

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2019-20
THROUGH
FY 2021-22**



Mary Ann Cleary, Director

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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2019 through CY 2022. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2018-19 and revised revenue estimates for FY 2019-20 through FY 2021-22. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 15, 2020, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2022, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

Jim Stansell, Senior Economist, and Benjamin Gielczyk, Associate Director, are the authors of this report. Kathryn Bateson, Administrative Assistant, prepared the report for publication.

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ECONOMIC OVERVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency (HFA) to produce its revenue forecasts for FY 2019-20 through FY 2021-22. In developing the U.S. and Michigan forecasts, key macroeconomic data such as employment, interest rates, business investment, light vehicle sales, international trade, oil prices, and consumer spending are examined with the goal of combining these variables along with others into an overall snapshot of the U.S. economy for the past year, current year, and two subsequent years. The key segments for Michigan include the automotive sector, the labor force and employment, wage and salary income, and inflation rates.

The HFA economic forecast released in January 2020 projected continued, albeit weakening, growth through the end of 2022. In other words, absent some unpredictable external shock, the economy was expected to continue growing slowly, thereby extending the longest expansion in U.S. history. Of course, the coronavirus pandemic became that shock, and it dramatically altered the trajectories of the U.S. and Michigan economies. Stay-at-home restrictions, suspension of in-person education at all levels, and closures of non-essential businesses became the new norm and significantly suppressed economic activity.

After growing at a 2.1% rate in the fourth quarter of CY 2019 and 2.3% for the year as a whole, the initial real GDP (Gross Domestic Product) estimate for the first quarter of 2020 showed a growth rate of -4.8%. Since mid-March, almost 33.5 million initial unemployment claims have been filed in the U.S., with more than 1.3 million of those filed by Michigan workers. And while initial claims have fallen in recent weeks, there is little doubt that the economy will continue to decline before growth returns.

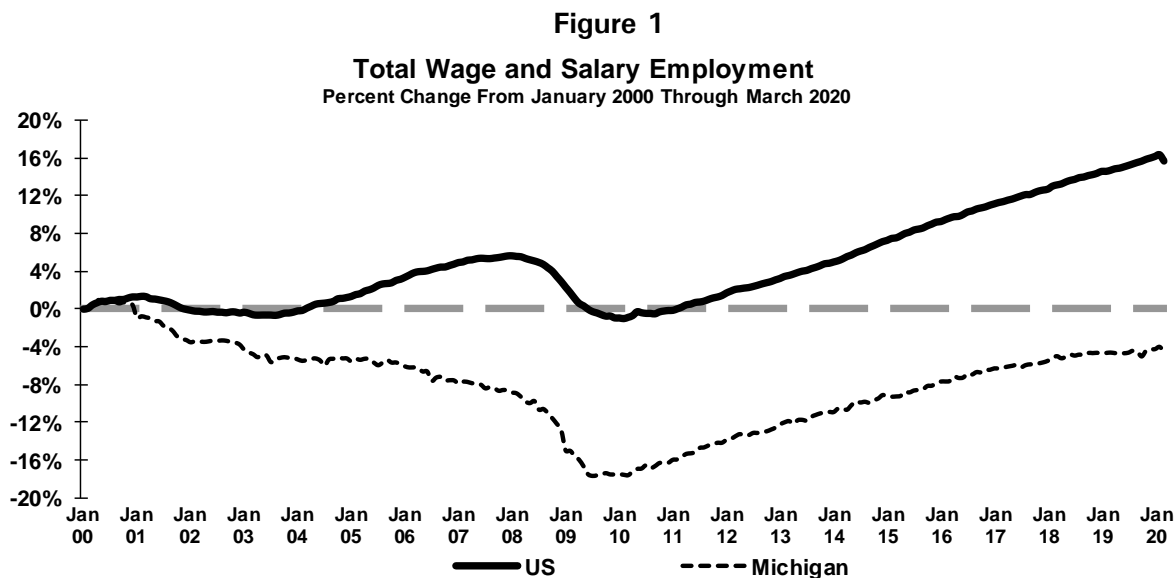
However, unlike most prior downturns, the current contraction doesn't represent any glaring weaknesses in the economy per se, but rather the result of policies designed to contain the spread of the virus. As such, there may be reason for optimism that, as restrictions are relaxed, economic activity will return at a somewhat faster rate than would otherwise normally occur after prior economic contractions.

