



STATE OF MICHIGAN
STATE BUDGET OFFICE

LANSING

RICK SNYDER

GOVERNOR

JOHN S. ROBERTS

DIRECTOR

March 29, 2016

The Honorable Dave Hildenbrand, Chair
Senate Appropriations Committee
Michigan State Senate
State Capitol
Lansing, Michigan 48909

The Honorable Al Pscholka, Chair
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan 48909

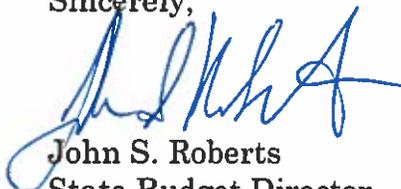
Dear Legislators:

Attached is the monthly financial report for the month ending February 29, 2016. This report is submitted pursuant to MCL 18.1386. This report can also be found on the Internet at the following address:

www.michigan.gov/budget under "Financial Reports."

If you have questions concerning the information in this report, please contact this office.

Sincerely,



John S. Roberts
State Budget Director

Attachment

c: Governor Rick Snyder
Arlan Meekhof, Sen. Maj. Leader
Jim Ananich, Senate Min. Leader
Kevin Cotter, Speaker of the House
Tim Greimel, House Min. Leader
Senate Appropriations Committee
House Appropriations Committee
Senate Fiscal Agency

House Fiscal Agency
Jack Brandenburg, Chair, Senate Finance Com.
Jeff Farrington, Chair, House Tax Policy Com.
Beth Clement, Deputy Chief of Staff
Dick Posthumus, Executive Office
Mike Moody, Office of Financial Management
Nancy Duncan, Deputy State Budget Director
Internal State Budget Office Distribution

GENERAL FUND, GENERAL PURPOSE
Fiscal Year 2016
Projected Revenues and Expenditures
February 29, 2016
(\$ in millions)

FISCAL
2016

| | | |
|--|-----------|-----------------------------|
| Beginning Balance, October 1, 2015 | \$ | see one-time revenue |
| <hr/> | | |
| Current Year GF/GP Revenues, January 2016 Consensus Estimate | \$ | 9,843.8 |
| Revenue Adjustments: | | |
| Local Government Program Payments | \$ | (462.7) |
| General Fund share of HMO use tax collections - PA 161 of 2014 | \$ | 406.7 |
| Other revenue adjustments | \$ | 2.0 |
| Pending Insurance Tax Credit clarifying amendments | \$ | 60.0 |
| Subtotal Additional Revenue Adjustments | \$ | 6.0 |
| <hr/> | | |
| Total FY Resources Available For Expenditure GF/GP - Ongoing | \$ | 9,849.8 |
| <hr/> | | |
| Expenditures, Current Law: | | |
| FY 2016 Enacted with Vetoes | \$ | 9,517.8 |
| <hr/> | | |
| Total Expenditures Projected - Ongoing | \$ | 9,517.8 |
| <hr/> | | |
| Current Year Revenues minus Ongoing Costs | \$ | 332.0 |
| <hr/> | | |
| Beginning Balance (One-Time Revenue) | \$ | 694.7 |
| Local Government Program Payments | \$ | (5.8) |
| <hr/> | | |
| Total FY Resources Available For Expenditure GF/GP - One-Time | \$ | 688.9 |
| <hr/> | | |
| One-Time Spending Items: | | |
| PA 79, PA 84, PA 143, PA 241, and PA 268 of 2015 PA 3 and PA 24 of 2016 | \$ | 516.3 |
| Supplemental Requests 2016-4, 2016-6, 2016-7 | \$ | 351.8 |
| <hr/> | | |
| One-Time Revenue minus One-Time Spending | \$ | (179.2) |
| <hr/> | | |
| Projected Ending Balance, September 30, 2016 | \$ | 152.8 |

