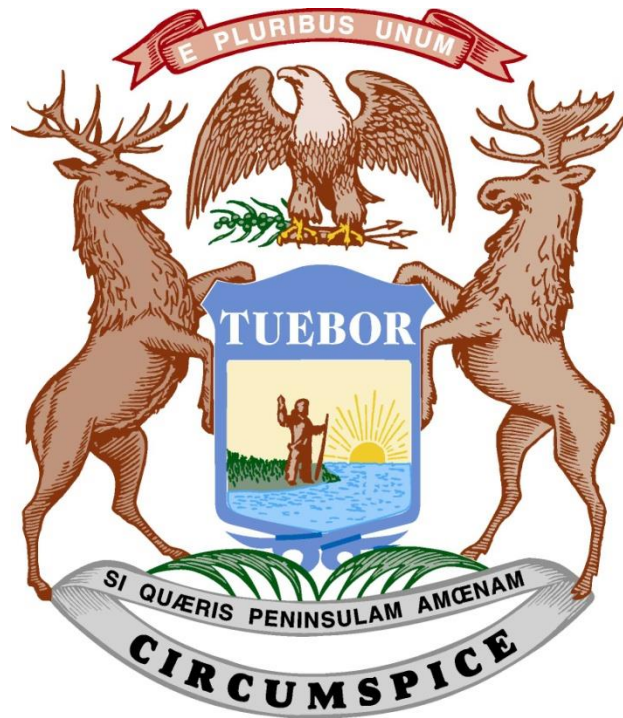


ECONOMIC AND REVENUE FORECASTS

FY 2023 * FY 2024 * FY 2025



CONSENSUS REVENUE ESTIMATING CONFERENCE (CREC)

MAY 19, 2023

OUTLINE

- **Recent Economic and Revenue Updates**
Eric Bussis, Department of Treasury
- **Revenue Estimates for Major Taxes**
Jim Stansell, House Fiscal Agency
- **Revenue Estimates by Fund**
David Zin, Senate Fiscal Agency

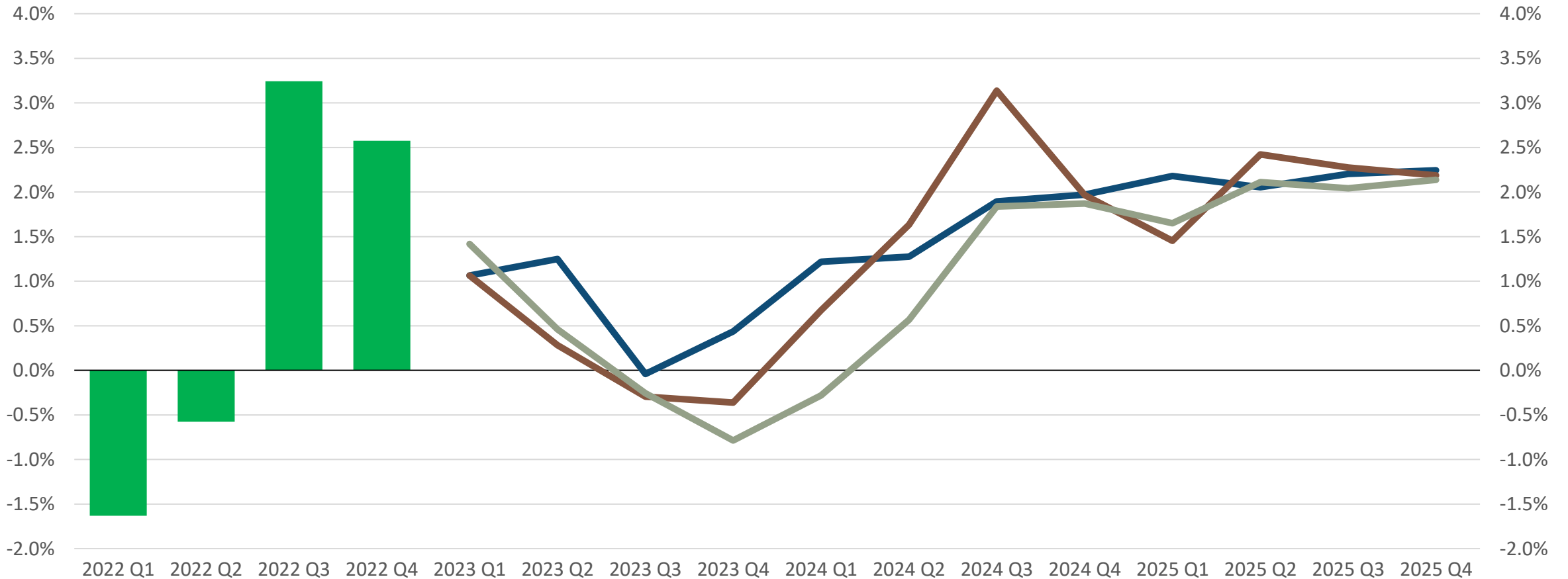
ECONOMIC OUTLOOK

- U.S. Economy
 - Real GDP will grow at progressively slower rates through 2024, before improving in 2025
 - Wage and salary employment growth will slow through 2024, gradually improving in 2025
 - Inflation is currently high, but is expected to slow over the next three years, with inflation around 4.5% in 2023 and the pace of increase slows to 3.0% in 2025
- Michigan Economy
 - Michigan's unemployment rate is forecast to trend slightly above the national rate through 2025
 - Forecast to increase from 4.3% in 2023 to 4.8% in 2024
 - Michigan wage and salary employment growth is expected to follow a similar path as the nation
 - Michigan wage and salary income growth is expected to be similar to national growth

Agency Forecasts Predict a Slowing Economy in 2023

Quarterly Real GDP

Actual SFA HFA Admin.



