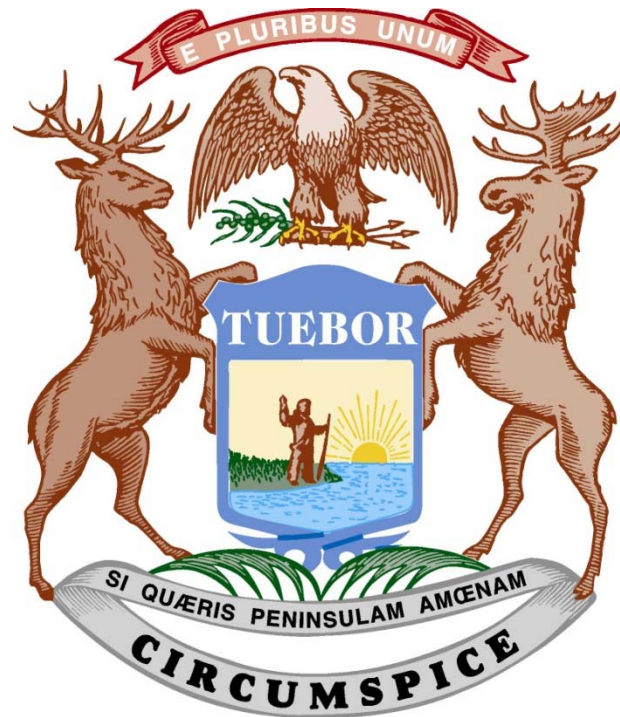


Economic and Revenue Forecasts

FY 2016 * FY 2017 * FY 2018



**Consensus Revenue Estimating Conference
January 14, 2016**

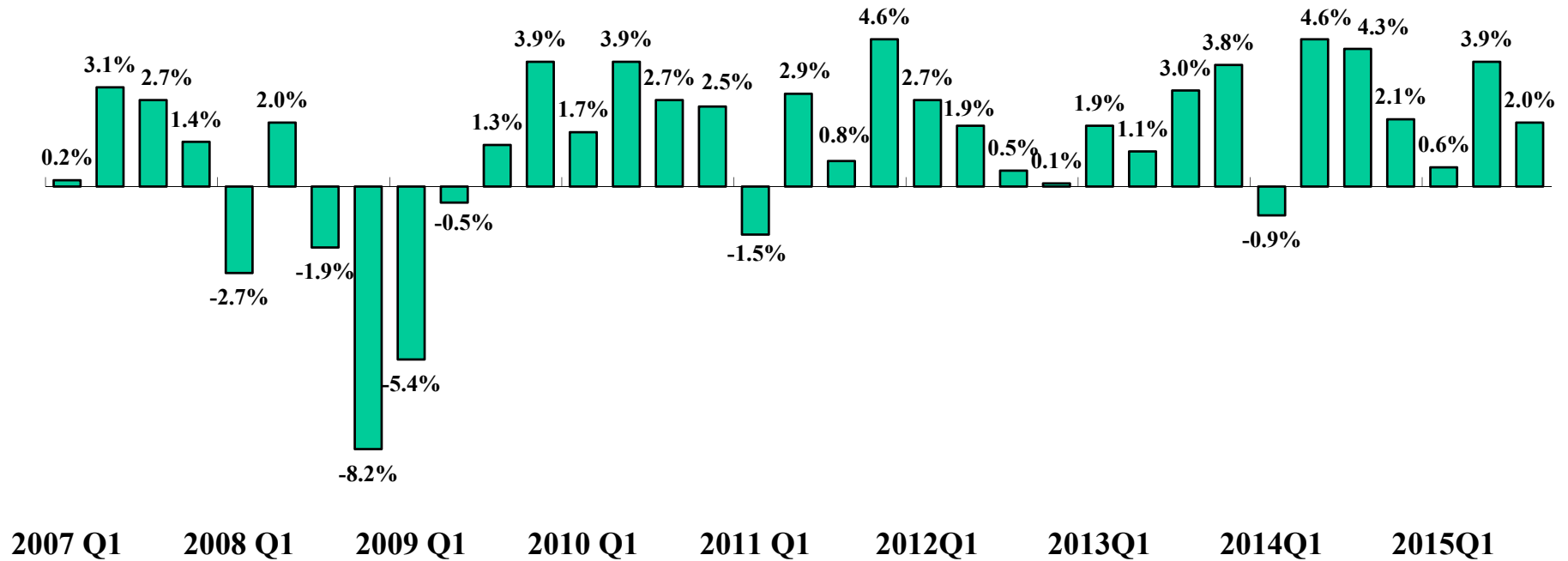
January 2016 Consensus Conference

Outline

- **Economic Forecast**
Jim Stansell, House Fiscal Agency
- **Revenue Estimates for Major Taxes**
David Zin, Senate Fiscal Agency
- **Revenue Estimates by Fund**
Jay Wortley, Department of Treasury

GDP Quarterly Growth Rates

Real GDP Growth



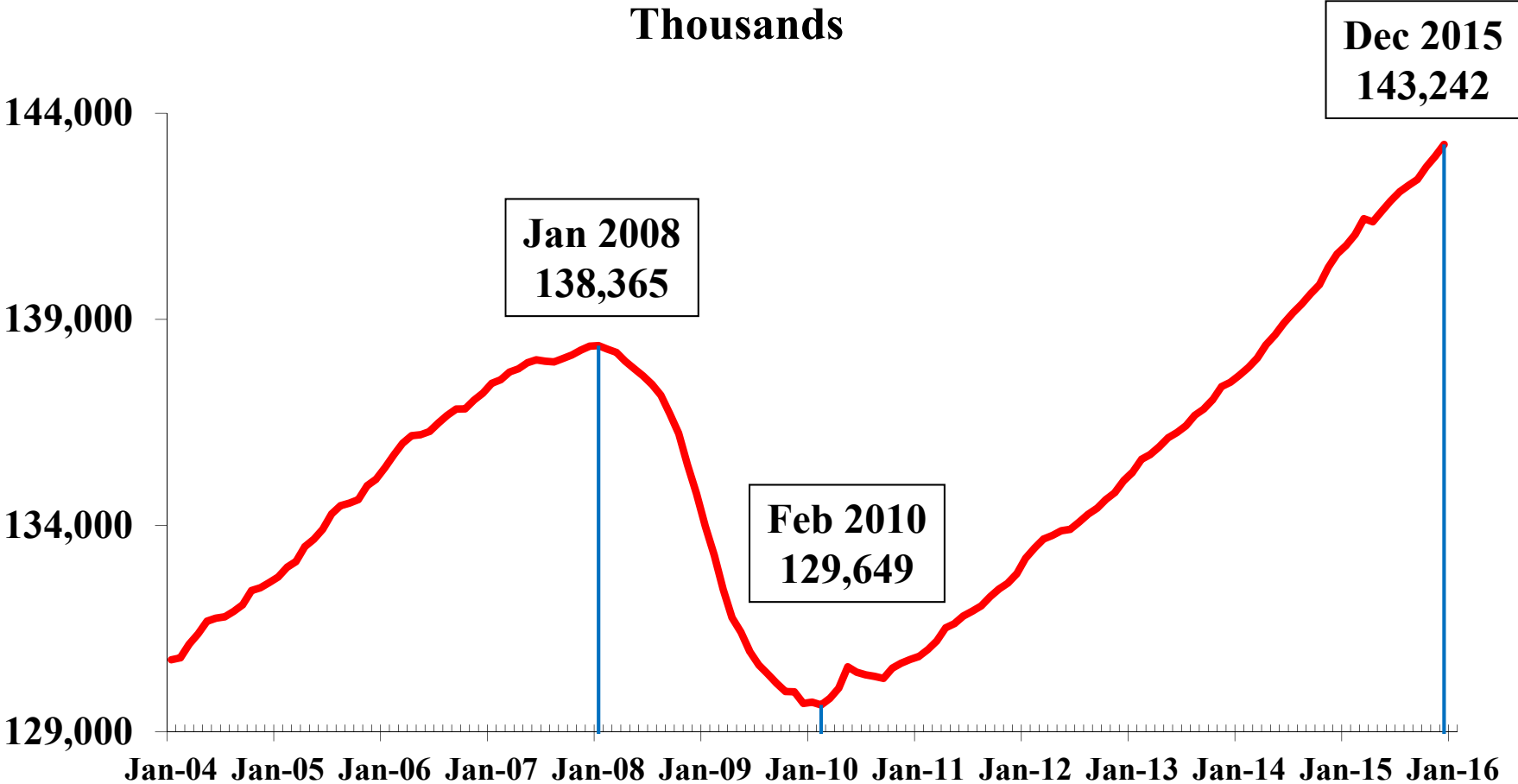
Figures are annualized percent change from preceding quarter in 2005 chained dollars.

Source: Bureau of Economic Analysis.

January 2016 Consensus Conference

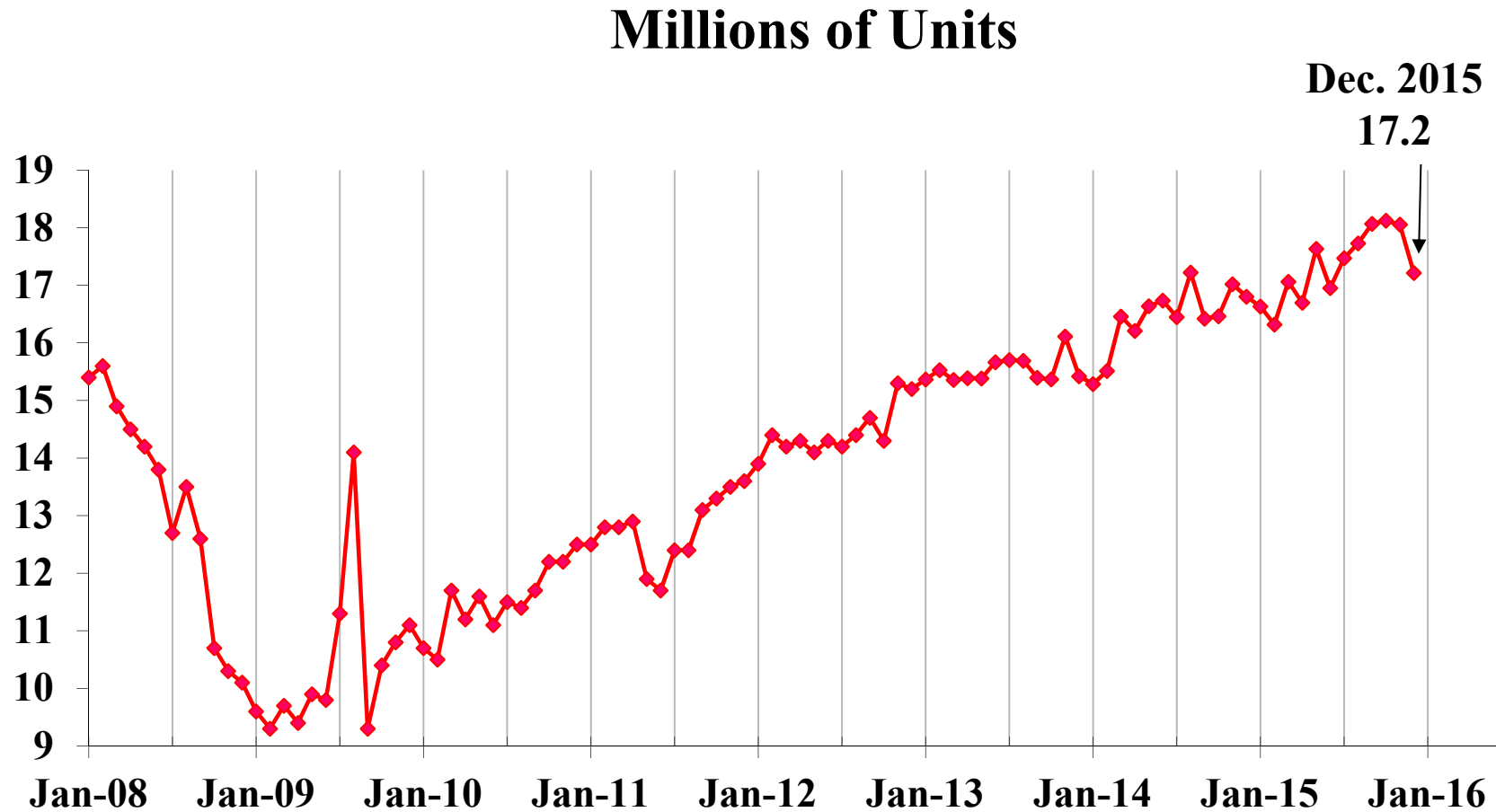
U.S. Employment Increasing

U.S. Payroll Employment Thousands



Source: Bureau of Labor Statistics.
January 2016 Consensus Conference

Light Vehicle Sales at Historically High Levels

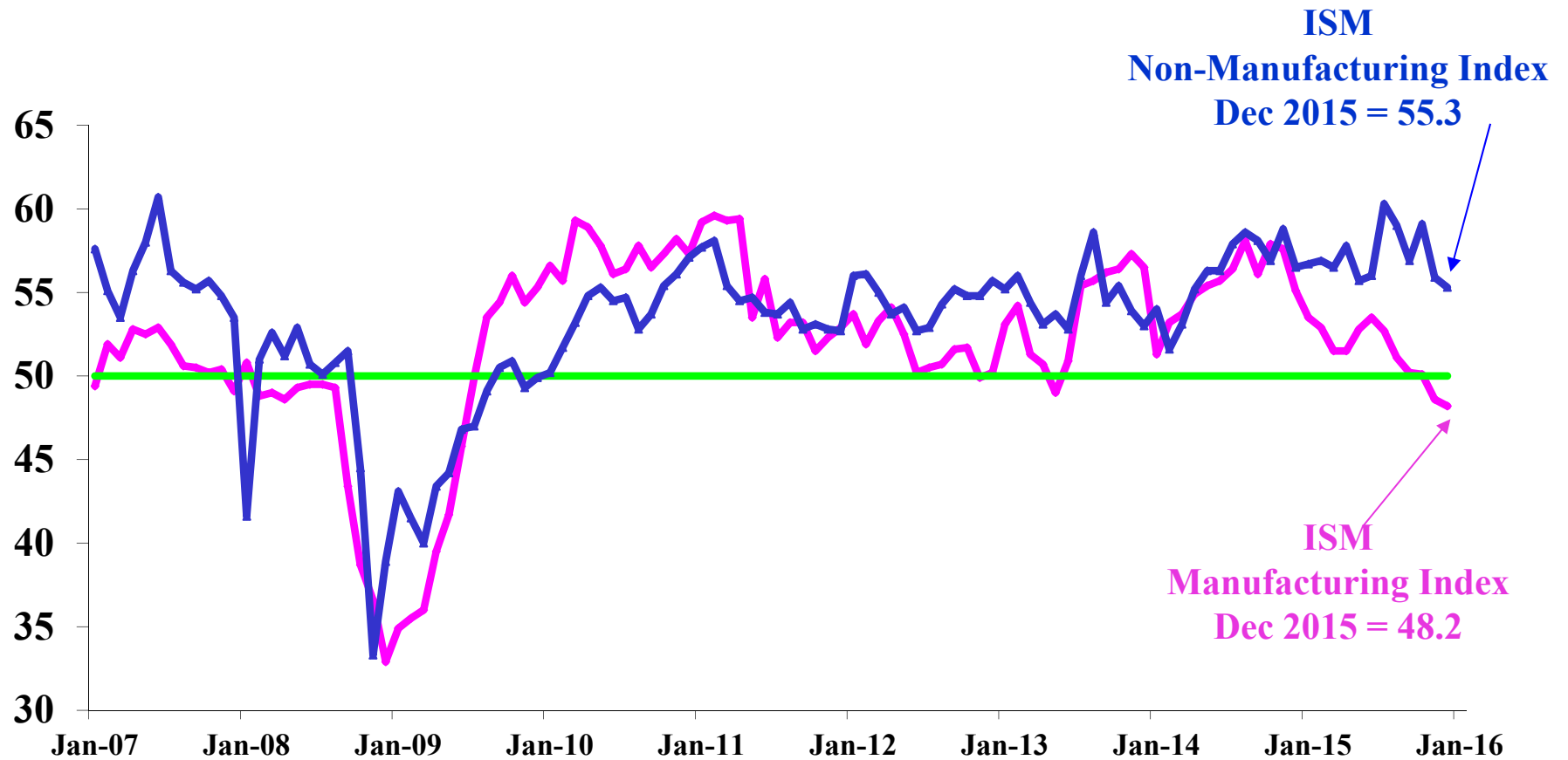


Note: Sales rates are shown as an annual average sales rate.

