

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

**FY 2015-16, FY 2016-17,
FY 2017-18, and FY 2018-19**

December 19, 2016



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



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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing an estimated 1.6% during 2016, is predicted to expand 1.4% in 2017, 1.3% in 2018, and 2.1% in 2019. Light vehicle sales are forecasted to decline from 17.4 million units in 2016, to 17.1 million units in 2017 and 16.8 million units in 2018, before rising to 17.0 million units in 2019. The unemployment rate is expected to fall from 4.9% in 2016 to 4.8% in 2017, and then rise to 5.1% in 2018 and 5.2% in 2019. The consumer price index is estimated to increase 1.8% in 2017, 1.9% in 2018, and 2.2% in 2019, after increasing 1.2% in 2016.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.3% in 2017, 1.4% in 2018, and 2.1% in 2019, after rising 2.0% in 2016. After growing 2.0% in 2016, wage and salary employment is predicted to grow more slowly, increasing 0.8% during 2017, 0.7% in 2018, and 0.9% in 2019.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2015-16 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$22.1 billion, up 1.5% from FY 2014-15, reflecting economic growth that boosted income tax revenue, less-than-expected refunds under the Michigan Business Tax (MBT), and legislative changes enacted in 2014 that improved sales and use tax receipts from online retailers beginning in FY 2015-16. However, a substantial portion of the revenue gain was offset by the increase in use tax revenue earmarked to fund personal property tax reform. Combined FY 2015-16 GF/GP and SAF revenue is \$302.0 million above the May 2016 consensus estimate.

In FY 2016-17, slower growth in the earmark of use tax revenue for personal property tax reform and legislative changes enacted in 2016 to the insurance tax will increase revenue, helping offset slower revenue growth from the weaker economy. As a result, GF/GP and SAF revenue will total an estimated \$22.7 billion, a 2.7% increase from FY 2015-16. The revised FY 2016-17 forecast is \$168.5 million above the May 2016 consensus estimate.

In FY 2017-18, GF/GP and SAF revenue will total an estimated \$23.3 billion, a 2.5% increase from FY 2016-17 but \$93.2 million below the May 2016 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.5 billion, an increase of 2.1% from FY 2016-17 that reflects slower income and employment growth. School Aid Fund revenue will rise to an estimated \$12.8 billion, a 2.8% increase.

In FY 2018-19, GF/GP and SAF revenue will total an estimated \$23.6 billion. This initial estimate for FY 2018-19 is 1.4% above the revised estimate for FY 2017-18. Increased homestead property tax credits and a new earmark of individual income tax revenue to the Michigan Transportation Fund, adopted as part of the 2015 transportation funding package, will reduce revenue growth and GF/GP revenue will total an estimated \$10.5 billion, a \$4.9 million (0.05%) decline from FY 2017-18. School Aid Fund revenue will rise to an estimated \$13.1 billion, a 2.7% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 19, 2016, the Senate Fiscal Agency (SFA) is estimating that the FY 2015-16 GF/GP budget will close the fiscal year with a \$589.8 million balance. The SFA estimates that the FY 2015-16 SAF budget will close the fiscal year with a \$165.9 million balance.

A comparison of the SFA's FY 2016-17 revenue estimates with enacted and projected appropriations leads to a \$430.2 million GF/GP year-end balance. The SFA is now estimating that the FY 2016-17 SAF budget will end the year with a \$114.0 million balance.

Looking ahead at the FY 2017-18 budget, there is a projected GF/GP balance of \$121.2 million if the SFA's FY 2017-18 GF/GP revenue estimate is compared with FY 2017-18 GF/GP estimated expenditures that freeze ongoing and one-time spending at the FY 2016-17 level and are adjusted for Medicaid caseload and costs, as well as an overall 2.5% increase for other economic factors. If the SFA's FY 2017-18 SAF revenue estimate is compared with the FY 2017-18 SAF estimated expenditures that adjust the FY 2016-17 level of funding for estimated pupils and other costs, the projected SAF surplus is \$176.2 million.

The FY 2015-16 estimated ending balances may change when the State's final comprehensive annual financial report is published, which is not required by law until the end of March 2017, but is expected in early January 2017. To the extent that the FY 2015-16 numbers change due to pending accruals and other issues, the ending balances for FY 2016-17 and FY 2017-18 will be affected.

**SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY**

ECONOMIC PROJECTIONS (Calendar Year)					
	2015 Actual	2016 Estimate	2017 Estimate	2018 Estimate	2019 Estimate
Real Gross Domestic Product (% change)	2.6%	1.6%	1.4%	1.3%	2.1%
U.S. Consumer Price Index (% change)	0.1%	1.2%	1.8%	1.9%	2.2%
Light Motor Vehicle Sales (millions of units)	17.4	17.4	17.1	16.8	17.0
U.S. Unemployment Rate (%)	5.3%	4.9%	4.8%	5.1%	5.2%
Real Michigan Personal Income (% change)	6.1%	2.0%	1.3%	1.4%	2.1%
Michigan Wage & Salary Employment (% change)	1.5%	2.0%	0.8%	0.7%	0.9%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)									
	FY 2016-17 Estimate			FY 2017-18 Estimate			FY 2018-19 Estimate		
	Tax		Net	Tax		Net	Tax		Net
	Baseline	Changes	Available	Baseline	Changes	Available	Baseline	Changes	Available
GF/GP	\$11,280.3	(\$1,021.4)	\$10,258.9	\$11,591.1	(\$1,116.8)	\$10,474.3	\$11,948.3	(\$1,478.8)	\$10,469.5
% Change	2.1%	---	2.6%	2.8%	---	2.1%	3.1%	---	(0.0)%
School Aid Fund	\$12,506.8	(56.3)	\$12,450.5	\$12,804.1	(3.7)	\$12,800.4	\$13,137.7	2.8	\$13,140.5
% Change	2.7%	---	2.9%	2.4%	---	2.8%	2.6%	---	2.7%
Total GF/GP & SAF	\$23,787.1	(\$1,077.7)	\$22,709.4	\$24,395.2	(\$1,120.5)	\$23,274.7	\$25,086.0	(\$1,476.0)	\$23,610.0
% Change	2.4%	---	2.7%	2.6%	---	2.5%	2.8%	---	1.4%
Revenue Limit – Under (Over)	\$9,231.8			\$8,772.9			\$10,562.0		
	<u>FY 2015-16 Estimate</u>			<u>FY 2016-17 Estimate</u>			<u>FY 2017-18 Estimate</u>		
<u>Revision from May Consensus</u>									
GF/GP	\$264.6			\$120.4			\$(132.8)		
SAF	<u>37.4</u>			<u>48.1</u>			<u>39.6</u>		
Total	\$302.0			\$168.5			(\$93.2)		

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)			
	FY 2015-16 Estimate	FY 2016-17 Estimate	FY 2017-18 Estimate
General Fund/General Purpose.....	\$589.8	\$430.2	\$121.2
School Aid Fund	165.9	114.0	176.2
Budget Stabilization Fund (with formula pay-in)	612.0	765.0	791.3
Budget Stabilization Fund (with enacted deposits)	612.0	708.5	734.1

**ECONOMIC REVIEW
AND OUTLOOK**

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2017, 2018, and 2019, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

Since the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years, the economy has grown slowly. Many fundamental economic factors remain well below their prerecession peaks, and even factors that have recovered have done so more slowly than after almost any other post-World War II recession. As of the third quarter of 2016, the economy had been in recovery for 29 quarters after the recession trough in the second quarter of 2009. Four recoveries since World War II have lasted 20 quarters or more, although only three recoveries have lasted 29 quarters or more, and at this point the current recovery is less than half as strong as the average of those recoveries.

Inflation-adjusted Gross Domestic Product (GDP) in the third quarter of 2016 was only 11.5% above the level during the fourth quarter of 2007, when the recession began, and only 16.4% above the level in the second quarter of 2009, when the economy finished contracting ([Figure 1](#)). As a result, the economy has averaged only 2.1% annual growth since the end of the recession, compared with an average of 4.5% annual growth over the other three recoveries of 29 months or more since World War II. Consumption expenditures, which on average account for two-thirds of economic activity, also have exhibited weak growth relative to historical standards, with the current recovery averaging 2.3% annual growth, compared with a historical average of 4.4% growth ([Figure 2](#)). Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 0.9% compared with the historical average of 3.3% growth ([Figure 3](#)).

Figure 1

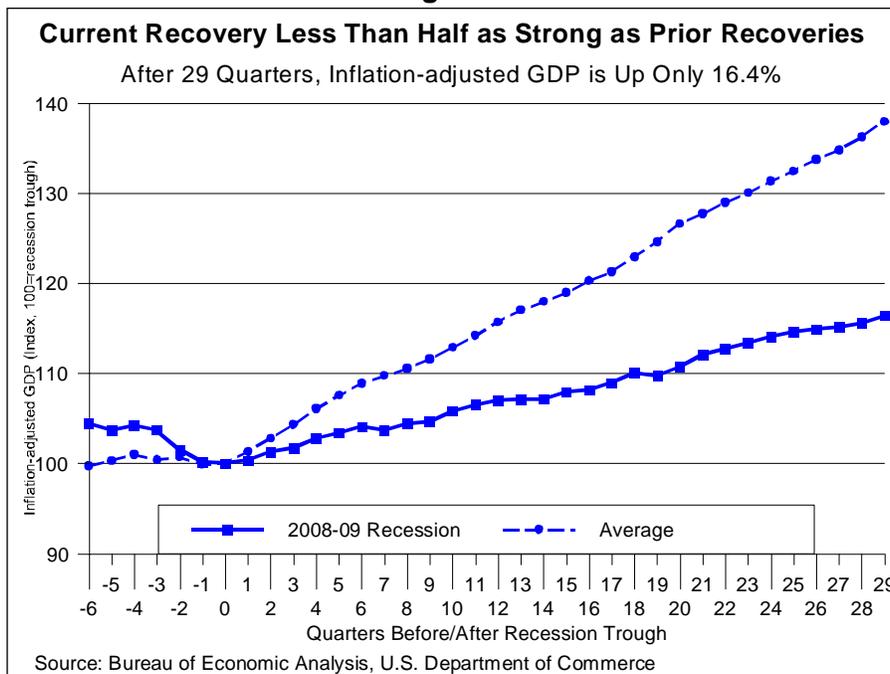


Figure 2

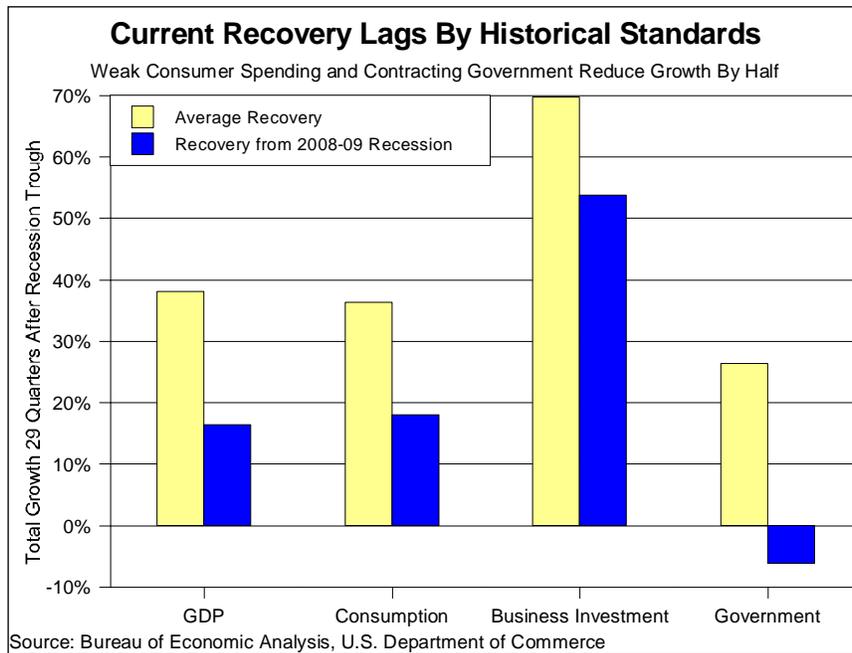
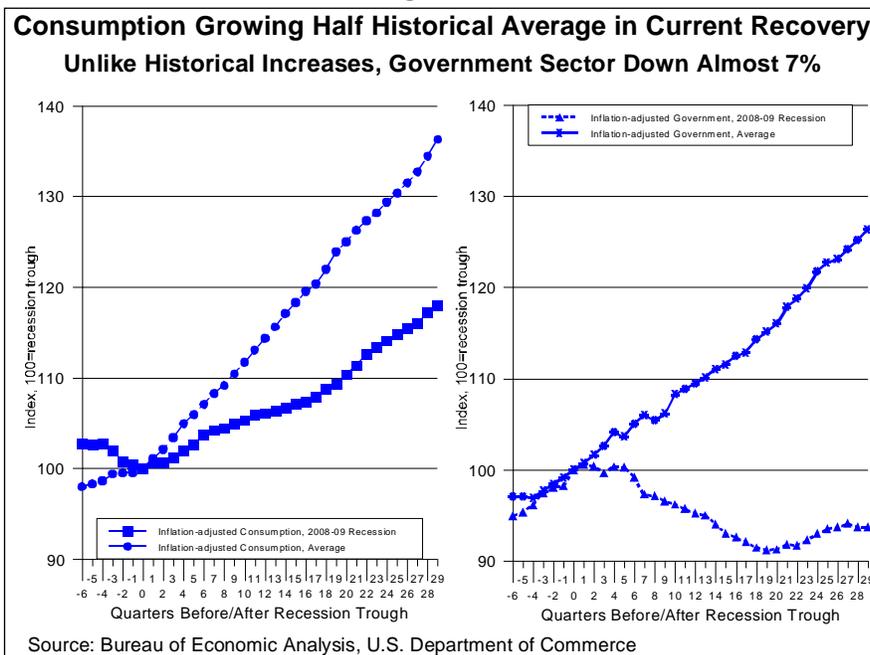
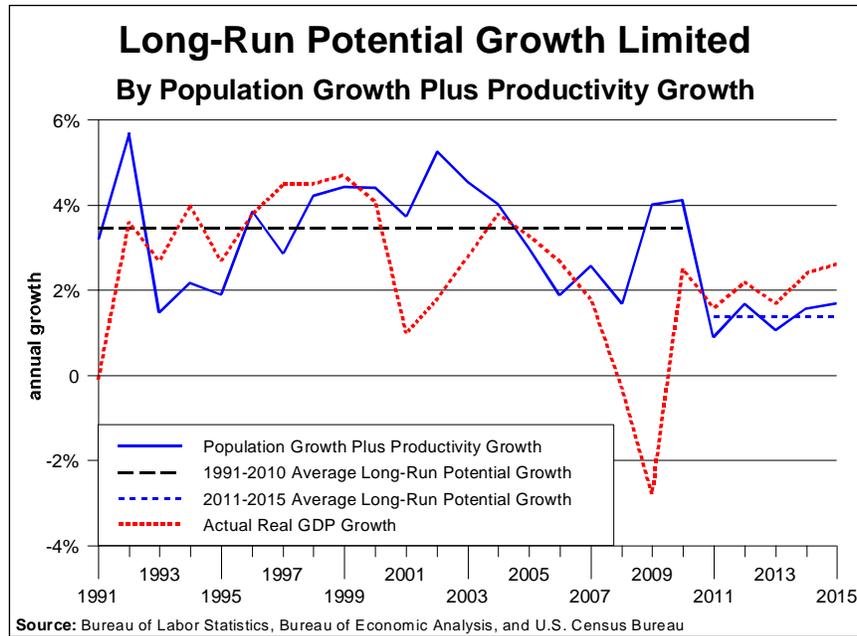


Figure 3



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

Figure 4

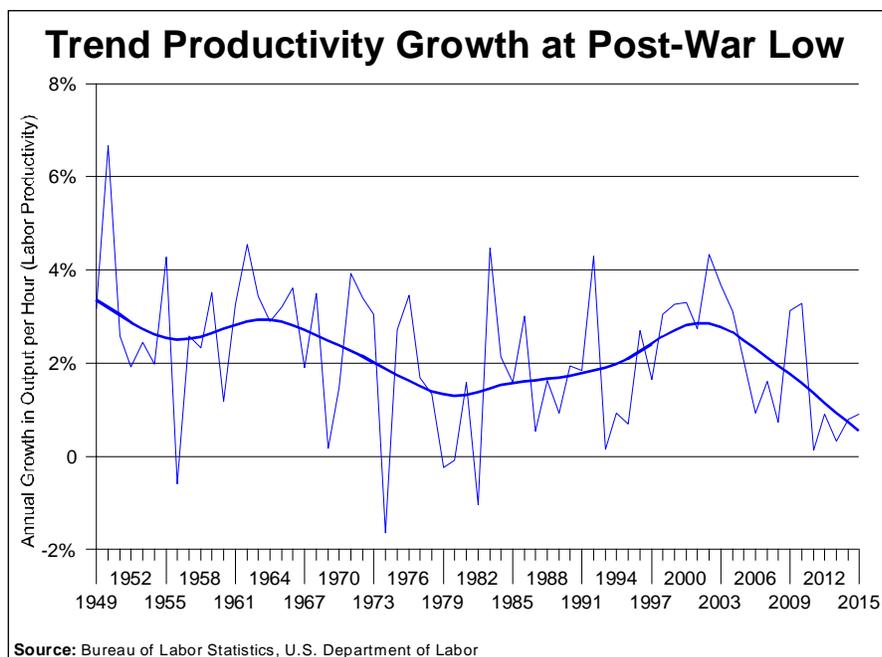


Productivity, as measured by output per hour in the nonfarm business sector, rose at an average annual rate of 3.1% in the third quarter of 2016 after declining for three consecutive quarters. Through the first three quarters of 2016, productivity rose at a 0.8% annual rate, slightly less than the 0.9% increase in 2015 and making it likely that 2016 will finish as the sixth consecutive year with productivity growth of 0.9% or less. Most of the limited increase in productivity reflects the durable goods manufacturing sector, where productivity increased at a 2.5% annual rate in the second quarter of 2016 and 3.0% in the third quarter--although those gains are much less than the increases experienced between 2002 and 2008.

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

Early in the recovery, much of the economic growth reflected increases in inventories: goods produced but not sold. As consumption growth has improved, it has to some degree been offset by low, or even declining, rates of business investment. Furthermore, in both the second and third quarters of 2016, residential investment declined. Consequently, as of the third quarter of 2016, fixed investment (residential investment plus business fixed investment) had actually subtracted from growth for four consecutive quarters--the longest consecutive period of decline since the 2008-2009 recession and the only time fixed investment has declined for that many consecutive quarters outside of a recession. 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 and residential investment generally reflects household formation, which influences both construction and consumption.

Figure 5



Consumption growth remained weak for a variety of reasons, and much of the improvement has reflected increased purchases of motor vehicles and/or rising debt. Consumers remained risk-averse about spending, especially for big-ticket items and nonessential purchases, as employment growth remained weak and wage increases were negligible. Motor vehicle purchases have been an exception due to factors ranging from rising fuel costs (during the first part of the recovery) encouraging the purchase of more fuel-efficient vehicles, to the marked increase in the age of the vehicle fleet to the return to vehicle loans to subprime borrowers. Light vehicle sales remained at a 17.6 million unit annual rate over the July to November 2016 period, only slightly less than the sales rate during the same period in 2015, and year-to-date sales in 2016 are on track to match the all-time record of 17.4 million units, set in 2015.

