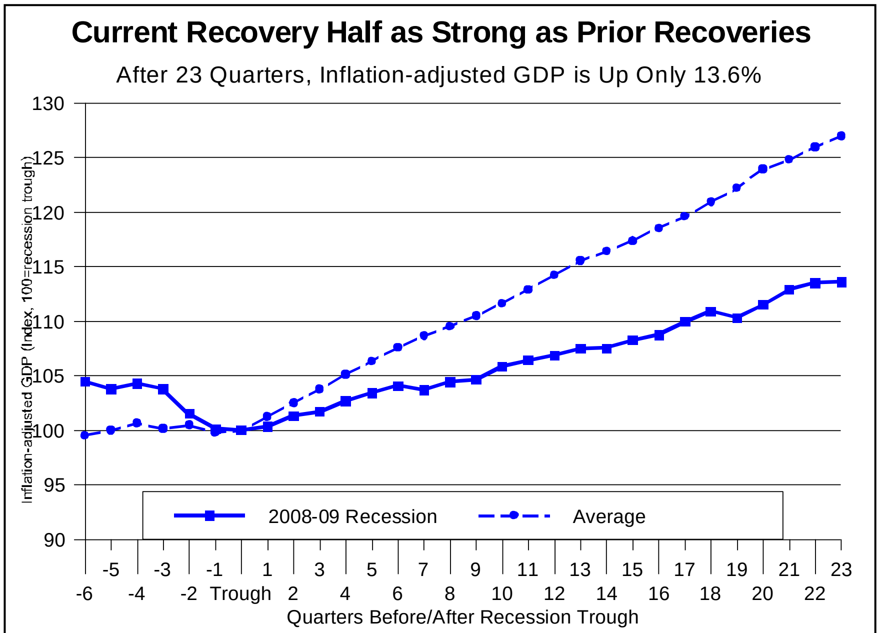
State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2015, 2016, and 2017, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

As the U.S. and Michigan economies continue to recover from the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years, the recovery has differed from those of other recessions. Important 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 2015, the economy had been in recovery for 23 quarters after the recession trough in the second quarter of 2009. Four recoveries since World War II have lasted 23 quarters or more, and at this point the current recovery is approximately half as strong as the average of those recoveries.

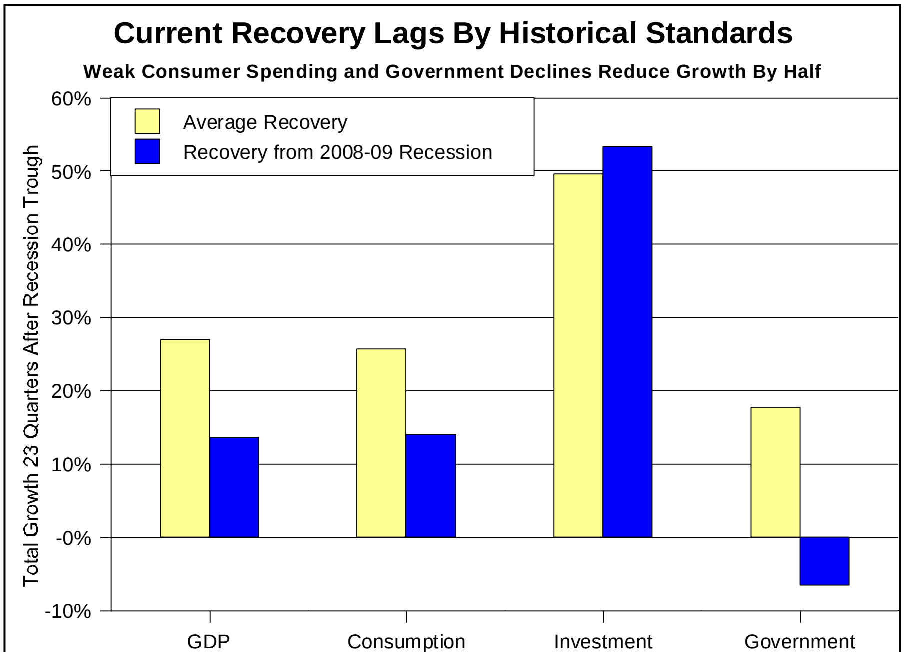
While the second and third quarters of 2014 posted the strongest consecutive quarters of growth in inflation-adjusted Gross Domestic Product (GDP) since the last two quarters in 2003, growth has been inconsistent, and five quarters since the first quarter of 2011 exhibited growth that was either negative or less than 0.8%. Inflation-adjusted GDP increased at an annual rate of only 0.2% in the first quarter of 2015. As a result, inflation-adjusted GDP in the first quarter of 2015 was only 8.7% above the level during the fourth quarter of 2007, when the recession began, and only 13.6% above the level in the second quarter of 2009, when the economy finished contracting (Figure 1). The economy has averaged only 2.2% annual growth since the end of the recession, compared with an average of 4.2% annual growth over the other four 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 4.1% growth (Figure 2). Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 1.2% compared with the historical average of 2.9% growth (Figure 3).

Figure 1



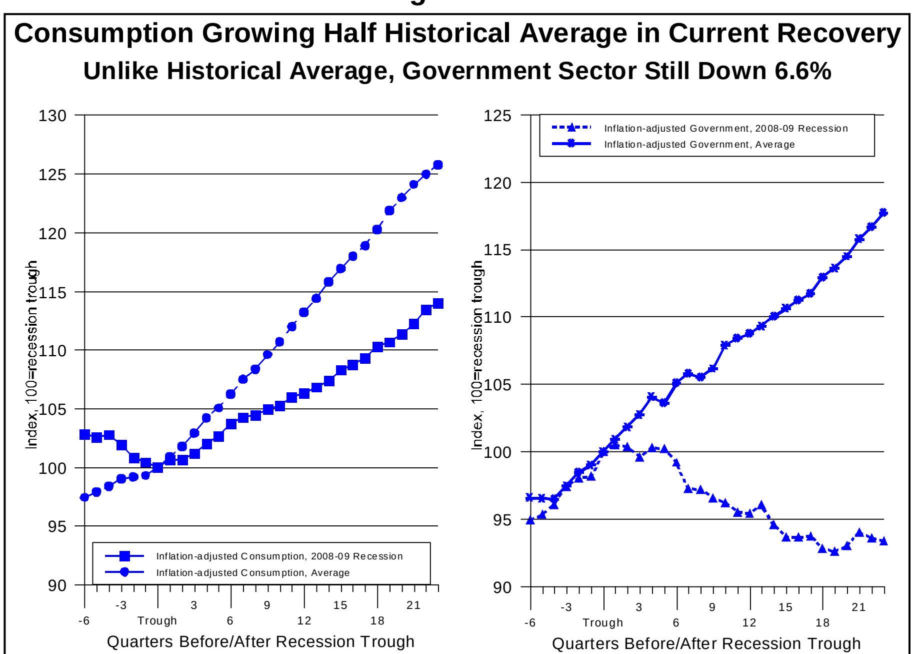
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 2



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 3

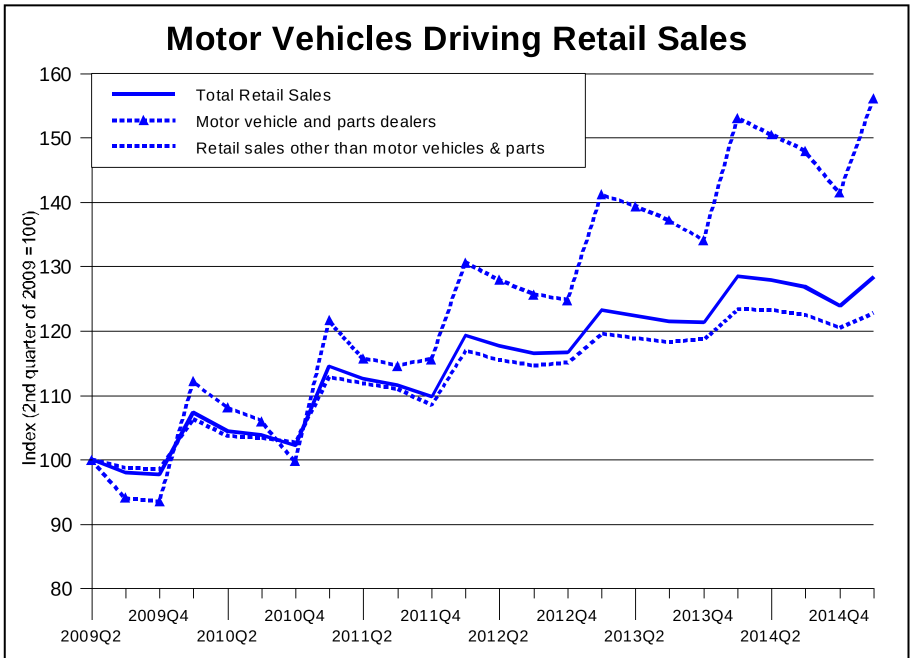


Source: Bureau of Economic Analysis, U.S. Department of Commerce

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' (at least through the end of 2014) encouraging the purchase of more fuel-efficient vehicles to the marked increase in the age of the vehicle fleet to greater numbers of vehicle loans made to subprime borrowers. Light vehicle sales reached a 17.4

million unit annual rate in August 2014, the highest rate since January 2006, and total sales in 2014 almost matched the 2006 total. 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 2014 accounted for 28.7% of the economic growth and 35.3% of the growth in consumption spending. Most of the growth in durable goods spending reflects increased expenditures on motor vehicles: as of the first quarter of 2015, retail sales of motor vehicles and parts were up 56.0% since the recession trough, compared to a 22.8% increase in sales of other retail items, including gasoline (Figure 4).

Figure 4

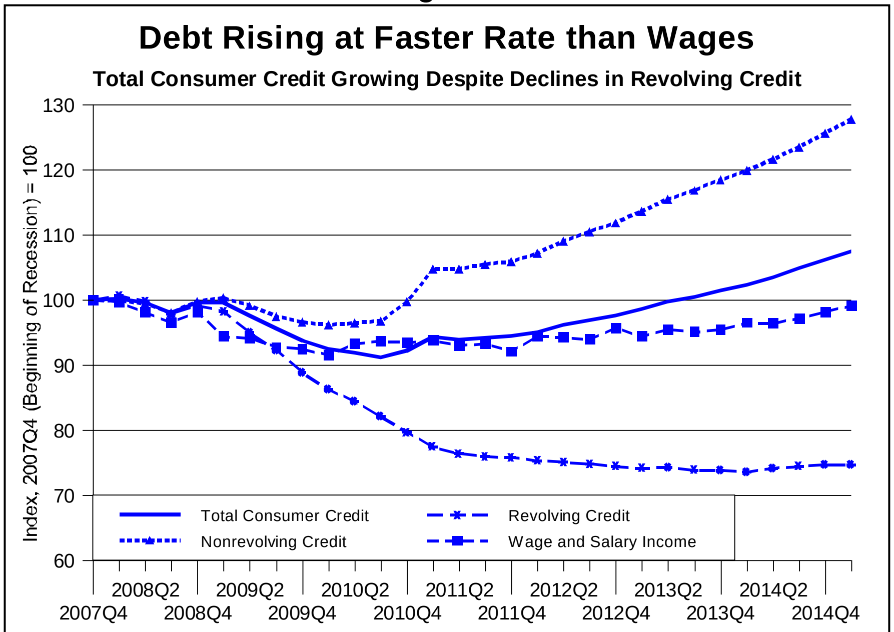


Source: Bureau of the Census, U.S. Dept. of Commerce

Despite the weak growth in consumer spending compared to historical standards, for much of the recovery spending has generally risen at a faster rate than wage and salary income. Between the recession trough and the end of 2013, inflation-adjusted consumption spending rose an average of 2.2% per year, while inflation-adjusted wage and salary income rose by an average of 1.4% per year. Since the beginning of 2014, this pattern has changed and incomes have grown more rapidly than spending, as inflation-adjusted consumption spending rose at an annual rate of 2.7%, compared with a 4.5% rate of increase in inflation-adjusted wage and salary income. Despite the increase in wage income (which was boosted as much by falling inflation in the form of declining gas prices as by nominal wage increases), consumption growth also appears to be significantly driven by increased borrowing, with outstanding consumer debt rising 6.9% during 2014 and nonrevolving credit increasing by 8.2% (Figure 5).

Historically, recessions were marked with recoveries that mirrored the recession: the more rapidly the economy declined, the more rapidly it tended to recover; and the more severe the decline, the greater the growth in the recovery. In other words, there tended to be an "overshoot" in the economy during the recovery period. Traditional explanations of the phenomenon can be explained in the context of durable goods: during the recession people rapidly reduce their consumption of durable goods, which tend to be expensive and more able to be repaired (or endured) so replacement can be delayed; but once the recession ends they "catch up" with the delayed purchase. Thus, during the recovery, consumption includes both current demand and "pent-up demand" that was created during the recession. As the pent-up demand is satisfied, consumption tends to return to more sustainable, long-term trends. Employment growth tended to follow the same overshoot pattern during recovery period, as more employees were needed to satisfy the pent-up demand; and the greater the pent-up demand (due to the severity of the recession), the greater the overshoot.

Figure 5



Note: Values represented are per person, adjusted for inflation.
Source: Bureau of Economic Analysis, U.S. Dept. of Commerce and Federal Reserve Board of Governors

However, each of the last three recessions has seen progressively smaller "overshooting" during the recovery, especially in employment (Figure 6). While it is possible that less pent-up demand was created during those recessions, some data suggest that the way the economy adapts to recessions is changing. In particular, the last three recessions have seen an increasing number of workers, particularly younger workers, choosing not to participate in the labor force (Figure 7). The labor force represents those who are working or actively looking for work. The number of individuals age 55 or older participating in the labor force has shown a steady increase since the 1990 recession, and that increase mostly has been uninterrupted by recession. In contrast, for individuals age 20 to 24, labor force participation has fallen by increasing amounts in each of the last three recessions, and mostly failed to increase during the recovery (Figure 8). In 2013 and 2014, labor force participation among individuals age 20 to 24 was at the lowest level since 1972. As a result, lower labor force participation rates are being driven not by retiring baby-boomers, but by young workers who are not entering the labor force.

The changes in labor force participation show up in many employment statistics. Payroll employment in the United States continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010. Despite employment gains during the last four years, payroll employment did not reach the prerecession peak until May 2014. As of April 2015, payroll employment has averaged only 1.7% annual growth since the February 2010 trough, despite the acceleration of payroll employment growth over the last year—although that acceleration has brought payroll employment growth to an average rate that is only between 74% and 80% as strong as the average rate of growth during the recoveries in the 1980s and 1990s.

Figure 6

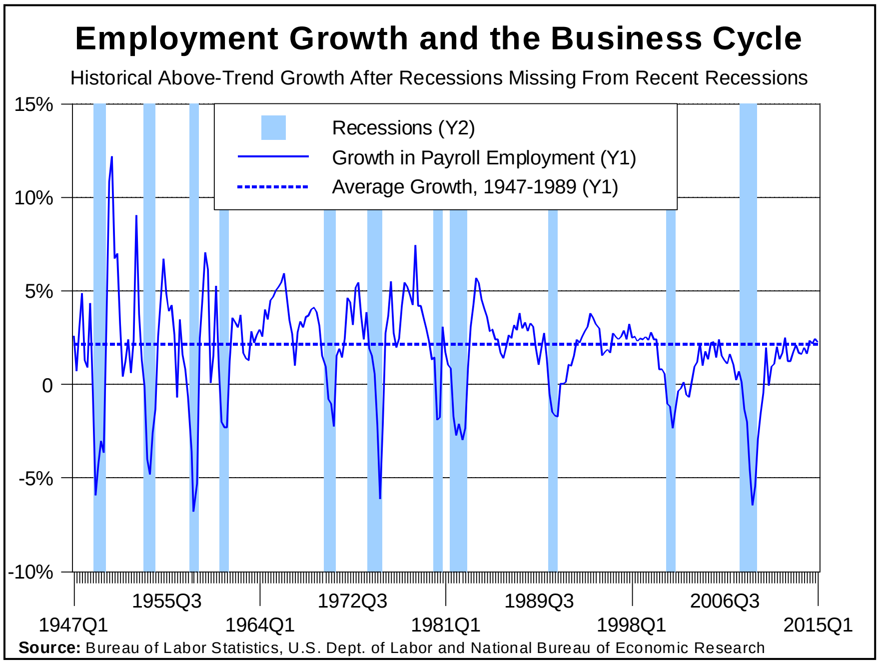


Figure 7

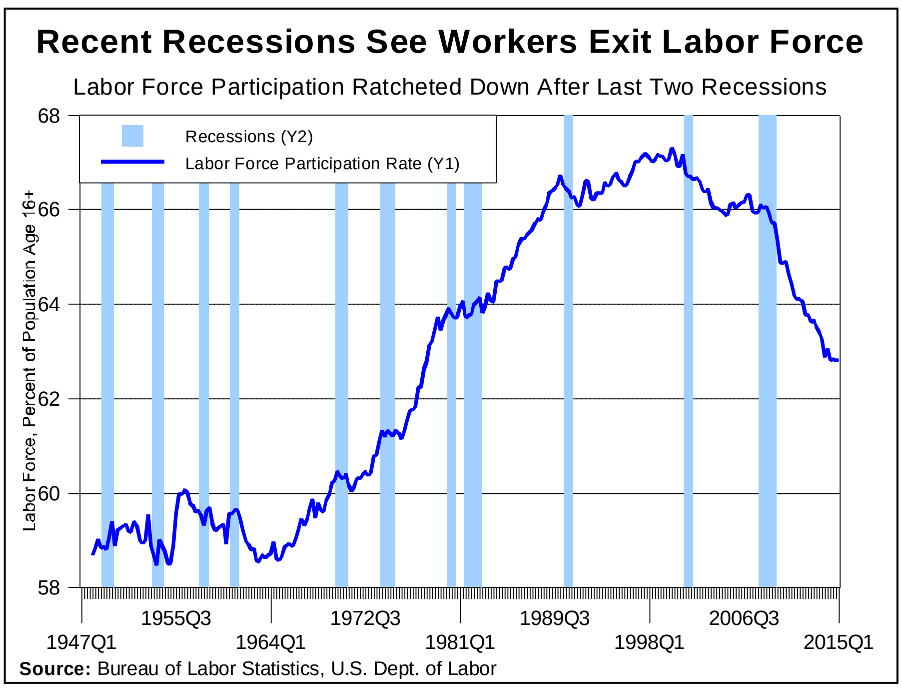
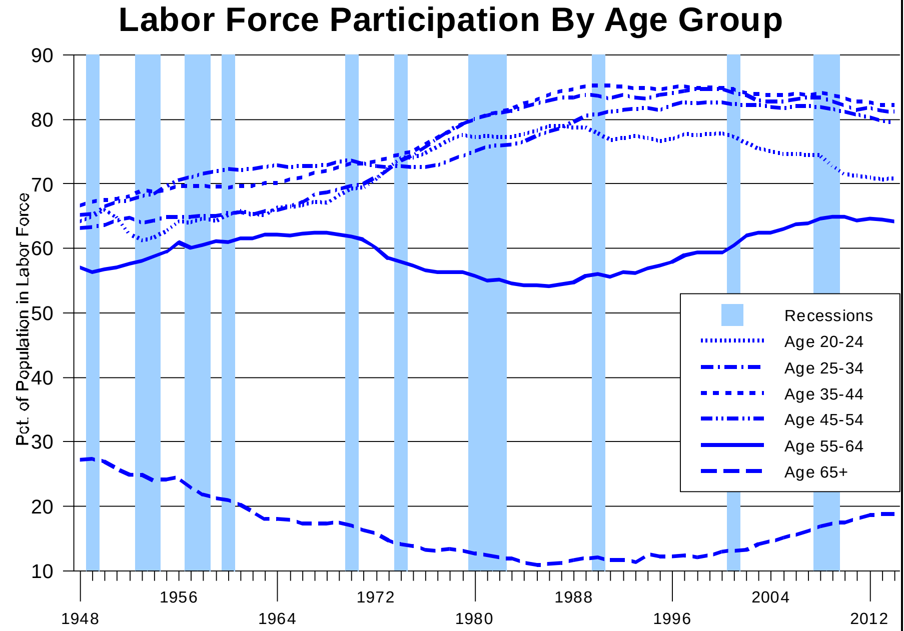


