Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

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

May 19, 2021

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www.senate.michigan.gov/sfa

THE SENATE FISCAL AGENCY

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5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
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ACKNOWLEDGEMENT

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ECONOMIC FORECAST

The United States economy, as measured by inflation-adjusted gross domestic product (GDP), after contracting 3.5% during 2020, is predicted to expand 6.5% in 2021, 4.3% in 2022, and 2.5% in 2023. Light vehicle sales are forecasted to rise from 14.5 million units in 2020 to 17.0 million units in 2021, and 16.9 million units in both 2022 and 2023. The unemployment rate is expected to fall from 8.1% in 2020 to 5.5% in 2021, 4.6% in 2022, and 4.3% in 2023. The Consumer Price Index (CPI) is estimated to rise 2.8% in 2021, and 2.2% in both 2022 and 2023, after increasing 1.2% in 2020.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 0.4% in 2021, then contract 3.5% in 2022, and resume increasing with 1.4% growth in 2023, after rising 5.7% in 2020. Wage and salary employment is predicted to increase 3.5% during 2021, 2.6% in 2022, and 1.1% in 2023, after falling 9.2% in 2020.

REVENUE FORECAST

In fiscal year (FY) 2020-21, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated $26.5 billion, a 6.9% increase from FY 2019-20 and $2.2 billion above the January 2021 consensus estimate. General Fund/General Purpose revenue will total an estimated $11.3 billion, a 5.1% increase from FY 2019-20 that reflects COVID-19-related stimulus from the Federal government more than offsetting larger earmarks of individual income tax revenue to the Michigan Transportation Fund (MTF). School Aid Fund revenue will grow to an estimated $15.1 billion, an 8.2% increase that reflects COVID-19-related stimulus supplementing State and Federal policy changes that have increased revenue from online sales.

In FY 2021-22, GF/GP and SAF revenue will total an estimated $26.6 billion, a 0.5% increase from FY 2020-21 and $1.3 billion more than the January 2021 consensus estimate. General Fund/General Purpose revenue will total an estimated $11.6 billion, a 2.2% increase from FY 2020-21 that reflects stable earmarks of individual income tax revenue to the MTF and income and employment growth in both the national and State economy. School Aid Fund revenue will be an estimated $15.0 billion, a 0.8% decrease from FY 2020-21, that reflects slower growth in housing and vehicle markets combining with declines in sales and use tax revenue that result from both the reduction in Federal stimulus as well as shifts in consumption from consumers purchasing more services, which generally are not subject to tax, as the service sector recovers.

In FY 2022-23, GF/GP and SAF revenue will total an estimated $27.4 billion. This revised estimate for FY 2022-23 is 2.9% above the revised estimate for FY 2021-22. Continued economic growth and reduced Michigan Business Tax (MBT) credits will allow GF/GP revenue to grow 4.4%, to $12.1 billion. School Aid Fund revenue will rise to an estimated $15.3 billion, a 1.8% increase.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2020-21 GF/GP budget will have a positive ending balance of $2.9 billion. A comparison of the FY 2020-21 SAF revenue estimates and enacted and projected SAF appropriations produces a $1.8 billion SAF balance.

Comparing the SFA's FY 2021-22 GF/GP revenue estimate with the Senate-passed appropriations bills leads to a $2.9 billion balance in the FY 2021-22 GF/GP budget. The SFA's FY 2021-22 SAF revenue estimate, using the Senate-passed budget bills, results in a $2.3 billion balance in the FY 2021-22 SAF budget.

If the SFA's FY 2022-23 GF/GP revenue estimate is compared with the FY 2021-22 ongoing GF/GP appropriations adjusted for a current services baseline, there is a projected $3.6 billion GF/GP budget balance. If the SFA's FY 2022-23 SAF revenue estimate is compared with a continuation of the Senate-passed appropriations for FY 2021-22 into FY 2022-23, adjusted for estimated pupils and other costs, there is a projected $3.1 billion budget balance.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2019 Actual	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Real Gross Domestic Product (% change)	2.2%	(3.5%)	6.5%	4.3%	2.5%
US Consumer Price Index (% change)	1.8%	1.2%	2.8%	2.2%	2.2%
Light Motor Vehicle Sales (millions of units)	17.0	14.5	17.0	16.9	16.9
US Unemployment Rate (%)	3.7%	8.1%	5.5%	4.6%	4.3%
Real Michigan Personal Income (% change)	1.7%	5.7%	0.4%	(3.5%)	1.9%
Michigan Wage & Salary Employment (% change)	0.3%	(9.2%)	3.5%	2.6%	1.1%

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

	FY 2020-21 Estimate			FY 2021-22 Estimate			FY 2022-23 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$13,572.1	($2,248.6)	$11,323.5	$13,317.2	($1,745.9)	$11,571.4	$13,539.4	($1,464.5)	$12,074.8
% Change	13.6%	---	5.1%	(1.9%)	---	2.2%	1.7%	---	4.4%
School Aid Fund	$15,263.2	(122.6)	$15,140.6	$15,050.2	(29.3)	$15,020.9	$15,268.7	23.0	$15,291.7
% Change	8.5%	---	8.2%	(1.4%)	---	(0.8%)	1.5%	---	1.8%
Total GF/GP & SAF	$28,835.3	($2,371.2)	$26,464.1	$28,367.4	($1,775.2)	$26,592.3	$28,808.1	($1,441.5)	$27,366.5
% Change	10.8%	---	6.9%	(1.6%)	---	0.5%	1.6%	---	2.9%
Revenue Limit – Under (Over)		$10,307.7			$13,477.6			$13,885.3	

	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate
Revision from January Consensus			
GF/GP	$1,086.0	$674.3	$907.7
SAF	1,110.4	597.2	561.3
Total	**$2,196.4**	**$1,271.5**	**$1,469.0**

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

	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate
General Fund/General Purpose	$2,886.3	$2,917.0	$3,568.7
School Aid Fund	1,832.4	2,300.0	3,114.7
Budget Stabilization Fund (with enacted deposits)	$882.4	$900.8	$919.2

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2021, 2022, and 2023, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

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

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

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

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

Figure 1

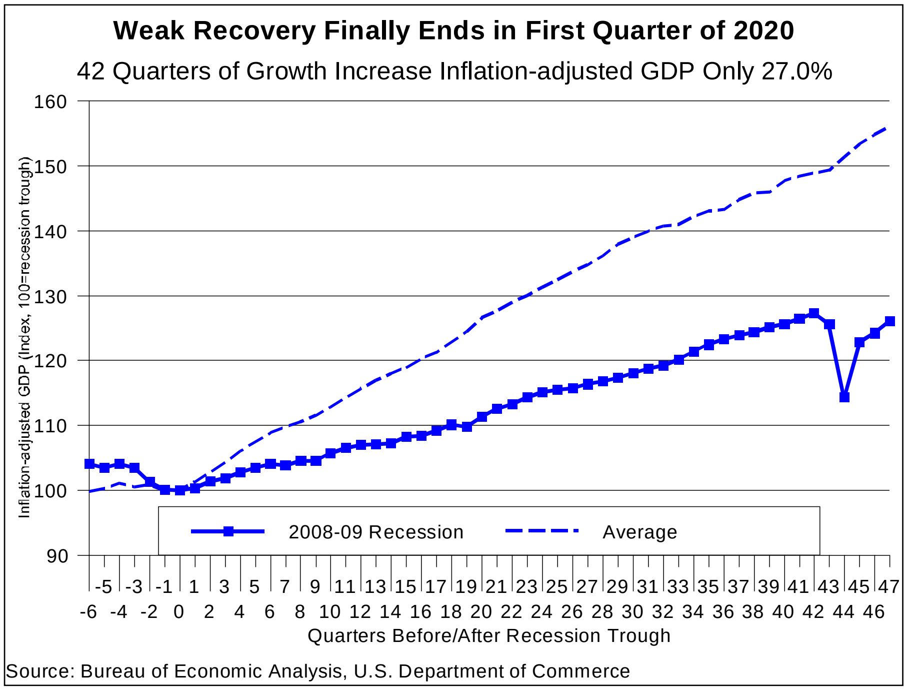


Figure 2

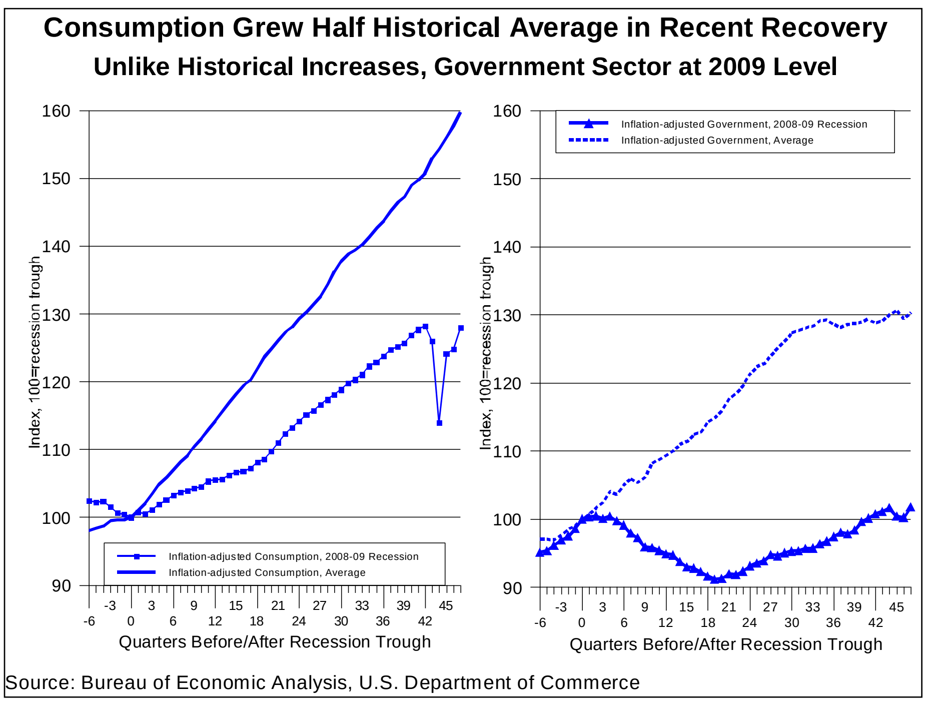
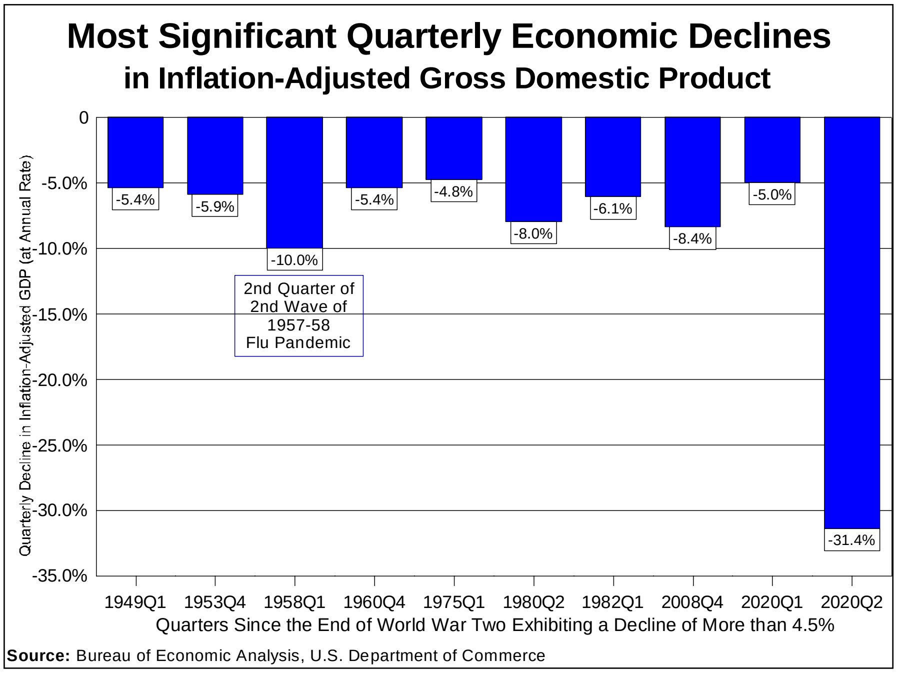


Figure 3



Job losses associated with the COVID-19 pandemic were significant and employment remains well below the prerecession peak. The loss of 22.2 million payroll employment jobs (as opposed to total employment, which also includes self-employed workers and agricultural workers) between February and April 2020 not only erased nearly all of the 22.8 million payroll jobs created since February 2010 (the employment trough from the 2008-09 recession), but is almost three times the record-setting employment decline experienced during the 2008-09 recession (Figure 4). Similarly, the rapid onset of these substantial changes also is unprecedented, as illustrated by initial claims for unemployment insurance (Figure 5). Job losses associated with the pandemic pushed the April 2020 unemployment rate to an all-time post-World War II record high of 14.7%. The previous record was 10.8% in November and December 1982 (Figure 6). Since April 2020, payroll employment has grown, although as of April 2021 was still 5.4% below the February 2020 level

Figure 4

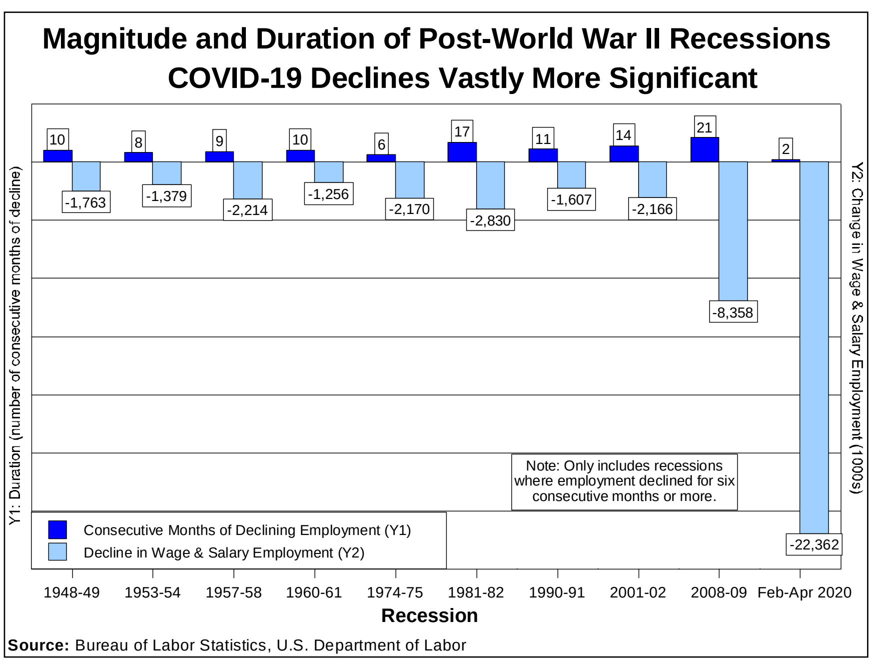


Figure 5

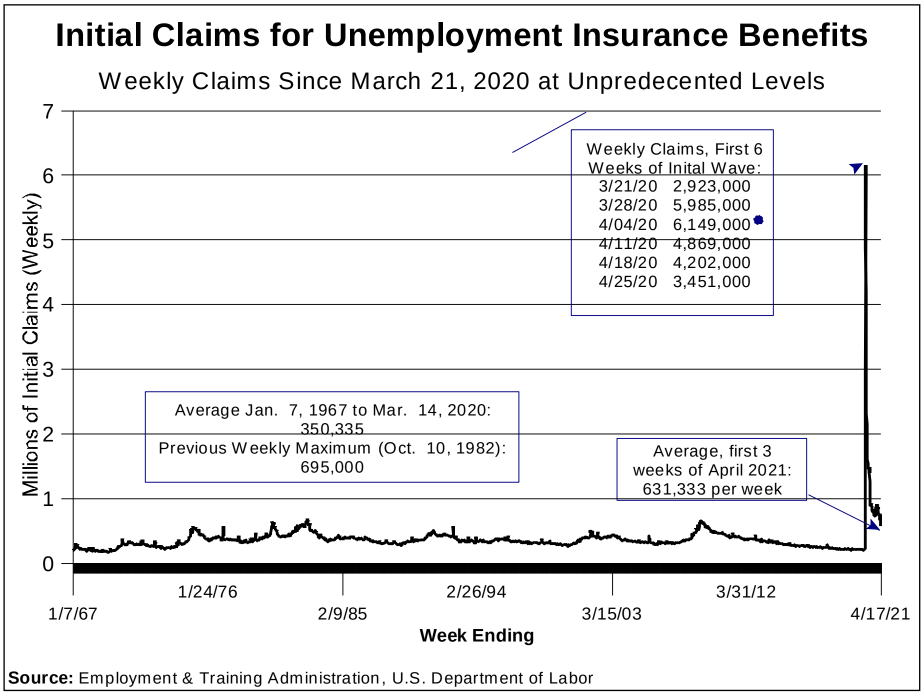
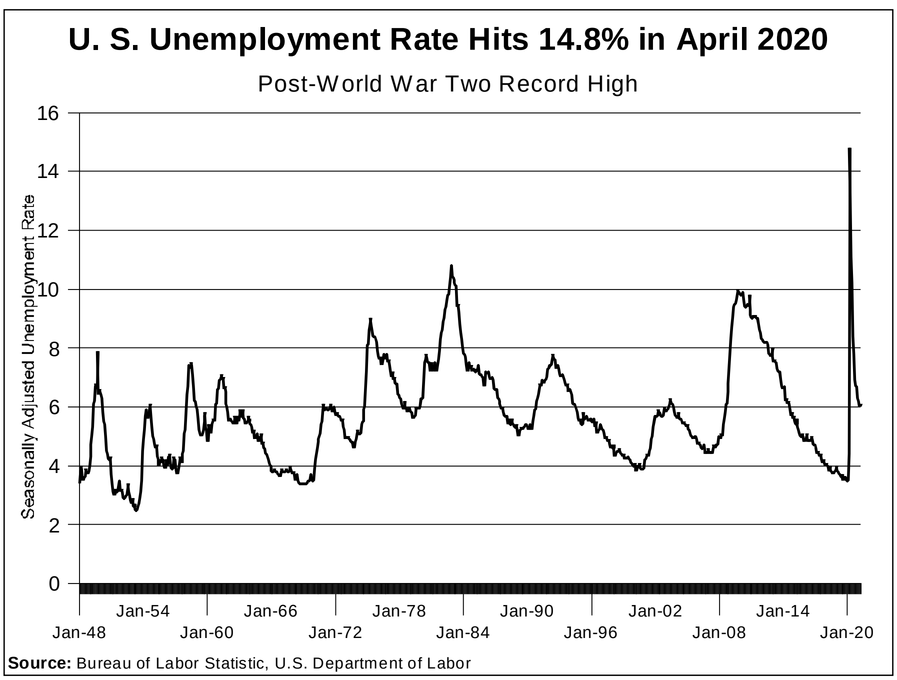


