

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2013-14
THROUGH
FY 2015-16**



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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2013 through CY 2016. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2012-13 and revised revenue estimates for FY 2013-14 through FY 2015-16. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 15, 2014, 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 2016, 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 modest pace. The April nonfarm employment report showed a 288,000 job gain, and both February and March were revised upward by a total of 36,000 jobs. National employment has increased by an average of 214,300 jobs through the first four months of 2014.

Although the growth of Gross Domestic Product or GDP was muted due to extreme weather conditions over much of the country during the first quarter of 2014, growth is expected to accelerate throughout the forecast period as light vehicle sales increase and production picks up.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. In March, Michigan's nonfarm employment declined slightly, and through the first three months of 2013, there has been a net loss of 11,000 jobs.

U. S. Forecast

Real GDP growth is forecast to increase 2.4% in CY 2014. It is forecast to increase 3.2% in CY 2015, and grow 3.4% in CY 2016.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase by 1.7% in CY 2014, and by 1.9% in both CY 2015 and CY 2016.

Light vehicle sales of 15.5 million units in CY 2013 are forecast to grow to 16.0 million units in CY 2014, to 16.4 million units in CY 2015, and to 16.7 million units in CY 2016. The import share of light vehicles is forecast to be close to 22.0% through the forecast horizon.

The national unemployment rate is expected to be 6.4% in CY 2014; it is forecast to decline to 6.0% in CY 2015 and 5.4% in CY 2016.

Michigan Forecast

Michigan personal income is forecast to increase 3.5% in CY 2014, 4.2% in CY 2015, and 4.6% in CY 2016.

Michigan's unemployment rate is forecast to decrease to 7.6% in 2014, 7.1% in CY 2015, and 6.5% in CY 2016.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2014 is forecast to increase 1.3% in CY 2014, 1.7% in CY 2015, and 1.8% in CY 2016.

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 reflect the amounts of state revenue attributable to overall economic activity. The final total baseline GF/GP and SAF revenue was \$21.2 billion in FY 2012-13. It is forecast to increase 0.1% in FY 2013-14, 4.0% in FY 2014-15, and by 4.2% in FY 2015-16.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was \$20.8 billion in FY 2012-13, which was a 1.4% increase from FY 2011-12. It is forecast to decrease \$121.8 million or -0.6% in FY 2013-14. Total net GF/GP and SAF revenue is forecast to increase 3.9% in FY 2014-15 and 4.4% in FY 2015-16.

Table 1 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2014 consensus estimates and the recommended revisions to these estimates for FY 2013-14 through FY 2015-16. The recommended revisions are decreases of \$422.1 million for FY 2013-14, \$451.2 million for FY 2014-15, and \$396.8 million for FY 2015-16.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by \$6.6 billion in FY 2012-13; it is estimated to be under the limit by \$7.9 billion in FY 2013-14, \$9.1 billion in FY 2014-15, and \$9.6 billion in FY 2015-16.

Fund Balances

The year-end GF/GP balance was \$1,186.6 million for FY 2012-13.

The year-end unreserved SAF balance was \$292.0 million for FY 2012-13.

The year-end Countercyclical Budget Stabilization Fund balance was \$508.6 million for FY 2012-13; based on the calculations presented in this forecast, it is estimated to be \$588.7 million for FY 2013-14, \$607.8 million for FY 2014-15, and \$620.0 million for FY 2015-16.

Table 1
HFA MAY 2014 REVENUE ESTIMATES FOR FY 2013-14 THROUGH FY 2015-16
(Millions of Dollars)

	<u>Final FY 2012-13</u>	<u>HFA Est. FY 2013-14</u>	<u>HFA Est. FY 2014-15</u>	<u>HFA Est. FY 2015-16</u>	<u>FY 2013-14 % Change</u>	<u>FY 2014-15 % Change</u>	<u>FY 2015-16 % Change</u>
<u>Baseline</u>							
GF/GP	\$9,957.5	\$9,765.2	\$10,237.2	\$10,742.4	-1.9%	4.8%	4.9%
SAF	\$11,279.7	\$11,484.0	\$11,856.3	\$12,287.8	1.8%	3.2%	3.6%
Total	\$21,237.2	\$21,249.2	\$22,093.4	\$23,030.2	0.1%	4.0%	4.2%
<u>Net</u>							
GF/GP	\$9,562.5	\$9,272.2	\$9,719.8	\$10,233.4	-3.0%	4.8%	5.3%
SAF	\$11,269.7	\$11,438.2	\$11,807.4	\$12,243.6	1.5%	3.2%	3.7%
Total	\$20,832.2	\$20,710.4	\$21,527.1	\$22,477.0	-0.6%	3.9%	4.4%
<u>January 2014 Adjusted Consensus</u>							
<u>Net</u>							
GF/GP	\$9,562.5	\$9,572.5	\$10,046.5	\$10,535.8			
SAF	\$11,269.7	\$11,560.0	\$11,931.8	\$12,338.0			
Total	\$20,832.2	\$21,132.5	\$21,978.3	\$22,873.8			
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$0.0	-\$300.3	-\$326.7	-\$302.4			
SAF	\$0.0	-\$121.8	-\$124.4	-\$94.4			
Total	\$0.0	-\$422.1	-\$451.2	-\$396.8			

