

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2014-15
THROUGH
FY 2016-17**



Mary Ann Cleary, Director

May 2015

FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2014 through CY 2017. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2013-14 and revised revenue estimates for FY 2014-15 through FY 2016-17. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 15, 2015, 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 2017, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

Jim Stansell, Senior Economist, is the author of this report. Kathryn Bateson, Administrative Assistant, prepared the report for publication.

TABLE OF CONTENTS

Executive Summary	1
U.S. Forecast.....	1
Michigan Forecast	2
Table 1: HFA Revenue Estimates	3
Economic Review and Forecast	5
Total Non-Farm Employment (Figure 1).....	5
U.S. and Michigan Employment (Figure 2).....	6
Real GDP (Figure 3).....	7
Light Vehicle Sales (Figure 4).....	8
Inflation	8
Income Growth (Figure 5).....	9
Employment (Figure 6).....	10
Unemployment.....	11
Table 2: Economic Forecast Variables	12
Risks and Uncertainties	13
Economic Momentum.....	13
Income Growth and Capital Gains.....	13
Michigan's Motor Vehicle Industry (Figure 7).....	14
GF/GP and SAF Revenue	15
GF/GP Revenue by Source.....	15
SAF Revenue by Source	15
Table 3: GF/GP Net Revenue Estimates.....	16
Table 4: School Aid Fund Net Revenue Estimates.....	17
HFA Estimates of Year-End Balances.....	18
Table 5: Year-End Unreserved Balance Estimates	18
BSF Year-End Balance (Table 6)	18
Compliance With State Revenue Limit (Table 7, Figure 8, and Table 8).....	19



EXECUTIVE SUMMARY

The national economy has been generally improving at a modest pace. Although the April nonfarm employment report showed a 223,000 job gain, March estimates were revised downward 41,000 jobs. National employment has increased by an average of 193,800 jobs through the first four months of 2015.

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 2015, 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, although through the first three months of 2015, there has been a net gain of 28,800 jobs.

U. S. Forecast

Real GDP growth is forecast to increase 2.5% in CY 2015. It is forecast to increase 2.8% in both CY 2016 and CY 2017.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase by just 0.1% in CY 2015, by 2.1% in CY 2016, and by 2.2% in CY 2017.

Light vehicle sales totaled 16.4 million units in CY 2014, and are forecast to grow to 16.8 million units in CY 2015, to 17.1 million units in CY 2016, and to 17.2 million units in CY 2017. The import share of light vehicles is forecast to be close to 20.0% through the forecast horizon.

The national unemployment rate is expected to be 5.3% in CY 2015; it is forecast to decline to 5.2% in both CY 2016 and CY 2017.

Michigan Forecast

Michigan personal income is forecast to increase 4.6% in CY 2015, and 4.3% in both CY 2016 and CY 2017.

Michigan's unemployment rate is forecast to decrease to 5.7% in 2015, 5.5% in CY 2016, and 5.4% in CY 2017.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2015 is forecast to decrease 0.6% in CY 2015, and then increase 2.0% in CY 2016 and 2.1% in CY 2017.

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 \$21.3 billion in FY 2013-14. It is forecast to increase 4.4% in FY 2014-15, 3.3% in FY 2015-16, and 3.1% in FY 2016-17.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was \$20.5 billion in FY 2013-14, which was a 1.5% decrease from FY 2012-13. It is forecast to increase \$934.3 million or 4.6% in FY 2014-15. Total net GF/GP and SAF revenue is forecast to increase 2.7% in FY 2015-16 and 2.6% in FY 2016-17.

Table 1 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2015 consensus estimates and the recommended revisions to these estimates for FY 2014-15 through FY 2016-17. The recommended revisions are an increase of \$67.7 million for FY 2014-15, an increase of \$58.6 million for FY 2015-16, and a decrease of \$31.5 million for FY 2016-17.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by \$8.8 billion in FY 2013-14; it is estimated to be under the limit by \$8.2 billion in FY 2014-15, \$8.9 billion in FY 2015-16, and \$9.9 billion in FY 2016-17.

Fund Balances

The year-end GF/GP balance was \$306.4 million for FY 2013-14. The FY 2014-15 estimated GF/GP balance is \$82.9 million.

The year-end unreserved SAF balance was \$455.1 million for FY 2013-14. The FY 2014-15 estimated SAF balance is \$106.5 million.

The year-end Countercyclical Budget Stabilization Fund balance was \$386.3 million for FY 2013-14; based on the calculations presented in this forecast, it is estimated to be \$498.8 million for FY 2014-15, \$769.3 million for FY 2015-16, and \$901.6 million for FY 2016-17. Actual BSF deposit amounts are subject to legislative appropriation.

