

ECONOMIC OUTLOOK AND REVENUE ESTIMATES FOR MICHIGAN

**FY 2012-13
THROUGH
FY 2014-15**



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FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2012 through CY 2015. It also presents preliminary final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2011-12, revised revenue estimates for FY 2012-13 and FY 2013-14, and initial estimates for FY 2014-15. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 11, 2013, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2015, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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EXECUTIVE SUMMARY

The national economy has been generally improving at a subdued pace; however it has recently decelerated partially over the uncertainty of the federal budget, the debt negotiations, and the debt-ceiling deadline – these fiscal issues will hold down economic growth in the fourth quarter of 2012 and through much of 2013. Encouragingly, the housing sector and light motor vehicle sales are gaining or maintaining momentum as lending activity and household balance sheets are slowly recovering. In addition, national payroll employment is on track to increase 1.4% in 2012, not stellar, but the best in 6 years.

Gross Domestic Product or GDP is expected to increase 2.3% for CY 2012. After a weak first half of 2013, the national economy is expected to slowly accelerate throughout the forecast period.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. In November, Michigan's nonfarm employment grew 0.8% or by 32,400 jobs relative to a year ago. This increase was led by gains in manufacturing, professional and business services, and health care and social assistance.

U. S. Forecast

Real GDP growth is forecast to increase 1.9% in CY 2013. It is forecast to increase 2.7% in CY 2014, and grow 3.2% in CY 2015.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 1.8% in CY 2013, then increase 1.9% in CY 2014 and 2.1% in CY 2015.

Light vehicle sales of 14.4 million units in CY 2012 are forecast to grow to 15.3 million units in CY 2013, to 15.7 million units in CY 2014, and to 16.3 million units in CY 2015. The import share of light vehicles is forecast to be close to 22% through the forecast horizon.

The national unemployment rate is expected to be 8.1% in CY 2012; it is forecast to decline to 6.8% in CY 2015.

Interest rates on three-month T-bills are expected to average 0.1% in CY 2013 and CY 2014; rates are forecast to average 0.2% in CY 2015.

Michigan Forecast

Michigan personal income is expected to increase 3.4% in CY 2012; it is forecast to increase 2.8% in CY 2013, 4.5% in CY 2014, and 4.8% in CY 2015.

Michigan's unemployment rate is expected to be 8.9% in CY 2012; it is forecast to decrease to 7.2% in CY 2015.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 1.7% in CY 2013, 1.8% in CY 2014, and 2.0% in CY 2015.

State Revenue

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The preliminary final total baseline GF/GP and SAF revenue was \$19.9 billion in FY 2011-12. It is forecast to increase 1.3% in FY 2012-13, by 3.8% in FY 2013-14, and by 3.4% in FY 2014-15.

Net revenue captures the effects of all policy changes and represents resources available. Preliminary final total net GF/GP and SAF revenue was \$20.2 billion in FY 2011-12, which was a 0.5% increase from FY 2010-11. It is forecast to decrease 0.8% in FY 2012-13. Total net GF/GP and SAF revenue for FY 2013-14 is forecast to increase 4.3% and for FY 2014-15 increase 4.3%.

Table 1 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the May 2012 adjusted consensus estimates and the recommended revisions to these estimates for FY 2011-12 through FY 2013-14. The May 2012 adjusted consensus estimates include the May 2012 consensus estimates plus enacted tax changes since May 2012. Preliminary final FY 2011-12 figures suggest an increase of \$232.1 million from the May 2012 adjusted consensus estimates; the recommended revision for FY 2012-13 is an increase of \$105.3 million and for FY 2013-14 is an increase of \$190.9 million.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by \$5.5 billion in FY 2011-12; it is estimated to be under the limit by \$7.1 billion in FY 2012-13, \$7.3 billion in FY 2013-14, and \$7.2 billion in FY 2014-15.

Fund Balances

The year-end GF/GP balance is estimated to be \$88.6 million for FY 2012-13.

The year-end unreserved SAF balance is estimated to be \$66.8 million for FY 2012-13.

The year-end Countercyclical Budget Stabilization Fund balance is estimated to be \$365.0 million for FY 2011-12, \$508.6 million for FY 2012-13, \$513.7 million for FY 2013-14, and \$520.2 million for FY 2014-15.

Table 1
HFA JANUARY 2013 REVENUE ESTIMATES FOR FY 2012-13 THROUGH FY 2014-15
(Millions of Dollars)

	<u>Final</u> <u>FY 2011-12</u>	<u>HFA Est.</u> <u>FY 2012-13</u>	<u>HFA Est.</u> <u>FY 2013-14</u>	<u>HFA Est.</u> <u>FY 2014-15</u>	<u>FY 2012-13</u> <u>% Change</u>	<u>FY 2013-14</u> <u>% Change</u>	<u>FY 2014-15</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$8,332.9	\$8,320.4	\$8,724.4	\$9,081.2	-0.2%	4.9%	4.1%
SAF	11,608.7	11,883.3	12,246.4	12,610.7	2.4%	3.1%	3.0%
Total	\$19,941.6	\$20,203.8	\$20,970.8	\$21,692.0	1.3%	3.8%	3.4%
<u>Net</u>							
GF/GP	\$9,286.3	\$8,845.3	\$9,344.2	\$9,860.2	-4.7%	5.6%	5.5%
SAF	10,878.9	11,166.2	11,521.7	11,896.8	2.6%	3.2%	3.3%
Total	\$20,165.2	\$20,011.6	\$20,865.9	\$21,757.0	-0.8%	4.3%	4.3%
<u>May 2012 Adjusted Consensus</u> ¹							
<u>Net</u>							
GF/GP	\$9,058.0	\$8,752.6	\$9,223.6				
SAF	10,875.1	11,153.7	11,451.4				
Total	\$19,933.1	\$19,906.3	\$20,675.0				
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$228.3	\$92.7	\$120.6				
SAF	3.8	12.5	70.3				
Total	\$232.1	\$105.3	\$190.9				

NOTE: Numbers may not add due to rounding

¹ The May 2012 adjusted consensus estimate includes the May 2012 consensus estimate plus enacted tax changes since May 2012.