Source: Bureau of Economic Analysis.

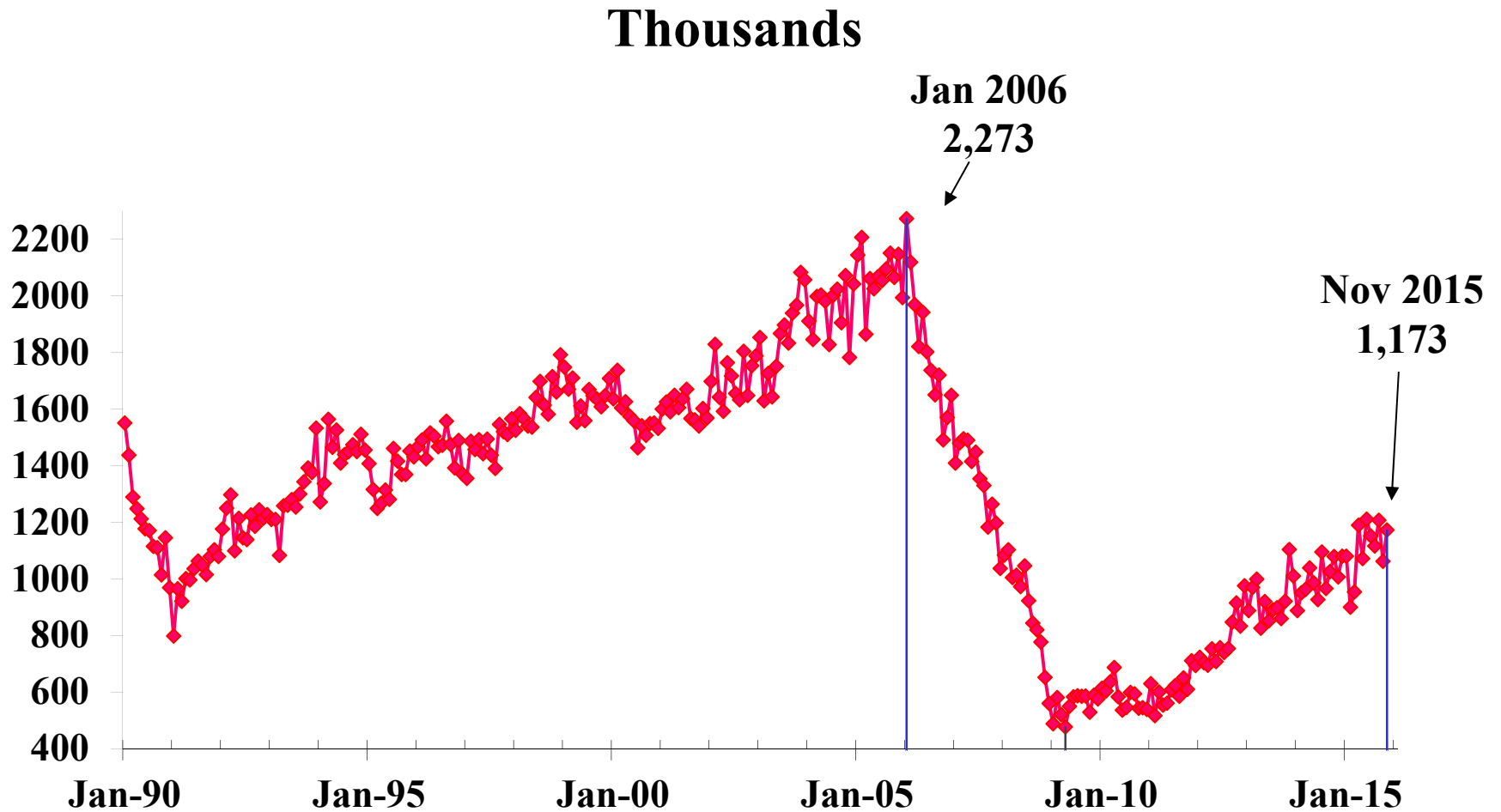
January 2016 Consensus Conference

ISM Indices Show Manufacturing Contracting



Source: Institute for Supply Management.
January 2016 Consensus Conference

Housing Starts Increasing From Historical Lows

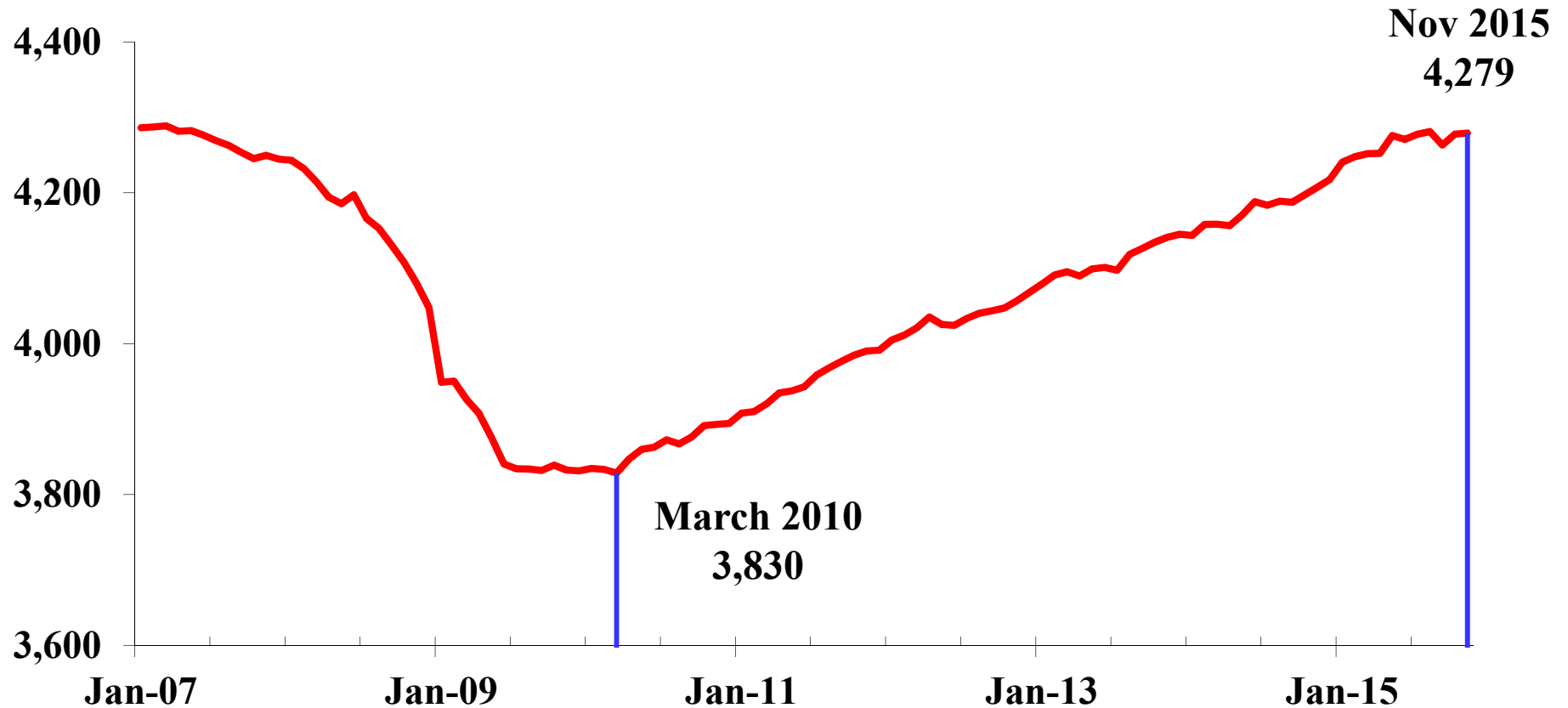


Source: New Privately Owned Housing Units Started, U.S. Department of Commerce.

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Michigan Employment is Increasing

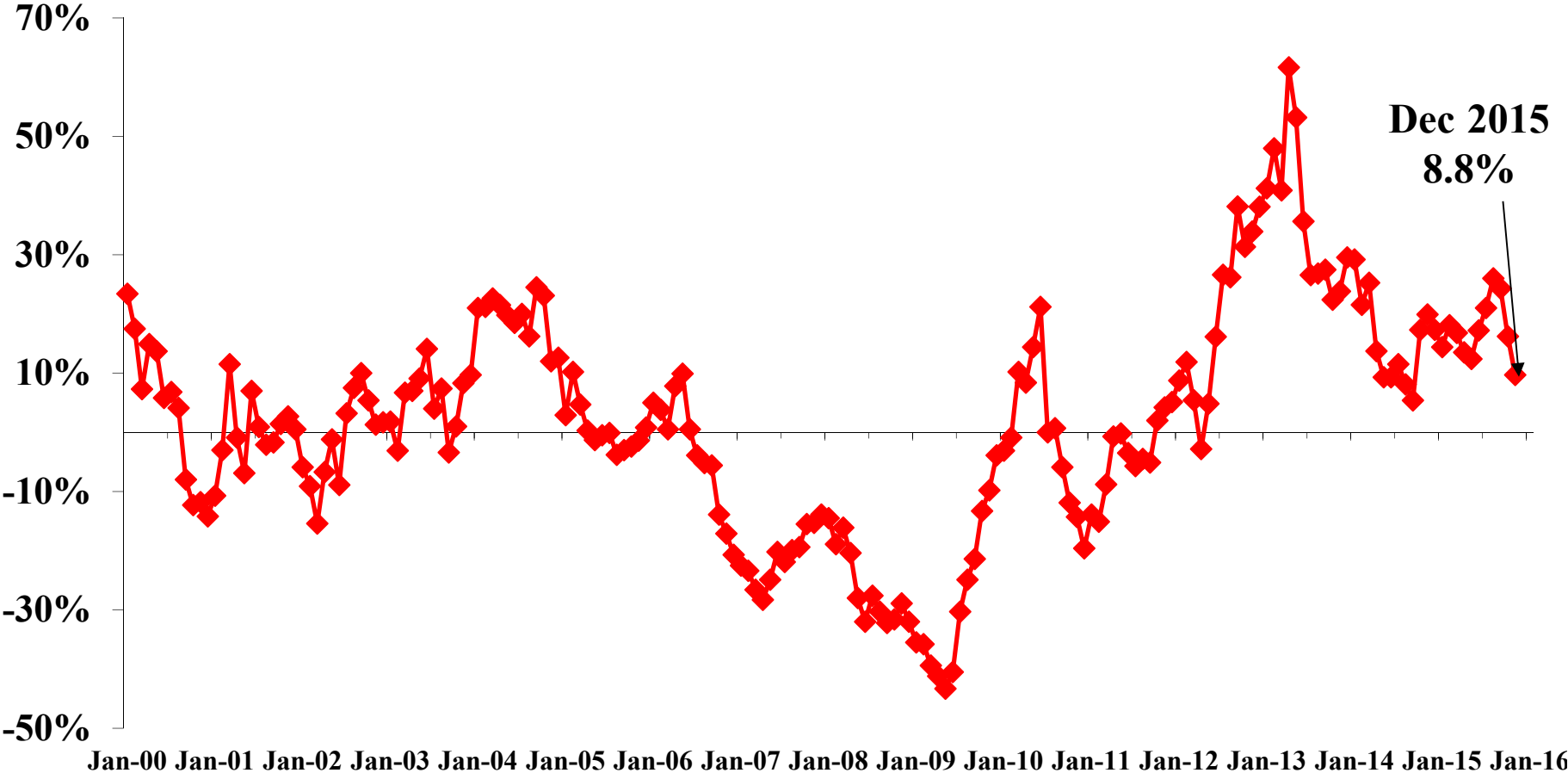
Michigan Payroll Employment Thousands of Jobs



Source: Bureau of Labor Statistics.
January 2016 Consensus Conference

Real Estate Transfer Tax Reflects Increased Activity

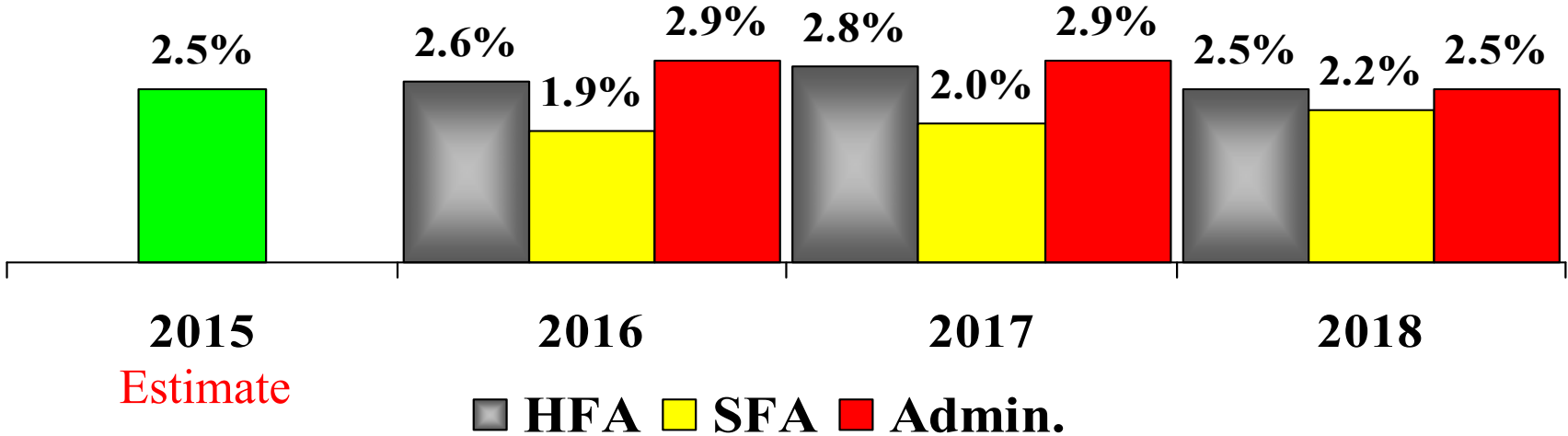
Year-Over-Year Change in 6 Month Trailing Average