Table 1
HFA MAY 2015 REVENUE ESTIMATES FOR FY 2014-15 THROUGH FY 2016-17
(Millions of Dollars)

	<u>Final FY 2013-14</u>	<u>HFA Est. FY 2014-15</u>	<u>HFA Est. FY 2015-16</u>	<u>HFA Est. FY 2016-17</u>	<u>FY 2014-15 % Change</u>	<u>FY 2015-16 % Change</u>	<u>FY 2016-17 % Change</u>
<u>Baseline</u>							
GF/GP	\$9,772.5	\$10,331.0	\$10,738.6	\$11,092.5	5.7%	3.9%	3.3%
SAF	11,562.8	11,940.6	12,267.9	12,616.6	3.3%	2.7%	2.8%
Total	\$21,335.3	\$22,271.7	\$23,006.6	\$23,709.1	4.4%	3.3%	3.1%
<u>Net</u>							
GF/GP	\$9,003.4	\$9,583.4	\$9,789.6	\$10,017.9	6.4%	2.2%	2.3%
SAF	11,520.5	11,874.8	12,245.8	12,592.0	3.1%	3.1%	2.8%
Total	\$20,523.9	\$21,458.2	\$22,035.4	\$22,609.9	4.6%	2.7%	2.6%
<u>January 2015 Adjusted Consensus</u>							
<u>Net</u>							
GF/GP	\$9,003.4	\$9,501.3	\$9,713.0	\$10,000.6			
SAF	11,520.5	11,889.2	12,263.8	12,640.8			
Total	\$20,523.9	\$21,390.5	\$21,976.8	\$22,641.4			
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$0.0	\$82.1	\$76.6	\$17.3			
SAF	0.0	(14.4)	(18.0)	(48.8)			
Total	\$0.0	\$67.7	\$58.6	(\$31.5)			

NOTE: Numbers may not add due to rounding



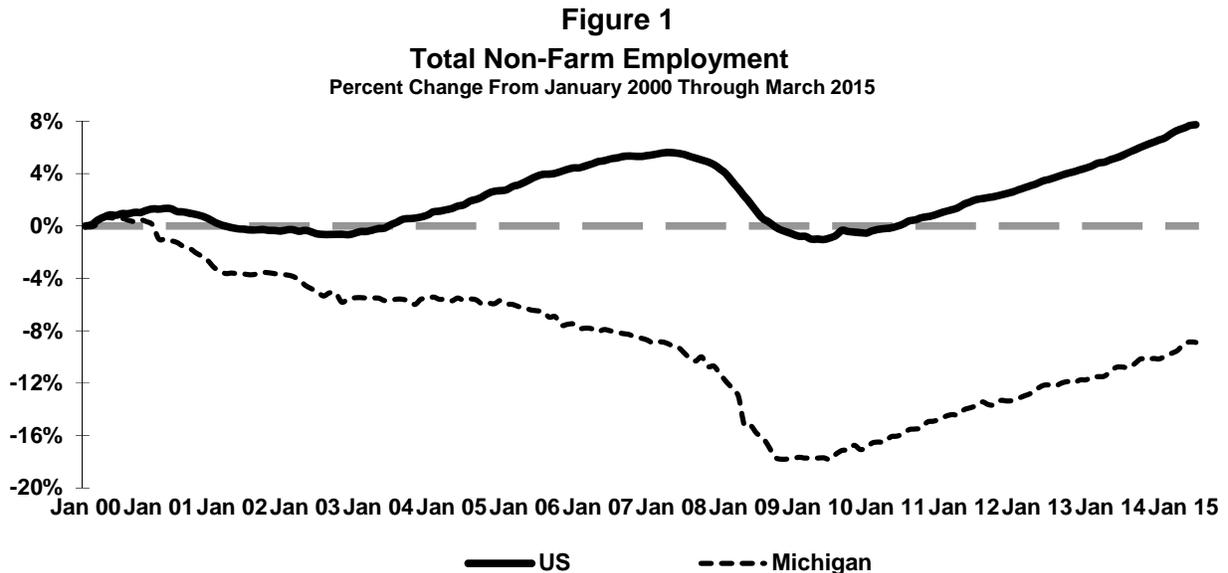
ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2014-15 through FY 2016-17.

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 job growth began during 2010, employment gains were modest. Employment growth accelerated between 2011 and 2014, during which time 10 million jobs were added, and while growth appears to be slowing somewhat, employment increased by almost 600,000 during the first three months of 2015.

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 2015.



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.

