

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

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



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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2017 through CY 2020. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2016-17 and revised revenue estimates for FY 2017-18 through FY 2019-20. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 16, 2018, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2020, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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ECONOMIC OVERVIEW AND FORECAST

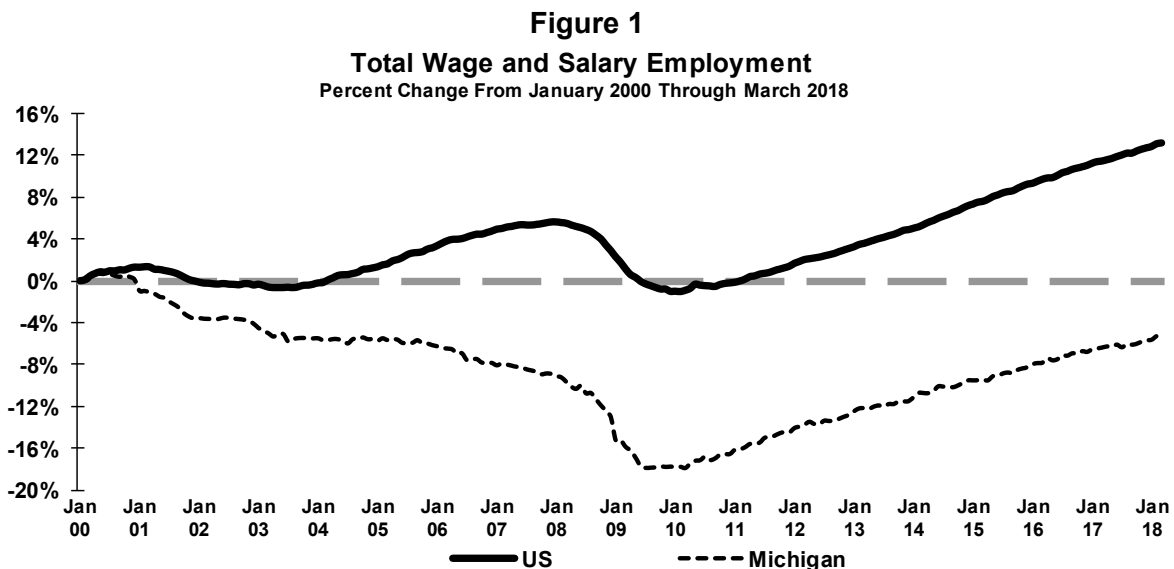
This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2017-18 through FY 2019-20.

Gross Domestic Product (GDP) grew at a 2.3% rate in CY 2017, up from the 1.5% rate posted in CY 2016, on the strength of consumer spending and business investment. In a break from a trend over the past few years, the national economy improved at a surprising 2.3% growth rate during the first quarter of 2018, and is expected to increase at a 2.7% rate for CY 2018 as a whole. GDP growth is expected to move up slightly to 2.8% in CY 2019 before moderating in CY 2020 as the stimulus from the Tax Cut and Jobs Act begins to wane.

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 a slightly slower rate than the U.S., resulting in a gain of about 206,400 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 2018.



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 and by April 2014, U.S. wage and salary employment surpassed the pre-recession peak. As of March 2018, total employment was roughly 13.1% 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 97,600 jobs were added during CY 2011, and while growth in total non-farm employment slowed to about 77,000 during both CY 2012 and CY 2013, job growth increased in CY 2014 when 91,900 were added. Employment growth slowed through the end of CY 2017 as the economy added an average of 59,000 each year. However, despite the job gains of the past several years, total wage and salary employment remains 5.1% lower than in January 2000.

