Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26

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www.senate.michigan.gov/sfa

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ECONOMIC FORECAST

The United States economy is expected to grow more slowly in 2024 and 2025 than in 2023, as higher interest rates (adopted by the Federal Reserve to reduce inflation) decrease business and residential investment. Consumer spending will also grow more slowly, as consumers respond to higher interest rates and deplete cash balances built up during 2020 and 2021. Slowing demand and lower levels of investment will reduce both job growth and inflationary pressures. As inflation returns to desired levels and the Federal Reserve is able to lower interest rates, the economy will grow modestly. Unemployment rates will rise in 2024 and then remain relatively stable, and low by historical standards.

The Michigan economy will be mixed over the forecast, with employment growth steadily slowing, while inflation-adjusted personal income exhibits consistent improvement. The unemployment rate will remain relatively stable.

REVENUE FORECAST

Preliminary fiscal year (FY) 2022-23 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue decreased 4.2% from FY 2021-22, reflecting a reduction in the individual income tax (IIT) rate and timing issues associated with the 2021 adoption of the Flow-Through Entity Tax. Greater than expected declines in IIT revenue were more than offset by unexpected increases in nontax revenue and above-forecast revenue from various business taxes and the lottery, pushing preliminary FY 2022-23 GF/GP and SAF revenue $184.2 million above the May 2023 consensus estimate.

In FY 2023-24, slower economic growth will combine with a variety of tax changes adopted during 2023 to lower GF/GP and SAF revenue 0.4% from preliminary FY 2022-23 revenue. Revenue growth also will be limited as consumers return to a more normal split between goods (subject to sales and use taxes) and services (which generally are exempt). However, the revised FY 2023-24 estimate is $461.2 million above the May 2023 consensus estimate.

In FY 2024-25, stable economic growth and continuing effects of the tax changes adopted in 2023 will cause GF/GP and SAF revenue to grow 2.8% above the revised estimate for FY 2023-24. The revised estimate for FY 2024-25 is $296.1 million above the May 2023 consensus estimate.

In FY 2025-26, continued stability in the economy's growth and continuing effects of the tax changes adopted in 2023 will result in GF/GP and SAF revenue growing 3.1%.

YEAR-END BALANCE ESTIMATES

It is important to note that the books have not yet been closed for FY 2022-23. Based on the accounting of State revenue and expenditures as of January 5, 2024, the Senate Fiscal Agency (SFA) is estimating that the FY 2022-23 GF/GP budget will close the fiscal year with a $3.8 billion balance. The SFA estimates that the FY 2022-23 SAF budget will close the fiscal year with a $2.0 billion balance. (Note that the majority of these balances were assumed during the FY 2023-24 budget process, and do not represent 'new' revenue.)

A comparison of the SFA's FY 2023-24 revenue estimates with enacted and projected appropriations, leads to a $1.4 billion GF/GP year-end balance. The SFA estimates that the FY 2023-24 SAF budget will end the year with a $305.4 million balance.

Looking ahead to the FY 2024-25 budget, comparing the SFA's FY 2024-25 GF/GP revenue estimate with FY 2024-25 GF/GP estimated expenditures results in a projected GF/GP balance of $1.9 billion. These estimated expenditures freeze initial ongoing spending at the FY 2023-24 level, eliminate one-time appropriations from FY 2023-24, and include the projected year-end balance of $1.4 billion from FY 2023-24 and various baseline adjustments. If the FY 2023-24 estimated year-end SAF balance of $305.4 million is carried forward, comparing the SFA's FY 2024-25 SAF revenue estimate with the FY 2024-25 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs results in a projected SAF year-end balance of $812.3 million for FY 2024-25.

The estimated FY 2022-23 ending balances may change when the State's book-closing process is completed and the Annual Comprehensive Financial Report (ACFR) is published. If the FY 2022-23 numbers change because of final supplemental spending or other book-closing issues, the ending balances in this report would change. Additional policy changes or supplemental appropriations for FY 2022-23 or FY 2023-24 also would change the ending balances for FYs 2022-23, 2023-24, and 2024-25.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2022 Actual	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
Real Gross Domestic Product (% change)	1.9%	2.4%	1.9%	2.1%	2.1%
US Consumer Price Index (% change)	8.0%	4.2%	3.0%	2.4%	2.5%
Light Motor Vehicle Sales (millions of units)	13.8	15.4	16.0	16.5	16.1
US Unemployment Rate (%)	3.6%	3.7%	4.1%	4.2%	4.3%
Real Michigan Personal Income (% change)	(6.9%)	(1.5%)	(0.2%)	1.8%	1.0%
Michigan Wage & Salary Employment (% change)	3.9%	1.5%	0.6%	0.5%	0.1%

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

	FY 2023-24 Estimate			FY 2024-25 Estimate			FY 2025-26 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$16,592.7	($2,936.0)	$13,656.7	$16,958.1	($2,795.7)	$14,162.4	$17,214.5	($2,377.0)	$14,837.5
% Change	(2.1%)	---	(1.4%)	2.2%	---	3.7%	1.5%	---	4.8%
School Aid Fund	$18,127.1	(196.2)	$17,930.9	$18,549.8	(233.8)	$18,316.0	$18,900.1	(266.3)	$18,633.8
% Change	1.0%	---	0.3%	2.3%	---	2.1%	1.9%	---	1.7%
Total GF/GP & SAF	$34,719.8	($3,132.2)	$31,587.6	$35,507.9	($3,029.5)	$32,478.4	$36,114.6	($2,643.3)	$33,471.3
% Change	(0.5%)	---	(0.4%)	2.3%	---	2.8%	1.7%	---	3.1%
Revenue Limit – Under (Over)		$16,501.5			$17,824.7			$18,739.1	

	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
Revision from May Consensus			
GF/GP	$56.7	$418.4	$246.0
SAF	127.5	42.8	50.1
Total	**$184.2**	**$461.2**	**$296.1**

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

	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
General Fund/General Purpose..................................	$3,786.6	$1,353.1	$1,892.9
School Aid Fund	$1,953.2	$305.4	$812.3
Budget Stabilization Fund (with enacted deposits)......	$1,793.8	$2,010.0	$2,128.0

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2024, 2025, and 2026, 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 record setting declines in inflation-adjusted gross domestic product (GDP) and employment. Both the pandemic recession and the recovery affected different sectors differently, both in terms of magnitude and direction.
- While many economic variables have recovered to their pre-pandemic levels, some have not and the economy continues to adjust to a new "normal".
- Labor markets remain constrained: high consumption levels have combined with population demographics to create widespread labor shortages. Unemployment rates remain at lows experienced just before the pandemic, which were the lowest rates since the 1960s.
- Inflation remains elevated but is slowing; significant shifts in consumption from services to goods interacted with stimulus efforts, the labor market, international trade disruptions, and conflicts in Ukraine to push inflation to the highest levels in approximately 40 years. After peaking in the middle of 2022, inflation has been easing but remains high by historical standards.

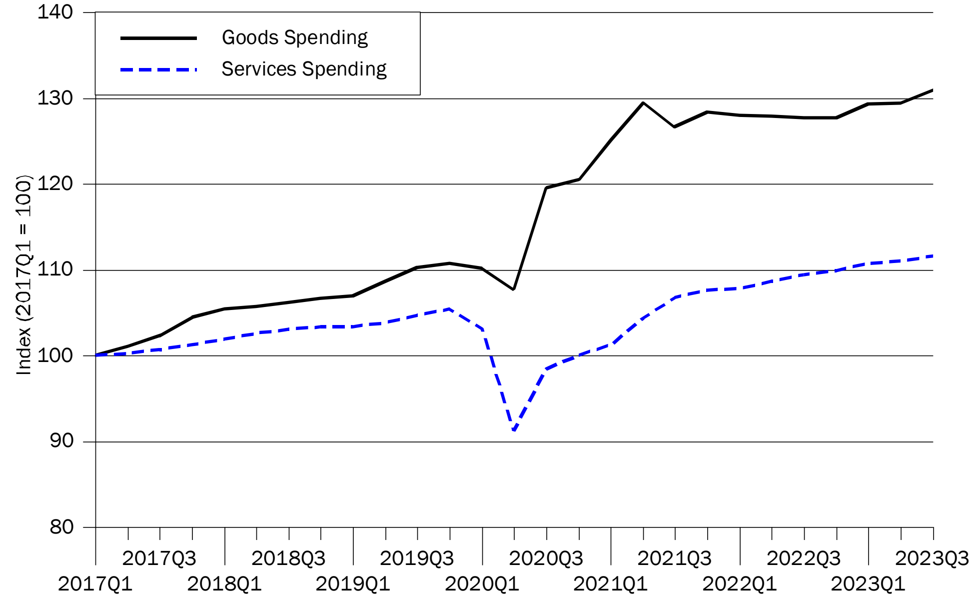
The COVID-19 pandemic ended the longest economic expansion on record (based on the National Bureau of Economic Research's dating of recessions as far back as December 1854) with economic changes of unprecedented magnitudes, even compared to the changes over previous recessions that lasted months, or even years, longer. Both the pandemic's contraction and the subsequent economic recovery were characterized by significant imbalances between different parts of the economy, particularly differing impacts between good-producing and service-producing sectors, between brick-and-mortar retailers and online merchants, between sectors more reliant on international supply chains and those less reliant on supply chains.

Much of the recovery since the pandemic has reflected the monetary and fiscal policy stimulus policy makers adopted in an attempt to maintain consumption despite pandemic-related income and job losses. Just as the pandemic affected different sectors differently, the impact of the stimulus efforts varied across sectors, exacerbating some pandemic-related changes while offsetting others (Figures 1 and 2). For example, stimulus checks were successful at maintaining consumption but were unable to address issues associated the high number of services firms that were not operating and essentially provided consumers additional income to purchase goods, when demand had already risen substantially because of the pandemic. Conversely, in other circumstances, stimulus efforts allowed firms that otherwise would have failed to remain in business or provided income to consumers who otherwise would have lacked funds to purchase necessities such as housing or food.

Figure 1

Services Sector Recovery Lagging the Goods Sector

Goods Sector Far Above Trend, Services Back On Pre-Pandemic Trend

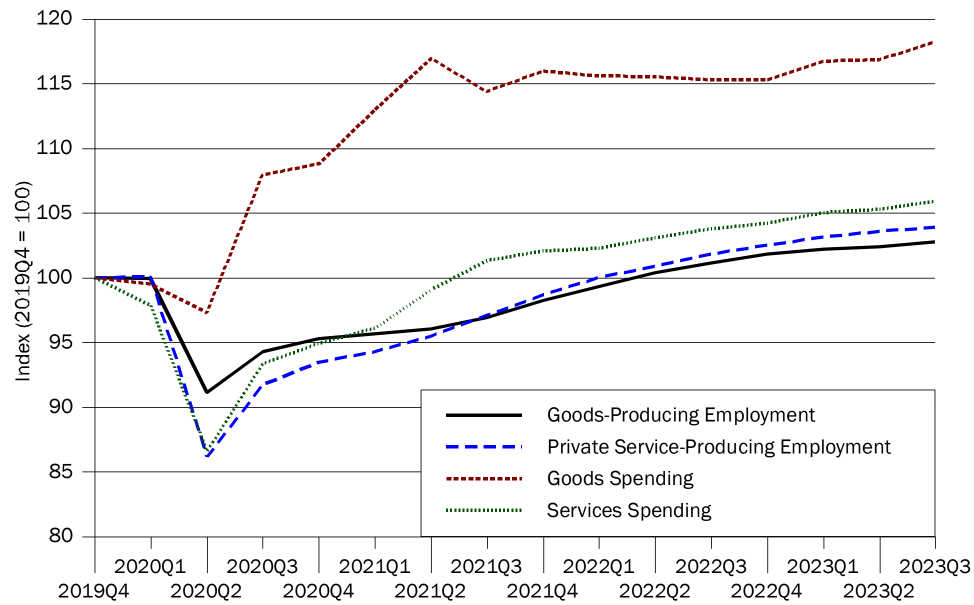


Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 2

Output Growing Faster than Employment

Goods Sector Meeting Higher Demand With Relatively Fewer Employees



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

These changes exerted pronounced effects on the labor market and inflation. Labor shortages are a natural result of drastic shifts in consumer spending. When inflation-adjusted spending rises faster than employment, the only ways to satisfy consumer demand are: 1) in the case of goods, to draw down inventories of previously manufactured products, 2) to improve labor productivity, and/or 3) to bid workers away from other firms. Private inventories fell rapidly in 2020 and 2021, while labor productivity rose substantially. However, labor productivity fell 1.9% in 2022, the largest annual decline since records began in 1947. As a result, labor market churn has supplied much of the support for increased output, just as it was starting to do in the months leading up to the pandemic when unemployment rates dropped below 4.0%. During the 2001-2007 period, before the 2008-2009 recession (the "Great Recession"), the number of unemployed individuals per job opening averaged 2.0, while during the 2014-2019 period it averaged 1.3 (steadily declining from about 2.0 in 2014 to 0.8 in 2019 as the unemployment rate fell to the lowest levels in 50 years). During 2022, the number of unemployed individuals per job opening averaged 0.5, and as the economy has slowed somewhat in response to tightening monetary policy, that figure has risen to 0.7 in October 2023 (Figure 3). Such high demand for workers has pushed wages up, with average hourly earnings between July 2021 and March 2023 growing between 5.0% and 7.0% above year-ago levels—growth rates not seen since the 1970s (Figure 4). As higher interest rates have slowed the economy slightly and supply bottlenecks have resolved, year-over-year growth in hourly earnings has slowed, declining to 4.3% in October 2023 (which is still considerably above the 2.9% average increase over the 1991-2019 period).

The high demand for workers has been complicated by three factors: 1) changes in labor force participation, 2) the shift to greater goods consumption in consumer spending, and 3) skill mismatches between different sectors of the economy. As is discussed in more detail below, the pandemic accelerated the decades-long trend of falling labor force participation rates due to the aging population. A falling labor force participation rate means a smaller proportion of the population is looking for work, resulting in a lower unemployment rate but making it harder to find workers to hire.

Figure 3

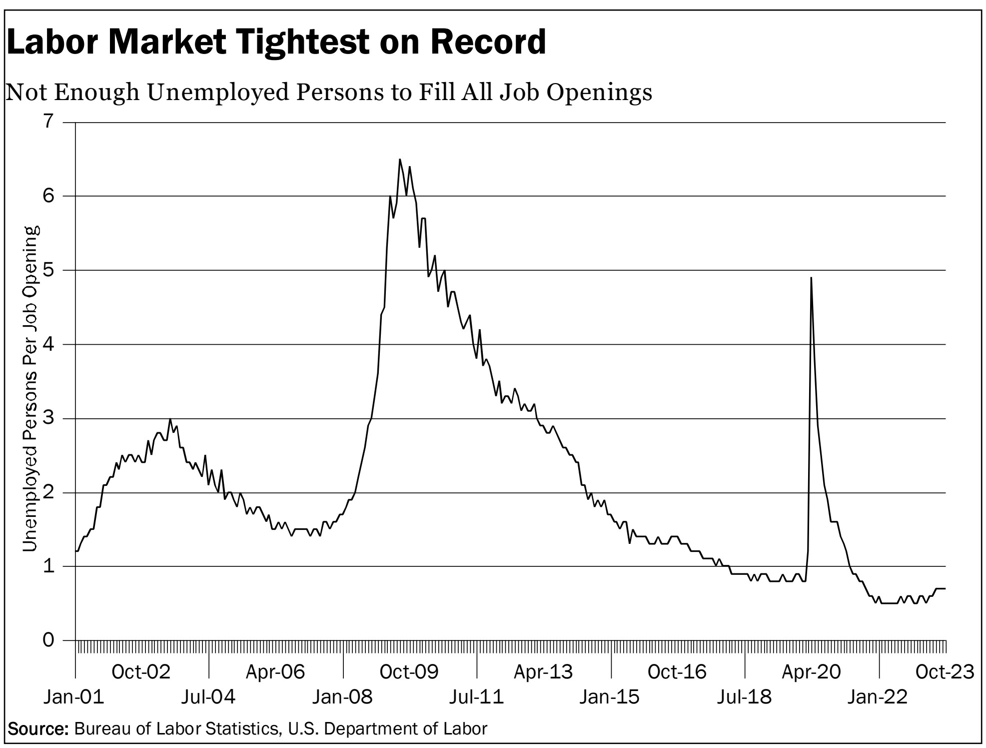


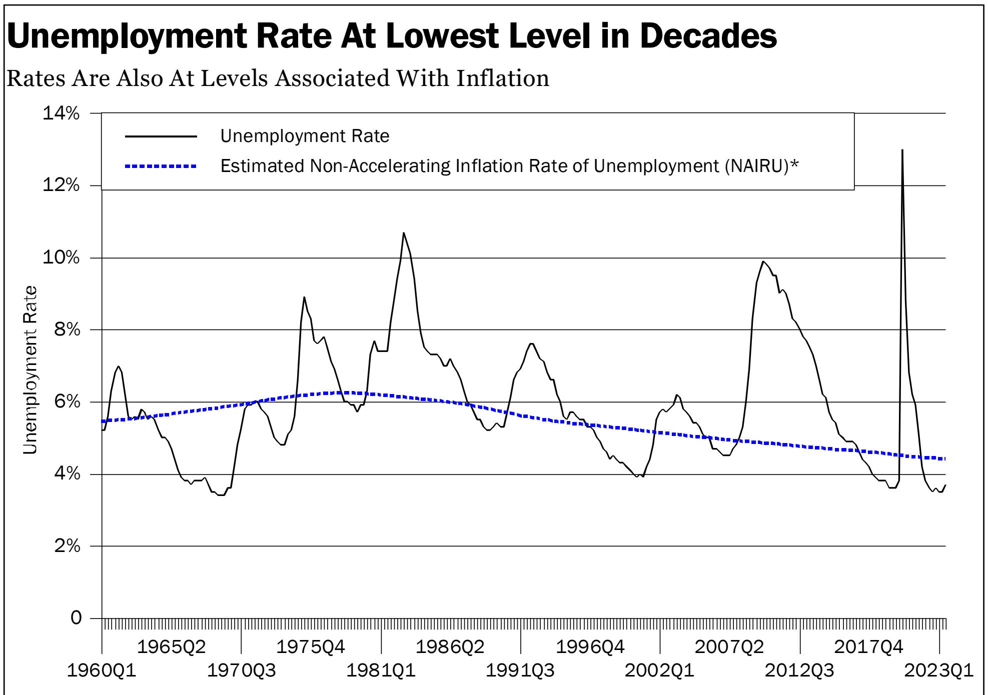
Figure 4

The shift in spending from services to goods during the pandemic and recovery produced significant dislocation in the economy. Goods producers struggled to find 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). With the substantial increase in goods demand and the shifts in how many services are now delivered, many job openings required skills that unemployed workers lacked.

