Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24

January 7, 2022

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ACKNOWLEDGEMENT

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ECONOMIC FORECAST

The United States economy, as measured by inflation-adjusted gross domestic product (GDP), after contracting an estimated 3.4% in 2020, is predicted to have expanded 5.6% in 2021, and will grow 4.5% in 2022, 2.5% in 2023, and 1.9% in 2024. Light vehicle sales are forecasted to rise from 15.0 million units in 2021 to 15.4 million units in 2022 and 16.4 million units in 2023, before totaling 16.3 million units in 2024. The unemployment rate is expected to fall from 5.4% in 2021 to 4.0% in 2022 and 3.9% in 2023 before rising to 4.2% in 2024. The Consumer Price Index (CPI) is estimated to have risen 4.7% in 2021, and will rise 5.2% in 2022, with inflation then slowing to 2.7% in 2023 and 2.5% in 2024.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to contract 5.2% in 2022, before growing 2.8% in 2023 and 1.0% in 2024, after contracting 1.6% in 2021. Wage and salary employment is predicted to increase more slowly, rising 2.7% during 2022, 2.3% in 2023, and 0.5% in 2024, after growing 2.9% in 2021.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2020-21 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled $29.0 billion, up 17.1%, from FY 2019-20, reflecting strong demand for goods in the wake of Federal stimulus measures and strong economic growth. Robust revenue growth from all individual income tax (IIT) components, sales and use taxes, and the Corporate Income Tax (CIT) combined with less-than-expected refunds under the Michigan Business Tax (MBT) pushed FY 2020-21 GF/GP and SAF revenue $2.7 billion above the May 2021 consensus estimate.

In FY 2021-22, GF/GP and SAF revenue will total an estimated $28.2 billion, a 2.7% decrease from FY 2020-21 but $1.4 billion above the May 2021 consensus estimate. The decline reflects the exhaustion of most Federal stimulus effects partially offset by a growing economy. General Fund/General Purpose revenue will total an estimated $12.3 billion, a 5.0% decline from FY 2020-21 while SAF revenue will decline to an estimated $15.9 billion, a 0.7% decrease.

In FY 2022-23, GF/GP and SAF revenue will total an estimated $28.9 billion, a 2.3% increase from FY 2021-22 and $1.2 billion above the May 2021 consensus estimate. Economic growth and fewer MBT credits will result in GF/GP revenue growing 4.3%, to an estimated $12.8 billion. School Aid Fund revenue will rise 0.9% to an estimated $16.1 billion, with growth held back by consumption returning to a more normal split between goods (subject to sales and use taxes) and services (which generally are exempt).

In FY 2023-24, GF/GP and SAF revenue will total an estimated $29.5 billion. This initial estimate for FY 2023-24 is 2.3% above the revised estimate for FY 2022-23. Continued economic growth will allow GF/GP revenue to increase 3.0%, to $13.2 billion. School Aid Fund revenue will rise to an estimated $16.3 billion, a 1.7% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 27, 2021, the Senate Fiscal Agency (SFA) is estimating that the FY 2020-21 GF/GP budget will close the fiscal year with a $4.2 billion balance. The SFA estimates that the FY 2020-21 SAF budget will close the fiscal year with a $2.9 billion balance.

A comparison of the SFA's FY 2021-22 revenue estimates with enacted and projected appropriations leads to a $3.4 billion GF/GP year-end balance. The SFA estimates that the FY 2021-22 SAF budget also will end the year with a $3.4 billion balance.

Looking ahead at the FY 2022-23 budget, comparing the SFA's FY 2022-23 GF/GP revenue estimate with FY 2022-23 GF/GP estimated expenditures results in a projected GF/GP balance of $4.4 billion. Those estimated expenditures freeze initial ongoing spending at the FY 2021-22 level and include the projected year-end balance of $3.4 billion from FY 2021-22; $100.0 million of projected savings from Medicaid caseload and costs; $267.8 million of GF/GP for various costs in Department of Health and Human Services (DHHS) (actuarial soundness, disallowances, base adjustments); $35.0 million for debt service related to the Flint water settlement; and increases for employee economics and other baseline adjustments. If the FY 2021-22 estimated year-end SAF balance of $3.4 billion is carried forward, comparing the SFA's FY 2022-23 SAF revenue estimate with the FY 2022-23 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs results in a projected SAF year-end balance of $4.5 billion for FY 2022-23.

The estimated FY 2020-21 ending balances may change when the State's book-closing process is completed and the final Annual Comprehensive Financial Report (ACFR) is published. If the FY 2020-21 numbers change because of final supplemental spending and other book-closing issues, it would change the ending balances in this report. Additional policy changes or supplemental appropriations during FY 2021-22 also would change the ending balances for FYs 2021-22 and 2022-23.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2020 Actual	2021 Estimate	2022 Estimate	2023 Estimate	2024 Estimate
Real Gross Domestic Product (% change)	(3.4%)	5.6%	4.5%	2.5%	1.9%
US Consumer Price Index (% change)	1.2%	4.7%	5.2%	2.7%	2.5%
Light Motor Vehicle Sales (millions of units)	14.5	15.0	15.4	16.4	16.3
US Unemployment Rate (%)	8.1%	5.4%	4.0%	3.9%	4.2%
Real Michigan Personal Income (% change)	6.8%	(1.6%)	(5.2%)	2.8%	1.0%
Michigan Wage & Salary Employment (% change)	(9.2%)	2.9%	2.7%	2.3%	0.5%

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

	FY 2021-22 Estimate			FY 2022-23 Estimate			FY 2023-24 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$13,995.8	($1,687.6)	$12,308.2	$14,281.4	($1,448.9)	$12,832.5	$14,541.6	($1,319.1)	$13,222.5
% Change	(7.1%)	---	(5.0%)	2.0%	---	4.3%	1.8%	---	3.0%
School Aid Fund	$15,882.9	34.3	$15,917.2	$15,990.2	64.9	$16,055.1	$16,223.5	97.2	$16,320.7
% Change	(1.3%)	---	(0.7%)	0.7%	---	0.9%	1.5%	---	1.7%
Total GF/GP & SAF	$29,878.8	($1,653.3)	$28,225.4	$30,271.6	($1,384.0)	$28,887.6	$30,765.1	($1,221.9)	$29,543.2
% Change	(4.1%)	---	(2.7%)	1.3%	---	2.3%	1.6%	---	2.3%
Revenue Limit – Under (Over)		$11,795.9			$12,814.4			$10,892.3	

	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate
Revision from May Consensus			
GF/GP	$1,684.1	$635.1	$561.8
SAF	1,001.0	786.2	627.5
Total	**$2,685.1**	**$1,421.3**	**$1,189.3**

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

	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate
General Fund/General Purpose	$4,183.8	$3,353.5	$4,395.5
School Aid Fund	2,865.4	3,381.4	4,520.1
Budget Stabilization Fund (with enacted deposits)	1,382.4	1,411.0	1,453.9

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2022, 2023, and 2024, as well as a summary of recent economic activity.

RECENT US ECONOMIC HIGHLIGHTS

- The COVID-19 pandemic ended the longest, although weak by historical standards, expansion on record with a record setting decline in inflation-adjusted GDP.
- Significant shifts in consumption from services to goods have resulted in inflation-adjusted GDP (inflation-adjusted output) recovering from the pandemic in the second quarter of 2021, yet employment remains below pre-COVID-19 levels.

The longest economic expansion on record, based on the National Bureau of Economic Research dating recessions as far back as December 1854, ended in the first quarter of 2020, as inflation-adjusted GDP declined 5.0%. While a single quarter of decline would not mark the end of an expansion period, the economic disruption associated with the COVID-19 pandemic resulted in a 31.4% decline (at an annual rate) during the second quarter of 2020, the largest single quarterly decline in records going back to 1947. Two consecutive quarters of decline in inflation-adjusted GDP generally is considered sufficient to mark a recession. While the third quarter of 2020 exhibited growth at a 33.4% annual rate, the 10.1% decline in inflation-adjusted GDP between the fourth quarter of 2019 and the second quarter of 2020 exceeds the peak-to-trough decline of any recession since at least World War II. (The 2008-2009 recession represents the second largest peak-to-trough decline in inflation-adjusted GDP, with a 4.0% drop.)

While at the time, the 2008-2009 recession represented the most severe economic contraction in more than 70 years, the years following the 2008-2009 recession also represented the weakest recovery experienced during that period, with the most recent recovery less than half as strong as the average of other long recoveries (Figure 1). The economy averaged only 2.3% annual growth during the expansion, compared with an average of 3.9% annual growth over the longest recoveries since World War II (42 quarters after the end of the 1961, 1982, and 1991 recessions). Most of the weakness during the recovery reflected particularly slow growth in personal consumption spending (which generally has accounted for two-thirds of economic activity) through the first quarter of 2014, combined with flat-to-declining activity in the government sector (Figure 2).

The weak recovery from the 2008-2009 recession meant that, despite the record-setting duration, the US economy was more likely to see the expansions gains erased quickly. By the second quarter of 2020, the recessionary effects of the COVID-19 pandemic on inflation-adjusted GDP erased all of the growth experienced since the first quarter of 2015. Similarly, while total employment increased by 20.7 million jobs between the employment trough in December 2009 and February 2020, between February and April 2020, total employment declined by 25.4 million jobs—more than wiping out all of the employment gains of the preceding 20 years and returning employment to levels not experienced since June 1999—before the 2001 recession.

The economic contraction associated with the COVID-19 pandemic was rapid and global. For many economic variables, the changes were of unprecedented magnitudes, even compared to the changes over previous recessions that lasted months, or even years, longer. While the reduction in inflation-adjusted GDP in the second quarter of 2020 ranks as the most significant quarterly decline since before World War II, even the decline in the first quarter of 2020 ranks as the seventh largest (Figure 3). In comparison, the 1957-58 recession exhibited declines at an annual rate of 4.1% in the fourth quarter of 1957 and 10.0% in the first quarter of 1958, reflecting the second wave of the H2N2 flu pandemic, representing the 14th and second most significant quarterly declines in inflation-adjusted GDP since World War II, respectively.

Figure 1

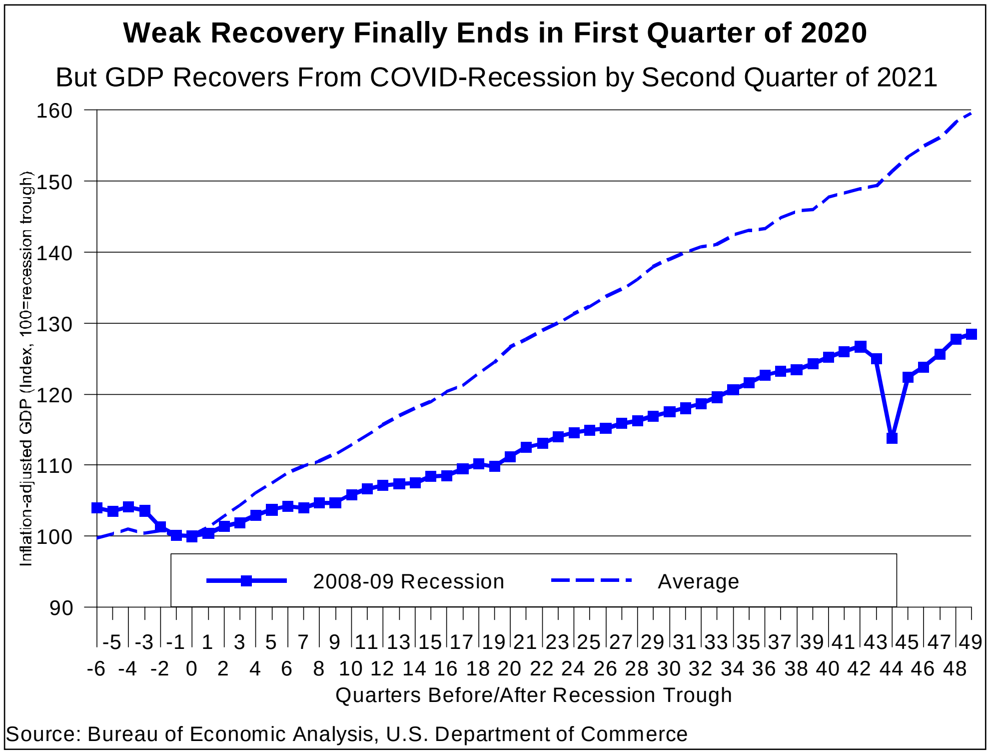


Figure 2

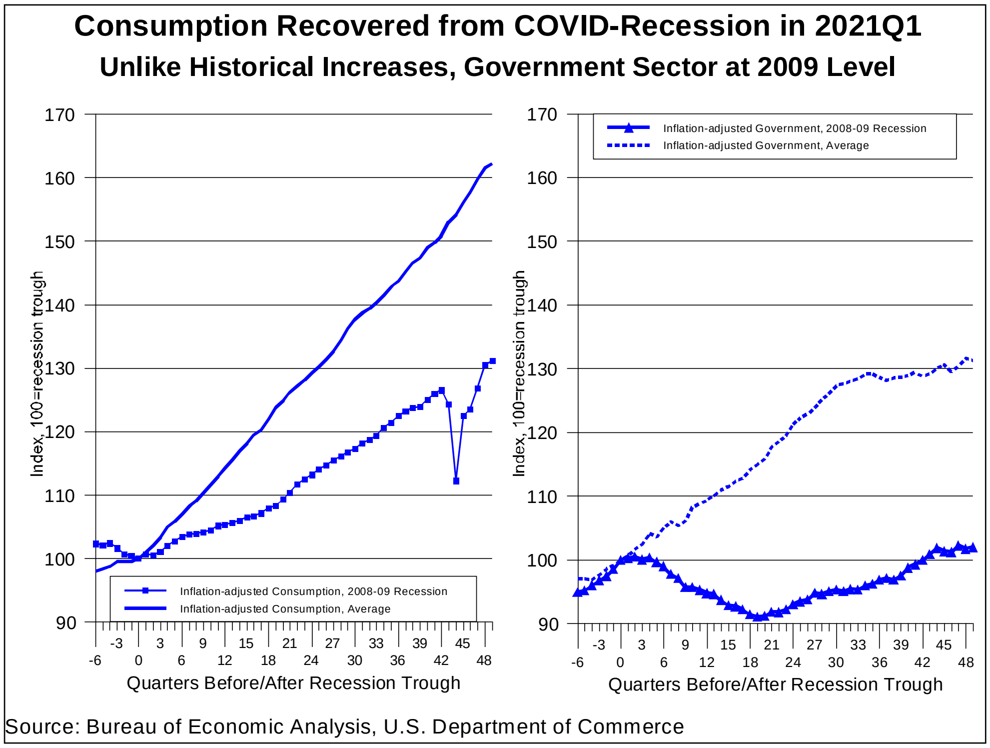
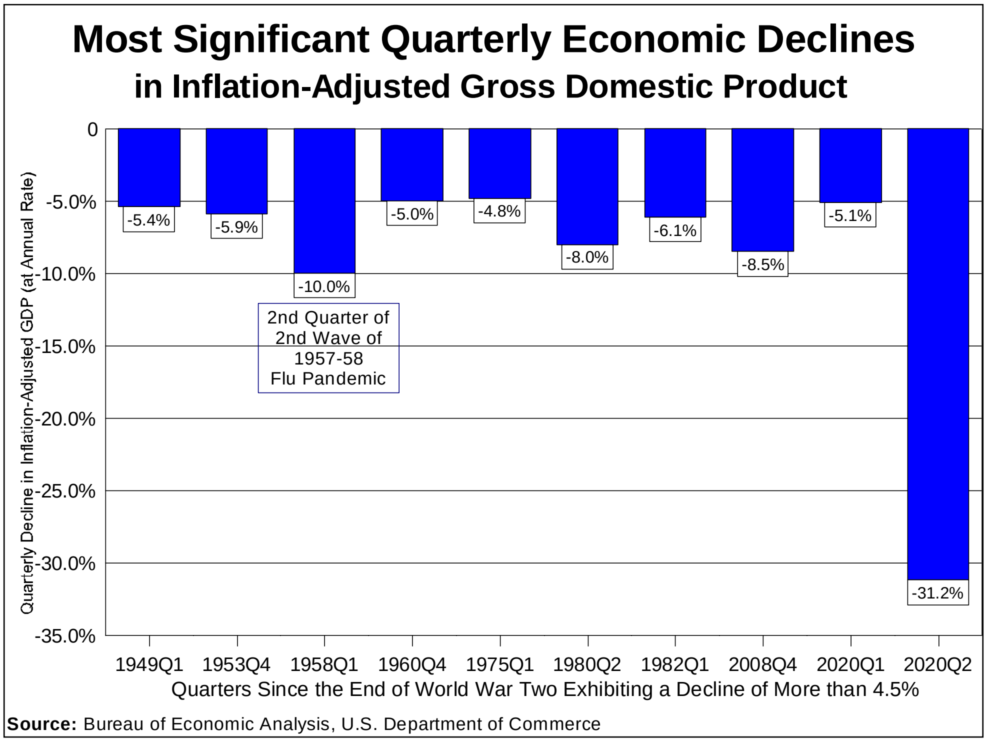


Figure 3



Job losses associated with the COVID-19 pandemic were significant and employment remains well below the prerecession peak. The loss of 22.2 million payroll employment jobs (as opposed to total employment, which also includes self-employed workers and agricultural workers) between February and April 2020 not only erased nearly all of the 22.8 million payroll jobs created since February 2010 (the employment trough from the 2008-09 recession), but was almost three times the record-setting employment decline experienced during the 2008-09 recession (Figure 4). Similarly, the rapid onset of these substantial changes also was unprecedented, as illustrated by initial claims for unemployment insurance (Figure 5). Job losses associated with the pandemic pushed the April 2020 unemployment rate to an all-time post-World War II record high of 14.7%. The previous record was 10.8% in November and December 1982 (Figure 6). Since April 2020, payroll employment has grown, although as of November 2021 payroll employment was still 2.6% (accounting for 3.9 million jobs) below the February 2020 level. In comparison, the only recession since World War II that exhibited an employment decline of more than 3.9 million jobs was the 2008-09 recession, meaning that despite the job growth since April 2020, the number of jobs the economy has yet to regain exceeds the number of jobs lost in any recession other than the 2008-09 recession since World War II.