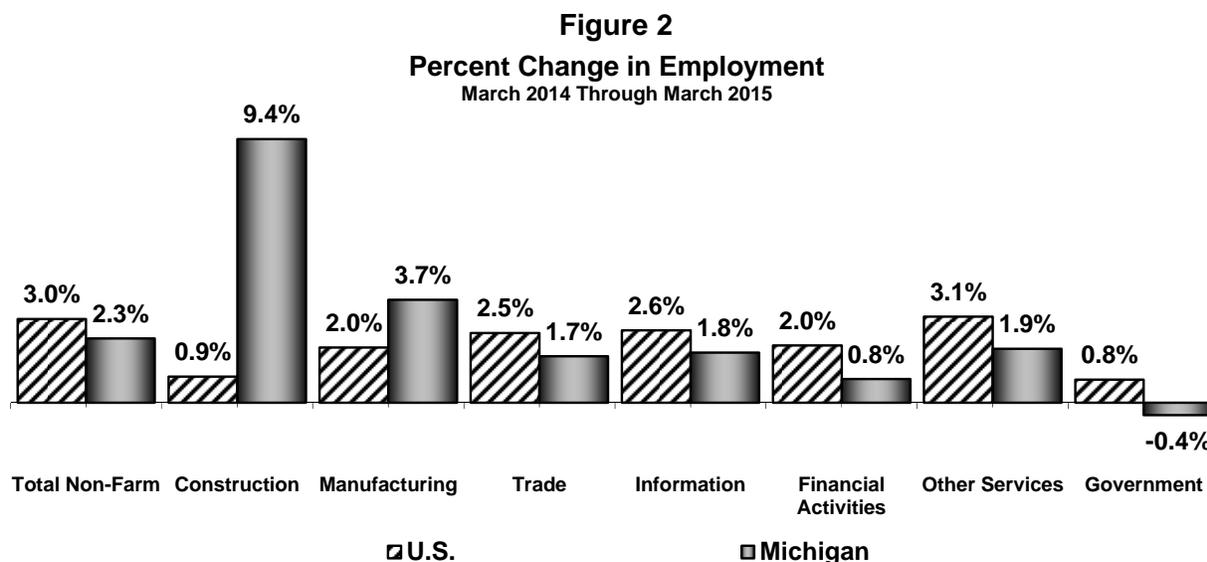
The ensuing recession saw 25 consecutive months of employment declines during which more than 8.7 million jobs were lost. Job gains finally reappeared in March 2010, beginning a 62-month streak of employment growth that has extended through April 2015. During this stretch, more than 11.5 million jobs has been added, and current non-farm employment stands at more than 2.8 million jobs above the prior peak in January 2008. As of April 2015, total employment is 7.8% 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 picked up during 2011 as 96,700 jobs were added, but employment growth slowed in 2012 and 2013 as only 76,800 and 78,200 new jobs were added, respectively. Employment growth accelerated in 2014 as 91,600 new jobs were added, but even after almost five years of overall job growth, as of March 2015, total non-farm employment in Michigan is roughly 8.9% lower than in January 2000.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between March 2014 and March 2015 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 4 million jobs (or 3.0%) over this period while employment in Michigan rose by 94,000 jobs (or 2.3%).



U.S. Employment

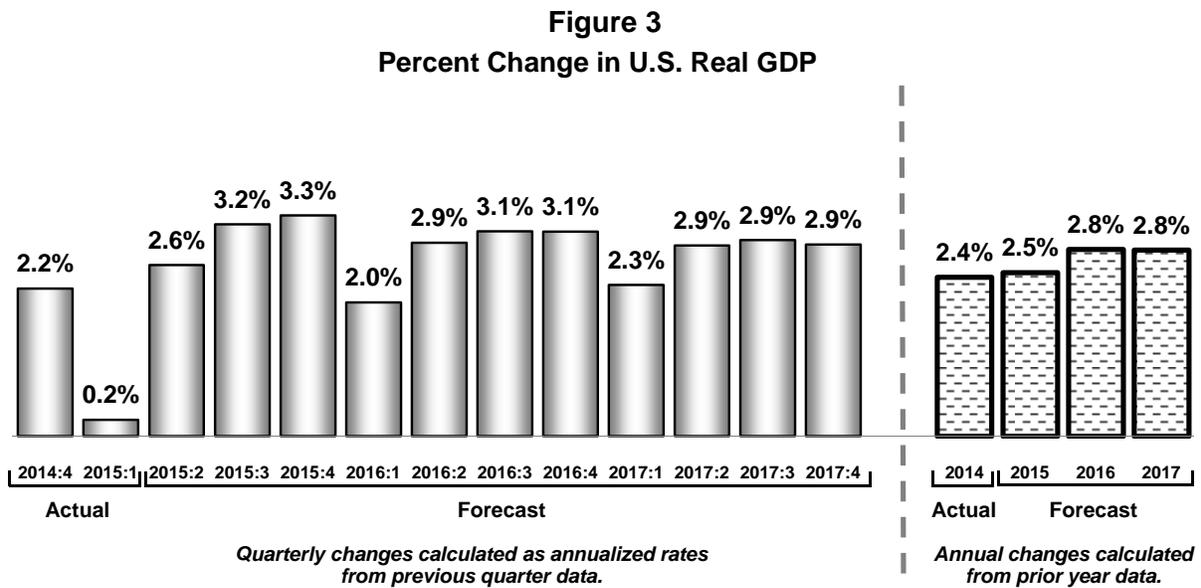
From March 2014 through March 2015, the U.S. experienced job gains in all categories, although both the construction and government sectors grew by less than 1.0%. Conversely, wholesale and retail trade gained more than 514,000 jobs (2.5% growth), and although the manufacturing sector had been generally contracting for several years, it realized job gains of 237,000 workers (2.0% growth).

Michigan Employment

Job gains in Michigan over the past year totaled 94,000 and were concentrated in manufacturing and miscellaneous services, which gained 20,900 and 48,700 jobs, respectively. All of the other sectors recorded modest job gains with the exception of government, which lost 2,700 jobs. Although the job gains in Michigan's manufacturing sector over the past year accounted for about 8.8% of total manufacturing job gains nationwide, total manufacturing employment in Michigan over the past eight years Michigan has declined by 0.5%.