The U.S. and Michigan forecasts in this report assume that the economy will contract at an even faster rate in the second quarter of CY 2020 before growth begins to return in the third and fourth quarters. Even so, U.S. real GDP is projected to not return to pre-coronavirus levels until the middle of CY 2022, and the Michigan jobs lost during the first and second quarters of CY 2020 are not expected to return until after the forecast horizon.

This pattern is borne out in most of the economic and revenue estimates in this report. After moderate growth in CY 2019 (and FY 2018-19), sharp reductions are anticipated in CY 2020 (FY 2019-20) before the U.S. and Michigan economies begin to exhibit positive growth in CY 2021 and CY 2022 (FY 2020-21 and FY 2021-22).

Total Wage and Salary Employment

Figure 1 shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through March 2020.



U.S. Wage and Salary Employment

A 113-month span of job growth came to an end in March 2020 when employment dropped by 870,000 jobs, roughly 0.6% of total wage and salary employment. This was followed by a job loss of 20.5 million (about 13.5% of total employment) in April as unemployment soared in response to the coronavirus and the policies designed to contain it. Although job growth is expected to return in the third quarter of CY 2020, the second quarter job losses are not anticipated to be recouped until the first quarter of CY 2022.

Michigan Wage and Salary Employment

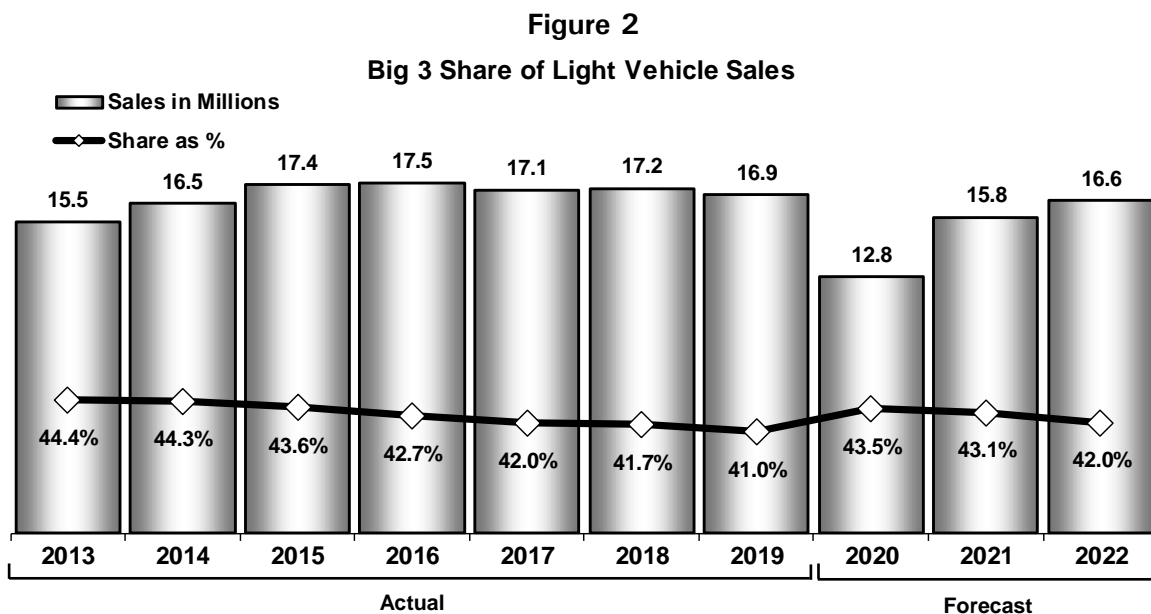
While April 2020 employment data are not yet available for Michigan, they are expected to follow a similar path to that of the U.S. Michigan's job loss of 24,300 in March this represents a little more than 0.5% of Michigan's wage and salary employment. As of this writing, the unemployment rate for those covered by unemployment insurance is over 24%.