NOTE: Numbers may not add due to rounding



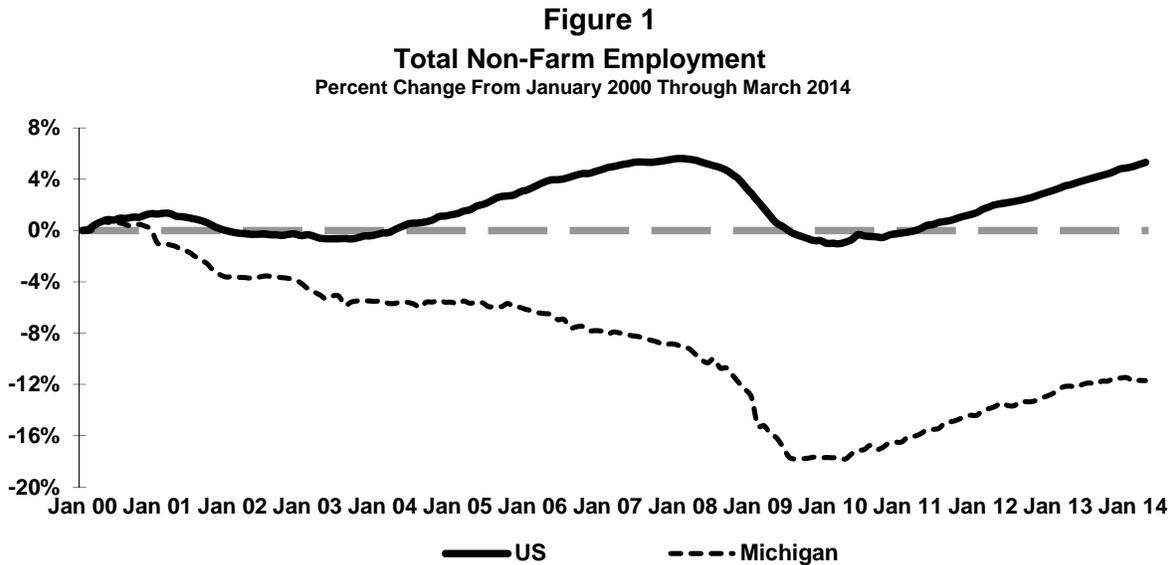
ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2013-14 through FY 2015-16.

U.S. employment fell by more than 6.3% between January 2008 and February 2009, which translates into a loss of more than 8.7 million jobs. And, while employment began growing during 2010, only about one million jobs were added. Continued employment growth through 2013 added an average of about 2.3 million jobs each year, but even so employment still remains slightly 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 March 2014.



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.

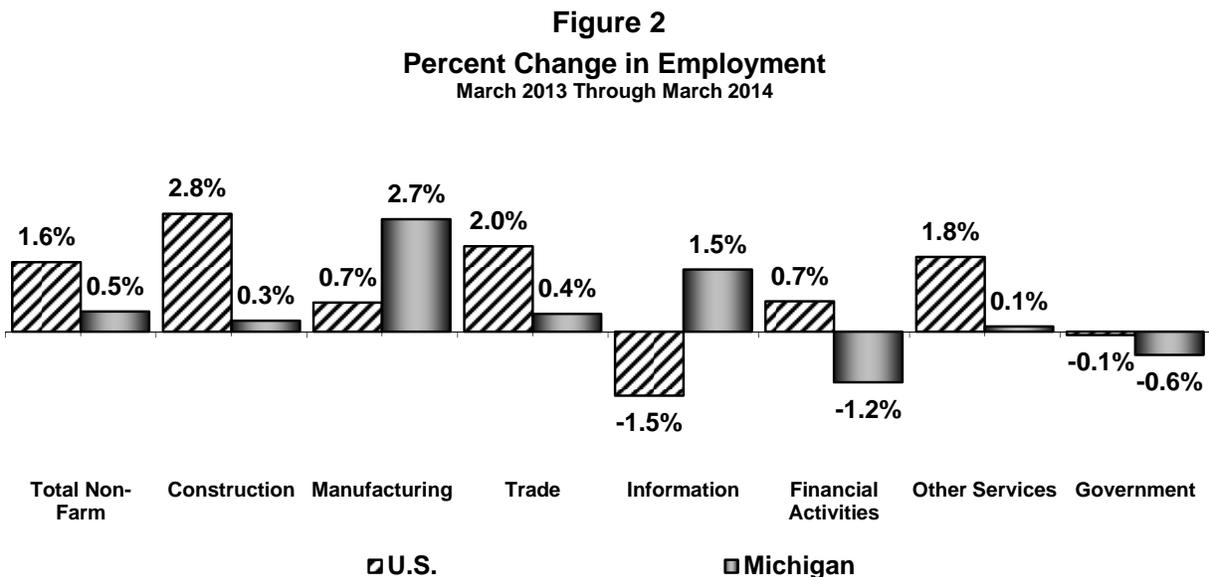
The ensuing recession saw 25 consecutive months of employment declines during which more than 8.7 million jobs were lost. Job gains finally reappeared in March 2010, and while modest job growth resumed during much of 2010 and has continued through April 2014, total non-farm employment is still more than 100,000 jobs below the January 2008 peak. As of April 2014, total employment is 5.5% higher than in January 2000.

