



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

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

**May 15, 2017**



# 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.



Ellen Jeffries, Director  
Senate Fiscal Agency  
P.O. Box 30036  
Lansing, Michigan 48909-7536  
Telephone (517) 373-2768

[www.senate.michigan.gov/sfa](http://www.senate.michigan.gov/sfa)

## ***ACKNOWLEDGEMENT***

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



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## **EXECUTIVE SUMMARY**

### **ECONOMIC FORECAST**

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 1.6% during 2016, is predicted to expand 2.2% in 2017, 2.0% in 2018, and 1.9% in 2019. Light vehicle sales are forecasted to decline from 17.5 million units in 2016, to 17.0 million units in 2017 and 16.8 million units in 2018, before rising to 16.9 million units in 2019. The unemployment rate is expected to fall from 4.9% in 2016 to 4.6% in both 2017 and 2018, and then rise to 4.7% in 2019; while the consumer price index is estimated to increase 2.5% in 2017, 2.0% in 2018, and 2.2% in 2019.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.2% in 2017, 2.4% in 2018, and 2.0% in 2019, after rising 2.0% in 2016. Wage and salary employment is predicted to continue growing, increasing 1.3% during 2017, and 0.6% in both 2018 and 2019, compared to 1.9% growth during 2016.

### **REVENUE FORECAST**

In FY 2016-17, continued growth in employment and personal income will result in greater collections from most revenue sources. More rapid growth in retail sales will help offset slower income tax revenue growth and revenue reductions attributable to personal property tax reform. As a result, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated \$22.6 billion, a 2.1% increase from FY 2015-16. Compared to the January 2017 consensus estimates, the GF/GP estimate is \$288.1 million lower and the SAF estimate is \$137.8 million higher.

In FY 2017-18, GF/GP and SAF revenue will total an estimated \$23.3 billion, a 2.9% increase from the revised FY 2016-17 estimate but \$55.2 million below the January 2017 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.3 billion, an increase of 3.2% from FY 2016-17 that reflects slower employment growth and slowing growth in the revenue reductions attributable to personal property tax reform, while SAF revenue will rise to an estimated \$12.9 billion, a 2.7% increase.

In FY 2018-19, GF/GP and SAF revenue will total an estimated \$23.7 billion, a 2.0% increase from the revised estimate for FY 2017-18 and \$9.2 million less than the January 2017 consensus estimates. Reflecting tax changes related to the 2015 transportation funding package, GF/GP revenue will total an estimated \$10.4 billion, an increase of 0.8% from FY 2017-18, while SAF revenue will total an estimated \$13.3 billion, a 2.9% 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 2016-17 GF/GP budget will have a positive ending balance of \$249.6 million. A comparison of the FY 2016-17 SAF revenue estimates and enacted and projected SAF appropriations produces a \$287.6 million SAF surplus.

Comparing the SFA's FY 2017-18 GF/GP revenue estimate with the appropriation bills as passed by the Senate (adjusted for caseload and other cost issues), leads to a \$274.6 million negative balance in the FY 2017-18 GF/GP budget. The SFA's FY 2017-18 SAF revenue estimate, combined with the Senate-passed SAF appropriations (adjusted for pupil counts and other cost issues), results in a \$293.7 million positive balance in the FY 2017-18 SAF budget. The projected GF/GP negative ending balance will need to be resolved before the FY 2017-18 budget is enacted.

If the SFA's FY 2018-19 GF/GP revenue estimate is compared with the FY 2018-19 ongoing GF/GP appropriations recommended by the Governor and adjusted for SFA-estimated caseload and costs, there is a projected \$141.6 million GF/GP budget shortfall. If the SFA's FY 2018-19 SAF revenue estimate is compared with the Governor's FY 2018-19 appropriation recommendation, adjusted for SFA's estimated pupils and other costs, there is a projected \$607.7 million SAF budget surplus. These FY 2018-19 GF/GP and SAF ending balance estimates assume that the FY 2017-18 GF/GP negative ending balance is resolved.

**EXECUTIVE SUMMARY**

**SENATE FISCAL AGENCY  
ECONOMIC AND BUDGET SUMMARY**

<b>ECONOMIC PROJECTIONS (Calendar Year)</b>					
	<b>2015 Actual</b>	<b>2016 Actual</b>	<b>2017 Estimate</b>	<b>2018 Estimate</b>	<b>2019 Estimate</b>
Real Gross Domestic Product (% change)	2.6%	1.6%	2.2%	2.0%	1.9%
U.S. Consumer Price Index (% change)	0.1%	1.3%	2.5%	2.0%	2.2%
Light Motor Vehicle Sales (millions of units)	17.4	17.5	17.0	16.8	16.9
U.S. Unemployment Rate (%)	5.3%	4.9%	4.6%	4.6%	4.7%
Real Michigan Personal Income (% change)	6.1%	2.0%	1.2%	2.4%	2.0%
Michigan Wage & Salary Employment (% change)	1.5%	1.9%	1.3%	0.6%	0.6%

<b>REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (millions of dollars)</b>									
	<b>FY 2016-17 Estimate</b>			<b>FY 2017-18 Estimate</b>			<b>FY 2018-19 Estimate</b>		
	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>
GF/GP	\$11,109.9	(\$1,107.9)	\$10,002.0	\$11,499.5	(\$1,180.6)	\$10,318.9	\$11,863.4	(\$1,462.2)	\$10,401.2
% Change	1.2%	---	(0.1%)	3.5%	---	3.2%	3.2%	---	0.8%
School Aid Fund	\$12,594.2	\$0.6	\$12,594.8	\$12,901.8	\$29.9	\$12,931.7	\$13,248.9	\$61.5	\$13,310.4
% Change	3.4%	---	3.9%	2.4%	---	2.7%	2.7%	---	2.9%
Total GF/GP & SAF	\$23,704.1	(\$1,107.3)	\$22,596.8	\$24,401.3	(\$1,150.7)	\$23,250.6	\$25,112.3	(\$1,400.7)	\$23,711.6
% Change	2.4%	---	2.1%	2.9%	---	2.9%	2.9%	---	2.0%
Revenue Limit – Under (Over)		\$9,417.2			\$9,540.0			\$10,009.1	
	<b><u>FY 2016-17 Estimate</u></b>			<b><u>FY 2017-18 Estimate</u></b>			<b><u>FY 2018-19 Estimate</u></b>		
<u>Revision from Jan. Consensus</u>									
GF/GP		(\$288.1)			(\$203.8)			(\$188.1)	
SAF		137.8			148.6			178.9	
<b>Total</b>		<b>(\$150.3)</b>			<b>(\$55.2)</b>			<b>(\$9.2)</b>	

<b>YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)</b>			
	<b>FY 2016-17 Estimate</b>	<b>FY 2017-18 Estimate</b>	<b>FY 2018-19 Estimate</b>
General Fund/General Purpose.....	\$249.6	(\$274.6)	(\$141.6)
School Aid Fund .....	\$287.6	\$293.7	\$607.7
Budget Stabilization Fund (with enacted deposits) .....	\$709.3	\$738.5	\$772.6

**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 2017, 2018, and 2019, as well as a summary of recent economic activity.

### RECENT U.S. ECONOMIC HIGHLIGHTS

Since the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years, the economy has grown slowly. Many fundamental economic factors remain well below their prerecession peaks, and even factors that have recovered have done so more slowly than after almost any other post-World War II recession. As of the first quarter of 2017, the economy had been in recovery for 31 quarters after the recession trough in the second quarter of 2009. Four other recoveries since World War II lasted 20 quarters or more, although only three recoveries lasted 31 quarters or more, and at this point the current recovery is less than half as strong as the average of those recoveries and the economy is sending mixed signals about the possibility of continued growth at recent rates or of slowing, now that the recovery is fairly mature.

Inflation-adjusted Gross Domestic Product (GDP) in the first quarter of 2017 was only 12.3% above the level during the fourth quarter of 2007, when the recession began, and only 17.3% 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 4.4% annual growth over the other three recoveries of 31 months or more since World War II. Consumption expenditures, which on average account for two-thirds of economic activity, also exhibited weak growth relative to historical standards during the majority of the recovery, with the current recovery averaging 2.3% annual growth, compared with a historical average of 4.3% growth. Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 0.9% compared with the historical average of 3.2% growth ([Figure 2](#)).

**Figure 1**

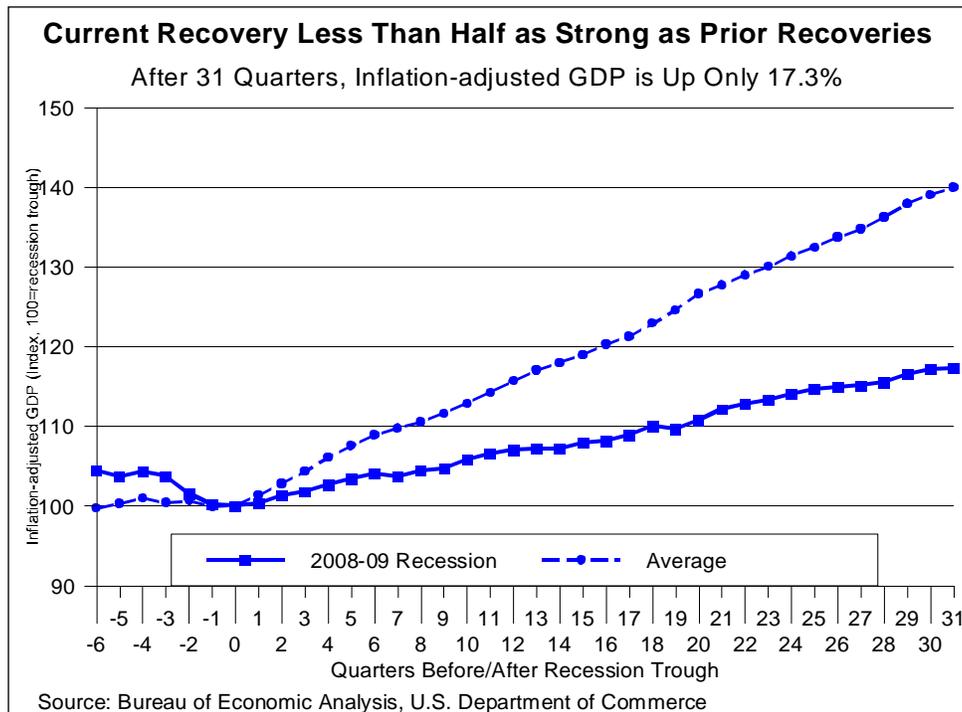
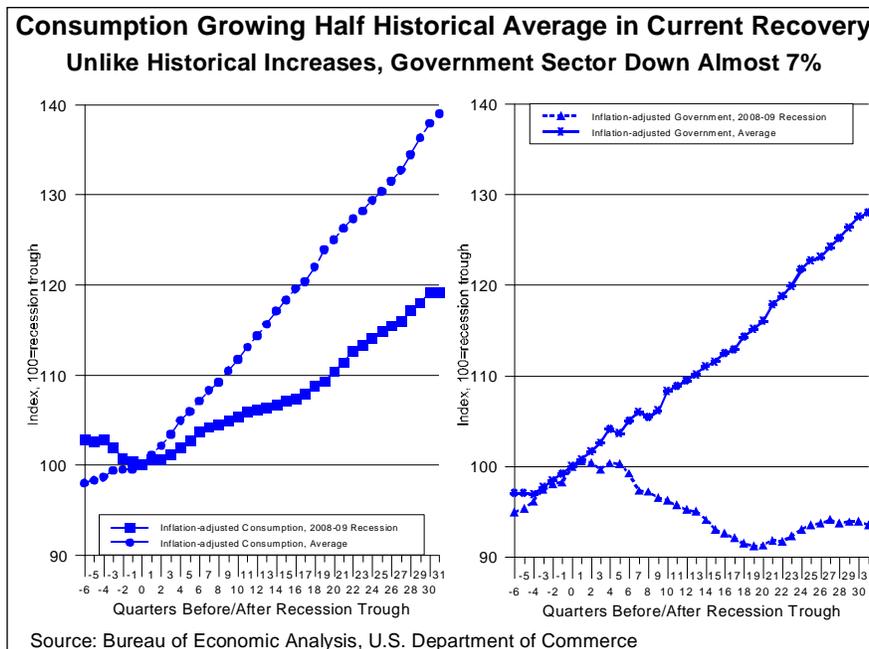


Figure 2



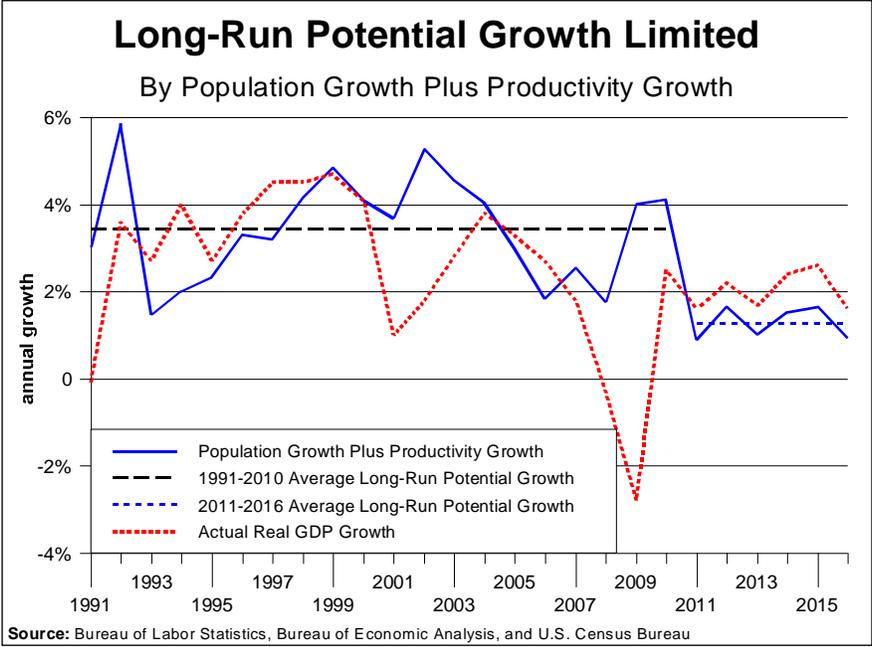
Despite the slow rate of growth, in many respects the economy now exhibits characteristics of a healthy economy: unemployment rates are low, consumer sentiment is high, and inflation remains low. Vehicle sales are at record levels, initial unemployment claims are at historical lows, housing starts are finally rising at a level consistent with household formation, and the gap between short-term and long-term interest rates (often referred to as the "yield curve") is at a healthy level. However, substantial concerns and uncertainties remain: economic growth remains weak, productivity growth is exceptionally low, inflation-adjusted incomes are flat to declining, for most of the working age population labor force participation rates are remaining at subdued levels or declining, business investment has been weak, there are indications of inflation risks, and many indicators suggest that the recovery is at a fairly mature level and economic activity may slow.

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. From 1991 to 2010, the average potential growth based on the sum of population growth and productivity was 3.4%. From 2011 to 2016, this potential or trend growth averaged 1.3%. Despite the slow economic growth after the 2008-2009 recession, since 2011 the economy has consistently outperformed the average long-run trend growth suggested by these factors ([Figure 3](#)).

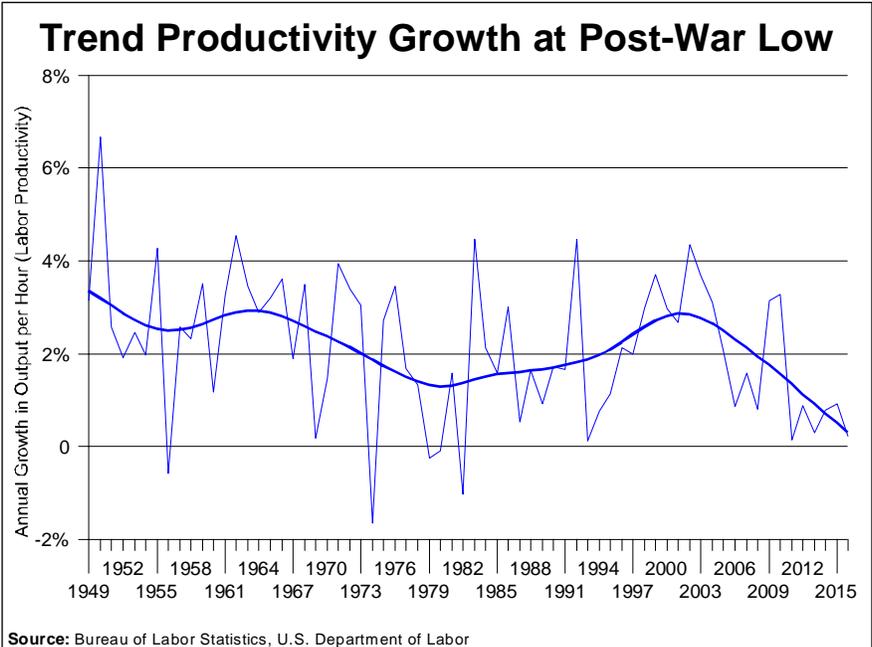
Productivity, as measured by output per hour in the nonfarm business sector, rose 0.2% in 2016, about one-fourth the 2014 and 2015 increases, and the ninth-lowest rate in the last 70 years. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity has grown 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 4](#)). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries through mid-2014. As consumption growth has improved, it has to some degree been offset by low, or even declining, rates of business investment. Investment affects not only current economic growth but also future economic growth: business investment is generally associated with improving the long-run ability of the economy

to grow by increasing productivity. 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.

