

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2025-26
THROUGH
FY 2027-28**



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January 2026

FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2025 through CY 2028. It also presents preliminary General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2024-25, revised revenue estimates for FY 2025-26 and FY 2026-27, and initial estimates for FY 2027-28. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 16, 2026, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2028, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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ECONOMIC OVERVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2025-26 through FY 2027-28. In developing the U.S. and Michigan forecasts, key macroeconomic data such as employment, interest rates, business investment, light vehicle sales, international trade, oil prices, and consumer spending are examined with the goal of combining these variables along with others into an overall snapshot of the U.S. economy for the past year, current year, and two subsequent years. The key segments for Michigan include the automotive sector, the labor force and employment, wage and salary income, and inflation rates.

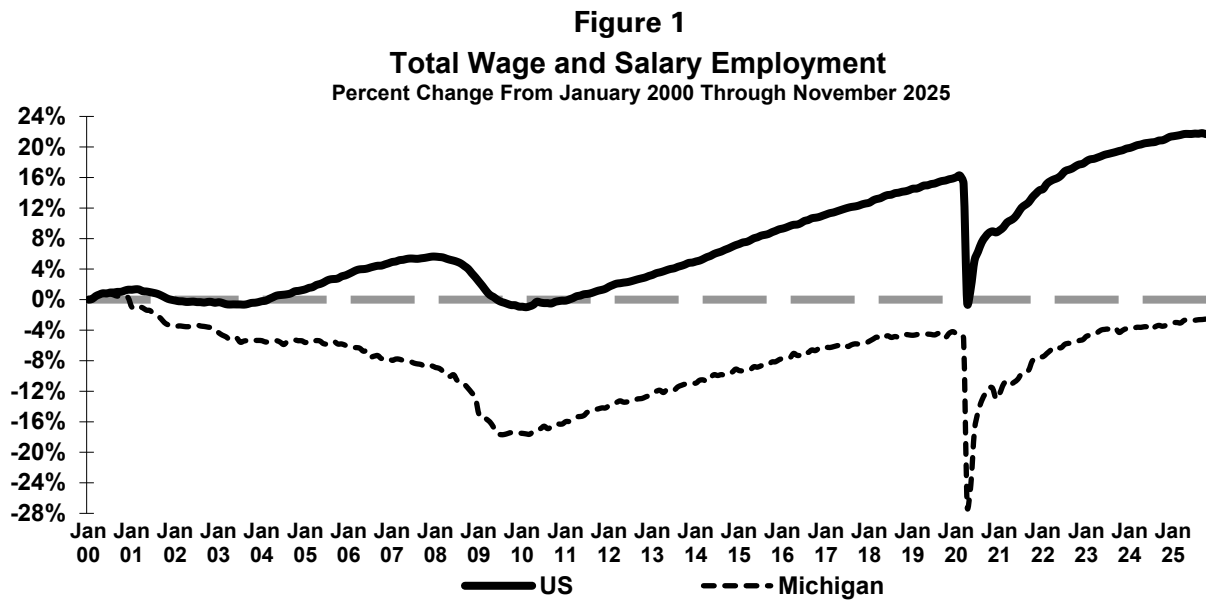
The national economy remained resilient in CY 2025, with estimated 2.1% real GDP growth. While inflation has moderated significantly from its pandemic-related highs, progress toward the Federal Reserve's 2% target has stalled. Additionally, the labor market continues to soften, with fewer job openings, slower hiring rates, fewer quits, and modest increase in the unemployment rate. Consumers continue to exhibit spending power, especially higher-income consumers driving an ever increasing share of consumer spending, but momentum is gradually slowing. That said, despite the labor market and consumer vulnerability the forecast assumes economic growth will pickup to 2.3% in CY 2026 mainly due to changes in federal fiscal and tax policy under the One Big Beautiful Bill Act and less restrictive monetary policy, before reverting to 1.9% in CY 2027 and 2.1% in CY 2028.

Employment growth will slow to 0.3% in CY 2026 before rebounding to 0.6% and 0.7% in CYs 2027 and 2028, respectively. The unemployment rate will peak at 4.6% in CY 2026 and CY 2027 before dropping back to 4.5% in CY 2028. Inflation is expected to stay elevated in CY 2026 at 2.9% before declining to 2.8% in CY 2027 and 2.6% in CY 2028.

