

**ECONOMIC OUTLOOK  
AND  
REVENUE ESTIMATES  
FOR  
MICHIGAN**

**FY 2018-19  
THROUGH  
FY 2020-21**



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# FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2018 through CY 2021. It also presents preliminary General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2017-18, revised revenue estimates for FY 2018-19 and FY 2019-20, and initial estimates for FY 2020-21. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 11, 2019, 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 2021, 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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# ECONOMIC OVERVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2018-19 through FY 2020-21. In developing the U.S. and Michigan forecasts, key macroeconomic data such as employment, interest rates, business investment, light vehicle sales, international trade, oil prices, and consumer spending are examined with the goal of combining these variables along with others into an overall snapshot of the U.S. economy for the past year, current year, and two subsequent years. The key segments for Michigan include the automotive sector, the labor force and employment, wage and salary income, and inflation rates.

After growing at an annualized 4.2% rate during the second quarter of 2018, the national economy has been improving at a slower pace after a 3.4% real Gross Domestic Product (GDP) growth rate in the third quarter and a projected 2.8% rate in the fourth quarter. The housing sector continues to expand and light motor vehicle sales reached 17.1 million units in CY 2018, the fourth straight year sales have topped 17 million. However, wage and salary employment is projected to increase 1.6% in CY 2018 and slow in subsequent years as the labor market tightens.

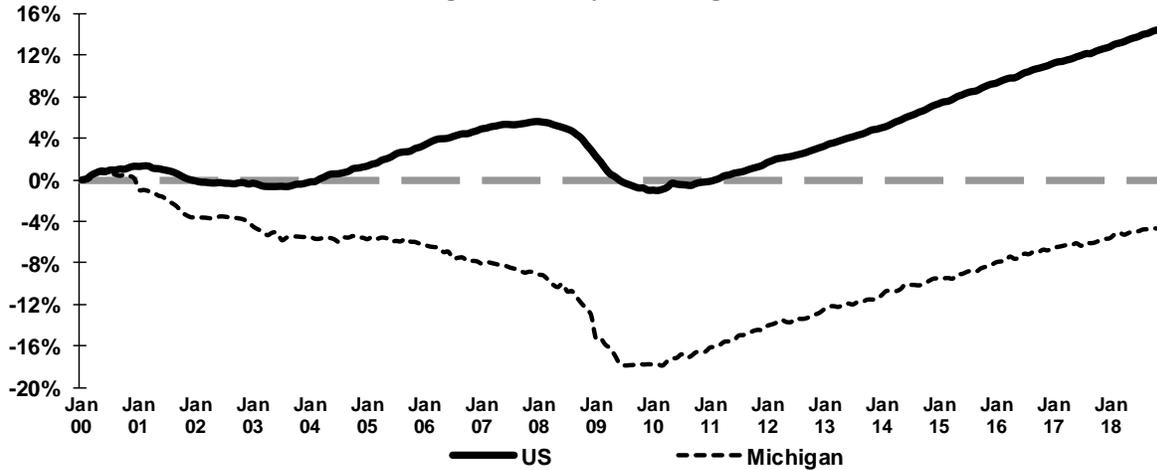
Real GDP growth is expected to increase from an estimated 2.9% rate in CY 2018 to 2.6% in CY 2019, although economic growth is projected to continue declining in CY 2020 and CY 2021.

Michigan's economy and state revenue are significantly affected by the strength of the national economy. Through November, Michigan's wage and salary employment has grown by about 46,400 jobs in 2018, roughly the same increase as the first eleven months of 2017.

## **Total Wage and Salary Employment**

**Figure 1** shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through November 2018.

**Figure 1**  
**Total Wage and Salary Employment**  
 Percent Change From January 2000 Through November 2018



***U.S. Wage and Salary Employment***

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

The ensuing recession saw 25 continuous 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 CY 2010. During a 43-month span of job growth that began in October 2010, U.S. wage and salary employment surpassed the pre-recession peak, and as of November 2017, the national economy has experienced 98 consecutive months of job growth. During this span, job growth averaged more than 201,000 per month, and as of November 2018, total employment was roughly 15.7% higher than in January 2000.

