



MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

**FY 2023-24, FY 2024-25,
FY 2025-26, and FY 2026-27**

January 7, 2025



THE SENATE FISCAL AGENCY

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

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

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

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



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

<https://sfa.senate.michigan.gov>

ACKNOWLEDGEMENT

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

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY.....	1
ECONOMIC REVIEW AND OUTLOOK.....	3
RECENT US ECONOMIC HIGHLIGHTS.....	3
RECENT MICHIGAN ECONOMIC HIGHLIGHTS.....	4
FORECAST SUMMARY.....	7
FORECAST RISKS.....	10
THE FORECAST FOR STATE REVENUE.....	17
REVENUE OVERVIEW.....	17
FY 2023-24 PRELIMINARY REVENUE.....	17
FY 2024-25 REVISED REVENUE ESTIMATES.....	20
FY 2025-26 REVISED REVENUE ESTIMATES.....	20
FY 2026-27 INITIAL REVENUE ESTIMATES.....	21
MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2023-24 THROUGH FY 2026-27.....	28
SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY.....	31
BUDGET STABILIZATION FUND.....	34
COMPLIANCE WITH STATE REVENUE LIMIT.....	37
THE REVENUE LIMIT.....	37
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED.....	37
REVENUE LIMIT COMPLIANCE PROJECTIONS.....	37
ESTIMATE OF YEAR-END BALANCES.....	40
YEAR-END BALANCE ESTIMATES.....	40
GENERAL FUND/GENERAL PURPOSE.....	40
SCHOOL AID FUND.....	41
CONCLUSION.....	41

EXECUTIVE SUMMARY

ECONOMIC FORECAST

The United States economy is expected to grow more slowly in 2025 and 2026 than in 2024, as consumer spending slows in response to slow declines in interest rates and depleted cash balances that were built up during the pandemic. Uncertainty created by changes in Federal policy will slow investment and most policy changes will slow the rate at which inflation returns to normal. Unemployment rates will rise slightly over the forecast but remain low by historical standards.

The Michigan economy will mirror the changes in the national economy, with employment growth steadily slowing and the unemployment rate slowly rising. The interaction of growth and inflation will result in relatively flat inflation-adjusted personal income over the forecast.

REVENUE FORECAST

Preliminary fiscal year (FY) 2023-24 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue increased 2.6% from FY 2022-23, reflecting relatively modest economic growth. Above-forecast individual income tax (IIT) revenue and less-than-expected business tax credits were partially offset by reduced interest earnings and decreased revenue from the lottery and corporate income tax (CIT), resulting in preliminary FY 2023-24 GF/GP and SAF combined revenue being \$926.3 million above the May 2024 consensus estimate.

Under the revised estimate for FY 2024-25, employment and incomes will rise despite slowing economic growth, lifting GF/GP and SAF revenue 2.9% above the FY 2023-24 level. Sales and use tax collections will increase more rapidly as consumers exhibit more normal splits between goods (subject to sales and use taxes) and services (which generally are exempt). Economic growth combined with the higher revenue base from FY 2023-24 results in a revised FY 2024-25 estimate \$1.2 billion above the May 2024 consensus estimate.

In FY 2025-26, economic growth and reduced CIT earmarks of GF/GP revenue will cause GF/GP and SAF revenue to grow 3.9% above the revised estimate for FY 2024-25. The revised estimate for FY 2025-26 is \$1.5 billion above the May 2024 consensus estimate.

In FY 2026-27, continued economic growth and stable tax policy will result in GF/GP and SAF revenue growing 2.1%.

YEAR-END BALANCE ESTIMATES

It is important to note that the books have not yet been closed for FY 2023-24. Based on the accounting of State revenue and expenditures as of January 2, 2025, the Senate Fiscal Agency (SFA) is estimating that the FY 2023-24 GF/GP budget will close the fiscal year with a \$2.1 billion balance. The SFA estimates that the FY 2023-24 SAF budget will close the fiscal year with a \$1.0 billion balance. (Note that a portion of these balances was assumed during the FY 2024-25 budget process and does not represent 'new' revenue.)

A comparison of the SFA's FY 2024-25 revenue estimates with enacted and projected appropriations leads to a \$1.1 billion GF/GP year-end balance. The SFA estimates that the FY 2024-25 SAF budget will end the year with a \$941.4 million balance.

Looking ahead to the FY 2025-26 budget, comparing the SFA's FY 2025-26 GF/GP revenue estimate with FY 2025-26 GF/GP estimated expenditures results in a projected GF/GP balance of \$1.8 billion. These estimated expenditures freeze initial ongoing spending at the FY 2024-25 level, eliminate one-time appropriations from FY 2024-25, and include the projected year-end balance of \$1.1 billion from FY 2024-25 and various baseline adjustments. If the FY 2024-25 estimated year-end SAF balance of \$941.4 million is carried forward, comparing the SFA's FY 2025-26 SAF revenue estimate with the FY 2025-26 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs results in a projected SAF year-end balance of \$1.9 billion for FY 2025-26.

The estimated FY 2023-24 ending balances may change when the State's book-closing process is completed and the Annual Comprehensive Financial Report (ACFR) is published. If the FY 2023-24 numbers change because of final supplemental spending or other book-closing issues, the ending balances in this report would change. Additional policy changes or supplemental appropriations for FY 2023-24 or FY 2024-25 also would change the ending balances for FYs 2023-24, 2024-25, and 2025-26.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)					
	2023 Actual	2024 Estimate	2025 Estimate	2026 Estimate	2027 Estimate
Real Gross Domestic Product (% change)	2.9%	2.8%	2.0%	1.4%	2.0%
US Consumer Price Index (% change)	4.1%	2.9%	2.4%	3.6%	3.3%
Light Motor Vehicle Sales (millions of units)	15.5	15.7	16.0	15.8	16.1
US Unemployment Rate (%)	3.6%	4.0%	4.4%	4.7%	4.8%
Real Michigan Personal Income (% change)	(0.4%)	1.5%	1.0%	0.0%	0.5%
Michigan Wage & Salary Employment (% change)	1.8%	0.8%	0.4%	0.3%	0.1%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (millions of dollars)									
	FY 2024-25 Estimate			FY 2025-26 Estimate			FY 2026-27 Estimate		
	Baseline	Tax	Net	Baseline	Tax	Net	Baseline	Tax	Net
		Changes	Available		Changes	Available		Changes	Available
GF/GP	\$17,527.5	(\$2,399.4)	\$15,128.1	\$17,981.2	(\$1,978.0)	\$16,003.2	\$18,381.6	(\$2,085.8)	\$16,295.8
% Change	3.1%	---	3.4%	2.6%	---	5.8%	2.2%	---	1.8%
School Aid Fund	\$18,703.1	(211.3)	\$18,491.8	\$19,163.8	(245.9)	\$18,917.9	\$19,631.7	(274.2)	\$19,357.5
% Change	2.7%	---	2.5%	2.5%	---	2.3%	2.4%	---	2.3%
Total GF/GP & SAF	\$36,230.6	(\$2,610.7)	\$33,619.9	\$37,145.0	(\$2,223.9)	\$34,921.1	\$38,013.3	(\$2,360.0)	\$35,653.3
% Change	2.9%	---	2.9%	2.5%	---	3.9%	2.3%	---	2.1%
Revenue Limit – Under (Over)	\$12,408.8			\$13,743.7			\$14,827.3		
	<u>FY 2023-24 Estimate</u>			<u>FY 2024-25 Estimate</u>			<u>FY 2025-26 Estimate</u>		
Revision from May Consensus									
GF/GP	\$676.4			\$870.3			\$1,116.7		
SAF	<u>249.9</u>			<u>344.9</u>			<u>345.4</u>		
Total	\$926.3			\$1,215.2			\$1,462.1		

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate
General Fund/General Purpose.....	\$2,085.1	\$1,087.3	\$1,792.4
School Aid Fund	\$1,028.6	\$941.4	\$1,877.3
Budget Stabilization Fund (with enacted deposits).....	\$1,990.4	\$2,147.5	\$2,259.5

ECONOMIC REVIEW AND OUTLOOK

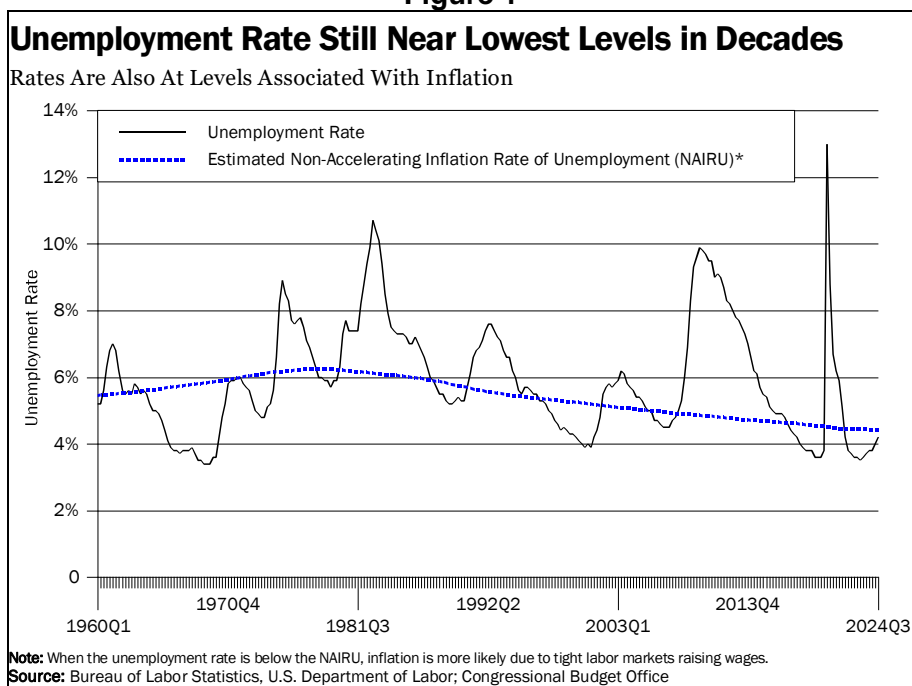
State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2025, 2026, and 2027, as well as a summary of recent economic activity.

RECENT US ECONOMIC HIGHLIGHTS

- Although the majority of acute effects from the COVID-19 pandemic have ended, the economy remains in transition, especially with respect to issues related to savings and wealth, consumption choices, and labor supply and demand. The economy continues to adjust to a new "normal" and over the last few years has experienced economic growth at slowing rates.
- Labor markets have relaxed but remain constrained. As the economy continues to transition from the distortions created by the pandemic, economic growth has combined with population demographics to maintain unemployment rates at lows experienced just before the pandemic, which were the lowest rates since the 1960s.
- Inflation remains elevated but has slowed markedly. After peaking in the middle of 2022, inflation has eased to levels consistent with the early 1990s, but above the levels between 2009 and 2020.

The COVID-19 pandemic and the subsequent economic recovery were characterized by significant imbalances between different parts of the economy, particularly differing impacts between goods-producing and service-producing sectors, between brick-and-mortar retailers and online merchants, and between sectors more reliant on international supply chains and those less reliant on supply chains. As the economy continues to transition to a "new normal", the economy has continued to grow, albeit at a slowing pace. After rising 2.9% in 2023, inflation-adjusted Gross Domestic Product (GDP) is forecasted to have increased 2.8% in 2024 as higher interest rates have slowed business and residential investment as well as debt-financed consumer purchases. Payroll employment growth is estimated to have slowed from a 2.3% increase in 2023 to 1.6% growth in 2024, allowing the unemployment rate to rise from 3.6% in 2023 (the lowest annual employment rate since 1969) to an estimated 4.0% in 2024 (still lower than every year between 1970 and 2017, excluding the year 2000) (Figure 1). As labor markets have relaxed and economic growth slowed, inflation has fallen. After peaking at 8.0% in 2022, inflation as measured by the Consumer Price Index (CPI) has declined to an estimated 2.9% in 2024.

Figure 1



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

- Michigan's economy has mirrored changes in the national economy, but Michigan's comparative over-reliance on the motor vehicle industry and relatively older population has limited the ability of the State economy to keep pace with the US economy.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and Michigan has yet to regain employment levels experienced before the 2000-01 recession.
- Like the US economy, the Michigan economy continues to grow, albeit at a slower rate. Inflation has slowed and the unemployment rate has risen, although the unemployment rate remains low by historical standards.

Michigan's economy spent the 2000-2010 period in an employment recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, economic circumstances that limit the prospects for employment growth. In addition, Michigan's over-reliance on the motor vehicle industry has meant those impacts are transmitted through the rest of the Michigan economy. Economic changes in the motor vehicle sector affect the amount of money employees in the sector have to spend on eating out, recreation, legal and financial services, and consumer goods, which affects economic activity in sectors across the State economy and creates feedback effects for those secondarily affected sectors.

These swings are exemplified by the changes in Michigan payroll employment since 2000. Payroll employment fell from a high of 4.7 million workers in June 2000 to 3.8 million in July 2009, a loss of 862,600 jobs (of which more than 220,000, or more than 25%, were in the transportation equipment manufacturing sector). Although Michigan payroll employment recovered 627,800 jobs between the July 2009 Michigan employment trough and the pre-COVID-19 employment peak in December 2019, the pandemic lowered Michigan payroll employment below the 2009 employment trough. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover from the pandemic recession more rapidly than almost any other state, adding more than 1.1 million jobs to Michigan payroll employment by June 2023. As vehicle sales have stabilized, the economy has continued to grow. Michigan's payroll employment totaled 4.5 million workers in November 2024, up more than 1.1 million jobs (32.9%) from the pandemic trough of 3.4 million jobs (although payroll employment remained 189,800 jobs (4.0%) below the June 2000 all-time peak).

As the national economy has slowed, Michigan has followed suit. Michigan personal income slowed from 5.4% growth in 2023 to an estimated 4.9% in 2024. Payroll employment growth increased 1.8% in 2023 but rose an estimated 0.8% in 2024, which helped increase the unemployment rate from 3.9% in 2023 to an estimated 4.2% in 2024. Slower economic growth helped reduce inflationary pressures, and the Detroit CPI rose an estimated 3.3% in 2024 after rising 5.8% in 2023.

Historical and forecasted details for select US and Michigan economic indicators are presented in [Table 1](#) and [Table 2](#).

