

**MICHIGAN'S
ECONOMIC OUTLOOK
AND BUDGET REVIEW**

**FY 2017-18, FY 2018-19,
FY 2019-20, and FY 2020-21**

December 27, 2018



THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing an estimated 2.9% during 2018, is predicted to expand 2.6% in 2019, 1.7% in 2020, and 1.4% in 2021. Light vehicle sales are forecasted to decline from 17.1 million units in 2018 to 16.8 million units in 2019 and 16.5 million units in both 2020 and 2021. The unemployment rate is expected to fall from 3.9% in 2018 to 3.6% in 2019, before rising slightly to 3.7% in 2020 and 3.8% in 2021. The consumer price index is estimated to increase 2.4% in 2019, 2.2% in 2020, and 2.4% in 2021, after increasing 2.5% in 2018.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.4% in both 2019 and 2020, and 1.7% in 2021, after rising 1.2% in 2018. Growth in wage and salary employment is predicted to continue to slow, increasing 0.7% during 2019, 0.2% in 2020, and 0.3% in 2021, after growing 1.3% in 2018.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2017-18 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$24.2 billion, up 5.8% from FY 2016-17, reflecting greater-than-expected economic growth that boosted tax revenue, especially from the use tax and corporate income tax, and less-than-expected refunds under the Michigan Business Tax (MBT). Combined FY 2017-18 GF/GP and SAF revenue is \$496.4 million above the May 2018 consensus estimate.

In FY 2018-19, GF/GP and SAF revenue will total an estimated \$24.4 billion, a 0.8% increase from FY 2017-18 and \$407.7 million above the May 2018 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.6 billion, a 2.9% decline from FY 2017-18 that reflects slowing growth, increased homestead property tax credits, and a new earmark of individual income tax revenue to the Michigan Transportation Fund (adopted as part of the 2015 transportation funding package). School Aid Fund revenue will rise to an estimated \$13.8 billion, a 3.8% increase that reflects additional revenue from online sales taxed as a result of the U.S. Supreme Court's 2018 *Wayfair* decision.

In FY 2019-20, GF/GP and SAF revenue will total an estimated \$24.8 billion, a 1.7% increase from FY 2018-19 that is \$385.3 million above the May 2018 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.7 billion, a 0.5% increase from FY 2017-18 that reflects an increased earmark of individual income tax revenue to the Michigan Transportation Fund (MTF) and weak income and employment growth in both the national and State economy. School Aid Fund revenue will rise to an estimated \$14.1 billion, a 2.6% increase.

In FY 2020-21, GF/GP and SAF revenue will total an estimated \$25.3 billion. This initial estimate for FY 2020-21 is 2.1% above the revised estimate for FY 2019-20. An increase in the earmark of individual income tax revenue to the MTF will reduce GF/GP revenue growth to 1.1%, so that GF/GP revenue will total \$10.8 billion. School Aid Fund revenue will rise to an estimated \$14.5 billion, a 2.9% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 26, 2018, the Senate Fiscal Agency (SFA) is estimating that the FY 2017-18 GF/GP budget will close the fiscal year with a \$565.7 million balance. The SFA estimates that the FY 2017-18 SAF budget will close the fiscal year with a \$275.7 million balance.

A comparison of the SFA's FY 2018-19 revenue estimates with enacted and projected appropriations leads to a \$228.7 million GF/GP year-end balance. The SFA is now estimating that the FY 2018-19 SAF budget will end the year with a \$165.5 million balance.

Looking ahead at the FY 2019-20 budget, there is a projected GF/GP balance of \$111.2 million if the SFA's FY 2019-20 GF/GP revenue estimate is compared with FY 2019-20 GF/GP estimated expenditures that: freeze initial ongoing and one-time spending at the FY 2018-19 level; include the Governor's FY 2019-20 School Aid Fund planning budget's \$45.0 million GF/GP grant amount; adjust for Medicaid caseload and costs; and include a portion of the appropriations in enrolled Senate Bill 601. If the SFA's FY 2019-20 SAF revenue estimate is compared with the FY 2019-20 SAF estimated continuation expenditures that adjust the FY 2018-19 level of funding for estimated pupils and other costs, the projected SAF surplus is \$211.4 million.

The FY 2017-18 estimated ending balances may change when the State's final comprehensive annual financial report is published. Since this will be the first book-closing under SIGMA, a \$100.0 million revenue reduction is included as a balance sheet contingency amount. If the FY 2017-18 numbers change due to pending accruals and other book-closing issues, the ending balances in this report will be affected. If policy changes are enacted during FY 2018-19 (including pending tax policy legislation) the ending balances for FYs 2018-19 and 2019-20 could be improved or worsened.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)					
	2017 Actual	2018 Estimate	2019 Estimate	2020 Estimate	2021 Estimate
Real Gross Domestic Product (% change)	2.2%	2.9%	2.6%	1.7%	1.4%
U.S. Consumer Price Index (% change)	2.1%	2.5%	2.4%	2.2%	2.4%
Light Motor Vehicle Sales (millions of units)	17.1	17.1	16.8	16.5	16.5
U.S. Unemployment Rate (%)	4.4%	3.9%	3.6%	3.7%	3.8%
Real Michigan Personal Income (% change)	1.4%	1.2%	1.4%	1.4%	1.7%
Michigan Wage & Salary Employment (% change)	1.2%	1.3%	0.7%	0.2%	0.3%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)									
	FY 2018-19 Estimate			FY 2019-20 Estimate			FY 2020-21 Estimate		
	Baseline	Tax	Net	Baseline	Tax	Net	Baseline	Tax	Net
		Changes	Available		Changes	Available		Changes	Available
GF/GP	\$12,102.8	(\$1,461.5)	\$10,641.4	\$12,408.6	(\$1,714.5)	\$10,694.1	\$12,813.0	(\$2,002.2)	\$10,810.8
% Change	(0.0%)	---	(2.9%)	2.5%	---	0.5%	3.3%	---	1.1%
School Aid Fund	\$13,618.1	134.2	\$13,752.3	\$13,930.4	180.3	\$14,110.7	\$14,304.1	216.4	\$14,520.6
% Change	2.6%	---	3.8%	2.3%	---	2.6%	2.7%	---	2.9%
Total GF/GP & SAF	\$25,721.0	(\$1,327.3)	\$24,393.7	\$26,339.0	(\$1,534.2)	\$24,804.8	\$27,117.2	(\$1,785.8)	\$25,331.4
% Change	1.3%	---	0.8%	2.4%	---	1.7%	3.0%	---	2.1%
Revenue Limit – Under (Over)	\$10,474.2			\$11,499.1			\$12,355.7		
	<u>FY 2017-18 Estimate</u>			<u>FY 2018-19 Estimate</u>			<u>FY 2019-20 Estimate</u>		
<u>Revision from May Consensus</u>									
GF/GP	\$496.4			\$229.8			\$175.4		
SAF	<u>0.0</u>			<u>177.9</u>			<u>209.9</u>		
Total	\$496.4			\$407.7			\$385.3		

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
General Fund/General Purpose.....	\$565.7	\$228.7	\$111.2
School Aid Fund	275.7	165.5	211.4
Budget Stabilization Fund (with formula pay-in)	\$1,006.7	\$1,056.4	\$1,115.1
Budget Stabilization Fund (with enacted deposits)	1,006.7	1,056.4	1,115.1

**ECONOMIC REVIEW
AND OUTLOOK**

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2019, 2020, and 2021, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

While the 2008-2009 recession represented the most severe economic contraction in more than 70 years, the years following the recession have represented the weakest recovery. As of the third quarter of 2018, the economy had been in recovery for 37 quarters after the recession trough in the second quarter of 2009. Four other recoveries since World War II lasted 20 quarters or more, although only two of those recoveries lasted 35 quarters or more (one did last more than 37 quarters), and at this point the current recovery is less than half as strong as the average of those recoveries ([Figure 1](#)). The economy has averaged only 2.3% annual growth since the end of the recession, compared with an average of 4.1% annual growth over the longest recoveries since World War II (37 quarters after the end of the 1961, 1982, and 1991 recessions). Most of the weakness in the recovery reflects particularly slow growth through the first quarter of 2014: personal consumption spending (which generally has accounted for two-thirds of economic activity) grew at a rate of 1.7% per year and the government sector contracted by 1.9% per year ([Figure 2](#)). Since the first quarter of 2014, the government sector remained relatively flat through the third quarter of 2017 (it averaged 2.3% growth between the third quarter of 2017 and the third quarter of 2018) while consumption has grown more rapidly, averaging 3.1% per year. However, the growth in consumption has been offset by markedly slower growth in business investment.

Figure 1

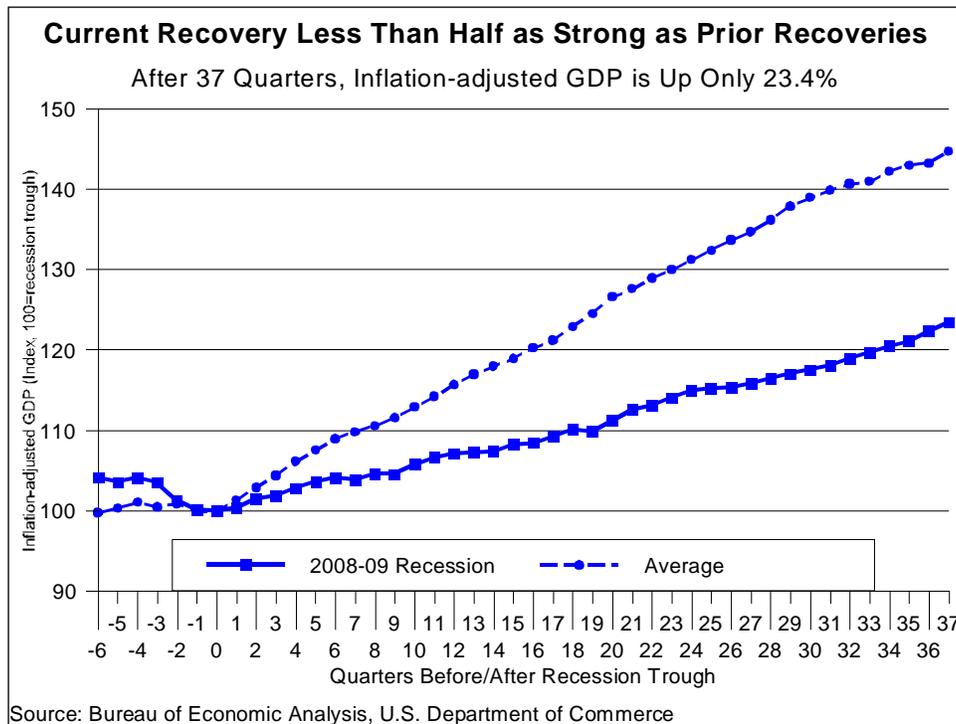
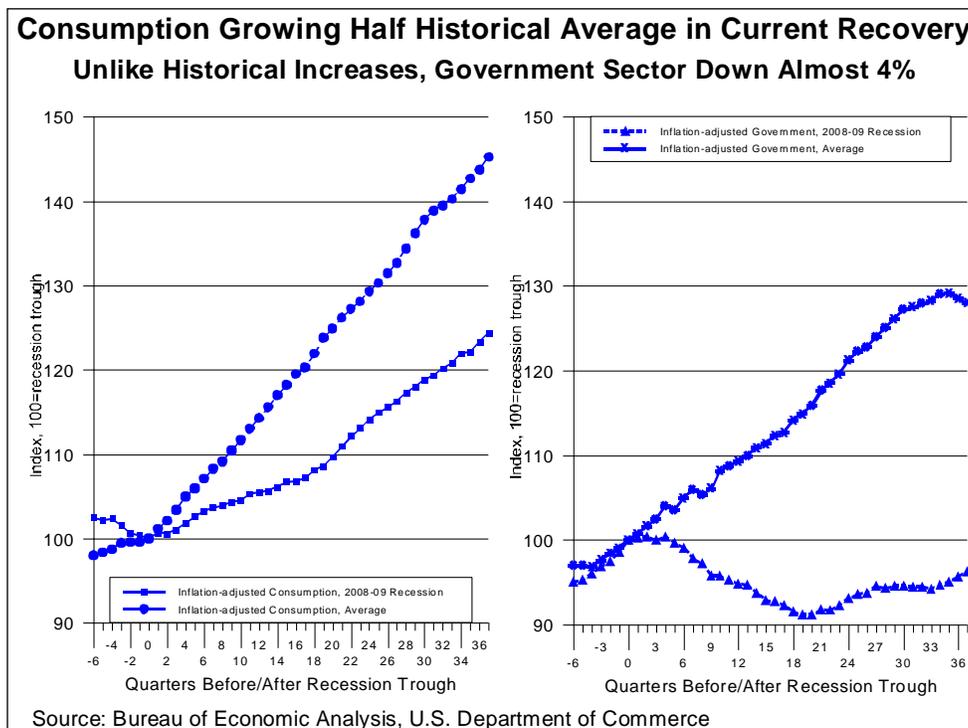


Figure 2



Recoveries from recessions caused by a crisis within the financial system often take longer than traditional recoveries, largely because of the increased level of risk aversion both borrowers and lenders exhibit, and the need to rebuild asset values rather than simply having the unemployed obtain jobs. Employment losses continued through February 2010, while housing prices continued to decline through late 2011, both depressing economic activity and delaying any potential recovery. In March 2013, the S&P 500 finally recovered to its prerecession peak, signaling new growth in asset prices; however, payroll employment did not regain its prerecession peak until May 2014. Depending on the price index used, housing prices had recovered to prerecession peaks by either the first or third quarter of 2016. With employment, housing prices, and the stock market all exhibiting an upward trend in the years after early 2014, and in many cases surpassing prerecession levels, consumption returned to relatively normal growth rates.

While the economy has grown since the first quarter of 2014 at rates more consistent with prior recoveries, these growth rates are not sustainable given current economic circumstances. The long-run growth of an economy is generally constrained by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they produce goods and services. While short-term deviations inevitably occur, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced during the current recovery can be attributed to slower rates of both population growth and productivity growth. From 1991 to 2010, the average potential growth based on the sum of population growth and productivity was 3.5% per year. From 2011 to 2017, this potential or trend growth averaged 1.4% per year. Despite the slow economic growth after the 2008-2009 recession, since 2011 the economy has consistently outperformed the average long-run trend growth suggested by these factors (Figure 3), causing the output gap (the difference between actual GDP and potential GDP) to narrow substantially, beginning in 2014 (Figure 4). As of the second quarter of 2018, the economy had exceeded the potential, and occurrence that historically has been short-lived and associated with rising labor costs. A primary reason the economy was able to outperform the long-run average over this period was the slack in the labor force, particularly due to large numbers of unemployed and/or underemployed individuals; reductions in unemployment could compensate for slow population growth and slow productivity growth.

Figure 3

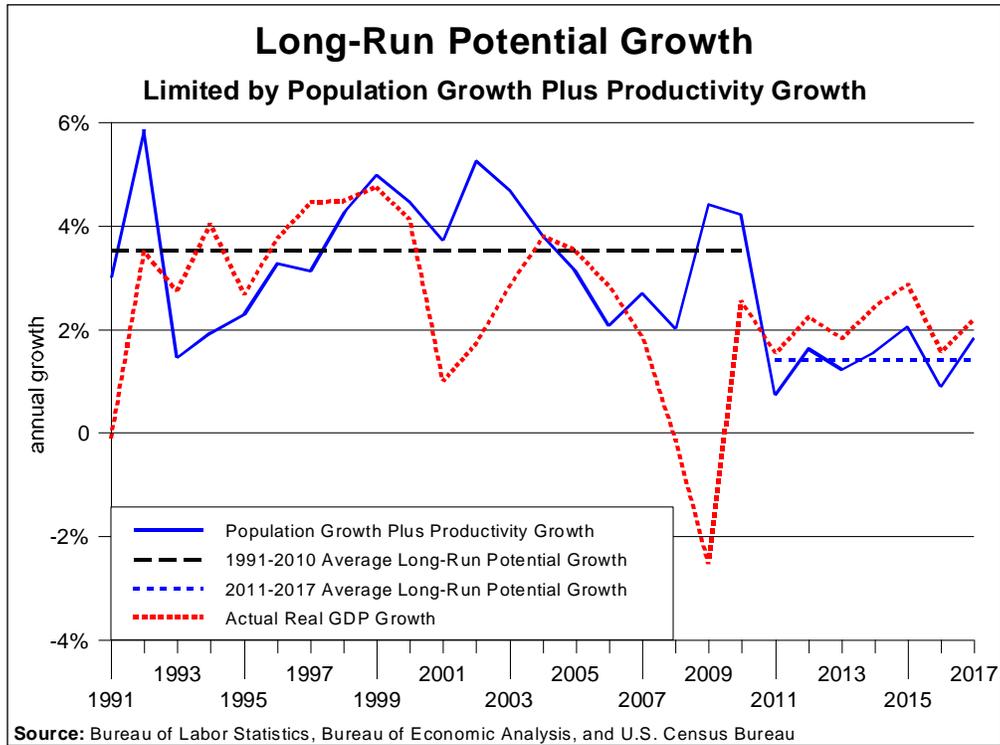
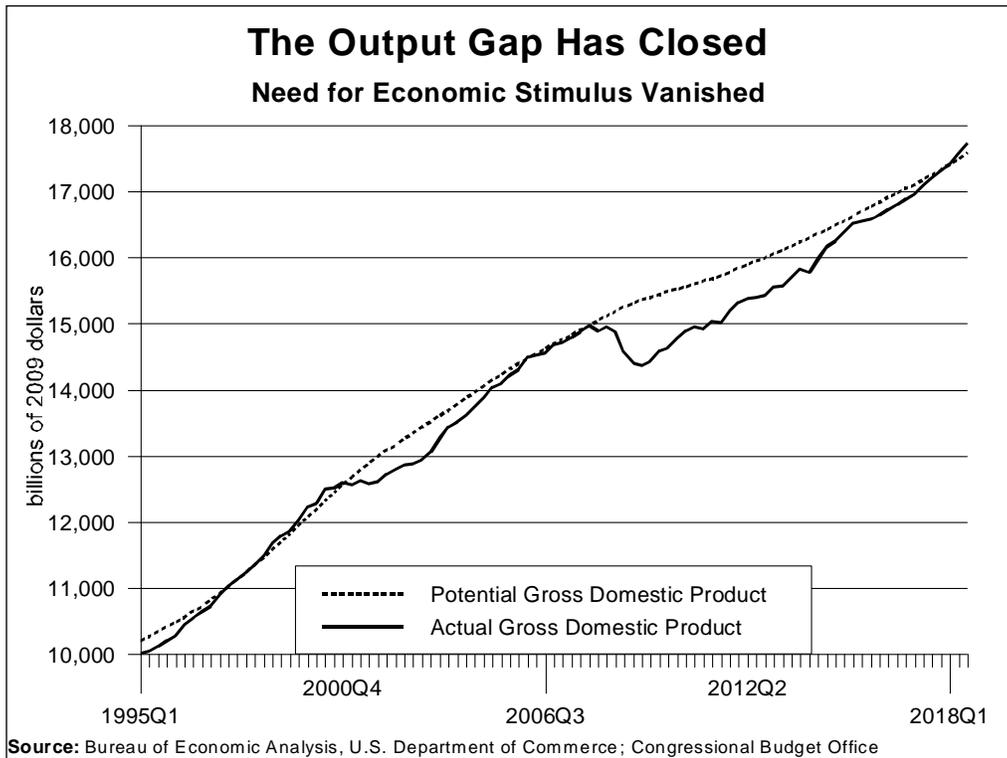


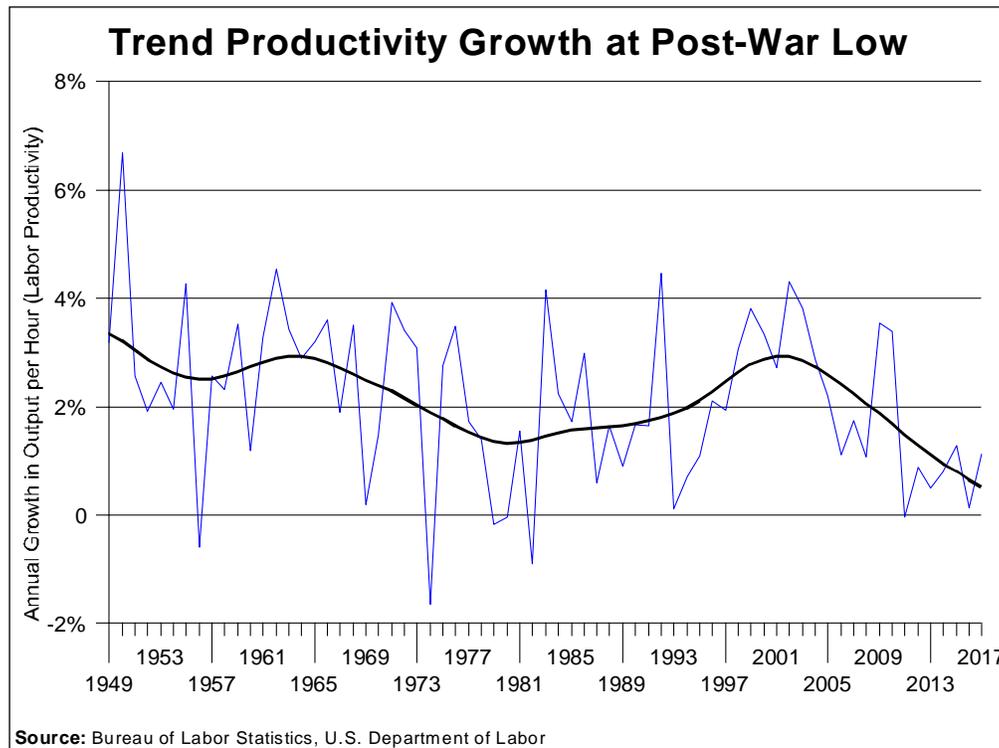
Figure 4



Productivity, as measured by output per hour in the nonfarm business sector, was flat in 2016, but rose 1.1% in 2017. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity has grown by less than 1.0% per year in every year since 2010—the longest and most severe slowdown in productivity experienced since at least World War II (Figure 5). This decline in productivity has occurred despite business investment growing at roughly the same rates as in

previous recoveries, at least through mid-2014. As consumption growth has improved, it has been somewhat offset by low, or even declining, rates of business investment. Investment affects not only current economic growth but also future economic growth. Business investment is generally associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced since 2010 has boosted employment growth over what it would have been had labor productivity grown at historical rates.

