



The Consensus Revenue Estimating Conference: May 2017 Update

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May 2017

Briefing Topics

- Overview of the Consensus Revenue Estimating Conference (CREC)
- US and Michigan Economic Forecasts
- Revenue Estimates for Major Taxes
- Consensus GF/GP and SAF Revenue Estimates
- Other Consensus Requirements

Overview of the CREC

- The statutory authority lies in the Management and Budget Act, 1984 PA431
- The three principals are the director of the House Fiscal Agency, the director of the Senate Fiscal Agency, and either the state budget director or state treasurer.
- The conference is held during the second week of January and the third week of May each year, although additional conferences can be requested by any of the principals.
- The January conference typically includes presentations by the Research Seminar in Quantitative Economics (RSQE) from the University of Michigan and IHS Markit, an economic forecasting company headquartered in the UK but with several offices in the US.
- The May conference includes a presentation by RSQE as well as an additional presentation addressing a current economic issue.

Overview of the CREC

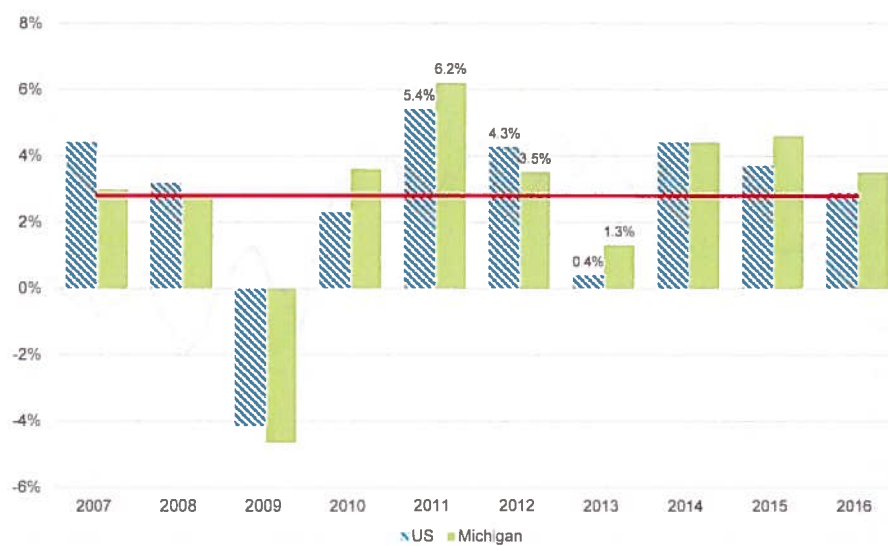
- The conference shall establish an official economic forecast of major variables of the national and state economies. The conference shall also establish a forecast of anticipated state revenues as the conference determines including the following:
 - State income tax collections
 - State sales tax collections
 - Corporate income tax collections
 - Michigan business tax collections
 - Total general fund/general purpose (GF/GP) revenues
 - Lottery transfers to the school aid fund (SAF)
 - Total school aid fund revenues
- Pay-in or pay-outs indicated under the countercyclical budget and economic stabilization fund (BSF) formula
- Compliance with the state revenue limit established by section 26 of article IX of the state constitution