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST					
(Calendar Years)					
	2023	2024	2025	2026	2027
	Actual	Estimate	Estimate	Estimate	Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	6.6%	5.2%	4.3%	4.5%	4.7%
Inflation-Adjusted GDP (year-to-year growth)	2.9%	2.8%	2.0%	1.4%	2.0%
Unemployment Rate	3.6%	4.0%	4.4%	4.7%	4.8%
Wage & Salary Employment (year-to-year growth)	2.3%	1.6%	0.9%	0.4%	0.4%
Inflation					
Consumer Price Index (year-to-year growth)	4.1%	2.9%	2.4%	3.6%	3.3%
GDP Implicit Price Deflator (yr.-to-yr. growth)	3.6%	2.4%	2.3%	3.1%	2.6%
Interest Rates					
90-day Treasury Bill	5.07%	4.99%	4.17%	4.00%	4.00%
10-year Treasury Bill	3.96%	4.18%	4.08%	4.13%	4.13%
Corporate Aaa Bond	4.81%	5.03%	5.00%	5.02%	5.00%
Federal Funds Rate	5.02%	5.14%	4.28%	4.08%	4.08%
Light Motor Vehicle Sales (millions of units)					
Auto	15.5	15.7	16.0	15.8	16.1
Truck	3.1	3.0	3.0	2.9	2.9
	12.4	12.7	13.0	12.9	13.2
<u>Michigan</u>					
Personal Income (millions)	\$613,719	\$643,934	\$666,121	\$691,133	\$718,184
Year-to-year growth	5.4%	4.9%	3.4%	3.8%	3.9%
Inflation-Adjusted Personal Income (year-to-year growth)	(0.4%)	1.5%	1.0%	0.0%	0.5%
Wage & Salary Income (millions)	\$296,271	\$312,917	\$324,073	\$334,078	\$344,357
Year-to-year growth	4.6%	5.6%	3.6%	3.1%	3.1%
Detroit Consumer Price Index (year-to-year growth)	5.8%	3.3%	2.4%	3.7%	3.4%
Wage & Salary Employment (thousands)	4,451.0	4,484.8	4,501.2	4,515.6	4,520.8
Year-to-year growth	1.8%	0.8%	0.4%	0.3%	0.1%
Unemployment Rate	3.9%	4.2%	4.6%	4.8%	5.0%

Table 2

THE SENATE FISCAL AGENCY US ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2023	2024	2025	2026	2027
	Actual	Estimate	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$27,720.7	\$29,173.8	\$30,433.6	\$31,811.2	\$33,314.9
Year-to-year growth	6.6%	5.2%	4.3%	4.5%	4.7%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2017 dollars)	\$22,671.1	\$23,296.0	\$23,754.8	\$24,076.9	\$24,565.3
Year-to-year growth	2.9%	2.8%	2.0%	1.4%	2.0%
Consumption (billions of 2017 dollars)	\$15,621.7	\$16,040.1	\$16,435.6	\$16,730.7	\$17,136.9
Year-to-year growth	2.5%	2.7%	2.5%	1.8%	2.4%
Business Fixed Investment (billions of 2017 dollars)	\$3,384.5	\$3,511.7	\$3,599.5	\$3,711.8	\$3,845.5
Year-to-year growth	6.0%	3.8%	2.5%	3.1%	3.6%
Change in Business Inventories (billions of 2017 dollars)	\$33.1	\$51.5	\$54.6	\$44.7	\$47.0
Residential Investment (billions of 2017 dollars)	\$762.7	\$792.2	\$784.0	\$791.0	\$806.0
Year-to-year growth	(8.3%)	3.9%	(1.0%)	0.9%	1.9%
Government Spending (billions of 2017 dollars)	\$3,811.8	\$3,936.7	\$4,014.0	\$4,025.0	\$4,046.3
Year-to-year growth	3.9%	3.3%	2.0%	0.3%	0.5%
Federal budget surplus (billions of dollars, NIPA basis)	(\$1,666.4)	(\$1,926.0)	(\$2,128.3)	(\$2,400.4)	(\$2,587.2)
Net Exports (billions of 2017 dollars)	(\$932.8)	(\$1,039.7)	(\$1,139.6)	(\$1,231.8)	(\$1,315.4)
Exports (billions of 2017 dollars)	\$2,523.8	\$2,606.5	\$2,665.2	\$2,672.4	\$2,669.7
Imports (billions of 2017 dollars)	\$3,456.6	\$3,646.2	\$3,804.8	\$3,904.2	\$3,985.1
Personal Income (year-to-year growth)	5.9%	5.5%	4.6%	4.5%	4.8%
Adjusted for Inflation	1.8%	2.5%	2.1%	0.8%	1.4%
Wage & Salary Income (year-to-year growth)	5.4%	6.2%	4.9%	3.3%	3.6%
Personal Savings Rate	4.7%	4.8%	4.5%	4.7%	4.6%
Output per hour (Labor productivity, annual growth)	1.6%	2.2%	1.1%	1.1%	1.7%
Unit labor costs (annual growth)	2.2%	3.4%	2.5%	2.1%	1.5%
Housing Starts (millions of units)	1.421	1.357	1.345	1.353	1.385
Conventional Mortgage Rates	6.8%	6.7%	6.2%	6.0%	5.8%

FORECAST SUMMARY

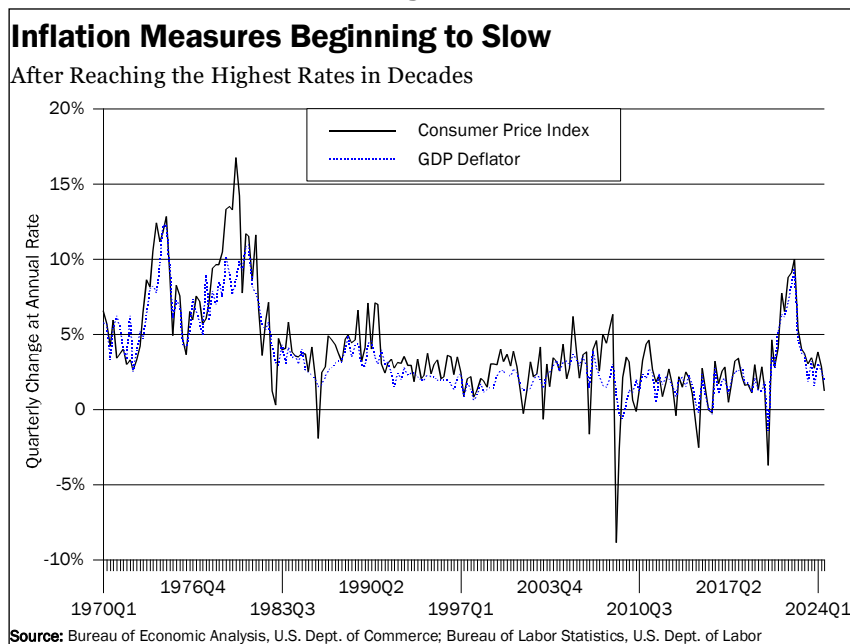
- The US economy is expected to grow at rates slower than those experienced in 2024. Throughout the forecast, Michigan is expected to grow more slowly than the nation as a whole, with inflation-adjusted personal income remaining relatively flat.
- The Michigan economy will experience slowing employment growth over the forecast, as payroll employment slows from 1.5% growth in 2024 to 0.1% growth in 2027. Reflecting slow employment growth, Michigan unemployment rates will rise slightly but remain low by historical standards.
- Light vehicle sales will improve but remain below historical levels. The Detroit Three are expected to continue to lose market share.
- Inflationary pressures will decline but persist through much of the forecast, reflecting events in the national economy.

The US economy is expected to grow at rates slower than the growth experienced in 2024. Throughout the forecast, Michigan is expected to grow more slowly than the nation as a whole. [Table 1](#) and [Table 2](#) provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years.

Nationally, inflation-adjusted GDP is projected to have increased 2.8% in 2024, after growing 2.5% in 2022 and 2.9% in 2023. Inflation-adjusted GDP is forecast to expand 2.0% in 2025, 1.4% in 2026, and by 2.0% in 2027. The slowdown in economic growth through 2026 reflects consumption and government spending (at the Federal, state, and local levels) growing more slowly and combining with the effects of labor market constraints and anticipated changes in trade policy.

The economic dynamics of the forecast will mean that unemployment rates will rise but remain low by historical standards, and inflation will remain somewhat above target levels. Nationally, the growth in payroll employment slowed from 2.3% in 2023 to a projected 1.6% in 2024. Payroll employment growth will continue slowing over the forecast, with growth of 0.9% in 2025, and 0.4% in both 2026 and 2027. As a result, the US unemployment rate will rise, increasing from a projected 4.0% rate in 2024 to 4.4% in 2025, 4.7% in 2026, and 4.8% in 2028. Inflation rates are forecast to decline in 2025, with growth in the CPI declining from a projected 2.9% in 2024 to 2.4% in 2023, before increasing 3.6% in 2025 and 3.3% in 2027 ([Figure 2](#)).

Figure 2



In Michigan, the economy will mirror many of the changes in the national economy, although growth will generally be at lower levels (Figures 3 and 4). Michigan payroll employment rose a projected 0.8% during 2024, down from a 1.8% increase in 2023, and is forecasted to continue growing at slower rates over the forecast, rising 0.4% in 2025, 0.3% in 2026, and 0.1% in 2027. Inflation-adjusted personal income declined 0.4% in 2023 despite a 4.6% increase in wage income. The decline was largely due to the exhaustion of various Federal stimulus efforts, and 5.8% inflation eroding the value of income gains.

In 2024, inflation-adjusted personal income is predicted to have increased 1.5%, reflecting a 5.6% increase in wage and salary income and inflation falling to 3.3%. In 2025, inflation-adjusted personal income is forecasted to rise 1.0%, as wage and salary income increases 3.6% and inflation rises only 2.4%. Reflecting the changes in the national economy in 2026 and 2027, Michigan's inflation-adjusted personal income is predicted to remain flat in 2026, growing 0.0%, and increase 0.5% in 2027.

Nationally, light vehicle sales are estimated to remain relatively stable. After increasing from 15.5 million units in 2023 to an estimated 15.7 million units in 2024, light vehicle sales are expected to total 16.0 million units in 2025, 15.8 million units in 2026, and 16.1 million units in 2027 (Figure 5). For comparison purposes, light vehicles sales averaged 17.1 million units per year during the 2014-2019 period. The Michigan unemployment rate, which averaged 3.9% in 2023, is predicted to increase from an estimated 4.2% in 2024 to 4.6% in 2025, 4.8% in 2026, and 5.0% in 2027. In comparison, Michigan's unemployment rate averaged 5.1% over the 2014-2019 period.

Compared with the May 17, 2024, Consensus Revenue Estimating Conference (CREC) forecast, economic growth is expected to be weaker for both the national and Michigan economies over the entire forecast. Generally, employment growth is expected to be slower and inflation is expected to be higher than was predicted in May 2024. As discussed in the following section, although the forecast predicts a weaker economy than was predicted in May 2024, the combination of greater-than-expected revenue in FY 2023-24, higher inflation than was predicted in May, and the demographics of the economic changes under the forecast will result in higher revenue projections than those made at the May 2024 CREC.

Figure 3

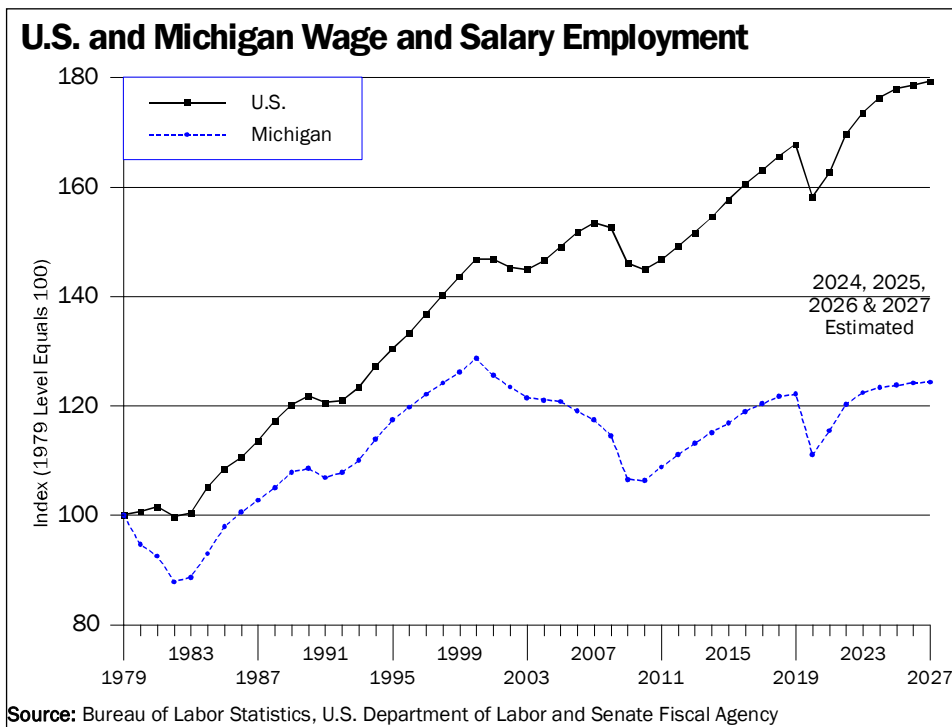


Figure 4

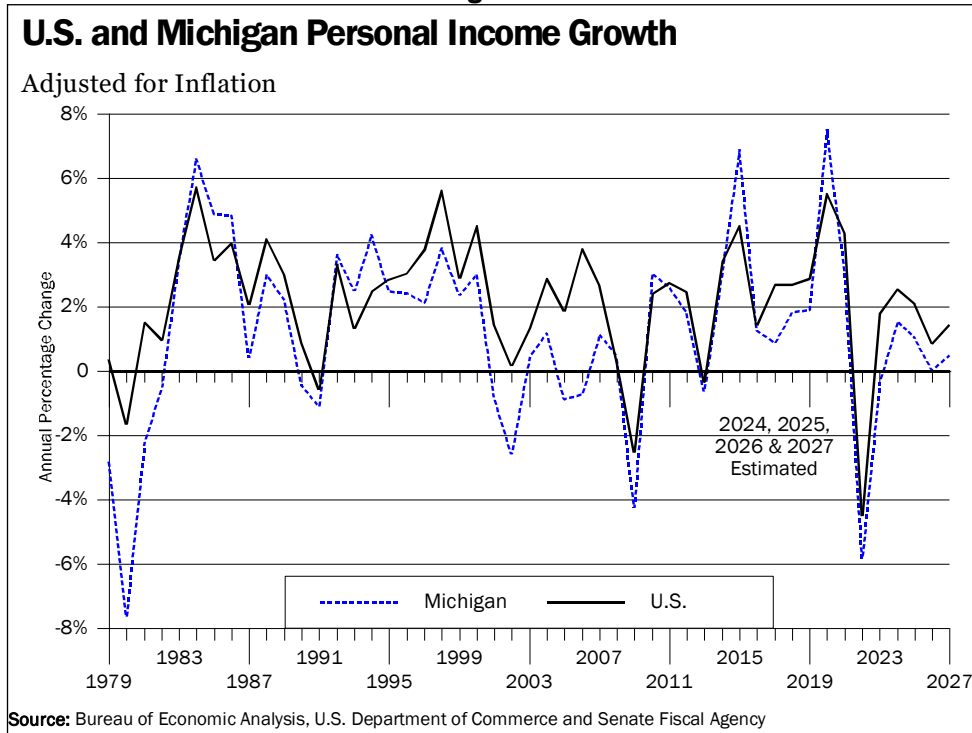
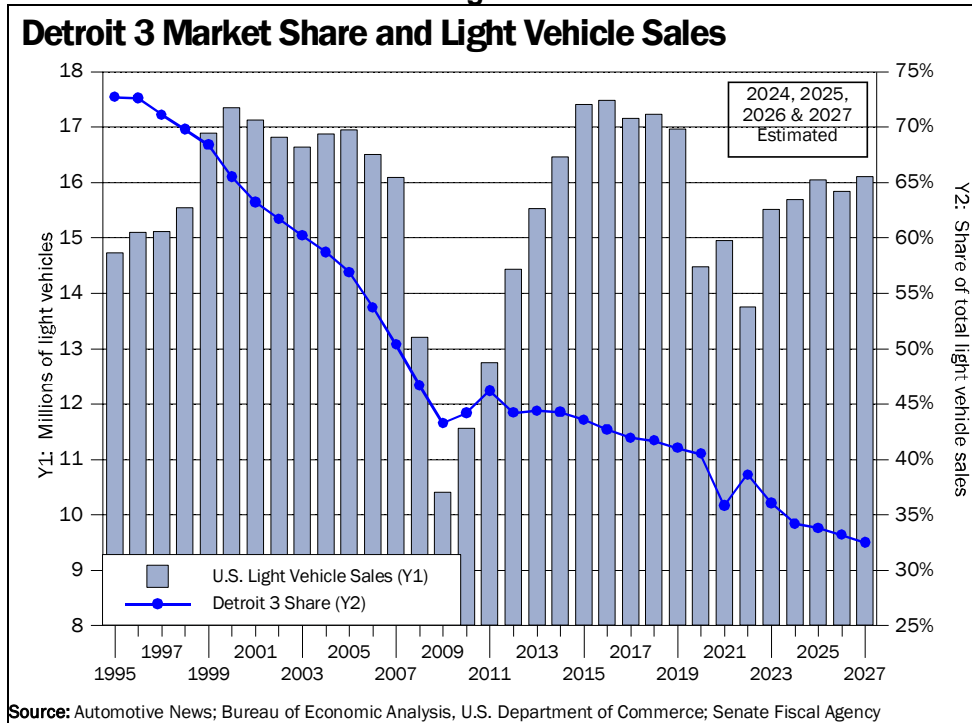


Figure 5



FORECAST RISKS

- The COVID-19 pandemic and recovery resulted in short-term disruptions in the long-run relationship between many economic (and tax revenue) variables. How quickly these relationships are restored will affect the accuracy of the forecast.
- Inflationary risks are expected to remain, and Federal Reserve monetary policy is expected to remain focused on returning inflation to target levels. However, higher interest rates and reduced lending, as well as the transition back to more normal consumption patterns, may cause economic growth to be weaker than forecasted.
- Both the US and Michigan labor markets will face labor market constraints on growth resulting from aging workforces lowering labor force participation.
- Recovery in the Michigan economy will be dominated by what happens with the motor vehicle industry.

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

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

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. Previous editions of this forecast document have discussed the ways in which the COVID-19 pandemic affected economic relationships and the interaction with forecasting tax revenue. Both the economic forecast and the revenue forecast presented in the next section essentially assume that taxes return to their more traditional relationships with underlying economic variables, although the timing of when and how this return occurs will affect revenue. As illustrated with FY 2019-20, FY 2020-21, and FY 2021-22 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions, or even billions, of dollars. For example, the economic changes forecasted at the May 2020 CREC largely were correct, yet the \$3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by \$2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held. Although of a lesser magnitude, the continuing forecast errors for both sales and use tax revenue continue to reflect the issues associated with the timing of how quickly consumer spending behaviors return to "normal" patterns.