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 410,000 additional jobs were lost, and while employment increased in 2010, only about 56,100 jobs were added. Employment growth accelerated during 2011 as 96,700 jobs were added, but employment growth has slowed; only 76,800 new jobs were added in 2012 followed by 47,900 new jobs in 2013. Even after almost four years of job growth, as of March 2014, total non-farm employment in Michigan is roughly 11.7% lower than in January 2000.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between March 2013 and March 2014 for all workers in several important sectors of the economy for both the U.S. and Michigan. Improving economic conditions are evident as national employment increased by more than 2.2 million jobs (or 1.6%) over this period while employment in Michigan rose by just 19,200 jobs (or 0.5%).



U.S. Employment

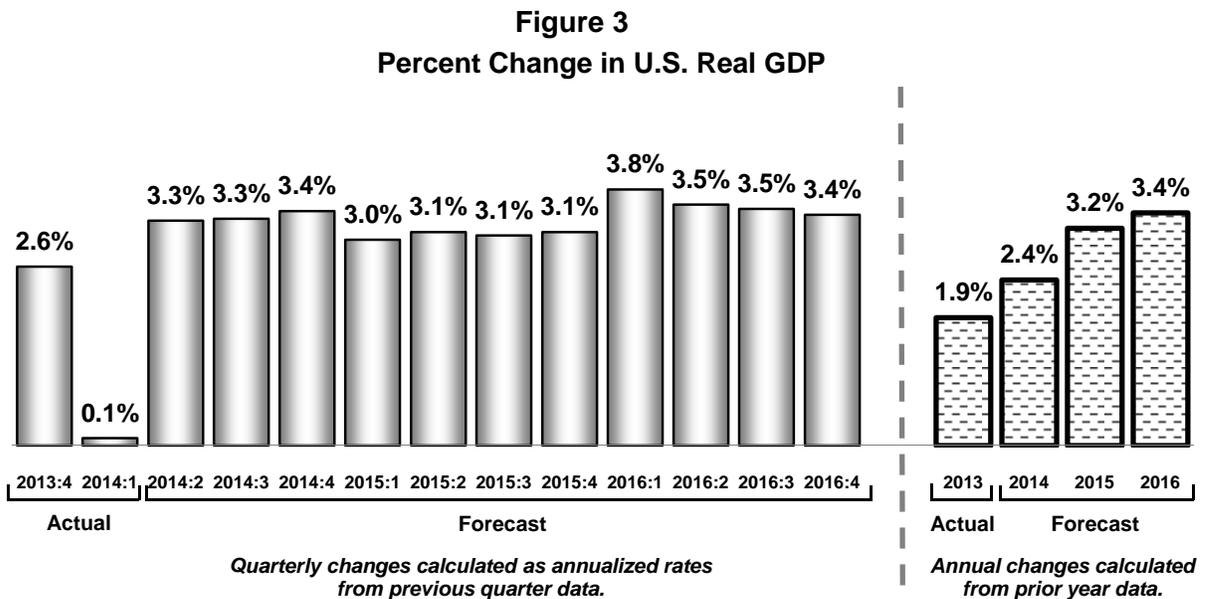
From March 2012 through March 2013, the U.S. experienced job gains in all categories with the exception of information and the government sector, which lost 41,000 and 18,000 jobs, respectively. Conversely, wholesale and retail trade gained more than 412,000 jobs while the construction sector employment grew by 154,000. All of the major service sectors also continued to add jobs, and although the manufacturing sector had been generally contracting for the past several years, it realized job gains of 82,000 workers.

Michigan Employment

Job gains in Michigan over the past year totaled 19,200 and were concentrated in manufacturing and miscellaneous services, which gained 14,600 and 3,000 jobs, respectively. Most other sectors recorded small job gains with the exception of financial activities and government. Although the job gains in Michigan's manufacturing sector over the past year accounted for about 17.8% of total manufacturing job gains nationwide, over the past eight years Michigan has lost more than 5.4% of its manufacturing employment.

Real GDP

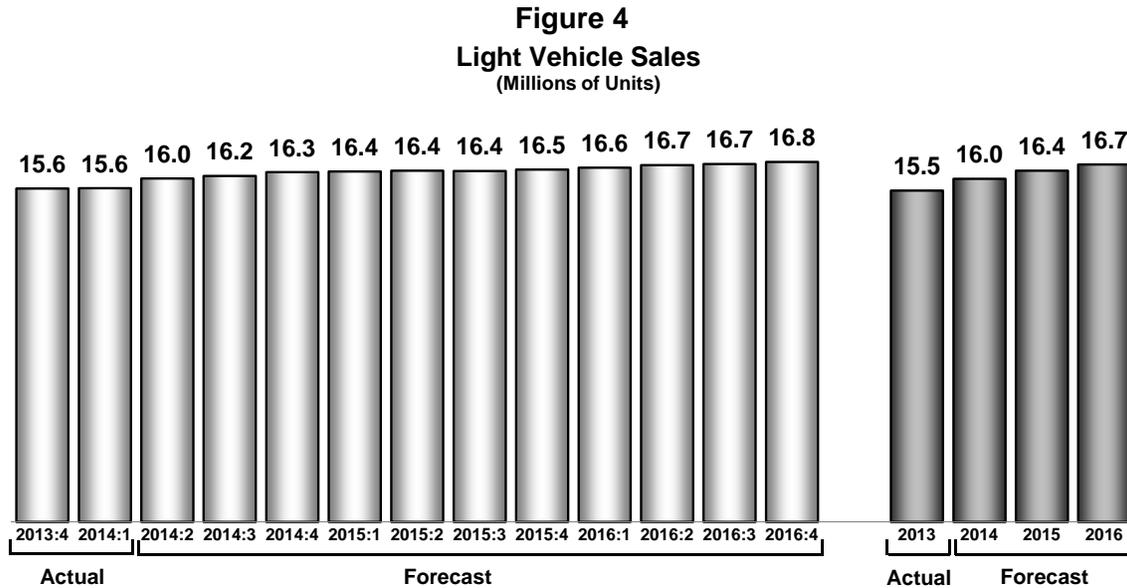
Figure 3 shows the estimated percent change in U.S. Real GDP for CY 2014 through CY 2016.