Labor force changes have combined with a variety of supply-chain difficulties to lower the unemployment rate and generate the highest inflation in almost 40 years. The unemployment rate before the pandemic had fallen to 3.5% in January 2020 and February 2020, and at that level was below a level commonly associated with accelerating inflation. After rising to a high of 14.7% in April 2020, the unemployment rate steadily declined, reaching the pre-pandemic rate of 3.5% in July 2022. Between July 2022 and July 2023, the unemployment rate varied between 3.4% and 3.7%. After rising to 3.9% in October 2023, the unemployment rate declined to 3.7% in November.

The 3.4% unemployment rates reported for January and April 2023 were the lowest unemployment rates the United States had experienced since May 1969 (<u>Figure 5</u>). Unemployment rates this low generally are below the nonaccelerating inflation rate of unemployment (sometimes abbreviated as the NAIRU), an estimated unemployment rate below which inflation is a serious risk to the economy. As discussed earlier, as labor markets tighten, firms essentially are forced to bid workers away from other firms to attract labor. The resulting wage gains risk generating inflation as businesses are forced to pass increased labor costs on in the form of higher prices, meaning that wages must rise more to keep pace with the rising standard of living.

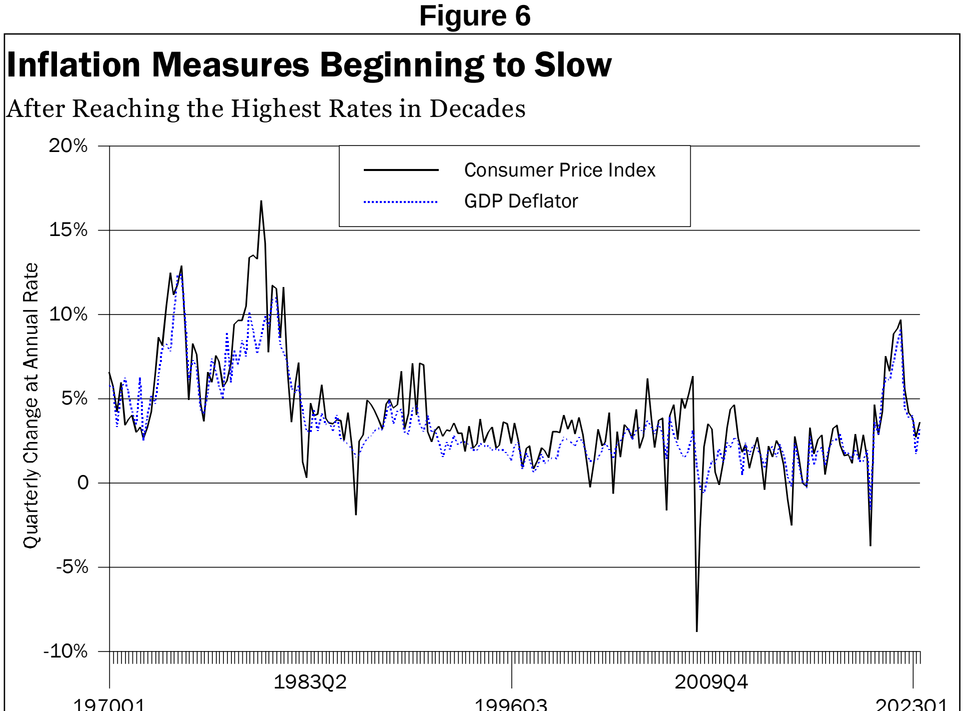
Figure 5



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

Given low unemployment rates, rising wages, and supply constraints, inflation has risen (Figure 6). The Consumer Price Index (CPI), the broadest measure of inflation facing consumers, averaged a 1.8% year-over-year monthly increase over the January 2010 to December 2019 period. After the CPI fell from a 2.3% year-over-year increase in February 2020 to 0.2% in May 2020, inflation began to accelerate, peaking at 8.9% in June 2022 (helped by the Russian invasion of Ukraine). Since June 2022, inflation has consistently slowed. In November 2023, the CPI was up 3.1% from November 2022 and represented the smallest year-over-year increase since March 2021.

Figure 6



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

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 ranking second nationally for the most rapid employment growth.
- Unlike the US economy, although Michigan output has recovered to pre-COVID-19 levels, employment has not. Michigan's November 2023 payroll employment figure was down 0.6% from the February 2020 level.

Michigan's economy spent the 2000-2010 period in an employment recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, a significant surge in productivity 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 is one of the most competitive sectors of the economy (and, with the burgeoning transition to electric vehicles underway, exhibits perhaps the most flux of any sector in the economy). For Michigan, those factors have been complicated as General Motors, Ford, and Stellantis have consistently lost market share since the late 1990s. As a result, the motor vehicle sector in Michigan has 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 impact of these economic changes on Michigan employment were significant, especially as changes in the motor vehicle industry were transmitted through the rest of the Michigan economy. As employment in the motor vehicle sector fell, the declines meant those who lost their jobs generally had less money to spend on eating out, recreation, legal and financial services, and consumer goods. This lowered economic activity in sectors across the state economy and created feedback effects for those secondarily affected sectors then to adjust their spending to reflect the slowing economy.

Payroll employment fell from a high of 4.7 million workers in June 2000 to 3.8 million in March 2010, a loss of more than 860,000 jobs (of which more than 220,000, or more than 25%, were in the transportation equipment manufacturing sector). Despite the gains since 2010, 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 235,900 jobs from June 2000 (but up 626,700 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 and reduced employment to more than half a million fewer workers than the 2009 employment trough. As of November 2023, payroll employment in Michigan was up 1,029,200 jobs from the April 2020 trough, but was still 0.6% (26,300 jobs) below the level in February 2020 and 5.8% below (270,900 jobs) below the June 2000 employment peak. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover from the pandemic recession more rapidly than almost any other state, with Michigan employment rising at a 7.7% annual rate between April 2020 and November 2023. (Michigan ranks second, while Nevada ranks first at a 10.3% annual growth rate. Among the other Great Lakes states, Indiana ranks 14th at 5.9%, Illinois ranks 40th, Ohio ranks 26th, and Wisconsin is ranked 34th.) Michigan's disproportionately strong participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan, which 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 43rd among states in recovering to pre-COVID-19 employment levels (comparing November 2023 employment level to the February 2020 level). Michigan is one of 11 states that, as of November 2023, had yet to return to the February 2020 employment level.

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

FORECAST SUMMARY

- The US economy will slow from 2.4% inflation-adjusted GDP growth in 2023 to 1.9% growth in 2024 and 2.1% growth in both 2025 and 2026.
- The Michigan economy will experience progressively slower employment growth over the forecast, and while inflation-adjusted personal income will grow, the path will be more varied. After falling 6.9% during 2022 and an estimated 1.5% in 2023, Michigan personal income, adjusted for inflation, will contract 0.2% in 2024, before growing 1.8% in 2025 and 1.0% in 2026.
- Light vehicle sales will improve but remain below historical levels. The Detroit Three are expected to continue to lose market share.
- Despite slow employment growth, Michigan payroll employment will exceed pre-pandemic levels during 2024 and unemployment rates will remain low by historical standards.
- Inflationary pressures will decline but persist through much of 2024, reflecting tight labor markets and consumer spending that will remain strong due to historically high consumer net worth. Inflation will near target levels over the forecast as a result of higher interest rates slowing economic activity, productivity gains, and consumption shifting to a more normal split between goods and services.

The US economy is expected to grow at stable rates slightly slower than the growth experienced in 2023. Throughout the forecast, Michigan is expected to grow more slowly than the nation as a whole. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to increase 1.9% in 2024, after growing 1.9% in 2022 and an estimated 2.4% in 2023. Inflation-adjusted GDP will expand 2.1% in both 2025 and 2026. The relative stability over the forecasts reflects slower consumption growth aligning growth to a path consistent with potential GDP growth, given current unemployment rates, population demographics, and trends in productivity.

The economic dynamics of the forecast will mean that unemployment rates remain low and that inflation rates will decline slowly. Consumer demand is expected to remain strong enough that, when combined with tight labor markets, the slowing economy will primarily reduce job growth and any increases in the unemployment rate generally will reflect the labor force growth growing faster than employment rather than declines in employment. Nationally, the growth in payroll employment will slow from 4.3% in 2022 to an estimated 2.3% in 2023, and then continue slowing over the forecast, with growth of 1.1% in 2024, 0.5% in 2025, and 0.4% in 2026. As a result, the US unemployment rate will rise, but remain low by historical standards, rising from a 3.7% rate in 2023 to 4.1% in 2024, 4.2% in 2025, and 4.3% in 2026. Inflation rates will decline over the forecast at a modest but steady pace; after growth in the CPI fell from 8.0% in 2022 to an estimated 4.2% in 2023, the CPI is expected to increase 3.0% in 2024, 2.4% in 2025, and 2.5% in 2026.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2022 Actual	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
United States					
Nominal GDP (year-to-year growth)	9.1%	6.3%	4.6%	4.4%	4.4%
Inflation-Adjusted GDP (year-to-year growth)	1.9%	2.4%	1.9%	2.1%	2.1%
Unemployment Rate	3.6%	3.7%	4.1%	4.2%	4.3%
Wage & Salary Employment (year-to-year growth)	4.3%	2.3%	1.1%	0.5%	0.4%
Inflation					
Consumer Price Index (year-to-year growth)	8.0%	4.2%	3.0%	2.4%	2.5%
GDP Implicit Price Deflator (yr.-to-yr. growth)	7.0%	3.8%	2.7%	2.2%	2.3%
Interest Rates					
90-day Treasury Bill	2.02%	5.07%	5.20%	4.61%	3.97%
10-year Treasury Bill	2.95%	3.99%	4.41%	4.31%	4.16%
Corporate Aaa Bond	4.07%	4.85%	5.24%	5.25%	5.26%
Federal Funds Rate	1.68%	5.03%	5.28%	4.53%	3.47%
Light Motor Vehicle Sales (millions of units)	13.8	15.4	16.0	16.5	16.1
Auto	2.9	3.1	3.2	3.2	3.1
Truck	10.9	12.3	12.8	13.2	12.9
Michigan					
Personal Income (millions)	$572,325	$596,885	$616,629	$642,614	$665,435
Year-to-year growth	0.7%	4.3%	3.3%	4.2%	3.6%
Inflation-Adjusted Personal Income (year-to-year growth)	(6.9%)	(1.5%)	(0.2%)	1.8%	1.0%
Wage & Salary Income (millions)	$282,922	$298,273	$310,207	$321,534	$331,025
Year-to-year growth	7.8%	5.4%	4.0%	3.7%	3.0%
Detroit Consumer Price Index (year-to-year growth)	8.2%	5.9%	3.5%	2.4%	2.5%
Wage & Salary Employment (thousands)	4,362.2	4,428.1	4,453.3	4,474.4	4,480.4
Year-to-year growth	3.9%	1.5%	0.6%	0.5%	0.1%
Unemployment Rate	4.2%	3.9%	4.3%	4.4%	4.6%

Table 2

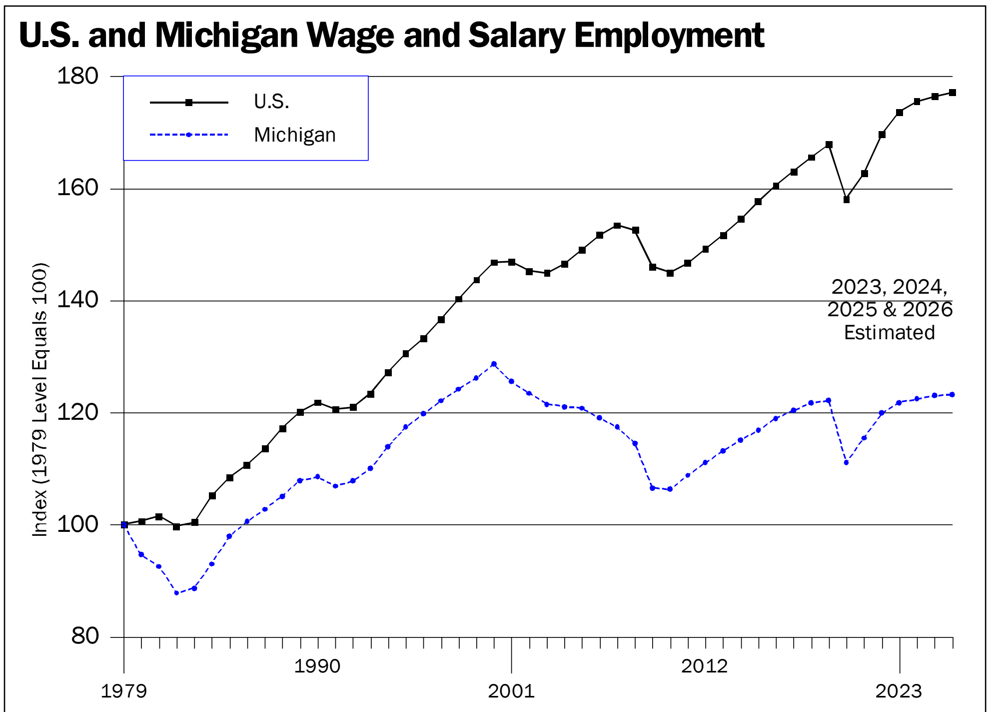
THE SENATE FISCAL AGENCY US ECONOMIC FORECAST DETAIL
(Calendar Years)

	2022 Actual	2023 Estimate	2024 Estimate	2025 Estimate	2026 Estimate
Gross Domestic Product					
(billions of dollars)	$25,744.1	$27,365.8	$28,615.9	$29,877.2	$31,201.8
Year-to-year growth	9.1%	6.3%	4.6%	4.4%	4.4%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2017 dollars)	$21,822.0	$22,352.0	$22,769.4	$23,254.8	$23,740.4
Year-to-year growth	1.9%	2.4%	1.9%	2.1%	2.1%
Consumption					
(billions of 2017 dollars)	$15,090.8	$15,425.3	$15,693.5	$15,951.9	$16,261.7
Year-to-year growth	2.5%	2.2%	1.7%	1.6%	1.9%
Business Fixed Investment					
(billions of 2017 dollars)	$3,131.6	$3,268.6	$3,375.1	$3,523.3	$3,657.3
Year-to-year growth	5.2%	4.4%	3.3%	4.4%	3.8%
Change in Business Inventories					
(billions of 2017 dollars)	$128.1	$39.6	$30.3	$55.2	$50.7
Residential Investment					
(billions of 2017 dollars)	$822.6	$732.4	$734.7	$766.3	$795.5
Year-to-year growth	(9.0%)	(11.0%)	0.3%	4.3%	3.8%
Government Spending					
(billions of 2017 dollars)	$3,670.4	$3,812.8	$3,909.6	$3,962.3	$3,978.7
Year-to-year growth	(0.9%)	3.9%	2.5%	1.3%	0.4%
Federal budget surplus (billions of dollars, NIPA basis)	($1,062.2)	($1,493.3)	($1,657.6)	($1,689.3)	($1,730.9)
Net Exports (billions of 2017 dollars)	($1,051.0)	($936.4)	($987.5)	($1,015.7)	($1,008.8)
Exports (billions of 2017 dollars)	$2,439.6	$2,504.8	$2,552.2	$2,612.4	$2,687.0
Imports (billions of 2017 dollars)	$3,490.6	$3,441.2	$3,539.7	$3,628.1	$3,695.8
Personal Income (year-to-year growth)	2.0%	5.2%	4.1%	5.0%	4.8%
Adjusted for Inflation	(5.5%)	1.0%	1.1%	2.6%	2.2%
Wage & Salary Income					
(year-to-year growth)	7.8%	6.3%	4.9%	4.1%	3.8%
Personal Savings Rate	3.3%	4.3%	3.8%	4.4%	4.9%
Output per hour					
(Labor productivity, annual growth)	(1.9%)	1.1%	1.2%	1.4%	1.1%
Unit labor costs (annual growth)	5.6%	3.3%	2.6%	2.2%	2.2%
Housing Starts (millions of units)	1.553	1.388	1.398	1.425	1.433
Conventional Mortgage Rates	5.3%	6.8%	6.7%	6.2%	5.9%

In Michigan, job growth is expected to slow even as the growth in inflation-adjusted personal income improves relative to 2023 (Figures 7 and 8). Michigan payroll employment rose an estimated 1.5% during 2023, down from 3.9% growth in 2022, and is forecasted to continue growing at progressively slower rates, rising 0.6% in 2024, 0.5% in 2025, and 0.1% in 2026. Inflation-adjusted personal income declined 6.9% in 2022, largely due to the exhaustion of various Federal stimulus efforts and stock market declines more than offsetting the 7.8% increase in wage and salary income. In 2023, inflation-adjusted personal income declined an estimated 1.5%, as inflation averaged 5.9% and outpaced the 5.4% increase in wage and salary income. In 2024, inflation-adjusted personal income is projected to decline another 0.2%, as falling interest rates and limited growth in financial assets offset the inflation-adjusted wage gains from inflation falling to 3.5% while wage and salary income increases 4.0%. As the national economy stabilizes in 2025 and 2026, vehicle sales remain relatively stable, and inflation continues to grow more slowly, Michigan's inflation-adjusted personal income is predicted to grow 1.8% in 2025 and 1.0% in 2026. Nationally, light vehicle sales are estimated to rise from an estimated 15.4 million units in 2023 to 16.0 million units in 2024, 16.5 million units in 2025, and 16.1 million units in 2026 (Figure 9). For comparison purposes, light vehicles sales averaged 17.1 million units per year during the 2014-2019 period. The Michigan unemployment rate, which averaged an estimated 3.9% in 2023, is predicted to increase to 4.3% in 2024, 4.4% in 2025, and 4.6% in 2026. In comparison, Michigan's unemployment rate averaged 5.1% over the 2014-2019 period.

