

**ECONOMIC OUTLOOK  
AND  
REVENUE ESTIMATES  
FOR  
MICHIGAN**

**FY 2012-13  
THROUGH  
FY 2014-15**



Mary Ann Cleary, Director

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# FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2012 through CY 2015. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2011-12 and revised revenue estimates for FY 2012-13 through FY 2014-15. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 15, 2013, 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 2015, 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.



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# EXECUTIVE SUMMARY

The national economy has been generally improving at a subdued pace. The April nonfarm employment report showed a 165,000 job gain, and both February and March were revised significantly upward. National employment has increased by an average of 195,000 jobs through the first four months of 2013.

The growth of Gross Domestic Product or GDP has been and is expected to continue to be subpar, in part due to lingering effects of the financial/banking crisis as well as uncertainties surrounding the federal budget/debt issues and sequester. The national economy is expected to slowly accelerate throughout the forecast period.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. In March, Michigan's nonfarm employment grew just 0.9%, or by 36,100 jobs, relative to a year ago. This increase was led by gains in manufacturing, professional and business services, and education and health services.

## **U. S. Forecast**

Real GDP growth is forecast to increase 2.0% in CY 2013. It is forecast to increase 2.7% in CY 2014, and grow 3.1% in CY 2015.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline to 1.5% in CY 2013, remain at that level in CY 2014 and then increase to 1.9% in CY 2015.

Light vehicle sales of 14.4 million units in CY 2012 are forecast to grow to 15.3 million units in CY 2013, to 15.8 million units in CY 2014, and to 16.2 million units in CY 2015. The import share of light vehicles is forecast to be close to 22.0% through the forecast horizon.

The national unemployment rate is expected to be 7.4% in CY 2013; it is forecast to decline to 6.9% in CY 2014 and 6.4% in CY 2015.

## **Michigan Forecast**

Michigan personal income is forecast to increase 2.4% in CY 2013, 4.0% in CY 2014, and 4.2% in CY 2015.

Michigan's unemployment rate is forecast to decrease to 8.6% in 2013, 8.0% in CY 2014, and 7.5% in CY 2015.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2013 is forecast to increase 1.5% in CY 2013, 1.3% in CY 2014, and 1.6% in CY 2015.

### ***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 demonstrate the changes to state revenue that are driven by changes in the economy. The final total baseline GF/GP and SAF revenue was \$19.8 billion in FY 2011-12, which was an increase of 4.5%. It is forecast to increase 4.0% in FY 2012-13, 2.0% in FY 2013-14, and by 3.3% in FY 2014-15.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was \$20.1 billion in FY 2011-12, which was a 0.4% increase from FY 2010-11. It is forecast to increase \$158.0 million or 0.8% in FY 2012-13. Total net GF/GP and SAF revenue is forecast to increase 2.8% in FY 2013-14 and 3.9% in FY 2014-15.

**Table 1** reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2013 consensus estimates and the recommended revisions to these estimates for FY 2012-13 through FY 2014-15. The recommended revisions are increases of \$382.0 million for FY 2012-13, \$166.0 million for FY 2013-14, and \$264.7 million for FY 2014-15.

### ***State Revenue Limit***

Total state revenue is expected to be below the state revenue limit by \$5.3 billion in FY 2011-12; it is estimated to be under the limit by \$6.9 billion in FY 2012-13, \$7.3 billion in FY 2013-14, and \$7.1 billion in FY 2014-15.

### ***Fund Balances***

The year-end GF/GP balance was \$979.2 million for FY 2011-12.

The year-end unreserved SAF balance was \$254.1 million for FY 2011-12.

The year-end Countercyclical Budget Stabilization Fund balance was \$365.1 million for FY 2011-12; it is estimated to be \$508.8 million for FY 2012-13, \$516.4 million for FY 2013-14, and \$564.5 million for FY 2014-15.



**Table 1**  
**HFA MAY 2013 REVENUE ESTIMATES FOR FY 2012-13 THROUGH FY 2014-15**  
(Millions of Dollars)

	<u>Final</u> <u>FY 2011-12</u>	<u>HFA Est.</u> <u>FY 2012-13</u>	<u>HFA Est.</u> <u>FY 2013-14</u>	<u>HFA Est.</u> <u>FY 2014-15</u>	<u>FY 2012-13</u> <u>% Change</u>	<u>FY 2013-14</u> <u>% Change</u>	<u>FY 2014-15</u> <u>% Change</u>
<b><u>Baseline</u></b>							
GF/GP	\$8,164.6	\$8,589.9	\$8,728.1	\$9,059.4	5.2%	1.6%	3.8%
SAF	11,613.9	11,976.4	12,251.9	12,620.5	3.1%	2.3%	3.0%
<b>Total</b>	<b>\$19,778.5</b>	<b>\$20,566.3</b>	<b>\$20,980.0</b>	<b>\$21,679.9</b>	<b>4.0%</b>	<b>2.0%</b>	<b>3.3%</b>
<b><u>Net</u></b>							
GF/GP	\$9,265.1	\$9,054.7	\$9,332.7	\$9,790.8	-2.3%	3.1%	4.9%
SAF	10,879.0	11,247.4	11,530.2	11,882.6	3.4%	2.5%	3.1%
<b>Total</b>	<b>\$20,144.1</b>	<b>\$20,302.1</b>	<b>\$20,862.9</b>	<b>\$21,673.4</b>	<b>0.8%</b>	<b>2.8%</b>	<b>3.9%</b>
<b><u>January 2013 Consensus</u></b>							
<b><u>Net</u></b>							
GF/GP	\$9,265.1	\$8,792.5	\$9,264.3	\$9,640.0			
SAF	10,879.0	11,127.7	11,432.6	11,768.7			
<b>Total</b>	<b>\$20,144.1</b>	<b>\$19,920.2</b>	<b>\$20,696.9</b>	<b>\$21,408.7</b>			
<b><u>Recommended Revision</u></b>							
<b><u>Net</u></b>							
GF/GP	\$0.0	\$262.2	\$68.4	\$150.8			
SAF	0.0	119.7	97.6	113.8			
<b>Total</b>	<b>\$0.0</b>	<b>\$382.0</b>	<b>\$166.0</b>	<b>\$264.7</b>			