Figure 4

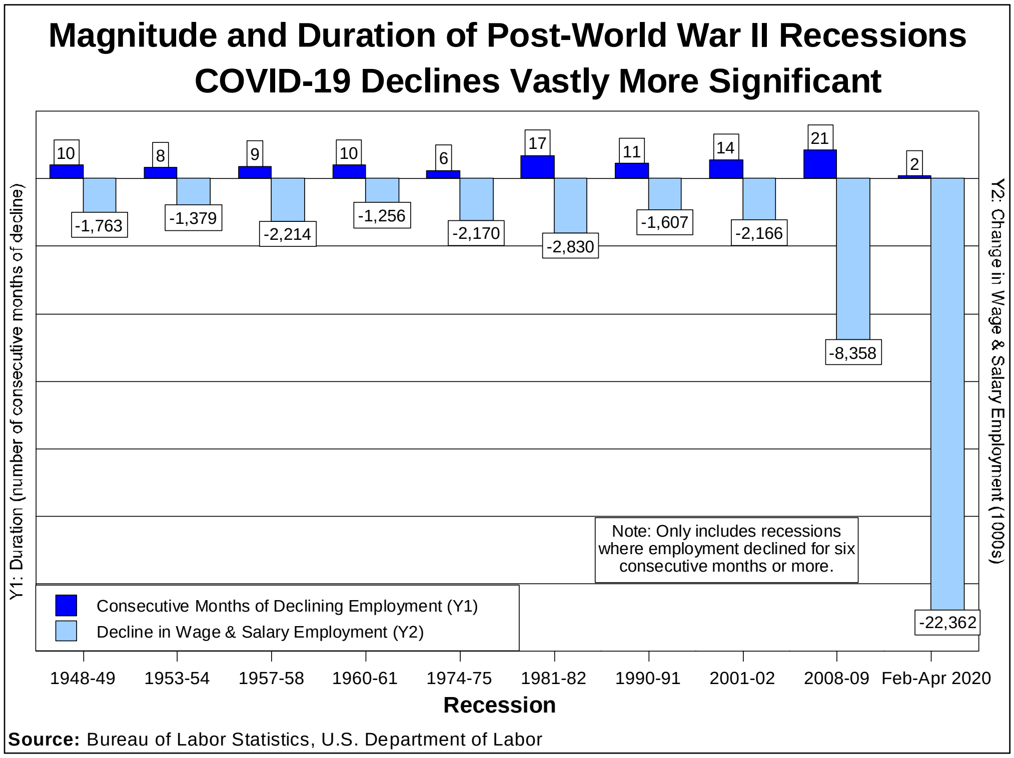


Figure 5

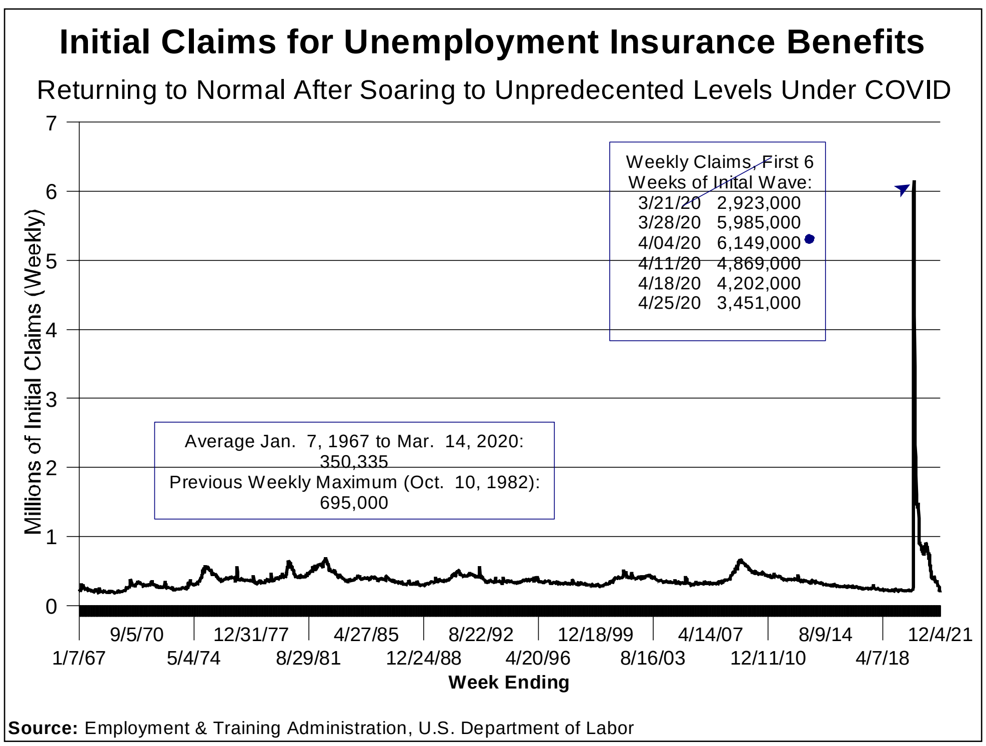
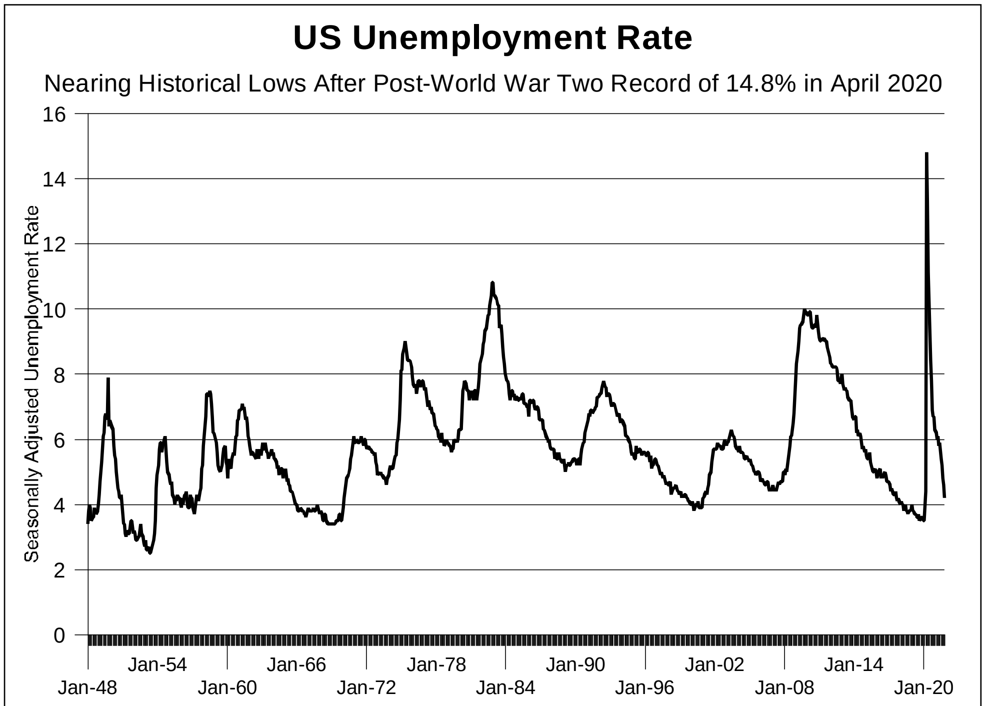


Figure 6



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

The COVID-19 pandemic lowered economic activity across a wide variety of sectors. However, the recovery has differed substantially across sectors, with manufacturing- and goods-related sectors recovering much more rapidly than services (Figure 7). However, employment in both manufacturing and nonmanufacturing sectors has recovered more slowly than output (Figure 8). Among nonmanufacturing services most substantially affected by the COVID-19 pandemic, the travel/transportation, hospitality, and food services (i.e. restaurants) sectors have experienced the most substantial declines and service sectors remain substantially below prepandemic levels.

Figure 7

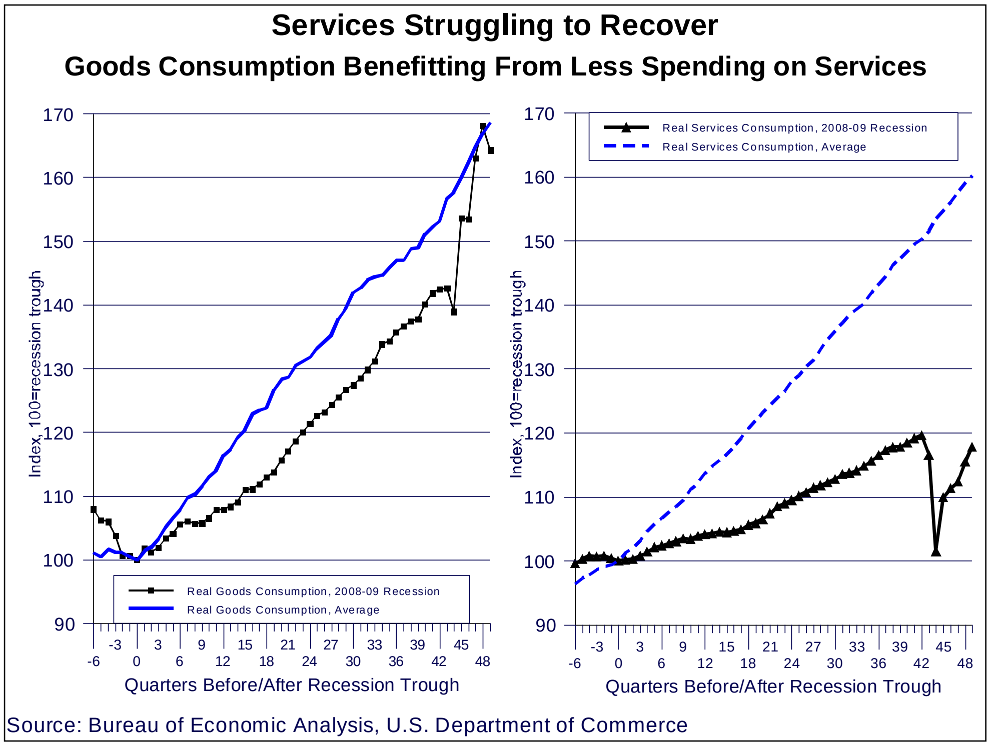
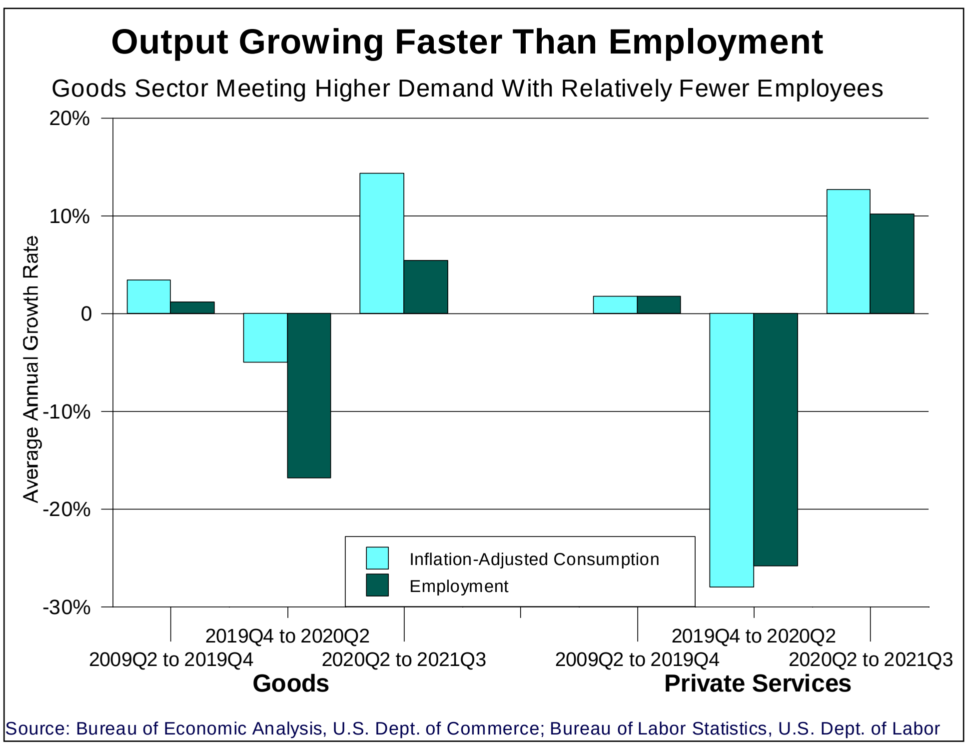


Figure 8



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

- Michigan's economy has mirrored changes in the national economy, but Michigan's comparative over-reliance on the motor vehicle industry has accounted for significant deviations from the national-level changes.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and, even before COVID-19, Michigan had yet to regain employment levels experienced before the 2000-01 recession.
- The COVID-19 pandemic resulted in substantial job losses for Michigan, although the strength in manufactured goods demand (particularly for motor vehicles) in the wake of COVID-19 has resulted in Michigan employment growing at a faster rate than almost every other state.
- As with the US economy, Michigan output has recovered to pre-COVID-19 levels but employment has not.

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

The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally helped Michigan's economic situation. Manufacturing employment in Michigan rose 46.1% between June 2009, when the US recession ended, and December 2019, although most of the growth occurred before 2015. The increases largely reflected the 76.4% growth in employment in the transportation equipment manufacturing sector. Despite the gains since 2009, Michigan payroll employment had not yet recovered to the June 2000 peak before the COVID-19 pandemic began, with the most recent peak in December 2019 still down 236,800 jobs from June 2000 (but up 625,100 jobs from the July 2009 Michigan employment trough). Employment gains since 2009 helped the Michigan unemployment rate decline from a high of 14.9% in June 2009 to 3.6% in February 2020, the lowest level since May 2000.

The impact of COVID-19 on the Michigan economy was, and continues to be, substantial. Between February 2020 and April 2020, Michigan payroll employment declined by 23.7%, or approximately 1.1 million jobs. As of November 2021, payroll employment in Michigan was up 842,900 jobs from the April 2020 trough, but was still 4.8% below the level in February 2020 and roughly on par with the level in June 2015. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover more rapidly than almost any other state, with Michigan employment rising at a 12.5% annual rate between April 2020 and November 2021. (Michigan ranks second, while Nevada ranks first at a 14.4% annual growth rate. Among the Great Lakes states, Indiana ranks 18th at 6.9%, with Illinois ranked 26th, Ohio ranked 27th, and Wisconsin ranked 34th.) Michigan's disproportionately strong participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan, and thus helped consumption and employment recover at more rapid rates than otherwise would have occurred. However, it is important to note that Michigan's COVID-19-related job decline was so significant that despite such rapid employment growth, Michigan ranks 42nd among states in recovering to pre-COVID-19 employment levels (comparing November 2021 employment level to the February 2020 level).

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

FORECAST SUMMARY

- Both the US and Michigan economies will grow over the forecast, although the growth rates will slow over time.
- Light vehicle sales are expected to grow in 2022 and 2023 but will flatten out in 2024.
- Employment is not expected to recover to pre-COVID-19 levels during the forecast period, although unemployment rates will remain low by historical standards.
- While inflationary pressures will be strong in 2022, inflation will return to target levels over the forecasts as a result of expanding output capacity, productivity gains, and consumption shifting to a more normal split between goods and services.

During 2022, both the US and Michigan economies are expected to continue to recover from the COVID-19-induced recession in 2020. Both the US and Michigan economies are expected to exhibit growth during 2022 and 2023, although Michigan generally is expected to grow more slowly than the nation as a whole. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to increase 5.6% in 2021, the most rapid increase in inflation-adjusted GDP since the 7.2% rise in 1984 and a marked changed from the 3.4% decline during 2020. Inflation-adjusted GDP will expand 4.5% during 2022, 2.5% in 2023, and 1.9% in 2024. The expansion in 2022 and 2023 primarily reflects stable consumption growth and strong business investment that will more than offset declines in transfer payments, and relatively flat housing starts, light vehicle sales, and net trade position (exports minus imports).

Employment gains over the forecast period will be muted. Although the 2.4% increase in productivity during 2020 was the most rapid growth since 2010, productivity growth is expected to slow somewhat over the forecast (although it will generally remain above the levels experienced between 2011 and 2018). However, over the forecast period, consumer demand is not likely to grow much more rapidly than productivity, which will limit employment gains. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace labor with capital, and build upon new modes of goods and service delivery developed in response to COVID-19-related constraints. As a result, growth in payroll employment will slow from a 3.7% increase in 2022 to a 1.7% increase in 2023 and a 0.7% increase in 2024, and the US unemployment rate will fall from 8.1% in 2020 to 5.4% in 2021, 4.0% in 2022, and 3.9% in 2023, before rising to 4.2% in 2024. As a result, while inflation-adjusted GDP recovered to prerecession peaks in the second quarter of 2021, payroll employment is not expected to recover to prerecession peaks until after 2024.

A variety of factors, including rising energy prices, marked changes in consumption patterns (particularly from services to goods heavily reliant on computer chips), location and skills mismatches in the domestic labor market, and continued COVID-19-induced labor problems (particularly in countries with low vaccination rates) have created a number of inflation pressures over the forecast period. While these pressures are expected to ease as demand returns to more normal consumption patterns and producers are able to address production constraints, the US CPI is anticipated to have increased 4.7% in 2021 and will rise by 5.2% in 2022, before slowing to increases of 2.7% in 2023 and 2.5% in 2024.

Table 1
THE SENATE FISCAL AGENCY ECONOMIC FORECAST
(Calendar Years)

	2020 Actual	2021 Estimate	2022 Estimate	2023 Estimate	2024 Estimate
United States					
Nominal GDP (year-to-year growth)	(2.2%)	9.9%	9.4%	5.5%	4.4%
Inflation-Adjusted GDP (year-to-year growth)	(3.4%)	5.6%	4.5%	2.5%	1.9%
Unemployment Rate	8.1%	5.4%	4.0%	3.9%	4.2%
Wage & Salary Employment (year-to-year growth)	(5.8%)	2.7%	3.7%	1.7%	0.7%
Inflation					
Consumer Price Index (year-to-year growth)	1.2%	4.7%	5.2%	2.7%	2.5%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.2%	4.1%	4.7%	3.0%	2.6%
Interest Rates					
90-day Treasury Bill	0.37%	0.05%	0.45%	1.05%	1.51%
10-year Treasury Bill	0.89%	1.46%	1.93%	2.27%	2.63%
Corporate Aaa Bond	2.48%	2.72%	3.09%	3.57%	3.93%
Federal Funds Rate	0.38%	0.09%	0.51%	1.41%	2.40%
Light Motor Vehicle Sales (millions of units)	14.5	15.0	15.4	16.4	16.3
Auto	3.4	3.3	3.2	3.2	3.1
Truck	11.1	11.7	12.3	13.2	13.3
Michigan					
Personal Income (millions)	$530,809	$544,642	$541,126	$570,617	$590,416
Year-to-year growth	7.9%	2.6%	(0.6%)	5.4%	3.5%
Inflation-Adjusted Personal Income (year-to-year growth)	6.8%	(1.6%)	(5.2%)	2.8%	1.0%
Wage & Salary Income (millions)	$242,644	$258,319	$274,766	$290,914	$299,305
Year-to-year growth	(1.8%)	6.5%	6.4%	5.9%	2.9%
Detroit Consumer Price Index (year-to-year growth)	1.0%	4.3%	4.8%	2.5%	2.4%
Wage & Salary Employment (thousands)	4,032.5	4,148.0	4,259.7	4,357.5	4,377.9
Year-to-year growth	(9.2%)	2.9%	2.7%	2.3%	0.5%
Unemployment Rate	9.9%	5.3%	5.5%	5.1%	5.4%

Table 2

THE SENATE FISCAL AGENCY US ECONOMIC FORECAST DETAIL (Calendar Years)	2020 Actual	2021 Estimate	2022 Estimate	2023 Estimate	2024 Estimate
Gross Domestic Product					
(billions of dollars)	$20,893.7	$22,968.9	$25,117.8	$26,502.5	$27,680.9
Year-to-year growth	(2.2%)	9.9%	9.4%	5.5%	4.4%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2012 dollars)	$18,384.7	$19,420.8	$20,292.9	$20,793.2	$21,177.8
Year-to-year growth	(3.4%)	5.6%	4.5%	2.5%	1.9%
Consumption					
(billions of 2012 dollars)	$12,629.9	$13,646.5	$14,166.6	$14,414.4	$14,658.4
Year-to-year growth	(3.8%)	8.0%	3.8%	1.7%	1.7%
Business Fixed Investment					
(billions of 2012 dollars)	$2,671.1	$2,880.6	$3,122.2	$3,257.1	$3,352.9
Year-to-year growth	(5.3%)	7.8%	8.4%	4.3%	2.9%
Change in Business Inventories					
(billions of 2012 dollars)	($42.3)	($85.3)	$50.0	$98.7	$87.0
Residential Investment					
(billions of 2012 dollars)	$648.0	$706.3	$714.4	$736.3	$735.1
Year-to-year growth	6.8%	9.0%	1.2%	3.1%	(0.2%)
Government Spending					
(billions of 2012 dollars)	$3,360.2	$3,378.9	$3,393.4	$3,422.5	$3,422.5
Year-to-year growth	2.5%	0.6%	0.4%	0.9%	0.0%
Net Exports (billions of 2012 dollars)	($942.7)	($1,269.5)	($1,340.9)	($1,314.3)	($1,284.6)
Exports (billions of 2012 dollars)	$2,207.6	$2,297.2	$2,437.3	$2,557.8	$2,664.3
Imports (billions of 2012 dollars)	$3,150.3	$3,566.6	$3,778.2	$3,872.1	$3,948.9
Personal Income (year-to-year growth)	6.5%	6.6%	1.6%	5.9%	4.7%
Adjusted for Inflation	5.2%	1.8%	(3.5%)	3.1%	2.1%
Wage & Salary Income					
(year-to-year growth)	1.3%	8.6%	6.6%	5.9%	4.2%
Personal Savings Rate	16.6%	11.4%	4.5%	5.3%	5.7%
Output per hour					
(Labor productivity, annual growth)	2.4%	1.7%	0.9%	1.3%	1.8%
Unit labor costs (annual growth)	4.5%	3.2%	3.3%	3.7%	2.5%
Housing Starts (millions of units)	1.380	1.583	1.668	1.655	1.588
Conventional Mortgage Rates	3.1%	3.0%	3.6%	4.0%	4.3%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($3,110.0)	($3,228.0)	($1,298.3)	($1,089.6)	($1,216.7)

In Michigan, both job growth and personal income growth are expected to be slower than the national average (Figures 9 and 10). After having increased 6.8% in 2020, inflation-adjusted personal income is projected to have declined 1.6% in 2021, and to decline 5.2% in 2022, reflecting the exhaustion of various Federal stimulus efforts. Inflation-adjusted personal income is expected to rise 2.8% in 2023 and 1.0% in 2024. Payroll employment fell 9.2% during 2020, but is expected to have increased 2.9% in 2021. The forecast predicts payroll employment will increase 2.7% in 2022, 2.3% in 2023 and 0.5% in 2024. Nationally, light vehicle sales are expected to have increased from 14.5 million units in 2020 to 15.0 million units in 2021, and will rise to 15.4 million units in 2022 and 16.4 million units in 2023, before slowing slightly to 16.3 million units in 2024 (Figure 11). The Michigan unemployment rate, which averaged 9.9% during 2020, is forecasted to have averaged 5.3% in 2021 and will remain near that level, averaging 5.5% in 2022, 5.1% in 2023, and 5.4% in 2024.