Figure 6



The COVID-19 pandemic lowered economic activity across a wide variety of sectors. However, the recovery has differed substantially across sectors, with manufacturing and goods related sectors recovering much more rapidly than services (Figure 7). However, employment in both manufacturing and nonmanufacturing sectors has recovered more slowly than output (Figure 8). Among nonmanufacturing services most substantially affected by the COVID-19 pandemic, the travel/transportation, hospitality, and food services (i.e. restaurants) sectors have experienced the most substantial declines (Figure 9). The COVID-19-related declines in activity (whether in states that imposed lockdowns, issued stay-at-home orders, or states that did some or none of these actions) have been substantial, and at various points of the year have represented year-over-year declines in activity of between 90% and 100%. While many sectors have improved from activity levels earlier in the year, most service sectors remain substantially below year-ago levels and, as of April 2021, national activity in major service sectors remained at levels down approximately 20% to 30% from prepandemic levels.

Figure 7

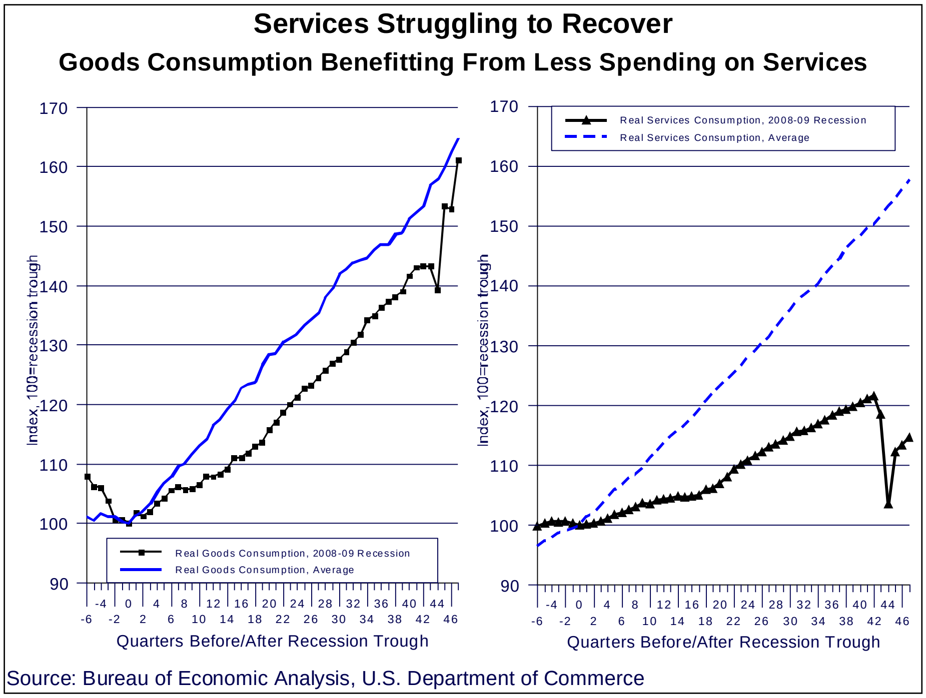


Figure 8

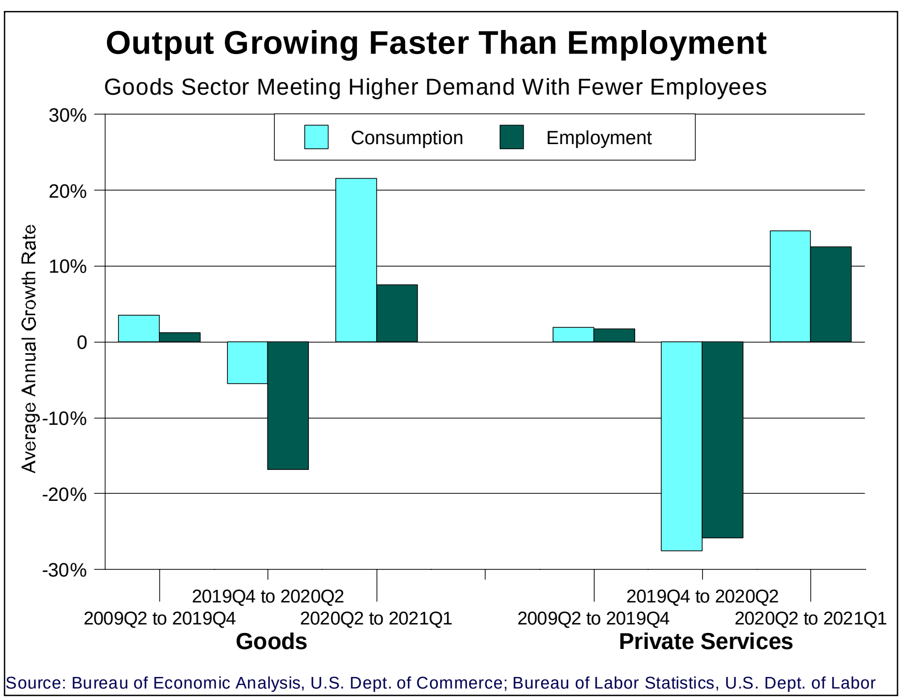
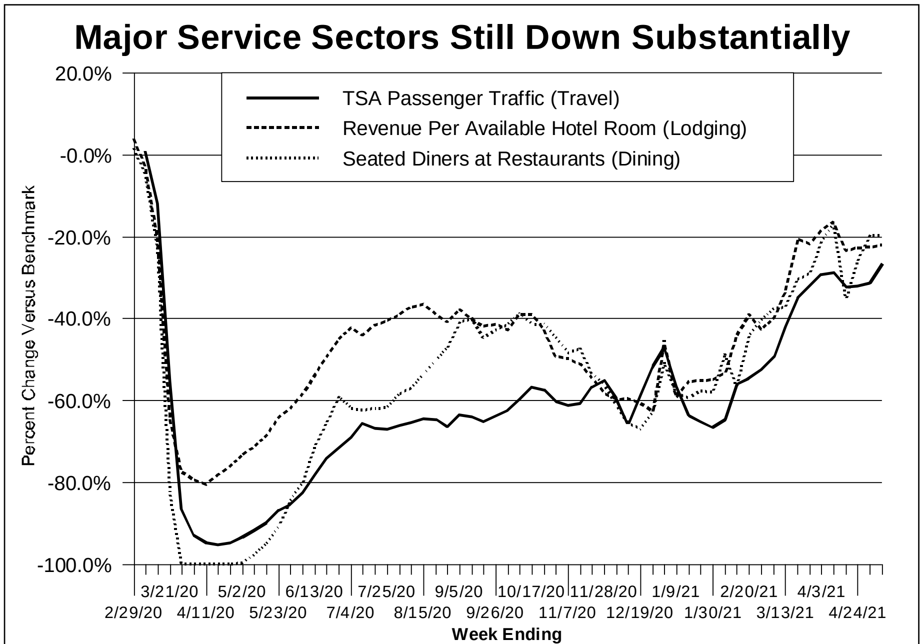


Figure 9



Notes: TSA & STR benchmark is February 2020 average. OpenTable benchmark is corresponding week in 2019.
Source: Transportation Security Administration, STR, OpenTable

RECENT MICHIGAN ECONOMIC HIGHLIGHTS

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

The drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally helped Michigan's economic situation. Manufacturing employment in Michigan rose 46.1% between June 2009, when the US recession ended, and December 2019, although most of the growth occurred before 2015. The increases largely reflected the 76.4% growth in employment in the transportation equipment manufacturing sector. Despite the gains since 2009, Michigan payroll employment had not yet recovered to the June 2000 peak before the COVID-19 pandemic began, with the most recent peak in December 2019 still down 235,100 jobs from June 2000 (but up 628,700 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. As of March 2021, payroll employment in Michigan was up 735,200 jobs from the April 2020 trough, but was still 7.2% below the level in February 2020 and roughly on par with the level in September 2013.

The rapid recovery in motor vehicle sales at the national level has helped Michigan's employment levels recover more rapidly than any other states, with Michigan employment rising at a 1.8% annual rate between April 2020 and March 2021. (Rhode Island ranks second, at a 1.4% annual growth rate. Indiana has exhibited the second most rapid growth in employment among the Great Lakes states, ranking seventh nationally with a 1.2% annual growth rate.) Michigan's disproportionately strong participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan and thus helped maintain consumption and employment at higher levels than would have otherwise occurred.

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

FORECAST SUMMARY

During 2021, both the US and Michigan economies are expected to exhibit a reasonably strong recovery from the COVID-19-induced recession in 2020. During 2022 and 2023, both the US and Michigan economies are expected to continue to exhibit growth, although Michigan generally is expected to grow more slowly than the nation as a whole. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to grow 6.5% in 2021, compared to a 3.5% decline during 2020. Inflation-adjusted GDP then is expected to expand 4.3% during 2022 and 2.5% in 2023. The strong growth in 2021 reflects rapid recoveries in the services sector as the number of people vaccinated against COVID-19 increases, strong Federal fiscal stimulus efforts continue, and low interest rates persist. The expansion in 2021 and 2022 primarily reflects stable consumption growth and business investment that will more than offset slow growth in government spending, and relatively flat housing starts, light vehicle sales, and net trade position (exports minus imports).

Employment gains over the forecast period will be muted. Although productivity growth during 2020 was at the highest level since 2010, and is expected to remain relatively high during 2021, in 2022 and 2023 consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace labor with capital, and build upon new modes of goods and service delivery developed in response to COVID-19-related constraints. As a result, payroll employment will increase 2.8% in 2021, 3.0% in 2022, and 1.2% in 2023; while the US unemployment rate is expected to decline from 8.1% during 2020 to 5.5% in 2021, 4.6% in 2022, and 4.3% in 2023. Nationally, while inflation-adjusted GDP is expected to recover to prerecession peaks in the second quarter of 2021, payroll employment is not expected to recover to prerecession peaks until early 2023.

The substantial amount of fiscal and monetary stimulus in the economy, coupled with supply shortages in many key commodities and intermediate goods, is predicted to put some upward pressure on prices in the short-term, while lingering concerns regarding COVID-19 and changes in labor supply demographics are expected to put upward pressure on wages. As a result, inflation over the forecast period is expected to be higher than during much of the previous decade, when the economy at times caused some policy makers to worry about deflation risks. After increasing 1.8% in 2019 and 1.2% in 2020, the US CPI is anticipated to increase 2.8% in 2021, before slowing to 2.2% increases in both 2022 and 2023.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)

	2019 Actual	2020 Actual	2021 Estimate	2022 Estimate	2023 Estimate
United States					
Nominal GDP (year-to-year growth)	4.0%	(2.3%)	9.6%	6.8%	4.8%
Inflation-Adjusted GDP (year-to-year growth)	2.2%	(3.5%)	6.5%	4.3%	2.5%
Unemployment Rate	3.7%	8.1%	5.5%	4.6%	4.3%
Wage & Salary Employment (year-to-year growth)	1.3%	(5.8%)	2.8%	3.0%	1.2%
Inflation					
Consumer Price Index (year-to-year growth)	1.8%	1.2%	2.8%	2.2%	2.2%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.8%	1.2%	2.9%	2.5%	2.3%
Interest Rates					
90-day Treasury Bill	2.06%	0.37%	0.08%	0.10%	0.26%
10-year Treasury Bill	2.14%	0.89%	1.66%	2.07%	2.41%
Corporate Aaa Bond	3.39%	2.48%	3.01%	3.49%	3.80%
Federal Funds Rate	2.16%	0.38%	0.10%	0.12%	0.26%
Light Motor Vehicle Sales (millions of units)	17.0	14.5	17.0	16.9	16.9
Auto	4.7	3.4	3.8	3.5	3.3
Truck	12.2	11.1	13.3	13.5	13.6
Import Share	22.4%	22.8%	24.1%	23.4%	23.2%
Michigan					
Personal Income (millions)	$491,632	$528,093	$542,052	$534,126	$555,459
Year-to-year growth	3.1%	7.4%	2.6%	(1.5%)	4.0%
Inflation-Adjusted Personal Income (year-to-year growth)	1.7%	5.7%	0.4%	(3.5%)	1.9%
Wage & Salary Income (millions)	$246,831	$239,866	$249,118	$260,449	$271,429
Year-to-year growth	2.6%	(2.8%)	3.9%	4.5%	4.2%
Detroit Consumer Price Index (year-to-year growth)	1.3%	1.6%	2.3%	2.1%	2.1%
Wage & Salary Employment (thousands)	4,442.7	4,032.5	4,175.6	4,286.0	4,333.8
Year-to-year growth	0.4%	(9.2%)	3.5%	2.6%	1.1%
Unemployment Rate	4.1%	9.9%	5.2%	4.8%	4.4%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)	2019 Actual	2020 Actual	2021 Estimate	2022 Estimate	2023 Estimate
Gross Domestic Product					
(billions of dollars)	$21,433.2	$20,936.6	$22,949.2	$24,514.9	$25,693.3
Year-to-year growth	4.0%	(2.3%)	9.6%	6.8%	4.8%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2012 dollars)	$19,091.7	$18,426.1	$19,630.9	$20,467.0	$20,975.0
Year-to-year growth	2.2%	(3.5%)	6.5%	4.3%	2.5%
Consumption					
(billions of 2012 dollars)	$13,240.2	$12,725.6	$13,755.0	$14,253.5	$14,620.1
Year-to-year growth	2.4%	(3.9%)	8.1%	3.6%	2.6%
Business Fixed Investment					
(billions of 2012 dollars)	$2,776.8	$2,665.1	$2,912.6	$3,162.1	$3,321.3
Year-to-year growth	2.9%	(4.0%)	9.3%	8.6%	5.0%
Change in Business Inventories					
(billions of 2012 dollars)	$48.5	($77.4)	$30.8	$145.1	$112.8
Residential Investment					
(billions of 2012 dollars)	$601.5	$638.1	$734.9	$732.5	$714.4
Year-to-year growth	(1.7%)	6.1%	15.2%	(0.3%)	(2.5%)
Government Spending					
(billions of 2012 dollars)	$3,303.9	$3,341.0	$3,378.9	$3,393.4	$3,422.5
Year-to-year growth	2.3%	1.1%	1.1%	0.4%	0.9%
Net Exports (billions of 2012 dollars)	($917.6)	($926.0)	($1,302.9)	($1,311.8)	($1,283.9)
Exports (billions of 2012 dollars)	$2,546.6	$2,216.9	$2,364.0	$2,554.5	$2,663.4
Imports (billions of 2012 dollars)	$3,464.2	$3,142.9	$3,666.9	$3,866.3	$3,947.2
Personal Income (year-to-year growth)	3.9%	6.1%	6.7%	(0.0%)	5.1%
Adjusted for Inflation	2.1%	4.8%	3.8%	(2.2%)	2.8%
Wage & Salary Income					
(year-to-year growth)	4.7%	0.2%	6.7%	5.8%	5.2%
Personal Saving Rate	7.5%	16.3%	13.4%	7.4%	7.5%
Output per hour					
(Labor productivity, annual growth)	1.8%	2.5%	2.6%	1.5%	1.1%
Unit labor costs (annual growth)	1.9%	3.8%	0.6%	1.7%	2.9%
Housing Starts (millions of units)	1.290	1.380	1.635	1.585	1.570
Conventional Mortgage Rates	3.9%	3.1%	3.2%	3.7%	4.1%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($1,047.0)	($3,146.9)	($3,779.9)	($1,694.6)	($1,484.7)

In Michigan, both job growth and personal income growth are expected to somewhat track the national average (Figures 10 and 11). After having increased 3.1% in 2019, personal income increased 7.4% in 2020 (the strongest growth since 1994), reflecting the impact of Federal stimulus efforts during 2020. Economic recovery, combined with additional Federal fiscal stimulus during 2021, is estimated to result in personal income growing 2.6% in 2021. With virtually all Federal stimulus exhausted by 2021, personal income will decline by 1.5% in 2022. Given output will have essentially recovered from the COVID-19-induced recession by 2022, employment gains will slow, and personal income is expected to rise 4.0% in 2023. With inflation expected to rise 2.3% in 2021 and 2.1% in both 2022 and 2023, inflation-adjusted personal income is expected to rise 0.4% in 2021, decline 3.5% in 2022, and rise 1.9% in 2023. In comparison, inflation-adjusted personal income rose 1.7% in 2019 and 5.7% in 2020. Payroll employment increased 0.4% during 2019, but declined 9.2% in 2020. The forecast predicts payroll employment will increase 3.5% in 2021, 2.6% in 2022, and 1.1% in 2022. Nationally, light vehicle sales decreased from 17.0 million units in 2019 to 14.5 million units in 2020, but are forecasted to rise to 17.0 million units in 2021, before declining slightly to 16.9 million units in both 2022 and 2023 (Figure 12). The Michigan unemployment rate, which averaged 4.1% during 2019 but rose to 9.9% during 2020, is forecasted to decrease to 5.2% in 2021, 4.8% in 2022, and 4.4% in 2023.