U.S. and Michigan Motor Vehicle Industry

Light motor vehicle sales totaled 16.9 million units in CY 2019, a 1.3% drop from the 17.2 million units sold in CY 2018. Light motor vehicle sales are forecast to decline to 12.8 million units in CY 2020 before rebounding to 15.8 million units in CY 2021 and 16.6 million units in CY 2022.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) is expected to increase from 17.0% in CY 2020 to 18.5% by CY 2022. As shown in **Figure 2**, the market share of the Big 3 auto manufacturers hovered around 41.0% in CY 2019 and is expected to rebound to 43.5% in CY 2020 before declining slowly over the forecast.

The level and composition of light motor vehicle sales, as well as the extent to which the domestic nameplates can retain market share, will have a direct impact on Michigan's economy. In CY 2020, the Big 3 auto manufacturers are expected to sell 5.6 million vehicles, which would translate to a 19.7% decrease from CY 2019. It is estimated that Big 3 sales will increase to 6.8 million vehicles in CY 2021 and 7.0 million CY 2022.



U.S. Forecast Highlights

Real GDP increased at a 2.3% rate in CY 2019 and is forecast to decrease 5.5% in CY 2020 before increasing 3.6% in CY 2021 and 3.1% in CY 2022.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decrease 0.4% in CY 2020, increase 1.4% in CY 2021, and increase 2.0% in CY 2022.

Light vehicle sales of 16.9 million units in CY 2019 are forecast to be 12.8 million units in CY 2020, 15.8 million units in CY 2021, and 16.6 million units in CY 2022. The import share of light vehicles is forecast to increase from 17.0% in CY 2020 to 18.5% by the end of CY 2022.

Wage and salary employment growth was 1.4% in CY 2019; it is forecast to decline by 4.6% in CY 2020 before growing 3.9% in CY 2021 and 3.2% in CY 2022.

The national unemployment rate was 3.7% in CY 2019; it is forecast to jump to 9.0% in CY 2020 before dipping to 6.6% in CY 2021 and 5.1% in CY 2022.

Interest rates on three-month T-bills are expected to fluctuate between 0.1% and 0.4% throughout the forecast period as the Federal Reserve holds the federal funds rate near 0.0% in response to the pandemic.

Michigan Forecast Highlights

Michigan wage and salary employment growth was 0.4% in CY 2019; it is expected to decrease by 10.2% in CY 2020. Wage and salary employment growth is estimated to increase 6.9% in CY 2021 and 2.3% in CY 2022.

Michigan's unemployment rate was 4.1% in CY 2019; it is forecast to increase to 13.3% in CY 2020 before dropping to 8.0% in CY 2021 and 6.5% in CY 2022.

Michigan personal income grew by 3.8% in CY 2019; it is forecast to decrease 1.5% in CY 2020. Michigan personal income is projected to increase 0.8% in CY 2021 and 6.2% in CY 2022.

Michigan wage and salary income increased by 2.7% in CY 2019; it is forecast to decline 9.9% in CY 2020 before increasing 9.0% in CY 2021 and 7.8% in CY 2022.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to decrease 1.0% in CY 2020 before increasing 0.2% in CY 2021 and 1.3% in CY 2022.

Additional details of the U.S. and Michigan forecasts are presented in **Table 1** on the following page.

