

Economic and Revenue Forecasts

FY 2015 * FY 2016 * FY 2017



Consensus Revenue Estimating Conference
May 15, 2015

May 2015 Consensus Conference

Outline

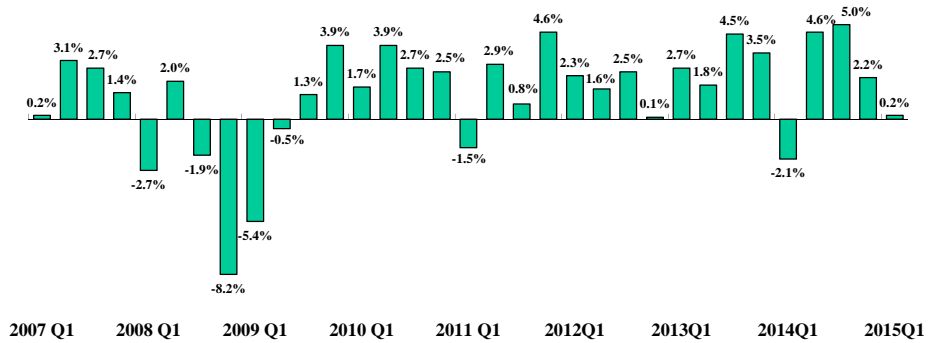
- **Economic Forecast** – David Zin,
Senate Fiscal Agency
- **Revenue Estimates for Major Taxes** – Jay Wortley,
Department of Treasury
- **Revenue Estimates by Fund** – Jim Stansell,
House Fiscal Agency

May 2015 Consensus Conference

2

GDP Quarterly Growth Rates

Real GDP Growth



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

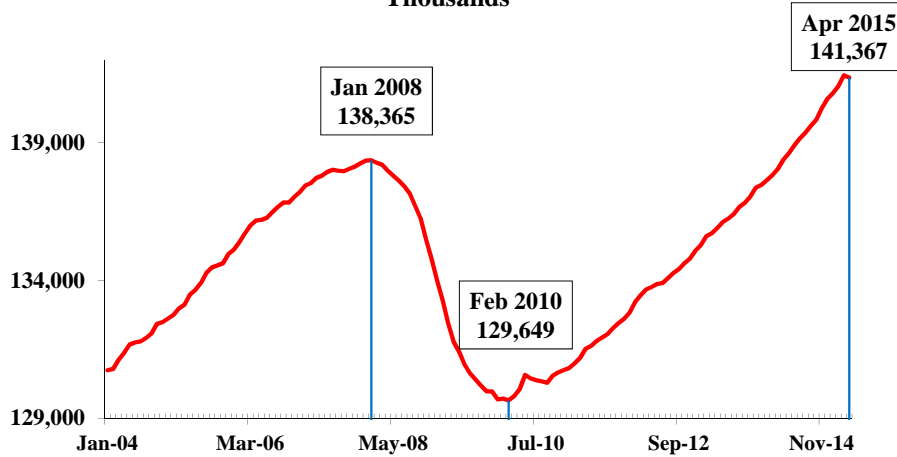
Source: Bureau of Economic Analysis.

May 2015 Consensus Conference

3

U.S. Employment Increasing

U.S. Payroll Employment Thousands



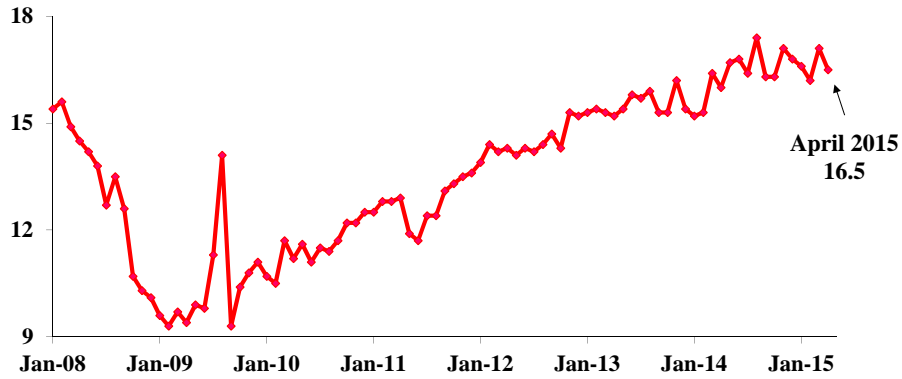
Source: Bureau of Labor Statistics.

May 2015 Consensus Conference

4

Light Vehicle Sales Highest in 9 Years

Millions of Units



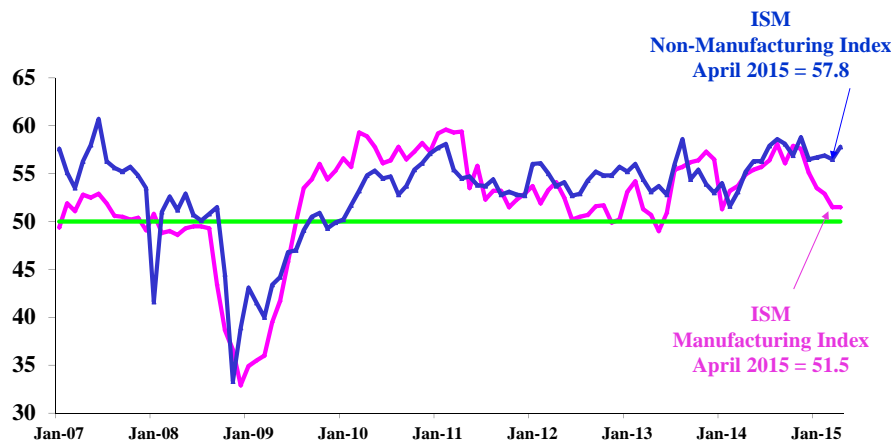
Note: Sales rates are shown as an annual average sales rate.

