Outline

• Economic Forecast
  Jim Stansell, House Fiscal Agency

• Revenue Estimates for Major Taxes
  David Zin, Senate Fiscal Agency

• Revenue Estimates by Fund
  Jay Wortley, Department of Treasury
GDP Quarterly Growth Rates

Real GDP Growth

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

Source: Bureau of Economic Analysis.

January 2016 Consensus Conference
U.S. Employment Increasing

U.S. Payroll Employment
Thousands

Dec 2015
143,242

Jan 2008
138,365

Feb 2010
129,649

January 2016 Consensus Conference
Light Vehicle Sales at Historically High Levels

Millions of Units

Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

Dec. 2015

Note: Sales rates are shown as an annual average sales rate.
Source: Bureau of Economic Analysis.
January 2016 Consensus Conference
ISM Indices Show Manufacturing Contracting

ISM Manufacturing Index
Dec 2015 = 48.2

ISM Non-Manufacturing Index
Dec 2015 = 55.3

Source: Institute for Supply Management.
January 2016 Consensus Conference
Housing Starts Increasing From Historical Lows

Source: New Privately Owned Housing Units Started, U.S. Department of Commerce.

January 2016 Consensus Conference
Michigan Employment is Increasing

Michigan Payroll Employment
Thousands of Jobs

January 2016 Consensus Conference
Real Estate Transfer Tax Reflects Increased Activity

Year-Over-Year Change in 6 Month Trailing Average

Source: Michigan Department of Treasury.
January 2016 Consensus Conference
GDP Forecasts

Annual Percent Change

<table>
<thead>
<tr>
<th>Year</th>
<th>HFA</th>
<th>SFA</th>
<th>Admin.</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>2.6%</td>
<td>1.9%</td>
<td></td>
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<tr>
<td>2017</td>
<td></td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>2.5%</td>
<td>2.2%</td>
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</tbody>
</table>

January 2016 Consensus Conference
Light Vehicle Sales Forecast

Millions of Units

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>HFA</th>
<th>SFA</th>
<th>Admin.</th>
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</thead>
<tbody>
<tr>
<td>2015</td>
<td>17.4</td>
<td>17.8</td>
<td>18.0</td>
<td>18.1</td>
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<tr>
<td>2016</td>
<td>18.0</td>
<td>18.1</td>
<td>18.1</td>
<td>18.0</td>
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<tr>
<td>2017</td>
<td>18.0</td>
<td>18.0</td>
<td>17.9</td>
<td>17.9</td>
</tr>
<tr>
<td>2018</td>
<td>17.8</td>
<td>17.9</td>
<td>17.9</td>
<td>17.8</td>
</tr>
</tbody>
</table>
Vehicle Sales Up, Big 3 Market Share Stabilizes

Source: Automotive News.
January 2016 Consensus Conference

Average Agency Forecasts
MI Motor Vehicle Production & Employment

January 2016 Consensus Conference
Inflation Remains Low

Detroit Consumer Price Index
Fiscal Year Growth

- Actual

2015
1.1%
-1.1%

2016
1.0%
1.1%
2.4%
2.2%

2017
2.2%
2.2%
2.6%
2.4%

2018

HFA
SFA
Admin.

January 2016 Consensus Conference
Michigan Wage and Salary Employment

Annual Percent Change

Forecast

2015
1.1%
2016
1.2%
1.3%
2017
1.6%
1.4%
1.4%
2018
0.7%
1.0%

HFA  SFA  Admin.
Michigan Job Gains Expected Through 2018

Change in Michigan Wage and Salary Employment
Thousands

Avg.

January 2016 Consensus Conference

Average Agency Forecasts
Forecast of Major Taxes

• Individual Income Tax Annual Payments are expected to decline in FY16 from the large one-time capital gains driven increase in FY15.

• Gasoline prices are not expected to drop again like they did in FY15, so sales tax revenue is expected to grow in FY16 - FY17.

• SET is expected to continue to grow, but it will grow at a slower rate in FY16 due to low inflation.

• MBT net refunds are expected to peak in FY16 and CIT is expected to grow through FY18.
Baseline Income Tax Growth

Fiscal Year Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>HFA</th>
<th>SFA</th>
<th>Admin.</th>
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</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.4%</td>
<td>3.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2017</td>
<td>3.5%</td>
<td>3.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>2018</td>
<td>3.1%</td>
<td>3.3%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Actual 2015: 12.2%
Net Income Tax Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$8.98</td>
<td>$9.03</td>
<td>$9.27</td>
<td>$9.35</td>
<td>$9.52</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>$9.32</td>
<td>$9.52</td>
<td>$9.65</td>
<td>$9.83</td>
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<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Baseline Sales Tax Growth

