



**MICHIGAN'S
ECONOMIC OUTLOOK
AND BUDGET REVIEW**

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

May 17, 2022



THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge, the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.
2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



Kathryn R. Summers, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2768

www.senate.michigan.gov/sfa

ACKNOWLEDGEMENT

This Economic Outlook and Budget Review was prepared and written by David Zin, Chief Economist; Ryan Bergan, Economist and Fiscal Analyst; and Kathryn Summers, Director of the Senate Fiscal Agency. Linda Scott, Executive Assistant, coordinated the production of this report.

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY.....	1
ECONOMIC REVIEW AND OUTLOOK.....	3
RECENT U.S. ECONOMIC HIGHLIGHTS.....	3
RECENT MICHIGAN ECONOMIC HIGHLIGHTS.....	8
FORECAST SUMMARY.....	9
FORECAST RISKS.....	14
THE FORECAST FOR STATE REVENUE.....	22
REVENUE OVERVIEW.....	22
FY 2021-22 REVISED REVENUE ESTIMATES.....	27
FY 2022-23 REVISED REVENUE ESTIMATES.....	29
FY 2023-24 REVISED REVENUE ESTIMATES.....	31
MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2021-22 THROUGH FY 2023-24.....	34
REVENUE TRENDS.....	37
SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY.....	37
BUDGET STABILIZATION FUND.....	40
COMPLIANCE WITH STATE REVENUE LIMIT.....	44
THE REVENUE LIMIT.....	44
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED.....	44
REVENUE LIMIT COMPLIANCE PROJECTIONS.....	45
ESTIMATES OF YEAR-END BALANCES.....	47
FY 2021-22 YEAR-END BALANCE ESTIMATES.....	48
FY 2022-23 YEAR-END BALANCE ESTIMATES.....	49
FY 2023-24 STATE BUDGET OUTLOOK.....	50
CONCLUSION.....	51

EXECUTIVE SUMMARY

ECONOMIC FORECAST

The United States economy, as measured by inflation-adjusted gross domestic product (GDP), after expanding 5.7% during 2021, is predicted to grow more slowly over the forecast, slowing from 2.4% in 2021 to 2.0% in 2024. Light vehicle sales are forecasted to steadily rise from 14.9 million units in 2021 to 16.9 million units in 2024. After averaging 5.3% in 2021, the unemployment rate is expected to remain stable at about 3.7%. The Consumer Price Index (CPI) increased 4.7% in 2021, and it is estimated that it will rise more rapidly, at a 7.5% rate, in 2022, before slowing to 3.7% in 2023 and 2.6% in 2024.

The Michigan economy, as measured by inflation-adjusted personal income, after rising 0.9% in 2021, is estimated to contract 4.4% in 2022, before returning to growth of 1.1% in 2023 and 1.5% in 2024. Wage and salary employment is predicted to increase 3.6% during 2022, and then rise more slowly, growing 0.3% in 2023 and 0.4% in 2024, after increasing 3.8% in 2021.

REVENUE FORECAST

In fiscal year (FY) 2021-22, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated \$31.4 billion, a 7.9% increase from FY 2020-21 and \$2.8 billion above the January 2022 consensus estimate. General Fund/General Purpose revenue will total an estimated \$14.3 billion, a 10.3% increase from FY 2020-21, while SAF revenue will grow to an estimated \$17.0 billion, a 6.1% increase. The increases reflect Federal stimulus measures continuing to affect the economy and stock market gains in 2021.

In FY 2022-23, GF/GP and SAF revenue will total an estimated \$30.3 billion, a 3.6% decrease from the revised estimated for FY 2021-22 but \$1.1 billion more than the January 2022 consensus estimate. General Fund/General Purpose revenue will total an estimated \$13.6 billion, a 4.9% decrease from FY 2021-22 that reflects slowing economic growth and lower levels of capital gains. School Aid Fund revenue will total an estimated \$16.6 billion, a 2.4% decrease from FY 2021-22 that reflects slower economic growth as Federal stimulus measures are largely exhausted and consumers shift to purchasing more services, which generally are not subject to tax, as the service sector recovers.

In FY 2023-24, GF/GP and SAF revenue will total an estimated \$30.9 billion. This revised estimate for FY 2023-24 is 2.3% above the revised estimate for FY 2022-23. Continued, but slower, economic growth will allow GF/GP revenue to grow 3.2%, to \$14.1 billion while SAF revenue will rise to an estimated \$16.9 billion, a 1.5% increase.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2021-22 GF/GP budget will have a positive ending balance of \$5.3 billion. A comparison of the FY 2021-22 SAF revenue estimates and enacted and projected SAF appropriations produces a \$4.8 billion SAF balance.

Comparing the SFA's FY 2022-23 GF/GP revenue estimate with the Senate-passed appropriations bills leads to a \$4.0 billion balance in the FY 2022-23 GF/GP budget. The SFA's FY 2022-23 SAF revenue estimate, using the Senate-passed budget bills, results in a \$4.2 billion balance in the FY 2022-23 SAF budget.

If the SFA's FY 2023-24 GF/GP revenue estimate is compared with the FY 2023-24 ongoing GF/GP appropriations adjusted for a current services baseline, there is a projected \$4.7 billion GF/GP budget balance. If the SFA's FY 2023-24 SAF revenue estimate is compared with a continuation of the Senate-passed appropriations for FY 2022-23 into FY 2023-24, adjusted for estimated pupils and other costs, there is a projected \$4.9 billion budget balance.

EXECUTIVE SUMMARY

**SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY**

ECONOMIC PROJECTIONS (Calendar Year)					
	2020 Actual	2021 Actual	2022 Estimate	2023 Estimate	2024 Estimate
Real Gross Domestic Product (% change)	(3.4%)	5.7%	2.4%	2.3%	2.0%
US Consumer Price Index (% change)	1.2%	4.7%	7.5%	3.7%	2.6%
Light Motor Vehicle Sales (millions of units)	14.5	14.9	15.2	16.5	16.9
US Unemployment Rate (%)	8.1%	5.3%	3.7%	3.8%	3.7%
Real Michigan Personal Income (% change)	6.8%	0.9%	(4.4%)	1.1%	1.5%
Michigan Wage & Salary Employment (% change)	(9.1%)	3.8%	3.6%	0.3%	0.4%

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	\$16,100.0	(\$1,761.0)	\$14,339.0	\$15,000.4	(\$1,373.0)	\$13,631.4	\$15,344.6	(\$1,279.9)	\$14,064.7
% Change	8.4%	---	10.3%	(6.8%)	---	(4.9%)	2.3%	---	3.2%
School Aid Fund	\$16,960.5	67.5	\$17,028.0	\$16,765.5	(145.2)	\$16,620.3	\$17,024.0	(152.4)	\$16,871.6
% Change	4.6%	---	6.1%	(1.1%)	---	(2.4%)	1.5%	---	1.5%
Total GF/GP & SAF	\$33,060.5	(\$1,693.5)	\$31,367.0	\$31,769.9	(\$1,518.2)	\$30,251.7	\$32,368.6	(\$1,432.3)	\$30,936.3
% Change	6.4%	---	7.9%	(3.9%)	---	(3.6%)	1.9%	---	2.3%
Revenue Limit – Under (Over)		\$9,262.8			\$12,697.8			\$13,444.2	
	<u>FY 2021-22 Estimate</u>			<u>FY 2022-23 Estimate</u>			<u>FY 2023-24 Estimate</u>		
Revision from January Consensus									
GF/GP		\$1,889.3			\$739.3			\$750.4	
SAF		949.8			373.7			313.9	
Total		\$2,839.1			\$1,113.0			\$1,064.3	

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Estimate
General Fund/General Purpose.....	\$5,309.1	\$3,971.1	\$4,689.6
School Aid Fund	4,767.2	4,185.9	4,943.4
Budget Stabilization Fund (with enacted deposits)	\$1,415.1	\$1,465.1	\$1,513.4

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.
- Inflation-adjusted GDP surpassed the pre-COVID-19 peak in the second quarter of 2021, while payroll employment has not yet recovered.
- Significant shifts in consumption from services to goods have interacted with stimulus efforts, labor market and international trade disruptions related to COVID-19, and conflicts in the Ukraine to push inflation to the highest levels in approximately 40 years.

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% followed by a 31.2% decline (at an annual rate) during the second quarter of 2020. The reduction in inflation-adjusted GDP in the second quarter of 2020 represented the largest single quarterly decline in records going back to 1947 and 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. This reduction more than wiped out all the employment gains of the preceding 20 years and returned employment to levels not experienced since June 1999—before the 2001 recession ([Figure 1](#)).

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 2](#)). 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. Similarly, the decline in payroll employment vastly exceeded the job loss of any recession since World War II ([Figure 3](#)).

Between April 2020 and the first quarter of 2022, the economy grew consistently, with inflation-adjusted GDP surpassing the pre-COVID-19 peak by the second quarter of 2021. Despite a 1.4% decline during the first quarter of 2022 (due to reductions in both inventories and government spending as well as a rise in imports), inflation-adjusted GDP in the first quarter of 2022 was 2.8% above the pre-pandemic peak. In contrast, as of April 2022, payroll employment had yet to return to the pre-COVID-19 peak, although between January 2021 and April 2022 the economy has added an average of 551,000 payroll jobs per month. The combination of job growth and many people, particularly older individuals, leaving the labor force resulted in the unemployment rate declining from a high of 14.7% in April 2020 to 3.6% in April 2022, barely above the 3.5% rate in February 2020.

Figure 1

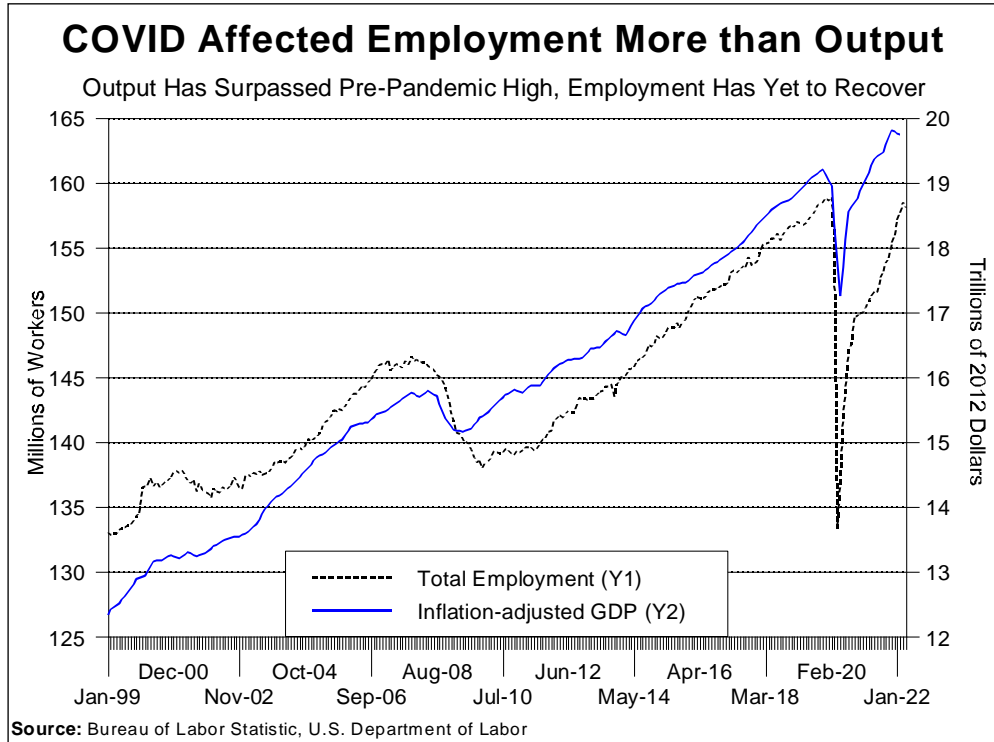


Figure 2

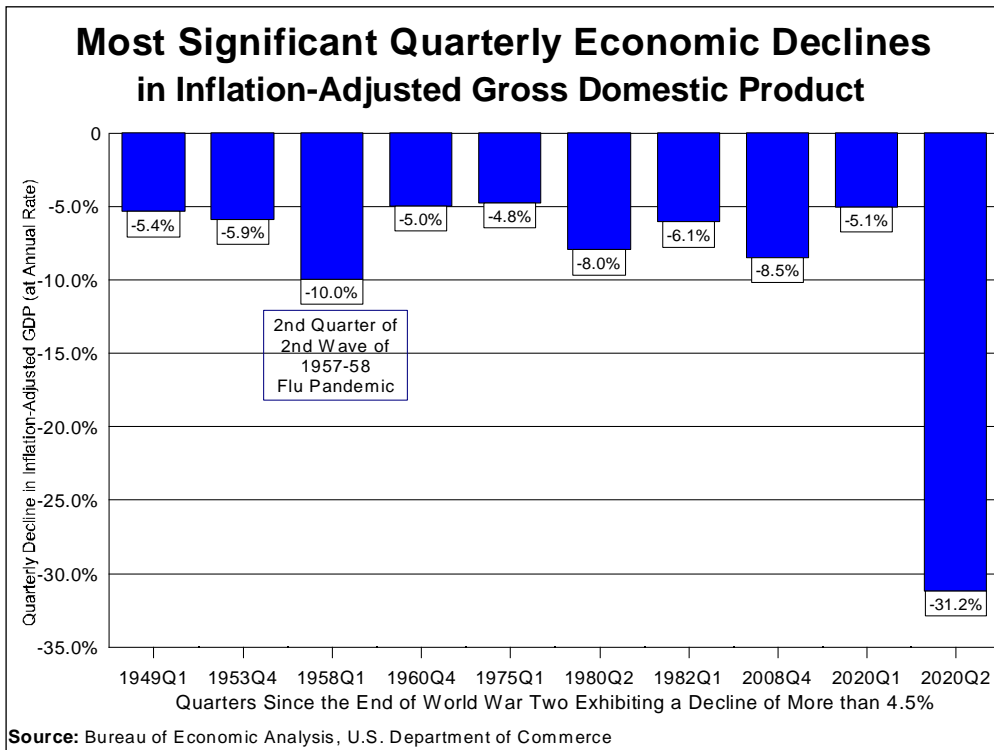
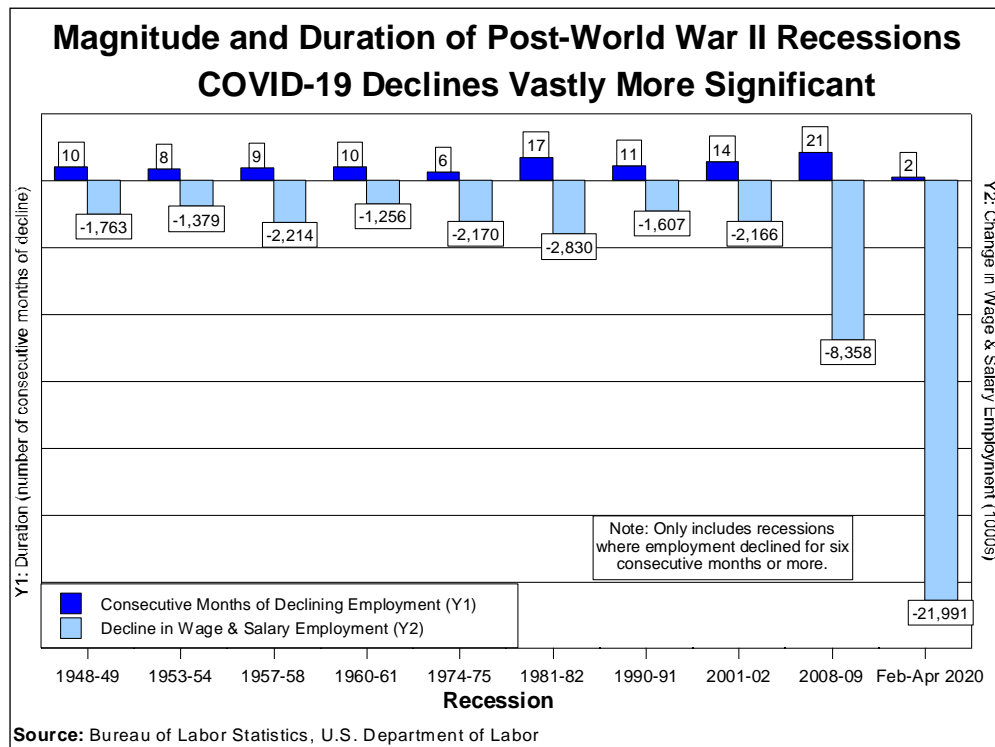


Figure 3



The recovery has affected different sectors of the economy differently. The private service-producing sector was particularly hurt by the pandemic, while the goods-producing sector saw output rise well above trend once the recovery began. Inflation-adjusted personal consumption spending on services did not recover to the pre-pandemic peak until the first quarter of 2022, while spending on goods had recovered by the first quarter of 2021. During the first quarter of 2022, inflation-adjusted spending on goods was 15.6% above the pre-pandemic peak (durable goods spending was up 22.2%) while services spending was up only 0.3% (Figure 4). Despite the shifts in spending, firms in both sectors have not increased hiring at the same rate at which output has risen. As a result, in April 2022 goods-producing employment was down 0.6% from the pre-pandemic peak, while private service-producing employment was down 0.3% (Figure 5).