Although consumption has returned to its historical position of accounting for the majority of growth in the economy, the improvement in consumer spending is less than what would be expected given wage growth, it is being offset by other sectors of the economy (most notably investment and net exports), and it has been financed by increased borrowing, particularly since early 2014. Between the first quarter of 2014 and the third quarter of 2016, inflation-adjusted consumption spending per person rose at an annual rate of 2.1%, compared with a 2.8% rate of increase in inflation-adjusted wage and salary income per person (Figure 6). As a result, personal saving as a percentage of disposable personal income has increased in 2016 to the highest levels since 2012. However, this saving has not translated into a reduction in consumer debt levels. Over the first three quarters of 2016, outstanding consumer debt per person increased at an annual rate of 4.1%, growing more rapidly than either the 1.8% annual rate for income or the 2.1% annual rate for spending. Nonrevolving debt, which includes student loans and motor vehicle loans, also increased at a 4.1% rate during the first three quarters of 2016. Similarly, revolving credit (mainly credit card debt) increased at a 4.0% annual rate over the first three quarters of 2016, a rate almost double the growth rate in personal consumption spending and more than double the rate of income growth.

Consumer debt has increased even as the share of disposable personal income that must be used to service that debt has remained flat at levels not experienced since the early 1980s (Figure 7). Just as the composition of consumer debt has changed so has the cost of servicing that debt. While nonrevolving debt has grown more rapidly than revolving debt, the share of disposable personal income required to service mortgage debt has steadily fallen since 2007, largely as a result of

monetary policy designed to keep long-term interest rates low. However, the cost of servicing revolving debt, which had fallen between 2007 and 2012 as consumers dealt with the aftermath of the 2008-2009 financial crisis, has increased since 2012. Although the total financial obligations ratio has remained stable over the last year, it is likely to increase once interest rates begin rising.

Figure 6

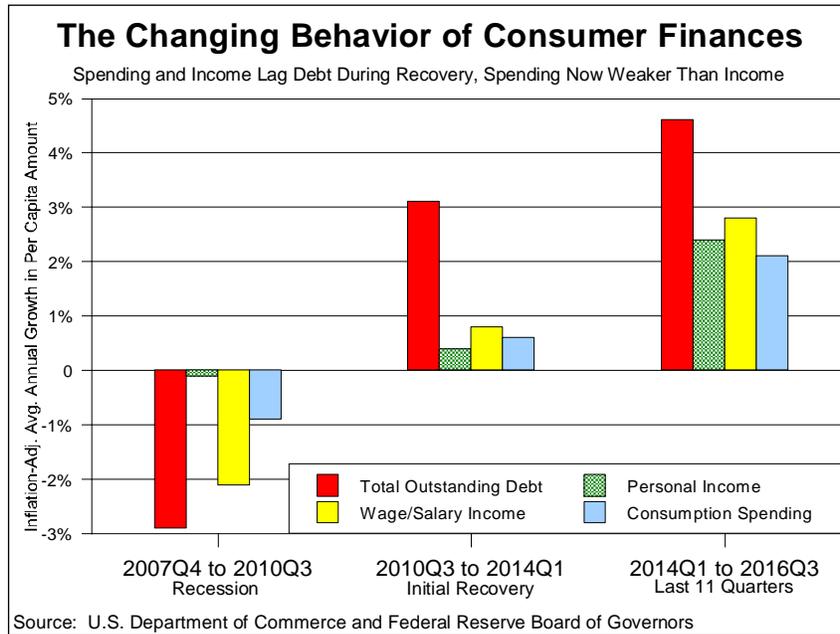
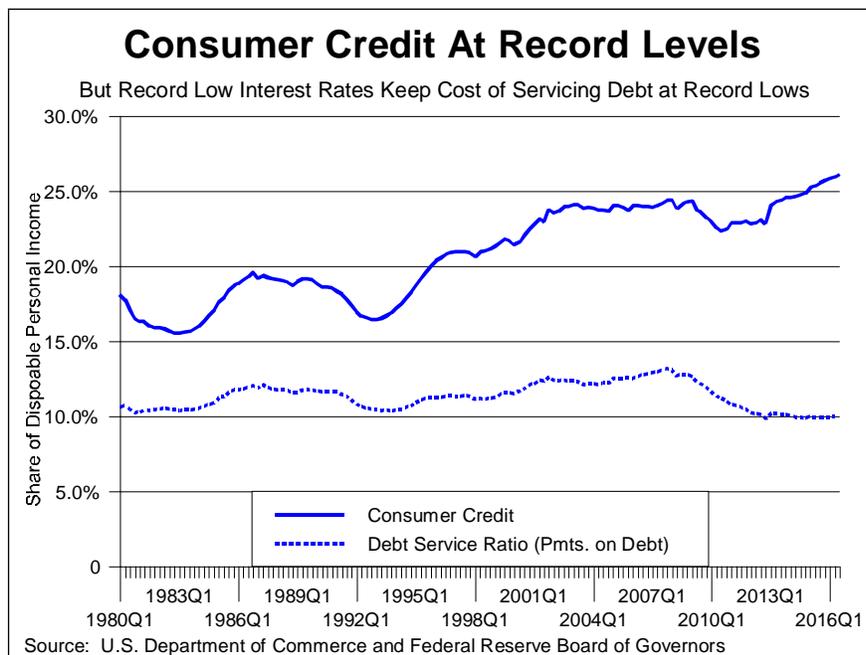


Figure 7

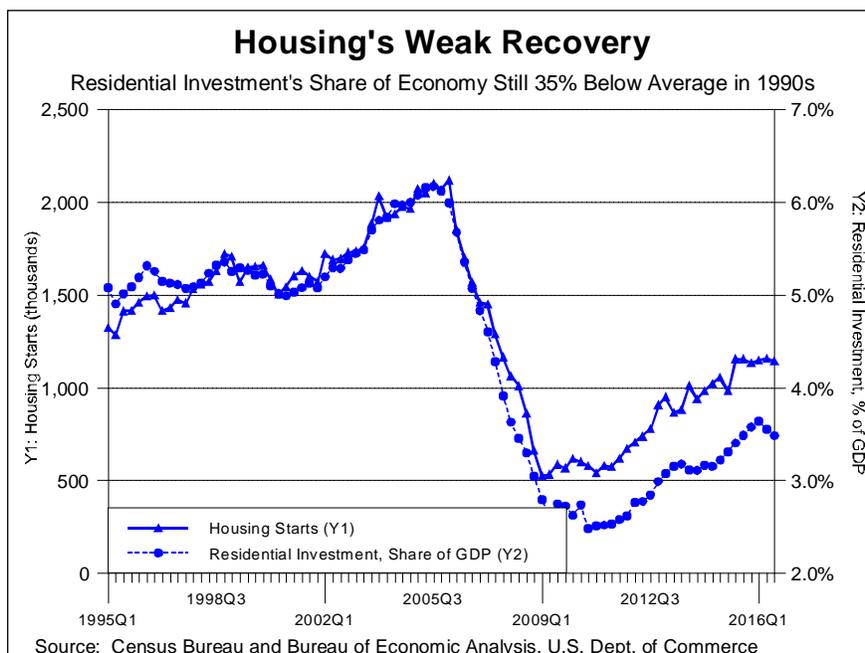


Payroll employment in the United States continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010; in addition to the jobs lost during the recession. Despite employment gains during the last six years, payroll employment did not reach the prerecession peak until May 2014. As of November 2016, payroll employment averaged only 1.7% annual growth since the February 2010 trough and was up only 1.6% from the November 2015 level, after showing as much as a 2.3% year-over-year increase as recently as February 2015. Payroll employment growth has remained relatively stable during 2016, with November's 178,000 employment increase virtually identical to the average monthly gain of 180,000 jobs during the first 11 months of 2016. However, that 180,000 average monthly increase in payroll employment is down 21.2% from the 229,000-job average monthly increase in 2015 (which was down from the 2014 average of 251,000 new jobs per month), and not much above the 160,000 to 175,000 increase necessary to keep pace with population growth.

The unemployment rate fell from a peak of 10.0% in October 2009, to 4.6% in November 2016. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Between the December 2009 trough in total employment (as opposed to payroll employment) and September 2014, the labor force averaged 0.3% per year annual growth. However, between November 2015 and November 2016, the labor force grew 1.3%. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the November 2016 level of total employment set an all-time record. Nevertheless, labor force participation during 2016 has remained at the same 40-year lows experienced during 2015.

The housing market, which counts as residential investment rather than consumption spending, continued to improve in 2016, although it remains weak by almost any historical measure--roughly matching housing start levels during the 1979-1982 and 1991 recessions (Figure 8). Housing starts are projected to total approximately 1.17 million units in 2016, the seventh consecutive annual increase in starts and a 5.2% increase from 2015. However, 2016 will represent the 14th-weakest year of housing starts (based on data available back to 1959), above the eight-year 2008 through 2015 period and the recession years of 1975, 1981, 1982, and 1991. Housing starts in 2016 also will be 43.4% below the prerecession peak of 2.1 million starts in 2005. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and has averaged approximately 3.5% of GDP during 2016.

Figure 8



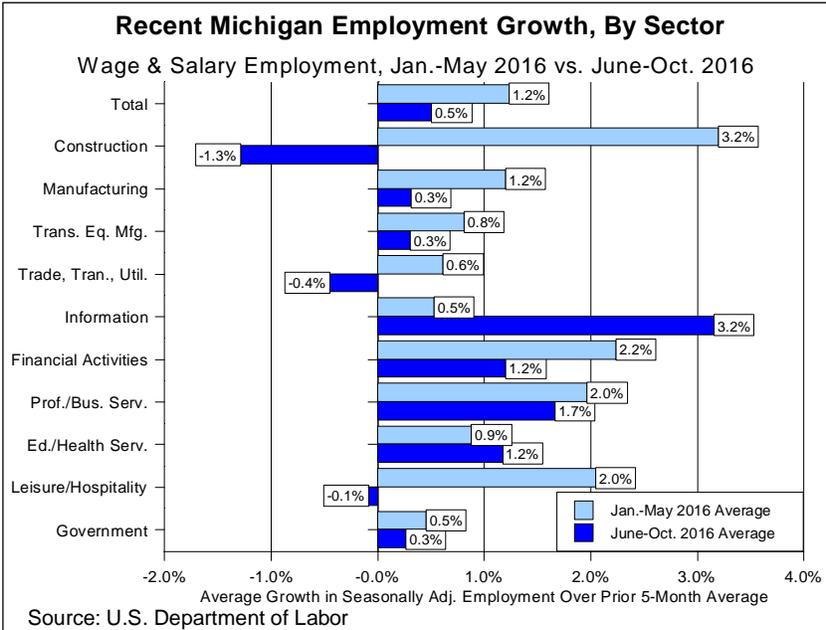
RECENT MICHIGAN ECONOMIC HIGHLIGHTS

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, very disproportionately concentrated in motor vehicle manufacturing, and 3) the motor vehicle industry has become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade; thus, Michigan lost jobs as a result of both higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 146,000 jobs (34.5%) between June 2009, when the U.S. recession ended, and December 2014, or approximately 2,300 jobs per month (an average annual growth rate of 5.5%). Since December 2014, job growth in manufacturing has slowed, rising 900 jobs per month during 2015 (1.9% annual growth rate), and 700 jobs per month over the first 10 months of 2016 (1.4% annual growth rate). Employment in the transportation equipment manufacturing sector increased by 65.3% between June 2009 and December 2014, accounting for 69,000 (46.1%) of the manufacturing jobs Michigan gained and 18.2% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly, with the growth rate declining from a 5.5% increase in 2014 to a 2.6% gain in 2015 and an estimated 1.9% increase in 2016.

The May-to-October 2016 period in Michigan saw a marked slowdown in the rate of job gains, with employment growth decelerating from 1.2% growth during the first five months of 2016 over the prior five-month period to a 0.5% growth rate over the subsequent five-month period (May to October). Every major sector other than information and education/health services exhibited a slower, or even declining, rate of employment growth during the May-October 2016 period than in the preceding five months, even accounting for the seasonal patterns of employment in different sectors (Figure 9).

Figure 9



The unemployment rate declined from a high of 14.9% in June 2009 to 4.5% in July and August 2016. The unemployment rate rose slightly in both September and October 2016, reaching 4.7%. The decline between July 2009 and July 2016 was partially attributable to the departure of approximately 146,350 individuals from the labor force in addition to the employment gain of 376,900 jobs. Almost half of the employment gain, representing 179,350 jobs, occurred during 2013 and 2014. Employment rose by another 114,500 jobs between January and April 2016 but half of those jobs subsequently vanished between May and August, when employment fell by 53,700.

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

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

	2015	2016	2017	2018	2019
	Actual	Estimate	Estimate	Estimate	Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	3.7%	2.9%	3.2%	3.1%	3.9%
Inflation-Adjusted GDP (year-to-year growth)	2.6%	1.6%	1.4%	1.3%	2.1%
Unemployment Rate	5.3%	4.9%	4.8%	5.1%	5.2%
Inflation					
Consumer Price Index (year-to-year growth)	0.1%	1.2%	1.8%	1.9%	2.2%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.1%	1.3%	1.7%	1.8%	1.8%
Interest Rates					
90-day Treasury Bill	0.05%	0.33%	0.79%	1.28%	1.92%
10-year Treasury Bill	2.14%	1.75%	2.05%	2.41%	2.73%
Corporate Aaa Bond	3.89%	3.56%	3.59%	3.82%	3.95%
Federal Funds Rate	0.13%	0.39%	0.78%	1.28%	1.85%
Light Motor Vehicle Sales (millions of units)					
Auto	7.5	6.9	6.5	6.3	6.3
Truck	9.9	10.6	10.6	10.5	10.8
Import Share	21.3%	21.9%	21.2%	21.1%	21.0%
<u>Michigan</u>					
Personal Income (millions)	\$424,807	\$440,006	\$455,631	\$470,837	\$490,606
Year-to-year growth	4.6%	3.6%	3.6%	3.3%	4.2%
Inflation-Adjusted Personal Income (year-to-year growth)					
	6.1%	2.0%	1.3%	1.4%	2.1%
Wage & Salary Income (millions)	\$214,703	\$224,651	\$231,330	\$237,001	\$245,469
Year-to-year growth	5.1%	4.6%	3.0%	2.5%	3.6%
Detroit Consumer Price Index (year-to-year growth)					
	(1.4%)	1.6%	2.2%	1.9%	2.0%
Wage & Salary Employment (thousands)	4,243.7	4,328.9	4,364.0	4,393.6	4,433.3
Year-to-year growth	1.5%	2.0%	0.8%	0.7%	0.9%
Unemployment Rate	5.4%	4.6%	4.7%	4.8%	4.8%

FORECAST SUMMARY

During 2017, both the U.S. and Michigan economies are expected to expand at a moderately slower rate than during 2016, with much of the slowdown occurring in the latter half of 2017. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2017 and later years, although Michigan is generally expected to grow more slowly than the nation as a whole and growth will remain slow in the first part of 2018. [Table 1](#) and [Table 2](#) provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to rise 1.4% in 2017, slightly less than the estimated 1.6% increase in 2016 and below the 2.6% increase in 2015. Inflation-adjusted GDP will continue expanding, increasing 1.3% during 2018 and 2.1% in 2019. The expansion over the forecast period primarily reflects slowing consumption growth and residential investment combined with growing increases in business investment that will more than offset the drag on the economy from increased imports, slow growth in exports, and a relatively stagnant public sector growth.

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replaces capital for labor. The U.S. unemployment rate is expected to fall from 4.9% during 2016, to 4.8% in 2017, before rising slightly to 5.1% in 2018 and 5.2% in 2019.

Inflation is not anticipated to be a concern over the forecast period. The U.S. Consumer Price Index (CPI) is anticipated to increase 1.2% in 2016, followed by increases of 1.8% in 2017, 1.9% in 2017, and 2.2% in 2018. The last time the CPI increased more than 2.0% in a year was 2012, when it rose 2.1%. Export growth is expected to be tempered in the near term by both weak foreign economies and higher interest rates that will increase the value of the dollar. Productivity, modest domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 2.2% in 2017, 1.7% in 2018, and 1.5% in 2019.

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 10](#) and [11](#)). Inflation-adjusted personal income is projected to increase 1.3% in 2017, 1.4% in 2018, and 2.1% in 2019, compared with a predicted 2.0% increase during 2016 and the 6.1% increase in 2015 (which was boosted above the nominal increase by a negative inflation rate). Payroll employment is expected to increase 0.8% in 2017, less than half the 2.0% growth rate estimated for 2016, and then increase at about the same rate in future years, rising 0.7% in 2018 and 0.9% in 2019. Private sector gains in employment during 2017 and 2018 are expected to be fairly modest, although above the nearly flat employment predicted in the government sector. Nationally, light vehicle sales are expected to decrease from an estimated 17.4 million units in 2016 to 17.1 million units in 2017 and then 16.8 million units in 2018, before rising slightly to 17.0 million units in 2019. In Michigan, the relatively high, but declining, level of vehicle sales, stability in the housing market, and the tepid national economy are expected to result in the unemployment rate increasing from an estimated 4.6% in 2016 to 4.7% in 2017 and 4.8% in both 2018 and 2019.

Compared with the May 17, 2016 Consensus Economic Forecast, forecasted U.S. economic growth is about half as strong in both 2017 and 2018, while the Michigan forecast is only slightly weaker in 2017 and 2018. Both the U.S. and Michigan forecasts predict continued growth, but compared to the May 2016 forecasts, the growth rates are slower due to the lower level of growth for 2016, much weaker light vehicle and housing sales, slower economic growth overseas, and lower levels of productivity growth. High vehicle sales levels, although lower than in 2016, and stronger profitability in Michigan's vehicle sector, will provide stability to the Michigan employment situation.