Source: Michigan Department of Treasury.
January 2016 Consensus Conference

GDP Forecasts

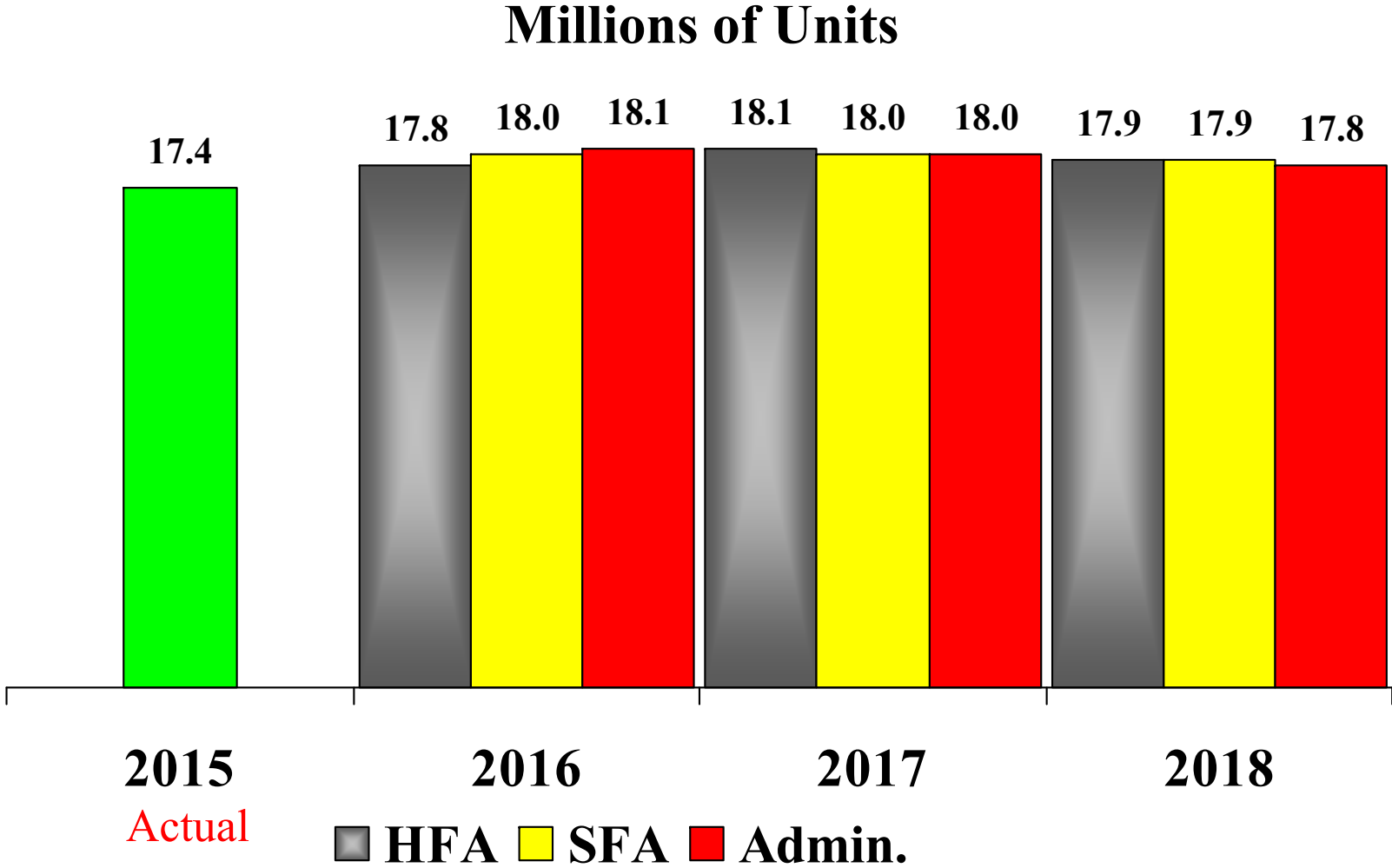
Annual Percent Change



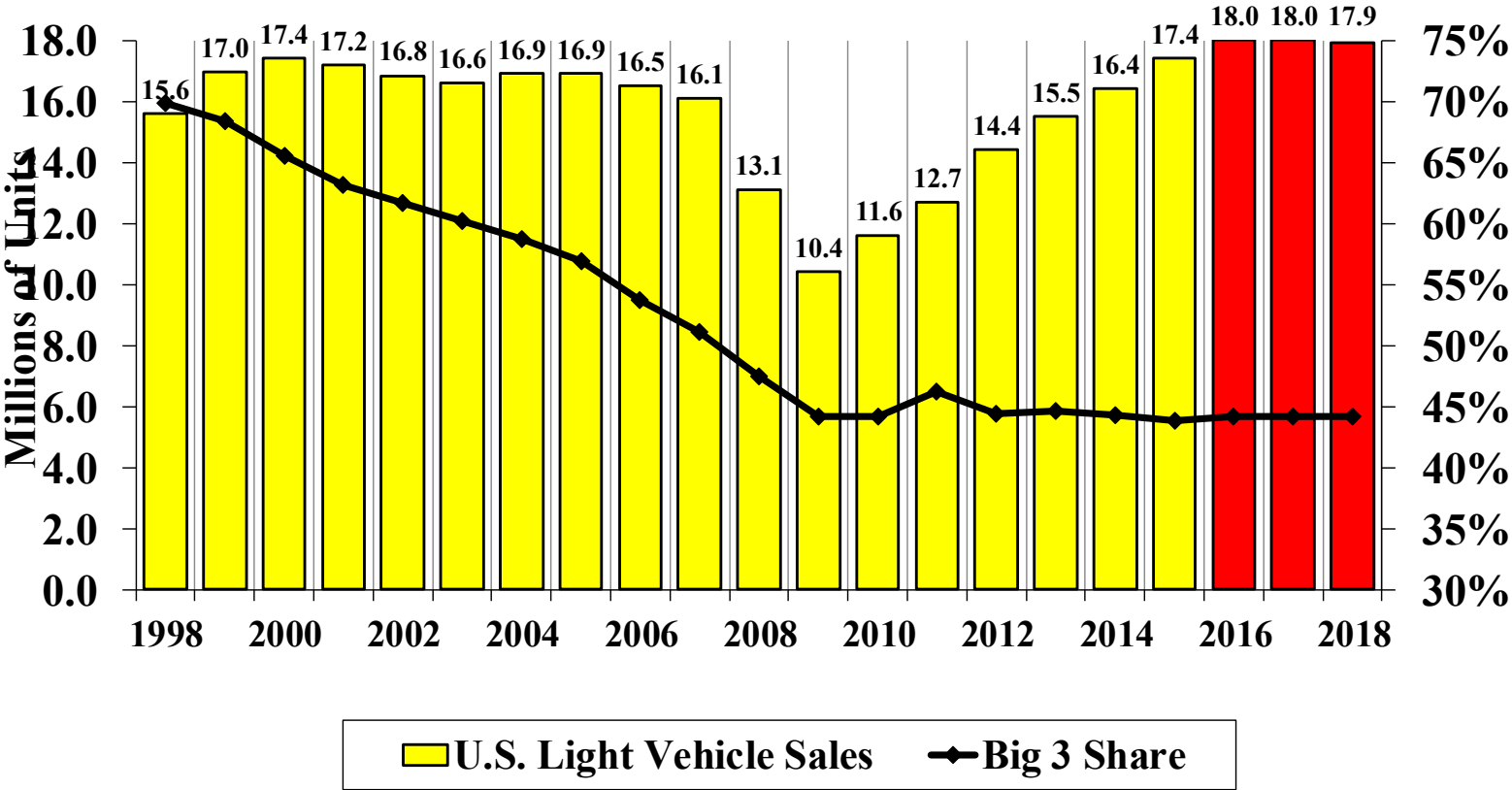
Estimate

■ HFA ■ SFA ■ Admin.

Light Vehicle Sales Forecast



Vehicle Sales Up, Big 3 Market Share Stabilizes

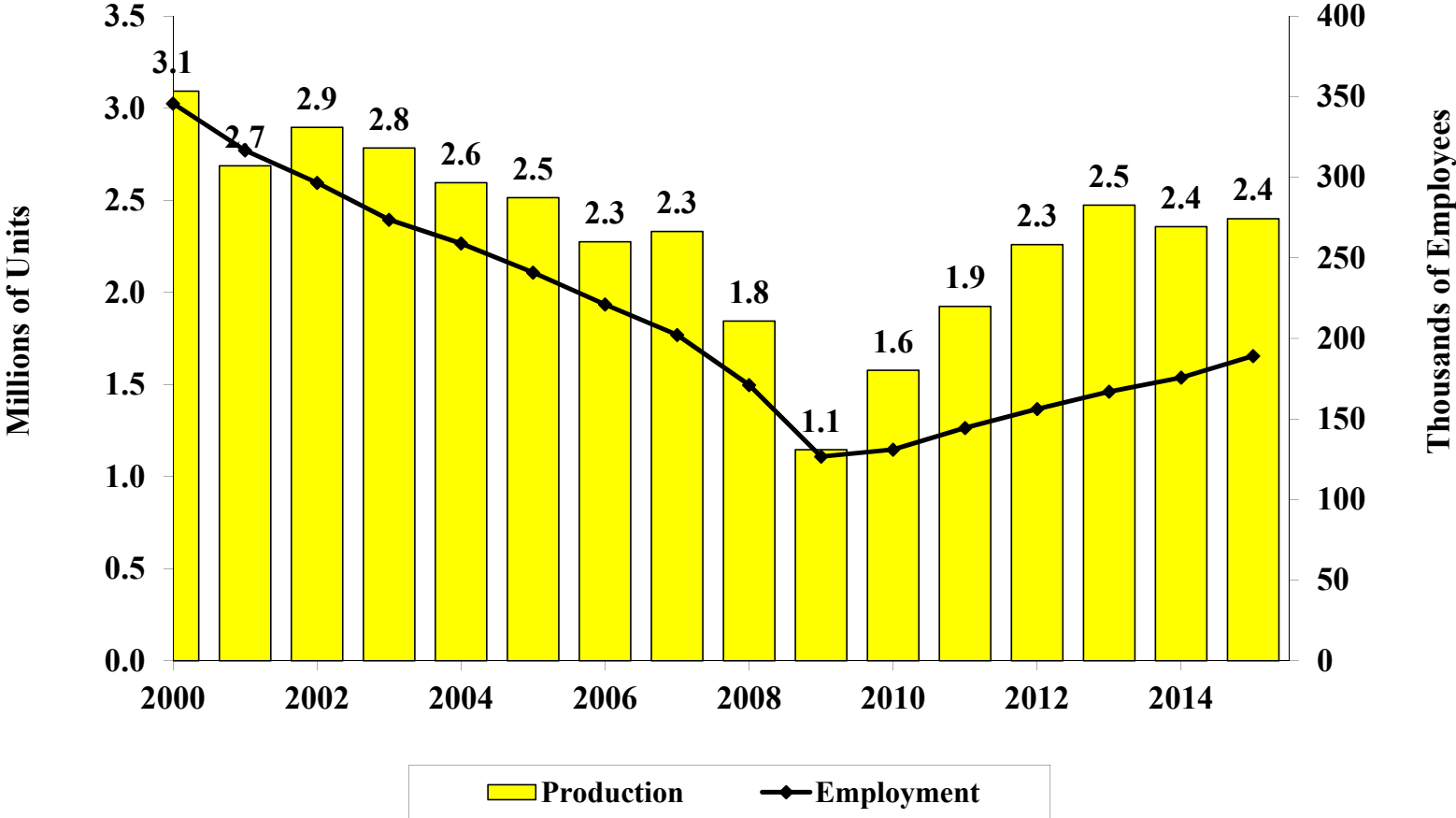


Source: Automotive News.

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Average Agency Forecasts

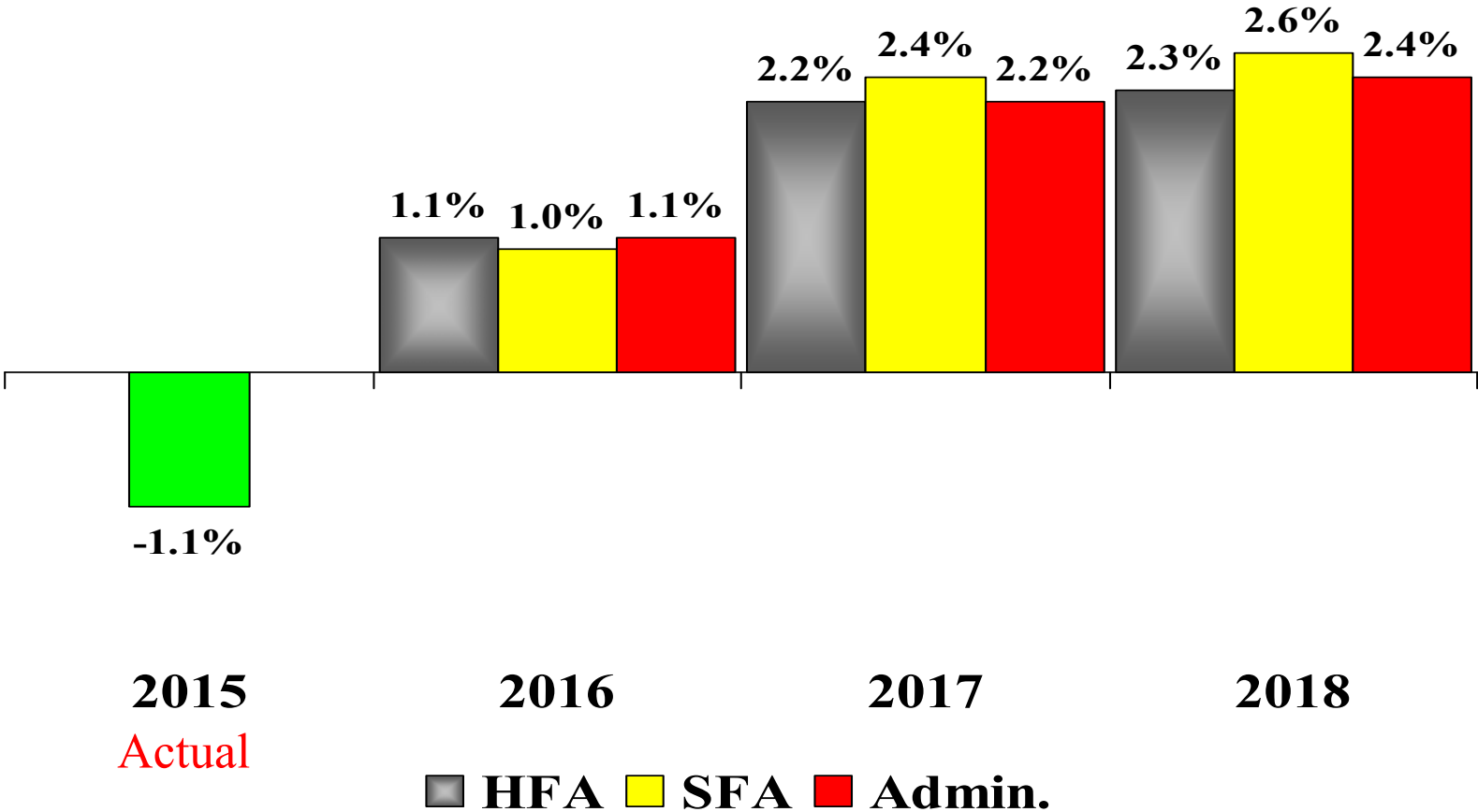
MI Motor Vehicle Production & Employment