Fiscal Year Growth

-1.1%

2015
2016
2017
2018

Actual

HFA
SFA
Admin.
Net Sales Tax Revenue Estimates

Fiscal Year
Billions

2015 2016 2017 2018
Actual

$7.25 $7.54 $7.50 $7.59 $7.78 $7.68 $7.87 $8.05 $8.15

HFA SFA Admin.
## Sales Tax Collections Fall in FY 2015

<table>
<thead>
<tr>
<th>Type of Purchase</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>% Chg</th>
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</thead>
<tbody>
<tr>
<td>Gasoline ST</td>
<td>$824.3</td>
<td>$603.6</td>
<td>-26.8%</td>
</tr>
<tr>
<td>MV Purchases ST</td>
<td>$906.3</td>
<td>$925.4</td>
<td>2.1%</td>
</tr>
<tr>
<td>All Other Purchases</td>
<td>$5,624.3</td>
<td>$5,717.4</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,354.9</strong></td>
<td><strong>$7,246.4</strong></td>
<td><strong>-1.5%</strong></td>
</tr>
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</table>

**Source:** Michigan Department of Treasury.

January 2016 Consensus Conference
Net SET Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>HFA</th>
<th>SFA</th>
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<tbody>
<tr>
<td>2015</td>
<td>$1.86</td>
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<tr>
<td>2016</td>
<td>$1.90</td>
<td>$1.89</td>
<td>$1.87</td>
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<tr>
<td>2017</td>
<td>$1.94</td>
<td>$1.94</td>
<td>$1.92</td>
</tr>
<tr>
<td>2018</td>
<td>$2.00</td>
<td>$2.00</td>
<td>$1.98</td>
</tr>
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</table>

January 2016 Consensus Conference
Net CIT/MBT Revenue Estimates

Fiscal Year
Billions

2015 Actual
$0.44

2016
$0.07 $0.13 $0.08

2017
$0.40 $0.42 $0.40

2018
$0.53 $0.53 $0.53

HFA SFA Admin.
Net CIT Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>HFA</th>
<th>SFA</th>
<th>Admin.</th>
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<tbody>
<tr>
<td>2015</td>
<td>$1.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$1.11</td>
<td>$1.14</td>
<td>$1.11</td>
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<tr>
<td>2017</td>
<td>$1.15</td>
<td>$1.16</td>
<td>$1.14</td>
</tr>
<tr>
<td>2018</td>
<td>$1.17</td>
<td>$1.17</td>
<td>$1.17</td>
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Actual

January 2016 Consensus Conference
Net MBT Revenue Estimates

Fiscal Year
Billions

2015 2016 2017 2018
Actual

-$0.64 -$1.03 -$1.00 -$1.03
-$0.74 -$0.74 -$0.74
-$0.64 -$0.64 -$0.64

HFA SFA Admin.
Michigan Business Tax & Certificated Credits

- The MEDC/Treasury system to track certificated credits is working well.
- MEDC notifies Treasury when a business qualifies for a certificated credit.
- Treasury builds this information into their revenue estimates.
- Businesses must file the certificate with Treasury to receive a refund.
- However, some certificates are not filed as soon as expected.
Estimating MBT Net Refunds

- In FY15, MBT net refunds were $112 million short of the May estimate.
- This reflects a timing issue, not a reduction in MBT refunds.
- Most of the $112 million in credits have already been filed in FY16.
- While MBT net refunds were smaller in FY15 by $112 million, they will be up by $112 million in FY16.
Insurance Tax

- Insurance companies pay into several special funds to help pay certain benefits.
- The Insurance Tax provides insurance companies credits for many of these payments.
- PA 204 of 2012 (amended Insurance Code) moved the administration of one of these funds from the Secretary of State to the MAIPF.
- No credit was provided for the payments to the Secretary of State, but payments to a fund administered by the MAIPF has qualified and continues to qualify for a tax credit.
Insurance Tax (continued)

• In FY15, insurance companies began claiming credits for their old and new payments to the MAIPF.
• This reduced insurance tax collections $60 million in FY15 and will reduce them an estimated $80 million in FY16 and after.
GF-GP and School Aid Fund Revenue

- Growth rate comparisons.
- Level comparisons.
- Budget Stabilization Fund calculation.
- Constitutional Revenue Limit calculation.
GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes

Average Agency Forecasts

January 2016 Consensus Conference
GF-GP Net Revenue Growth

Fiscal Year Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
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<tr>
<td></td>
<td></td>
<td>11.3%</td>
<td>-3.5%</td>
<td>3.9%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>2.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td>3.9%</td>
<td>3.9%</td>
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<td></td>
<td></td>
<td></td>
<td>3.5%</td>
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January 2016 Consensus Conference
GF-GP Net Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$10.03</td>
<td>$9.69</td>
<td>$10.07</td>
<td>$10.22</td>
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<td></td>
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<td>$9.95</td>
<td>$10.07</td>
<td>$10.35</td>
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<tr>
<td></td>
<td></td>
<td>$9.96</td>
<td>$10.22</td>
<td>$10.46</td>
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<td></td>
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<td></td>
<td>$10.35</td>
<td>$10.62</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$10.46</td>
<td>$10.71</td>
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January 2016 Consensus Conference
School Aid Fund Net Growth