Overview of the CREC

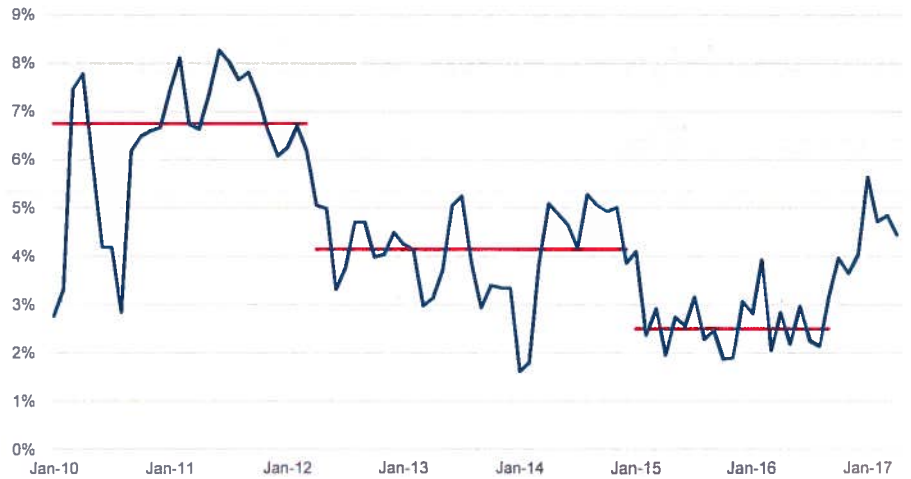
- Each agency prepares its own independent economic forecasts for the US and Michigan using a model provided by RSQE. The model is flexible so that we are able to make adjustments for our own assumptions.
- Based on our respective economic forecasts, each agency prepares a revenue forecast that projects revenues for more than 30 individual tax and revenue components.
- We also incorporate the constitutional and statutory earmarks where necessary to estimate GF/GP and SAF revenues.
- A few days before the CREC the three agencies compare economic and revenue forecasts and discuss any differences with the goal of generating a staff recommendation for the three principals. The principals are free to accept the staff recommendation or suggest changes before it is presented at the conference.
- Only after all the speakers have presented do the principals vote on a consensus economic and revenue forecast.

US and Michigan Economic Forecasts

Per Capita Personal Income Growth



Retail Sales, Monthly Year-over-Year Percent Change



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Michigan Gas Prices, Average Monthly Price per Gallon