Figure 5



As of November 2018, payroll employment averaged 1.7% annual growth since the February 2010 trough and was up 1.5% from the November 2017 level, essentially the same year-over-year growth that has been exhibited every month during 2018. The combined effect of an improving economy, consistent payroll employment growth, and low productivity on the unemployment rate has been significant, especially given the underlying demographics affecting the labor force. The unemployment rate fell from a peak of 10.0% in October 2009, to 3.7% in November 2018. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Between the December 2009 trough in total employment (as opposed to payroll employment) and September 2014, the labor force averaged 0.3% annual growth. In 2016, the labor force grew 1.3%, but that growth slowed to 0.7% in 2017, and the labor force is estimated to have increased by 1.0% in 2018. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the November 2018 level of total employment set an all-time record. However, labor force participation during 2018 remained at the same 40-year lows experienced since late 2013.

While lower labor force participation has limited labor supply, the growing economy has resulted in continued increases in labor demand. Since early 2016, the number of job openings has continued to increase, and openings have consistently exceeded separations (when an employee leaves a position, either as a result of quitting, being released, or because a limited term position ends). Over that period, the rate of growth in hourly compensation has risen, although it is still rising more slowly than during

most nonrecession periods. Historically, labor costs have risen more rapidly when the unemployment rate has been below 5.0% than when the unemployment rate has been above 5.0%. Since 1980, hourly compensation has risen by approximately 3.3% per year when the unemployment rate has been above 5.0%. In contrast, during the 1990s, the last sustained period when the unemployment rate remained below 5.0%, hourly compensation increased by an average of 5.0% per year. The 1990s experience suggests the 2.7% annual growth rate in hourly compensation since the first quarter of 2016 (when the unemployment rate fell below 5.0%) is unsustainable, and is more likely to increase the longer the unemployment rate remains below 5%, especially if it continues to decline.

As of the third quarter of 2018, the economy exhibited characteristics of a healthy economy in many respects: low unemployment rates, high consumer sentiment, and low inflation--although inflation has been rising more rapidly during 2018 than any year since 2011. Vehicle sales remain at historically strong levels, initial unemployment claims are at record lows (especially as a share of the labor force), housing starts are finally rising at a level consistent with household formation, and the gap between short-term and long-term interest rates (often referred to as the "yield curve") remains at a healthy level despite increases in short-term interest rates since early 2016. However, even without considering fiscal policy risks (which will be addressed later), substantial concerns and uncertainties remain. Although growth in consumer debt has slowed, debt levels remain high and are likely to be more of a burden as interest rates rise; productivity growth remains exceptionally low; inflation-adjusted incomes are flat to declining; for most of the working age population labor force participation rates are remaining at subdued levels or declining; business investment remains weak; and several factors suggest inflation may exceed Federal Reserve targets.

Inflation-adjusted consumption has grown approximately 2.7% per year since the first quarter of 2016, and much of the improvement has reflected increased purchases of motor vehicles and/or rising debt. Light vehicle sales in 2016 totaled 17.5 million units, breaking the prior all-time record of 17.4 million units set in 2015, and dropped slightly to 17.1 million units in 2017 and are expected to finish 2018 at the same level. Overall retail sales have averaged 5.0% year-over-year growth since January 2017, after averaging 2.3% year-over-year growth in 2015 and 2016 (partially down due to declining fuel prices). Although consumption has returned to its historical position of accounting for the majority of growth in the economy, much of the increase has been financed by increased borrowing, particularly between mid-2014 and the end of 2017. Between the first quarter of 2014 and the fourth quarter of 2017, inflation-adjusted consumption spending per person rose at an annual rate of 2.0%, compared with a 2.2% rate of increase in inflation-adjusted wage and salary income per person and a 3.1% increase in total consumer debt ([Figure 6](#)). During 2018, outstanding consumer debt per person increased at an annual rate of 0.7%, with the first and second quarters of 2018 exhibiting the slowest growth in consumer debt since, with the exception of the first quarter of 2016, the second quarter of 2011. Furthermore, during the first three quarters of 2018, outstanding consumer debt grew more slowly than the 0.9% increase in wage and salary income per person and the 1.1% increase in consumer spending per person. As a result, the financial obligations ratio declined in the first two quarters of 2018 to the lowest level since the fourth quarter of 2014 ([Figure 7](#)).

Housing construction, which counts as residential investment rather than consumption spending, continued to improve in 2018, with housing starts nearing rates consistent with a growing economy, although as a share of GDP residential investment remains substantially below historical norms ([Figure 8](#)). Housing starts totaled 1.2 million units in 2017, and are expected to increase 4.7% in 2018, marking the ninth consecutive annual increase in starts and the most starts since the 2008-2009 recession. However, the number of starts during 2018 was less than the number in any year during the period of 1993 to 2007. Furthermore, although average home prices have recovered from the recession, housing starts in 2018 are forecasted to be 39.1% below the prerecession peak of 2.1 million starts in 2005. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP, and has averaged 3.3% of GDP during 2018, slightly less than in 2017.

Figure 6

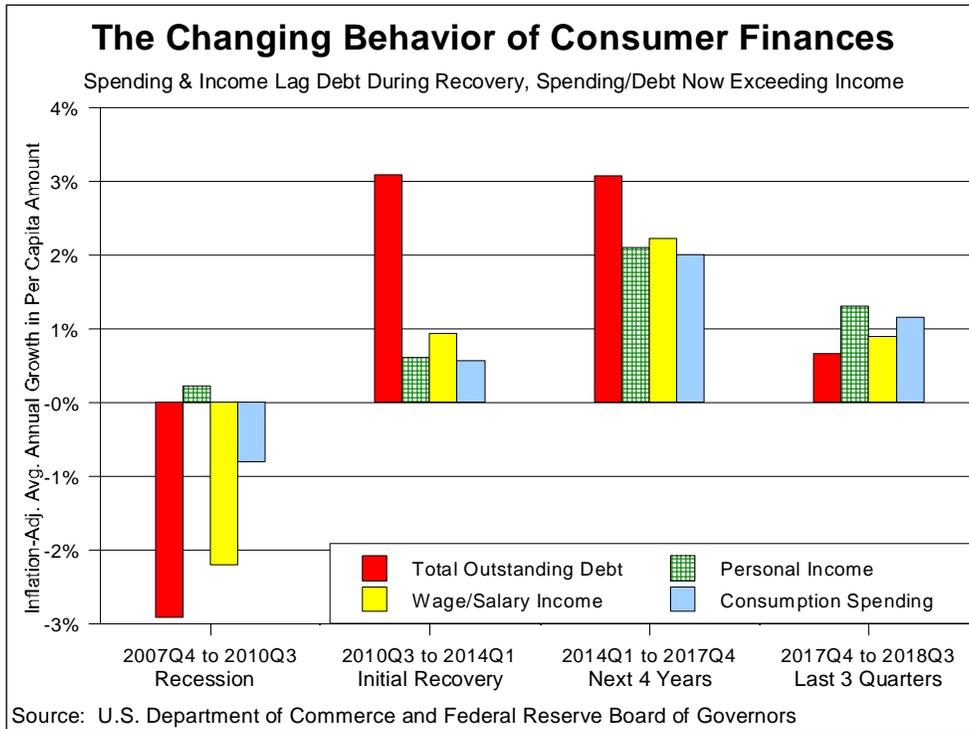


Figure 7

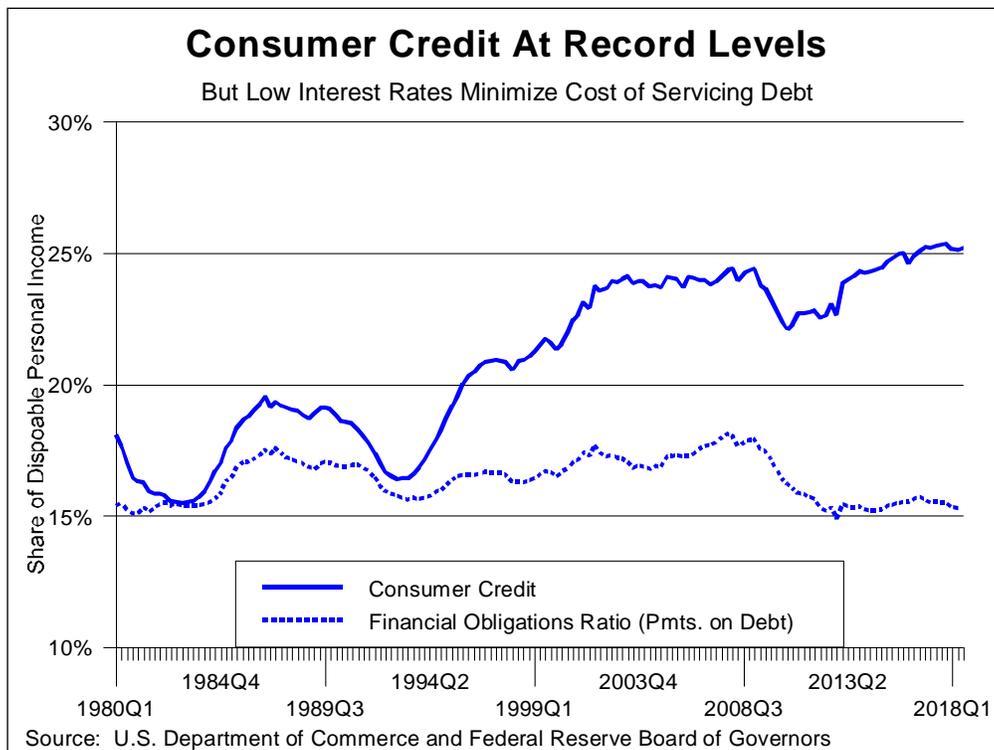
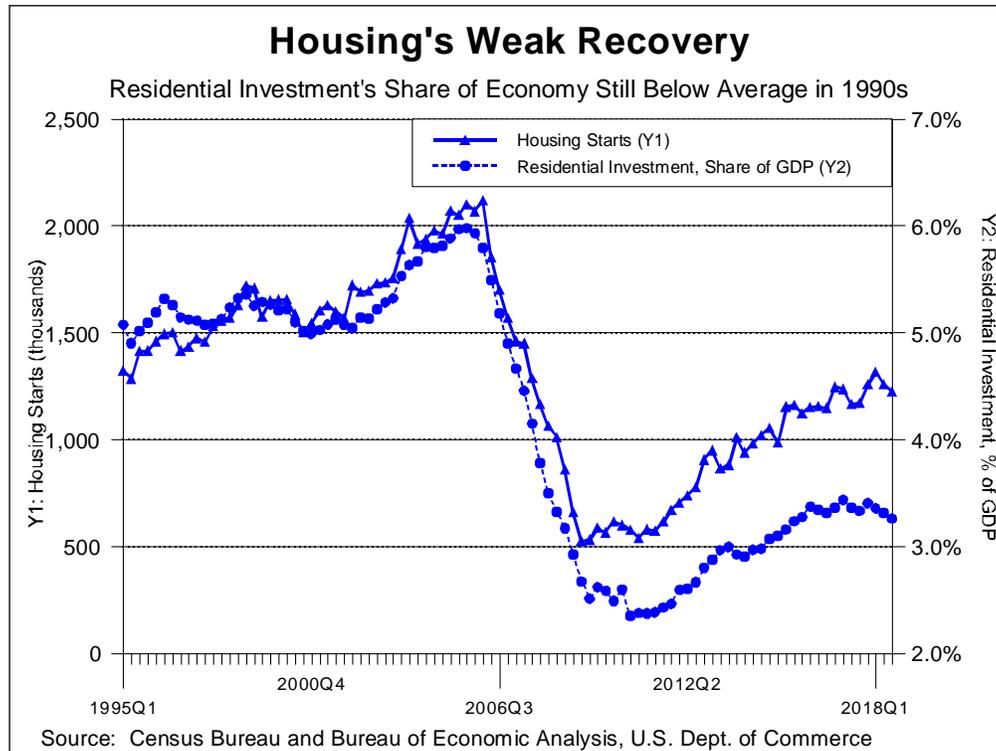


Figure 8



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

Michigan's economy spent the 2000-to-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, a significant surge in productivity driven by increased competition in the economy. For Michigan, the effect of productivity improvements has been substantial for at least three reasons: 1) there was more room for productivity improvements in the durable goods and motor vehicle manufacturing sectors than in many other sectors; 2) Michigan was, and remains, disproportionately concentrated in motor vehicle manufacturing; and 3) the motor vehicle industry has become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade; thus, Michigan lost jobs as a result of both higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose 34.5% between June 2009, when the U.S. recession ended, and December 2014, or approximately 2,300 jobs per month (an average annual growth rate of 5.5%). Since December 2014, job growth in manufacturing has slowed with employment gains falling from 2.9% in 2015 to 2.3% in 2016, 1.7% in 2017, and a forecasted 1.0% increase in 2018. Employment in the transportation equipment manufacturing sector increased by 65.3% between June 2009 and December 2014, accounting for 69,000 (46.1%) of the manufacturing jobs Michigan gained and 18.2% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly, with the growth rate slowing from a 5.4% increase in 2014 to a 1.8% gain in 2017, and a projected 0.9% increase in 2018. Similarly, the growth in total Michigan payroll employment has slowed, declining from 1.8% growth in 2016 to 1.2% growth in 2017 and a forecasted 1.3% growth in 2018. Furthermore, since

the end of 2016, most sectors of the Michigan economy have exhibited slower employment growth than the U.S. as a whole, especially during 2018 ([Figure 9](#)).

The unemployment rate declined from a high of 14.9% in June 2009 to 3.9% in October 2018, the lowest level since October 2000. The decline between June 2009 and May 2016 was partially attributable to the departure of approximately 145,100 individuals from the labor force in addition to the employment gain of 360,000 jobs. Almost half of the employment gain, representing 179,850 jobs, occurred during 2013 and 2014. Between October 2017 and October 2018, Michigan employment increased by 30,000 jobs.

As job growth has slowed, increases in inflation-adjusted Michigan personal income also have slowed. In 2015, inflation-adjusted Michigan personal income increased 7.3%, compared to 1.5% in 2016, 1.4% in 2017 and a forecasted increase of 1.2% in 2018. Like with the national economy, Michigan personal income growth faces a number of constraints from slow population growth and low unemployment rates. Additionally, in many sectors, average weekly hours remain at or near record levels, limiting the ability of firms or workers to generate additional income by simply working more hours.

Historical and forecasted details for selected economic indicators are presented in [Table 1](#) and [Table 2](#).

Figure 9

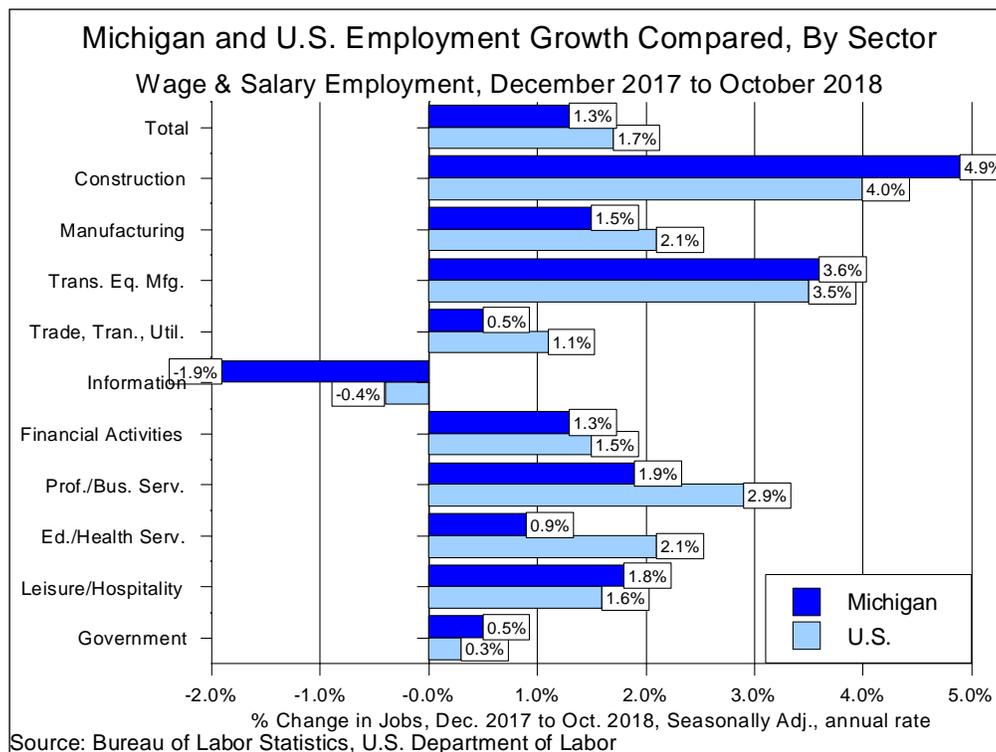


Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)					
	2017 Actual	2018 Estimate	2019 Estimate	2020 Estimate	2021 Estimate
United States					
Nominal GDP (year-to-year growth)	4.2%	5.2%	5.0%	4.2%	3.8%
Inflation-Adjusted GDP (year-to-year growth)	2.2%	2.9%	2.6%	1.7%	1.4%
Unemployment Rate	4.4%	3.9%	3.6%	3.7%	3.8%
Inflation					
Consumer Price Index (year-to-year growth)	2.1%	2.5%	2.4%	2.2%	2.4%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.9%	2.3%	2.3%	2.4%	2.4%
Interest Rates					
90-day Treasury Bill	0.93%	1.94%	2.76%	3.16%	3.60%
10-year Treasury Bill	2.33%	2.95%	3.36%	3.54%	3.76%
Corporate Aaa Bond	3.74%	3.94%	4.34%	4.50%	4.61%
Federal Funds Rate	1.00%	1.84%	2.79%	3.31%	3.75%
Light Motor Vehicle Sales (millions of units)					
Auto	17.1	17.1	16.8	16.5	16.5
Truck	6.1	5.3	4.6	4.1	3.6
Import Share	11.1	11.9	12.2	12.4	12.9
	22.6%	23.1%	23.6%	24.4%	24.8%
Michigan					
Personal Income (millions)	\$460,270	\$477,586	\$495,011	\$512,536	\$532,202
Year-to-year growth	3.5%	3.8%	3.6%	3.5%	3.8%
Inflation-Adjusted Personal Income (year-to-year growth)					
	1.4%	1.2%	1.4%	1.4%	1.7%
Wage & Salary Income (millions)					
Year-to-year growth	\$231,748	\$241,864	\$250,260	\$257,956	\$266,682
	4.2%	4.4%	3.5%	3.1%	3.4%
Detroit Consumer Price Index (year-to-year growth)					
	2.1%	2.5%	2.3%	2.1%	2.1%
Wage & Salary Employment (thousands)					
Year-to-year growth	4,371.3	4,426.9	4,460.0	4,470.0	4,482.6
	1.2%	1.3%	0.7%	0.2%	0.3%
Unemployment Rate	4.6%	4.4%	4.0%	4.1%	4.2%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2017 Actual	2018 Estimate	2019 Estimate	2020 Estimate	2021 Estimate
Gross Domestic Product (billions of dollars)	\$19,485.4	\$20,507.8	\$21,541.2	\$22,439.5	\$23,300.2
Year-to-year growth	4.2%	5.2%	5.0%	4.2%	3.8%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2012 dollars)	\$18,050.7	\$18,573.8	\$19,065.2	\$19,398.2	\$19,665.9
Year-to-year growth	2.2%	2.9%	2.6%	1.7%	1.4%
Consumption (billions of 2012 dollars)	\$12,558.7	\$12,892.8	\$13,224.5	\$13,466.1	\$13,734.4
Year-to-year growth	2.5%	2.7%	2.6%	1.8%	2.0%
Business Fixed Investment (billions of 2012 dollars)	\$2,538.1	\$2,715.6	\$2,853.6	\$2,951.8	\$3,040.3
Year-to-year growth	5.3%	7.0%	5.1%	3.4%	3.0%
Change in Business Inventories (billions of 2012 dollars)	\$22.5	\$48.7	\$63.4	\$67.8	\$52.0
Residential Investment (billions of 2012 dollars)	\$611.1	\$611.0	\$609.4	\$618.9	\$621.6
Year-to-year growth	3.3%	-0.0%	-0.3%	1.6%	0.4%
Government Spending (billions of 2012 dollars)	\$3,130.4	\$3,184.5	\$3,268.6	\$3,277.4	\$3,273.3
Year-to-year growth	-0.1%	1.7%	2.6%	0.3%	-0.1%
Net Exports (billions of 2012 dollars)	(\$858.6)	(\$929.9)	(\$1,001.0)	(\$1,027.4)	(\$1,108.0)
Exports (billions of 2012 dollars)	\$2,450.1	\$2,547.5	\$2,566.4	\$2,603.1	\$2,637.2
Imports (billions of 2012 dollars)	\$3,308.7	\$3,477.5	\$3,567.4	\$3,630.5	\$3,745.2
Personal Income (year-to-year growth)	4.4%	4.4%	4.9%	4.4%	4.4%
Adjusted for Inflation	2.2%	1.8%	2.4%	2.1%	2.0%
Wage & Salary Income (year-to-year growth)	4.6%	4.5%	5.0%	4.4%	4.0%
Personal Savings Rate	6.7%	6.6%	6.8%	7.1%	7.1%
Capacity Utilization Rate	76.1%	77.9%	77.9%	77.4%	77.5%
Housing Starts (millions of units)	1.203	1.260	1.267	1.260	1.246
Conventional Mortgage Rates	4.0%	4.6%	5.0%	5.2%	5.4%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$695.4)	(\$977.6)	(\$1,228.1)	(\$1,376.1)	(\$1,475.3)

FORECAST SUMMARY

During 2019, both the U.S. and Michigan economies are expected to expand at a slightly slower rate than during 2018. Although both the U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2019 and later years, Michigan is generally expected to grow more slowly than the nation as a whole. [Table 1](#) and [Table 2](#) provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to rise 2.6% in 2019, slightly slower than the 2.9% increase in 2018 but above the 2.2% increase during 2017. Inflation-adjusted GDP will continue

expanding, but at a slower rate, growing 1.7% during 2020 and 1.4% in 2021. The expansion over the forecast period primarily reflects stable consumption growth and business investment that will partially offset slowing residential investment and exports, the drag on the economy from increased imports, and the declining Federal fiscal stimulus attributable to the Bipartisan Budget Act of 2018. Export growth is expected to be tempered in the near term by both higher interest rates that will increase the value of the dollar, slowing foreign economic growth, and an uncertain trade environment.

