

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

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



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May 2017

FOREWORD

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

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2019, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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ECONOMIC OVERVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2016-17 through FY 2018-19.

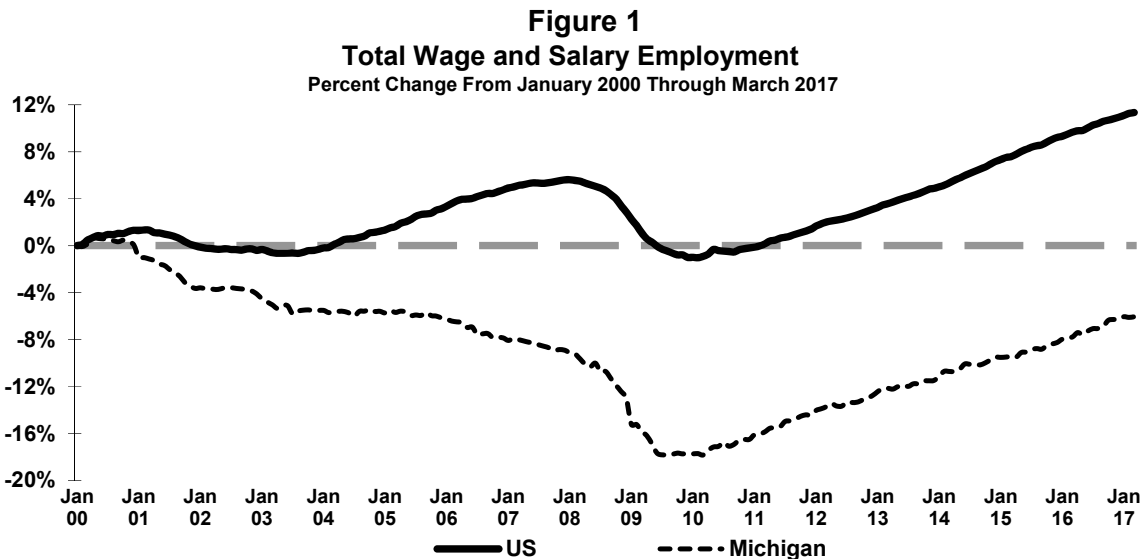
As has become typical over the past several years, the national economy improved at a lackluster pace during the first quarter of 2017. Although the housing sector continues to expand, light motor vehicle sales have slowed over the past several months. Wage and salary employment is on track to increase 1.2% in CY 2017 with broad-based gains across all major economic sectors.

Gross Domestic Product (GDP) growth is expected to increase from a 1.6% rate in CY 2016 to 2.3% in CY 2017. GDP growth is expected to accelerate to 2.6% in CY 2018 before moderating somewhat in CY 2019.

Michigan's economy and state revenue are significantly affected by the strength of the national recovery. Since the beginning of 2015, Michigan's wage and salary employment has grown at roughly the same rate as the U.S., resulting in a gain of about 100,700 jobs. This increase has been led by gains in construction, professional and business services, financial activities, and educational and health services.

Total Wage and Salary Employment

Figure 1 shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through March 2017.



U.S. Wage and Salary Employment

U.S. employment peaked in February 2001, and then began a long slide that did not end until August 2003. During this 30-month period, more than 2.7 million jobs were lost – about 91,800 jobs per month on average. This decline was followed by 53 consecutive months of job growth, and by January 2008, more than 8.1 million jobs had been added.

The ensuing recession saw 25 continuous months of employment declines during which almost 8.8 million jobs were lost. Job gains finally reappeared in March 2010, and modest job growth resumed during much of CY 2010. During a 39-month span of job growth from October 2010 through the end 2013, total wage and salary employment increased by about 7.1 million jobs. By April 2014, U.S. wage and salary employment surpassed the pre-recession peak, and as of March 2017, total employment was roughly 11.2% higher than in January 2000.

Michigan Wage and Salary Employment

Although employment rebounded at the national level through 2007, conditions in Michigan remained bleak. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following that June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs – a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Throughout the 2000s, job losses continued to mount.