Source: Bureau of Economic Analysis.

May 2015 Consensus Conference

5

ISM Indices Show Expansion

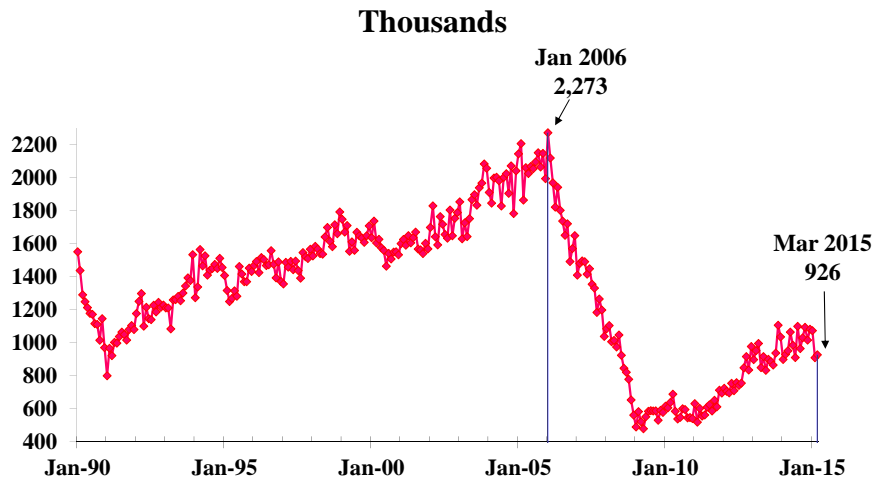


Source: Institute for Supply Management.

May 2015 Consensus Conference

6

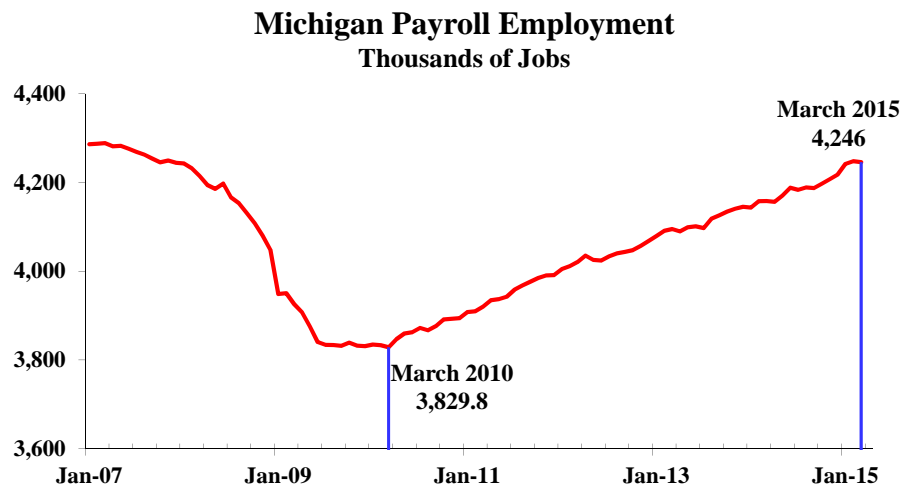
Housing Starts Increasing From Historical Lows



Source: New Privately Owned Housing Units Started, U.S. Department of Commerce.
May 2015 Consensus Conference

