



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

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

**May 13, 2016**



# THE SENATE FISCAL AGENCY

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

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



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## ***ACKNOWLEDGEMENT***

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## **EXECUTIVE SUMMARY**

### **ECONOMIC FORECAST**

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 2.4% during 2015, is predicted to expand 1.7% in 2016, 2.4% in 2017, and 2.3% in 2018. Light vehicle sales are forecasted to rise from 17.4 million units in 2015, to 17.5 million units in 2016 and 17.6 million units in 2017, before declining back to 17.4 million units in 2018. The unemployment rate is expected to fall from 5.3% in 2015 to 5.0% in both 2016 and 2017, and then to 4.7% in 2018; while the consumer price index is estimated to increase 1.2% in 2016, 2.3% in 2017, and 2.6% in 2018.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 2.7% in 2016, 1.1% in 2017, and 1.6% in 2018, after rising 5.8% in 2015 (pushed up by a negative 1.4% inflation rate). Wage and salary employment is predicted to continue growing, increasing 1.8% during 2016, 0.8% in 2017, and 0.9% in 2018.

### **REVENUE FORECAST**

In FY 2015-16, continued growth in employment and personal income will result in greater collections from most revenue sources. However, slow growth in retail sales and declining corporate profits will combine with revenue reductions attributable to personal property tax reform to offset these gains. As a result, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated \$21.8 billion, the same amount as in FY 2014-15. Compared to the January 2016 consensus estimates, the GF/GP estimate is \$144.4 million lower and the SAF estimate is \$56.3 million lower.

In FY 2016-17, GF/GP and SAF revenue will total an estimated \$22.4 billion, a 2.8% increase from the revised FY 2015-16 estimate but \$305.0 million below the January 2016 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.0 billion, an increase of 3.2% from FY 2015-16 that reflects slower employment growth, more significant revenue reductions attributable to personal property tax reform, and slow growth in corporate profits, while SAF revenue will rise to an estimated \$12.4 billion, a 2.6% increase.

In FY 2017-18, GF/GP and SAF revenue will total an estimated \$23.2 billion, a 3.4% increase from the revised estimate for FY 2016-17 and \$266.2 million less than the January 2016 consensus estimates. Reflecting slow economic growth combined with more stable tax policy, GF/GP revenue will total an estimated \$10.4 billion, an increase of 4.2% from FY 2016-17, while SAF revenue will total an estimated \$12.7 billion, a 2.8% 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 2015-16 GF/GP budget will have a positive ending balance of \$69.7 million. A comparison of the FY 2015-16 SAF revenue estimates and enacted and projected SAF appropriations produces an \$82.8 million SAF surplus.

Comparing the SFA's FY 2016-17 GF/GP revenue estimate with the appropriation bills as passed by the Senate (adjusted for caseload and other cost issues), leads to a \$301.3 million negative balance in the FY 2016-17 GF/GP budget. The SFA's FY 2016-17 SAF revenue estimate, combined with the Senate-passed SAF appropriations (adjusted for pupil counts and other cost issues), results in a \$50.0 million negative balance in the FY 2016-17 SAF budget. Both of these projected negative ending balances will need to be resolved before the FY 2016-17 budget is enacted.

If the SFA's FY 2017-18 GF/GP revenue estimate is compared with the FY 2017-18 ongoing GF/GP appropriations recommended by the Governor and adjusted for caseload, cost, and baseline changes, there is a projected \$104.7 million GF/GP budget surplus. If the SFA's FY 2017-18 SAF revenue estimate is compared with the Governor's FY 2017-18 expenditure estimate adjusted for FY 2017-18 estimated pupils and other costs, there is a projected \$89.4 million SAF budget surplus. These FY 2017-18 GF/GP and SAF ending balance estimates assume that the FY 2016-17 negative ending balances for both Funds are resolved.

## EXECUTIVE SUMMARY

### SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

<b>ECONOMIC PROJECTIONS (Calendar Year)</b>					
	<b>2014 Actual</b>	<b>2015 Actual</b>	<b>2016 Estimate</b>	<b>2017 Estimate</b>	<b>2018 Estimate</b>
Real Gross Domestic Product (% change)	2.4%	2.4%	1.7%	2.4%	2.3%
U.S. Consumer Price Index (% change)	1.6%	(0.1%)	1.2%	2.3%	2.6%
Light Motor Vehicle Sales (millions of units)	16.4	17.4	17.5	17.6	17.4
U.S. Unemployment Rate (%)	6.2%	5.3%	5.0%	5.0%	4.7%
Real Michigan Personal Income (% change)	3.0%	5.8%	2.7%	1.1%	1.6%
Michigan Wage & Salary Employment (% change)	1.8%	1.5%	1.8%	0.8%	0.9%

<b>REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)</b>									
	<b>FY 2015-16 Estimate</b>			<b>FY 2016-17 Estimate</b>			<b>FY 2017-18 Estimate</b>		
	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>
GF/GP	\$10,841.2	(\$1,141.8)	\$9,699.4	\$11,138.0	(\$1,131.7)	\$10,006.3	\$11,514.4	(\$1,087.6)	\$10,426.8
% Change	1.7%	---	(3.3%)	2.7%	---	3.2%	3.4%	---	4.2%
School Aid Fund	\$12,067.4	\$7.9	\$12,075.3	\$12,371.3	\$17.5	\$12,388.8	\$12,733.2	\$4.2	\$12,737.4
% Change	2.4%	---	2.8%	2.5%	---	2.6%	2.9%	---	2.8%
Total GF/GP & SAF	\$22,908.6	(\$1,133.9)	\$21,774.7	\$23,509.3	(\$1,114.2)	\$22,395.1	\$24,247.6	(\$1,083.3)	\$23,164.2
% Change	2.1%	---	(0.0%)	2.6%	---	2.8%	3.1%	---	3.4%
Revenue Limit – Under (Over)		\$9,251.9			\$9,605.9			\$9,930.4	
	<b><u>FY 2015-16 Estimate</u></b>			<b><u>FY 2016-17 Estimate</u></b>			<b><u>FY 2017-18 Estimate</u></b>		
<u>Revision from Jan. Consensus</u>									
GF/GP		(\$144.4)			(\$207.6)			(\$172.5)	
SAF		(56.3)			(97.4)			(93.7)	
<b>Total</b>		<b>(\$200.7)</b>			<b>(\$305.0)</b>			<b>(\$266.2)</b>	

<b>YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)</b>			
	<b>FY 2015-16 Estimate</b>	<b>FY 2016-17 Estimate</b>	<b>FY 2017-18 Estimate</b>
General Fund/General Purpose.....	\$69.7	(\$301.3)	\$104.7
School Aid Fund .....	\$82.8	(\$50.0)	\$89.4
Budget Stabilization Fund (with formula pay-in) .....	\$759.1	\$884.3	\$913.7
Budget Stabilization Fund (with enacted deposits) .....	\$612.1	\$634.2	\$660.3

**ECONOMIC REVIEW  
AND OUTLOOK**



## ECONOMIC REVIEW AND OUTLOOK

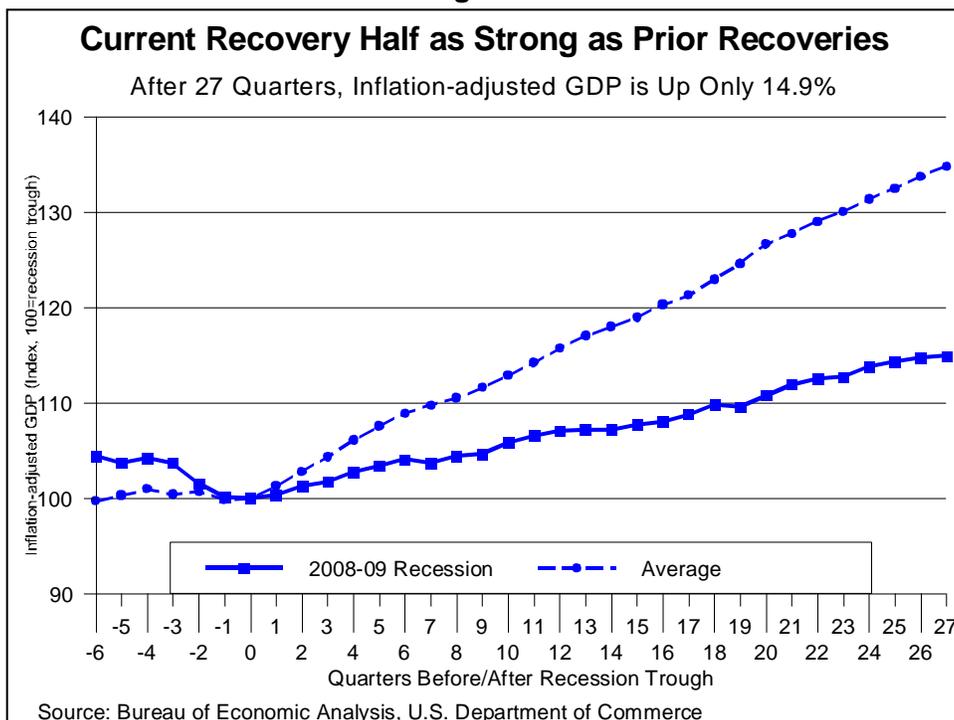
State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2016, 2017, and 2018.

### RECENT U.S. ECONOMIC HIGHLIGHTS

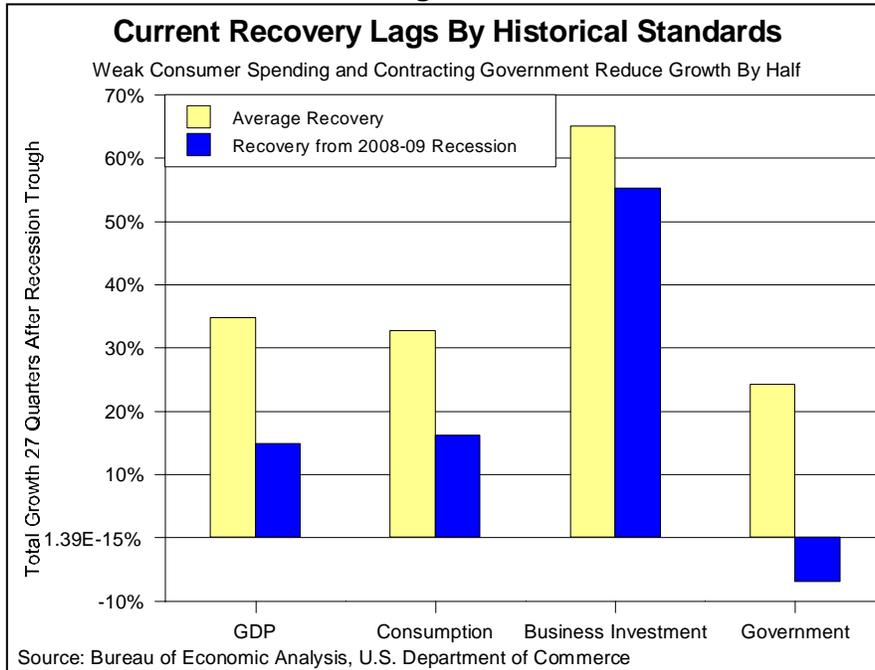
According to the National Bureau of Economic Research, the organization that officially dates recessions, the current recovery ranks as the fourth-longest recovery since World War II. However, the economy has grown slowly since the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years. Many fundamental economic factors remain well below their prerecession peaks, and even factors that have recovered have done so more slowly than during almost any other post-World War II recovery. As of the first quarter of 2016, the economy had been in recovery for 27 quarters after the recession trough in the second quarter of 2009, yet the current recovery has been less than half as strong as past recoveries.

Inflation-adjusted Gross Domestic Product (GDP) in the first quarter of 2016 was only 10.0% above the level during the fourth quarter of 2007, when the recession began, and only 14.9% above the level in the second quarter of 2009, when the economy finished contracting ([Figure 1](#)). As a result, the economy has averaged only 2.1% annual growth since the end of the recession, compared with an average of 4.5% annual growth over the other three similar length recoveries since World War II. Consumption expenditures, which on average account for two-thirds of economic activity, also have exhibited weak growth relative to historical standards, with the current recovery averaging 2.2% annual growth, compared with a historical average of 4.3% growth ([Figure 2](#)). Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 1.1% compared with the historical average of 3.3% growth ([Figure 3](#)).

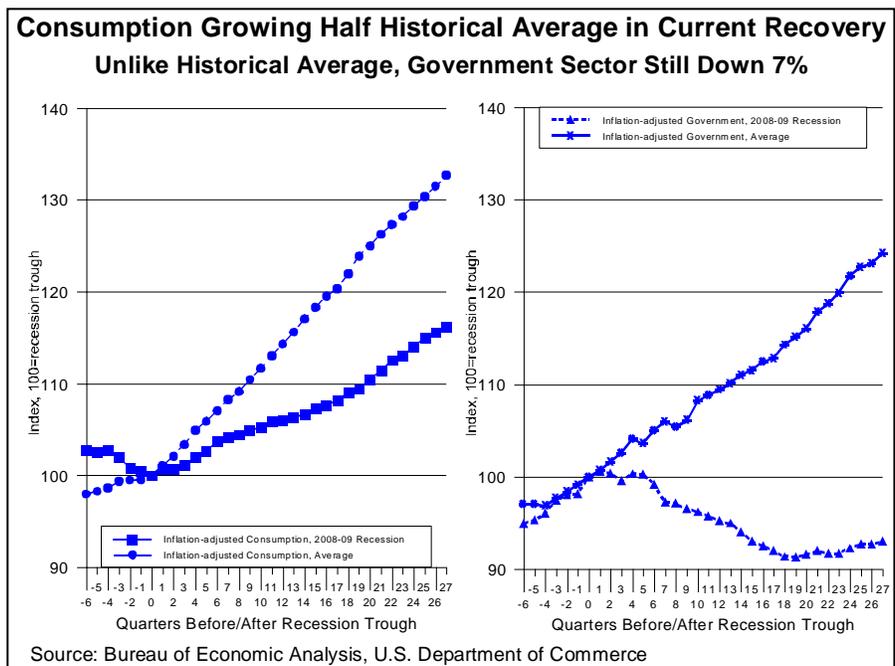
**Figure 1**



**Figure 2**

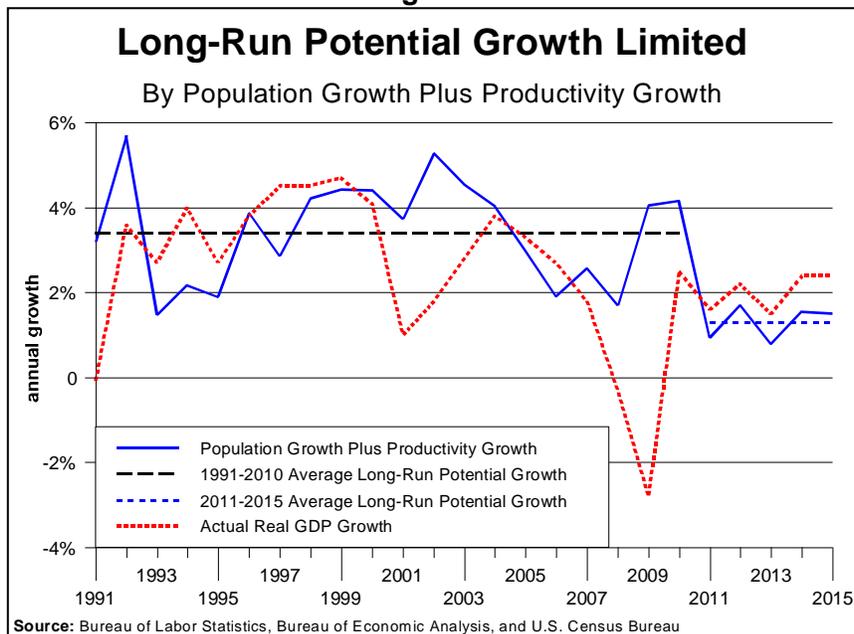


**Figure 3**



The long-run growth of an economy is generally constrained by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they are able to produce goods and services. While short-term deviations inevitably occur, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced during the current recovery can be attributed to slower rates of both population growth and productivity growth. Despite the slow economic growth after the 2008-2009 recession, since 2011 the economy has consistently outperformed the long-run trend growth suggested by these factors (Figure 4).

Figure 4



Productivity, as measured by output per hour in the nonfarm business sector, increased 0.7% in 2015 and declined 1.0% during the first quarter of 2016. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity has grown by less than 1.0% per year in every year since 2010—the longest and most severe slowdown in productivity experienced since at least World War II (Figure 5). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries. In addition to productivity’s role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced since 2010 has boosted employment growth over what it would have been had labor productivity grown at historical rates.

Over the current recovery period, much of the growth in the economy has reflected increases in inventories: goods produced but not sold. While inventory accumulation is generally regarded as good, at least if it is intended, without increased consumption to support the additional production, inventory increases do not represent a sustainable way to expand the economy. Since the third quarter of 2015, inventories have actually subtracted from growth, as businesses have pared back production in response to continued lackluster consumption growth. At the same time, the business sector has also drastically reduced rates of investment in plant and equipment. In the first quarter of 2016, the combination of reduced inventory accumulation and declining business investment subtracted almost a full percentage point from economic growth. Declining growth in business investment, especially actual declines in investment, is particularly noteworthy because increased investment is often associated with productivity gains and thus a higher level of potential economic growth.