Michigan's economy and state revenue are significantly affected by the strength of the national economy. The Michigan outlook projects a slightly weaker employment picture than the national economy with softer employment growth and unemployment peaking at 5.4% in CY 2026 and CY 2027 before dropping to 5.3% in CY 2028. Despite the recent deceleration, the Michigan economy is forecast to maintain moderate growth. However, current uncertainty around federal policies related to tariffs and trade, immigration, and foreign policy, to name a few, make a baseline forecast less useful.

Total Wage and Salary Employment

Figure 1 shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through November 2025.



U.S. Wage and Salary Employment

U.S. employment peaked in February 2001, and then began a long slide that did not end until August 2003. During this 30-month period, more than 2.7 million jobs were lost – about 91,800 jobs per month on average. This decline was followed by 53 consecutive months of job growth, and by January 2008, more than 8.1 million jobs had been added.

The recession which began in February 2008 led to 25 continuous months of employment declines during which almost 8.8 million jobs were lost. Job gains finally reappeared in March 2010, and during the 128-month span of job growth that ensued, U.S. wage and salary employment surpassed the pre-recession peak and by February 2020, total cumulative growth during the expansion topped 22.8 million jobs.

The sharp decline brought about by COVID-19 saw employment drop back to roughly the same level as January 2000, but through November 2025 employment has grown by 29.1 million jobs from the COVID-19 low point in April 2020 and total employment is now 4.7% above pre-pandemic levels.

Michigan Wage and Salary Employment

Michigan endured more than a decade of job losses during the early 2000s, during which time wage and salary employment in Michigan dropped by almost 18% relative to January 2000. As the labor market began recovering from the Great Recession, steady job growth continued each year through 2019, although by the end of the decade annual gains were slowing. Still, by the end of 2019, total employment was within 5% of the January 2000 level.

As with employment nationwide, sharp declines occurred in March and April of 2020 as employment plunged well below Great Recession levels. As of November 2025, Michigan has added back about 1.15 million jobs from the pandemic low point in April 2020 and is about 2.0% above the pre-pandemic level in February 2020.

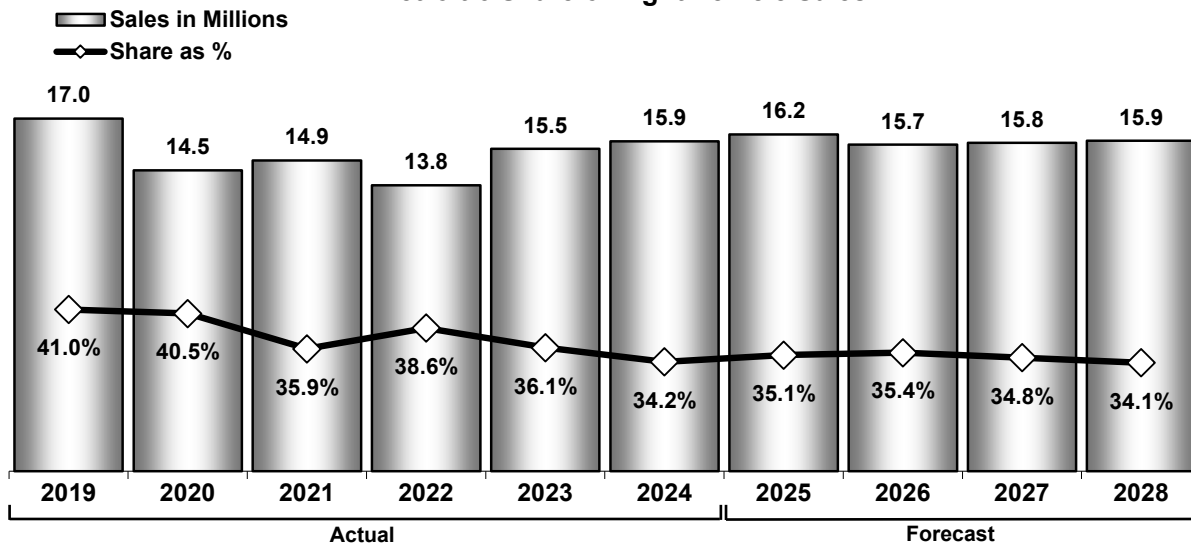
U.S. and Michigan Motor Vehicle Industry

