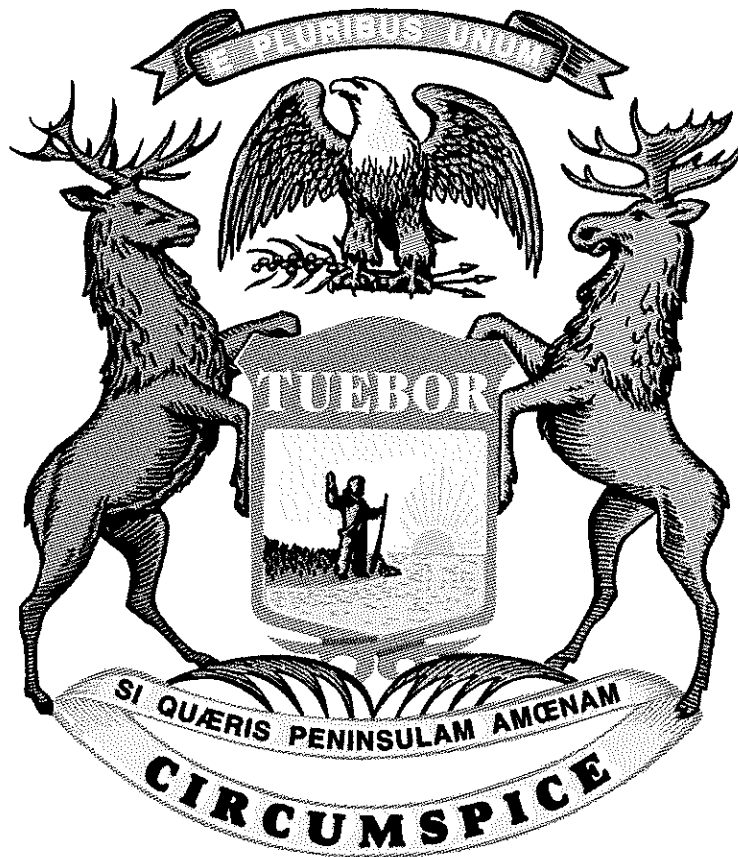


Economic and Revenue Forecasts

FY 2015 * FY 2016 * FY 2017



Consensus Revenue Estimating Conference

January 16, 2015

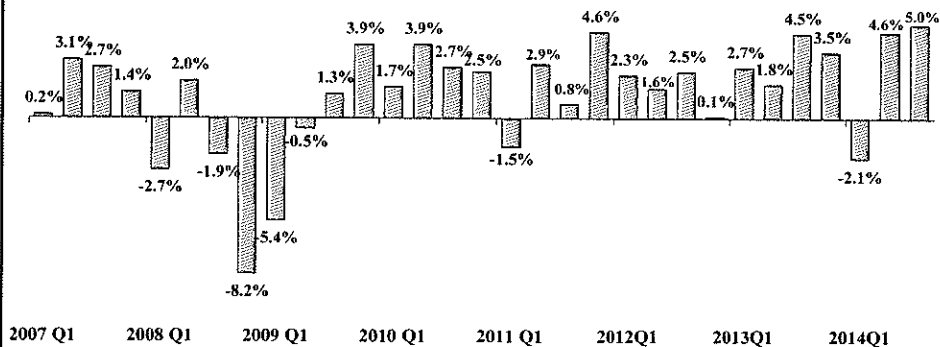
Outline

- **Economic Forecast** – Jay Wortley,
Department of Treasury
- **Revenue Estimates for Major Taxes** – Jim Stansell,
House Fiscal Agency
- **Revenue Estimates by Fund** – David Zin,
Senate Fiscal Agency

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GDP Quarterly Growth Rates

Real GDP Growth

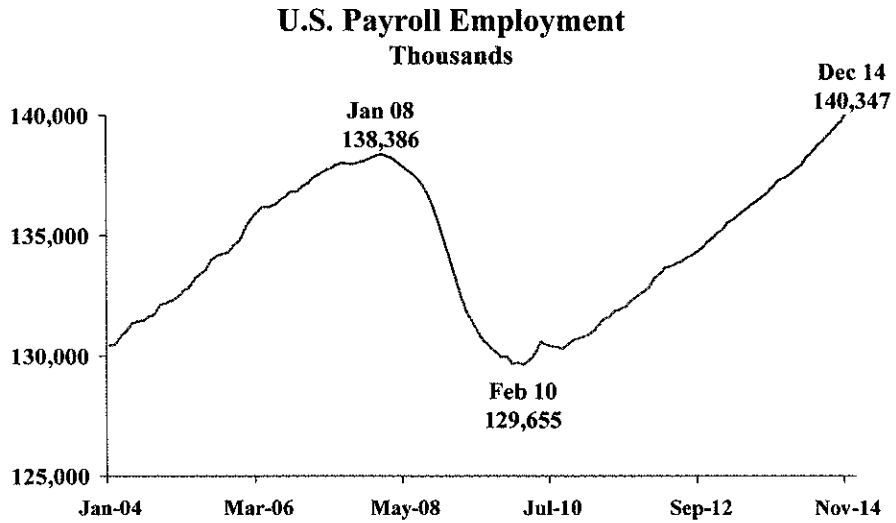


Figures are annualized percent change from preceding quarter in 2005 chained dollars.

Source: Bureau of Economic Analysis.