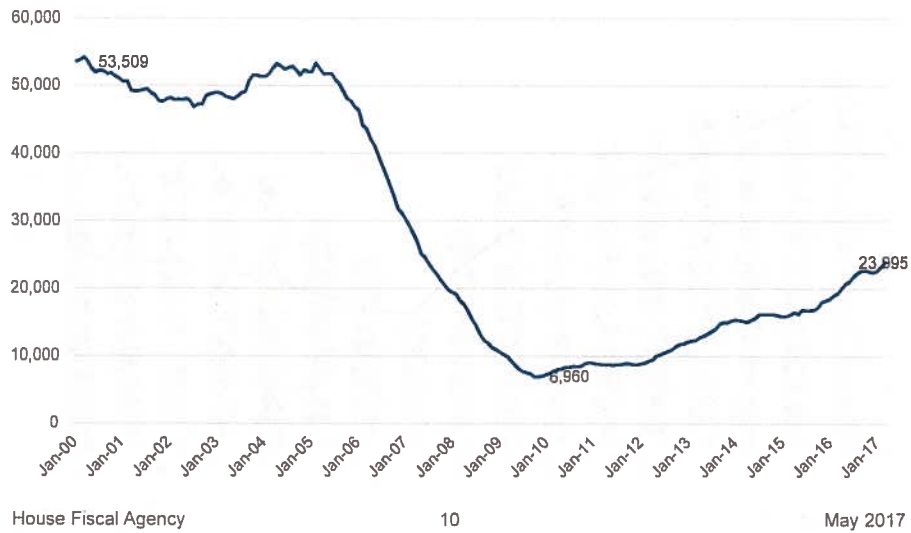


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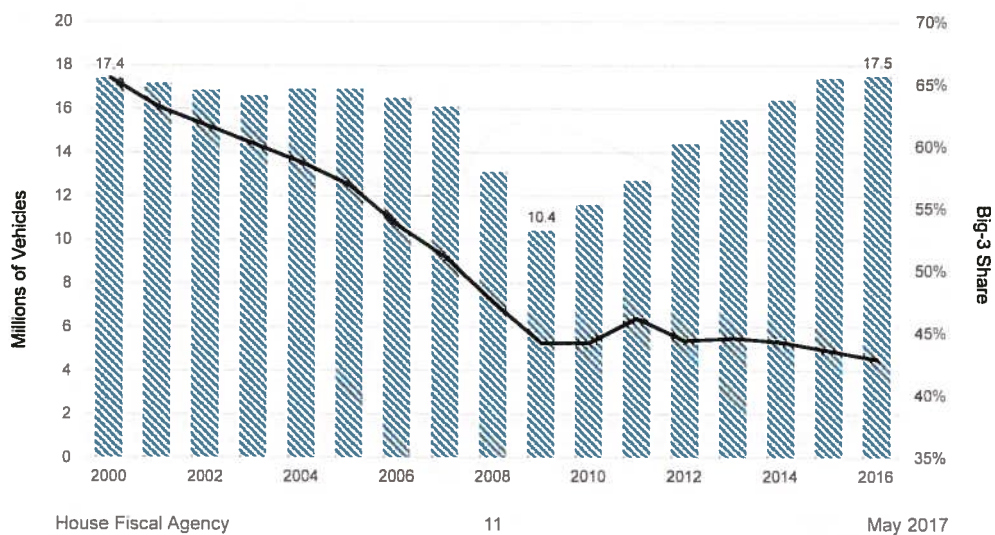
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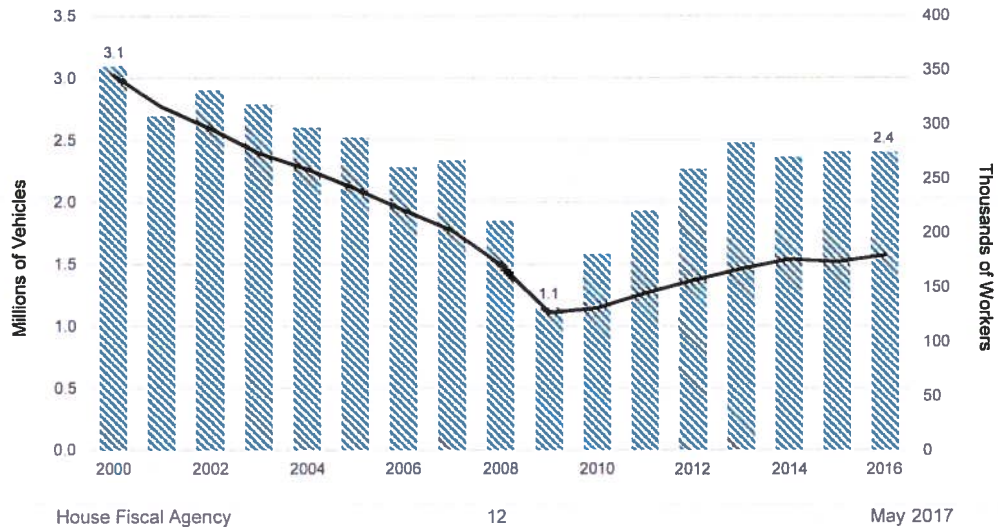
Michigan Building Permits, 12-month Moving Average



Light Vehicle Sales and Big-3 Market Share



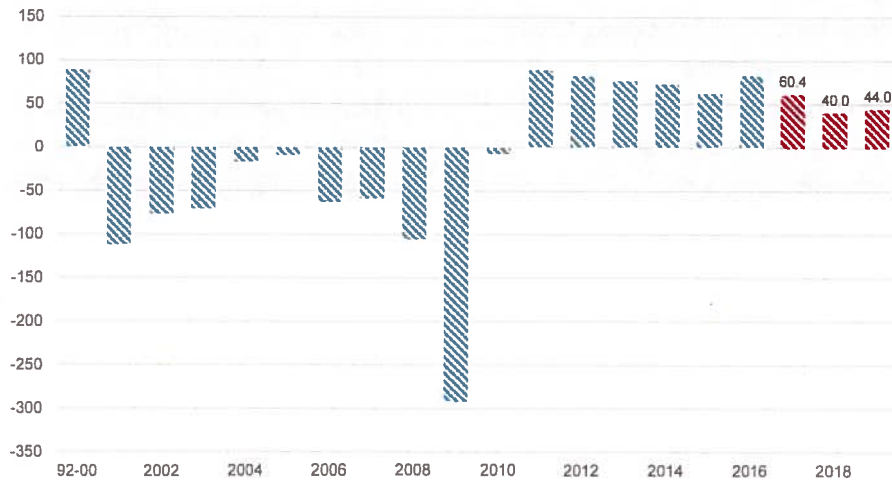
Michigan Vehicle Production and Motor Vehicle Employment



Total Wage and Salary Employment Percent Change from January 2000



Michigan Wage and Salary Employment, Annual Change



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US Economic Forecast Consensus Estimates