Source: Michigan Department of Treasury & U.S. Bureau of Labor Statistics.
January 2016 Consensus Conference

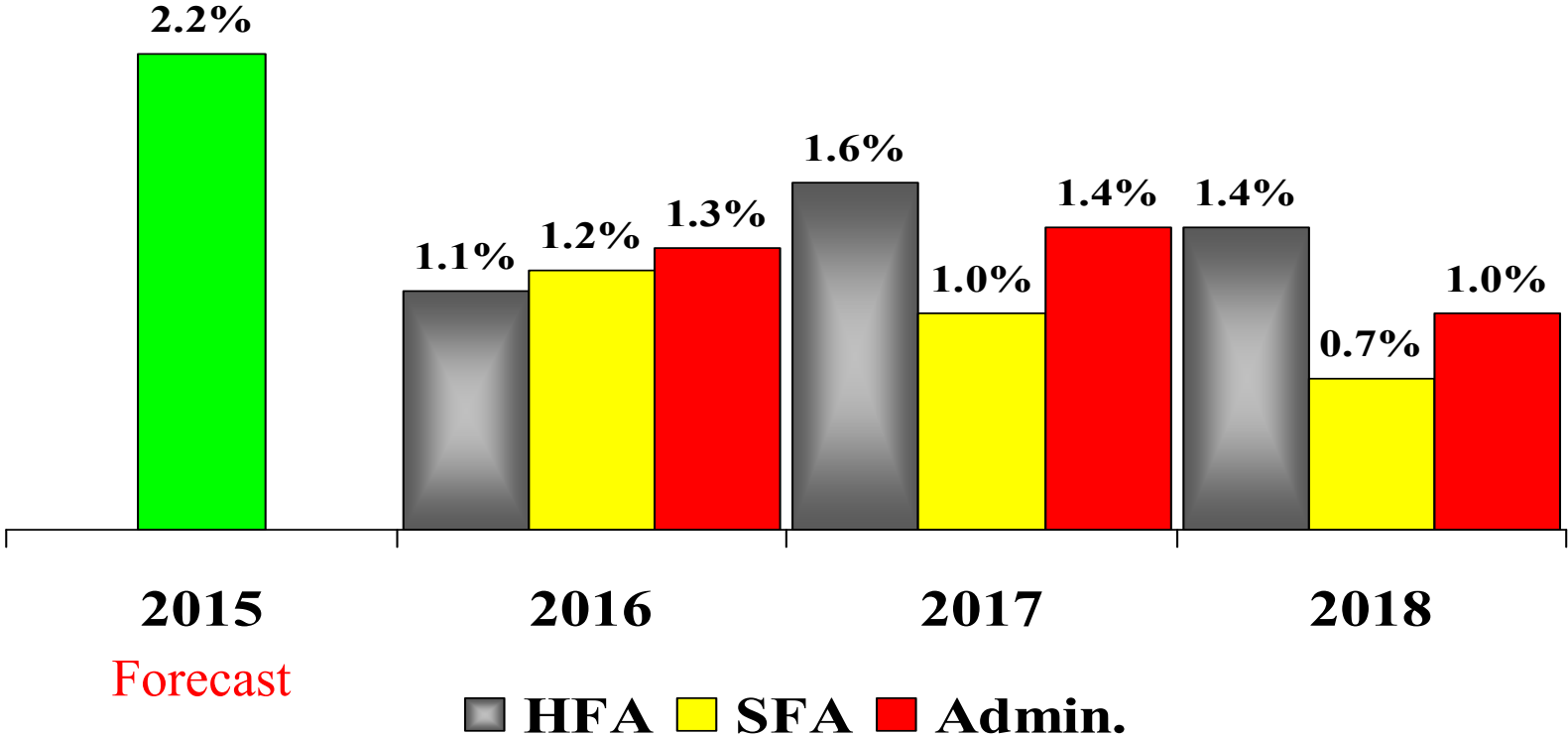
Inflation Remains Low

Detroit Consumer Price Index Fiscal Year Growth



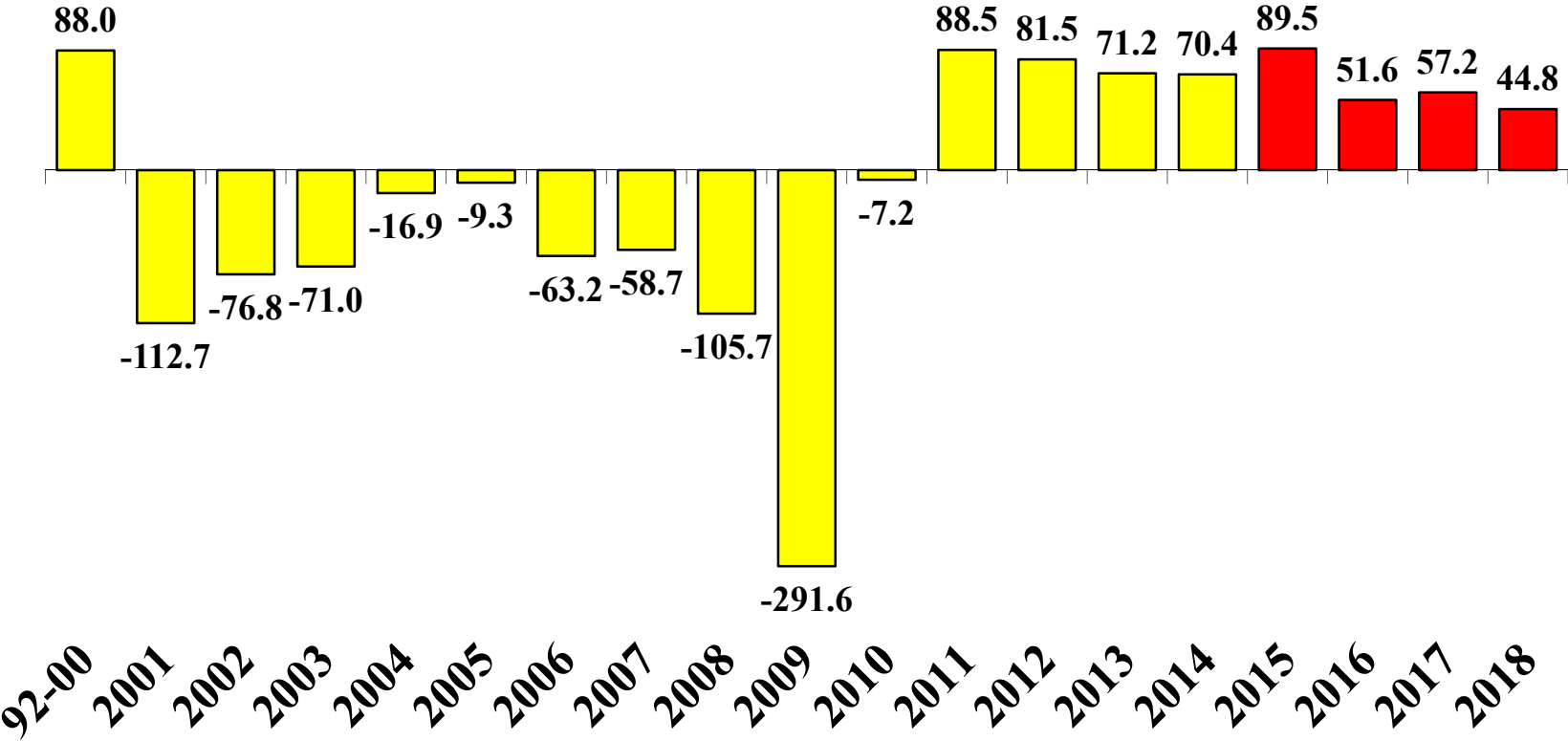
Michigan Wage and Salary Employment

Annual Percent Change



Michigan Job Gains Expected Through 2018

Change in Michigan Wage and Salary Employment Thousands



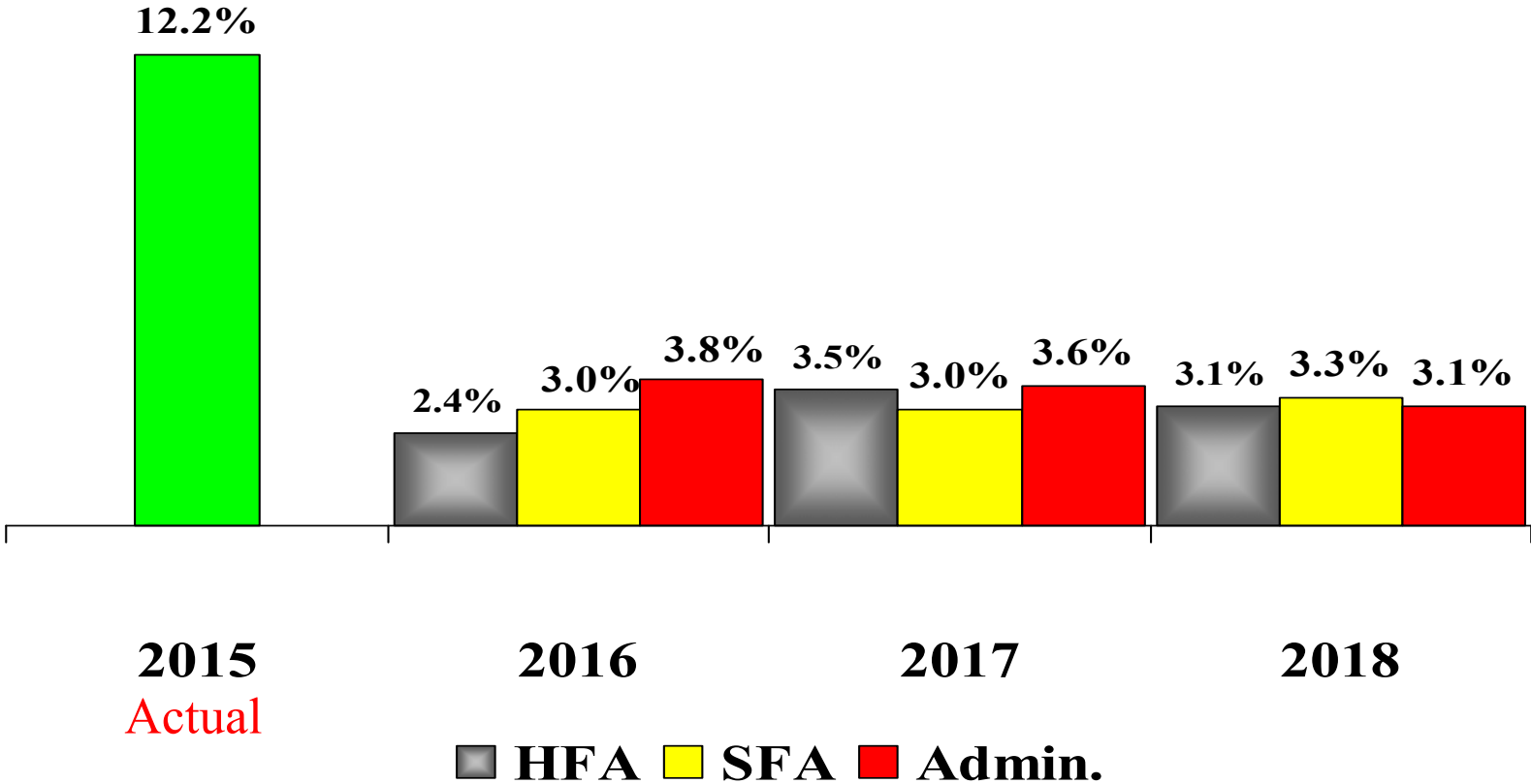
Avg.

Forecast of Major Taxes

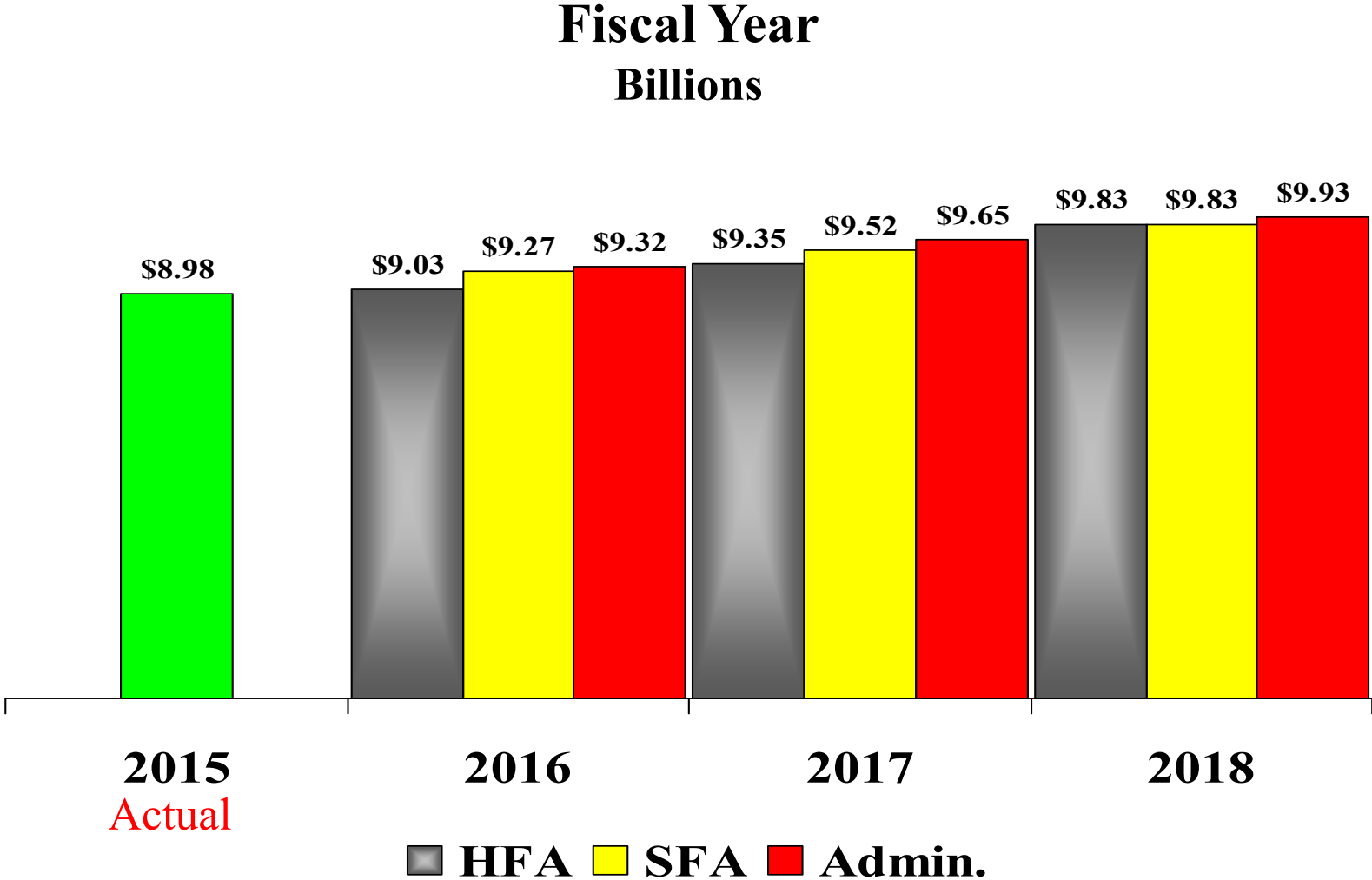
- Individual Income Tax Annual Payments are expected to decline in FY16 from the large one-time capital gains driven increase in FY15.
- Gasoline prices are not expected to drop again like they did in FY15, so sales tax revenue is expected to grow in FY16 - FY17.
- SET is expected to continue to grow, but it will grow at a slower rate in FY16 due to low inflation.
- MBT net refunds are expected to peak in FY16 and CIT is expected to grow through FY18.

