Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

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

May 16, 2023

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

ECONOMIC FORECAST

The United States economy is expected to slow in 2023 and 2024, as higher interest rates adopted by the Federal Reserve to reduce inflation decrease business and residential investment. Consumer spending will grow more slowly, as consumers respond to higher interest rates and deplete cash balances that built up in 2020 and 2021. Slowing demand and lower levels of investment will reduce both job growth and inflationary pressures. As inflation returns to desired levels and the Federal Reserve is able to lower interest rates, the economy will begin growing more rapidly, although the expansion will be modest. Unemployment rates will remain relatively stable, and low by historical standards.

The Michigan economy will be mixed over the forecast, with employment growth steadily slowing, while inflation-adjusted personal income exhibits consistent improvement. The unemployment rate will remain relatively stable.

REVENUE FORECAST

In fiscal year (FY) 2022-23, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will decrease 4.2% from FY 2021-22, a decline of $714.2 million from the January 2023 consensus estimate. General Fund/General Purpose revenue will decline 8.2% from FY 2021-22, while SAF revenue will decline 0.8%. The decreases reflect slowing economic growth, a reduction in the individual income tax rate, and timing issues associated with the 2021 adoption of the Flow-Through Entity Tax.

In FY 2023-24, GF/GP and SAF revenue will decline 0.9% from the revised estimated for FY 2021-22, a decline of $1.5 billion from than the January 2023 consensus estimate. General Fund/General Purpose revenue will decline 2.6% from the revised FY 2022-23 estimate, while SAF revenue will increase 0.5%. The decline in GF/GP revenue reflects continued weak economic growth and the impact of tax cuts adopted in 2023 that will exceed the revenue increase from the individual income tax rate returning to the tax year 2022 level. The decline in SAF revenue reflects weak economic growth combining with consumers shifting to purchasing more services, which generally are not subject to tax.

In FY 2024-25, GF/GP and SAF revenue will increased 4.4% above the revised estimate for FY 2023-24, although revenue will be $984.5 million below the January 2023 consensus estimate. Improved economic growth will result in growing revenues, although the continuing impact of the 2023 tax cuts mean that revenue will be less than estimated in January 2023.

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 2022-23 GF/GP budget will have a positive ending balance of $2.6 billion. A comparison of the FY 2022-23 SAF revenue estimates and enacted and projected SAF appropriations produces a $3.9 billion SAF balance. These balances would be carried forward and used in FY 2023-24.

Comparing the SFA's FY 2023-24 GF/GP revenue estimate with the Senate-passed appropriations bills leads to a $1.2 billion balance in the FY 2023-24 GF/GP budget. The SFA's FY 2023-24 SAF revenue estimate, combined with the Senate-passed budget bills, results in a $2.0 billion balance in the FY 2023-24 SAF budget.

If the SFA's FY 2024-25 GF/GP revenue estimate is compared with the FY 2023-24 ongoing GF/GP appropriations found in Senate-passed bills, adjusted for a current services baseline, there is a projected $2.1 billion GF/GP budget balance. If the SFA's FY 2024-25 SAF revenue estimate is compared with a continuation of ongoing spending in the Senate-passed appropriations for FY 2023-24, adjusted for estimated pupils and other costs, there is a projected $2.3 billion budget balance.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2021 Actual	2022 Actual	2023 Estimate	2024 Estimate	2025 Estimate
Real Gross Domestic Product (% change)	5.9%	2.1%	1.4%	1.1%	2.0%
US Consumer Price Index (% change)	4.7%	8.0%	4.4%	3.1%	2.6%
Light Motor Vehicle Sales (millions of units)	14.9	13.8	15.1	15.6	16.2
US Unemployment Rate (%)	5.3%	3.6%	3.5%	3.8%	3.6%
Real Michigan Personal Income (% change)	1.3%	(7.2%)	(0.3%)	0.7%	1.5%
Michigan Wage & Salary Employment (% change)	4.0%	3.9%	1.3%	0.7%	0.6%

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

	FY 2022-23 Estimate			FY 2023-24 Estimate			FY 2024-25 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$16,560.9	($2,592.8)	$13,968.1	$16,688.7	($3,089.0)	$13,599.7	$17,210.4	($2,621.8)	$14,588.6
% Change	(1.9%)	---	(8.2%)	0.8%	---	(2.6%)	3.1%	---	7.3%
School Aid Fund	$17,793.2	(62.5)	$17,730.7	$18,034.1	(212.7)	$17,821.4	$18,507.0	(277.0)	$18,230.0
% Change	0.0%	---	(0.8%)	1.4%	---	0.5%	2.6%	---	2.3%
Total GF/GP & SAF	$34,354.1	($2,655.3)	$31,698.8	$34,722.8	($3,301.7)	$31,421.1	$35,717.4	($2,898.8)	$32,818.6
% Change	(0.9%)	---	(4.2%)	1.1%	---	(0.9%)	2.9%	---	4.4%
Revenue Limit – Under (Over)		$11,490.0			$14,126.6			$14,507.4	

	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
Revision from January Consensus			
GF/GP	($809.8)	($1,492.5)	($956.9)
SAF	95.6	(24.6)	(27.6)
Total	**($714.2)**	**($1,517.1)**	**($984.5)**

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

	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
General Fund/General Purpose...................................	$2,611.3	$1,225.2	$2,093.6
School Aid Fund	$3,871.0	$2,001.2	$2,252.5
Budget Stabilization Fund (with enacted deposits)......	$1,690.6	$1,801.1	$1,905.1

ECONOMIC REVIEW AND OUTLOOK

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

RECENT US ECONOMIC HIGHLIGHTS

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

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

The economic contraction associated with the COVID-19 pandemic was rapid and global. For many economic variables, the changes were of unprecedented magnitudes, even compared to the changes over previous recessions that lasted months, or even years, longer. While the reduction in inflation-adjusted GDP in the second quarter of 2020 ranks as the most significant quarterly decline since before World War II, even the decline in the first quarter of 2020 ranks as the 10th largest (Figure 1). In comparison, the 1957-58 recession exhibited declines at an annual rate of 4.1% in the fourth quarter of 1957 and 10.0% in the first quarter of 1958. Two quarters of the 1957-58 recession, which reflected the second wave of the H2N2 flu pandemic, represented the 14th and second most significant quarterly declines in inflation-adjusted GDP since World War II, respectively. Similarly, the decline in payroll employment during COVID-19 vastly exceeded the job loss of any recession since World War II (Figure 2).

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

Figure 1

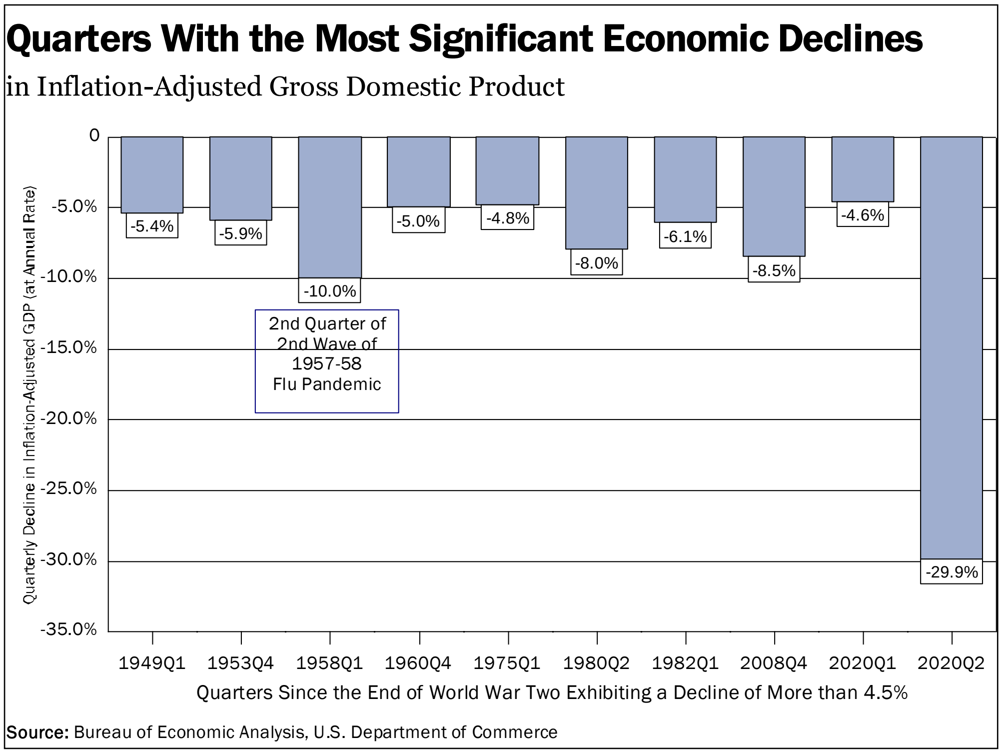
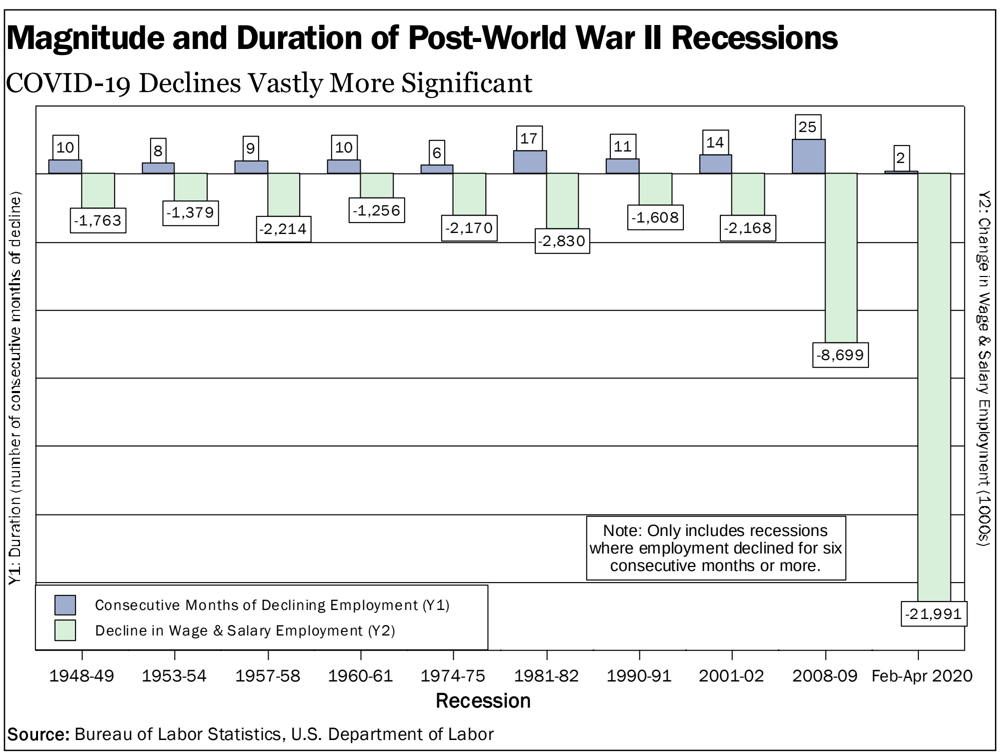


Figure 2

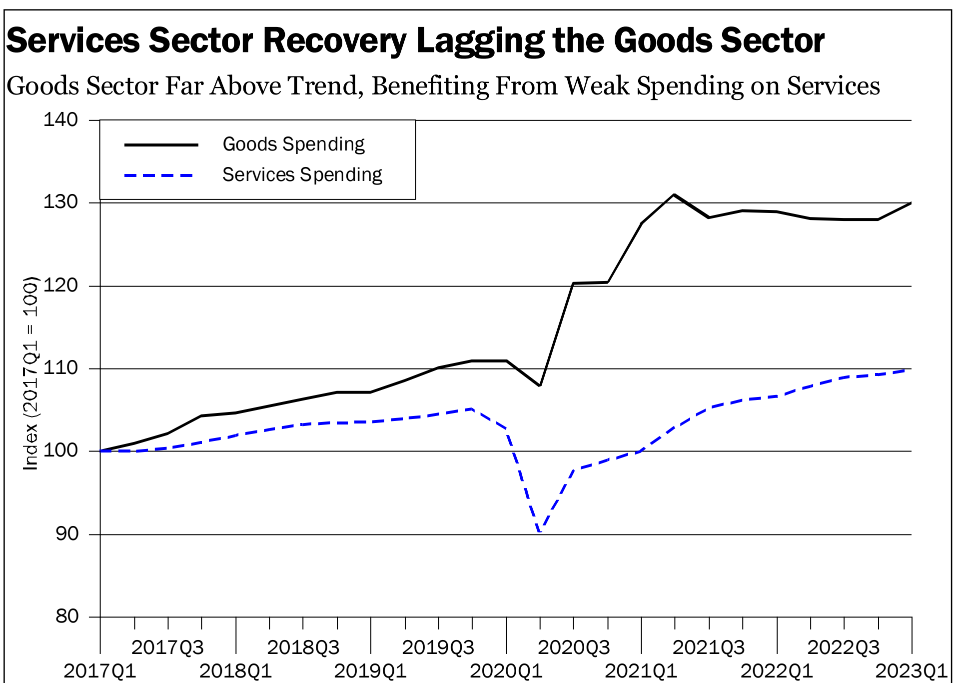


Both the contraction from the COVID-19 pandemic and the economic recovery have been characterized by significant imbalances between different parts of the economy. As a highly communicable disease, COVID-19 adversely affected services more than goods production because, by their nature, services frequently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

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

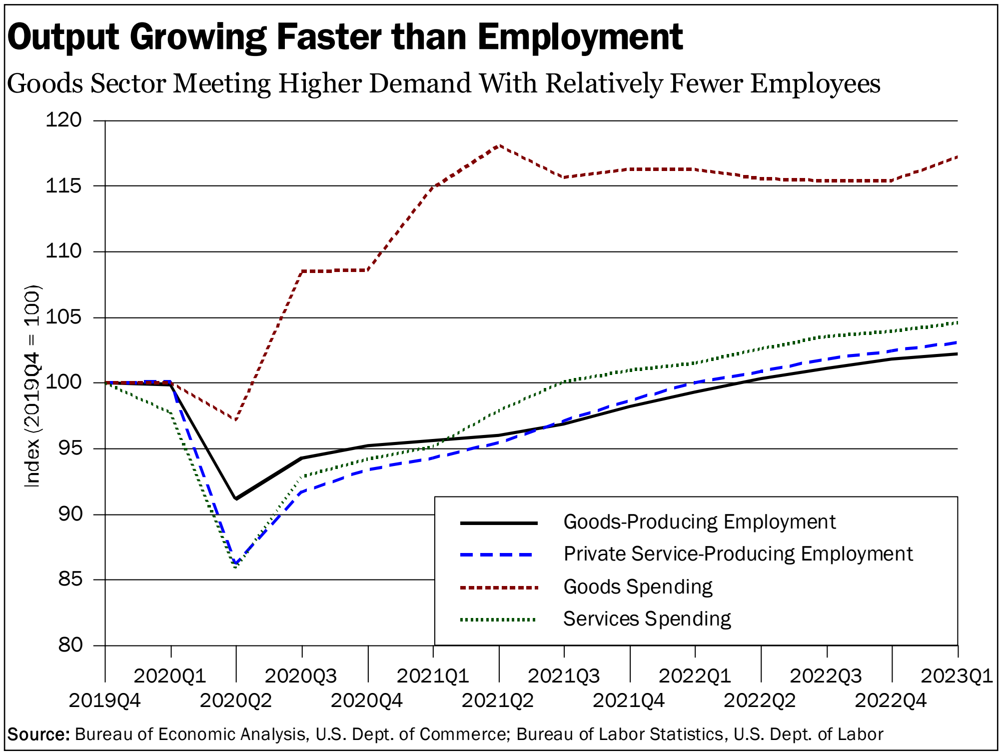
Although consumption recovered quicky in response to monetary and fiscal stimulus, the continuing pandemic resulted in consumers shifting much of their consumption from services to goods and from brick-and-mortar storefronts to online buying. Inflation-adjusted personal consumption spending on services did not recover to the pre-pandemic peak until the third quarter of 2021, while spending on goods had recovered by the third quarter of 2020 (Figure 3). As of the first quarter of 2023, inflation-adjusted spending on goods was 17.3% above the pre-pandemic peak (durable goods spending was up 30.2%) while services spending was up only 4.6%. Despite the shifts in spending, firms in both sectors have not increased hiring at the same rate at which output has risen. As a result, in the first quarter of 2023 goods-producing employment was up 2.2% from the pre-pandemic peak (compared to the 17.3% increase in goods consumption), while private service-producing employment was up 3.1% (Figure 4).

Figure 3



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

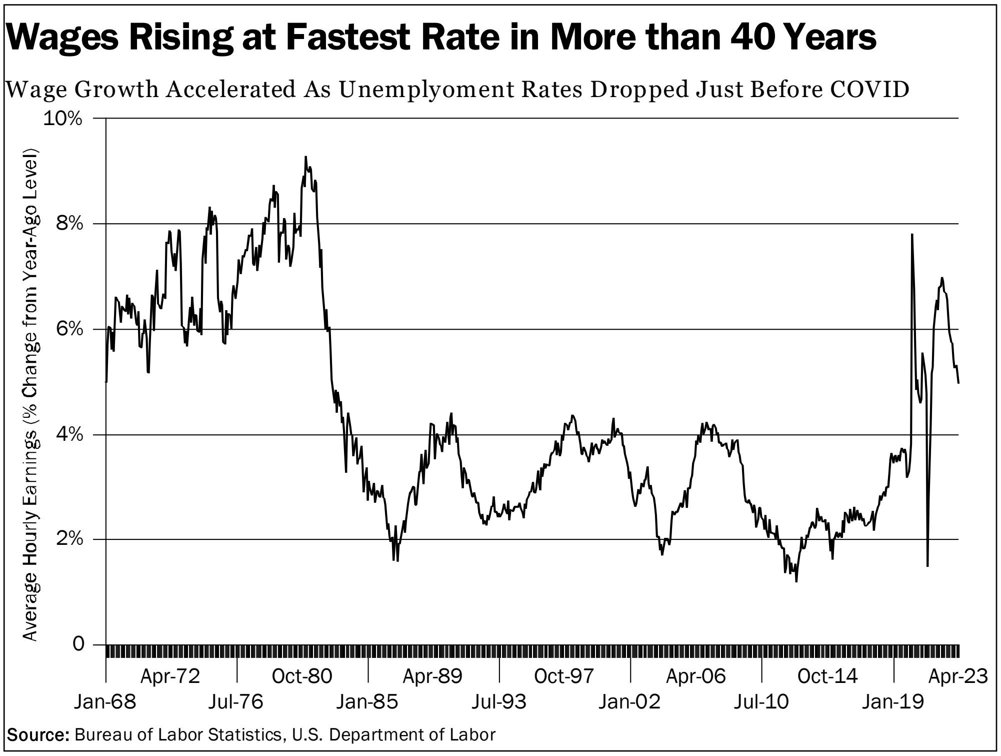
Figure 4



Labor shortages are a natural result of drastic shifts in consumer spending. When inflation-adjusted spending rises faster than employment, the only ways to satisfy consumer demand are to: 1) in the case of goods, draw down inventories of previously manufactured products, 2) improve labor productivity, and/or 3) bid workers away from other firms. Private inventories fell in five of the seven quarters between the beginning of COVID-19 in the first quarter of 2020 and the third quarter of 2021, and labor productivity rose substantially during 2020 and 2021. However, labor productivity fell 1.6% in 2022, the largest annual decline since 1974, and has declined in three of the five quarters between the fourth quarter of 2021 and the first quarter of 2023. As a result, labor market churn has supplied much of the support for increased output, just as it was starting to do in the months leading up to the pandemic when unemployment rates dropped below 4.0%. Through September 2022, the hires rate had been at record levels for nearly two years and, as of March 2023, both the "quits rate" and the "job openings rate" remain at very high levels (although they are lower than the peaks they reached during 2022). Such high demand for workers has pushed wages up, with average hourly earnings since July 2021 growing between 5.0% and 7.0% above year-ago levels—growth rates not seen since the 1970s (Figure 5). However, wage growth during the first four months of 2023 was lower than at any point during 2022 and the trend has consistently slowed since March 2022.