Compared with the May 21, 2021, Consensus Economic Forecast, forecasted economic growth at the national level is expected to be slightly stronger in 2022 and 2023, while the Michigan economy will be slightly weaker. On the other hand, employment growth is expected to be slower for both the US and Michigan, while inflationary pressures are expected to be greater.

Figure 9

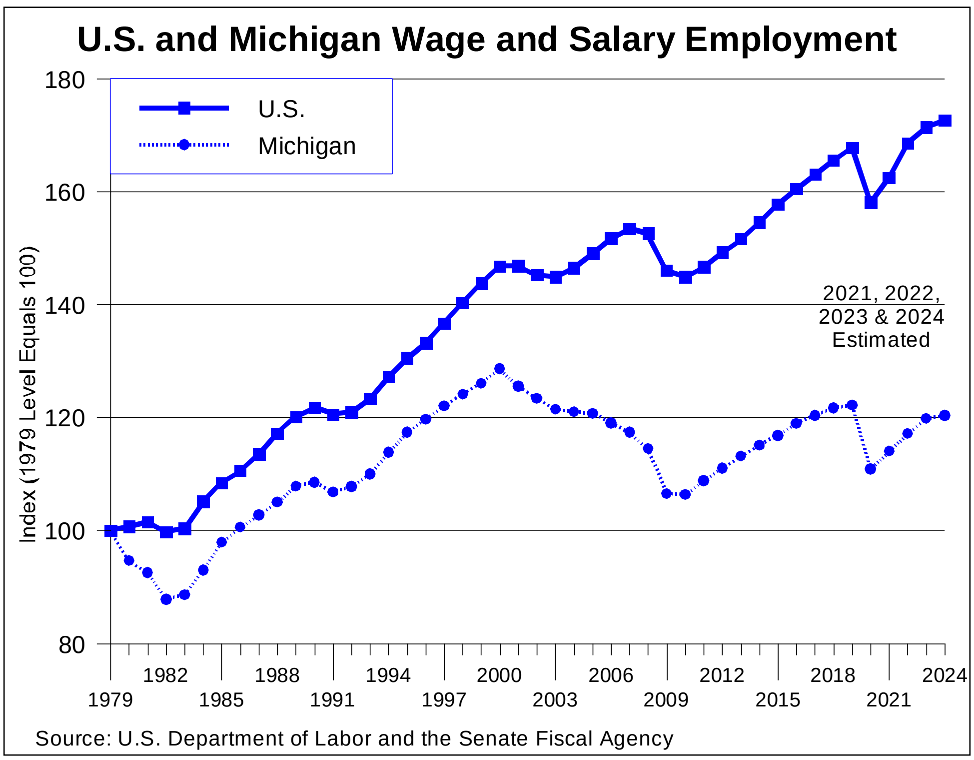


Figure 10

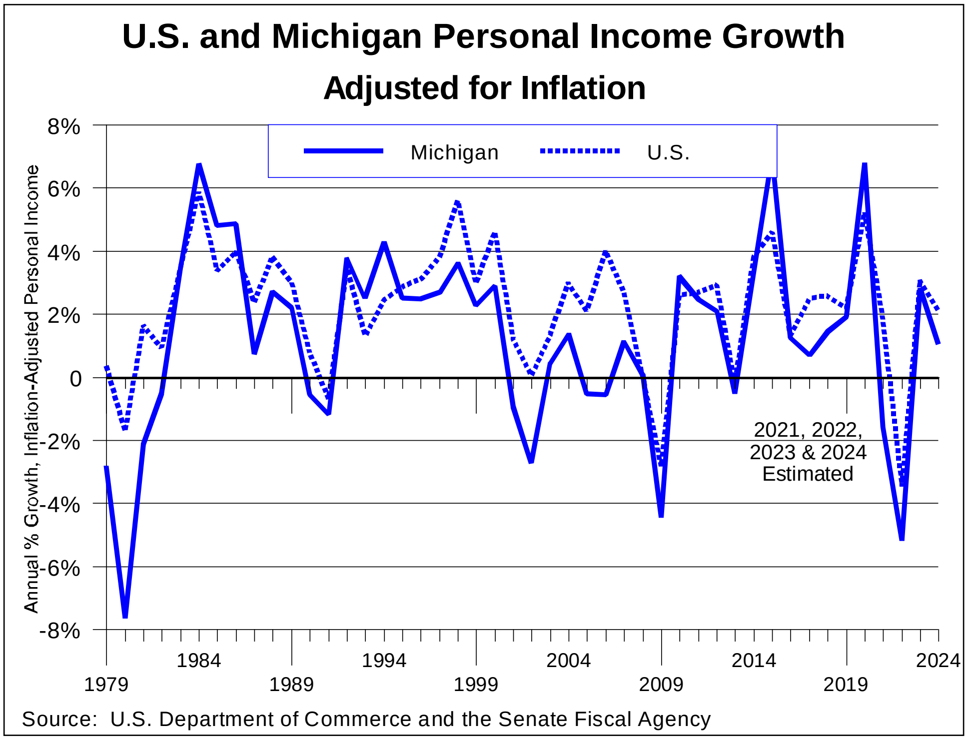
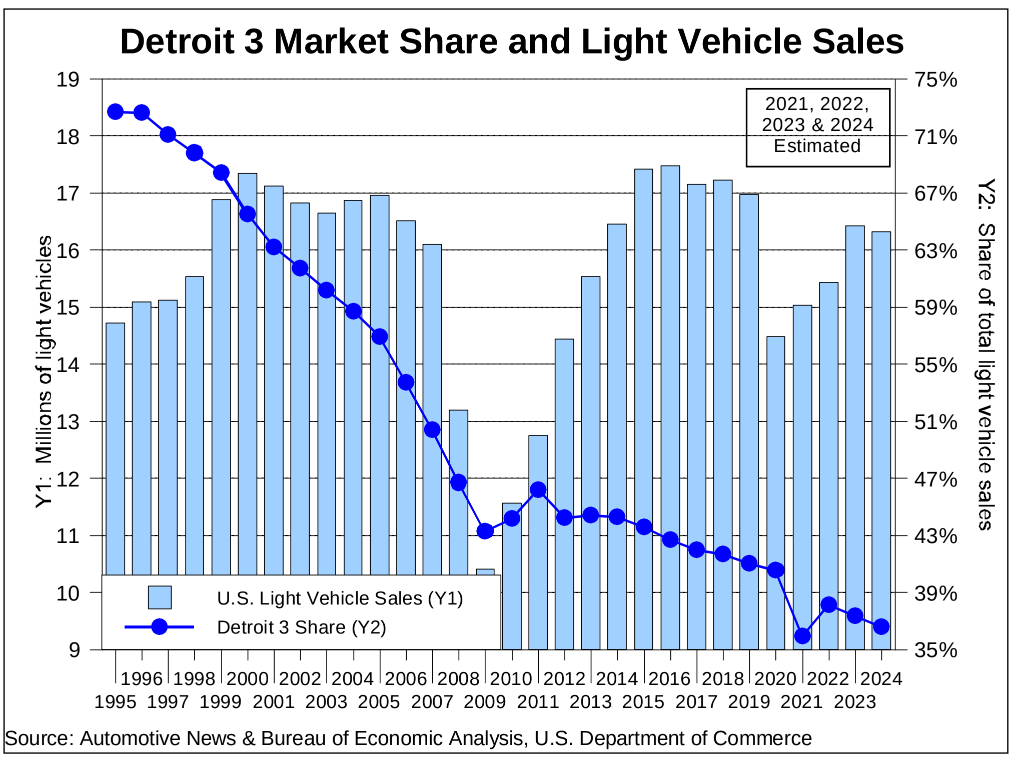


Figure 11



FORECAST RISKS

- The COVID-19 pandemic has resulted in short-term disruptions in the long-run relationship between many economic (and tax revenue) variables. How quickly these relationships are restored will affect the accuracy of the forecast.
- Inflationary risks are expected to be short-term and will be addressed by aggressive Federal Reserve monetary policy. Fiscal policy will remain stimulative but no new major stimulus programs are expected.
- Both the US and Michigan labor markets will face labor market constraints on growth resulting from aging workforces and post-recession declines in labor force participation.
- Recovery in the Michigan economy will be dominated by what happens with the motor vehicle industry.

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

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

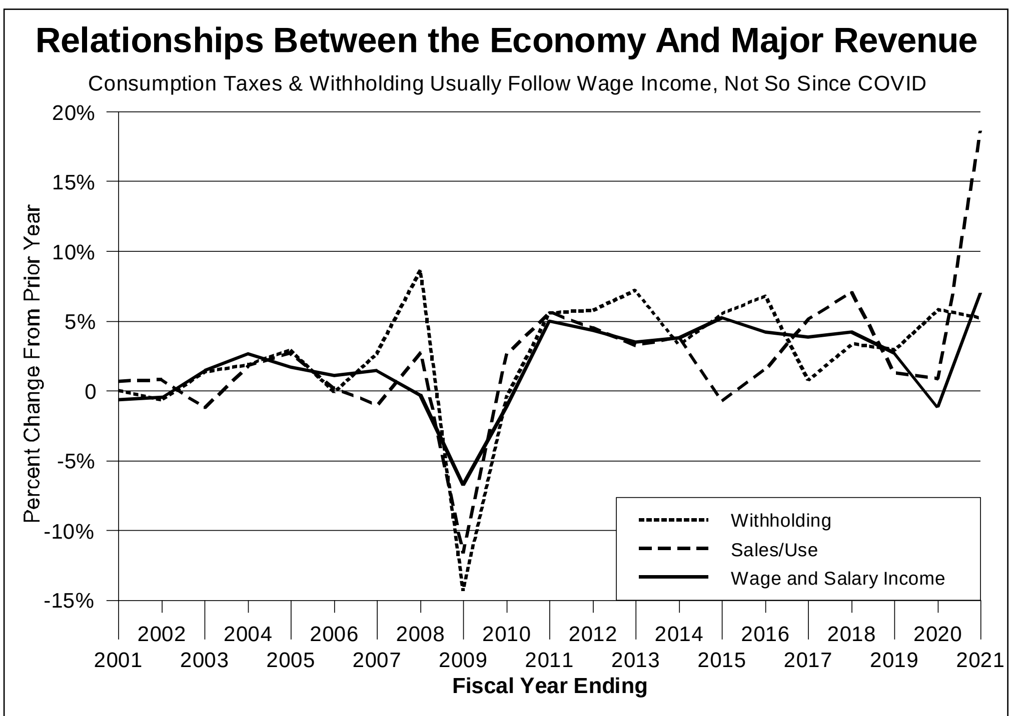
This section will focus more on several major categories of risk that will affect the validity of the forecast even if there is no estimation error due to statistical difficulties associated with extreme changes in the data.

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

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

The changed relationships between economic variables during 2020 and early 2021 not only increase the risks regarding the economic forecast, but for the revenue forecast presented in the next section. For example, in Michigan, payroll employment fell 23.8% between February 2020 and April 2020 and sales tax revenue fell 27.3%, yet individual income tax withholding rose 2.3%. Although payroll employment has continued to recover between April 2020 and November 2021, November 2021 payroll employment remained 4.8% below the February 2020 level while sales and use tax revenue during 2021 has consistently averaged 20.4% growth above the average growth that occurred in the 12 months preceding COVID-19. (Figure 12). The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables. As illustrated with both FY 2019-20 and FY 2020-21 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions of dollars, or even by billions of dollars. For example, the economic changes forecasted at the May 2020 Consensus Revenue Estimating Conference (CREC) largely were correct, yet the $3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by $2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held.

Figure 12



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

Recoveries from recessions like the 2008-2009 recession, which was caused by a crisis within the financial system, often take longer than traditional recoveries because of the increased level of risk aversion both borrowers and lenders exhibit, and the need to rebuild asset values rather than simply having the unemployed obtain jobs. In contrast, after the 1957-58 recession, which reflected the most recent pandemic in US history to have a significant economic impact, the economy recovered relatively quickly, with inflation-adjusted GDP surpassing the prerecession peak after just three quarters of growth and employment recovering to the pre-recession peak within 10 months of the trough. Inflation-adjusted GDP in the wake of the COVID-19-induced recession has followed the pattern of the 1957-58 pandemic, and recovered to prerecession levels in the second quarter of 2021. However, before COVID-19, the economy was exhibiting numerous signs of slowing and the corresponding restructuring of business activity. The pandemic and the resulting technological changes many firms have implemented are expected to fundamentally alter the need for some employees once the pandemic is no longer a concern. Additionally, the economy of 1958 was far more manufacturing-intensive, and services have suffered greater declines from COVID-19. As a result, it is expected that it will take much longer for employment to recover to pre-COVID-19 pandemic levels and will not have recovered until after 2024.

Monetary and Fiscal Policy. Changes in Federal tax policy since 2017 and subsequent growth in Federal spending increased Federal deficits to 5.6% of GDP in 2019, limiting the ability for fiscal policy to respond to any recession. Before the emergence of the COVID-19 pandemic, the economy had exhibited warning signs of a recession, which is particularly likely when the "yield curve", which represents the difference between short-term and long-term interest rates, "inverts" (meaning that short-term rates exceed long-term rates). Much of the May 2019 through October 2019 period was characterized by an inverted yield curve, as was much of February 2020, suggesting the economy was at risk of contraction. As a result of numerous signs warning of a slowdown, the Federal Reserve Board of Governors lowered interest rates three times during 2019. These interest rate reductions occurred in an already low interest rate environment, meaning that like Federal fiscal policy, monetary policy entered 2020 facing a more limited ability to respond to a recessionary shock.

After the economy began suffering impacts from the spread of COVID-19, both Federal fiscal and monetary policy began taking steps to provide economic stimulus. Many of the initiatives, ranging from supplemental unemployment benefits and stimulus checks to special lending facilities from the Federal Reserve Bank, were constructed to reduce economic disruptions associated with COVID-19. While the stimulus measures appear to have been quite effective at maintaining aggregate income levels, and to some degree consumption spending, the fiscal stimulus measures pushed the Federal deficit to 28.9% of GDP in the second quarter of 2020 and 16.6% of GDP in the third quarter. Reflecting the increased severity of the COVID-19 recession compared to the 2008-09 recession, while net Federal saving averaged -8.5% (negative values reflect a deficit) of GDP over the 2009-2011 period, between the second quarter of 2020 and the third quarter of 2021, net Federal saving averaged -16.4% of GDP.

The forecast does not anticipate any additional major Federal fiscal stimulus package, but does expect fiscal policy to remain stimulative with net Federal saving averaging -4.2% of GDP. Monetary policy is expected to be contractionary, as the Federal Reserve seeks to rein in the possibility of long-term inflationary expectations rising. After the Federal Reserve ends security purchases (another mechanism available to lower long-term interest rates) by March 2022, interest rates are expected to rise steadily throughout the forecast. Although inflation during most of the forecast will exceed the long-term Federal Reserve target of 2.0%, between monetary policy and expected easing in supply constraints as consumption patterns revert to normal and suppliers expand productive capacity, inflation expectations are expected to remain fairly stable and inflation will decline over the forecast.

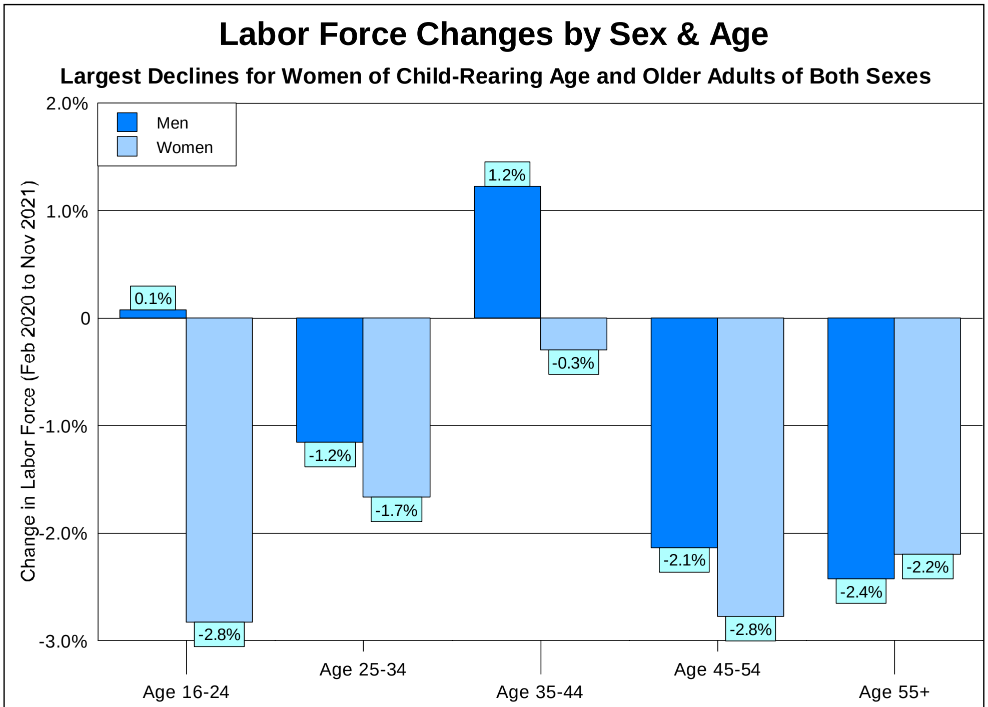
To the extent that additional Federal fiscal stimulus is adopted, both economic growth and inflation will be stronger than forecasted. Similarly, to the extent that state and local governments fail to use available Federal funds from previous stimulus packages or experience more substantial constraints, economic growth and inflation will be slower than forecasted. Similarly, if producers are able to expand production and/or consumption returns to normal more rapidly than expected, economic growth will likely remain relatively unchanged from the forecast but inflationary pressures will be less than forecasted.