**Figure 3**



**Figure 4**



Consumption growth remained weak during much of the recovery for a variety of reasons, and much of the improvement has reflected increased purchases of motor vehicles and/or rising debt. Consumers remained risk-averse about spending, especially for big-ticket items and nonessential purchases, as employment growth remained weak and wage increases were negligible. Motor vehicle purchases have been an exception due to factors ranging from rising fuel costs (during the first part of the recovery) encouraging the purchase of more fuel-efficient vehicles, to the marked increase in the age of the vehicle fleet, to the return to vehicle loans to subprime borrowers. Light vehicle sales in 2016 totaled 17.5 million units, breaking the prior all-time record of 17.4 million units set in 2015.

Although consumption has returned to its historical position of accounting for the majority of growth in the economy, the improvement in consumer spending is less than what would be expected given wage growth. Consumption is also being offset by other sectors of the economy (most notably investment and net exports), and has been financed by increased borrowing, particularly since mid-2014. Between the first quarter of 2014 and the fourth quarter of 2016, inflation-adjusted consumption spending per person rose at an annual rate of 2.4%, compared with a 3.0% rate of increase in inflation-adjusted wage and salary income per person and a 5.0% increase in total consumer debt (Figure 5). During 2016, outstanding consumer debt per person increased at an annual rate of 3.9%, growing more rapidly than either the 1.6% annual rate for income or the 2.1% annual rate for spending.

Consumer debt has increased even as the share of disposable personal income that must be used to service that debt has remained flat at levels not experienced since the early 1980s (Figure 6). Just as the composition of consumer debt has changed so has the cost of servicing that debt. While nonrevolving debt has grown more rapidly than revolving debt (e.g., credit card debt), the share of disposable personal income required to service mortgage debt has steadily fallen since 2007, largely as a result of monetary policy designed to keep long-term interest rates low. However, the cost of servicing revolving debt, which had fallen between 2007 and 2012 as consumers dealt with the aftermath of the 2008-2009 financial crisis, has increased since 2012. Although the total financial obligations ratio remained stable over 2016, it is likely to increase once interest rates begin rising.

**Figure 5**

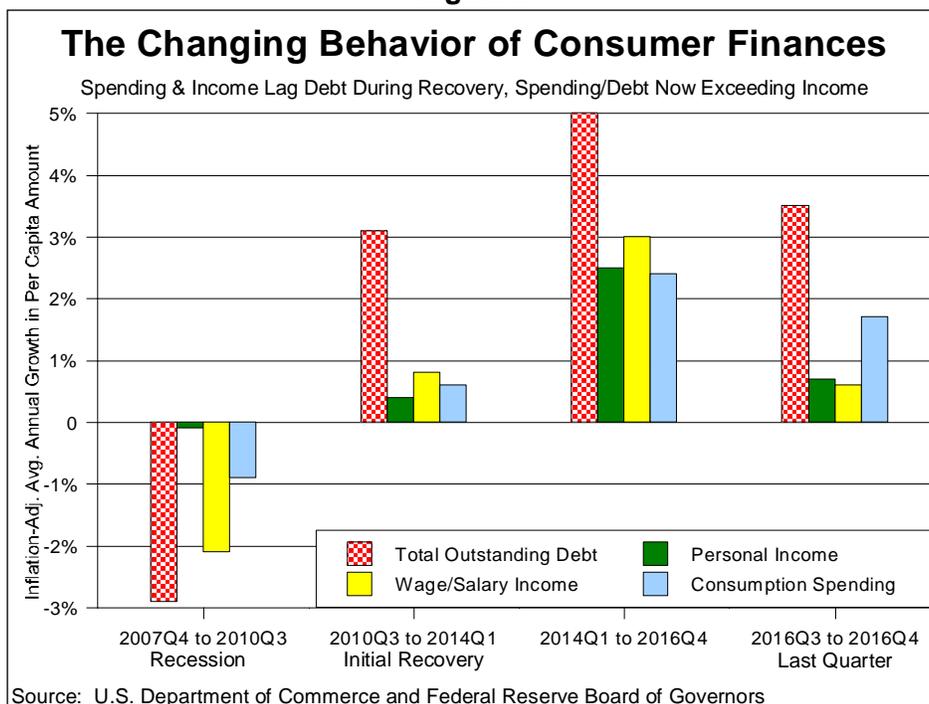
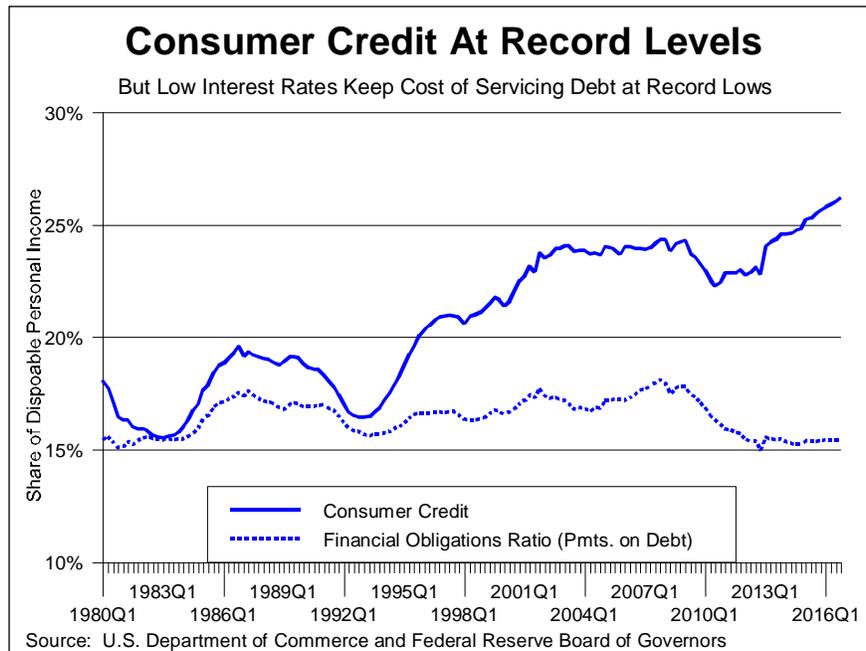


Figure 6



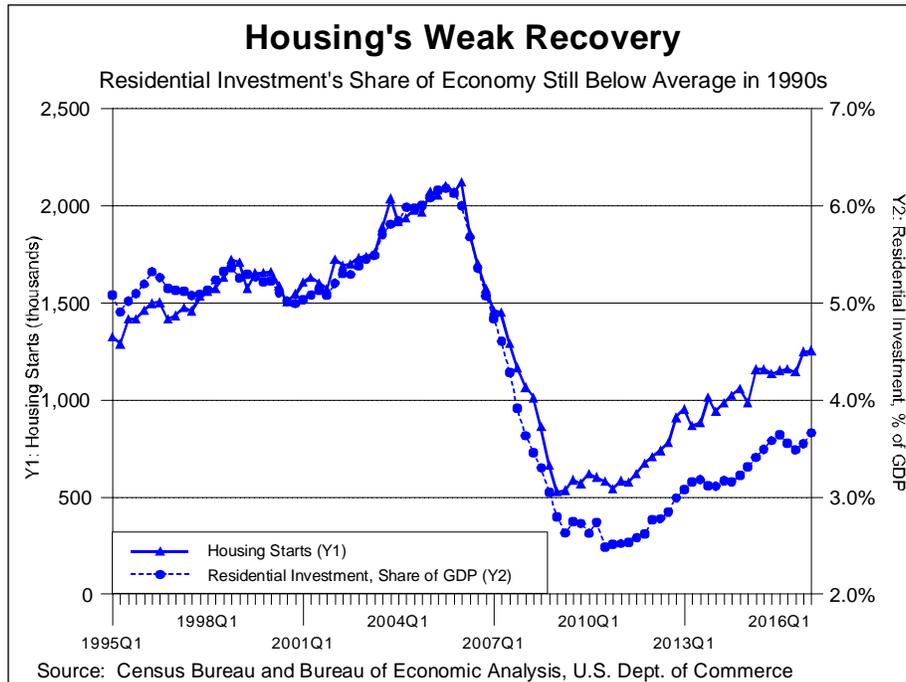
Payroll employment in the United States continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010 in addition to the jobs lost during the recession. Despite employment gains during the 2010 to 2016 period, payroll employment did not reach the prerecession peak until May 2014. Over the last two years, job growth has slowed. As of March 2017, payroll employment averaged only 1.7% annual growth since the February 2010 trough and was up only 1.5% from the March 2016 level, after showing a 2.3% year-over-year increase in February 2015 and 1.9% year-over-year growth in March 2016.

The unemployment rate fell from a peak of 10.0% in October 2009, to 4.5% in March 2017. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Between the December 2009 trough in total employment (as opposed to payroll employment) and September 2014, the labor force averaged 0.3% per year annual growth. After exhibiting 1.9% year-over-year growth in September 2016, growth in the labor force slowed for six consecutive months, with the March 2017 labor force up only 0.6% from March 2016. As of September 2014, total employment nationwide had surpassed the prerecession peak of November 2007 and the March 2017 level of total employment set an all-time record. Nevertheless, labor force participation during 2016 remained at the same 40-year lows experienced during 2015.

Housing construction, which counts as residential investment rather than consumption spending, continued to improve in 2016, although it remains weak by almost any historical measure - roughly matching housing start levels during the 1979-1982 and 1991 recessions (Figure 7). Housing starts totaled 1.17 million units in 2016, the seventh consecutive annual increase in starts and a 5.2% increase from 2015. However, 2016 represented the 14th-weakest year of housing starts (based on data available back to 1959), above the eight-year 2008-through-2015 period and the recession years of 1975, 1981, 1982, and 1991. Housing starts in 2016 also were 43.4% below the prerecession peak of 2.1 million starts in 2005. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of

inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and averaged approximately 3.5% of GDP during 2016.

**Figure 7**



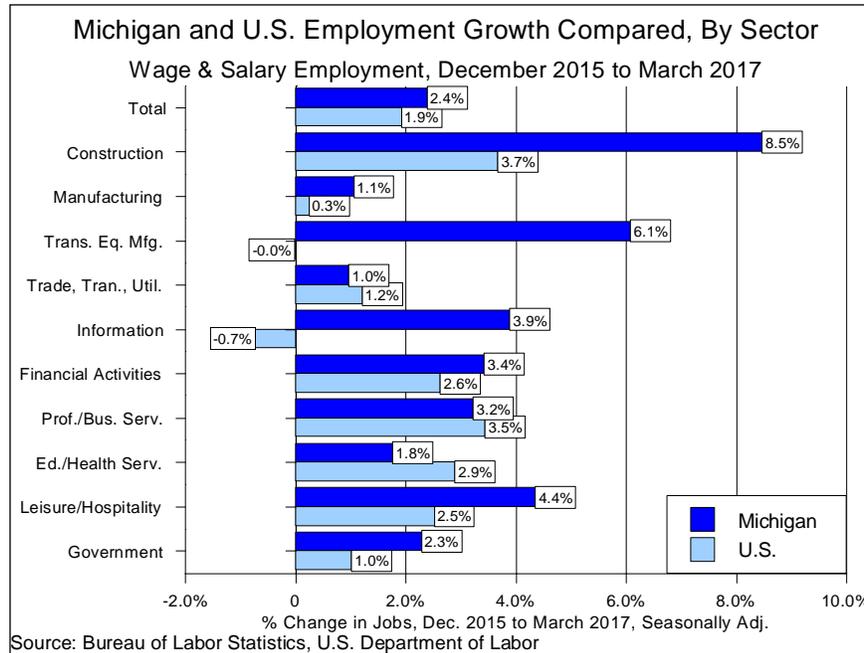
**RECENT MICHIGAN ECONOMIC HIGHLIGHTS**

Michigan's economy spent the 2000-to-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, a significant surge in productivity driven by increased competition in the economy. For Michigan, the effect of productivity improvements has been substantial for at least three reasons: 1) there was more room for productivity improvements in the durable goods and motor vehicle manufacturing sectors than in many other sectors, 2) Michigan was, and remains, 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; thus, Michigan lost jobs as a result of both higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 146,000 jobs (34.5%) between June 2009, when the U.S. recession ended, and December 2014, or approximately 2,300 jobs per month (an average annual growth rate of 5.5%). Since December 2014, job growth in manufacturing has slowed, rising 800 jobs per month during 2015 (1.7% annual growth rate), and 600 jobs per month during 2016 (1.2% annual growth rate). Employment in the transportation equipment manufacturing sector increased by 65.3% between June 2009 and December 2014, accounting for 69,000 (46.1%) of the manufacturing jobs Michigan gained and 18.2% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly, with the growth rate declining from a 5.4% increase in 2014 to a 4.6% gain in 2015, to a 3.6% increase in 2016. As of March

2017, seasonally adjusted transportation equipment manufacturing in Michigan was down 0.2% from the March 2016 level. Total Michigan payroll employment has consistently averaged about 2.0% year-over-year growth since January 2015. Since the end of 2015, most sectors of the Michigan economy have exhibited more rapid employment growth than the U.S. as a whole (Figure 8).

**Figure 8**



The unemployment rate declined from a high of 14.9% in June 2009 to 4.8% in May and June 2016. The unemployment rate rose slightly since then, reaching 5.2% in February 2017. The decline between June 2009 and May 2016 was partially attributable to the departure of approximately 145,100 individuals from the labor force in addition to the employment gain of 360,000 jobs. Almost half of the employment gain, representing 179,850 jobs, occurred during 2013 and 2014.

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

**FORECAST SUMMARY**

During 2017, the U.S. economy is expected to expand at a moderately faster rate than during 2016, while the Michigan economy will expand at slower rate than in 2016. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2017 and later years, although Michigan is generally expected to grow more slowly than the nation as a whole. [Table 1](#) and [Table 2](#) provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to rise 2.2% in 2017, slightly more than the 1.6% increase in 2016 but below the 2.6% increase in 2015. Inflation-adjusted GDP will continue expanding, increasing 2.0% during 2018 and 1.9% in 2019. The expansion over the forecast period primarily reflects stable consumption growth and slowing residential investment combined with stronger business investment in 2017 and 2018 that will more than offset the drag on the economy from increased imports, slow growth in exports, and relatively stagnant public sector growth.

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally

replace capital for labor. The U.S. unemployment rate is expected to fall from 4.9% during 2016, to 4.6% in 2017 and 2018, before rising slightly to 4.7% in 2019.

Inflation is not anticipated to be a concern over the forecast period, largely due to anticipated success the Federal Reserve will have containing inflationary pressures. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.5% in 2017, followed by increases of 2.0% in 2018, and 2.2% in 2019. The last time the CPI increased more than 2.0% in a year was 2012, when it rose 2.1%. Export growth is expected to be tempered in the near term by both weak foreign economies and higher interest rates that will increase the value of the dollar. Slightly improved productivity growth, modest domestic consumer demand, and some level of tightness in the labor market will increase labor costs somewhat, with unit labor costs (not shown in table) expected to increase 1.7% in 2017, and 2.3% in both 2018 and 2019.

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

	2015 Actual	2016 Actual	2017 Estimate	2018 Estimate	2019 Estimate
<b>United States</b>					
Nominal GDP (year-to-year growth)	3.7%	3.0%	4.4%	4.4%	4.2%
Inflation-Adjusted GDP (year-to-year growth)	2.6%	1.6%	2.2%	2.0%	1.9%
Unemployment Rate	5.3%	4.9%	4.6%	4.6%	4.7%
Inflation					
Consumer Price Index (year-to-year growth)	0.1%	1.3%	2.5%	2.0%	2.2%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.1%	1.3%	2.2%	2.3%	2.2%
Interest Rates					
90-day Treasury Bill	0.05%	0.32%	0.95%	1.75%	2.41%
10-year Treasury Bill	2.14%	1.84%	2.68%	3.16%	3.47%
Corporate Aaa Bond	3.89%	3.66%	4.16%	4.44%	4.59%
Federal Funds Rate	0.13%	0.39%	1.17%	1.93%	2.66%
Light Motor Vehicle Sales (millions of units)					
Auto	7.5	6.9	6.1	6.0	6.0
Truck	9.9	10.6	10.8	10.8	11.0
Import Share	21.3%	22.0%	21.7%	21.3%	20.9%
<b>Michigan</b>					
Personal Income (millions)	\$424,807	\$440,292	\$455,503	\$474,949	\$496,061
Year-to-year growth	4.6%	3.6%	3.5%	4.3%	4.4%
Inflation-Adjusted Personal Income (year-to-year growth)	6.1%	2.0%	1.2%	2.4%	2.0%
Wage & Salary Income (millions)	\$214,703	\$225,281	\$232,194	\$240,375	\$249,059
Year-to-year growth	5.1%	4.9%	3.1%	3.5%	3.6%
Detroit Consumer Price Index (year-to-year growth)	(1.4%)	1.6%	2.2%	1.8%	2.4%
Wage & Salary Employment (thousands)	4,243.5	4,325.6	4,383.8	4,411.3	4,438.3
Year-to-year growth	1.5%	1.9%	1.3%	0.6%	0.6%
Unemployment Rate	5.4%	4.9%	5.2%	5.3%	5.3%