After increasing 1.9% during CY 2013, real GDP grew at a just a 0.1% rate in the first quarter of CY 2014. Real GDP is forecast to increase 2.4% in CY 2014, 3.2% in CY 2015, and 3.4% in CY 2016.

Light Vehicle Sales

Figure 4 shows light vehicle sales for CY 2013 and estimates for CY 2014 through CY 2016.



Sales of light motor vehicles totaled 14.4 million units in CY 2012 and rose to 15.5 million units in CY 2013. Light vehicle sales are forecast to increase to 16.0 million units in CY 2014, 16.4 million units in CY 2015, and 16.7 million units in CY 2016.

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 accounted for 51.1% of total light vehicle sales in CY 2013, and are expected to increase to 52.7% in CY 2014 before decreasing to 51.5% in in CY 2015 and 51.0% CY 2016.

The import share of total light vehicle sales was 21.9% in CY 2013; it is forecast to remain close to that amount through CY 2016.

Inflation

U.S. Inflation

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 1.5% in CY 2013; it is expected to increase by 1.7% in CY 2014, and 1.9% in both CY 2015 and CY 2016.

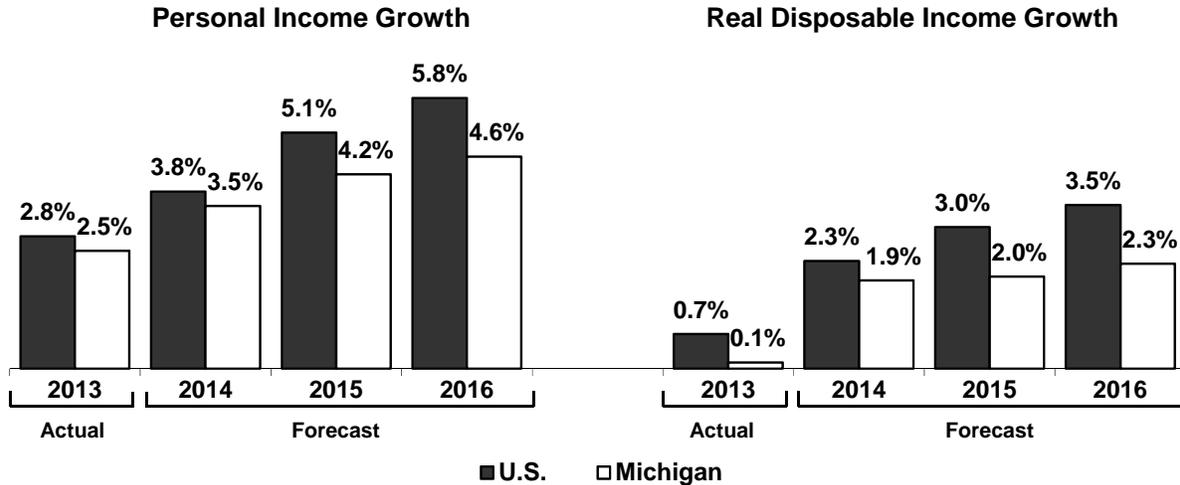
Michigan Inflation

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 was 1.6% in CY 2013, and although inflation in Michigan is predicted to continue increasing, it should remain modest throughout the forecast period. The Detroit CPI-U is expected to increase 1.3% in CY 2014, 1.7% in CY 2015, and 1.8% in CY 2016.

Income Growth

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

Figure 5



U.S. Income Growth

Total U.S. personal income grew 2.8% in CY 2013. Personal income growth is forecast to increase 3.8% in CY 2014, 5.1% in CY 2015, and 5.8% in CY 2016.

Inflation reduced the growth in U.S. real disposable income to 0.7% in CY 2013. U.S. real disposable income is forecast to grow 2.3% in CY 2014, 3.0% in CY 2015, and 3.5% in CY 2016.

Michigan Income Growth

Michigan's total state personal income growth was 2.5% in CY 2013. Michigan personal income is forecast to increase 3.5% in CY 2014, 4.2% in CY 2015, and 4.6% in CY 2016.