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2015 Actual	2016 Estimate	2017 Estimate	2018 Estimate	2019 Estimate
Gross Domestic Product (billions of dollars)	\$18,036.6	\$18,551.5	\$19,138.0	\$19,728.8	\$20,491.3
Year-to-year growth	3.7%	2.9%	3.2%	3.1%	3.9%
<i>Inflation-Adjusted GDP and Components</i>					
Gross Domestic Product (billions of 2009 dollars)	\$16,397.2	\$16,651.6	\$16,889.2	\$17,109.8	\$17,465.4
Year-to-year growth	2.6%	1.6%	1.4%	1.3%	2.1%
Consumption (billions of 2009 dollars)	\$11,214.7	\$11,514.8	\$11,775.8	\$11,972.2	\$12,224.8
Year-to-year growth	3.2%	2.7%	2.3%	1.7%	2.1%
Business Fixed Investment (billions of 2009 dollars)	\$2,200.2	\$2,188.1	\$2,231.2	\$2,290.7	\$2,359.8
Year-to-year growth	2.1%	(0.6%)	2.0%	2.7%	3.0%
Change in Business Inventories (billions of 2009 dollars)	\$84.0	\$14.0	\$15.0	\$30.1	\$40.7
Residential Investment (billions of 2009 dollars)	\$564.5	\$590.3	\$605.5	\$613.2	\$646.7
Year-to-year growth	11.7%	4.6%	2.6%	1.3%	5.5%
Government Spending (billions of 2009 dollars)	\$2,883.7	\$2,906.7	\$2,905.2	\$2,925.7	\$2,961.8
Year-to-year growth	1.8%	0.8%	(0.1%)	0.7%	1.2%
Net Exports (billions of 2009 dollars)	(\$539.9)	(\$554.8)	(\$644.6)	(\$729.3)	(\$779.7)
Exports (billions of 2009 dollars)	\$2,120.6	\$2,131.1	\$2,139.8	\$2,181.8	\$2,241.6
Imports (billions of 2009 dollars)	\$2,660.5	\$2,685.9	\$2,784.4	\$2,911.2	\$3,021.3
Personal Income (year-to-year growth)	4.4%	3.6%	4.3%	3.6%	4.2%
Adjusted for Inflation	4.3%	2.4%	2.5%	1.6%	1.9%
Wage & Salary Income (year-to-year growth)	5.1%	4.3%	4.6%	3.2%	3.9%
Personal Savings Rate	5.8%	6.0%	6.2%	6.3%	6.4%
Capacity Utilization Rate	76.7%	75.4%	75.7%	75.5%	75.8%
Housing Starts (millions of units)	1.112	1.174	1.196	1.166	1.253
Conventional Mortgage Rates	3.9%	3.6%	3.8%	4.1%	4.4%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$569.7)	(\$628.6)	(\$659.7)	(\$754.0)	(\$826.7)

Figure 10

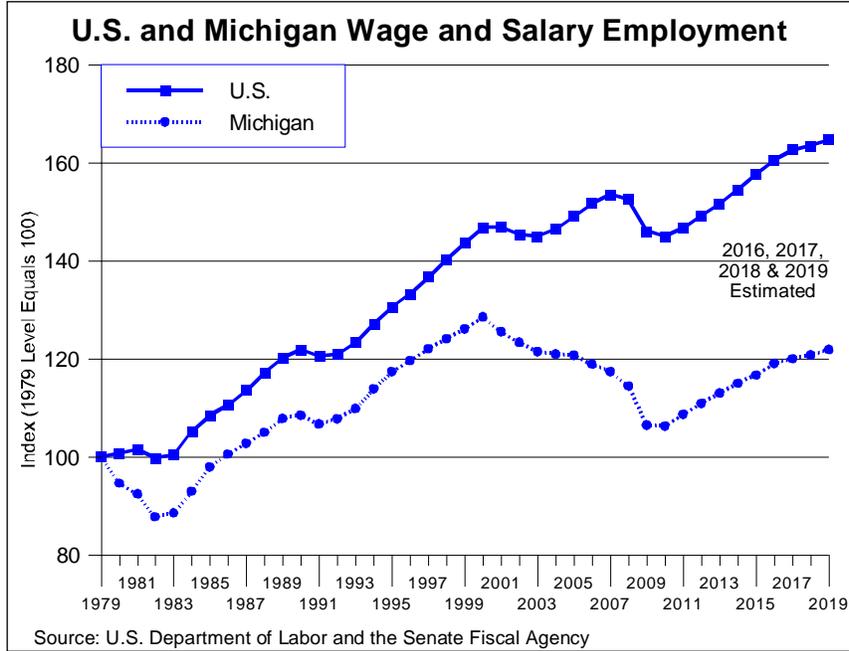
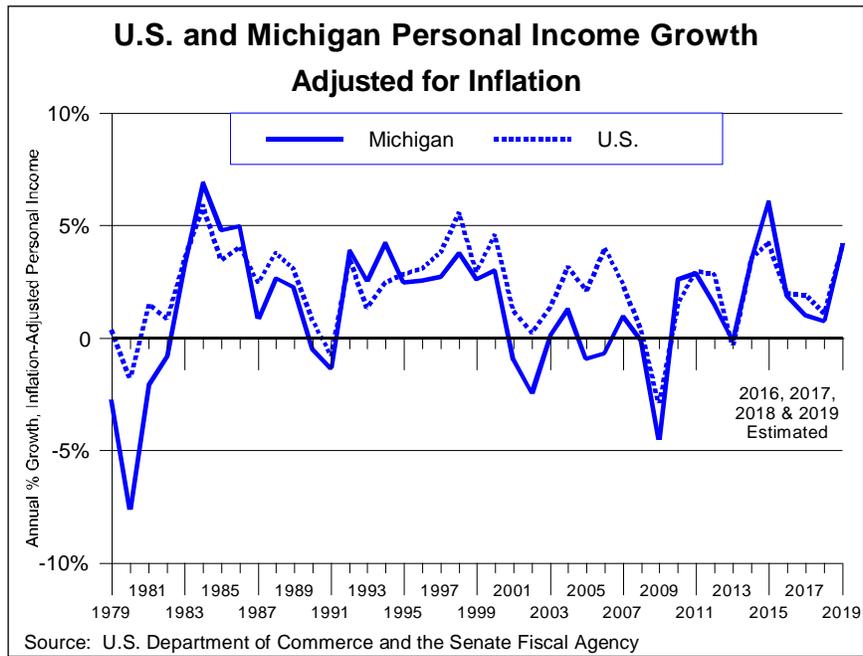


Figure 11



FORECAST RISKS

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

Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession have induced consumers to rein in their spending, pushing the saving rate significantly higher. Despite stock market gains since the recession, consumers needed to save at a far higher rate than exhibited to offset their losses in home equity and stock market drops during the recession. Over the first three quarters of 2016 the saving rate rose, but outstanding debt continued to increase. Income growth has improved but high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption once interest rates start rising. While the Federal Reserve began raising interest rates in December 2015, the weak economy in 2016 postponed the next increase until December 2016. Given low unemployment levels and stronger prices in housing markets and some commodities markets, inflation concerns are likely to be strong enough to warrant slowly rising interest rates over the forecast period.

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

Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. However, personal income fell more slowly over the 2008-09 recession, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much real growth in the underlying consumption trend is actually occurring. The increases in debt-financed consumption may reflect consumers feeling more confident about the future, and thus being willing to make greater spending commitments; but could also reflect a need to replace increasingly older durable goods but lacking enough disposable income to acquire the goods without assuming greater debt. If consumer spending primarily represents deferred purchases and consumers continue spending in the near future only at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

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

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

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

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

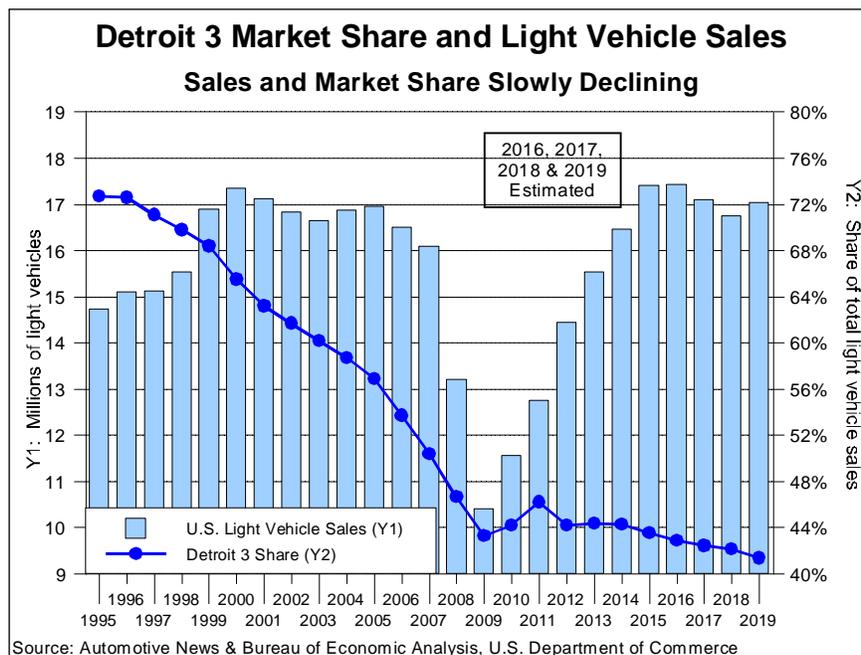
How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent that these individuals face limited incomes and reduced income growth, consumption and investment are depressed, lowering economic growth and reducing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

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

Similarly, as the vehicle market has recovered, Michigan has generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception has been that states with large energy sectors have grown quite rapidly as oil prices remained high, although with lower oil prices over the last few years, these states are likely to face challenges.) For Michigan, both employment gains and improvements in economic growth will be restrained by stable-to-declining vehicle sales and because the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains. While the level of vehicle sales is quite high, the potential growth in those levels is less than it has been in years, and by 2017 the level is forecast to begin declining--although sales volumes will remain elevated when compared to historical levels. Compared with the prior decade,

the Detroit 3 share of the sales mix is expected to decline somewhat (Figure 12) due to the strong dollar making imported vehicles comparatively less expensive. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles. While that reliance has declined (for example, in 1998 wages and salaries from transportation equipment manufacturing represented 11.8% of total Michigan wage and salary income, compared to 5.7% in 2015), Michigan is still heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country.

Figure 12



Despite the high, but declining, level forecasted for vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted. While Michigan payroll employment returned to the January 2008 level (the U.S. prerecession peak) during 2015, as identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the 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 all of the growth in in 2017 and 2018 in private sector employment. The most significant risks to the Michigan economy under the forecast reflect the limited upward potential unless a sector other than motor vehicles begins to show substantial growth. Over the forecast period, light vehicle sales are expected to decline from record levels that, in the long-run, are unsustainable. Average weekly hours are already declining from their record highs, and firms have shown limited willingness to add employees given that the record levels of output have been met by the existing employment base (Figures 13 and 14). However, with a risk of rising labor costs and all of the risk regarding vehicle sales being on the downside, any substantial growth in the Michigan economy will likely need to originate from a different sector and be strong enough to exceed the flat-to-downward trajectory the motor vehicle industry will exhibit over the next decade.

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

Figure 13

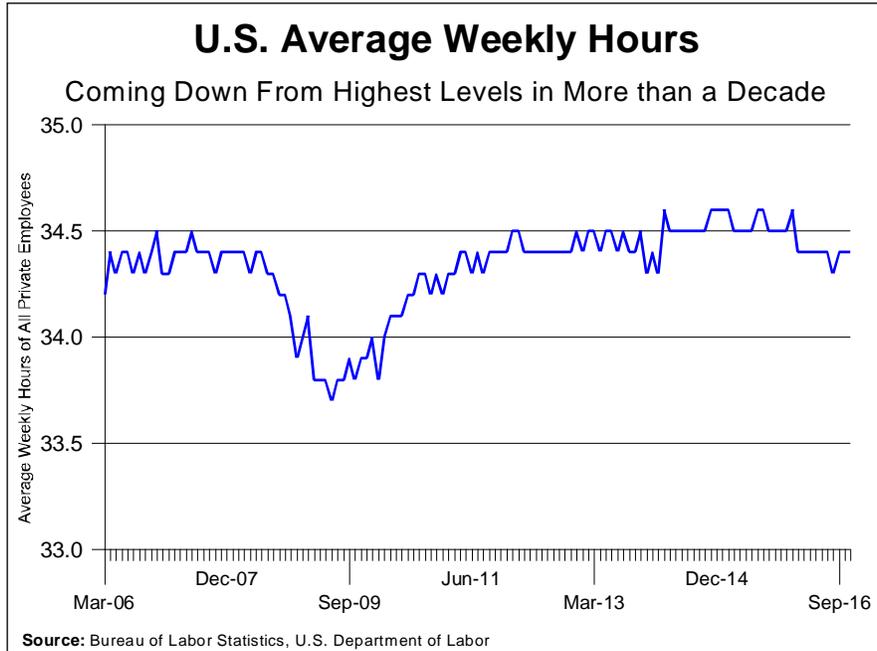
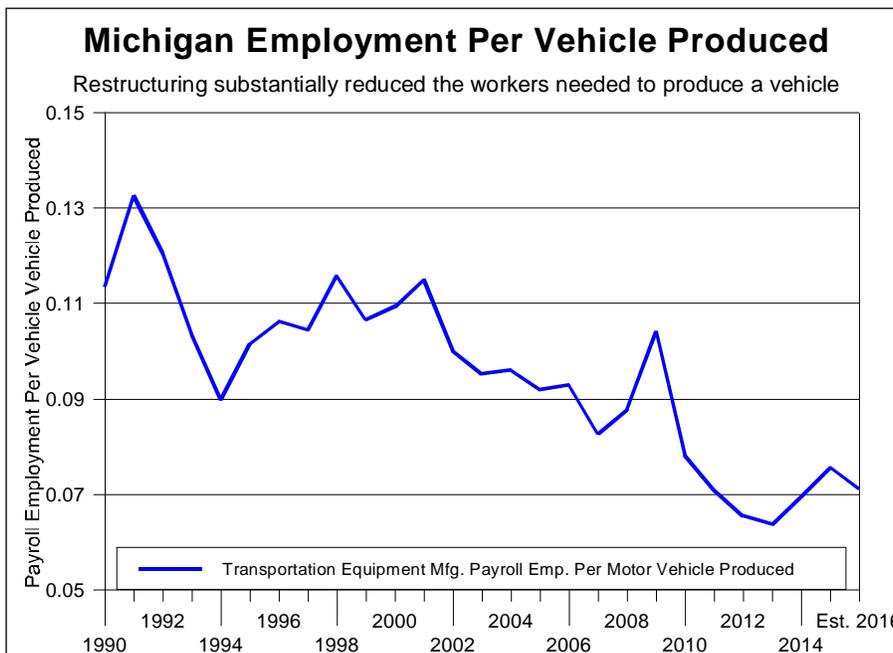


Figure 14



**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) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The preliminary year-end revenue for FY 2015-16 is presented along with the revised estimates for FY 2016-17 and FY 2017-18 and the initial revenue estimates for FY 2018-19. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, the revenue estimate represents the revenue generated from ongoing revenue sources and generally does not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2016-17, FY 2017-18, and FY 2018-19 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2015-16, along with the revised estimates for FY 2016-17 and FY 2017-18, and the initial estimates for FY 2018-19 are presented in [Table 3](#) and are summarized below.

FY 2015-16 Preliminary Final Revenue

- GF/GP and SAF revenue is expected to total \$22.1 billion in FY 2015-16.
- This year-end estimate for FY 2015-16 increased 1.5% or \$322.0 million from the actual revenue for FY 2014-15, reflecting significantly higher Michigan Business Tax (MBT) refunds for certificated credits, lower Corporate Income Tax collections, and higher individual income tax refunds, that partially offset strong growth in income tax withholding and use tax payments.
- The preliminary final estimate for FY 2015-16 is \$302.0 million above the May 2016 consensus revenue estimate.

FY 2016-17 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$22.7 billion in FY 2016-17.
- This revised estimate for FY 2016-17 is up 2.7% or \$605.9 million from the revised estimate for FY 2015-16. The projected revenue increase in FY 2016-17 reflects the continued economic growth that is forecast for the year and a reduced level of MBT refunds.
- The revised estimate for FY 2016-17 is \$168.5 million above the May 2016 consensus revenue estimate.

FY 2017-18 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$23.3 billion in FY 2017-18.
- The revised estimate for FY 2017-18 is up 2.5% or \$565.3 million from the revised estimate for FY 2016-17.
- The revised estimate for FY 2017-18 is \$93.2 million below the May 2016 consensus revenue estimate.
- The revenue increase in FY 2017-18 reflects a somewhat slower Michigan economy in FY 2017-18 than in FY 2016-17.

FY 2018-19 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total \$23.6 billion in FY 2018-19.
- This initial estimate for FY 2018-19 is 1.4% or \$335.3 million more than the revised estimate for FY 2017-18.
- The revenue increase in FY 2018-19 reflects Michigan economic activity growing at a faster rate than in FY 2017-18, but much of the impact on revenue will be offset by the first year of General Fund reductions under the transportation package enacted in 2015. The change in the Homestead Property Tax Credit will reduce General Fund income tax collections \$205.8 million and the General Fund will be reduced by the \$150.0 million earmark of General Fund income tax revenue for the Michigan Transportation Fund in FY 2018-19.

Historical Perspective

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 2.7% in FY 2016-17, 2.5% in FY 2017-18, and 1.4% in FY 2018-19. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and an average increase of 3.1% in the years from FY 2010-11 to FY 2015-16.
- GF/GP revenue is projected to remain below the record FY 1999-2000 level throughout the forecast period. In FY 2017-18 and FY 2018-19, GF/GP revenue is projected to exceed the revenue peak that occurred in FY 2007-08.
- Without adjusting for inflation, the preliminary final GF/GP revenue from ongoing sources in FY 2015-16 is 6.4% (\$681.9 million) below the record FY 1999-2000 level and 3.3% (\$338.3 million) below the most recent peak reached in FY 2007-08. In FY 2016-17, ongoing GF/GP revenue is forecast to be 3.9% (\$421.7 million) below the FY 1999-2000 level and 0.8% (\$78.1 million) below the FY 2007-08 level.
- In FY 2017-18, GF/GP revenue is expected to exceed the FY 2007-08 peak by 1.3% (\$137.3 million); however, revenue will remain 1.9% below the FY 1999-2000 highest level. Similarly, GF/GP revenue in FY 2018-19 is projected to exceed the FY 2007-08 peak by 1.3% (\$132.5 million), although revenue will remain 2.0% (\$211.1 million) below the FY 1999-2000 record level. These comparisons do not adjust for inflation.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax changes. Revenue in FY 2013-14, FY 2014-15, and FY 2015-16 surpassed the previous peak revenue in FY 2007-08. The SAF is projected to rise annually from FY 2016-17 through FY 2018-19. Projected growth rates are 2.9% in FY 2016-17, 2.8% in FY 2017-18, and 2.7% in FY 2018-19.

