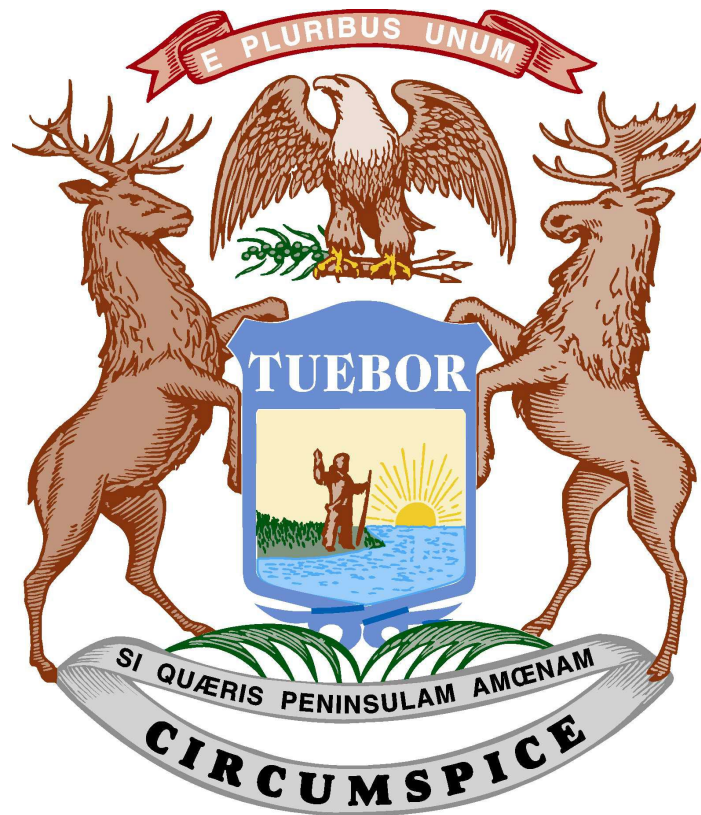


# Economic and Revenue Outlook

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

Michigan Department of Treasury



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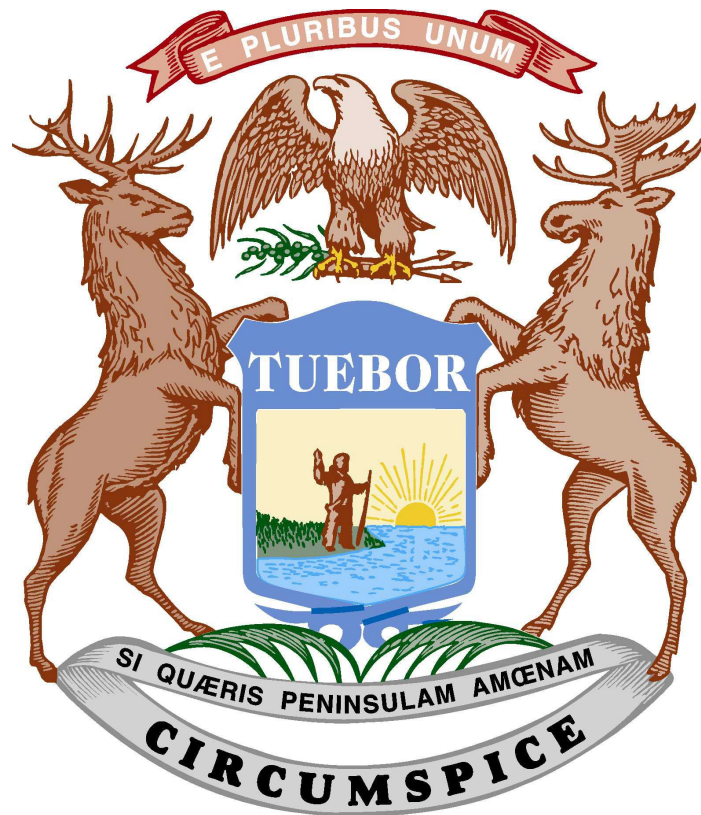
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**May 17, 2024**

# Economic and Revenue Outlook

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

Michigan Department of Treasury



## Acknowledgements

The Economic and Revenue Outlook was prepared by the Forecasting and Economic Analysis Division of the Office and Revenue and Tax Analysis (ORTA). The team includes Eric Bussis, Andrew Lockwood, Denise Heidt, and Jim Birney. Many others in ORTA provide valuable contributions, especially economists Scott Darragh and Eric Krupka who contributed to many of the estimates contained in the report.

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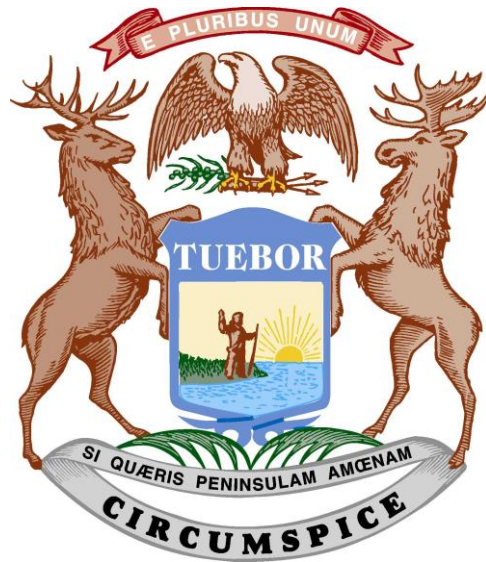
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# SECTION I

## Administration Estimates Executive Summary

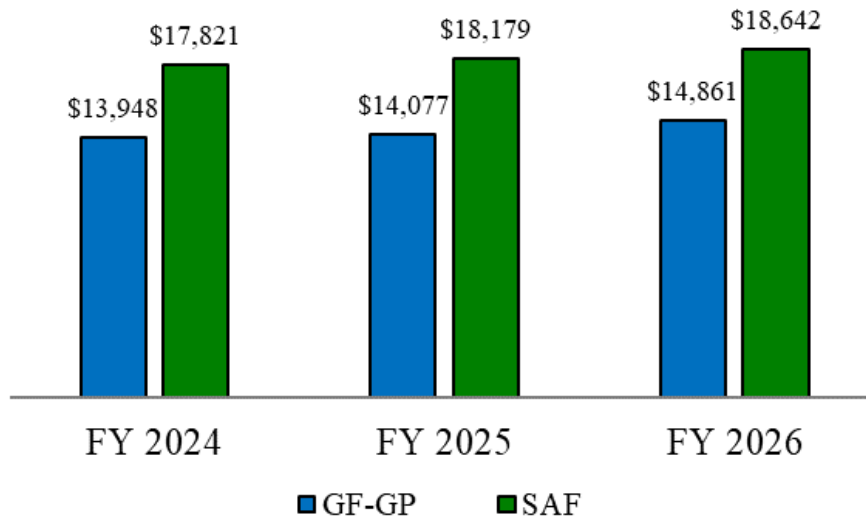


**Administration Estimates  
Executive Summary  
May 17, 2024**

**Revenue Review and Outlook**

- FY 2024 GF-GP revenue is forecast to decrease 0.1 percent to \$13,948.4 million, up \$351.0 million from the January 2024 Consensus estimate. FY 2024 SAF revenue is forecast to decrease 0.2 percent to \$17,820.5 million, down \$126.5 million from the January 2024 Consensus estimate.
- FY 2025 GF-GP revenue is forecast to increase 0.9 percent to \$14,077.1 million, up \$54.8 million from the January 2024 Consensus estimate. FY 2025 SAF revenue is forecast to increase 2.0 percent to \$18,179.4 million, down \$127.6 million from the January 2024 Consensus estimate.
- FY 2026 GF-GP revenue is forecast to increase 5.6 percent to \$14,861.1 million, up \$153.5 million from the January 2024 Consensus estimate. FY 2026 SAF revenue is forecast to increase 2.5 percent to \$18,642.1 million, down \$63.9 million from the January 2024 Consensus estimate.