*NOTE: Numbers may not add due to rounding*





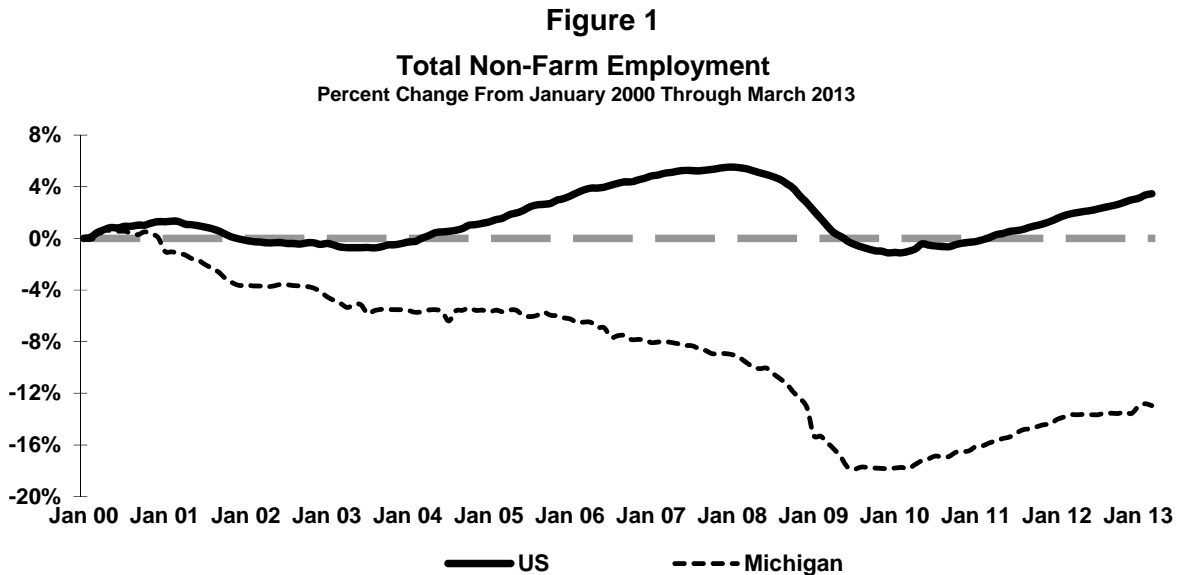
# ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2012-13 through FY 2014-15.

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 employment began growing during 2010, only about one million jobs were added. Continued employment growth through 2011 and 2012 added more than 2.1 million jobs each year, but even so employment still remains more than 2.4% below pre-recession levels.

## 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 2013.



### ***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.

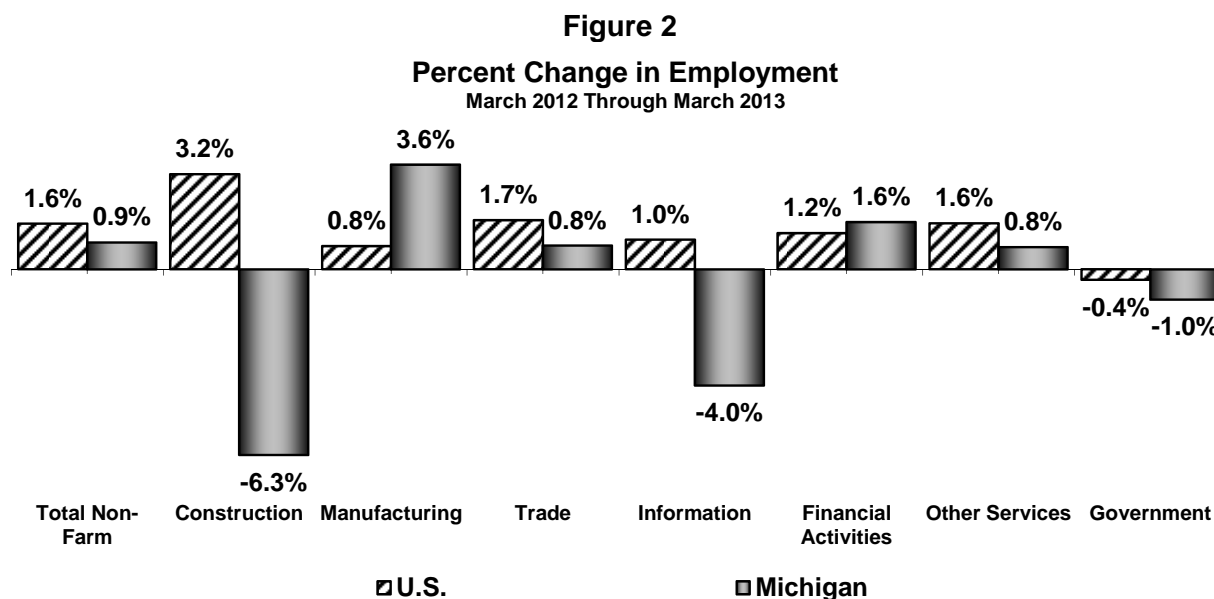
The ensuing recession saw 25 consecutive months of employment declines during which more than 8.7 million jobs were lost. Job gains finally reappeared in March 2010, and while modest job growth resumed during much of 2010 and has continued through March 2013, total non-farm employment is still more than 3.3 million jobs below the January 2008 peak. As of March 2013, total employment is less than 3.4% 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 415,000 additional jobs were lost, and while employment increased in 2010, only about 65,300 jobs were added. Although an additional 97,000 jobs were added during 2011, employment growth slowed in 2012 in that only 37,400 new jobs were added. Even after almost three years of job growth, as of March 2013, total non-farm employment in Michigan is roughly 13.0% lower than in January 2000.

