

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2017-18
THROUGH
FY 2019-20**



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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2017 through CY 2020. It also presents preliminary final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2016-17, revised revenue estimates for FY 2017-18 and FY 2018-19, and initial estimates for FY 2019-20. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 11, 2018, 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 2020, 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 2017-18 through FY 2019-20. It should be noted at the outset that the economic and revenue forecasts do not explicitly reflect any direct impacts from the federal Tax Cut and Jobs Act of 2017. The complexity of the tax changes and the short interval between the passage of the legislation and the generation of this forecast only permitted general elements to be included. A more complete treatment will be incorporated into the May forecast.

After a weak first quarter of 2017, the national economy has been improving at a modest pace fueled by a 3.2% real Gross Domestic Product (GDP) growth rate in the third quarter. The housing sector continues to expand and light motor vehicle sales reached 17.2 million units in CY 2017, the third straight year sales have topped 17 million. In addition, wage and salary employment is on track to increase 1.5% in CY 2017 with broad-based gains across all major economic sectors.

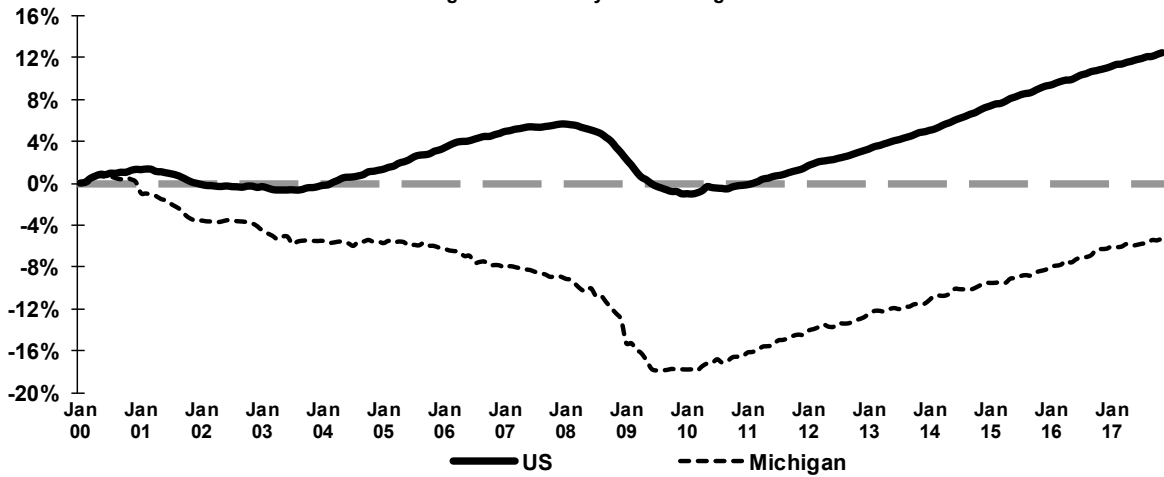
Real GDP growth is expected to increase from an estimated 2.3% rate in CY 2017 to 2.4% in CY 2018 although economic growth is projected to moderate somewhat in CY 2019 and CY 2020.

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 45,400 jobs in 2017, less than half of the 91,500 jobs produced during the first eleven months of 2016.

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 2017.

Figure 1
Total Wage and Salary Employment
 Percent Change From January 2000 Through November 2017



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 enjoyed 86 consecutive months of job growth. During this span, job growth averaged more than 197,000 per month, and as of November 2017, total employment was roughly 12.4% 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.