ECONOMIC REVIEW AND FORECAST

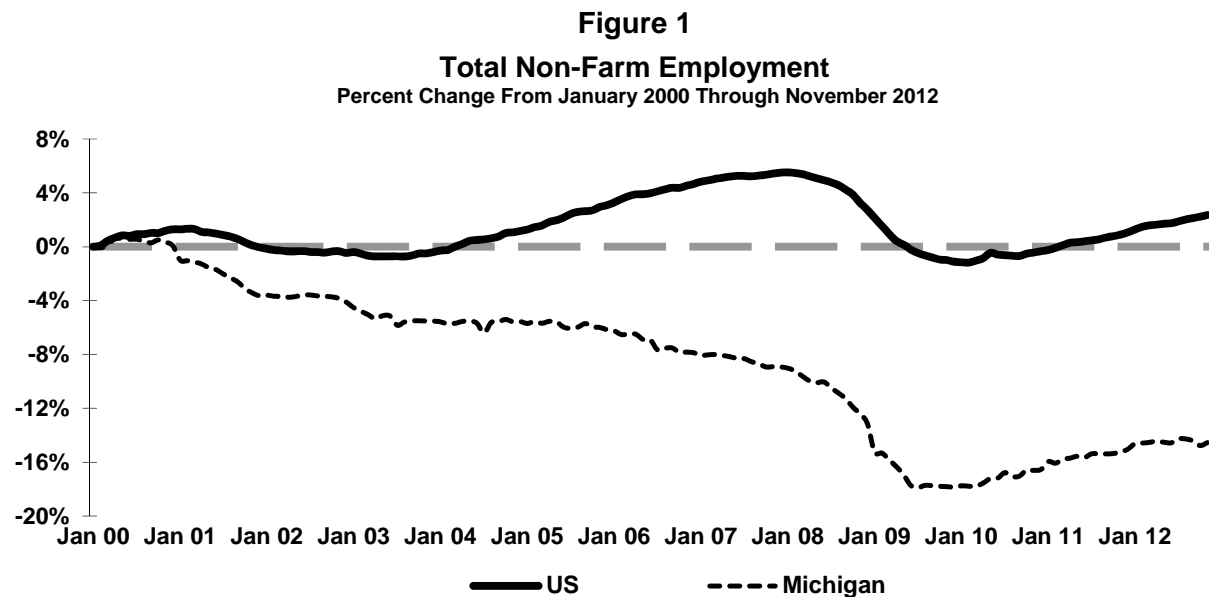
This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2012-13 through FY 2014-15.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. As national economic growth improved, so did employment. Job growth at the national level began to improve during the latter half of CY 2003, and continued its upward trend through January 2008 – at which point the national economy officially entered a severe recession.

Employment fell by more than 6% between January 2008 and February 2010, which translates into a loss of about 8.8 million jobs. Although employment began growing during 2010, only slightly more than one million jobs were added. Continued employment growth through all of 2011 and 2012 added more than 1.8 million jobs each year, but employment still remains far below pre-recession levels.

Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through November 2012.



U.S. Non-Farm Employment

After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.7 million jobs – about 91,800 jobs per month on average. This decline was followed by 53 consecutive months of job growth. Between September 2003 and January 2008, more than 8.1 million jobs were added.

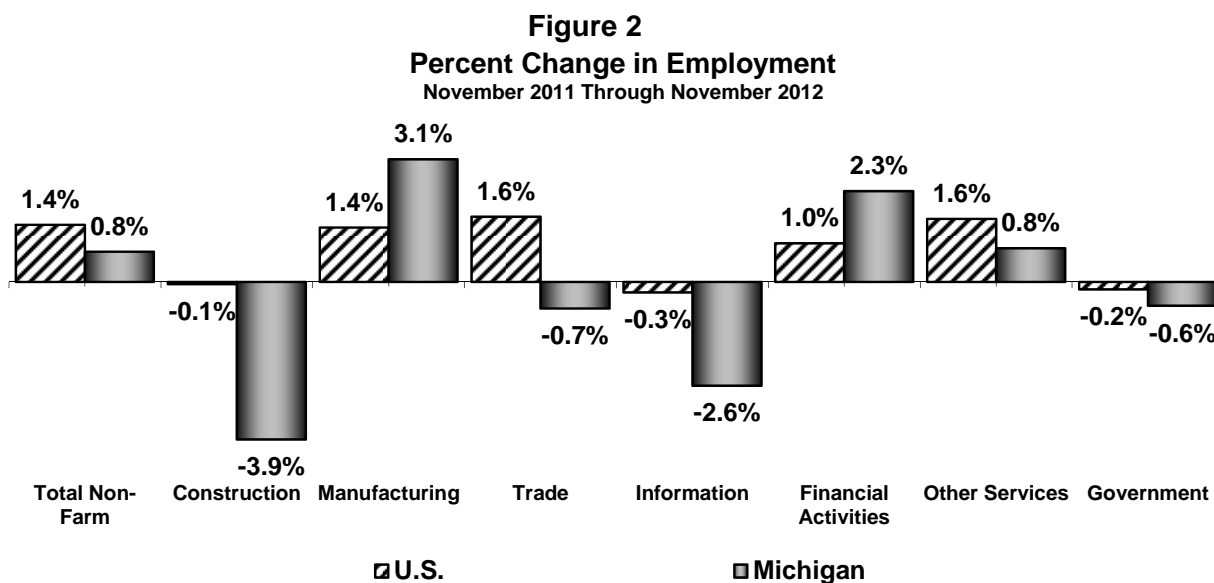
The ensuing recession saw 25 consecutive months of employment declines during which almost 8.8 million jobs were lost. Job gains finally reappeared in March 2010, and modest job growth resumed during much of 2010 and continued through 2012, increasing total non-farm employment by about 4.8 million jobs. As of November 2012, total employment is 2.3% higher than in January 2000, but 2.9% below the January 2008 peak.

