Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16

December 20, 2013

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www.senate.michigan.gov/sfa

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

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

4. To provide economic and revenue analysis and forecasting.

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

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

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

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ACKNOWLEDGEMENT

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The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 1.7% during 2013, is predicted to expand 2.3% in 2014, 2.7% in 2015, and 2.8% in 2016. Light vehicle sales are forecasted to rise from 15.5 million units in 2013, to 16.0 million units in 2014, 16.2 million units in 2015, and 16.5 million units in 2016. The unemployment rate is expected to fall from 7.4% in 2013 to 6.8% in 2014, 6.4% in 2015, and 6.0% in 2016; while the consumer price index is estimated to increase 1.5% in 2014, 1.9% in 2015, and 2.1% in 2016.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 3.0% in 2014, 2.6% in 2015, and 2.4% in 2016, after rising 1.4% in 2013. Wage and salary employment is predicted to continue growing, increasing 1.4% during 2014, 1.2% in 2015, and 0.9% in 2016.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2012-13 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled $20.8 billion, up 3.4% from FY 2011-12. The increase reflects an improving economy, combined with lower-than-expected refunds under the Michigan Business Tax and an additional increase in individual income tax revenue from taxpayers receiving dividends and taking capital gains in anticipation of tax changes associated with the Federal "fiscal cliff" in December 2012. Combined GF/GP and SAF revenue for FY 2012-13 is $433.5 million above the May 2013 consensus estimate.

In FY 2013-14, the economy will grow more rapidly than in FY 2012-13, but the loss of one-time revenue from FY 2012-13 and increases in business tax credits will offset the potential increase in revenue. General Fund/General Purpose and SAF revenue will total an estimated $21.2 billion, a 2.0% increase from FY 2012-13 that is $327.7 million above the May 2013 consensus estimate.

In FY 2014-15, GF/GP and SAF revenue will total an estimated $22.2 billion, a 4.3% increase from FY 2013-14 and $513.6 million above the May 2013 consensus estimate. General Fund/General Purpose revenue will total an estimated $10.2 billion, an increase of 5.5% from FY 2013-14 that reflects changes in tax policy that boost revenue above that generated by continued economic growth, while SAF revenue will rise to an estimated $12.0 billion, a 3.4% increase.

In FY 2015-16, GF/GP and SAF revenue will total an estimated $23.1 billion. This initial estimate for FY 2015-16 is 4.2% higher than the revised estimate for FY 2014-15. General Fund/General Purpose revenue will total an estimated $10.7 billion, an increase of 5.0% from FY 2014-15, while SAF revenue will rise to an estimated $12.4 billion, a 3.6% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 20, 2013, the Senate Fiscal Agency (SFA) is estimating that the FY 2012-13 GF/GP budget will close the fiscal year with a $1,179.1 million balance. The FY 2012-13 SAF budget will close the fiscal year with a $293.1 million balance.

A comparison of the SFA's FY 2013-14 revenue estimates with enacted and projected appropriations leads to a $729.5 million GF/GP balance. The SFA is now estimating that the FY 2013-14 SAF budget will end the year with a balance of $368.8 million.

A look ahead at the FY 2014-15 budget, based on current SFA estimates, indicates a GF/GP projected ending balance of $760.0 million and an SAF projected ending balance of $445.6 million.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)	2012 Actual	2013 Estimate	2014 Estimate	2015 Estimate	2016 Estimate
Real Gross Domestic Product (% change)	2.8%	1.7%	2.3%	2.7%	2.8%
U.S. Consumer Price Index (% change)	2.1%	1.6%	1.5%	1.9%	2.1%
Light Motor Vehicle Sales (millions of units)	14.4	15.5	16.0	16.2	16.5
U.S. Unemployment Rate (%)	8.1%	7.4%	6.8%	6.4%	6.0%
Real Michigan Personal Income (% change)	1.4%	1.4%	3.0%	2.6%	2.4%
Michigan Wage & Salary Employment (% chng)	1.8%	1.4%	1.4%	1.2%	0.9%

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

	FY 2013-14 Estimate			FY 2014-15 Estimate			FY 2015-16 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$10,212.2	($548.4)	$9,663.8	$10,633.3	($435.5)	$10,197.8	$11,117.8	($413.4)	$10,704.4
% Change	4.2%	---	1.0%	4.1%	---	5.5%	4.6%	---	5.0%
School Aid Fund	$11,620.0	($39.8)	$11,580.2	$11,993.3	($24.5)	$11,968.8	$12,394.9	2.5%	$12,397.5
% Change	3.1%	---	2.7%	3.2%	---	3.4%	3.3%	---	3.6%
Total GF/GP & SAF	$21,832.2	($588.2)	$21,244.0	$22,626.6	($460.1)	$22,166.6	$23,512.7	($410.8)	$23,101.9
% Change	3.6%	---	2.0%	3.6%	---	4.3%	3.9%	---	4.2%
Revenue Limit – Under (Over)		$7,098.1			$7,113.6			$7,606.7	

	FY 2012-13 Estimate	FY 2013-14 Estimate	FY 2014-15 Estimate
Revision from May Consensus			
GF/GP	$376.1	$217.6	$357.6
SAF	57.4	110.1	156.0
Total	433.5	327.7	513.6

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)	FY 2012-13 Estimate	FY 2013-14 Estimate	FY 2014-15 Estimate
General Fund/General Purpose	$1,179.1	$729.5	$760.0
School Aid Fund	293.1	368.8	445.6
Budget Stabilization Fund	508.8	588.9	686.5

ECONOMIC REVIEW AND OUTLOOK

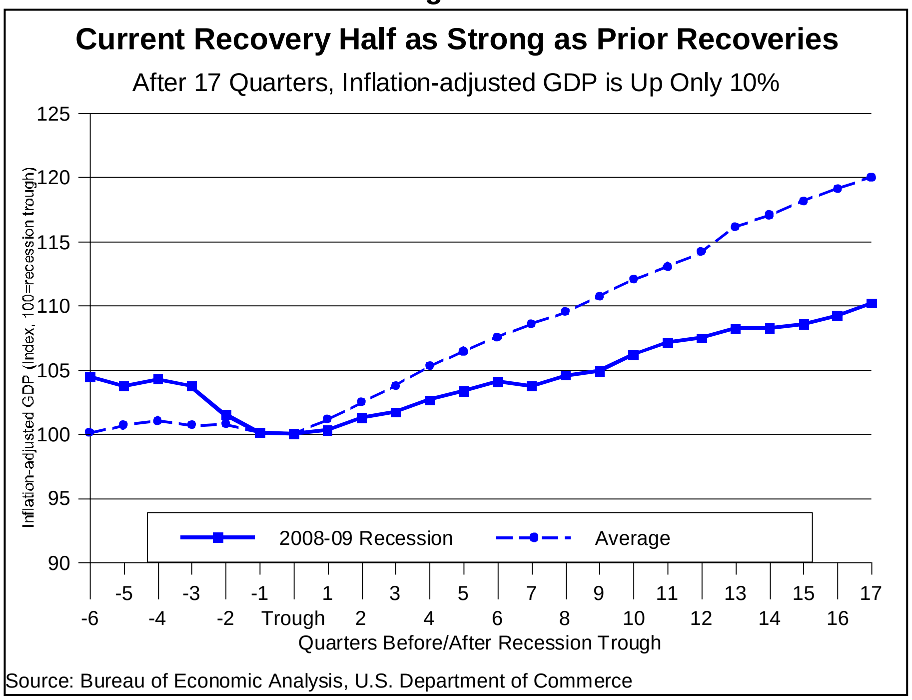
ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2014, 2015, and 2016, 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 during almost any other post-World War II recovery. As of the third quarter of 2013, the economy had been in recovery for 17 quarters after the recession trough in the second quarter of 2009. Five recoveries since World War II have lasted 17 quarters or more, and at this point the current recovery is approximately half as strong as the average of those recoveries.

Figure 1



Inflation-adjusted Gross Domestic Product (GDP) in the third quarter of 2013 was only 5.5% above the level during the fourth quarter of 2007, when the recession began, and only 10.2% above the level in the second quarter of 2009, when the economy finished contracting (Figure 1). As a result, the economy has averaged only 2.3% annual growth since the end of the recession, compared with an average of 4.4% annual growth over the other five recoveries. Consumption expenditures, which on average account for two-thirds of economic activity, have exhibited even weaker growth relative to historical standards, with the current recovery averaging 2.1% annual growth, compared with a historical average of 4.2% growth (Figure 2). Furthermore, consumption growth has been offset by the contracting government sector, which has declined at an average annual rate of 1.5% compared with the historical average of 2.5% growth (Figure 3). Over this recovery, much of the growth in the economy has reflected increases in inventories: goods produced but not sold. For example, during the first three quarters of 2013, increases in inventories accounted for 41.9% of the increase in inflation-adjusted GDP. While inventory accumulation is generally regarded as good, at least if it is intended, without increased consumption to support the additional production, inventory increases do not represent a sustainable way to expand the economy.

Figure 2

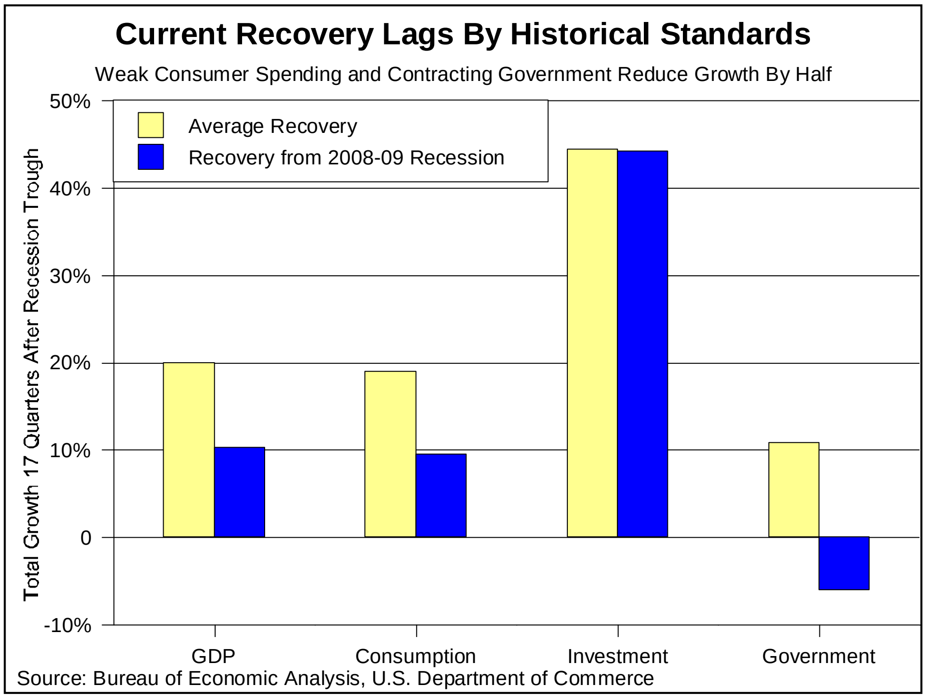
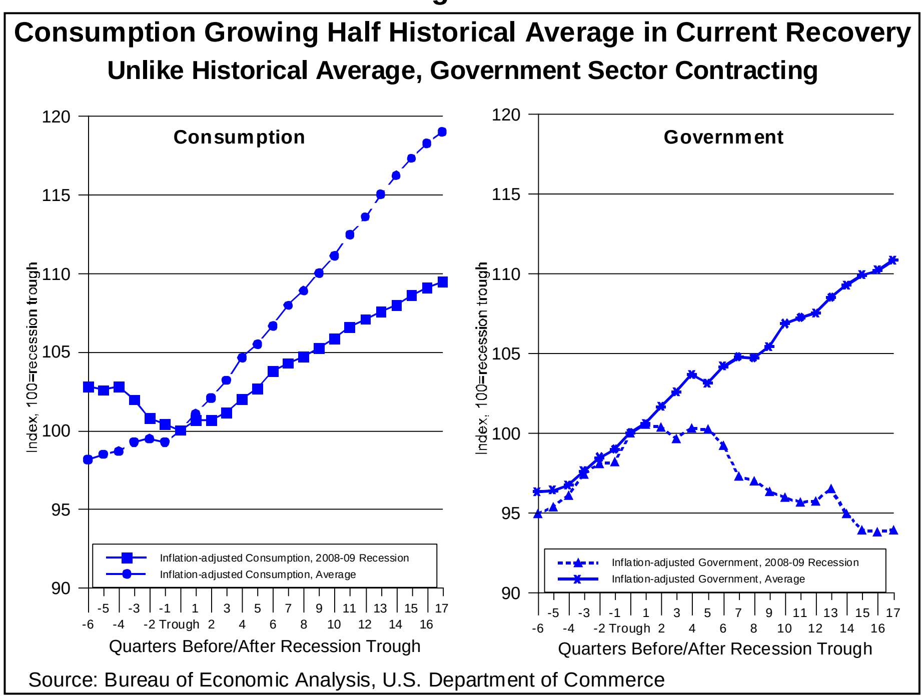


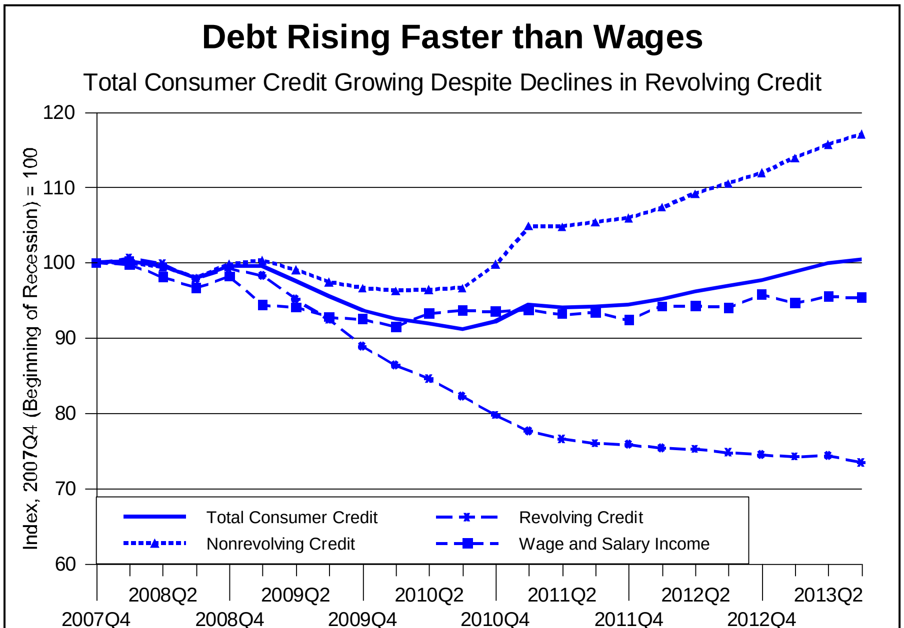
Figure 3



Consumption growth has remained weak for a variety of reasons, and many of the increases have reflected increased purchases of motor vehicles. Consumers have remained risk-averse about spending, especially for big-ticket items and nonessential purchases, as employment growth has remained weak and wage increases have been negligible. Motor vehicle purchases have been an exception due to factors ranging from rising fuel costs' encouraging the purchase of more fuelefficient vehicles to the marked increase in the age of the vehicle fleet. Replacement consumption, where consumers replace durable goods that have simply grown so old that they are no longer considered viable, has accounted for a significant portion of the growth in consumption spending. Durable goods consumption generally accounts for approximately 8.5% of the economy and 12.3% of consumption spending, but during the first three quarters of 2013 accounted for 22.4% of the economic growth and 43.6% of the growth in consumption spending. In the third quarter of 2013, the growth in durable goods consumption, particularly motor vehicles, accounted for 67.1% of the growth in consumer spending.

Despite the weak growth in consumer spending, spending is still rising at a faster rate than wage and salary income. Since the recession trough, inflation-adjusted consumption spending has risen by an average of 2.1% year, while inflation-adjusted wage and salary income has risen by an average of 1.4% per year. Over the first three quarters of 2013, both growth rates slowed and the gap between them grew. Also during the first three quarters of 2013, inflation-adjusted consumption spending rose at an annual rate of 1.4%, compared with an increase of 0.4% in inflation-adjusted wage and salary income. If these rates are adjusted to account for population growth, inflation-adjusted wage and salary income fell at an annual rate of 0.2% during the first three quarters of 2013. With wages effectively flat, personal income gains have been driven by increases in proprietor's income and increased dividend payments and both of those components of personal income have grown by more than 10.0% over the last year. Consumption growth also appears to be driven by increased borrowing, with outstanding consumer debt rising 6.3% since the third quarter of 2012 (Figure 4).