The most significant forecast risk related to the COVID-19 recession represents how if, and how quickly, consumer spending returns to historical patterns, both in terms of the split of spending between goods

and services as well as overall growth rates in relation to other economic circumstances. Mirroring the impact of the COVID-19 recession, if spending increases in the services sector and replaces goods consumption, the service economy will grow and experience inflation while the goods economy will contract. Similarly, if consumers who paid down debt during the recession choose to finance higher consumer spending with increased borrowing, growth will be stronger than what is suggested by other economic conditions in the economy.

Monetary and Fiscal Policy. The forecast does not anticipate any additional major changes in overall Federal spending, although where funds are directed is anticipated to change somewhat over the forecast. Fiscal policy will remain stimulative with net Federal saving declining from -6.6% of GDP in 2024 to -7.8% in 2027. Monetary policy is expected to remain contractionary, as the Federal Reserve seeks to rein in the possibility of higher long-term inflationary expectations. The forecast does not expect any additional rate increases, although after two 25 basis point decreases in the first half of 2025, rates are expected to remain constant through the forecast. Tax cuts, tariff policies, and growing budget deficits are expected to combine with more restrictive immigration policies to maintain inflationary pressures. Interest rates are not expected to fall more consistently until the Federal Reserve is convinced inflation is unlikely to exceed the long-term target of 2.0%, which the forecast expects will not occur until after 2027.

A major risk affecting how well monetary policy will succeed in slowing inflation relates to consumer spending. Many consumers saw their net worth and cash balances rise in 2020 and 2021 ([Figures 6 and 7](#)). Despite the changes in inflation and a variety of stock market swings, consumers remain wealthier than before the pandemic, particularly those consumers in the middle- and high-income groups and homeowners. Ultimately, inflation has reflected strong consumer demand and the way that demand is transmitted through the rest of the economy, whether by increasing the demand for goods that supply chains struggle to fulfill or a need for additional workers (who are in short supply) to provide goods and services. Whether that demand is fueled by wage growth, boosted by high checking and savings balances, financed by rising consumer borrowing or strong stock market gains, the demand puts pressure on firms to increase output. Because consumer balances and net worth remain above trend, consumers can feel wealthy enough to maintain (or increase) consumption in a world with rising consumer prices and rising interest rates. Consumer spending in both 2022 and 2023 reflected this behavior, with inflation at the highest levels in decades and inflation-adjusted spending still exhibiting solid growth.

The forecast expects consumer spending will slow in 2025 and 2026, although perhaps not as much as it would have given the historical relationship between interest rates and spending. Additional Federal fiscal stimulus (reflecting higher deficits, whether due to falling tax receipts or increased spending) would cause both economic growth and inflation to be stronger than forecasted. Similarly, if inflation falls more rapidly than expected, economic growth will be stronger, especially if lower inflation allows the Federal Reserve to lower interest rates more rapidly than predicted. However, to the extent that the Federal Reserve finds it necessary to raise interest rates higher than expected or keep them at high levels for longer than expected (perhaps because consumers respond less than expected to rising interest rates), economic growth will be slower than forecasted and unemployment will be higher. Higher-than-anticipated interest rates are likely to curtail loan demand from both consumers and businesses, reducing both consumption and investment.

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 jobs. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that those individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income

growth, they represent a somewhat hidden group of unemployed individuals who will depress wages as the economy continues to recover. A March 2018 study from the Congressional Budget Office projected that population demographics would lower labor force participation by more than three percentage points (i.e., 3% of the population) over the next 10 years. This decline will help lower unemployment rates, but also will make it harder for firms to find the necessary workers, particularly in a growing economy (as well as restricting economic growth), and will increase labor costs.

Figure 6

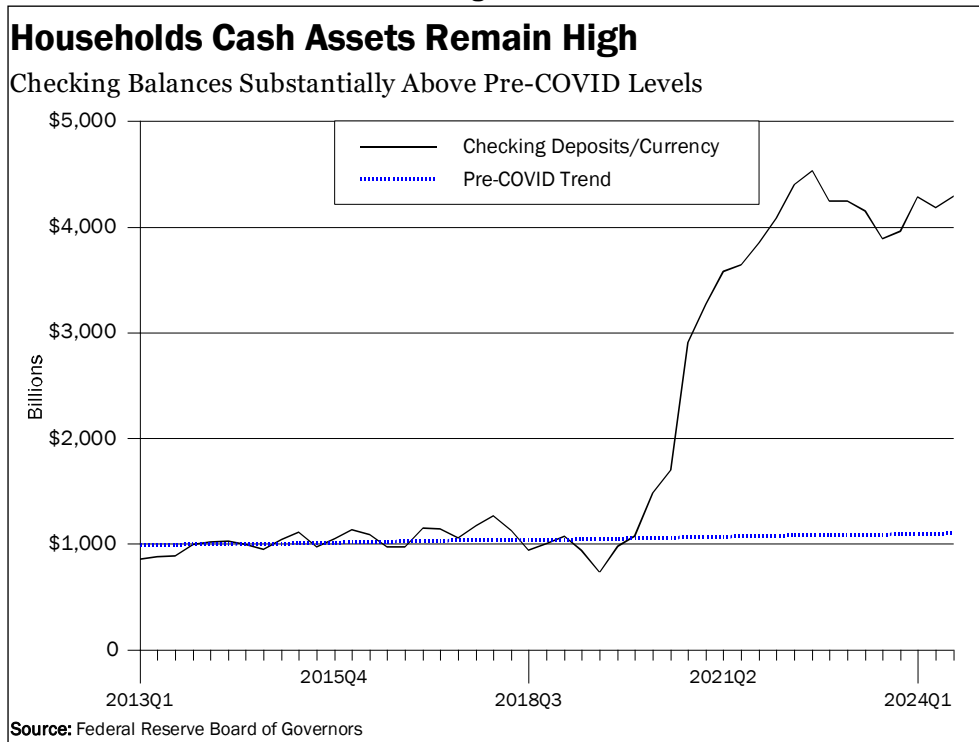
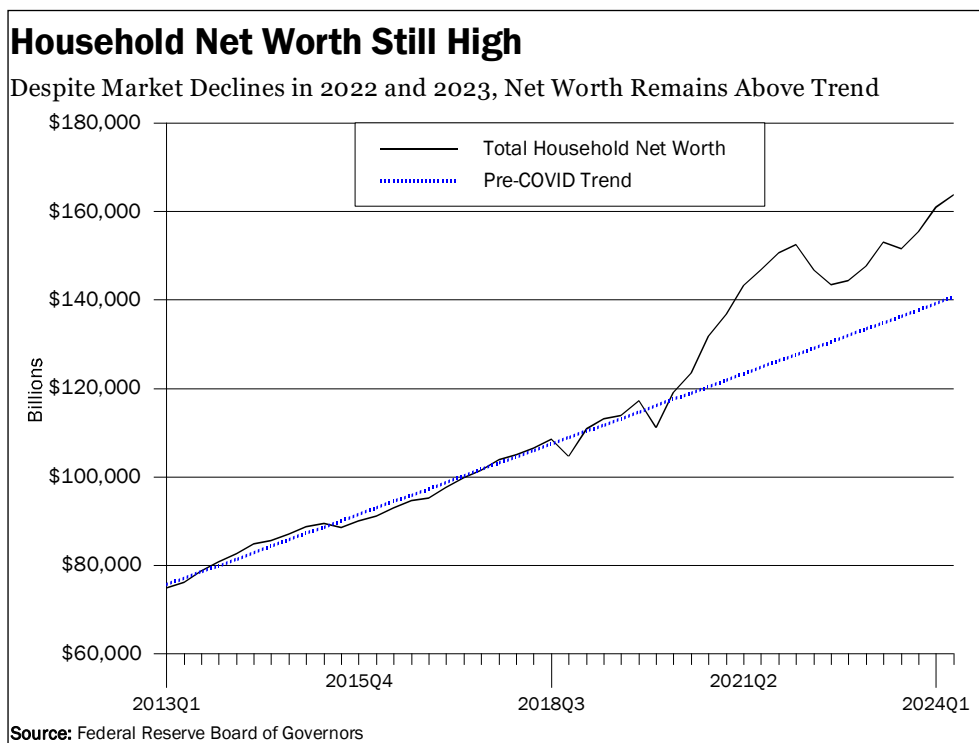


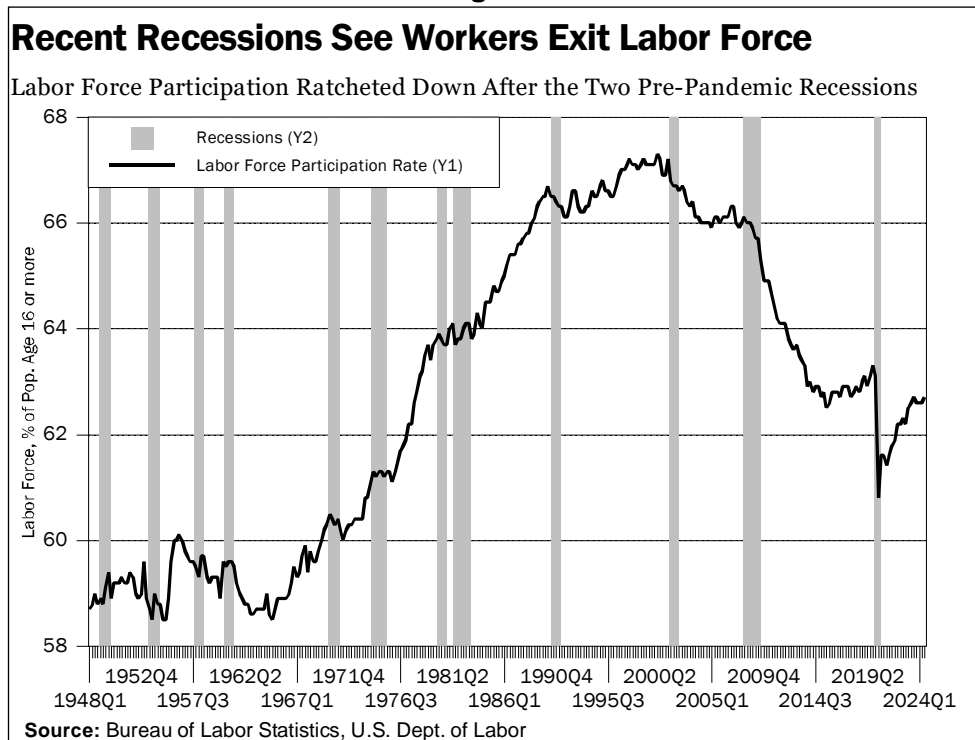
Figure 7



Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. In 2020 and 2021, the pandemic drastically reduced labor force participation, particularly among women and older adults. By late 2023, labor force participation had largely recovered to pre-pandemic levels, and for some demographics was even above where demographic trends would have predicted. Even absent COVID-19-related concerns and issues, recent history suggests that many who have left the labor force will not return (Figure 8). As a result, unemployment rates have declined relatively rapidly as output has expanded, and the economy has experienced slower employment growth and worker shortages have been widespread. Despite expecting slowing economic activity in 2025 and 2026, the forecast anticipates that labor force dynamics and immigration policy will constrain growth over the next few years (or in the case of against population demographics, decades). Moreover, unemployment rates will continue to be lower than suggested by the rate of job growth, and worker shortages will maintain greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

Aside from the short-term economic constraints related to the pandemic, low population growth and the longer-term slowing in productivity growth will reduce the long-term economic growth potential of the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they produce goods and services. While short-term deviations inevitably occur, especially as a result of variations in labor force participation and the number of unemployed workers, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced since the 2008-09 recession can be attributed to slower rates of both population growth and productivity growth. From 1991 to 2010, the average potential growth based on the sum of population growth and productivity was 3.5% per year. From 2011 to 2019, this potential growth averaged 1.6% per year.

Figure 8

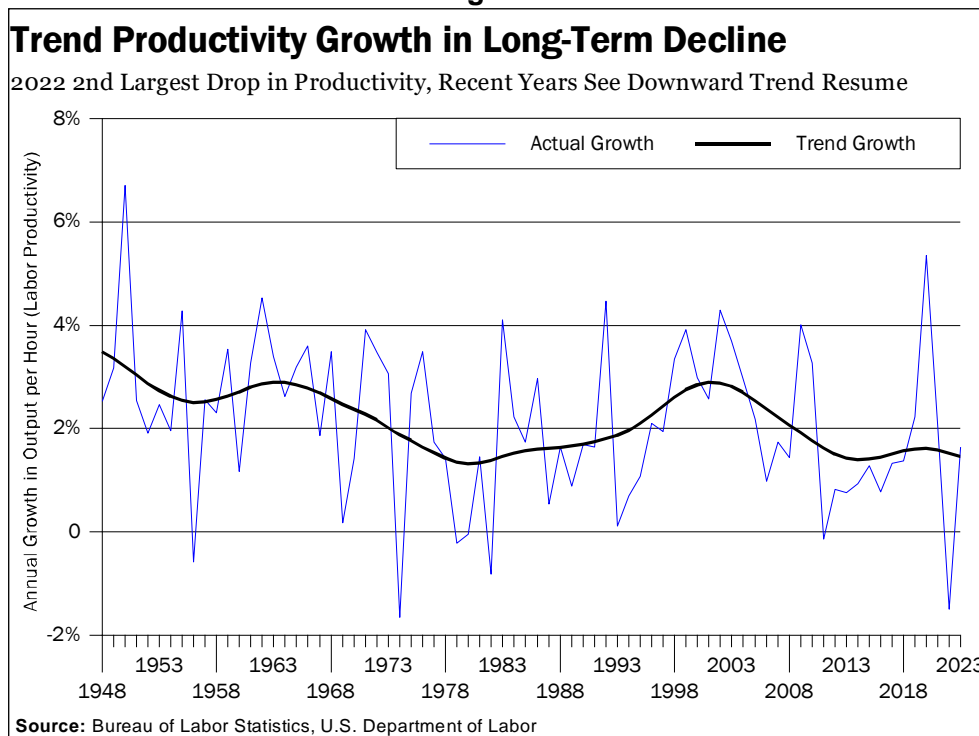


For the US as a whole, and Michigan specifically, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately

2.3% per year, while productivity averaged 1.0% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 9). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014. Business investment affects not only current economic growth but also future economic growth because investment generally is associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates.

After falling 1.5% in 2022, productivity growth increased 1.6% in 2023 and is predicted to have grown 2.2% in 2024. The forecast expects productivity growth to slow to 1.1% in 2025 and 2026 before increasing slightly to 1.7% in 2027. If productivity growth is less than forecasted, in the short run it will reduce economic growth and risk higher inflation than presented in the forecast. Similarly, if productivity growth is greater than forecasted, output will increase and inflation will decline more rapidly, but employment growth will be slower.

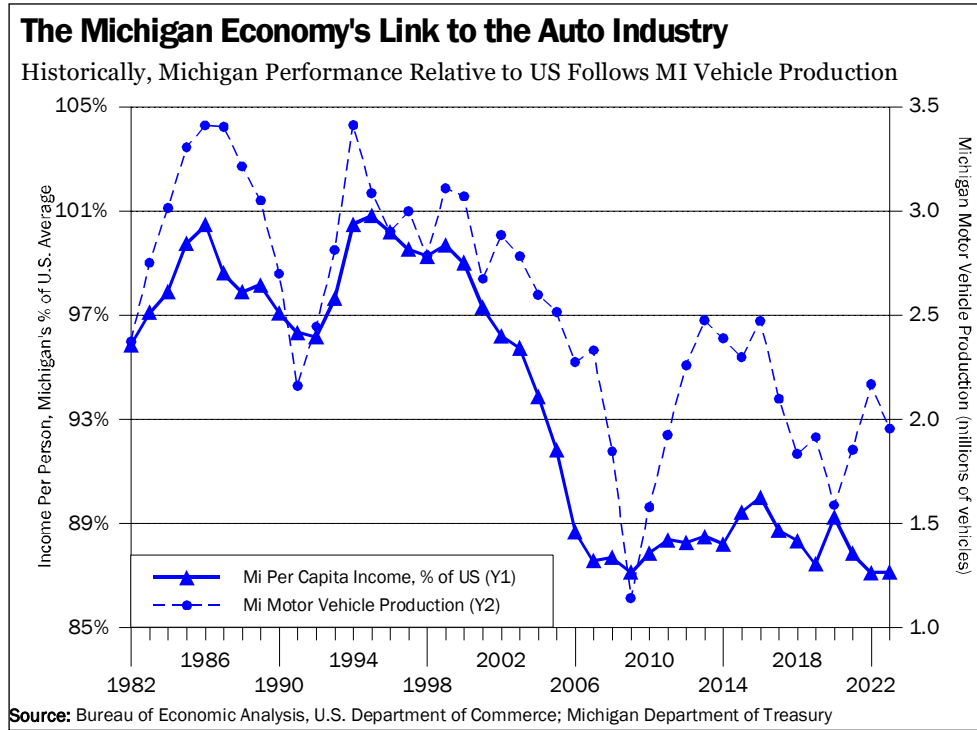
Figure 9



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

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 10). While that reliance has declined over the long term (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 4.9% in 2023), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although when oil prices started to fall, these states faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 helped mute the impact of the COVID-19 pandemic on the Michigan economy.

