

# **ECONOMIC OUTLOOK AND REVENUE ESTIMATES FOR MICHIGAN**

**FY 2022-23  
THROUGH  
FY 2024-25**



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# FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2022 through CY 2025. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2021-22 and revised revenue estimates for FY 2022-23 through FY 2024-25. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 19, 2023, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2025, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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# TABLE OF CONTENTS

<b>Economic Overview and Forecast</b> .....	<b>1</b>
Total Wage and Salary Employment (Figure 1) .....	2
U.S. and Michigan Motor Vehicle Industry.....	3
Light Vehicle Sales (Figure 2).....	3
U.S. Forecast Highlights .....	4
Michigan Forecast Highlights.....	4
Economic Forecast Variables (Table 1).....	5
<b>Risks and Uncertainties</b> .....	<b>7</b>
Inflation and Monetary Policy .....	7
Federal Fiscal Policy.....	7
Financial Setbacks.....	7
Geopolitical Conflict and Global Economic Conditions .....	7
<b>GF/GP and SAF Revenue</b> .....	<b>9</b>
Baseline and Net GF/GP and SAF Revenue Estimates.....	9
GF/GP Revenue by Source .....	10
SAF Revenue by Source .....	10
HFA Revenue Estimates (Table 2) .....	11
GF/GP Net Revenue Estimates (Table 3).....	12
School Aid Fund Net Revenue Estimates (Table 4).....	13
Budget Stabilization Fund (BSF) Year-End Balance (Table 5).....	14
Compliance with the State Revenue Limit (Table 6 and Figure 3) .....	16
HFA Estimates of Year-End Balances.....	17
Year-End Unreserved Balance Estimates (Table 7).....	17





# **ECONOMIC OVERVIEW AND FORECAST**

This section presents the economic forecast used by the House Fiscal Agency (HFA) to produce its revenue forecasts for FY 2022-23 through FY 2024-25. In developing the U.S. and Michigan forecasts, key macroeconomic data such as employment, interest rates, business investment, light vehicle sales, international trade, oil prices, and consumer spending are examined with the goal of combining these variables along with others into an overall snapshot of the U.S. economy for the past year, current year, and two subsequent years. The key segments for Michigan include the automotive sector, the labor force and employment, wage and salary income, and inflation rates.

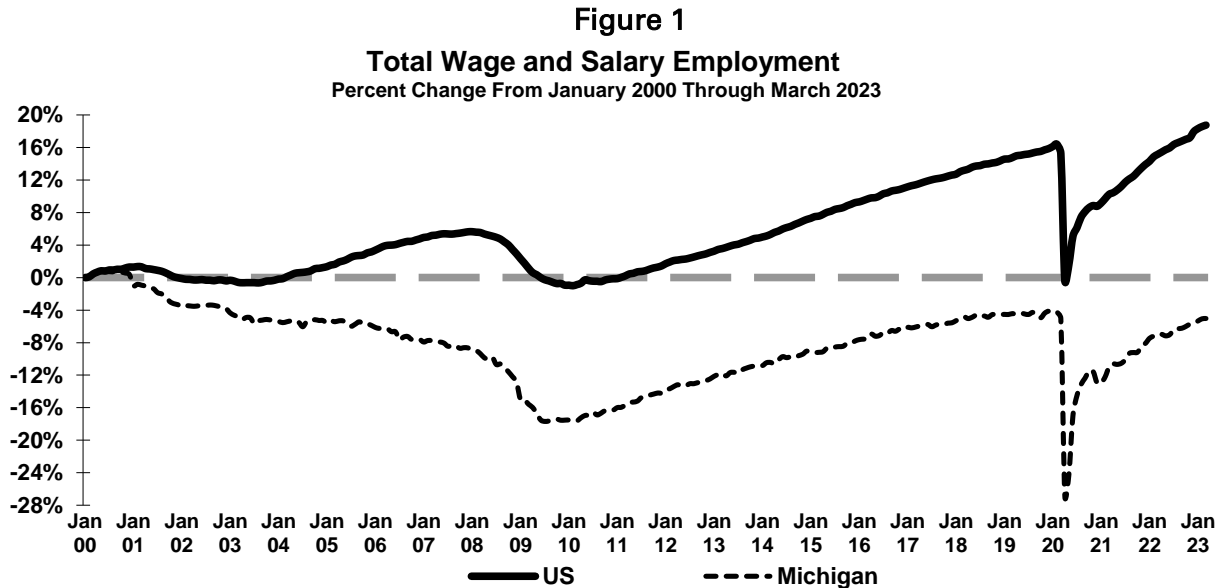
While the economy has shown some resiliency in CY 2022 and early CY 2023 despite aggressive rate hikes by the Federal Reserve to mitigate inflationary pressures, the forecast assumes that the Fed's actions to tighten financial conditions will ultimately lead to slight declines in real GDP in the last two quarters of CY 2023. On an annual basis, the forecast assumes growth of 1.1% in CY 2023. Real GDP will continue to moderate in CY 2024, growing at a rate of 0.9%, before climbing to a 2.1% growth rate in CY 2025.