Table 1
ECONOMIC FORECAST VARIABLES

	Calendar 2018 Actual	Calendar 2019 Actual	% Change from Prior Year	Calendar 2020 Estimated	% Change from Prior Year	Calendar 2021 Estimated	% Change from Prior Year	Calendar 2022 Estimated	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2012 dollars)	\$18,638.2	\$19,073.1	2.3%	\$18,026.8	(5.5%)	\$18,672.2	3.6%	\$19,246.0	3.1%
Implicit Price Deflator GDP (2012 = 100)	110.415	112.342	1.7%	113.222	0.8%	114.321	1.0%	116.368	1.8%
Consumer Price Index (1982-84 = 100)	251.107	255.657	1.8%	254.674	(0.4%)	258.264	1.4%	263.379	2.0%
Consumer Price Index (FY) (1982-84 = 100)	249.749	254.377	1.9%	255.387	0.4%	256.950	0.6%	262.168	2.0%
Federal Funds Rate Interest Rate (Percent)	0.7%	2.2%		0.4%		0.1%		0.3%	
3-month Treasury Bills Interest Rate (Percent)	1.9%	2.1%		0.4%		0.1%		0.4%	
Aaa Corporate Bonds Interest Rate (Percent)	3.9%	3.4%		2.5%		2.3%		2.6%	
Unemployment Rate (Percent)	3.9%	3.7%		9.0%		6.6%		5.1%	
Wage and Salary Employment (Millions)	148.9	150.9	1.4%	144.0	(4.6%)	149.6	3.9%	154.4	3.2%
Housing Starts (Thousands of units)	1.250	1.298	3.9%	0.979	(24.6%)	1.123	14.7%	1.198	6.7%
Light Vehicle Sales (Millions of units)	17.2	16.9	(1.9%)	12.8	(24.2%)	15.8	23.4%	16.6	5.1%
Passenger Car Sales (Millions of units)	5.3	4.7	(11.3%)	3.3	(30.1%)	3.8	14.7%	3.7	(1.5%)
Light Truck Sales (Millions of units)	11.9	12.2	2.3%	9.5	(21.9%)	12.0	26.4%	12.9	7.1%
Import Share of Light Vehicles (Percent)	23.1%	22.4%		17.0%		17.4%		18.5%	
Big 3 Share of Light Vehicle Sales (Percent)	41.7%	41.0%		43.5%		43.1%		42.0%	
Personal Income (Billions of current dollars)	\$17,819.2	\$18,602.3	4.4%	\$18,990.1	2.1%	\$18,967.7	(0.1%)	\$20,033.9	5.6%
Real Disposable Income (Billions of 2012 dollars)	\$14,556.2	\$14,974.4	2.9%	\$15,298.4	2.2%	\$15,309.0	0.1%	\$15,942.2	4.1%
Michigan									
Wage and Salary Employment (Thousands)	4,417.9	4,433.7	0.4%	3,981.0	(10.2%)	4,254.4	6.9%	4,352.1	2.3%
Transportation Equipment Employment (Thousands)	192.2	188.6	(1.9%)	145.5	(22.9%)	163.1	12.1%	171.9	5.4%
Unemployment Rate (Percent)	4.2%	4.1%		13.3%		8.0%		6.5%	
Personal Income (Millions of current dollars)	\$484,030	\$502,540	3.8%	\$494,985	(1.5%)	\$498,884	0.8%	\$529,816	6.2%
Real Personal Income (Millions of 1982-84 dollars)	\$208,399	\$213,426	2.4%	\$212,374	(0.5%)	\$213,539	0.5%	\$223,817	4.8%
Real Disposable Income (Millions of 1982-84 dollars)	\$185,297	\$189,700	2.4%	\$190,885	0.6%	\$193,606	1.4%	\$203,037	4.9%
Wage and Salary Income (Millions of current dollars)	\$240,365	\$246,802	2.7%	\$222,481	(9.9%)	\$242,540	9.0%	\$261,522	7.8%
Detroit Consumer Price Index (1982-84 = 100)	232.258	235.461	1.4%	233.132	(1.0%)	233.618	0.2%	236.714	1.3%
Detroit Consumer Price Index (FY) (1982-84 = 100)	231.376	234.013	1.1%	234.923	0.4%	232.830	(0.9%)	235.968	1.3%



RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast, and variations in the underlying factors can exert either optimistic or pessimistic influences on the forecast. That said, the COVID-19 global pandemic is considered the primary source of uncertainty in the underlying risk factors. It should be noted that while the forecast indicates significant weakness in the U.S. economy, the risks are not all to the downside. Some of the more prevalent risks are highlighted below.