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

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. Furthermore, the vulnerability of older populations to the COVID-19 virus may affect the rate at which some older adults leave (and/or return to) the labor force. Similarly, health risks or fears could substantially alter labor force participation for many others, especially in the near term. Additionally, these individuals could exercise caution as consumers, thus constraining the recovery from both the perspective of labor supply as well as consumer spending. For example, not only must the individuals who would represent the flight crew on an airline flight or wait staff in a restaurant be willing to face the risks associated with returning to work, but customers must be willing to face any risks associated with contracting COVID-19 while flying or dining out. Currently, the most serious constraints on labor supply may reflect reduced labor force participation by groups that may be unwilling or unable to return to the labor force. Since the COVID-19 pandemic began, labor force participation has fallen markedly for both women and older adults (Figure 13). Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return (Figure 14). Should many of the workers who have left the labor force during the pandemic remain out of the labor force, such as younger women who have opted to stay at home to raise children or older workers who have been unable to secure employment or have opted to retire early, unemployment rates will decline relatively rapidly as output expands, yet employment will recover slowly and worker shortages are likely to be widespread. The forecast anticipates that labor force dynamics will constrain growth over the next few years; unemployment rates will fall faster than suggested by the rate of job growth, and worker shortages will place greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

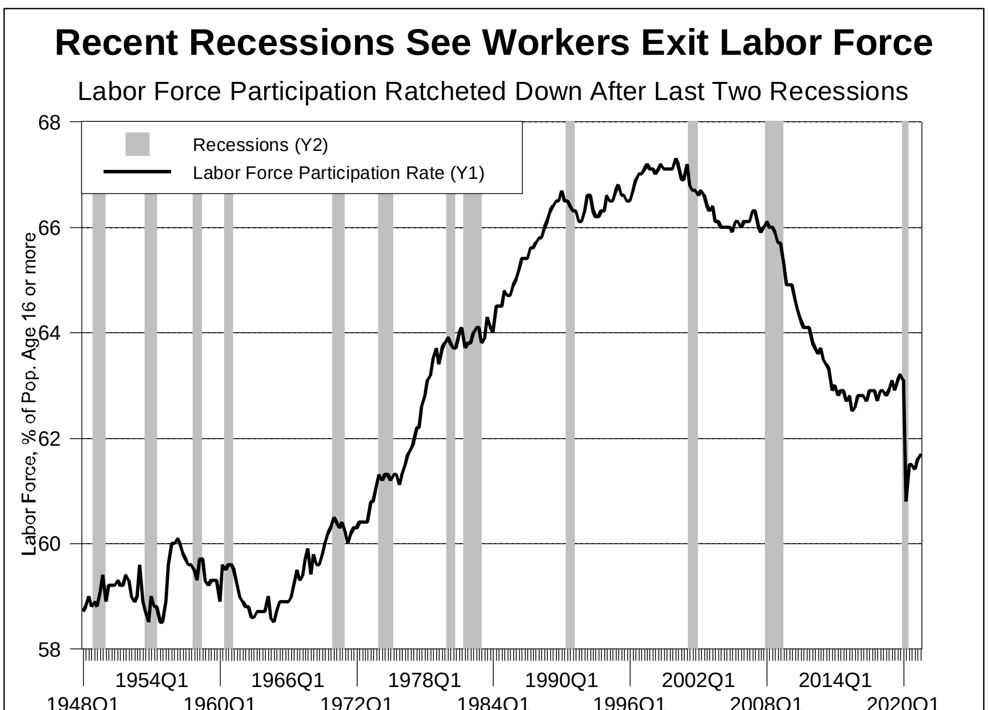
Aside from the short-term growth constraints related to the COVID-19-pandemic, low population growth and lower longer-term productivity will constrain the long-term economic growth potential of both the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: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

Figure 13



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

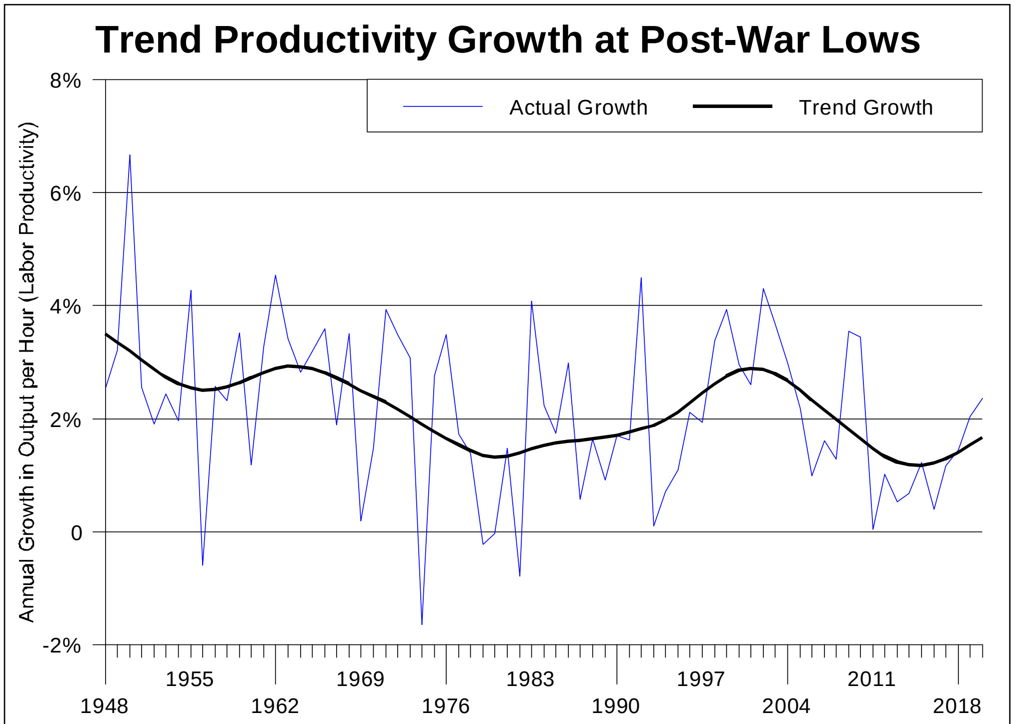
Figure 14



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

Nationally, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.9% growth per year since 2010, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 15). 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.

Figure 15



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

Over the forecast period, productivity growth is expected to generally exceed the levels of the 2010-2019 period, reflecting business efforts to adapt to the pandemic and potential labor shortages. If productivity growth is less than forecasted, in the short run it will help the economy recover from any job losses from the COVID-19-induced recession but likely will reduce growth in years beyond the forecast. Similarly, if productivity growth is greater than forecast, output will increase more rapidly but employment will take longer to recover.

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 the last decade, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive but have reduced the need for hiring additional employees to meet increased demand.

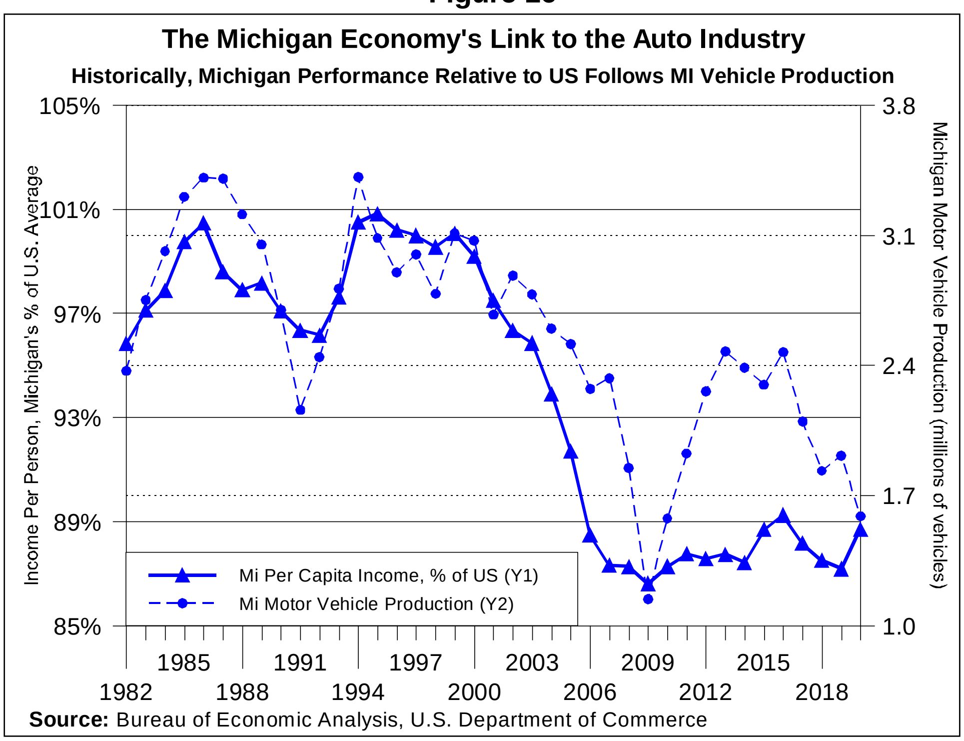
Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 16). While that reliance has declined (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 5.6% in 2017), 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 with lower oil prices over the last few years, these states have 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.

However, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that those production needs can be met with existing, or even lower, employment levels than those at the end of 2019. As a result, as of June 2009, Michigan had lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak; the majority of those jobs will never return, and any gains in employment in the near future are likely to be muted. While Michigan payroll employment returned to the January 2008 level (the US prerecession peak) during 2015, as identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the Michigan prerecession peak) again until sometime late in the 2020-2030 decade.

Compounding the employment situation, Michigan's 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 hit Michigan harder than most other 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 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 both the Michigan economy and State tax revenue to improve markedly, substantial employment gains in the economy as a whole will need to occur.

Figure 16



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's estimates for General Fund/General Purpose and School Aid Fund revenue. The preliminary year-end revenue for FY 2020-21 is presented along with the revised estimates for FY 2021-22 and FY 2022-23 and the initial revenue estimates for FY 2023-24. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2020-21, FY 2021-22, and FY 2022-23 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2020-21, along with the revised estimates for FY 2021-22 and FY 2022-23, and the initial estimates for FY 2023-24 are presented in Table 3 and are summarized below.

FY 2020-21 Preliminary Final Revenue

- General Fund/General Purpose and SAF revenue is expected to total $29.0 billion in FY 2020-21.
- This year-end estimate for FY 2020-21 increased 17.1% or $4,228.3 million from the actual revenue for FY 2019-20, reflecting increases in almost all taxes, and a reduction in the credit payments under the MBT. These increases were slightly offset by lower insurance company premiums and higher IIT refunds.
- The preliminary final estimate for FY 2020-21 is $2,685.1 million above the May 2021 consensus revenue estimate.

FY 2021-22 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $28.2 billion in FY 2021-22.
- This revised estimate for FY 2021-22 is down 2.7%, or $768.9 million, from the preliminary final revenue for FY 2020-21. The projected revenue decrease in FY 2021-22 reflects reductions in nearly all major taxes, partially offset by increases in the State Education Tax (SET) and insurance company premiums, and reduced IIT refunds. Also, the earmark of income tax revenue to the Michigan Transportation Fund (MTF) will be fully phased in during FY 2020-21, so this will be the first year in which the earmark will be the same amount as in the previous year.
- The revised estimate for FY 2021-22 is $1,421.3 million above the May 2021 consensus revenue estimate.

FY 2022-23 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $28.9 billion in FY 2022-23.
- The revised estimate for FY 2022-23 is up 2.3%, or $662.2 million, from the revised estimate for FY 2021-22. The revenue increase in FY 2021-22 reflects growth in individual income taxes and a reduction in the credit under the MBT, partially offset by decreases in consumption taxes and corporate income taxes.
- The revised estimate for FY 2022-23 is $1,189.3 million above the May 2021 consensus revenue estimate.

FY 2023-24 Initial Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $29.5 billion in FY 2023-24.
- This initial estimate for FY 2023-24 is 2.3%, or $655.6 million, more than the revised estimate for FY 2022-23.
- The revenue increase in FY 2023-24 reflects growth in almost all taxes and reduced MBT credits, partially offset by lower use tax and lottery revenue**.**

Historical Perspective

- Net GF/GP and SAF revenue increased 17.1% in FY 2020-21. Net GF/GP and SAF revenue is forecast to decrease in FY 2021-22, and then increase in FY 2022-23 and FY 2023-24. The projected growth rates are -2.7% in FY 2021-22, 2.3% in FY 2022-23, and 2.3% in FY 2023-24. 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% in the years from FY 2010-11 to FY 2019-20.
- General Fund/General Purpose revenue grew 20.3% in FY 2020-21, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- Final GF/GP revenue from ongoing sources in FY 2020-21 was 68.8% ($5,282.3 million) above the recent low from FY 2009-10, and above the previous high in FY 2018-19, without adjusting for inflation.
- In FY 2021-22, ongoing GF/GP revenue is forecast to be 60.3% ($4,629.6 million) above the FY 2009-10 level.
- In FY 2022-23, ongoing GF/GP revenue is forecast to be 67.1% ($5,153.9 million) above the FY 2009-10 level.
- In FY 2023-24, ongoing GF/GP revenue is forecast to be 72.2% ($5,543.9 million) above the FY 2009-10 level.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax (PPT) changes. School Aid Fund revenue rose to its highest level ever in FY 2020-21, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.
- Final SAF revenue from ongoing sources in FY 2020-21 was 47.4% ($5,154.5 million) above the recent low from FY 2011-12, without adjusting for inflation.
- In FY 2021-22, ongoing SAF revenue is forecast to be 46.3% ($5,038.3 million) above the FY 2011-12 level.
- In FY 2022-23, ongoing SAF revenue is forecast to be 47.6% ($5,176.2 million) above the FY 2011-12 level.
- In FY 2023-24, ongoing SAF revenue is forecast to be 50.0% ($5,441.8 million) above the FY 2011-12 level.

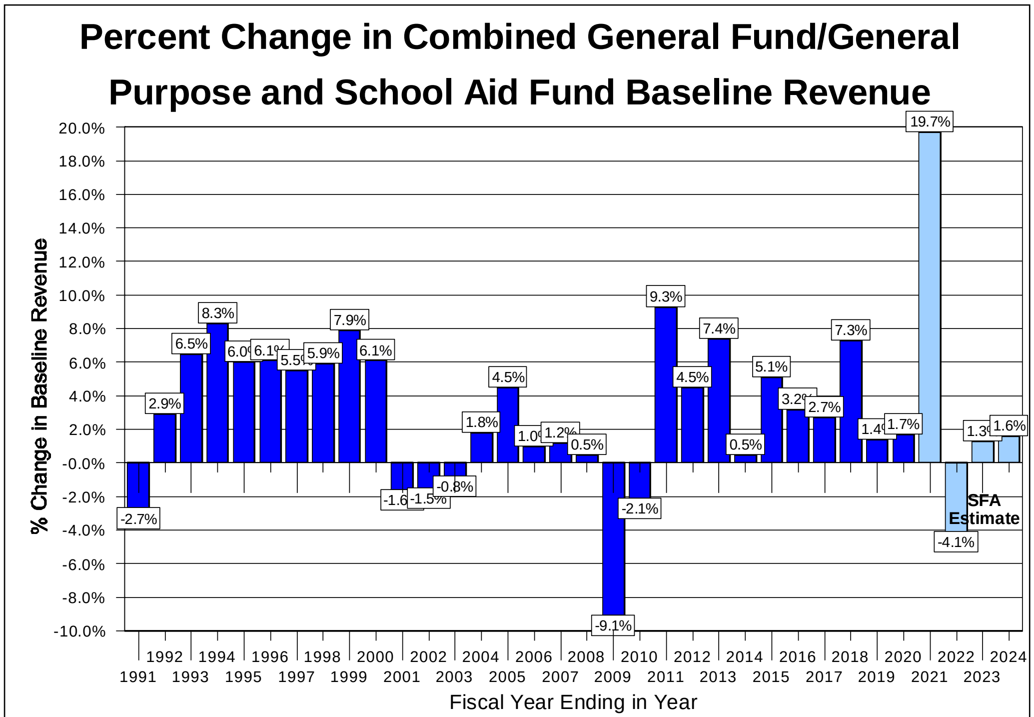
Baseline revenue is forecast to decrease in FY 2021-22, and then increase in FY 2022-23 and FY 2023-24. Figure 17 presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2019-20 base year) from FY 1990-91 through the initial estimate for FY 2023-24. During this 33-year period, GF/GP and SAF baseline revenue declined during three 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. It is estimated that GF/GP and SAF baseline revenue increased by 19.7% in FY 2020-21. Using the FY 2019-20 base year, baseline GF/GP and SAF revenue is expected to decline approximately 4.1% in FY 2021-22, then increase 1.3% in FY 2022-23, and 1.6% in FY 2023-24.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2020-21 THROUGH FY 2023-24 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)	FY 2020-21 Final	FY 2021-22 Revised Est.	FY 2022-23 Revised Est.	FY 2023-24 Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1]	$15,072.2	$13,995.8	$14,281.4	$14,541.6
Tax Changes Not In Baseline	(2,111.3)	(1,687.6)	(1,448.9)	(1,319.1)
Revenue After Tax Changes:				
Net Income Tax	7,722.3	11,382.0	7,956.3	8,236.5
MBT, CIT, SBT & Insur. Tax	1,564.4	1,326.6	1,389.5	1,492.3
Other Taxes	3,220.7	(797.9)	3,083.2	3,085.2
Total Taxes	12,507.4	11,910.7	12,429.0	12,814.0
Nontax Revenue	453.5	397.5	403.5	408.5
TOTAL GF/GP REVENUE	**$12,960.9**	**$12,308.2**	**$12,832.5**	**$13,222.5**
SCHOOL AID FUND				
Baseline SAF	$16,084.3	$15,882.9	$15,990.2	$16,223.5
Tax Changes Not In Baseline	(50.9)	34.3	64.9	97.2
TOTAL SAF REVENUE	**$16,033.4**	**$15,917.2**	**$16,055.1**	**$16,320.7**
BASELINE GF/GP AND SAF REVENUE	$31,156.5	$29,878.7	$30,271.6	$30,765.1
Tax & Revenue Changes	(2,162.2)	(1,653.3)	(1,384.0)	(1,221.9)
GF/GP & SAF REV. AFTER CHANGES	**28,994.3**	**28,225.4**	**28,887.6**	**29,543.2**
ADDENDUM:				
Sales Tax	$9,391.1	$9,474.5	$9,442.5	$9,645.2
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	26.1%	(7.1%)	2.0%	1.8%
Revenue After Tax Changes:				
Net Income Tax	12.4%	47.4%	(30.1%)	3.5%
MBT, CIT, SBT & Insur. Tax	56.8	(15.2)	4.7	7.4
Other Taxes	29.7	(124.8)	(486.4)	0.1
Total Taxes	20.8	(4.8)	4.4	3.1
Nontax Revenue	6.8	(12.3)	1.5	1.2
TOTAL GF/GP REVENUE	**20.3%**	**(5.0%)**	**4.3%**	**3.0%**
SCHOOL AID FUND				
Baseline SAF	14.3%	(1.3%)	0.7%	1.5%
TOTAL SAF REVENUE	**14.6%**	**(0.7%)**	**0.9%**	**1.7%**
Baseline GF/GP and SAF Revenue	19.7%	(4.1%)	1.3%	1.6%
GF/GP & SAF REV. AFTER CHANGES	**17.1%**	**(2.7%)**	**2.3%**	**2.3%**
ADDENDUM:				
Sales Tax	13.0%	0.9%	(0.3%)	2.1%

[1] FY 2019-20 is the base year for baseline revenue.

Figure 17



Source: Department of Treasury and Senate Fiscal Agency

Figure 18 compares FY 1994-95 through estimated FY 2023-24 for both GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were enacted. Before FY 2017-18, GF/GP revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to $10.3 billion because of the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during the 2008-2009 recession reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 19, which displays ongoing General Fund revenue beginning in FY 1963-64. General Fund/General Purpose revenue jumped to $13.0 billion in FY 2020-21, its highest level ever, far surpassing previous peaks. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2021-22 will be approximately 5.0% (or $652.7 million) below the peak GF/GP revenue level in FY 2020-21 (without accounting for inflation). The estimated GF/GP revenue of $12.8 billion in FY 2022-23 is 1.0% below the peak, and initial estimates for FY 2023-24 are 2.0% above the previous peak level. In inflation-adjusted terms, FY 2023-24 GF/GP revenue is estimated to be 1.7% (or $171.9 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly 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 fall slightly in FY 2021-22 and then continue sustained growth through the forecast period. In FY 2023-24, SAF revenue is predicted to be approximately 133.1% ($9.3 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 2.2% ($269.7 million) below if adjusted for inflation, as shown in Figure 20.