As economic growth slows in CY 2023, employment gains will diminish, the unemployment rate will drift upward, and inflationary pressures will subside. Employment growth will remain relatively flat throughout the forecast window with the unemployment rate peaking at 4.6% in the second quarter of CY 2024 before dropping back to 4.1% in the last two quarters of CY 2025. Inflation will continue its downward trend and decline to 2.3% in CY 2025.

Michigan's economy and state revenue are significantly affected by the strength of the national economy. The Michigan outlook projects a slightly stronger employment picture than the national economy as pent-up demand lifts light vehicle sales from their recent supply chain-driven lows to 16.5 million units by CY 2025, which helps buoy Michigan's labor market.

## Total Wage and Salary Employment

Figure 1 shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through March 2023.



### ***U.S. Wage and Salary Employment***

U.S. employment peaked in February 2001, and then began a long slide that did not end until August 2003. During this 30-month period, more than 2.7 million jobs were lost – about 91,800 jobs per month on average. This decline was followed by 53 consecutive months of job growth, and by January 2008, more than 8.1 million jobs had been added.

The recession which began in February 2008 led to 25 continuous months of employment declines during which almost 8.8 million jobs were lost. Job gains finally reappeared in March 2010, and during the 128-month span of job growth that ensued, U.S. wage and salary employment surpassed the pre-recession peak and by February 2020, total cumulative growth during the expansion topped 22.8 million jobs.

The sharp decline brought about by COVID-19 saw employment drop back to roughly the same level as January 2000, but through March 2023, 25.1 million jobs have returned and total employment is now above pre-pandemic levels.

### ***Michigan Wage and Salary Employment***

Michigan endured more than a decade of job losses during the early 2000s, during which time wage and salary employment in Michigan dropped by almost 18% relative to January 2000. As the labor market began recovering from the Great Recession, steady job growth continued each year through 2019, although by the end of the decade annual gains were slowing. Still, by the end of 2019, total employment was within 5% of the January 2000 level.

As with employment nationwide, sharp declines occurred in March and April of 2020



as employment plunged well below Great Recession levels. Michigan has added back just over 1.0 million jobs from the pandemic low point in April 2020, but is still approximately 33,200, or 0.7%, below the pre-pandemic level in February 2020.

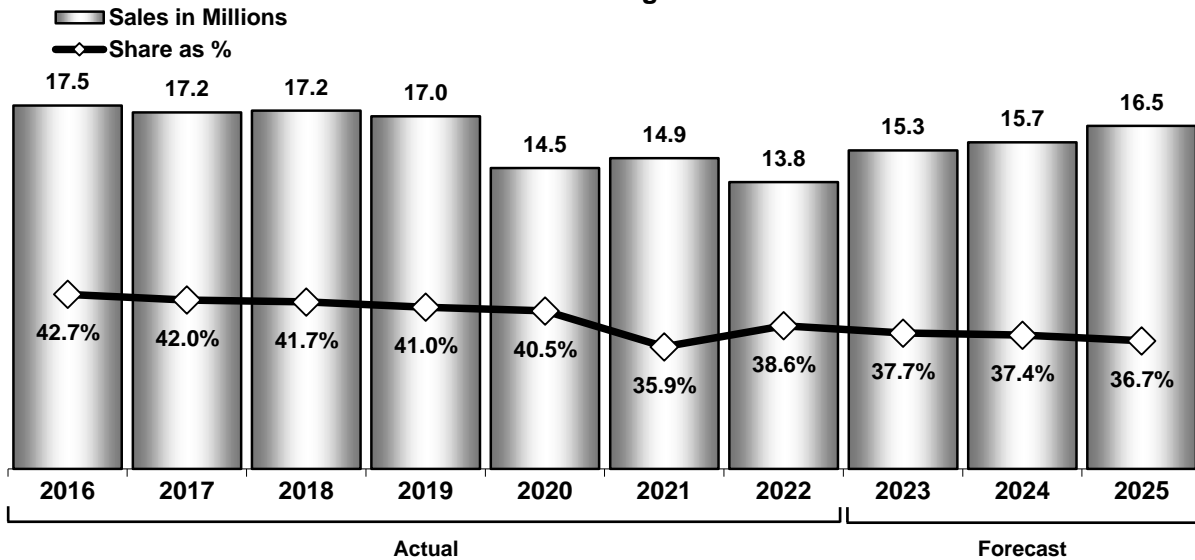
**U.S. and Michigan Motor Vehicle Industry**