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace capital for labor. The U.S. unemployment rate is expected to fall from 3.9% during 2018, to 3.6% in 2019, before rising to 3.7% in 2020 and 3.8% in 2021.

Inflation will be more of a concern over the forecast period than in recent years, but will largely be addressed by the anticipated success the Federal Reserve will have containing inflationary pressures. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.4% in 2019, followed by increases of 2.2% in 2020, and 2.2% in 2021. In 2018, the CPI is predicted to increase 2.5%, the most rapid gain in consumer prices since 2011. Slightly improved productivity growth, modest domestic consumer demand, and tightness in the labor market will increase labor costs somewhat, with unit labor costs (not shown in the tables) expected to increase 2.3% in 2019, and 2.5% in both 2020 and 2021.

In Michigan, both job growth and personal income growth are expected to remain below the national averages (despite outperforming the national averages in both 2010 and 2011) and below the historical State average ([Figures 10](#) and [11](#)). Inflation-adjusted personal income is projected to increase 1.4% in both 2019 and 2020, and by 1.7% in 2021, compared with a 1.2% increase during 2018. Payroll employment is expected to increase 0.7% in 2019, less than the 1.3% growth rate during 2018, before slowing to 0.2% growth in 2020, and 0.3% growth in 2021. Private sector gains in employment during 2019 and 2020 are expected to be fairly modest, although above the flat-to-declining employment predicted in the government sector. Nationally, light vehicle sales are expected to decrease from 17.1 million units in 2018 to 16.8 million units in 2019 and 16.5 million units in both 2020 and 2021. In Michigan, the relatively high, but declining, level of vehicle sales, stability in the housing market, and the strong national economy are expected to result in the unemployment rate decreasing from 4.4% in 2018 to 4.0% in 2019, but then rising to 4.1% in 2020, and 4.2% in 2021.

Compared with the May 16, 2018, Consensus Economic Forecast, forecasted economic growth is weaker in both 2019 and 2020 for both the U.S. and Michigan, although both the U.S. and Michigan forecasts predict continued growth. The slowing growth reflects both the maturing expansions, limits on growth due to the tight labor market, the loss of Federal fiscal stimulus as provisions of the Bipartisan Budget Act of 2018 are exhausted, and for Michigan, the effects of major restructuring efforts from the Detroit Three. The revisions incorporate the recently announced plans for restructuring in the automobile industry, slowing economic growth overseas, and actual and prospective changes in international trade policy.

Figure 10

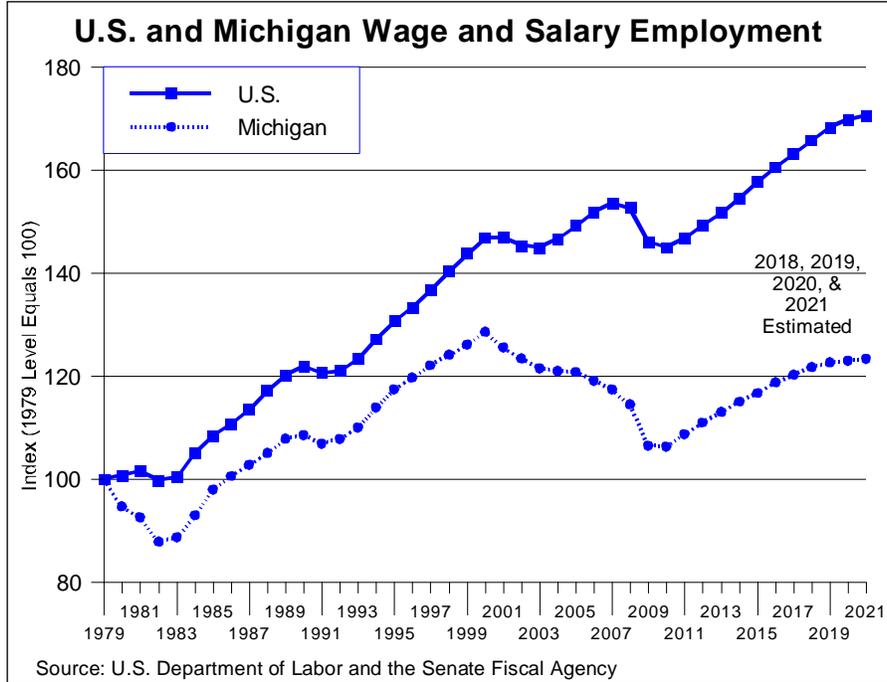
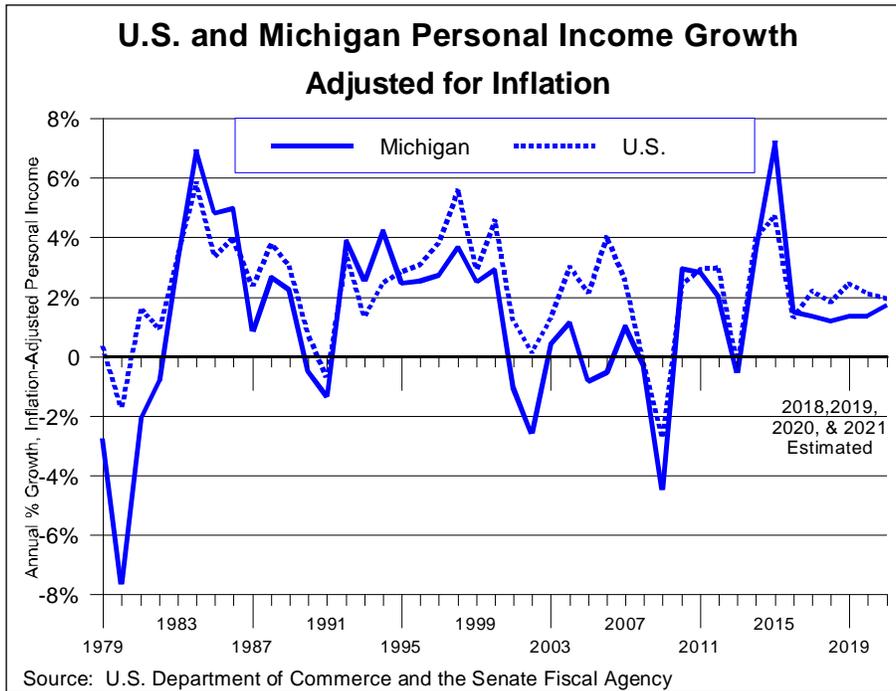


Figure 11



FORECAST RISKS

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. However, unexpected changes in economic fundamentals often represent the greatest source of error. The challenge for the current forecast is to determine if and when the economy is entering a new phase. Such turning points are difficult to predict and adjustments after financial collapses, such as occurred during the 2008-2009 recession, often take longer than after recessions not associated with financial collapses.

Monetary and Fiscal Policy. In December 2017, the Federal government adopted a multi-year tax reform package estimated to add approximately 0.6% to GDP in 2018, and 1.2% to 1.4% to GDP in 2019 and 2020, respectively. Subsequently, the Federal government approved a budget bill in February 2018 that increased spending—adding another estimated 1.3% to 1.4% of stimulus to GDP in 2018 and between 1.0% and 1.2% in 2019 and 2020, respectively. With the economy already operating at potential and unemployment well below the estimated nonaccelerating inflation rate of unemployment, these fiscal policy changes have increased inflationary pressures, although, as of the third quarter of 2018, the pressures have largely remained contained as the Federal Reserve has raised interest rates. If proposals to substantially restrict immigration and/or increase tariffs take effect, those policies also will add to inflationary pressures as labor supply growth is reduced and the economy potentially faces more expensive imports coupled with increased pricing power for domestic producers.

The median forecast for the Federal Funds Rate released at the September 2018 Open Market Committee meeting suggests that this key interest rate will rise from a 2% to 2.25% target at the end of 2018 to 3.1% during 2019 and 3.4% in both 2020 and 2021. The forecast expects slightly greater pricing pressures in 2021, and thus, slightly higher interest rates. Higher interest rates discourage borrowing and increase the attractiveness of the dollar to overseas investors. The impact on consumer borrowing will be discussed later, but higher interest rates also discourage productivity-boosting business investments, and thus, reduce growth in both the short-term and the long-term. A stronger dollar will make exports less competitive in foreign markets and potentially offset the impact of tariffs on imported goods. The downward pressure higher rates put on the economy helps reduce inflationary pressures. It is unknown to what degree the Federal Reserve will accommodate the inflationary effects of fiscal policy should Federal spending be greater than is currently expected. Furthermore, there is always the possibility that the Federal Reserve could raise interest rates too rapidly and push the economy into a recession. Recessions are particularly likely when the "yield curve", which represents the difference between short-term and long-term interest rates, "inverts" (meaning that short term rates exceed long-term rates). While long-term rates have been rising, they have not been rising as quickly as short-term rates, increasing the risk that the yield curve will invert and a recession will occur. Although long-term rates still remain above short-term rates, the gap has been steadily shrinking during 2018 ([Figure 12](#)), and is at its lowest level since the 2008-09 recession.

Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession induced consumers to rein in their spending, and pushed the saving rate significantly higher. The saving rate has declined somewhat since 2015, and outstanding debt has continued to increase, supporting a portion of the gains in consumer spending. Income growth has improved but high debt burdens may impede consumers' ability to increase saving and/or increase consumption now that interest rates are rising. The latest data for debt service as a share of income are from the second quarter of 2018, when income gains in the first half of the year lowered the debt service burden to the lowest level since the fourth quarter of 2014. However, the composition of debt service burdens has changed since the end of the recession. As recently as the fourth quarter of 2012, mortgage debt was more than half of debt service. As of 2018, mortgage debt is a little more than 40% of the burden, and the rest is consumer debt—which generally exhibits variable rates that

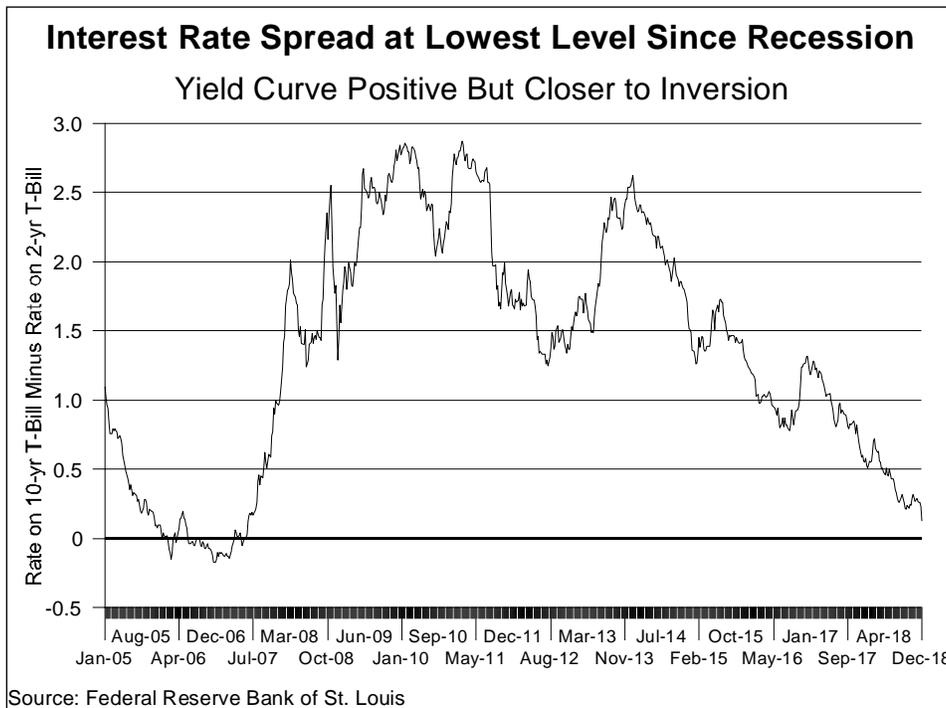
increase as overall interest rates rise. The ability of consumers to manage their debt will depend on the interaction of wage gains, interest rates, asset prices (particularly home values, bond prices-- which fall as interest rates rise, and stocks), and inflation.

During the 2008-2009 recession, consumption dropped significantly; on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. The durability of consumer spending represents the primary determinant of the accuracy of the forecast. As indicated earlier, purchases of motor vehicles have dominated consumption growth during much of the 2013-to-2018 period. The forecast assumes that consumers will slightly increase their saving rates and that consumption will be limited by flat real wages and limited access to and/or use of additional increases in debt, especially as interest rates rise. To the extent that this perspective is not accurate and consumers assume more debt and/or pursue lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than anticipated.

If the saving rate increases more than expected, perhaps to take advantage of higher interest rates, both consumption growth and economic growth will be lower than estimated. Similarly, higher interest rates will temper debt-financed consumer spending, and to the extent that inflation reduces consumers' real incomes, higher debt service burdens also may reduce spending that is not financed by debt. On the other hand, to the extent that tight labor markets generate wage gains that are not completely passed on in the form of higher consumer prices, the real wage gains could cause both consumption growth and economic growth to be higher than estimated.

The interaction of consumer expectations with inflation also poses a risk to the forecast. Consumers currently have very low expectations of inflation, at levels at or below the Federal Reserve's inflationary targets. Furthermore, despite such low inflationary expectations, a significant majority of consumers forecast income gains so low that they will be at or less than the level of inflation. As a result, if the economy experiences greater-than-expected inflation, consumer sentiment is likely to be affected significantly, resulting in potentially major changes in consumption.

Figure 12



The Labor Market. While the Michigan unemployment rate has declined since 2009, reduced labor market participation has played a greater role in lowering the Michigan unemployment rate than what has occurred in the national rate. Job gains have helped reduce the unemployment rate, but a significant factor causing the unemployment rate to decline since 2009 has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals' giving up their search for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that those individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages as the economy continues to recover. A March 2018 study from the Congressional Budget Office projects that population demographics will lower labor force participation by more than three percentage points (i.e., 3% of the population) over the next 10 years. The decline will help lower unemployment rates, but also will make it harder for firms, particularly in a growing economy, to find the necessary workers, and will increase labor costs.

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. The forecast assumes that the labor force will increase at a slightly slower rate than the rate of population growth, and more slowly than new jobs will be created. As a result, employment gains are anticipated but wage growth is expected to be relatively modest. If job growth rises more rapidly than the labor force increases, it will put upward pressure on wages, making interest rate increases from the Federal Reserve more likely and encouraging firms to make greater investments in labor-saving capital equipment.

Recession Risk. The claim is often made that expansions do not die of old age, but as a result of some sort of shock, particularly policy changes. Shocks can include natural events, such as an earthquake, drought, or hurricane, or events in foreign countries, such as the OPEC oil embargo, a war or civil war, or a major regime change. Policy changes can reflect a variety of both monetary and fiscal decisions, ranging from monetary policy targets to tax policy to trade policy to spending policy. In some cases, policy changes can even reflect how fast the economic environment is changing; if the policy landscape changes too fast or too often, it can create substantial uncertainty and lead consumers and/or firms to change their behavior in anticipation of either a more stable decision making environment or in anticipation of a future change.

The last few years have witnessed a variety of changes in both fiscal and monetary policy, and there is substantial uncertainty in the economy around many drivers of both economic activity and policy. Similarly, while shocks are largely unpredictable, many events in other countries have provided a large amount of uncertainty. To avoid a recession over the forecast period, even in the absence of any shocks, consumers and businesses not only need to avoid substantial precautionary behavior in the face of this uncertainty, but monetary and fiscal policy decisions must be consistent with maintaining growth. At least one forecasting service places the probability of a three-quarter recession at 25%. If the probability of a recession beginning in 2019, 2020, and 2021 were 25% in each year, and the probability in each year was independent (which is not true—having a recession in late 2019 would make it less likely to have a recession starting in 2020 or 2021) then the probability of getting through all three years without a recession is only 42%—meaning that there is a 58% chance of a recession at some point in the next three years. While the forecast does not anticipate an actual recession, it does estimate several quarters of substantially below-trend growth. However, the nature of the economic climate over the forecast period does leave it vulnerable to recession.

Michigan's Situation. While over the 2000-2009 period Michigan's employment situation fared worse than the national average, and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not particularly inconsistent with other states' when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) experienced weaker job performance during the last decade, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles ([Figure 13](#)). While that reliance has declined (for example, in 1998 wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 5.6% in 2017), Michigan is still heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although with lower oil prices over the last few years, these states have faced challenges.) However, for Michigan's future, both employment gains and improvements in economic growth will be restrained by stable-to-declining vehicle sales and because the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains. While the level of vehicle sales is quite high, sales began declining in 2017 and are expected to exhibit a downward trend over the forecast period, although sales volumes will remain elevated when compared to historical levels. The Detroit 3 share of the sales mix is expected to decline somewhat ([Figure 14](#)) due to the strong dollar making imported vehicles comparatively less expensive, but will generally remain stable.

As vehicle sales return to more sustainable levels and productivity gains in the motor vehicle sector continue, production needs can be met with existing, or even lower, employment levels. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return, and any gains in employment in the near future are likely to be muted. While Michigan payroll employment returned to the January 2008 level (the U.S. prerecession peak) during 2015, as identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the Michigan prerecession peak) again until sometime late in the next decade.

The forecast expects employment levels in the transportation equipment manufacturing sector to decline slightly over the forecast period. Overall employment in Michigan is expected to grow slightly, with all of the growth in 2020 and 2021 in private sector employment. The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists unless a sector other than motor vehicles begins to show substantial growth. With a risk of rising labor costs in many other sectors, and all of the risk regarding vehicle sales being on the downside, any substantial growth in the Michigan economy likely will need to originate from a different sector and be strong enough to exceed the flat-to-downward trajectory the motor vehicle industry will exhibit over the next decade.

As a result, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. Those gains are unlikely to occur because the population demographics of an aging labor force and low unemployment rates indicate labor for additional output is already somewhat scarce. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, significant and sustained growth at both the national and statewide levels will require a consumer sector with a stronger balance sheet: rising inflation-adjusted wages, reduced debt-to-income ratios and debt service burdens, sustained growth

in the value of real and financial assets, and a substantially lower level of risk-aversion than currently held by both the consumer and business sides of the economy. If these changes occur in sufficient magnitude, they can offset the drag from the lower labor force participation associated with an aging population, limited population growth, and slow productivity growth.