***Michigan Wage and Salary 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 CY 2008 and CY 2009, more than 400,000 additional jobs were lost, and although employment increased somewhat in CY 2010, only about 56,000 jobs were added. During CY 2011, 97,000 jobs were added, before employment increases slowed to about 77,000 during both CY 2012 and CY 2013. Following a strong gain of 91,900 jobs in CY 2014, non-farm employment grew by 58,600 in CY 2015, 65,500 in CY 2016, and 50,800 in CY 2017. Job growth has slowed over the first 11 months of

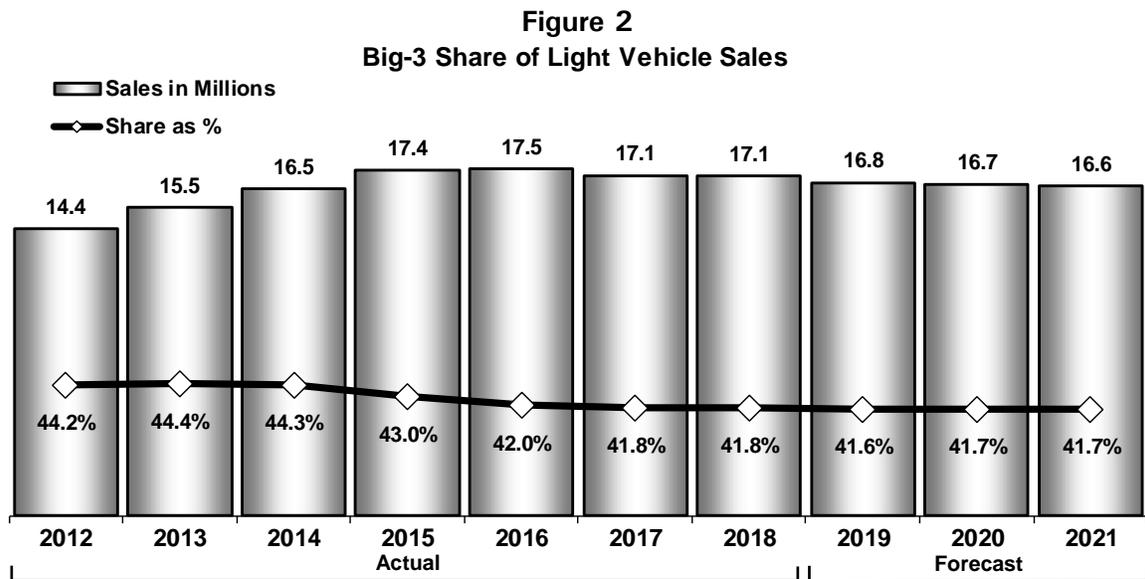
2018 as only 46,400 new jobs have been added. However, despite the employment increases of the past several years, there are still about 250,200 fewer workers than in January 2000.

**U.S. and Michigan Motor Vehicle Industry**

Light motor vehicle sales totaled 17.1 million units in CY 2018, a decline of 0.3% from the 17.14 million vehicles sold in CY 2017. Light motor vehicle sales are forecast to drop back to 16.8 million units in CY 2019, and continue slowing to 16.7 million units in CY 2020 and 16.6 million units in CY 2021.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years. As shown in **Figure 2**, the market share of the Big-3 auto manufacturers hovered around 41.8% in CY 2018 and is expected to remain essentially flat near 41.7% throughout the forecast horizon.

The level and composition of light motor vehicle sales as well as the extent to which the domestic nameplates can retain market share will have a direct impact on Michigan’s economy. In CY 2018, the Big-3 is expected to sell just over 7.15 million vehicles, which would translate to a 0.2% decrease from CY 2017. It is expected that the Big-3 will sell approximately 7.0 million vehicles in CY 2019 and CY 2020 before dipping to 6.9 million in CY 2021.