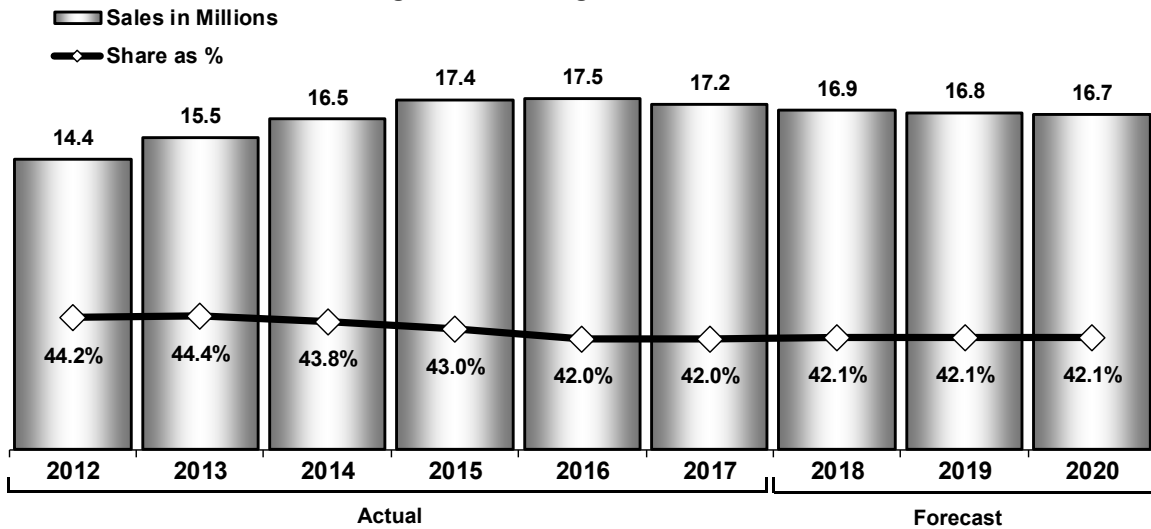
U.S. and Michigan Motor Vehicle Industry

Light motor vehicle sales totaled almost 17.2 million units in CY 2017, a decrease of 1.7% from the all-time high of 17.5 million units sold in CY 2016. Light motor vehicle sales are forecast to be 16.9 million units in CY 2018, 16.8 million units in CY 2019, 16.7 million units in CY 2020.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) is expected to increase to an average of 23.6% over the forecast horizon. As shown in **Figure 2**, the market share of the Big-3 auto manufacturers hovered around 42.0% in CY 2017 and is expected to increase very slightly over the next three years.

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 2018, the Big-3 auto manufacturers are expected to sell 7.1 million vehicles, which would translate to a 1.9% decrease from CY 2017. It is expected that the Big-3 will sell 7.0 million vehicles in both CY 2019 and CY 2020.

Figure 2
Big-3 Share of Light Vehicle Sales



U.S. Forecast Highlights

Real GDP increased at a 2.3% rate in CY 2017, and is forecast to increase 2.7% in CY 2018, 2.8% in CY 2019, and 1.9% in CY 2020.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.3% in CY 2018, 1.8% in CY 2019, and 2.5% in CY 2020.

Light vehicle sales of 17.2 million units in CY 2017 are forecast to decline to 16.9 million units in CY 2018, 16.8 million units in CY 2019, and 16.7 million units in CY 2020. The import share of light vehicles is forecast to be roughly 23.6% throughout the forecast period.

Wage and salary employment growth was 1.6% in CY 2017; it is forecast to remain at 1.6% in CY 2018 before dipping to 1.4% in CY 2019 and 1.1% in CY 2020.

The national unemployment rate was 4.4% in CY 2017; it is forecast to decline to 4.0% in CY 2018, 3.7% in CY 2019, and 3.6% in CY 2020.

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

Michigan Forecast Highlights

Michigan wage and salary employment growth was 1.2% in CY 2017; it is forecast to remain at 1.2% for both CY 2018 and CY 2019 before slowing to 0.9% in CY 2020.

Michigan's unemployment rate was 4.6% in CY 2017; it is forecast to decrease to 4.3% in CY 2018, 4.2% in CY 2019, and 4.1% in CY 2020 as growth in the labor force increases more slowly than employment.

Michigan personal income grew by 2.6% in CY 2017; it is forecast to increase 4.3% in CY 2018, 4.4% in CY 2019, and 4.5% in CY 2020.

Michigan wage and salary income increased by 2.9% in CY 2017; it is forecast to increase 4.4% in CY 2018 and 4.5% in both CY 2019 and CY 2020 as the labor market tightens.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 2.1% in CY 2018, 1.7% in CY 2019, and 2.4% in CY 2020.

