Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2021-22, FY 2022-23, FY 2023-24, and FY 2024-25

January 11, 2023

Kathryn R. Summers, Director – Lansing, Michigan – (517) 373-2768
www.senate.michigan.gov/sfa

THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge, the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.

2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.

3. To review and evaluate proposed and existing State programs and services.

4. To provide economic and revenue analysis and forecasting.

5. To review and evaluate the impact of Federal budget decisions on the State.

6. To review and evaluate State issuance of long-term and short-term debt.

7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.

8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.

Kathryn R. Summers, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2768

www.senate.michigan.gov/sfa

ACKNOWLEDGEMENT

This Economic Outlook and Budget Review was prepared and written by David Zin, Senior Economist; Robert Canell, Economist; and Kathryn R. Summers, Director of the Senate Fiscal Agency. Linda Scott, Executive Assistant, coordinated the production of this report.

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	**1**
ECONOMIC REVIEW AND OUTLOOK	**3**
RECENT US ECONOMIC HIGHLIGHTS	3
RECENT MICHIGAN ECONOMIC HIGHLIGHTS	9
FORECAST SUMMARY	10
FORECAST RISKS	15
THE FORECAST FOR STATE REVENUE	**24**
REVENUE OVERVIEW	24
FY 2021-22 PRELIMINARY REVENUE	29
FY 2022-23 REVISED REVENUE ESTIMATES	30
FY 2023-24 REVISED REVENUE ESTIMATES	33
FY 2024-25 INITIAL REVENUE ESTIMATES	34
MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2021-22 THROUGH FY 2024-25	37
SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY	40
BUDGET STABILIZATION FUND	**43**
COMPLIANCE WITH STATE REVENUE LIMIT	**47**
THE REVENUE LIMIT	47
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED	47
REVENUE LIMIT COMPLIANCE PROJECTIONS	48
ESTIMATE OF YEAR-END BALANCES	**50**
YEAR-END BALANCE ESTIMATES	50
GENERAL FUND/GENERAL PURPOSE	51
SCHOOL AID FUND	51
CONCLUSION	52

EXECUTIVE SUMMARY

ECONOMIC FORECAST

The United States economy is expected to remain stagnant in 2023, as higher interest rates adopted by the Federal Reserve to reduce inflation decrease business and residential investment. Consumer spending will grow more slowly, as consumers respond to higher interest rates and deplete cash balances that built up in 2020 and 2021. Slowing demand and reduced investment will reduce job growth and inflationary pressures. As inflation returns to desired levels, the economy will begin growing, although economic growth will be slower in 2024 than in 2025. Unemployment rates will rise but are expected to remain relatively low by historical standards.

The Michigan economy will mirror the path of the national economy, helped by rising vehicle sales. Employment growth will remain weak, although the unemployment rate will remain relatively stable.

REVENUE FORECAST

Preliminary fiscal year (FY) 2021-22 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue increased 13.7% from FY 2020-21, reflecting strong demand for goods, high profitability for firms, and the effects of high inflation on revenue. Robust revenue growth from all individual income tax (IIT) components, sales and use taxes, and the Corporate Income Tax (CIT) combined with less-than-expected refunds under the Michigan Business Tax (MBT) to push FY 2021-22 GF/GP and SAF revenue $1.5 billion above the May 2022 consensus estimate.

In FY 2022-23, a slowing economy and timing issues associated with the 2021 adoption of the Flow-Through Entity Tax will result in GF/GP and SAF revenue declining 7.1% from FY 2021-22. The forecast lowers combined GF/GP and SAF revenue $488.4 million below the May 2022 consensus estimate.

In FY 2023-24, weak but improved economic growth will result in GF/GP and SAF revenue increasing 0.6% from the revised FY 2022-23 forecast. Revenue growth also will be limited as consumers return to a more normal split between goods (subject to sales and use taxes) and services (which generally are exempt). The revised FY 2023-24 estimate is $806.0 million below the May 2022 consensus estimate.

In FY 2024-25, the improving economy and growing strength in labor markets will cause GF/GP and SAF revenue to grow 4.1% above the revised estimate for FY 2023-24. Increases will reflect both rising business profits and greater wage growth.

YEAR-END BALANCE ESTIMATES

It is important to note that the books have not yet been closed for FY 2021-22. Based on the accounting of State revenue and expenditures as of January 6, 2023, the Senate Fiscal Agency (SFA) is estimating that the FY 2021-22 GF/GP budget will close the fiscal year with a $7.3 billion balance. The SFA estimates that the FY 2021-22 SAF budget will close the fiscal year with a $4.5 billion balance.

A comparison of the SFA's FY 2022-23 revenue estimates with enacted and projected appropriations, combined with an estimate of the impact of a reduction in the IIT rate, leads to a $3.9 billion GF/GP year-end balance. According to Public Act 180 of 2015, the IIT rate will be reduced if final FY 2021-22 book-closing revenue exceeds FY 2020-21 revenue by more than 1.425 applied to the rate of inflation. The determination of whether the rate will be reduced will occur after book-closing and publication of the Annual Comprehensive Financial Report (ACFR). The SFA estimates that the FY 2022-23 SAF budget will end the year with a $3.7 billion balance.

Looking ahead at the FY 2023-24 budget, comparing the SFA's FY 2023-24 GF/GP revenue estimate with FY 2023-24 GF/GP estimated expenditures, combined with an estimate of the ongoing impact of a reduction in the IIT rate, results in a projected GF/GP balance of $4.4 billion. Those estimated expenditures freeze initial ongoing spending at the FY 2022-23 level and include the projected year-end balance of $3.9 billion from FY 2022-23 and various baseline adjustments. If the FY 2022-23 estimated year-end SAF balance of $3.7 billion is carried forward, comparing the SFA's FY 2023-24 SAF revenue estimate with the FY 2023-24 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs results in a projected SAF year-end balance of $4.5 billion for FY 2023-24.

The estimated FY 2021-22 ending balances may change when the State's book-closing process is completed and the ACFR is published. If the FY 2021-22 numbers change because of final supplemental spending or other book-closing issues, it would change the ending balances in this report. Additional policy changes or supplemental appropriations for FY 2021-22 or FY 2022-23 also would change the ending balances for FYs 2021-22, 2022-23, and 2023-24.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2021 Actual	2022 Estimate	2023 Estimate	2024 Estimate	2025 Estimate
Real Gross Domestic Product (% change)	5.9%	1.9%	0.0%	1.2%	2.3%
US Consumer Price Index (% change)	4.7%	8.1%	4.2%	2.7%	2.5%
Light Motor Vehicle Sales (millions of units)	14.9	13.7	14.6	15.5	16.4
US Unemployment Rate (%)	5.3%	3.6%	4.0%	4.4%	4.2%
Real Michigan Personal Income (% change)	1.3%	(7.5%)	0.2%	1.7%	1.7%
Michigan Wage & Salary Employment (% change)	3.8%	3.0%	0.0%	0.5%	0.9%

REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF)
(millions of dollars)

	FY 2022-23 Estimate			FY 2023-24 Estimate			FY 2024-25 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$15,026.1	($1,405.4)	$13,620.7	$15,200.4	($1,343.7)	$13,856.7	$16,090.4	($1,330.5)	$14,759.9
% Change	(11.0%)	---	(10.4%)	1.2%	---	1.7%	5.9%	---	6.5%
School Aid Fund	$17,209.3	($149.6)	$17,059.7	$17,181.0	($169.9)	$17,011.1	$17,550.2	($174.4)	$17,375.8
% Change	(3.1%)	---	(4.3%)	(0.2%)	---	(0.3%)	2.1%	---	2.1%
Total GF/GP & SAF	$32,235.4	($1,555.0)	$30,680.4	$32,381.4	($1,513.6)	$30,867.8	$33,640.6	($1,504.9)	$32,135.7
% Change	(7.0%)	---	(7.1%)	0.5%	---	0.6%	3.9%	---	4.1%
Revenue Limit – Under (Over)		$12,539.8			$12,135.5			$13,112.2	

	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate
Revision from May Consensus			
GF/GP	$1,026.0	($352.8)	($372.2)
SAF	484.7	(135.6)	(433.8)
Total	**$1,510.7**	**($488.4)**	**($806.0)**

YEAR-END BALANCE ESTIMATES
(Fiscal Year, millions of dollars)

	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate
General Fund/General Purpose..................................	$7,331.1	$3,936.7	$4,375.8
School Aid Fund	4,515.0	3,651.5	4,498.6
Budget Stabilization Fund (with enacted deposits)......	1,382.4	1,411.0	1,453.9

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2023, 2024, and 2025, as well as a summary of recent economic activity.

RECENT US ECONOMIC HIGHLIGHTS

- The COVID-19 pandemic ended the longest, although weak by historical standards, expansion on record with a record setting decline in inflation-adjusted gross domestic product (GDP).
- Inflation-adjusted GDP surpassed the pre-COVID-19 peak in the second quarter of 2021, while payroll employment did not recover until the third quarter of 2022.
- Labor markets remain constrained: In the second half of 2022, the unemployment rate returned to lows from the six months before the pandemic. Those pre-pandemic unemployment rates previously hadn't been experienced since 1969.
- Inflation has risen: Significant shifts in consumption from services to goods have interacted with stimulus efforts, labor market and international trade disruptions related to COVID-19, and conflicts in the Ukraine to push inflation to the highest levels in approximately 40 years. After peaking in the middle of 2022, inflation has been easing but remains high by historical standards.

The longest economic expansion on record (based on the National Bureau of Economic Research dating of recessions as far back as December 1854) ended in the first quarter of 2020, as inflation-adjusted GDP declined 4.6% (at an annual rate) followed by a 29.9% decline during the second quarter of 2020. The reduction in inflation-adjusted GDP in the second quarter of 2020 represented the largest single quarterly decline in records going back to 1947 and erased all of the growth experienced since the first quarter of 2015. Similarly, while total employment increased by 20.8 million workers between the employment trough in December 2009 and February 2020,[1] between February and April 2020, total employment declined by 25.5 million jobs. This reduction more than wiped out all the employment gains of the preceding 20 years and returned employment to levels near the employment peak before the 2001 recession (Figure 1).

The economic contraction associated with the COVID-19 pandemic was rapid and global. For many economic variables, the changes were of unprecedented magnitudes, even compared to the changes over previous recessions that lasted months, or even years, longer. While the reduction in inflation-adjusted GDP in the second quarter of 2020 ranks as the most significant quarterly decline since before World War II, even the decline in the first quarter of 2020 ranks as the 10th largest (Figure 2). In comparison, the 1957-58 recession exhibited declines at an annual rate of 4.1% in the fourth quarter of 1957 and 10.0% in the first quarter of 1958. This recession, which reflected the second wave of the H2N2 flu pandemic, represented the 14th and second most significant quarterly declines in inflation-adjusted GDP since World War II, respectively. Similarly, the decline in payroll employment vastly exceeded the job loss of any recession since World War II (Figure 3).

[1] Total employment differs from payroll employment in that it counts the number of employed individuals rather than the number of jobs and not only wage and salary workers on nonfarm payrolls but also agricultural workers, the self-employed, workers in private households, unpaid family workers and workers on unpaid leave.

Figure 1

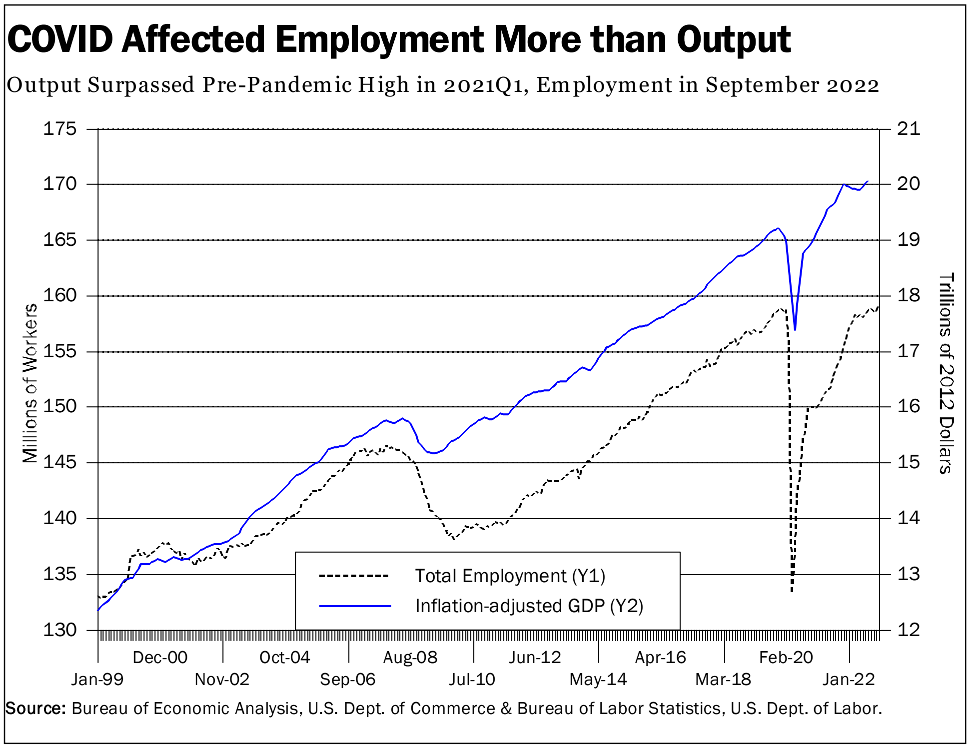


Figure 2

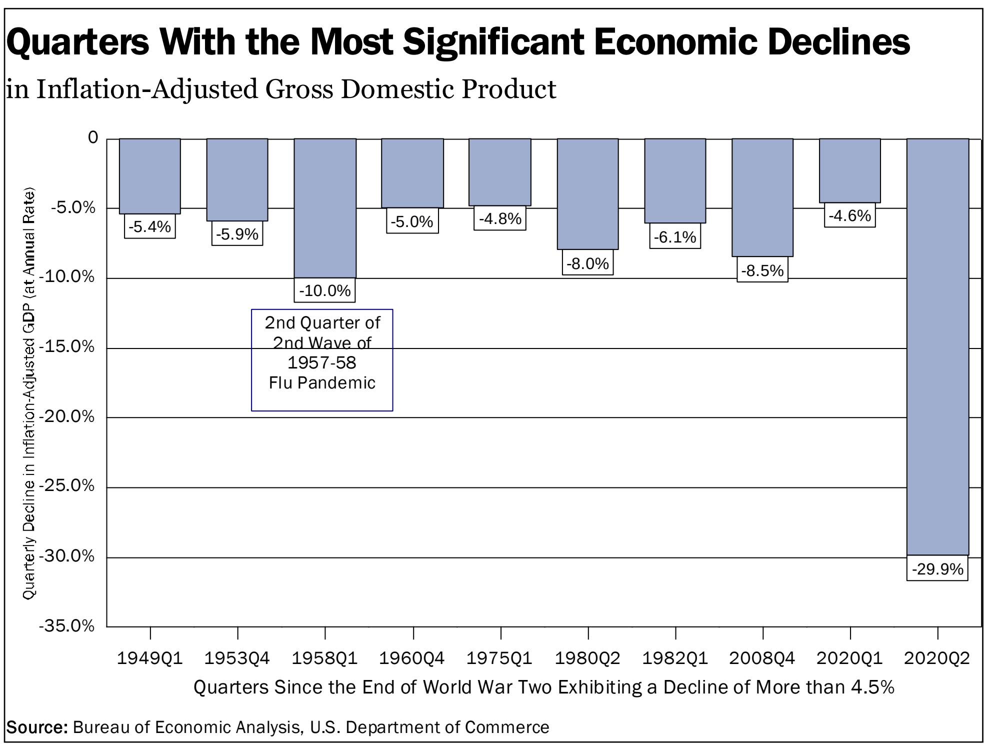
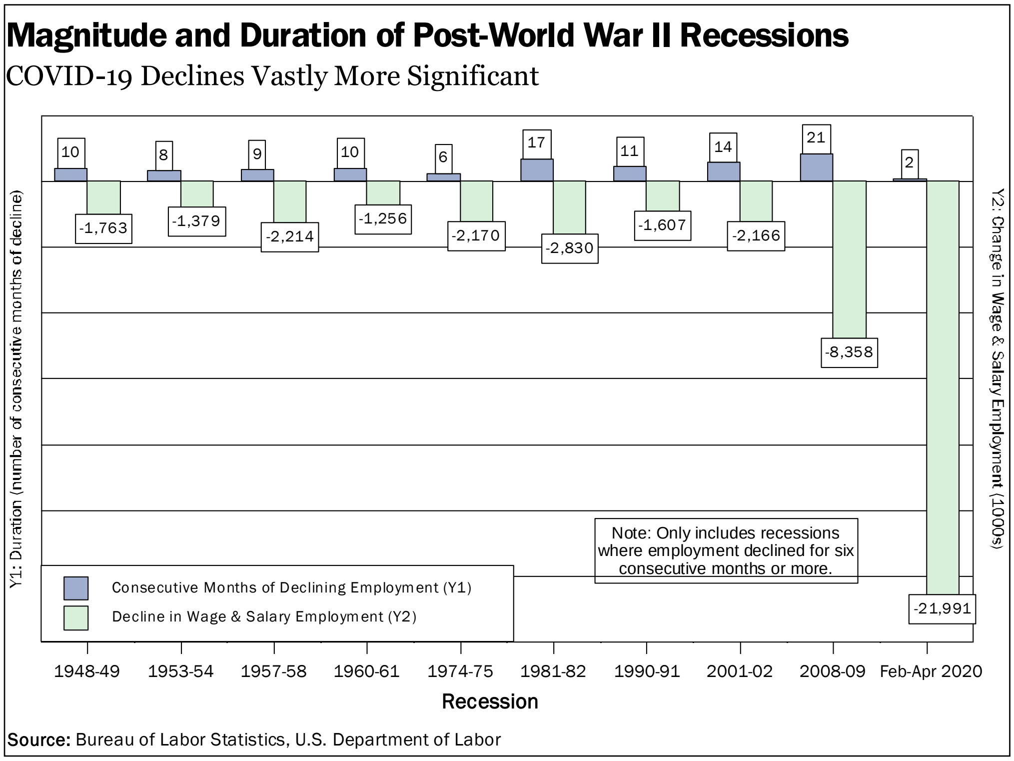


Figure 3



Both the contraction from the COVID-19 pandemic and the economic recovery have been characterized by significant imbalances between different parts of the economy. As a highly communicable disease, COVID-19 adversely affected services more than goods production because, by their nature, services frequently involve substantial person-to-person contact. The pandemic did reduce activity in manufacturing sectors heavily dependent on globally integrated supply chains, such as machinery manufacturing and transportation equipment manufacturing. Half of the 12 states with the most substantial employment declines between February 2020 and April 2020 were among the states in the top 10 of states most concentrated in leisure and hospitality services, machinery manufacturing, and transportation equipment manufacturing. The remaining half of those states with the greatest employment declines were located in the New England region and the remaining states with high concentrations of affected industries experienced greater than average employment declines.

Faced with the prospect of record income losses associated with the record levels of joblessness and economic decline, both monetary and fiscal policy became highly stimulative in an attempt to maintain consumption despite income losses. Given consumer spending represents about 70% of the economy and business investment represents another 15%, policy makers lowered interest rates substantially (the Federal Funds Rate essentially went to zero) and began multiple transfer programs to provide funds to consumers and businesses.

Although consumption recovered quicky in response to monetary and fiscal stimulus, the continuing pandemic resulted in consumers shifting much of their consumption from services to goods and from brick-and-mortar storefronts to online buying. Inflation-adjusted personal consumption spending on services did not recover to the pre-pandemic peak until the third quarter of 2021, while spending on goods had recovered by the third quarter of 2020 (Figure 4). As of the third quarter of 2022, inflation-adjusted spending on goods was 15.4% above the pre-pandemic peak (durable goods spending was up 25.6%) while services spending was up only 3.5%. Despite the shifts in spending, firms in both sectors have not increased hiring at the same rate at which output has risen. As a result, in November 2022 goods-producing employment was up 1.1% from the pre-pandemic peak (compared to the 15.4% increase in output), while private service-producing employment was up 1.2% (Figure 5).