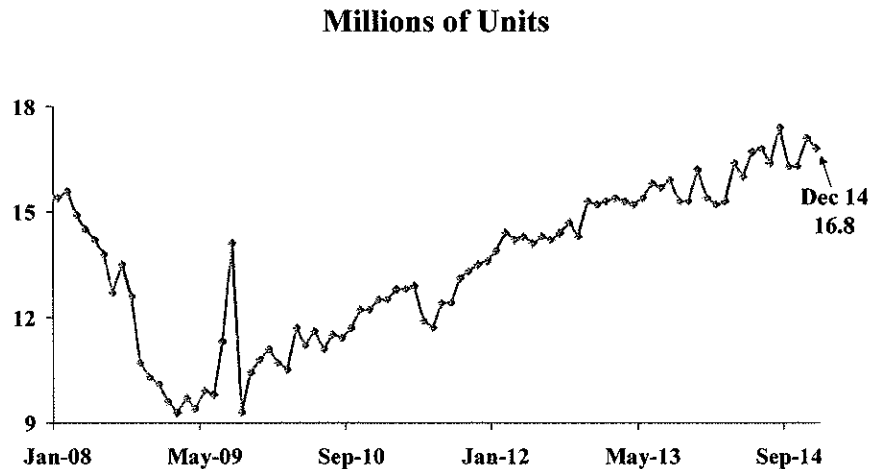
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U.S. Employment Increasing



Source: Bureau of Labor Statistics.
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Light Vehicle Sales Highest in 9 Years

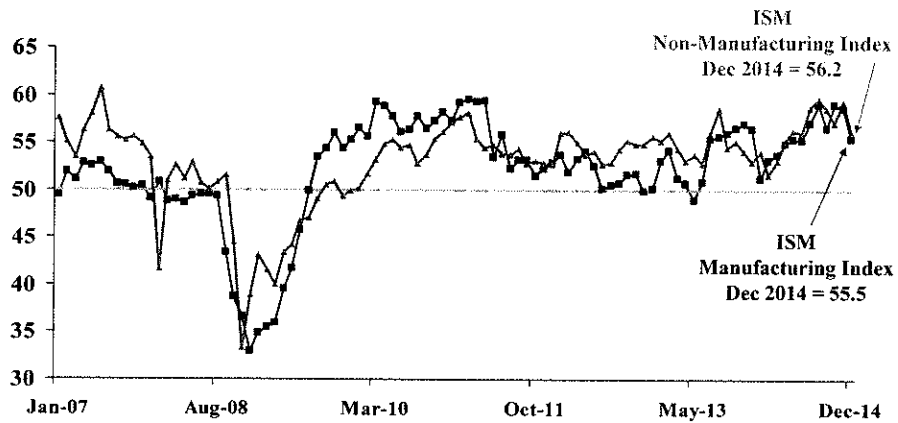


Note: Sales rates are shown as an annual average sales rate.

Source: Bureau of Economic Analysis.

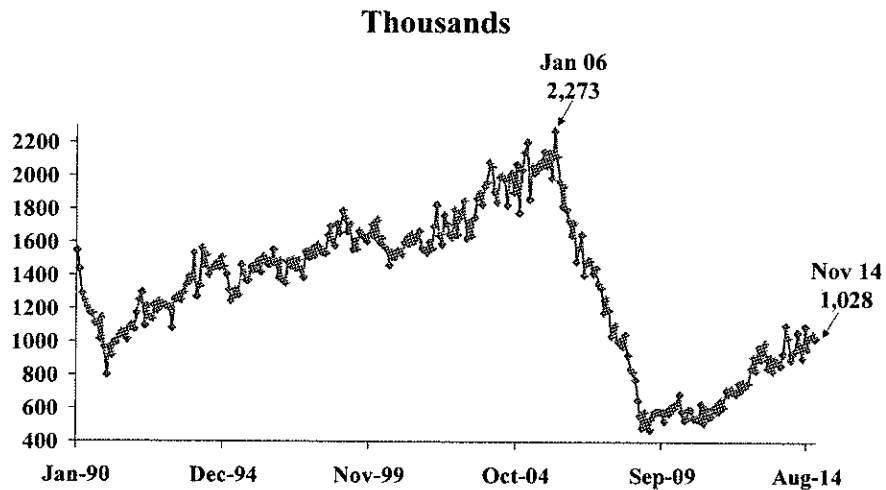
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ISM Indices Show Expansion



Source: Institute for Supply Management.
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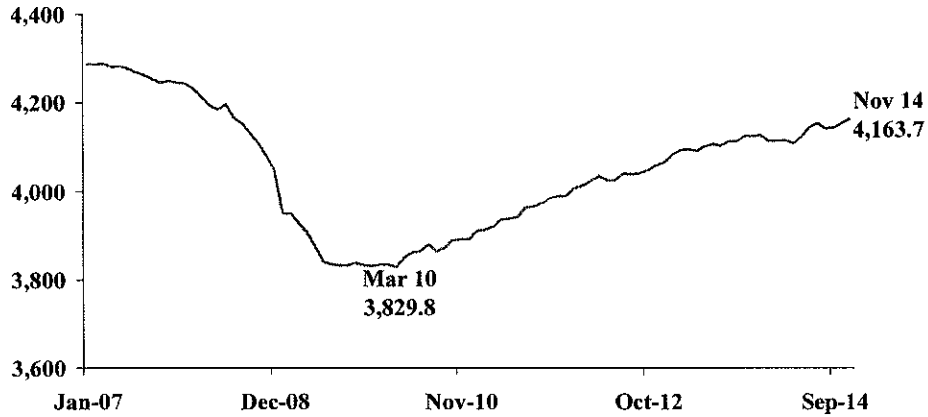
Housing Starts Increasing From Historical Lows



Source: New Privately Owned Housing Units Started, U.S. Department of Commerce.
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Michigan Employment is Increasing