Real GDP

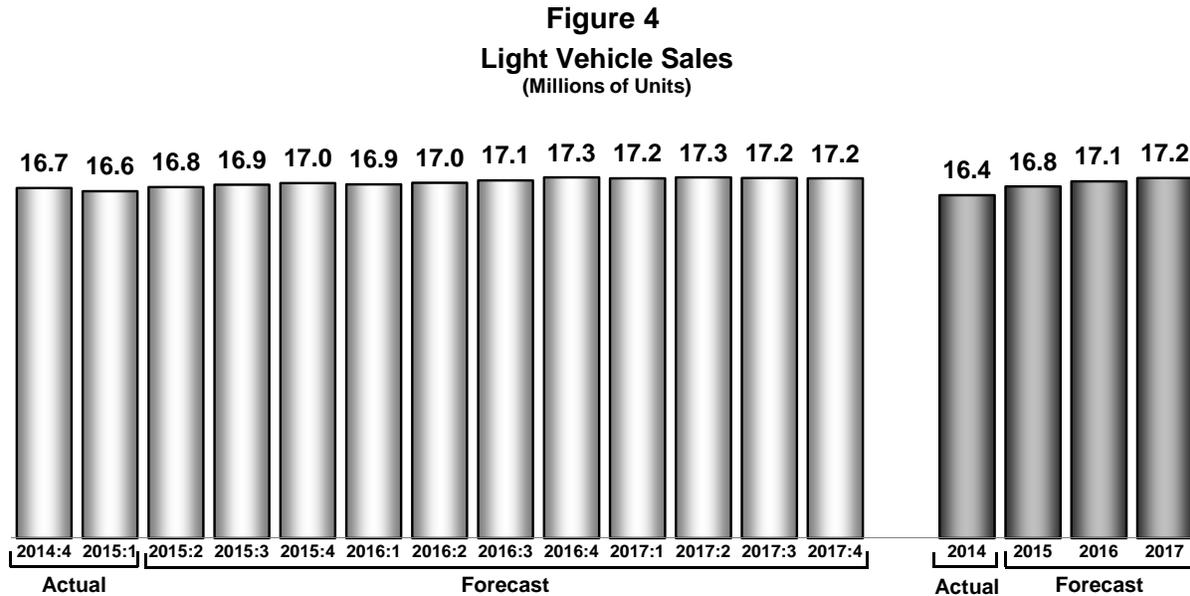
Figure 3 shows the estimated percent change in U.S. Real GDP for CY 2015 through CY 2017.



After increasing 2.4% during CY 2014, real GDP grew at a just a 0.2% rate in the first quarter of CY 2015. Real GDP is forecast to increase 2.5% in CY 2015 and 2.8% in both CY 2016 and CY 2017.

Light Vehicle Sales

Figure 4 shows light vehicle sales for CY 2014 and estimates for CY 2015 through CY 2017.



Sales of light motor vehicles totaled 15.5 million units in CY 2013 and rose to 16.4 million units in CY 2014. Light vehicle sales are forecast to increase to 16.8 million units in CY 2015, 17.1 million units in CY 2016, and 17.2 million units in CY 2017.

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 and fuel prices have declined. Light truck sales accounted for 53.2% of total light vehicle sales in CY 2014, and are expected to increase to roughly 55.0% throughout the forecast period.

The import share of total light vehicle sales was 21.0% in CY 2014; it is forecast to remain close to 20.0% through CY 2017.

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 1.6% in CY 2014; it is expected to increase by just 0.1% in CY 2015 before increasing by 2.1% in CY 2016 and 2.2% in CY 2017.

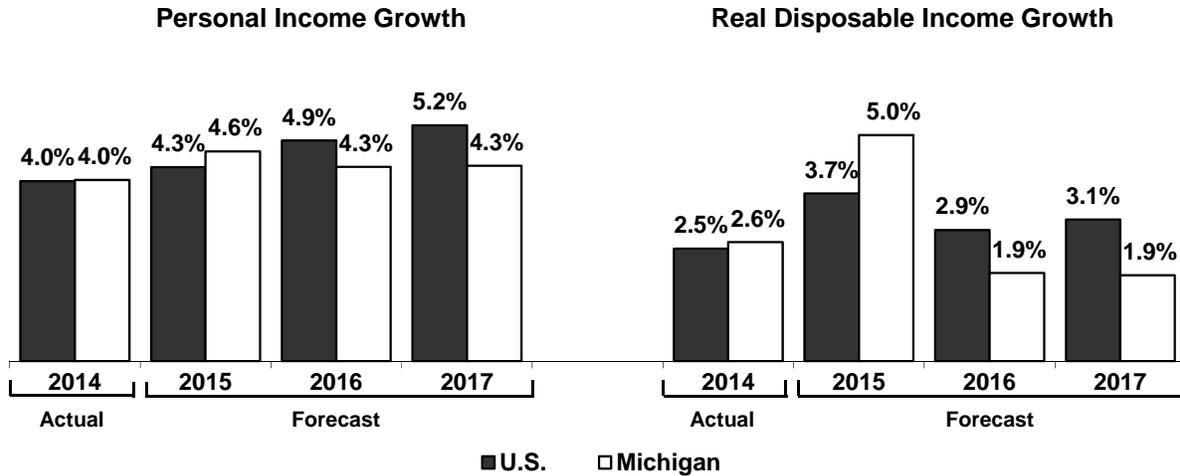
Michigan Inflation

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 1.1% in CY 2014, and is expected to decrease 0.6% in CY 2015 before increasing 2.0% in CY 2016 and 2.1% in CY 2017.

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 4.0% in CY 2014. Personal income growth is forecast to increase 4.3% in CY 2015, 4.9% in CY 2016, and 5.2% in CY 2017.

Inflation reduced the growth in U.S. real disposable income to 2.5% in CY 2014. U.S. real disposable income is forecast to grow 3.7% in CY 2015, 2.9% in CY 2016, and 3.1% in CY 2017.