Trajectory of the COVID-19 Global Pandemic

The trajectory of, and response to, COVID-19 is the primary source of risk and uncertainty for this forecast. As Michigan and other states begin to relax mitigation measures implemented to slow the spread of the disease, predicting the future path of the disease is very difficult. According to public health experts, current capacity continues to fall short of the level needed to conduct adequate testing, tracing, and isolating that would allow for significant relaxation of mitigation measures without leading to an increase in new cases. It is possible that in the coming weeks and months, increased testing and contact tracing could allow for a broad relaxation of mitigation measures on economic activity. Additionally, as of this writing, antibody tests are in their early stages. As they become more widespread and reliable, epidemiologists will gain a better understanding of transmission levels, which would allow for improved disease intervention measures. Nevertheless, polls have shown that people are generally reticent to return to normal activity without improved treatments or vaccines even if mitigation measures were eliminated.

Epidemiologists and public health experts note that the disease will continue to circulate at some level until a vaccine is developed and widely distributed. While it is likely that preparedness will be much improved as we move into the fall, the impact on the economy is unknown and will depend on new case rates and treatment capacity. In short, improved measures to track, trace, and/or treat the disease would go a long way to provide disease mitigation and an acceleration of the economic recovery.

Fiscal and Monetary Policy

Significant fiscal and monetary stimulus measures were implemented in response to the COVID-19 pandemic. These stimulus measures provided immediate support for public health, state and local governments, businesses, and individuals. While the Federal Reserve has essentially said it would use all available monetary policy tools for as long as necessary, the fiscal stimulus measures, while significant, are limited in size, scope, and duration. For example, the Paycheck Protection Program provides businesses with payroll and overhead support for eight weeks with the overall program capped at \$659.0 billion. Additionally, the \$600 per week federal enhanced unemployment insurance benefit is available through July 31, 2020 and the individual economic impact payment of no more than \$1,200 was a one-time payment. Continued economic weakness as a result of the disease may necessitate additional fiscal stimulus measures to provide both economic relief to individuals and businesses and support for aggregate demand. The availability and scope of any additional fiscal stimulus will be dependent on Congress and the President.

Economic Data

Economic forecasting is difficult even in normal times. Most economic data are collected on a monthly or quarterly interval, usually with a collection lag and subsequent revisions, which in normal times is adequate for economic forecasting because the economy doesn't typically experience the pace and severity of change it has experienced in recent weeks. While available high-frequency data (daily or weekly reported) are informative, there is a lot of noise. The lack of available data that accurately reflect current economic conditions results in a forecast with a relatively wide range of possible scenarios.



GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency's May 2020 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the January 2020 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, and the budget stabilization fund (BSF), and the state revenue limit calculation.

Baseline and Net GF/GP and SAF Revenue Estimates

Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total combined baseline GF/GP and SAF revenue was \$25,958.7 million in FY 2018-19. It is forecast to decrease 9.1% in FY 2019-20 before increasing 4.5% in FY 2020-21 and 5.3% in FY 2021-22.

Net revenue captures the effects of all policy changes and represents actual resources available. Final total net GF/GP and SAF revenue was \$24,668.1 million in FY 2018-19, which is a 1.4% increase from FY 2017-18. It is forecast to decrease 11.6% in FY 2019-20 before increasing 4.4% in FY 2020-21 and 7.0% in FY 2021-22.

Table 2 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2020 adjusted consensus estimates and the recommended revisions to these estimates for FY 2019-20 through FY 2021-22. The January 2020 adjusted consensus estimates include the January 2020 consensus estimates plus enacted tax changes since January 2020.

The recommended revision for FY 2019-20 is a reduction of \$3,122.3 million due to the coronavirus pandemic and the efforts to limit its transmission. The recommended revisions for FY 2020-21 and FY 2021-22 are decreases of \$2,732.1 million and \$1,804.8 million, respectively.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue increased 10.1% to \$10,727.6 million in FY 2018-19. GF/GP tax revenue in FY 2019-20 is estimated to be \$8,832.7 million, a decrease of \$1,894.9 million, and \$9,201.3 million in FY 2020-21, an increase of \$368.7 million. GF/GP tax revenue is estimated to increase 9.5% in FY 2021-22.