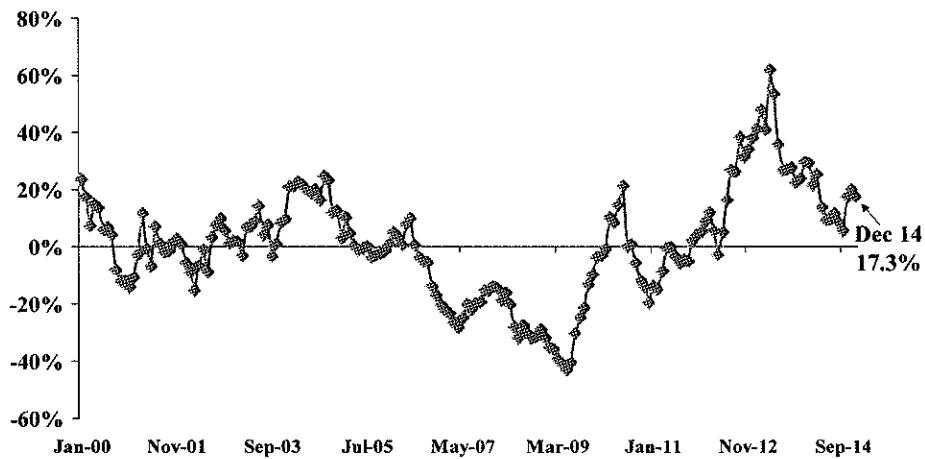
Michigan Payroll Employment
Thousands of Jobs



Source: Bureau of Labor Statistics.
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Real Estate Transfer Tax Reflects Increased Activity

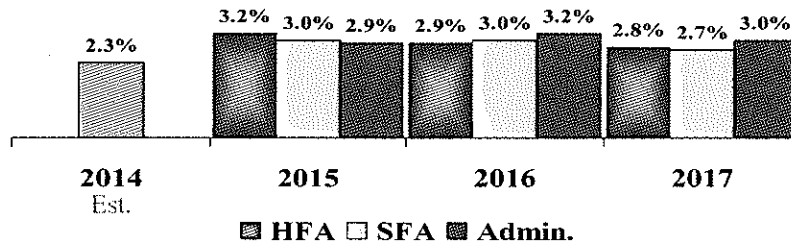
Year-Over-Year Change in 6 Month Trailing Average



Source: Michigan Department of Treasury.
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GDP Forecasts

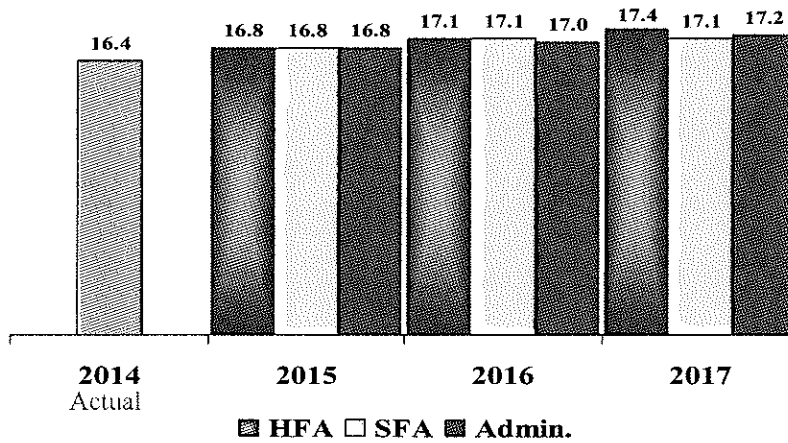
Annual Percent Change



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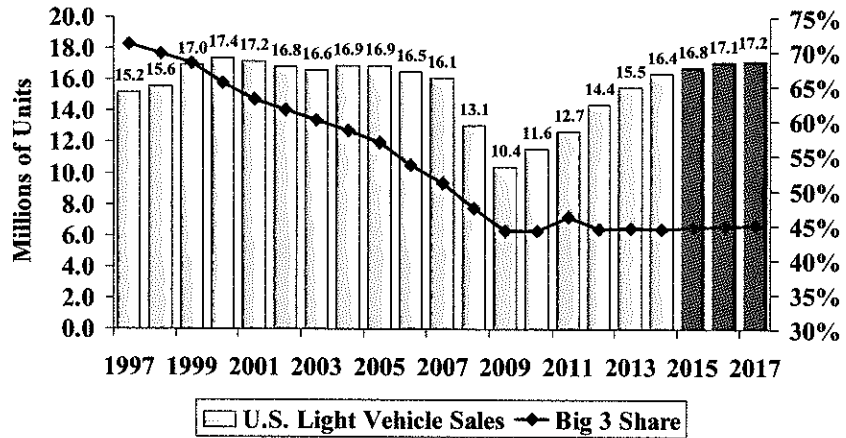
Light Vehicle Sales Forecast

Millions of Units



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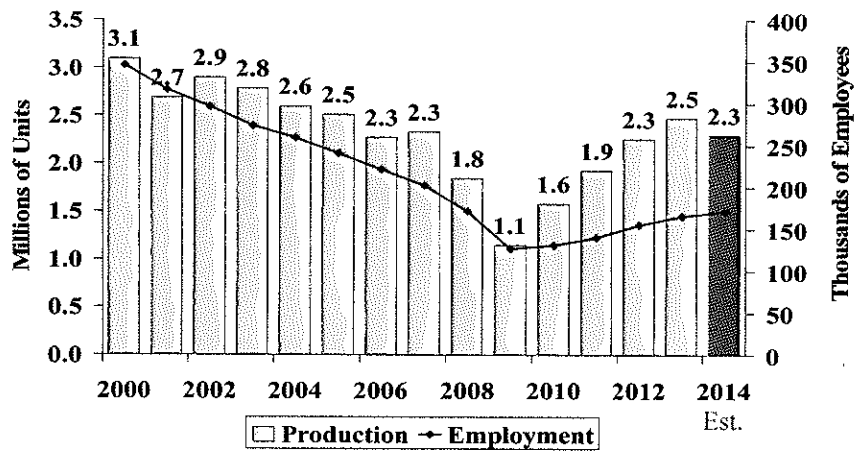
Vehicle Sales Up, Big 3 Market Share Stabilizes