### **U.S. and Michigan Employment**

**Figure 2** shows the percent change in employment between March 2012 and March 2013 for all workers in several important sectors of the economy for both the U.S. and Michigan. Improving economic conditions are evident as the U.S. gained almost two million jobs over this period while employment in Michigan rose by 36,100 jobs.



**U.S. Employment**

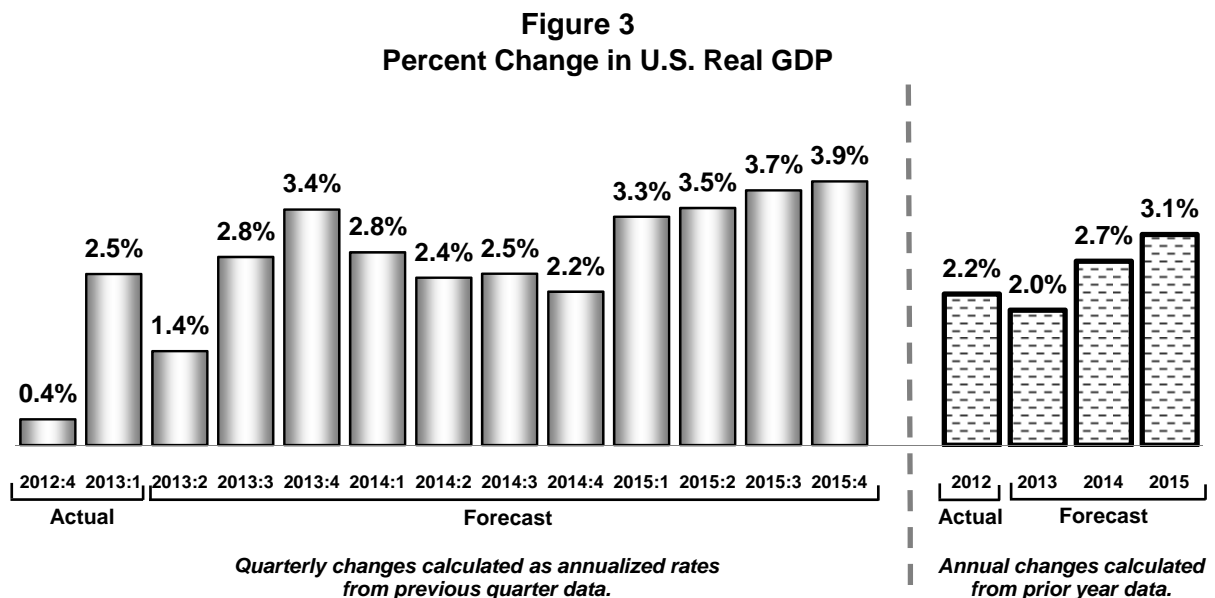
From March 2012 through March 2013, the U.S. experienced job gains in all categories with the exception of the government sector, which lost 68,000 jobs. Conversely, wholesale and retail trade gained more than 300,000 jobs while the construction sector employment grew by 174,000. All of the major service sectors also continued to add jobs, and although the manufacturing sector has been generally contracting for the past several years, it realized job gains of 80,000 workers.

**Michigan Employment**

Job gains in Michigan over the past year totaled 36,100 and were concentrated in manufacturing and miscellaneous services, which gained 18,800 and 18,700 jobs respectively. Most other sectors recorded small job gains with the exception of construction, information, and government. Although the job gains in Michigan’s manufacturing sector over the past year accounted for about 23.5% of total manufacturing job gains nationwide, over the past eight years Michigan has lost more than 7.5% of its manufacturing employment.