Compared with the January 15, 2021, Consensus Economic Forecast, economic growth at both the national and Michigan level is expected to be stronger in 2021. Both the US and Michigan economies are still expected to exhibit weaker growth in 2022 than in 2021, although US growth in 2022 will be stronger than forecast in January 2021 while Michigan's economy will grow more slowly than was forecasted in January 2021.

Figure 10

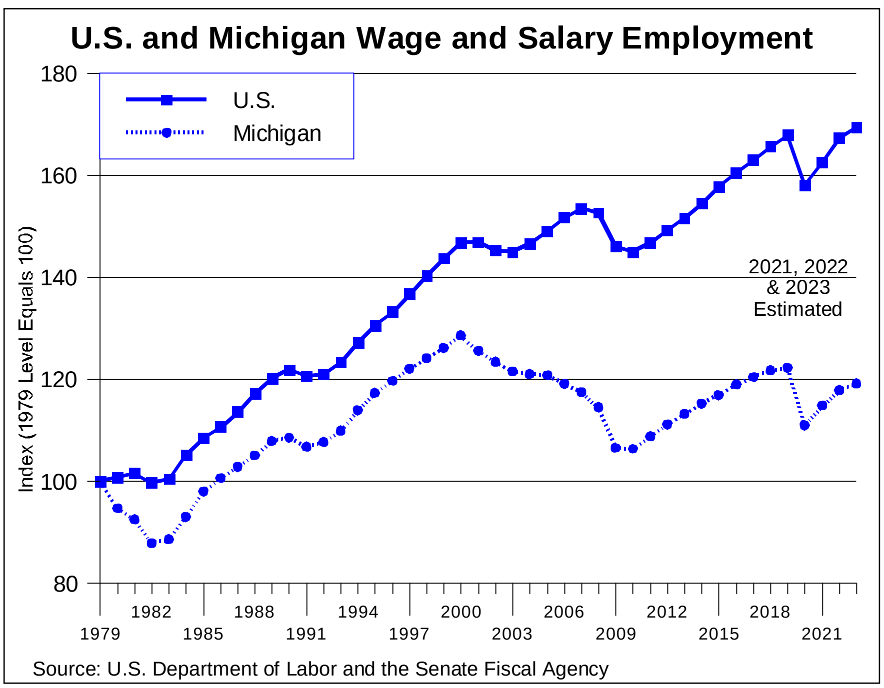


Figure 11

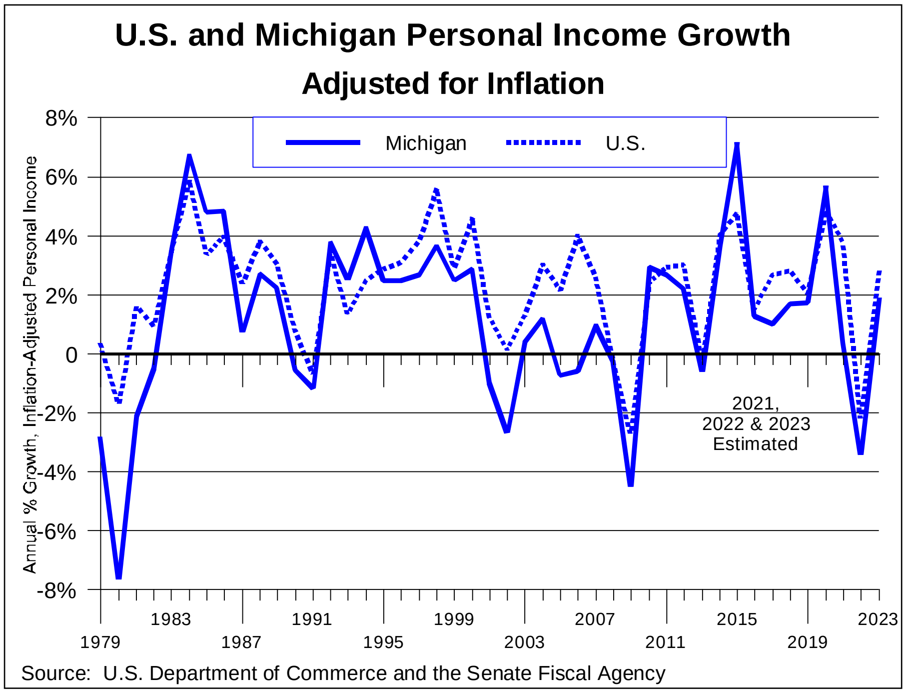
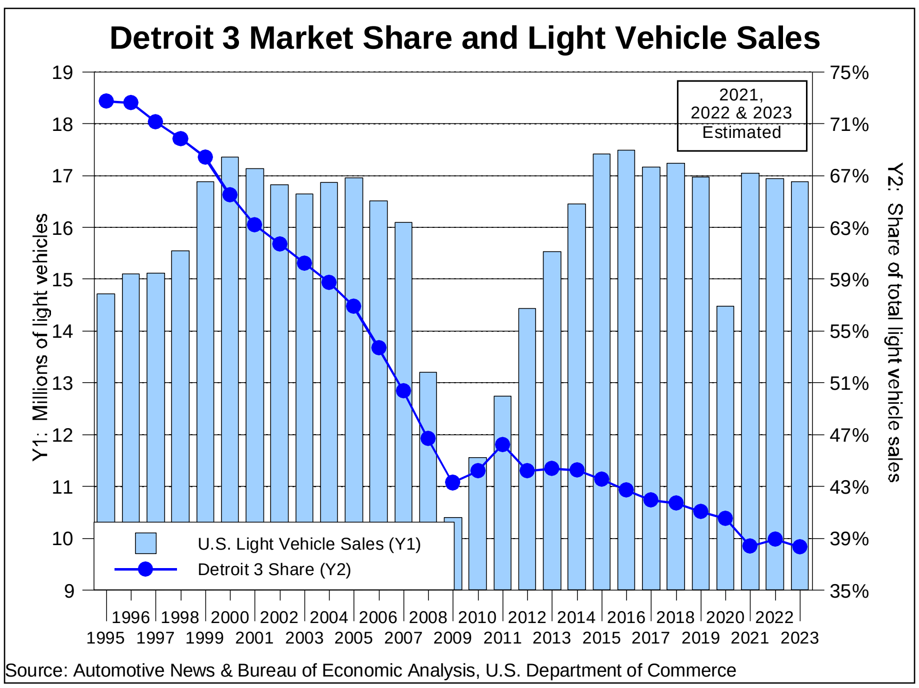


Figure 12



FORECAST RISKS

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

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

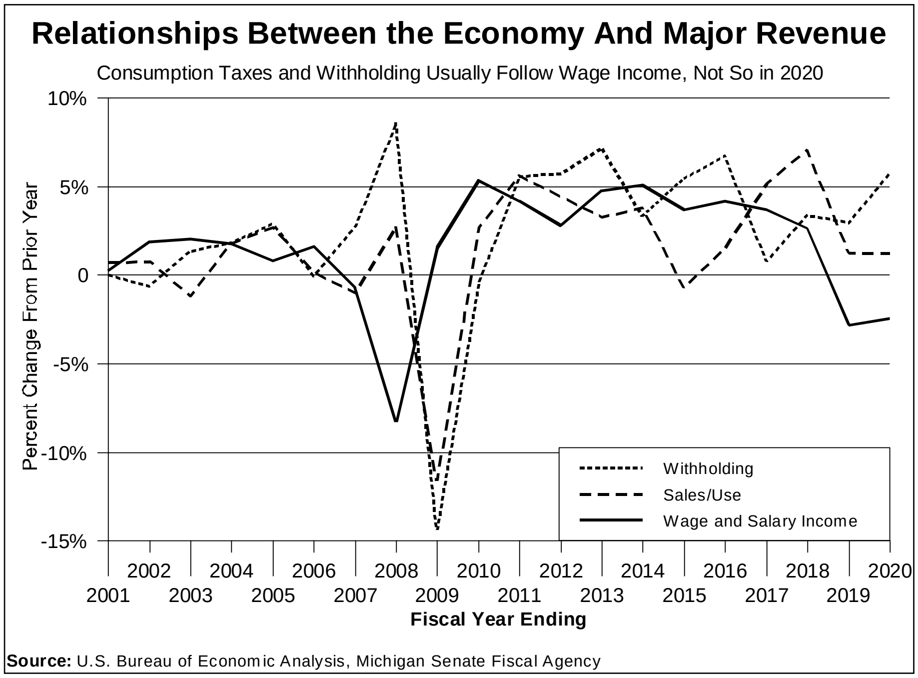
This section will focus more on several major categories of risk that will affect the validity of the forecast even if there is no estimation error due to statistical difficulties associated with extreme changes in the data.

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

The COVID-19-induced recession of 2020 has seen many of these relationships change, sometimes in substantial ways. Even when the relationships have held, some of the changes have 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, current estimates suggest that somewhere between 60% and 75% of the payments in early 2020 were spent, while it appears that only about 20% of the second and third round of stimulus checks were spent. Unlike most previous recessions, supply constraints played a major role in the slowdown. In 2020, the traditional relationship between spending and employment did not move in the same direction. For example, during the 2008-09 recession, retail sales fell 10.1% between the beginning of the recession in December 2007 and the end of the recession in June 2009, while payroll employment fell 5.3%. In contrast, payroll employment in April 2021 is down 5.4% from February 2020, nearly the same decline as in the 2008-09 recession, while retail sales are up 20.8%.

The changed relationships between economic variables during 2020 and early 2021 not only increases the risks regarding the economic forecast, but for the revenue forecast presented in the next section. For example, in Michigan, payroll employment fell 23.8% between February 2020 and April 2020 and sales tax revenue fell 27.3%, yet individual income tax withholding rose 2.3%. Although payroll employment has slowly recovered between April 2020 and March 2021, March 2021 payroll employment remained 7.2% below the February 2020 level while sales and use tax revenue has consistently averaged 10.4% growth from year-ago levels (Figure 13). The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables. As illustrated with FY 2019-20 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions of dollars, or even by billions of dollars. The economic changes forecasted at the May 2020 Consensus Revenue Estimating Conference (CREC) largely were correct, yet the $3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by $2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held.

Figure 13



Recoveries from recessions like the 2008-2009 recession, which was caused by a crisis within the financial system, often take longer than traditional recoveries because of the increased level of risk aversion both borrowers and lenders exhibit, and the need to rebuild asset values rather than simply having the unemployed obtain jobs. In contrast, after the 1957-58 recession, which reflected the most recent pandemic in US history to have a significant economic impact, the economy recovered relatively quickly, with inflation-adjusted GDP surpassing the prerecession peak after just three quarters of growth. The COVID-19-induced recession is on track for output to recover to prerecession levels in the second quarter of 2021. However, before COVID-19, the economy was exhibiting numerous signs of slowing and the corresponding restructuring of business activity. The pandemic, and the resulting technological changes many firms have implemented, are expected to fundamentally alter the need for some employees once the pandemic is no longer a concern. Additionally, the economy of 1958 was far more manufacturing-intensive, and services have suffered greater declines from COVID-19. As a result, it is expected that it will take much longer for employment to recover to pre-COVID-19 pandemic levels.

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

After the economy began suffering impacts from the spread of COVID-19, both Federal fiscal and monetary policy began taking steps to provide economic stimulus. Many of the initiatives, ranging from supplemental unemployment benefits and stimulus checks to special lending facilities from the Federal Reserve Bank, were constructed to reduce economic disruptions associated with COVID-19. While the stimulus measures appear to have been quite effective at maintaining aggregate income levels, and to some degree consumption spending, the fiscal stimulus measures pushed the Federal deficit to 28.9% of GDP in the second quarter of 2020 and 16.6% of GDP in the third quarter.

The forecast does not anticipate any additional Federal fiscal stimulus beyond the stimulus package enacted in March 2021. Monetary stimulus is expected to continue in roughly the same manner and form as it exists currently. Interest rates are expected to remain low throughout the forecast, although inflation is expected to rise to slightly above Federal Reserve targets. The American Rescue Plan (ARP), enacted in March 2021, provided substantial funds to help maintain state and local government revenue and expenditures. To the extent that additional Federal fiscal stimulus is adopted, economic growth will be stronger than forecasted. Similarly, to the extent that state and local governments fail to use available Federal funds or experience more substantial constraints, economic growth will be slower than forecasted.

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

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. Furthermore, the vulnerability of older populations to the COVID-19 virus may affect the rate at which some older adults leave (and/or return to) the labor force. Similarly, health risks or fears could substantially alter labor force participation for many others, especially in the near term. Additionally, these individuals could exercise caution as consumers, thus constraining the recovery from both the perspective of labor supply as well as consumer spending. For example, not only must the individuals who would represent the flight crew on an airline flight or waiter/waitress in a restaurant be willing to face the risks associated with returning to work, but customers must be willing to face any risks associated with contracting COVID-19 while flying or dining out. Currently, the most serious constraints on labor supply may reflect reduced labor force participation by groups that may be unwilling or unable to return to the labor force. Since the COVID-19 pandemic began, labor force participation has fallen markedly for both women and older adults (Figure 14). Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return (Figure 15). Should many of the workers who have left the labor force during the pandemic remain out of the labor force, such as younger woman opting to stay at home to raise children or older workers being unable to secure employment or opting to retire early, unemployment rates will decline relatively rapidly as output expands, yet employment will recover slowly and worker shortages are likely to be widespread. The forecast anticipates that labor force dynamics will constrain growth over the next few years; unemployment rates will fall faster than suggested by the rate of job growth, and worker shortages will place greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