Michigan Non-Farm Employment

Although employment rebounded at the national level through 2007, conditions in Michigan remained bleak. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following that June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs – a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Throughout the 2000s, job losses continued to mount. During 2008 and 2009, more than 400,000 additional jobs were lost, and while employment increased somewhat in 2010, only about 37,000 jobs were added. While an additional 70,000 jobs were added during 2011, growth in total non-farm employment slowed during 2012. Through November 2012, only 22,800 new jobs have been added, and total non-farm employment remains 14.4% lower than in January 2000.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between November 2011 and November 2012 for all workers in several important sectors of the economy for both the U.S. and Michigan. Continued improving economic conditions at the national level are evident as the U.S. gained approximately 1.9 million jobs over this period. In addition, employment in Michigan rose by 30,100 jobs.



U.S. Employment

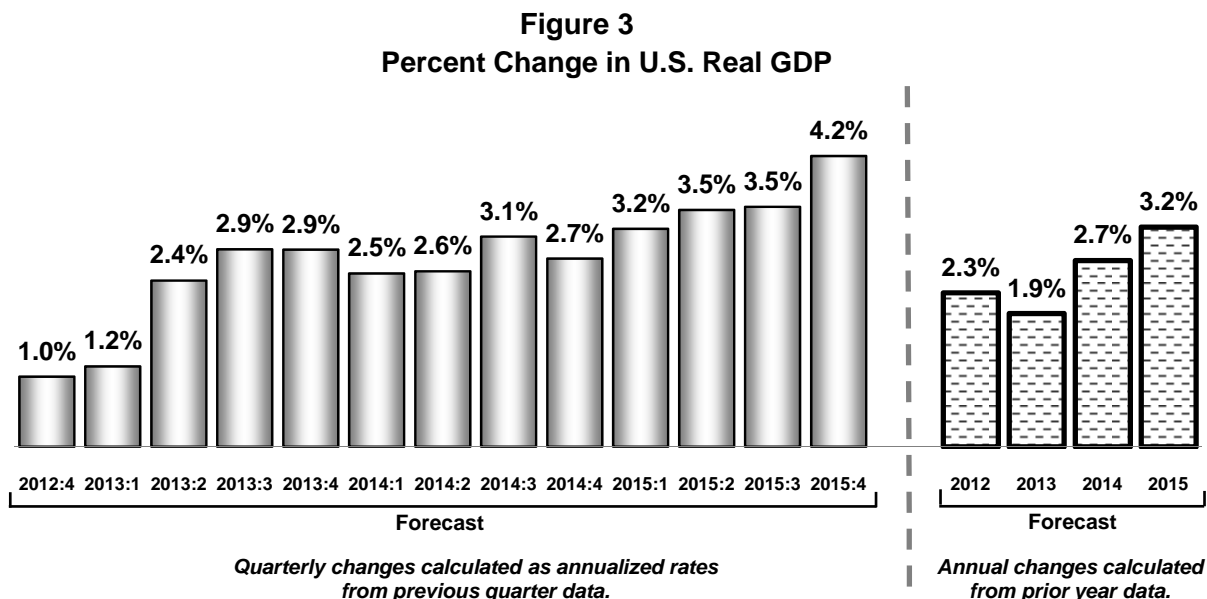
From November 2011 through November 2012, the U.S. experienced job gains in all categories with the exception of construction, information, and government, which lost 3,000, 7,000, and 42,000 jobs respectively. Conversely, other services employment increased by more than 1.3 million. Although the manufacturing sector has been generally contracting for the past several years, it realized job gains of 160,000 workers.

Michigan Employment

Job gains in Michigan over the past year totaled 30,100 and were concentrated in manufacturing (15,800) and other services (20,800). With the exception of financial activities, all other sectors lost employment. Employment in the construction sector fell by 5,100 and government employment declined by 3,800 workers. Despite the increases in Michigan's manufacturing sector, over the past eight years Michigan has lost more than 9.7% of its manufacturing employment.

Real GDP

Figure 3 shows the estimated percent change in U.S. Real GDP for CY 2012 through CY 2015.

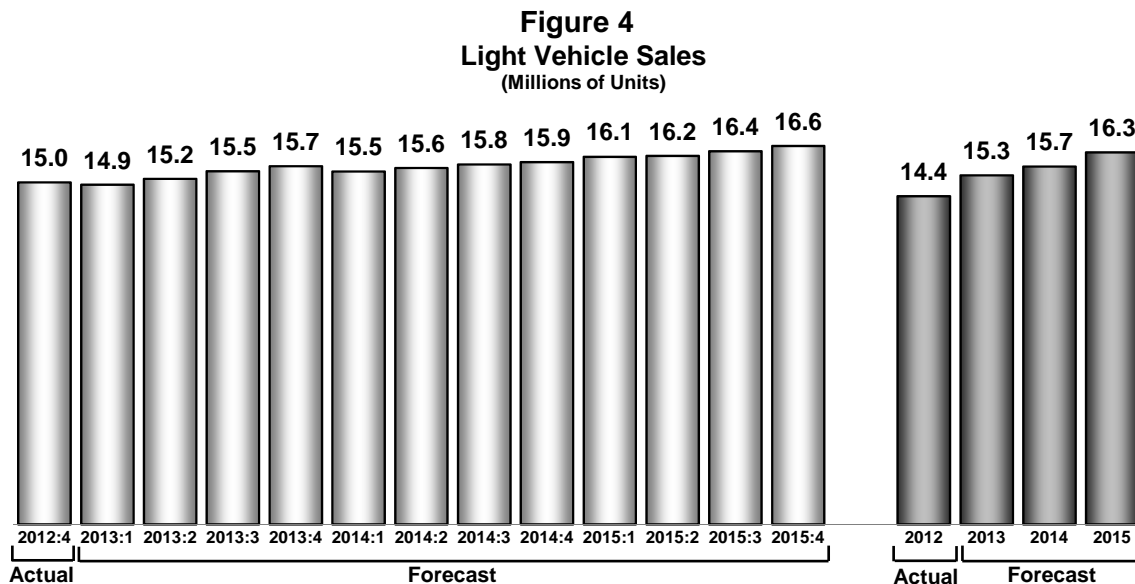


After increasing 3.1% during the third quarter of 2012, real GDP is anticipated to grow at a 1.0% rate in the fourth quarter. Real GDP, which grew 1.8% in CY 2011, is forecast to increase 2.3% in CY 2012, 1.9% in CY 2013, 2.7% in CY 2014, and 3.2% in CY 2015.