Figure 4

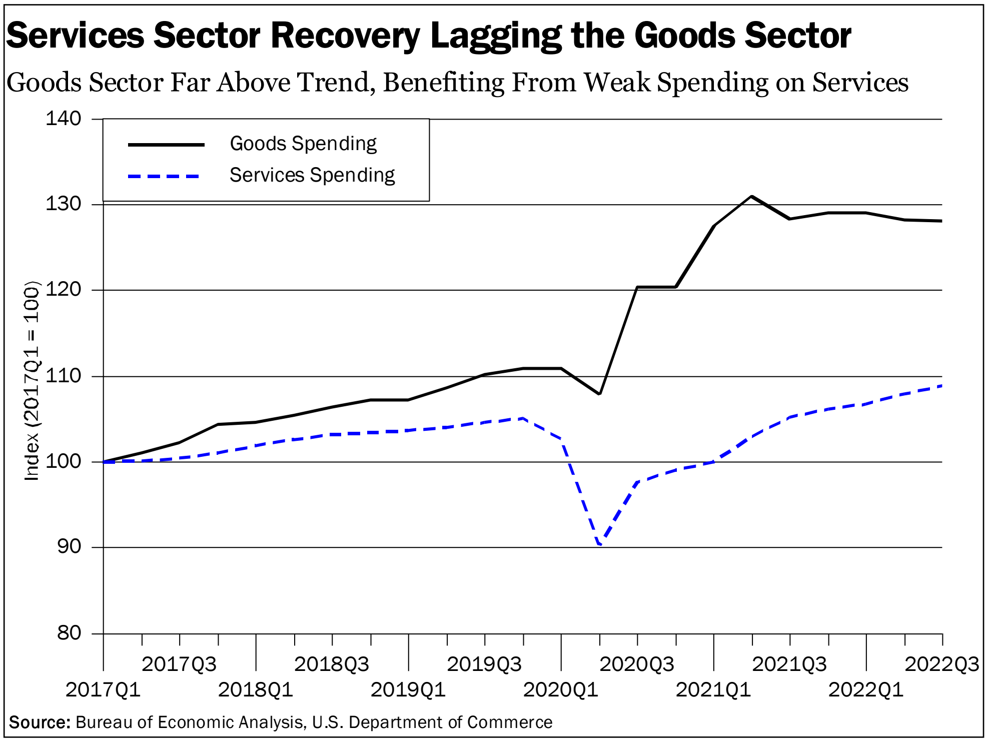
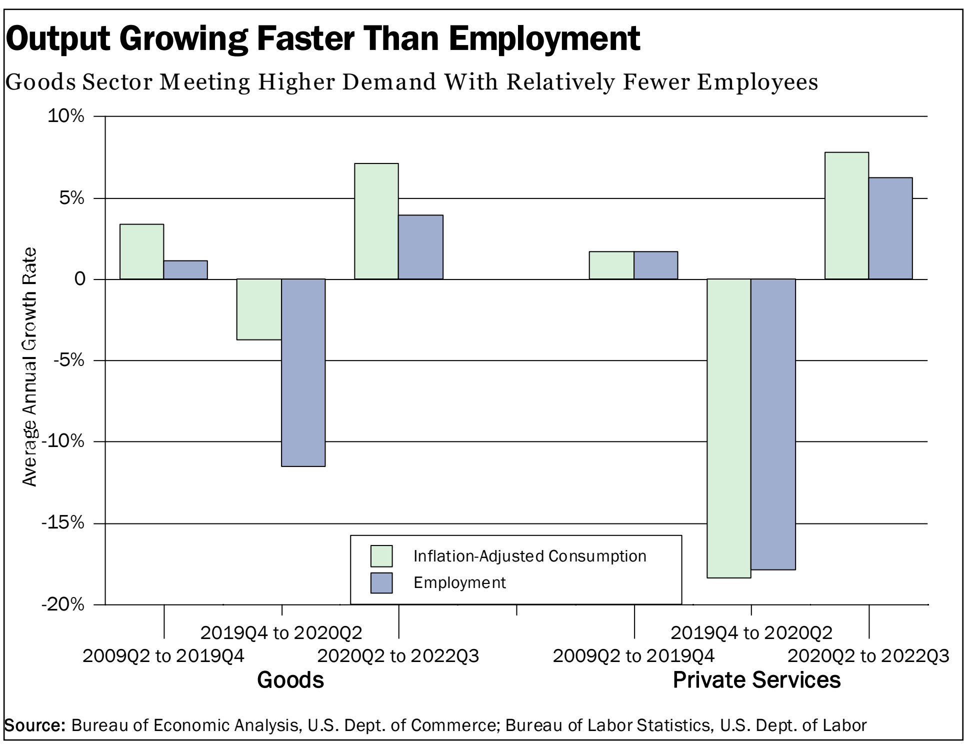


Figure 5



When inflation-adjusted spending rises faster than employment, the only ways to satisfy consumer demand are either to: 1) in the case of goods, draw down inventories of previously manufactured products, 2) improve labor productivity, and/or 3) bid workers away from other firms. While private inventories fell in the first three quarters of 2021, since then inventory levels have grown—although by declining amounts. As of the third quarter of 2022, labor productivity was down 1.9% from the level in the second quarter of 2021, after declining in three of the previous five quarters and exhibiting only 0.8% annualized growth in the third quarter of 2022. As a result, labor market churn has supplied much of the support for increased output, just as it was starting to do in the months leading up to the pandemic when unemployment rates dropped below 4.0%. Until September 2022, the hires rate had been at record levels for nearly two years and, as of November 2022, both the "quits rate" and the "job openings rate" remain at very high levels. Such high demand for workers has pushed wages up, with average hourly earnings since September 2021 growing between 5.8% and 6.7% above year-ago levels—growth rates not seen since the 1970s (Figure 6).

The high demand for workers has been complicated by both changes in the labor force and the shift to greater goods consumption in consumer spending. As will be discussed in more detail under forecasts risks, the pandemic accelerated the decades-long trend of falling labor force participation rates due to the aging population. A falling labor force participation rate means a smaller proportion of the population is looking for work, resulting in a lower unemployment rate but making it harder to find workers to hire. With the substantial increase in goods demand and the shifts in how many services are now delivered, many job openings required skill that workers lack.

Figure 6

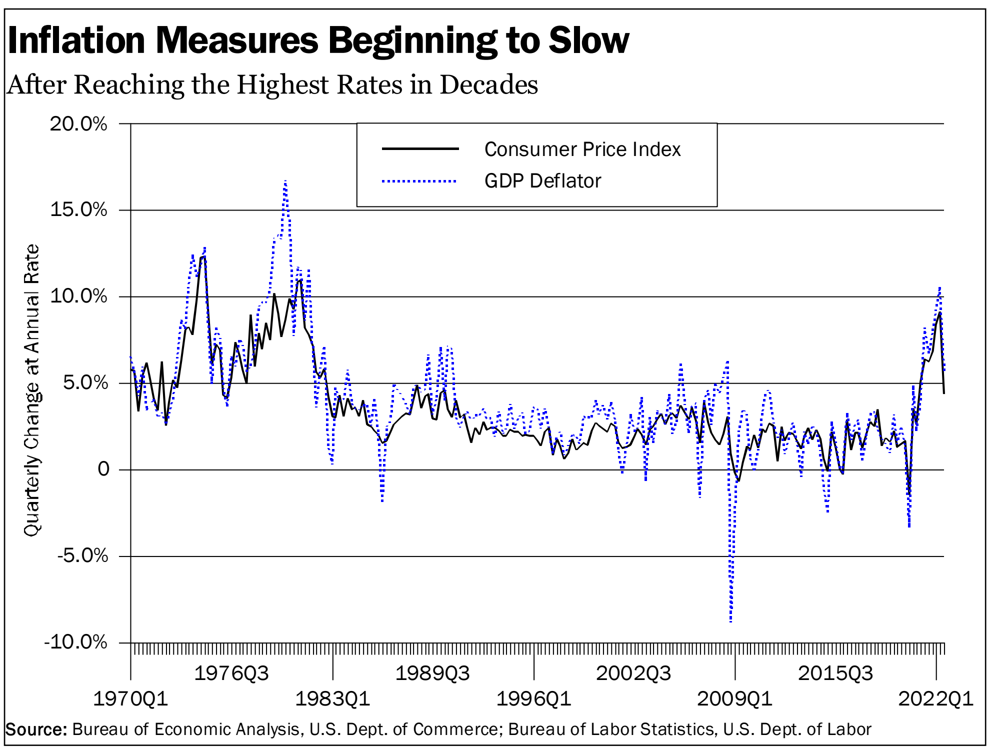
The shift in spending from services to goods during the pandemic and recovery produced significant dislocation in the economy. Goods producers struggled to find workers and raw materials for the higher output that consumers were demanding, and these shortages were amplified by disruptions in supply chains (both in terms of foreign and domestic transportation disruptions and pandemic impacts affecting production of supplies and parts in other countries). Significant fiscal and monetary stimulus efforts, both in the United States and abroad, meant that the recessionary impact of the pandemic recession was largely mitigated, but also added to these dislocations by keeping consumer demand high. The Russian invasion of Ukraine in February 2022, and the resulting economic sanctions on Russia, exacerbated the existing disruptions in the economy and added additional ones.

Labor force changes have combined with a variety of supply-chain difficulties to lower the unemployment rate and generate the highest inflation in almost 40 years. The unemployment rate before the pandemic had fallen to 3.5% in January 2020 and February 2020, below a level commonly associated with accelerating inflation. After rising to a high of 14.7% in April 2020, the unemployment rates steadily declined, reaching the pre-pandemic rate of 3.5% in July 2022. Between July 2022 and December 2022, the unemployment rate has varied between 3.5% and 3.7%.

In contrast, as the unemployment rate has fallen, inflation has risen (Figure 7). The Consumer Price Index (CPI), the broadest measure of inflation facing consumers, averaged a 1.8% year-over-year increase each month over the January 2010 to December 2019 period. The CPI fell from a 2.3% year-over-year increase in February 2020 to 0.2% in May 2020 and did not return to pre-pandemic growth levels until a 1.7% year-over-year increase in February 2021. As consumer demand continued to grow and labor markets continued to tighten, the CPI continued to rise more rapidly, with year-over-year growth reaching 7.9% in February 2022. The CPI was pushed even higher as Russia's invasion of Ukraine affected goods and transportation markets, pushing prices higher for a variety of items, including oil, natural gas, fertilizer, and grain. (As a result of the invasion, the annualized monthly increase in the CPI jumped from 7.2% in January 2022 to 14.4% in March 2022.) Year-over-year growth in the CPI peaked at 9.0% in June 2022. Since June 2022, inflation has slowed, with the November 2022 index up only 7.1% from November 2021.

Similarly, the GDP Implicit Price Deflator, the broadest measure of inflation in the overall economy, followed a similar pattern as the CPI. After averaging 1.7% annual inflation between the end of 2010 and the end of 2019, the GDP deflator fell from a 1.7% year-over-year increase in the first quarter of 2020 to 0.7% in the second quarter of 2020 before rising to a high of 7.6% in the second quarter of 2022. In the third quarter of 2022, the GDP Implicit Price Deflator was 7.1% above the year-ago level.

Figure 7



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

- Michigan's economy has mirrored changes in the national economy, but Michigan's comparative over-reliance on the motor vehicle industry has accounted for significant deviations from the national-level changes.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and, even before COVID-19, Michigan had yet to regain employment levels experienced before the 2000-01 recession.
- The COVID-19 pandemic resulted in substantial job losses for Michigan, although the strength in manufactured goods demand (particularly for motor vehicles) in the wake of COVID-19 has resulted in Michigan ranking second nationally for the most rapid employment growth.
- Unlike the US economy, although Michigan output has recovered to pre-COVID-19 levels, employment has not. Michigan's November 2022 payroll employment figure was down 1.5% from the February 2020 level.

Michigan's economy spent the 2000-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, a significant surge in productivity driven by increased competition in the economy. For Michigan, the effect of productivity improvements was substantial for at least three reasons: 1) there was more room for productivity improvements in the durable goods and motor vehicle manufacturing sectors than in many other sectors; 2) Michigan was, and remains, disproportionately concentrated in motor vehicle manufacturing; and 3) the motor vehicle industry has become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the 2000-2010 decade. Thus, Michigan lost jobs as a result of higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally helped Michigan's economic situation. Manufacturing employment in Michigan rose 46.1% between June 2009, when the US recession ended, and December 2019, although most of the growth occurred before 2015. The increases largely reflected the 76.4% growth in employment in the transportation equipment manufacturing sector. Despite the gains since 2009, Michigan payroll employment had not yet recovered to the June 2000 peak before the COVID-19 pandemic began, with the most recent peak in December 2019 still down 235,900 jobs from June 2000 (but up 626,700 jobs from the July 2009 Michigan employment trough). Employment gains since 2009 helped the Michigan unemployment rate decline from a high of 14.9% in June 2009 to 3.6% in February 2020, the lowest level since May 2000.

The impact of COVID-19 on the Michigan economy was, and continues to be, substantial. Between February 2020 and April 2020, Michigan payroll employment declined by 23.7%, or approximately 1.1 million jobs. As of November 2022, payroll employment in Michigan was up 984,700 jobs from the April 2020 trough, but was still 1.5% below the level in February 2020 and roughly on par with the level in September 2017. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover more rapidly than almost any other state, with Michigan employment rising at a 10.3% annual rate between April 2020 and November 2022. (Michigan ranks second, while Nevada ranks first at a 11.4% annual growth rate. Among the Great Lakes states, Indiana ranks 12th at 7.4%, with Illinois ranked 33rd, Ohio ranked 28th, and Wisconsin ranked 37th.) Michigan's disproportionately strong participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan, and thus helped consumption and employment recover at more rapid rates than otherwise would have occurred. However, it is important to note that Michigan's COVID-19-related job decline was so significant that despite such rapid employment growth, Michigan ranks 40th among states in recovering to pre-COVID-19 employment levels (comparing November 2022 employment level to the February 2020 level).

Historical and forecasted details for selected economic indicators are presented in Table 1 and Table 2.

FORECAST SUMMARY

- The US and Michigan economies will slow substantially in 2023, experiencing several quarters of declining real output, but will grow at slow but improving rates over 2024 and 2025.
- After falling in 2022, light vehicle sales are expected to grow in over the forecast, nearing pre-pandemic levels in 2025.
- Employment is not expected to recover to pre-COVID-19 levels during the forecast period, although unemployment rates will remain low by historical standards.
- Inflationary pressures will decline but remain persistent through much of 2023 because of tight labor markets and consumer spending that will remain strong because of strong consumer net worth. Inflation will return to target levels over the forecast as a result of higher interest rates slowing economic activity, productivity gains, and consumption shifting to a more normal split between goods and services.

Both the US and Michigan economies are expected to slow substantially in 2023, with several quarters of economic decline causing US GDP to remain flat in 2023, and then grow in 2024 and 2025. Growth will accelerate in 2024 and 2025, although Michigan generally is expected to grow more slowly than the nation as a whole. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to increase 0.0% in 2023, after growing 1.9% in 2022 and 5.9% in 2021 (the most rapid increase in inflation-adjusted GDP since the 7.2% rise in 1984 and a marked change from the 2.8% decline during 2020). Inflation-adjusted GDP will expand 1.2% during 2024 and 2.3% in 2025. The slowdown in 2023 primarily reflects slower strong consumption growth that will be more than offset by declining business inventories, flat business investment and government spending, and a marked decline in residential investment.

Resilience in consumer demand and tight labor markets will mean that the slowing economy will primarily reduce job growth rather than leading to the substantial increases in unemployment that usually occur during recessionary periods or periods of near-zero economic growth. Growth in payroll employment will slow from 4.0% in 2022 to 1.0% in 2023, and 0.0% in 2024, before improving to a 0.7% increase in 2025. As a result, the US unemployment rate will be relatively low by historical standards, rising from 3.6% in 2022 to 4.0% in 2023 and 4.4% in 2024, before falling to 4.2% in 2025. Most of the increase in the unemployment rate will reflect the labor force growth growing faster than employment, rather than declines in employment.

Inflation will decline over the forecast, with inflation rates dropping quickly to the 3.5-4.0% in early 2023 but then falling more slowly through 2024 and 2025. The rapid drops in inflation in early 2023 will reflect a variety of factors ranging from technical factors related to the way housing prices show up in inflation measures, to economic responses prompted by 425 basis point increase in the Federal Funds Rate as the Federal Reserve Board of Governors has tightened monetary policy during 2022, to the continued resolution of many supply-chain difficulties. However, just as resilient consumer spending and tight labor markets will help keep unemployment rates low, these factors will keep pressure on prices. As a result, the US CPI is anticipated to rise 4.2% in 2023, after an 8.1% increase in 2022, before slowing to a 2.7% increase in 2024 and a 2.5% gain in 2025.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2021 Actual	2022 Estimate	2023 Estimate	2024 Estimate	2025 Estimate
United States					
Nominal GDP (year-to-year growth)	10.7%	9.0%	4.4%	4.0%	4.6%
Inflation-Adjusted GDP (year-to-year growth)	5.9%	1.9%	0.0%	1.2%	2.3%
Unemployment Rate	5.3%	3.6%	4.0%	4.4%	4.2%
Wage & Salary Employment (year-to-year growth)	2.8%	4.0%	1.0%	0.0%	0.7%
Inflation					
Consumer Price Index (year-to-year growth)	4.7%	8.1%	4.2%	2.7%	2.5%
GDP Implicit Price Deflator (yr.-to-yr. growth)	4.5%	7.0%	4.3%	2.8%	2.3%
Interest Rates					
90-day Treasury Bill	0.04%	2.02%	5.39%	5.53%	4.81%
10-year Treasury Bill	1.45%	2.95%	4.64%	4.69%	4.57%
Corporate Aaa Bond	2.70%	4.07%	5.93%	6.13%	5.93%
Federal Funds Rate	0.08%	1.68%	5.37%	5.51%	4.88%
Light Motor Vehicle Sales (millions of units)	14.9	13.7	14.6	15.5	16.4
Auto	3.4	2.9	3.0	3.0	3.1
Truck	11.6	10.9	11.6	12.5	13.3
Michigan					
Personal Income (millions)	$567,807	$568,160	$593,257	$619,439	$645,343
Year-to-year growth	5.6%	0.1%	4.4%	4.4%	4.2%
Inflation-Adjusted Personal Income (year-to-year growth)	1.3%	(7.5%)	0.2%	1.7%	1.7%
Wage & Salary Income (millions)	$261,812	$283,120	$295,727	$305,874	$317,719
Year-to-year growth	7.9%	8.1%	4.5%	3.4%	3.9%
Detroit Consumer Price Index (year-to-year growth)	4.3%	8.2%	4.2%	2.6%	2.5%
Wage & Salary Employment (thousands)	4,193.5	4,320.6	4,318.5	4,339.1	4,379.4
Year-to-year growth	3.8%	3.0%	0.0%	0.5%	0.9%
Unemployment Rate	5.9%	4.5%	4.7%	4.5%	4.5%

Table 2

THE SENATE FISCAL AGENCY US ECONOMIC FORECAST DETAIL (Calendar Years)	2021 Actual	2022 Estimate	2023 Estimate	2024 Estimate	2025 Estimate
Gross Domestic Product					
(billions of dollars)	$23,315.1	$25,419.8	$26,530.3	$27,602.8	$28,879.2
Year-to-year growth	10.7%	9.0%	4.4%	4.0%	4.6%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2012 dollars)	$19,609.8	$19,977.9	$19,983.7	$20,221.7	$20,687.2
Year-to-year growth	5.9%	1.9%	0.0%	1.2%	2.3%
Consumption					
(billions of 2012 dollars)	$13,754.1	$14,139.4	$14,364.8	$14,484.0	$14,677.2
Year-to-year growth	8.3%	2.8%	1.6%	0.8%	1.3%
Business Fixed Investment					
(billions of 2012 dollars)	$2,835.4	$2,938.5	$2,950.6	$3,014.8	$3,173.6
Year-to-year growth	6.4%	3.6%	0.4%	2.2%	5.3%
Change in Business Inventories					
(billions of 2012 dollars)	($19.4)	$109.4	$20.2	$51.9	$75.7
Residential Investment					
(billions of 2012 dollars)	$719.4	$644.0	$524.3	$531.6	$580.0
Year-to-year growth	10.7%	(10.5%)	(18.6%)	1.4%	9.1%
Government Spending					
(billions of 2012 dollars)	$3,426.3	$3,399.0	$3,400.4	$3,388.3	$3,413.0
Year-to-year growth	0.6%	(0.8%)	0.0%	(0.4%)	0.7%
Net Exports (billions of 2012 dollars)	($1,233.4)	($1,386.6)	($1,356.2)	($1,296.5)	($1,271.8)
Exports (billions of 2012 dollars)	$2,366.8	$2,526.2	$2,490.7	$2,507.5	$2,574.3
Imports (billions of 2012 dollars)	$3,600.2	$3,912.8	$3,847.0	$3,804.0	$3,846.1
Personal Income (year-to-year growth)	7.4%	2.0%	4.9%	3.8%	4.6%
Adjusted for Inflation	2.6%	(5.6%)	0.6%	1.1%	2.0%
Wage & Salary Income					
(year-to-year growth)	8.8%	8.6%	5.1%	3.1%	4.1%
Personal Savings Rate	12.0%	3.2%	3.5%	3.6%	4.4%
Output per hour					
(Labor productivity, annual growth)	2.4%	(1.6%)	(0.3%)	1.1%	1.2%
Unit labor costs (annual growth)	2.4%	6.6%	4.6%	2.0%	2.3%
Housing Starts (millions of units)	1.601	1.540	1.218	1.229	1.323
Conventional Mortgage Rates	3.0%	5.3%	7.3%	6.7%	6.3%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($2,835.3)	($1,050.5)	($1,188.9)	($1,265.5)	($1,317.4)

In Michigan, job growth and personal income growth are expected to follow the path of the national economy, with the economy exhibiting almost no growth in 2023, before growing at a slow but increasing rate over the forecast (Figures 8 and 9). After having increased 1.3% in 2021, inflation-adjusted personal income is projected to have declined 7.5% in 2022, reflecting the exhaustion of various Federal stimulus efforts. The slowing national economy is expected to result in Michigan's inflation-adjusted personal income rising 0.2% in 2023. As the national economy strengthens in 2024 and 2025, Michigan's inflation-adjusted personal income is predicted to grow 1.7% in both 2024 and 2025. Michigan payroll employment fell 9.1% during 2020 and rose 3.8% in 2021, and increased an estimated 3.0% in 2022. The forecast predicts Michigan payroll employment will remain essentially unchanged in 2023 but will increase 0.5% in 2024 and 0.9% in 2025. Nationally, light vehicle sales fell from 14.9 million units in 2021 to 13.7 million units in 2022 and the forecast predicts light vehicle sales will rise to 14.6 million units in 2023, 15.5 million units in 2024 and 16.4 million units in 2025 (Figure 10). The Michigan unemployment rate, which averaged 10.0% during 2020, 5.9% in 2021, and an expected 4.5% in 2022, is predicted to increase to 4.7% in 2023 before returning to 4.5% in both 2024 and 2025.