Figure 18

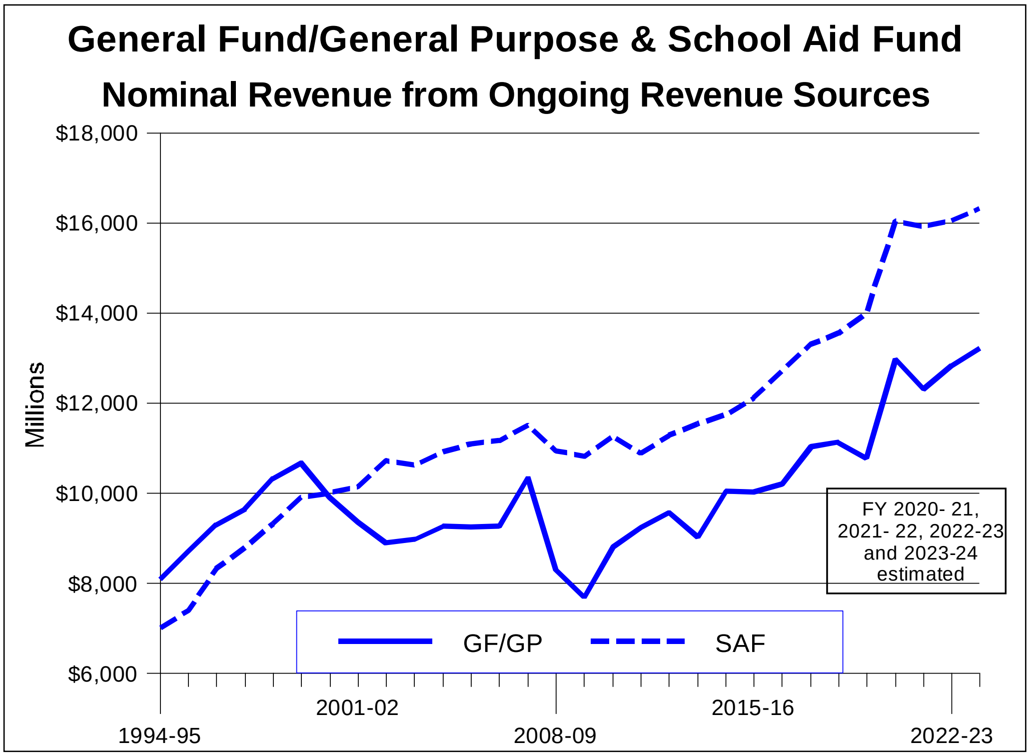


Figure 19

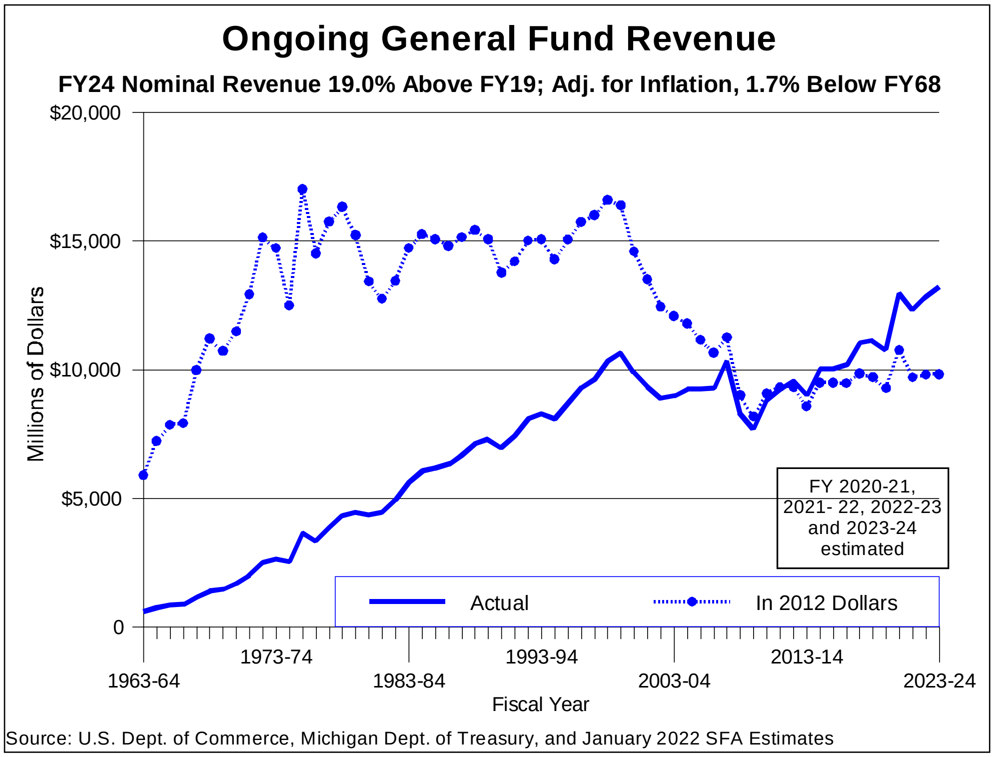
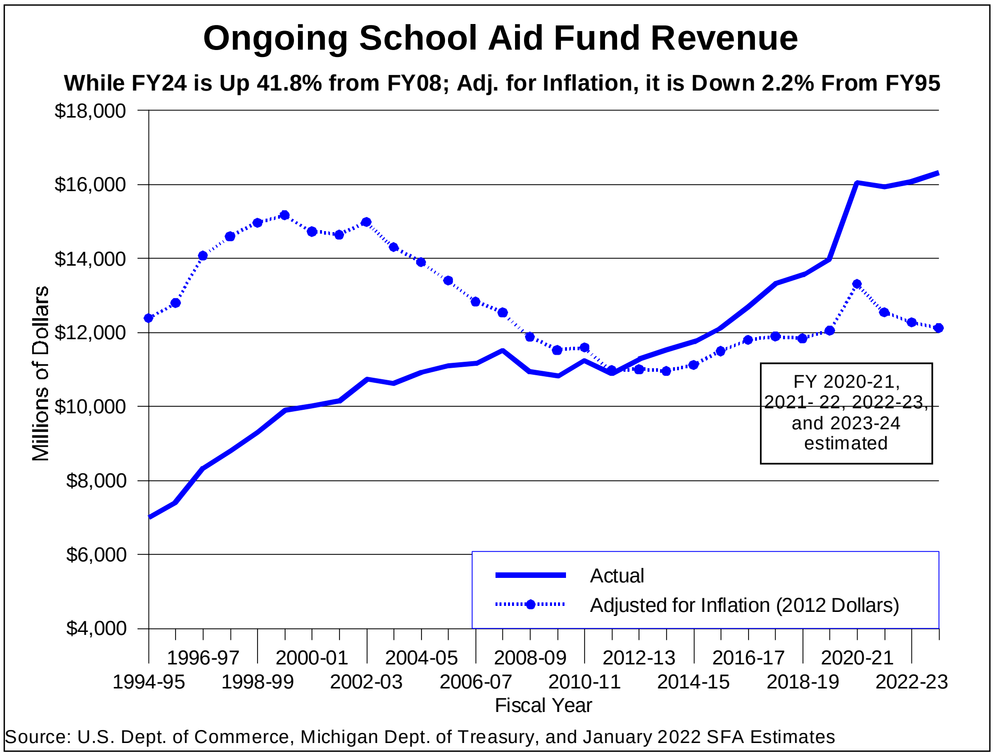


Figure 20



FY 2020-21 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 17.1% in FY 2020-21 compared with FY 2019-20.
- The revenue increase in FY 2020-21 reflected increases in almost all taxes, and a reduction in the credit payments under the MBT. These increases were slightly offset by lower insurance company premiums and higher IIT refunds.

Michigan's economy grew during FY 2020-21. Personal income grew 2.6%, wage and salary employment grew 2.9%, and wage and salary income grew 6.5%; however, inflation-adjusted personal income fell 1.6%. Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled $29.0 billion in FY 2020-21, which is 17.1% above the FY 2019-20 revenue level (as presented in Table 4). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan Annual Comprehensive Financial Report. Decisions made in the book-closing process regarding the accrual of various types of revenue may change these numbers, in particular regarding the treatment of business tax credits. The growth rate is higher than the 0.4% increase in combined GF/GP and SAF revenue during FY 2019-20.

The preliminary final GF/GP and SAF revenue level for FY 2020-21 is $2,685.1 million above the May 2021 consensus revenue estimate. The largest share of the revenue increase from the May 2021 estimates reflects gross income tax collections, which were $1,159.5 million above the May consensus estimate, due to unexpectedly high annual payments and quarterly payments. Sales and use tax revenue was $636.0 million above the May estimate. Refunds paid under the MBT were $137.3 million lower than expected, although this may reflect timing issues, and companies could claim these refunds in a subsequent year. Corporate income tax collections rose 54.4% and finished $314.0 million above the May 2021 estimates. Lottery revenue was $211.7 million above the May 2021 estimates. Baseline GF/GP and SAF revenue increased 19.7% in FY 2020-21.

Table 4

FY 2020-21 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2019-20 Final	FY 2020-21 Prelim. Final	Change from FY 2019-20: Dollar Change	Change from FY 2019-20: Percent Change	$ Change from 05/21 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$11,951.9	$15,072.2	$3,120.4	26.1%	$1,546.8
Tax Changes Not In Baseline	(1,176.2)	(2,111.3)	(935.1)	----	137.3
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$13,018.0	$14,549.8	$1,531.8	11.8%	$1,159.5
Less: Refunds	(2,517.7)	(2,696.9)	(179.2)	7.1	41.5
Net Income Tax Collections	10,500.3	11,852.9	1,352.6	12.9	1,201.1
Less: Earmarking to SAF	(3,092.9)	(3,461.0)	(368.1)	11.9	(272.8)
Earmarking to MI Transp. Fund	(468.0)	(600.0)	(132.0)	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.6)	(0.6)	0.0	0.0	0.2
Net Income Tax to GF/GP	6,869.7	7,722.3	852.6	12.4	928.4
Other Taxes					
Corporate Income Tax	1,100.1	1,698.1	598.0	54.4	314.0
Michigan Business Tax	(553.7)	(489.6)	64.1	(11.6)	137.3
Sales	1,299.8	1,492.3	192.5	14.8	135.4
Use	747.5	1,248.4	500.9	67.0	90.1
Cigarette	180.1	177.0	(3.1)	(1.7)	0.8
Insurance Company Premiums	456.8	354.8	(102.0)	(22.3)	(35.2)
Telephone & Telegraph	32.7	32.4	(0.3)	(0.9)	0.4
Oil & Gas Severance	12.8	20.9	8.1	63.3	6.9
All Other	205.3	250.8	45.5	22.1	23.8
Subtotal Other Taxes	3,481.4	4,785.1	1,303.7	37.4	673.5
Total Nontax Revenue	424.5	453.5	29.0	6.8	82.2
GF/GP REV. AFTER TAX CHANGES	**$10,775.6**	**$12,960.9**	**$2,185.3**	**20.3%**	**$1,684.1**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$14,073.9	$16,084.3	$2,010.4	14.3%	$952.0
Tax Changes Not In Baseline	(83.5)	(50.9)	32.6	----	49.0
Revenue After Tax Changes					
Sales Tax	6,048.7	6,828.1	779.4	12.9	331.7
Use Tax	613.0	888.7	275.7	45.0	60.8
Lottery Revenue	1,179.9	1,419.8	239.9	20.3	211.7
State Education Property Tax	2,182.9	2,264.4	81.5	3.7	(3.2)
Real Estate Transfer Tax	335.4	490.3	154.9	46.2	56.7
Income Tax	3,092.9	3,461.0	368.1	11.9	272.8
Casino Tax	67.0	181.1	114.1	170.3	46.2
Other Revenue	470.6	500.0	29.4	6.3	24.3
SAF REV. AFTER TAX CHANGES	**$13,990.4**	**$16,033.4**	**$2,043.0**	**14.6%**	**$1,001.0**
BASELINE GF/GP AND SAF	$26,025.7	$31,156.5	$5,130.8	19.7%	$2,498.8
Tax & Revenue Changes	(1,259.7)	(2,162.2)	(902.5)	----	186.3
GF/GP & SAF REV. AFTER CHNGS	**$24,766.0**	**$28,994.3**	**$4,228.3**	**17.1%**	**$2,685.1**
Sales Tax	$8,308.6	$9,391.1	$1,082.5	13.0%	$485.1

[1)] FY 2019-20 is the base year for baseline revenue.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $60.0 million ($45.7 million GF/GP and $14.3 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by $176.3 million ($136.1 million GF/GP and $40.2 million SAF).

Personal Property Tax Reform. Use tax collections of $491.5 million in FY 2020-21 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. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $125.8 million. The General Fund will reimburse the SAF $2.0 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $2.0 million and increase the SAF by $2.0 million.

Michigan Business Tax. The MBT will lower GF/GP revenue by $489.6 million in FY 2020-21, a smaller reduction than in FY 2019-20, reflecting that credits paid under the MBT exceed the revenue collected under the tax. All the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $112.5 million, of which $32.4 million will be directed to the SAF and $80.1 million to other funds, primarily the MTF and distributions to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $45.0 million ($7.5 million GF/GP, $33.0 million SAF, and $4.5 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $53.1 million, of which $6.2 million will be GF/GP, $38.9 million will be SAF, and $8.0 million other funds. The General Fund is required to reimburse the SAF for losses from the exemption of qualified data center equipment. This reimbursement will reduce GF/GF by $12.0 million and increase SAF by $12.0 million.

Federal Tax Reform and the COVID-19 Relief Measures. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by $176.0 million, of which $161.1 million will be a GF/GP increase, and $14.9 million will be an increase to the SAF. This increase will be more than offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue. Tax changes related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March 2020, will reduce IIT and CIT revenue by $159.6 million ($136.3 million GF/GP and $23.3 million SAF). Tax changes related to the Coronavirus Response and Relief Supplemental Appropriations Act, passed in December 2020, will reduce IIT and CIT revenue by $307.6 million ($274.0 million GF/GP and $33.6 million SAF). Tax changes related to the American Rescue Plan (ARP) Act, passed in March 2021, will reduce IIT revenue by $727.2 million ($670.8 million GF/GP and $56.4 million SAF).

New Gaming. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $151.6 million, of which $90.5 million will be directed to the SAF and $61.1 million to other funds. The new gaming options are expected to reduce lottery revenue by $29.0 million (all SAF).

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $15.0 million. The historic preservation tax credit will reduce GF/GP revenue by $700,000.

General Fund/General Purpose

General Fund/General Purpose revenue totaled an estimated $13.0 billion in FY 2020-21, an increase of 20.3%, or $2,185.3 million, from FY 2019-20. The revised GF/GP estimate is $1,684.1

million above the May 2021 consensus revenue estimate. Baseline GF/GP revenue increased 26.1%; however, revenue adjustments were more negative than in the previous year. These adjustments totaled $2,111.3 million (primarily for the cost of MBT credits, PPT reform, and the exclusion of most unemployment insurance benefits from income tax in 2020) and lowered net GF/GP revenue by 14.0%. The revised GF/GP revenue estimates for FY 2020-21 are summarized in Table 4. The increase of $1,684.1 million from the May 2021 consensus estimate for FY 2020-21 reflects higher income tax, sales and use tax, and CIT revenue, and lower MBT credit payments, than previously expected.

School Aid Fund

School Aid Fund revenue totaled an estimated $16.0 billion in FY 2020-21, an increase of 14.6%, or $2,043.0 million, from FY 2019-20. The revised SAF estimate is $1,001.0 million higher than the May 2021 consensus revenue estimate. The increase in SAF revenue reflects growth in most major earmarked tax sources, as well as lottery revenue. The SAF revised revenue estimates for FY 2020-21 are summarized in Table 4.

FY 2021-22 REVISED REVENUE ESTIMATES

Michigan's economy is expected to shrink slightly during FY 2021-22. Personal income will fall 0.6%, although wage and salary employment and income will increase from FY 2020-21. Total GF/GP and SAF revenue will reach an estimated $28.2 billion in FY 2021-22, a decrease of 2.7%, or $768.9 million, from the preliminary final revenue for FY 2020-21. On a baseline basis, GF/GP and SAF revenue is expected to decrease 4.1% in FY 2021-22, reflecting the decline in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2021-22 is $1,421.3 million above the May 2021 forecast and is summarized in Table 5.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $90.0 million ($68.6 million GF/GP and $21.4 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by $180.0 million ($145.6 million GF/GP and $34.4 million SAF).

Personal Property Tax Reform. Use tax collections of $521.3 million in FY 2021-22 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $135.0 million. The General Fund will reimburse the SAF $1.5 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $1.5 million and increase the SAF by $1.5 million.

Michigan Business Tax. The MBT will lower GF/GP revenue by $594.3 million in FY 2021-22, a larger reduction than in FY 2020-21. All the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $120.0 million, of which $42.0 million will be directed to the SAF and $78.0 million to other funds, primarily the MTF and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $72.0 million ($12.0 million GF/GP, $52.8 million SAF, and $7.2 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $58.3 million, of which $6.9 million will be GF/GP, $42.7 million will be SAF, and $8.7 million other funds. The sales tax exemption on feminine hygiene products will reduce revenue by approximately $6.3 million ($5.7 million GF/GP and $600,000 other funds, primarily constitutional revenue sharing). The General Fund is required to reimburse the School Aid Fund for losses from the exemption of qualified data center equipment. This reimbursement will reduce GF/GF by $12.4 million and increase SAF by $12.4 million.

Federal Tax Reform and the COVID-19 Relief Measures. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by $180.0 million, of which $161.1 million will be a GF/GP increase, and $18.9 million will be an increase to the SAF. This increase will be offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue. Tax changes related to the CARES Act, passed in March 2020, will reduce IIT and CIT revenue by $39.5 million ($30.7 million GF/GP and $8.8 million SAF). Tax changes related to the Coronavirus Response and Relief Supplemental Appropriations Act, passed in December 2020, will reduce IIT and CIT revenue by $278.4 million ($254.2 million GF/GP and $24.2 million SAF). Tax changes related to the ARP Act, passed in March 2021, will reduce IIT revenue by $235.4 million ($206.4 million GF/GP and $29.0 million SAF).

New Gaming and Gambling Losses. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $162.6 million, of which $99.7 million will be directed to the SAF and $62.9 million to other funds. The new gaming options are expected to reduce lottery revenue by $30.1 million (all SAF). The IIT deduction for gambling losses will reduce revenue by $12.0 million ($9.6 million GF/GP and $2.4 million SAF).

Other Changes. The historic preservation tax credit will reduce GF/GP revenue by $3.5 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $12.3 billion in FY 2021-22, a decrease of 5.0% or $652.7 million from the revised estimate for FY 2020-21. Baseline GF/GP revenue is expected to decrease 7.1% ($1,076.4 million) from FY 2020-21, but revenue adjustments are expected to be less negative than the previous year. The decrease in GF/GP revenue reflects reductions in almost all taxes compared to FY 2020-21, although most taxes are forecasted to be higher than the May 2021 consensus estimates. The revised GF/GP revenue estimates for FY 2021-22 are $635.8 million above the May 2021 consensus estimates and are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $15.9 billion in FY 2021-22, a decrease of $116.2 million, or 0.7%, from the revised estimate for FY 2020-21. The forecasted decrease in SAF revenue reflects reduced income tax revenue and decreased lottery revenue, partially offset by increased SET and casino tax, although all sources are forecasted to be higher than the May 2021 consensus estimates. The revised SAF revenue estimates for FY 2021-22 are $786.2 million above the May 2021 consensus estimates and are summarized in Table 5.

FY 2022-23 REVISED REVENUE ESTIMATES

Michigan's economy is expected to grow during FY 2022-23. Personal income will grow, and wage and salary employment and income will grow, although more slowly than in FY 2021-22. Total GF/GP and SAF revenue will reach an estimated $28.9 billion in FY 2022-23, an increase of 2.3% or $662.2 million from the revised estimate for FY 2021-22. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.3% in FY 2022-23, reflecting improvements in the State economy. Estimated GF/GP and SAF revenue is $1,189.3 million above the May 2021 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2022-23 is summarized in Table 6.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $169.2 million ($128.9 million GF/GP and $40.3 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by $180.0 million ($145.6 million GF/GP and $34.4 million SAF).

Personal Property Tax Reform. Use tax collections of $548.0 million in FY 2022-23 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $143.0 million. The increase in the PPT exemption for small taxpayers will reduce SAF by $10.1 million. The General Fund will reimburse the SAF $1.5 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $1.5 million and increase the SAF by $1.5 million.

Michigan Business Tax. The MBT will lower GF/GP revenue by $527.6 million in FY 2022-23, a smaller reduction than in FY 2021-22. All the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $150.0 million, of which $52.5 million will be directed to the SAF and $97.5 million to other funds, primarily the MTF and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $90.0 million ($15.0 million GF/GP, $66.0 million SAF, and $9.0 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $63.2 million, of which $7.7 million will be GF/GP, $46.3 million will be SAF, and $9.2 million other funds. The sales tax exemption on feminine hygiene products will reduce revenue by approximately $6.3 million ($5.7 million GF/GP and $600,000 other funds, primarily constitutional revenue sharing). The General Fund is required to reimburse the School Aid Fund for losses from the exemption of qualified data center equipment. This reimbursement will reduce GF/GF by $12.7 million and increase SAF by $12.7 million.

Federal Tax Reform and the COVID-19 Relief Measures. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by $181.4 million, of which $162.1 million will be a GF/GP increase, and $19.3 million will be an increase to the SAF. This increase will be nearly offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue. Tax changes related to the CARES Act, passed in March 2020, will increase IIT revenue by $1.5 million ($1.1 million GF/GP and $400,000 SAF) and reduce CIT revenue by $2.5 million (all GF/GP). Tax changes related to the Coronavirus Response and Relief Supplemental Appropriations Act, passed in December 2020, will reduce IIT and CIT revenue by $166.0 million ($150.2 million GF/GP and $15.8 million SAF). Tax changes related to the ARP Act, passed in March 2021, will reduce IIT revenue by $91.4 million ($81.9 million GF/GP and $9.5 million SAF).

New Gaming and Gambling Losses. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $165.6 million, of which $102.3 million will be directed to the SAF and $63.3 million to other funds. The new gaming options are expected to reduce lottery revenue by $31.0 million (all SAF). The IIT deduction for gambling losses will reduce revenue by $12.0 million ($9.6 million GF/GP and $2.4 million SAF).

Other Changes. The historic preservation tax credit will reduce GF/GP revenue by $5.3 million.

