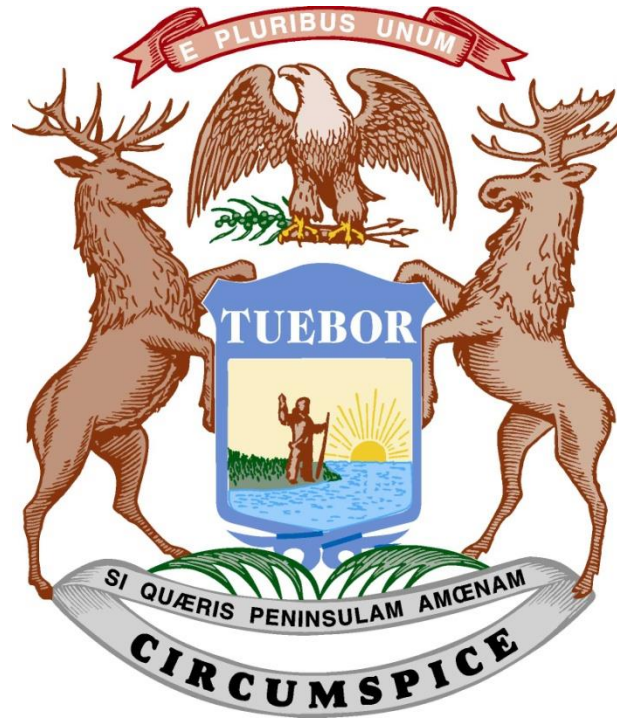


Economic and Revenue Forecasts

FY 2020 * FY 2021 * FY 2022



Consensus Revenue Estimating Conference

May 15, 2020

Outline

- **Economic Forecast**

Jim Stansell, House Fiscal Agency

- **Revenue Estimates for Major Taxes**

David Zin, Senate Fiscal Agency

- **Revenue Estimates by Fund**

Eric Bussis, Department of Treasury

Economic Summary: Baseline Scenario

National

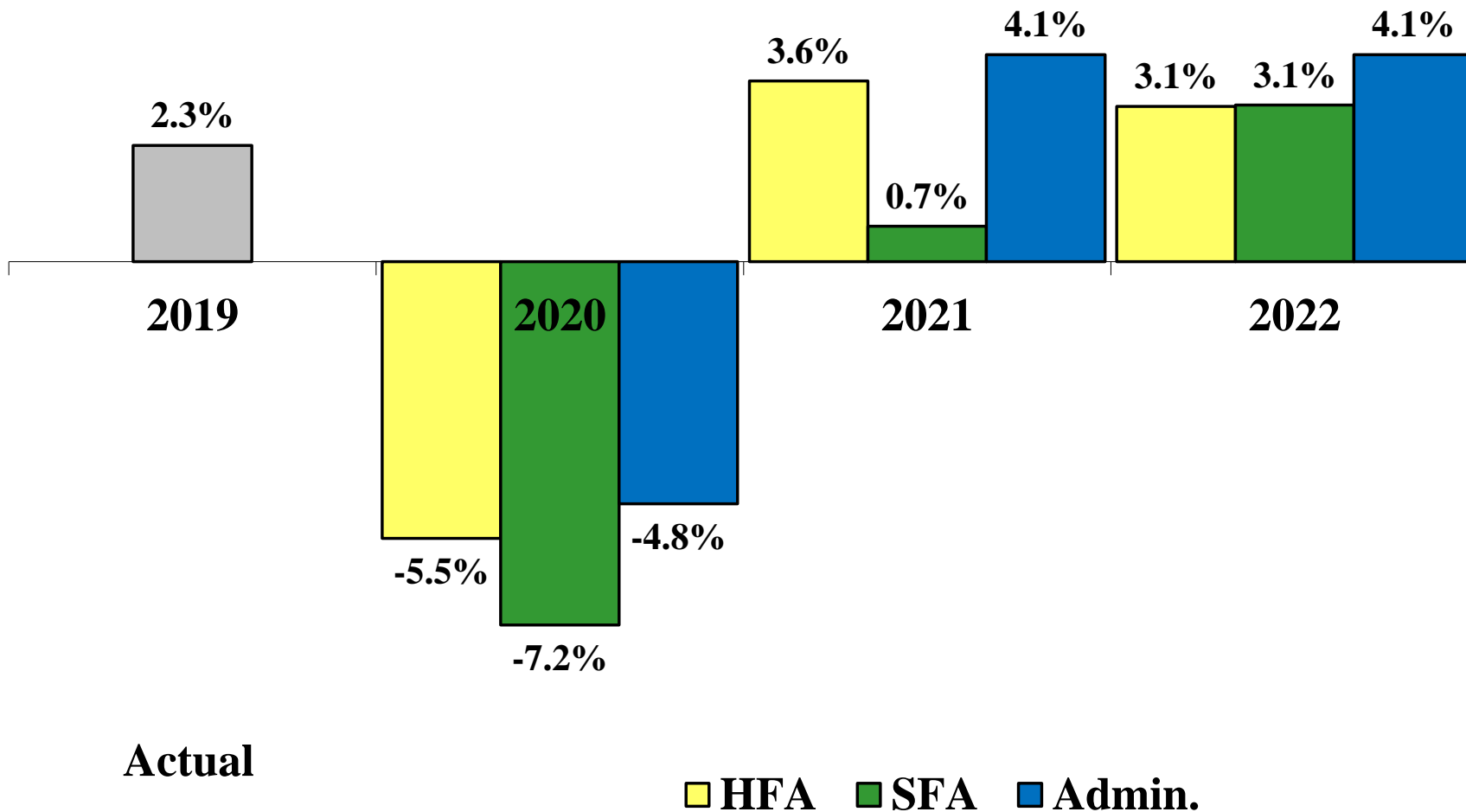
- COVID-19 drastically altered the economic outlook
- Economic recession with a slow recovery projected

Michigan

- A harder hit from the recession than the national average
- Can Michigan keep pace with the national recovery post COVID-19?

GDP Forecasts

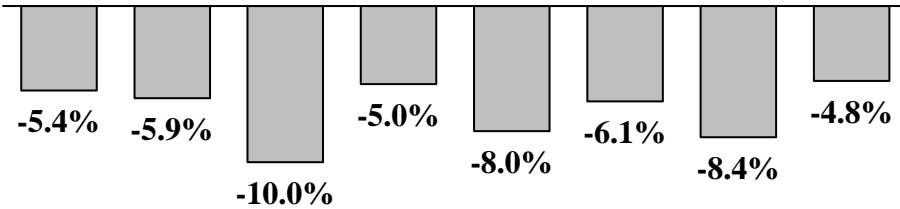
Annual Percent Change



2020 Recession - Quarterly

Quarterly GDP Declines of more than 5% since 1949

1949 Q1 1953 Q4 1958 Q1 1960 Q4 1980 Q2 1982 Q1 2008 Q4 2020 Q1



2020 Q1
advance
estimate

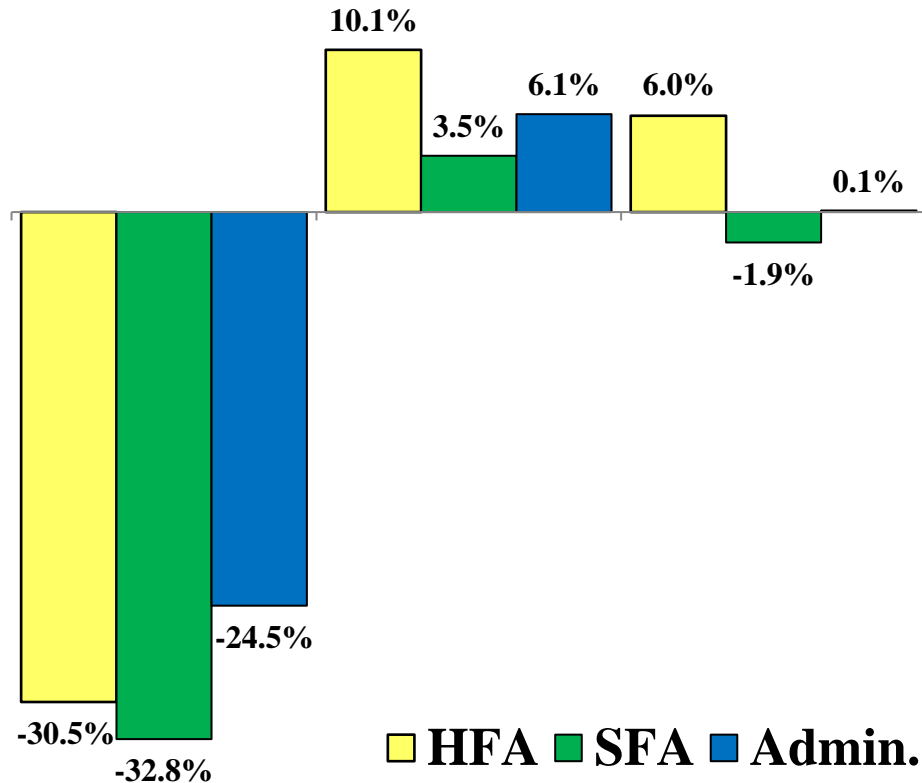
All values are annualized rates

Source: U.S. Bureau of Economic Analysis.