Table 2

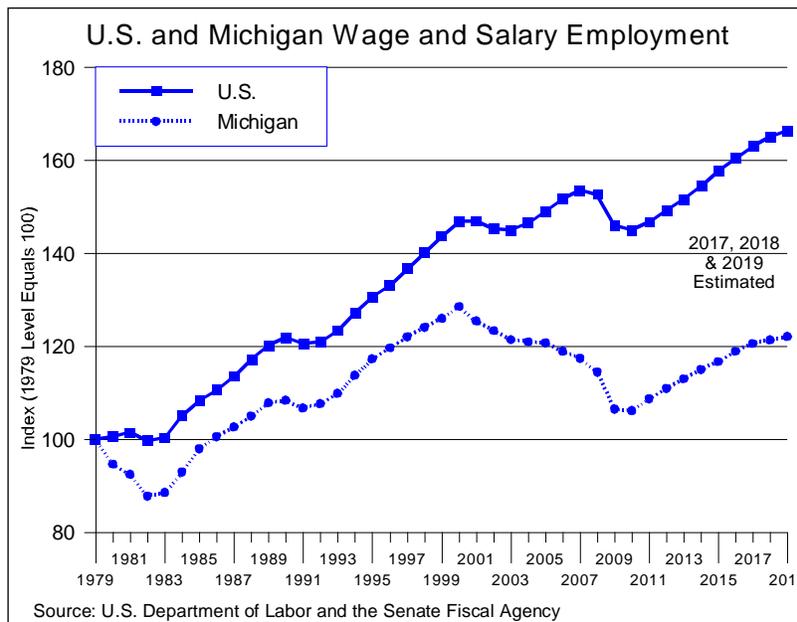
THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2015 Actual	2016 Actual	2017 Estimate	2018 Estimate	2019 Estimate
Gross Domestic Product (billions of dollars)	\$18,036.6	\$18,569.1	\$19,394.6	\$20,247.2	\$21,094.5
Year-to-year growth	3.7%	3.0%	4.4%	4.4%	4.2%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2009 dollars)	\$16,397.2	\$16,662.1	\$17,033.8	\$17,380.5	\$17,717.1
Year-to-year growth	2.6%	1.6%	2.2%	2.0%	1.9%
Consumption (billions of 2009 dollars)	\$11,214.7	\$11,522.2	\$11,799.6	\$12,070.2	\$12,348.5
Year-to-year growth	3.2%	2.7%	2.4%	2.3%	2.3%
Business Fixed Investment (billions of 2009 dollars)	\$2,200.2	\$2,188.6	\$2,300.7	\$2,417.3	\$2,487.1
Year-to-year growth	2.1%	-0.5%	5.1%	5.1%	2.9%
Change in Business Inventories (billions of 2009 dollars)	\$84.0	\$22.0	\$37.6	\$51.4	\$44.9
Residential Investment (billions of 2009 dollars)	\$564.5	\$591.9	\$627.6	\$652.3	\$672.0
Year-to-year growth	11.7%	4.9%	6.0%	3.9%	3.0%
Government Spending (billions of 2009 dollars)	\$2,883.7	\$2,907.0	\$2,915.9	\$2,945.0	\$2,964.2
Year-to-year growth	1.8%	0.8%	0.3%	1.0%	0.7%
Net Exports (billions of 2009 dollars)	(\$539.9)	(\$563.0)	(\$647.1)	(\$761.1)	(\$807.3)
Exports (billions of 2009 dollars)	\$2,120.6	\$2,128.2	\$2,179.3	\$2,208.6	\$2,250.5
Imports (billions of 2009 dollars)	\$2,660.5	\$2,691.2	\$2,826.4	\$2,969.7	\$3,057.7
Personal Income (year-to-year growth)	4.4%	3.6%	4.4%	4.6%	4.8%
Adjusted for Inflation	4.3%	2.3%	1.9%	2.6%	2.5%
Wage & Salary Income (year-to-year growth)	5.1%	4.3%	4.7%	4.6%	4.4%
Personal Saving Rate	5.8%	5.8%	5.8%	6.3%	6.7%
Capacity Utilization Rate	76.8%	75.7%	76.3%	76.6%	76.5%
Housing Starts (millions of units)	1.112	1.174	1.267	1.289	1.313
Conventional Mortgage Rates	3.9%	3.7%	4.4%	4.8%	5.1%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$569.7)	(\$656.9)	(\$697.0)	(\$845.8)	(\$999.8)

In Michigan, both job growth and personal income growth are expected to remain below the national averages (despite outperforming the national averages in both 2010 and 2011) and below the historical State average (Figures 9 and 10). Inflation-adjusted personal income is projected to increase 1.2% in 2017, 2.4% in 2018, and 2.0% in 2019, compared with a 2.0% increase during 2016 and the 6.1% increase in 2015 (which was boosted above the nominal increase by a negative inflation rate). Payroll employment is expected to increase 1.3% in 2017, about two-thirds the 1.9% growth rate during 2016, and then rise 0.6% in both 2018 and 2019. Private sector gains in employment during 2017 and 2018 are expected to be fairly modest, although above the nearly flat employment predicted in the government sector. Nationally, light vehicle sales are expected to decrease from the record 17.5 million units in 2016 to 17.0 million units in 2017 and 16.8 million units in 2018, before rising slightly

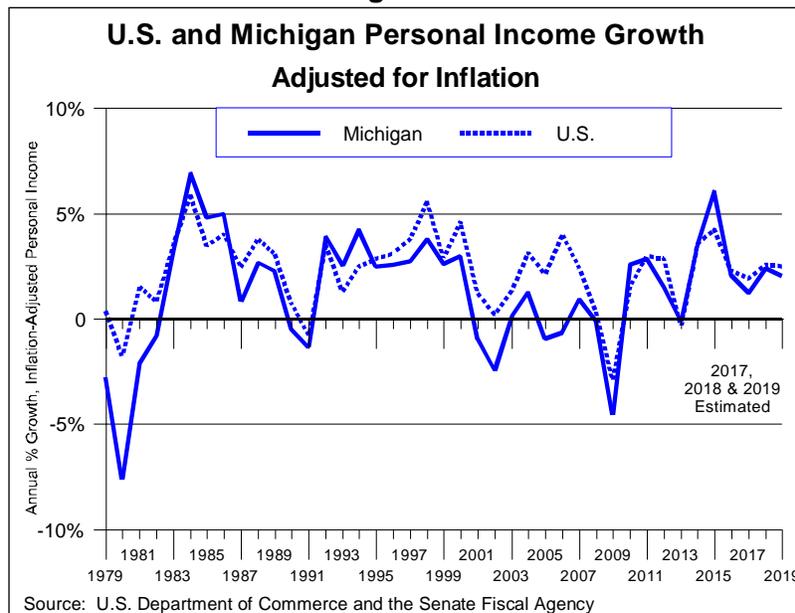
to 16.9 million units in 2019. In Michigan, the relatively high, but declining, level of vehicle sales, stability in the housing market, and the tepid national economy are expected to result in the unemployment rate increasing from 4.9% in 2016 to 5.2% in 2017 and 5.3% in both 2018 and 2019.

Compared with the January 12, 2017, Consensus Economic Forecast, forecasted U.S. economic growth in both 2017 and 2018 is slightly stronger, while the Michigan forecast is slightly weaker in 2017 but slightly stronger in 2018. Both the U.S. and Michigan forecasts predict continued growth, but compared to the January 2017 forecasts, the growth rates diverge due to the geographic distribution of weaker light vehicle sales and slightly higher levels of productivity growth. High vehicle sales levels, although lower than in 2016, and stronger profitability in Michigan's vehicle sector, will provide stability to the Michigan employment situation - even if Michigan grows more slowly than the U.S. as a whole.

**Figure 9**



**Figure 10**



## **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 if and when the economy is entering a new phase. 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 induced consumers to rein in their spending, pushing the saving rate significantly higher. The saving rate has remained flat since 2014, but outstanding debt has continued to increase, supporting a portion of the gains in consumer spending. Income growth has improved but high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption once interest rates start rising. While the Federal Reserve began raising interest rates in December 2015, the weak economy during 2016 resulted in the Federal Reserve postponing the next two increases until December 2016 and March 2017. Given low unemployment levels and stronger prices in housing markets and some commodities markets, inflation concerns are likely to be strong enough to warrant slowly and consistently raising interest rates over the forecast period.

If the saving rate improves more than expected, perhaps to take advantage of higher interest rates, both consumption growth and economic growth will be substantially lower. Similarly, higher interest rates may temper debt-financed consumer spending. Conversely, consumers could return to their spending habits of the mid-2000s and, if capital markets accommodated higher demands for additional credit, growth would be stronger than forecasted.

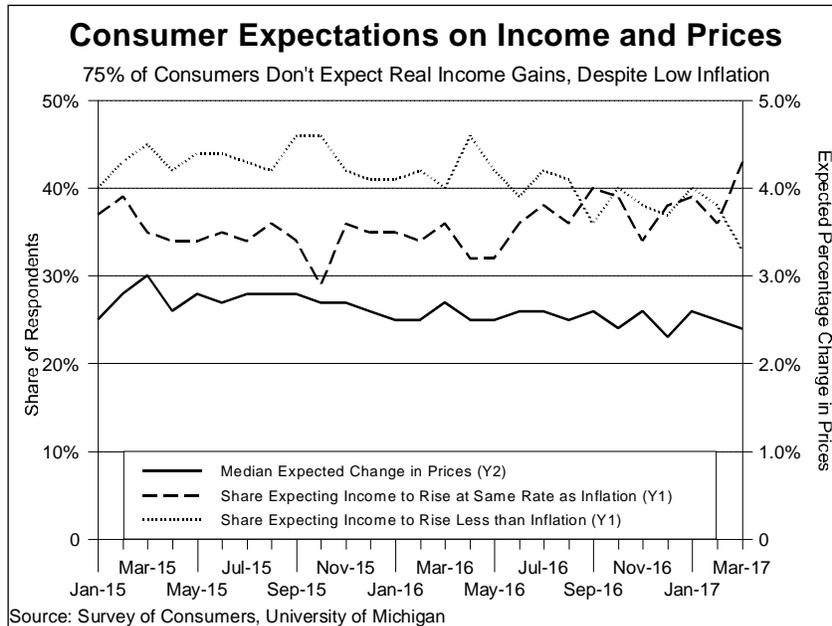
Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. However, personal income fell more slowly over the 2008-2009 recession, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much real growth in the underlying consumption trend is actually occurring. The increases in debt-financed consumption may reflect consumers feeling more confident about the future, and thus being willing to make greater spending commitments; but could also reflect a need to replace increasingly older durable goods while lacking enough disposable income to acquire the goods without assuming greater debt. If consumer spending primarily represents deferred purchases and consumers continue spending in the near future only at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

The durability of consumer spending represents the primary determinant of the accuracy of the forecast. As indicated earlier, purchases of motor vehicles have dominated consumption growth during much of the 2013-to-2016 period. The forecast assumes that consumers will slightly increase their saving rates and that consumption will be limited by flat wages and limited access to and/or use of additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than

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

The interaction of consumer expectations with inflation also poses a risk to the forecast. Consumers currently have very low expectations of inflation, at levels at or below the Federal Reserve’s inflationary targets. Furthermore, despite such low inflationary expectations, a significant majority of consumers forecast income gains so low that they will be at or less than the level of inflation (Figure 11). As a result, if the economy experiences greater-than-expected inflation, consumer sentiment is likely to be affected significantly, resulting in potentially major changes in consumption.

**Figure 11**



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

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

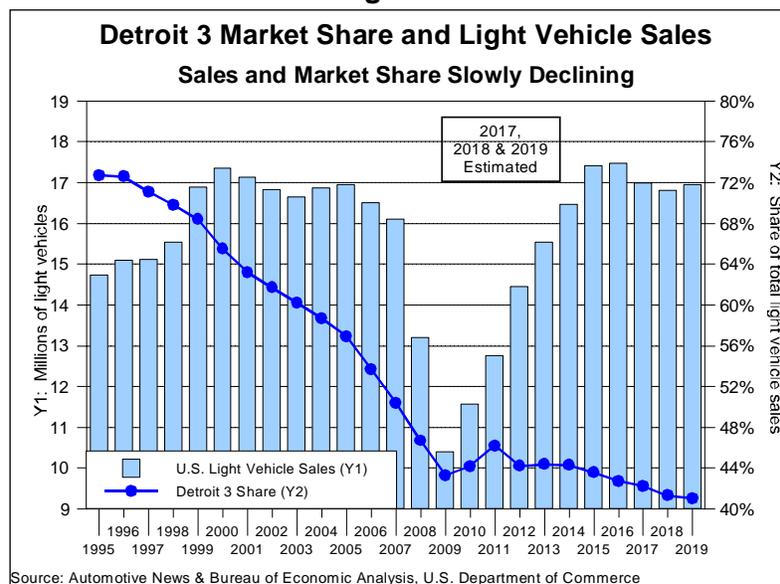
How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent that these individuals face limited incomes and reduced income growth, consumption and investment are depressed, lowering economic growth and reducing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

the economy will improve, but at the expense of reduced income gains that other workers might realize from an improving economy. As a result, both nationally and in Michigan, the large number of individuals who have left the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. The forecast assumes that the labor force will increase at a slightly greater rate than the rate of population growth, but more slowly than new jobs will be created. As a result, employment gains are anticipated but wage growth is expected to be relatively modest. If job growth rises more rapidly than the labor force increases, it will put upward pressure on wages, making interest rate increases more likely and encouraging firms to make greater investments in labor-saving capital equipment.

**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 had been that states with large energy sectors grew quite rapidly when oil prices were high, although with lower oil prices over the last few years, these states have faced challenges.) For Michigan, both employment gains and improvements in economic growth will be restrained by stable-to-declining vehicle sales and because the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains. While the level of vehicle sales is quite high, the potential growth in those sales is less than it has been in years, and in 2017 the level is forecast to begin 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 decline somewhat (Figure 12) due to the strong dollar making imported vehicles comparatively less expensive. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles. While that reliance has declined (for example, in 1998 wages and salaries from transportation equipment manufacturing represented 11.8% of total Michigan wage and salary income, compared to 5.7% in 2015), Michigan is still heavily dependent on manufacturing - particularly motor vehicle manufacturing - and far more dependent than any other state in the country.

**Figure 12**

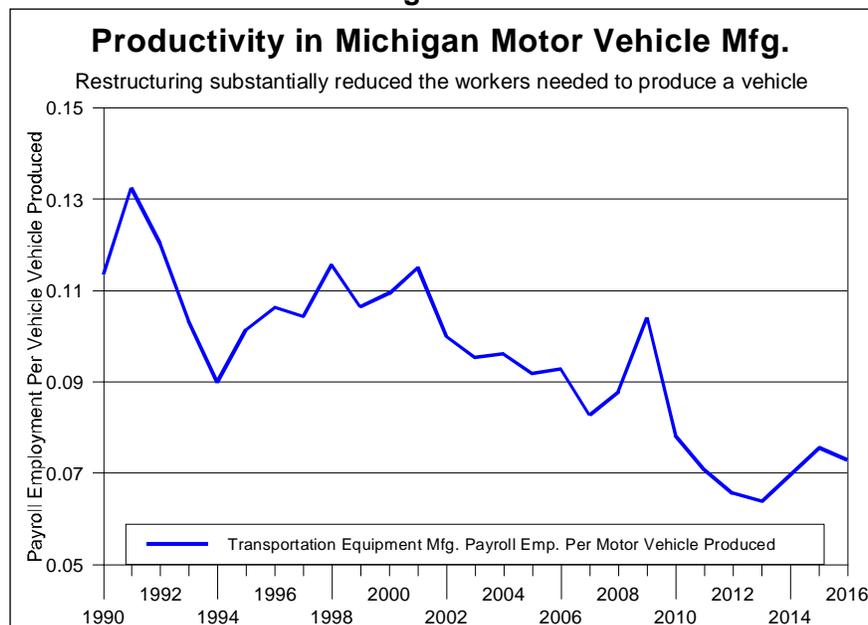


Despite the high, but declining, level forecasted for vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly.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

The forecast expects employment levels in the transportation equipment manufacturing sector to decline slightly over the forecast period. Overall employment in Michigan is expected to grow slightly, with almost all of the growth in private sector employment. The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists unless a sector other than motor vehicles begins to show substantial growth. Over the forecast period, light vehicle sales are expected to decline from record levels that, in the long-run, are unsustainable. Average weekly hours are already declining from their record highs, and firms have shown limited willingness to add employees given that the record levels of output have been met by the existing employment base (Figure 13). With a risk of rising labor costs in many other sectors, and all of the risk regarding vehicle sales being on the downside, any substantial growth in the Michigan economy will likely need to originate from a different sector and be strong enough to exceed the flat-to-downward trajectory the motor vehicle industry will exhibit over the next decade.

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

**Figure 13**



**FORECAST FOR  
STATE REVENUE**



## **THE FORECAST FOR STATE REVENUE**

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's (SFA's) revised estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2016-17, FY 2017-18, and FY 2018-19. 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 2016-17 and FY 2017-18 are discussed in the last section of this report.

### **REVENUE OVERVIEW**

The GF/GP and SAF revised revenue estimates for FY 2016-17, FY 2017-18, and FY 2018-19 are presented in [Table 3](#) and are summarized below.

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

- GF/GP and SAF revenue is expected to total \$22.6 billion in FY 2016-17.
- This revised estimate for FY 2016-17 is up 2.1% or \$462.7 million from final FY 2015-16 revenue. The projected revenue increase in FY 2016-17 reflects slower growth in individual income tax collections and more rapid growth in sales tax revenue.
- The revised estimate for FY 2016-17 is \$150.3 million below the January 2017 consensus revenue estimate.

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

- GF/GP and SAF revenue is expected to total \$23.3 billion in FY 2017-18.
- The revised estimate for FY 2017-18 is up 2.9% or \$653.8 million from the revised estimate for FY 2016-17.
- The revised estimate for FY 2017-18 is \$55.2 million below the January 2017 consensus revenue estimate.
- The revenue increase in FY 2017-18 reflects a somewhat stronger Michigan economy in FY 2017-18 than in FY 2016-17.

#### **FY 2018-19 Revised Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$23.7 billion in FY 2018-19.
- This initial estimate for FY 2018-19 is 2.0% or \$461.0 million more than the revised estimate for FY 2017-18.
- The revenue increase in FY 2018-19 reflects Michigan economic activity growing at a faster rate than in FY 2017-18, but much of the impact on revenue will be offset by the first year of General Fund reductions under the transportation package enacted in 2015. The change in the Homestead Property Tax Credit will reduce General Fund income tax collections \$205.8 million, and the General Fund will be reduced by the \$150.0 million earmark of General Fund income tax revenue for the Michigan Transportation Fund in FY 2018-19.