Figure 4

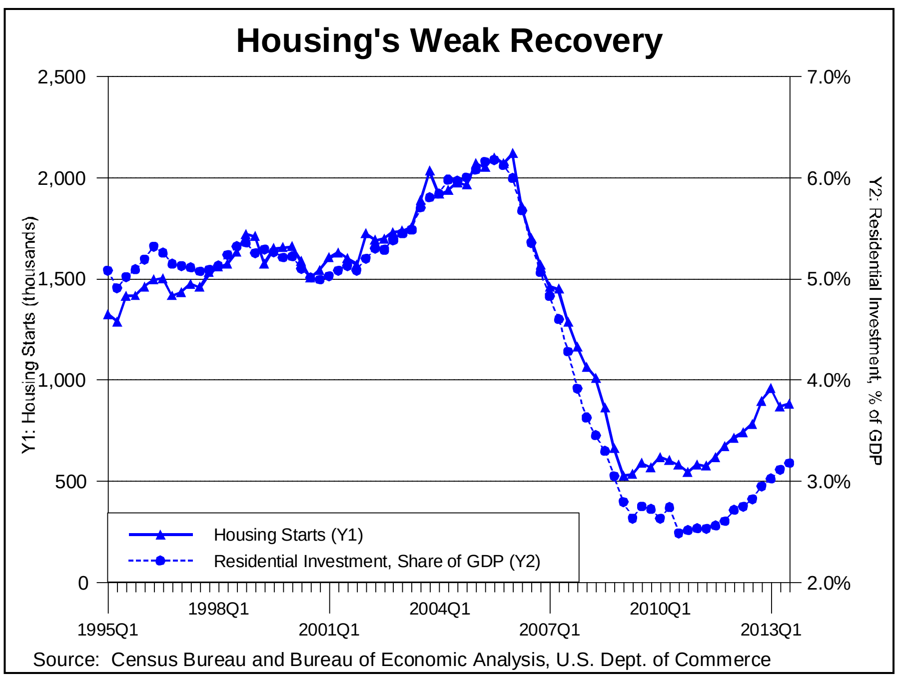


Note: Values represented are per person, adjusted for inflation.
Source: Bureau of Economic Analysis, U.S. Dept. of Commerce and Federal Reserve Board of Governors

Payroll employment in the United States continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010. Despite gains during 2013, preliminary data for November 2013 indicate that employment was still 1.3 million jobs (0.9%) below the January 2008 peak, and employment has averaged only 1.5% annual growth since the February 2010 trough. While manufacturing employment increased 4.1% between February 2010 and March 2012, it has remained flat since February 2013 and is still down approximately 1.7 million jobs (12.6%) from the beginning of the recession in December 2007. The unemployment rate fell from a peak of 10.0% in October 2009, to 7.3% in October 2013. However, over that period, population growth averaged 0.7% per year while the labor force grew an average 0.2% per year. While increased employment has helped reduce the unemployment rate, declines in the labor force also have reduced the pool of individuals who are seeking work. The number of people in the labor force fell in 21 of the last 48 months, and declined by 130,000 individuals or more in four of the last nine months. The November 2013 labor force was virtually unchanged from one year ago.

The housing market, which counts as residential investment rather than consumption spending, improved substantially in 2013, although it remains weak by almost any historical measure (Figure 5). Housing starts are projected to total approximately 911,200 units in 2013, an increase of 16.7% from 2012 and the fourth consecutive annual increase in starts. However, despite the increases, 2013 will represent the fifth-weakest year of housing starts (based on data available back to 1959), above only the years 2008 through 2012. Housing starts in 2013 also will be 10.1% below the lowest year prior to the 2008-2009 recession. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and has averaged only 3.1% of GDP during 2013. In addition, the data suggest that the housing starts that are occurring have lower inflation-adjusted values than those before the recession.

Figure 5



Productivity, as measured by output per worker, rose at an average annual rate of 2.9% between the second quarter and third quarter of 2013, well above the 1.7% average during much of the latter half of the 20th century, and up from the 1.0% rate during 2011 and the 1.7% increase in 2012. In manufacturing, productivity during the third quarter of 2013 was up 2.4% from the third quarter of 2012. Productivity gains increase output and income, especially in the long run, but reduce the need for additional workers.

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

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST
(Calendar Years)

	2012 Actual	2013 Estimate	2014 Estimate	2015 Estimate	2016 Estimate
United States					
Nominal GDP (year-to-year growth)	4.6%	3.3%	3.9%	4.7%	4.8%
Inflation-Adjusted GDP (year-to-year growth)	2.8%	1.7%	2.3%	2.7%	2.8%
Unemployment Rate	8.1%	7.4%	6.8%	6.4%	6.0%
Inflation					
Consumer Price Index (year-to-year growth)	2.1%	1.6%	1.5%	1.9%	2.1%
GDP Implicit Price Deflator (year-to-year growth)	1.7%	1.5%	1.5%	1.9%	2.0%
Interest Rates					
90-day Treasury Bill	0.09%	0.05%	0.14%	0.28%	0.98%
10-year Treasury Bill	1.80%	2.34%	3.02%	3.40%	3.60%
Corporate Aaa Bond	3.67%	4.23%	4.68%	4.75%	4.80%
Federal Funds Rate	0.14%	0.11%	0.18%	0.28%	1.03%
Light Motor Vehicle Sales (millions of units)	14.4	15.5	16.0	16.2	16.5
Auto	7.2	7.6	7.8	7.9	8.0
Truck	7.2	7.9	8.2	8.3	8.5
Import Share	22.1%	22.0%	21.6%	21.6%	21.5%
Michigan					
Personal Income (millions)	$378,443	$390,274	$407,343	$425,345	$444,121
Year-to-year growth	3.5%	3.1%	4.4%	4.4%	4.4%
Inflation-Adjusted Personal Income (year-to-year growth)	1.4%	1.4%	3.0%	2.6%	2.4%
Wage & Salary Income (millions)	$189,640	$197,279	$204,895	$212,084	$218,929
Year-to-year growth	4.1%	4.0%	3.9%	3.5%	3.2%
Detroit Consumer Price Index (year-to-year growth)	2.0%	1.7%	1.4%	1.8%	2.0%
Wage & Salary Employment (thousands)	4,024.2	4,081.4	4,140.1	4,190.7	4,230.5
Year-to-year growth	1.8%	1.4%	1.4%	1.2%	0.9%
Unemployment Rate	9.1%	8.7%	8.4%	7.7%	7.1%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2012 Actual	**2013 Estimate**	**2014 Estimate**	**2015 Estimate**	**2016 Estimate**
Gross Domestic Product					
(billions of dollars)	$16,244.6	$16,774.5	$17,429.4	$18,246.7	$19,123.0
Year-to-year growth	4.6%	3.3%	3.9%	4.7%	4.8%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2009 dollars)	$15,470.7	$15,739.3	$16,104.5	$16,545.4	$17,005.7
Year-to-year growth	2.8%	1.7%	2.3%	2.7%	2.8%
Consumption					
(billions of 2009 dollars)	$10,517.6	$10,712.8	$10,949.0	$11,251.1	$11,609.2
Year-to-year growth	2.2%	1.9%	2.2%	2.8%	3.2%
Business Fixed Investment					
(billions of 2009 dollars)	$1,931.8	$1,982.6	$2,106.4	$2,239.7	$2,373.8
Year-to-year growth	7.3%	2.6%	6.2%	6.3%	6.0%
Change in Business Inventories					
(billions of 2009 dollars)	$57.6	$75.8	$37.4	$54.8	$48.5
Residential Investment					
(billions of 2009 dollars)	$433.7	$493.0	$549.8	$611.1	$658.6
Year-to-year growth	12.9%	13.7%	11.5%	11.2%	7.8%
Government Spending					
(billions of 2009 dollars)	$2,963.1	$2,903.1	$2,894.3	$2,914.8	$2,958.2
Year-to-year growth	(1.0%)	(2.0%)	(0.3%)	0.7%	1.5%
Net Exports (billions of 2009 dollars)	($430.8)	($422.6)	($419.5)	($510.8)	($631.4)
Exports (billions of 2009 dollars)	$1,957.4	$2,002.8	$2,097.0	$2,209.7	$2,344.0
Imports (billions of 2009 dollars)	$2,388.2	$2,425.3	$2,516.5	$2,720.4	$2,975.4
Personal Income (year-to-year growth)	4.2%	3.0%	4.0%	4.5%	5.3%
Adjusted for Inflation	2.1%	1.4%	2.4%	2.5%	3.1%
Wage & Salary Income					
(year-to-year growth)	4.4%	3.0%	3.3%	4.3%	4.8%
Personal Saving Rate	5.6%	4.7%	4.7%	4.7%	4.8%
Capacity Utilization Rate	77.6%	78.0%	78.5%	80.2%	81.7%
Housing Starts (millions of units)	0.781	0.911	1.078	1.245	1.364
Conventional Mortgage Rates	3.7%	4.0%	4.6%	4.9%	5.1%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($1,109.7)	($836.3)	($731.7)	($713.4)	($713.6)

RECENT MICHIGAN ECONOMIC HIGHLIGHTS

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

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 110,300 jobs (25.1%) between June 2009, when the U.S. recession ended, and January 2013. However, Michigan manufacturing employment has remained essentially unchanged since January 2013. Employment in the transportation equipment manufacturing sector increased by 41.0% between June 2009 and January 2013, accounting for 47,000 (42.6%) of the manufacturing jobs Michigan gained and 21.8% of the total jobs added in Michigan. Like total payroll employment, Michigan transportation equipment manufacturing employment has remained relatively flat since January 2013.

The unemployment rate declined from a high of 14.2% in August 2009 to 8.4% in both April and May 2013, although the decline was as much attributable to the departure of approximately 140,800 individuals from the labor force as to the employment gain of 149,300 jobs. Since May 2013, the unemployment rate has risen, reaching 9.0% in August, September, and October 2013, as employment has remained unchanged and the number of individuals in the labor force has increased by approximately 27,100.

FORECAST SUMMARY

During 2014, both the U.S. and Michigan economies are expected to expand at a slightly faster rate than during 2013. The U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2014 and later years, although Michigan is generally expected to grow more slowly than the nation as a whole. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to rise 2.3% in 2014, slightly more than the estimated 1.7% increase in 2013. The economy will begin to grow more rapidly, with inflation-adjusted GDP rising 2.7% during 2015 and 2.8% in 2016. The expansion over the forecast period primarily reflects tepid consumption growth and improvements in business and residential investment that will more than offset the drag on the economy from 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, although investment in structures, which represents new facilities, is also expected to exhibit significant growth. The U.S. unemployment rate is expected to decrease from 7.4% during 2013, to 6.8% in 2014, 6.4% in 2015, and 6.0% in 2016.

Inflation is not anticipated to be a concern over the forecast period, despite the assumption of high (but only slowly increasing) energy prices. The U.S. Consumer Price Index (CPI) is anticipated to increase 1.6% in 2013, followed by increases of 1.5% in 2014, 1.9% in 2015, and 2.1% in 2016. Export growth is expected to be tempered in the near-term by increases in the value of the dollar once the Federal Reserve begins reducing its purchases of securities. As foreign economies improve later in the forecast period, healthier export markets and a shift to declines in the value of the dollar will improve U.S. exports. Productivity, weak domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 0.8% in 2014, 1.0% in 2015, and 1.5% in 2016.

In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average (Figures 6 and 7). Inflation-adjusted personal income is projected to increase 3.0% in 2014, after a predicted 1.4% increase during 2013, and then increase 2.6% in 2015 and 2.4% in 2016. Payroll employment is expected to increase 1.4% in 2014, the same growth rate estimated for 2013, and then increase more slowly, rising 1.2% in 2015 and 0.9% in 2016. Private sector gains in employment during 2014 and 2015 are expected to be partially offset by declines in public sector employment, as State and local governments experience continued budgetary problems (Figure 8). Nationally, light vehicle sales are expected to increase from an estimated 15.5 million units in 2013 to 16.0 million units in 2014, 16.2 million units in 2015, and 16.5 million units in 2016. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to slowly decline, from 8.7% in 2013 to 8.4% in 2014, 7.7% in 2015, and 7.1% in 2016.

Compared with the May 15, 2013, Consensus Economic Forecast, the U.S. forecast is slightly weaker while the Michigan forecast is slightly stronger in both 2014 and 2015. Weak employment growth, weak income growth, and slowdowns in overseas economies will temper the pace of the U.S. and Michigan recoveries during the forecast period. However, improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation as the government sector contracts.

Figure 6

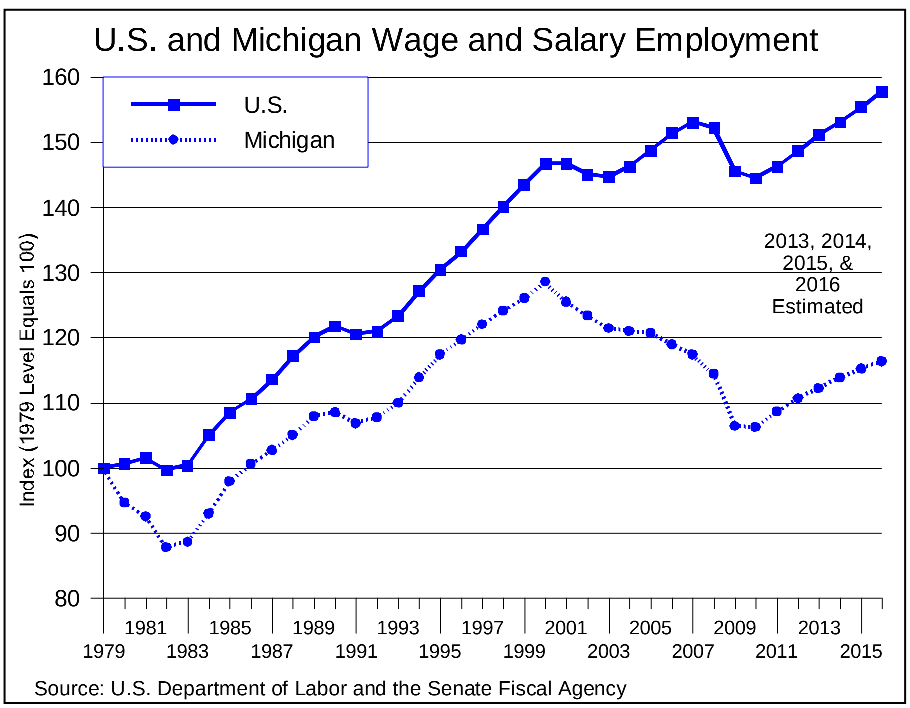


Figure 7

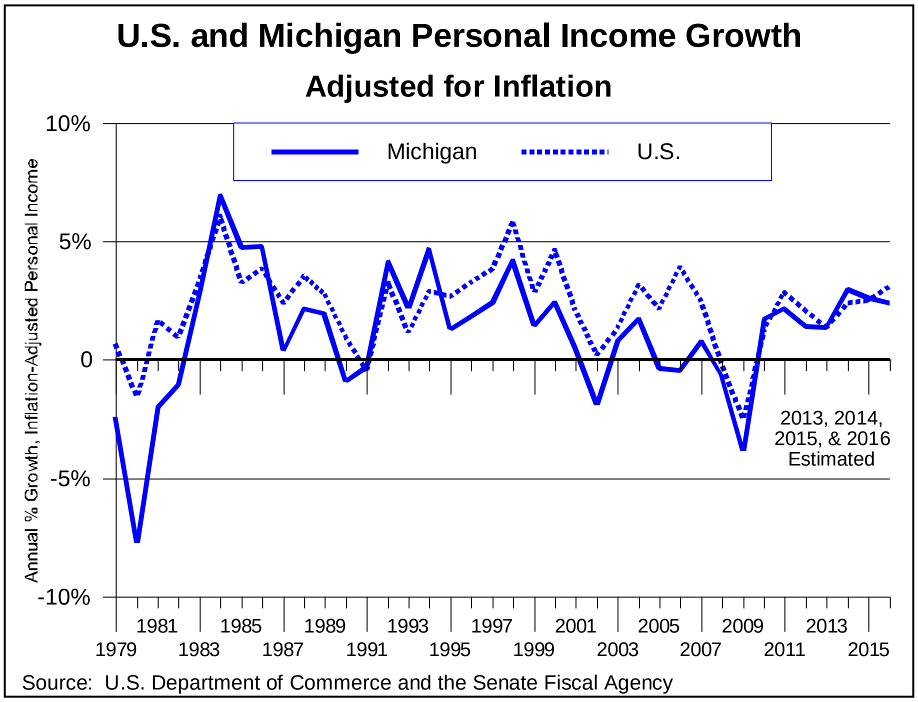
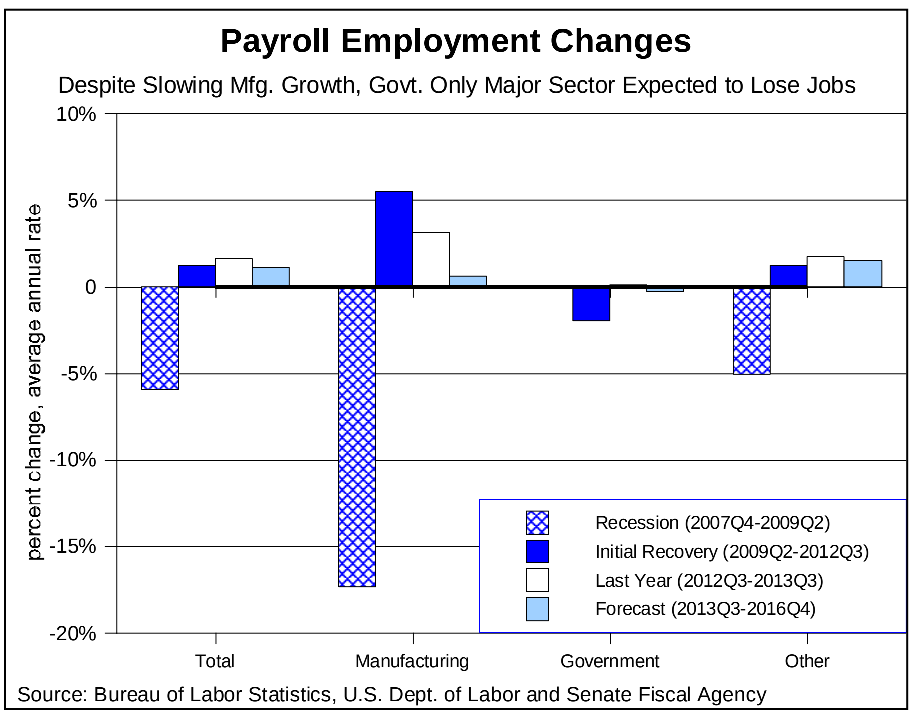