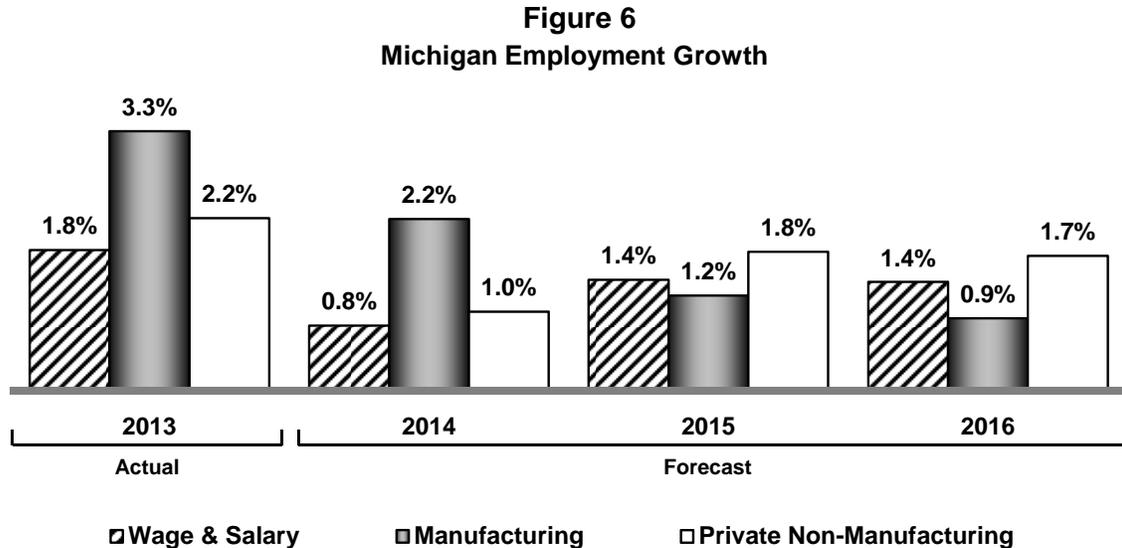
Michigan real disposable income increased 0.1% in CY 2013; it is forecast to increase 1.9% in CY 2014, 2.0% in CY 2015, and 2.3% in CY 2016.

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 206,300 per month during 2013 – roughly a 1.7% overall increase between December 2012 and December 2013. Total non-farm employment is expected to grow 1.8% in CY 2014 and 1.9% in CY 2015, and 2.1% in CY 2016.



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 grew by an annual average of 76,500 workers between 2010 and in CY 2012, although job growth slowed to 47,900 in CY 2013.

Michigan wage and salary employment is forecast to grow by 0.8% in CY 2014 and 1.4% in both CY 2015 and CY 2016. In the 25-year period between 1982 and 2007, Michigan wage and salary employment grew at an average annual rate of 1.2%; between 1988 and 2013 it grew at an average annual rate of just 0.3%.

Michigan manufacturing employment increased 3.3% in CY 2013 after growing by 5.5% in CY 2012. It is forecast to increase 2.2% in CY 2014, 1.2% in CY 2015, and 0.9% in CY 2016. Much of this growth is expected to occur within the motor vehicle industry, in small part offsetting some of the job losses due to the restructuring of Michigan's auto industry.

Michigan private non-manufacturing employment grew 2.2% in CY 2013. It is forecast to grow 1.0% in CY 2014, 1.8% in CY 2015, and 1.7% in CY 2016.

Unemployment

U.S. Unemployment

The U.S. unemployment rate, which was 8.9% in CY 2012, dropped to 7.4% in CY 2013; it is forecast to continue falling to 6.4% in CY 2014, 6.0% in CY 2015, and 5.4% in CY 2016.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has slowed in recent years. Michigan's wage and salary employment grew in CY 2013, and is forecast to continue growing through 2016, albeit at subdued rates. However, because labor force increases are anticipated to be even smaller, the unemployment rate is expected to continue declining.

Michigan's unemployment rate was 9.1% in CY 2012 and 8.8% in CY 2013; it is expected to decrease to 7.6% in CY 2014, 7.1% in CY 2015, and 6.5% in CY 2016. The last time Michigan's unemployment rate was less than the national average was in November 2000, more than 13 years ago.