Table 3

<b>SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2015-16 THROUGH FY 2018-19</b>				
<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND</b>				
<b>(millions of dollars)</b>				
	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>
	<b>Final</b>	<b>Revised Est.</b>	<b>Revised Est.</b>	<b>Revised Est.</b>
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	\$10,975.5	\$11,109.9	\$11,499.5	\$11,863.4
Tax Changes Not In Baseline	(960.1)	(1,107.9)	(1,180.6)	(1,462.2)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	6,706.2	6,883.6	7,113.9	7,006.3
MBT, Corp. Income Tax, SBT & Insur. Tax	373.9	2,366.5	613.6	728.1
Other Taxes	2,468.0	376.8	2,223.3	2,306.7
Total Taxes	9,548.1	9,626.9	9,950.8	10,041.1
Nontax Revenue	467.3	375.1	368.1	360.1
<b>TOTAL GF/GP REVENUE</b>	<b>\$10,015.4</b>	<b>\$10,002.0</b>	<b>\$10,318.9</b>	<b>\$10,401.2</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	\$12,181.6	\$12,594.2	\$12,901.8	\$13,248.9
Tax Changes Not In Baseline	(62.9)	0.6	29.9	61.5
<b>TOTAL SAF REVENUE</b>	<b>\$12,118.7</b>	<b>\$12,594.8</b>	<b>\$12,931.7</b>	<b>\$13,310.4</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>				
Tax & Revenue Changes	(1,023.0)	(1,107.3)	(1,150.7)	(1,400.7)
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>\$22,134.1</b>	<b>\$22,596.8</b>	<b>\$23,250.6</b>	<b>\$23,711.6</b>
SALES TAX	\$7,295.6	\$7,701.2	\$7,926.4	\$8,206.9
<b>Percent Change</b>				
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	3.0%	1.2%	3.5%	3.2%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	3.8	2.6	3.3	(1.5)
MBT, Corp. Income Tax, SBT & Insur. Tax	(51.1)	532.9	(74.1)	18.7
Other Taxes	2.3	(84.7)	490.0	3.8
Total Taxes	(0.9)	0.8	3.4	0.9
Nontax Revenue	17.4	(19.7)	(1.9)	(2.2)
<b>TOTAL GF/GP REVENUE</b>	<b>(0.2%)</b>	<b>(0.1%)</b>	<b>3.2%</b>	<b>0.8%</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	3.4%	3.4%	2.4%	2.7%
<b>TOTAL SAF REVENUE</b>	<b>3.2%</b>	<b>3.9%</b>	<b>2.7%</b>	<b>2.9%</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>				
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>3.2%</b>	<b>2.4%</b>	<b>2.9%</b>	<b>2.9%</b>
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>1.6%</b>	<b>2.1%</b>	<b>2.9%</b>	<b>2.0%</b>
SALES TAX	0.7%	5.6%	2.9%	3.5%
<b>Note:</b> FY 2015-16 is the base year for baseline revenue.				

### **Historical Perspective**

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 2.1% in FY 2016-17, 2.9% in FY 2017-18, and 2.0% in FY 2018-19. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and an average increase of 3.1% in the years from FY 2010-11 to FY 2015-16.

- GF/GP revenue is projected to remain below the record FY 1999-2000 level throughout the forecast period. In FY 2018-19, GF/GP revenue is projected to exceed the revenue peak that occurred in FY 2007-08.
- Without adjusting for inflation, the preliminary final GF/GP revenue from ongoing sources in FY 2016-17 is 6.4% (\$678.6 million) below the record FY 1999-2000 level and 3.2% (\$335.0 million) below the most recent peak reached in FY 2007-08. In FY 2017-18, GF/GP revenue is expected to remain slightly under the FY 2007-08 peak by 0.2% (\$18.1 million) and 3.4% below the FY 1999-2000 highest level.
- GF/GP revenue in FY 2018-19 is projected to exceed the FY 2007-08 peak by 0.6% (\$64.2 million), although revenue will remain 2.6% (\$279.4 million) below the FY 1999-2000 record level. These comparisons do not adjust for inflation.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax changes. Revenue in FY 2013-14, FY 2014-15, and FY 2015-16 surpassed the previous peak revenue in FY 2007-08. The SAF is projected to rise annually from FY 2016-17 through FY 2018-19. Projected growth rates are 3.9% in FY 2016-17, 2.7% in FY 2017-18, and 2.9% in FY 2018-19.

Baseline revenue is forecast to increase each year during the forecast period. Figure 14 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the revised estimate for FY 2018-19. During this 33-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious 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. Baseline GF/GP and SAF revenue is expected to grow at approximately 2.4% in FY 2016-17, 2.9% in both FY 2017-18 and FY 2018-19.

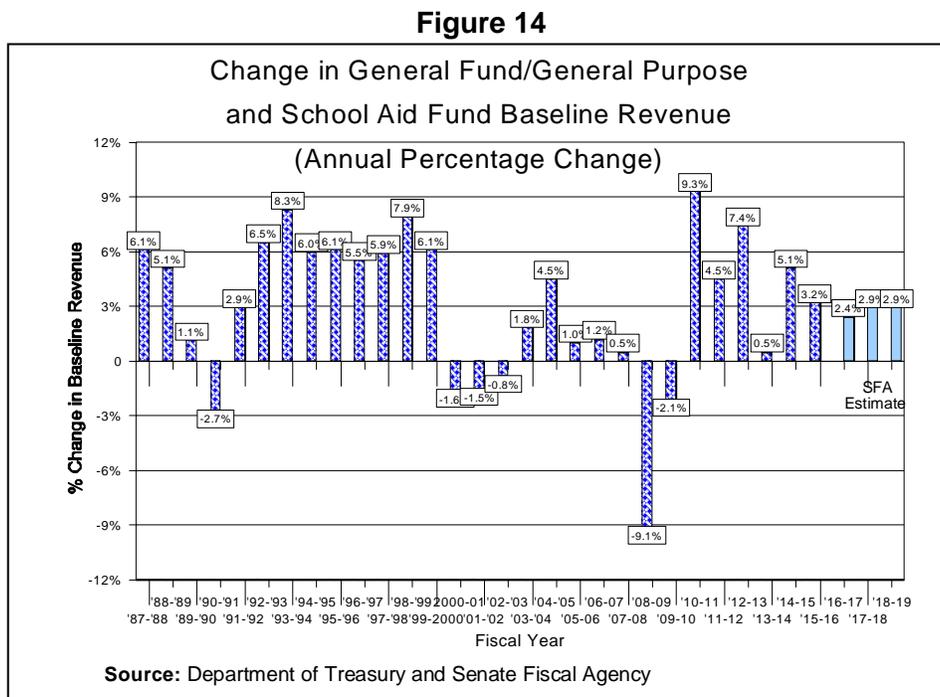
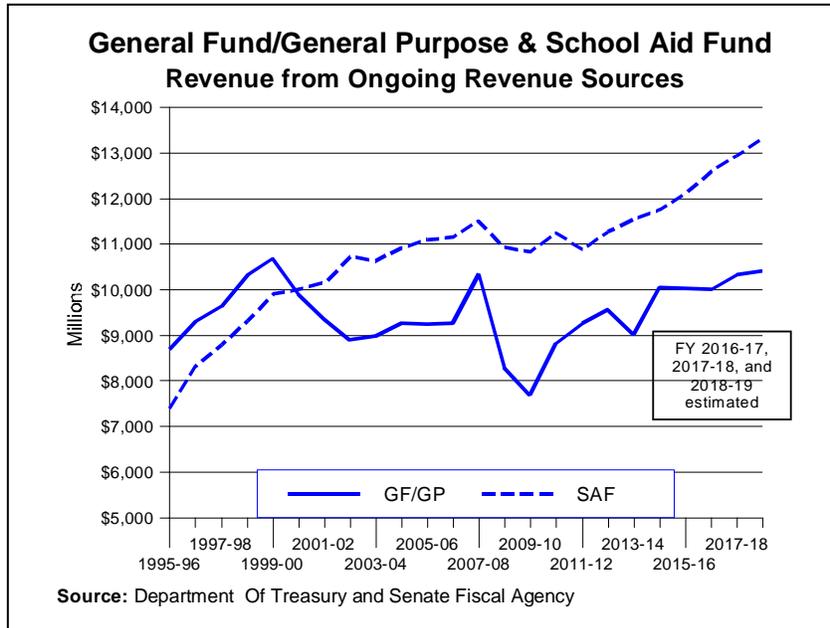


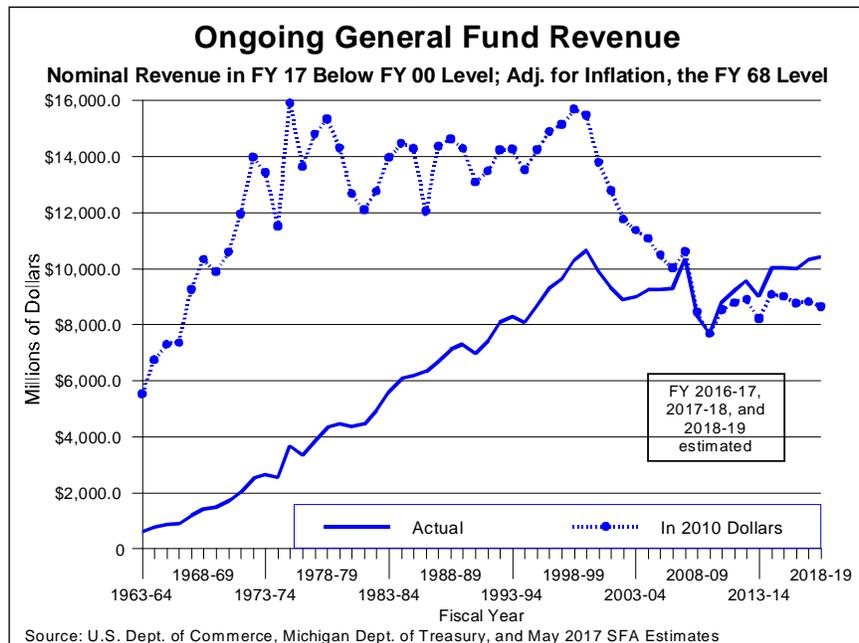
Figure 15 compares the FY 1995-96 through estimated FY 2018-19 amounts of both GF/GP revenue and the SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked 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 16, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2016-17 will be approximately 6.4% (or \$678.6 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of \$10.3 billion in FY 2017-18 remains 3.4% below the peak, and revised estimates for FY 2018-19 are 2.6% below peak levels. In inflation-adjusted terms, however, FY 2018-19 GF/GP revenue is 6.6% (or \$614.6 million) below the FY 1967-68 level.

**Figure 15**

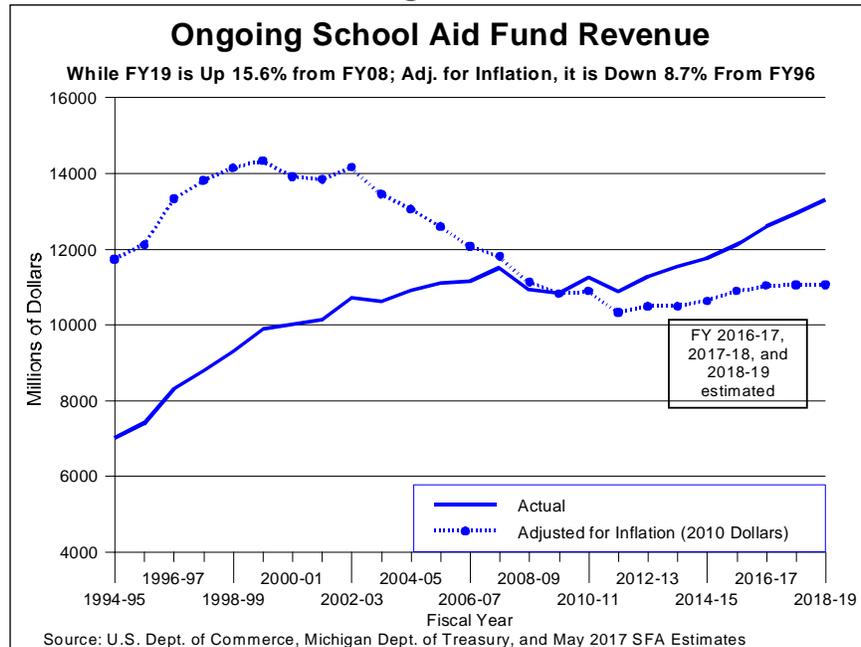


**Figure 16**



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 2008-09 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, although growth in FY 2017-18 and FY 2018-19 is projected to be slower than in FY 2016-17. In FY 2018-19, SAF revenue is predicted to be approximately 90.1% (\$6.3 billion) above the revenue level in FY 1995-96 (without accounting for inflation) and 8.7% (\$1.0 billion) below if adjusted for inflation, as shown in [Figure 17](#).

**Figure 17**



**FY 2016-17 REVISED REVENUE ESTIMATES**

Michigan's economy is expected to continue growing during FY 2016-17, with personal income growing at about the same rate as in FY 2015-16. Total GF/GP and SAF revenue will reach an estimated \$22.6 billion in FY 2016-17, an increase of 2.1% or \$462.7 million from FY 2015-16. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.4% in FY 2016-17, reflecting continued growth in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2016-17 is summarized in [Table 4](#).

**Tax Policy Changes**

Tax policy changes affecting FY 2016-17 revenue will reduce collections by \$1.1 billion. The largest adjustments are due to MBT refunds and personal property tax reform. These negative adjustments create the gap between baseline revenue and net revenue available.

**Michigan Business Tax/Corporate Income Tax.** The MBT will reduce GF/GP revenue by \$936.3 million in FY 2016-17. Two main factors affected MBT revenue in FY 2016-17. The ongoing MBT credits continue to reduce revenue; however, the expected reduction of MBT revenue due to tax credits is \$721.3 million in FY 2016-17, smaller than the reduction in FY 2015-16, due in part to the expiration of a portion of the battery credits. All of the impact of the MBT credits reduces GF/GP revenue. Tax processing issues also affected the MBT and CIT estimates. Collections of \$155.0 million in FY 2016-17 were originally processed as MBT revenue, but subsequently found to be CIT revenue. An additional transfer of \$55.0 million from MBT to CIT is expected in FY 2016-17. In addition, settlements in tax litigation cases are expected to reduce MBT

revenue by \$55.0 million in FY 2016-17. These processing issues change the allocation of revenue between the MBT and the CIT, but have no net effect on the General Fund.

**Sales Tax.** The implementation of affiliate nexus provisions to levy sales tax on certain internet sales will increase revenue by \$70.0 million in FY 2016-17, consisting of \$11.7 million GF/GP, \$51.3 million SAF, and 7.0 million other funds, primarily constitutional revenue sharing. The revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to total \$31.6 million in FY 2016-17; reducing GF/GP revenue by \$3.8 million, SAF revenue by \$23.2 million, and other funds by \$4.6 million. The change in sales tax treatment of aviation fuel included in Public Acts 262 and 263 of 2015 will reduce GF/GP revenue by \$8.2 million in FY 2016-17 and redirect that revenue to the State Aeronautics Fund and the Qualified Airport Fund. The exemption of core charges for batteries and related recycling or disposal fees from the sales tax by Public Act 515 of 2016 will reduce revenue by \$4.1 million in FY 2016-17. This change will reduce GF/GP revenue by \$0.5 million, SAF by \$3.0 million, and other funds by \$0.6 million.

**Personal Property Tax Reform.** Fiscal year 2016-17 is the second year in which use tax revenue will be levied by the Local Community Stabilization Authority (LCSA) and earmarked for payments to local governments for reimbursement of property tax revenue losses due to the phase-in of personal property tax exemptions for eligible manufacturing property. In FY 2016-17, \$380.9 million of use tax revenue will be levied by the LCSA and restricted for these local payments, up from \$96.4 million in FY 2015-16, thus reducing GF/GP revenue. This revenue loss will be offset in part by the revenue from the Essential Services Assessment, the specific tax on eligible manufacturing personal property that is exempt from property taxation. In its second year, the Essential Services Assessment will increase GF/GP revenue by \$80.0 million in FY 2016-17. The State Education Tax (SET) also will be reduced by the expanding personal property tax exemptions, which will reduce SAF revenue by \$21.1 million. This loss will be reimbursed through the General Fund contribution to the School Aid budget in FY 2016-17.

**Insurance Tax.** The legislative fix to prior changes regarding the Michigan Automobile Insurance Placement Facility (MAIPF) is expected to increase revenue by \$40.0 million in FY 2016-17.

**Driver Responsibility Fees.** The continuing phase-out of driver responsibility fees will reduce GF/GP revenue by \$28.0 million in FY 2016-17.

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

- General Fund/General Purpose revenue will total an estimated \$10.0 billion in FY 2016-17, a decrease of 0.1% or \$13.4 million from FY 2015-16.
- The revised GF/GP estimate is \$288.1 million below the January 2017 consensus revenue estimate.

Baseline GF/GP revenue is expected to increase 1.2%; however, revenue adjustments that total \$1.1 billion, primarily for the cost of MBT credits and personal property tax (PPT) reform, result in a decline in net GF/GP revenue of 0.1%. The revised GF/GP revenue estimates for FY 2016-17 are summarized in [Table 4](#). The reduction of \$288.1 million from the January 2017 consensus estimate for FY 2016-17 reflects weaker-than-expected growth in individual income tax and business tax collections.

### **School Aid Fund**

- School Aid Fund revenue will total an estimated \$12.6 billion in FY 2016-17, an increase of 3.9% or \$476.1 million from FY 2015-16.
- The revised SAF estimate is \$137.8 million above the January 2017 consensus revenue estimate.

The forecasted increase in SAF revenue reflects strong growth in sales tax revenue and growth in all major earmarked tax sources except for a projected small decline in lottery revenue. The SAF revised revenue estimates for FY 2016-17 are summarized in Table 4.