Total GF/GP Net Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to spend. Final net GF/GP revenue was \$11,115.8 million in FY 2018-19; it is forecast to be \$9,189.8 million in FY 2019-20, a decrease of \$1,926.0 million, and \$9,574.2 million in FY 2020-21, an increase of \$384.5 million. Net GF/GP revenue is estimated to increase 9.2% in FY 2021-22.

SAF Revenue by Source

Total Net SAF Revenue

Final net SAF revenue increased by 1.9% to \$13,552.3 million in FY 2018-19. Net SAF revenue is forecast to be \$12,625.6 million in FY 2019-20, a decrease of \$926.7 million. Net SAF revenue is estimated to increase 4.6% in FY 2020-21 and 5.5% in FY 2021-22.

Table 2
HFA MAY 2020 REVENUE ESTIMATES FOR FY 2019-20 THROUGH FY 2021-22
(Millions of Dollars)

	<u>Final</u> <u>FY 2018-19</u>	<u>HFA Est.</u> <u>FY 2019-20</u>	<u>HFA Est.</u> <u>FY 2020-21</u>	<u>HFA Est.</u> <u>FY 2021-22</u>	<u>FY 2019-20</u> <u>% Change</u>	<u>FY 2020-21</u> <u>% Change</u>	<u>FY 2021-22</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$12,344.6	\$11,094.9	\$11,669.4	\$12,342.8	(10.1%)	5.2%	5.8%
SAF	13,614.1	12,494.3	12,987.3	13,616.8	(8.2%)	3.9%	4.8%
Total	\$25,958.7	\$23,589.2	\$24,656.7	\$25,959.6	(9.1%)	4.5%	5.3%
<u>Net</u>							
GF/GP	\$11,115.8	\$9,189.8	\$9,574.2	\$10,452.1	(17.3%)	4.2%	9.2%
SAF	13,552.3	12,625.6	13,205.6	13,931.0	(6.8%)	4.6%	5.5%
Total	\$24,668.1	\$21,815.4	\$22,779.8	\$24,383.1	(11.6%)	4.4%	7.0%
<u>January 2020 CREC (Adjusted Net)</u>							
<u>Net</u>							
GF/GP	\$11,115.8	\$11,012.1	\$11,194.4	\$11,547.8			
SAF	13,552.3	13,925.5	14,317.5	14,640.1			
Total	\$24,668.1	\$24,937.6	\$25,511.9	\$26,187.9			
<u>Recommended Net Revision</u>							
<u>Net</u>							
GF/GP	\$0.0	(\$1,822.3)	(\$1,620.2)	(\$1,095.7)			
SAF	0.0	(1,299.9)	(1,111.9)	(709.1)			
Total	\$0.0	(\$3,122.3)	(\$2,732.1)	(\$1,804.8)			

NOTE: Numbers may not add due to rounding.

Table 3
GF/GP NET REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2019-20		FY 2020-21		FY 2021-22	
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$7,252.5	\$5,887.0	\$6,233.9	\$6,846.2	(\$1,365.5)	(18.8%)	\$346.9	5.9%	\$612.3	9.8%
Sales Tax	1,277.3	1,122.0	1,235.0	1,325.3	(155.3)	(12.2%)	112.9	10.1%	90.3	7.3%
Use Tax	752.5	609.0	669.0	665.2	(143.5)	(19.1%)	60.0	9.9%	(3.8)	(0.6%)
Michigan Business Tax	(511.5)	(641.0)	(643.9)	(598.1)	(129.5)	25.3%	(2.9)	0.5%	45.8	(7.1%)
Corporate Income Tax	1,278.1	1,047.3	889.3	979.5	(230.8)	(18.1%)	(158.0)	(15.1%)	90.2	10.1%
Insurance	314.9	372.0	379.0	389.0	57.1	18.1%	7.0	1.9%	10.0	2.6%
Other GF/GP Taxes	363.8	436.4	439.1	464.6	72.6	19.9%	2.7	0.6%	25.5	5.8%
GF/GP Net Tax Revenue	\$10,727.6	\$8,832.7	\$9,201.3	\$10,071.7	(\$1,894.9)	(17.7%)	\$368.7	4.2%	\$870.4	9.5%
Non-Tax Revenue	388.2	357.1	372.9	380.4	(31.1)	(8.0%)	15.8	4.4%	7.5	2.0%
Total GF/GP Net Revenue	\$11,115.8	\$9,189.8	\$9,574.2	\$10,452.1	(\$1,926.0)	(17.3%)	\$384.5	4.2%	\$877.9	9.2%