The high demand for workers has been complicated by changes in the labor force and the shift to greater goods consumption in consumer spending. As will be discussed in more detail below, the pandemic accelerated the decades-long trend of falling labor force participation rates due to the aging population. A falling labor force participation rate means a smaller proportion of the population is looking for work, resulting in a lower unemployment rate but making it harder to find workers to hire.

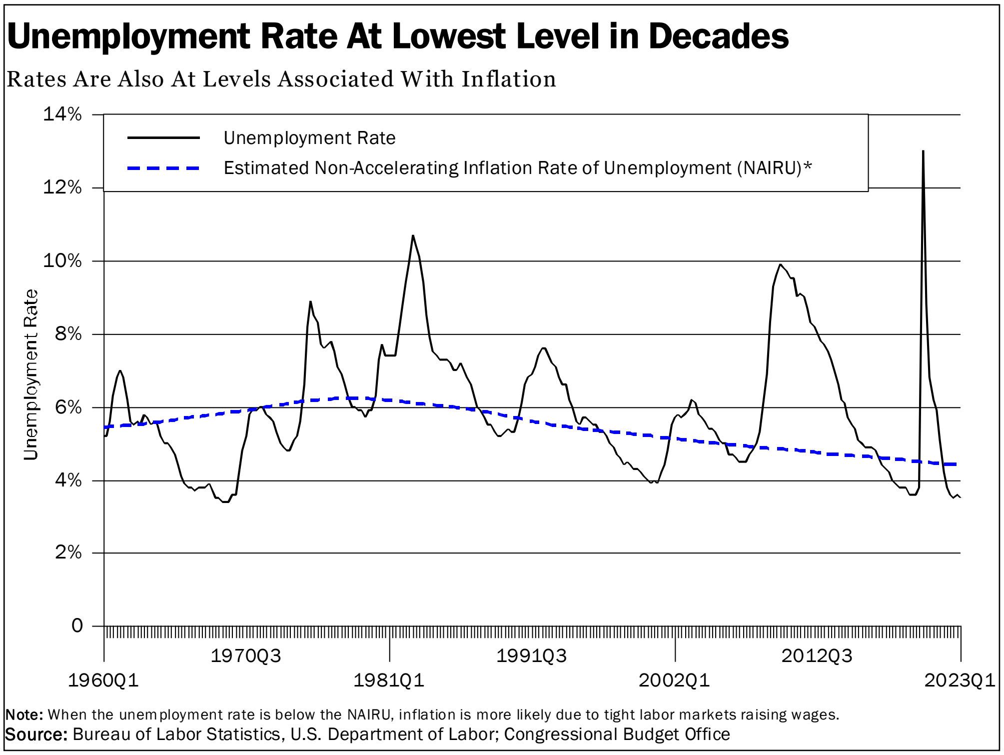
Figure 5



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

Labor force changes have combined with a variety of supply-chain difficulties to lower the unemployment rate and generate the highest inflation in almost 40 years. The unemployment rate before the pandemic had fallen to 3.5% in January 2020 and February 2020, and at that level was below a level commonly associated with accelerating inflation. After rising to a high of 14.7% in April 2020, the unemployment rates steadily declined, reaching the pre-pandemic rate of 3.5% in July 2022. Between July 2022 and April 2023, the unemployment rate has varied between 3.4% and 3.7%. The 3.4% unemployment rates reported for January and April 2023 are the lowest unemployment rates the United States has experienced since May 1969 (Figure 6). Unemployment rates this low generally are below the non-accelerating inflation rate of unemployment (sometimes abbreviated as the NAIRU), an estimated unemployment rate below which inflation is a serious risk to the economy. As discussed earlier, as labor markets tighten, firms essentially are forced to bid workers away from other firms to attract labor. The resulting wage gains risk generating inflation as businesses are forced to pass increased labor costs on in the form of higher prices and wages must rise even more in order to keep pace with the rising standard of living.

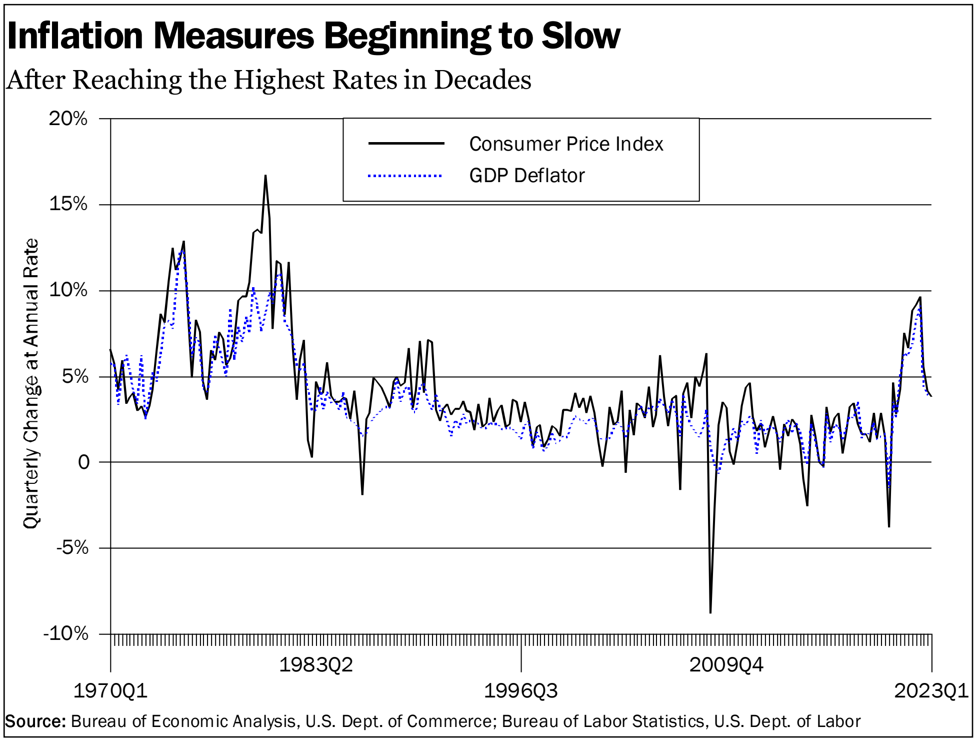
Figure 6



Given low unemployment rates, rising wages, and supply constraints, inflation has risen (Figure 7). The Consumer Price Index (CPI), the broadest measure of inflation facing consumers, averaged a 1.8% year-over-year increase each month over the January 2010 to December 2019 period. The CPI fell from a 2.3% year-over-year increase in February 2020 to 0.2% in May 2020 and did not return to pre-pandemic growth levels until a 1.7% year-over-year increase in February 2021. As consumer demand continued to grow and labor markets continued to tighten, the CPI continued to rise more rapidly, with year-over-year growth reaching 7.9% in February 2022. The CPI was pushed even higher as Russia's invasion of Ukraine affected goods and transportation markets, pushing prices higher for a variety of items, including oil, natural gas, fertilizer, and grain. (As a result of the invasion, the annualized monthly increase in the CPI jumped from 7.2% in January 2022 to 14.4% in March 2022.) Year-over-year growth in the CPI peaked at 8.9% in June 2022. In every month since June 2022, inflation has slowed. The April 2023 CPI was up 5.0% from April 2022, the 10th consecutive month of declining inflation rates.

Similarly, the GDP Implicit Price Deflator, the broadest measure of inflation in the overall economy, followed a similar pattern as the CPI. After averaging 1.7% annual inflation between the end of 2010 and the end of 2019, the GDP deflator fell from a 1.7% year-over-year increase in the first quarter of 2020 to 0.7% in the second quarter of 2020 before rising to a high of 7.6% in the second quarter of 2022. In the first quarter of 2023, the GDP Implicit Price Deflator was 5.3% above the year-ago level.

Figure 7



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

- Michigan's economy has mirrored changes in the national economy, but Michigan's comparative over-reliance on the motor vehicle industry has accounted for significant deviations from the national-level changes.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and, even before COVID-19, Michigan had yet to regain employment levels experienced before the 2000-01 recession.
- The COVID-19 pandemic resulted in substantial job losses for Michigan, although the strength in manufactured goods demand (particularly for motor vehicles) in the wake of COVID-19 has resulted in Michigan ranking second nationally for the most rapid employment growth.
- Unlike the US economy, although Michigan output has recovered to pre-COVID-19 levels, employment has not. Michigan's March 2023 payroll employment figure was down 0.7% from the February 2020 level.

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

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

The impact of COVID-19 on the Michigan economy was, and continues to be, substantial. Between February 2020 and April 2020, Michigan payroll employment declined by 23.7%, or approximately 1.1 million jobs. As of March 2023, payroll employment in Michigan was up 1,022,300 jobs from the April 2020 trough, but was still 0.7% below the level in February 2020 and roughly on par with the level in April 2018. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover more rapidly than almost any other state, with Michigan employment rising at a 9.4% annual rate between April 2020 and March 2023. (Michigan ranks second, while Nevada ranks first at a 11.8% annual growth rate. Among the other Great Lakes states, Indiana ranks 14th at 6.9%, with Illinois ranking 38th, Ohio at 27th, and Wisconsin ranked 33rd.) Michigan's disproportionately strong participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan, and thus helped consumption and employment recover at more rapid rates than otherwise would have occurred. However, it is important to note that Michigan's COVID-19-related job decline was so significant that despite such rapid employment growth, Michigan ranks 41st among states in recovering to pre-COVID-19 employment levels (comparing March 2023 employment level to the February 2020 level). Michigan is one of 16 states that, as of March 2023, had yet to return to the February 2020 employment level.

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

FORECAST SUMMARY

- The US economy will continue slowing in 2023 and 2024, before growing at a more rapid, although still modest, 2.0% in 2025.
- The Michigan economy will experience progressively slower employment growth over the forecast. After falling 7.3% during 2022, Michigan personal income, adjusted for inflation, will decline 0.3% in 2023 before growing at increasing rates in 2024 and 2025.
- After falling in 2022, light vehicle sales are expected to grow over the forecast, nearing pre-pandemic levels in 2025.
- Michigan employment will exceed pre-COVID-19 levels during 2023, and unemployment rates will remain low by historical standards.
- Inflationary pressures will decline but remain persistent through much of 2023 and 2024 because of tight labor markets and consumer spending that will remain strong due to historically high consumer net worth. Inflation will return to target levels over the forecast as a result of higher interest rates slowing economic activity, productivity gains, and consumption shifting to a more normal split between goods and services.

The US economy is expected to grow, but at slowing rates, in 2023 and 2024, before experiencing stronger growth in 2025. Throughout the forecast, Michigan is expected to grow more slowly than the nation as a whole. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to increase 1.4% in 2023, after growing 2.1% in 2022 and 5.9% in 2021 (the most rapid increase in inflation-adjusted GDP since the 7.2% rise in 1984 and a marked change from the 2.8% decline during 2020). Inflation-adjusted GDP will expand 1.1% during 2024 before expanding 2.0% in 2025. The slowdown in 2023 and 2024 primarily reflects slower consumption growth, slower growth in business inventories and business investment, and a marked decline in residential investment.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)

	2021 Actual	2022 Actual	2023 Estimate	2024 Estimate	2025 Estimate
United States					
Nominal GDP (year-to-year growth)	10.7%	9.2%	5.6%	4.1%	4.4%
Inflation-Adjusted GDP (year-to-year growth)	5.9%	2.1%	1.4%	1.1%	2.0%
Unemployment Rate	5.3%	3.6%	3.5%	3.8%	3.6%
Wage & Salary Employment (year-to-year growth)	2.9%	4.3%	2.1%	0.2%	0.5%
Inflation					
Consumer Price Index (year-to-year growth)	4.7%	8.0%	4.4%	3.1%	2.6%
GDP Implicit Price Deflator (yr.-to-yr. growth)	4.5%	7.0%	4.2%	3.0%	2.4%
Interest Rates					
90-day Treasury Bill	0.04%	2.02%	5.12%	5.19%	4.50%
10-year Treasury Bill	1.45%	2.95%	3.67%	3.90%	3.97%
Corporate Aaa Bond	2.70%	4.07%	4.72%	5.03%	5.09%
Federal Funds Rate	0.08%	1.69%	5.17%	5.31%	4.57%
Light Motor Vehicle Sales (millions of units)	14.9	13.8	15.1	15.6	16.2
Auto	3.4	2.9	3.1	3.1	3.1
Truck	11.6	10.9	12.0	12.5	13.1
Michigan					
Personal Income (millions)	$567,807	$570,065	$594,193	$615,754	$640,542
(year-to-year growth)	5.6%	0.4%	4.2%	3.6%	4.0%
Inflation-Adjusted Personal Income (year-to-year growth)	1.3%	(7.2%)	(0.3%)	0.7%	1.5%
Wage & Salary Income (millions)	$261,812	$285,475	$301,197	$311,386	$322,870
(year-to-year growth)	7.9%	9.0%	5.5%	3.4%	3.7%
Detroit Consumer Price Index (year-to-year growth)	4.3%	8.2%	4.5%	2.9%	2.5%
Wage & Salary Employment (thousands)	4,199.0	4,362.2	4,420.4	4,450.2	4,475.8
(year-to-year growth)	4.0%	3.9%	1.3%	0.7%	0.6%
Unemployment Rate	5.8%	4.2%	4.3%	4.6%	4.3%

Table 2

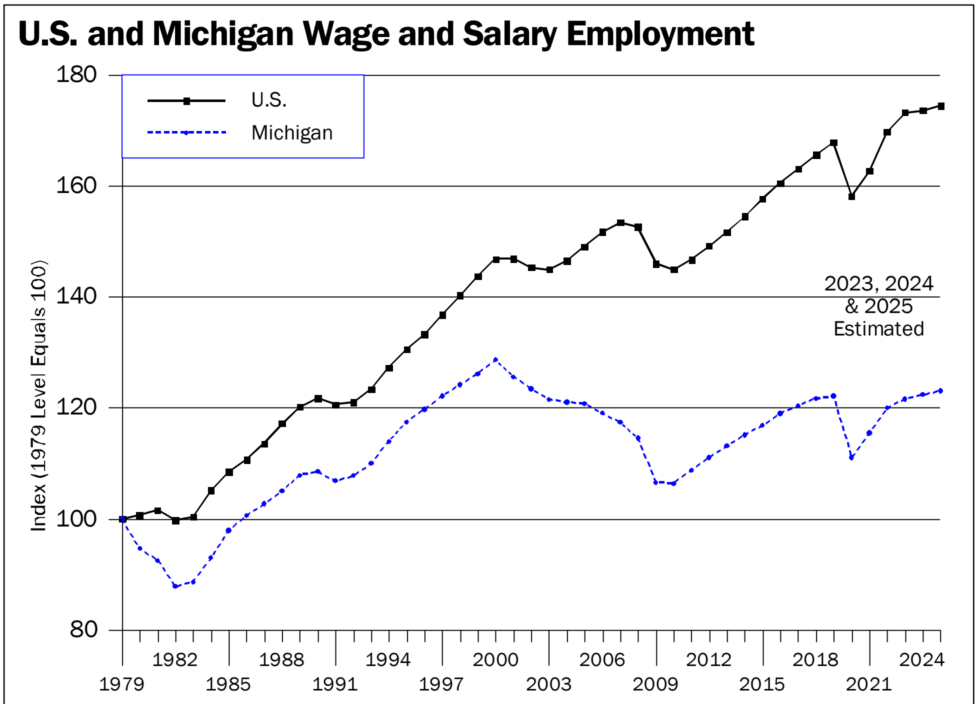
THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)	2021 Actual	2022 Actual	2023 Estimate	2024 Estimate	2025 Estimate
Gross Domestic Product					
(billions of dollars)	$23,315.1	$25,462.7	$26,890.5	$28,003.1	$29,248.4
Year-to-year growth	10.7%	9.2%	5.6%	4.1%	4.4%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2012 dollars)	$19,609.8	$20,014.1	$20,287.5	$20,501.9	$20,918.5
Year-to-year growth	5.9%	2.1%	1.4%	1.1%	2.0%
Consumption					
(billions of 2012 dollars)	$13,754.1	$14,130.3	$14,378.6	$14,469.0	$14,669.1
Year-to-year growth	8.3%	2.7%	1.8%	0.6%	1.4%
Business Fixed Investment					
(billions of 2012 dollars)	$2,835.4	$2,944.8	$3,011.8	$3,083.0	$3,214.8
Year-to-year growth	6.4%	3.9%	2.3%	2.4%	4.3%
Change in Business Inventories					
(billions of 2012 dollars)	($19.4)	$125.0	$17.0	$36.1	$49.7
Residential Investment					
(billions of 2012 dollars)	$719.4	$643.1	$553.5	$561.9	$599.5
Year-to-year growth	10.7%	(10.6%)	(13.9%)	1.5%	6.7%
Government Spending					
(billions of 2012 dollars)	$3,426.3	$3,406.5	$3,487.5	$3,502.4	$3,529.0
Year-to-year growth	0.6%	(0.6%)	2.4%	0.4%	0.8%
Federal budget surplus					
(billions of dollars, NIPA basis)	($2,835.3)	($1,002.6)	($1,376.0)	($1,607.6)	($1,708.2)
Net Exports (billions of 2012 dollars)	($1,233.4)	($1,356.6)	($1,235.3)	($1,204.2)	($1,192.9)
Exports (billions of 2012 dollars)	$2,366.8	$2,534.4	$2,622.2	$2,623.5	$2,687.4
Imports (billions of 2012 dollars)	$3,600.2	$3,891.0	$3,857.5	$3,827.7	$3,880.3
Personal Income (year-to-year growth)	7.4%	2.4%	5.2%	3.5%	4.4%
Adjusted for Inflation	2.6%	(5.2%)	0.7%	0.4%	1.8%
Wage & Salary Income					
(year-to-year growth)	8.8%	9.1%	6.4%	3.3%	3.9%
Personal Saving Rate	12.0%	3.7%	5.1%	5.2%	5.7%
Output per hour					
(Labor productivity, annual growth)	2.2%	(1.6%)	(0.4%)	0.9%	1.0%
Unit labor costs (annual growth)	2.4%	6.5%	4.9%	2.4%	2.3%
Housing Starts (millions of units)	1.601	1.553	1.323	1.271	1.329
Conventional Mortgage Rates	3.0%	5.3%	6.3%	5.9%	5.8%

The economic dynamics of the forecast will mean that unemployment rates remain low and that inflation rates will decline relatively slowly. Consumer demand is expected to remain strong enough that, when combined with tight labor markets, the slowing economy will primarily reduce job growth and any increases in the unemployment rate generally will reflect the labor force growth growing faster than employment, rather than large declines in employment. Nationally, the growth in payroll employment will slow from 4.3% in 2022 to 2.1% in 2023 and 0.2% in 2024, before rising 0.5% in 2025. As a result, the US unemployment rate will remain low by historical standards and similar to the 3.6% rate in 2022, varying from 3.5% to 3.8% over the forecast. Inflation rates will decline over the forecast at a modest but steady pace, with growth in the CPI falling from 8.0% in 2022 to 4.4% in 2023, 3.1% in 2024, and 2.6% in 2025.