Compared with the May 21, 2022, Consensus Revenue Estimating Conference (CREC) forecast, forecasted economic growth is expected to be meaningfully weaker for both the national and Michigan economies. Employment growth also is expected to be weaker, while inflationary pressures are expected to be greater.

Figure 8

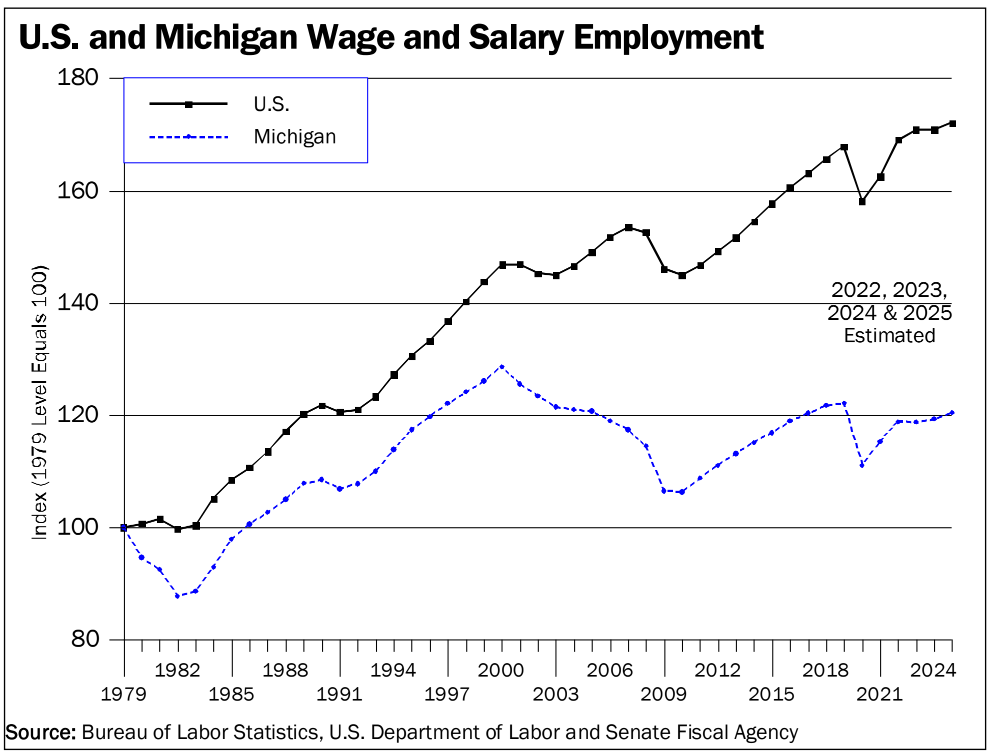
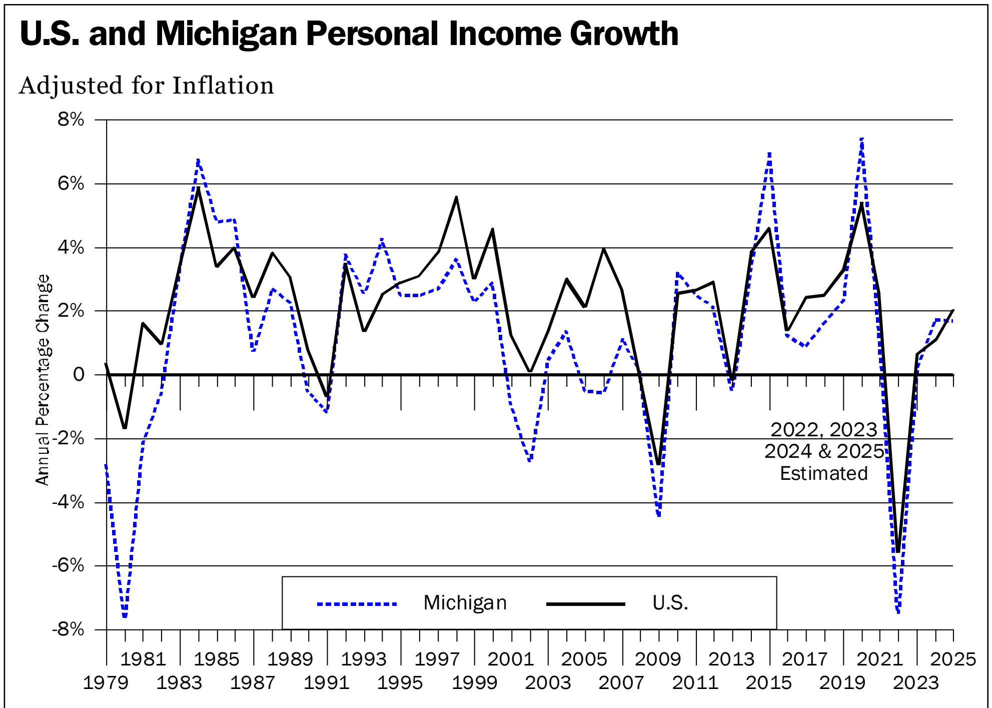
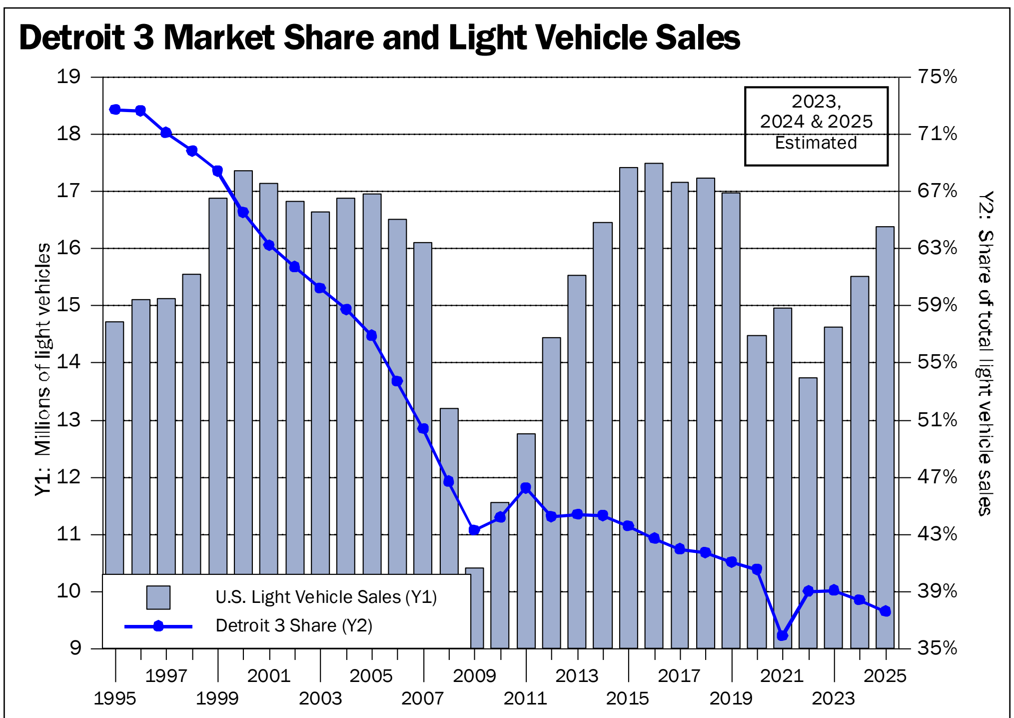


Figure 9



Source: Bureau of Economic Analysis, U.S. Department of Commerce and Senate Fiscal Agency

Figure 10



Source: Automotive News; Bureau of Economic Analysis, U.S. Department of Commerce; Senate Fiscal Agency

FORECAST RISKS

- The COVID-19 pandemic has resulted in short-term disruptions in the long-run relationship between many economic (and tax revenue) variables. How quickly these relationships are restored will affect the accuracy of the forecast.
- Inflationary risks are expected to be remain in the near-term but will decline as a result of aggressive Federal Reserve monetary policy and as consumer spending patterns return to historical norms. Fiscal policy will remain stimulative but no new major stimulus programs are expected.
- Both the US and Michigan labor markets will face labor market constraints on growth resulting from aging workforces and post-recession declines in labor force participation.
- Recovery in the Michigan economy will be dominated by what happens with the motor vehicle industry.

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. Traditionally, unexpected changes in economic fundamentals often represent the greatest source of error. However, forecast models often are driven by historical experience. Given the unprecedented changes in economic variables as a result of COVID-19 disruptions and the significant lack of timely information about other key variables, the current forecast suggests a significant number of risks and a large possibility for estimation error.

Estimation error can be difficult or impossible to control when things change in ways that have not been previously observed. Statistical models use computational methods to estimate the degree to which changes in one variable (for example, the wage rate) affect another variable (for example, consumer spending). These methods look at past changes in the variables to estimate their relationship. The extent to which these estimated relationships will be useful for making future predictions depends on the degree to which the changes are similar. When estimating the relationships, large jumps in the value of a variable can result in difficulties in obtaining a reliable association between how changes in one variable affect another. Similarly, when making forecasts, the effects of large changes in a variable are unlikely to be correctly forecasted if the equations were estimated with data that did not contain changes of a similar magnitude. The magnitude by which many economic variables have changed in response to the COVID-19 pandemic has drastically increased the chances for estimation error because the current changes differ greatly from the magnitude of changes upon which most forecasting models have been estimated. Estimation error has been further complicated by COVID-19 in that situations have occurred in which the traditional relationships between different economic variables have not held true.

This section will focus more on several major categories of risk that will affect the validity of the forecast even if there is no estimation error due to statistical difficulties associated with extreme changes in the data.

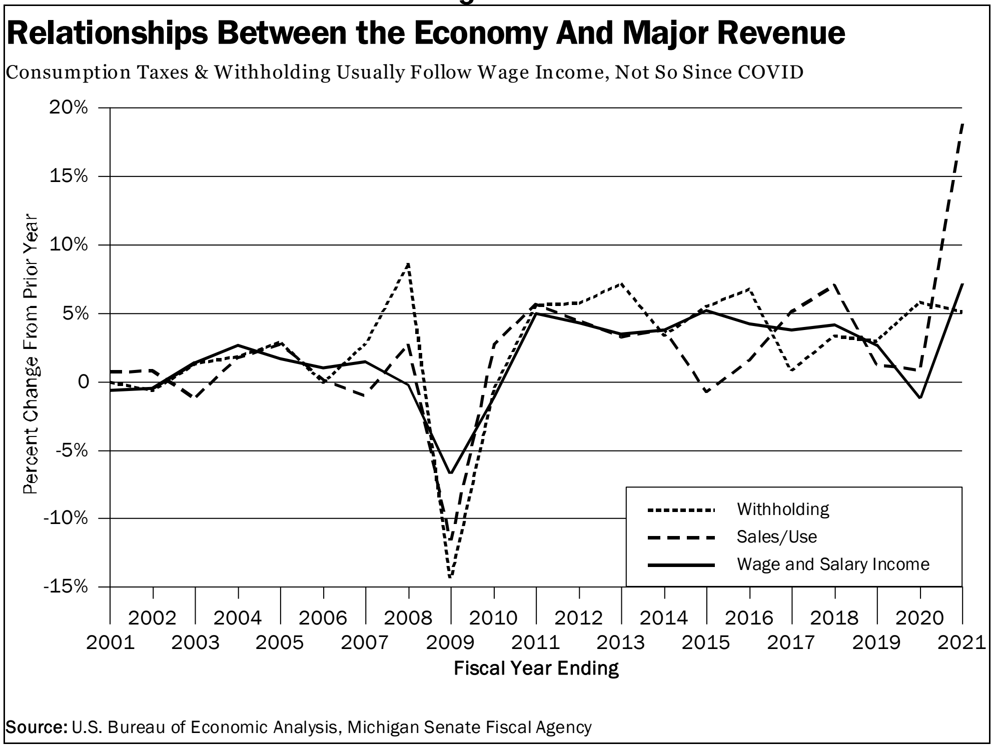
COVID-19 and Traditional Economic Relationships. Traditionally, when employment falls spending declines. During recessions, spending generally declines by less than employment because consumers use debt, credit, and savings to smooth spending. Transfer payments, whether in the form of stimulus checks, increased unemployment insurance payments, or increased utilization of government assistance programs (like food stamps or Medicaid), tend to smooth spending and maintain income levels as wage income is partially replaced by transfer payments. Some types of stimulus measures, such as directly mailing checks to the majority of the population, are frequently saved or used to pay down debt and, thus, do little to maintain the current economy. Most recessions also are dominated by losses on the demand side; the loss of income (largely due to the loss of a job) reduces the demand for goods and services, rather than by supply constraints, when goods and services are not available, thus restricting economic activity that depends on those goods and services.

The COVID-19-induced recession of 2020 saw many of these relationships change, sometimes in substantial ways. Even when the relationships held, some of the changes resulted in responses of unlikely and/or inconsistent magnitudes. Finally, the nature of expectations regarding the pandemic have resulted in behaviors not consistent with other recessions. For example, in 2001 and 2008, when Americans received stimulus checks, only about 20% of the money was spent and the rest either was saved (thus funding future consumption) or used to pay down debt. In contrast, estimates suggest that somewhere between 60% and 75% of the payments in early 2020 were spent, while it appears that only about 20% of the second and third round of stimulus checks were spent. Furthermore, unlike most previous recessions, supply constraints played a major role in the slowdown as pandemic-related issues restricted the availability of labor or the ways in which labor could be utilized. In 2020, the traditional relationship between spending and employment, where both tend to move in the same direction, did not follow historical patterns. For example, during the 2008-09 recession, retail sales fell 10.1% between the beginning of the recession in December 2007 and the end of the recession in June 2009, while payroll employment fell 5.3%. In contrast, payroll employment in April 2021 was down 5.4% from February 2020, nearly the same decline as in the 2008-09 recession, while retail sales were up 20.8%.

The changed relationships between economic variables during 2020 and 2021 not only increase the risks regarding the economic forecast, but for the revenue forecast presented in the next section. For example, in Michigan, payroll employment fell 23.8% between February 2020 and April 2020 and sales tax revenue fell 27.3%, yet IIT withholding rose 2.3%. Although payroll employment has continued to recover between April 2020 and November 2022, November 2022 payroll employment remained 1.5% below the February 2020 level while sales and use tax revenue during 2021 has consistently averaged 20.4% growth above the average growth that occurred in the 12 months preceding COVID-19, and in FY 2021-22 averaged 14.6% growth above the 2021 levels. (Figure 11). The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables. As illustrated with FY 2019-20, FY 2020-21, and FY 2021-22 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions of dollars, or even by billions of dollars. For example, the economic changes forecasted at the May 2020 CREC largely were correct, yet the $3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by $2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held.

Recoveries from recessions like the 2008-2009 recession, which was caused by a crisis within the financial system, often take longer than traditional recoveries because of the increased level of risk aversion both borrowers and lenders exhibit, and the need to rebuild asset values rather than simply having the unemployed obtain jobs. In contrast, after the 1957-58 recession, which reflected the most recent pandemic in US history to have a significant economic impact, the economy recovered relatively quickly, with inflation-adjusted GDP surpassing the prerecession peak after just three quarters of growth and employment recovering to the pre-recession peak within 10 months of the trough. Inflation-adjusted GDP in the wake of the COVID-19-induced recession has followed the pattern of the 1957-58 pandemic, and recovered to prerecession levels in the second quarter of 2021. However, before COVID-19, the economy was exhibiting numerous signs of slowing and the corresponding restructuring of business activity. The pandemic and the resulting technological changes many firms have implemented are expected to fundamentally alter the need for some employees. Additionally, the economy of 1958 was far more manufacturing-intensive, and services have suffered greater declines from COVID-19. As a result, while overall employment has surpassed pre-COVID-19 pandemic levels, the composition across economic sectors and geographic locations has changed, as has the distribution across skill levels and income groups.

Figure 11



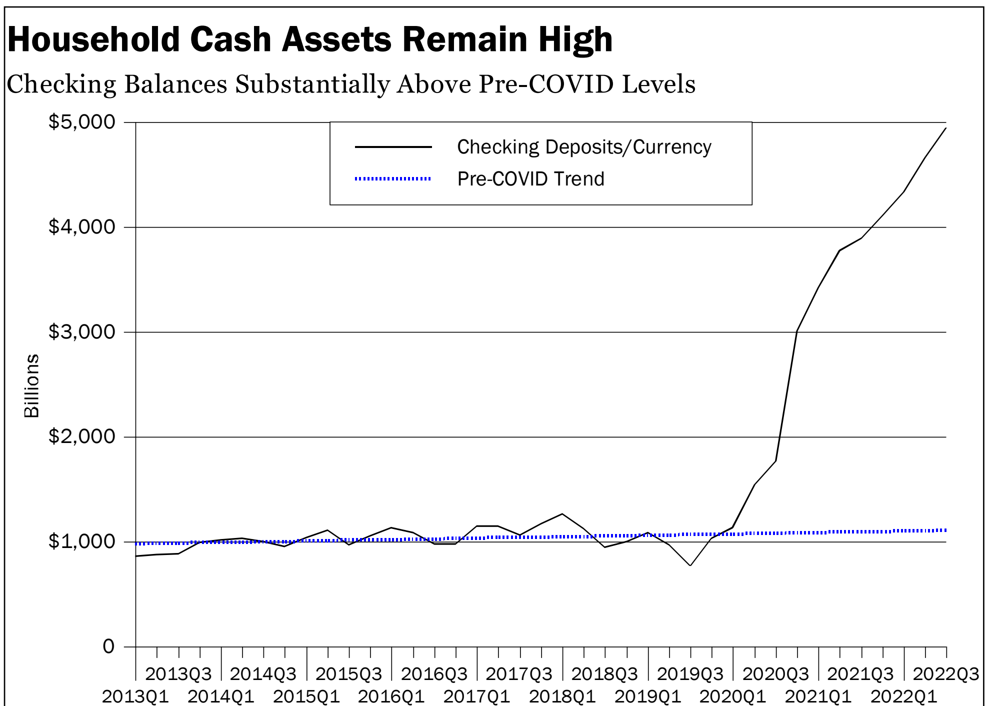
Monetary and Fiscal Policy. Changes in Federal tax policy since 2017 and subsequent growth in Federal spending increased Federal deficits to 4.9% of GDP in 2019, limiting the ability for fiscal policy to respond to a recession. Before the COVID-19 pandemic, the economy had exhibited warning signs of a recession, which is particularly likely when the "yield curve", which represents the difference between short-term and long-term interest rates, "inverts" (i.e., that short-term rates exceed long-term rates). Much of the May 2019 through October 2019 period was characterized by an inverted yield curve, as was much of February 2020, suggesting the economy was at risk of contraction. As a result of numerous signs warning of a slowdown, the Federal Reserve Board of Governors lowered interest rates three times in 2019. These reductions occurred in an already-low interest-rate environment, meaning that like Federal fiscal policy, monetary policy entered 2020 facing a more limited ability to respond to a recessionary shock.

