Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

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

May 14, 2018

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www.senate.michigan.gov/sfa

THE SENATE FISCAL AGENCY

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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.

3. To review and evaluate proposed and existing State programs and services.

4. To provide economic and revenue analysis and forecasting.

5. To review and evaluate the impact of Federal budget decisions on the State.

6. To review and evaluate State issuance of long-term and short-term debt.

7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.

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ACKNOWLEDGEMENT

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ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 2.3% during 2017, is predicted to expand 2.7% in 2018, 2.5% in 2019, and 1.9% in 2020. Light vehicle sales are forecast to decline from 17.1 million units in 2017, to 16.9 million units in 2018 and 16.7 million units in 2019, before rising to 16.8 million units in 2020. The unemployment rate is expected to fall from 4.4% in 2017 to 4.0% in 2018, 3.9% in 2019, and 3.8% in 2020; while the consumer price index is estimated to increase 2.4% in 2018, 2.1% in 2019, and 2.0% in 2020.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.6% in 2018, 2.2% in 2019, and 2.3% in 2020, after rising 0.5% in 2017. Wage and salary employment is predicted to continue growing, increasing 1.1% during 2018, and 0.7% in 2019, and 0.8% in 2020, compared to 1.2% growth during 2017.

REVENUE FORECAST

In FY 2017-18, continued employment and income growth will increase collections from most revenue sources. Increased retail sales and income tax withholding, plus additional estimated individual income tax payments in response to Federal tax changes, will help offset lower Corporate Income Tax revenue and revenue reductions attributable to personal property tax reform. General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) net revenue will total an estimated $23.7 billion, a 3.7% increase from FY 2016-17. Compared to the January 2018 consensus estimates, the GF/GP estimate is $159.8 million higher and the SAF estimate is $180.0 million higher.

In FY 2018-19, net GF/GP and SAF revenue will total an estimated $24.0 billion, a 1.1% increase from the revised FY 2017-18 estimate and $190.0 million above the January 2018 consensus estimate. General Fund/General Purpose revenue will total an estimated $10.4 billion, a decrease of 1.0% from FY 2017-18 that reflects tax changes related to the 2015 transportation funding package, slower employment growth, and taxpayers making lower estimated and annual payments as a result of the additional estimated payments made in FY 2017-18, and increased refunds. School Aid Fund revenue will total an estimated $13.6 billion, a 2.7% increase.

In FY 2019-20, net GF/GP and SAF revenue will total an estimated $24.6 billion, a 2.4% increase from the revised estimate for FY 2018-19 and $334.3 million more than the January 2018 consensus estimates. Continuing economic growth will more than offset an increase in earmarked income tax revenue to the Michigan Transportation Fund and revenue reductions from increases in the personal exemption, resulting in GF/GP revenue totaling an estimated $10.6 billion, an increase of 2.2% from FY 2018-19, while SAF revenue will total an estimated $14.0 billion, a 2.5% 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 2017-18 GF/GP budget will have a positive ending balance of $347.9 million. A comparison of the FY 2017-18 SAF revenue estimates and enacted and projected SAF appropriations produces a $273.1 million SAF surplus.

Comparing the SFA's FY 2018-19 GF/GP revenue estimate with the appropriation bills as passed by the Senate (adjusted for caseload and other cost issues), leads to a $389.0 million balance in the FY 2018-19 GF/GP budget. The SFA's FY 2018-19 SAF revenue estimate, combined with the Senate-passed SAF appropriations (adjusted for pupil counts and other cost issues), results in a $342.7 million balance in the FY 2018-19 SAF budget.

If the SFA's FY 2019-20 GF/GP revenue estimate is compared with the FY 2019-20 ongoing GF/GP appropriations recommended by the Governor and adjusted for SFA-estimated caseload and costs, there is a projected $447.2 million GF/GP budget surplus. If the SFA's FY 2019-20 SAF revenue estimate is compared with the continuation of the Senate's FY 2018-19 appropriation recommendation into FY 2019-20, adjusted for estimated pupils and other costs, there is a projected $610.9 million SAF budget surplus. All of these ending balance estimates assume that the ending balance from the prior year is carried forward into the succeeding fiscal year.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)	2016 Actual	2017 Actual	2018 Estimate	2019 Estimate	2020 Estimate
Real Gross Domestic Product (% change)	1.5%	2.3%	2.7%	2.5%	1.9%
U.S. Consumer Price Index (% change)	1.3%	2.1%	2.4%	2.1%	2.0%
Light Motor Vehicle Sales (millions of units)	17.5	17.1	16.9	16.7	16.8
U.S. Unemployment Rate (%)	4.9%	4.4%	4.0%	3.9%	3.8%
Real Michigan Personal Income (% change)	1.2%	0.5%	1.6%	2.2%	2.3%
Michigan Wage & Salary Employment (% change)	1.8%	1.2%	1.1%	0.7%	0.8%

REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF)
(millions of dollars)

	FY 2017-18 Estimate			FY 2018-19 Estimate			FY 2019-20 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$11,714.9	($1,247.4)	$10,467.5	$11,854.2	($1,489.6)	$10,364.6	$12,283.7	($1,689.6)	$10,594.1
% Change	5.1%	---	2.7%	1.2%	---	(1.0%)	3.6%	---	2.2%
School Aid Fund	$13,270.6	($6.1)	$13,264.5	$13,629.7	($0.7)	$13,629.0	$13,995.4	($19.0)	$13,976.4
% Change	4.2%	---	4.6%	2.7%	---	2.7%	2.7%	---	2.5%
Total GF/GP & SAF	$24,985.5	($1,253.5)	$23,732.0	$25,483.9	($1,490.3)	$23,993.6	$26,279.1	($1,708.6)	$24,570.5
% Change	4.6%	---	3.7%	2.0%	---	1.1%	3.1%	---	2.4%
Revenue Limit – Under (Over)		$8,738.7			$9,202.4			$9,974.7	

	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
Revision from Jan. Consensus			
GF/GP	$159.8	$25.0	$180.6
SAF	180.0	165.0	153.7
Total	**$339.8**	**$190.0**	**$334.3**

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
General Fund/General Purpose..................................	$347.9	$389.0	$447.2
School Aid Fund	$273.1	$342.7	$610.9
Budget Stabilization Fund (with enacted deposits)......	$891.7	$937.7	$991.8

ECONOMIC REVIEW AND OUTLOOK

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2018, 2019, and 2020, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

While the 2008-2009 recession represented the most severe economic contraction in more than 70 years, the years following the recession have represented the weakest recovery. As of the first quarter of 2018, the economy had been in recovery for 35 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 two of those recoveries lasted 35 quarters or more, and at this point the current recovery is less than half as strong as the average of those recoveries (Figure 1). The economy has averaged only 2.2% annual growth since the end of the recession, compared with an average of 4.4% annual growth over the other two recoveries of 35 months or more since World War II. Most of the weakness in the recovery reflects particularly slow growth through the first quarter of 2014: personal consumption spending (which generally has accounted for two-thirds of economic activity) grew at a rate of 1.9% per year and the government sector contracted by 1.9% per year (Figure 2). Since the first quarter of 2014, the government sector has remained relatively flat and consumption has grown more rapidly, averaging 3.2% per year, but has been offset by markedly slower growth in business investment.

Figure 1

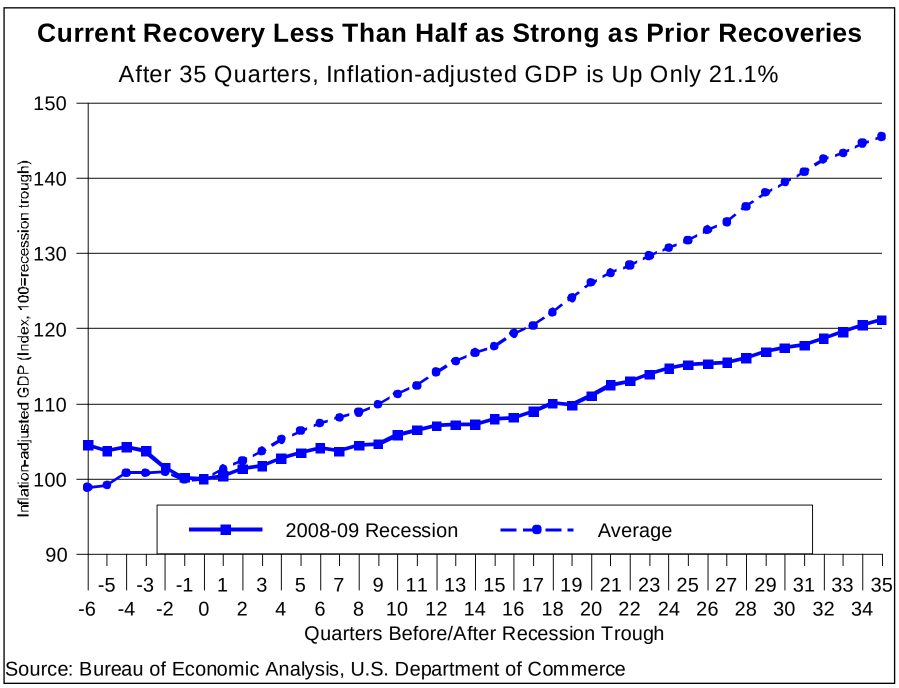
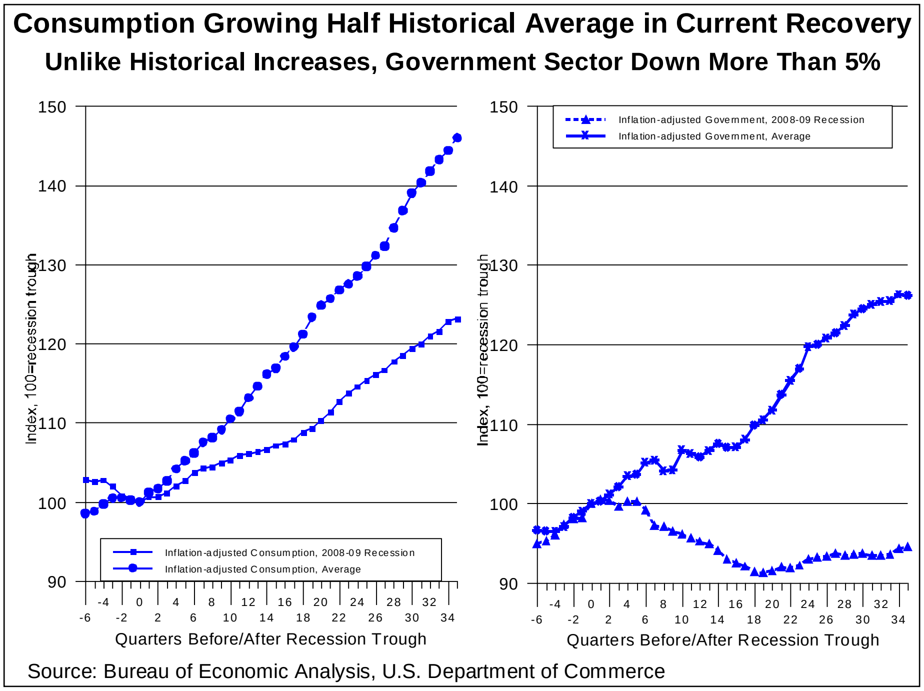


Figure 2



Recoveries from recessions caused by a crisis within the financial system often take longer than traditional recoveries, largely because of the increased level of risk aversion both borrowers and lenders exhibit, and the need to rebuild asset values rather than simply having the unemployed obtain jobs. Employment losses continued through February 2010, while housing prices continued to decline through late 2011, both depressing economic activity and delaying any potential recovery. As of March 2013, the S&P 500 had recovered to its prerecession peak, signaling new growth in asset prices; while payroll employment had regained its prerecession peak by May 2014. Depending on the price index used, housing prices had recovered to prerecession peaks by either the first or third quarter of 2016. With employment, housing prices, and the stock market all exhibiting an upward trend since early 2014, and in many cases surpassing prerecession levels, more normal growth eventually would result as those trajectories continued.

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), causing the output gap (the difference between actual GDP and potential GDP) to narrow substantially, especially since 2014 (Figure 4).

Figure 3

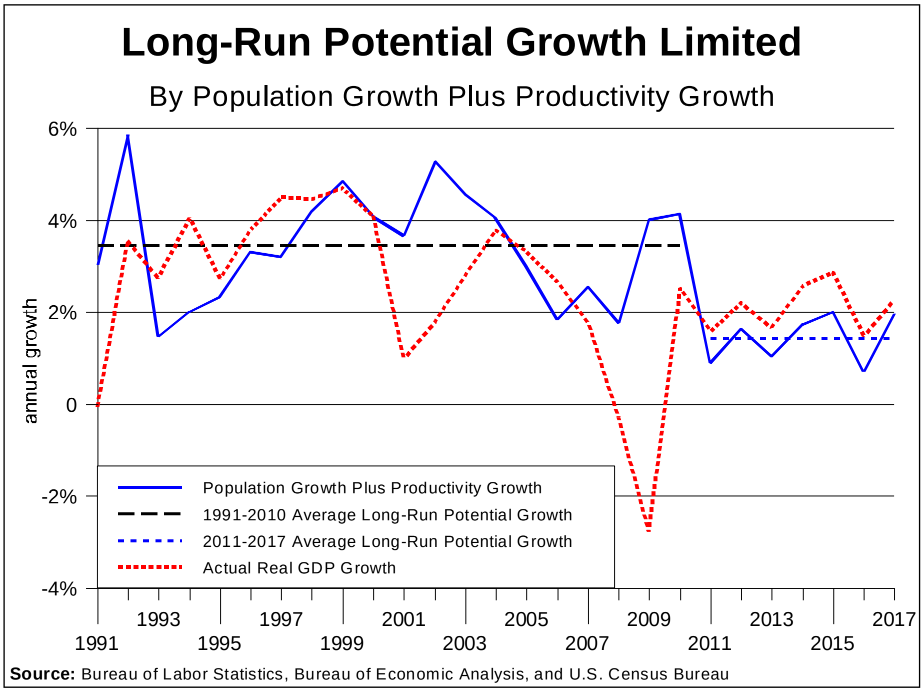
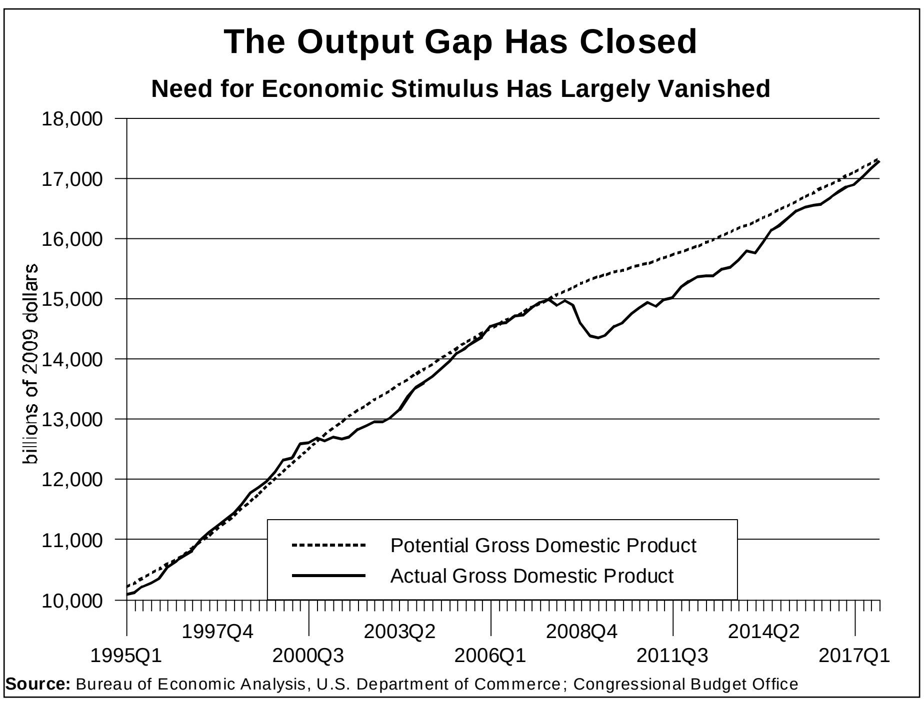
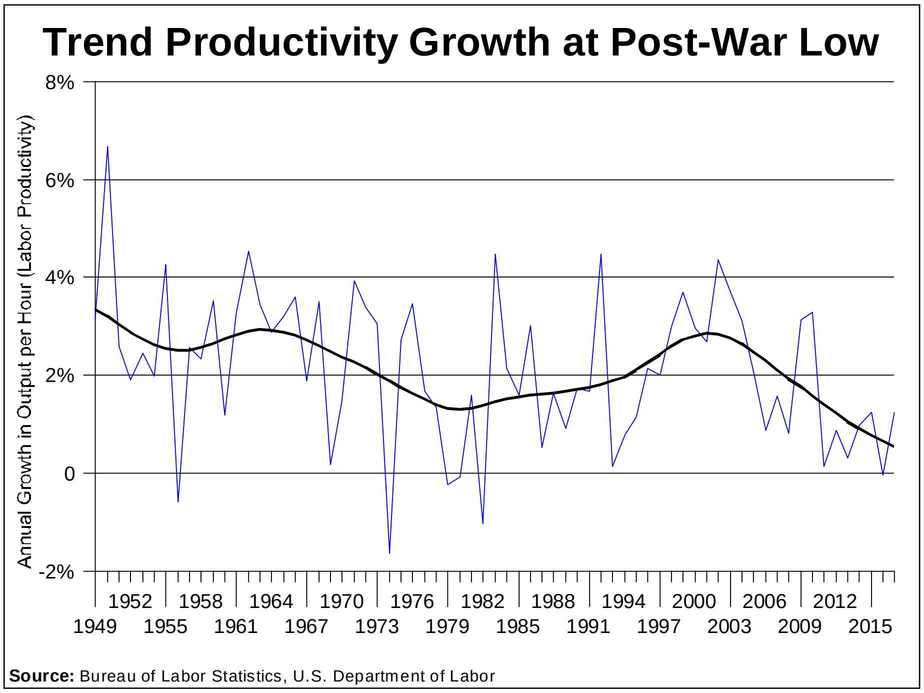


Figure 4



Productivity, as measured by output per hour in the nonfarm business sector, was flat in 2016, but rose 1.2% in 2017. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity has grown by less than 1.0% per year in every year since 2010--the longest and most severe slowdown in productivity experienced since at least World War II (Figure 5). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries 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 5



As of April 2018, payroll employment averaged only 1.7% annual growth since the February 2010 trough and was up 1.6% from the April 2017 level, essentially the same year-over-year growth that has been exhibited every month since October 2016. During 2017, the economy averaged 182,000 new jobs per month, the lowest monthly average since 2012 and the third year of consecutive declines, and not much above the 160,000 increase necessary to keep pace with population growth.

