

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2016-17
THROUGH
FY 2018-19**



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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2016 through CY 2019. It also presents preliminary final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2015-16, revised revenue estimates for FY 2016-17 and FY 2017-18, and initial estimates for FY 2018-19. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 12, 2017, 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 2019, 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 2016-17 through FY 2018-19.

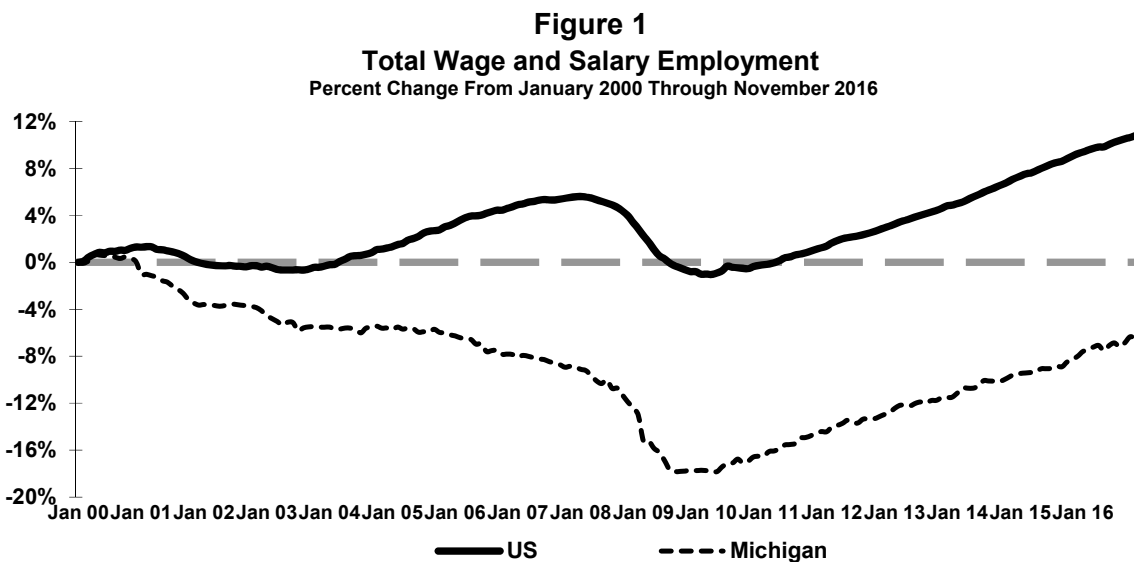
After a weak first quarter of 2016, the national economy has been improving at a modest pace fueled by a 3.5% real Gross Domestic Product (GDP) growth rate in third quarter. The housing sector continues to expand and light motor vehicle sales reached an all-time high of 17.5 million units in CY 2016. In addition, wage and salary employment is on track to increase 1.7% in CY 2016 with broad-based gains across all major economic sectors.

Real GDP growth is expected to increase from an estimated 1.6% rate in CY 2016 to 2.3% in CY 2017. Accelerated economic growth is anticipated through CY 2018 before moderating somewhat in CY 2019.

Michigan's economy and state revenue are significantly affected by the strength of the national economy. Through November, Michigan's wage and salary employment had grown by about 70,900 jobs in 2016. This increase has been led by gains in construction, financial activities, professional and business services, and education and health services.

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 2016.



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 2016, the national economy has enjoyed 74 consecutive months of job growth. During this span, job growth averaged more than 200,000 per month, and as of November 2016, total employment was roughly 10.8% 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. Ninety-seven thousand jobs were added during CY 2011, 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 growth returned slowed to 70,700 in CY 2015. The first 11 months of 2016 have seen similar increases as roughly 70,900 new jobs have been added. However, despite the employment increases of the past several years, total wage and salary employment remains 6.5% lower than in January 2000.