REVENUE UPDATES SINCE JANUARY CREC

- FY 2023 collections are tracking slightly below January CREC 2023 estimates
 - Withholding, sales, and use tax on track with the January forecast
 - Revenue from Individual Income Tax payments, excluding withholding, fell short of target by more than \$450 million
 - Revenue collections boosted by Corporate Income Tax collections, exceeding target by more than \$100 million
- Multiple tax policy and tax rate changes have taken effect, which will be included in the CREC revenue estimates

INCOME TAX RATE UNDER MCL 206.51(1)

Beginning with tax year 2023, the income tax rate is reduced if General Fund-General Purpose revenue growth exceeds defined levels

The reduction calculation uses General Fund-General Purpose revenue as published in the Annual Comprehensive Financial Report (ACFR)

- With the publication of the FY 2022 ACFR, this calculation and rate can now be determined
- Under the calculation, the Individual Income Tax Rate for tax year 2023 is 4.05%, down from the 4.25% rate for 2022

Statute states that the rate will be set at the consensus conference

TAX CHANGES IMPACT REVENUE COLLECTIONS

Legislation enacted since the January conference will lower revenue estimates

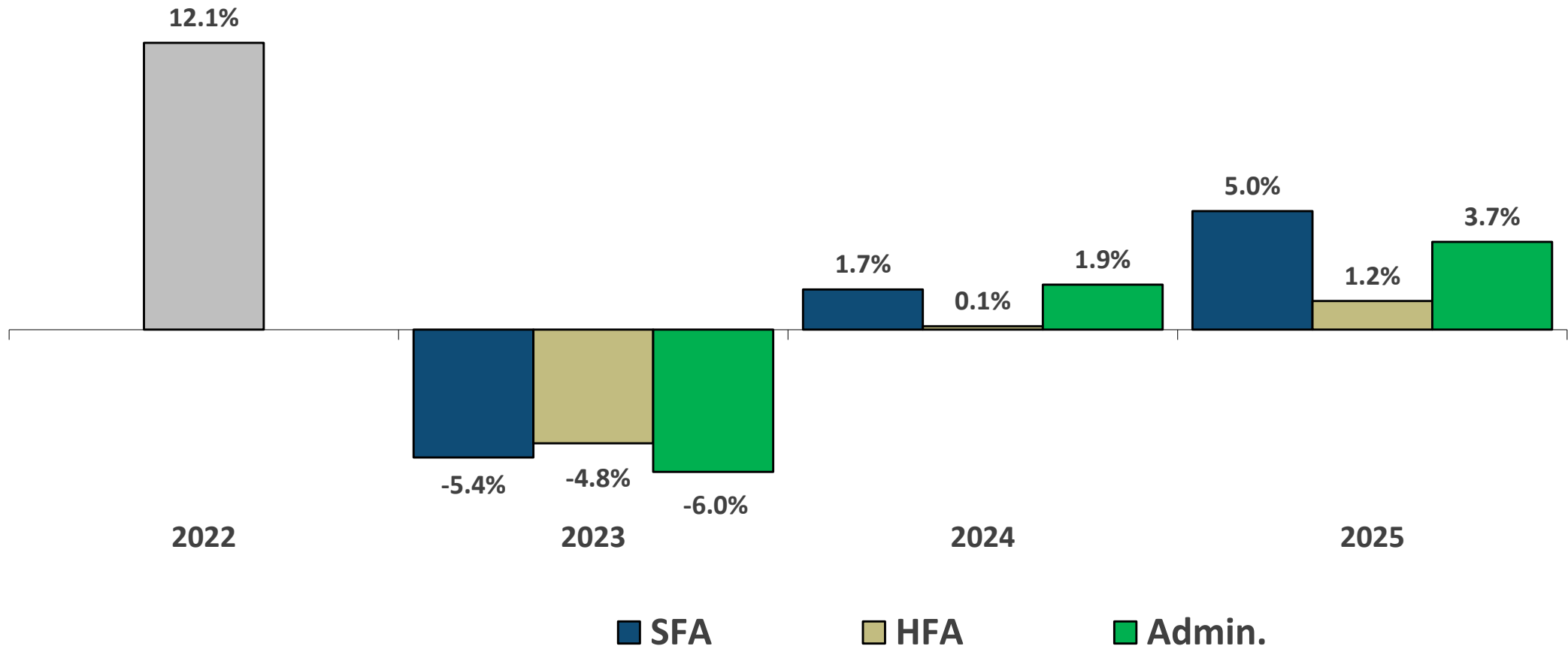
Combined impact will lower GF-GP and SAF Revenue (values in millions):

	FY 2023	FY 2024	FY 2025
Individual Income Tax Rate Trigger	-\$428.2	-\$218.7	
PA 4: Corporate Income Tax Earmarks	-\$600.0	-\$600.0	-\$600.0
PA 4: Earned Income Tax Credit		-\$768.0	-\$384.0
PA 4: Retirement Taxation Changes		-\$281.0	-\$350.0
PA 20, 21, 29: Delivery & Installation Exemption	-\$18.0	-\$62.9	-\$63.8
Total Tax Policy Impacts on Revenue	-\$1,046.2	-\$1,930.6	-\$1,397.8