The housing market, which counts as residential investment rather than consumption spending, continued to improve in 2015, although it remains weak by almost any historical measure—roughly matching housing start levels during the 1979-1982 and 1991 recessions (Figure 6). Housing starts totaled 1.1 million units in 2015, the sixth consecutive annual increase in starts and a 10.8% increase from 2014. However, 2015 represented the 11th-weakest year of housing starts (based on data available back to 1959), above only the seven-year 2008 through 2014 period and the recession years of 1981, 1982, and 1991. Housing starts in 2015 also were 46.2% below the prerecession peak of 2.1 million starts in 2005.

Figure 5

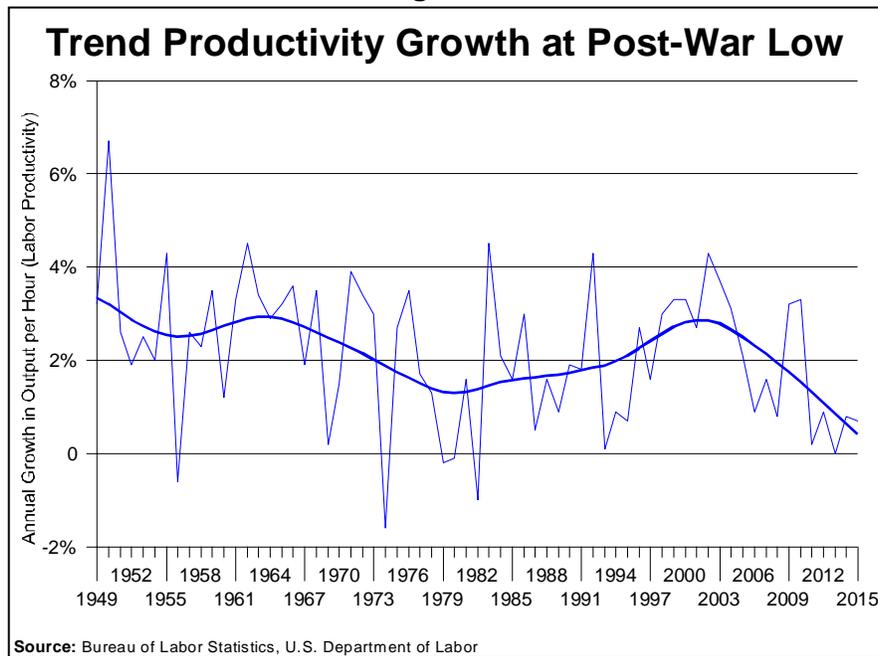
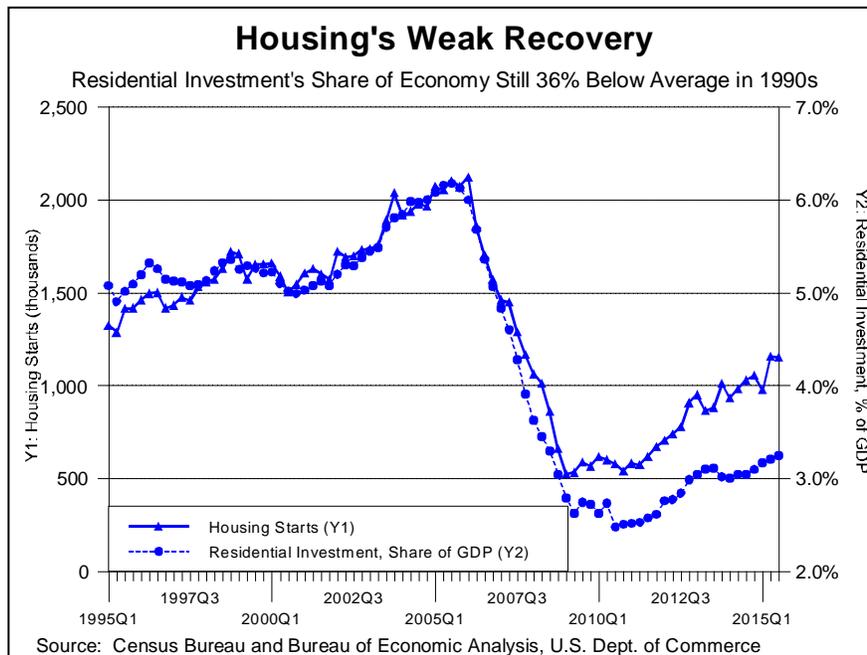
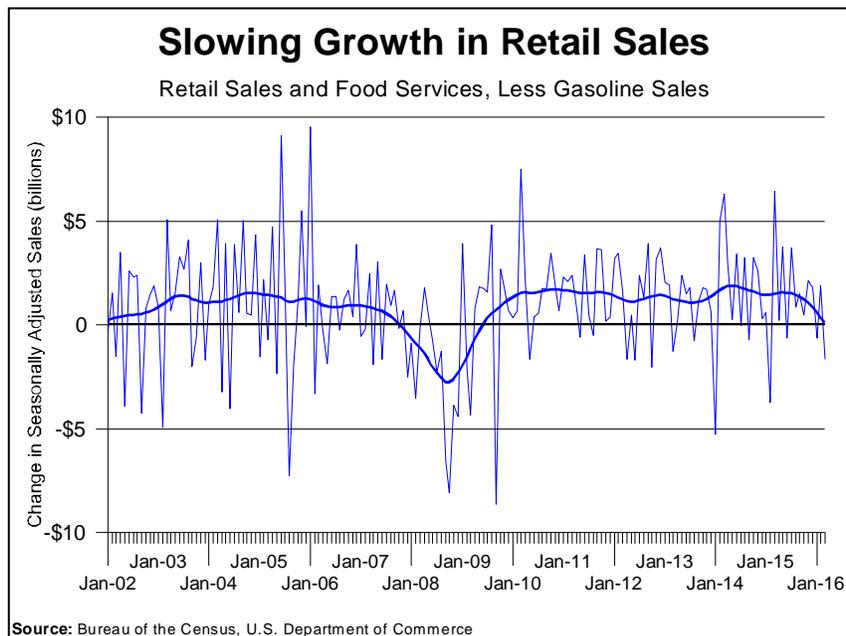


Figure 6



Retail sales of building materials and furniture have increased as housing starts and home sales have improved, and retail spending at restaurants and sporting goods stores also has improved. However, overall retail sales have struggled, effectively remaining flat since June 2015. If gasoline sales are subtracted, retail sales and food services have been slowing since June 2015, becoming almost stagnant by March 2016 (Figure 7). One factor that has restrained the growth in retail sales is changes in personal saving rates, as consumers have tried to recover from losses experienced during the 2008-2009 recession. Personal saving, as a percentage of disposable personal income (after-tax income), has increased from rates that dipped as low as 2.6% in the mid-2000s, to roughly 5.0% of income—although the rates are less than half the saving rates experienced during the 1970s and early 1980s.

Figure 7



Over much of the current recovery, spending has generally been rising at a faster rate than wage and salary income, despite the weak growth in consumer spending compared with historical standards. However, since the second quarter of 2014 that trend has reversed and inflation-adjusted consumption spending per person has risen at an annual rate of 1.9%, compared with a 3.1% rate of increase in inflation-adjusted wage and salary income per person (Figure 8). Although personal saving increased in 2015, to the highest levels since 2012, the higher saving rate has not translated into a reduction in consumer debt levels. Since the fourth quarter of 2014, outstanding inflation-adjusted consumer debt per person has increased at an annual rate of 5.3%, growing at a faster rate than either income or spending. Inflation-adjusted nonrevolving debt, which includes student loans and motor vehicle loans, increased at a 5.9% rate over the same period while revolving credit (mainly credit card debt) increased at a 3.9% annual rate, a rate roughly twice the growth rate in personal consumption spending.

As consumer debt has grown to new record levels, the share of disposable personal income that must be used to service that debt has generally fallen since 2007, largely as a result of monetary policy designed to keep long-term interest rates low. However, the cost of servicing revolving debt, which had fallen between 2007 and 2012 as consumers dealt with the aftermath of the 2008-2009 financial crisis, has increased since 2012. Although the total financial obligations ratio (a measure of the cost of servicing debt) has remained stable in 2015, it is likely to increase as interest rates rise.

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 five years, payroll employment did not reach the prerecession peak until May 2014. As of April 2016, payroll employment has averaged only 1.7% annual growth since the February 2010 trough and was up only 1.9% from the April 2015 level, after showing as much as a 2.3% year-over-year increase as recently as February 2015. Payroll employment growth remained relatively stable during 2015, with an average monthly gain of 229,000 jobs, down slightly from the 251,000 average monthly increase in payroll employment during 2014. Over the first four months of 2016, payroll employment gains averaged 192,000 per month, and April's increase of 160,000 jobs was at the low end of the 160,000 to 175,000 increase necessary to keep pace with population growth. As a result, the Federal Reserve Board of Governor's Labor Market Conditions Index has started to decline (Figure 9).

Figure 8

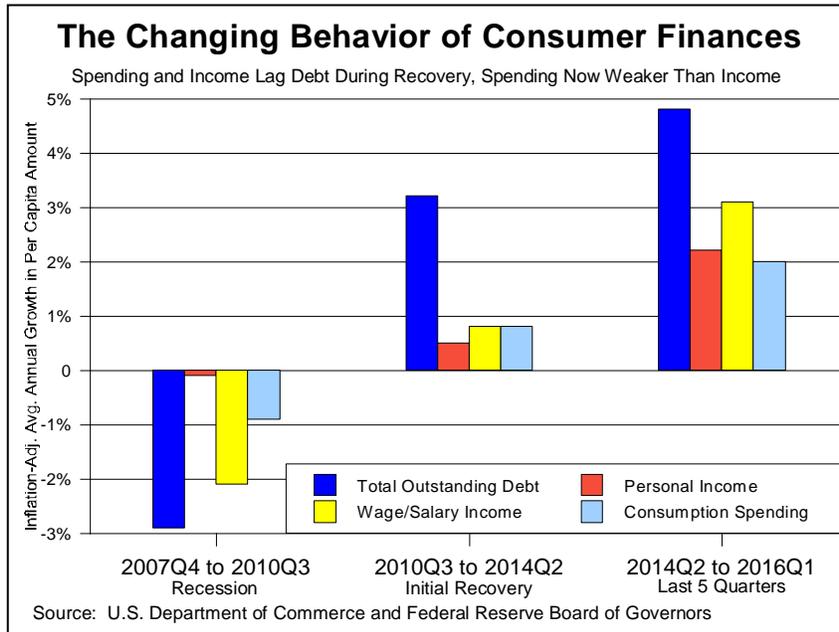
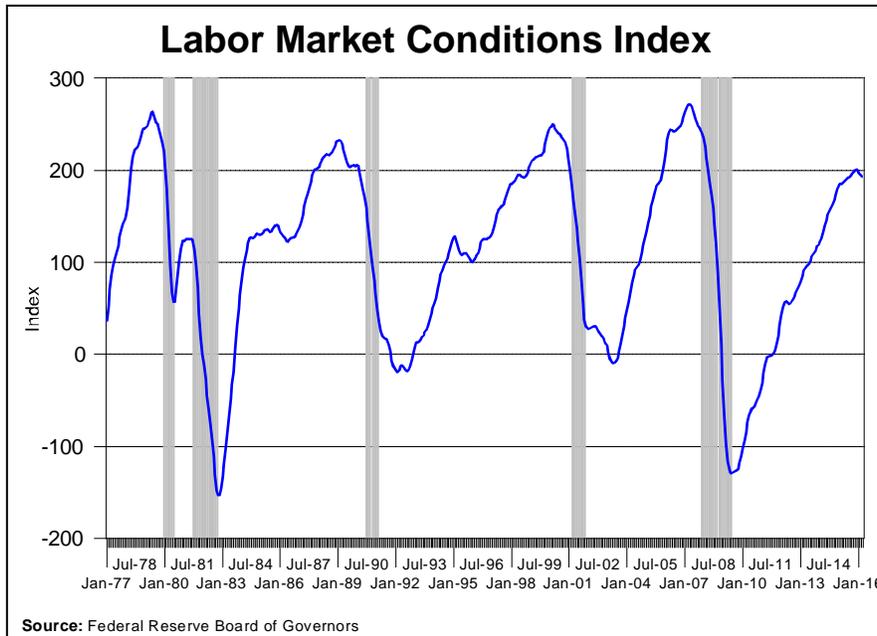


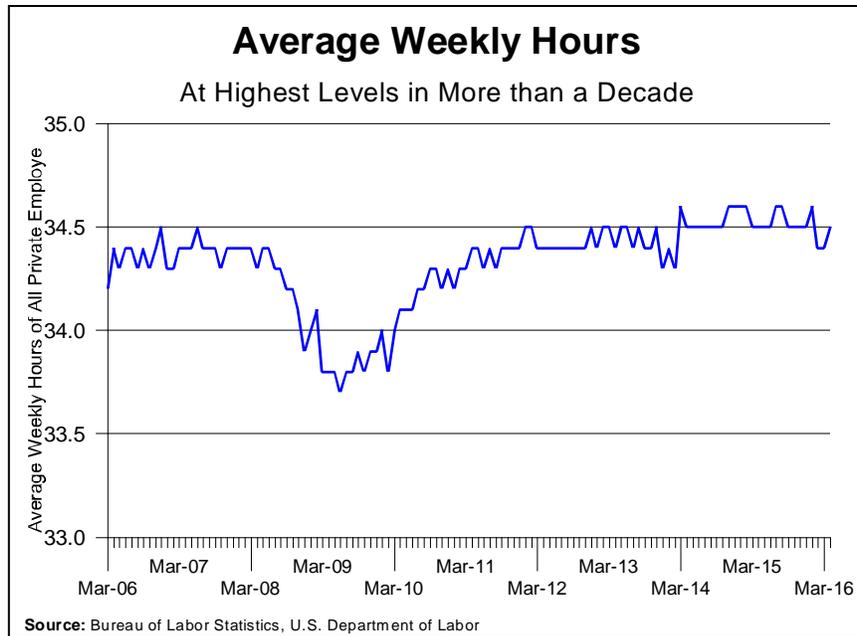
Figure 9



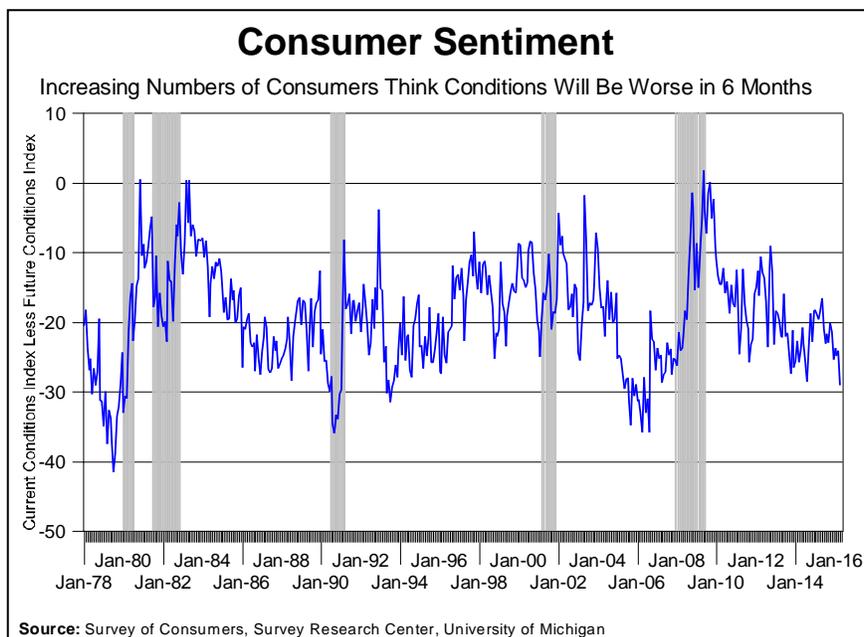
Job gains helped the unemployment rate decline from a peak of 10.0% in October 2009, to 5.0% in April 2016. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the March 2016 level of total employment set an all-time record. However, labor force participation continued to decline, reaching 62.4% in September 2015, the lowest level since October 1977. Since September 2015, labor force participation rose slightly, to 62.8% in April 2016.

Slower employment growth and increased labor force participation will restrain wage growth. Despite recent gains, inflation-adjusted average weekly earnings grew only an average of 0.9% per year between the end of the recession in June 2009 and March 2016, and the recent increases largely reflect average weekly hours that are at record levels (Figure 10). As a result, wage gains over the recovery have been dominated by increasing work hours rather than growing wage rates. With hours at record highs, absent actual wage increases, existing workers are faced with limited prospects for income gains, especially if business activity slows. The April 2016 Index of Consumer Sentiment reflects the largest gap since August 2006, shortly before the economy headed into recession, between evaluations of current conditions and expectations of conditions in six months (Figure 11).

**Figure 10**



**Figure 11**



## **RECENT MICHIGAN ECONOMIC HIGHLIGHTS**

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

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 144,300 jobs (32.8%) between June 2009, when the U.S. recession ended, and December 2014. As of January 2015, Michigan manufacturing employment was 5.0% above the January 2014 level, but as of March 2016, was up only 2.3% from March 2015, the same average year-over-year increase exhibited since June 2015. Employment in the transportation equipment manufacturing sector increased by 61.4% between June 2009 and December 2014, accounting for 70,200 (48.6%) of the manufacturing jobs Michigan gained and 18.5% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly than early in the year, and employment in the sector during the first quarter of 2016 was down 5.7% from the first quarter of 2015. Michigan payroll employment continues to increase, but at a slowing rate. After growing 2.3% in 2011, Michigan payroll employment has increased more slowly every year, rising only 1.5% during 2015.

