Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2019-20, FY 2020-21, and FY 2021-22

May 14, 2020

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www.senate.michigan.gov/sfa

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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.
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ECONOMIC FORECAST

The United States economy, as measured by inflation-adjusted gross domestic product (GDP) is predicted to contract 7.2% in 2020, the first annual decline since 2009, but will expand 0.7% in 2021 and 3.1% in 2022. Light vehicle sales are forecast to decline from 17.0 million units in 2019 to 12.4 million units in 2020, 15.5 million units in 2021, and 16.2 million units in 2022. The unemployment rate is expected to rise from 3.7% in 2019 to 9.0% in 2020, before declining to 6.3% in 2021 and 4.5% in 2022; the Consumer Price Index is estimated to fall 0.4% in 2020, and then rise 1.8% in 2021 and 2.6% in 2022.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to decline 1.6% in 2020, but then grow 1.3% in 2021 and 2.6% in 2022. Wage and salary employment, after increasing 0.3% in 2019, is predicted to fall 11.7% during 2020, but then grow 6.1% in 2021 and 1.1% in 2022.

REVENUE FORECAST

In FY 2019-20, an economic recession is expected to lower revenue from every major tax. General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) net revenue will total an estimated $21.3 billion, a 13.6% decrease from FY 2018-19. Compared to the January 2020 consensus estimates, the GF/GP estimate is $2.3 billion lower and the SAF estimate is $1.3 billion lower.

In FY 2020-21, as the economy begins to recover from the 2020 recession, net GF/GP and SAF revenue will total an estimated $22.2 billion, a 4.1% increase from the revised FY 2019-20 estimate but $3.3 billion below the January 2020 consensus estimate. General Fund/General Purpose revenue will total an estimated $9.1 billion, a 4.2% increase from FY 2019-20 that is $2.1 billion less than the January 2020 consensus estimate. School Aid Fund revenue will total an estimated $13.1 billion, a 4.0% increase that is $1.2 billion less than the January 2020 consensus estimate.

In FY 2021-22, net GF/GP and SAF revenue will total an estimated $24.0 billion, an 8.2% increase from the revised estimate for FY 2020-21 and $2.1 billion less than the January 2020 consensus estimates. Under the forecast, combined GF/GP and SAF revenue in FY 2021-22 would be $656.3 million, or 2.7%, less than in FY 2018-19. Continuing economic growth will result in GF/GP revenue totaling an estimated $10.1 billion, an increase of 11.1% from FY 2020-21, while SAF revenue will total an estimated $13.9 billion, a 6.3% increase.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2019-20 GF/GP budget will have a negative ending balance of $1.4 billion. A comparison of the FY 2019-20 SAF revenue estimates and enacted and projected SAF appropriations produces a $1.2 billion SAF deficit.

Comparing the SFA's FY 2020-21 GF/GP revenue estimate with a projected baseline current services budget, leads to a $2.7 billion deficit in the FY 2020-21 GF/GP budget. The SFA's FY 2020-21 SAF revenue estimate, projecting a continuation baseline, results in a $1.1 billion deficit in the FY 2020-21 SAF budget.

If the SFA's FY 2021-22 GF/GP revenue estimate is compared with the FY 2020-21 ongoing GF/GP appropriations adjusted for a current services baseline and for SFA-estimated caseload and costs, there is a projected $1.5 billion GF/GP budget deficit. If the SFA's FY 2021-22 SAF revenue estimate is compared with the continuation of a current services budget into FY 2021-22, adjusted for estimated pupils and other costs, there is a projected $320.7 million budget deficit.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)	2018 Actual	2019 Actual	2020 Estimate	2021 Estimate	2022 Estimate
Real Gross Domestic Product (% change)	2.9%	2.3%	-7.2%	0.7%	3.1%
U.S. Consumer Price Index (% change)	2.4%	2.3%	-0.4%	1.8%	2.6%
Light Motor Vehicle Sales (millions of units)	17.2	17.0	12.4	15.5	16.2
U.S. Unemployment Rate (%)	3.9%	3.7%	9.0%	6.3%	4.5%
Real Michigan Personal Income (% change)	2.5%	2.5%	-1.6%	1.3%	2.6%
Michigan Wage & Salary Employment (% change)	1.1%	0.3%	-11.7%	6.1%	1.1%

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

	FY 2019-20 Estimate			FY 2020-21 Estimate			FY 2021-22 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$10,623.8	($1,909.9)	$8,713.9	$11,192.5	($2,108.6)	$9,084.0	$11,969.3	($1,881.3)	$10,088.0
% Change	(13.3%)	---	(21.6%)	5.4%	---	4.2%	6.9%	---	11.1%
School Aid Fund	$12,466.9	$131.4	$12,598.3	$12,881.4	$217.9	$13,099.3	$13,611.8	$312.1	$13,923.9
% Change	(8.6%)	---	(7.0%)	3.3%	---	4.0%	5.7%	---	6.3%
Total GF/GP & SAF	$23,090.7	($1,778.5)	$21,312.2	$24,073.9	($1,890.6)	$22,183.3	$24,011.9	($1,569.2)	$24,011.9
% Change	(10.8%)	---	(13.6%)	4.3%	---	4.1%	6.3%	---	8.2%
Revenue Limit – Under (Over)		$15,601.4			$15,923.9			$12,163.7	

Revision from Jan. Consensus	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate
GF/GP	($2,298.2)	($2,110.5)	($1,430.5)
SAF	(1,327.2)	(1,218.2)	(716.2)
Total	**($3,625.4)**	**($3,328.7)**	**($2,146.7)**

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate
General Fund/General Purpose..................................	($1,395.0)	($2,664.0)	($1,540.9)
School Aid Fund	($1,235.1)	($1,097.1)	($320.7)
Budget Stabilization Fund (with enacted deposits)......	$1,174.4	$1,193.1	$1,218.6

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2020, 2021, and 2022, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

The longest economic expansion on record, based on the National Bureau of Economic Research dating recessions as far back as December 1854, likely ended in first quarter of 2020, as inflation-adjusted Gross Domestic Product (GDP) declined 4.8% according to the advance estimate from the US Department of Commerce's Bureau of Economic Analysis. While a single quarter of decline would not mark the end of an expansion period, the economic disruption associated with COVID-19 is expected to result in an even more severe contraction during the second quarter of 2020. Two consecutive quarters of decline in inflation-adjusted GDP generally is considered sufficient to mark a recession. Most forecasts suggest that, measured either in terms of peak-to-trough decline in inflation-adjusted GDP or in terms of peak-to-trough decline in employment, the impending recession will be deeper, although of a shorter duration, than the 2008-09 recession.

Although the 2008-2009 recession represented the most severe economic contraction in more than 70 years, the years following the recession have also represented the weakest recovery. Between the second quarter of 2009 and the fourth quarter of 2019, the economy had expanded for 42 quarters. Four other recoveries since World War II lasted 20 quarters or more, although only two of those recoveries lasted 35 quarters or more (the longest was 40 quarters), and the most recent recovery was less than half as strong as the average of other long recoveries (Figure 1). The economy averaged only 2.2% annual growth during the expansion, compared with an average of 3.8% annual growth over the longest recoveries since World War II (42 quarters after the end of the 1961, 1982, and 1991 recessions). Most of the weakness during the recovery reflected particularly slow growth through the first quarter of 2014: personal consumption spending (which generally has accounted for two-thirds of economic activity) grew at a rate of 1.7% per year between the recession trough and the first quarter of 2014 while the government sector contracted by 1.9% per year (Figure 2). Since the first quarter of 2014, the government sector remained relatively flat through the third quarter of 2017, and then grew 2.3% per year between the third quarter of 2017 and the fourth quarter of 2019, while consumption consistently grew more rapidly, growing at an average of 2.9% per year. However, the growth in consumption since the first quarter of 2014 has been offset by a marked slowing in business investment, from 9.8% growth per year between the second quarter of 2009 and the first quarter of 2014, to 3.0% growth per year between the first quarter of 2014 and the fourth quarter of 2019.

The weak recovery from the 2008-09 recession has meant that, despite the record-setting duration, the US economy was more likely to see the expansions gains erased quickly. The advance estimate for inflation-adjusted GDP in the first quarter already erased almost all of the growth experienced since the first quarter of 2019. To the extent that the advance estimate is widely expected to be revised lower, the impact of the first quarter's decline will be even more severe. While total employment increased by 20.7 million jobs between the employment trough in December 2009 and February 2020, between February and April of 2020, total employment declined by 25.4 million jobs--more than wiping out all of the employment gains of the last 11 years. For economic variables, such as housing starts and industrial production, that had yet to recover to pre-recession peaks, the current recession will delay any recovery.

Figure 1

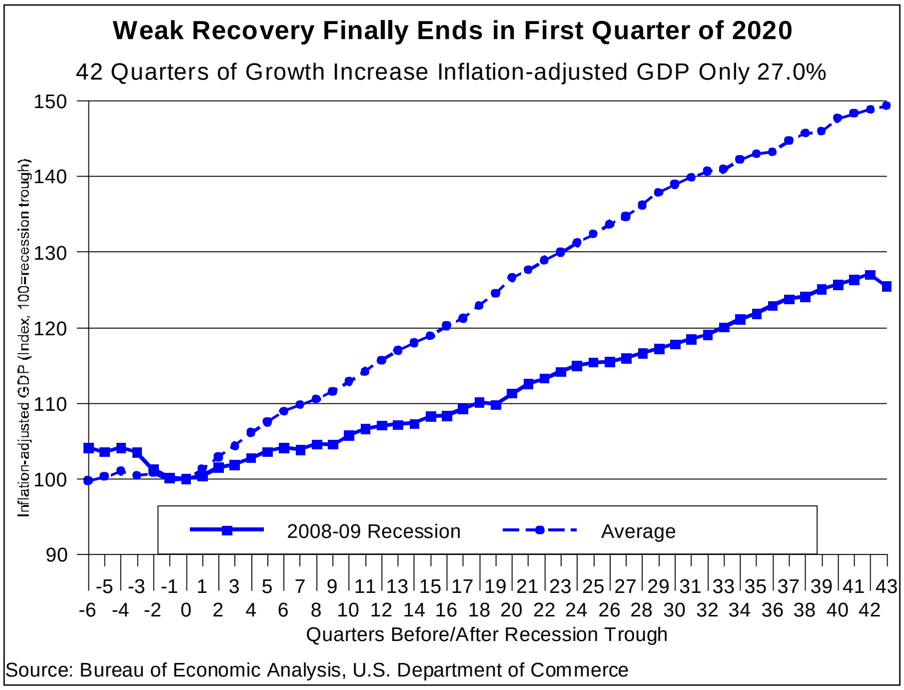
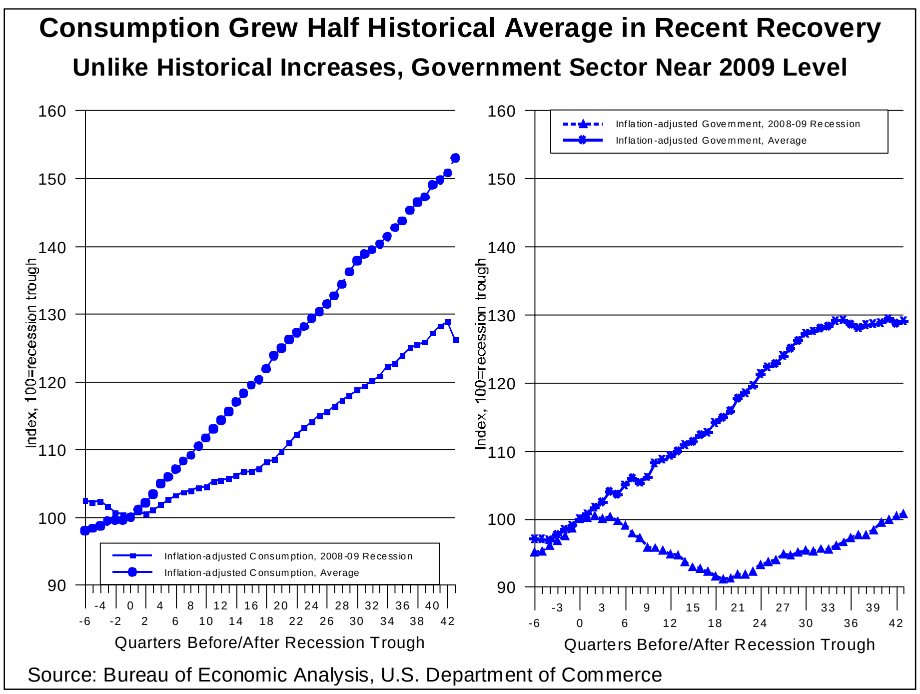


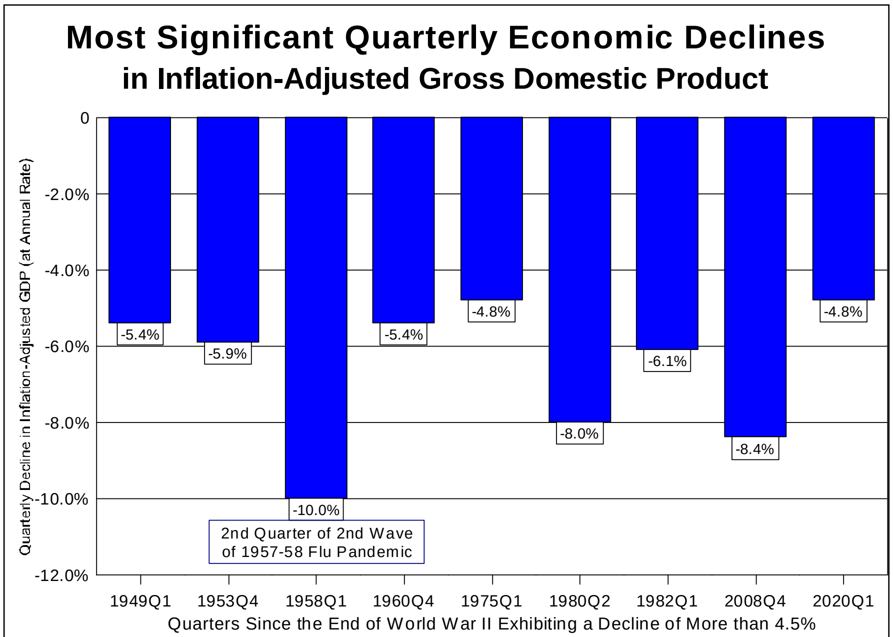
Figure 2



The economic contraction associated with COVID-19 has been rapid and global. For many economic variables, the changes already have been of unprecedented magnitudes--even compared to the changes over the duration of entire recessions that have occurred previously. The reduction in inflation-adjusted GDP in the first quarter of 2020 already ranks as one of the nine worst quarterly declines since World War II (Figure 3). The majority of current forecasts expect the second quarter of 2020 to be more than double the contraction in the first quarter of 1958, the steepest quarterly decline since World War II. 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, reflecting the second wave of the H2N2 flu pandemic.