Figure 8



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 often occurs 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. However, not only did consumers need to save at a far higher rate than exhibited to offset their losses in home equity and in the stock market, but over the last four quarters the saving rate has declined again and outstanding debt has begun increasing. Limited income growth and high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the late 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 that time period, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much real growth in the underlying consumption trend is actually occurring. If consumer spending primarily represents deferred purchases and consumers continue spending in the near future only at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers 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 2013 and expenditures have risen more rapidly than incomes since mid-2011, and especially for much of the past year. The forecast assumes that consumers will continue to reduce saving rates but that consumption will be limited by flat wages and limited access to additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

The Labor Market. During 2011, Michigan experienced a marked decline in the unemployment rate, outpacing drops in the unemployment rate nationally. With Michigan posting the first annual job gains since 2000 during 2011 and 2012, the decline in the unemployment rate would appear to reflect rising employment levels. However, while job gains have helped reduce the unemployment rate, a significant factor causing the unemployment rate to decline over this period has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

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

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

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

Weak markets for housing, credit, and employment, coupled with high energy prices and substantial debt burdens, are expected to exert a dragging force on any increases in demand over the forecast period. For Michigan, both employment gains and improvements in economic growth will be restrained by slowing growth in vehicle sales, as little growth is expected beyond replacement demand, the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains, and sales levels are nearing the levels experienced in much of the last decade. On the other hand, compared with the prior decade, the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 9). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 10).

Figure 9

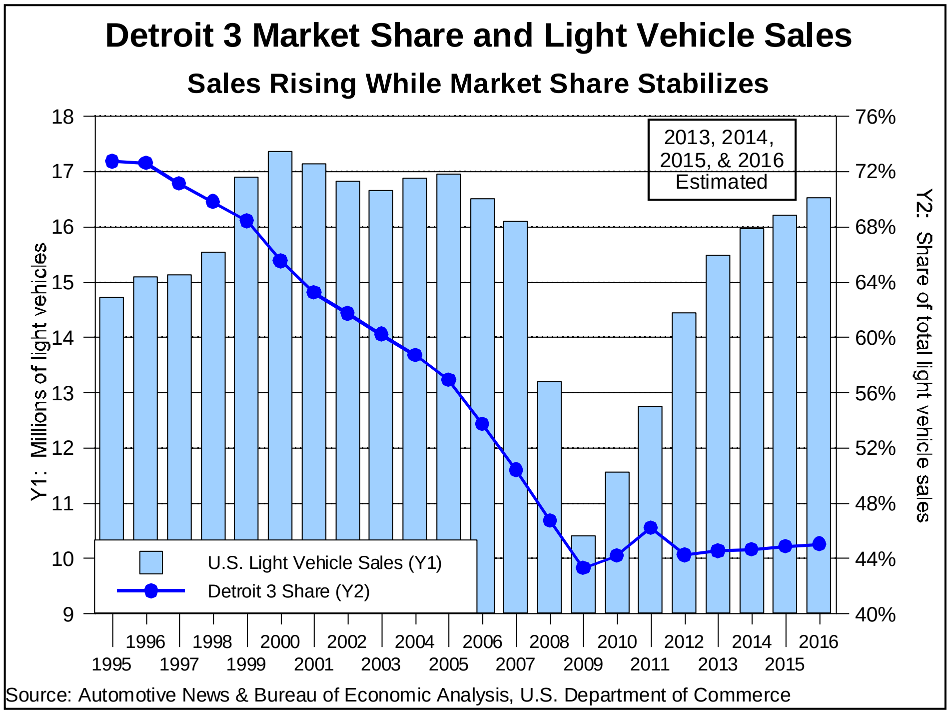
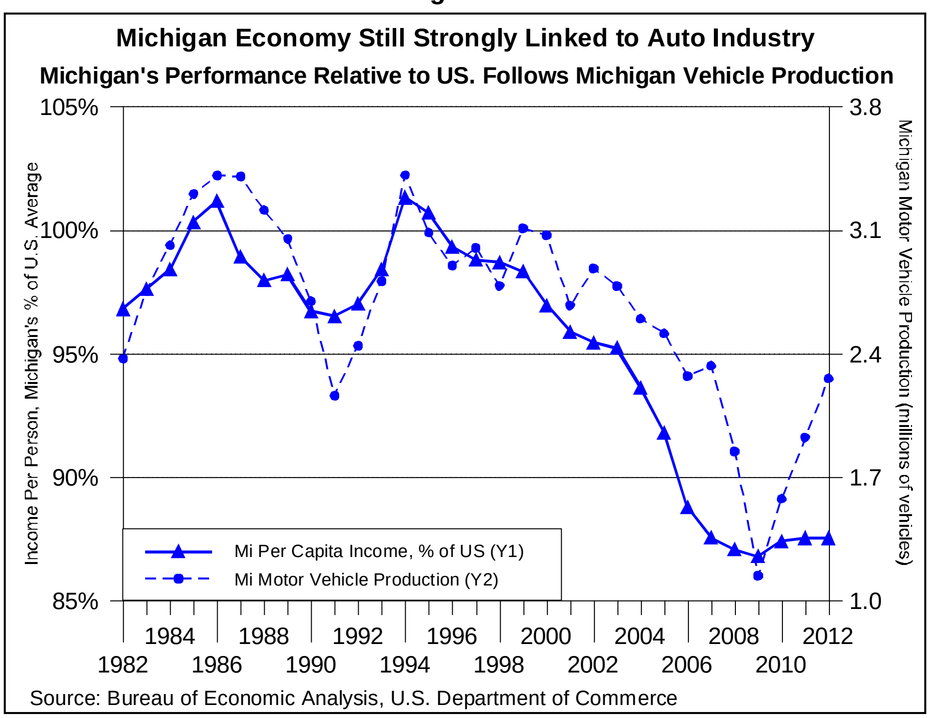


Figure 10



Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the additional demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (68.2%, a decline of approximately 241,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted. As identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, and despite the fact that as of October 2013 Michigan had regained 272,400 of the 862,300 jobs lost between April 2000 and July 2009, 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 increase slightly through 2014, but to remain relatively flat in both 2015 and 2016. Overall employment in Michigan is expected to grow slightly, with many of the employment gains over the forecast period largely offset by declines in State and local government employment. However, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, significant and sustained growth is unlikely to occur until a meaningful recovery occurs in both the financial sector and the housing industry, and consumers have improved their debt-to-income ratios. These changes, which are expected to take years, will need to occur at both the national and statewide levels before Michigan will experience substantial economic growth on a sustained basis.

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 2012-13 is presented along with the revised estimates for FY 2013-14 and FY 2014-15 and the initial revenue estimates for FY 2015-16. 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 budgets from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2012-13, FY 2013-14, and FY 2014-15 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2012-13, along with the revised estimates for FY 2013-14 and FY 2014-15, and the initial estimates for FY 2015-16 are presented in Table 3 and are summarized below.

FY 2012-13 Preliminary Final Revenue

- GF/GP and SAF revenue is expected to total $20.8 billion in FY 2012-13.
- This revised estimate for FY 2012-13 is up 3.4% or $692.0 million from FY 2011-12 due to increased economic activity and the temporary financial and political events at the end of 2012 and beginning of 2013.
- The revised estimate for FY 2012-13 is $433.5 million above the May 2013 consensus revenue estimate.

FY 2013-14 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $21.2 billion in FY 2013-14.
- This revised estimate for FY 2013-14 is up 2.0% or $408.0 million from the revised estimate for FY 2012-13, a slower growth rate than in FY 2012-13.
- The revenue projected for FY 2013-14 is lowered by adjustments for Michigan Business Tax refunds for certificated credits. Partially offsetting this decline, the revenue estimate is increased because $110.0 million in transfers of sales tax revenue from the General Fund to the Michigan Transportation Fund and the Aeronautics Fund that occurred in FY 2012-13 will not occur in FY 2013-14.
- The revised estimate for FY 2013-14 is $327.7 million above the May 2013 consensus revenue estimate.

FY 2014-15 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $22.2 billion in FY 2014-15.
- This revised estimate for FY 2014-15 is up 4.3% or $922.6 million from the revised estimate for FY 2013-14. The projected revenue increase in FY 2014-15 reflects continued economic growth forecast for the year.
- The revised estimate for FY 2013-14 is $513.6 million above the May 2013 consensus revenue estimate.

FY 2015-16 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total $23.1 billion in FY 2015-16.
- This initial estimate for FY 2015-16 is up 4.2% or $935.3 million from the revised estimate for FY 2014-15.
- As in FY 2014-15, the revenue increase in FY 2015-16 reflects improvements in the level of economic activity.

Historical Perspective

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. These projected growth rates are 2.0% in FY 2013-14, 4.3% in FY 2014-15, and 4.2% in FY 2015-16. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period.
- The revised estimate for GF/GP revenue from ongoing sources in FY 2012-13 is 10.4% ($1.1 billion) below the record FY 1999-2000 level and 7.5% ($0.8 billion) below the most recent peak reached in FY 2007-08. By FY 2014-15, ongoing GF/GP revenue is forecast to be only 1.3% or $139.2 million below the FY 2007-08 level. In FY 2015-16, GF/GP revenue is forecast to exceed the revenue level in 1999-2000 for the first time.
- In FY 2012-13, School Aid Fund revenue from ongoing sources is 2.1% ($242.1 million) below the FY 2007-08 record high for that Fund. In FY 2013-14, ongoing SAF revenue will be 0.6% ($67.3 million) above the FY 2007-08 peak. In FY 2014-15, ongoing SAF revenue will surpass the previous record SAF revenue in FY 2007-08 by 4.0% ($455.9 million). Growth is projected to continue in FY 2015-16, with SAF revenue estimated at $884.6 million or 7.7% above the FY 2007-08 record level.

Baseline revenue growth (using the updated FY 2012-13 base) is forecast at 3.6% in both FY 2013-14 and FY 2014-15, increasing to 3.9% in FY 2015-16. Figure 11 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2015-16. During this 30-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 rose 7.4% in FY 2012-13, and will increase approximately 3.6% in FY 2013-14 and FY 2014-15. An increase of 3.9% in baseline revenue is forecast for FY 2015-16.

Figure 12 compares the FY 1995-96 through FY 2015-16 estimates for both the GF/GP and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to $9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during the recession of FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 13. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2014-15 will be approximately 4.5% (or $482.8 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of $10,704.4 million in FY 2015-16 would exceed the peak revenue in FY 1999-2000, by $23.8 million, the first time that revenue mark would be bested. In inflation-adjusted terms, however, FY 2015-16 GF/GP revenue is 7.9% (or $818.3 million) below the FY 1968-69 level if adjusted for inflation.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2012-13 THROUGH FY 2015-16
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2012-13 Prelim. Final	FY 2013-14 Revised Est.	FY 2014-15 Revised Est.	FY 2015-16 Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1)]	$10,317.8	$10,587.0	$10,992.3	$11,446.2
Tax Changes Not In Baseline	(752.5)	(923.2)	(794.6)	(741.8)
Revenue After Tax Changes:				
Net Income Tax	5,931.1	6,045.2	6,293.2	6,589.3
MBT, Corp. Income Tax, SBT & Insur. Tax	961.7	797.0	992.0	1,111.4
Other Taxes	2,262.5	2,489.6	2,573.4	2,660.4
Total Taxes	9,155.3	9,331.8	9,858.6	10,361.1
Nontax Revenue	410.1	332.0	339.2	343.3
TOTAL GF/GP REVENUE	**$9,565.3**	**$9,663.8**	**$10,197.8**	**$10,704.4**
SCHOOL AID FUND				
Baseline SAF	$11,995.6	$12,317.5	$12,717.9	$13,121.3
Tax Changes Not In Baseline	(724.8)	(737.2)	(749.2)	(723.8)
TOTAL SAF REVENUE	**$11,270.8**	**$11,580.2**	**$11,968.8**	**$12,397.5**
BASELINE GF/GP AND SAF REVENUE	$22,313.4	$22,904.5	$23,710.2	$24,567.5
Tax & Revenue Changes[1)]	(1,477.3)	(1,660.4)	(1,543.7)	(1,465.6)
GF/GP & SAF REV. AFTER CHANGES	**$20,836.1**	**$21,244.0**	**$22,166.5**	**$23,101.9**
SALES TAX	$7,153.8	$7,364.3	$7,641.5	$7,940.8
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	12.5%	2.6%	3.8%	4.1%
Revenue After Tax Changes:				
Net Income Tax	23.1	1.9	4.1	4.7
MBT, Corp. Income Tax, SBT & Insur. Tax	(38.7)	(17.1)	24.5	12.0
Other Taxes	(2.2)	10.0	3.4	3.4
Total Taxes	5.2	1.9	5.6	5.1
Nontax Revenue	(27.6)	(19.0)	2.2	1.2
TOTAL GF/GP REVENUE	**3.2%**	**1.0%**	**5.5%**	**5.0%**
SCHOOL AID FUND				
Baseline SAF	3.3	2.7	3.3	3.2
TOTAL SAF REVENUE	**3.6%**	**2.7%**	**3.4%**	**3.6%**
BASELINE GF/GP AND SAF REVENUE	7.4	2.6	3.5	3.6
GF/GP & SAF REV. AFTER CHANGES	**3.4%**	**2.0%**	**4.3%**	**4.2%**
SALES TAX	2.9%	2.9%	3.8%	3.9%

[1)] FY 2011-12 is the base year for baseline revenue. The FY 2011-12 base year is used in this table and Table 4 for the purpose of comparisons to FY 2011-12. Elsewhere in the report, the revised FY 2012-13 baseline estimates are used. The change in the baseline affects the size of tax adjustments. It does not change net revenue estimates for any year.