**Real GDP**

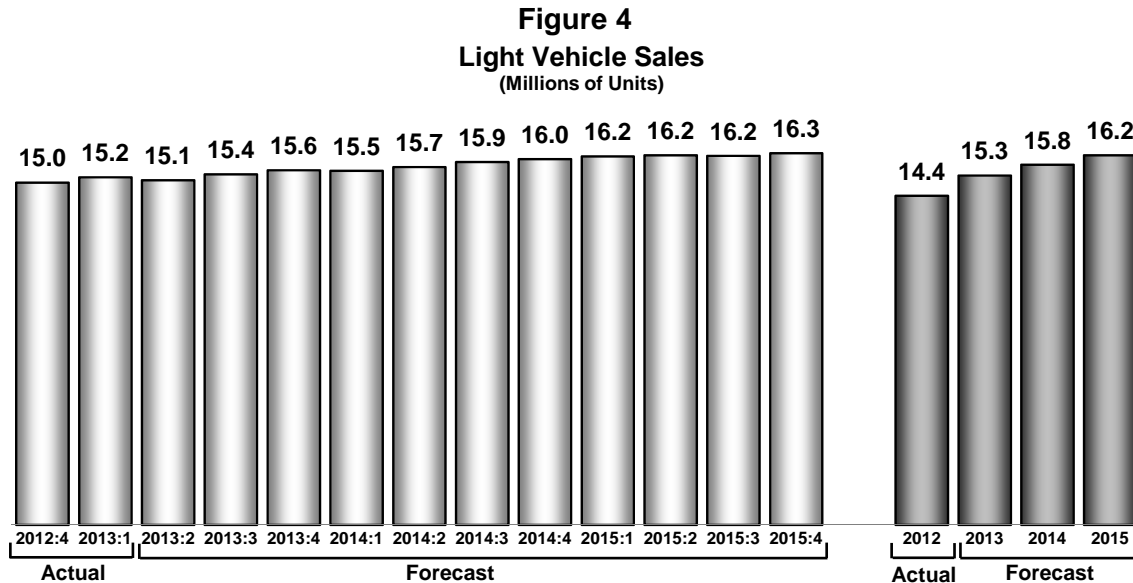
Figure 3 shows the estimated percent change in U.S. Real GDP for CY 2013 through CY 2015.



After increasing 2.2% during CY 2012, real GDP grew at a 2.5% rate in the first quarter of CY 2013. Real GDP is forecast to increase 2.0% in CY 2013, 2.7% in CY 2014, and 3.1% in CY 2015.

## Light Vehicle Sales

Figure 4 shows light vehicle sales for CY 2012 and estimates for CY 2013 through CY 2015.



Sales of light motor vehicles totaled 12.7 million units in CY 2011 and rose to 14.4 million units in CY 2012. Light vehicle sales are forecast to increase to 15.3 million units in CY 2013, 15.8 million units in CY 2014, and 16.2 million units in CY 2015.

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. Light truck sales accounted for 48.9% of total light vehicle sales in CY 2012, and are expected to remain at that level in CY 2013 before increasing to 50.0% in in CY 2014 and CY 2015.

The import share of total light vehicle sales was 22.1% in CY 2012; it is forecast to remain close to that amount through CY 2015.

## 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 2.1% in CY 2012; it is expected to increase by 1.5% in CY 2013 and CY 2014, and 1.9% in CY 2015.

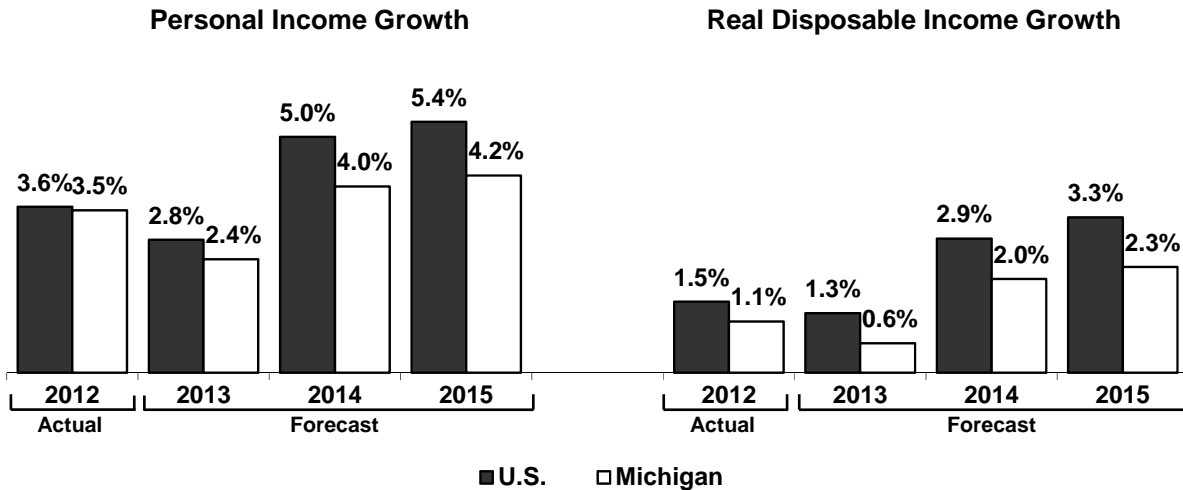
### ***Michigan Inflation***

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 2.0% in CY 2012, and although inflation in Michigan is predicted to continue increasing, it should remain relatively modest throughout the forecast period. The Detroit CPI-U is expected to increase 1.5% in CY 2013, 1.3% in CY 2014, and 1.6% in CY 2015.

## 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 3.6% in CY 2012. Personal income growth is forecast to increase 2.8% in CY 2013, 5.0% in CY 2014, and 5.4% in CY 2015.

A jump in inflation reduced the growth in U.S. real disposable income to 1.5% in CY 2012. U.S. real disposable income is forecast to grow 1.3% in CY 2013, 2.9% in CY 2014, and 3.3% in CY 2015.

### ***Michigan Income Growth***

Michigan's total state personal income growth was 3.5% in CY 2012. Michigan personal income is forecast to increase 2.4% in CY 2013, 4.0% in CY 2014, and 4.2% in CY 2015.

Michigan real disposable income increased 1.1% in CY 2012; it is forecast to increase 0.6% in CY 2013, 2.0% in CY 2014, and 2.3% in CY 2015.