**School Aid Fund
Fiscal Year 2016
Projected Revenues and Expenditures
February 29, 2016
(\$ in millions)**

**FISCAL
2016**

| | |
|--|-----------------------------|
| Beginning Balance , October 1, 2015 | see one-time revenue |
|--|-----------------------------|

| | |
|---|--------------------|
| Current Year School Aid Fund Revenues, January 2016 Consensus Estimate | \$ 12,131.6 |
| Revenue Adjustments: | |
| Use Tax Revision (PA 161 of 2014) | \$ 203.3 |
| General Fund | \$ 45.9 |
| General Fund Increase (Supplemental 2016-7) | \$ 9.2 |
| Federal Revenue | \$ 1,775.8 |
| Subtotal Additional Revenue Adjustments | \$ 2,034.2 |
| Total FY Resources Available for Expenditure School Aid Fund | \$ 14,165.8 |

| | |
|--|--------------------|
| School Aid Ongoing Costs | |
| PA 85 of 2015 | \$ 13,846.6 |
| Pending Supplemental (2016-5) | \$ (73.6) |
| Community Colleges Ongoing Costs | |
| PA 85 of 2015 | \$ 256.7 |
| Universities Ongoing Costs | |
| PA 85 of 2015 | \$ 205.2 |
| Total School Aid Fund Ongoing Costs Projected | \$ 14,234.9 |

| | |
|--|------------------|
| Current Year Revenues minus Ongoing Costs | \$ (69.1) |
|--|------------------|

| | |
|---|-----------------|
| Beginning Balance (One-Time Revenue) | \$ 190.2 |
| One-Time Spending Items | |
| PA 85 of 2015 School Aid | \$ 49.8 |
| PA 139 of 2015 School Aid | \$ 4.3 |
| Pending Supplemental (2016-5) | \$ 10.0 |
| Pending Supplemental (2016-7) | \$ 9.2 |
| One-Time Revenue minus One-Time Spending | \$ 116.9 |

| | |
|---|----------------|
| Projected Ending Balance, September 30, 2016 | \$ 47.8 |
|---|----------------|

GENERAL FUND GROSS

February 29, 2016

(\$ IN MILLIONS)

FISCAL YEAR 2015

FISCAL YEAR 2016

| Exp & Enc February 2015 | Exp & Enc Yr-to-date FY 2015 | Fiscal Year End***** SEP 30, 2015 | DEPARTMENT | Initial Approp | Exec. Orders and Supplm. Approp.* | Exp & Enc February 2016 | Exp & Enc Yr-to-date FY 2016 |
|-------------------------------|------------------------------------|---|------------------------------------|-------------------|---|-------------------------------|------------------------------------|
| 4.7 | 26.3 | 75.7 | Agriculture and Rural Development | 86.6 | 11.2 | 5.3 | 26.0 |
| 6.9 | 32.0 | 82.7 | Attorney General | 90.9 | 3.7 | 7.3 | 30.6 |
| 18.9 | 127.4 | 476.5 | Capital Outlay** | 324.0 | 0.0 | 21.6 | 118.4 |
| 1.1 | 5.6 | 15.2 | Civil Rights | 16.1 | 0.0 | 1.3 | 5.6 |
| 138.0 | 685.2 | 1,299.1 | Colleges & Universities | 1,460.7 | 0.0 | 137.9 | 683.5 |
| 139.5 | 754.1 | 1,971.9 | Corrections | 1,952.2 | 0.0 | 141.3 | 712.8 |
| 20.8 | 84.1 | 281.9 | Education | 305.9 | 9.0 | 22.7 | 88.2 |
| 12.9 | 55.8 | 163.5 | Environmental Quality | 463.6 | 42.9 | 22.9 | 71.5 |
| 0.5 | 3.1 | 5.7 | Executive Office | 5.5 | 0.0 | (0.4) | 1.6 |
| 1,495.3 | 8,642.7 | 23,498.2 | Health and Human Services | 24,967.9 | 546.9 | 1,950.2 | 9,255.4 |
| 3.3 | 16.9 | 50.6 | Insurance and Financial Services | 65.1 | 0.0 | 4.3 | 18.0 |
| 12.7 | 73.5 | 253.0 | Judiciary | 284.7 | 0.0 | 13.9 | 72.3 |
| 0.0 | 1.1 | 4.0 | Land Bank Fast Track Authority | 4.0 | 0.0 | 0.0 | 2.0 |
| 1.5 | 7.8 | 20.8 | Legislative Auditor General | 22.8 | 0.0 | 1.6 | 8.1 |
| 8.4 | 51.7 | 120.1 | Legislature | 133.4 | 11.4 | 9.3 | 51.6 |
| 22.2 | 152.1 | 261.0 | Licensing and Regulatory Affairs | 359.0 | 52.7 | 27.3 | 156.0 |
| 11.2 | 49.6 | 130.8 | Military Affairs | 140.7 | 0.0 | 9.7 | 47.7 |
| 7.5 | 28.1 | 91.3 | Natural Resources | 122.4 | 14.1 | 5.6 | 26.1 |
| 0.0 | 0.0 | 0.0 | School Aid | 0.0 | 0.0 | 0.0 | 0.0 |
| 15.4 | 69.8 | 204.7 | State | 225.3 | 14.7 | 17.5 | 69.8 |
| 40.0 | 207.3 | 607.4 | State Police | 620.0 | 21.6 | 42.9 | 193.3 |
| 0.0 | 0.0 | 0.0 | Talent and Economic Development | 435.3 | 44.0 | 20.0 | 76.8 |
| 33.1 | 153.4 | 627.1 | Technology, Management & Budget*** | 420.2 | 98.7 | 35.2 | 156.2 |
| 5.0 | 49.1 | 1.5 | Transportation | 398.5 | 0.0 | 0.6 | 101.2 |
| 234.0 | 921.3 | 3,168.1 | Treasury**** | 1,879.3 | 76.9 | 256.7 | 961.5 |
| (0.2) | 132.0 | 221.1 | Michigan Strategic Fund | 171.3 | 0.0 | (0.0) | 95.1 |
| \$2,232.8 | \$12,329.8 | \$33,631.8 | | \$34,955.2 | \$947.7 | \$2,754.9 | \$13,029.4 |