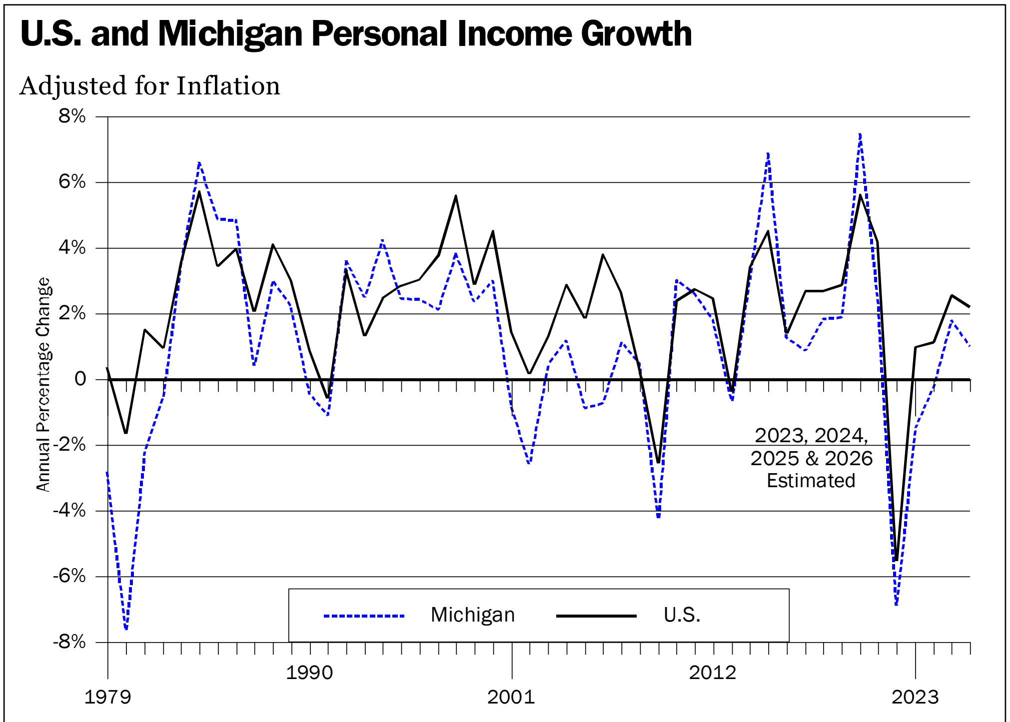
Compared with the May 19, 2023, Consensus Revenue Estimating Conference (CREC) forecast, economic growth is expected to be slightly stronger for both the national and Michigan economies over the entire forecast. Similarly, employment growth is expected to be slightly stronger, although inflation is expected to be lower.

Figure 7



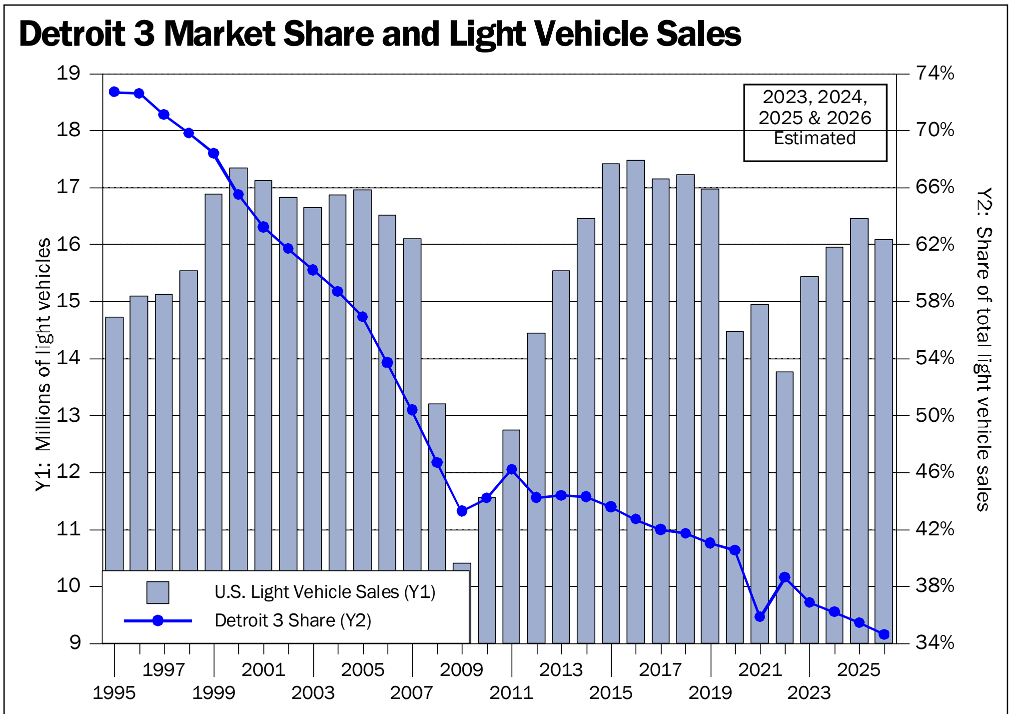
Source: Bureau of Labor Statistics, U.S. Department of Labor and Senate Fiscal Agency

Figure 8



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

Figure 9



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

FORECAST RISKS

- The COVID-19 pandemic and recovery have 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 high 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. However, higher interest rates and reduced lending, as well as the transition back to more normal consumption patterns, may cause economic growth to be weaker than forecasted.
- Both the US and Michigan labor markets will face labor market constraints on growth resulting from aging workforces lowering labor force participation.
- Recovery in the Michigan economy will be dominated by what happens with the motor vehicle industry.

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

Estimation error can be difficult or impossible to control when things change in ways that have not been previously observed. Statistical models use computational methods to estimate the degree to which changes in one variable (for example, the wage rate) affect another variable (for example, consumer spending). These methods look at past changes in the variables to estimate their relationship. The extent to which these estimated relationships will be useful for making future predictions depends on the degree to which the changes are similar. When estimating the relationships, large jumps in the value of a variable can result in difficulties in obtaining a reliable association between how changes in one variable affect another. Similarly, when making forecasts, the effects of large changes in a variable are unlikely to be correctly forecasted if the equations were estimated with data that did not contain changes of a similar magnitude. The magnitude by which many economic variables 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 supplemental nutrition aid 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, when 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 used. In 2020, the traditional relationship between spending and employment, in which 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. Withholding is strongly related to wages and average weekly hours, while sales and use tax revenue are strongly related to personal income. The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables, although the timing of when and how this return occurs will affect revenue. As illustrated with FY 2019-20, FY 2020-21, and FY 2021-22 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions, or even billions, of dollars. For example, the economic changes forecasted at the May 2020 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.

Monetary and Fiscal Policy. Changes in Federal tax policy since 2017 and subsequent growth in Federal spending increased Federal deficits to 4.9% of GDP in 2019, limiting the ability for fiscal policy to respond to a recession. Before the COVID-19 pandemic, the economy had exhibited warning signs of a recession and the Federal Reserve Board of Governors lowered interest rates three times in 2019. These reductions occurred in an already-low interest rate environment, meaning that like Federal fiscal policy, monetary policy entered the pandemic facing a more limited ability to respond to a recessionary shock.

Despite these limitations, once the economy began suffering impacts from the spread of COVID-19, the Federal government implemented fiscal and monetary policies to provide economic stimulus. While the stimulus measures were effective at maintaining aggregate income levels, and (to some degree) consumption spending, the fiscal stimulus measures pushed the Federal deficit to 27.4% of GDP in the second quarter of 2020 and 15.8% 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 -15.9% of GDP. Fiscal stimulus measures have largely expired, so that during the first three quarters of 2023, net Federal saving has averaged -6.2% of GDP, compared to -4.1% over the 2001-2019 period.

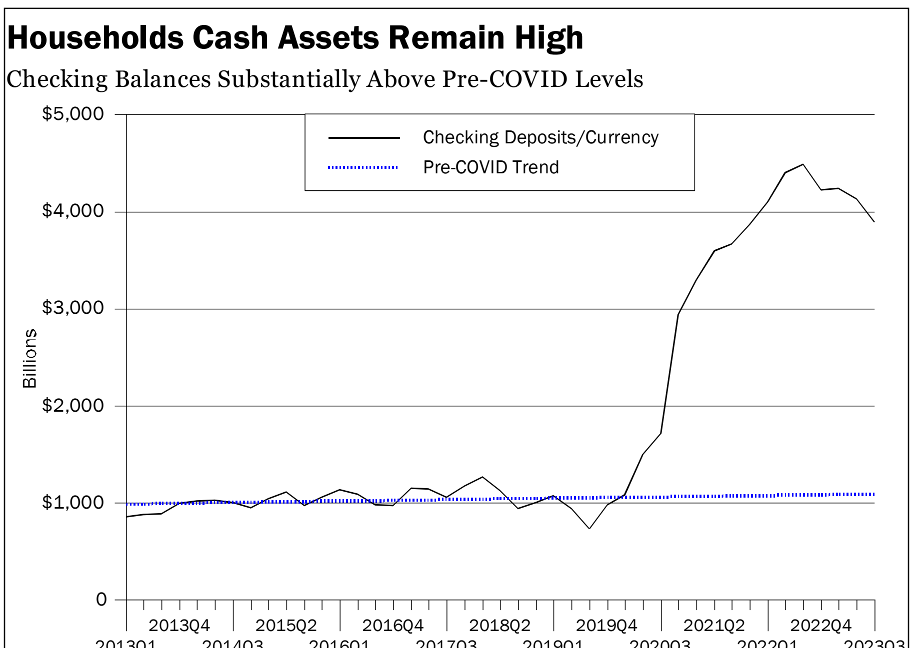
The forecast does not anticipate any additional major changes in Federal spending, although fiscal policy will remain stimulative with net Federal saving averaging roughly -5.7% of GDP over the forecast period. Monetary policy is expected to remain contractionary, as the Federal Reserve seeks to rein in the possibility of higher long-term inflationary expectations. 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. The Federal Reserve continued to increase interest rates and by July 2023 had raised rates 11 times for a total of 525 basis points (increasing the target Federal Funds rate from 0.0-0.25% at the beginning of 2022 to 5.25-5.50% in July

2023). The forecast does not expect any additional rate increases, although rates are not expected to begin a slow decline until the end of the third quarter of 2024. Strong consumption will put upward pressures on the prices of goods and services, and low unemployment rates will continue to exert upward pressure on wages; these factors likely will slow the pace at which the inflation rate (and interest rates) will decline. Interest rates are not expected to fall until the Federal Reserve is convinced inflation is unlikely to exceed the long-term target of 2.0%, which the forecast expects will occur in the last half of 2024, and potentially not until the last quarter of 2024.

A major risk affecting how well monetary policy will succeed in slowing inflation relates to consumer spending. Many consumers saw their net worth and cash balances rise in 2020 and 2021 (Figures 10 and 11). Despite rising inflation and falling stock markets, especially in 2022, consumers are wealthier than before the pandemic, particularly those consumers in the middle- and high-income groups and homeowners. Ultimately, inflation has reflected strong consumer demand and the way that demand is transmitted through the rest of the economy, whether by increasing the demand for goods that supply chains struggle to fulfill or a need for additional workers (who are in short supply) to provide goods and services. Whether that demand is fueled by wage growth, boosted by high checking and savings balances, financed by rising consumer borrowing or strong stock market gains, the demand puts pressure on firms to increase output. Because consumer balances and net worth remain above trend, consumers can feel wealthy enough to maintain (or increase) consumption in a world with rising consumer prices and rising interest rates. Consumer spending in both 2022 and 2023 reflected this behavior, with inflation at the highest levels in decades and inflation-adjusted spending still exhibiting solid growth.

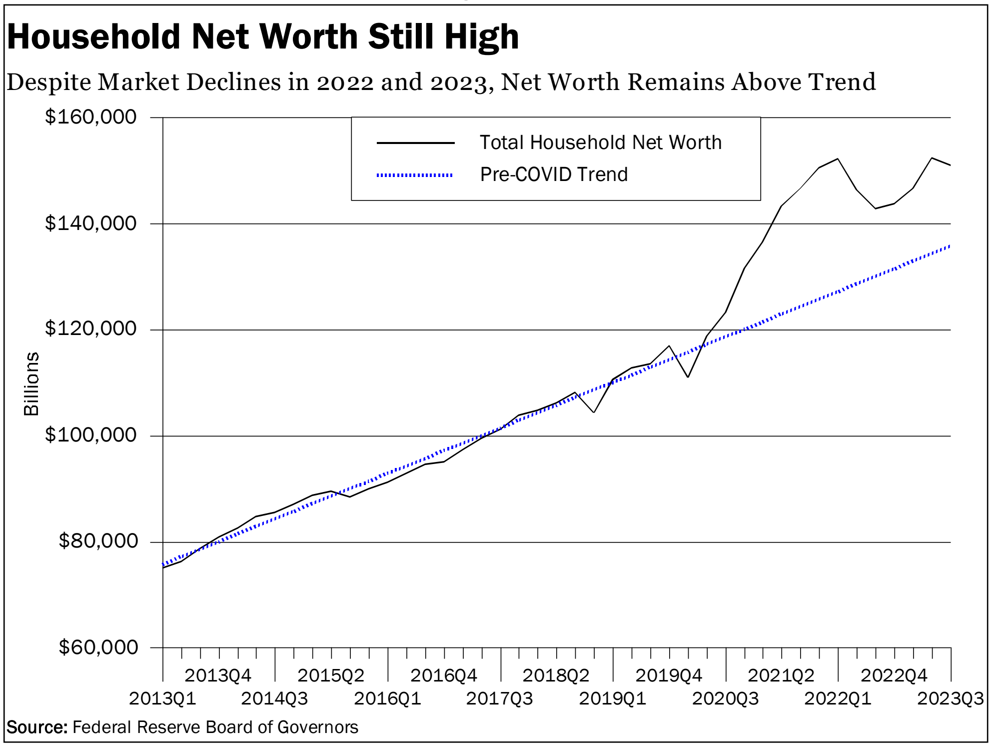
The forecast expects consumer spending will slow in 2024 and 2025, although perhaps not as much as it would have given the historical relationship between interest rates and spending. Additional Federal fiscal stimulus (reflecting higher deficits, whether due to falling tax receipts or increased spending) would cause both economic growth and inflation to be stronger than forecasted. Similarly, if inflation falls more rapidly than expected, economic growth will be stronger, especially if lower inflation allows the Federal Reserve to lower interest rates more rapidly than predicted. However, to the extent that the Federal Reserve finds it necessary to raise interest rates higher than expected or keep them at high levels for longer than expected (perhaps because consumers respond less than expected to rising interest rates), economic growth will be slower than forecasted and unemployment will be higher. Higher-than-anticipated interest rates are likely to curtail loan demand from both consumers and businesses, reducing both consumption and investment.

Figure 10



Source: Federal Reserve Board of Governors

Figure 11



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 projected that population demographics would 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. In 2020 and 2021, the pandemic drastically reduced labor force participation, particularly among women and older adults. By late 2023, labor force participation had largely recovered to pre-pandemic levels, and for some demographics was even above where demographic trends would have predicted, although labor force participation for older age groups remains below pre-pandemic levels. Continued reductions in labor force participation among older adults likely reflects a combination of the vulnerability of older populations to the COVID-19 virus and the difficulties older adults often have finding employment. Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return (Figure 12). As a result, unemployment rates have declined relatively rapidly as output has expanded, and the economy has experienced slower employment growth and worker shortages have been widespread. Despite expecting slowing economic activity in 2024 and 2025, the forecast anticipates that labor force dynamics will constrain growth over the next few years (if not decades). Moreover, unemployment rates will continue to be lower than suggested by the rate of job growth, and worker shortages will maintain greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

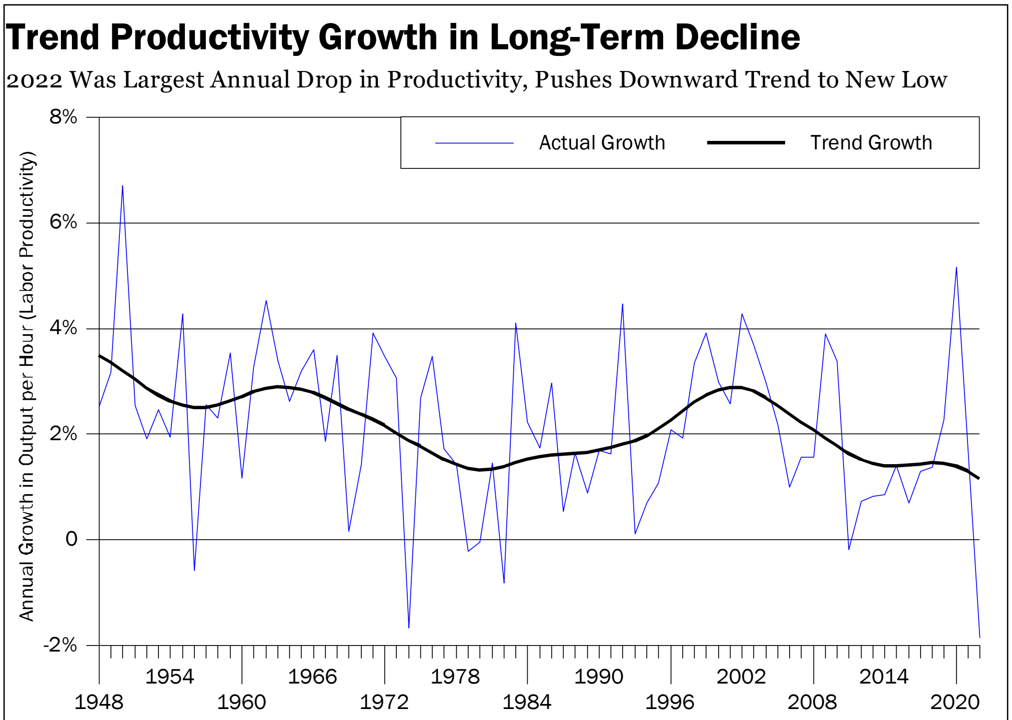
Aside from the short-term economic constraints related to the pandemic, low population growth and the longer-term slowing in productivity growth will reduce the long-term economic growth potential of both the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: 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

For the US as a whole, and Michigan specifically, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 1.0% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 13). 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, productivity fell 1.9% in 2022.