	2016	2017	2018	2019
Real Gross Domestic Product	1.6%	2.3%	2.3%	2.1%
Consumer Price Index (CY Basis)	1.3%	2.5%	1.9%	2.2%
Consumer Price Index (FY Basis)	0.9%	2.3%	2.0%	2.2%
3-Month Treasury Bill Rate	0.3%	1.0%	1.7%	2.3%
Unemployment Rate	4.9%	4.6%	4.4%	4.4%
Wage and Salary Employment Growth	1.7%	1.5%	1.2%	0.9%
Housing Starts (in Millions)	1.174	1.267	1.318	1.350
Light Vehicle Sales (Millions of Vehicles)	17.5	17.0	16.9	16.8
Cars (Millions of Vehicles)	6.9	6.2	6.0	6.0
Light Trucks (Millions of Vehicles)	10.6	10.8	10.9	10.8

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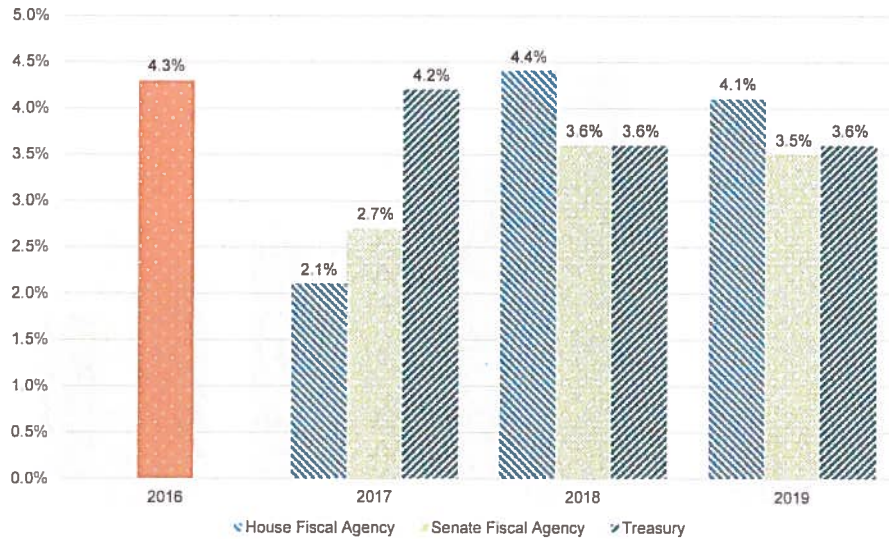
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Michigan Economic Forecast Consensus Estimates

	2016	2017	2018	2019
Detroit Consumer Price Index (CY Basis)	1.6%	2.2%	1.8%	2.3%
Detroit Consumer Price Index (FY Basis)	1.0%	2.2%	1.8%	2.1%
Wage and Salary Employment Growth	1.9%	1.4%	0.9%	1.0%
Unemployment Rate	4.9%	5.1%	5.1%	5.0%
Personal Income Growth	3.6%	3.5%	4.6%	4.7%
Real Personal Income Growth	2.6%	1.3%	2.8%	2.5%
Wage and Salary Income Growth	4.9%	3.3%	4.1%	4.2%