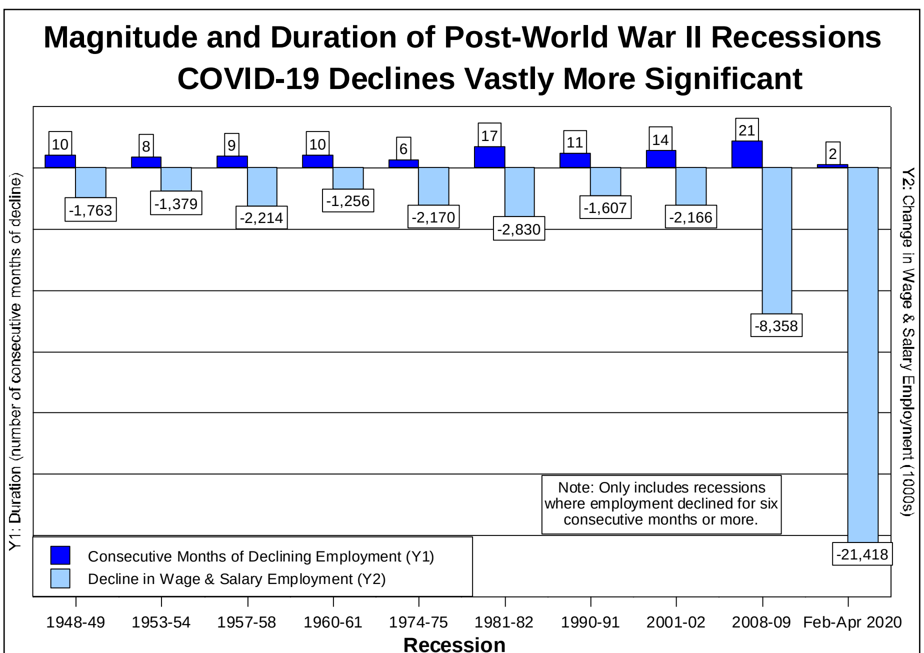
Job losses associated with the COVID-19 pandemic already are significant. The loss of 21.4 million payroll employment jobs (as opposed to total employment, which also includes self-employed workers and agricultural workers) between February and April 2020 not only erased nearly all of the 22.8 million payroll jobs created since February 2010 (the employment trough from the 2008-09 recession), but is almost three times the record-setting employment decline experienced during the 2008-09 recession (Figure 4). Similarly, the rapid onset of such substantial changes also is unprecedented, as illustrated by initial claims for unemployment insurance (Figure 5). Job losses associated with COVID-19 have pushed the April 2020 unemployment rate to an all-time post-World War II record high of 14.7%. The previous record was 10.8% in November and December of 1982 (Figure 6).

Figure 3



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 4



Source: Bureau of Labor Statistics, U.S. Department of Labor

Figure 5

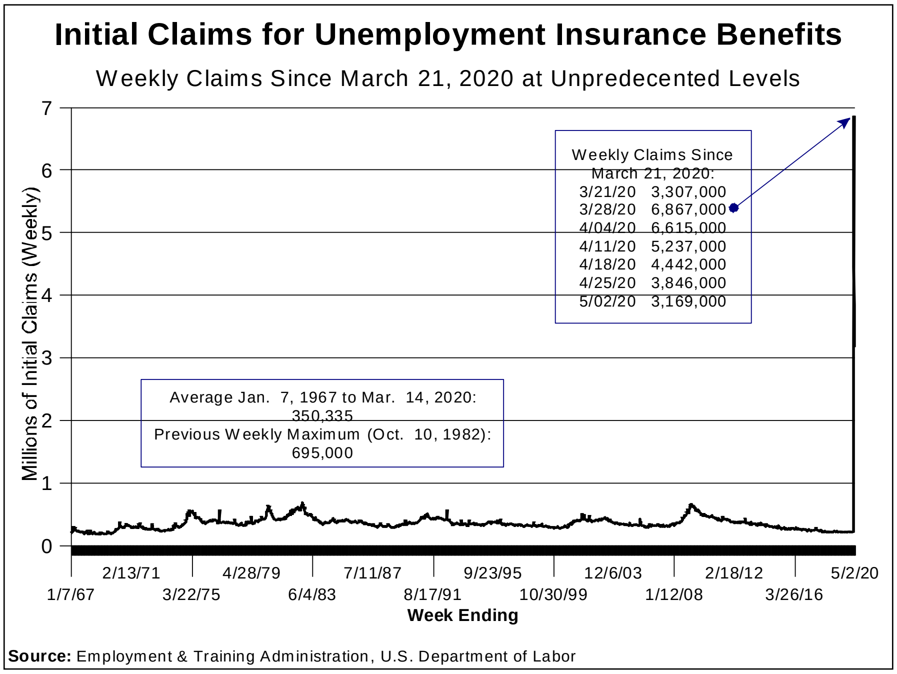
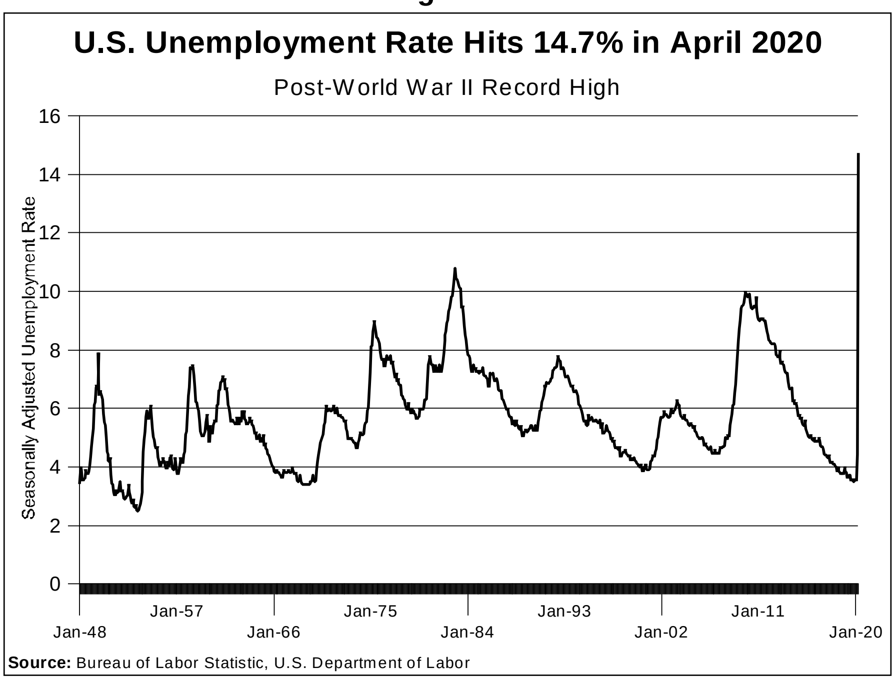


Figure 6



The impact of COVID-19 has lowered economic activity across a wide variety of sectors. Industrial production in the manufacturing sector, which has not yet recovered to pre-2008 recession peaks, fell below the January 2005 level in March 2020, according to the most recent data available (Figure 7). The decline in manufacturing has not just been on the output side, with both employment and new orders contracting substantially in April 2020 from March 2020, despite a slowdown that had started in August 2019 (Figure 8). The nonmanufacturing sector had exhibited continued expansion at the start of 2020, although the expansion had been slowing, but turned to contraction in April (Figure 9). Among nonmanufacturing services most substantially affected by COVID-19, the travel/transportation sector and food services (i.e. restaurants) sector have experienced year-over-year declines in activity of between 90% and 100% (Figures 10 and 11). The hospitality sector has experienced significant declines, with hotel occupancy declining between 60%

and 70%, while revenue per available room has fallen approximately 80% (Figure 12). Retail sales also exhibited the first year-over-year decline since the 2008-09 recession in March 2020 and further declines are expected (Figure 13), particularly given that many of the factors that caused the March decline were present for only the last portion of the month but continued through all of April.

While additional anecdotal evidence exists to demonstrate the significant impact COVID-19 has had on the economy so far, many data sources that provide reliable (or official) estimates for economic activity are not issued frequently enough, or require substantial time to collect source information and accurately compile the information, that it is difficult to obtain more timely economic information that can reflect the rapid changes associated with the virus. As a result, over the next few months, a fuller picture of any economic changes will become available.

Figure 7

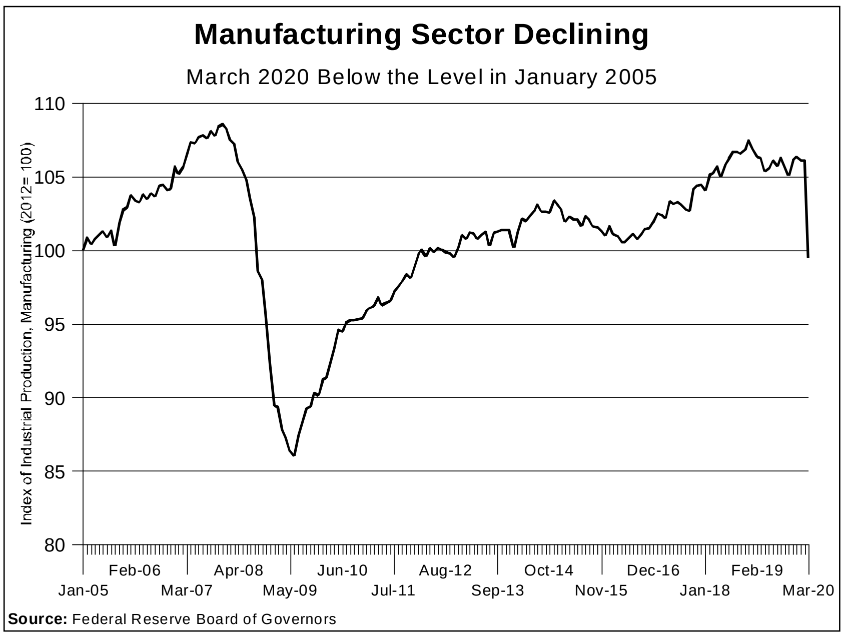


Figure 8

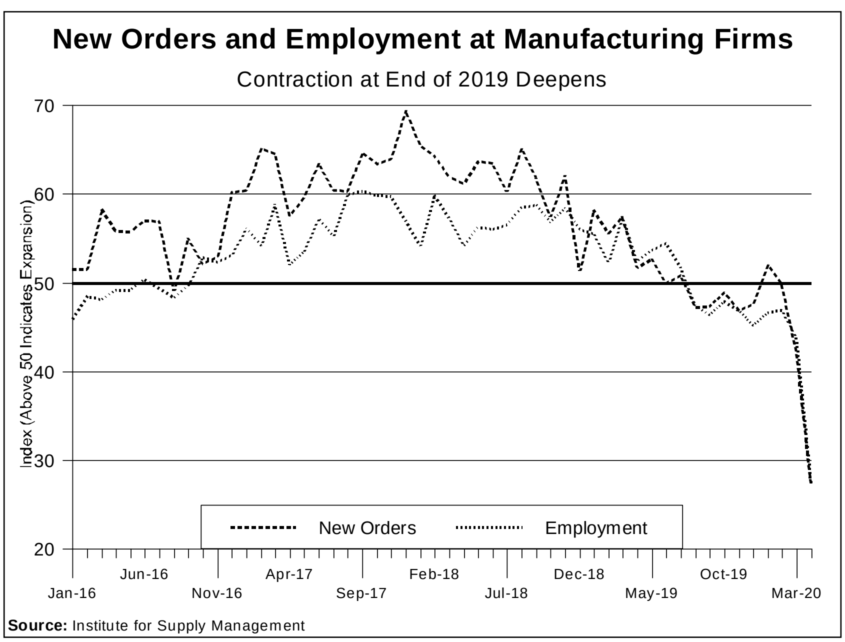
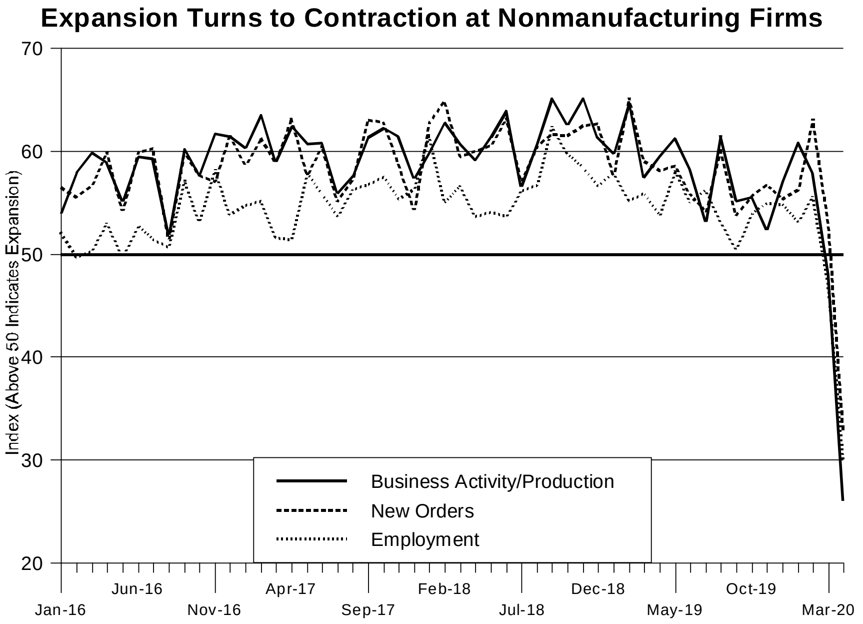
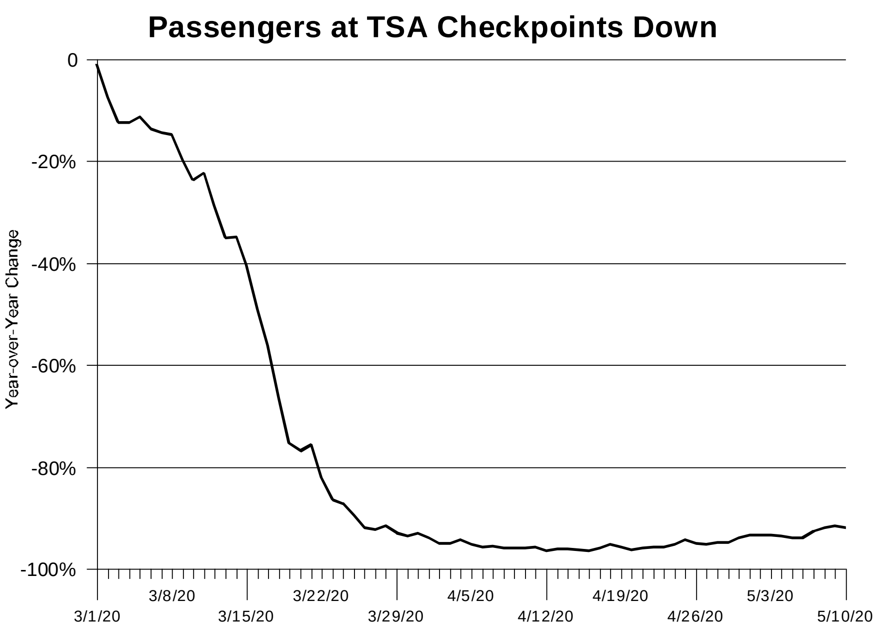