7

Michigan Employment is Increasing

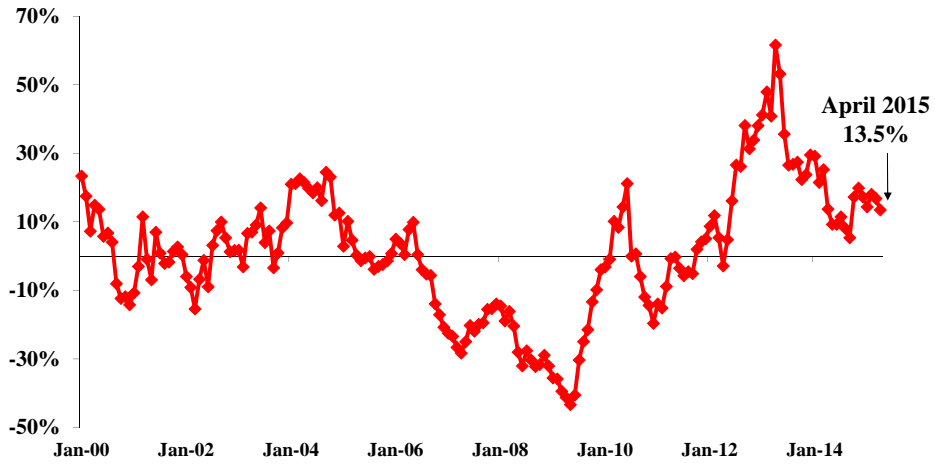


Source: Bureau of Labor Statistics.
May 2015 Consensus Conference

8

Real Estate Transfer Tax Reflects Increased Activity

Year-Over-Year Change in 6 Month Trailing Average

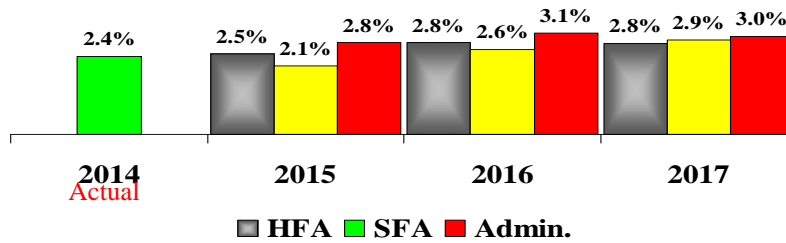


Source: Michigan Department of Treasury.
 May 2015 Consensus Conference

9

GDP Forecasts

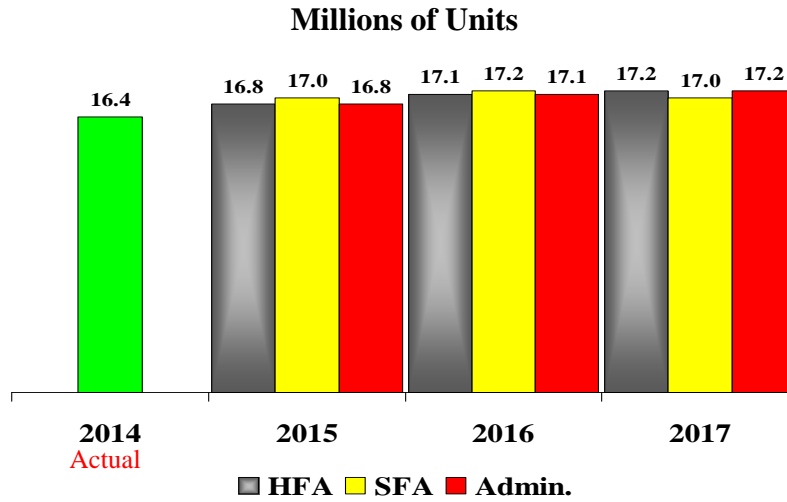
Annual Percent Change



May 2015 Consensus Conference

10

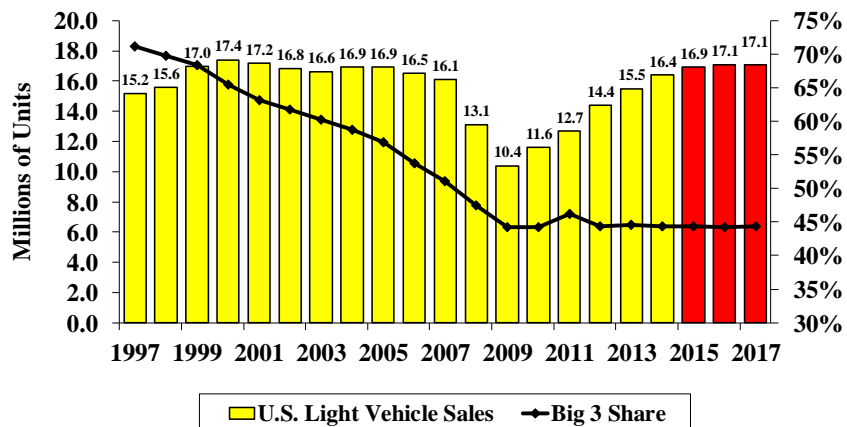
Light Vehicle Sales Forecast



May 2015 Consensus Conference

11

Vehicle Sales Up, Big 3 Market Share Stabilizes



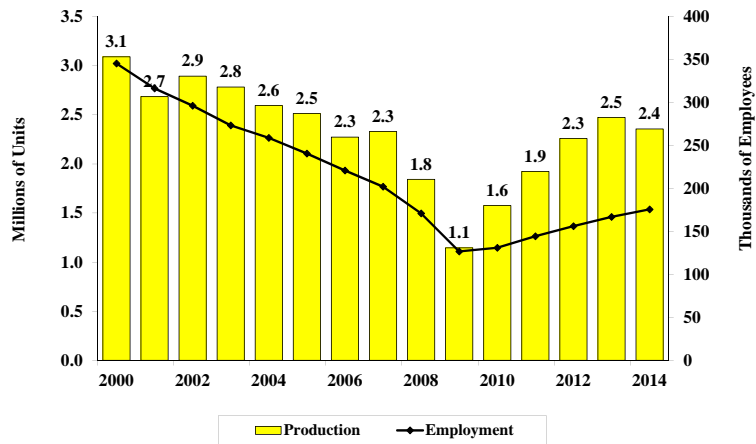
Source: Automotive News.

May 2015 Consensus Conference

Average Agency Forecasts

12

MI Motor Vehicle Production & Employment

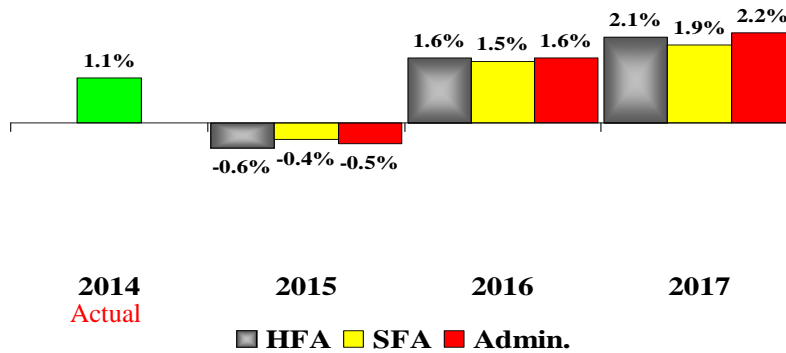


Source: Michigan Department of Treasury & U.S. Bureau of Labor Statistics.
May 2015 Consensus Conference