During CY 2008 and CY 2009, more than 400,000 additional jobs were lost, and although employment increased somewhat in CY 2010, only about 56,000 jobs were added. An additional 97,000 jobs were added during CY 2012, and while growth in total non-farm employment slowed to about 77,000 during both CY 2013 and CY 2014, job growth increased in CY 2015 when 91,900 were added. Employment growth continued to slow in CY 2015 with the addition of 58,600 jobs, although a sharp turnaround in CY 2016 saw employment increase by 92,400. However, despite the job gains of the past several years, total wage and salary employment remains 6.1% lower than in January 2000.

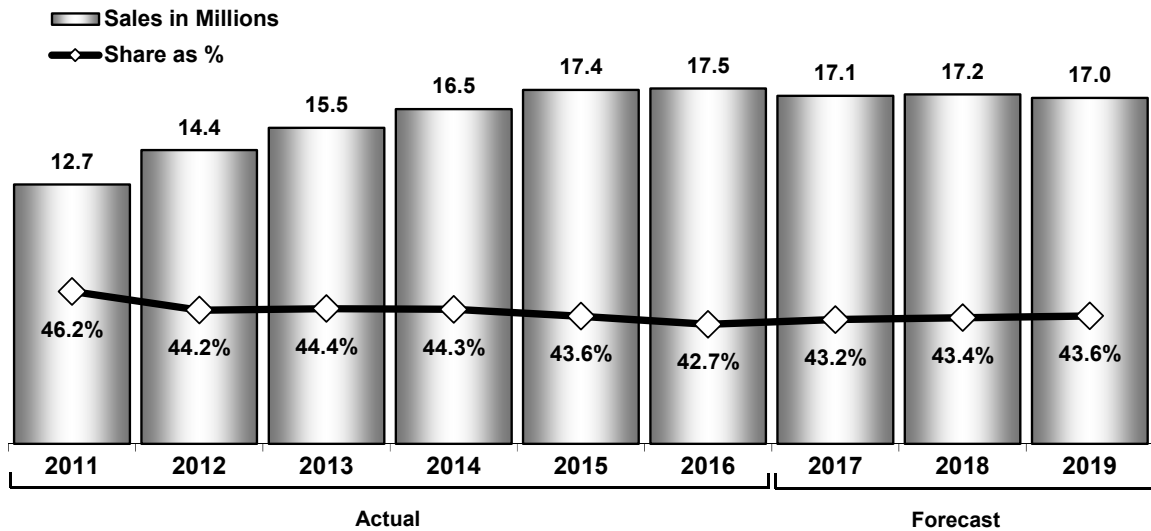
U.S. and Michigan Motor Vehicle Industry

Light motor vehicle sales totaled almost 17.5 million units in CY 2016, an increase of 0.4% from CY 2015. Light motor vehicle sales are forecast to be 17.1 million units in CY 2017, then increase to 17.2 million units in CY 2018 before falling back to 17.0 million units in CY 2019.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years within the 21% to 22% range. As shown in **Figure 2**, the market share of the Detroit 3 auto manufacturers hovered around 42.7% in CY 2016 and is expected to slowly increase to 43.6% through the end of the forecast horizon.

The level and composition of light motor vehicle sales as well as the extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. In CY 2017, the Detroit 3 is expected to sell 7.4 million vehicles, which would translate to a 0.9% decrease from CY 2016. It is expected that the Detroit 3 will sell 7.5 million vehicles in CY 2018 and 7.4 million vehicles in CY 2019.

Figure 2
Detroit 3 Share of Light Vehicle Sales



U.S. Forecast Highlights

Real GDP growth is forecast to increase 2.3% in CY 2017. It is forecast to increase 2.6% in CY 2018, and grow 2.2% in CY 2019.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.4% in CY 2017, 1.8% in CY 2018, and 2.3% in CY 2019.

Light vehicle sales of 17.5 million units in CY 2016 are forecast to decline to 17.1 million units in CY 2017, increase slightly to 17.2 million units in CY 2018, and then decrease to 17.0 million units in CY 2019. The import share of light vehicles is forecast to be roughly 21.3% throughout the forecast period.