After the economy began suffering impacts from the spread of COVID-19, the Federal government implemented fiscal and monetary policies to provide economic stimulus. Many of the initiatives, ranging from supplemental unemployment benefits and stimulus checks to special lending facilities from the Federal Reserve Bank, were constructed to reduce economic disruptions associated with COVID-19. While the stimulus measures appear to have been quite effective at maintaining aggregate income levels, and (to some degree) consumption spending, the fiscal stimulus measures pushed the Federal deficit to 27.4% of GDP in the second quarter of 2020 and 15.8% of GDP in the third quarter. Reflecting the increased severity of the COVID-19 recession compared to the 2008-09 recession, while net Federal saving averaged -8.5% (negative values reflect a deficit) of GDP over the 2009-2011 period, between the second quarter of 2020 and the third quarter of 2021, net Federal saving averaged -15.9% of GDP. Most stimulus measures have expired, and, during the first three quarters, net Federal saving has averaged -3.8% of GDP.

The forecast does not anticipate any additional major Federal fiscal stimulus package, but does expect fiscal policy to remain stimulative with net Federal saving averaging -4.5% of GDP over the forecast period. Monetary policy is expected to be contractionary, as the Federal Reserve seeks to rein in the possibility of long-term inflationary expectations rising. The Federal Reserve ended security purchases (another mechanism available to lower long-term interest rates) before March 2022 and increased interest rates in March 2022 for the first time since December 2018. The Federal Reserve continued to increase interest rates and by the end of 2022 had raised rates seven times for a total of 425 basis points (increasing the target Federal Funds rate from 0.0-0.25% at the beginning of the year to 4.25-4.50% at the end). Interest rates are expected to continue rising in the first half of 2023, rise steadily throughout the forecast, with the target Federal Funds rate reaching 5.50-5.75% in May 2023. The forecast predicts inflation expectations to remain stable and inflation to decline. The path for expected inflation is discussed above, and interest rates are not expected to fall until the Federal Reserve is convinced inflation is unlikely to exceed the long-term target of 2.0%, which the forecast expects will occur in the last quarter of 2024.

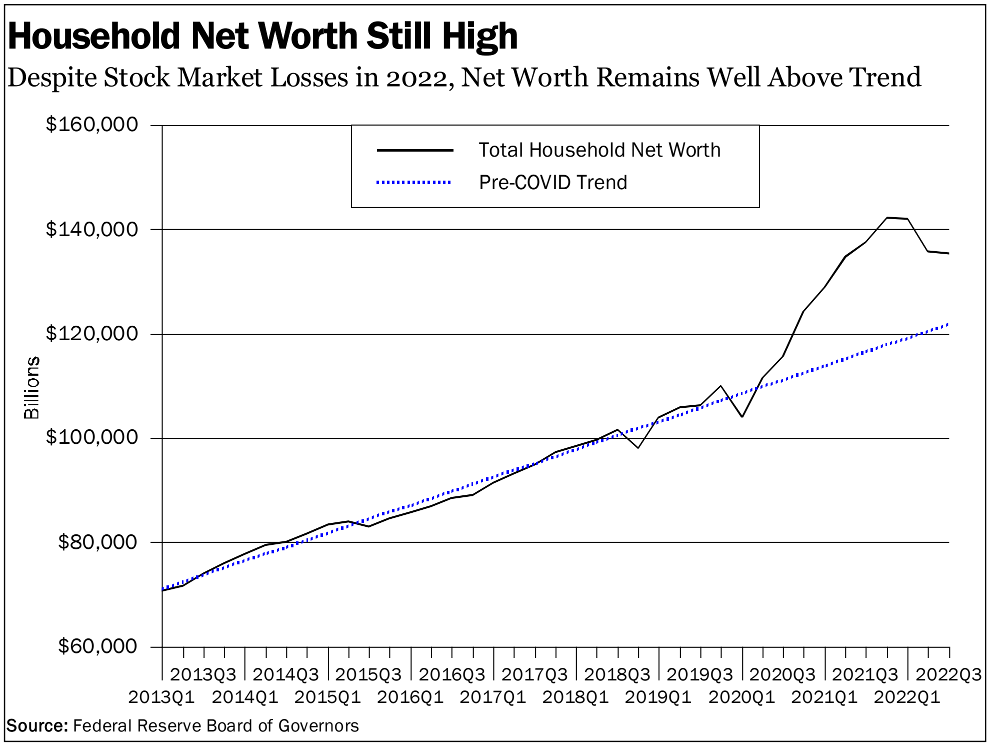
A major risk affecting how well monetary policy will succeed in slowing inflation relates to consumer spending. As mentioned above, many consumers saw their net worth and cash balances rise in 2020 and 2021 (Figures 12 and 13). Despite rising inflation and falling stock markets, especially in 2022, consumers are wealthier than before the pandemic, particularly those consumers in the middle- and high-income groups and homeowners. Ultimately, inflation has reflected strong consumer demand and the way that demand is transmitted through the rest of the economy, whether by increasing the demand for goods that supply chains struggle to fulfill or a need for additional workers (who are in short supply) to provide goods and services. Whether that demand is fueled by wage growth, boosted by high checking and savings balances, financed by rising consumer borrowing or strong stock market gains, the demand puts pressure on firms to increase output. Because consumer balances and net worth remain above trend, consumers can feel wealthy enough to maintain (or increase) consumption in a world with rising consumer prices and rising interest rates. Consumer spending in 2022 reflected this behavior, with inflation at the highest levels in decades and inflation-adjusted spending still exhibiting solid growth. The forecast expects that consumer spending will slow in 2023 and 2024, although perhaps not as much as it would have given the historical relationship between interest rates and spending. To the extent that additional Federal fiscal stimulus is adopted (perhaps due to slow economic growth), both economic growth and inflation will be stronger than forecasted. Similarly, to the extent that the Federal Reserve finds it necessary to raise interest rates higher than expected or keep them at high levels for longer than expected (perhaps because consumers respond less than expected to rising interest rates), economic growth will be slower than forecasted and unemployment will be higher. Similarly, if inflation falls more rapidly than expected, economic growth will be stronger.

Figure 12



Source: Federal Reserve Board of Governors

Figure 13



The Labor Market and Long-Term Constraints on Growth. Unemployment rate declines since 2009 have been accelerated by reduced labor market participation, although falling labor force participation rates have played a greater role in lowering the Michigan unemployment rate than they have in reducing the national unemployment rate. Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals giving up their search for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that those individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages as the economy continues to recover. A March 2018 study from the Congressional Budget Office projected that population demographics would lower labor force participation by more than three percentage points (i.e., 3% of the population) over the next 10 years. This decline will help lower unemployment rates, but also will make it harder for firms to find the necessary workers, particularly in a growing economy (as well as restricting economic growth), and will increase labor costs.

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. Furthermore, the vulnerability of older populations to the COVID-19 virus may affect the rate at which some older adults leave (and/or return to) the labor force. Since the COVID-19 pandemic began, labor force participation has fallen markedly for both women and older adults (Figure 14). Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return (Figure 15). As a result, unemployment rates have declined relatively rapidly as output has expanded, and the economy has experienced slower employment growth and worker shortages have been widespread. Despite expecting less economic activity, especially in 2023, the forecast anticipates labor force dynamics will constrain growth over the next few years (if not decades). Moreover, unemployment rates will continue to be lower than suggested by the rate of job growth, and worker shortages will maintain greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

Aside from the short-term growth constraints related to the COVID-19-pandemic, low population growth and lower longer-term productivity will constrain the long-term economic growth potential of both the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they produce goods and services. While short-term deviations inevitably occur, especially as a result of variations in labor force participation and the number of unemployed workers, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced since the 2008-09 recession can be attributed to slower rates of both population growth and productivity growth. From 1991 to 2010, the average potential growth based on the sum of population growth and productivity was 3.5% per year. From 2011 to 2019, this potential growth averaged 1.6% per year.

Figure 14

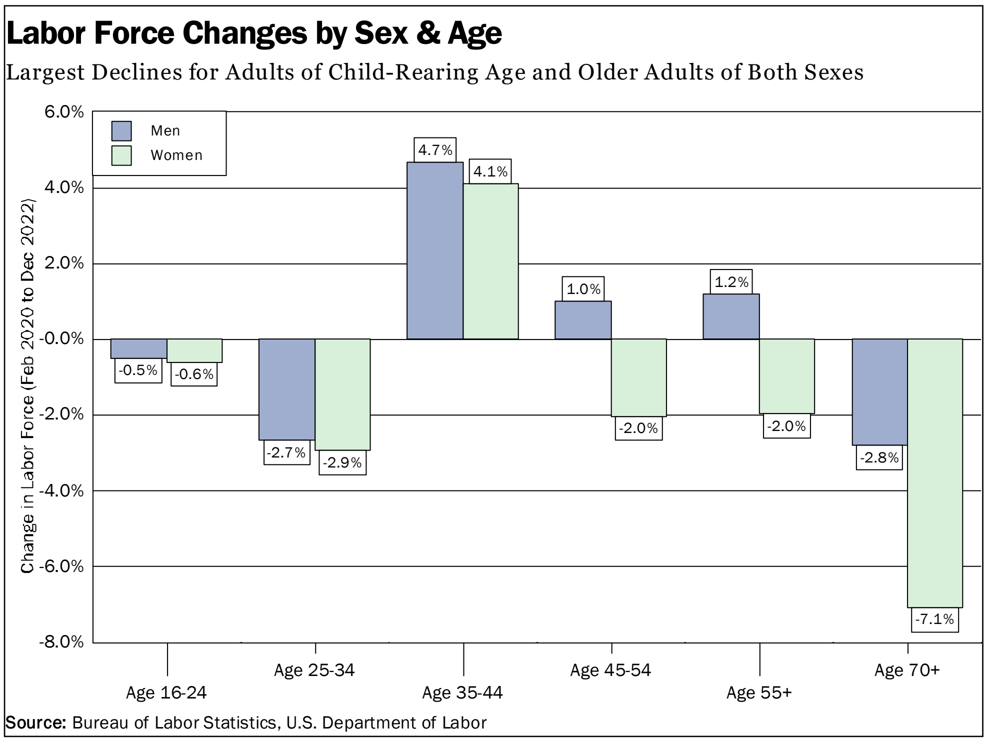
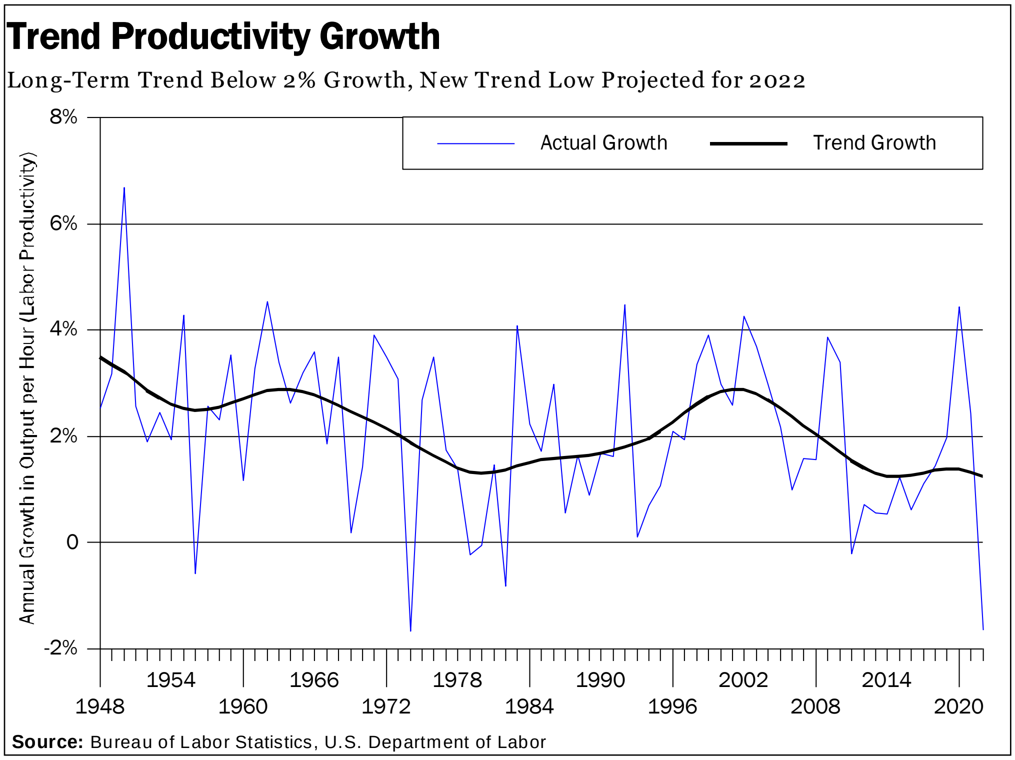


Figure 15

Nationally, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.9% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 16). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014. Business investment affects not only current economic growth but also future economic growth because investment generally is associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates. While productivity increased more rapidly in 2020 and 2021, productivity growth is estimated to have been negative in 2022.

In 2023, productivity growth is expected be slightly negative, and during 2024 and 2025 generally will be near the rates experienced during the 2010-2019 period. If productivity growth is less than forecasted, in the short run it will reduce economic growth and risk higher inflation than presented in the forecast. Similarly, if productivity growth is greater than forecast, output will increase and inflation will decline more rapidly, but employment growth will be slower.

Figure 16



Michigan's Situation. While over the 2000-2009 period Michigan's employment situation fared worse than the national average and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not inconsistent with other states when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) experienced weaker job performance during that decade, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive but have reduced the need for hiring additional employees to meet increased demand.

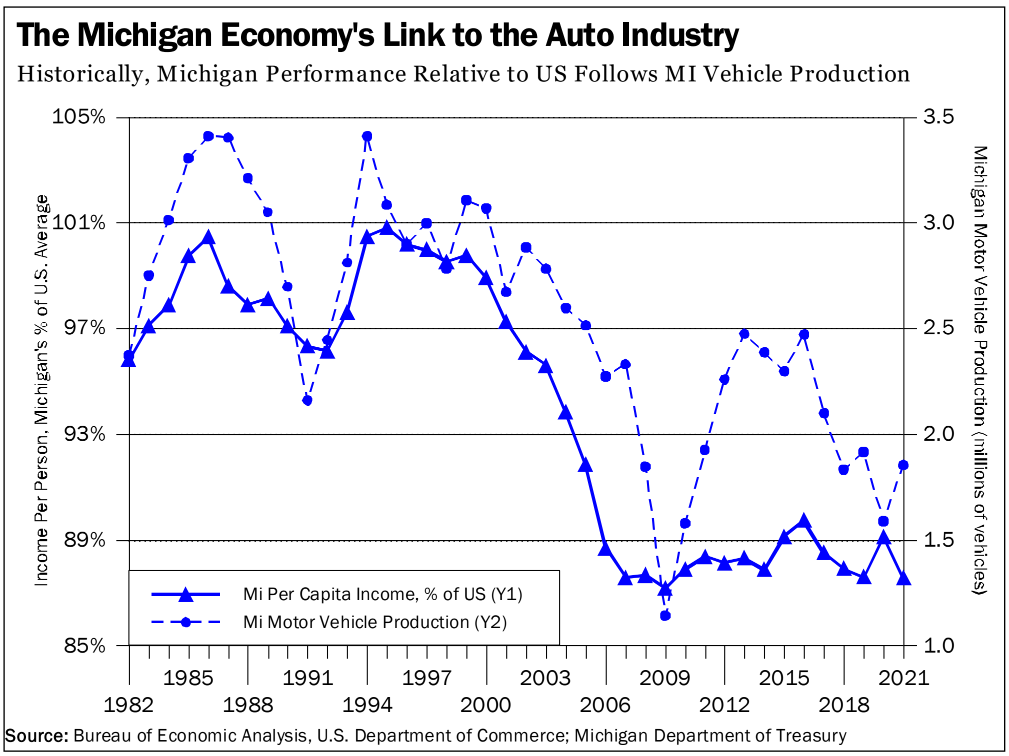
Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 17). While that reliance has declined (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 5.6% in 2017), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although when oil prices started fall, these states faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 helped mute the impact of the COVID-19 pandemic on the Michigan economy.

However, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that those production needs can be met with existing, or even lower, employment levels than those at the end of 2019. As a result, as of June 2009, Michigan had lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak; the majority of those jobs will never return, and any gains in employment in the near future are likely to be muted. While Michigan payroll employment returned to the January 2008 level (the US prerecession peak) during 2015, as identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the Michigan prerecession peak) again until sometime late in the 2020-2030 decade.

Compounding the employment situation, Michigan exhibits an older population. Michigan ranks 10th in the share of population comprised of individuals between the ages of 50 and 64, meaning that age-related declines in the labor-force are likely to hit Michigan harder than most other states. Furthermore, not only does the forecast expect significant productivity growth within the motor vehicle industry but the forecast expects that Michigan vehicle manufacturers are likely to see declining market shares--although the declines will not be as steep as they were during the 1999-2009 period.

The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists while the state remains comparatively over-reliant on the motor vehicle industry and exhibits unfavorable population demographics from limited population growth and an aging population. For the Michigan economy and State tax revenue to improve markedly, substantial employment gains in the economy as a whole will need to occur.

Figure 17



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's estimates for General Fund/General Purpose and School Aid Fund revenue. The preliminary year-end revenue for FY 2021-22 is presented along with the revised estimates for FY 2022-23 and FY 2023-24 and the initial revenue estimates for FY 2024-25. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2021-22, FY 2022-23, and FY 2023-24 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary GF/GP and SAF revenue for FY 2021-22, along with the revised estimates for FY 2022-23 and FY 2023-24, and the initial estimates for FY 2024-25 are presented in Table 3 and are summarized below.

FY 2021-22 Preliminary Revenue

- General Fund/General Purpose and SAF revenue is expected to total $33.0 billion in FY 2021-22.
- This year-end estimate for FY 2021-22 increased 13.7% or $3,971.0 million from the actual revenue for FY 2020-21, reflecting in part increases in personal income tax, corporate income tax, and sales tax. These increases were slightly offset by a drop in the use tax and lower lottery revenue.
- The preliminary estimate for FY 2021-22 is $1,510.7 million above the May 2022 consensus revenue estimate.
- The books have not yet been closed for FY 2021-22; final revenue will be determined at bookclosing.

FY 2022-23 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $30.7 billion in FY 2022-23.
- This revised estimate for FY 2022-23 is down 7.1%, or $2,350.6 million, from the preliminary revenue for FY 2021-22. The projected revenue decrease in FY 2022-23 reflects reductions in nearly all major taxes, partially offset by increases in the State Education Tax (SET) and reduced IIT refunds.
- The revised estimate for FY 2022-23 is $488.4 million below the May 2022 consensus revenue estimate.

FY 2023-24 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $30.9 billion in FY 2023-24.
- The revised estimate for FY 2023-24 is up 0.6%, or $187.4 million, from the revised estimate for FY 2022-23. The revenue increase in FY 2023-24 reflects growth in IIT revenue and a reduction in credits under the MBT, partially offset by decreases in consumption taxes.
- The revised estimate for FY 2023-24 is $806.0 million below the May 2022 consensus revenue estimate.