Baseline revenue is forecast to increase each year during the forecast period. [Figure 15](#) presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2014-15 base year) from FY 1986-87 through the initial estimate for FY 2018-19. During this 32-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. It is estimated that GF/GP and SAF baseline revenue increased by 2.8% in FY 2015-16. Baseline GF/GP and SAF revenue (using the updated FY 2015-16 base) is expected to grow at approximately 2.4% in FY 2016-17, 2.6% in FY 2017-18, and 2.8% in FY 2018-19.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2015-16 THROUGH FY 2018-19				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(Millions of Dollars)				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
	Prelim. Final	Revised Est.	Revised Est.	Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$10,975.3	\$11,193.6	\$11,497.0	\$11,848.1
Tax Changes Not In Baseline	(976.6)	(934.7)	(1,022.6)	(1,378.6)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	6,706.2	6,917.4	7,135.8	7,144.6
MBT, Corp. Income Tax, SBT & Insur. Tax	359.5	673.8	749.3	786.8
Other Taxes	2,467.9	2,293.8	2,226.7	2,170.7
Total Taxes	9,533.6	9,885.0	10,111.8	10,102.1
Nontax Revenue	465.1	373.8	362.6	367.3
TOTAL GF/GP REVENUE	\$9,998.7	\$10,258.9	\$10,474.3	\$10,469.5
SCHOOL AID FUND				
Baseline SAF	\$12,096.9	\$12,428.7	\$12,725.1	\$13,057.5
Tax Changes Not In Baseline	7.9	21.8	75.3	83.0
TOTAL SAF REVENUE	\$12,104.8	\$12,450.5	\$12,800.4	\$13,140.5
BASELINE GF/GP AND SAF REVENUE				
	\$23,072.2	\$23,622.3	\$24,222.1	\$24,905.6
Tax & Revenue Changes	(968.7)	(912.9)	(947.4)	(1,295.6)
GF/GP & SAF REV. AFTER CHANGES	\$22,103.5	\$22,709.4	\$23,274.7	\$23,610.0
Sales Tax	\$7,295.6	\$7,456.2	\$7,708.8	\$7,933.8
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	3.0%	2.0%	2.7%	3.1%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	3.8	3.1	3.2	0.1
MBT, Corp. Income Tax, SBT & Insur. Tax	(53.0)	87.4	11.2	5.0
Other Taxes	2.3	(7.1)	(2.9)	(2.5)
Total Taxes	(1.1)	3.7	2.3	(0.1)
Nontax Revenue	16.9	(19.6)	(3.0)	1.3
TOTAL GF/GP REVENUE	(0.4%)	2.6%	2.1%	(0.0%)
SCHOOL AID FUND				
Baseline SAF	2.7%	2.7%	2.4%	2.6%
TOTAL SAF REVENUE	3.0%	2.9%	2.8%	2.7%
BASELINE GF/GP and SAF Revenue				
	2.8%	2.4%	2.5%	2.8%
GF/GP & SAF REV. AFTER CHANGES	1.5%	2.7%	2.5%	1.4%
Sales Tax	0.7%	2.2%	3.4%	2.9%

¹⁾ FY 2014-15 is the base year for baseline revenue.

Figure 15

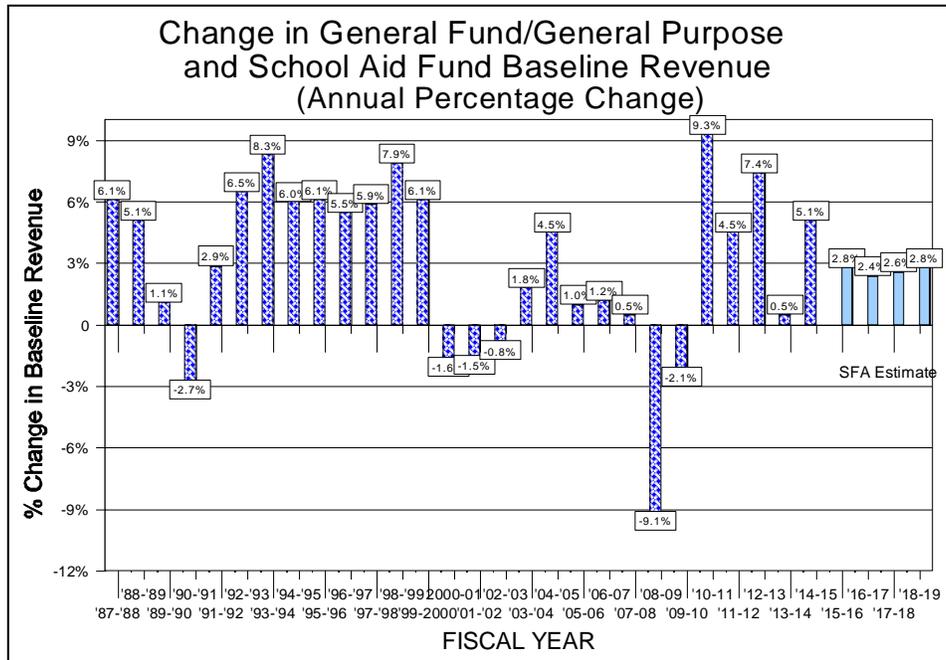


Figure 16 compares the FY 1995-96 through FY 2018-19 estimates for both the GF/GP revenue and the SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in 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 \$10.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during the recession of FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 17, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2016-17 will be approximately 3.9% (or \$421.7 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of \$10.5 billion in FY 2017-18 is 1.9% below the peak, and initial estimates for FY 2018-19 are 2.0% below the peak level. In inflation-adjusted terms, however, FY 2018-19 GF/GP revenue is estimated to be 5.4% (or \$499.6 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10 and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2018-19, SAF revenue is predicted to be approximately 87.7% (\$6.1 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 6.3% (\$733.7 million) below if adjusted for inflation, as shown in Figure 18.

Figure 16

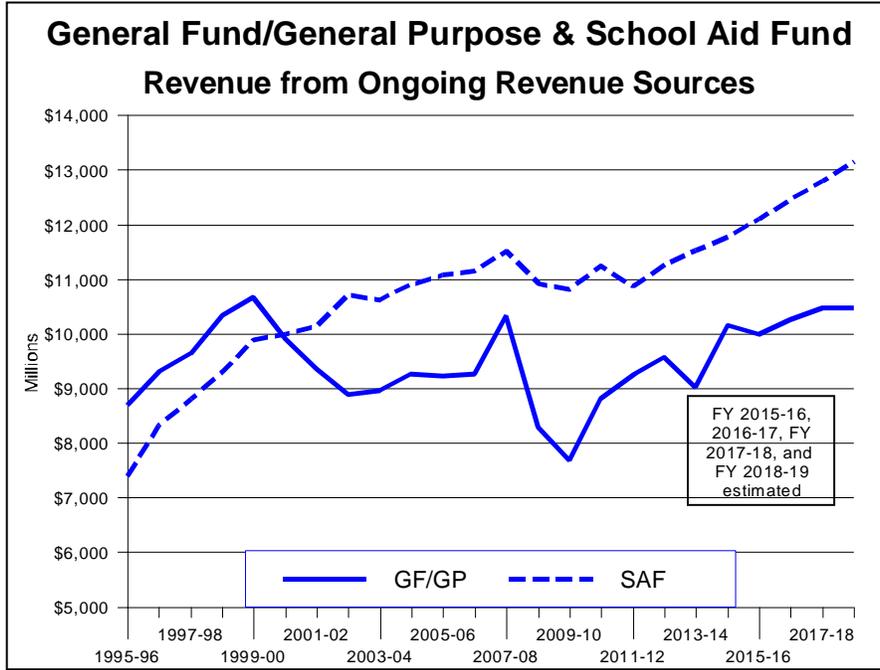


Figure 17

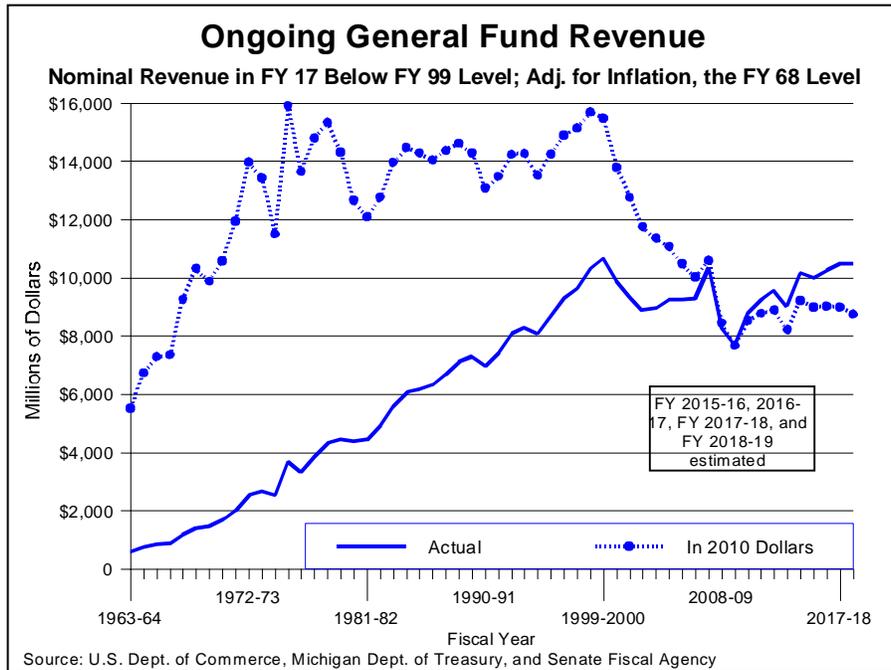
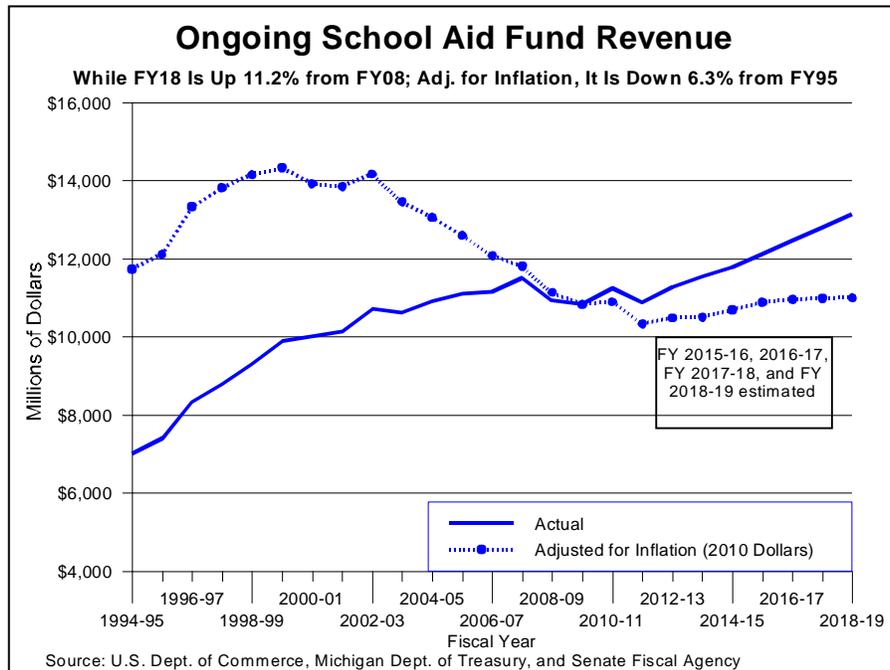


Figure 18



FY 2015-16 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 1.5% in FY 2015-16 compared with FY 2014-15.
- The revenue increase in FY 2015-16 primarily reflects increases in individual income tax withholding and escheats revenue, which was partially offset by higher refunds paid under the MBT, higher individual income tax refunds, and a drop in Corporate Income Tax revenue.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$22.1 billion in FY 2015-16, which is 1.5% above the FY 2014-15 revenue level, as presented in [Table 4](#). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan Comprehensive Annual Financial Report. Decisions made in the book-closing process regarding the accrual of various types of revenue may change these numbers, in particular with regard to the treatment of business tax credits. The growth rate is lower than the 6.0% increase in FY 2014-15; however, growth in FY 2014-15 was over a revenue base in FY 2013-14 reduced by payment timing issues related to Federal tax policy (the "fiscal cliff" that increased income tax payments in FY 2012-13 and reduced collections in FY 2013-14).

The preliminary final revenue level for FY 2015-16 is \$302.0 million above the May 2016 consensus revenue estimate. Most of the revenue increase (\$137.6 million) from the May 2016 estimates reflects lower-than-expected refunds paid under the MBT. In May 2016, the forecast expected MBT revenue to become more negative, from a \$639.4 million net outflow to a \$1.0 billion outflow. However, the negative outflow totaled \$893.3 million. Use tax revenue was \$78.1 million over the May estimate, which appears to reflect increased vehicle leasing and affiliate nexus requirements enacted to improve tax collection from internet retailers. Collection of unclaimed property (escheats) was \$48.6 million higher than estimated in May 2016. Sales tax collections returned to positive growth in FY 2015-16, increasing by 0.7%, an improvement over the 1.5% decline in FY 2014-15. Sales tax collections ended the year \$14.4 million below the May 2016 consensus estimate. Baseline GF/GP and SAF revenue increased 2.8% in FY 2015-16. However, one-time noneconomic factors, primarily the change in the timing of MBT refund claims, reduced the growth rate to 1.5%.

Table 4

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

	FY 2014-15 Final	FY 2015-16 Prelim. Final	Change from FY 2014-15		\$ Change from 05/16 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$10,660.5	\$10,975.3	\$314.8	3.0%	\$91.2
Tax Changes Not In Baseline	(626.1)	(976.6)	(350.5)	----	173.3
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	10,672.8	11,241.9	569.1	5.3	66.7
Less: Refunds	(1,693.3)	(1,873.0)	(179.7)	10.6	(99.0)
Net Income Tax Collections	8,979.5	9,368.9	389.4	4.3	(32.3)
Less: Earmarking to SAF	(2,519.3)	(2,662.1)	(142.8)	5.7	(1.2)
Campaign Fund	0.0	(0.7)	(0.7)	----	0.0
Net Income Tax to GF/GP	\$6,460.2	\$6,706.2	\$246.0	3.8%	(\$33.4)
<u>Other Taxes</u>					
Corporate Income Tax	1,077.7	929.8	(147.9)	(13.7)	(2.2)
Michigan Business Tax	(639.4)	(893.3)	(253.9)	39.7	137.6
Sales	1,118.8	1,143.3	24.5	2.2	(10.6)
Use	958.2	931.7	(26.5)	(2.8)	68.1
Cigarette	188.1	186.3	(1.8)	(1.0)	(2.5)
Insurance Company Premiums	322.4	329.2	6.8	2.1	13.2
Telephone & Telegraph	41.8	34.7	(7.1)	(17.0)	(7.3)
Oil & Gas Severance	30.4	18.9	(11.5)	(37.8)	(1.5)
All Other	78.2	146.8	68.6	87.8	28.9
Subtotal Other Taxes	\$3,176.2	\$2,827.4	(\$348.8)	(11.0%)	\$223.7
Total Nontax Revenue	398.0	465.1	67.1	16.9	74.3
GF/GP REV. AFTER TAX CHANGES	\$10,034.4	\$9,998.7	(\$35.7)	(0.4%)	\$264.6
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$11,783.1	\$12,096.9	\$313.8	2.7%	\$37.4
Tax Changes Not In Baseline	(36.0)	7.9	43.9	----	0.0
<u>Revenue After Tax Changes</u>					
Sales Tax	5,265.6	5,308.8	43.2	0.8	(7.9)
Use Tax	476.4	490.0	13.6	2.9	10.0
Lottery Revenue	784.1	875.0	90.9	11.6	25.0
State Education Property Tax	1,857.6	1,897.0	39.4	2.1	2.9
Real Estate Transfer Tax	258.4	289.3	30.9	12.0	13.3
Income Tax	2,519.3	2,662.1	142.8	5.7	1.2
Casino Tax	110.8	112.9	2.1	1.9	0.9
Other Revenue	474.9	469.7	(5.2)	(1.1)	(8.0)
SAF REV. AFTER TAX CHANGES	\$11,747.1	\$12,104.8	\$357.7	3.0%	\$37.4
BASELINE GF/GP AND SAF	\$22,443.6	\$23,072.2	\$628.6	2.8%	\$128.7
Tax & Revenue Changes	(662.1)	(968.7)	(306.6)	----	173.3
GF/GP & SAF REV. AFTER CHNGS	\$21,781.5	\$22,103.5	\$322.0	1.5%	\$302.0
Sales Tax	\$7,246.4	\$7,295.6	\$49.2	0.7%	(\$14.4)

¹⁾ FY 2014-15 is the base year for baseline revenue.

Tax Policy Changes

Several tax policy changes affected revenue in FY 2015-16. These included the continued impact of revenue reductions due to MBT credits, changes to the insurance tax, and the first year of reduction of the use tax due to personal property tax changes.

Business Tax Reform. The value of refundable MBT credits increased from \$620.4 million in FY 2014-15 to \$916.8 million in FY 2015-16, helping to push total MBT revenue from a negative \$639.4 million in FY 2014-15 (as refunds exceeded payments) to a negative \$893.3 million in FY 2015-16. These credits reduce GF/GP revenue.

Sales and Use Taxes. Implementation of affiliate nexus provisions increased taxes paid on remote sales by an estimated \$60.0 million in FY 2015-16. Revenue also experienced the impact of Public Acts 251 and 252 of 2015, which provide a sales tax exemption for data centers, which reduced sales and use tax revenue by approximately \$11.0 million. The revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles increased to approximately \$39.8 million in FY 2015-16, lowering GF/GP revenue by \$4.8 million, SAF revenue by \$29.2 million, and other funds, primarily constitutional revenue sharing, by \$5.8 million. Use tax revenue also was lowered \$30.0 million by a large refund.

Personal Property Tax Changes. Beginning in FY 2015-16, statute directs that a portion of the use tax be levied by the Local Community Stabilization Authority to reimburse eligible local units for revenue losses incurred due to personal property tax legislation that exempted eligible manufacturing personal property from property taxation. As a result, GF/GP revenue was reduced by \$96.4 million in FY 2015-16. Fiscal year 2015-16 is the first year of revenue from the Essential Services Assessment (included in Public Act 92 of 2014), a specific tax levied by the State on certain personal property that is otherwise exempt from property taxation. The Essential Services Assessment increased GF/GP revenue by \$67.6 million in FY 2015-16. The continuing phase-in of personal property tax exemptions is estimated to reduce SAF revenue from the State Education Tax (SET) by \$20.9 million in FY 2015-16. The General Fund is required to reimburse the SAF for the SET reduction.

Insurance Tax. Legislation reinstating the previous treatment of payments to the Michigan Automobile Insurance Placement Facility (MAIPF) added \$23.0 million GF/GP in FY 2015-16.

General Fund/General Purpose

- General Fund/General Purpose revenue totaled an estimated \$10.0 billion in FY 2015-16, which is down 0.4% or \$35.7 million from FY 2014-15.
- Compared with the May 2016 consensus estimate, GF/GP revenue for FY 2015-16 has been revised upward by \$264.6 million.

General Fund/General Purpose revenue is lower in FY 2015-16 than in the prior year, although it exceeded the May 2016 estimate. Compared to FY 2014-15, the Michigan economy is estimated to have grown more slowly during FY 2015-16 than in FY 2014-15. Individual income tax net collections were up 4.3%, lower than expected because of a 10.6% increase in refunds in FY 2015-16. Use tax revenue deposited to the General Fund was up \$68.1 million over the prior estimate and revenue from unclaimed property was \$107.1 million in FY 2015-16, which was \$48.6 million above the May 2016 estimate.

The cost of refundable credits preserved after the elimination of most parts of the MBT increased significantly in FY 2015-16, although not by as much as projected in May 2016. Corporate Income Tax (CIT) revenue declined 13.7%. Combined MBT, CIT, and Single Business Tax (SBT) revenue was slightly positive, increasing GF/GP revenue by \$30.3 million in FY 2015-16, down from the

\$442.2 million these taxes contributed to the General Fund in FY 2014-15. The revised GF/GP revenue estimate for FY 2014-15 is summarized in [Table 4](#).