In 2023, productivity growth is expected to increase 1.1% and, in 2024 and 2025, it generally will be slightly above the 2023 rate, averaging about 1.2% per year. If productivity growth is less than forecasted, in the short run it will reduce economic growth and risk higher inflation than presented in the forecast. Similarly, if productivity growth is greater than forecast, output will increase and inflation will decline more rapidly, but employment growth will be slower. For example, one reason inflation in 2023 was less than was forecasted under the May 2023 SFA forecast is that in May the SFA forecasted that productivity would decline slightly (instead of the current forecast of a 1.1% increase).

Figure 13



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

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 14). While that reliance has declined (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 15.2% of total Michigan wage and salary income, compared to 6.4% in 2022), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although when oil prices started to fall, these states faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 helped mute the impact of the COVID-19 pandemic on the Michigan economy.

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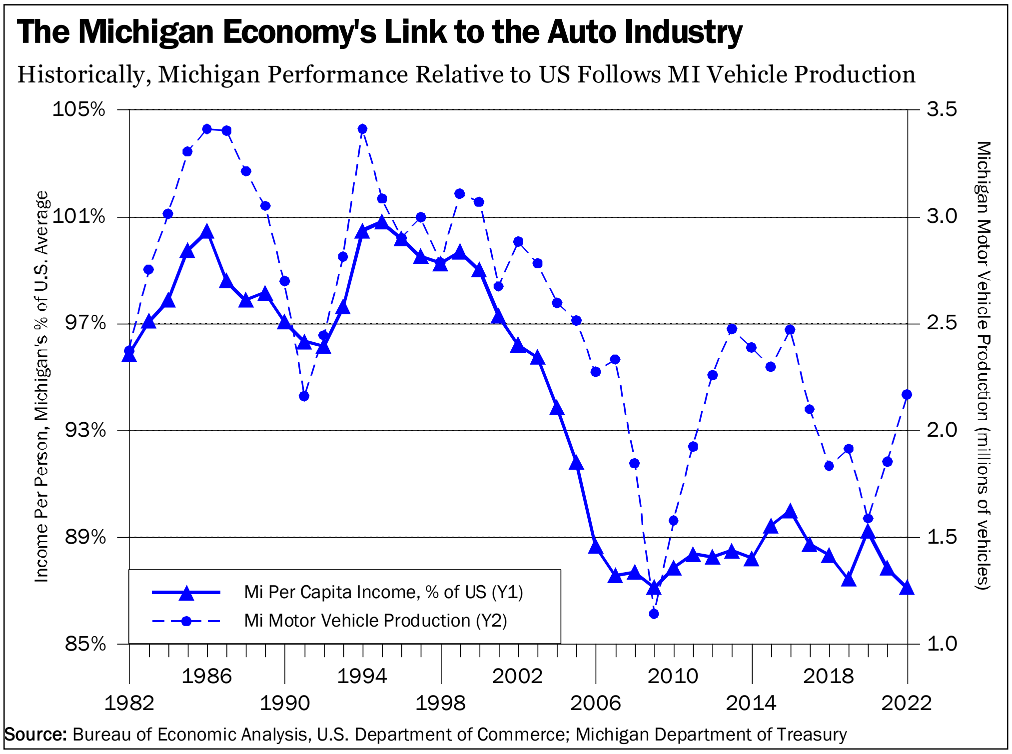
Figure 14

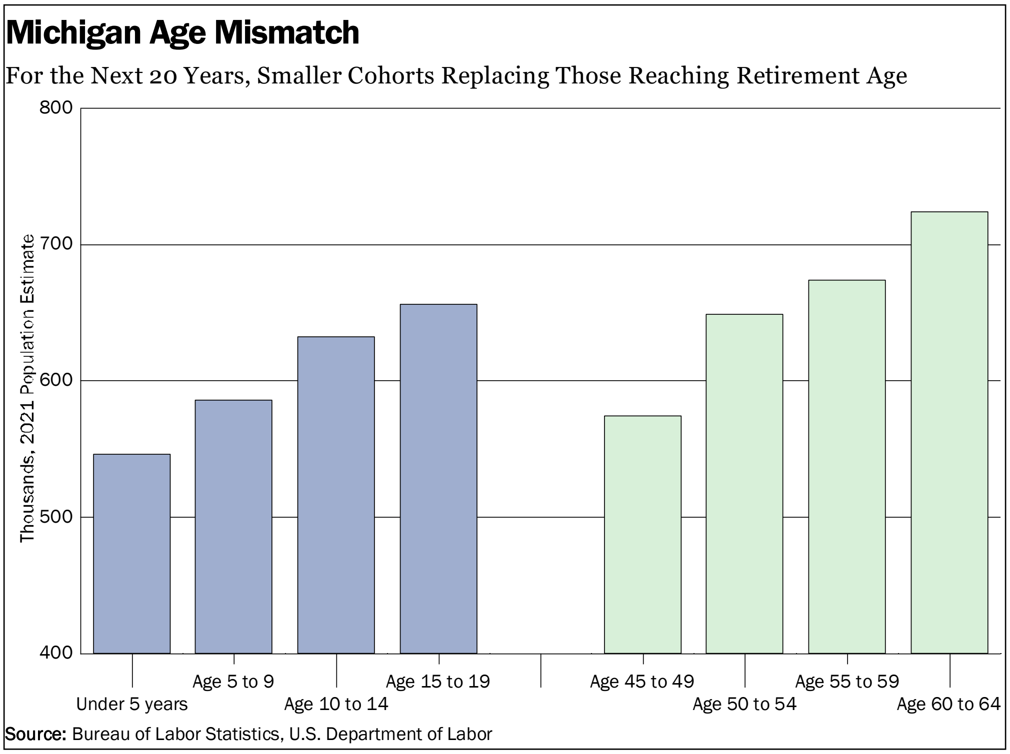


However, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that production needs could be met with existing, or even lower, employment levels than those at the end of 2019. Between the May 2000 peak and June 2009, Michigan lost more than two-thirds of the jobs (67.6%, a decline of approximately 238,000 jobs) in transportation equipment manufacturing. However, the majority of those jobs will never return, and any employment gains in the vehicle sector are likely to be muted. As a result, for Michigan payroll employment to increase, other sectors will need to expand, and workers will have to develop the skills necessary in those sectors—a process that occurs slowly. Consequently, Michigan payroll employment took seven years, until 2015, to return to the January 2008 level (the US pre-recession peak).

Compounding the employment situation, Michigan exhibits an older population. Michigan ranks 10th in the share of population comprised of individuals between the ages of 50 and 64, meaning that age-related declines in the labor force are likely to reduce the Michigan labor force by proportionately more than in most states. Furthermore, not only does the forecast expect significant productivity growth within the motor vehicle industry but the forecast expects that Michigan vehicle manufacturers are likely to see declining market shares (although the declines will not be as steep as they were during the 1999-2009 period). The aging population is complicated by the lack of younger individuals available to replace workers lost to retirement (Figure 15). For much of the next 20 years, an average of 10,000 more individuals will reach retirement age each year than will reach working age, implying that for the next 20 years Michigan is likely to see its labor force contract substantially each year. Combined with Michigan's reliance on the motor vehicle industry, Michigan's demographic trends suggest Michigan is unlikely to reach the level of total employment reported in April 2000 (the Michigan pre-recession peak) again until sometime in the second half of the 21st century.

The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists while the State remains comparatively over-reliant on the motor vehicle industry and exhibits unfavorable population demographics from limited population growth and an aging population. For the Michigan economy and State tax revenue to improve markedly, substantial employment gains in the economy as a whole will need to occur.

Figure 15



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the SFA's estimates for General Fund/General Purpose and School Aid Fund revenue. The preliminary year-end revenue for FY 2022-23 is presented along with the revised estimates for FY 2023-24 and FY 2024-25 and the initial revenue estimates for FY 2025-26. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2022-23, FY 2023-24, and FY 2024-25 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary GF/GP and SAF revenue for FY 2022-23, along with the revised estimates for FY 2023-24 and FY 2024-25, and the initial estimates for FY 2025-26 are presented in Table 3 and are summarized below.

FY 2022-23 Preliminary Revenue

- General Fund/General Purpose and SAF revenue is expected to total $31.7 billion in FY 2022-23.
- The year-end estimate for FY 2022-23 decreased 4.2% or $1,379.2 million from FY 2021-22 revenue, reflecting in part decreases in sales tax revenue, annual and estimated payments under the IIT, higher IIT refunds, and significant tax changes including a lower IIT rate in tax year 2023 and an increase in the Earned Income Tax Credit (EITC) from 6% to 30% of the Federal EITC. These decreases were slightly offset by an increase in use tax revenue, the State Education Property Tax (SET) and lottery revenue, as well as fewer refunds under the Michigan Business Tax (MBT).
- The preliminary estimate for FY 2022-23 is $184.2 million above the May 2023 consensus revenue estimate.
- The books have not yet been closed for FY 2022-23; final revenue will be determined at bookclosing.

FY 2023-24 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $31.6 billion in FY 2023-24.
- This revised estimate for FY 2023-24 is down 0.4%, or $126.2 million, from the preliminary revenue for FY 2022-23. The projected revenue decrease in FY 2023-24 reflects reductions in IIT and corporate income tax (CIT) revenue, as well as several tax changes that will take effect in 2024. These reductions will be partially offset by reduced IIT refunds, higher sales tax, and higher SET revenue.
- The revised estimate for FY 2023-24 is $461.2 million above the May 2023 consensus revenue estimate.

FY 2024-25 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $32.5 billion in FY 2024-25.
- The revised estimate for FY 2024-25 is up 2.8%, or $890.8 million, from the revised estimate for FY 2023-24. The revenue increase in FY 2024-25 reflects growth in IIT revenue (including reduced

refunds), increases in sales and use tax revenue along with higher SET revenue, partially offset by decreases in CIT revenue.

- The revised estimate for FY 2024-25 is $296.1 million above the May 2023 consensus revenue estimate.

FY 2025-26 Initial Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $33.5 billion in FY 2025-26.
- This initial estimate for FY 2025-26 is 3.1%, or $992.9 million, more than the revised estimate for FY 2024-25.
- The revenue increase in FY 2025-26 primarily reflects growth in most major taxes, including the IIT, CIT, sales tax, use tax, and SET.

Historical Perspective

- Preliminary net GF/GP and SAF revenue decreased 4.2% in FY 2022-23. Net GF/GP and SAF revenue is forecast to decrease in FY 2023-24, and then increase in FY 2024-25 and FY 2025-26. The projected growth rates are -0.4% in FY 2023-24, 2.8% in FY 2024-25, and 3.1% in FY 2025-26. 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.
- Preliminary GF/GP revenue fell 9.0% in FY 2022-23, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax (PPT) changes. School Aid Fund revenue rose to its highest level ever in FY 2021-22 ($17.9 billion), after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.

Baseline GF/GP and SAF combined revenue is forecast to decrease in FY 2023-24, and then increase in FY 2024-25 and FY 2025-26 (Figure 16). Combined GF/GP and SAF baseline revenue declined during several periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 0.6% in FY 2022-23. Using the FY 2021-22 base year, baseline GF/GP and SAF revenue is expected to decline approximately 0.5% in FY 2023-24, then increase 2.3% in FY 2024-25, and 1.7% in FY 2025-26.

Ongoing GF/GP revenue in FY 2023-24 is forecast to be approximately 10.2% (or $1,555.3 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of $14.2 billion in FY 2024-25 is 6.9% below the peak, and the initial estimates for FY 2025-26 are 2.5% below the peak level (Figure 17). In inflation-adjusted terms, FY 2025-26 GF/GP revenue is estimated to be 1.3% (or $137.2 million in 2017 dollars) below the FY 1967-68 level (Figure 18).

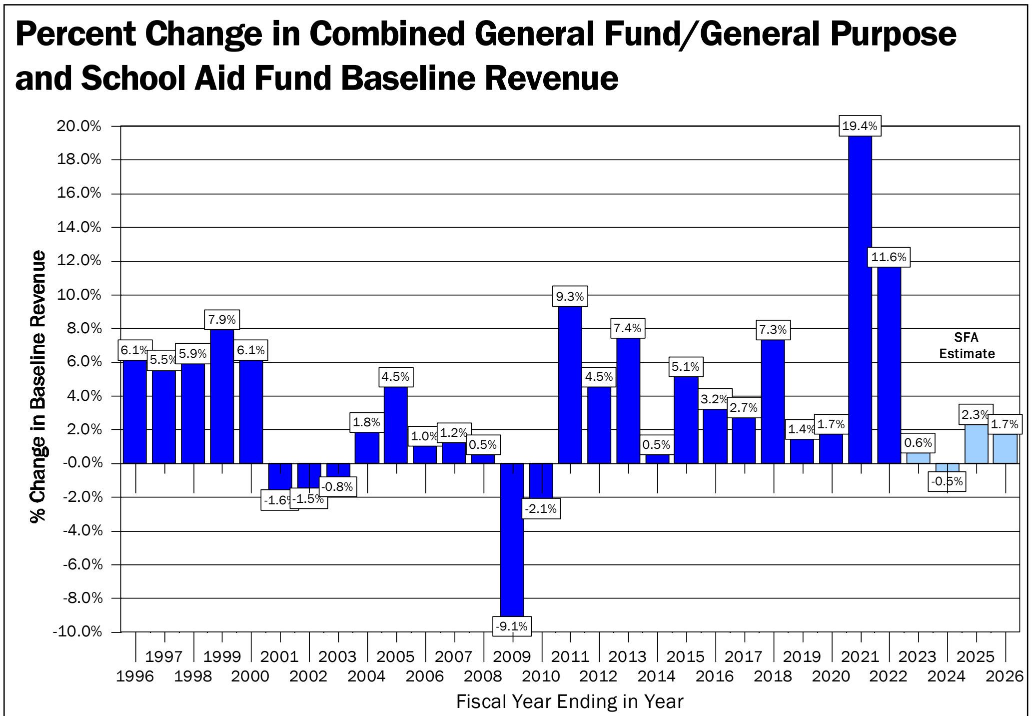
In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to increase in FY 2023-24, FY 2024-25, and FY 2025-26 (Figure 17). In FY 2025-26, SAF revenue is predicted to be approximately 166.1% ($11.6 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and less than 0.1% ($500,000 in 2017 dollars) below if adjusted for inflation (Figure 19).

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2022-23 THROUGH FY 2025-26 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2022-23 Preliminary	**FY 2023-24 Revised Est.**	**FY 2024-25 Revised Est.**	**FY 2025-26 Initial Est.**
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1)]	$16,939.8	$16,578.7	$16,944.1	$17,200.5
Tax Changes Not In Baseline	(3,095.1)	(2,922.0)	(2,781.7)	(2,363.0)
<u>Revenue After Tax Changes</u>:				
Net Income Tax	7,639.0	7,899.9	8,547.3	8,737.6
MBT, CIT, SBT & Insur. Tax	1,639.1	1,535.4	1,492.6	1,991.0
Other Taxes	3,368.3	3,368.4	3,435.6	3,515.0
Total Taxes	12,646.4	12,803.7	13,475.5	14,243.6
Nontax Revenue	1,198.3	853.0	686.9	593.9
TOTAL GF/GP REVENUE	**$13,844.7**	**$13,656.7**	**$14,162.4**	**$14,837.5**
SCHOOL AID FUND				
Baseline SAF	$17,949.0	$18,125.6	$18,548.3	$18,898.6
Tax Changes Not In Baseline	(79.9)	(194.7)	(232.3)	(264.8)
TOTAL SAF REVENUE	**$17,869.1**	**$17,930.9**	**$18,316.0**	**$18,633.8**
BASELINE GF/GP AND SAF REVENUE	$34,888.8	$34,704.3	$35,492.4	$36,099.1
Tax & Revenue Changes	(3,175.0)	(3,116.7)	(3,014.0)	(2,627.8)
GF/GP & SAF REV. AFTER CHANGES	**$31,713.8**	**$31,587.6**	**$32,478.4**	**$33,471.3**
ADDENDUM:				
Sales Tax	$10,674.4	$10,887.3	$10,995.9	$11,124.0
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	0.3%	(2.1%)	2.2%	1.5%
<u>Revenue After Tax Changes</u>:				
Net Income Tax	(17.0%)	3.4%	8.2%	2.2%
MBT, CIT, SBT & Insur. Tax	(16.0)	(6.3)	(2.8)	33.4
Other Taxes	(0.5)	0.0	2.0	2.3
Total Taxes	(13.0)	1.2	5.2	5.7
Nontax Revenue	77.3	(28.8)	(19.5)	(13.5)
TOTAL GF/GP REVENUE	**(9.0%)**	**(1.4%)**	**3.7%**	**4.8%**
SCHOOL AID FUND				
Baseline SAF	0.9%	1.0%	2.3%	1.9%
TOTAL SAF REVENUE	**(0.1%)**	**0.3%**	**2.1%**	**1.7%**
Baseline GF/GP and SAF Revenue	0.6%	(0.5%)	2.3%	1.7%
GF/GP & SAF REV. AFTER CHANGES	**(4.2%)**	**(0.4%)**	**2.8%**	**3.1%**
ADDENDUM:				
Sales Tax	(1.0%)	2.0%	1.0%	1.2%

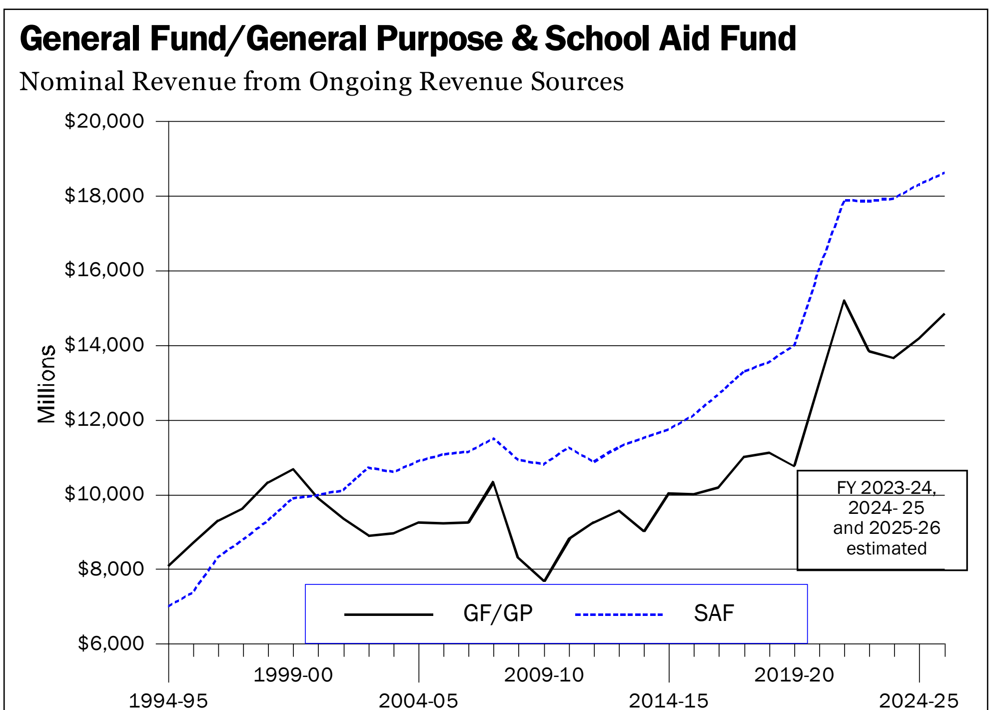
1) FY 2021-22 is the base year for baseline revenue.