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

**Table 1
ECONOMIC FORECAST VARIABLES**

	Calendar 2016 Actual	Calendar 2017 Actual	% Change from Prior Year	Calendar 2018 Estimated	% Change from Prior Year	Calendar 2019 Estimated	% Change from Prior Year	Calendar 2020 Estimated	% Change from Prior Year
<u>United States</u>									
Real Gross Domestic Product (Billions of 2009 dollars)	\$16,716.2	\$17,096.2	2.3%	\$17,554.5	2.7%	\$18,040.3	2.8%	\$18,391.6	1.9%
Implicit Price Deflator GDP (2009 = 100)	111.4	113.4	1.8%	115.7	2.0%	118.2	2.2%	121.1	2.4%
Consumer Price Index (1982-84 = 100)	240.0	245.1	2.1%	250.7	2.3%	255.3	1.8%	261.7	2.5%
Consumer Price Index (FY) (1982-84 = 100)	238.3	242.7	1.8%	248.0	2.2%	252.9	2.0%	258.4	2.2%
Personal Consumption Deflator (2009 = 100)	110.8	112.7	1.7%	114.9	2.0%	117.0	1.8%	119.4	2.1%
3-month Treasury Bills Interest Rate (Percent)	0.3%	0.9%		1.7%		2.1%		2.6%	
Aaa Corporate Bonds Interest Rate (Percent)	3.7%	3.7%		3.7%		4.5%		4.8%	
Unemployment Rate (Percent)	4.9%	4.4%		4.0%		3.7%		3.6%	
Wage and Salary Employment (Millions)	144.3	146.6	1.6%	148.9	1.6%	151.0	1.4%	152.8	1.1%
Housing Starts (Thousands of units)	1.177	1.208	2.6%	1.311	8.5%	1.355	3.4%	1.369	1.0%
Light Vehicle Sales (Millions of units)	17.5	17.2	-1.7%	16.9	-1.6%	16.8	-0.6%	16.7	-0.6%
Passenger Car Sales (Millions of units)	6.9	6.1	-11.3%	5.2	-14.5%	4.9	-6.8%	4.6	-4.9%
Light Truck Sales (Millions of units)	10.6	11.1	4.6%	11.7	5.6%	11.9	2.2%	12.1	1.2%
Import Share of Light Vehicles (Percent)	22.2%	22.6%		23.4%		23.6%		23.8%	
Big-3 Share of Light Vehicle Sales (Percent)	42.0%	42.0%		42.1%		42.1%		42.1%	
Personal Income (Billions of current dollars)	\$15,928.7	\$16,427.3	3.1%	\$16,871.9	2.7%	\$17,330.0	2.7%	\$17,579.9	1.4%
Real Disposable Income (Billions of 2009 dollars)	\$12,608.7	\$12,764.0	1.2%	\$12,884.2	0.9%	\$13,000.7	0.9%	\$12,944.9	-0.4%
<u>Michigan</u>									
Wage and Salary Employment (Thousands)	4,319.4	4,372.5	1.2%	4,425.0	1.2%	4,478.0	1.2%	4,518.3	0.9%
Transportation Equipment Employment (Thousands)	183.8	187.4	2.0%	185.5	-1.0%	184.7	-0.4%	184.3	-0.2%
Unemployment Rate (Percent)	5.0%	4.6%		4.3%		4.2%		4.1%	
Personal Income (Millions of current dollars)	\$439,361	\$450,847	2.6%	\$470,233	4.3%	\$490,922	4.4%	\$513,030	4.5%
Real Personal Income (Millions of 1982-84 dollars)	\$197,682	\$198,721	0.5%	\$203,075	2.2%	\$208,439	2.6%	\$212,666	2.0%
Real Disposable Income (Millions of 1982-84 dollars)	\$174,420	\$175,142	0.4%	\$179,776	2.6%	\$184,430	2.6%	\$188,000	1.9%
Wage and Salary Income (Millions of current dollars)	\$222,823	\$229,335	2.9%	\$239,427	4.4%	\$250,206	4.5%	\$261,405	4.5%
Detroit Consumer Price Index (1982-84 = 100)	222.3	226.9	2.1%	231.5	2.1%	235.5	1.7%	241.2	2.4%
Detroit Consumer Price Index (FY) (1982-84 = 100)	221.2	225.5	2.0%	230.7	2.3%	234.4	1.6%	239.8	2.3%



RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding oil prices, monetary policy, and Michigan's auto sector.

Oil Prices

Crude oil prices averaged just under \$51 per barrel in CY 2017, but have risen to an average of \$64 per barrel during the first four months of CY 2018. Triggered by tensions between Iran and Israel along with U.S. sanctions against Iran, oil prices jumped to over \$77 per barrel in early May, and have fueled an increase in gasoline prices. Relative to a year ago at this time, gasoline prices have increased by 20%.