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery totaled \$12.1 billion in FY 2015-16, which is up 3.0% or \$357.7 million from FY 2014-15.
- This preliminary final SAF revenue for FY 2015-16 is \$37.4 million above the May 2016 consensus revenue estimate.

The 3.0% increase in SAF revenue in FY 2015-16 was higher than expected, primarily due to increased revenue from the lottery, real estate transfer tax, and use tax. Lottery revenue to the SAF increased by 11.6% or \$90.9 million as additional games were offered online and several large jackpots increased sales. The SET increased by 2.1% and the real estate transfer tax increased by 12.0%. There also was a 5.7% increase in SAF contributions from the individual income tax. Revenue from the use tax increased by 2.9%. Sales tax contributions to the SAF, the largest source of SAF revenue, increased by 0.8% in FY 2015-16, near the forecasted level. The preliminary final SAF revenue for FY 2015-16 is summarized in [Table 4](#).

FY 2016-17 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2016-17, with personal income growing at the same rate as in FY 2015-16. Total GF/GP and SAF revenue will reach an estimated \$22.7 billion in FY 2016-17, an increase of 2.7% or \$605.9 million from the revised estimate for FY 2015-16. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.4% in FY 2016-17, reflecting continued growth in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2016-17 is summarized in [Table 5](#).

Tax Policy Changes

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

Business Tax Reform. Revenue in FY 2016-17 will be reduced by the ongoing MBT credits; however, the expected reduction of \$658.4 million in FY 2016-17 is smaller than the reduction in FY 2015-16, due in part to the expiration of a portion of the battery credits. All of the impact of the MBT credits reduces GF/GP revenue.

Sales Tax. The revenue reduction due to the phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to be \$47.0 million in FY 2016-17. This change reduces GF/GP revenue by \$5.6 million, SAF revenue by \$34.5 million, and other funds by \$6.9 million. The change in sales tax treatment of aviation fuel included in Public Acts 262 and 263 of 2015 will reduce GF/GP revenue by \$8.0 million in FY 2016-17 and redirect that revenue to the State Aeronautics Fund and the Qualified Airport Fund.

Personal Property Tax Reform. Fiscal year 2016-17 is the second year in which use tax revenue will be earmarked for payments to local governments for reimbursement of property tax revenue losses due to the phase-in of personal property tax exemptions for eligible manufacturing property. In FY 2016-17, \$380.9 million of use tax revenue will be restricted for these local payments, up from \$96.4 million in FY 2015-16, thus reducing GF/GP revenue. This revenue loss will be offset in part by the revenue from the Essential Services Assessment, the specific tax on eligible manufacturing personal property that is exempt from property taxation. In its second year, the Essential Services Assessment will increase GF/GP revenue by \$80.8 million. The SET also will be reduced by the expanding personal property tax exemptions, which will reduce SAF revenue by \$21.1 million. This

loss will be reimbursed through the General Fund contribution to the School Aid budget in FY 2016-17.

Insurance Tax. The legislative fix to prior changes in the MAIPF is expected to increase revenue by \$80.0 million in FY 2016-17.

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

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated \$10.3 billion in FY 2016-17, an increase of 2.6% or \$260.2 million from FY 2015-16.
- The revised GF/GP estimate is \$120.4 million above the May 2016 consensus revenue estimate.

General Fund/General Purpose revenue is estimated at \$10.3 billion in FY 2016-17. This is an increase of 2.6% or \$260.2 million from the preliminary final revenue for FY 2015-16. Baseline GF/GP revenue is expected to increase 2.1%. The revised GF/GP revenue estimates for FY 2016-17 are summarized in Table 5. Most of the growth reflects increased individual income tax collections, reduced MBT refunds, and higher insurance tax revenue.

School Aid Fund

- School Aid Fund revenue will total an estimated \$12.5 billion in FY 2016-17, an increase of 2.9% or \$345.7 million from FY 2015-16.
- The revised SAF estimate is \$48.1 million above the May 2016 consensus revenue estimate.

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.5 billion in FY 2016-17, an increase of \$345.7 million, or 2.9%, from the revised estimate for FY 2015-16. The forecasted increase in SAF revenue again reflects growth in all major earmarked revenue sources. The SAF revised revenue estimates for FY 2016-17 are summarized in Table 5.

Table 5
FY 2016-17 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

			Change from FY 2015-16		\$ Change from 05/16 Consensus
	FY 2015-16 Prelim. Final	FY 2016-17 Revised Est.	Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,051.6	\$11,280.3	\$228.7	2.1%	\$21.7
Tax Changes Not In Baseline	(1,052.9)	(1,021.4)	31.5	----	98.6
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	11,241.9	11,599.4	357.5	3.2	24.6
Less: Refunds	(1,873.0)	(1,919.3)	(46.3)	2.5	(96.2)
Net Income Tax Collections	9,368.9	9,680.1	311.2	3.3	(71.7)
Less: Earmarking to SAF	(2,662.1)	(2,761.8)	(99.7)	3.7	(5.8)
Campaign Fund	(0.7)	(0.8)	(0.1)	20.9	0.0
Net Income Tax to GF/GP	\$6,706.2	\$6,917.4	\$211.3	3.2%	(\$77.5)
<u>Other Taxes</u>					
Corporate Income Tax	929.8	942.8	13.0	1.4	(23.7)
Michigan Business Tax	(893.3)	(658.4)	234.9	----	85.5
Sales	1,143.3	1,172.8	29.5	2.6	(9.2)
Use	931.7	710.3	(221.4)	(23.8)	67.4
Cigarette	186.3	185.3	(1.0)	(0.5)	(1.8)
Insurance Company Premiums	329.2	394.4	65.2	19.8	75.4
Telephone & Telegraph	34.7	35.3	0.6	1.7	(6.7)
Oil & Gas Severance	18.9	24.2	5.3	28.0	1.7
All Other	146.8	160.9	14.1	9.6	12.5
Subtotal Other Taxes	\$2,827.4	\$2,967.6	\$140.2	5.0%	\$201.1
Total Nontax Revenue	465.1	373.8	(91.3)	(19.6)	(3.3)
GF/GP REV. AFTER TAX CHANGES	\$9,998.7	\$10,258.9	\$260.2	2.6%	\$120.4
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$12,174.9	\$12,506.8	\$331.9	2.7%	\$121.9
Tax Changes Not In Baseline	(70.1)	(56.3)	13.8	----	(73.8)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,308.8	5,422.6	113.8	2.1	(53.8)
Use Tax	490.0	545.6	55.6	11.3	33.7
Lottery Revenue	875.0	887.7	12.7	1.5	44.6
State Education Property Tax	1,897.0	1,929.4	32.4	1.7	(9.5)
Real Estate Transfer Tax	289.3	313.9	24.6	8.5	26.2
Income Tax	2,662.1	2,761.8	99.7	3.7	5.8
Casino Tax	112.9	115.0	2.1	1.9	2.0
Other Revenue	469.7	474.5	4.8	1.0	(0.9)
SAF REV. AFTER TAX CHANGES	\$12,104.8	\$12,450.5	\$345.7	2.9%	\$48.1
BASELINE GF/GP AND SAF	\$23,226.5	\$23,787.1	\$560.6	2.4%	\$143.6
Tax & Revenue Changes	(1,123.0)	(1,077.7)	45.3	----	24.8
GF/GP & SAF REV. AFTER CHNGS	\$22,103.5	\$22,709.4	\$605.9	2.7%	\$168.5
Sales Tax	\$7,295.6	\$7,456.2	\$160.6	2.2%	(\$73.4)

¹⁾ FY 2015-16 is the base year for baseline revenue.

FY 2017-18 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2017-18. Personal income and wage and salary employment will grow at a slightly slower rate than in FY 2016-17. Total GF/GP and SAF revenue will reach an estimated \$23.3 billion in FY 2017-18, an increase of 2.5% or \$565.3 million from the revised estimate for FY 2016-17. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.6% 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 \$93.2 million below the May 2016 forecast and is summarized in Table 6.

Tax Policy Changes

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

Personal Property Tax Reform. Use tax revenue of \$410.8 million in FY 2017-18 will be restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and will reduce GF/GP revenue by \$410.8 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$85.6 million. Personal property tax reform will reduce the SET by \$21.2 million due to the phase-in of additional tax exemptions, although the General Fund will reimburse the SAF by \$42.4 million from GF/GP use tax revenue to replace the loss of SET revenue and to pay the additional foundation allowance cost due to lower local school operating revenue.

Business Tax Credits. Michigan Business Tax refunds will lower GF/GP revenue by \$637.4 million (as refunds will exceed payments), although the reduction will be smaller than in FY 2016-17 due to the phase-out of battery credits. Fiscal year 2017-18 is the last year that any battery credits are expected to be claimed.

Sales and Use Taxes. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$54.7 million, of which \$40.1 million is a reduction to the SAF. As a result of changes to Michigan's medical marijuana laws, sales tax collections are expected to increase \$42.7 million in FY 2017-18. The use tax also will be reduced by a large taxpayer refund in FY 2017-18.

Other Changes. Adjustments to the tax treatment of payments to the MAIPF will increase insurance tax revenue by \$80.0 million in FY 2017-18. The phase-out of driver responsibility fees will reduce GF/GP revenue by \$40.0 million in FY 2017-18.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.5 billion in FY 2017-18, an increase of 2.1% or \$215.5 million from the revised estimate for FY 2016-17. Baseline GF/GP revenue is expected to increase 2.8%. Most of the growth reflects increased individual income tax collections. The revised GF/GP revenue estimates for FY 2017-18 are \$132.8 million below the May 2016 consensus estimates and are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$12.8 billion in FY 2017-18, an increase of \$349.9 million, or 2.8%, from the revised estimate for FY 2016-17. The forecasted increase in SAF revenue reflects growth in all major earmarked revenue sources, plus growth in the lottery. Total SAF revenue in FY 2017-18 is projected to set a new record, exceeding the peak reached in FY 2007-08 by \$1.3 billion or 11.2%. The revised SAF revenue estimates for FY 2017-18 are \$39.6 million above the May 2016 consensus estimates and are summarized in Table 6.

Table 6

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

	FY 2016-17 Revised Est.	FY 2017-18 Revised Est.	Change from FY 2016-17		\$ Change from 05/16 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,280.3	\$11,591.1	\$310.8	2.8%	(\$78.4)
Tax Changes Not In Baseline	(1,021.4)	(1,116.8)	(95.4)	----	(54.3)
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	11,599.4	11,956.6	357.2	3.1	(49.8)
Less: Refunds	(1,919.3)	(1,973.0)	(53.7)	2.8	(99.1)
Net Income Tax Collections	9,680.1	9,983.6	303.5	3.1	(148.8)
Less: Earmarking to SAF	(2,761.8)	(2,847.0)	(85.2)	3.1	11.8
Campaign Fund	(0.8)	(0.8)	0.0	(1.2)	0.0
Net Income Tax to GF/GP	\$6,917.4	\$7,135.8	\$218.4	3.2%	(\$137.0)
<u>Other Taxes</u>					
Corporate Income Tax	942.8	971.1	28.3	3.0	(25.5)
Michigan Business Tax	(658.4)	(637.4)	21.0	(3.2)	5.2
Sales	1,172.8	1,209.3	36.5	3.1	(13.9)
Use	710.3	601.7	(108.6)	(15.3)	(39.5)
Cigarette	185.3	184.6	(0.7)	(0.4)	(0.9)
Insurance Company Premiums	394.4	415.6	21.2	5.4	80.2
Telephone & Telegraph	35.3	36.0	0.7	2.0	(5.0)
Oil & Gas Severance	24.2	25.0	0.8	3.3	(1.5)
All Other	160.9	170.1	9.2	5.7	10.7
Subtotal Other Taxes	\$2,967.6	\$2,976.0	\$8.4	0.3%	\$9.8
Total Nontax Revenue	373.8	362.6	(11.3)	(3.0)	(5.5)
GF/GP REV. AFTER TAX CHANGES	\$10,258.9	\$10,474.3	\$215.5	2.1%	(\$132.8)
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$12,506.8	\$12,804.1	\$297.3	2.4%	\$52.6
Tax Changes Not In Baseline	(56.3)	(3.7)	52.6	----	(13.0)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,422.6	5,606.9	184.3	3.4	(46.8)
Use Tax	545.6	569.9	24.3	4.5	43.9
Lottery Revenue	887.7	887.6	(0.1)	(0.0)	47.6
State Education Property Tax	1,929.4	1,989.7	60.3	3.1	(7.9)
Real Estate Transfer Tax	313.9	308.3	(5.6)	(1.8)	10.9
Income Tax	2,761.8	2,847.0	85.2	3.1	(11.8)
Casino Tax	115.0	116.0	1.0	0.9	1.5
Other Revenue	474.5	475.0	0.5	0.1	2.2
SAF REV. AFTER TAX CHANGES	\$12,450.5	\$12,800.4	\$349.9	2.8%	\$39.6
BASELINE GF/GP AND SAF	\$23,787.1	\$24,395.2	\$608.1	2.6%	(\$25.8)
Tax & Revenue Changes	(1,077.7)	(1,120.5)	(42.8)	----	(67.4)
GF/GP & SAF REV. AFTER CHNGS	\$22,709.4	\$23,274.7	\$565.3	2.5%	(\$93.2)
Sales Tax	\$7,456.2	\$7,708.8	\$252.6	3.4%	(\$63.9)

¹⁾ FY 2015-16 is the base year for baseline revenue.

FY 2018-19 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2018-19. Personal income and wage and salary employment will grow at a slightly faster rate than in FY 2017-18. Total GF/GP and SAF revenue will reach an estimated \$23.6 billion in FY 2018-19, an increase of 1.4% or \$335.3 million from the revised estimate for FY 2017-18. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.8% 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 7](#).

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2018-19 include several significant transfers from the General Fund to other State funds and the first General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by \$205.8 million due to the expansion of the Homestead Property Tax Credit. Income tax revenue will be reduced by another \$150.0 million in FY 2018-19 by the earmark of income tax revenue to the Michigan Transportation Fund.

Personal Property Tax Reform. Use tax collections of \$438.0 million in FY 2018-19 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, and will reduce GF/GP revenue by \$438.0 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$90.5 million. The SAF also will be affected by personal property tax reform. The SET will be reduced by \$21.5 million due to the phase-in of additional tax exemptions. The General Fund will reimburse this loss and also pay the increased cost of the foundation allowance due to the corresponding reduction in local school operating revenue. This transfer will reduce the General Fund by \$42.9 million and increase the SAF by \$42.9 million.

Other Changes. Michigan Business Tax refunds will lower GF/GP revenue by \$632.9 million, although the reduction will be smaller than in FY 2017-18. The imposition of sales tax on marijuana is projected to increase sales tax revenue by \$44.0 million (\$7.3 million GF/GP, \$32.3 million SAF, and \$4.4 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$62.6 million, of which \$7.5 is GF/GP, \$45.9 million is SAF, and \$9.2 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.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.5 billion in FY 2018-19, a decrease of less than 0.1% or \$4.9 million from the revised estimate for FY 2017-18. The decline in revenue reflects the value of tax changes more than offsetting any revenue growth from the improving economy. Baseline GF/GP revenue is expected to increase 3.1%. The initial GF/GP revenue estimates for FY 2018-19 are summarized in [Table 7](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$23.6 billion in FY 2018-19, an increase of \$340.1 million, or 2.7%, from the revised estimate for FY 2017-18. Total SAF revenue in FY 2018-19 is projected to exceed the peak reached in FY 2007-08 by \$1.6 billion or 14.1%. Since the most recent SAF revenue decline in FY 2011-12, FY 2018-19 will represent the seventh consecutive year of increases in SAF revenue. The initial SAF revenue estimates for FY 2018-19 are summarized in [Table 7](#).

Table 7
FY 2018-19 INITIAL REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2017-18 Revised Est.	FY 2018-19 Initial Est.	Change from FY 2017-18	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$11,591.1	\$11,948.3	\$357.2	3.1%
Tax Changes Not In Baseline Revenue After Tax Changes	(1,116.8)	(1,478.8)	(362.0)	----
<u>Personal Income Tax</u>				
Gross Collections	11,956.6	12,323.8	367.2	3.1
Less: Refunds	(1,973.0)	(2,244.0)	(271.0)	13.7
Net Income Tax Collections	9,983.6	10,079.8	96.2	1.0
Less: Earmarking to SAF	(2,847.0)	(2,934.4)	(87.4)	3.1
Earmark to MI Transportation Fund	0	(150.0)	(150.0)	----
Campaign Fund	(0.8)	(0.8)	0.0	0.0
Net Income Tax to GF/GP	\$7,135.8	\$6,994.6	(\$141.2)	(2.0%)
<u>Other Taxes</u>				
Corporate Income Tax	971.1	999.2	28.1	2.9
Michigan Business Tax	(637.4)	(632.9)	4.5	(0.7)
Sales	1,209.3	1,270.0	60.7	5.0
Use	601.7	627.4	25.7	4.3
Cigarette	184.6	183.3	(1.3)	(0.7)
Insurance Company Premiums	415.6	420.5	4.9	1.2
Telephone & Telegraph	36.0	36.7	0.7	1.9
Oil & Gas Severance	25.0	25.7	0.7	2.8
All Other	170.1	177.6	7.6	4.4
Subtotal Other Taxes	\$2,976.0	\$3,107.5	\$131.6	4.4%
Total Nontax Revenue	362.6	367.3	4.8	1.3
GF/GP REV. AFTER TAX CHANGES	\$10,474.3	\$10,469.5	(\$4.9)	(0.0%)
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$12,804.1	\$13,137.7	\$333.6	2.6%
Tax Changes Not In Baseline Revenue After Tax Changes	(3.7)	2.8	6.5	----
Sales Tax	5,606.9	5,772.0	165.1	2.9
Use Tax	569.9	597.2	27.3	4.8
Lottery Revenue	887.6	879.3	(8.3)	(0.9)
State Education Property Tax	1,989.7	2,055.8	66.1	3.3
Real Estate Transfer Tax	308.3	310.4	2.1	0.7
Income Tax	2,847.0	2,934.4	87.4	3.1
Casino Tax	116.0	117.5	1.5	1.3
Other Revenue	475.0	473.9	(1.1)	(0.2)
SAF REV. AFTER TAX CHANGES	\$12,800.4	\$13,140.5	\$340.1	2.7%
BASELINE GF/GP AND SAF	\$24,395.2	\$25,086.0	\$690.8	2.8%
Tax & Revenue Changes	(1,120.5)	(1,476.0)	(355.5)	----
GF/GP & SAF REV. AFTER CHNGS	\$23,274.7	\$23,610.0	\$335.3	1.4%
Sales Tax	7,708.8	7,933.8	225.0	2.9

¹⁾ FY 2015-16 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2015-16 THROUGH FY 2018-19

Transportation Package and Individual Income Tax Revenue. The major changes included in the transportation package enacted in November 2015 do not affect the General Fund (or School Aid Fund) from FY 2014-16 through FY 2017-18. However, the transportation package will have a significant impact on General Fund revenue beginning in FY 2018-19, when provisions of the legislation will lower General Fund revenue by \$355.8 million: \$150.0 million for the revenue earmarked to the Michigan Transportation Fund and \$205.8 million for the expansion of the Homestead Property Tax Credit.