Figure 9



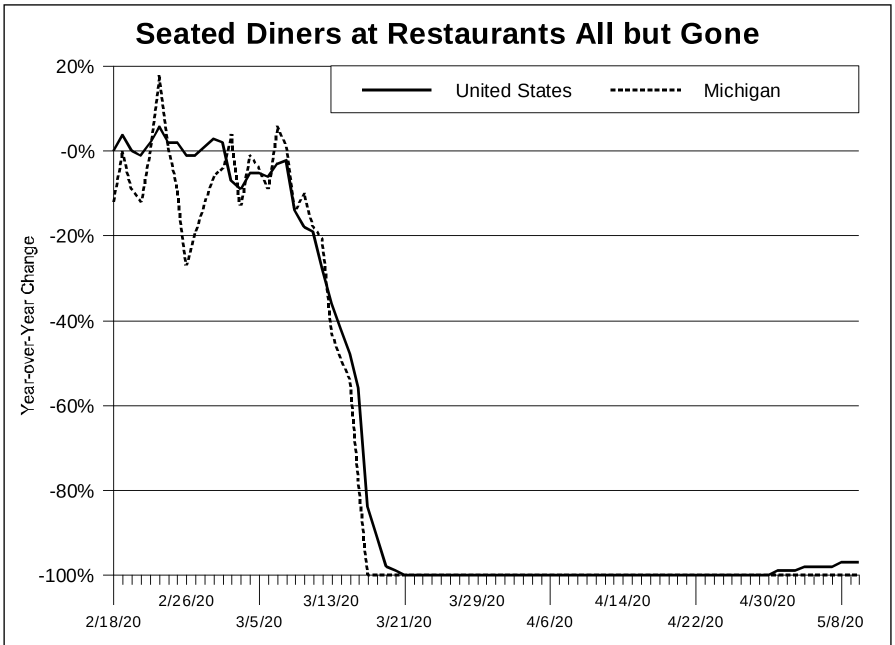
Source: Institute for Supply Management

Figure 10



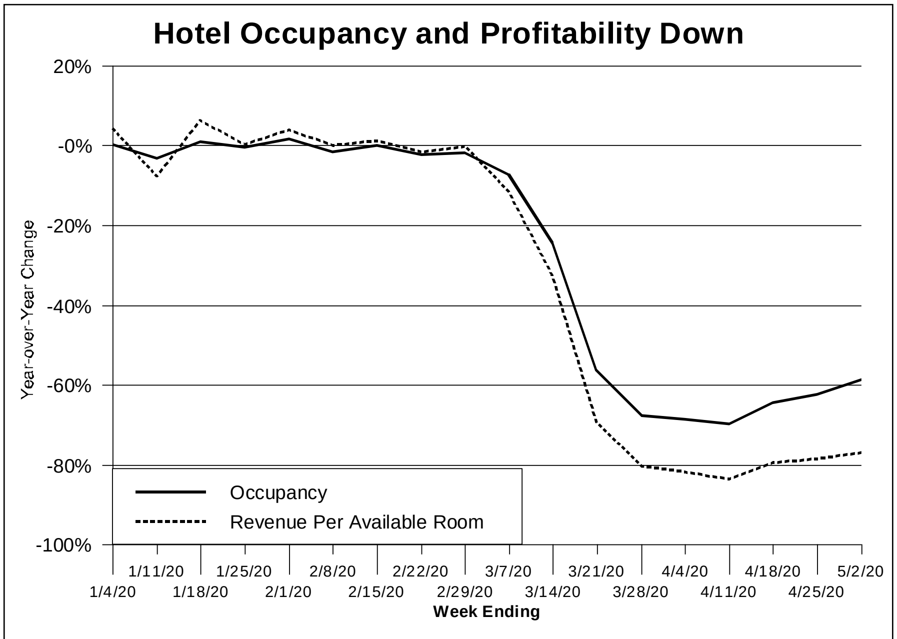
Source: Transportation Security Administration, U.S. Department of Homeland Security

Figure 11



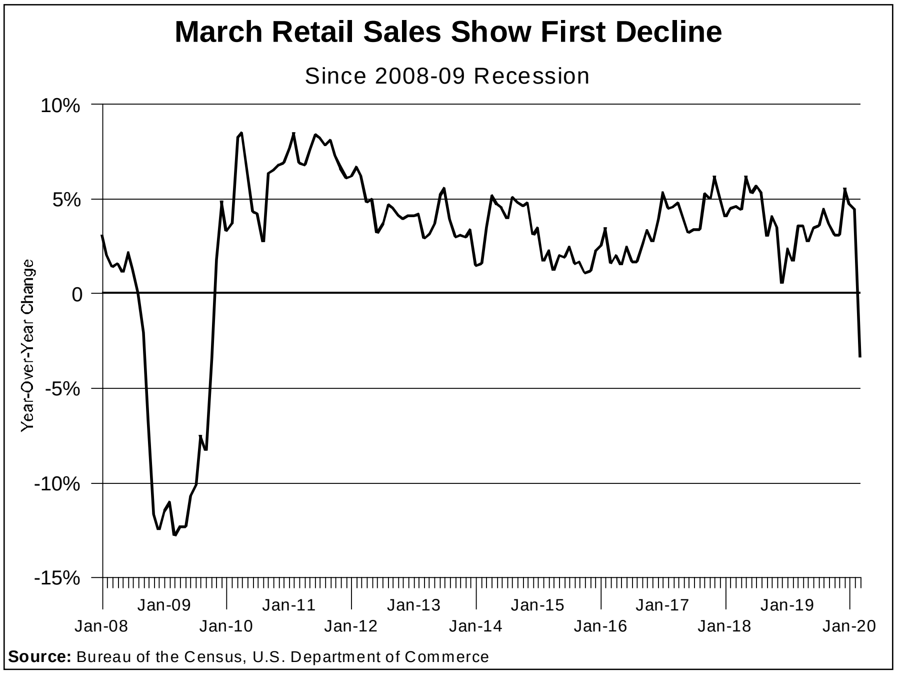
Source: OpenTable

Figure 12



Source: STR

Figure 13



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

Michigan's economy spent the 2000-to-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 has been 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 last decade. Thus, Michigan lost jobs as a result of both 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 prior to 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 remains below the June 2000 peak, with the most recent peak in February 2020 still down 254,300 jobs from June 2000 (but up 633,800 jobs from the July 2009 Michigan employment trough). Employment gains 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.

State level data reflecting the impact of COVID-19 are more scarce than national indicators, although March 2020 data (in which COVID-19 disruptions primarily exerted an impact during the last half of the month) suggest the effects will be negative and substantial. Year-over-year payroll employment growth declined from 0.7% in February 2020 to 0.1% in March, although that survey primarily measured activity as of the week of March 8-14 (before COVID-19 impacts began to affect the majority of Michigan's workforce). Sales tax collections from the Secretary of State, which primarily reflects sales tax paid on new vehicle sales, declined 83.8% between April 2019 and April 2020, consistent with the national decline in light vehicle sales from a 16.5 million unit annual rate in April 2019 to an 8.6 million unit rate in April 2020 (Figure 14). In the western portion of Michigan, an area less reliant on the vehicle sector than southeast Michigan, data point to the most severe contraction in manufacturing on record (Figure 15). Given that Michigan food services (restaurants) appear to be experiencing the same reductions in business activity as those nationally (Figure 11, presented earlier), it is likely that Michigan's travel/tourism sectors are experiencing the same reductions.

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

Figure 14

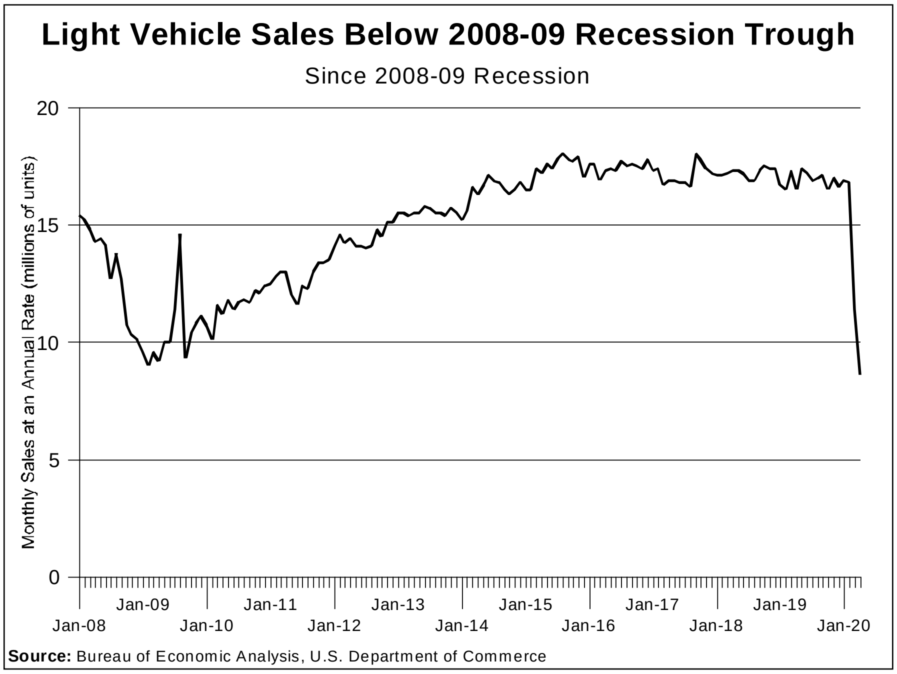


Figure 15

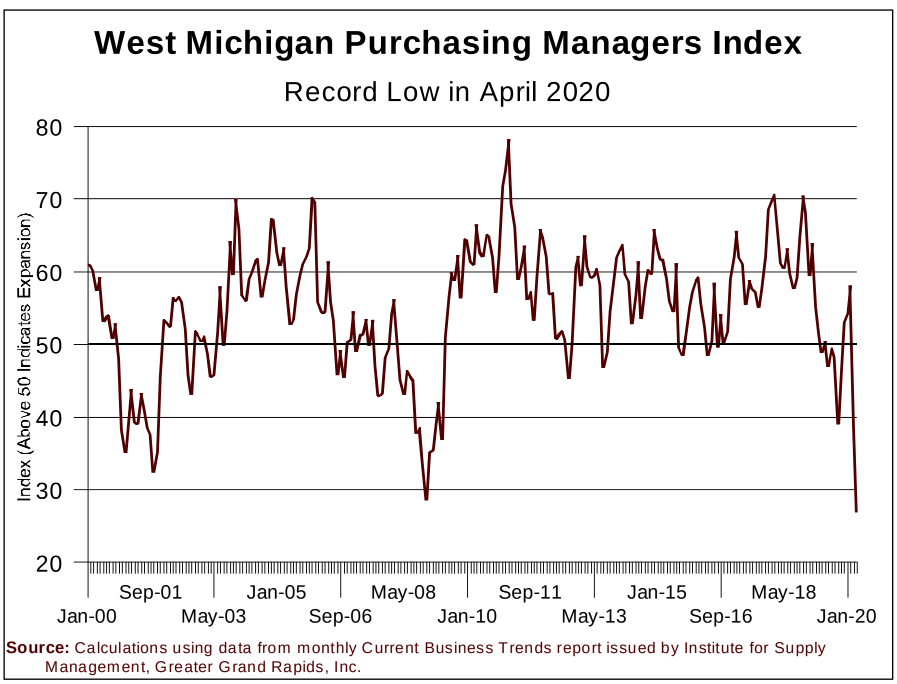


Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2018 Actual	2019 Actual	2020 Estimate	2021 Estimate	2022 Estimate
United States					
Nominal GDP (year-to-year growth)	5.4%	4.1%	(6.4%)	2.0%	5.4%
Inflation-Adjusted GDP (year-to-year growth)	2.9%	2.3%	(7.2%)	0.7%	3.1%
Unemployment Rate	3.9%	3.7%	9.0%	6.3%	4.5%
Inflation					
Consumer Price Index (year-to-year growth)	2.4%	2.3%	(0.4%)	1.8%	2.6%
GDP Implicit Price Deflator (yr.-to-yr. growth)	2.4%	1.7%	1.0%	1.4%	2.2%
Interest Rates					
90-day Treasury Bill	1.94%	2.06%	0.35%	0.10%	1.11%
10-year Treasury Bill	2.91%	2.14%	0.87%	0.89%	1.26%
Corporate Aaa Bond	3.93%	3.39%	2.51%	2.36%	3.01%
Federal Funds Rate	1.83%	2.16%	0.40%	0.22%	0.92%
Light Motor Vehicle Sales (millions of units)	17.2	17.0	12.4	15.5	16.2
Auto	5.3	4.7	3.2	3.7	3.6
Truck	11.9	12.2	9.2	11.8	12.6
Import Share	23.0%	22.3%	10.2%	14.3%	14.8%
Michigan					
Personal Income (millions)	$484,030	$502,540	$489,600	$499,948	$521,801
Year-to-year growth	4.9%	3.8%	(2.6%)	2.1%	4.4%
Inflation-Adjusted Personal Income (year-to-year growth)	2.5%	2.5%	(1.6%)	1.3%	2.6%
Wage & Salary Income (millions)	$240,365	$246,802	$223,119	$243,133	$258,582
Year-to-year growth	3.7%	2.7%	(9.6%)	9.0%	6.4%
Detroit Consumer Price Index (year-to-year growth)	2.4%	1.3%	(1.0%)	0.8%	1.7%
Wage & Salary Employment (thousands)	4,417.7	4,432.6	3,913.7	4,152.2	4,196.3
Year-to-year growth	1.1%	0.3%	(11.7%)	6.1%	1.1%
Unemployment Rate	4.1%	4.1%	13.5%	9.9%	8.7%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2018 Actual	**2019 Actual**	**2020 Estimate**	**2021 Estimate**	**2022 Estimate**
Gross Domestic Product					
(billions of dollars)	$20,580.2	$21,427.7	$20,066.9	$20,476.4	$21,584.6
Year-to-year growth	5.4%	4.1%	(6.4%)	2.0%	5.4%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2009 dollars)	$18,638.2	$19,073.1	$17,692.4	$17,810.8	$18,366.6
Year-to-year growth	2.9%	2.3%	(7.2%)	0.7%	3.1%
Consumption					
(billions of 2009 dollars)	$12,944.6	$13,280.1	$12,058.6	$12,173.6	$12,608.4
Year-to-year growth	3.0%	2.6%	(9.2%)	1.0%	3.6%
Business Fixed Investment					
(billions of 2009 dollars)	$2,692.3	$2,748.1	$2,410.1	$2,503.4	$2,720.2
Year-to-year growth	6.4%	2.1%	(12.3%)	3.9%	8.7%
Change in Business Inventories					
(billions of 2009 dollars)	$48.1	$67.0	($100.2)	$50.2	$74.6
Residential Investment					
(billions of 2009 dollars)	$602.9	$593.8	$583.6	$508.4	$528.8
Year-to-year growth	(1.5%)	(1.5%)	(1.7%)	(12.9%)	4.0%
Government Spending					
(billions of 2009 dollars)	$3,223.9	$3,299.0	$3,399.8	$3,357.2	$3,305.8
Year-to-year growth	1.7%	2.3%	3.1%	(1.3%)	(1.5%)
Net Exports (billions of 2009 dollars)	($920.1)	($953.9)	($698.1)	($828.5)	($921.3)
Exports (billions of 2009 dollars)	$2,532.9	$2,532.9	$2,316.1	$2,541.1	$2,685.2
Imports (billions of 2009 dollars)	$3,453.0	$3,486.8	$3,014.2	$3,369.6	$3,606.5
Personal Income (year-to-year growth)	5.6%	4.4%	3.6%	(3.2%)	4.7%
Adjusted for Inflation	3.1%	2.0%	4.0%	(4.9%)	2.0%
Wage & Salary Income					
(year-to-year growth)	5.0%	4.6%	(2.8%)	4.4%	6.2%
Personal Saving Rate	7.7%	7.9%	19.6%	15.5%	14.3%
Output per hour					
(Labor productivity, annual growth)	1.4%	1.9%	(1.9%)	4.2%	0.1%
Unit labor costs (annual growth)	1.8%	1.7%	3.7%	(2.0%)	2.7%
Housing Starts (millions of units)	1.250	1.290	0.979	1.093	1.248
Conventional Mortgage Rates	4.5%	3.9%	3.3%	3.3%	3.7%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($1,009.8)	($1,192.0)	($2,751.1)	($2,393.2)	($1,636.4)

FORECAST SUMMARY

During 2020, both the US and Michigan economies are expected to experience recessionary conditions, largely driven by COVID-19 disruptions primarily during the first and second quarters of 2020. Both the US and Michigan economies are expected to then exhibit growth during 2021 and 2022, although Michigan is generally 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 fall 7.2% in 2020, compared to the 2.3% increase during 2019. Inflation-adjusted GDP will expand 0.7% during 2021 and 3.1% in 2022. The recession during 2020 reflects both the impact of COVID-19 disruptions as well as factors that were causing the economy to slow even before the pandemic began. The expansion in 2021 and 2022 primarily reflects stable consumption growth and business investment that will more than offset slowing residential investment, reduced government spending, and an increasing drag on the economy from imports growing faster than exports.

Employment gains over the forecast period will be muted, particularly compared with previous recoveries because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace labor with capital. Expenditures for personal protection equipment also will trade-off with traditional investment options, which have a greater impact on economic growth. As a result, the US unemployment rate is expected to rise from 3.7% during 2019 to 9.0% in 2020, before declining to 6.3% in 2021 and 4.5% in 2022.

The recession is predicted to depress prices and restrain wage growth, minimizing inflation risks over the forecast period. After increasing 2.3% in 2019, the most rapid increase since 2011, the US Consumer Price Index (CPI) is anticipated to decrease 0.4% in 2020, and then rise by 1.8% in 2021 and 2.6% in 2022.