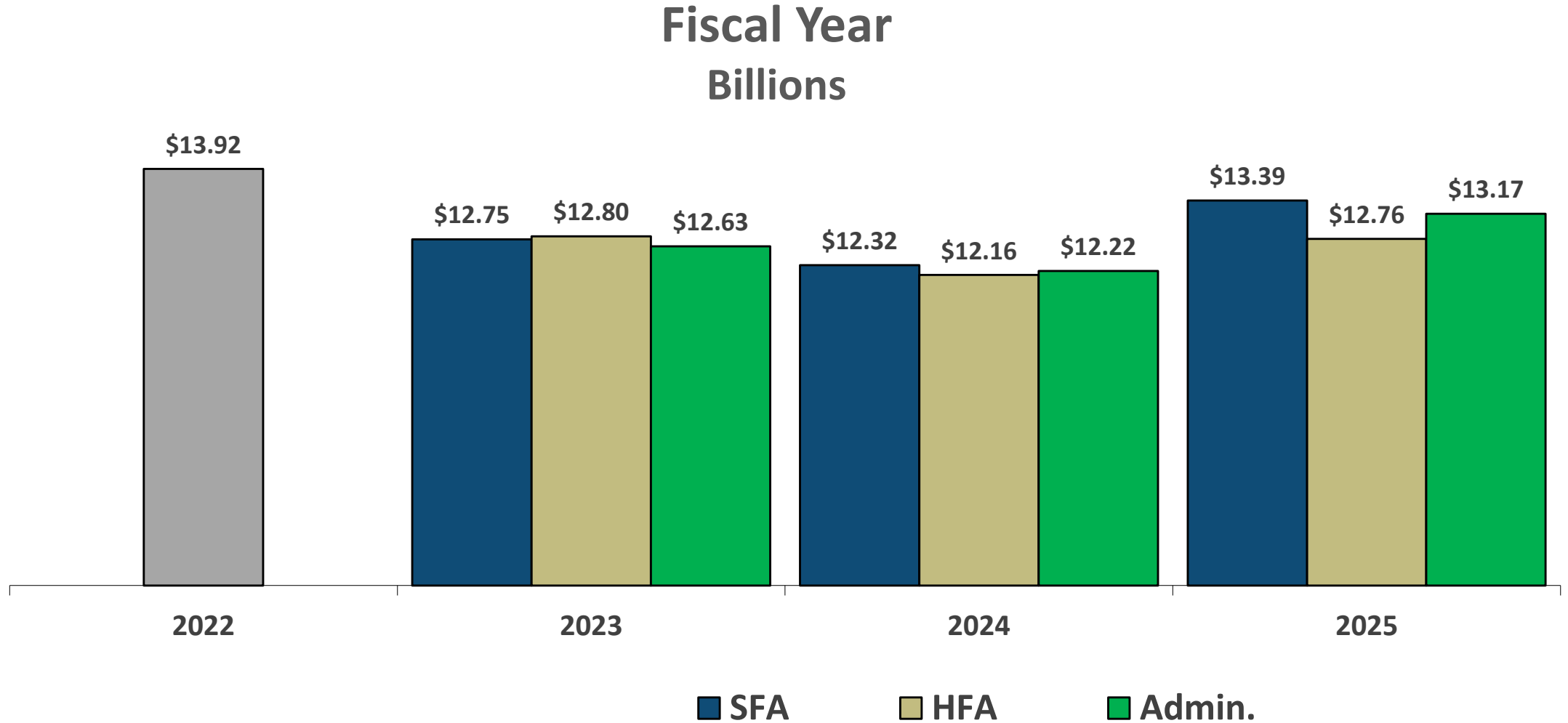
FORECAST OF MAJOR TAXES

Baseline Income Tax Growth

Fiscal Year Growth

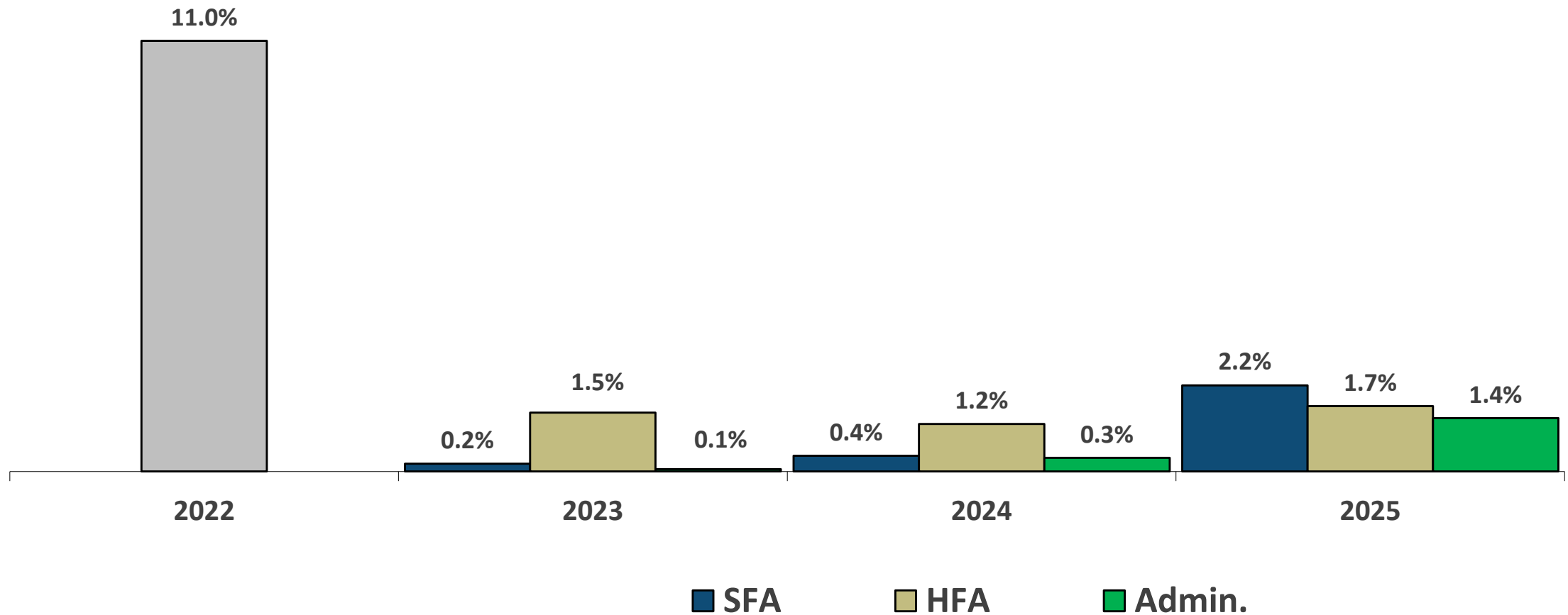


Net Income Tax Revenue Estimates