The shift in spending from services to goods during the pandemic and recovery produced significant dislocation in the economy. Goods producers struggled to find both workers and raw materials for the higher output that consumers were demanding, and these shortages were amplified by disruptions in supply chains (both in terms of foreign and domestic transportation disruptions and pandemic impacts affecting production of supplies and parts in other countries). Significant fiscal and monetary stimulus efforts, both in the United States and abroad, meant that the recessionary impact of the pandemic recession was largely mitigated, but also added to these dislocations by keeping consumer demand high. The Russian invasion of Ukraine, and resulting economic sanctions on Russia, have exacerbated the existing disruptions in the economy and added additional ones.

As a result of these pressures, a wide swath of the economy has experienced inflation. After averaging 1.7% annual inflation in the GDP deflator and 1.8% annual inflation in the CPI between the end of 2010 and the end of 2019, the GDP deflator has averaged 4.1% average inflation since the end of 2019, while the CPI has averaged 4.9% annual inflation. The rate of inflation also has been rising as strong consumer demand, boosted by higher balances, rising consumer borrowing, economic growth, and strong stock market gains, continues to put pressure on firms to increase output, with inflation measured by the GDP deflator rising from a 4.3% annual rate in the first

quarter of 2021 to a 5.9% annual rate in the third quarter of 2021 and 8.0% in the first quarter of 2022 (Figures 6 and 7).

Figure 4

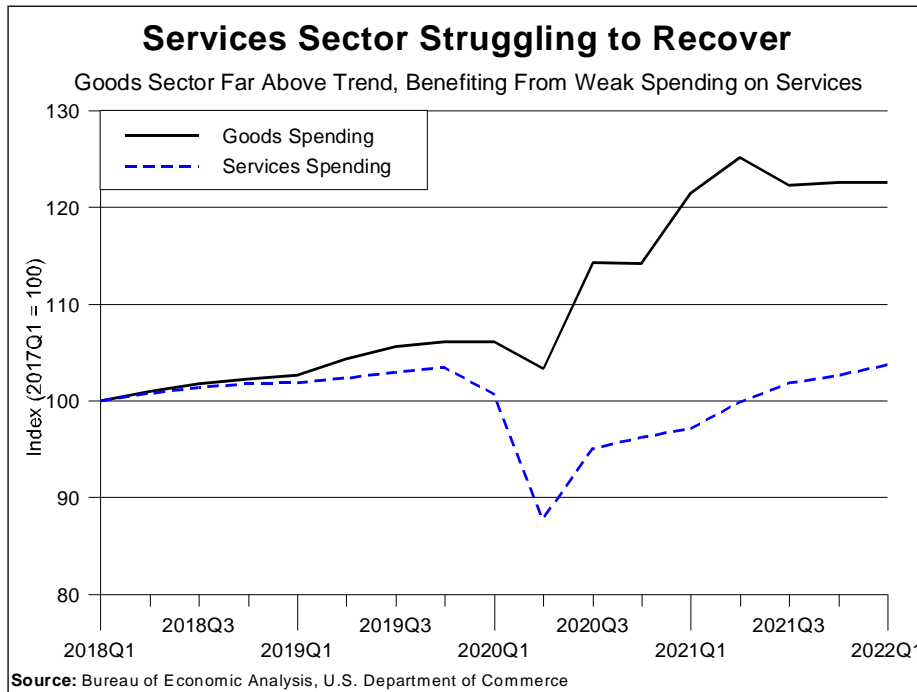


Figure 5

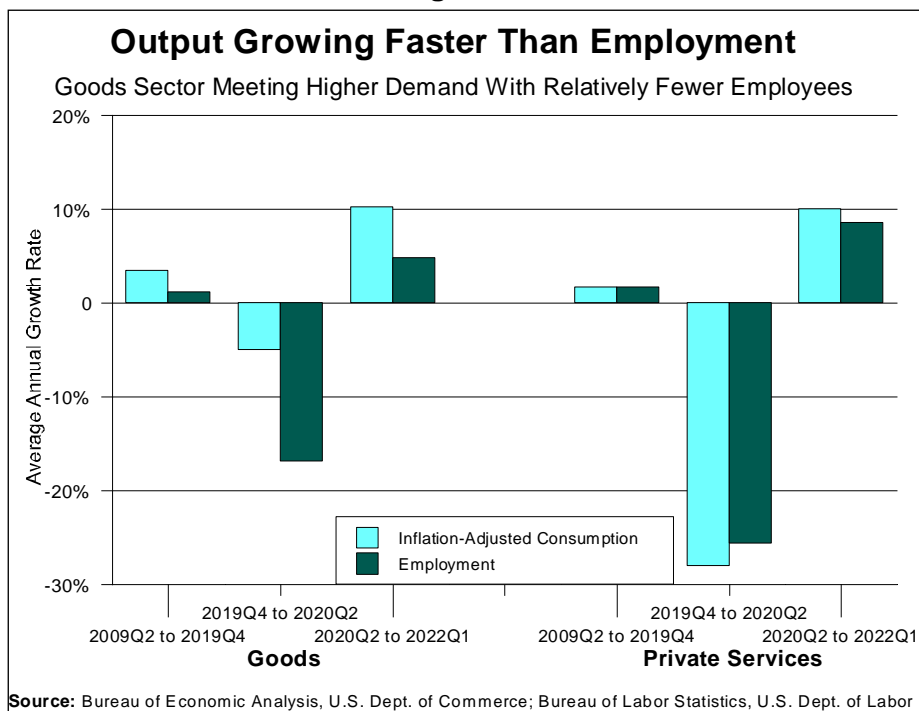


Figure 6

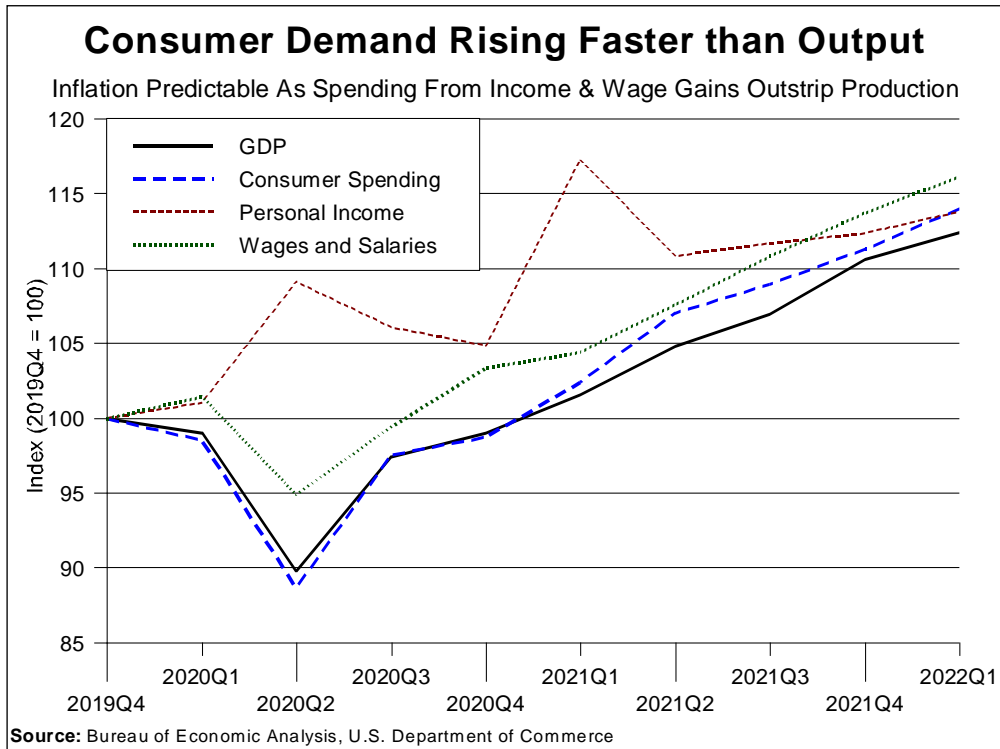
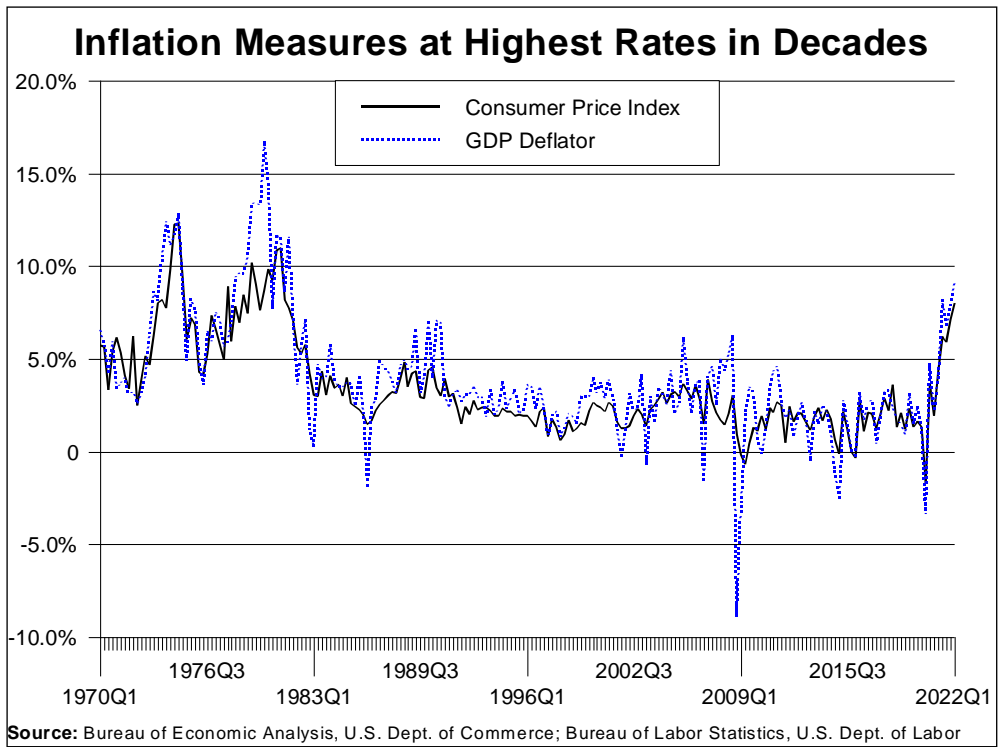


Figure 7



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 March 2022, payroll employment in Michigan was up 805,000 jobs from the April 2020 trough, but was still 2.7% below the level in February 2020 and roughly on par with the level in April 2016. 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 13.5% annual rate between April 2020 and March 2022. (Michigan ranks second, while Nevada ranks first at a 14.2% annual growth rate. Among the Great Lakes states, Indiana ranks 10th at 9.4%, with Illinois ranked 35th, Ohio ranked 23rd, and Wisconsin ranked 33rd.) 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 37th among states in

recovering to pre-COVID-19 employment levels (comparing March 2022 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.

Both the US and Michigan economies are expected to exhibit growth in 2022, 2023 and 2024, although the rate of growth will slow over the forecast and 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 2.4% in 2022, after growing 5.7% in 2021 (the most rapid increase in inflation-adjusted GDP since the 7.2% rise in 1984 and a marked change from the 3.4% decline during 2020). Inflation-adjusted GDP will expand 2.3% during 2023 and 2.0% in 2024. The expansion in 2022 primarily reflects strong consumption growth and strong business investment that will more than offset declines in transfer payments, government spending, and the United States' net trade position (exports minus imports).

While employment gains are expected to be strong in 2022, employment growth will slow in 2023 and 2024. During 2023 and 2024, 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 3.9% increase in 2022 to a 1.2% increase in 2023 and a 0.5% increase in 2024, and the US unemployment rate will fall from 5.3% in 2021 to 3.7% in 2022, rise to 3.8% in 2023, and fall again to 3.7% in 2024. To the extent that the forecast is correct, payroll employment will exceed the pre-pandemic recession peak during 2022.

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 that are expected to continue into 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 rise 7.5% this year, after a 4.7% increase in 2021, and will then slow to a 3.7% increase in 2023 and a 2.6% gain in 2024.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)					
	2020 Actual	2021 Actual	2022 Estimate	2023 Estimate	2024 Estimate
United States					
Nominal GDP (year-to-year growth)	(2.2%)	10.1%	9.0%	6.3%	4.6%
Inflation-Adjusted GDP (year-to-year growth)	(3.4%)	5.7%	2.4%	2.3%	2.0%
Unemployment Rate	8.1%	5.3%	3.7%	3.8%	3.7%
Wage & Salary Employment (year-to-year growth)	(5.8%)	2.8%	3.9%	1.2%	0.5%
Inflation					
Consumer Price Index (year-to-year growth)	1.2%	4.7%	7.5%	3.7%	2.6%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.2%	4.2%	6.5%	3.9%	2.5%
Interest Rates					
90-day Treasury Bill	0.37%	0.04%	1.15%	2.28%	2.11%
10-year Treasury Bill	0.89%	1.45%	2.81%	3.20%	3.23%
Corporate Aaa Bond	2.48%	2.70%	3.80%	4.26%	4.38%
Federal Funds Rate	0.38%	0.08%	1.22%	3.32%	3.22%
Light Motor Vehicle Sales (millions of units)					
Auto	14.5	14.9	15.2	16.5	16.9
Truck	3.4	3.4	3.0	3.2	3.1
	11.1	11.6	12.1	13.3	13.8
Michigan					
Personal Income (millions)	\$530,809	\$558,330	\$571,417	\$597,856	\$622,107
(year-to-year growth)	7.9%	5.2%	2.3%	4.6%	4.1%
Inflation-Adjusted Personal Income (year-to-year growth)	6.8%	0.9%	(4.4%)	1.1%	1.5%
Wage & Salary Income (millions)	\$242,644	\$264,563	\$290,049	\$301,061	\$311,738
(year-to-year growth)	(1.8%)	9.0%	9.6%	3.8%	3.5%
Detroit Consumer Price Index (year-to-year growth)	1.0%	4.3%	7.1%	3.5%	2.5%
Wage & Salary Employment (thousands)	4,039.3	4,193.5	4,342.6	4,353.6	4,372.6
(year-to-year growth)	-9.1%	3.8%	3.6%	0.3%	0.4%
Unemployment Rate	10.0%	5.9%	4.5%	4.7%	4.5%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2020	2021	2022	2023	2024
	Actual	Actual	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$20,893.7	\$22,996.1	\$25,067.0	\$26,642.2	\$27,868.8
Year-to-year growth	(2.2%)	10.1%	9.0%	6.3%	4.6%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2012 dollars)	\$18,384.7	\$19,427.3	\$19,888.0	\$20,351.3	\$20,765.2
Year-to-year growth	(3.4%)	5.7%	2.4%	2.3%	2.0%
Consumption (billions of 2012 dollars)	\$12,629.9	\$13,624.8	\$14,019.1	\$14,272.6	\$14,514.3
Year-to-year growth	(3.8%)	7.9%	2.9%	1.8%	1.7%
Business Fixed Investment (billions of 2012 dollars)	\$2,671.1	\$2,868.5	\$3,066.2	\$3,196.7	\$3,304.6
Year-to-year growth	(5.3%)	7.4%	6.9%	4.3%	3.4%
Change in Business Inventories (billions of 2012 dollars)	(\$42.3)	(\$32.6)	\$107.2	\$79.0	\$75.6
Residential Investment (billions of 2012 dollars)	\$648.0	\$707.7	\$694.8	\$667.5	\$685.6
Year-to-year growth	6.8%	9.2%	(1.8%)	(3.9%)	2.7%
Government Spending (billions of 2012 dollars)	\$3,360.2	\$3,376.3	\$3,326.0	\$3,336.7	\$3,364.8
Year-to-year growth	2.5%	0.5%	(1.5%)	0.3%	0.8%
Net Exports (billions of 2012 dollars)	(\$942.7)	(\$1,284.4)	(\$1,516.1)	(\$1,337.9)	(\$1,312.2)
Exports (billions of 2012 dollars)	\$2,207.6	\$2,307.5	\$2,400.2	\$2,490.3	\$2,583.6
Imports (billions of 2012 dollars)	\$3,150.3	\$3,591.9	\$3,916.2	\$3,828.1	\$3,895.8
Personal Income (year-to-year growth)	6.5%	7.4%	2.7%	5.2%	5.0%
Adjusted for Inflation	5.2%	2.6%	(4.5%)	1.5%	2.3%
Wage & Salary Income (year-to-year growth)	1.3%	9.3%	9.5%	5.9%	4.9%
Personal Saving Rate	16.6%	12.3%	5.9%	5.4%	5.9%
Output per hour (Labor productivity, annual growth)	2.4%	1.9%	(0.6%)	2.1%	2.3%
Unit labor costs (annual growth)	4.5%	3.5%	6.6%	3.1%	2.7%
Housing Starts (millions of units)	1.380	1.601	1.623	1.498	1.546
Conventional Mortgage Rates	3.1%	3.0%	4.5%	4.9%	5.0%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$3,110.0)	(\$2,788.5)	(\$1,279.6)	(\$895.2)	(\$934.5)