Michigan Income Growth

Michigan's total state personal income growth was 4.0% in CY 2014. Michigan personal income is forecast to increase 4.6% in CY 2015, and 4.3% in both CY 2016 and CY 2017.

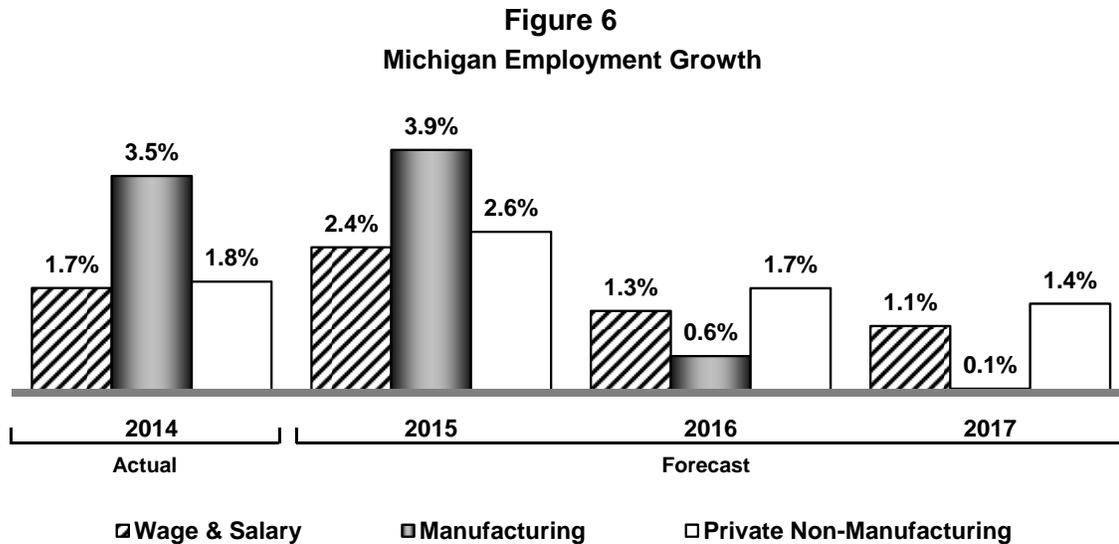
Michigan real disposable income increased 2.6% in CY 2014; it is forecast to increase 5.0% in CY 2015, and 1.9% in both CY 2016 and CY 2017.

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 266,400 per month during 2014 – roughly a 2.3% overall increase between December 2013 and December 2014. Total non-farm employment is expected to grow 2.1% in CY 2015, 1.5% in CY 2016, and 1.3% in CY 2017.



Michigan Employment

The Michigan economy endured a weak labor market with a decade of annual job losses through 2010. Since then, modest job growth has resumed, and Michigan wage and salary employment grew by an annual average of 76,900 workers between the beginning of 2011 and the end of 2014.

Michigan wage and salary employment is forecast to grow by 2.4% in CY 2015, 1.3% in CY 2016, and 1.1% in CY 2017. In the 25-year period between 1982 and 2007, Michigan wage and salary employment grew at an average annual rate of 1.17%; between 1989 and 2014 it grew at an average annual rate of just 0.25%.

Michigan manufacturing employment increased 3.5% in CY 2014 after growing by 3.4% in CY 2013. It is forecast to increase 3.9% in CY 2015, 0.6% in CY 2016, and 0.1% in CY 2017.

Michigan private non-manufacturing employment grew 1.8% in CY 2014. It is forecast to grow 2.6% in CY 2015, 1.7% in CY 2015, and 1.4% in CY 2017.

Unemployment

U.S. Unemployment

The U.S. unemployment rate, which was 7.4% in CY 2013, dropped to 6.2% in CY 2014; it is forecast to continue falling to 5.3% in CY 2015, before leveling out at 5.2% in both CY 2016 and CY 2017.

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 2014, and is forecast to continue growing through 2017, 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 8.5% in CY 2013 and 7.1% in CY 2014; it is expected to decrease to 5.7% in CY 2015, 5.5% in CY 2016, and 5.4% in CY 2017, just 0.2% above the U.S. unemployment rate. The last time Michigan's unemployment rate was less than the national average was in November 2000, more than 14 years ago.