FY 2024-25 Initial Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $32.1 billion in FY 2024-25.
- This initial estimate for FY 2024-25 is 4.1%, or $1,267.9 million, more than the revised estimate for FY 2023-24.
- The revenue increase in FY 2024-25 reflects growth in almost all taxes, partially offset by increased MBT credits.

Historical Perspective

- Preliminary net GF/GP and SAF revenue increased 13.7% in FY 2021-22. Net GF/GP and SAF revenue is forecast to decrease in FY 2022-23, and then increase in FY 2023-24 and FY 2024-25. The projected growth rates are -7.1% in FY 2022-23, 0.6% in FY 2023-24, and 4.1% in FY 2024-25. These changes compare with an average decline of 0.9% per year for the FY 2000-01 to FY 2009-10 period and an average increase of 3.0% in the years from FY 2010-11 to FY 2019-20.
- Preliminary General Fund/General Purpose revenue grew 16.9% in FY 2021-22, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax (PPT) changes. School Aid Fund revenue rose to its highest level ever in FY 2020-21 ($17.8 billion), after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.

Baseline revenue is forecast to decrease in FY 2022-23, and then increase in FY 2023-24 and FY 2024-25 (Figure 18). GF/GP and SAF baseline revenue declined during several periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 11.5% in FY 2021-22. Using the FY 2020-21 base year, baseline GF/GP and SAF revenue is expected to decline approximately 7.0% in FY 2022-23, then increase 0.5% in FY 2023-24, and 3.9% in FY 2024-25.

With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2022-23 will be approximately 10.4% (or $1,585.0 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of $13.9 billion in FY 2023-24 is 8.9% below the peak, and initial estimates for FY 2024-25 are 2.9% below the peak level (Figure 19). In inflation-adjusted terms, FY 2024-25 GF/GP revenue is estimated to be 2.5% (or $245.7 million in 2012 dollars) below the FY 1967-68 level (Figure 20).

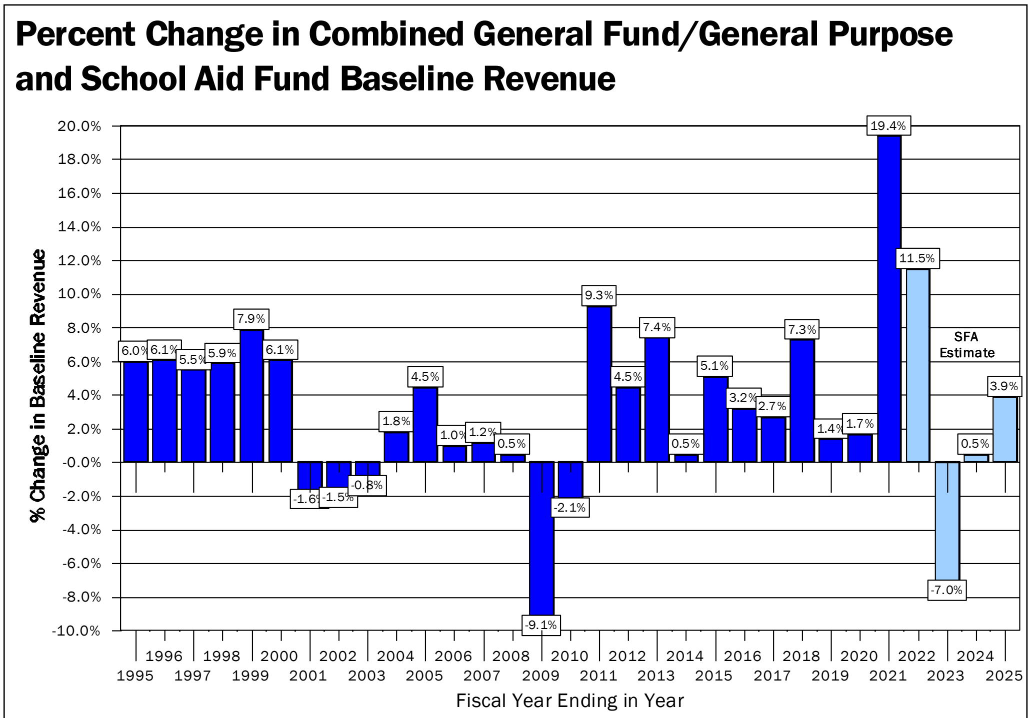
In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to decrease in FY 2022-23, continue to fall slightly in FY 2023-24, and then turn to sustained growth in FY 2024-25 (Figure 19). In FY 2024-25, SAF revenue is predicted to be approximately 148.1% ($10.4 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 7.4% ($916.5 million in 2012 dollars) below if adjusted for inflation (Figure 21).

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2021-22 THROUGH FY 2024-25 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2021-22 Preliminary	**FY 2022-23 Revised Est.**	**FY 2023-24 Revised Est.**	**FY 2024-25 Initial Est.**
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1)]	$16,889.5	$15,026.1	$15,200.4	$16,090.4
Tax Changes Not In Baseline	(1,683.8)	(1,405.4)	(1,343.7)	(1,330.5)
Revenue After Tax Changes:				
Net Income Tax	9,212.2	8,170.2	8,391.2	9,121.2
MBT, CIT, SBT & Insur. Tax	1,950.5	1,621.0	1,680.4	1,810.5
Other Taxes	3,386.7	3,276.4	3,233.4	3,281.8
Total Taxes	14,549.4	13,067.6	13,305.0	14,213.5
Nontax Revenue	656.3	553.1	551.7	546.4
TOTAL GF/GP REVENUE	**$15,205.7**	**$13,620.7**	**$13,856.7**	**$14,759.9**
SCHOOL AID FUND				
Baseline SAF	$17,755.8	$17,209.3	$17,181.0	$17,550.2
Tax Changes Not In Baseline	69.5	(149.6)	(169.9)	(174.4)
TOTAL SAF REVENUE	**$17,825.3**	**$17,059.7**	**$17,011.1**	**$17,375.8**
BASELINE GF/GP AND SAF REVENUE	$34,645.3	$32,235.4	$32,381.4	$33,640.6
Tax & Revenue Changes	(1,614.3)	(1,555.0)	(1,513.6)	(1,504.9)
GF/GP & SAF REV. AFTER CHANGES	**$33,031.0**	**$30,680.4**	**$30,867.8**	**$32,135.7**
ADDENDUM:				
Sales Tax	$10,784.7	$10,680.1	$10,428.0	$10,434.2
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	13.8%	(11.0%)	1.2%	5.9%
Revenue After Tax Changes:				
Net Income Tax	19.4%	(11.3%)	2.7%	8.7%
MBT, CIT, SBT & Insur. Tax	24.5	(16.9)	3.7	7.7
Other Taxes	5.1	(3.3)	(1.3)	1.5
Total Taxes	16.4	(10.2)	1.8	6.8
Nontax Revenue	31.4	(15.7)	(0.3)	(1.0)
TOTAL GF/GP REVENUE	**16.9%**	**(10.4%)**	**1.7%**	**6.5%**
SCHOOL AID FUND				
Baseline SAF	9.5%	(3.1%)	(0.2%)	2.1%
TOTAL SAF REVENUE	**11.0%**	**(4.3%)**	**(0.3%)**	**2.1%**
Baseline GF/GP and SAF Revenue	11.5%	(7.0%)	0.5%	3.9%
GF/GP & SAF REV. AFTER CHANGES	**13.7%**	**(7.1%)**	**0.6%**	**4.1%**
ADDENDUM:				
Sales Tax	14.6%	(1.0%)	(2.4%)	0.1%

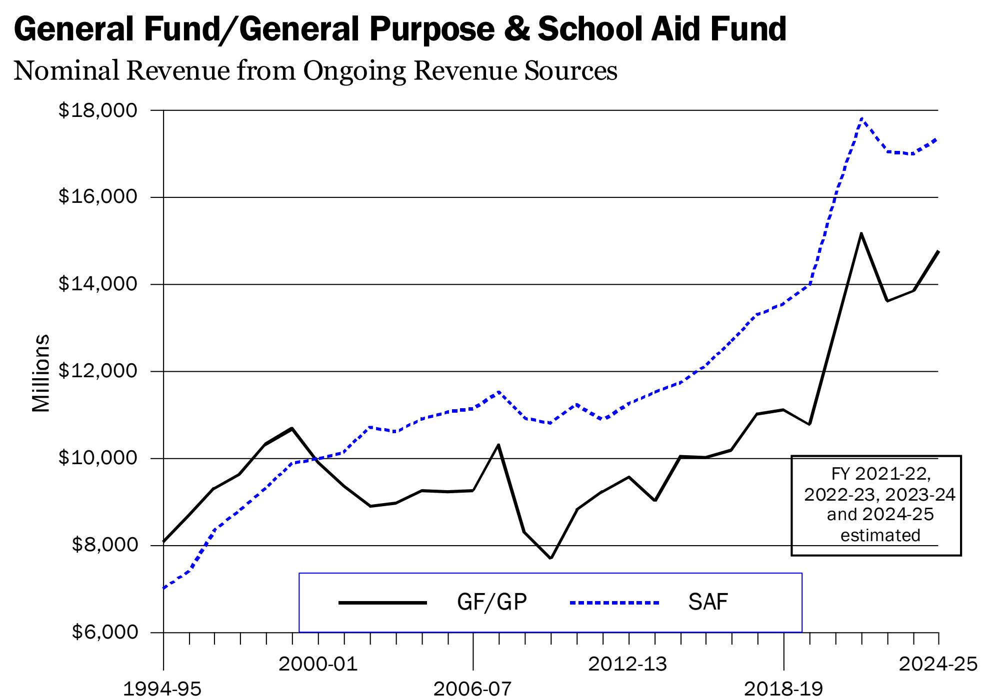
1) FY 2020-21 is the base year for baseline revenue.

Figure 18



Source: Department of Treasury and Senate Fiscal Agency

Figure 19



Source: Department of Treasury and Senate Fiscal Agency

Figure 20

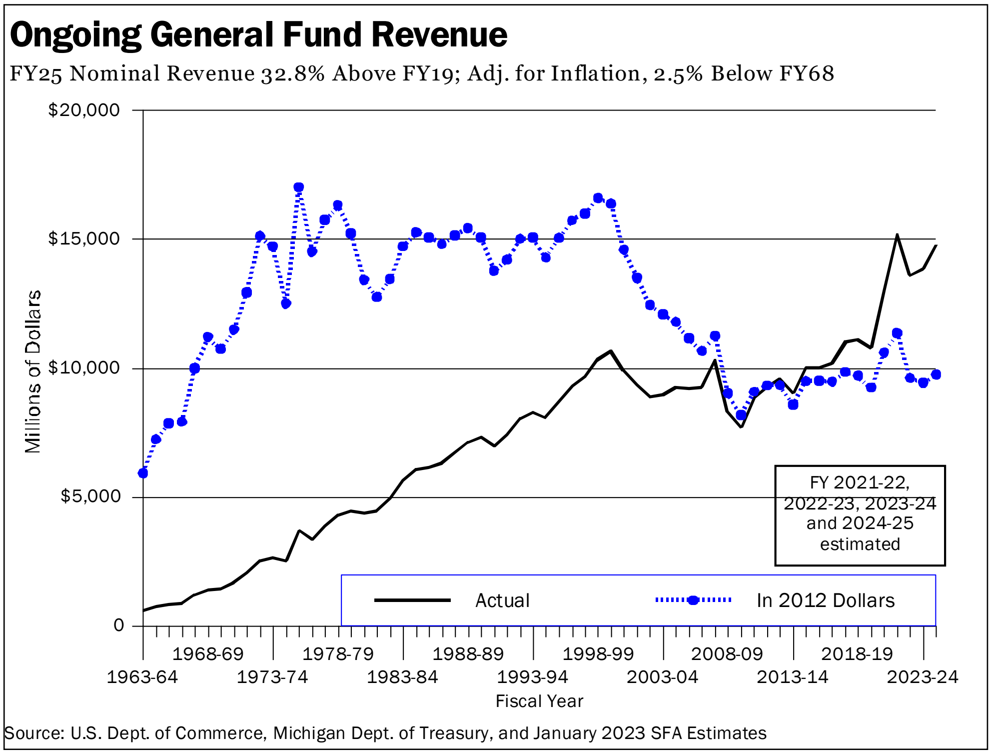
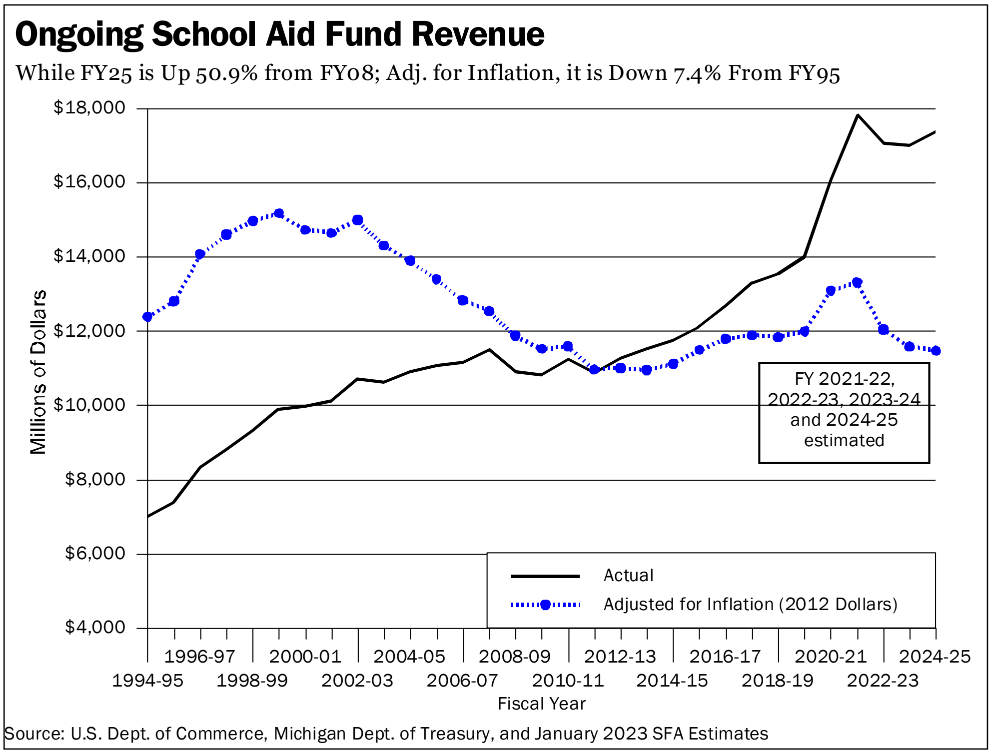


Figure 21



FY 2021-22 PRELIMINARY REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 13.7% in FY 2021-22 compared with FY 2020-21.
- The revenue increase in FY 2021-22 reflected in part increases in personal income tax, corporate income tax, and sales tax. These increases were slightly offset by a drop in the use tax and lower lottery revenue.
- The books have not yet been closed for FY 2021-22; final revenue will be determined at bookclosing.

Michigan's economy grew during FY 2021-22. Personal income grew 0.1%, wage and salary employment grew 3.0%, and wage and salary income grew 8.1%; however, inflation-adjusted personal income fell 7.5%. Based on preliminary year-end revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled $33.0 billion in FY 2021-22, which is 13.7% above the FY 2020-21 revenue level (as presented in Table 4). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan ACFR. Actions taken or determinations made between the date of this publication and bookclosing may, and likely will, change the amounts of final year-end revenues for FY 2021-22.

The preliminary GF/GP and SAF revenue level for FY 2021-22 is $1,510.7 million above the May 2022 consensus revenue estimate. The largest share of the revenue increase from the May 2022 estimates reflects net income tax collections, which were $459.0 million above the May consensus estimate due to high quarterly payments related to timing issues associated with the adoption of the Flow-Through Entity Tax in December 2021. Sales and use tax revenue was $69.2 million above the May estimate. Refunds paid under the MBT were $94.0 million lower than expected, although this may reflect timing issues, and companies could claim these refunds in a subsequent year. Corporate income tax collections rose 19.2% and finished $206.7 million above the May 2022 estimates. Lottery revenue was $48.7 million below the May 2022 estimates. Baseline GF/GP and SAF revenue increased 11.5% in FY 2021-22.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT reduced revenue by $112.5 million ($85.7 million GF/GP and $26.8 million SAF). Because preliminary GF/GP revenue is forecasted to increase in FY 2021-22 by an amount greater than 1.425 times the rate of inflation, Public Act 180 of 2015 is predicted to require a permanent reduction in the IIT rate. Any reduction that ultimately occurs (based on final year-end revenues determined at book-closing) would reduce revenue beginning in FY 2022-23 and is discussed in the balance sheet section at the end of this report.

Personal Property Tax Reform. Use tax collections of $521.9 million in FY 2021-22 will be levied by the Local Community Stabilization Authority (LCSA). These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Michigan Business Tax. The MBT will lower GF/GP revenue by $500.3 million in FY 2021-22. All the impact of MBT credits reduces GF/GP revenue.

Federal Tax Reform and the COVID-19 Relief Measures. COVID-19 Federal stimulus from 2020 reduced IIT revenue by $12.4 million ($8.7 million GF/GP and $3.7 million SAF). This also reduced CIT by $103.1 million to the GF/GP. The CARES Act reduced IIT revenue by $18.0 million ($13.7 million GF/GP and $4.3 million SAF). The American Rescue Plan reduced IIT revenue $258.2 million ($229.2 million GF/GP and $29.0 million SAF).

Other Changes. Changes to the Michigan Liquor Control Code lowered GF/GP revenue by $15.0 million. The feminine hygiene sales tax exemption reduced sales tax revenue by $4.2 million ($3.8 million GF/GP and $400,000 from other funds).

General Fund/General Purpose

General Fund/General Purpose revenue totaled an estimated $15.2 billion in FY 2021-22, an increase of 16.9%, or $2,202.1 million, from FY 2020-21. The revised GF/GP estimate is $1,026.0 million above the May 2022 consensus revenue estimate. Baseline GF/GP revenue increased 13.8%. These tax adjustments totaled $1,683.8 million. The revised GF/GP revenue estimates for FY 2021-22 are summarized in Table 4. The increase of $1,026.0 million from the May 2022 consensus estimate for FY 2021- 22 reflects higher income tax, sales, and CIT revenue, and lower use and cigarette taxes, than previously expected.

School Aid Fund

School Aid Fund revenue totaled an estimated $17.8 billion in FY 2021-22, an increase of 11.0%, or $1,768.9 million, from FY 2020-21. The revised SAF estimate is $484.7 million higher than the May 2022 consensus revenue estimate. The increase in SAF revenue reflects growth in most major earmarked tax sources, but a reduction in lottery and use tax. The SAF revised revenue estimates for FY 2021-22 are summarized in Table 4.

FY 2022-23 REVISED REVENUE ESTIMATES

Personal income will increase 4.4%, wage and salary employment will not change, and wage and salary income will increase 4.5% from FY 2021-22. Total GF/GP and SAF revenue will reach an estimated $30.7 billion in FY 2022-23, a decrease of 7.1%, or $2,350.6 million, from the preliminary revenue for FY 2021-22. On a baseline basis, GF/GP and SAF revenue is expected to decrease 7.0% in FY 2022-23, reflecting the decline in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2022-23 is $488.4 million below the May 2022 forecast and is summarized in Table 5.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $210.0 million ($160.1 million GF/GP and $49.9 million SAF).

Personal Property Tax Reform. Use tax collections of $548.0 million in FY 2022-23 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Michigan Business Tax. The MBT will lower GF/GP revenue by $527.1 million in FY 2021-22. All the impact of MBT credits reduces GF/GP revenue.

Federal Tax Reform and the COVID-19 Relief Measures. COVID-19 Federal stimulus from 2020 will increase IIT revenue by $5.1 million ($6.0 million GF/GP increase and $900,000 SAF decrease). This will also reduce CIT by $79.8 million to the GF/GP. The CARES Act will increase IIT revenue by $1.5 million ($1.1 million GF/GP and $400,000 SAF). The American Rescue Plan will reduce IIT revenue $91.4 million ($81.4 million GF/GP and $9.5 million SAF).

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $15.0 million. The feminine hygiene sales tax exemption will reduce sales tax revenue by $4.2 million ($3.8 million GF/GP and $400,000 from other funds). Changes to the General Property Tax Act will reduce SAF by $10.1 million.