*Includes boilerplate appropriations.

**Includes all capital outlay activity regardless of agency

***Includes Civil Service Commission

****Boilerplate appropriations, which are not included in the initial or supplemental appropriations, account for the majority of the difference between Treasury's total appropriations and total expenditure/encumbrances for the fiscal year.

*****FY15 Transportation and other agency expenditure totals within the September report are different as a result of changes in capital outlay appropriations.

ESTIMATED BALANCE OF STATE PAYMENTS TO LOCAL UNITS OF GOVERNMENT

Fiscal Year 2016
February, 2016
(\$ IN MILLIONS)

| | INITIAL APPROPRIATIONS | EXEC. ORDER and SUPPLEMENTALS | TOTAL APPROPRIATIONS YEAR-TO-DATE |
|--|---------------------------|-------------------------------------|---|
| Payments to local units of government | 16,794.5 | 19.3 | 16,813.8 |
| Total state spending from state resources | 30,216.6 | 74.1 | 30,290.7 |
| Percentage of state spending from state resources paid to local units | 55.58% | | 55.51% |
| Required payments to local units (48.97%) | 14,797.1 | | 14,833.4 |
| Surplus/(deficit) | \$1,997.4 | | \$1,980.4 |

STATE OF MICHIGAN
YEAR-TO-DATE STATEMENT OF REVENUES AND EXPENDITURES
COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND
 October 1, 2015 Through February 29, 2016
 (in thousands)

REVENUES

| | |
|----------------|---------------|
| Miscellaneous | \$ <u>184</u> |
| Total Revenues | <u>184</u> |

EXPENDITURES

| | |
|---|------------|
| Current: | |
| General government | <u>-</u> |
| Total Expenditures | <u>-</u> |
| Excess of Revenues over (under) Expenditures | <u>184</u> |

OTHER FINANCING SOURCES (USES)

| | |
|---|-------------------------------|
| Transfers from other funds | 39,583 |
| Transfers to other funds | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>39,583</u> |
| Excess of Revenues and Other Sources over (under) Expenditures and Other Uses | <u>\$ 39,767 ¹</u> |

¹ Balance does not reflect closing adjustments such as accounts receivable, accounts payable, etc.