**Table 4**  
**FY 2016-17 REVISED REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
(millions of dollars)

	FY 2015-16 Final	FY 2016-17 Revised Est.	Change from FY 2015-16		\$ Change from 01/17 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b>	\$10,975.5	\$11,109.9	\$134.4	1.2%	(\$196.8)
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(960.1)	(1,107.9)	(147.8)	----	(91.4)
<u>Personal Income Tax</u>					
Gross Collections	11,241.9	11,494.0	252.1	2.2	(142.0)
Less: Refunds	(1,873.0)	(1,872.8)	0.2	(0.0)	6.2
Net Income Tax Collections	9,368.9	9,621.2	252.3	2.7	(135.8)
Less: Earmarking to SAF Campaign Fund	(2,662.1) (0.7)	(2,736.8) (0.8)	(74.7) (0.1)	2.8 20.9	33.8 0.0
Net Income Tax to GF/GP	\$6,706.2	\$6,883.6	\$177.4	2.6%	(\$102.0)
<u>Other Taxes</u>					
Corporate Income Tax	929.8	1,097.0	167.2	18.0	150.5
Michigan Business Tax	(878.9)	(936.3)	(57.4)	----	(263.5)
Sales Use	1,143.3	1,214.9	71.6	6.3	36.0
Cigarette	931.8	642.9	(288.9)	(31.0)	(25.8)
Insurance Company Premiums	186.3	188.8	2.5	1.3	4.7
Telephone & Telegraph	329.2	338.2	9.0	2.7	(67.4)
Oil & Gas Severance	34.7	36.6	1.9	5.5	0.0
All Other	18.9	25.4	6.5	34.4	1.8
	146.8	135.8	(11.0)	(7.5)	(19.4)
Subtotal Other Taxes	\$2,841.9	\$2,743.3	(\$98.6)	(3.5%)	(\$183.1)
Total Nontax Revenue	467.3	375.1	(92.2)	(19.7)	(3.0)
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,015.4</b>	<b>\$10,002.0</b>	<b>(\$13.4)</b>	<b>(0.1%)</b>	<b>(\$288.1)</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b>	\$12,181.6	\$12,594.2	\$412.6	3.4%	\$124.1
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(62.9)	0.6	63.5	----	13.8
Sales Tax	5,308.8	5,604.9	296.1	5.6	158.4
Use Tax	489.9	512.0	22.1	4.5	(12.9)
Lottery Revenue	888.9	882.6	(6.3)	(0.7)	(9.4)
State Education Property Tax	1,897.0	1,949.9	52.9	2.8	16.0
Real Estate Transfer Tax	289.0	316.9	27.9	9.7	11.7
Income Tax	2,662.1	2,736.8	74.7	2.8	(33.8)
Casino Tax	112.9	113.0	0.1	0.1	(1.0)
Other Revenue	470.1	478.7	8.6	1.8	8.8
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,118.7</b>	<b>\$12,594.8</b>	<b>\$476.1</b>	<b>3.9%</b>	<b>\$137.8</b>
<b>BASELINE GF/GP AND SAF</b>	\$23,157.1	\$23,704.1	\$547.0	2.4%	(\$72.7)
Tax & Revenue Changes	(1,023.0)	(1,107.3)	(84.3)	----	(77.6)
<b>GF/GP &amp; SAF REV. AFTER CHNGS.</b>	<b>\$22,134.1</b>	<b>\$22,596.8</b>	<b>\$462.7</b>	<b>2.1%</b>	<b>(\$150.3)</b>
SALES TAX	\$7,295.6	\$7,701.2	\$405.6	5.6%	\$216.0
<b>Note:</b> FY 2015-16 is the base year for baseline revenue.					

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

Michigan's economy is expected to continue growing during FY 2017-18. Personal income will grow at a faster rate than in FY 2016-17, although wage and salary employment will grow at a slightly slower rate than in FY 2016-17. Total GF/GP and SAF revenue will reach an estimated \$23.3 billion in FY 2017-18, an increase of 2.9% or \$653.8 million from the revised estimate for FY 2016-17. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.9% 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 \$55.2 million below the January 2017 forecast and is summarized in [Table 5](#).

### **Tax Policy Changes**

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

**Personal Property Tax Reform.** Use tax revenue of \$410.8 million in FY 2017-18 will be levied by the LCSA and restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and will reduce GF/GP revenue by \$410.8 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$84.1 million. Personal property tax reform will reduce the SET by \$21.2 million due to the phase-in of additional tax exemptions, although the General Fund will reimburse the SAF by \$42.4 million from GF/GP use tax revenue to replace the loss of SET revenue and to pay the additional foundation allowance cost due to lower local school operating revenue.

**Michigan Business Tax/Corporate Income Tax.** The Michigan Business Tax will lower GF/GP revenue by \$745.6 million (as refunds will exceed payments), although the reduction will be slightly smaller than in FY 2016-17. Fiscal year 2017-18 is the last year in which any battery credits are expected to be claimed. The phase-out of battery credits will be offset by higher expected payments for Michigan Economic Growth Authority (MEGA) tax credits in FY 2017-18. Tax processing issues also will affect FY 2017-18 revenue. Business tax payments of \$55.0 million are expected to be reclassified as CIT revenue instead of MBT revenue. This change affects the amounts of CIT and MBT revenue, but does not change total GF/GP revenue.

**Sales and Use Taxes.** Affiliate nexus requirements will increase sales tax revenue by \$74.0 million in FY 2017-18. Of this amount, \$12.3 million will be GF/GP, \$54.3 million SAF, and \$7.4 million other funds. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$35.3 million, of which \$25.9 million is a reduction to the SAF. As a result of changes to Michigan's medical marijuana laws, sales tax collections are expected to increase \$13.2 million in FY 2017-18. The use tax will be reduced by a large taxpayer refund in FY 2017-18.

**Other Changes.** Inflation will trigger an increase in the personal exemption for the individual income tax in FY 2017-18. The indexing of the personal exemption will reduce individual income tax revenue by \$24.0 million (\$18.3 million GF/GP and \$5.7 million SAF). Adjustments to the tax treatment of payments to the MAIPF will increase insurance tax revenue by \$66.6 million in FY 2017-18. The phase-out of driver responsibility fees will reduce GF/GP revenue by \$40.0 million in FY 2017-18.

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

General Fund/General Purpose revenue will total an estimated \$10.3 billion in FY 2017-18, an increase of 3.2% or \$316.8 million from the revised estimate for FY 2016-17. Baseline GF/GP revenue is expected to increase 3.5%. Most of the growth reflects increased individual income tax collections. The revised GF/GP revenue estimates for FY 2017-18 are \$203.8 million below the January 2017 consensus estimates and are summarized in [Table 5](#).

Table 5

**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 01/17 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b>	\$11,109.9	\$11,499.5	\$389.6	3.5%	(\$162.6)
<b>Tax Changes Not In Baseline</b>	(1,107.9)	(1,180.6)	(72.7)	----	(41.2)
<b>Revenue After Tax Changes</b>					
<u>Personal Income Tax</u>					
Gross Collections	11,494.0	11,868.0	374.0	3.3	(162.0)
Less: Refunds	(1,872.8)	(1,927.5)	(54.7)	2.9	0.0
Net Income Tax Collections	9,621.2	9,940.5	319.3	3.3	(162.0)
Less: Earmarking to SAF	(2,736.8)	(2,825.8)	(89.0)	3.3	38.5
Campaign Fund	(0.8)	(0.8)	0.0	(1.2)	0.0
Net Income Tax to GF/GP	\$6,883.6	\$7,113.9	\$230.3	3.3%	(\$123.5)
<u>Other Taxes</u>					
Corporate Income Tax	1,097.0	964.8	(132.2)	(12.1)	(11.0)
Michigan Business Tax	(936.3)	(745.6)	190.7	(20.4)	(65.0)
Sales	1,214.9	1,246.3	31.4	2.6	37.0
Use	642.9	583.7	(59.2)	(9.2)	0.0
Cigarette	188.8	187.1	(1.7)	(0.9)	4.7
Insurance Company Premiums	338.2	394.4	56.2	16.6	(25.0)
Telephone & Telegraph	36.6	36.0	(0.6)	(1.6)	0.0
Oil & Gas Severance	25.4	27.9	2.5	9.8	2.2
All Other	135.8	142.3	6.4	4.7	(23.2)
Subtotal Other Taxes	\$2,743.3	\$2,836.9	\$93.5	3.4%	(\$80.3)
Total Nontax Revenue	375.1	368.1	(7.0)	(1.9)	0.0
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,002.0</b>	<b>\$10,318.9</b>	<b>\$316.8</b>	<b>3.2%</b>	<b>(\$203.8)</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b>	\$12,594.2	\$12,901.8	\$307.6	2.4%	\$136.8
<b>Tax Changes Not In Baseline</b>	0.6	29.9	29.3	----	11.8
<b>Revenue After Tax Changes</b>					
Sales Tax	5,604.9	5,769.2	164.3	2.9	186.2
Use Tax	512.0	560.9	48.9	9.6	0.0
Lottery Revenue	882.6	878.0	(4.6)	(0.5)	(14.0)
State Education Property Tax	1,949.9	2,005.6	55.7	2.9	15.0
Real Estate Transfer Tax	316.9	302.8	(14.1)	(4.4)	(7.0)
Income Tax	2,736.8	2,825.8	89.0	3.3	(38.5)
Casino Tax	113.0	114.0	1.0	0.9	(1.0)
Other Revenue	478.7	475.4	(3.3)	(0.7)	7.9
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,594.8</b>	<b>\$12,931.7</b>	<b>\$336.9</b>	<b>2.7%</b>	<b>\$148.6</b>
<b>BASELINE GF/GP AND SAF</b>	<b>\$23,704.1</b>	<b>\$24,401.3</b>	<b>\$697.2</b>	<b>2.9%</b>	<b>(\$25.8)</b>
Tax & Revenue Changes	(1,107.3)	(1,150.7)	(43.4)	----	(29.4)
<b>GF/GP &amp; SAF REV. AFTER CHNGS.</b>	<b>\$22,596.8</b>	<b>\$23,250.6</b>	<b>\$653.8</b>	<b>2.9%</b>	<b>(\$55.2)</b>
SALES TAX	\$7,701.2	\$7,926.4	\$225.2	2.9%	\$253.9

**Note:** FY 2015-16 is the base year for baseline revenue.

## **School Aid Fund**

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.9 billion in FY 2017-18, an increase of \$336.9 million, or 2.7%, from the revised estimate for FY 2016-17. The forecasted increase in SAF revenue reflects growth in all major earmarked tax sources, less a small reduction in lottery revenue. The revised SAF revenue estimates for FY 2017-18 are \$148.6 million above the January 2017 consensus estimates and are summarized in [Table 5](#).

## **FY 2018-19 REVISED REVENUE ESTIMATES**

Michigan's economy is expected to continue growing during FY 2018-19. Personal income will grow at a slightly faster rate than in FY 2017-18 and wage and salary employment will increase at the same rate as in FY 2017-18. Total GF/GP and SAF revenue will reach an estimated \$23.7 billion in FY 2018-19, an increase of 2.0% or \$461.0 million from the revised estimate for FY 2017-18. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.9% in FY 2018-19, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2018-19 is summarized in [Table 6](#).

## **Tax Policy Changes**

**Road Funding Package and Individual Income Taxes.** Tax policy changes affecting FY 2018-19 include several significant transfers from the General Fund to other State funds and the first General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by \$205.8 million due to the expansion of the Homestead Property Tax Credit. Income tax revenue will be reduced by another \$150.0 million in FY 2018-19 by the earmark of income tax revenue to the Michigan Transportation Fund. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$32.0 million in FY 2018-19 (\$24.4 million GF/GP and \$7.6 million SAF).

**Personal Property Tax Reform.** Use tax collections of \$438.0 million in FY 2018-19 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and will reduce GF/GP revenue by \$438.0 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$90.9 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by \$21.3 million due to the phase-in of additional tax exemptions. The General Fund will reimburse this loss and also pay the increased cost of the foundation allowance due to the corresponding reduction in local school operating revenue. This transfer will reduce the General Fund by \$42.9 million and increase the SAF by \$42.9 million.

**Other Changes.** The Michigan Business Tax will lower GF/GP revenue by \$604.1 million, although the reduction will be smaller than in FY 2017-18. The imposition of sales tax on marijuana is projected to increase sales tax revenue by \$36.3 million (\$6.1 million GF/GP, \$26.6 million SAF, and \$3.6 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$38.8 million, of which \$4.7 is GF/GP, \$28.5 million is SAF, and \$5.7 million other funds. The insurance tax will increase by \$67.9 million due to the adjustment in the tax treatment of payments to the MAIPF.

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

General Fund/General Purpose revenue will total an estimated \$10.4 billion in FY 2018-19, an increase of 0.8% or \$82.4 million from the revised estimate for FY 2017-18. Baseline GF/GP revenue is expected to increase 3.2%; however, over \$1.4 billion in negative adjustments will reduce net GF/GP growth to 0.8%. The value of tax changes will offset most revenue growth from the improving economy. The initial GF/GP revenue estimates for FY 2018-19 are summarized in [Table 6](#).

Table 6

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

	FY 2017-18 Revised Est.	FY 2018-19 Revised Est.	Change from FY 2017-18		\$ Change from 01/17 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b>	\$11,499.5	\$11,863.4	\$363.9	3.2%	(\$168.7)
<b>Tax Changes Not In Baseline</b>	(1,180.6)	(1,462.2)	(281.6)	----	(19.4)
<b>Revenue After Tax Changes</b>					
<u>Personal Income Tax</u>					
Gross Collections	11,868.0	12,260.0	392.0	3.3	(162.0)
Less: Refunds	(1,927.5)	(2,183.8)	(256.3)	13.3	0.0
Net Income Tax Collections	9,940.5	10,076.2	135.7	1.4	(162.0)
Less: Earmarking to SAF	(2,825.8)	(2,919.1)	(93.3)	3.3	38.6
Earmarking to MI Transp. Fund	0.0	(150.0)	(150.0)	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$7,113.9	\$7,006.3	(\$107.6)	(1.5%)	(\$123.4)
<u>Other Taxes</u>					
Corporate Income Tax	964.8	932.0	(32.8)	(3.4)	(74.0)
Michigan Business Tax	(745.6)	(604.1)	141.5	(19.0)	0.0
Sales	1,246.3	1,291.9	45.6	3.7	46.0
Use	583.7	614.1	30.4	5.2	0.0
Cigarette	187.1	185.4	(1.7)	(0.9)	4.7
Insurance Company Premiums	394.4	400.2	5.8	1.5	(20.3)
Telephone & Telegraph	36.0	36.0	0.0	0.0	0.0
Oil & Gas Severance	27.9	28.6	0.7	2.5	1.0
All Other	142.3	150.7	8.5	5.9	(22.1)
Subtotal Other Taxes	\$2,836.9	\$3,034.8	\$198.0	7.0%	(\$64.7)
Total Nontax Revenue	368.1	360.1	(8.0)	(2.2)	0.0
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$10,318.9</b>	<b>\$10,401.2</b>	<b>\$82.4</b>	<b>0.8%</b>	<b>(\$188.1)</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b>	\$12,901.8	\$13,248.9	\$347.1	2.7%	\$158.6
<b>Tax Changes Not In Baseline</b>	29.9	61.5	31.6	----	20.3
<b>Revenue After Tax Changes</b>					
Sales Tax	5,769.2	5,974.2	205.0	3.6	227.6
Use Tax	560.9	590.4	29.5	5.3	0.0
Lottery Revenue	878.0	875.0	(3.0)	(0.3)	(15.0)
State Education Property Tax	2,005.6	2,049.0	43.4	2.2	0.0
Real Estate Transfer Tax	302.8	314.0	11.2	3.7	(2.0)
Income Tax	2,825.8	2,919.1	93.3	3.3	(38.6)
Casino Tax	114.0	115.8	1.8	1.6	(1.0)
Other Revenue	475.4	472.9	(2.5)	(0.5)	7.9
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$12,931.7</b>	<b>\$13,310.4</b>	<b>\$378.7</b>	<b>2.9%</b>	<b>\$178.9</b>
<b>BASELINE GF/GP AND SAF</b>	\$24,401.3	\$25,112.3	\$711.0	2.9%	(\$10.1)
Tax & Revenue Changes	(1,150.7)	(1,400.7)	(250.0)	----	0.9
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$23,250.6</b>	<b>\$23,711.6</b>	<b>\$461.0</b>	<b>2.0%</b>	<b>(\$9.2)</b>
SALES TAX	\$7,926.4	\$8,206.9	\$280.5	3.5%	\$310.2

**Note:** FY 2015-16 is the base year for baseline revenue.

## **School Aid Fund**

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$13.3 billion in FY 2018-19, an increase of \$378.7 million, or 2.9%, from the revised estimate for FY 2017-18. Total SAF revenue in FY 2018-19 is projected to exceed the peak reached in FY 2007-08 by \$1.8 billion or 15.6%. Since the most recent SAF revenue decline in FY 2011-12, FY 2018-19 will represent the seventh consecutive year of increases in SAF revenue. The initial SAF revenue estimates for FY 2018-19 are summarized in Table 6.

## **MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2016-17 THROUGH FY 2018-19**

**Transportation Package and Individual Income Tax Revenue.** The major changes included in the transportation package enacted in November 2015 do not affect the General Fund (or School Aid Fund) in FY 2016-17 and FY 2017-18. However, the transportation package will have a significant impact on General Fund revenue beginning in FY 2018-19, when provisions of the legislation will lower General Fund revenue by \$355.8 million: \$150.0 million for the revenue earmarked to the Michigan Transportation Fund and \$205.8 million for the expansion of the Homestead Property Tax Credit.