Early estimates indicate that light motor vehicle sales totaled 16.2 million units in CY 2025, likely helped by some pull-forward of auto sales due to expiring EV tax credits, which is an increase of 2.2% from the 15.9 million vehicles sold in CY 2024. Light motor vehicle sales are forecast to decrease to 15.7 million units in CY 2026 before sales begin an upward trend in CY 2027 and CY 2028 to 15.8 and 15.9 million units, respectively.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years. As shown in **Figure 2**, the market share of the Detroit-3 auto manufacturers was 34.2% in CY 2024. The Detroit-3 share is expected to increase to a high of 35.4% in CY 2026 before falling to 34.1% by the end of the forecast.

The level and composition of light motor vehicle sales as well as the extent to which the domestic nameplates can retain market share will have a direct impact on Michigan’s economy. In CY 2025, the Detroit-3 is expected to sell 5.6 million vehicles, which is a 2.0% decline from CY 2024. It is projected that the Detroit-3 will sell approximately 5.5 million vehicles in CY 2026 before sales decrease to 5.4 million units in CY 2027 and CY 2028.

Figure 2
Detroit-3 Share of Light Vehicle Sales



U.S. Forecast Highlights

Real GDP growth is forecast to increase 2.3% in CY 2026, 1.9% in CY 2027, and 2.1% in CY 2028.

After increasing from 2.7% in CY 2025 to 2.9% in CY 2026, inflation, as measured by the Consumer Price Index (CPI), is expected to decline over the forecast, measuring 2.8% in CY 2027 and 2.6% in CY 2028.

Light vehicle sales are forecast to increase to 16.2 million units in CY 2025, before falling to 15.7 million units in CY 2026. It is expected that light vehicle sales will increase to 15.8 million units in CY 2027 and 15.9 million units in CY 2028. The import share of light vehicles is forecast to decrease from 22.5% in CY 2025 to 21.2% in CY 2028.

Wage and salary employment growth is expected to increase 0.9% in CY 2025, 0.3% in CY 2026, 0.6% in CY 2027, and 0.7% in CY 2028.

The national unemployment rate is expected to be 4.3% in CY 2025; it is forecast to increase to 4.6% in CY 2026 and CY 2027 before decreasing to 4.5% in CY 2028.

Interest rates on three-month T-bills are expected to decrease from 4.0% in CY 2025 to 3.2% in CY 2026, and 3.1% in CYs 2027 and 2028 as the Federal Reserve lowers interest rates in response to moderating inflation and softening labor markets.

Michigan Forecast Highlights

Michigan wage and salary employment is expected to grow by 0.8% in CY 2025, 0.0% in CY 2026, and 0.3% in both CY 2027 and CY 2028.

Michigan's unemployment rate is expected to be 5.3% in CY 2025; it is forecast to increase to 5.4% in CYs 2026 and 2027 before decreasing to 5.3% in CY 2028.

Michigan personal income is expected to increase by 4.1% in CY 2025, 3.3% in CY 2026, and continue to grow at 3.5% in CY 2027 and CY 2028.

Michigan wage and salary income is expected to increase 3.6% in CY 2025; it is forecast to increase 3.1% in CY 2026, 3.3% in CY 2027, and 3.5% in CY 2028.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to measure 3.2% in CY 2026, 2.9% in CY 2027, and 2.7% in CY 2028.

Additional details of the U.S. and Michigan forecasts are presented in **Table 1** on the following page.