Figure 8



Source: Bureau of Labor Statistics, U.S. Dept. of Labor

The unemployment rate fell from a peak of 10.0% in October 2009, to 5.4% in April 2015. However, through 2013, the labor force grew much more slowly than the working-age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Since 2008, the labor force averaged 0.2% per year annual growth, with the labor force growing 0.3% during 2014. However, the population averaged 1.0% growth per year, and increased 0.9% in 2014. So, while the labor force is growing, it is not growing as rapidly as the population, and the employment-to-population ratio has remained at levels not seen since the late 1970s and early 1980s (Figure 9).

The housing market, which counts as residential investment rather than consumption spending, improved substantially in 2014, although it remains weak by almost any historical measure (Figure 10). Housing starts totaled 1.0 million units in 2014, an increase of 8.5% from 2013 and the fifth consecutive annual increase in starts. However, despite the increases, 2014 will represent the seventh-weakest year of housing starts (based on data available back to 1959), above only the years 2008 through 2013. Housing starts in 2014 also were 51.5% below the prerecession peak of 2.1 million starts in 2005. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and has averaged only 3.1% of GDP since the beginning of 2014.

Productivity, as measured by output per worker in the nonfarm business sector, rose at an average annual rate of 2.1% during the 1985 to 2005 period, but has averaged only 0.9% annual growth since the beginning of 2010. Productivity declined in both the last quarter of 2014 and the first quarter of 2015, and has declined in three of the last five quarters. Until the fourth quarter of 2014, productivity in the durable manufacturing sector had remained strong. Productivity gains increase output and income, especially in the long run, but reduce the need for additional workers. Productivity growth substantially reduced employment growth during the recovery following the 2001 recession, but with the possible exception of the manufacturing sector, has not had a significant dampening effect after the 2008-2009 recession.

Figure 9

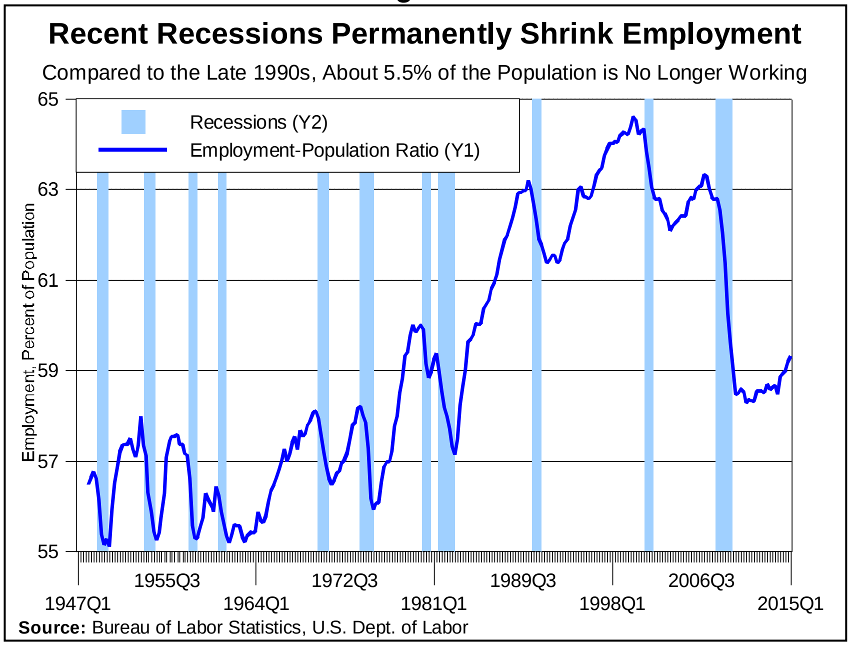
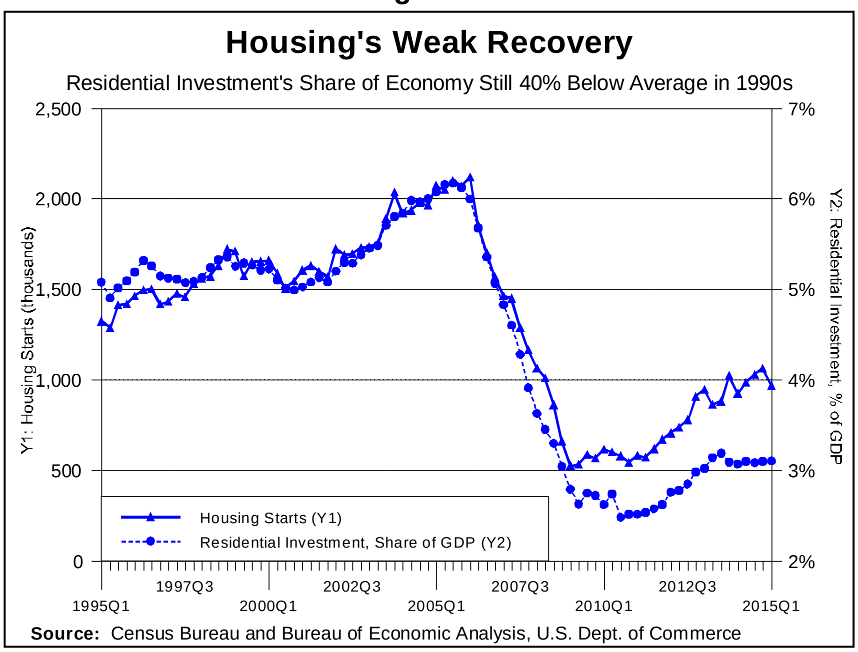
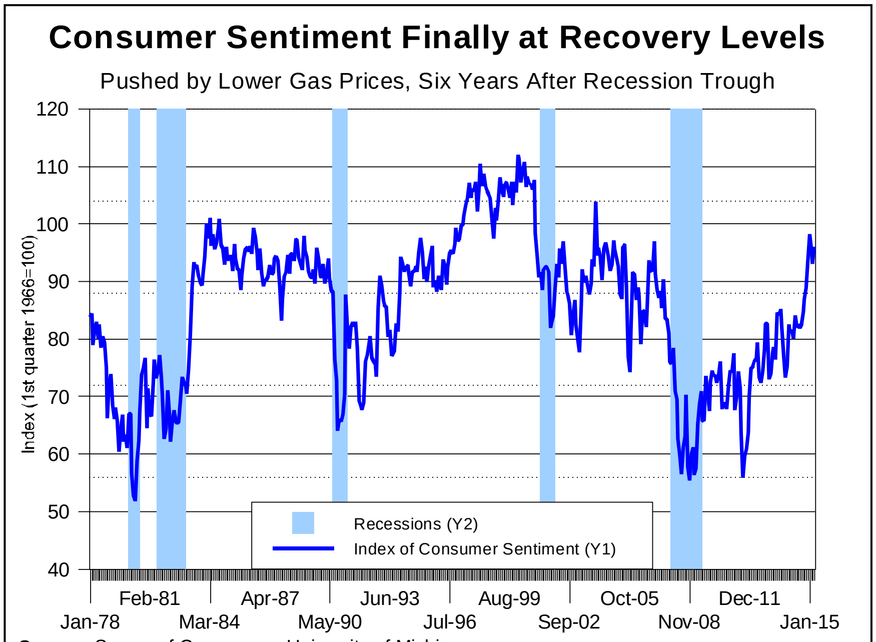


Figure 10



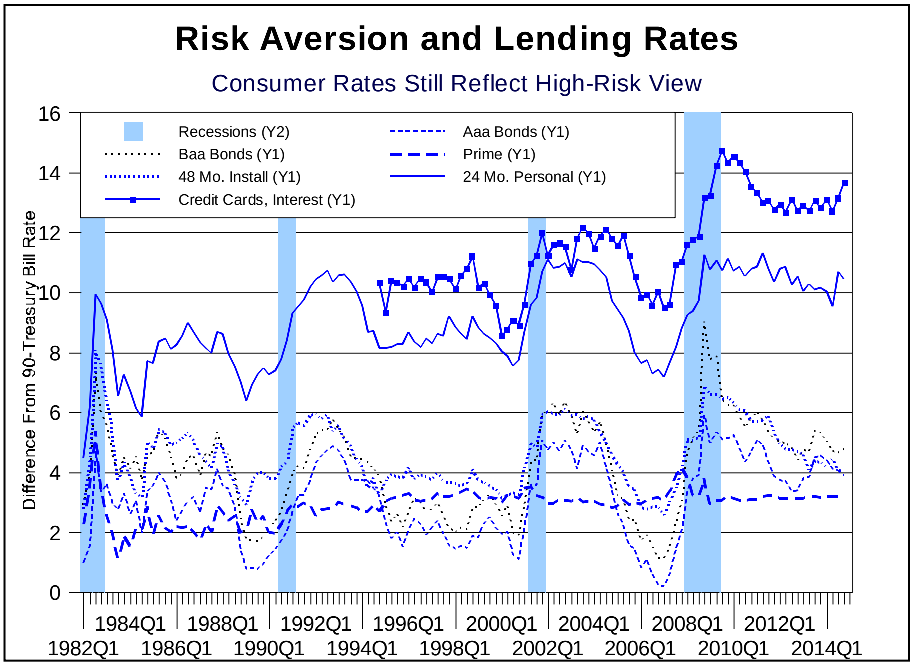
As a result, while productivity improvements amplified the changing nature of economic recoveries after the 1990 and 2001 recessions, a higher level of risk-aversion appears to be weakening the current recovery. While not strictly a measure of consumer attitudes toward risk, the index of consumer sentiment does include questions that measure whether consumers feel it is a good time to engage in certain economic activities. Until gasoline prices fell at the end of 2014, consumer sentiment remained well below the level in previous recoveries, including the recovery from the 2001 recession (Figure 11). Similarly, in terms of lending, short-term Treasury bonds are seen as being virtually risk-free. The difference, or spread, between various interest rates and the rate on short-term Treasury bonds shows how risky different types of customers are viewed by lenders. The spread on both personal loans and on credit cards increased after each of the last two recessions but, after the 2001 recession, credit card spreads largely did not return to prerecession levels, and personal loans took much longer to return to prerecession levels (Figure 12). After the 2008-2009 recession, spreads increased substantially for nearly all types of debt. However, while spreads have largely returned to prerecession levels for businesses, they remain substantially higher than prerecession levels for consumers, and credit rates have remained above the peaks after the 2001 recession. These high spreads suggest that lenders continue to view consumer lending as risky, and both interest rate spreads and consumer sentiment indicate that the economy still exhibits significant uncertainty. However, as noted earlier, these high interest rates have not deterred consumers from taking on more debt—although the types of debt that have grown most rapidly are those with lower rate spreads.

Figure 11



Source: Survey of Consumers, University of Michigan

Figure 12



Details for selected economic indicators are presented in Table 1 and Table 2.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)

	2013 Actual	2014 Actual	2015 Estimate	2016 Estimate	2017 Estimate
United States					
Nominal GDP (year-to-year growth)	3.7%	3.9%	3.4%	4.3%	4.6%
Inflation-Adjusted GDP (year-to-year growth)	2.2%	2.4%	2.1%	2.6%	2.9%
Unemployment Rate	7.4%	6.2%	5.5%	5.3%	5.1%
Inflation					
Consumer Price Index (year-to-year growth)	1.5%	1.6%	0.3%	1.9%	2.0%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.5%	1.5%	1.3%	1.7%	1.7%
Interest Rates					
90-day Treasury Bill	0.06%	0.03%	0.23%	1.45%	2.45%
10-year Treasury Bill	2.35%	2.54%	2.71%	2.98%	3.29%
Corporate Aaa Bond	4.23%	4.16%	3.83%	4.08%	4.30%
Federal Funds Rate	0.11%	0.09%	0.28%	1.71%	3.00%
Light Motor Vehicle Sales (millions of units)	15.5	16.4	17.0	17.2	17.0
Auto	7.6	7.7	7.8	7.9	7.8
Truck	7.9	8.7	9.3	9.3	9.2
Import Share	21.8%	21.0%	20.7%	20.4%	20.3%
Michigan					
Personal Income (millions)	$386,471	$401,901	$420,517	$439,088	$456,374
Year-to-year growth	1.4%	4.0%	4.6%	4.4%	3.9%
Inflation-Adjusted Personal Income (year-to-year growth)	(0.2%)	2.9%	5.0%	2.6%	1.9%
Wage & Salary Income (millions)	$195,203	$203,634	$212,739	$218,850	$224,655
Year-to-year growth	2.9%	4.3%	4.5%	2.9%	2.7%
Detroit Consumer Price Index (year-to-year growth)	1.6%	1.0%	(0.4%)	1.8%	2.0%
Wage & Salary Employment (thousands)	4,109.3	4,179.7	4,244.0	4,282.8	4,312.5
Year-to-year growth	1.9%	1.7%	1.5%	0.9%	0.7%
Unemployment Rate	8.9%	7.3%	5.8%	5.7%	5.6%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)	2013 Actual	2014 Actual	2015 Estimate	2016 Estimate	2017 Estimate
Gross Domestic Product					
(billions of dollars)	$16,768.1	$17,418.9	$18,006.3	$18,774.0	$19,645.6
Year-to-year growth	3.7%	3.9%	3.4%	4.3%	4.6%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2009 dollars)	$15,710.3	$16,085.6	$16,416.9	$16,838.3	$17,331.3
Year-to-year growth	2.2%	2.4%	2.1%	2.6%	2.9%
Consumption					
(billions of 2009 dollars)	$10,699.7	$10,969.0	$11,308.6	$11,658.7	$12,012.6
Year-to-year growth	2.4%	2.5%	3.1%	3.1%	3.0%
Business Fixed Investment					
(billions of 2009 dollars)	$1,990.6	$2,116.4	$2,177.9	$2,263.2	$2,363.4
Year-to-year growth	3.0%	6.3%	2.9%	3.9%	4.4%
Change in Business Inventories					
(billions of 2009 dollars)	$63.5	$70.6	$68.0	$66.8	$64.5
Residential Investment					
(billions of 2009 dollars)	$488.4	$496.2	$525.8	$592.3	$647.9
Year-to-year growth	11.9%	1.6%	6.0%	12.6%	9.4%
Government Spending					
(billions of 2009 dollars)	$2,894.5	$2,889.7	$2,907.2	$2,947.9	$2,989.2
Year-to-year growth	(2.0%)	(0.2%)	0.6%	1.4%	1.4%
Net Exports (billions of 2009 dollars)	($420.5)	($452.6)	($566.5)	($699.1)	($760.2)
Exports (billions of 2009 dollars)	$2,019.8	$2,084.7	$2,125.4	$2,213.2	$2,295.3
Imports (billions of 2009 dollars)	$2,440.3	$2,537.3	$2,691.8	$2,912.2	$3,055.5
Personal Income (year-to-year growth)	2.0%	3.9%	4.4%	5.2%	5.1%
Adjusted for Inflation	0.5%	2.3%	4.1%	3.3%	3.0%
Wage & Salary Income					
(year-to-year growth)	2.7%	4.5%	4.5%	4.1%	4.7%
Personal Saving Rate	4.9%	4.8%	5.3%	5.3%	5.2%
Capacity Utilization Rate	77.9%	79.1%	79.4%	79.5%	78.6%
Housing Starts (millions of units)	0.925	1.003	1.179	1.314	1.419
Conventional Mortgage Rates	4.0%	4.2%	4.3%	4.6%	4.9%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($705.6)	($617.2)	($648.9)	($647.6)	($646.3)

RECENT MICHIGAN ECONOMIC HIGHLIGHTS

Michigan's economy spent the 2000 to 2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Manufacturing experienced, and continues to experience, increased competition that will require additional productivity gains. For Michigan, the effect of productivity improvements has been substantial for at least three reasons: 1) there was more room for productivity improvements in the durable goods and motor vehicle manufacturing sectors than in many other sectors, 2) Michigan was, and remains, very disproportionately concentrated in motor vehicle manufacturing, and 3) the motor vehicle industry has become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment from both higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 110,300 jobs (25.1%) between June 2009, when the U.S. recession ended, and October 2013. However, Michigan manufacturing employment remained essentially unchanged from October 2013 through October 2014. Manufacturing employment rose in the fourth quarter of 2014 but it remains to be seen whether the higher level of employment represents the beginning of a new trend or a new norm. Employment in the transportation equipment manufacturing sector increased by 41.0% between June 2009 and January 2013, accounting for 47,000 (42.6%) of the manufacturing jobs Michigan gained and 21.8% of the total jobs added in Michigan. Similar to total manufacturing employment, Michigan transportation equipment manufacturing employment has remained relatively flat since late 2013.