Table 2
ECONOMIC FORECAST VARIABLES

	Calendar 2012 Actual	Calendar 2013 Actual	% Change from Prior Year	Calendar 2014 Estimated	% Change from Prior Year	Calendar 2015 Estimated	% Change from Prior Year	Calendar 2016 Estimated	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2005 dollars)	\$15,470.7	\$15,761.3	1.9%	\$16,144.7	2.4%	\$16,659.8	3.2%	\$17,229.1	3.4%
Implicit Price Deflator GDP (2005 = 100)	105.0	106.6	1.5%	108.2	1.5%	110.0	1.7%	112.2	2.0%
Consumer Price Index (1982-84 = 100)	229.6	233.0	1.5%	236.9	1.7%	241.3	1.9%	246.0	1.9%
Consumer Price Index (FY) (1982-84 = 100)	228.5	232.2	1.6%	235.8	1.5%	240.2	1.9%	244.8	1.9%
Personal Consumption Deflator (2005 = 100)	106.0	107.2	1.1%	108.6	1.3%	110.3	1.5%	112.1	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.1%		0.1%		0.3%		1.0%	
Aaa Corporate Bonds Interest Rate (Percent)	3.7%	4.2%		4.4%		4.7%		4.9%	
Non-Farm Employment (Millions)	134.1	136.4	1.7%	138.8	1.8%	141.5	1.9%	144.4	2.1%
Unemployment Rate – Civilian (Percent)	8.1%	7.4%		6.4%		6.0%		5.4%	
Light Vehicle Sales (Millions of units)	14.4	15.5	7.3%	16.0	3.5%	16.4	2.4%	16.7	1.7%
Passenger Car Sales (Millions of units)	7.2	7.6	4.6%	7.6	0.2%	8.0	4.8%	8.2	2.8%
Light Truck Sales (Millions of units)	7.2	7.9	9.9%	8.4	6.7%	8.5	0.1%	8.5	0.7%
Import Share of Light Vehicles (Percent)	22.1%	21.9%		21.3%		21.9%		21.9%	
Housing Starts (Millions of units)	0.783	0.929	18.6%	1.051	13.1%	1.383	31.6%	1.585	14.6%
Personal Income (Billions of current dollars)	\$13,743.8	\$14,135.3	2.8%	\$14,673.7	3.8%	\$15,418.7	5.1%	\$16,316.5	5.8%
Real Disposable Income (Billions of 2005 dollars)	\$11,551.5	\$11,637.5	0.7%	\$11,906.8	2.3%	\$12,269.8	3.0%	\$12,701.9	3.5%
Michigan									
Wage and Salary Employment (Thousands)	4,034.2	4,106.0	1.8%	4,139.7	0.8%	4,197.7	1.4%	4,255.3	1.4%
Transportation Equipment Employment (Thousands)	156.6	167.1	6.7%	172.5	3.2%	175.7	1.9%	179.2	2.0%
Unemployment Rate (Percent)	9.1%	8.8%		7.6%		7.1%		6.5%	
Personal Income (Millions of current dollars)	\$378,443	\$388,053	2.5%	\$401,643	3.5%	\$418,448	4.2%	\$437,537	4.6%
Real Personal Income (Millions of 1982-84 dollars)	\$175,124	\$176,810	1.0%	\$180,575	2.1%	\$184,909	2.4%	\$189,965	2.7%
Real Disposable Income (Millions of 1982-84 dollars)	\$157,014	\$157,227	0.1%	\$160,218	1.9%	\$163,391	2.0%	\$167,080	2.3%
Wage and Salary Income (Millions of current dollars)	\$189,640	\$195,866	3.3%	\$202,869	3.6%	\$211,059	4.0%	\$219,862	4.2%
Detroit Consumer Price Index (1982-84 = 100)	216.1	219.5	1.6%	222.4	1.3%	226.3	1.7%	230.3	1.8%
Detroit CPI (FY) (1982-84 = 100)	215.1	219.1	1.8%	221.4	1.0%	225.4	1.8%	229.3	1.7%

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 is incomplete and foresight is not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding current economic momentum, housing, fiscal and monetary policy, and Michigan's motor vehicle industry. Although the term "Risks and Uncertainties" might seem to imply only negative connotations, the net interactions of these factors on overall economic conditions could be either positive or negative depending on the degree to which they vary from their assumed impacts.

Economic Momentum

Real GDP growth was reported at an anemic 0.1% during the first quarter of 2014 after growing by 2.6% during the fourth quarter of 2013. While the first quarter estimate is expected to undergo subsequent revisions in May and June, if the revisions remain muted there is a possibility that fears of a contraction could cause consumers and producers to become more cautious. Despite the apparent low growth in the first quarter, consumer expenditures remained relatively strong. Should consumer expenditures fall from current levels, continued economic growth could be jeopardized.

Housing

In CY 2013, housing starts increased by 18.6%, but remained below one million units. Housing starts are forecast to exceed 1.05 million units in CY 2014, 1.38 million units in CY 2015, and 1.58 million units in CY 2016. Should employment growth stagnate and/or Federal Reserve tightening increase mortgage rates substantially, housing starts would be negatively affected.

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 and Monetary Policy

Federal fiscal policy is in contractionary mode and is expected to remain so throughout the forecast horizon. This forecast assumes continued federal spending restraint as the long-term debt issues are addressed. With Janet Yellen's confirmation as Chairman of the Federal Reserve, the Fed removed a national unemployment rate of 6.5% or less as an automatic trigger to begin raising interest rates, although purchases of mortgage-backed securities and longer-term Treasury securities are being reduced by an additional \$10 billion per month beginning in May.