Table 4

FY 2021-22 PRELIMINARY REVENUE GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)			Change from FY 2020-21		
	FY 2020-21 Final	FY 2021-22 Preliminary	Dollar Change	Percent Change	$ Change from 05/22 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$14,847.8	$16,889.5	$2,041.7	13.8%	$948.8
Tax Changes Not In Baseline	(1,844.1)	(1,683.8)	160.3	----	77.2
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$14,538.4	$17,089.6	$2,551.2	17.5%	$362.4
Less: Refunds	(2,696.9)	(3,147.6)	(450.7)	16.7	96.6
Net Income Tax Collections	11,841.5	13,942.0	2,100.5	17.7	459.0
Less: Earmarking to SAF	(3,458.3)	(4,059.7)	(601.4)	17.4	(77.2)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.6)	(1.1)	(0.5)	83.3	(0.3)
Net Income Tax to GF/GP	$7,713.6	$9,212.2	$1,498.6	19.4%	$381.5
Other Taxes					
Corporate Income Tax	$1,701.8	$2,029.3	$327.5	19.2%	206.7%
Michigan Business Tax	(490.5)	(500.3)	(9.8)	2.0	94.0
Sales	1,470.7	1,694.4	223.7	15.2	86.7
Use	1,258.3	1,194.9	(63.4)	(5.0)	(17.5)
Cigarette	177.0	158.8	(18.2)	(10.3)	(6.7)
Insurance Company Premiums	354.8	419.9	65.1	18.3	34.9
Telephone & Telegraph	32.4	35.0	2.6	8.0	3.0
Oil & Gas Severance	20.9	42.2	21.3	101.9	7.2
All Other	265.2	263.0	(2.2)	(0.8)	4.0
Subtotal Other Taxes	4,790.6	5,337.2	546.6	11.4	412.3
Total Nontax Revenue	499.4	656.3	156.9	31.4	232.2
GF/GP REV. AFTER TAX CHANGES	**$13,003.6**	**$15,205.7**	**$2,202.1**	**16.9%**	**$1,026.0**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$16,220.5	$17,755.8	$1,535.3	9.5%	$482.6
Tax Changes Not In Baseline	(164.1)	69.5	233.6	----	2.1
Revenue After Tax Changes					
Sales Tax	6,857.6	7,865.1	1,007.5	14.7	360.1
Use Tax	876.1	859.4	(16.7)	(1.9)	(10.2)
Lottery Revenue	1,419.8	1,191.3	(228.5)	(16.1)	(48.7)
State Education Property Tax	2,256.4	2,441.6	185.2	8.2	45.6
Real Estate Transfer Tax	490.3	546.6	56.3	11.5	19.6
Income Tax	3,458.3	4,059.7	601.4	17.4	77.2
Casino Tax	181.1	364.7	183.6	101.4	43.9
Other Revenue	516.8	496.9	(19.9)	(3.9)	(2.8)
SAF REV. AFTER TAX CHANGES	**$16,056.4**	**$17,825.3**	**$1,768.9**	**11.0%**	**$484.7**
BASELINE GF/GP AND SAF	$31,068.2	$34,645.3	$3,577.1	11.5%	$1,431.4
Tax & Revenue Changes	(2,008.2)	(1,614.3)	393.9	----	79.3
GF/GP & SAF REV. AFTER CHNGS	**$29,060.0**	**$33,031.0**	**$3,971.0**	**13.7%**	**$1,510.7**
Sales Tax	$9,414.8	$10,784.7	$1,369.9	14.6%	$485.1

[1)] FY 2020-21 is the base year for baseline revenue.

Table 5

FY 2022-23 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2021-22		
	FY 2021-22 Preliminary	FY 2022-23 Revised Est.	Dollar Change	Percent Change	$ Change from 05/22 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$16,888.9	$15,024.7	($1,864.2)	(11.0%)	($321.8)
Tax Changes Not In Baseline	(1,683.2)	(1,404.0)	279.2	----	(31.0)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$17,089.6	$14,728.3	($2,361.3)	(13.8%)	($971.1)
Less: Refunds	(3,147.6)	(2,373.4)	774.2	(24.6)	105.8
Net Income Tax Collections	13,942.0	12,354.9	(1,587.1)	(11.4)	(865.3)
Less: Earmarking to SAF	(4,059.7)	(3,514.9)	544.8	-(3.4)	222.8
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	0.0	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(1.1)	(0.8)	0.3	----	0.0
Net Income Tax to GF/GP	$9,212.2	$8,170.2	($1,042.0)	(11.3%)	($642.5)
Other Taxes					
Corporate Income Tax	$2,029.3	$1,722.1	($307.2)	(15.1%)	$140.0
Michigan Business Tax	(500.3)	(527.1)	(26.8)	----	0.5
Sales	1,694.4	1,689.7	(4.7)	(0.3)	85.4
Use	1,194.9	1,107.2	(87.7)	(7.3)	(69.4)
Cigarette	158.8	156.3	(2.5)	(1.6)	(7.0)
Insurance Company Premiums	419.9	426.0	6.1	1.5	28.0
Telephone & Telegraph	35.0	34.0	(1.0)	(2.9)	2.0
Oil & Gas Severance	42.2	36.0	(6.2)	(14.7)	4.0
All Other	263.0	253.2	(9.8)	(3.7)	(13.8)
Subtotal Other Taxes	5,337.2	4,897.4	(439.8)	(8.2)	169.7
Total Nontax Revenue	656.3	553.1	(103.2)	(15.7)	120.0
GF/GP REV. AFTER TAX CHANGES	**$15,205.7**	**$13,620.7**	**($1,585.0)**	**(10.4%)**	**($352.8)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$17,738.4	$17,192.3	($546.1)	(3.1%)	($148.3)
Tax Changes Not In Baseline	86.9	(132.6)	(219.5)	----	12.7
Revenue After Tax Changes					
Sales Tax	$7,865.1	$7,787.0	($78.1)	(1.0%)	$328.3
Use Tax	859.4	830.2	(29.2)	(3.4)	(34.9)
Lottery Revenue	1,191.3	1,179.4	(11.9)	(1.0)	(60.6)
State Education Property Tax	2,441.6	2,538.2	96.6	4.0	(25.0)
Real Estate Transfer Tax	546.6	321.9	(224.7)	(41.1)	(175.0)
Income Tax	4,059.7	3,514.9	(544.8)	(13.4)	(222.8)
Casino Tax	364.7	383.3	18.6	5.1	54.3
Other Revenue	496.9	504.8	7.9	1.6	0.1
SAF REV. AFTER TAX CHANGES	**$17,825.3**	**$17,059.7**	**($765.6)**	**(4.3%)**	**($135.6)**
BASELINE GF/GP AND SAF	$34,627.3	$32,217.0	($2,410.3)	(7.0%)	($470.1)
Tax & Revenue Changes	(1,596.3)	(1,536.6)	59.7	----	(18.3)
GF/GP & SAF REV. AFTER CHNGS	**$33,031.0**	**$30,680.4**	**($2,350.6)**	**(7.1%)**	**($488.4)**
Sales Tax	$10,784.7	$10,680.1	($104.6)	(1.0%)	$447.6

[1)] FY 2021-22 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $13.6 billion in FY 2022-23, a decrease of 10.4%. or $1,585.0 million, from the revised estimate for FY 2021-22. Baseline GF/GP revenue is expected to decrease 11.0% ($1,864.2 million) from FY 2021-22. The decrease in GF/GP revenue reflects reductions in almost all taxes compared to FY 2021-22, although sales tax and CIT are forecasted to be higher than the May 2022 consensus estimates. The revised GF/GP revenue estimates for FY 2022-23 are $352.8 million below the May 2022 consensus estimates and are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $17.1 billion in FY 2022-23, a decrease of $765.6 million, or 4.3%, from the revised estimate for FY 2021-22. The forecasted decrease in SAF revenue reflects reduced income tax revenue and decreased Real Estate Transfer Tax, partially offset by increased SET and gaming taxes. The revised SAF revenue estimates for FY 2022-23 are $135.6 million below the May 2022 consensus estimates and are summarized in Table 5.

FY 2023-24 REVISED REVENUE ESTIMATES

Personal income will grow 4.4%, wage and salary employment will grow 0.5%, and wage and salary income will grow 3.4%. General Fund/General Purpose and SAF revenue will reach an estimated $30.9 billion in FY 2023-24, an increase of 0.6%, or $187.4 million, from the revised estimate for FY 2022-23. On a baseline basis, GF/GP and SAF revenue is expected to increase 0.5% in FY 2023-24, reflecting improvements in the State economy. Estimated GF/GP and SAF revenue is $806.0 million below the May 2022 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2023-24 is summarized in Table 6.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $307.5 million ($234.3 million GF/GP and $73.2 million SAF).

Personal Property Tax Reform. Use tax collections of $561.7 million in FY 2022-23 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Michigan Business Tax. The MBT will lower GF/GP revenue by $509.7 million in FY 2022-23. All the impact of MBT credits reduces GF/GP revenue.

Federal Tax Reform and the COVID-19 Relief Measures. COVID-19 Federal stimulus from 2020 will increase IIT by $9.0 million to the GF/GP. This also will reduce CIT by $20.0 million to the GF/GP. The CARES Act will increase the IIT by $6.5 million ($5.0 million GF/GP and $1.5 million SAF). The American Rescue Plan will reduce IIT revenue $20.0 million ($15.2 million GF/GP and $4.8 million SAF).

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $16.2 million. The feminine hygiene sales tax exemption will reduce sales tax revenue by $6.3 million ($5.7 million GF/GP and $600,000 from other funds). Changes to the General Property Tax Act will reduce SAF by $10.1 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $13.9 billion in FY 2023-24, an increase of $236.0 million from the revised estimate for FY 2022-23. Baseline GF/GP revenue is expected to increase 1.2%. Most of the increase in GF/GP revenue reflects increased income tax collections and reduced MBT refunds, partially offset by lower sales and use tax. The revised GF/GP revenue estimates for FY 2023-24 are $372.2 million below the May 2022 consensus estimates and are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $17.0 billion in FY 2023-24, a decrease of $48.6 million from the revised estimate for FY 2022-23. Baseline SAF revenue decline will be 0.2% in FY 2023-24. The forecasted decrease in SAF revenue reflects a decline in sales tax, partially offset by an increase in the income tax. The revised SAF revenue estimates for FY 2023-24 are $433.8 million below the May 2022 consensus estimates and are summarized in Table 6.

FY 2024-25 INITIAL REVENUE ESTIMATES

Personal income is forecasted to grow 4.2%, while wage and salary income will grow 3.9%, and wage and salary employment will grow 0.9%. As a result, total GF/GP and SAF revenue will reach an estimated $32.1 billion in FY 2024-25, an increase of 4.1%, or $1,267.9 million, from the revised estimate for FY 2023-24. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.9% in FY 2024-25, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2024-25 is summarized in Table 7.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $330.0 million ($251.5 million GF/GP and $78.5 million SAF).

Personal Property Tax Reform. Use tax collections of $569.8 million in FY 2023-24 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Michigan Business Tax. The MBT will lower GF/GP revenue by $505.5 million in FY 2023-24. All the impact of MBT credits reduces GF/GP revenue.

Federal Tax Reform and the COVID-19 Relief Measures. COVID-19 Federal stimulus from 2020 will increase IIT by $9.0 million to the GF/GP. The CARES Act will increase the IIT by $6.5 million ($5.0 million GF/GP and $1.5 million SAF).

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $16.9 million. The feminine hygiene sales tax exemption will reduce sales tax revenue by $6.3 million ($5.7 million GF/GP and $600,000 from other funds). Changes to the General Property Tax Act will reduce SAF by $10.1 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.7 billion in FY 2024-25, an increase of 6.5%, or $903.2 million, from the revised estimate for FY 2023-24. Baseline GF/GP revenue is expected to increase 5.9% due to the continued growth in the economy. The initial GF/GP revenue estimates for FY 2024-25 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $17.4 billion in FY 2024-25, an increase of $364.7 million, or 2.1%, from the revised estimate for FY 2023-24. The initial SAF revenue estimates for FY 2024-25 are summarized in Table 7

Table 6

FY 2023-24 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2022-23 Revised Est.	FY 2023-24 Revised Est.	Change from FY 2022-23: Dollar Change	Change from FY 2022-23: Percent Change	$ Change from 05/22 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$15,024.7	$15,199.0	$174.3	1.2%	($344.1)
Tax Changes Not In Baseline	(1,404.0)	(1,342.3)	61.7	----	(28.1)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$14,728.3	$15,036.1	$307.8	2.1%	($822.9)
Less: Refunds	(2,373.4)	(2,392.3)	(18.9)	0.8	37.7
Net Income Tax Collections	12,354.9	12,643.8	288.9	2.3	(785.2)
Less: Earmarking to SAF	(3,514.9)	(3,582.8)	(67.9)	1.9	193.0
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$8,170.2	$8,391.2	$221.0	2.7%	($592.2)
Other Taxes					
Corporate Income Tax	$1,722.1	$1,756.4	$34.3	2.0%	$141.4
Michigan Business Tax	(527.1)	(509.7)	17.4	(3.3)	9.6
Sales	1,689.7	1,646.1	(43.6)	(2.6)	14.2
Use	1,107.2	1,103.5	(3.7)	(0.3)	(61.1)
Cigarette	156.3	153.9	(2.4)	(1.5)	(7.1)
Insurance Company Premiums	426.0	433.7	7.7	1.8	23.7
Telephone & Telegraph	34.0	33.0	(1.0)	(2.9)	2.0
Oil & Gas Severance	36.0	34.2	(1.8)	(5.0)	3.0
All Other	253.2	262.7	9.5	3.8	(17.3)
Subtotal Other Taxes	4,897.4	4,913.8	16.4	0.3	108.4
Total Nontax Revenue	553.1	551.7	(1.4)	(0.3)	111.6
GF/GP REV. AFTER TAX CHANGES	**$13,620.7**	**$13,856.7**	**$236.0**	**1.7%**	**($372.2)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$17,192.3	$17,164.1	($28.2)	(0.2%)	($443.9)
Tax Changes Not In Baseline	(132.6)	(153.0)	(20.4)	----	10.1
Revenue After Tax Changes					
Sales Tax	7,787.0	7,602.5	(184.5)	(2.4)	33.7
Use Tax	830.2	835.1	4.9	0.6	(30.8)
Lottery Revenue	1,179.4	1,167.6	(11.8)	(1.0)	(71.2)
State Education Property Tax	2,538.2	2,609.6	71.4	2.8	(54.0)
Real Estate Transfer Tax	321.9	304.2	(17.7)	(5.5)	(179.6)
Income Tax	3,514.9	3,582.8	67.9	1.9	(193.0)
Casino Tax	383.3	402.7	19.4	5.1	63.5
Other Revenue	504.8	506.6	1.8	0.4	(2.4)
SAF REV. AFTER TAX CHANGES	**$17,059.7**	**$17,011.1**	**($48.6)**	**(0.3%)**	**($433.8)**
BASELINE GF/GP AND SAF	$32,217.0	$32,363.1	$146.1	0.5%	($788.0)
Tax & Revenue Changes	(1,536.6)	(1,495.3)	41.3	----	(18.0)
GF/GP & SAF REV. AFTER CHNGS	**$30,680.4**	**$30,867.8**	**$187.4**	**0.6%**	**($806.0)**
Sales Tax	$10,680.1	$10,428.0	($252.1)	(2.4%	$45.7

1) FY 2021-22 is the base year for baseline revenue.

Table 7

FY 2024-25 INITIAL REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
			Change from FY 2023-24	
	FY 2023-24 Revised Est.	**FY 2024-25 Initial Est.**	**Dollar Change**	**Percent Change**
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue[1)]	$15,199.0	$16,088.6	$889.6	5.9%
Tax Changes Not In Baseline	(1,342.3)	(1,328.7)	13.6	----
Revenue After Tax Changes				
Personal Income Tax				
Gross Collections	$15,036.1	$16,033.3	$997.2	6.6%
Less: Refunds	(2,392.3)	(2,422.9)	(30.6)	1.3
Net Income Tax Collections	12,643.8	13,610.4	966.6	7.6
Less: Earmarking to SAF	(3,582.8)	(3,819.4)	(236.6)	6.6
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----
Campaign Fund	(0.8)	(0.8)	0.0	0.0
Net Income Tax to GF/GP	$8,391.2	$9,121.2	$730.0	8.7%
Other Taxes				
Corporate Income Tax	$1,756.4	$1,858.4	$102.0	5.8%
Michigan Business Tax	(509.7)	(505.5)	4.2	(0.8)
Sales	1,646.1	1,653.8	7.7	0.5
Use	1,103.5	1,138.7	35.2	3.2
Cigarette	153.9	151.6	(2.3)	(1.5)
Insurance Company Premiums	433.7	457.6	23.9	5.5
Telephone & Telegraph	33.0	32.5	(0.5)	(1.5)
Oil & Gas Severance	34.2	33.6	(0.6)	(1.8)
All Other	262.7	271.6	8.9	3.4
Subtotal Other Taxes	4,913.8	5,092.3	178.5	3.6
Total Nontax Revenue	551.7	546.4	(5.3)	(1.0)
GF/GP REV. AFTER TAX CHANGES	**$13,856.7**	**$14,759.9**	**$903.2**	**6.5%**
SCHOOL AID FUND:				
Baseline Revenue[1)]	$17,164.1	$17,533.2	$369.1	2.2%
Tax Changes Not In Baseline	(153.0)	(157.4)	(4.4)	----
Revenue After Tax Changes				
Sales Tax	7,602.5	7,607.0	$4.5	0.1%
Use Tax	835.1	856.8	21.7	2.6
Lottery Revenue	1,167.6	1,155.9	(11.7)	(1.0)
State Education Property Tax	2,609.6	2,672.5	62.9	2.4
Real Estate Transfer Tax	304.2	337.7	33.5	11.0
Income Tax	3,582.8	3,819.4	236.6	6.6
Casino Tax	402.7	419.2	16.5	4.1
Other Revenue	506.6	507.3	0.7	0.1
SAF REV. AFTER TAX CHANGES	**$17,011.1**	**$17,375.8**	**$364.7**	**2.1%**
BASELINE GF/GP AND SAF	$32,363.1	$33,621.8	$1,258.7	3.9%
Tax & Revenue Changes	(1,495.3)	(1,486.1)	9.2	----
GF/GP & SAF REV. AFTER CHNGS	**$30,867.8**	**$32,135.7**	**$1,267.9**	**4.1%**
Sales Tax	$10,428.0	$10,434.2	$6.2	0.1%

[1)] FY 2021-22 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2021-22 THROUGH FY 2024-25

Federal Tax Reform Interactions with Corporate and Individual Income Tax Revenue. In December 2017, the Federal government adopted tax reform legislation that made numerous changes to both the Federal IIT and the Federal corporate income tax. Many of the Federal changes were expected to affect Michigan tax revenue. For example, the personal exemption was set to zero and Michigan personal exemptions were based on the allowed Federal exemptions, suggesting that Federal tax reform might have eliminated the Michigan personal exemption and substantially increased taxpayers' Michigan tax liabilities. Other Federal changes eliminated certain deductions or exemptions, thereby increasing the income taxpayers would use in computing their Michigan liabilities. The forecast includes estimates of these impacts, as well as the impact of Public Acts 38 and 39 of 2018, which were enacted in response to the effect Federal tax reform was estimated to have on Michigan revenue.

Individual Income Tax. Individual income tax net collection will decrease an estimated 11.4% in FY 2022-23, to $12.3 billion. Fiscal year 2022-23 withholding, which represents the majority of gross IIT revenue, will decrease 0.1%.Quarterly estimates and annual payments will fall 49.0% and 47.4%, respectively, as the timing issues associated with the adoption of the Flow-Through Entity tax are resolved. As economic growth resumes, withholding will continue to grow 3.5% in FY 2023-24 and 6.0% in FY 2024-25. Compared with the May 2022 consensus revenue estimates, the revised estimate for FY 2022-23 IIT revenue is $865.3 million lower, and the revised estimate for FY 2023-24 is $785.2 million lower, reflecting slower employment and wage growth forecasts.