May 2020 Consensus Conference

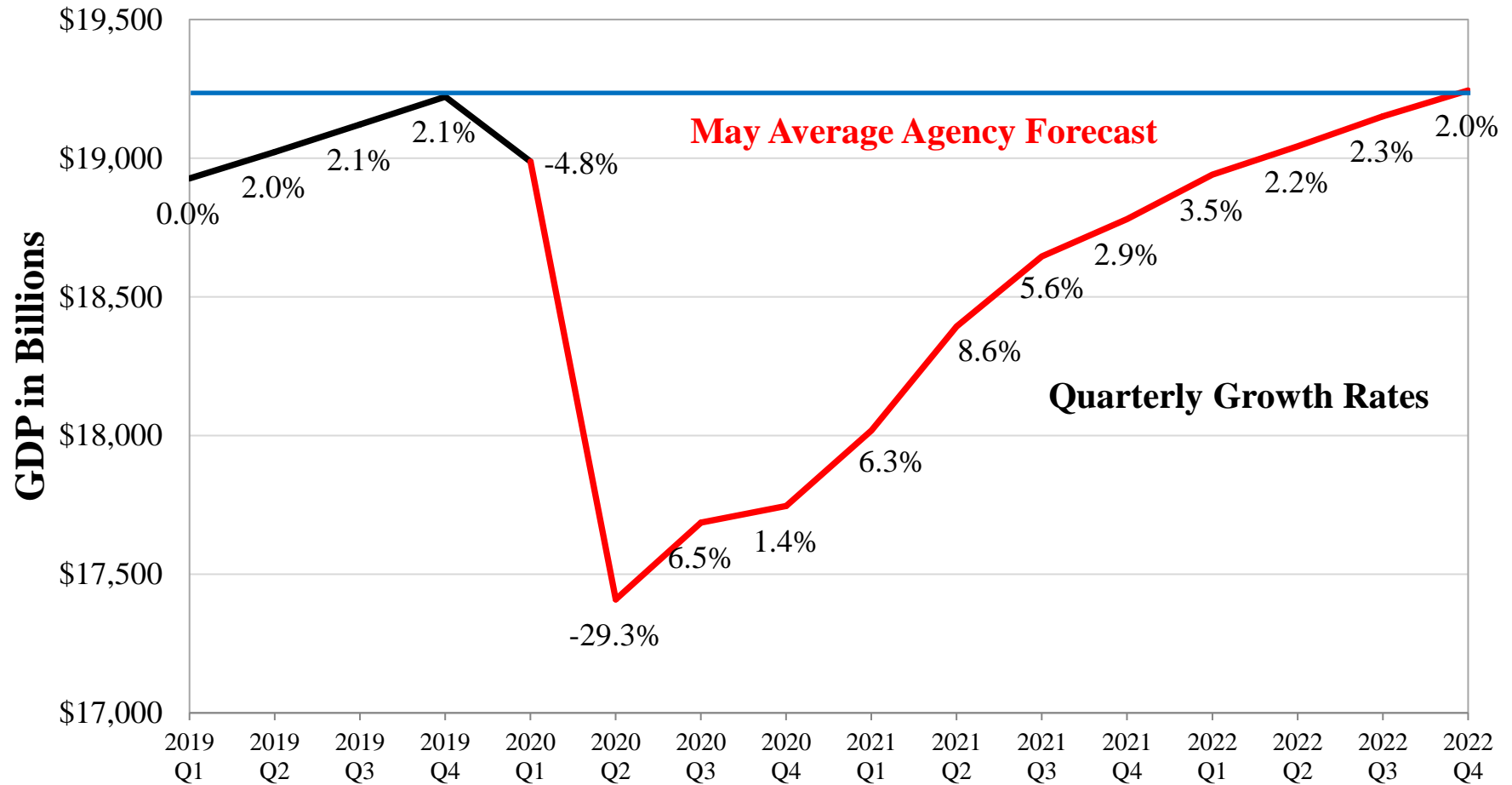
Predicted GDP

2020 Q2 2020 Q3 2020 Q4



■ HFA ■ SFA ■ Admin.

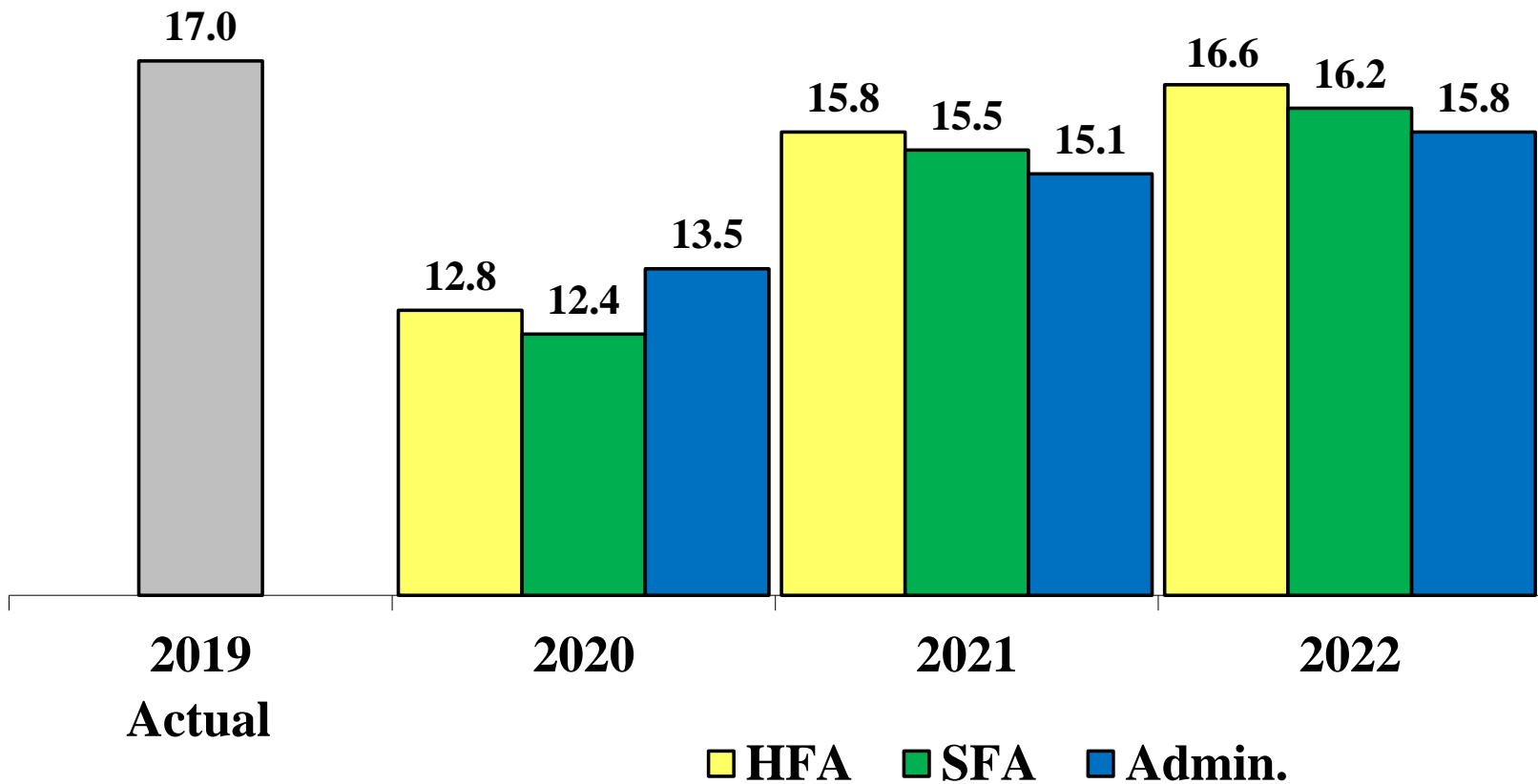
2020 Recession – Real GDP Quarterly Forecast



Source: U.S. Bureau of Economic Analysis.

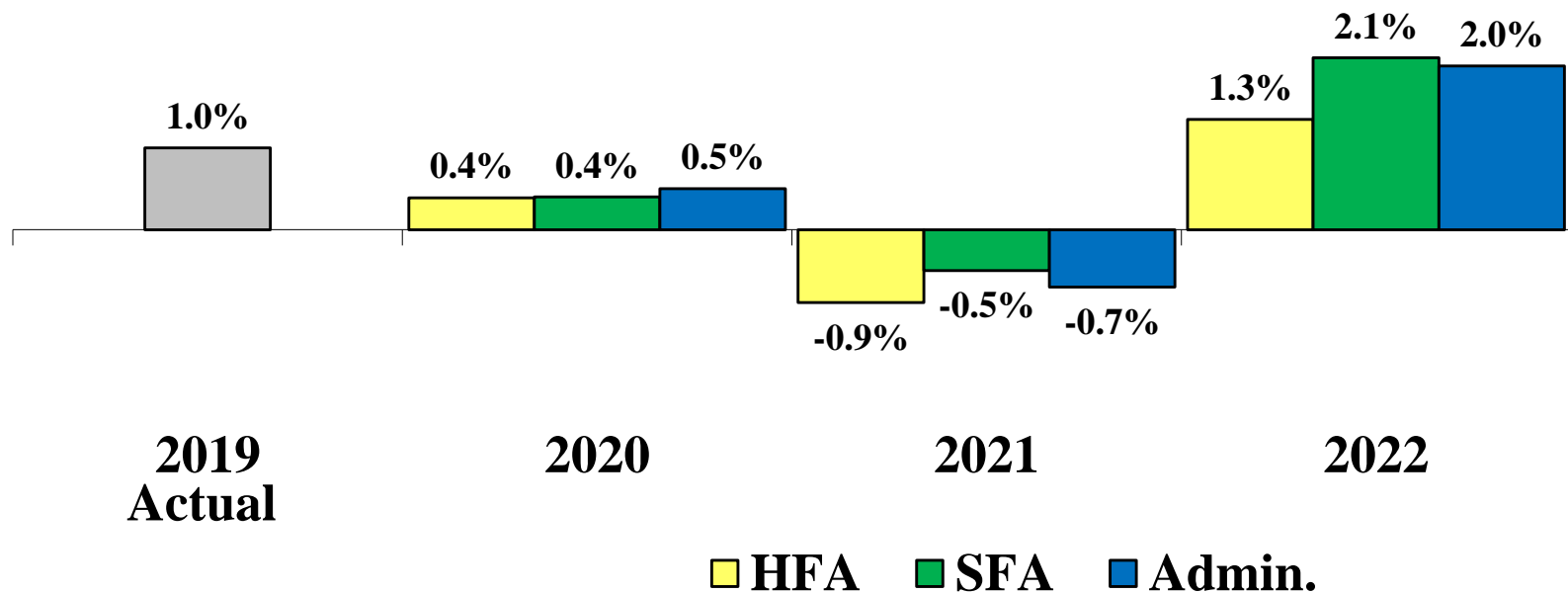
Light Vehicle Sales Forecast

Millions of Units



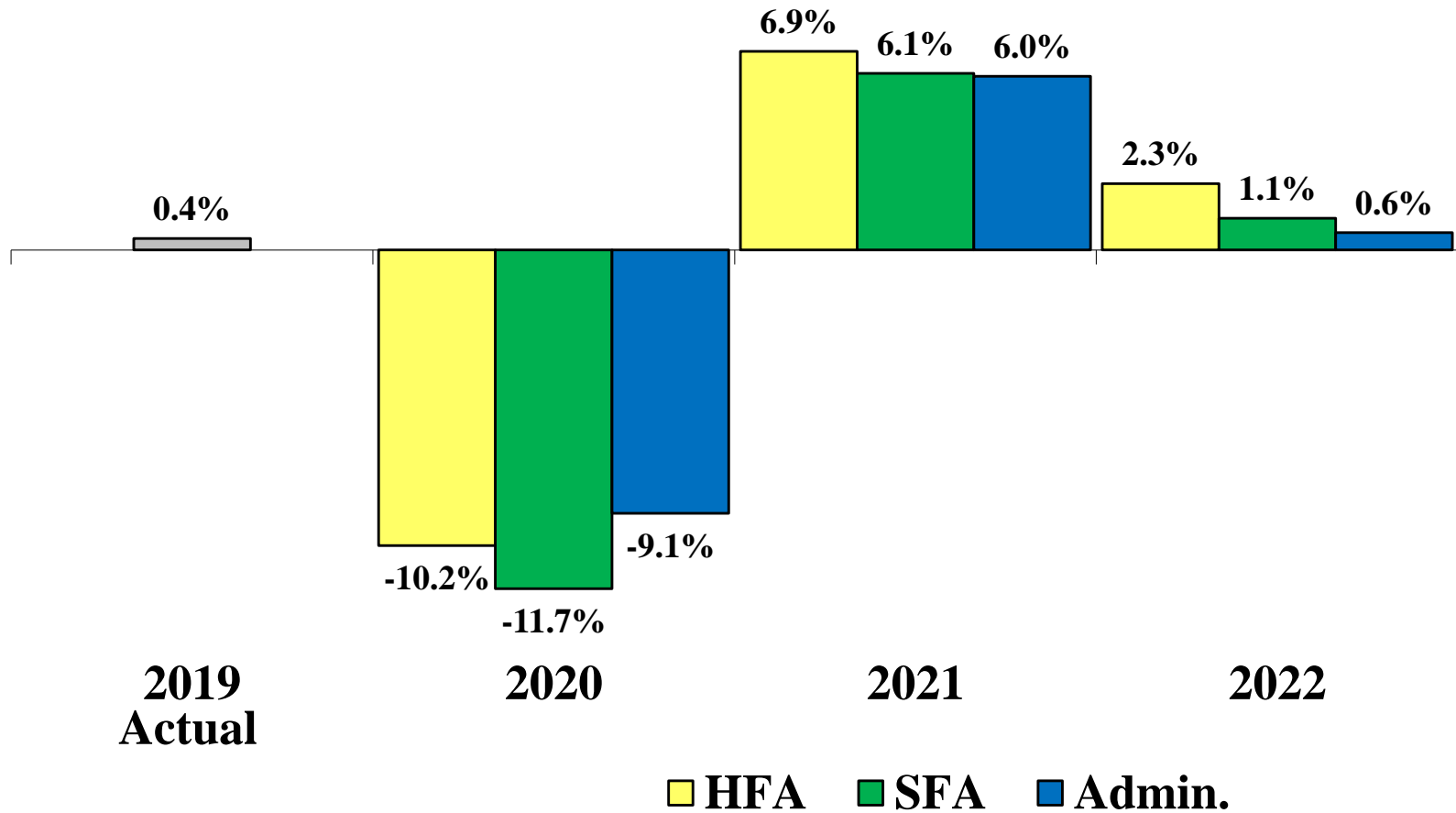
Inflation Expected to be Low In Near Term