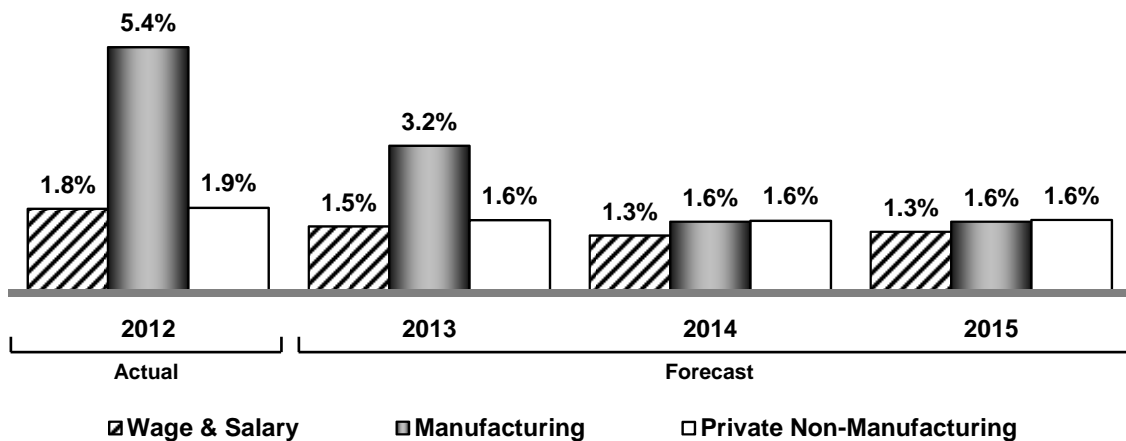
## Employment

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 182,800 per month during 2012 – roughly a 1.7% overall increase between December 2011 and December 2012. Total non-farm employment is expected to grow 1.7% in CY 2013 and 1.8% in both CY 2014 and CY 2015.

**Figure 6**  
**Michigan Employment Growth**



### Michigan Employment

The Michigan economy has continued to endure a weak labor market, although after experiencing a decade of annual job losses, Michigan wage and salary employment grew by 97,000 workers in CY 2011, but job growth slowed to 34,700 in CY 2012.

Michigan wage and salary employment is forecast to grow by 1.5% in CY 2013 and 1.3% in both CY 2014 and CY 2015. In the 25-year period between 1982 and 2007, Michigan wage and salary employment grew at an average annual rate of 1.2%; between 1987 and 2012 it grew at an average annual rate of just 0.3%.

Michigan manufacturing employment increased 5.4% in CY 2012 after suffering an almost 20.0% decline in CY 2010. It is forecast to increase 3.2% in CY 2013, and 1.6% in both CY 2014 and CY 2015. Much of this growth is expected to occur within the motor vehicle industry, in small part offsetting some of the job losses due to the restructuring of Michigan's auto industry.

Michigan private non-manufacturing employment grew 1.9% in CY 2012. It is forecast to grow 1.6% each year throughout the forecast period.



## **Unemployment**

### ***U.S. Unemployment***

The U.S. unemployment rate, which was 8.9% in CY 2011, dropped to 8.1% in CY 2012; it is forecast to continue falling to 7.4% in CY 2013, 6.9% in CY 2014, and 6.4% in CY 2015.

### ***Michigan Unemployment***

Employment in Michigan remains a major concern as employment growth has fallen during each of the past ten years. Michigan's wage and salary employment grew in CY 2012, and is forecast to continue growing through 2015, albeit at declining rates. As a result, the unemployment rate is expected to continue declining.

Michigan's unemployment rate was 10.4% in CY 2011 and 9.1% in CY 2012; it is expected to decrease to 8.6% in CY 2013, 8.0% in CY 2014, and 7.5% in CY 2015.