Because GF/GP revenue is forecasted (as of the date of this publication) to increase in FY 2021-22 by an amount greater than 1.425 times the rate of inflation, absent any changes to this revenue between now and book-closing, Public Act 180 of 2015 would require a permanent reduction in the IIT rate, which would reduce GF/GP revenue beginning in FY 2022-23. However, the determination of this amount depends on the book-closing for FY 2021-22 and the publication of the ACFR. Since the FY 2021-22 books have not been closed, actions or determinations that occur between the date of this publication and book-closing would affect the calculation of the trigger. Using revenue accounted for to-date (i.e., if the books were closed today and no other actions had occurred to affect those revenue levels), the SFA is estimating that the IIT rate would be 4.04%, which would reduce General Fund revenue by $453.6 million in FY 2022-23, $666.5 million in FY 2023-24, and $711.4 million in FY 2024-25. School Aid Fund revenue would not be affected because the income tax earmark to the School Aid Fund automatically adjusts to hold the SAF harmless for changes in the tax rate. The impact is discussed in the balance sheet section.

Sales Tax. The forecast predicts the Michigan sales tax revenue falling 1.0% in FY 2022-23, falling 2.4% in FY 2023-24, and rising 0.1% in FY 2024-25. Compared with the May 2022 consensus revenue estimates, the revised sales tax estimate for FY 2022-23 is $447.6 million higher while the revised estimate for FY 2023-24 is up $47.5 million. The decreases primarily reflect revised estimates of consumer spending, particularly to changes in personal income, declining savings balances, and a shift from the current goods-heavy consumption (largely subject to sales and use taxes) to a more normal split between goods and services (which are largely exempt from sales and use taxes). Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to decrease 3.5% in FY 2022-23, increase 0.6% in FY 2023-24 and 2.6% in FY

2024-25. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at $96.4 million in FY 2015-16, rose over time to $521.3 million in FY 2021-22, and will total $548.0 million in FY 2022-23, $561.7 million in FY 2023- 24, and $569.8 million in FY 2024-25 as they increase annually. Compared with the May 2022 consensus revenue estimates, the FY 2022-23 estimate for combined State and local use tax collections is revised downward by $105.3 million and the FY 2023-24 estimate is $92.9 million lower. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated $796.3 million in FY 2021-22, a decrease of 10.5% from FY 2020-21. Tobacco tax revenue is expected to continue its long-term downward trend, declining 1.6% each year over the forecast. However, the overall decline in total tobacco tax revenue has masked a change in the composition of tobacco tax revenue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. In the forecast period, this trend is expected to continue, as tax revenue from cigarettes is expected to decline, with tax revenue from other tobacco products increasing, but not enough to stop the decline in total tobacco tax revenue. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos is directed to the SAF. In FY 2022-23, casino tax revenue is projected to total $105.4 million, a 2.8% increase from FY 2021-22, as the economy recovers and new gaming options (internet gaming and sports and fantasy betting) are introduced. Casino tax revenue is expected to grow 3.1% in FY 2023-24, and 3.0% in FY 2024-25, reflecting a more typical growth pattern.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. After increasing 8.2% in FY 2021-22, SET collections are projected to increase another 4.0% in FY 2022-23, 2.8% in FY 2023-24, and 2.4% in FY 2024-25, as the housing market stabilizes and inflation recedes, mitigating further increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue because of the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Competition with other gaming options (including new casino gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, FY 2021-22 saw a 16.1% decline as other gaming options were opened after being limited during the pandemic. Lottery revenue is forecasted to decline 1.0% in each year of the forecast, as other gaming options compete. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2021-22 to FY 2024-25, lottery revenue is expected to hold at 6.7% of total earmarked SAF revenue.

Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay tax under the CIT. Instead, these business paid taxes by reporting business income on their IIT return although, beginning with tax year 2021, Public Act 135 of 2021 allows these firms to pay under a separate "entity flow-through tax" that is levied and at the same rate and distributed in the same manner as the IIT. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

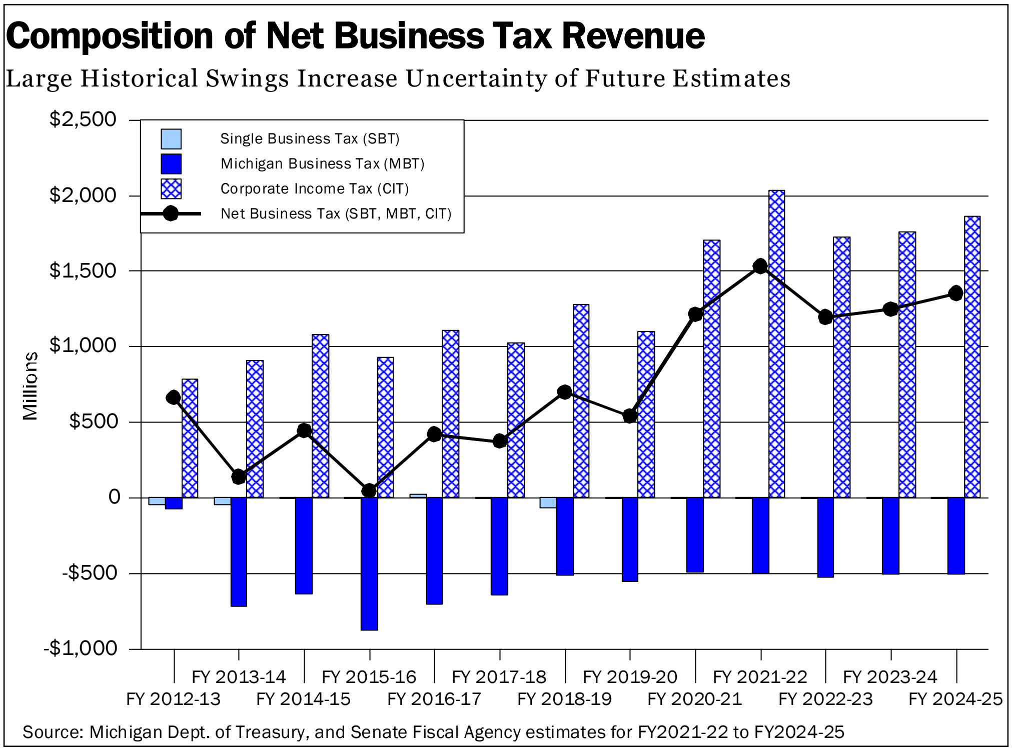
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative $500.3 million (as refunds exceeded revenue) in FY 2021-22, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between $500.0 million and $600.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term; however, in some cases, the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for previous tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates.

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately $1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by $878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by $500.3 million in FY 2021-22, they still represented a 3.5% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally hold constant, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 3.8% in FY 2022-23, 3.8% in FY 2023-24, and 3.4% in FY 2024-25. When these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals, which limits efforts to correctly predict revenue.

In FY 2021-22, CIT collections rose 19.2% after rising 54.4% in FY 2020-21, after falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the volatility in CIT revenue (Figure 22). The preliminary estimate for business taxes in FY 2021-22 is $1,530.6 million, a 26.2% increase from FY 2020-21. Net business tax revenue is expected to decline 21.9% in FY 2022-23 before increasing 4.5% in FY 2023-24 and 8.5% in FY 2024-25. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated $419.9 million in FY 2021-22, a 18.3% increase from FY 2020-21. Revenue from taxes on insurance companies is expected to return to trend levels over the forecast period, increasing 1.5% in FY 2022-23, 1.8% in FY 2023-24, and 5.5% in FY 2024-25. All revenue from insurance taxes is directed to the General Fund.

Figure 22



SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency and consensus estimates for GF/GP and SAF baseline revenue for FY 2021-22, FY 2022-23, and FY 2023-24. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2021-22, FY 2022-23, and FY 2023-24 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2021-22 was made in December 2019, as shown in Table 8. At that time, baseline revenue in FY 2021-22 was estimated at $27.3 billion. This estimate was increased by $322.9 million at the January 2020 CREC, then decreased by $2.1 billion at the May 2020 CREC. The August 2020 CREC increased the estimate by $375.9 million. The January 2021 CREC increased the estimate by $887.2 billion, and the May 2021 CREC increased that estimate by another $1.8 billion. Similarly, the January 2022 CREC increased the estimate by $1.6 billion, and the May 2022 CREC increased that estimate by another $3.1 billion. The Senate Fiscal Agency's revised estimate for FY 2021-22 presented in this report increases the baseline estimate by $1.4 billion above the May 2022 consensus estimate, to $34.6 billion, more than $7.3 billion above the initial estimate made in December 2019.

The initial GF/GP and SAF baseline revenue estimate for FY 2022-23 was made in January 2021, as shown in Table 9. At that time, baseline revenue in FY 2022-23 was estimated at $26.7 billion. This estimate was increased by $1.2 billion at the January 2021 CREC, then increased by $1.7 billion at the May 2021 CREC. The January 2022 CREC increased the estimate by $1.6 billion, while the May 2022 CREC increased it by $2.0 billion. The Senate Fiscal Agency's revised estimate for FY 2022-23 presented in this report decreases the baseline estimate by $451.7 million from the May 2022 consensus estimate, to $32.2 billion.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2021-22 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 20, 2019	$12,801.8	$14,523.1	$27,324.9
January 10, 2020 [a)]	12,823.5	14,824.3	27,647.8
May 14, 2020	11,563.1	13,904.2	25,467.3
May 15, 2020 [a)]	11,633.9	13,898.7	25,532.6
August 24, 2020 [a)]	11,876.7	14,031.8	25,908.5
January 5, 2021	11,698.0	14,179.8	25,877.8
January 15, 2021 [a)]	12,381.2	14,414.5	26,795.7
May 19, 2021	13,317.2	15,050.2	28,367.4
May 21, 2021 [a)]	13,419.0	15,131.0	28,550.0
January 6, 2022	13,995.8	15,882.9	29,878.7
January 14, 2022 [a)]	14,050.3	16,098.2	30,148.5
May 17, 2022	16,100.0	16,960.5	33,060.5
May 20, 2022 [a)]	15,940.7	17,273.2	33,213.9
January 11, 2023	$16,889.5	$17,755.8	$34,645.3
Change From Previous Estimate:			
Dollar Change	$948.8	$482.6	$1,431.4
Percent Change	6.0%	2.8%	4.3%
Change From Initial Estimate:			
Dollar Change	$4,087.7	$3,232.7	$7,320.4
Percent Change	31.9%	22.3%	26.8%

[a)] Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2020-21.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2022-23 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
January 5, 2021	$11,787.7	$14,440.0	$26,227.7
January 15, 2021 [a)]	12,733.3	14,697.6	27,430.9
May 19, 2021	13,539.4	15,268.7	28,808.1
May 21, 2021 [a)]	13,735.2	15,362.9	29,098.1
January 6, 2022	14,284.1	15,990.2	30,274.3
January 14, 2022 [a)]	14,290.2	16,363.8	30,654.0
May 17, 2022	15,004.4	16,765.5	31,769.9
May 20, 2022 [a)]	15,346.5	17,340.6	32,687.1
January 11, 2023	$15,026.1	$17,209.3	$32,235.4
Change From Previous Estimate:			
Dollar Change	($320.4)	($131.3)	($451.7)
Percent Change	(2.1%)	(0.8%)	(1.4%)
Change From Initial Estimate:			
Dollar Change	$3,238.4	$2,769.3	$6,007.7
Percent Change	27.5%	19.2%	22.9%

[a)] Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2020-21.

The initial GF/GP and SAF baseline revenue estimate for FY 2023-24 was made in January 2022, as shown in Table 10. At that time, baseline revenue in FY 2023-24 was estimated at $30.8 billion. This estimate was increased by $536.3 million at the January 2022 CREC, and increased an additional $1.8 billion at the May 2022 CREC. The revised Senate Fiscal Agency estimate for FY 2023-24 decreases baseline revenue for FY 2023-24 by $769.7 million from the May 2022 estimate, to $32.4 billion.

Table 10

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2023-24 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
January 6, 2022	$14,541.6	$16,223.5	$30,765.1
January 14, 2022 [a]	14,619.3	16,682.1	31,301.4
May 17, 2022	15,344.6	17,024.0	32,368.6
May 20, 2022 [a]	15,543.1	17,608.0	33,151.1
January 11, 2023	$15,200.4	$17,181.0	$32,381.4
Change From Previous Estimate:			
Dollar Change	-$342.7	-$427.0	-$769.7
Percent Change	-2.2%	-2.4%	-2.3%
Change From Initial Estimate:			
Dollar Change	$658.8	$957.5	$1,616.3
Percent Change	4.5%	5.9%	5.3%

[a] Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2020-21.

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977 and subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 15.0% of the combined level of GF/GP and SAF revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income taxpayers on returns filed after the end of that fiscal year. (For FY 2021-22, combined GF/GP and SAF revenue is estimated at $33.0 billion; 15% applied to that would yield a BSF limit of $4.95 billion.) A balance at the end of a fiscal year higher than that amount is required to be rebated to IIT payers on returns filed after the end of that fiscal year. (The balance at the end of FY 2020-21 was roughly $1.6 billion, lower than the limit of $4.95 billion, and therefore not triggering a rebate.)

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments (e.g., Social Security income, Medicaid benefits, and worker's compensation) and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total GF/GP revenue.

Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. The Legislature then could appropriate up to 25% of the available Fund balance in the current year. If personal income is forecast to be negative for subsequent fiscal years, the Legislature then could appropriate up to 25% of the available Fund balance in the first fiscal year for each subsequent fiscal year. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

To calculate the pay-in, the amount of real personal income growth over 2.0% in the previous calendar year is applied to the amount of General Fund revenue in the previous fiscal year. For example, the calculated pay-in for FY 2022-21 is based on personal income growth from calendar year 2021 to 2022 and GF/GP revenue in FY 2021-22. Different years are used to calculate a potential pay-out. A pay-out in FY 2022-23 depends on the change in personal income from calendar year 2022 to calendar year 2023, whether there was a calculated pay-out in FY 2021-22, and the BSF balance at the end of FY 2021-22.

For any payment into or out of the BSF to occur, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of $55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled $189.2 million. Also, in FY 1998-99, the Legislature appropriated the transfer of $73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the Durant court case. In FY 2013-14, the Legislature transferred $194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the city of Detroit bankruptcy. At the same time, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5 million from tobacco settlement revenue to the BSF annually for the 21 years, from FY 2014-15 through FY 2034-35, to repay that transfer.

Table 11 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2020-21. This table also presents the SFA's estimates for FY 2021-22, FY 2022-23, FY 2023-24, and FY 2024-25 assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 23, and the estimated economic stabilization trigger calculations for FY 2022-23, FY 2023-24, and FY 2024-25 are presented in Table 12.

FY 2021-22

The BSF ended FY 2020-21 with a balance of $1,382.4 million. During FY 2021-22, $180.0 million was appropriated to the Fund. As noted above, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 and extending through FY 2034-35. Interest earnings are estimated at $34.6 million in FY 2021-22, resulting in an estimated ending balance of $1,614.5 million. There was no calculated pay-in or pay-out to the BSF for FY 2021-22 estimated at the time of budget enactment.

FY 2022-23, FY 2023-24, and FY 2024-25

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula does not forecast any pay-ins or pay-outs in FY 2022-23, FY 2023-24, or FY 2024-25.

Based on current appropriations and the continuation of the $17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at $1,717.6 million in FY 2022-23, $1,829.6 million in FY 2023-24, and $1,934.9 million in FY 2024-25 as shown in Table 11.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2024-25 ESTIMATES
(millions of dollars)

	Pay-In				
Fiscal Year[a)]	**Trust Fund Act**	**Other Approp.**	**Interest Earned**	**Pay-Out**	**Fund Balance**
1998-99		$244.4	$51.2	$73.7	$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	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	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14[b)]		75.0	0.4	194.8	386.2
2014-15[c)]	$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
2020-21	17.5	535.0	0.8	0.0	1,382.4
2021-22	17.5	180.0	34.6	0.0	1,614.5
Enacted Deposits and Estimated Interest Earnings:					
2022-23	$17.5	$0.0	$85.6	$0.0	$1,717.6
2023-24	17.5	0.0	94.5	0.0	1,829.6
2024-25	17.5	0.0	87.8	0.0	1,934.9

a) For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. Fiscal years 2021-22 to FY 2024-25 include enacted legislation and estimated interest earnings.

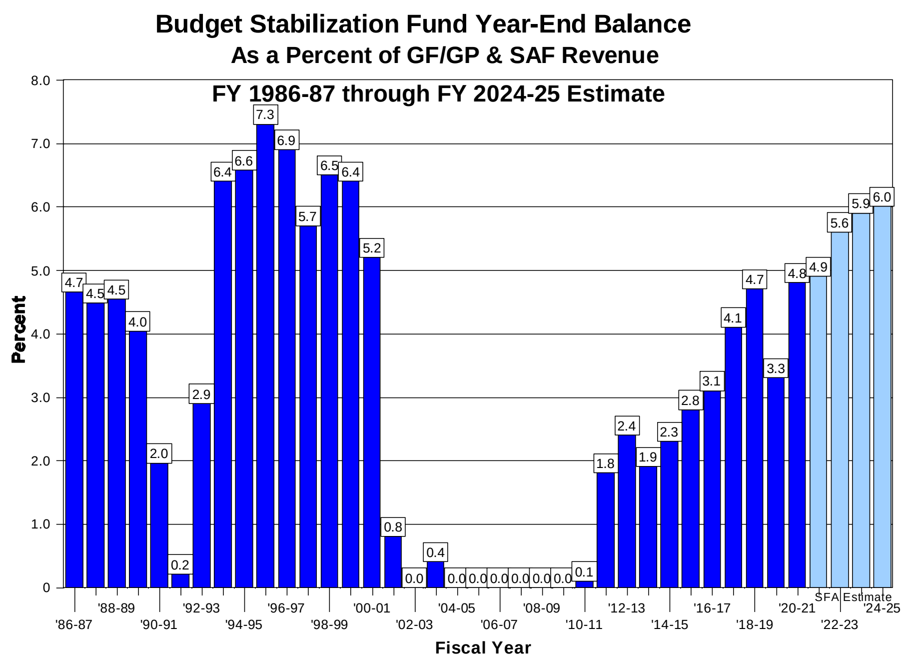
b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of $194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.

c) PA 252 of 2014 appropriated $94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of $17.5 million of tobacco settlement revenue to the BSF annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy.

d) Based on the SFA's revised estimates, the statutory formula would trigger a pay-in to the fund of $11.6 million in FY 2022-23, but no other pay-ins or pay-outs. Pay-ins and pay-outs must be appropriated. See text for discussion.

Sources: State of Michigan Annual Comprehensive Financial Reports through FY 2020-21 and Senate Fiscal Agency.

Figure 23



Note: Based on enacted appropriations to the BSF.
Source: Senate Fiscal Agency

Table 12

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER FY 2021-22, FY 2022-23, FY 2023-24, and FY 2024-25 (millions of dollars)					
	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Michigan Personal Income (MPI)	$567,807.1	$568,160.3	$593,256.7	$619,438.6	$645,342.9
Less: Transfer Payments	151,132.4	125,203.6	128,812.4	134,815.3	140,033.4
Subtotal	$416,674.8	$442,956.7	$464,444.3	$484,623.3	$505,309.5
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.4781	2.6809	2.7945	2.8681	2.9386
Equals: Real Adjusted MPI	$168,146.0	$165,225.0	$166,200.0	$168,969.0	$171,954.0
Percent Change from Prior Year		(1.7%)	0.6%	1.7%	1.8%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Multiplied by: Estimated GF/GP Revenue		$15,205.7	$13,620.7	$13,856.7	$14,759.9
Equals: Transfer to the BSF			$0.0	$0.0	$0.0
OR Maximum transfer from the BSF			$0.0	$0.0	$0.0
Note: Numbers may not add due to rounding. CY = Calendar Year; FY = Fiscal Year					

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to the generation of new State revenue as part of the school financing reform enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the limit in FY 2007-08 despite increases in the income tax and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2020-21. To date, the largest gap between revenue and the limit occurred in FY 2019-20, when State revenue was $11.9 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2021-22, FY 2022-23, FY 2023-24, and FY 2024-25 with State revenue forecast to be $13.1 billion below the limit in FY 2024-25.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year before the calendar year in which the fiscal year begins. For example, in FY 2020-21, State government revenue could not exceed 9.49% of personal income for calendar year 2019. Given that Michigan personal income for 2019 equaled $491.6 billion at the time compliance was determined, the revenue limit for FY 2020-21 was $46.7 billion.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments (e.g., Social Security income and Medicaid benefits). It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the US Department of Commerce's Bureau of Economic Analysis.