STATE OF MICHIGAN
YEAR-TO-DATE STATEMENT OF REVENUES AND EXPENDITURES
MICHIGAN NATURAL RESOURCES TRUST FUND
 October 1, 2015 through February 29, 2016
 (in thousands)

REVENUES

| | |
|---------------------------|--------------|
| Taxes | \$ - |
| From federal agencies | - |
| From licenses and permits | - |
| Miscellaneous | <u>4,651</u> |
| Total Revenues | <u>4,651</u> |

EXPENDITURES

| | |
|---|----------------|
| Current: | |
| General government | 2,068 |
| Conservation, environment, recreation, and agriculture | 1,610 |
| Capital outlay | <u>(1,141)</u> |
| Total Expenditures | <u>2,538</u> |
| Excess of Revenues over (under) Expenditures | <u>2,113</u> |

OTHER FINANCING SOURCES (USES)

| | |
|---|------------------------------|
| Proceeds from bond issues | - |
| Proceeds from sale of capital assets | 1 |
| Transfers from other funds | (19) |
| Transfers to other funds | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(18)</u> |
| Excess of Revenues and Other Sources over (under) Expenditures and Other Uses | <u>\$ 2,095</u> ¹ |

¹ Balance does not reflect closing adjustments such as accounts receivable, accounts payable, etc.

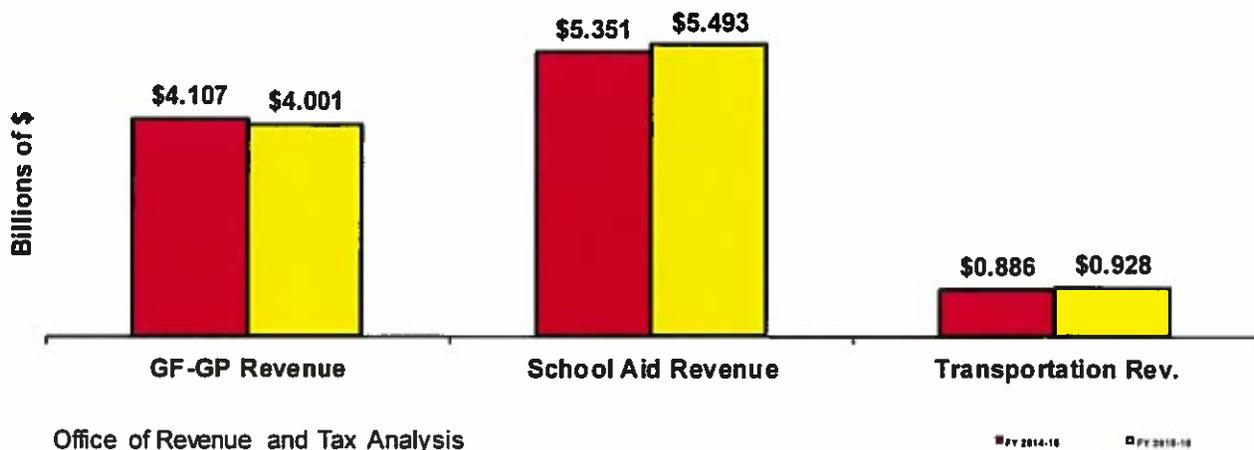
REVENUE OVERVIEW
Office of Revenue and Tax Analysis
Michigan Department of Treasury

This Monthly Financial Report to the Legislature presents the Michigan State government's economic situation and cash collections for February 2016, representing some January 2016 and some February 2016 economic activity in Michigan.