The unemployment rate declined from a high of 14.2% in August 2009 to 5.6% in March 2015, although the decline was partially attributable to the departure of approximately 163,200 individuals from the labor force in addition to the employment gain of 285,000 jobs. The bulk of the employment gain has occurred since early 2014, with March 2015 employment 139,750 jobs above the level in September 2013.

FORECAST SUMMARY

During 2015, the U.S. economy is expected to grow at a slightly slower rate than during 2014 while the Michigan economy is expected to expand at a slightly faster rate. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2015 although in later years, Michigan is expected to grow at a slightly slower rate each year while the nation as a whole will see increasing rates of growth. 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 2.1% in 2015, slightly less than the 2.4% increase in 2014, and continue expanding over the rest of the forecast period, rising 2.6% during 2016 and 2.9% in 2017. The expansion over the forecast period primarily reflects moderate consumption growth and improvements in business and residential investment that will more than offset the drag on the economy from increased imports and relatively stagnant public sector growth.

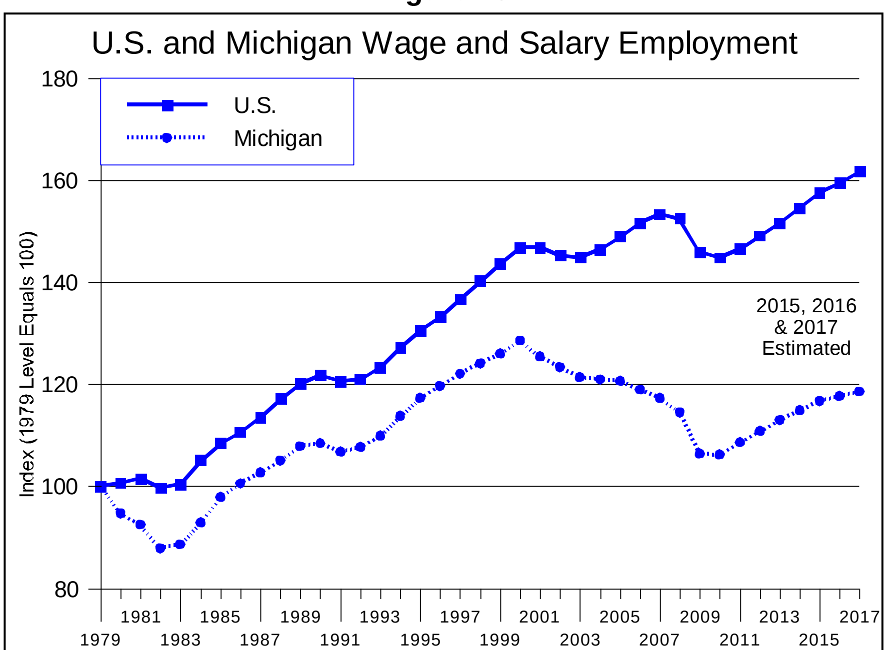
Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace capital for labor, although investment in structures, which represents new facilities, also is expected to exhibit significant growth. The U.S. unemployment rate is expected to decrease from 6.2% during 2014, to 5.5% in 2015, 5.3% in 2016, and 5.1% in 2017.

Inflation is not anticipated to be a concern over the forecast period. The U.S. Consumer Price Index increased 1.6% in 2014, and is expected to increase 0.3% in 2015, 1.9% in 2016, and 2.0% in 2017. Export growth is expected to be tempered in the near term by increases in the value of the dollar as the Federal Reserve begins raising interest rates in mid-to-late 2015. Despite weak productivity growth, weak domestic consumer demand and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 1.9% in 2015, 1.0% in 2016, and 1.1% in 2017.

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 13 and 14). After increasing by 2.9% during 2014, inflation-adjusted personal income is projected to increase 5.0% in 2015, and then grow more slowly, rising 2.6% in 2016 and 1.9% in 2017. Payroll employment is expected to increase 1.5% in 2015, slightly less than the 1.7% growth in 2014, and then increase more slowly, rising 0.9% in 2016 and 0.7% in 2017. Private sector gains in employment during 2015 and 2016 are expected to be fairly modest, although above the nearly flat employment predicted in the government sector (Figure 15). Nationally, light vehicle sales are expected to increase from 16.4 million units in 2014 to 17.0 million units in 2015, then increase to 17.2 million units in 2016 before slipping back to 17.0 million units in 2017. 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 7.3% in 2014 to 5.8% in 2015, 5.7% in 2016, and 5.6% in 2017.

Compared with the January 16, 2015, Consensus Economic Forecast, both the U.S. and Michigan forecasts are slightly weaker, although the Michigan economy in 2015 is expected to be slightly stronger than forecast in January. Although both the U.S. and Michigan economies will continue to exhibit growth over the forecast period, neither the U.S. nor the Michigan forecast exhibits particularly strong economic growth. Weak employment growth, weak income growth, and slowdowns in overseas economies will temper the pace of the U.S. and Michigan recoveries during the forecast period. However, improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation.

Figure 13



Source: U.S. Department of Labor and the Senate Fiscal Agency

Figure 14

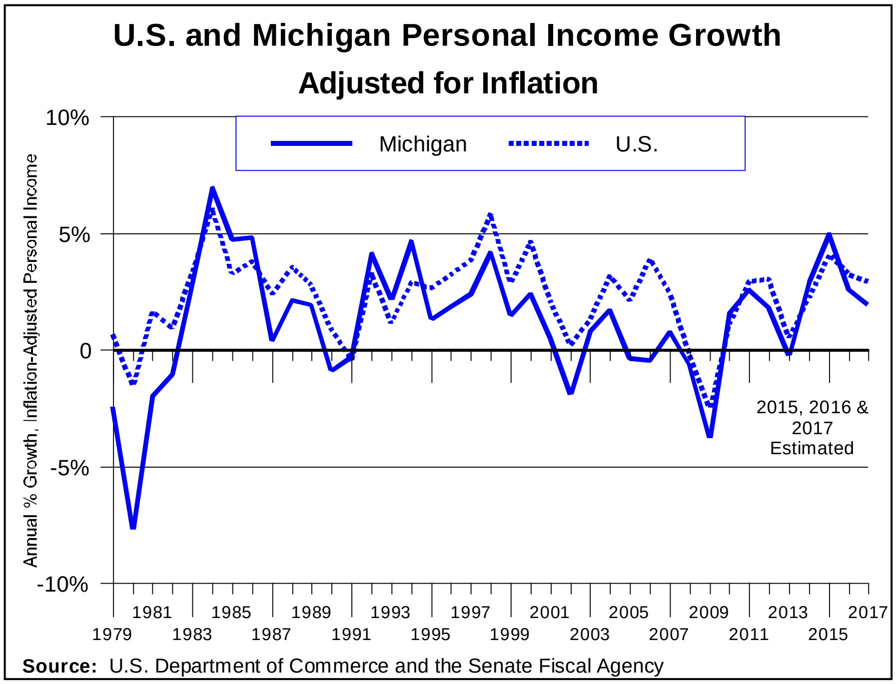
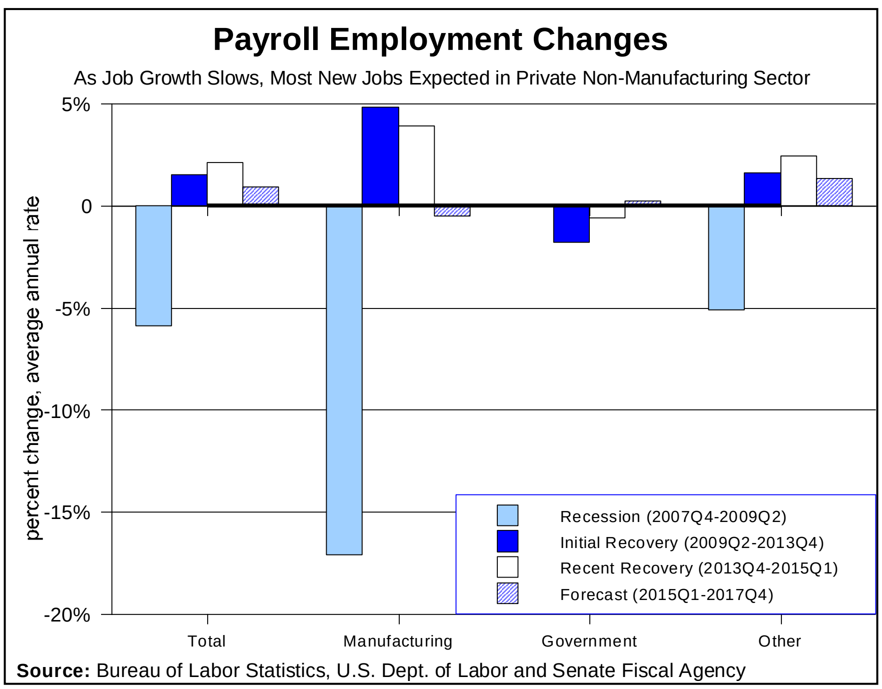


Figure 15



FORECAST RISKS

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

The Changed Nature of Economic Recovery. Not only has the recovery from the 2008-2009 recession been half as strong as prior recoveries, but many factors suggest that strong economic growth in the near future is unlikely. While low productivity has provided some assistance to the improvement in employment levels, it has meant that improvements that increase output and income in the long-run have not been made. Lower levels of investment, higher risk-aversion among consumers and lenders, reduced public investment, and the shift in labor force participation rates are among a number of indicators suggesting that over the current recovery period the economy has not engaged in the types of activities that improve future economic growth, and that in some cases, certain economic fundamentals may return to historical trend growth rates but a segment of the economy will just operate at a permanently lower level. Absent a significant change in the underlying patterns in the economy, future economic growth is likely to face meaningful limits in the short-term and any growth that does occur will still keep the economy well below its historical potential.

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, consumers needed to save at a far higher rate than exhibited to offset their losses in home equity and in the stock market. Nevertheless, the savings rate has generally trended lower, and 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 might return to their spending habits of the late 2000s and, if capital markets accommodate higher demands for additional credit, growth will be stronger than forecasted.

Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. However, personal income fell more slowly over that time period, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much real growth in the underlying consumption trend is actually occurring. 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 spend 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 2014. Furthermore, consumer expenditures have risen more rapidly than incomes since mid-2011, and especially for much of the past year. The forecast assumes that consumers will slightly increase their saving rates and that consumption will be limited by flat wages and limited access to and/or use of additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

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

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

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

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

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 16). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 17).

Figure 16

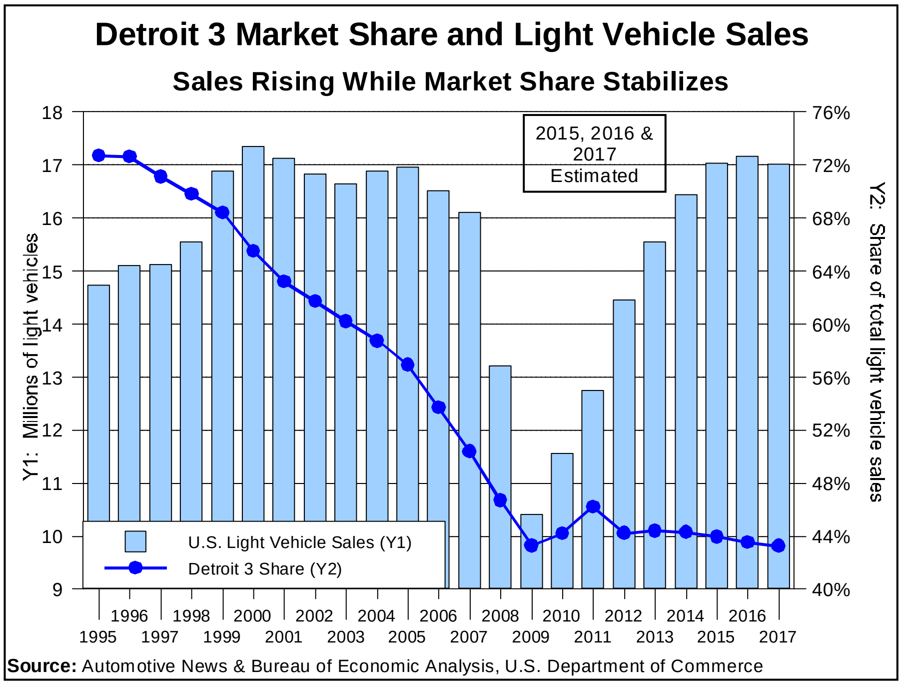
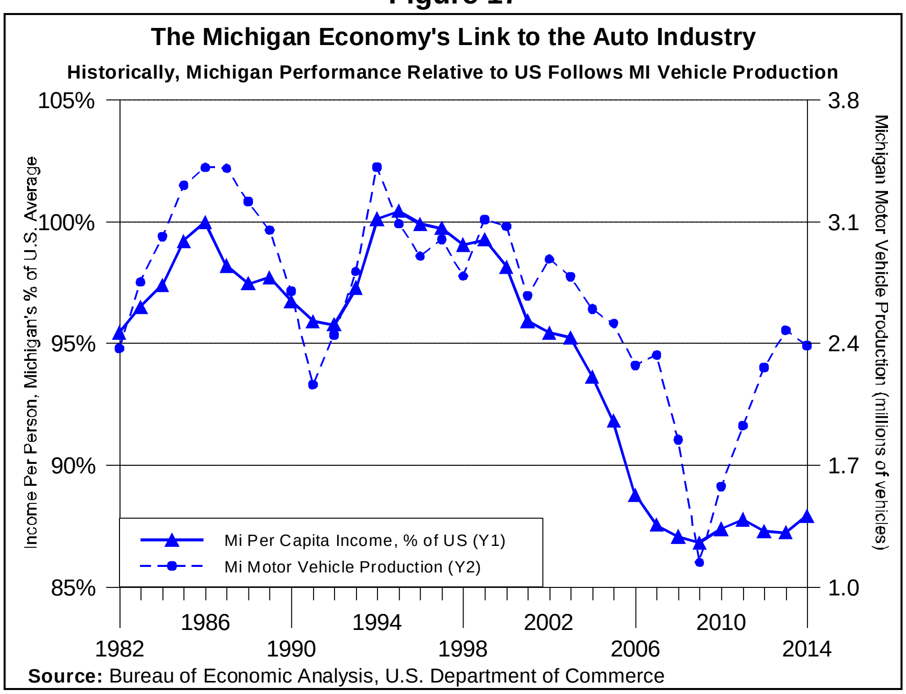


Figure 17



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. Furthermore, light vehicles sales are expected to exhibit much slower growth rates over the forecast period than exhibited during the last five years, limiting the growth in transportation manufacturing employment. While Michigan payroll employment returned to the January 2008 level (the U.S. prerecession peak) in January 2015, and as of March 2015 Michigan had regained 417,900 of the 862,900 jobs lost between April 2000 and March 2010, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (Michigan's prerecession peak) again until sometime in the next decade.

The forecast expects employment levels in the transportation equipment manufacturing sector to increase slightly through 2015, but to remain relatively flat in both 2016 and 2017. Overall employment in Michigan is expected to grow slightly, with virtually all of the growth in private sector 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 at both the national and statewide levels is unlikely to occur until the housing industry experiences a meaningful recovery and consumers exhibit improved debt-to-income ratios and growing wages.

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 2014-15, FY 2015-16, and FY 2016-17. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, the revenue estimate represents the revenue generated from ongoing revenue sources and generally does not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2014-15 and FY 2015-16 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2014-15, FY 2015-16, and FY 2016-17 are presented in Table 3 and are summarized below.

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 5.1% or $1,040.9 million from the final amount for FY 2013-14. The projected revenue increase in FY 2014-15 reflects continued economic growth forecast for the year, as well as strong corporate profits and higher annual income tax payments that reflect capital gains taken in 2014.
- The revised estimate for FY 2014-15 is $189.4 million above the January 2015 consensus revenue estimate.

FY 2015-16 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $22.1 billion in FY 2015-16.
- The revised estimate for FY 2015-16 is up 2.2% or $476.6 million from the revised estimate for FY 2014-15.
- The revised estimate for FY 2015-16 is $79.6 million above the January 2015 consensus revenue estimate.
- As in FY 2014-15, the revenue increase in FY 2015-16 reflects improvements in the level of economic activity that are partially offset by increased business tax credits and revenue reductions attributable to personal property tax reform.