Michigan's Motor Vehicle Industry

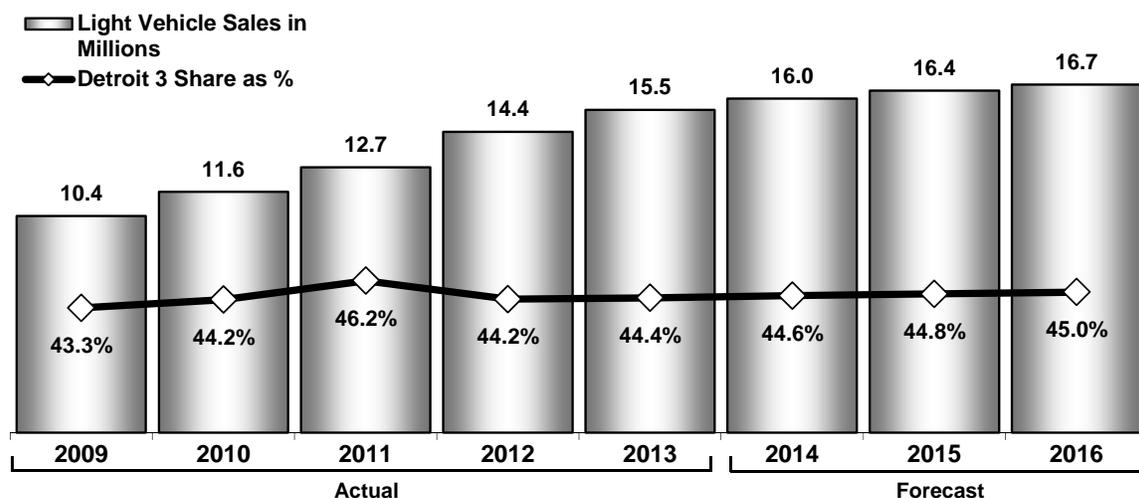
The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 15.5 million units in CY 2013, which was a 7.3% increase from the previous year. Light motor vehicle sales are forecast to be 16.0 million units in CY 2014, then increase to 16.4 million units in CY 2015 and 16.7 million units in CY 2016 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 2013 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 2013, the Detroit 3 sold 6.9 million vehicles, which represents a 7.6% increase from the previous year. It is expected that the Detroit 3 will sell 7.1 million vehicles in CY 2014, and will continue to post somewhat healthier gains in CY 2015 and CY 2016.

After significant declines since CY 2000, Michigan transportation equipment employment increased 10.3% in CY 2012 and 6.7% in CY 2013 and is forecast to increase 3.2% in CY 2014, 1.9% in CY 2015, and 2.0% in CY 2016. The CY 2016 estimated level of transportation equipment employment of 179,200 is just 51.8% 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.

Figure 7
Detroit 3 Share of Light Vehicle Sales





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 May 2014 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue, which include enacted personal income tax and business tax changes, amnesty, unclaimed property changes, and other adjustments. 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 5.5% to \$9,155.2 million in FY 2012-13. Much of this increase was due to stronger gross income tax collections associated with the fiscal cliff uncertainties in late 2012. In addition, corporate income tax revenue increased as taxpayers transitioned away from the Michigan Business Tax. GF/GP tax revenue is estimated to be \$8,902.7 million, a decrease of \$252.5 million or 2.8%, in FY 2013-14, and \$9,381.3 million, an increase of \$478.6 million, or 5.4% in FY 2014-15. GF/GP tax revenue is estimated to increase 5.5% in FY 2015-16.

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 \$9,562.5 million in FY 2012-13; it is forecast to be \$9,272.2 million, a decline of \$290.3 million or 3.0% in FY 2013-14, and \$9,719.8 million, an increase of \$447.6 million or 4.8% in FY 2014-15. Net GF/GP revenue is estimated to increase 5.3% in FY 2015-16.

SAF Revenue by Source

Total Net SAF Revenue

Net SAF revenue increased 3.6% to \$11,269.7 million in FY 2012-13. Most of the increase was due to higher gross income tax and sales tax collections. Net SAF revenue is forecast to be \$11,438.2 million, an increase of \$168.5 million or 1.5%, in FY 2013-14. Net SAF revenue is estimated to increase 3.2% in FY 2014-15 and 3.7% in FY 2015-16.

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

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2013-14		FY 2014-15		FY 2015-16	
	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$5,931.0	\$5,819.1	\$6,055.3	\$6,359.4	-\$111.9	-1.9%	\$236.2	4.1%	\$304.1	5.0%
Sales Tax	\$1,003.5	\$1,127.9	\$1,169.8	\$1,221.5	\$124.4	12.4%	\$41.8	3.7%	\$51.7	4.4%
Use Tax	\$838.3	\$910.3	\$945.2	\$987.9	\$72.0	8.6%	\$34.9	3.8%	\$42.7	4.5%
Michigan Business Tax	-\$75.8	-\$536.1	-\$469.5	-\$434.0	-\$460.3	607.3%	\$66.6	-12.4%	\$35.5	-7.6%
Corporate Income Tax	\$783.1	\$854.9	\$884.0	\$938.1	\$71.8	9.2%	\$29.1	3.4%	\$54.1	6.1%
Insurance	\$301.4	\$355.0	\$403.0	\$418.0	\$53.6	17.8%	\$48.0	13.5%	\$15.0	3.7%
Other Taxes	\$373.7	\$371.6	\$393.5	\$410.0	-\$2.1	-0.6%	\$21.9	5.9%	\$16.5	4.2%
GF/GP Net Taxes	\$9,155.2	\$8,902.7	\$9,381.3	\$9,900.9	-\$252.5	-2.8%	\$478.6	5.4%	\$519.6	5.5%
Non-Tax Revenue	\$407.3	\$369.5	\$338.5	\$332.5	-\$37.8	-9.3%	-\$31.0	-8.4%	-\$6.0	-1.8%
Total GF/GP Net Revenue	\$9,562.5	\$9,272.2	\$9,719.8	\$10,233.4	-\$290.3	-3.0%	\$447.6	4.8%	\$513.6	5.3%

NOTE: Numbers may not add due to rounding.