Wage and salary employment growth was 1.7% in CY 2016; it is forecast to increase 1.2% in CY 2017, 1.1% in CY 2018, and 1.0% in CY 2019.

The national unemployment rate was 4.9% in CY 2016; it is forecast to decline to 4.5% in CY 2017, 4.3% in CY 2018, and 4.1% in CY 2019.

Interest rates on three-month T-bills are expected to average 1.0% in CY 2017, 1.7% in CY 2018, and 2.3% in CY 2019 as the Federal Reserve continues increasing the federal funds rate.

Michigan Forecast Highlights

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

Michigan's unemployment rate was 4.9% in CY 2016; it is forecast to increase slightly to 5.0% in CY 2017 before decreasing to 4.8% in CY 2018, and 4.7% in CY 2019.

Michigan personal income grew by 3.6% in CY 2016; it is forecast to increase 3.4% in CY 2017, 5.0% in CY 2018, and 5.1% in CY 2019.

Michigan wage and salary income increased by 4.9% in CY 2016; it is forecast to increase 3.1% in CY 2017, 4.6% in CY 2018, and 4.7% in CY 2019.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 2.1% in CY 2017, 1.7% in CY 2018, and 2.2% in CY 2019.

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

**Table 1
ECONOMIC FORECAST VARIABLES**

	Calendar 2015 Actual	Calendar 2016 Actual	% Change from Prior Year	Calendar 2017 Estimated	% Change from Prior Year	Calendar 2018 Estimated	% Change from Prior Year	Calendar 2019 Estimated	% Change from Prior Year
<u>United States</u>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$16,397.2	\$16,662.1	1.6%	\$17,048.6	2.3%	\$17,486.4	2.6%	\$17,867.3	2.2%
Implicit Price Deflator GDP (2009 = 100)	110.0	111.4	1.3%	113.6	2.0%	116.0	2.1%	118.6	2.3%
Consumer Price Index (1982-84 = 100)	237.0	240.0	1.3%	245.8	2.4%	250.2	1.8%	255.9	2.3%
Consumer Price Index (FY) (1982-84 = 100)	236.7	238.9	0.9%	244.5	2.3%	249.0	1.9%	254.4	2.2%
Personal Consumption Deflator (2009 = 100)	109.5	110.7	1.1%	112.7	1.8%	114.7	1.8%	117.2	2.1%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.3%		1.0%		1.7%		2.3%	
Aaa Corporate Bonds Interest Rate (Percent)	3.9%	3.7%		4.0%		4.4%		4.5%	
Unemployment Rate (Percent)	5.3%	4.9%		4.5%		4.3%		4.1%	
Wage and Salary Employment (Millions)	148.8	151.4	1.7%	153.3	1.2%	155.0	1.1%	156.6	1.0%
Housing Starts (Thousands of units)	1.108	1.176	6.1%	1.264	7.5%	1.326	4.9%	1.381	4.2%
Light Vehicle Sales (Millions of units)	17.4	17.5	0.4%	17.1	-2.1%	17.2	0.5%	17.0	-1.1%
Passenger Car Sales (Millions of units)	7.5	6.9	-8.5%	6.2	-9.8%	6.1	-1.0%	6.0	-2.7%
Light Truck Sales (Millions of units)	9.9	10.6	7.1%	10.9	3.0%	11.0	1.3%	11.0	-0.1%
Import Share of Light Vehicles (Percent)	21.3%	21.9%		21.4%		21.3%		21.1%	
Big-3 Share of Light Vehicle Sales (Percent)	43.6%	42.7%		43.2%		43.4%		43.6%	
Personal Income (Billions of current dollars)	\$15,458.5	\$16,011.6	3.6%	\$16,720.8	4.4%	\$17,561.7	5.0%	\$18,489.1	5.3%
Real Disposable Income (Billions of 2009 dollars)	\$12,343.2	\$12,685.6	2.8%	\$12,995.2	2.4%	\$13,438.5	3.4%	\$13,877.6	3.3%
<u>Michigan</u>									
Wage and Salary Employment (Thousands)	4,242.7	4,328.0	2.0%	4,385.9	1.3%	4,434.0	1.1%	4,490.2	1.3%
Transportation Equipment Employment (Thousands)	173.9	179.6	3.3%	180.6	0.6%	181.5	0.5%	181.7	0.2%
Unemployment Rate (Percent)	5.4%	4.9%		5.0%		4.8%		4.7%	
Personal Income (Millions of current dollars)	\$424,807	\$440,292	3.6%	\$455,063	3.4%	\$477,640	5.0%	\$501,818	5.1%
Real Personal Income (Millions of 1982-84 dollars)	\$194,147	\$198,098	2.0%	\$200,532	1.2%	\$206,963	3.2%	\$212,759	2.8%
Real Disposable Income (Millions of 1982-84 dollars)	\$170,975	\$174,735	2.2%	\$176,712	1.1%	\$182,897	3.5%	\$188,364	3.0%
Wage and Salary Income (Millions of current dollars)	\$214,703	\$225,281	4.9%	\$232,158	3.1%	\$242,933	4.6%	\$254,274	4.7%
Detroit Consumer Price Index (1982-84 = 100)	218.8	222.3	1.6%	226.9	2.1%	230.8	1.7%	235.9	2.2%
Detroit Consumer Price Index (FY) (1982-84 = 100)	219.1	221.2	1.0%	225.9	2.1%	229.8	1.7%	234.5	2.1%



RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding fiscal policy, labor markets, and consumer behavior.

Fiscal Policy

It seems certain that both corporate and individual income tax reform are on the agenda at the federal level, although only broad outlines have been advanced. While corporate tax cuts appear inevitable, individual income tax reform may include the elimination of many existing deductions in conjunction with reductions in tax rates, providing little clarity as to the overall magnitude as well as the incidence of the changes. In addition, any changes that alter the calculation of adjusted gross income (AGI) could directly affect Michigan income tax collections since federal AGI is the starting point for Michigan's individual income tax.

Labor Markets

Unemployment rates in both the U.S. and Michigan are projected to maintain their long, steady decline as wage and salary growth continues. However, unless labor productivity and/or labor force participation rates increase with the continued demand for labor, a tighter labor market will begin to exert upward pressure on wages. To the extent that additional workers are drawn into the labor market in response to the prospect of higher wages, the increases should be modest. But, higher than expected wage increases could trigger inflationary expectations.

Consumer Behavior

As previously indicated, wage and salary employment and earnings have been generally growing, and should provide the impetus for increased consumer spending. However, personal consumption expenditures were far weaker than expected in the first quarter of 2017, partially due to the warmer weather (less spending on heat) and delayed income tax refunds. Consumer spending is predicted to bounce back over the course of the year, but because tax revenues are highly dependent on wage and salary income and consumer spending on retail (taxable) purchases, significant shifts in these factors could exacerbate revenue volatility.



GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency's May 2017 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the January 2017 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, and the budget stabilization fund (BSF), and the state revenue limit calculation.

Baseline and Net GF/GP and SAF Revenue Estimates

Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total combined baseline GF/GP and SAF revenue was \$23.2 billion in FY 2015-16. It is forecast to increase 2.5% in FY 2016-17, 3.2% in FY 2017-18 and 3.0% in FY 2018-19.

Net revenue captures the effects of all policy changes and represents actual resources available. Final total net GF/GP and SAF revenue was \$22.1 billion in FY 2015-16, which is a 1.7% increase from FY 2014-15. It is forecast to increase 2.4% in FY 2016-17, 3.0% in FY 2017-18, and 2.1% in FY 2018-19.

Table 2 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2017 adjusted consensus estimates and the recommended revisions to these estimates for FY 2016-17 through FY 2018-19. The January 2017 adjusted consensus estimates include the January 2017 consensus estimates plus enacted tax changes since January 2017.