Revenue Estimates for Major Taxes

Baseline Individual Income Tax Growth, Annual Percent Change

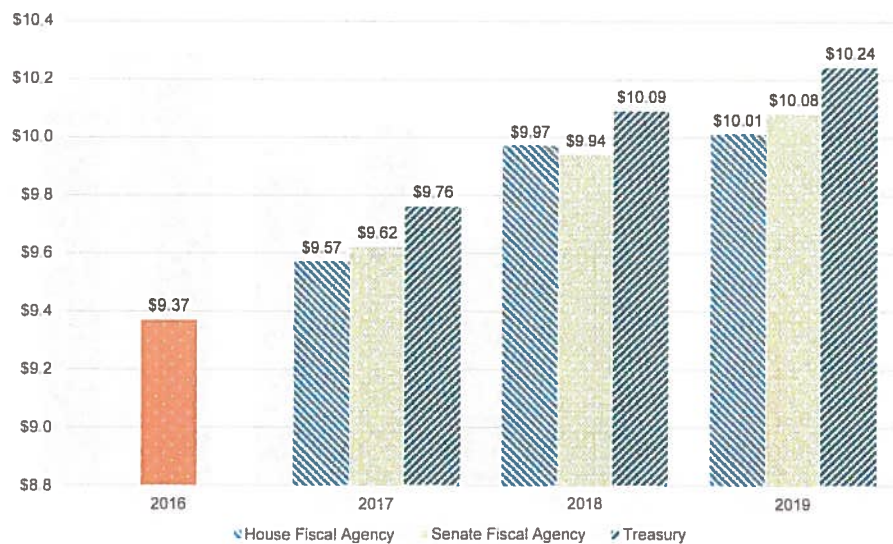


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Net Income Tax Revenue, Billions of Dollars, FY Basis

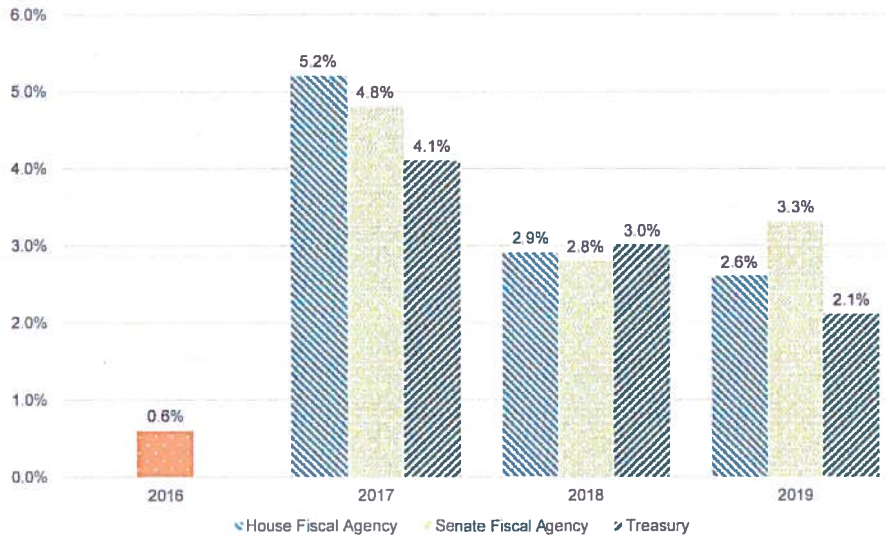


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Baseline Sales Tax Growth, Annual Percent Change

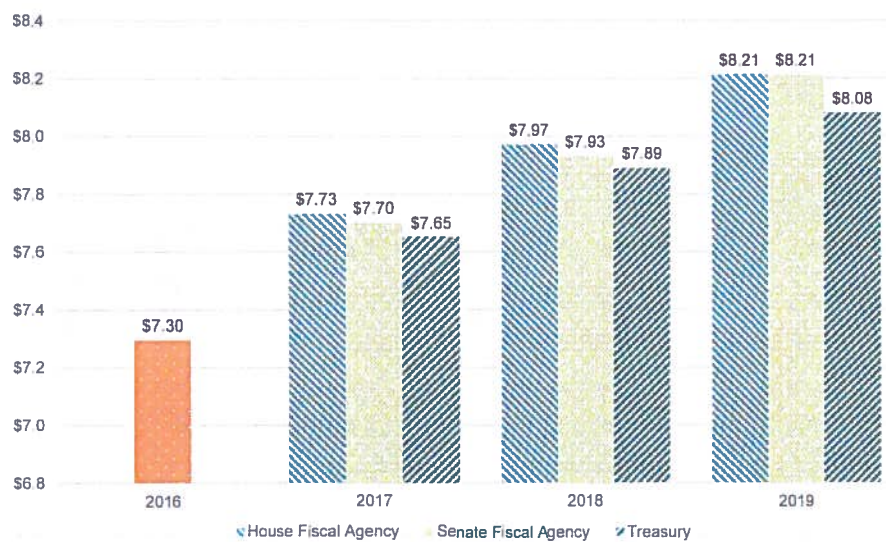


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Net Sales Tax Revenue, Billions of Dollars, FY Basis