In Michigan, both job growth and personal income growth are expected to be slower than the national average (Figures 8 and 9). After having increased 6.8% in 2020 and 0.9% in 2021, inflation-adjusted personal income is projected to decline 4.4% in 2022, reflecting the exhaustion of various Federal stimulus efforts. Inflation-adjusted personal income is expected to rise 1.1% in 2023 and 1.5% in 2024. Payroll employment fell 9.1% during 2020 and rose 3.8% in 2021, and the forecast predicts payroll employment will increase 3.6% in 2022, 0.3% in 2023 and 0.4% in 2024. Nationally, light vehicle sales are expected to rise from 14.9 million units in 2021 to 15.2 million units in 2022, 16.5 million units in 2023, and 16.9 million units in 2024 (Figure 10). The Michigan unemployment rate, which averaged 10.0% during 2020 and 5.9% in 2021, is expected to decline to 4.5% in 2022, where it will remain fairly stable, averaging 4.7% in 2023 and 4.5% in 2024.

Compared with the January 14, 2022, CREC forecast, forecasted economic growth is expected to be slightly weaker for both the national and Michigan economies. Employment growth is expected to be stronger in 2022, but slower in 2023 and 2024, while inflationary pressures are expected to be greater.

Figure 8

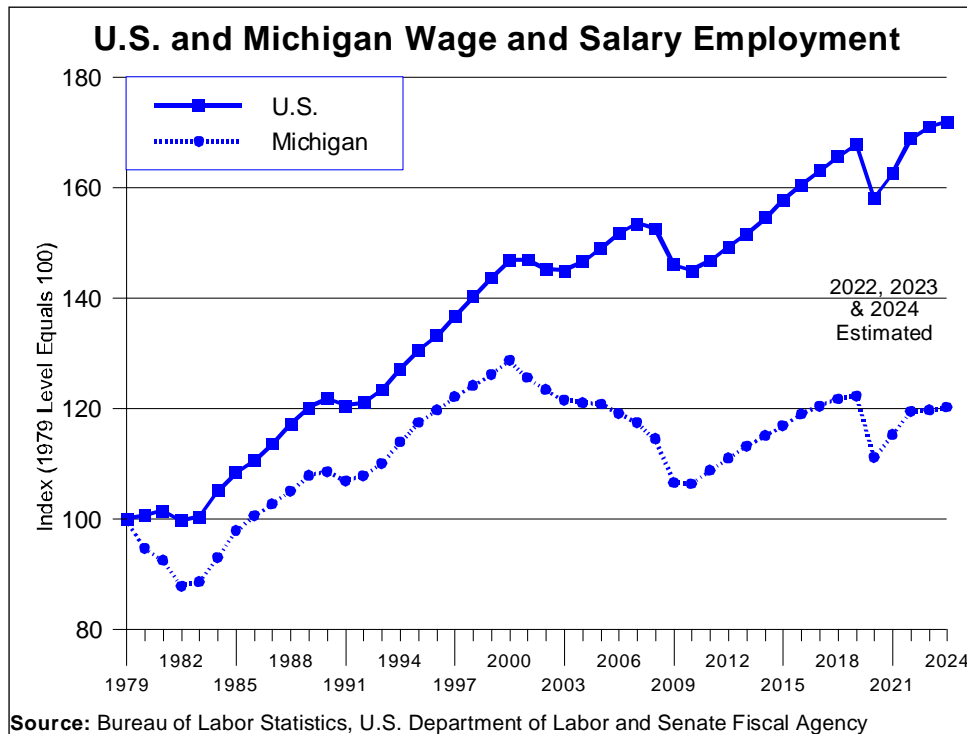


Figure 9

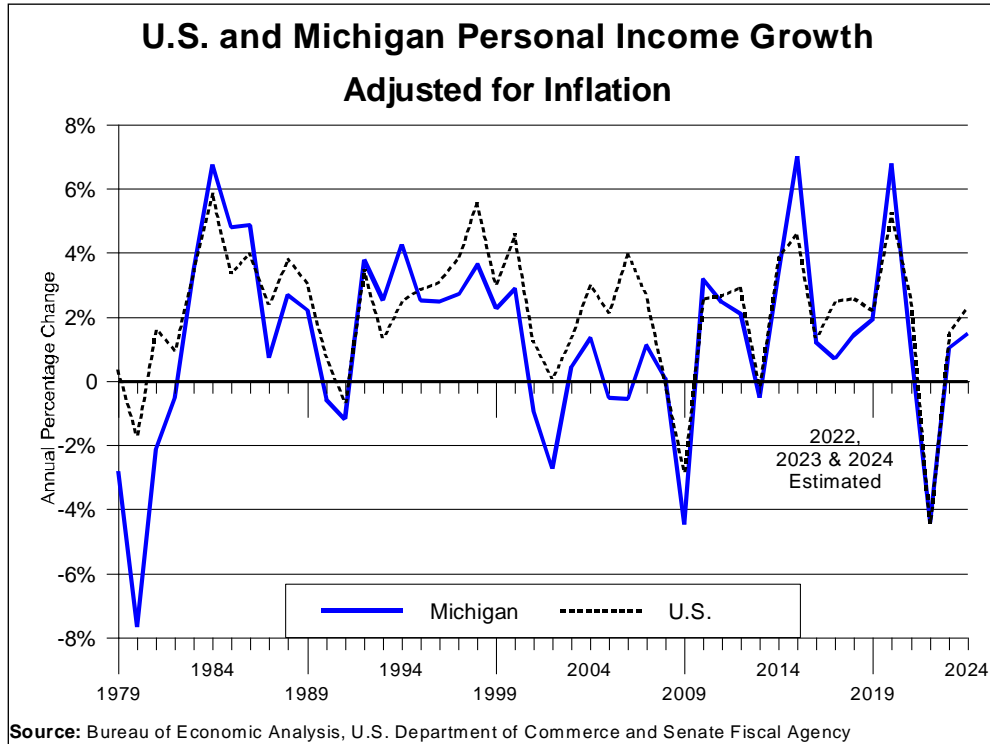
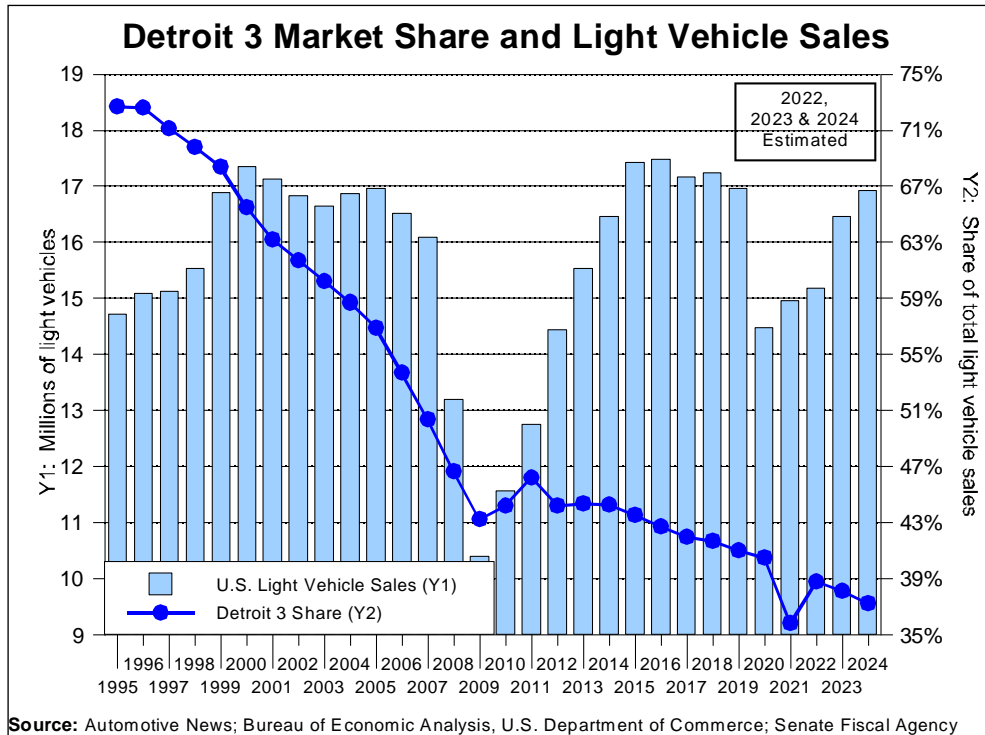


Figure 10



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 remain in the near-term but will decline as a result of aggressive Federal Reserve monetary policy and as consumer spending patterns return to historical norms. 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.

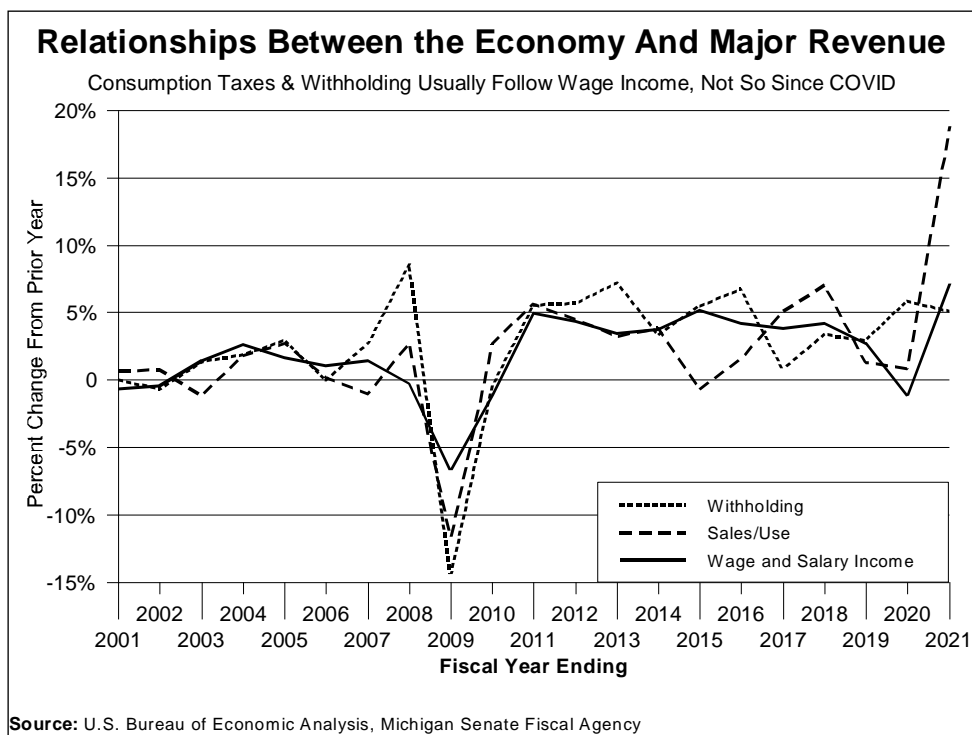
COVID-19 and Traditional Economic Relationships. Traditionally, when employment falls spending declines. During recessions, spending generally declines by less than employment because consumers use debt, credit, and savings to smooth spending. Transfer payments, whether in the form of stimulus checks, 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. Furthermore, unlike most previous recessions, supply constraints played a major role in the slowdown as pandemic-related issues restricted the availability of labor or the ways in which labor could be utilized. In 2020, the traditional relationship between spending and employment, where both tend to move in the same direction, did not follow historical patterns. 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 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 (IIT) withholding rose 2.3%. Although payroll employment has continued to recover between April 2020 and March 2022, March 2022 payroll employment remained 2.7% 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 and through April 2022 was averaging 17.0% growth above the 2021 levels. (Figure 11). 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.

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, not until sometime during 2022.

Figure 11



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 in 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, the Federal government implemented fiscal and monetary policies 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 -5.4% of GDP in 2022 and -3.5% in 2023 and 2024. Monetary policy is expected to be contractionary, as the Federal Reserve seeks to rein in the possibility of long-term inflationary expectations rising. The Federal Reserve ended security purchases (another mechanism available to lower long-term interest rates) before March 2022 and

increased interest rates in March 2022 for the first time since December 2018. Interest rates are expected to rise steadily throughout the forecast, with the Federal Funds rate reaching 2.50% by the end of 2022 and 3.50% by mid-2023. 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 12](#)). Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return ([Figure 13](#)). If 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 12