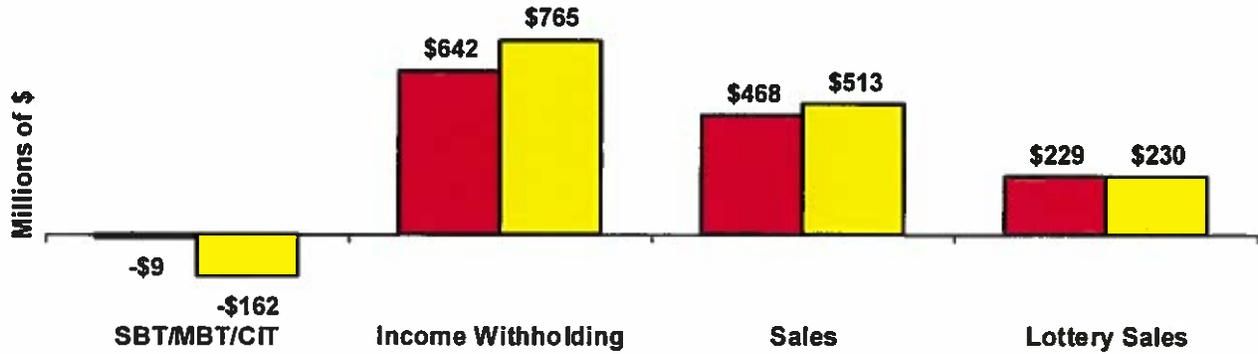
Total General Fund - General Purpose cash collections were \$87.4 million (29.7 percent) lower in February 2016 than in February 2015. The February 2016 School Aid Fund cash collections were \$152.8 million (21.5 percent) higher than in February 2015. February 2016 transportation collections were \$10.7 million (5.2 percent) higher than in February 2015 (see revenue table). February is the fifth month of the state's fiscal year (FY). Year-to-date collection totals generally provide a more accurate view of collections, since they are less affected by the timing of payments. Year-to-date General Fund - General Purpose cash collections are down \$106.3 million (2.6 percent) from a year ago. School Aid Fund cash collections are up \$141.9 million (2.7 percent) and transportation collections are up \$42.0 million (4.7 percent).

The FY 2015-16 revenue projections presented in the revenue table on page 9 are from the Consensus Revenue Estimating Conference held on January 14, 2016. The revenue estimate for net General Fund – General Purpose revenue for FY 2015-16 is \$9,843.8 million and the net School Aid revenue forecast is \$12,131.6 million. The Transportation Funds revenue forecast is \$2,274.7 million. The next regularly scheduled Consensus Revenue Estimating Conference will be on May 17, 2016.

**October through February Collections
FY 2014-15 and FY 2015-16**



February Revenue Collections FY 2014-15 and FY 2015-16



Office of Revenue and Tax Analysis

FY 2014-15 FY 2015-16

October through February Collections FY 2014-15 and FY 2015-16



Office of Revenue and Tax Analysis

FY 2014-15 FY 2015-16

Economic Highlights

(All data seasonally adjusted unless otherwise noted.)

U. S. Economy

Index of Consumer Sentiment



Source: University of Michigan, Survey Research Center

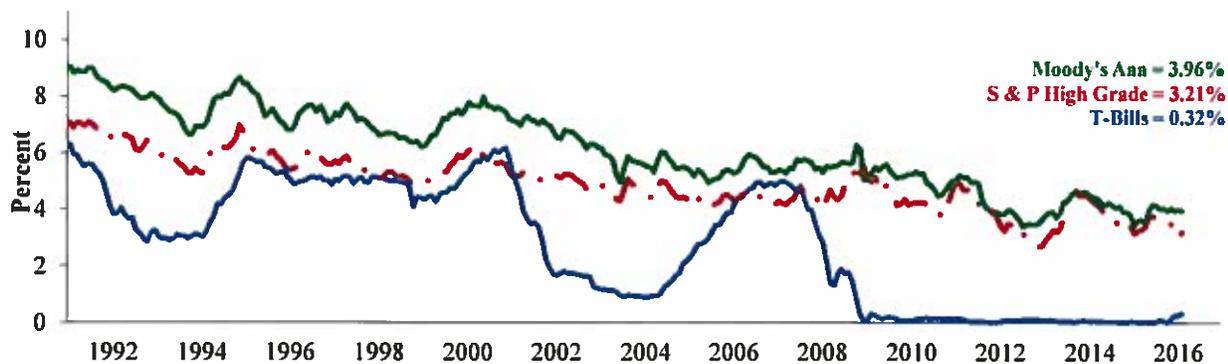
The *Index of Consumer Sentiment* decreased in February to 91.7 index-points, 0.3 of an index-point below the January value and 3.7 index-point below February 2015. For the February survey, Survey Director Richard Curtin noted, "Consumer confidence nearly recovered the entire small loss it recorded at mid-month, with the Sentiment Index finishing February just 0.3 index-points below January. Although consumers are not as optimistic as at the start of last year, the Sentiment Index is just 6.5% below the cyclical peak of 98.1 set in January 2015. Such a small decline is hardly consistent with the onset of a downturn in consumer spending" Curtin observed, "Rather modest wage gains as well as very low inflation have meant that consumers expect increases in their real incomes during the year ahead. Consumers' most important concern involves how much the slowdown in GDP growth will affect employment growth. At present, consumers anticipate a slight negative impact on jobs." On consumers' financial situations, Curtin reported, "The proportion of households that reported an improved financial situation rebounded to 47% in February from 40% in January, to regain last February's level. Importantly, reports of net income gains were the highest since last February. Overall, consumers judged their financial prospects for the year ahead more favorably in the February 2016 survey than any other time since October 2006." In February, consumers in only one of the four regions reported an increase in confidence. Western consumers reported an increase in confidence of 1.9 index-points. Northeastern consumers reported the largest decrease in confidence of 2.6 index-points. The gap across regions increased from last month to 7.5 index-points, with Midwestern consumers on top and Southern consumers on the bottom.