The Michigan unemployment rate declined from a high of 14.9% in June 2009 to 4.8% in March 2016, although the decline was partially attributable to the departure of approximately 99,300 individuals from the labor force in addition to the employment gain of 405,700 jobs. The majority of the employment gain, representing 214,800 jobs, occurred between July 2012 and December 2014. According to the Bureau of Labor Statistics, total Michigan employment increased by more than 96,800 jobs during the first three months of 2016. Furthermore, the Michigan labor force is reported to have increased by 85,800 individuals—almost as many people as the 105,400 individuals who joined the labor force between June 2011 (the first increase since the 2008-2009 recession) and December 2015. However, given that over the first three months of 2016, payroll employment (which differs from total employment in that total employment reflects individuals who self-report their employment status, while payroll employment reflects workers employed as reported by business establishments) increased by only 32,200 jobs, and that over the last 40 years the largest three-month increase in the size of the labor force was nearly 20.0% less (totaling 69,700, individuals, in August-October 1998), it is likely that the labor force statistics for early 2016 will be revised when new benchmarks are released in early 2017.

## **FORECAST SUMMARY**

During 2016, both the U.S. and Michigan economies are expected to expand at a slightly slower rate than during 2015, although employment is expected to grow slightly more than in 2015. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during

2016 and later years, although Michigan is generally expected to grow more slowly than the nation as a whole. [Table 1](#) and [Table 2](#) provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to rise 1.7% in 2016, less than the 2.4% increase in 2015, and before expanding 2.4% during 2017 and 2.3% in 2018. The expansion over the forecast period primarily reflects modest consumption growth and improvements in business and residential investment that will more than offset the drag on the economy from increased imports and relatively stagnant public sector growth.

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

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

	2014 Actual	2015 Actual	2016 Estimate	2017 Estimate	2018 Estimate
<b>United States</b>					
Nominal GDP (year-to-year growth)	4.1%	3.5%	2.9%	3.9%	4.4%
Inflation-Adjusted GDP (year-to-year growth)	2.4%	2.4%	1.7%	2.4%	2.3%
Unemployment Rate	6.2%	5.3%	5.0%	5.0%	4.7%
Inflation					
Consumer Price Index (year-to-year growth)	1.6%	(0.1%)	1.2%	2.3%	2.6%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.6%	1.0%	1.2%	1.5%	2.1%
Interest Rates					
90-day Treasury Bill	0.03%	0.05%	0.34%	0.92%	1.52%
10-year Treasury Bill	2.54%	2.14%	1.91%	2.38%	2.58%
Corporate Aaa Bond	4.16%	3.89%	3.88%	4.01%	4.19%
Federal Funds Rate	0.09%	0.13%	0.45%	0.90%	1.55%
Light Motor Vehicle Sales (millions of units)					
Auto	16.4	17.4	17.5	17.6	17.4
Truck	7.7	7.5	7.2	7.1	7.0
Import Share	8.7	9.9	10.4	10.5	10.4
	21.0%	21.2%	21.5%	21.8%	21.8%
<b>Michigan</b>					
Personal Income (millions)	\$403,726	\$421,044	\$435,983	\$450,905	\$469,270
Year-to-year growth	4.1%	4.3%	3.5%	3.4%	4.1%
Inflation-Adjusted Personal Income (year-to-year growth)	3.0%	5.8%	2.7%	1.1%	1.6%
Wage & Salary Income (millions)	\$204,476	\$213,499	\$220,609	\$226,652	\$234,400
Year-to-year growth	4.9%	4.4%	3.3%	2.7%	3.4%
Detroit Consumer Price Index (year-to-year growth)	1.0%	(1.4%)	0.8%	2.3%	2.4%
Wage & Salary Employment (thousands)	4,182.0	4,243.7	4,322.0	4,355.5	4,393.6
Year-to-year growth	1.8%	1.5%	1.8%	0.8%	0.9%
Unemployment Rate	7.3%	5.4%	5.1%	5.1%	5.0%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2014 Actual	2015 Actual	2016 Estimate	2017 Estimate	2018 Estimate
Gross Domestic Product (billions of dollars)	\$17,348.1	\$17,947.0	\$18,472.0	\$19,194.9	\$20,047.9
Year-to-year growth	4.1%	3.5%	2.9%	3.9%	4.4%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2009 dollars)	\$15,961.7	\$16,348.9	\$16,628.5	\$17,022.9	\$17,415.8
Year-to-year growth	2.4%	2.4%	1.7%	2.4%	2.3%
Consumption (billions of 2009 dollars)	\$10,875.7	\$11,213.3	\$11,496.8	\$11,788.9	\$12,080.8
Year-to-year growth	2.7%	3.1%	2.5%	2.5%	2.5%
Business Fixed Investment (billions of 2009 dollars)	\$2,148.3	\$2,209.3	\$2,189.0	\$2,243.8	\$2,322.9
Year-to-year growth	6.2%	2.8%	(0.9%)	2.5%	3.5%
Change in Business Inventories (billions of 2009 dollars)	\$68.0	\$97.5	\$38.7	\$42.0	\$49.8
Residential Investment (billions of 2009 dollars)	\$486.4	\$529.6	\$584.0	\$633.0	\$674.5
Year-to-year growth	1.8%	8.9%	10.3%	8.4%	6.6%
Government Spending (billions of 2009 dollars)	\$2,838.3	\$2,858.9	\$2,912.4	\$2,958.0	\$2,985.7
Year-to-year growth	(0.6%)	0.7%	1.9%	1.6%	0.9%
Net Exports (billions of 2009 dollars)	(\$442.5)	(\$543.4)	(\$584.0)	(\$639.7)	(\$699.1)
Exports (billions of 2009 dollars)	\$2,086.4	\$2,110.1	\$2,106.4	\$2,166.9	\$2,255.0
Imports (billions of 2009 dollars)	\$2,528.9	\$2,653.5	\$2,690.4	\$2,806.6	\$2,954.1
Personal Income (year-to-year growth)	4.4%	4.4%	3.7%	4.2%	5.0%
Adjusted for Inflation	2.7%	4.5%	2.5%	1.9%	2.4%
Wage & Salary Income (year-to-year growth)	5.1%	4.6%	4.1%	4.3%	5.1%
Personal Saving Rate	4.8%	5.1%	5.0%	4.9%	4.8%
Capacity Utilization Rate	78.2%	76.7%	75.5%	77.9%	79.3%
Housing Starts (millions of units)	1.003	1.112	1.199	1.339	1.413
Conventional Mortgage Rates	4.2%	3.9%	3.7%	4.0%	4.3%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$631.5)	(\$591.7)	(\$595.1)	(\$603.5)	(\$563.2)

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to remain weak, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace capital for labor. The U.S. unemployment rate is expected to decrease from 5.3% during 2015, to 5.0% in both 2016 and 2017, before falling to 4.7% in 2018.

Inflation is not anticipated to be a concern over the forecast period. After falling 0.1% in 2015, the U.S. Consumer Price Index is anticipated to increase 1.2% in 2016, followed by increases of 2.3% in 2017 and 2.6% in 2018. Export growth is expected to be tempered in the near term by both weak

foreign economies and higher interest rates that will increase the value of the dollar. Productivity, modest domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 2.1% in 2016, 1.5% in 2017, and 2.5% in 2018.

In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average (Figures 12 and 13). Inflation-adjusted personal income is projected to increase 2.7% in 2016, 1.1% in 2017, and 1.6% in 2018, compared with the 5.8% increase during 2015 (which was boosted above the nominal increase by a negative 1.4% inflation rate). Payroll employment is expected to increase 1.8% in 2016, a faster rate than the 1.5% growth in 2015, and then slow in future years, rising 0.8% in 2017 and 0.9% in 2018. Private sector gains in employment during 2016 and 2017 are expected to be fairly modest, although above the nearly flat employment predicted in the government sector. Nationally, light vehicle sales are expected to increase from a record 17.4 million units in 2015 to new records of 17.5 million units in 2016 and 17.6 million units in 2017, before declining slightly to 17.4 million units in 2018. In Michigan, higher vehicle sales, stability in the housing market, and the tepid national economy are expected to combine to lower the unemployment rate to 5.1% in both 2016 and 2017, and 5.0% in 2018, compared with the 5.4% unemployment rate in 2015.

Compared with the January 14, 2016, Consensus Economic Forecast, both the U.S. and Michigan forecasts are slightly weaker in all years. Both the U.S. and Michigan economies are forecast to continue growing, but more slowly than in recent years, primarily due to weak employment growth, weak income growth, and slowdowns in overseas economies. However, improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation.

**Figure 12**

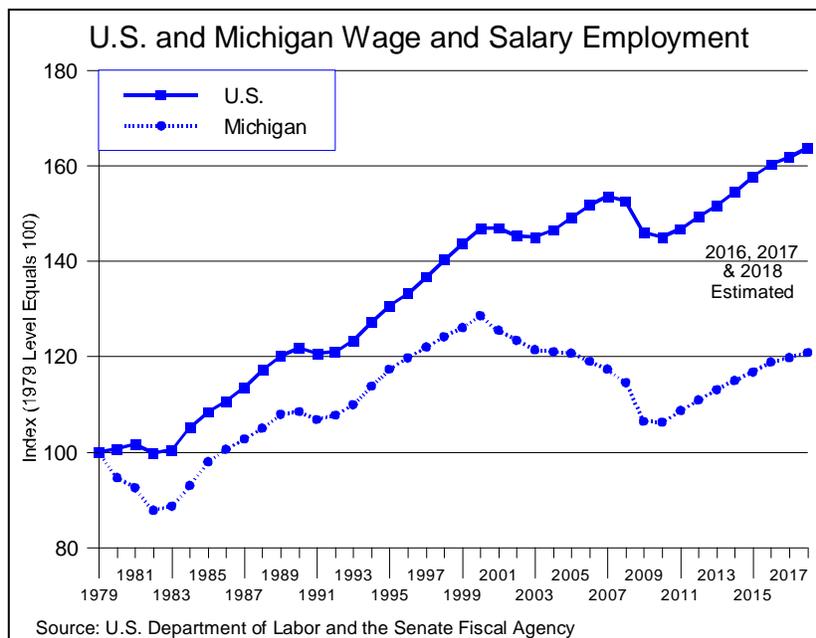
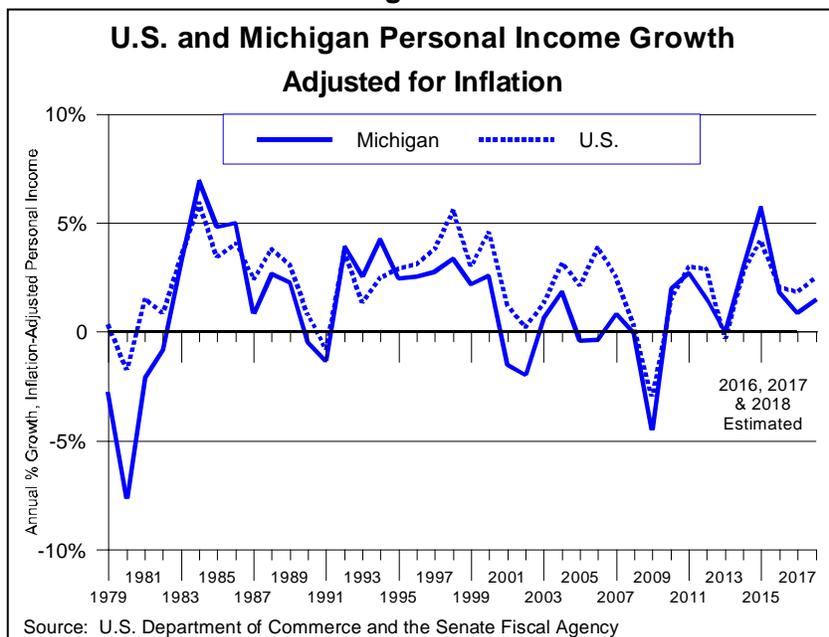


Figure 13



## **FORECAST RISKS**

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

**Consumer Behavior.** The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession have induced consumers to rein in their spending, pushing the saving rate significantly higher. Despite stock market gains since the recession, consumers needed to save at a far higher rate than exhibited to offset their losses in home equity and stock market drops during the recession. Income growth has improved but high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption now that the Federal Reserve has embarked on a path of rising interest rates. Furthermore, there has been a substantial disparity between income growth and retail sales growth in recent years. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the mid-2000s and, if capital markets accommodated higher demands for additional credit, growth would be stronger than forecasted. Similarly, if wage growth declines to rates more in line with spending growth, the economy will grow more slowly than predicted, while if consumers increase spending to more closely match the growth in income, the economy will grow more rapidly than predicted.

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. The path of consumer

spending represents the primary determinant of the accuracy of the forecast. The forecast assumes that consumers will slightly decrease their saving rates and that consumption will be limited by flat wages and limited access to and/or use of additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

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

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

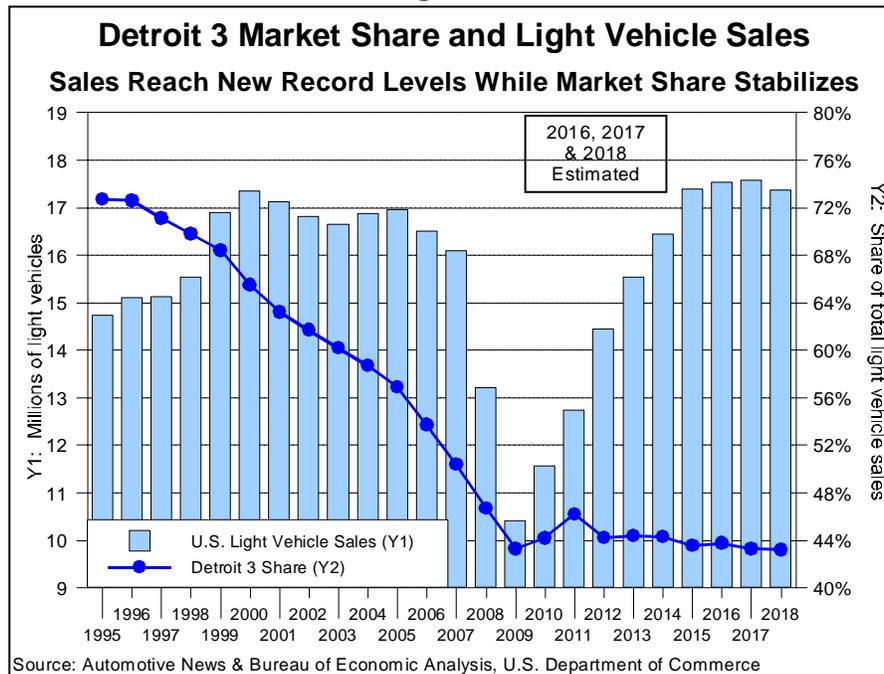
How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent that these individuals face limited incomes and reduced income growth, consumption and investment are depressed, lowering economic growth and reducing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

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

Similarly, as the vehicle market has recovered, Michigan has generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception has been that states with large energy sectors grew quite rapidly as oil prices rose, although that has changed with the declines in oil prices during 2015.) For Michigan, both employment gains and improvements in economic growth will be restrained by slowing growth in vehicle sales and continued productivity

growth in the vehicle manufacturing sector (which is expected to remain strong despite continued low growth in other sectors of the economy). While the level of vehicle sales is quite high, the potential growth in those levels is less than it has been in years, and by 2018 the level will be declining—although sales volumes will remain elevated when compared to historical levels. Compared with the prior decade, the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 14). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles.

Figure 14



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

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

to originate from a different sector and be strong enough to exceed the flat-to-downward trajectory the motor vehicle industry will exhibit over the next decade.

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



**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 2015-16, FY 2016-17, and FY 2017-18. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, the revenue estimate represents the revenue generated from ongoing revenue sources and generally does not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2015-16 and FY 2016-17 are discussed in the last section of this report.

### **REVENUE OVERVIEW**

The GF/GP and SAF revised revenue estimates for FY 2015-16, FY 2016-17, and FY 2017-18 are presented in [Table 3](#) and are summarized below.

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

- GF/GP and SAF revenue is expected to total \$21.8 billion in FY 2015-16.
- This revised estimate for GF/GP and SAF revenue in FY 2015-16 is down \$6.8 million from the final amount for FY 2014-15. The projected revenue decrease in FY 2015-16 reflects somewhat slower economic growth than in FY 2014-15. Increased business tax refunds and declines in sales tax and Corporate Income Tax collections are partially offset by increases in individual income tax revenue.
- The revised estimate for FY 2015-16 is \$200.7 million below the January 2016 consensus revenue estimate.

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

- GF/GP and SAF revenue is expected to total \$22.4 billion in FY 2016-17.
- The revised estimate for FY 2016-17 is up 2.8% or \$620.4 million from the revised estimate for FY 2015-16.
- The revised estimate for FY 2016-17 is \$305.0 million below the January 2016 consensus revenue estimate.
- The revenue increase in FY 2016-17 reflects improvements in the level of economic activity and a lower level of business tax credits that are partially offset by revenue reductions attributable to personal property tax reform.

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

- GF/GP and SAF revenue is expected to total \$23.2 billion in FY 2017-18.
- This revised estimate for FY 2017-18 is up 3.4% or \$769.1 million from the revised estimate for FY 2016-17.
- The revised estimate for FY 2017-18 is \$266.2 million below the January 2016 consensus revenue estimate.
- As in FY 2016-17, the revenue increase in FY 2017-18 reflects growth in Michigan economic activity, combined with a reduction in expected business tax credits.