In Michigan, both job growth and personal income growth are expected to remain below the national averages (despite outperforming the national averages in both 2010 and 2011) and below the historical State average (Figures 16 and 17). After having increased 2.5% in 2019, inflation-adjusted personal income is projected to decrease 1.6% in 2020, and then grow 1.3% in 2021 and 2.6% in 2022. Payroll employment increased 0.3% during 2019, but is expected to decline 11.7% in 2020, before growing 6.1% in 2021 and 1.1% in 2022. Nationally, light vehicle sales are expected to decrease from 17.0 million units in 2019 to 12.4 million units in 2020, before rising to 15.5 million units in 2021 and 16.2 million units in 2022 (Figure 18). The Michigan unemployment rate, which averaged 4.1% during 2019, is forecasted to average 13.5% in 2020 before decreasing to 9.9% in 2021 and 8.7% in 2022.

Compared with the January 10, 2020, Consensus Economic Forecast, forecasted economic growth is substantially weaker in 2020, reflecting the revised forecast which now predicts a recession during 2020. The January Consensus Economic Forecast did not predict a recession in any of the forecast years. The growth forecasted in 2021 and 2022 generally is stronger than predicted by the January 2020 Consensus Economic Forecast, reflecting the anticipated recovery path from the recession.

Figure 16

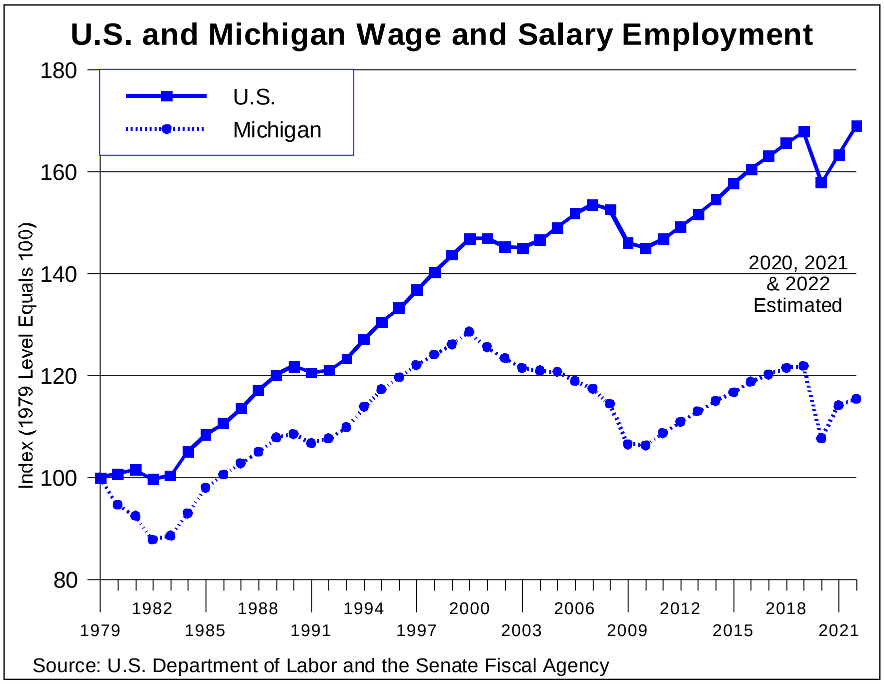


Figure 17

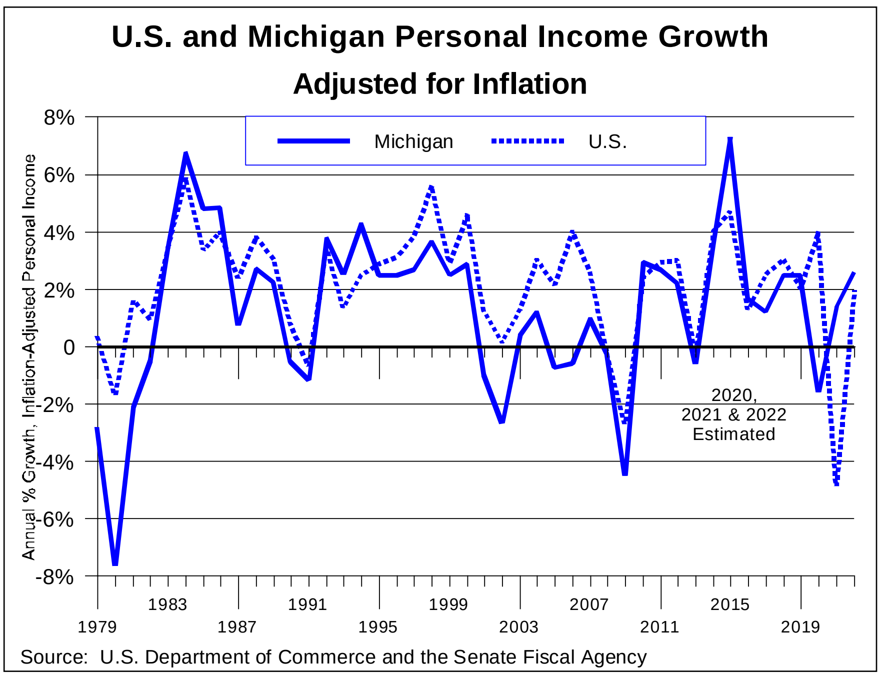
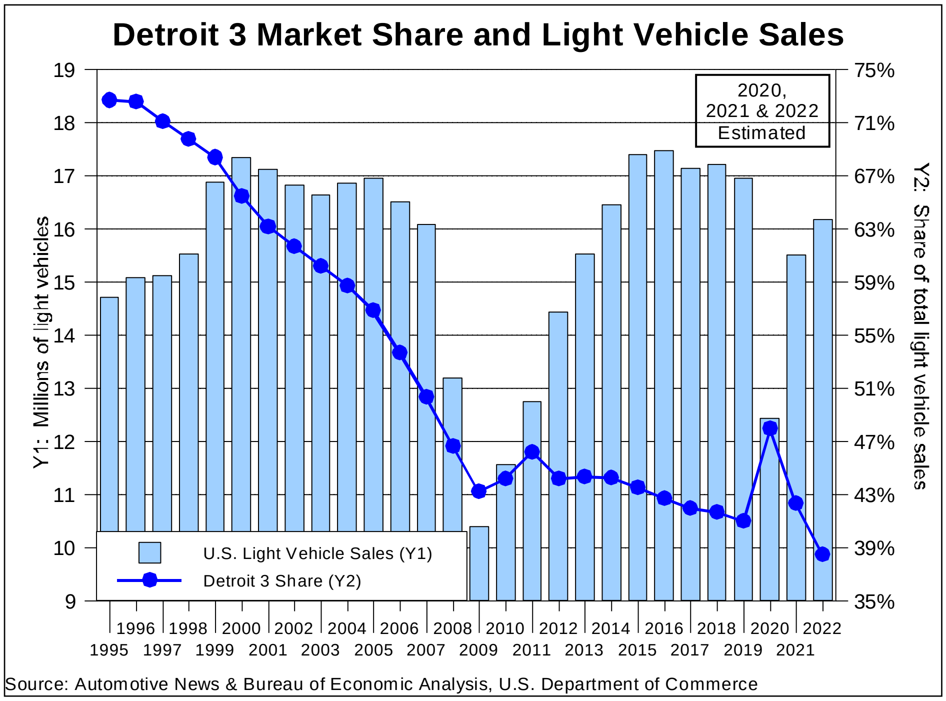


Figure 18



FORECAST RISKS

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. To the extent that 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.

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.

Monetary and Fiscal Policy. Changes in Federal tax policy since 2017 and subsequent growth in Federal spending increased Federal deficits to 5.6% of Gross Domestic Product in 2019, limiting the ability for fiscal policy to respond to any recession. Before the emergence of the COVID-19 pandemic, the economy had exhibited warning signs of a recession, which are particularly likely when the "yield curve", which represents the difference between short-term and long-term interest rates, "inverts" (meaning 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 during 2019. These interest rate 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, both Federal fiscal and monetary policy began taking steps 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, are constructed to reduce economic disruptions associated with COVID-19. However, at this point it remains unclear to what extent these initiatives will be effective (for example, if taxpayers save their stimulus checks rather than spending them) or sufficient to avoid more substantial economic disruption. Furthermore, it remains unclear if any additional stimulus measures will be necessary and/or adopted.

Recoveries from recessions like the 2008-09 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 pre-recession peak after just three quarters of growth. While both Federal fiscal and monetary policy had greater flexibility to deploy more traditional measures to combat the economic consequences of the 1957-58 pandemic, the 2008-09 recession allowed policy makers to develop new and different ways to stimulate the economy. Another risk to the forecast is whether or not these new options, many of which were developed to combat a recession brought on by a financial crisis, can be deployed to successfully address the impacts of a pandemic.

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 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 projects that population demographics will 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, and will increase labor costs.

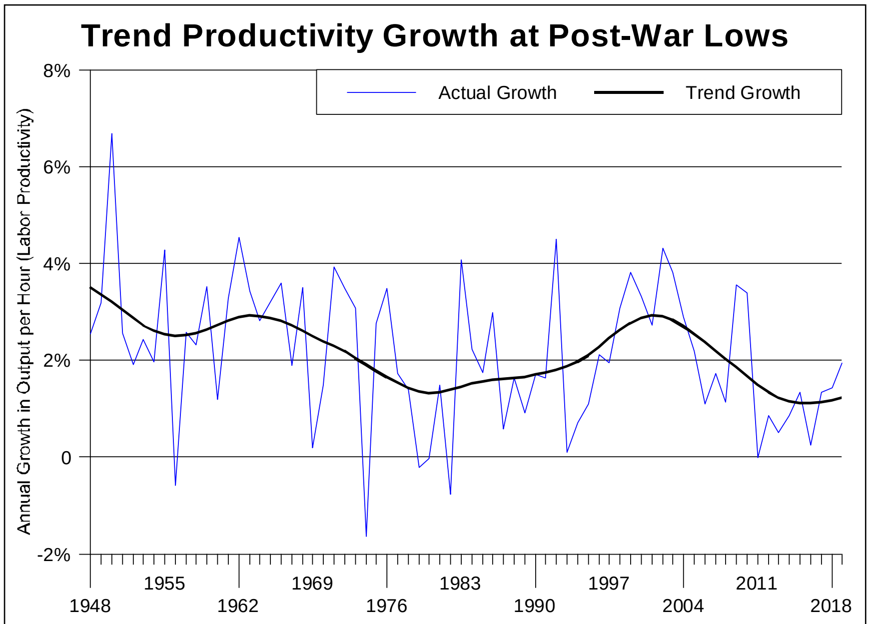
Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. Furthermore, the vulnerability of older populations to the COVID-19 virus may affect the rate at which some older adults leave (and/or return to) the labor force. Similarly, health risks or fears could substantially alter labor force participation for many others, especially in the near term. Additionally, these individuals also could exercise caution as consumers, thus constraining the recovery from both the perspective of labor supply as well as consumer spending. For example, not only must the individuals who would represent the flight crew on an airline flight or waiter or waitress in a restaurant be willing to face the risks associated with returning to work, but customers must be willing to face any risks associated with contracting COVID-19 while flying or dining out.

Aside from growth constraints related to COVID-19, low population growth and low 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 during the current recovery 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 or trend growth averaged 1.6% per year.

Nationally, population growth has slowly declined for decades. However, productivity growth since the 2008-09 recession has been much slower than what occurred before the recession. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.9% growth per year since 2010–the longest and most severe slowdown in productivity experienced since at least World War II (Figure 19). 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 is generally 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 since 2010 has boosted employment growth over what it would have been had labor productivity grown at historical rates. If productivity growth remains low, in the short run it will help the economy recover from any job losses that occur during the current recession. However, slow productivity growth will limit how quickly the economy will recover to pre-recession levels.

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 particularly 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 the last decade, both because of the economic changes occurring in that sector and because of

Figure 19



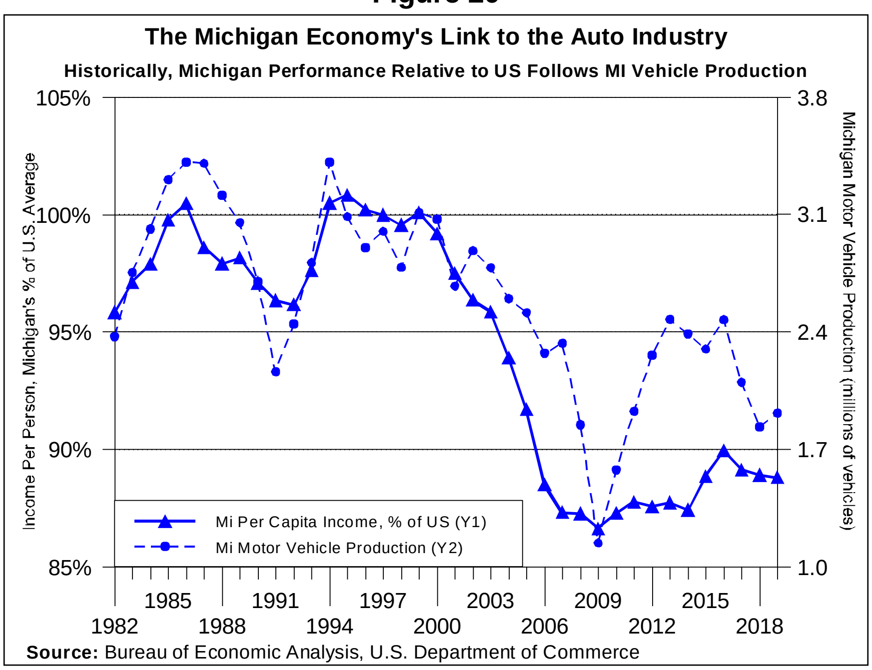
Source: Bureau of Labor Statistics, U.S. Department of Labor the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 20). 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 with lower oil prices over the last few years, these states have faced challenges.)

Similarly, the substantial impact the recession is likely to have on light vehicle sales suggests that Michigan will again experience a more drastic slowdown than the nation as a whole. Furthermore, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that such production needs can be met with existing, or even lower, employment levels than those at the end of 2019. As a result, although 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 next decade.

Once the recession ends in Michigan, overall employment in Michigan is expected to grow rapidly initially, rising by 6.1% in 2021, before slowing again. The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists unless a sector other than motor vehicles begins to show substantial growth. For both the Michigan economy and State tax revenue to improve markedly, substantial employment gains in the economy as a whole will need to occur.

Figure 20



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's (SFA's) revised estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2019-20, FY 2020-21, and FY 2021-22. 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. 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, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2019-20 and FY 2020-21 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2019-20, FY 2020-21, and FY 2021-22 are presented in Table 3 and are summarized below.

FY 2019-20 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $21.3 billion in FY 2019-20.
- The revised estimate for FY 2019-20 is down 13.6% or $3,353.3 million from final revenue for FY 2018-19.
- The revised estimate for FY 2019-20 is $3,625.4 million below the January 2020 consensus revenue estimate.
- The revenue decrease in FY 2019-20 primarily reflects reduced economic activity due to the COVID-19 pandemic, as discussed in the previous section. General Fund/General Purpose revenue will be further lowered by revenue reductions under the 2015 transportation package, which will reduce General Fund revenue by $673.8 million.

FY 2020-21 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $22.2 billion in FY 2020-21.
- This revised estimate for FY 2020-21 is 4.1% or $871.1 million more than the revised estimate for FY 2019-20.
- The revised estimate for FY 2020-21 is $3,328.7 million below the January 2020 consensus revenue estimate.
- The revenue increase in FY 2020-21 reflects Michigan economic activity growing slowly while still facing headwinds due to the COVID-19 pandemic. There also will be more significant revenue reductions due to the full phase-in of the 2015 transportation package. Revenue reductions attributable to the package will total $805.8 million in FY 2020-21 and future fiscal years.