**Administration GF-GP and School Aid Fund  
Revenue Estimates  
(millions of dollars)**



## **United States Economic Outlook**

- Real GDP increased 2.5 percent in 2023. Real GDP is forecast to rise 2.5 percent in 2024, 2.0 percent in 2025 and 2.3 percent in 2026. The U.S. economy is forecast to avoid a recession as interest rates and inflation are expected to subside from 2023 levels.
- U.S. wage and employment advanced 2.3 percent in 2023 and is forecast to increase 1.6 percent in 2024, then rise by 0.9 percent in both 2025 and 2026.
- The national unemployment rate was recorded at 3.6 percent in 2023. The U.S. unemployment rate is forecast to rise to 4.0 percent in 2024 and remain unchanged during 2025 but then increase to 4.1 percent in 2026.
- Housing starts fell 8.5 percent in 2023. Starts are expected to increase slightly by 0.4 percent in 2024, increase by 1.8 percent in 2025, then rise 2.1 percent in 2026.
- In 2022, light vehicle sales fell to 13.8 million units. As supply constraints began to ease, light vehicle sales finished at 15.5 million units in 2023. Sales are expected to increase to 16.0 million units in 2024, advance to 16.2 million units in 2025, then 16.3 million units during 2026.
- The Consumer Price Index rose by 4.1 percent in 2023. Inflation is expected to increase 3.2 percent in 2024, rise 2.7 percent in 2025, and increase 2.6 percent in 2026.

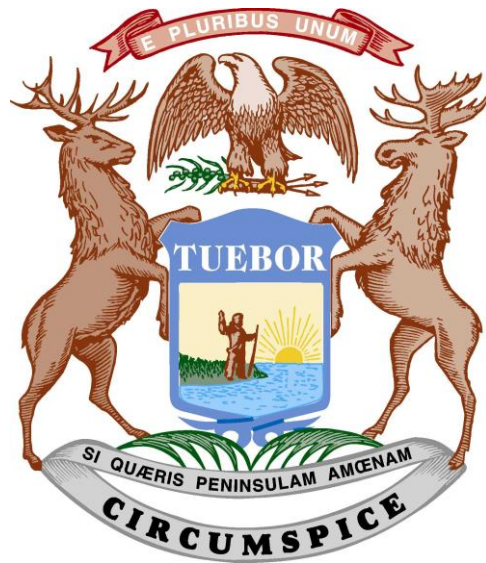
## **Michigan Economic Outlook**

- In 2022, Michigan wage and salary employment rose 4.1 percent over the year. State job growth grew more slowly in 2023 at 1.8 percent. Michigan employment is expected to advance by 0.9 percent in 2024, increase by 1.0 percent during 2025, and move up 0.5 percent in 2026.
- The Michigan unemployment rate was 4.2 percent in 2022 and fell to 3.9 percent in 2023. The Michigan jobless rate is forecast to rise to 4.2 percent in 2024 and 2025, and then decline to 4.1 percent in 2026.
- Michigan wages and salaries rose 7.8 percent in 2022 and increased 6.2 percent in 2023. Wages and salaries are forecast to move up by 3.9 percent in 2024, advance 4.1 percent in 2025, and rise 3.4 percent in 2026.
- Michigan personal income rose 0.7 percent in 2022 and increased 4.7 percent in 2023. Personal income is projected to increase 3.5 percent in 2024, rise 4.4 percent in 2025 but decline 3.7 percent during 2026.

## **Forecast Risks**

- Interest rates remain a risk for business investment and consumer spending. Restrictive monetary policy could also put a damper on growth.
- Higher than projected inflation could result in slower economic growth.
- Light vehicle sales are projected to increase but rising financing costs and higher auto loan delinquency rates could curtail sales.
- A stronger than expected housing market could help sustain or increase economic growth. Housing affordability and construction costs remain as barriers to growth.
- Geopolitical conflicts and weaker economic activity throughout the world could have a negative impact on domestic economic activity.

**SECTION II**  
**Economic Review**





# Economic Review

## May 17, 2024

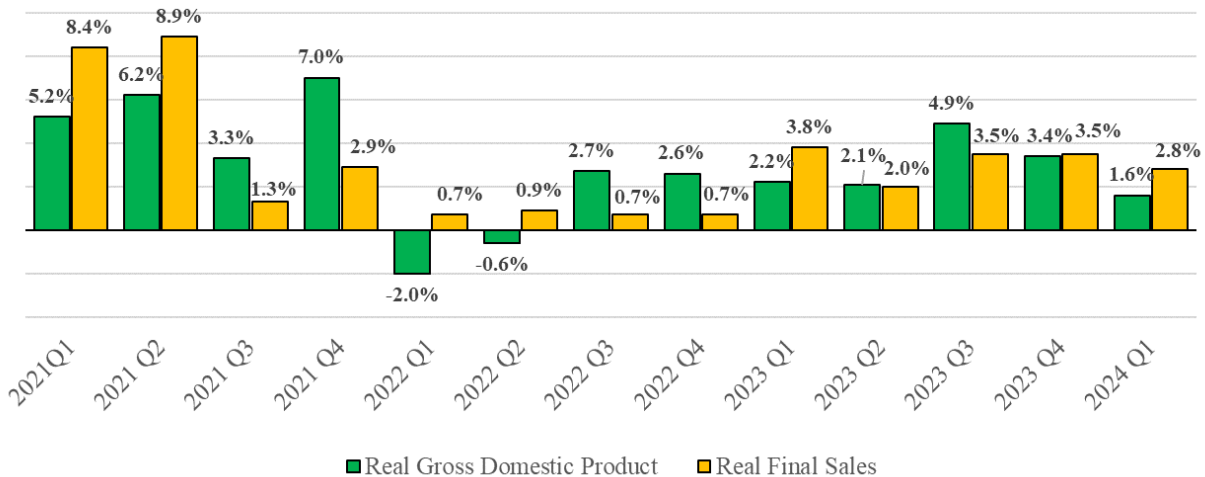
### Current U.S. Economic Situation

#### Current Economy

Throughout 2023, the overall economy of the United States remained resistant to the perceived recession, despite growing concerns to relatively high inflation levels and increases to the federal funds interest rate. Consistent employment growth, low unemployment rates, and stabilized inflation levels all contributed to national economic growth during 2023.

Real GDP increased modestly throughout 2023, mainly due to advances within personal consumption expenditure services, private domestic fixed investments, and state and local consumption expenditures. Real GDP grew at a solid rate during the third and fourth quarters of 2023 but slowed slightly during the first quarter of 2024 (1.6 percent), supported by growth within personal consumption expenditures and gross private domestic investment.

### Real Gross Domestic Product and Final Sales



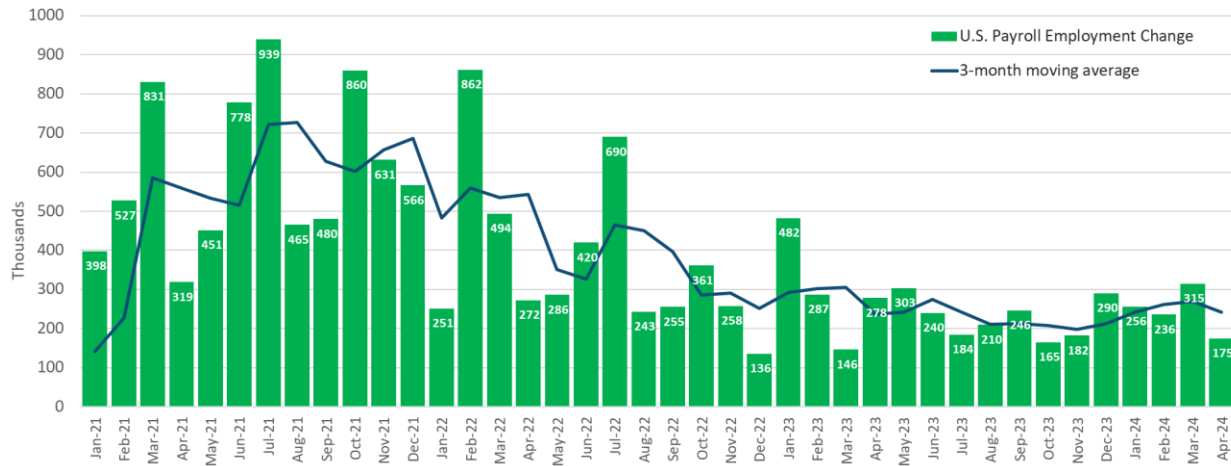
Source: Bureau of Economic Analysis

Real final sales, a more stable and representative measure of current domestic demand, which excludes inventory changes and exports but includes imports, increased marginally throughout 2022 but advanced modestly during 2023. Real final sales increased by 3.5 percent at an annual rate in both 2023Q3 and 2023Q4 but slowed to 2.8 percent growth in 2024Q1.