Figure 11

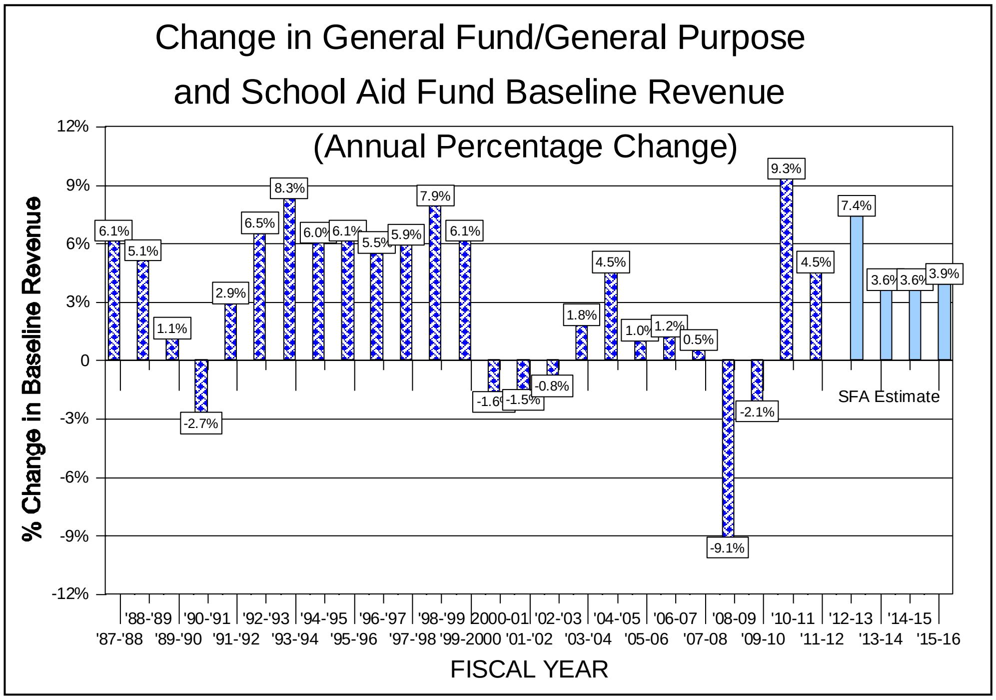


Figure 12

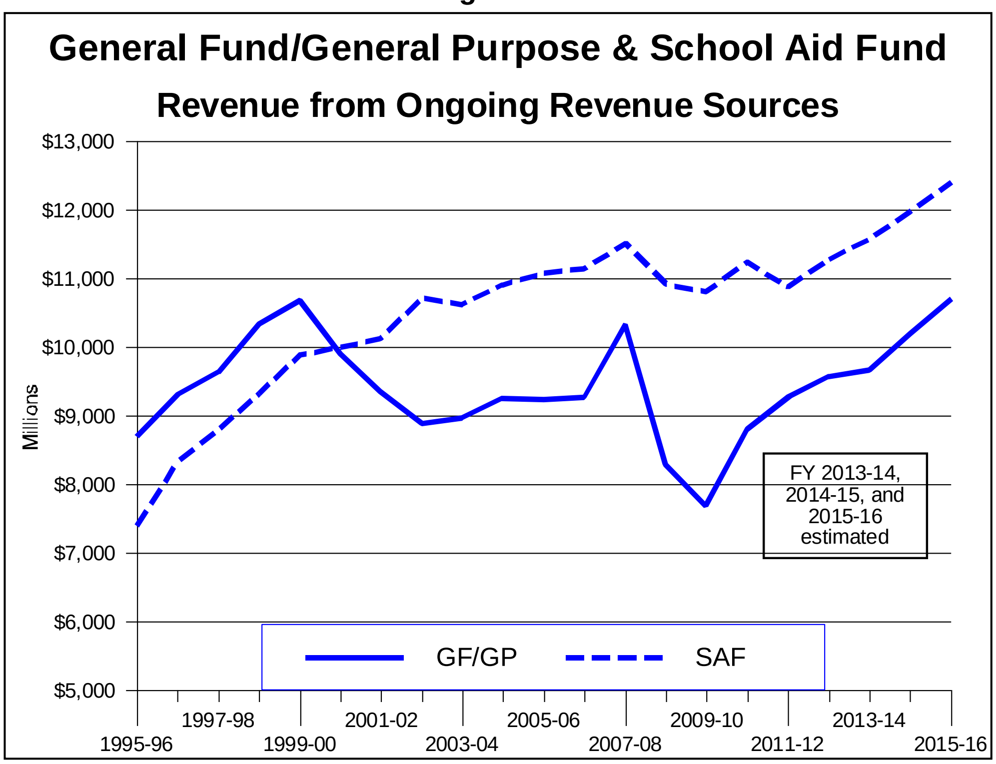
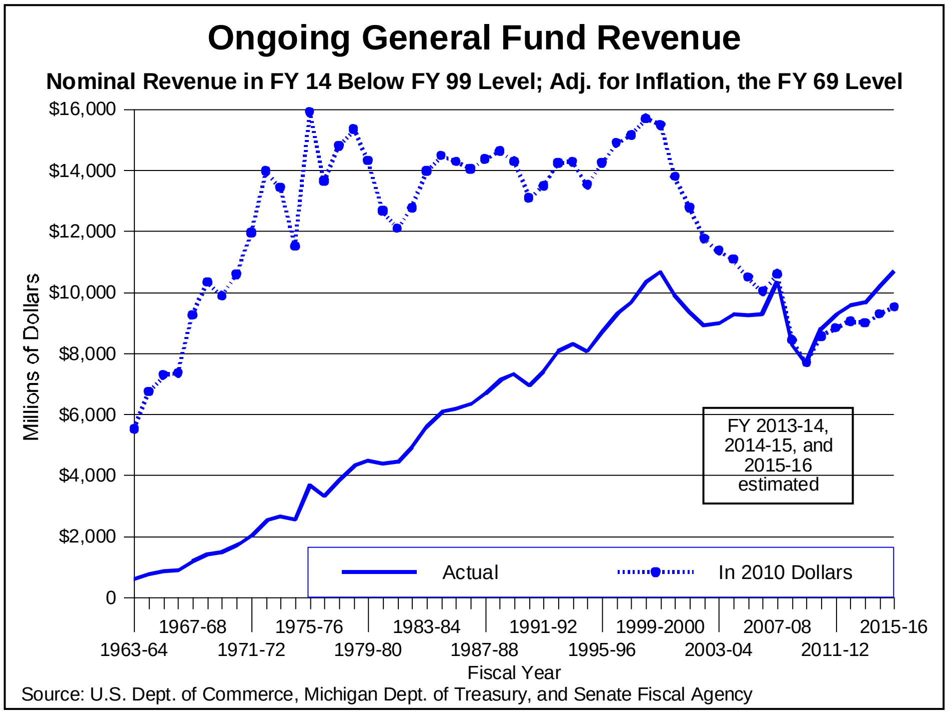
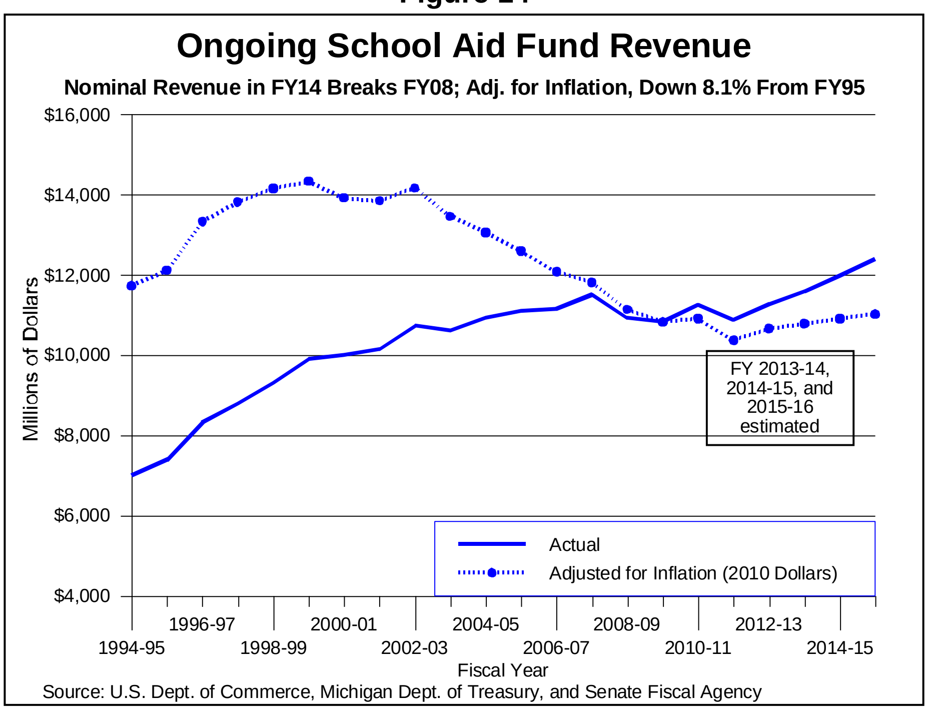


Figure 13



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 again in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2015-16, SAF revenue is predicted to be approximately 67.7% ($5.0 billion) above the revenue level in FY 1995-96 (without accounting for inflation) and 9.0% (or $1.1 billion) below if adjusted for inflation, as shown in Figure 14.

Figure 14



FY 2012-13 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 3.4% in FY 2012-13 compared with FY 2011-12.
- The revenue increase in FY 2012-13 reflects an improved economic climate in Michigan, as well as some State and Federal tax policy changes.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled $20.8 billion in FY 2012-13, which is 3.4% above the FY 2011-12 revenue level, as presented in Table 4. Combined GF/GP and SAF revenue in FY 2012-13 was expected to increase due to both an improving economy and higher individual income tax revenue largely attributable to increased quarterly and annual payments that occurred because of a substantial increase in dividend payments and capital gain realizations as taxpayers anticipated Federal tax changes in January 2013 associated with the "fiscal cliff". However, while GF/GP and SAF revenue was expected to increase in FY 2012-13, refunds issued for the MBT were much lower than anticipated due to the timing of claims and processing of tax credits. As a result, the State cost of those refunds will be pushed into future fiscal years, thereby causing a one-time saving to the State in FY 2012-13. The preliminary final revenue level is $433.5 million above the May 2013 consensus revenue estimate. Most of the revenue increase from the May 2013 estimates reflects the $414.2 million increase in net revenue from the MBT, although the increase was partially offset by a reduction of $136.9 million in the estimated revenue from the Corporate Income Tax (CIT). Net individual income tax revenue was $98.8 million stronger than expected during the year. Partially reflecting the individual income tax impact from the "fiscal cliff", baseline GF/GP and SAF revenue increased 7.4% in FY 2012-13. However, significant revenue adjustments to account for tax policy changes reduced the growth rate to 3.4%.

Tax Policy Changes

Several tax policy changes adopted by the State in May 2011 affected revenue in FY 2012-13. These tax policy changes included repealing the MBT and replacing it with a CIT that is expected to generate less revenue, and increasing in individual income taxes.

Income Tax Reform. Legislation adopted in May 2011 made fundamental changes to the Michigan individual income tax. The changes included postponing or eliminating scheduled rate reductions, expanding the tax base by eliminating many deductions and exemptions, and repealing or reducing a large number of credits. The combined effect of these changes made a substantial increase in income tax revenue in FY 2011-12, and added an estimated $1.4 billion to individual income tax revenue in FY 2012-13. However, for FY 2012-13 and the forecast period, income tax revenue growth is based primarily on economic factors as opposed to tax changes.

Business Tax Changes. Coincidentally with the reforms adopted for the individual income tax, the legislation also eliminated the MBT effective January 1, 2012, and replaced it with a Corporate Income Tax. The CIT taxes a narrower base and fewer firms, and thus generates substantially less revenue than the MBT. The total of CIT and MBT revenue in FY 2012-13 was $638.1 million below the FY 2011-12 level.

The 2011 legislation also provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. This "option" allows taxpayers to continue to claim those credits if they continue to file under the MBT. The value of these credits, net of the "option" tax, is expected to increase, reducing revenue by an estimated $142.0 million in FY 2012-13, $523.5 million in FY 2013-14, $461.5 million in FY 2014-15, and $445.0 million in FY 2015-16. As a result of preserving these credits, the MBT is expected to generate negative revenue throughout the forecast period.

Redirection of Sales Tax Revenue. The FY 2012-13 budget included legislation that transferred $100.0 million to the Michigan Transportation Fund and $10.0 million to the State Aeronautics Fund from sales tax revenue that would have otherwise been included in GF/GP revenue. As a result, FY 2012-13 sales tax revenue to the General Fund is down 7.2% from the FY 2011-12 level.

Revenue from Unclaimed Property. The State takes possession of certain types of abandoned property that is owned by an individual but held by another entity. Examples include inactive savings or checking accounts, uncashed payroll checks, unclaimed benefits from a life insurance policy, and inactive stocks. Entities that hold this property must remit it to the State once it has been inactive for a specified period of time. The State holds the property, and it may be claimed by the rightful owner at any time. However, a portion of the property is never claimed, generating revenue for the State. Several audits of entities affected by the unclaimed property law generated an estimated $34.0 million in revenue during FY 2013-14.

General Fund/General Purpose

- General Fund/General Purpose revenue totaled an estimated $9.6 billion in FY 2012-13, which is up 3.2% or $300.1 million from FY 2011-12.
- Compared with the May 2013 consensus estimate, GF/GP revenue for FY 2012-13 has been revised upward by $376.1 million.

The increase in GF/GP revenue for FY 2012-13 reflects several factors: higher income tax revenue, due to the both economic growth and the reaction to the Federal "fiscal cliff" in December 2012, and lower-than-expected MBT refunds, which more than offset a reduction in revenue from the transfer of sales tax revenue to transportation–related funds. A breakdown of the preliminary final GF/GP revenue estimate for FY 2012-13 is presented in Table 4.

School Aid Fund

- School Aid Fund revenue from earmarked taxes and the lottery totaled $11.3 billion in FY 2012-13, an increase of 3.6% or $391.9 million from FY 2011-12.
- The preliminary year-end SAF revenue estimate is $57.4 million higher than the May 2013 consensus estimate.

School Aid Fund revenue totaled $11.3 billion in FY 2012-13, up 3.6% from the FY 2011-12 revenue level. The improved housing market resulted in year-over-year growth in the Real Estate Transfer Tax of $52.2 million. The State Education Tax revenue, however, declined by $17.3 million or 1.0%. Improvements in the economy led to greater-than-expected collections under the sales tax and individual income tax. Sales tax collections earmarked to the SAF increased 3.0%, or $149.2 million, while income tax collections earmarked to the SAF rose 11.3%, or $238.3 million, in FY 2012-13 from the FY 2011-12 level. Net revenue generated by the lottery declined by $44.1 million or 5.7% from FY 2011-12. The preliminary final SAF revenue for FY 2012-13 also is summarized in Table 4.

Table 4

FY 2012-13 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

			Change from FY 2011-12		
	FY 2011-12 Final	**FY 2012-13 Prelim. Final**	**Dollar Change**	**Percent Change**	**$ Change from 05/13 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$9,169.4	$10,317.8	$1,148.4	12.5%	$517.2
Tax Changes Not In Baseline	95.8	(752.5)	(848.3)	---	---
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	9,052.9	9,964.5	911.6	10.1	167.7
Less: Refunds	(2,134.6)	(1,694.2)	440.4	(20.6)	(68.9)
Net Income Tax Collections	6,918.3	8,270.3	1,352.0	19.5	98.8
Less: Earmarking to SAF	(2,100.2)	(2,338.5)	(238.3)	11.3	(11.9)
Campaign Fund	(0.9)	(0.8)	0.1	(11.1)	0.2
Net Income Tax to GF/GP	$4,817.2	$5,931.1	$1,113.9	23.1%	$87.2
Other Taxes					
Michigan Business Tax	798.3	(75.8)	(874.1)	(109.5)	414.2
Corporate Income Tax	547.1	783.1	236.0	---	(136.9)
Sales	1,081.2	1,003.5	(77.7)	(7.2)	1.3
Use	794.0	838.3	44.3	5.6	8.7
Cigarette	192.6	187.9	(4.7)	(2.4)	(3.6)
Insurance Company Premiums	290.2	301.4	11.2	3.9	4.4
Telephone & Telegraph	59.2	46.5	(12.7)	(21.5)	(9.5)
Oil & Gas Severance	53.6	59.5	5.9	11.0	6.5
All Other	65.4	79.8	14.4	22.0	(28.1)
Subtotal Other Taxes	$3,881.6	$3,224.2	($657.4)	(16.9)	257.0
Total Nontax Revenue	566.4	410.1	(156.3)	(27.6)	32.0
GF/GP REV. AFTER TAX CHANGES	**$9,265.2**	**$9,565.3**	**$300.1**	**3.2%**	**$376.1**
SCHOOL AID FUND:					
Baseline Revenue[1]	$11,613.9	$11,995.6	$381.7	3.3%	$53.2
Tax Changes Not In Baseline	(734.9)	(724.8)	10.1	---	---
Revenue After Tax Changes					
Sales Tax	5,057.0	5,206.2	149.2	3.0	41.6
Use Tax	412.6	432.4	19.8	4.8	17.5
Lottery Revenue	778.4	734.3	(44.1)	(5.7)	(10.7)
State Education Property Tax	1,789.5	1,772.2	(17.3)	(1.0)	(19.8)
Real Estate Transfer Tax	150.1	202.3	52.2	34.8	11.8
Michigan Business Tax	0.0	0.0	0.0	---	---
Income Tax	2,100.2	2,338.5	238.3	11.3	11.9
Casino Tax	115.8	110.7	(5.1)	(4.4)	1.0
Other Revenue	475.3	474.2	(1.1)	(0.2)	4.1
SAF REV. AFTER TAX CHANGES	**$10,878.9**	**$11,270.8**	**$391.9**	**3.6%**	**$57.4**
BASELINE GF/GP AND SAF	$20,783.2	$22,313.4	$1,530.2	7.4%	$570.4
Tax & Revenue Changes	(639.1)	(1,477.3)	(838.2)	---	---
GF/GP & SAF REV. AFTER CHNGS	**$20,144.1**	**$20,836.1**	**$692.0**	**3.4%**	**$433.5**
SALES TAX	$6,952.8	$7,153.8	$201.0	2.9%	$53.1

[1] FY 2011-12 is the base year for baseline revenue.