Figure 14

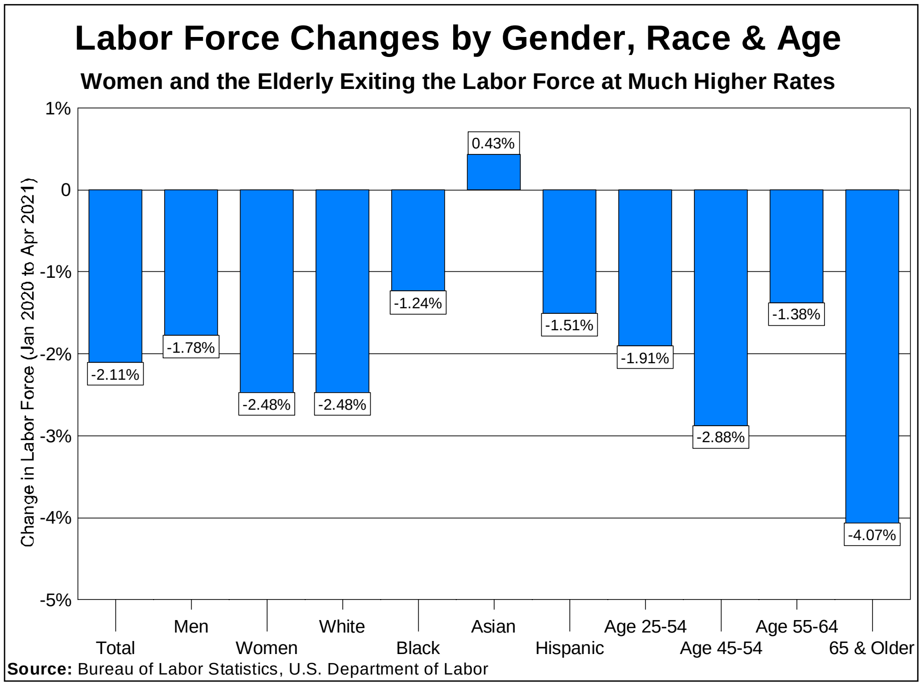
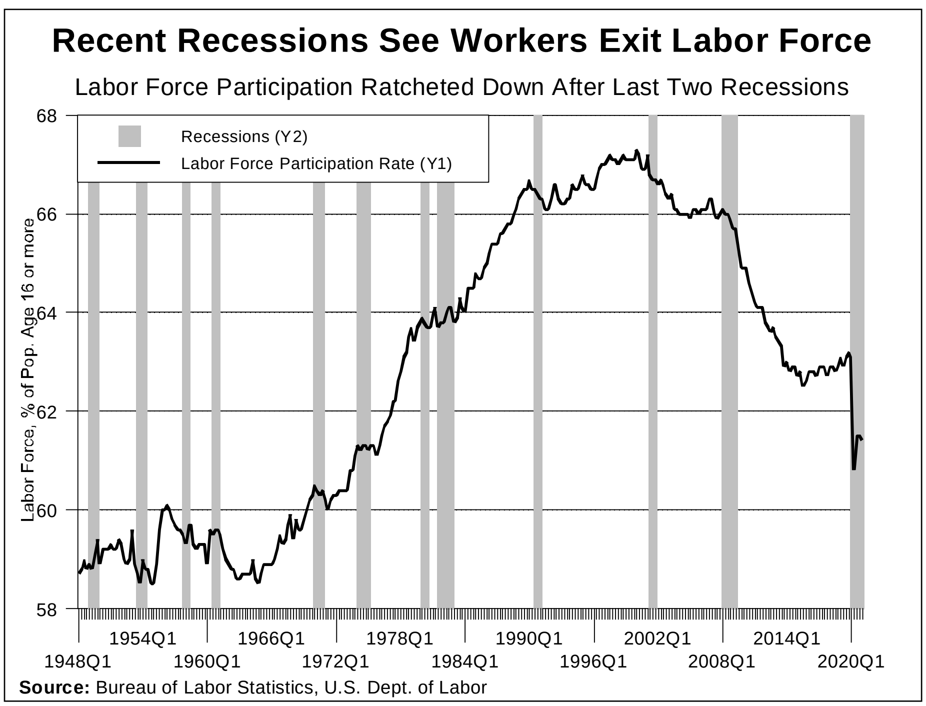


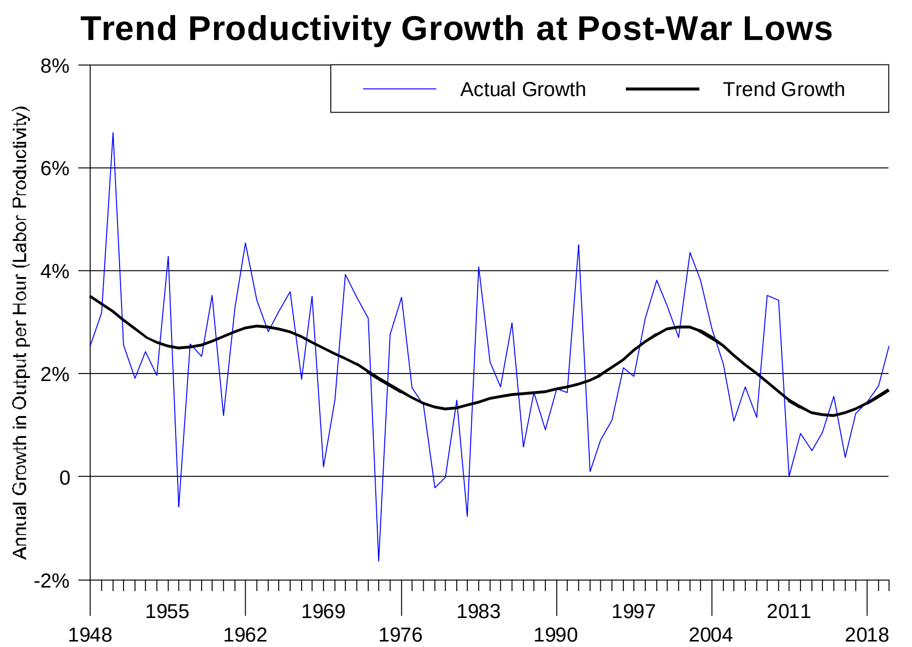
Figure 15



Aside from the short-term growth constraints related to the COVID-19-pandemic, low population growth and lower longer-term productivity will constrain the long-term economic growth potential of both the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they produce goods and services. While short-term deviations inevitably occur, especially as a result of variations in labor force participation and the number of unemployed workers, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced during the current recovery 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.

Nationally, population growth has slowly declined for decades. However, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.9% growth per year since 2010, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 16). 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 is generally associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates.

Figure 16



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

In 2020 and 2021, productivity growth is expected to rise above the levels of the 2010-2019 period, reflecting business efforts to adapt to the pandemic. This short-term improvement in productivity also will be accompanied by increased investment in personal protection equipment, which is more likely to maintain current production capabilities with fewer workers than it is to generate additional economic growth in future years. If productivity growth is less than forecasted, in the short run it will help the economy recover from any job losses that occur during the current recession but will likely reduce growth in years beyond the forecast. Similarly, if productivity growth is greater than forecast, output will recover to prerecession levels more rapidly, but employment will take longer to recover.

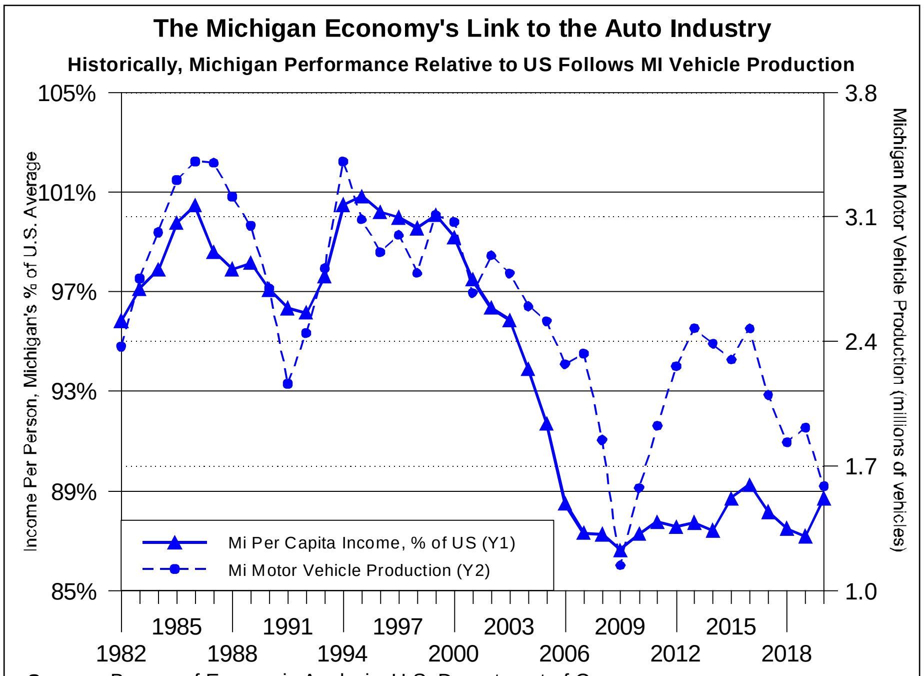
Michigan's Situation. While over the 2000-2009 period Michigan's employment situation fared worse than the national average and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not particularly inconsistent with other states' when Michigan's economic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

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 17). While that reliance has declined (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 5.6% in 2017), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although with lower oil prices over the last few years, these states have faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 helped mute the impact of the COVID-19 pandemic on the Michigan economy.

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

The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists unless a sector other than motor vehicles begins to show substantial growth. For both the Michigan economy and State tax revenue to improve markedly, substantial employment gains in the economy as a whole will need to occur.

Figure 17



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

THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's revised estimates for GF/GP and SAF revenue for FY 2020-21, FY 2021-22, and FY 2022-23. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2020-21 and FY 2021-22 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2020-21, FY 2021-22, and FY 2022-23 are presented in Table 3 and are summarized below.

FY 2020-21 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $26.5 billion in FY 2020-21.
- The revised estimate for FY 2020-21 is up 6.9%, or $1,698.1 million, from final revenue for FY 2019-20.
- The revised estimate for FY 2020-21 is $2,196.3 million above the January 2021 consensus revenue estimate.
- The revenue increase in FY 2020-21 primarily reflects Michigan economic activity growing slowly while still facing headwinds due to the COVID-19 pandemic, with a significant boost from rescue and stimulus measures at the Federal level.

FY 2021-22 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $26.6 billion in FY 2021-22.
- This revised estimate for FY 2021-22 is 0.5%, or $128.2 million, more than the revised estimate for FY 2020-21.
- The revised estimate for FY 2021-22 is $1,271.5 million above the January 2021 consensus revenue estimate.
- The revenue increase in FY 2021-22 reflects increased economic activity as Michigan continues to recover from the COVID-19 pandemic.

FY 2022-23 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $27.4 billion in FY 2022-23.
- This revised estimate for FY 2022-23 is up 2.9%, or $774.2 million, from the revised estimate for FY 2021-22.
- The revised estimate for FY 2022-23 is $1,469.0 million above the January 2021 consensus revenue estimate.
- The revenue increase in FY 2022-23 reflects increased economic activity as Michigan continues to recover from the COVID-19 pandemic.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2019-20 THROUGH FY 2022-23 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)	FY 2019-20 Final	FY 2020-21 Revised Est.	FY 2021-22 Revised Est.	FY 2022-23 Revised Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	$11,951.9	$13,572.1	$13,317.2	$13,539.3
Tax Changes Not In Baseline	(1,176.2)	(2,248.6)	(1,745.9)	(1,464.6)
Revenue After Tax Changes:				
Net Income Tax	6,869.7	6,826.7	7,238.7	7,577.0
MBT, Corp. Income Tax, SBT & Insur. Tax	997.8	1,167.3	1,049.8	1,185.4
Other Taxes	2,483.7	2,958.2	2,899.7	2,921.3
Total Taxes	10,351.2	10,952.2	11,188.2	11,683.7
Nontax Revenue	424.5	371.3	383.2	391.1
TOTAL GF/GP REVENUE	**$10,775.6**	**$11,323.5**	**$11,571.4**	**$12,074.8**
SCHOOL AID FUND				
Baseline SAF	$14,073.9	$15,263.2	$15,050.2	$15,268.7
Tax Changes Not In Baseline	(83.5)	(122.6)	(29.3)	23.0
TOTAL SAF REVENUE	**$13,990.4**	**$15,140.6**	**$15,020.9**	**$15,291.7**
BASELINE GF/GP AND SAF REVENUE	$26,025.7	$28,835.3	$28,367.4	$28,808.0
Tax & Revenue Changes	(1,259.7)	(2,371.2)	(1,775.2)	(1,441.5)
GF/GP & SAF REV. AFTER CHANGES	**$24,766.0**	**$26,464.1**	**$26,592.3**	**$27,366.5**
SALES TAX	$8,308.6	$8,871.6	$8,830.8	$8,973.4
	Percent Change			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	(2.4%)	13.6%	(1.9%)	1.7%
Revenue After Tax Changes:				
Net Income Tax	(5.3)	(0.6)	6.0	4.7
MBT, Corp. Income Tax, SBT & Insur. Tax	(1.6)	17.0	(10.1)	12.9
Other Taxes	0.9	19.1	(2.0)	0.7
Total Taxes	(3.5)	5.8	2.2	4.4
Nontax Revenue	9.4	(12.5)	3.2	2.1
TOTAL GF/GP REVENUE	**(3.1%)**	**5.1%**	**2.2%**	**4.4%**
SCHOOL AID FUND				
Baseline SAF	3.2%	8.5%	(1.4%)	1.5%
TOTAL SAF REVENUE	**3.2%**	**8.2%**	**(0.8%)**	**1.8%**
BASELINE GF/GP AND SAF REVENUE	0.5%	10.8%	(1.6%)	1.6%
GF/GP & SAF REV. AFTER CHANGES	**0.4%**	**6.9%**	**0.5%**	**2.9%**
SALES TAX	0.7%	6.8%	(0.5%)	1.6%

Note: FY 2019-20 is the base year for baseline revenue.

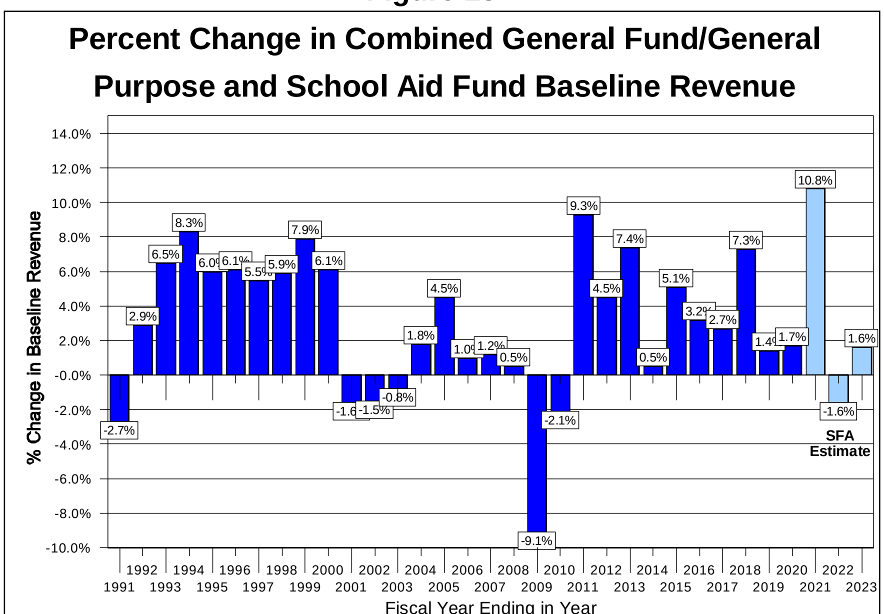
Historical Perspective

- Net GF/GP and SAF revenue increased 0.4% in FY 2019-20, and is forecast to increase in FY 2020-21, FY 2021-22, and FY 2022-23. The projected growth rates are 6.9% in FY 2020-21, 0.5% in FY 2021-22, and 2.9% in FY 2022-23. 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 3.3% in the years from FY 2010-11 to FY 2018-19.
- General Fund/General Purpose revenue rose to its highest level ever in FY 2018-19, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.

- Final GF/GP revenue from ongoing sources in FY 2019-20 was 40.3% ($3,097.0 million) above the recent low from FY 2009-10, without adjusting for inflation, but 3.1% ($340.2 million) below the peak in FY 2018-19.
- In FY 2020-21, ongoing GF/GP revenue is forecast to be 1.9% ($207.7 million) above the FY 2018-19 level, and 5.1% ($547.9 million) above the recent low in FY 2019-20.
- In FY 2021-22, ongoing GF/GP revenue is forecast to be 4.1% ($455.6 million) above the FY 2018-19 level, and 7.4% ($795.8 million) above the recent low in FY 2019-20.
- In FY 2022-23, ongoing GF/GP revenue is forecast to be 8.6% ($959.0 million) above the FY 2018-19 level, and 12.1% ($1,299.2 million) above the recent low in FY 2019-20.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and has been reimbursed from the General Fund for revenue losses due to personal property tax changes. School Aid Fund revenue rose to its highest level ever in FY 2019-20, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.
- Final SAF revenue from ongoing sources in FY 2019-20 was 28.6% ($3,111.5 million) above the recent low from FY 2011-12, without adjusting for inflation.
- In FY 2020-21, ongoing SAF revenue is forecast to be 39.2% ($4,261.7 million) above the FY 2011-12 level.
- In FY 2021-22, ongoing SAF revenue is forecast to decline slightly, but still will be 38.1% ($4,142.0 million) above the FY 2011-12 level.
- In FY 2022-23, ongoing SAF revenue is forecast to be 40.6% ($4,412.8 million) above the FY 2011-12 level.

Baseline revenue is forecast to increase in FY 2020-21, and then decrease in FY 2021-22 before increasing again in FY 2022-23. Figure 18 presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2019-20 base year) from FY 1986-87 through the initial estimate for FY 2022-23. During this 36-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 0.5% in FY 2019-20. Using the FY 2019-20 base year, baseline GF/GP and SAF revenue is expected to increase approximately 10.8% in FY 2020-21, then decrease 1.6% in FY 2021-22, and increase 1.6% in FY 2022-23.

Figure 18



Source: Department of Treasury and Senate Fiscal Agency

Figure 19 compares FY 1994-95 through estimated FY 2022-23 for both GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. Before FY 2017-18, GF/GP revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to $10.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during the 2008-2009 recession reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 20, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2020-21 will be approximately 1.9% (or $207.7 million) above the peak GF/GP revenue level in FY 2018-19 (without accounting for inflation). The estimated GF/GP revenue of $11.6 billion in FY 2021-22 is 4.1% above the peak, and initial estimates for FY 2022-23 are 8.6% above the peak level. In inflation-adjusted terms, FY 2022-23 GF/GP revenue is estimated to be 5.4% (or $536.4 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to increase in FY 2020-21, fall slightly in FY 2021-22, and then continue sustained growth in FY 2022-23. In FY 2022-23, SAF revenue is predicted to be approximately 118.4% ($8.3 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 3.4% ($416.0 million) below if adjusted for inflation, as shown in Figure 21.