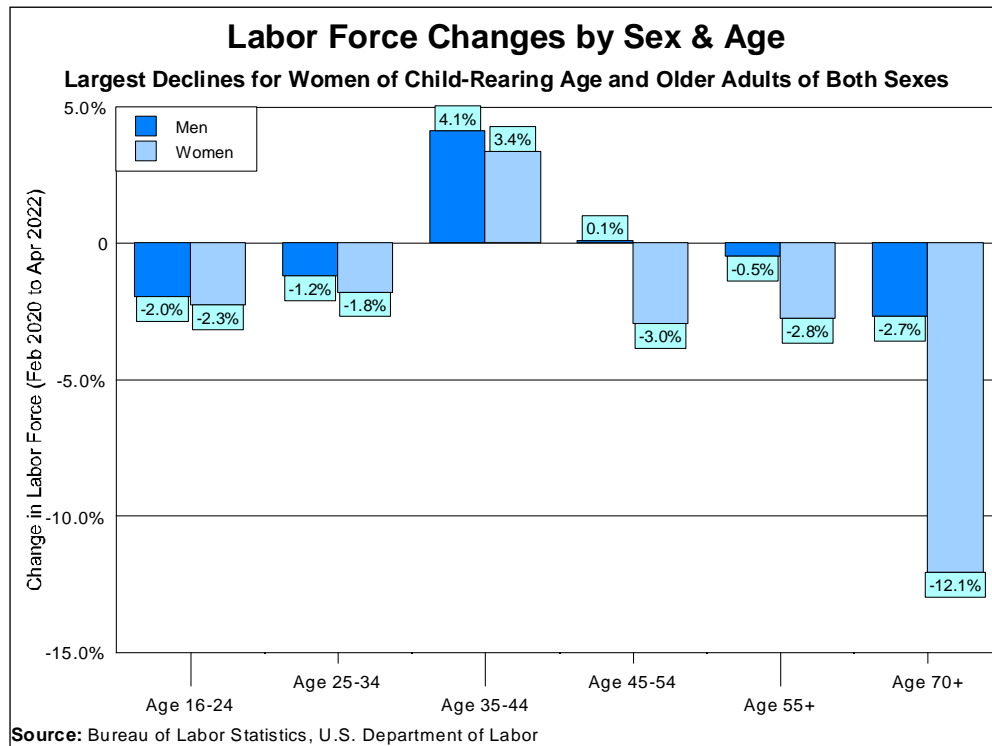
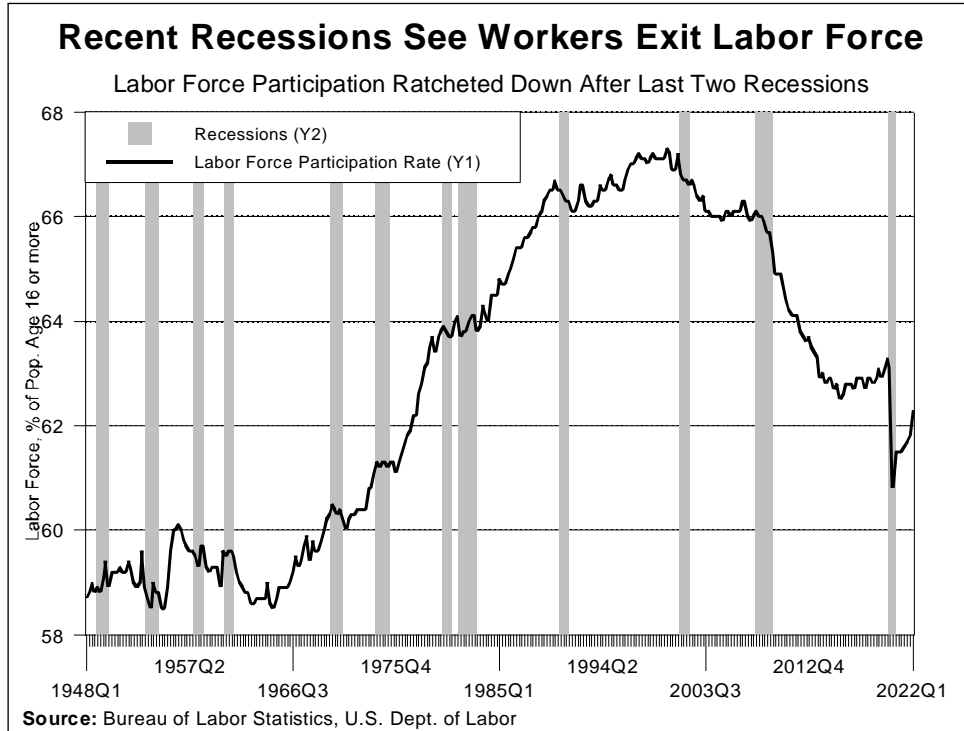


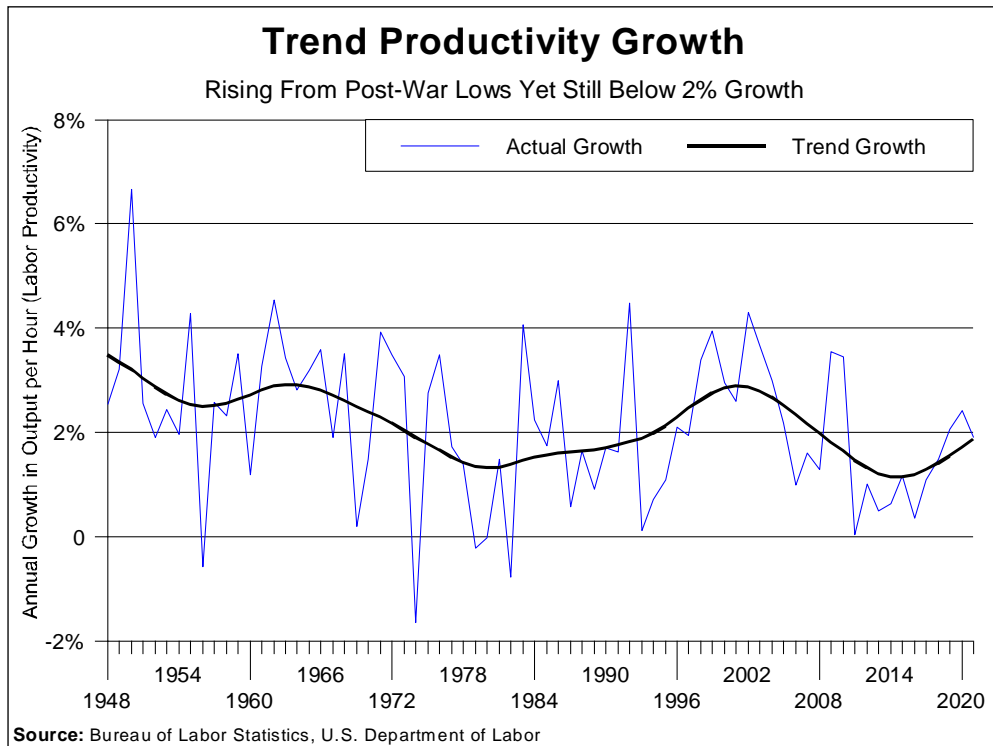
Figure 13



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 between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 14). 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. While productivity increased more rapidly in 2020 and 2021, it remains to be seen if the gains can be sustained.

In 2023 and 2024, 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.

Figure 14



Michigan's Situation. While over the 2000-2009 period Michigan's employment situation fared worse than the national average and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not inconsistent with other states when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) experienced weaker job performance during that decade, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive but have reduced the need for hiring additional employees to meet increased demand.

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 15). 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.

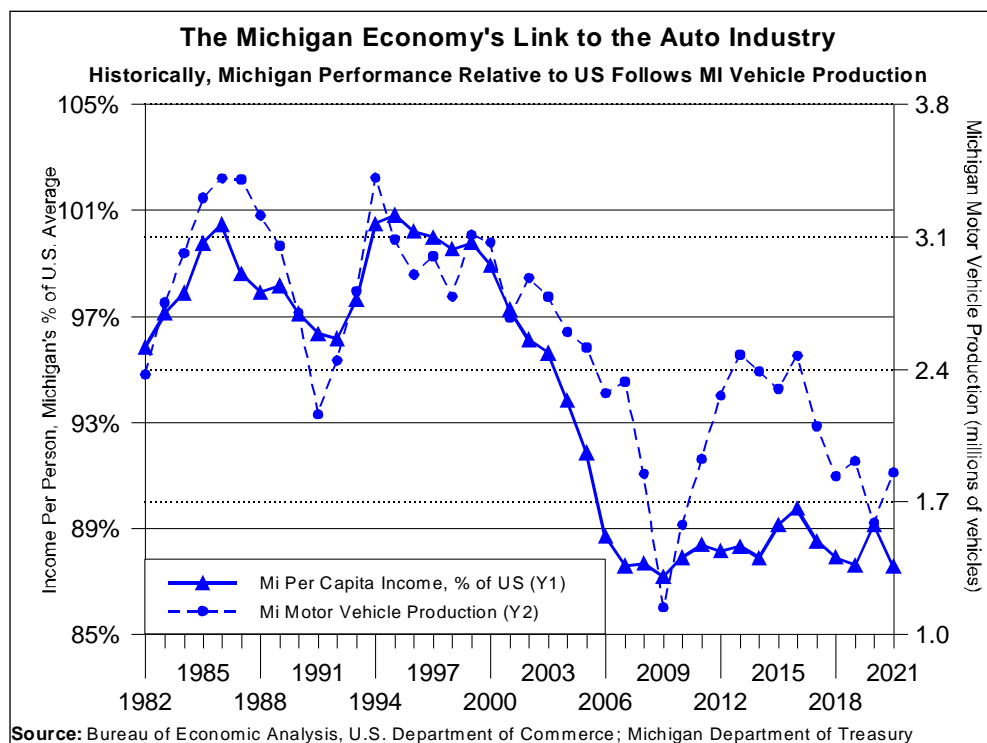
However, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that those production needs can be met with existing, or even lower, employment levels than those at the end of 2019. As a result, as of June 2009, Michigan 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 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 15



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's revised estimates for GF/GP and SAF revenue for FY 2021-22, FY 2022-23, and 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. 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, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2021-22 and FY 2022-23 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2021-22, FY 2022-23, and FY 2023-24 are presented in [Table 3](#) and are summarized below.

FY 2021-22 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$31.4 billion in FY 2021-22.
- The revised estimate for FY 2021-22 is up 7.9%, or \$2,307.0 million, from final revenue for FY 2020-21.
- The revised estimate for FY 2021-22 is \$2,839.1 million above the January 2022 consensus revenue estimate.
- The revenue increase in FY 2021-22 primarily reflects Michigan economic activity growing with a significant boost from rescue and stimulus measures at the Federal level.

FY 2022-23 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$30.3 billion in FY 2022-23.
- This revised estimate for FY 2022-23 is 3.6%, or \$1,115.3 million, less than the revised estimate for FY 2021-22.
- The revised estimate for FY 2022-23 is \$1,113.0 million above the January 2022 consensus revenue estimate.
- The revenue decrease in FY 2022-23 reflects reduced economic activity as the boost from Federal rescue and stimulus measures wanes.

FY 2023-24 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$30.9 billion in FY 2023-24.
- This revised estimate for FY 2023-24 is up 2.3%, or \$684.6 million, from the revised estimate for FY 2022-23.
- The revised estimate for FY 2023-24 is \$1,064.3 million above the January 2022 consensus revenue estimate.
- The revenue increase in FY 2023-24 reflects increased economic activity, mostly reflected in increased individual income and sales taxes.

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	FY 2021-22	FY 2022-23	FY 2023-24
	Final	Revised Est.	Revised Est.	Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$14,847.8	\$16,100.0	\$15,004.4	\$15,344.6
Tax Changes Not In Baseline	(1,844.1)	(1,761.0)	(1,373.0)	(1,279.9)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	7,713.6	8,805.5	8,437.4	8,729.5
MBT, Corp. Income Tax, SBT & Insur. Tax	1,567.2	1,843.2	1,621.4	1,683.7
Other Taxes	3,223.4	3,261.2	3,134.5	3,203.4
Total Taxes	12,504.2	13,909.9	13,193.3	13,616.6
Nontax Revenue	499.4	429.1	438.1	448.1
TOTAL GF/GP REVENUE	\$13,003.6	\$14,339.0	\$13,631.4	\$14,064.7
SCHOOL AID FUND				
Baseline SAF	\$16,220.5	\$16,960.5	\$16,765.5	\$17,024.0
Tax Changes Not In Baseline	(164.1)	67.5	(145.2)	(152.4)
TOTAL SAF REVENUE	\$16,056.4	\$17,028.0	\$16,620.3	\$16,871.6
BASELINE GF/GP AND SAF REVENUE				
Tax & Revenue Changes	\$31,068.2	\$33,060.5	\$31,769.9	\$32,368.6
GF/GP & SAF REV. AFTER CHANGES	\$29,060.0	\$31,367.0	\$30,251.7	\$30,936.3
SALES TAX	\$9,414.8	\$10,003.6	\$9,923.5	\$10,075.7
Percent Change				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	24.2%	8.4%	(6.8%)	2.3%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	12.3	14.2	(4.2)	3.5
MBT, Corp. Income Tax, SBT & Insur. Tax	57.1	17.6	(12.0)	3.8
Other Taxes	29.8	1.2	(3.9)	2.2
Total Taxes	20.8	11.2	(5.2)	3.2
Nontax Revenue	17.7	(14.1)	2.1	2.3
TOTAL GF/GP REVENUE	20.7%	10.3%	(4.9%)	3.2%
SCHOOL AID FUND				
Baseline SAF	15.3%	4.6%	(1.1%)	1.5%
TOTAL SAF REVENUE	14.8%	6.1%	(2.4%)	1.5%
BASELINE GF/GP AND SAF REVENUE				
GF/GP & SAF REV. AFTER CHANGES	17.3%	7.9%	(3.6%)	2.3%
SALES TAX	13.3%	6.3%	(0.8%)	1.5%

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

Historical Perspective

- Net GF/GP and SAF revenue increased 17.3% in FY 2020-21 and is forecast to increase in FY 2021-22 and decrease in FY 2022-23 before increasing again in FY 2023-24. The projected growth rates are 7.9% in FY 2021-22, -3.6% 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 rose to its highest level ever in FY 2020-21 and was 69.3% (\$5,325.1 million) above the recession low in FY 2009-10 . This comparison does not adjust for inflation.
- Compared to the recession low in FY 2009-10, ongoing GF/GP revenue in FY 2021-22 is forecast to be 86.7% (\$6,660.4 million) higher. In FY 2022-23, ongoing GF/GP revenue is forecast to decline slightly, but still will be 77.5% (\$5,952.8 million) above the recession low in FY 2009-10. In FY 2023-24, ongoing GF/GP revenue is forecast to be 83.2% (\$6,386.1 million) above the recession low in FY 2009-10.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and has 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 low in FY 2011-12. This comparison does not adjust for inflation.
- Final SAF revenue from ongoing sources in FY 2020-21 was 47.6% (\$5,177.5 million) above the low from FY 2011-12, without adjusting for inflation.
- Compared to the low in FY 2011-12, ongoing SAF revenue in FY 2021-22 is forecast to be 56.5% (\$6,149.1 million) higher. In FY 2022-23, ongoing SAF revenue is forecast to decline slightly, but still will be 52.8% (\$5,741.4 million) above the FY 2011-12 level. In FY 2023-24, ongoing SAF revenue is forecast to be 55.1% (\$5,992.7 million) above the FY 2011-12 level.

Baseline revenue is forecast to increase in FY 2021-22, and then decrease in FY 2022-23 before increasing again in FY 2023-24. [Figure 16](#) presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2020-21 base year) from FY 1986-87 through the revised estimate for FY 2023-24. During this 36-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 19.4% in FY 2020-21. Using the FY 2020-21 base year, baseline GF/GP and SAF revenue is expected to increase approximately 6.4% in FY 2021-22, then decrease 3.9% in FY 2022-23, and increase 1.9% in FY 2023-24.

[Figure 17](#) 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 adopted. Before FY 2020-21, 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 due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (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 18](#), which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2021-22 will be approximately 10.3% (or \$1,335.3 million) above the peak GF/GP revenue level in FY 2020-21 (without accounting for inflation). The estimated GF/GP revenue of \$13.6 billion in FY 2022-23 is 4.8% above the peak, and initial estimates for FY 2023-24 are 8.2% above the peak level. In inflation-adjusted terms, FY 2023-24 GF/GP revenue is estimated to be 0.1% (or \$5.9 million) above 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 increase in FY 2021-22, fall slightly in FY 2022-23, and then continue sustained growth in FY 2023-24. In FY 2023-24, SAF revenue is predicted to be approximately

137.3% (\$9.6 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 3.2% (\$397.3 million) below if adjusted for inflation, as shown in Figure 19.