Figure 10



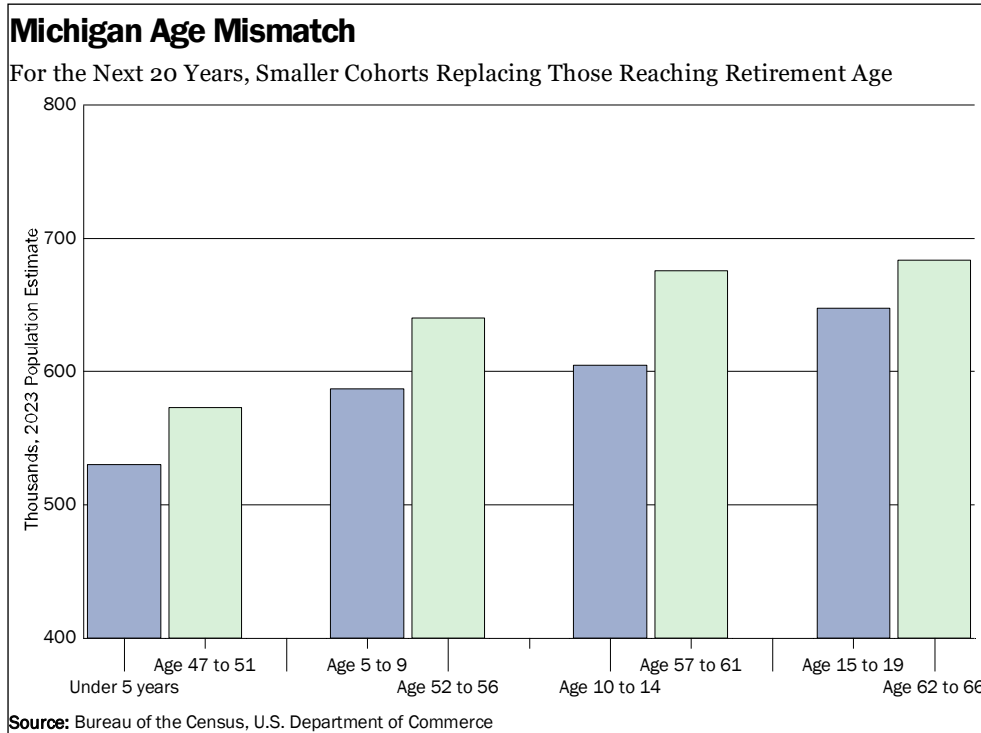
However, as vehicle sales remain relatively flat and productivity gains in the motor vehicle sector continue, there is a substantial risk that production needs could be met with existing, or even lower, employment levels. Between the May 2000 peak and June 2009, Michigan lost more than two-thirds of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

Compounding the employment situation, Michigan exhibits an older population. Michigan ranks 10th in the share of population comprised of individuals between the ages of 50 and 64, meaning that age-related declines in the labor force are likely to reduce the Michigan labor force by proportionately more than in most states. Furthermore, not only does the forecast expect significant productivity growth within the motor vehicle industry but the forecast expects that Michigan vehicle manufacturers are likely to see declining market shares (although the declines will not be as steep as they were during the 1999-2009 period). The aging population is complicated by the lack of younger individuals available to replace workers lost to retirement (Figure 11). For much of the next 20 years, an average of 10,000 more individuals will reach retirement age each year than will reach working age, implying that for the

next 20 years Michigan is likely to see its labor force contract substantially each year. Combined with Michigan's reliance on the motor vehicle industry, Michigan's demographic trends suggest Michigan is unlikely to reach the level of total employment reported in April 2000 (the Michigan pre-recession peak) again until sometime in the second half of the 21st century.

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

Figure 11



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the SFA's estimates for GF/GP and SAF revenue. The preliminary year-end revenue for FY 2023-24 is presented along with the revised estimates for FY 2024-25 and FY 2025-26 and the initial revenue estimates for FY 2026-27. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2023-24, FY 2024-25, and FY 2025-26 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary GF/GP and SAF revenue for FY 2023-24, along with the revised estimates for FY 2024-25 and FY 2025-26, and the initial estimates for FY 2026-27 are presented in [Table 3](#) and are summarized below.

FY 2023-24 Preliminary Revenue

- General Fund/General Purpose and SAF revenue is expected to total \$32.7 billion in FY 2023-24.
- The year-end estimate for FY 2023-24 increased 2.6%, or \$832.0 million, from FY 2022-23 revenue, reflecting in part increases in insurance company taxes, State Education Tax (SET), net IIT, and net Michigan Business Tax (MBT) revenue, partially offset by a reduction in CIT, lottery, cigarette tax, and sales tax revenue.
- The preliminary estimate for FY 2023-24 is \$926.3 million above the May 2024 consensus revenue estimate.
- The books have not yet been closed for FY 2023-24; final revenue will be determined at bookclosing.

As of the date this report was prepared, official preliminary FY 203-24 revenue was not yet available. The estimates for preliminary FY 2023-24 revenue presented in this report represent the SFA's estimates based on data available through the State's accounting system as of December 20, 2024, and adjusted by the SFA. These SFA estimates also affect the information presented in the later sections of this report on the computations for the revenue limit, the BSF and year-end balances.

Based on the SFA's estimates for 2024, personal income increased 4.9%, wage and salary employment grew 0.8%, and wage and salary income increased 5.6% from 2023. As a result, total GF/GP and SAF revenue will reach an estimated \$32.7 billion in FY 2023-24, an increase of 2.6%, or \$832.0 million, from the revenue for FY 2022-23.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue totaled an estimated \$14.6 billion in FY 2023-24, an increase of 4.7%, or \$658.6 million, from FY 2022-23. The revised GF/GP estimate is \$676.4 million above the May 2024 consensus revenue estimate. Baseline GF/GP revenue increased 3.2%. Total tax adjustments totaled \$2,817.0 million. The revised GF/GP revenue estimates for FY 2023-24 are summarized in [Table 4](#). The increase of \$676.4 million from the May 2024 consensus estimate for FY 2023-24 reflects higher-than-expected net IIT revenue and lower MBT refunds more than offsetting lower-than-expected CIT revenue and use tax revenue.

School Aid Fund

School Aid Fund revenue totaled an estimated \$18.0 billion in FY 2023-24, an increase of 1.0%, or \$173.5 million, from FY 2022-23. The increase in SAF revenue reflects growth in SET and gaming

tax revenue. The revised SAF estimate is \$249.9 million higher than the May 2024 consensus revenue estimate. The above-forecast SAF revenue reflects greater-than-expected growth in most major earmarked tax sources, offsetting less-than-expected use tax revenue and lottery revenue. The SAF revised revenue estimates for FY 2023-24 are summarized in Table 4.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2023-24 THROUGH FY 2026-27				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(millions of dollars)				
	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Prelim. Final	Revised Est.	Revised Est.	Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$17,442.2	\$17,913.1	\$18,370.0	\$18,776.0
Tax Changes Not In Baseline	(2,817.0)	(2,785.0)	(2,366.8)	(2,480.2)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	8,385.0	9,096.3	9,219.1	9,278.0
MBT, CIT, SBT & Insur. Tax	1,754.2	1,755.3	2,454.0	2,630.5
Other Taxes	3,321.0	3,458.3	3,590.6	3,716.4
Total Taxes	13,460.2	14,309.9	15,263.7	15,624.9
Nontax Revenue	1,165.0	818.2	739.5	670.9
TOTAL GF/GP REVENUE	\$14,625.2	\$15,128.1	\$16,003.2	\$16,295.8
SCHOOL AID FUND				
Baseline SAF	\$18,152.2	\$18,713.9	\$19,177.7	\$19,646.7
Tax Changes Not In Baseline	(118.7)	(222.1)	(259.8)	(289.2)
TOTAL SAF REVENUE	\$18,033.5	\$18,491.8	\$18,917.9	\$19,357.5
BASELINE GF/GP AND SAF REVENUE				
	\$35,594.4	\$36,627.0	\$37,547.7	\$38,422.7
Tax & Revenue Changes	(2,935.7)	(3,007.1)	(2,626.6)	(2,769.4)
GF/GP & SAF REV. AFTER CHANGES	\$32,658.7	\$33,619.9	\$34,921.1	\$35,653.3
<u>ADDENDUM:</u>				
Sales Tax	\$10,584.7	\$10,740.7	\$10,952.7	\$11,248.4
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	3.2%	2.7%	2.6%	2.2%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	8.0	8.5	1.3	0.6
MBT, CIT, SBT & Insur. Tax	7.1	0.1	39.8	7.2
Other Taxes	(1.4)	4.1	3.8	3.5
Total Taxes	5.4	6.3	6.7	2.4
Nontax Revenue	(2.7)	(29.8)	(9.6)	(9.3)
TOTAL GF/GP REVENUE	4.7%	3.4%	5.8%	1.8%
SCHOOL AID FUND				
Baseline SAF	1.4%	3.1%	2.5%	2.4%
TOTAL SAF REVENUE	1.0%	2.5%	2.3%	2.3%
BASELINE GF/GP and SAF Revenue				
	2.2%	2.9%	2.5%	2.3%
GF/GP & SAF REV. AFTER CHANGES	2.6%	2.9%	3.9%	2.1%
<u>ADDENDUM:</u>				
Sales Tax	(0.8%)	1.5%	2.0%	2.7%

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

Table 4
FY 2023-24 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2022-23 Final	FY 2023-24 Preliminary Final	Change from FY 2022-23		\$ Change from 05/24 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$16,908.4	\$17,442.2	\$533.8	3.2%	\$610.0
Tax Changes Not In Baseline Revenue After Tax Changes	(2,941.7)	(2,817.0)	124.7	----	66.4
<u>Personal Income Tax</u>					
Gross Collections	\$15,619.6	\$16,087.6	\$468.0	3.0%	\$381.4
Less: Refunds	(3,278.2)	(3,121.5)	156.7	(4.8)	195.5
Net Income Tax Collections	12,341.3	12,966.1	624.8	5.1	576.9
Less: Earmarking to SAF	(3,907.7)	(3,911.6)	(3.9)	0.1	(126.0)
Earmarking to MI Transp. Fund	(602.3)	(600.0)	2.3	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.1)	(0.5)	(0.4)	400.0	0.3
Net Income Tax to GF/GP	\$7,762.3	\$8,385.0	\$622.7	8.0%	\$451.2
<u>Other Taxes</u>					
Corporate Income Tax	\$1,609.9	\$1,574.0	(\$35.9)	(2.2%)	(\$51.0)
Michigan Business Tax	(434.1)	(356.9)	77.2	(17.8)	137.7
Sales	1,626.6	1,578.5	(48.1)	(3.0)	12.5
Use	1,251.6	1,252.6	1.0	0.1	(27.8)
Cigarette	143.4	132.1	(11.3)	(7.9)	(5.2)
Insurance Company Premiums	465.9	537.4	71.5	15.3	14.4
Telephone & Telegraph	35.9	43.0	7.1	19.8	9.0
Oil & Gas Severance	27.1	21.9	(5.2)	(19.2)	(5.1)
All Other	280.3	292.6	12.3	4.4	23.9
Subtotal Other Taxes	\$5,006.6	\$5,075.2	\$68.6	1.4%	\$108.4
Total Nontax Revenue	1,197.8	1,165.0	(32.8)	(2.7)	116.8
GF/GP REV. AFTER TAX CHANGES	\$13,966.7	\$14,625.2	\$658.6	4.7%	\$676.4
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$17,908.5	\$18,152.2	\$243.7	1.4%	\$194.3
Tax Changes Not In Baseline Revenue After Tax Changes	(48.5)	(118.7)	(70.2)	----	55.6
Sales Tax	7,806.9	7,754.2	(52.7)	(0.7)	71.3
Use Tax	909.5	959.0	49.5	5.4	(13.9)
Lottery Revenue	1,351.9	1,249.0	(102.9)	(7.6)	(21.0)
State Education Property Tax	2,559.6	2,765.9	206.3	8.1	50.9
Real Estate Transfer Tax	389.2	404.5	15.3	3.9	34.5
Income Tax	3,907.7	3,911.6	3.9	0.1	126.0
Gaming Taxes	429.9	490.6	60.7	14.1	11.4
Other Revenue	505.3	498.7	(6.6)	(1.3)	(9.3)
SAF REV. AFTER TAX CHANGES	\$17,860.0	\$18,033.5	\$173.5	1.0%	\$249.9
BASELINE GF/GP AND SAF	\$34,816.9	\$35,594.4	\$777.5	2.2%	\$804.4
Tax & Revenue Changes	(2,990.2)	(2,935.7)	54.5	----	121.9
GF/GP & SAF REV. AFTER CHNGS	\$31,826.7	\$32,658.7	\$832.0	2.6%	\$926.3
Sales Tax	\$10,674.4	\$10,584.7	(\$89.7)	(0.8%)	\$97.4

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

FY 2024-25 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$33.6 billion in FY 2024-25.
- This revised estimate for FY 2024-25 is up 2.9%, or \$961.1 million, from the preliminary revenue for FY 2023-24. The projected revenue increase in FY 2024-25 reflects increases in IIT revenue (including reduced refunds), CIT revenue, sales and use tax revenue, and insurance company premiums. These increases will be partially offset by increased MBT refunds and lower lottery revenue.
- The revised estimate for FY 2024-25 is \$1,215.2 million above the May 2024 consensus revenue estimate.

Under the economic forecast for 2025, personal income will grow 3.4%, wage and salary employment will increase 0.4%, and wage and salary income will grow 3.6%. As a result, General Fund/General Purpose and SAF revenue will reach an estimated \$33.6 billion in FY 2024-25, an increase of 2.9%, or \$961.1 million, from the revised estimate for FY 2023-24.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$15.1 billion in FY 2024-25, an increase of 3.4%, or \$502.9 million, from the revised estimate for FY 2023-24. Baseline GF/GP revenue is expected to increase 3.1% (\$529.4 million) from FY 2023-24. The increase in GF/GP revenue reflects increases in nearly all tax categories compared to FY 2023-24, although cigarette tax and severance tax revenue are lower, and MBT refunds are higher, compared to FY 2023-24. The revised GF/GP revenue estimates for FY 2024-25 are \$870.3 million above the May 2024 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 \$18.5 billion in FY 2024-25, an increase of \$458.3 million, or 2.5%, from the revised estimate for FY 2023-24. The forecasted increase in SAF revenue reflects higher SET, income tax revenue, and gaming revenue, partially offset by reduced lottery revenue. The revised SAF revenue estimates for FY 2024-25 are \$344.9 million above the May 2024 consensus estimates and are summarized in [Table 5](#).

FY 2025-26 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$34.9 billion in FY 2025-26.
- The revised estimate for FY 2025-26 is up 3.9%, or \$1,301.2 million, from the revised estimate for FY 2024-25. The revenue increase in FY 2025-26 reflects growth in net IIT revenue, CIT revenue, sales and use tax revenue and insurance company premiums. These increases will be partially offset by increased IIT refunds, increased MBT refunds and lower lottery revenue.
- The revised estimate for FY 2025-26 is \$1,462.1 million above the May 2024 consensus revenue estimate.

Under the economic forecast for 2026, personal income will grow 3.8%, wage and salary employment will increase 0.3%, and wage and salary income will grow 3.1%. As a result, General Fund/General Purpose and SAF revenue will reach an estimated \$34.9 billion in FY 2025-26, an increase of 3.9%, or \$1,301.2 million, from the revised estimate for FY 2024-25.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$16.0 billion in FY 2025-26, an increase of 5.8%, or \$875.1 million from the revised estimate for FY 2024-25. Baseline GF/GP revenue is expected to increase 2.6% (\$453.7 million) from FY 2024-25. Most of the increase in GF/GP revenue reflects increased net income tax collections and increased CIT revenue, partially offset by lower MBT revenue and higher IIT refunds. The revised GF/GP revenue estimates for FY

2025-26 are \$1,116.7 million above the May 2024 consensus estimates and are summarized in [Table 6](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$18.9 billion in FY 2025-26, an increase of \$426.1 million, or 2.3% from the revised estimate for FY 2024-25. The forecasted increase in SAF revenue reflects an increase in revenue from nearly all major taxes, partially offset by decreases in lottery revenue. The revised SAF revenue estimates for FY 2025-26 are \$345.4 million above the May 2024 consensus estimates and are summarized in [Table 6](#).