While advancing more slowly in 2023 compared with the prior year’s rapid expansion, U.S. employment growth remained at historically high rates in 2023. After averaging 377,000 jobs per

month in 2022, monthly employment gains slowed to 251,000 in 2023. Throughout 2023, job gains trended modestly slower as the year progressed. Monthly job gains averaged 289,000 jobs per month over the first half of the calendar year before slowing to 213,000 jobs per month over the second half. As of April 2024, wage and salary employment in the United States was up 0.1 percent over the month and 1.8 percent (2.8 million) over the year. On a quarterly basis, nationwide employment averaged 269,000 jobs per month during 2024Q1. Additionally, U.S. employment in April 2024 was nearly 6.0 million (3.9 percent) higher than its February 2020 pre-pandemic level.

## Cumulative Change in U.S. Payroll Employment



Source: Bureau of Labor Statistics

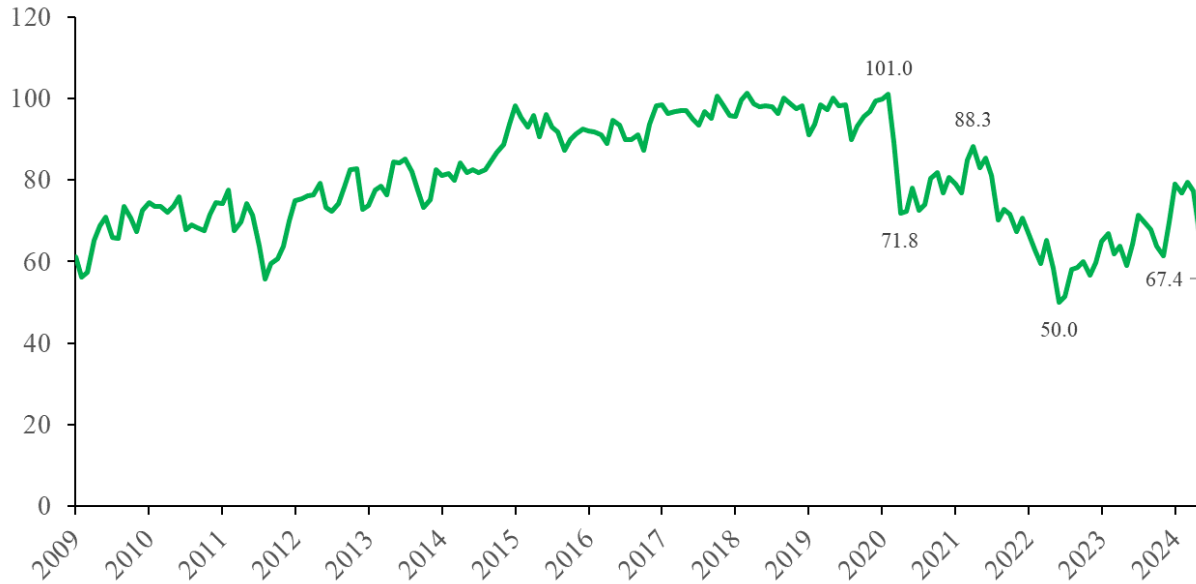
The U.S. unemployment rate has remained historically low and has continued to record jobless rates between 3.4 percent and 3.8 percent, during 2023. Since December 2021, the United States unemployment rate has not been above 4.0 percent. As of April 2024, the rate was 3.9 percent.

Current U.S. job openings continued to remain above pre-pandemic levels, as measured by the BLS Job Openings and Labor Turnover (JOLTS) survey, a monthly survey that collects national data on job openings, hires, and separations. Job openings reached a record high (12.2 million openings) in March 2022 but have slowly declined to 8.5 million job openings, as of March 2024. Similarly, job quits, which peaked at 4.5 million in April 2022, has slowly dropped to 3.3 million, as of March 2024. The job openings rate, which is the number of job openings divided by the sum of job openings and employment, peaked in March 2022 at 7.4 percent. The rate declined to 5.1 percent by March 2024 and has continued to remain above its February 2020 pre-pandemic rate (4.4 percent).

The University of Michigan’s Index of Consumer Sentiment survey displayed signs of recovery in 2023, up from its record lows during 2022, when increasing inflation was a growing concern. The index increased to 71.5 by July 2023, up significantly from the 50.0 recorded in June 2022 when inflation severely affected consumers’ purchasing power.

During the second half of 2023, consumer sentiment declined in four of the six months, however, rebounded strongly during December 2023 and January 2024. As of May 2024 (preliminary data), the consumer sentiment index was recorded at 67.4, down 9.8 percentage points over the month but up 8.4 percentage points compared to its year-ago level. The May 2024 percentage point change decline was the largest since August 2021 (-10.9 percentage points).

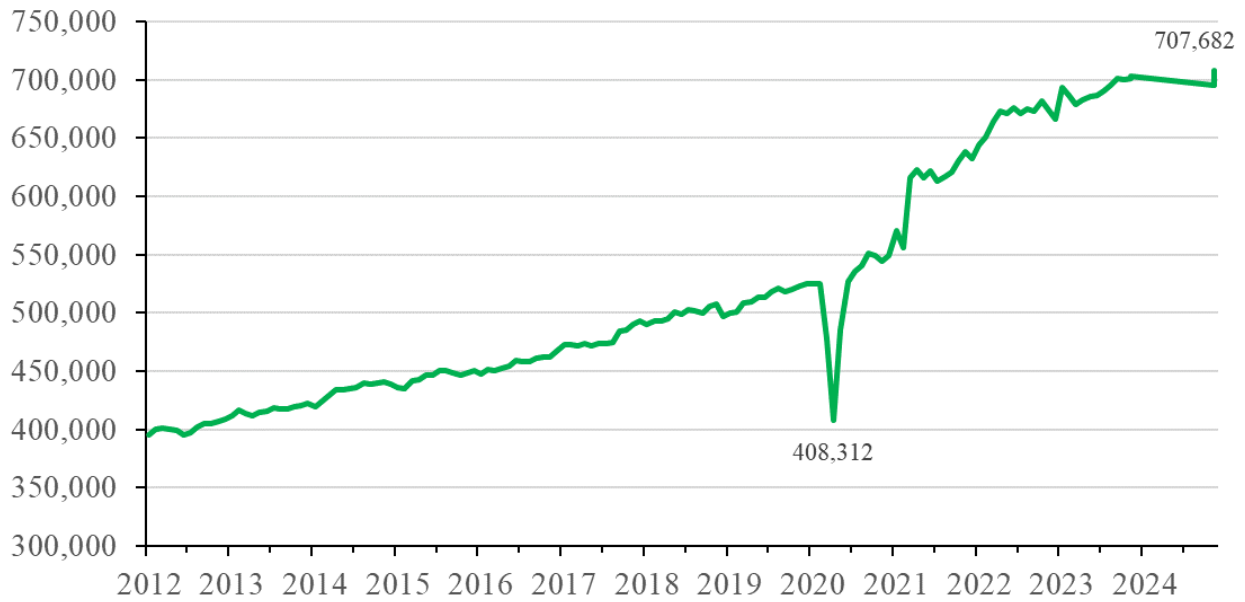
### Index of Consumer Sentiment University of Michigan Consumer Survey



Source: University of Michigan Survey Research Center

In March 2024, retail sales were up 4.3 percent from a year earlier. The outlook for retail sales is mixed as heightened interest rates continue to affect large purchases but low unemployment rates and income growth should support consumer spending.