FY 2021-22 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $24.0 billion in FY 2021-22.
- This revised estimate for FY 2021-22 is up 8.2%, or $1,828.6 million, from the revised estimate for FY 2020-21.
- The revised estimate for FY 2021-22 is $2,146.7 million below the January 2020 consensus revenue estimate.
- The revenue increase in FY 2021-22 reflects increased economic activity as Michigan continues to recover from the COVID-19 pandemic.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2018-19 THROUGH FY 2021-22 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)	FY 2018-19 Final	FY 2019-20 Revised Est.	FY 2020-21 Revised Est.	FY 2021-22 Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	$12,246.5	$10,623.8	$11,192.5	$11,969.3
Tax Changes Not In Baseline	(1,130.8)	(1,909.9)	(2,108.6)	(1,881.3)
Revenue After Tax Changes:				
Net Income Tax	7,252.5	5,869.8	6,005.1	6,584.7
MBT, Corp. Income Tax, SBT & Insur. Tax	1,013.8	386.4	501.9	667.0
Other Taxes	2,461.4	2,128.6	2,222.9	2,452.2
Total Taxes	10,727.7	8,384.8	8,729.9	9,703.9
Nontax Revenue	388.0	329.1	354.1	384.1
TOTAL GF/GP REVENUE	**$11,115.8**	**$8,713.9**	**$9,084.0**	**$10,088.0**
SCHOOL AID FUND				
Baseline SAF	$13,639.1	$12,466.9	$12,881.4	$13,611.8
Tax Changes Not In Baseline	(86.7)	131.4	217.9	312.1
TOTAL SAF REVENUE	**$13,552.4**	**$12,598.3**	**$13,099.3**	**$13,923.9**
BASELINE GF/GP AND SAF REVENUE	$25,885.6	$23,090.7	$24,073.9	$25,581.1
Tax & Revenue Changes	(1,217.4)	(1,778.5)	(1,890.6)	(1,569.2)
GF/GP & SAF REV. AFTER CHANGES	**$24,668.2**	**$21,312.2**	**$22,183.3**	**$24,011.9**
SALES TAX	8,253.1	7,495.9	7,851.2	8,500.6
	Percent Change			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	(0.1%)	(13.3%)	5.4%	6.9%
Revenue After Tax Changes:				
Net Income Tax	(0.2)	(19.1)	2.3	9.7
MBT, Corp. Income Tax, SBT & Insur. Tax	32.5	(61.9)	29.9	32.9
Other Taxes	(3.4)	(13.5)	4.4	10.3
Total Taxes	1.4	(21.8)	4.1	11.2
Nontax Revenue	(11.1)	(15.2)	7.6	8.5
TOTAL GF/GP REVENUE	**0.9%**	**(21.6%)**	**4.2%**	**11.1%**
SCHOOL AID FUND				
Baseline SAF	2.7%	(8.6%)	3.3%	5.7%
TOTAL SAF REVENUE	**1.9%**	**(7.0%)**	**4.0%**	**6.3%**
BASELINE GF/GP AND SAF REVENUE	1.4%	(10.8%)	4.3%	6.3%
GF/GP & SAF REV. AFTER CHANGES	**1.4%**	**(13.6%)**	**4.1%**	**8.2%**
SALES TAX	2.2%	(9.2%)	4.7%	8.3%
Note: FY 2018-19 is the base year for baseline revenue.				

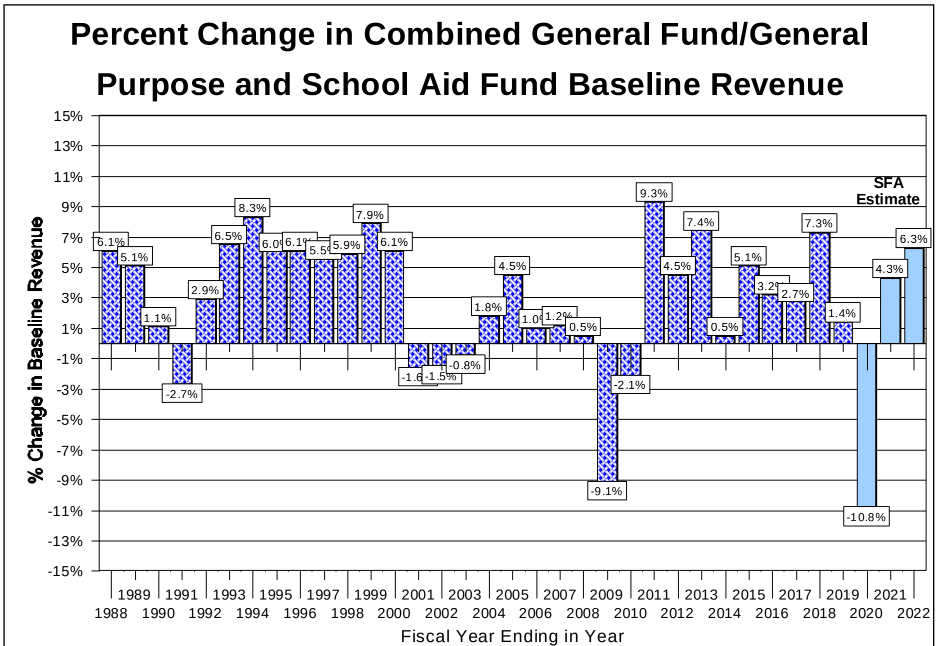
Historical Perspective

- Net combined GF/GP and SAF revenue is forecast to decrease 13.6% in FY 2019-20, before increasing 4.1% in FY 2020-21 and 8.2% in FY 2021-22. 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 3.3% in the years from FY 2010-11 to FY 2018-19.
- General Fund/General Purpose revenue rose to its highest level ever in FY 2018-19, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.

- Final GF/GP revenue from ongoing sources in FY 2018-19 was 44.8% ($3,437.2 million) above the recent low from FY 2009-10, without adjusting for inflation.
- In FY 2019-20, ongoing GF/GP revenue is forecast to be 21.6% ($2,401.9 million) below the FY 2018-19 level, but 13.5% ($1,035.3 million) above the FY 2009-10 level.
- In FY 2020-21, ongoing GF/GP revenue is forecast to be 18.3% ($2,031.8 million) below the FY 2018-19 level, but 18.3% ($1,405.4 million) above the FY 2009-10 level.
- In FY 2021-22, ongoing GF/GP revenue is forecast to be 9.2% ($1,027.8 million) below the FY 2018-19 level, but 31.4% ($2,409.4 million) above the FY 2009-10 level.
- 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 changes. School Aid Fund revenue rose to its highest level ever in FY 2018-19, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.
- Final SAF revenue from ongoing sources in FY 2018-19 was 24.6% ($2,673.5 million) above the recent low from FY 2011-12, without adjusting for inflation.
- In FY 2019-20, ongoing SAF revenue is forecast to be 7.0% ($954.1 million) below the FY 2018-19 level, but 15.8% ($1,719.4 million) above the FY 2011-12 level.
- In FY 2020-21, ongoing SAF revenue is forecast to be 3.3% ($453.1 million) below the FY 2018-19 level, but 20.4% ($2,220.4 million) above the FY 2011-12 level.
- In FY 2021-22, ongoing SAF revenue is forecast to be 2.7% ($371.5 million) above the FY 2018-19 level, and 28.0% ($3,045.0 million) above the FY 2011-12 level.

Baseline revenue is forecast to increase each year during the forecast period. Figure 21 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the revised estimate for FY 2021-22. During this 36-year period, GF/GP and SAF baseline revenue declined during four periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; FY 2008-09 and FY 2009-10, and it will decline again in FY 2019-20. 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 budget 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. Baseline revenue is expected to decline 10.8% in FY 2019-20, before growing 4.3% in FY 2020-21 and 6.3% in FY 2021-22.

Figure 21



Source: Department of Treasury and Senate Fiscal Agency

[Figure 22](#) compares the FY 1995-96 through estimated FY 2021-22 amounts of both GF/GP revenue and the SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue previously peaked in FY 1999-2000 and then declined for three consecutive years because of a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to $9.3 billion because of the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during the recession of FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 23, which displays ongoing General Fund revenue beginning in FY 1963-64. Final revenue for FY 2018-19 represented a new peak for GF/GP revenue, at $11.1 billion, 4.1% (or $435.2 million) above the previous peak in FY 1999-2000. With the significant decline in GF/GP revenue in FY 2019-20, ongoing GF/GP revenue will be approximately 21.6% below the peak GF/GP revenue level in FY 2018-19 (without accounting for inflation), GF/GP revenue in FY 2020-21 will be approximately 18.3% below the peak, and revised estimates for FY 2021-22 are 9.2% below peak levels. In inflation-adjusted terms, FY 2021-22 GF/GP revenue will be 17.8% (or $1,779.3 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the 2008-2009 economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10 and tax code reforms reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to fall in FY 2019-20 before resuming a steady upward trend through the forecast period. In FY 2021-22, SAF revenue is predicted to be approximately 98.8% ($6.9 billion) above the revenue level in FY 1995-96 (without accounting for inflation) but 8.5% ($1,056.3 million) below if adjusted for inflation, as shown in Figure 24.

Figure 22

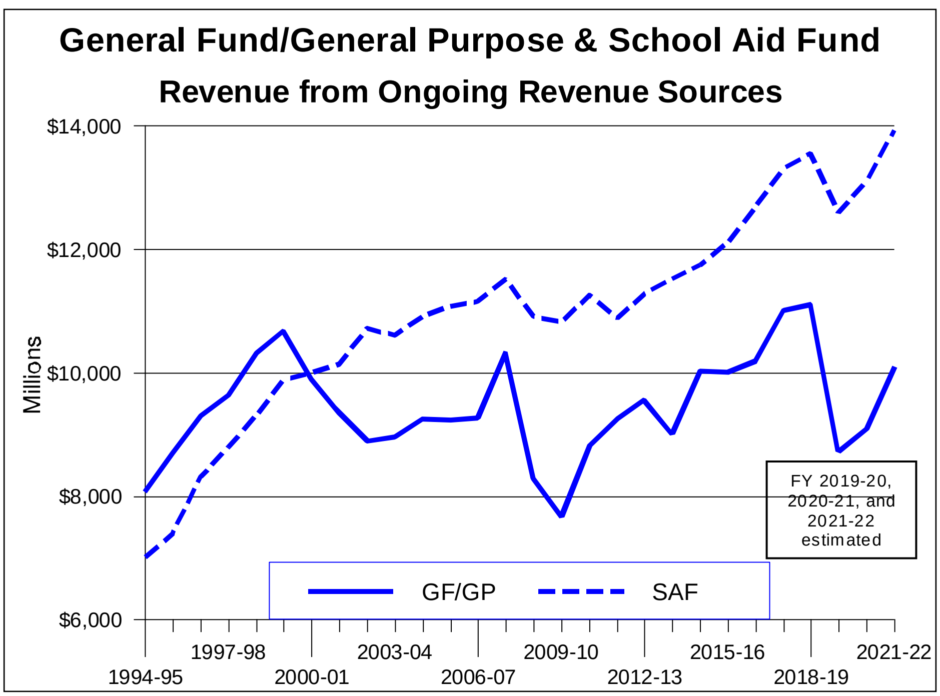


Figure 23

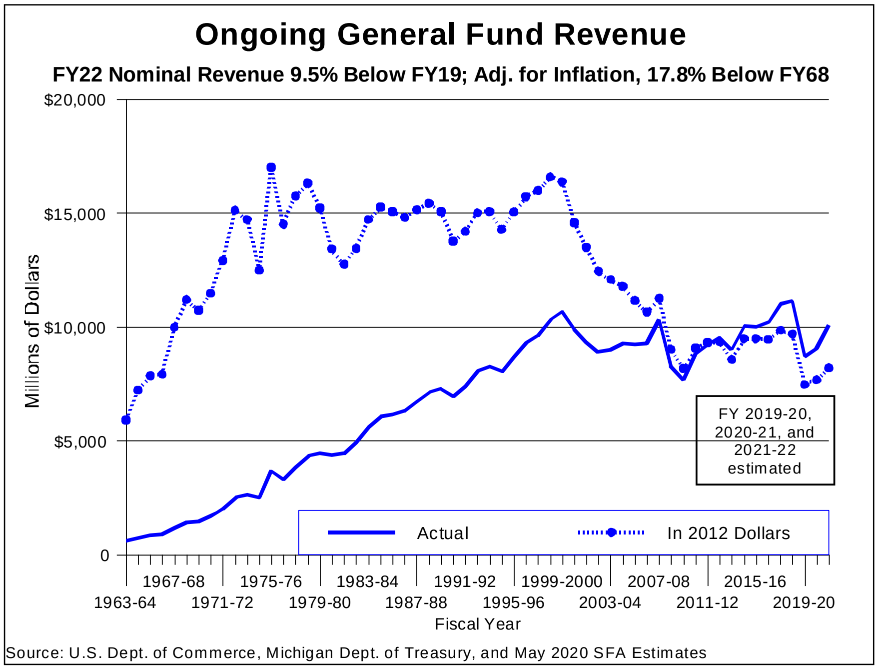
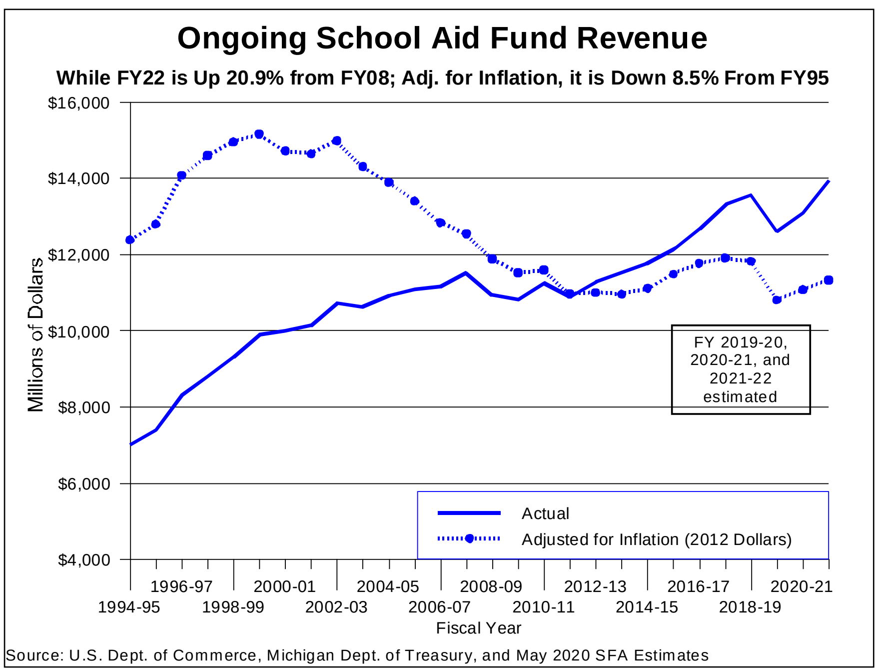


Figure 24



FY 2019-20 REVISED REVENUE ESTIMATES

Michigan's economy is expected to decline significantly during FY 2019-20. Personal income will decline 2.6% and wage and salary employment will fall 11.7% from FY 2018-19. Total GF/GP and SAF revenue will reach an estimated $21.3 billion in FY 2019-20, a decrease of 13.6%, or $3,353.3 million, from the preliminary final revenue for FY 2018-19. On a baseline basis, GF/GP and SAF revenue is expected to decrease 10.8% in FY 2019-20, reflecting the economic fallout from the COVID-19 pandemic. The revised estimate of GF/GP and SAF revenue for FY 2019-20 is $3,625.4 million below the January 2020 forecast and is summarized in Table 4.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $8.7 billion in FY 2019-20, a decrease of 21.6%, or $2,401.9 million, from the revised estimate for FY 2018-19. Baseline GF/GP revenue is expected to decrease 13.2%, or $1,614.7 million, from FY 2018-19. The revised GF/GP revenue estimates for FY 2019-20 are $2,298.2 million below the January 2020 consensus estimates and are summarized in Table 4.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $12.6 billion in FY 2019-20, a decrease of $954.1 million, or 7.0%, from the revised estimate for FY 2018-19. The revised SAF revenue estimates for FY 2019-20 are $1,327.2 million below the January 2020 consensus estimates and are summarized in Table 4.