Figure 19

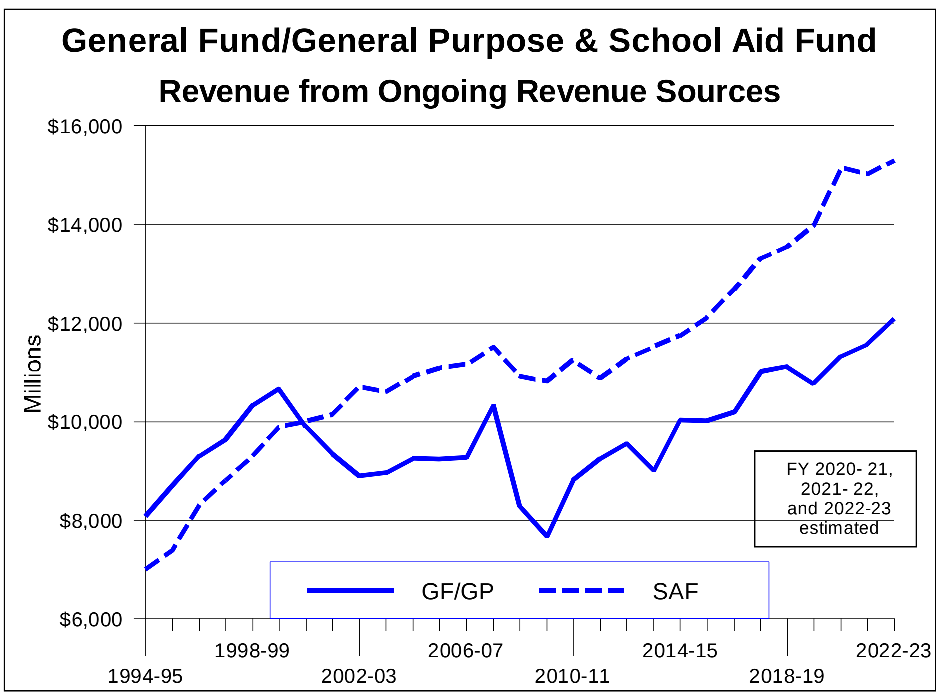


Figure 20

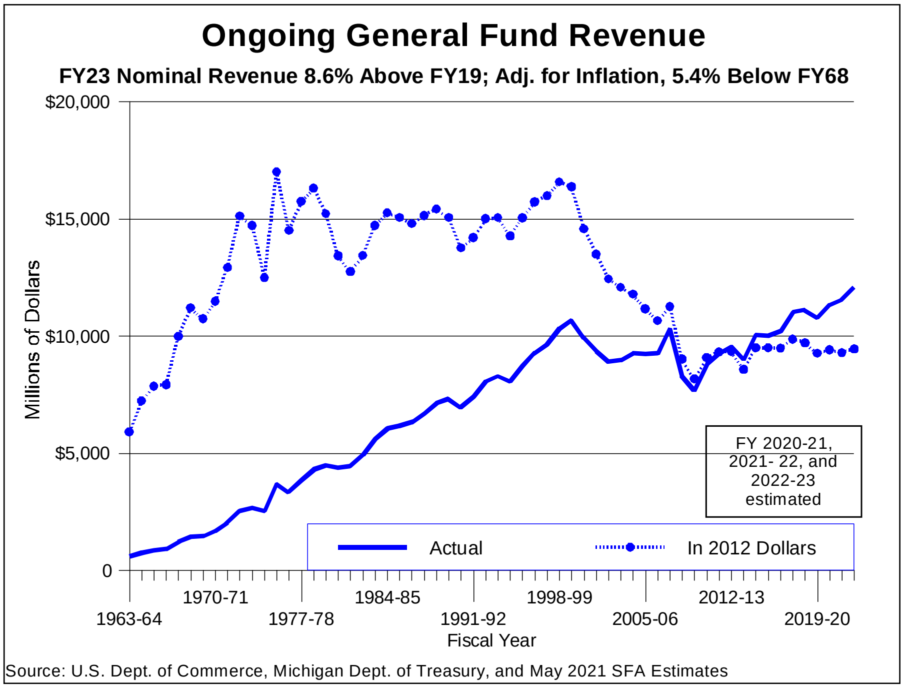
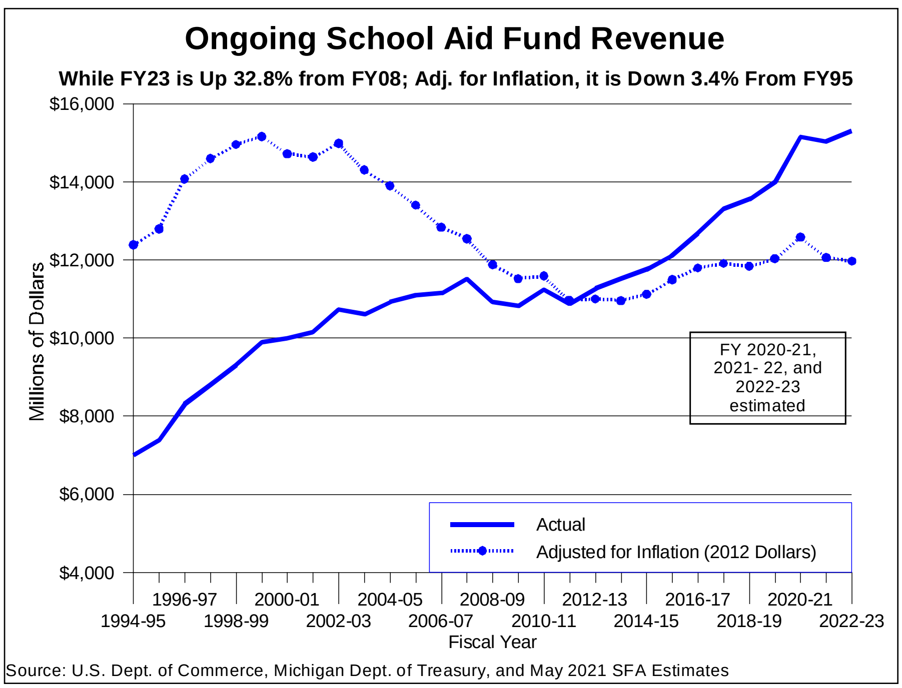


Figure 21



FY 2020-21 REVISED REVENUE ESTIMATES

Michigan's economy is expected to grow during FY 2020-21. Personal income will increase 2.6% and wage and salary employment will increase 3.5% from FY 2019-20. Total GF/GP and SAF revenue will reach an estimated $26.5 billion in FY 2020-21, an increase of 6.9%, or $1,698.1 million, from the final revenue for FY 2019-20. On a baseline basis, GF/GP and SAF revenue is expected to increase 10.8% in FY 2020-21, reflecting a growing economy facing headwinds from the COVID-19 pandemic and boosted by significant aid at the Federal level. The revised estimate of GF/GP and SAF revenue for FY 2020-21 is $2,196.4 million above the January 2021 consensus forecast and is summarized in Table 4.

Tax Policy Changes

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

Personal Property Tax Reform. Use tax collections of $491.5 million in FY 2020-21 will be levied by the Local Community Stabilization Authority. 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; this will reduce GF/GP revenue by $491.5 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $126.0 million. The General Fund will reimburse the SAF $2.0 million from GF/GP use tax revenue to replace the loss of State Education Tax (SET) revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $2.0 million and increase the SAF by $2.0 million.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by $626.9 million in FY 2020-21, a larger reduction than in FY 2019-20. All of the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $75.0 million, of which $19.3 million will be directed to the SAF and $55.7 million to other funds, primarily the MTF and distributions to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $45.0 million ($7.5 million GF/GP, $33.0 million SAF, and $4.5 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $53.1 million, of which $6.2 million will be GF/GP, $38.9 million will be SAF, and $8.0 million other funds.

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

New Gaming. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $46.0 million, of which $31.9 million will be directed to the SAF and $14.1 million to other funds. The new gaming options are expected to reduce lottery revenue by $29.0 million (all SAF).

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $15.0 million.

Table 4

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

			Change from FY 2019-20		
	FY 2019-20 Final	**FY 2020-21 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/21 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$11,951.9	$13,572.1	$1,620.2	13.6%	$1,675.3
Tax Changes Not In Baseline	(1,176.2)	(2,248.6)	(1,072.4)	----	(589.4)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$13,018.0	$13,306.0	$288.0	2.2%	$735.5
Less: Refunds	(2,517.7)	(2,642.6)	(124.9)	5.0	(226.2)
Net Income Tax Collections	10,500.3	10,663.4	163.1	1.6	509.3
Less: Earmarking to SAF	(3,092.9)	(3,166.9)	(74.0)	2.4	(173.9)
Earmarking to MI Transp. Fund	(468.0)	(600.0)	(132.0)	28.2	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(0.6)	(0.8)	(0.2)	----	0.0
Net Income Tax to GF/GP	$6,869.7	$6,826.7	($43.0)	(0.6%)	$335.4
Other Taxes					
Corporate Income Tax	1,100.1	1,423.0	322.9	29.4	348.6
Michigan Business Tax	(553.7)	(626.9)	(73.2)	----	0.0
Sales	1,299.8	1,372.3	72.5	5.6	97.6
Use	747.5	1,131.4	383.9	51.4	313.1
Cigarette	180.1	179.4	(0.7)	(0.4)	4.7
Insurance Company Premiums	456.8	371.2	(85.6)	(18.7)	(27.5)
Telephone & Telegraph	32.7	32.0	(0.7)	(2.1)	0.0
Oil & Gas Severance	12.8	12.0	(0.8)	(6.3)	0.0
All Other	205.3	231.1	25.8	12.6	14.0
Subtotal Other Taxes	$3,481.4	$4,125.5	$644.1	18.5%	$750.5
Total Nontax Revenue	424.5	371.3	(53.2)	(12.5)	0.0
GF/GP REV. AFTER TAX CHANGES	**$10,775.6**	**$11,323.5**	**$547.9**	**5.1%**	**$1,085.9**
SCHOOL AID FUND:					
Baseline Revenue	$14,073.9	$15,263.2	$1,189.3	8.5%	$1,158.5
Tax Changes Not In Baseline	(83.5)	(122.6)	(39.1)	----	(48.1)
Revenue After Tax Changes					
Sales Tax	6,048.7	6,471.0	422.3	7.0	340.2
Use Tax	613.0	814.5	201.5	32.9	156.6
Lottery Revenue	1,179.9	1,388.1	208.2	17.6	330.0
State Education Property Tax	2,182.9	2,262.6	79.7	3.7	25.0
Real Estate Transfer Tax	335.4	448.6	113.2	33.8	85.0
Income Tax	3,092.9	3,166.9	74.0	2.4	173.9
Casino Tax	67.0	106.8	39.8	59.4	(9.7)
Other Revenue	470.6	482.1	11.5	2.5	9.4
SAF REV. AFTER TAX CHANGES	**$13,990.4**	**$15,140.6**	**$1,150.2**	**8.2%**	**$1,110.4**
BASELINE GF/GP AND SAF	**$26,025.7**	**$28,835.3**	**$2,809.6**	**10.8%**	**$2,833.8**
Tax & Revenue Changes	(1,259.7)	(2,371.2)	(1,111.5)	----	(637.5)
GF/GP & SAF REV. AFTER CHNGS.	**$24,766.0**	**$26,464.1**	**$1,698.1**	**6.9%**	**$2,196.3**
SALES TAX	$8,308.6	$8,871.6	$563.0	6.8%	$465.6

Note: FY 2019-20 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $11.3 billion in FY 2020-21, an increase of 5.1%, or $547.9 million, from the revised estimate for FY 2019-20. Baseline GF/GP revenue is expected to increase 13.6%, or $1,620.2 million, from FY 2019-20. The revised GF/GP revenue estimates for FY 2020-21 are $1,086.0 million above the January 2021 consensus estimates and are summarized in Table 4.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $15.1 billion in FY 2020-21, an increase of $1,150.2 million, or 8.2%, from the revised estimate for FY 2019-20. The revised SAF revenue estimates for FY 2020-21 are $1,110.4 million above the January 2021 consensus estimates and are summarized in Table 4.

FY 2021-22 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue recovering during FY 2021-22, although facing headwinds coming out of the pandemic. Personal income will decrease 1.5%, but wage and salary employment will increase 2.6%. Wage and salary income is forecasted to increase 4.5%. Total GF/GP and SAF revenue will reach an estimated $26.6 billion in FY 2021-22, an increase of 0.5%, or $128.2 million, from the revised estimate for FY 2020-21. On a baseline basis, GF/GP and SAF revenue is expected to decrease 1.6% in FY 2021-22. Estimated GF/GP and SAF revenue is $1,271.5 million above the January 2021 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2021-22 is summarized in Table 5.

Tax Policy Changes

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

Personal Property Tax Reform. Use tax collections of $521.3 million in FY 2021-22 will be levied by the Local Community Stabilization Authority. 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; this will reduce GF/GP revenue by $521.3 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $135.0 million. The General Fund will reimburse the SAF $1.5 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $1.5 million and increase the SAF by $1.5 million.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by $592.9 million in FY 2021-22, a smaller reduction than in FY 2020-21. All of the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $120.0 million, of which $42.0 million will be directed to the SAF and $78.0 million to other funds, primarily the MTF and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $72.0 million ($12.0 million GF/GP, $52.8 million SAF, and $7.2 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $58.3 million, of which $6.9 million will be GF/GP, $42.7 million will be SAF, and $8.7 million other funds.

Table 5

FY 2021-22 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2020-21		
	FY 2020-21 Revised Est.	FY 2021-22 Revised Est.	Dollar Change	Percent Change	$ Change from 01/21 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$13,572.1	$13,317.2	($254.9)	(1.9%)	$936.0
Tax Changes Not In Baseline	(2,248.6)	(1,745.9)	502.7	----	(261.8)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	13,306.0	13,406.2	100.2	0.8	169.2
Less: Refunds	(2,642.6)	(2,305.9)	336.7	(12.7)	157.5
Net Income Tax Collections	10,663.4	11,100.3	436.9	4.1	326.7
Less: Earmarking to SAF	(3,166.9)	(3,191.8)	(24.9)	0.8	(40.3)
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	$6,826.7	$7,238.7	$412.0	6.0%	$286.4
Other Taxes					
Corporate Income Tax	1,423.0	1,242.7	(180.3)	(12.7)	125.1
Michigan Business Tax	(626.9)	(592.9)	34.0	(5.4)	0.0
Sales	1,372.3	1,373.4	1.1	0.1	27.7
Use	1,131.4	1,064.2	(67.2)	(5.9)	233.3
Cigarette	179.4	176.0	(3.4)	(1.9)	4.3
Insurance Company Premiums	371.2	400.0	28.8	7.8	(10.0)
Telephone & Telegraph	32.0	32.0	0.0	0.0	0.0
Oil & Gas Severance	12.0	15.5	3.5	29.2	0.0
All Other	231.1	238.6	7.5	3.2	7.4
Subtotal Other Taxes	$4,125.5	$3,949.5	($176.0)	(4.3%)	$387.8
Total Nontax Revenue	371.3	383.2	11.9	3.2	0.0
GF/GP REV. AFTER TAX CHANGES	**$11,323.5**	**$11,571.4**	**$247.9**	**2.2%**	**$674.2**
SCHOOL AID FUND:					
Baseline Revenue	$15,263.2	$15,050.2	($213.0)	(1.4%)	$635.7
Tax Changes Not In Baseline	(122.6)	(29.3)	93.3	----	(38.5)
Revenue After Tax Changes					
Sales Tax	6,471.0	6,442.0	(29.0)	(0.4)	172.3
Use Tax	814.5	795.0	(19.5)	(2.4)	116.7
Lottery Revenue	1,388.1	1,204.6	(183.5)	(13.2)	165.0
State Education Property Tax	2,262.6	2,333.4	70.8	3.1	60.0
Real Estate Transfer Tax	448.6	411.6	(37.0)	(8.2)	40.0
Income Tax	3,166.9	3,191.8	24.9	0.8	40.3
Casino Tax	106.8	143.4	36.6	34.3	(5.6)
Other Revenue	482.1	499.1	17.0	3.5	8.5
SAF REV. AFTER TAX CHANGES	**$15,140.6**	**$15,020.9**	**($119.7)**	**(0.8%)**	**$597.2**
BASELINE GF/GP AND SAF	**$28,835.3**	**$28,367.4**	**($467.9)**	**(1.6%)**	**$1,571.7**
Tax & Revenue Changes	(2,371.2)	(1,775.2)	596.0	----	(300.2)
GF/GP & SAF REV. AFTER CHNGS.	**$26,464.1**	**$26,592.3**	**$128.2**	**0.5%**	**$1,271.5**
SALES TAX	$8,871.6	$8,830.8	($40.8)	(0.5%)	$235.0

Note: FY 2019-20 is the base year for baseline revenue.