The combined effect of an improving economy and low productivity on the unemployment rate has been significant, especially given the underlying demographics affecting the labor force. The unemployment rate fell from a peak of 10.0% in October 2009, to 4.1% in November 2017. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Between the December 2009 trough in total employment (as opposed to payroll employment) and September 2014, the labor force averaged 0.3% annual growth. In 2016, the labor force grew 1.3%, but that growth has slowed, with the labor force estimated to have increased by only 0.7% in 2017. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the September 2017 level of total employment set an all-time record. However, labor force participation during 2017 remained at the same 40-year lows experienced since 2013.

While lower labor force participation has limited labor supply, the growing economy has resulted in continued increases in labor demand. Since early 2016, the number of job openings has continued to increase, and openings have consistently exceeded separations (when an employee leaves a position, either as a result of quitting, being released, or because a limited term position ends). Over that period, the rate of growth in hourly compensation has risen, although it is still rising more slowly than during most nonrecession periods. Historically, labor costs have risen more rapidly when the unemployment rate has been below 5.0% than when the unemployment rate has been above 5.0%. Since 1980, hourly compensation has risen by approximately 3.3% per year when the unemployment rate has been above 5.0%. In contrast, during the 1990s, the last sustained period when the unemployment rate remained below 5.0%, hourly compensation increased by an average of 5.0% per year, suggesting the 1.7% annual growth rate since 2016 is unsustainable if unemployment rates remain low or continue to decline.

As of the first quarter of 2018, the economy exhibited characteristics of a healthy economy in many respects: low unemployment rates, high consumer sentiment, and low inflation. Vehicle sales remain at historically strong levels, initial unemployment claims are at record lows (especially as a share of the labor force), 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") remains at a healthy level despite increases in short-term interest rates since early 2016. However, even without considering fiscal policy risks (which will be addressed later), substantial concerns and uncertainties remain: consumption growth has been accompanied by significant growth in consumer debt, productivity growth remains 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 remains weak, and several factors suggest inflation may exceed Federal Reserve targets.

Inflation-adjusted consumption has grown approximately 3.0% per year since the first quarter of 2016, and much of the improvement has reflected increased purchases of motor vehicles and/or rising debt. Light vehicle sales in 2016 totaled 17.5 million units, breaking the prior all-time record of 17.4 million units set in 2015, and dropped slightly to 17.1 million units in 2017. After averaging 2.3% year-over-year growth in 2015 and 2016 (partially down due to declining fuel prices), retail sales since January 2017 have averaged 4.7% year-over-year growth. Although consumption has returned to its historical position of accounting for the majority of growth in the economy, much of the increase has been financed by increased borrowing, particularly since mid-2014. Although the total financial obligations ratio remained stable between 2014 and 2016, it has been increasing, and in the fourth quarter of 2017, financial obligations were at their largest share of income since the second quarter of 2011. 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 6). During 2017, outstanding consumer debt per person increased at an annual rate of 1.8%, growing more rapidly than either the 0.6% annual rate for personal income or the 1.3% 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, and at levels not experienced since the early 1980s (Figure 7). Just as the composition of consumer debt has changed, so has the composition of debt service costs. 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, and in the fourth quarter of 2017 was at the lowest level since the first quarter of 1980. 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 and as of the fourth quarter of 2017, was at the highest level since the first quarter of 2008.

Figure 6

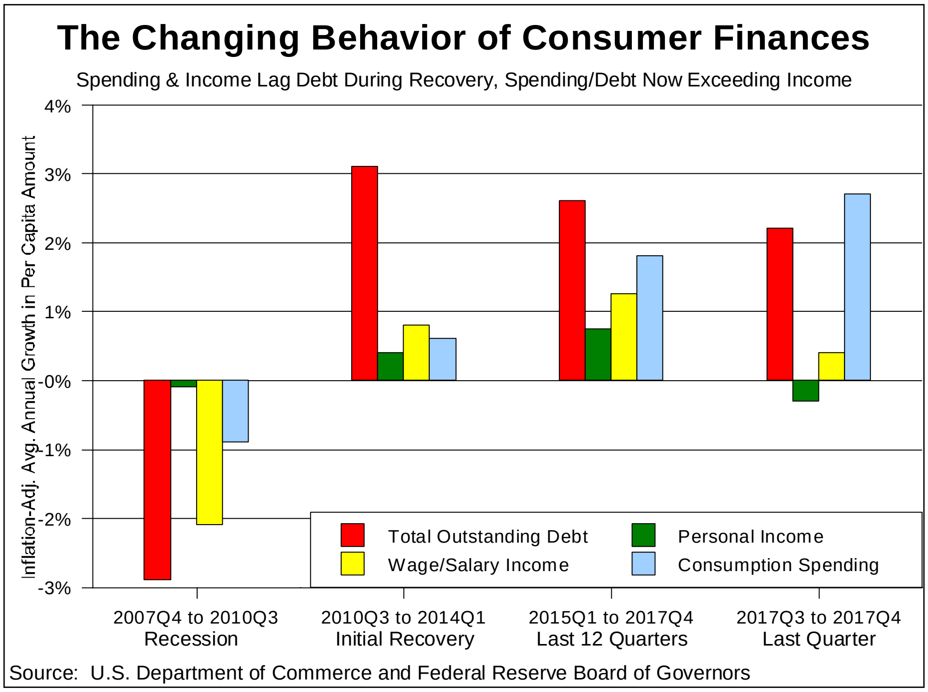
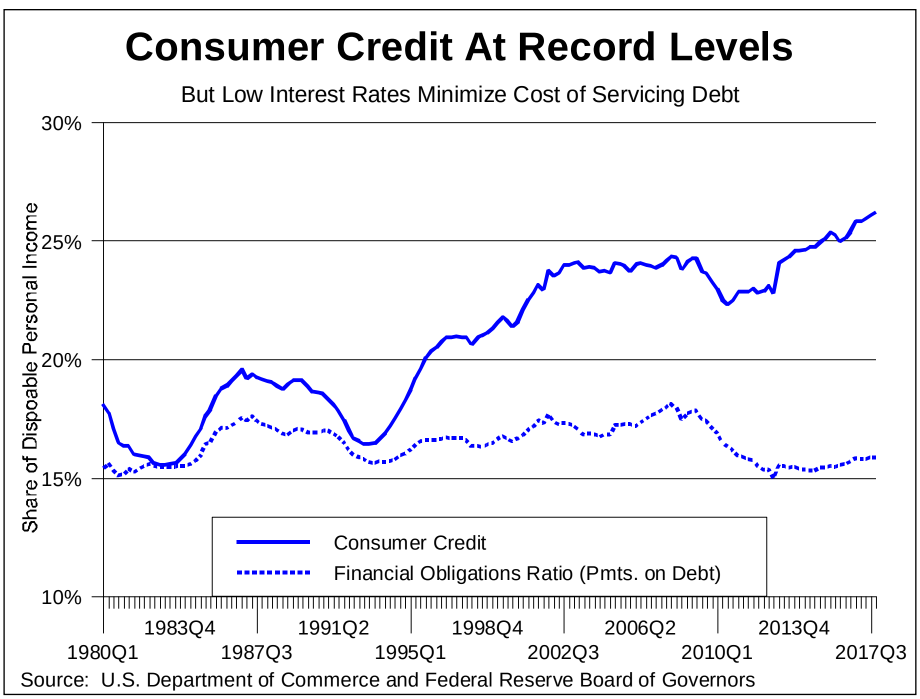
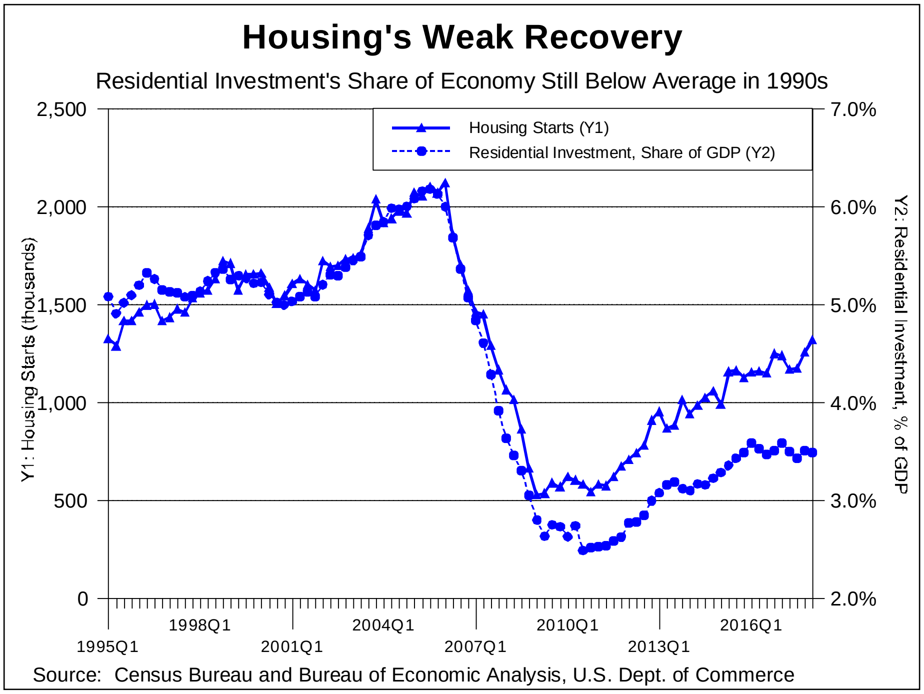


Figure 7



Housing construction, which counts as residential investment rather than consumption spending, continued to improve in 2017, with housing starts nearing rates consistent with a growing economy, although as a share of GDP residential investment remains substantially below historical norms (Figure 8). Housing starts totaled 1.2 million units in 2017, the eighth consecutive annual increase in starts and the most starts since before the 2008-2009 recession. However, the number of starts during 2017 was less than the number in any year during the period of 1993 to 2007. Furthermore, while average home prices have recovered from the recession, housing starts in 2017 were 41.8% below the prerecession peak of 2.1 million starts in 2005. 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 3.5% of GDP during 2017, slightly less than in 2016.

Figure 8



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

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

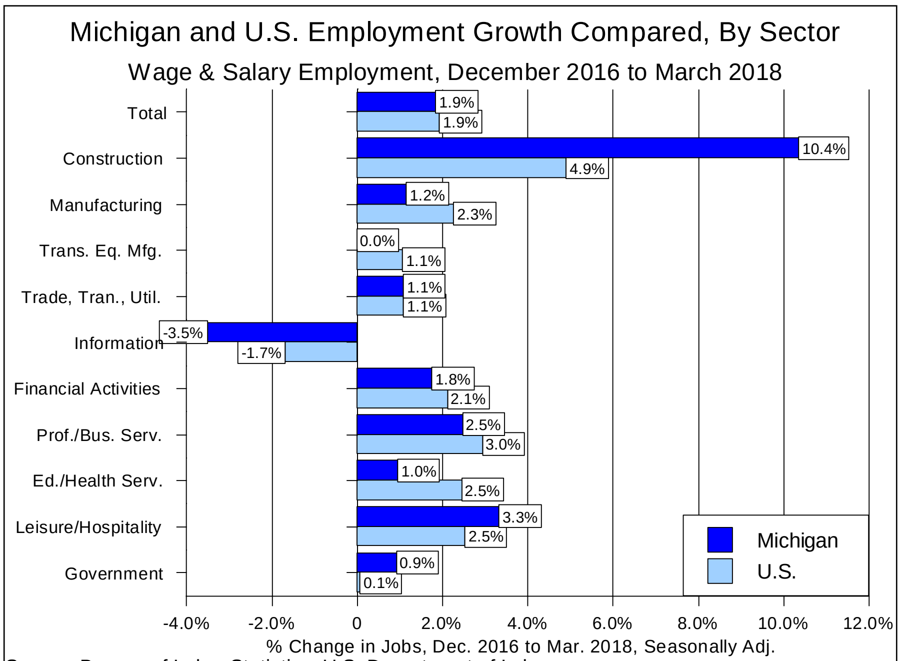
The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose 34.5% between June 2009, when the U.S. recession ended, and December 2014, or approximately 2,300 jobs per month (an average annual growth rate of 5.5%). Since December 2014, job growth in manufacturing has slowed: 2.8% in 2015, 2.9% in 2016, and 1.7% in 2017. 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 1.8% gain in 2017. As a result, total Michigan payroll employment has slowed, declining from 1.8% growth in 2016 to 1.2% growth in 2017, and since the end of 2016, most sectors of the Michigan economy have exhibited slower employment growth than the U.S. as a whole (Figure 9).

The unemployment rate declined from a high of 14.9% in June 2009 to 4.1% in October 2017, and has remained at that level through March 2018. 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.

As job growth has slowed, Michigan personal income growth also has slowed. In 2015, personal income per person in Michigan increased 5.5%, compared to 2.7% growth in 2016 and 2.3% growth in 2017. The slowdown in growth has occurred despite a general increase in average hourly earnings, largely because workers in transportation equipment manufacturing generally work an above-average number of hours and their average hourly earnings, while above the State average, have been generally declining (Figure 10).

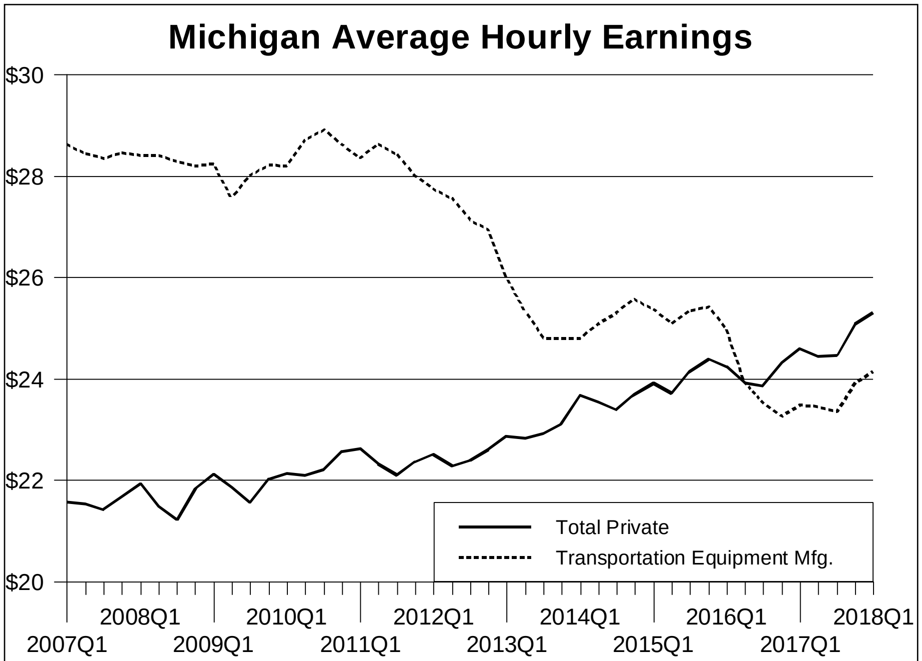
Historical and forecasted details for selected economic indicators are presented in Table 1 and Table 2.

Figure 9



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

Figure 10



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

FORECAST SUMMARY

During 2018, both the U.S. and Michigan economies are expected to expand at a moderately faster rate than during 2017. Although both the U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2018 and later years, 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 2.7% in 2018, more than the 2.3% increase in 2017 but below the 2.9% increase in 2015. Inflation-adjusted GDP will continue expanding, increasing 2.5% during 2019 and 1.9% in 2020. The expansion over the forecast period primarily reflects stable consumption growth, a growing Federal fiscal stimulus, and stronger business investment in 2018 and 2019 that will more than offset slowing residential investment and exports, and the drag on the economy from increased imports.

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 4.4% during 2017, to 4.0% in 2018, 3.9% in 2019, and 3.8% in 2020.

Inflation will be more of a concern over the forecast period than in recent years, but will largely be addressed by the anticipated success the Federal Reserve will have containing inflationary pressures. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.4% in 2018, followed by increases of 2.1% in 2019, and 2.0% in 2020. In 2017, the CPI increased 2.1%, the first time the CPI increased more than 2.0% since 2012, when it also rose 2.1%. Export growth is expected to be tempered in the near term by higher interest rates that will increase the value of the dollar. Slightly improved productivity growth, modest domestic consumer demand, and tightness in the labor market will increase labor costs somewhat, with unit labor costs (not shown in the tables) expected to increase 1.9% in 2018, 2.7% in 2019, and 3.3% in 2020.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2016 Actual	2017 Actual	2018 Estimate	2019 Estimate	2020 Estimate
United States					
Nominal GDP (year-to-year growth)	2.8%	4.1%	4.9%	4.9%	4.3%
Inflation-Adjusted GDP (year-to-year growth)	1.5%	2.3%	2.7%	2.5%	1.9%
Unemployment Rate	4.9%	4.4%	4.0%	3.9%	3.8%
Inflation					
Consumer Price Index (year-to-year growth)	1.3%	2.1%	2.4%	2.1%	2.0%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.3%	1.8%	2.1%	2.3%	2.3%
Interest Rates					
90-day Treasury Bill	0.32%	0.93%	2.02%	3.18%	3.87%
10-year Treasury Bill	1.84%	2.33%	2.97%	3.48%	3.88%
Corporate Aaa Bond	3.67%	3.74%	3.96%	4.04%	4.72%
Federal Funds Rate	0.40%	1.00%	1.90%	3.08%	3.76%
Light Motor Vehicle Sales (millions of units)	17.5	17.1	16.9	16.7	16.8
Auto	6.9	6.1	5.2	4.8	4.6
Truck	10.6	11.1	11.7	11.9	12.2
Import Share	22.1%	22.6%	23.4%	23.6%	23.9%
Michigan					
Personal Income (millions)	$439,361	$450,847	$469,282	$488,459	$509,248
Year-to-year growth	2.8%	2.6%	4.1%	4.1%	4.3%
Inflation-Adjusted Personal Income (year-to-year growth)	1.2%	0.5%	1.6%	2.2%	2.3%
Wage & Salary Income (millions)	$222,823	$229,335	$239,733	$249,516	$260,501
Year-to-year growth	3.8%	2.9%	4.5%	4.1%	4.4%
Detroit Consumer Price Index (year-to-year growth)	1.6%	2.1%	2.4%	1.9%	1.9%
Wage & Salary Employment (thousands)	4,319.1	4,371.3	4,418.2	4,450.4	4,485.0
Year-to-year growth	1.8%	1.2%	1.1%	0.7%	0.8%
Unemployment Rate	4.9%	4.4%	4.2%	4.3%	4.2%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL
(Calendar Years)

	2016 Actual	2017 Actual	2018 Estimate	2019 Estimate	2020 Estimate
Gross Domestic Product					
(billions of dollars)	$18,624.5	$19,390.6	$20,337.7	$21,335.8	$22,248.4
Year-to-year growth	2.8%	4.1%	4.9%	4.9%	4.3%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2009 dollars)	$16,716.2	$17,096.2	$17,554.9	$18,002.2	$18,347.7
Year-to-year growth	1.5%	2.3%	2.7%	2.5%	1.9%
Consumption					
(billions of 2009 dollars)	$11,572.1	$11,890.7	$12,172.4	$12,468.2	$12,761.1
Year-to-year growth	2.7%	2.8%	2.4%	2.4%	2.3%
Business Fixed Investment					
(billions of 2009 dollars)	$2,210.4	$2,314.2	$2,445.0	$2,570.7	$2,686.3
Year-to-year growth	(0.6%)	4.7%	5.7%	5.1%	4.5%
Change in Business Inventories					
(billions of 2009 dollars)	$33.4	$15.2	$39.5	$59.0	$53.7
Residential Investment					
(billions of 2009 dollars)	$587.4	$597.9	$611.0	$626.4	$632.5
Year-to-year growth	5.5%	1.8%	2.2%	2.5%	1.0%
Government Spending					
(billions of 2009 dollars)	$2,900.2	$2,903.3	$2,954.7	$3,030.3	$3,056.0
Year-to-year growth	0.8%	0.1%	1.8%	2.6%	0.8%
Net Exports (billions of 2009 dollars)	($586.2)	($621.8)	($661.9)	($747.4)	($841.7)
Exports (billions of 2009 dollars)	$2,120.1	$2,191.4	$2,260.6	$2,295.3	$2,355.6
Imports (billions of 2009 dollars)	$2,706.3	$2,813.2	$2,922.5	$3,042.8	$3,197.3
Personal Income (year-to-year growth)	2.4%	3.1%	4.1%	5.3%	5.0%
Adjusted for Inflation	1.1%	1.0%	1.6%	3.4%	2.9%
Wage & Salary Income					
(year-to-year growth)	2.9%	3.3%	4.8%	5.5%	5.4%
Personal Saving Rate	4.9%	3.4%	3.1%	4.0%	4.3%
Capacity Utilization Rate	75.3%	76.1%	78.1%	78.6%	78.8%
Housing Starts (millions of units)	1.174	1.203	1.300	1.303	1.293
Conventional Mortgage Rates	3.7%	4.0%	4.6%	5.1%	5.5%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($697.3)	($665.1)	($881.4)	($1,035.7)	($1,058.9)

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 11 and 12). Inflation-adjusted personal income is projected to increase 1.6% in 2018, 2.2% in 2019, and 2.3% in 2020, compared with a 0.5% increase during 2017. Payroll employment is expected to increase 1.1% in 2018, slightly less than the 1.2% growth rate during 2017, before slowing to 0.7% growth in 2019 and 0.8% growth in 2020. Private sector gains in employment during 2018 and 2019 are expected to be fairly modest, although above the flat-to-declining employment predicted in the government sector. Nationally, light vehicle sales are expected to decrease from the record 17.1 million units in 2017 to 16.9 million units in 2018 and 16.7 million units in 2019, before rising slightly to 16.8 million units in 2020. In Michigan, the relatively high, but declining, level of vehicle sales, stability in the housing market, and the strong national economy are expected to result in the unemployment rate decreasing from 4.4% in 2017 to 4.2% in 2018, 4.3% in 2019, and 4.2% in 2020.

Compared with the January 11, 2018, Consensus Economic Forecast, forecasted U.S. economic growth in both 2018 and 2019 is stronger, while the Michigan forecast is slightly weaker. Both the U.S. and Michigan forecasts predict continued growth, but compared to the January 2018 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 2017, 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 11

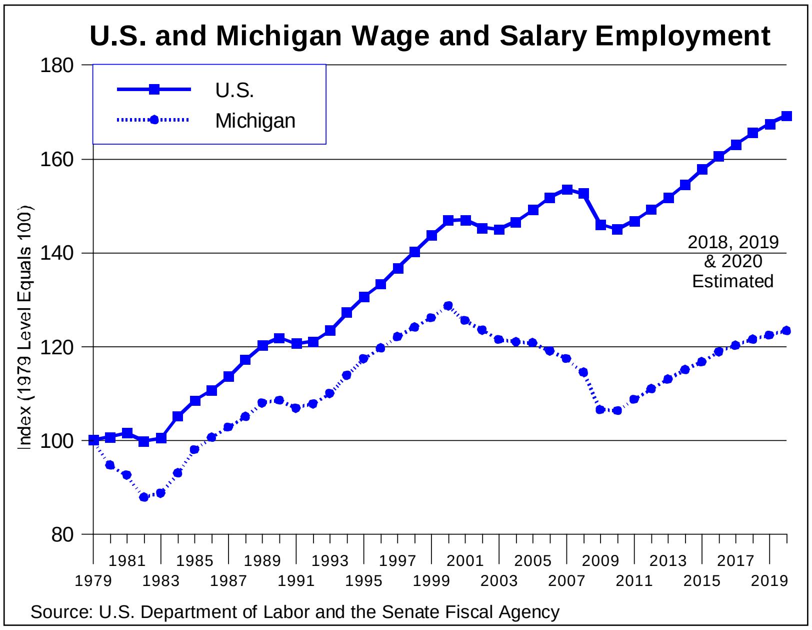
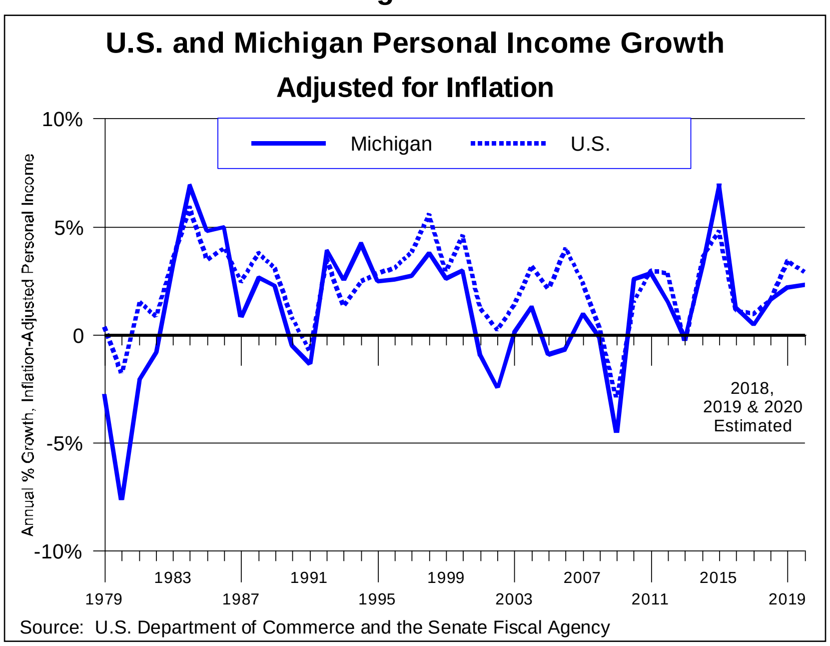


Figure 12



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.

Monetary and Fiscal Policy. In December 2017, the Federal government adopted a multi-year tax reform package estimated to add approximately 0.6% to GDP in 2018, and 1.2% to 1.4% to GDP in 2019 and 2020. Subsequently, the Federal government approved a budget bill in February 2018 that increased spending--adding another estimated 1.3% to 1.4% of stimulus to GDP in 2018 and between 1.0% and 1.2% in 2019 and 2020. With the economy already operating at potential and unemployment well below the estimated nonaccelerating inflation rate of unemployment, these fiscal policy changes are expected to substantially increase inflationary pressures. Furthermore, if proposals to restrict immigration and/or increase tariffs are enacted, they also will add to inflationary pressures as labor supply growth is reduced and the economy potentially faces more expensive imports coupled with increased pricing power for domestic producers. Before the tax cut and budget changes, the improving economy was expected to prompt the Federal Reserve to increase interest rates two, or possibly three, times in both 2018 and 2019. Now, markets widely expect four rate hikes in 2018, and many forecasts expect another four in 2019. The median forecast for the Federal Funds Rate released at the March 2018 Open Market Committee meeting suggests that this key interest rate will rise from 1.0% during 2017 to 2.1% in 2018 and 2.9% in 2019. Overall, the committee's estimates ranged from 1.6% to 2.6% for 2018--a wide variance, but one that would represent a substantial increase in interest rates relative to 2017. The Federal Reserve closely watches the personal consumption expenditure deflator less energy and food prices as an inflation measure, and it increased at a 2.7% rate in the first quarter of 2018--well above the Federal Reserve's target rate of 2.0%.

Higher interest rates discourage borrowing and increase the attractiveness of the dollar to overseas investors. The impact on consumer borrowing will be discussed later, but higher interest rates also discourage productivity-boosting business investments, and thus reduce growth in both the short-term and the long-term. A stronger dollar will make exports less competitive in foreign markets and potentially offset the impact of tariffs on imported goods. The downward pressure higher rates put on the economy helps reduce inflationary pressures. It is unknown to what degree the Federal Reserve will accommodate the inflationary effects of fiscal policy. Furthermore, there is always the possibility that the Federal Reserve could raise interest rates too rapidly and push the economy into a recession. Recessions are particularly likely when the "yield curve", which represents the difference between short-term and long-term interest rates, "inverts" (meaning that short term rates exceed long-term rates). While long-term rates have been rising, they have not been rising as quickly as short-term rates, increasing the risk that the yield curve will invert and a recession will occur. On the other hand, if monetary policy accommodates much of the fiscal policy changes, inflation is likely to be much higher than expected, reducing the real buying power of consumers (especially those on fixed incomes) and the real value of loan repayments to lenders.

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, and pushed the saving rate significantly higher. The saving rate has declined somewhat since 2015, to levels lower than in any year prior to 2005, and outstanding debt has continued to increase, supporting a portion of the gains in consumer spending. Income growth has improved but high debt burdens may impede consumers' ability to increase saving and/or increase consumption now that interest rates are rising. The Federal Reserve increased rates in both December 2017 and March 2018, and consumption spending in the first quarter of 2018 increased at the slowest rate since the second quarter of 2013. The latest data for debt service as a share of income are from the fourth quarter of 2017, but at that time debt service represented the highest burden since the first quarter of 2012. However, the composition of debt service burdens was very different than in 2012, when mortgage debt was more than half of debt service. Now, mortgage debt is a little more than 40% of the burden, and the rest is consumer debt--which generally exhibits variable rates that increase as overall interest rates rise. In the fourth quarter of 2017, the debt service on consumer debt was at its highest share of income since the fourth quarter of 2008, in the middle of the recession.

If the saving rate improves, perhaps to take advantage of higher interest rates, both consumption growth and economic growth will be substantially lower. Similarly, higher interest rates will temper debt-financed consumer spending, and to the extent that inflation reduces consumers' real incomes, higher debt service burdens also may reduce spending that is not financed by debt.

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. Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. The 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-2017 period. The forecast assumes that consumers will slightly increase their saving rates and that consumption will be limited by flat real 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. 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.

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. A March 2018 study from the Congressional Budget Office projects that population demographics will lower labor force participation by more than three percentage points (i.e., 3% of the population) over the next 10 years. The decline will help lower unemployment rates, but also will make it harder for firms--particularly in a growing economy--to find the necessary workers, and will increase labor costs.

Both nationally and in Michigan, the large number of individuals who have left (or will leave) 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 from the Federal Reserve more likely and encouraging firms to make greater investments in labor-saving capital equipment.

Michigan's Situation. While over the 2000-2009 period 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.

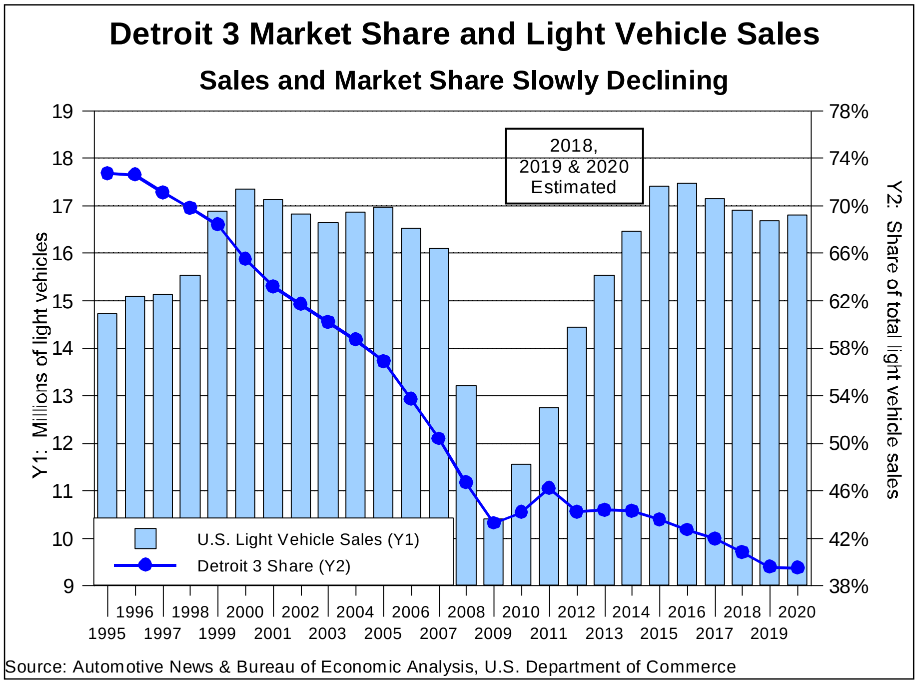
Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles. While that reliance has declined (for example, in 1998 wages and salaries from transportation equipment manufacturing represented 11.8% of total Michigan wage and salary income, 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. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was 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.) However, for Michigan's future, 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, sales began declining in 2017 and are expected exhibit a downward trend over the forecast period--although sales volumes will remain elevated when compared to historical levels. The Detroit 3 share of the sales mix is expected to decline somewhat (Figure 13) due to the strong dollar making imported vehicles comparatively less expensive, but will generally remain stable.

As vehicle sales return to more sustainable levels and productivity gains in the motor vehicle sector continue, production needs can be met with existing employment levels. 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. 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 will require a consumer sector with a stronger balance sheet: rising inflation-adjusted wages, reduced debt-to-income ratios and debt service burdens, sustained growth in the value of real and financial assets, and a substantially lower level of risk-aversion than currently held by both the consumer and business sides of the economy. If these changes occur in sufficient magnitude, they can offset the drag from the lower labor force participation associated with an aging population, limited population growth, and slow productivity growth.

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 2017-18, FY 2018-19, and FY 2019-20. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do 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 2017-18 and FY 2018-19 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2017-18, FY 2018-19, and FY 2019-20 are presented in Table 3 and are summarized below.

FY 2017-18 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $23.7 billion in FY 2017-18.
- This revised estimate for FY 2017-18 is up 3.7% or $851.4 million from the final revenue for FY 2016-17.
- The revised estimate for FY 2017-18 is $339.8 million above the January 2018 consensus revenue estimate.
- The projected revenue increase in FY 2017-18 reflects the continued growth in sales and individual income taxes, offset in part by weaker business tax collections and use tax reductions due to the phase-in of personal property tax reform.

FY 2018-19 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $24.0 billion in FY 2018-19.
- The revised estimate for FY 2018-19 is up 1.1% or $261.6 million from the revised estimate for FY 2017-18.
- The revised estimate for FY 2018-19 is $190.0 million above the January 2018 consensus revenue estimate.
- The revenue increase in FY 2018-19 reflects continued growth in sales tax and individual income tax collections offset by increased refunds and the first year of the earmark of income tax revenue to the Michigan Transportation Fund and increased Homestead Property Tax Credit payments included in the 2015 transportation package.

FY 2019-20 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $24.6 billion in FY 2019-20.
- This initial estimate for FY 2019-20 is 2.4% or $576.9 million more than the revised estimate for FY 2018-19.
- The revised estimate for FY 2019-20 is $334.3 million above the January 2018 consensus revenue estimate.
- The revenue increase in FY 2019-20 reflects Michigan economic activity growing at a faster rate than in FY 2018-19, but much of the impact on revenue will be offset by the second year of General Fund reductions under the transportation package enacted in 2015. The change in the Homestead Property Tax Credit will reduce General Fund income tax collections by an estimated $205.8 million and the General Fund also will be reduced by the $325.0 million earmark of General Fund income tax revenue for the Michigan Transportation Fund in FY 2019-20.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2016-17 THROUGH FY 2019-20 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)	FY 2016-17 Final	FY 2017-18 Revised Est.	FY 2018-19 Revised Est.	FY 2019-20 Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	$11,143.3	$11,714.9	$11,854.2	$12,283.7
Tax Changes Not In Baseline	(947.9)	(1,247.4)	(1,489.6)	(1,689.6)
Revenue After Tax Changes:				
Net Income Tax	6,731.5	7,318.1	7,046.3	7,160.7
MBT, Corp. Income Tax, SBT & Insur. Tax	790.4	434.8	581.6	648.8
Other Taxes	2,221.0	2,347.7	2,386.3	2,427.2
Total Taxes	9,742.9	10,100.6	10,014.2	10,236.7
Nontax Revenue	452.6	366.9	350.4	357.4
TOTAL GF/GP REVENUE	**$10,195.5**	**$10,467.5**	**$10,364.6**	**$10,594.1**
SCHOOL AID FUND				
Baseline SAF	$12,732.1	$13,270.6	$13,629.7	$13,995.4
Tax Changes Not In Baseline	(47.0)	(6.1)	(0.7)	(19.0)
TOTAL SAF REVENUE	**$12,685.1**	**$13,264.5**	**$13,629.0**	**$13,976.4**
BASELINE GF/GP AND SAF REVENUE	$23,875.4	$24,985.5	$25,483.9	$26,279.1
Tax & Revenue Changes	(994.9)	(1,253.5)	(1,490.3)	(1,708.6)
GF/GP & SAF REV. AFTER CHANGES	**$22,880.6**	**$23,732.0**	**$23,993.6**	**$24,570.5**
SALES TAX	$7,798.0	$8,066.4	$8,367.6	$8,564.5
	Percent Change			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	1.5%	5.1%	1.2%	3.6%
Revenue After Tax Changes:				
Net Income Tax	0.4	8.7	(3.7)	1.6
MBT, Corp. Income Tax, SBT & Insur. Tax	111.4	(45.0)	33.8	11.6
Other Taxes	(10.0)	5.7	1.6	1.7
Total Taxes	2.0	3.7	(0.9)	2.2
Nontax Revenue	(3.1)	(18.9)	(4.5)	2.0
TOTAL GF/GP REVENUE	**1.8%**	**2.7%**	**(1.0%)**	**2.2%**
SCHOOL AID FUND				
Baseline SAF	4.5%	4.2%	2.7%	2.7%
TOTAL SAF REVENUE	**4.7%**	**4.6%**	**2.7%**	**2.5%**
BASELINE GF/GP AND SAF REVENUE	3.1%	4.6%	2.0%	3.1%
GF/GP & SAF REV. AFTER CHANGES	**3.4%**	**3.7%**	**1.1%**	**2.4%**
SALES TAX	6.9%	3.4%	3.7%	2.4%
Note: FY 2016-17 is the base year for baseline revenue.				

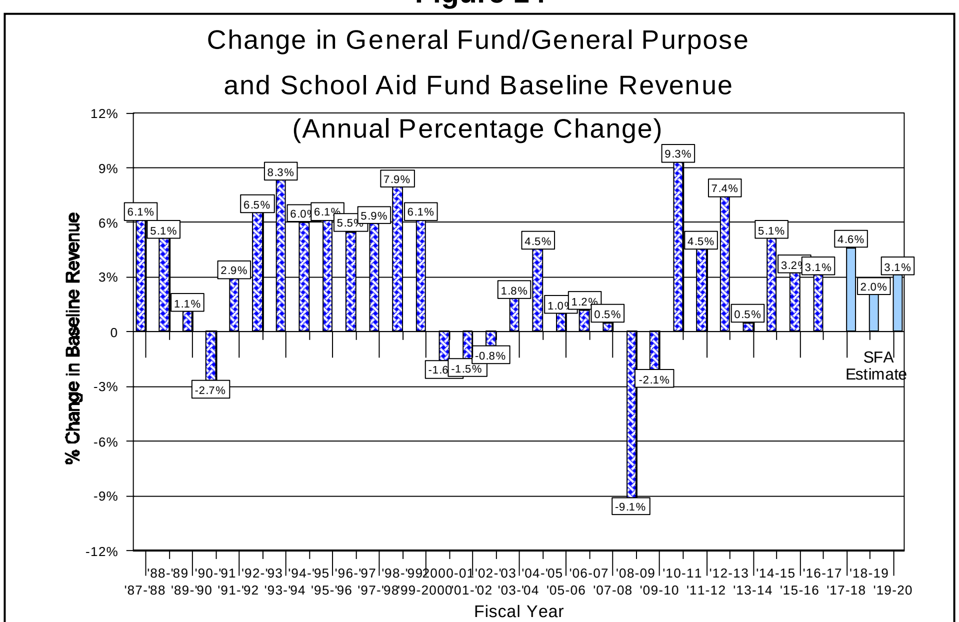
Historical Perspective

- Net combined GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 3.7% in FY 2017-18, 1.1% in FY 2018-19, and 2.4% in FY 2019-20. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and an average increase of 3.1% in the years from FY 2010-11 to FY 2015-16.

- GF/GP revenue is projected to remain below the record FY 1999-2000 level throughout the forecast period, although it will surpass the most recent revenue peak that occurred in FY 2007-08. These comparisons do not adjust for inflation.
- The final GF/GP revenue from ongoing sources in FY 2016-17 is 4.5% ($485.1 million) below the record FY 1999-2000 level and 1.4% ($141.5 million) below the FY 2007-08 peak, without adjusting for inflation.
- In FY 2017-18, ongoing GF/GP revenue is forecast to be 2.0% ($213.1 million) below the FY 1999-2000 level, but 1.3% ($130.5 million) above the FY 2007-08 level.
- In FY 2018-19, GF/GP revenue is expected to exceed the FY 2007-08 peak by 0.3% ($27.6 million). Revenue will remain 3.0% ($316.0 million) below the FY 1999-2000 highest level.
- GF/GP revenue in FY 2019-20 is forecast to exceed the FY 2007-08 peak by 2.5% ($257.1 million) and revenue will remain 0.8% ($86.5 million) below the FY 1999-2000 record level.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax changes. Revenue in FY 2013-14, FY 2014-15, FY 2015-16, and FY 2016-17 surpassed the previous peak revenue in FY 2007-08.
- The SAF is projected to rise annually from FY 2017-18 through FY 2019-20. Projected growth rates are 4.6% in FY 2017-18, 2.7% in FY 2018-19, and 2.5% in FY 2019-20, without adjusting for inflation.

Baseline revenue is forecast to increase each year during the forecast period. Figure 14 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the revised estimate for FY 2019-20. During this 34-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 4.6% in FY 2017-18, 2.0% in FY 2018-19, and 3.1% in FY 2019-20.

Figure 14



Source: Department of Treasury and Senate Fiscal Agency

Figure 15 compares the FY 1995-96 through estimated FY 2019-20 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 2017-18 will be approximately 2.0% (or $213.1 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of $10.4 billion in FY 2018-19 remains 3.0% below the peak, and revised estimates for FY 2019-20 are 0.8% below peak levels. In inflation-adjusted terms, however, FY 2019-20 GF/GP revenue is 6.3% (or $577.3 million) below the FY 1967-68 level.

Figure 15

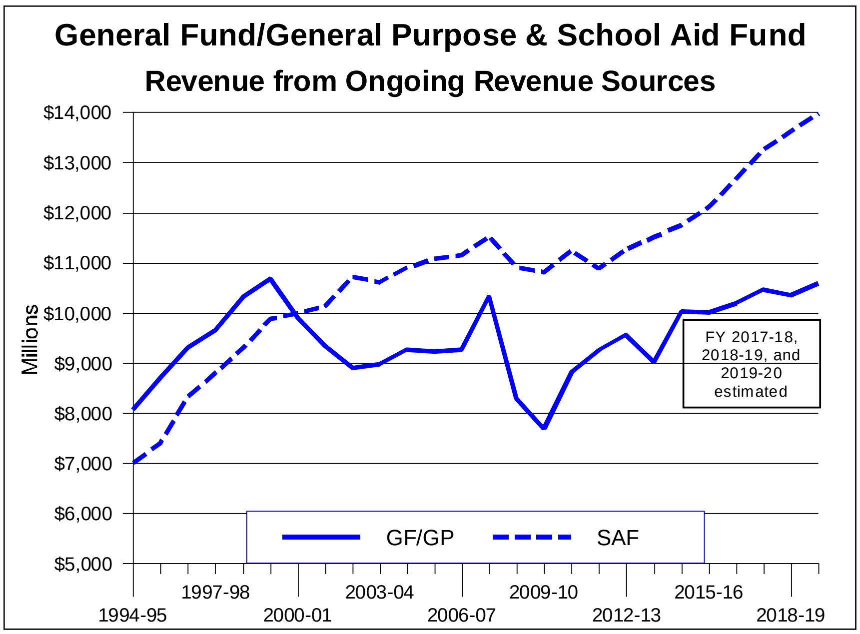
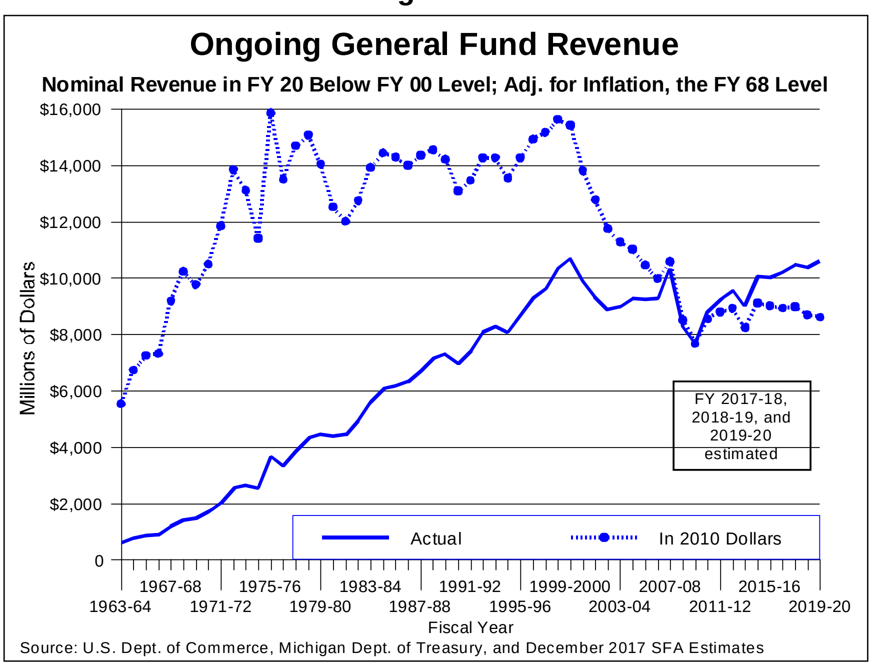
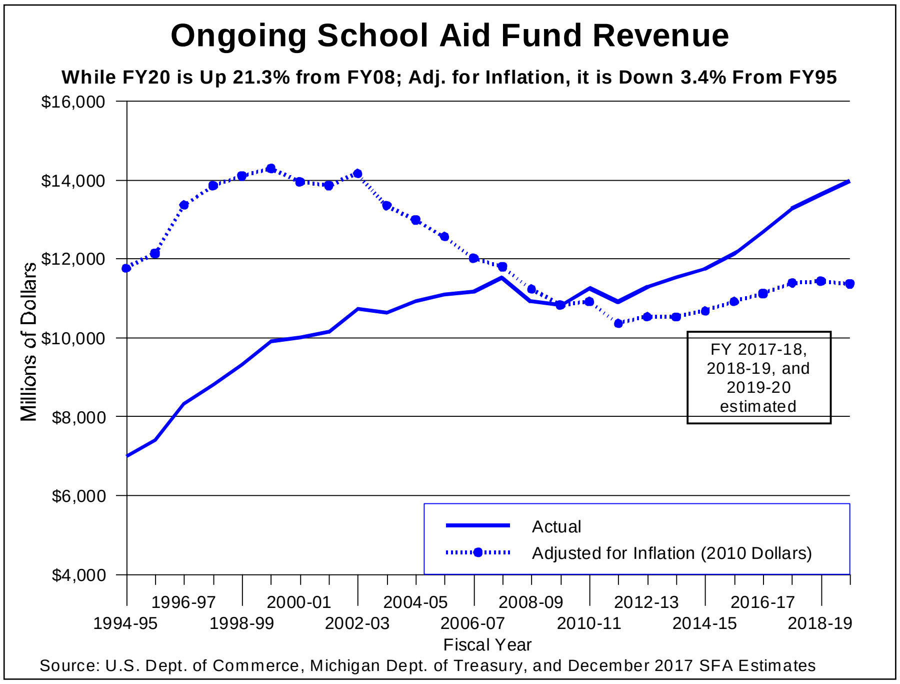


Figure 16



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 2008-2009 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 2018-19 and FY 2019-20 is projected to be slower than in FY 2017-18. In FY 2019-20, SAF revenue is predicted to be approximately 89.0% ($6.6 billion) above the revenue level in FY 1995-96 (without accounting for inflation) and 6.3% ($0.8 billion) below if adjusted for inflation, as shown in Figure 17.

Figure 17



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; however, wage and salary employment will grow more slowly than in FY 2016-17. Total GF/GP and SAF revenue will reach an estimated $23.7 billion in FY 2017-18, an increase of 3.7% or $851.4 million from the final revenue for FY 2016-17. On a baseline basis, GF/GP and SAF revenue is expected to increase 4.6% in FY 2017-18, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2017-18 is $339.8 million above the January 2018 forecast and is summarized in Table 4.

Tax Policy Changes

Personal Property Tax Reform. Use tax revenue of $410.8 million in FY 2017-18 will be levied by the Local Community Stabilization Authority and restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, which will reduce GF/GP revenue by $410.8 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $95.0 million. Personal property tax reform will reduce the State Education Tax (SET) by $21.2 million due to the phase-in of additional tax exemptions, although the General Fund will reimburse the SAF $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 (MBT) will lower GF/GP revenue by $787.9 million (as refunds will exceed payments), a larger reduction than in FY 2016-17. Fiscal year 2017-18 is the last year in which any battery credits are expected to be claimed. The phase-out of battery credits will be offset by higher expected payments for Michigan Economic Growth Authority (MEGA) tax credits in FY 2017-18. Tax processing issues also have affected FY 2017-18 revenue. Business tax payments of $55.0 million were reclassified as Corporate Income Tax (CIT) revenue instead of MBT revenue. This change affected the amounts of CIT and MBT revenue, but did not change total GF/GP revenue. Changes to the handling of refunds will reduce CIT and MBT revenue by a total of $110.0 million.