**U.S. Forecast Highlights**

Real GDP growth is forecast to increase 2.6% in CY 2019. It is forecast to increase 1.8% in CY 2020, and grow 1.4% in CY 2021.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.3% in CY 2019, 2.1% in CY 2020, and 2.3% in CY 2021.

Light vehicle sales of 17.1 million units are expected in CY 2018, but are forecast to tail off to 16.8 million units in CY 2019, 16.7 million units in CY 2020, and 16.6 million units in CY 2021. The import share of light vehicles is forecast to increase from 23.7% in CY 2019 to 24.8% by the end of CY 2021.

Wage and salary employment growth is expected to be 1.6% in CY 2018; it is forecast to increase 1.3% in CY 2019, 1.0% in CY 2020, and 0.6% in CY 2021 as the labor force tightens.

The national unemployment rate is expected to be 3.9% in CY 2018; it is forecast to decline to 3.5% in CY 2019 and then tick upward to 3.6% in CY 2020 and 3.7% in CY 2021 as employment growth slows.

Interest rates on three-month T-bills are expected to increase from 2.0% in CY 2018 to 2.6% in CY 2019 as the Federal Reserve continues to raise key interest rate targets. The rate is projected to increase to 2.9% in CY 2020 and remain at 2.9% in CY 2021.

### **Michigan Forecast Highlights**

Michigan wage and salary employment growth is expected to be 1.3% in CY 2018, and is expected to slow to 0.8% in CY 2019, 0.7% in CY 2020, and 0.4% CY 2021.

Michigan's unemployment rate is expected to be 4.3% in CY 2018; it is forecast to decrease to 3.8% in CY 2019 and remain at that level throughout the forecast horizon.

Michigan personal income is expected to increase by 3.8% in CY 2018 to 4.2% in CY 2019 before slowing to 4.1% in CY 2020 and 3.9% in CY 2021.

Michigan wage and salary income is expected to increase 4.2% in CY 2018; it is forecast to increase 4.1% in CY 2019, 3.9% in CY 2020, and 3.6% in CY 2021.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 1.9% in CY 2019, 2.0% in CY 2020, and 2.1% in CY 2021.

Additional details of the U.S. and Michigan forecasts are presented in **Table 1** on the following page.