In Michigan, job growth is expected to slow even as the growth in inflation-adjusted personal income improves relative to 2022 (Figures 8 and 9). Michigan payroll employment rose 3.9% during 2022, but is forecasted to slow, rising 1.3% in 2023, 0.7% in 2024, and 0.6% in 2025. Inflation-adjusted personal income declined 7.2% in 2022, largely due to the exhaustion of various Federal stimulus efforts and stock market declines more than offsetting the 9.0% increase in wage and salary income. However, inflation-adjusted personal income is projected to decline another 0.3% in 2023, as additional stock market declines combine with weaker employment growth. As the national economy stabilizes in 2024 and 2025, vehicle sales continue to rise, and inflation continues to grow more slowly, Michigan's inflation-adjusted personal income is predicted to grow 0.7% in 2024 and 1.5% in 2025. Nationally, light vehicle sales are estimated to rise from 13.8 million units in 2022 to 15.1 million units in 2023, 15.6 million units in 2024, and 16.2 million units in 2025 (Figure 10). The Michigan unemployment rate, which averaged 4.2% in 2022, is predicted to increase to 4.3% in 2023 and 4.6% in 2024, before declining to 4.3% in 2025.

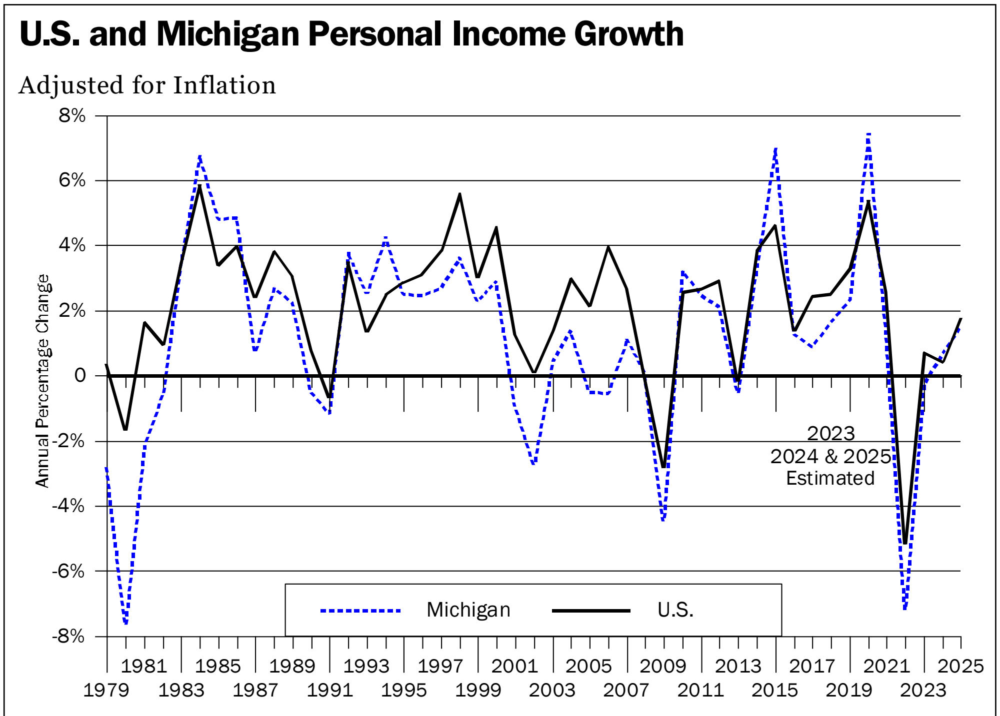
Compared with the January 13, 2023, CREC forecast, forecasted economic growth is expected to be slightly stronger for both the national and Michigan economies in 2023, but weaker in 2024 and 2025. Employment growth is expected to be stronger in 2023, but slower in 2024 and 2025, while inflation is expected to be lower but to decline more slowly.

Figure 8



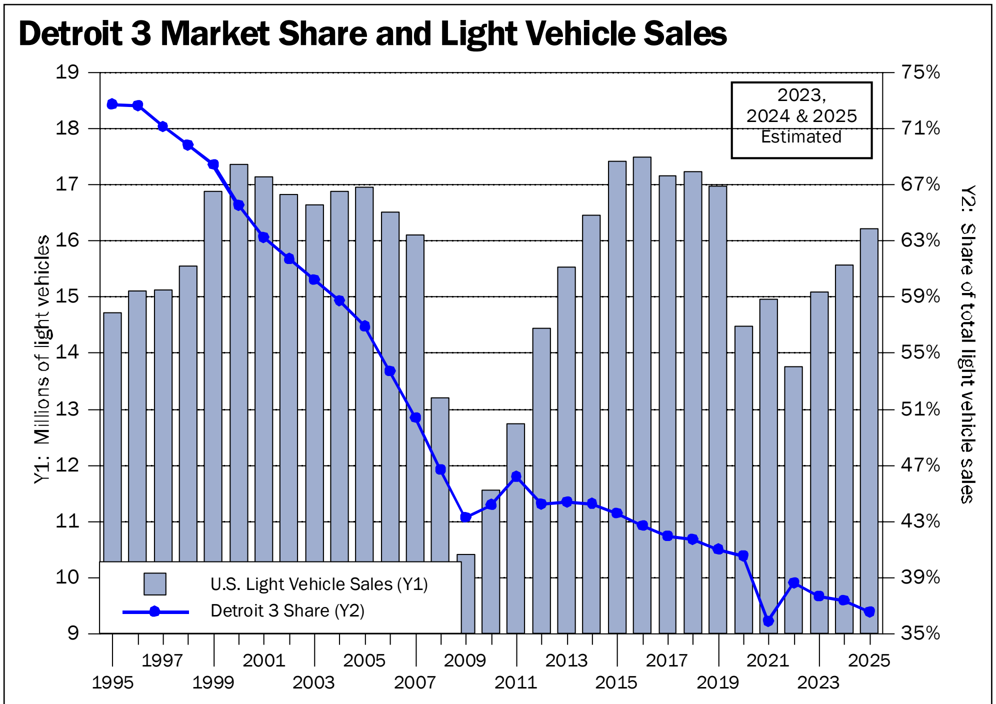
Source: Bureau of Labor Statistics, U.S. Department of Labor and Senate Fiscal Agency

Figure 9



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

Figure 10



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

FORECAST RISKS

- The COVID-19 pandemic has resulted in short-term disruptions in the long-run relationship between many economic (and tax revenue) variables. How quickly these relationships are restored will affect the accuracy of the forecast.
- Inflationary risks are expected to remain high in the near-term but will decline as a result of aggressive Federal Reserve monetary policy and as consumer spending patterns return to historical norms. However, higher interest rates and reduced lending, as well as the transition back to more normal consumption patterns, may cause economic growth to be weaker than forecasted.
- Both the US and Michigan labor markets will face labor market constraints on growth resulting from aging workforces lowering labor force participation.
- Recovery in the Michigan economy will be dominated by what happens with the motor vehicle industry.

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

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

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

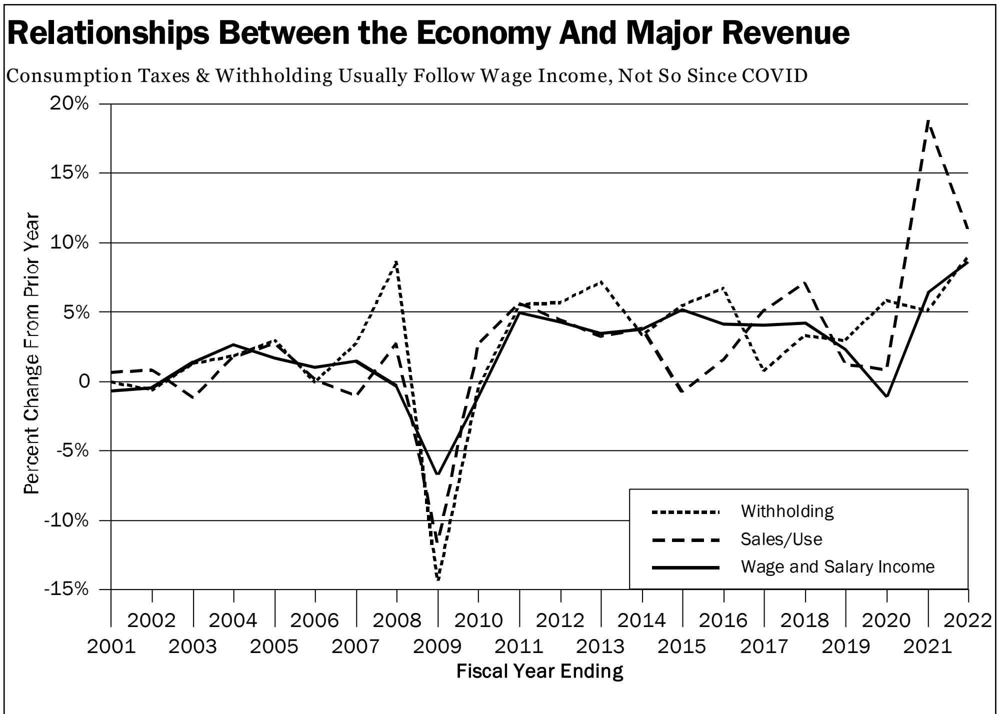
COVID-19 and Traditional Economic Relationships. Traditionally, when employment falls spending declines. During recessions, spending generally declines by less than employment because consumers use debt, credit, and savings to smooth spending. Transfer payments, whether in the form of stimulus checks,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

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

The changed relationships between economic variables during 2020 and 2021 not only increase the risks regarding the economic forecast, but for the revenue forecast presented in the next section. For example, in Michigan, payroll employment fell 23.8% between February 2020 and April 2020 and sales tax revenue fell 27.3%, yet Individual Income Tax withholding rose 2.3%. Although payroll employment has continued to recover between April 2020 and March 2023, March 2023 payroll employment remained 0.7% below the February 2020 level while sales and use tax revenue in 2021 consistently averaged 20.4% growth above the monthly levels in the 12 months preceding COVID-19, and in FY 2021-22 averaged 14.6% growth above the 2021 levels. (Figure 11). The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables. As illustrated with FY 2019-20, FY 2020-21, and FY 2021-22 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions of dollars, or even by billions of dollars. For example, the economic changes forecasted at the May 2020 CREC largely were correct, yet the $3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by $2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held.

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

Figure 11



Source: U.S. Bureau of Economic Analysis, Michigan Senate Fiscal Agency

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

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

The forecast does not anticipate any additional major Federal fiscal stimulus package, but does expect fiscal policy to remain stimulative with net Federal saving averaging roughly -5.5% of GDP over the forecast period. Monetary policy is expected to be contractionary, as the Federal Reserve seeks to rein in the possibility of long-term inflationary expectations rising. The Federal Reserve ended security purchases (another mechanism available to lower long-term interest rates) before March 2022 and increased interest rates in March 2022 for the first time since December 2018. The Federal Reserve continued to increase interest rates and by May 2023 had raised rates 10 times for a total of 500 basis points (increasing the target Federal Funds rate from 0.0-0.25% at the beginning of 2022 to 5.00-5.25% in May 2023). The forecast expects one additional rate increase, in mid-2023, although rates are not expected to begin a slow decline until the third quarter of 2024 as wage and demand pressures slow the pace at which the inflation rate declines. Interest rates are not expected to fall until the Federal Reserve is convinced inflation is unlikely to exceed the long-term target of 2.0%, which the forecast expects will occur in the last half of 2024.

A major risk affecting how well monetary policy will succeed in slowing inflation relates to consumer spending. Many consumers saw their net worth and cash balances rise in 2020 and 2021 (Figures 12 and 13). Despite rising inflation and falling stock markets, especially in 2022, consumers are wealthier than before the pandemic, particularly those consumers in the middle- and high-income groups and homeowners. Ultimately, inflation has reflected strong consumer demand and the way that demand is transmitted through the rest of the economy, whether by increasing the demand for goods that supply chains struggle to fulfill or a need for additional workers (who are in short supply) to provide goods and services. Whether that demand is fueled by wage growth, boosted by high checking and savings balances, financed by rising consumer borrowing or strong stock market gains, the demand puts pressure on firms to increase output. Because consumer balances and net worth remain above trend, consumers can feel wealthy enough to maintain (or increase) consumption in a world with rising consumer prices and rising interest rates. Consumer spending in 2022 reflected this behavior, with inflation at the highest levels in decades and inflation-adjusted spending still exhibiting solid growth.

The forecast expects consumer spending will slow in 2023 and 2024, although perhaps not as much as it would have given the historical relationship between interest rates and spending. Additional Federal fiscal stimulus (reflecting higher deficits, whether due to falling tax receipts or increased spending, perhaps due to the Ukraine conflict) would cause both economic growth and inflation to be stronger than forecasted. Similarly, if inflation falls more rapidly than expected, economic growth will be stronger, especially if lower inflation allows the Federal Reserve to lower interest rates more rapidly than predicted. However, to the extent that the Federal Reserve finds it necessary to raise interest rates higher than expected or keep them at high levels for longer than expected (perhaps because consumers respond less than expected to rising interest rates), economic growth will be slower than forecasted and unemployment will be higher. Higher-than-anticipated interest rates are likely to curtail loan demand from both consumers and businesses, reducing both consumption and investment.

An added monetary risk reflects how some financial institutions have adapted to both rising interest rates and changed consumer demographics. Some institutions, such as the now-failed Silicon Valley Bank, overinvested in industries that were booming during the pandemic and, as markets have changed during the recovery, some of these businesses needed to withdraw substantial deposits in order to maintain cash flow. Similarly, many banks have been slow to increase the rates paid on deposits and as interest rates have risen, customers have withdrawn funds in order to seek higher returns from investment like government bonds. In both circumstances, some banks have developed liquidity problems (that have been exacerbated by remaining account holders making runs on the affected banks). One way banks maintain liquidity is by reducing lending, keeping more of deposits on hand to manage the cash flow needs of the bank and its customers. However, both reduced confidence in the banking system and reduced lending could slow economic activity more than expected and increase the chances that the Federal Reserve will be unable to raise interest rates by the degree necessary to contain above-target inflation rapidly.