Table 3

<b>SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2014-15 THROUGH FY 2017-18</b>				
<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND</b>				
<b>(Millions of Dollars)</b>				
	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
	<b>Final</b>	<b>Revised Est.</b>	<b>Revised Est.</b>	<b>Revised Est.</b>
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	\$10,660.5	\$10,841.2	\$11,138.0	\$11,514.4
Tax Changes Not In Baseline	(626.1)	(1,141.8)	(1,131.7)	(1,087.6)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	6,460.2	6,770.2	6,979.9	7,219.7
MBT, Corp. Income Tax, SBT & Insur. Tax	764.6	162.4	483.4	626.8
Other Taxes	2,411.6	2,377.0	2,165.9	2,212.2
Total Taxes	9,636.4	9,309.6	9,629.2	10,058.7
Nontax Revenue	398.0	389.8	377.1	368.1
<b>TOTAL GF/GP REVENUE</b>	<b>\$10,034.4</b>	<b>\$9,699.4</b>	<b>\$10,006.3</b>	<b>\$10,426.8</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	\$11,783.1	\$12,067.4	\$12,371.3	\$12,733.2
Tax Changes Not In Baseline	(36.0)	7.9	17.5	4.2
<b>TOTAL SAF REVENUE</b>	<b>\$11,747.1</b>	<b>\$12,075.3</b>	<b>\$12,388.8</b>	<b>\$12,737.4</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>	<b>\$22,443.6</b>	<b>\$22,908.6</b>	<b>\$23,509.3</b>	<b>\$24,247.6</b>
Tax & Revenue Changes	(662.1)	(1,133.9)	(1,114.2)	(1,083.4)
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>\$21,781.5</b>	<b>\$21,774.7</b>	<b>\$22,395.1</b>	<b>\$23,164.2</b>
SALES TAX	\$7,246.4	\$7,294.3	\$7,501.7	\$7,742.6
<b>Percent Change</b>				
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	8.9%	1.7%	2.7%	3.4%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	14.2	4.8	3.1	3.4%
MBT, Corp. Income Tax, SBT & Insur. Tax	53.0	(78.8)	197.7	29.7
Other Taxes	(2.4)	(1.4)	(8.9)	2.1
Total Taxes	11.7	(3.4)	3.4	4.5
Nontax Revenue	1.2	(2.1)	(3.3)	(2.4%)
<b>TOTAL GF/GP REVENUE</b>	<b>11.3%</b>	<b>(3.3%)</b>	<b>3.2%</b>	<b>4.2%</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	1.9%	2.4%	2.5%	2.9%
<b>TOTAL SAF REVENUE</b>	<b>2.0%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.8%</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>	<b>5.1%</b>	<b>2.1%</b>	<b>2.6%</b>	<b>3.1%</b>
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>6.0%</b>	<b>(0.0%)</b>	<b>2.8%</b>	<b>3.4%</b>
SALES TAX	(1.5%)	0.7%	2.8%	3.2

**Note:** FY 2014-15 is the base year for baseline revenue.

### **Historical Perspective**

- Net GF/GP and SAF revenue is forecast to remain nearly constant in FY 2015-16, and then increase by 2.8% in FY 2016-17 and 3.4% in FY 2017-18. These changes compare with an average decline of 2.3% per year for the FY 1999-2000 to FY 2009-10 period and average growth of 3.4% from FY 2010-11 to FY 2014-15.

- The revised estimate for GF/GP revenue from ongoing sources in FY 2015-16 is forecast to be 9.2% (\$981.2 million) below the record FY 1999-2000 level. Through FY 2017-18, GF/GP revenue is expected to remain below the FY 1999-2000 record level. Through FY 2016-17 revenue also will remain below the more recent peak that occurred in FY 2007-08, and then surpass that level by \$89.8 million or 0.9% in FY 2017-18.
- For FY 2015-16, ongoing SAF revenue will continue to grow above the record amount of SAF revenue received in FY 2014-15 by 2.8% (\$328.2 million). Growth is projected to continue in FY 2016-17 and FY 2017-18, bringing SAF revenue to new record levels each year. SAF revenue is estimated at 5.5% (\$641.7 million) above the FY 2014-15 record level in FY 2016-17, and 8.4% (\$990.3 million) above the FY 2014-15 record level in FY 2017-18.

Baseline revenue growth (using the FY 2014-15 base) is projected to remain positive during the forecast period. Figure 15 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the revised estimate for FY 2017-18. 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%. Baseline growth increased by 5.1% in FY 2014-15 and growth is expected to continue during the forecast period at approximately 2.1% in FY 2015-16, 2.6% for FY 2016-17, and 3.1% in FY 2017-18.

**Figure 15**

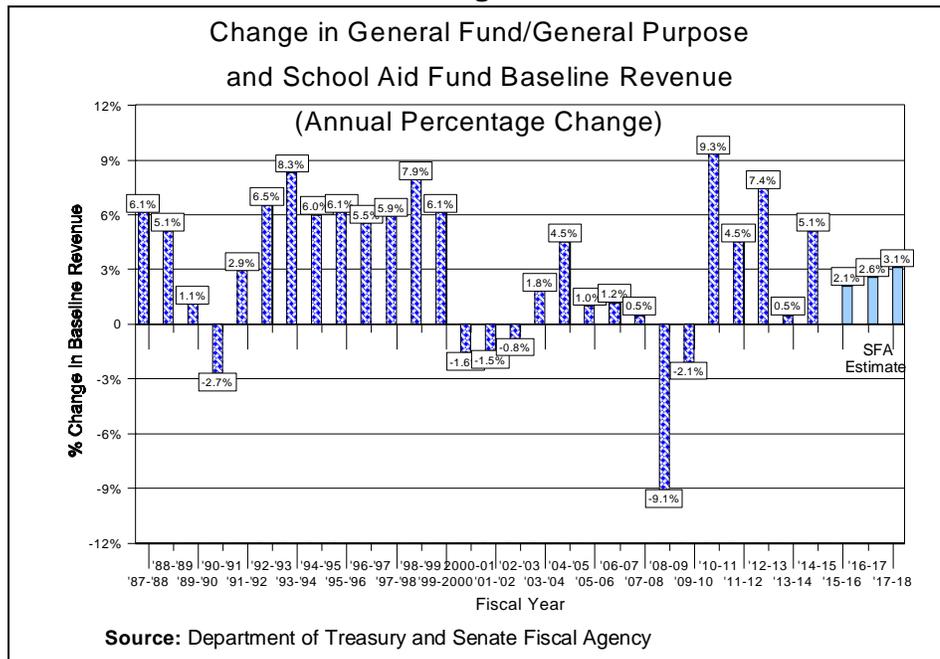
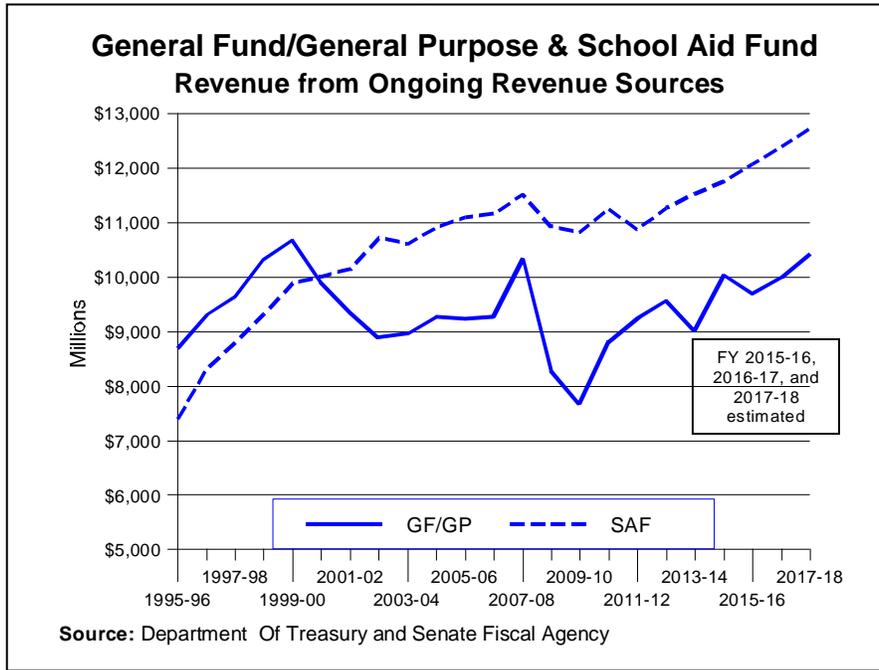


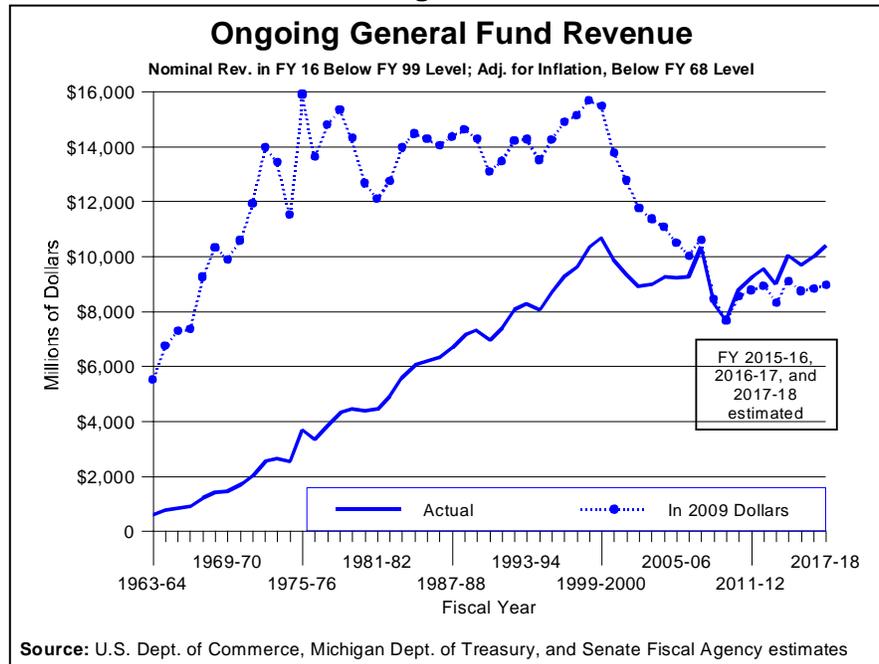
Figure 16 compares the FY 1995-96 through estimated FY 2017-18 amounts of both GF/GP revenue and the SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked 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 17](#), which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2015-16 will be approximately 9.2% (or \$981.2 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of \$10.0 billion in FY 2016-17 remains 6.3% below the peak, and revised estimates for FY 2017-18 are 2.4% below peak levels. In inflation-adjusted terms, however, FY 2017-18 GF/GP revenue is 3.1% (or \$283.4 million) below the FY 1967-68 level.

**Figure 16**

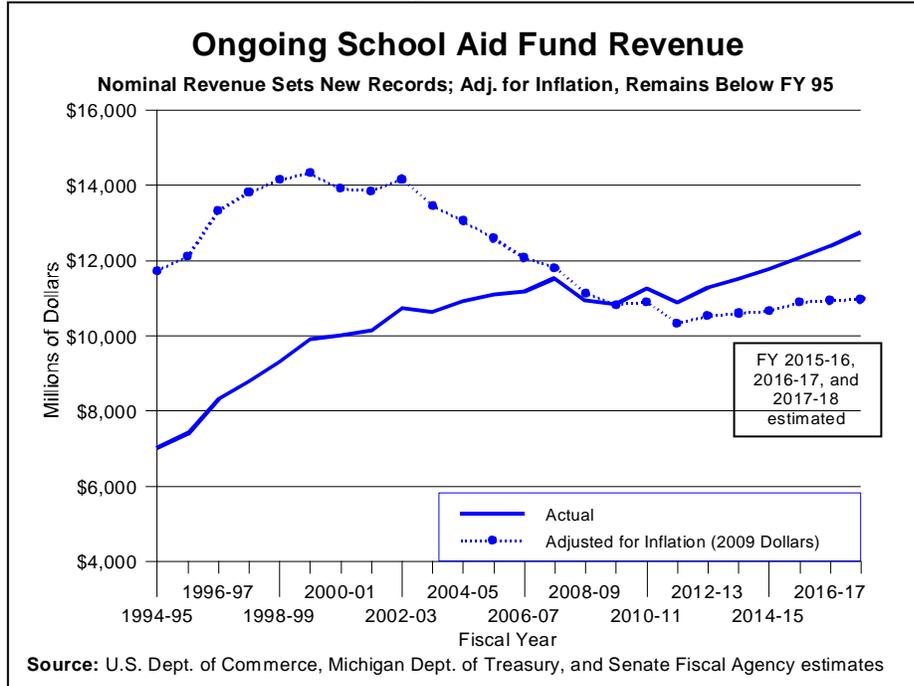


**Figure 17**



In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10 and tax code reforms reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2017-18, SAF revenue is predicted to be approximately 72.2% (\$5.3 billion) above the revenue level in FY 1995-96 (without accounting for inflation) and 9.5% (\$1.1 billion) below if adjusted for inflation, as shown in [Figure 18](#).

**Figure 18**



**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 \$21.8 billion in FY 2015-16, a decrease of \$6.8 million from the revised estimate for FY 2014-15. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.1% 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 4](#).

Tax policy changes are expected to reduce revenue during FY 2015-16, with the most significant reduction coming from business tax credits that are projected to peak in FY 2015-16.

**Business Tax Reform.** The value of refundable MBT credits is estimated to increase in FY 2015-16, from \$620.4 million in FY 2014-15 to \$1,041.0 million in FY 2015-16, helping to push total MBT revenue from a negative \$639.4 million in FY 2014-15 (refunds exceeded payments) to a negative \$1,031.0 million in FY 2015-16. These credits reduce GF/GP revenue. Battery credits (which will peak in FY 2015-16), and other certificated credits, are projected to increase. Furthermore, a significant portion of the refunds that were not claimed in FY 2014-15 are expected to be claimed in FY 2015-16.

**Sales Tax.** The enactment of affiliate nexus provisions in Public Act 553 of 2014 is estimated to increase sales tax revenue by \$60.0 million in FY 2015-16, of which \$10.0 million is GF/GP revenue,

\$44.0 million is SAF revenue, and \$6.0 million is directed to other funds, primarily constitutional revenue sharing. The revenue estimates also include the estimated impact of Public Acts 251 and 252 of 2015, which provide a sales tax exemption for data centers that is expected to reduce sales tax revenue by \$4.4 million; of which \$0.7 million is GF/GP revenue, \$3.2 million is SAF revenue, and \$0.4 million is directed to other funds. 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, lowering GF/GP revenue by \$4.8 million, SAF revenue by \$29.2 million, and other funds, primarily constitutional revenue sharing, by \$5.8 million.

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

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

- General Fund/General Purpose revenue will total an estimated \$9.7 billion in FY 2015-16, a decrease of 3.3% or \$335.0 million from FY 2014-15.
- The revised GF/GP estimate is \$144.4 million below the January 2016 consensus revenue estimate.

Although economic growth continues during 2016 and baseline GF/GP revenue is expected to increase 1.7%, tax collections will decrease in FY 2015-16. The decrease in revenue reflects an increase in MBT refunds, which are predicted to peak in FY 2015-16, new tax exemptions, and the beginning of the use tax earmark for reimbursements under personal property tax reform. The revised GF/GP revenue estimates for FY 2015-16 are summarized in [Table 4](#).

### **School Aid Fund**

- School Aid Fund revenue will total an estimated \$12.1 billion in FY 2015-16, an increase of 2.8% or \$328.2 million from FY 2014-15.
- The revised SAF estimate is \$56.3 million below the January 2016 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in all of the major taxes that contribute to the SAF with the exception of use tax. Baseline SAF revenue is expected to increase by 2.4%. The Real Estate Transfer Tax is expected to increase by 8.4% and income tax contributions to the SAF are projected to increase by 6.0%. Sales tax revenue allocated to the SAF, its largest revenue source, is expected to increase by 0.7% over FY 2014-15 as consumers remain cautious. The expansion of iLottery and sales from a record lottery jackpot earlier in late 2015 are expected increase the lottery contribution to the SAF by 10.5%, while revenue from the SET is expected to increase by 2.2% from the FY 2014-15 level. The revised SAF revenue estimates for FY 2015-16 are summarized in [Table 4](#).