Baseline Income Tax Growth

Fiscal Year Growth

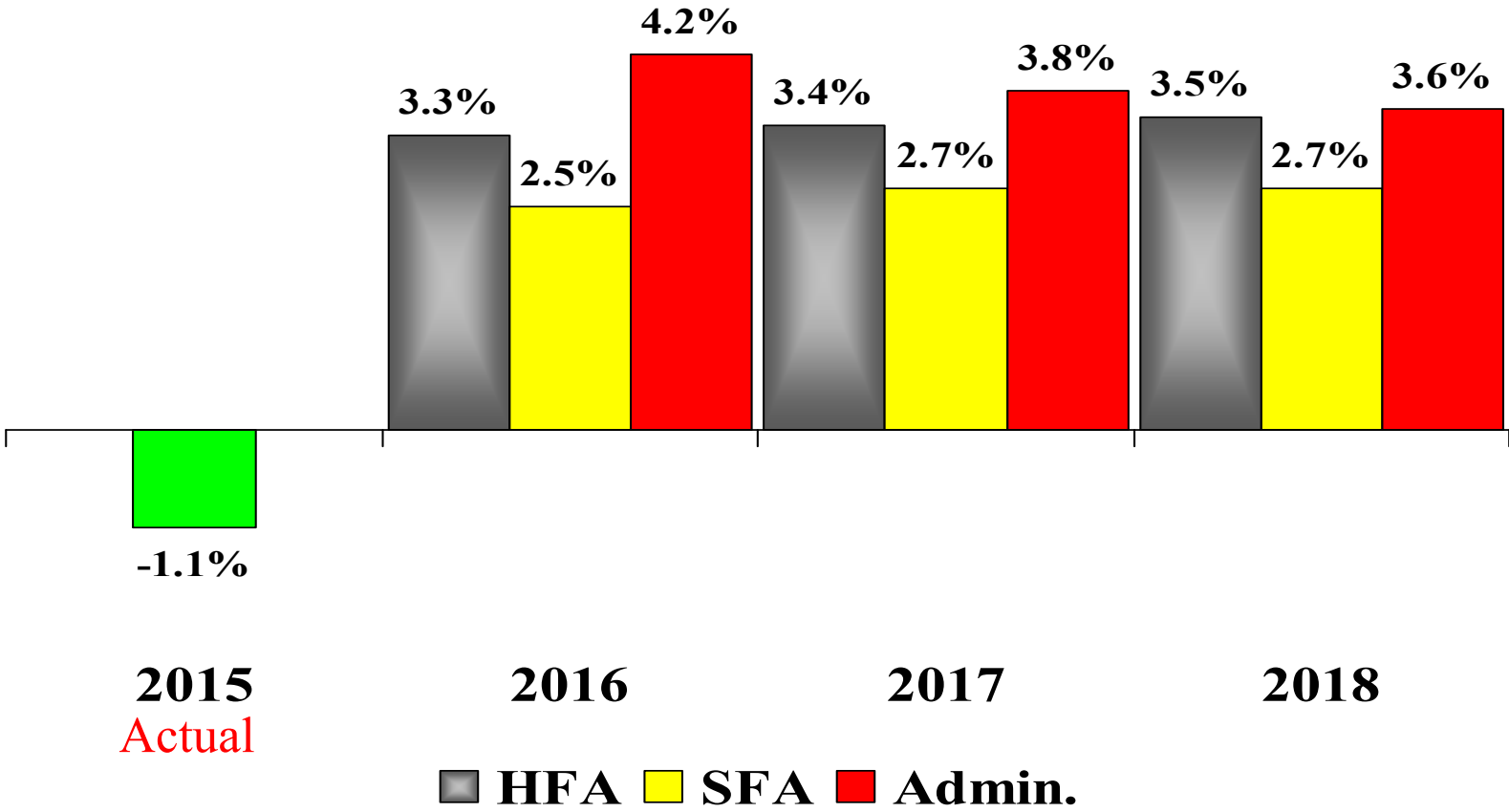


Net Income Tax Revenue Estimates

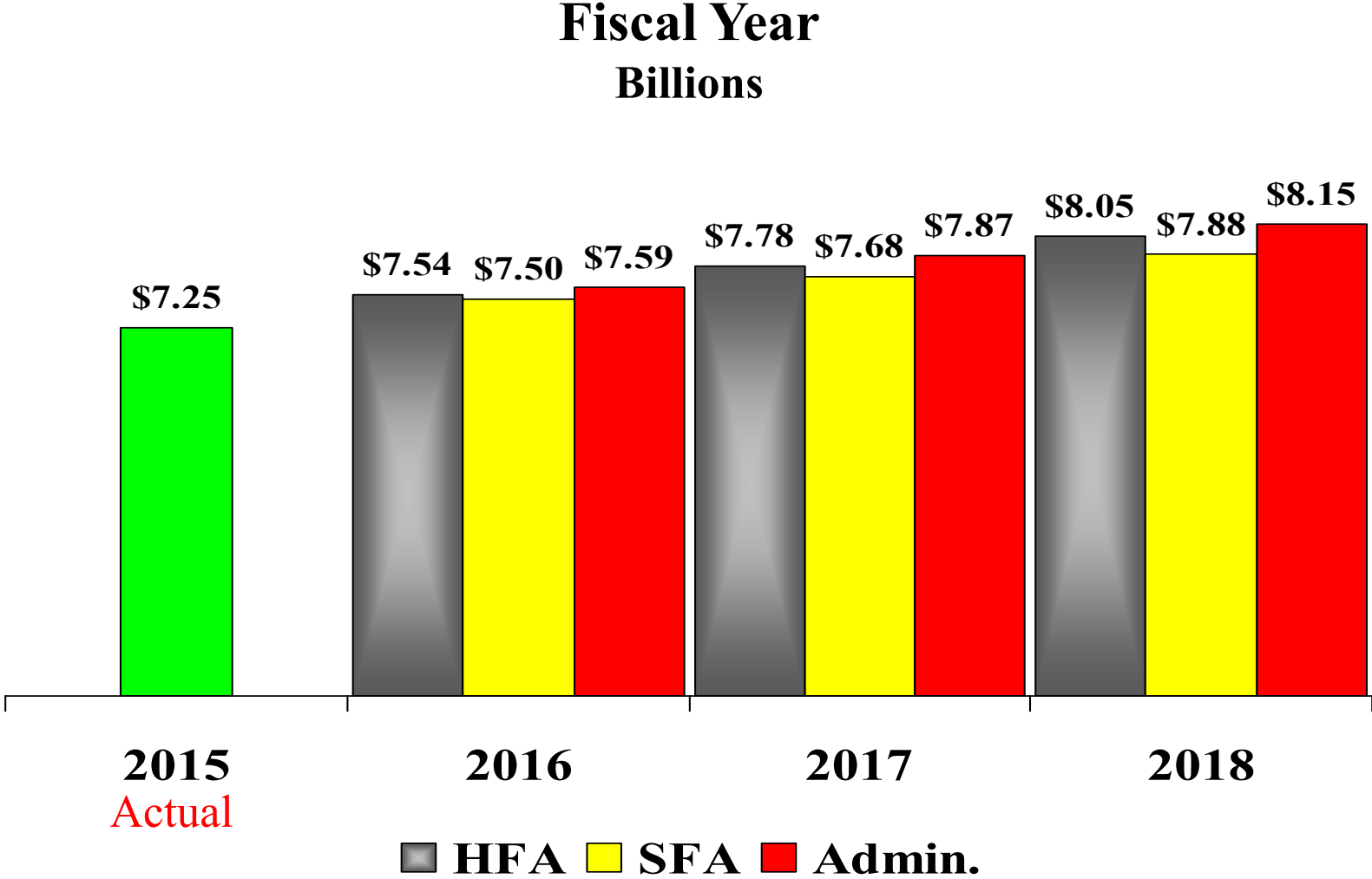


Baseline Sales Tax Growth

Fiscal Year Growth



Net Sales Tax Revenue Estimates

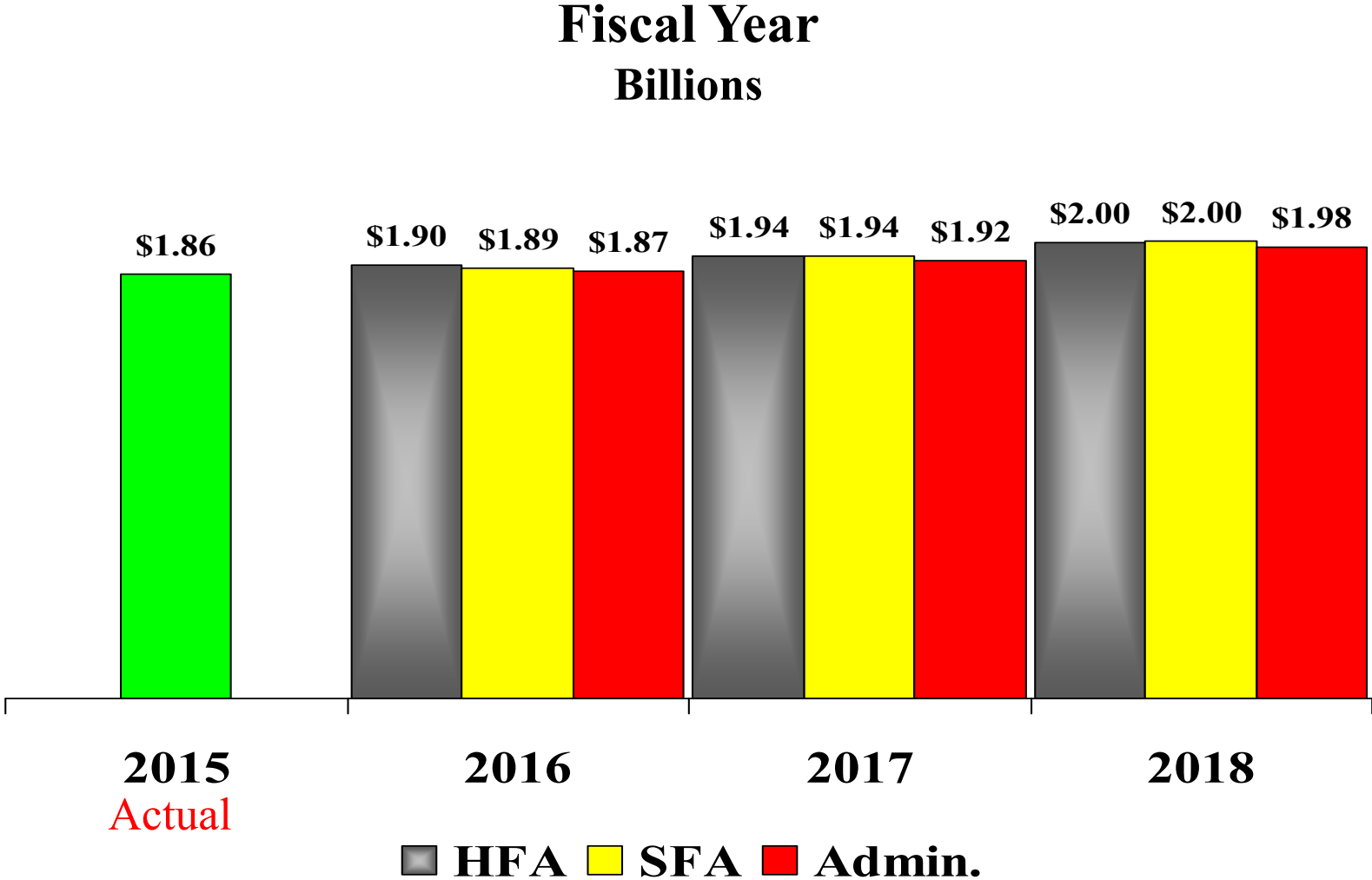


Sales Tax Collections Fall in FY 2015

dollars in millions

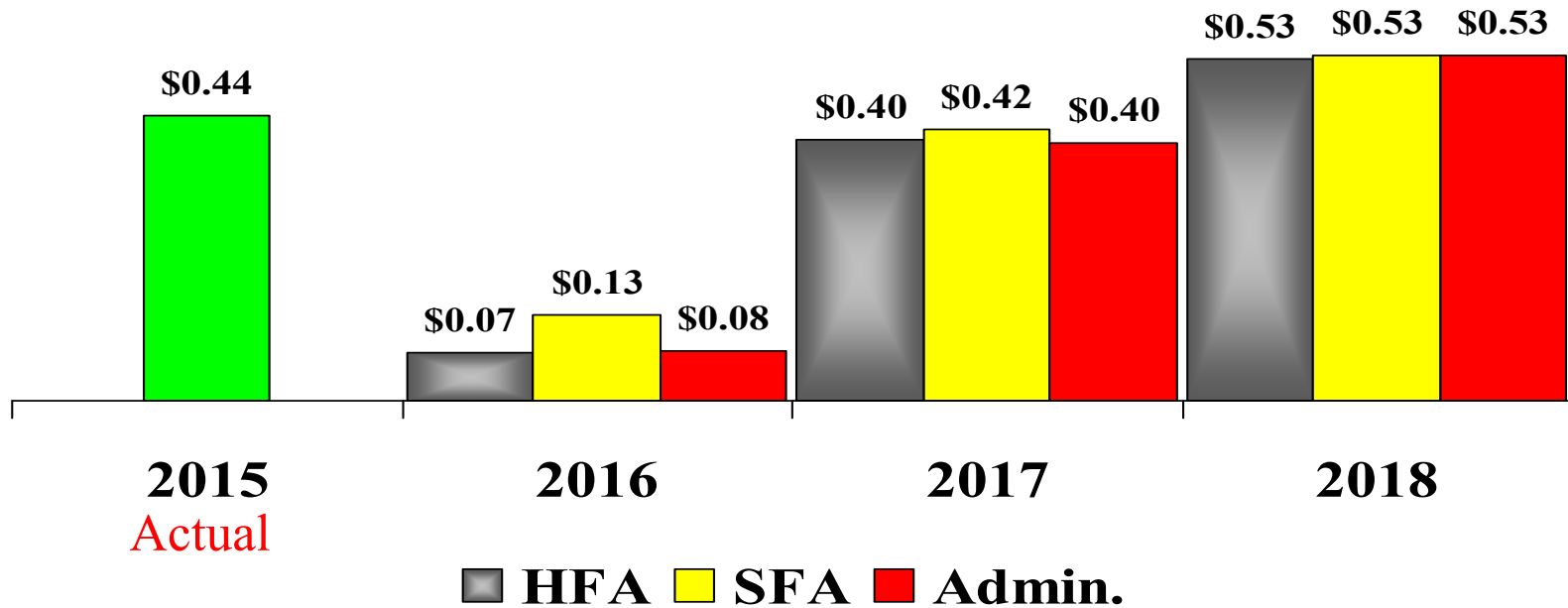
<u>Type of Purchase</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>% Chg</u>
Gasoline ST	\$824.3	\$603.6	-26.8%
MV Purchases ST	\$906.3	\$925.4	2.1%
All Other Purchases	<u>\$5,624.3</u>	<u>\$5,717.4</u>	<u>1.7%</u>
Total	\$7,354.9	\$7,246.4	-1.5%