Figure 12

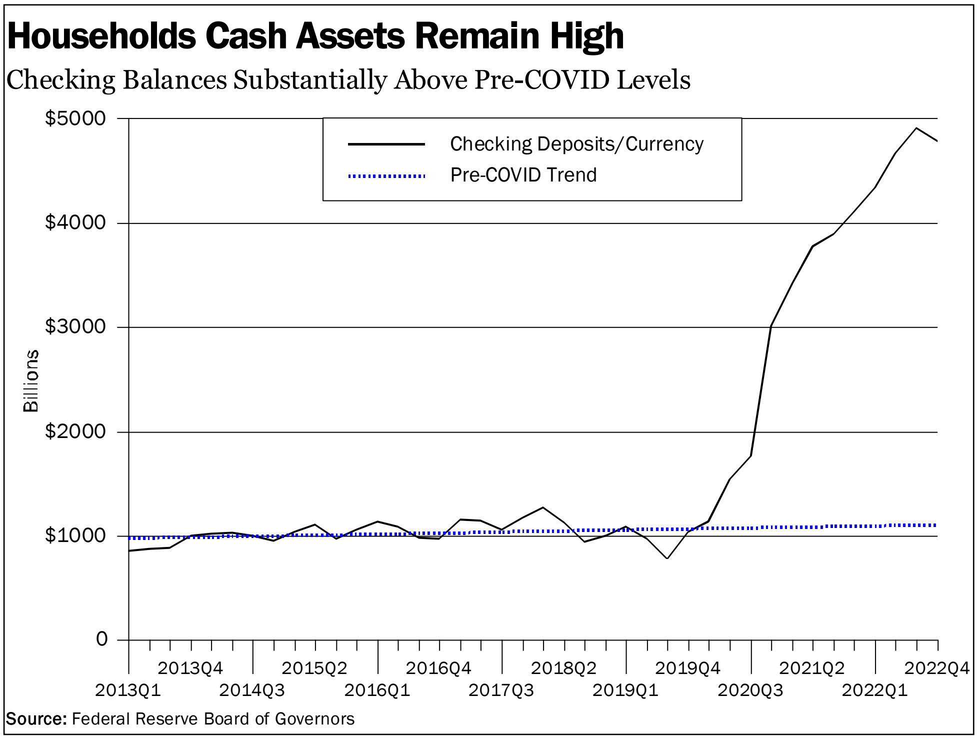
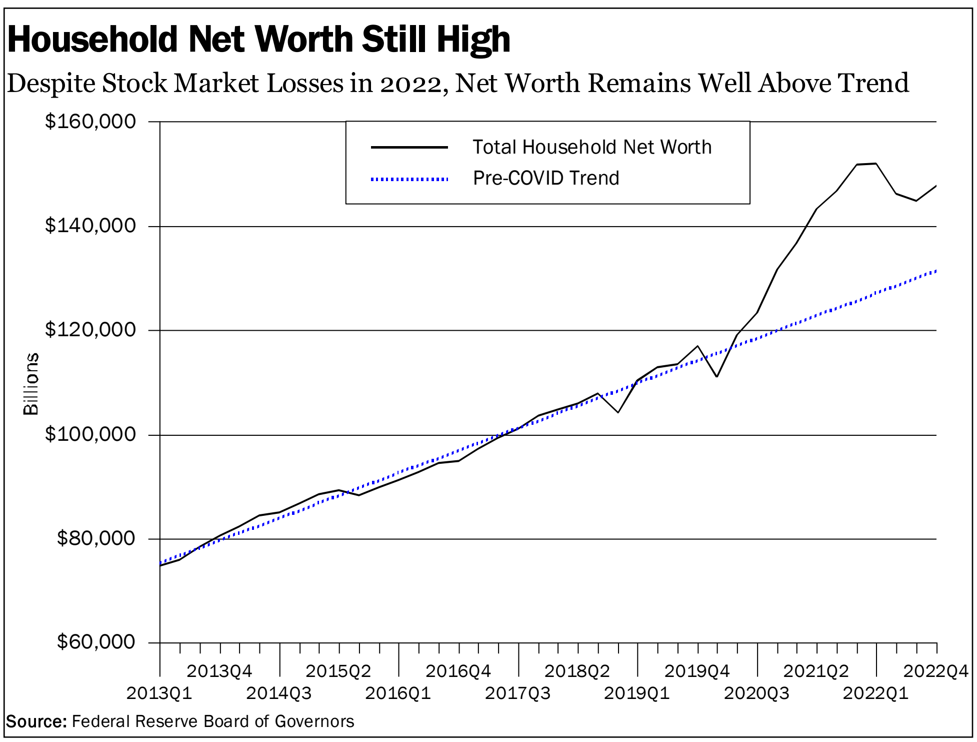


Figure 13



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

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. Furthermore, the vulnerability of older populations to the COVID-19 virus may affect the rate at which some older adults leave (and/or return to) the labor force. Since the COVID-19 pandemic began, labor force participation has fallen markedly for both women and older adults (<u>Figure 14</u>). Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return (<u>Figure 15</u>). As a result, unemployment rates have declined relatively rapidly as output has expanded, and the economy has experienced slower employment growth and worker shortages have been widespread. Despite expecting slowing economic activity in 2023 and 2024, the forecast anticipates that labor force dynamics will constrain growth over the next few years (if not decades). Moreover, unemployment rates will continue to be lower than suggested by the rate of job growth, and worker shortages will maintain greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

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

Figure 14

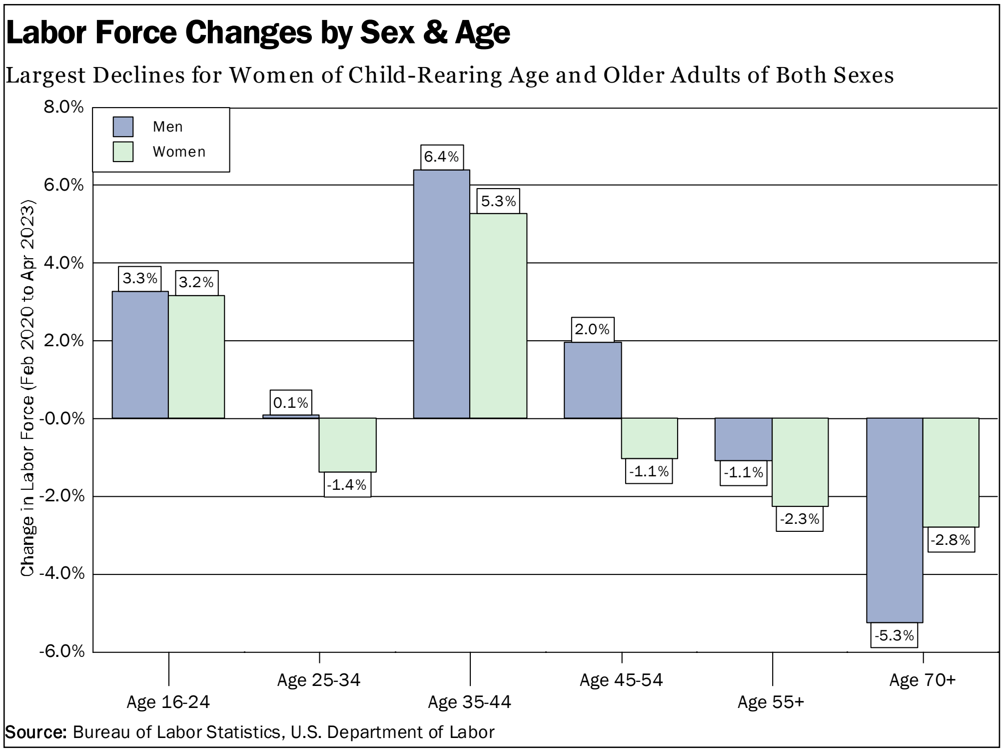
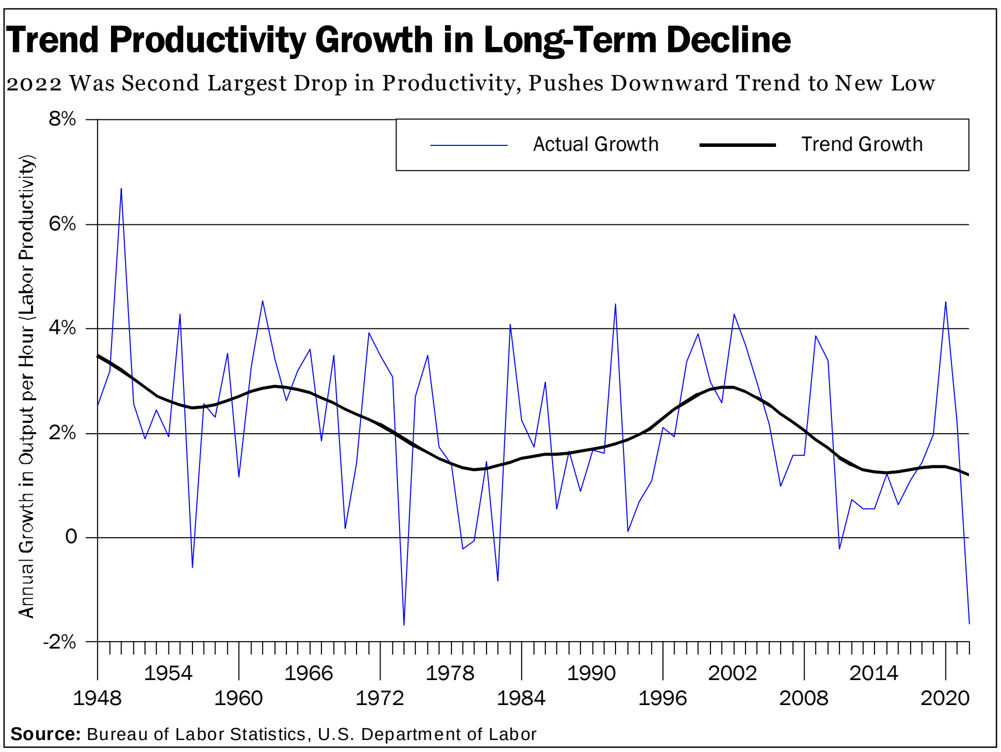


Figure 15

For both the US as a whole, and Michigan specifically, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.9% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 16). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014. Business investment affects not only current economic growth but also future economic growth because investment generally is associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates. While productivity increased more rapidly in 2020 and 2021, productivity fell 1.6% in 2022.

In 2023, productivity growth is expected fall 0.4%, and during 2024 and 2025 generally will be near the 0.9% rate experienced during the 2010-2019 period. If productivity growth is less than forecasted, in the short run it will reduce economic growth and risk higher inflation than presented in the forecast. Similarly, if productivity growth is greater than forecast, output will increase and inflation will decline more rapidly, but employment growth will be slower.

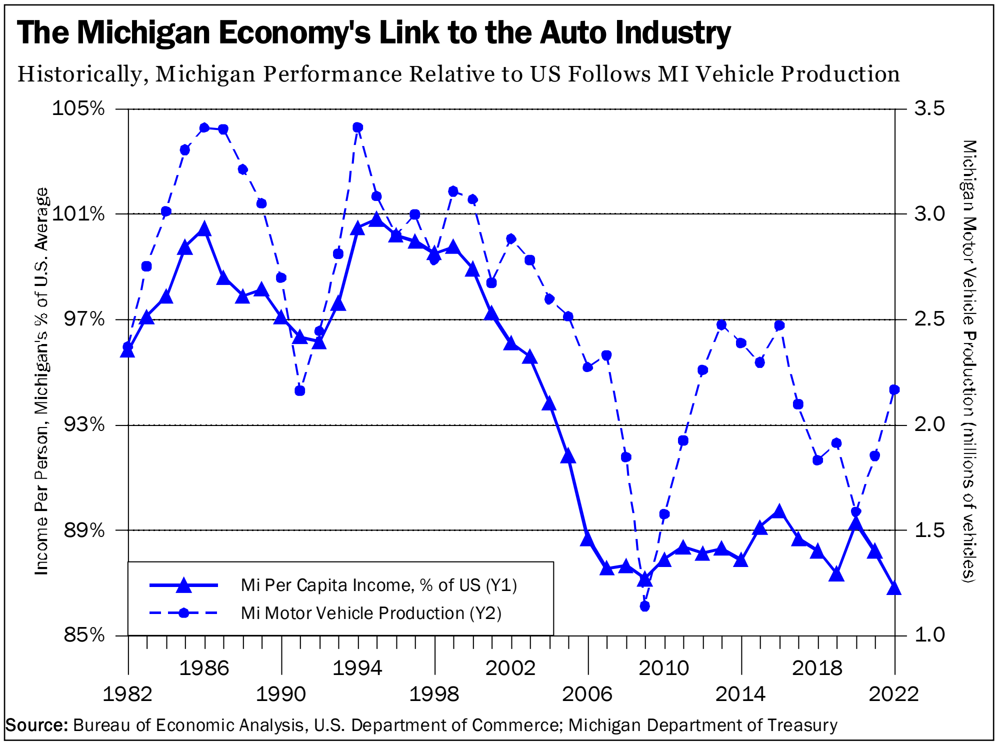
Figure 16



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

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 17). While that reliance has declined (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 15.2% of total Michigan wage and salary income, compared to 6.2% in 2021), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although when oil prices started fall, these states faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 helped mute the impact of the COVID-19 pandemic on the Michigan economy.

Figure 17



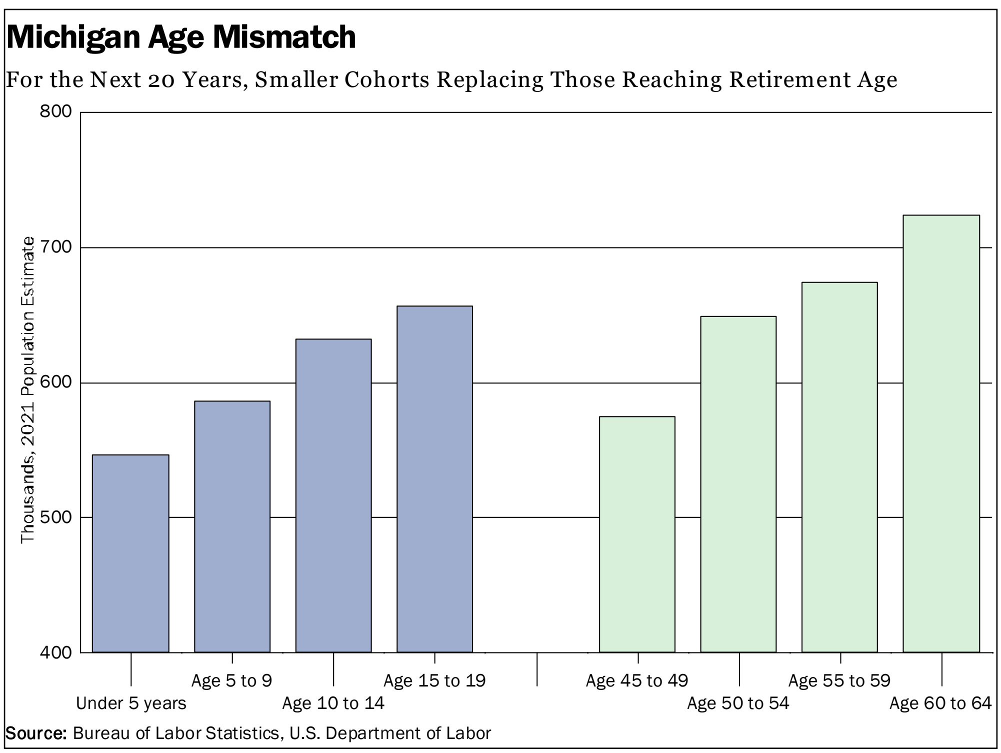
Source: Bureau of Economic Analysis, U.S. Department of Commerce; Michigan Department of Treasury

However, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that those production needs can be met with existing, or even lower, employment levels than those at the end of 2019. Between the May 2000 peak and June 2009, Michigan lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing. However, the majority of those jobs will never return, and any employment gains in the vehicle sector are likely to be muted. As a result, for Michigan payroll employment as a whole to increase, other sectors will need to expand and for workers will be required to develop the skills necessary in those sectors—a process that occurs slowly. Consequently, Michigan took seven years, until 2015, to return to the January 2008 level (the US pre-recession peak). Furthermore, 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 pre-recession peak) again until sometime late in the 2020-2030 decade.

Compounding the employment situation, Michigan exhibits an older population. Michigan ranks 10th in the share of population comprised of individuals between the ages of 50 and 64, meaning that age-related declines in the labor-force are likely to reduce the Michigan labor force by proportionately more than in most states. Furthermore, not only does the forecast expect significant productivity growth within the motor vehicle industry but the forecast expects that Michigan vehicle manufacturers are likely to see declining market shares - although the declines will not be as steep as they were during the 1999-2009 period. The aging population is complicated by the lack of younger individuals available to replace workers lost to retirement (Figure 18). For much of the next 20 years, an average of 10,000 more individuals will reach retirement age each year will reach working age, implying that for the next 20 years Michigan is likely to see its labor force contract substantially each year.

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

Figure 18



THE FORECAST FOR STATE REVENUE

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

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2022-23, FY 2023-24, and FY 2024-25 are presented in Table 3 and are summarized below.

FY 2022-23 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $31.7 billion in FY 2022-23.
- This revised estimate for FY 2022-23 is down 4.2%, or $1,394.2 million, from the revenue for FY 2021-22. The projected revenue decrease in FY 2022-23 reflects reductions in nearly all major taxes, partially offset by increases in the State Education Tax (SET), gaming taxes, insurance company premiums, and reduced IIT refunds. A substantial portion of the decline in IIT revenue reflects timing issues associated with the December 2021 adoption of the tax on flow-through entities.
- The revised estimate for FY 2022-23 is $714.2 million below the January 2023 consensus revenue estimate.

FY 2023-24 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $31.4 billion in FY 2023-24.
- The revised estimate for FY 2023-24 is down 0.9%, or $277.7 million, from the revised estimate for FY 2022-23. The revenue decrease in FY 2023-24 reflects an increase in personal income refunds partially offset by growth in Corporate Income Tax (CIT) and the SET. A substantial portion of the increase in IIT refunds reflects the timing issues associated with the adoption of Public Act 4 of 2023, which increased the Earned Income Tax Credit (EITC). Those timing issues will result in two tax years' worth of EITCs being paid in a single fiscal year.
- The revised estimate for FY 2023-24 is $1,517.1 million below the January 2023 consensus revenue estimate.

FY 2024-25 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $32.8 billion in FY 2024-25.
- This revised estimate for FY 2024-25 is 4.4%, or $1,397.5 million, more than the revised estimate for FY 2023-24.
- The revenue increase in FY 2024-25 reflects growth in nearly all major taxes including individual income tax, sales tax, and a reduction of refunds.
- The revised estimate for FY 2023-24 is $984.5 million below the January 2023 consensus revenue estimate.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2021-22 THROUGH FY 2024-25
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2021-22 Final	FY 2022-23 Revised Est.	FY 2023-24 Revised Est.	FY 2024-25 Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1)]	$16,885.1	$16,560.9	$16,688.7	$17,210.4
Tax Changes Not In Baseline	(1,673.1)	(2,592.8)	(3,089.0)	(2,621.8)
Revenue After Tax Changes:				
Net Income Tax	9,199.0	8,231.9	7,853.8	8,830.6
MBT, Corp. Income Tax, SBT & Insur. Tax	1,950.5	1,650.2	1,770.3	1,859.0
Other Taxes	3,386.7	3,292.9	3,280.5	3,358.9
Total Taxes	14,536.2	13,175.0	12,904.6	14,048.5
Nontax Revenue	675.8	793.1	695.1	540.1
TOTAL GF/GP REVENUE	**$15,212.0**	**$13,968.1**	**$13,599.7**	**$14,588.6**
SCHOOL AID FUND				
Baseline SAF	$17,794.1	$17,793.2	$18,034.1	$18,507.0
Tax Changes Not In Baseline	86.9	(62.5)	(212.7)	(277.0)
TOTAL SAF REVENUE	**$17,881.0**	**$17,730.7**	**$17,821.4**	**$18,230.0**
BASELINE GF/GP AND SAF REVENUE	$34,679.2	$34,354.1	$34,722.8	$35,717.4
Tax & Revenue Changes	(1,586.2)	(2,655.3)	(3,301.7)	(2,898.8)
GF/GP & SAF REV. AFTER CHANGES	**$33,093.0**	**$31,698.8**	**$31,421.1**	**$32,818.6**
SALES TAX	$10,784.7	$10,812.0	$10,822.4	$11,050.5
	Percent Change			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	13.7%	(1.9%)	0.8%	3.1%
Revenue After Tax Changes:				
Net Income Tax	19.3	(10.5)	(4.6)	12.4
MBT, Corp. Income Tax, SBT & Insur. Tax	24.5	(15.4)	7.3	5.0
Other Taxes	5.1	(2.8)	(0.4)	2.4
Total Taxes	16.3	(9.4)	(2.1)	8.9
Nontax Revenue	35.3	17.4	(12.4)	(22.3)
TOTAL GF/GP REVENUE	**17.0%**	**(8.2%)**	**(2.6%)**	**7.3%**
SCHOOL AID FUND				
Baseline SAF	9.7%	(0.0%)	1.4%	2.6%
TOTAL SAF REVENUE	**11.4%**	**(0.8%)**	**0.5%**	**2.3%**
BASELINE GF/GP AND SAF REVENUE	11.6%	(0.9%)	1.1%	2.9%
GF/GP & SAF REV. AFTER CHANGES	**13.9%**	**(4.2%)**	**(0.9%)**	**4.4%**
SALES TAX	14.6%	0.3%	0.1%	2.1%

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

Historical Perspective

- Net GF/GP and SAF revenue increased 13.9% in FY 2021-22. Net GF/GP and SAF revenue is forecast to decrease 4.2% in FY 2022-23, decrease 0.9% in FY 2023-24 and increase 4.4% in FY 2024-25. These changes compare with an average decline of 0.9% per year for the FY 2000-01 to FY 2009-10 period and an average increase of 3.0% per year from FY 2010-11 to FY 2019-20.