Table 4

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

	FY 2014-15 Final	FY 2015-16 Revised Est.	Change from FY 2014-15		\$ Change from 01/16 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b>	\$10,660.5	\$10,841.2	\$180.7	1.7%	(\$144.4)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(626.1)	(1,141.8)	(515.7)	---	0.0
<u>Personal Income Tax</u>					
Gross Collections	10,672.8	11,218.3	545.5	5.1	271.1
Less: Refunds	(1,693.3)	(1,776.2)	(82.9)	4.9	(32.2)
Net Income Tax Collections	8,979.5	9,442.1	462.6	5.2	238.9
Less: Earmarking to SAF Campaign Fund	(2,519.3) 0.0	(2,671.1) (0.8)	(151.8) (0.8)	6.0 ---	(64.6) 0.0
Net Income Tax to GF/GP	\$6,460.2	\$6,770.2	\$310.0	4.8%	\$174.3
<u>Other Taxes</u>					
Corporate Income Tax	1,077.7	885.6	(192.1)	(17.8)	(230.4)
Michigan Business Tax	(639.4)	(1,031.0)	(391.6)	---	0.0
Sales	1,118.8	1,160.9	42.1	3.8	(39.2)
Use	958.2	851.5	(106.7)	(11.1)	(15.4)
Cigarette	188.1	187.9	(0.2)	(0.1)	2.2
Insurance Company Premiums	322.4	317.8	(4.6)	(1.4)	7.8
Telephone & Telegraph	41.8	42.0	0.2	0.5	0.0
Oil & Gas Severance	30.4	17.2	(13.2)	(43.4)	(13.2)
All Other	78.2	107.5	29.3	37.5	(30.5)
Subtotal Other Taxes	\$3,176.2	\$2,539.4	(\$636.8)	(20.0%)	(\$318.7)
Total Nontax Revenue	398.0	389.8	(8.2)	(2.1)	0.0
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,034.4</b>	<b>\$9,699.4</b>	<b>(\$335.0)</b>	<b>(3.3%)</b>	<b>(\$144.4)</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b>	\$11,783.1	\$12,067.4	\$284.3	2.4%	(\$56.3)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(36.0)	7.9	43.9	---	0.0
Sales Tax	5,265.6	5,303.8	38.2	0.7	(172.9)
Use Tax	476.4	474.0	(2.4)	(0.5)	(7.6)
Lottery Revenue	784.1	866.7	82.6	10.5	46.7
State Education Property Tax	1,857.6	1,897.6	40.0	2.2	7.5
Real Estate Transfer Tax	258.4	280.2	21.8	8.4	7.2
Income Tax	2,519.3	2,671.1	151.8	6.0	64.6
Casino Tax	110.8	112.5	1.7	1.5	0.5
Other Revenue	474.9	469.4	(5.5)	(1.2)	(2.3)
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$11,747.1</b>	<b>\$12,075.3</b>	<b>\$328.2</b>	<b>2.8%</b>	<b>(\$56.3)</b>
<b>BASELINE GF/GP AND SAF</b>	<b>\$22,443.6</b>	<b>\$22,908.6</b>	<b>\$465.0</b>	<b>2.1%</b>	<b>(\$200.7)</b>
Tax & Revenue Changes	(662.1)	(1,133.9)	(471.8)	---	0.0
<b>GF/GP &amp; SAF REV. AFTER CHNGS.</b>	<b>\$21,781.5</b>	<b>\$21,774.7</b>	<b>(\$6.8)</b>	<b>(0.1%)</b>	<b>(\$200.7)</b>
SALES TAX	\$7,246.4	\$7,294.3	\$47.9	0.7%	(\$235.7)

**Note:** FY 2014-15 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 more slowly than in FY 2015-16. Total GF/GP and SAF revenue will reach an estimated \$22.4 billion in FY 2016-17, an increase of 2.8% or \$620.4 million from the revised estimate for FY 2015-16. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.6% 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 5](#).

### **Tax Policy Changes**

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

**Business Tax Reform.** Revenue in FY 2016-17 will be reduced by the ongoing MBT credits; however, the expected reduction of \$753.9 million in FY 2016-17 is smaller than the reduction in FY 2015-16, due in part to the expiration of a portion of the battery credits. As a result, net MBT revenue is expected to total a negative \$743.9 million in FY 2016-17 (refunds will exceed payments). All of the impact of the MBT credits reduces GF/GP revenue. Public Act 282 of 2014, which made various adjustments in the MBT, also will reduce GF/GP revenue by \$5.6 million in FY 2016-17.

**Sales Tax.** The revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to increase to \$47.0 million in FY 2016-17. This change reduces GF/GP revenue by \$5.6 million, SAF revenue by \$34.5 million, and other funds by \$6.9 million. The affiliate nexus changes, which will apply the sales tax to additional internet commerce, will increase sales tax revenue by \$62.0 million in FY 2016-17; of that amount, \$10.3 million is GF/GP revenue, \$45.5 million is SAF revenue, and \$6.2 million affects other funds, primarily constitutional revenue sharing. The sales tax exemption for data centers enacted by Public Acts 251 and 252 of 2015, will reduce sales tax revenue by \$6.0 million in FY 2016-17: \$1.0 million GF/GP, \$4.4 million SAF, and \$0.6 million in other funds. The change in sales tax treatment of aviation fuel included in Public Acts 262 and 263 of 2015 will reduce GF/GP revenue by \$13.5 million in FY 2016-17 and redirect that revenue to the State Aeronautics Fund and the Qualified Airport Fund.

**Personal Property Tax Reform.** Fiscal year 2016-17 is the second 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 2016-17, \$380.9 million of use tax revenue will be restricted for these local payments, resulting in a reduction of \$380.9 million in GF/GP revenue. This revenue loss will be offset in part by the implementation of the Essential Services Assessment, a specific tax on eligible manufacturing personal property that is exempt from property taxation. In its second year, the Essential Services Assessment will increase GF/GP revenue by \$69.0 million. The SET also will be reduced by the expanding tax exemptions, which will reduce SAF revenue by \$21.1 million.

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

- General Fund/General Purpose revenue will total an estimated \$10.0 billion in FY 2016-17, an increase of 3.2% or \$306.9 million from FY 2015-16.
- The revised GF/GP estimate is \$207.6 million below the January 2016 consensus revenue estimate.

General Fund/General Purpose revenue will continue to grow in FY 2016-17, reflecting continued economic growth. Baseline GF/GP revenue is expected to increase 2.7%. The revised GF/GP revenue estimates for FY 2016-17 are summarized in [Table 5](#).

Table 5

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

	FY 2015-16 Revised Est.	FY 2016-17 Revised Est.	Change from FY 2015-16		\$ Change from 01/16 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b>	\$10,841.2	\$11,138.0	\$296.8	2.7%	(\$198.5)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(1,141.8)	(1,131.7)	10.1	---	(9.1)
<u>Personal Income Tax</u>					
Gross Collections	11,218.3	11,564.3	346.0	3.1	250.0
Less: Refunds	(1,776.2)	(1,830.1)	(53.9)	3.0	(32.0)
Net Income Tax Collections	9,442.1	9,734.2	292.1	3.1	218.0
Less: Earmarking to SAF Campaign Fund	(2,671.1) (0.8)	(2,753.5) (0.8)	(82.4) 0.0	3.1 0.0	(59.6) 0.0
Net Income Tax to GF/GP	\$6,770.2	\$6,979.9	\$209.7	3.1%	\$158.4
<u>Other Taxes</u>					
Corporate Income Tax	885.6	910.3	24.7	2.8	(237.0)
Michigan Business Tax	(1,031.0)	(743.9)	287.1	(27.8)	0.0
Sales	1,160.9	1,167.6	6.7	0.6	(52.8)
Use	851.5	610.2	(241.3)	(28.3)	(40.0)
Cigarette	187.9	185.6	(2.3)	(1.2)	2.3
Insurance Company Premiums	317.8	322.0	4.2	1.3	5.0
Telephone & Telegraph	42.0	42.0	0.0	0.0	0.0
Oil & Gas Severance	17.2	18.1	0.9	5.2	(15.4)
All Other	107.5	137.4	29.9	27.8	(28.1)
Subtotal Other Taxes	\$2,539.4	\$2,649.3	\$109.9	4.3%	(\$366.0)
Total Nontax Revenue	389.8	377.1	(12.7)	(3.3)	0.0
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$9,699.4</b>	<b>\$10,006.3</b>	<b>\$306.9</b>	<b>3.2%</b>	<b>(\$207.6)</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b>	\$12,067.4	\$12,371.3	\$303.9	2.5%	(\$97.4)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	7.9	17.5	9.6	---	0.0
Sales Tax	5,303.8	5,454.6	150.8	2.8	(198.0)
Use Tax	474.0	495.6	21.6	4.6	(20.0)
Lottery Revenue	866.7	871.1	4.4	0.5	48.0
State Education Property Tax	1,897.6	1,942.8	45.2	2.4	7.0
Real Estate Transfer Tax	280.2	291.7	11.5	4.1	7.0
Income Tax	2,671.1	2,753.5	82.4	3.1	59.6
Casino Tax	112.5	114.0	1.5	1.3	1.0
Other Revenue	469.4	465.5	(3.9)	(0.8)	(2.0)
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,075.3</b>	<b>\$12,388.8</b>	<b>\$313.5</b>	<b>2.6%</b>	<b>(\$97.4)</b>
<b>BASELINE GF/GP AND SAF</b>	<b>\$22,908.6</b>	<b>\$23,509.3</b>	<b>\$600.7</b>	<b>2.6%</b>	<b>(\$295.9)</b>
Tax & Revenue Changes	(1,133.9)	(1,114.2)	19.7	---	(9.1)
<b>GF/GP &amp; SAF REV. AFTER CHNGS.</b>	<b>\$21,774.7</b>	<b>\$22,395.1</b>	<b>\$620.4</b>	<b>2.8%</b>	<b>(\$305.0)</b>
SALES TAX	\$7,294.3	\$7,501.7	\$207.4	2.8%	(\$270.0)

**Note:** FY 2014-15 is the base year for baseline revenue.

### **School Aid Fund**

- School Aid Fund revenue will total an estimated \$12.4 billion in FY 2016-17, an increase of 2.6% or \$313.5 million from FY 2015-16.
- The revised SAF estimate is \$97.4 million below the January 2016 consensus revenue estimate.

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.4 billion in FY 2016-17, an increase of \$313.5 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 additional impact from expansion of iLottery. The SAF revised revenue estimates for FY 2016-17 are summarized in [Table 5](#).

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

Michigan's economy is expected to continue growing during FY 2017-18. Personal income and wage and salary employment will grow at a slightly faster rate than in FY 2016-17. Total GF/GP and SAF revenue will reach an estimated \$23.2 billion in FY 2017-18, an increase of 3.4% or \$769.1 million from the revised estimate for FY 2016-17. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.1% in FY 2017-18, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2017-18 is \$266.2 million below the January 2016 forecast and is summarized in [Table 6](#).

### **Tax Policy Changes**

Tax policy changes affecting FY 2017-18 are similar to those affecting FY 2016-17. Use tax revenue of \$410.8 million in FY 2017-18 will be restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and reduce GF/GP revenue by \$410.8 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$75.1 million. The SAF also will be affected by personal property tax reform, as the SET will be reduced by \$21.2 million due to the phase-in of additional tax exemptions. Michigan Business Tax refunds will lower GF/GP revenue by \$652.6 million, to a negative \$642.6 million (refunds will exceed payments), although the reduction will be smaller than in FY 2016-17 due to the phase-out of battery credits. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$54.7 million, of which \$40.1 million is a reduction to the SAF. Affiliate nexus provisions will increase sales tax revenue from internet sales by \$64.0 million, of which \$10.7 million is GF/GP revenue, \$46.9 million is SAF revenue, and \$6.4 million is deposited to other funds.

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

General Fund/General Purpose revenue will total an estimated \$10.4 billion in FY 2017-18, an increase of 4.2% or \$420.5 million from the revised estimate for FY 2016-17. Baseline GF/GP revenue is expected to increase 3.4%. The revised GF/GP revenue estimates for FY 2017-18 are \$172.5 million below the January 2016 consensus estimates and are summarized in [Table 6](#).

### **School Aid Fund**

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.7 billion in FY 2017-18, an increase of \$348.6 million, or 2.8%, from the revised estimate for FY 2016-17. The forecasted increase in SAF revenue reflects growth in all major earmarked revenue sources, plus growth in the lottery. Total SAF revenue in FY 2017-18 is projected to set a new record, exceeding the peak reached in FY 2007-08 by \$1.2 billion or 10.6%. The revised SAF revenue

estimates for FY 2017-18 are \$93.7 million below the January 2016 consensus estimates and are summarized in Table 6.

**Table 6**  
**FY 2017-18 REVISED REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
**(Millions of Dollars)**

	FY 2016-17 Revised Est.	FY 2017-18 Revised Est.	Change from FY 2016-17		\$ Change from 01/16 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b>	\$11,138.0	\$11,514.4	\$376.4	3.4%	(\$166.4)
<b>Tax Changes Not In Baseline</b>	(1,131.7)	(1,087.6)	44.1	---	(6.1)
<b><u>Revenue After Tax Changes</u></b>					
<u>Personal Income Tax</u>					
Gross Collections	11,564.3	11,942.6	378.3	3.3	297.0
Less: Refunds	(1,830.1)	(1,878.6)	(48.5)	2.7	(32.0)
Net Income Tax Collections	9,734.2	10,064.0	329.8	3.4	265.0
Less: Earmarking to SAF	(2,753.5)	(2,843.5)	(90.0)	3.3	(70.7)
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$6,979.9	\$7,219.7	\$239.8	3.4%	\$194.3
<u>Other Taxes</u>					
Corporate Income Tax	910.3	931.4	21.1	2.3	(240.0)
Michigan Business Tax	(743.9)	(642.6)	101.3	(13.6)	0.0
Sales	1,167.6	1,207.2	39.6	3.4	(54.0)
Use	610.2	610.9	0.7	0.1	(38.0)
Cigarette	185.6	184.4	(1.2)	(0.6)	3.5
Insurance Company Premiums	322.0	338.0	16.0	5.0	8.0
Telephone & Telegraph	42.0	41.0	(1.0)	(2.4)	0.0
Oil & Gas Severance	18.1	19.8	1.7	9.4	(18.7)
All Other	137.4	148.9	11.5	8.4	(27.6)
Subtotal Other Taxes	\$2,649.3	\$2,839.0	\$189.7	7.2%	(\$366.8)
Total Nontax Revenue	377.1	368.1	(9.0)	(2.4)	0.0
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,006.3</b>	<b>\$10,426.8</b>	<b>\$420.5</b>	<b>4.2%</b>	<b>(\$172.5)</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b>	\$12,371.3	\$12,733.2	\$361.9	2.9%	(\$93.7)
<b>Tax Changes Not In Baseline</b>	17.5	4.2	(13.3)	---	0.0
<b><u>Revenue After Tax Changes</u></b>					
Sales Tax	5,454.6	5,629.9	175.3	3.2	(205.3)
Use Tax	495.6	510.9	15.3	3.1	(19.0)
Lottery Revenue	871.1	869.7	(1.4)	(0.2)	45.0
State Education Property Tax	1,942.8	2,001.4	58.6	3.0	7.0
Real Estate Transfer Tax	291.7	297.0	5.3	1.8	0.6
Income Tax	2,753.5	2,843.5	90.0	3.3	70.7
Casino Tax	114.0	116.0	2.0	1.8	1.5
Other Revenue	465.5	469.0	3.5	0.8	5.8
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,388.8</b>	<b>\$12,737.4</b>	<b>\$348.6</b>	<b>2.8%</b>	<b>(\$93.7)</b>
<b>BASELINE GF/GP AND SAF</b>	\$23,509.3	\$24,247.6	\$738.3	3.1%	(\$260.1)
<b>Tax &amp; Revenue Changes</b>	(1,114.2)	(1,083.4)	30.8	---	(6.1)
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$22,395.1</b>	<b>\$23,164.2</b>	<b>\$769.1</b>	<b>3.4%</b>	<b>(\$266.2)</b>
<b>SALES TAX</b>	\$7,501.7	\$7,742.6	\$240.9	3.2%	(\$280.0)

**Note:** FY 2014-15 is the base year for baseline revenue.

## **MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2015-16 THROUGH FY 2017-18**

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

**Individual Income Tax.** Individual income tax revenue will increase by an estimated 5.2% in FY 2015-16, to \$9.4 billion. As in FY 2014-15, income tax withholding in FY 2015-16 continues to grow rapidly as wages, average hours, and employment continue to grow. Some of the higher withholding in FY 2014-15 is forecast to be returned in the form of higher refunds in FY 2015-16, which are expected to increase 4.9% in FY 2015-16. As the Michigan economy continues to expand, all components of the income tax are expected to exhibit growth, resulting in net individual income tax revenue increasing 3.1% in FY 2016-17 and 3.4% in FY 2017-18. Compared with the January 2016 consensus revenue estimates, the revised estimate for FY 2015-16 individual income tax revenue is \$238.0 million higher, while the revised estimates for FY 2016-17 and FY 2017-18 are \$178.0 million and \$230.0 million higher, respectively. Individual income tax revenue is directed to both the General Fund and the School Aid Fund. The School Aid Fund receives 23.8% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds).