Table 1
ECONOMIC FORECAST VARIABLES

	Calendar 2024 Actual	Calendar 2025 Estimate	% Change from Prior Year	Calendar 2026 Estimate	% Change from Prior Year	Calendar 2027 Estimate	% Change from Prior Year	Calendar 2028 Estimate	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2017 dollars)	\$23,358.4	\$23,860.6	2.1%	\$24,401.6	2.3%	\$24,873.6	1.9%	\$25,386.8	2.1%
Implicit Price Deflator GDP (2017 = 100)	125.422	128.929	2.8%	132.547	2.8%	135.946	2.6%	139.121	2.3%
Personal Consumption Deflator (2017 = 100)	123.658	126.858	2.6%	130.157	2.6%	133.335	2.4%	136.330	2.2%
Consumer Price Index (1982-84 = 100)	313.689	322.237	2.7%	331.588	2.9%	341.018	2.8%	350.034	2.6%
Consumer Price Index (FY) (1982-84 = 100)	311.581	319.997	2.7%	329.133	2.9%	338.746	2.9%	347.801	2.7%
Federal Funds Rate Interest Rate (Percent)	5.1%	4.2%		3.3%		3.1%		3.1%	
3-month Treasury Bills Interest Rate (Percent)	5.0%	4.0%		3.2%		3.1%		3.1%	
Aaa Corporate Bonds Interest Rate (Percent)	6.7%	6.6%		6.3%		6.1%		6.0%	
Unemployment Rate (Percent)	4.0%	4.3%		4.6%		4.6%		4.5%	
Wage and Salary Employment (Millions of workers)	158.0	159.4	0.9%	159.9	0.3%	160.8	0.6%	161.9	0.7%
Housing Starts (Millions of units)	1.371	1.352	(1.4%)	1.315	(2.7%)	1.345	2.3%	1.385	3.0%
Light Vehicle Sales (Millions of units)	15.9	16.2	2.2%	15.7	(3.1%)	15.8	0.6%	15.9	0.6%
Passenger Car Sales (Millions of units)	3.0	2.8	(7.8%)	2.6	(6.6%)	2.6	(0.1%)	2.6	0.1%
Light Truck Sales (Millions of units)	12.9	13.4	4.1%	13.1	(2.0%)	13.2	0.8%	13.3	0.7%
Import Share of Light Vehicles (Percent)	23.3%	22.5%		21.5%		21.3%		21.2%	
Detroit-3 Share of Light Vehicle Sales (Percent)	34.2%	35.1%		35.4%		34.8%		34.1%	
Personal Income (Billions of current dollars)	\$24,905.9	\$26,089.9	4.8%	\$27,164.2	4.1%	\$28,339.8	4.3%	\$29,562.1	4.3%
Michigan									
Wage and Salary Employment (Thousands of workers)	4,488.4	4,525.3	0.8%	4,527.1	0.0%	4,540.1	0.3%	4,555.5	0.3%
Transportation Equipment Employment (Thousands of workers)	184.8	178.8	(3.2%)	178.9	0.1%	182.1	1.8%	184.1	1.1%
Unemployment Rate (Percent)	4.7%	5.3%		5.4%		5.4%		5.3%	
Personal Income (Millions of current dollars)	\$645,847	\$672,476	4.1%	\$694,765	3.3%	\$719,220	3.5%	\$744,629	3.5%
Real Personal Income (Millions of 1982-84 dollars)	\$221,104	\$225,668	2.1%	\$226,103	0.2%	\$227,537	0.6%	\$229,463	0.8%
Wage and Salary Income (Millions of current dollars)	\$310,164	\$321,334	3.6%	\$331,424	3.1%	\$342,415	3.3%	\$354,261	3.5%
Detroit Consumer Price Index (1982-84 = 100)	292.354	297.739	1.8%	307.200	3.2%	316.018	2.9%	324.449	2.7%
Detroit Consumer Price Index (FY) (1982-84 = 100)	290.430	295.757	1.8%	304.884	3.1%	313.897	3.0%	322.362	2.7%



RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast, and variations in the underlying factors can exert either optimistic or pessimistic influences on the forecast. Some of the more prevalent risks are highlighted below in no particular order.

Federal Policy

The scope and uncertainty of federal policy changes around tariffs and trade, immigration, industrial policy, and tax and fiscal policy remains a fairly significant source of uncertainty in the forecast. This uncertainty presents both upside and downside risks.

Inflation and Monetary Policy

While inflation has moderated from recent peaks and modest cooling in the labor market continues, the forecast assumes the Fed will continue to loosen monetary policy through the third quarter of 2026. However, the federal reserve faces an increasingly difficult tradeoff between price stability and maximum employment. Premature policy easing risks reigniting inflationary pressures, while maintaining a restrictive policy stance beyond what is necessary could lead to deterioration in the labor market.

