

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2019-20
THROUGH
FY 2021-22**



Mary Ann Cleary, Director

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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2019 through CY 2022. It also presents preliminary General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2018-19, revised revenue estimates for FY 2019-20 and FY 2020-21, and initial estimates for FY 2021-22. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 10, 2020, 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 2022, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

Jim Stansell, Senior Economist, and Benjamin Gielczyk, Associate Director, are the authors of this report. Kathryn Bateson, Administrative Assistant, prepared the report for publication.

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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 2019-20 through FY 2021-22. In developing the U.S. and Michigan forecasts, key macroeconomic data such as employment, interest rates, business investment, light vehicle sales, international trade, oil prices, and consumer spending are examined with the goal of combining these variables along with others into an overall snapshot of the U.S. economy for the past year, current year, and two subsequent years. The key segments for Michigan include the automotive sector, the labor force and employment, wage and salary income, and inflation rates.

After growing at an annualized 2.0% rate during the second quarter of 2019, the national economy improved at a 2.1% real Gross Domestic Product (GDP) growth rate in the third quarter, with growth slowing to a projected 1.4% rate in the fourth quarter. The housing sector continues to expand and light motor vehicle sales reached 17.1 million units in CY 2019, the fifth straight year sales have topped 17 million. However, wage and salary employment is projected to increase at only a 1.6% rate in CY 2019 and slow in subsequent years as the labor market tightens.

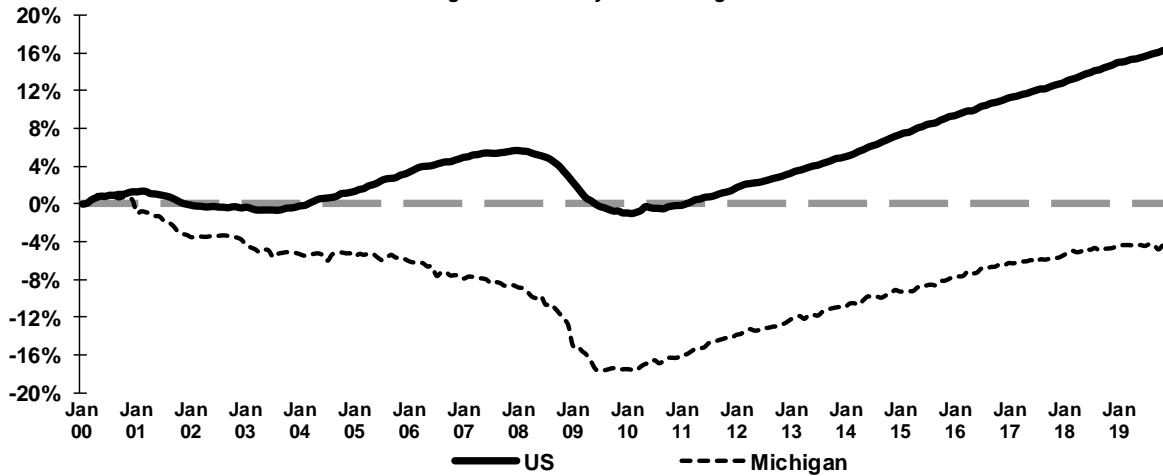
Real GDP growth is expected to decline from an estimated 2.3% rate in CY 2019 to 1.9% in CY 2020, with continued decreases in CY 2021 and CY 2022.

Michigan's economy and state revenue are significantly affected by the strength of the national economy. Through November, Michigan's wage and salary employment has grown by about 23,600 jobs in 2019, far below the 45,200 jobs during the first eleven months of 2018.

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 November 2019.

Figure 1
Total Wage and Salary Employment
 Percent Change From January 2000 Through November 2019



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 43-month span of job growth that began in October 2010, U.S. wage and salary employment surpassed the pre-recession peak, and as of November 2019, the national economy has experienced 110 consecutive months of job growth. During this span, job growth averaged more than 199,000 per month, and as of November 2019, total employment was roughly 16.2% 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.