FY 2013-14 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will total an estimated $21.2 billion in FY 2013-14, which is up 2.0% or $408.0 million from the revised estimate for FY 2012-13.
- The revised estimate for FY 2013-14 is $327.7 million above the May 2013 consensus estimate.

Economic activity in Michigan is expected to grow more quickly during FY 2013-14 than in FY 2012-13, with baseline GF/GP and SAF growth estimated at 3.6% from the updated FY 2012-13 baseline revenue amount. Net revenue is expected to grow more slowly because of the loss of several one-time tax policy events that generated additional revenue in FY 2012-13, including the revenue from unclaimed property audits and increased income tax revenue from individuals taking dividends and capital gains in anticipation of tax increases associated with the "fiscal cliff" events of December 2012. The revised estimates for FY 2013-14 GF/GP and SAF revenue are summarized in Table 5.

Tax Policy Changes

In addition to the loss of one-time events that increased revenue in FY 2012-13, several tax policy changes are expected to affect revenue in FY 2013-14. These include continued revenue reductions due to MBT credits, changes in the law related to Blue Cross Blue Shield of Michigan that will affect the tax on insurers, and the first full year of a phased-in exemption on the trade-in value of a motor vehicle.

Business Tax Changes. Some business taxpayers continue to file under the MBT in order to claim refundable tax credits. The value of these credits is expected to peak in FY 2013-14, at $563.0 million. The cost of the refundable credits is offset to a small extent by collection under the option tax of $39.5 million in FY 2013-14.

Insurance Tax Changes. The 2012 legislation that allowed Blue Cross Blue Shield of Michigan to change from a tax-exempt nonprofit firm to a nonprofit mutual insurer is expected to be implemented during FY 2013-14 and will increase GF/GP revenue by $40.0 million.

Sales Tax. Public Act 160 of 2013 provides an exemption that excludes a portion the value of a trade-in of a motor vehicle, watercraft, or recreational vehicle from the sales tax, the so-called sales tax on the difference. While the exemption will be phased in over many years, the first revenue impacts will occur during FY 2013-14, lowering sales tax revenue by $22.1 million, with the SAF bearing $16.2 million of the reduction. The revenue loss from this exemption will increase in future years as the phase-in progresses.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $9.7 billion in FY 2013-14, an increase of 1.0% or $98.4 million from FY 2012-13.
- The revised GF/GP estimate is $217.6 million above the May 2013 consensus revenue estimate.

Stronger economic growth during 2014 will result in a modest increase in tax collections during FY 2013-14, despite the loss of the extra revenue from audits of unclaimed property. Similarly, although CIT revenue is expected to grow 11.7%, the loss of revenue from the MBT repeal and the preservation of refundable credits will more than offset those gains. Combined MBT/CIT revenue is expected to decline by $275.3 million in FY 2013-14. The revised GF/GP revenue estimate for FY 2013-14 is summarized in Table 5.

Table 5
FY 2013-14 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2012-13 Prelim. Final	FY 2013-14 Revised Est.	Change from FY 2012-13: Dollar Change	Change from FY 2012-13: Percent Change	$ Change from 05/13 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$9,796.4	$10,212.2	$415.8	4.2%	$120.2
Tax Changes Not In Baseline	(231.1)	(548.4)	(317.3)	---	97.4
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	9,964.5	10,161.1	196.6	2.0	272.1
Less: Refunds	(1,694.2)	(1,697.9)	(3.7)	0.2	(77.8)
Net Income Tax Collections	8,270.3	8,463.2	192.9	2.3	194.3
Less: Earmarking to SAF	(2,338.5)	(2,417.0)	(78.5)	3.4	(63.3)
Campaign Fund	(0.8)	(1.0)	(0.2)	25.0	0.0
Net Income Tax to GF/GP	$5,931.1	$6,045.2	$114.1	1.9%	$131.1
Other Taxes					
Michigan Business Tax	(75.8)	(443.0)	(367.2)	484.4	107.0
Corporate Income Tax	783.1	875.0	91.9	11.7	(82.0)
Sales	1,003.5	1,154.1	150.6	939.5	1.2
Use	838.3	917.0	78.7	9.4	28.7
Cigarette	187.9	190.9	3.0	(4.9)	2.1
Insurance Company Premiums	301.4	365.0	63.6	21.1	16.8
Telephone & Telegraph	46.5	45.0	(1.5)	(3.2)	(10.0)
Oil & Gas Severance	59.5	65.0	5.5	9.2	10.0
All Other	79.8	117.6	37.8	47.3	12.0
Subtotal Other Taxes	$3,224.2	$3,286.6	$62.4	1.9%	$85.8
Total Nontax Revenue	410.1	332.0	(78.1)	(19.0)	0.8
GF/GP REV. AFTER TAX CHANGES	**$9,565.3**	**$9,663.8**	**$98.4**	**1.0%**	**$217.6**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$11,270.8	$11,620.0	$349.2	3.1%	$129.4
Tax Changes Not In Baseline	0.0	(39.8)	(39.8)	---	(19.3)
Revenue After Tax Changes					
Sales Tax	5,206.2	5,356.8	150.6	2.9	24.7
Use Tax	432.4	458.5	26.1	6.0	14.3
Lottery Revenue	734.3	735.0	0.7	0.1	(7.5)
State Education Property Tax	1,772.2	1,800.0	27.8	1.6	(18.0)
Real Estate Transfer Tax	202.3	225.0	22.7	11.2	22.9
Michigan Business Tax	0.0	0.0	0.0	---	---
Income Tax	2,338.5	2,417.0	78.5	3.4	63.3
Casino Tax	110.7	116.0	5.3	4.8	4.0
Other Revenue	474.2	471.9	(2.3)	(0.5)	6.4
SAF REV. AFTER TAX CHANGES	**$11,270.8**	**$11,580.2**	**$309.4**	**2.7%**	**$110.1**
BASELINE GF/GP AND SAF	$21,067.1	$21,832.2	$765.1	3.6%	$249.6
Tax & Revenue Changes	(231.1)	(588.2)	(357.1)	---	78.1
GF/GP & SAF REV. AFTER CHNGS	**$20,836.1**	**$21,244.0**	**$408.0**	**2.0%**	**$327.7**
SALES TAX	$7,153.8	$7,364.3	$210.5	2.9%	$33.6

[1)] FY 2012-13 is the base year for baseline revenue.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.6 billion in FY 2013-14, which is up 2.7% or $309.4 million from the revised estimate for FY 2012-13.
- This revised SAF revenue estimate for FY 2013-14 is $110.1 million above the May 2013 consensus revenue estimate.

The projected 2.7% increase in SAF revenue in FY 2013-14 reflects stronger revenue from the sales tax, the individual income tax, and the Real Estate Transfer Tax. Improvements in the housing market are expected to result in State Education Tax revenue growth of 1.6% in FY 2013-14, and revenue from the Real Estate Transfer Tax is expected to rise by 11.9%. In FY 2013-14, the SAF is projected to exceed the previous peak revenue, experienced in FY 2007-08. Revenue in FY 2013-14 is forecast to be $67.3 million over the FY 2007-08 level. The revised SAF revenue estimate for FY 2013-14 is summarized in Table 5.

FY 2014-15 REVISED REVENUE ESTIMATES

The level of economic activity in Michigan is expected to continue increasing slightly more rapidly in FY 2014-15 than during FY 2013-14. Total GF/GP and SAF revenue will reach an estimated $22.2 billion in FY 2014-15, an increase of 4.3% or $922.6 million from the revised estimate for FY 2013-14. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.6% in FY 2014-15, reflecting the same rate of growth as in the prior year. The revised estimate of GF/GP and SAF revenue for FY 2014-15 is summarized in Table 6.

Tax Policy Changes

As in FY 2012-13, tax policy changes are expected to reduce revenue during FY 2013-14, with the most significant reduction coming from business tax credits.

Business Tax Reform. The value of refundable MBT credits will begin to decline in FY 2014-15, from $563.0 million in FY 2013-14 to $503.4 million in FY 2014-15. All of the impact of these credits reduces GF/GP revenue.

Insurance Tax Changes. As mentioned previously, the 2012 legislation that allowed Blue Cross Blue Shield of Michigan to change from a tax-exempt nonprofit firm to a nonprofit mutual insurer will increase GF/GP revenue. The first full-year impact is expected in FY 2014-15, and will increase GF/GP revenue by an estimated $80.0 million.

Sales Tax. The revenue reduction due to phase-in of the partial sales tax exemption based on the value of trade-in vehicles is projected to increase to $33.1 million in FY 2014-15. This change reduces GF/GP revenue by $4.0 million and School Aid Fund revenue by $24.3 million.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $10.2 billion in FY 2014-15, an increase of 5.5% or $534.0 million from FY 2013-14.
- The revised GF/GP estimate is $357.6 million above the May 2013 consensus revenue estimate.

Table 6

FY 2014-15 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change from FY 2013-14		
	FY 2013-14 Revised Est.	FY 2014-15 Revised Est.	Dollar Change	Percent Change	$ Change from 05/13 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$10,212.2	$10,633.3	$421.1	4.1%	$206.8
Tax Changes Not In Baseline	(548.4)	(435.5)	112.9	---	150.8
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	10,161.1	10,549.7	388.6	3.8	312.1
Less: Refunds	(1,697.9)	(1,746.5)	(48.6)	2.9	(81.5)
Net Income Tax Collections	8,463.2	8,803.2	340.0	4.0	230.6
Less: Earmarking to SAF	(2,417.0)	(2,509.0)	(92.0)	3.8	(72.6)
Campaign Fund	(1.0)	(1.0)	0.0	0.0	0.0
Net Income Tax to GF/GP	$6,045.2	$6,293.2	$248.0	4.1%	$158.0
Other Taxes					
Michigan Business Tax	(443.0)	(373.0)	70.0	(15.8)	174.2
Corporate Income Tax	875.0	945.0	70.0	8.0	(48.0)
Sales	1,154.1	1,202.0	47.9	4.2	3.7
Use	917.0	952.7	35.7	3.9	30.7
Cigarette	190.9	187.7	(3.2)	(1.7)	1.9
Insurance Company Premiums	365.0	420.0	55.0	15.1	18.5
Telephone & Telegraph	45.0	46.0	1.0	2.2	(8.0)
Oil & Gas Severance	65.0	67.5	2.5	3.8	10.5
All Other	117.6	117.5	(0.1)	(0.1)	8.0
Subtotal Other Taxes	$3,286.6	$3,565.4	$278.8	8.5%	$191.5
Total Nontax Revenue	332.0	339.2	7.2	2.2	8.0
GF/GP REV. AFTER TAX CHANGES	**$9,663.8**	**$10,197.8**	**$534.0**	**5.5%**	**$357.6**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$11,620.0	$11,993.3	$373.3	3.2%	$163.6
Tax Changes Not In Baseline	(39.8)	(24.5)	15.3	---	(7.5)
Revenue After Tax Changes					
Sales Tax	5,356.8	5,559.2	202.4	3.8	34.7
Use Tax	458.5	476.3	17.8	3.9	15.4
Lottery Revenue	735.0	743.0	8.0	1.1	2.7
State Education Property Tax	1,800.0	1,854.8	54.8	3.0	(6.0)
Real Estate Transfer Tax	225.0	238.0	13.0	5.8	25.8
Michigan Business Tax	0.0	0.0	0.0	---	---
Income Tax	2,417.0	2,509.0	92.0	3.8	72.6
Casino Tax	116.0	121.5	5.5	4.7	4.5
Other Revenue	471.9	467.0	(4.9)	(1.0)	6.3
SAF REV. AFTER TAX CHANGES	**$11,580.2**	**$11,968.8**	**$388.6**	**3.4%**	**$156.0**
BASELINE GF/GP AND SAF	$21,832.2	$22,626.6	$794.4	3.6%	$370.3
Tax & Revenue Changes	(588.2)	(460.1)	128.1	---	143.3
GF/GP & SAF REV. AFTER CHNGS	**$21,244.0**	**$22,166.6**	**$922.6**	**4.3%**	**$513.6**
SALES TAX	$7,364.3	$7,641.5	$277.2	3.8%	$47.4

[1)] FY 2012-13 is the base year for baseline revenue.

Continued economic growth during 2015 will result in increased tax collections during FY 2014-15. Baseline GF/GP revenue is expected to increase 4.1%. Business tax collections are expected to exhibit less volatility as refund claims become more consistent. The initial GF/GP revenue estimates for FY 2014-15 are summarized in Table 6.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $12.0 billion in FY 2014-15, which is up 3.4% or $388.6 million from the revised estimate for FY 2013-14.
- This revised SAF revenue estimate for FY 2014-15 is $156.0 million above the May 2013 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in every major revenue source. Baseline SAF revenue is expected to increase by 3.2%. New lottery games are expected to have a minor impact on increasing SAF revenue, while revenue from the State Education Tax is expected to increase by 3.0% from the FY 2013-14 level. The initial SAF revenue estimates for FY 2014-15 are summarized in Table 6.

FY 2015-16 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2015-16, although both personal income and employment will rise less rapidly than in FY 2014-15. Total GF/GP and SAF revenue will reach an estimated $23.1 billion in FY 2015-16, an increase of 4.2% or $935.3 million from the revised estimate for FY 2014-15. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.9% in FY 2015-16, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2015-16 is summarized in Table 7.

Tax Policy Changes

Tax policy changes affecting FY 2015-16 revenue mirror those affecting FY 2014-15. Revenue in FY 2015-16 will be reduced by the continuation of MBT refunds due to ongoing tax credits, but the expected reduction of $489.0 million in FY 2015-16 is less than the reduction in FY 2014-15. The insurance tax paid by Blue Cross Blue Shield of Michigan as a nonprofit mutual insurer will increase revenue to the General Fund by $86.4 million. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $39.8 million, of which $29.2 million is a reduction to the SAF. The only significant policy change will be the full-year impact of several new lottery games, which are expected to increase SAF revenue by approximately $45.0 million in FY 2015-16.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $10.7 billion in FY 2015-16, an increase of 5.0% or $506.6 million from the revised estimate for FY 2014-15. Baseline GF/GP revenue is expected to increase 4.6%. The initial GF/GP revenue estimates for FY 2015-16 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $12.4 billion in FY 2015-16, an increase of $428.7 million, or 3.6%, from the revised estimate for FY 2014-15. The forecasted increase in SAF revenue reflects growth in all major earmarked revenue sources, plus the additional impact from several new lottery games. Total SAF revenue in FY

2015-16 is projected to exceed the peak reached in FY 2007-08 by $884.6 million. The initial SAF revenue estimates for FY 2015-16 are summarized in Table 7.