FY 2020-21 REVISED REVENUE ESTIMATES

Michigan's economy is expected to begin recovering during FY 2020-21. Personal income and wage and salary employment will increase as opposed to the declines in FY 2019-20. Total GF/GP and SAF revenue will reach an estimated $22.2 billion in FY 2020-21, an increase of 4.1%, or $871.1 million, from the revised estimate for FY 2019-20. On a baseline basis, GF/GP and SAF revenue is expected to increase 4.3% in FY 2020-21, reflecting improvement in the State economy. Estimated GF/GP and SAF revenue is $3,328.7 million below the January 2020 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2020-21 is summarized in Table 5.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $9.1 billion in FY 2020-21, an increase of 4.2%, or $370.1 million, from the revised estimate for FY 2019-20. Baseline GF/GP revenue is expected to increase 5.4%. The revised GF/GP revenue estimates for FY 2020-21 are $2,110.5 million below the January 2020 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 $13.1 billion in FY 2020-21, an increase of $501.0 million, or 4.0%, from the revised estimate for FY 2019-20. Baseline SAF revenue growth will be 3.3% in FY 2020-21. The revised SAF revenue estimates for FY 2020-21 are $1,218.2 million below the January 2020 consensus estimates and are summarized in Table 5.

Table 4

FY 2019-20 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2018-19		
	FY 2018-19 Final	**FY 2019-20 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/20 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$12,238.5	$10,623.8	($1,614.7)	(13.2%)	($1,901.0)
Tax Changes Not In Baseline	(1,129.7)	(1,909.9)	(780.2)	----	(397.2)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$12,555.1	$11,380.7	($1,174.4)	(9.4%)	($1,361.2)
Less: Refunds	(2,124.5)	(2,263.3)	(138.8)	6.5	(100.0)
Net Income Tax Collections	10,430.6	9,117.4	(1,313.2)	(12.6)	(1,461.2)
Less: Earmarking to SAF	(2,845.1)	(2,709.8)	135.3	(4.8)	150.9
Earmarking to MI Transp. Fund	(264.0)	(468.0)	(204.0)	77.3	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	0.0	(0.8)	(0.8)	----	0.0
Net Income Tax to GF/GP	$7,252.5	$5,869.8	($1,382.7)	(19.1%)	($1,310.3)
Other Taxes					
Corporate Income Tax	1,278.1	680.9	(597.2)	(46.7)	(529.2)
Michigan Business Tax	(511.5)	(651.7)	(140.2)	----	(10.7)
Sales	1,277.3	1,163.0	(114.3)	(8.9)	(192.9)
Use	752.5	547.0	(205.5)	(27.3)	(202.0)
Cigarette	175.7	183.2	7.5	4.3	14.0
Insurance Company Premiums	314.9	357.2	42.3	13.4	(4.6)
Telephone & Telegraph	30.3	30.0	(0.3)	(1.0)	0.0
Oil & Gas Severance	22.3	12.0	(10.3)	(46.2)	(10.0)
All Other	135.6	193.4	57.8	42.6	(20.6)
Subtotal Other Taxes	$3,475.2	$2,515.0	($960.2)	(27.6%)	($956.0)
Total Nontax Revenue	388.0	329.1	(58.9)	(15.2)	(32.0)
GF/GP REV. AFTER TAX CHANGES	**$11,115.8**	**$8,713.9**	**($2,401.9)**	**(21.6%)**	**($2,298.2)**
SCHOOL AID FUND:					
Baseline Revenue	$13,637.2	$12,466.9	($1,170.3)	(8.6%)	($1,409.1)
Tax Changes Not In Baseline	(80.5)	131.4	211.9	----	80.9
Revenue After Tax Changes					
Sales Tax	6,008.1	5,451.9	(556.2)	(9.3)	(870.3)
Use Tax	596.4	509.4	(87.0)	(14.6)	(101.1)
Lottery Revenue	1,070.6	986.9	(83.7)	(7.8)	(23.1)
State Education Property Tax	2,111.6	2,150.9	39.3	1.9	(20.0)
Real Estate Transfer Tax	350.1	258.0	(92.1)	(26.3)	(103.0)
Income Tax	2,845.1	2,709.8	(135.3)	(4.8)	(150.9)
Casino Tax	117.3	68.7	(48.6)	(41.4)	(52.6)
Other Revenue	453.2	462.7	9.5	2.1	(6.2)
SAF REV. AFTER TAX CHANGES	**$13,552.4**	**$12,598.3**	**($954.1)**	**(7.0%)**	**($1,327.2)**
BASELINE GF/GP AND SAF	**$25,875.7**	**$23,090.7**	**($2,785.0)**	**(10.8%)**	**($3,310.1)**
Tax & Revenue Changes	(1,210.2)	(1,778.5)	(568.3)	----	(316.3)
GF/GP & SAF REV. AFTER CHNGS.	**$24,665.5**	**$21,312.2**	**($3,353.3)**	**(13.6%)**	**($3,625.4)**
SALES TAX	$8,252.8	$7,495.9	($756.9)	(9.2%)	($1,186.9)

Note: FY 2018-19 is the base year for baseline revenue.

Table 5

FY 2020-21 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2019-20 Revised Est.	FY 2020-21 Revised Est.	Change from FY 2019-20 Dollar Change	Change from FY 2019-20 Percent Change	$ Change from 01/20 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$10,623.8	$11,192.5	$568.7	5.4%	($1,705.1)
Tax Changes Not In Baseline	(1,909.9)	(2,108.6)	(198.7)	----	(405.4)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	11,380.7	11,833.6	452.9	4.0	(1,275.6)
Less: Refunds	(2,263.3)	(2,341.4)	(78.1)	3.5	(139.5)
Net Income Tax Collections	9,117.4	9,492.2	374.8	4.1	(1,415.1)
Less: Earmarking to SAF	(2,709.8)	(2,817.3)	(107.5)	4.0	125.7
Earmarking to MI Transp. Fund	(468.0)	(600.0)	(132.0)	----	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	$5,869.8	$6,005.1	$135.3	2.3%	($1,289.4)
Other Taxes					
Corporate Income Tax	680.9	764.2	83.3	12.2	(407.1)
Michigan Business Tax	(651.7)	(656.7)	(5.0)	0.8	(12.8)
Sales	1,163.0	1,222.2	59.2	5.1	(196.1)
Use	547.0	565.6	18.6	3.4	(183.4)
Cigarette	183.2	170.5	(12.7)	(6.9)	5.3
Insurance Company Premiums	357.2	394.4	37.2	10.4	7.0
Telephone & Telegraph	30.0	30.0	0.0	0.0	0.0
Oil & Gas Severance	12.0	15.0	3.0	25.0	(9.0)
All Other	193.4	219.6	26.2	13.5	(7.0)
Subtotal Other Taxes	$2,515.0	$2,724.8	$209.8	8.3%	($803.1)
Total Nontax Revenue	329.1	354.1	25.0	7.6	(18.0)
GF/GP REV. AFTER TAX CHANGES	**$8,713.9**	**$9,084.0**	**$370.1**	**4.2%**	**($2,110.5)**
SCHOOL AID FUND:					
Baseline Revenue	$12,466.9	$12,881.4	$414.5	3.3%	($1,331.0)
Tax Changes Not In Baseline	131.4	217.9	86.5	----	112.8
Revenue After Tax Changes					
Sales Tax	5,451.9	5,723.6	271.7	5.0	(815.9)
Use Tax	509.4	531.6	22.2	4.4	(91.6)
Lottery Revenue	986.9	971.0	(15.9)	(1.6)	(15.0)
State Education Property Tax	2,150.9	2,138.0	(12.9)	(0.6)	(85.0)
Real Estate Transfer Tax	258.0	315.7	57.7	22.4	(55.0)
Income Tax	2,709.8	2,817.3	107.5	4.0	(125.7)
Casino Tax	68.7	131.9	63.2	92.0	(20.0)
Other Revenue	462.7	470.2	7.5	1.6	(10.0)
SAF REV. AFTER TAX CHANGES	**$12,598.3**	**$13,099.3**	**$501.0**	**4.0%**	**($1,218.2)**
BASELINE GF/GP AND SAF	**$23,090.7**	**$24,073.9**	**$983.2**	**4.3%**	**($3,036.1)**
Tax & Revenue Changes	(1,778.5)	(1,890.6)	(112.1)	----	(292.6)
GF/GP & SAF REV. AFTER CHNGS.	**$21,312.2**	**$22,183.3**	**$871.1**	**4.1%**	**($3,328.7)**
SALES TAX	$7,495.9	$7,851.2	$355.3	4.7%	($1,129.0)

Note: FY 2018-19 is the base year for baseline revenue.

FY 2021-22 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2021-22**.** Personal income will grow at a slightly faster rate than in FY 2020-21, but wage and salary employment will grow more slowly. Total GF/GP and SAF revenue will reach an estimated $24.0 billion in FY 2021-22, an increase of 8.2%, or $1,828.6 million, from the revised estimate for FY 2020-21. On a baseline basis, GF/GP and SAF revenue is expected to increase 6.3% in FY 2021-22, reflecting continued improvements in State economic activity. Estimated GF/GP and SAF revenue is $2,146.7 million below the January 2020 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2021-22 is summarized in Table 6.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $10.1 billion in FY 2021-22, an increase of 11.1% or $1,004.0 million from the revised estimate for FY 2020-21. Baseline GF/GP revenue is expected to increase 6.9% because of the continued growth in the economy. The revised GF/GP revenue estimates for FY 2021-22 are $1,430.5 million below the January 2020 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 $13.9 billion in FY 2021-22, an increase of $824.6 million, 6.3%, from the revised estimate for FY 2020-21. The revised SAF revenue estimates for FY 2021-22 are $716.2 million below the January 2020 consensus estimates and are summarized in Table 6.

Table 6

FY 2021-22 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2020-21		
	FY 2020-21 Revised Est.	**FY 2021-22 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/20 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$11,192.5	$11,969.3	$776.8	6.9%	($1,260.4)
Tax Changes Not In Baseline	(2,108.6)	(1,881.3)	227.3	----	(170.1)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	11,833.6	12,552.4	718.8	6.1	(939.0)
Less: Refunds	(2,341.4)	(2,304.0)	37.4	(1.6)	(47.5)
Net Income Tax Collections	9,492.2	10,248.4	756.2	8.0	(986.5)
Less: Earmarking to SAF	(2,817.3)	(2,993.9)	(176.6)	6.3	34.9
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	0.0
Net Income Tax to GF/GP	$6,005.1	$6,584.7	$579.6	9.7%	($951.6)
Other Taxes					
Corporate Income Tax	764.2	824.6	60.4	7.9	(332.5)
Michigan Business Tax	(656.7)	(588.5)	68.2	(10.4)	9.6
Sales	1,222.2	1,331.7	109.5	9.0	(116.4)
Use	565.6	673.7	108.1	19.1	(73.3)
Cigarette	170.5	164.8	(5.7)	(3.3)	2.7
Insurance Company Premiums	394.4	430.9	36.5	9.3	35.0
Telephone & Telegraph	30.0	30.0	0.0	0.0	0.0
Oil & Gas Severance	15.0	20.0	5.0	33.3	(5.0)
All Other	219.6	232.0	12.4	5.6	(5.0)
Subtotal Other Taxes	$2,724.8	$3,119.2	$394.4	14.5%	($484.9)
Total Nontax Revenue	354.1	384.1	30.0	8.5	6.0
GF/GP REV. AFTER TAX CHANGES	**$9,084.0**	**$10,088.0**	**$1,004.0**	**11.1%**	**($1,430.5)**
SCHOOL AID FUND:					
Baseline Revenue	$12,881.4	$13,611.8	$730.4	5.7%	($920.1)
Tax Changes Not In Baseline	217.9	312.1	94.2	----	203.9
Revenue After Tax Changes					
Sales Tax	5,723.6	6,199.5	475.9	8.3	(488.6)
Use Tax	531.6	599.7	68.1	12.8	(36.7)
Lottery Revenue	971.0	976.9	5.9	0.6	(15.0)
State Education Property Tax	2,138.0	2,171.4	33.4	1.6	(105.0)
Real Estate Transfer Tax	315.7	347.4	31.7	10.0	(30.0)
Income Tax	2,817.3	2,993.9	176.6	6.3	(34.9)
Casino Tax	131.9	144.8	12.9	9.8	(10.0)
Other Revenue	470.2	490.3	20.1	4.3	4.0
SAF REV. AFTER TAX CHANGES	**$13,099.3**	**$13,923.9**	**$824.6**	**6.3%**	**($716.2)**
BASELINE GF/GP AND SAF	**$24,073.9**	**$25,581.1**	**$1,507.2**	**6.3%**	**($2,180.5)**
Tax & Revenue Changes	(1,890.6)	(1,569.2)	321.4	----	33.8
GF/GP & SAF REV. AFTER CHNGS	**$22,183.3**	**$24,011.9**	**$1,828.6**	**8.2%**	**($2,146.7)**
SALES TAX	$7,851.2	$8,500.6	$649.4	8.3%	($683.1)

Note: FY 2018-19 is the base year for baseline revenue.

Tax Policy Changes

Road Funding Package and Other Income Tax Earmarks. Tax policy changes affecting FY 2019-20 through FY 2021-22 include several significant transfers from the General Fund to other State funds, including General Fund impacts of the 2015 transportation package. Income tax revenue will be reduced by $468.0 million by the earmark of income tax revenue to the Michigan Transportation Fund in FY 2019-20, and by $600.0 million each year thereafter. Income tax will be reduced another $69.0 million each year for the earmark to the Renew Michigan Fund. Finally, Public Act 588 of 2018 had reduced the income tax earmark to the School Aid fund, which had been forecast to increase GF/GP by $173.2 million in FY 2019-20, $179.4 million in FY 2020-21, and $183.7 million in FY 2021-22, and reduce SAF revenue by the same amount in those years. Public Act 75 of 2020 reversed that change, so GF/GP in the forecast will be reduced and SAF increased by the same amounts.

Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act made several changes related to the tax treatment of businesses that will reduce individual income tax and Corporate Income Tax (CIT) revenue in FY 2019-20 and FY 2020-21, and slightly increase revenue in FY 2021-22. The total revenue reduction in FY 2019-20 will be $285.0 million ($240.3 million GF/GP and $44.7 million SAF) and $234.6 million in FY 2020-21 ($196.9 million GF/GP and $37.7 million SAF). Revenue will increase $3.5 million in FY 2021-22 ($2.2 million GF/GP and $1.3 million SAF).

Personal Property Tax Reform. Use tax collections will be levied by the Local Community Stabilization Authority and used to reimburse local revenue losses due to exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. This will reduce GF/GP revenue by $465.9 million in FY 2019-20, $491.5 million in FY 2020-21, and $521.3 million in FY 2021-22. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $116.0 million in FY 2019-20, $125.0 million in FY 2020-21, and $133.0 million in FY 2021-22.

Sales Tax. Sales tax collections will increase $287.1 million in FY 2019-20, $336.4 million in FY 2020-21, and $351.0 million in FY 2021-22 because of new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states' greater ability to collect sales tax from out-of-state retailers, along with accompanying legislation passed in 2019.

Federal Tax Reform. Changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by $147.0 million in FY 2019-20 ($136.2 million GF/GP and $10.8 million SAF), $176.0 million in FY 2020-21 ($161.1 million GF/GP and $14.9 million SAF), and $180.0 million in FY 2021-22 ($161.1 million GF/GP and $18.9 million SAF). These increases will be largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue. Those increases, along with the indexing of the personal exemption, will reduce revenue by $198.2 million in FY 2019-20, $258.8 million in FY 2020-21, and $270.0 million in FY 2021-22.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by $651.7 million in FY 2019-20, $656.7 million in FY 2020-21, and $588.5 million in FY 2021-22.

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 the State, in years of economic recession, 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 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income tax payers on returns filed after the end of that fiscal year.