NOTE: Numbers may not add due to rounding.

Table 4
SCHOOL AID FUND NET REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2019-20		FY 2020-21		FY 2021-22	
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Sales Tax	\$6,008.1	\$5,424.2	\$5,729.7	\$6,114.0	(\$583.9)	(9.7%)	\$305.5	5.6%	\$384.3	6.7%
Use Tax	596.4	540.5	583.3	595.5	(55.9)	(9.4%)	42.8	7.9%	12.3	2.1%
Income Tax	2,845.1	2,718.5	2,843.4	3,047.4	(126.6)	(4.4%)	124.9	4.6%	204.0	7.2%
State Education Tax	2,111.6	2,157.1	2,181.3	2,192.3	45.5	2.2%	24.2	1.1%	11.0	0.5%
Lottery/Casinos	1,187.9	996.0	1,062.9	1,138.7	(191.9)	(16.2%)	66.9	6.7%	75.8	7.1%
Tobacco Tax	327.5	327.2	306.3	304.3	(0.3)	(0.1%)	(20.8)	(6.4%)	(2.1)	(0.7%)
Real Estate Transfer Tax	350.1	331.0	351.0	365.0	(19.1)	(5.5%)	20.0	6.0%	14.0	4.0%
Other Taxes	125.6	131.1	147.7	173.8	5.5	4.4%	16.6	12.7%	26.1	17.7%
Total SAF Net Revenue	\$13,552.3	\$12,625.6	\$13,205.6	\$13,931.0	(\$926.7)	(6.8%)	\$580.0	4.6%	\$725.4	5.5%

NOTE: Numbers may not add due to rounding.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. A statutory BSF trigger calculation – based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue – indicates whether a pay-in (deposit) is recommended. Under the provisions of 2018 PA 613, a pay-out (withdrawal) of up to 25% of the prior year ending BSF balance would be indicated if personal income growth is negative. In either case, the recommendation is only statutory; it does not mandate an appropriation, and 2018 PA 613 specifies that a legislative appropriation is required for transfers into and out of the fund.

In addition to the BSF calculation, 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35. **Table 5** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2021-22.

The BSF ending fund balance for FY 2018-19 was \$1,148.6 million. Although no statutory appropriation was required under the formula, \$100.0 million was appropriated and deposited in FY 2018-19.

Because the growth rate of adjusted personal income in Michigan is projected to be negative for FY 2019-20, a payout up to \$287.2 million would be permitted under 2018 PA 613. No pay-in is indicated for either FY 2019-20 or FY 2020-21, although FY 2021-22 has a calculated pay-in of \$343.8 million, not counting the \$17.5 million required under 2016 PA 106.

When the required \$17.5 million deposit and estimated interest earnings are included, the year-end balances are estimated at \$1,183.0 million for FY 2019-20, \$1,206.5 million for FY 2020-21, and \$1,229.1 million for FY 2021-22.

Table 5
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$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	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.5	\$0.0	\$13.5	\$1,006.0
2018-19	\$117.5	\$0.0	\$25.1	\$1,148.6
2019-20*	\$17.5	\$0.0	\$16.9	\$1,183.0
2020-21*	\$17.5	\$0.0	\$6.0	\$1,206.5
2021-22*	\$17.5	\$0.0	\$5.1	\$1,229.1

* HFA estimates

NOTE: Numbers may not add due to rounding.