**Individual Income Tax.** Individual income tax revenue will increase by an estimated 2.7% in FY 2016-17, to \$9.6 billion. As in FY 2015-16, income tax withholding in FY 2016-17 will continue to grow as wages and employment continue to grow. As economic growth moderates, growth in withholding will decline from the 6.8% increase experienced in FY 2015-16 to 2.5% in FY 2016-17. Quarterly payments are expected to increase in FY 2016-17, reflecting stock market gains in late 2016 and early 2017. However, annual payments are down, possibly due to overwithholding in 2016 and/or the higher quarterly payments in late 2016. As both prices and incomes rise in 2018 and 2019, inflation-indexed adjustments for the personal exemption are projected to affect net revenue beginning in FY 2017-18, resulting in a net individual income tax revenue increase of 3.3% in FY 2017-18. Baseline growth in income tax revenue is projected to be 3.5% in FY 2018-19; however, growth in net income tax revenue will slow to 1.4% in that year. The much slower rate of growth in individual income tax revenue in FY 2018-19 reflects the impacts of the expanded Homestead Property Tax Credit and the earmark of revenue to the Michigan Transportation Fund. Compared with the January 2017 consensus revenue estimates, the revised estimate for FY 2016-17 individual income tax revenue is \$135.8 million lower, the revised estimate for FY 2017-18 is \$162.0 million lower, and the revised estimate for FY 2018-19 is \$162.0 million lower. Individual income tax revenue currently is directed to both the General Fund and the School Aid Fund. The School Aid Fund receives 23.8% of gross income tax collections (withholding, quarterly, and annual payments), and through FY 2017-18, the GF/GP budget receives the remaining 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds). Beginning in FY 2018-19, the General Fund portion of collections will be reduced by the statutory requirement to deposit a fixed amount of income tax revenue into the Michigan Transportation Fund. These deposits will reduce GF/GP revenue by \$150.0 million in FY 2018-19, \$325.0 million in FY 2019-20, and \$600.0 million in FY 2019-20 and each following year.

**Sales Tax.** The forecast predicts consumption will increase more rapidly than in 2016, and fuel prices will rise slightly, resulting in sales tax revenue rising 5.6% in FY 2016-17, 2.9% in FY 2017-18, and 3.5% in FY 2018-19. 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 the January 2017 consensus revenue estimates, the revised sales tax estimate for FY 2016-17 is \$216.0 million higher, while the revised estimates for FY 2017-18 and FY 2018-19 are up \$253.9 million and \$310.2 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, to vehicle leases, can be volatile. The revised estimate for FY 2016-17 use tax revenue predicts a 1.2% increase, largely attributable to a large tax refund paid during FY 2015-16, which reduced FY 2015-16 revenue. Use tax revenue also is expected to grow as a result of increased vehicle leasing and legislation enacted to increase sales and use tax collections from certain internet retailers. Use tax revenue is expected to increase 1.3% in FY 2017-18, after the impact of several large refunds. However, the portion of use tax revenue received by the State of Michigan is expected to decline. Beginning in FY 2015-16, a portion of use tax revenue 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 amendments approved by the voters in August 2014. Payments to the Local Community Stabilization Authority started at \$96.4 million in FY 2015-16, and will rise to \$380.9 million in FY 2016-17, \$410.8 million in FY 2017-18, \$438.0 million in FY 2018-19, and increase annually to over \$500.0 million by FY 2021-22. As a result, although combined State and local use taxes are expected to increase 1.2% in FY 2016-17, use tax revenue received by the State is projected to decrease 18.8% in FY 2016-17, with the portion directed to the General Fund falling 31.0%. In FY 2017-18, when there will be a smaller increase in the amount of use tax levied by LCSA, the State's share of use tax revenue will decline 0.9%, although this modest change in total State share reflects a decline of 9.2% in the General Fund portion and an increase of 9.6% in the SAF share of use tax revenue. As the amount of State revenue converted to local use taxes grows more slowly in FY 2018-19, the use tax revenue received by the State is expected to increase 5.2%, a figure artificially boosted because of the significant refunds that will be paid in FY 2017-18. Compared with the January 2017 consensus revenue estimates, the FY 2016-17 estimate for combined State and local use tax collections is revised down by \$38.7 million, while the FY 2017-18 estimate is unchanged. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

**Tobacco Taxes.** Revenue from tobacco taxes will total an estimated \$957.1 million in FY 2016-17, an increase of 1.1% from FY 2015-16. Tobacco tax revenue is expected to resume its long-term downward trend, declining 0.9% in FY 2017-18 and 1.0% in FY 2018-19. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

**Casino Tax.** The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2016-17, casino tax revenue is projected to total \$113.0 million, a 0.1% increase from FY 2015-16. Casino tax revenue is expected to grow in FY 2017-18 and FY 2018-19, rising 0.9% and 1.6%, 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 2.1% in FY 2015-16, SET collections are projected to increase 2.8% in FY 2016-17, 2.9% in FY 2017-18, and 2.2% in FY 2018-19, as the housing market improves and higher inflation allows greater increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund

reimburses the SAF for reductions in SET revenue due to the exemption of eligible manufacturing personal property from ad valorem property taxation.

**Lottery.** Changes in the structure of the Powerball game to create larger jackpots, as well as the expansion of iLottery games and the introduction of new lottery games, resulted in an 11.6% increase in net lottery revenue in FY 2015-16. After that significant increase, and due to continued competition from other forms of gaming, lottery revenue is expected to decline by 0.7% in FY 2016-17, 0.5% in FY 2017-18, and 0.3% in FY 2018-19. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2016-17 to FY 2018-19, lottery revenue is expected to decline from 7.0% to 6.6% of total earmarked SAF revenue, reflecting that lottery revenue will grow more slowly (or even decline) compared to other SAF revenue sources.

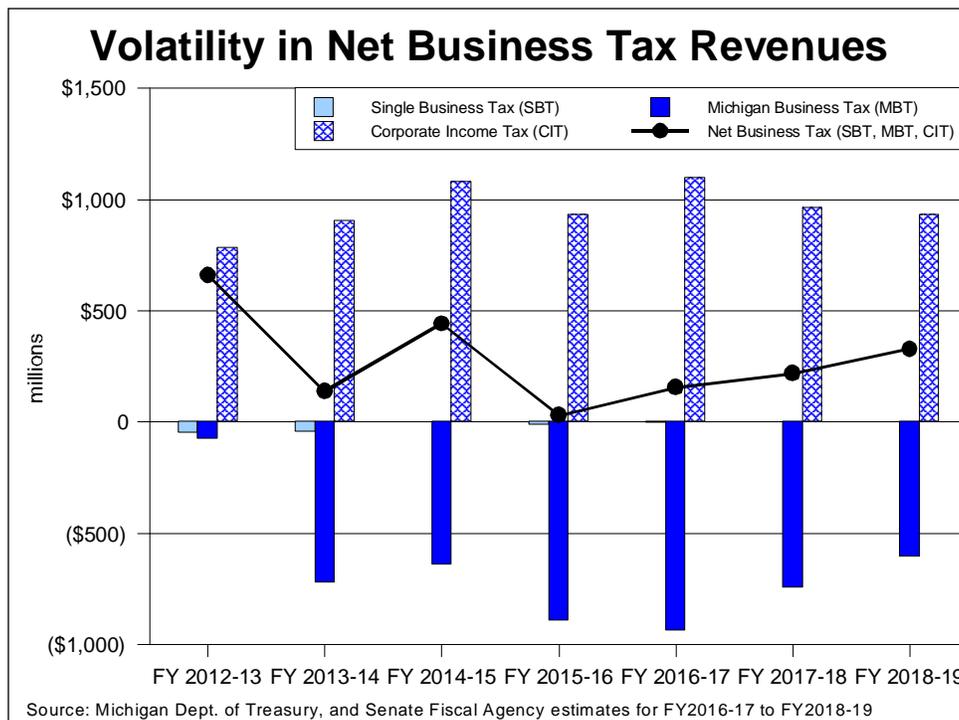
**Michigan Business Tax/Corporate Income Tax.** Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the Corporate Income Tax (CIT), which generates about 40% as much revenue as what was received under the MBT. Under the CIT,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

Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling approximately \$639.4 million in FY 2014-15, net MBT revenue in FY 2015-16 totaled a negative \$893.3 million. Estimated MBT credits are projected to reduce State revenue by between \$600.0 million and \$700.0 million each year over the forecast period. 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. In FY 2015-16, MBT credits reduced General Fund revenue by approximately \$1.0 billion, or approximately 10.4%; and net MBT revenue reduced General Fund revenue by \$878.9 million, or approximately 9.2%. As MBT credits (of which Michigan Economic Growth Authority credits represent the majority that may be claimed) decline in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 9.4% in FY 2016-17, 7.2% in FY 2017-18, and 5.8% in FY 2018-19. 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 2015-16, Corporate Income Tax revenue fell 13.7%, after growing 18.9% in FY 2014-15, underscoring the potential volatility in Corporate Income Tax revenue. In FY 2015-16, net business tax revenue from the MBT, CIT, and Single Business Tax (SBT) totaled \$44.7 million, down 89.9% from FY 2014-15. The revised estimate for business taxes in FY 2016-17 is \$155.7 million, a 248.3% increase from FY 2015-16 that is \$113.0 million below the January 2017 consensus estimate. The FY 2016-17 increase in business tax revenue reflects a significant revision in net MBT revenue (with the expectation that \$206.4 million less will be paid in refunds), combined with an estimated 18.0% increase in CIT revenue. Corporate profits generally exhibit significant volatility. (One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) The substantial growth in the CIT in FY 2016-17 and the substantial downward revision to MBT revenue from the January 2017 consensus estimate reflect accounting adjustments currently under way to correct for CIT payments that were originally processed as MBT payments. These corrections result in no overall impact on the General Fund because revenue from both taxes is directed to the General Fund. However, these adjustments are expected to lower MBT revenue by \$210 million in FY 2016-17 and \$55.0 million in FY 2017-18, while increasing CIT revenue by the same amount. Net revenue from business taxes (the MBT and CIT plus remaining refunds under the SBT) is projected to increase to a positive \$219.2 million in FY 2017-18 and \$327.9 million in FY 2018-19 (Figure 18). All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 18



**Insurance Taxes.** Revenue from Michigan's taxes on insurance companies will total an estimated \$338.2 million in FY 2016-17, a 2.7% increase from FY 2015-16 and \$67.4 million below the January 2017 consensus revenue estimate. Public Act 204 of 2012 had transferred Secretary of State functions related to the Assigned Claims Plan and Assigned Claims Facility (ACF) to the Michigan Automobile Insurance Placement Facility. At the time, the legislation was not anticipated to affect insurance tax revenue. However, the legislation had the effect of allowing insurance companies to claim larger credits against their liability and many taxpayers began claiming these credits during FY 2014-15, with FY

2014-15 revenue declining 11.0% from FY 2013-14. Public Acts 277 and 278 of 2016 ended the ability of insurance companies to include MAIPF payments in amounts eligible for a credit. As payments begin to reflect the higher tax liabilities under the legislation, insurance tax revenue is expected to grow more rapidly, rising 16.6% in FY 2017-18, to \$394.4 million.

### **REVENUE TRENDS**

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

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

Based on a longer-term view of Michigan's economy for FY 2019-20 and FY 2020-21, net GF/GP revenue is expected to increase 3.5% in FY 2019-20, to \$10.8 billion, while SAF revenue will increase 3.4%, to \$13.8 billion. In FY 2020-21, net GF/GP revenue is expected to increase 3.3%, to \$11.1 billion, while SAF revenue will increase 3.2%, to \$14.2 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 2016-17, FY 2017-18, and FY 2018-19. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2016-17, FY 2017-18, and FY 2018-19 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2016-17 was made in December 2014, as shown in Table 7. At that time, baseline revenue in FY 2016-17 was estimated at \$23.5 billion. This estimate was increased by \$258.9 million at the January 2015 Consensus Revenue Estimating Conference, then increased another \$87.3 million at the May 2015 Consensus Revenue Estimating Conference. The January 2016 consensus conference increased the estimate by another \$47.0 million, but the May 2016 consensus conference lowered it by \$161.8 million. The January 2017 consensus conference increased the estimate by \$133.4 million. The Senate Fiscal Agency's revised estimate for FY 2016-17 presented in this report decreases the baseline estimate by \$145.5 million below the January 2017 consensus estimate, to \$23.7 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2017-18 was made in December 2015, as shown in Table 8. At that time, baseline revenue in FY 2017-18 was estimated at \$24.3 billion. This estimate was increased by \$112.2 million at the January 2016 Consensus Revenue Estimating Conference, then decreased \$86.6 million at the May 2016 Consensus Revenue Estimating Conference. The January 2017 consensus conference increased the estimate by \$6.0 million. The

Senate Fiscal Agency's revised estimate for FY 2017-18 presented in this report increases the baseline estimate by \$42.4 million above the January 2017 consensus estimate, to \$24.4 billion.

**Table 7**  
**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	10,935.3	12,549.5	23,484.8
January 16, 2015 <sup>a)</sup>	11,117.1	12,626.6	23,743.7
May 8, 2015	11,320.6	12,413.5	23,734.1
May 15, 2015 <sup>a)</sup>	11,292.0	12,539.0	23,831.0
December 17, 2015	11,438.9	12,380.6	23,819.5
January 14, 2016 <sup>a)</sup>	11,440.0	12,438.0	23,878.0
May 13, 2016	11,241.5	12,340.6	23,582.1
May 17, 2016 <sup>a)</sup>	11,362.0	12,354.2	23,716.2
December 16, 2016	11,297.1	12,398.0	23,695.1
January 12, 2017 <sup>a)</sup>	11,410.1	12,439.5	23,849.6
May 12, 2017	11,109.9	12,594.2	23,704.1
<b>Change From Previous Estimate:</b>			
Dollar Change	(\$300.2)	\$154.7	(\$145.5)
Percent Change	(2.6%)	1.2%	-0.6%
<b>Change From Initial Estimate:</b>			
Dollar Change	\$174.6	\$44.7	\$219.3
Percent Change	1.6%	0.4%	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 2015-16.			

**Table 8**  
**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	11,583.8	12,743.5	24,327.3
January 14, 2016 <sup>a)</sup>	11,603.9	12,835.6	24,439.5
May 13, 2016	11,437.5	12,741.9	24,179.4
May 17, 2016 <sup>a)</sup>	11,592.7	12,760.2	24,352.9
December 16, 2016	11,420.1	12,733.8	24,153.9
January 12, 2017 <sup>a)</sup>	11,585.2	12,773.7	24,358.9
May 12, 2017	11,499.5	12,901.8	24,401.3
<b>Change From Previous Estimate:</b>			
Dollar Change	(\$85.7)	\$128.1	\$42.4
Percent Change	-0.7%	1.0%	0.2%
<b>Change From Initial Estimate:</b>			
Dollar Change	(\$84.3)	\$158.3	\$74.0
Percent Change	-0.7%	1.2%	0.3%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2015-16.			

The initial GF/GP and SAF baseline revenue estimate for FY 2018-19 was made in December 2016, as shown in Table 9. At that time, baseline revenue in FY 2018-19 was estimated at \$25.1 billion. This estimate was increased by \$36.4 million at the January 2017 Consensus Revenue Estimating Conference. The revised Senate Fiscal Agency estimate for FY 2018-19 lowers baseline revenue for FY 2018-19 by \$10.1 million, to \$25.1 billion.

**Table 9**  
**CHANGES IN SENATE FISCAL AGENCY**  
**BASELINE REVENUE ESTIMATES FOR FY 2018-19**  
**(millions of dollars)**

<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
December 16, 2016	11,948.3	13,137.7	25,086.0
January 12, 2017 <sup>a)</sup>	12,032.1	13,090.3	25,122.4
May 12, 2017	11,863.4	13,248.9	25,112.3
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$168.7)	\$158.6	(\$10.1)
Percent Change	-1.4%	1.2%	-0.0%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$84.9)	\$111.2	\$26.3
Percent Change	-0.7%	0.8%	0.1%
<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 2015-16.			

**BUDGET  
STABILIZATION FUND**



## **BUDGET STABILIZATION FUND**

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The Countercyclical 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 2016-17 is based on personal income growth from calendar year 2015 to 2016 and GF/GP revenue in FY 2015-16. Different years are used to calculate a potential pay-out. A pay-out in FY 2016-17 would depend on the change in personal income from calendar year 2016 to calendar year 2017 and the amount of GF/GP revenue in FY 2016-17.

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, to repay that transfer, 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.

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 2015-16. Also presented in this table are the SFA's estimates for FY 2016-17, FY 2017-18, and FY 2018-19. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 19, and the estimated economic stabilization trigger calculations for FY 2016-17, FY 2017-18, and FY 2018-19 are presented in Table 11.

### **FY 2016-17, FY 2017-18, and FY 2018-19**

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit Consumer Price Index (CPI), and GF/GP revenue, the statutory formula triggers a formula payment into the Fund in FY 2016-17 and then in FY 2018-19, but not in FY 2017-18.

In FY 2016-17, two deposits to the BSF which total \$92.5 million have been enacted already. A supplemental appropriation in Public Act 340 of 2016 added \$75.0 million to the BSF. In addition, \$17.5 million of tobacco settlement revenue 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 would be \$166.0 million in FY 2016-17. The formula deposit exceeds the deposit already appropriated to the BSF in FY 2016-17 by \$73.5 million.

The SFA estimates indicate that no formula deposit to the BSF will be required in FY 2017-18 and a formula payment of \$2.6 million will be required in FY 2018-19. A deposit of \$17.5 million each year already is required by the Trust Fund Act.

Based on current appropriations and the continuation of the \$17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at \$709.3 million in FY 2016-17, \$738.5 million in FY 2017-18, and \$772.6 million in FY 2018-19, as shown in Table 11. If an additional formula deposit of \$73.5 million is made in FY 2016-17 to bring total deposits to \$166.0 million in FY 2016-17, a deposit of \$2.6 million in FY 2018-19 is appropriated, and the Trust Fund Act deposits continue, the year-end balances in the BSF are estimated to increase to \$782.8 million in FY 2016-17, \$813.2 million in FY 2017-18, and \$851.6 million in FY 2018-19.