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, is forecasted to decrease on a calendar-year basis. The Legislature then could appropriate up to 25% of the ending Fund balance from the prior fiscal year. If personal income is forecast to be negative for subsequent fiscal years, the Legislature could then 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 prior calendar year is applied to the amount of General Fund revenue in the prior fiscal year. For example, the calculated pay-in for FY 2019-20 is based on personal income growth from calendar year 2018 to 2019 and GF/GP revenue in FY 2018-19. Different years are used to calculate a potential pay-out. A pay-out in FY 2019-20 depends on the change in personal income from calendar year 2019 to calendar year 2020 and the amount of revenue in the BSF.

In order for any payment into or out of the BSF actually 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 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 7 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 2018-19. This table also presents the SFA's estimates for FY 2019-20, FY 2020-21, and FY 2021-22. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 25, and the estimated economic stabilization trigger calculations for FY 2019-20, FY 2020-21, and FY 2021-22 are presented in Table 8.

FY 2019-20, FY 2020-21, and FY 2021-22

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit Consumer Price Index (CPI), and GF/GP revenue, the statute would trigger a pay-out from the Fund in FY 2019-20 and a pay-in to the Fund in FY 2021-22.

For FY 2019-20 a deposit of $17.5 million will be made pursuant to the Michigan Trust Fund Act. Based on inflation-adjusted personal income growth, there is no calculated pay-in for FY 2019-20. However, because there will be a projected decrease in personal income between 2019 and 2020, the statutory formula will allow a pay-out of up to 25% of the FY 2018-19 ending fund balance, or approximately $287.2 million.

In both FY 2020-21 and FY 2021-22, a deposit of $17.5 million already is required under the Trust Fund Act. Based on inflation-adjusted personal income growth, there is no calculated pay-in in FY 2020-21, but there is an additional calculated pay-in of $381.5 million in FY 2021-22.

Based on current appropriations and the continuation of the $17.5 million annual deposit to the BSF under the Trust Fund Act, but no other pay-ins or pay-outs, the BSF ending balance is estimated at $1,174.4 million in FY 2019-20, $1,193.1 million in FY 2020-21, and $1,218.6 million in FY 2021-22, as shown in Table 7**.**

If the Legislature enacted the maximum calculated withdrawal in FY 2019-20 and the calculated pay-in in FY 2021-22, along with the $17.5 million annual deposit as required under the Trust Fund Act, the BSF ending balance would be estimated at $887.2 million in FY 2019-20, $905.6 million in FY 2020-21, and $1,310.7 million in FY 2021-22

Table 7

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2021-22 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
Enacted Deposits and Estimated Interest Earnings:					
2019-20 [d)]	17.5	0.0	8.3	0.0	1,174.4
2020-21 [d)]	17.5	0.0	1.2	0.0	1,193.1
2021-22 [d)]	17.5	0.0	8.0	0.0	1,218.6

a) For FY 1998-99 to FY 2018-19, 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. FY 2019-20 to FY 2021-22 include enacted legislation and estimated interest earnings.

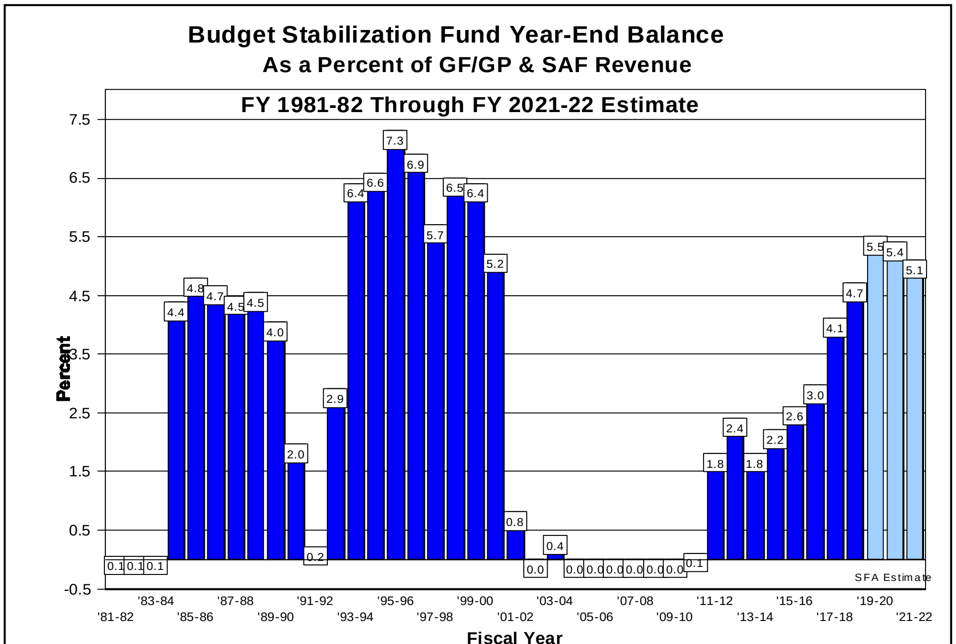
b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of $194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.

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-out from the fund of up to $287.2 million in FY 2019-20 and a pay-in to the fund of $381.5 million (above the existing pay-in) in FY 2021-22, but no other pay-ins or pay-outs. Pay-ins and pay-outs must be appropriated. See text for discussion.

Source: State of Michigan Comprehensive Annual Financial Reports through FY 2018-19 and Senate Fiscal Agency.

Figure 25



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

Table 8
ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGERS
FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22
(millions of dollars)

	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Michigan Personal Income (MPI)	$484,029.8	$502,539.9	$489,600.5	$499,948.1	$521,801.3
Less: Transfer Payments	$97,776.3	$105,338.0	$131,921.7	$117,007.9	$118,335.1
Subtotal	$386,253.5	$397,202.0	$357,678.8	$382,940.2	$403,466.2
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.3225	2.3527	2.3292	2.3474	2.3881
Equals: Real Adjusted MPI	$166,950	$169,612	$154,655	$163,101	$169,207
Percent Change from Prior Year		1.5%	(9.0%)	6.2%	3.6%
Excess Over 2.0%		0.00%	0.00%	4.20%	1.60%
		FY 2018-19	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Multiplied by: Estimated GF/GP Revenue		$11,115.8	$8,713.9	$9,084.0	$10,088.0
Equals: Transfer to the BSF			$0.0	$0.0	$381.5
OR Transfer from the BSF			($287.2)	$0.0	$0.0

Note: Numbers may not add because of 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), the revenue limit 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 that was 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 revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. Revenue remained substantially below the limit for FY 2008-09 through FY 2018-19. In the past, the largest gap between revenue and the limit occurred in FY 2018-19, when State revenue was $9.9 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 2019-20, FY 2020-21, and FY 2021-22, with State revenue forecast to be $12.2 billion below the limit in FY 2021-22.

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 prior to the calendar year in which the fiscal year begins. For example, in FY 2017-18, State government revenue could not exceed 9.49% of personal income for calendar year 2016. Given that Michigan personal income for 2016 equaled $439.4 billion at the time compliance was determined, the revenue limit for FY 2017-18 was $41.7 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 Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the event is subject to procedures set forth in the Michigan Constitution and State law. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. 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 individual income tax return or a Michigan Business Tax or Corporate Income Tax 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 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 the SFA's revenue estimates for FY 2019-20, FY 2020-21, and FY 2021-22, 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 26. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 9.

FY 2019-20

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2018 equals $484.0 billion; as a result, the revenue limit equals $45.9 billion in FY 2019-20, an increase of $2.1 billion over FY 2018-19. Based on the SFA's revised revenue estimates for FY 2019-20, revenue subject to the revenue limit will equal an estimated $30.3 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $15.6 billion, or 34.0%, in FY 2019-20. The amount under the limit will increase because personal income grew from 2017 to 2018, while there will be a decrease in State revenue subject to the revenue limit.

FY 2020-21

The Senate Fiscal Agency estimates that personal income in Michigan during 2019 will equal $502.5 billion; as a result, the revenue limit will equal $47.7 billion in FY 2020-21. Based on the SFA's revised revenue estimates for FY 2020-21, revenue subject to the revenue limit will equal an estimated $31.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $15.9 billion, or 33.4%, in FY 2020-21. The percent under the limit will decrease because anticipated growth in State revenue subject to the revenue limit of 4.7% will outpace growth in personal income of 3.8%.

FY 2020-21

The Senate Fiscal Agency estimates that personal income in Michigan during 2020 will equal $489.6 billion; as a result, the revenue limit will equal $46.5 billion in FY 2021-22. Based on the SFA's revised revenue estimates for FY 2021-22, revenue subject to the revenue limit will equal an estimated $34.3 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.2 billion, or 26.2%, in FY 2021-22. The amount under the limit will decrease because personal income will fall 2.6% while State revenue subject to the revenue limit will increase 8.0%

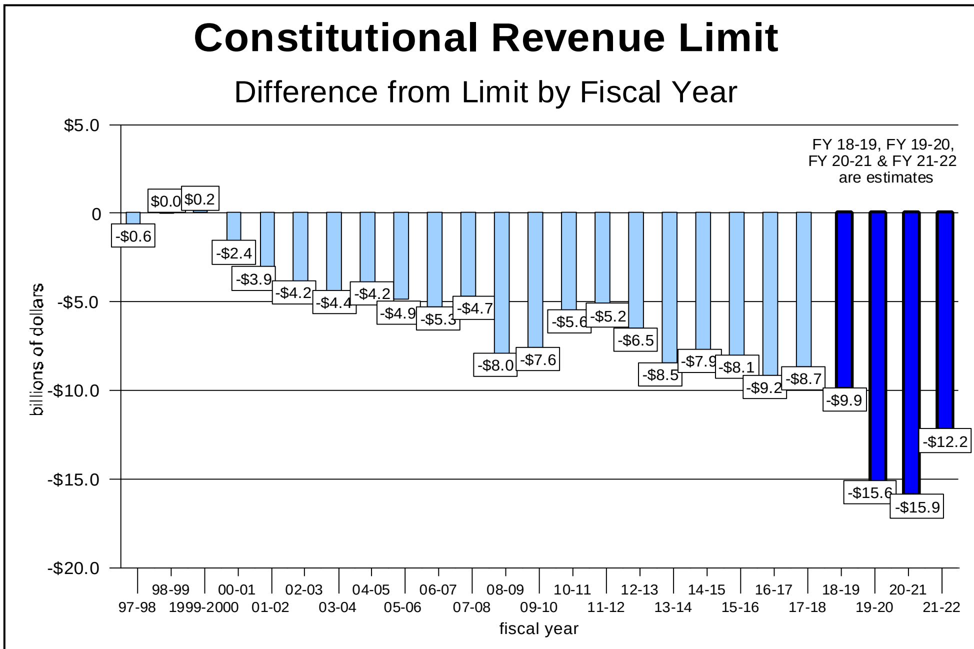
Table 9

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2017-18 THROUGH FY 2021-22 ESTIMATE
(millions of dollars)

	FY 2017-18 Final	FY 2018-19 Estimate	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$12,220.5	$12,246.5	$10,623.8	$11,192.5	$11,969.3
Constitutional Revenue Sharing (baseline)	816.6	837.6	760.7	759.4	812.9
School Aid Fund (baseline)	13,321.0	13,639.1	12,466.9	12,881.4	13,611.8
Transportation Funds	2,950.2	3,373.3	3,110.3	3,509.6	3,999.8
Other Restricted Non-Federal Aid Revenue	4,873.1	5,019.3	5,169.9	5,325.0	5,484.7
Adjustments:					
GF/GP Federal Aid	(2.9)	(5.1)	(20.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,203.4)	(1,130.8)	(1,909.9)	(2,108.6)	(1,881.3)
SAF Balance Sheet Adjustments	(19.0)	(86.7)	131.4	217.9	312.1
Total Revenue Subject to Limit	**$32,956.1**	**$33,893.1**	**$30,333.0**	**$31,767.2**	**$34,299.3**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2016**	**CY 2017**	**CY 2018**	**CY 2019**	**CY 2020**
Amount	$439,361	$461,486	$484,030	$502,540	$489,600
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$41,695.4	$43,795.0	$45,934.4	$47,691.0	$46,463.1
1.0% of Limit	417.0	437.9	459.3	476.9	464.6
Amount Under (Over) Limit	**$8,739.3**	**$9,901.8**	**$15,601.4**	**$15,923.9**	**$12,163.7**
Percent Below Limit	21.0%	22.6%	34.0%	33.4%	26.2%

CY = Calendar Year; FY = Fiscal Year

Figure 26



Source: Department of Technology, Management, and Budget, and Senate Fiscal Agency estimates

ESTIMATES OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the fiscal year (FY) 2019-20, FY 2020-21, and FY 2021-22 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report discusses the year-end balances and addresses some of the issues the members of the Legislature will face as they make mid-year alterations to the FY 2019-20 State budget and complete action on the FY 2020-21 State budget.

On February 6, 2020, Governor Gretchen Whitmer presented her FY 2020-21 and FY 2021-22 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 10, 2020. The Governor's FY 2020-21 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2020-21 State budget to the Legislature in February 2020, the United States and Michigan economies have been significantly altered by the global Coronavirus disease 2019 (COVID-19) pandemic. The virus that causes COVID-19 was identified as the cause of an outbreak detected in Wuhan City, China, in November 2019. In late January 2020, the first case of COVID-19 in the United States was confirmed. The Michigan Department of Health and Human Services (DHHS) identified the first two positive cases of COVID-19 in Michigan on March 10, 2020. As of May 13, 2020, the DHHS has reported 48,391 cases and 4,714 deaths attributable to COVID-19. The pandemic has resulted in the issuance of several Federal and State actions dramatically changing the economy and its outlook. Notably, Governor Whitmer has issued Executive Orders which require all non-essential business and government functions to cease in-person operations and attempt to reduce the movement of individuals throughout the State. Additional actions have delayed the dates by which certain taxes are due to the State. These actions, taken to limit the communal spread of the virus, have affected most State tax collection estimates, most significantly the State sales tax and individual income tax estimates. This results in a net decrease from January to May in both the GF/GP and SAF estimates of FY 2019-20, FY 2020-21, and FY 2021-22.

Table 10 provides a summary of the SFA's estimates of the FY 2019-20, FY 2020-21, and FY 2021-22 year-end balances of the GF/GP and SAF budgets; Tables 11 and 12 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and enacted and projected State appropriations, the FY 2019-20 GF/GP and SAF budgets will have negative ending balances. The projected GF/GP deficit for FY 2019-20 is $1.4 billion and the projected SAF deficit is $1.2 billion. This combined GF/GP and SAF deficit of $2.6 billion will require mid-year adjustments to ensure expenditures do not exceed available revenues. Based on current SFA revenue estimates, assuming a current services budget and adjusting for known caseload and policy changes, the FY 2020-21 GF/GP budget will have a negative ending balance of $2.7 billion and the SAF budget will have a deficit of $1.1 billion. The combined ending balance of these two FY 2020-21 fund projections is a deficit of $3.8 billion. A comparison of the SFA's estimate of FY 2021-22 GF/GP revenue with a continuation of the projected current services budget, and adjusted SFA caseload estimates, leads to a projected $1.5 billion GF/GP budget deficit. A comparison of the SFA's estimate of FY 2021-22 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2021-22, adjusting for caseload estimates, points to a projected deficit of $320.7 million SAF. The FY 2020-21 and FY 2021-22 GF/GP and SAF projected budget balances assume that there will be no prior-year ending balance to be carried forward into the succeeding fiscal year and that any negative balances are resolved. Actions taken to reduce FY 2019-20 shortfalls that are continued in FYs 2020-21 and 2021-22 will reduce the projected deficits in those fiscal years.