13

Inflation Remains Low

Detroit Consumer Price Index Fiscal Year Growth

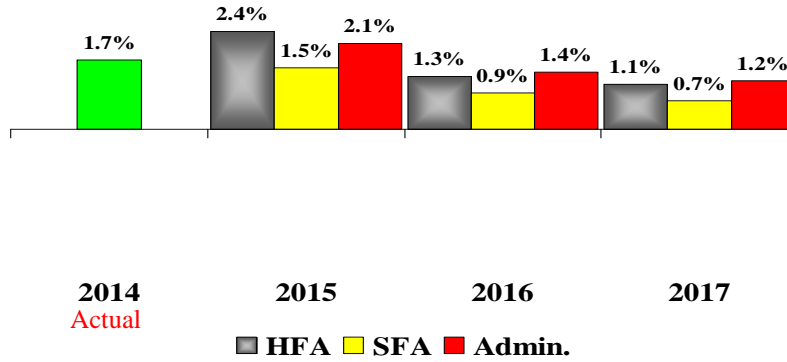


May 2015 Consensus Conference

14

Michigan Wage and Salary Employment

Annual Percent Change

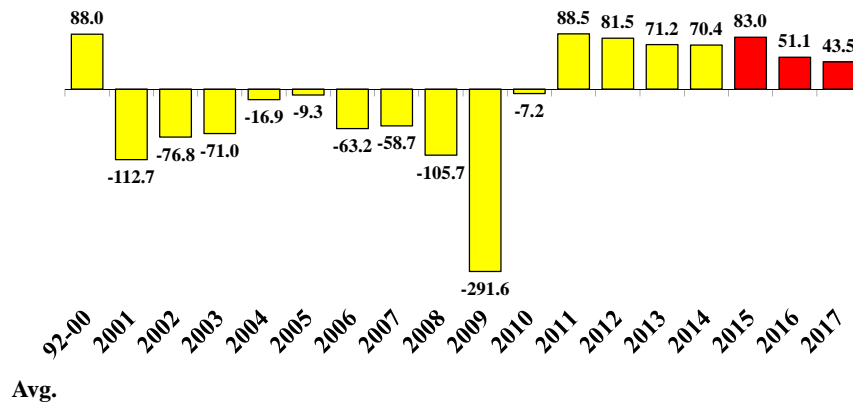


May 2015 Consensus Conference

15

Michigan Job Gains Expected Through 2017

Change in Michigan Wage and Salary Employment Thousands



May 2015 Consensus Conference

Average Agency Forecasts

16

Forecast of Major Taxes

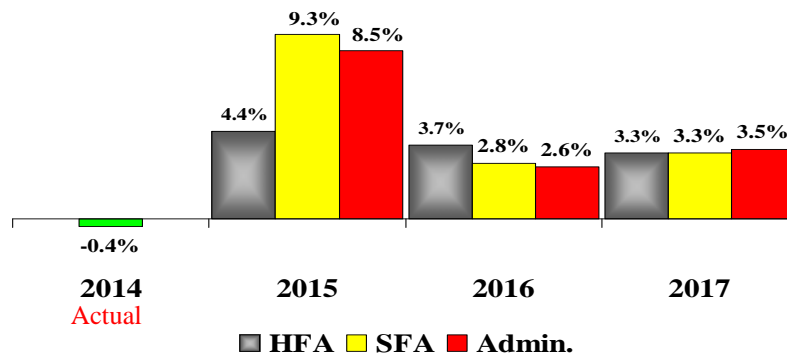
- Individual Income Tax revenue is expected to increase each year due to continued growth in employment and earnings.
- The drop in gasoline prices is expected to slow the growth in sales tax receipts.
- SET is expected to continue to grow, but the rate of growth will be slowed in FY16 by low inflation.
- MBT net refunds are expected to peak in FY16 and CIT is expected to grow through FY17.