FY 2016-17 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $22.6 billion in FY 2016-17.
- This revised estimate for FY 2016-17 is up 2.6% or $573.8 million from the revised estimate for FY 2015-16.
- As in FY 2015-16, the revenue increase in FY 2016-17 reflects growth in Michigan economic activity, combined with a reduction in expected business tax credits.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2013-14 THROUGH FY 2016-17
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2013-14 Final	**FY 2014-15 Revised Est.**	**FY 2015-16 Revised Est.**	**FY 2016-17 Revised Est.**
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	$9,787.6	$10,519.3	$10,856.8	$11,225.3
Tax Changes Not In Baseline	(769.1)	(760.0)	(948.9)	(1,064.0)
Revenue After Tax Changes:				
Net Income Tax	5,655.4	6,246.4	6,425.8	6,649.4
MBT, Corp. Income Tax, SBT & Insur. Tax	499.8	694.1	603.7	819.4
Other Taxes	2,470.0	2,454.8	2,517.6	2,342.6
Total Taxes	8,625.2	9,395.3	9,547.1	9,811.4
Nontax Revenue	393.3	364.0	360.8	349.9
TOTAL GF/GP REVENUE	**$9,018.5**	**$9,759.3**	**$9,907.9**	**$10,161.3**
SCHOOL AID FUND				
Baseline SAF	$11,562.8	$11,886.6	$12,169.5	$12,500.8
Tax Changes Not In Baseline	(42.3)	(66.0)	(20.9)	(31.8)
TOTAL SAF REVENUE	**$11,520.5**	**$11,820.6**	**$12,148.6**	**$12,469.0**
BASELINE GF/GP AND SAF REVENUE	$21,350.4	$22,405.9	$23,026.3	$23,726.1
Tax & Revenue Changes	(811.4)	(826.0)	(969.8)	(1,095.8)
GF/GP & SAF REV. AFTER CHANGES	**$20,539.0**	**$21,579.9**	**$22,056.5**	**$22,630.3**
SALES TAX	$7,354.9	$7,426.8	$7,668.7	$7,902.1
	Percent Change			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	(1.7%)	7.5%	3.2%	3.4%
Revenue After Tax Changes:				
Net Income Tax	(4.6)	10.4	2.9	3.5
MBT, Corp. Income Tax, SBT & Insur. Tax	(48.0)	38.9	(13.0)	35.7
Other Taxes	9.2	(0.6)	2.6	(7.0)
Total Taxes	(5.8)	8.9	1.6	2.8
Nontax Revenue	(3.4)	(7.4)	(0.9)	(3.0)
TOTAL GF/GP REVENUE	**(5.7%)**	**8.2%**	**1.5%**	**2.6%**
SCHOOL AID FUND				
Baseline SAF	2.5	2.8	2.4	2.7
TOTAL SAF REVENUE	**2.2%**	**2.6%**	**2.8%**	**2.6%**
BASELINE GF/GP AND SAF REVENUE	0.5	4.9	2.8	3.0
GF/GP & SAF REV. AFTER CHANGES	**(1.4%)**	**5.1%**	**2.2%**	**2.6%**
SALES TAX	2.8%	1.0%	3.3%	3.0%

Note: FY 2013-14 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. The projected growth rates are 5.1% in FY 2014-15, 2.2% in FY 2015-16, and 2.6% in FY 2016-17. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and average growth of 3.4% from FY 2010-11 to FY 2013-14.

- The revised estimate for GF/GP revenue from ongoing sources in FY 2014-15 is forecast to be 8.6% ($921.3 million) below the record FY 1999-2000 level. Through FY 2016-17, GF/GP revenue is expected to remain below the FY 2007-08 peak, climbing to within 1.7% ($175.7 million) of that amount.
- For FY 2014-15, ongoing SAF revenue will continue to grow over the record amount of SAF revenue received in FY 2013-14 by 2.6% ($300.1 million). Growth is projected to continue in FY 2015-16 and FY 2016-17, bringing SAF revenue to new record levels each year. SAF revenue is estimated at $628.1 million or 5.5% above the FY 2013-14 record level in FY 2015-16, and $948.5 million or 8.2% above the FY 2013-14 record level in FY 2016-17.

Baseline revenue growth (using the updated FY 2013-14 base) is projected to remain positive during the forecast period. Figure 18 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2016-17. During this 31-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budget problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. This was followed by three years of more robust growth, until FY 2013-14 when GF/GP and SAF baseline revenue increased by only 0.5%. Growth is expected to improve during the forecast period to approximately 4.9% in FY 2014-15, 2.8% in FY 2015-16, and 3.0% for FY 2016-17.

Figure 18

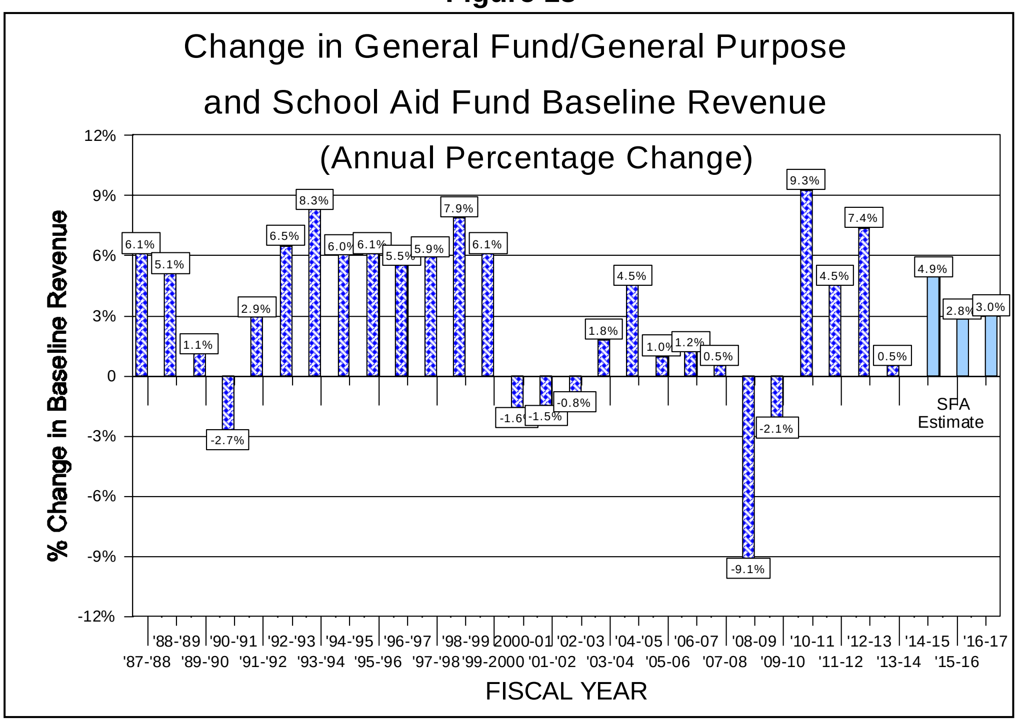


Figure 19 compares the FY 1995-96 through estimated FY 2016-17 amounts of both GF/GP revenue and the SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to $9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the 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 20, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2014-15 will be approximately 8.6% (or $921.3 billion) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of $9.9 billion in FY 2015-16 remains 7.2% below the peak, and revised estimates for FY 2016-17 are 4.9% below peak levels. In inflation-adjusted terms, however, FY 2016-17 GF/GP revenue is 4.3% (or $401.8 million) below the FY 1967-68 level.

Figure 19

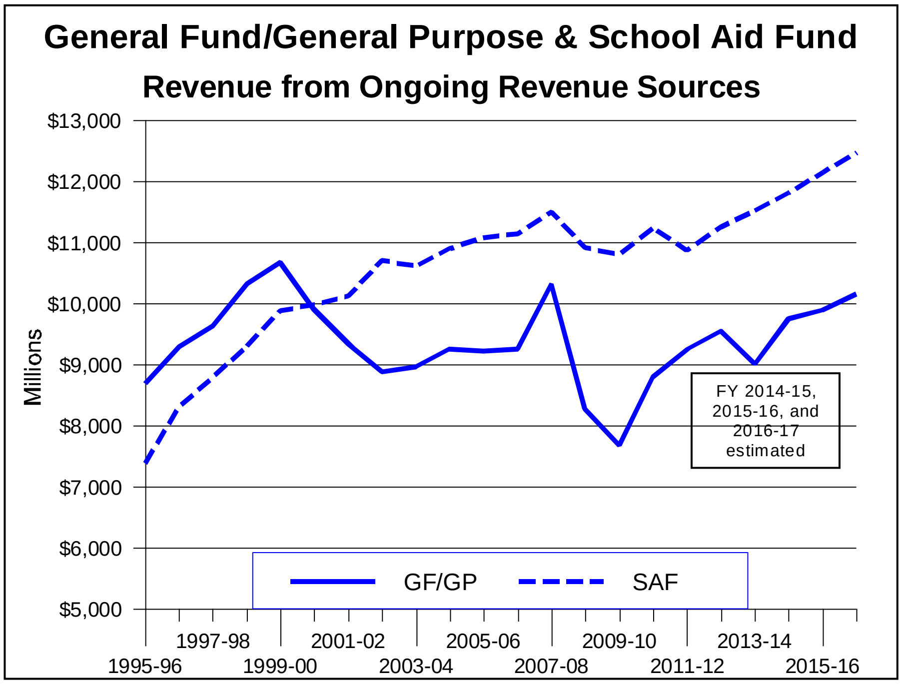
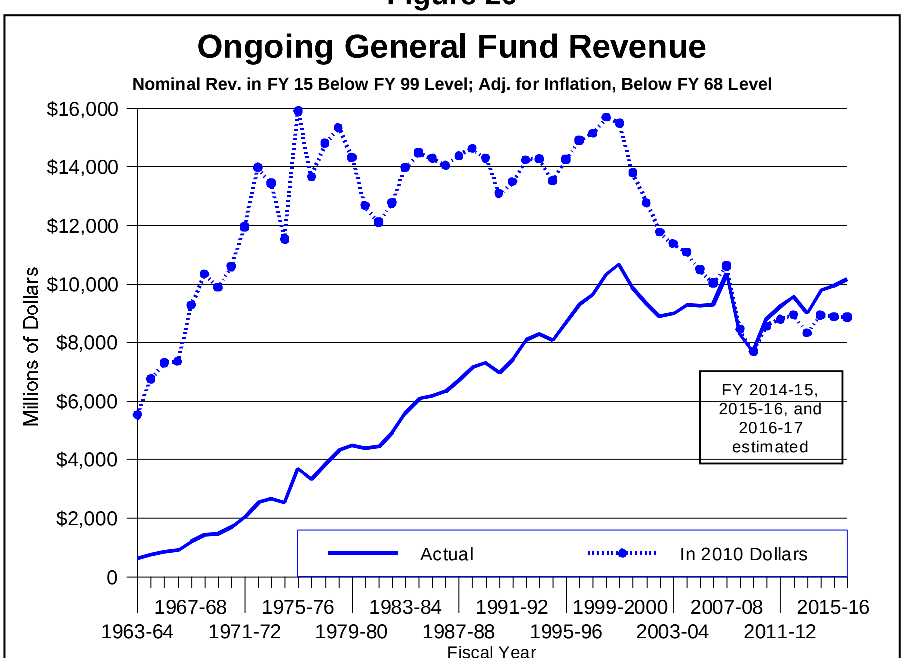


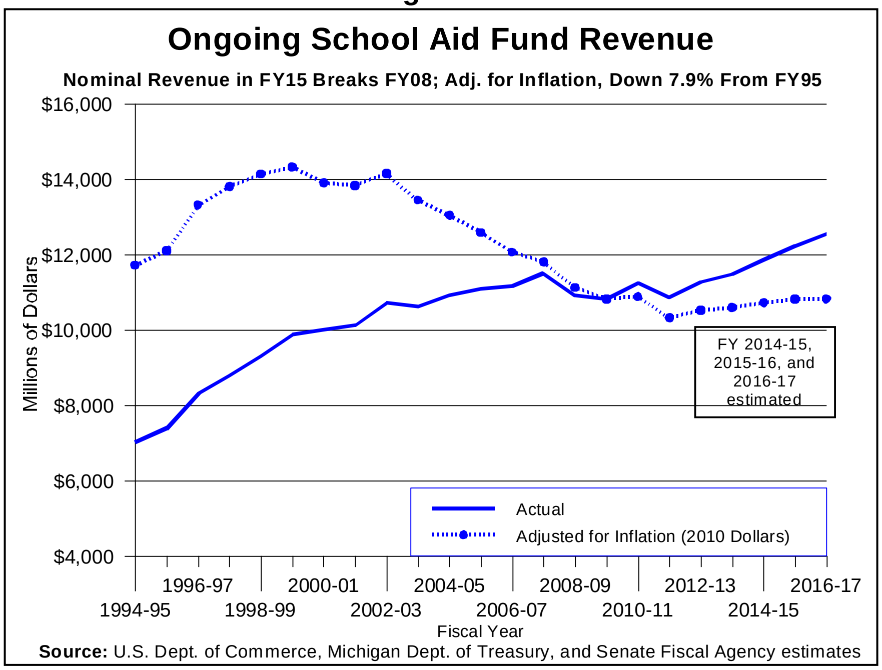
Figure 20



Source: U.S. Dept. of Commerce, Michigan Dept. of Treasury, and Senate Fiscal Agency estimates

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10 and tax code reforms reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2016-17, SAF revenue is predicted to be approximately 68.7% ($5.1 billion) above the revenue level in FY 1995-96 (without accounting for inflation) and 10.2% ($1.2 billion) below if adjusted for inflation, as shown in Figure 21.

Figure 21



FY 2014-15 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue is projected to total an estimated $21.6 billion in FY 2014-15, an increase of 5.1% in FY 2014-15 compared with FY 2013-14.
- The revenue increase in FY 2014-15 reflects improving economic conditions in Michigan, combined with a large increase in annual individual income tax payments attributable to capital gains that were realized during 2014.

The level of personal income in Michigan is expected to increase 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 5.1% or over $1.0 billion from the final figure for FY 2013-14. Baseline GF/GP and SAF revenue is expected to increase 4.9% in FY 2014-15, reflecting faster growth than in the prior year. The revised estimate of GF/GP and SAF revenue for FY 2014-15 is summarized in Table 4.

Tax Policy Changes

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 estimated to be somewhat lower in FY 2014-15, declining from $807.3 million in FY 2013-14 to $729.0 million in FY 2014-15. These credits reduce GF/GP revenue.

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 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 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 $33.1 million in FY 2014-15. This change reduces GF/GP revenue by $4.0 million, School Aid Fund revenue by $24.3 million, and other funds, primarily constitutional revenue sharing, by $4.8 million. Sales tax exemptions granted by Public Act 211 of 2013 on over-the-counter medicine for human use that is dispensed under a prescription will reduce sales tax revenue by $9.0 million in FY 2014-15; of this amount, $1.5 million is GF/GP, $6.6 million is SAF, and $0.9 million affects other funds.

Use Tax. Two major use tax refunds will reduce revenue by $18.0 million in FY 2014-15. These refunds will decrease GF/GP revenue by $12.0 million and SAF revenue by $6.0 million.

Reduction of Personal Liability for Unpaid Business Taxes Due. The impact of Public Act 3 of 2014, which 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, is expected to result in a revenue reduction of $111.7 million in FY 2014-15, a larger reduction than in the prior year. These changes are estimated to reduce GF/GP revenue by $60.8 million, SAF revenue by $43.2 million, and other funds, primarily constitutional revenue sharing, by $7.8 million in FY 2014-15.

Tax Offer-in-Compromise. Public Act 240 of 2014 allows the Department of Treasury to compromise with a taxpayer on the payment of a tax if there is a doubt as to the liability for the tax or the collectability of the tax, or the Federal government has accepted a compromise of Federal tax for the same tax years. These changes are estimated to reduce tax collections by $7.8 million in FY 2014-15. This will reduce GF/GP collections by $4.5 million and School Aid Fund revenue by $3.3 million in FY 2014-15.

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 $10.0 million in FY 2014-15.

Driver Responsibility Fees. The option for a person subject to certain driver responsibility fees to perform community service instead of paying fees is projected to reduce GF/GP revenue by $10.0 million. The phase-out of some fees will reduce revenue by another $1.6 million in FY 2014-15.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $9.8 billion in FY 2014-15, an increase of 8.2% or $740.8 million from FY 2013-14.
- The revised GF/GP estimate is $257.9 million above the January 2015 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 7.5%. Both estimated and annual individual income tax payments have increased due to capital gains realized during 2014. Fewer negative adjustments to GF/GP revenue, primarily due to a lower estimate for MBT refunds, are expected to accelerate GF/GP growth to 8.2% in FY 2014-15. The revised GF/GP revenue estimates for FY 2014-15 are summarized in Table 4.