Individual Income Tax. Individual income tax revenue will increase by an estimated 3.3% in FY 2016-17, to \$9.7 billion. As in FY 2015-16, income tax withholding in FY 2016-17 will continue to grow as wages and employment continue to grow. As the economy moderates, growth in withholding will decline from the 6.8% increase experienced in FY 2015-16 to 3.1% in FY 2016-17. As the Michigan economy continues to expand, albeit more slowly, all components of the income tax are expected to exhibit growth, resulting in net individual income tax revenue increasing 3.1% in FY 2017-18 and 1.0% in FY 2018-19. The much slower rate of growth in individual income tax revenue in FY 2018-19 reflects the impacts of the expanded Homestead Property Tax Credit and the earmark of revenue to the Michigan Transportation Fund. Compared with the May 2016 consensus revenue estimates, the revised estimate for FY 2016-17 individual income tax revenue is \$71.7 million lower, while the revised estimate for FY 2017-18 is \$148.8 million lower. Individual income tax revenue currently is directed to both the General Fund and the School Aid Fund. The School Aid Fund receives 23.8% of gross income tax collections (withholding, quarterly, and annual payments), and through FY 2017-18, the GF/GP budget receives the remaining 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds). Beginning in FY 2018-19, the General Fund portion of collections will be reduced by the statutory requirement to deposit a fixed amount of income tax revenue into the Michigan Transportation Fund. These deposits to the MTF 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. Sales tax revenue during FY 2015-16 increased 0.7% over the FY 2014-15 level, largely supported by a 3.0% increase in the sales tax received from increased vehicle sales. While withholding collections suggest that workers have realized significant wage growth in FY 2015-16, the increases have not translated into strong growth in sales tax revenue, although sales tax collections did increase in FY 2015-16, compared to the 1.5% decline in FY 2014-15. The forecast predicts consumption to increase slowly, and fuel prices to rise slightly, resulting in sales tax revenue rising 2.2% in FY 2016-17, 3.4% in FY 2017-18, and 2.9% in FY 2018-19. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with May 2016 consensus revenue estimates, the revised sales tax estimate for FY 2016-17 is \$73.4 million lower, while the revised estimate for FY 2017-18 is down \$63.9 million. The initial sales tax estimate for FY 2018-19 is \$7.9 billion. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. The revised estimate for FY 2016-17 use tax revenue predicts a 7.8% increase, largely attributable to a large tax refund paid during FY 2015-16, which reduced FY 2015-16 revenue. Use tax revenue also

is expected to grow as a result of increased vehicle leasing and legislation enacted to increase sales and use tax collections from certain internet retailers. Use tax revenue is expected to decline 3.3% in FY 2017-18, again due to several large tax refunds. However, the portion of use tax revenue received by the State of Michigan is expected to decline more drastically. Beginning in FY 2015-16, a portion of use tax revenue that has previously been directed to the General Fund will be converted into a local use tax used to fund reimbursements to local units affected by personal property tax amendments approved by the voters in August 2014. Payments to the Local Community Stabilization Authority start at \$96.4 million in FY 2015-16, rise to \$380.9 million in FY 2016-17, \$410.8 million in FY 2017-18, \$438.0 million in FY 2018-19, and increase annually to over \$500.0 million by FY 2021-22. As a result, although combined State and local use taxes are expected to increase 7.8% in FY 2016-17, use tax revenue received by the State is projected to decrease 11.7% in FY 2016-17, with the portion directed to the General Fund falling 23.8%. In FY 2017-18, the State's share of use tax revenue will decline 6.7% and the General Fund portion will fall 15.3%. As the amount of State revenue converted to local use taxes grows more slowly in FY 2018-19, the use tax revenue received by the State is expected to increase 4.5%, a figure artificially boosted because of the significant refunds that will be paid in FY 2017-18. Compared with the May 2016 consensus revenue estimates, the FY 2016-17 estimate for combined State and local use tax collections is revised up by \$101.1 million, while the FY 2017-18 estimate is \$4.3 million higher. One-third of combined State and local use tax revenue is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes will total an estimated \$939.6 million in FY 2016-17, a decrease of 0.7% from FY 2015-16. Tobacco tax revenue is expected to continue its long-term downward trend, declining 0.4% in FY 2017-18 and 0.7% in FY 2018-19. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the Capitol Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2016-17, casino tax revenue is projected to total \$115.0 million, a 1.9% increase from FY 2015-16. Casino tax revenue is expected to continue growing in FY 2017-18 and FY 2018-19, rising 0.9% and 1.3%, respectively.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to \$1.8 billion. After increasing 2.1% in FY 2015-16, SET collections are projected to increase 1.7% in FY 2016-17, 3.1% in FY 2017-18, and 3.3% in FY 2018-19, as the housing market improves and higher inflation allows greater increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET 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 net lottery revenue increasing 11.6% in FY 2015-16. Lottery revenue growth is expected to slow, with revenue increasing 1.5% in in FY 2016-17, remaining flat in FY 2017-18, and declining 0.9% in FY 2018-19. All of the net revenue generated by the lottery is earmarked to the SAF. Depending on the year, lottery revenue represents approximately 6.2% to 6.6% of total earmarked SAF revenue.

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

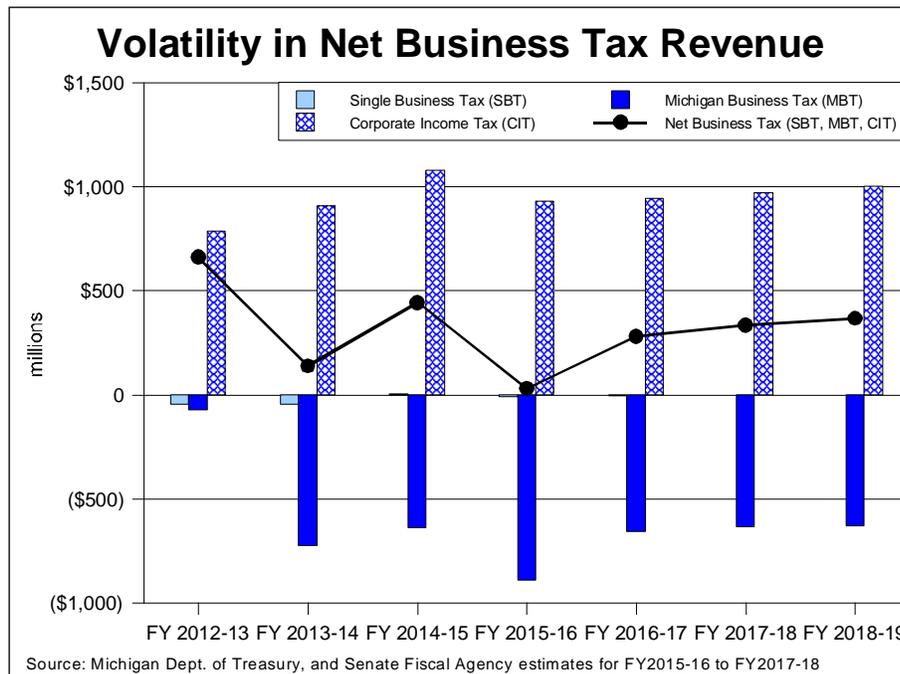
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling approximately \$639.4 million in FY 2014-15, net MBT revenue in FY 2015-16 totaled a negative \$893.3 million. Estimated MBT credits are projected to reduce State revenue by between \$600.0 million and \$700.0 million each year over the forecast period. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund board from time to time amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although in some cases the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates. The administration has been working with a number of taxpayers that will claim the largest credits on ways to limit this uncertainty.

These credits represent a significant reduction in General Fund revenue. Because of the magnitude of these MBT credits, their unpredictable nature can result in large swings in General Fund revenue. Based on the preliminary final FY 2015-16 revenue, MBT credits reduced General Fund revenue by approximately \$1.0 billion, or approximately 10.4%; and net MBT revenue reduced General Fund revenue by \$893.3 million, or approximately 8.9%. As MBT credits (of which Michigan Economic Growth Authority credits represent the majority that may be claimed) decline in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 6.4% in FY 2016-17, 6.1% in FY 2017-18, and 6.0% in FY 2018-19. Despite the administration's efforts, when these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals and thus limits efforts to correctly predict revenue.

In FY 2015-16, Corporate Income Tax revenue fell 13.7%, after growing 18.9% in FY 2014-15, underscoring the potential volatility in Corporate Income Tax revenue. In FY 2015-16, net business tax revenue from the MBT, CIT, and Single Business Tax (SBT) totaled \$30.3 million, down 93.2% from FY 2014-15. The revised estimate for business taxes in FY 2016-17 is \$279.4 million, an 822.8% increase from FY 2015-16 that is \$61.8 million above the May 2016 consensus estimate. The FY 2016-17 increase in business tax revenue reflects a significant a revision in net MBT revenue (with the expectation that \$85.5 million less will be paid in refunds), combined with an estimated 1.4% increase in CIT revenue. Corporate profits generally exhibit significant volatility. (One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) Net revenue from business taxes (the MBT and CIT

plus remaining refunds under the SBT) is projected to increase to a positive \$333.7 million in FY 2017-18 and \$366.3 million in FY 2018-19 (Figure 19). All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 19



Insurance Taxes. Revenue from Michigan's taxes on insurance companies will total an estimated \$394.4 million in FY 2016-17, a 19.8% increase from FY 2015-16 and \$75.4 million above the May 2016 consensus revenue estimate. Public Act 204 of 2012 had transferred Secretary of State functions related to the Assigned Claims Plan and Assigned Claims Facility (ACF) to the Michigan Automobile Insurance Placement Facility. At the time, the legislation was not anticipated to affect insurance tax revenue. However, the legislation had the effect of allowing insurance companies to claim larger credits against their liability and many taxpayers began claiming these credits during FY 2014-15, with FY 2014-15 revenue declining 11.0% from FY 2013-14. Public Acts 277 and 278 of 2016 ended the ability of insurance companies to include MAIPF payments in amounts eligible for a credit, resulting in the increased revenue forecast for FY 2016-17.

REVENUE TRENDS

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

In any given year, actual revenue from any tax will generally deviate from the average growth rates, and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for earlier fiscal years. Furthermore, history indicates that not only will the

economy likely deviate from trends over this period, but also the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer-term view of Michigan's economy for FY 2019-20 and FY 2020-21, net GF/GP revenue is expected to increase 3.5% in FY 2019-20, to \$10.8 billion, while SAF revenue will increase 3.4%, to \$13.6 billion. In FY 2020-21, net GF/GP revenue is expected to increase 3.3%, to \$11.2 billion, while SAF revenue will increase 3.2%, to \$14.0 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2015-16, FY 2016-17, and FY 2017-18. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2015-16, FY 2016-17, and FY 2017-18 have been adjusted to reflect a common base year.

Table 8
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2015-16
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 19, 2013	\$9,946.4	\$12,339.6	\$22,286.0
January 10, 2014 ^{a)}	9,826.4	12,282.1	22,108.5
May 13, 2014	9,547.1	12,207.7	21,754.8
May 15, 2014 ^{a)}	9,553.2	12,246.6	21,799.8
December 19, 2014	9,367.4	12,246.4	21,613.8
January 16, 2015 ^{a)}	9,509.1	12,274.5	21,783.6
May 8, 2015	9,745.3	12,114.2	21,859.5
May 15, 2015 ^{a)}	9,712.3	12,209.7	21,922.0
December 17, 2015	9,928.4	12,099.6	22,028.0
January 14, 2016 ^{a)}	9,919.9	12,123.7	22,043.6
May 13, 2016	9,809.1	12,067.4	21,876.5
May 17, 2016 ^{a)}	9,827.5	12,059.5	21,887.0
December 19, 2016	9,912.7	12,096.9	22,009.6
<u>Change From Previous Estimate:</u>			
Dollar Change	\$85.2	\$37.4	\$122.6
Percent Change	0.9%	0.3%	0.6%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$33.7)	(\$242.7)	(\$276.4)
Percent Change	-0.3%	-2.0%	-1.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2014-15; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2015-16 was made in December 2013 at \$22.3 billion, as shown in Table 8. This estimate was decreased by \$177.5 million at the January 2014 Consensus Revenue Estimating Conference, and decreased another \$308.7 million at the May 2014 Consensus Revenue Estimating Conference. The January 2015 consensus conference decreased the estimate by another \$16.2 million and the May 2015 consensus estimate increased it by \$138.4 million. The January 2016 consensus conference increased the estimate by \$121.6 million but the May 2016 consensus estimate decreased it by \$156.7 million. The Senate Fiscal Agency's

revised estimate for FY 2015-16 presented in this report increases the baseline estimate by \$122.6 million above the May 2016 consensus estimate, to \$22.0 billion.

Table 9
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2016-17
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 19, 2014	\$9,643.0	\$12,580.2	\$22,223.2
January 16, 2015 ^{a)}	9,847.1	12,657.3	22,504.4
May 8, 2015	10,072.7	12,444.2	22,516.9
May 15, 2015 ^{a)}	10,026.9	12,569.7	22,596.6
December 17, 2015	10,216.0	12,411.3	22,627.3
January 14, 2016 ^{a)}	10,228.2	12,468.7	22,696.9
May 13, 2016	10,057.0	12,371.3	22,428.3
May 17, 2016 ^{a)}	10,183.7	12,384.9	22,568.6
December 19, 2016	10,118.1	12,428.7	22,546.8
Change From Previous Estimate:			
Dollar Change	(\$65.6)	\$43.8	(\$21.8)
Percent Change	-0.6%	0.4%	-0.1%
Change From Initial Estimate:			
Dollar Change	\$475.1	(\$151.5)	\$323.6
Percent Change	4.9%	-1.2%	1.5%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2014-15; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2016-17 was made in December 2014, as shown in [Table 9](#). At that time, baseline revenue in FY 2016-17 was estimated at \$22.2 billion. This estimate was increased by \$281.2 million at the January 2015 Consensus Revenue Estimating Conference, and increased another \$92.3 million at the May 2015 Consensus Revenue Estimating Conference. The January 2016 consensus conference increased the estimate by another \$100.3 million but the May 2015 consensus estimate decreased it by \$128.3 million. The Senate Fiscal Agency's revised estimate for FY 2016-17 presented in this report decreases the baseline estimate by \$21.8 million below the May 2016 consensus estimate, to \$22.5 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2017-18 was made in December 2015, as shown in [Table 10](#). At that time, baseline revenue in FY 2017-18 was estimated at \$23.2 billion. This estimate was increased by \$116.6 million at the January 2016 Consensus Revenue Estimating Conference, but decreased \$51.1 million at the May 2016 Consensus Revenue Estimating Conference. The revised Senate Fiscal Agency estimate for FY 2017-18 decreases baseline revenue for FY 2017-18 by \$194.5 million, to \$23.1 billion.

Table 10

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

Forecast Date	GF/GP	SAF	Total
December 17, 2015	\$10,511.2	\$12,734.8	\$23,246.0
January 14, 2016 ^{a)}	10,535.7	12,826.9	23,362.6
May 13, 2016	10,398.7	12,733.2	23,131.9
May 17, 2016 ^{a)}	10,560.0	12,751.5	23,311.5
December 19, 2016	10,392.0	12,725.1	23,117.1
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$168.1)	(\$26.4)	(\$194.5)
Percent Change	-1.6%	-0.2%	-0.8%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$119.3)	(\$9.7)	(\$129.0)
Percent Change	-1.1%	-0.1%	-0.6%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2014-15; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**BUDGET
STABILIZATION FUND**

BUDGET STABILIZATION FUND

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

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.

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

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

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

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of \$55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled \$189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of \$73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case. In FY 2013-14, the Legislature transferred \$194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the Detroit bankruptcy. At the same time, 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. The budget for FY 2016-

17 (Public Act 268 of 2016) provides for the transfer of 25.0% of the General Fund unassigned fund balance to the BSF at the end of FY 2016-17.

Table 11 presents the recent history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2014-15. Also presented in this table are the SFA's estimates for year-end balances for FY 2015-16, FY 2016-17, FY 2017-18, and FY 2018-19, assuming enacted transfers to the BSF and estimated interest earnings. 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 and estimated formula deposits for FY 2016-17, FY 2017-18, and FY 2018-19 are presented in Table 12.

FY 2015-16

The BSF ended FY 2014-15 with a balance of \$498.1 million. During FY 2015-16, \$112.5 million was appropriated to the Fund. As noted above, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of \$17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 through FY 2034-35. In addition to that deposit, the annual budget legislation, Public Act 84 of 2015, appropriated \$95.0 million to the BSF. Interest earnings are estimated at \$1.4 million in FY 2015-16, resulting in an estimated ending balance of \$612.0 million. The deposits appropriated to the BSF in FY 2015-16 were \$130.6 million below the formula deposit of \$243.1 million for FY 2015-16 estimated at the time of budget enactment.

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

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the statutory formula will trigger payments into the Fund in FY 2016-17; however, no payment will be required in FY 2017-18 or FY 2018-19.

For FY 2016-17, three 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 third year of reimbursement for the FY 2013-14 payment from the BSF to the Settlement Administration Fund for the Detroit retirement systems). Public Act 340 of 2016 (Senate Bill 800) appropriated \$75.0 million of General Fund money to the BSF in FY 2016-17. Finally, the enacted budget for FY 2016-17 (Public Act 268 of 2016) appropriated 25.0% of the year-end General Fund unassigned closing balance to the BSF. Based on the current estimate of the FY 2016-17 year-end balance, this deposit will be \$107.6 million. This will reduce the amount of funds available to carry forward into FY 2017-18 and reduce the projected FY 2017-18 General Fund closing balance. 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 \$149.0 million in FY 2016-17. This is \$56.5 million above the amounts appropriated to the BSF in the Trust Fund Act and Public Act 340 of 2016.

No pay-in to the BSF is estimated in FY 2017-18 or FY 2018-19 pursuant to the statutory formula. A deposit of \$17.5 million in each of these years already is required under the Trust Fund Act.