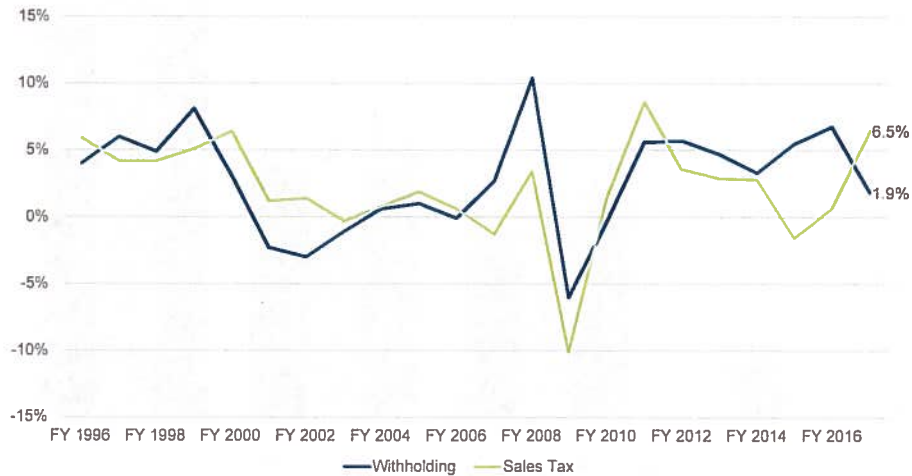


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Income Tax Withholding and Sales Taxes Annual Percent Change, FY Basis

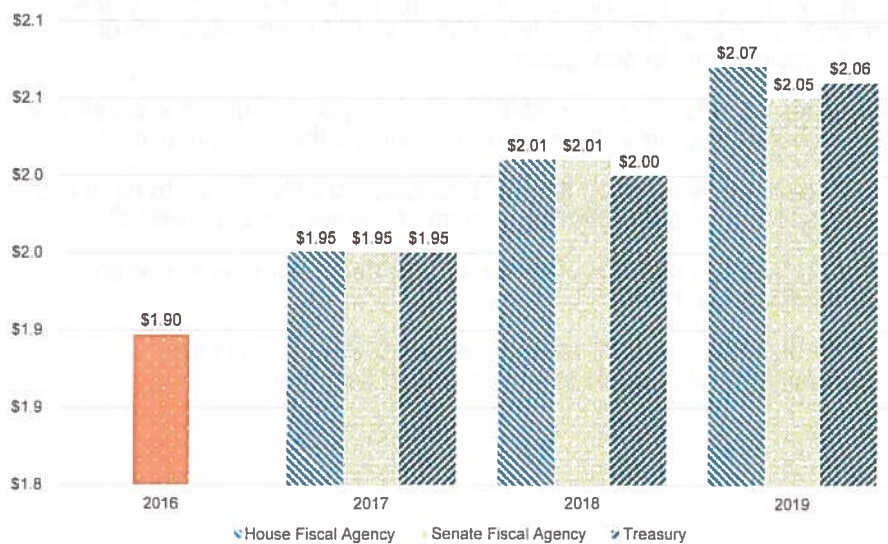


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State Education Tax Revenue, Billions of Dollars, FY Basis