Table 5

FY 2021-22 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2020-21		
	FY 2020-21 Final	**FY 2021-22 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 05/21 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$15,072.2	$13,995.8	($1,076.4)	(7.1%)	$576.8
Tax Changes Not In Baseline	(2,111.3)	(1,687.6)	423.7	----	58.3
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$14,549.8	$13,879.6	($670.2)	(4.6%)	$248.0
Less: Refunds	(2,696.9)	(2,465.3)	231.6	(8.6)	(38.0)
Net Income Tax Collections	11,852.9	11,414.3	(438.6)	(3.7)	210.0
Less: Earmarking to SAF	(3,461.0)	(3,304.9)	156.1	(4.5)	(59.5)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	0.0	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(0.6)	(0.6)	0.0	----	0.2
Net Income Tax to GF/GP	7,722.3	7,439.8	(282.5)	(3.7)	150.7
Other Taxes					
Corporate Income Tax	1,698.1	1,520.9	(177.2)	(10.4)	323.0
Michigan Business Tax	(489.6)	(594.3)	(104.7)	----	(1.4)
Sales	1,492.3	1,481.8	(10.5)	(0.7)	74.1
Use	1,248.4	1,174.1	(74.3)	(6.0)	50.0
Cigarette	177.0	174.5	(2.5)	(1.4)	2.0
Insurance Company Premiums	354.8	400.0	45.2	12.7	(5.0)
Telephone & Telegraph	32.4	32.0	(0.4)	(1.2)	0.0
Oil & Gas Severance	20.9	25.9	5.0	23.9	7.4
All Other	250.8	256.0	5.2	2.1	20.0
Subtotal Other Taxes	4,785.1	4,470.9	(314.2)	(6.6)	470.1
Total Nontax Revenue	453.5	397.5	(56.0)	(12.3)	14.3
GF/GP REV. AFTER TAX CHANGES	**$12,960.9**	**$12,308.2**	**($652.7)**	**(5.0%)**	**$635.1**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$16,084.3	$15,882.9	($201.4)	(1.3%)	763.6
Tax Changes Not In Baseline	(50.9)	34.3	85.2	----	22.6
Revenue After Tax Changes					
Sales Tax	$6,828.1	$6,916.8	$88.7	1.3%	$350.8
Use Tax	888.7	849.9	(38.8)	(4.4)	25.0
Lottery Revenue	1,419.8	1,273.9	(145.9)	(10.3)	180.0
State Education Property Tax	2,264.4	2,390.3	125.9	5.6	66.0
Real Estate Transfer Tax	490.3	462.4	(27.9)	(5.7)	60.0
Income Tax	3,461.0	3,304.9	(156.1)	(4.5)	59.5
Casino Tax	181.1	217.2	36.1	19.9	35.5
Other Revenue	500.0	501.8	1.8	0.4	9.4
SAF REV. AFTER TAX CHANGES	**$16,033.4**	**$15,917.2**	**($116.2)**	**(0.7%)**	**$786.2**
BASELINE GF/GP AND SAF	$31,156.5	$29,878.7	($1,277.8)	(4.1%)	1,340.4
Tax & Revenue Changes	(2,162.2)	(1,653.3)	508.9	----	80.9
GF/GP & SAF REV. AFTER CHNGS	**$28,994.3**	**$28,225.4**	**($768.9)**	**(2.7%)**	**$1,421.3**
Sales Tax	$9,391.1	$9,474.5	$83.4	0.9%	$473.7

[1)] FY 2020-21 is the base year for baseline revenue.

Table 6

FY 2022-23 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2021-22		
	FY 2021-22 Revised Est.	FY 2022-23 Revised Est.	Dollar Change	Percent Change	$ Change from 05/21 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$13,995.8	$14,281.4	$285.6	2.0%	$546.2
Tax Changes Not In Baseline	(1,687.6)	(1,448.9)	238.7	----	15.6
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$13,879.6	$14,393.6	$514.0	3.7%	$333.3
Less: Refunds	(2,465.3)	(2,344.3)	121.0	(4.9)	18.1
Net Income Tax Collections	11,414.3	12,049.3	635.0	5.6	351.4
Less: Earmarking to SAF	(3,304.9)	(3,423.4)	(118.5)	3.6	(76.0)
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	(0.6)	(0.6)	0.0	0.0	0.2
Net Income Tax to GF/GP	7,439.8	7,956.3	516.5	6.9	275.6
Other Taxes					
Corporate Income Tax	1,520.9	1,502.1	(18.8)	(1.2)	225.0
Michigan Business Tax	(594.3)	(527.6)	66.7	(11.2)	(0.9)
Sales	1,481.8	1,471.0	(10.8)	(0.7)	38.8
Use	1,174.1	1,120.5	(53.6)	(4.6)	(6.7)
Cigarette	174.5	171.2	(3.3)	(1.9)	0.6
Insurance Company Premiums	400.0	415.0	15.0	3.8	(5.0)
Telephone & Telegraph	32.0	32.0	0.0	0.0	0.0
Oil & Gas Severance	25.9	24.0	(1.9)	(7.3)	2.0
All Other	256.0	264.5	8.5	3.3	20.0
Subtotal Other Taxes	4,470.9	4,472.7	1.8	0.0	273.8
Total Nontax Revenue	397.5	403.5	6.0	1.5	12.4
GF/GP REV. AFTER TAX CHANGES	**$12,308.2**	**$12,832.5**	**$524.3**	**4.3%**	**$561.8**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$15,882.9	$15,990.2	$107.3	0.7%	$627.3
Tax Changes Not In Baseline	34.3	64.9	30.6	----	0.2
Revenue After Tax Changes					
Sales Tax	6,916.8	6,893.7	(23.1)	(0.3)	218.7
Use Tax	849.9	836.5	(13.4)	(1.6)	(3.3)
Lottery Revenue	1,273.9	1,260.9	(13.0)	(1.0)	160.0
State Education Property Tax	2,390.3	2,460.7	70.4	2.9	89.9
Real Estate Transfer Tax	462.4	450.9	(11.5)	(2.5)	40.0
Income Tax	3,304.9	3,423.4	118.5	3.6	76.0
Casino Tax	217.2	221.0	3.8	1.7	37.5
Other Revenue	501.8	508.0	6.2	1.2	8.7
SAF REV. AFTER TAX CHANGES	**$15,917.2**	**$16,055.1**	**$137.9**	**0.9%**	**$627.5**
BASELINE GF/GP AND SAF	$29,878.7	$30,271.6	$392.9	1.3%	$1,173.5
Tax & Revenue Changes	(1,653.3)	(1,384.0)	269.3	----	15.8
GF/GP & SAF REV. AFTER CHNGS	**$28,225.4**	**$28,887.6**	**$662.2**	**2.3%**	**$1,189.3**
Sales Tax	$9,474.5	$9,442.5	($32.0)	(0.3%)	$293.7

[1)] FY 2020-21 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $12.8 billion in FY 2022-23, an increase of $524.3 million from the revised estimate for FY 2021-22. Baseline GF/GP revenue is expected to increase 2.0% and the more than $1.4 billion in negative adjustments will be slightly less than in the previous year, raising net GF/GP growth to 4.3%. Most of the increase in GF/GP revenue reflects increased income tax collections and reduced MBT refunds, partially offset by lower sales and use tax and CIT collections. The revised GF/GP revenue estimates for FY 2022-23 are $561.8 million above the May 2021 consensus estimates and are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $16.1 billion in FY 2022-23, an increase of $137.9 million from the revised estimate for FY 2021-22. Baseline SAF revenue growth will be 0.7% in FY 2022-23. Small positive revenue adjustments will boost SAF net revenue growth to 0.9%. The forecasted increase in SAF revenue reflects growth in income tax and SET, offset slightly by reduced consumptions taxes and lottery revenue. The revised SAF revenue estimates for FY 2022-23 are $627.5 million above the May 2021 consensus estimates and are summarized in Table 6.

FY 2023-24 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2023-24, although more slowly than during FY 2022-23. Personal income and wage and salary employment and income will continue to grow, but at a slower rate than in FY 2022-23. Total GF/GP and SAF revenue will reach an estimated $29.5 billion in FY 2023-24, an increase of 2.3%, or $655.6 million, from the revised estimate for FY 2022-23. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.6% in FY 2023-24, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2023-24 is summarized in Table 7.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $198.6 million ($151.3 million GF/GP and $47.3 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by $180.0 million ($145.6 million GF/GP and $34.4 million SAF).

Personal Property Tax Reform. Use tax collections of $561.7 million in FY 2023-24 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $152.0 million. The increase in the PPT exemption for small taxpayers will reduce SAF by $10.1 million. The General Fund will reimburse the SAF $1.5 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $1.5 million and increase the SAF by $1.5 million.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by $519.3 million in FY 2023-24, a smaller reduction than in FY 2022-23. All the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $180.0 million, of which $63.0 million will be directed to the SAF and $117.0 million to other funds, primarily the MTF and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $112.5 million ($18.8 million GF/GP, $82.5 million SAF, and $11.2 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $71.0 million, of which $8.5 million will be GF/GP, $52.1 million will be SAF, and $10.4 million other funds. The sales tax exemption on feminine hygiene products will reduce revenue by approximately $6.3 million ($5.7 million GF/GP and $600,000 other funds, primarily constitutional revenue sharing). The General Fund is required to reimburse the School Aid Fund for losses from the exemption of qualified data center equipment. This reimbursement will reduce GF/GF by $12.7 million and increase SAF by $12.7 million.

Federal Tax Reform and the COVID-19 Relief Measures. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by $182.6 million, of which $163.1 million will be a GF/GP increase, and $19.5 million will be an increase to the SAF. This increase will be nearly offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue. Tax changes related to the CARES Act, passed in March 2020, will increase IIT revenue by $1.5 million ($1.1 million GF/GP and $400,000 SAF) and reduce CIT revenue by $2.5 million (all GF/GP). Tax changes related to the Coronavirus Response and Relief Supplemental Appropriations Act, passed in December 2020, will reduce IIT and CIT revenue by $59.3 million ($53.9 million GF/GP and $5.4 million SAF). Tax changes related to the ARP Act, passed in March 2021, will reduce IIT revenue by $27.5 million ($24.6 million GF/GP and $2.9 million SAF).

New Gaming and Gambling Losses. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $168.8 million, of which $104.2 million will be directed to the SAF and $64.6 million to other funds. The new gaming options are expected to reduce lottery revenue by $32.0 million (all SAF). The IIT deduction for gambling losses will reduce revenue by $12.0 million ($9.6 million GF/GP and $2.4 million SAF).

Other Changes. The historic preservation tax credit will reduce GF/GP revenue by $5.3 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $13.2 billion in FY 2023-24, an increase of 3.0%, or $390.0 million, from the revised estimate for FY 2022-23. Baseline GF/GP revenue is expected to increase 1.8% due the continued growth in the economy. The initial GF/GP revenue estimates for FY 2023-24 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $16.3 billion in FY 2023-24, an increase of $265.6 million, or 1.7%, from the revised estimate for FY 2022-23. The initial SAF revenue estimates for FY 2023-24 are summarized in Table 7.

Table 7

FY 2023-24 INITIAL REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
			Change from FY 2022-23	
	FY 2022-23 Revised Est.	**FY 2023-24 Initial Est.**	**Dollar Change**	**Percent Change**
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue[1]	$14,281.4	$14,541.6	$260.2	1.8%
Tax Changes Not In Baseline	(1,448.9)	(1,319.1)	129.8	----
Revenue After Tax Changes				
Personal Income Tax				
Gross Collections	$14,393.6	$14,655.3	$261.7	1.8%
Less: Refunds	(2,344.3)	(2,268.4)	75.9	(3.2)
Net Income Tax Collections	12,049.3	12,386.9	337.6	2.8
Less: Earmarking to SAF	(3,423.4)	(3,480.8)	(57.4)	1.7
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----
Campaign Fund	(0.6)	(0.6)	0.0	0.0
Net Income Tax to GF/GP	7,956.3	8,236.5	280.2	3.5
Other Taxes				
Corporate Income Tax	1,502.1	1,581.6	79.5	5.3
Michigan Business Tax	(527.6)	(519.3)	8.3	(1.6)
Sales	1,471.0	1,509.4	38.4	2.6
Use	1,120.5	1,076.8	(43.7)	(3.9)
Cigarette	171.2	167.9	(3.3)	(1.9)
Insurance Company Premiums	415.0	430.0	15.0	3.6
Telephone & Telegraph	32.0	32.0	0.0	0.0
Oil & Gas Severance	24.0	25.0	1.0	4.2
All Other	264.5	274.1	9.6	3.6
Subtotal Other Taxes	4,472.7	4,577.5	104.8	2.3
Total Nontax Revenue	403.5	408.5	5.0	1.2
GF/GP REV. AFTER TAX CHANGES	**$12,832.5**	**$13,222.5**	**$390.0**	**3.0%**
SCHOOL AID FUND:				
Baseline Revenue[1]	$15,990.2	$16,223.5	$233.3	1.5%
Tax Changes Not In Baseline	64.9	97.2	32.3	----
Revenue After Tax Changes				
Sales Tax	6,893.7	7,042.3	148.6	2.2
Use Tax	836.5	821.5	(15.0)	(1.8)
Lottery Revenue	1,260.9	1,248.0	(12.9)	(1.0)
State Education Property Tax	2,460.7	2,539.9	79.2	3.2
Real Estate Transfer Tax	450.9	450.0	(0.9)	(0.2)
Income Tax	3,423.4	3,480.8	57.4	1.7
Casino Tax	221.0	224.2	3.2	1.4
Other Revenue	508.0	514.0	6.0	1.2
SAF REV. AFTER TAX CHANGES	**$16,055.1**	**$16,320.7**	**$265.6**	**1.7%**
BASELINE GF/GP AND SAF	$30,271.6	$30,765.1	$493.5	1.6%
Tax & Revenue Changes	(1,384.0)	(1,221.9)	162.1	----
GF/GP & SAF REV. AFTER CHNGS	**$28,887.6**	**$29,543.2**	**$655.6**	**2.3%**
Sales Tax	$9,442.5	$9,645.2	$202.7	2.1%

[1] FY 2020-21 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2020-21 THROUGH FY 2023-24

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

Individual Income Tax. Individual income tax revenue will decrease an estimated 3.7% in FY 2021-22, to $11.4 billion, falling from high levels in FY 2020-21. Fiscal year 2021-22 withholding will increase 2.9%, but quarterly estimates and annual payments will fall 26.0% and 30.6%, respectively. As economic growth resumes, withholding will continue to grow 3.1% in FY 2022-23 and 2.6% in FY 2023-24. Annual payments are expected to decrease 30.6% in FY 2021-22 before increasing 9.3% in FY 2022-23 and then decreasing 7.5% in FY 2023-24. Compared with the May 2021 consensus revenue estimates, the revised estimate for FY 2021-22 IIT revenue is $210.0 million higher, and the revised estimate for FY 2022-23 is $351.4 million higher, reflecting faster employment and wage growth forecasts.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax will increase at a slower rate than the 13.0% gain experienced in FY 2020-21, with sales tax revenue rising 0.9% in FY 2021-22, falling 0.3% in FY 2022-23, and rising 2.1% in FY 2023-24. Compared with the May 2021 consensus revenue estimates, the revised sales tax estimate for FY 2021-22 is $473.7 million higher while the revised estimate for FY 2022-23 is up $293.7 million. The increase is due primarily to revised estimates of consumer spending, particularly to reflect both changes in personal income, declining savings balances, and a shift from the current goods-heavy consumption (largely subject to sales and use taxes) to a more normal split between goods and services (which are largely exempt from sales and use taxes). Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments (10%), 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 3.2% in FY 2021-22, 1.6% in FY 2022-23 and 1.8% in FY 2023-24, and the portion of use tax revenue received by the State of Michigan is expected to decline. 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 $491.5 million in FY 2020-21, and will total $521.3 million in FY 2021-22, $548.0 million in FY 2022-23, and $561.7 million in FY 2023-24 as they increase annually. Compared with the May 2021 consensus revenue estimates, the FY 2021-22 estimate for combined State and local use tax collections is revised upward by $75.0 million and the FY 2022-23 estimate is $10.0 million lower. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated $887.5 million in FY 2020-21, a decrease of 1.8% from FY 2019-20. Tobacco tax revenue is expected to continue its long-term downward trend, declining 1.3% in FY 2021-22, 1.8% in FY 2022-23, and 1.9% in FY 2023-24. The 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. However, in the forecast period, this trend is expected to end, as tax revenue from both sources is expected to decline. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos is directed to the SAF. In FY 2021-22, casino tax revenue is projected to total $217.2 million, a 19.9% increase from FY 2020-21, as the economy recovers and new gaming options (internet gaming and sports and fantasy betting) are introduced. Casino tax revenue is expected to grow 1.7% in FY 2022-23, and 1.4% in FY 2023-24, reflecting a more typical growth pattern.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. After increasing 3.7% in FY 2020-21, SET collections are projected to increase another 5.6% in FY 2021-22, 2.9% in FY 2022-23, and 3.2% in FY 2023-24, as the housing market stabilizes and inflation recedes, mitigating further increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue because of the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Competition with other gaming options (including new casino gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, although FY 2020-21 saw 20.3% growth as other gaming options were closed or limited during the pandemic. Lottery revenue is forecasted to decline 10.3% in FY 2021-22, 1.0% in FY 2022-23, and 1.0% in FY 2023-24, as other gaming options compete. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2020-21 to FY 2023-24, lottery revenue is expected to decline from 8.9% to 7.6% of total earmarked SAF revenue, reflecting the decline of lottery revenue as other SAF revenue sources grow.

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

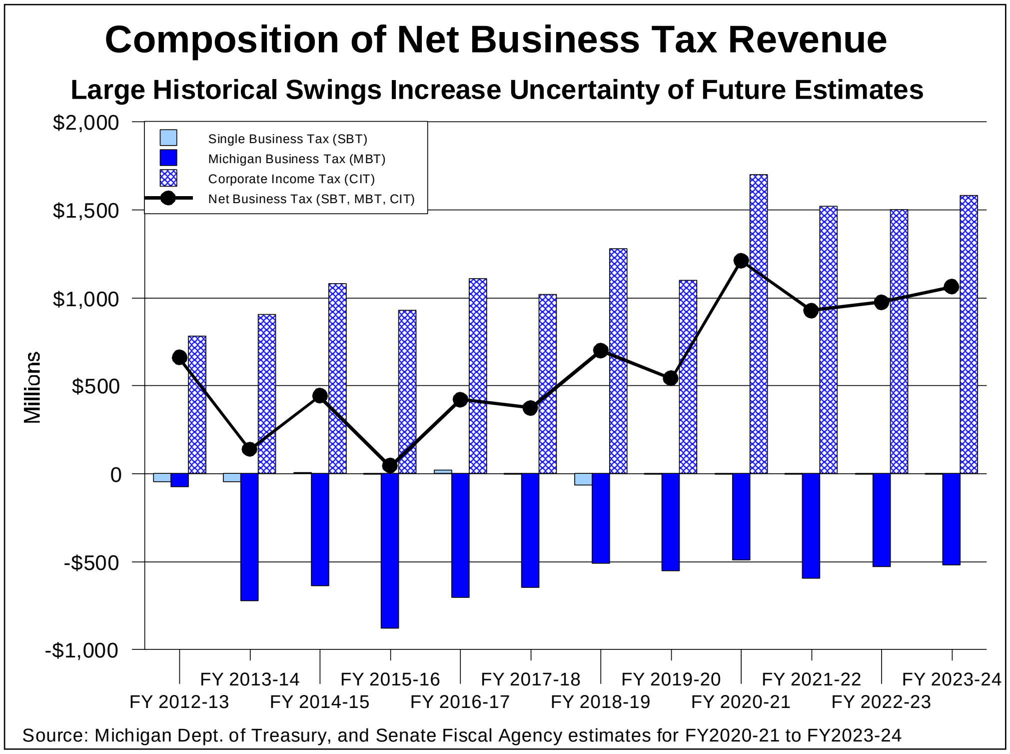
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative $489.6 million (as refunds exceeded revenue) in FY 2020-21, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between $500.0 million and $600.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although, 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 $389.3 million less in FY 2020-21, they still represented a 3.6% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally decline in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 4.6% in FY 2021-22, 3.9% in FY 2022-23, and 3.8% in FY 2023-24. 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 2020-21, CIT collections rose 54.4%, after falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the volatility in CIT revenue (Figure 21). In FY 2019-20, net business tax revenue from the MBT, CIT, and SBT combined totaled $541.0 million, down 22.6% from FY 2018-19. The preliminary final estimate for business taxes in FY 2020-21 is $1,209.6 million, a 123.6% increase from FY 2019-20 that is $452.4 million above the May 2021 consensus estimate. Net business tax revenue is expected to decline 23.4% in FY 2021-22 before increasing 5.2% in FY 2022-23 and 9.0% in FY 2023-24. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated $354.8 million in FY 2020-21, a 22.3% decrease from FY 2019-20. Revenue from taxes on insurance companies is expected to return to trend levels over the forecast period, increasing 12.7% in FY 2021-22, 3.8% in FY 2022-23, and 3.6% in FY 2023-24. All revenue from insurance taxes is directed to the General Fund.