If the additional deposit based on growth in personal income is appropriated in FY 2016-17 and the Trust Fund Act deposits continue, the year-end balance in the BSF is estimated at \$765.0 million in FY 2016-17, \$791.3 million in FY 2017-18, and \$821.9 million in FY 2018-19. If the additional formula deposit is not appropriated, based on the FY 2016-17 appropriation in Public Act 340 of 2016 and the continuation of the annual deposit of \$17.5 million required by the Trust Fund Act, the year-end Fund balances are estimated at \$708.5 million in FY 2016-17, \$734.1 million in FY 2017-18, and \$763.8 million in FY 2018-19, as shown in Table 11.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2018-19 ESTIMATES (Millions of Dollars)				
Fiscal Year^{a)}	Pay-In	Interest Earned	Pay-Out	Fund Balance
1998-99	\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	0.0	1.8	147.0	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.0	0.0	2.2
2011-12	362.7	0.2	0.0	365.1
2012-13	140.0	0.5	0.0	505.6
2013-14 ^{b)}	75.0	0.4	194.8	386.2
2014-15 ^{c)}	111.5	0.4	0.0	498.1
Enacted Deposits and Estimated Interest Earnings:				
2015-16 ^{d)}	\$112.5	\$1.4	\$0.0	\$612.0
2016-17 ^{e)}	92.5	4.0	0.0	708.5
2017-18	17.5	8.1	0.0	734.1
2018-19	17.5	12.2	0.0	763.8
<p>a) For FY 1998-99 to FY 2014-15 the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FY 2015-16 to FY 2018-19 include enacted legislation through Public Act 340 of 2016, and estimated interest earnings.</p> <p>b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of \$194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.</p> <p>c) PA 252 of 2014 appropriated \$94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, 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.</p> <p>d) Estimated pay-in consists of the \$17.5 million deposit authorized by the Trust Fund Act and \$95.0 million appropriated in PA 84 of 2015.</p> <p>e) Estimated pay-in consists of \$17.5 million pursuant to the Trust Fund Act and \$75.0 million appropriated in Public Act 340 of 2016. These appropriations total \$92.5 million, an amount \$56.6 million less than the estimated formula deposit of \$149.1 million in FY 2016-17. Appropriation of 25% of the FY 2016-17 year-end unassigned General Fund closing balance would add an estimated \$107.6 million to the BSF in FY 2016-17.</p>				

Figure 20

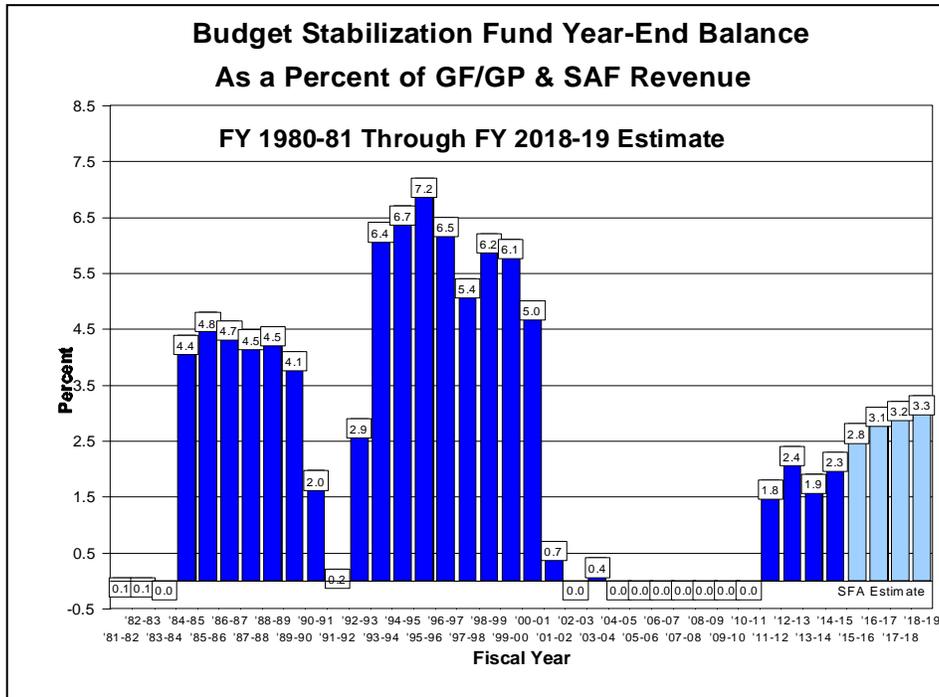


Table 12

**ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2015-16, FY 2016-17, FY 2017-18, and FY 2018-19
(Millions of Dollars)**

	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Michigan Personal Income (MPI)	\$424,807.5	\$440,005.7	\$455,630.6	\$470,836.6	\$490,606.0
Less: Transfer Payments	91,438	94,290	98,790	104,103	109,684
Subtotal	\$333,369	\$345,716	\$356,840	\$366,734	\$380,922
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.1975	2.2020	2.2495	2.2916	2.3367
Equals: Real Adjusted MPI	\$151,707	\$157,002	\$158,633	\$160,034	\$163,020
Percent Change from Prior Year		3.49%	1.04%	0.88%	1.87%
Excess Over 2.0%		1.49%	0.00%	0.00%	0.00%
		FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Multiplied by: Estimated GF/GP Revenue		\$9,998.7	\$10,258.9	\$10,474.3	\$10,469.5
Equals: Transfer to the BSF			\$149.0	\$0.0	\$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), it 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 limit in FY 2007-08 despite increases in the income and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2014-15. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will remain well below the revenue limit in FY 2015-16 through FY 2018-19. 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. In FY 2014-15, the gap narrowed to \$7.4 billion. For the future, the size of this gap is estimated to trend upward with the amount that State revenue is below the limit forecast to increase to \$10.6 billion in FY 2018-19.

THE REVENUE LIMIT

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

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

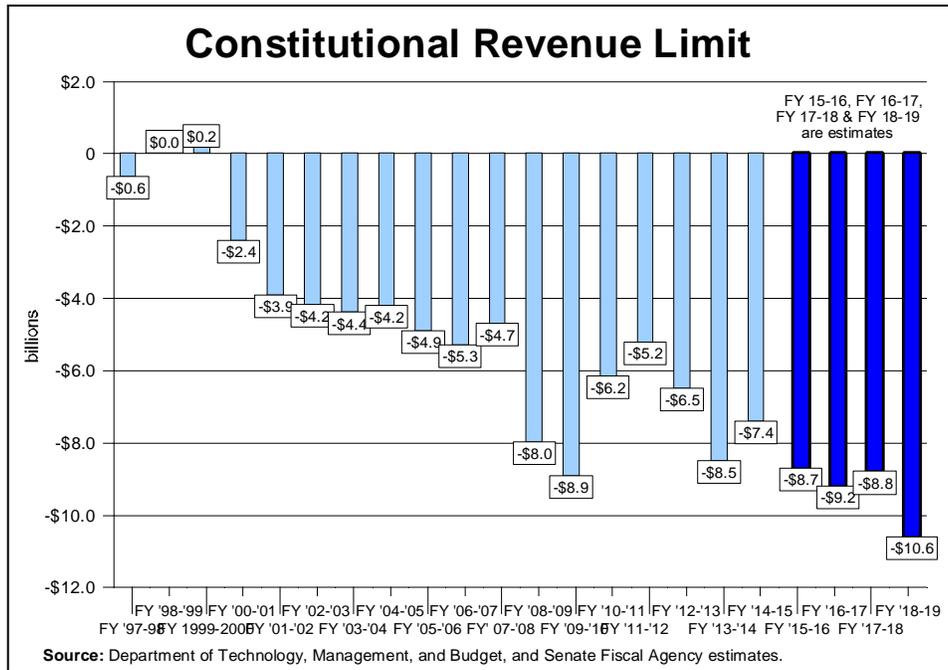
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary final revenue for FY 2015-16 and the SFA's revenue estimates for FY 2016-17, FY 2017-18, and FY 2018-19, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in [Figure 21](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 13](#).

Figure 21



FY 2015-16

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2014 equals \$406.0 billion, which results in a revenue limit equal to \$38.5 billion in FY 2015-16. This is an increase of \$1.9 billion in the revenue limit from FY 2014-15. Based on the SFA's revised revenue estimates for FY 2015-16, revenue subject to the revenue limit will equal an estimated \$29.8 billion, which is an increase of \$0.5 billion from FY 2014-15. Revenue subject to the revenue limit will fall below the limit by an estimated \$8.7 billion, or 22.6%, in FY 2015-16. Revenue subject to the limit is estimated to increase 1.9% in FY 2015-16, compared with the 5.1% increase in personal income during 2014. When revenue growth is less than the growth in personal income, the amount by which the State is under the revenue limit increases.

FY 2016-17

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2015 equals \$424.8 billion, and as a result, the revenue limit equals \$40.3 billion in FY 2016-17, an increase of \$1.8 billion over FY 2015-16. Based on the SFA's revised revenue estimates for FY 2016-17, revenue subject to the revenue limit will equal an estimated \$31.1 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.2 billion, or 22.9%, in FY 2016-17. With personal income growth of 4.6% exceeding the 4.2% growth of revenue subject to the limit, the amount by which the State is under the revenue limit will increase. The loss of use tax revenue due to personal property tax reform largely accounts for the significant increase in the amount by which State revenue is projected to be below the limit in FY 2016-17.

FY 2017-18

The Senate Fiscal Agency estimates that personal income in Michigan during 2016 will equal \$440.0 billion, and as a result, the revenue limit will equal \$41.8 billion in FY 2017-18. Based on the SFA's revised revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated \$33.0 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$8.8 billion, or 21.0%, in FY 2016-17. Personal income is expected to grow at 3.6% compared to an estimated 6.1% increase in revenue subject to the limit, resulting in a decrease in the amount by which the State is under the revenue limit.

FY 2018-19

The Senate Fiscal Agency estimates that personal income in Michigan during 2017 will equal \$455.6 billion, and as a result, the revenue limit will equal \$43.2 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 \$32.7 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$10.6 billion, or 24.4%, 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 3.6% will outpace the forecasted 0.9% decrease in State revenue subject to the revenue limit.

Table 13
COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2014-15 THROUGH FY 2018-19 ESTIMATE
(Millions of Dollars)

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
	Final	Estimate	Estimate	Estimate	Estimate
Revenue Subject to Limit					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$10,660.5	\$11,051.6	\$11,280.3	\$11,591.1	\$11,948.3
Constitutional Revenue Sharing (baseline)	750.7	750.0	758.4	782.8	782.3
School Aid Fund (baseline)	11,783.1	12,174.9	12,506.8	12,804.1	13,137.7
Transportation Funds	2,205.7	2,274.7	2,779.9	2,945.8	3,154.7
Other Restricted Non-Federal Aid Revenue	4,576.0	4,713.3	4,854.7	5,000.4	5,150.4
<u>Adjustments:</u>					
GF/GP Federal Aid	(38.5)	(18.8)	(20.0)	(20.0)	(20.0)
GF/GP Balance Sheet Adjustments	(626.1)	(1,052.9)	(1,021.4)	(116.8)	(1,478.8)
SAF Balance Sheet Adjustments	(33.8)	(70.1)	(56.3)	(3.7)	2.8
Total Revenue Subject to Limit	\$29,277.6	\$29,822.7	\$31,082.4	\$32,983.7	\$32,677.4
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017
Amount	\$386,471	\$405,975	\$424,807.5	\$440,005.7	\$455,630.6
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$36,676.1	\$38,527.0	\$40,314.2	\$41,756.5	\$43,239.3
1.0% of Limit	366.8	385.3	403.1	417.6	432.4
Amount Under (Over) Limit	\$7,398.5	\$8,704.3	\$9,231.8	\$8,772.9	\$10,562.0
Percent Below Limit	20.2%	22.6%	22.9%	21.0%	24.4%
CY = Calendar Year; FY = Fiscal Year					

**ESTIMATE OF
YEAR-END BALANCES**

ESTIMATE OF YEAR-END BALANCES

This section of the Senate Fiscal Agency's (SFA's) report provides details of the estimated year-end balances of the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets for FY 2015-16 and FY 2016-17. This section also outlines projections for the FY 2017-18 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2015-16, FY 2016-17, and FY 2017-18 GF/GP and SAF budgets. Unlike FY 2013-14, when there was a large unanticipated negative Michigan Business Tax (MBT) revenue adjustment during the book-closing process, the ongoing FY 2015-16 book-closing process appears to indicate that approximately \$138.0 million of the \$1.0 billion of MBT credits estimated to be claimed in FY 2015-16, will not be claimed, resulting in a positive impact on the State's FY 2015-16 balance sheet. The final accounting of FY 2015-16 revenue and appropriations has not been completed, but the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have a \$589.8 million balance and the SAF budget will have a \$165.9 million balance. A comparison of the SFA estimate of FY 2016-17 revenue with actual and projected appropriations leads to a \$430.2 million GF/GP year-end balance and a \$114.0 million SAF year-end balance.

The outlook for FY 2017-18 points to a GF/GP budget ending balance of \$121.2 million and an SAF ending balance of \$176.2 million.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2015-16 Estimate	FY 2016-17 Estimate	FY 2017-18 Estimate
General Fund/General Purpose	\$589.8	\$430.2	\$121.2
School Aid Fund	\$165.9	\$114.0	\$176.2

FY 2015-16 YEAR-END BALANCE ESTIMATES

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. A comprehensive annual financial report (commonly referred to as the CAFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2015-16 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the FY 2015-16 fiscal year with a \$589.8 million balance. The SFA is estimating that the FY 2015-16 SAF budget will close the fiscal year with a \$165.9 million balance.

The first column of Table 15 provides a summary of the current SFA estimate of a \$589.8 million balance in the FY 2015-16 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2016-17 revenue source. During the development of the FY 2016-17 budget, an estimated FY 2015-16 carry-forward amount of \$135.3 million in GF/GP revenue was built into the budget for FY 2016-17, so this revised estimate is \$454.5 million above the amount initially estimated as the ending balance for FY 2015-16 that would carry forward into FY 2016-17. This change in the FY 2015-16 ending balance is primarily due to potential book-closing revenue adjustments that would reflect an increase of approximately \$187.0 million of

combined revenue from unclaimed MBT credits (\$138.0 million) and unclaimed property (escheats) revenue (\$49.0 million), as well as an FY 2015-16 year-end lapse amount that is approximately \$200.0 million higher than initially projected.

On the revenue side of the FY 2015-16 GF/GP budget ledger, the SFA is now estimating that revenue will total \$10.7 billion. This represents a \$375.3 million or 3.6% increase from the final level of FY 2014-15 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a \$264.6 million increase from the May 2016 consensus revenue estimate. It is important to recognize that a significant portion of the increase can be attributed to the fact that the estimate for MBT revenue had been a negative \$1.0 billion due primarily to the impact of the redemption of certificated credits issued to various businesses by the Michigan Strategic Fund Agency under now-expired provisions of the MBT Act. Using the most recent data from the Department of Treasury, net MBT revenue for FY 2015-16 is estimated by the SFA to be a negative \$893.3 million due to several accruals that are expected to appear during the book-closing process, resulting in an increase of \$138.0 million in the forecasted MBT amount. Other revenue sources, primarily unclaimed property (escheats) revenue and use tax revenue, also closed the year over the forecasted amount. The combination of these factors results in the \$264.6 million increase in revenue from the May 2016 consensus revenue estimate.

On the expenditure side of the FY 2015-16 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$10.1 billion, which includes an appropriation to the Budget Stabilization Fund of \$95.0 million, and a \$258.0 million GF/GP appropriation to the Department of Transportation that was necessary to draw down Federal matching funds before the passage of road improvement legislation. The \$10.1 billion of expenditures represents a \$480.2 million or 5.0% increase from the final level of FY 2014-15 GF/GP expenditures.

As [Table 15](#) indicates, enacted supplemental appropriations for FY 2015-16 totaled \$282.7 million. Of that total, \$160.8 million, or 56.9%, was related to the Flint drinking water declaration of emergency. For the second consecutive year, there also were larger-than-usual estimated year-end lapses; for FY 2015-16, the lapses amounted to \$190.1 million, primarily in the Department of Health and Human Services (DHHS), which accounted for an estimated \$150.0 million of the total lapses. As mentioned previously, the FY 2015-16 book-closing process is still under way, and any adjustments that occur during that process could have an impact on both the revenue and expenditures recorded for FY 2015-16.

The first column of [Table 16](#) provides a summary of the FY 2015-16 SFA estimate of a \$165.9 million year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2016-17 revenue source. As stated previously, the FY 2016-17 budget was developed assuming that funds carried forward from FY 2015-16 would be used for FY 2016-17 appropriations. When the FY 2016-17 budget was developed, the assumption was that \$104.2 million would be available at the FY 2015-16 year-end and carried forward; the estimate now is that \$165.9 million is available, or \$61.7 million more than earlier projected. The additional \$61.7 million in the estimated year-end balance reflects two factors: higher projected revenue and lower-than-anticipated costs (i.e., lapses).

On the revenue side of the FY 2015-16 SAF budget ledger, the SFA is now estimating that revenue will total \$14.3 billion. This represents a \$249.4 million or 1.8% increase from the final level of FY 2014-15 SAF revenue; in FY 2015-16, there was \$169.3 million more in Federal aid than in FY 2014-15, \$21.4 million more in GF/GP support of the School Aid budget, and expected growth in SAF-earmarked revenue. The current SFA estimate of ongoing SAF revenue for FY 2015-16 (excluding GF/GP, Medicaid managed care use tax, and Federal revenue) represents a \$37.4 million increase from the May 2016 consensus revenue estimate. The estimate also includes \$205.0 million in Medicaid managed care use tax revenue, a decrease of \$5.5 million from earlier estimates.

On the expenditure side of the FY 2015-16 SAF budget ledger, the SFA is now estimating that expenditures will total \$14.2 billion. This represents a \$273.7 million or 2.0% increase from the final level of FY 2014-15 SAF expenditures. The estimated final level of FY 2015-16 SAF expenditures includes the initial ongoing K-12 appropriation of \$13.8 billion, \$49.8 million in initial one-time K-12 appropriations, and enacted supplementals totaling a negative \$159.7 million, along with estimated K-12 year-end lapses of \$30.0 million. It also should be noted that the estimated final level of FY 2015-16 SAF expenditures includes \$461.9 million of appropriations to the Community Colleges and Higher Education budgets.

FY 2016-17 YEAR-END BALANCE ESTIMATES

On June 8, 2016, the Michigan Legislature completed action on the initial set of FY 2016-17 appropriation bills. The FY 2016-17 initially enacted budget was balanced based on the May 2016 consensus estimates. At the time the initial budget was enacted, the SFA was projecting only a \$1.0 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2016-17 GF/GP year-end balance is \$430.2 million. At the same time, based on the May 2016 consensus revenue estimate, the SFA was projecting a \$0.2 million year-end balance in the SAF budget. The current SFA estimate of the FY 2016-17 SAF year-end balance is \$114.0 million.

The second column of Table 15 provides a summary of the current SFA estimate of a \$430.2 million year-end balance in the FY 2016-17 GF/GP budget. The increase in the projected level of the FY 2016-17 GF/GP year-end balance results primarily from a larger carry-forward balance from FY 2015-16 (\$454.5 million more than expected), an estimated increase of \$120.4 million from the revenue amount estimated at the May 2016 consensus revenue conference, and net additional new spending of approximately \$100.0 million.

On the revenue side of the FY 2016-17 GF/GP budget ledger, the SFA is now estimating that revenue will total \$10.5 billion. This estimate includes a projected \$589.8 million balance carried forward from FY 2015-16, \$10.3 billion of revenue from ongoing sources, a \$465.3 million reduction to reflect ongoing State revenue sharing payments, a \$5.8 million reduction due to a one-time appropriation for State revenue sharing, and several State Restricted revenue adjustments that transfer \$16.8 million to GF/GP revenue. The total estimated ongoing GF/GP revenue of \$10.3 billion represents a \$260.2 million, or 2.6%, increase from the FY 2015-16 estimate. Although the current SFA estimate of FY 2016-17 GF/GP revenue represents a \$120.4 million increase from the May 2016 consensus revenue estimate, it should be noted that about \$80.0 million of that \$120.4 million increase is not new balance sheet revenue because it had previously been reflected on the balance sheet as pending insurance tax credit legislation (now enacted in Public Acts 277 and 278 of 2016). The remaining upward revision in revenue reflects an increase in the MBT revenue estimate and various offsetting changes in State personal income tax revenue and use tax revenue.