FY 2026-27 Initial Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$35.7 billion in FY 2026-27.
- This initial estimate for FY 2026-27 is up 2.1%, or \$732.2 million, more than the revised estimate for FY 2025-26.
- The revenue increase in FY 2026-27 primarily reflects growth in most major taxes, offset slightly by a decrease in lottery revenue, an increase in MBT refunds, and an increase in IIT refunds.

Under the economic forecast for 2027, personal income will grow 3.9%, wage and salary employment will increase 0.1%, and wage and salary income will grow 3.1%. General Fund/General Purpose and SAF revenue will reach an estimated \$35.7 billion in FY 2026-27, an increase of 2.1%, or \$732.2 million, from the revised estimate for FY 2025-26.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$16.3 billion in FY 2026-27, an increase of 1.8%, or \$292.6 million, from the revised estimate for FY 2025-26. Baseline GF/GP revenue is expected to increase 2.2% (\$400.4 million) due to continued growth in the economy. The initial GF/GP revenue estimates for FY 2025-26 are summarized in [Table 7](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$19.4 billion in FY 2026-27, an increase of \$439.6 million, or 2.3%, from the revised estimate for FY 2025-26. Baseline SAF revenue is expected to increase 2.4% (\$467.9 million) from the revised estimate for FY 2025-26. The initial SAF revenue estimates for FY 2026-27 are summarized in [Table 7](#).

Table 5
FY 2024-25 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2023-24 Preliminary Final	FY 2024-25 Revised Est.	Change from FY 2023-24		\$ Change from 05/24 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$16,998.1	\$17,527.5	\$529.4	3.1%	\$740.7
Tax Changes Not In Baseline Revenue After Tax Changes	(2,372.9)	(2,399.4)	(\$26.5)	----	129.6
<u>Personal Income Tax</u>					
Gross Collections	\$16,087.6	\$16,909.9	\$822.3	5.1%	\$617.7
Less: Refunds	(3,121.5)	(3,062.9)	58.6	(1.9)	188.8
Net Income Tax Collections	12,966.1	13,847.0	880.9	6.8	806.5
Less: Earmarking to SAF	(3,911.6)	(4,080.9)	(169.3)	4.3	(158.4)
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	0.0	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(0.5)	(0.8)	(0.3)	----	0.0
Net Income Tax to GF/GP	\$8,385.0	\$9,096.3	\$711.3	8.5%	\$648.1
<u>Other Taxes</u>					
Corporate Income Tax	\$1,574.0	\$1,671.8	\$97.8	6.2%	\$73.5
Michigan Business Tax	(356.9)	(496.9)	(140.0)	----	6.5
Sales	1,578.5	1,660.5	82.0	5.2	50.7
Use	1,252.6	1,310.5	57.9	4.6	2.3
Cigarette	132.1	128.5	(3.6)	(2.7)	(5.9)
Insurance Company Premiums	537.4	580.4	43.0	8.0	39.1
Telephone & Telegraph	43.0	38.0	(5.0)	(11.6)	5.0
Oil & Gas Severance	21.9	20.0	(1.9)	(8.7)	(8.0)
All Other	292.6	300.8	8.2	2.8	18.4
Subtotal Other Taxes	\$5,075.2	\$5,213.6	\$138.4	2.7%	\$181.6
Total Nontax Revenue	1,165.0	818.2	(346.8)	(29.8)	40.6
GF/GP REV. AFTER TAX CHANGES	\$14,625.2	\$15,128.1	\$502.9	3.4%	\$870.3
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$18,203.1	\$18,703.1	\$500.0	2.7%	\$309.9
Tax Changes Not In Baseline Revenue After Tax Changes	(169.5)	(211.3)	(41.8)	----	35.0
Sales Tax	7,754.2	7,868.9	114.7	1.5	111.4
Use Tax	959.0	992.5	33.5	3.5	1.1
Lottery Revenue	1,249.0	1,240.3	(8.7)	(0.7)	(29.7)
State Education Property Tax	2,765.9	2,862.7	96.8	3.5	50.1
Real Estate Transfer Tax	404.5	412.2	7.7	1.9	27.2
Income Tax	3,911.6	4,080.9	169.3	4.3	158.4
Gaming Taxes	490.6	535.3	44.7	9.1	36.3
Other Revenue	498.7	499.0	0.3	0.1	(9.9)
SAF REV. AFTER TAX CHANGES	\$18,033.5	\$18,491.8	\$458.3	2.5%	\$344.9
BASELINE GF/GP AND SAF	\$35,201.2	\$36,230.6	\$1,029.4	2.9%	\$1,050.6
Tax & Revenue Changes	(2,542.4)	(2,610.7)	(68.3)	----	164.6
GF/GP & SAF REV. AFTER CHNGS	\$32,658.8	\$33,619.9	\$961.1	2.9%	\$1,215.2
Sales Tax	\$10,584.7	\$10,740.7	\$156.0	1.5%	\$151.9

¹⁾ FY 2023-24 is the base year for baseline revenue.

Table 6
FY 2025-26 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2024-25 Revised Est.	FY 2025-26 Revised Est.	Change from FY 2024-25		\$ Change from 05/24 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$17,527.5	\$17,981.2	\$453.7	2.6%	\$1,023.9
Tax Changes Not In Baseline Revenue After Tax Changes	(2,399.4)	(1,978.0)	421.4	----	92.8
<u>Personal Income Tax</u>					
Gross Collections	\$16,909.9	\$17,217.6	\$307.7	1.8%	\$569.3
Less: Refunds	(3,062.9)	(3,134.9)	(72.0)	2.4	170.7
Net Income Tax Collections	13,847.0	14,082.7	235.7	1.7	740.0
Less: Earmarking to SAF	(4,080.9)	(4,193.8)	(112.9)	2.8	(145.3)
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	\$9,096.3	\$9,219.1	\$122.8	1.3%	\$594.7
<u>Other Taxes</u>					
Corporate Income Tax	\$1,671.8	\$2,358.1	\$686.3	41.1%	\$251.6
Michigan Business Tax	(496.9)	(507.7)	(10.8)	2.2	0.0
Sales	1,660.5	1,692.9	32.4	2.0	57.4
Use	1,310.5	1,403.4	92.9	7.1	51.8
Cigarette	128.5	126.9	(1.6)	(1.2)	(5.6)
Insurance Company Premiums	580.4	603.6	23.2	4.0	49.9
Telephone & Telegraph	38.0	38.0	0.0	0.0	6.0
Oil & Gas Severance	20.0	20.3	0.3	1.5	(7.7)
All Other	300.8	309.1	8.3	2.8	24.1
Subtotal Other Taxes	\$5,213.6	\$6,044.6	\$831.0	15.9%	\$427.5
Total Nontax Revenue	818.2	739.5	(78.7)	(9.6)	94.5
GF/GP REV. AFTER TAX CHANGES	\$15,128.1	\$16,003.2	\$875.1	5.8%	\$1,116.7
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$18,703.1	\$19,163.8	\$460.7	2.5%	\$310.5
Tax Changes Not In Baseline Revenue After Tax Changes	(211.3)	(245.9)	(34.6)	----	34.9
Sales Tax	7,868.9	8,025.4	156.5	2.0	145.1
Use Tax	992.5	1,040.1	47.6	4.8	26.0
Lottery Revenue	1,240.3	1,228.5	(11.8)	(1.0)	(51.5)
State Education Property Tax	2,862.7	2,931.4	68.7	2.4	23.2
Real Estate Transfer Tax	412.2	436.5	24.3	5.9	21.5
Income Tax	4,080.9	4,193.8	112.9	2.8	145.3
Gaming Taxes	535.3	561.6	26.3	4.9	46.7
Other Revenue	499.0	500.6	1.6	0.3	(10.9)
SAF REV. AFTER TAX CHANGES	\$18,491.8	\$18,917.9	\$426.1	2.3%	\$345.4
BASELINE GF/GP AND SAF	\$36,230.6	\$37,145.0	\$914.4	2.5%	\$1,334.4
Tax & Revenue Changes	(2,610.7)	(2,223.9)	386.8	----	127.7
GF/GP & SAF REV. AFTER CHNGS	\$33,619.9	\$34,921.1	\$1,301.2	3.9%	\$1,462.1
Sales Tax	\$10,740.7	\$10,952.7	\$212.0	2.0%	\$197.8

¹⁾ FY 2023-24 is the base year for baseline revenue.

Table 7

**FY 2026-27 INITIAL REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)**

	FY 2025-26 Revised Est.	FY 2026-27 Initial Est.	Change from FY 2025-26	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$17,981.2	\$18,381.6	\$400.4	2.2%
Tax Changes Not In Baseline Revenue After Tax Changes	(1,978.0)	(2,085.8)	(107.8)	----
<u>Personal Income Tax</u>				
Gross Collections	\$17,217.6	\$17,399.8	\$182.2	1.1%
Less: Refunds	(3,134.9)	(3,220.2)	(85.3)	2.7
Net Income Tax Collections	14,082.7	14,179.6	96.9	0.7
Less: Earmarking to SAF	(4,193.8)	(4,231.8)	(38.0)	0.9
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----
Campaign Fund	(0.8)	(0.8)	0.0	0.0
Net Income Tax to GF/GP	\$9,219.1	\$9,278.0	\$58.9	0.6%
<u>Other Taxes</u>				
Corporate Income Tax	\$2,358.1	\$2,526.7	\$168.6	7.1%
Michigan Business Tax	(507.7)	(527.0)	(19.3)	3.8
Sales	1,692.9	1,739.9	47.0	2.8
Use	1,403.4	1,476.7	73.3	5.2
Cigarette	126.9	125.2	(1.7)	(1.3)
Insurance Company Premiums	603.6	630.8	27.2	4.5
Telephone & Telegraph	38.0	38.0	0.0	0.0
Oil & Gas Severance	20.3	20.9	0.6	3.0
All Other	309.1	315.7	6.6	2.1
Subtotal Other Taxes	\$6,044.6	\$6,346.9	\$302.3	5.0%
Total Nontax Revenue	739.5	670.9	(68.6)	(9.3)
GF/GP REV. AFTER TAX CHANGES	\$16,003.2	\$16,295.8	\$292.6	1.8%
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$19,163.8	\$19,631.7	\$467.9	2.4%
Tax Changes Not In Baseline Revenue After Tax Changes	(245.9)	(274.2)	(28.3)	----
Sales Tax	8,025.4	8,242.1	216.7	2.7
Use Tax	1,040.1	1,077.5	37.4	3.6
Lottery Revenue	1,228.5	1,216.8	(11.7)	(1.0)
State Education Property Tax	2,931.4	3,039.9	108.5	3.7
Real Estate Transfer Tax	436.5	456.1	19.6	4.5
Income Tax	4,193.8	4,231.8	38.0	0.9
Gaming Taxes	561.6	591.6	30.0	5.3
Other Revenue	500.6	501.7	1.1	0.2
SAF REV. AFTER TAX CHANGES	\$18,917.9	\$19,357.5	\$439.6	2.3%
BASELINE GF/GP AND SAF	\$37,145.0	\$38,013.3	\$868.3	2.3%
Tax & Revenue Changes	(2,223.9)	(2,360.0)	(136.1)	----
GF/GP & SAF REV. AFTER CHNGS	\$34,921.1	\$35,653.3	\$732.2	2.1%
Sales Tax	\$10,952.7	\$11,248.4	\$295.7	2.7%

¹⁾ FY 2023-24 is the base year for baseline revenue.

TAX POLICY CHANGES

Individual Income Taxes. Indexing of the personal exemption adjusts the personal income tax exemption to the CPI and will reduce IIT revenue by \$285.0 million (\$217.1 million GF/GP and \$67.9 million SAF) in FY 2023-24, \$345.0 million (\$262.9 million GF/GP and \$82.1 million SAF) in FY 2024-25, \$382.5 million (\$291.4 million GF/GP and \$91.1 million SAF) in FY 2025-26, and \$442.5 million (\$336.8 million GF/GP and \$105.7 million SAF) in FY 2026-27.

Tax revenue also will be affected by changes associated with the IIT rate trigger. The Income Tax Act specifies that if GF/GP revenue grows faster than an adjusted inflation rate, the IIT tax rate must be reduced. The GF/GP revenue increase between FY 2020-21 and FY 2021-22 was large enough to trigger a rate reduction for tax year 2023. The IIT trigger will reduce revenue by \$218.7 million (a \$228.4 million reduction in GF/GP and a \$9.7 million SAF increase) in FY 2023-24.

Public Act 4 of 2023 expanded exemptions for certain retirement income, reducing IIT revenue by \$281.0 million (\$224.1 million GF/GP and \$56.9 million SAF) in FY 2023-24, \$350.0 million (\$275.9 million GF/GP and \$74.1 million SAF) in FY 2024-25, \$453.0 million (\$356.2 million GF/GP and \$96.8 million SAF) in FY 2025-26, and \$503.0 million (\$394.7 million GF/GP and \$108.3 million SAF) in FY 2026-27.

Personal Property Tax Reform. Use tax collections of \$561.7 million in FY 2023-24, \$569.8 million in FY 2024-25, \$571.4 million in FY 2025-26, and \$572.2 million in FY 2026-27 will be levied by the Local Community Stabilization Authority (LCSA). These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Business Taxes. The credits allowed under the MBT will lower GF/GP revenue by \$356.9 million in FY 2023-24, \$496.9 million in FY 2024-25, and \$507.7 million in FY 2025-26, and \$527 million in FY 2026-27. All the impact of MBT credits reduces GF/GP revenue. Earmarks of CIT revenue adopted in Public Act 4 of 2023 will reduce GF/GP revenue by \$600.0 million in FY 2023-24 and FY 2024-25 and will reduce GF/GP revenue by \$50.0 million in FY 2025-26 and FY 2026-27. The decline in the CIT earmark between FY 2024-25 and FY 2025-26 accounts for a large portion of the growth rate in net GF/GP revenue in FY 2025-26. Absent the change in the earmark, FY 2025-26 GF/GP revenue would increase by 2.1% instead of 5.8%.

Other Changes. The LCSA small taxpayer exemption will reduce revenue by \$75.0 million, all GF/GP, in all forecasted fiscal years. The SAF hold-harmless provisions for several tax exemptions will reduce sales tax revenue \$54.7 million (\$49.2 million GF/GP and \$5.5 million other) in FY 2023-24, \$55.0 million (\$49.5 million GF/GP and \$5.5 million other) in FY 2024-25, \$56.4 million (\$50.8 million GF/GP and \$5.6 million other) in FY 2025-26, and \$57.0 million (\$51.3 million GF/GP and \$5.7 million other) in FY 2026-27. The SAF hold-harmless provisions for several tax exemptions will reduce use tax revenue \$24.2 million in FY 2023-24, \$25.2 million in FY 2024-25, \$25.8 million in FY 2025-26, and \$26.5 million in FY 2026-27, all GF/GP. Adjustments to the Liquor Purchase Revolving Fund for authorized distribution agents will lower General Fund revenue by \$7.8 million in FY 2024-24, \$22.8 million in FY 2024-25, \$27.8 million in FY 2025-26, and \$30.0 million in FY 2026-27.

Historical Perspective

- Preliminary net GF/GP and SAF revenue increased 2.6% in FY 2023-24. Net GF/GP and SAF revenue is expected to increase in the forecast years. The projected growth rates are 2.9% in FY 2024-25, 3.9% in FY 2025-26, and 2.1% in FY 2026-27. These changes compare with an average decline of 0.9% per year for the FY 2000-01 to FY 2009-10 period and an average increase of 3.0% in the years from FY 2010-11 to FY 2019-20.
- Preliminary GF/GP revenue rose 4.7% in FY 2023-24, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- The SAF has regained the amounts lost during the 2008-2009 recession and has been reimbursed from the General Fund for revenue losses due to personal property tax (PPT)

changes. School Aid Fund revenue rose to its highest level ever in FY 2021-22 (\$17.9 billion), after climbing steadily from the recent low in FY 2011-12. For FY 2022-23, the SAF was slightly lower (\$21.0 million) compared to FY 2021-22. Preliminary FY 2023-24 SAF revenue would be \$18.0 billion, becoming the highest level ever. This comparison does not adjust for inflation.