Both personal consumption and business fixed investment are forecast to increase in CY 2012, and will continue to provide the foundation for continued real GDP growth. In addition, residential investment is forecast to remain robust through 2015. All three of these factors will contribute to overall economic growth throughout the forecast horizon, and help to offset anticipated declines in government expenditures.

Light Vehicle Sales

Figure 4 shows light vehicle sales for CY 2012 and estimates for CY 2013 through CY 2015.



Sales of light motor vehicles totaled 12.7 million units in CY 2011 and rose to 14.4 million units in CY 2012. Light vehicle sales are forecast to increase to 15.3 million units in CY 2013, 15.7 million units in CY 2014, and 16.3 million units in CY 2015.

While there was a shift in vehicle sales away from light trucks and toward cars over the past few years, that trend has reversed itself somewhat as light trucks have become more fuel efficient. Light truck sales are expected to account for 49.2% of total light vehicle sales in CY 2012, 49.9% in CY 2013, and then increase to 50.0% in both CY 2014 and CY 2015.

The import share of total light vehicle sales was 23.0% in CY 2011; it is forecast to decrease to 22.1% in CY 2012 and then remain near 22.0% through CY 2015.

Inflation

U.S. Inflation

In conjunction with the resumption in economic growth, input prices (e.g., wages and import prices) have smoothed in recent months. Crude oil and natural gas prices, which experienced volatile price fluctuations in 2008 and 2009, have stabilized somewhat over the past few years.

Benchmark West Texas intermediate crude reached a high of \$135 in July 2008 before falling to about \$40 by the end of the year. Oil prices have generally risen since then, and averaged \$95 during 2011. Although there is always concern over the stability of the oil supply and the uncertainty of world demand, it is anticipated that oil prices, which averaged about just over \$94 in CY 2012, will average \$88 in CY 2013, \$90 in CY 2014, and \$93 in CY 2015.

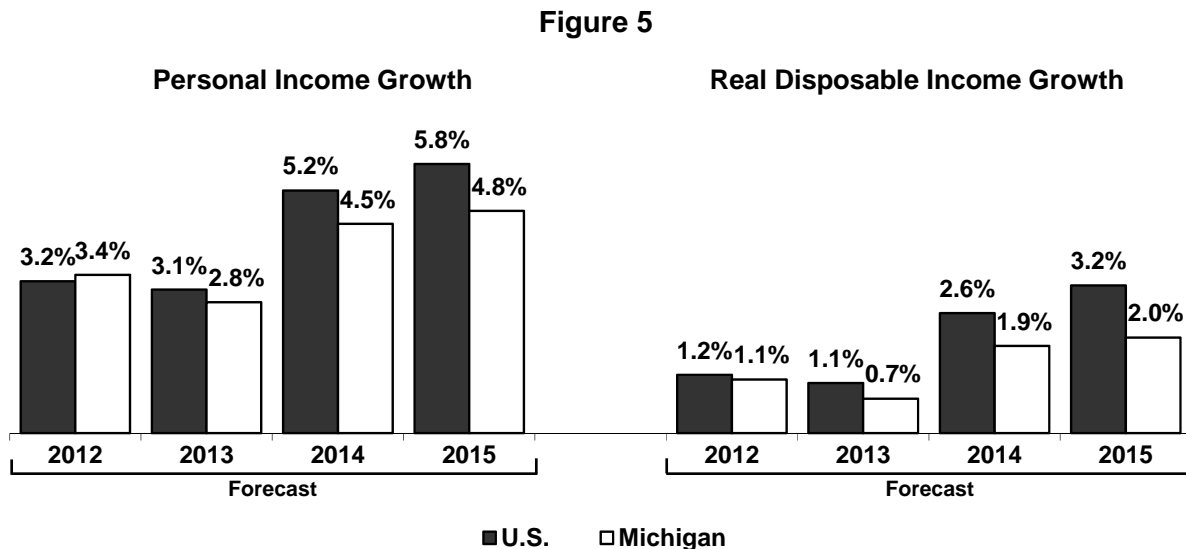
The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index for all Urban Consumers (CPI-U), rose by 3.2% in CY 2011; it is expected to increase by 2.0% in CY 2012, 1.8% in CY 2013, 1.9% in CY 2014, and 2.1% in CY 2015.

Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for all Urban Consumers (Detroit CPI-U). Michigan's average inflation rate, which was 3.3% in CY 2011, is expected to moderate during the forecast period. The Detroit CPI-U is expected to increase 1.9% in CY 2012, 1.7% in CY 2013, 1.8% in CY 2014, and 2.0% in CY 2015.

Income Growth

Figure 5 shows personal and real disposable income growth for the U.S. and for Michigan.



U.S. Income Growth

Total U.S. personal income grew 5.1% in CY 2011. Personal income growth is forecast to increase 3.2% in CY 2012, 3.1% in CY 2013, 5.2% in CY 2014, and 5.8% in CY 2015.

Higher inflation contributed to 1.3% growth in U.S. real disposable income in CY 2011. Although inflation is expected to be moderate, U.S. real disposable income is forecast to grow 1.2% in CY 2012, 1.1% in CY 2013, 2.6% in CY 2014, and 3.2% in CY 2015.