Detroit Consumer Price Index Fiscal Year Growth



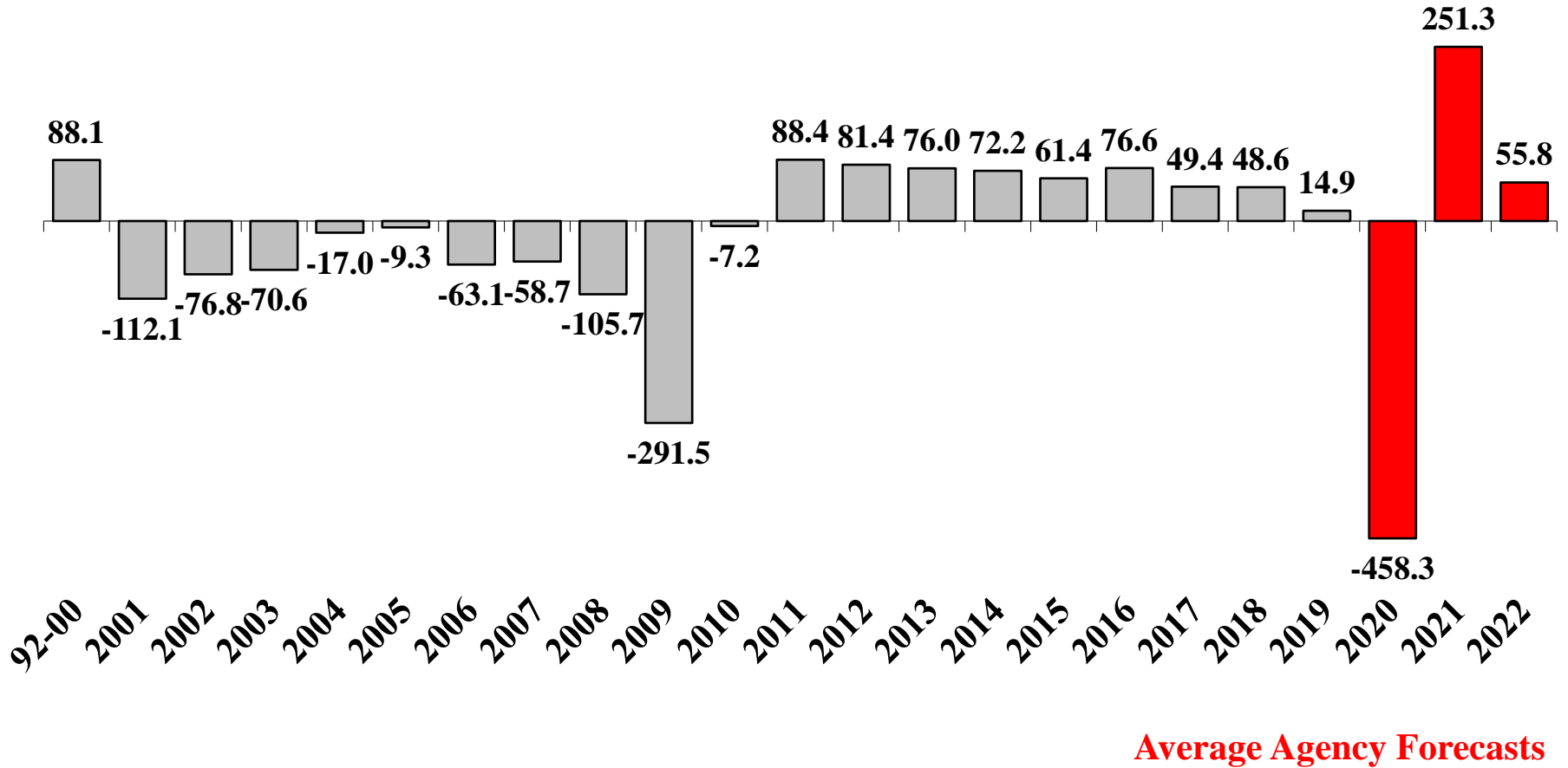
Michigan Wage and Salary Employment

Annual Percent Change



Michigan Job Changes Expected Through 2022

Change in Michigan Wage and Salary Employment Thousands

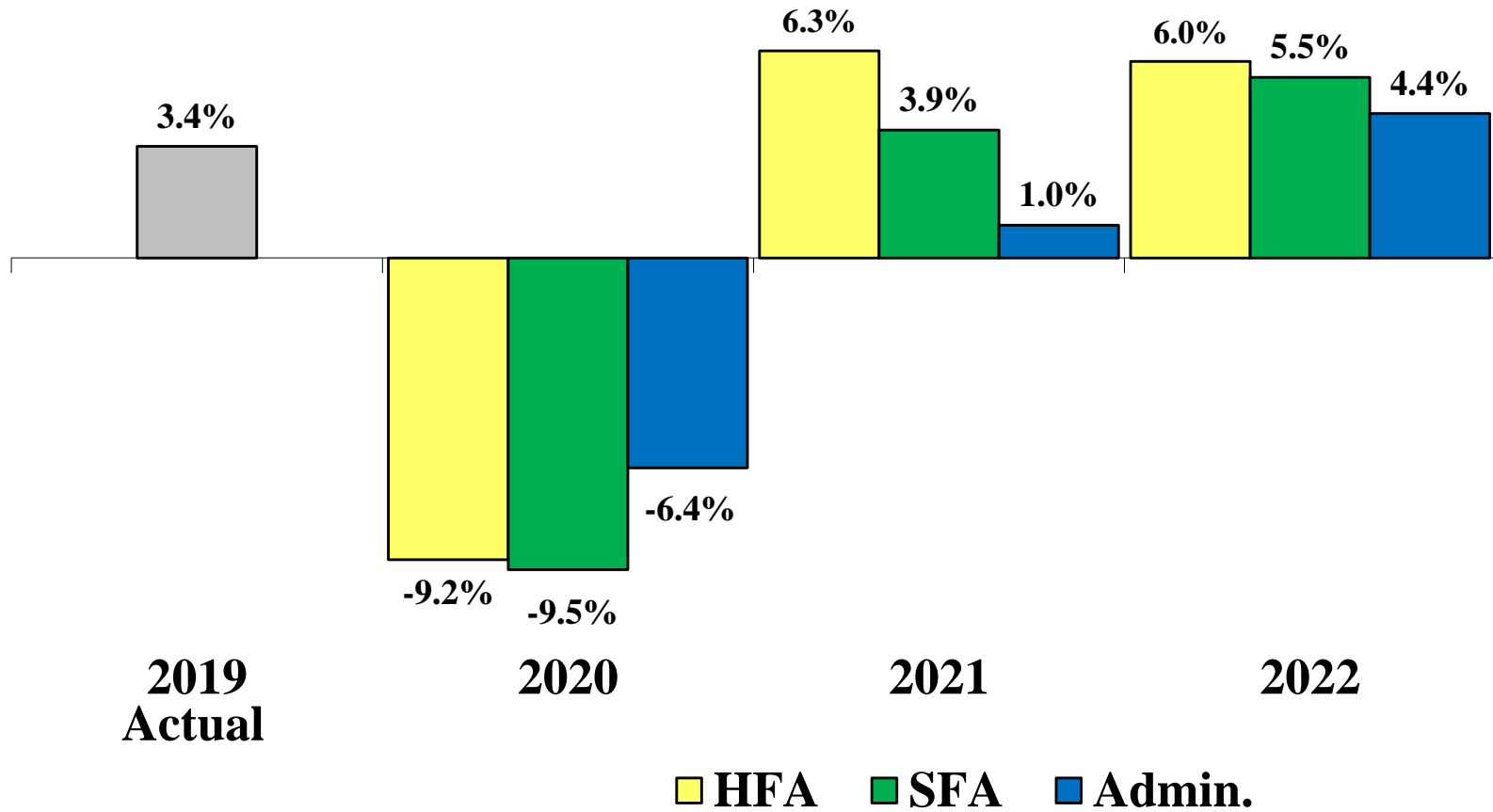


Forecast of Major Taxes

- Significant decreases in all major taxes
- CARES Act Impact
 - Unemployment benefits from the CARES Act supports withholding through July 2020
 - Income Tax and CIT lowered by federal tax base changes
- Sales tax hit by lower consumer spending, auto sales, and gas prices
 - Sales tax collections boosted from *South Dakota v. Wayfair* and Market Place legislation