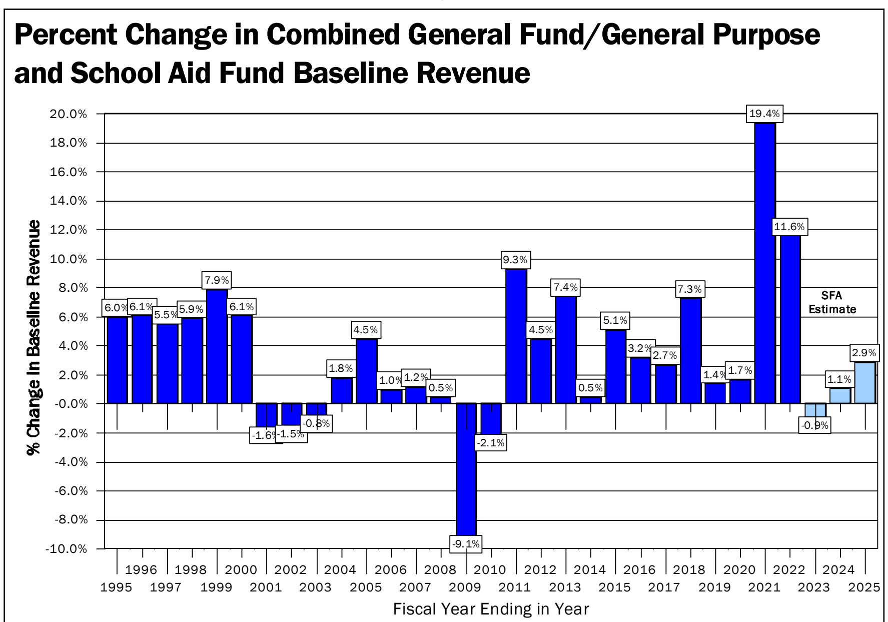
- General Fund/General Purpose revenue grew 17.0% in FY 2021-22, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax (PPT) changes. School Aid Fund revenue rose to its highest level ever in FY 2021-22 ($17.9 billion), after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.

Baseline revenue is forecast to decrease in FY 2022-23, and then increase in FY 2023-24 and FY 2024-25 (Figure 19). General Fund/General Purpose and SAF baseline revenue declined during several periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. General Fund/General Purpose and SAF baseline revenue increased by 11.6% in FY 2021-22. Using the FY 2021-22 base year, baseline GF/GP and SAF revenue is expected to decline approximately 0.9% in FY 2022-23, then increase 1.1% in FY 2023-24, and 2.9% in FY 2024-25.

With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2022-23 will be approximately 8.2% (or $1,243.9 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of $13.6 billion in FY 2023-24 is 10.6% below the peak, and FY 2024-25 are 4.1% below the peak level (Figure 20). In inflation-adjusted terms, FY 2024-25 GF/GP revenue is estimated to be 2.3% (or $232.0 million in 2012 dollars) below the FY 1967-68 level (Figure 21).

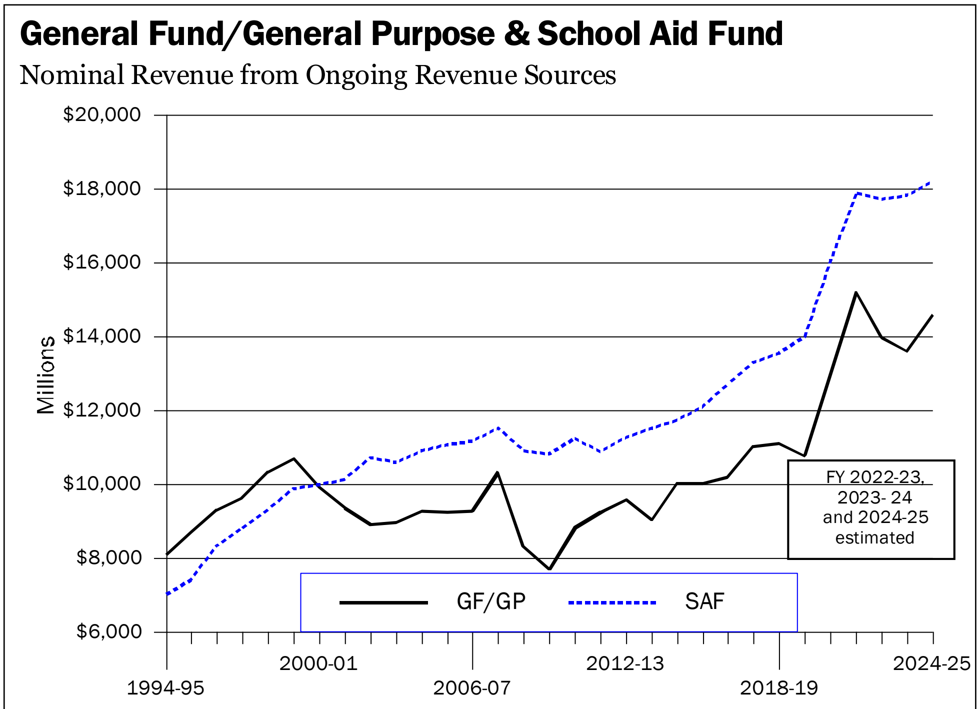
In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to decrease in FY 2022-23 and increase slightly in FY 2023-24 and FY 2024-25 (Figure 20). In FY 2024-25, SAF revenue is predicted to be approximately 160.3% ($11.2 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 1.6% ($194.8 million in 2012 dollars) below if adjusted for inflation (Figure 22).

Figure 19



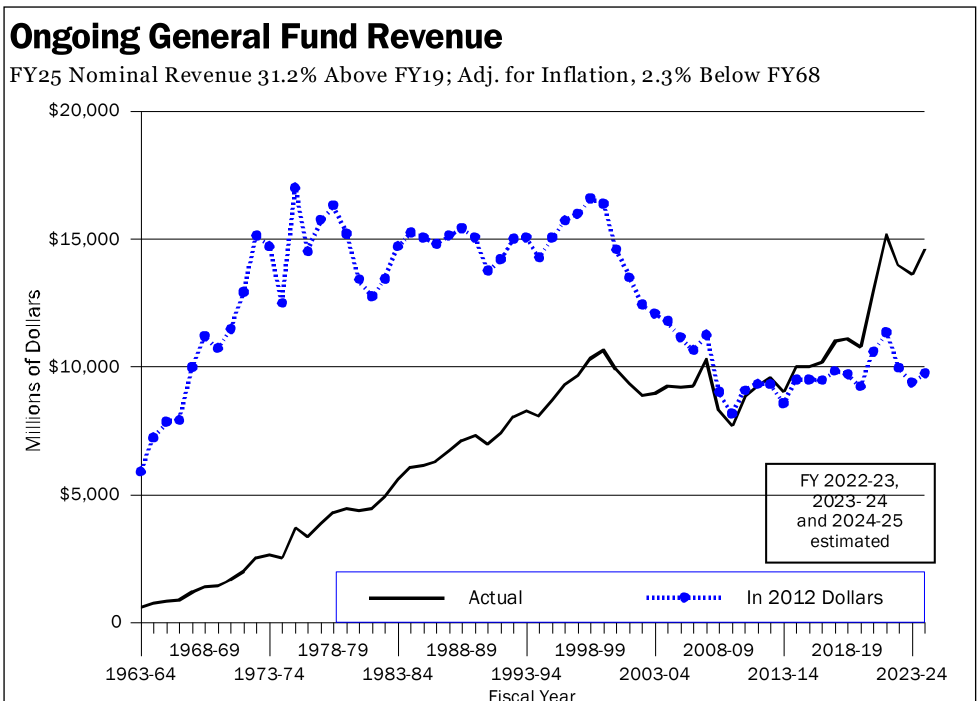
Source: Department of Treasury and Senate Fiscal Agency

Figure 20



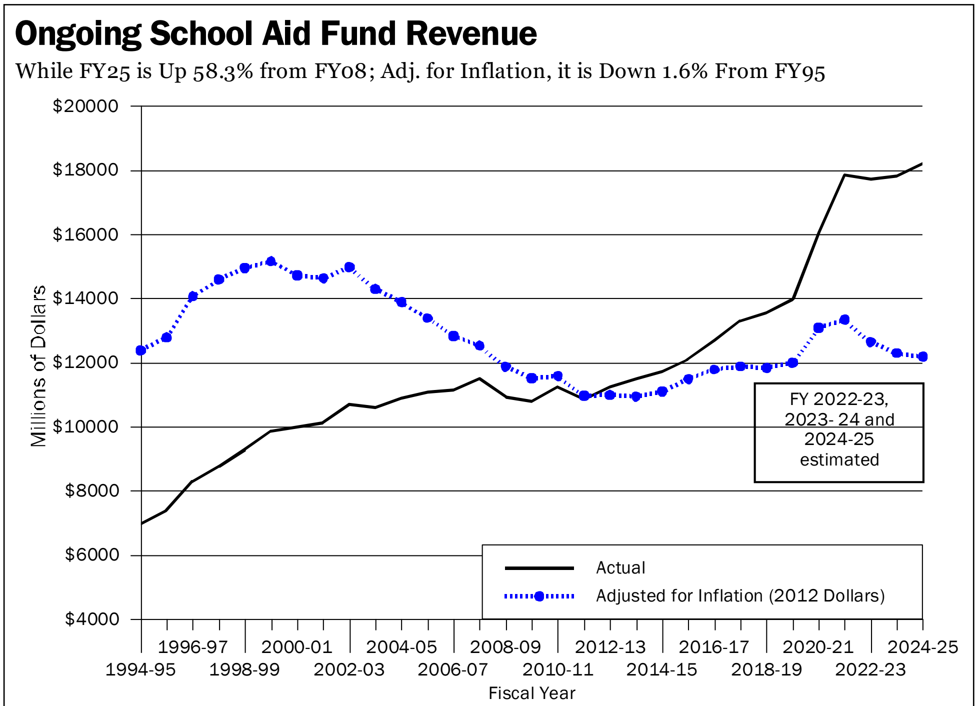
Source: Department of Treasury and Senate Fiscal Agency

Figure 21



Source: U.S. Dept. of Commerce, Michigan Dept. of Treasury, and January 2023 SFA Estimates

Figure 22



Source: U.S. Dept. of Commerce, Michigan Dept. of Treasury, and January 2023 SFA Estimates

FY 2022-23 REVISED REVENUE ESTIMATES

Personal income will increase 4.2%, wage and salary employment will increase 1.3%, and wage and salary income will increase 5.5% from FY 2021-22. Total GF/GP and SAF revenue will reach an estimated $31.7 billion in FY 2022-23, a decrease of 4.2%, or $1,394.2 million, from the revenue for FY 2021-22. On a baseline basis, GF/GP and SAF revenue is expected to decrease 1.9% in FY 2022-23, reflecting slower employment growth and timing issues associated with the December 2021 adoption of the flow-through entity tax. The revised estimate of GF/GP and SAF revenue for FY 2022-23 is $714.2 million below the January 2023 forecast and is summarized in Table 4.

Tax Policy Changes

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

Timing issues associated with the December 2021 adoption of the flow-through entity tax will also lower IIT revenue in FY 2022-23. Michigan adopted a flow-through entity tax in December 2021. Prior to the new tax, affected businesses did not pay tax at the firm level but had income "flow-through" to the owners, who paid the tax under the IIT. The flow-through entity tax is levied at the same rate as the IIT, but because it is paid at the business level it allows affected taxpayers to claim a larger deduction for State-level taxes on their Federal returns. Because the tax was adopted late in the calendar year, many businesses had already made most of their estimated payments under the IIT. These businesses then duplicated these payments when making their last quarterly estimated payment (now under the flow-through entity tax), in order to be able to claim the larger Federal deduction. This behavior resulted in FY 2021-22 essentially receiving two years' worth of payments from affected firms. Because FY 2022-23 will receive only a single year's worth of payments, the forecast expects revenue from flow-through entities to decline 45.9%, or $824.0 million, between FY 2021-22 and FY 2022-23.

Tax revenue will also be affected by changes associated with the IIT rate trigger. The Income Tax Act specifies that if GF/GP revenue grows faster than an adjusted inflation rate the IIT tax rate must be reduced. The GF/GP revenue increase between FY 2020-21 and FY 2021-22 was large enough to trigger a rate reduction for tax year 2023. The IIT trigger will reduce revenue by $426.2 million (a $527.6 million reduction in GF/GP and a $101.4 million SAF increase) in FY 2022-23.

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

Business Taxes. The MBT will lower GF/GP revenue by $527.1 million in FY 2022-23. All the impact of MBT credits reduces GF/GP revenue. Earmarks of CIT revenue adopted in Public Act 4 of 2023 will reduce GF/GP revenue by $600.0 million.

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

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $15.0 million. Changes to the General Property Tax Act will reduce SAF by $10.1 million. The delivery and installation exemption will reduce sales tax revenue by $14.7 million ($2.5 million GF/GP, $10.8 million SAF, $1.5 million other). The delivery and installation exemption will reduce use tax revenue by $7.3 million ($4.9 million GF/GP and $2.4 million SAF). The SAF hold-harmless provisions for several tax exemptions will reduce use tax GF/GP by $1.0 million and sales tax revenue by $8.3 million ($7.5 million GF/GP and $800,000 other).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.0 billion in FY 2022-23, a decrease of 8.2%. or $1,243.9 million, from the revised estimate for FY 2021-22. Baseline GF/GP revenue is expected to decrease 1.9% ($324.2 million) from FY 2021-22. The decrease in GF/GP revenue reflects reductions in almost all taxes compared to FY 2021-22, although insurance company premiums tax is higher than the January 2023 consensus estimates. The revised GF/GP revenue estimates for FY 2022-23 are $809.8 million below the January 2023 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 $17.7 billion in FY 2022-23, a decrease of $150.3 million, or 0.8%, from the revised estimate for FY 2021-22. The forecasted decrease in SAF revenue reflects reduced income tax revenue and decreased Real Estate Transfer Tax, partially offset by increased SET and gaming taxes. The revised SAF revenue estimates for FY 2022-23 are $95.6 million above the January 2023 consensus estimates and are summarized in Table 4.

Table 4

FY 2022-23 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2021-22		
	FY 2021-22 Final	FY 2022-23 Revised Est.	Dollar Change	Percent Change	$ Change from 01/23 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$16,885.1	$16,560.9	($324.2)	(1.9%)	$364.2
Tax Changes Not In Baseline	(1,673.1)	(2,592.8)	(919.7)	----	(1,174.0)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$17,099.7	$15,583.2	($1,516.5)	(8.9%)	($344.1)
Less: Refunds	(3,170.9)	(2,834.1)	336.8	(10.6)	(401.3)
Net Income Tax Collections	13,928.9	12,749.1	(1,179.8)	(8.5)	(745.4)
Less: Earmarking to SAF	(4,059.7)	(3,847.4)	212.3	(5.2)	(55.6)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	0.0	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(1.1)	(0.8)	0.3	----	0.0
Net Income Tax to GF/GP	$9,199.0	$8,231.9	($967.1)	(10.5%)	($801.0)
Other Taxes					
Corporate Income Tax	$2,029.3	$1,701.8	($327.5)	(16.1%)	($58.2)
Michigan Business Tax	(500.3)	(527.0)	(26.7)	----	0.0
Sales	1,694.4	1,686.6	(7.8)	(0.5)	0.4
Use	1,194.9	1,146.3	(48.6)	(4.1)	3.0
Cigarette	158.8	145.0	(13.8)	(8.7)	(10.4)
Insurance Company Premiums	419.9	475.4	55.5	13.2	60.4
Telephone & Telegraph	35.0	34.0	(1.0)	(2.9)	0.0
Oil & Gas Severance	42.2	35.0	(7.2)	(17.1)	0.0
All Other	263.0	246.0	(17.0)	(6.4)	(4.0)
Subtotal Other Taxes	$5,337.2	$4,943.1	($394.1)	(7.4%)	($8.8)
Total Nontax Revenue	675.8	793.1	117.3	17.4	0.0
GF/GP REV. AFTER TAX CHANGES	**$15,212.0**	**$13,968.1**	**($1,243.9)**	**(8.2%)**	**($809.8)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$17,794.1	$17,793.2	($0.9)	(0.0%)	$19.6
Tax Changes Not In Baseline	86.9	(62.5)	(149.4)	----	76.0
Revenue After Tax Changes					
Sales Tax	7,865.1	7,884.0	18.9	0.2	0.0
Use Tax	859.4	850.0	(9.4)	(1.1)	1.6
Lottery Revenue	1,248.6	1,251.8	3.2	0.3	61.8
State Education Property Tax	2,440.0	2,610.5	170.5	7.0	20.5
Real Estate Transfer Tax	546.6	367.4	(179.2)	(32.8)	(67.6)
Income Tax	4,059.7	3,847.4	(212.3)	(5.2)	55.6
Gaming Tax	364.7	431.9	67.2	18.4	41.9
Other Revenue	496.9	487.7	(9.2)	(1.8)	(18.2)
SAF REV. AFTER TAX CHANGES	**$17,881.0**	**$17,730.7**	**($150.3)**	**(0.8%)**	**$95.6**
BASELINE GF/GP AND SAF	**$34,679.2**	**$34,354.1**	**($325.1)**	**(0.9%)**	**$383.8**
Tax & Revenue Changes	(1,586.2)	(2,655.3)	(1,069.1)	----	(1,098.0)
GF/GP & SAF REV. AFTER CHNGS.	**$33,093.0**	**$31,698.8**	**($1,394.2)**	**(4.2%)**	**($714.2)**
SALES TAX	$10,784.7	$10,812.0	$27.3	0.3%	$0.0

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

FY 2023-24 REVISED REVENUE ESTIMATES

Personal income will grow 3.6%, wage and salary employment will grow 0.7%, and wage and salary income will grow 3.4%. General Fund/General Purpose and SAF revenue will reach an estimated $31.4 billion in FY 2023-24, a decrease of 0.9%, or $277.7 million, from the revised estimate for FY 2022-23. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.1% in FY 2023-24, reflecting improvements in the State economy. Estimated GF/GP and SAF revenue is $1,517.1 million below the January 2023 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2023-24 is summarized in Table 5.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $285.0 million ($217.1 million GF/GP and $67.9 million SAF). Public Act 4 of 2023 expanded exemptions for certain retirement income, reducing IIT revenue by $281.0 million ($224.1 million GF/GP and $56.9 million SAF). The IIT trigger will reduce revenue $164.7 million ($186.6 million reduction in GF/GP and a $21.9 million SAF increase).