**Sales Tax.** Sales tax revenue during FY 2014-15 was influenced by several different factors that had opposite effects on revenue. Increases in vehicle sales increased the sales tax received from those transactions by 2.1%. However, the increase was more than offset by declines in revenue from other transactions, particularly gasoline sales. The decline in gas prices during 2015 helped lower sales tax revenue despite an increase in the number of gallons consumed. Historically, such a decline in receipts from gasoline sales would have been largely offset by increased spending on other taxable goods. Risk-averse consumers did not provide as large an offset as would have been suggested historically, and sales tax revenue in FY 2014-15 totaled less than \$7.3 billion, 1.0% below the FY 2013-14 level. Through April 2016, this pattern has largely continued into FY 2015-16. As a result, the forecast predicts consumption to increase modestly in FY 2015-16, resulting in sales tax revenue rising only 0.7% in FY 2015-16, to \$7.3 billion. As income gains continue and gasoline prices stabilize and/or increase, the forecast expects sales tax revenue to increase 2.8% in FY 2016-17 and 3.2% in FY 2017-18. 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 2016 consensus revenue estimates, the revised sales tax estimate for FY 2015-16 is \$235.7 million lower, while the revised estimates for FY 2016-17 and FY 2017-18 are down \$270.0 million and \$280.0 million, respectively. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

**Use Tax.** Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, can be volatile. The revised estimate for FY 2015-16 use tax revenue predicts a 0.9% decrease, largely attributable to a combination of

several large refunds. However, the portion of use tax revenue received by the State of Michigan is expected to decline more drastically. Beginning in FY 2015-16, a portion of use tax revenue that has previously been directed to the General Fund will be converted into a local use tax used to fund reimbursements to local units affected by personal property tax reforms approved by the voters in August 2014. Payments to the Local Community Stabilization Authority start at \$96.4 million in FY 2015-16, rise to \$380.9 million in FY 2016-17 and \$410.8 million in FY 2017-18, and increase annually to over \$500.0 million beginning in FY 2021-22. As a result, although combined State and local use taxes are expected to increase 4.6% in FY 2016-17 and 3.1% in FY 2017-18, use tax revenue received by the State is projected to decrease 7.6% in FY 2015-16, and decline an additional 16.6% in FY 2016-17. As the amount of State revenue converted to local use taxes grows more slowly in FY 2017-18, the use tax revenue received by the State is expected to increase 1.4%. Compared with the January 2016 consensus revenue estimates, the FY 2015-16 estimate for combined state and local use tax collections is revised down by \$23.0 million, while the FY 2016-17 estimate is \$60.0 million lower, and the FY 2016-17 estimate is down \$57.0 million. One-third of combined State and local use tax revenue is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

**Tobacco Taxes.** Revenue from tobacco taxes will total an estimated \$952.2 million in FY 2015-16, a decrease of 0.1% from FY 2014-15. The minimal decline reflects the continuing effects of a permanent revenue increase attributable to legislation adopted to improve tax enforcement regarding tobacco products. In FY 2016-17, tobacco tax revenue is expected to resume its long-term downward trend, declining 1.2% to \$940.5 million, before falling 0.8% in FY 2017-18. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the Capitol Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

**Casino Tax.** The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2015-16, casino tax revenue is projected to total \$112.5 million, a 1.5% increase from FY 2014-15. Casino tax revenue is expected to continue growing in FY 2016-17 and FY 2017-18, rising 1.3% and 1.8%, respectively.

**State Education Property Tax.** Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to \$1.8 billion. After increasing 3.0% in FY 2014-15, SET collections are expected to grow 2.2% in FY 2015-16, 2.4% in FY 2016-17, and 3.0% in FY 2017-18, as the housing market improves and higher inflation allows greater increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF.

**Lottery.** Changes in the structure of the Powerball game to create larger jackpots, as well as the expansion of iLottery games, are forecast to cause net Lottery revenue to increase 10.5% in FY 2015-16. Lottery revenue growth is expected to slow in FY 2016-17, with revenue increasing 0.5% in FY 2016-17 and declining 0.2% in FY 2017-18. All of the net revenue generated by the Lottery is earmarked to the SAF. Depending on the year, Lottery revenue represents approximately 6.2% to 6.6% of total earmarked SAF revenue.

**Michigan Business Tax/Corporate Income Tax.** Legislation adopted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the Corporate Income Tax (CIT), which generates about 40% as much revenue as what was received under the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-

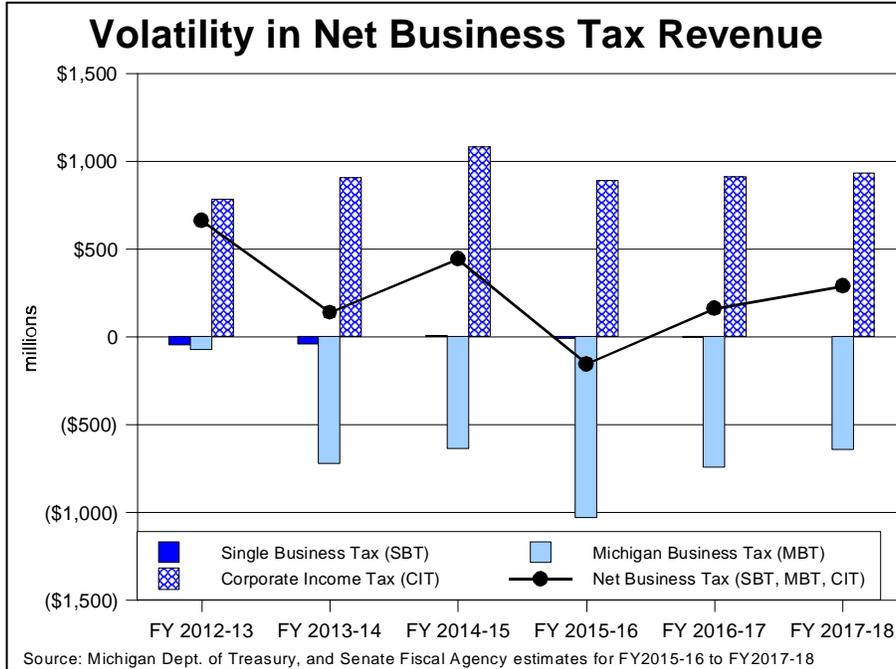
corporations, partnerships, and many limited liability companies (LLCs), do not pay any separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling approximately \$639.4 million in FY 2014-15, estimated MBT credits are projected to reduce State revenue by between \$600.0 million and \$1.0 billion each year over the forecast period. Net MBT revenue in FY 2015-16 is expected to total a negative \$1.0 billion. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund board from time to time amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although in some cases the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates. The administration has been working with a number of taxpayers that will claim the largest credits on ways to limit this uncertainty.

These credits represent a significant reduction in General Fund revenue. Because of the magnitude of these MBT credits, their unpredictable nature can result in large swings in General Fund revenue. Based on the revised FY 2015-16 revenue estimate, MBT credits reduced General Fund revenue by more than \$1.0 billion, or approximately 10.6%. As MBT credits (of which Michigan Economic Growth Authority credits represent the majority of the credits that may be claimed) decline in later years, the impact will remain significant, lowering General Fund revenue by 7.4% in FY 2016-17 and 6.2% in FY 2017-18. Despite the administration's efforts, when these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals and thus limits efforts to correctly predict revenue.

In FY 2014-15, Corporate Income Tax revenue grew 18.9%, and net business tax revenue from the MBT, CIT, and SBT totaled \$442.2 million. The revised estimate for business taxes in FY 2015-16 is a negative \$155.4 million, a 135.1% decline from FY 2014-15 and \$230.4 million below the January 2016 consensus estimate. This decline reflects a significant downward revision in the estimate for CIT revenue. Corporate profits generally exhibit significant volatility. (One reason Michigan replaced the CIT in 1976 with the SBT was because of large swings in revenue from the CIT. These large swings in the CIT helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) Net revenue from business taxes (the MBT and CIT plus remaining refunds under the SBT) is projected to increase to a positive \$161.4 million in FY 2016-17 and to \$288.8 million in FY 2017-18 ([Figure 19](#)). All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 19



**Insurance Taxes.** Revenue from Michigan's taxes on insurance companies totaled \$322.4 million in FY 2014-15, an 11.0% decline from FY 2013-14 and \$79.6 million below the May 2015 consensus revenue estimate. Legislation adopted in 2012, Public Act 204 of 2012, transferred Secretary of State functions related to the Assigned Claims Plan and Assigned Claims Facility (ACF) to the Michigan Automobile Insurance Placement Facility. At the time, the legislation was not expected to affect insurance tax revenue. However, the legislation enables insurance companies to claim larger credits against their liability and many taxpayers began claiming these credits during FY 2014-15. The forecast assumes that credit use will increase in FY 2015-16 and that the credits have permanently lowered insurance tax revenue. (As noted in the Year-End Balance section at the end of this report, the Governor has recommended legislation to eliminate the fiscal impact of PA 204 of 2012.)

**REVENUE TRENDS**

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

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

Based on a longer-term view of Michigan's economy for FY 2018-19 and FY 2019-20, net GF/GP revenue is expected to increase 2.6% in FY 2018-19, to \$10.7 billion, while SAF revenue will increase 3.8%, to \$13.2 billion. In FY 2019-20, net GF/GP revenue is expected to increase 2.7%, to \$11.0 billion, while SAF revenue will increase 3.7%, to \$13.7 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 2015-16, FY 2016-17, and FY 2017-18. 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 2015-16, FY 2016-17, and FY 2017-18 have been adjusted to reflect a common base year.

**Table 7**

<b>CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2015-16 (Millions of Dollars)</b>			
<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 19, 2013	\$9,946.4	\$12,339.6	\$22,286.0
January 10, 2014 <sup>a)</sup>	9,826.4	12,282.1	22,108.5
May 13, 2014	9,547.1	12,207.7	21,754.8
May 15, 2014 <sup>a)</sup>	9,553.2	12,246.6	21,799.8
December 19, 2014	9,367.4	12,246.4	21,613.8
January 16, 2015 <sup>a)</sup>	9,509.1	12,274.5	21,783.6
May 8, 2015	9,745.3	12,114.2	21,859.5
May 15, 2015 <sup>a)</sup>	9,712.3	12,209.7	21,922.0
December 17, 2015	9,928.4	12,099.6	22,028.0
January 14, 2016 <sup>a)</sup>	9,919.9	12,123.7	22,043.6
May 13, 2016	9,809.1	12,067.4	21,876.5
<b>Change From Previous Estimate:</b>			
Dollar Change	(\$110.8)	(\$56.3)	(\$167.1)
Percent Change	(1.1%)	(0.5%)	(0.8%)
<b>Change From Initial Estimate:</b>			
Dollar Change	(\$137.3)	(\$272.2)	(\$409.5)
Percent Change	(1.4%)	(2.2%)	(1.8%)
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2014-15; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2015-16 was made in December 2013 at \$22.3 billion, as shown in Table 7. This estimate was lowered by \$177.5 million at the January 2014 Consensus Revenue Estimating Conference, and then lowered again by \$308.7 million at the May 2014 Consensus Revenue Estimating Conference and by \$16.2 million at the January 2015 Consensus Conference. The May 2015 Consensus Conference increased the estimate by \$138.4 million, and the January 2016 Consensus Conference increased it by an additional \$121.6 million. The Senate Fiscal Agency's revised estimate for FY 2015-16 presented in this report lowers the baseline estimate by \$167.1 million below the January 2016 consensus estimate, to \$21.9 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2016-17 was made in December 2014, as shown in Table 8. At that time, baseline revenue in FY 2016-17 was estimated at \$22.2 billion.

This estimate was increased by \$281.2 million at the January 2015 Consensus Revenue Estimating Conference, then increased another \$92.3 million at the May 2015 Consensus Revenue Estimating Conference. The January 2016 consensus conference increased the estimate by another \$100.3 million. The Senate Fiscal Agency's revised estimate for FY 2016-17 presented in this report decreases the baseline estimate by \$268.6 million below the January 2016 consensus estimate, to \$22.4 billion.

**Table 8**  
**CHANGES IN SENATE FISCAL AGENCY**  
**BASELINE REVENUE ESTIMATES FOR FY 2016-17**  
**(Millions of Dollars)**

<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 19, 2014	\$9,643.0	\$12,580.2	\$22,223.2
January 16, 2015 <sup>a)</sup>	9,847.1	12,657.3	22,504.4
May 8, 2015	10,072.7	12,444.2	22,516.9
May 15, 2015 <sup>a)</sup>	10,026.9	12,569.7	22,596.6
December 17, 2015	10,216.0	12,411.3	22,627.3
January 14, 2016 <sup>a)</sup>	10,228.2	12,468.7	22,696.9
May 13, 2016	10,057.0	12,371.3	22,428.3
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$171.2)	(\$97.4)	(\$268.6)
Percent Change	(1.7%)	(0.8%)	(1.2%)
<u>Change From Initial Estimate:</u>			
Dollar Change	\$414.0	(\$208.9)	\$205.1
Percent Change	4.3%	(1.7%)	0.9%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2014-15; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2017-18 was made in December 2015, as shown in [Table 9](#). At that time, baseline revenue in FY 2017-18 was estimated at \$23.2 billion. This estimate was increased by \$116.6 million at the January 2016 Consensus Revenue Estimating Conference. The revised Senate Fiscal Agency estimate for FY 2017-18 lowers baseline revenue for FY 2017-18 by \$230.7 million, to \$23.1 billion.

**Table 9**  
**CHANGES IN SENATE FISCAL AGENCY**  
**BASELINE REVENUE ESTIMATES FOR FY 2017-18**  
**(Millions of Dollars)**

<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 17, 2015	\$10,511.2	\$12,734.8	\$23,246.0
January 14, 2016 <sup>a)</sup>	10,535.7	12,826.9	23,362.6
May 13, 2016	10,398.7	12,733.2	23,131.9
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$137.0)	(\$93.7)	(\$230.7)
Percent Change	(1.3%)	(0.7%)	(1.0%)
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$112.5)	(\$1.6)	(\$114.1)
Percent Change	(1.1%)	(0.0%)	(0.5%)
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2013-14; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			



**BUDGET  
STABILIZATION FUND**



## **BUDGET STABILIZATION FUND**

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 2015-16 is based on personal income growth from calendar year 2014 to 2015 and GF/GP revenue in FY 2014-15. Different years are used to calculate a potential pay-out. A pay-out in FY 2015-16 depends on the change in personal income from calendar year 2015 to calendar year 2016 and the amount of GF/GP revenue in FY 2015-16.

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

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

million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the Detroit bankruptcy. At the same time, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of \$17.5 million from tobacco settlement revenue to the BSF annually for the 21 years from FY 2014-15 through FY 2034-35 to repay that transfer.

Table 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 2014-15. Also presented in this table are the SFA's estimates for FY 2015-16, FY 2016-17, and FY 2017-18. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 20, and the estimated economic stabilization trigger calculations for FY 2015-16, FY 2016-17, and FY 2017-18 are presented in Table 11.

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

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the statutory formula triggers payments into the Fund in FY 2015-16 and FY 2016-17, but not in FY 2017-18.

In FY 2015-16, two deposits to the BSF have been enacted already. The annual budget (Public Act 84 of 2015) appropriated \$95.0 million to the BSF in FY 2015-16. In addition, the deposits include \$17.5 million of tobacco settlement revenue that must be transferred to the BSF according to Public Act 186 of 2014, as noted above. Based on growth in inflation-adjusted personal income, under the statutory formula, the deposit to the BSF, if appropriated by the Legislature, would be \$259.5 million in FY 2015-16. The \$112.5 million already appropriated to the BSF in FY 2015-16 is \$147.0 million less than the formula deposit.

The pay-in to the BSF is estimated at \$119.5 million in FY 2016-17. Based on current estimates, no deposit to the BSF is required in FY 2017-18. A deposit of \$17.5 million each year already is required under the Trust Fund Act. The additional payment to the BSF, if appropriated by the Legislature, is estimated at \$102.0 million in FY 2016-17.

If the additional formula deposits are appropriated and the Trust Fund Act deposits continue, the year-end balance in the BSF is estimated at \$759.1 million in FY 2015-16, \$884.3 million in FY 2016-17, and \$913.7 million in FY 2017-18. If the additional formula deposits are not appropriated, based on the current law appropriation for FY 2015-16 and the continuation of the annual deposit of \$17.5 million required by the Trust Fund Act, the year-end Fund balances are estimated at \$612.1 million in FY 2015-16, \$634.2 million in FY 2016-17, and \$660.3 million in FY 2017-18, as shown in Table 11.