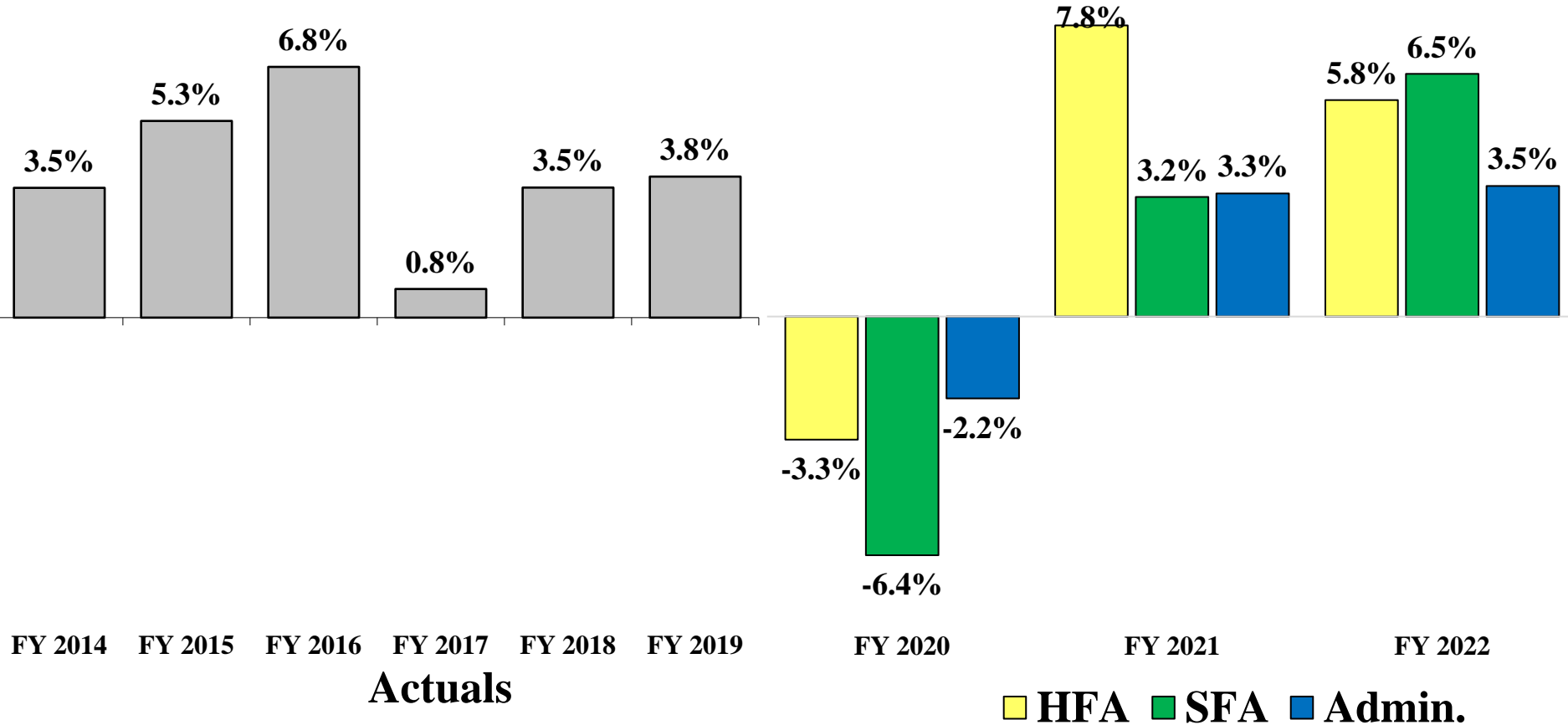
Baseline Income Tax Growth

Fiscal Year Growth



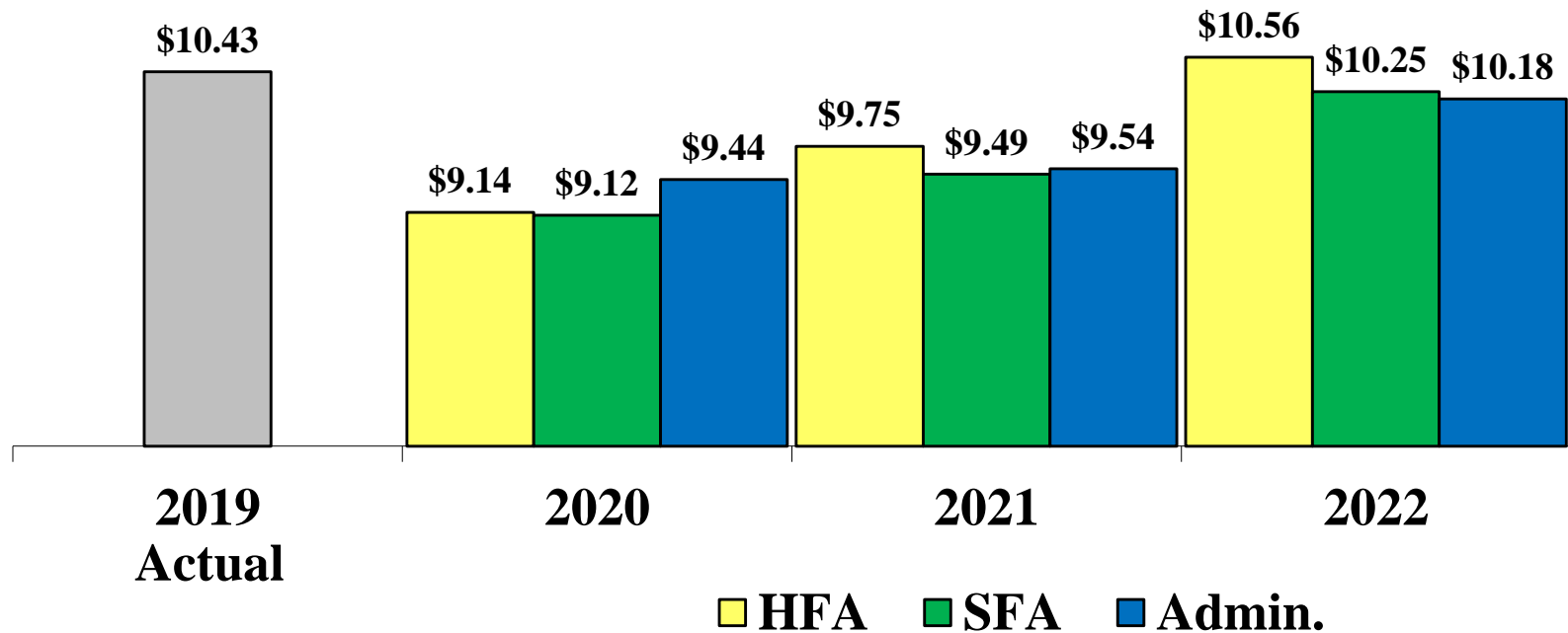
Baseline Income Tax Withholding Growth

Fiscal Year Growth



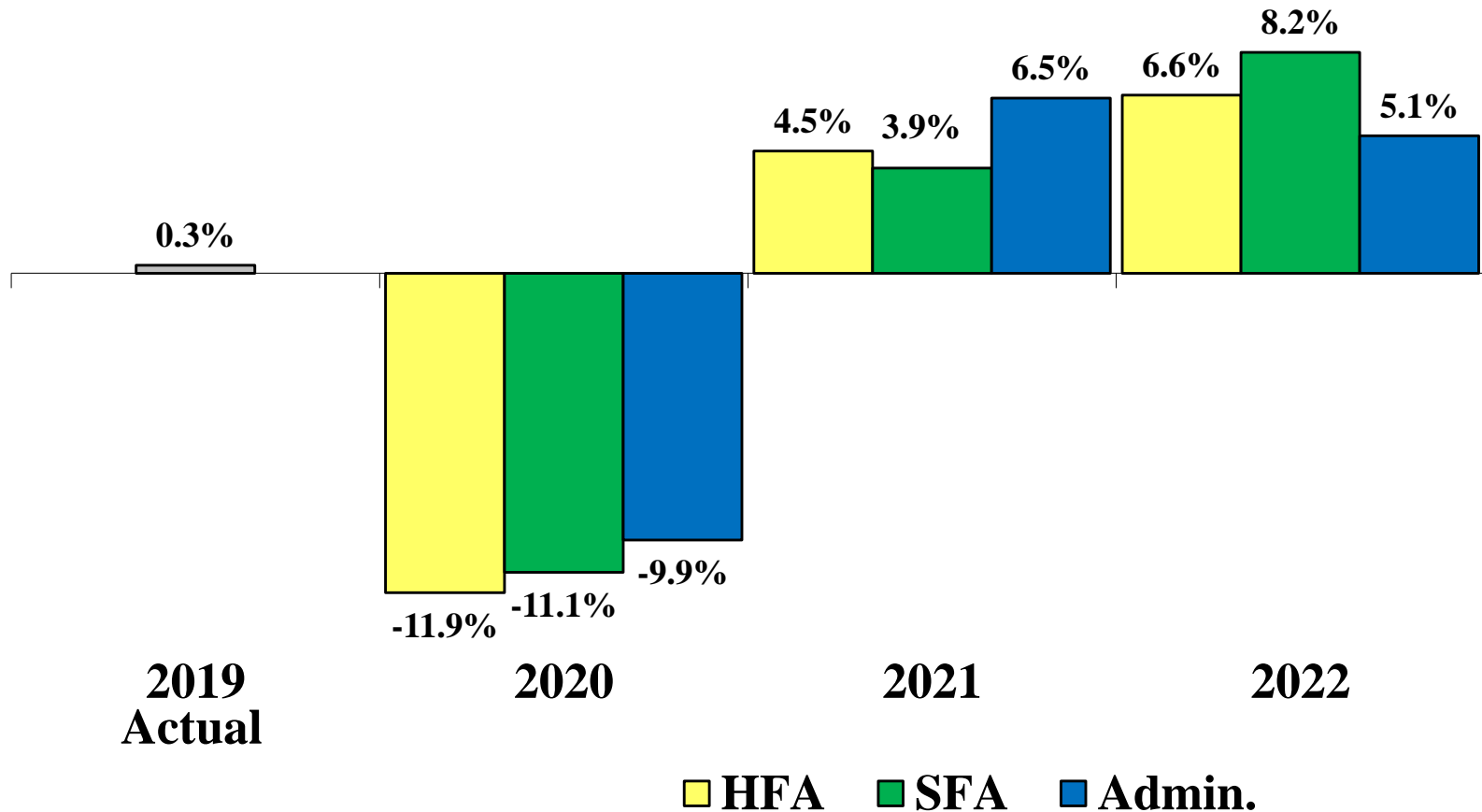
Net Income Tax Revenue Estimates

Fiscal Year
Billions



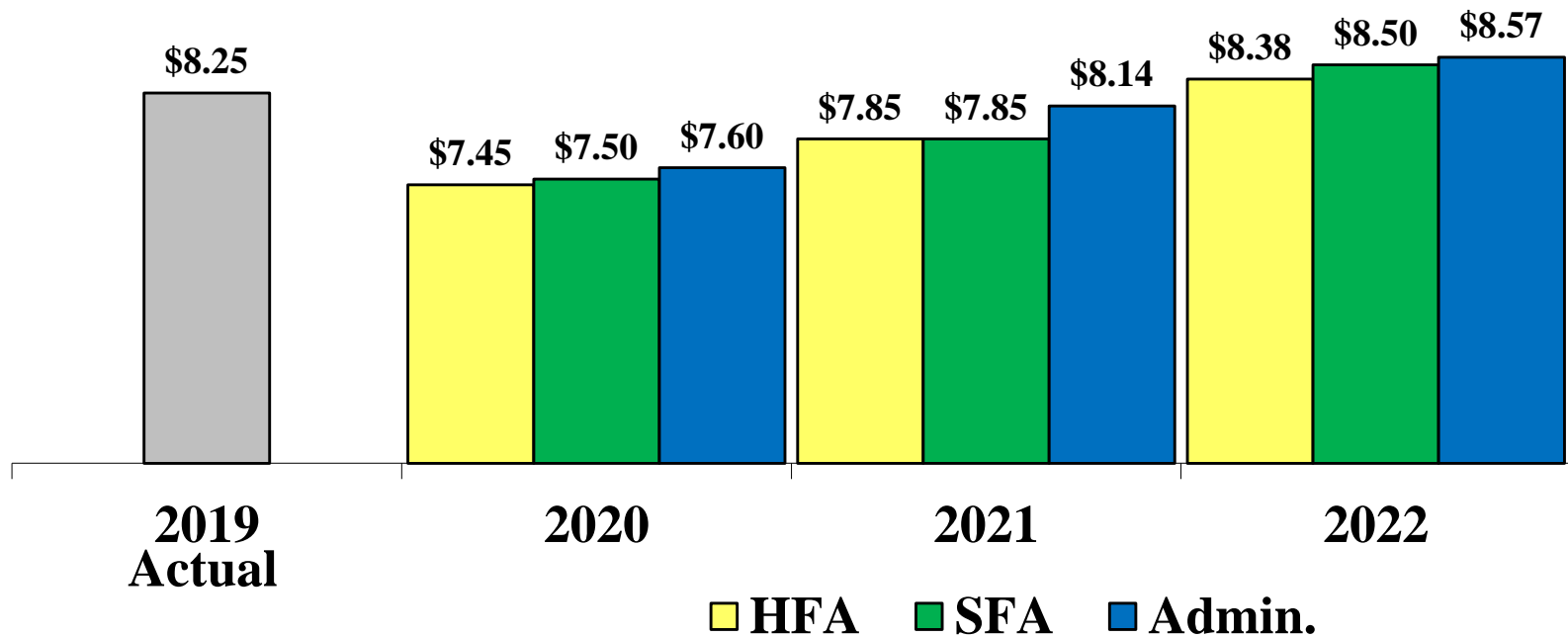
Baseline Sales Tax Growth

Fiscal Year Growth



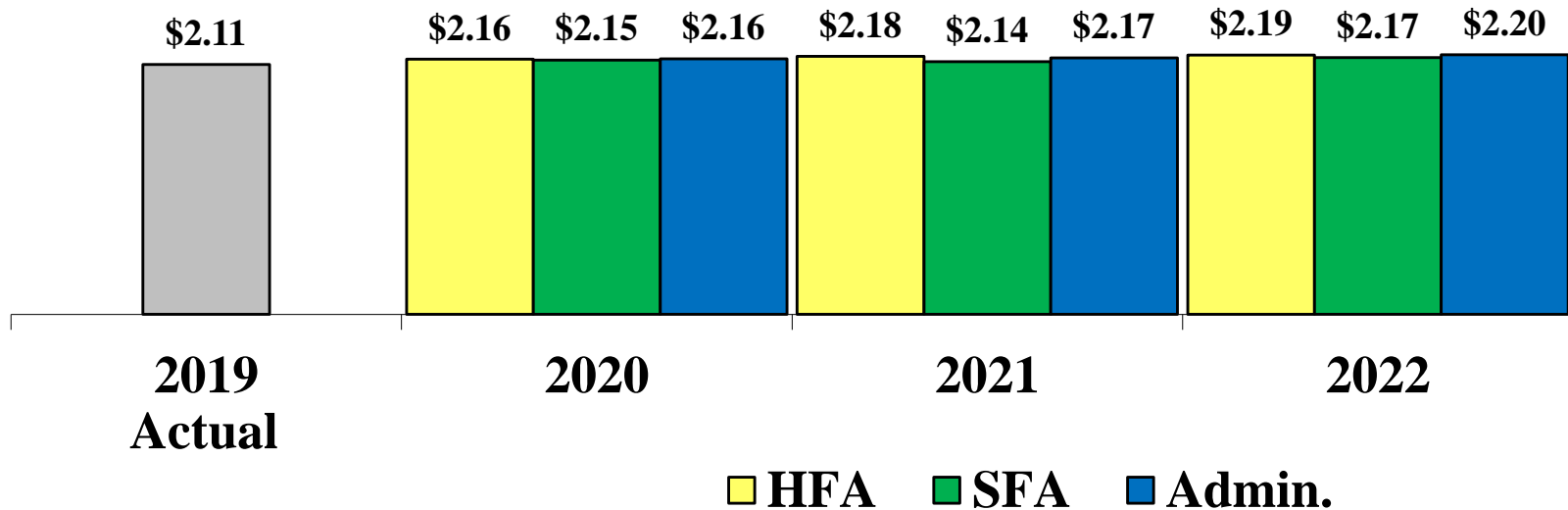
Net Sales Tax Revenue Estimates

Fiscal Year
Billions



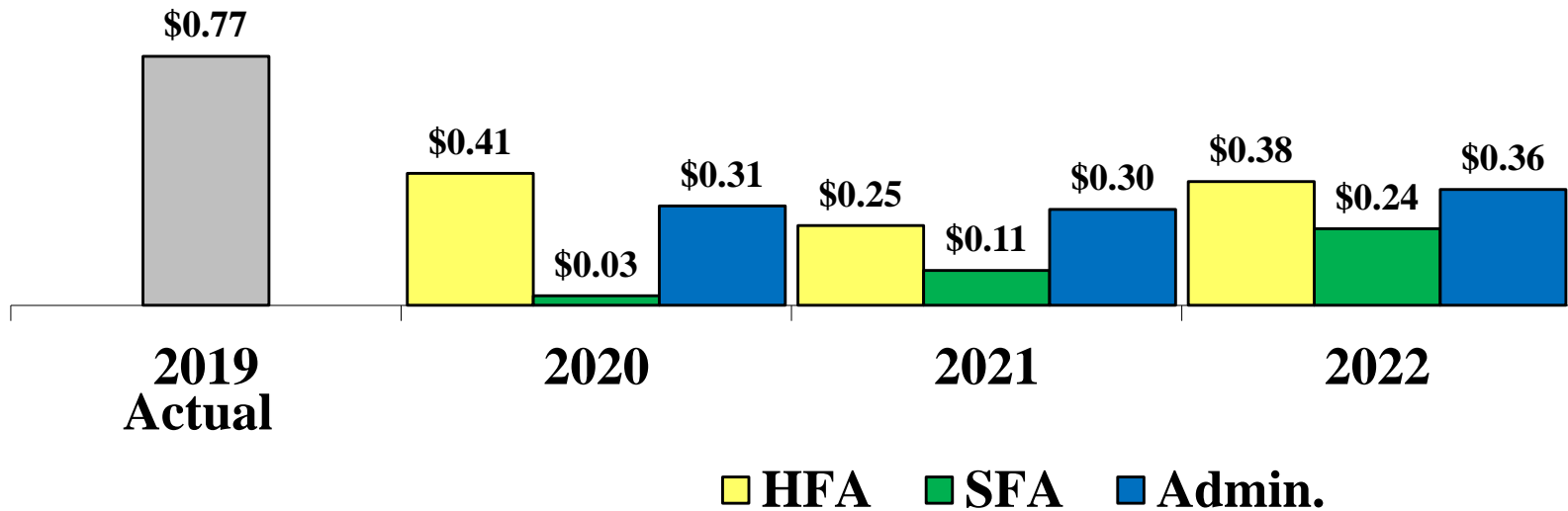
Net SET Revenue Estimates

Fiscal Year
Billions



Net CIT/MBT Revenue Estimates

Fiscal Year
Billions

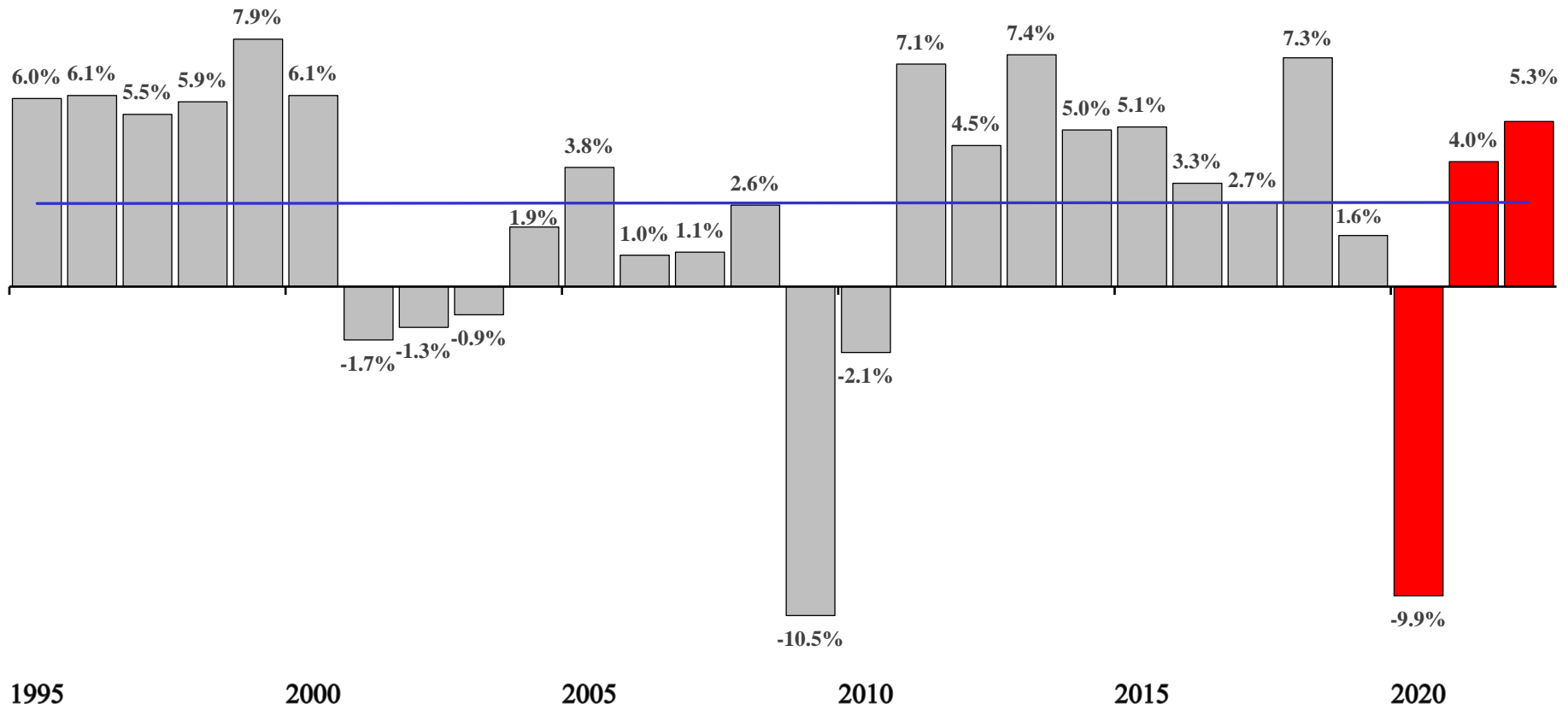


GF-GP and School Aid Fund Revenue

- Falling revenue sources lower both GF-GP and SAF
- Numerous legislative changes impact the distribution of revenue by fund
 - General Fund Revenue has been diverted and reduced
 - Transfers to Michigan Transportation Fund (MTF) from 2015 Road Package and PA 588 of 2018
 - FY 19: \$264 million
 - FY 20: \$468 million
 - FY 21: \$600 million
 - GF-GP Use Tax revenue for personal property tax reimbursement continues to grow
 - HB 4125 increased the SAF to the level prior to PA 588 of 2018, but did not lower the MTF or Renew Michigan amounts
- Fixed rate earmarks leave more volatility in the General Fund

GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes

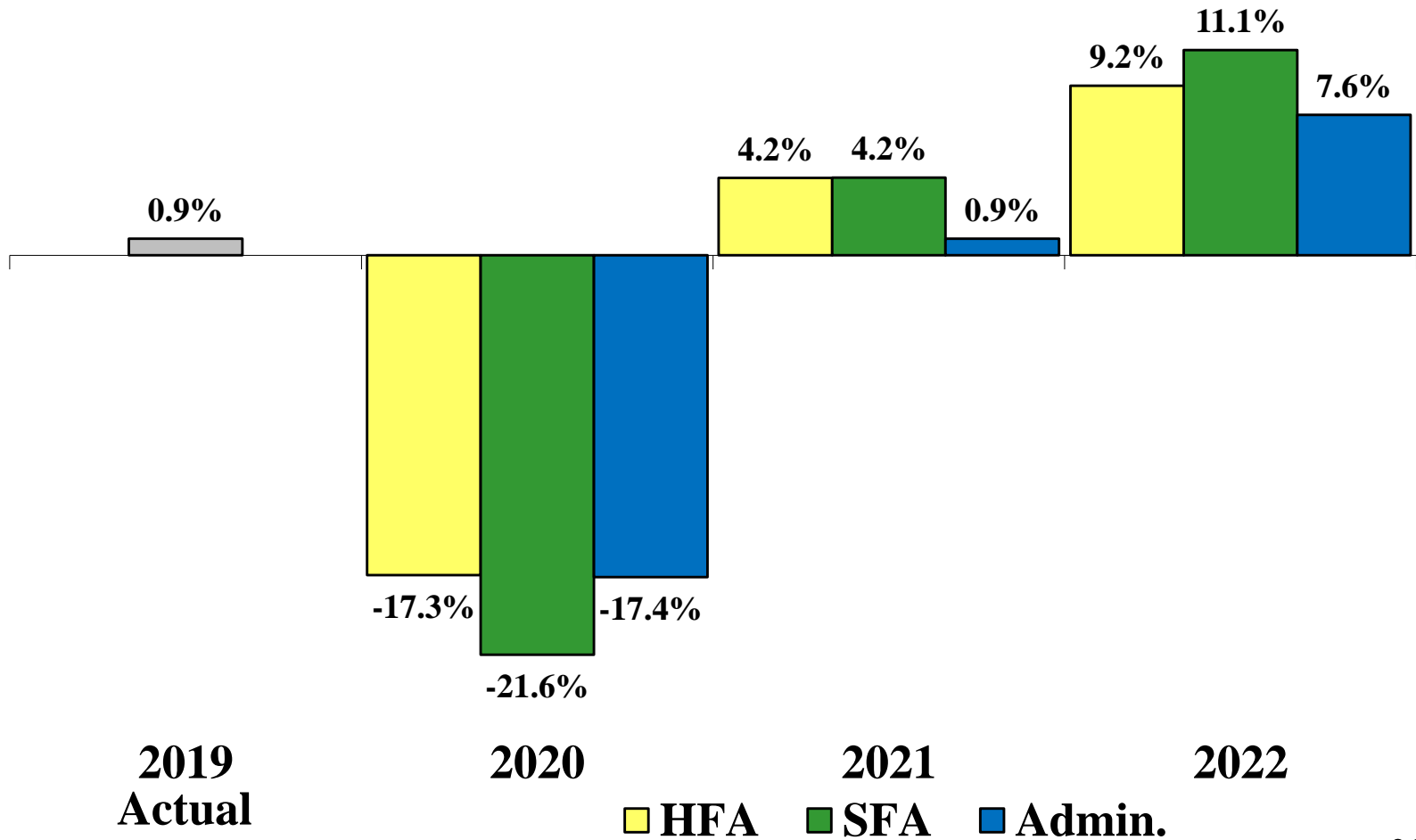


Average Agency Forecasts

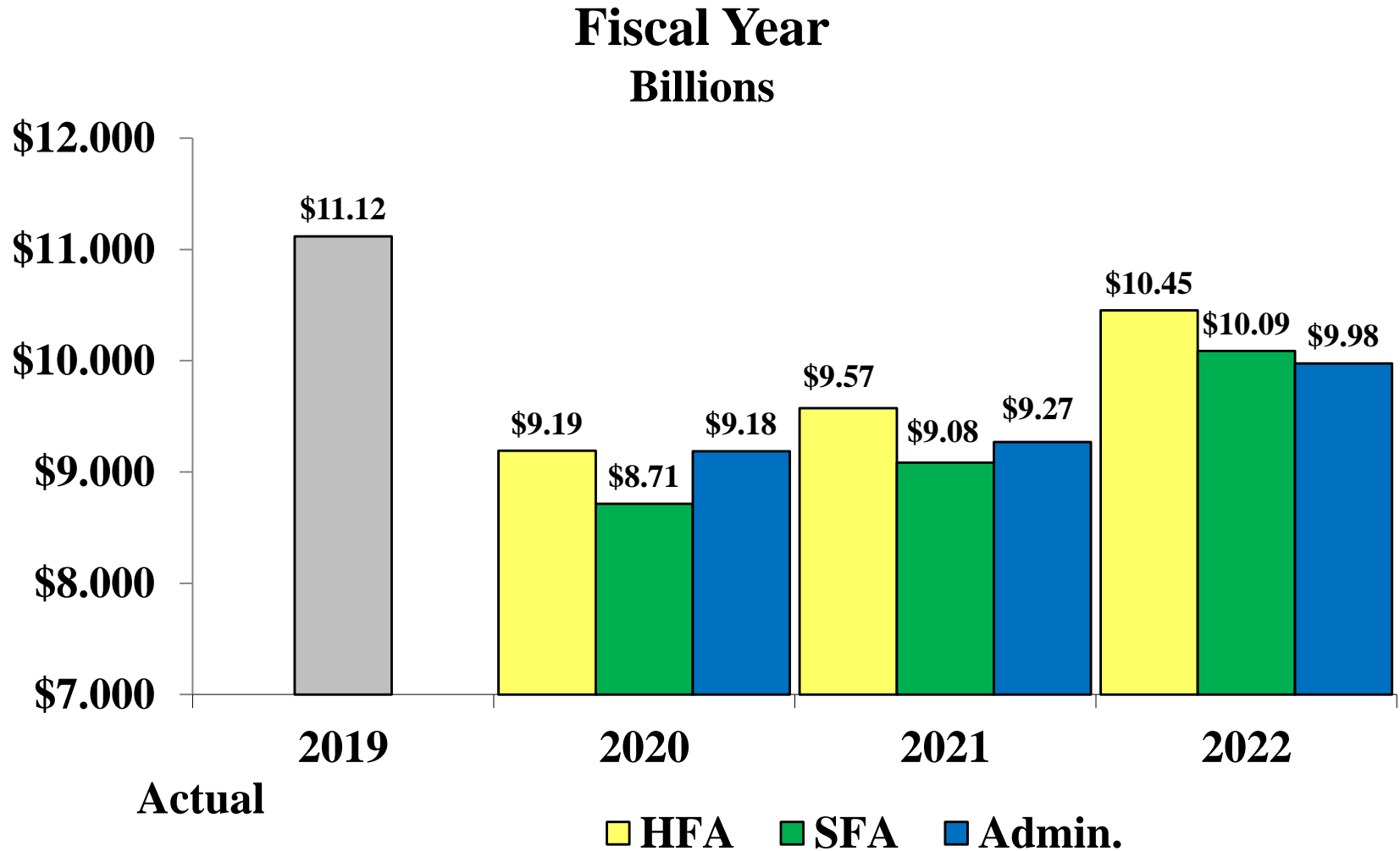
20

GF-GP Net Revenue Growth

Fiscal Year Growth

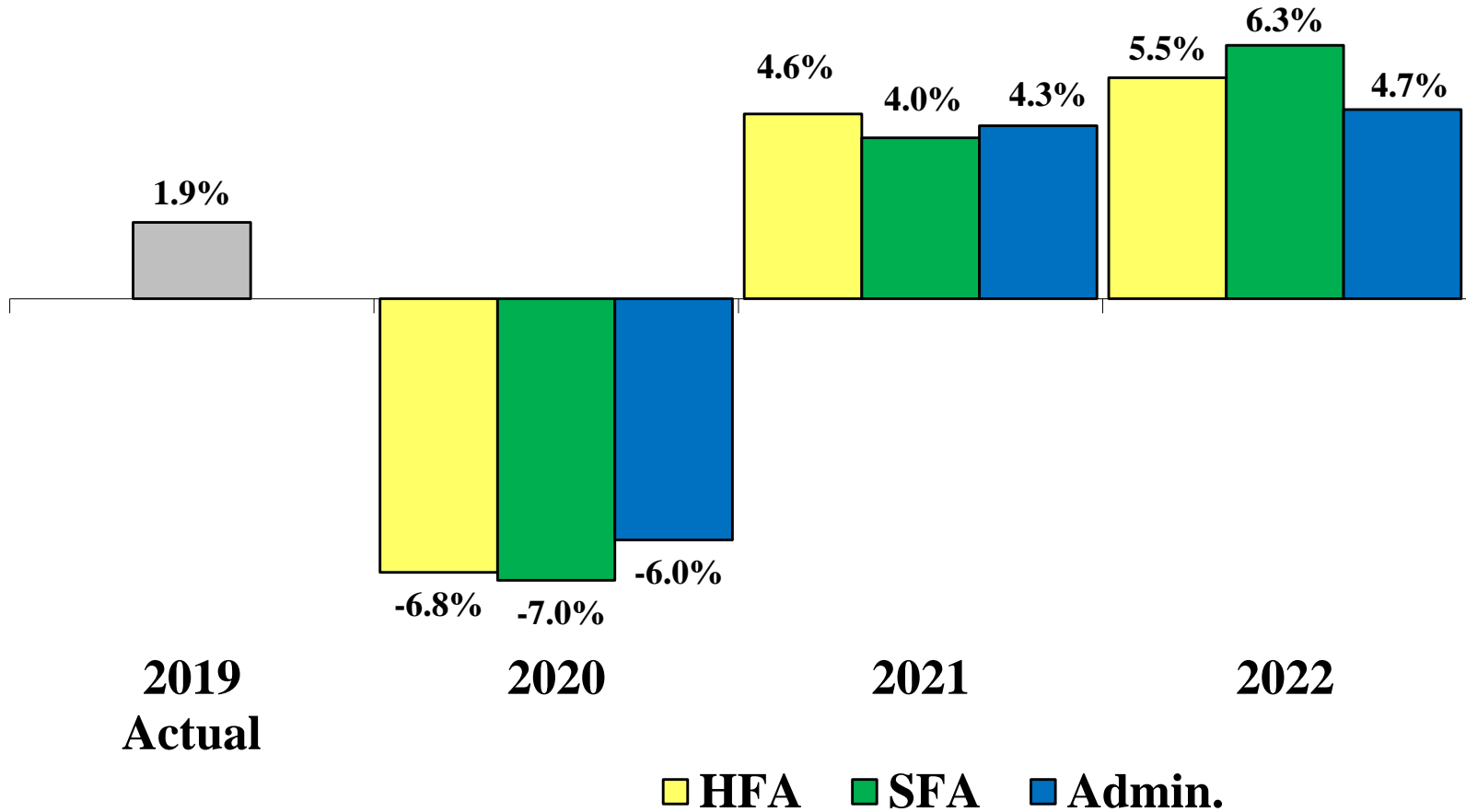


GF-GP Net Revenue Estimates