Net SET Revenue Estimates



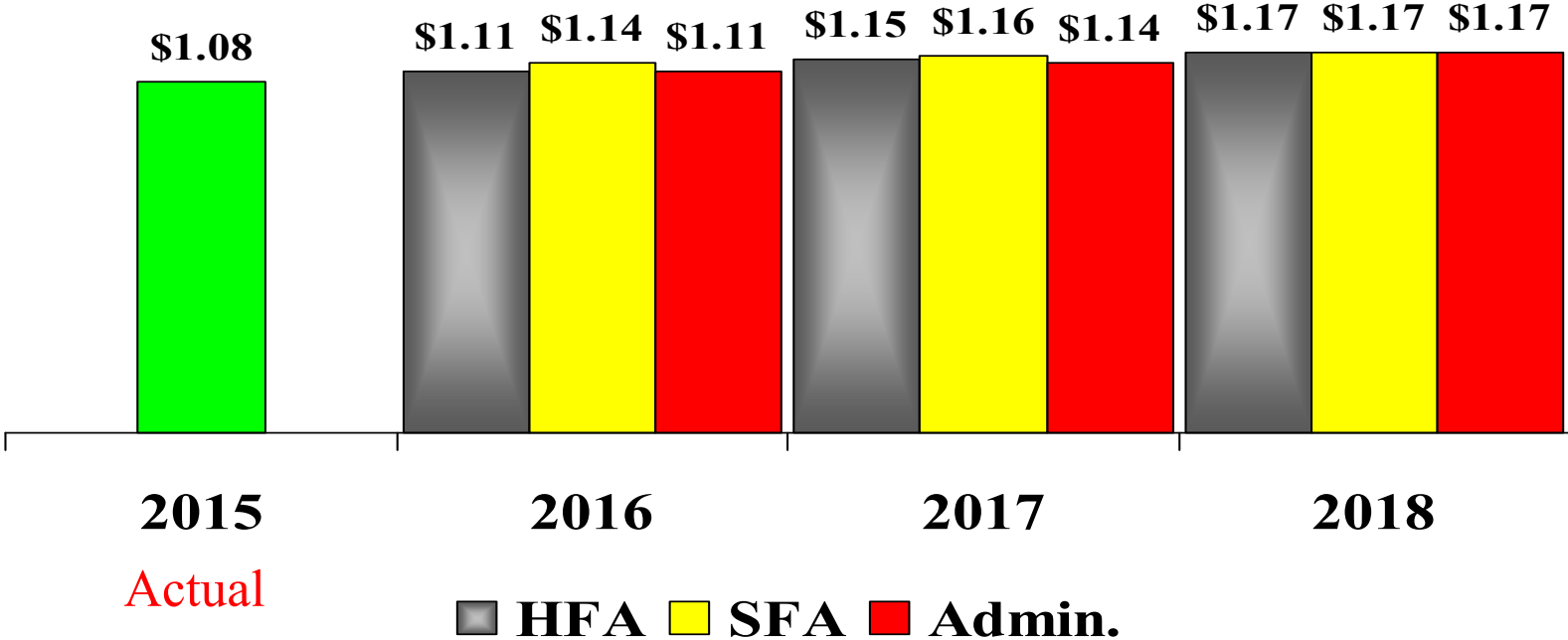
Net CIT/MBT Revenue Estimates

Fiscal Year
Billions



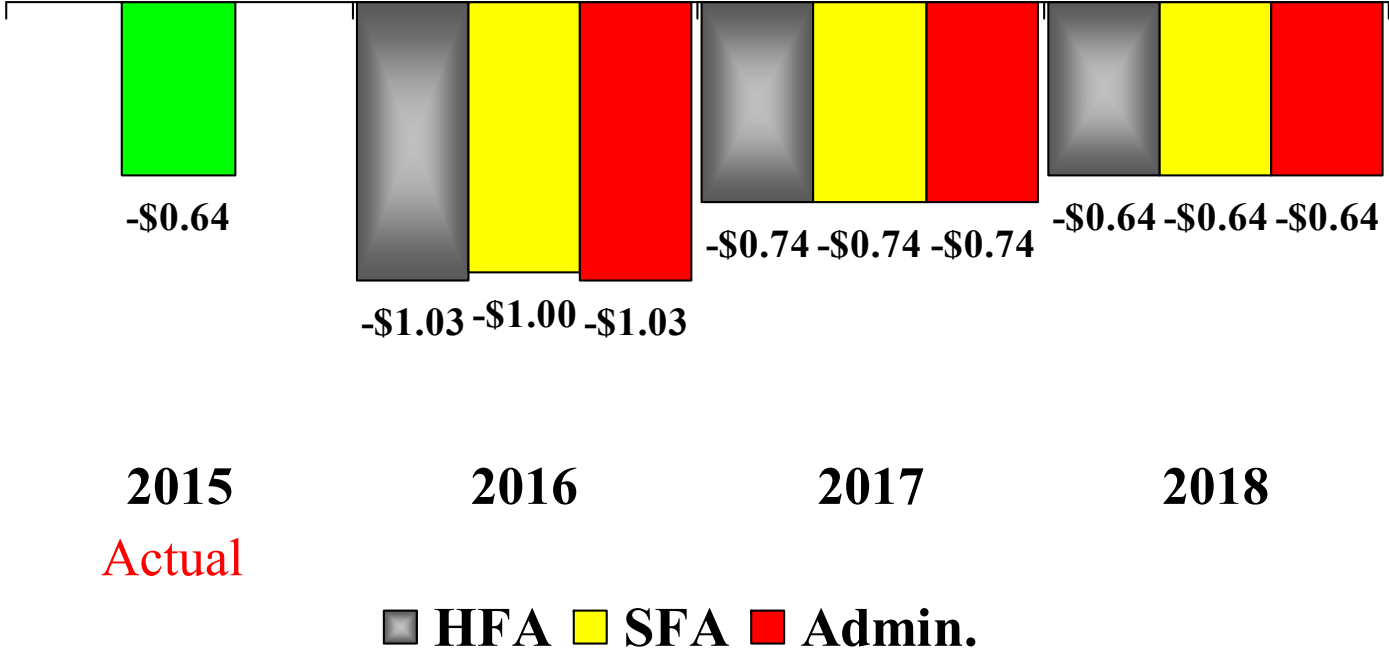
Net CIT Revenue Estimates

Fiscal Year
Billions



Net MBT Revenue Estimates

Fiscal Year
Billions



Michigan Business Tax & Certificated Credits

- The MEDC/Treasury system to track certificated credits is working well.
- MEDC notifies Treasury when a business qualifies for a certificated credit.
- Treasury builds this information into their revenue estimates.
- Businesses must file the certificate with Treasury to receive a refund.
- However, some certificates are not filed as soon as expected.

Estimating MBT Net Refunds

- In FY15, MBT net refunds were \$112 million short of the May estimate.
- This reflects a timing issue, not a reduction in MBT refunds.
- Most of the \$112 million in credits have already been filed in FY16.
- While MBT net refunds were smaller in FY15 by \$112 million, they will be up by \$112 million in FY16.

Insurance Tax

- Insurance companies pay into several special funds to help pay certain benefits.
- The Insurance Tax provides insurance companies credits for many of these payments.
- PA 204 of 2012 (amended Insurance Code) moved the administration of one of these funds from the Secretary of State to the MAIPF.
- No credit was provided for the payments to the Secretary of State, but payments to a fund administered by the MAIPF has qualified and continues to qualify for a tax credit.

Insurance Tax (continued)

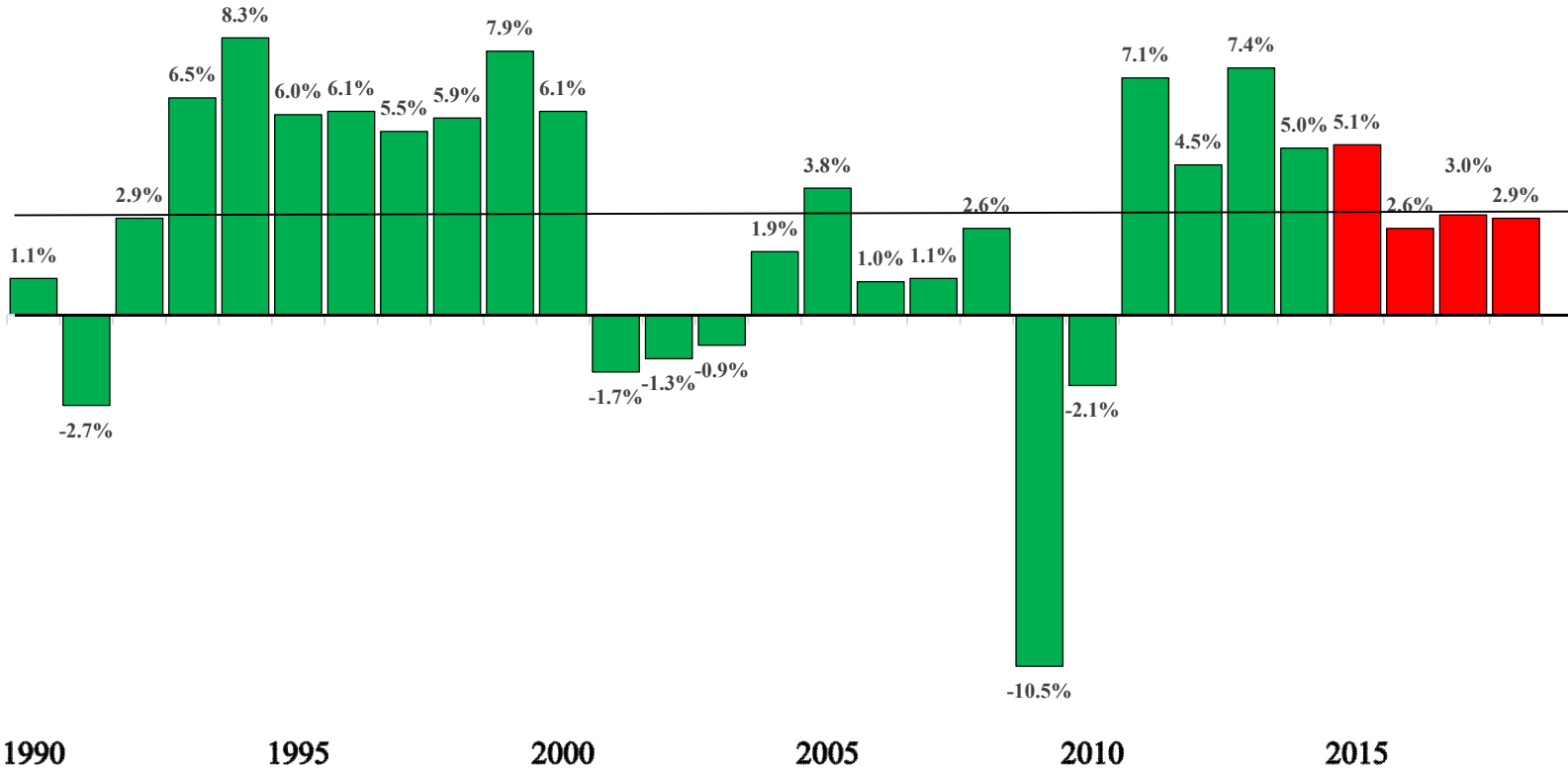
- In FY15, insurance companies began claiming credits for their old and new payments to the MAIPF.
- This reduced insurance tax collections \$60 million in FY15 and will reduce them an estimated \$80 million in FY16 and after.

GF-GP and School Aid Fund Revenue

- Growth rate comparisons.
- Level comparisons.
- Budget Stabilization Fund calculation.
- Constitutional Revenue Limit calculation.

GF-GP and School Aid Revenue

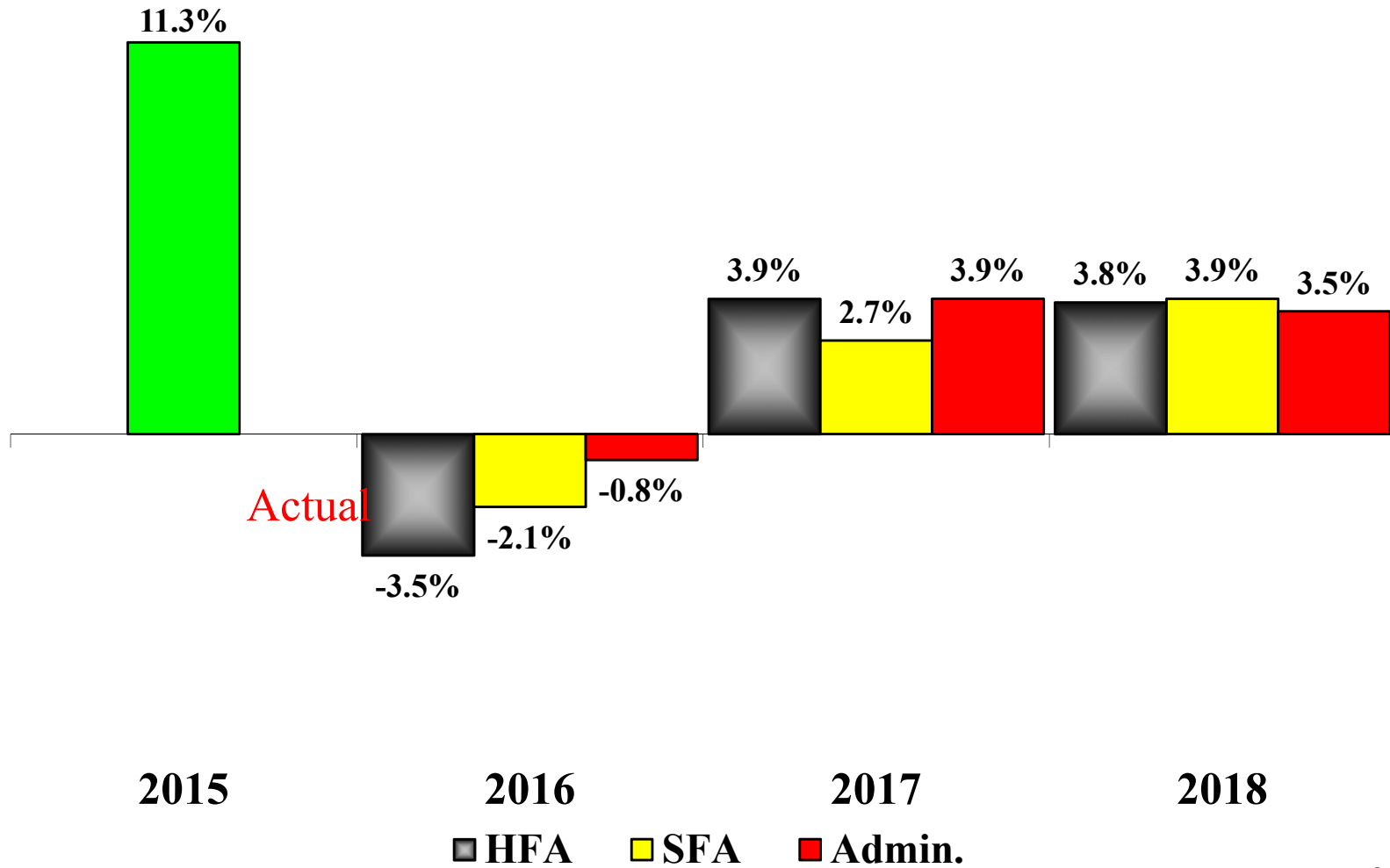
Baseline Growth Rates Before Tax Changes