Labor Market Conditions

The cooling labor market is not expected to induce a sharp rise in unemployment, however if firms respond to weaker demand, margin pressure, and/or technology by accelerating layoffs, employment and wage growth could decelerate more quickly. This would put downward pressure on consumer spending presenting a downside risk to the forecast.

Geopolitical Conflict and Global Economic Conditions

The trajectory of geopolitical conflicts poses risks (both upside and downside) to the forecast through energy markets, trade flows, and global financial conditions.



GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency’s January 2026 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the May 2025 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

Baseline and Net GF/GP and SAF Revenue Estimates

Table 2 reports GF/GP and SAF revenue in terms of baseline and net revenue. Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The preliminary total baseline GF/GP and SAF revenue is \$36.1 billion in FY 2024-25. It is forecast to increase 2.2% in FY 2025-26, 2.1% in FY 2026-27, and 2.1% in FY 2027-28.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary total net GF/GP and SAF revenue is \$33.2 billion in FY 2024-25, which would be a 1.8% increase from FY 2023-24. It is forecast to increase 0.4% in FY 2025-26, 1.0% in FY 2026-27, and 2.4% in FY 2027-28.

Table 2 also shows the May 2025 adjusted consensus estimates and the recommended revisions to these estimates for FY 2024-25 through FY 2026-27. The May 2025 adjusted consensus estimates include the FY 2025 consensus estimates plus enacted tax changes since the May 2025 consensus revenue estimating conference.

Preliminary FY 2024-25 figures suggest an increase of \$154.6 million from the May 2025 adjusted consensus estimates. General Fund revenue was revised slightly lower due to larger (more negative) income tax refunds coupled with softer corporate income tax revenue just slightly offsetting higher than anticipated interfund borrowing interest and escheats revenue along with a removal of the SOAR earmark on CIT, which was replaced with a smaller one-time earmark to the Health Michigan Fund. For the School Aid Fund,

strong sales tax, state education tax, and online gaming revenues led to an upward revision of approximately \$167.6 million.

The recommended revisions for FY 2025-26 and FY 2026-27 are a decrease of \$717.3 million and \$1.1 billion, respectively. While there is some relatively mild weakening in revenues for economic reasons, the large downward revisions are primarily due to tax policy changes involving motor fuels with respect to the FY 2024-25 road plan and tax policy changes associated with state-level OBBBA coupling on income tax deductions for overtime, tips, and Tier 3 Social Security.

GF/GP Revenue by Source

GF/GP Net Tax Revenue

Table 3 - Relative to FY 2023-24, preliminary GF/GP net tax revenue increased 0.1% to \$13,348.9 million in FY 2024-25. GF/GP tax revenue in FY 2025-26 is estimated to be \$13,441.8 million, an increase of \$92.9 million, and \$13,369.0 million in FY 2026-27, a decrease of \$72.8 million. The tepid growth is due primarily to the tax policy changes discussed above. GF/GP tax revenue is estimated to increase 3.4% in FY 2027-28.

Total GF/GP Net Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available for expenditure. Preliminary net GF/GP revenue is expected to be \$14,480.9 million in FY 2024-25. In FY 2025-26 it is forecast to be \$14,131.8 million, a decrease of \$349.1 million, and \$14,001.4 million in FY 2026-27, a decrease of \$130.4 million, or 0.9%. Net GF/GP revenue is estimated to increase 2.8% in FY 2027-28 to \$14,392.7 million.

SAF Revenue by Source

Total Net SAF Revenue

Table 4 - Preliminary net SAF revenue is anticipated to increase 3.5% to \$18,712.8 million in FY 2024-25. Net SAF revenue is forecast to be \$19,199.7 million in FY 2025-26, an increase of \$486.9 million, or 2.6%. Net SAF revenue is estimated to increase 2.3% in FY 2026-27 and 2.1% in FY 2027-28. Growth in all years is attributable to strong sales and use tax, gross income tax, and state education tax collections.