The recommended revision for FY 2016-17 is a decrease of \$69.3 million as weaker than anticipated withholding and annual income tax collections more than offset increases in quarterly income taxes. Although corporate income tax payments appear to show an increase relative to FY 2015-16, this represents a reclassification of revenue from the Michigan Business Tax to offset misclassifications in prior years. In terms of actual collections, CIT revenue is less than expected. The recommended revisions for FY 2017-18 and FY 2018-19 are increases of \$56.3 million and \$134.2 million, respectively.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue decreased 0.8% to \$9,556.7 million in FY 2015-16. GF/GP tax revenue in FY 2016-17 is estimated to be \$9,688.3 million, an increase of \$131.6 million, and \$10,001.6 million in FY 2017-18, an increase of \$313.3 million. GF/GP tax revenue is estimated to increase 1.3% in FY 2018-19.

Total GF/GP Net Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to spend. Final net GF/GP revenue was \$10,024.5 million in FY 2015-16; in FY 2016-17 it is forecast to be \$10,066.4 million, an increase of \$41.9 million, and \$10,369.7 million in FY 2017-18, an increase of \$303.3 million. Net GF/GP revenue is estimated to increase 1.2% in FY 2018-19.

SAF Revenue by Source

Total Net SAF Revenue

Final net SAF revenue increased by 3.2% to \$12,118.7 million in FY 2015-16. Net SAF revenue is forecast to be \$12,611.4 million in FY 2016-17, an increase of \$492.8 million. Net SAF revenue is estimated to increase 3.0% in FY 2017-18 and 2.8% in FY 2018-19.

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

	<u>Final</u> <u>FY 2015-16</u>	<u>HFA Est.</u> <u>FY 2016-17</u>	<u>HFA Est.</u> <u>FY 2017-18</u>	<u>HFA Est.</u> <u>FY 2018-19</u>	<u>FY 2016-17</u> <u>% Change</u>	<u>FY 2017-18</u> <u>% Change</u>	<u>FY 2018-19</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$10,984.7	\$11,130.2	\$11,535.3	\$11,941.2	1.3%	3.6%	3.5%
SAF	12,181.6	12,610.5	12,962.4	13,299.0	3.5%	2.8%	2.6%
Total	\$23,166.3	\$23,740.7	\$24,497.7	\$25,240.3	2.5%	3.2%	3.0%
<u>Net</u>							
GF/GP	\$10,024.5	\$10,066.4	\$10,369.7	\$10,494.4	0.4%	3.0%	1.2%
SAF	12,118.7	12,611.4	12,992.4	13,360.5	4.1%	3.0%	2.8%
Total	\$22,143.2	\$22,677.8	\$23,362.1	\$23,855.0	2.4%	3.0%	2.1%
<u>January 2017 CREC (Adjusted Net)</u>							
<u>Net</u>							
GF/GP	\$10,024.5	\$10,290.1	\$10,522.7	\$10,589.3			
SAF	12,118.8	12,457.0	12,783.1	13,131.5			
Total	\$22,143.3	\$22,747.1	\$23,305.8	\$23,720.8			
<u>Recommended Net Revision</u>							
<u>Net</u>							
GF/GP	\$0.0	(\$223.7)	(\$153.0)	(\$94.9)			
SAF	(0.1)	154.4	209.3	229.0			
Total	(\$0.1)	(\$69.3)	\$56.3	\$134.2			

NOTE: Numbers may not add due to rounding.

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

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2016-17		FY 2017-18		FY 2018-19	
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$6,706.1	\$6,841.5	\$7,132.8	\$7,068.3	\$135.4	2.0%	\$291.3	4.3%	(\$64.5)	-0.9%
Sales Tax	1,147.3	1,232.6	1,261.0	1,294.9	85.3	7.4%	28.4	2.3%	33.9	2.7%
Use Tax	931.8	662.8	577.6	606.5	(269.0)	-28.9%	(85.2)	-12.9%	28.9	5.0%
Michigan Business Tax	(878.9)	(912.8)	(745.6)	(604.1)	(33.9)	3.9%	167.2	-18.3%	141.5	-19.0%
Corporate Income Tax	930.4	1,087.0	960.0	932.0	156.6	16.8%	(127.0)	-11.7%	(28.0)	-2.9%
Insurance	329.2	385.0	413.0	420.2	55.8	17.0%	28.0	7.3%	7.2	1.7%
Other GF/GP Taxes	390.8	392.1	402.8	416.5	1.3	0.3%	10.6	2.7%	13.7	3.4%
GF/GP Net Tax Revenue	\$9,556.7	\$9,688.3	\$10,001.6	\$10,134.3	\$131.6	1.4%	\$313.3	3.2%	\$132.7	1.3%
Non-Tax Revenue	467.8	378.1	368.1	360.1	(89.7)	-19.2%	(10.0)	-2.6%	(8.0)	-2.2%
Total GF/GP Net Revenue	\$10,024.5	\$10,066.4	\$10,369.7	\$10,494.4	\$41.9	0.4%	\$303.3	3.0%	\$124.7	1.2%