Michigan Income Growth

Michigan's total state personal income growth was 5.6% in CY 2011. Michigan personal income is forecast to increase 3.4% in CY 2012, 2.8% in CY 2013, 4.5% in CY 2014, and 4.8% in CY 2015.

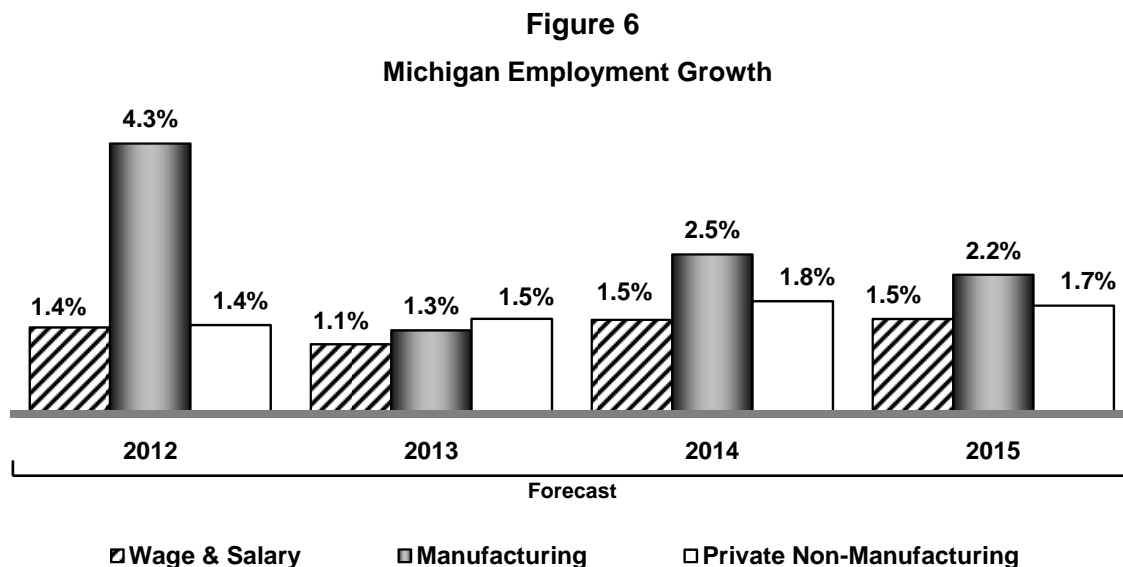
Michigan real disposable income increased 1.1% in CY 2011; it is forecast to increase 1.1% in CY 2012, 0.7% in CY 2013, 1.9% in CY 2014, and 2.0% in CY 2015.

Employment

Figure 6 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

Nationally, total non-farm employment experienced average gains of about 153,300 per month during 2011 – roughly a 1.4% overall increase between December 2010 and December 2011. However, when compared to CY 2010 as a whole, total non-farm employment increased just 0.9% in CY 2011. Total non-farm employment is expected to grow 1.4% in both CY 2012, 1.3% in CY 2013, 1.7% in CY 2014, and 2.0% in CY 2015.



Michigan Employment

The Michigan economy has continued to endure a weak labor market. After experiencing a decade of annual job losses, Michigan wage and salary employment is forecast to grow by about 53,600 workers in CY 2012. The forecast calls for continued job gains through CY 2015.

Michigan wage and salary employment grew 2.0% in CY 2011 and is forecast to increase 1.4% in CY 2012, 1.1% in CY 2013, and 1.5% in both CY 2014 and CY 2015. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 0.3%.

Michigan manufacturing employment increased 6.4% in CY 2011, and is forecast to increase 4.3% in CY 2012, 1.3% in CY 2013, 2.5% in CY 2014, and 2.2% in CY 2015. Most of this growth is expected to occur within the motor vehicle industry.

Michigan private non-manufacturing employment rose 2.2% in CY 2011; it is expected to increase 1.4% in CY 2012, 1.5% in CY 2013, 1.8% in CY 2014, and 1.7% in CY 2015.

Unemployment

U.S. Unemployment

As of January 2008, total non-farm employment had increased for 53 consecutive months. Monthly job losses through the remainder of CY 2008 and most of CY 2009 increased the unemployment rate, and although modest job growth has occurred over the past two years, the unemployment rate is expected to remain at historically high levels.

The U.S. unemployment rate, which was 8.9% in CY 2011, is expected to drop to 8.1% in CY 2012 and continue falling to 7.7% in CY 2013, 7.4% in CY 2014, and 6.8% in CY 2015.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past ten years. Michigan's wage and salary employment continued to grow in CY 2012, and is expected to continue growing through 2015, albeit at modest rates. As a result, the unemployment rate is expected to decline, although it will remain relatively high.

Michigan's unemployment rate was 10.3% in CY 2011; it is expected to decrease to 8.9% in CY 2012, 8.6% in CY 2013, 7.9% in CY 2014, and 7.2% in CY 2015.