Source: Automotive News.
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Average Agency Forecasts

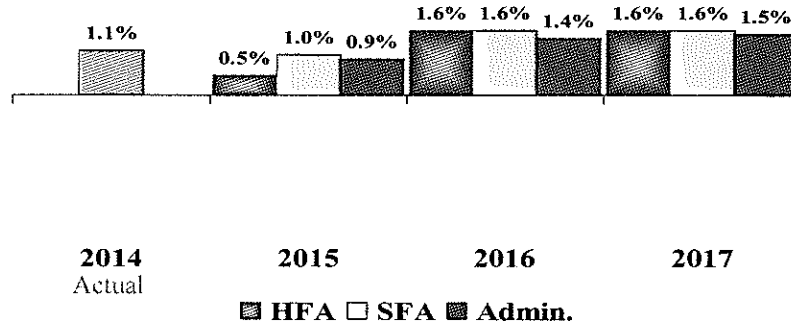
MI Motor Vehicle Production & Employment



Source: Michigan Department of Treasury & U.S. Bureau of Labor Statistics.
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Inflation Remains Low

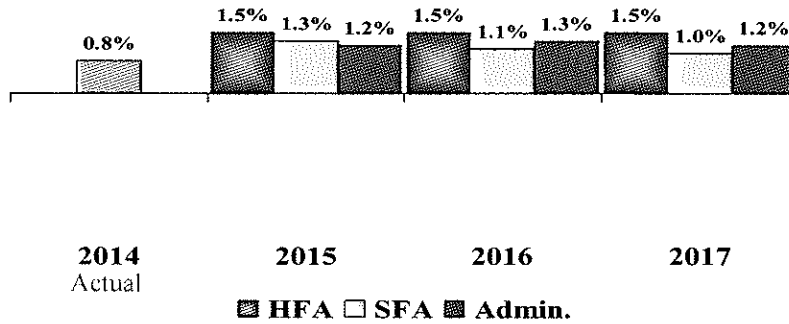
Detroit Consumer Price Index Fiscal Year Growth



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Michigan Wage and Salary Employment

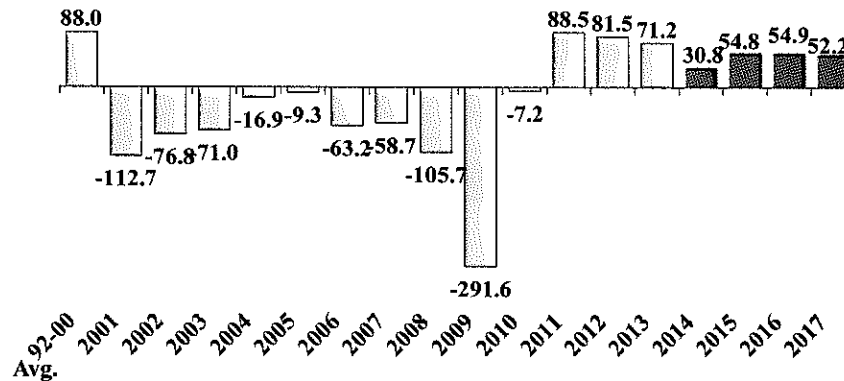
Annual Percent Change



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Michigan Job Gains Expected Through 2017

Change in Michigan Wage and Salary Employment Thousands



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Average Agency Forecasts

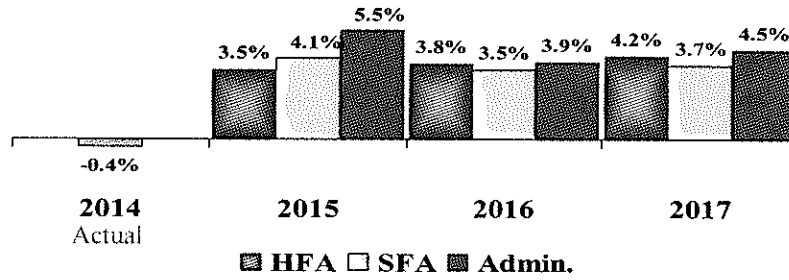
Forecast of Major Taxes

- Individual Income Tax revenue is expected to increase in FY 2015 – FY 2017 due to employment and earnings growth.
- Improving vehicle sales and housing activity will help boost Sales Tax revenue.
- SET grew in FY 2014 for the first time in five years and is expected to continue to grow.
- MBT refunds were larger than expected in FY 2014 and are now expected to top earlier projections for FY 2015 and FY 2016.