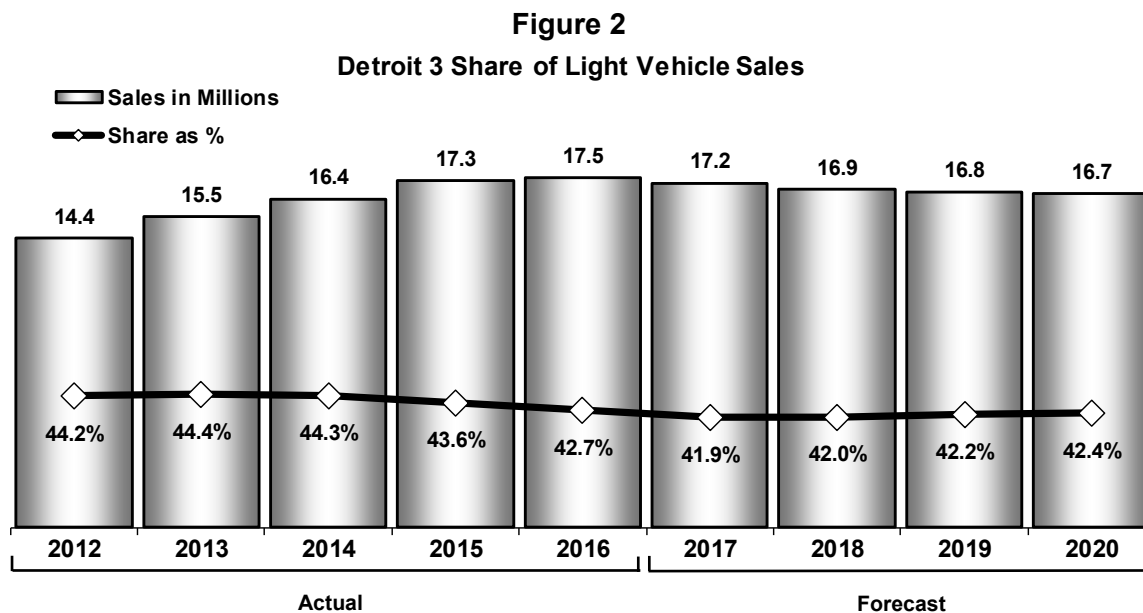
During CY 2008 and CY 2009, more than 400,000 additional jobs were lost, and although employment increased somewhat in CY 2010, only about 56,000 jobs were added. During CY 2011, 97,000 jobs were added, before employment increases slowed to about 77,000 during both CY 2012 and CY 2013. Following a strong gain of 91,900 jobs in CY 2014, non-farm employment growth slowed to 58,600 in CY 2015 before rebounding to 92,400 in CY 2016. Job growth has slowed substantially over the first 11 months of 2017 as only 45,400 new jobs have been added. However, despite the employment increases of the past several years, total wage and salary employment remains 5.3% lower than in January 2000.

U.S. and Michigan Motor Vehicle Industry

Light motor vehicle sales totaled 17.2 million units in CY 2017, a decline of 1.3% from the 17.5 million vehicles sold in CY 2016. Light motor vehicle sales are forecast to drop back to 16.9 million units in CY 2018, and continue slowing to 16.8 million units in CY 2019 and 16.7 million units in CY 2020.

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 41.9% in CY 2017 and is expected to increase modestly to 42.4% by 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 2017, the Detroit 3 is expected to sell just over 7.1 million vehicles, which would translate to a 3.2% decrease from CY 2016. It is expected that the Detroit 3 will sell approximately 7.1 million vehicles in CY 2018, CY 2019, and CY 2020.



U.S. Forecast Highlights

Real GDP growth is forecast to increase 2.4% in CY 2018. It is forecast to increase 2.2% in CY 2019, and grow 1.9% in CY 2020.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 1.9% in CY 2018, 2.1% in CY 2019, and 2.5% in CY 2020.

Light vehicle sales of 17.2 million units are expected in CY 2017, but are forecast to tail off to 16.9 million units in CY 2018, 16.8 million units in CY 2019, and 16.7 million units in CY 2020. The import share of light vehicles is forecast to remain close to 23.3% throughout the forecast horizon.

Wage and salary employment growth is expected to be 1.5% in CY 2017; it is forecast to increase 1.5% in CY 2018, 1.3% in CY 2019, and 0.7% in CY 2020.

The national unemployment rate is expected to be 4.4% in CY 2017; it is forecast to decline to 4.1% in CY 2018, and 4.0% in both CY 2019 and CY 2020.

Interest rates on three-month T-bills are expected to average 1.7% in CY 2018, 2.1% in CY 2019, and 2.6% in CY 2020 as the Federal Reserve continues to increase the federal funds rate.

Michigan Forecast Highlights

Michigan wage and salary employment growth is expected to be 1.5% in CY 2017; it is forecast to be 1.0% in CY 2018 and 0.9% in both CY 2019 and CY 2020.

Michigan's unemployment rate is expected to be 4.5% in CY 2017; it is forecast to decrease to 4.3% in CY 2018, 4.2% in CY 2019, and 4.1% in CY 2020.

Michigan personal income is expected to increase 2.8% in CY 2017; it is forecast to increase 4.3% in CY 2018, 4.4% in CY 2019, and 4.5% in CY 2020.

Michigan wage and salary income is expected to increase 3.1% in CY 2017; it is forecast to increase 4.2% in CY 2018, 4.3% in CY 2019, and 4.5% in CY 2020.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 1.6% in CY 2018, 1.9% in CY 2019, and 2.4% in CY 2020.