Table 7

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

	FY 2014-15 Revised Est.	FY 2015-16 Initial Est.	Change from FY 2014-15 Dollar Change	Change from FY 2014-15 Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue[1)]	$10,633.3	$11,117.8	$484.5	4.6%
Tax Changes Not In Baseline	(435.5)	(413.4)	22.2	---
Revenue After Tax Changes				
Personal Income Tax				
Gross Collections	10,549.7	10,941.7	392.0	3.7
Less: Refunds	(1,746.5)	(1,755.0)	(8.5)	0.5
Net Income Tax Collections	8,803.2	9,186.7	383.5	4.4
Less: Earmarking to SAF	(2,509.0)	(2,596.3)	(87.3)	3.5
Campaign Fund	(1.0)	(1.0)	0.0	0.0
Net Income Tax to GF/GP	$6,293.2	$6,589.3	$296.1	4.7%
Other Taxes				
Michigan Business Tax	(373.0)	(348.0)	25.0	(6.7)
Corporate Income Tax	945.0	1,020.0	75.0	7.9
Sales	1,202.0	1,252.3	50.3	4.2
Use	952.7	990.0	37.3	3.9
Cigarette	187.7	184.9	(2.8)	(1.5)
Insurance Company Premiums	420.0	439.4	19.4	4.6
Telephone & Telegraph	46.0	47.0	1.0	2.2
Oil & Gas Severance	67.5	69.5	2.0	3.0
All Other	117.5	116.7	(0.8)	(0.7)
Subtotal Other Taxes	$3,565.4	$3,771.8	$206.4	5.8%
Total Nontax Revenue	339.2	343.3	4.1	1.2
GF/GP REV. AFTER TAX CHANGES	**$10,197.8**	**$10,704.4**	**$506.6**	**5.0%**
SCHOOL AID FUND:				
Baseline Revenue[1)]	$11,993.3	$12,394.9	$401.6	3.3%
Tax Changes Not In Baseline	(24.5)	2.5	27.1	---
Revenue After Tax Changes				
Sales Tax	5,559.2	5,778.7	219.5	3.9
Use Tax	476.3	495.0	18.7	3.9
Lottery Revenue	743.0	770.0	27.0	3.6
State Education Property Tax	1,854.8	1,916.8	62.0	3.3
Real Estate Transfer Tax	238.0	250.0	12.0	5.0
Michigan Business Tax	0.0	0.0	0.0	---
Income Tax	2,509.0	2,596.3	87.3	3.5
Casino Tax	121.5	128.0	6.5	5.3
Other Revenue	467.0	462.7	(4.3)	(0.9)
SAF REV. AFTER TAX CHANGES	**$11,968.8**	**$12,397.5**	**$428.7**	**3.6%**
BASELINE GF/GP AND SAF	$22,626.6	$23,512.7	$886.1	3.9%
Tax & Revenue Changes	(460.1)	(410.8)	49.2	---
GF/GP & SAF REV. AFTER CHNGS	**$22,166.6**	**$23,101.9**	**$935.3**	**4.2%**
SALES TAX	$7,641.5	$7,940.8	$299.3	3.9%

[1)] FY 2012-13 is the base year for baseline revenue.

MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2012-13 THROUGH FY 2015-16

Individual Income Tax. The income tax generated an estimated $8.3 billion in FY 2012-13, which represents an increase of 19.5% from FY 2011-12 and reflects the impact of three factors: 1) increases in economic activity, 2) tax reform legislation, particularly the reduction in income tax refunds, and 3) additional revenue generated as individuals received dividends and realized capital gains in anticipation of potential tax increases in response to the Federal "fiscal cliff" crisis in December 2012. By FY 2013-14, faster year-over-year growth in individual income tax revenue attributable to the tax reform legislation is no longer a factor and no additional boosts are expected related to issues at the Federal level. Combined with slightly slower economic growth, net collections are expected to rise only 2.3%. Compared with May 2013 consensus revenue estimates, the revised individual income tax estimate for FY 2013-14 is up $194.3 million and the revised estimate for FY 2014-15 is up $230.6 million. These changes in income tax revenue will affect both GF/GP revenue and SAF revenue. The School Aid Fund receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds), including the refund payments for the homestead property tax credit and the earned income tax credit (both of which are reduced substantially by the tax reform legislation).

Sales Tax. As employment has stabilized and the economy has continued to grow, consumers and businesses have become less cautious, increasing spending on items subject to the sales tax. While consumption is forecast to increase, the rate is below that experienced in a typical economic recovery. As a result, sales tax revenue will total an estimated $7.4 billion in FY 2013-14, which is 2.9% above the level in FY 2012-13. Sales tax collections are expected to exceed the projected rate of inflation, rising 3.8% in FY 2013-14, to $7.6 billion, and 3.9% in FY 2015-16, to $7.9 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with May 2013 consensus revenue estimates, the revised sales tax estimate for FY 2013-14 is $33.6 million higher and the revised estimate for FY 2014-15 is up $47.4 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes only constitutional revenue sharing earmarks; to reflect the significant portion of sales tax revenue earmarked statutorily to revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, can be volatile. Use tax revenue is expected to increase 8.2% in FY 2013-14. The growth rate slows in later years due to slightly slower economic growth and rising interest rates that will make business investment more expensive. In FY 2014-15, use tax receipts will total an estimated $1.4 billion, an increase of 3.9% from the revised estimate for FY 2013-14, and $1.5 billion in FY 2015-16, an increase of 3.9%. Compared with the May 2013 consensus revenue estimates, the FY 2013-14 estimate for use tax collections has been revised upward by $43.0 million and the FY 2014-15 estimate is up $46.1 million. The GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF.

Tobacco Taxes. Tax collections from the cigarette and other tobacco products taxes will total an estimated $949.1 million in FY 2013-14, a decrease of 0.9% from FY 2012-13. In FY 2014-15, tobacco tax revenue is expected to decline another 1.7%, to $932.5 million, before falling 1.6% in FY 2015-16, to $918.0 million. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) actually increases.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2012-13, casino tax revenue totaled an estimated $110.7 million, a reduction of 4.4% from FY 2011-12 due to the opening of new casinos in northern Ohio. Casino tax revenue is expected to increase during FY 2013-14. As the economy continues to improve and the novelty of the Ohio casinos declines, a portion of the lost casino tax revenue will be recovered. As a result, casino tax revenue is expected to rebound in FY 2013-14, rising 4.8% to $116.0 million. Growth is expected to continue in the subsequent years, with projected increases in the casino tax revenue of 4.7% in FY 2014-15 and 5.3% in FY 2015-16.

State Education Property Tax. Weakness in the housing sector drove State Education Tax revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values are expected to result in growth in this tax beginning in FY 2013-14, with collections expected to rise 1.6%, to $1.8 billion. As the housing market improves in later years, State Education Tax revenue is expected to increase 3.0% in FY 2014-15 and 3.3% in FY 2015-16. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Lottery. Net lottery revenue is expected to remain fairly flat over the initial forecast years. As a result, lottery revenue is expected to increase 0.1% in FY 2013-14, to $735.0 million, and 1.1% in FY 2014-15, to $743.0 million. Additional lottery games expected during FY 2014-15 are forecast to help increase net lottery proceeds by 3.6% to $770.0 million in FY 2015-16. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax/Corporate Income Tax. Legislation adopted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying a CIT that generates about 40% of the revenue of the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs) will not pay any separate business tax to the State. Those businesses that continue to pay the MBT will do so largely 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 grow over the forecast period, as profits improve, although the CIT is expected to be a more volatile tax than the MBT.

Business taxes, representing the combination of MBT and CIT revenue, declined 47.4% in FY 2012-13, from $1.3 billion to $707.3 million. Revenue from the MBT in FY 2012-13 was greater than expected in the May 2013 consensus estimates because lower-than-expected tax credits were claimed. The MBT refunds are still expected, but timing and processing issues have moved them into FY 2013-14, or even later years. As a result, preliminary final revenue for the MBT is $414.2 million higher than the May 2013 consensus estimate, although a portion of this additional revenue was offset by lower-than-expected CIT revenue, which was $136.9 million less than the forecasted amount. In FY 2013-14, CIT revenue is expected to increase 11.7%, but increased MBT credits will cause net business tax revenue to decline 38.9% to $432.0 million. The revised estimate for business taxes in FY 2013-14 is $432.0 million, which is $25.0 million above the May 2013 consensus estimate. Payments of refundable credits are expected to peak in FY 2013-14. Net revenue from the MBT and CIT is projected to increase by 32.4% or $140.0 million FY 2014-15 and by 17.5% or $100.0 million in FY 2015-16.

According to prior law, the SAF received $729.0 million of MBT revenue in FY 2008-09, with that amount indexed annually to the percentage change in the U.S. Consumer Price Index (CPI) during the previous fiscal year. In FY 2010-11, MBT revenue earmarked to the SAF totaled $739.2 million. The tax reform legislation repealed the earmark along with the MBT, so no revenue from the MBT was directed to the SAF in FY 2011-12 and none will be in later years. All remaining MBT revenue (and the payment of refunds), and all of the CIT revenue, is allocated to the General Fund.

REVENUE TRENDS

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

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

Based on a longer term view of Michigan's economy for FY 2016-17 and FY 2017-18, net GF/GP revenue is expected to increase 4.6% in FY 2016-17, to $11.2 billion, while SAF revenue will increase 4.0%, to $12.9 billion. In FY 2017-18, net GF/GP revenue is expected to increase 4.2%, to $11.7 billion, while SAF revenue will increase 3.8%, to $13.4 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 2012-13, FY 2013-14, and FY 2014-15. 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 2012-13, FY 2013-14, and FY 2014-15 have been adjusted to reflect a common base year.

The Senate Fiscal Agency's initial GF/GP and SAF baseline revenue estimate for FY 2012-13 of $20.1 billion was made in May 2011, as shown in Table 8. The estimate adopted at the May 2011 Consensus Revenue Estimating Conference was $143.3 million below the SFA's estimate. At the January 2012 consensus conference, the estimate was increased by $208.2 million, and then increased by $4.0 million in May 2012. The January 2013 consensus conference reduced the estimate by $16.4 million. The estimate was then increased by $549.3 million at the May 2013 consensus conference. Preliminary final revenue for FY 2012-13 equals $21.3 billion, up $534.2 million from the May 2013 estimate. Compared with the SFA's initial estimate in December 2011, preliminary final 2012-13 GF/GP and SAF baseline revenue is up $1.1 billion, or 5.6%.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2012-13 (Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
May 13, 2011	$8,428.7	$11,694.8	$20,123.5
May 16, 2011[a)]	8,339.0	11,641.2	19,980.2
December 28, 2011	8,395.0	11,645.7	20,040.7
January 14, 2012[a)]	8,418.6	11,769.8	20,188.4
May 9, 2012	8,389.4	11,852.6	20,242.0
May 16, 2012[a)]	8,313.6	11,878.8	20,192.4
December 28, 2012	8,187.6	11,818.1	20,005.8
January 11, 2013[a)]	8,319.3	11,856.7	20,176.0
May 13, 2013	8,803.7	11,856.7	20,660.4
May 15, 2013[a)]	8,782.9	11,942.4	20,725.3
Preliminary Final	$9,263.9	$11,995.6	$21,259.5
Change From Previous Estimate:			
Dollar Change	$481.0	$53.2	$534.2
Percent Change	5.5%	0.4%	2.6%
Change From Initial Estimate:			
Dollar Change	$835.2	$300.8	$1,136.0
Percent Change	9.9%	2.6%	5.6%

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

Note: Baseline base year equals FY 2011-12; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2013-14 (Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 28, 2011	$8,758.2	$11,930.7	$20,688.9
January 14, 2012[a)]	8,790.6	12,091.2	20,881.9
May 9, 2012	8,855.3	12,152.4	21,007.7
May 16, 2012[a)]	8,768.9	12,201.7	20,970.6
December 28, 2012	8,610.4	12,106.8	20,717.2
January 11, 2013[a)]	8,678.0	12,159.2	20,837.2
May 13, 2013	8,882.9	12,180.6	21,063.5
May 15, 2013[a)]	8,910.1	12,197.0	21,107.1
December 19, 2013	9,523.7	12,317.5	21,841.2
Change From Previous Estimate:			
Dollar Change	$613.6	$120.5	$734.1
Percent Change	6.9%	1.0%	3.5%
Change From Initial Estimate:			
Dollar Change	$765.5	$386.8	$1,152.3
Percent Change	8.7%	3.2%	5.6%

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

Note: Baseline base year equals FY 2011-12; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

The initial GF/GP and SAF baseline revenue estimate for FY 2013-14 was made in December 2011 at $20.7 billion, as shown in Table 9. This estimate was increased by $193.0 million at the January 2012 Consensus Revenue Estimating Conference and that revised estimate was increased by $88.7 million at the May 2012 Consensus Revenue Estimating Conference. The January 2013 Consensus Revenue Estimating Conference then lowered the estimate for FY 2013-14 revenue by $133.4 million. The May 2013 Consensus Revenue Estimating Conference increased the estimate for FY 2013-14 by $269.9 million. The Senate Fiscal Agency's revised estimate for FY 2013-14 presented in this report increases the baseline estimate by $734.1 million above the May 2013 consensus estimate, to $21.8 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2014-15 was made in December 2012 at $21.1 billion, as shown in Table 10. This estimate was increased by $420.6 million at the January 2013 Consensus Revenue Estimating Conference, and then increased again by $319.3 million at the May 2013 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2014-15 presented in this report increases the baseline estimate by $803.3 million above the May 2013 consensus estimate, to $22.6 billion.

Table 10

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

Forecast Date	GF/GP	SAF	Total
December 28, 2012	$8,697.4	$12,366.0	$21,063.4
January 11, 2013 [a]	8,962.2	12,521.8	21,484.0
May 13, 2013	9,068.0	12,539.1	21,607.1
May 15, 2013 [a]	9,237.4	12,565.9	21,803.3
December 19, 2013	9,888.7	12,717.9	22,606.6
Change From Previous Estimate:			
Dollar Change	$651.3	$152.0	$803.3
Percent Change	7.1%	1.2%	3.7%

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

Note: Baseline base year equals FY 2011-12; 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. The BSF 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 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 General Fund/General Purpose (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.

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.

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 2011-12. Also presented in this table are the SFA's estimates for FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 15, and the estimated economic stabilization trigger calculations for FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 are presented in Table 12.

FY 2012-13

The BSF ended FY 2011-12 with a balance of $365.1 million. During FY 2012-13, $140.0 million was appropriated into the Fund and there were no payments out of the Fund. Interest earnings are estimated at $3.6 million in FY 2012-13, resulting in an estimated ending balance of $508.8 million.

FY 2013-14, FY 2014-15, and FY 2015-16

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula does not trigger any payments into or out of the Fund for FY 2013-14, although a deposit of $75.0 million has been appropriated. Payments into the BSF, if appropriated by the Legislature, are estimated at $88.8 million in FY 2014-15 based on the growth in Michigan personal income in excess of 2.0% in calendar year 2014 multiplied by FY 2013-14 GF/GP revenue. The payment into the BSF is estimated at $18.9 million in FY 2015-16 due to projected growth in Michigan real personal income in calendar year 2015. Table 11 shows calculated transfers out of, or into, the BSF as well as year-end projected balances.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1998-99 TO FY 2015-16 ESTIMATE
(Millions of Dollars)

Fiscal Year	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
Senate Fiscal Agency estimates:				
2012-13	$140.0	$3.7	$0.0	$508.8
2013-14	75.0	5.1	0.0	588.9
2014-15	88.8	8.8	0.0	686.5
2015-16	18.9	13.7	0.0	719.1

Figure 15

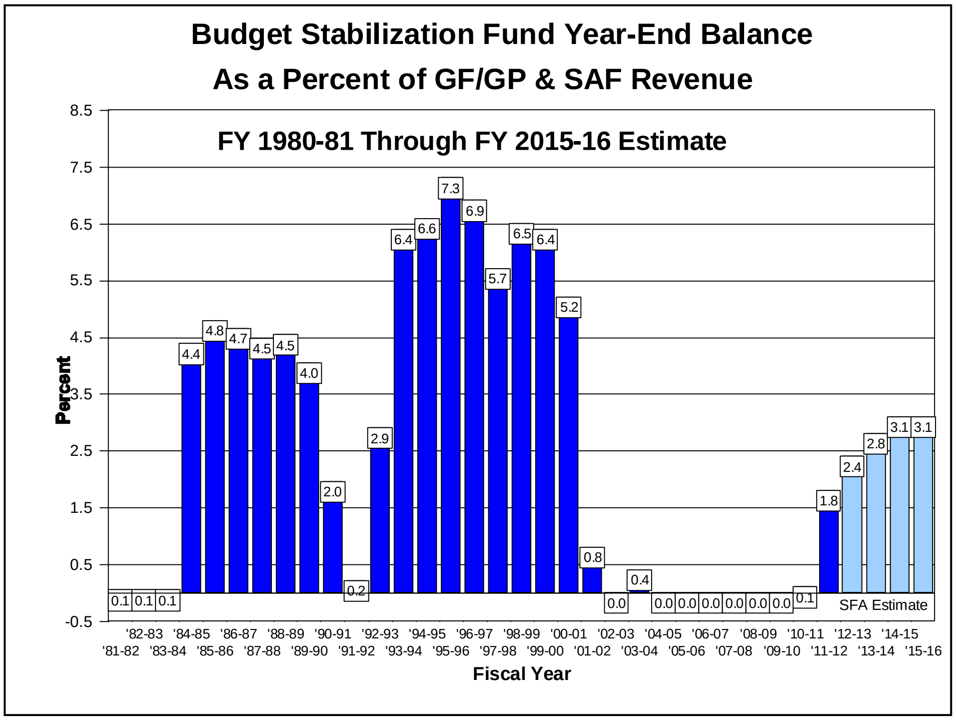


Table 12

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2013-14, FY 2014-15, and FY 2015-16
(Millions of Dollars)

	CY 2013	CY 2014	CY 2015	CY 2016
Michigan Personal Income (MPI)	$390,274	$407,343	$425,345	$444,121
Less: Transfer Payments	85,027	88,896	94,671	99,928
Subtotal	$305,246	$318,447	$330,674	$344,194
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.182	2.212	2.248	2.290
Equals: Real Adjusted MPI	$139,899	$143,983	$147,130	$150,336
Percent Change from Prior Year		2.92%	2.19%	2.18%
Excess Over 2.0%		0.92%	0.19%	0.18%
	FY 2013-14	**FY 2014-15**	**FY 2015-16**	
Multiplied by: Estimated GF/GP Revenue	$9,663.8	$10,197.8	$10,704.4	
Equals: Transfer to the BSF	$0.0	$88.8	$18.9	
OR Transfer from the BSF	$0.0	$0.0	$0.0	

Note: Numbers may not add due to rounding. Table does not include dollars transferred to or from the BSF at the discretion of the Legislature, that are separate from the calculated trigger.
CY = Calendar Year; FY = Fiscal Year

COMPLIANCE WITH
STATE REVENUE LIMIT

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to new State revenue being generated as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. The largest gap between revenue and the limit occurred in FY 2008-09, when State revenue was $8.0 billion below the revenue limit. Revenue remained substantially below the limit for FY 2009-10 through FY 2011-12. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2012-13 through FY 2015-16.