**Table 1  
ECONOMIC FORECAST VARIABLES**

	Calendar 2017 Actual	Calendar 2018 Estimated	% Change from Prior Year	Calendar 2019 Estimated	% Change from Prior Year	Calendar 2020 Estimated	% Change from Prior Year	Calendar 2021 Estimated	% Change from Prior Year
<b>United States</b>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$18,050.7	\$18,574.2	2.9%	\$19,057.1	2.6%	\$19,400.1	1.8%	\$19,671.7	1.4%
Implicit Price Deflator GDP (2009 = 100)	107.9	110.4	2.3%	112.8	2.1%	115.4	2.4%	118.1	2.3%
Consumer Price Index (1982-84 = 100)	253.505	258.693	2.0%	264.537	2.3%	270.206	2.1%	276.433	2.3%
Consumer Price Index (FY) (1982-84 = 100)	251.219	255.903	1.9%	261.456	2.2%	267.741	2.4%	273.130	2.0%
Federal Funds Rate Interest Rate (Percent)	1.0%	1.8%		2.6%		3.0%		3.2%	
3-month Treasury Bills Interest Rate (Percent)	0.9%	2.0%		2.6%		2.9%		2.9%	
Aaa Corporate Bonds Interest Rate (Percent)	3.7%	3.9%		4.3%		4.5%		4.6%	
Unemployment Rate (Percent)	4.4%	3.9%		3.5%		3.6%		3.7%	
Wage and Salary Employment (Millions)	146.6	149.0	1.6%	150.9	1.3%	152.4	1.0%	153.3	0.6%
Housing Starts (Thousands of units)	1.208	1.260	4.3%	1.277	1.3%	1.325	3.8%	1.360	2.6%
Light Vehicle Sales (Millions of units)	17.1	17.1	-0.3%	16.8	-1.8%	16.7	-0.6%	16.6	-0.6%
Passenger Car Sales (Millions of units)	6.1	5.3	-13.6%	4.6	-11.8%	4.1	-11.0%	3.6	-11.9%
Light Truck Sales (Millions of units)	11.1	11.8	7.0%	12.2	2.7%	12.6	3.3%	13.0	3.1%
Import Share of Light Vehicles (Percent)	22.6%	23.2%		23.7%		24.3%		24.8%	
Big-3 Share of Light Vehicle Sales (Percent)	41.8%	41.8%		41.6%		41.7%		41.7%	
Personal Income (Billions of current dollars)	\$16,830.9	\$17,571.5	4.4%	\$18,400.2	4.7%	\$19,284.1	4.8%	\$20,172.0	4.6%
Real Disposable Income (Billions of 2009 dollars)	\$13,949.3	\$14,329.2	2.7%	\$14,710.3	2.7%	\$15,092.8	2.6%	\$15,450.0	2.4%
<b>Michigan</b>									
Wage and Salary Employment (Thousands)	4,372.5	4,429.4	1.3%	4,464.8	0.8%	4,496.1	0.7%	4,514.0	0.4%
Transportation Equipment Employment (Thousands)	187.4	187.8	0.2%	191.0	1.7%	190.6	-0.2%	191.1	0.3%
Unemployment Rate (Percent)	4.6%	4.3%		3.8%		3.8%		3.8%	
Personal Income (Millions of current dollars)	\$460,270	\$477,760	3.8%	\$497,826	4.2%	\$518,237	4.1%	\$538,448	3.9%
Real Personal Income (Millions of 1982-84 dollars)	\$202,855	\$205,835	1.5%	\$210,470	2.3%	\$214,804	2.1%	\$218,591	1.8%
Real Disposable Income (Millions of 1982-84 dollars)	\$179,239	\$182,370	1.7%	\$186,446	2.2%	\$190,146	2.0%	\$192,700	1.3%
Wage and Salary Income (Millions of current dollars)	\$231,748	\$241,481	4.2%	\$251,382	4.1%	\$261,186	3.9%	\$270,589	3.6%
Detroit Consumer Price Index (1982-84 = 100)	226.896	232.115	2.3%	236.525	1.9%	241.255	2.0%	246.322	2.1%
Detroit Consumer Price Index (FY) (1982-84 = 100)	225.518	231.441	2.6%	234.995	1.5%	240.129	2.2%	244.988	2.0%





# 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. That said, the outcome of the presidential election has created far more volatility in the underlying factors than in any forecast in recent history. Key risks in this forecast stem predominantly from fiscal policy, monetary policy, and U.S. trade policy.

## **Fiscal Policy**

The federal Tax Cut and Jobs Act of 2017 provided significant fiscal stimulus for 2018 and 2019, which is reflected in the projected GDP growth rates of 2.9% and 2.6% in 2018 and 2019, respectively. However, as the effects of the stimulus wane after 2020, slower GDP growth is anticipated. It remains to be seen if additional stimulus (and increasing federal debt) will be sought, especially as the economy begins to soften during an election year.

## **Monetary Policy**

The Federal Reserve officially raised the federal funds rate three times in 2018, and three more rate increases had been anticipated for 2019 with an additional two increases in 2020. However, in late December 2018, the Fed signaled that only two rate increases in 2019 and one in 2020 would be necessary to constrain inflation at its 2% target. If inflation rates remain near 2% and economic growth tapers off as expected, no additional rate increases in 2019 or 2020 may be necessary. However, should external forces such as increasing oil prices or a weakening dollar emerge, additional federal fund rate increases may be required.