Table 2
HFA JANUARY 2026 REVENUE ESTIMATES FOR FY 2025-26 THROUGH FY 2027-28
(Millions of Dollars)

	<u>Preliminary FY 2024-25</u>	<u>HFA Est. FY 2025-26</u>	<u>HFA Est. FY 2026-27</u>	<u>HFA Est. FY 2027-28</u>	<u>FY 2025-26 % Change</u>	<u>FY 2026-27 % Change</u>	<u>FY 2027-28 % Change</u>
<u>Baseline</u>							
GF/GP	\$17,287.5	\$17,577.2	\$17,885.1	\$18,253.2	1.7%	1.8%	2.1%
SAF	18,835.6	19,347.2	19,800.0	20,212.0	2.7%	2.3%	2.1%
Total	\$36,123.0	\$36,924.4	\$37,685.1	\$38,465.2	2.2%	2.1%	2.1%
<u>Net</u>							
GF/GP	\$14,480.9	\$14,131.8	\$14,001.4	\$14,392.7	(2.4%)	(0.9%)	2.8%
SAF	18,712.8	19,199.7	19,650.4	20,053.8	2.6%	2.3%	2.1%
Total	\$33,193.7	\$33,331.5	\$33,651.8	\$34,446.5	0.4%	1.0%	2.4%
<u>May 2025 Adjusted Consensus¹</u>							
<u>Net</u>							
GF/GP	\$14,493.9	\$15,114.6	\$15,343.7				
SAF	18,545.2	18,934.2	19,398.5				
Total	\$33,039.1	\$34,048.8	\$34,742.2				
<u>Recommended Revision²</u>							
<u>Net</u>							
GF/GP	(\$13.0)	(\$982.8)	(\$1,342.3)				
SAF	167.6	265.5	251.9				
Total	\$154.6	(\$717.3)	(\$1,090.4)				

NOTE: Numbers may not add due to rounding.

¹ The May 2025 adjusted consensus estimate includes the May 2025 consensus estimate plus enacted tax changes since May 2025.

² The Recommended Revision for GF/GP due to policy changes already accounted for in the enacted budget includes an increase of \$245.5 million in FY 2024-25, a decrease of \$783.0 million in FY 2025-26, and a decrease of \$1,070.7 million in FY 2026-27. For SAF, policy changes accounted for an increase of \$0.1 million in FY 2024-25, a decrease of \$20.4 million in FY 2025-26, and a decrease of \$21.3 million in FY 2026-27. The remaining portion of the recommended revision is due to forecasted changes due to economics.

Table 3
GF/GP NET REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2025-26		FY 2026-27		FY 2027-28	
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$8,447.2	\$9,075.2	\$9,251.0	\$9,478.0	\$627.9	7.4%	\$175.8	1.9%	\$227.0	2.5%
Sales Tax	1,644.9	1,146.5	996.4	1,015.3	(498.4)	(30.3%)	(150.1)	(13.1%)	19.0	1.9%
Use Tax	1,149.5	1,265.8	1,327.1	1,385.4	116.2	10.1%	61.3	4.8%	58.3	4.4%
Michigan Business Tax	(429.1)	(503.1)	(524.4)	(344.9)	(74.0)	17.2%	(21.3)	4.2%	179.5	(34.2%)
Corporate Income Tax	1,501.4	1,427.0	1,267.5	1,218.2	(74.4)	(5.0%)	(159.5)	(11.2%)	(49.3)	(3.9%)
Insurance	526.7	542.0	558.0	574.0	15.3	2.9%	16.0	3.0%	16.0	2.9%
Other GF/GP Taxes	508.3	488.5	493.5	497.8	(19.7)	(3.9%)	5.0	1.0%	4.3	0.9%
GF/GP Net Tax Revenue	\$13,348.9	\$13,441.8	\$13,369.0	\$13,823.7	\$92.9	0.7%	(\$72.8)	(0.5%)	\$454.7	3.4%
Non-Tax Revenue	1,132.0	690.0	632.4	569.0	(442.0)	(39.0%)	(57.6)	(8.3%)	(63.4)	(10.0%)
Total GF/GP Net Revenue	\$14,480.9	\$14,131.8	\$14,001.4	\$14,392.7	(\$349.1)	(2.4%)	(\$130.4)	(0.9%)	\$391.3	2.8%

NOTE: Numbers may not add due to rounding.