Figure 21



SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency and consensus estimates for GF/GP and SAF baseline revenue for FY 2020-21, FY 2021-22, and FY 2022-23. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2020-21, FY 2021-22, and FY 2022-23 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2020-21 was made in December 2018, as shown in Table 8. At that time, baseline revenue in FY 2020-21 was estimated at $26.9 billion. This estimate was lowered by $103.2 million at the January 2019 CREC, then decreased another $13.6 million at the May 2019 CREC. The January 2020 CREC increased the estimate by $265.5 million, but the May 2020 CREC lowered it by $2.8 billion. The August 2020 CREC increased the estimate by $579.0 million. The January 2021 CREC increased the estimate by $1.2 billion, and the May 2021 CREC increased that estimate by $307.8 million. The Senate Fiscal Agency's revised estimate for FY 2020-21 presented in this report increases the baseline estimate by $2.7 billion above the January 2021 consensus estimate, to $29.0 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2021-22 was made in December 2019, as shown in Table 9. At that time, baseline revenue in FY 2020-21 was estimated at $27.3 billion. This estimate was increased by $322.9 million at the January 2020 CREC, then lowered by $2.1 billion at the May 2020 CREC. The August 2020 CREC increased the estimate by $375.9 million. The January 2021 CREC increased the estimate by $887.2 million, while the May 2021 CREC increased it by $8.4 million. The Senate Fiscal Agency's revised estimate for FY 2021-22 presented in this report increases the baseline estimate by $1.4 billion above the May 2021 consensus estimate, to $28.2 billion.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2020-21 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 14, 2018	$12,304.2	$14,590.6	$26,894.8
January 11, 2019 [a)]	12,274.7	14,516.9	26,791.6
May 15, 2019	12,322.9	14,290.9	26,613.8
May 17, 2019 [a)]	12,350.0	14,428.0	26,778.0
December 20, 2019	12,645.8	14,525.0	27,170.8
January 10, 2020 [a)]	12,538.8	14,504.7	27,043.5
May 14, 2020	10,833.7	13,173.8	24,007.5
May 15, 2020 [a)]	11,015.3	13,254.8	24,270.1
August 24, 2020 [a)]	11,272.8	13,576.3	24,849.1
January 5, 2021	11,381.6	13,993.4	25,375.0
January 15, 2021 [a)]	11,896.7	14,104.7	26,001.4
May 19, 2021	13,572.1	15,263.2	28,835.3
May 21, 2021 [a)]	11,276.8	15,032.4	26,309.2
January 7, 2022	$12,960.9	$16,033.4	$28,994.3
Change From Previous Estimate:			
Dollar Change	$1,684.1	$1,001.0	$2,685.1
Percent Change	14.9%	6.7%	10.2%
Change From Initial Estimate:			
Dollar Change	$656.7	$1,442.8	$2,099.5
Percent Change	5.3%	9.9%	7.8%

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

Note: Baseline base year equals FY 2019-20.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2021-22 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 20, 2019	$12,801.8	$14,523.1	$27,324.9
January 10, 2020 [a)]	12,823.5	14,824.3	27,647.8
May 14, 2020	11,563.1	13,904.2	25,467.3
May 15, 2020 [a)]	11,633.9	13,898.7	25,532.6
August 24, 2020 [a)]	11,876.7	14,031.8	25,908.5
January 5, 2021	11,698.0	14,179.8	25,877.8
January 15, 2021 [a)]	12,381.2	14,414.5	26,795.7
May 19, 2021	13,317.2	15,050.2	28,367.4
May 21, 2021 [a)]	11,673.1	15,131.0	26,804.1
January 7, 2022	$12,308.2	$15,917.2	$28,225.4
Change From Previous Estimate:			
Dollar Change	$635.1	$786.2	$1,421.3
Percent Change	5.4%	5.2%	5.3%
Change From Initial Estimate:			
Dollar Change	($493.6)	$1,394.1	$900.5
Percent Change	(3.9%)	9.6%	3.3%

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

Note: Baseline base year equals FY 2019-.20

The initial GF/GP and SAF baseline revenue estimate for FY 2022-23 was made in January 2021, as shown in Table 10. At that time, baseline revenue in FY 2022-23 was estimated at $26.2 billion. This estimate was increased by $1.2 billion at the January 2021 CREC, and increased an additional $267.4 million at the May 2021 CREC. The revised Senate Fiscal Agency estimate for FY 2022-23 increases baseline revenue for FY 2022-23 by $1.2 billion from the May 2021 estimate, to $28.9 billion.

Table 10

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

Forecast Date	GF/GP	SAF	Total
January 5, 2021	$11,787.7	$14,440.0	$26,227.7
January 15, 2021 [a]	12,733.3	14,697.6	27,430.9
May 19, 2021	13,539.4	15,268.7	28,808.1
May 21, 2021 [a]	12,270.7	15,427.6	27,698.3
January 7, 2022	$12,832.5	$16,055.1	$28,887.6
Change From Previous Estimate:			
Dollar Change	$561.8	$627.5	$1,189.3
Percent Change	4.6%	4.1%	4.3%
Change From Initial Estimate:			
Dollar Change	$1,044.8	$1,615.1	$2,659.9
Percent Change	8.9%	11.2%	10.1%

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

Note: Baseline base year equals FY 2019-20.

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 tax payers on returns filed after the end of that fiscal year.

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

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

To calculate the pay-in, the amount of real personal income growth over 2.0% in the previous calendar year is applied to the amount of General Fund revenue in the previous fiscal year. For example, the calculated pay-in for FY 2021-22 is based on personal income growth from calendar year 2020 to 2021 and GF/GP revenue in FY 2020-21. Different years are used to calculate a potential pay-out. A pay-out in FY 2021-22 depends on the change in personal income from calendar year 2021 to calendar year 2022, whether there was a calculated pay-out in FY 2020-21, and the BSF balance at the end of FY 2020-21.

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

Table 11 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 2019-20. This table also presents the SFA's estimates for FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24 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 22, and the estimated economic stabilization trigger calculations for FY 2021-22, FY 2022-23, and FY 2023-24 are presented in Table 12.

FY 2020-21

The BSF ended FY 2019-20 with a balance of $829.1 million. During FY 2020-21, $552.5 million was appropriated to the Fund. As noted above, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 and extending through FY 2034-35. Public Act 166 of 2020 appropriated $35.0 million to the BSF and Public Act 87 of 2021 appropriated $500.0 million to the BSF. Interest earnings are estimated at $800,000 in FY 2020-21, resulting in an estimated ending balance of $1,382.4 million. There was no calculated pay-in or pay-out to the BSF for FY 2020-21 estimated at the time of budget enactment.

FY 2021-22, FY 2022-23, and FY 2023-24

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula forecasts a pay-in of $77.8 million in FY 2021-22, no pay-in for FY 2022-23, and a pay-in of $77.0 million in FY 2023-24, but no other pay-ins or pay-outs in FY 2021-22, FY 2022-23, or FY 2023-24.

Based on current appropriations and the continuation of the $17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at $1,411.0 million in FY 2021-22, $1,453.9 million in FY 2022-23, and $1,510.7 million in FY 2023-24 as shown in Table 11**.**

If the Legislature were to appropriate the forecasted pay-ins (minus the $17.5 million already scheduled to be appropriated), the BSF ending balance would be estimated at $1,471.3 million in FY 2021-22, $1,515.3 million in FY 2022-23, and $1,633.2 million in FY 2023-24**.**

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2023-24 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
Enacted Deposits and Estimated Interest Earnings:					
2020-21[d)e)]	$17.5	$535.0	$0.8	$0.0	$1,382.4
2021-22[e)]	17.5	0.0	11.1	0.0	1,411.0
2022-23[e)]	17.5	0.0	25.4	0.0	1,453.9
2023-24[e)]	17.5	0.0	39.3	0.0	1,510.7

a) For FY 1998-99 to FY 2018-19, 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 Comprehensive Annual Financial Report. Fiscal years 2019-20 to FY 2021-22 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.

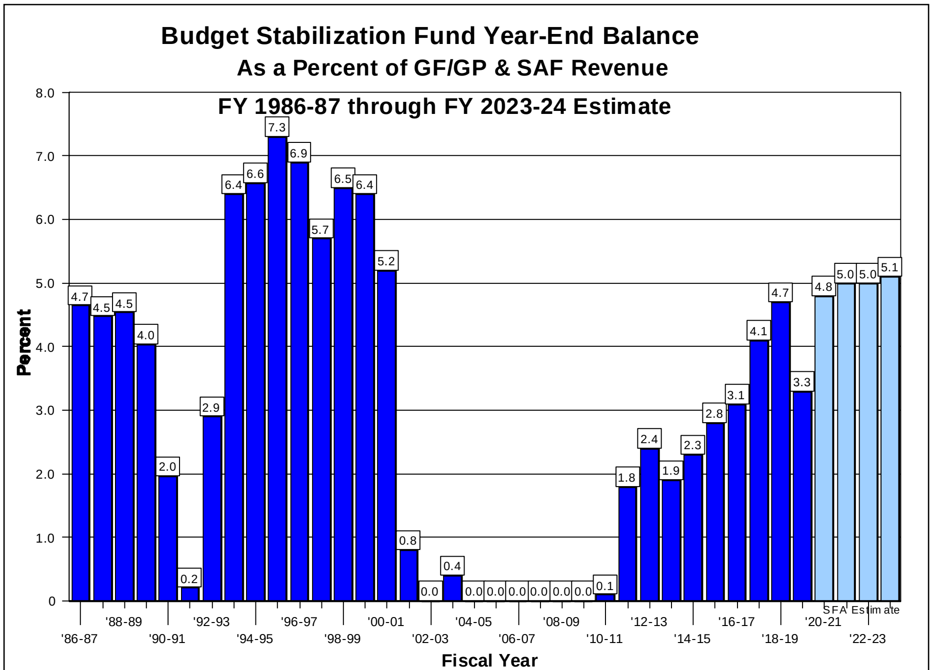
c) PA 252 of 2014 appropriated $94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of $17.5 million of tobacco settlement revenue to the BSF annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy.

d) PA 166 of 2020 appropriated $35.0 million and PA 87 of 2021 appropriated $500.0 million to the BSF.

e) Based on the SFA's revised estimates, the statutory formula would trigger a pay-in to the fund of $77.8 million in FY 2021-22 and $77.0 million in FY 2023-24, but no other pay-ins or pay-outs. Pay-ins and pay-outs must be appropriated, therefore the SFA's estimates of pay-ins for FY 2021-22 and FY 2023-24 are not reflected in the above table. See text for discussion.

Sources: State of Michigan Annual Comprehensive Financial Reports through FY 2019-20 and Senate Fiscal Agency.

Figure 22



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

Table 12

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24
(millions of dollars)

	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024
Michigan Personal Income (MPI)	$530,808.6	$544,641.7	$541,126.4	$570,617.3	$590,415.9
Less: Transfer Payments	146,541.4	141,661.2	115,498.2	119,992.2	124,687.6
Subtotal	$384,267.2	$402,980.5	$425,628.3	$450,625.1	$465,728.3
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.3658	2.4173	2.5498	2.6318	2.6957
Equals: Real Adjusted MPI	$162,424.0	$166,705.0	$166,924.0	$171,225.0	$172,764.0
Percent Change from Prior Year		2.6%	0.1%	2.6%	0.9%
Excess Over 2.0%		0.60%	0.00%	0.60%	0.00%
		FY 2020-21	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**
Multiplied by: Estimated GF/GP Revenue		$12,960.9	$12,308.2	$12,832.5	$13,222.5
Equals: Transfer to the BSF			$77.8	$0.0	$77.0
OR Maximum transfer from the BSF			$0.0	$0.0	$0.0

Note: Numbers may not add due to 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 2019-20. 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 2020-21, FY 2021-22, FY 2022-23, and FY 2023-24 with State revenue forecast to be $10.9 billion below the limit in FY 2023-24.

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 2019-20, State government revenue could not exceed 9.49% of personal income for calendar year 2018. Given that Michigan personal income for 2018 equaled $484.0 billion at the time compliance was determined, the revenue limit for FY 2019-20 was $45.9 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.

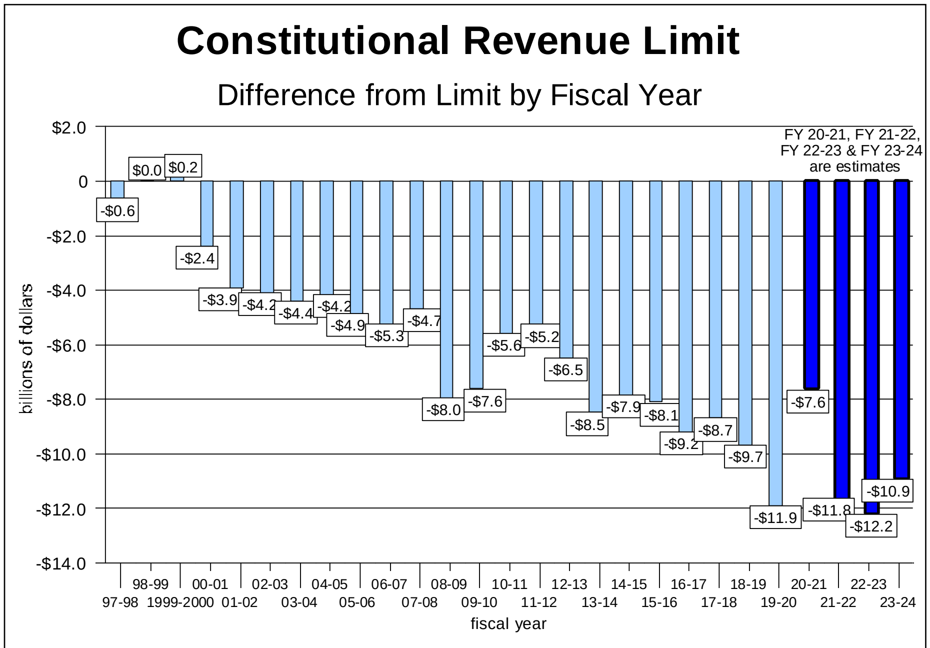
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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 Budget Stabilization Fund. 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 preliminary final revenue for FY 2020-21 and the SFA's revenue estimates for FY 2021-22, FY 2022-23, and FY 2023-24, 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 23. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 13.

Figure 23



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

FY 2020-21

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2019 equals $492.0 billion and, as a result, the revenue limit equals $46.7 billion in FY 2020-21, an increase of $758.5 million over FY 2019-20. Based on the SFA's revised revenue estimates for FY 2020-21, revenue subject to the revenue limit will equal an estimated $39.1 billion. State revenue subject to the revenue limit will be below the limit by an estimated $7.6 billion, or 16.2%, in FY 2020-21. The forecasted 14.9% increase in State revenue subject to the revenue limit will outpace anticipated growth in personal income of 1.65%, decreasing the amount by which revenue will fall below the limit.

FY 2021-22

The Senate Fiscal Agency estimates that personal income in Michigan during 2020 will equal $530.8 billion, and as a result, the revenue limit will equal $50.4 billion in FY 2021-22. Based on the SFA's revised revenue estimates for FY 2021-22, revenue subject to the revenue limit will equal an estimated $38.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $11.8 billion, or 23.4%, in FY 2021-22. Personal income is forecasted to increase 7.9% while State revenue subject to the revenue limit is forecasted to decrease 1.4%, thus increasing the amount by which revenue will fall below the limit.

FY 2022-23

The Senate Fiscal Agency estimates that personal income in Michigan during 2021 will equal $544.6 billion and, as a result, the revenue limit will equal $51.7 billion in FY 2021-22. Based on the SFA's revised revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated $39.5 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.2 billion, or 23.6%, in FY 2022-23. The growth in personal income of 2.6% will outpace the 2.4% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

FY 2023-24

The Senate Fiscal Agency estimates that personal income in Michigan during 2022 will equal $541.1 billion, and as a result, the revenue limit will equal $51.4 billion in FY 2023-24. Based on the SFA's initial revenue estimates for FY 2023-24, revenue subject to the revenue limit will equal an estimated $40.5 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $10.9 billion, or 21.2%, in FY 2023-24. Personal income is forecasted to decrease 0.65% while State revenue subject to the revenue limit in forecasted to increase 2.4%, thus decreasing the amount by which revenue will fall below the limit.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2019-20 THROUGH FY 2023-24 ESTIMATE
(millions of dollars)

	FY 2019-20 Final	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$11,951.9	$15,072.2	$13,995.8	$14,281.4	$14,541.6
Constitutional Revenue Sharing (baseline)	852.7	965.6	963.0	961.4	974.4
School Aid Fund (baseline)	14,073.9	16,084.3	15,882.9	15,990.2	16,223.5
Transportation Funds	3,351.0	3,680.9	3,791.5	3,887.0	4,003.6
Other Restricted Non-Federal Aid Revenue	5,086.1	5,496.4	5,606.3	5,774.5	5,947.8
Adjustments:					
GF/GP Federal Aid	(3.9)	(8.4)	(8.4)	(8.4)	(8.4)
GF/GP Balance Sheet Adjustments	(1,176.2)	(2,111.3)	(1,687.6)	(1,448.9)	(1,319.1)
SAF Balance Sheet Adjustments	(83.5)	(50.9)	34.3	64.9	97.2
Total Revenue Subject to Limit	**$34,052.0**	**$39,128.8**	**$38,577.9**	**$39,502.1**	**$40,460.6**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2018**	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**
Amount	$484,030.0	$492,022.2	$530,808.6	$544,641.7	$541,126.4
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$45,934.4	$46,692.9	$50,373.7	$51,686.5	$51,352.9
1.0% of Limit	459.3	466.9	503.7	516.9	513.5
Amount Under (Over) Limit	**$11,882.5**	**$7,564.1**	**$11,795.9**	**$12,184.4**	**$10,892.3**
Percent Below Limit	25.9%	16.2%	23.4%	23.6%	21.2%
CY = Calendar Year; FY = Fiscal Year					

ESTIMATE OF YEAR-END BALANCES

This section of the SFA's report provides details of the estimated year-end balances of the GF/GP and SAF budgets for FY 2020-21 and FY 2021-22. This section also outlines projections for the FY 2022-23 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2020-21, FY 2021-22, and FY 2022-23 GF/GP and SAF budgets. The FY 2020-21 book-closing process has not yet concluded. Though the final accounting of FY 2020-21 revenue and appropriations has not been completed, the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have a $4.2 billion balance and the SAF budget will have a $2.9 billion balance. A comparison of the SFA estimate of FY 2021-22 revenue with actual and projected appropriations leads to a $3.4 billion year-end balance for both the GF/GP and the SAF.

The outlook for an FY 2022-23 continuation budget points to a GF/GP budget ending balance of $4.4 billion and an SAF ending balance of $4.5 billion.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
ESTIMATED YEAR-END BALANCES
(Millions of Dollars)

	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate
General Fund/General Purpose	$4,183.8	$3,353.5	$4,395.5
School Aid Fund	$2,865.4	$3,381.4	$4,520.1

FY 2020-21 YEAR-END BALANCE ESTIMATES

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. An annual comprehensive financial report (commonly referred to as the ACFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available but based on year-to-date accounting reports of FY 2020-21 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will close FY 2020-21 with a $4.2 billion balance. The SFA is estimating that the FY 2020-21 SAF budget will close the fiscal year with a $2.9 billion balance.

The first column of Table 15 provides a summary of the current SFA estimate of a $4.2 billion balance in the FY 2020-21 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2021-22 revenue source. During the development of the FY 2021-22 budget, an estimated FY 2020-21 carry-forward amount of $2.8 billion in GF/GP revenue was built into the budget for 2020-21, so this revised estimate is $1.4 billion above the amount initially estimated as the ending balance for FY 2020-21 that would carry forward into FY 2021-22. This change in the FY 2020-21 ending balance is largely due to a $1.7 billion increase in estimated revenue, $551.8 million in savings under Public Acts 86 and 87 of 2021, and more than $300.0 million in estimated lapses, partially offset by supplemental spending in various acts as well as a $535.0 million deposit into the Budget Stabilization Fund.