Table 2
ECONOMIC FORECAST VARIABLES

	Calendar 2011 <u>Actual</u>	Calendar 2012 <u>Estimated</u>	% Change from <u>Prior Year</u>	Calendar 2013 <u>Estimated</u>	% Change from <u>Prior Year</u>	Calendar 2014 <u>Estimated</u>	% Change from <u>Prior Year</u>	Calendar 2015 <u>Estimated</u>	% Change from <u>Prior Year</u>
<u>United States</u>									
Real Gross Domestic Product (Billions of 2005 dollars)	\$13,299.1	\$13,598.7	2.3%	\$13,836.4	1.9%	\$14,240.8	2.7%	\$14,697.8	3.2%
Implicit Price Deflator GDP (2005 = 100)	113.4	115.5	1.8%	117.6	1.8%	119.6	1.7%	121.8	1.9%
Consumer Price Index (1982-84 = 100)	224.9	229.5	2.0%	233.7	1.8%	238.0	1.9%	242.9	2.1%
Consumer Price Index (FY) (1982-84 = 100)	223.1	228.5	2.4%	232.6	1.8%	236.9	1.8%	241.7	2.0%
Personal Consumption Deflator (2005 = 100)	113.8	115.8	1.7%	117.4	1.4%	119.3	1.6%	121.4	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.1%		0.1%		0.1%		0.2%	
Aaa Corporate Bonds Interest Rate (Percent)	4.6%	3.7%		3.6%		3.8%		4.0%	
Non-Farm Employment (Millions)	131.4	133.2	1.4%	135.0	1.3%	137.3	1.7%	140.0	2.0%
Unemployment Rate – Civilian (Percent)	8.9%	8.1%		7.7%		7.4%		6.8%	
Light Vehicle Sales (Millions of units)	12.7	14.4	13.3%	15.3	6.1%	15.7	2.5%	16.3	3.9%
Passenger Car Sales (Millions of units)	6.2	7.4	19.1%	7.7	4.0%	7.8	2.4%	8.2	3.9%
Light Truck Sales (Millions of units)	6.5	7.1	7.9%	7.6	8.3%	7.8	2.6%	8.2	3.9%
Import Share of Light Vehicles (Percent)	23.0%	22.1%		22.0%		22.2%		22.4%	
Housing Starts (Thousands of units)	0.612	0.771	25.9%	1.044	35.4%	1.375	31.8%	1.638	19.1%
Personal Income (Billions of current dollars)	\$12,947.3	\$13,367.9	3.2%	\$13,778.2	3.1%	\$14,493.6	5.2%	\$15,327.6	5.8%
Real Disposable Income (Billions of 2005 dollars)	\$10,150.2	\$10,276.8	1.2%	\$10,386.7	1.1%	\$10,653.3	2.6%	\$10,990.2	3.2%
<u>Michigan</u>									
Wage and Salary Employment (Thousands)	3,936.7	3,990.4	1.4%	4,034.1	1.1%	4,093.9	1.5%	4,155.1	1.5%
Transportation Equipment Employment (Thousands)	140.4	148.6	5.9%	152.2	2.4%	158.3	4.0%	164.6	3.9%
Unemployment Rate (Percent)	10.3%	8.9%		8.6%		7.9%		7.2%	
Personal Income (Millions of current dollars)	\$358,152	\$370,284	3.4%	\$380,654	2.8%	\$397,685	4.5%	\$416,600	4.8%
Real Personal Income (Millions of 1982-84 dollars)	\$169,059	\$171,547	1.5%	\$173,458	1.1%	\$178,094	2.7%	\$182,940	2.7%
Real Disposable Income (Millions of 1982-84 dollars)	\$151,768	\$153,508	1.1%	\$154,640	0.7%	\$157,531	1.9%	\$160,753	2.0%
Wage and Salary Income (Millions of current dollars)	\$183,000	\$189,294	3.4%	\$195,556	3.3%	\$202,952	3.8%	\$211,308	4.1%
Detroit Consumer Price Index (1982-84 = 100)	211.9	215.8	1.9%	219.5	1.7%	223.3	1.8%	227.7	2.0%
Detroit CPI (FY) (1982-84 = 100)	210.0	215.1	2.4%	218.6	1.6%	222.3	1.7%	226.6	1.9%

NOTE: Numbers may not add due to rounding.



RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding the European debt crisis, housing, fiscal policy, state and local governments, and Michigan's motor vehicle industry.

European Debt Crisis

The European debt crisis and concerns about the level of contagion will remain a significant risk. Debt restructuring at some European banks and government austerity measures will continue and be precarious. Many European countries face difficult decisions and weak economies moving forward.

The U.S. economic expansion is expected to continue. However, the effects of the crisis on U.S. financial markets may unnerve households and businesses and could dampen the overall economy.

Housing

In CY 2012, median existing home prices began to move upward and national home sales increased 8.8%. In CY 2012, housing starts are expected to increase 25.9%, but remained at an extremely low level of 0.7 million units. Housing starts are forecast to increase to 1.04 million units in CY 2013, 1.38 million units in CY 2014, and 1.64 million units in CY 2015.

The conditions of the housing market are important driving factors for construction related industries (employment/income) and for State and local government revenue (property tax and real estate transfer tax). In typical recoveries, housing generally provides a strong background for growth.

Fiscal Policy

Federal fiscal policy is in contractionary mode and is expected to remain so throughout the forecast horizon. This forecast assumes continued federal spending cuts as the long-term debt issues are addressed. It also assumes that any short-term budget negotiations and debt-ceiling deadlines are resolved without too much economic damage. However, fiscal policy remains a risk if federal government spending cuts are enacted that are too severe in the short-term.

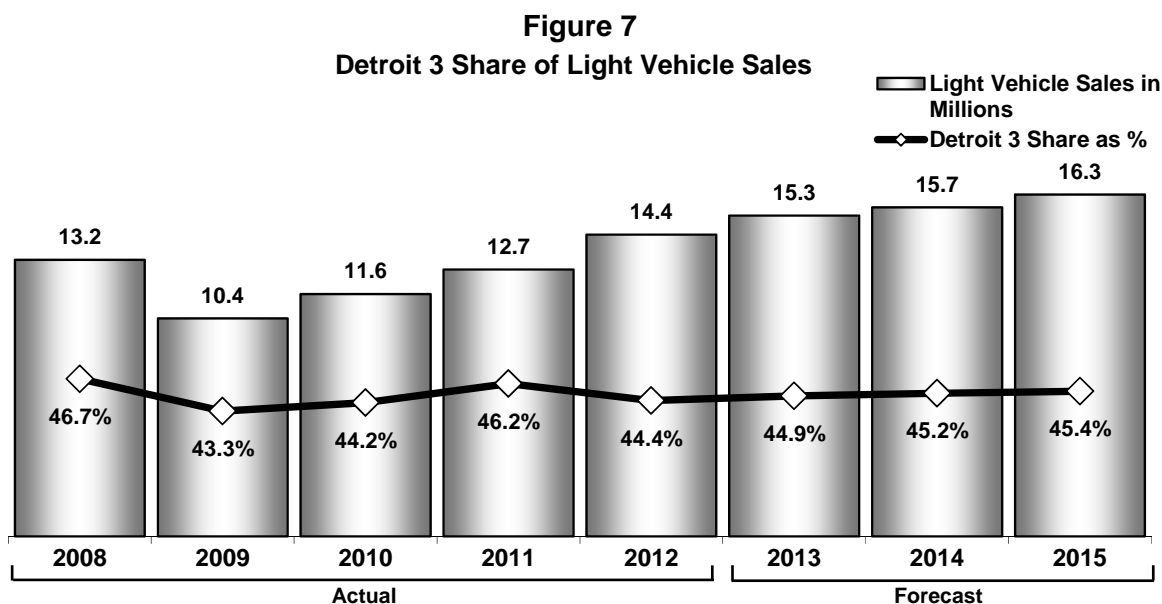
Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 14.4 million units in CY 2012, which was a 13.3% increase from the previous year. Light motor vehicle sales are forecast to be 15.3 million units in CY 2013, then increase to 15.7 million units in CY 2014 and 16.3 million units in CY 2015 as the national expansion continues.

Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years; however since 2009 the market share of these vehicles has stabilized. As shown in **Figure 7**, the market share of the Detroit 3 auto manufacturers hovered around 44% in CY 2012 and is expected to increase slightly throughout the forecast horizon.

The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. In CY 2012, the Detroit 3 sold 6.4 million vehicles, which was a 9.2% increase from the previous year. It is expected that the Detroit 3 will sell 6.9 million vehicles in CY 2013 and continue to post healthy gains in CY 2014 and CY 2015.

After significant declines since CY 2000, Michigan transportation equipment employment increased 7.0% in CY 2011 and 5.9% in CY 2012 and is forecast to increase 2.4% in CY 2013, 4.0% in CY 2014, and 3.9% in CY 2015. The CY 2015 estimated level of transportation equipment employment of 164,600 is 48% of the 346,000 peak in CY 2000. If the Michigan-produced market share of motor vehicles is greater or less than anticipated, Michigan's economy and revenue growth will be higher or lower than estimated.





GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency's January 2013 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue. Also, included in this section are the estimated year-end balances for the GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue increased 5.4% to \$8,719.4 million in FY 2011-12. Much of this increase was due to the income tax changes enacted under the tax reform. GF/GP tax revenue is estimated to be \$8,497.8 million, a decrease of \$221.5 million or 2.5% in FY 2012-13, and \$9,014.3 million, an increase of \$516.5 million, or 6.1% in FY 2013-14. GF/GP tax revenue is estimated to increase 5.3% in FY 2014-15.

Total Net GF/GP Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to spend. Net GF/GP revenue was \$9,286.3 million in FY 2011-12; it is forecast to be \$8,845.3 million, a decrease of \$440.9 million or 4.7% in FY 2012-13, and \$9,344.2 million, an increase of \$498.9 million or 5.6% in FY 2013-14. Net GF/GP revenue is estimated to increase 5.5% in FY 2014-15.

SAF Revenue by Source

Total Net SAF Revenue

Net SAF revenue decreased 3.3% to \$10,878.9 million in FY 2011-12. The repeal of the MBT earmark was partially offset by increases in the sales tax, income tax revenue, and the lottery. Net SAF revenue is forecast to be \$11,166.2 million, an increase of \$287.3 million or 2.6% in FY 2012-13. Net SAF revenue is estimated to increase 3.2% in FY 2013-14 and 3.3% in FY 2014-15.

Table 3
GF/GP REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	<u>Final</u>	<u>HFA Est.</u>	<u>HFA Est.</u>	<u>HFA Est.</u>	<u>FY 2012-13</u>		<u>FY 2013-14</u>		<u>FY 2014-15</u>	
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$4,816.9	\$5,522.5	\$5,818.9	\$6,089.4	\$705.6	14.6%	\$296.3	5.4%	\$270.5	4.6%
Sales Tax	1,081.2	1,009.5	1,159.6	1,203.8	(71.8)	-6.6%	150.1	14.9%	44.2	3.8%
Use Tax	793.9	853.0	886.0	919.3	59.0	7.4%	33.0	3.9%	33.3	3.8%
Michigan Business Tax	810.9	(521.8)	(578.9)	(515.3)	(1,332.7)	-164.3%	(57.1)	10.9%	63.6	-11.0%
Corporate Income Tax	547.1	928.9	1,004.9	1,062.5	381.8	69.8%	76.0	8.2%	57.6	5.7%
Insurance	290.2	308.0	319.2	328.0	17.8	6.1%	11.2	3.6%	8.8	2.8%
Other Taxes	379.0	397.8	404.6	407.7	18.7	4.9%	6.9	1.7%	3.1	0.8%
GF/GP Net Taxes	\$8,719.4	\$8,497.8	\$9,014.3	\$9,495.3	(\$221.5)	-2.5%	\$516.5	6.1%	\$481.0	5.3%
Non-Tax Revenue	566.9	347.5	329.9	364.9	(219.4)	-38.7%	(17.6)	-5.1%	35.0	10.6%
Total GF/GP Net Revenue	\$9,286.3	\$8,845.3	\$9,344.2	\$9,860.2	(\$440.9)	-4.7%	\$498.9	5.6%	\$516.0	5.5%

NOTE: Numbers may not add due to rounding.