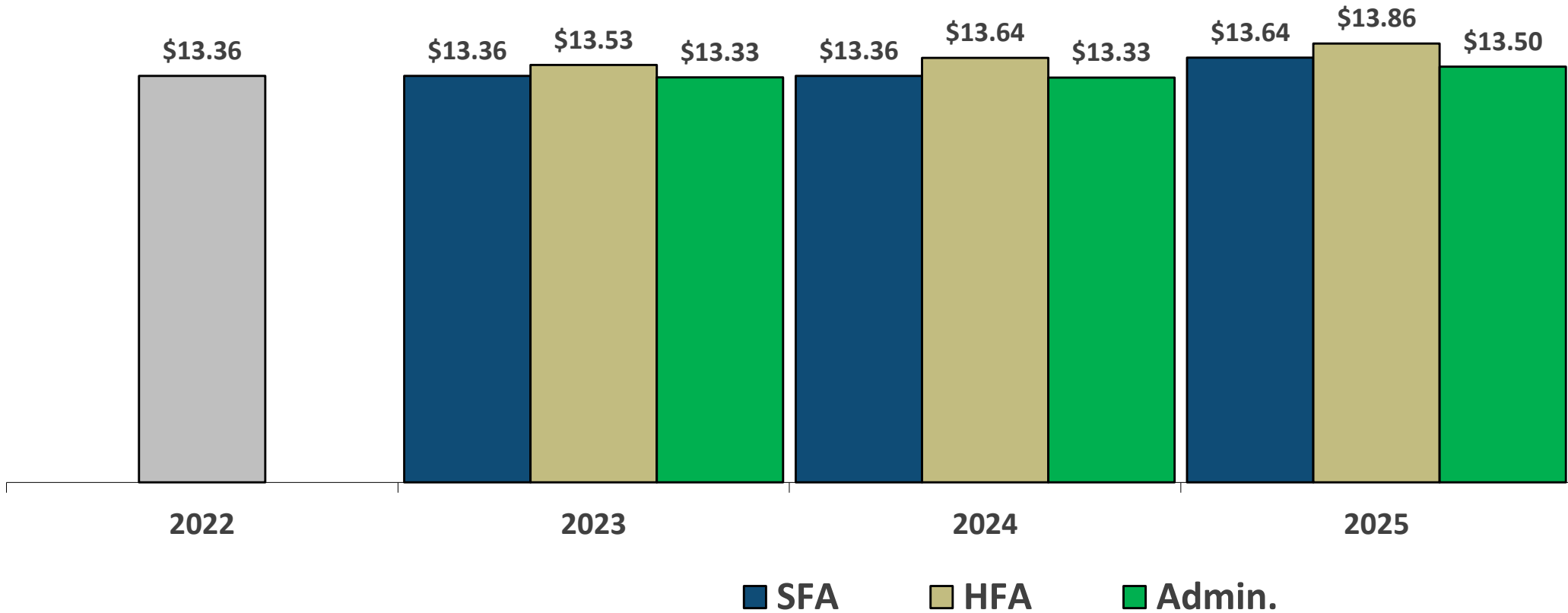
Baseline Sales and Use Taxes Growth

Fiscal Year Growth



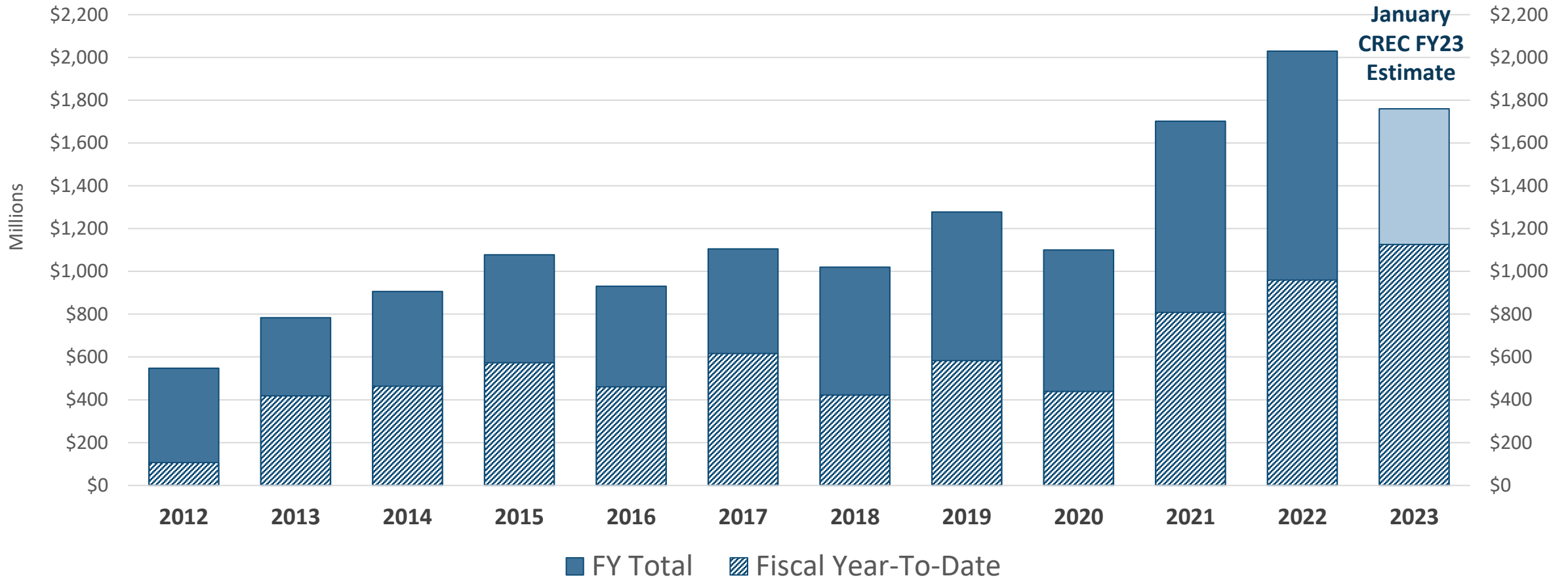
Net Sales and Use Taxes Revenue Estimates