Figure 16



Source: Department of Treasury and Senate Fiscal Agency

Figure 17



Source: Department of Treasury and Senate Fiscal Agency

Figure 18

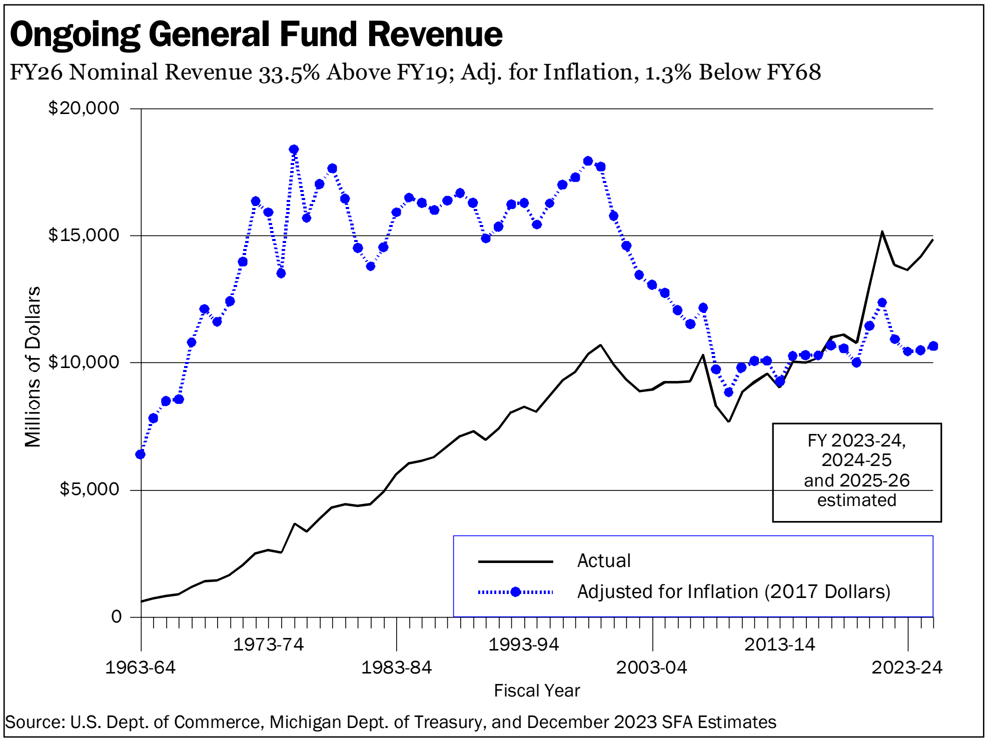
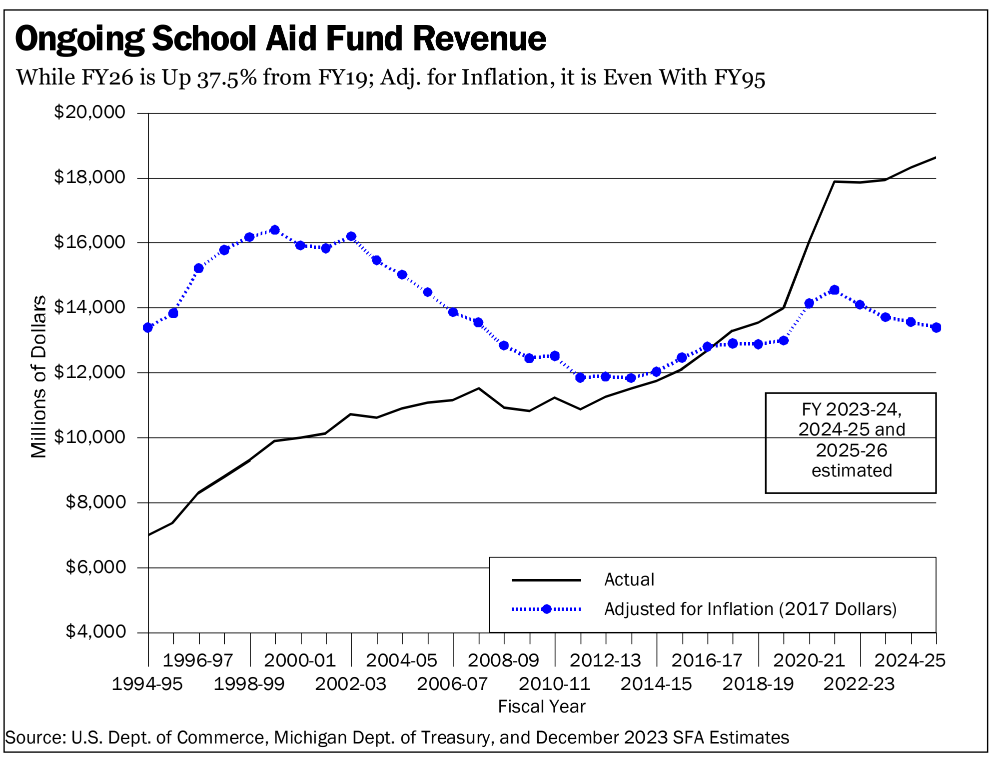


Figure 19



FY 2022-23 PRELIMINARY REVENUE

- General Fund/General Purpose and SAF revenue decreased an estimated 4.2% in FY 2022-23 compared with FY 2021-22.
- The revenue decrease in FY 2022-23 reflected in part decreases in sales tax revenue, annual and estimated payments under the IIT, higher IIT refunds, and significant tax changes including a lower IIT rate for tax year 2023 and a permanent increase in the EITC from 6% to 30% of the Federal EITC. These decreases were slightly offset by an increase in the use tax, the SET, and lottery revenue and fewer refunds under the MBT.
- The books have not yet been closed for FY 2022-23; final revenue will be determined at bookclosing.

Michigan's economy grew during FY 2022-23. During calendar year 2023, personal income grew 4.3%, wage and salary employment grew 1.5%, and wage and salary income grew 5.4%; however, inflation-adjusted personal income fell 1.5%. Based on preliminary year-end revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled $31.7 billion in FY 2022-23, which is 4.2% below the FY 2021-22 revenue level (as presented in Table 4). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan ACFR. Actions taken or determinations made between the date of this publication and bookclosing may, and likely will, change the amounts of final year-end revenues for FY 2022-23.

The preliminary GF/GP and SAF revenue level for FY 2022-23 is $184.2 million above the May 2023 consensus revenue estimate. The largest share of the revenue increase from the May 2023 estimates reflects higher use tax revenue of $146.7 million. Refunds paid under the MBT were $95.4 million lower than expected. Corporate income tax collections finished $48.2 million above the May 2023 estimates. Lottery revenue was $131.9 million above the May 2023 estimates. Total sales tax revenue was lower by $172.9 million compared to the May 2023 estimate, while IIT revenue was $509.3 million less than the May 2023 forecast.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT reduced revenue by $210.0 million ($160.0 million GF/GP and $50.0 million SAF). Because GF/GP revenue increased in FY 2021-22 by an amount greater than 1.425 times the rate of inflation, Public Act 180 of 2015 required a reduction in the IIT rate for tax year 2023. This IIT trigger lowered revenue by $428.2 million (a decrease of $530.8 million GF/GP and an increase of $102.6 million SAF).

Personal Property Tax Reform. Use tax collections of $548.0 million in FY 2022-23 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.

Michigan Business Tax. The MBT will lower GF/GP revenue by $431.6 million in FY 2022-23. All the impact of MBT credits reduces GF/GP revenue and does not affect the SAF.

Earned Income Tax Credit. The EITC was increased from 6% of the Federal level to 30% of the Federal EITC. The increase in the EITC will lower GF/GP revenue by $396.0 million in FY 2022-23. All the impact of the EITC credits reduces GF/GP revenue. Because Public Act 4 of 2023 did not receive immediate effect, the May 2023 consensus estimate forecast the higher credit for tax year 2022 would be booked against FY 2023-24 revenue, along with the credit for tax year 2024. Subsequent to those estimates, the EITC for tax year 2022 was booked against FY 2022-23 revenue, effectively lowering FY 2022-23 revenue and increasing FY 2023-24 revenue by the same $396.0 million.

Public Act 4 of 2023 Earmark. Public Act 4 of 2023 will lower GF/GP revenue from the CIT by earmarking $600.0 million to other funds in FY 2022-23.

Other Changes. Public Act 150 of 2021 increased the PPT exemption, lowering SAF revenue by $10.1 million. School Aid Fund hold-harmless provisions, combined with the delivery charge exemptions in Public Acts 21 and 29 of 2023, reduced sales tax revenue by $23.0 million ($20.7 million GF/GP and $2.3 million other) and reduced use tax revenue by $8.3 million (all GF/GP).

General Fund/General Purpose

General Fund/General Purpose revenue totaled an estimated $13.8 billion in FY 2022-23, a decrease of 9.0%, or $1,367.3 million, from FY 2021-22. The revised GF/GP estimate is $56.7 million above the May 2023 consensus revenue estimate. Baseline GF/GP revenue increased 0.3%. Total tax adjustments totaled $3,095.1 million. The revised GF/GP revenue estimates for FY 2022-23 are summarized in Table 4. The increase of $56.7 million from the May 2023 consensus estimate for FY 2022-23 reflects higher than expected CIT revenue, use tax revenue, interest earnings and revenue from abandoned property, as well as lower MBT refunds, more than offsetting lower-than-expected IIT revenue (primarily higher than expected refunds) and sales tax revenue.

School Aid Fund

School Aid Fund revenue totaled an estimated $17.9 billion in FY 2022-23, a decrease of 0.1%, or $11.9 million, from FY 2021-22. The decline in SAF revenue reflects declines in IIT revenue, real estate transfer tax revenue, and sales tax revenue. However, the revised SAF estimate is $127.5 million higher than the May 2023 consensus revenue estimate. The above-forecast SAF revenue reflects greater than expected growth in most major earmarked tax sources, offsetting less-than-expected sales tax revenue and SET revenue. The SAF revised revenue estimates for FY 2022-23 are summarized in Table 4.

FY 2023-24 REVISED REVENUE ESTIMATES

The SFA estimates personal income will increase 3.3%, wage and salary employment will grow 0.6%, and wage and salary income will increase 4.0% from FY 2022-23. Total GF/GP and SAF revenue will reach an estimated $31.6 billion in FY 2023-24, a decrease of 0.4%, or $126.2 million, from the preliminary revenue for FY 2022-23. On a baseline basis, GF/GP and SAF revenue is expected to decrease 0.5% in FY 2023-24. The revised estimate of GF/GP and SAF revenue for FY 2023-24 is $461.2 million above the May 2023 forecast and is summarized in Table 5.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $285.0 million ($217.1 million GF/GP and $67.9 million SAF).

Personal Property Tax Reform. Use tax collections of $561.7 million in FY 2023-24 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Earned Income Tax Credit. The EITC was increased from 6% of the Federal level to 30% of the Federal EITC by Public Act 4 of 2023. The increase in the EITC will lower GF/GP revenue by $400.0 million in FY 2023-24. All the impact of the EITC credits reduces GF/GP revenue. Because Public Act 4 of 2023 did not receive immediate effect, the May 2023 consensus estimate forecast the higher credit for tax year 2022 would be booked against FY 2023-24 revenue, along with the credit for tax year 2024 (lowering FY 2023-

24 revenue by combined $796.0 million). Subsequent to those estimates, the EITC for tax year 2022 was booked against FY 2022-23 revenue, effectively lowering FY 2022-23 revenue and increasing FY 2023-24 revenue by the same $396.0 million.

Public Act 4 of 2023 Earmark. Public Act 4 of 2023 will lower GF/GP revenue from the CIT by earmarking $600.0 million to other funds in FY 2023-24.

Michigan Business Tax. The MBT will lower GF/GP revenue by $494.6 million in FY 2023-24. All the impact of MBT credits reduces GF/GP revenue.

Taxes on Retirement Income. Public Act 4 of 2023 altered the tax treatment for retirement income from pensions, reducing revenue by $281.0 million ($224.1 million GF/GP and $56.9 million SAF) in FY 2023-24.

Additional LCSA Earmark. Public Act 175 of 2023 earmarks $75.0 million in GF/GP use tax revenue to the LCSA to provide reimbursements to local units for the expanded PPT exemption for small taxpayers under Public Act 150 of 2021. The first year of the earmark is FY 2023-24.

Other Changes. Public Act 150 of 2021 increased the PPT exemption, lowering SAF revenue by $10.1 million. School Aid Fund hold-harmless provisions, combined with the delivery charge exemptions in Public Acts 21 and 29 of 2023, will reduce sales tax revenue by $54.7 million ($49.2 million GF/GP and $5.5 million other) and use tax revenue by $24.2 million (all GF/GP).

Table 4

FY 2022-23 PRELIMINARY FINAL REVENUE GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2021-22		
	FY 2021-22 Final	FY 2022-23 Preliminary Final	Dollar Change	Percent Change	$ Change from 05/23 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$16,885.1	$16,939.8	$54.7	0.3%	$502.4
Tax Changes Not In Baseline	(1,673.1)	(3,095.1)	(1,422.0)	----	(445.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$17,099.7	$15,619.6	($1,480.1)	(8.7%)	$82.2
Less: Refunds	(3,170.9)	(3,401.5)	(230.6)	7.3	(591.5)
Net Income Tax Collections	13,928.8	12,218.1	(1,710.7)	(12.3)	(509.3)
Less: Earmarking to SAF	(4,059.7)	(3,907.7)	152.0	(3.7)	(69.6)
Earmarking to MI Transp. Fund	(600.0)	(602.3)	(2.3)	----	(2.3)
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(1.1)	(0.1)	1.1	(95.5)	0.8
Net Income Tax to GF/GP	$9,199.0	$7,639.0	($1,560.0)	(17.0%)	($580.4)
Other Taxes					
Corporate Income Tax	2,029.3	1,608.3	(421.0)	(20.7)	48.3
Michigan Business Tax	(500.3)	(431.6)	68.7	(13.7)	95.4
Sales	1,694.4	1,626.6	(67.8)	(4.0)	(52.8)
Use	1,194.9	1,251.6	56.7	4.7	95.6
Cigarette	158.8	143.4	(15.4)	(9.7)	(4.7)
Insurance Company Premiums	419.9	465.9	46.0	11.0	25.9
Telephone & Telegraph	35.0	35.9	0.9	2.6	1.9
Oil & Gas Severance	42.2	27.1	(15.1)	(35.8)	(7.9)
All Other	263.0	280.1	17.2	6.5	30.2
Subtotal Other Taxes	$5,337.2	$5,007.4	($329.8)	(6.2%)	$231.9
Total Nontax Revenue	675.8	1,198.3	522.5	77.3	405.2
GF/GP REV. AFTER TAX CHANGES	**$15,212.0**	**$13,844.7**	**($1,367.3)**	**(9.0%)**	**$56.7**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$17,794.1	$17,949.0	$155.0	0.9%	$160.8
Tax Changes Not In Baseline	86.9	(79.9)	(166.8)	----	(33.2)
Revenue After Tax Changes					
Sales Tax	7,865.1	7,806.9	(58.2)	(0.7)	($113.8)
Use Tax	859.4	909.5	50.1	5.8	51.1
Lottery Revenue	1,248.6	1,351.9	103.3	8.3	131.9
State Education Property Tax	2,440.0	2,568.7	128.7	5.3	(38.3)
Real Estate Transfer Tax	546.6	389.2	(157.4)	(28.8)	(0.8)
Income Tax	4,059.7	3,907.7	(152.0	(3.7)	69.6
Gaming Taxes	364.7	429.9	65.2	17.9	12.3
Other Revenue	496.9	505.3	8.4	1.7	15.5
SAF REV. AFTER TAX CHANGES	**$17,881.0**	**$17,869.1**	**($11.9)**	**(0.1%)**	**$127.5**
BASELINE GF/GP AND SAF	$34,679.2	$34,888.8	$209.6	0.6%	$663.2
Tax & Revenue Changes	(1,586.2)	(3,175.0)	(1,588.8)	----	(479.0)
GF/GP & SAF REV. AFTER CHNGS	**$33,093.0**	**$31,713.8**	**($1,379.2)**	**(4.2%)**	**$184.2**
Sales Tax	$10,784.7	$10,674.4	($110.3)	(1.0%)	($172.9)

[1)] FY 2021-22 is the base year for baseline revenue.