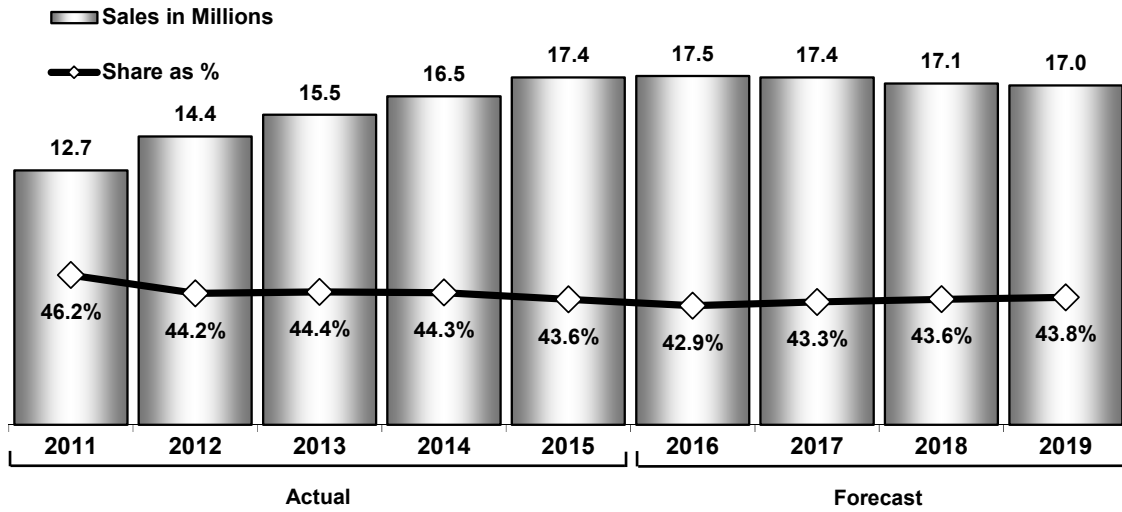
U.S. and Michigan Motor Vehicle Industry

Light motor vehicle sales totaled almost 17.5 million units in CY 2016, an increase of 0.4% from the 17.4 million vehicles sold in CY 2015. Light motor vehicle sales are forecast to drop back to 17.4 million units in CY 2017, and continue slowing to 17.1 million units in CY 2018 and 17.0 million units in CY 2019.

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 Detroit 3 auto manufacturers hovered around 42.9% in CY 2016 and is expected to increase modestly to 43.8% through the end of 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 2016, the Detroit 3 is expected to sell just under 7.5 million vehicles, which would translate to a 1.1% decrease from the previous year. It is expected that the Detroit 3 will sell 7.53 million vehicles in CY 2017, 7.46 million in CY 2018, and 7.46 million in CY 2019.

Figure 2
Detroit 3 Share of Light Vehicle Sales



U. S. Forecast Highlights

Real GDP growth is forecast to increase 2.3% in CY 2017. It is forecast to increase 2.4% in CY 2018, and grow 2.1% in CY 2019.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.4% in CY 2017 and 2.1% in CY 2018, and 2.5% in CY 2019.

Light vehicle sales of 17.5 million units are expected in CY 2016, are forecast to tail off to 17.4 million units in CY 2017, 17.1 million units in CY 2018, and 17.0 million units in CY 2019. The import share of light vehicles is forecast to remain close to 22.0% throughout the forecast horizon.

Wage and salary employment growth is expected to be 1.7% in CY 2016; it is forecast to increase 1.2% in CY 2017, 0.9% in CY 2018, and 1.0% in CY 2019.

The national unemployment rate is expected to be 4.9% in CY 2016; it is forecast to decline to 4.6% in CY 2017, 4.4% in CY 2018, and 4.3% in CY 2019.

Interest rates on three-month T-bills are expected to average 0.9% in CY 2017, 1.6% in CY 2018, and 2.4% in CY 2019 as the Federal Reserve begins increasing the federal funds rate.

Michigan Forecast Highlights

Michigan wage and salary employment growth is expected to be 2.0% in CY 2016; it is forecast to be 1.3% in CY 2017, 1.1% in CY 2018, and 1.0% in CY 2019.

Michigan's unemployment rate is expected to be 4.6% in CY 2016; it is forecast to remain at 4.6% in CY 2017 before increasing to 5.0% in CY 2018, and 4.9% in CY 2019.

Michigan personal income is expected to increase 3.5% in CY 2016; it is forecast to increase 4.0% in CY 2017, 3.5% in CY 2018, and 3.6% in CY 2019.

Michigan wage and salary income is expected to increase 4.6% in CY 2016; it is forecast to increase 3.5% in CY 2017, 3.0% in CY 2018, and 3.2% in CY 2019.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 2.3% in CY 2017, 1.9% in CY 2018, and 2.0% in CY 2019.