Table 10

<b>BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2017-18 ESTIMATE (Millions of Dollars)</b>				
Fiscal Year <sup>a)</sup>	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 <sup>b)</sup>	75.0	0.4	194.8	386.2
2014-15 <sup>c)</sup>	111.5	0.4	0.0	498.1
Enacted Deposits and Estimated Interest Earnings:				
2015-16 <sup>d)</sup>	112.5	1.5	0.0	612.1
2016-17 <sup>e)</sup>	17.5	4.6	0.0	634.2
2017-18 <sup>f)</sup>	17.5	8.6	0.0	660.3
<p>a) For FY 1998-99 to FY 2014-15 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 2015-16 to FY 2017-18 include enacted legislation and estimated interest earnings.</p> <p>b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of \$194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.</p> <p>c) Pay-ins that totaled \$111.5 million were appropriated in FY 2014-15. PA 252 of 2014 appropriated \$94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of \$17.5 million of tobacco settlement revenue to the BSF as the first repayment of the withdrawal related to the Detroit bankruptcy.</p> <p>d) There is a difference of \$147.0 million between the enacted deposit of \$112.5 million in FY 2015-16 (\$17.5 million deposit authorized by the Trust Fund Act plus the \$95.0 million deposit appropriated in PA 84 of 2015) and the estimated formula pay-in of \$259.5 million estimated by the SFA.</p> <p>e) There is a difference of \$102.0 million between the \$17.5 million already authorized by the Trust Fund Act and the estimated \$119.5 million formula deposit calculated by the SFA.</p> <p>f) A deposit of \$17.5 million is authorized by the Trust Fund Act. No formula pay-in is projected.</p>				

Figure 20

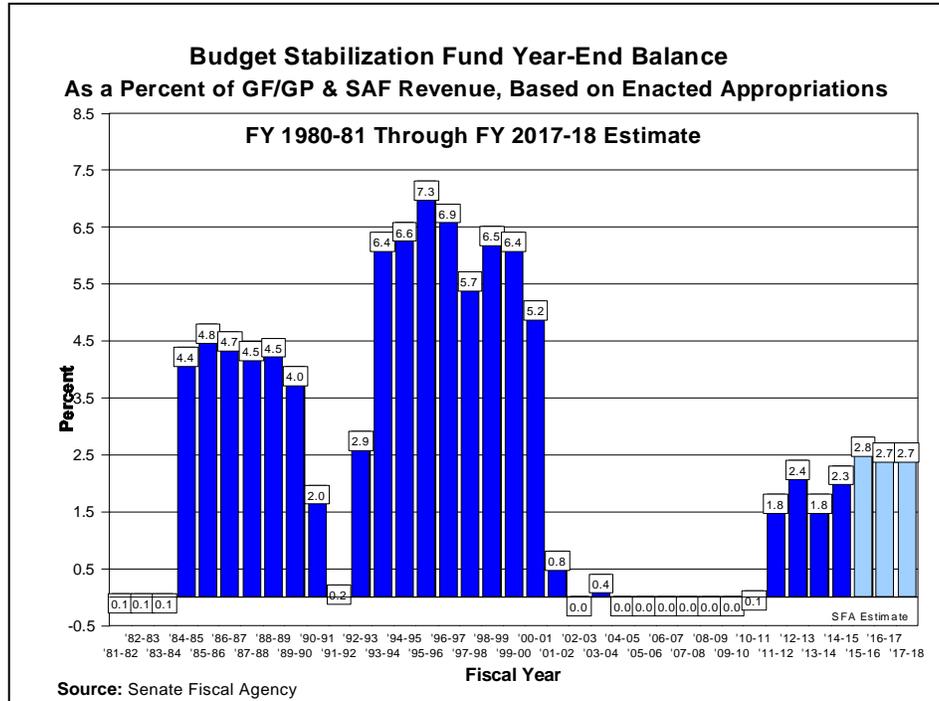


Table 11

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

	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Michigan Personal Income (MPI)	403,726	421,044	435,983	450,905	469,270
Less: Transfer Payments	86,899	91,527	96,033	101,053	106,610
Subtotal	\$316,827	\$329,517	\$339,950	\$349,851	\$362,659
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.2097	2.1975	2.1960	2.2304	2.2834
Equals: Real Adjusted MPI	\$143,378	\$149,954	\$154,801	\$156,858	\$158,823
Percent Change from Prior Year		4.59%	3.23%	1.33%	1.25%
Excess Over 2.0%		2.59%	1.23%	0.00%	0.00%
		<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Multiplied by: Estimated GF/GP Revenue		\$10,034.4	\$9,699.4	\$10,006.3	\$10,426.8
Equals: Transfer to the BSF			\$259.5	\$119.5	\$0.0
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 2015-16, FY 2016-17, and FY 2017-18, with State revenue forecast to be nearly \$10.0 billion below the limit in FY 2017-18.

### **THE REVENUE LIMIT**

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

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees, and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments (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 2015-16, FY 2016-17, and FY 2017-18, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 21. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

### **FY 2015-16**

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2014 equals \$403.7 billion, and as a result, the revenue limit equals \$38.3 billion in FY 2015-16, an increase of \$1.5 billion over FY 2014-15. Based on the SFA's revised revenue estimates for FY 2015-16, revenue subject to the revenue limit will equal an estimated \$29.1 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.3 billion, or 24.1%, in FY 2015-16. With personal income growth of 4.1% exceeding the 0.5% growth of revenue subject to the limit, the amount by which the State is under the revenue limit will increase.

### **FY 2016-17**

The Senate Fiscal Agency estimates that personal income in Michigan during 2015 will equal \$421.0 billion, and as a result, the revenue limit will equal \$40.0 billion in FY 2016-17. Based on the SFA's revised revenue estimates for FY 2016-17, revenue subject to the revenue limit will equal an estimated \$30.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.6 billion, or 24.0%, in FY 2016-17. Personal income is expected to grow at 4.3% compared to an estimated 4.4% increase in revenue subject to the limit, which would result in a decrease in the amount by which the State is under the revenue limit. However, the loss of use tax revenue due to personal property tax reform largely accounts for the significant increase in the amount by which State revenue is projected to be below the limit in FY 2016-17.

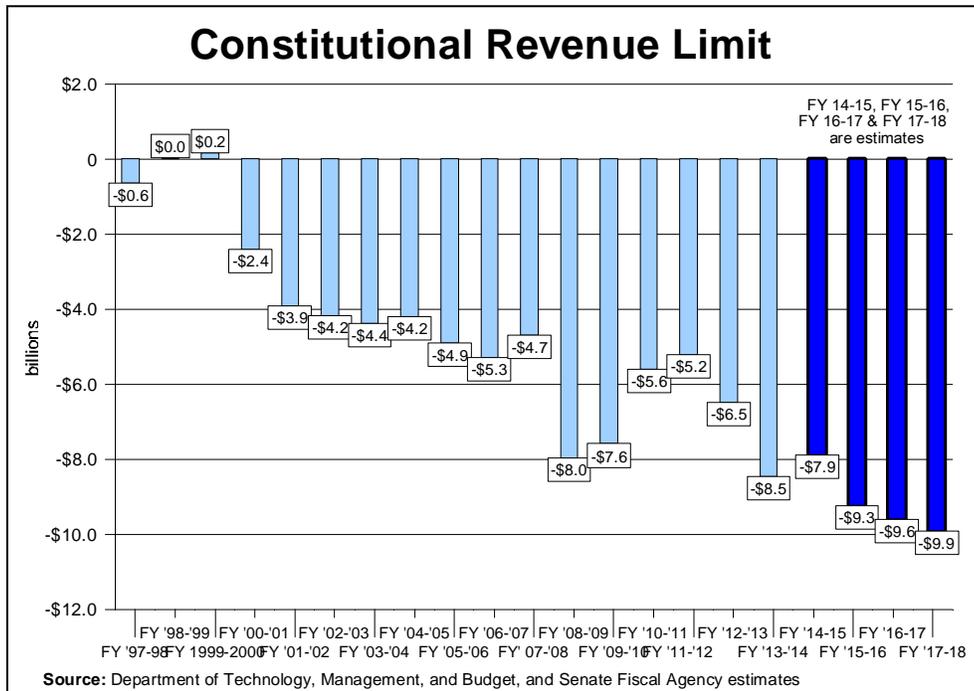
### **FY 2017-18**

The Senate Fiscal Agency estimates that personal income in Michigan during 2016 will equal \$436.0 billion, and as a result, the revenue limit will equal \$41.4 billion in FY 2017-18. Based on the SFA's initial revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated \$31.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.9 billion, or 24.0%, in FY 2017-18. Again, the loss of use tax revenue due to personal property tax reform largely accounts for the significant increase in the amount by which State revenue is projected to be below the limit in FY 2017-18. Anticipated growth in personal income of 3.6% will roughly equal the forecasted 3.6% increase in State revenue subject to the revenue limit.

**Table 12**  
**COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT**  
**SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION**  
**FY 2013-14 THROUGH FY 2017-18**  
**(Millions of Dollars)**

	FY 2013-14 Final	FY 2014-15 Estimate	FY 2015-16 Estimate	FY 2016-17 Estimate	FY 2017-18 Estimate
<b>Revenue Subject to Limit</b>					
<b>Revenue:</b>					
Gen'l Fund/Gen'l Purpose (baseline)	\$9,787.7	\$10,660.5	\$10,841.2	\$11,138.0	\$11,514.4
Constitutional Revenue Sharing (baseline)	729.9	760.1	726.8	761.3	785.7
School Aid Fund (baseline)	11,562.9	11,783.1	12,067.4	12,371.3	12,733.2
Transportation Funds	2,121.7	2,205.7	2,274.7	2,779.9	2,945.8
Other Restricted Non-Federal Aid Revenue	4,072.5	4,194.7	4,320.5	4,450.2	4,583.7
<b>Adjustments:</b>					
GF/GP Federal Aid	(30.9)	(38.5)	(35.0)	(35.0)	(35.0)
GF/GP Balance Sheet Adjustments	(769.1)	(575.5)	(1,141.8)	(1,131.7)	(1,087.6)
SAF Balance Sheet Adjustments	(42.3)	(65.9)	7.9	17.5	4.2
<b>Total Revenue Subject to Limit</b>	<b>\$27,432.5</b>	<b>\$28,924.2</b>	<b>\$29,061.8</b>	<b>\$30,351.5</b>	<b>\$31,444.4</b>
<b>Revenue Limit</b>					
<b>Personal Income:</b>					
Calendar Year	<b>CY 2012</b>	<b>CY 2013</b>	<b>CY 2014</b>	<b>CY 2015</b>	<b>CY 2016</b>
Amount	\$378,443	\$387,978	\$403,727	\$421,044	\$435,983
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$35,914.2	\$36,819.1	\$38,313.7	\$39,957.0	\$41,374.8
1.0% of Limit	359.1	368.2	383.1	399.6	413.7
<b>Amount Under (Over) Limit</b>	<b>\$8,481.7</b>	<b>\$7,895.0</b>	<b>\$9,251.9</b>	<b>\$9,605.6</b>	<b>\$9,930.4</b>
Percent Below Limit	23.6%	21.4%	24.1%	24.0%	24.0%
CY = Calendar Year; FY = Fiscal Year					

**Figure 21**





**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 2015-16, FY 2016-17, and FY 2017-18 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 complete action on the FY 2016-17 State budget.

On February 10, 2016, Governor Rick Snyder presented his FY 2016-17 and FY 2017-18 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 14, 2016; fee adjustments of \$16.5 million; clarifying amendments to the insurance tax credit that would increase GF/GP revenue by an estimated \$60.0 million in FY 2015-16 and \$80.0 million in FY 2016-17; passage of legislation that would delay the sunset of the Health Insurance Claims Assessment (HICA); and \$40.0 million for Michigan Venture Fund tax vouchers that are likely to be paid in FY 2016-17. The Governor's FY 2016-17 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2016-17 State budget to the Legislature in February 2016, 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 at the overall levels assumed at the January 2016 Consensus Revenue Estimating Conference. However, several State revenue sources have not performed in a manner consistent with the forecasted economic changes. This results in a net decrease from January to May in the estimates of FY 2015-16, FY 2016-17, and FY 2017-18 GF/GP and SAF revenue.

Table 13 provides a summary of the SFA's estimates of the FY 2015-16, FY 2016-17, and FY 2017-18 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 2015-16 GF/GP and SAF budgets will have positive ending balances after estimated year-end appropriation lapses are taken into account. Based on current SFA revenue estimates, along with Senate-passed State appropriations and SFA estimates of caseload adjustments, the FY 2016-17 GF/GP budget will have a negative ending balance of \$301.3 million and the SAF budget will have a deficit of \$50.0 million. A comparison of the SFA's estimate of FY 2017-18 GF/GP revenue with the FY 2017-18 Governor's recommended level for ongoing and one-time appropriations, and adjusted Senate caseload estimates, leads to a projected \$104.7 million GF/GP budget surplus. A comparison of the SFA's estimate of FY 2017-18 SAF revenue and the Governor's FY 2017-18 recommended level of SAF expenditures, points to a projected \$89.4 million SAF surplus. The FY 2017-18 GF/GP and SAF projected budget balances assume that the FY 2016-17 projected year-end negative balances are brought to zero.

**Table 13**

<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)</b>			
	<b>FY 2015-16 Estimate</b>	<b>FY 2016-17 Estimate</b>	<b>FY 2017-18 Estimate</b>
General Fund/General Purpose	\$69.7	(\$301.3)	\$104.7
School Aid Fund	\$82.8	(\$50.0)	\$89.4

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

During June 2015, the Michigan Legislature approved FY 2015-16 GF/GP and SAF budgets that were balanced between estimated revenue and enacted appropriations. The initial FY 2015-16 budget approved by the Legislature was based on a May 2015 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2016 reflected decreases from the May 2015 estimates of \$38.1 million and \$111.3 million, respectively, in GF/GP and SAF revenue, while still allowing surpluses in both the GF/GP and SAF budgets. 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 2016-17 budgets proposed by the Governor and the Legislature.

Column 1 of [Table 14](#) provides the details of the SFA's most recent estimate of a \$69.7 million FY 2015-16 GF/GP ending balance. 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 \$9.7 billion. This projected level of FY 2015-16 GF/GP revenue represents a \$335.0 million or 3.3% decrease from the final level of FY 2014-15 GF/GP revenue. The May 2016 SFA estimate of current-law GF/GP revenue is down \$144.4 million from the January 2016 consensus revenue estimate. The FY 2015-16 estimated GF/GP revenue total of \$10.4 billion includes \$694.7 million of surplus revenue carried forward from FY 2014-15, negative adjustments of \$468.5 million to reflect statutory State revenue sharing payments (both ongoing and one-time), the shift of \$2.0 million in short-term borrowing costs to the School Aid Fund, \$421.0 million of assumed revenue from the Medicaid managed care use tax, and \$60.0 million of revenue retained if proposed statutory adjustments to insurance tax credits are enacted.

On the expenditure side of the FY 2015-16 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total \$10.3 billion, which includes \$95.0 million in GF/GP appropriations to the State's Budget Stabilization Fund.

The projected level of FY 2015-16 GF/GP expenditures reflects a \$757.4 million or 7.9% increase from the final level of FY 2014-15 GF/GP expenditures (due in part to the \$400.0 million GF/GP appropriation for the Department of Transportation included in the FY 2015-16 budget). The projected level of FY 2015-16 GF/GP expenditures includes appropriations that encompass \$160.8 million (enacted and pending) for the Flint drinking water emergency and \$48.7 million enacted for the Detroit Public School District; projected caseload and cost savings of \$4.7 million in the Department of Education's Child Development and Care Program and projected caseload and cost increases in the Department of Health and Human Services of \$87.9 million; and an estimated year-end lapse amount of \$128.8 million.

Column 1 of [Table 15](#) provides a summary of the SFA estimate of an \$82.8 million FY 2015-16 SAF budget ending balance. This balance estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures, including projected lapses.

On the revenue side of the FY 2015-16 SAF budget ledger, the SFA now believes that current-law SAF revenue will total \$12.1 billion. This projected level of SAF revenue represents a \$328.2 million or 2.8% increase from the final level of FY 2014-15 SAF revenue. The May 2016 SFA estimate of current-law SAF revenue is \$56.3 million below the January 2016 consensus revenue estimate. The FY 2015-16 estimated SAF revenue total of \$14.3 billion includes \$190.2 million of surplus revenue carried forward from FY 2014-15, \$12.1 billion of restricted SAF revenue, a \$45.9 million GF/GP grant, \$9.2 million GF/GP for Early On services related to the Flint water emergency, \$210.5 million from the Medicaid managed care use tax, and \$1.8 billion of ongoing Federal aid.

On the expenditure side of the FY 2015-16 SAF budget ledger, the SFA now believes that final SAF expenditures will total \$14.2 billion. This projected level of FY 2015-16 SAF expenditures reflects an increase of \$314.4 million or 2.3% above FY 2014-15 SAF expenditures. The \$14.2 billion of projected SAF expenditures includes \$13.8 billion of K-12 funding in the original enacted appropriation bill, negative net cost adjustments totaling \$68.6 million, enacted and pending supplemental funding totaling \$23.5 million, and an estimated adjustment in School Bond Loan Fund costs of a negative \$89.0 million. As in the prior year, Community Colleges and Higher Education received appropriations of \$256.7 million and \$205.2 million, respectively, from the School Aid Fund.

### **FY 2016-17 YEAR-END BALANCE ESTIMATES**

The Legislature has been considering Governor Snyder's FY 2016-17 State budget recommendation since the budget was presented to the Legislature on February 10, 2016. To date, the Senate and House have acted on all of the FY 2016-17 appropriation bills. Using the Senate-passed appropriation bills as the basis of the FY 2016-17 budget, there would be negative ending balances for both the GF/GP and SAF budgets.

Column 2 of Table 14 provides a summary of the negative \$301.3 million projected year-end balance in the FY 2016-17 GF/GP budget. This projected balance is based on the FY 2015-16 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.

On the revenue side of the FY 2016-17 GF/GP budget ledger, the SFA now believes that current-law GF/GP revenue will total \$10.0 billion. This projected level of FY 2016-17 GF/GP revenue reflects a \$306.9 million or 3.2% increase from the estimated level of FY 2015-16 GF/GP revenue. The May 2016 SFA estimate of current-law revenue represents a \$207.6 million decrease from the January 2016 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include statutory revenue sharing payments of \$474.4 million (both ongoing and one-time), which reduce GF/GP revenue by that amount. The FY 2016-17 estimated GF/GP revenue total of \$9.8 billion includes \$69.7 million of surplus GF/GP revenue carried forward from FY 2015-16, the shift of \$3.0 million in short-term borrowing costs to the School Aid Fund, \$101.6 million assumed partial-year revenue from the Medicaid managed care use tax, \$80.0 million of revenue retained if proposed statutory adjustments to insurance tax credits are enacted, and \$30.5 million for Venture Michigan Fund tax voucher liabilities.

The Senate-passed appropriation bills provide total GF/GP appropriations of \$10.0 billion. The Senate removes nearly \$400.0 million of prior-year GF/GP support in the Transportation budget, and does not include the \$100.0 million of State Restricted revenue that would be available if the Roads Innovation Fund (the "lockbox" created under the recently enacted Transportation funding package) is opened by a concurrent resolution. Revised SFA estimates of caseload and cost adjustments in the Department of Health and Human Services will increase GF/GP appropriations by \$32.2 million in FY 2016-17, and will lower GF/GP costs in the Department of Education's Child Development and Care Program by \$4.7 million.