The preliminary estimate of real *Gross Domestic Product* for the fourth quarter of 2015 is \$16,455.1 billion (chained 2005 dollars), an increase of 1.0 percent at an annual rate. In the third quarter of 2015, real gross domestic product increased 2.0 percent. The increase in fourth quarter real GDP was mainly due to personal consumption expenditures, residential fixed investment, and federal government spending. Imports, which are a subtraction in calculating GDP, increased. Real personal consumption expenditures increased 2.0 percent in the fourth quarter, compared to a 3.0 percent increase in the third quarter. Real residential fixed investment increased 8.0 percent in the fourth quarter compared to an increase of 8.2 percent in the third quarter. Real nonresidential fixed investment decreased 1.9 percent in the fourth quarter while real equipment expenditures decreased 1.8 percent. Real federal

government spending increased 2.2 percent in the fourth quarter, compared to a 0.2 percent increase in the third quarter. Real state and local government spending decreased 1.4 percent in the fourth quarter, compared to a 2.8 percent increase in the third quarter. Exports of goods and services decreased 2.7 percent in the fourth quarter, compared to a 0.7 percent increase in the third quarter. Imports decreased 0.6 percent in the fourth quarter, compared to an increase of 2.3 percent in the third quarter. Private inventory investment increased \$81.7 billion in the fourth quarter, following an \$85.5 billion increase in the third quarter. Real final sales increased 1.2 percent in the fourth quarter compared to an increase of 2.7 percent in the third quarter. On the inflation front, the implicit price deflator increased 1.0 percent in the fourth quarter compared to a 1.3 percent increase observed in the third quarter.

U. S. retail prices, as measured by the Consumer Price Index (CPI-U), decreased 0.2 percent in February, down from no change in January. Energy prices decreased 6.0 percent in February, down from a 2.8 percent decrease in January, while the all-items less food and energy component increased 0.3 percent in February. Compared to February 2015, the all-items index increased 1.0 percent. For major component groups, the unadjusted changes from one year ago were: food and beverages, 0.9 percent; medical care, 3.5 percent; apparel, 0.9 percent; education and communication, 1.2 percent; other goods and services, 1.9 percent; recreation, 0.9 percent; housing, 2.1 percent; and transportation, -3.6 percent, with gasoline prices down -20.7 percent.