Light motor vehicle sales totaled 13.8 million units in CY 2022, an 8.1% drop from the from the 14.9 million units sold in CY 2021. Light motor vehicle sales are forecast to total 15.3 million units in CY 2023, 15.7 million units in CY 2024, and 16.5 million units in CY 2025.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years. As shown in **Figure 2**, the market share of the Detroit-3 auto manufacturers was 38.6% in CY 2022 and is expected to decline to 36.7% by the end of the forecast horizon.

The level and composition of light motor vehicle sales, as well as the extent to which the domestic nameplates can retain market share, will have a direct impact on Michigan’s economy. In CY 2023, the Detroit-3 auto manufacturers are expected to sell almost 5.8 million vehicles, which would translate to an 8.6% increase from CY 2022. It is estimated that the Detroit-3 sales will increase to 5.9 million vehicles in CY 2024 and just over 6.0 million CY 2025.

**Figure 2**  
**Detroit-3 Share of Light Vehicle Sales**



### **U.S. Forecast Highlights**

Real GDP increased at a 2.1% rate in CY 2022 and is forecast to grow by 1.1% in CY 2023, 0.9% in CY 2024, and 2.1% in CY 2025.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase at a rate of 4.4% in CY 2023. It is projected to slow to 2.8% in CY 2024 and 2.3% in CY 2025 as the Fed's tightening successfully reduces inflation.

Wage and salary employment growth was 4.3% in CY 2022; it is forecast to increase by 2.2% in CY 2023, 0.1% in CY 2024, and 0.7% in CY 2025.

The national unemployment rate was 3.6% in CY 2022; it is forecast to increase to 3.7% in CY 2023 and 4.5% in CY 2024 before declining to 4.2% in CY 2025.

Interest rates on three-month T-bills are expected to increase from 2.0% in CY 2022 to 4.9% in CY 2023, and then decrease to 4.5% in CY 2024 and 3.8% in CY 2025 as the Federal Reserve lowers interest rates as inflation subsides.

### **Michigan Forecast Highlights**

Michigan wage and salary employment increased by 3.9% in CY 2022; it is expected to increase by 1.4% in CY 2023, 0.5% in CY 2024, and 1.0% in CY 2025.

Michigan's unemployment rate was 4.2% in CY 2022; it is forecast to increase to 4.3% in CY 2023 and 5.0% in CY 2024 before decreasing to 4.2% in CY 2025.

Michigan personal income grew by 0.4% in CY 2022; it is forecast to increase 4.0% in CY 2023, 3.2% in CY 2024, and 4.0% in CY 2025.

Michigan wage and salary income increased by 9.0% in CY 2022; it is forecast to increase 5.4% in CY 2023, 2.9% in CY 2024, and 3.9% in CY 2025.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 4.6% in CY 2023, 2.7% in CY 2024, and 2.3% CY 2025.