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

**Table 1
ECONOMIC FORECAST VARIABLES**

	Calendar 2016 Actual	Calendar 2017 Estimated	% Change from Prior Year	Calendar 2018 Estimated	% Change from Prior Year	Calendar 2019 Estimated	% Change from Prior Year	Calendar 2020 Estimated	% Change from Prior Year
<u>United States</u>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$16,716.2	\$17,103.0	2.3%	\$17,517.2	2.4%	\$17,901.1	2.2%	\$18,235.2	1.9%
Implicit Price Deflator GDP (2009 = 100)	111.4	113.4	1.8%	115.6	2.0%	118.2	2.2%	121.1	2.4%
Consumer Price Index (1982-84 = 100)	240.0	245.0	2.1%	249.7	1.9%	254.9	2.1%	261.3	2.5%
Consumer Price Index (FY) (1982-84 = 100)	238.9	243.8	2.1%	248.6	2.0%	253.6	2.0%	259.7	2.4%
Personal Consumption Deflator (2009 = 100)	110.8	112.6	1.6%	114.4	1.6%	116.6	1.9%	119.2	2.2%
3-month Treasury Bills Interest Rate (Percent)	0.3%	0.9%		1.7%		2.1%		2.6%	
Aaa Corporate Bonds Interest Rate (Percent)	3.7%	3.8%		4.1%		4.6%		4.7%	
Unemployment Rate (Percent)	4.9%	4.4%		4.1%		4.0%		4.0%	
Wage and Salary Employment (Millions)	151.4	153.7	1.5%	156.0	1.5%	158.0	1.3%	159.1	0.7%
Housing Starts (Thousands of units)	1.177	1.205	2.4%	1.264	4.9%	1.335	5.6%	1.401	4.9%
Light Vehicle Sales (Millions of units)	17.5	17.2	-1.3%	16.9	-1.9%	16.8	-0.6%	16.7	-0.6%
Passenger Car Sales (Millions of units)	6.9	6.1	-10.5%	5.8	-6.1%	5.5	-4.1%	5.3	-4.2%
Light Truck Sales (Millions of units)	10.6	11.1	4.6%	11.1	0.4%	11.3	1.2%	11.4	1.2%
Import Share of Light Vehicles (Percent)	22.1%	22.3%		22.5%		22.9%		23.3%	
Big-3 Share of Light Vehicle Sales (Percent)	42.7%	41.9%		42.0%		42.2%		42.4%	
Personal Income (Billions of current dollars)	\$15,928.7	\$16,422.4	3.1%	\$17,150.5	4.4%	\$18,008.8	5.0%	\$18,916.9	5.0%
Real Disposable Income (Billions of 2009 dollars)	\$12,608.7	\$12,774.2	1.3%	\$13,108.4	2.6%	\$13,512.7	3.1%	\$13,889.9	2.8%
<u>Michigan</u>									
Wage and Salary Employment (Thousands)	4,328.0	4,392.9	1.5%	4,436.5	1.0%	4,476.6	0.9%	4,517.6	0.9%
Transportation Equipment Employment (Thousands)	179.6	179.8	0.1%	176.0	-2.1%	174.5	-0.9%	174.4	-0.1%
Unemployment Rate (Percent)	5.0%	4.5%		4.3%		4.2%		4.1%	
Personal Income (Millions of current dollars)	\$439,361	\$451,645	2.8%	\$471,053	4.3%	\$492,000	4.4%	\$514,233	4.5%
Real Personal Income (Millions of 1982-84 dollars)	\$197,679	\$199,613	1.0%	\$204,912	2.7%	\$210,033	2.5%	\$214,379	2.1%
Real Disposable Income (Millions of 1982-84 dollars)	\$174,414	\$176,004	0.9%	\$180,556	2.6%	\$185,344	2.7%	\$189,247	2.1%
Wage and Salary Income (Millions of current dollars)	\$222,823	\$229,786	3.1%	\$239,501	4.2%	\$249,763	4.3%	\$260,940	4.5%
Detroit Consumer Price Index (1982-84 = 100)	222.3	226.3	1.8%	229.9	1.6%	234.2	1.9%	239.9	2.4%
Detroit Consumer Price Index (FY) (1982-84 = 100)	221.2	225.5	2.0%	228.9	1.5%	233.1	1.9%	238.4	2.3%



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 recently enacted federal Tax Cut and Jobs Act of 2017 represents a significant and complex overhaul to both personal and corporate income taxes at the federal level. Even after accounting for potential revenue growth resulting from the tax cuts, the Joint Committee on Taxation estimates that the total revenue loss over the upcoming 10 years will exceed \$1.1 trillion. How this shortfall is financed will affect interest rates, investment, and federal spending, and impact the economy in a number of ways.