Table 4

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

	FY 2013-14 Final	FY 2014-15 Revised Est.	Change from FY 2013-14 Dollar Change	Change from FY 2013-14 Percent Change	$ Change from 01/15 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$9,787.6	$10,519.3	$731.7	7.5%	$273.9
Tax Changes Not In Baseline	(769.1)	(760.0)	9.1	---	(15.9)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	9,909.5	10,505.5	596.0	6.0	229.9
Less: Refunds	(1,895.6)	(1,757.0)	138.6	(7.3)	123.1
Net Income Tax Collections	8,013.9	8,748.5	734.6	9.2	353.0
Less: Earmarking to SAF	(2,357.6)	(2,501.3)	(143.7)	6.1	(54.7)
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$5,655.4	$6,246.4	$591.0	10.4%	$298.3
Other Taxes					
Corporate Income Tax	906.4	1,097.6	191.2	21.1	153.0
Michigan Business Tax	(723.3)	(752.8)	(29.5)	---	(72.0)
Sales	1,170.0	1,171.0	1.0	0.1	(31.8)
Use	926.6	928.2	1.6	0.2	(37.3)
Cigarette	192.9	183.6	(9.3)	(4.8)	3.5
Insurance Company Premiums	362.2	369.3	7.1	2.0	(42.7)
Telephone & Telegraph	48.0	47.0	(1.0)	(2.1)	0.0
Oil & Gas Severance	61.0	31.0	(30.0)	(49.2)	(27.0)
All Other	26.0	74.0	48.0	185.1	13.9
Subtotal Other Taxes	$2,969.8	$3,148.9	$179.1	6.0%	($40.4)
Total Nontax Revenue	393.3	364.0	(29.3)	(7.4)	0.0
GF/GP REV. AFTER TAX CHANGES	**$9,018.5**	**$9,759.3**	**$740.8**	**8.2%**	**$257.9**
SCHOOL AID FUND:					
Baseline Revenue	11,562.8	11,886.6	323.8	2.8	(62.8)
Tax Changes Not In Baseline	(42.3)	(66.0)	(23.7)	----	(5.8)
Revenue After Tax Changes					
Sales Tax	5,349.9	5,402.3	52.4	1.0	(133.5)
Use Tax	463.8	464.0	0.2	0.0	(18.7)
Lottery Revenue	734.1	785.0	50.9	6.9	25.0
State Education Property Tax	1,804.2	1,827.8	23.6	1.3	(17.5)
Real Estate Transfer Tax	233.4	259.9	26.5	11.4	12.1
Income Tax	2,357.6	2,501.3	143.7	6.1	54.7
Casino Tax	106.9	111.0	4.1	3.8	0.0
Other Revenue	470.6	469.3	(1.3)	(0.3)	9.4
SAF REV. AFTER TAX CHANGES	**$11,520.5**	**$11,820.6**	**$300.1**	**2.6%**	**($68.5)**
BASELINE GF/GP AND SAF	21,350.4	22,405.9	1,055.5	4.9	211.1
Tax & Revenue Changes	(811.4)	(826.0)	(14.6)	---	(21.7)
GF/GP & SAF REV. AFTER CHNGS.	**$20,539.0**	**$21,579.9**	**$1,040.9**	**5.1%**	**$189.4**
SALES TAX	$7,345.9	$7,426.8	$80.9	1.1%	($182.0)

Note: FY 2013-14 is the base year for baseline revenue.

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 2.6% or $300.1 million from the final figure for FY 2013-14.
- This revised SAF revenue estimate for FY 2014-15 is $68.5 million below the January 2015 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in every major revenue source. Baseline SAF revenue is expected to increase by 2.8%. Revenue from the Real Estate Transfer Tax is expected to increase by 11.4% and income tax contributions to the SAF are projected to increase by 6.1%. Sales tax revenue allocated to the SAF, its largest revenue source, is expected to increase by only 1.0% over the prior year, which reflects lower collections thus far in the fiscal year and depressed consumption in the first quarter of 2015. The lottery revenue has been revised upward to 6.9% growth reflecting the impact of a new game, the roll-out of iLottery online sales, and a standout month of net lottery revenue. State Education Tax revenue is expected to increase by 1.3% from the FY 2013-14 level. The revised SAF revenue estimates for FY 2014-15 are summarized in Table 4.

FY 2015-16 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2015-16, although personal income is anticipated to grow more slowly than in FY 2014-15. Total GF/GP and SAF revenue will reach an estimated $22.1 billion in FY 2015-16, an increase of 2.2% or $476.6 million from the revised estimate for FY 2014-15. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.8% in FY 2015-16, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2015-16 is summarized in Table 5.

Tax Policy Changes

Tax policy changes affecting FY 2015-16 revenue are quite similar to those affecting FY 2014-15; however, the negative impact is larger in FY 2015-16. The largest adjustments are again due to MBT refunds.

Business Tax Reform. Revenue in FY 2015-16 will be reduced by the ongoing MBT credits. The expected reduction of $895.0 million in FY 2015-16 is $166.0 million larger than the reduction in FY 2014-15. These credits reduce GF/GP revenue.

Insurance Tax Changes. Blue Cross Blue Shield's conversion to a nonprofit mutual insurer will increase GF/GP revenue by an estimated $75.0 million, the same amount as in FY 2014-15.

Sales Tax. The implementation of affiliate nexus legislation, Public Acts 553 and 554 of 2014, which expands the situations in which out-of-State sellers are required to collect sales tax in Michigan, will increase sales tax revenue by $60.0 million in FY 2015-16. This will increase GF/GP revenue by $10.0 million, SAF revenue by $44.0 million, and other funds, primarily constitutional revenue sharing, by $6.0 million. The revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to increase to $39.8 million in FY 2015-16. This change reduces GF/GP revenue by $4.8 million, School Aid Fund revenue by $29.2 million, and other funds by $5.8 million. The ongoing impact of Public Act 211 of 2013 sales tax exemptions on prescribed over-the-counter medicine will reduce sales tax revenue by $9.0 million in FY 2015-16; of that amount, $1.5 million is GF/GP, $6.6 million is SAF, and $0.9 million affects other funds, primarily constitutional revenue sharing.

Personal Property Tax Reform/Essential Services Assessment. Fiscal Year 2015-16 is the first year in which use tax revenue will be earmarked for payments to local governments for reimbursement of property tax revenue losses due to the phase-in of personal property tax exemptions. In FY 2015-16, $96.1 million of use tax revenue will be restricted for these local payments, resulting in a reduction of $96.1 million in GF/GP revenue. This revenue loss will be offset in part by the implementation of the Essential Services Assessment, a tax on manufacturing personal property that is otherwise exempt from property taxation. In its first year, the Essential Services Assessment will increase GF/GP revenue by $55.0 million. The State Education Tax also will be reduced by the expanding personal property tax exemptions, which will reduce SAF revenue by $20.9 million.

Reduction of Personal Liability for Unpaid Business Taxes Due. The changes in corporate officer responsibility for certain unpaid taxes are expected to decrease revenue by $115.4 million in FY 2015-16, a slightly larger reduction than in the prior year. These changes are estimated to reduce GF/GP revenue by $63.0 million, SAF revenue by $43.2 million, and other funds, primarily constitutional revenue sharing, by $9.2 million in FY 2015-16.

Tax Offer-in-Compromise. The ability of the Department of Treasury to compromise with a taxpayer on the payment of a tax (under Public Act 240 of 2014) is estimated to reduce tax collections by $7.8 million in FY 2015-16, the same amount as in FY 2014-15. This will reduce GF/GP collections by $4.6 million and School Aid Fund revenue by $3.2 million in FY 2015-16.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $9.9 billion in FY 2015-16, an increase of 1.5% or $148.6 million from the revised estimate for FY 2014-15. Baseline GF/GP revenue is expected to increase 3.2%. The revised GF/GP revenue estimates for FY 2015-16 are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $12.1 billion in FY 2015-16, an increase of $328.0 million, or 2.8%, from the revised estimate for FY 2014-15. The forecasted increase in SAF revenue again reflects growth in all major earmarked revenue sources, plus the additional impact of new lottery games and expansion of iLottery. Total SAF revenue in FY 2015-16 is projected to exceed the record level of FY 2013-14 by $628.1 million. The SAF revised revenue estimates for FY 2015-16 are summarized in Table 5.

Table 5

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

	FY 2014-15 Revised Est.	FY 2015-16 Revised Est.	Change from FY 2014-15: Dollar Change	Change from FY 2014-15: Percent Change	$ Change from 01/15 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$10,519.3	$10,856.8	$337.5	3.2%	$222.2
Tax Changes Not In Baseline	(760.0)	(948.9)	(188.9)	---	(27.5)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	10,505.5	10,798.7	293.2	2.8	153.0
Less: Refunds	(1,757.0)	(1,801.0)	(44.0)	2.5	125.0
Net Income Tax Collections	8,748.5	8,997.7	249.2	2.8	278.0
Less: Earmarking to SAF	(2,501.3)	(2,571.1)	(69.8)	2.8	(36.4)
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$6,246.4	$6,425.8	$179.4	2.9%	$241.6
Other Taxes					
Corporate Income Tax	1,097.6	1,126.7	29.1	2.7	150.0
Michigan Business Tax	(752.8)	(891.0)	(138.2)	18.4	(83.6)
Sales	1,171.0	1,212.3	41.3	3.5	(49.1)
Use	928.2	884.2	(44.0)	(4.7)	(21.4)
Cigarette	183.6	183.1	(0.5)	(0.3)	6.0
Insurance Company Premiums	369.3	378.0	8.7	2.4	(45.0)
Telephone & Telegraph	47.0	46.0	(1.0)	(2.1)	0.0
Oil & Gas Severance	31.0	31.5	0.5	1.6	(27.7)
All Other	74.0	150.5	76.5	103.4	22.4
Subtotal Other Taxes	$3,148.9	$3,121.3	($27.6)	(0.9%)	($48.4)
Total Nontax Revenue	364.0	360.8	(3.2)	(0.9)	1.5
GF/GP REV. AFTER TAX CHANGES	**$9,759.3**	**$9,907.9**	**$148.6**	**1.5%**	**$194.7**
SCHOOL AID FUND:					
Baseline Revenue	$11,886.6	$12,169.5	$282.9	2.4%	($160.3)
Tax Changes Not In Baseline	(66.0)	(20.9)	45.1	---	45.2
Revenue After Tax Changes					
Sales Tax	5,402.3	5,578.7	176.4	3.3	(164.9)
Use Tax	464.0	490.2	26.2	5.6	(10.6)
Lottery Revenue	785.0	800.0	15.0	1.9	25.0
State Education Property Tax	1,827.8	1,856.9	29.1	1.6	(24.0)
Real Estate Transfer Tax	259.9	268.7	8.8	3.4	8.0
Income Tax	2,501.3	2,567.4	66.1	2.6	36.4
Casino Tax	111.0	113.5	2.5	2.3	0.0
Other Revenue	469.3	473.2	3.9	0.8	14.9
SAF REV. AFTER TAX CHANGES	**$11,820.6**	**$12,148.6**	**$328.0**	**2.8%**	**($115.2)**
BASELINE GF/GP AND SAF	$22,405.9	$23,026.3	$620.4	2.8%	$61.9
Tax & Revenue Changes	(826.0)	(969.8)	(143.8)	---	17.7
GF/GP & SAF REV. AFTER CHNGS.	**$21,579.9**	**$22,056.5**	**$476.6**	**2.2%**	**$79.6**
SALES TAX	$7,426.8	$7,668.7	$241.9	3.3%	($225.0)

Note: FY 2013-14 is the base year for baseline revenue.

FY 2016-17 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2016-17, although personal income will grow at a slower rate than in FY 2015-16. Growth in wage and salary employment also is projected to slow slightly. Total GF/GP and SAF revenue will reach an estimated $22.6 billion in FY 2016-17, an increase of 2.6% or $573.8 million from the revised estimate for FY 2015-16. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.0% in FY 2016-17, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2016-17 is summarized in Table 6.

Tax Policy Changes

In FY 2016-17, the effect of tax policy changes will expand significantly above the effect in FY 2015-16, primarily due to the impact of personal property tax reform. Use tax revenue of $380.6 million in FY 2016-17 will be restricted for reimbursements of local revenue losses due to increasing exemptions of personal property from taxation, resulting in a $380.6 million reduction in GF/GP revenue. That reduction will be offset in part by the Essential Services Assessment, which will increase GF/GP revenue by $73.1 million. The SAF also will be affected by personal property tax reform. The State Education Tax will be reduced by $21.1 million due to the phase-in of additional tax exemptions. Michigan Business Tax refunds will decrease GF/GP revenue by $736.0 because of the continuing payment of refundable tax credits. 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 continued phase-in of the sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $47.0 million, of which $34.5 million is a reduction to the SAF. The phase-out of driver responsibility fees will reduce GF/GP revenue by $23.0 million and the community service alternative will reduce GF/GP revenue by $5.0 million. The impact of changes in corporate officer liability for certain unpaid taxes will reduce revenue by $118.9 million, consisting of a GF/GP reduction of $64.7 million, an SAF reduction of $46.2 million, and a loss to other funds (primarily constitutional revenue sharing) of $8.0 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $10.2 billion in FY 2016-17, an increase of 2.6% or $253.4 million from the revised estimate for FY 2015-16. Baseline GF/GP revenue is expected to increase 3.4%. The initial GF/GP revenue estimates for FY 2016-17 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $12.5 billion in FY 2016-17, an increase of $320.4 million, or 2.6%, from the revised estimate for FY 2015-16. The forecasted increase in SAF revenue reflects growth in all major earmarked revenue sources, plus growth in the lottery. The initial SAF revenue estimates for FY 2016-17 are summarized in Table 6.

Table 6

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

	FY 2015-16 Revised Est.	FY 2016-17 Revised Est.	Change from FY 2015-16 Dollar Change	Change from FY 2015-16 Percent Change	$ Change from 01/15 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$10,856.8	$11,225.3	$368.5	3.4%	$203.5
Tax Changes Not In Baseline	(948.9)	(1,064.0)	(115.1)	---	(42.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	10,798.7	11,140.4	341.7	3.2	84.0
Less: Refunds	(1,801.0)	(1,843.0)	(42.0)	2.3	127.0
Net Income Tax Collections	8,997.7	9,297.4	299.7	3.3	211.0
Less: Earmarking to SAF	(2,571.1)	(2,647.2)	(76.1)	3.0	(14.7)
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$6,425.8	$6,649.4	$223.6	3.5%	$196.3
Other Taxes					
Corporate Income Tax	1,126.7	1,160.7	34.0	3.0	154.0
Michigan Business Tax	(891.0)	(732.3)	158.7	(17.8)	(85.4)
Sales	1,212.3	1,256.5	44.2	3.6	(50.8)
Use	884.2	639.5	(244.7)	(27.7)	(16.7)
Cigarette	183.1	180.6	(2.5)	(1.4)	6.2
Insurance Company Premiums	378.0	391.0	13.0	3.4	(46.0)
Telephone & Telegraph	46.0	44.6	(1.4)	(3.0)	0.0
Oil & Gas Severance	31.5	36.0	4.5	14.3	(25.0)
All Other	150.5	185.4	34.9	23.2	24.6
Subtotal Other Taxes	$3,121.3	$3,162.0	$40.7	1.3%	($39.1)
Total Nontax Revenue	360.8	349.9	(10.9)	(3.0)	3.5
GF/GP REV. AFTER TAX CHANGES	**$9,907.9**	**$10,161.3**	**$253.4**	**2.6%**	**$160.7**
SCHOOL AID FUND:					
Baseline Revenue	$12,169.5	$12,500.8	$331.3	2.7%	($213.1)
Tax Changes Not In Baseline	(20.9)	(31.8)	(10.9)	---	41.2
Revenue After Tax Changes					
Sales Tax	5,578.7	5,749.0	170.3	3.1	(200.3)
Use Tax	490.2	510.1	19.9	4.1	(8.3)
Lottery Revenue	800.0	805.0	5.0	0.6	23.0
State Education Property Tax	1,856.9	1,896.4	39.5	2.1	(28.0)
Real Estate Transfer Tax	268.7	280.5	11.8	4.4	10.2
Income Tax	2,567.4	2,647.2	79.8	3.1	14.7
Casino Tax	113.5	115.5	2.0	1.8	0.0
Other Revenue	473.2	465.3	(7.9)	(1.7)	16.8
SAF REV. AFTER TAX CHANGES	**$12,148.6**	**$12,469.0**	**$320.4**	**2.6%**	**($171.9)**
BASELINE GF/GP AND SAF	$23,026.3	$23,726.1	$699.8	3.0%	($9.6)
Tax & Revenue Changes	(969.8)	(1,095.8)	(126.0)	---	(1.5)
GF/GP & SAF REV. AFTER CHNGS	**$22,056.5**	**$22,630.3**	**$573.8**	**2.6%**	**($11.1)**
SALES TAX	$7,668.7	$7,910.3	$241.6	3.2%	($273.2)

Note: FY 2013-14 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2014-15 THROUGH FY 2016-17

Individual Income Tax. Income tax revenue is increasing substantially in FY 2014-15 from the level in FY 2013-14, which was depressed by shifts of income from FY 2013-14 to FY 2012-13 on a one-time basis due to the Federal "fiscal cliff" of 2012. As State revenue collections return to more typical levels and employment increases, individual income tax revenue is estimated to increase 9.2% in FY 2014-15, 2.8% in FY 2015-16, and 3.3% in FY 2016-17. Compared with January 2015 consensus revenue estimates, the revised individual income tax estimate for FY 2014-15 is up $353.0 million and the revised estimate for FY 2015-16 is up $278.0 million. These changes in income tax revenue will affect both GF/GP revenue and SAF revenue. The School Aid Fund receives 23.8% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds), as well as payments for the homestead property tax credit and the earned income tax credit (both of which were reduced substantially by the tax reform legislation enacted in 2011).

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 through FY 2016-17, the increases are predicted to remain below those experienced in a typical economic recovery and sales tax collections to date in FY 2014-15 are weaker than previously forecast. As a result, sales tax revenue will total an estimated $7.4 billion in FY 2014-15, which is 1.0% above the level in FY 2013-14 (which is below the 3.5% growth expected under the January 2015 consensus estimates). Sales tax collections are expected to exceed the projected rate of inflation, rising 3.3% in FY 2015-16, to $7.7 billion, and 3.0% in FY 2016-17, to $7.9 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 2015 consensus revenue estimates, the revised sales tax estimate for FY 2014-15 is $182.0 million lower and the revised estimate for FY 2015-16 is down $225.0 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes only constitutional revenue sharing; to reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report.

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 growth has slowed to 0.1% in FY 2014-15 and several factors will reduce use tax revenue dramatically in future years. As interest rates rise later in the forecast period and make business investment more expensive, the growth rate of the use tax will slow. Two major use tax refunds will reduce revenue by $18.0 million in FY 2014-15. Most significantly, beginning in FY 2015-16, the implementation of personal property tax reforms approved by the voters in August 2014 will reduce State use tax revenue. The personal property tax reforms will divide use tax collections into a State share and a local community stabilization share; under Public Act 80 of 2014, the local share will be levied by the Local Community Stabilization Authority to reimburse municipalities for eligible revenue losses attributable to the exemption of personal property from property taxes. Use tax receipts will total an estimated $1.4 billion in FY 2014-15, an increase of 0.1% from FY 2013-14; just under $1.4 billion in FY 2015-16, a decrease of 1.3%; and $1.1 billion in FY 2016-17, a decrease of 16.4%. Compared with the January 2015 consensus revenue estimates, the FY 2014-15 estimate for use tax collections has been revised downward by $56.0 million, the FY 2015-16 estimate is down $32.0 million, and the revised FY 2016-17 estimate is down $25.0 million. Currently, the GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF. This will change beginning in FY 2015-16 when the SAF will still receive one-third of total use tax revenue, but what was formerly the GF/GP share will be divided between the State General Fund and the Local Community Stabilization Authority. Payments to the Local Community Stabilization Authority start at $96.1 million in FY 2015-16, rise to $380.6 million in FY 2016-17, and increase annually to over $500.0 million in FY 2021-22.