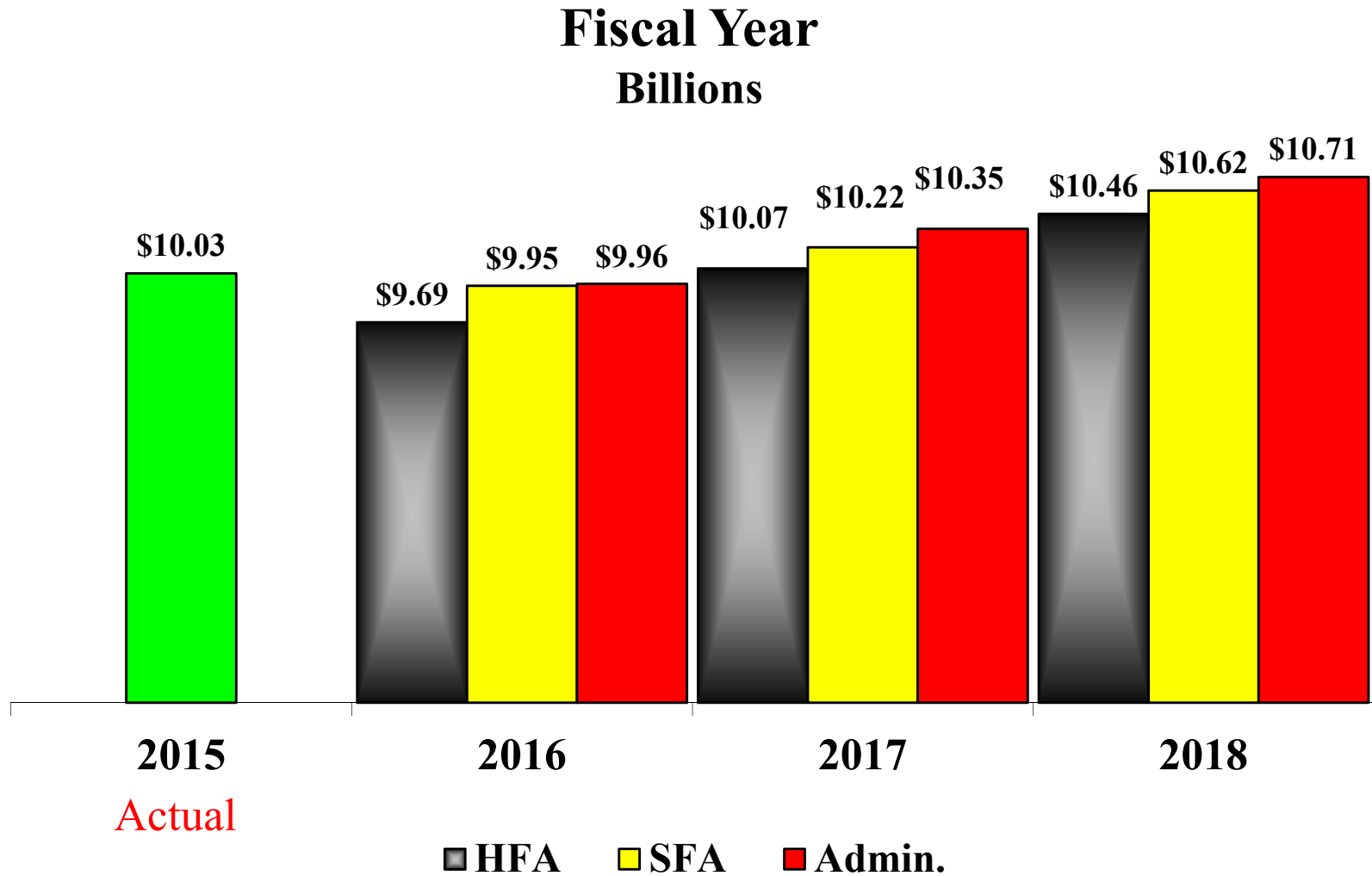
Average Agency Forecasts

GF-GP Net Revenue Growth

Fiscal Year Growth

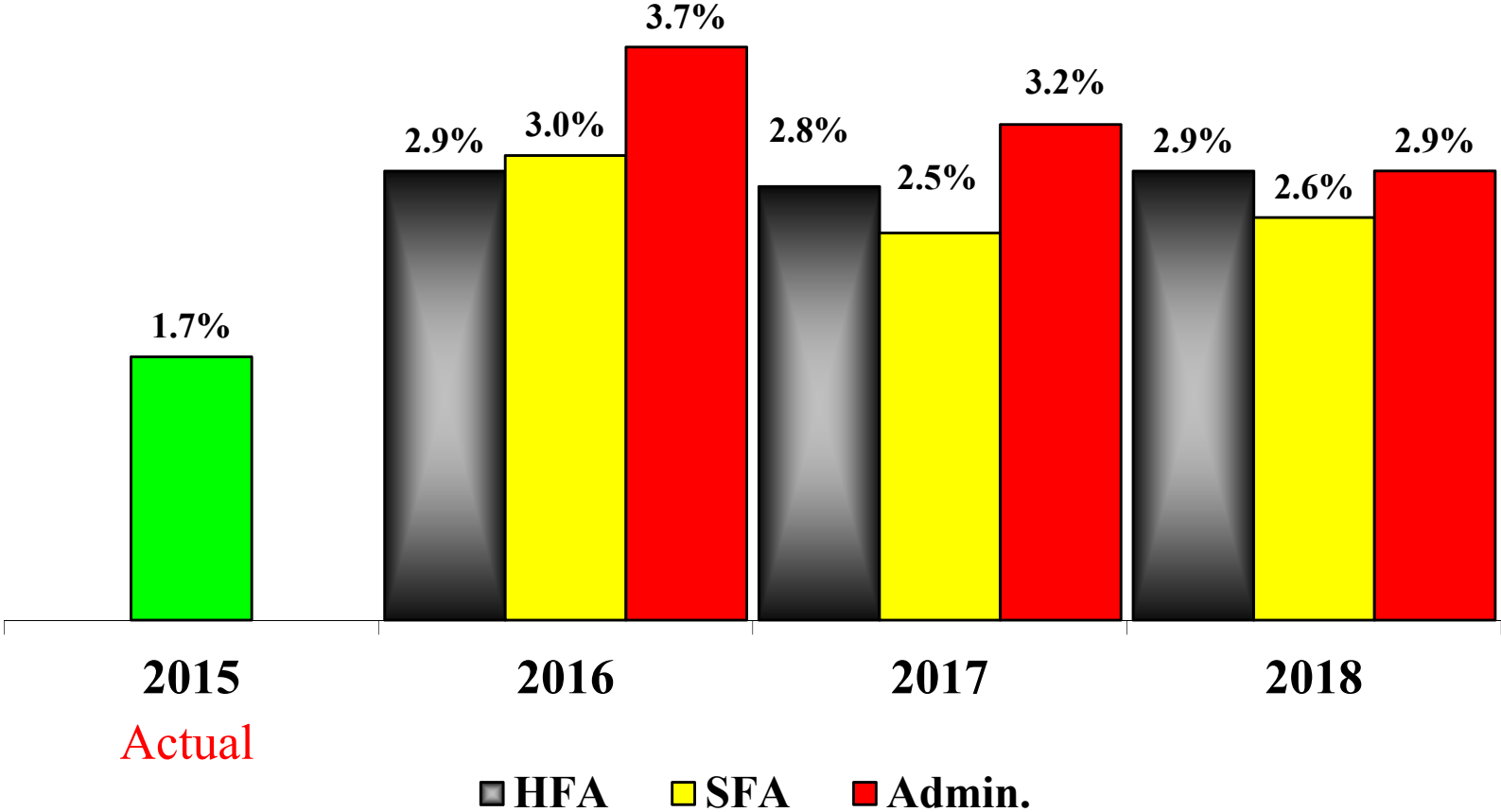


GF-GP Net Revenue Estimates

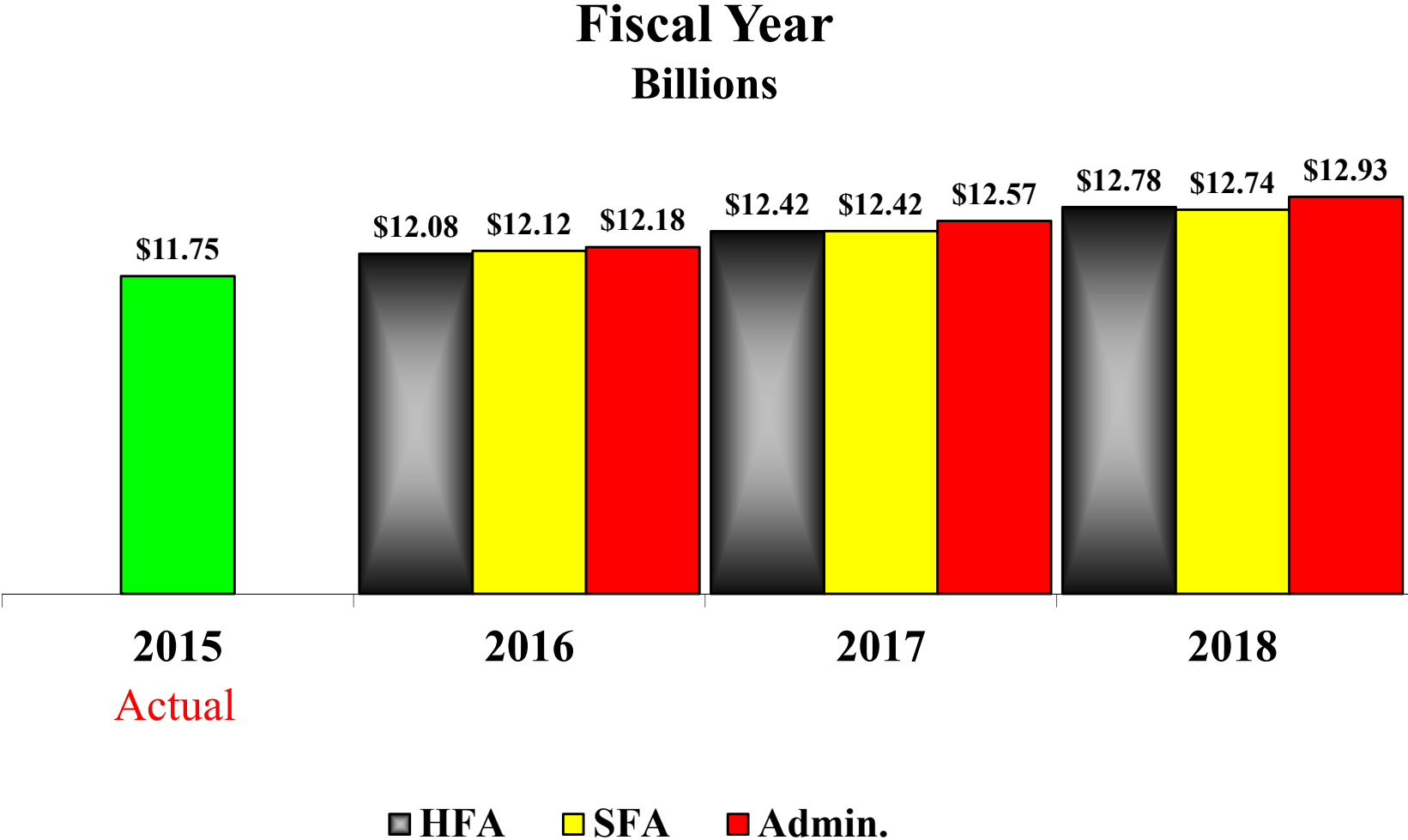


School Aid Fund Net Growth

Fiscal Year Growth



School Aid Fund Net Revenue Estimates



Major Revenue Estimate Revisions Compared to May Estimates

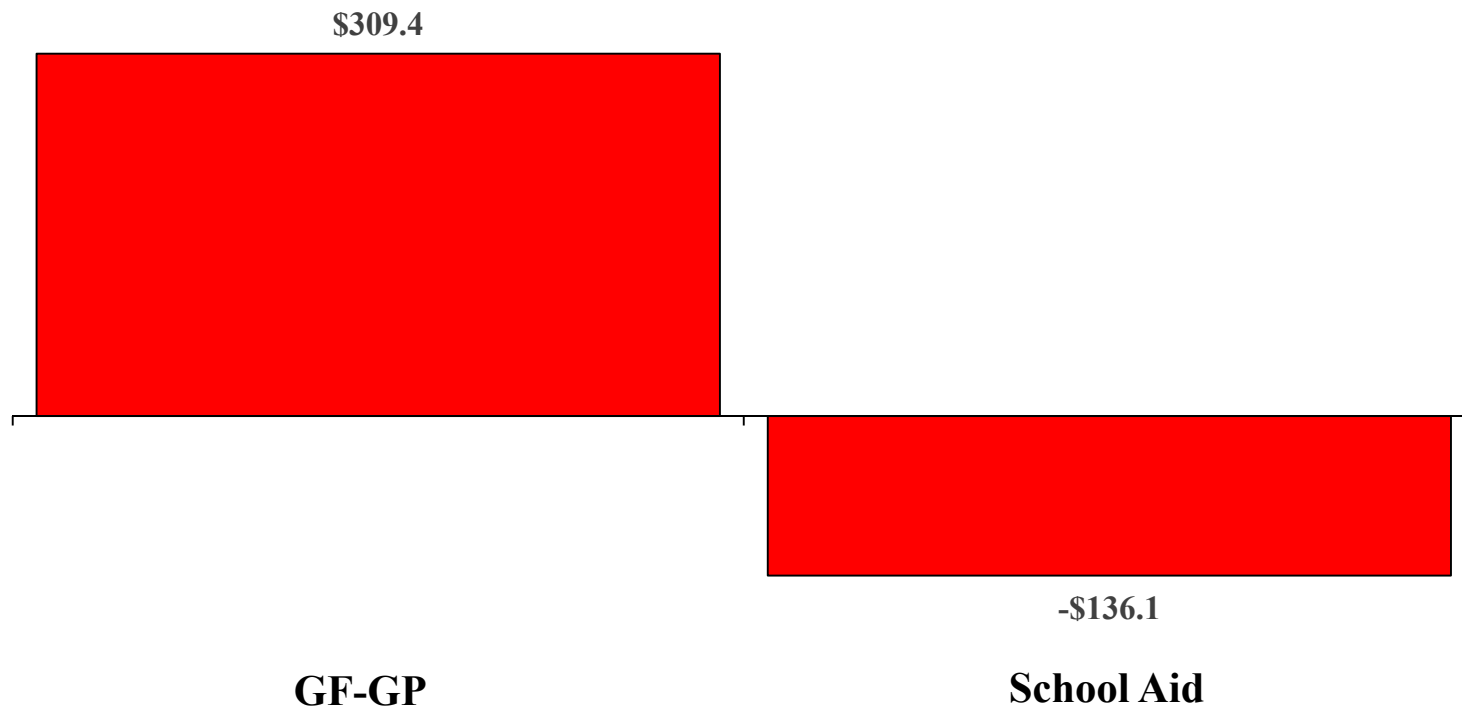
- \$112 million in MBT refunds were moved from FY15 to FY16.
- Additional credits being claimed by insurance companies is reducing insurance tax: \$60 million in FY15 and \$80 million in FY16 and after.
- Tax litigation court decisions are reducing use tax \$60 million in FY16, \$15 million in FY17 and \$25 million in FY18 and MBT \$18 million in FY16.