Table 2
ECONOMIC FORECAST VARIABLES

	Calendar 2013 Actual	Calendar 2014 Actual	% Change from Prior Year	Calendar 2015 Estimated	% Change from Prior Year	Calendar 2016 Estimated	% Change from Prior Year	Calendar 2017 Estimated	% Change from Prior Year
<u>United States</u>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$15,710.3	\$16,085.6	2.4%	\$16,481.0	2.5%	\$16,943.1	2.8%	\$17,416.7	2.8%
Implicit Price Deflator GDP (2009 = 100)	106.7	108.3	1.5%	109.2	0.9%	110.9	1.6%	112.9	1.8%
Consumer Price Index (1982-84 = 100)	233.0	236.7	1.6%	236.9	0.1%	241.8	2.1%	247.0	2.2%
Consumer Price Index (FY) (1982-84 = 100)	232.2	236.0	1.6%	236.5	0.2%	240.5	1.7%	245.7	2.2%
Personal Consumption Deflator (2009 = 100)	107.3	108.8	1.3%	109.1	0.3%	110.9	1.6%	112.7	1.7%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.0%		0.2%		0.9%		1.8%	
Aaa Corporate Bonds Interest Rate (Percent)	4.2%	4.2%		3.7%		4.2%		4.4%	
Unemployment Rate – Civilian (Percent)	7.4%	6.2%		5.3%		5.2%		5.2%	
Wage and Salary Employment (Millions)	136.4	139.0	1.9%	142.0	2.1%	144.1	1.5%	146.0	1.3%
Housing Starts (Millions of units)	0.930	1.001	7.6%	1.122	12.1%	1.323	18.0%	1.470	11.1%
Light Vehicle Sales (Millions of units)	15.5	16.4	5.7%	16.8	2.5%	17.1	1.5%	17.2	0.9%
Passenger Car Sales (Millions of units)	7.6	7.7	1.2%	7.5	-2.3%	7.7	2.4%	7.8	0.9%
Light Truck Sales (Millions of units)	7.9	8.7	10.0%	9.3	6.8%	9.4	0.8%	9.5	0.9%
Import Share of Light Vehicles (Percent)	21.8%	21.0%		20.5%		20.2%		20.0%	
Big-3 Share of Light Vehicles (Percent)	44.4%	44.3%		44.5%		44.7%		44.9%	
Personal Income (Billions of current dollars)	\$14,166.9	\$14,728.6	4.0%	\$15,358.5	4.3%	\$16,104.9	4.9%	\$16,941.6	5.2%
Real Disposable Income (Billions of 2009 dollars)	\$11,650.8	\$11,939.5	2.5%	\$12,380.5	3.7%	\$12,737.9	2.9%	\$13,135.0	3.1%
<u>Michigan</u>									
Wage and Salary Employment (Thousands)	4,109.8	4,179.7	1.7%	4,278.3	2.4%	4,335.3	1.3%	4,382.3	1.1%
Transportation Equipment Employment (Thousands)	167.3	176.0	5.2%	190.0	8.0%	193.7	1.9%	195.0	0.7%
Unemployment Rate (Percent)	8.5%	7.1%		5.7%		5.5%		5.4%	
Personal Income (Millions of current dollars)	\$386,471	\$401,901	4.0%	\$420,479	4.6%	\$438,488	4.3%	\$457,355	4.3%
Real Personal Income (Millions of 1982-84 dollars)	\$176,069	\$181,159	2.9%	\$190,737	5.3%	\$194,949	2.2%	\$199,153	2.2%
Real Disposable Income (Millions of 1982-84 dollars)	\$156,546	\$160,646	2.6%	\$168,647	5.0%	\$171,922	1.9%	\$175,171	1.9%
Wage and Salary Income (Millions of current dollars)	\$195,203	\$203,634	4.3%	\$213,438	4.8%	\$220,600	3.4%	\$227,577	3.2%
Detroit Consumer Price Index (1982-84 = 100)	219.5	221.9	1.1%	220.5	-0.6%	224.9	2.0%	229.7	2.1%
Detroit CPI (FY) (1982-84 = 100)	219.1	221.6	1.1%	220.2	-0.6%	223.8	1.6%	228.5	2.1%

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, income growth and capital gains, 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 0.2% during the first quarter of 2015 after growing by 5.0% in the third quarter of 2014 and 2.2% during the fourth quarter. 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.

Income Growth and Capital Gains

Personal income growth is an important determinant of personal consumption, which represents approximately two-thirds of GDP, and the forecast assumes growth rates in excess of 4.0% for both the U.S. and Michigan throughout the forecast period. In addition, realized capital gains can also affect consumption decisions to the extent that consumers feel better or worse about their long-run financial outlooks.

Although capital gains are not included in personal income, they affect tax revenues, and have become a larger portion of taxable income in recent years due to significant increases in asset prices. Stock market indices are expected to continue rising; however, the robust gains realized since the end of the recession are expected to taper off.

Michigan's Motor Vehicle Industry

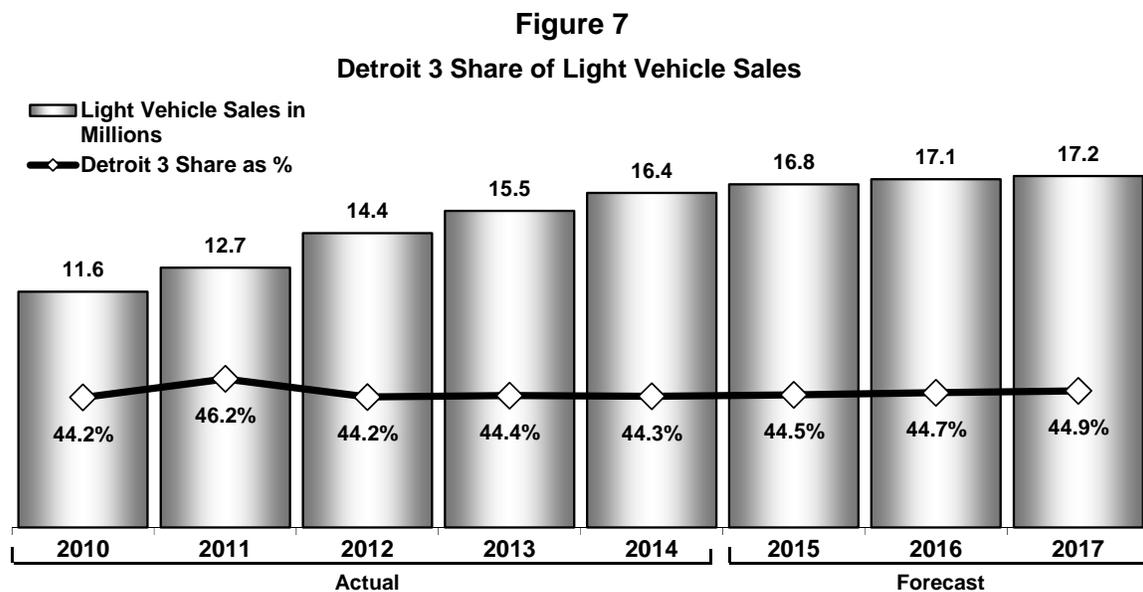
The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 16.4 million units in CY 2014, which was a 5.7% increase from the previous year. Light motor vehicle sales are forecast to be 16.8 million units in CY 2015, then