**Table 2**  
**ECONOMIC FORECAST VARIABLES**

	<b>Calendar 2011 Actual</b>	<b>Calendar 2012 Actual</b>	<b>% Change from Prior Year</b>	<b>Calendar 2013 Estimated</b>	<b>% Change from Prior Year</b>	<b>Calendar 2014 Estimated</b>	<b>% Change from Prior Year</b>	<b>Calendar 2015 Estimated</b>	<b>% Change from Prior Year</b>
<b>United States</b>									
Real Gross Domestic Product (Billions of 2005 dollars)	\$13,299.1	\$13,593.2	2.2%	\$13,861.7	2.0%	\$14,234.6	2.7%	\$14,672.6	3.1%
Implicit Price Deflator GDP (2005 = 100)	113.4	115.4	1.8%	117.0	1.4%	118.9	1.6%	121.2	1.9%
Consumer Price Index (1982-84 = 100)	224.9	229.6	2.1%	233.0	1.5%	236.6	1.5%	241.0	1.9%
Consumer Price Index (FY) (1982-84 = 100)	223.1	228.5	2.4%	232.2	1.6%	235.6	1.4%	239.8	1.8%
Personal Consumption Deflator (2005 = 100)	113.8	115.8	1.8%	117.0	1.1%	118.6	1.3%	120.5	1.6%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.1%		0.1%		0.1%		0.2%	
Aaa Corporate Bonds Interest Rate (Percent)	4.6%	3.7%		3.9%		3.9%		3.9%	
Non-Farm Employment (Millions)	131.5	133.7	1.7%	136.0	1.7%	138.4	1.8%	140.9	1.8%
Unemployment Rate – Civilian (Percent)	8.9%	8.1%		7.4%		6.9%		6.4%	
Light Vehicle Sales (Millions of units)	12.7	14.4	13.3%	15.3	6.2%	15.8	3.1%	16.2	2.7%
Passenger Car Sales (Millions of units)	6.2	7.4	19.1%	7.8	6.3%	7.9	0.8%	8.1	2.7%
Light Truck Sales (Millions of units)	6.5	7.1	7.9%	7.5	6.1%	7.9	5.4%	8.1	2.7%
Import Share of Light Vehicles (Percent)	23.0%	22.1%		21.9%		22.0%		22.0%	
Housing Starts (Thousands of units)	0.612	0.782	27.8%	1.061	35.7%	1.352	27.4%	1.617	19.6%
Personal Income (Billions of current dollars)	\$12,947.3	\$13,407.2	3.6%	\$13,788.3	2.8%	\$14,483.9	5.0%	\$15,260.8	5.4%
Real Disposable Income (Billions of 2005 dollars)	\$10,150.2	\$10,304.3	1.5%	\$10,435.9	1.3%	\$10,735.7	2.9%	\$11,092.3	3.3%
<b>Michigan</b>									
Wage and Salary Employment (Thousands)	3,952.0	4,025.0	1.8%	4,083.7	1.5%	4,135.0	1.3%	4,190.4	1.3%
Transportation Equipment Employment (Thousands)	144.8	155.9	7.6%	162.7	4.4%	166.1	2.1%	171.0	3.0%
Unemployment Rate (Percent)	10.4%	9.1%		8.6%		8.0%		7.5%	
Personal Income (Millions of current dollars)	\$358,152	\$370,599	3.5%	\$379,588	2.4%	\$394,727	4.0%	\$411,389	4.2%
Real Personal Income (Millions of 1982-84 dollars)	\$169,039	\$171,474	1.4%	\$173,031	0.9%	\$177,625	2.7%	\$182,171	2.6%
Real Disposable Income (Millions of 1982-84 dollars)	\$151,768	\$153,431	1.1%	\$154,401	0.6%	\$157,497	2.0%	\$161,059	2.3%
Wage and Salary Income (Millions of current dollars)	\$183,000	\$189,121	3.3%	\$195,214	3.2%	\$201,932	3.4%	\$210,089	4.0%
Detroit Consumer Price Index (1982-84 = 100)	211.9	216.1	2.0%	219.4	1.5%	222.2	1.3%	225.8	1.6%
Detroit CPI (FY) (1982-84 = 100)	210.1	215.1	2.4%	218.8	1.7%	221.4	1.2%	224.9	1.6%

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 the European debt crisis, housing, fiscal policy, 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.

## **European Debt Crisis**

The European debt crisis and concerns about the level of contagion remains a significant risk. Debt restructuring at some European banks and government austerity measures will continue, and could likely have impacts felt well beyond European borders. Many European countries face difficult decisions and weak economies moving forward.

The U.S. economic expansion is expected to continue. However, the effects of the crisis on U.S. financial markets may unnerve households and businesses, and could dampen the overall economy.

## **Housing**

In CY 2012, housing starts increased by 27.8%, but remained at an extremely low level of 782,000 units. Housing starts are forecast to exceed 1.06 million units in CY 2013, 1.35 million units in CY 2014, and 1.62 million units in CY 2015.

The conditions of the housing market are important driving factors for construction related industries (employment/income) and for State and local government revenue (property tax and real estate transfer tax). In typical recoveries, housing generally provides a strong background for growth.

## **Fiscal Policy**

Federal fiscal policy is in contractionary mode and is expected to remain so throughout the forecast horizon. This forecast assumes continued federal spending cuts as the long-term debt issues are addressed. It also assumes that any short-term budget negotiations and debt-ceiling deadlines are resolved without significant economic damage, although drawn-out negotiations without any sense of resolution could erode consumer and business confidence. In addition, fiscal policy remains a risk if short-term federal government spending cuts are enacted that are severe enough to constrain economic growth.

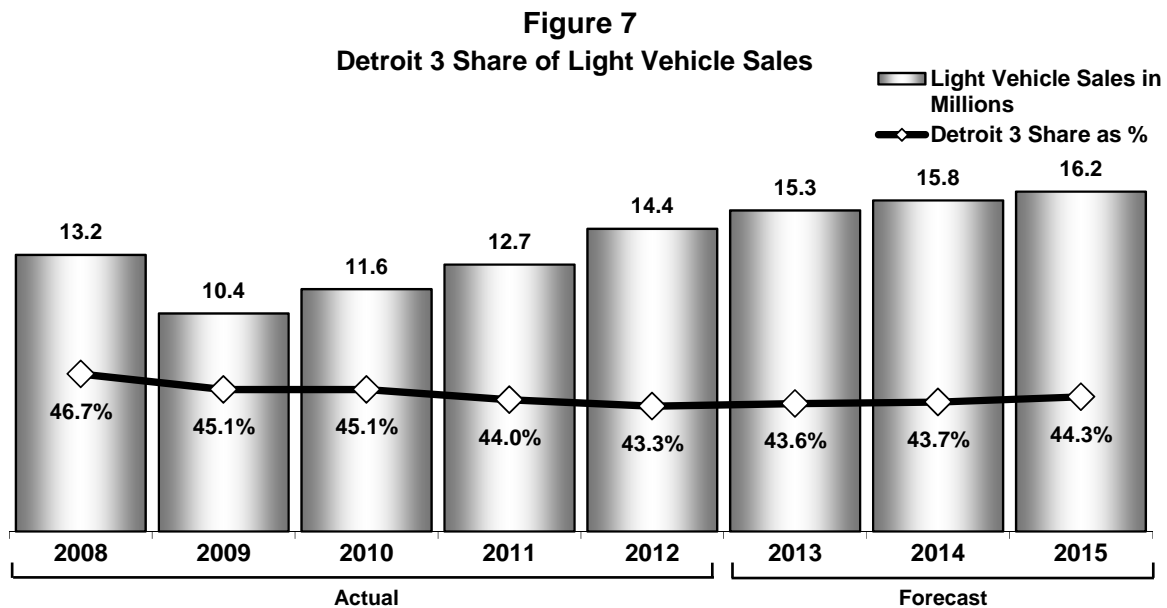
## **Michigan's Motor Vehicle Industry**