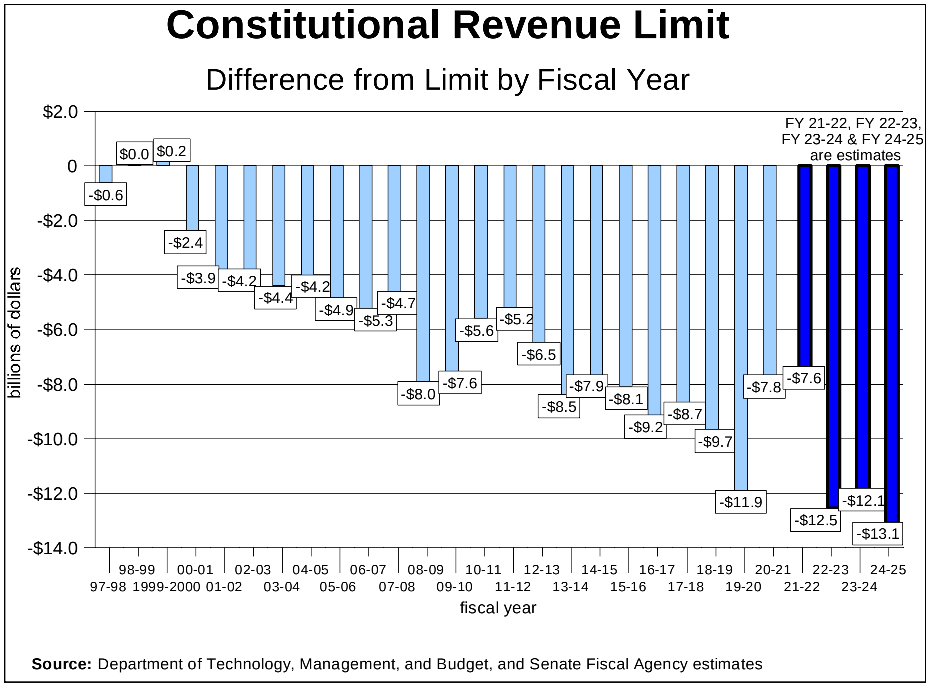
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the BSF. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to payers of individual income and business taxes, on a pro rata basis. These refunds would be given to taxpayers who file an IIT return or an MBT or CIT return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report that determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary revenue for FY 2021-22 and the SFA's revenue estimates for FY 2022-23, FY 2023-24, and FY 2024-25, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 24. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 13.

Figure 24



FY 2021-22

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2020 equals $537.5 billion and, as a result, the revenue limit equals $51.0 billion in FY 2021-22, an increase of $4,352.2 million over FY 2020-21. Based on the SFA's revised revenue estimates for FY 2021-22, revenue subject to the revenue limit will equal an estimated $43.4 billion. State revenue subject to the revenue limit will be below the limit by an estimated $7.6 billion, or 14.9%, in FY 2021-22. The forecasted 11.6% increase in State revenue subject to the revenue limit will outpace anticipated growth in personal income of 9.3%, decreasing the amount by which revenue will fall below the limit.

FY 2022-23

The Senate Fiscal Agency estimates that personal income in Michigan during 2021 will equal $567.8 billion and, as a result, the revenue limit will equal $53.9 billion in FY 2022-23. Based on the SFA's revised revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated $41.3 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.5 billion, or 23.3%, in FY 2022-23. Personal income is forecasted to increase 5.6% while State revenue subject to the revenue limit is forecasted to decrease 4.7%, thus increasing the amount by which revenue will fall below the limit.

FY 2023-24

The Senate Fiscal Agency estimates that personal income in Michigan during 2022 will equal $568.2 billion and, as a result, the revenue limit will equal $53.9 billion in FY 2023-24. Based on the SFA's revised revenue estimates for FY 2023-24, revenue subject to the revenue limit will equal an estimated $41.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.1 billion, or 22.5%, in FY 2023-24. The forecasted 1.1% increase in State revenue subject to the revenue limit will outpace anticipated growth in personal income of 0.1%, decreasing the amount by which revenue will fall below the limit.

FY 2024-25

The Senate Fiscal Agency estimates that personal income in Michigan during 2023 will equal $593.3 billion, and as a result, the revenue limit will equal $56.3 billion in FY 2024-25. Based on the SFA's initial revenue estimates for FY 2024-25, revenue subject to the revenue limit will equal an estimated $43.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $13.1 billion, or 23.3%, in FY 2024-25. Personal income is forecasted to increase 4.4% while State revenue subject to the revenue limit is forecasted to increase 3.4%, thus increasing the amount by which revenue will fall below the limit.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2020-21 THROUGH FY 2024-25 ESTIMATE
(millions of dollars)

	FY 2020-21 Final	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$14,847.8	$16,888.9	$15,024.7	$15,199.0	$16,088.6
Constitutional Revenue Sharing (baseline)	963.4	1,066.5	1,070.5	1,048.8	1,043.0
School Aid Fund (baseline)	16,220.5	17,738.4	17,192.3	17,164.1	17,533.2
Transportation Funds	3,595.4	3,866.4	4,003.3	4,107.4	4,077.2
Other Restricted Non-Federal Aid Revenue	5,279.4	5,437.8	5,600.9	5,768.9	5,942.0
Adjustments:					
GF/GP Federal Aid	(8.3)	(10.0)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,844.1)	(1,683.2)	(1,404.0)	(1,342.3)	(1,328.7)
SAF Balance Sheet Adjustments	(164.1)	86.9	(132.6)	(153.0)	(157.4)
Total Revenue Subject to Limit	**$38,890.0**	**$43,391.7**	**$41,345.1**	**$41,782.9**	**$43,187.9**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**	**CY 2023**
Amount	$491,632.0	$537,493.5	$567,807.1	$568,160.3	$593,256.7
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$46,655.9	$51,008.1	$53,884.9	$53,918.4	$56,300.1
1.0% of Limit	466.6	510.1	538.8	539.2	563.0
Amount Under (Over) Limit	**$7,765.9**	**$7,616.4**	**$12,539.8**	**$12,135.5**	**$13,112.2**
Percent Below Limit	16.6%	14.9%	23.3%	22.5%	23.3%
CY = Calendar Year; FY = Fiscal Year					

ESTIMATE OF YEAR-END BALANCES

This section of the SFA's report provides details of the estimated year-end balances of the GF/GP and SAF budgets for FY 2021-22 and FY 2022-23. This section also outlines projections for the FY 2023-24 State budget.

Noting the important caveat that follows, Table 14 provides a summary of the estimated year-end balances for the FY 2021-22, FY 2022-23, and FY 2023-24 GF/GP and SAF budgets. The FY 2021-22 book-closing process has not yet concluded and therefore FY 2021-22 revenue remains estimated and not final. While the book-closing process often has not concluded by the January CREC in any given year, this year is particularly noteworthy. Public Act 180 of 2015 requires a determination of whether the IIT rate should be reduced based on the growth in GF/GP revenue. (That Public Act requires the IIT rate to be reduced if GF/GP revenue grows in excess of 1.425 multiplied by the rate of inflation, such that the resulting rate eliminates the 'excess' GF/GP revenue above that calculated cap.) However, that determination can only be made after book-closing and the publication of the ACFR.

The SFA forecast of year-end balances shown in the remainder of this document are calculated *assuming the income tax reduction is triggered* based on FY 2021-22 revenue as of the publication date of this document. However, it is extremely important to note that adjustments that occur between now and the date of publication of the ACFR will impact the calculation and determination of whether and/or by how much the IIT rate would be reduced. Again, to underscore, the SFA estimated year-end balances do assume that the IIT rate will be reduced as a result of the trigger calculation found in PA 180 of 2015, based on FY 2021-22 revenue booked as of the publication date compared to FY 2020-21 revenue. But, as the book-closing process proceeds, changes may (and likely will) occur that will impact that calculation.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
ESTIMATED YEAR-END BALANCES
(Millions of Dollars)

	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate
General Fund/General Purpose	$7,331.1	$3,936.7	$4,375.8
School Aid Fund	$4,515.0	$3,651.5	$4,498.6

*As noted in text above the table, these estimates assume the IIT is reduced based on the calculations found in PA 180 of 2015. However, that reduction will not be determined or finalized until book-closing of FY 2021-22 and publication of the ACFR. Any changes to FY 2021-22 GF/GP revenue that occur between publication of the SFA forecast and publication of the ACFR will impact that determination.

YEAR-END BALANCE ESTIMATES

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. An annual comprehensive financial report (commonly referred to as the ACFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available but based on year-to-date accounting reports of FY 2021-22 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will close FY 2021-22 with a $7.3 billion balance. The SFA is estimating that the FY 2021-22 SAF budget will close the fiscal year with a $4.5

billion balance. As mentioned in the text above, any potential reduction in the IIT rate as a result of PA 180 of 2015 will be made after publication of the ACFR.

<u>GENERAL FUND/GENERAL PURPOSE</u>

Table 15 provides a balance sheet with the SFA estimates of year-end balances for General Fund/General Purpose revenue, for FYs 2021-22, 2022-23, and 2023-24.

As shown in the row labeled, "SFA Forecast Revenue Change (Jan 2023)", FY 2021-22 revenue (as accounted for year-to-date, but not yet reflective of the close of books) is more than $1.0 billion above the May 2022 CREC estimate. However, in FYs 2022-23 and 2023-24, the estimates are more than $350.0 million lower than the May 2022 estimates.

On the expenditure side, the balance sheet reflects year-to-date FY 2021-22 spending levels (including supplementals), year-to-date FY 2022-23 spending levels (including supplementals), and an estimate of how much a continuation budget would cost in FY 2023-24. The expenditure numbers also include estimates of caseload and cost savings (primarily in the Department of Health and Human Services budget) as well as estimated FY 2021-22 lapses.

The $7.3 billion GF/GP year-end balance presented for FY 2021-22 represents 62.5% of FY2021-22 GF/GP expenditures. Given the revised estimates for FY 2022-23, the $3.9 billion year-end balance would represent 24.7% of FY 2022-23 estimated expenditures because in FY 2022-23 expenditure is expected to grow more rapidly than revenue. For FY 2023-24, the $4.4 billion year-end balance would represent 35.8% of estimated expenditures.

Most of the GF/GP year-end balances would be considered 'one-time' revenue. An ongoing balance is estimated by comparing ongoing revenue to ongoing spending, excluding one-time revenue (e.g., a prior-year carryforward) and one-time spending. Out of the estimated $4.4 billion in GF/GP balance that the SFA is forecasting at the end of FY 2023-24 (assuming a continuation budget that removes FY 2022-23 one-time spending), about 13% (or $570.0 million) would be considered ongoing with the remainder ($3.8 billion) considered as one-time revenue. As mentioned throughout this section, it is important to note that the $570.0 million estimated as an ongoing balance already reflects a reduction in income tax collections that could occur if the income tax rate is reduced. To the extent any reduction in the income tax rate differs from the SFA estimates (based on FY 2021-22 book-closing and publication of the ACFR), the estimate of available ongoing revenue (as well as the estimates of total year-end balances) will change.

<u>SCHOOL AID FUND</u>

Table 16 is comparable to Table 15 but for the School Aid Fund.

If the IIT is reduced as a result of PA 180 of 2015, with a determination that would occur after publication of the FY 2021-22 ACFR, it will affect only the General Fund and not the School Aid Fund.

As shown in the row labeled, "SFA Forecast Revenue Change (Jan 2023)", FY 2021-22 revenue (as accounted for year-to-date, but not yet reflective of the close of books) is roughly $500.0 million above the May 2022 CREC estimate. However, in FYs 2022-23 and 2023-24, the estimates are $135.6 million and $433.8 million, respectively, lower than the May 2022 estimates.

On the expenditure side, the balance sheet reflects year-to-date FY 2021-22 spending levels (including supplementals), year-to-date FY 2022-23 spending levels (including supplementals), and an estimate of how much a continuation budget would cost in FY 2023-24. The expenditure numbers also include estimates of caseload and cost savings in the School Aid budget, as well as estimated FY 2021-22 lapses. The School Aid Fund balance sheet includes the K-12 budget, the budget for Community Colleges, and a portion of the budget for Universities.

The $4.5 billion SAF year-end balance presented for FY 2021-22 represents 23.9% of FY2021-22 SAF expenditures. Given the revised estimates for FY 2022-23, the $3.7 billion year-end balance would represent 17.5% of FY 2022-23 estimated expenditures. As SAF revenue for FY 2023-24 grows more rapidly than forecast expenditures under the assumptions of a continuation budget, the $4.5 billion year-end SAF balance in FY 2023-24 would represent 24.2% of estimated expenditures.

Similar to the General Fund balance sheet, most of the year-end balances would be considered one-time revenue. Out of the $4.5 billion estimated FY 2023-24 year-end balance, roughly 20% (or $900.0 million) would be considered ongoing with the remainder ($3.6 billion) considered as one-time revenue.

CONCLUSION

The GF/GP and SAF budgets are estimated to end FY 2022-23 and FY 2023-24 with significant year-end balances, although both years assume the carryforward of the previous year's balance and most of the balances would be considered 'one-time' in nature. Additionally, the balances shown in this report assume the trigger of an income tax reduction; however, that determination can be made only after publication of the FY 2021-22 annual financial report that is prepared for book-closing. To the extent the accounting of FY 2021-22 revenue in book-closing differs from the FY 2021-22 revenue estimated in this report, the calculation will change for how much (if at all) the IIT rate will be reduced.

Any spending in a given year will reduce the out-year's balance as well as the current year's balance. Both the GF/GP and the SAF sides of the ledger appear to be structurally balanced; in other words, ongoing revenue (not including carryforward balances) is estimated to exceed ongoing (excluding one-time) spending. A caution to the preceding statement is that the succeeding year's expenditure estimates *assume baseline (or flat)* spending. Spending in FY 2023-24 that is greater than a baseline amount will reduce the gap between ongoing revenue and ongoing expenditure estimates.

The FY 2021-22 estimated ending balances likely will change when the State's final ACFR is published, which is not required by law until the end of March 2023. To the extent that the FY 2021-22 numbers change, the ending balances for FY 2022-23 and FY 2023-24 will be affected, as will the calculations used to determine whether, and by how much, the IIT rate would be reduced for calendar year 2023. Also, to the extent that policy or budget changes are enacted after the date of this publication, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 13, 2023, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2023-24 State budget, as well as for subsequent fiscal years.

Table 15

FY 2021-22, 2022-23, AND 2023-24
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	YTD FY 2021-22	YTD FY 2022-23	Estimated FY 2023-24
Revenue:			
Beginning Balance	$4,362.8	$7,331.1	$3,936.7
Ongoing Revenue:			
Consensus Revenue Estimate (January 2022)	$12,449.7	$12,892.1	$13,314.3
Consensus Revenue Change (May 2022)	1,730.0	1,081.4	914.6
Consensus Revenue Estimate (May 2022)	14,179.7	13,973.5	14,228.9
SFA Forecast Revenue Change (January 2023)	1,026.0	(352.8)	(372.2)
SFA Forecast Revenue Estimate (January 2023)	$15,205.7	$13,620.7	$13,856.7
Other Revenue Adjustments:			
Adjustments (PPT hold harmless)	$0.0	($75.0)	($75.0)
Income tax trigger (PA 180 of 2015) (WILL CHANGE WITH PUBLICATION OF ACFR)	0.0	(453.6)	(666.5)
Revenue Sharing Payments	(500.3)	(525.0)	(525.0)
Subtotal Ongoing Revenue	$14,705.4	$12,567.1	$12,590.2
Non-ongoing Revenue:			
Legal Settlements/Redirection of Restricted Revenue	($2.6)	($2.6)	$0.0
Revenue Sharing One-Time Payments	0.0	(5.0)	0.0
Subtotal Non-Ongoing Revenue	($2.6)	($7.6)	$0.0
Total Estimated GF/GP Revenue	**$19,065.6**	**$19,890.6**	**$16,526.9**
Expenditures:			
Ongoing Appropriations:			
Initial Appropriations	$11,031.3	$11,914.1	$11,971.7
Subtotal Ongoing Appropriations	$11,031.3	$11,914.1	$11,971.7
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	$736.2	$3,292.2	$0.0
Budget Stabilization Fund Deposit	180.0	0.0	0.0
DHHS savings from extension of temp. FMAP/caseload adj	0.0	(370.0)	(30.0)
Enacted Supplementals	1,757.0	995.6	0.0
DHHS CREC Caseloads	(911.1)	0.0	(2.2)
Additional HB 5783 supplemental spending (on top of DHHS)	(684.4)	0.0	0.0
Treasury boilerplate appropriation	0.0	50.0	0.0
Ongoing GF Contribution to K-12	0.0	49.6	49.2
Additional K-12 GF for Community District Trust Fund	14.6	22.4	22.4
Additional K-12 GF / GF Deposit for Teacher Recruitment	45.0	0.0	0.0
SOAR Lapse	(233.1)	0.0	0.0
Additional Lapses (12/1)	(211.0)	0.0	0.0
PA 87 of 2021 Boilerplate Appropriations (DEGLE)	10.0	0.0	0.0
Subtotal One-Time and Other Appropriations	$703.2	$4,039.8	$179.4
Total Estimated GF/GP Expenditures	**$11,734.5**	**$15,953.9**	**$12,151.1**
PROJECTED YEAR-END GF/GP BALANCE (Total)	**$7,331.1**	**$3,936.7**	**$4,375.8**
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)		$603.4	$569.3
PROJECTED YEAR-END GF/GP BALANCE (One-Time)		$3,333.4	$3,806.5

Table 16

FY 2021-22, 2022-23, AND 2023-24 SCHOOL AID FUND (SAF) REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES (millions of dollars)	YTD FY 2021-22	YTD FY 2022-23	Estimated FY 2023-24
Revenue:			
Beginning Balance	$2,922.3	$4,515.0	$3,651.5
Ongoing Revenue:			
Consensus Revenue Estimate (Jan. 2022)	$16,078.2	$16,246.6	$16,557.7
Consensus Revenue Change (May 2022)	1,262.4	948.7	887.2
Consensus Revenue Estimate (May 2022)	17,340.6	17,195.3	17,444.9
SFA Forecast Revenue Change (January 2023)	484.7	(135.6)	(433.8)
SFA Forecast Revenue Estimate (January 2023)	$17,825.3	$17,059.7	$17,011.1
Other Revenue Adjustments:			
Adjustments	$0.0	$0.0	$0.0
General Fund/General Purpose (GF/GP) Grant	98.1	49.6	49.2
Community District Education Trust Fund	72.0	72.0	72.0
Federal Ongoing Aid	1,822.5	2,191.2	2,191.2
Subtotal Ongoing Revenue	$19,817.9	$19,372.5	$19,323.6
Non-ongoing Revenue:			
Federal Stimulus	$202.0	$414.2	$.0
Additional Federal Funds	420.7	0.0	0.0
MPSERS Reserve Fund	0.0	140.4	110.0
Additional One-Time GF	45.0	74.6	0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	14.6	22.4	22.4
Subtotal Non-Ongoing Revenue	$682.3	$651.6	$132.4
Total Estimated School Aid Fund Revenue	**$23,422.5**	**$24,539.1**	**$23,107.5**
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	$14,528.5	$15,457.2	$15,427.2
School Aid Federal Funds	2,024.5	2,274.2	2,191.2
State Funds Cost Adjustments (May 2022/Jan 2023)	(355.7)	(30.0)	77.9
Federal Funds Cost Adjustments (May 2022)	368.7	0.0	0.0
Fund Community Colleges with School Aid Fund	428.2	448.6	454.6
Partially Fund Higher Education with School Aid Fund	361.4	347.9	347.9
Subtotal Ongoing Appropriations	$17,355.6	$18,497.9	$18,498.8
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	$425.1	$1,871.3	$110.0
Initial One-Time Community College Appropriations	3.2	81.2	0.0
Fund deposits (MPSERS, Consolidation, Teacher Recruitment	755.0	425.0	0.0
University MPSERS	300.0	0.0	0.0
FY 22 and 23 Supplementals	134.7	12.2	0.0
Lapses	(66.1)	0.0	0.0
Subtotal One-Time and Other Appropriations	$1,552.0	$2,389.7	$110.0
Total Estimated School Aid Fund Expenditures	**$18,907.5**	**$20,887.6**	**$18,608.8**
PROJECTED YEAR-END SAF BALANCE (Total)	**$4,515.0**	**$3,651.5**	**$4,498.6**
PROJECTED YEAR-END SAF BALANCE (Ongoing)		$844.6	$902.6
PROJECTED YEAR-END SAF BALANCE (One-Time)		$2,806.9	$3,596.0