Table 5

FY 2023-24 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2022-23		
	FY 2022-23 Preliminary Final	FY 2023-24 Revised Est.	Dollar Change	Percent Change	$ Change from 05/23 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$16,950.1	$16,592.7	($357.4)	(2.1%)	$191.8
Tax Changes Not In Baseline	(3,105.5)	(2,936.0)	169.5	----	226.6
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$15,619.6	$15,432.1	($187.5)	(1.2%)	($326.0)
Less: Refunds	(3,401.5)	(3,151.7)	249.8	(7.3)	358.3
Net Income Tax Collections	12,218.1	12,280.4	62.3	0.5	32.3
Less: Earmarking to SAF	(3,907.7)	(3,710.7)	197.0	(5.0)	87.5
Earmarking to MI Transp. Fund	(602.3)	(600.0)	2.3	(0.4)	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(0.1)	(0.8)	(0.8)	----	0.0
Net Income Tax to GF/GP	7,639.0	7,899.9	260.9	3.4	119.8
Other Taxes					
Corporate Income Tax	1,608.3	1,545.0	(63.3)	(3.9)	45.0
Michigan Business Tax	(431.6)	(494.6)	(63.0)	----	15.1
Sales	1,626.6	1,693.6	67.0	4.1	27.6
Use	1,251.6	1,207.0	(44.6)	(3.6)	70.3
Cigarette	143.4	137.0	(6.4)	(4.5)	(8.8)
Insurance Company Premiums	465.9	485.0	19.1	4.1	35.0
Telephone & Telegraph	35.9	34.5	(1.4)	(3.9)	1.5
Oil & Gas Severance	27.1	29.0	1.9	7.0	(5.0)
All Other	280.1	267.3	(12.8)	(4.6)	5.0
Subtotal Other Taxes	$5,007.4	$4,903.8	($103.6)	(2.1%)	$185.7
Total Nontax Revenue	1,198.3	853.0	(345.3)	(28.8)	112.9
GF/GP REV. AFTER TAX CHANGES	**$13,844.7**	**$13,656.7**	**($188.0)**	**(1.4%)**	**$418.4**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$17,960.2	$18,127.1	$167.0	0.9%	$58.7
Tax Changes Not In Baseline	(91.0)	(196.2)	(105.2)	----	(15.9)
Revenue After Tax Changes					
Sales Tax	$7,806.9	$7,971.6	$164.7	2.1%	($1.9)
Use Tax	909.5	936.2	26.7	2.9	72.7
Lottery Revenue	1,351.9	1,327.7	(24.2)	(1.8)	115.0
State Education Property Tax	2,568.7	2,692.9	124.2	4.8	(45.0)
Real Estate Transfer Tax	389.2	337.5	(51.7)	(13.3)	(40.0)
Income Tax	3,907.7	3,710.7	(197.0)	(5.0)	(87.5)
Gaming Taxes	429.9	452.2	22.3	5.2	18.0
Other Revenue	505.3	502.1	(3.2)	(0.6)	11.5
SAF REV. AFTER TAX CHANGES	**$17,869.1**	**$17,930.9**	**$61.8**	**0.3%**	**$42.8**
BASELINE GF/GP AND SAF	$34,910.3	$34,719.8	($190.5)	(0.5%)	$250.5
Tax & Revenue Changes	(3,196.5)	(3,132.2)	64.3	----	210.7
GF/GP & SAF REV. AFTER CHNGS	**$31,713.8**	**$31,587.6**	**($126.2)**	**(0.4%)**	**$461.2**
Sales Tax	$10,674.4	$10,887.3	$212.9	2.0%	$0.0

[1)] FY 2022-23 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $13.7 billion in FY 2023-24, a decrease of 1.4%. or $188.0 million, from the revised estimate for FY 2022-23. Baseline GF/GP revenue is expected to decrease 2.1% ($357.4 million) from FY 2022-23. The decrease in GF/GP revenue reflects reductions in gross IIT collections, CIT, MBT, and use tax revenue compared to FY 2022-23, although sales tax revenue is forecasted to be higher and IIT refunds are lower than compared to FY 2022-23. The revised GF/GP revenue estimates for FY 2023-24 are $418.4 million above the May 2023 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 $17.9 billion in FY 2023-24, an increase of $61.8 million, or 0.3%, from the revised estimate for FY 2022-23. The forecasted increase in SAF revenue reflects higher SET, sales tax revenue, and gaming revenue, partially offset by reduced income tax revenue and decreased Real Estate Transfer Tax. The revised SAF revenue estimates for FY 2023-24 are $42.8 million above the May 2023 consensus estimates and are summarized in Table 5.

FY 2024-25 REVISED REVENUE ESTIMATES

The SFA estimates personal income will grow 4.2%, wage and salary employment will grow 0.5%, and wage and salary income will grow 3.7%. General Fund/General Purpose and SAF revenue will reach an estimated $32.5 billion in FY 2024-25, an increase of 2.8%, or $890.8 million, from the revised estimate for FY 2023-24. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.3% in FY 2024-25, reflecting improvements in the State economy. Estimated GF/GP and SAF revenue is $296.1 million above the May 2023 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2024-25 is summarized in Table 6.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $345.0 million ($262.9 million GF/GP and $82.1 million SAF).

Personal Property Tax Reform. Use tax collections of $569.8 million in FY 2024-25 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.

Michigan Business Tax. The MBT will lower GF/GP revenue by $503.4 million in FY 2024-25. All the impact of MBT credits reduces GF/GP revenue.

Earned Income Tax Credit. The EITC was increased from 6% of the Federal level to 30% of the Federal level. The increase in the EITC will lower GF/GP revenue by $404.0 million in FY 2024-25. All the impact of the EITC credits reduces GF/GP revenue.

Public Act 4 of 2023 Earmark. Public Act 4 of 2023 will lower GF/GP revenue from the CIT by earmarking $600.0 million to other funds in FY 2024-25.

Taxes on Retirement Income. Public Act 4 of 2023 altered the tax treatment for retirement income from pensions, reducing revenue $350.0 million ($275.9 million GF/GP and $74.1 million SAF) in FY 2024-25.

Additional LCSA Earmark. Public Act 175 of 2023 earmarks $75.0 million per year in GF/GP use tax revenue to the LCSA to provide reimbursements to local units for the expanded PPT exemption for small taxpayers under Public Act 150 of 2021. The first year of the earmark is FY 2023-24.

Other Changes. Public Act 150 of 2021 increased the PPT exemption, lowering SAF revenue by $10.1 million. School Aid Fund hold-harmless provisions, combined with the delivery charge exemptions in Public Acts 21 and 29 of 2023, will reduce sales tax revenue by $55.0 million ($49.5 million GF/GP and $5.5 million other) and use tax revenue by $25.2 million (all GF/GP).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.2 billion in FY 2024-25, an increase of $505.7 million from the revised estimate for FY 2023-24. Baseline GF/GP revenue is expected to increase 2.2%. Most of the increase in GF/GP revenue reflects increased income tax collections and reduced IIT refunds, partially offset by lower CIT revenue. The revised GF/GP revenue estimates for FY 2024-25 are $246.0 million above the May 2023 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 $18.3 billion in FY 2024-25, an increase of $385.0 million from the revised estimate for FY 2023-24. Baseline SAF revenue growth will be 2.3% in FY 2024-25. The forecasted increase in SAF revenue reflects an increase in revenue from the sales tax and the IIT, partially offset by decreases in lottery revenue. The revised SAF revenue estimates for FY 2024-25 are $50.1 million above the May 2023 consensus estimates and are summarized in Table 6.

FY 2025-26 INITIAL REVENUE ESTIMATES

Personal income is forecasted to grow 3.6%, while wage and salary income will grow 3.0%, and wage and salary employment will grow 0.1%. As a result, total GF/GP and SAF revenue will reach an estimated $33.5 billion in FY 2025-26, an increase of 3.1%, or $992.9 million, from the revised estimate for FY 2024-25. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.7% in FY 2025-26, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2025-26 is summarized in Table 7.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by $382.5 million ($291.4 million GF/GP and $91.1 million SAF).

Personal Property Tax Reform. Use tax collections of $571.4 million in FY 2025-26 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.

Michigan Business Tax. The MBT will lower GF/GP revenue by $515.0 million in FY 2025-26. All the impact of MBT credits reduces GF/GP revenue.

Earned Income Tax Credit. The EITC was increased from 6% of the Federal level to 30% of the Federal level. The increase in the EITC will lower GF/GP revenue by $408.0 million in FY 2025-26. All of the impact of the EITC credits reduce GF/GP revenue.

Public Act 4 of 2023 Earmark. Public Act 4 of 2023 will lower GF/GP revenue from the CIT by earmarking $50.0 million to other funds in FY 2025-26.

Taxes on Retirement Income. Public Act 4 of 2023 altered the tax treatment for retirement income from pensions, reducing revenue $453.0 million ($356.2 million GF/GP and $96.8 million SAF) in FY 2025-26.

Additional LCSA Earmark. Public Act 175 of 2023 earmarks $75.0 million per year in GF/GP use tax revenue to the LCSA to provide reimbursements to local units for the expanded PPT exemption for small taxpayers under Public Act 150 of 2021. The first year of the earmark is FY 2023-24.

Other Changes. Public Act 150 of 2021 increased the PPT exemption, lowering SAF revenue by $10.1 million. School Aid Fund hold-harmless provisions, combined with the delivery charge exemptions in Public Acts 21 and 29 of 2023, will reduce sales tax revenue by $56.4 million ($50.8 million GF/GP and $5.6 million other) and use tax revenue by $25.8 million (all GF/GP).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.8 billion in FY 2025-26, an increase of 4.8%, or $675.1 million, from the revised estimate for FY 2024-25. Baseline GF/GP revenue is expected to increase 1.5% due to the continued growth in the economy. The initial GF/GP revenue estimates for FY 2025-26 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $18.6 billion in FY 2025-26, an increase of $317.8 million, or 1.7%, from the revised estimate for FY 2024-25. The initial SAF revenue estimates for FY 2025-26 are summarized in Table 7.

Table 6

FY 2024-25 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2023-24		
	FY 2023-24 Revised Est.	FY 2024-25 Revised Est.	Dollar Change	Percent Change	$ Change from 05/23 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$16,592.7	$16,958.1	$365.4	2.2%	$333.3
Tax Changes Not In Baseline	(2,936.0)	(2,795.7)	140.3	----	(87.3)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$15,432.1	$16,138.2	$706.1	4.6%	($120.5)
Less: Refunds	(3,151.7)	(3,065.3)	86.4	(2.7)	59.7
Net Income Tax Collections	12,280.4	13,072.9	792.5	6.5	(60.8)
Less: Earmarking to SAF	(3,710.7)	(3,855.8)	(145.1)	3.9	58.5
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	7,899.9	8,547.3	647.4	8.2	(2.3)
Other Taxes					
Corporate Income Tax	1,545.0	1,500.0	(45.0)	(2.9)	0.0
Michigan Business Tax	(494.6)	(503.4)	(8.8)	1.8	2.1
Sales	1,693.6	1,710.3	16.7	1.0	13.9
Use	1,207.0	1,249.9	42.9	3.6	101.7
Cigarette	137.0	134.2	(2.8)	(2.1)	(9.7)
Insurance Company Premiums	485.0	496.0	11.0	2.3	37.0
Telephone & Telegraph	34.5	33.5	(1.0)	(2.9)	2.5
Oil & Gas Severance	29.0	30.0	1.0	3.4	(2.0)
All Other	267.3	277.7	10.4	3.9	4.0
Subtotal Other Taxes	$4,903.8	$4,928.2	$24.4	0.5%	$149.5
Total Nontax Revenue	853.0	686.9	(166.1)	(19.5)	98.8
GF/GP REV. AFTER TAX CHANGES	**$13,656.7**	**$14,162.4**	**$505.7**	**3.7%**	**$246.0**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$18,127.1	$18,549.8	$422.7	2.3%	$93.3
Tax Changes Not In Baseline	(196.2)	(233.8)	(37.6)	----	(43.2)
Revenue After Tax Changes					
Sales Tax	7,971.6	8,049.4	77.8	1.0	(66.3)
Use Tax	936.2	962.2	26.0	2.8	88.3
Lottery Revenue	1,327.7	1,313.5	(14.2)	(1.1)	112.0
State Education Property Tax	2,692.9	2,787.6	94.7	3.5	(42.0)
Real Estate Transfer Tax	337.5	369.5	32.0	9.5	(25.0)
Income Tax	3,710.7	3,855.8	145.1	3.9	(58.5)
Gaming Taxes	452.2	466.9	14.7	3.3	22.5
Other Revenue	502.1	511.0	8.9	1.8	19.1
SAF REV. AFTER TAX CHANGES	**$17,930.9**	**$18,316.0**	**$385.0**	**2.1%**	**$50.1**
BASELINE GF/GP AND SAF	$34,719.8	$35,507.9	$788.1	2.3%	$426.6
Tax & Revenue Changes	(3,132.2)	(3,029.5)	102.7	----	(130.5)
GF/GP & SAF REV. AFTER CHNGS	**$31,587.6**	**$32,478.4**	**$890.8**	**2.8%**	**$296.1**
Sales Tax	$10,887.3	$10,995.9	$108.6	1.0%	($85.0)

[1)] FY 2022-23 is the base year for baseline revenue.

Table 7

FY 2025-26 INITIAL REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
			Change from FY 2024-25	
	FY 2024-25 Revised Est.	FY 2025-26 Initial Est.	Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue[1)]	$16,958.1	$17,214.5	$256.4	1.5%
Tax Changes Not In Baseline	(2,795.7)	(2,377.0)	418.7	----
Revenue After Tax Changes				
Personal Income Tax				
Gross Collections	$16,138.2	$16,527.9	$389.7	2.4%
Less: Refunds	(3,065.3)	(3,181.1)	(115.8)	3.8
Net Income Tax Collections	13,072.9	13,346.8	273.9	2.1
Less: Earmarking to SAF	(3,855.8)	(3,939.4)	(83.6)	2.2
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
Net Income Tax to GF/GP	8,547.3	8,737.6	190.3	2.2
Other Taxes				
Corporate Income Tax	1,500.0	2,000.0	500.0	33.3
Michigan Business Tax	(503.4)	(515.0)	(11.6)	2.3
Sales	1,710.3	1,729.1	18.8	1.1
Use	1,249.9	1,301.6	51.7	4.1
Cigarette	134.2	131.7	(2.5)	(1.9)
Insurance Company Premiums	496.0	506.0	10.0	2.0
Telephone & Telegraph	33.5	33.0	(0.5)	(1.5)
Oil & Gas Severance	30.0	32.0	2.0	6.7
All Other	277.7	287.6	9.9	3.6
Subtotal Other Taxes	4,928.2	5,506.0	577.8	11.7
Total Nontax Revenue	686.9	593.9	(93.0)	(13.5)
GF/GP REV. AFTER TAX CHANGES	**$14,162.4**	**$14,837.5**	**$675.1**	**4.8%**
SCHOOL AID FUND:				
Baseline Revenue[1)]	$18,549.8	$18,900.1	$350.3	1.9%
Tax Changes Not In Baseline	(233.8)	(266.3)	(32.5)	----
Revenue After Tax Changes				
Sales Tax	8,049.4	8,141.7	92.3	1.1
Use Tax	962.2	989.2	27.0	2.8
Lottery Revenue	1,313.5	1,304.0	(9.5)	(0.7)
State Education Property Tax	2,787.6	2,872.9	85.3	3.1
Real Estate Transfer Tax	369.5	395.0	25.5	6.9
Income Tax	3,855.8	3,939.4	83.6	2.2
Gaming Taxes	466.9	479.0	12.1	2.6
Other Revenue	511.0	512.5	1.5	0.3
SAF REV. AFTER TAX CHANGES	**$18,316.0**	**$18,633.8**	**$317.8**	**1.7%**
BASELINE GF/GP AND SAF	$35,507.9	$36,114.6	$606.7	1.7%
Tax & Revenue Changes	(3,029.5)	(2,643.3)	386.2	----
GF/GP & SAF REV. AFTER CHNGS	**$32,478.4**	**$33,471.3**	**$992.9**	**3.1%**
Sales Tax	$10,995.9	$11,124.0	$128.1	1.2%

1) FY 2022-23 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2022-23 THROUGH FY 2025-26

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

Individual Income Tax. Individual income tax net collection will increase an estimated 0.5% in FY 2023-24, to $12.3 billion. Fiscal year 2023-24 withholding, which represents the majority of gross IIT revenue, will increase 1.1%. Quarterly estimates and annual payments will fall 9.3% and 13.8%, respectively. As economic growth continues, withholding will continue to grow 3.7% in FY 2024-25 and 2.7% in FY 2025-26, and net IIT revenue will increase 6.5% in FY 2024-25 and 2.1% in FY 2025-26. Compared with the May 2023 consensus revenue estimates, the revised estimate for FY 2023-24 IIT revenue is $32.3 million higher, and the revised estimate for FY 2024-25 is $60.8 million lower.