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

Business Taxes. The MBT will lower GF/GP revenue by $509.7 million in FY 2022-23. All the impact of MBT credits reduces GF/GP revenue. Earmarks of CIT revenue adopted in Public Act 4 of 2023 will reduce GF/GP revenue by $600.0 million.

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

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $15.7 million. Changes to the General Property Tax Act will reduce SAF by $10.1 million. The delivery and installation exemption will reduce sales tax revenue by $46.4 million ($7.7 million GF/GP, $34.0 million SAF, $4.6 million other). The delivery and installation exemption will reduce use tax revenue by $23.2 million ($15.5 million GF/GP and $7.7 million SAF). The SAF hold-harmless provisions for several tax exemptions will reduce use tax GF/GP revenue by $1.0 million and sales tax revenue by $8.3 million ($7.5 million GF/GP and $800,000 other).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $13.6 billion in FY 2023-24, an increase of $368.4 million from the revised estimate for FY 2022-23. Baseline GF/GP revenue is expected to increase 0.8%. Most of the decrease in GF/GP revenue reflects higher IIT refunds, partially offset by higher CIT revenue. The revised GF/GP revenue estimates for FY 2023-24 are $1,492.5 million below the January 2023 consensus estimates and are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $17.8 billion in FY 2023-24, an increase of $90.7 million from the revised estimate for FY 2022-23. Baseline SAF revenue increase will be 1.4% in FY 2023-24. The forecasted increase in SAF revenue reflects an increase in SET and gaming revenue, partially offset by a decrease in income tax. The revised SAF revenue estimates for FY 2023-24 are $24.6 million below the January 2023 consensus estimates and are summarized in Table 5

Table 5

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

	FY 2022-23 Revised Est.	FY 2023-24 Revised Est.	Change from FY 2022-23 Dollar Change	Change from FY 2022-23 Percent Change	$ Change from 01/23 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$16,560.9	$16,688.7	$127.8	0.8%	$256.2
Tax Changes Not In Baseline	(2,592.8)	(3,089.0)	(496.2)	----	(1,748.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$15,583.2	$15,746.1	$162.9	1.0%	($545.0)
Less: Refunds	(2,834.1)	(3,427.6)	(593.5)	20.9	(1,023.6)
Net Income Tax Collections	12,749.1	12,318.5	(430.6)	(3.4)	(1,568.6)
Less: Earmarking to SAF	(3,847.4)	(3,794.9)	52.5	(1.4)	83.6
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$8,231.9	$7,853.8	($378.1)	(4.6%)	($1,485.0)
Other Taxes					
Corporate Income Tax	$1,701.8	$1,795.0	$93.2	5.5%	$30.0
Michigan Business Tax	(527.0)	(509.7)	17.3	(3.3)	0.0
Sales	1,686.6	1,687.5	0.9	0.1	(0.3)
Use	1,146.3	1,125.5	(20.8)	(1.8)	(7.5)
Cigarette	145.0	142.6	(2.4)	(1.7)	(10.7)
Insurance Company Premiums	475.4	485.0	9.6	2.0	60.0
Telephone & Telegraph	34.0	33.0	(1.0)	(2.9)	0.0
Oil & Gas Severance	35.0	34.0	(1.0)	(2.9)	0.0
All Other	246.0	257.9	11.9	4.8	(4.0)
Subtotal Other Taxes	$4,943.1	$5,050.8	$107.7	2.2%	$67.5
Total Nontax Revenue	793.1	695.1	(98.0)	(12.4)	(75.0)
GF/GP REV. AFTER TAX CHANGES	**$13,968.1**	**$13,599.7**	**($368.4)**	**(2.6%)**	**($1,492.5)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$17,793.2	$18,034.1	$240.9	1.4%	$35.3
Tax Changes Not In Baseline	(62.5)	(212.7)	(150.2)	----	(59.9)
Revenue After Tax Changes					
Sales Tax	$7,884.0	$7,891.8	$7.8	0.1%	($4.8)
Use Tax	850.0	846.4	(3.6)	(0.4)	(3.7)
Lottery Revenue	1,251.8	1,241.4	(10.4)	(0.8)	55.0
State Education Property Tax	2,610.5	2,753.0	142.5	5.5	50.0
Real Estate Transfer Tax	367.4	357.6	(9.8)	(2.7)	(60.0)
Income Tax	3,847.4	3,794.9	(52.5)	(1.4)	(83.6)
Gaming Tax	431.9	447.4	15.5	3.6	40.0
Other Revenue	487.7	488.9	1.2	0.2	(17.5)
SAF REV. AFTER TAX CHANGES	**$17,730.7**	**$17,821.4**	**$90.7**	**0.5%**	**($24.6)**
BASELINE GF/GP AND SAF	**$34,354.1**	**$34,722.8**	**$368.7**	**1.1%**	**$291.5**
Tax & Revenue Changes	(2,655.3)	(3,301.7)	(646.4)	----	(1,808.6)
GF/GP & SAF REV. AFTER CHNGS.	**$31,698.8**	**$31,421.1**	**($277.7)**	**(0.9%)**	**($1,517.1)**
SALES TAX	$10,812.0	$10,822.4	$10.4	0.1%	($6.4)

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

FY 2024-25 REVISED REVENUE ESTIMATES

Personal income is forecasted to grow 4.0%, while wage and salary income will grow 3.7%, and wage and salary employment will grow 0.6%. As a result, total GF/GP and SAF revenue will reach an estimated $32.8 billion in FY 2024-25, an increase of 4.4%, or $1,397.5 million, from the revised estimate for FY 2023-24. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.9% in FY 2024-25, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2024-25 is summarized in Table 6.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $322.5 million ($245.7 million GF/GP and $76.8 million SAF). Public Act 4 of 2023 expanded exemptions for certain retirement income, reducing IIT revenue by $350.0 million ($275.9 million GF/GP and $74.1 million SAF).

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

Business Taxes. The MBT will lower GF/GP revenue by $505.5 million in FY 2023-24. All the impact of MBT credits reduces GF/GP revenue. Earmarks of CIT revenue adopted in Public Act 4 of 2023 will reduce GF/GP revenue by $600.0 million.

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

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $16.3 million. Changes to the General Property Tax Act will reduce SAF by $10.1 million. The delivery and installation exemption will reduce sales tax revenue by $46.7 million ($7.8 million GF/GP, $34.3 million SAF, $4.7 million other). The delivery and installation exemption will reduce use tax revenue by $24.2 million ($16.1 million GF/GP and $8.1 million SAF). The SAF hold-harmless provisions for several tax exemptions will reduce use tax GF/GP by $1.0 million and sales tax revenue by $8.3 million ($7.5 million GF/GP and $800,000 other).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.6 billion in FY 2024-25, an increase of 7.3%, or $988.9 million, from the revised estimate for FY 2023-24. Baseline GF/GP revenue is expected to increase 3.1% due to the continued growth in the economy. The revised GF/GP revenue estimates for FY 2024-25 are $956.9 million below the January 2023 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 $18.2 billion in FY 2024-25, an increase of $408.6 million, or 2.3%, from the revised estimate for FY 2023-24. The revised SAF revenue estimates for FY 2024-25 are $27.6 million below the January 2023 consensus estimates and are summarized in Table 6.

Table 6

FY 2024-25 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)			Change from FY 2023-24		
	FY 2023-24 Revised Est.	FY 2024-25 Revised Est.	Dollar Change	Percent Change	$ Change from 01/23 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$16,688.7	$17,210.4	$521.7	3.1%	$326.8
Tax Changes Not In Baseline	(3,089.0)	(2,621.8)	467.2	----	(1,283.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$15,746.1	$16,359.0	$612.9	3.9%	($555.1)
Less: Refunds	(3,427.6)	(2,964.5)	463.1	(13.5)	(526.0)
Net Income Tax Collections	12,318.5	13,394.5	1,076.0	8.7	(1,081.1)
Less: Earmarking to SAF	(3,794.9)	(3,894.1)	(99.2)	2.6	132.9
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	$ 7,853.8	$8,830.6	$976.8	12.4%	($948.2)
Other Taxes					
Corporate Income Tax	$1,795.0	$1,865.0	$70.0	3.9%	$30.0
Michigan Business Tax	(509.7)	(505.5)	4.2	(0.8)	0.0
Sales	1,687.5	1,730.2	42.7	2.5	12.3
Use	1,125.5	1,156.0	30.5	2.7	0.6
Cigarette	142.6	141.0	(1.6)	(1.1)	(10.6)
Insurance Company Premiums	485.0	499.5	14.5	3.0	62.0
Telephone & Telegraph	33.0	31.0	(2.0)	(6.1)	0.0
Oil & Gas Severance	34.0	32.0	(2.0)	(5.9)	0.0
All Other	257.9	268.7	10.8	4.2	(5.0)
Subtotal Other Taxes	$5,050.8	$5,217.9	$167.1	3.3%	$89.3
Total Nontax Revenue	695.1	540.1	(155.0)	(22.3)	(98.0)
GF/GP REV. AFTER TAX CHANGES	**$13,599.7**	**$14,588.6**	**$988.9**	**7.3%**	**($956.9)**
SCHOOL AID FUND:					
Baseline Revenue[1]	$18,034.1	$18,507.0	$472.9	2.6%	$88.7
Tax Changes Not In Baseline	(212.7)	(277.0)	(64.3)	----	(116.3)
Revenue After Tax Changes					
Sales Tax	$7,891.8	$8,059.2	$167.4	2.1%	$46.5
Use Tax	846.4	865.6	19.2	2.3	0.2
Lottery Revenue	1,241.4	1,234.0	(7.4)	(0.6)	50.0
State Education Property Tax	2,753.0	2,843.0	90.0	3.3	35.0
Real Estate Transfer Tax	357.6	379.3	21.7	6.1	(55.0)
Income Tax	3,794.9	3,894.1	99.2	2.6	(132.9)
Gaming Tax	447.4	463.0	15.6	3.5	45.0
Other Revenue	488.9	491.8	2.9	0.6	(16.4)
SAF REV. AFTER TAX CHANGES	**$17,821.4**	**$18,230.0**	**$408.6**	**2.3%**	**($27.6)**
BASELINE GF/GP AND SAF	$34,722.8	$35,717.4	$994.6	2.9%	$415.5
Tax & Revenue Changes	(3,301.7)	(2,898.8)	402.9	----	(1,400.0)
GF/GP & SAF REV. AFTER CHNGS	**$31,421.1**	**$32,818.6**	**$1,397.5**	**4.4%**	**($984.5)**
SALES TAX	$10,822.4	$11,050.5	$228.1	2.1%	$63.3

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

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2022-23 THROUGH FY 2024-25

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

Individual Income Tax. Individual income tax net collection will decrease an estimated 8.5% in FY 2022-23, to $12.7 billion. Fiscal year 2022-23 withholding, which represents the majority of gross IIT revenue, will increase 1.1%. Quarterly estimates and annual payments will fall 22.5% and 27.3%, respectively, as the timing issues associated with the adoption of the Flow-Through Entity tax are resolved. As economic growth resumes, withholding will continue to grow 2.2% in FY 2023-24 and 3.5% in FY 2024-25. Compared with the January 2023 consensus revenue estimates, the revised estimate for FY 2022-23 IIT revenue is $745.4 million lower, and the revised estimate for FY 2023-24 is $1,568.8 million lower, reflecting slower employment and wage growth forecasts and tax law changes.

Because GF/GP revenue increased in FY 2021-22 by an amount greater than 1.425 times the rate of inflation, Public Act 180 of 2015 requires a reduction in the IIT rate, which will reduce GF/GP revenue beginning in FY 2022-23. Based on the FY 2021-22 Annual Comprehensive Financial Report, the IIT rate for tax year 2023 is 4.05%, which will reduce General Fund revenue by $527.6 million in FY 2022-23 and $186.6 million in FY 2023-24. Based on an opinion from the Attorney General, the rate reduction is a temporary rate reduction for tax year 2023, although the reduction will affect both FY 2022-23 and 2023-24. School Aid Fund revenue will not be affected because the income tax earmark to the School Aid Fund automatically adjusts to hold the SAF harmless for changes in the tax rate. Since the tax rate cut came after the beginning of the year, a portion of the payments received this year will be at the old rate (4.25%) and a portion will be at the new rate (4.05%). The Treasury is not requiring employers to adopt new withholding tables and because the SAF earmark is based on gross collections rather than net collections, taxpayers who over-withheld will receive refunds, which reduce only GF revenue. Public Act 4 of 2023 adopted an increase in the Earned Income Tax Credit (EITC) and changes to taxation on certain retirement income. The increase in the EITC will reduce GF/GP by $768.0 million in FY 2023-24 and $384.0 million in FY 2024-25. The changes affecting retirement income will reduce IIT revenue in FY 2023-24 by $281.0 million ($224.1 million GF/GP and $56.9 million SAF) and will reduce IIT revenue in FY 2024-25 by $350.0 million ($275.9 million GF/GP and $74.1 million SAF).

Sales Tax. The forecast predicts Michigan sales tax revenue will rise 0.3% in FY 2022-23, 0.1% in FY 2023-24, and 2.1% in FY 2024-25. Compared with the January 2023 consensus revenue estimates, the FY 2022-23 sales tax estimate is unchanged while the revised sales tax estimate for FY 2023-24 is down $6.4 million and the revised estimate for FY 2024-25 is up $63.3 million. The changes primarily reflect revised estimates of consumer spending due to changes in personal income, declining savings balances, and a shift from the current goods-heavy consumption (largely subject to sales and use taxes) to a more normal split between goods and services (which are largely exempt from sales and use taxes), as well as new tax exemptions. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to decrease 1.2% in FY 2022-23 and 0.4% in FY 2023-24 and increase 2.5% in FY 2024-25. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at $96.4 million in FY 2015-16, rose over time to $521.3 million in FY 2021-22, and will total $548.0 million in FY 2022-23, $561.7 million in FY 2023-24, and $569.8 million in FY 2024-25 as they increase annually. Compared with the January 2023 consensus revenue estimates, the FY 2022-23 estimate for combined State and local use tax collections is revised upward by $4.6 million and the FY 2023-24 estimate is $11.2 million lower. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated $796.3 million in FY 2021-22, a decrease of 10.5% from FY 2020-21. Tobacco tax revenue is expected to continue its long-term downward trend, declining 8.6% in FY 2022-23, 1.6% in FY 2023-24, and 1.3% in FY 2024-25. However, the overall decline in total tobacco tax revenue has masked a change in the composition of tobacco tax revenue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. In the forecast period, this trend is expected to continue, as tax revenue from cigarettes is expected to decline, with tax revenue from other tobacco products increasing, but not enough to stop the decline in total tobacco tax revenue. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos is directed to the SAF. In FY 2022-23, casino tax revenue is projected to total $101.7 million, a 0.8% decrease from FY 2021-22, as the economy recovers, and new gaming options (internet gaming and sports and fantasy betting) are introduced. Casino tax revenue is expected to grow 0.3% in FY 2023-24, and 1.0% in FY 2024-25, reflecting a more typical growth pattern.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. After increasing 8.1% in FY 2021-22, SET collections are projected to increase another 7.0% in FY 2022-23, 5.5% in FY 2023-24, and 3.3% in FY 2024-25, as the housing market stabilizes and inflation recedes, mitigating further increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue because of the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Competition with other gaming options (including new casino gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, FY 2021-22 saw a 12.1% decline as other gaming options were opened after being limited during the pandemic. Lottery revenue is forecasted to increase 0.3% in FY 2022-23, then decline 0.8% in FY 2023-24 and 0.6% in FY 2024-25 as other gaming options compete. All of the net revenue generated by the lottery is earmarked to the SAF. In FY 2022-23, lottery revenue is expected to be 7.1% of total earmarked SAF revenue, with the percentage dropping to 7.0% in FY 2023-24 and continuing to fall to 6.8% in FY 2024-25.

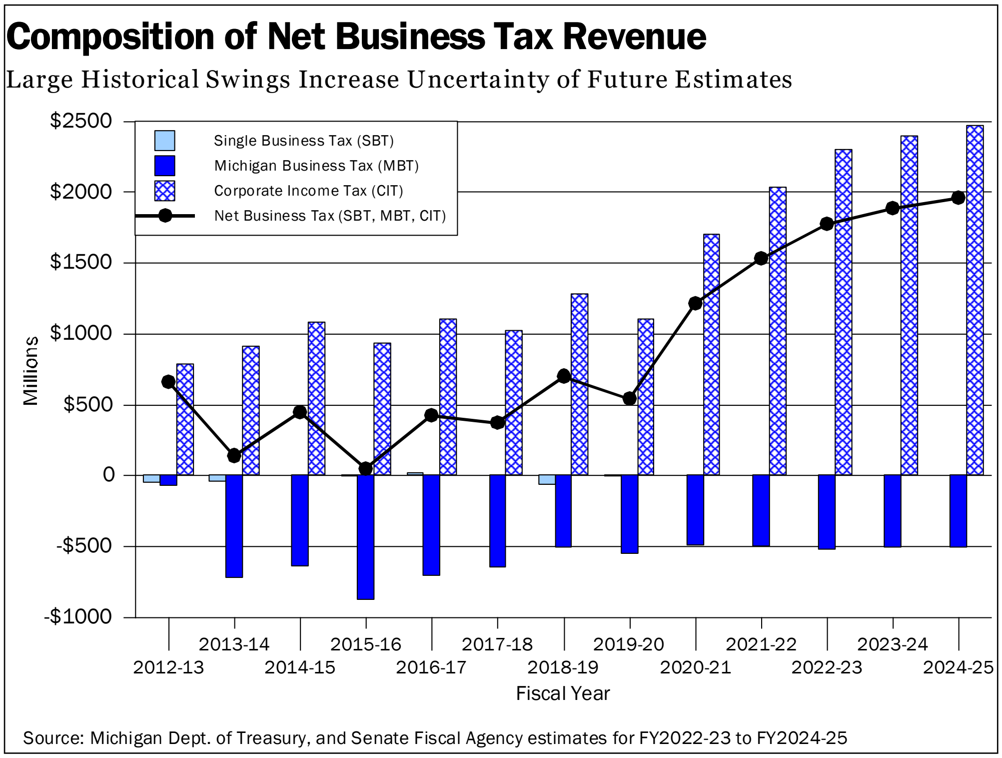
Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Unincorporated businesses and "pass-through"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

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

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately $1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by $878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by $500.3 million in FY 2021-22, they still represented a 3.2% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally hold constant, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 3.6% in FY 2022-23, 3.6% in FY 2023-24, and 3.3% in FY 2024-25. When these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals, which limits efforts to correctly predict revenue.