Figure 16

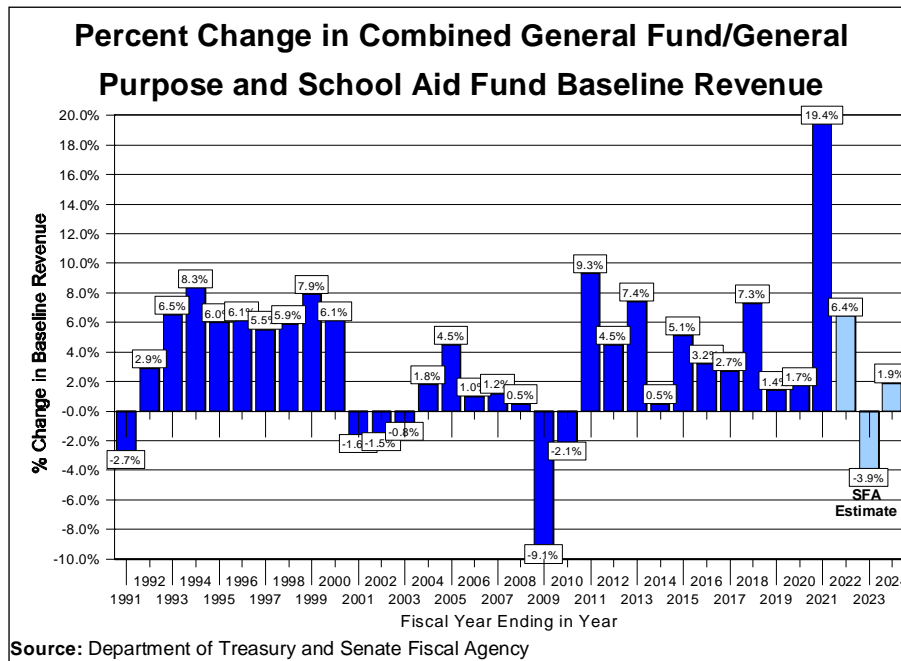


Figure 17

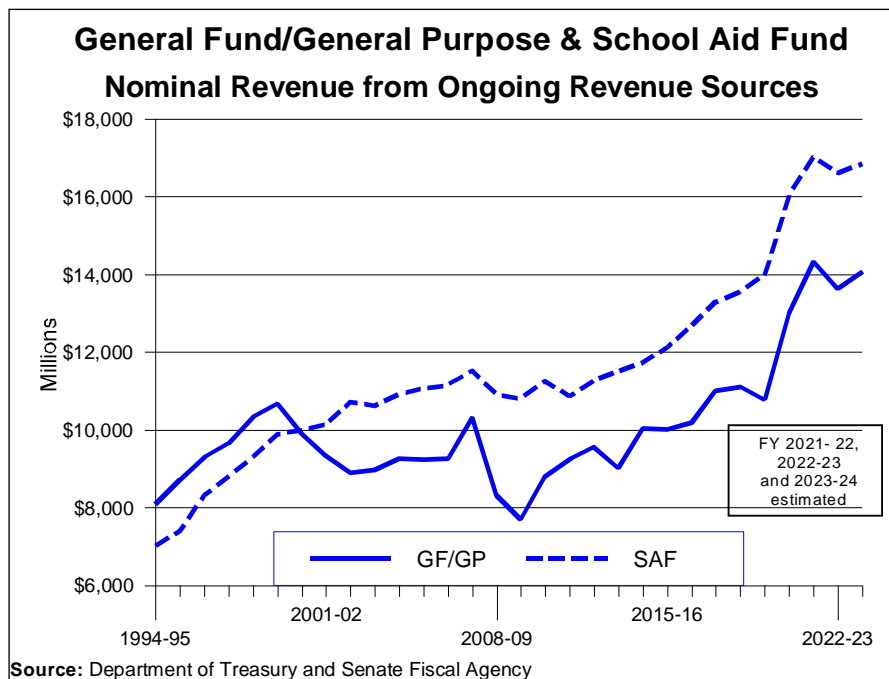


Figure 18

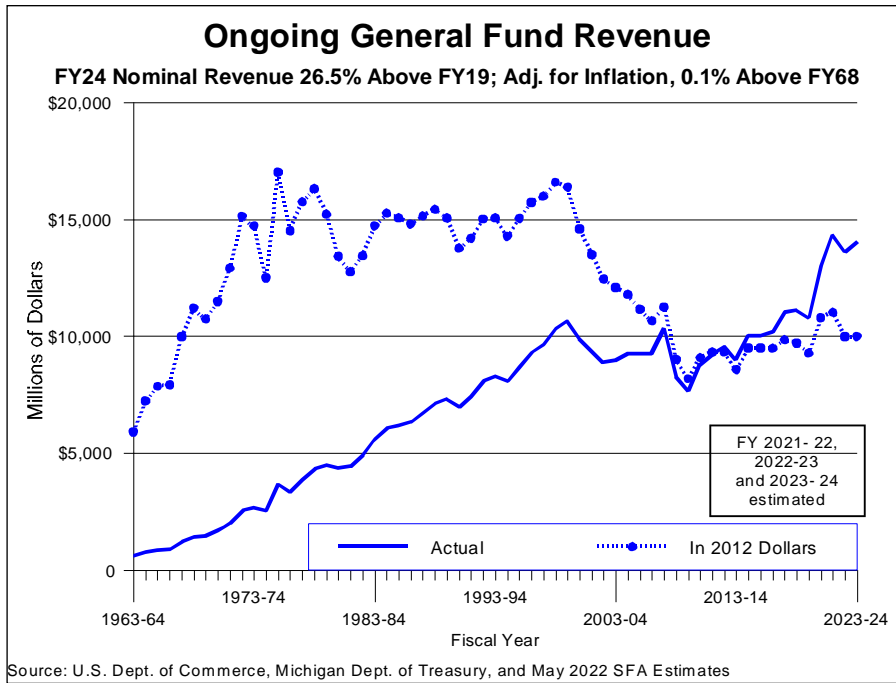
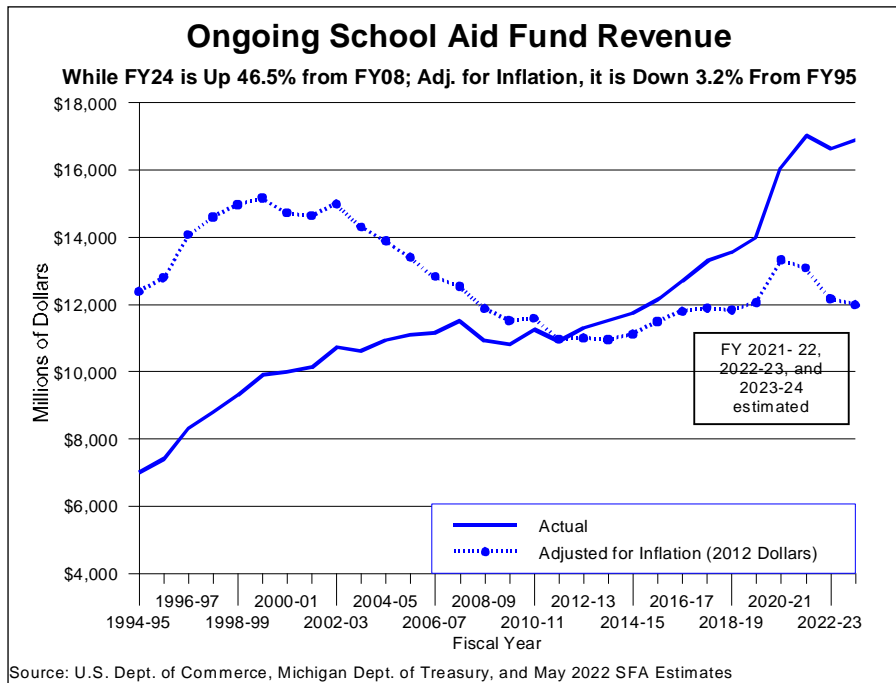


Figure 19



FY 2021-22 REVISED REVENUE ESTIMATES

Michigan's economy is expected to grow during FY 2021-22. Personal income will increase 2.3%, wage and salary employment will increase 3.6%, and wage and salary income will increase 9.6% from FY 2020-21. Total GF/GP and SAF revenue will reach an estimated \$31.4 billion in FY 2021-22, an increase of 7.9%, or \$2,307.0 million, from the final revenue for FY 2020-21. On a baseline basis, GF/GP and SAF revenue is expected to increase 6.4% in FY 2021-22, reflecting an economy facing headwinds from the COVID-19 pandemic but boosted by significant aid at the Federal level. The revised estimate of GF/GP and SAF revenue for FY 2021-22 is \$2,839.1 million above the January 2022 consensus forecast and is summarized in [Table 4](#).

Tax Policy Changes

Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by \$112.5 million (\$85.7 million GF/GP and \$26.8 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). Timing issues related to the new flow-through entity tax will reduce GF/GP by \$189.9 million and increase SAF by \$189.9 million.

Personal Property Tax Reform. Use tax collections of \$521.3 million in FY 2021-22 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 \$135.0 million. The General Fund will reimburse the SAF \$1.5 million from GF/GP use tax revenue to replace the loss of State Education Tax (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. Businesses that continue to file under the MBT do so in order to claim tax credits. All of the impact of MBT credits reduces GF/GP revenue.

Sales and Use Tax. 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 \$4.2 million (\$3.8 million GF/GP and \$400,000 other funds, primarily constitutional revenue sharing). The exemption for data center equipment will reduce sales and use taxes by \$2.5 million (\$2.3 million GF/GP and \$200,000 other funds, primarily constitutional revenue sharing).

Federal Tax Reform and the COVID-19 Relief Measures. Changes to the IIT and Corporate Income Tax (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 \$20.5 million (\$16.2 million GF/GP and \$4.3 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 \$115.5 million (\$111.8 million GF/GP and \$3.7 million SAF). Tax changes related to the ARP Act, passed in March 2021, will reduce IIT revenue by \$258.2 million (\$229.2 million GF/GP and \$29.0 million SAF).

Other Changes. The historic preservation tax credit will reduce GF/GP revenue by \$3.5 million. The IIT deduction for gambling losses will reduce revenue by \$12.0 million (\$10.1 million GF/GP and \$1.9 million SAF).

Table 4
FY 2021-22 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2020-21 Final	FY 2021-22 Revised Est.	Change from FY 2020-21		\$ Change from 01/22 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$14,847.8	\$16,100.0	\$1,252.2	8.4%	\$2,049.7
Tax Changes Not In Baseline Revenue After Tax Changes	(1,844.1)	(1,761.0)	83.1	----	(160.4)
<u>Personal Income Tax</u>					
Gross Collections	\$14,538.4	\$16,814.3	\$2,275.9	15.7%	\$2,087.1
Less: Refunds	(2,696.9)	(3,308.1)	(611.2)	22.7	(469.9)
Net Income Tax Collections	11,841.5	13,506.2	1,664.7	14.1	1,617.2
Less: Earmarking to SAF	(3,458.3)	(4,030.9)	(572.6)	16.6	(524.6)
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)	(0.8)	(0.2)	----	0.0
Net Income Tax to GF/GP	\$7,713.6	\$8,805.5	\$1,091.9	14.2%	\$1,092.6
<u>Other Taxes</u>					
Corporate Income Tax	1,701.8	2,045.1	343.3	20.2	583.5
Michigan Business Tax	(490.5)	(594.3)	(103.8)	----	0.0
Sales	1,470.7	1,568.5	97.8	6.6	119.2
Use	1,258.3	1,193.9	(64.4)	(5.1)	24.8
Cigarette	177.0	161.9	(15.1)	(8.5)	(13.1)
Insurance Company Premiums	354.8	392.4	37.6	10.6	12.4
Telephone & Telegraph	32.4	32.0	(0.4)	(1.2)	0.0
Oil & Gas Severance	20.9	38.6	17.7	84.7	16.6
All Other	265.2	266.3	1.1	0.4	13.3
Subtotal Other Taxes	\$4,790.6	\$5,104.4	\$313.8	6.6%	\$756.7
Total Nontax Revenue	499.4	429.1	(70.3)	(14.1)	40.0
GF/GP REV. AFTER TAX CHANGES	\$13,003.6	\$14,339.0	\$1,335.4	10.3%	\$1,889.3
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$16,220.5	\$16,960.5	\$740.0	4.6%	\$862.3
Tax Changes Not In Baseline Revenue After Tax Changes	(164.1)	67.5	231.6	----	87.5
Sales Tax	6,857.6	7,288.7	431.1	6.3	431.0
Use Tax	876.1	860.4	(15.7)	(1.8)	12.5
Lottery Revenue	1,419.8	1,240.5	(179.3)	(12.6)	(39.5)
State Education Property Tax	2,256.4	2,400.4	144.0	6.4	40.4
Real Estate Transfer Tax	490.3	544.3	54.0	11.0	56.8
Income Tax	3,458.3	4,030.9	572.6	16.6	524.6
Gaming Tax	181.1	177.4	(3.7)	(2.0)	(49.6)
Other Revenue	516.8	485.4	(31.4)	(6.1)	(26.4)
SAF REV. AFTER TAX CHANGES	\$16,056.4	\$17,028.0	\$971.6	6.1%	\$949.8
BASELINE GF/GP AND SAF	\$31,068.2	\$33,060.5	\$1,992.3	6.4%	\$2,912.0
Tax & Revenue Changes	(2,008.2)	(1,693.5)	314.7	----	(72.9)
GF/GP & SAF REV. AFTER CHNGS.	\$29,060.0	\$31,367.0	\$2,307.0	7.9%	\$2,839.1
SALES TAX	\$9,414.8	\$10,003.6	\$588.8	6.3%	\$591.0

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 \$14.3 billion in FY 2021-22, an increase of 10.3%, or \$1,335.4 million, from the revised estimate for FY 2020-21. Baseline GF/GP revenue is expected to increase 8.4%, or \$1,252.2 million, from FY 2020-21. The revised GF/GP revenue estimates for FY 2021-22 are \$1,889.3 million above the January 2022 consensus estimates and are summarized in [Table 4](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$17.0 billion in FY 2021-22, an increase of \$971.6 million, or 6.1%, from the revised estimate for FY 2020-21. The revised SAF revenue estimates for FY 2021-22 are \$949.8 million above the January 2022 consensus estimates and are summarized in [Table 4](#).

FY 2022-23 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue recovering during FY 2022-23, although revenue will decrease slightly as the effects of Federal aid wane. Personal income will increase 4.6%, wage and salary employment will increase 0.3%, and wage and salary income will increase 3.8%. Total GF/GP and SAF revenue will reach an estimated \$30.3 billion in FY 2022-23, a decrease of 3.6%, or \$1,115.3 million, from the revised estimate for FY 2021-22. On a baseline basis, GF/GP and SAF revenue is expected to decrease 3.9% in FY 2022-23. Estimated GF/GP and SAF revenue is \$1,113.0 million above the January 2022 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2022-23 is summarized in [Table 5](#).

Tax Policy Changes

Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by \$187.5 million (\$142.9 million GF/GP and \$44.6 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). Timing issues related to the new flow-through entity tax will increase GF/GP by \$18.7 million and decrease SAF by \$18.7 million.

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 \$148.0 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. Businesses that continue to file under the MBT do so in order to claim tax credits. All of the impact of MBT credits reduces GF/GP revenue.

Sales and Use Tax. 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 exemption for data center equipment will reduce sales and use

taxes by \$2.5 million (\$2.3 million GF/GP and \$200,000 other funds, primarily constitutional revenue sharing).

Table 5

**FY 2022-23 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)**

	FY 2021-22 Revised Est.	FY 2022-23 Revised Est.	Change from FY 2021-22		\$ Change from 01/22 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$16,100.0	\$15,004.4	(\$1,095.6)	(6.8%)	714.2
Tax Changes Not In Baseline Revenue After Tax Changes	(1,761.0)	(1,373.0)	388.0	----	25.1
<u>Personal Income Tax</u>					
Gross Collections	16,814.3	15,307.7	(1,506.6)	(9.0)	546.3
Less: Refunds	(3,308.1)	(2,541.5)	766.6	(23.2)	(124.2)
Net Income Tax Collections	13,506.2	12,766.2	(740.0)	(5.5)	422.1
Less: Earmarking to SAF	(4,030.9)	(3,659.0)	371.9	(9.2)	(144.6)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$8,805.5	\$8,437.4	(\$368.1)	(4.2%)	\$277.5
<u>Other Taxes</u>					
Corporate Income Tax	2,045.1	1,739.0	(306.1)	(15.0)	409.0
Michigan Business Tax	(594.3)	(527.6)	66.7	(11.2)	0.0
Sales	1,568.5	1,546.3	(22.2)	(1.4)	49.4
Use	1,193.9	1,080.8	(113.1)	(9.5)	(74.0)
Cigarette	161.9	159.4	(2.5)	(1.5)	(13.1)
Insurance Company Premiums	392.4	410.0	17.6	4.5	20.0
Telephone & Telegraph	32.0	32.0	0.0	0.0	0.0
Oil & Gas Severance	38.6	32.5	(6.1)	(15.8)	10.0
All Other	266.3	283.5	17.2	6.5	20.5
Subtotal Other Taxes	\$5,104.4	\$4,755.9	(\$348.5)	(6.8%)	\$421.8
Total Nontax Revenue	429.1	438.1	9.0	2.1	40.0
GF/GP REV. AFTER TAX CHANGES	\$14,339.0	\$13,631.4	(\$707.6)	(4.9%)	\$739.3
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$16,960.5	\$16,765.5	(\$195.0)	(1.1%)	\$401.7
Tax Changes Not In Baseline Revenue After Tax Changes	67.5	(145.2)	(212.7)	----	(28.0)
Sales Tax	7,288.7	7,232.6	(56.1)	(0.8)	292.0
Use Tax	860.4	817.2	(43.2)	(5.0)	(37.0)
Lottery Revenue	1,240.5	1,220.0	(20.5)	(1.7)	(40.0)
State Education Property Tax	2,400.4	2,583.9	183.5	7.6	130.0
Real Estate Transfer Tax	544.3	435.0	(109.3)	(20.1)	(40.0)
Income Tax	4,030.9	3,659.0	(371.9)	(9.2)	144.6
Gaming Tax	177.4	183.4	6.0	3.4	(49.0)
Other Revenue	485.4	489.2	3.8	0.8	(26.9)
SAF REV. AFTER TAX CHANGES	\$17,028.0	\$16,620.3	(\$407.7)	(2.4%)	\$373.7
BASELINE GF/GP AND SAF	\$33,060.5	\$31,769.9	(\$1,290.6)	(3.9%)	\$1,115.9
Tax & Revenue Changes	(1,693.5)	(1,518.2)	175.3	----	(2.9)
GF/GP & SAF REV. AFTER CHNGS.	\$31,367.0	\$30,251.7	(\$1,115.3)	(3.6%)	\$1,113.0
SALES TAX	\$10,003.6	\$9,923.5	(\$80.1)	(0.8%)	\$400.0

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

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 Coronavirus Response and Relief Supplemental Appropriations Act, passed in December 2020, will reduce IIT and CIT revenue by \$74.7 million (\$73.8 million GF/GP and \$900,000 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).