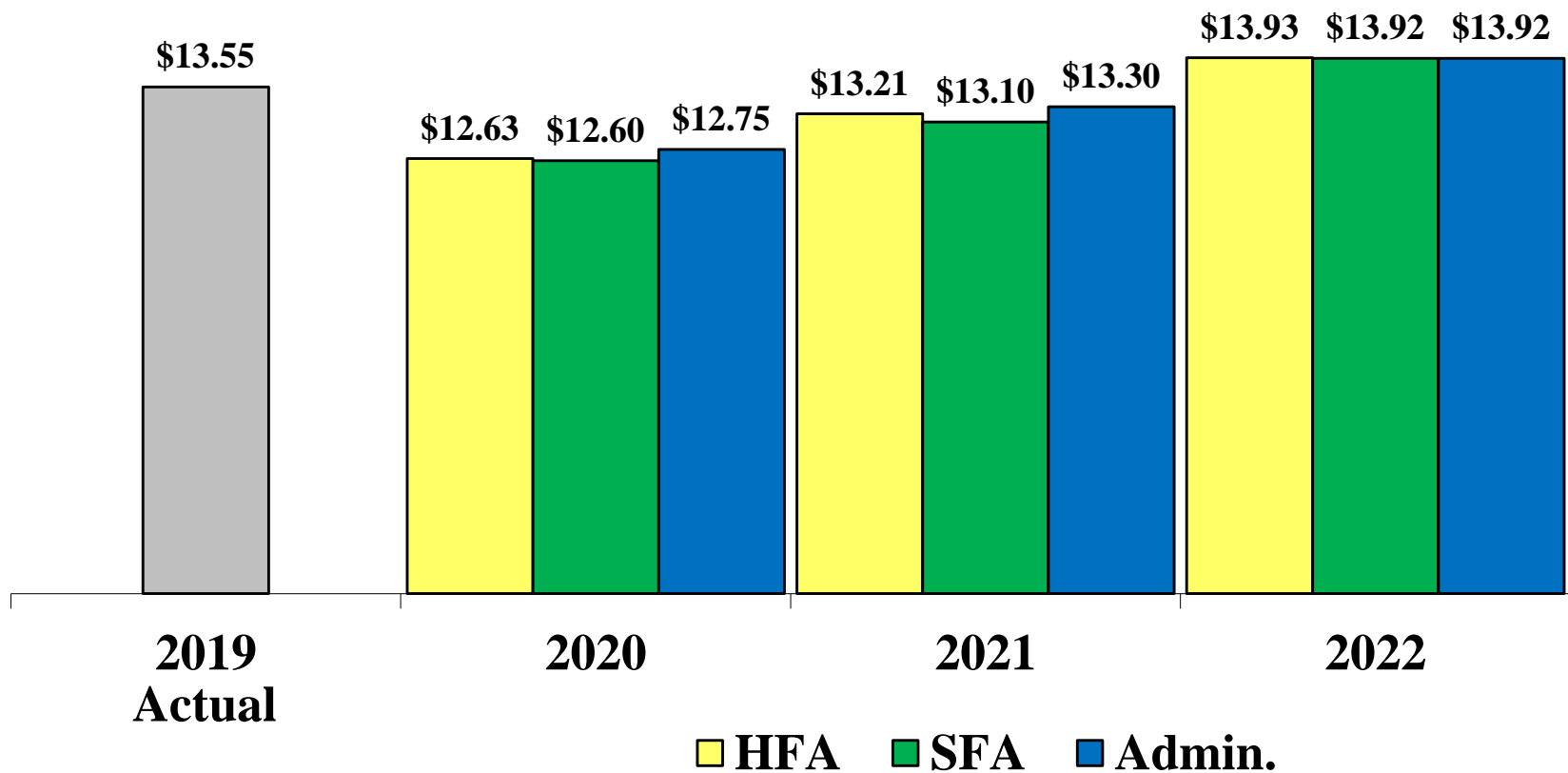
School Aid Fund Net Growth

Fiscal Year Growth



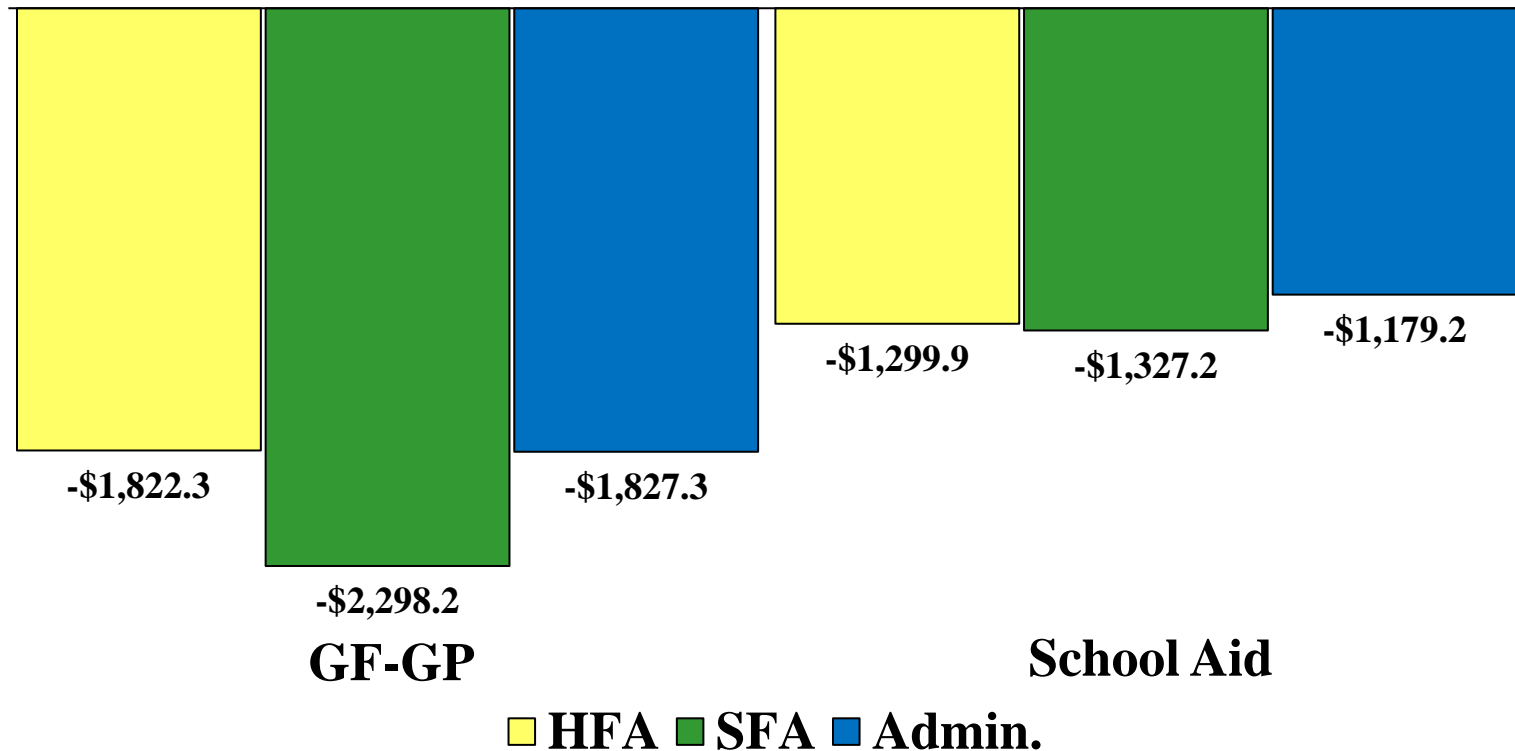
School Aid Fund Net Revenue Estimates

Fiscal Year
Billions



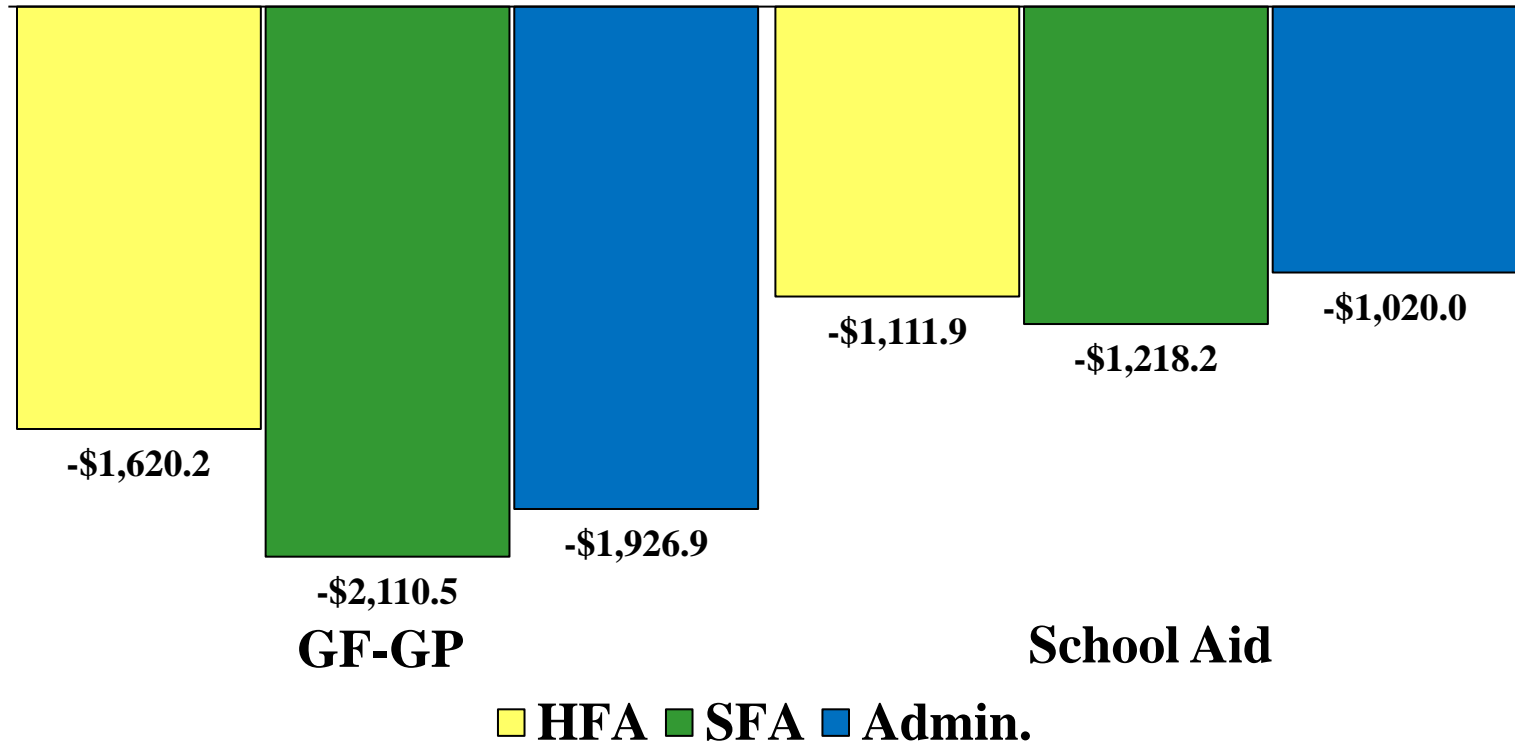
FY 2020 Changes Since January Consensus Estimates