Tobacco Taxes. Collections from the cigarette and other tobacco products taxes will total an estimated $931.4 million in FY 2014-15, a decrease of 1.0% from FY 2013-14. In FY 2015-16, tobacco tax revenue is expected to decline another 0.4%, to $927.3 million, before falling 1.4% in FY 2016-17, to $914.5 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. Tobacco tax collections also will be reduced by the reimbursement of costs related to the transition from paper to digital tax stamps. The reimbursements to the distribution firms that apply the tax stamps include the cost of stamping machines under the original legislation, Public Act 298 of 2014, and the cost of case-packing equipment, which was added by Public Act 298 of 2014. In addition, $3.0 million of the former GF/GP share of the tobacco tax will be transferred to the Michigan State Capitol Historic Site Fund for operation, maintenance, and restoration of the State Capitol Building and grounds pursuant to Public Act 272 of 2014. These tobacco tax changes will reduce collections by $4.0 million in FY 2014-15 ($0.8 million reduction in GF/GP revenue, $1.7 million reduction in SAF revenue, and $1.5 million reduction in other funds). The reduction will decline to $1.4 million in FY 2015-16 as the reimbursements for the switch to digital stamping are completed.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. As the economy continues to improve and the novelty of the Ohio casinos opened in 2013 declines, casino tax revenue will increase after two years of declines. Casino tax revenue is expected to recover in FY 2014-15, rising 3.8% to $111.0 million. Growth is expected to continue in the subsequent years, with projected increases in the casino tax revenue of 2.3% in FY 2015-16 and 1.8% in FY 2016-17.

State Education Property Tax. Weakness in the housing sector drove State Education Tax (SET) revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in modest growth in this tax beginning in FY 2013-14. Although the housing market is expected to continue to improve, the phase-in of tax policy changes that exempt personal property from taxation will reduce revenue by $10.0 million in FY 2014-15, $20.9 million in FY 2015-16, and $21.1 million in FY 2016-17. State Education Tax revenue is expected to increase 1.3% in FY 2014-15, 1.6% in FY 2015-16, and 2.1% in FY 2016-17. In FY 2016-17, SET revenue will remain $231.1 million (10.9%) below the peak level in FY 2002-03. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Lottery. Net lottery revenue is expected to increase during the forecast period due to the expansion of iLottery and the introduction of new games. Lottery revenue is expected to increase 6.9% in FY 2014-15, to $785.0 million, and 1.9% in FY 2015-16, to $800.0 million. Growth of 0.6% (net revenue of $805.0 million) is forecast for FY 2016-17. 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 Corporate Income Tax (CIT), which generates about 40% as much revenue as the State received under the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs) do not pay any separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments largely attributable to these credits. The CIT is expected to grow over the forecast period, as profits improve, although the CIT is expected to be a substantially more volatile tax than the MBT.

According to the Michigan Strategic Fund, the methodology used to estimate the value of the MBT credits in future years has been revised to more accurately reflect the impact of projected wage levels on the amount of the credits. The revisions increased the value of the credits that may be claimed from a 2011 estimate of $4.9 billion to a current estimate of $9.5 billion. A portion of that total will be claimed over the current forecast period. Michigan Business Tax credits are projected to reduce State revenue by $729.0 million in FY 2014-15, $895.0 million in FY 2015-16, and $736.0 million in FY 2016-17.

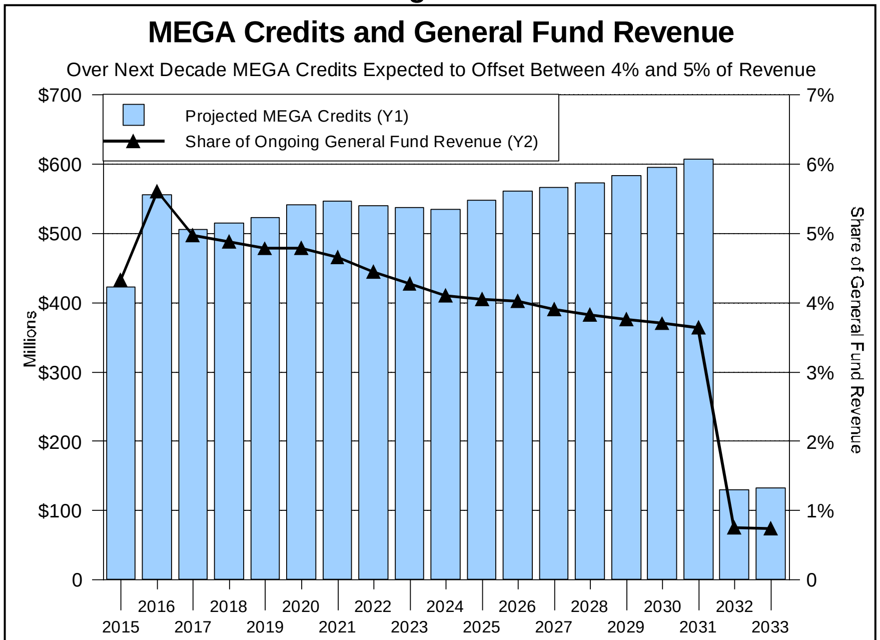
The MBT credit estimates are based on determinations by the Michigan Strategic Fund agency and the Department of Treasury on the status of outstanding credits. However, a number of factors subject these estimates to some level of uncertainty. Although no new credits are being awarded, the Michigan Strategic Fund board from time to time amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although in some cases the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates, particularly because these factors have little to no relationship with economic fundamentals.

Because of the magnitude of these MBT credits, their unpredictable nature can result in large swings in General Fund revenue. A significant portion of the MBT credits that will be claimed in future years includes credits approved by the Michigan Economic Growth Authority (MEGA). In FY 2013-14, MBT credits reduced General Fund revenue by $807.3 million, or approximately 11.2% of General Fund revenue. Under the current forecast, MEGA credits alone represent as much as 5.6% of General Fund revenue in FY 2015-16 and will continue to represent a significant offset to General Fund revenue through FY 2030-31 (Figure 22).

Other tax policy changes also have affected business tax revenue. 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 became effective in FY 2013-14, are estimated to reduce CIT revenue by $31.0 million in FY 2014-15, $32.4 million in FY 2015-16, and $33.0 million in FY 2016-17.

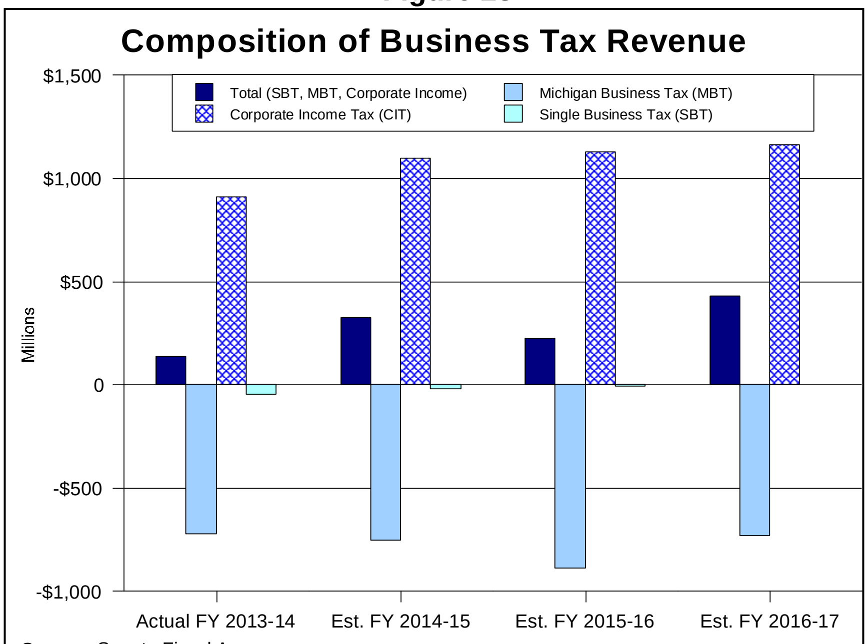
Corporate Income Tax revenue is projected to grow by 21.1% in FY 2014-15, which reflects strong collections to date; however, negative MBT revenue is expected to offset 68.6% of CIT revenue in FY 2014-15, 79.1% in FY 2015-16, and 63.1% in FY 2016-17 (Figure 23). In FY 2013-14, negative MBT revenue offset 79.8% of CIT collections. The strong pro-cyclical growth in CIT revenue during FY 2014-15 will result in net business tax revenue from the MBT, CIT, and SBT rising from $137.6 million in FY 2013-14, to $324.8 million FY 2014-15. The revised estimate for net business taxes in FY 2015-16 is even lower at $225.7 million. Net revenue from business taxes (the MBT and CIT plus remaining refunds under the SBT) is projected to increase in FY 2016-17 to $428.4 million. All tax revenue from the CIT, MBT and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 22



Source: Senate Fiscal Agency. **Note:** In graph, after FY 2016-17 GF revenue is estimated to grow 3.6% per year.

Figure 23



Source: Senate Fiscal Agency

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 not only that the economy likely will deviate from trends over this period, but also that 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 2017-18 and FY 2018-19, net GF/GP revenue is expected to increase 4.5% in FY 2017-18, to $10.6 billion, while SAF revenue will increase 3.5%, to $12.9 billion. In FY 2018-19, net GF/GP revenue is expected to increase 3.5%, to $11.0 billion, while SAF revenue will increase 3.7%, to $13.4 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 2014-15, FY 2015-16, and FY 2016-17. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2014-15, FY 2015-16, and FY 2016-17 have been adjusted to reflect a common base year.

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 7. This estimate was increased by $420.6 million at the January 2013 Consensus Revenue Estimating Conference, and then increased again by $319.3 million at the May 2013 Consensus Revenue Estimating Conference. The January 2014 consensus conference increased the estimate by $157.9 million; then the May 2014 consensus estimate decreased by $252.1 million. The January 2015 consensus estimate was up $40.4 million. The Senate Fiscal Agency's revised estimate for FY 2014-15 presented in this report increases the baseline estimate by $223.5 million above the January 2015 consensus estimate, to $21.3 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2015-16 was made in December 2013, as shown in Table 8. At that time, baseline revenue in FY 2015-16 was estimated at $22.3 billion. This estimate was decreased by $177.5 million at the January 2014 Consensus Revenue Estimating Conference, and decreased another $308.7 million at the May 2014 Consensus Revenue Estimating Conference. The January 2015 Consensus Revenue Estimating Conference decreased the estimate by another $16.2 million. The Senate Fiscal Agency's revised estimate for FY 2015-16 presented in this report increases the baseline estimate by $76.0 million above the January 2015 consensus estimate, to $21.9 billion.

The initial baseline GF/GP and SAF estimate for FY 2016-17 was made in December 2014. At that time, the SFA estimated combined baseline GF/GP and SAF revenue of $22.3 billion in FY 2016-17. The January 2015 Consensus Revenue Estimating Conference increased that estimate by $281.2 million. The Senate Fiscal Agency's revised estimate for FY 2016-17 presented in this report increases the baseline estimate by $12.6 million above the January 2015 consensus estimate, to $22.6 billion as shown in Table 9.

Table 7

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2014-15
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 28, 2012	$8,779.6	$11,629.9	$20,409.5
January 11, 2013 [a)]	9,044.4	11,785.7	20,830.1
May 13, 2013	9,150.2	11,803.0	20,953.2
May 15, 2013 [a)]	9,319.6	11,829.8	21,149.4
December 19, 2013	9,505.0	11,993.3	21,498.3
January 10, 2014 [a)]	9,371.1	11,936.2	21,307.3
May 13, 2014	9,145.6	11,891.4	21,037.0
May 15, 2014 [a)]	9,154.3	11,900.9	21,055.2
December 19, 2014	9,074.0	11,937.0	21,011.0
January 16, 2015 [a)]	9,146.2	11,949.4	21,095.6
May 8, 2015	9,432.4	11,886.6	21,319.0
Change From Previous Estimate:			
Dollar Change	$286.3	($62.8)	$223.5
Percent Change	3.1%	(0.5%)	1.1%
Change From Initial Estimate:			
Dollar Change	$652.9	$256.7	$909.6
Percent Change	7.4%	2.2%	4.5%

a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

Table 8

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2015-16
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 19, 2013	$9,946.3	$12,394.9	$22,341.2
January 10, 2014 [a)]	9,826.3	12,337.4	22,163.7
May 13, 2014	9,547.0	12,263.0	21,810.0
May 15, 2014 [a)]	9,553.1	12,301.9	21,855.0
December 19, 2014	9,367.3	12,301.7	21,669.0
January 16, 2015 [a)]	9,509.0	12,329.8	21,838.8
May 8, 2015	9,745.2	12,169.5	21,914.7
Change From Previous Estimate:			
Dollar Change	$236.3	($160.3)	$76.0
Percent Change	2.5%	(1.3%)	0.3%
Change From Initial Estimate:			
Dollar Change	($201.1)	($225.4)	($426.5)
Percent Change	(2.0%)	(1.8%)	(1.9%)

a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

Table 9

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

Forecast Date	GF/GP	SAF	Total
December 19, 2014	$9,651.2	$12,636.8	$22,288.0
January 16, 2015 [a]	9,855.3	12,713.9	22,569.2
May 8, 2015	10,080.9	12,500.8	22,581.7
Change From Previous Estimate:			
Dollar Change	$225.7	($213.1)	$12.6
Percent Change	2.3%	(1.7%)	0.1%
Change From Initial Estimate:			
Dollar Change	$429.7	($136.0)	$293.7
Percent Change	4.5%	(1.1%)	1.3%

[a] Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

BUDGET
STABILIZATION FUND

BUDGET STABILIZATION FUND

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

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments (e.g., Social Security income, Medicaid benefits, and worker's compensation) and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total GF/GP revenue. The statute (MCL 18.1354(4)) also provides for all unreserved GF/GP balances at the close of the fiscal year to be transferred to the BSF, although an appropriation is required in order for the transfer to occur.

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

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

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

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

million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the Detroit bankruptcy. At the same time, an amendment to the Michigan Trust Fund Act was enacted to require the deposit of $17.5 million from tobacco settlement revenue to the BSF annually for the 21 years from FY 2014-15 through FY 2034-35 to repay that transfer.

Table 10 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2013-14. Also presented in this table are the SFA's estimates for FY 2014-15, FY 2015-16, and FY 2016-17. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 24, and the estimated economic stabilization trigger calculations for FY 2014-15, FY 2015-16, and FY 2016-17 are presented in Table 11.

FY 2014-15, FY 2015-16, and FY 2016-17

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the statutory formula triggers payments into the Fund in FY 2014-15, FY 2015-16, and FY 2016-17.

In FY 2014-15, two deposits to the BSF have been enacted already. The annual budget (Public Act 252 of 2014) appropriated $94.0 million to the BSF in FY 2014-15. In addition, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5 million of tobacco settlement revenue in the BSF annually from FY 2014-15 through FY 2034-35 to reimburse the BSF for the payment to the Detroit retirement systems. Based on growth in inflation-adjusted personal income, under the statutory formula, the deposit to the BSF, if appropriated by the Legislature, would be $69.1 million in FY 2014-15. The $111.5 million already appropriated to the BSF in FY 2014-15 is $42.4 million more than the formula deposit.

The pay-in to the BSF is estimated at $209.4 million in FY 2015-16 and $121.0 million in FY 2016-17. A deposit of $17.5 million each year already is required under the Trust Fund Act. The additional payments to the BSF, if appropriated by the Legislature, are estimated at $191.9 million in FY 2015-16 and $103.5 million in FY 2016-17.

If the additional formula deposits are appropriated, the year-end balance in the BSF is estimated at $498.3 million in FY 2014-15, $709.2 million in FY 2015-16, and $834.5 million in FY 2016-17, as show in Table 10. If the additional formula deposits are not appropriated, the year-end Fund balances are estimated at $517.3 million in FY 2015-16, and $537.9 million in FY 2016-17.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1998-99 TO FY 2016-17 ESTIMATE
(Millions of Dollars)

Fiscal Year[a)]	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
2013-14[b)]	75.0	0.4	194.8	386.2
Senate Fiscal Agency estimates:				
2014-15[c)]	$111.5	$0.6	$0.0	$498.3
2015-16[d)]	209.4	1.5	0.0	709.2
2016-17[e)]	121.0	4.3	0.0	834.5

a) For FY 1998-99 to FY 2013-14 the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FY 2014-15 includes enacted legislation and estimated interest earnings. FY 2015-16 and FY 2016-17 show the calculated total pay-in, pay-out, and interest earnings.

b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out was the transfer of $194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.

c) The estimated pay-in is $69.1 million in FY 2014-15. However, pay-ins that total $111.5 million in FY 2014-15 have already been appropriated. PA 252 of 2014 appropriated $94.0 million to the BSF in FY 2014-15 and PA 186 of 2014 requires the deposit of $17.5 million of tobacco settlement revenue to the BSF as the first repayment of the withdrawal related to the Detroit bankruptcy. The current appropriations exceed the formula pay-in by $42.4 million.

d) There is a difference of $191.9 million between the estimated pay-in of $209.4 million in FY 2015-16 and the $17.5 million deposit required by PA 186 of 2014.

e) There is a difference of $103.5 million between the estimated pay-in and the $17.5 million required by PA 186 of 2014.