Fiscal Year Growth

<table>
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<tr>
<th>Year</th>
<th>Actual</th>
<th>HFA</th>
<th>SFA</th>
<th>Admin.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>2.9%</td>
<td>3.0%</td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>2.8%</td>
<td>2.5%</td>
<td>3.2%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>2.9%</td>
<td>2.6%</td>
<td>2.9%</td>
<td></td>
</tr>
</tbody>
</table>

January 2016 Consensus Conference
School Aid Fund Net Revenue Estimates

Fiscal Year
Billions

2015 2016 2017 2018

Actual

$11.75 $12.08 $12.12 $12.18 $12.42 $12.42 $12.57 $12.78 $12.74 $12.93

HFA  SFA  Admin.
Major Revenue Estimate Revisions Compared to May Estimates

• $112 million in MBT refunds were moved from FY15 to FY16.
• Additional credits being claimed by insurance companies is reducing insurance tax: $60 million in FY15 and $80 million in FY16 and after.
• Tax litigation court decisions are reducing use tax $60 million in FY16, $15 million in FY17 and $25 million in FY18 and MBT $18 million in FY16.
Major Revenue Estimate Revisions Compared to May Estimates (continued)

• Larger lottery jackpots will boost lottery revenue an estimated $20 million.
• Newly enacted data center sales and use tax exemption will reduce revenue $11 million in FY16, $15 million in FY17 and $16 million in FY18.
FY 2015 Changes Since May

Change From May Consensus Estimates
Millions

GF-GP
$309.4

School Aid
-$136.1
FY 2016 Changes Since May

Change From May Consensus Estimates
Millions

- $194.3
- $159.9
- $119.0
- $61.5

GF-GP

School Aid

- HFA
- SFA
- Admin
FY 2017 Changes Since May

Change From May Consensus Estimates
Millions

GF-GP

School Aid

- $52.9

- $96.8

$226.4

- $173.9

- $177.4

- $27.3

HFA  SFA  Admin
# Revenue Forecast Comparison

## Millions

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>GF-GP</td>
<td>$9,959</td>
<td>$9,688</td>
<td>$10,348</td>
<td>$10,069</td>
<td>$10,714</td>
<td>$10,455</td>
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<tr>
<td>School Aid</td>
<td>$12,181</td>
<td>$12,083</td>
<td>$12,572</td>
<td>$12,425</td>
<td>$12,934</td>
<td>$12,780</td>
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<tr>
<td>Combined</td>
<td>$22,140</td>
<td>$21,771</td>
<td>$22,919</td>
<td>$22,493</td>
<td>$23,649</td>
<td>$23,235</td>
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<table>
<thead>
<tr>
<th>Revenue</th>
<th>Difference From May 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>GF-GP</td>
<td>$77 ($194) ($64) $226 ($53) $97 --- --- ---</td>
</tr>
<tr>
<td>School Aid</td>
<td>($62) ($160) ($119) $27 ($174) ($177) --- --- ---</td>
</tr>
<tr>
<td>Combined</td>
<td>$16 ($354) ($55) $199 ($227) ($81) --- --- ---</td>
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</table>

### May

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GF-GP</td>
<td>$9,882 $9,882 $9,882 $10,122 $10,122 $10,122 --- --- ---</td>
</tr>
<tr>
<td>School Aid</td>
<td>$12,243 $12,243 $12,243 $12,599 $12,599 $12,599 --- --- ---</td>
</tr>
</tbody>
</table>
Budget Stabilization Fund

• In FY 2016, the Agencies estimate pay-ins from $246 to $265 million.
• In FY 2017, the Agencies estimate pay-ins ranging from $171 to $229 million.
• In FY 2018, the Agencies estimate pay-ins ranging from $0 to $58 million.
• No BSF pay-outs are estimated by any of the Agencies during FY 2016, FY 2017 or FY 2018.
Constitutional Revenue Limit Calculation

Billions

Average Agency Forecasts
Forecast Risks

• International issues (political and economic)
• At what pace will Fed raise interest rates?
• Oil price uncertainty
• How will consumers react to international issues, interest rate increases, oil price changes, etc. and how will this impact sales tax?
• Housing: will more consumers take on financial commitment?
• MBT, CIT, Insurance Tax uncertainty
• Income Tax Annual Payments
Economic and Revenue Forecasts

FY 2016 * FY 2017 * FY 2018

Consensus Revenue Estimating Conference
January 14, 2016