Between CY 2008 and CY 2010, about 400,000 additional jobs were lost, although employment began to increase during the latter part of CY 2010. During CY 2011 and CY 2012, roughly 88,000 jobs were added each year before employment increases slowed to about 75,000 in CY 2013, 72,000 in CY 2014, and 61,600 in CY 2015. Following a strong gain of 77,000 jobs in CY 2016, non-farm employment growth slowed to roughly 50,000 in both CY 2017 and CY 2018. Job growth has further

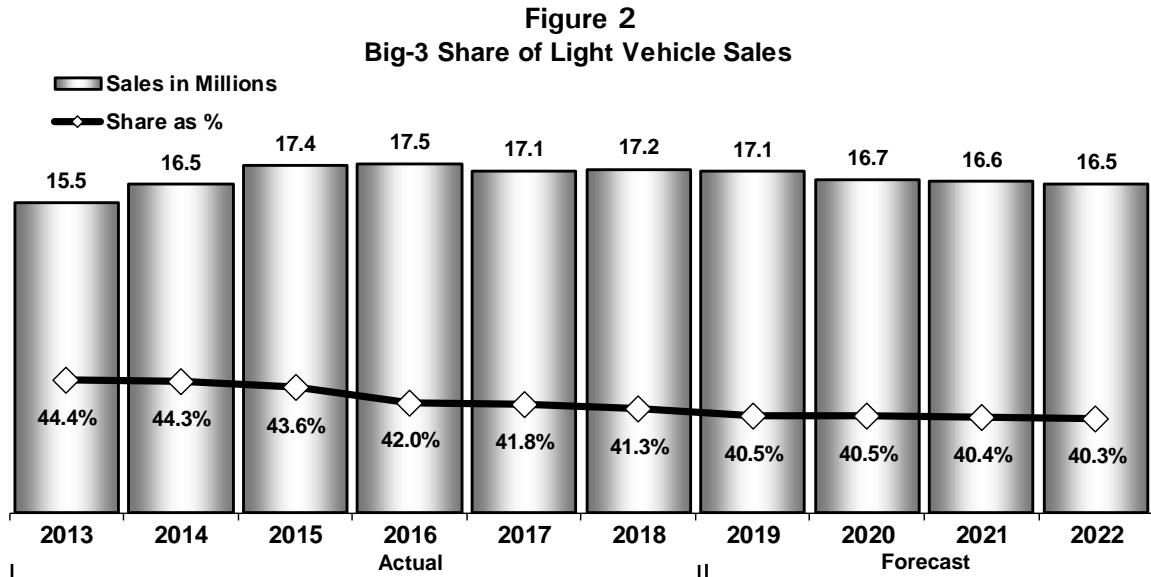
slowed over the first 11 months of 2019 as only 23,600 new jobs have been added. And, despite the employment increases throughout most of the last decade, there are still about 243,000 fewer workers than in January 2000.

U.S. and Michigan Motor Vehicle Industry

Early releases indicate that light motor vehicle sales totaled 17.1 million units in CY 2019, a decline of 0.6% from the 17.2 million vehicles sold in CY 2018. Light motor vehicle sales are forecast to drop back to 16.7 million units in CY 2020, and continue slowing to 16.6 million units in CY 2021 and 16.5 million units in CY 2022.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years. As shown in **Figure 2**, the market share of the Big-3 auto manufacturers hovered around 40.5% in CY 2019 and is expected to remain essentially flat near 40.4% throughout 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 2019, the Big-3 is expected to sell just over 6.93 million vehicles, which would translate to a 2.4% decrease from CY 2018. It is projected that the Big-3 will sell approximately 6.76 million vehicles in CY 2020, about 6.70 million in CY 2021 and, 6.65 million in CY 2022 as both total light vehicle sales and the Big-3 share decline over the forecast horizon.



U.S. Forecast Highlights

Real GDP growth is forecast to increase 1.9% in CY 2020. It is forecast to increase 1.8% in CY 2021, and grow 1.6% in CY 2022.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 1.8% in CY 2020, 1.9% in CY 2021, and 2.2% in CY 2022.

Light vehicle sales of 17.1 million units are expected in CY 2019, but are forecast to tail off to 16.7 million units in CY 2020, 16.6 million units in CY 2021, and 16.5 million units in CY 2022. The import share of light vehicles is forecast to remain relatively constant at about 22.6% throughout the forecast.

Wage and salary employment growth is expected to be 1.6% in CY 2019; it is forecast to increase 1.3% in CY 2020, 1.0% in CY 2021, and 0.6% in CY 2022 as the labor force tightens.