increase to 17.1 million units in CY 2016 and 17.2 million units in CY 2017 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, and is expected to decline to around 20.0% by CY 2017. As shown in **Figure 7**, the market share of the Detroit 3 auto manufacturers hovered around 44% in CY 2014 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 2014, the Detroit 3 sold 7.2 million vehicles, which represents a 5.5% increase from the previous year. It is expected that the Detroit 3 will sell 7.5 million vehicles in CY 2015, and will continue to post somewhat healthier gains in CY 2016 and CY 2017.

After significant declines since CY 2000, Michigan transportation equipment employment increased 6.8% in CY 2013 and 5.2% in CY 2014 and is forecast to increase 8.0% in CY 2015, 1.9% in CY 2016, and 0.7% in CY 2017. The CY 2017 estimated level of transportation equipment employment of 195,000 is just 56.4% 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 May 2015 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue, which include enacted personal income tax and business tax changes, amnesty, changes in unclaimed property, 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 decreased by 6.0% to \$8,610.1 million in FY 2013-14. Much of this decrease was due to a sharp increase in the dollar amount of certificated credits claimed against the Michigan Business Tax. GF/GP tax revenue is estimated to be \$9,219.4 million in FY 2014-15, an increase of \$609.3 million or 7.1%. In FY 2015-16, GF/GP tax revenue is expected to total \$9,430.3 million, an increase of \$210.9 million, or 2.3%. GF/GP tax revenue is estimated to increase 2.6% in FY 2016-17.

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 \$9,003.4 million in FY 2013-14; it is forecast to be \$9,583.4 million, an increase of \$580.0 million or 6.6% in FY 2014-15, and \$9,789.6 million, an increase of \$206.2 million or 2.2% in FY 2015-16. Net GF/GP revenue is estimated to increase 2.3% in FY 2016-17.

SAF Revenue by Source

Total Net SAF Revenue

Net SAF revenue increased 2.2% to \$11,520.5 million in FY 2013-14. Most of the increase was due to higher gross income tax and state education tax collections. Net SAF revenue is forecast to be \$11,874.8 million, an increase of \$354.2 million or 3.1%, in FY 2014-15. Net SAF revenue is estimated to increase 3.1% in FY 2015-16 and 2.8% in FY 2016-17.

Table 3
GF/GP NET 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 2014-15</u>		<u>FY 2015-16</u>		<u>FY 2016-17</u>	
	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$5,655.4	\$6,131.7	\$6,364.8	\$6,575.5	\$476.3	8.4%	\$233.1	3.8%	\$210.7	3.3%
Sales Tax	1,154.9	1,185.3	1,240.9	1,284.6	30.4	2.6%	55.5	4.7%	43.8	3.5%
Use Tax	926.7	950.4	901.9	652.2	23.7	2.6%	(48.5)	-5.1%	(249.7)	-27.7%
Michigan Business Tax	(723.3)	(755.3)	(891.0)	(732.3)	(32.0)	4.4%	(135.7)	18.0%	158.7	-17.8%
Corporate Income Tax	906.4	953.7	983.3	1,016.7	47.3	5.2%	29.6	3.1%	33.4	3.4%
Insurance	362.2	412.0	423.0	437.0	49.8	13.7%	11.0	2.7%	14.0	3.3%
Other Taxes	327.8	341.5	407.5	437.6	13.7	4.2%	66.0	19.3%	30.1	7.4%
GF/GP Net Taxes	\$8,610.1	\$9,219.4	\$9,430.3	\$9,671.3	\$609.3	7.1%	\$210.9	2.3%	\$241.0	2.6%
Non-Tax Revenue	393.3	364.0	359.3	346.6	(29.3)	-7.4%	(4.7)	-1.3%	(12.7)	-3.5%
Total GF/GP Net Revenue	\$9,003.4	\$9,583.4	\$9,789.6	\$10,017.9	\$580.0	6.4%	\$206.2	2.2%	\$228.3	2.3%