## **Financial Markets**

After reaching an all-time high in September 2018, the S&P 500 tumbled more than 13.5% to 2,531.9 by the end of the year, erasing all gains dating back to October 2017. Contributing factors include uncertainty over future Fed actions, the length and impact of the partial government shutdown, and continued concerns over U.S. trade policy. Steep declines in asset prices can limit consumer spending as wealth evaporates, potentially weakening GDP growth.





# 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 2019 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the May 2018 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

## **Baseline and Net GF/GP and SAF Revenue Estimates**

**Table 2** reports GF/GP and SAF revenue in terms of baseline and net revenue. Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The preliminary total baseline GF/GP and SAF revenue was \$25.5 billion in FY 2017-18. It is forecast to increase 0.5% in FY 2018-19, 2.6% in FY 2019-20, and 2.3% in FY 2020-21.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary total net GF/GP and SAF revenue was \$24.3 billion in FY 2017-18, which would be a 6.0% increase from FY 2016-17. It is forecast to decrease 0.6% in FY 2018-19 before increasing 1.6% in FY 2019-20 and 1.8% in FY 2020-21.

**Table 2** also shows the May 2018 adjusted consensus estimates and the recommended revisions to these estimates for FY 2017-18 through FY 2019-20. The May 2018 adjusted consensus estimates include the May 2018 consensus estimates plus enacted tax changes since May 2018.

Preliminary FY 2017-18 figures suggest an increase of \$567.4 million from the May 2018 adjusted consensus estimates, due in part to much higher than anticipated growth in quarterly and annual individual income tax collections. However, much of this adjustment can be attributed to a one-time phenomenon brought about by the Tax Cut and Jobs Act of 2017, which will not carry forward into subsequent years.

The recommended revision for FY 2018-19 is an increase of \$134.5 million, driven by higher than anticipated sales tax and corporate income tax revenue. Finally, the recommended revision for FY 2019-20 is an increase of \$94.6 million, reflecting the ongoing impact of prior year revenue trends.

## **GF/GP Revenue by Source**

### ***GF/GP Tax Revenue***

Relative to FY 2016-17, GF/GP tax revenue increased 7.7% to \$10,564.8 million in FY 2017-18. Due to strong growth in quarterly and annual payments, individual income tax revenue accruing to the General Fund increased by roughly \$518.6 million, while combined Michigan business taxes were essentially flat. GF/GP tax revenue in FY 2018-19 is estimated to be \$10,290.5 million, a decrease of \$274.3 million, as the expansion of the Homestead Property Tax Credit and the income tax revenue earmark to the Transportation Fund take effect. GF/GP tax revenue will increase by just \$28.2 million to \$10,318.7 million in FY 2019-20. GF/GP tax revenue is estimated to increase 1.4% in FY 2020-21 as income tax revenue rebounds slightly.

### ***Total GF/GP Net Revenue***

Net GF/GP revenue includes non-tax revenue and represents the amount available to be appropriated. Preliminary net GF/GP revenue is expected to be \$10,937.6 million in FY 2017-18. In FY 2018-19 it is forecast to be \$10,617.1 million, a decrease of \$320.5 million, and \$10,655.8 million in FY 2019-20, an increase of \$38.7 million. Net GF/GP revenue is estimated to increase 1.4% in FY 2020-21.

Net GF/GP revenue estimates are reduced by \$438.0 million for FY 2018-19, \$465.9 million for FY 2019-20, and \$491.5 million for FY 2020-21 due to the diversion of use tax revenue for personal property tax reimbursement to local units of government. In addition, \$264.0 million of income tax revenue is diverted to the Michigan Transportation Fund in FY 2018-19 as part of the enacted roads package. An additional \$468.0 million will be diverted in FY 2019-20 along with \$600.0 million in FY 2020-21 and subsequent years.