Monetary Policy

The Federal Reserve officially raised the federal funds rate three times in 2017, and an additional three rate increases are anticipated for 2018. In the event that expansionary fiscal policy will further drive 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

After five months of discussions between the U.S., Canada, and Mexico in 2017, no agreement has been reached on modifying the North American Free Trade Agreement (NAFTA), and the goal of reaching an agreement in March 2018 appears unlikely. Unless an agreement more favorable to the U.S. is reached, the president has threatened to withdraw. A complete withdrawal from NAFTA would likely result in higher tariffs on foreign goods, effectively driving up prices in the U.S. In addition, it has been speculated that if NAFTA collapsed, U.S. automakers might move production from Mexico to China since the U.S. tariff rate on imported vehicles is only 2.5%. As a result, some U.S. production might even be moved to China to take advantage of lower wage costs.



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 2018 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the May 2017 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 final total baseline GF/GP and SAF revenue was \$23.8 billion in FY 2016-17. It is forecast to increase 3.0% in FY 2017-18, 2.9% in FY 2018-19, and 3.0% in FY 2019-20.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary final total net GF/GP and SAF revenue was \$22.9 billion in FY 2016-17, which would be a 3.3% increase from FY 2015-16. It is forecast to increase 2.2% in FY 2017-18, increase 1.8% in FY 2018-19, and increase 2.0% in FY 2019-20.

Table 2 also shows the May 2017 adjusted consensus estimates and the recommended revisions to these estimates for FY 2016-17 through FY 2018-19. The May 2017 adjusted consensus estimates include the May 2017 consensus estimates plus enacted tax changes since May 2017.

Preliminary final FY 2016-17 figures suggest an increase of \$155.6 million from the May 2017 adjusted consensus estimates, due in part to much higher than anticipated growth in sales tax collections. However, much of this adjustment can be attributed to a one-time phenomenon that is unlikely to carry forward to the same degree into subsequent years.

The recommended revision for FY 2017-18 is an increase of \$8.4 million as sales tax collections return to more traditional levels and income tax revenue returns to a more normal growth rate. Finally, the recommended revision for FY 2018-19 is a decrease of \$17.1 million, reflecting the ongoing impact of prior year revenue trends.

GF/GP Revenue by Source

GF/GP Tax Revenue

Relative to FY 2015-16, GF/GP tax revenue increased 1.9% to \$9,737.4 million in FY 2016-17. Due to meager withholding growth, individual income tax revenue accruing to the General Fund increased by roughly \$25.3 million, while combined Michigan business tax and corporate income tax revenue was essentially flat. GF/GP tax revenue in FY 2017-18 is estimated to be \$9,905.5 million, an increase of \$168.1 million. GF/GP tax revenue will increase by just \$30.1 million to \$9,935.6 million in FY 2019-20 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 is estimated to increase 0.9% in FY 2019-20 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. Final net GF/GP revenue is expected to be \$10,189.9 million in FY 2016-17. In FY 2017-18 it is forecast to be \$10,304.7 million, an increase of \$114.8 million, and \$10,327.0 million in FY 2018-19, an increase of \$22.3 million. Net GF/GP revenue is estimated to increase 0.9% in FY 2019-20.

Net GF/GP revenue estimates are reduced by \$410.8 million for FY 2017-18, \$438.0 million for FY 2018-19, and \$465.9 million for FY 2019-20 due to the diversion of use tax revenue for personal property tax reimbursement to local units of government. In addition, \$150.0 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 \$325.0 million will be diverted in FY 2019-20.

SAF Revenue by Source

Total Net SAF Revenue

Final net SAF revenue is anticipated to increase 4.7% to \$12,686.9 million in FY 2016-17. Net SAF revenue is forecast to be \$13,082.8 million in FY 2017-18, an increase of \$395.9 million. Net SAF revenue is estimated to increase 3.0% in FY 2018-19 and 2.8% in FY 2019-20.