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

**Table 1
ECONOMIC FORECAST VARIABLES**

	Calendar 2015 Actual	Calendar 2016 Estimated	% Change from Prior Year	Calendar 2017 Estimated	% Change from Prior Year	Calendar 2018 Estimated	% Change from Prior Year	Calendar 2019 Estimated	% Change from Prior Year
<u>United States</u>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$16,397.2	\$16,661.3	1.6%	\$17,036.9	2.3%	\$17,437.5	2.4%	\$17,798.1	2.1%
Implicit Price Deflator GDP (2009 = 100)	110.0	111.4	1.3%	113.9	2.2%	116.3	2.1%	118.7	2.1%
Consumer Price Index (1982-84 = 100)	237.0	240.1	1.3%	245.9	2.4%	251.0	2.1%	257.3	2.5%
Consumer Price Index (FY) (1982-84 = 100)	236.7	238.9	0.9%	244.7	2.4%	249.7	2.1%	255.7	2.4%
Personal Consumption Deflator (2009 = 100)	109.5	110.7	1.0%	112.6	1.7%	114.8	1.9%	117.2	2.1%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.3%		0.9%		1.6%		2.4%	
Aaa Corporate Bonds Interest Rate (Percent)	3.9%	3.6%		4.6%		4.8%		5.4%	
Unemployment Rate (Percent)	5.3%	4.9%		4.6%		4.4%		4.3%	
Wage and Salary Employment (Millions)	141.8	144.2	1.7%	146.0	1.2%	147.3	0.9%	148.8	1.0%
Housing Starts (Thousands of units)	1.108	1.164	5.1%	1.235	6.1%	1.325	7.2%	1.385	4.6%
Light Vehicle Sales (Millions of units)	17.4	17.5	0.4%	17.4	-0.4%	17.1	-1.7%	17.0	-0.6%
Passenger Car Sales (Millions of units)	7.5	6.9	-8.5%	6.6	-4.2%	6.4	-3.2%	6.2	-2.2%
Light Truck Sales (Millions of units)	9.9	10.6	7.1%	10.8	2.1%	10.7	-0.8%	10.8	0.4%
Import Share of Light Vehicles (Percent)	21.3%	22.1%		22.0%		21.8%		22.0%	
Big-3 Share of Light Vehicle Sales (Percent)	43.6%	42.9%		43.3%		43.6%		43.8%	
Personal Income (Billions of current dollars)	\$15,458.5	\$15,997.2	3.5%	\$16,701.1	4.4%	\$17,486.1	4.7%	\$18,255.5	4.4%
Real Disposable Income (Billions of 2009 dollars)	\$12,343.2	\$12,676.0	2.7%	\$12,963.0	2.3%	\$13,300.3	2.6%	\$13,653.9	2.7%
<u>Michigan</u>									
Wage and Salary Employment (Thousands)	4,244.7	4,330.0	2.0%	4,384.1	1.3%	4,432.3	1.1%	4,476.7	1.0%
Transportation Equipment Employment (Thousands)	173.7	177.2	2.0%	175.1	-1.2%	174.1	-0.5%	175.3	0.7%
Unemployment Rate (Percent)	5.4%	4.6%		4.6%		5.0%		4.9%	
Personal Income (Millions of current dollars)	\$424,807	\$439,848	3.5%	\$457,442	4.0%	\$473,452	3.5%	\$490,497	3.6%
Real Personal Income (Millions of 1982-84 dollars)	\$194,138	\$197,928	2.0%	\$201,275	1.7%	\$204,402	1.6%	\$207,536	1.5%
Real Disposable Income (Millions of 1982-84 dollars)	\$170,954	\$174,629	2.2%	\$177,619	1.7%	\$182,283	2.6%	\$186,842	2.5%
Wage and Salary Income (Millions of current dollars)	\$214,703	\$224,553	4.6%	\$232,413	3.5%	\$239,385	3.0%	\$247,165	3.2%
Detroit Consumer Price Index (1982-84 = 100)	218.8	222.2	1.6%	227.3	2.3%	231.6	1.9%	236.3	2.0%
Detroit Consumer Price Index (FY) (1982-84 = 100)	219.0	221.2	1.0%	226.1	2.2%	230.5	1.9%	235.1	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

Potential changes in fiscal policy impose a significant degree of uncertainty throughout the forecast horizon. The president-elect campaigned on a platform of substantial cuts to personal and corporate income tax rates in conjunction with increased federal government expenditures on infrastructure and defense. Any combination of these policies would provide some economic stimulus in the short run, but would dampen the economy over the longer term as increased federal deficits begin to exert pressure on interest rates and potentially crowd out business investment.