## **SAF Revenue by Source**

### ***Total Net SAF Revenue***

Preliminary net SAF revenue is anticipated to increase 5.6% to \$13,337.4 million in FY 2017-18. Net SAF revenue is forecast to be \$13,503.4 million in FY 2018-19, an increase of \$166.0 million. Net SAF revenue is estimated to increase 2.6% in FY 2019-20 and 2.2% in FY 2020-21.

**Table 2**  
**HFA JANUARY 2019 REVENUE ESTIMATES FOR FY 2018-19 THROUGH FY 2020-21**  
(Millions of Dollars)

	<u>Preliminary</u> <u>FY 2017-18</u>	<u>HFA Est.</u> <u>FY 2018-19</u>	<u>HFA Est.</u> <u>FY 2019-20</u>	<u>HFA Est.</u> <u>FY 2020-21</u>	<u>FY 2018-19</u> <u>% Change</u>	<u>FY 2019-20</u> <u>% Change</u>	<u>FY 2020-21</u> <u>% Change</u>
<b><u>Baseline</u></b>							
GF/GP	\$12,176.7	\$12,079.5	\$12,417.2	\$12,731.1	-0.8%	2.8%	2.5%
SAF	13,317.8	13,531.8	13,862.9	14,160.8	1.6%	2.4%	2.1%
<b>Total</b>	<b>\$25,494.5</b>	<b>\$25,611.2</b>	<b>\$26,280.1</b>	<b>\$26,891.9</b>	<b>0.5%</b>	<b>2.6%</b>	<b>2.3%</b>
<b><u>Net</u></b>							
GF/GP	\$10,937.6	\$10,617.1	\$10,655.8	\$10,800.7	-2.9%	0.4%	1.4%
SAF	13,337.4	13,503.4	13,858.2	14,162.8	1.2%	2.6%	2.2%
<b>Total</b>	<b>\$24,275.0</b>	<b>\$24,120.4</b>	<b>\$24,514.0</b>	<b>\$24,963.5</b>	<b>-0.6%</b>	<b>1.6%</b>	<b>1.8%</b>
<b><u>May 2018 Adjusted Consensus<sup>1</sup></u></b>							
<b><u>Net</u></b>							
GF/GP	\$10,463.6	\$10,411.5	\$10,518.7				
SAF	13,244.0	13,574.4	13,900.7				
<b>Total</b>	<b>\$23,707.6</b>	<b>\$23,985.9</b>	<b>\$24,419.4</b>				
<b><u>Recommended Revision</u></b>							
<b><u>Net</u></b>							
GF/GP	\$474.0	\$205.6	\$137.1				
SAF	93.4	(71.0)	(42.5)				
<b>Total</b>	<b>\$567.4</b>	<b>\$134.5</b>	<b>\$94.6</b>				

*NOTE: Numbers may not add due to rounding.*

<sup>1</sup> The May 2018 adjusted consensus estimate includes the May 2018 consensus estimate plus enacted tax changes since May 2018.