On the expenditure side of the FY 2016-17 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$10.1 billion. This total includes \$9.7 billion of ongoing appropriations in the initial appropriation bills and \$306.3 million in one-time appropriations in the initial appropriation bills. Subsequent to the enactment of the initial appropriations, Public Act 340 of 2016 (signed by the Governor on December 14, 2016) was enacted, and included a one-time appropriation of \$75.0 million to the Budget Stabilization Fund; \$41.6 million for various State departments; \$73.5 million to purchase the final Venture Michigan Fund I tax vouchers (including a \$1.5 million contingency appropriation); and \$10.0 million for the Flint drinking water declaration of emergency reserve fund. As a partial offset to these supplemental appropriations, the balance sheet includes an additional \$100.0 million of estimated caseload and cost adjustments to reflect the projected ongoing portion of the \$150.0 million of FY 2015-16 DHHS lapses.

The second column in Table 16 provides a summary of the current SFA estimate of a \$114.0 million year-end balance in the FY 2016-17 SAF budget. The increase in the projected level of the FY 2016-17 SAF year-end balance (\$113.8 million more than originally estimated) results primarily from a larger carry-forward balance from FY 2015-16 (\$61.7 million more than expected) while baseline revenue is estimated to increase by \$48.1 million from the amount estimated at the May 2016 consensus revenue conference. Partially offsetting the additional revenue, costs in FY 2016-17 are now estimated to be \$5.5 million higher than appropriated.

On the revenue side of the FY 2016-17 SAF budget ledger, the SFA is now estimating that revenue will total \$14.8 billion. This estimate includes a \$165.9 million balance carried forward from FY 2015-16, \$12.5 billion of ongoing State Restricted SAF revenue, an enacted \$218.9 million GF/GP grant to the SAF budget, a deposit of \$72.0 million from the Community District Education Trust Fund, and \$1.8 billion of ongoing Federal aid. The current SFA estimate of total FY 2016-17 SAF revenue represents a \$444.4 million or 3.1% increase from the projected level of FY 2015-16 SAF revenue, which is driven by an increase in appropriated Federal funds compared to prior-year actual grants received, a substantial one-time increase in the GF/GP grant to the SAF, and growth in restricted SAF revenue. The current estimate of FY 2016-17 State Restricted SAF revenue is \$48.1 million higher than the May 2016 consensus estimate. The estimate also includes \$52.9 million in Medicaid managed care use tax revenue, which is a reduction from the prior-year revenue (which uses \$205.0 million) due to the phase-out of this tax, effective January 1, 2017.

On the expenditure side of the FY 2016-17 SAF budget ledger, the SFA is now estimating that expenditures will total \$14.7 billion. This expenditure estimate includes \$14.0 billion of ongoing K-12 appropriations in the initial appropriation bill, \$176.0 million in one-time appropriations in the initial appropriation bill, and cost adjustments totaling \$5.5 million (which are primarily a combination of higher costs due to more pupils offset by special education cost savings, along with a number of minor cost adjustments to align the budget with projected expenditures). It also should be noted that the estimated level of FY 2016-17 SAF expenditures includes \$497.5 million of appropriations to the Community Colleges and Higher Education budgets.

The projected level of FY 2016-17 SAF expenditures represents a \$496.3 million or 3.5% increase from the projected level of FY 2015-16 SAF expenditures. Of the total increase, \$42.8 million (2.4%) is from higher Federal funds appropriated than appropriated in the prior year, and the remaining \$453.5 million (3.7%) is the change in State-funded appropriations. Three areas can explain 80% of the increase: the per-pupil foundation allowance increase in the K-12 budget (\$153.0 million), the increased debt service to support the School Bond Loan Fund (\$116.0 million), and the \$93.7 million cost increase associated with the employer rate cap in the Michigan Public School Employees' Retirement System (MPSERS).

FY 2017-18 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2017-18 State budget recommendation to the Legislature no later than February 11, 2017. This State budget recommendation will continue the discussion of the FY 2017-18 State budget. On February 10, 2016, Governor Snyder presented his FY 2016-17 budget and his projections for FY 2017-18. The Legislature subsequently enacted an FY 2016-17 State budget and included language within that legislation expressing intent to provide FY 2017-18 appropriations that would be the same as those for FY 2016-17, with adjustments for caseload, costs, economic factors, and available revenue.

If a beginning balance of \$430.2 million is carried forward into FY 2017-18 and the SFA's new revenue estimate is assumed, and if FY 2017-18 appropriations are essentially frozen at FY 2016-17 levels (with an adjustment of \$344.4 million for caseload and costs, economics, and other issues),

the FY 2017-18 projected year-end GF/GP balance is \$121.2 million. The third column of [Table 15](#) outlines these assumptions.

On the revenue side of the FY 2017-18 budget outlook, the SFA is projecting that total estimated GF/GP revenue will equal \$10.4 billion. This estimate assumes a beginning balance of \$430.2 million and SFA-estimated ongoing revenue of \$10.5 billion, which represents a decrease of \$132.8 million from the May 2016 consensus estimate. This downward revision in revenue is primarily the result of the SFA's projection of slower growth in the economy and the related loss of income and consumption tax revenue. The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2016-17 level (\$465.3 million ongoing and \$5.8 million one-time); no new counties are projected to exhaust their revenue sharing reserve funds and return to the State-paid program during FY 2017-18. Revenue from the Medicaid managed care use tax will expire on January 1, 2017, so it is not included as a revenue source on the FY 2017-18 balance sheet. (The "HICA and Use Tax Summary" section of this report provides more details on this issue.)

On the appropriation side of the FY 2017-18 budget outlook, the SFA estimate assumes the continuation of appropriations at the FY 2016-17 levels for both ongoing and one-time GF/GP appropriations. Adjustments of \$344.4 million are then made to: continue the \$100.0 million of DHHS savings from prior-year lapses; add \$70.0 million and \$45.0 million for State match requirements for expanded Medicaid and regular Medicaid, respectively; add \$40.0 million for Medicaid actuarial soundness; add \$40.0 million to annualize the expiration of the Medicaid managed care use tax; and increase the overall GF/GP budget by 2.5% (about \$249.4 million) to reflect potential economic and other costs. These assumptions lead to total estimated FY 2017-18 GF/GP expenditures of \$10.3 billion and a projected year-end GF/GP balance of \$121.2 million.

The third column of [Table 16](#) provides a summary of the SFA's outlook for the FY 2017-18 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2016-17 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of \$176.2 million for FY 2017-18.

On the revenue side of the FY 2017-18 SAF budget outlook, the SFA is estimating that revenue will total \$14.9 billion, an increase of \$83.6 million, or 0.6%, above FY 2016-17. This estimate assumes a carry-forward of \$114.0 million from FY 2016-17, an increase in the level of School Aid Fund revenue of \$39.6 million from the May 2016 consensus forecast, a GF/GP grant of \$57.4 million (a decline of \$161.5 million from FY 2016-17), a continuation of the \$72.0 million deposit from the Community District Education Trust Fund, and estimated Federal aid continuing at \$1.8 billion. The estimate reflects the elimination of all revenue from the Medicaid managed care use tax revenue, which is estimated to produce \$52.9 million in FY 2016-17, but \$0 in FY 2017-18. Therefore, most of the growth in the SAF baseline revenue (an estimated \$349.9 million) will be used to absorb the anticipated reduction in the GF/GP grant to the SAF (\$161.5 million), the elimination of the remaining Medicaid managed care use tax revenue (\$52.9 million), and a lower estimated beginning balance than estimated for FY 2016-17 (the difference being \$51.9 million).

On the appropriation side of the FY 2017-18 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$14.7 billion. This funding level assumes that SAF appropriations of \$497.5 million for community colleges and universities are continued (with another \$0.7 million for MPERS rate cap increases) and that \$163.5 million of the one-time K-12 appropriations (out of \$176.0 million in FY 2016-17) are continued and rolled into ongoing costs (the primary piece of that being the increase in the per-pupil foundation allowance).

In addition, the SFA estimate of a continuation level of K-12 funding takes into account updated estimates as to the number of students in school districts and preliminary estimates of local property tax valuations, special education costs, debt service costs, and MPERS rate cap costs. The SFA is estimating that pupils will increase in FY 2017-18 by 14,000 above the level estimated in May 2016,

due primarily to larger numbers of kindergarteners and shared-time pupils actually enrolled in FY 2016-17 than previously estimated. However, the overall level of pupils for FY 2017-18 estimated by the SFA still reflects a decline of 2,500 pupils from FY 2016-17. Therefore, the overall decrease in pupils results in some small baseline savings compared to FY 2016-17, and there are some anticipated savings from local taxable values. Offsetting those savings, some additional costs in special education are anticipated and the SFA is estimating a \$60.0 million increase in MPSERS rate cap costs for FY 2017-18.

A comparison of projected FY 2017-18 SAF current-law revenue and a continuation of current spending leads to an estimated ending balance of \$176.2 million, which equates to roughly \$118 on a per-pupil basis. Again, this estimate assumes a continuation of both ongoing and roughly 93% of the one-time appropriations, a decrease in GF/GP support of the K-12 budget, and SAF support of \$498.2 million for community colleges and universities.

HICA AND USE TAX SUMMARY

On April 1, 2014, the State reinstated a 6.0% Medicaid managed care use tax. The previous incarnation of this tax had been repealed and replaced by the Health Insurance Claims Assessment (HICA) in 2011. The 2011 repeal was due to indications that the Federal government would disallow (effectively reduce) a portion of Federal Medicaid reimbursement due to concerns that the Medicaid managed care use tax was not a sufficiently broad-based tax.

In 2014, the Federal government indicated that it would, on a limited term basis, not reduce Federal Medicaid reimbursement due to the use tax, leading to the tax's reinstatement. Subsequently, the Federal government indicated to the State that it would no longer support the use tax after the end of the current legislative session, the end of calendar year 2016.

As part of the use tax reinstatement, the HICA rate was dropped from 1.0% to 0.75% as long as the use tax was supported by the Federal government. Due to expected lack of support from the Federal government, the rate will revert to 1.0% on January 1, 2017.

The FY 2016-17 Department of Health and Human Services budget assumed that the Medicaid managed care use tax would no longer be collected on January 1, 2017, and assumed an increase in the HICA rate to 1.0% on that date. The net impact of these changes in FY 2016-17 was a worsening of the GF/GP balance sheet by about \$130.0 million and a roughly \$150.0 million reduction in SAF revenue. These changes reflected the net impact of reduced use tax revenue, increased HICA revenue, and reduced costs of reimbursing Medicaid managed care organizations for the cost of the use tax.

Because the FY 2016-17 changes take effect on January 1, 2017, in FY 2017-18 the changes will be annualized to cover the final quarter of the fiscal year. This will lead to an FY 2017-18 worsening of the GF/GP balance sheet by another \$40.0 million and a roughly \$50.0 million reduction in FY 2017-18 SAF revenue, both of which are accounted for in the FY 2017-18 SFA balance sheets.

The HICA was slated to expire on December 31, 2017, but Public Act 50 of 2016 delayed that sunset to July 1, 2020, so under current law the rate will continue at 1.0% until that later date.

Senate Bills 987, 988, 989, and 990 would have reconfigured the Medicaid managed care use tax to segregate the funding more clearly to ensure the revenue would not be used for Medicaid. The HICA rate would have dropped to 0.0% if the Federal government did not provide written disapproval of the proposal. The legislation also would have moved up the HICA sunset by 18 months to January 1, 2019. Governor Snyder vetoed the package in October, due to his stated concern that the Federal government would not approve the proposal.

Enrolled Senate Bill 1172, which is expected to be signed by the Governor, would end collection of the Medicaid managed care use tax effective December 31, 2016. The tax would remain on the books and, if there were changes to the HICA, likely tied to possible Federal approval of a new version of the use tax, the use tax would be reinstated.

None of these enacted or potentially enacted changes has any impact on the FY 2016-17 budget; the budget already assumed the end of collection of the Medicaid managed care use tax at the end of calendar year 2016 and an increase in the HICA rate on January 1, 2017. No further budget adjustments are necessary to reflect these statutory changes.

Because the HICA has never collected the \$400.0 million originally projected, there has been concern that a HICA-related GF/GP shortfall in the Medicaid budget must still be addressed. This concern is unfounded; the GF/GP shortfall caused by the HICA revenue shortfall was addressed in the FY 2014-15 budget by an increase in GF/GP funding. That GF/GP funding has remained in the budget ever since, so there is no need to address any HICA-related GF/GP shortfall as that shortfall no longer exists. If there are no further statutory changes, the only HICA and use tax budgetary adjustments necessary before the sunset date for HICA in 2020 (other than baseline HICA revenue changes) are the FY 2017-18 annualization changes outlined above.

CONCLUSION

Although the GF/GP and SAF budgets are estimated to end FY 2015-16, FY 2016-17, and FY 2017-18 with relatively healthy year-end balances, there are several budgetary pressures looming in subsequent fiscal years that could mitigate the extension of these large positive balances. For example, in the Department of Health and Human Services, under current policy and Federal guidance, the Federal match rate for Medicaid expansion will gradually drop from 95.0% in calendar year 2017 to 90.0% in calendar year 2020 and beyond. This change will increase GF/GP costs for the expansion, also known as the Healthy Michigan Plan, by over \$200.0 million by FY 2019-20. Other potential cost increases could occur due to the continued development of new expensive pharmaceutical products. As these products become part of the standard of care, Medicaid pharmaceutical costs will increase at a greater rate than the usual inflationary adjustments.

Another future budget pressure is the GF/GP impact of the transportation funding legislation enacted in November 2015. Current SFA estimates indicate an FY 2018-19 GF/GP revenue loss of \$355.8 million, rising to \$814.0 million in FY 2021-22. These figures do not include the potential effect of the income tax rate reduction that could be triggered beginning in FY 2022-23.

Among other longer-term budget constraints are: the phase-in of personal property tax reform, estimated to cost \$380.9 million in FY 2016-17, which will grow to an estimated cost of \$572.0 million in FY 2026-27; certificated tax credits that are estimated to cost \$500.0 million to \$600.0 million annually until 2028, then declining, and ending in 2032; and financial and infrastructure issues for local units of government.

In addition, it should be noted that, pursuant to language in the FY 2016-17 annual General Government budget (Public Act 268 of 2016, Article VIII), an appropriation to the Budget Stabilization Fund of 25.0% of the unassigned FY 2016-17 GF/GP ending balance may be required. The SFA balance sheets in this report do not include this appropriation due to uncertainty regarding implementation of the language; 25.0% of the SFA's current estimate of a \$430.2 million FY 2016-17 projected year-end GF/GP balance is \$107.6 million.

The FY 2015-16 estimated ending balances may change when the State's final comprehensive annual financial report is published, which is not required by law until the end of March 2017, but is expected in early January 2017. To the extent that the FY 2015-16 numbers change due to pending

accruals or other issues, the ending balances for FY 2016-17 and FY 2017-18 will be affected. Also, to the extent that policy changes are enacted during 2017, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 12, 2017, Consensus Revenue Estimating Conference. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2017-18 State budget, as well as for subsequent fiscal years.

Table 15
FY 2015-16, FY 2016-17, AND FY 2017-18
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2015-16	FY 2016-17	FY 2017-18
Revenue:			
Beginning Balance	\$694.7	\$589.8	\$430.2
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2016)	\$9,734.1	\$10,138.5	\$10,607.1
Senate Fiscal Agency Revenue Estimate Change	264.6	120.4	(132.8)
Senate Fiscal Agency Revenue Estimate (December 2016)	\$9,998.7	\$10,258.9	\$10,474.3
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(462.7)	(465.3)	(465.3)
Shift of Borrowing Costs to School Aid Fund	2.5	5.5	7.5
Medicaid Managed Care Use Tax.....	413.5	105.8	0.0
Subtotal Ongoing Revenue	\$9,952.0	\$9,904.9	\$10,016.5
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(5.8)	(5.8)	(5.8)
IT Innovation Fund Lapse to GF	3.9	0.0	0.0
School Bond Loan Repayments.....	8.0	0.0	0.0
Redirection of Restricted Revenue	(1.3)	16.8	0.0
Subtotal Non-ongoing Revenue	\$4.8	\$11.0	(\$5.8)
Total Estimated GF/GP Revenue	\$10,651.5	\$10,505.7	\$10,440.9
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing Appropriations	\$9,517.8	\$9,669.0	\$9,669.0
<u>One-Time and Other Appropriations:</u>			
Initial One-Time Appropriations.....	\$356.3	\$306.3	\$306.3
Appropriation to Budget Stabilization Fund.....	95.0	75.0	0.0
Enacted Supplementals	282.7	125.2	0.0
Estimated Baseline, Caseload, Cost Adjustments	0.0	(100.0)	344.4
Estimated Lapses.....	(190.1)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$543.9	\$406.5	\$650.7
Total Estimated GF/GP Expenditures	\$10,061.7	\$10,075.5	\$10,319.7
PROJECTED YEAR-END GF/GP BALANCE	\$589.8	\$430.2	\$121.2

Table 16

**FY 2015-16, FY 2016-17, AND FY 2017-18
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)**

	FY 2015-16	FY 2016-17	FY 2017-18
Revenue:			
Beginning Balance	\$190.2	\$165.9	\$114.0
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2016).....	\$12,067.4	\$12,402.4	\$12,760.8
Senate Fiscal Agency Revenue Estimate Change	37.4	48.1	39.6
Senate Fiscal Agency Revenue Estimate (Dec. 2016)	\$12,104.8	\$12,450.5	\$12,800.4
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$55.1	\$218.9	\$57.4
Community District Education Trust Fund.....	0.0	72.0	72.0
Medicaid Managed Care Use Tax.....	205.0	52.9	0.0
Federal Ongoing Aid	1,775.8	1,818.6	1,818.6
Subtotal Ongoing Revenue	\$14,140.7	\$14,612.9	\$14,748.4
<u>Non-ongoing Revenue:</u>			
Work Project Lapses	\$3.5	\$0.0	\$0.0
Total Estimated School Aid Fund Revenue.....	\$14,334.4	\$14,778.8	\$14,862.4
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$13,846.5	\$13,985.8	\$14,102.4
Enacted Supplementals	(169.2)	0.0	0.0
Cost Adjustments (December 2016)	0.0	5.5	85.6
Partially Fund Community Colleges with School Aid Fund	256.7	260.4	260.9
Partially Fund Higher Education with School Aid Fund.....	205.2	237.1	237.3
Subtotal Ongoing Appropriations	\$14,139.2	\$14,488.8	\$14,686.2
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$49.8	\$176.0	\$0.0
Enacted Supplementals	9.5	0.0	0.0
Estimated Lapses	(30.0)	0.0	0.0
Subtotal One-Time Appropriations.....	\$29.3	\$176.0	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$14,168.5	\$14,664.8	\$14,686.2
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$165.9	\$114.0	\$176.2