Monetary Policy

The Federal Reserve officially raised the federal funds rate by 25 basis points in December 2016, and additional increases are anticipated over the forecast horizon that could increase the rate by an additional 2%. In the event that expansionary fiscal policy is already driving up interest rates the Federal Reserve might be more inclined to pursue an approach of monetary expansion to limit interest rate spikes, but doing so increases the risk of higher inflation as the economy draws closer to full employment.

U.S. Trade Policy

During the campaign, the president-elect consistently asserted the need to renegotiate existing trade agreements and/or unilaterally impose greater trade restrictions on foreign nations. While this approach may protect or actually increase employment in certain sectors, the overall costs of higher trade restrictions more than offset the benefits to the economic sectors receiving the protection. In addition, if other nations retaliate with similar restrictions against U.S. exports, the potential for an economic recession is greatly enhanced.



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 2017 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the May 2016 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, and 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 final total baseline GF/GP and SAF revenue was \$23.3 billion in FY 2015-16. It is forecast to increase 2.6% in FY 2016-17, 2.5% in FY 2017-18, and 2.6% in FY 2018-19.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary final total net GF/GP and SAF revenue was \$22.1 billion in FY 2015-16, which would be a 1.6% increase from FY 2014-15. It is forecast to increase 2.9% in FY 2016-17. Total net GF/GP and SAF revenue is expected to increase 2.3% in FY 2017-18 and 1.3% in FY 2018-19.

Table 2 also shows the May 2016 adjusted consensus estimates and the recommended revisions to these estimates for FY 2015-16 through FY 2017-18. The May 2016 adjusted consensus estimates include the May 2016 consensus estimates plus enacted tax changes since May 2016.

Preliminary final FY 2015-16 figures suggest an increase of \$328.5 million from the May 2016 adjusted consensus estimates, due in part to a change in the timing of existing certificated credits that had been anticipated to be claimed under the Michigan Business Tax (MBT) in FY 2015-16. However, much of the adjustment can also be attributed to one-time revenue increases that are unlikely to carry forward into subsequent years.

The recommended revision for FY 2016-17 is an increase of \$231.2 million as the impact of the deferred MBT credits reduces GF/GP revenue and income tax revenue returns to a

more normal growth rate. Finally, the recommended revision for FY 2017-18 is a decrease of \$76.1 million, reflecting the ongoing impact of prior year reductions.

GF/GP Revenue by Source

GF/GP Tax Revenue

Relative to FY 2014-15, GF/GP tax revenue decreased 0.9% to \$9,548.0 million in FY 2015-16. Although individual income tax revenue accruing to the General Fund increased by about \$250 million, business tax revenue declined by almost \$400 million. GF/GP tax revenue in FY 2016-17 is estimated to be \$9,929.2 million, an increase of \$381.2 million, and \$10,140.0 million in FY 2017-18, an increase of \$210.8 million. GF/GP tax revenue is estimated to decrease 0.2% in FY 2018-19 due to continued increases in the use tax levied by the local community stabilization authority as well as onset of income tax revenue earmarked to the Transportation Fund.

Total GF/GP Net Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to be appropriated. Final net GF/GP revenue is expected to be \$10,015.3 million in FY 2015-16; In FY 2016-17 it is forecast to be \$10,315.3 million, an increase of \$300.0 million, and \$10,518.1 million in FY 2017-18, an increase of \$202.8 million. Net GF/GP revenue is estimated to decrease 0.3% in FY 2018-19.

Net GF/GP revenue estimates are lowered by \$380.9 million for FY 2016-17, \$410.8 million for FY 2017-18, and \$438.0 million for FY 2018-19 due to the diversion of use tax revenue for personal property tax reimbursement to local units of government. In addition, \$150 million of income tax revenue is diverted to the Michigan Transportation Fund in FY 2018-19 as part of the enacted roads package.

SAF Revenue by Source

Total Net SAF Revenue

Final net SAF revenue is anticipated to increase 3.2% to \$12,118.7 million in FY 2015-16. Net SAF revenue is forecast to be \$12,456.8 million in FY 2016-17, an increase of \$338.1 million. Net SAF revenue is estimated to increase 2.5% in FY 2017-18 and 2.6% in FY 2018-19.