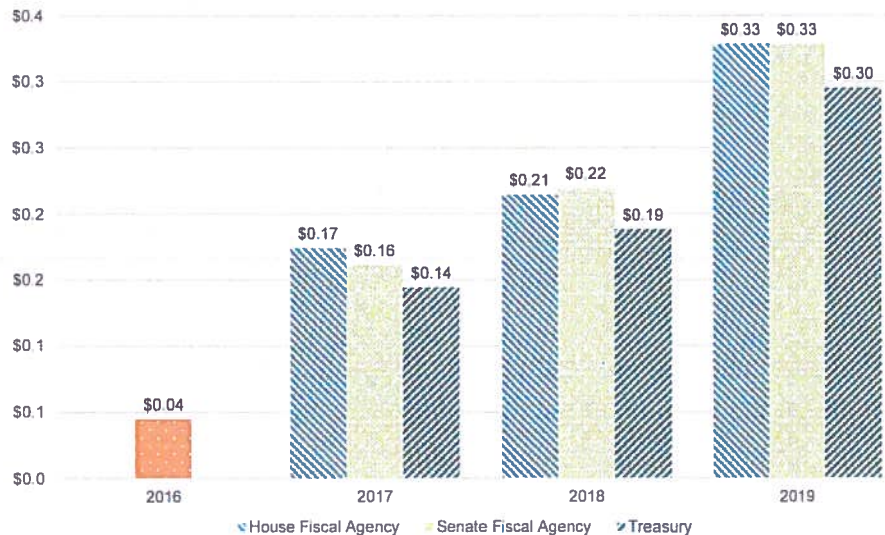


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Net MBT/CIT Revenue, Billions of Dollars, FY Basis



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MBT/CIT Updates

- Approximately \$210 million of MBT payments in FY 2016-17 and \$55 million in FY 2017-18 will be reclassified as CIT payments to offset misclassifications in prior years.
- This has the affect of making MBT revenue appear well below target and CIT revenue appear well above target, but just the opposite is true.
- MBT revenue remains on target. Certificated credits appear to be at the amounts estimated by the Department of Treasury and the MEDC.
- Conversely, CIT revenue collections have been less than expected during FY 2016-17.
- Since both MBT and CIT revenue accrue to the general fund, reclassifying the collections has no impact on the budget.

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Comparison of Major State Taxes

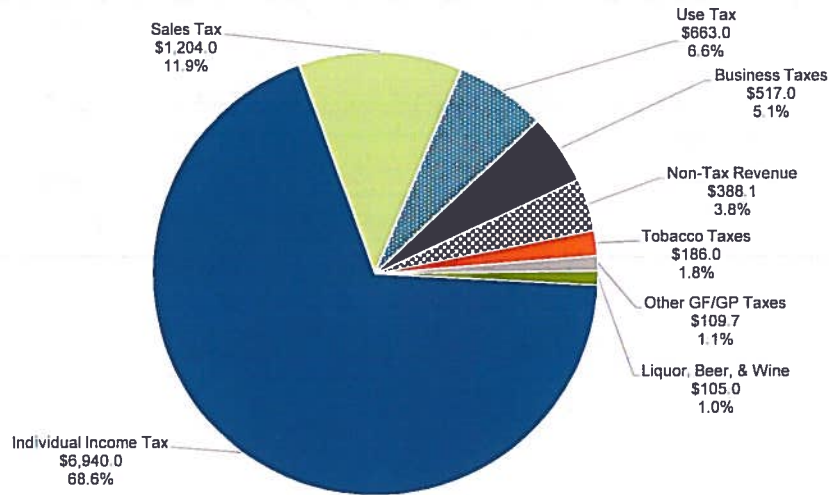
FY 2016-17 Consensus Estimates, Millions of Dollars

Tax	January	May	Change
Individual Income Tax	\$9,757.0	\$9,696.4	-\$60.6
Sales Tax	7,485.2	7,694.9	209.7
Use Tax (excludes PPT reimbursement)	1,193.6	1,185.0	-8.6
State Education Tax	1,933.9	1,945.9	12.0
Tobacco Taxes	934.4	944.4	10.0
Corporate Income Tax (less \$210 million transfer)	946.5	868.0	-78.5
Michigan Business Tax	-672.8	-712.8	-40.0
Insurance Company Premium Tax	405.6	366.3	-39.3
Real Estate Transfer Tax	305.2	312.7	7.5
Total	\$22,288.6	\$22,300.8	\$12.2