Table 4
SCHOOL AID FUND NET REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2025-26		FY 2026-27		FY 2027-28	
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Sales Tax	\$7,930.8	\$8,070.2	\$8,230.8	\$8,408.2	\$139.4	1.8%	\$160.6	2.0%	\$177.4	2.2%
Use Tax	921.4	971.2	1,002.6	1,032.3	49.9	5.4%	31.4	3.2%	29.7	3.0%
Income Tax	4,232.2	4,375.9	4,514.6	4,605.3	143.7	3.4%	138.7	3.2%	90.7	2.0%
State Education Tax	2,906.3	3,005.0	3,095.0	3,175.0	98.7	3.4%	90.0	3.0%	80.0	2.6%
Lottery/Casinos	1,271.9	1,260.0	1,252.0	1,249.0	(11.9)	(0.9%)	(8.0)	(0.6%)	(3.0)	(0.2%)
Tobacco Tax	215.2	209.5	204.8	200.6	(5.8)	(2.7%)	(4.7)	(2.2%)	(4.2)	(2.1%)
Real Estate Transfer Tax	440.2	460.0	475.0	490.0	19.8	4.5%	15.0	3.3%	15.0	3.2%
Other Taxes	794.7	847.8	875.5	893.3	53.1	6.7%	27.8	3.3%	17.8	2.0%
SAF Net Revenue	\$18,712.8	\$19,199.7	\$19,650.4	\$20,053.8	\$486.9	2.6%	\$450.7	2.3%	\$403.4	2.1%

NOTE: Numbers may not add due to rounding.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. A statutory BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates whether a pay-in (deposit) is recommended. Under the provisions of 2018 PA 613, a pay-out (withdrawal) of up to 25% of the prior year ending BSF balance would be indicated if personal income growth is negative. In either case, the recommendation is statutory; it cannot mandate an appropriation, and 2018 PA 613 specifies that a legislative appropriation is required for transfers both into and out of the fund.

In addition to the BSF calculation, 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35. This deposit was discontinued starting in FY 2025-26 under 2025 PA 28. **Table 5** provides details on deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2027-28. Estimates include the impact of 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2024-25.

The balance increased to \$1,588.8 million after appropriations of \$35.0 million and \$500.0 million in FY 2020-21 and \$180.0 million in FY 2021-22. An additional \$100.0 million was appropriated for deposit in both FY 2022-23 and FY 2023-24, which took the BSF balance to \$1,996.6 million at the close of FY 2023-24. An additional \$50.0 million of the FY 2023-24 unassigned fund balance was appropriated to the BSF in FY 2024-25. Relatively high interest rates will continue to provide elevated investment returns for the BSF.

The statutory BSF trigger calculation, based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue, indicates whether deposits (pay-ins) or withdrawals (pay-outs) are recommended for a fiscal year. Regardless of the calculated amounts, however, all deposits and withdrawals must be appropriated. Based on the formula, no pay-ins would be indicated for FY 2025-26, FY 2026-27, or FY 2027-28.

Because inflation-adjusted personal income is projected to decline between CY 2025 and CY 2026, a pay-out of up to \$538.0 million (25% of the prior year balance) would be suggested for FY 2025-26. No pay-outs would be indicated for FY 2026-27, or FY 2027-28.

After adjusting for estimated interest earnings, the year-end balance is projected at \$2,228.0 million for FY 2025-26, \$2,301.4 million for FY 2026-27, and \$2,377.3 million for FY 2027-28.

Table 5
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$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	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.5	\$0.0	\$13.5	\$1,006.0
2018-19	\$117.5	\$0.0	\$25.1	\$1,148.6
2019-20	\$17.5	\$350.0	\$13.2	\$829.1
2020-21	\$552.5	\$0.0	\$1.0	\$1,382.3
2021-22	\$197.5	\$0.0	\$9.3	\$1,588.9
2022-23	\$117.5	\$0.0	\$74.1	\$1,780.5
2023-24	\$117.5	\$0.0	\$98.7	\$1,996.7
2024-25*	\$67.5	\$0.0	\$87.7	\$2,151.9
2025-26*	\$0.0	\$0.0	\$76.0	\$2,228.0
2026-27*	\$0.0	\$0.0	\$73.5	\$2,301.4
2027-28*	\$0.0	\$0.0	\$75.9	\$2,377.3

* HFA estimates

NOTE: Numbers may not add due to rounding.

Compliance with the State Revenue Limit

Article IX, Section 26 of the 1963 Michigan Constitution, which was approved by a vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26 of the 1963 Michigan Constitution provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund

Furthermore, limit established in Section 26 by Article IX, Section 28 prohibits the state from spending any current-year revenue in excess of that amount.