Table 2
HFA JANUARY 2017 REVENUE ESTIMATES FOR FY 2016-17 THROUGH FY 2018-19
(Millions of Dollars)

	Preliminary Final <u>FY 2015-16</u>	HFA Est. <u>FY 2016-17</u>	HFA Est. <u>FY 2017-18</u>	HFA Est. <u>FY 2018-19</u>	<u>FY 2016-17</u> <u>% Change</u>	<u>FY 2017-18</u> <u>% Change</u>	<u>FY 2018-19</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$11,161.4	\$11,431.1	\$11,743.3	\$12,082.3	2.4%	2.7%	2.9%
SAF	12,181.6	12,515.4	12,807.8	13,116.1	2.7%	2.3%	2.4%
Total	\$23,343.0	\$23,946.5	\$24,551.2	\$25,198.3	2.6%	2.5%	2.6%
<u>Net</u>							
GF/GP	\$10,015.3	\$10,315.3	\$10,518.1	\$10,491.4	3.0%	2.0%	-0.3%
SAF	12,118.7	12,456.8	12,773.6	13,107.5	2.8%	2.5%	2.6%
Total	\$22,134.0	\$22,772.1	\$23,291.8	\$23,598.9	2.9%	2.3%	1.3%
<u>May 2016 Adjusted Consensus¹</u>							
<u>Net</u>							
GF/GP	\$9,740.7	\$10,138.5	\$10,607.1				
SAF	12,064.8	12,402.4	12,760.8				
Total	\$21,805.5	\$22,540.9	\$23,367.9				
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$274.6	\$176.8	(\$89.0)				
SAF	53.9	54.4	12.8				
Total	\$328.5	\$231.2	(\$76.1)				

NOTE: Numbers may not add due to rounding.

¹ The May 2016 adjusted consensus estimate includes the May 2016 consensus estimate plus enacted tax changes since May 2016.

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 2016-17		FY 2017-18		FY 2018-19	
	Final FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$6,706.2	\$6,955.5	\$7,182.2	\$7,069.1	\$249.3	3.7%	\$226.7	3.3%	(\$113.1)	-1.6%
Sales Tax	1,143.3	1,186.4	1,210.9	1,246.1	43.1	3.8%	24.5	2.1%	35.2	2.9%
Use Tax	931.7	662.8	583.6	611.5	(268.9)	-28.9%	(79.2)	-11.9%	27.9	4.8%
Michigan Business Tax	(878.9)	(640.4)	(637.4)	(632.9)	238.5	-27.1%	3.0	-0.5%	4.5	-0.7%
Corporate Income Tax	929.8	952.0	980.0	1,010.0	22.2	2.4%	28.0	2.9%	30.0	3.1%
Insurance	329.2	410.0	418.4	405.0	80.8	24.5%	8.4	2.0%	(13.4)	-3.2%
Other GF/GP Taxes	386.7	402.9	402.3	412.5	16.2	4.2%	(0.6)	-0.1%	10.2	2.5%
GF/GP Net Tax Revenue	\$9,548.0	\$9,929.2	\$10,140.0	\$10,121.3	\$381.2	4.0%	\$210.8	2.1%	(\$18.7)	-0.2%
Non-Tax Revenue	467.3	386.1	378.1	370.1	(81.2)	-17.4%	(8.0)	-2.1%	(8.0)	-2.1%
Total GF/GP Net Revenue	\$10,015.3	\$10,315.3	\$10,518.1	\$10,491.4	\$300.0	3.0%	\$202.8	2.0%	(\$26.7)	-0.3%

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)

	Preliminary Final	HFA Est.	HFA Est.	HFA Est.	FY 2016-17		FY 2017-18		FY 2018-19	
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,308.8	\$5,467.0	\$5,601.8	\$5,765.7	\$158.2	3.0%	\$134.8	2.5%	\$163.9	2.9%
Use Tax	490.0	521.9	560.8	589.1	31.9	6.5%	38.9	7.5%	28.3	5.0%
Income Tax	2,662.0	2,774.0	2,862.0	2,953.6	112.0	4.2%	88.0	3.2%	91.6	3.2%
State Education Tax	1,897.0	1,925.4	1,977.4	2,026.8	28.4	1.5%	52.0	2.7%	49.4	2.5%
Lottery/Casinos	1,001.8	999.0	996.0	993.0	(2.8)	-0.3%	(3.0)	-0.3%	(3.0)	-0.3%
Tobacco Tax	358.4	350.4	344.5	339.1	(8.0)	-2.2%	(5.9)	-1.7%	(5.4)	-1.6%
Real Estate Transfer Tax	289.3	302.0	312.0	319.0	12.7	4.4%	10.0	3.3%	7.0	2.2%
Other Taxes	111.4	117.1	119.1	121.1	5.7	5.1%	2.0	1.7%	2.0	1.7%
SAF Net Revenue	\$12,118.7	\$12,456.8	\$12,773.6	\$13,107.5	\$338.1	2.8%	\$316.9	2.5%	\$333.8	2.6%

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 2015-16 estimates are based on year-to-date appropriations and HFA revenue estimates. Preliminary final FY 2015-16 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)

	Preliminary Final FY 2015-16	Estimated FY 2016-17
General Fund/General Purpose	\$605.4	\$494.1
School Aid Fund	\$176.8	\$127.4
Budget Stabilization Fund	\$612.4	\$768.8

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 2018-19.