Table 10

<b>BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2018-19 ESTIMATE (millions of dollars)</b>					
Fiscal Year <sup>a)</sup>	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
1998-99		\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		0.0	1.8	147.0	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>	\$17.5	94.0	0.4	0.0	498.1
2015-16 <sup>d)</sup>	17.5	95.0	1.8	0.0	612.4
Enacted Deposits and Estimated Interest Earnings:					
2016-17 <sup>e)</sup>	17.5	75.0	4.4	0.0	709.3
2017-18 <sup>f)</sup>	17.5	0.0	11.7	0.0	738.5
2018-19 <sup>g)</sup>	17.5	0.0	16.6	0.0	772.6
<p>a) For FY 1998-99 to FY 2015-16 the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FY 2016-17 to FY 2018-19 include enacted legislation, Public Act 340 of 2016, 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) PA 252 of 2014 appropriated \$94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, requires the deposit of \$17.5 million of tobacco settlement revenue to the BSF annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy.</p> <p>d) Public Act 84 of 2015 appropriated \$95.0 million.</p> <p>e) Public Act 340 of 2016 appropriated \$75.0 million. Appropriation of the total formula deposit of \$166.0 million (an additional deposit of \$73.5 million) would raise the ending balance to \$782.8 million in FY 2016-17.</p> <p>f) If the entire formula deposit of \$166.0 million is made in FY 2016-17, the ending balance would increase to \$813.2 million in FY 2017-18.</p> <p>g) An additional formula deposit of \$2.6 million is estimated for FY 2018-19. An appropriation of that amount would increase the closing balance to \$851.6 million in FY 2018-19.</p>					
<b>Source:</b> State of Michigan Comprehensive Annual Financial Reports through FY 2015-16 and Senate Fiscal Agency.					

Figure 19

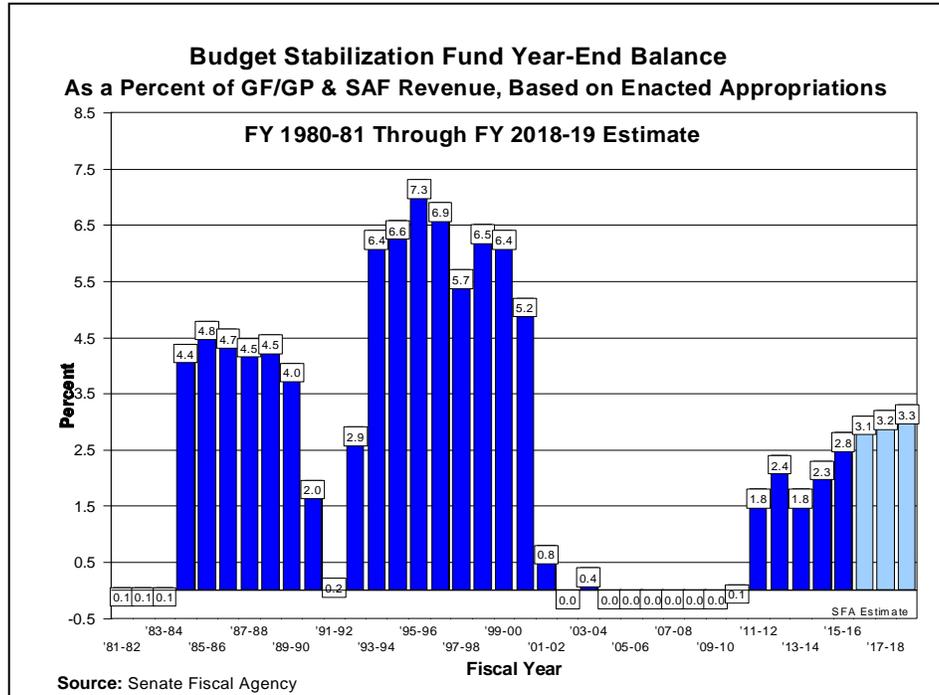


Table 11

**ESTIMATED BUDGET STABILIZATION FUND TRIGGERS**  
**FY 2015-16, FY 2016-17, FY 2017-18, and FY 2018-19**  
(millions of dollars)

	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Michigan Personal Income (MPI)	\$424,807.5	\$440,291.8	\$455,503.4	\$474,949.4	\$496,060.6
Less: Transfer Payments	91,438.5	94,033.2	98,026.3	103,578.7	109,153.5
Subtotal	\$333,369	\$346,259	\$357,477	\$371,371	\$386,907
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.1975	2.2019	2.2501	2.2912	2.3384
Equals: Real Adjusted MPI	\$151,707	\$157,256	\$158,869	\$162,087	\$165,459
Percent Change from Prior Year		3.66%	1.03%	2.03%	2.08%
Excess Over 2.0%		1.66%	0.00%	0.03%	0.08%
		<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>
Multiplied by: Estimated GF/GP Revenue		\$10,015.4	\$10,002.0	\$10,318.9	\$10,401.2
Equals: Transfer to the BSF			\$166.0	\$0.0	\$2.6
OR Transfer from the BSF			\$0.0	\$0.0	\$0.0

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

**COMPLIANCE WITH  
STATE REVENUE LIMIT**



## **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 2016-17, FY 2017-18, and FY 2018-19, with State revenue forecast to be \$10.0 billion below the limit in FY 2018-19.

### **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 2016-17, FY 2017-18, and FY 2018-19, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in [Figure 20](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 12](#).

### **FY 2016-17**

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2015 equals \$424.8 billion, and as a result, the revenue limit equals \$40.3 billion in FY 2016-17, an increase of \$1.8 billion over FY 2015-16. Based on the SFA's revised revenue estimates for FY 2016-17, revenue subject to the revenue limit will equal an estimated \$30.9 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.4 billion, or 23.4%, in FY 2016-17. With personal income growth of 4.6% exceeding the 3.2% growth of revenue subject to the limit, the amount by which the State is under the revenue limit will increase. The loss of State 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 \$ 440.3 billion, and as a result, the revenue limit will equal \$41.8 billion in FY 2017-18. Based on the SFA's revised revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated \$32.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.5 billion, or 22.8%, in FY 2017-18. Personal income is expected to grow 3.7%, resulting in an increase in the revenue limit of nearly \$1.5 billion. Revenue subject to the limit is projected to increase by 4.4% or \$1.3 billion; thus, the amount by which revenue is below the limit will continue to increase.

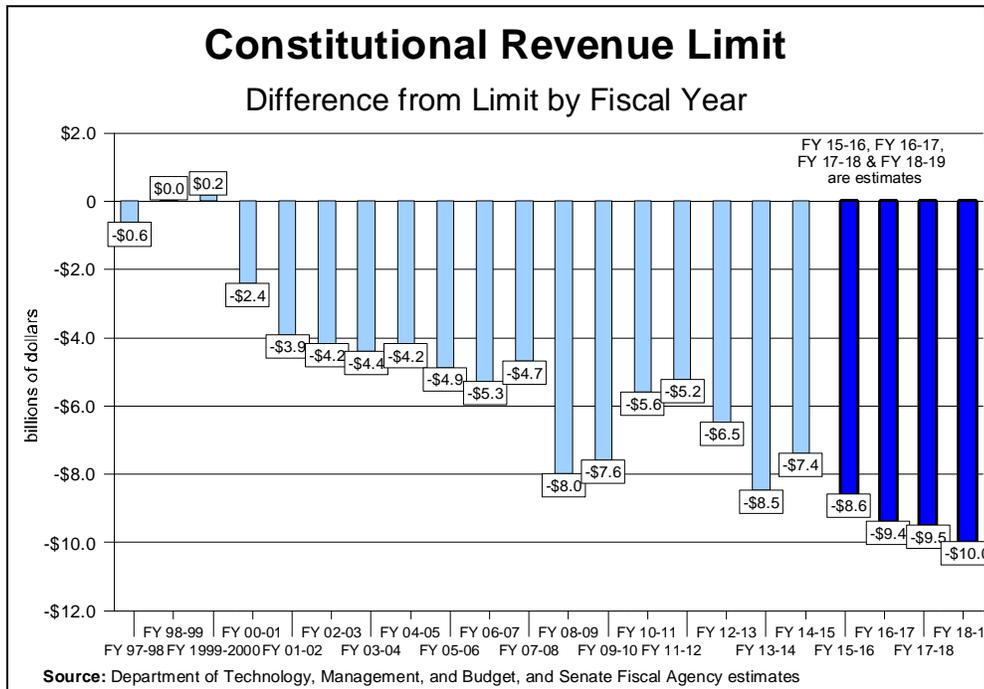
### **FY 2018-19**

The Senate Fiscal Agency estimates that personal income in Michigan during 2017 will equal \$455.5 billion, and as a result, the revenue limit will equal \$43.2 billion in FY 2018-19. Based on the SFA's revised revenue estimates for FY 2018-19, revenue subject to the revenue limit will equal an estimated \$33.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$10.0 billion, or 23.2%, in FY 2018-19. The substantial increase in the Homestead Property Tax Credit, the effects of which will begin during FY 2018-19, accounts for a portion of the increase in the amount by which State revenue is projected to be below the limit in FY 2018-19. Additionally, anticipated growth in personal income of 3.5% will outpace the forecasted 3.0% 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 2014-15 THROUGH FY 2018-19**  
(millions of dollars)

	FY 2014-15 Final	FY 2015-16 Estimate	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate
<b>Revenue Subject to Limit</b>					
<b>Revenue:</b>					
Gen'l Fund/Gen'l Purpose (baseline)	\$10,660.5	\$10,975.5	\$11,109.9	\$11,499.5	\$11,863.4
Constitutional Revenue Sharing (baseline)	750.7	751.9	774.0	798.9	823.8
School Aid Fund (baseline)	11,783.1	12,181.6	12,594.2	12,901.8	13,248.9
Transportation Funds	2,205.7	2,275.7	2,514.6	2,930.8	3,155.0
Other Restricted Non-Federal Aid Revenue	4,576.0	4,796.8	5,036.6	5,288.4	5,552.8
<b>Adjustments:</b>					
GF/GP Federal Aid	(38.5)	(18.8)	(25.0)	(25.0)	(25.0)
GF/GP Balance Sheet Adjustments	(626.1)	(960.1)	(1,107.9)	(1,180.6)	(1,462.2)
SAF Balance Sheet Adjustments	(33.8)	(62.9)	0.6	29.9	61.5
<b>Total Revenue Subject to Limit</b>	<b>\$29,277.6</b>	<b>\$29,939.7</b>	<b>\$30,897.0</b>	<b>\$32,243.7</b>	<b>\$33,218.2</b>
<b>Revenue Limit</b>					
<b>Personal Income:</b>					
Calendar Year	<b>CY 2013</b>	<b>CY 2014</b>	<b>CY 2015</b>	<b>CY 2016</b>	<b>CY 2017</b>
Amount	\$386,471	\$405,975	\$424,808	\$440,292	\$455,503
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$36,676.1	\$38,527.0	\$40,314.2	\$41,783.7	\$43,227.3
1.0% of Limit	366.8	385.3	403.1	417.8	432.3
<b>Amount Under (Over) Limit</b>	<b>\$7,398.5</b>	<b>\$8,587.3</b>	<b>\$9,417.2</b>	<b>\$9,540.0</b>	<b>\$10,009.1</b>
Percent Below Limit	20.2%	22.3%	23.4%	22.8%	23.2%
CY = Calendar Year; FY = Fiscal Year					

**Figure 20**





**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 2016-17, FY 2017-18, and FY 2018-19 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 2017-18 State budget.

On February 8, 2017, Governor Rick Snyder presented his FY 2017-18 and FY 2018-19 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 12, 2017. The Governor's FY 2017-18 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2017-18 State budget to the Legislature in February 2017, 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 2017 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 2016-17, FY 2017-18, and FY 2018-19 GF/GP revenue, and a net increase from January to May for SAF revenue.

Table 13 provides a summary of the SFA's estimates of the FY 2016-17, FY 2017-18, and FY 2018-19 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 2016-17 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 2017-18 GF/GP budget will have a negative ending balance of \$274.6 million and the SAF budget will have a surplus of \$293.7 million. A comparison of the SFA's estimate of FY 2018-19 GF/GP revenue with the FY 2018-19 Governor's recommended level for ongoing and one-time appropriations, and adjusted SFA caseload estimates, leads to a projected \$141.6 million GF/GP budget shortfall. A comparison of the SFA's estimate of FY 2018-19 SAF revenue and the Governor's FY 2018-19 recommended level of SAF expenditures, points to a projected \$607.7 million SAF surplus. The FY 2018-19 GF/GP projected budget balance assumes that the FY 2017-18 projected year-end negative balance is brought to zero.

**Table 13**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
**ESTIMATED YEAR-END BALANCES**  
**(millions of dollars)**

	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate
General Fund/General Purpose	\$249.6	(\$274.6)	(\$141.6)
School Aid Fund	\$287.6	\$293.7	\$607.7

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

During June 2016, the Michigan Legislature approved FY 2016-17 GF/GP and SAF budgets that were balanced between estimated revenue and enacted appropriations. The initial FY 2016-17 budget approved by the Legislature was based on a May 2016 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2017 reflected increases from the May 2016 estimates of \$151.6 million and \$54.6 million, respectively, in GF/GP and SAF revenue, allowing continued 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 2017-18 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 \$249.6 million FY 2016-17 GF/GP ending balance. On the revenue side of the FY 2016-17 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total \$10.0 billion. This projected level of FY 2016-17 GF/GP revenue represents a \$13.4 million or 0.1% decrease from the final level of FY 2015-16 GF/GP revenue. The May 2017 SFA estimate of ongoing unadjusted GF/GP revenue is down \$288.1 million from the January 2017 consensus revenue estimate. The FY 2016-17 estimated GF/GP revenue total of \$10.3 billion includes \$604.4 million of surplus revenue carried forward from FY 2015-16, negative adjustments of \$471.1 million to reflect statutory State revenue sharing payments (both ongoing and one-time), the shift of \$5.5 million in short-term borrowing costs to the School Aid Fund, \$121.6 million of assumed revenue from the Medicaid managed care use tax, and \$16.8 million of State restricted revenue that was redirected to the General Fund pursuant to FY 2016-17 target agreements.

On the expenditure side of the FY 2016-17 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total \$10.0 billion, which includes \$75.0 million in GF/GP appropriations to the State's Budget Stabilization Fund.

The projected level of FY 2016-17 GF/GP expenditures reflects a \$154.7 million or 1.5% decrease from the final level of FY 2015-16 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 2016-17 GF/GP expenditures includes appropriations that encompass \$75.0 million GF/GP appropriated to the Budget Stabilization Fund; enacted and pending supplemental appropriations of \$134.7 million; projected caseload and cost savings of \$105.4 million in the Department of Health and Human Services; and an estimated year-end lapse amount of \$50.0 million. Comparing estimated revenue with projected expenditures results in a GF/GP ending balance of \$249.6 million for FY 2016-17.

Column 1 of [Table 15](#) provides a summary of the SFA estimate of a \$287.6 million FY 2016-17 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 2016-17 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total \$12.6 billion. This projected level of SAF revenue represents a \$476.1 million or 3.9% increase from the final level of FY 2015-16 SAF revenue. The May 2017 SFA estimate of ongoing unadjusted SAF revenue is \$137.8 million above the January 2017 consensus revenue estimate. The FY 2016-17 estimated SAF revenue total of \$14.8 billion includes \$168.2 million of surplus revenue carried forward from FY 2015-16, \$12.6 billion of restricted SAF revenue, a \$218.9 million GF/GP grant, \$60.8 million from the Medicaid managed care use tax, \$72.0 million from the Community District Education Trust Fund, and \$1.7 billion of ongoing Federal aid.

On the expenditure side of the FY 2016-17 SAF budget ledger, the SFA now believes that final SAF expenditures will total \$14.6 billion. This projected level of FY 2016-17 SAF expenditures reflects an

increase of \$552.5 million or 3.9% above FY 2015-16 SAF expenditures. The \$14.6 billion of projected SAF expenditures includes \$14.0 billion of K-12 funding in the original enacted appropriation bill, and negative net cost adjustments totaling \$101.5 million. As in the prior year, Community Colleges and Higher Education received appropriations from the School Aid Fund, with FY 2016-17 allocations of \$260.4 million and \$237.1 million, respectively.

### **FY 2017-18 YEAR-END BALANCE ESTIMATES**

The Legislature has been considering Governor Snyder's FY 2017-18 State budget recommendation since the budget was presented to the Legislature on February 8, 2017. To date, the Senate and House have acted on all of the FY 2017-18 appropriation bills. Using the Senate-passed appropriation bills as the basis of the FY 2017-18 budget, there would be a negative ending balance for the GF/GP budget and a positive ending balance for the SAF budget.

Column 2 of [Table 14](#) provides a summary of the negative \$274.6 million projected year-end balance in the FY 2017-18 GF/GP budget. This projected balance is based on the FY 2016-17 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 2017-18 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total \$10.3 billion. This projected level of FY 2017-18 GF/GP revenue reflects a \$316.9 million or 3.2% increase from the estimated level of FY 2016-17 GF/GP revenue. The May 2017 SFA estimate of ongoing unadjusted revenue represents a \$203.8 million decrease from the January 2017 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include statutory revenue sharing payments of \$471.7 million (both ongoing and one-time), which reduce GF/GP revenue by that amount. The FY 2017-18 estimated GF/GP revenue total of \$10.1 billion includes \$249.6 million of surplus GF/GP revenue carried forward from FY 2016-17 and the shift of \$6.5 million in short-term borrowing costs to the School Aid Fund. The FY 2017-18 balance sheet no longer includes Medicaid managed care use tax revenue, which expired on January 1, 2017.