Sales and Use Taxes. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $35.4 million, of which $26.0 million is a reduction to the SAF, $4.2 million GF/GP, and $5.2 million other funds, primarily constitutional revenue sharing. As a result of changes to Michigan's medical marijuana laws, sales tax collections are expected to increase $13.2 million ($2.2 million GF/GP, $9.7 million SAF, and $1.3 million other funds). The redirection of sales tax revenue from aviation fuel to the State Aeronautics Fund and the Qualified Airport Fund will reduce GF/GP revenue by $8.0 million. In addition, the use tax will be reduced by two large taxpayer refunds in FY 2017-18.

Federal Tax Reform. The income tax personal exemption increase passed in response to tax changes at the Federal level will reduce revenue by $8.0 million, of which $6.4 million is a reduction to GF/GP revenue, and $1.6 million to the SAF. Other changes to the individual income tax and Corporate Income Tax stemming from Federal tax changes will increase revenue by $8.0 million, of which $7.2 million is a GF/GP increase, and $0.8 million is an increase to the SAF.

Other Changes. Adjustments to the tax treatment of payments to the Michigan Automobile Insurance Placement Facility (MAIPF) will increase insurance tax revenue by $80.0 million. The elimination of driver responsibility fees will reduce GF/GP revenue by $28.3 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $10.5 billion in FY 2017-18, an increase of 2.7% or $272.0 million from FY 2016-17. Baseline GF/GP revenue is expected to increase 5.1%. Most of the GF/GP revenue growth reflects increased individual income tax collections offset by decreased business tax revenue. The revised GF/GP revenue estimates for FY 2017-18 are $159.8 million above the January 2018 consensus estimates and are summarized in Table 4.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $13.3 billion in FY 2017-18, an increase of $579.4 million, or 4.6%, from FY 2016-17. The forecasted increase in SAF revenue reflects growth in all major earmarked tax sources. The revised SAF revenue estimates for FY 2017-18 are $180.0 million above the January 2018 consensus estimates and are summarized in Table 4.

FY 2018-19 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2018-19**.** Personal income will grow at the same rate as in FY 2017-18; however, wage and salary employment will increase more slowly than in FY 2017-18. Total GF/GP and SAF revenue will reach an estimated $24.0 billion in FY 2018-19, an increase of 1.1% or $261.6 million from the revised estimate for FY 2017-18. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.0% 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 5.

Tax Policy Changes

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 an estimated $205.8

million due to the expansion of the Homestead Property Tax Credit. Income tax revenue will be reduced by another $150.0 million by the earmark of income tax revenue to the Michigan Transportation Fund. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by $22.5 million ($17.1 million GF/GP and $5.4 million SAF), while additional increases in the personal exemption, that were adopted in February 2018, will reduce revenue by $75.0 million ($59.8 million GF/GP and $15.2 million SAF).

Table 4

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

			Change from FY 2016-17		
	FY 2016-17 Final	**FY 2017-18 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/18 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$11,143.3	$11,714.9	$571.6	5.1%	$297.5
Tax Changes Not In Baseline	(947.9)	(1,247.4)	(299.5)	----	(137.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	11,409.9	12,199.1	789.2	6.9	309.0
Less: Refunds	(1,956.8)	(1,975.6)	(18.8)	1.0	14.5
Net Income Tax Collections	9,453.1	10,223.5	770.4	8.1	323.5
Less: Earmarking to SAF	(2,720.4)	(2,904.6)	(184.2)	6.8	(73.6)
Campaign Fund	(1.2)	(0.8)	0.4	(32.5)	0.0
Net Income Tax to GF/GP	$6,731.5	$7,318.1	$586.6	8.7%	$249.9
Other Taxes					
Corporate Income Tax	1,105.6	825.1	(280.5)	(25.4)	(130.1)
Michigan Business Tax	(704.6)	(787.9)	(83.3)	----	(30.0)
Sales	1,223.7	1,271.1	47.4	3.9	(0.5)
Use	591.6	641.9	50.3	8.5	83.2
Cigarette	186.5	181.7	(4.8)	(2.6)	(3.3)
Insurance Company Premiums	370.7	392.6	21.9	5.9	(19.5)
Telephone & Telegraph	35.6	35.0	(0.6)	(1.7)	0.0
Oil & Gas Severance	23.5	26.0	2.5	10.6	1.0
All Other	178.8	197.0	18.2	10.2	28.4
Subtotal Other Taxes	$3,011.4	$2,782.5	($228.9)	(7.6%)	($70.8)
Total Nontax Revenue	452.6	366.9	(85.7)	(18.9)	(19.3)
GF/GP REV. AFTER TAX CHANGES	**$10,195.5**	**$10,467.5**	**$272.0**	**2.7%**	**$159.8**
SCHOOL AID FUND:					
Baseline Revenue	$12,732.1	$13,270.6	$538.5	4.2%	$181.5
Tax Changes Not In Baseline	(47.0)	(6.1)	40.9	----	(1.5)
Revenue After Tax Changes					
Sales Tax	5,677.0	5,870.0	193.0	3.4	28.4
Use Tax	495.1	590.0	94.9	19.2	41.7
Lottery Revenue	924.1	958.1	34.0	3.7	32.1
State Education Property Tax	1,963.8	2,019.2	55.4	2.8	(7.9)
Real Estate Transfer Tax	317.1	337.1	20.0	6.3	14.5
Income Tax	2,720.4	2,904.6	184.2	6.8	73.6
Casino Tax	113.2	114.0	0.8	0.7	1.0
Other Revenue	474.4	471.5	(2.9)	(0.6)	(3.4)
SAF REV. AFTER TAX CHANGES	**$12,685.1**	**$13,264.5**	**$579.4**	**4.6%**	**$180.0**
BASELINE GF/GP AND SAF	$23,875.4	$24,985.5	$1,110.1	4.6%	$479.0
Tax & Revenue Changes	(994.9)	(1,253.5)	(258.6)	----	(139.2)
GF/GP & SAF REV. AFTER CHNGS.	**$22,880.6**	**$23,732.0**	**$851.4**	**3.7%**	**$339.8**
SALES TAX	$7,798.0	$8,066.4	$268.4	3.4%	$39.5

Note: FY 2016-17 is the base year for baseline revenue.

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 $97.0 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by $21.3 million due to the phase-in of additional tax exemptions. The General Fund will reimburse this loss and also pay the increased cost of the foundation allowance due to the corresponding reduction in local school operating revenue. This transfer will reduce the General Fund by $42.9 million and increase the SAF by $42.9 million.

Federal Tax Reform. In FY 2018-19, changes to the individual income tax and Corporate Income Tax stemming from Federal tax changes will increase revenue by $80.0 million, of which $74.9 million is a GF/GP increase, and $5.1 million is an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. The Michigan Business Tax will lower GF/GP revenue by $664.5 million in FY 2018-19, although the reduction will be smaller than in FY 2017-18. Changes to the handling of business refunds will reduce CIT and MBT revenue by a total of $50.0 million. 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 $41.6 million, of which $5.0 million is GF/GP, $30.5 million is SAF, and $6.1 million other funds. The insurance tax will increase by $83.2 million due to the adjustment in the tax treatment of payments to the MAIPF. The elimination of driver responsibility fees will reduce revenue by $34.5 million ($26.0 million GF/GP and $8.5 million other funds).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $10.4 billion in FY 2018-19, a decrease of 1.0% or $102.9 million from the revised estimate for FY 2017-18. Baseline GF/GP revenue is expected to increase 1.2%; however, almost $1.5 billion in negative adjustments will reduce net GF/GP growth to a negative 1.0%. The value of tax changes will offset revenue growth from the improving economy. The revised GF/GP revenue estimates for FY 2018-19 are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $13.6 billion in FY 2018-19, an increase of $364.5 million, or 2.7%, from the revised estimate for FY 2017-18. Baseline SAF revenue growth is 2.7% in FY 2018-19. Since the most recent SAF revenue decline in FY 2011-12, FY 2018-19 will represent the seventh consecutive year of increases in SAF revenue. From FY 2011-12 to FY 2018-19, SAF revenue is projected to increase by 25.3% or $2.8 billion. The revised SAF revenue estimates for FY 2018-19 are summarized in Table 5.

FY 2019-20 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2019-20. Personal income and wage and salary employment will grow at a slightly faster rate than in FY 2018-19. Total GF/GP and SAF revenue will reach an estimated $24.6 billion in FY 2019-20, an increase of 2.4% or $576.9 million from the revised estimate for FY 2018-19. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.1% in FY 2019-20, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2019-20 is summarized in Table 6.

Table 5

FY 2018-19 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2017-18		
	FY 2017-18 Revised Est.	FY 2018-19 Revised Est.	Dollar Change	Percent Change	$ Change from 01/18 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$11,714.9	$11,854.2	$139.3	1.2%	$86.4
Tax Changes Not In Baseline	(1,247.4)	(1,489.6)	(242.2)	----	(61.4)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	12,199.1	12,404.6	205.5	1.7	133.4
Less: Refunds	(1,975.6)	(2,254.0)	(278.4)	14.1	(16.3)
Net Income Tax Collections	10,223.5	10,150.6	(72.9)	(0.7)	117.1
Less: Earmarking to SAF	(2,904.6)	(2,953.5)	(48.9)	1.7	(31.8)
Earmarking to MI Transp. Fund	0.0	(150.0)	(150.0)	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	(1.2)	0.0
Net Income Tax to GF/GP	$7,318.1	$7,046.3	($271.8)	(3.7%)	$85.3
Other Taxes					
Corporate Income Tax	825.1	845.8	20.7	2.5	(66.2)
Michigan Business Tax	(787.9)	(664.5)	123.4	(15.7)	(25.0)
Sales	1,271.1	1,320.6	49.5	3.9	8.6
Use	641.9	620.5	(21.4)	(3.3)	36.7
Cigarette	181.7	179.7	(2.0)	(1.1)	(3.3)
Insurance Company Premiums	392.6	400.3	7.7	2.0	(15.0)
Telephone & Telegraph	35.0	35.5	0.5	1.4	0.0
Oil & Gas Severance	26.0	28.0	2.0	7.7	1.4
All Other	197.0	202.0	5.0	2.5	28.5
Subtotal Other Taxes	$2,782.5	$2,967.9	$185.4	6.7%	($34.3)
Total Nontax Revenue	366.9	350.4	(16.5)	(4.5)	(26.0)
GF/GP REV. AFTER TAX CHANGES	**$10,467.5**	**$10,364.6**	**($102.9)**	**(1.0%)**	**$25.0**
SCHOOL AID FUND:					
Baseline Revenue	$13,270.6	$13,629.7	$359.1	2.7%	$177.9
Tax Changes Not In Baseline	(6.1)	(0.7)	5.4	----	(12.9)
Revenue After Tax Changes					
Sales Tax	5,870.0	6,090.0	220.0	3.7	69.2
Use Tax	590.0	593.6	3.6	0.6	18.4
Lottery Revenue	958.1	955.0	(3.1)	(0.3)	25.0
State Education Property Tax	2,019.2	2,113.7	94.5	4.7	15.0
Real Estate Transfer Tax	337.1	340.0	2.9	0.9	9.0
Income Tax	2,904.6	2,953.5	48.9	1.7	31.8
Casino Tax	114.0	115.0	1.0	0.9	0.0
Other Revenue	471.5	468.2	(3.3)	(0.7)	(3.4)
SAF REV. AFTER TAX CHANGES	**$13,264.5**	**$13,629.0**	**$364.5**	**2.7%**	**$165.0**
BASELINE GF/GP AND SAF	**$24,985.5**	**$25,483.9**	**$498.4**	**2.0%**	**$264.3**
Tax & Revenue Changes	(1,253.5)	(1,490.3)	(236.8)	----	(74.3)
GF/GP & SAF REV. AFTER CHNGS.	**$23,732.0**	**$23,993.6**	**$261.6**	**1.1%**	**$190.0**
SALES TAX	$8,066.4	$8,367.6	$301.2	3.7%	$95.1

Note: FY 2016-17 is the base year for baseline revenue.

Tax Policy Changes

Individual Income Taxes. Tax policy changes affecting FY 2019-20 include several significant transfers from the General Fund to other State funds and the increasing General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by an estimated $205.8 million due to the expansion of the Homestead Property Tax Credit. Income tax revenue will be reduced by another $325.0 million in FY 2019-20 by the earmark of income tax revenue to the Michigan Transportation Fund. Increases in the personal exemption due to indexing, and the legislation adopted in February 2018, will lower individual income tax revenue by $198.2 million in FY 2019-20 ($156.2 million GF/GP and $42.0 million SAF).

Personal Property Tax Reform. Use tax collections of $465.9 million in FY 2019-20 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption, which will reduce GF/GP revenue by $465.9 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $103.0 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by $21.4 million due to the phase-in of additional tax exemptions. The General Fund will reimburse this loss and also pay the increased cost of the foundation allowance due to the corresponding reduction in local school operating revenue. This transfer will reduce the General Fund by $43.4 million and increase the SAF by $43.4 million.

Federal Tax Reform. In FY 2019-20, changes to the individual income tax and Corporate Income Tax stemming from Federal tax changes will increase revenue by $147.0 million, of which $136.2 million is a GF/GP increase, and $10.8 million is an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Michigan Business Tax refunds will lower GF/GP revenue by $685.1 million in FY 2019-20, a larger reduction than in FY 2018-19, as MEGA credit payments continue to increase. The imposition of sales tax on marijuana is projected to increase sales tax revenue by $38.1 million ($6.4 million GF/GP, $27.9 million SAF, and $3.8 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $47.9 million, of which $5.8 is GF/GP, $35.1 million is SAF, and $7.0 million other funds. The insurance tax will increase by $85.0 million due to the adjustment in the tax treatment of payments to the MAIPF. The elimination of driver responsibility fees will reduce revenue by $18.5 million ($10.0 million GF/GP and $8.5 million other funds).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $10.6 billion in FY 2019-20, an increase of 2.2% or $229.5 million from the revised estimate for FY 2018-19. Baseline GF/GP revenue is expected to increase 3.6% due the continued growth in the economy; however, the effects of the transportation package, increases in the personal exemption, personal property tax reform, and MBT refunds result in negative tax adjustments of nearly $1.7 billion. The revised GF/GP revenue estimates for FY 2019-20 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $14.0 billion in FY 2019-20, an increase of $347.4 million, or 2.5%, from the revised estimate for FY 2018-19. Since the most recent SAF revenue decline in FY 2011-12, FY 2019-20 will represent the eighth consecutive year of increases in SAF revenue. From FY 2011-12 to FY 2019-20, SAF revenue is projected to increase by 28.4% or $3.1 billion. The revised SAF revenue estimates for FY 2019-20 are summarized in Table 6.

Table 6

FY 2019-20 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2018-19		
	FY 2018-19 Revised Est.	**FY 2019-20 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/18 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$11,854.2	$12,283.7	$429.5	3.6%	$171.6
Tax Changes Not In Baseline	(1,489.6)	(1,689.6)	(200.0)	----	9.0
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	12,404.6	12,819.3	414.7	3.3	157.0
Less: Refunds	(2,254.0)	(2,280.5)	(26.5)	1.2	8.0
Net Income Tax Collections	10,150.6	10,538.8	388.2	3.8	165.0
Less: Earmarking to SAF	(2,953.5)	(3,052.3)	(98.8)	3.3	(37.3)
Earmarking to MI Transp. Fund	0.0	(325.0)	(150.0)	----	
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$7,046.3	$7,160.7	$114.4	1.6%	$127.7
Other Taxes					
Corporate Income Tax	845.8	922.2	76.4	9.0	1.2
Michigan Business Tax	(664.5)	(685.1)	(20.6)	3.1	0.0
Sales	1,320.6	1,351.1	30.5	2.3	2.4
Use	620.5	619.7	(0.8)	(0.1)	43.0
Cigarette	179.7	179.6	(0.1)	(0.1)	(3.7)
Insurance Company Premiums	400.3	411.7	11.4	2.8	(12.0)
Telephone & Telegraph	35.5	35.0	(0.5)	(1.4)	0.0
Oil & Gas Severance	28.0	28.8	0.8	2.9	0.5
All Other	202.0	213.0	11.0	5.4	31.5
Subtotal Other Taxes	$2,967.9	$3,076.0	$108.1	3.6%	$62.9
Total Nontax Revenue	350.4	357.4	7.0	2.0	(10.0)
GF/GP REV. AFTER TAX CHANGES	**$10,364.6**	**$10,594.1**	**$229.5**	**2.2%**	**$180.6**
SCHOOL AID FUND:					
Baseline Revenue	$13,629.7	$13,995.4	$365.7	2.7%	$177.1
Tax Changes Not In Baseline	(0.7)	(19.0)	(18.3)	----	(23.4)
Revenue After Tax Changes					
Sales Tax	6,090.0	6,233.7	143.7	2.4	39.4
Use Tax	593.6	607.9	14.3	2.4	21.5
Lottery Revenue	955.0	950.0	(5.0)	(0.5)	20.0
State Education Property Tax	2,113.7	2,205.7	92.0	4.4	35.0
Real Estate Transfer Tax	340.0	338.9	(1.1)	(0.3)	3.0
Income Tax	2,953.5	3,052.3	98.8	3.3	37.3
Casino Tax	115.0	119.0	4.0	3.5	1.7
Other Revenue	468.2	468.9	0.7	0.1	(4.2)
SAF REV. AFTER TAX CHANGES	**$13,629.0**	**$13,976.4**	**$347.4**	**2.5%**	**$153.7**
BASELINE GF/GP AND SAF	$25,483.9	$26,279.1	$795.2	3.1%	$348.7
Tax & Revenue Changes	(1,490.3)	(1,708.6)	(218.3)	----	(14.4)
GF/GP & SAF REV. AFTER CHNGS	**$23,993.6**	**$24,570.5**	**$576.9**	**2.4%**	**$334.3**
SALES TAX	$8,367.6	$8,564.5	$196.9	2.4%	$53.5

Note: FY 2016-17 is the base year for baseline revenue.