Figure 24

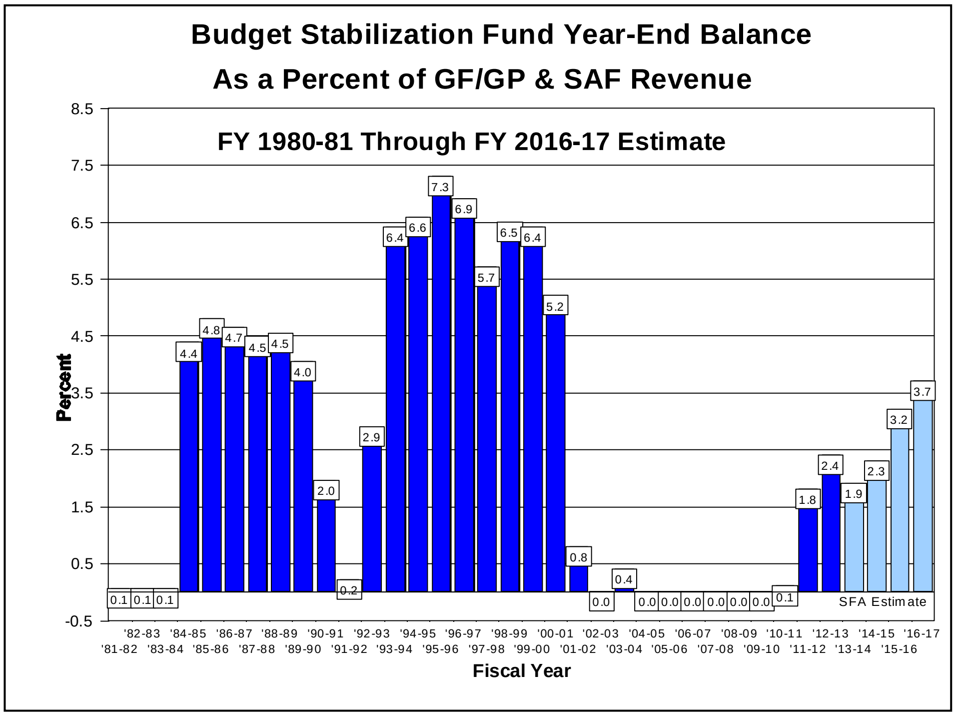


Table 11

ESTIMATED BUDGET STABILIZATION FUND TRIGGERS
FY 2014-15, FY 2015-16, and FY 2016-17
(Millions of Dollars)

	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017
Michigan Personal Income (MPI)	$386,471	$402,755	$420,517	$439,088	$456,374
Less: Transfer Payments	83,546	87,480	92,383	96,760	101,390
Subtotal	$302,925	$315,275	$328,134	$342,328	$354,984
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.182	2.210	2.208	2.232	2.273
Equals: Real Adjusted MPI	$138,835	$142,676	$148,590	$153,376	$156,191
Percent Change from Prior Year		2.77%	4.15%	3.22%	1.84%
Excess Over 2.0%		0.77%	2.15%	1.22%	0.00%
		FY 2013-14	**FY 2014-15**	**FY 2015-16**	**FY 2016-17**
Multiplied by: Estimated GF/GP Revenue		$9,018.5	$9,759.3	$9,907.9	$10,161.3
Equals: Transfer to the BSF			$69.1	$209.4	$121.0
OR Transfer from the BSF			$0.0	$0.0	$0.0

Note: Numbers may not add due to rounding. Table includes only projected deposits and withdrawals pursuant to MCL 18.1354. All deposits to and withdrawals from the BSF require appropriation by the Legislature.
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. Revenue remained substantially below the limit for FY 2008-09 through FY 2012-13. The largest historical gap between revenue and the limit occurred in FY 2013-14, when State revenue was $8.9 billion below the cap. 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 2014-15, FY 2015-16, and FY 2016-17, with the amount that State revenue is below the limit forecast to increase to nearly $10.0 billion in FY 2016-17.

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 (e.g., Social Security income and Medicaid benefits). It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the U.S. Department of Commerce's Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revenue estimates for FY 2014-15, FY 2015-16, and FY 2016-17, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 25. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2014-15

The U.S. Department of Commerce Bureau of Economic Analysis (BEA) estimate for Michigan personal income during 2013 equals $386.5 billion, which results in a revenue limit equal to $36.7 billion in FY 2014-15. This is an increase of $489.4 million in the revenue limit. Based on the SFA's revised revenue estimates for FY 2014-15, revenue subject to the revenue limit will equal an estimated $28.6 billion, which is an increase of $1.3 billion from FY 2013-14. Revenue subject to the revenue limit will fall below the limit by an estimated $8.1 billion, or 22.1%, in FY 2014-15. Revenue subject to the limit is estimated to increase 4.7**%** in FY 2014-15, compared with the 1.4% increase in personal income during 2013. With revenue growth higher than increases in personal income, the amount by which the State is under the revenue limit declines.

FY 2015-16

The BEA preliminary report of Michigan personal income is $401.9 billion in 2014, and as a result, the revenue limit will equal $38.1 billion in FY 2015-16, an increase of $1.5 billion over FY 2014-15. Based on the SFA's initial revenue estimates for FY 2015-16, revenue subject to the revenue limit will equal an estimated $29.2 billion. State revenue subject to the revenue limit will be below the limit by an estimated $8.9 billion, or 23.4%, in FY 2015-16. Personal income is projected to grow 4.0% in calendar year 2014, which is a higher growth rate than the 2.2% increase expected in revenue subject to the revenue limit in FY 2015-16; thus, the amount by which the State is under the revenue limit increases in FY 2015-16.

FY 2016-17

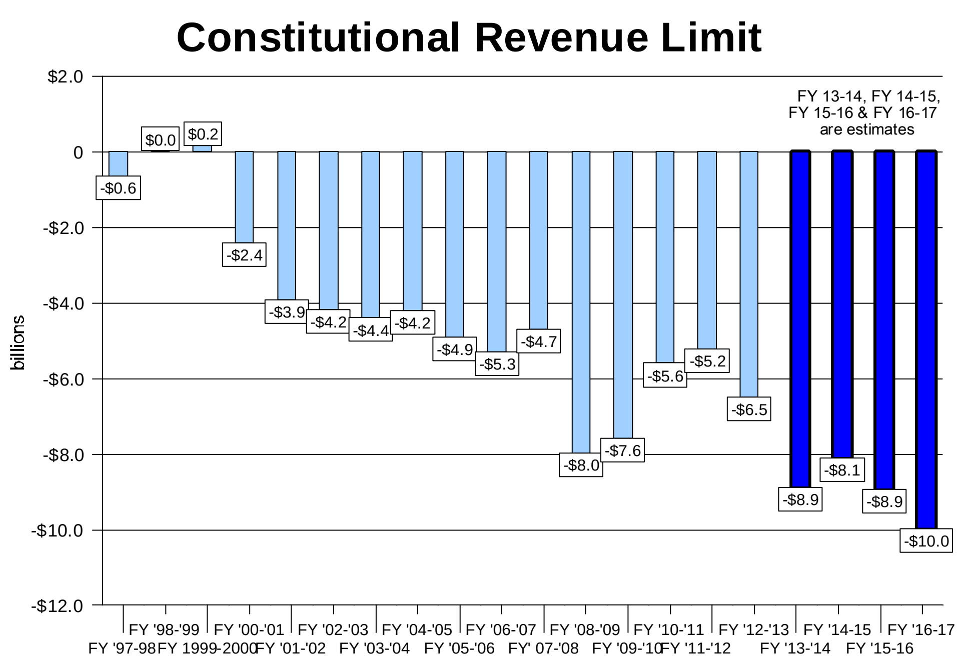
The Senate Fiscal Agency estimates that personal income in Michigan during 2015 will equal $420.5 billion, and as a result, the revenue limit will equal $39.9 billion in FY 2016-17. Based on the SFA's revenue estimates for FY 2016-17, revenue subject to the revenue limit will equal an estimated $30.0 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $10.0 billion, or 24.9%, in FY 2016-17. The loss of use tax revenue due to personal property tax reform largely accounts for the significant increase in the amount by which State revenue is projected to be below the limit in FY 2016-17.

Table 12

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION FY 2012-13 THROUGH FY 2016-17 (Millions of Dollars)	FY 2012-13 Final	FY 2013-14 Estimate	FY 2014-15 Estimate	FY 2015-16 Estimate	FY 2016-17 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$9,957.4	$9,787.6	$10,519.3	$10,856.8	$11,225.3
Constitutional Revenue Sharing (baseline)	722.2	729.9	765.4	782.8	805.9
School Aid Fund (baseline)	11,279.6	11,562.8	11,886.6	12,169.5	12,500.8
Transportation Funds	2,099.7	2,121.7	2,204.3	2,231.5	2,261.0
Other Restricted Non-Federal Aid Revenue	3,809.5	3,923.8	4,041.5	4,162.7	4,287.6
Adjustments:					
GF/GP Federal Aid	(22.5)	(30.9)	(30.0)	(30.0)	(30.0)
GF/GP Balance Sheet Adjustments	(394.9)	(769.1)	(760.0)	(948.9)	(1,064.0)
SAF Balance Sheet Adjustments	(10.0)	(42.3)	(66.0)	(20.9)	(31.8)
Total Revenue Subject to Limit	**$27,441.0**	**$27,283.5**	**$28,561.1**	**$29,203.5**	**$29,954.8**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2011**	**CY 2012**	**CY 2013**	**CY 2014**	**CY 2015**
Amount	$358,152	$381,314	$386,471	$401,901	$420,517
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$33,988.6	$36,186.7	$36,676.1	$38,140.4	$39,907.1
1.0% of Limit	339.9	361.9	366.8	381.4	399.1
Amount Under (Over) Limit	$6,547.6	$8,903.3	$8,115.0	$8,936.8	$9,952.2
Percent Below Limit	19.3%	24.6%	22.1%	23.4%	24.9%

CY = Calendar Year; FY = Fiscal Year

Figure 25



Source: Department of Technology, Management, and Budget, and Senate Fiscal Agency estimates.

ESTIMATE OF
YEAR-END BALANCES

ESTIMATES 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 2014-15, FY 2015-16, and FY 2016-17 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 some of the issues the members of the Legislature will face as they attempt to complete action on the FY 2015-16 State budget.

On February 11, 2015, Governor Rick Snyder presented his FY 2015-16 and FY 2016-17 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 16, 2015; fee adjustments of $451.5 million; and passage of legislation that would increase the Health Insurance Claims Assessment (HICA) rate from 0.75% to 1.3%, to achieve estimated GF/GP savings of $180.1 million. The Governor also proposed to deposit $95.0 million of GF/GP revenue into the Budget Stabilization Fund. The Governor's FY 2015-16 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2015-16 State budget to the Legislature in February 2015, 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 overall levels assumed at the January 2015 Consensus Revenue Estimating Conference. However, estimates of State personal income tax revenue appear to have been understated while Michigan sales tax revenue appears to have been overstated in January. This results in a net increase from January to May in the estimates of FY 2014-15, FY 2015-16, and FY 2016-17 GF/GP revenue. Conversely, the SFA is estimating a decrease in SAF revenue from the January 2015 consensus for FY 2014-15, FY 2015-16, and FY 2016-17.

Table 13 provides a summary of the SFA's estimates of the FY 2014-15, FY 2015-16, and FY 2016-17 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 enacted and projected State appropriations, the FY 2014-15 GF/GP budget will have a surplus of $242.5 million and the SAF budget will have a surplus of $77.7 million. Based on current SFA revenue estimates that do not include the Governor's proposed HICA changes, along with Senate-passed State appropriations and SFA estimates of caseload adjustments, the FY 2015-16 GF/GP budget will have a surplus of $455.9 million and the SAF budget will have a deficit of $167.4 million. A comparison of the SFA's estimate of FY 2016-17 GF/GP revenue with FY 2016-17 GF/GP appropriations estimated at the FY 2016-17 Governor's recommended level for ongoing appropriations, the Senate-passed level for one-time appropriations, and adjusted Senate caseload estimates, leads to a projected $485.2 million GF/GP budget surplus. A comparison of the SFA's estimate of FY 2016-17 SAF revenue and SAF expenditures, points to a projected $55.1 million SAF deficit. The FY 2016-17 SAF projected budget balance assumes that the FY 2015-16 projected year-end negative SAF balance is brought to zero.

Table 13

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)

	FY 2014-15 Estimate	FY 2015-16 Estimate	FY 2016-17 Estimate
General Fund/General Purpose	$242.5	$455.9	$485.2
School Aid Fund	$77.7	($167.4)	($55.1)

FY 2014-15 YEAR-END BALANCE ESTIMATES

During June 2014, the Michigan Legislature approved FY 2014-15 GF/GP and SAF budgets that were balanced between estimated revenue and enacted appropriations. The initial FY 2014-15 budget approved by the Legislature was based on a May 2014 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2015 reflected a decrease of over $300.0 million in GF/GP revenue, with SAF revenue remaining stable. In order to bring the FY 2014-15 GF/GP budget back into balance, Executive Order 2015-5 and two negative supplemental bills (Public Acts 5 and 6 of 2015) were enacted. The current SFA revenue estimates, which result in an increase in GF/GP revenue and a decrease in SAF revenue from the January 2015 consensus, still produce an FY 2014-15 surplus in both the GF/GP and SAF budgets of $242.5 million and $77.7 million, respectively. 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 2015-16 budgets proposed by the Governor and the Legislature.

Column 1 of Table 14 provides the details of the SFA's estimate of a $242.5 million FY 2014-15 GF/GP budget surplus. 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 represents a $740.8 million or 8.2% increase from the final level of FY 2013-14 GF/GP revenue. The May 2015 SFA estimate of current-law GF/GP revenue is up $257.9 million from the January 2015 consensus revenue estimate. The FY 2014-15 estimated GF/GP revenue total of $9.9 billion includes $306.4 million of surplus revenue carried forward from FY 2013-14, negative adjustments of $468.0 million to reflect statutory State revenue sharing payments (both ongoing and one-time), $371.8 million of assumed revenue from the reinstated Medicaid managed care use tax, and a $38.1 million reduction for Venture Michigan Fund tax voucher liabilities.

On the expenditure side of the FY 2014-15 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total $9.7 billion, which includes $94.0 million in GF/GP appropriations to the State's Budget Stabilization Fund.

The projected level of FY 2014-15 GF/GP expenditures reflects a $66.9 million or 0.7% increase from the final level of FY 2013-14 GF/GP expenditures. The projected level of FY 2014-15 GF/GP expenditures includes enacted appropriations that encompass Executive Order 2015-5 and the two budget-reducing supplemental bills, projected caseload and cost estimates in the Departments of Community Health ($14.7 million increase) and Human Services ($1.2 million cost savings), and an estimated year-end lapse amount of $10.3 million.

Column 1 of Table 15 provides a summary of the SFA estimate of a $77.7 million FY 2014-15 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 2014-15 SAF budget ledger, the SFA now believes that current-law SAF revenue will total $11.8 billion. This projected level of SAF revenue represents a $300.1 million or 2.6% increase from the final level of FY 2013-14 SAF revenue. The May 2015 SFA estimate of current-law SAF revenue is $68.5 million below the January 2015 consensus revenue estimate. The FY 2014-15 estimated SAF revenue total of $14.3 billion includes $455.1 million of surplus revenue carried forward from FY 2013-14, $11.8 billion of restricted SAF revenue, a $33.7 million GF/GP grant, $18.0 million from the Michigan Public School Employees Retirement System (MPSERS) Retirement Obligation Reform Reserve Fund, a reduction from Venture Michigan Fund tax vouchers, $185.9 million from the Medicaid managed care use tax, and $1.8 billion of ongoing Federal aid.

On the expenditure side of the FY 2014-15 SAF budget ledger, the SFA now believes that final SAF expenditures will total $14.2 billion. This projected level of FY 2014-15 SAF expenditures reflects an increase of $799.5 million above FY 2013-14 SAF expenditures. The $14.2 billion of projected SAF expenditures includes $13.5 billion of K-12 funding in the original enacted appropriation bill, negative cost adjustments totaling $109.0 million, negative supplemental funding of $89.6 million, a reduction in currently appropriated funds for teacher evaluations, a fund shift between the SAF and the General Fund totaling $171.3 million, and other items. 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 2015-16 YEAR-END BALANCE ESTIMATES

The Legislature has been considering Governor Snyder's FY 2015-16 State budget recommendation since the budget was presented to the Legislature on February 11, 2015. To date, the Senate and House have acted on all of the FY 2015-16 appropriation bills. Using the Senate-passed appropriation bills as the basis of the FY 2015-16 budget, there would be a positive ending balance for the GF/GP budget and a negative ending balance for the SAF budget.

Column 2 of Table 14 provides a summary of the $455.9 million projected year-end balance in the FY 2015-16 GF/GP budget. This projected balance is based on the FY 2014-15 projected year-end balance carry-forward, the SFA estimate of current-law revenue, revenue adjustments that are part of the Senate-passed appropriation bills, and the Senate-passed appropriation levels. The Senate-passed budget does not include additional HICA revenue of $180.1 million recommended by the Governor.

On the revenue side of the FY 2015-16 GF/GP budget ledger, the SFA now believes that current-law GF/GP revenue will total $9.9 billion. This projected level of FY 2015-16 GF/GP revenue reflects a $148.6 million or 1.5% increase from the estimated level of FY 2014-15 GF/GP revenue. The May 2015 SFA estimate of current-law revenue represents a $194.7 million increase from the January 2015 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include statutory revenue sharing payments of $462.7 million, which reduce GF/GP revenue by that amount. The FY 2015-16 estimated GF/GP revenue total of $9.9 billion does not assume enactment of the Governor's proposal to increase the HICA rate from 0.75% to 1.3%, but does include $427.7 million of revenue from the use tax on Medicaid managed care health services. Due to the greater Medicaid managed care use tax amount, the cap on total HICA and net use tax would be exceeded by an additional $18.0 million, triggering HICA credits that would increase GF/GP costs in the Department of Community Health. The total estimated GF/GP revenue also reflects $242.5 million of surplus GF/GP revenue carried forward from FY 2014-15, the shift of $2.0 million in short-term borrowing costs to the School Aid Fund, and $38.1 million for Venture Michigan Fund tax voucher liabilities.