The national unemployment rate is expected to be 3.6% in CY 2019; it is forecast to decline to 3.5% in CY 2020 and CY 2021 before ticking upward to 3.7% in CY 2022 as employment growth slows.

Interest rates on three-month T-bills are expected to decrease from 2.1% in CY 2019 to 1.4% in CY 2020 as the Federal Reserve delays any projected rate cuts until CY 2021. The rate is projected to increase to 1.8% in CY 2021 and remain at 1.9% in CY 2022 as the Fed begins slowly raising rates.

Michigan Forecast Highlights

Michigan wage and salary employment growth is expected to be 0.6% in CY 2019, and is expected to remain at 0.6% in CY 2020 before slowing to 0.5% in CY 2021 and 0.2% in CY 2022.

Michigan's unemployment rate is expected to be 4.1% in CY 2019; it is forecast to decrease to 3.8% in CY 2020 and 3.7% in CY 2021 before increasing to 3.9% CY 2022.

Michigan personal income is expected to increase by 3.8% in CY 2019 before dipping to 3.6% in CY 2020, increasing slightly to 3.7% in CY 2021, and then inching back down to 3.6% in CY 2022.

Michigan wage and salary income is expected to increase 2.8% in CY 2019; it is forecast to increase 4.0% in both CY 2020 and CY 2021 as tight labor markets exert upward pressure on wages. As unemployment rises in CY 2020, wage and salary income is projected to grow at a slower 3.7% rate in CY 2022.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 1.8% in CY 2020, 1.7% in CY 2021, and 2.0% in CY 2022.

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

Table 1
ECONOMIC FORECAST VARIABLES

	Calendar 2018 Actual	Calendar 2019 Estimated	% Change from Prior Year	Calendar 2020 Estimated	% Change from Prior Year	Calendar 2021 Estimated	% Change from Prior Year	Calendar 2022 Estimated	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2012 dollars)	\$18,638.2	\$19,064.2	2.3%	\$19,435.8	1.9%	\$19,783.1	1.8%	\$20,102.0	1.6%
Implicit Price Deflator GDP (2012 = 100)	110.4	112.3	1.7%	114.1	1.6%	116.2	1.8%	118.6	2.0%
Personal Consumption Deflator (2012 = 100)	108.139	109.661	1.4%	111.415	1.6%	113.192	1.6%	115.176	1.8%
Consumer Price Index (1982-84 = 100)	251.107	255.503	1.8%	260.097	1.8%	265.060	1.9%	270.900	2.2%
Consumer Price Index (FY) (1982-84 = 100)	249.749	254.377	1.9%	258.998	1.8%	263.729	1.8%	269.434	2.2%
Federal Funds Rate Interest Rate (Percent)	0.7%	2.2%		1.6%		1.8%		2.3%	
3-month Treasury Bills Interest Rate (Percent)	1.9%	2.1%		1.4%		1.8%		1.9%	
Aaa Corporate Bonds Interest Rate (Percent)	3.9%	3.4%		3.0%		3.1%		3.2%	
Unemployment Rate (Percent)	3.9%	3.6%		3.5%		3.5%		3.7%	
Wage and Salary Employment (Millions)	149.1	151.4	1.6%	153.4	1.3%	155.0	1.0%	155.9	0.6%
Housing Starts (Thousands of units)	1.250	1.270	1.6%	1.278	0.6%	1.276	-0.1%	1.272	-0.3%
Light Vehicle Sales (Millions of units)	17.2	17.1	-0.6%	16.7	-2.4%	16.6	-0.6%	16.5	-0.6%
Passenger Car Sales (Millions of units)	5.3	4.8	-9.4%	4.1	-13.8%	3.7	-11.0%	3.4	-8.3%
Light Truck Sales (Millions of units)	11.9	12.3	3.1%	12.6	2.3%	12.9	2.8%	13.1	1.6%
Import Share of Light Vehicles (Percent)	23.1%	22.4%		22.6%		22.6%		22.5%	
Big-3 Share of Light Vehicle Sales (Percent)	41.3%	40.5%		40.5%		40.4%		40.3%	
Personal Income (Billions of current dollars)	\$17,819.2	\$18,620.7	4.5%	\$19,352.6	3.9%	\$20,201.6	4.4%	\$21,091.3	4.4%
Real Disposable Income (Billions of 2012 dollars)	\$14,556.2	\$15,016.2	3.2%	\$15,504.2	3.2%	\$15,909.7	2.6%	\$16,323.5	2.6%
Michigan									
Wage and Salary Employment (Thousands)	4,419.4	4,445.9	0.6%	4,471.4	0.6%	4,493.9	0.5%	4,503.6	0.2%
Transportation Equipment Employment (Thousands)	193.0	193.1	0.1%	191.0	-1.1%	190.6	-0.2%	191.1	0.3%
Unemployment Rate (Percent)	4.1%	4.1%		3.8%		3.7%		3.9%	
Personal Income (Millions of current dollars)	\$484,030	\$502,425	3.8%	\$520,587	3.6%	\$539,871	3.7%	\$559,323	3.6%
Real Personal Income (Millions of 1982-84 dollars)	\$208,397	\$214,000	2.7%	\$217,780	1.8%	\$222,075	2.0%	\$225,567	1.6%
Real Disposable Income (Millions of 1982-84 dollars)	\$185,289	\$190,083	2.6%	\$193,430	1.8%	\$197,079	1.9%	\$200,140	1.6%
Wage and Salary Income (Millions of current dollars)	\$240,365	\$247,096	2.8%	\$256,979	4.0%	\$267,259	4.0%	\$277,147	3.7%
Detroit Consumer Price Index (1982-84 = 100)	232.261	234.773	1.1%	239.031	1.8%	243.095	1.7%	247.957	2.0%
Detroit Consumer Price Index (FY) (1982-84 = 100)	231.370	234.016	1.1%	238.149	1.8%	241.978	1.6%	246.724	2.0%