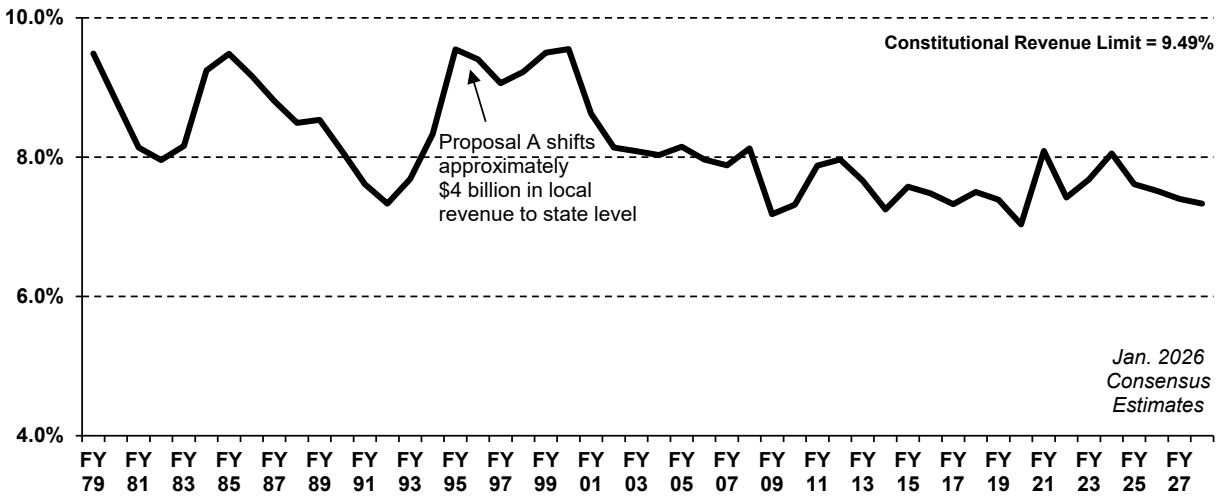
As shown in **Table 6** and **Figure 3**, the FY 2024-25 revenue limit calculation is expected to show state revenue collections at \$11.6 billion below the revenue limit. For FY 2025-26, state revenue is estimated to be below the limit by \$12.7 billion. For FY 2026-27 and FY 2027-28, state revenue is estimated to remain well below the revenue limit – by \$14.1 billion and \$15.0 billion, respectively.

Table 6
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2024-25</u>	<u>Estimated FY 2025-26</u>	<u>Estimated FY 2026-27</u>	<u>Estimated FY 2027-28</u>
Personal Income				
Calendar Year	<u>CY 2023</u>	<u>CY 2024</u>	<u>CY 2025</u>	<u>CY 2026</u>
Amount	\$617,163	\$645,847	\$672,476	\$694,765
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$58,568.8	\$61,290.9	\$63,818.0	\$65,933.2
Total Revenue Subject to Revenue Limit	\$46,972.5	\$48,545.0	\$49,766.0	\$50,946.9
Amount Under (Over) State Revenue Limit	\$11,596.3	\$12,745.8	\$14,052.0	\$14,986.3

NOTE: Numbers may not add due to rounding.

Figure 3
Constitutional Revenue Limit
 Total State Tax and Fee Revenue as Percentage of Personal Income



HFA Estimates of Year-End Balances

Table 7 reports HFA estimates of year-end balances for GF/GP, the SAF, and the BSF. FY 2024-25 estimates are based on preliminary year end revenues, year-to-date appropriations, and K-12 cost estimates. FY 2025-26 estimates include HFA revenues, year-to-date appropriations, policy changes related to road funding and OBBA coupling, and K-12 cost estimates.

BSF estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 7
YEAR-END UNRESERVED BALANCE ESTIMATES
 (Millions of Dollars)

	Preliminary FY 2024-25	Estimated FY 2025-26
General Fund/General Purpose	\$675.7	(\$37.0)
School Aid Fund	\$1,319.6	\$814.7
Budget Stabilization Fund	\$2,151.9	\$2,228.0

Note: School Aid Fund revenue is restricted; any year-end balance is carried forward to the subsequent year.



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