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

	<u>Final</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>HFA Est.</u> <u>FY 2015-16</u>	<u>FY 2013-14</u>		<u>FY 2014-15</u>		<u>FY 2015-16</u>	
					<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,206.2	\$5,287.6	\$5,477.7	\$5,705.4	\$81.4	1.6%	\$190.2	3.6%	\$227.7	4.2%
Use Tax	\$432.4	\$455.2	\$472.6	\$494.0	\$22.8	5.3%	\$17.4	3.8%	\$21.4	4.5%
Income Tax	\$2,338.5	\$2,350.1	\$2,441.3	\$2,542.5	\$11.6	0.5%	\$91.2	3.9%	\$101.2	4.1%
State Education Tax	\$1,771.1	\$1,790.1	\$1,843.0	\$1,900.0	\$19.0	1.1%	\$52.9	3.0%	\$57.0	3.1%
Lottery/Casinos	\$845.0	\$868.0	\$880.0	\$900.0	\$23.0	2.7%	\$12.0	1.4%	\$20.0	2.3%
Tobacco Tax	\$371.9	\$366.7	\$357.6	\$349.6	-\$5.2	-1.4%	-\$9.1	-2.5%	-\$8.0	-2.2%
Real Estate Transfer Tax	\$202.3	\$217.4	\$230.0	\$245.0	\$15.1	7.5%	\$12.6	5.8%	\$15.0	6.5%
Other Taxes	\$102.3	\$103.1	\$105.1	\$107.1	\$0.8	0.8%	\$2.0	1.9%	\$2.0	1.9%
SAF Net Revenue	\$11,269.7	\$11,438.2	\$11,807.4	\$12,243.6	\$168.5	1.5%	\$369.2	3.2%	\$436.3	3.7%

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 2013-14 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2012-13 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)

	Final FY 2012-13	Estimated FY 2013-14
General Fund/General Purpose	\$1,186.6	\$311.4
School Aid Fund	\$292.0	\$235.8
Budget Stabilization Fund	\$508.6	\$588.7

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 2015-16.

The BSF ending fund balance for FY 2012-13 was \$508.6 million. A deposit of \$75.0 million is appropriated for FY 2013-14. The BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates a pay-in of \$10.2 million for FY 2014-15. The year-end balance is estimated at \$588.7 million for FY 2013-14, \$607.8 million for FY 2014-15, and \$620.0 million for FY 2015-16.

Table 6
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
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**	\$75.0*	\$0.0	\$5.1	\$588.7
2014-15**	\$10.2	\$0.0	\$8.8	\$607.8
2015-16**	\$0.0	\$0.0	\$12.2	\$620.0

* Appropriated amount

** HFA estimates

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.

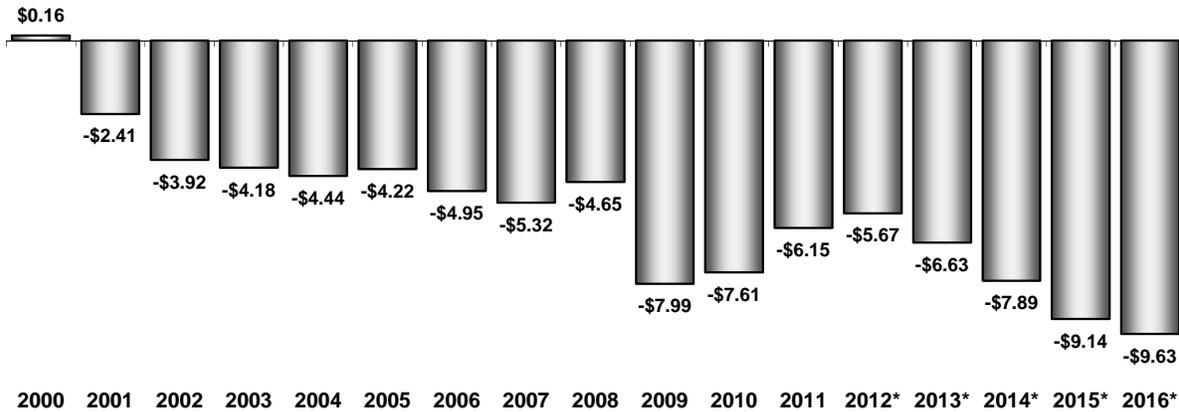
As shown in **Table 7**, **Figure 8**, and **Table 8**, the FY 2012-13 revenue limit calculation is expected to show state revenue collections at \$6.63 billion below the revenue limit. For FY 2013-14, state revenue is estimated to be below the limit by \$7.89 billion. For FY 2014-15 and FY 2015-16, state revenue is estimated to be even further below the revenue limit – by \$9.14 billion, and \$9.63 billion, respectively.

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

Revenue Limit Calculations	Final FY 2012-13	Estimated FY 2013-14	Estimated FY 2014-15	Estimated FY 2015-16
Personal Income				
Calendar Year	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>
Amount	\$365,753	\$378,443	\$401,643	\$418,448
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$34,709.9	\$35,914.2	\$38,115.9	\$39,710.7
Total Revenue Subject to Revenue Limit	\$28,081.3	\$28,025.1	\$28,979.3	\$30,077.0
Amount Under (Over) State Revenue Limit	\$6,628.7	\$7,889.1	\$9,136.6	\$9,633.7

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	(\$6.15)
2011-12*	(\$5.67)
2012-13*	(\$6.63)
2013-14*	(\$7.89)
2014-15*	(\$9.14)
2015-16*	(\$9.63)

**HFA estimate*



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