The Senate-passed appropriation bills provide total GF/GP appropriations of \$9.9 billion, which is \$274.7 million lower than the Governor's budget. The Senate budget proposal does not include the Governor's recommendation to deposit an additional \$266.5 million into the Budget Stabilization Fund but instead redirects those dollars to a Senate balance sheet reserve. The combination of the Budget Stabilization Fund's \$266.5 million increase with the Senate's net \$274.7 million of GF/GP budget reductions, allowed the Senate to create a \$541.2 million balance sheet reserve. Revised SFA estimates of caseload and cost adjustments in the Department of Health and Human Services will lower GF/GP appropriations by \$37.6 million in FY 2017-18. When the SFA's estimate of \$10.1 billion in GF/GP revenue is offset by the SFA's estimate of \$10.4 billion of GF/GP expenditures, there is a projected FY 2017-18 year-end balance of a negative \$274.6 million. If this negative \$274.6 million were offset by the balance sheet reserve, there would be \$266.6 million remaining in the balance sheet reserve.

[Table 16](#) provides a summary of the Governor's FY 2017-18 Gross and GF/GP budget recommendations compared with the Senate-passed appropriation bills. The Senate-passed appropriation bills are \$212.1 million Gross below the Governor's recommendations and \$274.7 million below the Governor's GF/GP recommendations for State budget areas.

Column 2 of [Table 15](#) provides the details of the SFA estimate of a \$293.7 million balance in the FY 2017-18 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue, and the Senate-passed K-12 School Aid, Community Colleges, and Higher Education appropriation bills.

On the revenue side of the FY 2017-18 SAF budget, the SFA now believes that ongoing unadjusted SAF revenue will total \$12.9 billion. This projected level of FY 2017-18 SAF revenue is \$336.9 million or 2.7% above the estimated level of FY 2016-17 SAF revenue. The May 2017 SFA estimate of restricted SAF revenue represents a \$148.6 million increase from the January 2017 consensus revenue estimate. The estimate of total SAF revenue of \$15.2 billion includes \$287.6 million of surplus SAF revenue carried forward from FY 2016-17, a \$195.0 million GF/GP grant to the SAF budget, \$72.0 million from the Community District Education Trust Fund, and \$1.7 billion of ongoing Federal aid.

On the expenditure side of the FY 2017-18 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals \$14.3 billion (\$14.2 billion ongoing and \$85.6 million one-time). The SFA estimates that there will be \$1.1 million of positive FY 2017-18 formula funding cost adjustments as a result of revised taxable value estimates.

The FY 2017-18 Senate-passed K-12 foundation allowance includes funding from both the Governor's recommended increase (\$128.0 million) and \$100.0 million from the elimination of an existing retirement cost offset grant, resulting in a total foundation allowance increase ranging from \$88 to \$176 per pupil. The budget also includes an increase of \$100.5 million for At Risk as well as \$139.9 million for costs associated with lowering the assumed rate of return in the school retirement system. In total, more than \$1.3 billion will be appropriated in FY 2017-18 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 funding for a number of other programs recommended by the Governor, including \$8.7 million for Flint-related programs; \$7.5 million for upgrades of career and technical education (CTE) equipment; and an amount for academic early warning and assistance efforts.

The Senate-passed bill does not include a \$55.0 million reduction that the Governor proposed for shared-time programs (although the Senate did cap the maximum per-pupil FTE to be counted in shared time programs at 0.75, with a resulting \$2.0 million State savings), and the Senate did not include the Governor's 20% reduction in cyber school funding (\$16.0 million). The Senate did not include the Governor's \$4.5 million for voluntary water testing in schools or \$7.0 million for declining enrollment grants. The Senate-passed bill includes \$2.5 million to reimburse nonpublic schools for State mandates, along with the continuation of a number of programs eliminated by the Governor (including computer adaptive tests and financial analysis tools), as well as some new programs such as digital literacy and civics education.

The Senate's SAF balance sheet also reflects the continued use of SAF revenue to support the Community Colleges budget and to partially support the Higher Education budget. In the Senate-passed version of the Community Colleges budget (following the Governor's lead), the SAF allocation for FY 2017-18 was increased by \$134.7 million from FY 2016-17, with \$395.1 million SAF allocated to support community colleges. The SAF allocation in the Higher Education budget for FY 2017-18 is \$1.5 million lower than for FY 2016-17, with a total SAF allocation of \$235.6 million. Across the two budgets, SAF support of postsecondary purposes totals \$630.7 million for FY 2017-18 under the Senate-passed budgets.

### **FY 2018-19 BUDGET OUTLOOK**

When Governor Snyder presented his FY 2017-18 budget on February 8, 2017, he also proposed anticipated appropriations for FY 2018-19. The FY 2017-18 appropriation bills passed by the House and the Senate include references to anticipated FY 2018-19 appropriations, which are only expressions of an intent to appropriate those funds for FY 2018-19.

Column 3 of [Table 14](#) provides a summary of the negative \$141.6 million projected year-end balance in the FY 2018-19 GF/GP budget. This projected balance assumes that the FY 2017-18 budget

shortfall is resolved, and that there is a zero GF/GP beginning balance for FY 2018-19. The FY 2018-19 budget is based on the SFA estimate of total GF/GP revenue and ongoing appropriations at the Governor's FY 2018-19 recommended level, adjusted for revised caseload and cost estimates for the Department of Health and Human Services.

On the revenue side of the FY 2018-19 GF/GP budget ledger, the SFA now believes that GF/GP ongoing unadjusted revenue will total \$10.4 billion. This projected level of GF/GP FY 2018-19 revenue reflects an \$82.3 million or 0.8% increase from estimated GF/GP revenue for FY 2017-18. The May 2017 SFA estimate of ongoing unadjusted GF/GP revenue represents a decrease of \$188.1 million from the January 2017 consensus revenue estimate. The FY 2018-19 total estimated GF/GP revenue of \$9.9 billion assumes a beginning balance of zero carried forward from FY 2017-18; the Governor's recommendation of \$465.9 million for statutory State Revenue Sharing payments; and the shift of \$7.5 million in short-term borrowing costs to the School Aid Fund.

On the expenditure side of the FY 2018-19 GF/GP budget ledger, if the Governor's FY 2018-19 recommended appropriation level of \$10.1 billion is assumed and is adjusted for caseload and cost savings of \$37.6 million in the Department of Health and Human Services, then total FY 2018-19 GF/GP expenditures are estimated to be \$10.1 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of a negative \$141.6 million.

Column 3 of Table 15 provides a summary of the positive \$607.7 million projected year-end balance in the FY 2018-19 SAF budget. This projected balance is based on a beginning balance of \$293.7 million carried forward from FY 2017-18, the SFA estimate of ongoing unadjusted revenue, and the Governor's recommended budget for FY 2018-19, which would continue the same overall spending level as found in the FY 2017-18 Senate-passed budget (although the Governor's budget in FY 2018-19 would spend money on specific programs and line items in a manner different from the Senate-passed budget), adjusted for pupil counts and other costs.

On the revenue side of the FY 2018-19 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total \$13.3 billion. This projected level of FY 2018-19 SAF revenue reflects a \$378.7 million or 2.9% increase from estimated ongoing unadjusted SAF revenue for FY 2017-18. The May 2017 SFA estimate of ongoing unadjusted SAF revenue represents a \$178.9 million increase from the January 2017 consensus revenue estimate. The FY 2018-19 estimated SAF revenue total of \$15.5 billion also assumes a GF/GP grant of \$145.0 million, \$72.0 million from the Community District Education Trust Fund, and \$1.7 billion in ongoing Federal aid.

On the expenditure side of the FY 2018-19 SAF budget ledger, under the Governor's recommendation for school aid for FY 2018-19 (which would not provide a foundation allowance increase but would continue FY 2017-18 spending and adjust for baseline cost adjustments), total FY 2018-19 K-12 expenditures are estimated to be \$14.3 billion. The Governor's FY 2018-19 SAF budget estimate continues to fund Community Colleges, at a slightly higher amount of \$396.2 million, and Higher Education, at a slightly higher amount of \$237.7 million, from SAF revenue, with the slight increases paying for estimated adjustments in the MPERS retirement rate cap in the respective postsecondary budgets. Total SAF expenditures in FY 2018-19 across K-12, Community Colleges, and Higher Education are estimated at \$14.9 billion.

The estimated cost to provide a \$100 foundation allowance increase across the board in FY 2018-19 is \$145.0 million. If the FY 2018-19 SAF budget were to provide such an increase, and assuming enactment of the Senate-passed FY 2017-18 budget, the estimated year-end balance would decline from \$607.7 million to \$462.7 million.

Table 14

**GENERAL FUND/GENERAL PURPOSE (GF/GP)  
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES  
(millions of dollars)**

	SFA Estimates		
	FY 2016-17 Year-To- Date	FY 2017-18 Senate Passed	FY 2018-19 Gov's Rec.
<b>Revenue:</b>			
Beginning Balance .....	\$604.4	\$249.6	\$0.0
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2017) .....	\$10,290.1	\$10,522.7	\$10,589.3
May 2017 Revenue Estimate Change .....	(288.1)	(203.8)	(188.1)
SFA Revenue Estimate (May 2017).....	\$10,002.0	\$10,318.9	\$10,401.2
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments .....	(\$465.3)	(\$465.9)	(\$465.9)
Shift of Borrowing Costs to School Aid Fund .....	5.5	6.5	7.5
Medicaid Managed Care Use Tax.....	121.6	0.0	0.0
Subtotal Ongoing Revenue.....	\$9,663.8	\$9,859.5	\$9,942.8
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(\$5.8)	(\$5.8)	\$0.0
Redirection of Restricted Revenue .....	16.8	0.0	0.0
Subtotal Non-Ongoing Revenue.....	\$11.0	(\$5.8)	\$0.0
<b>Total Estimated GF/GP Revenue.....</b>	<b>\$10,279.2</b>	<b>\$10,103.3</b>	<b>\$9,942.8</b>
<b>Expenditures:</b>			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations.....	\$9,669.0	\$9,789.7	\$10,122.0
<u>One-Time and Other Appropriations:</u>			
Initial One-Time Appropriations.....	\$306.3	\$84.5	\$0.0
Appropriation to Budget Stabilization Fund.....	75.0	0.0	0.0
Enacted Supplementals .....	124.7	0.0	0.0
Pending Supplementals .....	10.0	0.0	0.0
Senate Balance Sheet Reserve .....	0.0	541.2	0.0
Estimated Caseload and Cost Adjustments.....	(105.4)	(37.6)	(37.6)
Estimated Lapses .....	(50.0)	0.0	0.0
Subtotal One-Time and Other Appropriations .....	\$360.6	\$588.1	(\$37.6)
<b>Total Estimated GF/GP Expenditures.....</b>	<b>\$10,029.6</b>	<b>\$10,377.9</b>	<b>\$10,084.4</b>
<b>PROJECTED YEAR-END GF/GP BALANCE .....</b>	<b>\$249.6</b>	<b>(\$274.6)</b>	<b>(\$141.6)</b>

Table 15

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

	SFA Estimates		
	FY 2016-17 Year-To- Date	FY 2017-18 Senate Passed	FY 2018-19 Gov's Rec.
<b>Revenue:</b>			
Beginning Balance.....	\$168.2	\$287.6	\$293.7
<b>Ongoing Revenue:</b>			
Consensus Revenue Estimate (January 2017) .....	\$12,457.0	\$12,783.1	\$13,131.5
May 2017 Revenue Estimate Change .....	<u>137.8</u>	<u>148.6</u>	<u>178.9</u>
SFA Revenue Estimate (May 2017) .....	\$12,594.8	\$12,931.7	\$13,310.4
<b>Other Revenue Adjustments:</b>			
General Fund/General Purpose Grant.....	\$218.9	\$195.0	\$145.0
Community District Education Trust Fund .....	72.0	72.0	72.0
Medicaid Managed Care Use Tax .....	60.8	0.0	0.0
Federal Ongoing Aid .....	<u>1,730.7</u>	<u>1,726.9</u>	<u>1,726.9</u>
Subtotal Ongoing Revenue .....	<u>\$14,677.2</u>	<u>\$14,925.6</u>	<u>\$15,254.3</u>
<b>Total Estimated School Aid Fund Revenue .....</b>	<b>\$14,845.4</b>	<b>\$15,213.2</b>	<b>\$15,548.0</b>
<b>Expenditures:</b>			
<b>Ongoing Appropriations:</b>			
Initial Ongoing K-12 Appropriations .....	\$13,985.8	\$14,202.1	\$14,204.3
January 2017 CREC Cost Adjustments.....	(103.4)	0.0	0.0
May 2017 SFA Cost Adjustments.....	1.9	1.1	(3.9)
Fund Community Colleges with School Aid Fund .....	260.4	395.1	396.2
Partially Fund Higher Education with School Aid Fund .....	<u>237.1</u>	<u>235.6</u>	<u>237.7</u>
Subtotal Ongoing Appropriations.....	<u>\$14,381.8</u>	<u>\$14,833.9</u>	<u>\$14,834.3</u>
<b>One-Time and Other Appropriations:</b>			
Initial One-Time K-12 Appropriations.....	\$176.0	\$85.6	\$106.0
Estimated Lapses .....	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal One-Time and Other Appropriations .....	<u>\$176.0</u>	<u>\$85.6</u>	<u>\$106.0</u>
<b>Total Estimated School Aid Fund Expenditures .....</b>	<b>\$14,557.8</b>	<b>\$14,919.5</b>	<b>\$14,940.3</b>
<b>PROJECTED YEAR-END SCHOOL AID FUND BALANCE .....</b>	<b>\$287.6</b>	<b>\$293.7</b>	<b>\$607.7</b>

Table 16

FY 2017-18 GROSS AND GENERAL FUND/GENERAL PURPOSE (GF/GP) APPROPRIATIONS* GOVERNOR'S REVISED RECOMMENDATION VERSUS SENATE-PASSED APPROPRIATIONS						
Department/Budget Area	Governor's Revised Rec.		Senate-Passed		Senate Changes to Gov's Rec.	
	Gross	GF/GP	Gross	GF/GP	Gross	GF/GP
Agriculture and Rural Development	\$104,928,800	\$56,582,000	\$109,744,600	\$61,397,900	\$4,815,800	\$4,815,900
Attorney General	101,068,800	40,298,600	179,345,200	40,248,600	78,276,400	(50,000)
Civil Rights	16,099,600	12,856,600	16,249,600	13,006,600	150,000	150,000
Community Colleges	398,167,600	3,025,000	401,326,500	6,183,900	3,158,900	3,158,900
Corrections	2,014,419,200	1,964,133,600	1,974,419,200	1,924,133,600	(40,000,000)	(40,000,000)
Education	349,309,500	81,035,700	353,009,500	81,035,700	3,700,000	0
Environmental Quality	510,842,000	51,318,300	490,003,200	46,502,400	(20,838,800)	(4,815,900)
Executive	6,848,500	6,848,500	6,848,500	6,848,500	0	0
Health and Human Services	25,537,414,500	4,461,735,400	25,401,201,500	4,351,065,600	(136,213,000)	(110,669,800)
Higher Education	1,637,224,400	1,289,954,500	1,630,224,400	1,282,954,500	(7,000,000)	(7,000,000)
Insurance and Financial Services	66,741,400	150,000	66,741,400	150,000	0	0
Judiciary	299,437,300	191,968,700	299,437,300	191,968,700	0	0
Legislative Auditor General	24,286,200	16,607,600	24,286,200	16,607,600	0	0
Legislature	154,974,800	150,297,100	155,274,800	150,597,100	300,000	300,000
Licensing and Regulatory Affairs	441,576,300	43,016,600	433,096,900	43,016,600	(8,479,400)	0
Military and Veterans Affairs	180,004,400	63,067,500	180,004,400	63,067,500	0	0
Natural Resources	416,374,300	64,047,300	412,219,700	45,197,300	(4,154,600)	(18,850,000)
School Aid	14,302,088,800	215,000,000	14,287,705,500	195,000,000	(14,383,300)	(20,000,000)
State	249,358,500	22,139,000	248,302,400	21,082,900	(1,056,100)	(1,056,100)
State Police	693,588,900	442,267,800	687,239,100	435,918,000	(6,349,800)	(6,349,800)
Talent and Economic Development	1,143,324,800	193,502,400	1,152,448,500	197,126,100	9,123,700	3,623,700
Technology, Management, and Budget	1,405,543,900	572,755,900	1,328,005,200	495,217,200	(77,538,700)	(77,538,700)
Transportation	4,347,443,000	0	4,347,443,000	0	0	0
Treasury-Debt Service	107,580,000	107,580,000	107,580,000	107,580,000	0	0
Treasury-Operations	512,829,800	98,768,500	512,577,200	93,672,100	(252,600)	(5,096,400)
Treasury-Revenue Sharing	1,245,292,200	0	1,249,959,700	4,667,500	4,667,500	4,667,500
<b>TOTAL BUDGET AREA APPROPS.</b>	<b>\$56,266,767,500</b>	<b>\$10,148,956,600</b>	<b>\$56,054,693,500</b>	<b>\$9,874,245,900</b>	<b>(\$212,074,000)</b>	<b>(\$274,710,700)</b>
*Includes both ongoing and one-time appropriations.						

## **CONCLUSION**

When the estimated FY 2016-17 year-end balance amounts are carried forward and combined with the FY 2017-18 Senate budget recommendations, the estimate for the FY 2017-18 GF/GP year-end balance is a negative amount, while the SAF year-end balance is positive. It is assumed that the negative GF/GP ending balance will be resolved, as by law it is required to be, during the ongoing budget deliberations. Due in part to the Senate's proposal to create a \$541.2 million GF/GP balance sheet reserve, there are various options available for the resolution of the projected FY 2017-18 GF/GP budget shortfall.

It should be noted that only one year of the SFA year-end balances described in this report (FY 2016-17) 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, 2017, 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 2017-18 State budget.