Continued increases in crude oil prices, along with a corresponding increase in gasoline prices, can increase the overall price level. In conjunction with a tightening labor market exerting upward pressure on wages, the effects would be to push prices potentially well above the roughly 2% per year inflation rates inherent in the forecast.

Monetary Policy

The Federal Reserve increased the federal funds rate by a total of 75 basis points in 2017, bringing it to just over 1.4% by the end of the year. Following a 25 basis point increase in March 2018, the forecast assumes three more similar rate increases in 2018, with an additional three increases of 25 basis points each during 2019. The Federal Reserve is expected to continue raising interest rates in 2020, and by the end of the forecast horizon the federal funds rate is expected to exceed 3.5%. In the event that rising oil prices lead to increases in inflation, the Federal Reserve might be inclined to further increase interest rates, although doing so can adversely affect other sectors such as housing, business investment, and light vehicle sales as higher interest rates make borrowing more expensive.

Michigan's Automotive Sector

After seven years of increasing light vehicle sales, light vehicle sales fell back in 2017 and further declines are forecast. In addition, the Big-3 share of light vehicle sales has dropped from roughly 46% in 2011 to just over an estimated 42% throughout the forecast. Complicating the issue is the recent fire at Meridian Magnesium, which has caused Ford to shut down production facilities in Dearborn and Kansas City. While not to the same degree, both GM and FCA have also been affected by supply chain interruptions. To the extent that this further reduces the Big-3 share from the estimations in the forecast, Michigan's automakers will be producing a declining share of lower overall light vehicle sales.



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 2018 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the January 2018 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 \$23.8 billion in FY 2016-17. It is forecast to increase 4.6% in FY 2017-18, 2.0% in FY 2018-19 and 2.4% in FY 2019-20.

Net revenue captures the effects of all policy changes and represents actual resources available. Final total net GF/GP and SAF revenue was \$22.9 billion in FY 2016-17, which is a 5.0% increase from FY 2015-16. It is forecast to increase 3.3% in FY 2017-18, 1.3% in FY 2018-19, and 1.5% in FY 2019-20.

Table 2 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2018 adjusted consensus estimates and the recommended revisions to these estimates for FY 2017-18 through FY 2019-20. The January 2018 adjusted consensus estimates include the January 2018 consensus estimates plus enacted tax changes since January 2018.

The recommended revision for FY 2017-18 is an increase of \$250.3 million as stronger than anticipated withholding and quarterly income tax collections more than offset reduced corporate income taxes, although part of the decline in corporate income tax payments can be attributed to enhanced processing that incorporates refunds from prior year returns. Even so, in terms of actual collections, CIT revenue is still less than expected. The recommended revisions for FY 2018-19 and FY 2019-20 are increases of \$143.5 million and \$59.1 million, respectively.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue increased 1.1% to \$9,742.9 million in FY 2016-17. GF/GP tax revenue in FY 2017-18 is estimated to be \$10,075.1 million, an increase of \$332.2 million, and \$10,082.8 million in FY 2018-19, an increase of \$7.7 million. GF/GP tax revenue is estimated to increase 0.2% in FY 2019-20.

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 \$10,195.4 million in FY 2016-17; in FY 2017-18 it is forecast to be \$10,441.2 million, an increase of \$245.8 million, and \$10,433.2 million in FY 2018-19, a decrease of \$8.0 million. Net GF/GP revenue is estimated to increase 0.3% in FY 2019-20.

SAF Revenue by Source

Total Net SAF Revenue

Final net SAF revenue increased by 8.0% to \$12,685.2 million in FY 2016-17. Net SAF revenue is forecast to be \$13,201.3 million in FY 2017-18, an increase of \$516.1 million. Net SAF revenue is estimated to increase 2.4% in both FY 2018-19 and FY 2019-20.