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 14.4 million units in CY 2012, which was a 13.3% increase from the previous year. Light motor vehicle sales are forecast to be 15.3 million units in CY 2013, then increase to 15.8 million units in CY 2014 and 16.2 million units in CY 2015 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. As shown in **Figure 7**, the market share of the Detroit 3 auto manufacturers hovered around 43% in CY 2012 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 2012, the Detroit 3 sold 6.4 million vehicles, which represents an 8.5% increase from the previous year. It is expected that the Detroit 3 will sell 6.9 million vehicles in CY 2013, and will continue to post even healthier gains in CY 2014 and CY 2015.

After significant declines since CY 2000, Michigan transportation equipment employment increased 10.3% in CY 2011 and 7.6% in CY 2012 and is forecast to increase 4.4% in CY 2013, 2.1% in CY 2014, and 3.0% in CY 2015. The CY 2015 estimated level of transportation equipment employment of 171,000 is just 49% 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 2013 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue, which include enacted personal income tax and business tax changes, amnesty, unclaimed property changes, 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 increased 5.1% to \$8,698.7 million in FY 2011-12. Much of this increase was due to stronger MBT and gross income tax revenue. In addition, income tax refunds declined in part because of taxpayers' reduced ability to take the homestead property tax credit. GF/GP tax revenue is estimated to be \$8,675.4 million, a decrease of \$23.3 million or 0.3%, in FY 2012-13, and \$9,001.4 million, an increase of \$326.0 million, or 3.8% in FY 2013-14. GF/GP tax revenue is estimated to increase 5.1% in FY 2014-15.

### ***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 \$9,265.1 million in FY 2011-12; it is forecast to be \$9,054.7 million, a decline of \$210.4 million or 2.3% in FY 2012-13, and \$9,332.7 million, an increase of \$278.0 million or 3.1% in FY 2013-14. Net GF/GP revenue is estimated to increase 4.9% in FY 2014-15.

## **SAF Revenue by Source**

### ***Total Net SAF Revenue***

Net SAF revenue decreased 3.4% to \$10,879.0 million in FY 2011-12. Most of the reduction was due to the elimination of MBT revenue that had been previously earmarked to the SAF. Net SAF revenue is forecast to be \$11,247.4 million, an increase of \$368.4 million or 3.4%, in FY 2012-13 – due largely to higher gross income tax revenues. Net SAF revenue is estimated to increase 2.5% in FY 2013-14 and 3.1% in FY 2014-15.

**Table 3**  
**GF/GP REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS**  
(Millions of Dollars)

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2012-13		FY 2013-14		FY 2014-15	
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$4,817.2	\$5,749.8	\$5,836.3	\$6,067.2	\$932.6	19.4%	\$86.6	1.5%	\$230.9	4.0%
Sales Tax	1,081.2	1,008.1	1,158.8	1,202.3	-73.1	-6.8%	150.7	14.9%	43.5	3.8%
Use Tax	794.0	824.4	877.3	907.3	30.4	3.8%	52.9	6.4%	30.0	3.4%
Michigan Business Tax	798.3	-558.9	-599.3	-537.7	-1,357.2	-170.0%	-40.4	7.2%	61.6	-10.3%
Corporate Income Tax	547.1	927.1	960.5	998.0	380.0	69.5%	33.4	3.6%	37.5	3.9%
Insurance	290.2	304.0	354.5	407.0	13.8	4.8%	50.5	16.6%	52.5	14.8%
Other Taxes	370.7	421.0	413.3	415.5	50.3	13.6%	-7.6	-1.8%	2.2	0.5%
<b>GF/GP Net Taxes</b>	<b>\$8,698.7</b>	<b>\$8,675.4</b>	<b>\$9,001.4</b>	<b>\$9,459.6</b>	<b>-\$23.3</b>	<b>-0.3%</b>	<b>\$326.0</b>	<b>3.8%</b>	<b>\$458.2</b>	<b>5.1%</b>
Non-Tax Revenue	566.4	379.3	331.3	331.2	-187.1	-33.0%	-48.0	-12.7%	-0.1	-0.0%
<b>Total GF/GP Net Revenue</b>	<b>\$9,265.1</b>	<b>\$9,054.7</b>	<b>\$9,332.7</b>	<b>\$9,790.8</b>	<b>-\$210.4</b>	<b>-2.3%</b>	<b>\$278.0</b>	<b>3.1%</b>	<b>\$458.1</b>	<b>4.9%</b>