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. 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 income tax and business taxpayers, 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 2012-13 and the SFA's revenue estimates for FY 2013-14, FY 2014-15, and FY 2015-16, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 13.

FY 2012-13

In FY 2012-13, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2011. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2011 was $365.8 billion, so the revenue limit equaled $34.7 billion, an increase of $2.2 billion from the prior year. Based on the final revenue for FY 2012-13, revenue subject to the limit totaled $28.2 billion. As a result, revenue subject to the limit was below the revenue limit by $6.5 billion, or 18.6%. The gap between the revenue limit and revenue subject to the limit increased in FY 2012-13 because personal income grew at 6.7% between 2010 and 2011 compared to revenue growth of 3.5% from FY 2011-12 to FY 2012-13.

FY 2013-14

In FY 2013-14, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2012. The Bureau of Economic Analysis' estimate of Michigan personal income in calendar year 2012 equals $378.4 billion, resulting in a revenue limit of $35.9 billion for FY 2013-14. Based on the SFA's revised revenue estimates for FY 2013-14, revenue subject to the revenue limit will equal an estimated $28.8 billion, and will fall below the limit by $7.1 billion, or 19.8%, in FY 2013-14. The gap between estimated revenue and the limit will increase again during FY 2013-14 due to the 2.0% increase in revenue subject to the limit, which is lower than the 3.5% increase in personal income during 2012. The 2012 increase in personal income increases the FY 2013-14 revenue limit by $1.2 billion.

FY 2014-15

The estimate for Michigan personal income during 2013 equals $390.3 billion, suggesting the revenue limit will equal $37.0 billion in FY 2014-15, which equates to an increase in the revenue limit of $1.1 billion. Based on the SFA's revised revenue estimates for FY 2014-15, revenue subject to the revenue limit will equal an estimated $29.9 billion, which is also an increase of $1.1 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated $7.1 billion, or 19.2%, in FY 2014-15. Revenue subject to the limit is estimated to increase 3.8% in FY 2014-15, compared with the 3.1% increase in personal income during 2013, which increases the amount under the revenue limit by $15.5 million.

FY 2015-16

The Senate Fiscal Agency estimates that personal income in Michigan during 2014 will equal $407.3 billion, and as a result, the revenue limit will equal $38.7 billion in FY 2015-16. Based on the SFA's initial revenue estimates for FY 2015-16, revenue subject to the revenue limit will equal an estimated $31.1 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $7.6 billion, or 19.7%, in FY 2015-16.

Table 13
COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2011-12 THROUGH FY 2015-16 ESTIMATE
(Millions of Dollars)

	FY 2011-12 Final	FY 2012-13 Estimate	FY 2013-14 Estimate	FY 2014-15 Estimate	FY 2015-16 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$9,169.4	$10,317.8	$10,587.0	$10,981.8	$11,437.3
Constitutional Revenue Sharing (baseline)	707.5	742.2	748.8	777.2	807.5
School Aid Fund (baseline)	11,613.9	11,995.6	12,317.5	12,717.9	13,121.3
Transportation Funds	2,041.4	2,109.5	2,122.3	2,137.2	2,152.2
Other Restricted Non-Federal Aid Revenue	4,450.0	4,583.5	4,721.0	4,862.6	5,008.5
Adjustments:					
GF/GP Federal Aid	(54.8)	(22.5)	(20.0)	(20.0)	(20.0)
GF/GP Balance Sheet Adjustments	95.8	(752.5)	(923.2)	(784.1)	(732.9)
SAF Balance Sheet Adjustments	(734.9)	(724.8)	(737.2)	(749.2)	(723.8)
Total Revenue Subject to Limit	$27,288.3	$28,248.8	$28,816.2	$29,923.4	$31,050.1
Revenue Limit					
Personal Income:					
Calendar Year	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014
Amount	$342,663	$365,753	$378,443	$390,274	$407,343
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$32,518.7	$34,709.9	$35,914.2	$37,037.0	$38,656.8
1.0% of Limit	325.2	347.1	359.1	370.4	386.6
Amount Under (Over) Limit	$5,230.4	$6,461.1	$7,098.1	$7,113.6	$7,606.7
Percent Below Limit	16.1%	18.6%	19.8%	19.2%	19.7%

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 2012-13 and FY 2013-14. This section also outlines projections for the FY 2014-15 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2012-13, FY 2013-14, and FY 2014-15 GF/GP and SAF budgets. The good news is that there are significant year-end balances in both the GF/GP and SAF budgets for all three fiscal years. The final accounting of FY 2012-13 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 $1.18 billion balance and the SAF budget will have a $293.1 million balance. A comparison of the SFA estimate of FY 2013-14 revenue with actual and projected appropriations leads to a $729.5 million GF/GP balance and a $368.8 million year-end SAF balance.

The outlook for FY 2014-15 points to a GF/GP budget ending balance of $760.0 million and an SAF ending balance of $445.6 million.

Table 14

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

	FY 2012-13 Estimate	FY 2013-14 Estimate	FY 2014-15 Estimate
General Fund/General Purpose	$1,179.1	$729.5	$760.0
School Aid Fund	$293.1	$368.8	$445.6

FY 2012-13 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 2012-13 GF/GP revenue and expenditures from the State Budget Office (SBO) and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the FY 2012-13 fiscal year with a $1.18 billion balance. The SFA is estimating that the FY 2012-13 SAF budget will close the fiscal year with a $293.1 million balance.

Table 15 provides a summary of the current SFA estimate of a $1.18 billion balance in the FY 2012-13 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2013-14 revenue source. In fact, during the development of the FY 2013-14 budget, an estimated FY 2012-13 carry-forward amount of $674.7 million in GF/GP revenue was built into the budget for FY 2013-14.

On the revenue side of the FY 2012-13 GF/GP budget ledger, the SFA is now estimating that revenue will total $10.2 billion. This represents a $586.9 million or 6.1% increase from the final level of FY 2011-12 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a $376.1 million increase from the May 2013 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 Michigan Business Tax (MBT) revenue had been expected to be a negative $490.0 million 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. While the net MBT revenue for FY 2012-13 was a negative $75.8 million due to a large decline in refunds, MBT revenue was $414.2 million above the forecasted amount. There were other revenue sources, primarily the Corporate Income Tax and the Single Business Tax, that closed the year under the forecasted amount. The combination of these factors resulted in the $376.1 million increase in revenue from the May 2013 consensus revenue estimate.

Table 15
FY 2012-13
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$979.2
Ongoing Revenue:	
December 2013 SFA Estimate	$9,565.3
Revenue Sharing Payments	(350.6)
Shift of Short-Term Borrowing Costs to School Aid Fund	3.2
Subtotal Ongoing Revenue	$9,217.9
Non-Ongoing Revenue:	
One-Time Appropriation for Revenue Sharing	($20.0)
Reduce Liquor Purchase Revolving Fund Lapse to General Fund	(2.0)
Subtotal Non-Ongoing Revenue	($22.0)
Total Estimated GF/GP Revenue	**$10,175.1**
Expenditures:	
Initial Ongoing Appropriations	$8,628.5
Initial One-Time Appropriations	365.7
Subtotal Initial Ongoing and One-Time Appropriations	$8,994.2
Other Adjustments:	
One-Time Appropriation to Budget Stabilization Fund	$140.0
Public Act 305 of 2012 (Agricultural Loan Origination Program)	15.0
Public Acts 348 and 349 of 2012 (Right-to-Work)	2.0
Public Act 436 of 2012 (Emergency Manager)	5.8
Public Act 518 of 2012 (Indigent Burial/PILT)	5.2
Public Act 9 of 2013 (Vets Service Delivery/Harbor Dredging)	14.5
Public Act 60 of 2013 (Community Colleges' MPSERS)	12.5
Public Act 102 of 2013 (Consensus DCH Caseload/Cost Adjustments)	(30.3)
Public Act 102 of 2013 (Consensus DHS Caseload/Cost Adjustments)	(19.6)
Public Act 102 of 2013 (Consensus Dual Enrollment Cost Adjustments)	(9.5)
Public Act 102 of 2013 (Excluding Caseload Adjustments)	34.4
Estimated Debt Service Savings-Refinancing of SBA Bonds	(18.0)
Other Estimated Year-End Lapses	(150.3)
Subtotal Other Adjustments	$1.8
Total Estimated GF/GP Expenditures	**$8,996.0**
Projected Year-End GF/GP Balance	**$1,179.1**

On the expenditure side of the FY 2012-13 GF/GP budget ledger, the SFA is now estimating that expenditures will total $9.0 billion, which includes an appropriation to the Budget Stabilization Fund of $140.0 million. The $9.0 billion of expenditures represents a $387.0 million or 4.5% increase from the final level of FY 2011-12 GF/GP expenditures.

As Table 15 indicates, there were eight supplemental appropriation bills enacted for FY 2012-13. The single-largest GF/GP supplemental increase, of $15.0 million, was in Public Act 305 of 2012 for the Qualified Agricultural Loan Origination Program that provided financial assistance to the agriculture sector affected by crop damage. Among the negative supplemental appropriations for FY 2012-13 was Public Act 102 of 2013, which reduced GF/GP funding in the Departments of Community Health, Education, and Human Services by $59.4 million to reflect caseload and cost adjustments agreed upon at the May 2013 Consensus Revenue Estimating Conference. Other adjustments to the budget included savings of $18.0 million from the refinancing of State Building Authority bonds, and other estimated year-end lapses of $150.3 million.

Table 16 provides a summary of the FY 2012-13 SFA estimate of a $293.1 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 2013-14 revenue source. As mentioned previously, the FY 2013-14 budget was developed assuming that funds carried forward from FY 2012-13 would be used for FY 2013-14 appropriations. When the FY 2013-14 budget was developed, the assumption was that $140.7 million would be available at the FY 2012-13 year-end and carried forward; the estimate now is that $293.1 million is available, or $152.4 million more than earlier projected. The additional $152.4 million in the estimated year-end balance comes from two sources: additional projected revenue and lower anticipated costs resulting in lapses.

Table 16
FY 2012-13
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$254.1
December 2013 SFA Estimate	$11,270.8
Other Revenue Adjustments:	
General Fund/General Purpose Grant	282.4
Federal Ongoing Aid	1,701.0
Subtotal Ongoing Revenue	$13,254.2
Total Estimated School Aid Fund Revenue	**$13,508.3**
Expenditures:	
Ongoing Appropriations:	
Initial Ongoing K-12 Appropriations (Public Act 201 of 2012)	$12,750.2
Cost Adjustments (Consensus Estimate, Public Act 60 of 2013)	(52.6)
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund	200.5
Subtotal Ongoing Appropriations	$13,095.7
One-Time Appropriations:	
Best Practices Grants	$80.0
Technology Grants	50.0
Consolidation Innovation Grants	10.0
MPSERS Retirement Obligation Reform Reserve Fund	41.0
Class-Size Grants	13.3
Public Act 465 of 2012 (PILT Supplemental)	0.2
Public Act 60 of 2013 (PA 300 of 2012 MPSERS Supplemental)	20.0
Other Estimated Year-End Lapses	(95.0)
Subtotal One-Time Appropriations	$119.5
Total Estimated School Aid Fund Expenditures	**$13,215.2**
Projected Year-End School Aid Fund Balance	**$293.1**

On the revenue side of the FY 2012-13 SAF budget ledger, the SFA is now estimating that revenue will total $13.5 billion. This represents a $58.2 million or 0.4% decrease from the final level of FY 2011-12 SAF revenue; in FY 2011-12 there was $118.0 million more in Federal aid than in FY 2012-13. The current SFA estimate of ongoing SAF revenue (excluding GF/GP and Federal revenue) represents a $57.4 million increase from the May 2013 consensus revenue estimate.

On the expenditure side of the FY 2012-13 SAF budget ledger, the SFA is now estimating that expenditures will total $13.2 billion. This represents a $97.2 million or 0.7% decrease from the final level of FY 2011-12 SAF expenditures. The estimated final level of FY 2012-13 SAF expenditures includes the initial ongoing K-12 appropriation of $12.7 billion, $194.3 million in one-time K-12 appropriations, K-12 cost adjustments of a negative $52.6 million, K-12 supplemental appropriations of $20.2 million, and estimated K-12 year-end lapses of $95.0 million. It should also be noted that the estimated final level of FY 2012-13 SAF expenditures includes $398.1 million of appropriations to the Community Colleges and Higher Education budgets.

FY 2013-14 YEAR-END BALANCE ESTIMATES

On June 4, 2013, the Michigan Legislature completed action on the initial set of FY 2013-14 appropriation bills. The FY 2013-14 enacted budget was balanced based on the May 2013 consensus estimates. The enacted budget did not include any increases in State taxes but did include $487.9 million in assumed new fee revenue. The largest piece of the assumed fee revenue was $400.0 million in the Department of Community Health from the Health Insurance Claims Assessment (HICA). The changes in legislation necessary to collect the full $400.0 million in HICA revenue were not adopted, resulting in an FY 2013-14 HICA revenue shortfall of approximately $124.0 million.

At the time the initial budget was enacted, based on the May 2013 consensus revenue estimate, the SFA was projecting a $17.3 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2013-14 GF/GP year-end balance is $729.5 million. At the same time, based on the May 2013 consensus revenue estimate, the SFA was projecting a $1.3 million year-end balance in the SAF budget. The current SFA estimate of the FY 2013-14 SAF year-end balance is $368.8 million.

Table 17 provides a summary of the current SFA estimate of a $729.5 million year-end balance in the FY 2013-14 GF/GP budget. The increase in the projected level of the FY 2013-14 GF/GP year-end balance results primarily from a larger carry-forward balance from FY 2012-13 ($504.4 million more than expected) while revenue is estimated to increase by $217.6 million from the amount estimated at the May 2013 consensus revenue conference.

On the revenue side of the FY 2013-14 GF/GP budget ledger, the SFA is now estimating that revenue will total $10.4 billion. This estimate includes a projected $1.18 billion balance carried forward from FY 2012-13, $9.3 billion of revenue from ongoing sources, and a $26.0 million revenue reduction due to a one-time appropriation for State Revenue Sharing. The total estimated GF/GP revenue of $10.4 billion represents a $255.2 million or 2.5% increase from the FY 2012-13 estimate. The current SFA estimate of GF/GP revenue represents a $217.6 million increase from the May 2013 consensus revenue estimate.

On the expenditure side of the FY 2013-14 GF/GP budget ledger, the SFA is now estimating that expenditures will total $9.7 billion. This total includes $9.0 billion of ongoing appropriations in the initial appropriation bills, $428.8 million in one-time appropriations in the initial appropriation bills, a one-time appropriation of $75.0 million to the Budget Stabilization Fund, a one-time appropriation of $230.0 million for the Roads and Risks Reserve Fund, enacted supplementals of $5.1 million, Medicaid expansion savings of $119.4 million, pending SBO supplemental requests of $5.2 million, and $124.0 million to offset the estimated HICA revenue shortfall. Since the initial budget was enacted, two supplemental appropriation bills have been enacted, with a total of $5.1 million in GF/GP revenue: $4.9 million to implement school district dissolution legislation, $150,000 for an aquatic invasive species specialist in the Department of Natural Resources, and $89,300 in the Department of Community Health for the Michigan childhood immunization registry.