Sales Tax. The forecast predicts Michigan sales tax revenue will rise 2.0% in FY 2023-24, 1.0% in FY 2024-25, and 1.2% in FY 2025-26 as services, which are largely not subject to sales or use taxes, continue to represent an increasing portion of consumer spending. Compared with the May 2023 consensus revenue estimates, the revised sales tax estimate for FY 2023-24 is unchanged while the revised estimate for FY 2024-25 is down $85.0 million. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments (10.0%), the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to increase 2.6% in FY 2023-24, 2.8% in FY 2024-25, and 2.8% in FY 2025-26. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at $96.4 million in FY 2015-16, rose over time to $548.0 million in FY 2022-23, and will total $561.7 million in FY 2023-24, $569.8 million in FY 2024-25, and $571.4 million in FY 2025-26 as they increase annually. Additionally, Public Act 175 of 2023 earmarks $75.0 million in GF/GP use tax revenue to the LCSA for reimbursements associated with the expanded small taxpayer exemptions in Public Act 150 of 2021. Compared with the May 2023 consensus revenue estimates, the FY 2023-24 estimate for combined State and local use tax collections is revised upward by $218.0 million and the FY 2024-25 estimate is $265.0 million higher. 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 $720.7 million in FY 2022-23, a decrease of 9.5% from FY 2021-22. Tobacco tax revenue is expected to continue its long-term downward trend, declining 4.3% in FY 2023-24, 1.9% in FY 2024-25 and 1.9% in FY 2025-26. However, the overall decline in total tobacco tax revenue has masked a change in the composition of tobacco tax revenue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. In the forecast period, this trend is expected to continue, as tax revenue from cigarettes is expected to decline, with tax revenue from other tobacco products increasing, but not enough to stop the decline in total tobacco tax revenue. Tobacco taxes are split across multiple funds, including the General Fund, the 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 2023-24, casino tax revenue is projected to total $104.3 million, a 1.6% increase from FY 2022-23, as the economy recovers and new gaming options (internet gaming and sports and fantasy betting) are introduced. Casino tax revenue is expected to grow 1.4% in FY 2024-25 and 1.1% in FY 2025-26, reflecting a more typical growth pattern.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. After increasing 5.3% in FY 2022-23, SET collections are projected to increase another 4.8% in FY 2023-24, 3.5% in FY 2024-25, and 3.1% in FY 2025-26, as the housing market stabilizes and inflation rates slow, mitigating further increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue because of the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Competition with other gaming options (including new casino gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, although FY 2022-23 experienced an 8.3% increase. Lottery revenue is forecasted to decline 1.8% in FY 2023-24, 1.1% in FY 2024-25, and 0.7% in FY 2025-26, as other gaming options compete. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay tax under the CIT. Instead, these business paid taxes by reporting business income on their IIT return although, beginning with tax year 2021, Public Act 135 of 2021 allows these firms to pay under a separate "flow-through entity tax" that is levied and at the same rate and distributed in the same manner as the IIT. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is 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 $431.6 million (as refunds exceeded revenue) in FY 2022-23, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by approximately $500.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term; however, in some cases, the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for previous tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates.

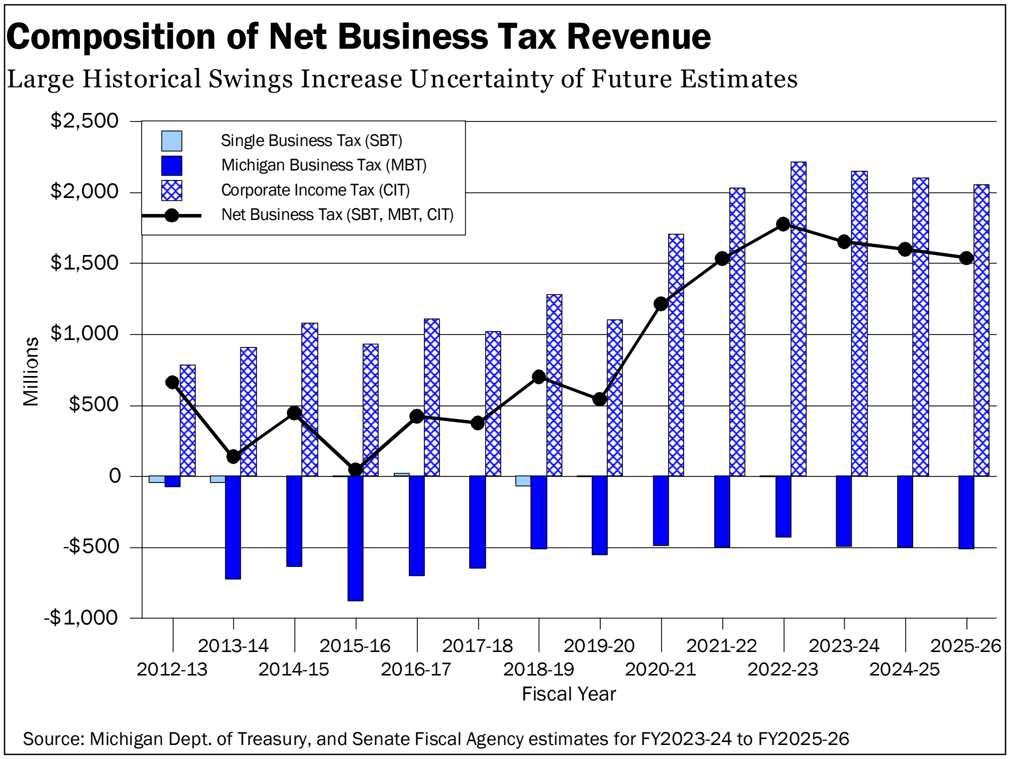
These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately $1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by $878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by $431.6 million in FY 2022-23, they still represented a 3.1% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally hold constant, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 3.6% in FY 2023-24, 3.6% in FY 2024-25, and 3.5% in FY 2025-26. 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 2022-23, CIT collections increased 8.8% after rising 19.2% in FY 2021-22, rising 54.4% in FY 2020-21, after falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the volatility in CIT revenue (Figure 20). Public Act 4 of 2023 began earmarking a portion of CIT revenue from the General Fund to other funds beginning in FY 2022-23, resulting in the GF/GP portion of the CIT falling 20.7% in FY 2022-23. Two of the three earmarks will expire in FY 2024-25, so that the GF/GP portion of the CIT will get an estimated $550.0 million boost in FY 2025-26, resulting in the GF/GP portion of CIT revenue rising 33.3% in that year.

The preliminary estimate for business taxes in FY 2022-23 is $1,773.2 million, a 15.8% increase from FY 2021-22. Net business tax revenue is expected to decrease 6.9% in FY 2023-24, 3.3% in FY 2024-25, and 3.9% in FY 2025-26. (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 $465.9 million in FY 2022-23, a 11.0% increase from FY 2021-22. Revenue from taxes on insurance companies is expected to return to trend levels over the forecast period, increasing 4.1% in FY 2023-24, 2.3% in FY 2024-25, and 2.0% in FY 2025-26. All revenue from insurance taxes is directed to the General Fund.

Figure 20



SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2022-23, FY 2023-24, and FY 2024-25**.** 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 2022-23, FY 2023-24, and FY 2024-25 have been adjusted to reflect a common base year.

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 by the SFA at $26.2 billion. This estimate was increased by $1.2 billion at the January 2021 CREC, and by an additional $1.7 billion at the May 2021 CREC. The January 2022 CREC increased the estimate by another $1.6 billion. The May 2022 CREC increased the estimate again, by $2.0 billion, the January 2023 CREC increased it by an additional $1.3 billion, and the May 2023 CREC increased it by another $255.3 million. The Senate Fiscal Agency's revised estimate for FY 2022-23 presented in this report increases the baseline estimate by $663.2 million above the May 2023 consensus estimate, to $34.9 billion.

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 by the SFA at $30.7 billion. This estimate was increased by $536.3 million at the January 2022 CREC, and the May 2022 CREC increased it by an additional $1.8 billion. The January 2023 CREC increased the estimate by another $1.3 billion, and the May 2023 CREC raised the forecast by $38.0 million. The revised SFA estimate for FY 2023-24 increases baseline revenue for FY 2023-24 by $235.0 million, to $34.7 billion.

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	$11,786.3	$14,423.0	$26,209.3
January 15, 2021 [a)]	12,731.9	14,680.6	27,412.5
May 19, 2021	13,538.0	15,251.7	28,789.7
May 21, 2021 [a)]	13,733.8	15,345.9	29,079.7
January 6, 2022	14,282.7	15,973.2	30,255.9
January 14, 2022 [a)]	14,288.8	16,346.8	30,635.6
May 17, 2022	15,003.0	16,748.5	31,751.5
May 20, 2022 [a)]	15,345.1	17,323.6	32,668.7
January 10, 2023	15,024.7	17,192.3	32,217.0
January 13, 2023 [a)]	16,196.7	17,773.6	33,970.3
May 16, 2023	16,560.9	17,793.2	34,354.1
May 19, 2023 [a)]	16,437.4	17,788.2	34,225.6
January 5, 2024	$16,939.8	$17,949.0	$34,888.8
Change From Previous Estimate:			
Dollar Change	$502.4	$160.8	$663.2
Percent Change	3.1%	0.9%	1.9%
Change From Initial Estimate:			
Dollar Change	$5,153.5	$3,526.0	$8,679.5
Percent Change	43.7%	24.4%	33.1%
[a)] Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2021-22.			

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	$14,540.2	$16,206.6	$30,746.8
January 14, 2022 [a)]	14,617.9	16,665.2	31,283.1
May 17, 2022	15,343.2	17,007.1	32,350.3
May 20, 2022 [a)]	15,541.7	17,591.1	33,132.8
January 10, 2023	15,199.0	17,164.1	32,363.1
January 13, 2023 [a)]	16,432.5	17,998.8	34,431.3
May 16, 2023	16,688.7	18,034.1	34,722.8
May 19, 2023 [a)]	16,400.9	18,068.4	34,469.3
January 5, 2024	$16,578.7	$18,125.6	$34,704.3
Change From Previous Estimate:			
Dollar Change	$177.8	$57.2	$235.0
Percent Change	1.1%	0.3%	0.7%
Change From Initial Estimate:			
Dollar Change	$2,038.5	$1,919.0	$3,957.5
Percent Change	14.0%	11.8%	12.9%
[a)] Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2021-22.			

The initial GF/GP and SAF baseline revenue estimate for FY 2024-25 was made in January 2023, as shown in Table 10. At that time, baseline revenue in FY 2024-25 was estimated by the SFA at $32.4 billion. This estimate was increased by $2.9 billion at the January 2023 CREC but the May 2023 CREC lowered the estimate by $220.6 million. The revised SFA estimate for FY 2024-25 increases baseline revenue by $411.1 million, to $35.5 billion.

Table 10

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

Forecast Date	GF/GP	SAF	Total
January 10, 2023	$15,198.6	$17,164.0	$32,362.6
January 13, 2023 [a)]	16,883.6	18,418.3	35,301.9
May 16, 2023	17,210.4	18,507.0	35,717.4
May 19, 2023 [a)]	16,624.8	18,456.5	35,081.3
January 5, 2024	$16,944.1	$18,548.3	$35,492.4
Change From Previous Estimate:			
Dollar Change	$319.3	$91.8	$411.1
Percent Change	1.9%	0.5%	1.2%
Change From Initial Estimate:			
Dollar Change	$1,745.5	$1,384.3	$3,129.8
Percent Change	(88.5%)	(91.9%)	(90.3%)

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

Note: Baseline base year equals FY 2021-22.

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977 and subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 15.0% of the combined level of GF/GP and SAF revenue. (For FY 2022-23, combined GF/GP and SAF revenue is estimated at $31.7 billion; 15% applied to that would yield a BSF limit of $4.8 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 2022-23 was roughly $1.8 billion, lower than the limit of $4.8 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, decreases on a calendar-year basis. The Legislature then could appropriate up to 25% of the available Fund balance in the current year. If personal income is forecast to be negative for subsequent fiscal years, the Legislature then could appropriate up to 25% of the available Fund balance in the first fiscal year for each subsequent fiscal year. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

To calculate the pay-in, the amount of real personal income growth over 2.0% in the previous calendar year is applied to the amount of General Fund revenue in the previous fiscal year. For example, the calculated pay-in for FY 2022-23 is based on personal income growth from calendar year 2022 to 2023 and GF/GP revenue in FY 2022-23. Different years are used to calculate a potential pay-out. A pay-out in FY 2023-24 depends on the change in personal income from calendar year 2023 to calendar year 2024, whether there was a calculated pay-out in FY 2022-23, and the BSF balance at the end of FY 2022-23.

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

Table 11 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2021-22. This table also presents the

SFA's estimates for FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26 assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 21, and the estimated economic stabilization trigger calculations for FY 2022-23, FY 2023-24, and FY 2024-25 are presented in Table 12.

FY 2022-23

The BSF ended FY 2021-22 with a balance of $1,588.9 million. In FY 2022-23, $100.0 million was appropriated to the Fund. As noted above, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 and extending through FY 2034-35. Interest earnings are estimated at $87.4 million in FY 2022-23, resulting in an estimated ending balance of $1,793.8 million. There was no calculated pay-in or pay-out to the BSF for FY 2022-23 estimated at the time of budget enactment.

FY 2023-24, FY 2024-25, and FY 2025-26

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula does not forecast any pay-ins or pay-outs in FY 2023-24, FY 2024-25, or FY 2025-26. Public Act 119 of 2023 included a $100.0 million appropriation into the BSF for FY 2023-24.

Based on current appropriations and the continuation of the $17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at $2,010.0 million in FY 2023-24, $2,128.0 million in FY 2024-25, and $2,241.3 million in FY 2025-26 as shown in Table 11.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2025-26 ESTIMATES (millions of dollars)					
	Pay-In				
Fiscal Year[a)]	Trust Fund Act	Other Approp.	Interest Earned	Pay-Out	Fund Balance
1998-99		$244.4	$51.2	$73.7	$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14[b)]		75.0	0.4	194.8	386.2
2014-15[c)]	$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
2020-21	17.5	535.0	0.8	0.0	1,382.3
2021-22	17.5	180.0	9.1	0.0	1,588.9
Enacted Deposits and Estimated Interest Earnings:					
2022-23	$17.5	$100.0	$87.4	$0.0	$1,793.8
2023-24	17.5	100.0	98.7	0.0	2,010.0
2024-25	17.5	0.0	100.5	0.0	2,128.0
2025-26	17.5	0.0	95.8	0.0	2,241.3

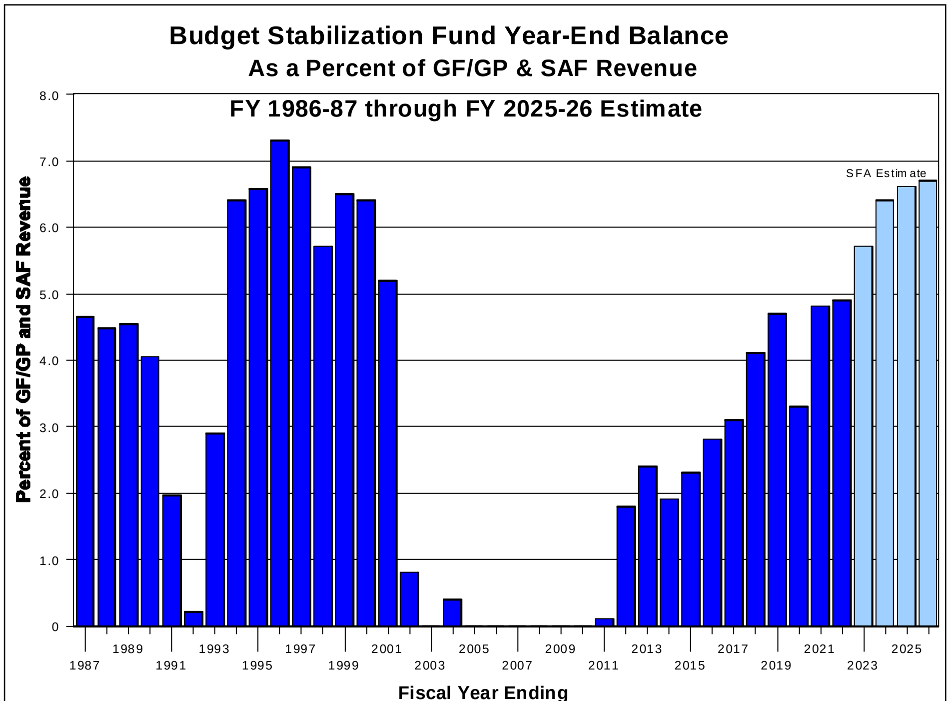
a) For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. Fiscal years 2021-22 to FY 2024-25 include enacted legislation and estimated interest earnings.

b) Pay-in was appropriated in Public Act 59 of 2013. Pay-out is the transfer of $194.8 million in FY 2013-14 per PA 188 of 2014 from the BSF to the Settlement Administration Fund related to the Detroit bankruptcy.

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

Sources: State of Michigan Annual Comprehensive Financial Reports through FY 2021-22 and Senate Fiscal Agency.

Figure 21



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

Table 12

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26 (millions of dollars)					
	CY 2022	**CY 2023**	**CY 2024**	**CY 2025**	**CY 2026**
Michigan Personal Income (MPI)	$572,325.1	$596,885.1	$616,629.4	$642,614.0	$665,434.9
Less: Transfer Payments	123,353.9	127,062.2	130,239.5	135,367.4	140,301.3
Subtotal	$448,971.2	$469,822.9	$486,389.8	$507,246.6	$525,133.5
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.6812	2.8386	2.9385	3.0080	3.0838
Equals: Real Adjusted MPI	$167,451.0	$165,510.0	$165,522.0	$168,630.0	$170,290.0
Percent Change from Prior Year		(1.2%)	0.0%	1.9%	1.0%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2022-23	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**
Multiplied by: Estimated GF/GP Revenue		$13,844.7	$13,656.7	$14,162.4	$14,837.5
Equals: Transfer to the BSF			$0.0	$0.0	$0.0
OR Maximum transfer from the BSF			$0.0	$0.0	$0.0

Note: Numbers may not add due to rounding.
CY = Calendar Year; FY = Fiscal Year

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to the generation of new State revenue as part of the school financing reform enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the limit in FY 2007-08 despite increases in the income tax and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2021-22. To date, the largest gap between revenue and the limit occurred in FY 2022-23, when State revenue was $14.7 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 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26 with State revenue forecast to be $18.7 billion below the limit in FY 2025-26.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year before the calendar year in which the fiscal year begins. For example, in FY 2021-22, State government revenue could not exceed 9.49% of personal income for calendar year 2020. Given that Michigan personal income for 2020 equaled $530.8 billion at the time compliance was determined, the revenue limit for FY 2021-22 was $50.4 billion.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments (e.g., Social Security income and Medicaid benefits). It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the US Department of Commerce's Bureau of Economic Analysis.