NOTE: Numbers may not add due to rounding.

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

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2016-17		FY 2017-18		FY 2018-19	
	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,308.8	\$5,625.5	\$5,799.6	\$5,968.1	\$316.7	6.0%	\$174.1	3.1%	\$168.5	2.9%
Use Tax	489.9	521.9	557.8	586.6	32.0	6.5%	35.9	6.9%	28.8	5.2%
Income Tax	2,662.1	2,727.7	2,833.4	2,940.1	65.6	2.5%	105.7	3.9%	106.7	3.8%
State Education Tax	1,897.0	1,946.9	2,007.8	2,068.7	49.9	2.6%	60.9	3.1%	60.9	3.0%
Lottery/Casinos	1,001.8	999.0	998.0	997.0	(2.8)	-0.3%	(1.0)	-0.1%	(1.0)	-0.1%
Tobacco Tax	358.4	354.6	350.4	344.2	(3.8)	-1.1%	(4.2)	-1.2%	(6.2)	-1.8%
Real Estate Transfer Tax	289.3	320.0	327.0	335.0	30.7	10.6%	7.0	2.2%	8.0	2.4%
Other Taxes	111.4	115.9	118.4	120.9	4.5	4.0%	2.5	2.2%	2.5	2.1%
Total SAF Net Revenue	\$12,118.7	\$12,611.4	\$12,992.4	\$13,360.5	\$492.8	4.1%	\$381.0	3.0%	\$368.1	2.8%

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 5 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2016-17 estimates are based on year-to-date appropriations and HFA revenue and K-12 cost estimates. Final FY 2015-16 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 5
YEAR-END UNRESERVED BALANCE ESTIMATES
(Millions of Dollars)

	Final FY 2015-16	Estimated FY 2016-17
General Fund/General Purpose	\$604.4	\$168.6
School Aid Fund	\$168.1	\$305.1
Budget Stabilization Fund	\$612.4	\$800.0

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

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. A statutory BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates whether a pay-in (deposit) or pay-out (withdrawal) of GF/GP revenue is recommended. However, the calculation is only statutory; it does not mandate an appropriation.

In addition to the BSF calculation, 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2015-16 through FY 2034-35. **Table 6** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2018-19.

The BSF ending fund balance for FY 2015-16 was \$612.4 million. A \$75.0 million appropriation has been made for FY 2016-17, although the statutory formula suggests a pay-in of \$164.4 million, not including the required \$17.5 million deposit. An additional boilerplate provision for FY 2016-17 requires that 25% of the FY 2016-17 GF/GP unassigned fund balance be deposited into the BSF, although that amount has not been explicitly factored in to the statutory recommendation.

No pay-in is indicated for FY 2017-18 (other than the required \$17.5 million), although the formula shows a pay-in for FY 2018-19 of \$103.3 million. When the required \$17.5 million deposits are included and estimated interest earnings are included, the year-end balance is estimated at \$800.0 million for FY 2016-17, \$830.4 million for FY 2017-18, and \$971.3 million for FY 2018-19.

Table 6
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$2.2
2008-09	\$0.0	\$0.0	\$0.0	\$2.2
2009-10	\$0.0	\$0.0	\$0.0	\$2.2
2010-11	\$0.0	\$0.0	\$0.0	\$2.2
2011-12	\$362.7	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17*	\$181.9	\$0.0	\$5.7	\$800.0
2017-18*	\$17.5	\$0.0	\$13.0	\$830.4
2018-19*	\$120.8	\$0.0	\$20.0	\$971.3

* HFA estimates

NOTE: Numbers may not add due to rounding.