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

**Table 1  
ECONOMIC FORECAST VARIABLES**

	Calendar 2021 Actual	Calendar 2022 Actual	% Change from Prior Year	Calendar 2023 Estimated	% Change from Prior Year	Calendar 2024 Estimated	% Change from Prior Year	Calendar 2025 Estimated	% Change from Prior Year
<b>United States</b>									
Real Gross Domestic Product (Billions of 2012 dollars)	\$19,609.8	\$20,014.1	2.1%	\$20,234.5	1.1%	\$20,416.2	0.9%	\$20,844.9	2.1%
Implicit Price Deflator GDP (2012 = 100)	118.866	127.215	7.0%	132.383	4.1%	136.000	2.7%	138.736	2.0%
Personal Consumption Deflator (2012 = 100)	115.592	122.828	6.3%	127.684	4.0%	131.199	2.8%	133.887	2.0%
Consumer Price Index (1982-84 = 100)	270.970	292.655	8.0%	305.569	4.4%	314.139	2.8%	321.376	2.3%
Consumer Price Index (FY) (1982-84 = 100)	266.616	287.723	7.9%	302.889	5.3%	312.270	3.1%	319.543	2.3%
Federal Funds Rate Interest Rate (Percent)	0.1%	1.7%		4.9%		4.7%		3.7%	
3-month Treasury Bills Interest Rate (Percent)	0.0%	2.0%		4.9%		4.5%		3.8%	
30-year Conventional Mortgage Rate Interest Rate (Percent)	3.0%	5.3%		6.2%		5.6%		5.3%	
Unemployment Rate (Percent)	5.4%	3.6%		3.7%		4.5%		4.2%	
Wage and Salary Employment (Millions)	146.3	152.6	4.3%	156.0	2.2%	156.1	0.1%	157.2	0.7%
Housing Starts (Millions of units)	1.605	1.554	(3.2%)	1.298	(16.5%)	1.310	0.9%	1.361	3.9%
Light Vehicle Sales (Millions of units)	14.9	13.8	(7.7%)	15.3	11.0%	15.7	2.6%	16.5	5.1%
Passenger Car Sales (Millions of units)	3.4	2.9	(14.2%)	3.1	6.4%	3.1	0.5%	3.2	3.6%
Light Truck Sales (Millions of units)	11.6	10.9	(6.3%)	12.2	12.7%	12.6	3.1%	13.3	5.5%
Import Share of Light Vehicles (Percent)	23.8%	20.8%		21.1%		21.4%		21.4%	
Detroit-3 Share of Light Vehicle Sales (Percent)	35.9%	38.6%		37.7%		37.4%		36.7%	
Personal Income (Billions of current dollars)	\$21,294.8	\$21,809.0	2.4%	\$22,903.6	5.0%	\$23,603.0	3.1%	\$24,581.4	4.1%
<b>Michigan</b>									
Wage and Salary Employment (Thousands)	4,198.7	4,362.9	3.9%	4,424.9	1.4%	4,446.2	0.5%	4,490.7	1.0%
Transportation Equipment Employment (Thousands)	178.9	184.6	3.2%	186.5	1.0%	186.8	0.2%	188.3	0.8%
Unemployment Rate (Percent)	5.8%	4.2%		4.3%		5.0%		4.2%	
Personal Income (Millions of current dollars)	\$567,807	\$570,065	0.4%	\$592,615	4.0%	\$611,763	3.2%	\$636,458	4.0%
Real Personal Income (Millions of 1982-84 dollars)	\$229,103	\$212,410	(7.3%)	\$211,296	(0.5%)	\$212,416	0.5%	\$216,124	1.7%
Wage and Salary Income (Millions of current dollars)	\$261,812	\$285,475	9.0%	\$300,825	5.4%	\$309,657	2.9%	\$321,646	3.9%
Detroit Consumer Price Index (1982-84 = 100)	247.806	268.122	8.2%	280.542	4.6%	288.082	2.7%	294.581	2.3%
Detroit Consumer Price Index (FY) (1982-84 = 100)	244.047	263.469	8.0%	278.063	5.5%	286.442	3.0%	292.901	2.3%





# RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast, and variations in the underlying factors can exert either optimistic or pessimistic influences on the forecast. Some of the more prevalent risks are highlighted below.

## **Inflation and Monetary Policy**

Elevated inflation levels led the Federal Reserve to aggressively raise rates throughout CY 2022 and early CY 2023 reaching the forecasted terminal range of 5.00-5.25%. As inflation subsides and unemployment slowly increases, the forecast assumes the Fed will begin to loosen monetary policy beginning in CY 2024. While the forecast assumes the Fed is successful at reducing inflation to levels closer to its target rate in the near- to medium term, if inflation persists at levels above the Fed's target necessitating continued monetary tightening this would present a downside risk to the forecast.