Other Changes. The historic preservation tax credit will reduce GF/GP revenue by \$5.3 million. The IIT deduction for gambling losses will reduce revenue by \$12.0 million (\$10.1 million GF/GP and \$1.9 million SAF).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$13.6 billion in FY 2022-23, a decrease of 4.9%, or \$707.6 million, from the revised estimate for FY 2021-22 and baseline GF/GP revenue is expected to decrease 6.8%. The revised GF/GP revenue estimates for FY 2022-23 are \$739.3 million above the January 2022 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 \$16.6 billion in FY 2022-23, a decrease of \$407.7 million, or 2.4%, from the revised estimate for FY 2021-22. Baseline SAF revenue will decrease 1.1% in FY 2022-23. The revised SAF revenue estimates for FY 2022-23 are \$373.7 million above the January 2022 consensus estimates and are summarized in Table 5.

FY 2023-24 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2023-24, returning to a more typical trend. Personal income will grow 4.1%, wage and salary income will grow 3.5%, and wage and salary employment will grow 0.4%. Total GF/GP and SAF revenue will reach an estimated \$30.9 billion in FY 2023-24, an increase of 2.3%, or \$684.6 million, from the revised estimate for FY 2022-23. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.9% in FY 2023-24, reflecting general improvements in State economic activity. Estimated GF/GP and SAF revenue is \$1,064.3 million above the January 2022 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2023-24 is summarized in Table 6.

Tax Policy Changes

Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by \$232.5 million (\$177.1 million GF/GP and \$55.4 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). Timing issues related to the new flow-through entity tax will increase GF/GP by \$18.3 million and decrease SAF by \$18.3 million.

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 \$157.0 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 \$519.3 million in FY 2023-24, a smaller reduction than in FY 2022-23. Businesses that continue to file under the MBT do so in order to claim tax credits. All the impact of MBT credits reduces GF/GP revenue.

Sales and Use Tax. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$68.0 million, of which \$8.0 million will be GF/GP, \$49.8 million will be SAF, and \$10.2 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 exemption for data center equipment will reduce sales and use taxes by \$2.5 million (\$2.3 million GF/GP and \$200,000 other funds, primarily constitutional revenue sharing).

Federal Tax Reform and the COVID-19 Relief Measures. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by \$182.0 million, of which \$162.5 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 Coronavirus Response and Relief Supplemental Appropriations Act, passed in December 2020, will reduce IIT and CIT revenue by \$11.0 million GF/GP. Tax changes related to the ARP Act, passed in March 2021, will reduce IIT revenue by \$20.0 million (\$15.2 million GF/GP and \$4.8 million SAF).

Other Changes. The historic preservation tax credit will reduce GF/GP revenue by \$5.3 million. The IIT deduction for gambling losses will reduce revenue by \$12.5 million (\$10.5 million GF/GP and \$2.0 million SAF).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$14.1 billion in FY 2023-24, an increase of 3.2% or \$433.3 million, from the revised estimate for FY 2022-23. Baseline GF/GP revenue is expected to increase 2.3% because of the continued growth in the economy. The revised GF/GP revenue estimates for FY 2023-24 are \$750.4 million above the January 2022 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 \$16.9 billion in FY 2023-24, an increase of \$251.3 million, or 1.5%, from the revised estimate for FY 2022-23. The revised SAF revenue estimates for FY 2023-24 are \$313.9 million above the January 2022 consensus estimates and are summarized in Table 6.

Table 6

**FY 2023-24 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)**

	FY 2022-23 Revised Est.	FY 2023-24 Revised Est.	Change from FY 2022-23		\$ Change from 01/22 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$15,004.4	\$15,344.6	\$340.2	2.3%	\$725.3
Tax Changes Not In Baseline Revenue After Tax Changes	(1,373.0)	(1,279.9)	93.1	----	25.1
<u>Personal Income Tax</u>					
Gross Collections	15,307.7	15,650.1	342.4	2.2	560.2
Less: Refunds	(2,541.5)	(2,452.9)	88.6	(3.5)	(63.1)
Net Income Tax Collections	12,766.2	13,197.2	431.0	3.4	497.1
Less: Earmarking to SAF	(3,659.0)	(3,734.9)	(75.9)	2.1	(142.3)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$8,437.4	\$8,792.5	\$355.1	4.2%	\$354.8
<u>Other Taxes</u>					
Corporate Income Tax	1,739.0	1,774.0	35.0	2.0	374.0
Michigan Business Tax	(527.6)	(519.3)	8.3	(1.6)	0.0
Sales	1,546.3	1,586.7	40.4	2.6	54.0
Use	1,080.8	1,039.8	(41.0)	(3.8)	(113.3)
Cigarette	159.4	156.9	(2.5)	(1.6)	(13.1)
Insurance Company Premiums	410.0	429.0	19.0	4.6	24.0
Telephone & Telegraph	32.0	31.0	(1.0)	(3.1)	0.0
Oil & Gas Severance	32.5	30.0	(2.5)	(7.7)	7.0
All Other	283.5	296.0	12.5	4.4	20.0
Subtotal Other Taxes	\$4,755.9	\$4,824.1	\$68.2	1.4%	\$352.6
Total Nontax Revenue	438.1	448.1	10.0	2.3	43.0
GF/GP REV. AFTER TAX CHANGES	\$13,631.4	\$14,064.7	\$433.3	3.2%	\$750.4
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$16,765.5	\$17,024.0	\$258.5	1.5%	\$341.9
Tax Changes Not In Baseline Revenue After Tax Changes	(145.2)	(152.4)	(7.2)	----	(28.1)
Sales Tax	7,232.6	7,345.3	112.7	1.6	256.7
Use Tax	817.2	803.5	(13.7)	(1.7)	(56.7)
Lottery Revenue	1,220.0	1,210.0	(10.0)	(0.8)	(40.0)
State Education Property Tax	2,583.9	2,682.9	99.0	3.8	145.0
Real Estate Transfer Tax	435.0	418.0	(17.0)	(3.9)	(52.0)
Income Tax	3,659.0	3,734.9	75.9	2.1	142.3
Gaming Tax	183.4	190.0	6.6	3.6	(47.5)
Other Revenue	489.2	487.0	(2.2)	(0.4)	(33.9)
SAF REV. AFTER TAX CHANGES	\$16,620.3	\$16,871.6	\$251.3	1.5%	\$313.9
BASELINE GF/GP AND SAF	\$31,769.9	\$32,368.6	\$598.7	1.9%	\$1,067.2
Tax & Revenue Changes	(1,518.2)	(1,432.3)	85.9	----	(2.9)
GF/GP & SAF REV. AFTER CHNGS	\$30,251.7	\$30,936.3	\$684.6	2.3%	\$1,064.3
SALES TAX	\$9,923.5	\$10,075.7	\$152.2	1.5%	\$350.0

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

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2021-22 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 individual income tax 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 increase an estimated 14.1% in FY 2021-22, to \$13.5 billion, as the labor market continues to recover from the COVID-19 public health emergency and experiences above average inflation. Fiscal year 2021-22 IIT revenue will be boosted by higher annual and estimated payments that reflect the strong stock market during 2021, and withholding will rise 8.2% as wages and employment continue to recover. As economic growth continues, the growth rate in withholding will slow to 3.9% in FY 2022-23 and 3.1% in FY 2023-24. Annual payments are expected to increase 4.1% in FY 2021-22 before falling 37.2% in FY 2022-23 and 9.5% in FY 2023-24. Compared with the January 2022 consensus revenue estimates, the revised estimate for FY 2021-22 IIT revenue is \$1,617.2 million higher, the revised estimate for FY 2022-23 is \$422.1 million higher, and the revised estimate for FY 2023-24 is \$497.1 million higher, reflecting improved employment and wage growth forecasts. Approximately 23.8% of gross IIT revenue is directed to the School Aid Fund. After earmarks of \$600.0 million per year to the Michigan Transportation Fund, \$69.0 million per year to the Renew Michigan Fund, and an estimated \$0.8 million to the Campaign Fund, all remaining IIT revenue is deposited into the General Fund. All IIT refunds and refundable credits lower General Fund revenue.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax generally will increase at a slower rate than the 13.3% gain experienced in FY 2020-21 throughout the forecast, with sales tax revenue rising 6.3% in FY 2021-22, falling 0.8% in FY 2022-23, and then rising 1.5% in FY 2023-24. Compared with the January 2022 consensus revenue estimates, the revised sales tax estimate for FY 2021-22 is \$591.0 million higher, the revised estimate for FY 2022-23 is \$400.0 million higher, and the revised estimate for FY 2023-24 is up \$350.0 million. The increase is due to revised estimates of consumer spending and revised inflation forecasts. 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. Since the middle of 2020, there has been a surge in online shopping, and many of those transactions are subject to use tax. Use tax revenue increased 43.6% in FY 2020-21. It is expected to fall 1.8% in FY 2021-22, 5.0% in FY 2022-23, and 1.7% in FY 2023-34, as the mix of online versus brick-and-mortar retail sales steadies. 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 being 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 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 2023-34, as they increase annually. Compared with the January 2022 consensus revenue estimates, the FY 2021-22 estimate for combined State and local use tax collections is revised upward by \$37.3 million, the FY 2022-23 estimate is \$111.0 million lower, and the FY 2023-24 estimate is revised down \$170.0 million. 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 \$889.8 million in FY 2020-21, a decrease of 1.6% from FY 2019-20. Tobacco tax revenue is expected to continue its long-term downward trend, declining 8.6% in FY 2021-22, 1.6% in FY 2022-23, and 1.7% in FY 2023-24. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, 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. 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 \$110.6 million, a 22.1% increase from FY 2020-21, when casinos in the State were forced to operate at less than full capacity for part of the year. Casino tax revenue is expected to grow 2.5% in FY 2022-23 and 2.7% in FY 2023-24, consistent with normal trends.

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 3.4% in FY 2020-21, SET collections are projected to increase another 6.4% in FY 2021-22, 7.6% in FY 2022-23, and 3.8% in FY 2023-24, as both the housing market and inflation stabilize. 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 reduce lottery revenue later in the forecast period. Although FY 2020-21 saw 20.3% growth, lottery revenue is forecast to fall 12.6% in FY 2021-22, 1.7% in FY 2022-23, and 0.8% in FY 2023-24. 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 8.8% to 7.2% of total earmarked SAF revenue, reflecting that lottery revenue will grow more slowly compared to other SAF revenue sources.

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. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay a separate business tax to the State. 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.

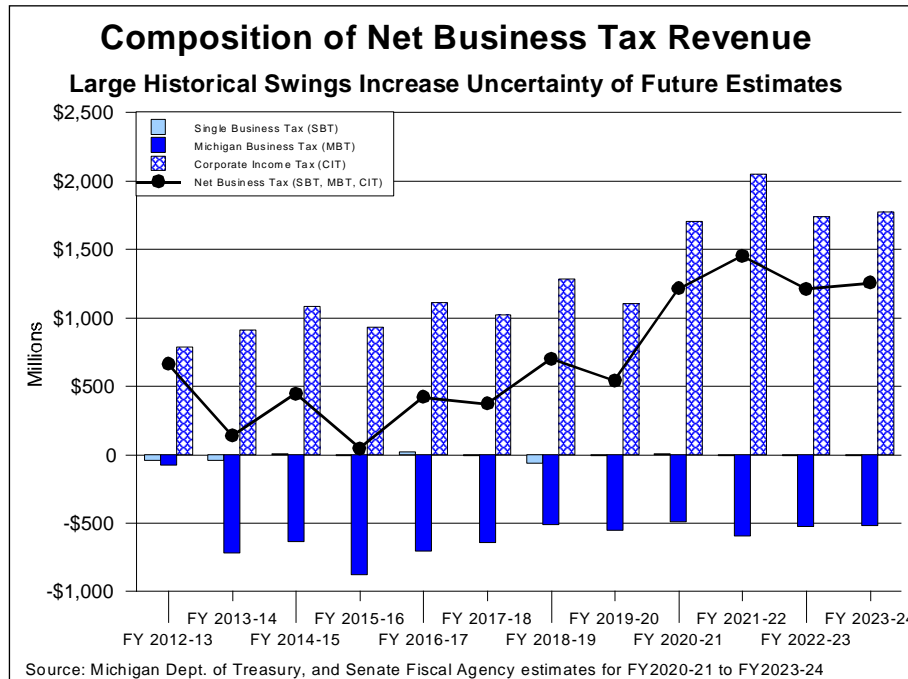
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative \$490.5 million (as refunds exceeded revenue) in FY 2020-21, net MBT revenue is expected to remain negative over the forecast period, as estimated 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 prior 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 \$388.4 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 4.0% in FY 2021-22, 3.7% in FY 2022-23, and 3.6% 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 revenue rose 54.7%, after falling 13.9% 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 potential volatility in CIT revenue ([Figure 20](#)). The final estimate for business taxes in FY 2020-21 is \$1,212.4 million, a 121.9% increase from FY 2019-20. Net business tax revenue is expected to increase 19.7% in FY 2021-22 before decreasing 16.5% in FY 2022-23 and increasing 3.6% 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, due to a large adjustment in FY 2019-20. Revenue from taxes on insurance companies is expected to return to trend growth over the forecast period, rising 10.6% in FY 2021-22, 4.5% in FY 2022-23 and 4.6% in FY 2023-24. All revenue from insurance taxes is directed to the General Fund.

Figure 20



REVENUE TRENDS

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law. However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates, and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for fiscal years in the near future. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer-term view of Michigan's economy for FY 2024-25 and FY 2025-26, net GF/GP revenue is expected to increase 3.9% in FY 2024-25, to \$14.6 billion, while SAF revenue will increase 2.8%, to \$17.3 billion. In FY 2025-26, net GF/GP revenue is expected to increase 3.6%, to \$15.1 billion, while SAF revenue will increase 3.1%, to \$17.9 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 7, 8, and 9 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2021-22, FY 2022-23, and FY 2023-24. 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 2021-22, FY 2022-23, and FY 2023-24 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2021-22 was made in December 2019, as shown in [Table 7](#). At that time, baseline revenue in FY 2021-22 was estimated at \$27.3 billion. This estimate was increased by \$322.9 million at the January 2020 CREC, then decreased by \$2.1 billion at the May 2020 CREC. The August 2020 CREC increased the estimate by \$375.9 million, and the January 2021 CREC increased the estimate by another \$887.2 million. The May 2021 CREC increased the estimate again, by \$1.8 billion, and the January 2022 CREC increased it by an additional \$1.6 billion. The Senate Fiscal Agency's revised estimate for FY 2021-22 presented in this report increases the baseline estimate by \$2.9 billion above the January 2022 consensus estimate, to \$33.1 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2022-23 was made in January 2021, as shown in [Table 8](#). 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 the May 2021 CREC increased it by an additional \$1.7 billion. The January 2022 CREC increased the estimate by another \$1.6 billion. The revised Senate Fiscal Agency estimate for FY 2022-23 increases baseline revenue for FY 2022-23 by \$1.1 billion, to \$31.8 billion.