May 2015 Consensus Conference

17

Baseline Income Tax Growth

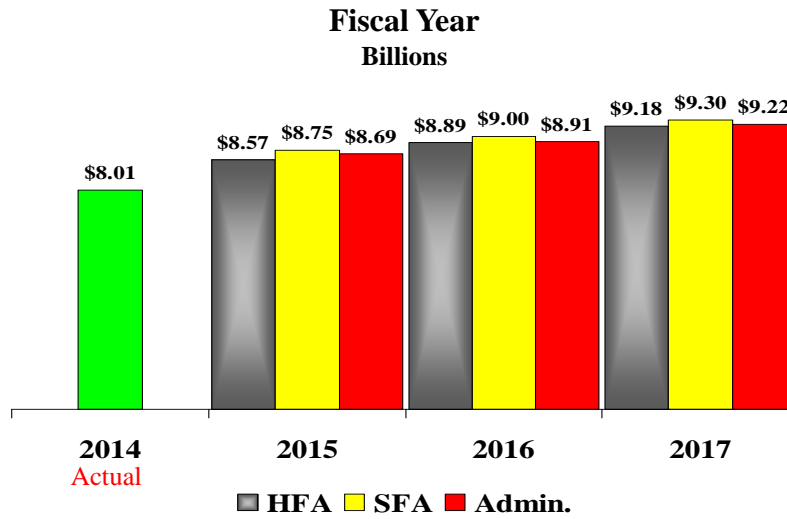
Fiscal Year Growth



May 2015 Consensus Conference

18

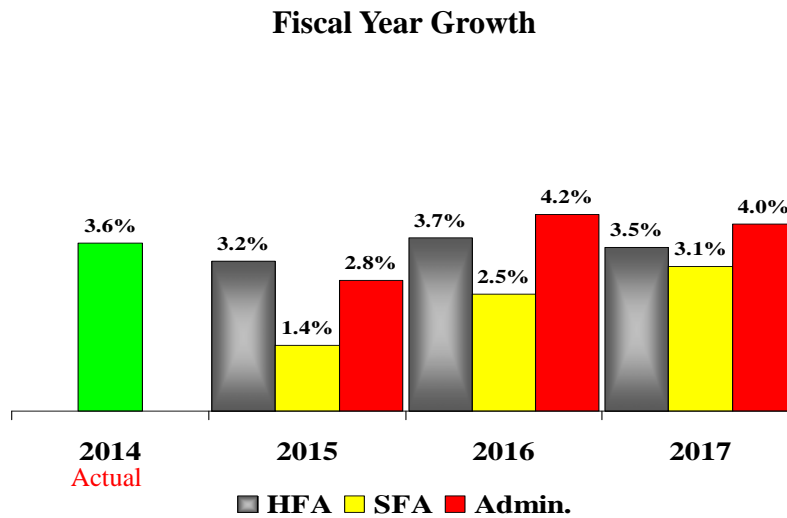
Net Income Tax Revenue Estimates



May 2015 Consensus Conference

19

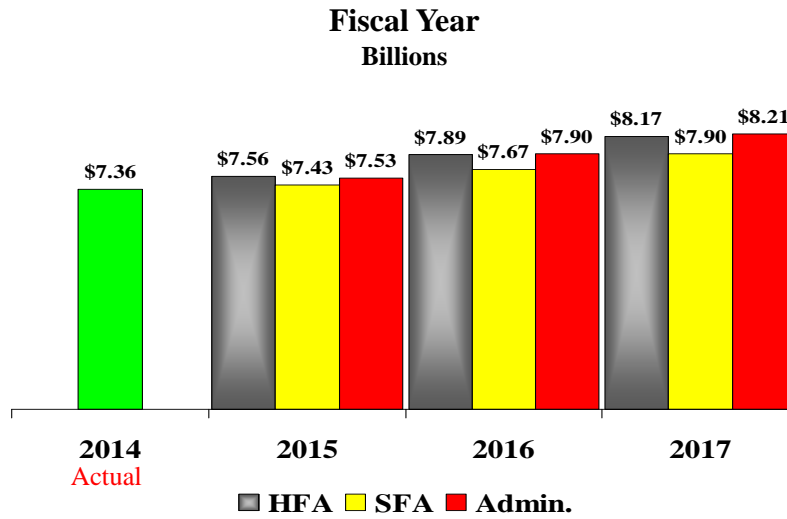
Baseline Sales Tax Growth



May 2015 Consensus Conference

20

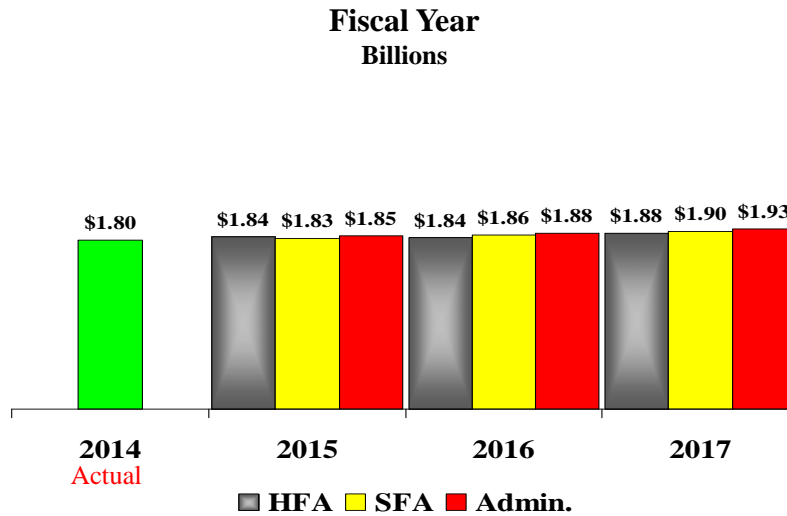
Net Sales Tax Revenue Estimates



May 2015 Consensus Conference

21

Net SET Revenue Estimates

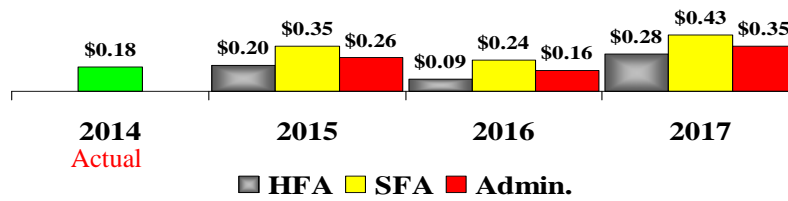


May 2015 Consensus Conference

22

Net CIT/MBT Revenue Estimates

Fiscal Year
Billions

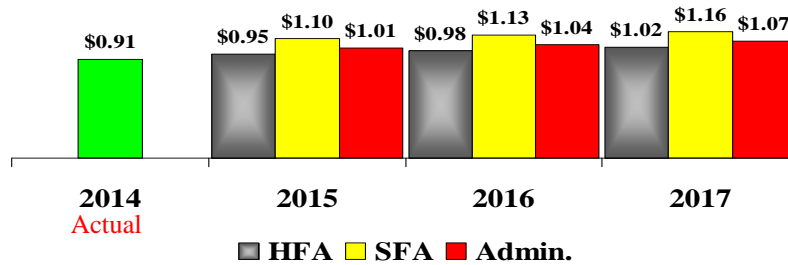


May 2015 Consensus Conference

23

Net CIT Revenue Estimates

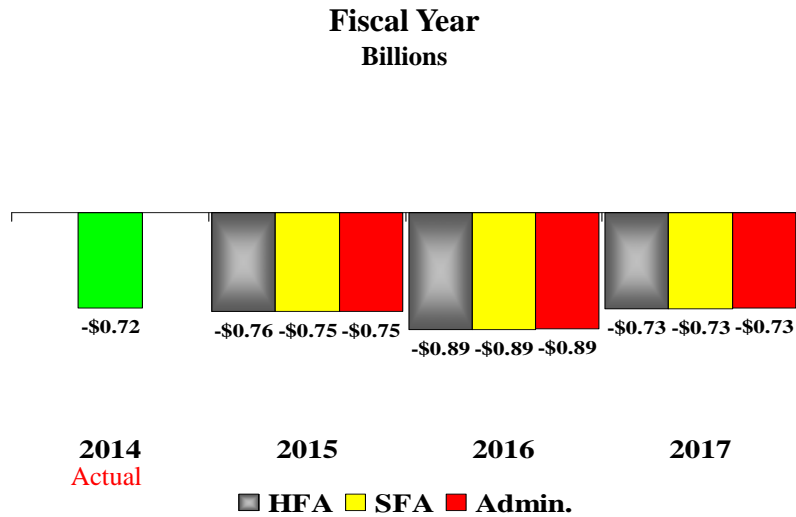
Fiscal Year
Billions



May 2015 Consensus Conference

24

Net MBT Revenue Estimates



May 2015 Consensus Conference

25

Michigan Business Tax & Certificated Credits

- The MBT was repealed in 2012 for most business taxpayers and replaced with the CIT.
- Taxpayers awarded certificated credits before 2012 may still pay the MBT and claim their credits.