## **Federal Fiscal Policy**

While the forecast assumes that the debt ceiling will be raised or suspended and a FY 2023-24 federal budget is passed, avoiding a government shutdown, both present downside risks to the forecast.

## **Financial Setbacks**

The financial instability due to troubles in the banking sector, which began with the collapse of Silicon Valley Bank, has mostly subsided. However, data suggest some tightening of lending standards for both businesses and households, which could restrain economic growth in the near-term. Therefore, the direction of lending standards is both an upside and downside risk to the forecast.

## **Geopolitical Conflict and Global Economic Conditions**

The Russia-Ukraine conflict continues to present challenges on multiple fronts as countries respond politically, militarily, and economically. A quicker end to the conflict presents an upside risk, while a protracted, intensified conflict and a more pronounced slowdown in global growth is a downside risk to the forecast.





# GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency’s May 2023 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the January 2023 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, and the budget stabilization fund (BSF), and the state revenue limit calculation.

## **Baseline and Net GF/GP and SAF Revenue Estimates**

Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total combined baseline GF/GP and SAF revenue was \$33,417.5 million in FY 2021-22. It is forecast to increase 3.1% in FY 2022-23 and 0.2% in FY 2023-24. A 1.3% increase is projected for FY 2024-25.

Net revenue captures the effects of all policy changes and represents actual resources available. Final total net GF/GP and SAF revenue was \$33,094.6 million in FY 2021-22, which is a 13.9% increase from FY 2020-21. It is forecast to decrease 4.1% in FY 2022-23 and 1.8% in FY 2023-24, and increase 2.9% in FY 2024-25.

**Table 2** reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2023 adjusted consensus estimates and the recommended revisions to these estimates for FY 2022-23 through FY 2024-25. The January 2023 adjusted consensus estimates include the January 2023 consensus estimates plus enacted tax changes since January 2023.

The recommended revision for FY 2022-23 is a decrease of \$659.8 million. Strong corporate income tax collections were offset by weaker individual income tax collections, primarily due to the reduction in the income tax rate to 4.05%. The recommended revisions for FY 2023-24 and FY 2024-25 are decreases of \$1,758.4 million and \$1,732.1 million, respectively. Almost all of the downward revision is due to tax changes since January 2023, including

changes to the treatment of retirement income, the adoption of an increase to the earned income tax credit, and the earmarking of \$600.0 million of the corporate income tax.

### **GF/GP Revenue by Source**

#### ***GF/GP Net Tax Revenue***

GF/GP net tax revenue increased 16.3% to \$14,536.2 million in FY 2021-22. GF/GP tax revenue in FY 2022-23 is estimated to be \$13,002.9 million, a decrease of \$1,533.3 million, and \$12,364.1 million in FY 2023-24, a decrease of \$638.8 million. GF/GP tax revenue is estimated to increase 5.9% in FY 2024-25.

#### ***Total GF/GP Net Revenue***

Net GF/GP revenue includes non-tax revenue and represents the amount available to for expenditures. Final net GF/GP revenue was \$15,212.0 million in FY 2021-22; it is forecast to be \$13,793.0 million in FY 2022-23, a decrease of \$1,419.0 million, and \$13,129.2 million in FY 2023-24, a decrease of \$663.8 million. Net GF/GP revenue is estimated to increase 4.6% in FY 2024-25.

### **SAF Revenue by Source**

#### ***Total Net SAF Revenue***

Final net SAF revenue increased by 11.4% to \$17,882.6 million in FY 2021-22. Net SAF revenue is forecast to be \$17,960.3 million in FY 2022-23, an increase of \$77.7 million. Net SAF revenue is estimated to increase 0.5% in FY 2023-24 to \$18,050.7 million and 1.6% in FY 2024-25.