Table 7
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)}	13,419.0	15,131.0	28,550.0
January 6, 2022	13,995.8	15,882.9	29,878.7
January 14, 2022 ^{a)}	14,050.3	16,098.2	30,148.5
May 17, 2022	\$16,100.0	\$16,960.5	\$33,060.5
<u>Change From Previous Estimate:</u>			
Dollar Change	\$2,049.7	\$862.3	\$2,912.0
Percent Change	14.6%	5.4%	9.7%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$3,298.2	\$2,437.4	\$5,735.6
Percent Change	25.8%	16.8%	21.0%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2020-21.			

Table 8

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)}	13,735.2	15,362.9	29,098.1
January 6, 2022	14,284.1	15,990.2	30,274.3
January 14, 2022 ^{a)}	14,290.2	16,363.8	30,654.0
May 17, 2022	\$15,004.4	\$16,765.5	\$31,769.9
Change From Previous Estimate:			
Dollar Change	\$714.2	\$401.7	\$1,115.9
Percent Change	5.0%	2.5%	3.6%
Change From Initial Estimate:			
Dollar Change	\$3,216.7	\$2,325.5	\$5,542.2
Percent Change	27.3%	16.1%	21.1%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2020-21.			

The initial GF/GP and SAF baseline revenue estimate for FY 2023-24 was made in January 2022, as shown in [Table 9](#). At that time, baseline revenue in FY 2023-24 was estimated at \$30.8 billion. This estimate was increased by \$536.3 million at the January 2022 CREC. The revised Senate Fiscal Agency estimate for FY 2023-24 increases baseline revenue by \$1.1 billion, to \$32.4 billion.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2023-24 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
January 6, 2022	\$14,541.6	\$16,223.5	\$30,765.1
January 14, 2022 ^{a)}	14,619.3	16,682.1	31,301.4
May 17, 2022	\$15,344.6	\$17,024.0	\$32,368.6
Change From Previous Estimate:			
Dollar Change	\$725.3	\$341.9	\$1,067.2
Percent Change	5.0%	2.0%	3.4%
Change From Initial Estimate:			
Dollar Change	\$803.0	\$800.5	\$1,603.5
Percent Change	5.5%	4.9%	5.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2020-21.			

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 the State, in years of economic recession, 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. (For FY 2020-21, combined GF/GP and SAF revenue is estimated at \$29.1 billion; 15% applied to that would yield a BSF limit of \$4.4 billion.) A balance at the end of a fiscal year higher than that amount is required to be rebated to IIT payers on returns filed after the end of that fiscal year. (The balance at the end of FY 2020-21 was roughly \$1.4 billion, lower than the limit of \$4.4 billion, and therefore not triggering a rebate.)

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, is forecasted to decrease on a calendar-year basis. The Legislature then could appropriate up to 25% of the ending Fund balance from the previous fiscal year. If personal income is forecast to be negative for subsequent fiscal years, the Legislature could then 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 and the amount of revenue in the BSF at the end of FY 2020-21.

In order for any payment into or out of the BSF actually to occur, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of \$55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the GF/GP budget, which equaled \$189.2 million. Also, in FY 1998-99, the Legislature appropriated the transfer of \$73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case. In FY 2013-14, the Legislature transferred \$194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the 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 10 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2020-21. This table also presents the SFA's estimates for FY 2021-22, FY 2022-23, and FY 2023-24. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 21, and the estimated economic stabilization trigger calculations for FY 2021-22, FY 2022-23, and FY 2023-24 are presented in Table 11.

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 statute would trigger a pay-in to the Fund in FY 2021-22, but no other pay-ins or pay-outs.

In FY 2021-22, a deposit of \$17.5 million will be made pursuant to the Michigan Trust Fund Act. Based on inflation-adjusted personal income growth, there is a calculated pay-in of \$39.0 million for 2021-22. The gap between the calculated pay-in and the currently scheduled deposits for FY 2021-22 is \$21.5 million.

For both FY 2022-23 and FY 2023-24, a deposit of \$17.5 million already is required under the Trust Fund Act. Based on inflation-adjusted personal income growth, there is no calculated pay-in.

Based on current appropriations and the continuation of the \$17.5 million annual deposit to the BSF under the Trust Fund Act, but no other pay-ins or pay-outs, the BSF ending balance is estimated at \$1.4 billion in FY 2021-22, \$1.5 billion in FY 2022-23, and \$1.5 billion in FY 2023-24, as shown in Table 10. If the calculated pay-ins for FY 2021-22 and FY 2022-23 were appropriated, then the BSF ending balance would be estimated at \$1.4 billion in FY 2021-22, \$1.5 billion in FY 2022-23, and \$1.5 billion in FY 2023-24.

Table 10

**BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2023-24 ESTIMATES
(millions of dollars)**

Fiscal Year ^{a)}	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
1998-99		\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14 ^{b)}		75.0	0.4	194.8	386.2
2014-15 ^{c)}	\$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
2020-21	17.5	535.0	0.8	0.0	1,382.4
Enacted Deposits and Estimated Interest Earnings:					
2021-22 ^{d)}	17.5	\$0.0	\$15.2	\$0.0	\$1,415.1
2022-23 ^{d)}	17.5	0.0	32.5	0.0	1,465.1
2023-24 ^{d)}	17.5	0.0	30.8	0.0	1,513.4

^{a)} For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Annual Comprehensive Financial Report. FY 2021-22 to FY 2023-24 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)} Based on the SFA's revised estimates, the statutory formula would trigger a pay-in to the fund of \$38.9 million in FY 2021-22, \$86.2 million in FY 2022-23, but no other pay-ins or pay-outs. Pay-ins and pay-outs must be appropriated. See text for discussion.

Source: State of Michigan Annual Comprehensive Financial Reports through FY 2020-21 and Senate Fiscal Agency.

Figure 21

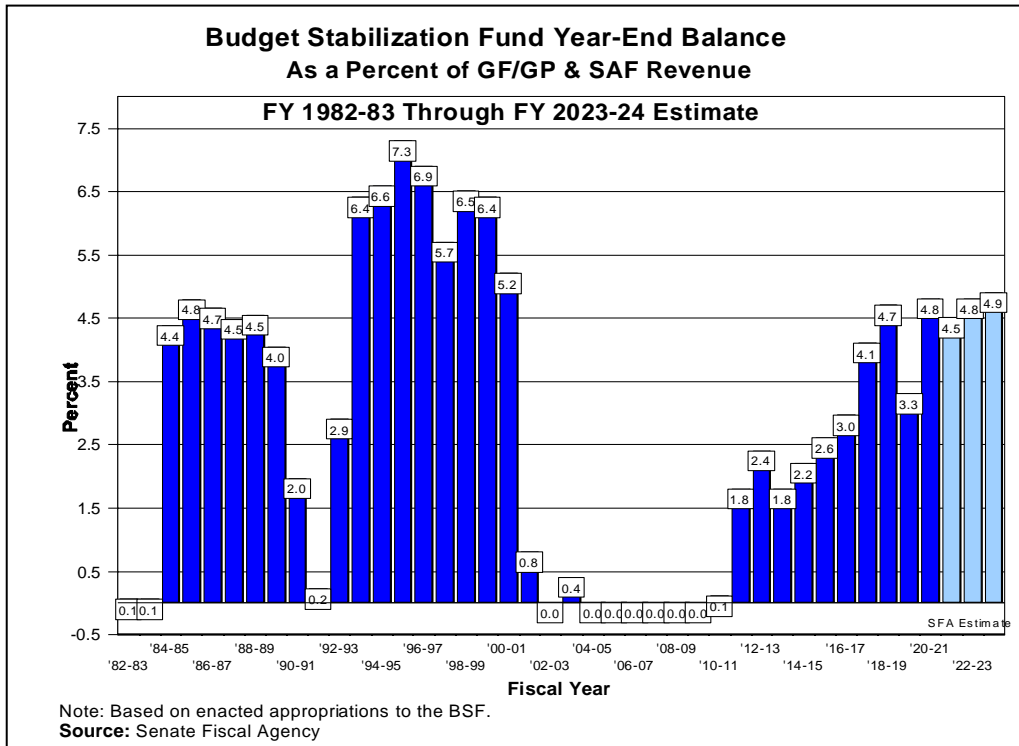


Table 11

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGERS					
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	\$558,329.6	\$571,416.8	\$597,855.9	\$622,106.8
Less: Transfer Payments	\$146,541.4	\$148,521.3	\$130,170.8	\$136,768.6	\$142,282.9
Subtotal	\$384,267.2	\$409,808.3	\$441,246.0	\$461,087.3	\$479,823.9
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.3766	2.4781	2.6528	2.7467	2.8160
Equals: Real Adjusted MPI	\$161,688.0	\$165,375.0	\$166,335.0	\$167,872.0	\$170,394.0
Percent Change from Prior Year		2.3%	0.6%	0.9%	1.5%
Excess Over 2.0%		0.30%	0.00%	0.00%	0.00%
		FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Multiplied by: Estimated GF/GP Revenue		\$13,003.6	\$14,339.0	\$13,631.4	\$14,064.7
Equals: Transfer to the BSF			\$39.0	\$0.0	\$0.0
OR Transfer from the BSF			\$0.0	\$0.0	\$0.0

Note: Numbers may not add because of rounding.
CY = Calendar Year; FY = Fiscal Year

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit 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 that was 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 revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. Revenue remained substantially below the limit for FY 2008-09 through FY 2019-20. In the past, the largest gap between revenue and the limit occurred in FY 2019-20, when State revenue was \$11.1 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 2021-22, FY 2022-23, and FY 2023-24, with State revenue forecast to be \$13.4 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 prior to 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 \$477.0 billion at the time compliance was determined, the revenue limit for FY 2019-20 was \$45.3 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 Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the event is subject to procedures set forth in the Michigan Constitution and State law. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the BSF. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to payers of individual income and business taxes, on a pro rata basis. These refunds would be given to taxpayers who file an IIT return or a 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 the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revenue estimates for FY 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 22](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 12](#).

FY 2021-22

The Senate Fiscal Agency estimates that personal income in Michigan during 2020 totaled \$530.8 billion; 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 \$41.1 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$9.3 billion, or 18.4%, in FY 2021-22. The percent under the limit will increase compared to the previous year because anticipated growth in personal income will outpace growth in State revenue subject to the revenue limit.

FY 2022-23

The Senate Fiscal Agency estimates that personal income in Michigan during 2021 totaled \$558.3 billion; as a result, the revenue limit will equal \$53.0 billion in FY 2022-23. Based on the SFA's revised revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated \$40.3 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$12.7 billion, or 24.0%, in FY 2022-23. The percent under the limit will increase compared to the prior year because anticipated growth in personal income will outpace growth in State revenue subject to the revenue limit.

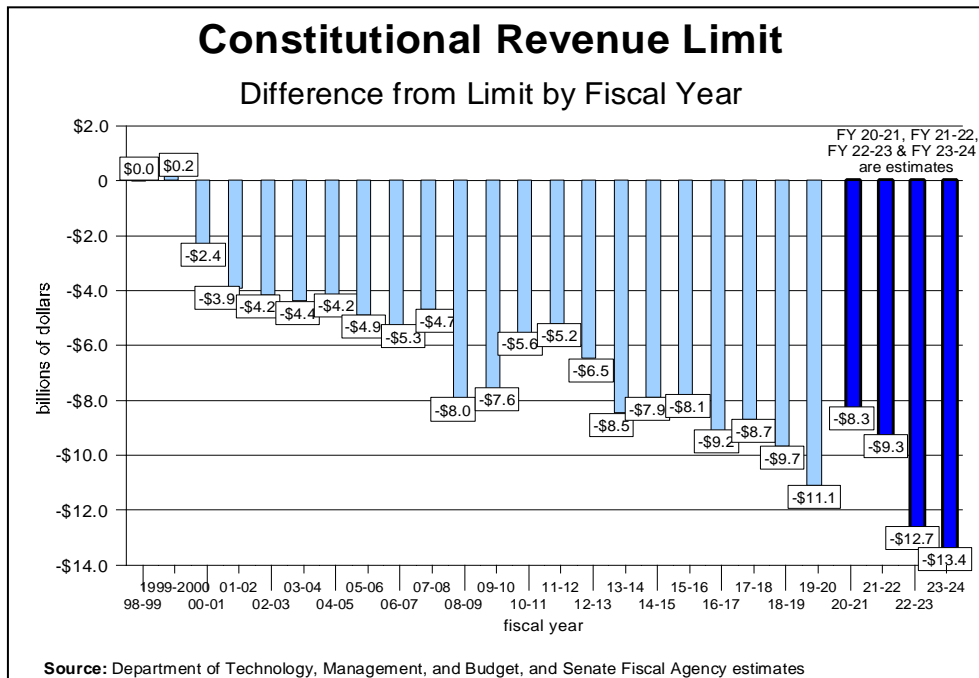
FY 2023-24

The Senate Fiscal Agency estimates that personal income in Michigan during 2022 will equal \$571.4 billion; as a result, the revenue limit will equal \$54.2 billion in FY 2023-24. Based on the SFA's revised revenue estimates for FY 2023-24, revenue subject to the revenue limit will equal an estimated \$40.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$13.4 billion, or 24.8%, in FY 2023-24. The percent under the limit will increase compared to the prior year because anticipated growth in personal income will outpace growth in State revenue subject to the revenue limit.

Table 12
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					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$11,951.9	\$14,847.8	\$16,100.0	\$15,004.4	\$15,344.6
Constitutional Revenue Sharing (baseline)	852.7	963.4	1,010.7	1,020.3	1,026.0
School Aid Fund (baseline)	14,073.9	16,220.5	16,960.5	16,765.5	17,024.0
Transportation Funds	3,351.0	3,592.7	3,838.2	3,973.5	4,077.2
Other Restricted Non-Federal Aid Revenue	5,086.1	4,762.2	4,905.1	5,052.2	5,203.8
<u>Adjustments:</u>					
GF/GP Federal Aid	(3.9)	(8.3)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,176.2)	(1,844.1)	(1,761.0)	(1,373.0)	(1,729.9)
SAF Balance Sheet Adjustments	(83.5)	(164.1)	67.5	(145.2)	(152.4)
Total Revenue Subject to Limit	\$34,052.0	\$38,370.1	\$41,111.0	\$40,287.7	\$40,783.3
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Amount	\$484,030.0	\$492,022.2	\$530,808.6	\$558,329.6	\$571,416.8
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$45,934.4	\$46,692.9	\$50,373.7	\$52,985.5	\$54,227.5
1.0% of Limit	459.3	466.9	503.7	529.9	542.3
Amount Under (Over) Limit	\$11,882.5	\$8,322.8	\$9,262.8	\$12,697.8	\$13,444.2
Percent Below Limit	25.9%	17.8%	18.4%	24.0%	24.8%
CY = Calendar Year; FY = Fiscal Year					

Figure 22



ESTIMATES OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the SFA has revised its estimates of FY 2021-22, FY 2022-23, and FY 2023-24 GF/GP and SAF year-end balances. This section of the report discusses the year-end balances and addresses some of the issues the members of the Legislature will face as they make mid-year alterations to the FY 2021-22 State budget and complete action on the FY 2022-23 State budget.

On February 9, 2022, Governor Gretchen Whitmer presented her FY 2022-23 and FY 2023-24 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 14, 2022. The Governor's FY 2022-23 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Table 13 provides a summary of the SFA's estimates of the FY 2021-22, FY 2022-23, and FY 2023-24 year-end balances of the GF/GP and SAF budgets; Tables 14 and 15 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and enacted and projected State appropriations, the FY 2021-22 GF/GP and SAF budgets will have positive ending balances. The projected GF/GP balance for FY 2021-22 is \$5.3 billion and the projected SAF balance is \$4.8 billion. This combined GF/GP and SAF balance of \$10.1 billion is assumed to carry-forward into FY 2022-23.

Based on current SFA revenue estimates, and assuming the expenditures from the Senate-passed FY 2022-23 budget bills, the FY 2022-23 GF/GP budget will have a positive ending balance of \$4.0 billion and the SAF budget will have a balance of \$4.2 billion. The combined ending balance of these two FY 2022-23 fund projections is a balance of \$8.2 billion.