Selected Key Interest Rates

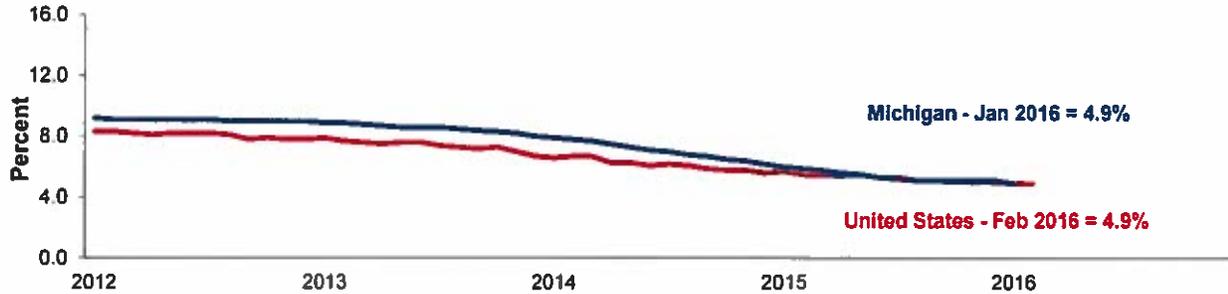


Source: Economic Indicators

Short-term interest rates increased 0.07 percentage point in February as the 3-month Treasury bill (T-bill) rate was 0.32 percent. Compared to one year ago, the T-bill rate increased 0.30 percentage point. The Aaa corporate bond rate, a long-term interest rate, decreased 0.04 percentage point to an interest yield of 3.96 percent in February. The Aaa bond yield was up 0.35 percentage point from its year-ago level. The interest rate on High-grade municipal bonds increased 0.20 percentage point from the January level to 3.21 percent in February and was down 0.05 percentage point from its year-ago level. The Federal Open Market Committee, given the economic outlook, decided to maintain the target range for the federal funds rate at 0.25-0.50 percent for the March 16th meeting. The FOMC stated "In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation." The Committee "seeks to foster maximum employment and price stability."

In February, the U. S. unemployment rate remained unchanged from a month ago at 4.9 percent and was 0.6 percentage point lower than a year ago. Civilian employment totaled 151.1 million persons in February. The number unemployed was 7.8 million nationwide.

Unemployment Rates 2012 - 2016



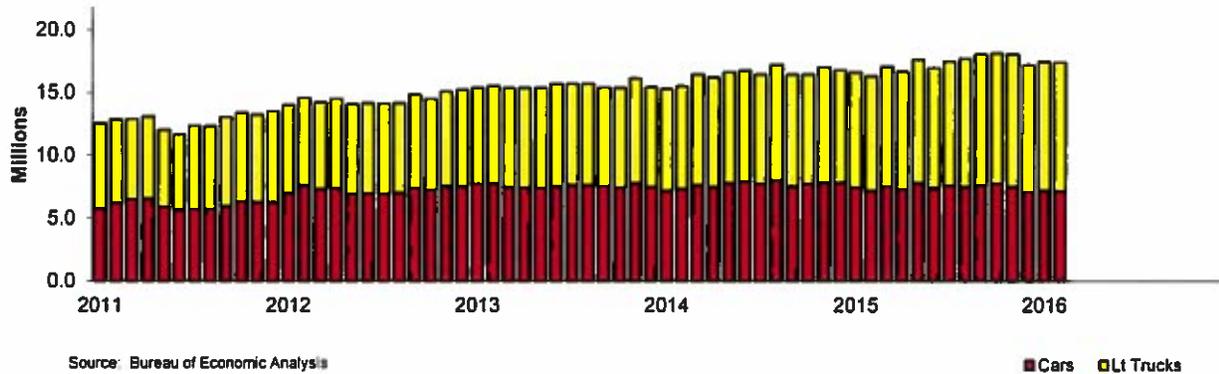
Source: Bureau of Labor Statistics and Michigan Department of Technology, Management & Budget

In January, the latest data available, the **Michigan jobless rate** decreased 0.2 percent to 4.9 percent. The January unemployment rate is 1.1 percentage points below the year ago level. In January, the labor force grew 27,000 to 4,798,000, while the number of people employed increased 33,000 to 4,560,000. In January, there were 237,000 unemployed people. Monthly unemployment rates fluctuate in part due to statistical sampling errors.

Detroit retail prices, as measured by the Detroit Consumer Price Index (CPI-U), increased 0.3 percent from December to February compared to a 1.2 percent decrease from October to December. The all-items less food and energy index increased 0.8 percent from December to February. The food index increased 0.8 percent from December to February while the energy index decreased 5.6 percent. Compared to February 2015, the all-items index increased 0.9 percent. For individual component items, the changes from one year ago were: food and beverages, -0.3 percent; apparel, 2.4 percent; education and communication, 1.6 percent; transportation, -5.4 percent; recreation, 1.6 percent; medical care, 1.9 percent; housing, 0.9 percent; and other goods and services, 1.3 percent.