Figure 13

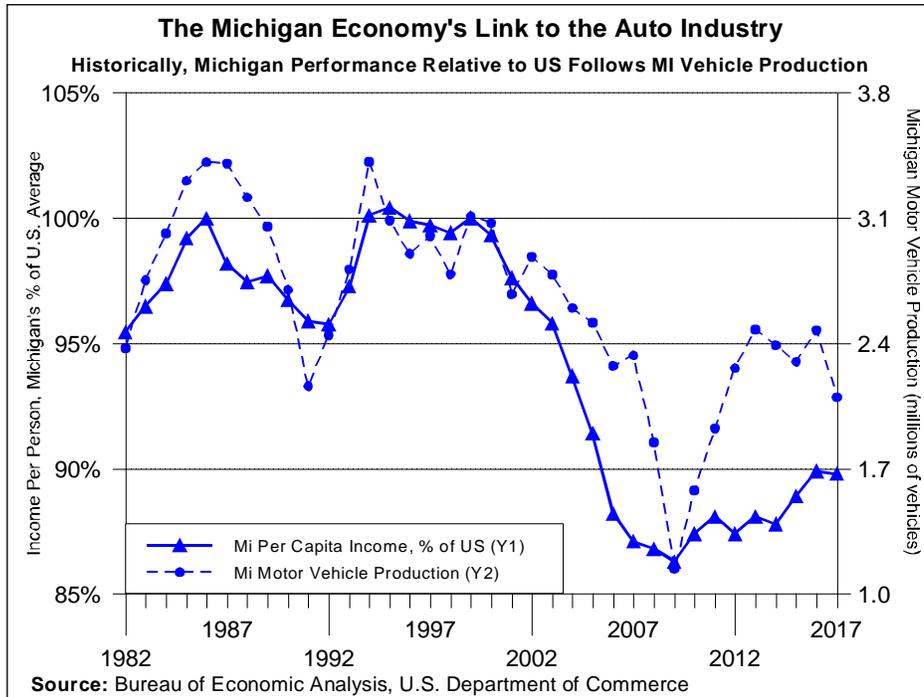
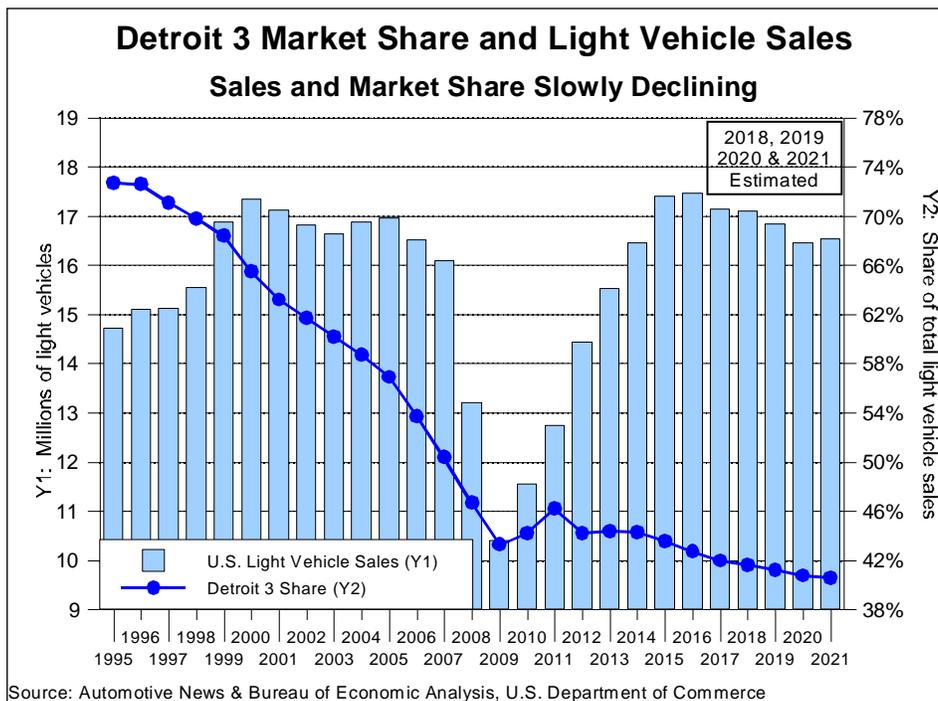


Figure 14



**FORECAST FOR
STATE REVENUE**

THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The preliminary year-end revenue for FY 2017-18 is presented along with the revised estimates for FY 2018-19 and FY 2019-20 and the initial revenue estimates for FY 2020-21. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2017-18, FY 2018-19, and FY 2019-20 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2017-18, along with the revised estimates for FY 2018-19 and FY 2019-20, and the initial estimates for FY 2020-21 are presented in [Table 3](#) and are summarized below.

FY 2017-18 Preliminary Final Revenue

- GF/GP and SAF revenue is expected to total \$24.2 billion in FY 2017-18.
- This year-end estimate for FY 2017-18 increased 5.8% or \$1,323.5 million from the actual revenue for FY 2016-17, reflecting increases in the sales and use taxes and individual income taxes, and a reduction in the credit payments under the Michigan Business Tax (MBT). These gains were offset by higher individual income tax refunds and lower Corporate Income Tax (CIT) revenue.
- The preliminary final estimate for FY 2017-18 is \$496.4 million above the May 2018 consensus revenue estimate.

FY 2018-19 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$24.4 billion in FY 2018-19.
- This revised estimate for FY 2018-19 is up 0.8% or \$189.7 million from the preliminary final revenue for FY 2017-18. The projected revenue increase in FY 2018-19 reflects the continued growth in sales and individual income taxes, offset in part by increased refunds, an increase in the credit payments under the MBT, and the first year of the earmark of income tax revenue to the Michigan Transportation Fund, as well as increased homestead property tax credit payments included in the 2015 transportation package.
- The revised estimate for FY 2018-19 is \$407.7 million above the May 2018 consensus revenue estimate.

FY 2019-20 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$24.8 billion in FY 2019-20.
- The revised estimate for FY 2019-20 is up 1.7% or \$411.1 million from the revised estimate for FY 2018-19. The revenue increase in FY 2019-20 reflects continued growth in sales tax and individual income tax collections, offset in part by increased refunds, an increase in the credit payments under the MBT, and the second year of General Fund reductions under the transportation package enacted in 2015. The change in the homestead property tax credit will reduce General Fund income tax collections by \$205.8 million, and the General Fund will be

reduced by the \$325.0 million earmark of income tax revenue for the Michigan Transportation Fund in FY 2019-20.

- The revised estimate for FY 2019-20 is \$385.3 million above the May 2018 consensus revenue estimate.

FY 2020-21 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total \$25.3 billion in FY 2020-21.
- This initial estimate for FY 2020-21 is 2.1%, or \$526.6 million, more than the revised estimate for FY 2019-20.
- The revenue increase in FY 2020-21 reflects Michigan economic activity growing at a faster rate than in FY 2019-20, but much of the impact on revenue will be offset by the third year of General Fund reductions under the transportation package enacted in 2015. The change in the homestead property tax credit will reduce General Fund income tax collections by \$205.8 million, and the General Fund will be reduced by the \$600.0 million earmark of income tax revenue for the Michigan Transportation Fund in FY 2020-21.

Historical Perspective

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 0.8% in FY 2018-19, 1.7% in FY 2019-20, and 2.1% in FY 2020-21. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and an average increase of 2.7% in the years from FY 2010-11 to FY 2017-18.
- GF/GP revenue rose above the previous record FY 1999-2000 level in FY 2017-18. This comparison does not adjust for inflation.
- The preliminary final GF/GP revenue from ongoing sources in FY 2017-18 is 2.6% (\$279.4 million) above the FY 1999-2000 level, and 6.0% (\$623.0 million) above the most recent peak reached in FY 2007-08, without adjusting for inflation.
- In FY 2018-19, ongoing GF/GP revenue is forecast to be 0.4% (\$39.2 million) below the FY 1999-2000 level, but still 2.9% (\$304.4 million) above the FY 2007-08 level.
- In FY 2019-20, GF/GP revenue is expected to again surpass the FY 1999-2000 level, by 0.1% (\$13.5 million), and will be 3.5% (\$357.1 million) above the FY 2007-08 peak.
- GF/GP revenue in FY 2020-21 will be above the FY 2007-08 peak by 4.6% (\$473.8 million) and 1.2% (\$130.2 million) above the FY 1999-2000 level.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax changes. In every year since FY 2013-14, School Aid Fund revenue has surpassed the previous peak revenue in FY 2007-08.
- Revenue in the SAF is projected to rise annually from FY 2018-19 through FY 2020-21. Projected growth rates are 3.8% in FY 2018-19, 2.6% in FY 2019-20, and 2.9% in FY 2020-21, without adjusting for inflation.

Baseline revenue is forecast to increase each year during the forecast period. [Figure 15](#) presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2016-17 base year) from FY 1986-87 through the initial estimate for FY 2020-21. During this 34-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 5.9% in FY 2017-18. Using the FY 2016-17 base year, baseline GF/GP and SAF revenue is expected to grow approximately 1.5% in FY 2018-19, 2.3% in FY 2019-20, and 3.0% in FY 2020-21.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2017-18 THROUGH FY 2020-21 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2017-18 Prelim. Final	FY 2018-19 Revised Est.	FY 2019-20 Revised Est.	FY 2020-21 Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$12,003.3	\$12,047.5	\$12,335.4	\$12,738.0
Tax Changes Not In Baseline	(1,043.3)	(1,406.1)	(1,641.3)	(1,927.2)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	7,376.7	7,040.9	7,039.1	6,975.0
MBT, CIT, SBT & Insur. Tax	743.9	711.7	702.6	798.7
Other Taxes	2,417.5	2,519.3	2,574.5	2,651.2
Total Taxes	10,538.1	10,272.0	10,316.2	10,424.9
Nontax Revenue	421.9	369.4	377.9	385.9
TOTAL GF/GP REVENUE	\$10,960.0	\$10,641.4	\$10,694.1	\$10,810.8
SCHOOL AID FUND				
Baseline SAF	\$13,280.6	\$13,622.5	\$13,934.7	\$14,308.6
Tax Changes Not In Baseline	(36.6)	129.8	176.0	212.0
TOTAL SAF REVENUE	\$13,244.0	\$13,752.3	\$14,110.7	\$14,520.6
BASELINE GF/GP AND SAF REVENUE				
	\$25,283.9	\$25,670.0	\$26,270.1	\$27,046.6
Tax & Revenue Changes	(1,079.9)	(1,276.3)	(1,465.3)	(1,715.2)
GF/GP & SAF REV. AFTER CHANGES	\$24,204.0	\$24,393.7	\$24,804.8	\$25,331.4
Sales Tax	\$8,013.2	\$8,541.8	\$8,810.7	\$9,115.3
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	7.7%	0.4%	2.4%	3.3%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	9.6	(4.6)	(0.0)	(0.9)
MBT, CIT, SBT & Insur. Tax	(5.9)	(4.3)	(1.3)	13.7
Other Taxes	8.8	4.2	2.2	3.0
Total Taxes	8.2	(2.5)	0.4	1.1
Nontax Revenue	(6.8)	(12.4)	2.3	2.1
TOTAL GF/GP REVENUE	7.5%	(2.9%)	0.5%	1.1%
SCHOOL AID FUND				
Baseline SAF	4.3%	2.6%	2.3%	2.7%
TOTAL SAF REVENUE	4.4%	3.8%	2.6%	2.9%
BASELINE GF/GP and SAF Revenue				
	5.9%	1.5%	2.3%	3.0%
GF/GP & SAF REV. AFTER CHANGES	5.8%	0.8%	1.7%	2.1%
Sales Tax	2.8%	6.6%	3.1%	3.5%
1) FY 2016-17 is the base year for baseline revenue.				

Figure 15

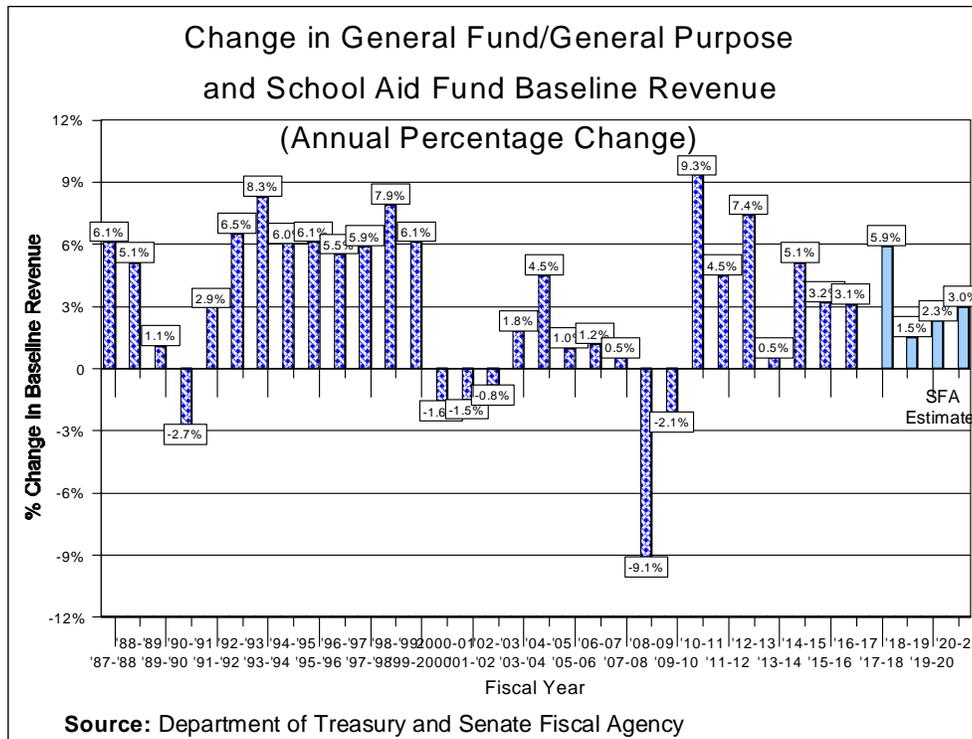


Figure 16 compares FY 1994-95 through estimated FY 2020-21 for both GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. Before FY 2017-18, GF/GP revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to \$10.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during the 2008-2009 recession reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 17, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2018-19 will be approximately 0.4% (or \$39.2 million) below the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). However, the estimated GF/GP revenue of \$10.7 billion in FY 2019-20 is 0.1% above the peak, and initial estimates for FY 2020-21 are 1.2% above the peak level. In inflation-adjusted terms, however, FY 2020-21 GF/GP revenue is estimated to be 11.5% (or \$1,149.8 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10 and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to grow consistently through the forecast period. In FY 2020-21, SAF revenue is predicted to be approximately 107.4% (\$7.5 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 4.2% (\$515.0 million) below if adjusted for inflation, as shown in Figure 18.

Figure 16

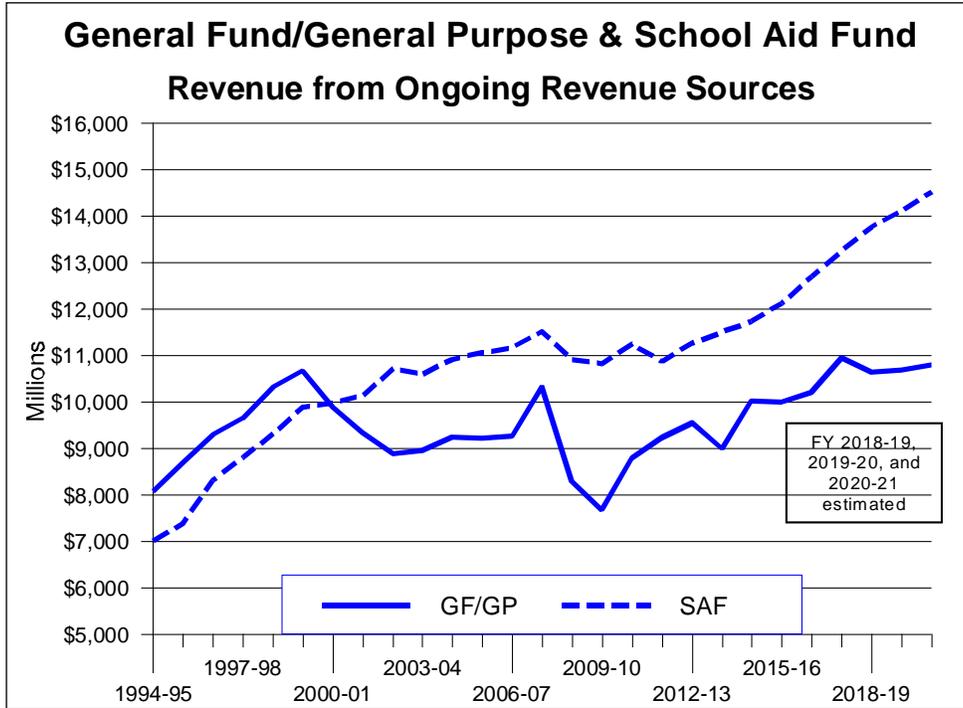


Figure 17

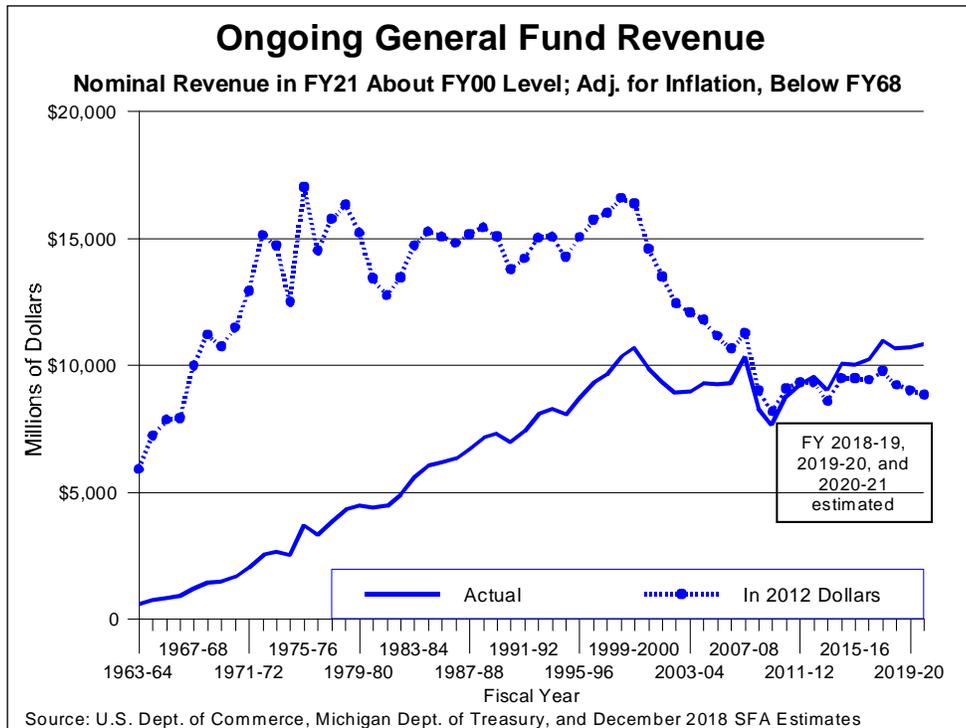
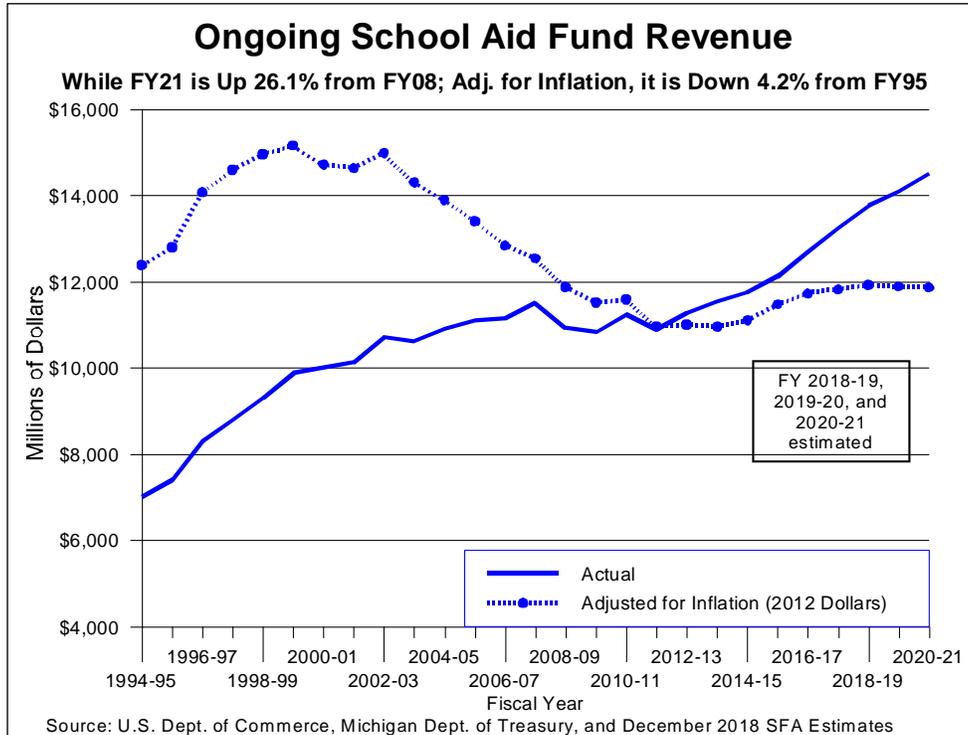


Figure 18



FY 2017-18 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 5.8% in FY 2017-18 compared with FY 2016-17.
- The revenue increase in FY 2017-18 primarily reflects increases in the sales and use taxes and individual income taxes, and a reduction in the credit payments under the MBT. These gains were offset by higher individual income tax refunds and lower CIT revenue.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$24.2 billion in FY 2017-18, which is 5.8% above the FY 2016-17 revenue level, as presented in [Table 4](#). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan Comprehensive Annual Financial Report. Decisions made in the book-closing process regarding the accrual of various types of revenue may change these numbers, in particular with regard to the treatment of business tax credits. The growth rate is higher than the 3.4% increase in FY 2016-17.

The preliminary final GF/GP and SAF revenue level for FY 2017-18 is \$496.4 million above the May 2018 consensus revenue estimate. The largest share of the revenue increase from the May 2018 estimates reflects refunds paid under the MBT that were \$191.1 million lower than expected. This may reflect timing issues and companies can claim these refunds in a subsequent year. Net income tax collections were \$103.8 million above the May 2018 consensus estimate, although the largest share of growth was in estimated payments and may balance out in subsequent years. Use tax collections grew at a strong 15.7%, an improvement over the 3.3% decline in FY 2016-17. Use tax collections ended the year \$75.5 million above the May 2018 consensus estimate. Sales tax revenue was \$28.6 million below the May estimate. Collection of unclaimed property (escheats) was \$43.5 million higher than estimated in May 2018. Baseline GF/GP and SAF revenue increased 5.9% in FY 2017-18.

Table 4
FY 2017-18 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2016-17 Final	FY 2017-18 Prelim. Final	Change from FY 2016-17		\$ Change from 05/18 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,143.3	\$12,003.3	\$860.0	7.7%	\$292.4
Tax Changes Not In Baseline	(947.9)	(1,043.3)	(95.4)	----	204.0
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	11,409.9	12,317.6	907.7	8.0	111.8
Less: Refunds	(1,956.8)	(2,007.3)	(50.5)	2.6	(8.0)
Net Income Tax Collections	9,453.1	10,310.3	857.2	9.1	103.8
Less: Earmarking to SAF	(2,720.4)	(2,932.8)	(212.4)	7.8	(26.7)
Campaign Fund	(1.2)	(0.8)	0.4	(33.3)	0.0
Net Income Tax to GF/GP	\$6,731.5	\$7,376.7	\$645.2	9.6%	\$77.1
<u>Other Taxes</u>					
Corporate Income Tax	1,105.6	931.6	(174.0)	(15.7)	71.8
Michigan Business Tax	(704.6)	(596.8)	107.8	(15.3)	191.1
Sales	1,123.7	1,255.5	131.8	11.7	(13.2)
Use	591.6	714.9	123.3	20.8	86.8
Cigarette	186.5	183.8	(2.7)	(1.4)	(0.3)
Insurance Company Premiums	370.7	392.1	21.4	5.8	(6.0)
Telephone & Telegraph	35.6	34.1	(1.5)	(4.2)	(0.9)
Oil & Gas Severance	23.5	26.5	3.0	12.8	1.5
All Other	278.8	219.7	(59.1)	(21.2)	33.0
Subtotal Other Taxes	\$3,011.4	\$3,161.4	\$150.0	5.0%	\$363.8
Total Nontax Revenue	452.6	421.9	(30.7)	(6.8)	55.5
GF/GP REV. AFTER TAX CHANGES	\$10,195.5	\$10,960.0	\$764.5	7.5%	\$496.4
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$12,732.1	\$13,280.6	\$548.5	4.3%	\$30.4
Tax Changes Not In Baseline	(47.0)	(36.6)	10.4	----	(30.4)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,677.0	5,831.3	154.3	2.7	(21.0)
Use Tax	495.1	571.8	76.7	15.5	(11.3)
Lottery Revenue	924.1	936.4	12.3	1.3	(8.0)
State Education Property Tax	1,963.8	2,042.3	78.5	4.0	3.2
Real Estate Transfer Tax	317.1	343.1	26.0	8.2	12.0
Income Tax	2,720.4	2,932.8	212.4	7.8	26.7
Casino Tax	113.2	114.0	0.8	0.7	0.0
Other Revenue	474.4	472.3	(2.1)	(0.4)	(1.6)
SAF REV. AFTER TAX CHANGES	\$12,685.1	\$13,244.0	\$558.9	4.4%	\$0.0
BASELINE GF/GP AND SAF	\$23,875.4	\$25,283.9	\$1,408.5	5.9%	\$322.8
Tax & Revenue Changes	(994.9)	(1,079.9)	(85.0)	----	173.6
GF/GP & SAF REV. AFTER CHNGS	\$22,880.5	\$24,204.0	\$1,323.5	5.8%	\$496.4
Sales Tax	\$7,798.0	\$8,013.2	\$215.2	2.8%	(\$28.6)

¹⁾ FY 2016-17 is the base year for baseline revenue.

Tax Policy Changes

Michigan's economy grew during FY 2017-18, with personal income growing at a faster rate than in FY 2016-17. Total GF/GP and SAF revenue reached an estimated \$24.2 billion in FY 2017-18, an increase of 5.8%, or \$1,323.5 million, from FY 2016-17. On a baseline basis, GF/GP and SAF revenue increased 5.9% in FY 2017-18, reflecting continued growth in State economic activity. The preliminary final estimate of GF/GP and SAF revenue for FY 2017-18 is summarized in Table 4.

Personal Property Tax Reform. Use tax revenue of \$410.8 million in FY 2017-18 was levied by the Local Community Stabilization Authority and restricted for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, which reduced GF/GP revenue by \$410.8 million. Partially offsetting the reduction, the Essential Services Assessment increased GF/GP revenue by \$99.1 million. The General Fund reimbursed the SAF \$6.0 million from GF/GP use tax revenue to replace the loss of State Education Tax (SET) revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer reduced the General Fund by \$6.0 million and increased the SAF by \$6.0 million.

Michigan Business Tax/Corporate Income Tax. The MBT lowered GF/GP revenue by \$596.8 million (as refunds exceeded payments), a smaller reduction than in FY 2016-17. Fiscal year 2017-18 is the last year in which any battery credits are expected to be claimed. The phase-out of battery credits was partially offset by higher expected payments for Michigan Economic Growth Authority (MEGA) tax credits in FY 2017-18. Net MBT revenue is heavily influenced by the timing of when businesses file and are paid credit claims. All of the impact of MBT credits reduces GF/GP revenue. In addition, settlements in tax litigation cases reduced MBT revenue by \$20.0 million in FY 2017-18. Changes to the handling of refunds reduced CIT revenue by a total of \$80.0 million

Sales and Use Taxes. The sales tax exemption on motor vehicle trade-ins reduced revenue by approximately \$35.4 million, of which \$26.0 million is a reduction to the SAF, \$4.2 million GF/GP, and \$5.2 million other funds, primarily constitutional revenue sharing. As a result of changes to Michigan's medical marijuana laws, sales tax collections increased \$13.2 million (\$2.2 million GF/GP, \$9.7 million SAF, and \$1.3 million other funds). The redirection of sales tax revenue from aviation fuel to the State Aeronautics Fund and the Qualified Airport Fund reduced GF/GP revenue by \$7.1 million. In addition, the use tax was reduced by three large taxpayer refunds totaling \$59.2 million in FY 2017-18.

Federal Tax Reform. The income tax personal exemption increase passed in response to tax changes at the Federal level reduced revenue by \$8.0 million, of which \$6.4 million was a reduction to GF/GP revenue, and \$1.6 million to the SAF. Other changes to the individual income tax and the CIT stemming from Federal tax changes increased revenue by \$8.0 million, of which \$7.2 million was a GF/GP increase, and \$0.8 million was an increase to the SAF.

General Fund/General Purpose

- General Fund/General Purpose revenue will total an estimated \$11.0 billion in FY 2017-18, an increase of 7.5%, or \$764.5 million, from FY 2016-17.
- The revised GF/GP estimate is \$496.4 million above the May 2018 consensus revenue estimate.

Baseline GF/GP revenue increased 7.7%; however, revenue adjustments were more negative than in the previous year. These adjustments totaled \$1,043.3 million, primarily for the cost of MBT credits and personal property tax (PPT) reform, and lowered the increase in net GF/GP revenue to 7.5%. The revised GF/GP revenue estimates for FY 2017-18 are summarized in Table 4. The increase of \$496.4 million from the May 2018 consensus estimate for FY 2017-18 reflects higher income tax, use tax, and CIT revenue, and lower MBT credit payments, than previously expected.

School Aid Fund

- School Aid Fund revenue will total an estimated \$13.2 billion in FY 2017-18, an increase of 4.4%, or \$558.9 million, from FY 2016-17.
- The revised SAF estimate is the same as the May 2018 consensus revenue estimate.

The increase in SAF revenue reflects strong growth in use tax revenue and growth in most of the major earmarked tax sources and lottery revenue. The SAF revised revenue estimates for FY 2017-18 are summarized in [Table 4](#).

FY 2018-19 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2018-19. Personal income will grow somewhat more slowly than in FY 2017-18 and wage and salary employment will increase at a slightly lower rate than in FY 2017-18. Total GF/GP and SAF revenue will reach an estimated \$24.4 billion in FY 2018-19, an increase of 0.8%, or \$189.7 million, from the preliminary final revenue for FY 2017-18. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.3% in FY 2018-19, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2018-19 is \$407.7 million above the May 2018 forecast and is summarized in [Table 5](#).

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2018-19 include several significant transfers from the General Fund to other State funds and the first General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by an estimated \$205.8 million due to the expansion of the Homestead Property Tax Credit. Income tax revenue will be reduced by another \$150.0 million by the earmark of income tax revenue to the Michigan Transportation Fund. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$22.5 million (\$17.1 million GF/GP and \$5.4 million SAF), while additional increases in the personal exemption, which were adopted in February 2018, will reduce revenue by \$75.0 million (\$59.8 million GF/GP and \$15.2 million SAF).

Personal Property Tax Reform. Use tax collections of \$438.0 million in FY 2018-19 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, which will reduce GF/GP revenue by \$438.0 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$107.0 million. The General Fund will reimburse the SAF \$6.4 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by \$6.4 million and increase the SAF by \$6.4 million.

Michigan Business Tax/Corporate Income Tax. The Michigan Business Tax will lower GF/GP revenue by \$642.7 million in FY 2018-19, more than the reduction in FY 2017-18. Net MBT revenue is significantly influenced by the timing of which businesses file and are paid credit claims. All of the impact of MBT credits reduces GF/GP revenue. Changes to the handling of business refunds will reduce CIT and MBT revenue by a total of \$50.0 million.

Sales Tax. Sales tax collections will increase \$203.0 million in FY 2018-19 (\$38.8 million GF/GP, \$148.9 million SAF, and \$15.3 million other funds, primarily constitutional revenue sharing) due to new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states greater ability to collect sales tax from out-of-state retailers. The imposition of sales tax on medical marijuana is projected to increase sales tax revenue by \$36.3 million (\$6.1

million GF/GP, \$26.6 million SAF, and \$3.6 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$41.6 million, of which \$5.0 million is GF/GP, \$30.5 million is SAF, and \$6.1 million other funds.

Federal Tax Reform. In FY 2018-19, changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by \$80.0 million, of which \$74.9 million is a GF/GP increase, and \$5.1 million is an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Reductions to the gross premiums tax for health insurers will decrease GF/GP revenue by \$13.5 million in FY 2018-19.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.6 billion in FY 2018-19, a decrease of 2.9% or \$318.6 million from the revised estimate for FY 2017-18. Baseline GF/GP revenue is expected to remain essentially unchanged from FY 2017-18. Most of the GF/GP revenue reduction reflects increased individual income tax exemptions, increased earmarks to the Michigan Transportation Fund, and decreased business tax revenue. The revised GF/GP revenue estimates for FY 2018-19 are \$229.8 million above the May 2018 consensus estimates and are summarized in [Table 5](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$13.8 billion in FY 2018-19, an increase of \$508.3 million, or 3.8%, from the revised estimate for FY 2017-18. The forecasted increase in SAF revenue reflects growth in almost all major earmarked tax sources and increased lottery revenue. The revised SAF revenue estimates for FY 2018-19 are \$177.9 million above the May 2018 consensus estimates and are summarized in [Table 5](#).

FY 2019-20 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2019-20. Personal income will grow somewhat more slowly than in FY 2018-19, and wage and salary employment will increase at a slightly lower rate than in FY 2018-19. Total GF/GP and SAF revenue will reach an estimated \$24.8 billion in FY 2019-20, an increase of 1.7% or \$411.2 million from the revised estimate for FY 2018-19. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.4% in FY 2019-20, reflecting continued improvements in the State economy. Estimated GF/GP and SAF revenue is \$385.3 million above the May 2018 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2019-20 is summarized in [Table 6](#).

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2019-20 include several significant transfers from the General Fund to other State funds and greater General Fund reductions from the 2015 transportation package. General Fund income tax collections will be reduced by an estimated \$205.8 million due to the expansion of the Homestead Property Tax Credit. Income tax revenue will be reduced by \$325.0 million by the increased earmark of income tax revenue to the Michigan Transportation Fund. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$52.2 million (\$39.8 million GF/GP and \$12.4 million SAF), while additional increases in the personal exemption, which were adopted in February 2018, will reduce revenue by \$146.0 million (\$116.4 million GF/GP and \$29.6 million SAF).

Personal Property Tax Reform. Use tax collections of \$465.9 million in FY 2019-20 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation, which will reduce GF/GP revenue by \$465.9 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$114.0 million. The General Fund will reimburse the SAF \$6.7 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by \$6.7 million and increase the SAF by \$6.7 million.

Sales Tax. Sales tax collections will increase \$236.0 million in FY 2019-20 (\$39.3 million GF/GP, \$173.1 million SAF, and \$23.6 million other funds, primarily constitutional revenue sharing) due to new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states greater ability to collect sales tax from out-of-state retailers. The imposition of sales tax on marijuana (for medical and recreational use) is projected to increase sales tax revenue by \$73.6 million (\$12.3 million GF/GP, \$53.9 million SAF, and \$7.4 million other funds, primarily constitutional revenue sharing). The increase from FY 2018-19 reflects the legalization of recreational marijuana under Proposal 1 of 2018. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$47.9 million, of which \$5.8 million is GF/GP, \$35.1 million is SAF, and \$7.0 million other funds.

Federal Tax Reform. In FY 2019-20, changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by \$147.0 million, of which \$136.2 million is a GF/GP increase, and \$10.8 million is an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. The Michigan Business Tax will lower GF/GP revenue by \$701.0 million in FY 2019-20, a larger reduction than in FY 2018-19. Net MBT revenue is significantly influenced by the timing of which businesses file and are paid credit claims. All of the impact of MBT credits reduces GF/GP revenue. Reductions to the gross premiums tax for health insurers will GF/GP revenue by \$18.0 million in FY 2019-20. The portion of the excise tax on recreational marijuana earmarked to the SAF will increase SAF revenue by \$14.5 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.7 billion in FY 2019-20, an increase of 0.5% or \$52.8 million from the revised estimate for FY 2018-19. Baseline GF/GP revenue is expected to increase 2.5%; however, over \$1.7 billion in negative adjustments will reduce net GF/GP growth to 0.5%. The value of tax changes will offset most revenue growth from the improving economy. The revised GF/GP revenue estimates for FY 2019-20 are \$175.4 million above the May 2018 consensus estimates and are summarized in [Table 6](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$14.1 billion in FY 2019-20, an increase of \$358.4 million, or 2.6%, from the revised estimate for FY 2018-19. Baseline SAF revenue growth will be 2.3% in FY 2019-20. Small positive revenue adjustments will boost SAF net revenue growth to 2.6%. Since the most recent SAF revenue decline in FY 2011-12, FY 2019-20 will represent the eighth consecutive year of increases in SAF revenue. The revised SAF revenue estimates for FY 2019-20 are \$209.9 million above the May 2018 consensus estimates and are summarized in [Table 6](#).

Table 5
FY 2018-19 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2017-18		\$ Change from 05/18 Consensus
	FY 2017-18 Prelim. Final	FY 2018-19 Revised Est.	Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$12,108.7	\$12,102.8	(\$5.9)	(0.0%)	\$226.6
Tax Changes Not In Baseline	(1,148.7)	(1,461.5)	(312.8)	----	3.2
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	12,317.6	12,417.5	99.9	0.8	15.0
Less: Refunds	(2,007.3)	(2,269.2)	(261.9)	13.0	(10.0)
Net Income Tax Collections	10,310.3	10,148.3	(162.0)	(1.6)	4.9
Less: Earmarking to SAF	(2,932.8)	(2,956.6)	(23.8)	0.8	(3.5)
Earmarking to MI Transp. Fund		(150.0)			
Campaign Fund	(0.8)	(0.8)	(0.0)	1.3	0.0
Net Income Tax to GF/GP	\$7,376.7	\$7,040.9	(\$335.8)	(4.6%)	\$1.4
<u>Other Taxes</u>					
Corporate Income Tax	931.6	966.6	35.0	3.8	44.0
Michigan Business Tax	(596.8)	(642.7)	(45.9)	----	6.8
Sales	1,255.5	1,356.2	100.7	8.0	38.6
Use	714.9	707.6	(7.3)	(1.0)	113.1
Cigarette	183.8	181.9	(1.9)	(1.0)	(0.2)
Insurance Company Premiums	392.1	387.8	(4.3)	(1.1)	(18.5)
Telephone & Telegraph	34.1	35.0	0.9	2.6	(0.5)
Oil & Gas Severance	26.5	27.6	1.1	4.2	1.0
All Other	219.7	211.0	(8.6)	(3.9)	25.1
Subtotal Other Taxes	\$3,161.4	\$3,231.1	\$69.7	2.2%	\$209.4
Total Nontax Revenue	421.9	369.4	(52.5)	(12.4)	19.0
GF/GP REV. AFTER TAX CHANGES	\$10,960.0	\$10,641.4	(\$318.6)	(2.9%)	\$229.8
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,276.5	\$13,618.1	\$341.6	2.6%	\$43.1
Tax Changes Not In Baseline	(32.5)	134.2	166.7	----	134.8
<u>Revenue After Tax Changes</u>					
Sales Tax	5,831.3	6,217.8	386.5	6.6	170.8
Use Tax	571.8	582.4	10.6	1.9	1.9
Lottery Revenue	936.4	945.0	8.6	0.9	(5.0)
State Education Property Tax	2,042.3	2,119.8	77.5	3.8	(1.9)
Real Estate Transfer Tax	343.1	346.5	3.4	1.0	10.0
Income Tax	2,932.8	2,956.6	23.8	0.8	3.5
Casino Tax	114.0	115.0	1.0	0.9	0.0
Other Revenue	472.3	469.2	(3.1)	(0.7)	(1.4)
SAF REV. AFTER TAX CHANGES	\$13,244.0	\$13,752.3	\$508.3	3.8%	\$177.9
BASELINE GF/GP AND SAF	\$25,385.2	\$25,721.0	\$335.8	1.3%	\$269.7
Tax & Revenue Changes	(1,181.2)	(1,327.3)	(146.1)	----	138.0
GF/GP & SAF REV. AFTER CHNGS	\$24,204.0	\$24,393.7	\$189.7	0.8%	\$407.7
Sales Tax	\$8,013.2	\$8,541.8	\$528.6	6.6%	\$232.9

¹⁾ FY 2017-18 is the base year for baseline revenue.

Table 6
FY 2019-20 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2018-19 Revised Est.	FY 2019-20 Revised Est.	Change from FY 2018-19		\$ Change from 05/18 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$12,102.8	\$12,408.6	\$305.8	2.5%	\$200.3
Tax Changes Not In Baseline	(1,461.5)	(1,714.5)	(253.0)	----	(25.0)
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	12,417.5	12,704.1	286.6	2.3	(34.0)
Less: Refunds	(2,269.2)	(2,314.3)	(45.1)	2.0	(10.0)
Net Income Tax Collections	10,148.3	10,389.8	241.5	2.4	(44.0)
Less: Earmarking to SAF	(2,956.6)	(3,024.9)	(68.3)	2.3	8.1
Earmarking to MI Transportation Fund	(150.0)	(325.0)	(175.0)	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	(1.2)	0.0
Net Income Tax to GF/GP	\$7,040.9	\$7,039.1	(\$1.8)	(0.0%)	(\$35.9)
<u>Other Taxes</u>					
Corporate Income Tax	966.6	1,013.6	47.0	4.9	40.0
Michigan Business Tax	(642.7)	(701.0)	(58.3)	9.1	(15.9)
Sales	1,356.2	1,392.3	36.1	2.7	40.9
Use	707.6	715.2	7.6	1.1	122.1
Cigarette	181.9	180.0	(1.9)	(1.0)	0.0
Insurance Company Premiums	387.8	390.0	2.2	0.6	(25.0)
Telephone & Telegraph	35.0	35.0	0.0	0.0	0.0
Oil & Gas Severance	27.6	27.0	(0.6)	(2.2)	(1.3)
All Other	211.0	225.0	14.0	6.6	30.0
Subtotal Other Taxes	\$3,231.1	\$3,277.1	\$46.1	1.4%	\$190.8
Total Nontax Revenue	369.4	377.9	8.5	2.3	20.5
GF/GP REV. AFTER TAX CHANGES	\$10,641.4	\$10,694.1	\$52.8	0.5%	\$175.4
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,618.1	\$13,930.4	\$312.3	2.3%	\$10.6
Tax Changes Not In Baseline	134.2	180.3	46.1	----	199.3
<u>Revenue After Tax Changes</u>					
Sales Tax	6,217.8	6,414.0	196.2	3.2	206.5
Use Tax	582.4	600.6	18.2	3.1	6.1
Lottery Revenue	945.0	950.0	5.0	0.5	(5.0)
State Education Property Tax	2,119.8	2,182.0	62.2	2.9	(6.0)
Real Estate Transfer Tax	346.5	342.0	(4.5)	(1.3)	2.9
Income Tax	2,956.6	3,024.9	68.3	2.3	(8.1)
Casino Tax	115.0	117.3	2.3	2.0	0.0
Other Revenue	469.2	479.9	10.7	2.3	13.5
SAF REV. AFTER TAX CHANGES	\$13,752.3	\$14,110.7	\$358.4	2.6%	\$209.9
BASELINE GF/GP AND SAF	\$25,721.0	\$26,339.0	\$618.1	2.4%	\$210.9
Tax & Revenue Changes	(1,327.3)	(1,534.2)	(206.9)	----	174.4
GF/GP & SAF REV. AFTER CHNGS	\$24,393.7	\$24,804.8	\$411.2	1.7%	\$385.3
Sales Tax	\$8,541.8	\$8,810.7	\$268.9	3.1%	\$281.5

¹⁾ FY 2017-18 is the base year for baseline revenue.

FY 2020-21 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2020-21. Personal income and wage and salary employment will grow at a slightly faster rate than in FY 2019-20. Total GF/GP and SAF revenue will reach an estimated \$25.3 billion in FY 2020-21, an increase of 2.1%, or \$526.6 million, from the revised estimate for FY 2019-20. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.0% in FY 2020-21, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2020-21 is summarized in Table 7.

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2020-21 include several significant transfers from the General Fund to other State funds and greater General Fund reductions from the 2015 transportation package. General Fund income tax collections will be reduced by \$205.8 million due to the expansion of the homestead property tax credit. Income tax revenue will be reduced by \$600.0 million in FY 2020-21 by the increased earmark of income tax revenue to the Michigan Transportation Fund. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$88.0 million (\$67.1 million GF/GP and \$20.9 million SAF), while additional increases in the personal exemption, which were adopted in February 2018, will reduce revenue by \$181.9 million (\$145.0 million GF/GP and \$36.9 million SAF).

Personal Property Tax Reform. Use tax collections of \$491.5 million in FY 2020-21 will be levied by the Local Community Stabilization Authority and used for reimbursements of local revenue losses due to increasing exemptions of eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption, which will reduce GF/GP revenue by \$491.5 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$127.0 million. The General Fund will reimburse the SAF \$7.1 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by \$7.1 million and increase the SAF by \$7.1 million.

Sales Tax. Sales tax collections will increase \$248.0 million in FY 2020-21 (\$41.3 million GF/GP, \$181.9 million SAF, and \$24.8 million other funds, primarily constitutional revenue sharing) due to new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states greater ability to collect sales tax from out-of-state retailers. The imposition of sales tax on marijuana (for medical and recreational use) is projected to increase sales tax revenue by \$106.6 million (\$17.8 million GF/GP, \$78.1 million SAF, and \$10.7 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$53.0 million, of which \$6.3 million is GF/GP, \$38.9 million is SAF, and \$7.8 million other funds.

Federal Tax Reform. In FY 2020-21, changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by \$176.0 million, of which \$160.3 million is a GF/GP increase, and \$15.7 million is an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Michigan Business Tax refunds will lower GF/GP revenue by \$662.4 million, a smaller reduction than in FY 2019-20. Net MBT revenue is significantly influenced by the timing of which businesses file and are paid credit claims. All of the impact of MBT credits reduces GF/GP revenue. Reductions to the gross premiums tax for health insurers will decrease GF/GP revenue by \$18.0 million in FY 2020-21. The portion of the excise tax on recreational marijuana earmarked to the SAF will increase SAF revenue by \$32.1 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.8 billion in FY 2020-21, an increase of 1.1%, or \$116.7 million, from the revised estimate for FY 2019-20. Baseline GF/GP revenue is expected to increase 3.3% due the continued growth in the economy; however, the effects of the transportation package, personal property tax reform, and MBT refunds result in negative tax adjustments of over \$2.0 billion. The initial GF/GP revenue estimates for FY 2020-21 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$14.5 billion in FY 2020-21, an increase of \$409.9 million, or 2.9%, from the revised estimate for FY 2019-20. Since the most recent SAF revenue decline in FY 2011-12, FY 2020-21 will represent the ninth consecutive year of increases in SAF revenue. From FY 2011-12 to FY 2020-21, SAF revenue is projected to increase by 33.5% or \$3.6 billion. The initial SAF revenue estimates for FY 2020-21 are summarized in Table 7.

Table 7

FY 2020-21 INITIAL REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2019-20 Revised Est.	FY 2020-21 Initial Est.	Change from FY 2019-20	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$12,408.6	\$12,813.0	\$404.4	3.3%
Tax Changes Not In Baseline Revenue After Tax Changes	(1,714.5)	(2,002.2)	(287.7)	----
<u>Personal Income Tax</u>				
Gross Collections	12,704.1	13,040.7	336.6	2.6
Less: Refunds	(2,314.3)	(2,359.9)	(45.6)	2.0
Net Income Tax Collections	10,389.8	10,680.8	291.0	2.8
Less: Earmarking to SAF	(3,024.9)	(3,105.0)	(80.1)	2.6
Earmark to MI Transportation Fund	(325.0)	(600.0)	(275.0)	----
Campaign Fund	(0.8)	(0.8)	0.0	0.0
Net Income Tax to GF/GP	\$7,039.1	\$6,975.0	(\$64.1)	(0.9%)
<u>Other Taxes</u>				
Corporate Income Tax	1,013.6	1,062.5	48.9	4.8
Michigan Business Tax	(701.0)	(662.4)	38.6	(5.5)
Sales	1,392.3	1,442.8	50.5	3.6
Use	715.2	723.8	8.6	1.2
Cigarette	180.0	178.4	(1.6)	(0.9)
Insurance Company Premiums	390.0	398.6	8.6	2.2
Telephone & Telegraph	35.0	35.5	0.5	1.4
Oil & Gas Severance	27.0	26.7	(0.3)	(1.1)
All Other	225.0	244.0	19.0	8.4
Subtotal Other Taxes	\$3,277.1	\$3,449.9	\$172.8	5.3%
Total Nontax Revenue	377.9	385.9	8.0	2.1
GF/GP REV. AFTER TAX CHANGES	\$10,694.1	\$10,810.8	\$116.7	1.1%
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$13,930.4	\$14,304.1	\$373.7	2.7%
Tax Changes Not In Baseline Revenue After Tax Changes	180.3	216.4	36.1	----
Sales Tax	6,414.0	6,636.3	222.3	3.5
Use Tax	600.6	618.2	17.6	2.9
Lottery Revenue	950.0	955.0	5.0	0.5
State Education Property Tax	2,182.0	2,238.7	56.7	2.6
Real Estate Transfer Tax	342.0	353.3	11.3	3.3
Income Tax	3,024.9	3,105.0	80.1	2.6
Casino Tax	117.3	119.6	2.3	2.0
Other Revenue	479.9	494.5	14.6	3.0
SAF REV. AFTER TAX CHANGES	\$14,110.7	\$14,520.6	\$409.9	2.9%
BASELINE GF/GP AND SAF	\$26,339.0	\$27,117.2	\$778.2	3.0%
Tax & Revenue Changes	(1,534.2)	(1,785.8)	(251.6)	----
GF/GP & SAF REV. AFTER CHNGS	\$24,804.8	\$25,331.4	\$526.6	2.1%
Sales Tax	\$8,810.7	\$9,115.3	\$304.6	3.5%

¹⁾ FY 2017-18 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2017-18 THROUGH FY 2020-21

Transportation Package and Individual Income Tax Revenue. The major changes included in the transportation package enacted in November 2015 do not affect the General Fund (or School Aid Fund) in FY 2017-18. However, the transportation package will have a significant impact on General Fund revenue beginning in FY 2018-19, when provisions of the legislation will lower General Fund revenue by \$355.8 million: \$150.0 million for the revenue earmarked to the Michigan Transportation Fund and \$205.8 million for the expansion of the homestead property tax credit. The reduction in General Fund revenue will increase in FY 2019-20 to \$530.8 million: \$205.8 from the expanded homestead property tax credit and \$325.0 million from the increased earmark of individual income tax revenue to the Michigan Transportation Fund. The reduction will increase again in FY 2020-21 to \$805.8 million: \$205.8 from the expanded homestead property tax credit and \$600.0 million from the increased earmark of individual income tax revenue to the Michigan Transportation Fund.

Federal Tax Reform Interactions with Corporate and Individual Income Tax Revenue. In December 2017, the Federal government adopted tax reform legislation that made numerous changes to both the Federal individual income tax and the Federal corporate income tax. Many of the Federal changes were expected to affect Michigan tax revenue. For example, the personal exemption was set to zero and Michigan personal exemptions were based on the allowed Federal exemptions, suggesting that Federal tax reform might have eliminated the Michigan personal exemption and substantially increased taxpayers' Michigan tax liabilities. Other Federal changes eliminated certain deductions or exemptions, thereby increasing the income taxpayers would use in computing their Michigan liabilities. The forecast includes estimates of these impacts, as well as the impact of Public Acts 38 and 39 of 2018, which were enacted in response to the effect Federal tax reform was estimated to have on Michigan revenue.

Individual Income Tax. Individual income tax revenue will fall by an estimated 1.6% in FY 2018-19, to \$10.1 billion. Unlike in FY 2017-18, when income tax withholding rose 5.1%, FY 2018-19 withholding will grow more slowly and rise 2.7% as wages and employment continue to grow. As economic growth moderates, the growth rate in withholding will decrease further to 2.1% in FY 2019-20 before rising 2.5% in FY 2020-21. Annual payments are expected to increase 4.0% in FY 2018-19, but will decrease in FY 2019-20 and FY 2020-21. As prices rise in 2018 and 2019, inflation-indexed adjustments for the personal exemption are projected to lower net revenue beginning in FY 2018-19. Baseline income tax revenue is projected to grow 1.1% in FY 2018-19; however, growth in net income tax revenue will be negative 1.6% in that year, reflecting the impacts of the expanded homestead property tax credit. Compared with the May 2018 consensus revenue estimates, the revised estimate for FY 2018-19 individual income tax revenue is \$4.9 million higher, but the revised estimate for FY 2019-20 is \$44.0 million lower, reflecting lower wage growth forecasts. Individual income tax revenue currently is directed to the General Fund and the School Aid Fund. The School Aid Fund receives 23.8% of gross income tax collections (withholding, quarterly, and annual payments), and through FY 2017-18, the GF/GP budget receives the remaining 76.2% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds). Beginning in FY 2018-19, the General Fund portion of collections will be reduced because of the statutory requirement to deposit a fixed amount of income tax revenue into the Michigan Transportation Fund. These deposits will reduce GF/GP revenue by \$150.0 million in FY 2018-19, \$325.0 million in FY 2019-20, and \$600.0 million in FY 2020-21 and each following year.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax will increase at a faster rate than the 2.8% gain experienced in FY 2017-18, with sales tax revenue rising 6.6% in FY 2018-19, 3.1% in FY 2019-20, and 3.5% in FY 2020-21. Compared with the May 2018 consensus revenue estimates, the revised sales tax estimate for FY 2018-19 is \$232.9 million higher while the revised estimate for FY 2019-20 is up \$281.5 million. The increase is due primarily to new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed

states greater ability to collect sales tax from out-of-state retailers. The new guidance went into effect October 1, 2018. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments (10%), the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to increase 1.8% in FY 2018-19, 3.1% in FY 2019-20 and 2.9% in FY 2020-21. However, the portion of use tax revenue received by the State of Michigan is expected to decline. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is being converted into a local use tax used to fund reimbursements to local units affected by personal property tax exemptions adopted in 2012. Payments to the Local Community Stabilization Authority started at \$96.4 million in FY 2015-16, rose to \$410.8 million in FY 2017-18, and will total \$438.0 million in FY 2018-19, \$465.9 million in FY 2019-20, and \$491.5 million in FY 2020-21 as they increase annually to over \$500.0 million by FY 2021-22. Compared with the May 2018 consensus revenue estimates, the FY 2018-19 estimate for combined State and local use tax collections is revised upward by \$115.0 million and the FY 2019-20 estimate is \$128.2 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes will total an estimated \$929.0 million in FY 2017-18, a decrease of 1.8% from FY 2016-17. Tobacco tax revenue is expected to continue its long-term downward trend, declining 1.1% in both FY 2018-19 and FY 2019-20, and 0.9% in FY 2020-21. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2018-19, casino tax revenue is projected to total \$115.0 million, a 0.9% increase from FY 2017-18. Casino tax revenue is expected to grow in FY 2019-20 and FY 2020-21, rising 2.0% each year.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to \$1.8 billion. After increasing 4.0% in FY 2017-18, SET collections are projected to increase another 3.8% in FY 2018-19, and then by 2.9% in FY 2019-20 and 2.6% in FY 2020-21, as the housing market improves and higher inflation allows greater increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue due to the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Competition with other gaming options, and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, with forecasted growth of 0.9% in FY 2018-19 and 0.5% in FY 2019-20 and FY 2020-21. All of the net revenue generated by the lottery is

earmarked to the SAF. From FY 2017-18 to FY 2020-21, lottery revenue is expected to decline from 7.1% to 6.6% of total earmarked SAF revenue, reflecting that lottery revenue will grow more slowly compared to other SAF revenue sources.

Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay a separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

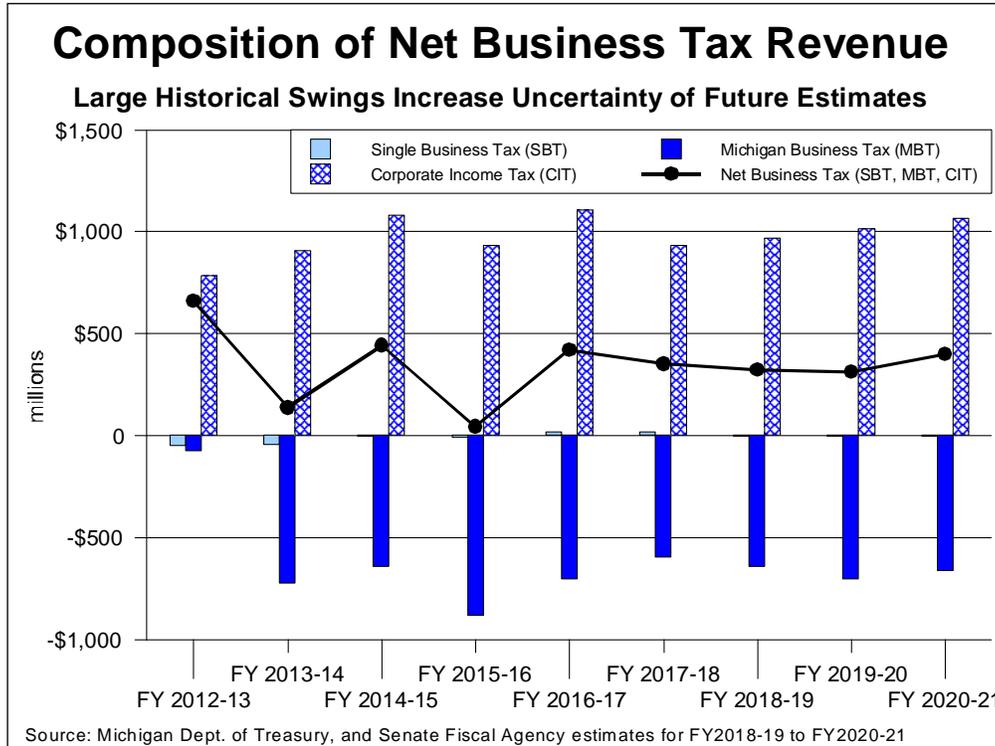
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative \$878.9 million (as refunds exceeded revenue) in FY 2015-16, a negative \$704.6 million in FY 2016-17, and a negative \$596.8 million in FY 2017-18, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between \$600.0 million and \$700.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund board from time to time amends previously-awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although, in some cases, the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates. The administration has been working with both the Michigan Strategic Fund agency and a number of taxpayers that will claim the largest credits on ways to limit this uncertainty.

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately \$1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by \$878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by \$174.3 million less in FY 2016-17, they still represented a 6.9% reduction in General Fund revenue. The credits lowered General Fund revenue by \$107.8 million less in FY 2017-18, but still represented a 5.4% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) decline slightly in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 6.0% in FY 2018-19, 6.6% in FY 2019-20, and 6.1% in FY 2020-21. Despite the administration's efforts, when these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals, which limits efforts to correctly predict revenue.

In FY 2017-18, CIT revenue fell 15.7%, after rising 18.9% in FY 2016-17 and falling 13.7% in FY 2015-16, underscoring the potential volatility in CIT revenue ([Figure 19](#)). In FY 2016-17, net business tax revenue from the MBT, CIT, and Single Business Tax (SBT) totaled \$419.7 million, up 838.9% from FY 2015-16. The preliminary final estimate for business taxes in FY 2017-18 is \$351.8 million,

a 16.2% decrease from FY 2016-17 that is \$272.9 million above the May 2018 consensus estimate. Net business tax revenue is expected to decline 7.9% in FY 2018-19 and 3.5% in FY 2019-20 before increasing 28.0% in FY 2020-21. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 19



Insurance Taxes. Revenue from Michigan's taxes on insurance companies will total an estimated \$392.1 million in FY 2017-18, a 5.8% increase from FY 2016-17. Revenue from taxes on insurance companies is expected to be more stable over the forecast period, falling 1.1% in FY 2018-19, increasing 0.6% in FY 2019-20, and increasing 2.2% in FY 2020-21. All revenue from insurance taxes is directed to the General Fund.

REVENUE TRENDS

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law. However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates, and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more

detailed forecast data for fiscal years in the near future. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer-term view of Michigan's economy, net GF/GP revenue is expected to increase 2.7% in FY 2021-22, to \$11.1 billion, while SAF revenue will increase 3.2%, to \$15.0 billion. In FY 2022-23, net GF/GP revenue is expected to increase 2.7%, to \$11.4 billion, while SAF revenue will increase 3.4%, to \$15.5 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2017-18, FY 2018-19, and FY 2019-20. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2017-18, FY 2018-19, and FY 2019-20 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2017-18 was made in December 2015, as shown in Table 8. At that time, baseline revenue in FY 2017-18 was estimated at \$24.3 billion. This estimate was increased by \$112.2 million at the January 2016 Consensus Revenue Estimating Conference, then increased another \$173.5 million at the May 2016 Consensus Revenue Estimating Conference. The January 2017 consensus conference increased the estimate by another \$205.0 million, but the May 2017 consensus conference lowered it by \$118.3 million. The January 2018 consensus conference increased the estimate by \$84.0 million, while the May 2018 consensus conference lowered it by \$24.4 million. The Senate Fiscal Agency's revised estimate for FY 2017-18 presented in this report increases the baseline estimate by \$322.8 million above the May 2018 consensus estimate, to \$25.3 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2018-19 was made in December 2016, as shown in Table 9. At that time, baseline revenue in FY 2018-19 was estimated at \$25.1 billion. This estimate was increased by \$36.4 million at the January 2017 Consensus Revenue Estimating Conference, then increased again, by \$106.0 million at the May 2017 Consensus Revenue Estimating Conference. The January 2018 consensus conference increased the estimate by \$100.1 million, while the May 2018 consensus conference lowered it by \$32.7 million. The Senate Fiscal Agency's revised estimate for FY 2018-19 presented in this report increases the baseline estimate by \$218.7 million above the May 2018 consensus estimate, to \$25.7 billion.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2017-18 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
December 17, 2015	\$11,548.8	\$12,790.5	\$24,339.3
January 14, 2016 ^{a)}	11,568.9	12,882.6	24,451.5
May 13, 2016	11,402.5	12,788.9	24,191.4
May 17, 2016 ^{a)}	11,557.7	12,807.2	24,364.9
December 16, 2016	11,385.1	12,780.8	24,165.9
January 12, 2017 ^{a)}	11,550.2	12,820.7	24,370.9
May 12, 2017	11,464.5	12,948.8	24,413.3
May 17, 2017 ^{a)}	11,306.1	12,988.9	24,295.0
December 16, 2017	11,341.1	13,081.4	24,422.5
January 11, 2018 ^{a)}	11,417.4	13,089.1	24,506.5
May 14, 2018	11,714.9	13,270.6	24,985.5
May 16, 2018 ^{a)}	11,710.9	13,250.2	24,961.1
December 14, 2018	12,003.3	13,280.6	25,283.9
<u>Change From Previous Estimate:</u>			
Dollar Change	\$292.5	\$30.3	\$322.8
Percent Change	2.5%	0.2%	1.3%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$454.5	\$490.1	\$944.6
Percent Change	3.9%	3.8%	3.9%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2016-17.			

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2018-19 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
December 16, 2016	\$11,896.6	\$13,187.0	\$25,083.6
January 12, 2017 ^{a)}	11,980.4	13,139.6	25,120.0
May 12, 2017	11,811.7	13,298.2	25,109.9
May 17, 2017 ^{a)}	11,896.4	13,319.5	25,215.9
December 18, 2017	11,672.4	13,447.1	25,119.5
January 11, 2018 ^{a)}	11,767.8	13,451.8	25,219.6
May 14, 2018	11,854.2	13,629.7	25,483.9
May 16, 2018 ^{a)}	11,876.2	13,575.0	25,451.2
December 14, 2018	12,047.4	13,622.5	25,669.9
<u>Change From Previous Estimate:</u>			
Dollar Change	\$171.2	\$47.5	\$218.7
Percent Change	1.4%	0.3%	0.9%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$150.8	\$435.5	\$586.3
Percent Change	1.3%	3.3%	2.3%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2016-17.			

The initial GF/GP and SAF baseline revenue estimate for FY 2019-20 was made in December 2017, as shown in Table 10. At that time, baseline revenue in FY 2019-20 was estimated at \$25.8 billion. This estimate was increased by \$148.0 million at the January 2018 Consensus Revenue Estimating Conference, and the May 2018 consensus conference decreased it by \$151.1 million. The revised Senate Fiscal Agency estimate for FY 2019-20 increases baseline revenue for FY 2019-20 by \$142.1 million above the May 2018 estimate, to \$26.3 billion.

Table 10
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2019-20
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 18, 2017	\$11,981.4	\$13,801.0	\$25,782.4
January 11, 2018 ^{a)}	12,112.1	13,818.3	25,930.4
May 14, 2018	12,283.7	13,995.4	26,279.1
May 16, 2018 ^{a)}	12,208.2	13,919.8	26,128.0
December 14, 2018	12,335.4	13,934.7	26,270.1
<u>Change From Previous Estimate:</u>			
Dollar Change	\$127.2	\$14.9	\$142.1
Percent Change	1.0%	0.1%	0.5%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$354.0	\$133.7	\$487.7
Percent Change	3.0%	1.0%	1.9%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2016-17.			

**BUDGET
STABILIZATION FUND**

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977, and subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 10.0% of the combined level of General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income tax payers on returns filed after the end of that fiscal year.

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments (e.g., Social Security income, Medicaid benefits, and worker's compensation) and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total GF/GP revenue. The statute (MCL 18.1354(4)) also provides for all unreserved GF/GP balances at the close of the fiscal year to be transferred to the BSF, although an appropriation is required in order for the transfer to occur.

Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. The withdrawal equals the percentage decline in adjusted real personal income multiplied by the annual GF/GP revenue. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

To calculate the pay-in, the amount of real personal income growth over 2.0% in the prior calendar year is applied to the amount of General Fund revenue in the prior fiscal year. For example, the calculated pay-in for FY 2018-19 is based on personal income growth from calendar year 2017 to 2018 and GF/GP revenue in FY 2017-18. Different years are used to calculate a potential pay-out. A pay-out in FY 2018-19 depends on the change in personal income from calendar year 2018 to calendar year 2019 and the amount of GF/GP revenue in FY 2018-19.

Withdrawals from the BSF also are permitted for State job creation programs in times of high unemployment. When the State's unemployment rate averages between 8.0% and 11.9% during a calendar quarter, 2.5% of the balance in the BSF may be withdrawn during the subsequent quarter and appropriated for projects that will create job opportunities. If the unemployment rate averages 12.0% or higher for a calendar quarter, up to 5.0% of the BSF balance may be withdrawn.

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of \$55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled \$189.2 million. Also, in FY 1998-99, the Legislature appropriated the transfer of \$73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case. In FY 2013-14, the Legislature transferred \$194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the Detroit bankruptcy. At the same time, Public Act 186 of 2014 amended the Michigan Trust Fund

Act to require the deposit of \$17.5 million from tobacco settlement revenue to the BSF annually for the 21 years, from FY 2014-15 through FY 2034-35, to repay that transfer.

Table 11 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2016-17. This table also presents the SFA's estimates for FY 2017-18, FY 2018-19, FY 2019-20, and FY 2020-21, assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 20, and the estimated economic stabilization trigger calculations for FY 2018-19, FY 2019-20, and FY 2020-21 are presented in Table 12.

FY 2017-18

The BSF ended FY 2016-17 with a balance of \$710.0 million. During FY 2017-18, \$282.5 million was appropriated to the Fund. As noted above, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of \$17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 and extending through FY 2034-35. The annual budget, Public Act 107 of 2017, appropriated \$150.0 million of General Fund money to the BSF, and a supplemental appropriation bill, Public Act 207 of 2018, appropriated \$115.0 million to the BSF. Interest earnings are estimated at \$14.2 million in FY 2017-18, resulting in an estimated ending balance of \$1,006.7 million. There was no calculated pay-in to the BSF for FY 2017-18 estimated at the time of budget enactment.

FY 2018-19, FY 2019-20, and FY 2020-21

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit Consumer Price Index (CPI), and GF/GP revenue, the statutory formula is not forecast to trigger a pay-in or pay-out in FY 2018-19, FY 2019-20, or FY 2020-21.

Based on growth in inflation-adjusted personal income, under the current statutory formula, no deposit would be required in FY 2018-19, FY 2019-20, and FY 2020-21. A deposit of \$17.5 million in each of these years already is required under the Trust Fund Act, but no additional calculated pay-in is anticipated in those years.

Based on current appropriations and the continuation of the \$17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at \$1,056.4 million in FY 2018-19, \$1,115.1 million in FY 2019-20, and \$1,176.1 million in FY 2020-21 as shown in Table 11.

Table 11

**BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2020-21 ESTIMATES
(millions of dollars)**

Fiscal Year ^{a)}	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
1998-99		\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	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	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14 ^{b)}		75.0	0.4	194.8	386.2
2014-15 ^{c)}	\$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	\$710.0
Enacted Deposits and Estimated Interest Earnings:					
2017-18 ^{d)}	17.5	265.0	14.2	0.0	1,006.7
2018-19	17.5	0.0	32.2	0.0	1,056.4
2019-20	17.5	0.0	41.2	0.0	1,115.1
2020-21	17.5	0.0	43.5	0.0	1,176.1
<p>a) For FY 1998-99 to FY 2016-17, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FYs 2017-18 to FY 2020-21 include enacted legislation (Public Act 107 of 2017 and Public Act 207 of 2018) and estimated interest earnings.</p> <p>b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of \$194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.</p> <p>c) PA 252 of 2014 appropriated \$94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of \$17.5 million of tobacco settlement revenue to the BSF annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy.</p> <p>d) Public Act 107 of 2017 appropriated \$150.0 million. Public Act 207 of 2018 appropriated \$115.0 million. There was no calculated deposit for FY 2017-18.</p>					
Source: State of Michigan Comprehensive Annual Financial Reports through FY 2016-17 and Senate Fiscal Agency.					

Figure 20

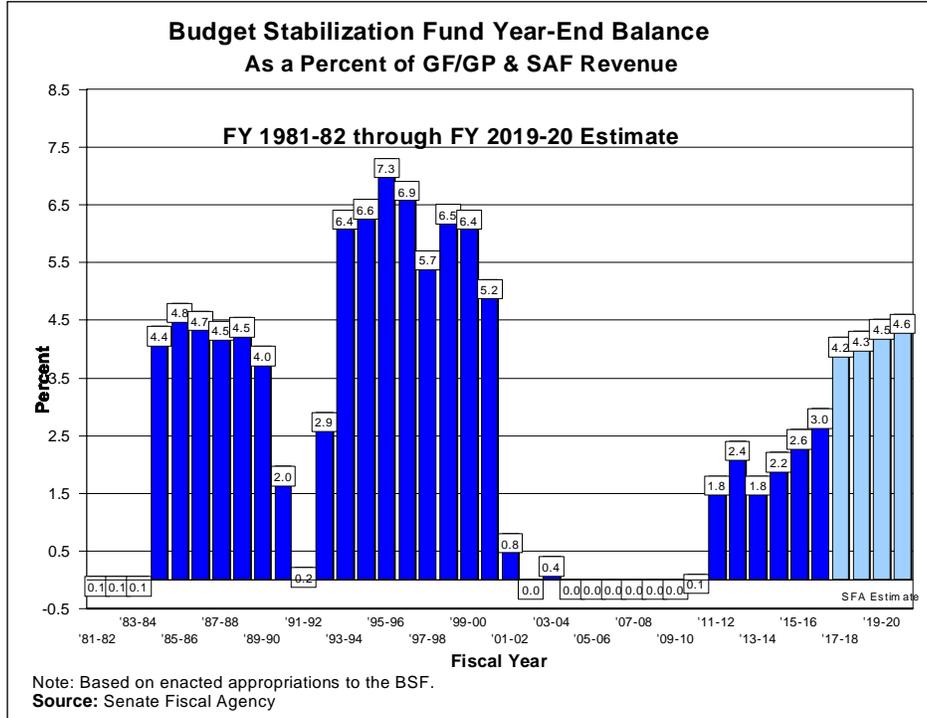


Table 12

**ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2017-18, FY 2018-19, FY 2019-20, and FY 2020-21
(millions of dollars)**

	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Michigan Personal Income (MPI)	\$460,270.0	\$477,586.2	\$495,010.6	\$512,536.2	\$532,201.9
Less: Transfer Payments	\$94,679.4	\$97,039.6	\$100,906.7	\$104,698.6	\$108,633.8
Subtotal	\$365,590.6	\$380,546.6	\$394,103.9	\$407,837.6	\$423,568.1
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.2474	2.2979	2.3514	2.4052	2.4543
Equals: Real Adjusted MPI	\$162,676	\$165,604	\$167,605	\$169,565	\$172,584
Percent Change from Prior Year		1.80%	1.21%	1.17%	1.78%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Multiplied by: Estimated GF/GP Revenue		\$10,960.0	\$10,641.4	\$10,694.1	\$10,810.8
Equals: Transfer to the BSF			\$0.0	\$0.0	\$0.0
OR Transfer from the BSF			\$0.0	\$0.0	\$0.0

Note: Numbers may not add due to rounding.
CY = Calendar Year; FY = Fiscal Year

**COMPLIANCE WITH
STATE REVENUE LIMIT**

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by \$109.6 million. This was due to the generation of new State revenue as part of the school financing reform enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the limit in FY 2007-08 despite increases in the income tax and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2016-17. To date, the largest gap between revenue and the limit occurred in FY 2016-17, when State revenue was \$9.2 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2017-18, FY 2018-19, FY 2019-20, and FY 2020-21 with State revenue forecast to be \$12.4 billion below the limit in FY 2020-21.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year before the calendar year in which the fiscal year begins. For example, in FY 2016-17, State government revenue could not exceed 9.49% of personal income for calendar year 2015. Given that Michigan personal income for 2015 equaled \$424.8 billion at the time compliance was determined, the revenue limit for FY 2016-17 was \$40.3 billion.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments (e.g., Social Security income and Medicaid benefits). It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the U.S. Department of Commerce's Bureau of Economic Analysis.

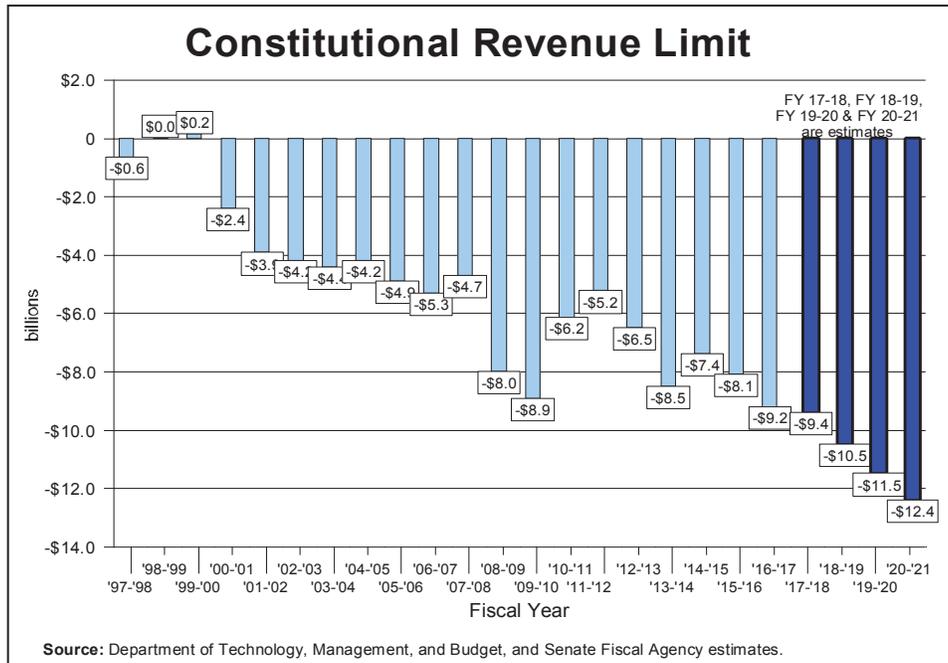
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to payers of individual income and business taxes, on a pro rata basis. These refunds would be given to taxpayers who file an individual income tax return or a Michigan Business Tax or Corporate Income Tax return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report which determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary final revenue for FY 2017-18 and the SFA's revenue estimates for FY 2018-19, FY 2019-20, and FY 2020-21, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in [Figure 21](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 13](#).

Figure 21



FY 2017-18

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2016 equals \$444.5 billion, and as a result, the revenue limit equals \$42.2 billion in FY 2017-18, an increase of \$1.9 billion over FY 2016-17. Based on the SFA's revised revenue estimates for FY 2017-18, revenue subject to the revenue limit will equal an estimated \$32.8 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.4 billion, or 22.2%, in FY 2017-18. With the 5.5% growth of revenue subject to the limit exceeding personal income growth of 4.6%, the amount by which the State is under the revenue limit will increase in absolute terms, although it will decrease as a percentage of the revenue limit.

FY 2018-19

The Senate Fiscal Agency estimates that personal income in Michigan during 2017 will equal \$460.3 billion, and as a result, the revenue limit will equal \$43.7 billion in FY 2018-19. Based on the SFA's revised revenue estimates for FY 2018-19, revenue subject to the revenue limit will equal an estimated \$33.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$10.5 billion, or 24.0%, in FY 2018-19. The substantial increase in the Homestead Property Tax Credit, the effects of which will begin during FY 2018-19, accounts for a portion of the significant increase in the amount by which State revenue is projected to be below the limit in FY 2018-19. Additionally, anticipated growth in personal income of 3.5% will outpace the forecasted 1.2% increase in State revenue subject to the revenue limit.

FY 2019-20

The Senate Fiscal Agency estimates that personal income in Michigan during 2018 will equal \$477.6 billion and, as a result, the revenue limit will equal \$45.3 billion in FY 2019-20. Based on the SFA's revised revenue estimates for FY 2019-20, revenue subject to the revenue limit will equal an estimated \$33.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$11.5 billion, or 25.4%, in FY 2019-20. Anticipated growth in personal income of 3.8% will outpace the forecasted 1.9% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

FY 2020-21

The Senate Fiscal Agency estimates that personal income in Michigan during 2019 will equal \$495.0 billion, and as a result, the revenue limit will equal \$47.0 billion in FY 2020-21. Based on the SFA's initial revenue estimates for FY 2020-21, revenue subject to the revenue limit will equal an estimated \$34.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$12.4 billion, or 26.3%, in FY 2020-21. Anticipated growth in personal income of 3.7% will outpace the forecasted 2.4% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION FY 2016-17 THROUGH FY 2020-21 ESTIMATE (millions of dollars)					
	FY 2016-17 Final	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate	FY 2020-21 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	\$11,063.4	\$12,003.3	\$12,047.5	\$12,335.4	\$12,738.0
Constitutional Revenue Sharing (baseline)	796.2	816.6	844.0	867.4	892.8
School Aid Fund (baseline)	12,732.1	13,280.6	13,622.5	13,934.7	14,308.6
Transportation Funds	2,806.6	3,039.3	3,064.5	3,100.9	3,194.0
Other Restricted Non-Federal Aid Revenue	4,634.3	4,773.3	4,916.5	5,064.0	5,215.9
Adjustments:					
GF/GP Federal Aid	(8.6)	(13.3)	(13.3)	(13.3)	(13.3)
GF/GP Balance Sheet Adjustments	(867.8)	(1,043.3)	(1,406.1)	(1,641.3)	(1,927.2)
SAF Balance Sheet Adjustments	(47.0)	(36.6)	129.8	176.0	212.0
Total Revenue Subject to Limit	\$31,109.2	\$32,819.9	\$33,205.4	\$33,823.9	\$34,620.8
Revenue Limit					
Personal Income:					
Calendar Year	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Amount	\$424,807	\$444,532	\$460,270	\$477,586	\$495,011
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$40,314.2	\$42,186.1	\$43,679.6	\$45,322.9	\$46,976.5
1.0% of Limit	403.1	421.9	436.8	453.2	469.8
Amount Under (Over) Limit	\$9,205.0	\$9,366.2	\$10,474.2	\$11,499.1	\$12,355.7
Percent Below Limit	22.8%	22.2%	24.0%	25.4%	26.3%
CY = Calendar Year; FY = Fiscal Year					

**ESTIMATES OF
YEAR-END BALANCES**

ESTIMATE OF YEAR-END BALANCES

This section of the Senate Fiscal Agency's (SFA's) report provides details of the estimated year-end balances of the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets for FY 2017-18 and FY 2018-19. This section also outlines projections for the FY 2019-20 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2017-18, FY 2018-19, and FY 2019-20 GF/GP and SAF budgets. The ongoing FY 2017-18 book-closing process appears to be complicated this year due to it being the first book-closing under the new Statewide Integrated Governmental Management Application (SIGMA) accounting system. The SIGMA implementation process includes the redistribution of tax revenue among various sources that will result in the restatement of FY 2017-18 beginning balances for both GF/GP and SAF revenue. Although the SFA is forecasting slow revenue growth for FYs 2018-19 and 2019-20, the SFA's combined GF/GP and SAF revenue estimates for these two fiscal years are above the May Consensus Revenue Estimating Conference (CREC) estimates. The final accounting of FY 2017-18 revenue and appropriations has not been completed, but the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have a \$565.7 million balance and the SAF budget will have a \$275.7 million balance. A comparison of the SFA estimate of FY 2018-19 revenue with actual and projected appropriations leads to a \$228.7 million GF/GP year-end balance and a \$165.5 million SAF year-end balance.

The outlook for FY 2019-20 points to a GF/GP budget ending balance of \$111.2 million and an SAF ending balance of \$211.4 million.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate
General Fund/General Purpose	\$565.7	\$228.7	\$111.2
School Aid Fund	\$275.7	\$165.5	\$211.4

FY 2017-18 YEAR-END BALANCE ESTIMATES

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. A comprehensive annual financial report (commonly referred to as the CAFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2017-18 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the FY 2017-18 fiscal year with a \$565.7 million balance. The SFA is estimating that the FY 2017-18 SAF budget will close the fiscal year with a \$275.7 million balance.

The first column of Table 15 provides a summary of the current SFA estimate of a \$565.7 million balance in the FY 2017-18 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2018-19 revenue source. During the development of the FY 2018-19 budget, an estimated FY 2017-18 carry-forward amount of \$101.4 million in GF/GP revenue was built into the budget for FY 2018-19, so this revised estimate is \$464.3 million above the amount initially estimated as the ending balance for FY 2017-18 that would carry

forward into FY 2018-19. This change in the FY 2017-18 ending balance is primarily due to lower Michigan Business Tax (MBT) credits, and higher Corporate Income Tax and net Individual Income Tax revenue, that are expected to reflect a net revenue increase of \$496.4 million more than the May 2018 estimate, and an FY 2017-18 estimated year-end lapse amount of \$105.5 million.

On the revenue side of the FY 2017-18 GF/GP budget ledger, the SFA is now estimating that available revenue will total nearly \$11.0 billion. This represents a \$510.6 million, or 4.9%, increase from the final level of FY 2016-17 GF/GP revenue. This includes the lowering of the beginning balance by \$35.4 million, as a result of estimated SIGMA revenue adjustments during the bookclosing process. The current SFA estimate of ongoing GF/GP revenue represents a \$496.4 million increase from the May 2018 consensus revenue estimate. It is important to note that an increase of approximately \$150.0 million in the estimate for income tax payments, and a \$170.0 million savings from estimated MBT revenue, may not recur. Also, due primarily to uncertainty regarding the first SIGMA bookclosing process, a \$100.0 million revenue reduction is included as a balance sheet contingency amount. The combination of these factors, as well as accounting for State revenue sharing payments and other restricted revenue adjustments, results in the net \$11.0 billion revenue estimate.

On the expenditure side of the FY 2017-18 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$10.4 billion, which includes an appropriation to the Budget Stabilization Fund of \$265.0 million. The \$10.4 billion of expenditures represents a \$567.3 million or 5.8% increase from the final level of FY 2016-17 GF/GP expenditures.

As [Table 15](#) indicates, net enacted and pending supplemental appropriations for FY 2017-18 will total \$189.6 million. Of that total, a negative \$136.5 million represents a shift in funding from GF/GP to the School Aid Fund. There is also a \$15.6 million GF/GP expenditure related to assigning the remaining principal to the School Bond Loan Fund. For FY 2017-18, lapses were less than the previous three fiscal years, at an estimated total of \$105.5 million, with the largest estimated lapse amount of \$50.0 million in the Department of Health and Human Services. As mentioned previously, the FY 2017-18 book-closing process is still under way, and any adjustments that occur during that process could have an impact on the final revenue and expenditures recorded for FY 2017-18.