In FY 2021-22, CIT collections rose 19.2% after rising 54.4% in FY 2020-21, falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the volatility in CIT revenue (Figure 23). Combined revenue from the CIT, MBT and Single Business Tax (SBT) totaled $1,530.6 million in FY 2021-22, a 26.2% increase from FY 2020-21. Net business tax revenue is expected to increase 15.6% in FY 2022-23, 6.2% in FY 2023-24, and 3.9% in FY 2024-25. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) All revenue from the MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund. Revenue from the CIT is divided by statute between several funds, with the majority of revenue directed to the General Fund.

Figure 23



Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated $419.9 million in FY 2021-22, a 18.3% increase from FY 2020-21. Revenue from taxes on insurance companies is expected to return to trend levels over the forecast period, increasing 13.2% in FY 2022-23 to $475.4 million, and increasing 2.0% in FY 2023-24, and 3.0% in FY 2024-25. All revenue from insurance taxes is directed to the General Fund.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 7, 8, and 9 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2022-23, FY 2023-24, and FY 2024-25**.** Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2022-23, FY 2023-24, and FY 2024-25 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2022-23 was made in January 2021, as shown in Table 7. At that time, baseline revenue in FY 2022-23 was estimated at $26.2 billion. This estimate was increased by $1.2 billion at the January 2021 CREC, and by an additional $1.7 billion at the May 2021 CREC. The January 2022 CREC increased the estimate by another $1.6 billion. The May 2022 CREC increased the estimate again, by $2.0 billion, and the January 2023 CREC increased it by an additional $1.3 billion. The Senate Fiscal Agency's revised estimate for FY 2022-23 presented in this report increases the baseline estimate by $383.8 million above the January 2023 consensus estimate, to $34.4 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2023-24 was made in January 2022, as shown in Table 8. At that time, baseline revenue in FY 2023-24 was estimated at $30.7 billion. This estimate was increased by $536.3 million at the January 2022 CREC, and the May 2022 CREC increased it by an additional $1.8 billion. The January 2023 CREC increased the estimate by another $1.3 billion. The revised SFA estimate for FY 2023-24 increases baseline revenue for FY 2023-24 by $291.5 million, to $34.7 billion.

Table 7

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2022-23 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
January 5, 2021	$11,786.3	$14,423.0	$26,209.3
January 15, 2021 [a)]	12,731.9	14,680.6	27,412.5
May 19, 2021	13,538.0	15,251.7	28,789.7
May 21, 2021 [a)]	13,733.8	15,345.9	29,079.7
January 6, 2022	14,282.7	15,973.2	30,255.9
January 14, 2022 [a)]	14,288.8	16,346.8	30,635.6
May 17, 2022	15,003.0	16,748.5	31,751.5
May 20, 2022 [a)]	15,345.1	17,323.6	32,668.7
January 10, 2023	15,024.7	17,192.3	32,217.0
January 13, 2023 [a)]	16,196.7	17,773.6	33,970.3
May 16, 2023	$16,560.9	$17,793.2	$34,354.1
Change From Previous Estimate:			
Dollar Change	$364.2	$19.6	$383.8
Percent Change	2.2%	0.1%	1.1%
Change From Initial Estimate:			
Dollar Change	$4,774.6	$3,370.2	$8,144.8
Percent Change	40.5%	23.4%	31.1%

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

Note: Baseline base year equals FY 2021-22.

Table 8

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

Forecast Date	GF/GP	SAF	Total
January 6, 2022	$14,540.2	$16,206.6	$30,746.8
January 14, 2022 [a]	14,617.9	16,665.2	31,283.1
May 17, 2022	15,343.2	17,007.1	32,350.3
May 20, 2022 [a]	15,541.7	17,591.1	33,132.8
January 10, 2023	15,199.0	17,164.1	32,363.1
January 13, 2023 [a]	16,432.5	17,998.8	34,431.3
May 16, 2023	$16,688.7	$18,034.1	$34,722.8
Change From Previous Estimate:			
Dollar Change	$256.2	$35.3	$291.5
Percent Change	1.6%	0.2%	0.8%
Change From Initial Estimate:			
Dollar Change	$2,148.5	$1,827.5	$3,976.0
Percent Change	14.8%	11.3%	12.9%

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

Note: Baseline base year equals FY 2021-22.

The initial GF/GP and SAF baseline revenue estimate for FY 2024-25 was made in January 2023, as shown in Table 9. At that time, baseline revenue in FY 2024-25 was estimated at $32.4 billion. This estimate was increased by $2.9 billion at the January 2023 CREC. The revised SFA estimate for FY 2024-25 increases baseline revenue by $415.5 million, to $35.7 billion.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2024-25 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
January 10, 2023	$15,198.6	$17,164.0	$32,362.6
January 13, 2023 [a]	16,883.6	18,418.3	35,301.9
May 16, 2023	$17,210.4	$18,507.0	$35,717.4
Change From Previous Estimate:			
Dollar Change	$326.8	$88.7	$415.5
Percent Change	1.9%	0.5%	1.2%
Change From Initial Estimate:			
Dollar Change	$2,011.8	$1,343.0	$3,354.8
Percent Change	(86.8%)	(92.2%)	(89.6%)

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

Note: Baseline base year equals 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, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 15.0% of the combined level of GF/GP and SAF revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income taxpayers on returns filed after the end of that fiscal year. (For FY 2021-22, combined GF/GP and SAF revenue is estimated at $33.1 billion; 15% applied to that would yield a BSF limit of roughly $5.0 billion. The balance at the end of FY 2021-22 was roughly $1.6 billion, lower than the limit of $5.0 billion; therefore, no rebate is triggered.)

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

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

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

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

Table 10 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 2021-22. This table also presents the SFA's estimates for FY 2022-23, FY 2023-24, and FY 2024-25, assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 24, and the estimated economic stabilization trigger calculations for FY 2022-23, FY 2023-24, and FY 2024-25 are presented in Table 11.

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

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

Based on current appropriations and the continuation of the $17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at $1,690.6 million in FY 2022-23, $1,801.1 million in FY 2023-24, and $1,905.1 million in FY 2024-25 as shown in Table 10. (Note that the Senate-passed budget recommends a $200.0 million FY 2023-24 deposit into the BSF, not reflected in Table 10.)

Table 10

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

	Pay-In				
Fiscal Year[a)]	**Trust Fund Act**	**Other Approp.**	**Interest Earned**	**Pay-Out**	**Fund Balance**
1998-99		$244.4	$51.2	$73.7	$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14[b)]		75.0	0.4	194.8	386.2
2014-15[c)]	$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
2020-21	17.5	535.0	0.8	0.0	1,382.4
2021-22	17.5	180.0	9.1	0.0	1,588.9
Enacted Deposits and Estimated Interest Earnings:					
2022-23	17.5	$0.0	$84.2	$0.0	$1,690.6
2023-24	17.5	0.0	93.0	0.0	1,801.1
2024-25	17.5	0.0	86.5	0.0	1,905.1

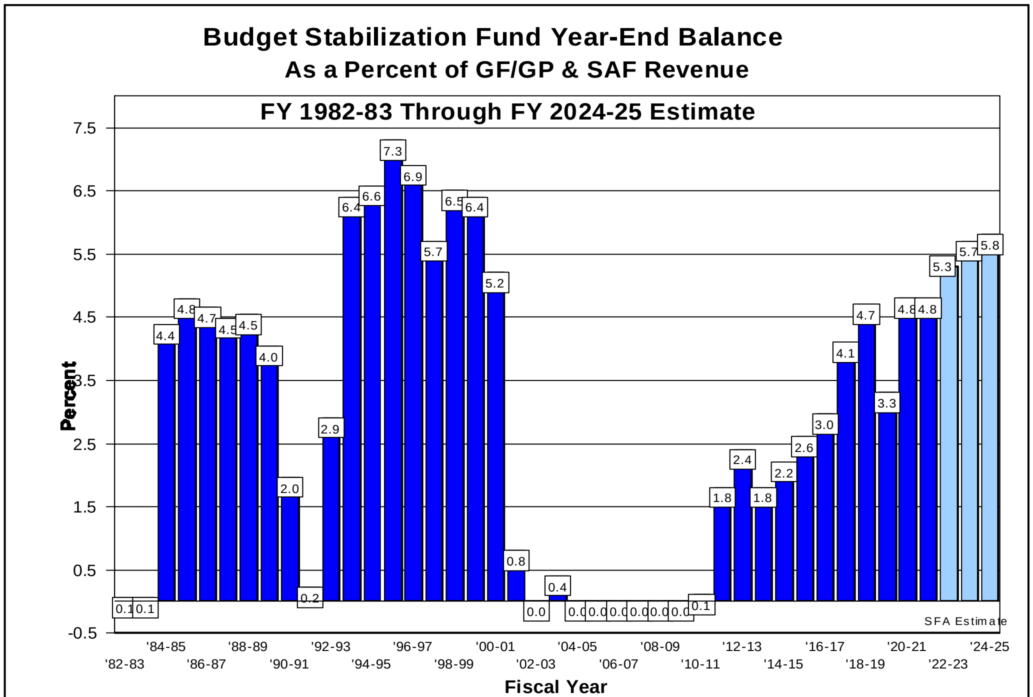
a) For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Annual Comprehensive Financial Report. FY 2021-22 to FY 2024-25 include enacted legislation and estimated interest earnings.

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

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

Source: State of Michigan Annual Comprehensive Financial Reports through FY 2021-22 and Senate Fiscal Agency.

Figure 24



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

Table 11

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGERS FY 2021-22, FY 2022-23, FY 2023-24, and FY 2024-25 (millions of dollars)					
	CY 2021	**CY 2022**	**CY 2023**	**CY 2024**	**CY 2025**
Michigan Personal Income (MPI)	$567,807.1	$570,065.1	$594,192.8	$615,754.0	$640,542.2
Less: Transfer Payments	151,132.4	124,885.0	127,746.5	132,169.8	137,357.9
Subtotal	$416,674.8	$445,180.2	$466,446.3	$483,584.2	$503,184.3
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.4781	2.6812	2.8019	2.8838	2.9565
Equals: Real Adjusted MPI	$168,146.0	$166,037.0	$166,476.0	$167,691.0	$170,196.0
Percent Change from Prior Year		(1.3%)	0.3%	0.7%	1.5%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2021-22	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**
Multiplied by: Estimated GF/GP Revenue		$15,212.0	$13,968.1	$13,599.7	$14,588.6
Equals: Transfer to the BSF			$0.0	$0.0	$0.0
OR Transfer from the BSF			$0.0	$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), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to the generation of new State revenue as part of the school financing reform enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the limit in FY 2007-08 despite increases in the income tax and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2020-21. To date, the largest gap between revenue and the limit occurred in FY 2019-20, when State revenue was $11.9 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2022-23, FY 2023-24, and FY 2024-25, with State revenue forecast to be $14.5 billion below the limit in FY 2024-25.

THE REVENUE LIMIT

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

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

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revenue estimates for FY 2022-23, FY 2023-24, and FY 2024-25, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 25. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2022-23

The SFA estimates that personal income in Michigan during 2021 will equal $567.8 billion and, as a result, the revenue limit will equal $53.9 billion in FY 2022-23. Based on the SFA's revised revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated $42.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $11.5 billion, or 21.3%, in FY 2022-23. Personal income is forecasted to increase 5.6% while State revenue subject to the revenue limit is forecasted to decrease 1.9%, thus increasing the amount by which revenue will fall below the limit.

FY 2023-24

The SFA estimates that personal income in Michigan during 2022 will equal $570.0 billion and, as a result, the revenue limit will equal $54.1 billion in FY 2023-24. Based on the SFA's revised revenue estimates for FY 2023-24, revenue subject to the revenue limit will equal an estimated $40.0 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $14.1 billion, or 26.1%, in FY 2023-24. Personal income is forecasted to increase 0.4% while State revenue subject to the revenue limit is forecasted to decrease 5.7%, thus increasing the amount by which revenue will fall below the limit.

FY 2024-25

The SFA estimates that personal income in Michigan during 2023 will equal $594.2 billion, and as a result, the revenue limit will equal $56.4 billion in FY 2024-25. Based on the SFA's initial revenue estimates for FY 2024-25, revenue subject to the revenue limit will equal an estimated $41.9 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $14.5 billion, or 25.7%, in FY 2024-25. Personal income is forecasted to increase 4.2% while State revenue subject to the revenue limit is forecasted to increase 4.8%, thus decreasing the percentage by which revenue will fall below the limit.

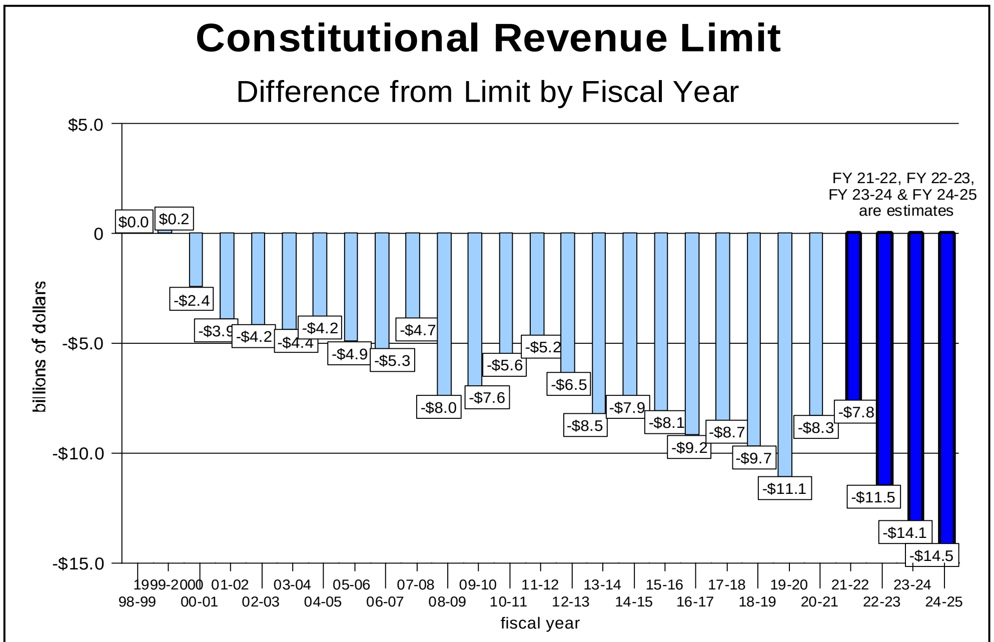
Table 12

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

	FY 2020-21 Final	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$14,847.8	$16,885.1	$16,560.9	$15,199.0	$16,088.6
Constitutional Revenue Sharing (baseline)	963.4	1,072.7	1,105.5	1,048.8	1,043.0
School Aid Fund (baseline)	16,220.5	17,794.1	17,793.2	17,164.1	17,533.2
Transportation Funds	3,595.4	3,627.0	3,999.6	4,103.4	4,183.5
Other Restricted Non-Federal Aid Revenue	5,279.4	5,437.8	5,600.9	5,768.9	5,942.0
Adjustments:					
GF/GP Federal Aid	(8.3)	(9.2)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,844.1)	(1,673.1)	(2,592.8)	(3,089.0)	(2,621.8)
SAF Balance Sheet Adjustments	(164.1)	86.9	(62.5)	(212.7)	(277.0)
Total Revenue Subject to Limit	**$38,890.0**	**$43,221.3**	**$42,394.8**	**$39,972.6**	**$41,881.5**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**	**CY 2023**
Amount	$491,632.0	$537,493.5	$567,807.1	$570,065.1	$594,192.8
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$46,655.9	$51,008.1	$53,884.9	$54,099.2	$56,388.9
1.0% of Limit	466.6	510.1	538.8	541.0	563.9
Amount Under (Over) Limit	**$7,765.9**	**$7,786.9**	**$11,490.0**	**$14,126.6**	**$14,507.4**
Percent Below Limit	16.6%	15.3%	21.3%	26.1%	25.7%

CY = Calendar Year; FY = Fiscal Year

Figure 25



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 SFA has revised its estimates of FY 2022-23, FY 2023-24, and FY 2024-25 GF/GP and 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 2022-23 State budget and complete action on the FY 2023-24 State budget.

On February 8, 2023, Governor Gretchen Whitmer presented her FY 2023-24 and FY 2024-25 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 13, 2023. The Governor's FY 2023-24 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Table 13 provides a summary of the SFA's estimates of the FY 2022-23, FY 2023-24, and FY 2024-25 year-end balances of the GF/GP and SAF budgets; Tables 14 and 15 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and enacted and projected State appropriations, the FY 2022-23 GF/GP and SAF budgets will have positive ending balances. The projected GF/GP balance for FY 2022-23 is $2.6 billion and the projected SAF balance is $3.9 billion. This combined GF/GP and SAF balance of $6.5 billion is assumed to carry-forward into FY 2023-24.

Based on current SFA revenue estimates, and assuming the expenditures from the Senate-passed FY 2023-24 budget bills, the FY 2023-24 GF/GP budget will have a positive ending balance of $1.2 billion and the SAF budget will have a balance of $2.0 billion. The combined ending balance of these two FY 2023-24 fund projections is a balance of $3.2 billion.

A comparison of the SFA's estimate of FY 2024-25 GF/GP revenue with a continuation of the Senate-passed FY 2023-24 budgets, adjusted SFA caseload estimates, and carrying forward the projected year-end balance leads to a projected $2.1 billion GF/GP budget balance. A comparison of the SFA's estimate of FY 2024-25 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2024-25, adjusting for pupil membership estimates, and carrying forward projected year-end balance, points to a projected balance of $2.3 billion SAF balance. Actions taken in FY 2022-23 to appropriate additional funds that are continued in FYs 2022-23 and 2023-24 will reduce the projected balances in those fiscal years, and final action taken that enacts FY 2023-24 budgets that differ from Senate-passed budgets will result in adjustments to the estimated balances.