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

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

Federal Tax Reform Interactions with Corporate and Individual Income Tax Revenue. In December 2017, the Federal government adopted tax reform legislation that made numerous changes to both the Federal individual income tax and the Federal corporate income tax. Many of the Federal changes were expected to affect Michigan tax revenue. For example, the personal exemption was set to zero and Michigan personal exemptions are based on the allowed Federal exemptions, suggesting that Federal tax reform might have eliminated the Michigan personal exemption and substantially increased taxpayers' Michigan tax liabilities. Other Federal changes eliminated certain deductions or exemptions, thereby increasing the income taxpayers would use in computing their Michigan liabilities. The forecast includes estimates of these impacts, as well as the impact of Public Acts 38 and 39 of 2018, which were enacted in response to the effect Federal tax reform was estimated to have on Michigan revenue.

Individual Income Tax. Individual income tax revenue will increase by an estimated 8.1% in FY 2017-18, to $10.2 billion. Unlike in FY 2016-17, when income tax withholding rose only 0.8%, FY 2017-18 withholding will follow a more normal economic pattern and rise 5.3% as wages and employment continue to grow. As economic growth moderates, the growth rate in withholding will decelerate to 3.0% in FY 2018-19 before rising 3.1% in FY 2019-20. Federal tax reform required certain taxpayers to repatriate certain earnings held in foreign accounts, and beginning in tax year 2018, limited the amount of state and local taxes that can be deducted. As a result of these two changes, estimated payments under the Michigan income tax increased substantially in December 2017 and January 2018, rising 54.0% compared to the payments received in FY 2016-17. While repatriated earnings would increase taxpayer liabilities, accelerating estimated payments would only change the timing of the State's receipt of revenue. However, not only is the degree to which the additional revenue reflected repatriated earnings unknown, but when taxpayers will apply any accelerated estimated payments also is unknown. Therefore, the forecast estimates the portion of payments attributed to accelerated withholding, and assumes those payments will be reflected across a mix of lower annual and estimated payments and increased refunds during the remainder of FY 2017-18 as well as lower annual payments and increased refunds in FY 2018-19. As a result, estimated payments are expected to increase 22.6% in FY 2017-18, but decline 11.5% in FY 2018-19. In addition, increases in the Michigan personal exemption that were enacted in Public Act 38 of 2018 (to largely offset increases in State liability attributable to Federal tax reform), also will reduce revenue. As mentioned above, an increase in the Homestead Property Tax Credit and a growing earmark of individual income tax revenue to the Michigan Transportation Fund will result in net individual income tax revenue falling 0.7% in FY 2018-19. Similarly, in FY 2019-20, baseline income tax revenue is projected to grow 4.4%, although growth in net income tax revenue will be 3.8%. Compared with the January 2018 consensus revenue estimates, the revised estimate for FY 2017-18 individual income tax revenue is $249.9 million higher, the revised estimate for FY 2018-19 is $85.3 million higher, and the revised FY 2019-20 estimate is $127.7 million higher, reflecting both the impact of continued economic growth and timing issues associated with Federal tax reform. 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 sales subject to the Michigan sales tax will increase at a slower rate than the 6.9% gain experienced in FY 2016-17 (the second-most rapid growth rate in sales tax revenue since Proposal A increased the sales tax rate from 4% to 6% in May 1994), with sales tax revenue rising 3.4% in FY 2017-18, 3.7% in FY 2018-19, and 2.4% in FY 2019-20. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. A portion of the strong growth in FY 2016-17, and the slower growth in FY 2017-18 reflects changes in the way some taxpayers reported liabilities for online sales. During much of 2017, a number of taxpayers reported tax liabilities for certain online sales as sales tax revenue instead of use tax revenue. As taxpayers changed the way they filed their taxes, sales tax collections exhibited some weakness, both from State accounting adjustments that transferred sales tax collections to use tax collections and from taxpayers' new filings, which has reduced taxable sales reported under the sales tax and increased the sales reported under the use tax. The changes have not affected the total revenue received by the State, but have changed the relative split between sales tax and use tax revenue, and, because the two taxes are allocated differently between funds such as the General Fund and School Aid Fund, also changed the growth rates of General Fund and School Aid Fund revenue. During 2018, the Department of Treasury is expected to issue guidance on how taxpayers should categorize sales and report sales and use tax liabilities. While this guidance should generally return collections to more traditional splits between sales and use taxes, the accounting transfers made in FY 2017-18 will result in a one-time increase in use tax collections, and a corresponding drop in sales tax collections. As collections return to normal patterns, growth rates in both FY 2017-18 and FY 2018-19 will be affected for both taxes. Compared with the January 2018 consensus revenue estimates, the revised sales tax estimate for FY 2017-18 is $39.5 million higher while the revised estimate for FY 2018-19 is up $95.1 million and the revised estimate for FY 2019-20 is $53.5 million higher. 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, to online sales, can be volatile. Largely reflecting filing changes discussed in the preceding paragraph on the sales tax, the revised estimate for FY 2017-18 use tax revenue predicts an 11.9% increase, with the growth rate slowing to a 0.6% increase in FY 2018-19 and a 2.5% increase in FY 2019-20. However, the portion of use tax revenue received by the State of Michigan is expected to decline. Beginning in FY 2015-16, a portion of use tax revenue that was directed to the General Fund was converted into a local use tax to fund reimbursements to local units affected by personal property tax amendments approved by the voters in August 2014. Payments to the Local Community Stabilization Authority started at $96.4 million in FY 2015-16, rose to $380.9 million in FY 2016-17, and will total $410.8 million in FY 2017-18 and $438.0 million in FY 2018-19 as they increase annually to over $500.0 million by FY 2021-22. Compared with the January 2018 consensus revenue estimates, the FY 2017-18 estimate for combined State and local use tax collections is $124.9 million higher, while the FY 2018-19 estimate is $55.1 million higher and the FY 2019-20 revised estimate is $64.5 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes will total an estimated $922.5 million in FY 2017-18, a decrease of 2.5% from FY 2016-17. Tobacco tax revenue is expected to continue its long-term downward trend, declining 1.2% in FY 2018-19 and 1.0% in FY 2019-20. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2017-18, casino tax revenue is projected to total $114.0 million, a 0.7% increase from FY 2016-17. Casino tax revenue is expected to grow 0.9% in FY 2018-19 and 3.5% in FY 2019-20.

State Education Property Tax. Weakness in the housing sector drove State Education Tax (SET) revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. After increasing 3.5% in FY 2016-17, SET collections are projected to increase another 2.8% in FY 2017-18, and then by 4.7% in FY 2018-19 and 4.4% in FY 2019-20, as the housing market improves and higher inflation allows greater increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue due to the exemption of eligible manufacturing personal property from ad valorem property taxation.

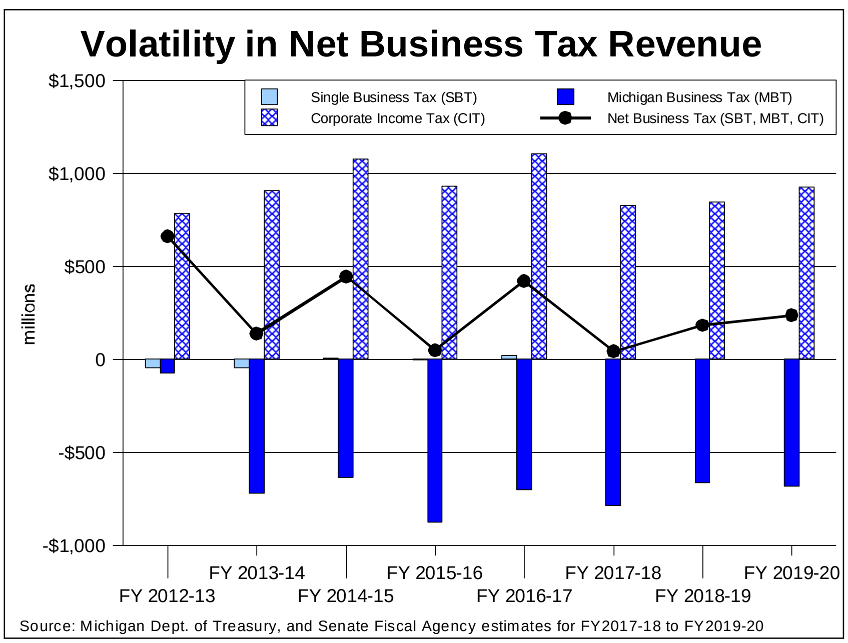
Lottery. Changes in the structure of the Powerball game to create larger jackpots, as well as the expansion of iLottery games and the introduction of new lottery games, resulted in an 11.6% increase in net lottery revenue in FY 2015-16 and 4.0% in FY 2016-17. Lottery revenue in FY 2017-18 is expected to increase 3.7%, reflecting several large jackpots and continued growth from the new lottery games. After those increases, and reflecting continued competition from other forms of gaming, lottery revenue is expected to decline by 0.3% in FY 2018-19 and 0.5% in FY 2019-20. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2016-17 to FY 2019-20, lottery revenue is expected to decline from 7.3% to 6.8% 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 Michigan Business Tax (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, do not pay any separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative $878.9 million (with refunds exceeding revenue) in FY 2015-16 and a negative $704.6 million in FY 2016-17, net MBT revenue is expected to remain negative over the forecast period as estimated MBT credits are projected to reduce State revenue by between $600.0 million and $700.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund board from time to time amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although in some cases the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates. The administration has been working with both the Michigan Strategic Fund agency and a number of taxpayers that will claim the largest credits on ways to limit this uncertainty.

These 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%. Net MBT revenue lowered General Fund revenue by 6.9**%** in FY 2016-17. As MBT credits (of which Michigan Economic Growth Authority credits represent the majority that may be claimed) decline slightly in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 7.5% in FY 2017-18, and 6.4% in both FY 2018-19 and FY 2019-20. Despite the administration's efforts, when these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals and thus limits efforts to correctly predict revenue.

Figure 18



In FY 2016-17, Corporate Income Tax revenue rose 18.9%, after falling 13.7% in FY 2015-16 and growing 18.9% in FY 2014-15, underscoring the potential volatility in Corporate Income Tax revenue (Figure 18). In FY 2015-16, net business tax revenue from the MBT, CIT, and Single Business Tax (SBT) totaled $44.7 million, down 89.9% from FY 2014-15, while net business tax revenue in FY 2016-17 was $419.7 million, an 838.3% increase from FY 2015-16. Net business tax revenue in FY 2017-18 is expected to total $42.2 million, an 89.9% decline from FY 2016-17 that reflects the loss of $18.7 million in SBT revenue, $83.3 more in MBT refunds, and a 25.4% decline in CIT revenue. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) The substantial decline in the CIT in FY 2017-18 also reflects a reduction in accounting adjustments to correct for CIT payments that were originally processed as MBT payments. These corrections result in no overall impact on the General Fund because revenue from both taxes is directed to the General Fund. However, these adjustments lowered MBT revenue by approximately $210.0 million in FY 2016-17 and are expected to lower MBT revenue by $55.0 million in FY 2017-18, while increasing CIT revenue by the same amount. All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

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 2020-21 and FY 2021-22, net GF/GP revenue is expected to increase 2.2% in FY 2020-21, to $10.8 billion, while SAF revenue will increase 2.7%, to $14.4 billion. In FY 2021-22, net GF/GP revenue is expected to increase 3.4%, to $11.2 billion, while SAF revenue will increase 2.1%, to $14.7 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 7, 8, and 9 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2017-18, FY 2018-19, and FY 2019-20**.** 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 2017-18, FY 2018-19, and FY 2019-20 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2017-18 was made in December 2015, as shown in Table 7. At that time, baseline revenue in FY 2017-18 was estimated at $24.3 billion. This estimate was increased by $112.2 million at the January 2016 Consensus Revenue Estimating Conference, then decreased by $86.6 million at the May 2016 Consensus Revenue Estimating Conference. The January 2017 consensus conference increased the estimate by $6.0 million, while the May 2017 consensus conference lowered it by $75.9 million. The January 2018 consensus conference increased the estimate by $211.5 million. The Senate Fiscal Agency's revised estimate for FY 2017-18 presented in this report increases the baseline estimate by $479.0 million above the January 2018 consensus estimate, to $25.0 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2018-19 was made in December 2016, as shown in Table 8. At that time, baseline revenue in FY 2018-19 was estimated at $25.1 billion. This estimate was increased by $36.4 million at the January 2017 Consensus Revenue Estimating Conference, and the May 2017 consensus conference increased it by $95.9 million. The January 2018 consensus conference increased the estimate by $3.7 million. The revised Senate Fiscal Agency estimate for FY 2018-19 increases baseline revenue for FY 2018-19 by $264.3 million, to $25.5 billion.

Table 7

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2017-18 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 17, 2015	11,548.8	12,790.5	24,339.3
January 14, 2016[a)]	11,568.9	12,882.6	24,451.5
May 13, 2016	11,402.5	12,788.9	24,191.4
May 17, 2016 [a)]	11,557.7	12,807.2	24,364.9
December 16, 2016	11,385.1	12,780.8	24,165.9
January 12, 2017 [a)]	11,550.2	12,820.7	24,370.9
May 12, 2017	11,464.5	12,948.8	24,413.3
May 17, 2017 [a)]	11,306.1	12,988.9	24,295.0
December 18, 2017	11,341.1	13,081.4	24,422.5
January 11, 2018 [a)]	11,417.4	13,089.1	24,506.5
May 14, 2018	11,714.9	13,270.6	24,985.5
Change From Previous Estimate:			
Dollar Change	$297.5	$181.5	$479.0
Percent Change	2.6%	1.4%	2.0%
Change From Initial Estimate:			
Dollar Change	$166.1	$480.1	$646.2
Percent Change	1.4%	3.8%	2.7%

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

Note: Baseline base year equals FY 2016-17.

Table 8

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

Forecast Date	GF/GP	SAF	Total
December 16, 2016	11,896.6	13,187.0	25,083.6
January 12, 2017 [a)]	11,980.4	13,139.6	25,120.0
May 12, 2017	11,811.7	13,298.2	25,109.9
May 17, 2017 [a)]	11,896.4	13,319.5	25,215.9
December 18, 2017	11,672.4	13,447.1	25,119.5
January 11, 2018 [a)]	11,767.8	13,451.8	25,219.6
May 14, 2018	11,854.2	13,629.7	25,483.9
Change From Previous Estimate:			
Dollar Change	$86.4	$177.9	$264.3
Percent Change	0.7%	1.3%	1.0%
Change From Initial Estimate:			
Dollar Change	($42.4)	$442.7	$400.3
Percent Change	-0.4%	3.4%	1.6%

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

Note: Baseline base year equals FY 2016-17.

The initial GF/GP and SAF baseline revenue estimate for FY 2019-20 was made in December 2017, as shown in Table 9. At that time, baseline revenue in FY 2019-20 was estimated at $25.8 billion. This estimate was increased by $148.0 million at the January 2018 Consensus Revenue Estimating Conference. The revised Senate Fiscal Agency estimate for FY 2019-20 increases baseline revenue by $348.7 million, to $26.3 billion.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2019-20 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 18, 2017	11,981.4	13,801.0	25,782.4
January 11, 2018 [a)]	12,112.1	13,818.3	25,930.4
May 14, 2018	12,283.7	13,995.4	26,279.1
Change From Previous Estimate:			
Dollar Change	$171.6	$177.1	$348.7
Percent Change	1.4%	1.3%	1.3%
Change From Initial Estimate:			
Dollar Change	$302.3	$194.4	$496.7
Percent Change	2.5%	1.4%	1.9%

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

Note: Baseline base year equals FY 2016-17.

BUDGET STABILIZATION FUND

BUDGET STABILIZATION FUND

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

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments (e.g., Social Security income, Medicaid benefits, and worker's compensation) and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total GF/GP revenue. 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 2017-18 is based on personal income growth from calendar year 2016 to 2017 and GF/GP revenue in FY 2016-17. Different years are used to calculate a potential pay-out. A pay-out in FY 2017-18 depends on the change in personal income from calendar year 2017 to calendar year 2018 and the amount of GF/GP revenue in FY 2017-18.

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

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of $55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled $189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of $73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case. In FY 2013-14, the Legislature transferred $194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the Detroit bankruptcy. At the same time, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5

million from tobacco settlement revenue to the BSF annually for the 21 years from FY 2014-15 through FY 2034-35 to repay that transfer.

Table 10 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2016-17. This table also presents the SFA's estimates for FY 2017-18, FY 2018-19, and FY 2019-20. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 20, and the estimated economic stabilization trigger calculations for FY 2017-18, FY 2018-19, and FY 2019-20 are presented in Table 11.