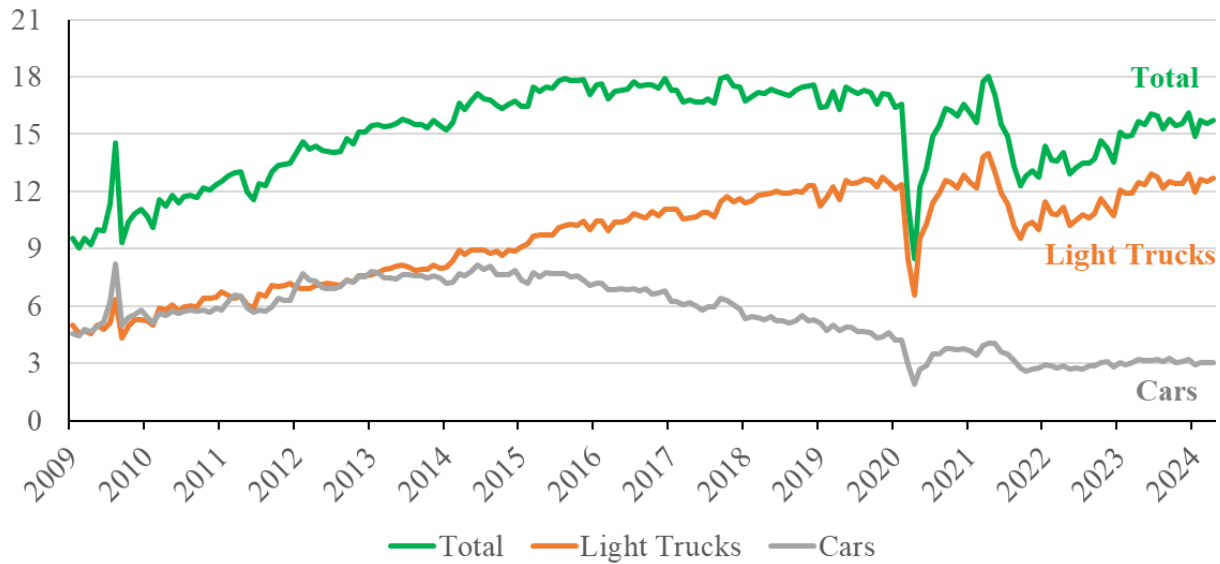
## Retail Sales Annual Sales Rate (in millions of dollars)



Source: U.S. Census Bureau

Since 2020, as the auto industry adapted to manage production in an environment of supply chain constraints, light vehicle sales advanced from 13.8 million average units in 2022 to 15.5 million average units in 2023. As of April 2024, light vehicle sales rose to 15.7 million. Similarly, light trucks sales grew to 12.4 million average units in 2023 (an increase of 13.6 percent from 2022). As of April 2024, light truck sales were recorded at 12.7 million average units. Total light vehicle sales are expected to continue to be driven by light trucks sales in the coming years.

## Light Vehicle Sales Seasonally Adjusted Annual Rate (in millions)



Source: Bureau of Economic Analysis

National housing starts were generally weak during 2023, due partially to mortgage interest rates rising throughout the year. 30-year fixed mortgage rates rose sharply to a high of 7.79 percent at the end of October 2023, from its previous low of 2.65 percent, in January 2021. The 30-year average mortgage rate remained high during the first quarter of 2024, moving to 7.22 percent at the beginning of May 2024.

The annual average rate for housing starts in 2023 ranged between 1.31 million to 1.58 million units during the year. In December, the annual average rate for housing starts rose sharply to 1.56 million units, as mortgage rates stabilized and started to fall. Currently, housing starts were recorded at 1.3 million units during March 2024, down 14.7 percent over the month and 4.3 percent over the year.

## U.S. Labor Force Participation Rate October 2013 to April 2024 Three-month Average

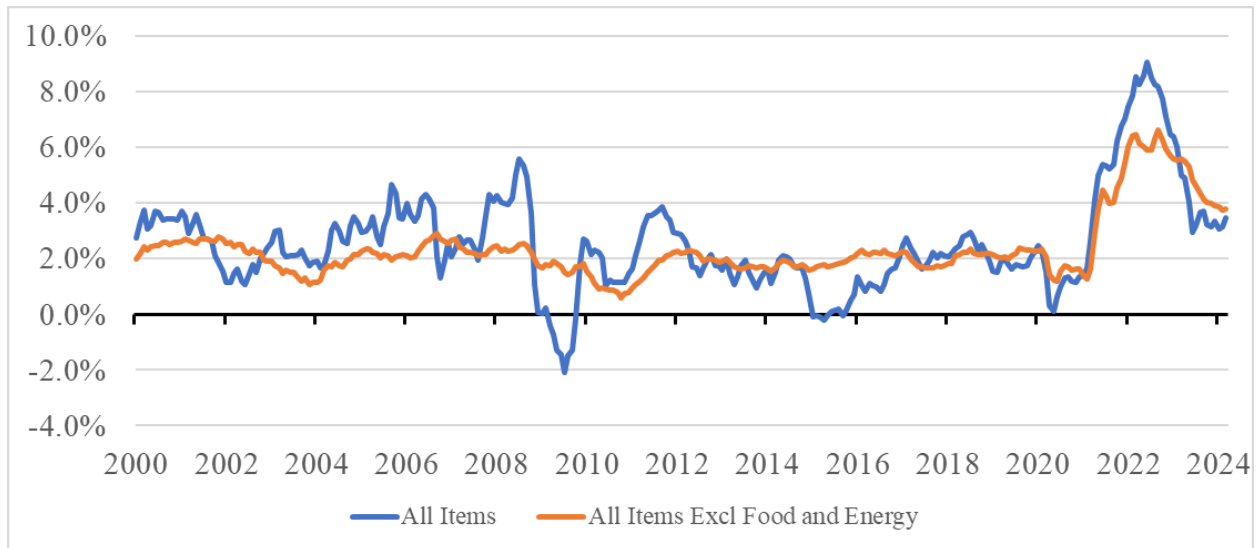


Source: Bureau of Labor Statistics

The labor force participation rate, the share of the working-age population who are in the labor force either working or actively looking for work, averaged 63.1 percent in 2019. However, due mainly to the COVID-19 pandemic, the participation rate fell sharply down in the proceeding months. In calendar year 2020, the annual participation rate fell to 61.7 percent, where it remained in 2021 as well.

In calendar year 2022, the labor force participation rate advanced to 62.2 percent but was still nearly one percentage point below its pre-pandemic rate. In 2023, the labor force participation rate continued its slow rebound. In January 2023, the labor force participation rate was 62.4 percent, slowly inched up throughout the year to 62.8 in September 2023, before eventually dipping to 62.5 percent by the end of the year. As of April 2024, the seasonally adjusted labor force participation rate resided at 62.7 percent. April 2024's three-month moving average was recorded at 62.6 percent and trending upwards towards pre-pandemic levels.