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Baseline Income Tax Growth

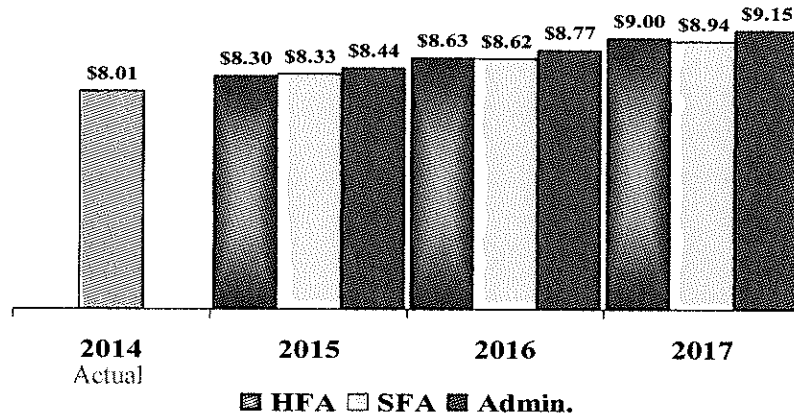
Fiscal Year Growth



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Net Income Tax Revenue Estimates

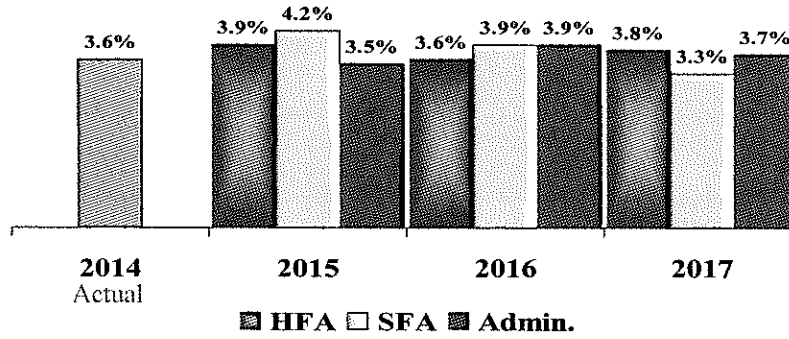
Fiscal Year Billions



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Baseline Sales Tax Growth

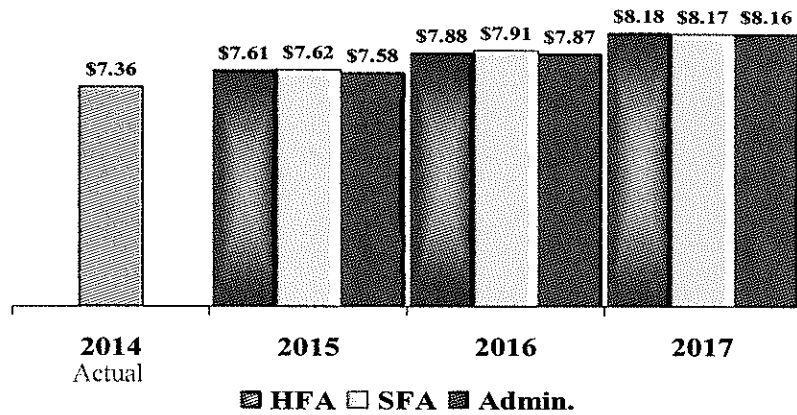
Fiscal Year Growth



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Net Sales Tax Revenue Estimates

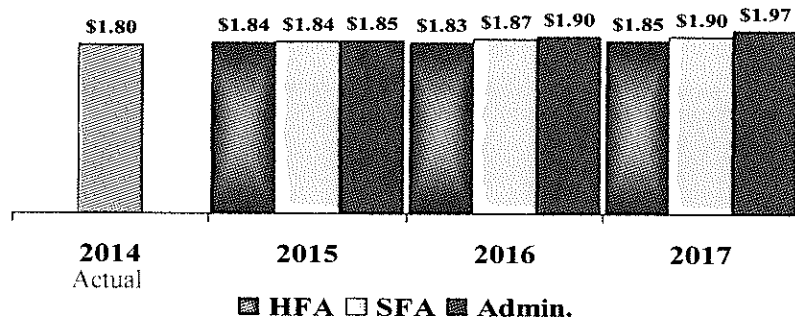
Fiscal Year Billions



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Net SET Revenue Estimates

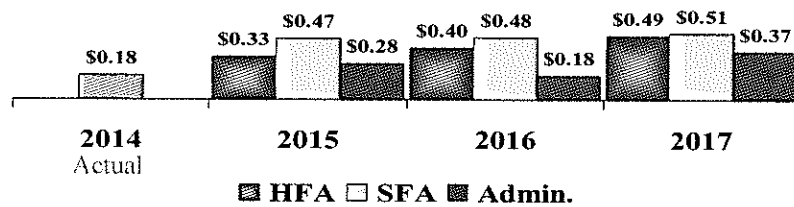
Fiscal Year
Billions



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Net CIT/MBT Revenue Estimates

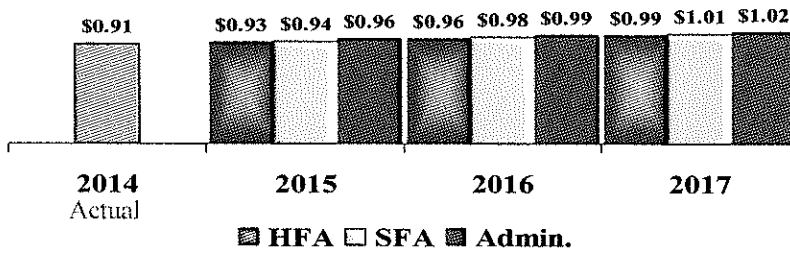
Fiscal Year
Billions



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Net CIT Revenue Estimates

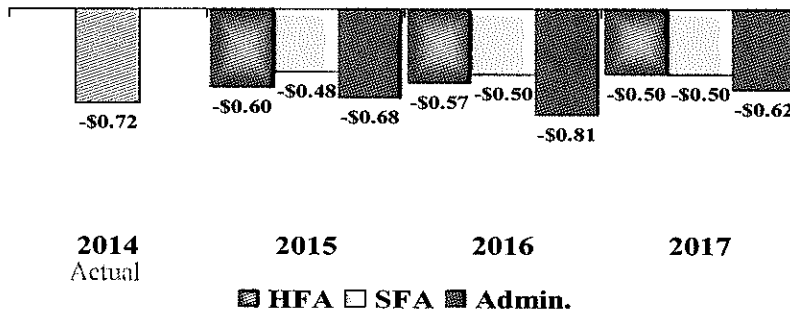
Fiscal Year
Billions



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Net MBT Revenue Estimates

Fiscal Year
Billions



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Michigan Business Tax & Certificated Credits

- The MBT was repealed in 2012 for most business taxpayers and replaced with the CIT.
- Taxpayers awarded certificated credits before 2012 may still pay the MBT and claim their credits.
- In FY 2014, MBT revenue totaled a negative \$723 million (refunds/credits exceeded payments).
- MBT revenue was \$171 million below the May estimate because certificated credits were much larger than expected.