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

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2018-19		FY 2019-20		FY 2020-21	
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$7,276.2	\$6,969.6	\$6,985.5	\$7,069.9	(\$306.6)	-4.2%	\$15.9	0.2%	\$84.4	1.2%
Sales Tax	1,268.6	1,338.6	1,388.4	1,422.5	70.0	5.5%	49.8	3.7%	34.1	2.5%
Use Tax	753.5	694.7	683.5	669.9	(58.8)	-7.8%	(11.2)	-1.6%	(13.6)	-2.0%
Michigan Business Tax	(641.5)	(607.7)	(691.0)	(657.4)	33.8	-5.3%	(83.3)	13.7%	33.6	-4.9%
Corporate Income Tax	1,033.8	1,085.0	1,128.9	1,108.7	51.2	5.0%	43.9	4.0%	(20.2)	-1.8%
Insurance	393.2	381.5	390.0	399.0	(11.7)	-3.0%	8.5	2.2%	9.0	2.3%
Other GF/GP Taxes	481.0	428.8	433.4	445.5	(52.2)	-10.9%	4.6	1.1%	12.1	2.8%
<b>GF/GP Net Tax Revenue</b>	<b>\$10,564.8</b>	<b>\$10,290.5</b>	<b>\$10,318.7</b>	<b>\$10,458.1</b>	<b>(\$274.3)</b>	<b>-2.6%</b>	<b>\$28.2</b>	<b>0.3%</b>	<b>\$139.4</b>	<b>1.4%</b>
Non-Tax Revenue	372.8	326.6	337.1	342.6	(46.2)	-12.4%	10.5	3.2%	5.5	1.6%
<b>Total GF/GP Net Revenue</b>	<b>\$10,937.6</b>	<b>\$10,617.1</b>	<b>\$10,655.8</b>	<b>\$10,800.7</b>	<b>(\$320.5)</b>	<b>-2.9%</b>	<b>\$38.7</b>	<b>0.4%</b>	<b>\$144.9</b>	<b>1.4%</b>

*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)

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2018-19		FY 2019-20		FY 2020-21	
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Sales Tax	\$5,882.4	\$6,190.5	\$6,417.1	\$6,581.7	\$308.1	5.2%	\$226.5	3.7%	\$164.6	2.6%
Use Tax	669.3	575.3	583.6	589.6	(94.0)	-14.0%	8.3	1.4%	6.0	1.0%
Income Tax	2,890.0	2,794.1	2,844.6	2,913.2	(95.9)	-3.3%	50.5	1.8%	68.6	2.4%
State Education Tax	1,987.9	2,064.8	2,125.3	2,185.7	76.9	3.9%	60.5	2.9%	60.4	2.8%
Lottery/Casinos	1,095.3	1,056.0	1,062.0	1,068.0	(39.3)	-3.6%	6.0	0.6%	6.0	0.6%
Tobacco Tax	343.8	340.0	334.6	328.1	(3.8)	-1.1%	(5.5)	-1.6%	(6.5)	-1.9%
Real Estate Transfer Tax	350.3	358.1	364.5	368.0	7.8	2.2%	6.4	1.8%	3.5	1.0%
Other Taxes	118.4	124.5	126.5	128.5	6.1	5.2%	2.0	1.6%	2.0	1.6%
<b>SAF Net Revenue</b>	<b>\$13,337.4</b>	<b>\$13,503.4</b>	<b>\$13,858.2</b>	<b>\$14,162.8</b>	<b>\$166.0</b>	<b>1.2%</b>	<b>\$354.8</b>	<b>2.6%</b>	<b>\$304.6</b>	<b>2.2%</b>

*NOTE: Numbers may not add due to rounding.*

### **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 5** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2020-21.

The BSF ending fund balance at the end of FY 2017-18 was \$1,006.0 million, and a \$100.0 million appropriation has been made for FY 2018-19. In addition, 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35.

The statutory 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 \$35.0 million for FY 2019-20 and \$16.0 million for FY 2020-21. However, because a transfer to the BSF (other than the required \$17.5 million already identified) must be appropriated, the calculated pay-ins are not assumed.

After adjusting for the required \$17.5 million deposits and estimating interest earnings, the year-end balance is estimated at \$1,149.8 million for FY 2018-19, \$1,197.9 million for FY 2019-20, and \$1,247.7 million for FY 2020-21.

**Table 5**  
**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	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.5	\$0.0	\$13.5	\$1,006.0
2018-19*	\$117.5	\$0.0	\$26.3	\$1,149.8
2019-20*	\$17.5	\$0.0	\$30.6	\$1,197.9
2020-21*	\$17.5	\$0.0	\$32.3	\$1,247.7

\* 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 a 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.