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

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 2018-19, but not in FY 2017-18 or FY 2019-20. In addition, the statutory formula is not forecast to trigger a pay-out in FY 2017-18, FY 2018-19, or FY 2019-20.

For FY 2017-18, two deposits to the BSF have been enacted. A deposit of $17.5 million of tobacco settlement revenue to the BSF will be made pursuant to the Michigan Trust Fund Act (representing the fourth year of reimbursement for the FY 2013-14 payment from the BSF to the Settlement Administration Fund for the Detroit retirement systems). The annual budget, Public Act 107 of 2017, appropriated $150.0 million of General Fund money to the BSF in FY 2017-18. However, based on growth in inflation-adjusted personal income, under the current statutory formula, no calculated pay-in to the BSF is anticipated in FY 2017-18.

Based on growth in inflation-adjusted personal income, under the current statutory formula, the deposit to the BSF, if appropriated by the Legislature, would be $4.3 million in FY 2018-19 and no deposit would be required in FY 2019-20. A deposit of $17.5 million in each of these years already is required under the Trust Fund Act, so no additional calculated pay-in would be anticipated in either year.

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 $891.7 million in FY 2017-18, $937.7 million in FY 2018-19, and $991.8 million in FY 2019-20, as shown in Table 10**.**

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2019-20 ESTIMATE
(millions of dollars)

	Pay-In				
Fiscal Year[a)]	**Trust Fund Act**	**Other Approp.**	**Interest Earned**	**Pay-Out**	**Fund Balance**
1998-99		$244.4	$51.2	$73.7	$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14[b)]		75.0	0.4	194.8	386.2
2014-15[c)]	$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
Enacted Deposits and Estimated Interest Earnings:					
2017-18[d)]	17.5	150.0	14.2	0.0	891.7
2018-19	17.5	0.0	28.5	0.0	937.7
2019-20	17.5	0.0	36.6	0.0	991.8

a) For FY 1998-99 to FY 2016-17, 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 2017-18 to FY 2019-20 include enacted legislation (Public Act 186 of 2017, Public Act 340 of 2016, and Public Act 107 of 2017) and estimated interest earnings.

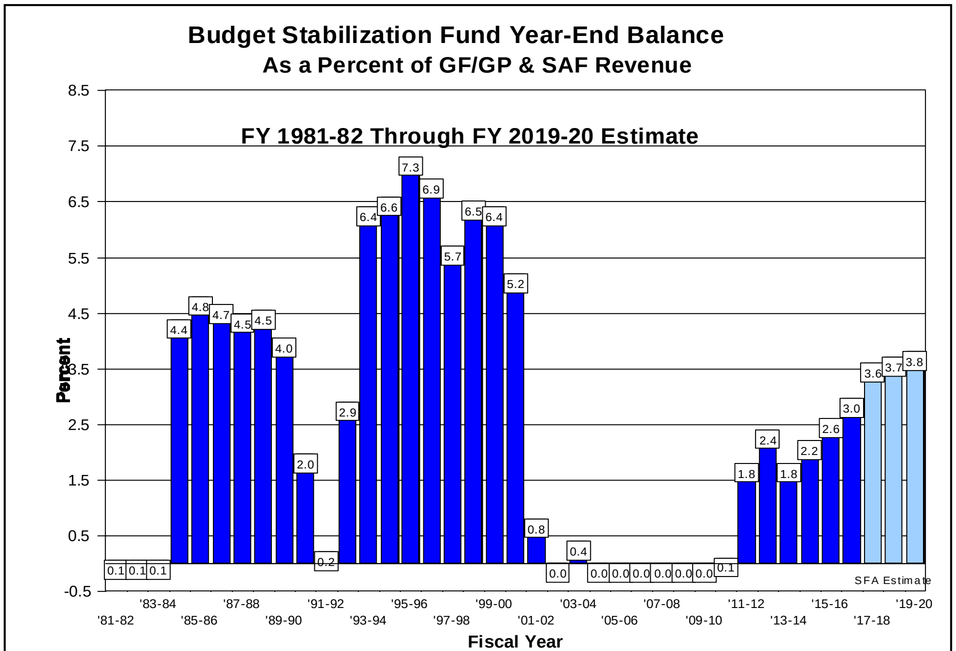
b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of $194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.

c) PA 252 of 2014 appropriated $94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of $17.5 million of tobacco settlement revenue to the BSF annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy.

d) Public Act 107 of 2017 appropriated $150.0 million. There was no calculated deposit for FY 2017-18.

Source: State of Michigan Comprehensive Annual Financial Reports through FY 2016-17 and Senate Fiscal Agency.

Figure 19



Note: Based on enacted appropriations to the BSF.
Source: Senate Fiscal Agency

Table 11

ESTIMATED BUDGET STABILIZATION FUND TRIGGERS
FY 2016-17, FY 2017-18, FY 2018-19, and FY 2019-20
(millions of dollars)

	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020
Michigan Personal Income (MPI)	$439,361.5	$450,847.1	$469,281.6	$488,459.0	$509,248.2
Less: Transfer Payments	93,520.1	94,835.9	97,874.0	101,953.7	106,025.2
Subtotal	$345,841	$356,011	$371,408	$386,505	$403,223
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.2019	2.2474	2.2976	2.3448	2.3892
Equals: Real Adjusted MPI	$157,067	$158,414	$161,648	$164,838	$168,770
Percent Change from Prior Year		0.86%	2.04%	1.97%	2.39%
Excess Over 2.0%		0.00%	0.04%	0.00%	0.39%
		FY 2016-17	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Multiplied by: Estimated GF/GP Revenue		$10,192.8	$10,467.5	$10,364.6	$10,594.1
Equals: Transfer to the BSF			$0.0	$4.3	$0.0
OR Transfer from the BSF			$0.0	$0.0	$0.0

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

COMPLIANCE WITH
STATE REVENUE LIMIT

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 2015-16. In the past, the largest gap between revenue and the limit occurred in FY 2013-14, when State revenue was $8.5 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2017-18, FY 2018-19, and FY 2019-20, with State revenue forecast to be nearly $10.0 billion below the limit in FY 2019-20.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year prior to the calendar year in which the fiscal year begins. For example, in FY 2015-16, State government revenue could not exceed 9.49% of personal income for calendar year 2014. Given that Michigan personal income for 2014 equaled $403.7 billion at the time compliance was determined, the revenue limit for FY 2015-16 was $38.3 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 Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the event is subject to procedures set forth in the Michigan Constitution and State law. 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 2017-18, FY 2018-19, and FY 2019-20, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 20. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2017-18

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2016 equals $439.4 billion, and as a result, the revenue limit equals $41.7 billion in FY 2017-18, an increase of $1.2 billion over FY 2016-17. Based on the SFA's revised revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated $33.0 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $8.7 billion, or 21.0%, in FY 2017-18. Personal income is expected to grow 2.9% compared to an estimated 3.7% increase in revenue subject to the limit.

FY 2018-19

The Senate Fiscal Agency estimates that personal income in Michigan during 2017 will equal $450.8 billion, and as a result, the revenue limit will equal $42.8 billion in FY 2018-19. Based on the SFA's initial revenue estimates for FY 2018-19, revenue subject to the revenue limit will equal an estimated $33.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $9.2 billion, or 21.5%, in FY 2018-19. The substantial increase in the Homestead Property Tax Credit, the effects of which will begin during FY 2018-19, accounts for a portion of the significant increase in the amount by which State revenue is projected to be below the limit in FY 2018-19. Additionally, anticipated growth in personal income of 2.6% will outpace the forecasted 1.9% increase in State revenue subject to the revenue limit.

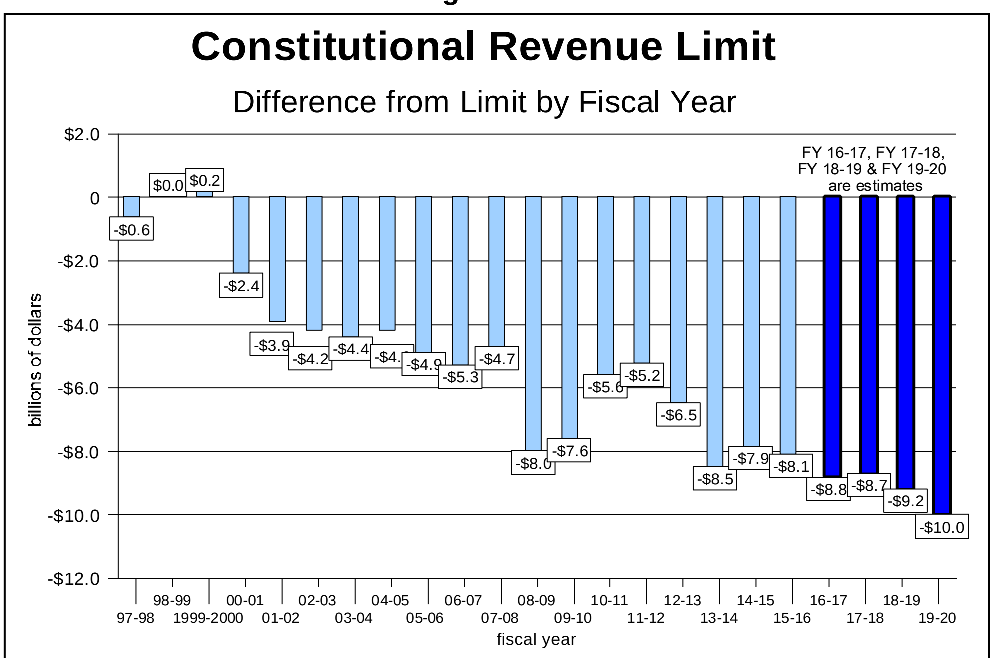
FY 2019-20

The Senate Fiscal Agency estimates that personal income in Michigan during 2018 will equal $469.3 billion, and as a result, the revenue limit will equal $44.5 billion in FY 2019-20. Based on the SFA's initial revenue estimates for FY 2019-20, revenue subject to the revenue limit will equal an estimated $34.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $10.0 billion, or 22.4%, in FY 2019-20. Anticipated growth in personal income of 4.1% will outpace the forecasted 2.9% 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 2015-16 THROUGH FY 2019-20 (millions of dollars)	FY 2015-16 Final	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$10,975.5	$11,143.3	$11,714.9	$11,854.2	$12,283.7
Constitutional Revenue Sharing (baseline)	751.9	796.2	819.3	847.5	870.0
School Aid Fund (baseline)	12,181.6	12,732.1	13,270.6	13,629.7	13,995.4
Transportation Funds	2,250.6	2,806.6	3,039.3	3,214.5	3,425.9
Other Restricted Non-Federal Aid Revenue	5,070.6	5,222.7	5,379.4	5,540.8	5,707.0
Adjustments:					
GF/GP Federal Aid	(18.8)	(8.6)	(13.3)	(13.3)	(13.3)
GF/GP Balance Sheet Adjustments	(960.1)	(867.8)	(1,247.4)	(1,489.6)	(1,689.6)
SAF Balance Sheet Adjustments	(62.9)	(47.0)	(6.1)	(0.7)	(19.0)
Total Revenue Subject to Limit	**$30,188.4**	**$31,777.5**	**$32,956.7**	**$33,583.0**	**$34,560.1**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2014**	**CY 2015**	**CY 2016**	**CY 2017**	**CY 2018**
Amount	$403,726	$427,199	$439,361	$450,847	$469,282
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$38,313.6	$40,541.2	$41,695.4	$42,785.4	$44,534.8
1.0% of Limit	383.1	405.4	417.0	427.9	445.3
Amount Under (Over) Limit	**$8,125.2**	**$8,763.7**	**$8,738.7**	**$9,202.4**	**$9,974.7**
Percent Below Limit	21.2%	21.6%	21.0%	21.5%	22.4%
CY = Calendar Year; FY = Fiscal Year					

Figure 20



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

ESTIMATES 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 2017-18, FY 2018-19, and FY 2019-20 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 2018-19 State budget.

On February 7, 2018, Governor Rick Snyder presented his FY 2018-19 and FY 2019-20 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 11, 2018. The Governor's FY 2018-19 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2018-19 State budget to the Legislature in February 2018, 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 2018 Consensus Revenue Estimating Conference. However, since the January Conference, Federal action on both taxes and spending have increased expected economic growth and State revenue. Several State revenue sources have performed in a manner consistent with higher consumer sentiment and spending: income, sales, and use tax revenue collections have all moved in a more positive direction than forecasted in January. This results in a net increase from January to May in the estimates of FY 2017-18, FY 2018-19, and FY 2019-20 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 2017-18, FY 2018-19, and FY 2019-20 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 2017-18 GF/GP and SAF budgets will have positive ending balances. Based on current SFA revenue estimates, along with Senate-passed State appropriations and SFA estimates of caseload adjustments, the FY 2018-19 GF/GP budget will have a positive ending balance of $389.0 million and the SAF budget will have a surplus of $342.7 million. A comparison of the SFA's estimate of FY 2019-20 GF/GP revenue with the FY 2019-20 Governor's recommended level for ongoing and one-time appropriations, and adjusted SFA caseload estimates, leads to a projected positive $447.2 million GF/GP budget balance. A comparison of the SFA's estimate of FY 2019-20 SAF revenue and continuation of the Senate's FY 2018-19 recommended level of SAF expenditures into FY 2019-20, adjusting for caseload estimates, points to a projected $610.9 million SAF surplus. The FY 2018-19 and FY 2019-20 GF/GP and SAF projected budget balances assume that the prior-year ending balances are carried forward into the succeeding fiscal year.

Table 13

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

	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
General Fund/General Purpose	$347.9	$389.0	$447.2
School Aid Fund	$273.1	$342.7	$610.9

FY 2017-18 YEAR-END BALANCE ESTIMATES

During June 2017, the Michigan Legislature approved FY 2017-18 GF/GP and SAF budgets that were balanced between estimated revenue and enacted appropriations. The initial FY 2017-18 budget approved by the Legislature was based on a May 2017 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2018 reflected a decrease from the May 2017 estimate in GF/GP revenue, and an increase in the estimate for SAF revenue, still 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 2018-19 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 $347.9 million FY 2017-18 GF/GP ending balance. 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 $10.5 billion. This projected level of FY 2017-18 GF/GP revenue represents a $272.0 million or 2.7% increase from the final level of FY 2016-17 GF/GP revenue. The May 2018 SFA estimate of ongoing unadjusted GF/GP revenue is up $159.8 million from the January 2018 consensus revenue estimate. The FY 2017-18 estimated GF/GP revenue total of $10.6 billion includes $622.5 million of surplus revenue carried forward from FY 2016-17, and negative adjustments of $471.7 million to reflect statutory State revenue sharing payments (both ongoing and one-time) and $12.2 million to account for State restricted revenue that was replaced by General Fund revenue pursuant to FY 2017-18 target agreements.

On the expenditure side of the FY 2017-18 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total $10.3 billion. The projected level of FY 2017-18 GF/GP expenditures reflects a $424.9 million or 4.3% increase over the final level of FY 2016-17 GF/GP expenditures (due in part to the $175.0 million GF/GP appropriation for the Department of Transportation included in the FY 2017-18 budget). The projected level of FY 2017-18 GF/GP expenditures includes appropriations that encompass $150.0 million GF/GP appropriated to the Budget Stabilization Fund; enacted and pending supplemental appropriations of $128.3 million; projected caseload and cost savings of $55.0 million in the Department of Health and Human Services; and an estimated year-end lapse of $1.0 million from a prior-year Department of Education work project. Comparing estimated revenue with projected expenditures results in a GF/GP ending balance of $347.9 million for FY 2017-18.

Column 1 of Table 15 provides a summary of the SFA estimate of a $273.1 million FY 2017-18 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 2017-18 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $13.3 billion. This projected level of SAF revenue represents a $579.4 million or 4.6% increase from the final level of FY 2016-17 SAF revenue. The May 2018 SFA estimate of ongoing unadjusted SAF revenue is $180.0 million above the January 2018 consensus revenue estimate. The FY 2017-18 estimated SAF revenue total of $15.5 billion includes $377.4 million of surplus revenue carried forward from FY 2016-17, $13.3 billion of restricted SAF revenue, a $78.0 million GF/GP grant, $72.0 million from the Community District Education Trust Fund, and $1.7 billion of ongoing Federal aid. The FY 2017-18 revenue estimate is reduced by $31.9 million to reflect the deposit into, and subsequent appropriation from, the reserve fund for retirement costs.

On the expenditure side of the FY 2017-18 SAF budget ledger, the SFA now believes that final SAF expenditures will total $15.2 billion. This projected level of FY 2017-18 SAF expenditures reflects an increase of $808.1 million or 5.6% above FY 2016-17 SAF expenditures. The $15.2 billion of projected

SAF expenditures includes $14.6 billion of K-12 funding in the initial enacted appropriation bill, and negative net cost adjustments totaling $7.2 million. As in the prior year, Community Colleges and Higher Education received appropriations from the School Aid Fund, with FY 2017-18 allocations of $398.3 million and $238.3 million, respectively.

<u>FY 2018-19 YEAR-END BALANCE ESTIMATES</u>

The Legislature has been considering Governor Snyder's FY 2018-19 State budget recommendation since the budget was presented to the Legislature on February 7, 2018. To date, the Senate and House have acted on all of the FY 2018-19 appropriation bills. Using the Senate-passed appropriation bills as the basis of the FY 2018-19 budget, there would be positive ending balances for both the GF/GP and the SAF budgets.