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What are Certificated Credits?

- Certificated credits were awarded to specific businesses who must then meet certain employment and/or investment increases in order to actually claim the credits.
- Certificated credits are refundable and include MEGA, battery and others.
- Most are multi-year credits: Existing MEGA credits will last past 2030.
- MEDC awarded credits through 2011; in addition, some existing credits have been amended since 2011.

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Timing of Certificated Credits is Uncertain

- Certificated credits are awarded and claimed for particular tax years.
- Credits are claimed by businesses and certified by MEDC after the tax year is over.
- MEDC audits all claims for credits to make sure credit requirements are met.
- If credit requirements are met, MEDC grants the credit and issues a certificate.

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Timing of Certificated Credits Continued

- To receive a credit payment, a business must claim the credit on their MBT tax return, attach the certificate and file it with Treasury.
- Very difficult to predict:
 - If and when businesses will claim a credit with MEDC.
 - The amount of time MEDC needs to audit a credit claim.
 - In which fiscal year a business will file a tax return and credit certificate with Treasury (example: 2013 returns filed in FY 2014 or FY 2015).

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Projected MBT Credits

- The cost of current MEGA credits is expected to increase over the next few years due to:
 - Employment gains and increased investment activity that will boost credits for TY 2015 and beyond.
 - Some large outstanding credits from prior years are expected to be claimed and paid.
- Remaining battery credits will be paid off in FY 2015 – FY 2018.

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Projected MBT Credits Continued

- In FY 2015, MBT net refunds are expected to total \$681 million, \$252 million larger than the May estimate.
- In FY 2016, MBT net refunds will total an estimated \$807 million, \$351 million larger than in May.

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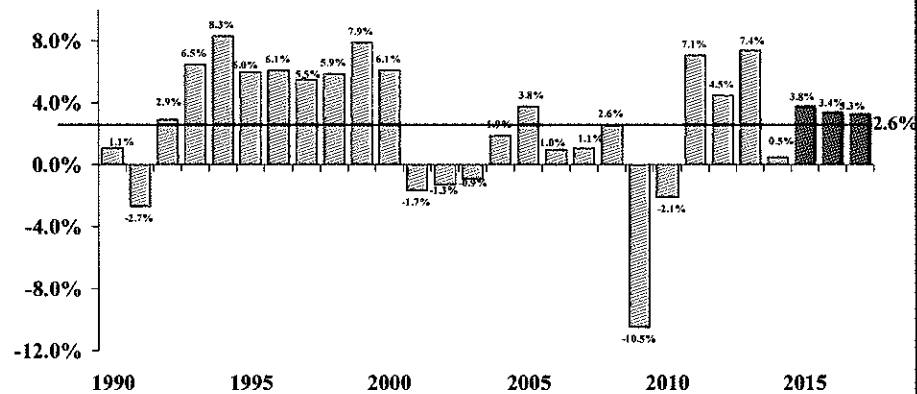
GF-GP and School Aid Fund Revenue

- Growth rate comparisons.
- Level comparisons.
- Budget Stabilization Fund calculation.
- Constitutional Revenue Limit calculation.

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GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes

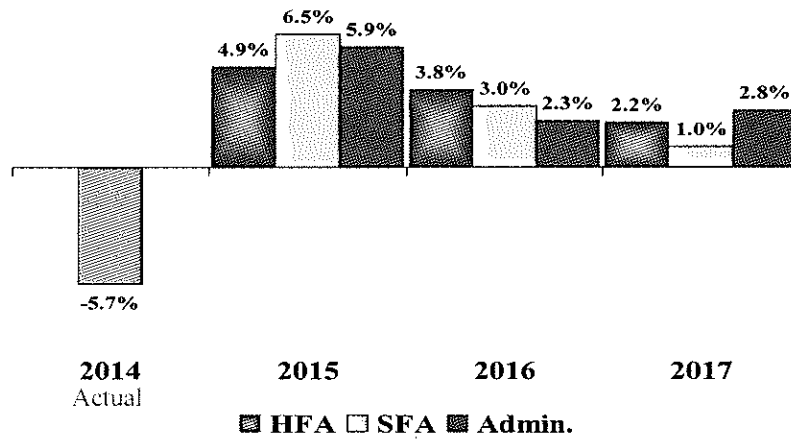


Average Agency Forecasts

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GF-GP Net Revenue Growth

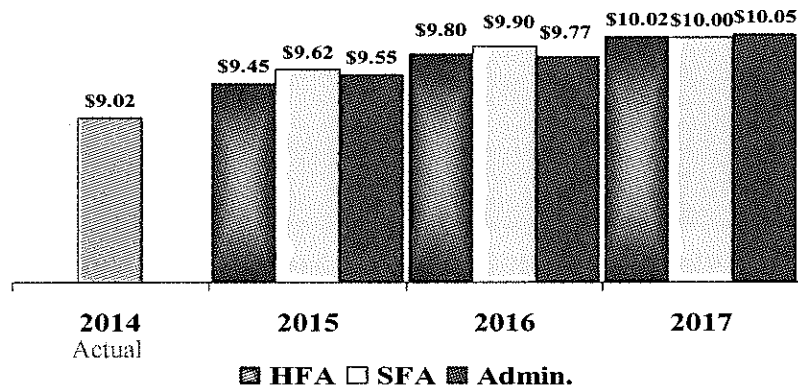
Fiscal Year Growth



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GF-GP Net Revenue Estimates

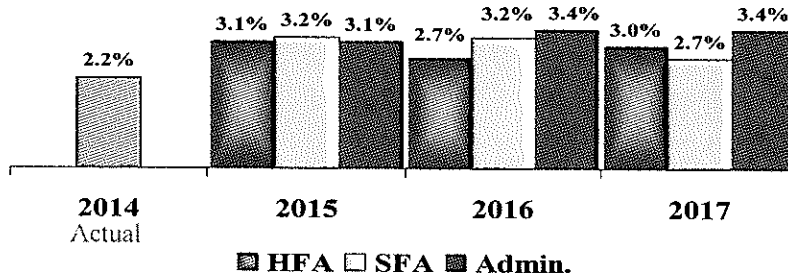
Fiscal Year Billions



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School Aid Fund Net Growth

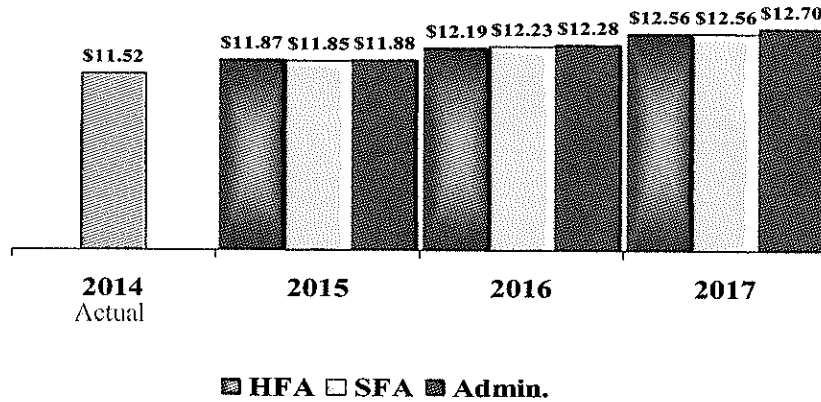
Fiscal Year Growth



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School Aid Fund Net Revenue Estimates

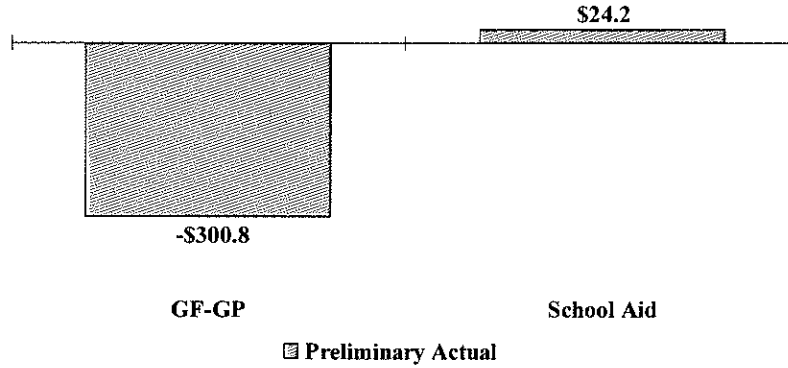
Fiscal Year Billions



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FY 2014 Changes Since May

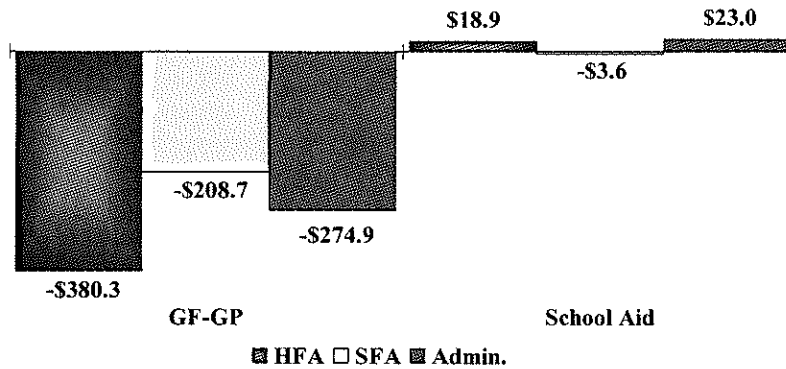
Change From May Consensus Estimates Millions



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FY 2015 Changes Since May

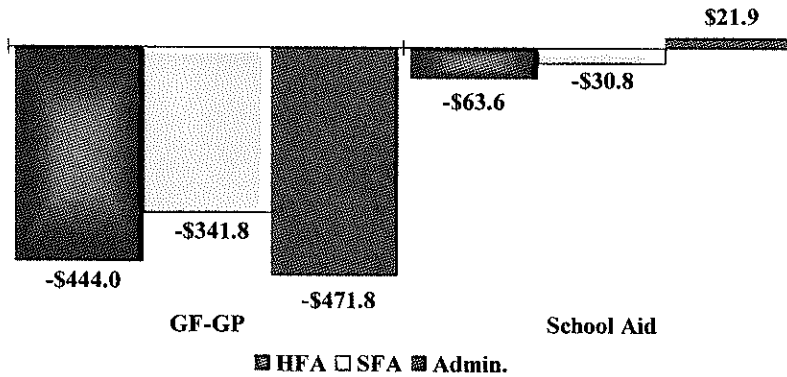
Change From May Consensus Estimates Millions



January 2015 Consensus Conference

FY 2016 Changes Since May

Change From May Consensus Estimates Millions



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FY 2015 GF/GP & SAF Revenue Estimates