The first column of [Table 16](#) provides a summary of the FY 2017-18 SFA estimate of a \$275.7 million year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2018-19 revenue source. As stated earlier, the FY 2018-19 budget was developed assuming that funds carried forward from FY 2017-18 would be used for FY 2018-19 appropriations. When the FY 2018-19 SAF budget was developed, the assumption was that \$217.7 million would be available at the FY 2017-18 year-end and carried forward; the estimate now is that \$275.7 million is available, or \$58.0 million more than originally projected. The additional \$58.0 million in the estimated year-end balance reflects two factors: an adjusted ending balance from FY 2016-17 (\$33.0 million) that carried into the beginning balance for FY 2017-18, and estimated lapses of \$25.0 million.

On the revenue side of the FY 2017-18 SAF budget ledger, the SFA is now estimating that available revenue will total \$15.6 billion. This represents a \$784.3 million or 5.3% increase from the final level of FY 2016-17 SAF revenue; in FY 2017-18, there was \$109.2 million more in Federal aid than in FY 2016-17, \$100.5 million less in GF/GP support of the School Aid budget, \$100.0 million in new, one-time Talent Investment Fund revenue, and strong growth in SAF-earmarked revenue. The current SFA estimate of ongoing SAF revenue for FY 2017-18 (excluding GF/GP, Community District Education Trust Fund revenue, tax, and Federal revenue) represents no change from the May 2018 consensus revenue estimate.

On the expenditure side of the FY 2017-18 SAF budget ledger, the SFA is now estimating that expenditures will total \$15.3 billion. This represents an \$886.1 million or 6.1% increase from the final level of FY 2016-17 SAF expenditures. The estimated final level of FY 2017-18 SAF expenditures includes the initial ongoing K-12 appropriation of \$14.3 billion, \$89.3 million in initial one-time K-12 appropriations, \$223.1 million in MPSERS costs, and enacted supplementals totaling \$103.9 million (of which \$100.0 million was for the Marshall Plan for Talent), along with estimated K-12 lapses totaling a negative \$25.0 million. It also should be noted that the estimated final level of FY 2017-18 SAF expenditures includes \$636.6 million of appropriations to the Community Colleges and Higher Education budgets, an increase from the \$497.5 million appropriated for postsecondary purposes in FY 2016-17.

FY 2018-19 YEAR-END BALANCE ESTIMATES

On June 12, 2018, the Michigan Legislature completed action on the initial set of FY 2018-19 appropriation bills. The FY 2018-19 initially enacted budget was balanced based on the May 2018 consensus estimates. At the time the initial budget was enacted, the SFA was projecting only a \$6.2 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2018-19 GF/GP year-end balance is \$228.7 million. At the same time, based on the May 2018 consensus revenue estimate, the SFA was projecting a \$6.9 million year-end balance in the SAF budget. The current SFA estimate of the FY 2018-19 SAF year-end balance is \$165.5 million. It should be noted that, other than enrolled House Bill 4991 (that changes the income tax earmarks to the GF/GP and SAF, and is accounted for in this report), these ending balances do not reflect various other pieces of enrolled tax policy legislation that are awaiting the Governor's signature. Depending on which pieces of legislation are enacted, there could be a significant negative impact on the revenue side of the balance sheets in FY 2018-19 and future fiscal years.

The second column of [Table 15](#) provides a summary of the current SFA estimate of a \$228.7 million year-end balance in the FY 2018-19 GF/GP budget. The increase in the projected level of the FY 2018-19 GF/GP year-end balance results primarily from an estimated increase of \$229.8 million from the revenue amount estimated at the May 2018 consensus revenue conference, and a larger carry-forward balance from FY 2017-18 (\$464.3 million more than expected), offset by \$479.6 million in potential additional spending under enrolled Senate Bill 601.

On the revenue side of the FY 2018-19 GF/GP budget ledger, the SFA is now estimating that available revenue will total \$10.7 billion. This estimate includes a projected \$565.7 million balance carried forward from FY 2017-18, \$10.6 billion of revenue from ongoing sources, a \$466.0 million reduction to reflect ongoing State revenue sharing payments, a \$13.1 million reduction due to a one-time appropriation for State revenue sharing, a revenue adjustment of \$6.3 million to replace State Restricted lawsuit proceeds revenue, and a \$42.0 million GF/GP revenue reduction to reflect potential enactment of enrolled House Bill 4991 that would lower the earmark of income tax revenue to the General Fund. The total estimated ongoing GF/GP revenue of \$10.1 billion represents a \$360.7 million, or 3.4%, decrease from the FY 2017-18 estimate. The current SFA estimate of FY 2018-19 ongoing GF/GP consensus revenue represents a \$229.8 million increase from the May 2018 consensus revenue estimate. The upward revision in revenue reflects an increase primarily in sales and use tax revenue.

On the expenditure side of the FY 2018-19 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$10.5 billion. This total includes \$9.6 billion of ongoing appropriations in the initial appropriation bills, \$410.1 million in one-time appropriations in the initial appropriation bills, a one-time appropriation of \$100.0 million to the Budget Stabilization Fund (included in enrolled supplemental bill, Senate Bill 601), \$50.0 million of estimated caseload and cost adjustments to reflect the projected ongoing portion of the FY 2017-18 Department of Health and Human Services lapses, and \$379.6 million of other enrolled Senate Bill 601 supplemental appropriations.

The second column in Table 16 provides a summary of the current SFA estimate of a \$165.5 million year-end balance in the FY 2018-19 SAF budget. The increase in the projected level of the FY 2018-19 SAF year-end balance (\$158.6 million more than originally estimated) results primarily from a larger carry-forward balance from FY 2017-18 (\$58.0 million more than expected) and an estimated increase in net ongoing revenue of \$177.9 million from the amount estimated at the May 2018 consensus revenue conference (primarily due to the *Wayfair* court decision related to online sales tax), and the assumed enactment of House Bill 4991 that would reduce SAF revenue by \$141.0 million in FY 2018-19. In addition, costs in FY 2018-19 are now estimated to be \$63.7 million lower than appropriated primarily due to fewer pupils counted in membership than budgeted.

On the revenue side of the FY 2018-19 SAF budget ledger, the SFA is now estimating that available revenue will total \$15.9 billion. This estimate includes a \$275.7 million balance carried forward from FY 2017-18, \$13.8 billion of ongoing State Restricted SAF revenue, an \$87.9 million GF/GP grant to the SAF budget, the annual deposit of \$72.0 million from the Community District Education Trust Fund, \$30.0 million from the Mental Health Services and Support Fund, \$31.9 million from the MPERS reserve fund, the assumed enactment of HB 4991 reducing SAF by \$141.0 million, and \$1.7 billion of ongoing Federal aid. The current SFA estimate of total FY 2018-19 SAF revenue represents a \$284.8 million or 1.8% increase from the projected level of FY 2017-18 SAF revenue, which is driven primarily by growth in restricted SAF revenue (\$508.3 million minus the \$141.0 million reduction under HB 4991), additional Federal funds (\$21.2 million), and additional non-ongoing revenue (\$23.8 million), partially offset by a smaller beginning balance (\$134.7 million lower). The current estimate of FY 2018-19 State Restricted SAF revenue (exclusive of the reduction under HB 4991) is \$177.9 million higher than the May 2018 consensus estimate.

On the expenditure side of the FY 2018-19 SAF budget ledger, the SFA is now estimating that expenditures will total \$15.7 billion. This expenditure estimate includes \$14.6 billion of ongoing K-12 appropriations in the initial appropriation bill, \$79.1 million in pending supplemental appropriations, \$121.3 million in one-time appropriations in the initial appropriation bill, and cost adjustments totaling a negative \$63.7 million (primarily from lower costs due to fewer pupils). It also should be noted that the estimated level of FY 2018-19 SAF expenditures includes \$908.3 million of appropriations to the Community Colleges and Higher Education budgets, an increase from the previous year's \$636.6 million SAF revenue appropriated for postsecondary purposes.

The projected level of FY 2018-19 SAF expenditures represents a \$394.9 million or 2.6% increase from the projected level of FY 2017-18 SAF expenditures. Of the total increase, \$272.3 million is from additional SAF revenue supporting postsecondary purposes, \$21.2 million is from an increase in Federal appropriations, and the remaining \$101.4 million is the change in State-funded K-12 appropriations (found in the initial budget, cost adjustments, and pending supplemental).

FY 2019-20 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2019-20 State budget recommendation to the Legislature no later than March 10, 2019. This State budget recommendation will continue the discussion of the FY 2019-20 State budget. On February 7, 2018, Governor Snyder presented his FY 2018-19 budget and his projections for FY 2019-20. The Legislature subsequently enacted an FY 2018-19 State budget and included language within several budget areas that expressed intent to provide FY 2019-20 appropriations that would be the same as those for FY 2018-19, with adjustments for caseload, costs, economic factors, and available revenue.

If a beginning balance of \$228.7 million is carried forward into FY 2019-20 and the SFA's new revenue estimate is assumed, and if FY 2019-20 appropriations are essentially frozen at FY 2018-19 levels (including a portion of the pending supplemental appropriations in enrolled Senate Bill 601),

the FY 2019-20 projected year-end GF/GP balance is \$111.2 million. The third column of [Table 15](#) outlines these assumptions.

On the revenue side of the FY 2019-20 budget outlook, the SFA is projecting that total estimated GF/GP revenue available will equal \$10.4 billion. This estimate assumes a beginning balance of \$228.7 million and SFA-estimated ongoing consensus revenue of \$10.7 billion, which represents an increase of \$175.4 million from the May 2018 consensus estimate. This upward revision in revenue is primarily the result of the SFA's projection of modest growth in the economy that is partially offset by income tax earmarks from the transportation package enacted in 2015 (\$325.0 million) and the related loss of revenue from the change in the homestead property tax credit (\$205.8 million). The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2018-19 level (\$466.3 million ongoing and \$13.1 million one-time). There are no new counties projected to exhaust their revenue sharing reserve funds and return to the State-paid program during FY 2019-20; the final two counties will return to the State-paid program in FY 2020-21 (Leelanau) and FY 2022-23 (Emmet). In addition, the balance sheet includes a \$38.2 million GF/GP revenue reduction to reflect potential enactment of enrolled House Bill 4991 that would lower the earmark of income tax revenue to the General Fund, and a \$19.2 million revenue reduction to pay for potential Venture Michigan Fund II tax vouchers.

On the appropriation side of the FY 2019-20 budget outlook, the SFA estimate assumes the continuation of appropriations at the FY 2018-19 levels for both initial ongoing and initial one-time GF/GP appropriations, but only half of the one-time appropriation amount in enrolled Senate Bill 601. Adjustments of a net \$253.4 million are then made to: lower the GF/GP grant to the School Aid Fund by \$42.9 million to reflect the GF/GP amount (\$45.0 million) that was included in the Governor's planning budget for FY 2019-20; continue the \$50.0 million of DHHS savings from prior-year lapses; add \$40.0 million and \$80.0 million for State match requirements for traditional Medicaid and expanded Medicaid, respectively; add \$33.0 million for the phased-in expiration of the MI-Child Federal match rate; and include an amount only half (\$186.3 million) of the \$372.6 million of one-time GF/GP appropriations, and \$7.0 million of ongoing GF/GP appropriations, in enrolled Senate Bill 601. These assumptions lead to total estimated FY 2019-20 GF/GP expenditures of \$10.3 billion and a projected year-end GF/GP balance of \$111.2 million.

The third column of [Table 16](#) provides a summary of the SFA's outlook for the FY 2019-20 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2018-19 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of \$211.4 million for FY 2019-20.

On the revenue side of the FY 2019-20 SAF budget outlook, the SFA is estimating that available revenue will total \$16.0 billion, an increase of \$104.6 million, or 0.7%, above FY 2018-19. This estimate assumes a carry-forward of \$165.5 million from FY 2018-19, an increase in the level of ongoing School Aid Fund revenue of \$209.9 million from the May 2018 consensus forecast, a GF/GP grant of \$45.0 million (a decline of \$42.9 million from FY 2018-19), a continuation of the \$72.0 million deposit from the Community District Education Trust Fund, an estimated reduction of \$173.8 million assuming enactment of House Bill 4991, and estimated Federal aid continuing at \$1.7 billion.

On the appropriation side of the FY 2019-20 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$15.7 billion. This funding level assumes that SAF appropriations of \$908.3 million for community colleges and universities are continued (with another \$3.4 million for additional MPERS costs), that \$118.1 million in one-time K-12 appropriations are continued, and that the FY 2018-19 pending supplemental of \$79.1 million is rolled into base funding for FY 2019-20.

In addition, the SFA estimate of a continuation level of K-12 funding takes into account updated estimates as to the number of students in school districts and preliminary estimates of local property

tax valuations, special education costs, debt service costs, MPSERS rate cap costs, and other MPSERS costs related to changes in assumptions like the assumed rate of return and mortality tables. The SFA is estimating that pupils will decrease in FY 2019-20 by 10,000 from the level estimated in May 2018, to reflect the lower number of pupils actually enrolled in FY 2018-19 compared to the estimate. The overall level of pupils for FY 2019-20 estimated by the SFA reflects a decline of 4,400 pupils from FY 2018-19. There are some anticipated savings from local taxable values, and combining those savings with pupil savings will offset increases in special education costs, cash flow borrowing costs, and other baseline cost adjustments, however a large increase in the cost of optional State reimbursements tied to MPSERS assumption changes leads to a \$58.2 million net baseline cost increase for FY 2019-20.

A comparison of projected FY 2019-20 SAF current-law revenue and a continuation of current spending leads to an estimated ending balance of \$211.4 million, which equates to roughly \$144 on a per-pupil basis. Again, this estimate assumes a continuation of both ongoing and one-time appropriations, a decrease in GF/GP support of the K-12 budget, and SAF support of \$912.0 million for community colleges and universities.

CONCLUSION

Although the GF/GP and SAF budgets are estimated to end FY 2017-18 and FY 2018-19 with healthy year-end balances, there are several budgetary pressures looming in subsequent fiscal years that are likely to mitigate the extension of these large positive balances. For example, in the Department of Health and Human Services, under current policy and Federal guidance, the State match rate for Medicaid expansion will gradually increase from 6.75% in calendar year 2018 to 10.0% in calendar year 2020 and beyond. This change will increase GF/GP costs for the expansion, also known as the Healthy Michigan Plan, by approximately \$80.0 million in FY 2019-20. Other potential cost increases could occur due to the continued development of new expensive pharmaceutical products. As these products become part of the standard of care, Medicaid pharmaceutical costs could increase at a rate greater than the usual inflationary adjustments.

Another budgetary pressure, beginning in FY 2018-19, is the GF/GP impact of the transportation funding legislation enacted in November 2015. Current SFA estimates indicate an FY 2018-19 GF/GP revenue loss of \$355.8 million, rising to \$814.0 million in FY 2021-22. These figures do not include the potential effect of the income tax rate reduction that could be triggered beginning in FY 2022-23.

Among other longer-term budget constraints are: the phase-in of personal property tax reform, estimated to cost \$465.9 million in FY 2019-20, which will grow to an estimated cost of \$572.6 million in FY 2026-27; certificated tax credits that are estimated to cost \$600.0 million to \$700.0 million annually until 2028, then decline, and end in 2032; and financial and infrastructure issues for local units of government.

The FY 2017-18 estimated ending balances may change when the State's final comprehensive annual financial report is published, which is not required by law until the end of March 2019. To the extent that the FY 2017-18 numbers change due to pending accruals or other issues, the ending balances for FY 2018-19 and FY 2019-20 will be affected. Also, to the extent that policy changes are enacted during FY 2018-19 (including pending tax policy legislation), the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 11, 2019, Consensus Revenue Estimating Conference. At that time, a

consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2019-20 State budget, as well as for subsequent fiscal years.

Table 15
FY 2017-18, FY 2018-19, AND FY 2019-20
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	FY 2017-18	FY 2018-19	FY 2019-20
Revenue:			
Beginning Balance (Adjusted).....	\$587.1	\$565.7	\$228.7
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2018)	\$10,463.6	\$10,411.6	\$10,518.7
Senate Fiscal Agency Revenue Estimate Change	496.4	229.8	175.4
Senate Fiscal Agency Revenue Estimate (December 2018)	\$10,960.0	\$10,641.4	\$10,694.1
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(\$465.9)	(\$466.0)	(\$466.3)
Income Tax Earmark Change (Enrolled HB 4991)	0.0	(42.0)	(38.2)
Subtotal Ongoing Revenue	\$10,494.1	\$10,133.4	\$10,189.6
<u>Non-ongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(\$5.8)	(\$13.1)	(\$13.1)
Redirection of Restricted Revenue (Lawsuit Settlement/DRF)	(6.7)	(6.3)	0.0
Sale of Scott Correctional Facility	3.4	0.0	0.0
Venture Michigan Fund II Tax Vouchers.....	0.0	0.0	(19.2)
Reserve for Bookclosing Contingencies	(100.0)	0.0	0.0
Subtotal Non-Ongoing Revenue	(\$109.1)	(\$19.4)	(\$32.3)
Total Estimated GF/GP Revenue	\$10,972.2	\$10,679.8	\$10,386.0
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Appropriations.....	\$9,784.4	\$9,611.3	\$9,611.3
Subtotal Ongoing Appropriations	\$9,784.4	\$9,611.3	\$9,611.3
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$257.3	\$410.1	\$410.1
Appropriation to Budget Stabilization Fund.....	265.0	100.0	0.0
Enacted Supplementals (2017 PAs 143, 158, 201/2018 PAs 82, 171) ...	218.2	0.0	0.0
School Aid Fund Shift (PA 265 of 2018/FY 20 Gov's Rec.)	(136.5)	0.0	(42.9)
Enacted Supplementals (PA 207 of 2018).....	177.2	0.0	0.0
Health and Human Services Caseload/Costs (PA 207 of 2018/Other)....	(69.1)	(50.0)	103.0
Pending Supplemental: Enrolled SB 601	(0.2)	379.6	193.3
Assign Remaining Principal to School Bond Loan Fund	15.6	0.0	0.0
Estimated Lapses.....	(105.5)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$622.0	\$839.7	\$663.5
Total Estimated GF/GP Expenditures	\$10,406.4	\$10,451.0	\$10,274.8
PROJECTED YEAR-END GF/GP BALANCE	\$565.7	\$228.7	\$111.2

Table 16

**FY 2017-18, FY 2018-19, AND FY 2019-20
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)**

	FY 2017-18	FY 2018-19	FY 2019-20
Revenue:			
Beginning Balance	\$410.4	\$275.7	\$165.5
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2018).....	\$13,244.0	\$13,574.4	\$13,900.8
Senate Fiscal Agency Revenue Estimate Change	0.0	177.9	209.9
Senate Fiscal Agency Revenue Estimate (Dec. 2018)	\$13,244.0	\$13,752.3	\$14,110.7
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$78.5	\$87.9	\$45.0
Community District Education Trust Fund.....	72.0	72.0	72.0
Income Tax Earmark Change (Enrolled HB 4991).....	0.0	(141.0)	(173.8)
Federal Ongoing Aid	1,726.9	1,745.9	1,745.9
Subtotal Ongoing Revenue	\$15,121.4	\$15,517.1	\$15,799.8
<u>Non-ongoing Revenue:</u>			
SAF Deposit Into MPSERS Reserve Fund	(\$55.0)	\$0.0	\$0.0
Reserve Fund for MPSERS	23.1	31.9	0.0
Talent Investment Fund (PA 228 of 2018)	100.0	0.0	0.0
SAF Deposit into Mental Health Services and Support Fund	(30.0)	0.0	0.0
Mental Health Services and Support Fund	0.0	30.0	0.0
Venture Michigan Fund Tax Vouchers	0.0	0.0	(6.0)
Subtotal Non-Ongoing Revenue	\$38.1	\$61.9	(\$6.0)
Total Estimated School Aid Fund Revenue.....	\$15,569.9	\$15,854.7	\$15,959.3
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$14,266.5	\$14,644.2	\$14,659.6
Enacted Supplementals (PA 265 of 2018)	(1.6)	0.0	0.0
SFA Cost Adjustments (December 2019)	0.0	(63.7)	58.2
Fund Community Colleges with School Aid Fund	394.7	401.8	404.5
Partially Fund Higher Education with School Aid Fund.....	237.9	499.4	500.4
Subtotal Ongoing Appropriations	\$14,897.4	\$15,481.7	\$15,622.7
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$89.3	\$121.3	\$118.1
Initial One-Time Community Colleges Appropriations	3.6	6.4	6.4
Initial One-Time Higher Education Appropriations	0.4	0.7	0.7
Enacted Supplementals (PA 143 of 2018)	5.5	0.0	0.0
Marshall Plan for Talent (PA 227 of 2018)	100.0	0.0	0.0
MPSERS: PA 92 Costs and Additional UAAL Payment.....	223.1	0.0	0.0
Pending Supplemental: Enrolled SB 149	0.0	79.1	0.0
Estimated Lapses	(25.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$396.9	\$207.5	\$125.2
Total Estimated School Aid Fund Expenditures.....	\$15,294.3	\$15,689.2	\$15,747.9
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$275.7	\$165.5	\$211.4