A comparison of the SFA's estimate of FY 2023-24 GF/GP revenue with a continuation of the Senate-passed FY 2022-23 budgets, adjusted SFA caseload estimates, and carrying forward the projected year-end balance leads to a projected \$4.7 billion GF/GP budget balance. A comparison of the SFA's estimate of FY 2023-24 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2023-24, adjusting for pupil membership estimates, and carrying forward projected year-end balance, points to a projected balance of \$4.9 billion SAF balance. Actions taken in FY 2021-22 to appropriate additional funds that are continued in FYs 2021-22 and 2022-23 will reduce the projected balances in those fiscal years, and final action taken that enacts FY 2022-23 budgets that differ from Senate-passed budgets will result in adjustments to the estimated balances.

Table 13

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (millions of dollars)			
	FY 2021-22 Year-to-Date	FY 2022-23 SFA Estimate	FY 2023-24 SFA Estimate
General Fund/General Purpose	\$5,309.1	\$3,971.1	\$4,689.6
School Aid Fund	\$4,767.2	\$4,185.9	\$4,943.4

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 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. When 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 \$5.3 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 \$4.7 billion. This additional revenue is a combination of revenue estimated at the January 2022 CREC and the SFA forecast for May 2022, partially offset by supplemental spending appropriated after the budgets initially were enacted.

Column 1 of Table 14 provides the details of the SFA's most recent estimate of a \$5.3 billion FY 2021-22 GF/GP ending balance. On the revenue side of the FY 2021-22 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total \$14.3 billion. The May 2022 SFA estimate of ongoing unadjusted GF/GP revenue is up \$1.9 billion from the January 2022 consensus revenue estimate. The FY 2021-22 estimated GF/GP revenue total of \$18.2 billion includes \$4.4 billion of surplus revenue carried forward from FY 2020-21, a negative adjustment of \$500.3 million to reflect statutory State revenue sharing, and \$2.6 million of redirected restricted revenue.

On the expenditure side of the FY 2021-22 GF/GP budget ledger, the SFA now believes that current GF/GP expenditures will total \$12.9 billion. The projected level of FY 2021-22 GF/GP expenditures includes initial ongoing appropriations of \$11.0 billion, appropriations that encompass enacted one-time appropriations totaling \$736.2 million; enacted supplemental appropriations of \$1.7 billion; pending Senate supplementals totaling \$17.8 million; additional GF/GP savings of \$652.7 million resulting from increased Federal match related to the COVID-19 pandemic; \$14.0 million of additional GF/GP obligation for expenditures exceeding the revenue from the Community District Education Trust Fund (CDTF); and other smaller adjustments. Comparing estimated revenue with current projected expenditures results in a GF/GP ending balance of \$5.3 billion for FY 2021-22.

Column 1 of Table 15 provides a summary of the SFA estimate of a \$4.8 billion FY 2021-22 SAF budget ending balance. This estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2021-22 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total \$17.0 billion. The May 2022 SFA estimate of ongoing unadjusted SAF revenue is \$949.8 million above the January 2022 consensus revenue estimate. The FY 2021-22 estimated SAF revenue total of \$22.5 billion includes \$2.9 billion of surplus revenue carried forward from FY 2020-21, \$17.0 billion of restricted SAF revenue, a \$77.6 million GF/GP grant, \$72.0 million from the CDTF, \$1.8 billion of ongoing Federal aid, an additional \$202.0 million of Federal COVID-19 stimulus payments to cover the Great Start Readiness Program expansion, an increase in Federal

support of school meals of \$368.7 million, and \$14.0 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

On the expenditure side of the FY 2021-22 SAF budget ledger, the SFA now believes that present SAF expenditures will total \$17.7 billion. The \$17.7 billion of projected SAF expenditures includes \$14.5 billion of ongoing K-12 funding in the initial enacted appropriation bill, a Federal funds adjustment of \$368.7 million, negative net State cost adjustments totaling \$406.6 million, one-time appropriations totaling \$425.1 million, and Senate-passed supplemental appropriations totaling \$6.0 million for K-12. As in the previous year, Community Colleges and Higher Education received appropriations from the School Aid Fund, with FY 2021-22 ongoing allocations of \$428.2 million and \$361.4 million, respectively. In addition, one-time appropriations for community colleges total \$3.2 million, paid out of the SAF for FY 2021-22.

FY 2022-23 YEAR-END BALANCE ESTIMATES

The Legislature has been considering Governor Whitmer's FY 2022-23 State budget recommendation since it was presented to the Legislature on February 9, 2022. To date, the Senate has acted on each of the individual FY 2022-23 department budget bills. Using the Senate-passed appropriation bills as the basis of the FY 2022-23 budget, there should be large positive ending balances for both the GF/GP and the SAF budget.

Column 2 of Table 14 provides a summary of the \$4.0 billion projected year-end balance in the FY 2022-23 GF/GP budget. On the revenue side of the FY 2022-23 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total \$13.6 billion. The May 2022 SFA estimate of ongoing unadjusted revenue represents a \$739.3 million increase from the January 2022 consensus revenue estimate. Using the Senate-passed appropriation bills for FY 2022-23, the GF/GP appropriation bills include statutory revenue sharing payments of \$525.0 million ongoing and \$24.9 million one-time, and the balance sheet includes \$2.6 million in the redirection of available restricted revenue. The FY 2022-23 estimated GF/GP revenue total of \$18.4 billion includes \$5.3 billion of projected GF/GP revenue carried forward from FY 2021-22.

The Senate-passed appropriations bills for FY 2022-23 include on-going appropriations of \$12.7 billion. Additionally, the Senate-passed budget includes \$1.7 billion of one-time expenditures. Included in the Senate-passed FY 2022-23 bills are \$1.0 billion for an ongoing tax cut and \$1.0 billion for a one-time tax cut. When the SFA's estimate of \$18.4 billion in GF/GP revenue is offset by the SFA's estimate of \$14.4 billion of total GF/GP expenditures based on Senate-passed bills, there is a projected FY 2022-23 year-end balance of \$4.0 billion.

Column 2 of Table 15 provides the details of the SFA estimate of a \$4.2 billion balance in the FY 2022-23 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue and Senate-passed FY 2022-23 budget bills.

On the revenue side of the FY 2022-23 SAF budget, the SFA now believes that ongoing unadjusted SAF revenue will total \$16.6 billion. The May 2022 SFA estimate of restricted SAF revenue represents a \$373.7 million increase from the January 2022 consensus revenue estimate. The estimate of total SAF revenue of \$23.7 billion includes an \$82.0 million ongoing GF/GP grant to the SAF, \$72.0 million from the CDTF, \$2.2 billion of ongoing Federal aid, and an additional \$16.7 million of GF/GP for costs estimated to exceed revenue from the CDTF.

On the expenditure side of the FY 2022-23 SAF budget ledger, the SFA's estimated School Aid and postsecondary appropriation bill totals \$19.6 billion, assuming the Senate-passed appropriations bills. The SFA estimates that there will be \$109.9 million of cost saving adjustments resulting from revised

pupil, special education, and taxable value cost estimates. The Senate-passed School Aid budget includes \$500.0 million in one-time funding for consolidation incentives.

The SFA's estimated SAF balance sheet reflects the continued use of SAF revenue to support the Community Colleges budget and to partially support the Higher Education budget. The estimated budget assumes Senate-passed appropriations that adjust for increased Michigan Public School Employees Retirement System (MPERS) contribution costs and include 5.0% one-time and 5.0% ongoing increases for community colleges, the payoff of university MPERS liabilities, and a new postsecondary scholarship program. As such, the SFA's estimated expenditures for Community Colleges in FY 2022-23 total \$473.3 million and the SAF allocation in the Higher Education budget for FY 2022-23 is estimated to total \$1.3 billion (of which \$581.2 million is the one-time payoff of university MPERS liabilities).

FY 2023-24 BUDGET OUTLOOK

Column 3 of Table 14 provides a summary of the \$4.7 billion projected year-end balance in the FY 2023-24 GF/GP budget. The FY 2023-24 projected budget is based on the SFA estimate of total GF/GP revenue and ongoing appropriations based on the Senate-passed appropriation bills for FY 2022-23, adjusted for anticipated cost adjustments, and the assumed carry forward of funds from FY 2022-23. Any enacted changes to the FY 2022-23 budget that differ from the Senate-passed appropriation bills will result in changes to the SFA's FY 2023-24 projected balances.

On the revenue side of the FY 2023-24 GF/GP budget ledger, the SFA now believes that GF/GP ongoing unadjusted revenue will total \$14.1 billion. The May 2022 SFA estimate of ongoing unadjusted GF/GP revenue represents an increase of \$750.4 million from the January 2022 consensus revenue estimate. The FY 2023-24 total estimated GF/GP revenue of \$17.5 billion assumes the continuation of \$525.0 million for statutory State Revenue Sharing payments, and a beginning balance carried forward from FY 2022-23 of \$4.0 billion.

On the expenditure side of the FY 2023-24 GF/GP budget ledger, if the Senate-passed FY 2022-23 appropriation bills are used as a base and adjustments are made to remove one-time appropriations, and to include estimated cost adjustments for DHHS, the total FY 2023-24 GF/GP expenditures are estimated to be \$12.8 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of \$4.7 billion.

Column 3 of Table 15 provides a summary of the \$4.9 billion projected year-end balance in the FY 2023-24 SAF budget. This projected balance is based on the SFA estimate of ongoing unadjusted revenue, and a continuation of the SFA's estimated current services budget for FY 2023-24, which would continue spending levels found in the FY 2022-23 Senate-passed budget, adjusted for pupil counts and other costs.

On the revenue side of the FY 2023-24 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total \$16.9 billion. The May 2022 SFA estimate of ongoing unadjusted SAF revenue represents a \$313.9 million increase from the January 2022 consensus revenue estimate. The FY 2023-24 estimated SAF revenue total of \$23.4 billion also assumes the continuation of the FY 2022-23 GF/GP grant of \$77.8 million, \$72.0 million from the CDTF, \$2.2 billion in ongoing Federal aid, and \$20.9 million of additional GF/GP to support costs expected to exceed available revenue from the CDTF.

On the expenditure side of the FY 2023-24 SAF budget ledger, the SFA projects total expenditures to be \$18.5 billion, based upon a continuation of the Senate-passed FY 2022-23 budgets adjusted for \$1.6 million of estimated cost adjustments. (Continued declines in estimated pupil counts offset increases in MPERS costs, leading to a relatively flat continuation budget.) The FY 2023-24 SAF

budget estimate continues to assume Community Colleges are funded with SAF, at a slightly increased amount of \$461.5 million, and that Higher Education will remain flat at \$708.9 million (which would continue to fund the new scholarship program proposed by the Senate beginning in FY 2022-23).

CONCLUSION

The GF/GP and SAF budgets are estimated to end FY 2021-22, FY 2022-23, and FY 2023-24 with significant year-end balances, although all three 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 for FY 2023-24 *assume baseline (or flat)* spending. Spending in FY 2023-24 that is greater than a baseline amount (which will be established when FY 2022-23 budgets are enacted) will reduce the gap between ongoing revenue and ongoing expenditure estimates.

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 May 20, 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 final actions taken on the FY 2022-23 State budget, as well as for subsequent fiscal years.

Table 14

**GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
(millions of dollars)**

	SFA Estimates		
	FY 2021-22 Year-To- Date	FY 2022-23 SFA Estimate	FY 2023-24 SFA Estimate
Revenue:			
Beginning Balance	\$4,362.8	\$5,309.1	\$3,971.1
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2022).....	\$12,449.7	\$12,892.1	\$13,314.3
SFA Revenue Change (May 2022)	\$1,889.3	\$739.3	\$750.4
SFA Revenue Forecast (May 2022).....	\$14,339.0	\$13,631.4	\$14,064.7
<u>Other Revenue Adjustments:</u>			
Adjustments.....	\$0.0	\$0.0	\$0.0
Revenue Sharing Payments.....	(\$500.3)	(\$525.0)	(\$525.0)
Subtotal Ongoing Revenue.....	\$13,838.7	\$13,106.4	\$13,539.7
<u>Non-ongoing Revenue:</u>			
Legal Settlements/Redirection of Restricted Revenue	(\$2.6)	(\$2.6)	\$0.0
Revenue Sharing One-Time Payments	\$0.0	(\$24.9)	\$0.0
Subtotal Non-Ongoing Revenue.....	(\$2.6)	(\$27.5)	\$0.0
Total Estimated GF/GP Revenue.....	\$18,198.9	\$18,388.0	\$17,510.8
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial/Senate-Passed Appropriations.	\$10,982.3	\$12,673.5	\$12,731.1
Subtotal Ongoing Appropriations.....	\$10,982.3	\$12,673.5	\$12,731.1
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$736.2	\$1,743.4	\$0.0
Proposed Supplemental Adjustments from Gov Rec.....	\$0.3	\$0.0	\$0.0
Enacted FY 2021-22 Supplementals	\$1,741.0	\$0.0	\$0.0
Enhanced FMAP Savings	(\$652.7)	\$0.0	(\$50.0)
Actuarial Soundness (DHHS).....	\$0.0	\$0.0	\$140.0
Additional K-12 GF Contribution for DCDTF	\$14.0	\$0.0	\$0.0
Additional GF for K-12 (technical fund source correction)	\$6.2	\$0.0	\$0.0
SB 714 Estimated Costs	\$17.5	\$0.0	\$0.0
PA 87 of 2021 Boilerplate Appropriations (DEGLE)	\$10.0	\$0.0	\$0.0
Subtotal One-Time and Other Appropriations	\$1,907.5	\$1,743.4	\$90.0
Total Estimated GF/GP Expenditures.....	\$12,889.8	\$14,416.9	\$12,821.1
PROJECTED YEAR-END GF/GP BALANCE	\$5,309.1	\$3,971.1	\$4,689.6

Table 15
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	SFA Estimates		
	FY 2021-22 Year-To- Date	FY 2022-23 SFA Estimate	FY 2023-24 SFA Estimate
Revenue:			
Beginning Balance	\$2,922.3	\$4,767.2	\$4,185.9
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (January 2022)	\$16,078.2	\$16,246.6	\$16,557.7
SFA Revenue Change (May 2022)	\$949.8	\$373.7	\$313.9
SFA Revenue Forecast (May 2022)	\$17,028.0	\$16,620.3	\$16,871.6
<u>Other Revenue Adjustments:</u>			
Adjustments	\$0.0	\$0.0	\$0.0
General Fund/General Purpose Grant	\$77.6	\$82.0	\$77.8
Community District Education Trust Fund	\$72.0	\$72.0	\$72.0
Federal Ongoing Aid	\$1,822.5	\$2,191.2	\$2,191.2
Subtotal Ongoing Revenue	\$19,000.1	\$18,965.5	\$19,212.6
<u>Non-Ongoing Revenue:</u>			
Federal Stimulus	\$202.0	\$0.0	\$0.0
Additional Federal Meal Funding	\$367.8	\$0.0	\$0.0
GF/GP for DPSCD Add'l Cost Exceeding CDTF \$72m/yr	\$14.0	\$16.7	\$20.9
Subtotal Non-Ongoing Revenue	\$583.8	\$16.7	\$20.9
Total Estimated School Aid Fund Revenue	\$22,506.2	\$23,749.4	\$23,419.5
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial/Senate-Passed Ongoing K-12 State Appropriations	\$14,528.5	\$15,218.8	\$15,108.9
School Aid Federal Funds	\$2,024.5	\$2,191.2	\$2,191.2
State Funds Cost Adjustments (May 2022)	(\$406.6)	(\$109.9)	\$5.6
Federal Funds Cost Adjustments (May 2022)	\$368.7	\$0.0	\$0.0
Fund Community Colleges with SAF	\$428.2	\$455.5	\$461.5
Partially Fund Higher Education with SAF	\$361.4	\$708.9	\$708.9
Subtotal Ongoing Appropriations	\$17,304.7	\$18,464.5	\$18,476.1
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations (School Consolidation)	\$425.1	\$500.0	\$0.0
Initial One-Time Community College Appropriations	\$3.2	\$17.8	\$0.0
Pay off University UAAL (Oxford for FY 22)	\$6.0	\$581.2	\$0.0
Subtotal One-Time and Other Appropriations	\$434.4	\$1,099.0	\$0.0
Total Estimated School Aid Fund Expenditures	\$17,739.1	\$19,563.5	\$18,476.1
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$4,767.2	\$4,185.9	\$4,943.4