Baseline GF/GP and SAF combined revenue is expected to increase in the forecast years (Figure 12). Combined GF/GP and SAF baseline revenue declined during several periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 2.2% in FY 2023-24. Using the FY 2023-24 base year, baseline GF/GP and SAF revenue is expected to increase by approximately 2.9% in FY 2024-25, then increase 2.5% in FY 2025-26, and 2.3% in FY 2026-27.

Ongoing GF/GP revenue in FY 2024-25 is forecast to be approximately 0.6% (or \$83.9 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of \$16.0 billion in FY 2025-26 is 5.2% above the peak, creating a new peak, and the initial estimates for FY 2026-27 are 1.8% above FY 2025-26 (Figure 13). In inflation-adjusted terms, FY 2026-27 GF/GP revenue is estimated to be 7.1% (or \$763.1 million in 2017 dollars) above the FY 1967-68 level (Figure 14).

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to increase in FY 2024-25, FY 2025-26, and FY 2026-27 (Figure 13). In FY 2026-27, SAF revenue is predicted to be approximately 176.4% (\$12.4 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 2.6% (\$344.7 million in 2017 dollars) above if adjusted for inflation (Figure 15).

Figure 12

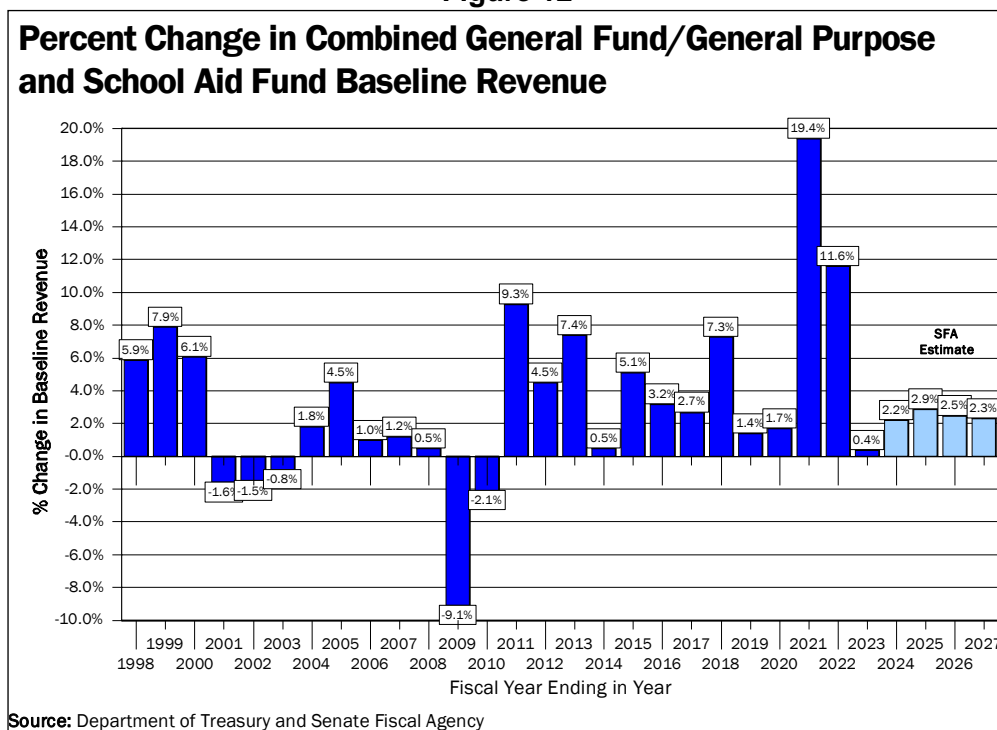


Figure 13

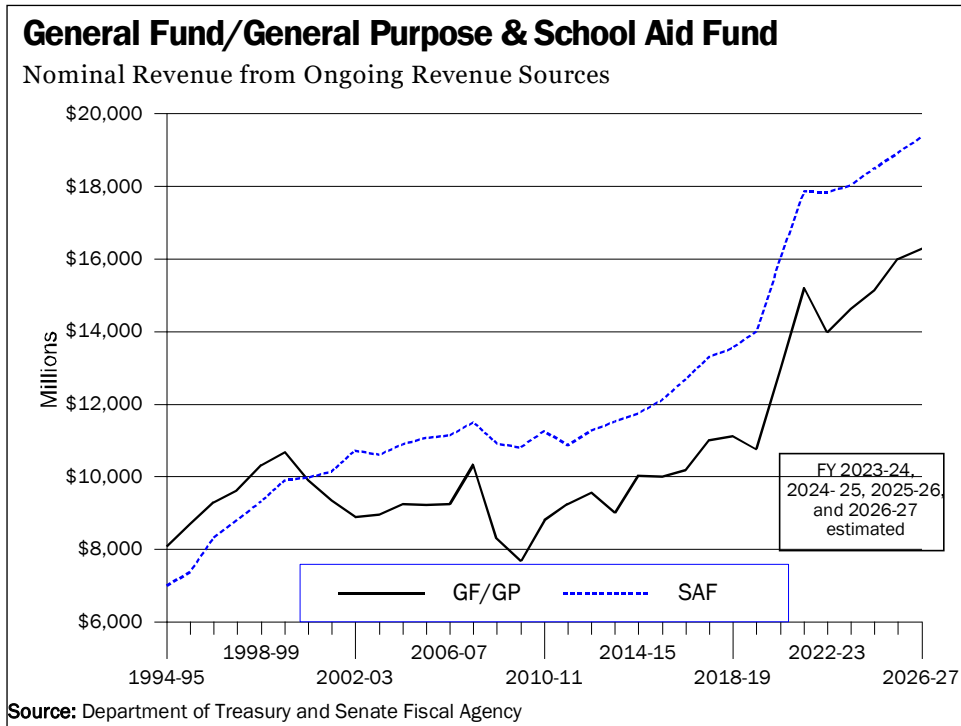


Figure 14

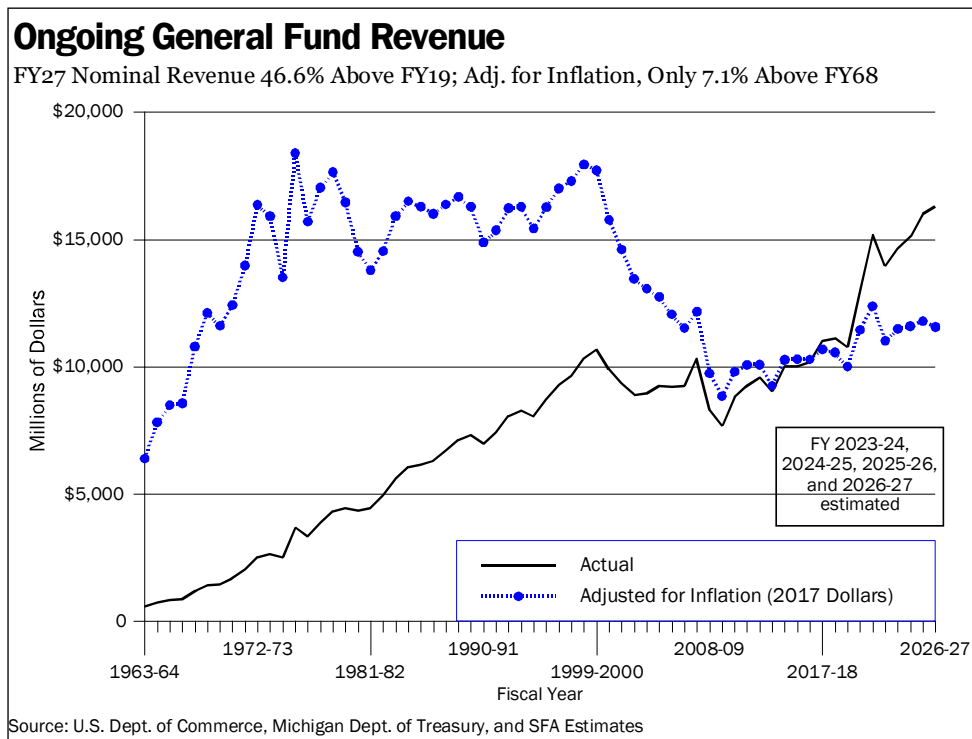
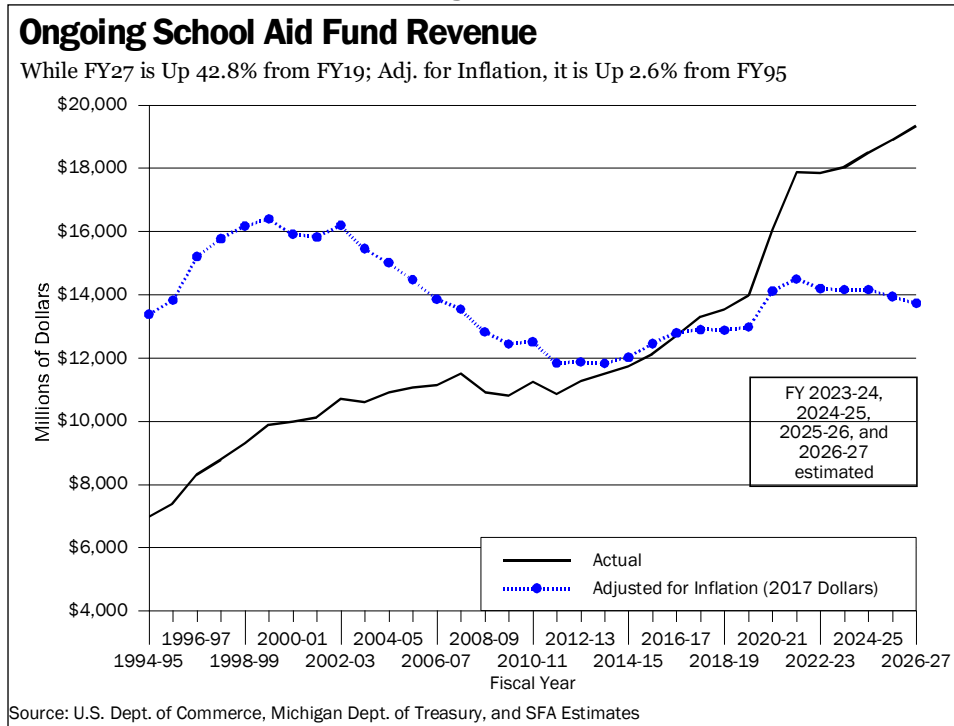


Figure 15



MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2023-24 THROUGH FY 2026-27

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

Individual Income Tax. Individual income tax net collection will increase an estimated 6.8% in FY 2024-25, to \$13.8 billion. Fiscal year 2024-25 withholding, which represents the majority of gross IIT revenue, will increase 4.8%. Quarterly estimates and annual payments will rise 9.0% and 11.3%, respectively. As economic growth continues, withholding will continue to grow 1.7% in FY 2025-26 and 1.5% in FY 2026-27, and net IIT revenue will increase 1.7% in FY 2025-26 and 0.7% in FY 2026-27. Compared with the May 2024 consensus revenue estimates, the revised estimate for FY 2024-25 net IIT revenue is \$806.5 million higher, and the revised estimate for FY 2025-26 is \$740.0 million higher.

Sales Tax. The forecast predicts Michigan sales tax revenue will rise 1.5% in FY 2024-25, 2.0% in FY 2025-26, and 2.7% in FY 2026-27 as services, which are largely not subject to sales or use taxes, continue to represent an increasing portion of consumer spending. Compared with the May 2024 consensus revenue estimates, the revised sales tax estimate for FY 2024-25 is up \$151.9 million while the revised estimate for FY 2025-26 is up \$197.8 million. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments (10.0%), the Comprehensive

Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to increase 3.6% in FY 2024-25, 4.9% in FY 2025-26, and 3.7% in FY 2026-27. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at \$96.4 million in FY 2015-16, rose over time to \$561.7 million in FY 2023-24, and will total \$569.8 million in FY 2024-25, \$571.4 million in FY 2025-26, and \$572.2 million in FY 2026-27 as they increase annually. Additionally, Public Act 175 of 2023 earmarks \$75.0 million in GF/GP use tax revenue to the LCSA for reimbursements associated with the expanded small taxpayer exemptions in Public Act 150 of 2021. Compared with the May 2024 consensus revenue estimates, the FY 2024-25 estimate for combined State and local use tax collections is revised upward by \$3.4 million and the FY 2025-26 estimate is \$77.8 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated \$663.9 million in FY 2023-24, a decrease of 7.9% from FY 2022-23. Tobacco tax revenue is expected to continue its long-term downward trend, declining 2.8% in FY 2024-25, 1.3% in FY 2025-26, and 1.4% in FY 2026-27. However, the overall decline in total tobacco tax revenue has masked a change in the composition of tobacco tax revenue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. In the forecast period, this trend is expected to continue, as tax revenue from cigarettes is expected to decline, with tax revenue from other tobacco products increasing, but not enough to stop the decline in total tobacco tax revenue. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Gaming Taxes. The State's tax on casinos is directed to the SAF. In FY 2024-25, casino tax revenue is projected to total \$102.3 million, a 1.8% increase from FY 2023-24, as the economy recovers and other new gaming options (internet gaming and sports and fantasy betting) continue to grow. Casino tax revenue is expected to grow 2.4% in FY 2025-26 and 2.5% in FY 2026-27, as competing gaming options exhibit growth. Gaming not associated with the lottery or casinos subject to the casino tax is projected to total \$390.1 million in FY 2023-24, a 19.2% increase from FY 2022-23. Revenue from these expanded gaming options will grow less rapidly over the forecast but are expected to capture most of the revenue growth from gaming activities in the State. In FY 2024-25, revenue from expanded gaming options will increase 11.0%, followed by growth of 5.5% in FY 2025-26 and 6.0% in FY 2026-27, when revenue from these sources will total \$484.2 million.

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 8.1% in FY 2023-24, SET collections are projected to increase another 3.5% in FY 2024-25, 2.4% in FY 2025-26, and 3.7% in FY 2026-27 as the housing market stabilizes. 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 gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period. In FY 2023-24, lottery revenue to the SAF declined 7.6% from the FY 2022-23 level. Lottery revenue is forecasted to decline 0.7% in FY 2024-25, 1.0% in FY 2025-26, and 1.0% in FY 2026-27, as other gaming options compete. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which initially generated about 40% as much revenue as what was received under the MBT due to the reduced size of the tax base. Unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies, do not pay tax under the CIT. Instead, these businesses paid taxes by reporting business income on their IIT return although, beginning with tax year 2021, Public Act 135 of 2021 allows these firms to pay under a separate "flow-through entity tax" that is levied at the same rate and distributed in the same manner as the IIT. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

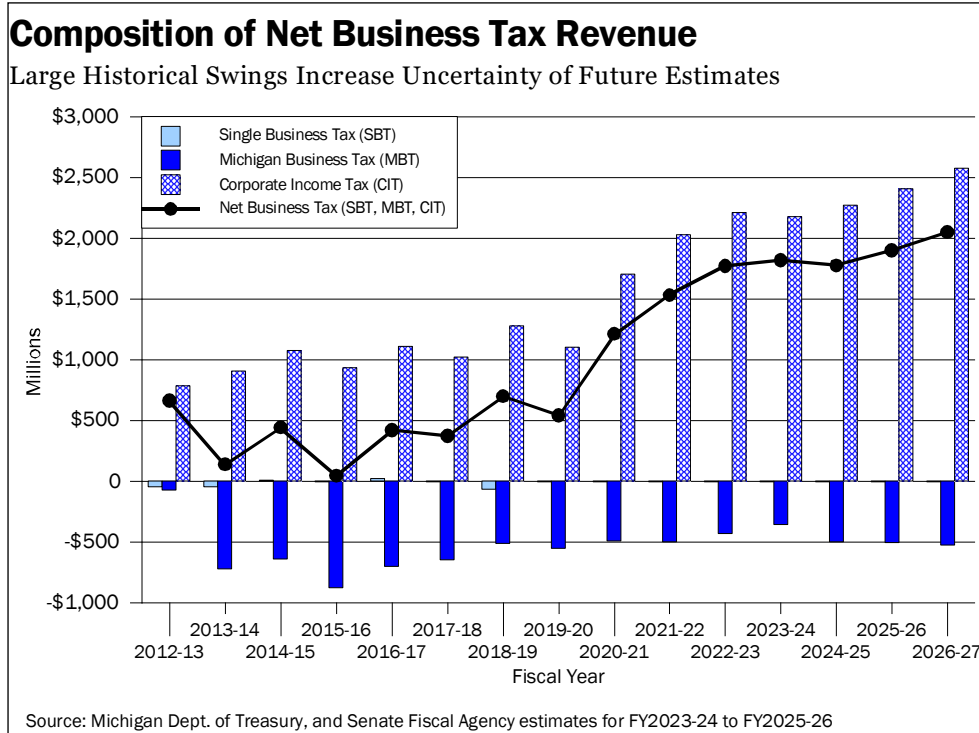
Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative \$356.9 million (as refunds exceeded revenue) in FY 2023-24, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by approximately \$500.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term; however, in some cases, the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for previous tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates.