Fiscal Year Billions



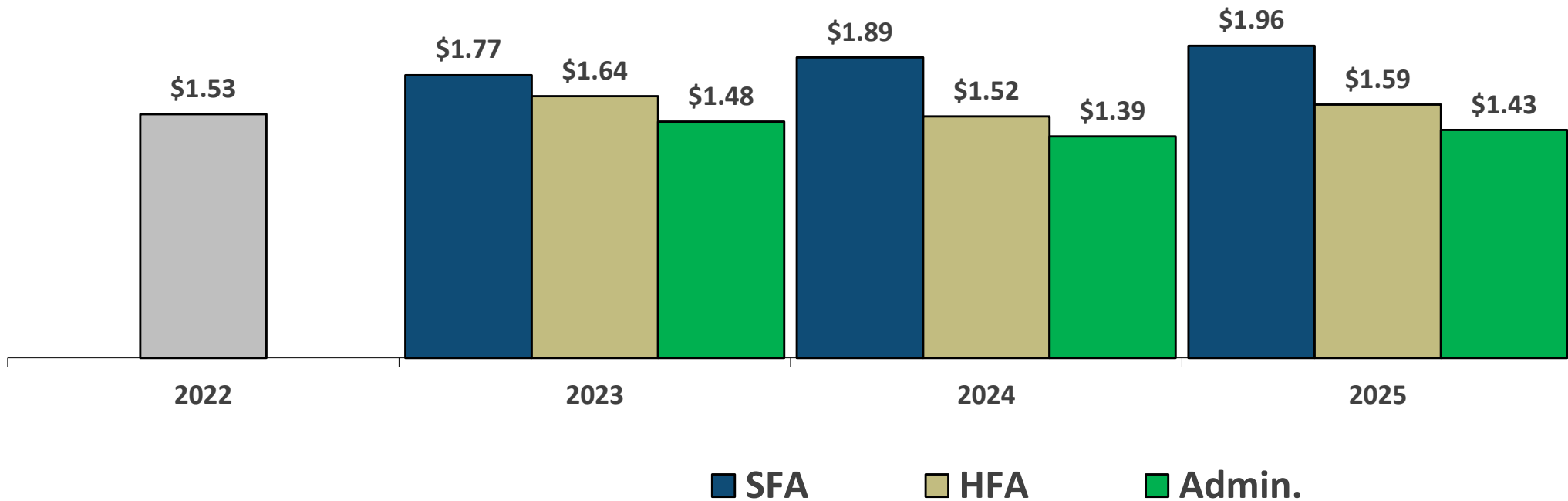
Increased Business Tax Payments

Corporate Income Tax Collections Fiscal Year Total and Fiscal Year-To-Date through April



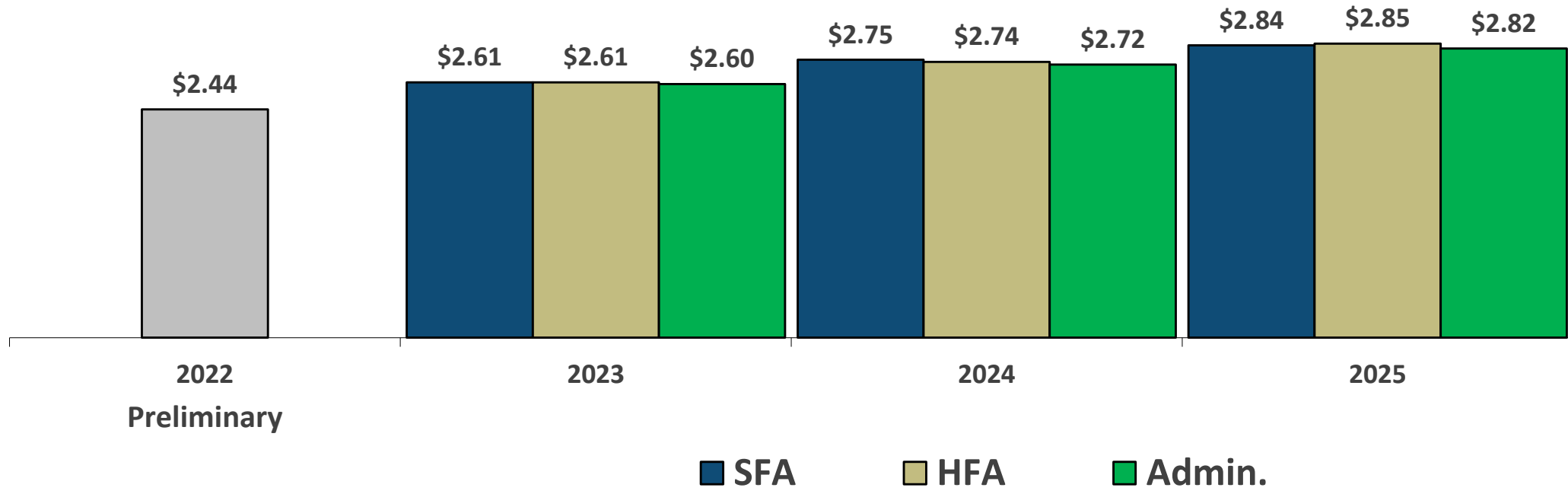
Net CIT/MBT Revenue Estimates

Fiscal Year Billions



Net SET Revenue Estimates

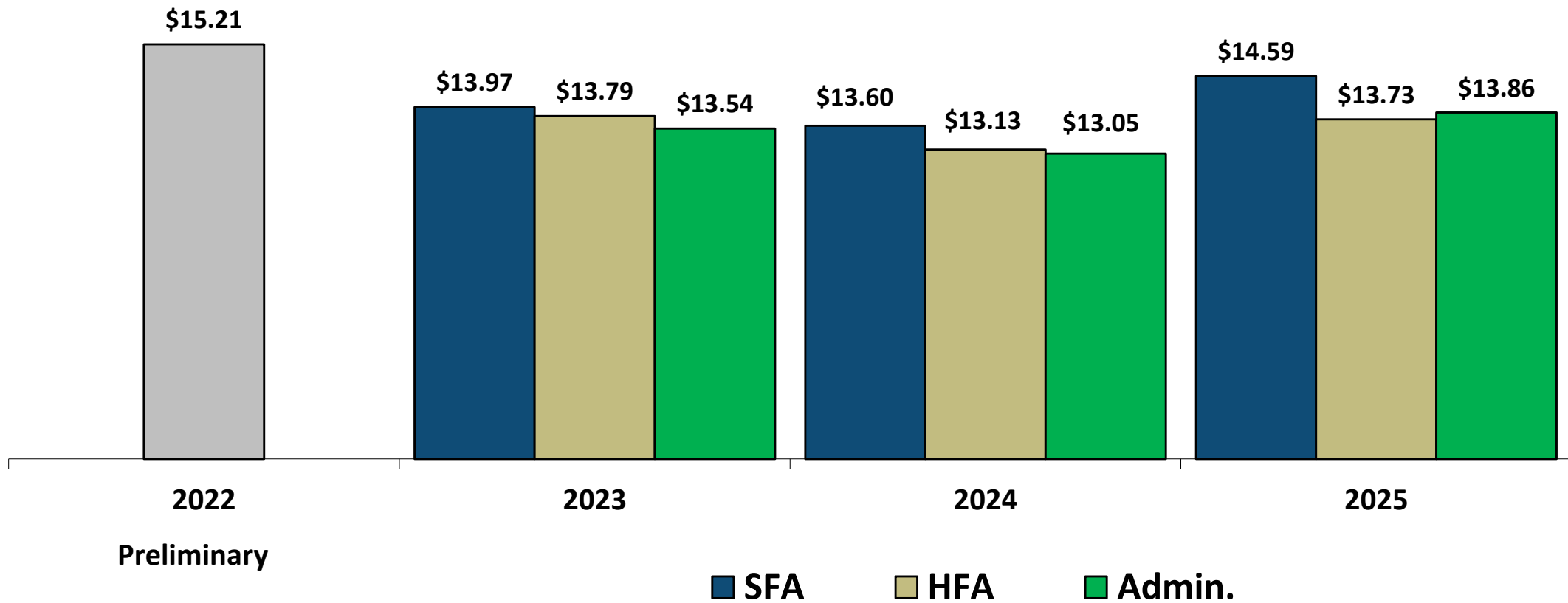
Fiscal Year Billions



FORECAST OF GF-GP AND SCHOOL AID FUND

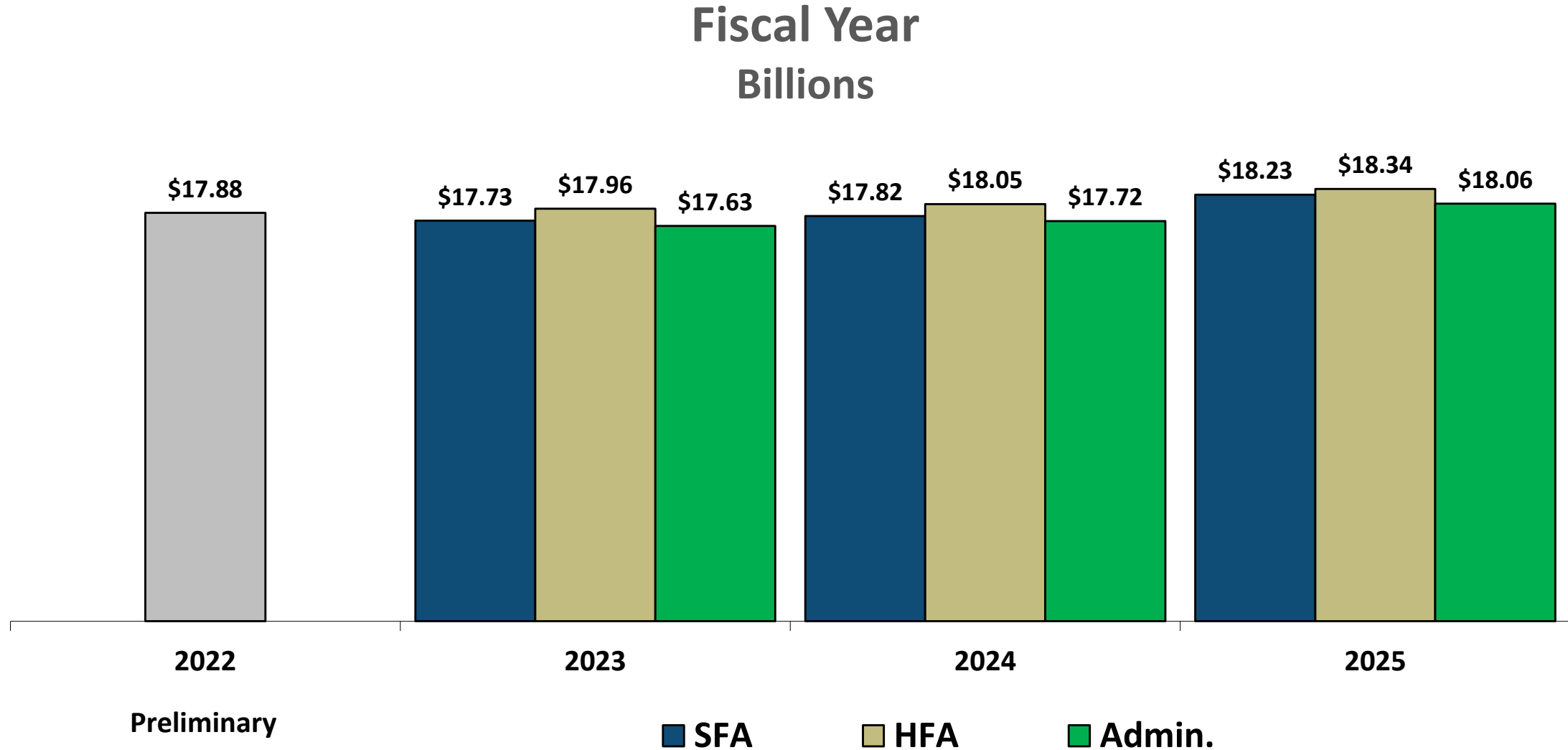
GF-GP Net Revenue Estimates

Fiscal Year Billions



Preliminary

School Aid Fund Net Revenue Estimates



Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2023			FY 2024			FY 2025		
	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
GF-GP	\$13,968.1	\$13,793.0	\$13,542.4	\$13,599.7	\$13,129.2	\$13,048.8	\$14,588.6	\$13,727.7	\$13,859.6
School Aid Fund	\$17,730.7	\$17,960.3	\$17,629.4	\$17,821.4	\$18,050.7	\$17,721.4	\$18,230.0	\$18,343.3	\$18,058.4

Difference from January Consensus Estimates									
	FY 2023			FY 2024			FY 2025		
	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
GF-GP	-\$809.8	-\$984.8	-\$1,235.5	-\$1,492.5	-\$1,963.0	-\$2,043.4	-\$956.9	-\$1,817.9	-\$1,685.9
School Aid Fund	\$95.6	\$325.0	-\$5.7	-\$24.6	\$204.6	-\$124.6	-\$27.6	\$85.7	-\$199.2
Combined*	-\$714.2	-\$659.8	-\$1,241.2	-\$1,517.1	-\$1,758.4	-\$2,168.0	-\$984.5	-\$1,732.1	-\$1,885.1

*Revenue collections are forecast to decline primarily due to tax rate reductions, tax cuts, tax incentives, with a mild economic downturn expected to have a contributing effect.

Revenue Forecast Difference from January - Breakdown

Difference from January Consensus Estimates (Values in Millions)									
	FY 2023			FY 2024			FY 2025		
<u>Revenue Difference</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
Due to Policy Changes Enacted Since January	-\$1,046.2	-\$1,046.2	-\$1,046.2	-\$1,930.6	-\$1,930.6	-\$1,930.6	-\$1,397.8	-\$1,397.8	-\$1,397.8
Due to Economic Conditions	\$332.0	\$386.4	-\$195.1	\$413.5	\$172.2	-\$237.4	\$413.3	-\$334.3	-\$487.3
Total Revenue Difference from January Consensus	-\$714.2	-\$659.8	-\$1,241.2	-\$1,517.1	-\$1,758.4	-\$2,168.0	-\$984.5	-\$1,732.1	-\$1,885.1

Budget Stabilization Fund

Both pay-ins and pay-outs require an appropriation

The agency estimates calculate:

Pay-ins

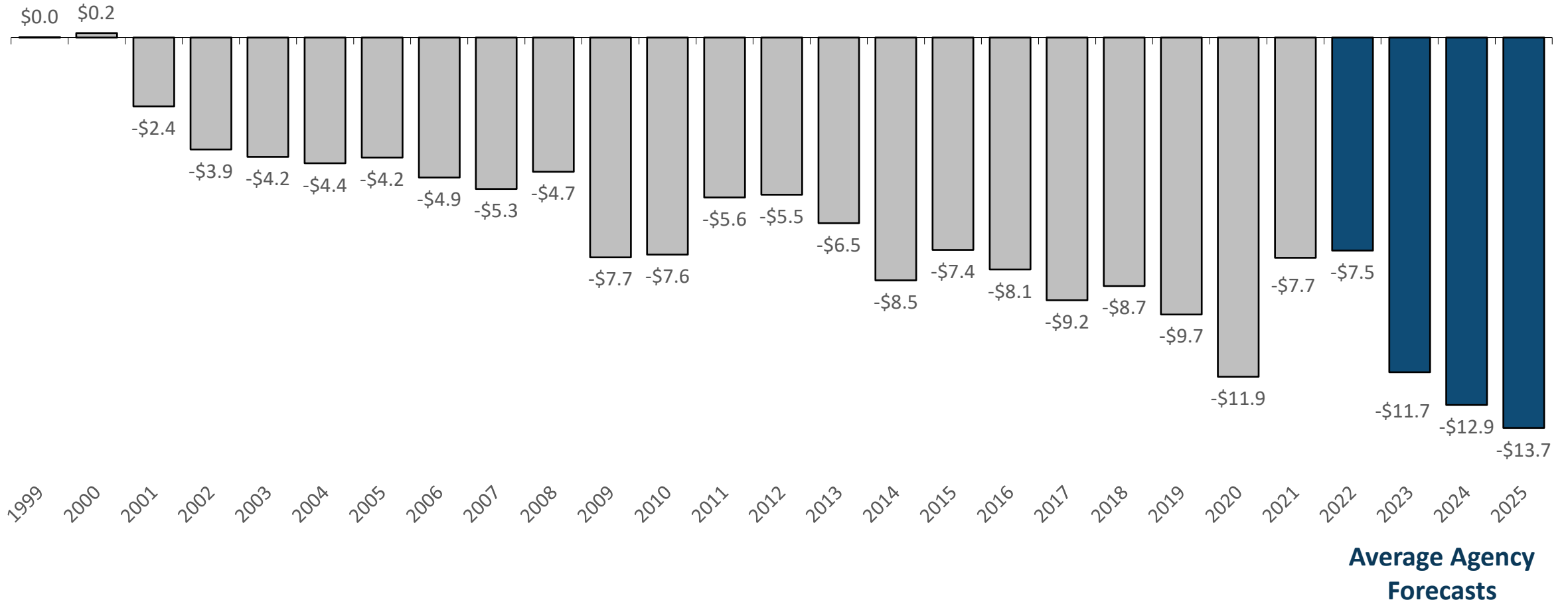
- No pay-ins during FY 2023, FY 2024 and FY 2025

Pay-outs

- Pay-outs during
 - FY 2023 estimated to be between \$0 and \$397 million
 - FY 2024 estimated to be between \$0 and \$397 million
 - No payouts during FY 2025

Constitutional Revenue Limit Calculation

Amount Under/Over the Constitutional Revenue Limit Billions



MACROECONOMIC FORECAST RISKS

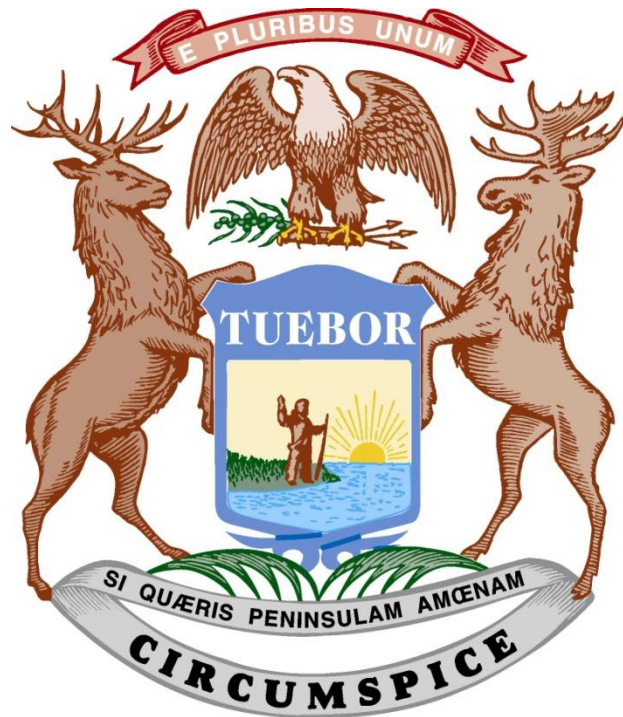
- Shifting monetary policy and the timing of Federal Reserve rate changes could help ease or hasten the economic downturn
- The projected economic slowdown may be of greater severity and duration than expected
- Inflation, gas prices, and the resumption of student loan payments may significantly impact consumer spending
- Financial shocks due to banking sector or government spending disruptions

MICHIGAN TAX REVENUE FORECAST RISKS

- When, and how quickly, both incomes and spending return to normal
- How quickly inflation is contained and the impact to economic activity
- Potential changes to the revenue accrual process and standards
- Development tax incentives outside CREC
 - Projects have been approved for Transformational Brownfield and Good Jobs for Michigan incentives, which will reduce revenue in the future
 - Estimates are not included in the CREC, due to the uncertainty around timing
 - Projects approved by the Michigan Strategic Fund include:
 - Six Good Jobs for Michigan projects will reimburse the company in the amount of their employees' withholding, which will lower revenue by \$188.4 million
 - Three Transformational Brownfield Projects will lower revenue by \$798.9 million, just below the current cap of \$800 million allowed

ECONOMIC AND REVENUE FORECASTS

FY 2023 * FY 2024 * FY 2025



CONSENSUS REVENUE ESTIMATING CONFERENCE

MAY 19, 2023