## Overall Inflation Steady in 2024



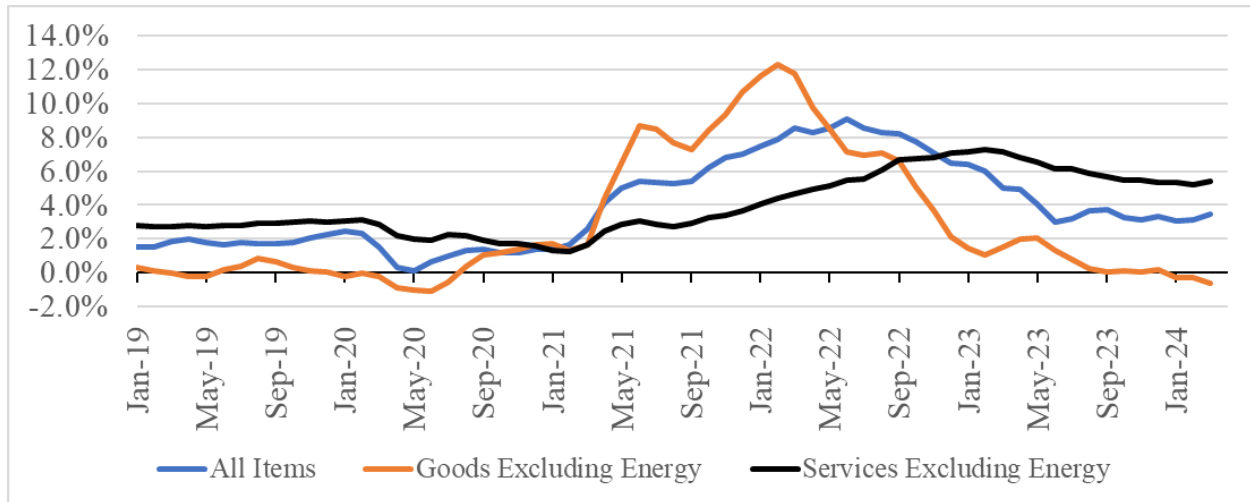
Source: Bureau of Labor Statistics

Price inflation slowed from its historic highs reached in 2022. Between October 2022 and June 2023, year-over-year increases in the U.S. Consumer Price Index (CPI), decelerated from 7.7 percent to 3.0 percent, on a not seasonally adjusted basis. Over the year CPI increases accelerated to 3.7 percent in August and September until finally receding to 3.4 percent in December 2023. As of March 2024, the CPI, the measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services, advanced by 3.5 percent over the year.

The less volatile U.S. Core Consumer Price Index, which excludes food and energy, also moved at a slower pace in 2023 compared to 2022's historically rapid rates. Year-over-year core CPI increases decelerated from 6.6 percent in September 2022 to 3.8 percent in March 2024.

The Personal Consumption Expenditure (PCE) deflator is the Federal Reserve's preferred inflation measure. The index, which measures prices that people living in the United States, or those buying on their behalf, pay for goods and services, slowed substantially in 2023. The year-over-year increase in the PCE deflator decelerated between October 2022 and March 2024 from 6.3 percent to 2.7 percent, the fifth lowest over the year increase since February 2021 (1.9 percent).

## Goods Inflation Slows While Services Inflation Accelerates



Source: Bureau of Labor Statistics

While goods inflation continued to decelerate during 2023, service inflation accelerated through February 2023, before gradually slowing in the following months. The year-over-year increase in the goods CPI excluding energy and food peaked at 12.3 percent in February 2022. Goods inflation then gradually declined, unchanged year-over-year by November 2023 and down to -0.7 percent by March 2024. Conversely, services inflation excluding energy services trended faster between February 2021 and February 2023, increasing from 1.3 percent to 7.3 percent, respectively. Between February 2023 and March 2024 however, year-over-year services inflation excluding energy services, slowly declined to 5.4 percent.

The Federal Reserve continued its contractionary policy regime throughout 2023. Having raised the federal funds rate 4.25 percentage points in CY 2022, the Fed then increased the rate an additional 1.00 percentage point in CY 2023, to a 22-year high range of 5.25-5.50 percent. Acknowledging that the impact of the tightening remained uncertain, the Federal Reserve slowed its rate of increase over the calendar year and left the federal funds rate unchanged for the past nine meetings. The Fed has continued to decrease its asset holdings in calendar year 2024. As of May 1<sup>st</sup>, 2024, the Federal Reserve reduced its asset holdings by 13.9 percent compared to its levels at the end of 2022.

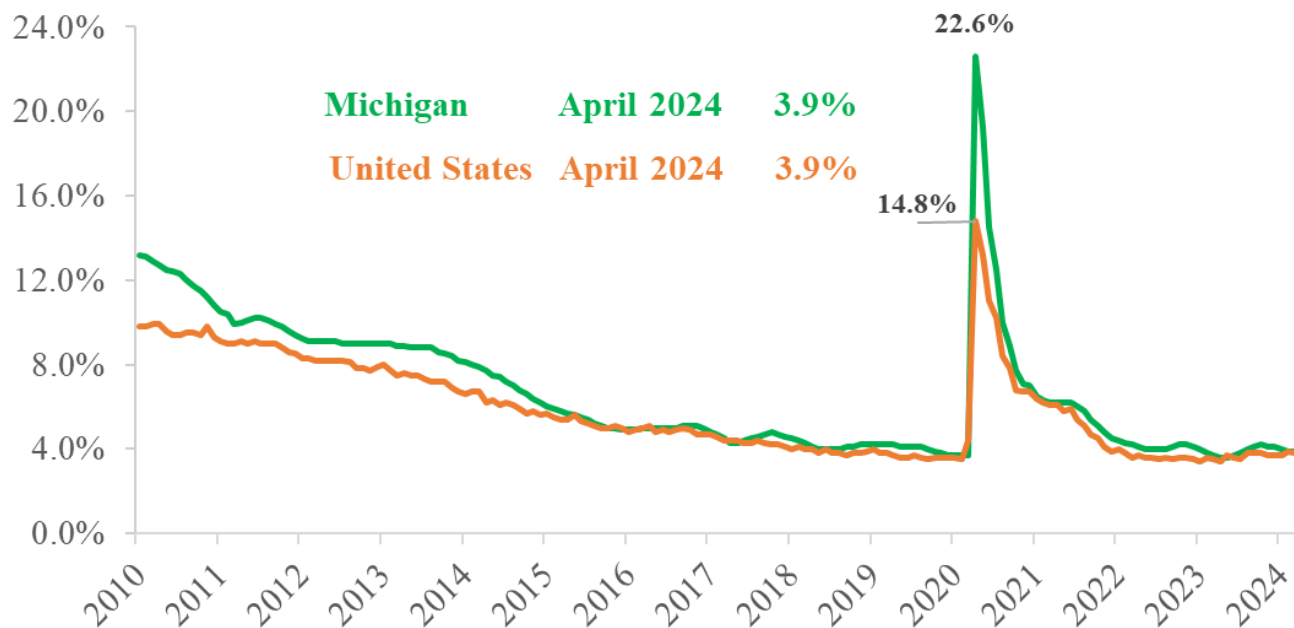
The U.S. federal budget deficit rose to \$1.695 trillion in FY 2023, on an annualized, not seasonally adjusted basis. Tax revenues fell and outlays for Social Security and Medicare rose. In addition, record high interest costs increased the federal deficit. The federal budget has remained a source of contention. In March 2024, after months of negotiations and continuing resolutions a budget for FY 2024 was enacted.



## Current Michigan Economic Situation

During 2022, Michigan total nonfarm payroll employment rose by an average of 8,600 jobs per month on a seasonally adjusted basis, however decelerated in 2023, averaging a gain of approximately 4,400 jobs per month. Employment losses in 2023 were concentrated in the second half of the year, notably in September and October, and largely reflect the temporary impact of the UAW strike during this period. As of March 2024, Michigan's total nonfarm payroll employment count stood at 4.48 million, with an over the year net gain of 36,200 (0.8 percent) jobs.

### United States and Michigan Unemployment Rates, 2010 to 2024



Source: Bureau of Labor Statistics

A steady decline in the statewide unemployment rate during 2023 was a result of continued resilience of the Michigan job market. After registering an unemployment rate of 4.1 in April 2022, the Michigan jobless rate fell to 3.6 percent one year later. The rate continued its decline to 3.6 percent in both April and May 2023, which was tied for the lowest unemployment rates recorded in Michigan since June 2000. The rate has hovered between 3.7 to 4.2 percent, between June 2023 and January 2024. Currently, the Michigan jobless rate has been recorded at 3.9 percent for three consecutive months, in February, March, and April 2024.