- In FY 2014, MBT revenue totaled a negative \$723 million (refunds/credits exceeded payments).
- In any given fiscal year, MBT returns are filed for several different tax years.

May 2015 Consensus Conference

26

Estimating MBT Net Refunds

Factors that make it difficult to estimate the MBT:

- Uncertainty of when credits will be claimed
- Uncertainty of the MBT/CIT liability businesses with credits will owe
- Uncertainty of resolution of prior-year issues
- Uncertainty of when prior year overpayments will be claimed.
- Uncertainty of non-credit refund amounts

Actions Being Taken To Help Reduce Uncertainties

- MEDC is providing information on credit applications expected in near future
- Treasury is continuing to closely monitor MBT refunds and credits
- All of this information is being shared in aggregate with the Fiscal Agencies

MBT Revised Estimates for FY15

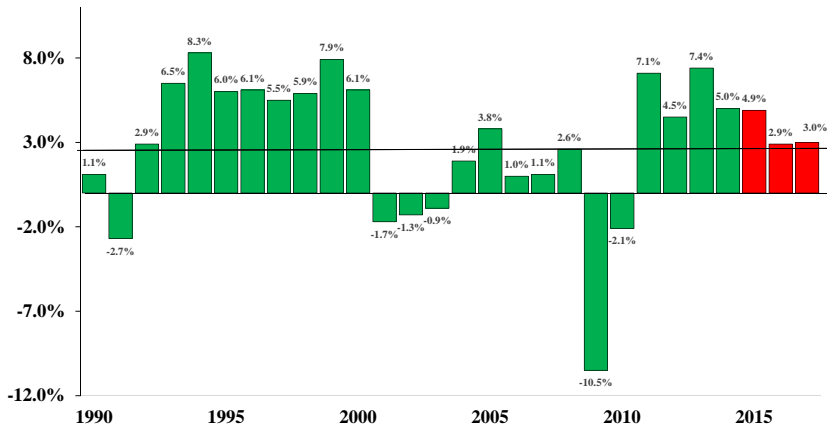
- FY15 MBT net refund estimate is a negative \$753 million, down \$72 million from January.
- Transportation sector MEGA credit estimate is unchanged.
- Estimate of other credits and non-credit refunds is being lowered.
- Annual and quarterly MBT/CIT payments are being increased.