Table 17
FY 2013-14
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$1,179.1
Ongoing Revenue:	
December 2013 SFA Estimate	$9,663.8
Revenue Sharing Payments	(370.6)
Shift of Short-Term Borrowing Costs to School Aid Fund	4.0
Individual Relief	(20.0)
Subtotal Ongoing Revenue	$9,277.2
Non-Ongoing Revenue:	
One-Time Appropriation for Revenue Sharing	(26.0)
Total Estimated GF/GP Revenue	**$10,430.3**
Expenditures:	
Initial Ongoing Appropriations	$8,952.0
Initial One-Time Appropriations	428.8
Subtotal Initial Ongoing and One-Time Appropriations	$9,380.9
Other Adjustments:	
One-Time Appropriation to the Budget Stabilization Fund	$75.0
One-Time Appropriation to the Roads and Risks Reserve Fund	230.0
Public Act 97 of 2013: School District Dissolution Implementation	4.9
Public Act 102 of 2013: DCH Registry/DNR Fisheries	0.2
Public Act 107 of 2013: DCH/DOC Medicaid Expansion Savings	(192.8)
Supplemental Request #2014-1: Medicaid Savings Adjustment	73.3
Supplemental Request #2014-1: Multiple Departments	5.2
Health Insurance Claims Assessment Revenue Shortfall	124.0
Subtotal Other Adjustments	$319.9
Total Estimated GF/GP Expenditures	**$9,700.8**
Projected Year-End GF/GP Balance	**$729.5**

Table 18 provides a summary of the current SFA estimate of a $368.8 million year-end balance in the FY 2013-14 SAF budget. The increase in the projected level of the FY 2013-14 SAF year-end balance ($367.5 million more than originally estimated) results primarily from a larger carry-forward balance from FY 2012-13 ($152.4 million more than expected) while revenue is estimated to increase by $110.1 million from the amount estimated at the May 2013 consensus revenue conference. In addition, costs in FY 2013-14 are now estimated to be $105.0 million lower than appropriated.

Table 18

FY 2013-14
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$293.1
December 2013 SFA Estimate	$11,580.2
Other Revenue Adjustments:	
Initial General Fund/General Purpose Grant	180.0
Public Act 97 of 2013 (GF Grant-District Dissolution Implementation)	4.9
Federal Ongoing Aid	1,764.4
MPSERS Retirement Obligation Reform Reserve Fund	156.0
Subtotal Ongoing Revenue	$13,685.5
Non-Ongoing Revenue:	
General Fund/General Purpose Grant	$50.0
Total Estimated School Aid Fund Revenue	**$14,028.6**
Expenditures:	
Initial K-12 Ongoing Appropriations	$13,168.8
Initial K-12 One-Time Appropriations	193.0
Subtotal Initial K-12 Ongoing and One-Time Appropriations	$13,361.8
Other Adjustments:	
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund	200.5
Public Act 97 of 2013 (School District Dissolution Implementation)	4.9
Other Adjustments (Pupils, Special Education, Taxable Values)	(105.0)
Subtotal Other Adjustments	$298.0
Total Estimated School Aid Fund Expenditures	**$13,659.8**
Projected Year-End School Aid Fund Balance	**$368.8**

On the revenue side of the FY 2013-14 SAF budget ledger, the SFA is now estimating that revenue will total $14.0 billion. This estimate includes a $293.1 million balance carried forward from FY 2012-13, $11.6 billion of State Restricted SAF revenue, a $234.9 million GF/GP grant to the SAF budget, and $1.8 billion of ongoing Federal aid. The estimate also includes $156.0 million transferred from the MPSERS Retirement Obligation Reform Reserve Fund to support the FY 2013-14 SAF budget. The current SFA estimate of total FY 2013-14 SAF revenue represents a $520.3 million or 3.9% increase from the projected level of FY 2012-13 SAF revenue. The current estimate of FY 2013-14 State Restricted SAF revenue is $110.1 million higher than the May 2013 consensus estimate.

On the expenditure side of the FY 2013-14 SAF budget ledger, the SFA is now estimating that expenditures will total $13.7 billion. This expenditure estimate includes $13.2 billion of ongoing K-12 appropriations in the initial appropriation bill, $193.0 million in one-time appropriations in the initial appropriation bill, $4.9 million in a supplemental for school district dissolution implementation costs, and negative cost adjustments totaling $105.0 million. The $105.0 million in reduced anticipated expenditures stems from fewer pupils than estimated (savings of $50.0 million), somewhat lower taxable values than estimated (cost increase of $5.0 million), and significantly lower special education costs than anticipated (savings of $60.0 million). It also should be noted that the estimated level of FY 2013-14 SAF expenditures includes $398.1 million of appropriations to the Community Colleges and Higher Education budgets. The projected level of FY 2013-14 SAF expenditures represents a $444.6 million or 3.4% increase from the projected level of FY 2012-13 SAF expenditures.

FY 2014-15 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2014-15 State budget recommendation to the Legislature no later than February 7, 2014. This State budget recommendation will continue the debate on the FY 2014-15 State budget. On February 7, 2013, Governor Snyder presented his FY 2013-14 budget and his projections for FY 2014-15. The Legislature subsequently enacted an FY 2013-14 State budget and included language within that budget expressing intent to provide FY 2014-15 appropriations that would be the same as those for FY 2013-14, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2013-14 GF/GP revenue and expenditures produce a projected ending balance of $729.5 million. If this balance is carried forward into FY 2014-15, and if a continuation budget is assumed, with adjustments for caseload and costs in the Department of Community Health, there will be an FY 2014-15 projected year-end GF/GP balance of $760.0 million. Table 19 outlines these assumptions.

Table 19
FY 2014-15
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$729.5
Ongoing Revenue:	
December 2013 SFA Revenue Estimate	$10,197.8
Revenue Sharing Payments (Continuation Budget)	(393.7)
Shift of Short-Term Borrowing Costs to School Aid Fund	8.0
Individual Relief	(20.0)
Subtotal Ongoing Revenue	$9,792.1
Non-Ongoing Revenue:	
One-Time Appropriation for Revenue Sharing (Continuation Budget)	(26.0)
Total Estimated GF/GP Revenue	**$10,495.6**
Expenditures:	
Initial Ongoing Appropriations (Continuation Budget)	$8,952.0
Initial One-Time Appropriations (Continuation Budget)	428.8
Subtotal Initial Ongoing and One-Time Appropriations	$9,380.9
Other Adjustments:	
Budget Stabilization Fund Formula Payment	$88.8
One-Time Appropriation to Roads/Risks Reserve Fund (Continuation Budget)	230.0
Medicaid Expansion Savings	(264.0)
Caseload and Cost Adjustments for Department of Community Health	100.0
State Match to Continue Primary Care Rate Increase	100.0
Health Insurance Claims Assessment Revenue Shortfall	100.0
Subtotal Other Adjustments	$354.8
Total Estimated GF/GP Expenditures	**$9,735.7**
Projected Year-End GF/GP Balance	**$760.0**

On the revenue side of the FY 2014-15 budget ledger, the SFA is projecting that total estimated GF/GP revenue will equal $10.5 billion. This estimate includes the assumed carry-forward from FY 2013-14 of $729.5 million and GF/GP revenue of $10.2 billion, as estimated by the SFA. The total GF/GP revenue estimate also assumes that State revenue sharing payments will continue at the

FY 2013-14 level plus $23.1 million to account for the estimated cost of counties projected to exhaust their revenue sharing reserve funds and return to the State-paid program.

On the appropriation side of the FY 2014-15 budget ledger, the SFA estimate assumes the continuation of appropriations at the FY 2013-14 levels for both ongoing and one-time GF/GP appropriations. Adjustments are then made to include SFA estimates for: a Budget Stabilization Fund formula payment of $88.8 million; the recognition of estimated full-year savings of $264.0 million from Medicaid expansion; Department of Community Health caseload and cost increases that would increase spending by $200.0 million; and an estimate of a $100.0 million HICA revenue shortfall for FY 2014-15. These assumptions lead to total estimated FY 2014-15 GF/GP expenditures of $9.7 billion and a projected year-end GF/GP balance of $760.0 million.

Table 20 provides a summary of the SFA's outlook for the FY 2014-15 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2013-14 ongoing funding levels, adjusted for estimated pupils and costs, leads to a $445.6 million FY 2014-15 projected year-end balance.

Table 20

FY 2014-15
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$368.8
December 2013 SFA Revenue Estimate	$11,968.8
Other Revenue Adjustments:	
General Fund/General Purpose Grant	234.9
Federal Ongoing Aid	1,764.4
MPSERS Retirement Obligation Reform Reserve Fund	0.0
Subtotal Ongoing Revenue	$13,968.1
Total Estimated School Aid Fund Revenue	**$14,336.9**
Expenditures:	
Initial Ongoing Appropriations (Continuation Budget: PAs 60 and 97 of 2013)	$13,431.0
Initial One-Time Appropriations (Continuation Budget)	193.0
Subtotal Initial Ongoing and One-Time Appropriations	$13,624.0
Other Adjustments:	
K-12 Cost Adjustments	(130.8)
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund	200.5
Subtotal Other Adjustments	$267.3
Total Estimated School Aid Fund Expenditures	**$13,891.3**
Projected Year-End School Aid Fund Balance	**$445.6**

On the revenue side of the FY 2014-15 SAF budget outlook, the SFA is estimating that revenue will total $14.3 billion. This estimate assumes a carry-forward of $368.8 million from FY 2013-14, an increase in the level of School Aid Fund revenue of $156.1 million from the May 2013 consensus forecast, a stable GF/GP grant of $234.9 million, no transfer from the MPSERS Reform Reserve Fund (compared with the FY 2013-14 transfer of $156.0 million), and estimated Federal aid of $1.7 billion.

On the appropriation side of the FY 2014-15 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal $13.9 billion. This funding level assumes that SAF appropriations of $398.1 million for community colleges and universities are continued and that all one-time K-12 appropriations ($193.0 million in FY 2013-14) are continued. In addition, the SFA estimate of a continuation level of K-12 funding takes into account preliminary estimates as to the number of students in local school districts and preliminary estimates of local property tax valuations, special education costs, debt service costs, and MPSERS rate cap costs (which are projected to increase $270.1 million above FY 2013-14 costs).

A comparison of projected FY 2014-15 SAF current law revenue and a continuation of current spending leads to an estimated ending balance of $445.6 million, which equates to roughly $290 on a per-pupil basis. Again, this estimate assumes a continuation of both ongoing and one-time appropriations, no transfer of funds from the MPSERS Reform Reserve Fund, the same level of GF/GP support as in FY 2013-14, and continued SAF support of $398.1 million for community colleges and universities.

One revenue source that may be available to appropriate in the K-12 budget in the future, if necessary or desired, is the MPSERS escrow account, which has accumulated since July 1, 2010. This account received employee 3.0% contributions as prescribed under Public Act 75 of 2010, and today totals more than $500.0 million. During 2012, discussions of calculations related to prefunding retiree health care in the MPSERS plan noted that appropriations from the escrow account likely would be necessary in order to keep a structurally balanced K-12 budget, However, a clarification from the courts may be necessary as to the availability of the funds in this account, before their expenditure.

CONCLUSION

Although the FY 2012-13 estimated GF/GP and SAF year-end balances appear to be quite healthy, at $1.18 billion and $293.1 million, respectively, a portion of those funds will be needed to balance the FY 2013-14 GF/GP and SAF budgets. Compared with the SAF budget, the GF/GP budget is in better shape, with estimated positive ending balances for both FY 2013-14 and FY 2014-15 that are in excess of $700.0 million. The SAF budget is estimated to end both FY 2013-14 and FY 2014-15 with positive balances of approximately $400.0 million. Tables 21 and 22 summarize the projected year-end balances for all three fiscal years, for the GF/GP and School Aid Fund budgets, respectively.

The FY 2012-13 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 2014, but is expected in early January 2014. To the extent that the FY 2012-13 numbers change due to pending accruals or other issues, the ending balances for FY 2012-13 and FY 2013-14 will be affected. Also, to the extent that policy changes are enacted during 2014, the projected ending balances could be improved. For example, legislation could be enacted to resolve the HICA revenue shortfall, or to allow the use of escrow funds for prefunding of MPSERS costs in the School Aid budget.

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 10, 2014, 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 2014-15 State budget, as well as for subsequent fiscal years.

Table 21

FY 2012-13, FY 2013-14, AND FY 2014-15
GENERAL FUND/GENERAL PUURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2012-13	FY 2013-14	FY 2014-15
Revenue:			
Beginning Balance	$979.2	$1,179.1	$729.5
Ongoing Revenue:			
May 2013 Consensus Revenue Estimate	$9,189.2	$9,446.2	$9,840.2
December 2013 SFA Revenue Change	376.1	217.6	357.6
December 2013 SFA Revenue Estimate	$9,565.3	$9,663.8	$10,197.8
Other Revenue Adjustments:			
Revenue Sharing Payments	(350.6)	(370.6)	(393.7)
Shift of Short-Term Borrowing Costs to School Aid Fund	3.2	4.0	8.0
Individual Relief	0.0	(20.0)	(20.0)
Subtotal Ongoing Revenue	$9,217.9	$9,277.2	$9,792.1
Non-Ongoing Revenue:			
One-Time Appropriation for Revenue Sharing	(20.0)	(26.0)	(26.0)
Reduce Liquor Purchase Revolving Fund Lapse to GF	(2.0)	0.0	0.0
Subtotal Non-Ongoing Revenue	($22.0)	($26.0)	($26.0)
Total Estimated GF/GP Revenue	**$10,175.1**	**$10,430.3**	**$10,495.6**
Expenditures:			
Initial Ongoing Appropriations	$8,628.5	$8,952.0	$8,952.0
Initial One-Time Appropriations	365.7	428.8	428.8
Medicaid Expansion Savings	0.0	(119.4)	(264.0)
Appropriation to Budget Stabilization Fund	140.0	75.0	88.8
Appropriation to Roads and Risks Reserve Fund	0.0	230.0	230.0
Enacted Supplementals	30.1	5.1	0.0
Pending SBO Supplementals	0.0	5.2	0.0
DCH/DHS Consensus Caseload/Cost Adjustments	0.0	0.0	200.0
Health Insurance Claims Assessment Revenue Shortfall	0.0	124.0	100.0
Estimated Year-End Lapses	(168.3)	0.0	0.0
Total Estimated GF/GP Expenditures	**$8,996.0**	**$9,700.8**	**$9,735.7**
Projected Year-End GF/GP Balance	**$1,179.1**	**$729.5**	**$760.0**

Table 22
FY 2012-13, FY 2013-14, AND FY 2014-15
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	FY 2012-13	FY 2013-14	FY 2014-15
Revenue:			
Beginning Balance	$254.1	$293.1	$368.8
Ongoing Revenue:			
May 2013 Consensus Revenue Estimate	$11,213.4	$11,470.1	$11,812.7
December 2013 SFA Revenue Change	57.4	110.1	156.1
December 2013 SFA Revenue Estimate	$11,270.8	$11,580.2	$11,968.8
Other Revenue Adjustments:			
General Fund/General Purpose Grant	282.4	184.9	234.9
Federal Ongoing Aid	1,701.0	1,764.4	1,764.4
MPSERS Retirement Obligation Reform Reserve Fund	0.0	156.0	0.0
Subtotal Ongoing Revenue	$13,254.2	$13,685.5	$13,968.1
Non-Ongoing Revenue:			
General Fund/General Purpose Grant	0.0	50.0	0.0
Total Estimated School Aid Fund Revenue	**$13,508.3**	**$14,028.6**	**$14,336.9**
Expenditures:			
Initial Ongoing Appropriations	$12,750.2	$13,168.8	$13,426.1
Consensus Cost Adjustments/SFA Estimates	(52.6)	(105.0)	(130.8)
Partially Fund Community Colleges with School Aid Fund	197.6	197.6	197.6
Partially Fund Higher Education with School Aid Fund	200.5	200.5	200.5
Subtotal Ongoing Appropriations	$13,095.7	$13,461.9	$13,693.4
Initial One-Time Appropriations	194.3	193.0	193.0
Enacted Supplementals	20.2	4.9	4.9
Potential Book-Closing Adjustments	(95.0)	0.0	0.0
Subtotal One-Time Appropriations	$119.5	$197.9	$197.9
Total Estimated School Aid Fund Expenditures	**$13,215.2**	**$13,659.8**	**$13,891.3**
Projected Year-End School Aid Fund Balance	**$293.1**	**$368.8**	**$445.6**