Motor Vehicle Sector

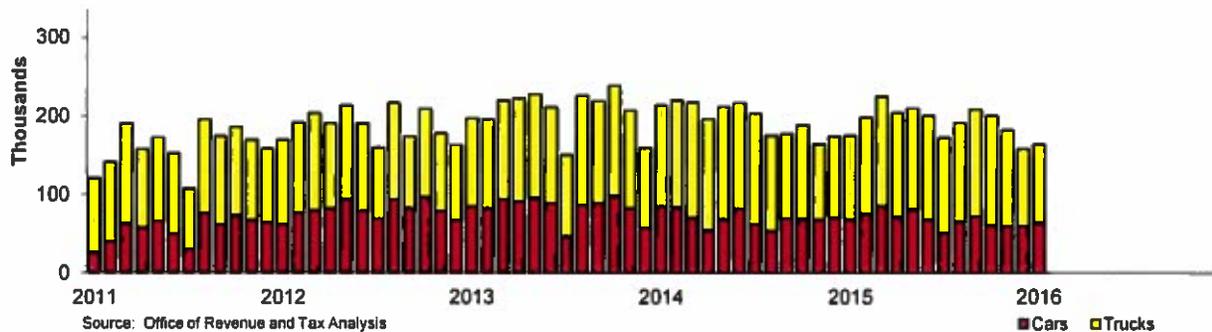
U. S. Light Vehicle Sales



U.S. light vehicle sales (cars + light trucks) decreased 0.1 percent in February compared to January, selling at a 17.4 million unit seasonally adjusted annual rate. Domestic car sales decreased 0.7 percent from January while domestic light truck sales remained unchanged. Import car sales increased 0.1 percent while import light truck sales increased 0.8 percent. Compared to last year, light vehicle sales increased 6.8 percent. Domestic car sales increased 2.6 percent from the year ago level while domestic light truck sales increased 8.3 percent. Import car sales were down 8.1 percent from last year while import truck sales increased 34.0 percent. As a result, the domestic share of U.S. light vehicle sales decreased 0.7 percentage points from a year ago. For fiscal year 2016 year-to-date, domestic light vehicles recorded a 78.4 percent share of a 17.7 million-unit market.

Michigan motor vehicle production increased to 163,765 units in January from 158,649 units in December. From a year ago, motor vehicle production decreased 7 percent in Michigan and decreased 2 percent nationally. In January, Michigan's car production was 64,404 units while the state's truck production was 99,361 units. Compared with a year ago, car production decreased 6 percent in Michigan and also fell 6 percent nationwide. The state's truck production decreased 7 percent while national truck production increased 1 percent from a year ago. Michigan motor vehicle production data are not seasonally adjusted.

Michigan Motor Vehicle Production



**Summary Estimates of the Constitutional Revenue Limit
Based on the January 14, 2016 Consensus Revenue Agreement
(Article IX, Section 26)
(in millions)**

| | <u>Fiscal Year 2013-14 Actual</u> | <u>Fiscal Year 2014-15 Estimate</u> | <u>Fiscal Year 2015-16 Estimate</u> |
|--|---|---|---|
| Applicable Calendar Year Personal Income | \$378,443 | \$386,471 | \$403,726 |
| Section 26 Base Ratio | 9.49% | 9.49% | 9.49% |
| Revenue Limit | <u>\$35,914.2</u> | <u>\$36,676.1</u> | <u>\$38,313.6</u> |
| Revenue Limit | \$35,914.2 | \$36,676.1 | \$38,313.6 |
| State Revenue Subject to Limit | <u>\$27,432.5</u> | <u>\$28,844.3</u> | <u>\$29,190.2</u> |
| Amount Under (Over) Limit | \$8,481.7 | \$7,831.8 | \$9,123.4 |

Sources:

Personal Income Estimate

The FY 2013-14 calculation uses the official personal income estimate for calendar year 2012 (Survey of Current Business, October 2013).
The FY 2014-15 calculation uses the official personal income estimate for calendar year 2013 (Survey of Current Business, October 2014).
The FY 2015-16 calculation uses the January 14, 2016 Consensus Revenue Agreement.

Revenue Subject to the Limit

The FY 2013-14 calculation uses the State of Michigan Statement of Revenue Subject to Constitutional Limitation - Legal Basis for the Fiscal Year Ended September 30, 2014.
The FY 2014-15 calculation uses the January 14, 2016 Consensus Revenue Agreement.
The FY 2015-16 calculation uses the January 14, 2016 Consensus Revenue Agreement.

Column detail may not add to totals due to rounding

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury