Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2024-25, FY 2025-26, and FY 2026-27

May 15, 2025

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https://sfa.senate.michigan.gov

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ECONOMIC FORECAST

The United States economy is expected to grow more slowly in 2025 and 2026 than in 2024, reflecting both declines in cash balances consumers built up during the pandemic and uncertainty created by changes in Federal policy that will slow both consumer spending and investment. Most policy changes are expected to slow the rate at which inflation returns to normal. Unemployment rates will rise slightly over the forecast but will remain low by historical standards.

The Michigan economy will mirror the changes in the national economy, with employment growth remaining relatively stable and the unemployment rate slowly rising. The interaction of economic growth and inflation will result in comparatively flat inflation-adjusted personal income growth over the forecast.

REVENUE FORECAST

The revised estimate for fiscal year (FY) 2024-25 predicts General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will increase 0.6%, compared to the 2.4% increase experienced in FY 2023-24. The reduced growth in revenue reflects slowing economic growth being partially offset by increased sales tax collections as consumers exhibit more normal splits between goods (subject to sales and use taxes) and services (which generally are exempt). An increase in individual income tax (IIT) refunds also is expected to reduce revenue growth and result in a revised FY 2024-25 estimate $393.2 million below the January 2025 consensus estimate.

In FY 2025-26, continued weak economic growth will be somewhat offset by the expiration of $550.0 million in annual Corporate Income Tax (CIT) earmarks of GF/GP revenue. The expiration of CIT earmarks will cause GF/GP and SAF revenue to grow 3.1% above the revised estimate for FY 2024-25. The revised estimate for FY 2025-26 is $561.2 million below the January 2025 consensus estimate.

In FY 2026-27, as economic growth improves and tax policy exhibits more stability, combined GF/GP and SAF revenue is forecasted to rise 1.7%. However, because the growth is from a weaker tax base reflected in previous fiscal years, and at a slower rate than was forecasted in January 2025, the revised estimate for FY 2026-27 is $725.0 million below the January 2025 consensus estimate.

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 2024-25 GF/GP budget will have a positive ending balance of $507.7 million. A comparison of the FY 2024-25 SAF revenue estimates and enacted and projected SAF appropriations produces a $1.3 billion SAF balance. These balances would be carried forward and used in FY 2025-26.

Comparing the SFA's FY 2025-26 GF/GP revenue estimate with the Senate-passed appropriations bills leads to a negative $968.5 million balance in the FY 2025-26 GF/GP budget. (The Senate-passed GF/GP budget had a positive balance based on the January 2025 Consensus Revenue Estimating Conference (CREC) revenue.) A budget cannot be enacted with an estimated negative balance; therefore, for the purposes of estimating the FY 2026-27 balance, it is assumed that the FY 2025-26 GF/GP budget that ultimately is adopted will result in a $0 balance. The SFA's FY 2025-26 SAF revenue estimate, combined with the Senate-passed budget bills, results in a $197.7 million balance in the FY 2025-26 SAF budget.

If the SFA's FY 2026-27 GF/GP revenue estimate is compared with the FY 2025-26 ongoing GF/GP appropriations found in Senate-passed bills, adjusted to result in a $0 ending balance by reducing discretionary one-time funding and some ongoing funding, and adjusted for baseline adjustments in FY 2026-27, there is a projected $319.8 million negative GF/GP balance. However, if the reductions to the Senate-passed budget (to resolve the $968.5 million shortfall) were made entirely to ongoing spending, then there would be a positive balance for FY 2026-27 of $237.6 million. Therefore, how appropriations are adjusted (ongoing or a combination of ongoing and one-time) will affect the FY 2026-27 ending balance. If the SFA's FY 2026-27 SAF revenue estimate is compared with a continuation of the Senate's ongoing spending for FY 2025-26, adjusted for estimated pupils and other costs, there is a projected balance of $649.0 million.

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)

	2023 Actual	2024 Actual	2025 Estimate	2026 Estimate	2027 Estimate
Real Gross Domestic Product (% change)	2.9%	2.8%	0.8%	0.7%	1.8%
US Consumer Price Index (% change)	4.1%	2.9%	3.6%	4.1%	3.2%
Light Motor Vehicle Sales (millions of units)	15.5	15.7	15.5	14.4	14.4
US Unemployment Rate (%)	3.6%	4.0%	4.6%	5.5%	5.5%
Real Michigan Personal Income (% change)	(0.4%)	1.4%	1.2%	(0.5%)	0.3%
Michigan Wage & Salary Employment (% change)	2.0%	0.6%	0.6%	0.0%	(0.2%)

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

	FY 2024-25 Estimate			FY 2025-26 Estimate			FY 2026-27 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$17,278.3	($3,046.7)	$14,231.6	$17,593.3	($2,661.7)	$14,931.6	$17,856.9	($2,802.4)	$15,054.5
% Change	(0.4%)	---	(2.0%)	1.8%	---	4.9%	1.5%	---	0.8%
School Aid Fund	$18,670.6	(120.3)	$18,550.3	$19,004.1	(127.7)	$18,876.4	$19,442.5	(123.9)	$19,318.5
% Change	2.7%	---	2.6%	1.8%	---	1.8%	2.3%	---	2.3%
Total GF/GP & SAF	$35,948.9	($3,167.0)	$32,781.9	$36,597.4	($2,789.4)	$33,808.0	$37,299.3	($2,926.3)	$34,373.0
% Change	1.2%	---	0.6%	1.8%	---	3.1%	1.9%	---	1.7%
Revenue Limit – Under (Over)		$12,808.7			$13,959.9			$14,861.2	

	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate
Revision from January Consensus			
GF/GP	($483.9)	($546.1)	($689.0)
SAF	90.7	(15.1)	(36.0)
Total	**($393.2)**	**($561.2)**	**($725.0)**

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

	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate
General Fund/General Purpose	$507.7	($968.5)	Variable*
School Aid Fund	$1,252.6	$197.7	$649.0
Budget Stabilization Fund (with enacted deposits)	$2,153.8	$2,266.1	$2,383.3

*****The FY 2026-27 balance would depend on how the FY 2025-26 shortfall is resolved by reductions between ongoing and one-time spending.

ECONOMIC REVIEW AND OUTLOOK

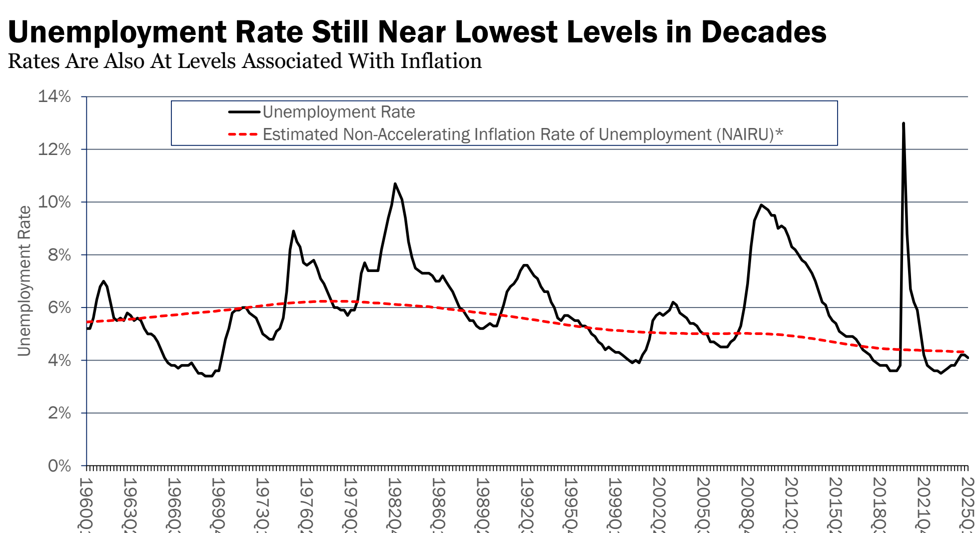
State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2025, 2026, and 2027, as well as a summary of recent economic activity.

RECENT US ECONOMIC HIGHLIGHTS

- Labor markets have relaxed but remain constrained. As the economy continues to transition from the distortions created by the pandemic, economic growth has combined with population demographics to maintain unemployment rates at lows experienced just before the pandemic, which were the lowest rates since the 1960s.
- Inflation remains elevated but has slowed markedly. After peaking in the middle of 2022, inflation has eased to levels consistent with the early 1990s, but above the levels between 2009 and 2020.
- Uncertainty and transition currently dominate the economy. Even as the economy remains in a post-COVID-19 transition, especially with respect to issues related to savings and wealth, consumption choices, and labor supply and demand, changes in Federal fiscal policy have introduced additional sources of uncertainty and transition to economic activity.

The COVID-19 pandemic and the subsequent economic recovery were characterized by significant imbalances between different parts of the economy, particularly differing impacts between goods-producing and service-producing sectors, between brick-and-mortar retailers and online merchants, and between sectors more reliant on international supply chains and those less reliant on supply chains. As the economy continues to transition to a "new normal", the economy has continued to grow, albeit at a slowing pace. Inflation-adjusted Gross Domestic Product (GDP) increased 2.8% in 2024 as higher interest rates slowed business investment. Payroll employment growth slowed from a 2.2% increase in 2023 to 1.3% growth in 2024, allowing the unemployment rate to rise from 3.6% in 2023 (the lowest annual employment rate since 1969) to an estimated 4.0% in 2024 (still lower than every year between 1970 and 2017, excluding the year 2000) (Figure 1). As labor markets relaxed and economic growth slowed, inflation fell. After peaking at 8.0% in 2022, inflation as measure by the Consumer Price Index (CPI) has declined to 2.9% in 2024.

Figure 1



Note: When the unemployment rate is below the NAIRU, inflation is more likely due to tight labor markets raising wages.
Source: Bureau of Labor Statistics, U.S. Department of Labor; Congressional Budget Office

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 and relatively older population has limited the ability of the State economy to keep pace with the US economy.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and Michigan has yet to regain employment levels experienced before the 2000-01 recession.
- Like the US economy, the Michigan economy continues to grow, albeit at a slower rate. Inflation has slowed and the unemployment rate has risen, although the unemployment rate remains low by historical standards.

Michigan's economy spent the 2000-2010 period in an employment recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, economic circumstances that limit the prospects for employment growth. In addition, Michigan's over-reliance on the motor vehicle industry has meant those impacts are transmitted through the rest of the Michigan economy. Economic changes in the motor vehicle sector affect the amount of money employees in the sector have available to spend on eating out, recreation, legal and financial services, and consumer goods, which affects economic activity in sectors across the State economy and creates feedback effects for those secondarily affected sectors.

These swings are exemplified by the changes in Michigan payroll employment since 2000. Payroll employment fell from a high of 4.7 million workers in June 2000 to 3.8 million in July 2009, a loss of 862,600 jobs (of which more than 220,000, or more than 25%, were in the transportation equipment manufacturing sector). Although Michigan payroll employment recovered 627,800 jobs between the July 2009 Michigan employment trough and the pre-COVID-19 employment peak in December 2019, the pandemic lowered Michigan payroll employment below the 2009 employment trough. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover from the pandemic recession more rapidly than almost any other state, adding more than 1.1 million jobs to Michigan payroll employment by June 2023. As vehicle sales stabilized, the State economy grew. Michigan's payroll employment totaled 4.5 million workers in March 2025, up more than 1.1 million jobs (32.9%) from the pandemic trough of 3.4 million jobs (although payroll employment remained 183,700 jobs (3.9%) below the June 2000 all-time peak).

As the national economy has slowed, Michigan has followed suit. Michigan personal income slowed from 5.4% growth in 2023 to 4.5% growth in 2024. Payroll employment growth increased 2.0% in 2023 but rose 0.6% in 2024, which helped increase the unemployment rate from 3.9% in 2023 to 4.7% in 2024. Slower economic growth helped reduce inflationary pressures, and the Detroit CPI rose 3.0% in 2024 after rising 5.8% in 2023.

Historical and forecasted details for select US and Michigan economic indicators are presented in Table 1 and Table 2.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2023 Actual	2024 Actual	2025 Estimate	2026 Estimate	2027 Estimate
United States					
Nominal GDP (year-to-year growth)	6.6%	5.3%	4.2%	4.4%	4.5%
Inflation-Adjusted GDP (year-to-year growth)	2.9%	2.8%	0.8%	0.7%	1.8%
Unemployment Rate	3.6%	4.0%	4.6%	5.5%	5.5%
Wage & Salary Employment (year-to-year growth)	2.2%	1.3%	0.7%	(0.1%)	0.4%
Inflation					
Consumer Price Index (year-to-year growth)	4.1%	2.9%	3.6%	4.1%	3.2%
GDP Implicit Price Deflator (yr.-to-yr. growth)	3.6%	2.4%	3.4%	3.7%	2.7%
Interest Rates					
90-day Treasury Bill	5.07%	4.97%	4.14%	3.60%	3.33%
10-year Treasury Bill	3.96%	4.21%	4.46%	4.30%	4.14%
Corporate Aaa Bond	4.81%	5.04%	5.65%	5.68%	5.61%
Federal Funds Rate	5.02%	5.14%	4.26%	3.90%	3.45%
Light Motor Vehicle Sales (millions of units)	15.5	15.9	15.5	14.4	14.4
Auto	3.1	3.0	2.7	2.4	2.4
Truck	12.4	12.9	12.8	12.0	12.1
Michigan					
Personal Income (millions)	$613,719	$641,085	$664,255	$687,528	$711,808
(year-to-year growth)	5.4%	4.5%	3.6%	3.5%	3.5%
Inflation-Adjusted Personal Income (year-to-year growth)	(0.4%)	1.4%	1.2%	(0.5%)	0.3%
Wage & Salary Income (millions)	$296,271	$308,744	$318,263	$326,642	$335,009
(year-to-year growth)	4.6%	4.2%	3.1%	2.6%	2.6%
Detroit Consumer Price Index (year-to-year growth)	5.8%	3.0%	2.3%	4.1%	3.3%
Wage & Salary Employment (thousands)	4,459.4	4,487.3	4,513.1	4,514.9	4,507.3
(year-to-year growth)	2.0%	0.6%	0.6%	0.0%	(0.2%)
Unemployment Rate	3.9%	4.7%	5.6%	6.3%	6.4%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)	2023 Actual	2024 Actual	2025 Estimate	2026 Estimate	2027 Estimate
Gross Domestic Product					
(billions of dollars)	$27,720.7	$29,184.9	$30,411.0	$31,758.0	$33,190.3
Year-to-year growth	6.6%	5.3%	4.2%	4.4%	4.5%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2017 dollars)	$22,671.1	$23,305.0	$23,497.5	$23,662.0	$24,083.1
Year-to-year growth	2.9%	2.8%	0.8%	0.7%	1.8%
Consumption					
(billions of 2017 dollars)	$15,621.7	$16,052.6	$16,363.3	$16,484.8	$16,762.8
Year-to-year growth	2.5%	2.8%	1.9%	0.7%	1.7%
Business Fixed Investment					
(billions of 2017 dollars)	$3,384.5	$3,506.6	$3,534.8	$3,482.7	$3,578.5
Year-to-year growth	6.0%	3.6%	0.8%	(1.5%)	2.8%
Change in Business Inventories					
(billions of 2017 dollars)	$33.1	$39.0	$72.0	$14.9	$22.8
Residential Investment					
(billions of 2017 dollars)	$762.7	$794.9	$787.4	$770.1	$786.4
Year-to-year growth	(8.3%)	4.2%	(0.9%)	(2.2%)	2.1%
Government Spending					
(billions of 2017 dollars)	$3,811.8	$3,941.8	$3,963.6	$3,936.1	$3,935.8
Year-to-year growth	3.9%	3.4%	0.6%	(0.7%)	0.0%
Federal budget surplus					
(billions of dollars, NIPA basis)	($1,666.4)	($1,838.1)	($1,836.6)	($1,974.7)	($2,101.7)
Net Exports (billions of 2017 dollars)	($932.8)	($1,033.6)	($1,248.5)	($1,011.7)	($973.6)
Exports (billions of 2017 dollars)	$2,523.8	$2,606.4	$2,650.7	$2,541.9	$2,559.0
Imports (billions of 2017 dollars)	$3,456.6	$3,640.0	$3,899.2	$3,553.6	$3,532.6
Personal Income (year-to-year growth)	5.9%	5.4%	4.6%	4.0%	4.3%
Adjusted for Inflation	1.8%	2.3%	1.0%	0.0%	1.1%
Wage & Salary Income					
(year-to-year growth)	5.4%	5.7%	4.1%	2.9%	3.5%
Personal Saving Rate	4.7%	4.5%	4.1%	5.0%	5.0%
Output per hour					
(Labor productivity, annual growth)	1.8%	2.7%	0.4%	0.9%	1.3%
Unit labor costs (annual growth)	2.2%	2.3%	2.5%	2.2%	1.8%
Housing Starts (millions of units)	1.420	1.367	1.346	1.268	1.316
Conventional Mortgage Rates	6.8%	6.7%	6.7%	6.3%	6.0%

FORECAST SUMMARY

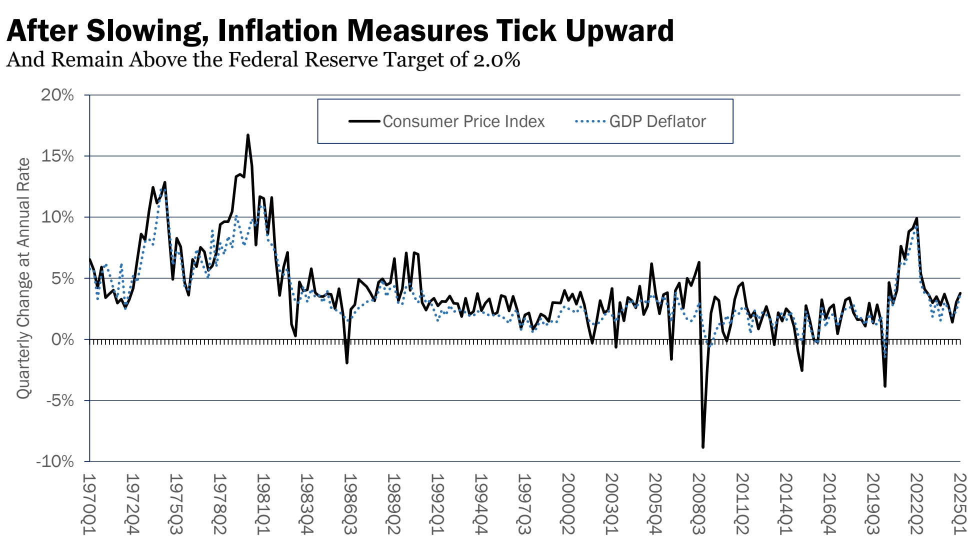
- The US economy is expected to grow at rates slower than those experienced in 2024. Throughout the forecast, Michigan is expected to grow more slowly than the nation as a whole, with inflation-adjusted personal income remaining relatively flat.
- The Michigan economy will experience slowing employment growth over the forecast, as payroll employment slows from 0.6% growth in 2024 to a 0.2% decline in 2027. As a result, Michigan unemployment rates will rise slightly but will remain low by historical standards.
- Light vehicle sales will decline and remain below recent levels. The Detroit Three are expected to continue to lose market share, although the declines will be smaller in 2025 and 2026.
- Inflationary pressures will be higher in 2025 and 2026, but will be less by 2027, reflecting events in the national economy.

The US economy is expected to grow at rates slower than the growth experienced in 2024. 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 increased 2.8% in 2024, after growing 2.5% in 2022 and 2.9% in 2023. Inflation-adjusted GDP is forecast to expand 0.8% in 2025, 0.7% in 2026, and 1.8% in 2027. The slowdown in economic growth through 2026 reflects slower rates of consumption growth, and declining business investment and government spending (at the Federal, state, and local levels), combining with the effects of labor market constraints, uncertainties regarding key aspects of fiscal policy, and anticipated changes in trade policy.

The economic dynamics of the forecast will mean that unemployment rates will rise, but remain low by historical standards, and inflation is likely to increase and remain above target levels. Nationally, the growth in payroll employment slowed from 2.3% in 2023 to 1.3% in 2024. Payroll employment growth will be lower throughout the forecast, with growth of 0.7% in 2025, a 0.1% decline in 2026, and 0.4% growth in 2027. As a result, the US unemployment rate will rise from a 4.0% rate in 2024 to 4.6% in 2025, and 5.5% in 2026 and 2027. Inflation rates are forecast to initially rise, with growth in the CPI increasing from 2.9% in 2024 to 3.6% in 2025 and 4.1% in 2026, before increasing at a slower rate of 3.2% in 2027 (Figure 2).

Figure 2



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

In Michigan, the economy will mirror many of the changes in the national economy, although growth will generally be at lower levels (Figures 3 and 4). Michigan payroll employment rose 0.6% during 2024, less than the 2.0% increase in 2023, and its growth is forecasted to continue slowing, rising 0.6% in 2025, 0.0% in 2026, and declining 0.2% in 2027. The Michigan unemployment rate, which averaged 3.9% in 2023, increased to 4.7% in 2024 and is expected to continue rising over the forecast, reaching 5.6% in 2025, 6.3% in 2026, and 6.4% in 2027. In comparison, Michigan's unemployment rate averaged 5.1% over the 2014-2019 period.

Inflation-adjusted personal income declined 0.4% in 2023 despite a 4.6% increase in wage income. The decline was largely due to the exhaustion of various Federal stimulus efforts, and 5.8% inflation eroding the value of income gains. In 2024, inflation-adjusted personal income increased 1.4%, reflecting a 4.2% increase in wage and salary income and inflation falling to 3.0%. Reflecting the changes in the national economy in 2026 and 2027, Michigan's inflation-adjusted personal income is predicted to rise 1.2% in 2025, decline 0.5% in 2026, and increase 0.3% in 2027.

Nationally, light vehicle sales are forecast to decline. After totaling 15.9 million units in 2024, light vehicle sales are expected to total 15.5 million units in 2025 and 14.4 million units in both 2026 and 2027 (Figure 5). For comparison purposes, light vehicles sales averaged 17.1 million units per year during the 2014-2019 period.

Compared with the January 10, 2025, CREC forecast, economic growth is expected to be weaker for both the national and Michigan economies over the entire forecast. Generally, employment growth is expected to be slower and inflation is expected to be higher than was predicted in January 2025.

Figure 3

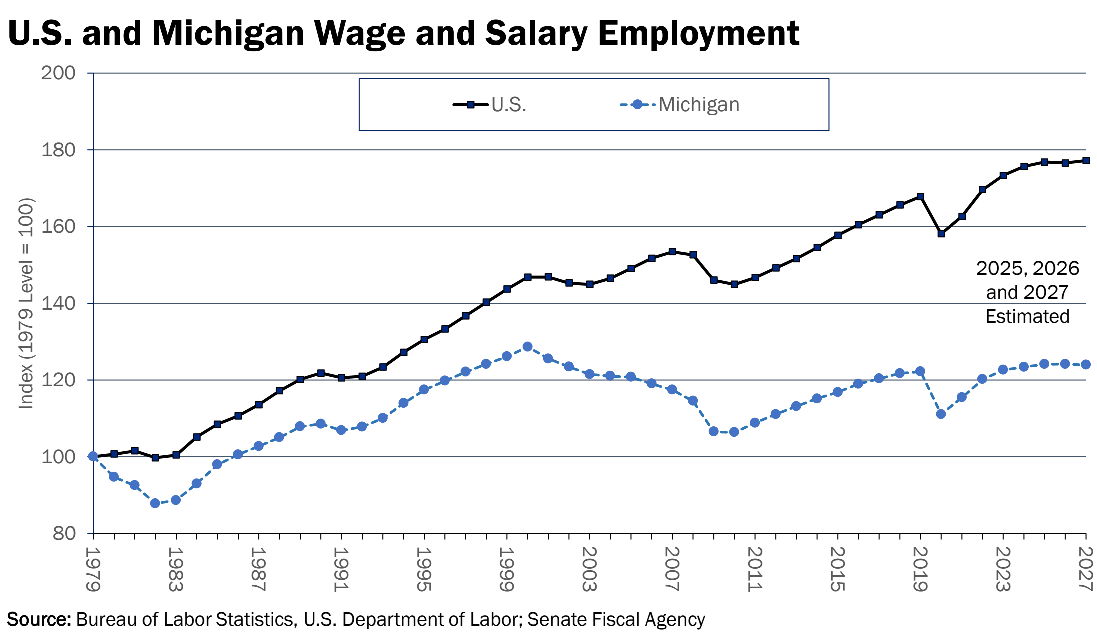
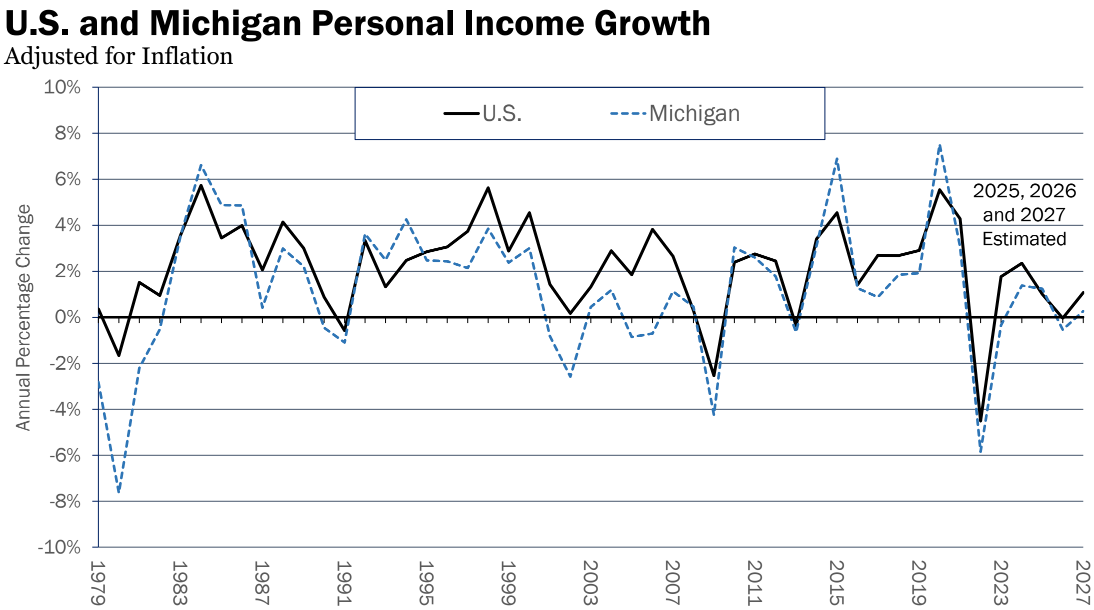
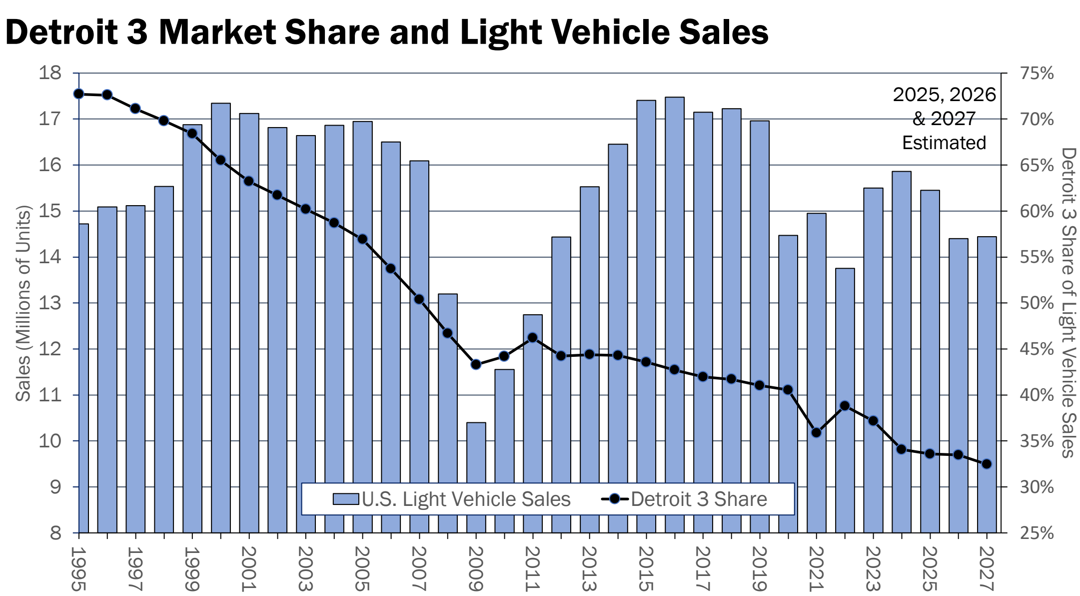


Figure 4



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

Figure 5



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

FORECAST RISKS

- Inflationary risks are expected to remain, and Federal Reserve monetary policy is expected to remain focused on returning inflation to target levels. 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.
- Actual and proposed changes in Federal fiscal policy, ranging from tariffs and tax policy to Federal employment levels to spending patterns, have not only created economic uncertainty but are intended to alter the allocation of resources in the economy. The degree to which businesses, consumers, and financial markets respond to both the uncertainty and the substance of the policy changes will affect how the economy fares over the forecast. As discussed later, uncertainty is generally more detrimental to economic growth than stable or certain policy that is viewed by economic actors as "unfavorable".
- 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 changed in response to the COVID-19 pandemic and resulting forecast errors drastically illustrate how estimation errors rise when changes differ greatly from the changes upon which forecasting models have been estimated.

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

Economic Uncertainty and Fiscal Policy. Both actual and proposed changes in Federal fiscal policy have created uncertainty for the economy and suggest Federal fiscal policy will contribute to inflationary pressures throughout the forecast. On the spending side, to date, Federal actions regarding Federal layoffs, frozen grants, and cuts to various programs reflect relatively small portions of the Federal budget, or do not represent reductions in spending as much as redirection to other programs. However, to the extent that significant cuts are considered likely and for redirections that are significant, these changes will create uncertainty while they are under consideration and for the sectors affected. On the revenue side, the extension and/or expansion of tax cuts, including those originally established under the Tax Cut and Jobs Act of 2017 and set to expire over the forecast, will reduce Federal revenue. However, like with the budget, the nature of any changes or expansions of the 2017 tax cuts remains under debate and when any changes are likely to be adopted remains unknown.

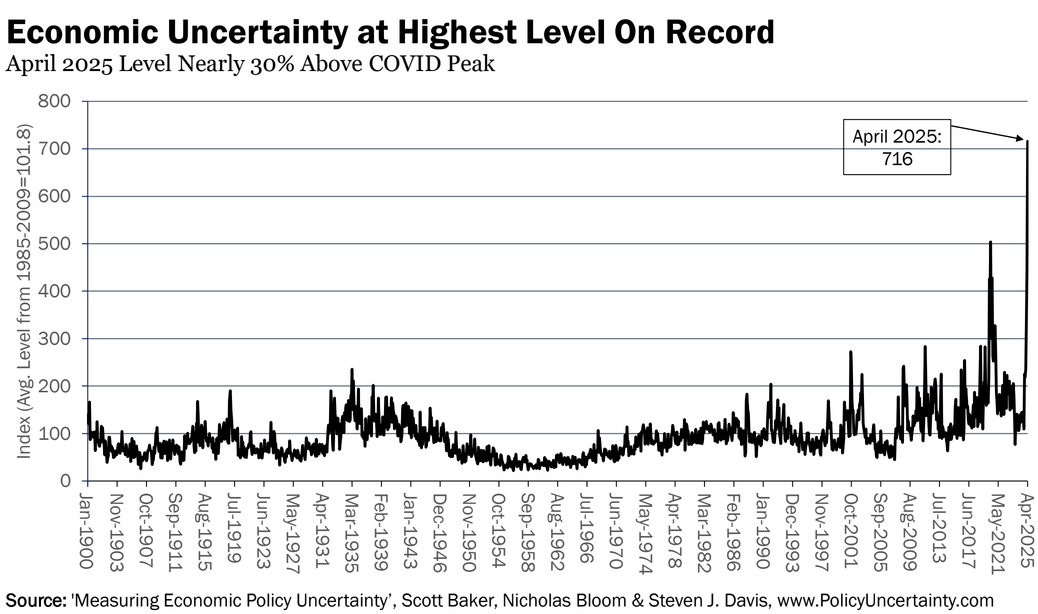
Aside from the specific provisions and timing of any changes, from both the spending and revenue sides of the budget, Federal fiscal policy will remain stimulative, with net Federal saving declining from

-6.3% of GDP in 2024 to -6.0% in 2025 but then increasing to -6.2% 2026 and -6.3% in 2027. Tax cuts and growing budget deficits are expected to combine with tariff policies, reshoring incentives, and more restrictive immigration policies to maintain inflationary pressures. Tariffs could affect the prices of goods, and changes in the exchange rate from altered trade flows will make imported goods more expensive and provide domestic producers greater pricing power. Reshoring incentives will increase the demand for domestic resources (land for factories, labor, natural resources for inputs, and energy) above existing demand levels, and the increased demand will put upward pressure on prices. Similarly, restrictive immigration policies will slow the growth of the labor force, and with unemployment rates relatively low, economic growth will require higher wages as firms compete for workers from a more limited labor pool.

Perhaps more importantly for the forecast, Federal policy has become a source of substantial uncertainty for both consumers and businesses. Many Federal policies have changed, in some cases significantly, relative to practices of recent years or even decades. However, in some cases, the new policies themselves have been issued, revised or suspended, modified, or come with guidance indicating the policies may change in the future. As a result, many consumers and businesses are more uncertain about the economy (Figure 6). Swings in the stock market during the first four months of 2025 illustrate this uncertainty, as does the recent decision of a number of major firms such as General Motors, UPS, Jet Blue, Stellantis, and Snap to cease issuing guidance regarding sales, profits, and operations.

Consumers and businesses typically respond to uncertainty by slowing or postponing economic activity. Regardless of whether the economy or a policy is viewed favorably or unfavorably, if there is certainty then consumers and businesses know the activities they may be able to pursue and can calculate the return on investments. During uncertain times, consumers and businesses will wait until they can reliably determine the costs and benefits of economic actions, such as investments in plant and equipment, major purchases such as homes or motor vehicles, or how much cash to retain on hand or save for retirement, and what financial precautions are necessary to protect against the risk that uncertainty represents. To the extent that uncertainty increases or decreases, as well as how long it lasts, will significantly affect the accuracy of the forecast. If the current period of uncertainty is less, or resolved more quickly, than estimated, then economic growth likely will be stronger, while more severe uncertainty or prolonged uncertainty will slow economic growth more than forecasted.

Figure 6



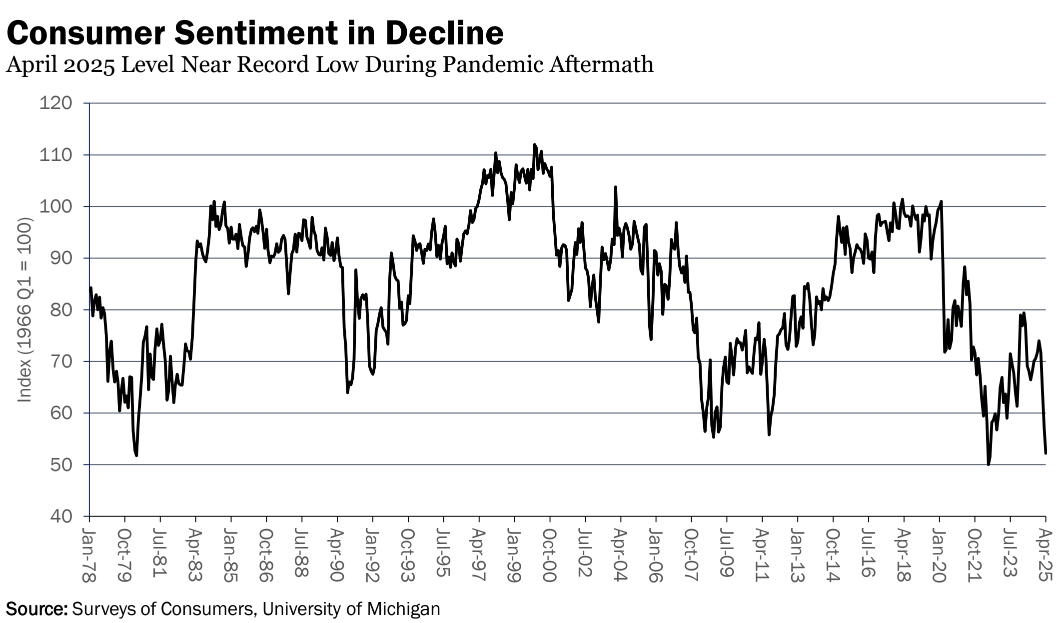
Source: 'Measuring Economic Policy Uncertainty', Scott Baker, Nicholas Bloom & Steven J. Davis, www.PolicyUncertainty.com

Monetary Policy and Inflation. Monetary policy is expected to remain contractionary, as the Federal Reserve seeks to rein in the possibility of higher long-term inflationary expectations. The forecast does not expect any additional rate increases, but predicts only one additional rate cut during 2025 and only four cuts through 2027. Interest rates are not expected to fall more consistently until the Federal Reserve is convinced inflation is unlikely to exceed the long-term target of 2.0%, which the forecast expects will not occur until after 2027.

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. Despite the changes in inflation and a variety of stock market swings, consumers remain wealthier than before the pandemic, particularly those consumers in high-income groups and/or who are 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 may feel wealthy enough to maintain (or increase) consumption in a world with rising consumer prices and contractionary interest rates. Consumer spending in 2022, 2023, and much of 2024 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 2025 and 2026, 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) would cause both economic growth and inflation to be stronger than forecasted. On the other hand, stock market declines in early 2025 and falling consumer sentiment may cause consumption to fall by more than the forecast expects (Figure 7). However, to the extent that the Federal Reserve finds it necessary to raise interest rates or keep them at high levels for longer than expected (perhaps because consumers respond less than expected to current interest rates or because of other inflationary pressures in the economy), 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.

Figure 7



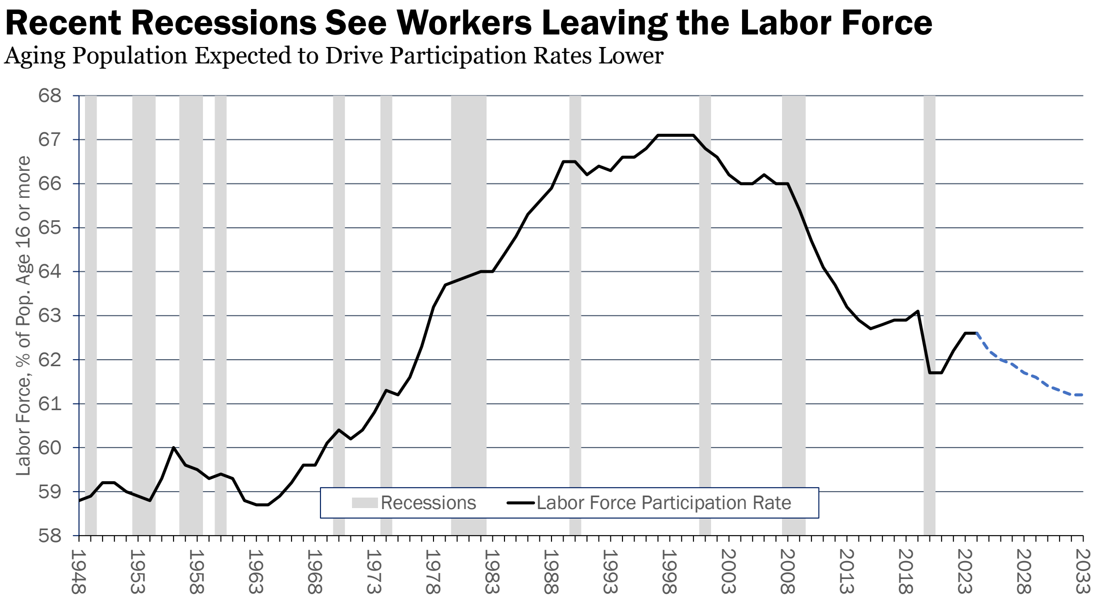
Source: Surveys of Consumers, University of Michigan

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 jobs. 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) through 2028, while the latest labor force participation estimates from the Bureau of Labor Statistics (issued in 2024) expect labor force participation in the US to decline by 1.4% of the population between 2023 and 2033. Declining labor force participation 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. In 2020 and 2021, the pandemic drastically reduced labor force participation, particularly among women and older adults. By late 2023, labor force participation had largely recovered to pre-pandemic levels, and for some demographics was even above where demographic trends would have predicted. Even absent COVID-19-related concerns and issues, recent history suggests that many who have left the labor force will not return (Figure 8) because older workers who lose their job during a recession are often unable to obtain employment once the economy recovers. 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 economic activity to slow in 2025 and 2026, the forecast anticipates that labor force dynamics and immigration policy will constrain growth over the next few years (or in the case of aging population demographics, 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 businesses both to increase investment in labor-reducing equipment and to raise wages.

Aside from the short-term economic constraints related to the pandemic, low population growth and the longer-term slowing in productivity growth will reduce the long-term economic growth potential of 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 8



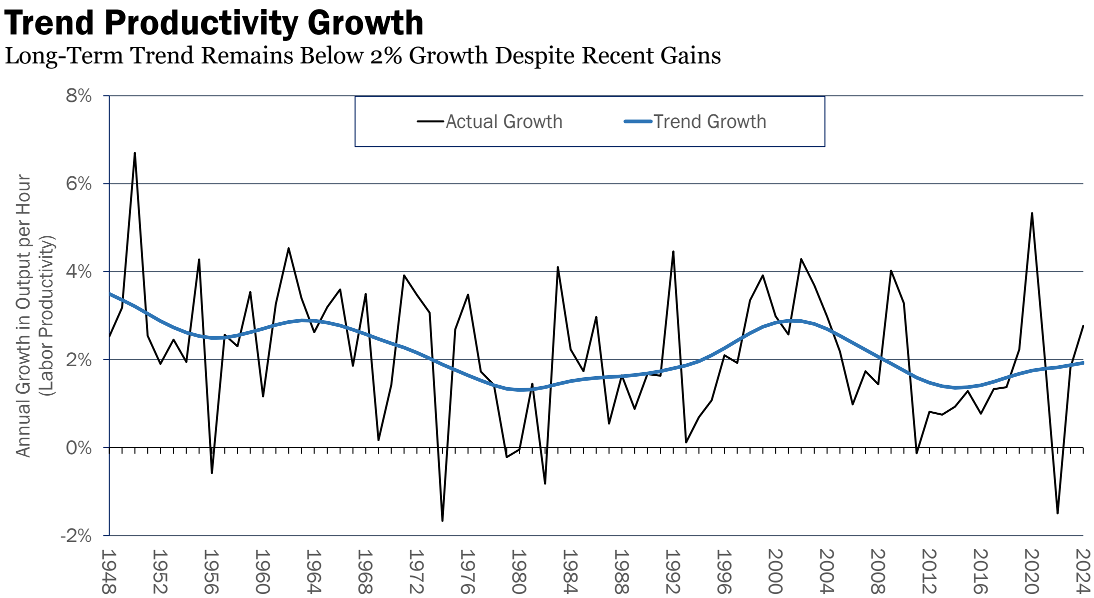
Source: Bureau of Labor Statistics, U.S. Department of Labor

For 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 1.0% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 9). 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.

After falling 1.5% in 2022, productivity growth increased 1.8% in 2023 and 2.7% in 2024. The forecast expects productivity growth to slow to 0.4% in 2025 before increasing slightly to 0.9% in 2026 and 1.3% in 2027. 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 forecasted, output will increase and inflation will decline more rapidly, but employment growth will be slower.

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.

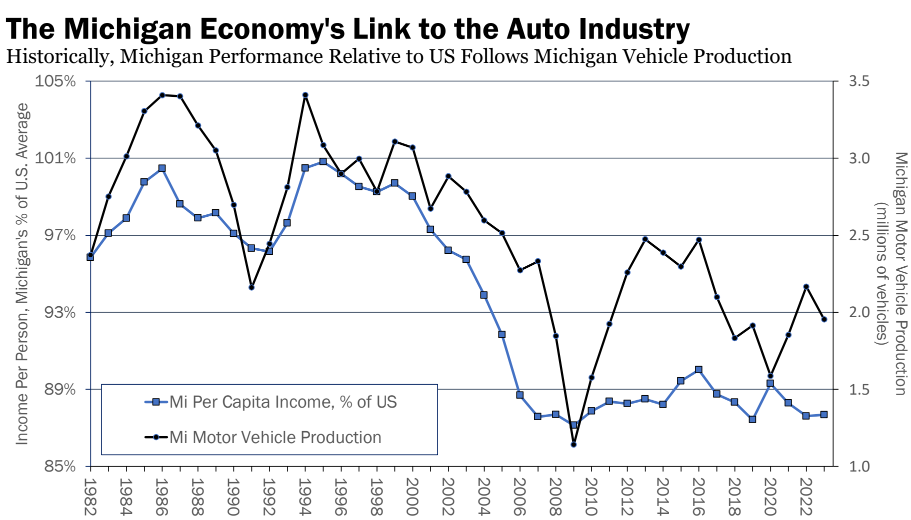
Figure 9



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

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 10). While that reliance has declined over the long term (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 6.5% in 2023), 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 to 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 10



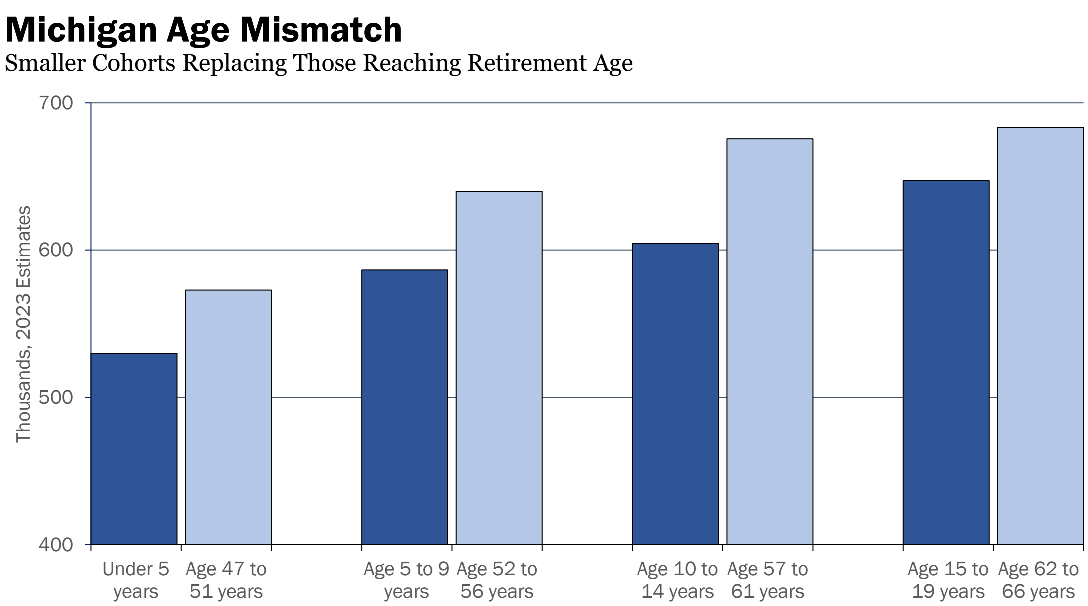
Source: Bureau of Economic Analysis, U.S. Department of Commerce; Michigan Department of Treasury

However, as vehicle sales remain relatively flat and productivity gains in the motor vehicle sector continue, there is a substantial risk that production needs could be met with existing, or even lower, employment levels. Between the May 2000 peak and June 2009, Michigan lost more than two-thirds of the jobs (67.6%, a decline of approximately 238,000 jobs) in transportation equipment manufacturing. However, most 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 to increase, other sectors will need to expand, and workers will have to develop the skills necessary in those sectors—a process that occurs slowly. For example, Michigan payroll employment took more than seven years, until May 2015, to return to the January 2008 level (the US pre-recession peak).

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 11). For much of the next 20 years, an average of 10,000 more individuals will reach retirement age each year than will reach working age, implying that for the next 20 years Michigan is likely to see its labor force contract substantially each year. Combined with Michigan's reliance on the motor vehicle industry, Michigan's demographic trends suggest Michigan is unlikely to reach the level of total employment reported in April 2000 (the Michigan pre-recession peak) again until sometime in the second half of the 21st century.

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 11



Source: Bureau of the Census, U.S. Department of Commerce

THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the SFA's revised estimates for GF/GP and SAF revenue for FY 2024-25, FY 2025-26, and FY 2026-27. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measure 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 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 2024-25, FY 2025-26, and FY 2026-27 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2024-25, FY 2025-26, and FY 2026-27 are presented in Table 3 and the differences from the January 2025 CREC are summarized below. Changes from the January 2025 CREC estimates are illustrated in Figure 12.

Figure 12

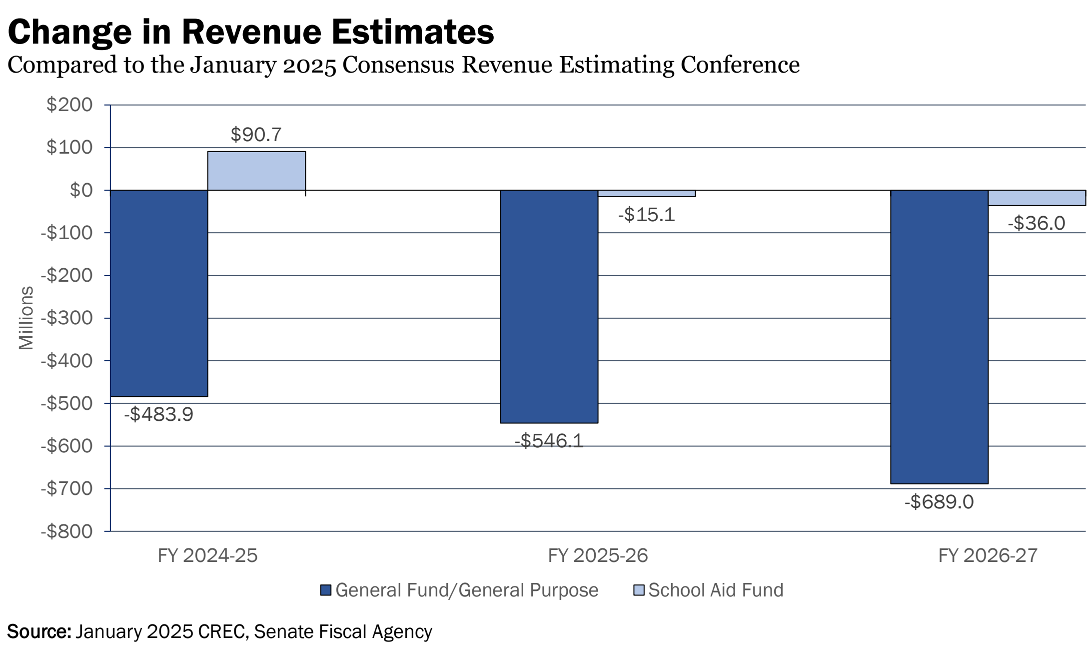


Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2023-24 THROUGH FY 2026-27 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)	FY 2023-24 Final	FY 2024-25 Revised Est.	FY 2025-26 Revised Est.	FY 2026-27 Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1)]	$17,352.5	$17,278.3	$17,593.3	$17,856.9
Tax Changes Not In Baseline	(2,825.5)	(3,046.7)	(2,661.7)	(2,802.4)
Revenue After Tax Changes:				
Net Income Tax	8,333.3	8,754.7	8,871.7	8,861.2
MBT, Corp. Income Tax, SBT & Insur. Tax	1,754.2	1,535.1	2,138.2	2,229.4
Other Taxes	3,253.9	3,191.2	3,316.7	3,438.5
Total Taxes	13,341.4	13,481.0	14,326.6	14,529.1
Nontax Revenue	1,185.6	750.6	605.0	525.4
TOTAL GF/GP REVENUE	**$14,527.1**	**$14,231.6**	**$14,931.6**	**$15,054.5**
SCHOOL AID FUND				
Baseline SAF	$18,184.5	$18,670.6	$19,004.1	$19,442.5
Tax Changes Not In Baseline	(109.9)	(120.3)	(127.7)	(123.9)
TOTAL SAF REVENUE	**$18,074.5**	**$18,550.3**	**$18,876.4**	**$19,318.5**
BASELINE GF/GP AND SAF REVENUE	$35,537.0	$35,948.9	$36,597.4	$37,299.3
Tax & Revenue Changes	(2,935.4)	(3,167.0)	(2,789.4)	(2,926.3)
GF/GP & SAF REV. AFTER CHANGES	**$32,601.6**	**$32,781.9**	**$33,808.0**	**$34,373.0**
SALES TAX	$10,577.1	$10,768.9	$10,977.7	$11,253.2
	Percent Change			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	2.6%	(0.4%)	1.8%	1.5%
Revenue After Tax Changes:				
Net Income Tax	7.4	5.1	1.3	(0.1)
MBT, Corp. Income Tax, SBT & Insur. Tax	7.1	(12.5)	39.3	4.3
Other Taxes	(3.4)	(1.9)	3.9	3.7
Total Taxes	4.5	1.0	6.3	1.4
Nontax Revenue	(1.0)	(36.7)	(19.4)	(13.2)
TOTAL GF/GP REVENUE	**4.0%**	**(2.0%)**	**4.9%**	**0.8%**
SCHOOL AID FUND				
Baseline SAF	1.5%	2.7%	1.8%	2.3%
TOTAL SAF REVENUE	**1.2%**	**2.6%**	**1.8%**	**2.3%**
BASELINE GF/GP AND SAF REVENUE	2.1%	1.2%	1.8%	1.9%
GF/GP & SAF REV. AFTER CHANGES	**2.4%**	**0.6%**	**3.1%**	**1.7%**
SALES TAX	(0.9%)	1.8%	1.9%	2.5%

[1)] FY 2023-24 is the base year for baseline revenue.

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 up 0.6%, or $180.3 million, from the revenue for FY 2023-24. The projected revenue increase in FY 2024-25 reflects increases in net personal income taxes, internet gaming revenue, and sales tax, partially offset by decreases in lottery revenue, use tax, and Michigan Business Tax (MBT).
- The revised estimate for FY 2024-25 is $393.2 million below the January 2025 consensus revenue estimate.
- Baseline growth is expected to increase 1.2% and tax adjustments are expected lower baseline revenue by $3.2 billion.

As indicated in the previous section, personal income will increase 3.6%, wage and salary employment will increase 0.6%, and wage and salary income will increase 3.1% during 2025, helping support baseline revenue growth. After tax adjustments, total GF/GP and SAF revenue will reach an estimated $32.8 billion in FY 2024-25, an increase of 0.6%, or $180.3 million, from FY 2023-24.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.2 billion in FY 2024-25, a decrease of 2.0%, or $295.4 million, from the revised estimate for FY 2023-24. Baseline GF/GP revenue is expected to decrease 0.4% ($74.2 million) from FY 2023-24. The decrease in GF/GP revenue reflects decreases in MBT, nontax revenue, and an increase in refunds (partially due to over-withholding associated with changes in the taxation of retirement income) compared to FY 2023-24. The revised GF/GP revenue estimates for FY 2024-25 are $483.9 million below the January 2025 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 $18.6 billion in FY 2024-25, an increase of $475.7 million, or 2.6%, from the revised estimate for FY 2023-24. The forecasted increase in SAF revenue reflects increased income tax revenue dedicated to the SAF (which is partially fueled by the over-withholding on pension income as refunds are paid out of the GF/GP, not the SAF), increased sales tax, and gaming taxes, partially offset by decreased use tax, and lottery revenue. The revised SAF revenue estimates for FY 2024-25 are $90.7 million above the January 2025 consensus estimates and are summarized in Table 4.

FY 2025-26 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $33.8 billion in FY 2025-26.
- The revised estimate for FY 2025-26 is up 3.1%, or $1,026.1 million, from the revised estimate for FY 2024-25. The revenue increase in FY 2024-25 reflects an increase in personal income tax, sales tax, use tax, State Education Tax (SET), and the CIT partially offset by a decrease in nontax revenue, MBT, and lottery revenue.
- The revised estimate for FY 2025-26 is $561.2 million below the January 2025 consensus revenue estimate.
- Baseline growth is expected to increase 1.8% and tax adjustments are expected to lower baseline revenue by $2.8 billion.

During 2026, personal income will grow 3.5%, wage and salary employment will hold constant, and wage and salary income will grow 2.6%. General Fund/General Purpose and SAF revenue will reach an estimated $33.8 billion in FY 2025-26, an increase of 3.1%, or $1,026.1 million, from the revised estimate for FY 2024-25.

Table 4

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 Final	**FY 2024-25 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/25 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$17,352.5	$17,278.3	($74.2)	(0.4%)	($353.8)
Tax Changes Not In Baseline	(2,825.5)	(3,046.7)	(221.2)	----	(130.1)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$16,088.2	$17,454.6	$1,366.4	8.5%	$652.1
Less: Refunds	(3,120.1)	(3,765.9)	(645.9)	20.7	(615.9)
Net Income Tax Collections	12,968.1	13,688.7	720.6	5.6	36.2
Less: Earmarking to SAF	(3,962.6)	(4,264.2)	(301.6)	7.6	(159.4)
Earmarking to MI Transp. Fund	(602.7)	(600.0)	2.7	(0.4)	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(0.5)	(0.8)	(0.3)	----	0.0
Net Income Tax to GF/GP	$8,333.3	$8,754.7	$421.4	5.1%	($123.2)
Other Taxes					
Corporate Income Tax	$1,574.0	$1,507.5	($66.5)	(4.2%)	($112.5)
Michigan Business Tax	(356.9)	(496.9)	(140.0)	----	0.0
Sales	1,572.4	1,651.1	78.7	5.0	13.8
Use	1,188.2	1,116.6	(71.6)	(6.0)	128.6
Cigarette	132.0	122.9	(9.0)	(6.8)	(6.3)
Insurance Company Premiums	537.4	524.5	(12.9)	(2.4)	(39.0)
Telephone & Telegraph	43.0	42.0	(1.0)	(2.3)	0.0
Oil & Gas Severance	21.9	19.0	(2.9)	(13.2)	(3.0)
All Other	296.1	239.6	(56.5)	(19.1)	(304.3)
Subtotal Other Taxes	$5,008.1	$4,726.3	($281.8)	(5.6%)	($322.7)
Total Nontax Revenue	1,185.6	750.6	(435.0)	(36.7)	(38.0)
GF/GP REV. AFTER TAX CHANGES	**$14,527.1**	**$14,231.6**	**($295.4)**	**(2.0%)**	**($483.9)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$18,184.5	$18,670.6	$486.1	2.7%	$28.5
Tax Changes Not In Baseline	(109.9)	(120.3)	(10.4)	----	62.2
Revenue After Tax Changes					
Sales Tax	7,757.8	7,889.6	131.8	1.7	58.8
Use Tax	940.2	895.6	(44.6)	(4.7)	(64.2)
Lottery Revenue	1,249.0	1,118.6	(130.4)	(10.4)	(136.4)
State Education Property Tax	2,756.8	2,855.6	98.8	3.6	(14.4)
Real Estate Transfer Tax	404.5	436.7	32.2	8.0	24.7
Income Tax	3,962.6	4,264.2	301.6	7.6	159.4
Gaming Tax	500.7	622.6	121.9	24.3	95.6
Other Revenue	503.0	467.3	(35.6)	(7.1)	(32.8)
SAF REV. AFTER TAX CHANGES	**$18,074.5**	**$18,550.3**	**$475.7**	**2.6%**	**$90.7**
BASELINE GF/GP AND SAF	**$35,537.0**	**$35,948.9**	**$411.9**	**1.2%**	**($325.3)**
Tax & Revenue Changes	(2,935.4)	(3,167.0)	(231.6)	----	(67.9)
GF/GP & SAF REV. AFTER CHNGS.	**$32,601.6**	**$32,781.9**	**$180.3**	**0.6%**	**($393.2)**
SALES TAX	$10,577.1	$10,768.9	$191.8	1.8%	$80.1

[1)] FY 2023-24 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.9 billion in FY 2025-26, an increase of $700.0 million from the revised estimate for FY 2024-25. Although baseline GF/GP revenue is expected to increase 1.8%, reflecting higher CIT, higher sales and use taxes, and lower refunds, partially offset by lower MBT revenue and lower nontax revenue, most of the increase reflects the expiration of CIT earmarks that transferred $550.0 million of CIT revenue from GF/GP revenue to other funds. The revised GF/GP revenue estimate for FY 2025-26 is $546.1 million below the January 2025 consensus estimates and summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $18.9 billion in FY 2025-26, an increase of $326.1 million from the revised estimate for FY 2024-25. The baseline SAF revenue increase will be 1.8% in FY 2025-26. The forecasted increase in SAF revenue reflects an increase in SET, sales tax, and income tax, use tax, and gaming taxes, partially offset by a decrease in lottery revenue. The revised SAF revenue estimate for FY 2025-26 is $15.1 million below the January 2025 consensus estimates and summarized in Table 5.

FY 2026-27 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $34.4 billion in FY 2026-27.
- The revised estimate for FY 2026-27 is up 1.7%, or $565.0 million, from the revised estimate for FY 2025-26. The revenue increase in FY 2026-27 reflects growth in sales tax, use tax, CIT, SET, and internet gaming taxes.
- The revised estimate for FY 2026-27 is $725.0 million below the January 2025 consensus revenue estimate.
- Baseline growth is expected to increase 1.9% and tax adjustments are expected to reduce baseline revenue by $2.9 billion.

During 2027, personal income is forecasted to grow 3.5%, while wage and salary income will grow 2.6%, and wage and salary employment will fall 0.2%. As a result, total GF/GP and SAF revenue will reach an estimated $34.4 billion in FY 2026-27, an increase of 1.7%, or $565.0 million, from the revised estimate for FY 2025-26.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $15.1 billion in FY 2026-27, an increase of 0.8%, or $122.9 million, from the revised estimate for FY 2025-26. Baseline GF/GP revenue is expected to increase 1.5% due to continued growth in the economy. The revised GF/GP revenue estimate for FY 2026-27 is $689.0 million below the January 2025 consensus estimates and summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $19.3 billion in FY 2026-27, an increase of $442.2 million, or 2.3%, from the revised estimate for FY 2025-26. The revised SAF revenue estimate for FY 2026-27 is $36.0 million below the January 2025 consensus estimates and summarized in Table 6.

Table 5

FY 2025-26 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)			Change from FY 2024-25		
		FY 2025-26 Revised Est.	**Dollar Change**	**Percent Change**	**$ Change from 01/25 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$17,278.3	$17,593.3	$315.0	1.8%	($359.4)
Tax Changes Not In Baseline	(3,046.7)	(2,661.7)	385.0	----	(186.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$17,454.6	$17,455.1	$0.5	0.0%	$280.0
Less: Refunds	(3,765.9)	(3,608.5)	157.4	(4.2)	(400.0)
Net Income Tax Collections	13,688.7	13,846.6	157.9	1.2	(120.0)
Less: Earmarking to SAF	(4,264.2)	(4,305.1)	(40.9)	1.0	(67.8)
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	$8,754.7	$8,871.7	$117.0	1.3%	($187.8)
Other Taxes					
Corporate Income Tax	$1,507.5	$2,105.5	$598.0	39.7%	($120.0)
Michigan Business Tax	(496.9)	(507.7)	(10.8)	2.2	0.0
Sales	1,651.1	1,675.6	24.5	1.5	19.4
Use	1,116.6	1,180.2	63.6	5.7	(130.0)
Cigarette	122.9	119.8	(3.1)	(2.5)	(7.7)
Insurance Company Premiums	524.5	540.4	15.9	3.0	(40.0)
Telephone & Telegraph	42.0	41.0	(1.0)	(2.4)	0.0
Oil & Gas Severance	19.0	20.0	1.0	5.3	(3.0)
All Other	239.6	280.1	40.5	16.9	(14.0)
Subtotal Other Taxes	$4,726.3	$5,454.9	$728.6	15.4%	($295.3)
Total Nontax Revenue	750.6	605.0	(145.6)	(19.4)	(63.0)
GF/GP REV. AFTER TAX CHANGES	**$14,231.6**	**$14,931.6**	**$700.0**	**4.9%**	**($546.1)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$18,670.6	$19,004.1	333.5	1.8%	($95.0)
Tax Changes Not In Baseline	(120.3)	(127.7)	(7.4)	----	79.9
Revenue After Tax Changes					
Sales Tax	7,889.6	8,042.4	152.8	1.9	75.7
Use Tax	895.6	928.5	32.9	3.7	(65.0)
Lottery Revenue	1,118.6	1,110.3	(8.3)	(0.7)	(145.0)
State Education Property Tax	2,855.6	2,946.1	90.5	3.2	(10.0)
Real Estate Transfer Tax	436.7	431.8	(4.9)	(1.1)	0.0
Income Tax	4,264.2	4,305.1	40.9	1.0	67.8
Gaming Tax	622.6	652.0	29.4	4.7	104.5
Other Revenue	467.3	460.1	(7.3)	(1.6)	(43.1)
SAF REV. AFTER TAX CHANGES	**$18,550.3**	**$18,876.4**	**$326.1**	**1.8%**	**($15.1)**
BASELINE GF/GP AND SAF	**$35,948.9**	**$36,597.4**	**$648.5**	**1.8%**	**($454.4)**
Tax & Revenue Changes	(3,167.0)	(2,789.4)	377.6	----	(106.8)
GF/GP & SAF REV. AFTER CHNGS.	**$32,781.9**	**$33,808.0**	**$1,026.1**	**3.1%**	**($561.2)**
SALES TAX	$10,768.9	$10,977.7	$208.8	1.9%	$105.0

[1)] FY 2023-24 is the base year for baseline revenue.

Table 6

FY 2026-27 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2025-26		
	FY 2025-26 Revised Est.	FY 2026-27 Revised Est.	Dollar Change	Percent Change	$ Change from 01/25 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$17,593.3	$17,856.9	$263.5	1.5%	($456.9)
Tax Changes Not In Baseline	(2,661.7)	(2,802.4)	(140.7)	----	(232.1)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$17,455.1	$17,559.2	$104.1	0.6%	$55.0
Less: Refunds	(3,608.5)	(3,667.7)	(59.2)	1.6	(400.0)
Net Income Tax Collections	13,846.6	13,891.5	44.9	0.3	(345.0)
Less: Earmarking to SAF	(4,305.1)	(4,360.5)	(55.4)	1.3	(13.0)
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	$8,871.7	$8,861.2	($10.5)	(0.1%)	($358.0)
Other Taxes					
Corporate Income Tax	$2,105.5	$2,199.7	$94.2	4.5%	($85.0)
Michigan Business Tax	(507.7)	(527.0)	(19.3)	3.8	0.0
Sales	1,675.6	1,721.0	45.4	2.7	21.9
Use	1,180.2	1,252.9	72.7	6.2	(113.3)
Cigarette	119.8	116.9	(2.9)	(2.4)	(8.9)
Insurance Company Premiums	540.4	556.7	16.3	3.0	(40.0)
Telephone & Telegraph	41.0	40.0	(1.0)	(2.4)	0.0
Oil & Gas Severance	20.0	20.4	0.4	2.0	(3.5)
All Other	280.1	287.3	7.3	2.6	(14.2)
Subtotal Other Taxes	$5,454.9	$5,667.9	$213.0	3.9%	($243.0)
Total Nontax Revenue	605.0	525.4	(79.6)	(13.2)	(88.0)
GF/GP REV. AFTER TAX CHANGES	**$14,931.6**	**$15,054.5**	**$122.9**	**0.8%**	**($689.0)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$19,004.1	$19,442.5	$438.4	2.3%	($140.2)
Tax Changes Not In Baseline	(127.7)	(123.9)	3.8	----	104.2
Revenue After Tax Changes					
Sales Tax	$8,042.4	8,244.6	$202.2	2.5%	$86.4
Use Tax	928.5	965.5	37.0	4.0	(56.7)
Lottery Revenue	1,110.3	1,105.5	(4.8)	(0.4)	(150.0)
State Education Property Tax	2,946.1	3,053.7	107.6	3.7	0.0
Real Estate Transfer Tax	431.8	459.8	28.0	6.5	15.0
Income Tax	4,305.1	4,360.5	55.4	1.3	13.0
Gaming Tax	652.0	673.5	21.5	3.3	105.0
Other Revenue	460.1	455.3	(4.7)	(1.0)	(48.7)
SAF REV. AFTER TAX CHANGES	**$18,876.4**	**$19,318.5**	**$442.2**	**2.3%**	**($36.0)**
BASELINE GF/GP AND SAF	**$36,597.4**	**$37,299.3**	**$701.9**	**1.9%**	**($597.1)**
Tax & Revenue Changes	(2,789.4)	(2,926.3)	(136.9)	----	(127.9)
GF/GP & SAF REV. AFTER CHNGS	**$33,808.0**	**$34,373.0**	**$565.0**	**1.7%**	**($725.0)**
SALES TAX	$10,977.7	$11,253.2	$275.5	2.5%	$120.0

[1)] FY 2023-24 is the base year for baseline revenue.

TAX POLICY CHANGES

Individual Income Taxes. Indexing the personal exemption under the IIT for inflation will reduce revenue by $345.0 million ($262.9 million GF/GP and $82.1 million SAF) in FY 2024-25, $382.5 million ($291.4 million GF/GP and $91.1 million SAF) in FY 2025-26, and $442.5 million ($337.1 million GF/GP and $105.4 million SAF) in FY 2026-27.

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) in FY 2024-25, $453.0 million ($356.2 million GF/GP and 96.8 million SAF) in FY 2025-26, and $503.0 million ($394.7 million GF/GP and 108.3 million SAF) in FY 2026-27. Public Act 4 of 2023 also increased the Earned Income Tax Credit (EITC) from 6.0% of the Federal level to 30.0% of the Federal level. The EITC changes will reduce revenue by $450.0 million (all GF/GP) in FY 2024-25, $475.0 million (all GF/GP) in FY 2025-26, and $500.0 million (all GF/GP) in FY 2026-27.

Personal Property Tax Reform. Use tax collections of $569.8 million in FY 2024-25, $571.4 million in FY 2025-26, and $572.2 million in FY 2026-27 will be levied by the Local Community Stabilization Authority (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 $496.9 million in FY 2024-25, $507.7 million in FY 2025-26, and $527.0 million in FY 2026-27. 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 in FY 2024-25, but after two of the earmarks expire at the end of FY 2024-25, the remaining earmark will reduce GF/GP revenue by $50.0 million in FY 2025-26 and 2026-27.

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $16.3 million in FY 2024-25, $16.7 million in FY 2025-26, and $17.2 million in FY 2026-27. The LCSA small taxpayer exemption will reduce revenue by $75.0 million, all GF/GP, in all forecasted fiscal years. The SAF hold-harmless provisions for several tax exemptions will reduce sales tax revenue $55.0 million ($49.5 million GF/GP and $5.5 million other) in FY 2024-25, $56.4 million ($50.8 million GF/GP and $5.6 million other) in FY 2025-26, and $57.0 million ($51.3 million GF/GP and $5.7 million other) in FY 2026-27. The SAF hold-harmless provisions for several tax exemptions will reduce use tax revenue $25.2 million in FY 2024-25, $25.8 million in FY 2025-26, and $26.5 million in FY 2026-27, all GF/GP. Adjustments to the Liquor Purchase Revolving Fund for authorized distribution agents will lower General Fund revenue by $42.5 million in FY 2024-25, $48.1 million in FY 2025-26, and $50.7 million in FY 2026-27.

Historical Perspective

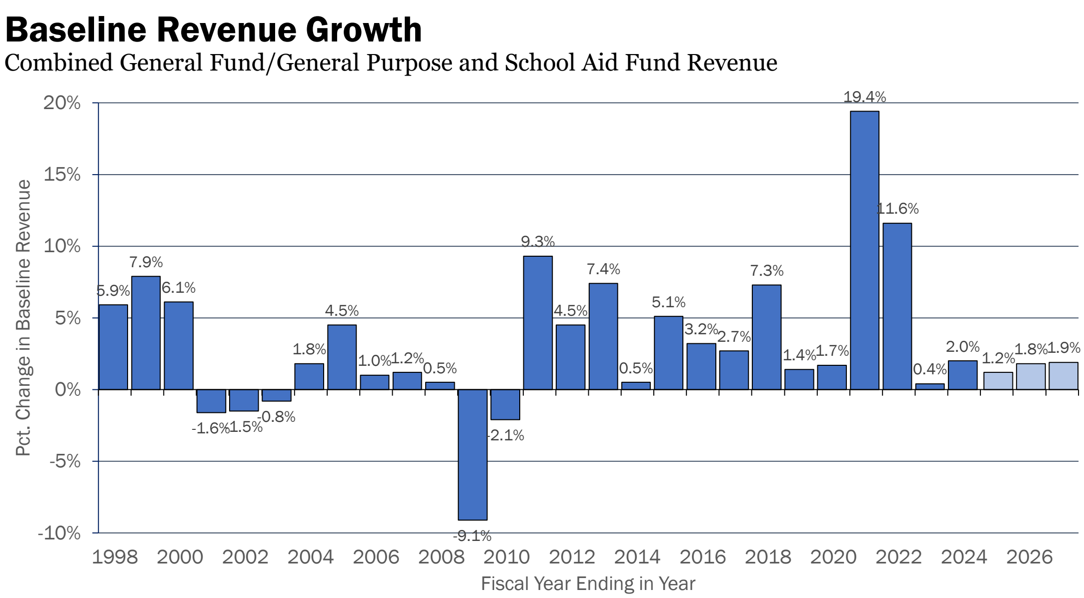
- Net GF/GP and SAF revenue increased 2.4% in FY 2023-24. Net GF/GP and SAF revenue is forecast to increase 0.6% in FY 2024-25, 3.1% in FY 2025-26, and 1.7% in FY 2026-27. These changes compare with an average decline of 0.9% per year for the FY 2000-01 to FY 2009-10 period and an average increase of 3.0% per year from FY 2010-11 to FY 2019-20.
- General Fund/General Purpose revenue rose 4.0% in FY 2023-24, 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 1.2% in FY 2023-24, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.

Baseline revenue is forecast to increase 1.2% in FY 2024-25 and continue to increase in the following two fiscal years (Figure 13). 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 2.1% in FY 2023-24. Using the FY 2023-24 base year, baseline GF/GP and SAF revenue is expected to increase approximately 1.2% in FY 2024-25, 1.8% in FY 2025-26, and 1.9% in FY 2026-27.

With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2024-25 will be approximately 6.4% (or $980.4 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of $14.9 billion in FY 2025-26 is 1.8% below the peak, and FY 2026-27 is 1.0% below the peak level (Figure 14). In inflation-adjusted terms, FY 2026-27 GF/GP revenue is estimated to be 3.7% (or $399.7 million in 2017 dollars) below the FY 1967-68 level (Figure 15).

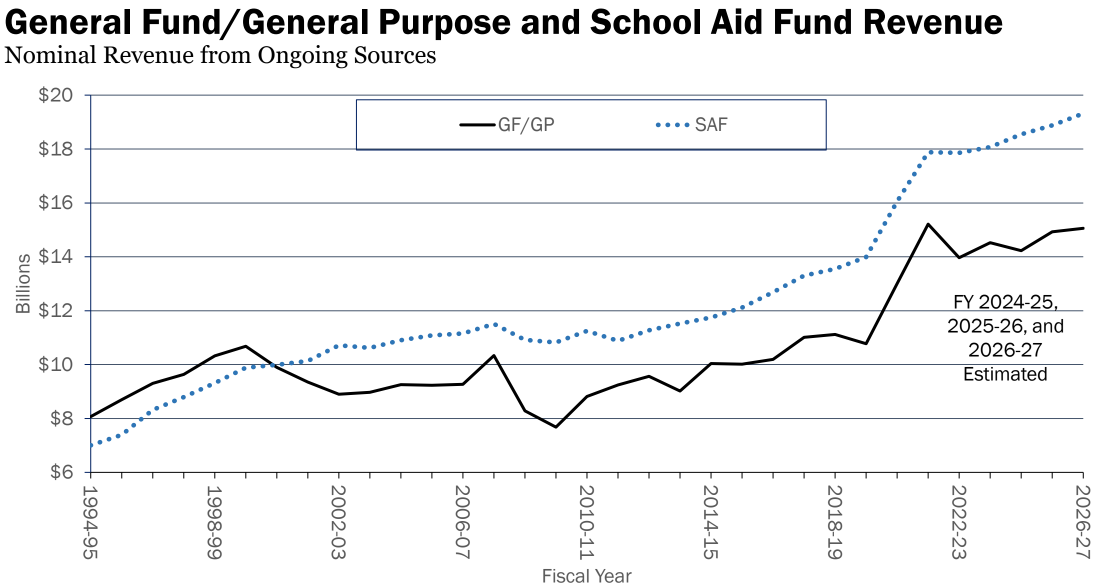
In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to increase in FY 2024-25 and increase in FY 2025-26 and FY 2026-27 (Figure 14). In FY 2026-27, SAF revenue is predicted to be approximately 175.9% ($12.3 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 0.3% ($45.4 million in 2017 dollars) lower if adjusted for inflation (Figure 16).

Figure 13



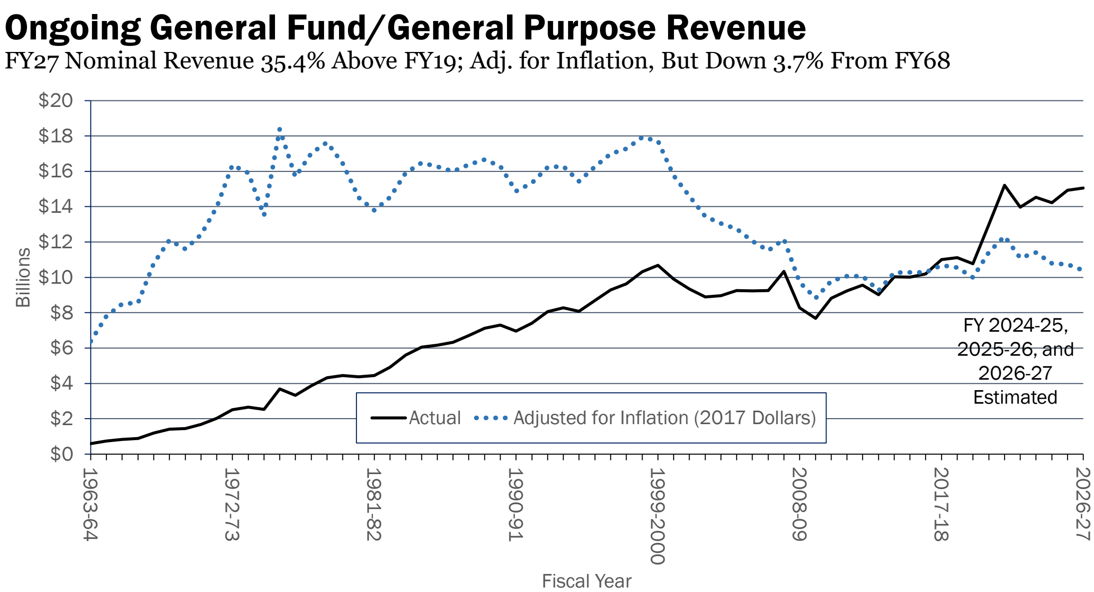
Source: Michigan Department of Treasury and Senate Fiscal Agency

Figure 14



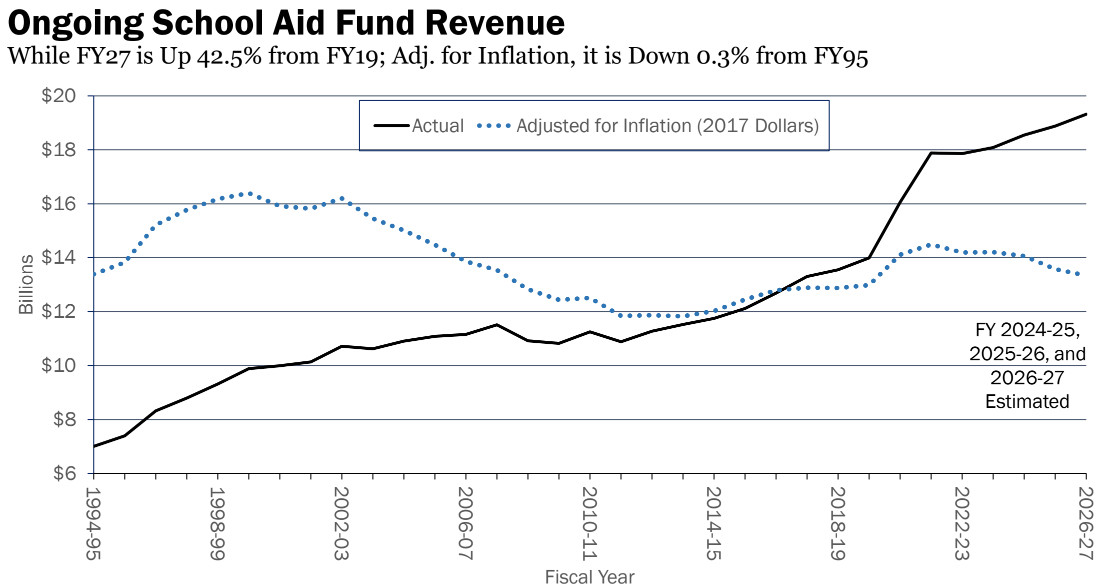
Source: Michigan Department of Treasury and Senate Fiscal Agency

Figure 15



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

Figure 16



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

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2024-25 THROUGH FY 2026-27

Individual Income Tax. Individual income tax net collection will increase an estimated 5.6% in FY 2024-25, to $13.7 billion. Fiscal year 2024-25 withholding, which represents the majority of gross IIT revenue, will increase 6.4%. Quarterly estimates and annual payments will increase 14.7% and 26.2%, respectively. As economic growth slows, withholding will grow 0.9% in FY 2025-26 and 0.6% in FY 2026-27. Compared with the January 2025 consensus revenue estimates, the revised estimate for FY 2024-25 IIT revenue is $36.2 million higher, and the revised estimates for FY 2025-26 and FY 2026-27 are $120.0 million and $345.0 million lower, respectively, reflecting lower employment and wage growth forecasts.

Sales Tax. The forecast predicts Michigan sales tax revenue will rise 1.8% in FY 2024-25, 1.9% in FY 2025-26, and 2.5% in FY 2026-27. Compared with the January 2025 consensus revenue estimates, the FY 2024-25 sales tax estimate is up $80.1 million while the revised sales tax estimate for FY 2025-26 is $105.0 million higher and the estimate for FY 2026-27 is $120.0 million higher. The changes primarily reflect revised estimates of consumer spending due to changes in personal income. 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 3.9% in FY 2024-25, then increase 3.7% in FY 2025-26, and 4.0% in FY 2026-27. 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 $569.8 million in FY 2024-25, and will total $571.4 million in FY 2025-26, and $572.2 million in FY 2026-27 as they increase annually. Compared with the January 2025 consensus revenue estimates, the FY 2024-25 estimate for combined State and local use tax collections is revised downward by $192.8 million, the FY 2025-26 estimate is $195.0 million lower, and the FY 2026-27 estimate is $170.0 million lower. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds is allocated between the General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Tobacco tax revenue is expected to continue its long-term downward trend, declining 6.8% in FY 2024-25, 2.7% in FY 2025-26, and 2.5% in FY 2026-27. 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 SAF, 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.

Gaming Taxes. The State's tax on casinos is directed to the SAF. In FY 2024-25, casino tax revenue is projected to total $105.7 million, a 5.2% increase from FY 2023-24. Casino tax revenue is expected to grow 2.5% in FY 2025-26 and 1.8% in FY 2026-27, reflecting a more typical growth pattern. Online gaming options are expected to continue growing over the forecast, with online gaming revenue to the SAF increasing 29.2% in FY 2024-25, to $516.9 million, and growth slowing to a 5.2% increase in FY 2025-26 and a 3.6% gain in FY 2026-27.

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. State Education Tax collections totaled $2.8 billion in FY 2023-24 and are projected to increase 3.6% in FY 2024-25, 3.2% in FY 2025-26, and 3.7% in FY 2026-27. 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 and between different lottery games is expected to limit the growth in lottery revenue over the forecast period. Lottery revenue is forecasted to decrease 10.4% in FY 2024-25, 0.7% in FY 2025-26, and 0.4% in FY 2026-27 as online gaming options compete with the lottery. All the net revenue generated by the lottery is earmarked to the SAF. In FY 2024-25, lottery revenue is expected to be 6.0% of total earmarked SAF revenue, with the percentage dropping to 5.9% in FY 2025-26 and continuing to fall to 5.7% in FY 2026-27.

Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning on 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 do not pay tax under the CIT. Instead, these businesses 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 "flow-through entity 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 generally a 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 $356.9 million (as refunds exceeded revenue) in FY 2023-24, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between roughly $400.0 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.

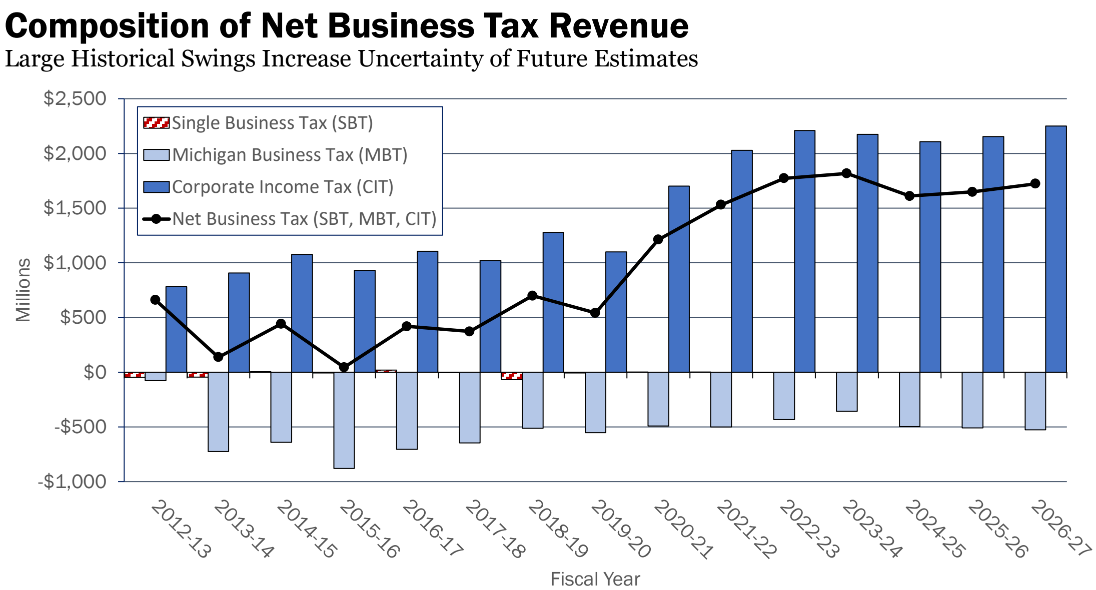
These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately $1.0 billion, 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 $356.9 million in FY 2023-24, they still represented a 2.5% 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 3.5% in FY 2024-25, 3.4% in FY 2025-26, and 3.5% in FY 2026-27. 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 2023-24, CIT collections fell 4.8% from the FY 2022-23 level. Underscoring the volatility in CIT revenue, several years have exhibited substantial swings in revenue, with CIT collections 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, (Figure 17). (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.) Combined revenue from the CIT, MBT and Single Business Tax (SBT) totaled $1.8 billion in FY 2023-24. Net business tax revenue is expected to decrease 11.4% in FY 2024-25, increase 2.3% in FY 2025-26, and increase 4.5% in FY 2026-27. All changes in revenue from the CIT, MBT, and SBT affect only the General Fund.

Before FY 2022-23, all CIT revenue was directed to the General Fund. Public Act 4 of 2023 created several earmarks of CIT revenue to other funds. In FY 2022-23 through FY 2024-25, the first $1.2 billion of CIT is directed to the General Fund, and the next $600.0 million is distributed to other funds: $50.0 million is earmarked each year to the Michigan Housing and Community Development Fund, another $50.0 million each year is earmarked to the Revitalization and Placemaking Fund, and $500.0 million is distributed to the Strategic Outreach and Attraction Reserve (SOAR) Fund, with any remaining CIT revenue after these three earmarks directed to the General Fund. Beginning in FY 2025-26, the earmarks to the Revitalization and Placemaking and SOAR funds end, adding $550.0 million to General Fund revenue in FY 2025-26, while the Housing and Community Development Fund earmark continues in future fiscal years.

Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated $537.4 million in FY 2023-24, a 15.3% increase from FY 2022-23. Revenue from taxes on insurance companies is expected to decrease 2.4% in FY 2024-25 to $524.5 million, followed by increases of 3.0% in FY 2025-26 and 3.0% in FY 2026-27. All revenue from insurance taxes is directed to the General Fund.

Figure 17



Source: Michigan Department of Treasury and Senate Fiscal Agency

<u>SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY</u>

Tables 7, 8, and 9 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2024-25, FY 2025-26, and FY 2026-27**.** Baseline estimates are used to track the forecast history for these fiscal years 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, to provide an accurate comparison, all of the previous baseline estimates made for FY 2024-25, FY 2025-26, and FY 2026-27 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2024-25 was made in January 2023, as shown in Table 7. At that time, baseline revenue in FY 2024-25 was estimated at $32.2 billion. This estimate was increased by $2.9 billion at the January 2023 CREC but lowered by $220.6 billion at the May 2023 CREC. The January 2024 CREC increased the estimate by $426.6 million. The May 2024 CREC increased the estimate again, by $88.3 million, and the January 2025 CREC increased it by an additional $867.0 million. The Senate Fiscal Agency's revised estimate for FY 2024-25 presented in this report decreases the baseline estimate by $325.3 million below the January 2025 consensus estimate, to $35.9 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2025-26 was made in December 2023, as shown in Table 8. At that time, baseline revenue in FY 2025-26 was estimated at $36.1 billion. This estimate was decreased by $48.9 million at the January 2024 CREC, but the May 2024 CREC increased it by $63.1 million. The January 2025 CREC increased the estimate by $935.6 million. The revised SFA estimate for FY 2025-26 decreases baseline revenue by $454.4 million, to $36.6 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2026-27 was made in January 2025, as shown in Table 9. At that time, baseline revenue in FY 2026-27 was estimated at $37.6 billion. The January 2025 CREC increased the estimate by $321.6 million. The revised SFA estimate for FY 2026-27 decreases baseline revenue by $597.1 million, to $37.3 billion.

Table 7

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

Forecast Date	GF/GP	SAF	Total
January 10, 2023	$14,974.8	$17,198.8	$32,173.6
January 13, 2023 [a]	16,659.8	18,453.1	35,112.9
May 16, 2023	16,986.6	18,541.8	35,528.4
May 19, 2023 [a]	16,401.0	18,491.3	34,892.3
December 21, 2023	16,720.3	18,583.1	35,303.4
January 12, 2024 [a]	16,734.3	18,584.6	35,318.9
May 15, 2024	17,261.3	18,395.3	35,656.5
May 17, 2024 [a]	16,985.0	18,422.2	35,407.2
January 3, 2025	17,742.7	18,764.0	36,506.7
January 10, 2025 [a]	17,632.1	18,642.1	36,274.2
May 14, 2025	$17,278.3	$18,670.6	$35,948.9
Change From Previous Estimate:			
Dollar Change	($353.8)	$28.5	($325.3)
Percent Change	(2.1%)	0.2%	(0.9%)
Change From Initial Estimate:			
Dollar Change	$2,303.5	$1,471.8	$3,775.3
Percent Change	15.4%	8.6%	11.7%

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

Note: Baseline base year equals FY 2023-24.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2025-26 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 21, 2023	$17,145.9	$18,956.0	$36,101.9
January 12, 2024 [a]	17,025.2	19,027.8	36,053.0
May 15, 2024	17,358.5	18,831.3	36,189.9
May 17, 2024 [a]	17,224.3	18,891.8	36,116.1
January 3, 2025	17,804.3	19,271.9	37,076.2
January 10, 2025 [a]	17,952.7	19,099.0	37,051.7
May 14, 2025	$17,593.3	$19,004.1	$36,597.4
Change From Previous Estimate:			
Dollar Change	($359.4)	($95.0)	($454.4)
Percent Change	(2.1%)	(0.5%)	(1.3%)
Change From Initial Estimate:			
Dollar Change	$447.4	$48.1	$495.5
Percent Change	2.6%	0.3%	1.4%

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

Note: Baseline base year equals FY 2023-24.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2026-27 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
January 3, 2025	$17,897.0	$19,677.8	$37,574.8
January 10, 2025 [a]	18,313.8	19,582.6	37,896.4
May 14, 2025	$17,856.9	$19,442.5	$37,299.4
Change From Previous Estimate:			
Dollar Change	($456.9)	($140.2)	($597.1)
Percent Change	(2.5%)	(0.8%)	(3.3%)
Change From Initial Estimate:			
Dollar Change	($40.1)	($235.3)	($275.4)
Percent Change	(0.2%)	(1.2%)	(0.7%)

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

Note: Baseline base year equals FY 2023-24.

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 2023-24, combined GF/GP and SAF revenue is estimated at $32.6 billion; 15% applied to that would yield a BSF limit of roughly $4.9 billion. The balance at the end of FY 2023-24 was roughly $2.0 billion, lower than the limit of $4.9 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 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 2024-25 is based on personal income growth from calendar year 2023 to 2024 and GF/GP revenue in FY 2023-24. Different years are used to calculate a potential pay-out. A pay-out in FY 2024-25 depends on the change in personal income from calendar year 2024 to calendar year 2025, whether there was a calculated pay-out in FY 2023-24, and the BSF balance at the end of FY 2023-24.

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 GF/GP 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 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 2023-24. This table also presents the SFA's estimates for FY 2024-25, FY 2025-26, and FY 2026-27, 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 18, and the estimated economic stabilization trigger calculations for FY 2024-25, FY 2025-26, and FY 2026-27 are presented in Table 11.

FY 2024-25, FY 2025-26, and FY 2026-27

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 in FY 2024-25, FY 2025-26, or FY 2026-27. The statutory formula does forecast a potential pay-out of $538.5 million for FY 2025-26, but not in FY 2024-25 or FY 2026-27.

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 $2,153.8 million in FY 2024-25, $2,266.1 million in FY 2025-26, and $2,383.3 million in FY 2026-27 as shown in Table 10.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2026-27 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	1,382.3
2021-22	17.5	180.0	9.1	0.0	1,588.9
2022-23	17.5	100.0	73.9	0.0	1,780.3
2023-24	17.5	100.0	98.7	0.0	1,996.5
Enacted Deposits and Estimated Interest Earnings:					
2024-25	$17.5	$50.0	$89.8	$0.0	$2,153.8
2025-26	17.5	0.0	94.8	0.0	2,266.1
2026-27	17.5	0.0	99.7	0.0	2,383.3

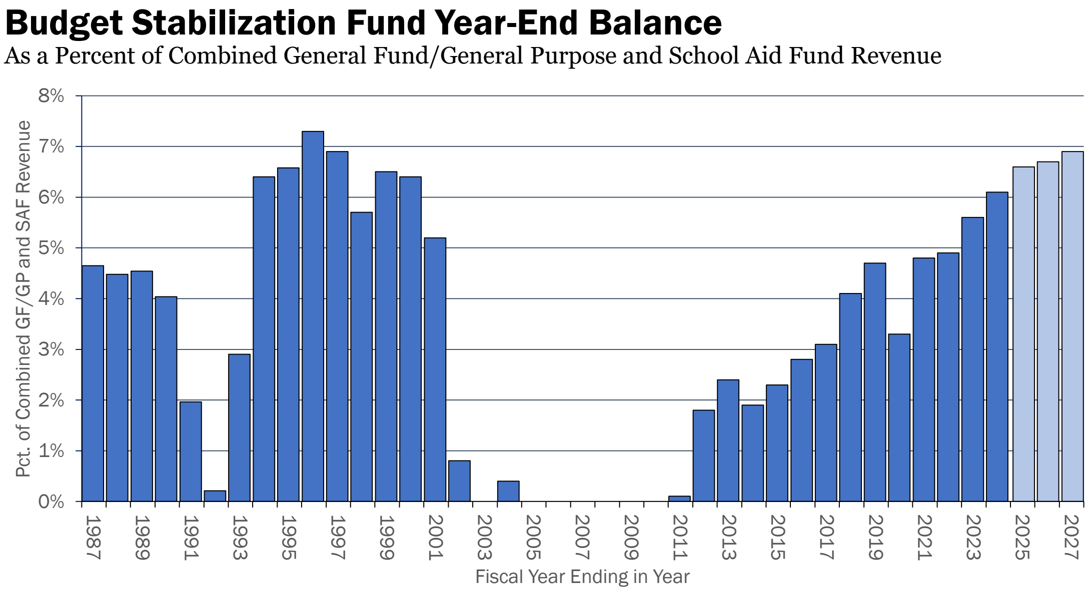
a) For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Annual Comprehensive Financial Report. FY 2021-22 to FY 2024-25 include enacted legislation and estimated interest earnings.

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 2023-24 and Senate Fiscal Agency.

Figure 18



Source: Senate Fiscal Agency

Table 11

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGERS
FY 2023-24, FY 2024-25, FY 2025-26, and FY 2026-27
(millions of dollars)

	CY 2023	**CY 2024**	**CY 2025**	**CY 2026**	**CY 2027**
Michigan Personal Income (MPI)	$613,719.2	$641,085.2	$664,255.3	$687,528.0	$711,808.4
Less: Transfer Payments	132,266.6	139,340.8	146,079.2	152,075.1	158,297.2
Subtotal	$481,452.6	$501,744.4	$518,176.1	$535,452.9	$553,511.1
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.8373	2.9235	2.9921	3.1137	3.2151
Equals: Real Adjusted MPI	$169,687.0	$171,622.0	$173,182.0	$171,967.0	$172,161.0
Percent Change from Prior Year		1.1%	0.9%	(0.7%)	0.1%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2023-24	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**
Multiplied by: Estimated GF/GP Revenue		$14,527.1	$14,231.6	$14,931.6	$15,054.5
Equals: Transfer to the BSF			$0.0	$0.0	$0.0
OR Transfer from the BSF			$0.0	($538.5)	$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 2024-25, FY 2025-26, and FY 2026-27, with State revenue forecast to be $16.2 billion below the limit in FY 2026-27.

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 2024-25, FY 2025-26, and FY 2026-27, 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 19. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2024-25

The SFA estimates that personal income in Michigan during 2023 will equal $613.7 billion and, as a result, the revenue limit will equal $58.2 billion in FY 2024-25. Based on the SFA's revised revenue estimates for FY 2024-25, revenue subject to the revenue limit will equal an estimated $44.9 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $13.3 billion, or 22.9%, in FY 2024-25. Personal income is forecasted to increase 5.4% while State revenue subject to the revenue limit is forecasted to increase 0.6%, thus increasing the amount by which revenue will fall below the limit.

FY 2025-26

The SFA estimates that personal income in Michigan during 2024 will equal $641.1 billion and the revenue limit will equal $60.8 billion in FY 2025-26. Based on the SFA's revised revenue estimates for FY 2025-26, revenue subject to the revenue limit will equal an estimated $46.1 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $14.7 billion, or 24.2%, in FY 2025-26. Personal income is forecasted to increase 4.5% while State revenue subject to the revenue limit is forecasted to increase 2.7%, thus increasing the amount by which revenue will fall below the limit.

FY 2026-27

The SFA estimates that personal income in Michigan during 2025 will equal $664.3 billion, and the revenue limit will equal $63.0 billion in FY 2026-27. Based on the SFA's initial revenue estimates for FY 2026-27, revenue subject to the revenue limit will equal an estimated $46.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $16.2 billion, or 25.7%, in FY 2026-27. Personal income is forecasted to increase 3.6% while State revenue subject to the revenue limit is forecasted to increase 1.5%, thus increasing the percentage by which revenue will fall below the limit.

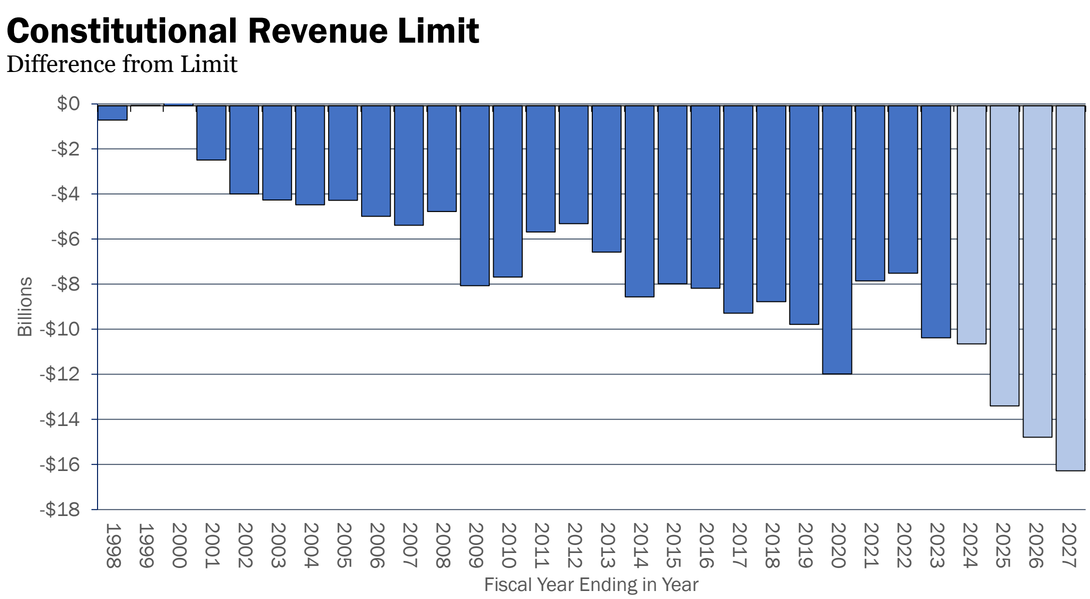
Table 12

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2022-23 THROUGH FY 2026-27 ESTIMATE
(millions of dollars)

	FY 2022-23 Final	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$16,908.4	$17,352.5	$17,278.3	$17,593.3	$17,856.9
Constitutional Revenue Sharing (baseline)	1,089.8	1,111.3	1,093.5	1,122.0	1,148.3
School Aid Fund (baseline)	17,908.5	18,184.5	18,670.6	19,004.1	19,442.5
Transportation Funds	4,151.1	4,220.9	4,281.2	4,388.7	4,474.4
Other Restricted Non-Federal Aid Revenue	6,557.0	6,746.7	6,780.4	6,814.3	6,848.4
Adjustments:					
GF/GP Federal Aid	(13.9)	(14.0)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(2,941.7)	(2,825.5)	(3,046.7)	(2,661.7)	(2,802.4)
SAF Balance Sheet Adjustments	(48.5)	(109.9)	(120.3)	(127.7)	(123.9)
Total Revenue Subject to Limit	**$43,610.7**	**$44,666.5**	**$44,927.0**	**$46,123.0**	**$46,834.1**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2021**	**CY 2022**	**CY 2023**	**CY 2024**	**CY 2025**
Amount	$567,807.0	$582,021.1	$613,719.2	$641,085.2	$664,255.3
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$53,884.9	$55,233.8	$58,242.0	$60,839.0	$63,037.8
1.0% of Limit	538.8	552.3	582.4	608.4	630.4
Amount Under (Over) Limit	**$10,274.2**	**$10,567.3**	**$13,314.9**	**$14,715.9**	**$16,203.8**
Percent Below Limit	19.1%	19.1%	22.9%	24.2%	25.7%

CY = Calendar Year; FY = Fiscal Year

Figure 19



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

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 2024-25, FY 2025-26, and FY 2026-27 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 2024-25 State budget and complete action on the FY 2025-26 State budget.

On February 5, 2025, Governor Gretchen Whitmer presented her FY 2025-26 and FY 2026-27 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 10, 2025. The Governor's FY 2025-26 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements. Similarly, the Senate-passed budgets adopted on May 12 and 13, 2025, were balanced based on the January 2025 CREC revenue estimates.

Table 13 provides a summary of the SFA's estimates of the FY 2024-25, FY 2025-26, and FY 2026-27 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 2024-25 GF/GP and SAF budgets will have positive ending balances. The projected GF/GP balance for FY 2024-25 is $507.7 million and the projected SAF balance is $1.3 billion. This combined GF/GP and SAF balance of $1.8 billion is carried forward into FY 2025-26.

Based on current SFA revenue estimates, and assuming the expenditures from the Senate-passed FY 2025-26 budget bills, the FY 2025-26 GF/GP budget will have a negative ending balance of $968.5 million and the SAF budget will have a positive balance of $197.7 million. The combined ending balance of these two FY 2025-26 fund projections is a negative balance of $770.8 million. (Note that a budget cannot be enacted with a projected deficit, so for purposes of estimating FY 2026-27, it is assumed that a budget is enacted that eliminates this projected deficit.)

A comparison of the SFA's estimate of FY 2026-27 GF/GP revenue with a continuation of the Senate-passed FY 2025-26 budgets (adjusted to eliminate the projected $968.5 million deficit by eliminating discretionary one-time funding of $557.4 million and $411.1 million in ongoing spending), SFA caseload estimates, and carrying forward the projected year-end negative balance leads to a projected $319.8 million negative GF/GP budget balance. However, if the $968.5 million shortfall were instead eliminated entirely by ongoing reductions, then there would be a positive year-end balance in FY 2026-27 of $237.6 million. Therefore, how the estimated shortfall in FY 2025-26 is resolved will impact the FY 2026-27 estimated year-end balance. A comparison of the SFA's estimate of FY 2026-27 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2026-27, adjusting for pupil membership estimates, and carrying forward projected year-end balance, points to a projected balance of $649.0 million in the SAF.

Table 13

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

	FY 2024-25 Year-to-Date	FY 2025-26 SFA Estimate	FY 2026-27 SFA Estimate
General Fund/General Purpose	$507.7	($968.5)	Variable*
School Aid Fund	$1,252.6	$197.7	$649.0

***The FY 2026-27 balance would depend on how the FY 2025-26 shortfall is resolved by reductions between ongoing and one-time spending.

SFA REVENUE ADJUSTMENTS FOR FISCAL YEARS 2023-24, 2024-25, AND 2025-26

As illustrated in the balance sheets, the SFA is forecasting negative adjustments for FYs 2024-25, 2025-26, and 2026-27 in the General Fund, and positive and negative adjustments in the SAF. Over the three-year period, GF/GP revenue would decrease $1.7 billion compared to the January 2025 consensus revenue estimates, while the SAF would stay relatively flat by increasing $39.6 million over that same period. The balance sheets show both the adjustments to revenue as estimated by the SFA in this forecast along with the Senate-passed budget bill spending levels and estimates produced by the SFA with respect to school aid costs, Medicaid costs, and other adjustments to spending. The balance sheets shown here will be updated after the CREC to reflect consensus adjustments to revenue and costs.

CONCLUSION

The GF/GP side of the ledger is estimated to end FY 2025-26 and FY 2026-27 with year-end negative balances, while the SAF is estimated to have positive balances. These figures are based on the SFA's estimates of revenue as well as Senate-passed budgets. A budget cannot be enacted with an estimated negative balance; therefore, the FY 2025-26 GF/GP budgets would need to be reduced (compared to the Senate-passed levels) or additional revenue would need to be added to fill in the estimated shortfall.

Tables 14 and 15 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and SAF budgets, respectively. All of the estimated year-end balances in this report are based on the SFA's revenue projections, which the SFA will take to the May 16, 2025, 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 2025-26 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 2024-25 Enacted/ Projected	FY 2025-26 Senate Passed	FY 2026-27 Estimated Baseline
Revenue:			
Beginning Balance	$2,149.3	$507.7	$0.0*
Ongoing Revenue:			
CREC Forecast January 2025	$14,715.5	$15,477.7	$15,743.4
SFA Forecast Change (May 2025)	(483.9)	(546.1)	(689.0)
Subtotal: SFA Forecast May 2025	$14,231.6	$14,931.6	$15,054.5
SFA Adjustments: Restore temp. revenue losses to baseline (May 2025)	550.0	0.0	0.0
Adjusted CREC Forecast Ongoing Revenue Estimate (May 2025)	$14,781.6	$14,931.6	$15,054.5
Other Ongoing Revenue Adjustments:			
R&D tax credit	0.0	(100.0)	(100.0)
Deposit into Community Infrastructure Fund	0.0	(172.5)	(172.5)
Revenue sharing payments	(627.2)	(627.2)	(627.2)
Subtotal Ongoing Revenue	$14,154.4	$14,031.9	$14,154.8
Non-Ongoing Revenue:			
Redirection of restricted revenue	($2.7)	($2.7)	($2.7)
Deposit into CIT ($200m) and Game/Fish ($10m)	0.0	(210.0)	0.0
VMF early conversion to GF	80.0	0.0	0.0
Three-year RAP earmark	(50.0)	0.0	0.0
Three-year CIT SOAR earmark	(500.0)	0.0	0.0
Subtotal Non-Ongoing Revenue	($472.7)	($212.7)	($2.7)
Total Estimated GF/GP Revenue Including Beginning Balance	**$15,831.0**	**$14,326.9**	**$14,152.1**
Total Estimated GF/GP Revenue Excluding Beginning Balance	**$13,681.7**	**$13,819.2**	**$14,152.1**
Expenditures:			
Ongoing Appropriations:			
Initial/Baseline Appropriations	$13,605.7	$13,605.7	Variable*
Ongoing baseline costs	0.0	771.5	169.0
Ongoing investments	0.0	242.2	0.0
Community District Trust Fund GF payment	77.2	0.0	0.0
Subtotal Ongoing Appropriations	$13,682.9	$14,619.3	$
One-Time and Other Appropriations:			
One-Time Appropriations	$1,269.8	$557.4	$0.0
Reserve for Federal reimbursement (UIA)	40.0	40.0	40.0
DSH reimbursement to Federal government	81.6	78.7	54.7
Estimated DHHS caseload costs	241.3	0.0	0.0
Other proposed spending in Supplemental 2025-1	4.0	0.0	0.0
Spending in SB 184 net of anticipated lapses	3.8	0.0	0.0
Other	0.0	0.0	0.0
Subtotal One-Time and Other Appropriations	$1,640.5	$676.1	$94.7
Total Estimated GF/GP Expenditures	**$15,323.4**	**$15,295.4**	**$**
PROJECTED YEAR-END GF/GP BALANCE (Total)	**$507.7**	**($968.5)**	**Variable***

*****The FY 2026-27 balance would depend on how the FY 2025-26 shortfall is resolved between ongoing and one-time funds, because those adjustments would affect baseline spending in FY 2026-27.

Table 15

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

	SFA Estimates		
	FY 2024-25 Enacted/ Projected	**FY 2025-26 Senate Passed**	**FY 2026-27 Estimated Baseline**
Revenue:			
Beginning Balance	$1,257.7	$1,252.6	$197.7
Ongoing Revenue:			
CREC Forecast January 2025	$18,459.6	$18,891.5	$19,354.5
SFA Forecast Change (May 2025)	90.7	(15.1)	(36.0)
Subtotal: SFA Forecast May 2025	$18,550.3	$18,876.4	$19,318.5
Other Revenue Adjustments:			
General Fund/General Purpose (GF/GP) Grant	$50.1	$50.1	$50.1
Community District Education Trust Fund	41.0	0.0	0.0
Federal Ongoing Aid	2,272.8	2,407.7	2,407.7
Subtotal Ongoing Revenue	$20,914.2	$21,334.2	$21,776.2
Non-Ongoing Revenue:			
MPSERS Reserve Fund	334.1	0.0	0.0
Transportation Reserve Fund Deposit	(25.0)	(11.0)	0.0
SAF BSF Deposit	0.0	(50.0)	0.0
Infrastructure and Consolidation Fund	0.0	283.4	0.0
Transportation Reserve Fund	125.0	125.0	0.0
School Meals Reserve Fund	30.0	0.0	0.0
Enrollment Stability Reserve Fund	71.0	71.0	0.0
GSRP Reserve Fund	18.0	18.0	0.0
Additional One-Time GF	28.7	5.3	0.0
Other reserve funds	30.0	70.0	0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	77.2	0.0	0.0
Subtotal Non-Ongoing Revenue	$689.0	$511.7	$0.0
Total Estimated School Aid Fund Revenue Including Beginning Balance	**$22,860.9**	**$23,098.5**	**$21,973.9**
Total Estimated School Aid Fund Revenue Excluding Beginning Balance	**$21,603.2**	**$21,845.9**	**$21,776.2**
Expenditures:			
Ongoing Appropriations:			
Initial/Ongoing K-12 State Appropriations	$17,187.6	$17,905.1	$17,891.9
School Aid Federal Funds	2,272.8	2,407.7	2,407.7
State Funds Cost Adjustments	(85.6)	(13.2)	0.0
Fund Community Colleges with SAF	456.9	493.0	489.5
Partially Fund Higher Education with SAF	451.7	566.3	550.0
Subtotal Ongoing Appropriations	$20,283.3	$21,358.9	$21,324.9
One-Time and Other Appropriations:			
Initial One-Time K-12 SAF Appropriations	$1,183.9	$924.8	$0.0
Reserve funds	0.0	567.4	0.0
Additional one-time GF/GP	0.0	0.3	0.0
Initial One-Time Community College Appropriations	5.1	13.5	0.0
Initial One-Time University Appropriations	10.0	35.9	0.0
Enacted supplemental (SB 174)	126.0	0.0	0.0
Subtotal One-Time and Other Appropriations	$1,325.0	$1,541.8	$0.0
Total Estimated School Aid Fund Expenditures	**$21,608.3**	**$22,900.8**	**$21,324.9**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE (Total)	**$1,252.6**	**$197.7**	**$649.0**