Table 4
SCHOOL AID FUND REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2012-13		FY 2013-14		FY 2014-15	
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,057.0	\$5,219.1	\$5,400.5	\$5,597.9	\$162.2	3.2%	\$181.3	3.5%	\$197.5	3.7%
Use Tax	412.7	426.5	443.0	459.7	13.9	3.4%	16.5	3.9%	16.7	3.8%
Income Tax	2,100.2	2,215.8	2,321.1	2,421.5	115.6	5.5%	105.4	4.8%	100.4	4.3%
State Education Tax	1,789.5	1,811.6	1,844.6	1,892.8	22.1	1.2%	33.0	1.8%	48.2	2.6%
Lottery/Casinos	894.2	858.0	867.0	873.0	(36.2)	-4.0%	9.0	1.0%	6.0	0.7%
Tobacco Tax	374.0	368.0	365.0	360.4	(6.0)	-1.6%	(3.0)	-0.8%	(4.6)	-1.3%
Real Estate Transfer Tax	150.1	168.0	180.0	190.0	17.9	11.9%	12.0	7.1%	10.0	5.6%
Other Taxes	101.3	99.2	100.5	101.4	(2.1)	-2.1%	1.3	1.3%	0.9	0.9%
SAF Net Revenue	\$10,878.9	\$11,166.2	\$11,521.7	\$11,896.8	\$287.3	2.6%	\$355.5	3.2%	\$375.0	3.3%

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 5 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2012-13 estimates are based on year-to-date appropriations and HFA revenue estimates. Preliminary final FY 2011-12 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 5
YEAR-END UNRESERVED BALANCE ESTIMATES
(Millions of Dollars)

	Preliminary Final FY 2011-12	Estimated FY 2012-13
General Fund/General Purpose	\$1,001.9	\$88.6
School Aid Fund	\$254.0	\$66.8
Budget Stabilization Fund	\$365.0	\$508.6

Note: School Aid Fund revenue is restricted; any year-end balance is carried forward to the subsequent year.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Table 6** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2014-15.

The BSF ending fund balance for FY 2010-11 was \$2.2 million. The BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates no pay-in or withdrawal for FY 2012-13 and FY 2013-14. However, a pay-in of \$39.5 million is indicated for FY 2014-15. A \$362.7 million appropriation has been made for FY 2011-12 and a \$140.0 million appropriation has been made for FY 2012-13. The year-end balance is estimated at \$365.0 million for FY 2011-12, \$508.6 million for FY 2012-13, \$513.7 million for FY 2013-14, and \$520.2 million for FY 2014-15.

Table 6
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$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	\$0.0	\$0.1	\$365.0
2012-13*	\$140.0	\$0.0	\$3.6	\$508.6
2013-14*	\$0.0	\$0.0	\$5.1	\$513.7
2014-15*	\$0.0	\$0.0	\$6.5	\$520.2

* HFA Estimate

NOTE: Numbers may not add due to rounding.

Compliance With the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution*, which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

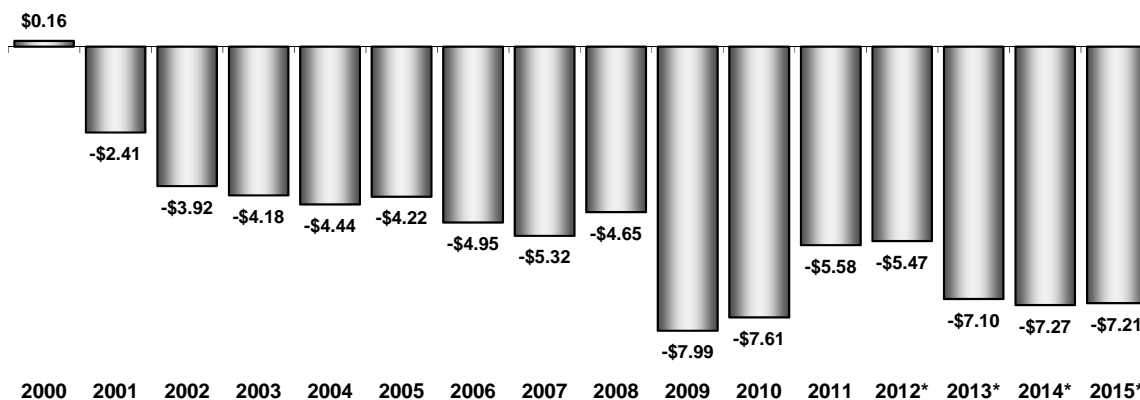
As shown in **Table 7**, **Figure 8**, and **Table 8**, the FY 2011-12 revenue limit calculation is expected to show state revenue collections at \$5.47 billion below the revenue limit. For FY 2012-13, state revenue is estimated to be below the limit by \$7.10 billion. For FY 2013-14 and FY 2014-15, state revenue is estimated to be below the revenue limit – by \$7.27 billion, and \$7.21 billion, respectively.

Table 7
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	Estimated FY 2011-12	Estimated FY 2012-13	Estimated FY 2013-14	Estimated FY 2014-15
Personal Income				
Calendar Year	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>
Amount	\$339,044	\$358,152	\$370,284	\$380,654
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$32,175.3	\$33,988.6	\$35,140.0	\$36,124.1
Total Revenue Subject to Revenue Limit	\$26,701.0	\$26,886.7	\$27,869.2	\$28,912.1
Amount Under (Over) State Revenue Limit	\$5,474.3	\$7,102.0	\$7,270.8	\$7,212.0

NOTE: Numbers may not add due to rounding.

Figure 8
Constitutional Revenue Limit
Amount Under or Over Limit (Billions of Dollars)



* HFA Estimate

Table 8
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>
1990-91	(\$3.04)
1991-92	(\$3.69)
1992-93	(\$3.48)
1993-94	(\$2.11)
1994-95	\$0.11
1995-96	(\$0.18)
1996-97	(\$0.98)
1997-98	(\$0.64)
1998-99	\$0.02
1999-2000	\$0.16
2000-01	(\$2.41)
2001-02	(\$3.92)
2002-03	(\$4.18)
2003-04	(\$4.44)
2004-05	(\$4.22)
2005-06	(\$4.95)
2006-07	(\$5.32)
2007-08	(\$4.65)
2008-09	(\$7.99)
2009-10	(\$7.61)
2010-11	(\$5.58)
2011-12*	(\$5.47)
2012-13*	(\$7.10)
2013-14*	(\$7.27)
2014-15*	(\$7.21)

**HFA Estimate*



Additional copies of this report can be obtained from:

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