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



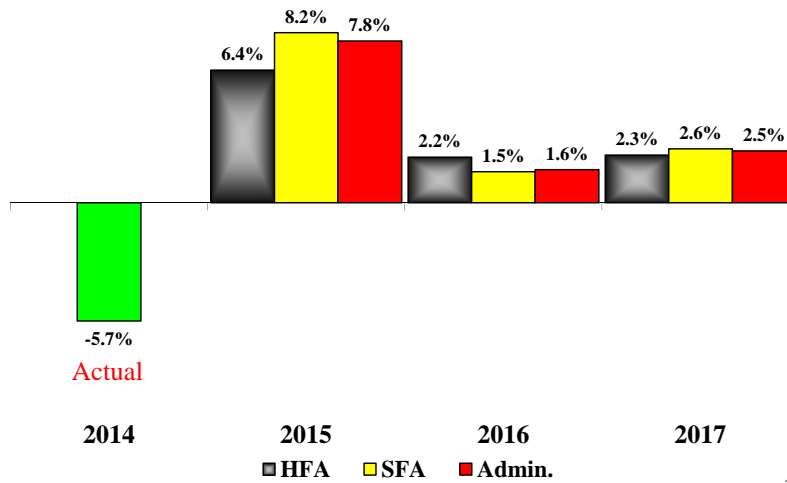
May 2015 Consensus Conference

Average Agency Forecasts

31

GF-GP Net Revenue Growth

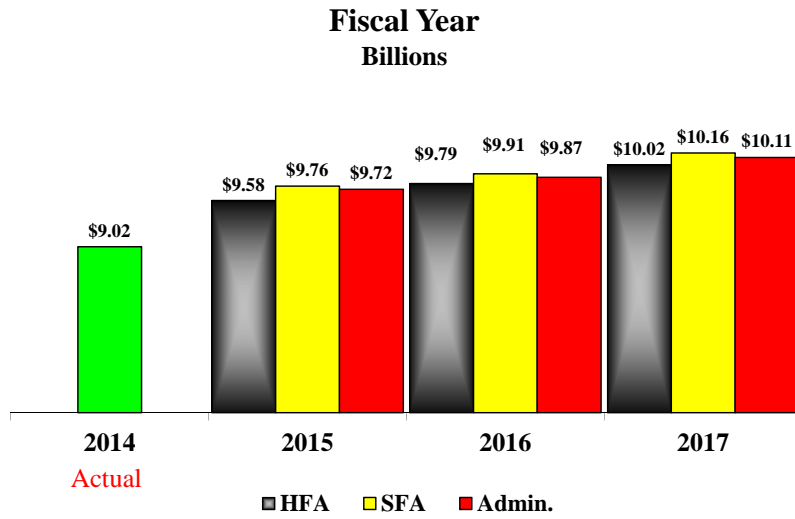
Fiscal Year Growth



May 2015 Consensus Conference

32

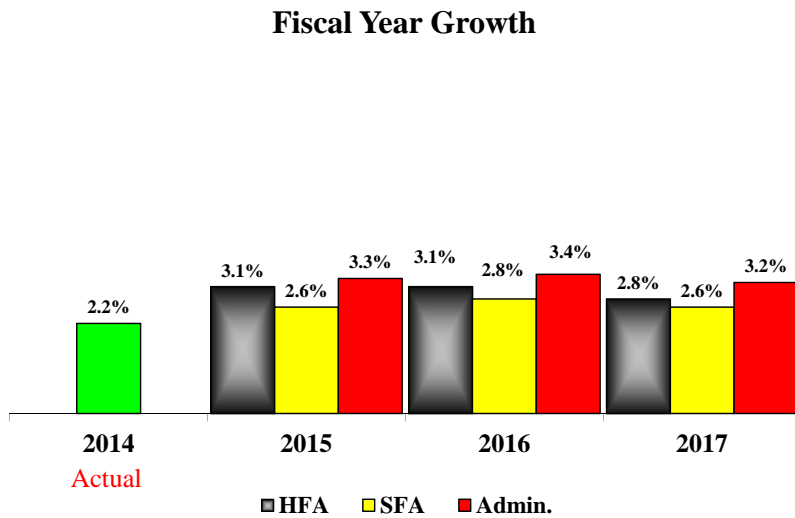
GF-GP Net Revenue Estimates



May 2015 Consensus Conference

33

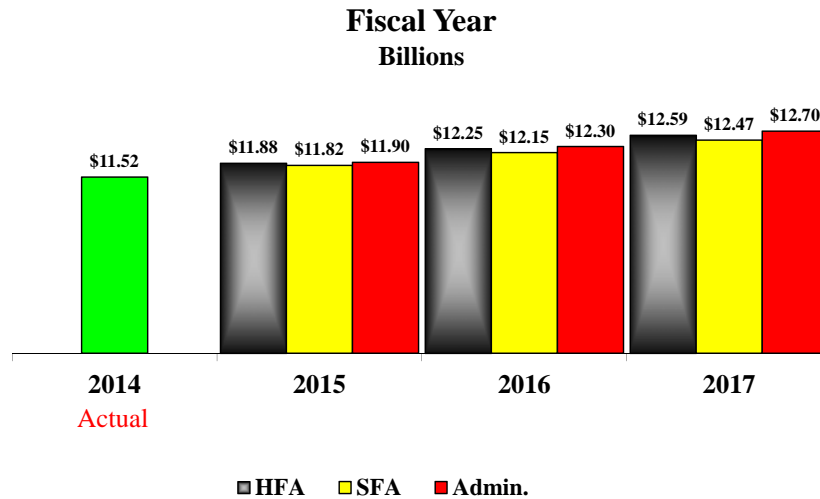
School Aid Fund Net Growth



May 2015 Consensus Conference

34

School Aid Fund Net Revenue Estimates



May 2015 Consensus Conference

35

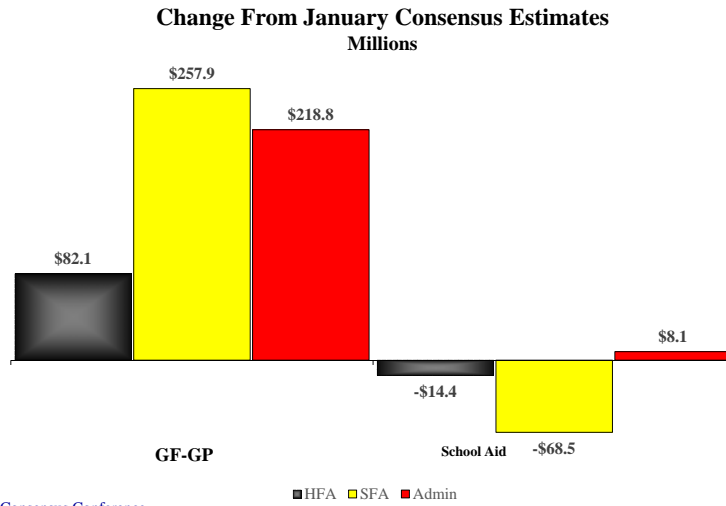
Major Revenue Estimate Revisions Compared To January Estimates

- Main Street Fairness: \$60 million in FY16, not in Jan estimates but was included in FY16 Executive Budget.
- Individual Income Tax FY15 annual payments stronger than expected and refunds weaker.
- CIT collections are stronger than expected in FY15.
- Sales Tax receipts are lower than expected in FY15.