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, and variations in the underlying factors can exert either optimistic or pessimistic influences on the forecast. That said, external forces have created far more volatility in the underlying factors than under more typical circumstances, and in almost all cases, the existing uncertainties represent downside risks. Some of the more prevalent risks are highlighted below.

Monetary Policy

The Federal Reserve officially lowered interest rates by 25 basis points three times in 2019. No rate changes are anticipated in 2020, although two 25 basis point increases are forecast for 2021, followed by an additional 25 basis point increase in 2022. If inflation rates remain near 2% and economic growth continues, albeit at a slower pace, the Fed likely would follow the forecasted rate path. If the United States faces any market turmoil, the Fed may feel the need to lower interest rates further. However, should external forces such as increasing oil prices or a pickup in inflation emerge, increases in the federal funds rate may be necessary.

Manufacturing Sector

Manufacturing continues to be Michigan's largest economic sector, comprising 20.7% of the state GDP and one out of every six private sector employees. Despite becoming more diversified in recent years, Michigan manufacturing remains heavily concentrated in automobile manufacturing. While historically high light vehicle sales continued in 2019, with 17.1 million units sold, declining sales are forecast. In addition, the Big-3 share of light vehicle sales has dropped from roughly 46% in 2011 to about 40.4% throughout the forecast. Any further weakening or reduction in Big-3 market share would create downside risks for Michigan's economy. Factors creating forecast uncertainty are the move to electrification and autonomous vehicles, the continuing shift to light trucks from passenger cars, and trade concerns such as new auto tariffs and the new United States Mexico Canada Agreement. Manufacturing, as measured by the Institute for Supply Management's ISM Index, has contracted nationally for five consecutive months, and recent news that Boeing has suspended production of the 737 Max indicate a weakening manufacturing sector nationally.

Global Economic Conditions

Global economic forecasts show continued, but slowing, growth. However, downside risks continue to dominate the outlook. Contributing factors include ongoing trade tensions; slowing economies in China, Europe, and India; the United Kingdom's scheduled departure from the European Union; and historically high global debt (corporate, national, and household). Additionally, with interest rates already low in much of the world, central banks would not have a lot of room to use monetary policy to counter an economic downturn leaving fiscal policy to play a more active role. That said, the availability of a more active fiscal policy in this scenario is uncertain.



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 January 2020 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the May 2019 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, the budget stabilization fund (BSF), and the state revenue limit calculation.