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately \$1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by \$878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by \$356.9 million in FY 2023-24, they still represented a 2.4% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally hold constant, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 3.3% in FY 2024-25, 3.2% in FY 2025-26, and 3.2% in FY 2026-27. 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.

To illustrate the potential volatility in CIT revenue, in FY 2022-23, CIT collections decreased 20.7% after rising 19.2% in FY 2021-22, rising 54.4% in FY 2020-21, after falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16 (Figure 16). Adding to this underlying volatility, Public Act 4 of 2023 began earmarking a portion of CIT revenue from the General Fund to other funds beginning in FY 2022-23, resulting in the GF/GP portion of

the CIT falling 20.7% in FY 2022-23. Two of the three earmarks will expire in FY 2024-25, so that the GF/GP portion of the CIT will get an estimated \$550.0 million boost in FY 2025-26, resulting in the GF/GP portion of CIT revenue rising 41.1% in that year. Baseline CIT is expected to continue to show strength despite the projected softening in economic growth as business adapt to changes in the economy and the composition of firms with major CIT liabilities changes.

Figure 16



The preliminary estimate for business taxes under the CIT, MBT, and the previously repealed Single Business Tax (SBT) in FY 2023-24 is \$1,817.1 million, a 2.5% increase from FY 2022-23. Net business tax revenue is expected to decrease 2.3% in FY 2024-25, increase 7.1% in FY 2025-26, and grow 7.9% in FY 2026-27. (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 MBT and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund. Revenue from the CIT is primarily directed to the General Fund (\$550.0 million in earmarks to other funds expire in FY 2024-25, leaving a \$50 million earmark for future fiscal years), and all credits and refunds against the tax reduce General Fund revenue.

Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated \$537.4 million in FY 2023-24, a 15.3% increase from FY 2022-23. Revenue from taxes on insurance companies is expected to return to trend levels over the forecast period, increasing 8.0% in FY 2024-25, 4.0% in FY 2025-26, and 4.5% in FY 2026-27. All revenue from insurance taxes is directed to the General Fund.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2023-24, FY 2024-25, and FY 2025-26. 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 2023-24, FY 2024-25, and FY 2025-26 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2023-24 was made in January 2022, as shown in [Table 8](#). At that time, baseline revenue in FY 2023-24 was estimated at \$30.6 billion. This estimate was increased by \$536.3 million at the January 2022 CREC, and by an additional \$1.8 billion at the May 2022 CREC. The January 2023 CREC increased the estimate by another \$1.3 billion. The May 2023 CREC increased the estimate again, by \$38.0 million, and the January 2024 CREC increased it by an additional \$250.5 billion. The May 2024 CREC increased the estimate by another \$195.9 billion. The Senate Fiscal Agency's revised estimate for FY 2023-24 presented in this report increases the baseline estimate by \$804.4 million above the May 2024 consensus estimate, to \$35.6 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2024-25 was made in January 2023, as shown in [Table 9](#). At that time, baseline revenue in FY 2024-25 was estimated at \$32.2 billion. This estimate was increased by \$2.9 billion at the January 2023 CREC, but the May 2023 CREC lowered it by \$220.6 billion. The January 2024 CREC increased the estimate by \$426.6 million and the May 2024 CREC raised the estimate by an additional \$88.3 million. The revised SFA estimate for FY 2024-25 increases baseline revenue by \$1.2 billion, to \$36.6 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2025-26 was made in January 2024, as shown in [Table 10](#). At that time, baseline revenue in FY 2025-26 was estimated at \$36.1 billion. The January 2024 CREC lowered the estimate by \$48.9 million while the May 2024 CREC increased the estimate by \$63.1 million. The revised SFA estimate for FY 2025-26 increases baseline revenue by \$1.4 billion, to \$37.5 billion.

Table 8
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2023-24
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
January 6, 2022	\$14,420.4	\$16,200.7	\$30,621.1
January 14, 2022 ^{a)}	14,498.1	16,659.3	31,157.4
May 17, 2022	15,223.4	17,001.2	32,224.6
May 20, 2022 ^{a)}	15,421.9	17,585.2	33,007.1
January 10, 2023	15,079.2	17,158.2	32,237.4
January 13, 2023 ^{a)}	16,312.7	17,992.9	34,305.6
May 16, 2023	16,568.9	18,028.2	34,722.8
May 19, 2023 ^{a)}	16,281.1	18,062.5	34,343.6
December 21, 2023	16,458.9	18,119.7	34,578.6
January 12, 2024 ^{a)}	16,472.9	18,121.2	34,594.1
May 15, 2024	16,968.9	17,851.2	34,820.1
May 17, 2024 ^{a)}	16,832.1	17,957.9	34,790.0
January 3, 2025	\$17,442.2	\$18,152.2	\$35,594.4
Change From Previous Estimate:			
Dollar Change	\$610.1	\$194.3	\$804.4
Percent Change	3.6%	1.1%	2.3%
Change From Initial Estimate:			
Dollar Change	\$3,021.8	\$1,951.5	\$4,973.3
Percent Change	21.0%	12.0%	16.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2022-23.			

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2024-25 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
January 10, 2023	\$15,069.5	\$17,152.4	\$32,221.9
January 13, 2023 ^{a)}	16,754.5	18,406.7	35,161.2
May 16, 2023	17,081.3	18,495.4	35,576.7
May 19, 2023 ^{a)}	16,495.7	18,444.9	34,940.6
December 21, 2023	16,815.0	18,536.7	35,351.7
January 12, 2024 ^{a)}	16,829.0	18,538.2	35,367.2
May 15, 2024	17,356.0	18,348.9	35,704.8
May 17, 2024 ^{a)}	17,079.7	18,375.8	35,455.5
January 3, 2025	\$17,913.1	\$18,713.9	\$36,627.0
<u>Change From Previous Estimate:</u>			
Dollar Change	\$833.4	\$338.1	\$1,171.5
Percent Change	4.9%	1.8%	3.3%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$2,843.6	\$1,561.5	\$4,405.1
Percent Change	18.9%	9.1%	13.7%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2022-23.			

Table 10

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2025-26 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
December 21, 2023	\$17,214.5	\$18,900.1	\$36,114.6
January 12, 2024 ^{a)}	17,093.8	18,971.9	36,065.7
May 15, 2024	17,427.1	18,775.4	36,202.6
May 17, 2024 ^{a)}	17,292.9	18,835.9	36,128.8
January 3, 2025	\$18,370.0	\$19,177.7	\$37,547.7
<u>Change From Previous Estimate:</u>			
Dollar Change	\$1,077.1	\$341.8	\$1,418.9
Percent Change	5.9%	1.9%	7.7%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$1,155.5	\$277.6	\$1,433.1
Percent Change	6.7%	1.5%	4.0%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2022-23.			

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977 and was subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 15.0% of the combined level of GF/GP and SAF revenue. (For FY 2023-24, combined GF/GP and SAF revenue is estimated at \$32.7 billion; 15% applied to that would yield a BSF limit of \$4.9 billion.) A balance at the end of a fiscal year higher than that amount is required to be rebated to IIT payers on returns filed after the end of that fiscal year. (The balance at the end of FY 2023-24 was roughly \$1.8 billion, lower than the limit of \$4.9 billion, and therefore not triggering a rebate.)

A required pay-in to the BSF happens when real personal income less transfer payments is above 2%. There are no required pay-ins for the years forecasted. Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. Any payment into or out of the BSF 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.

Table 11 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2022-23. This table also presents the SFA's estimates for FY 2023-24, FY 2024-25, FY 2025-26, and FY 2026-27 assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 17, and the estimated economic stabilization trigger calculations for FY 2023-24, FY 2024-25, and FY 2025-26 are presented in Table 12.

FY 2023-24

The BSF ended FY 2022-23 with a balance of \$1,780.3 million. In FY 2023-24, \$100.0 million was appropriated to the Fund. Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of \$17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 and extending through FY 2034-35. Interest earnings are estimated at \$92.6 million in FY 2023-24, resulting in an estimated ending balance of \$1,990.4 million. There was no calculated pay-in or pay-out to the BSF for FY 2023-24 estimated at the time of budget enactment.

FY 2024-25, FY 2025-26, and FY 2026-27

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula does not forecast any pay-ins or pay-outs in FY 2024-25, FY 2025-26, or FY 2026-27. Public Act 121 of 2024 included a \$50.0 million appropriation into the BSF for FY 2024-25.

Based on current appropriations and the continuation of the \$17.5 million annual deposit to the BSF under the Trust Fund Act, the BSF ending balance is estimated at \$2,147.5 million in FY 2024-25, \$2,259.5 million in FY 2025-26, and \$2,376.4 million in FY 2026-27 as shown in Table 11.

Table 11

**BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2026-27 ESTIMATES
(millions of dollars)**

Fiscal Year ^{a)}	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
1998-99		\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14 ^{b)}		75.0	0.4	194.8	386.2
2014-15 ^{c)}	\$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
2020-21	17.5	535.0	0.8	0.0	1,382.3
2021-22	17.5	180.0	9.1	0.0	1,588.9
2022-23	17.5	100.0	73.9	0.0	1,780.3
Enacted Deposits and Estimated Interest Earnings:					
2023-24	\$17.5	\$100.0	\$92.6	\$0.0	\$1,990.4
2024-25	17.5	50.0	89.6	0.0	2,147.5
2025-26	17.5	0.0	94.5	0.0	2,259.5
2026-27	17.5	0.0	99.4	0.0	2,376.4
<p>a) For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. Fiscal years 2021-22 to FY 2024-25 include enacted legislation and estimated interest earnings.</p> <p>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.</p> <p>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.</p>					
Sources: State of Michigan Annual Comprehensive Financial Reports through FY 2021-22 and Senate Fiscal Agency.					

Figure 17

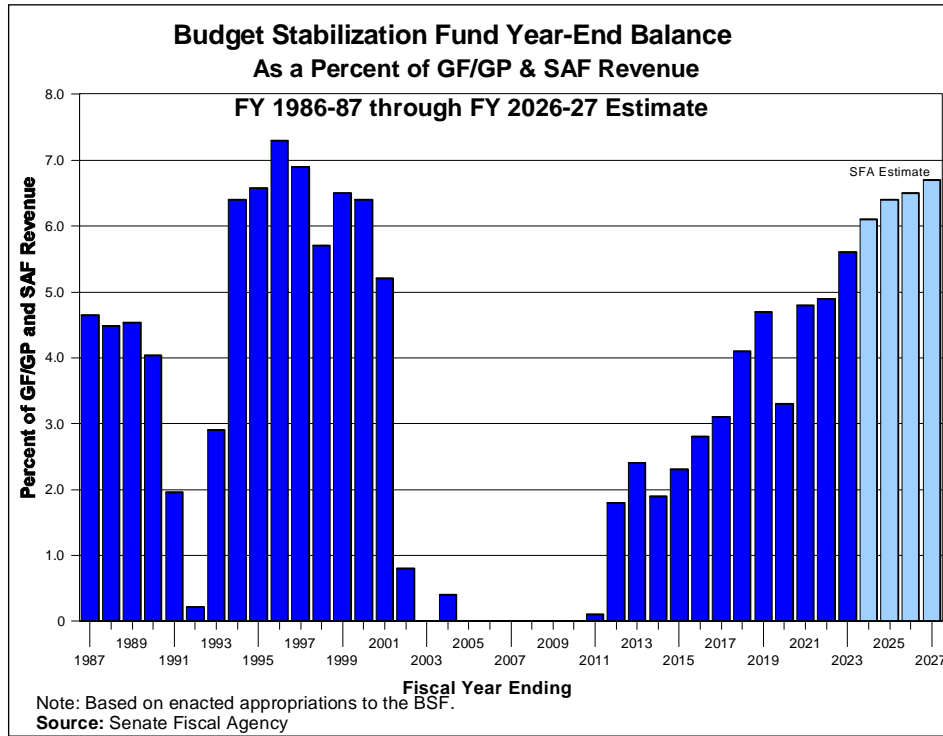


Table 12

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2023-24, FY 2024-25, FY 2025-26, and FY 2026-27
(millions of dollars)

	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027
Michigan Personal Income (MPI)	\$613,719.2	\$643,933.5	\$666,121.1	\$691,133.4	\$718,183.7
Less: Transfer Payments	132,266.6	138,663.2	144,159.7	149,352.1	154,763.1
Subtotal	\$481,452.6	\$505,270.4	\$521,961.4	\$541,781.3	\$563,420.6
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.8373	2.9319	3.0020	3.1142	3.2201
Equals: Real Adjusted MPI	\$169,687.0	\$172,336.0	\$173,870.0	\$173,972.0	\$174,968.0
Percent Change from Prior Year		1.6%	0.9%	0.1%	0.6%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Multiplied by: Estimated GF/GP Revenue		\$14,625.2	\$15,128.1	\$16,003.2	\$16,295.8
Equals: Transfer to the BSF			\$0.0	\$0.0	\$0.0
OR Maximum transfer from the BSF			\$0.0	\$0.0	\$0.0

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

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by \$109.6 million. Revenue remained substantially below the limit for FY 2009-10 through FY 2021-22. To date, the largest gap between revenue and the limit occurred in FY 2022-23, when State revenue was \$10.3 billion below the revenue limit. For any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year before the calendar year in which the fiscal year begins. 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 2023-24, FY 2024-25, FY 2025-26, and FY 2026-27 with State revenue forecast to be \$14.8 billion below the limit in FY 2026-27.

THE REVENUE LIMIT

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

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

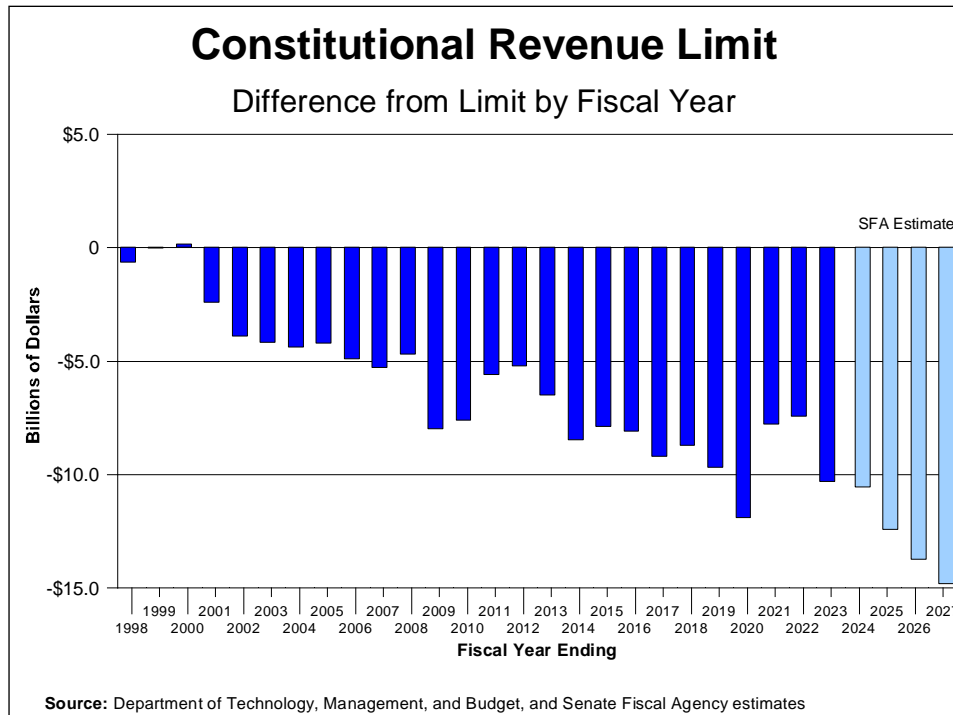
Based on preliminary revenue for FY 2023-24 and the SFA's revenue estimates for FY 2024-25, FY 2025-26, and FY 2026-27, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in [Figure 18](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 13](#).

FY 2023-24

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2022 equals \$582.0 billion and, as a result, the revenue limit equals \$55.2 billion in FY 2023-24, an increase of \$1,348.9 million over FY 2022-23. Based on the SFA's revised revenue estimates for FY 2023-24, revenue subject to the revenue limit will equal an estimated \$44.7 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$10.6 billion, or 19.1%, in FY 2023-24. The forecasted 2.4% increase in State revenue subject to the revenue limit

will not outpace anticipated growth in personal income of 2.5%, increasing the amount by which revenue will fall below the limit.