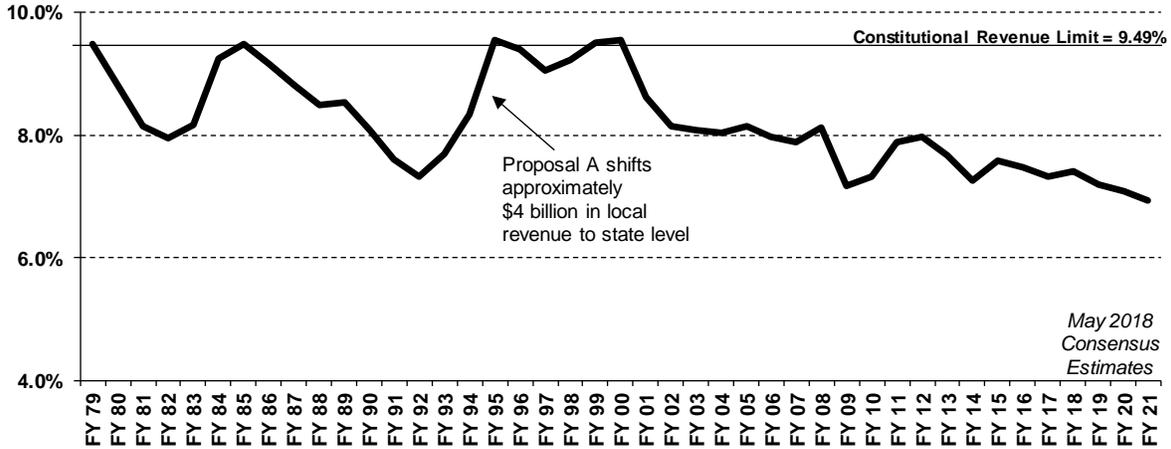
As shown in **Table 6** and **Figure 3**, the FY 2017-18 revenue limit calculation is expected to show state revenue collections at \$9.3 billion below the revenue limit. For FY 2018-19, state revenue is estimated to be below the limit by \$10.6 billion. For FY 2019-20 and FY 2020-21, state revenue is estimated to remain well below the revenue limit – by \$11.4 billion and \$12.7 billion, respectively.

**Table 6**  
**COMPLIANCE WITH THE STATE REVENUE LIMIT**  
(Millions of Dollars)

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2017-18</u>	<u>Estimated FY 2018-19</u>	<u>Estimated FY 2019-20</u>	<u>Estimated FY 2020-21</u>
Personal Income				
Calendar Year	<u>CY 2016</u>	<u>CY 2017</u>	<u>CY 2018</u>	<u>CY 2019</u>
Amount	\$444,532	\$460,270	\$477,760	\$497,826
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
<b>State Revenue Limit</b>	<b>\$42,186.1</b>	<b>\$43,679.6</b>	<b>\$45,339.4</b>	<b>\$47,243.7</b>
Total Revenue Subject to Revenue Limit	\$32,906.0	\$33,120.3	\$33,903.8	\$34,518.4
<b>Amount Under (Over) State Revenue Limit</b>	<b>\$9,280.0</b>	<b>\$10,559.4</b>	<b>\$11,435.6</b>	<b>\$12,725.3</b>

*NOTE: Numbers may not add due to rounding.*

**Figure 3**  
**Constitutional Revenue Limit**  
 Total State Tax and Fee Revenue as Percentage of Personal Income



**HFA Estimates of Year-End Balances**

**Table 7** reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2017-18 estimates are based on year-to-date appropriations and HFA revenue and K-12 cost estimates. Preliminary FY 2017-18 figures are included.

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

**Table 7**  
**YEAR-END UNRESERVED BALANCE ESTIMATES**  
 (Millions of Dollars)

	<u>Preliminary FY 2017-18</u>	<u>Estimated FY 2018-19</u>
General Fund/General Purpose	\$664.3	\$273.9
School Aid Fund	\$371.5	\$149.5
Budget Stabilization Fund	\$1,006.0	\$1,149.8

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



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