New Non-Economic Changes Since May 2014 Consensus Millions

<u>Non-Economic Changes</u>	<u>GF/GP</u>	<u>SAF</u>	<u>Total</u>
Taxpayer Offer in Compromise	(\$4.3)	(\$3.2)	(\$7.5)
Tobacco Tax Reimbursement & Earmark	(\$4.1)	(\$2.2)	(\$6.3)
Driver Responsibility Fee Changes	(\$11.6)	\$0.0	(\$11.6)
Updated MBT Credit Data	(\$251.8)	\$0.0	(\$251.8)
PPT Reform	\$0.0	(\$10.0)	(\$10.0)
Total	(\$271.8)	(\$15.4)	(\$287.2)

* Average of Agency Estimates

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FY 2016 GF/GP & SAF Revenue Estimates

New Non-Economic Changes Since May 2014 Consensus Millions

<u>Non-Economic Changes</u>	<u>GF/GP</u>	<u>SAF</u>	<u>Total</u>
Taxpayer Offer in Compromise	(\$4.3)	(\$3.2)	(\$7.5)
Tobacco Tax Reimbursement & Earmark	(\$3.0)	\$0.0	(\$3.0)
Driver Responsibility Fee Changes	(\$12.3)	\$0.0	(\$12.3)
Updated MBT Credit Data	(\$350.9)	\$0.0	(\$350.9)
PPT Reform	(\$41.1)	(\$20.9)	(\$62.0)
Total	(\$411.6)	(\$24.1)	(\$435.7)

* Average of Agency Estimates

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Revenue Forecast Comparison

Millions

	<u>FY 2015</u>			<u>FY 2016</u>			<u>FY 2017</u>		
	<u>Treasury</u>	<u>House Fiscal Agency</u>	<u>Senate Fiscal Agency</u>	<u>Treasury</u>	<u>House Fiscal Agency</u>	<u>Senate Fiscal Agency</u>	<u>Treasury</u>	<u>House Fiscal Agency</u>	<u>Senate Fiscal Agency</u>
Revenue									
GF-GP	\$9,551	\$9,446	\$9,617	\$9,774	\$9,801	\$9,904	\$10,046	\$10,020	\$10,001
School Aid	\$11,876	\$11,872	\$11,850	\$12,280	\$12,194	\$12,227	\$12,704	\$12,558	\$12,555
Combined	\$21,427	\$21,318	\$21,467	\$22,054	\$21,995	\$22,131	\$22,749	\$22,578	\$22,556
Difference From May									
GF-GP	(\$275)	(\$380)	(\$209)	(\$472)	(\$444)	(\$342)	\$0	\$0	\$0
School Aid	\$23	(\$19)	(\$4)	\$22	(\$64)	(\$31)	\$0	\$0	\$0
Combined	(\$252)	(\$399)	(\$212)	(\$450)	(\$508)	(\$373)	\$0	\$0	\$0

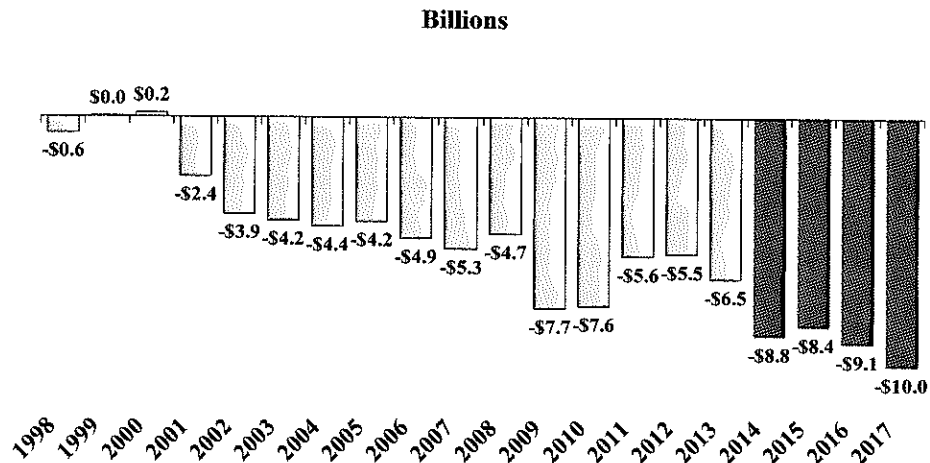
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Budget Stabilization Fund

- In FY 2015, the Agencies estimate pay-ins from \$72 to \$195 million.
- In FY 2016, the Agencies estimate pay-ins ranging from \$57 to \$97 million.
- In FY 2017, the Agencies estimate pay-ins ranging from \$88 to \$102 million.
- No BSF pay-outs are estimated by any of the Agencies during FY 2015, FY 2016 or FY 2017.

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Constitutional Revenue Limit Calculation



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Average Agency Forecasts

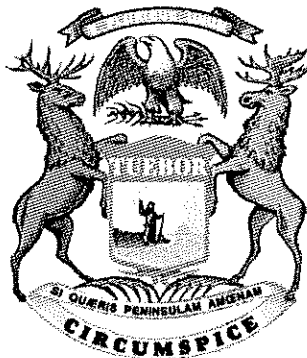
Forecast Risks

- Slower economic growth in Europe, Brazil, India, China.
- Oil price decline.
- When will Fed raise rates and by how much?
- How will financial markets, consumers react to Fed action?
- Housing: will more consumers take on financial commitment?
- MBT certificated credits: uncertainty on number, dollar amount and timing.

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Economic and Revenue Forecasts

FY 2015 * FY 2016 * FY 2017



Consensus Revenue Estimating Conference
January 16, 2015

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