Compliance with the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution*, which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund

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

As shown in **Table 7**, **Figure 3**, and **Table 8**, the FY 2015-16 revenue limit calculation is expected to show state revenue collections at \$8.6 billion below the revenue limit. For FY 2016-17, state revenue is estimated to be below the limit by \$9.2 billion. For FY 2017-18 and FY 2018-19, state revenue is estimated to remain well below the revenue limit – by \$9.6 billion, and \$10.2 billion, respectively.

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

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2015-16</u>	<u>Estimated FY 2016-17</u>	<u>Estimated FY 2017-18</u>	<u>Estimated FY 2018-19</u>
Personal Income				
Calendar Year	<u>CY 2014</u>	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2017</u>
Amount	\$405,975	\$424,807	\$440,292	\$455,063
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$38,527.0	\$40,314.2	\$41,783.7	\$43,185.5
Total Revenue Subject to Revenue Limit	\$29,879.3	\$31,120.5	\$32,168.7	\$33,010.9
Amount Under (Over) State Revenue Limit	\$8,647.7	\$9,193.7	\$9,615.0	\$10,174.6

NOTE: Numbers may not add due to rounding.

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

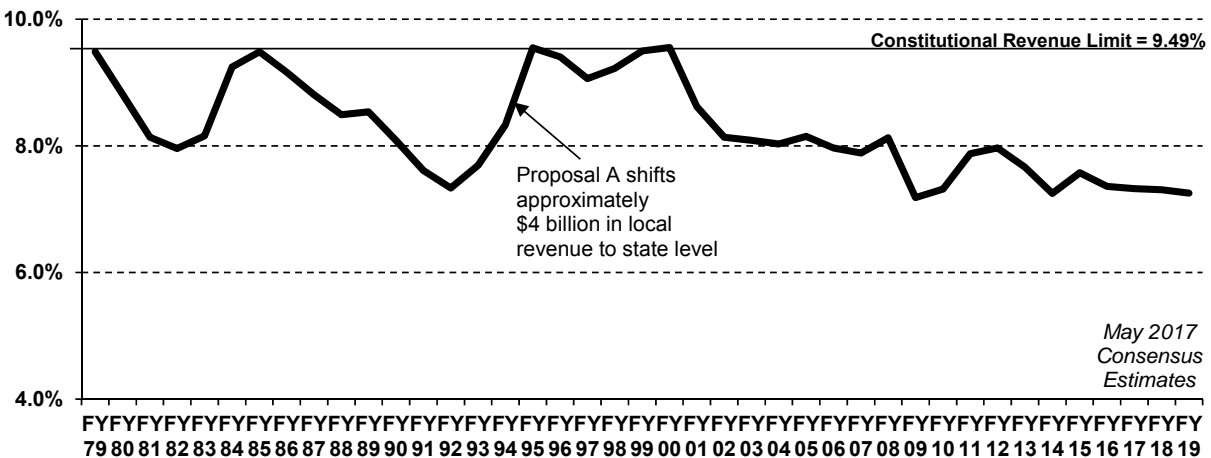


Table 8
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>
1990-91	(\$3.04)
1991-92	(\$3.69)
1992-93	(\$3.48)
1993-94	(\$2.11)
1994-95	\$0.11
1995-96	(\$0.18)
1996-97	(\$0.98)
1997-98	(\$0.64)
1998-99	\$0.02
1999-2000	\$0.16
2000-01	(\$2.41)
2001-02	(\$3.92)
2002-03	(\$4.18)
2003-04	(\$4.44)
2004-05	(\$4.22)
2005-06	(\$4.95)
2006-07	(\$5.32)
2007-08	(\$4.65)
2008-09	(\$7.99)
2009-10	(\$7.61)
2010-11	(\$5.58)
2011-12	(\$5.23)
2012-13	(\$6.55)
2013-14	(\$8.48)
2014-15	(\$7.40)
2015-16*	(\$8.65)
2016-17*	(\$9.19)
2017-18*	(\$9.61)
2018-19*	(\$10.17)

**HFA Estimate*



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