Table 10

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (millions of dollars)	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate
General Fund/General Purpose	($1,395.0)	($2,664.0)	($1,540.9)
School Aid Fund	($1,235.1)	($1,097.1)	($320.7)

FY 2019-20 YEAR-END BALANCE ESTIMATES

During September 2019, the Michigan Legislature approved FY 2019-20 GF/GP and SAF budgets that were balanced between estimated revenue and enacted appropriations. The initial FY 2019-20 budget approved by the Legislature was based on a May 2019 consensus revenue estimate. The Governor signed the budget bills presented on September 20, 2019, with veto messages returned to the Legislature. In total, the Governor's veto actions reduced the FY 2019-20 appropriations by the Legislature by $47.1 million Gross and $554.8 million GF/GP. Following the initial actions to approve a FY 2019-20 budget, the Governor exercised the authority extended to her under Section 3 of Public Act 2 of 1921 (MCL 17.3) to transfer appropriated dollars from specified line items into other line items within the same department budgets. Those transfers were approved at a special meeting of the State Administrative Board on October 1, 2019, and were not subject to legislative approval. The revisions to the consensus revenue estimates agreed to in January 2020 reflected a decrease from the May 2019 estimate in GF/GP revenue, and an increase in the estimate for SAF revenue, still allowing continued surpluses in both the GF/GP and SAF budgets. Under current law, positive ending balances for both the GF/GP budget and the SAF budget are carried forward into the ensuing fiscal year, and those balances had been built into the FY 2020-21 budgets proposed by the Governor.

After the Governor's FY 2020-21 Executive Budget proposal, the COVID-19 global pandemic extended to Michigan. The impact on the national and State economy has been rapid and significant. The first reported case of the highly communicable virus in the United States was late January. The first reported case of COVID-19 in Michigan was identified on March 10, 2020. Subsequently, the Federal and State responses intended to mitigate the spread of the virus have resulted in significant changes to the State economy. Column 1 of Table 11 provides the details of the SFA's most recent estimate of a $1.4 billion FY 2019-20 GF/GP ending deficit. On the revenue side of the FY 2019-20 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total $8.7 billion. The May 2020 SFA estimate of ongoing unadjusted GF/GP revenue is down $2.3 billion from the January 2020 consensus revenue estimate. The FY 2019-20 estimated GF/GP revenue total of $9.1 billion includes $916.2 million of surplus revenue carried forward from FY 2018-19 and negative adjustments of $490.1 million to reflect statutory State revenue sharing.

On the expenditure side of the FY 2019-20 GF/GP budget ledger, the SFA now believes that current GF/GP expenditures will total $10.5 billion. The projected level of FY 2019-20 GF/GP expenditures includes appropriations that encompass enacted one-time appropriations totaling $175.1 million; supplemental appropriations of $486.8 million; SFA-projected caseload and cost adjustments of $226.8 million in the Department of Health and Human Services; an additional GF/GP savings of $354.0 million resulting from increased Federal match related to the COVID-19 pandemic; and a $62.8 million repayment to the Federal government for disallowed psychiatric disproportionate share hospital (DSH) payments. The GF/GP expenditures do not anticipate an appropriated amount to the Budget Stabilization Fund. Comparing estimated revenue with projected expenditures results in a GF/GP ending deficit of $1.4 billion for FY 2019-20.

Column 1 of Table 12 provides a summary of the SFA estimate of a $1.2 billion FY 2019-20 SAF budget ending deficit. This deficit estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2019-20 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $12.6 billion. The May 2020 SFA estimate of ongoing unadjusted SAF revenue is $1.3 billion below the January 2020 consensus revenue estimate. The FY 2019-20 estimated SAF revenue total of $14.7 billion includes $194.7 million of surplus revenue carried forward from FY 2018-19, $12.6 billion of restricted SAF revenue, a $62.6 million GF/GP grant, $75.8 million from the Community District Education Trust Fund, and $1.8 billion of ongoing Federal aid.

On the expenditure side of the FY 2019-20 SAF budget ledger, the SFA now believes that present SAF expenditures will total $15.9 billion. The $15.9 billion of projected SAF expenditures includes $15.1 billion of K-12 funding in the initial enacted appropriation bill, negative net cost adjustments totaling $13.4 million, and enacted on-going and one-time supplemental appropriations totaling $70.5 million. As in the previous year, Community Colleges and Higher Education received appropriations from the School Aid Fund, with FY 2019-20 allocations of $414.7 million and $349.4 million, respectively.

FY 2020-21 YEAR-END BALANCE ESTIMATES

The Legislature has been considering Governor Whitmer's FY 2020-21 State budget recommendation since the budget was presented to the Legislature on February 6, 2020. The Senate had initiated subcommittee hearings for each of the relevant budget areas before positive cases of COVID-19 were identified in Michigan. To date, the Senate has not presented any FY 2020-21 budget bills. Therefore, in providing context for FY 2020-21 GF/GP and SAF balances, an assumed continuation of the current year-to-date FY 2019-20 budget is used. Adjustments have been made to reflect the elimination of known one-time appropriations, and increases are assumed relative to employee economics, caseload projections, and statutory changes which take effect in FY 2020-21. Using this adjusted current services baseline as the basis of the FY 2020-21 budget, there would be a negative ending balance for the GF/GP and a negative balance for the SAF budget.

Column 2 of Table 11 provides a summary of the $2.7 billion projected year-end deficit in the FY 2020-21 GF/GP budget. On the revenue side of the FY 2020-21 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total $9.1 billion. The May 2020 SFA estimate of ongoing unadjusted revenue represents a $2.1 billion decrease from the January 2020 consensus revenue estimate. Assuming a continuation of the year-to-date FY 2019-20 budget, the GF/GP appropriation bills include statutory revenue sharing payments of $490.1 million, which reduce GF/GP revenue by that amount, $75.0 million in assumed revenue from the continued repurchase of Venture Michigan Fund II vouchers, and $2.6 million in the redirection of available restricted revenue. The FY 2020-21 estimated GF/GP revenue total of $8.7 billion does not include any GF/GP revenue carried forward from FY 2019-20.

The SFA's estimated current services budget illustrates GF/GP appropriations of $11.3 billion. Revised SFA estimates of caseload and cost adjustments in the Department of Health and Human Services increase GF/GP appropriations by $786.3 million in FY 2020-21. The SFA also estimates an increased cost for employee economics of $109.0 million, ongoing costs associated with FY 2019-20 supplemental spending bills totaling $255.2 million, costs associated with the phase in of statutorily mandated indigent defense grants of $36.5 million, Tuition Incentive Program cost increases assumed at $9.0 million, and other current service budget adjustments of $135.1 million. When the SFA's estimate of $11.3 billion in GF/GP revenue is offset by the SFA's estimate of $8.7 billion of total GF/GP expenditures, there is a projected FY 2020-21 year-end deficit of $2.7 billion.

Column 2 of Table 12 provides the details of the SFA estimate of a $1.1 billion deficit in the FY 2020-21 SAF budget. This projected budget deficit is based on the SFA's estimate of current-law revenue and estimated cost adjustments.

On the revenue side of the FY 2020-21 SAF budget, the SFA now believes that ongoing unadjusted SAF revenue will total $13.1 billion. The May 2020 SFA estimate of restricted SAF revenue represents a $1.2 billion decrease from the January 2020 consensus revenue estimate. The estimate of total SAF revenue of $15.0 billion includes the continuation of a $62.7 million GF/GP grant to the SAF, $78.8 million from the Community District Education Trust Fund, and $1.8 billion of ongoing Federal aid.

On the expenditure side of the FY 2020-21 SAF budget ledger, the SFA's estimated School Aid appropriation bill totals $15.2 billion, assuming a continuation of current services. The SFA estimates that there will be $209.8 million of cost adjustments resulting from revised pupil, special education, taxable value, and retirement cost estimates.

The SFA's estimated SAF balance sheet also reflects the continued use of SAF revenue to support the Community Colleges budget and to partially support the Higher Education budget. The estimated continuation budget assumes current year appropriations adjusted for increased MPSERS contribution costs. As such, the SFA's estimated expenditures for Community Colleges in FY 2020-21 total $425.7 million and the SAF allocation in the Higher Education budget for FY 2020-21 is estimated to total $356.1 million.

FY 2021-22 BUDGET OUTLOOK

Column 3 of Table 11 provides a summary of the $1.5 billion projected year-end deficit in the FY 2021-22 GF/GP budget. The FY 2021-22 budget is based on the SFA estimate of total GF/GP revenue and ongoing appropriations based on a continuation of the current service budget projected for FY 2020-21, adjusted for known costs and revised caseload and cost estimates for the Department of Health and Human Services.

On the revenue side of the FY 2021-22 GF/GP budget ledger, the SFA now believes that GF/GP ongoing unadjusted revenue will total $10.1 billion. The May 2020 SFA estimate of ongoing unadjusted GF/GP revenue represents a decrease of $1.4 billion from the January 2020 consensus revenue estimate. The FY 2021-22 total estimated GF/GP revenue of $9.7 billion assumes the continuation of the assumed $490.1 million for statutory State Revenue Sharing payments and the continued repurchase of Venture Michigan Fund II vouchers at a value of $75.0 million.

On the expenditure side of the FY 2021-22 GF/GP budget ledger, if the SFA's estimated current services budget estimate for FY 2020-21 is adjusted for estimated caseload and cost increases of $599.0 million in the Department of Health and Human Services, and adjustments are made for State Building Authority rent increases, the continuation of ongoing costs associated with FY 2019-20 supplementals, current services adjustments made in FY 2020-21 are carried into FY 2021-22, costs related to indigent defense and increased tuition incentive program, and State employee defined calculation costs, the total FY 2021-22 GF/GP expenditures are estimated to be $11.2 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP deficit of $1.5 billion.

Column 3 of Table 12 provides a summary of the $320.7 million projected year-end deficit in the FY 2021-22 SAF budget. This projected deficit is based on the SFA estimate of ongoing unadjusted revenue, and a continuation of the SFA's estimated current services budget for FY 2020-21, which would continue spending levels found in the FY 2019-20 Senate-passed budget, adjusted for pupil counts and other costs.

On the revenue side of the FY 2020-21 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $13.9 billion. The May 2020 SFA estimate of ongoing unadjusted SAF revenue represents a $716.2 million reduction from the January 2020 consensus revenue estimate. The FY 2021-22 estimated SAF revenue total of $15.9 billion also assumes the continuation of the FY 2019-20 GF/GP grant of $62.7 million, $72.0 million from the Community District Education Trust Fund, and $1.8 billion in ongoing Federal aid.

On the expenditure side of the FY 2021-22 SAF budget ledger, under a continuation budget for school aid for FY 2021-22 (which would not provide a foundation allowance increase but would continue FY 2020-21 spending and adjust for baseline cost adjustments), total FY 2021-22 K-12 expenditures are estimated to be $15.4 billion. The FY 2021-22 SAF budget estimate continues to assume Community Colleges are funded with SAF, at a slightly increased amount of $431.5 million, and Higher Education, at a slightly increased amount of $357.2 million, with the assumed increases paying for estimated adjustments in the MPSERS rate cap in the respective postsecondary budgets.

CONCLUSION

The economic impact of the COVID-19 pandemic has dramatically affected available State revenues. The resulting SFA revenue forecasts project year-end deficits for FY 2019-20, FY 2020-21, and FY 2021-22 for the GF/GP and SAF. It should be noted that actions taken to ensure that expenditures do not exceed revenue in FY 2019-20 can have an ongoing impact for future budget years. Those adjustments made to correct the current fiscal year projected deficit have not been factored into these estimates and likely would reduce future deficit projections.

It also should be noted that year-end book-closing adjustments, which may be either positive or negative, cannot be known at this time, and could change the levels of the year-end balances.

The estimated year-end balances in this report are based on the year-to-date FY 2019-20 budget bills and the Senate Fiscal Agency's revenue projections (presented in "The Forecast for State Revenue" section of this report), which the SFA will take to the May 15, 2020, Consensus Revenue Estimating Conference. At that time, a consensus is expected to be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used to adjust FY 2019-20 and to develop the final appropriation targets for the FY 2020-21 State budget.

Table 11

GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	SFA Estimates		
	FY 2019-20 Year-To-Date	**FY 2020-21 SFA Estimate**	**FY 2021-22 SFA Estimate**
Revenue:			
Beginning Balance	$916.2	$0.0	$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2020)	$11,012.1	$11,194.5	$11,518.5
SFA Revenue Estimate Change	(2,298.2)	(2,110.5)	(1,430.5)
SFA Revenue Estimate (May 2020)	$8,713.9	$9,084.0	$10,088.0
Other Revenue Adjustments:			
Revenue Sharing Payments	($490.1)	($490.1)	($490.1)
VMF II Voucher Purchase	0.0	75.0	75.0
Subtotal Ongoing Revenue	$8,223.8	$8,668.9	$9,672.9
Non-ongoing Revenue:			
Implementation of Recreational Marihuana	$10.0	0.0	0.0
Redirection of Restricted Revenue	(7.6)	(2.6)	0.0
Subtotal Non-Ongoing Revenue	$2.4	($2.6)	0.0
Total Estimated GF/GP Revenue	**$9,142.4**	**$8,666.3**	**$8,672.9**
Expenditures:			
Ongoing Appropriations:			
Initial/Senate-Passed.	$9,940.0	$9,940.0	$9,940.0
Subtotal Ongoing Appropriations	$9,940.0	$9,940.0	$9,940.0
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	$175.0	$0.0	$0.0
Enacted Supplementals	486.8	255.2	265.2
Health and Human Services Caseload and Costs	226.8	786.3	599.0
Estimated GF/GP Offset for COVID-19 FMAP Adj. (Jan-June)	(354.0)	0.0	0.0
Defined calculations	0.0	109.0	159.0
State Building Authority rent increase	0.0	0.0	10.8
Indigent Defense Grants	0.0	36.5	36.5
Tuition Incentive Program cost increases	0.0	9.0	9.0
Reimbursement of Federal Disallowed Psych DHS costs	62.8	59.2	59.2
Other CSB Adjustments	0.0	135.1	135.1
Subtotal One-Time and Other Appropriations	$597.5	$1,390.3	$1,273.8
Total Estimated GF/GP Expenditures	**$10,537.5**	**$11,330.4**	**$11,213.8**
PROJECTED YEAR-END GF/GP BALANCE	**($1,395.0)**	**($2,664.0)**	**($1,540.9)**

Table 12

SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	SFA Estimates		
	FY 2019-20 Year-To-Date	**FY 2020-21 SFA Estimate**	**FY 2021-22 SFA Estimate**
Revenue:			
Beginning Balance	$194.7	$0.0	$0.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2020)	$13,925.5	$14,317.5	$14,640.1
SFA Revenue Estimate Change	(1,327.2)	(1,218.2)	(716.2)
SFA Revenue Estimate (May 2020)	$12,598.3	$13,099.3	$13,923.9
Other Revenue Adjustments:			
General Fund/General Purpose Grant	$62.6	$62.7	$62.7
Community District Education Trust Fund	75.8	78.8	72.0
Federal Ongoing Aid	1,759.6	1,806.9	1,806.9
Subtotal Ongoing Revenue	$14,496.3	$15,047.7	$15,865.5
Non-Ongoing Revenue:			
Reserve Fund for MPSERS	$1.9	$0.0	$0.0
Subtotal Non-Ongoing Revenue	$1.9	$0.0	$0.0
Total Estimated School Aid Fund Revenue	**$14,692.9**	**$15,047.7**	**$15,865.5**
Expenditures:			
Ongoing Appropriations:			
Initial K-12/Senate-Passed Appropriations	$15,016.8	$15,153.2	$15,363.0
Cost Adjustments (Jan/Feb 2020 and SFA Estimates)	(13.4)	209.8	34.4
Enacted Supplementals (PA 162 of 2019)	59.9	0.0	0.0
Fund Community Colleges with SAF	414.7	425.7	431.5
Partially Fund Higher Education with SAF	349.4	356.1	357.2
Subtotal Ongoing Appropriations	$15,917.4	$16,144.8	$16,186.2
One-Time and Other Appropriations:			
Enacted Supplementals (PA 162 of 2019)	$10.7	$0.0	$0.0
Subtotal One-Time and Other Appropriations	$10.7	$0.0	$0.0
Total Estimated School Aid Fund Expenditures	**$15,928.0**	**$16,144.8**	**$16,186.2**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	**($1,235.1)**	**($1,097.1)**	**($320.7)**