Table 16 provides a summary of the Governor's FY 2016-17 Adjusted Gross and GF/GP budget recommendations compared with the Senate-passed appropriation bills. The Senate-passed appropriation bills are \$111.5 million Adjusted Gross below the Governor's recommendations and \$7.5 million below the Governor's GF/GP recommendations. The FY 2016-17 GF/GP balance sheet based on the Senate-passed appropriation bills and caseload adjustments, indicates a projected ending balance of a negative \$301.3 million.

Column 2 of [Table 15](#) provides the details of the SFA estimate of a negative \$50.0 million balance in the FY 2016-17 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue, assumed partial-year 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 2016-17 SAF budget, the SFA now believes that current-law SAF revenue will total \$12.4 billion. This projected level of FY 2016-17 SAF revenue is \$313.5 million or 2.6% above the estimated level of FY 2015-16 SAF revenue. The May 2016 SFA estimate of restricted SAF revenue represents a \$97.4 million decrease from the January 2016 consensus revenue estimate. The estimate of total SAF revenue of \$14.6 billion includes \$82.8 million of surplus SAF revenue carried forward from FY 2015-16, a \$226.0 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 partial-year revenue from the Medicaid managed care use tax totaling \$50.9 million.

On the expenditure side of the FY 2016-17 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals \$14.1 billion. The SFA estimates that there will be \$3.0 million of positive FY 2016-17 formula funding cost adjustments as a result of revised pupil and taxable value estimates.

The FY 2016-17 Senate-passed K-12 appropriation bill includes the Governor's recommendation for a foundation allowance increase ranging from \$60 to \$120 per pupil, at a cost of \$150.0 million. The budget also includes funding for required increases in retirement costs (\$89.3 million), and for State special education funding (\$54.5 million). In total, more than \$1.1 billion is appropriated in FY 2016-17 across the K-12, Community Colleges, and Higher Education budgets to support costs related to the Michigan Public School Employees Retirement System (MPERS). The Senate-passed budget also includes a number of other programs recommended by the Governor, including \$10.1 million for Flint-related funding; \$10.0 million for upgrades of career and technical education (CTE) equipment; and \$5.0 million for the school reform/redesign office and grants to affected districts.

The Senate-passed bill does not include \$72.0 million in both revenue and expenditures related to Detroit Public Schools (DPS); \$10.0 million recommended by the Governor for educator evaluations; a \$5.0 million increase for Career Technical Education (CTE) early/middle college programs; or \$9.0 million for voluntary water testing in schools (although \$4.0 million is included in the Department of Education budget for this purpose). The Senate-passed bill includes \$5.0 million in estimated savings due to a cap on the number of hours a school district may count a part-time nonpublic pupil in membership in non-core classes, as well as \$5.0 million to reimburse nonpublic schools for State mandates, along with a number of other new programs such as digital literacy, consolidation incentives, and meal programs, as well as increases for existing math and science centers and computer adaptive testing.

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 2016-17 was increased by \$3.7 million from the current year, with \$260.4 million SAF allocated to support community colleges. The SAF allocation in the Higher Education budget for FY 2016-17 is \$31.9 million higher than for FY 2015-16, with a total SAF allocation of \$237.1 million. Across the two budgets, SAF support of postsecondary purposes totals \$497.5 million for FY 2016-17 under the Senate-passed budgets.

### **FY 2017-18 BUDGET OUTLOOK**

When Governor Snyder presented his FY 2016-17 budget on February 10, 2016, he also proposed anticipated appropriations for FY 2017-18. The FY 2016-17 appropriation bills passed by the House

and the Senate include references to anticipated FY 2017-18 appropriations, which are only expressions of an intent to appropriate those funds for FY 2017-18.

Column 3 of Table 14 provides a summary of the \$104.7 million projected year-end balance in the FY 2017-18 GF/GP budget. This projected balance assumes that the FY 2016-17 budget shortfall is resolved, and that there is a zero GF/GP beginning balance for FY 2017-18. The FY 2017-18 budget is based on the SFA estimate of current-law revenue and ongoing appropriations at the Governor's FY 2017-18 recommended level, adjusted for revised caseload and cost estimates for the Department of Health and Human Services.

On the revenue side of the FY 2017-18 GF/GP budget ledger, the SFA now believes that GF/GP current-law revenue will total \$10.4 billion. This projected level of GF/GP FY 2017-18 revenue reflects a \$420.5 million or 4.2% increase from estimated current-law GF/GP revenue for FY 2016-17. The May 2016 SFA estimate of current-law GF/GP revenue represents a decrease of \$172.5 million from the January 2016 consensus revenue estimate. The FY 2017-18 estimated GF/GP revenue total of \$10.0 billion assumes a beginning balance of zero carried forward from FY 2016-17, the Governor's recommendation of \$469.0 million for statutory State Revenue Sharing payments; the shift of \$4.0 million in short-term borrowing costs to the School Aid Fund; the phase-out of Medicaid managed care use tax revenue, which is expected to sunset on January 1, 2017; and \$80.0 million from the continuation of proposed statutory adjustments to insurance tax credits.

On the expenditure side of the FY 2017-18 GF/GP budget ledger, if the Governor's FY 2017-18 recommended appropriation level of \$9.7 billion is assumed and is adjusted for caseload and cost increases of \$32.2 million in the Department of Health and Human Services and for average baseline changes of \$215.0 million, then total FY 2017-18 GF/GP expenditures are estimated to be \$9.9 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of \$104.7 million.

Column 3 of Table 15 provides a summary of the positive \$89.4 million projected year-end balance in the FY 2017-18 SAF budget. This projected balance is based on a zero starting balance (i.e., the negative balance at the end of FY 2016-17 being resolved before FY 2017-18 begins), the SFA estimate of current-law revenue, and the Governor's recommended budget for FY 2017-18, which would continue the same overall spending level as found in the FY 2016-17 Senate-passed budget, adjusted for pupil counts and other costs. (The Governor's recommended budget for FY 2017-18 includes \$72.0 million for DPS in both revenue and expenditures.)

On the revenue side of the FY 2017-18 SAF budget ledger, the SFA now believes that current-law SAF revenue will total \$12.7 billion. This projected level of FY 2017-18 SAF revenue reflects a \$348.6 million or 2.8% increase from estimated current-law SAF revenue for FY 2016-17. The May 2016 SFA estimate of current-law SAF revenue represents a \$93.7 million decrease from the January 2016 consensus revenue estimate. The FY 2017-18 estimated SAF revenue total of \$14.7 billion also assumes a GF/GP grant of \$57.4 million, \$1.8 billion in ongoing Federal aid, and assumed revenue from the Detroit Public Schools Trust Fund totaling \$72.0 million.

On the expenditure side of the FY 2017-18 SAF budget ledger, under the Governor's recommendation for school aid for FY 2017-18, which continues FY 2016-17 spending and adjusts for the MPSERS rate cap, funding formula, and other baseline costs, total FY 2017-18 SAF expenditures are estimated to be \$14.6 billion. The Senate's FY 2017-18 SAF budget estimate continues to fund Community Colleges, at a slightly higher amount of \$260.9 million, and Higher Education, at a slightly higher amount of \$237.3 million, from SAF revenue, with the slight increases paying for estimated adjustments in the MPSERS retirement rate cap in the respective postsecondary budgets.

Table 14

<b>GENERAL FUND/GENERAL PURPOSE (GF/GP)</b>			
<b>REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES</b>			
<b>(Millions of Dollars)</b>			
	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
	<b>Gov's Rec.</b>	<b>Senate- Passed</b>	<b>Gov's Rec.</b>
<b>Revenue:</b>			
Beginning Balance .....	\$694.7	\$69.7	\$0.0
<b>Ongoing Revenue:</b>			
Consensus Revenue Estimate (January 2016) .....	\$9,843.8	\$10,213.9	\$10,599.3
SFA May 2016 Revenue Estimate Change .....	(144.4)	(207.6)	(172.5)
SFA Revenue Estimate (May 2016) .....	\$9,699.4	\$10,006.3	\$10,426.8
<b>Other Revenue Adjustments:</b>			
Revenue Sharing Payments .....	(462.7)	(469.0)	(469.0)
Shift of Borrowing Costs to School Aid Fund .....	2.0	3.0	4.0
Medicaid Managed Care Use Tax .....	421.0	101.6	0.0
Insurance Tax Credit Amendments .....	60.0	80.0	80.0
Subtotal Ongoing Revenue .....	\$9,719.7	\$9,721.9	\$10,041.8
<b>Non-ongoing Revenue:</b>			
One-Time Appropriation for Revenue Sharing .....	(5.8)	(5.4)	0.0
Venture Michigan Fund Tax Vouchers .....	0.0	(30.5)	0.0
<b>Total Estimated GF/GP Revenue .....</b>	<b>\$10,408.6</b>	<b>\$9,755.7</b>	<b>\$10,041.8</b>
<b>Expenditures:</b>			
<b>Ongoing Appropriations:</b>			
Initial Ongoing Appropriations .....	\$9,517.8	\$9,700.9	\$9,689.9
<b>One-Time and Other Appropriations:</b>			
Initial One-Time Appropriations .....	\$98.3	\$318.2	\$0.0
Initial One-Time Appropriation for Transportation .....	258.0	10.4	0.0
Appropriation to Budget Stabilization Fund .....	95.0	0.0	0.0
Enacted Supplementals .....	35.0	0.0	0.0
PA 54 of 2016-Detroit Public Schools Cash Flow (Tobacco Rev.) .....	48.7	0.0	0.0
Supplemental Request #2016-4 (Michigan Infrastructure Fund) ...	165.0	0.0	0.0
Supplemental Request #2016-4 (Multiple Departments) .....	35.7	0.0	0.0
PA 24 of 2016-Flint Water Emergency Water Bill Credits .....	30.0	0.0	0.0
SB 777-Flint Water Emergency (Request #2016-6) .....	91.8	0.0	0.0
SB 777-Flint Water Emergency-K-12 Early On (Request #2016-7) .....	9.2	0.0	0.0
Caseload/Cost Adjustments for DOE (savings)/DHHS (costs) .....	83.2	27.5	32.2
Estimated Average Baseline Adjustments .....	0.0	0.0	215.0
Estimated Lapses .....	(128.8)	0.0	0.0
Subtotal One-Time and Other Appropriations .....	\$821.1	\$356.1	\$247.2
<b>Total Estimated GF/GP Expenditures .....</b>	<b>\$10,338.9</b>	<b>\$10,057.0</b>	<b>\$9,937.1</b>
<b>PROJECTED YEAR-END GF/GP BALANCE .....</b>	<b>\$69.7</b>	<b>(\$301.3)</b>	<b>\$104.7</b>

Table 15

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

	FY 2015-16 Gov's Rec.	FY 2016-17 Senate- Passed	FY 2017-18 Gov's Rec.
<b>Revenue:</b>			
Beginning Balance .....	\$190.2	\$82.8	\$0.0
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2016) .....	\$12,131.6	\$12,486.2	\$12,831.1
SFA May 2016 Revenue Estimate Change .....	(56.3)	(97.4)	(93.7)
SFA Revenue Estimate (May 2016) .....	\$12,075.3	\$12,388.8	\$12,737.4
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant .....	45.9	226.0	57.4
General Fund Supplemental Request 2016-7 (Flint Early On) .....	9.2	0.0	0.0
Detroit Public Schools Trust Fund .....	0.0	0.0	72.0
Medicaid Managed Care Use Tax .....	210.5	50.9	0.0
Federal Ongoing Aid .....	1,775.8	1,818.6	1,818.6
Subtotal Ongoing Revenue .....	\$14,116.7	\$14,484.3	\$14,685.4
<u>Non-ongoing Revenue:</u>			
Venture Michigan Fund Tax Vouchers .....	0.0	(9.5)	0.0
<b>Total Estimated School Aid Fund Revenue .....</b>	<b>\$14,306.9</b>	<b>\$14,557.6</b>	<b>\$14,685.4</b>
<b>Expenditures:</b>			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations .....	\$13,846.5	\$14,071.5	\$14,093.3
Enacted Supplementals .....	4.3	0.0	0.0
Supplemental Request 2016-5 (Cost Adjustments) .....	(73.6)	0.0	0.0
SFA Cost Adjustments (May 2016) .....	5.0	3.0	3.0
Partially Fund Community Colleges with School Aid Fund .....	256.7	260.4	260.9
Partially Fund Higher Education with School Aid Fund .....	205.2	237.1	237.3
Subtotal Ongoing Appropriations .....	\$14,244.1	\$14,572.0	\$14,594.5
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations .....	\$49.8	\$35.6	\$1.5
Supplemental Request 2016-5 (water testing/reform office) .....	10.0	0.0	0.0
Supplemental Request 2016-7 (Flint Early On services) .....	9.2	0.0	0.0
School Bond Loan Fund Adjustments .....	(89.0)	0.0	0.0
Subtotal One-Time and Other Appropriations .....	(\$20.0)	\$35.6	\$1.5
<b>Total Estimated School Aid Fund Expenditures .....</b>	<b>\$14,224.1</b>	<b>\$14,607.6</b>	<b>\$14,596.0</b>
<b>PROJECTED YEAR-END SCHOOL AID FUND BALANCE .....</b>	<b>\$82.8</b>	<b>(\$50.0)</b>	<b>\$89.4</b>

Table 16

**FY 2016-17 ADJUSTED GROSS AND GF/GP APPROPRIATIONS  
GOVERNOR'S REVISED RECOMMENDATION VERSUS SENATE-PASSED APPROPRIATIONS**

Department/Budget Area	Adjusted Gross Appropriations			GF/GP Appropriations		
	Governor's Revised Rec.	Senate-Passed	Adjusted Gross \$ Difference	Governor's Revised Rec.	Senate-Passed	GF/GP \$ Difference
Agriculture and Rural Development	\$91,268,100	\$92,768,100	\$1,500,000	\$48,036,900	\$49,536,900	\$1,500,000
Attorney General	66,196,100	68,096,100	1,900,000	39,140,500	41,040,500	1,900,000
Civil Rights	15,954,900	16,453,300	498,400	13,021,300	13,519,700	498,400
Community Colleges	399,025,600	399,025,600	0	138,610,800	138,610,800	0
Corrections	2,029,386,100	2,020,807,400	(8,578,700)	1,979,457,900	1,969,457,900	(10,000,000)
Education	316,917,400	321,709,200	4,791,800	76,381,200	80,381,300	4,000,100
Environmental Quality	504,273,700	504,273,700	0	47,686,400	47,686,400	0
Executive	5,636,300	5,636,300	0	5,636,300	5,636,300	0
Health and Human Services	24,694,454,000	24,770,347,700	75,893,700	4,355,003,000	4,350,767,400	(4,235,600)
Higher Education	1,598,654,400	1,599,807,200	1,152,800	1,262,418,500	1,262,418,500	0
Insurance and Financial Services	65,599,600	65,599,600	0	150,000	150,000	0
Judiciary	297,584,000	295,861,400	(1,722,600)	190,057,400	188,334,800	(1,722,600)
Legislative Auditor General	17,893,300	17,893,300	0	15,923,900	15,923,900	0
Legislature	141,253,600	142,753,600	1,500,000	136,577,800	138,077,800	1,500,000
Licensing and Regulatory Affairs	369,621,600	372,659,400	3,037,800	42,791,100	45,813,200	3,022,100
Military and Veterans Affairs	175,898,400	176,608,400	710,000	57,143,600	57,643,600	500,000
Natural Resources	396,528,200	396,778,200	250,000	39,560,000	39,810,000	250,000
School Aid	14,183,112,100	14,107,112,300	(75,999,800)	230,000,000	226,000,000	(4,000,000)
State	238,015,600	218,915,600	(19,100,000)	27,109,600	27,109,600	0
State Police	632,145,700	635,976,100	3,830,400	411,912,800	415,743,200	3,830,400
Talent and Economic Development	1,142,494,300	1,141,680,500	(813,800)	170,088,900	169,275,100	(813,800)
Technology, Management, and Budget	623,687,600	622,087,200	(1,600,400)	504,918,600	500,468,200	(4,450,400)
Transportation	4,121,190,200	4,021,190,200	(100,000,000)	10,400,000	10,400,000	0
Treasury-Debt Service	137,037,000	137,037,000	0	137,037,000	137,037,000	0
Treasury-Operations	506,750,900	507,739,300	988,400	97,908,800	98,408,900	500,100
Treasury-Revenue Sharing	1,255,708,900	1,255,955,300	246,400	0	246,400	246,400
<b>TOTAL BUDGET AREA APPROPS.</b>	<b>\$54,026,287,600</b>	<b>\$53,914,772,000</b>	<b>(\$111,515,600)</b>	<b>\$10,036,972,300</b>	<b>\$10,029,497,400</b>	<b>(\$7,474,900)</b>

## **CONCLUSION**

When the FY 2015-16 year-end balance amounts are carried forward and combined with FY 2016-17 Senate budget recommendations, the estimates for the FY 2016-17 GF/GP and SAF year-end balances are negative amounts. If it is assumed that these negative ending balances will be resolved, as by law they are required to be, prior to the start of FY 2017-18, the SFA projects FY 2017-18 GF/GP and SAF ending balances of \$104.7 million and \$89.4 million, respectively.

It should be noted that only one year of the SFA year-end balances described in this report (FY 2015-16) includes estimates for year-end lapses. Year-end book-closing adjustments, which may be either positive or negative, cannot be known at this time, and could potentially change the levels of the year-end balances.

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 17, 2016, 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 2016-17 State budget.