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

New Gaming. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $48.5 million, of which $33.8 million will be directed to the SAF and $14.7 million to other funds. The new gaming options are expected to reduce lottery revenue by $30.1 million (all SAF).

Other Changes. Tax vouchers from the Michigan Early Stage Venture Capital program will reduce CIT by $75.0 million (all GF/GP).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $11.6 billion in FY 2021-22, an increase of 2.2%, or $247.9 million, from the revised estimate for FY 2020-21; however, baseline GF/GP revenue is expected to decrease 1.9%. The revised GF/GP revenue estimates for FY 2021-22 are $674.2 million above the January 2021 consensus estimates and are summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $15.0 billion in FY 2021-22, a decrease of $119.7 million, or 0.8%, from the revised estimate for FY 2020-21. Baseline SAF revenue will decrease 1.4% in FY 2021-22. The revised SAF revenue estimates for FY 2021-22 are $597.2 million above the January 2021 consensus estimates and are summarized in Table 5.

FY 2022-23 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2022-23. Personal income will grow 4.0%, but wage and salary employment will grow more slowly at 1.1%. Total GF/GP and SAF revenue will reach an estimated $27.4 billion in FY 2022-23, an increase of 2.9%, or $774.2 million, from the revised estimate for FY 2021-22. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.6% in FY 2022-23, reflecting continued improvements in State economic activity. Estimated GF/GP and SAF revenue is $1,469.0 million above the January 2021 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2022-23 is summarized in Table 6.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the individual income tax will reduce revenue by $112.5 million ($85.7 million GF/GP and $26.8 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by $180.0 million ($145.6 million GF/GP and $34.4 million SAF).

Personal Property Tax Reform. Use tax collections of $548.0 million in FY 2022-23 will be levied by the Local Community Stabilization Authority. 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; this will reduce GF/GP revenue by $548.0 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by $143.0 million. The General Fund will reimburse the SAF $1.5 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by $1.5 million and increase the SAF by $1.5 million.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by $526.7 million in FY 2022-23, a smaller reduction than in FY 2021-22. All of the impact of MBT credits reduces GF/GP revenue.

Marijuana and Sales Tax. The marijuana excise tax will generate $150.0 million, of which $52.5 million will be directed to the SAF and $97.5 million to other funds, primarily the MTF and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by $90.0 million ($15.0 million GF/GP, $66.0 million SAF, and $9.0 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately $63.2 million, of which $7.7 million will be GF/GP, $46.3 million will be SAF, and $9.2 million other funds.

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

New Gaming. New casino gaming options including internet gaming, sports betting, and fantasy sports will increase casino tax revenue $49.9 million, of which $34.5 million will be directed to the SAF and $15.4 million to other funds. The new gaming options are expected to reduce lottery revenue by $31.0 million (all SAF).

Other Changes. Tax vouchers from the Michigan Early Stage Venture Capital program will reduce CIT by $75.0 million (all GF/GP).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $12.1 billion in FY 2022-23, an increase of 4.4% or $503.4 million, from the revised estimate for FY 2021-22. Baseline GF/GP revenue is expected to increase 1.7% because of the continued growth in the economy. The revised GF/GP revenue estimates for FY 2022-23 are $907.7 million above the January 2021 consensus estimates and are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $15.3 billion in FY 2022-23, an increase of $270.8 million, 1.8%, from the revised estimate for FY 2021-22. The revised SAF revenue estimates for FY 2022-23 are $561.3 million above the January 2021 consensus estimates and are summarized in Table 6.

Table 6

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

	FY 2021-22 Revised Est.	FY 2022-23 Revised Est.	Change from FY 2021-22 Dollar Change	Change from FY 2021-22 Percent Change	$ Change from 01/21 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$13,317.2	$13,539.3	$222.1	1.7%	$806.0
Tax Changes Not In Baseline	(1,745.9)	(1,464.6)	281.3	----	101.6
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	13,406.2	13,805.3	399.1	3.0	431.6
Less: Refunds	(2,305.9)	(2,271.7)	34.2	(1.5)	188.6
Net Income Tax Collections	11,100.3	11,533.6	433.3	3.9	620.2
Less: Earmarking to SAF	(3,191.8)	(3,286.8)	(95.0)	3.0	(57.0)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$7,238.7	$7,577.0	$338.3	4.7%	$563.2
Other Taxes					
Corporate Income Tax	1,242.7	1,292.1	49.4	4.0	91.7
Michigan Business Tax	(592.9)	(526.7)	66.2	(11.2)	0.0
Sales	1,373.4	1,400.9	27.5	2.0	29.5
Use	1,064.2	1,050.6	(13.6)	(1.3)	216.6
Cigarette	176.0	172.7	(3.3)	(1.9)	2.1
Insurance Company Premiums	400.0	420.0	20.0	5.0	0.0
Telephone & Telegraph	32.0	31.0	(1.0)	(3.1)	0.0
Oil & Gas Severance	15.5	19.0	3.5	22.6	0.0
All Other	238.6	247.1	8.5	3.6	4.5
Subtotal Other Taxes	$3,949.5	$4,106.7	$157.2	4.0%	$344.4
Total Nontax Revenue	383.2	391.1	7.9	2.1	0.0
GF/GP REV. AFTER TAX CHANGES	**$11,571.4**	**$12,074.8**	**$503.4**	**4.4%**	**$907.6**
SCHOOL AID FUND:					
Baseline Revenue	$15,050.2	$15,268.7	$218.5	1.5%	$571.1
Tax Changes Not In Baseline	(29.3)	23.0	52.3	----	(9.8)
Revenue After Tax Changes					
Sales Tax	6,442.0	6,546.4	104.4	1.6	154.0
Use Tax	795.0	801.6	6.6	0.8	108.4
Lottery Revenue	1,204.6	1,209.0	4.4	0.4	150.0
State Education Property Tax	2,333.4	2,374.4	41.0	1.8	60.0
Real Estate Transfer Tax	411.6	415.3	3.7	0.9	30.0
Income Tax	3,191.8	3,286.8	95.0	3.0	57.0
Casino Tax	143.4	154.0	10.6	7.4	(3.0)
Other Revenue	499.1	504.2	5.1	1.0	4.9
SAF REV. AFTER TAX CHANGES	**$15,020.9**	**$15,291.7**	**$270.8**	**1.8%**	**$561.3**
BASELINE GF/GP AND SAF	**$28,367.4**	**$28,808.0**	**$440.6**	**1.6%**	**$1,377.1**
Tax & Revenue Changes	(1,775.2)	(1,441.5)	333.6	----	91.9
GF/GP & SAF REV. AFTER CHNGS	**$26,592.3**	**$27,366.5**	**$774.2**	**2.9%**	**$1,469.0**
SALES TAX	$8,830.8	$8,973.4	$142.6	1.6%	$210.0

Note: FY 2019-20 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2020-21 THROUGH FY 2022-23

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

Individual Income Tax. Individual income tax revenue will increase an estimated 1.6% in FY 2020-21, to $10.7 billion, as the labor market continues to recover from the COVID-19 public health emergency. Fiscal year 2020-21 withholding will rise 4.5% as wages and employment recover from declines in FY 2019-20. As economic growth continues, the growth rate in withholding will slow to 0.7% in FY 2021-22 and 2.0% in FY 2022-23. Annual payments are expected to decrease 32.6% in FY 2020-21 before increasing 25.1% in FY 2021-22 and 9.2% in FY 2022-23. Compared with the January 2021 consensus revenue estimates, the revised estimate for FY 2020-21 individual income tax revenue is $509.3 million higher, the revised estimate for FY 2021-22 is $326.7 million higher, and the revised estimate for FY 2022-23 is $620.2 million higher, reflecting improved employment and wage growth forecasts.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax will generally increase at a faster rate than the 0.7% gain experienced in FY 2019-20 throughout the forecast, with sales tax revenue rising 6.8% in FY 2020-21, falling 0.5% in FY 2021-22, and then rising again 1.6% in FY 2022-23. Compared with the January 2021 consensus revenue estimates, the revised sales tax estimate for FY 2020-21 is $465.6 million higher, the revised estimate for FY 2021-22 is $235.0 million higher, and the revised estimate for FY 2022-23 is up $210.0 million. The increase is due primarily to revised estimates of consumer spending. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments (10%), the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Since the middle of 2020, there has been a surge in online shopping, and many of those transactions are subject to use tax. Use tax revenue is expected to increase 33.5% in FY 2020-21, fall 2.3% in FY 2021-22, and rise 0.8% in FY 2022-23, as the mix of online vs. brick-and-mortar retail sales steadies. The portion of use tax revenue received by the State of Michigan is expected to decline. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is being converted into a local use tax used to fund reimbursements to local units affected by personal property tax exemptions adopted in 2012. Payments to the Local Community Stabilization Authority started at $96.4 million in FY 2015-16, rose to $465.9 million in FY 2019-20, and will total $491.5 million in FY 2020-21, $521.3 million in FY 2021-22, and $548.0 million in FY 2022-23, as they increase annually. Compared with the January 2021 consensus revenue estimates, the FY 2020-21 estimate for combined State and local use tax collections is revised upward by $469.7 million, the FY 2021-22 estimate is $350.0 million higher, and the FY 2022-23 estimate is revised up $325.0 million. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated $904.2 million in FY 2019-20, an increase of 1.6% from FY 2018-19. Still, tobacco tax revenue is expected to continue its long-term downward trend, declining 0.2% in FY 2020-21, 1.9% in FY 2021-22, and 1.8% in FY 2022-23. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos is directed to the SAF. In FY 2020-21, casino tax revenue is projected to total $106.8 million, a 59.4% increase from FY 2019-20, when casinos in the State were forced to close or operate at less than full capacity for most of the year. Casino tax revenue is expected to grow 34.3% in FY 2021-22 and 7.4% in FY 2022-23, and the economy recovers and new gaming options (internet gaming and sports and fantasy betting) are introduced.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. After increasing 3.4% in FY 2019-20, SET collections are projected to increase another 3.7% in FY 2020-21, 3.1% in FY 2021-22, and 1.8% in FY 2022-23, as the housing market stabilizes, 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 later in the forecast period, although FY 2019-20 saw 10.2% growth and, in FY 2020-21, lottery revenue is forecast to grow 17.6% as other gaming options are closed or limited during the pandemic. Lottery revenue is forecasted to decline 13.2% in FY 2021-22 before increasing 0.4% in FY 2022-23. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2019-20 to FY 2022-23, lottery revenue is expected to decline from 8.4% to 7.9% of total earmarked SAF revenue, reflecting that lottery revenue will grow more slowly compared to other SAF revenue sources.

Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay a separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

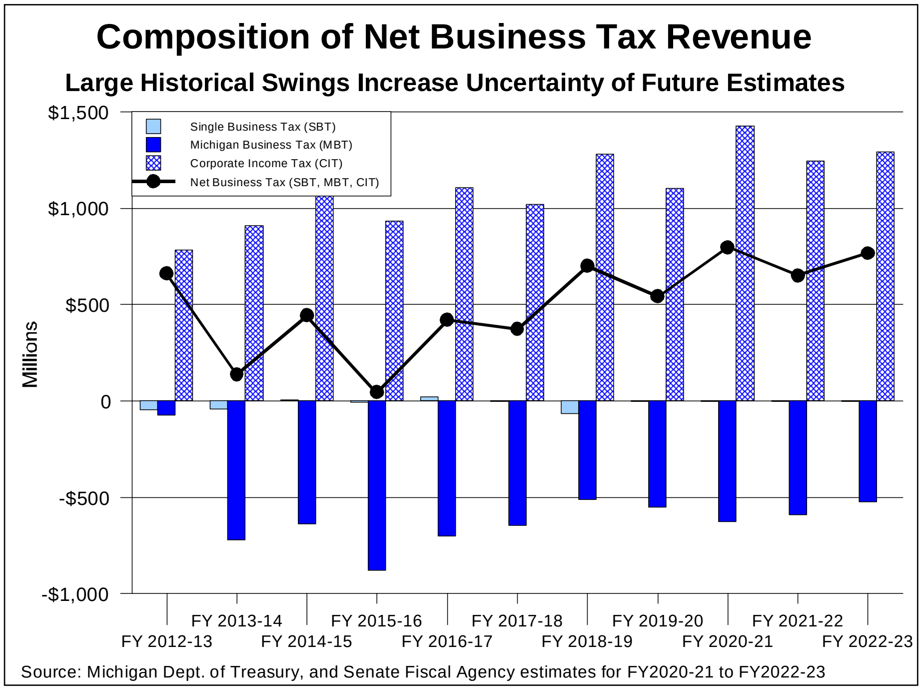
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative $553.7 million (as refunds exceeded revenue) in FY 2019-20, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between $500.0 million and $650.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term, although, in some cases, the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for prior tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates.

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately $1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by $878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by $325.2 million less in FY 2019-20, they still represented a 4.9% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally decline in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 5.2% in FY 2020-21, 4.9% in FY 2021-22, and 4.2% in FY 2022-23. 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 2019-20, CIT revenue fell 13.9%, after rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the potential volatility in CIT revenue (Figure 22). In FY 2018-19, net business tax revenue from the MBT, CIT, and SBT totaled $698.9 million, up 88.0% from FY 2017-18. The final estimate for business taxes in FY 2019-20 is $541.0 million, a 22.6% decrease from FY 2018-19 that is $4.7 million below the January 2021 consensus estimate. Net business tax revenue is expected to increase 47.2% in FY 2020-21 before decreasing 18.4% in FY 2021-22 and increasing 17.8% in FY 2022-23. (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 $456.8 million in FY 2019-20, a 45.1% increase from FY 2018-19, due to a single large refund in FY 2018-19 and a large adjustment in FY 2019-20. Revenue from taxes on insurance companies is expected to return to trend growth over the forecast period, first falling 18.7% in FY 2020-21, but then rising 7.8% in FY 2021-22 and 5.0% in FY 2022-23. All revenue from insurance taxes is directed to the General Fund.

Figure 22



REVENUE TRENDS

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

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

Based on a longer-term view of Michigan's economy for FY 2023-24 and FY 2024-25, net GF/GP revenue is expected to increase 3.4% in FY 2023-24, to $12.5 billion, while SAF revenue will increase 2.8%, to $15.7 billion. In FY 2024-25, net GF/GP revenue is expected to increase 3.5%, to $12.9 billion, while SAF revenue will increase 2.8%, to $16.1 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 7, 8, and 9 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2020-21, FY 2021-22, and FY 2022-23**.** Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2020-21, FY 2021-22, and FY 2022-23 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2020-21 was made in December 2018, as shown in Table 7. At that time, baseline revenue in FY 2020-21 was estimated at $26.9 billion. This estimate was decreased by $103.2 million at the January 2019 CREC, then decreased by an additional $13.6 million at the May 2019 CREC. The January 2020 CREC increased the estimate by $265.5 million, while the May 2020 CREC decreased it by $2.8 billion. The August 2020 CREC increased the estimate by $579.0 million, and the January 2021 CREC increased the estimate by another $1.2 billion. The Senate Fiscal Agency's revised estimate for FY 2020-21 presented in this report increases the baseline estimate by $2.8 billion above the January 2021 consensus estimate, to $28.8 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2021-22 was made in December 2019, as shown in Table 8. At that time, baseline revenue in FY 2021-22 was estimated at $27.3 billion. This estimate was increased by $322.9 million at the January 2020 CREC, and the May 2020 CREC decreased it by $2.1 billion. The August 2020 CREC increased the estimate by $375.9 million, and the January 2021 CREC increased the estimate by another $887.2 million. The revised Senate Fiscal Agency estimate for FY 2021-22 increases baseline revenue for FY 2021-22 by $1.6 billion, to $28.4 billion.

Table 7

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2020-21
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 14, 2018	$12,304.2	$14,590.6	$26,894.8
January 11, 2019[a)]	12,274.7	14,516.9	26,791.6
May 15, 2019	12,322.9	14,290.9	26,613.8
May 17, 2019 [a)]	12,350.0	14,428.0	26,778.0
December 20, 2019	12,645.8	14,525.0	27,170.8
January 10, 2020 [a)]	12,538.8	14,504.7	27,043.5
May 14, 2020	10,833.7	13,173.8	24,007.5
May 15, 2020 [a)]	11,015.3	13,254.8	24,270.1
August 24, 2020 [a)]	11,272.8	13,576.3	24,849.1
January 5, 2021	11,381.6	13,993.4	25,375.0
January 15, 2021 [a)]	11,896.7	14,104.7	26,001.4
May 19, 2021	13,572.1	15,263.2	28,835.3
Change From Previous Estimate:			
Dollar Change	$1,675.4	$1,158.5	$2,833.9
Percent Change	14.1%	8.2%	10.9%
Change From Initial Estimate:			
Dollar Change	$1,267.9	$672.6	$1,940.5
Percent Change	10.3%	4.6%	7.2%

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

Note: Baseline base year equals FY 2019-20.