Table 2
HFA JANUARY 2018 REVENUE ESTIMATES FOR FY 2017-18 THROUGH FY 2019-20
(Millions of Dollars)

	<u>Preliminary Final</u> <u>FY 2016-17</u>	<u>HFA Est.</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>FY 2017-18</u> <u>% Change</u>	<u>FY 2018-19</u> <u>% Change</u>	<u>FY 2019-20</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$11,057.8	\$11,414.4	\$11,755.2	\$12,118.5	3.2%	3.0%	3.1%
SAF	12,733.9	13,087.4	13,463.7	13,848.5	2.8%	2.9%	2.9%
Total	\$23,791.7	\$24,501.9	\$25,218.9	\$25,967.0	3.0%	2.9%	3.0%
<u>Net</u>							
GF/GP	\$10,189.9	\$10,304.7	\$10,327.0	\$10,419.9	1.1%	0.2%	0.9%
SAF	12,686.9	13,082.8	13,475.9	13,852.9	3.1%	3.0%	2.8%
Total	\$22,876.8	\$23,387.5	\$23,802.9	\$24,272.8	2.2%	1.8%	2.0%
<u>May 2017 Adjusted Consensus¹</u>							
<u>Net</u>							
GF/GP	\$10,111.3	\$10,408.6	\$10,489.5				
SAF	12,609.9	12,970.5	13,330.5				
Total	\$22,721.2	\$23,379.1	\$23,820.0				
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$78.6	(\$103.9)	(\$162.5)				
SAF	77.0	112.3	145.4				
Total	\$155.6	\$8.4	(\$17.1)				

NOTE: Numbers may not add due to rounding.

¹ The May 2017 adjusted consensus estimate includes the May 2017 consensus estimate plus enacted tax changes since May 2017.

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 2017-18		FY 2018-19		FY 2019-20	
	Final FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$6,731.5	\$7,049.2	\$6,943.4	\$7,028.6	\$317.7	4.7%	(\$105.7)	-1.5%	\$85.2	1.2%
Sales Tax	1,221.3	1,269.5	1,312.1	1,351.4	48.2	3.9%	42.6	3.4%	39.4	3.0%
Use Tax	591.6	558.4	575.8	567.4	(33.2)	-5.6%	17.4	3.1%	(8.4)	-1.5%
Michigan Business Tax	(704.6)	(757.9)	(639.5)	(685.1)	(53.3)	7.6%	118.4	-15.6%	(45.6)	7.1%
Corporate Income Tax	1,105.6	955.0	912.0	925.0	(150.6)	-13.6%	(43.0)	-4.5%	13.0	1.4%
Insurance	370.7	415.0	413.2	410.0	44.3	12.0%	(1.8)	-0.4%	(3.2)	-0.8%
Other GF/GP Taxes	421.3	416.4	418.6	428.0	(4.9)	-1.2%	2.3	0.5%	9.4	2.2%
GF/GP Net Tax Revenue	\$9,737.4	\$9,905.5	\$9,935.6	\$10,025.3	\$168.1	1.7%	\$30.1	0.3%	\$89.7	0.9%
Non-Tax Revenue	452.5	399.2	391.4	394.6	(53.3)	-11.8%	(7.8)	-2.0%	3.2	0.8%
Total GF/GP Net Revenue	\$10,189.9	\$10,304.7	\$10,327.0	\$10,419.9	\$114.8	1.1%	\$22.3	0.2%	\$92.9	0.9%

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 2017-18		FY 2018-19		FY 2019-20	
	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,679.4	\$5,854.2	\$6,047.0	\$6,227.9	\$174.8	3.1%	\$192.8	3.3%	\$180.9	3.0%
Use Tax	495.1	548.2	571.2	581.7	53.1	10.7%	23.0	4.2%	10.5	1.8%
Income Tax	2,720.5	2,828.2	2,925.1	3,025.2	107.7	4.0%	96.8	3.4%	100.1	3.4%
State Education Tax	1,963.1	2,028.8	2,103.7	2,183.6	65.7	3.3%	74.9	3.7%	79.9	3.8%
Lottery/Casinos	1,037.3	1,029.0	1,028.0	1,028.0	(8.3)	-0.8%	(1.0)	-0.1%	0.0	0.0%
Tobacco Tax	356.7	353.3	348.3	345.4	(3.4)	-0.9%	(5.0)	-1.4%	(2.9)	-0.8%
Real Estate Transfer Tax	317.1	320.0	329.0	335.0	2.9	0.9%	9.0	2.8%	6.0	1.8%
Other Taxes	117.7	121.1	123.6	126.1	3.4	2.9%	2.5	2.1%	2.5	2.0%
SAF Net Revenue	\$12,686.9	\$13,082.8	\$13,475.9	\$13,852.9	\$395.9	3.1%	\$393.1	3.0%	\$377.0	2.8%

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 2019-20.