Michigan's labor force participation rate increased gradually throughout 2023, after recording minimal upward progression since the onset of the COVID-19 pandemic. After registering 60.4 percent from May 2022 through September 2022, the Michigan labor force participation rate climbed eleven consecutive months, reaching 62.3 in August 2023. The Michigan labor force participation annual rate for 2023 was recorded at 61.9 percent, which matches the 2019 annual statewide participation rate (61.9 percent).

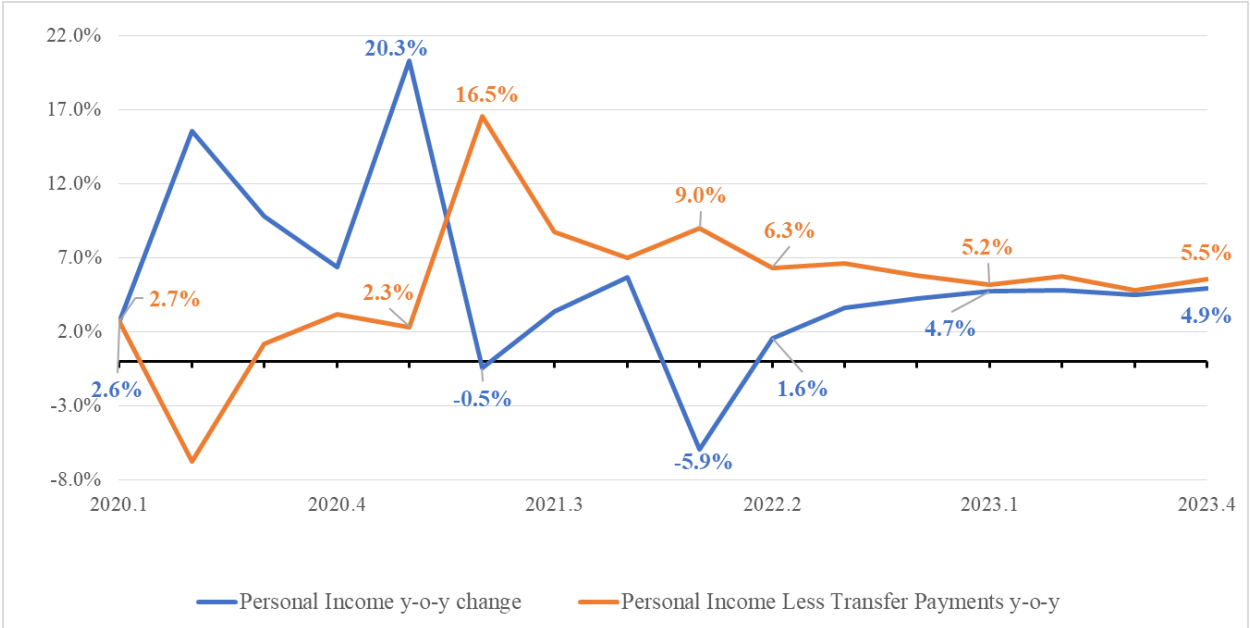
Compared to the prior year, personal income across the state increased in all quarters from 2022Q2 through 2024Q4, reflecting the strength in earnings from work, dividends, and interest and rent income during the period. At an over the year rate, Michigan personal income increased 4.3 percent in 2022Q4 and 4.9 percent in 2023Q4.

Michigan transfer payments decreased more markedly than the national average during 2022 and increased at a slower rate than the U.S. during the first half of 2023. By 2023Q3, Michigan transfer payments recovered, increasing 3.4 percent from the same period in the prior year, compared to the national year-over-year growth of 2.8 percent.

As a result, Michigan personal income less transfer payments, which is a measure of income that excludes payments made by the government to individuals through programs such as Social Security or unemployment insurance, have continued to increase over the year every quarter since 2020Q3. This measure is important for economic analysis as it helps in understanding underlying income trends and economic health while excluding the effects of government intervention through transfer payments.

Between 2020Q3 and 2023Q4, growth rates have ranged from 1.2 percent to 16.5 percent. Michigan personal income less transfer payment growth rates have continued to remain slightly higher than their pre-pandemic, quarterly growth rate levels, as of 2023Q4. Despite massive transfer payments in 2020 and 2021, which were implemented to counter the substantial decline in economic activity brought by the pandemic, statewide personal income less transfer payment levels soared, peaking at 16.5 percent in 2021Q2.

### Michigan Personal Income Year-over-Year Percent Changes



Source: Bureau of Economic Analysis

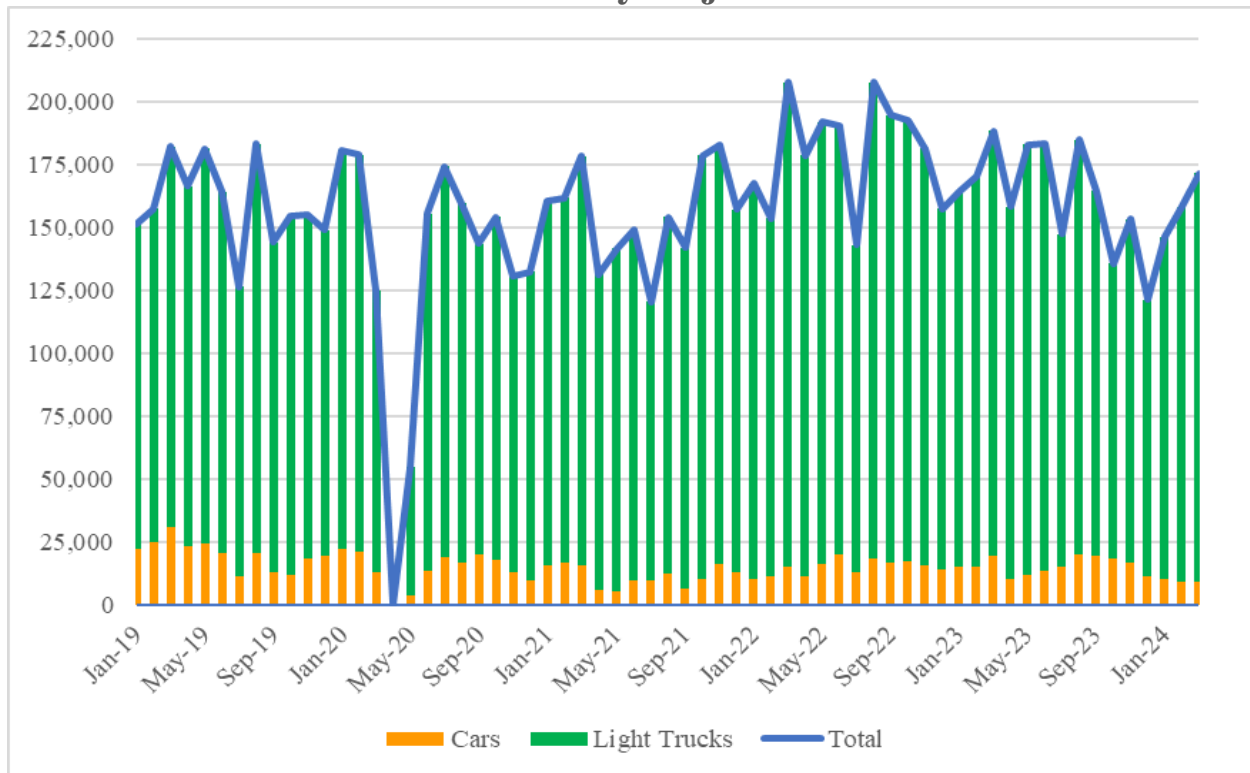
Michigan auto production continued to advance at a noteworthy pace, moving up by 16.9 percent in 2021 and 16.6 percent in 2022. The positive growth occurred despite the supply-chain challenges and semi-conductor chip shortages. These increases were due mainly to strong production in light trucks, which advanced 21.3 percent in 2021 and 15.5 percent in 2022. Michigan car production, which has recorded negative growth rates since 2017, decreased again in 2021 (-19.2 percent) but rebounded in 2022, rising by 31.6 percent.