Major Revenue Estimate Revisions Compared to May Estimates (continued)

- Larger lottery jackpots will boost lottery revenue an estimated \$20 million.
- Newly enacted data center sales and use tax exemption will reduce revenue \$11 million in FY16, \$15 million in FY17 and \$16 million in FY18.

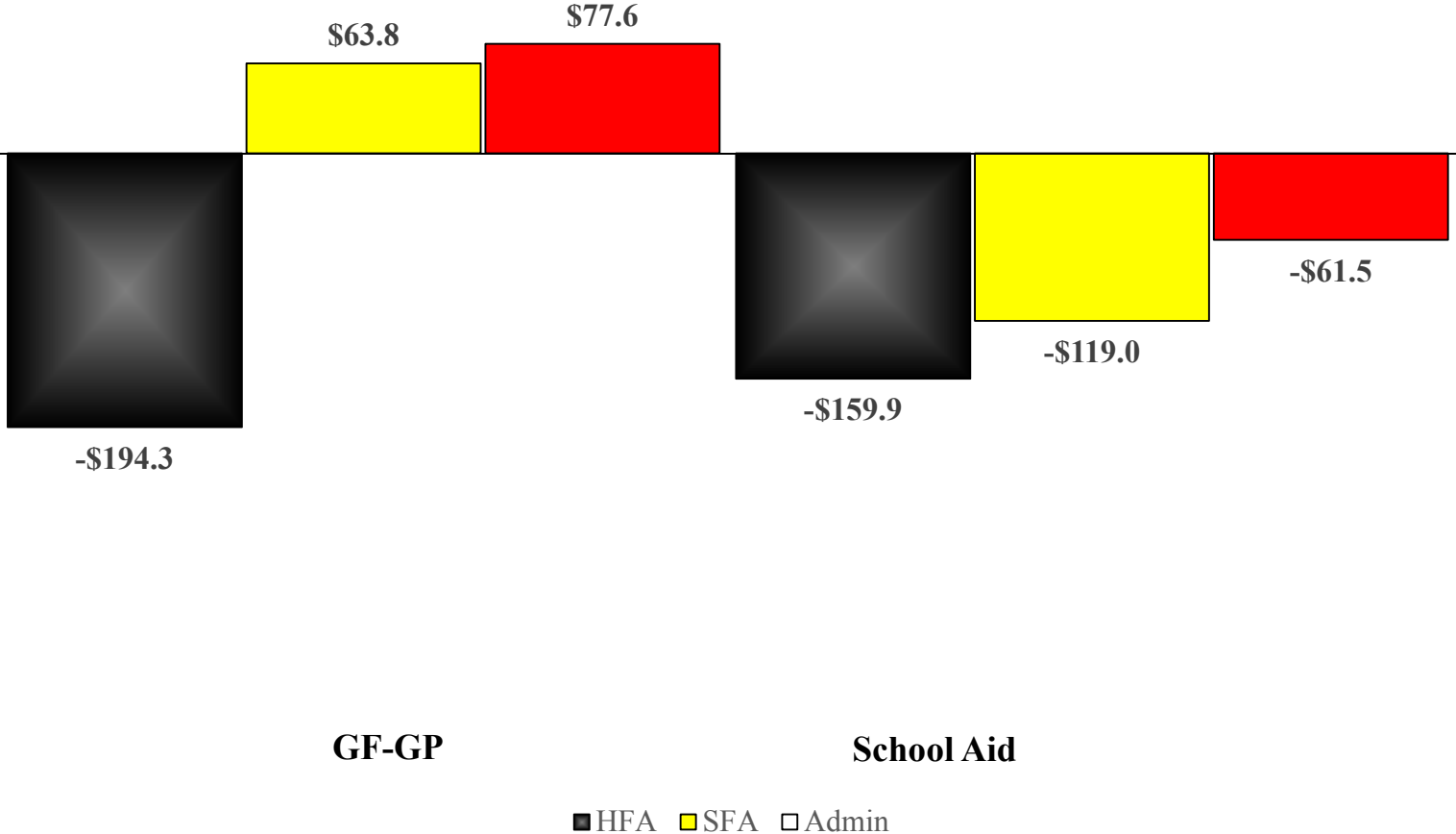
FY 2015 Changes Since May

Change From May Consensus Estimates Millions



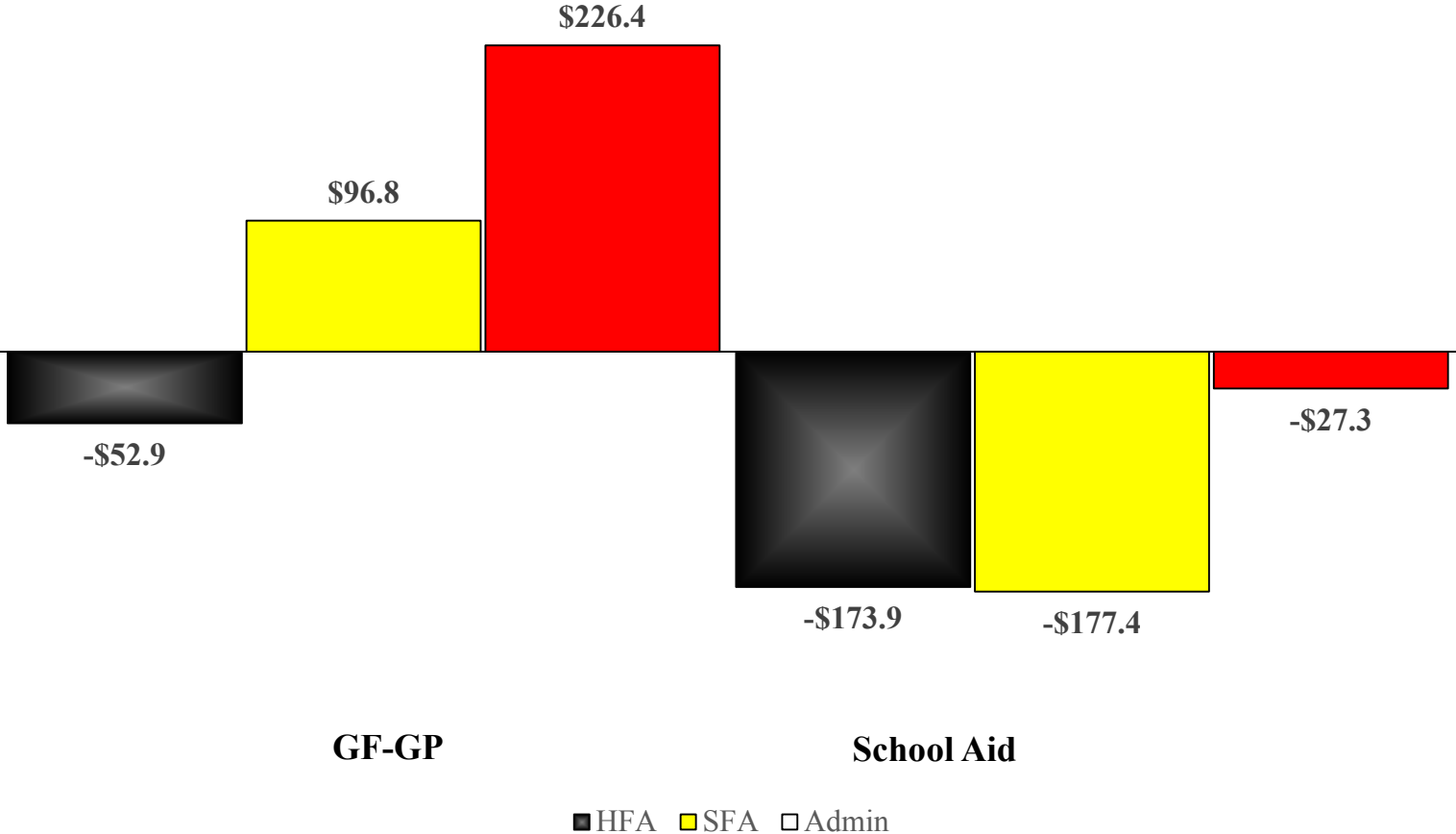
FY 2016 Changes Since May

Change From May Consensus Estimates Millions



FY 2017 Changes Since May

Change From May Consensus Estimates Millions



Revenue Forecast Comparison

Millions

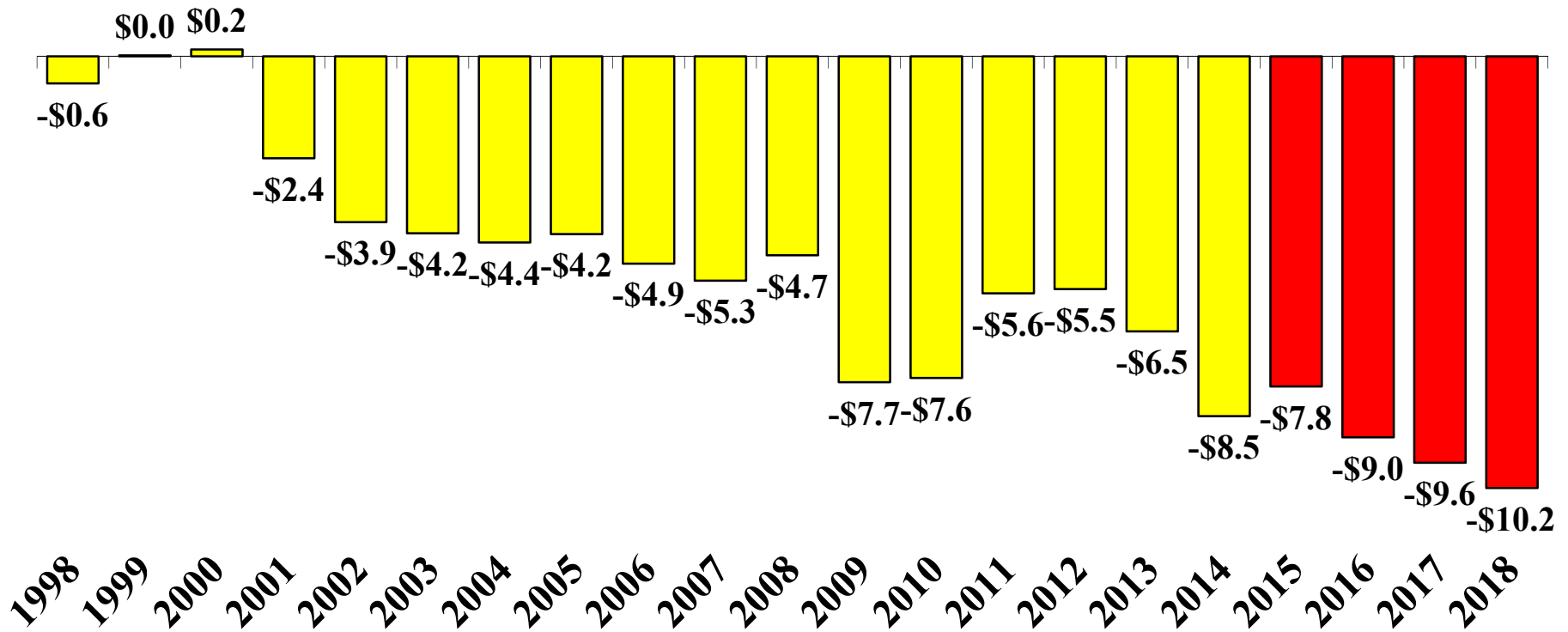
Revenue	FY 2016			FY 2017			FY 2018		
	<u>Treasury</u>	<u>House Fiscal Agency</u>	<u>Senate Fiscal Agency</u>	<u>Treasury</u>	<u>House Fiscal Agency</u>	<u>Senate Fiscal Agency</u>	<u>Treasury</u>	<u>House Fiscal Agency</u>	<u>Senate Fiscal Agency</u>
GF-GP	\$9,959	\$9,688	\$9,946	\$10,348	\$10,069	\$10,218	\$10,714	\$10,455	\$10,619
School Aid	\$12,181	\$12,083	\$12,124	\$12,572	\$12,425	\$12,421	\$12,934	\$12,780	\$12,740
Combined	\$22,140	\$21,771	\$22,070	\$22,919	\$22,493	\$22,640	\$23,649	\$23,235	\$23,359
<u>Difference From May</u>									
GF-GP	\$77	(\$194)	\$64	\$226	(\$53)	\$97	---	---	---
School Aid	<u>(\$62)</u>	<u>(\$160)</u>	<u>(\$119)</u>	<u>(\$27)</u>	<u>(\$174)</u>	<u>(\$177)</u>	---	---	---
Combined	\$16	(\$354)	(\$55)	\$199	(\$227)	(\$81)	---	---	---
May									
GF-GP	\$9,882	\$9,882	\$9,882	\$10,122	\$10,122	\$10,122	---	---	---
School Aid	\$12,243	\$12,243	\$12,243	\$12,599	\$12,599	\$12,599	---	---	---

Budget Stabilization Fund

- In FY 2016, the Agencies estimate pay-ins from \$246 to \$265 million.
- In FY 2017, the Agencies estimate pay-ins ranging from \$171 to \$229 million.
- In FY 2018, the Agencies estimate pay-ins ranging from \$0 to \$58 million.
- No BSF pay-outs are estimated by any of the Agencies during FY 2016, FY 2017 or FY 2018.

Constitutional Revenue Limit Calculation

Billions

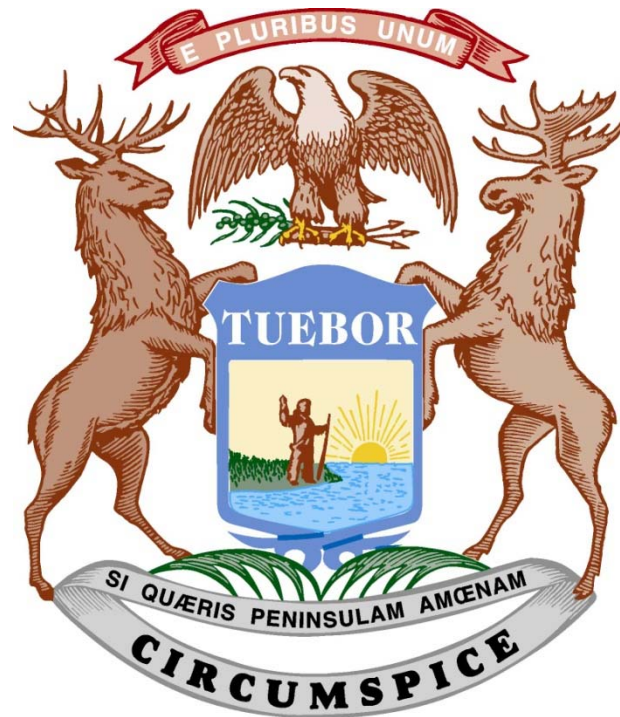


Forecast Risks

- International issues (political and economic)
- At what pace will Fed raise interest rates?
- Oil price uncertainty
- How will consumers react to international issues, interest rate increases, oil price changes, etc. and how will this impact sales tax?
- Housing: will more consumers take on financial commitment?
- MBT, CIT, Insurance Tax uncertainty
- Income Tax Annual Payments

Economic and Revenue Forecasts

FY 2016 * FY 2017 * FY 2018



**Consensus Revenue Estimating Conference
January 14, 2016**

January 2016 Consensus Conference