The Senate-passed appropriation bills provide total GF/GP appropriations of $9.6 billion. The Senate includes sufficient revenue in the Transportation budget to meet Federal match requirements ($139.5 million), and removes prior-year GF/GP support of an additional $145.1 million. Based on revised SFA estimates, caseload and cost adjustments in the Departments of Community Health ($27.1 million cost) and Human Services ($12.3 million savings) will increase GF/GP appropriations by $14.9 million.

The Senate-passed budget includes $50.0 million of the Governor's proposed $95.0 million GF/GP appropriation to the State's Budget Stabilization Fund. Table 16 provides a summary of the Governor's FY 2015-16 Adjusted Gross and GF/GP budget recommendations compared with the Senate-passed appropriation bills. The Senate-passed appropriation bills are $24.1 million Adjusted Gross below the Governor's recommendations and $15.1 million above the Governor's GF/GP recommendations.

The FY 2015-16 GF/GP balance sheet based on the Senate-passed appropriation bills indicates a projected ending balance of $455.9 million.

Column 2 of Table 15 provides the details of the SFA estimate of a negative $167.4 million balance in the FY 2015-16 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue, assumed revenue from the Medicaid managed care use tax, and the Senate-passed K-12 School Aid, Community Colleges, and Higher Education appropriation bills.

On the revenue side of the FY 2015-16 SAF budget, the SFA now believes that current-law SAF revenue will total $12.1 billion. This projected level of FY 2015-16 SAF revenue is $328.0 million or 2.8% above the estimated level of FY 2014-15 SAF revenue. The May 2015 SFA estimate of restricted SAF revenue represents a $115.1 million decrease from the January 2015 consensus revenue estimate. The estimate of total SAF revenue of $14.2 billion includes $77.7 million of surplus SAF revenue carried forward from FY 2014-15, a $41.7 million GF/GP grant to the SAF budget, $1.8 billion of ongoing Federal aid, a reduction from Venture Michigan Fund tax vouchers, and assumed additional revenue from the Medicaid managed care use tax totaling $213.9 million.

On the expenditure side of the FY 2015-16 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals $13.9 billion. The SFA estimates that there will be $32.0 million of negative FY 2015-16 formula funding cost adjustments as a result of revised pupil and taxable value estimates. The FY 2015-16 Senate-passed K-12 appropriation bill does not include the Governor's recommendation for gang prevention grants, and reduces the Governor's recommended $75.0 million for deficit districts to $8.9 million. The money freed up by that reduction, in addition to dollars reduced in the current year for teacher evaluations, was used to increase the per-pupil foundation allowance by $100 for the minimum and $50 for the basic, with a net no-loss guarantee once the elimination and reduction of other categoricals is calculated. The Senate budget increases funding for career and technical education (CTE) and adult education, as well as newly funding CTE middle colleges and early literacy programs, and concurs in the Governor's recommendation to increase At Risk program dollars by $100.0 million. The Senate funds MPSERS rate cap cost increases at $216.6 million for the K-12 budget, with proportionate increases for Community Colleges and Higher Education. In total, more than $1.0 billion is appropriated to support MPSERS-related costs in FY 2015-16.

The Senate's SAF balance sheet also reflects the continued use of SAF revenue to partially support the Community Colleges and Higher Education budgets. In the Senate-passed version of the Community Colleges budget, the SAF allocation for FY 2015-16 was reduced by $93.6 million from the current year, with $271.1 million SAF allocated to support community colleges. The SAF allocation in the Higher Education budget for FY 2015-16 is $1.3 million lower than for FY 2014-15, with a total SAF allocation of $205.2 million. Across the two budgets, SAF support of postsecondary purposes totals $476.3 million for FY 2015-16 under the Senate-passed budgets.

FY 2016-17 BUDGET OUTLOOK

When Governor Snyder presented his FY 2015-16 budget on February 11, 2015, he also proposed anticipated appropriations for FY 2016-17. The FY 2015-16 appropriation bills passed by the House and the Senate include references to anticipated FY 2016-17 appropriations, which are only expressions of an intent to appropriate those funds for FY 2016-17.

Column 3 of Table 14 provides a summary of the $485.2 million projected year-end balance in the FY 2016-17 GF/GP budget. This projected balance is based on carrying forward all of the $455.9 million balance from FY 2015-16, the SFA estimate of current-law revenue, ongoing appropriations at the Governor's FY 2016-17 recommended level adjusted for the current policy on HICA, one-time appropriations continued at the FY 2015-16 Senate-passed level, and revised caseload and cost estimates for the Departments of Community Health and Human Services.

On the revenue side of the FY 2016-17 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 2016-17 revenue reflects a $253.4 million or 2.6% increase from estimated current-law GF/GP revenue for FY 2015-16. The May 2015 SFA estimate of current-law GF/GP revenue represents an increase of $160.7 million from the January 2015 consensus revenue estimate. The FY 2016-17 estimated GF/GP revenue total of $10.2 billion assumes a beginning balance of $455.9 million carried forward from FY 2015-16, the same $462.7 million GF/GP cost for statutory State Revenue Sharing payments as in FY 2015-16, $106.9 million in Medicaid managed care use tax revenue (which is expected to sunset on January 1, 2017), the shift of $3.0 million in short-term borrowing costs to the School Aid Fund, and $30.5 million for the last year of a three-year payment plan for Venture Michigan Fund tax voucher liabilities.

On the expenditure side of the FY 2016-17 GF/GP budget ledger, if the Governor's FY 2016-17 ongoing appropriation level of $9.3 billion is assumed (adjusted by $100.6 million to reflect current HICA policy) along with the continuation of the Senate's FY 2015-16 $266.2 million of one-time appropriations, adjusted for caseload and cost adjustments of $15.8 million for the Departments of Community Health ($27.1 million increase) and Human Services ($11.3 million savings) and $35.0 million of increased GF/GP HICA credit costs, then total FY 2016-17 GF/GP expenditures are estimated to be $9.7 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of $485.2 million.

Column 3 of Table 15 provides a summary of the negative $55.1 million projected year-end balance in the FY 2016-17 SAF budget. This projected balance is based on a zero starting balance (i.e., the negative balance at the end of FY 2015-16 is resolved before FY 2016-17 begins), the SFA estimate of current-law revenue, the assumed additional revenue from the Medicaid managed care use tax, and the continuation of the FY 2015-16 Senate appropriation levels, adjusted for pupil counts and other costs.

On the revenue side of the FY 2016-17 SAF budget ledger, the SFA now believes that current-law SAF revenue will total $12.5 billion. This projected level of FY 2015-16 SAF revenue reflects a $320.4 million or 2.6% increase from estimated current-law SAF revenue for FY 2015-16. The May 2015 SFA estimate of current-law SAF revenue represents a $171.9 million decrease from the January 2015 consensus revenue estimate. The FY 2016-17 estimated SAF revenue total of $14.3 billion also assumes a GF/GP grant of $57.0 million, $1.8 billion in ongoing Federal aid, and assumed additional revenue from the Medicaid managed care use tax totaling $53.5 million.

On the expenditure side of the FY 2016-17 SAF budget ledger, when the Senate's FY 2015-16 recommendations are continued into FY 2016-17 and adjusted for the MPSERS rate cap, funding formula, and other baseline costs, total FY 2016-17 SAF expenditures are estimated to be $14.4 billion. The Senate's FY 2016-17 SAF budget estimate continues to fund Community Colleges at a higher amount of $278.0 million, and Higher Education, at a higher amount of $205.4 million, from SAF revenue.

Table 14

GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	Senate-Passed		
	FY 2014-15	**FY 2015-16**	**FY 2016-17**
Revenue:			
Beginning Balance	$306.4	$242.5	$455.9
Ongoing Revenue:			
Consensus Revenue Estimate (January 2015)	$9,501.4	$9,713.2	$10,000.6
Senate Fiscal Agency Revenue Estimate Change	257.9	194.7	160.7
Senate Fiscal Agency Revenue Estimate (May 2015)	$9,759.3	$9,907.9	$10,161.3
Other Revenue Adjustments:			
Revenue Sharing Payments	(459.2)	(462.7)	(462.7)
Shift Borrowing Costs to School Aid Fund	0.0	2.0	3.0
Managed Care Use Tax	371.8	427.7	106.9
Subtotal Ongoing Revenue	$9,671.9	$9,874.9	$9,808.5
Non-ongoing Revenue:			
One-Time Appropriation for Revenue Sharing	(8.8)	0.0	0.0
Venture Michigan Fund Tax Vouchers	(38.1)	(38.1)	(30.5)
Total Estimated GF/GP Revenue	**$9,931.4**	**$10,079.3**	**$10,233.9**
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing Appropriations	$9,594.0	$9,324.3	$9,431.7
Subtotal Ongoing Appropriations	$9,594.0	$9,324.3	$9,431.7
One-Time Appropriations:			
Initial One-Time Appropriations	$207.0	$76.7	$76.7
Initial One-Time Appropriations for Transportation	284.6	139.5	139.5
Initial One-Time Appropriation to Budget Stabilization Fund	94.0	50.0	50.0
Enacted Supplementals	32.2	0.0	0.0
Executive Order 2015-5	(106.4)	0.0	0.0
Public Act 5 of 2015-Education Budget Area Reductions	(250.3)	0.0	0.0
Public Act 6 of 2015-General Budget Area Reductions	(169.4)	0.0	0.0
SFA Estimate DHHS Caseload/Cost Adjustments	13.5	14.9	15.8
SFA Estimate of Increase in HICA Credits	0.0	18.0	35.0
Work Project/Other Lapses	(10.3)	0.0	0.0
Subtotal One-Time and Other Appropriations	$94.9	$299.1	$317.0
Total Estimated GF/GP Expenditures	**$9,688.9**	**$9,623.4**	**$9,748.7**
Projected Year-End GF/GP Balance	**$242.5**	**$455.9**	**$485.2**

Note: FY 2016-17 estimates of ongoing appropriations are the Governor's recommendation adjusted by $100.6 million to reflect current HICA policies; estimates of one-time appropriations are the FY 2015-16 Senate-passed amounts.

Table 15

SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	Senate-Passed		
	FY 2014-15	**FY 2015-16**	**FY 2016-17**
Revenue:			
Beginning Balance	$455.1	$77.7	$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2015)	$11,889.1	$12,263.7	$12,640.9
Senate Fiscal Agency Revenue Estimate Change	(68.5)	(115.1)	(171.9)
Senate Fiscal Agency Revenue Estimate (May 2015)	$11,820.6	$12,148.6	$12,469.0
Other Revenue Adjustments:			
MPSERS Reserve Fund	18.0	0.0	0.0
General Fund/General Purpose Grant	33.7	41.7	57.0
Managed Care Use Tax	185.9	213.9	53.5
Federal Ongoing Aid	1,808.2	1,775.8	1,775.8
Subtotal Ongoing Revenue	$13,866.4	$14,180.0	$14,355.3
Non-ongoing Revenue:			
Venture Michigan Fund Tax Vouchers	(11.9)	(11.9)	(9.5)
Total Estimated School Aid Fund Revenue	**$14,309.6**	**$14,245.8**	**$14,345.8**
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	$13,494.1	$13,854.2	$13,944.5
Cost Adjustments (January 2015/May 2015 SFA Estimate)	(109.0)	(32.0)	(27.0)
Partially Fund Community Colleges with School Aid Fund	197.6	271.1	278.0
Partially Fund Higher Education with School Aid Fund	200.5	205.2	205.4
Subtotal Ongoing Appropriations	$13,783.2	$14,298.5	$14,400.9
One-Time Appropriations:			
Initial One-Time K-12 Appropriations	$376.2	$114.7	$0.0
University MPSERS Funding	4.0	0.0	0.0
Public Act 5 of 2015-All SAF for Community Colleges	167.1	0.0	0.0
Public Act 5 of 2015-Libraries/Charters MPSERS	2.2	0.0	0.0
Public Act 5 of 2015-University MPSERS Fund Shift	2.0	0.0	0.0
State Budget Office Request 2015-5-Education Resource Study	1.0	0.0	0.0
Public Act 5 of 2015-Reduce Extra MPSERS Payment	(88.4)	0.0	0.0
Public Act 5 of 2015-Eliminate Online Nutrition/Health	(1.2)	0.0	0.0
Senate-Reduce Teacher Evaluation Funding	(14.2)	0.0	0.0
Subtotal One-Time Appropriations	$448.7	$114.7	$0.0
Total Estimated School Aid Fund Expenditures	**$14,231.9**	**$14,413.2**	**$14,400.9**
Projected Year-End School Aid Fund Balance	**$77.7**	**($167.4)**	**($55.1)**

Note: FY 2016-17 estimates of appropriations are based on the Senate's recommendation.

Table 16

FY 2015-16 ADJUSTED GROSS AND GF/GP APPROPRIATIONS
GOVERNOR'S INITIAL RECOMMENDATION VERSUS SENATE-PASSED APPROPRIATIONS

	Adjusted Gross Appropriations			GF/GP Appropriations		
Department/Budget Area	**Governor's Initial Rec.**	**Senate-Passed**	**Adjusted Gross $ Difference**	**Governor's Initial Rec.**	**Senate-Passed**	**GF/GP $ Difference**
Agriculture & Rural Development	$83,826,700	$80,770,900	($3,055,800)	$42,373,600	$42,573,600	$200,000
Attorney General	63,407,700	63,407,700	0	36,847,400	36,847,400	0
Civil Rights	15,842,000	15,842,000	0	12,949,700	12,949,700	0
Community Colleges	393,825,600	393,825,600	0	137,110,800	122,710,800	(14,400,000)
Community Health	18,961,926,900	19,004,024,300	42,097,400	2,993,251,300	3,128,354,300	135,103,000
Corrections	1,976,001,000	1,961,501,100	(14,499,900)	1,918,948,400	1,904,448,500	(14,499,900)
Education	313,212,200	309,600,400	(3,611,800)	79,292,200	75,680,400	(3,611,800)
Environmental Quality	478,810,600	477,897,700	(912,900)	35,377,700	35,377,800	100
Executive	5,916,100	5,916,100	0	5,916,100	5,916,100	0
Higher Education	1,541,219,200	1,541,219,200	0	1,238,913,300	1,238,913,300	0
Human Services	5,710,066,200	5,696,473,200	(13,593,000)	978,891,000	973,835,900	(5,055,100)
Insurance and Financial Services	64,350,100	64,255,100	(95,000)	150,000	55,000	(95,000)
Judiciary	281,538,400	283,038,500	1,500,100	182,692,200	184,192,200	1,500,000
Legislative Auditor General	17,447,700	17,447,700	0	15,460,100	15,460,100	0
Legislature	136,464,300	136,464,300	0	131,872,300	131,872,300	0
Licensing & Regulatory Affairs	529,851,000	523,816,500	(6,034,500)	24,223,400	24,223,500	100
Military & Veterans Affairs	163,854,400	163,854,400	0	48,187,300	48,187,300	0
Natural Resources	388,141,500	388,291,600	150,100	39,772,800	39,522,800	(250,000)
School Aid	13,958,963,900	13,969,063,900	10,100,000	45,900,000	41,700,000	(4,200,000)
State	205,256,700	215,256,700	10,000,000	17,161,500	27,161,500	10,000,000
State Police	587,306,900	592,638,900	5,332,000	373,473,700	377,305,700	3,832,000
Technology, Management & Budget	586,427,800	579,550,800	(6,877,000)	478,880,800	468,503,800	(10,377,000)
Transportation	3,631,794,000	3,631,794,000	0	139,521,100	139,521,200	100
Treasury-Debt Service	156,449,000	156,449,000	0	156,449,000	156,449,000	0
Treasury-Operations	523,925,500	523,925,500	0	120,230,300	120,230,300	0
Treasury-Revenue Sharing	1,251,237,000	1,251,661,100	424,100	0	424,100	424,100
Treasury-Strategic Fund Agency	1,006,582,500	1,006,582,500	0	226,607,000	188,107,000	(38,500,000)
Total Budget Area Appropriations	**$53,033,644,900**	**$53,054,568,700**	**$20,923,800**	**$9,480,453,000**	**$9,540,523,600**	**$60,070,600**
Budget Stabilization Fund	95,000,000	50,000,000	(45,000,000)	95,000,000	50,000,000	(45,000,000)
TOTAL GF/GP APPROPRIATIONS	**$53,128,644,900**	**$53,104,568,700**	**($24,076,200)**	**$9,575,453,000**	**$9,590,523,600**	**$15,070,600**

CONCLUSION

Although the FY 2014-15 estimated GF/GP and SAF year-end balances are reasonably healthy, at $242.5 million and $77.7 million, respectively, those funds will be needed to help balance the FY 2015-16 GF/GP and SAF budgets. When these FY 2014-15 year-end balance amounts are carried forward and combined with Senate budget recommendations, the estimate for the FY 2015-16 SAF year-end balance is a negative amount but the SAF budget could be brought into balance with GF/GP revenue. If GF/GP revenue were used to offset all of the SAF deficit, the FY 2015-16 projected year-end GF/GP balance would be $288.5 million, leaving an SAF FY 2015-16 projected year-end balance of zero. However, the FY 2015-16 balance sheet based on Senate-passed appropriations may need to be adjusted to account for other pending issues such as funding for roads, the Detroit public schools, hospitals, and the Michigan Economic Development Corporation.

It should be noted that only one of the SFA year-end balances described in this report (FY 2014-15 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.

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, 2015, 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 2015-16 State budget.