Consensus GF/GP and SAF Revenue Estimates

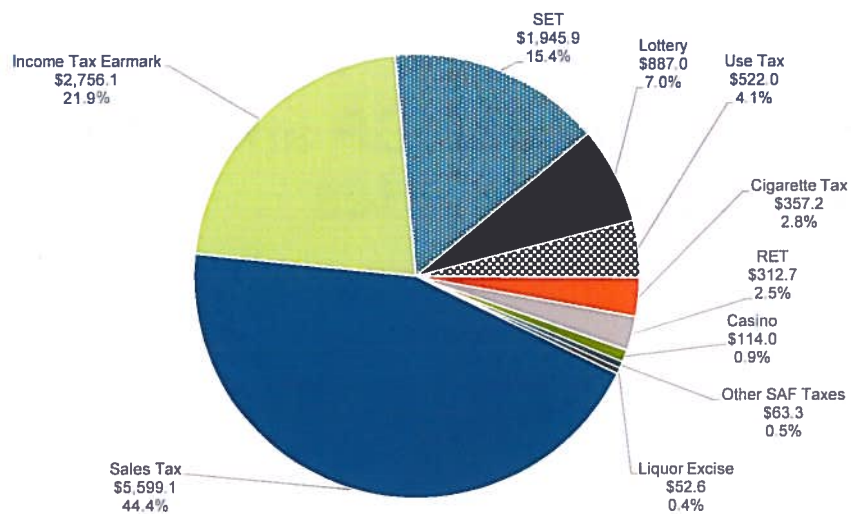
FY 2016-17 GF/GP Tax Revenue

The General Fund/General Purpose tax revenue is projected to total slightly more than \$10.1 billion in FY 2016-17. Dollar amounts below are in millions.



FY 2016-17 SAF Tax and Lottery Revenue

The School Aid Fund is projected to total almost \$12.6 billion in FY 2016-17. Dollar amounts below are in millions.



Consensus GF/GP and SAF Revenue Estimates, Millions of Dollars, FY Basis



Other Consensus Requirements

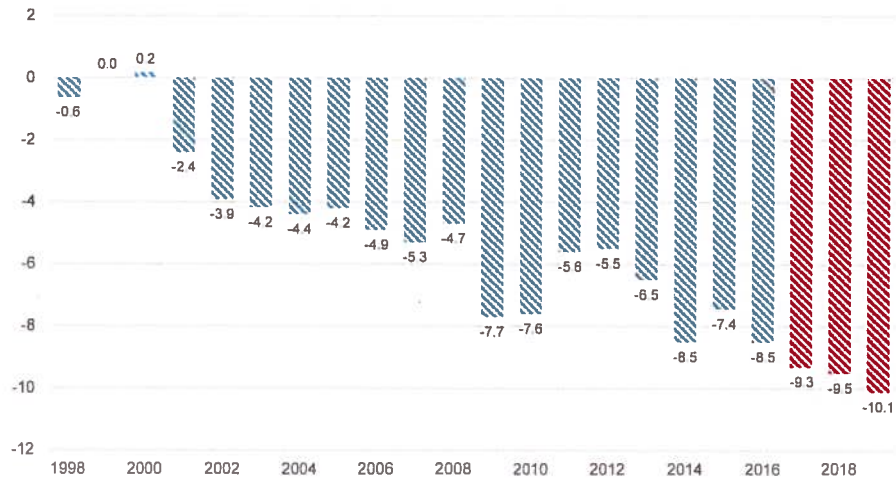
Budget Stabilization Fund

- A statutory formula compares the growth in real adjusted Michigan personal income.
- If the growth is negative, a pay-out from the BSF would be indicated.
- If the growth is positive, but less than or equal to 2%, no pay-in or pay-out is required.
- If the growth rate exceeds 2%, a pay-in is indicated based on the growth above 2%.
- Based on the consensus estimates for personal income and inflation rates, the calculation indicates pay-ins of \$150.3 million in FY 2016-17 and \$52.0 million in FY 2018-19.
- No pay-outs are indicated over the forecast horizon.
- It should be noted that the calculation is a statutory guideline. A pay-in or pay-out requires an appropriation.

Constitutional Revenue Limit

- Section 26, article IX effectively limits the total amount of revenue accruing to the state in any fiscal year, excluding any federal revenue, to no more than 9.49% of state personal income.
- If total state resources exceed the revenue limit by less than 1%, the excess can be deposited in the BSF.
- If total state resources exceed the revenue limit by less than 1% or more, the excess must be rebated to taxpayers.
- Consensus estimates indicate that total state resources will be less than the revenue limit by \$8.5 billion in FY 2015-16, \$9.1 billion in FY 2016-17, \$9.5 billion in FY 2017-18, and \$10.1 billion in FY 2018-19.

Constitutional Revenue Limit, Billions of Dollars



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For more information about the state revenue:

HFA website

<http://www.house.mi.gov/hfa/>

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