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

	<u>Final</u> <u>FY 2016-17</u>	<u>HFA Est.</u> <u>FY 2017-18</u>	<u>HFA Est.</u> <u>FY 2018-19</u>	<u>HFA Est.</u> <u>FY 2019-20</u>	<u>FY 2017-18</u> <u>% Change</u>	<u>FY 2018-19</u> <u>% Change</u>	<u>FY 2019-20</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$11,063.3	\$11,688.5	\$11,872.8	\$12,152.8	5.7%	1.6%	2.4%
SAF	12,732.1	13,207.5	13,514.5	13,851.0	3.7%	2.3%	2.5%
Total	\$23,795.4	\$24,896.0	\$25,387.3	\$26,003.8	4.6%	2.0%	2.4%
<u>Net</u>							
GF/GP	\$10,195.4	\$10,441.2	\$10,433.2	\$10,463.3	2.4%	-0.1%	0.3%
SAF	12,685.1	13,201.3	13,513.9	13,832.0	4.1%	2.4%	2.4%
Total	\$22,880.5	\$23,642.5	\$23,947.1	\$24,295.3	3.3%	1.3%	1.5%
<u>January 2018 CREC (Adjusted Net)</u>							
<u>Net</u>							
GF/GP	\$10,195.4	\$10,307.7	\$10,339.6	\$10,413.5			
SAF	12,685.2	13,084.5	13,464.0	13,822.7			
Total	\$22,880.6	\$23,392.2	\$23,803.6	\$24,236.2			
<u>Recommended Net Revision</u>							
<u>Net</u>							
GF/GP	\$0.0	\$133.5	\$93.6	\$49.8			
SAF	(0.1)	116.8	49.9	9.3			
Total	(\$0.1)	\$250.3	\$143.5	\$59.1			

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 2017-18		FY 2018-19		FY 2019-20	
	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$6,731.5	\$7,283.2	\$7,043.0	\$7,080.5	\$551.7	8.2%	(\$240.2)	-3.3%	\$37.6	0.5%
Sales Tax	1,223.7	1,275.2	1,314.7	1,284.8	51.5	4.2%	39.5	3.1%	(29.9)	-2.3%
Use Tax	591.6	605.4	570.8	580.4	13.8	2.3%	(34.6)	-5.7%	9.6	1.7%
Michigan Business Tax	(704.6)	(787.9)	(639.5)	(685.1)	(83.3)	11.8%	148.4	-18.8%	(45.6)	7.1%
Corporate Income Tax	1,105.6	872.0	955.0	998.0	(233.6)	-21.1%	83.0	9.5%	43.0	4.5%
Insurance	370.7	400.0	408.2	415.0	29.3	7.9%	8.2	2.0%	6.8	1.7%
Other GF/GP Taxes	424.4	427.2	430.6	432.3	2.8	0.7%	3.4	0.8%	1.7	0.4%
GF/GP Net Tax Revenue	\$9,742.9	\$10,075.1	\$10,082.8	\$10,105.9	\$332.2	3.4%	\$7.7	0.1%	\$23.1	0.2%
Non-Tax Revenue	452.5	366.1	350.4	357.4	(86.4)	-19.1%	(15.7)	-4.3%	7.0	2.0%
Total GF/GP Net Revenue	\$10,195.4	\$10,441.2	\$10,433.2	\$10,463.3	\$245.8	2.4%	(\$8.0)	-0.1%	\$30.1	0.3%

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 2017-18		FY 2018-19		FY 2019-20	
	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$5,677.0	\$5,847.8	\$6,028.4	\$6,192.7	\$170.8	3.0%	\$180.6	3.1%	\$164.3	2.7%
Use Tax	495.1	571.7	568.7	588.2	76.6	15.5%	(3.0)	-0.5%	19.5	3.4%
Income Tax	2,720.5	2,907.4	2,955.7	3,036.5	186.9	6.9%	48.3	1.7%	80.7	2.7%
State Education Tax	1,963.8	2,023.8	2,098.7	2,138.6	60.0	3.1%	74.9	3.7%	39.9	1.9%
Lottery/Casinos	1,037.3	1,049.0	1,055.0	1,067.0	11.7	1.1%	6.0	0.6%	12.0	1.1%
Tobacco Tax	356.7	356.7	352.5	347.1	(0.0)	-0.0%	(4.2)	-1.2%	(5.4)	-1.5%
Real Estate Transfer Tax	317.1	325.0	333.0	338.0	7.9	2.5%	8.0	2.5%	5.0	1.5%
Other Taxes	117.7	119.9	121.9	123.9	2.2	1.9%	2.0	1.7%	2.0	1.6%
Total SAF Net Revenue	\$12,685.2	\$13,201.3	\$13,513.9	\$13,832.0	\$516.1	4.1%	\$312.6	2.4%	\$318.0	2.4%

NOTE: Numbers may not add due to rounding.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. 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 2014-15 through FY 2034-35. **Table 5** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2019-20.

The BSF ending fund balance for FY 2016-17 was \$710.0 million. Although no statutory appropriation would be required under the formula, a \$150.0 million appropriation has been made for FY 2017-18.