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>HFA Est.</u>	<u>HFA Est.</u>	<u>HFA Est.</u>	<u>FY 2014-15</u>		<u>FY 2015-16</u>		<u>FY 2016-17</u>	
	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,349.9	\$5,499.5	\$5,743.6	\$5,946.0	\$149.6	2.8%	\$244.0	4.4%	\$202.4	3.5%
Use Tax	463.7	475.3	499.0	516.4	11.6	2.5%	23.7	5.0%	17.4	3.5%
Income Tax	2,357.7	2,473.0	2,560.1	2,639.7	115.3	4.9%	87.1	3.5%	79.6	3.1%
State Education Tax	1,804.2	1,840.0	1,837.1	1,878.9	35.8	2.0%	(2.9)	-0.2%	41.8	2.3%
Lottery/Casinos	841.0	885.0	895.5	895.5	44.0	5.2%	10.5	1.2%	0.0	0.0%
Tobacco Tax	359.4	341.4	335.0	328.5	(18.0)	-5.0%	(6.5)	-1.9%	(6.5)	-1.9%
Real Estate Transfer Tax	233.4	247.0	260.0	270.0	13.6	5.8%	13.0	5.3%	10.0	3.8%
Other Taxes	111.2	113.5	115.5	117.0	2.3	2.1%	2.0	1.8%	1.5	1.3%
SAF Net Revenue	\$11,520.5	\$11,874.8	\$12,245.8	\$12,592.0	\$354.2	3.1%	\$371.0	3.1%	\$346.2	2.8%

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 2014-15 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2013-14 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)

	<u>Final</u> <u>FY 2013-14</u>	<u>Estimated</u> <u>FY 2014-15</u>
General Fund/General Purpose	\$306.4	\$82.9
School Aid Fund	\$455.1	\$106.5
Budget Stabilization Fund	\$386.3	\$498.8

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 2016-17.

The BSF ending fund balance for FY 2013-14 was \$386.3 million. A deposit of \$94.0 million has been made for FY 2014-15. 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 BSF trigger calculation is based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue. The calculation, which does not include the \$17.5 million deposit required under 2014 PA 186, indicates a pay-in of \$250.5 million for FY 2015-16 and \$109.1 million for FY 2016-17. The year-end balances, including the required \$17.5 million deposits, are estimated at \$498.8 million for FY 2014-15, \$769.3 million for FY 2015-16, and \$901.6 million for FY 2016-17.

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	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.5	\$386.3
2014-15*	\$111.5	\$0.0	\$1.0	\$498.8
2015-16**	\$268.0	\$0.0	\$2.5	\$769.3
2016-17**	\$126.6	\$0.0	\$5.8	\$901.6

* 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.

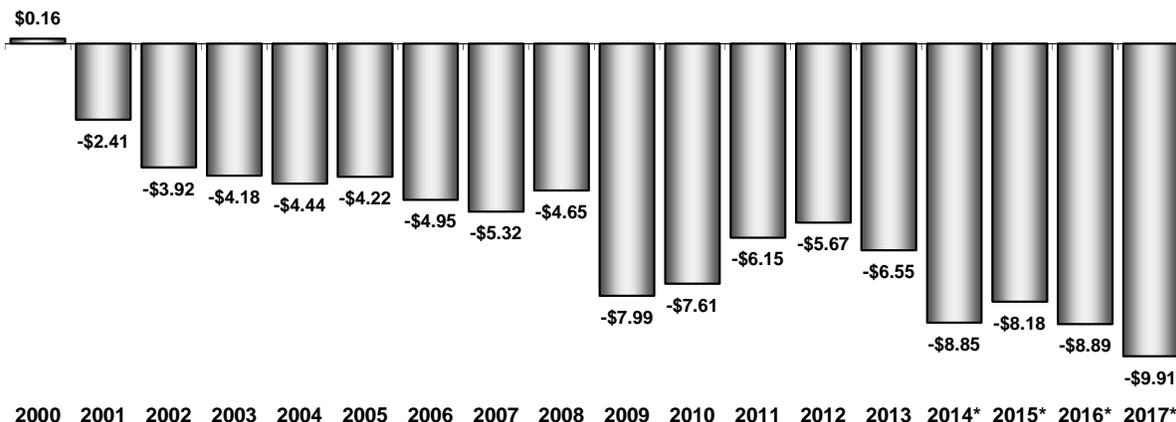
As shown in **Table 7**, **Figure 8**, and **Table 8**, the FY 2013-14 revenue limit calculation is expected to show state revenue collections at \$8.85 billion below the revenue limit. For FY 2014-15, state revenue is estimated to be below the limit by \$8.18 billion. For FY 2015-16 and FY 2016-17, state revenue is estimated to be even further below the revenue limit – by \$8.89 billion, and \$9.91 billion, respectively.

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

Revenue Limit Calculations	Estimated FY 2013-14	Estimated FY 2014-15	Estimated FY 2015-16	Estimated FY 2016-17
Personal Income				
Calendar Year	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>	<u>CY 2015</u>
Amount	\$381,314	\$386,471	\$401,901	\$420,479
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$36,186.7	\$36,676.1	\$38,140.4	\$39,903.5
Total Revenue Subject to Revenue Limit	27,339.2	28,491.7	29,248.8	29,995.5
Amount Under (Over) State Revenue Limit	\$8,847.6	\$8,184.4	\$8,891.6	\$9,907.9

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	(\$6.55)
2013-14*	(\$8.85)
2014-15*	(\$8.18)
2015-16*	(\$8.89)
2016-17*	(\$9.91)

**HFA estimate*



Additional copies of this report can be obtained from:

House Fiscal Agency

P.O. Box 30014

Lansing, MI 48909-7514

(517) 373-8080

www.house.mi.gov/hfa