On the revenue side of the FY 2020-21 GF/GP budget ledger, the SFA now is estimating that available revenue will total more than $14.8 billion. This represents a $3.7 billion increase from the level of FY 2019-20 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a $1.7 billion increase from the May 2021 consensus revenue estimate. When compared to the previous consensus revenue estimate, the SFA estimates a $928.4 million increase in personal income tax and an additional $237.3 million in sales, use, and other consumption taxes. The single largest estimate increase is a $764.2 million increase in annual income tax payments, followed by a $314.0 million increase in revenue from the corporate income tax. The combination of these factors, as well as accounting for State revenue sharing payments and other restricted revenue adjustments, results in the net $14.8 billion revenue estimate.

On the expenditure side of the FY 2020-21 GF/GP budget ledger, the SFA now is estimating that expenditures will total $10.7 billion. The primary change in expenditures, compared to May 2021 estimates, is related to the State Budget Office's suggested levels of department and caseload lapses, as well as significant supplemental spending (both positive and negative) and a $500.0 million deposit into the BSF. (Total BSF deposits for FY 2020-21 were $535.0 million, but $35.0 million of that occurred before the May 2021 CREC). The lapse amounts account for an estimated $306.2 million in reduced expenditures. The $10.7 billion of expenditures represents a $1.5 billion increase from the final level of FY 2019-20 GF/GP expenditures.

The net enacted supplemental appropriations for FY 2020-21 total a reduction of $164.0 million from the initially enacted budget. As mentioned previously, the FY 2020-21 book-closing process is still underway, and any adjustments that occur during that process could have an impact on the final revenue and expenditures recorded for FY 2020-21.

The first column of Table 16 provides a summary of the FY 2020-21 SFA estimate of a $2.9 billion year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2021-22 revenue source. As stated earlier, the FY 2021-22 budget was developed assuming that funds carried forward from FY 2020-21 would be used for FY 2021-22 appropriations. When the FY 2021-22 SAF budget was developed, the assumption was that $1.7 billion would be available as the FY 2020-21 year-end and carried forward; the estimate now is that $2.9 billion is available, $1.2 billion more than originally projected. The additional $1.2 billion in the estimated year-end balance reflects estimated lapses of $159.1 million and additional revenue of $1.0 billion.

On the revenue side of the FY 2020-21 SAF budget ledger, the SFA now is estimating that available revenue will total $25.2 billion. This represents an $8.0 billion, or 46.3%, increase from the final level of FY 2019-20 SAF revenue; in FY 2020-21, there was $5.4 billion more in Federal aid than in FY 2019-20 (mostly related to COVID-19), $8.1 million less in GF/GP support of the School Aid budget, growth in SAF-earmarked revenue, and other miscellaneous revenue adjustments. The current SFA estimate of ongoing SAF revenue for FY 2020-21 (excluding GF/GP, Community District Education Trust Fund revenue, and Federal revenue) represents an increase of $1.0 billion from the May 2021 consensus revenue estimate. Excluding the increase in Federal stimulus aid, the percentage increase in estimated SAF revenue from FY 2019-20 to FY 2020-21 is 11.2%.

On the expenditure side of the FY 2020-21 SAF budget ledger, the SFA now is estimating that expenditures will total $22.4 billion. This represents a $6.3 billion, or 39.3%, increase from the final level of FY 2019-20 SAF expenditures. The estimated final level of FY 2020-21 SAF expenditures includes initial ongoing and one-time K-12 appropriations of $15.5 billion, enacted supplementals totaling $6.2 billion, along with estimated K-12 lapses totaling a negative $159.1 million. It also should be noted that the estimated final level of FY 2020-21 SAF expenditures includes $794.5 million of appropriations to the Community Colleges and Higher Education budgets, an increase of $30.4 million from the $764.1 million appropriated for postsecondary purposes in FY 2019-20.

FY 2021-22 YEAR-END BALANCE ESTIMATES

On June 30, 2021, the Legislature adopted a School Aid budget for FY 2021-22 and on September 21, 2021, the Michigan Legislature completed action on the initial set of the remaining FY 2021-22 appropriation bills. The FY 2021-22 initially enacted budget was balanced based on the May 2021 consensus estimates. At the time the initial budget was enacted, the SFA was projecting a $1.8 billion year-end balance in the GF/GP budget. The current SFA estimate of the FY 2021-22 GF/GP year-end balance is $3.4 billion. At the same time, based on the May 2021 consensus revenue estimate, the SFA was projecting a $1.1 billion balance left in the SAF budget at the end of FY 2021-22. The current SFA estimate of the FY 2021-22 SAF year-end balance is $3.4 billion.

The second column of Table 15 provides a summary of the current SFA estimate of a $3.4 billion year-end balance in the FY 2021-22 GF/GP budget. The increase in the projected level of the FY 2021-22 GF/GP year-end balance results primarily from an estimated increase of $635.1 million from the revenue amount estimated at the May 2021 CREC, a larger carry-forward balance from FY 2020-21 ($1.4 billion more than expected), along with factoring in $250.0 million in enhanced Federal matching funds for Medicaid in the first quarter of FY 2021-22, and reflecting $1.2 billion in enacted supplemental spending (primarily $1.0 billion for economic development).

On the revenue side of the FY 2021-22 GF/GP budget ledger, the SFA now is estimating that available revenue will total $16.0 billion. This estimate includes a projected $4.2 billion balance carried forward from FY 2020-21, $12.3 billion of revenue from ongoing sources, a $500.3 million reduction to reflect ongoing State revenue sharing payments, and a $2.6 million reduction from restricted revenue sources. The current SFA estimate of FY 2021-22 ongoing GF/GP revenue represents a $635.1 million increase from the May 2021 consensus revenue estimate. The upward revision in revenue reflects an increase of $150.7 million in personal income tax collections, an increase of $131.1 million in consumption taxes, and $323.0 million of increased CIT collections.

On the expenditure side of the FY 2021-22 GF/GP budget ledger, the SFA now is estimating that expenditures will total $12.6 billion. This total includes $11.0 billion of ongoing appropriations in the initial appropriation bills, $736.2 million in one-time appropriations in the initial appropriation bills, $1.1 billion in enacted supplemental appropriations (PAs 132 and 133 of 2021), an additional one quarter of emergency Federal Medical Assistance Percentage (FMAP) rates equal to a Federal offset of GF/GP of $250.0 million, a $62.8 million payment to reimburse the Federal government for previously disallowed Medicaid psychiatric disproportionate share hospital (DSH) payments, an $11.5 million increase in the GF/GP payment to School Aid, boilerplate appropriations of $10.0 million, and $100.0 million in lapses from DHHS caseload savings.

The second column in Table 16 provides a summary of the current SFA estimate of a $3.4 billion year-end balance in the FY 2021-22 SAF budget. The increase in the projected level of the FY 2021-22 SAF year-end balance results primarily from a larger carry-forward balance from FY 2020-21 ($1.2 billion more than expected), and an estimated increase in net ongoing revenue of $786.2 million from the amount estimated at the May 2021 consensus revenue conference. In addition, costs in FY 2021-22 now are estimated to be $319.3 million lower than appropriated, primarily due to lower-than-anticipated pupil counts. Actual pupil counts for the current year came in more than 27,000 below the estimates on which the budget was based. In addition, the forecast assumes the estimated payment of $131.5 million for maintenance of effort costs in higher education.

On the revenue side of the FY 2021-22 SAF budget ledger, the SFA now is estimating that available revenue will total $21.0 billion. This estimate includes a $2.9 billion balance carried forward from FY 2020-21, $15.9 billion of ongoing State Restricted SAF revenue, an $85.4 million GF/GP grant to the SAF budget, a deposit of $72.0 million from the Community District Trust Fund (CDTF), and $1.8

billion of ongoing Federal aid. In addition, there is $202.0 million in Federal stimulus aid appropriated for FY 2021-22. The current SFA estimate of total FY 2021-22 SAF revenue represents a $4.2 billion, or 16.9%, decrease from the projected level of FY 2020-21 SAF revenue, which is driven primarily by the removal of one-time Federal aid ($5.9 billion), partially offset by a significant increase in State spending, primarily in the foundation allowance (which closed the per-pupil funding gap between the minimum and the target foundation allowances in FY 2021-22).

On the expenditure side of the FY 2021-22 SAF budget ledger, the SFA now is estimating that expenditures will total $17.6 billion. This expenditure estimate includes $16.6 billion of ongoing K-12 appropriations in the initial appropriation bill, $425.1 million in one-time appropriations, and cost adjustments totaling a negative $319.3 million. It also should be noted that the estimated level of FY 2021-22 SAF expenditures includes $792.8 million of appropriations to the Community Colleges and Higher Education budgets, a decrease from the previous year's $794.5 million SAF revenue appropriated for postsecondary purposes. The balance sheet also includes $131.5 million as the estimated cost for maintenance of effort (tied to Federal stimulus funds) for higher education. The projected level of FY 2021-22 SAF expenditures represents a $4.8 billion, or 21.3%, decrease from the estimated year-end level of FY 2020-21 SAF expenditures.

FY 2022-23 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2022-23 State budget recommendation to the Legislature no later than February 11, 2022. This State budget recommendation will continue the discussion of the FY 2021-22 budget and begin the discussion of the FY 2022-23 State budget.

If a GF/GP beginning balance of $3.4 billion is carried forward into FY 2022-23 and the SFA's new revenue estimate is assumed, and if ongoing FY 2022-23 appropriations essentially are frozen at FY 2021-22 levels but adjusted for caseload estimates for the DHHS, the FY 2022-23 projected year-end GF/GP balance is $4.4 billion. The third column of Table 15 outlines these assumptions.

On the revenue side of the FY 2022-23 budget outlook, the SFA is projecting that total estimated GF/GP revenue available will equal $15.7 billion. This estimate assumes a beginning balance of $3.4 billion and SFA-estimated ongoing revenue of $12.8 billion, which represents an increase of $561.8 million from the May 2021 consensus estimate. This revision in revenue is primarily the result of the SFA's projection of higher personal income tax collections than previously estimated, a $275.6 million increase in estimated revenue since May 2021. Also, the SFA is forecasting an increase of $37.7 million in consumption taxes and an increase of $225.0 million in CIT revenue above earlier estimates. The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2021-22 level ($500.3 million ongoing).

On the appropriation side of the FY 2022-23 budget outlook, the SFA estimate assumes the continuation of FY 2021-22 initial ongoing GF/GP appropriations. Adjustments are made to reflect an increase in the projected Federal share of ongoing FMAP costs associated with the DHHS (a $350.0 million change from the prior year); include an additional $35.0 million in costs to address DHHS audit findings; include the second year of $62.8 million in costs to reimburse the Federal government for previously disallowed Medicaid psychiatric DSH payments; add $88.0 million for anticipated costs associated with State employee economic adjustments; include $70.0 million for DHHS actuarial soundness; add $14.6 million to reimburse SAF for costs associated with the CDTF and DPSCD to pay down debt; include $35.0 million for Flint water settlement debt service; and include $100.0 million in Medicaid caseload savings. These assumptions lead to total estimated FY 2022-23 GF/GP expenditures of $11.3 billion and a projected year-end GF/GP balance of $4.4 billion.

The third column of Table 16 provides a summary of the SFA's outlook for the FY 2022-23 SAF budget. A comparison of current law SAF revenue and a continuation of ongoing FY 2021-22 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of $4.5 billion for FY 2022-23.

On the revenue side of the FY 2022-23 SAF budget outlook, the SFA is estimating that available revenue will total $21.2 billion, an increase of $218.7 million, or 1.0%, above FY 2021-22. This estimate assumes a carry-forward of $3.4 billion from FY 2021-22, an increase in the level of ongoing School Aid Fund revenue of $627.5 million from the May 2021 consensus forecast, a GF/GP grant of $88.5 million, a continuation of the $72.0 million deposit from the CDTF, Federal stimulus funding of $83.0 million, and estimated ongoing Federal aid at $1.8 billion.

On the appropriation side of the FY 2022-23 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal $17.0 billion. This funding level assumes that SAF appropriations of $789.6 million for community colleges and universities are continued (with another $7.2 million for additional Michigan Public School Employees Retirement System (MPSERS) costs).

In addition, the SFA estimate of a continuation level of K-12 funding takes into account updated estimates as to the number of students in school districts and preliminary estimates of local property tax valuations, special education costs, debt service costs, MPSERS rate cap costs, and other MPSERS costs related to changes in assumptions like the assumed rate of return and mortality tables. The SFA is estimating that pupils will decrease in FY 2022-23 by 4,700 from the number of pupils in membership for FY 2021-22. There are some anticipated savings from local taxable values and combining those savings with pupil savings will offset increases in special education costs and other baseline cost adjustments, and there are savings of $425.1 million by removing one-time items. Net year-over-year baseline costs (after removing one-time spending) are estimated to decline by $41.0 million from FY 2021-22 to FY 2022-23.

A comparison of projected FY 2022-23 SAF current-law revenue and a continuation of current spending leads to an estimated ending balance of $4.5 billion. Again, this estimate assumes a continuation of ongoing initial and supplemental appropriations and SAF support of $796.8 million for community colleges and universities.

CONCLUSION

The GF/GP and SAF budgets are estimated to end FY 2021-22 and FY 2022-23 with significant year-end balances, although both years assume the carryforward of the previous year's balance. Therefore, any spending in a given year will reduce the out-year's balance as well as the current year's balance. Both the GF/GP and the SAF sides of the ledger appear to be structurally balanced; in other words, ongoing revenue (not including carryforward balances) is estimated to exceed ongoing (excluding one-time) spending. A caution to the preceding statement is that the revenue estimates *assume growth* and the out-year expenditure estimates *assume baseline (or flat)* spending. Spending in FY 2022-23 that is greater than a baseline amount will reduce the gap between ongoing revenue and ongoing expenditure estimates.

Some budgetary risks include the unpredictable nature of the COVID-19 pandemic. For example, in DHHS, expenses have been significantly offset during the COVID-19 pandemic with additional Federal resources. Those Federal emergency declarations and the subsequent additional Federal match rates provided will be eliminated as the pandemic recedes, leaving those costs to fall again to the GF/GP as a fund source. However, it is also possible that Medicaid caseloads will decline somewhat when COVID-19 ends due to the redetermination of cases.

The FY 2020-21 estimated ending balances may change when the State's final ACFR is published, which is not required by law until the end of March 2022. To the extent that the FY 2020-21 numbers change, the ending balances for FY 2021-22 and FY 2022-23 will be affected. Also, to the extent that policy or budget changes are enacted during FY 2021-22, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 14, 2022, 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 development of the FY 2022-23 State budget, as well as for subsequent fiscal years.

Table 15

FY 2020-21, 2021-22, AND 2022-23
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	YTD FY 2020-21	YTD FY 2021-22	Estimated FY 2022-23
Revenue:			
Beginning Balance	$2,363.0	$4,183.8	$3,353.5
Ongoing Revenue:			
Consensus Revenue Estimate (August 2020)	$9,536.7	$10,392.5	
Consensus Revenue Change (January 2020)	700.8	504.6	
Consensus Revenue Estimate (January 2021)	$10,237.5	$10,897.1	$11,167.1
Consensus Revenue Change (May 2021)	1,039.3	776.0	1,103.6
Consensus Revenue Estimate (May 2021)	$11,276.8	$11,673.1	$12,270.7
SFA Revenue Change (January 2022)	1,684.1	635.1	561.8
SFA Revenue Forecast (January 2022)	$12,960.9	$12,308.2	$12,832.5
Other Revenue Adjustments:			
Revenue Sharing Payments	($490.1)	($500.3)	($500.3)
Subtotal Ongoing Revenue	$12,470.8	$11,807.9	$12,332.2
Non-ongoing Revenue:			
Reimbursement for Implementation of Recreational Marihuana	$5.7	$0.0	$0.0
Legal Settlements/Redirection of Restricted Revenue	(2.6)	(2.6)	0.0
GF-equivalent /Restricted Revenue	0.8	0.0	0.0
Subtotal Non-Ongoing Revenue	$3.9	($2.6)	$0.0
Total Estimated GF/GP Revenue	**$14,837.8**	**$15,989.1**	**$15,685.7**
Expenditures:			
Ongoing Appropriations:			
Initial Appropriations	$10,294.9	$10,984.8	$11,072.8
Subtotal Ongoing Appropriations	$10,294.9	$10,984.8	$11,072.8
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	$272.3	$736.2	$0.0
Appropriation to Budget Stabilization Fund	535.0	0.0	0.0
DHHS FMAP Adjustments (EFMAP and Regular FMAP)	0.0	(250.0)	100.0
Reimbursement of Federal Disallowed Psych DSH Costs	0.0	62.8	62.8
Actuarial Soundness (DHHS)	0.0	0.0	70.0
Additional K-12 GF Contribution (PA 146 and 165 of 2020)	0.0	11.5	14.6
MDOT: TEDF Reduction	(13.0)	0.0	0.0
FY 21 Supplementals	387.8	0.0	0.0
FY 22 Supplementals	0.0	1,145.3	35.0
Flint Settlement Debt Service	35.0	35.0	35.0
PAs 86 and 87 FY21 Supplementals	(551.8)	0.0	0.0
PA 87 of 2021 Boilerplate Appropriations (DEGLE)	0.0	10.0	0.0
Estimated Lapses and DHHS Caseload Declines	(306.2)	(100.0)	(100.0)
Subtotal One-Time and Other Appropriations	$359.1	$1,650.8	$217.4
Total Estimated GF/GP Expenditures	**$10,653.9**	**$12,635.6**	**$11,290.2**
PROJECTED YEAR-END GF/GP BALANCE	**$4,183.8**	**$3,353.5**	**$4,395.5**

Table 16

FY 2020-21, 2021-22, AND 2022-23 SCHOOL AID FUND (SAF) REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES (millions of dollars)	YTD FY 2020-21	YTD FY 2021-22	Estimated FY 2022-23
Revenue:			
Beginning Balance	$1,190.5	$2,865.4	$3,381.4
Ongoing Revenue:			
Consensus Revenue Estimate (August 2020)	$13,501.9	$14,053.5	
Consensus Revenue Change (Jan. 2021)	528.3	370.2	
Consensus Revenue Estimate (Jan. 2021)	$14,030.2	$14,423.7	$14,730.4
Consensus Revenue Change (May 2021)	1,002.2	707.3	697.2
Consensus Revenue Estimate (May 2021)	$15,032.4	$15,131.0	$15,427.6
SFA Revenue Change (January 2022)	1,001.0	786.2	627.5
SFA Revenue Forecast (January 2022)	$16,033.4	$15,917.2	$16,055.1
Other Revenue Adjustments:			
General Fund/General Purpose Grant	$54.5	$73.9	$73.9
Community District Education Trust Fund	79.8	72.0	72.0
Federal Ongoing Aid	1,806.9	1,822.5	1,822.5
Subtotal Ongoing Revenue	$17,974.6	$17,885.6	$18,023.5
Non-ongoing Revenue:			
Federal Stimulus	$6,055.7	$202.0	$83.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	0.0	11.5	14.6
Subtotal Non-Ongoing Revenue	$6,055.7	$213.5	$97.6
Total Estimated School Aid Fund Revenue	**$25,220.8**	**$20,964.5**	**$21,502.4**
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	$15,430.2	$16,553.0	$16,233.7
Cost Adjustments (January 2022)	0.0	(319.3)	(48.2)
Fund Community Colleges with School Aid Fund	425.7	428.2	434.3
Partially Fund Higher Education with School Aid Fund	356.1	361.4	362.5
Subtotal Ongoing Appropriations	$16,211.9	$17,023.3	$16,982.3
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	$95.0	$425.1	$0.0
Initial One-Time Community College Appropriations	12.7	3.2	0.0
Higher Education Federal Maintenance of Effort	0.0	131.5	0.0
Enacted Supplementals (PA 143, 227, 586 of '18, PA 162 of '19, PA 3 of 2021)	1,009.2	0.0	0.0
Enacted Supplementals (PAs 47 and 48 of 2021)	5,185.7	0.0	0.0
Estimated Lapses/Year End Change	(159.1)	0.0	0.0
Subtotal One-Time and Other Appropriations	$6,143.5	$559.9	$0.0
Total Estimated School Aid Fund Expenditures	**$22,355.4**	**$17,583.2**	**$16,982.3**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	**$2,865.4**	**$3,381.4**	**$4,520.1**