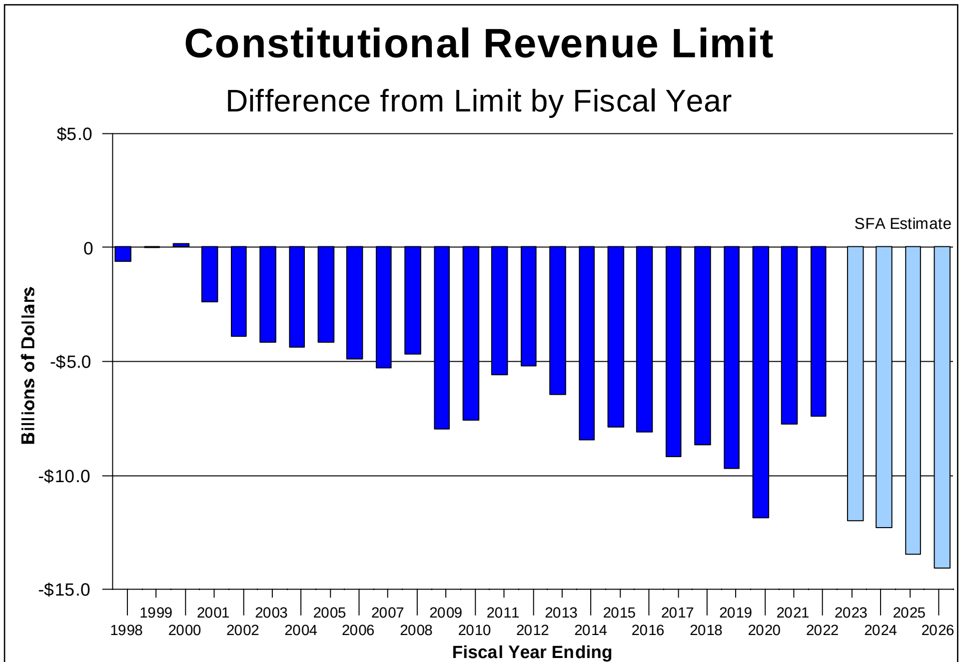
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the BSF. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to payers of individual income and business taxes, on a pro rata basis. These refunds would be given to taxpayers who file an IIT return or an MBT or CIT return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report that determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary revenue for FY 2022-23 and the SFA's revenue estimates for FY 2023-24, FY 2024-25, and FY 2025-26, 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 13.

Figure 22



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

FY 2022-23

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2021 equals $568.1 billion and, as a result, the revenue limit equals $53.9 billion in FY 2022-23, an increase of $3,542.0 million over FY 2021-22. Based on the SFA's revised revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated $41.9 billion. State revenue subject to the revenue limit will be below the limit by an estimated $12.0 billion, or 22.3%, in FY 2022-23. The forecasted 2.4% decrease in State revenue subject to the revenue limit will not outpace anticipated growth in personal income of 7.0%, increasing the amount by which revenue will fall below the limit.

FY 2023-24

The Senate Fiscal Agency estimates that personal income in Michigan during 2022 will equal $572.3 billion and, as a result, the revenue limit will equal $54.3 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 $42.0 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.3 billion, or 22.6%, in FY 2023-24. Personal income is forecasted to increase 0.7% while State revenue subject to the revenue limit is forecasted to increase 0.3%, thus increasing the amount by which revenue will fall below the limit.

FY 2024-25

The Senate Fiscal Agency estimates that personal income in Michigan during 2023 will equal $596.9 billion and, as a result, the revenue limit will equal $56.6 billion in FY 2024-25. Based on the SFA's revised revenue estimates for FY 2024-25, revenue subject to the revenue limit will equal an estimated $43.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $13.5 billion, or 23.8%, in FY 2024-25. The forecasted 2.7% increase in State revenue subject to the revenue limit will not outpace anticipated growth in personal income of 4.3%, increasing the amount by which revenue will fall below the limit.

FY 2025-26

The Senate Fiscal Agency estimates that personal income in Michigan during 2024 will equal $616.6 billion, and as a result, the revenue limit will equal $58.5 billion in FY 2025-26. Based on the SFA's initial revenue estimates for FY 2025-26, revenue subject to the revenue limit will equal an estimated $44.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $14.1 billion, or 24.1%, in FY 2025-26. Personal income is forecasted to increase 3.3% while State revenue subject to the revenue limit is forecasted to increase 2.9%, thus increasing the amount by which revenue will fall below the limit.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2021-22 THROUGH FY 2025-26 ESTIMATE
(millions of dollars)

	FY 2021-22 Final	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$16,885.1	$16,939.8	$16,578.7	$16,944.1	$17,200.5
Constitutional Revenue Sharing (baseline)	1,072.7	1,089.8	1,094.8	1,109.5	1,122.3
School Aid Fund (baseline)	17,794.1	17,949.0	18,125.6	18,548.3	18,898.6
Transportation Funds	3,841.0	3,999.6	4,103.4	4,183.5	4,267.2
Other Restricted Non-Federal Aid Revenue	4,939.9	5,088.1	5,240.7	5,398.0	5,559.9
Adjustments:					
GF/GP Federal Aid	(9.2)	7.3	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,673.1)	(3,095.1)	(2,922.0)	(2,781.7)	(2,363.0)
SAF Balance Sheet Adjustments	86.9	(79.9)	(194.7)	(232.3)	(264.8)
Total Revenue Subject to Limit	**$42,937.4**	**$41,898.6**	**$42,016.6**	**$43,159.3**	**$44,410.6**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2020**	**CY 2021**	**CY 2022**	**CY 2023**	**CY 2024**
Amount	$530,809.0	$568,132.0	$572,325.1	$596,885.1	$616,629.4
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$50,373.8	$53,915.7	$54,313.7	$56,644.4	$58,518.1
1.0% of Limit	503.7	539.2	543.1	566.4	585.2
Amount Under (Over) Limit	**$7,436.4**	$12,017.1	$12,297.1	$13,485.1	$14,107.5
Percent Below Limit	14.8%	22.3%	22.6%	23.8%	24.1%
CY = Calendar Year; FY = Fiscal Year					

ESTIMATE OF YEAR-END BALANCES

This section of the SFA's report provides details of the estimated year-end balances of the GF/GP and SAF budgets for FY 2022-23 and FY 2023-24, and projections for the FY 2024-25 State budget.

Noting the important caveat that follows, Table 14 provides a summary of the estimated year-end balances for the FY 2022-23, FY 2023-24, and FY 2024-25 GF/GP and SAF budgets. The FY 2022-23 book-closing process has not yet concluded; therefore, FY 2022-23 revenue remains estimated and not final. The balances presented in this section reflect the recent determination by Court of Claims Judge Elizabeth Gleicher that the income tax rate reduction in 2023 (to 4.05%) is temporary and that the income tax rate will return to 4.25% in 2024. This decision upholds a previous Attorney General opinion that reached the same conclusion.

Table 14

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

	FY 2022-23 Estimate	FY 2023-24 Estimate	FY 2024-25 Estimate
General Fund/General Purpose	$3,786.6	$1,353.1	$1,892.9
School Aid Fund	$1,953.2	$305.4	$812.3

*As noted in text above the table, these estimates assume the IIT rate reduction is for calendar 2023 only.

YEAR-END BALANCE ESTIMATES

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

Neither of these reports is currently available but based on year-to-date accounting of FY 2022-23 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will end FY 2022-23 with a $3.8 billion balance. The SFA is estimating that the FY 2022-23 SAF budget will close with a $2.0 billion balance. (Note that the majority of these balances were assumed during the FY 2023-24 budget process and do not represent 'new' revenue.)

GENERAL FUND/GENERAL PURPOSE

Table 15 provides a balance sheet with the SFA estimates of year-end balances for GF/GP revenue, for FYs 2022-23, 2023-24, and 2024-25.

As shown in the row labeled, "SFA Forecast Revenue Change (Jan 2024)", FY 2022-23 revenue is very close to the May 2023 CREC estimate. However, in FYs 2023-24 and 2024-25, the estimates are higher than the May 2023 estimates ($418.4 million and $246.0 million higher respectively).

On the expenditure side, the balance sheet reflects year-to-date FY 2022-23 spending levels (including supplementals), year-to-date FY 2023-24 spending levels (including supplementals), and an estimate of how much a continuation budget would cost in FY 2024-25. The expenditure numbers also include estimates of caseload and cost savings (primarily in the Department of Health and Human Services budget) as well as estimated FY 2022-23 lapses (which were roughly $500.0 million higher than anticipated).

Unlike recent years, most of the GF/GP year-end balances would be considered 'ongoing' revenue. An ongoing balance is estimated by comparing ongoing revenue to ongoing spending, excluding one-time revenue (e.g., a prior-year carryforward) and one-time spending. Out of the estimated $1.9 billion in GF/GP balance that the SFA is forecasting at the end of FY 2024-25 (assuming a continuation budget that removes FY 2023-24 one-time spending), about 57% (or $1.1 billion) would be considered ongoing with the remainder ($800.5 million) considered as one-time revenue.

SCHOOL AID FUND

Table 16 is comparable to Table 15 but for the School Aid Fund.

As shown in the row labeled, "SFA Forecast Revenue Change (Jan 2024)", FY 2022-23 revenue is roughly $127.5 million above the May 2023 CREC estimate. In FYs 2023-24 and 2024-25, the change in revenue estimates compared to May 2023 remains positive, but at smaller amounts: $42.8 million and $50.1 million respectively.

On the expenditure side, the balance sheet reflects year-to-date FY 2022-23 spending levels (including supplementals), year-to-date FY 2023-24 spending levels (including supplementals), and an estimate of how much a continuation budget would cost in FY 2024-25. The expenditure numbers also include estimates of caseload and cost savings in the School Aid budget, as well as estimated FY 2022-23 lapses. The School Aid Fund balance sheet includes the K-12 budget, the budget for Community Colleges, and a portion of the budget for Universities.

Out of the $812.3 million estimated FY 2024-25 year-end balance, roughly 62% (or $503.9 million) would be considered ongoing with the remainder ($308.4 million) considered as one-time revenue.

CONCLUSION

The GF/GP and SAF budgets are estimated to end FY 2023-24 and FY 2024-25 with significant year-end balances, although both years assume the carryforward of the previous year's balance and the balances are a mixture of 'ongoing' and 'one-time' in nature. Additionally, the balances shown in this report assume the income tax rate reduction is for calendar year 2023 only.

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 succeeding year's expenditure estimates *assume baseline (or flat)* spending. Spending in FY 2024-25 that is greater than a baseline amount will reduce the gap between ongoing revenue and ongoing expenditure estimates.

The FY 2022-23 estimated ending balances likely will change when the State's final ACFR is published, which is not required by law until the end of March 2024. To the extent that the FY 2022-23 numbers change, the ending balances for FY 2023-24 and FY 2024-25 will be affected. Also, to the extent that policy or budget changes are enacted after the date of this publication, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 12, 2024, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2024-25 State budget, as well as for subsequent fiscal years.

Table 15

FY 2022-23, 2023-24, AND 2024-25
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	Year-to-Date FY 2022-23	**Year-to-Date FY 2023-24**	**Baseline FY 2024-25**
Revenue:			
Beginning Balance	$7,463.5	$3,786.6	$1,353.1
Ongoing Revenue:			
Consensus Revenue Estimate (May 2023)	$13,788.0	$13,238.3	$13,916.4
SFA Forecast Revenue Change (January 2024)	56.7	418.4	246.0
SFA Forecast Revenue Estimate (January 2024)	$13,844.7	$13,656.7	$14,162.4
SFA Adjustments: Restore temporary revenue losses to baseline (Jan 2024)	1,080.8	778.4	550.0
Adjusted CREC Forecast Ongoing Revenue Estimate (Jan 2024)	$14,925.5	$14,435.1	$14,712.4
Other Ongoing Revenue Adjustments:			
Revenue Sharing Payments	(525.6)	(551.8)	(551.8)
Subtotal Ongoing Revenue	$14,399.9	$13,883.3	$14,160.6
Non-Ongoing Revenue:			
Legal Settlements/Redirection of Restricted Revenue	($2.6)	($2.6)	($2.6)
Three-year RAP earmark	(50.0)	(50.0)	(50.0)
Three-year CIT SOAR earmark	(500.0)	(500.0)	(500.0)
Income tax reduction (ie, trigger)	(530.8)	(228.4)	0.0
Revenue Sharing One-Time Payments	(4.9)	(10.5)	0.0
Subtotal Non-Ongoing Revenue	($1,088.3)	($791.5)	($552.6)
Total Estimated GF/GP Revenue Including Beginning Balance	**$20,775.1**	**$16,878.5**	**$14,961.2**
Total Estimated GF/GP Revenue Excluding Beginning Balance	**$13,311.6**	**$13,091.9**	**$13,608.0**
Expenditures:			
Ongoing Appropriations:			
Initial/Baseline Appropriations	$11,963.6	$12,727.6	$12,726.0
Michigan Achievement Scholarship Cost Adjustment	0.0	0.0	50.0
Potential baseline adjustments (DHHS and other areas)	0.0	0.0	250.0
Ongoing Community District Trust Fund GF payment	0.0	28.2	32.8
Ongoing appropriation changes (Filter First admin plus MiLEAP)	0.0	7.0	9.5
Subtotal Ongoing Appropriations	$11,963.6	$12,762.8	$13,068.3
One-Time and Other Appropriations:			
One-Time Appropriations	$3,292.3	$2,466.0	$0.0
Budget Stabilization Fund Deposit	100.0	100.0	0.0
Potential settlement costs (UIA) or other risks	0.0	142.0	0.0
Supplementals	2,492.0	98.7	0.0
Estimated lapses of items being reappropriated in HB 4292	(15.0)	(44.0)	0.0
Treasury boilerplate appropriation	50.0	0.0	0.0
Additional K-12 GF for CDTF (moved to ongoing)	22.4	0.0	0.0
Net out ARP-HCBS from HB 4437	(189.7)	0.0	0.0
Lapses that were reappropriated	(227.2)	0.0	0.0
Additional departmental lapses (from 12/15 report)	(500.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	$5,024.8	$2,762.6	$0.0
Total Estimated GF/GP Expenditures	**$16,988.4**	**$15,525.4**	**$13,068.3**
PROJECTED YEAR-END GF/GP BALANCE (Total)	**$3,786.6**	**$1,353.1**	**$1,892.9**
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)	**$2,436.3**	**$1,120.6**	**$1,092.4**
PROJECTED YEAR-END GF/GP BALANCE (One-Time)	**$1,350.4**	**$232.6**	**$800.5**

Table 16

FY 2022-23, 2023-24, AND 2024-25 SCHOOL AID FUND (SAF) REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES (millions of dollars)	Year-to-Date FY 2022-23	Year-to-Date FY 2023-24	Baseline FY 2024-25
Revenue:			
Beginning Balance	$4,622.5	$1,953.2	$305.4
Ongoing Revenue:			
Consensus Revenue Estimate (May 2023)	$17,741.6	$17,888.1	$18,265.9
SFA Forecast Revenue Change (January 2024)	127.5	42.8	50.1
SFA Forecast Revenue Estimate (January 2024)	$17,869.1	$17,930.9	$18,316.0
SFA Adjustments: Remove temporary revenue gains from baseline (Jan 2024)	(102.6)	(9.7)	0.0
Adjusted CREC Forecast Ongoing Revenue Estimate (Jan 2024)	$17,766.5	$17,921.2	$18,316.0
Other Revenue Adjustments:			
General Fund/General Purpose (GF/GP) Grant	$48.6	$49.3	$49.6
Community District Education Trust Fund	72.0	72.0	72.0
Federal Ongoing Aid	2,199.0	2,204.8	2,200.8
Subtotal Ongoing Revenue	$20,086.1	$20,247.2	$20,638.4
Non-Ongoing Revenue:			
Federal Stimulus	$414.2	$0.0	$0.0
Additional Federal Funds	27.9	0.0	0.0
Income tax reduction (ie, trigger)	102.6	9.7	0.0
Restricted Funds (MPSERS, Infrastr, Others)	165.8	737.8	90.8
Revenue Deposits - Infrastructure/MPSERS	(425.0)	0.0	0.0
Additional One-Time GF	75.6	40.0	0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	22.4	28.2	32.8
Subtotal Non-Ongoing Revenue	$383.5	$815.7	$123.6
Total Estimated SAF Revenue Including Beginning Balance	**$25,092.1**	**$23,016.2**	**$21,067.4**
Total Estimated SAF Revenue Excluding Beginning Balance	**$20,469.6**	**$21,062.9**	**$20,762.0**
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	$15,457.2	$16,934.8	$16,993.0
School Aid Federal Funds	2,274.2	2,204.8	2,200.8
State Funds Cost Adjustments	0.0	58.2	120.6
Federal Funds Cost Adjustments	27.9	0.0	0.0
Fund Community Colleges with School Aid Fund	448.6	496.2	488.9
Partially Fund Higher Education with School Aid Fund	347.9	452.3	451.8
Subtotal Ongoing Appropriations	$18,555.8	$20,146.3	$20,255.1
One-Time and Other Appropriations:			
Initial One-Time Appropriations (K12, CC, HE)	$2152.5	$2,442.5	$0.0
Fund deposits (MPSERS, Consolidation, Teacher Recruitment)	1,959.0	0.0	0.0
Supplementals	581.5	122.1	0.0
Lapses (12/18/23 estimate)	(110.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	$4,583.0	$2,564.6	$0.0
Total Estimated School Aid Fund Expenditures	**$23,138.9**	**$22,710.8**	**$20,255.1**
PROJECTED YEAR-END SAF BALANCE (Total)	**$1,953.2**	**$305.4**	**$812.3**
PROJECTED YEAR-END SAF BALANCE (Ongoing)	**$1,558.2**	**$101.0**	**$503.9**
PROJECTED YEAR-END SAF BALANCE (One-Time)	**$395.0**	**$204.4**	**$308.4**