**Table 2**  
**HFA MAY 2023 REVENUE ESTIMATES FOR FY 2022-23 THROUGH FY 2024-25**  
(Millions of Dollars)

	<u>Final</u> <u>FY 2021-22</u>	<u>HFA Est.</u> <u>FY 2022-23</u>	<u>HFA Est.</u> <u>FY 2023-24</u>	<u>HFA Est.</u> <u>FY 2024-25</u>	<u>FY 2022-23</u> <u>% Change</u>	<u>FY 2023-24</u> <u>% Change</u>	<u>FY 2024-25</u> <u>% Change</u>
<b><u>Baseline</u></b>							
GF/GP	\$15,836.4	\$16,429.5	\$16,248.5	\$16,345.9	3.7%	(1.1%)	0.6%
SAF	17,581.1	18,019.8	18,277.1	18,624.1	2.5%	1.4%	1.9%
<b>Total</b>	<b>\$33,417.5</b>	<b>\$34,449.3</b>	<b>\$34,525.6</b>	<b>\$34,970.0</b>	3.1%	0.2%	1.3%
<b><u>Net</u></b>							
GF/GP	\$15,212.0	\$13,793.0	\$13,129.2	\$13,727.7	(9.3%)	(4.8%)	4.6%
SAF	17,882.6	17,960.3	18,050.7	18,343.3	0.4%	0.5%	1.6%
<b>Total</b>	<b>\$33,094.6</b>	<b>\$31,753.3</b>	<b>\$31,179.8</b>	<b>\$32,071.0</b>	(4.1%)	(1.8%)	2.9%
<b><u>January 2023 CREC (Adjusted Net)</u></b>							
<b><u>Net</u></b>							
GF/GP	\$15,205.5	\$14,777.8	\$15,092.2	\$15,545.6			
SAF	(1,143.0)	(1,418.8)	(1,340.3)	(1,338.1)			
<b>Total</b>	<b>\$14,062.4</b>	<b>\$13,359.0</b>	<b>\$13,751.9</b>	<b>\$14,207.5</b>			
<b><u>Recommended Net Revision</u></b>							
<b><u>Net</u></b>							
GF/GP	\$6.5	(\$984.8)	(\$1,963.0)	(\$1,817.9)			
SAF	57.3	325.0	204.6	85.7			
<b>Total</b>	<b>\$63.8</b>	<b>(\$659.8)</b>	<b>(\$1,758.4)</b>	<b>(\$1,732.1)</b>			

*NOTE: Numbers may not add due to rounding.*

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

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2022-23		FY 2023-24		FY 2024-25	
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$9,199.0	\$8,157.0	\$7,631.1	\$8,228.4	(\$1,042.0)	(11.3%)	(\$525.9)	(6.4%)	\$597.2	7.8%
Sales Tax	1,694.4	1,727.9	1,747.1	1,776.5	33.5	2.0%	19.2	1.1%	29.5	1.7%
Use Tax	1,194.9	1,174.6	1,157.0	1,174.9	(20.3)	(1.7%)	(17.6)	(1.5%)	18.0	1.6%
Michigan Business Tax	(500.3)	(527.0)	(509.7)	(505.5)	(26.7)	5.3%	17.3	(3.3%)	4.2	(0.8%)
Corporate Income Tax	2,029.3	1,570.2	1,425.0	1,495.0	(459.1)	(22.6%)	(145.2)	(9.2%)	70.0	4.9%
Insurance	419.9	425.0	430.0	435.0	5.1	1.2%	5.0	1.2%	5.0	1.2%
Other GF/GP Taxes	499.0	475.2	483.6	488.2	(23.8)	(4.8%)	8.4	1.8%	4.7	1.0%
<b>GF/GP Net Tax Revenue</b>	<b>\$14,536.2</b>	<b>\$13,002.9</b>	<b>\$12,364.1</b>	<b>\$13,092.6</b>	<b>(\$1,533.3)</b>	<b>(10.5%)</b>	<b>(\$638.8)</b>	<b>(4.9%)</b>	<b>\$728.5</b>	<b>5.9%</b>
Non-Tax Revenue	675.8	790.1	765.1	635.1	114.3	16.9%	(25.0)	(3.2%)	(130.0)	(17.0%)
<b>Total GF/GP Net Revenue</b>	<b>\$15,212.0</b>	<b>\$13,793.0</b>	<b>\$13,129.2</b>	<b>\$13,727.7</b>	<b>(\$1,419.0)</b>	<b>(9.3%)</b>	<b>(\$663.8)</b>	<b>(4.8%)</b>	<b>\$598.5</b>	<b>4.6%</b>