The BSF ending fund balance for FY 2016-17 was \$710.0 million. A \$150.0 million appropriation has been made for FY 2017-18. 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 \$75.2 million for FY 2018-19 and \$39.2 million for FY 2019-20. When the required \$17.5 million deposits are included, the year-end balance is estimated at \$891.0 million for FY 2017-18, \$1,004.2 million for FY 2018-19, and \$1,090.1 million for FY 2019-20.

Table 5
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
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*	\$167.5	\$0.0	\$13.5	\$891.0
2018-19**	\$92.7	\$0.0	\$20.5	\$1,004.2
2019-20**	\$56.7	\$0.0	\$29.1	\$1,090.1

* 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

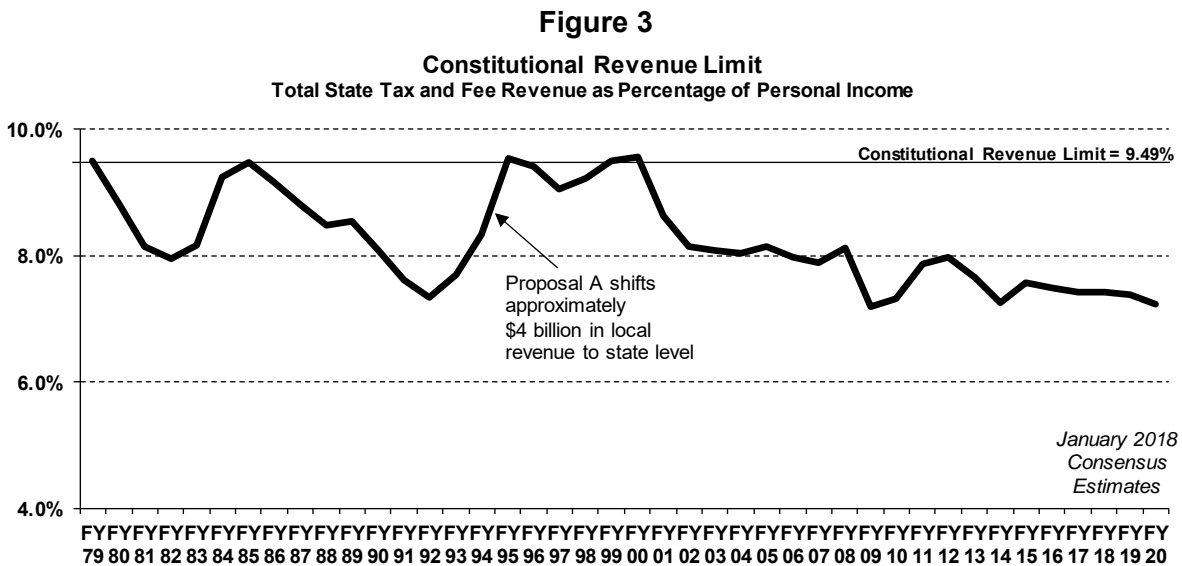
Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 6** and **Figure 3**, the FY 2016-17 revenue limit calculation is expected to show state revenue collections at \$8.8 billion below the revenue limit. For FY 2017-18, state revenue is estimated to be below the limit by \$9.1 billion. For FY 2018-19 and FY 2019-20, state revenue is estimated to remain well below the revenue limit – by \$9.5 billion, and \$10.7 billion, respectively.

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

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2016-17</u>	<u>Estimated FY 2017-18</u>	<u>Estimated FY 2018-19</u>	<u>Estimated FY 2019-20</u>
Personal Income				
Calendar Year	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2017</u>	<u>CY 2018</u>
Amount	\$427,199	\$439,361	\$451,645	\$471,053
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$40,541.2	\$41,695.4	\$42,861.2	\$44,702.9
Total Revenue Subject to Revenue Limit	\$31,700.0	\$32,585.7	\$33,375.3	\$34,023.5
Amount Under (Over) State Revenue Limit	\$8,841.2	\$9,109.7	\$9,485.8	\$10,679.4

NOTE: Numbers may not add due to rounding.



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 final FY 2016-17 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)

	Preliminary Final FY 2016-17	Estimated FY 2017-18
General Fund/General Purpose	\$622.5	\$198.9
School Aid Fund	\$377.4	\$228.8
Budget Stabilization Fund	\$710.0	\$891.0

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



Additional copies of this report can be obtained from:

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