Column 2 of <u>Table 14</u> provides a summary of the $389.0 million projected year-end balance in the FY 2018-19 GF/GP budget. This projected balance is based on the FY 2017-18 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 2018-19 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total $10.4 billion. This projected level of FY 2018-19 GF/GP revenue reflects a $102.9 million or 1.0% decrease from the estimated level of FY 2017-18 GF/GP revenue, primarily due to one-time timing issues related to income tax revenue. The May 2018 SFA estimate of ongoing unadjusted revenue represents a $25.0 million increase from the January 2018 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include statutory revenue sharing payments of $466.3 million, which reduce GF/GP revenue by that amount, and a redirection of $3.0 million from the Transportation Economic Development Fund, which increases GF/GP revenue. The FY 2018-19 estimated GF/GP revenue total of $10.2 billion includes $347.9 million of surplus GF/GP revenue carried forward from FY 2017-18.

The Senate-passed appropriation bills provide total GF/GP appropriations of $9.96 billion (including both ongoing and one-time), which is $8.0 million lower than the Governor's budget. Revised SFA estimates of caseload and cost adjustments in the Department of Health and Human Services lower GF/GP appropriations by $95.0 million in FY 2018-19. When the SFA's estimate of $10.2 billion in GF/GP revenue is offset by the SFA's estimate of $9.9 billion of GF/GP expenditures, there is a projected FY 2018-19 year-end balance of $389.0 million.

<u>Table 16</u> provides a summary of the Governor's FY 2018-19 Gross and GF/GP budget recommendations compared with the Senate-passed appropriation bills. The Senate-passed appropriation bills are $39.2 million Gross below the Governor's recommendations and $8.0 million below the Governor's GF/GP recommendations for State budget areas. The Senate budget proposal does not include the recommendation of the Governor to provide $100.0 million of State Restricted revenue for his proposed "Marshall Plan for Talent", and for comparison purposes, the numbers in <u>Table 16</u> for the Governor's revised recommendation do not include the $100.0 million.

Column 2 of <u>Table 15</u> provides the details of the SFA estimate of a $342.7 million balance in the FY 2018-19 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 2018-19 SAF budget, the SFA now believes that ongoing unadjusted SAF revenue will total $13.6 billion. This projected level of FY 2018-19 SAF revenue is $364.5 million or 2.7% above the estimated level of FY 2017-18 SAF revenue. The May 2018 SFA estimate of restricted SAF revenue represents a $165.0 million increase from the January 2018 consensus revenue estimate. The estimate of total SAF revenue of $15.9 billion includes $273.1 million of surplus SAF revenue carried forward from FY 2017-18, a $150.5 million GF/GP grant to the SAF, $72.0 million from the Community District Education Trust Fund, and $1.7 billion of ongoing Federal aid. In addition, the remaining $31.9 million from the retirement reserve fund is allocated to the SAF.

On the expenditure side of the FY 2018-19 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals $14.7 billion ($14.6 billion ongoing and $91.4 million one-time). The SFA estimates that there will be $15.0 million of positive FY 2018-19 formula funding cost adjustments as a result of revised pupil, special education, and taxable value estimates.

The FY 2018-19 Senate-passed K-12 foundation allowance includes $299.0 million to provide a total foundation allowance increase ranging from $115 to $230 per pupil. The budget also includes an increase of $60.0 million for various required items (cash flow borrowing, School Bond Loan Fund debt service, etc.) and retirement costs, along with the elimination of the $200.0 million one-time retirement system payment toward unfunded liabilities. In total, more than $1.3 billion will be appropriated in FY 2018-19 across the K-12, Community Colleges, and Higher Education budgets to support costs related to the Michigan Public School Employees Retirement System (MPSERS). The Senate-passed K-12 budget does not include the Governor's recommended funding for the "Marshall Plan for Talent"; instead, that funding likely will be addressed separately under Senate Bill 941.

The Senate-passed School Aid bill also does not include a $55.0 million reduction that the Governor proposed for capping shared-time programs (although the Senate did eliminate kindergarten from shared-time and included two other smaller changes to the shared-time program), and the Senate did not include the Governor's 25% reduction in cyber school funding ($25.0 million). The Senate bill restored a number of programmatic reductions proposed by the Governor, including funding for the Michigan Education Corps and Algebra Nation, along with financial data tools. Further, the Senate bill increased funding for intermediate school district and transportation grants to rural and isolated districts.

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, the SAF allocation for FY 2018-19 was increased by $6.7 million from FY 2017-18, with $405.0 million SAF allocated to support community colleges. The SAF allocation in the Higher Education budget for FY 2018-19 was increased $147.3 million above FY 2017-18, with a total SAF allocation of $385.6 million. Across the two budgets, SAF support of postsecondary purposes totals $790.6 million for FY 2018-19 under the Senate-passed budgets.

FY 2019-20 BUDGET OUTLOOK

When Governor Snyder presented his FY 2018-19 budget on February 7, 2018, he also proposed anticipated appropriations for FY 2019-20.

Column 3 of Table 14 provides a summary of the $447.2 million projected year-end balance in the FY 2019-20 GF/GP budget. The FY 2019-20 budget is based on the SFA estimate of total GF/GP revenue and ongoing appropriations at the Governor's FY 2019-20 recommended level, adjusted for revised caseload and cost estimates for the Department of Health and Human Services.

On the revenue side of the FY 2019-20 GF/GP budget ledger, the SFA now believes that GF/GP ongoing unadjusted revenue will total $10.6 billion. This projected level of GF/GP FY 2019-20 revenue reflects a $229.5 million or 2.2% increase from estimated GF/GP revenue for FY 2018-19. The May 2018 SFA estimate of ongoing unadjusted GF/GP revenue represents an increase of $180.6 million over the January 2018 consensus revenue estimate. The FY 2019-20 total estimated GF/GP revenue of $10.5 billion assumes a beginning balance of $389.0 carried forward from FY 2018-19; the

Governor's recommendation of $466.3 million for statutory State Revenue Sharing payments; the redirection of $13.0 million from the Transportation Economic Development Fund to the General Fund; and a $19.2 million revenue reduction for Venture Michigan Fund tax vouchers.

On the expenditure side of the FY 2019-20 GF/GP budget ledger, if the Governor's FY 2019-20 recommended appropriation level of $10.2 billion is assumed and is adjusted for SFA-estimated caseload and cost savings of $95.0 million in the Department of Health and Human Services, then total FY 2019-20 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 $447.2 million.

Column 3 of Table 15 provides a summary of the positive $610.9 million projected year-end balance in the FY 2019-20 SAF budget. This projected balance is based on a beginning balance of $342.7 million carried forward from FY 2018-19, the SFA estimate of ongoing unadjusted revenue, and a continuation of the Senate-passed budget for FY 2018-19, which would continue the same overall spending level as found in the FY 2018-19 Senate-passed budget, adjusted for pupil counts and other costs.

On the revenue side of the FY 2019-20 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $14.0 billion. This projected level of FY 2019-20 SAF revenue reflects a $347.4 million or 2.5% increase from estimated ongoing unadjusted SAF revenue for FY 2018-19. The May 2018 SFA estimate of ongoing unadjusted SAF revenue represents a $153.7 million increase from the January 2018 consensus revenue estimate. The FY 2019-20 estimated SAF revenue total of $16.1 billion also assumes a GF/GP grant of $45.0 million, $72.0 million from the Community District Education Trust Fund, $1.7 billion in ongoing Federal aid, and a $6.0 million revenue reduction for Venture Michigan Fund tax vouchers.

On the expenditure side of the FY 2019-20 SAF budget ledger, under a continuation budget for school aid for FY 2019-20 (which would not provide a foundation allowance increase but would continue FY 2018-19 spending and adjust for baseline cost adjustments), total FY 2019-20 K-12 expenditures are estimated to be $14.7 billion. The FY 2019-20 SAF budget estimate continues to fund Community Colleges, at a slightly higher amount of $407.7 million, and Higher Education, at a slightly higher amount of $386.6 million, from SAF revenue, with the slight increases paying for estimated adjustments in the MPSERS rate cap in the respective postsecondary budgets. Total SAF expenditures in FY 2019-20 across K-12, Community Colleges, and Higher Education are estimated at $15.5 billion.

The estimated cost to provide a $200 foundation allowance increase across the board in FY 2019-20 is $295.4 million. If the FY 2019-20 SAF budget were to provide such an increase, and assuming enactment of the Senate-passed FY 2018-19 budget, the estimated year-end balance would decline from $610.9 million to $315.5 million. There are additional MPSERS costs anticipated in FY 2019-20 related to a "dedicated gains" policy that will further reduce the assumed rate of return on assets in the MPSERS portfolio. The estimate at this time for the increase in costs (which would be borne by schools unless reimbursed by the State) for FY 2019-20 is roughly $105.0 million.

Table 14

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

	SFA Estimates		
	FY 2017-18 Year-To-Date	**FY 2018-19 Senate Passed**	**FY 2019-20 Gov's Rec.**
Revenue:			
Beginning Balance	$622.5	$347.9	$389.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2018)	$10,307.7	$10,339.6	$10,413.5
SFA Revenue Estimate Change	159.8	25.0	180.6
SFA Revenue Estimate (May 2018)	$10,467.5	$10,364.6	$10,594.1
Other Revenue Adjustments:			
Revenue Sharing Payments	($465.9)	($466.3)	($466.3)
Redirect Transportation Econ Dev Fund to GF	0.0	3.0	13.0
Subtotal Ongoing Revenue	$10,001.6	$9,901.3	$10,140.8
Non-ongoing Revenue:			
One-Time Appropriation for Revenue Sharing	($5.8)	$0.0	$0.0
Redirection of Restricted Revenue	(6.4)	0.0	0.0
Venture Michigan Fund Tax Vouchers	0.0	0.0	(19.2)
Subtotal Non-Ongoing Revenue	($12.2)	$0.0	($19.2)
Total Estimated GF/GP Revenue	**$10,611.9**	**$10,249.2**	**$10,510.6**
Expenditures:			
Ongoing Appropriations:			
Initial/Senate-Passed/Gov's Rec.	$9,784.4	$9,909.0	$10,158.4
Subtotal Ongoing Appropriations	$9,784.4	$9,909.0	$10,158.4
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	$257.3	$46.2	$0.0
Appropriation to Budget Stabilization Fund	150.0	0.0	0.0
Enacted Supplementals	218.1	0.0	0.0
Pending Supplementals (Req. 2018-3 and 2018-5)	(89.8)	0.0	0.0
Health and Human Services Caseload and Costs	(55.0)	(95.0)	(95.0)
Lapse Prior Year DOE Work Project	(1.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	$479.6	($48.8)	($95.0)
Total Estimated GF/GP Expenditures	**$10,264.0**	**$9,860.2**	**$10,063.4**
PROJECTED YEAR-END GF/GP BALANCE	**$347.9**	**$389.0**	**$447.2**

Table 15

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

	SFA Estimates		
	FY 2017-18 Year-To-Date	**FY 2018-19 Senate Passed**	**FY 2019-20 Senate Rec.**
Revenue:			
Beginning Balance	$377.4	$273.1	$342.7
Ongoing Revenue:			
Consensus Revenue Estimate (January 2018)	$13,084.5	$13,464.0	$13,822.7
SFA Revenue Estimate Change	180.0	165.0	153.7
SFA Revenue Estimate (May 2018)	$13,264.5	$13,629.0	$13,976.4
Other Revenue Adjustments:			
General Fund/General Purpose Grant	$78.0	$150.5	$45.0
Community District Education Trust Fund	72.0	72.0	72.0
Federal Ongoing Aid	1,726.9	1,724.7	1,719.7
Subtotal Ongoing Revenue	$15,141.4	$15,576.2	$15,813.1
Non-Ongoing Revenue:			
SAF Deposit into MPSERS Reserve Fund	($55.0)	$0.0	$0.0
Reserve Fund for MPSERS	23.1	31.9	0.0
Venture Michigan Fund Tax Vouchers	0.0	0.0	(6.0)
Subtotal Non-Ongoing Revenue	($31.9)	$31.9	($6.0)
Total Estimated School Aid Fund Revenue	**$15,486.9**	**$15,881.2**	**$16,149.8**
Expenditures:			
Ongoing Appropriations:			
Initial K-12/Senate-Passed Appropriations	$14,266.5	$14,641.5	$14,641.5
Pending Supplementals (Req. #2018-5)	(11.2)	0.0	0.0
SFA Cost Adjustments (May 2018)	4.0	15.0	15.0
Fund Community Colleges with SAF	394.7	398.6	401.3
Partially Fund Higher Education with SAF	237.9	384.9	385.9
Subtotal Ongoing Appropriations	$14,891.9	$15,440.0	$15,443.7
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	$89.3	$91.4	$88.1
Initial One-Time Community Colleges Appropriations	3.6	6.4	6.4
Initial One-Time Higher Education Appropriations	0.4	0.7	0.7
Enacted Supplementals	5.5	0.0	0.0
MPSERS: PA 92 Costs and Additional UAAL Payment	223.1	0.0	0.0
Subtotal One-Time and Other Appropriations	$321.9	$98.5	$95.2
Total Estimated School Aid Fund Expenditures	**$15,213.8**	**$15,538.5**	**$15,538.9**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	**$273.1**	**$342.7**	**$610.9**

Table 16

FY 2018-19 GROSS AND GENERAL FUND/GENERAL PURPOSE (GF/GP) APPROPRIATIONS* GOVERNOR'S REVISED RECOMMENDATION VERSUS SENATE-PASSED APPROPRIATIONS						
	Governor's Revised Rec.		Senate-Passed		Senate Changes to Gov's Rec.	
Department/Budget Area	**Gross**	**GF/GP**	**Gross**	**GF/GP**	**Gross**	**GF/GP**
Agriculture and Rural Development	$102,888,100	$53,705,200	$108,618,100	$59,355,200	$5,730,000	$5,650,000
Attorney General	102,028,900	40,106,800	103,328,900	40,706,800	1,300,000	600,000
Civil Rights	16,201,100	13,022,100	16,201,100	13,022,100	0	0
Community Colleges	405,015,500	0	408,206,000	3,190,500	3,190,500	3,190,500
Corrections	2,035,125,100	1,979,910,200	2,010,125,100	1,954,910,200	(25,000,000)	(25,000,000)
Education	357,107,300	85,183,700	432,557,400	85,183,800	75,450,100	100
Environmental Quality	494,588,000	46,946,500	420,822,600	47,066,500	(73,765,400)	120,000
Executive	6,980,100	6,980,100	6,980,100	6,980,100	0	0
Health and Human Services	25,240,354,300	4,542,525,600	25,117,902,400	4,518,090,900	(122,451,900)	(24,434,700)
Higher Education	1,658,932,600	1,160,217,900	1,680,147,700	1,175,433,000	21,215,100	15,215,100
Insurance and Financial Services	67,571,900	150,000	67,971,900	150,000	400,000	0
Judiciary	302,483,300	194,483,700	303,483,300	195,483,700	1,000,000	1,000,000
Legislative Auditor General	24,938,000	17,105,800	24,938,000	17,105,800	0	0
Legislature	157,281,800	152,487,500	157,512,600	152,718,300	230,800	230,800
Licensing and Regulatory Affairs	491,962,100	88,820,300	479,662,200	88,820,300	(12,299,900)	0
Military and Veterans Affairs	189,089,300	65,362,400	191,166,100	67,439,200	2,076,800	2,076,800
Natural Resources	436,705,300	47,344,300	438,075,400	47,714,400	1,370,100	370,100
School Aid	14,635,968,800	60,000,000	14,732,850,300	150,500,000	96,881,500	90,500,000
State	254,662,800	18,466,300	255,662,800	18,466,300	1,000,000	0
State Police	711,814,700	454,902,800	717,384,600	459,972,900	5,569,900	5,070,100
Talent and Economic Development	1,118,945,600	166,745,800	1,116,065,700	138,865,900	(2,879,900)	(27,879,900)
Technology, Management, and Budget	1,433,670,400	559,931,300	1,368,911,200	495,172,100	(64,759,200)	(64,759,200)
Transportation	4,530,089,900	0	4,540,089,900	0	10,000,000	0
Treasury-Debt Service	107,580,000	107,580,000	107,080,000	107,080,000	(500,000)	(500,000)
Treasury-Operations	525,354,200	101,213,300	552,075,300	101,482,400	26,721,100	269,100
Treasury-Revenue Sharing	1,298,609,300	0	1,308,889,900	10,280,600	10,280,600	10,280,600
TOTAL BUDGET AREA APPROPS.	**$56,705,948,400**	**$9,963,191,600**	**$56,666,708,600**	**$9,955,191,000**	**($39,239,800)**	**($8,000,600)**

*Includes both ongoing and one-time appropriations; the $100 million recommended by the Governor for the "Marshall Plan" is not included in the numbers in this table.

CONCLUSION

When the estimated FY 2017-18 GF/GP and SAF year-end balance amounts are carried forward and combined with the FY 2018-19 Senate budget recommendations, they result in positive year-end balances for both the GF/GP and the SAF budgets, and these healthy balances continue into FY 2019-20.

It should be noted that none of the SFA year-end balances described in this report include 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 16, 2018, 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 2018-19 State budget.