However, 2023 marked a reversal of this post-pandemic growth for total statewide motor vehicle production, as Michigan vehicle production fell by 9.8 percent over the year. This decline mainly reflected weaker light truck production throughout the year, which was aggravated by the UAW strike in the latter half of 2023. During 2023, the light truck production decline of 11.1 percent was offset slightly by the minimally recorded auto increase (3.8 percent).

As of March 2024, Michigan light truck production was up 9.0 percent over the month but down 3.9 percent over the year. Similarly, Michigan auto production was down both over the month and over the year, by 1.6 percent and 53.1 percent, respectively.

Michigan auto production has slowly rebounded and recorded two consecutive years of annualized growth. However, statewide auto production was still down approximately 55,000 (-22.7 percent) since 2019 and 81.2 percent since 2013.

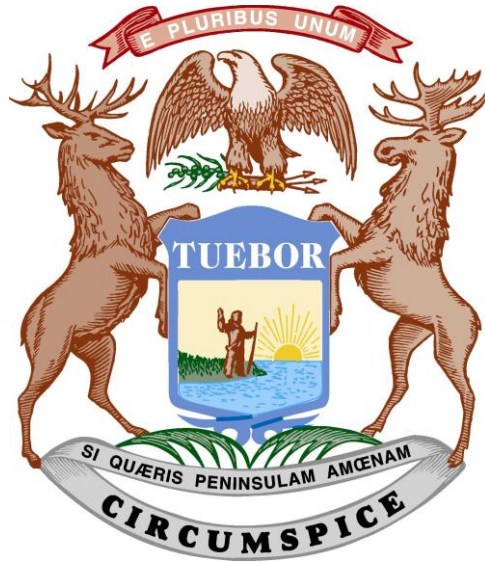
### Michigan Light Vehicle Production Seasonally Adjusted



Sources: Automotive News and Michigan Department of Treasury

**SECTION III**

**Administration Economic Forecast**



## Administration Economic Forecast May 17, 2024

### Administration Economic Forecast Summary

**Table 1** provides a one-page summary table of the Administration forecast of the U.S. and Michigan economies.

### 2024, 2025 and 2026 U.S. Economic Outlook

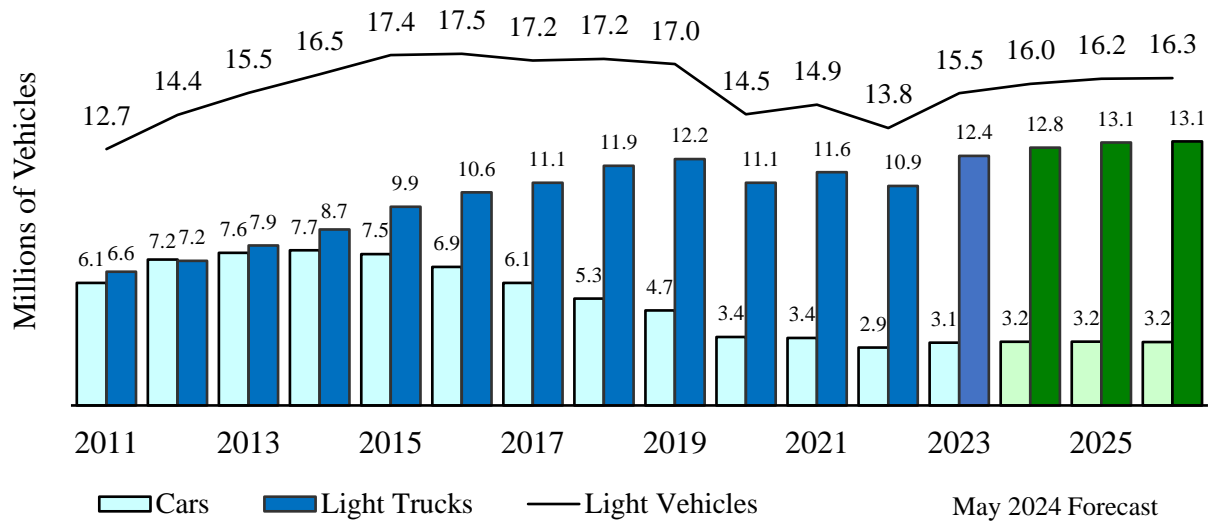
**Real (inflation adjusted) annual GDP** is expected to advance over the forecast horizon. After declining 2.2 percent in 2020 (the largest annual decline since 2009), real GDP rose 5.8 percent in calendar year 2021, which was the fastest annual real GDP growth recorded since 1984. Real GDP growth then slowed to 1.9 percent in 2022 but moved up by 2.5 percent in 2023. Real GDP is forecast to grow 2.5 percent in 2024, rise 2.0 percent in 2025, then increase 2.3 percent in 2026.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2024

Due mainly to notable decreases during the first half of 2020, **light vehicle sales** decreased from 17.0 million units in 2019 to 14.5 million units in 2020. In 2021, light vehicle sales edged up modestly to 14.9 million units but fell to 13.8 million units in 2022. As of 2023, light vehicle sales rebounded back to 15.5 million units. Light vehicle sales are expected to rise steadily over the forecast horizon, increasing to 16.0 million units in 2024, moving up to 16.2 million units in 2025, and then 16.3 million units in 2026. Similar to prior year’s forecast, light truck sales continue to dominate the light vehicle market over the forecast horizon.

## Vehicle Sales Increase Through 2026



Source Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2024.

The **U.S. unemployment rate** declined steadily the past three years, moving down from 5.3 percent in 2021 to 3.6 percent in both 2022 and 2023. The national unemployment rate is forecast to rise to 4.0 percent in 2024 and 2025 then increase one-tenth of a percentage point to 4.1 percent in 2026.

**U.S. wage and salary employment** rose a strong 4.3 percent in 2022 and increased 2.3 percent during 2023. Wage and salary employment is expected to rise 1.6 percent in 2024, advance 0.9 percent in 2025 and move up 0.9 percent in 2026.

The **U.S. consumer price index (CPI)** increased 8.0 percent in 2022 and 4.1 percent in 2023. The CPI is forecast to rise 3.2 percent in 2024, advance 2.7 percent in 2025 and move up 2.6 percent in 2026. The personal consumption price deflator rate advanced 3.7 percent in 2023 and is projected to move up by 1.9 percent in 2024 and 2.1 percent in both 2025 and 2026.

The **three-month Treasury bill rate** average was 5.1 percent in 2023. The Treasury bill rate is expected to average 5.0 percent in 2024, 4.6 percent in 2025, and 4.0 percent in 2026.

**Housing starts** fell 3.0 percent to 1.553 million in 2022. Due to higher mortgage rates, housing starts declined 8.5 percent in 2023 to 1.420 million. Housing starts are predicted to edge up slightly by 0.4 percent in 2024, increase 1.8 percent in 2025, then advance 2.1 percent by 2026 to reach 1.480 million starts.

## 2024, 2025 and 2026 Michigan Economic Outlook

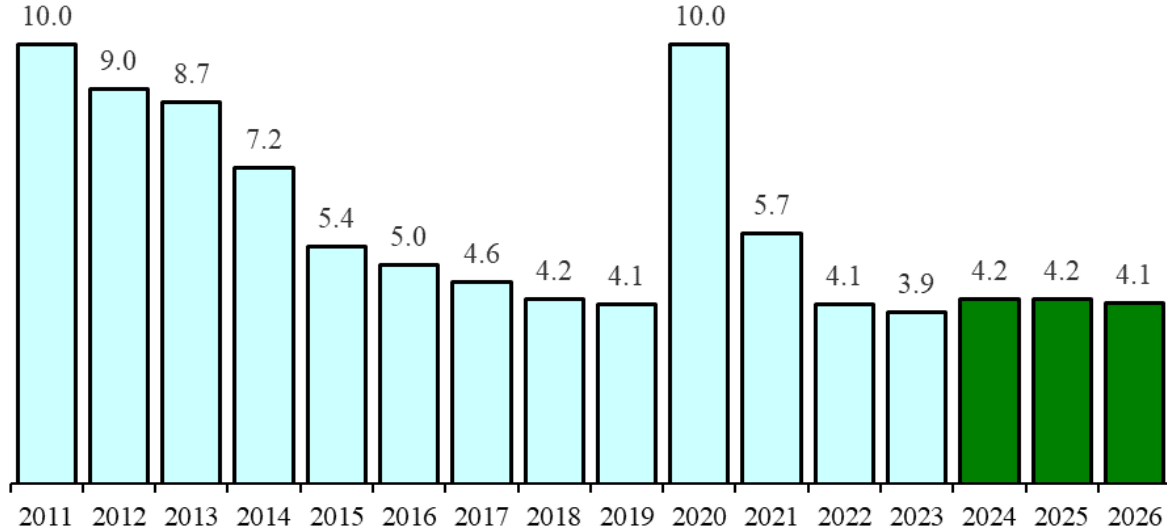
**Michigan wage and salary employment** has displayed solid growth since 2020. Wage and salary employment advanced 4.0 percent in 2021 and 4.1 percent in 2022 after the steep decline of 9.1 percent in 2020 due to the pandemic.