The BSF ending fund balance for FY 2015-16 was \$612.4 million. A \$75.0 million appropriation has been made for FY 2016-17. 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 2015-16 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 \$133.4 million for FY 2016-17, \$58.2 million less than the appropriated amount. No pay-ins would be required for either FY 2017-18 or FY 2018-19. When the required \$17.5 million deposits are included, the year-end balance is estimated at \$768.8 million for FY 2016-17, \$798.8 million for FY 2017-18, and \$835.5 million for FY 2018-19.

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	\$0.2	\$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*	\$150.7	\$0.0	\$5.7	\$768.8
2017-18**	\$17.5	\$0.0	\$12.5	\$798.8
2018-19**	\$17.5	\$0.0	\$19.2	\$835.5

* 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 3**, and **Table 8**, the FY 2015-16 revenue limit calculation is expected to show state revenue collections at \$8.6 billion below the revenue limit. For FY 2016-17, state revenue is estimated to be below the limit by \$9.1 billion. For FY 2017-18 and FY 2018-19, state revenue is estimated to remain well below the revenue limit – by \$9.7 billion, and \$10.6 billion, respectively.

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

Revenue Limit Calculations	Estimated FY 2015-16	Estimated FY 2016-17	Estimated FY 2017-18	Estimated FY 2018-19
Personal Income				
Calendar Year	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2017</u>
Amount	\$405,975	\$424,807	\$439,848	\$457,442
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$38,527.0	\$40,314.2	\$41,741.6	\$43,411.2
Total Revenue Subject to Revenue Limit	\$29,904.6	\$31,214.3	\$32,034.9	\$32,793.3
Amount Under (Over) State Revenue Limit	\$8,622.4	\$9,099.9	\$9,706.7	\$10,618.0

NOTE: Numbers may not add due to rounding.

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

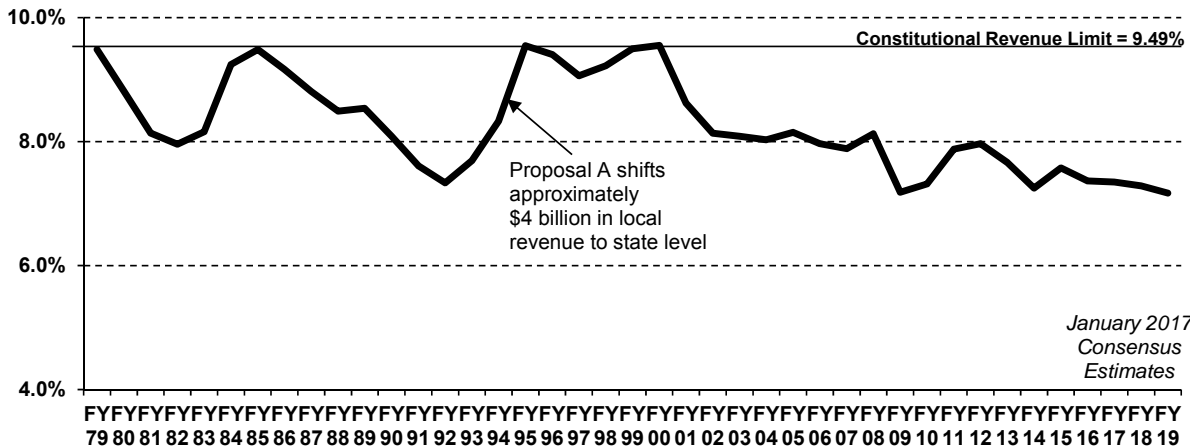


Table 8
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

<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	(\$5.58)
2011-12	(\$5.23)
2012-13	(\$6.55)
2013-14	(\$8.48)
2014-15	(\$7.40)
2015-16*	(\$8.62)
2016-17*	(\$9.10)
2017-18*	(\$9.71)
2018-19*	(\$10.62)

**HFA Estimate*



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