Baseline and Net GF/GP and SAF Revenue Estimates

Table 2 reports GF/GP and SAF revenue in terms of baseline and net revenue. 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 preliminary total baseline GF/GP and SAF revenue was \$25.9 billion in FY 2018-19. It is forecast to increase 1.4% in FY 2019-20, 2.8% in FY 2020-21, and 2.6% in FY 2021-22.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary total net GF/GP and SAF revenue was \$24.7 billion in FY 2018-19, which would be a 1.4% increase from FY 2017-18. It is forecast to increase 1.0% in FY 2019-20, 2.5% in FY 2020-21, and 2.8% in FY 2021-22.

Table 2 also shows the May 2019 adjusted consensus estimates and the recommended revisions to these estimates for FY 2018-19 through FY 2020-21. The May 2019 adjusted consensus estimates include the May 2019 consensus estimates plus enacted tax changes since May 2019.

Preliminary FY 2018-19 figures suggest an increase of \$327.7 million from the May 2019 adjusted consensus estimates, due in part to strong growth in withholding payments, corporate income tax collections, and lower than projected Michigan Business Tax refunds.

The recommended revision for FY 2019-20 is an increase of \$282.9 million, driven by higher than anticipated sales tax and corporate income tax revenue. Finally, the recommended revision for FY 2020-21 is an increase of \$416.5 million, reflecting the ongoing impact of prior year revenue trends.

GF/GP Revenue by Source

GF/GP Tax Revenue

Relative to FY 2017-18, GF/GP tax revenue increased 1.4% to \$10,724.1 million in FY 2018-19. Stronger growth in corporate income tax revenue and smaller Michigan Business Tax refunds more than offset reduced use tax and insurance premiums tax collections, leading to an increase in net GF/GP tax revenue of \$143.4 million. GF/GP tax revenue in FY 2019-20 is estimated to be \$10,632.6 million, a decrease of \$91.5 million, as the income tax revenue earmark to the Transportation Fund increases. GF/GP tax revenue will increase by \$194.0 million to \$10,826.6 million in FY 2020-21. GF/GP tax revenue is estimated to increase 3.3% in FY 2021-22 as the income tax earmarks stabilize.

Total GF/GP Net Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to be appropriated. Preliminary net GF/GP revenue is expected to be \$11,104.1 million in FY 2018-19. In FY 2019-20 it is forecast to be \$10,959.2 million, a decrease of \$144.9 million, and \$11,166.7 million in FY 2020-21, an increase of \$207.5 million. Net GF/GP revenue is estimated to increase 3.3% in FY 2021-22.

Net GF/GP revenue estimates are reduced by \$465.9 million for FY 2019-20, \$491.5 million for FY 2020-21, and \$521.3 million for FY 2021-22 due to the diversion of use tax revenue for personal property tax reimbursement to local units of government. In addition, \$468.0 million of income tax revenue is diverted to the Michigan Transportation Fund in FY 2019-20 as part of the enacted roads package. An additional \$600.0 million will be diverted in FY 2020-21 and subsequent years.

SAF Revenue by Source

Total Net SAF Revenue

Preliminary net SAF revenue is anticipated to increase 1.9% to \$13,557.5 million in FY 2018-19. Net SAF revenue is forecast to be \$13,940.4 million in FY 2019-20, an increase of \$382.9 million. Net SAF revenue is estimated to increase 2.9% in FY 2020-21 and 2.4% in FY 2021-22.

Table 2
HFA JANUARY 2020 REVENUE ESTIMATES FOR FY 2019-20 THROUGH FY 2021-22
(Millions of Dollars)

	<u>Preliminary</u> <u>FY 2018-19</u>	<u>HFA Est.</u> <u>FY 2019-20</u>	<u>HFA Est.</u> <u>FY 2020-21</u>	<u>HFA Est.</u> <u>FY 2021-22</u>	<u>FY 2019-20</u> <u>% Change</u>	<u>FY 2020-21</u> <u>% Change</u>	<u>FY 2021-22</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$12,316.5	\$12,411.9	\$12,803.3	\$13,172.5	0.8%	3.2%	2.9%
SAF	13,614.7	13,888.5	14,242.5	14,579.8	2.0%	2.5%	2.4%
Total	\$25,931.2	\$26,300.4	\$27,045.9	\$27,752.3	1.4%	2.8%	2.6%
<u>Net</u>							
GF/GP	\$11,104.1	\$10,959.2	\$11,166.7	\$11,536.8	-1.3%	1.9%	3.3%
SAF	13,557.5	13,940.4	14,349.7	14,694.4	2.8%	2.9%	2.4%
Total	\$24,661.6	\$24,899.6	\$25,516.5	\$26,231.2	1.0%	2.5%	2.8%
<u>May 2019 Adjusted Consensus¹</u>							
<u>Net</u>							
GF/GP	\$10,851.6	\$10,777.0	\$10,920.2				
SAF	13,482.3	13,839.7	14,179.7				
Total	\$24,333.9	\$24,616.7	\$25,099.9				
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$252.5	\$182.2	\$246.4				
SAF	75.2	100.7	170.0				
Total	\$327.7	\$282.9	\$416.5				