Pay-ins of \$51.2 million and \$69.1 million are indicated for FY 2018-19 and FY 2019-20, respectively. Neither of these amounts includes the \$17.5 million required under 2016 PA 106. When the required \$17.5 million deposits and estimated interest earnings are included, the year-end balances are estimated at \$892.6 million for FY 2017-18, \$986.0 million for FY 2018-19, and \$1,106.2 million for FY 2019-20.

Table 5
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	\$92.7	\$0.0	\$5.1	\$710.0
2017-18*	\$167.5	\$0.0	\$15.1	\$892.6
2018-19*	\$68.7	\$0.0	\$24.7	\$986.0
2019-20*	\$86.6	\$0.0	\$33.6	\$1,106.2

* HFA estimates

NOTE: Numbers may not add due to rounding.

Compliance with the State Revenue Limit

Article IX, Section 26 of the *1963 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 of the *1963 Michigan Constitution*, provides that:

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

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

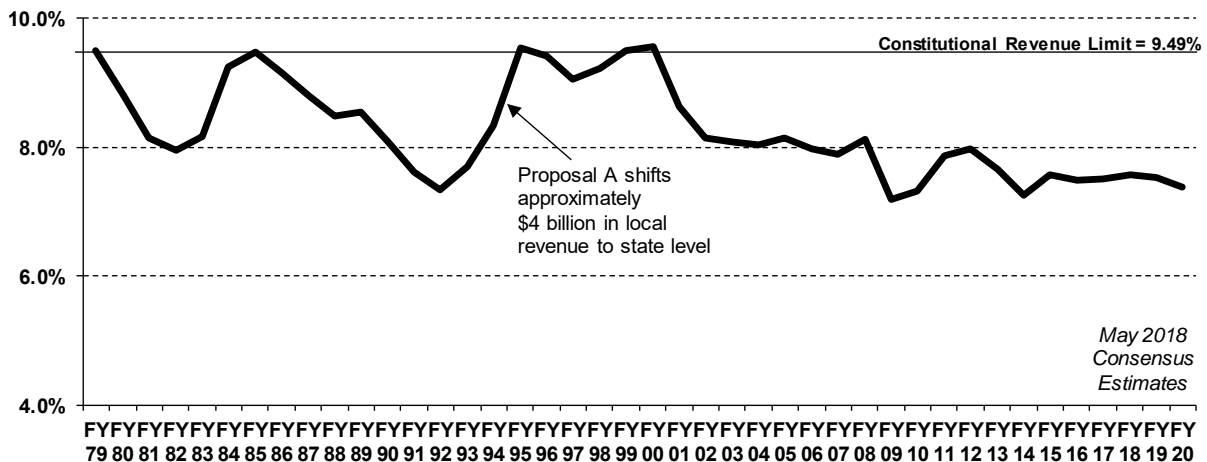
As shown in **Table 6** and **Figure 3**, the FY 2016-17 revenue limit calculation estimates state revenue collections at \$8.5 billion below the revenue limit. State revenue is estimated to be below the limit by \$8.4 billion for FY 2017-18, \$8.8 billion for FY 2018-19, and \$9.9 billion for FY 2019-20.

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

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2016-17</u>	<u>Estimated FY 2017-18</u>	<u>Estimated FY 2018-19</u>	<u>Estimated FY 2019-20</u>
Personal Income				
Calendar Year	<u>CY 2015</u>	<u>CY 2016</u>	<u>CY 2017</u>	<u>CY 2018</u>
Amount	\$427,199	\$439,361	\$450,847	\$470,233
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$40,541.2	\$41,695.4	\$42,785.4	\$44,625.1
Total Revenue Subject to Revenue Limit	\$32,090.7	\$33,263.2	\$33,941.7	\$34,687.8
Amount Under (Over) State Revenue Limit	\$8,450.5	\$8,432.2	\$8,843.7	\$9,937.3

NOTE: Numbers may not add due to rounding.

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



HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2017-18 estimates are based on year-to-date appropriations and HFA revenue and K-12 cost estimates. Final FY 2016-17 figures are included.

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

Table 7
YEAR-END UNRESERVED BALANCE ESTIMATES
(Millions of Dollars)

	<u>Final FY 2016-17</u>	<u>Estimated FY 2017-18</u>
General Fund/General Purpose	\$622.5	\$278.5
School Aid Fund	\$377.4	\$312.2
Budget Stabilization Fund	\$710.0	\$892.6

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



Additional copies of this report can be obtained from:

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