Table 13
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
ESTIMATED YEAR-END BALANCES
(millions of dollars)

	FY 2022-23 Year-to-Date	FY 2023-24 SFA Estimate	FY 2024-25 SFA Estimate
General Fund/General Purpose	$2,611.3	$1,225.2	$2,093.6
School Aid Fund	$3,871.0	$2,001.2	$2,252.5

FY 2022-23 YEAR-END BALANCE ESTIMATES

Column 1 of Table 14 provides the details of the SFA's most recent estimate of a $2.6 billion FY 2022-23 GF/GP ending balance. On the revenue side of the FY 2022-23 GF/GP budget ledger, the SFA now believes that ongoing adjusted GF/GP revenue will total $15.1 billion. The May 2023 SFA estimate of ongoing adjusted GF/GP revenue is up $267.8 million from the January 2023 consensus revenue estimate. This number reflects the estimated change in ongoing revenue. (The revenue forecast itself does not distinguish between ongoing and temporary; however, the balance sheet parses the adjustments out into ongoing and temporary revenue adjustments to better match up with ongoing and one-time expenditures.)

The FY 2022-23 estimated GF/GP revenue total of $20.4 billion includes $7.5 billion of surplus revenue carried forward from FY 2021-22, a negative adjustment of $525.6 million to reflect statutory State revenue sharing, and $2.6 million of redirected restricted revenue. In addition, the balance sheet makes adjustments for various Senate bills related to proposed tax changes as well as identifying limited-term CIT earmarks as one-time adjustments to revenue.

On the expenditure side of the FY 2022-23 GF/GP budget ledger, the SFA now believes that current GF/GP expenditures will total $17.8 billion. The projected level of FY 2022-23 GF/GP expenditures includes initial ongoing appropriations of $12.0 billion, appropriations that encompass enacted one-time appropriations totaling $3.3 billion; enacted supplemental appropriations of $2.5 billion; pending Senate supplementals totaling $29.3 million; additional GF/GP savings of $278.4 million resulting from increased Federal match related to the COVID-19 pandemic; $200.0 million set aside for a reserve for audit and legal costs; $22.5 million of additional GF/GP obligation for expenditures exceeding the revenue from the Community District Education Trust Fund (CDTF); and other smaller adjustments. Comparing estimated revenue with current projected expenditures results in a GF/GP ending balance of $2.6 billion for FY 2022-23.

Column 1 of Table 15 provides a summary of the SFA estimate of a $4.0 billion FY 2022-23 SAF budget ending balance. This estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2022-23 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $17.7 billion. The May 2023 SFA estimate of ongoing adjusted SAF revenue is $5.8 million below the January 2023 consensus revenue estimate. The FY 2022-23 estimated SAF revenue total of $24.9 billion includes $4.6 billion of surplus revenue carried forward from FY 2021-22, $17.6 billion of restricted SAF revenue, a $124.2 million GF/GP grant, $72.0 million from the CDTF, $2.2 billion of ongoing Federal aid, an additional $414.2 million of Federal COVID-19 stimulus payments, and $22.5 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

On the expenditure side of the FY 2022-23 SAF budget ledger, the SFA now believes that present SAF expenditures will total $21.1 billion. The $21.1 billion of projected SAF expenditures includes $15.5 billion of ongoing K-12 funding in the initial enacted appropriation bill, a Federal funds adjustment of $35.7 million, State cost adjustments totaling $74.7 million, one-time appropriations totaling $1.9 billion, and Senate-passed supplemental appropriations totaling $454.4 million for K-12. As in the previous year, Community Colleges and Higher Education received appropriations from the School Aid Fund, with FY 2022-23 ongoing allocations of $448.6 million and $347.9 million, respectively. In addition, one-time appropriations for community colleges total $81.2 million, paid out of Federal funds, for FY 2022-23.

FY 2023-24 YEAR-END BALANCE ESTIMATES

The Legislature has been considering Governor Whitmer's FY 2023-24 State budget recommendation since it was presented to the Legislature on February 8, 2023. To date, the Senate has acted on each of the individual FY 2023-24 department budget bills. Using the Senate-passed appropriation bills as the basis of the FY 2023-24 budget, there should be large positive ending balances for both the GF/GP and the SAF budget.

Column 2 of Table 14 provides a summary of the $1.2 billion projected year-end balance in the FY 2023-24 GF/GP budget. On the revenue side of the FY 2023-24 GF/GP budget ledger, the SFA now believes that ongoing adjusted GF/GP revenue will total $14.7 billion. The May 2023 SFA estimate of ongoing adjusted revenue represents a $371.9 million decrease from the January 2023 consensus revenue estimate. Using the Senate-passed appropriation bills for FY 2023-24, the GF/GP appropriation bills include statutory revenue sharing payments of $551.8 million ongoing and $26.7 million one-time, and the balance sheet includes $2.6 million in the redirection of available restricted revenue. The FY 2023-24 estimated GF/GP revenue total of $15.9 billion includes $2.6 billion of projected GF/GP revenue carried forward from FY 2022-23.

The Senate-passed appropriations bills for FY 2023-24 include on-going appropriations of $12.9 billion. Additionally, the Senate-passed budget includes $2.1 billion of one-time expenditures, along with a $200.0 million deposit into the Budget Stabilization Fund. Included in the Senate-passed FY 2023-24 bills is a $700.0 million fund shift reducing GF/GP costs in the Department of Corrections budget, replaced with Federal State Fiscal Recovery Fund revenue. When the SFA's estimate of $15.9 billion in GF/GP revenue is offset by the SFA's estimate of $14.7 billion of total GF/GP expenditures based on Senate-passed bills, there is a projected FY 2023-24 year-end balance of $1.2 billion.

Column 2 of Table 15 provides the details of the SFA estimate of a $2.0 billion balance in the FY 2023-24 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue and Senate-passed FY 2023-24 budget bills.

On the revenue side of the FY 2023-24 SAF budget, the SFA now believes that ongoing adjusted SAF revenue will total $17.8 billion. The May 2023 SFA estimate of restricted SAF revenue represents a $46.5 million decrease from the January 2023 consensus revenue estimate. The estimate of total SAF revenue of $24.4 billion includes a $49.8 million ongoing GF/GP grant to the SAF, $72.0 million from the CDTF, $2.2 billion of ongoing Federal aid, and an additional $27.8 million of GF/GP for costs estimated to exceed revenue from the CDTF.

On the expenditure side of the FY 2023-24 SAF budget ledger, the SFA's estimated School Aid and postsecondary appropriation bill totals $22.4 billion, assuming the Senate-passed appropriations bills. The SFA estimates that there will be $155.6 million of cost adjustments resulting from revised foundation allowance and special education cost estimates. The Senate-passed School Aid budget includes $500.0 million in one-time funding deposited into the MPSERS Reforms Reserve Fund.

The SFA's estimated SAF balance sheet reflects the continued use of SAF revenue to support the Community Colleges budget and to partially support the Higher Education budget. The estimated budget assumes Senate-passed appropriations that adjust for increased Michigan Public School Employees Retirement System (MPSERS) contribution costs and include a 6.0% ongoing increase for community colleges. As such, the SFA's estimated expenditures for Community Colleges in FY 2023-24 total $562.7 million and the SAF allocation in the Higher Education budget for FY 2023-24 is estimated to total $352.3 million.

FY 2024-25 BUDGET OUTLOOK

Column 3 of Table 14 provides a summary of the $2.1 billion projected year-end balance in the FY 2024-25 GF/GP budget. The FY 2024-25 projected budget is based on the SFA estimate of total GF/GP revenue and ongoing appropriations based on the Senate-passed appropriation bills for FY 2023-24, adjusted for anticipated cost adjustments, and the assumed carry forward of funds from FY 2023-24. Any enacted changes to the FY 2023-24 budget that differ from the Senate-passed appropriation bills will result in changes to the SFA's FY 2024-25 projected balances.

On the revenue side of the FY 2024-25 GF/GP budget ledger, the SFA now believes that GF/GP ongoing adjusted revenue will total $15.1 billion. The May 2023 SFA estimate of ongoing adjusted GF/GP revenue represents a decrease of $406.9 million from the January 2023 consensus revenue estimate. The FY 2024-25 total estimated GF/GP revenue of $15.1 billion assumes the continuation of $551.8 million for statutory State Revenue Sharing payments, and a beginning balance carried forward from FY 2023-24 of $1.2 billion.

On the expenditure side of the FY 2024-25 GF/GP budget ledger, if the Senate-passed FY 2023-24 appropriation bills are used as a base and adjustments are made to remove one-time appropriations and to include estimated cost adjustments for the DHHS, the total FY 2024-25 GF/GP expenditures are estimated to be $13.0 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of $2.1 billion.

Column 3 of Table 15 provides a summary of the $2.3 billion projected year-end balance in the FY 2024-25 SAF budget. This projected balance is based on the SFA estimate of ongoing unadjusted revenue, and a continuation of the SFA's estimated current services budget for FY 2024-25, which would continue spending levels found in the FY 2023-24 Senate-passed budget, adjusted for pupil counts and other costs.

On the revenue side of the FY 2024-25 SAF budget ledger, the SFA now believes that ongoing adjusted SAF revenue will total $18.2 billion. The May 2023 SFA estimate of ongoing adjusted SAF revenue represents a $27.6 million decrease from the January 2023 consensus revenue estimate. The FY 2024-25 estimated SAF revenue total of $22.6 billion also assumes the continuation of the FY 2023-24 GF/GP grant of $49.8 million, $72.0 million from the CDTF, $2.2 billion in ongoing Federal aid, and $27.8 million of additional GF/GP to support costs expected to exceed available revenue from the CDTF.

On the expenditure side of the FY 2024-25 SAF budget ledger, the SFA projects total expenditures to be $20.3 billion, based upon a continuation of the Senate-passed FY 2023-24 budgets adjusted for $147.6 million of estimated cost adjustments. The FY 2024-25 SAF budget estimate continues to assume Community Colleges are funded with SAF, at a slightly increased ongoing amount of $505.5 million, and that Higher Education will remain flat at $352.3 million.

CONCLUSION

The GF/GP and SAF budgets are estimated to end FY 2022-23, FY 2023-24, and FY 2024-25 with significant year-end balances, although all three years assume the carryforward of the previous year's balance. Therefore, any spending in a given year will reduce the out-year's revenue and ending balance as well as the current year's balance. Both the GF/GP and the SAF sides of the ledger appear to be structurally balanced for the most part; in other words, ongoing revenue (not including carryforward balances) is estimated to exceed ongoing (excluding one-time) spending. (The FY 2023-24 SAF ongoing balance is negative, but that turns to positive in FY 2024-25, and the negative balance would be more than adequately covered by the large one-time money available.) A caution to the preceding statement is that the revenue estimates *assume growth* and the out-year expenditure estimates for FY 2024-25 *assume baseline (or flat)* spending. Spending in FY 2024-25 that is greater than a baseline amount (which will be established when FY 2023-24 budgets are enacted) will reduce the gap between ongoing revenue and ongoing expenditure estimates.

Tables 14 and 15 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the May 19, 2023, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the final actions taken on the FY 2023-24 State budget, as well as for subsequent fiscal years.

Table 14

GENERAL FUND/GENERAL PURPOSE (GF/GP) REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES (millions of dollars)		SFA Estimates	
	FY 2022-23 Year-To-Date	FY 2023-24 SFA Estimate	FY 2024-25 SFA Estimate
Revenue:			
Beginning Balance	$7,463.5	$2,611.3	$1,225.2
Ongoing Revenue:			
Consensus Revenue Estimate (January 2023)	$14,777.9	$15,092.2	$15,545.5
SFA Revenue Change (May 2023)	(809.8)	(1,492.5)	(956.9)
Subtotal: Unadjusted SFA Revenue Forecast (May 2023)	$13,968.1	$13,599.7	$14,588.6
SFA Adjustments: Restore temp. revenue losses to baseline (May 2023)	1,077.6	1,120.6	550.0
Adjusted SFA Forecast Ongoing Revenue Estimate (May 2023)	$15,045.7	$14,720.3	$15,138.6
Other Revenue Adjustments:			
Adjustments (PPT Hold Harmless)	($75.0)	($75.0)	($75.0)
CIT Housing Earmark - built into ongoing revenues	0.0	0.0	0.0
Sales tax removal for delivery & installation-built into ongoing revenues	0.0	0.0	0.0
Senate Bill 127 Community Foundation Endowment Fund	0.0	(3.3)	(3.3)
Senate Bill 128 food bank donations	0.0	(18.7)	(18.7)
Retirement income tax changes (HB 4001) - built into ongoing revenues.	0.0	0.0	0.0
EITC (HB 4001) - built into ongoing revenues	0.0	0.0	0.0
Liquor Purchase Revolving Fund - ADA Adjustment	(18.5)	(19.1)	(20.0)
Revenue Sharing Payments	(525.6)	(551.8)	(551.8)
Subtotal Ongoing Revenue	$14,426.6	$14,052.4	$14,469.8
Non-Ongoing Revenue:			
Legal Settlements/Redirection of Restricted Revenue	($2.6)	($2.6)	($2.6)
Moving forward one-year impact of EITC (SB 144)	(384.0)	0.0	0.0
Three-year CIT SOAR earmark	(50.0)	(50.0)	(50.0)
Three-year CIT RAP earmark	(500.0)	(500.0)	(500.0)
Income tax reduction (ie, trigger) - 4/10/23: AG opinion 1-year impact	(527.6)	(186.6)	0.0
Revenue Sharing One-Time Payments	(4.9)	(26.7)	0.0
Subtotal Non-Ongoing Revenue	($1,469.1)	($765.9)	($552.6)
Total Estimated GF/GP Revenue Including Beginning Balance	**$20,421.0**	**$15,897.9**	**$15,142.5**
Total Estimated GF/GP Revenue Excluding Beginning Balance	**$12,957.5**	**$13,286.6**	**$13,917.2**
Expenditures:			
Ongoing Appropriations:			
Initial/Senate-Passed Appropriations.	$11,963.6	$12,859.0	$12,857.4
Ongoing reserve for audit, legal, statutory, and other costs	0.0	100.0	100.0
Ongoing Community District Trust Fund GF payment	0.0	27.8	27.8
Subtotal Ongoing Appropriations	$11,963.6	$12,986.8	$12,985.2
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	$3,292.3	$2,148.8	$0.0
BSF Deposit	0.0	200.0	0.0
Fund shift Corrections payroll with revenue loss SFRF	0.0	(700.0)	0.0
Enacted Supplementals	2,530.4	0.0	0.0
Jan. 2023 FMAP and caseload savings (included in exec supplementals)	(517.5)	0.0	0.0
Adjust FMAP, caseload savings for SFA estimates	239.1	17.0	63.6
Senate supplemental items	29.3	0.0	0.0
Reserve for audit, legal, statutory, other costs	200.0	20.0	0.0
Treasury boilerplate appropriation	50.0	0.0	0.0
Additional K-12 GF for Community District Trust Fund (moved to ongoing).	22.5	0.0	0.0
Subtotal One-Time and Other Appropriations	$5,846.1	$1,685.8	$63.6
Total Estimated GF/GP Expenditures	**$17,809.7**	**$14,672.6**	**$13,048.8**
PROJECTED YEAR-END GF/GP BALANCE (Total)	**$2,611.3**	**$1,225.2**	**$2,093.6**
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)	**$2,463.0**	**$1,065.6**	**$1,484.6**
PROJECTED YEAR-END GF/GP BALANCE (One-Time)	**$148.3**	**$159.6**	**$609.0**

Table 15

SCHOOL AID FUND (SAF) REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES (millions of dollars)	SFA Estimates		
	FY 2022-23 Year-To-Date	FY 2023-24 SFA Estimate	FY 2024-25 SFA Estimate
Revenue:			
Beginning Balance	$4,622.5	$3,871.0	$2,001.2
Ongoing Revenue:			
Consensus Revenue Estimate (January 2023)	$17,635.1	$17,846.0	$18,257.6
SFA Revenue Change (May 2023)	95.6	(24.6)	(27.6)
Subtotal: Unadjusted SFA Revenue Forecast (May 2023)	$17,730.7	$17,821.4	$18,230.0
SFA Adjustments: Remove temp. revenue gains from baseline (May 2023)	(101.4)	(21.9)	0.0
Adjusted SFA Forecast Ongoing Revenue Estimate (May 2023)	$17,629.3	$17,799.5	$18,230.0
Other Revenue Adjustments:			
Adjustments	$0.0	$0.0	$0.0
General Fund/General Purpose Grant	48.6	49.8	49.8
Community District Education Trust Fund	72.0	72.0	72.0
Federal Ongoing Aid	2,199.0	2,199.0	2,199.0
Subtotal Ongoing Revenue	$19,948.9	$20,120.3	$20,550.8
Non-Ongoing Revenue:			
Federal Stimulus	$414.2	$0.0	$0.0
Additional Federal Funds	27.9	0.0	0.0
Income tax reduction (ie, trigger) - 4/10/23	101.4	21.9	0.0
MPSERS Reserve Fund	140.4	202.0	0.0
Infrastructure and Consolidation Fund	0.0	100.0	0.0
Revenue Deposits - Infrastructure/MPSERS	(425.0)	0.0	0.0
Additional One-Time GF	75.6	40.2	0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	22.5	27.8	27.8
Subtotal Non-Ongoing Revenue	$357.0	$391.9	$27.8
Total Estimated School Aid Fund Revenue Including Beginning Balance	**$24,928.4**	**$24,383.2**	**$22,579.8**
Total Estimated School Aid Fund Revenue Excluding Beginning Balance	**$20,305.9**	**$20,512.1**	**$20,578.6**
Expenditures:			
Ongoing Appropriations:			
Initial/Ongoing K-12 State Appropriations	$15,457.2	$17,206.4	$17,122.8
School Aid Federal Funds	2,274.2	2,199.0	2,199.0
State Funds Cost Adjustments (May 2023)	74.7	155.6	147.6
Federal Funds Cost Adjustments (May 2023)	35.7	0.0	0.0
Fund Community Colleges with SAF	448.6	499.5	505.5
Partially Fund Higher Education with SAF	347.9	352.3	352.3
Subtotal Ongoing Appropriations	$18,638.3	$20,412.9	$20,327.3
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	$1,871.3	$1,405.9	$0.0
Initial One-Time Community College Appropriations	81.2	63.2	0.0
Fund deposits (MPSERS, Consolidation, Teacher Recruitment)	0.0	500.0	0.0
Supplementals	454.4	0.0	0.0
Enacted FY 22 and FY 23 Supplementals (including SB 8)	12.2	0.0	0.0
Subtotal One-Time and Other Appropriations	$2,419.1	$1,969.1	$0.0
Total Estimated School Aid Fund Expenditures	**$21,057.4**	**$22,382.0**	**$20,327.3**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE (Total)	**$3,871.0**	**$2,001.2**	**$2,252.5**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE (Ongoing)	**$1,421.0**	**($137.0)**	**$371.1**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE (One-Time)	**$2,450.0**	**$2,138.2**	**$1,881.4**