NOTE: Numbers may not add due to rounding.

¹ The May 2019 adjusted consensus estimate includes the May 2019 consensus estimate plus enacted tax changes since May 2019.

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

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2019-20		FY 2020-21		FY 2021-22	
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$7,252.5	\$7,174.2	\$7,301.2	\$7,543.9	(\$78.3)	-1.1%	\$127.0	1.8%	\$242.7	3.3%
Sales Tax	1,277.3	1,359.6	1,403.9	1,434.6	82.3	6.4%	44.3	3.3%	30.7	2.2%
Use Tax	749.0	748.8	753.2	757.2	(0.2)	-0.0%	4.4	0.6%	4.0	0.5%
Michigan Business Tax	(511.5)	(641.0)	(643.9)	(598.1)	(129.5)	25.3%	(2.9)	0.5%	45.8	-7.1%
Corporate Income Tax	1,278.1	1,203.9	1,188.7	1,210.0	(74.2)	-5.8%	(15.2)	-1.3%	21.3	1.8%
Insurance	314.9	337.0	362.0	367.0	22.1	7.0%	25.0	7.4%	5.0	1.4%
Other GF/GP Taxes	363.8	450.2	461.6	473.6	86.4	23.7%	11.4	2.5%	12.1	2.6%
GF/GP Net Tax Revenue	\$10,724.1	\$10,632.6	\$10,826.6	\$11,188.2	(\$91.5)	-0.9%	\$194.0	1.8%	\$361.6	3.3%
Non-Tax Revenue	380.0	326.6	340.1	348.6	(53.4)	-14.1%	13.5	4.1%	8.5	2.5%
Total GF/GP Net Revenue	\$11,104.1	\$10,959.2	\$11,166.7	\$11,536.8	(\$144.9)	-1.3%	\$207.5	1.9%	\$370.1	3.3%

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)

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2019-20		FY 2020-21		FY 2021-22	
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Sales Tax	\$6,008.1	\$6,332.6	\$6,545.3	\$6,695.2	\$324.5	5.4%	\$212.7	3.4%	\$149.9	2.3%
Use Tax	600.0	610.3	625.3	641.5	10.3	1.7%	15.0	2.5%	16.2	2.6%
Income Tax	2,845.1	2,858.8	2,946.5	3,036.8	13.7	0.5%	87.7	3.1%	90.3	3.1%
State Education Tax	2,113.2	2,170.0	2,230.0	2,290.0	56.8	2.7%	60.0	2.8%	60.0	2.7%
Lottery/Casinos	1,187.9	1,121.0	1,131.9	1,143.7	(66.9)	-5.6%	10.9	1.0%	11.8	1.0%
Tobacco Tax	327.5	332.5	324.9	318.6	5.0	1.5%	(7.6)	-2.3%	(6.3)	-1.9%
Real Estate Transfer Tax	350.1	365.0	375.0	385.0	14.9	4.3%	10.0	2.7%	10.0	2.7%
Other Taxes	125.6	150.2	170.7	183.5	24.6	19.6%	20.5	13.6%	12.8	7.5%
SAF Net Revenue	\$13,557.5	\$13,940.4	\$14,349.7	\$14,694.4	\$382.9	2.8%	\$409.3	2.9%	\$344.6	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. **Table 5** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2021-22. Estimates include the impact of 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.

The BSF ending fund balance at the end of FY 2018-19 was \$1,148.6 million. The statutory BSF trigger calculation, based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue, indicates no pay-ins for FY 2019-20 or FY 2020-21, and a \$2.2 million pay-in for FY 2021-22. However, because a transfer to the BSF (other than the required \$17.5 million already identified) must be appropriated, the calculated pay-ins are not assumed.