*NOTE: Numbers may not add due to rounding.*

**Table 4**  
**SCHOOL AID FUND REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS**  
(Millions of Dollars)

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2012-13		FY 2013-14		FY 2014-15	
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,057.0	\$5,190.7	\$5,359.2	\$5,544.9	\$133.7	2.6%	\$168.5	3.2%	\$185.7	3.5%
Use Tax	412.6	412.3	438.7	453.7	-0.4	-0.1%	26.4	6.4%	15.0	3.4%
Income Tax	2,100.2	2,354.1	2,390.7	2,475.9	253.9	12.1%	36.5	1.6%	85.2	3.6%
State Education Tax	1,789.5	1,798.6	1,830.6	1,877.8	9.1	0.5%	32.0	1.8%	47.2	2.6%
Lottery/Casinos	894.2	853.3	861.0	873.0	-40.9	-4.6%	7.7	0.9%	12.0	1.4%
Tobacco Tax	374.1	364.9	359.9	352.7	-9.2	-2.5%	-5.0	-1.4%	-7.2	-2.0%
Real Estate Transfer Tax	150.1	170.2	182.2	192.2	20.1	13.4%	12.0	7.1%	10.0	5.5%
Other Taxes	101.3	103.3	107.9	112.4	2.0	2.0%	4.6	4.5%	4.5	4.2%
<b>SAF Net Revenue</b>	<b>\$10,879.0</b>	<b>\$11,247.4</b>	<b>\$11,530.2</b>	<b>\$11,882.6</b>	<b>\$368.4</b>	<b>3.4%</b>	<b>\$282.8</b>	<b>2.5%</b>	<b>\$352.4</b>	<b>3.1%</b>

*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 2012-13 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2011-12 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)

	<b><u>Final</u></b> <b><u>FY 2011-12</u></b>	<b><u>Estimated</u></b> <b><u>FY 2012-13</u></b>
General Fund/General Purpose	\$979.2	\$254.1
School Aid Fund	\$254.1	\$174.6
Budget Stabilization Fund	\$365.1	\$508.8

*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 2014-15.

The BSF ending fund balance for FY 2011-12 was \$365.1 million. The BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates no pay-in or withdrawal in FY 2012-13 or FY 2013-14. A pay-in of \$40.4 million is estimated for FY 2014-15. The year-end balance is estimated at \$508.8 million for FY 2012-13, \$516.4 million for FY 2013-14, and \$564.5 million for FY 2014-15.



**Table 6**  
**BUDGET STABILIZATION FUND HISTORY**  
(Millions of Dollars)

<b>Fiscal Year</b>	<b>Deposits</b>	<b>Withdrawals</b>	<b>Interest Earned</b>	<b>Balance</b>
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	\$3.7	\$508.8
2013-14*	\$0.0	\$0.0	\$7.6	\$516.4
2014-15*	\$40.4	\$0.0	\$7.7	\$564.5

\* HFA Estimate

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.

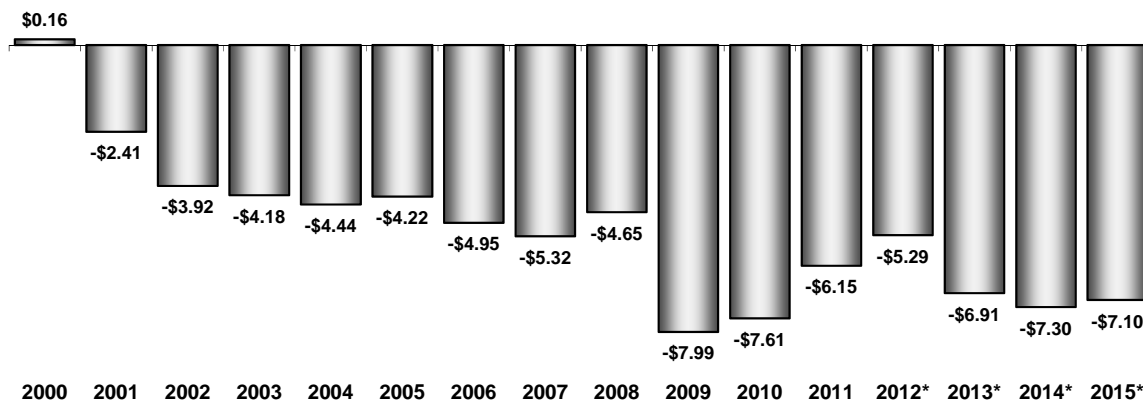
As shown in **Table 7**, **Figure 8**, and **Table 8**, the FY 2011-12 revenue limit calculation is expected to show state revenue collections at \$5.29 billion below the revenue limit. For FY 2012-13, state revenue is estimated to be below the limit by \$6.91 billion. For FY 2013-14 and FY 2014-15, state revenue is estimated to be below the revenue limit – by \$7.30 billion, and \$7.10 billion, respectively.

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

<b>Revenue Limit Calculations</b>	<b>Final FY 2011-12</b>	<b>Estimated FY 2012-13</b>	<b>Estimated FY 2013-14</b>	<b>Estimated FY 2014-15</b>
Personal Income				
Calendar Year	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>
Amount	\$342,663	\$358,152	\$370,599	\$379,588
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
<b>State Revenue Limit</b>	<b>\$32,518.7</b>	<b>\$33,988.6</b>	<b>\$35,169.8</b>	<b>\$36,022.9</b>
Total Revenue Subject to Revenue Limit	\$27,228.6	\$27,076.1	\$27,869.0	\$28,926.9
<b>Amount Under (Over) State Revenue Limit</b>	<b>\$5,290.1</b>	<b>\$6,912.5</b>	<b>\$7,300.9</b>	<b>\$7,096.0</b>

*NOTE: Numbers may not add due to rounding.*

**Figure 8**  
**Constitutional Revenue Limit**  
Amount Under or Over Limit (Billions of Dollars)



**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*	(\$5.29)
2012-13*	(\$6.91)
2013-14*	(\$7.30)
2014-15*	(\$7.10)

*\*HFA Estimate*



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House Fiscal Agency  
P.O. Box 30014  
Lansing, MI 48909-7514  
(517) 373-8080  
FAX (517) 373-5874  
[www.house.mi.gov/hfa](http://www.house.mi.gov/hfa)