*NOTE: Numbers may not add due to rounding.*

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

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2022-23		FY 2023-24		FY 2024-25	
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$7,865.1	\$7,977.0	\$8,064.2	\$8,200.1	\$111.9	1.4%	\$87.2	1.1%	\$135.9	1.7%
Use Tax	859.4	864.1	862.1	875.1	4.7	0.5%	(2.0)	(0.2%)	12.9	1.5%
Income Tax	4,059.8	3,974.1	3,855.8	3,859.9	(85.7)	(2.1%)	(118.3)	(3.0%)	4.2	0.1%
State Education Tax	2,441.6	2,609.9	2,739.9	2,854.9	168.3	6.9%	130.0	5.0%	115.0	4.2%
Lottery/Casinos	1,352.7	1,311.0	1,304.0	1,312.0	(41.7)	(3.1%)	(7.0)	(0.5%)	8.0	0.6%
Tobacco Tax	284.7	260.2	255.6	251.5	(24.5)	(8.6%)	(4.6)	(1.8%)	(4.2)	(1.6%)
Real Estate Transfer Tax	546.6	415.0	405.0	417.0	(131.6)	(24.1%)	(10.0)	(2.4%)	12.0	3.0%
Other Taxes	472.7	549.0	564.0	572.8	76.3	16.1%	15.1	2.7%	8.8	1.6%
<b>Total SAF Net Revenue</b>	<b>\$17,882.6</b>	<b>\$17,960.3</b>	<b>\$18,050.7</b>	<b>\$18,343.3</b>	<b>\$77.7</b>	<b>0.4%</b>	<b>\$90.4</b>	<b>0.5%</b>	<b>\$292.6</b>	<b>1.6%</b>

*NOTE: Numbers may not add due to rounding.*

## **BSF Year-End Balance**

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

In addition to the BSF calculation, 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35. **Table 5** provides details on deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2024-25. Estimates include the impact of 2014 PA 186 amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35.

After an appropriated pay-out of \$350.0 million, the BSF ending fund balance at the end of FY 2019-20 was \$829.0 million. The balance increased to \$1,588.8 million after appropriations of \$35.0 million and \$500 million in FY 2020-21 and \$180.0 million in FY 2021-22. Rising interest rates are also expected to result in increased investment returns for the BSF.

The statutory BSF trigger calculation, based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue, indicates whether deposits (pay-ins) or withdrawals (pay-outs) are recommended for a fiscal year. Regardless of the calculated amounts, however, all deposits and withdrawals must be appropriated. Based on the formula, no pay-ins would be indicated for FY 2022-23, FY 2023-24, or FY 2024-25.

Because inflation-adjusted personal income is projected to decline between CY 2022 and CY 2023, a pay-out of up to \$397.2 million would be suggested. However, because pay-ins and pay-outs require an appropriation, no pay-out is assumed.

After adjusting for the required \$17.5 million deposits and estimated interest earnings, the year-end balance is projected at \$1,682.6 million for FY 2022-23, \$1,783.5 million for FY 2023-24, and \$1,876.4 million for FY 2024-25.

**Table 5**  
**BUDGET STABILIZATION FUND HISTORY**  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$2.2
2008-09	\$0.0	\$0.0	\$0.0	\$2.2
2009-10	\$0.0	\$0.0	\$0.0	\$2.2
2010-11	\$0.0	\$0.0	\$0.0	\$2.2
2011-12	\$362.7	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.4	\$0.0	\$13.5	\$1,005.9
2018-19	\$117.5	\$0.0	\$25.1	\$1,148.5
2019-20	\$17.3	\$350.0	\$13.2	\$829.0
2020-21	\$552.2	\$0.0	\$1.0	\$1,382.2
2021-22	\$197.2	\$0.0	\$9.3	\$1,588.8
2022-23*	\$17.5	\$0.0	\$76.4	\$1,682.6
2023-24*	\$17.5	\$0.0	\$83.4	\$1,783.5
2024-25*	\$17.5	\$0.0	\$75.4	\$1,876.4

\* HFA estimates

NOTE: Numbers may not add due to rounding.