Compliance with the State Revenue Limit

Article IX, Section 26 of the *1963 Michigan Constitution*, which was approved by a vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26 of the 1963 Michigan Constitution provides that:

. . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund

Furthermore, limit established in Section 26 by Article IX, Section 28 prohibits the state from spending any current-year revenue in excess of that amount.

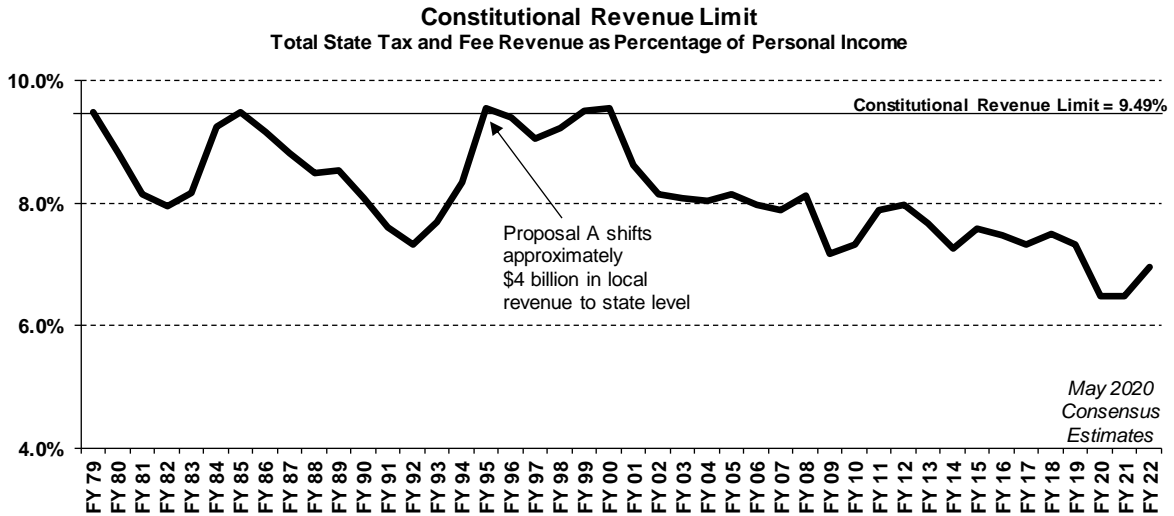
As shown in **Table 6** and **Figure 3**, the FY 2018-19 revenue limit calculation estimates state revenue collections at \$10.0 billion below the revenue limit. State revenue is estimated to be below the limit by \$14.6 billion for FY 2019-20, \$15.1 billion for FY 2020-21, and \$12.5 billion for FY 2021-22.

Table 6
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2018-19</u>	<u>Estimated FY 2019-20</u>	<u>Estimated FY 2020-21</u>	<u>Estimated FY 2021-22</u>
Personal Income				
Calendar Year	<u>CY 2017</u>	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>
Amount	\$461,486	\$484,030	\$502,540	\$494,985
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$43,795.0	\$45,934.4	\$47,691.0	\$46,974.1
Total Revenue Subject to Revenue Limit	\$33,753.2	\$31,328.7	\$32,603.2	\$34,454.5
Amount Under (Over) State Revenue Limit	\$10,041.8	\$14,605.7	\$15,087.9	\$12,519.6

NOTE: Numbers may not add due to rounding.

Figure 3



HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2019-20 estimates are based on year-to-date appropriations and HFA revenue and K-12 cost estimates. Final FY 2018-19 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 7
YEAR-END UNRESERVED BALANCE ESTIMATES
(Millions of Dollars)

	Final FY 2018-19	Estimated FY 2019-20
General Fund/General Purpose	\$916.6	(\$1,002.6)
School Aid Fund	\$194.7	(\$1,205.4)
Budget Stabilization Fund	\$1,148.6	\$1,183.0

Note: School Aid Fund revenue is restricted; any year-end balance is carried forward to the subsequent year.



Additional copies of this report can be obtained from:

House Fiscal Agency

P.O. Box 30014

Lansing, MI 48909-7514

(517) 373-8080

www.house.mi.gov/hfa