May 2015 Consensus Conference

36

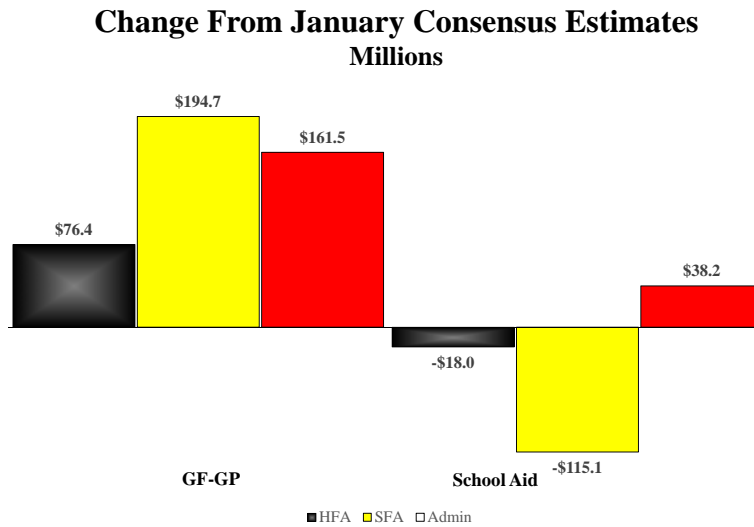
FY 2015 Changes Since January



May 2015 Consensus Conference

37

FY 2016 Changes Since January

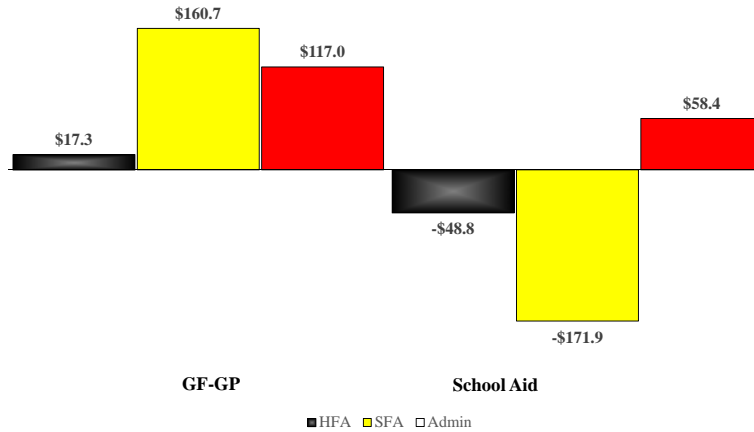


May 2015 Consensus Conference

38

FY 2017 Changes Since January

Change From January Consensus Estimates Millions



May 2015 Consensus Conference

39

Revenue Forecast Comparison

Millions

Revenue	FY 2015			FY 2016			FY 2017		
	House		Senate	House		Senate	House		Senate
	Treasury	Agency	Fiscal	Treasury	Agency	Fiscal	Treasury	Agency	Fiscal
GF-GP	\$9,720	\$9,583	\$9,759	\$9,875	\$9,790	\$9,908	\$10,118	\$10,018	\$10,161
School Aid	\$11,897	\$11,875	\$11,821	\$12,302	\$12,246	\$12,149	\$12,699	\$12,592	\$12,469
Combined	\$21,617	\$21,458	\$21,580	\$22,177	\$22,036	\$22,057	\$22,817	\$22,610	\$22,630
Difference From January									
GF-GP	\$219	\$82	\$258	\$162	\$77	\$195	\$117	\$17	\$161
School Aid	\$8	(\$14)	(\$69)	\$38	(\$18)	(\$115)	\$58	(\$49)	(\$172)
Combined	\$227	\$68	\$189	\$200	\$59	\$80	\$175	(\$32)	(\$11)

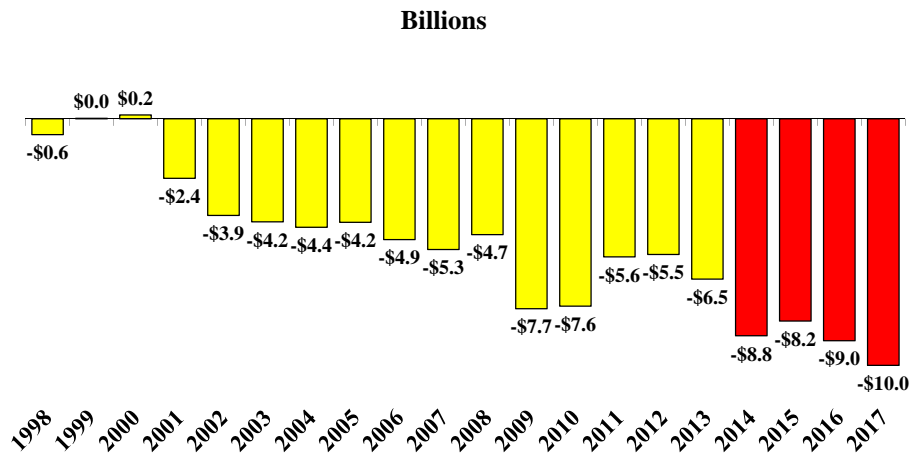
May 2015 Consensus Conference

40

Budget Stabilization Fund

- In FY 2015, the Agencies estimate pay-ins from \$44 to \$69 million.
- In FY 2016, the Agencies estimate pay-ins ranging from \$209 to \$250 million.
- In FY 2017, the Agencies estimate pay-ins ranging from \$109 to \$138 million.
- No BSF pay-outs are estimated by any of the Agencies during FY 2015, FY 2016 or FY 2017.

Constitutional Revenue Limit Calculation



Forecast Risks

- International issues
- Oil price uncertainty
- When will Fed raise rates and by how much?
- How will financial markets, consumers react to Fed action?
- Housing: will more consumers take on financial commitment?
- Business tax uncertainty

May 2015 Consensus Conference

43

Economic and Revenue Forecasts

FY 2015 * FY 2016 * FY 2017



**Consensus Revenue Estimating Conference
May 15, 2015**

May 2015 Consensus Conference