## **Compliance with the State Revenue Limit**

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

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

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

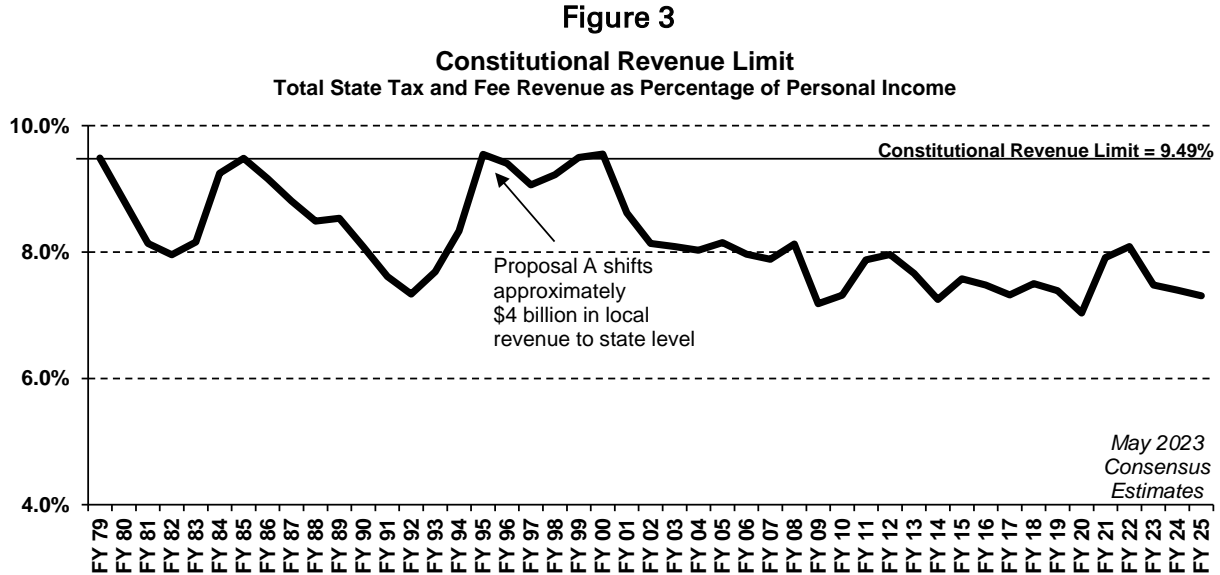
Furthermore, limit established in Section 26 by Article IX, Section 28 prohibits the state from spending any current-year revenue in excess of that amount.

As shown in **Table 6** and **Figure 3**, the FY 2021-22 revenue limit calculation estimates state revenue collections at \$7.5 billion below the revenue limit. State revenue is estimated to be below the limit by \$11.4 billion for FY 2022-23, \$11.9 billion for FY 2023-24, and \$12.9 billion for FY 2024-25.

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

<b><u>Revenue Limit Calculations</u></b>	<b><u>Estimated FY 2021-22</u></b>	<b><u>Estimated FY 2022-23</u></b>	<b><u>Estimated FY 2023-24</u></b>	<b><u>Estimated FY 2024-25</u></b>
Personal Income				
Calendar Year	<u>CY 2020</u>	<u>CY 2021</u>	<u>CY 2022</u>	<u>CY 2023</u>
Amount	\$537,493	\$567,807	\$570,065	\$592,615
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
<b>State Revenue Limit</b>	<b>\$51,008.1</b>	<b>\$53,884.9</b>	<b>\$54,099.2</b>	<b>\$56,239.2</b>
Total Revenue Subject to Revenue Limit	\$43,460.0	\$42,450.8	\$42,159.8	\$43,307.8
<b>Amount Under (Over) State Revenue Limit</b>	<b>\$7,548.1</b>	<b>\$11,434.1</b>	<b>\$11,939.4</b>	<b>\$12,931.4</b>

*NOTE: Numbers may not add due to rounding.*



**HFA Estimates of Year-End Balances**

**Table 7** reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2021-22 reflects final numbers. FY 2022-23 and FY 2023-24 are HFA budget estimates that includes HFA revenue projections, cost adjustments and appropriations as passed the House.

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

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

	<b>Final FY 2021-22</b>	<b>Estimated FY 2022-23*</b>	<b>Estimated FY 2023-24*</b>
General Fund/General Purpose	\$7,463.5	\$2,861.3	\$397.0
School Aid Fund	\$4,622.5	\$2,409.8	\$666.5
Budget Stabilization Fund	\$1,588.8	\$1,682.6	\$1,783.5

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

*\* Reflects House passed budget*



**Additional copies of this report can be obtained from:**

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