Millions



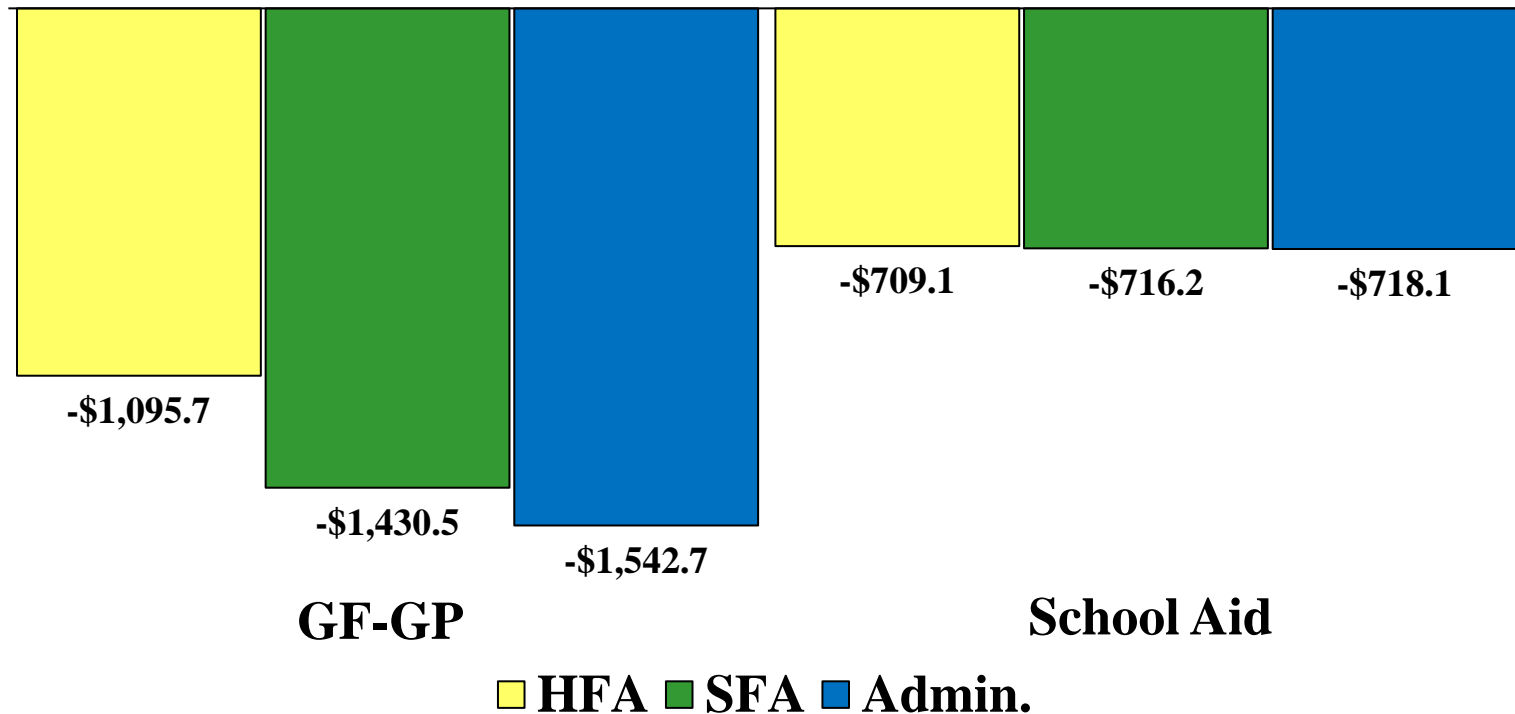
FY 2021 Changes Since January Consensus Estimates

Millions



FY 2022 Changes Since January Consensus Estimates

Millions



Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2020			FY 2021			FY 2022		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
GF-GP	\$9,189.8	\$8,713.9	\$9,184.8	\$9,575.4	\$9,084.0	\$9,267.6	\$10,453.3	\$10,088.0	\$9,975.8
School Aid Fund	\$12,625.6	\$12,598.3	\$12,746.3	\$13,193.6	\$13,099.3	\$13,297.5	\$13,918.6	\$13,923.9	\$13,922.0

Difference from January Consensus Estimates									
	FY 2020			FY 2021			FY 2022		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
GF-GP	(\$1,822.3)	(\$2,298.2)	(\$1,827.3)	(\$1,619.1)	(\$2,110.5)	(\$1,926.9)	(\$1,065.2)	(\$1,430.5)	(\$1,542.7)
School Aid Fund	(\$1,299.9)	(\$1,327.2)	(\$1,179.2)	(\$1,123.9)	(\$1,218.2)	(\$1,020.0)	(\$721.5)	(\$716.2)	(\$718.1)
Combined	(\$3,122.2)	(\$3,625.4)	(\$3,006.5)	(\$2,743.0)	(\$3,328.7)	(\$2,946.9)	(\$1,786.7)	(\$2,146.7)	(\$2,260.8)

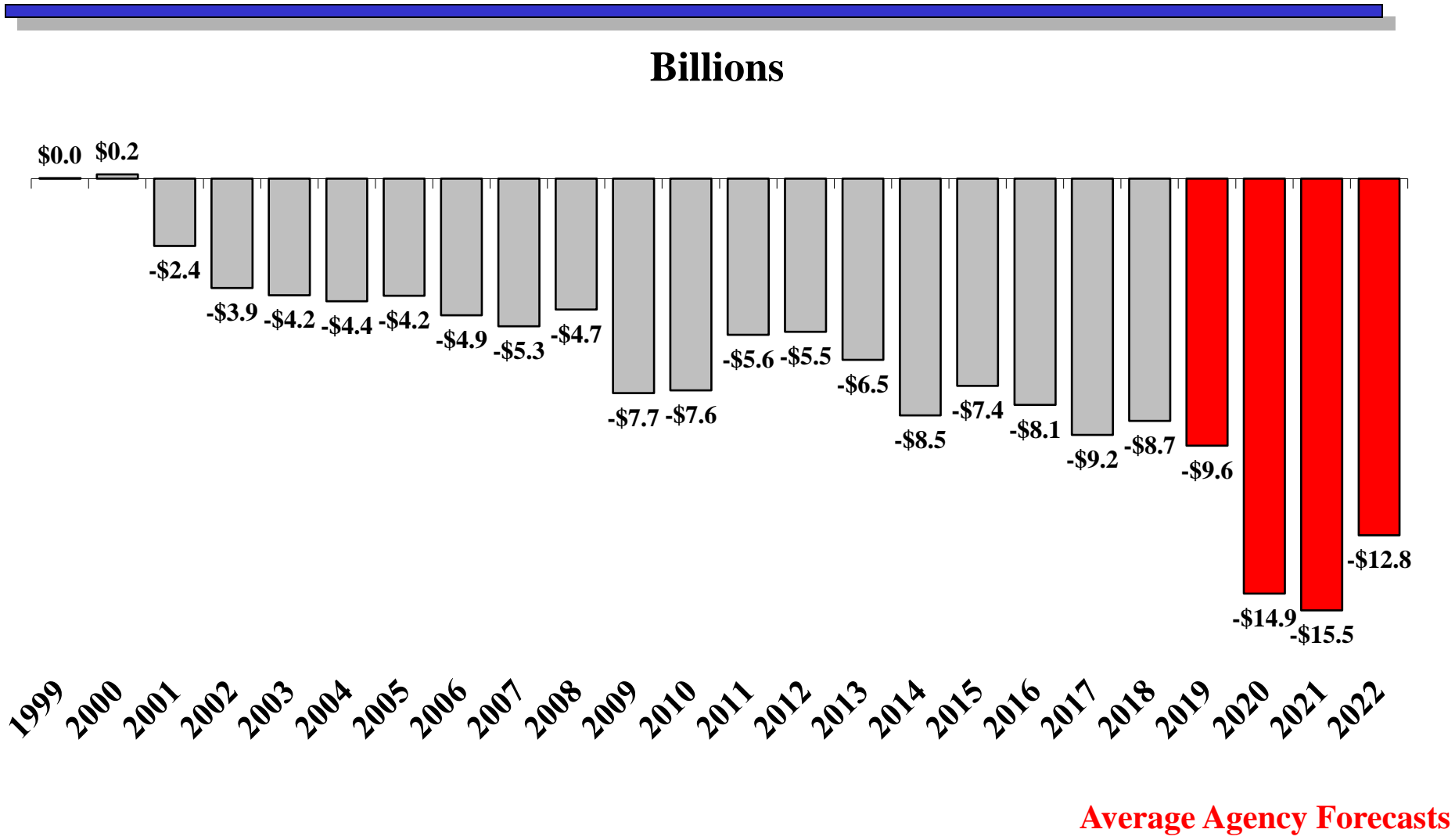
Budget Stabilization Fund

Both pay-outs and pay-ins require an appropriation

The Agencies estimate:

- No pay-ins in FY 2020 & FY 2021
- Pay-ins ranging from \$159 to \$382 million in FY 2022
- BSF pay-out of \$287.2 million in FY 2020
- No BSF pay-outs during FY 2021 & FY 2022

Constitutional Revenue Limit Calculation



Forecast Risks

Economic

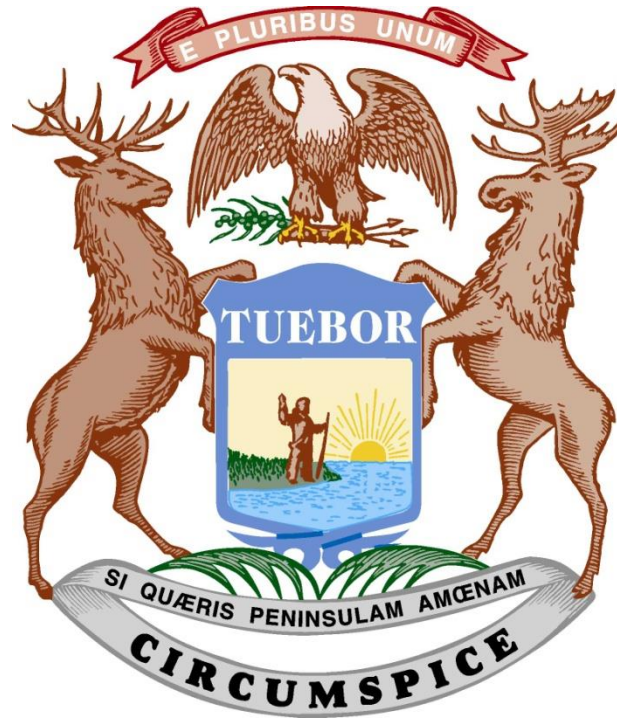
- COVID-19 short-term and long-term impact
- Federal policy, trade policy, and monetary policy
- Slower global growth

Michigan Tax Revenue

- Volatility in Individual and Corporate Income Taxes
- Will consumer patterns change as a result of COVID-19?
- How will Michigan's economy, population, and workforce recover from the recession?

Economic and Revenue Forecasts

FY 2020 * FY 2021 * FY 2022



Consensus Revenue Estimating Conference

May 15, 2020