Table 8

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2021-22
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 20, 2019	$12,801.8	$14,523.1	$27,324.9
January 10, 2020 [a)]	12,823.5	14,824.3	27,647.8
May 14, 2020	11,563.1	13,904.2	25,467.3
May 15, 2020 [a)]	11,633.9	13,898.7	25,532.6
August 24, 2020 [a)]	11,876.7	14,031.8	25,908.5
January 5, 2021	11,698.0	14,179.8	25,877.8
January 15, 2021 [a)]	12,381.2	14,414.5	26,795.7
May 19, 2021	13,317.2	15,050.2	28,367.4
Change From Previous Estimate:			
Dollar Change	$936.0	$635.7	$1,571.7
Percent Change	7.6%	4.4%	5.9%
Change From Initial Estimate:			
Dollar Change	$515.4	$527.1	$1,042.5
Percent Change	4.0%	3.6%	3.8%

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

Note: Baseline base year equals FY 2019-20.

The initial GF/GP and SAF baseline revenue estimate for FY 2022-23 was made in January 2021, as shown in Table 9. At that time, baseline revenue in FY 2021-23 was estimated at $26.2 billion. This estimate was increased by $1.2 billion at the January 2021 CREC. The revised Senate Fiscal Agency estimate for FY 2022-23 increases baseline revenue by $1.4 billion, to $28.8 billion.

Table 9

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2019-20
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
January 5, 2021	$11,787.7	$14,440.0	$26,227.7
January 15, 2021 [a)]	12,733.3	14,697.6	27,430.9
May 19, 2021	13,539.4	15,268.7	28,808.1
Change From Previous Estimate:			
Dollar Change	$806.1	$571.1	$1,377.2
Percent Change	6.3%	3.9%	5.0%
Change From Initial Estimate:			
Dollar Change	$1,751.7	$828.7	$2,580.4
Percent Change	14.9%	5.7%	9.8%

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

Note: Baseline base year equals FY 2019-20.

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977, and subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which the State, in years of economic recession, withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 15.0% of the combined level of GF/GP and SAF revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income tax payers on returns filed after the end of that fiscal year.

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

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

To calculate the pay-in, the amount of real personal income growth over 2.0% in the prior calendar year is applied to the amount of General Fund revenue in the prior fiscal year. For example, the calculated pay-in for FY 2020-21 is based on personal income growth from calendar year 2019 to 2020 and GF/GP revenue in FY 2019-20. Different years are used to calculate a potential pay-out. A pay-out in FY 2020-21 depends on the change in personal income from calendar year 2020 to calendar year 2021 and the amount of revenue in the BSF at the end of FY 2019-20.

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

Table 10 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2019-20. This table also presents the SFA's estimates for FY 2020-21, FY 2021-22, and FY 2022-23. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 23, and the estimated economic stabilization trigger calculations for FY 2020-21, FY 2021-22, and FY 2022-23 are presented in Table 11.

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

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statute would trigger a pay-in to the Fund in FY 2022-23.

For FY 2020-21 a deposit of $17.5 million will be made pursuant to the Michigan Trust Fund Act, and Public Act 166 of 2020 appropriated $35.0 million. Based on inflation-adjusted personal income growth, there is no calculated pay-in for FY 2020-21.

In both FY 2021-22 and FY 2022-23, a deposit of $17.5 million already is required under the Trust Fund Act. Based on inflation-adjusted personal income growth, there is no calculated pay-in in FY 2021-22, but there is a calculated pay-in of $11.6 million in FY 2022-23 (although that is less than the amount that will already be appropriated).

Based on current appropriations and the continuation of the $17.5 million annual deposit to the BSF under the Trust Fund Act, but no other pay-ins or pay-outs, the BSF ending balance is estimated at $882.4 million in FY 2020-21, $900.8 million in FY 2021-22, and $919.2 million in FY 2022-23, as shown in Table 10.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS, AND FUND BALANCE FY 1998-99 TO FY 2022-23 ESTIMATES (millions of dollars)					
	Pay-In				
Fiscal Year[a)]	**Trust Fund Act**	**Other Approp.**	**Interest Earned**	**Pay-Out**	**Fund Balance**
1998-99		$244.4	$51.2	$73.7	$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14[b)]		75.0	0.4	194.8	386.2
2014-15[c)]	$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
Enacted Deposits and Estimated Interest Earnings:					
2020-21 [d) e)]	17.5	35.0	0.8	0.0	882.4
2021-22 [e)]	17.5	0.0	0.9	0.0	900.8
2022-23 [e)]	17.5	0.0	0.9	0.0	919.2

a) For FY 1998-99 to FY 2018-19, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. FY 2019-20 to FY 2021-22 include enacted legislation and estimated interest earnings.

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

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

d) PA 166 of 2020 appropriated $35.0 million to the BSF.

e) Based on the SFA's revised estimates, the statutory formula would trigger a pay-in to the fund of $11.6 million in FY 2022-23, but no other pay-ins or pay-outs. Pay-ins and pay-outs must be appropriated. See text for discussion.

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

Figure 23

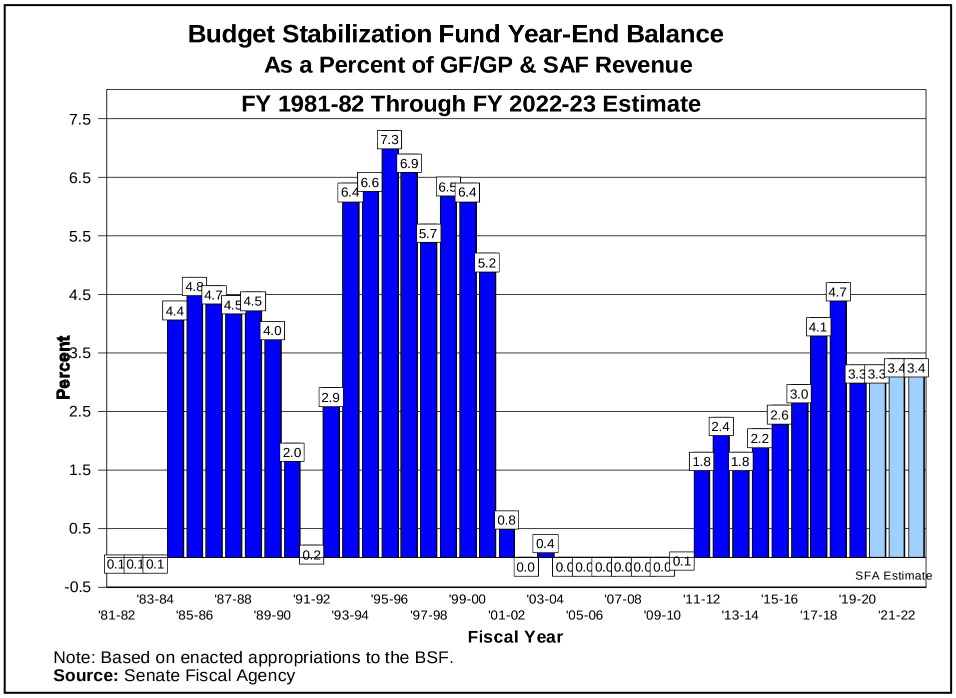


Table 11

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGERS FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23 (millions of dollars)					
	CY 2019	**CY 2020**	**CY 2021**	**CY 2022**	**CY 2023**
Michigan Personal Income (MPI)	$491,631.8	$528,093.4	$542,052.4	$534,125.6	$555,458.6
Less: Transfer Payments	$103,672.5	$146,766.1	$144,635.6	$119,831.4	$122,655.7
Subtotal	$387,959.3	$381,327.3	$397,416.8	$414,294.3	$432,802.9
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.3527	2.3909	2.4452	2.4956	2.5468
Equals: Real Adjusted MPI	$164,902	$159,492	$162,529	$166,011	$169,941
Percent Change from Prior Year		(3.3%)	1.9%	2.1%	2.4%
Excess Over 2.0%		0.00%	0.00%	0.10%	0.40%
		FY 2019-20	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**
Multiplied by: Estimated GF/GP Revenue		$10,775.6	$11,323.5	$11,571.4	$12,074.8
Equals: Transfer to the BSF			$0.0	$0.0	$11.6
OR Transfer from the BSF			$0.0	$0.0	$0.0

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

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to the generation of new State revenue as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. Revenue remained substantially below the limit for FY 2008-09 through FY 2019-20. In the past, the largest gap between revenue and the limit occurred in FY 2019-20, when State revenue was $11.1 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2020-21, FY 2021-22, and FY 2022-23, with State revenue forecast to be $13.9 billion below the limit in FY 2022-23.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year prior to the calendar year in which the fiscal year begins. For example, in FY 2019-20, State government revenue could not exceed 9.49% of personal income for calendar year 2018. Given that Michigan personal income for 2018 equaled $477.0 billion at the time compliance was determined, the revenue limit for FY 2019-20 was $45.3 billion.

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

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revenue estimates for FY 2020-21, FY 2021-22, and FY 2022-23, 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 24. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2020-21

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2019 equals $491.6 billion; as a result, the revenue limit equals $46.7 billion in FY 2020-21, an increase of $1.4 billion over FY 2019-20. Based on the SFA's revised revenue estimates for FY 2020-21, revenue subject to the revenue limit will equal an estimated $36.3 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $10.3 billion, or 22.1%, in FY 2020-21. The amount under the limit will decrease because State revenue subject to the revenue limit will grow faster than personal income.

FY 2021-22

The Senate Fiscal Agency estimates that personal income in Michigan during 2020 will equal $528.1 billion; as a result, the revenue limit will equal $50.1 billion in FY 2021-22. Based on the SFA's revised revenue estimates for FY 2021-22, revenue subject to the revenue limit will equal an estimated $36.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $13.5 billion, or 26.9%, in FY 2021-22. The percent under the limit will increase because anticipated growth in personal income will outpace growth in State revenue subject to the revenue limit.

FY 2022-23

The Senate Fiscal Agency estimates that personal income in Michigan during 2021 will equal $542.1 billion; as a result, the revenue limit will equal $51.4 billion in FY 2022-23. Based on the SFA's revised revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated $37.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $13.9 billion, or 27.0%, in FY 2022-23. The percent under the limit will increase because anticipated growth in personal income will outpace growth in State revenue subject to the revenue limit

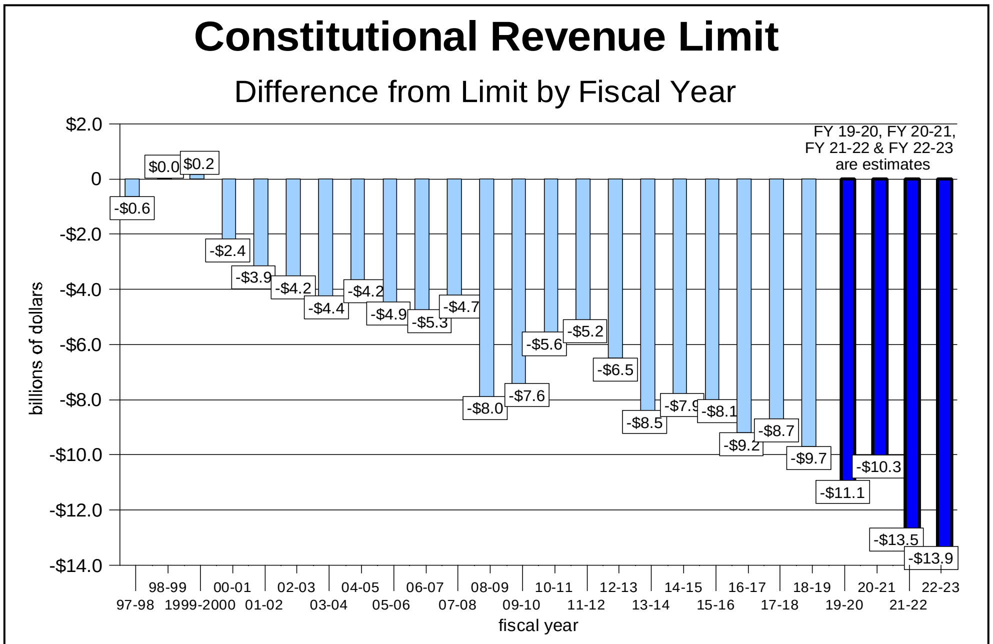
Table 12

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2018-19 THROUGH FY 2022-23 ESTIMATE
(millions of dollars)

	FY 2018-19 Final	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$12,246.5	$11,951.9	$13,572.1	$13,317.2	$13,539.4
Constitutional Revenue Sharing (baseline)	837.6	852.7	916.7	915.4	909.0
School Aid Fund (baseline)	13,639.1	14,073.9	15,263.2	15,050.2	15,268.7
Transportation Funds	3,373.3	3,351.0	3,680.9	3,791.5	3,887.0
Other Restricted Non-Federal Aid Revenue	5,137.4	5,243.9	5,296.4	5,349.3	5,402.8
Adjustments:					
GF/GP Federal Aid	(5.1)	(3.9)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,130.8)	(1,176.2)	(2,248.6)	(1,745.9)	(1,464.5)
SAF Balance Sheet Adjustments	(86.7)	(83.5)	(122.6)	(29.3)	23.0
Total Revenue Subject to Limit	**$34,011.3**	**$34,209.8**	**$36,348.1**	**$36,638.4**	**$37,555.4**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2017**	**CY 2018**	**CY 2019**	**CY 2020**	**CY 2021**
Amount	$460,270	$477,010	$491,632	$528,093	$542,052
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$43,679.6	$45,268.2	$46,655.9	$50,116.1	$51,440.8
1.0% of Limit	436.8	452.7	466.6	501.2	514.4
Amount Under (Over) Limit	**$9,668.3**	**$11,058.4**	**$10,307.7**	**$13,477.6**	**$13,885.3**
Percent Below Limit	22.1%	24.4%	22.1%	26.9%	27.0%

CY = Calendar Year; FY = Fiscal Year

Figure 24



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

ESTIMATES OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the SFA has revised its estimates of FY 2020-21, FY 2021-22, and FY 2022-23 GF/GP and SAF year-end balances. This section of the report discusses the year-end balances and addresses some of the issues the members of the Legislature will face as they make mid-year alterations to the FY 2020-21 State budget and complete action on the FY 2021-22 State budget.

On February 11, 2021, Governor Gretchen Whitmer presented her FY 2021-22 and FY 2022-23 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 15, 2021. The Governor's FY 2021-22 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2021-22 State budget to the Legislature in February 2021, the United States Congress has authorized, and the President has signed, HR 1319 (the ARP) to provide states, local governments, businesses and individuals with continued COVID-19 pandemic response. The ARP, Public Law Number 117-2, appropriates $1.9 trillion nationwide. Funds included in this Federal act include State and Local Fiscal Recovery Fund dollars as well as changes to the tax code affecting individual and business tax filers. While the majority of the Federal stimulus does not directly affect Michigan's GF/GP or SAF revenue, some changes included in the ARP likely will affect State revenue. Specifically, changes to the taxes collected from unemployment insurance benefits and changes to eligibility of the Earned Income Tax Credit are projected have an impact on the State's balance sheet.

Table 13 provides a summary of the SFA's estimates of the FY 2020-21, FY 2021-22, and FY 2022-23 year-end balances of the GF/GP and SAF budgets; Tables 14 and 15 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and enacted and projected State appropriations, the FY 2020-21 GF/GP and SAF budgets will have positive ending balances. The projected GF/GP balance for FY 2020-21 is $2.9 billion and the projected SAF balance is $1.8 billion. This combined GF/GP and SAF balance of $4.7 billion is assumed to carry-forward into FY 2021-22. Based on current SFA revenue estimates, and assuming the expenditures from the Senate-passed FY 2021-22 budget bills, the FY 2021-22 GF/GP budget will have a positive ending balance of $2.9 billion and the SAF budget will have a balance of $2.3 billion. The combined ending balance of these two FY 2021-22 fund projections is a balance of $5.2 billion. A comparison of the SFA's estimate of FY 2022-23 GF/GP revenue with a continuation of the Senate-passed FY 2021-22 budgets, adjusted SFA caseload estimates, and carrying forward the projected year-end balance leads to a projected $3.6 billion GF/GP budget balance. A comparison of the SFA's estimate of FY 2022-23 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2022-23, adjusting for pupil membership estimates, and carrying forward projected year-end balance, points to a projected balance of $3.1 billion SAF balance. Actions taken in FY 2020-21 to appropriate additional funds that are continued in FYs 2021-22 and 2022-23 will reduce the projected balances in those fiscal years, and final action taken that enact FY 2021-22 budgets that differ from Senate-passed budgets will result in adjustments to the estimated balances.

Table 13

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (millions of dollars)			
	FY 2020-21 Year-to-Date	FY 2021-22 SFA Estimate	FY 2022-23 SFA Estimate
General Fund/General Purpose	$2,886.3	$2,917.0	$3,568.7
School Aid Fund	$1,832.4	$2,300.0	$3,114.7

FY 2020-21 YEAR-END BALANCE ESTIMATES

In September 2020, the Michigan Legislature approved FY 2020-21 GF/GP and SAF budgets that were balanced between estimated revenue and enacted appropriations. The initial FY 2020-21 budget approved by the Legislature was based on a special August 2020 consensus revenue estimate. The Governor signed the budget bills presented on September 30, 2020, with a single veto message returned to the Legislature. The Governor's veto action eliminated a $100 placeholder in the School Aid budget. The revisions to the consensus revenue estimates agreed to in August 2020 reflected an increase from the May 2020 estimate in GF/GP revenue, and an increase in the estimate for SAF revenue, allowing projected surpluses in both the GF/GP and SAF budgets. Under current law, positive ending balances for both the GF/GP budget and the SAF budget are carried forward into the ensuing fiscal year, and those balances had been built into the FY 2021-22 budgets proposed by the Governor.

Column 1 of Table 14 provides the details of the SFA's most recent estimate of a $3.0 billion FY 2020-21 GF/GP ending balance. On the revenue side of the FY 2020-21 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total $11.3 billion. The May 2021 SFA estimate of ongoing unadjusted GF/GP revenue is up $1.1 billion from the January 2021 consensus revenue estimate. The FY 2020-21 estimated GF/GP revenue total of $13.4 billion includes $2.4 billion of surplus revenue carried forward from FY 2019-20, a negative adjustment of $490.1 million to reflect statutory State revenue sharing, a balance sheet adjustment to increase unassigned fund balances that were equally reduced in FY 2019-20, $5.7 million of revenue to reimburse the implementation costs of recreational marijuana, $2.6 million of redirected restricted revenue, and a transfer of $800,000 of GF/GP-equivalent funds to the GF.

On the expenditure side of the FY 2020-21 GF/GP budget ledger, the SFA now believes that current GF/GP expenditures will total $10.5 billion. The projected level of FY 2020-21 GF/GP expenditures includes appropriations that encompass enacted one-time appropriations totaling $272.3 million; a $35.0 million deposit into the BSF; enacted supplemental appropriations of $320.3 million; pending Senate-sponsored supplementals totaling $77.2 million; additional GF/GP savings of $619.5 million resulting from increased Federal match related to the COVID-19 pandemic; $5.0 million of additional GF/GP obligation for expenditures exceeding the revenue from the Community District Education Trust Fund; a $62.8 million repayment to the Federal government for disallowed psychiatric disproportionate share hospital (DSH) payments; and a restricted fund shift of $13.0 million. Comparing estimated revenue with current projected expenditures results in a GF/GP ending balance of $2.9 billion for FY 2020-21.

Column 1 of Table 15 provides a summary of the SFA estimate of a $1.8 billion FY 2020-21 SAF budget ending balance. This estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2020-21 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $15.1 billion. The May 2021 SFA estimate of ongoing unadjusted SAF revenue is $1.1 billion above the January 2021 consensus revenue estimate. The FY 2020-21 estimated SAF revenue total of $20.0 billion includes $1.2 billion of surplus revenue carried forward from FY 2019-20, $15.1 billion of restricted SAF revenue, a $51.0 million GF/GP grant, $77.7 million from the Community District Education Trust Fund (CDTF), $1.8 billion of ongoing Federal aid, an additional $1.8 billion of Federal COVID-19 stimulus payments appropriated by the Senate, and $5.0 million of additional GF/GP to cover costs estimated to exceed revenue from the CDTF.

On the expenditure side of the FY 2020-21 SAF budget ledger, the SFA now believes that present SAF expenditures will total $18.2 billion. The $18.2 billion of projected SAF expenditures includes $15.4 billion of ongoing K-12 funding in the initial enacted appropriation bill, negative net cost adjustments totaling $64.3 million, and enacted one-time and supplemental appropriations totaling $2.0 billion. As in the previous year, Community Colleges and Higher Education received appropriations from the School Aid Fund, with FY 2020-21 allocations of $425.7 million and $356.1 million, respectively.

FY 2021-22 YEAR-END BALANCE ESTIMATES

The Legislature has been considering Governor Whitmer's FY 2021-22 State budget recommendation since the budget was presented to the Legislature on February 11, 2021. To date, the Senate has acted on each of the individual FY 2021-22 department budget bills. Using the Senate-passed appropriation bills as the basis of the FY 2021-22 budget, there should be a positive ending balance for both the GF/GP and the SAF budget.

Column 2 of Table 14 provides a summary of the $2.9 billion projected year-end balance in the FY 2021-22 GF/GP budget. On the revenue side of the FY 2021-22 GF/GP budget ledger, the SFA now believes that ongoing unadjusted GF/GP revenue will total $11.6 billion. The May 2021 SFA estimate of ongoing unadjusted revenue represents a $674.3 million increase from the January 2021 consensus revenue estimate. Using the Senate-passed appropriation bills for FY 2021-22, the GF/GP appropriation bills include statutory revenue sharing payments of $490.5 million, a $9.8 million increase in statutory revenue sharing that reduces GF/GP revenue by that amount, $75.0 million in assumed revenue from the continued repurchase of Venture Michigan Fund II vouchers, and $2.6 million in the redirection of available restricted revenue. The FY 2021-22 estimated GF/GP revenue total of $14.0 billion includes $2.8 billion of projected GF/GP revenue carried forward from FY 2020-21.

The Senate-passed appropriations bills for FY 2021-22 include on-going appropriations of $11.1 billion that are offset by a revised $220.9 million in assumed savings from the continuation of emergency Medicaid match rates from the Federal government through the first quarter of the fiscal year. Additionally, the Senate-passed budget includes $156.7 million of one-time expenditures. Also included in the Senate-passed FY 2021-22 bills are: $3.1 million for increased costs for employee economics, $14.7 million of GF/GP savings from State Building Authority rent, $35.0 million for the first-year costs of Flint Settlement Debt Service, $62.8 million for the continued repayment to the Federal government for DSH payments, and $11.5 million of additional GF/GP obligation for expenditures exceeding the revenue available from the Community District Education Trust Fund. When the SFA's estimate of $14.0 billion in GF/GP revenue is offset by the SFA's estimate of $11.1 billion of total GF/GP expenditures, there is a projected FY 2021-22 year-end balance of $2.9 billion.

Column 2 of Table 15 provides the details of the SFA estimate of a $2.3 billion balance in the FY 2021-22 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue and Senate-passed FY 2021-22 budget bills.

On the revenue side of the FY 2021-22 SAF budget, the SFA now believes that ongoing unadjusted SAF revenue will total $15.0 billion. The May 2021 SFA estimate of restricted SAF revenue represents a $597.2 million increase from the January 2021 consensus revenue estimate. The estimate of total SAF revenue of $18.8 billion includes a $52.4 million ongoing GF/GP grant to the SAF, $72.0 million from the Community District Education Trust Fund, $1.8 billion of ongoing Federal aid, and an additional $11.5 million of GF/GP for costs estimated to exceed revenue from the CDTF.

On the expenditure side of the FY 2021-22 SAF budget ledger, the SFA's estimated School Aid and postsecondary appropriation bill totals $16.5 billion, assuming the Senate-passed appropriations bills. The SFA estimates that there will be $60.0 million of cost saving adjustments resulting from revised pupil, special education, and taxable value cost estimates.

The SFA's estimated SAF balance sheet reflects the continued use of SAF revenue to support the Community Colleges budget and to partially support the Higher Education budget. The estimated budget assumes Senate-passed appropriations which adjust for increased Michigan Public School Employees Retirement System (MPSERS) contribution costs and include a 2.0% one-time increase in Community College operations ($6.4 million) supported with SAF. As such, the SFA's estimated expenditures for Community Colleges in FY 2021-22 total $434.7 million and the SAF allocation in the Higher Education budget for FY 2021-22 is estimated to total $361.4 million.

FY 2022-23 BUDGET OUTLOOK

Column 3 of Table 14 provides a summary of the $3.6 billion projected year-end balance in the FY 2022-23 GF/GP budget. The FY 2022-23 projected budget is based on the SFA estimate of total GF/GP revenue and ongoing appropriations based on the Senate-passed appropriation bills for FY 2021-22, adjusted for anticipated cost adjustments, and the assumed carry forward of funds from FY 2021-22. Any enacted changes to the FY 2021-22 budget that differ from the Senate-passed appropriation bills will result in changes to the SFA's FY 2022-23 projected balances.

On the revenue side of the FY 2022-23 GF/GP budget ledger, the SFA now believes that GF/GP ongoing unadjusted revenue will total $12.1 billion. The May 2021 SFA estimate of ongoing unadjusted GF/GP revenue represents an increase of $907.7 million from the January 2021 consensus revenue estimate. The FY 2022-23 total estimated GF/GP revenue of $14.6 billion assumes the continuation of the assumed net $500.3 million for statutory State Revenue Sharing payments, the continued repurchase of Venture Michigan Fund II vouchers at a value of $75.0 million, and a beginning balance carried forward from FY 2021-22 of $2.9 billion.

On the expenditure side of the FY 2022-23 GF/GP budget ledger, if the Senate-passed FY 2021-22 appropriation bills are used as a base and adjustments are made to remove one-time appropriations, $12.3 million is included for additional GF/GP expenditures to account for expenditures anticipated to exceed the Community District Education Trust Fund, $35.0 million is maintained for Flint Settlement Debt Service, $62.8 million is assumed for repayment to the Federal government for DSH payments, and $70.0 million is assumed for current service budget adjustments, the total FY 2022-23 GF/GP expenditures are estimated to be $11.0 billion. Comparing estimated revenue to estimated expenditures results in a projected year-end GF/GP balance of $3.6 billion.

Column 3 of Table 15 provides a summary of the $3.1 billion projected year-end balance in the FY 2022-23 SAF budget. This projected balance is based on the SFA estimate of ongoing unadjusted revenue, and a continuation of the SFA's estimated current services budget for FY 2022-23, which would continue spending levels found in the FY 2021-22 Senate-passed budget, adjusted for pupil counts and other costs.

On the revenue side of the FY 2022-23 SAF budget ledger, the SFA now believes that ongoing unadjusted SAF revenue will total $15.3 billion. The May 2021 SFA estimate of ongoing unadjusted SAF revenue represents a $561.3 million increase from the January 2021 consensus revenue estimate. The FY 2022-23 estimated SAF revenue total of $19.5 billion also assumes the continuation of the FY 2021-22 GF/GP grant of $52.4 million, $72.0 million from the Community District Education

Trust Fund, $1.8 billion in ongoing Federal aid, and $12.3 million of additional GF/GP to support costs expected to exceed available revenue from the CDTF.

On the expenditure side of the FY 2022-23 SAF budget ledger, the SFA projects total expenditures to be $16.4 billion, based upon a continuation of the Senate-passed FY 2021-22 budgets adjusted for $82.6 million of estimated savings from cost adjustments primarily due to declining enrollment. The FY 2022-23 SAF budget estimate continues to assume Community Colleges are funded with SAF, at a slightly increased amount of $440.8 million, and Higher Education, at a slightly increased amount of $362.5 million, with the assumed increases paying for estimated adjustments in the MPSERS rate cap in the respective postsecondary budgets.

CONCLUSION

The economic impact of the COVID-19 pandemic has dramatically affected available State revenue. The Governor and Legislature responded to the pandemic with mid-year reductions to align spending with the previously estimated reduction in revenue. The spending reductions made in FY 2019-20 ultimately played a role in a sizeable year-end balance of $2.4 billion. This FY 2019-20 year-end balance was coupled with improved revenue estimates, and the resulting SFA revenue forecasts project year-end balances for FY 2020-21, FY 2021-22, and FY 202-23 for the GF/GP and SAF. It should be noted that actions taken to appropriate additional funds in FY 2020-21 will reduce the funds available to carry into future years, and final actions on the FY 2021-22 budgets will affect the estimated year-end balances as well.

It also should be noted that year-end book-closing adjustments, which may be either positive or negative, cannot be known at this time, and could change the levels of the year-end balances.

The estimated year-end balances in this report are based on the year-to-date FY 2020-21 budget bills, the Senate-passed FY 2021-22 budget bills, and the Senate Fiscal Agency's revenue projections (presented in "The Forecast for State Revenue" section of this report), which the SFA will take to the May 21, 2021, Consensus Revenue Estimating Conference. At that time, a consensus is expected to be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used to adjust FY 2020-21 and to develop the final appropriation targets for the FY 2021-22 State budget.

Table 14

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

	SFA Estimates		
	FY 2020-21 Year-To-Date	**FY 2021-22 SFA Estimate**	**FY 2022-23 SFA Estimate**
Revenue:			
Beginning Balance	$2,363.1	$2,886.3	$2,917.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2021)	$10,237.5	$10,897.1	$11,167.1
SFA Revenue Estimate Change	1,086.0	674.3	907.7
SFA Revenue Estimate (May 2021)	$11,323.5	$11,571.4	$12,074.8
Other Revenue Adjustments:			
Revenue Sharing Payments	($490.1)	($490.5)	($490.5)
Sen. Passed Revenue Sharing increase	0.0	(9.8)	(9.8)
VMF II Voucher Purchase	0.0	75.0	75.0
Subtotal Ongoing Revenue	$10,833.4	$11,146.1	$11,649.5
Non-ongoing Revenue:			
Implementation of Recreational Marihuana	$5.7	0.0	0.0
Increase unassigned fund balance- inventory	155.9	0.0	0.0
GF-equivalent restricted revenue	0.8	0.0	0.0
Redirection of Restricted Revenue	(2.6)	(2.6)	0.0
Subtotal Non-Ongoing Revenue	$159.8	($2.6)	0.0
Total Estimated GF/GP Revenue	**$13,356.3**	**$14,163.4**	**$14,728.6**
Expenditures:			
Ongoing Appropriations:			
Initial/Senate-Passed.	$10,329.9	$11,079.3	$10,817.6
Subtotal Ongoing Appropriations	$10,329.9	$11,079.3	$10,817.6
One-Time and Other Appropriations:			
Estimated One-Time Appropriations	$272.3	$156.7	$0.0
Budget Stabilization Fund Deposit	35.0	0.0	0.0
Enacted Supplementals	320.3	0.0	0.0
Pending Senate Supplementals (SB36,37)	77.2	0.0	0.0
Est. GF/GP Offset for COVID-19 FMAP Adj. (Q2'21-Q1'22)	(619.5)	(220.9)	0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	5.0	11.5	12.3
Restricted revenue reduction	(13.0)	0.0	0.0
Defined calculations	0.0	3.1	0.0
State Building Authority rent	0.0	(14.7)	0.0
Flint Settlement Debt Service	0.0	35.0	35.0
Reimbursement of Federal Disallowed Psych DSH costs	62.8	62.8	62.8
Other CSB Adjustments	0.0	0.0	70.0
Subtotal One-Time and Other Appropriations	$140.2	$33.5	$180.1
Total Estimated GF/GP Expenditures	**$10,470.0**	**$11,112.8**	**$10,997.7**
PROJECTED YEAR-END GF/GP BALANCE	**$2.886.3**	**$2,917.0**	**$3,568.7**

Table 15

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

	SFA Estimates		
	FY 2020-21 Year-To-Date	**FY 2021-22 SFA Estimate**	**FY 2022-23 SFA Estimate**
Revenue:			
Beginning Balance	$1,177.4	$1,832.4	$2,300.0
Ongoing Revenue:			
Consensus Revenue Estimate (January 2021)	$14,030.2	$14,423.7	$14,730.4
SFA Revenue Estimate Change	1,110.4	597.2	561.3
SFA Revenue Estimate (May 2021)	$15,140.6	$15,020.9	$15,291.7
Other Revenue Adjustments:			
General Fund/General Purpose Grant	$51.0	$52.4	$52.4
Community District Education Trust Fund	77.7	72.0	72.0
Federal Ongoing Aid	1,806.9	1,822.5	1,822.5
Subtotal Ongoing Revenue	$17,076.1	$16,967.8	$17,238.6
Non-Ongoing Revenue:			
Federal Stimulus (PA 3 of 2021 and pending SB 216)	$1,786.6	$0.0	$0.0
GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr	5.0	11.5	12.3
Subtotal Non-Ongoing Revenue	$1,791.6	$11.5	$12.3
Total Estimated School Aid Fund Revenue	**$20,045.1**	**$18,829.7**	**$19,508.9**
Expenditures:			
Ongoing Appropriations:			
Initial K-12/Senate-Passed Appropriations	$15,430.2	$15,775.5	$15,775.5
Cost Adjustments (SFA Estimates)	(64.3)	(60.0)	(82.6)
Fund Community Colleges with SAF	425.7	434.7	440.8
Partially Fund Higher Education with SAF	356.1	361.4	362.5
Subtotal Ongoing Appropriations	$16,165.6	$16,511.6	$16,436.3
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	$95.0	$0.0	$0.0
Enacted Supplementals (PA 3 of 2021)	1,009.2	0.0	0.0
Pending Senate Supplemental (SB 216)	943.0	0.0	0.0
Subtotal One-Time and Other Appropriations	$2,047.2	$0.0	$0.0
Total Estimated School Aid Fund Expenditures	**$18,212.8**	**$16,511.6**	**$16,436.3**
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	**$1,832.4**	**$2,300.0**	**$3,114.7**