After adjusting for the required \$17.5 million deposits and estimating interest earnings, the year-end balance is estimated at \$1,189.1 million for FY 2019-20, \$1,231.4 million for FY 2020-21, and \$1,275.3 million for FY 2021-22.

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	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.5	\$0.0	\$13.5	\$1,006.0
2018-19	\$117.5	\$0.0	\$25.1	\$1,148.6
2019-20*	\$17.5	\$0.0	\$23.0	\$1,189.1
2020-21*	\$17.5	\$0.0	\$24.8	\$1,231.4
2021-22*	\$17.5	\$0.0	\$26.4	\$1,275.3

* 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 a 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.

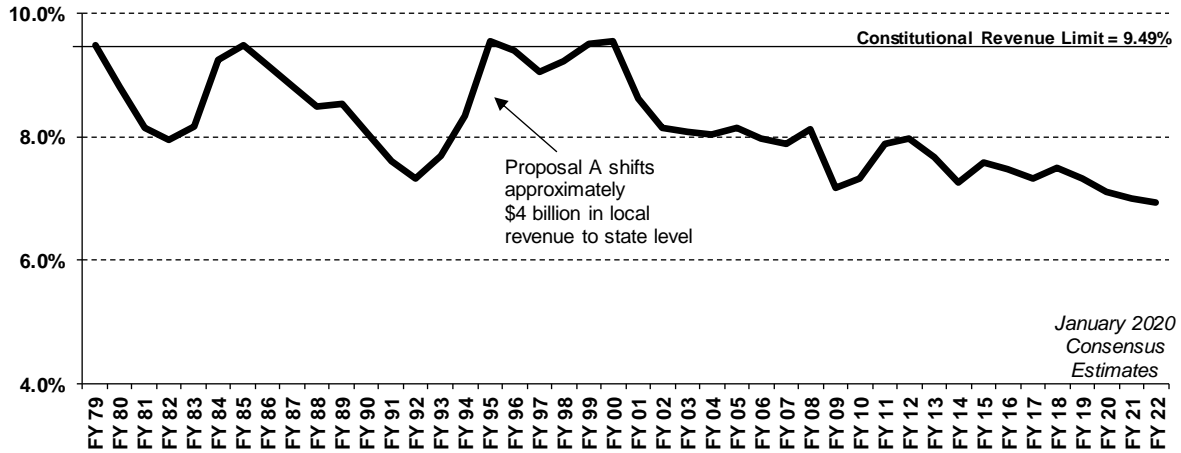
As shown in **Table 6** and **Figure 3**, the FY 2018-19 revenue limit calculation is expected to show state revenue collections at \$10.0 billion below the revenue limit. For FY 2019-20, state revenue is estimated to be below the limit by \$11.6 billion. For FY 2020-21 and FY 2021-22, state revenue is estimated to remain well below the revenue limit – by \$12.5 billion and \$13.3 billion, respectively.

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

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2018-19</u>	<u>Estimated FY 2019-20</u>	<u>Estimated FY 2020-21</u>	<u>Estimated FY 2021-22</u>
Personal Income				
Calendar Year	<u>CY 2017</u>	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>
Amount	\$461,486	\$484,030	\$502,425	\$520,587
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$43,795.0	\$45,934.4	\$47,680.1	\$49,403.7
Total Revenue Subject to Revenue Limit	\$33,785.5	\$34,346.9	\$35,211.7	\$36,100.7
Amount Under (Over) State Revenue Limit	\$10,009.5	\$11,587.6	\$12,468.5	\$13,303.0

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 2019-20 estimates are based on year-to-date appropriations and HFA revenue and K-12 cost estimates. Preliminary FY 2018-19 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>Preliminary FY 2018-19</u>	<u>Estimated FY 2019-20</u>
General Fund/General Purpose	\$822.3	\$524.4
School Aid Fund	\$176.9	\$262.6
Budget Stabilization Fund	\$1,148.6	\$1,189.1

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:

House Fiscal Agency

P.O. Box 30014

Lansing, MI 48909-7514

(517) 373-8080

www.house.mi.gov/hfa