Figure 18



FY 2024-25

The Senate Fiscal Agency estimates that personal income in Michigan during 2023 will equal \$613.7 billion and, as a result, the revenue limit will equal \$58.2 billion in FY 2024-2025. Based on the SFA's revised revenue estimates for FY 2024-25, revenue subject to the revenue limit will equal an estimated \$45.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$12.4 billion, or 21.3%, in FY 2024-25. The forecasted 2.6% increase in State revenue subject to the revenue limit will not outpace anticipated growth in personal income of 5.4%, increasing the amount by which revenue will fall below the limit.

FY 2025-26

The Senate Fiscal Agency estimates that personal income in Michigan during 2024 will equal \$643.9 billion and, as a result, the revenue limit will equal \$61.1 billion in FY 2025-26. Based on the SFA's revised revenue estimates for FY 2025-26, revenue subject to the revenue limit will equal an estimated \$47.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$13.7 billion, or 22.5%, in FY 2025-26. The forecasted 3.3% increase in State revenue subject to the revenue limit will not outpace anticipated growth in personal income of 4.9%, increasing the amount by which revenue will fall below the limit.

FY 2026-27

The Senate Fiscal Agency estimates that personal income in Michigan during 2025 will equal \$666.1 billion, and as a result, the revenue limit will equal \$63.2 billion in FY 2026-27. Based on the SFA's initial revenue estimates for FY 2026-27, revenue subject to the revenue limit will equal an estimated \$48.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$14.8

billion, or 23.5%, in FY 2026-27. The forecasted 2.2% increase in State revenue subject to the revenue limit will not outpace anticipated growth in personal income of 3.4%, increasing the amount by which revenue will fall below the limit.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT					
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION					
FY 2022-23 THROUGH FY 2026-27 ESTIMATE					
(millions of dollars)					
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Final	Estimate	Estimate	Estimate	Estimate
Revenue Subject to Limit					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$16,908.4	\$17,442.2	\$17,913.1	\$18,370.0	\$18,776.0
Constitutional Revenue Sharing (baseline)	1,089.8	1,116.4	1,082.8	1,103.1	1,131.0
School Aid Fund (baseline)	17,908.5	18,152.2	18,713.9	19,177.7	19,646.7
Transportation Funds	4,151.1	4,220.4	4,318.5	4,393.1	4,481.0
Other Restricted Non-Federal Aid Revenue	6,557.0	6,688.1	6,821.9	6,958.3	7,132.3
<u>Adjustments:</u>					
GF/GP Federal Aid	(13.9)	(10.0)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(2,941.7)	(2,816.9)	(2,785.0)	(2,366.8)	(2,480.2)
SAF Balance Sheet Adjustments	(48.5)	(118.7)	(222.1)	(259.8)	(289.2)
Total Revenue Subject to Limit	\$43,610.7	\$44,673.8	\$45,833.1	\$47,365.6	\$48,387.6
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Amount	\$567,807.0	\$582,021.1	\$613,719.2	\$643,933.5	\$666,121.1
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$53,884.9	\$55,233.8	\$58,242.0	\$61,109.3	\$63,214.9
1.0% of Limit	538.8	552.3	582.4	611.1	632.1
Amount Under (Over) Limit	\$10,274.2	\$10,560.0	\$12,408.8	\$13,743.7	\$14,827.3
Percent Below Limit	19.1%	19.1%	21.3%	22.5%	23.5%
CY = Calendar Year; FY = Fiscal Year					

ESTIMATE OF YEAR-END BALANCES

This section of the SFA's report provides details of the estimated year-end balances of the GF/GP and SAF budgets for FY 2023-24 and FY 2024-25, and projections for the FY 2025-26 State budget.

Noting the important caveat that follows, Table 14 provides a summary of the estimated year-end balances for the FY 2023-24, FY 2024-25, and FY 2025-26 GF/GP and SAF budgets. The FY 2023-24 book-closing process has not yet concluded; therefore, FY 2023-24 revenue remains estimated and not final.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (millions of dollars)			
	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate
General Fund/General Purpose	\$2,085.1	\$1,087.3	\$1,792.4
School Aid Fund	\$1,028.6	\$941.4	\$1,877.3

YEAR-END BALANCE ESTIMATES

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

Neither of these reports is currently available but based on year-to-date accounting of FY 2023-24 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will end FY 2023-24 with a \$2.1 billion balance. The SFA is estimating that the FY 2023-24 SAF budget will close with a \$1.0 billion balance. (Note that most of these balances were assumed during the FY 2024-25 budget process and do not represent 'new' revenue.)

GENERAL FUND/GENERAL PURPOSE

Table 15 provides a balance sheet with the SFA estimates of year-end balances for GF/GP revenue, for FYs 2023-24, 2024-25, and 2025-26.

As shown in the row labeled, "SFA Forecast Revenue Change (Jan 2025)", FY 2023-24 revenue is \$676.4 million higher than the May 2024 CREC estimate. Building on that baseline growth (and growing), for FYs 2024-25 and 2025-26, the estimates are significantly stronger than the May 2024 estimates (\$870.3 million and \$1.1 billion higher respectively).

On the expenditure side, the balance sheet reflects year-to-date FY 2023-24 spending levels (including supplementals), year-to-date FY 2024-25 spending levels (including supplementals), and an estimate of how much a continuation budget would cost in FY 2025-26. The expenditure numbers also include estimates of additional caseload and programmatic costs (primarily in the Department of Health and Human Services budget) as well as estimated FY 2023-24 lapses (which were roughly essentially the amount anticipated and already built into the budget).

Unlike recent years, a large portion of the GF/GP year-end balances would be considered 'ongoing' revenue. An ongoing balance is estimated by comparing ongoing revenue to ongoing spending, excluding one-time revenue (e.g., a prior-year carryforward) and one-time spending. Out of the

estimated \$1.8 billion in GF/GP balance that the SFA is forecasting at the end of FY 2025-26 (assuming a continuation budget that removes FY 2024-25 one-time spending), about 44% (or \$786.4 million) would be considered ongoing with the remainder (\$1.0 billion) considered as one-time revenue (which is essentially the FY 2024-25 year-end balance).

SCHOOL AID FUND

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

As shown in the row labeled, "SFA Forecast Revenue Change (Jan 2025)", FY 2023-24 revenue is roughly \$250.0 million above the May 2024 CREC estimate. In FYs 2024-25 and 2025-26, the change in revenue estimates compared to May 2024 remains positive and expands slightly upon the FY 2023-24 increase in baseline revenue: \$344.9 million and \$345.4 million respectively.

On the expenditure side, the balance sheet reflects year-to-date FY 2023-24 spending levels (including supplementals), year-to-date FY 2024-25 spending levels (including supplementals), and an estimate of how much a continuation budget would cost in FY 2025-26. The expenditure numbers also include estimates of caseload and cost savings in the School Aid budget, as well as estimated FY 2023-24 lapses (which were significant at an estimated \$266.0 million). The School Aid Fund balance sheet includes the K-12 budget, the budget for Community Colleges, and a portion of the budget for Universities.

Out of the \$1.9 billion estimated FY 2025-26 year-end balance, roughly 50% (or \$935.9 million) would be considered ongoing with the remainder (\$941.4 million) considered as one-time revenue.

CONCLUSION

The GF/GP and SAF budgets are estimated to end FY 2024-25 and FY 2025-26 with significant year-end balances, although both years assume the carryforward of the previous year's balance and the balances are a mixture of 'ongoing' and 'one-time' in nature.

Any spending in a given year will reduce the out-year's balance as well as the current year's balance. Both the GF/GP and the SAF sides of the ledger appear to be structurally balanced; in other words, ongoing revenue (not including carryforward balances) is estimated to exceed ongoing (excluding one-time) spending. A caution to the preceding statement is that the succeeding year's expenditure estimates *assume baseline (or flat)* spending. Spending in FY 2025-26 that is greater than a baseline amount will reduce the gap between ongoing revenue and ongoing expenditure estimates.

The FY 2023-24 estimated ending balances likely will change when the State's final ACFR is published, which is not required by law until the end of March 2025. To the extent that the FY 2023-24 numbers change, the ending balances for FY 2024-25 and FY 2025-26 will be affected. Also, to the extent that policy or budget changes are enacted after the date of this publication, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 10, 2025, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2025-26 State budget, as well as for subsequent fiscal years.

Table 15
FY 2023-24, 2024-25, AND 2025-26
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	Enacted/ Projected FY 2023-24	Enacted July 2024 FY 2024-25	Estimated Baseline FY 2025-26
Revenue:			
Beginning Balance	\$3,528.8	\$2,085.1	\$1,087.3
<u>Ongoing Revenue:</u>			
Consensus Revenue Forecast (May 2024)	\$13,944.4	\$14,257.8	\$14,886.5
SFA Adjustments: Restore temporary revenue losses to baseline	778.4	550.0	0.0
Adjusted CREC Forecast Ongoing Revenue Estimate (May 2024)	\$14,722.8	\$14,807.8	\$14,886.5
SFA Forecast Revenue Change (January 2025)	676.4	870.3	1,116.7
SFA Adjusted Balance Sheet Revenue	\$15,403.6	\$15,678.1	\$16,003.2
<u>Other Ongoing Revenue Adjustments:</u>			
Ongoing revenue adjustment (settlement agreement)	(\$25.0)	(\$25.0)	(\$25.0)
R&D Tax Credit	0.0	0.0	(100.0)
Public Safety Trust Fund	0.0	(75.0)	(75.0)
Revenue Sharing Payments + FDCVT	(552.2)	(627.2)	(627.2)
<i>Subtotal Ongoing Revenue</i>	\$14,826.4	\$14,950.9	\$15,176.0
<u>Non-Ongoing Revenue:</u>			
Redirection of Restricted Revenue	(\$2.6)	(\$2.6)	(\$2.6)
SOAR interest and work project lapses 9/19 and VMF	384.1	65.0	0.0
Three-year RAP earmark	(50.0)	(50.0)	0.0
Three-year CIT SOAR earmark	(500.0)	(500.0)	0.0
Income tax reduction (ie, trigger) - 1-year impact	(228.4)	0.0	0.0
Revenue Sharing One-Time Payments	(10.5)	0.0	0.0
<i>Subtotal Non-Ongoing Revenue</i>	(\$407.4)	(\$487.6)	(\$2.6)
Total Estimated GF/GP Revenue Including Beginning Balance	\$17,947.8	\$16,548.4	\$16,260.7
Total Estimated GF/GP Revenue Excluding Beginning Balance	\$14,419.0	\$14,463.3	\$15,173.4
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial/Baseline Appropriations	\$12,757.6	\$13,605.7	\$13,875.7
Potential baseline adjustments DHHS	0.0	250.0	130.0
Childcare baseline cost increases	0.0	0.0	120.3
Reconnect savings and MAS costs	0.0	0.0	66.0
Estimated economics	0.0	0.0	200.0
Policy bills	0.0	20.0	0.0
Community District Trust Fund GF payment	33.7	70.2	0.0
<i>Subtotal Ongoing Appropriations</i>	\$12,791.3	\$13,945.9	\$14,389.6
<u>One-Time and Other Appropriations:</u>			
One-Time Appropriations	\$2,436.0	\$1,276.5	\$0.0
Veto SB 747	0.0	(9.2)	0.0
BSF Deposit	100.0	50.0	0.0
DHHS and DSH costs	55.0	81.6	78.7
SFRF lapse/payroll swap	0.0	(33.0)	0.0
Reserve for Federal reimbursement (UIA)	0.0	142.0	0.0
HB 4292 one-time spending PA 321 of 2023	103.7	0.0	0.0
Estimated lapses of items being reappropriated in HB 4292	(36.5)	0.0	0.0
Lapse report 12/13/24 (on top of earlier items)	(33.4)	0.0	0.0
Additional proposed supplemental spending	446.7	7.3	0.0
<i>Subtotal One-Time and Other Appropriations</i>	\$3,071.5	\$1,515.2	\$78.7
Total Estimated GF/GP Expenditures	\$15,862.8	\$15,461.1	\$14,468.3
PROJECTED YEAR-END GF/GP BALANCE (Total)	\$2,085.1	\$1,087.3	\$1,792.4
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)	\$2,035.1	\$1,005.0	\$786.4
PROJECTED YEAR-END GF/GP BALANCE (One-Time)	\$49.9	\$82.3	\$1,006.0

Table 16

**FY 2023-24, 2024-25, AND 2025-26
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)**

	Enacted/ Projected FY 2023-24	Year-to-Date FY 2024-25	Estimated Baseline FY 2025-26
Revenue:			
Beginning Balance	\$2,192.5	\$1,028.9	\$941.4
<u>Ongoing Revenue:</u>			
Consensus Forecast (May 2024)	\$17,783.6	\$18,146.9	\$18,572.5
SFA Adjustments: Restore temporary revenue gains from baseline	(9.7)	0.0	0.0
Adjusted CREC Forecast Ongoing Revenue Estimate (May 2024).....	\$17,773.9	\$18,146.9	\$18,572.5
SFA Forecast Revenue Change (January 2025)	249.9	344.9	345.4
SFA Adjusted Balance Sheet Revenue	\$18,023.8	\$18,491.8	\$18,917.9
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose (GF/GP) Grant.....	\$49.6	\$50.1	\$50.1
Community District Education Trust Fund.....	72.0	41.0	0.0
Federal Ongoing Aid	2,204.8	2,322.8	2,322.8
<i>Subtotal Ongoing Revenue</i>	\$20,350.2	\$20,905.7	\$21,290.8
<u>Non-Ongoing Revenue:</u>			
Income tax reduction (ie, trigger) - 4/10/23	\$9.7	\$0.0	\$0.0
MPERS Reserve Fund	240.7	334.1	0.0
SAF BSF Deposit.....	0.0	(25.0)	0.0
Infrastructure and Consolidation Fund	248.0	0.0	0.0
Transportation Reserve Fund	125.0	125.0	0.0
School Meals Reserve Fund	60.0	0.0	0.0
Additional Meals Reserve	30.0	30.0	0.0
Enrollment Stability Reserve Fund.....	71.0	71.0	0.0
GSRP Reserve Fund	18.0	18.0	0.0
Revenue Deposits - Infrastructure/MPERS	0.0	30.0	0.0
Additional One-Time GF	38.5	28.7	0.0
Proposed repurposing of \$13.3m GEER.....	14.3	0.0	0.0
Work project lapse for school counselors.....	107.1	0.0	0.0
GF/GP for DPSCD Addtl Cost Exceeding CDTF \$72m/yr.....	33.7	70.2	0.0
<i>Subtotal Non-Ongoing Revenue</i>	\$995.9	\$682.0	\$0.0
Total Estimated SAF Revenue Including Beginning Balance	\$23,538.6	\$22,616.4	\$22,232.2
Total Estimated SAF Revenue Excluding Beginning Balance	\$21,346.1	\$21,587.7	\$21,290.8
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 SAF Appropriations.....	\$16,934.8	\$17,187.6	\$17,168.9
Initial School Aid Federal Funds	2,204.8	2,272.8	2,272.8
SFA Estimated Cost Adjustments (-\$70mSAF; +\$50m Fed)	51.0	(18.7)	4.9
Fund Community Colleges with SAF.....	496.2	456.7	456.7
Partially Fund Higher Education with SAF	452.3	451.7	451.7
<i>Subtotal Ongoing Appropriations</i>	\$20,139.0	\$20,350.0	\$20,354.9
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 SAF Appropriations	\$2,324.1	\$1,183.9	\$0.0
Initial One-Time Community College Appropriations	48.4	5.1	0.0
Initial One-Time University Appropriations	30.0	10.0	0.0
Michigan School for the Deaf	40.0	0.0	0.0
Enacted SB 174	122.1	0.0	0.0
Supplemental in HB 5507/HB 5503	72.4	126.0	0.0
Lapses (12/18/24 estimate).....	(266.0)	0.0	0.0
<i>Subtotal One-Time and Other Appropriations</i>	\$2,370.9	\$1,325.0	\$0.0
Total Estimated School Aid Fund Expenditures	\$22,510.0	\$21,675.0	\$20,354.9
PROJECTED YEAR-END SAF BALANCE (Total)	\$1,028.6	\$941.4	\$1,877.3
PROJECTED YEAR-END SAF BALANCE (Ongoing).....	\$211.2	\$555.7	\$935.9
PROJECTED YEAR-END SAF BALANCE (One-Time).....	\$817.5	\$385.7	\$941.4