During 2023, annual Michigan wage and salary employment rose 1.8 percent. Statewide wage and salary employment is projected to move up over the forecast horizon at more moderate levels, rising by 0.9 percent in 2024, 1.0 percent in 2025, and 0.5 percent in 2026.

**Michigan manufacturing employment** declined 11.1 percent in 2020 during the pandemic but rebounded upwards by 4.9 percent in 2021. Statewide manufacturing employment then advanced 3.9 percent in 2022 and 1.3 percent during 2023. Manufacturing employment is forecast to increase over the forecast period by 1.0 percent in 2024, 1.4 percent in 2025, and 0.3 percent by 2026.

The **Michigan unemployment rate** decreased to 4.1 percent in 2022 and fell to 3.9 percent in 2023. The state jobless rate is expected to return to 4.2 percent in both 2024 and 2025 and then edge down slightly to 4.1 percent by 2026.

### State Unemployment Rate Remains Low (Percent)



Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and May 2024 Administration Forecast.

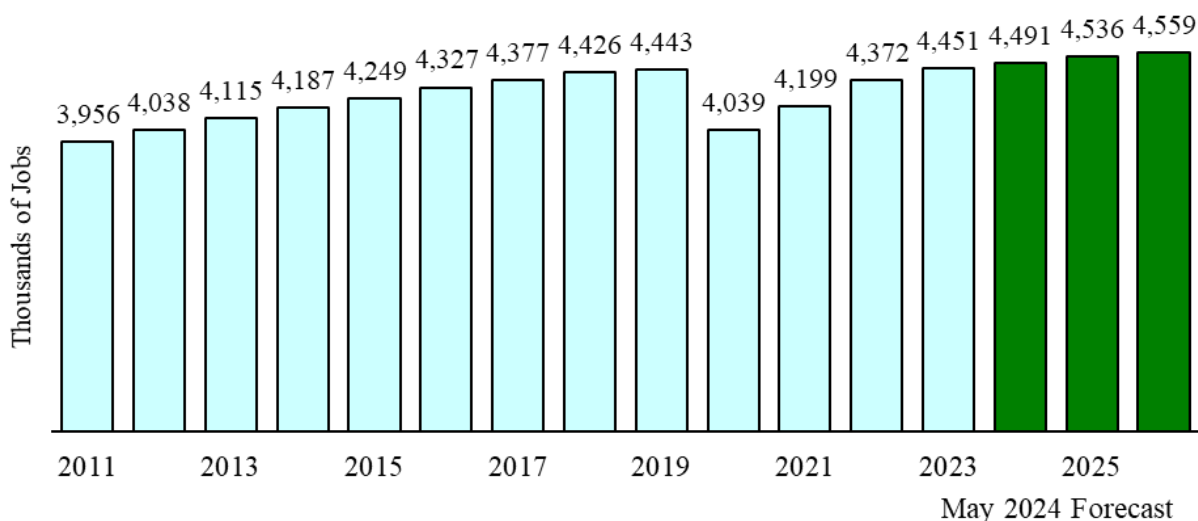
**Table 1**  
**Administration Economic Forecast**

	May 2024							
	Calendar 2023 Actual	Percent Change from Prior Year	Calendar 2024 Forecast	Percent Change from Prior Year	Calendar 2025 Forecast	Percent Change from Prior Year	Calendar 2026 Forecast	Percent Change from Prior Year
<b>United States</b>								
Real Gross Domestic Product (Billions of Chained 2012 Dollars)	\$22,377	2.5%	\$22,936	2.5%	\$23,395	2.0%	\$23,933	2.3%
Implicit Price Deflator GDP (2012 = 100)	122.3	3.6%	124.7	2.0%	127.3	2.1%	130.0	2.1%
Consumer Price Index (1982-84 = 100)	304.702	4.1%	314.403	3.2%	322.844	2.7%	331.269	2.6%
Consumer Price Index - Fiscal Year (1982-84 = 100)	302.289	5.1%	311.531	3.1%	321.742	3.3%	328.284	2.0%
Personal Consumption Deflator (2012 = 100)	120.4	3.7%	122.7	1.9%	125.2	2.1%	127.9	2.1%
3-month Treasury Bills Interest Rate (percent)	5.1		5.0		4.6		4.0	
Unemployment Rate - Civilian (percent)	3.6		4.0		4.0		4.1	
Wage and Salary Employment (millions)	156.051	2.3%	158.548	1.6%	159.975	0.9%	161.415	0.9%
Housing Starts (millions of starts)	1.420	-8.5%	1.425	0.4%	1.450	1.8%	1.480	2.1%
Light Vehicle Sales (millions of units)	15.5	12.6%	16.0	3.1%	16.2	1.5%	16.3	0.4%
Passenger Car Sales (millions of units)	3.1	8.6%	3.2	2.5%	3.2	-0.9%	3.2	0.9%
Light Truck Sales (millions of units)	12.4	13.6%	12.8	3.2%	13.1	2.1%	13.1	0.2%
Big 3 Share of Light Vehicles (percent)	36.1		35.4		34.8		33.9	
<b>Michigan</b>								
Wage and Salary Employment (thousands)	4,451	1.8%	4,491	0.9%	4,536	1.0%	4,559	0.5%
Unemployment Rate (percent)	3.9		4.2		4.2		4.1	
Personal Income (millions of dollars)	\$599,366	4.7%	\$620,344	3.5%	\$647,639	4.4%	\$671,602	3.7%
Real Personal Income (millions of 1982-84 dollars)	\$211,246	-1.0%	\$212,066	0.4%	\$215,366	1.6%	\$217,463	1.0%
Wages and Salaries (millions of dollars)	\$300,571	6.2%	\$312,294	3.9%	\$325,098	4.1%	\$336,151	3.4%
Detroit CPI (1982-84 = 100)	283.729	5.8%	292.525	3.1%	300.715	2.8%	308.835	2.7%
Detroit CPI - Fiscal Year (1982-84 = 100)	281.054	6.7%	289.238	2.9%	299.676	3.6%	305.676	2.0%

Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, U.S. Census Bureau, Federal Reserve and May 2024 Administration Forecast.



## Michigan Wage and Salary Employment Increases



Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and May 2024 Administration Forecast.

**Michigan wages and salaries** increased 9.0 percent in 2022 6.2 percent in 2023. Wages and salaries are forecast to increase 3.9 percent in 2024, 4.1 percent in 2025 and 3.4 percent in 2026.

**Michigan personal income** increased by 4.7 percent in 2023. Personal income is forecast to increase 3.5 percent in 2024, 4.4 percent in 2025, then rise by 3.7 percent in 2026.

The **Detroit CPI** advanced 5.8 percent in 2023. Inflation is projected to moderate during the forecast period. The Detroit CPI is forecast to rise 3.1 percent in 2024, move up 2.8 percent in 2025, and increase 2.7 percent in 2026. After falling 1.0 percent in 2023, **real (inflation adjusted) Michigan personal income** is forecast to edge up 0.4 percent in 2024, increase 1.6 percent in 2025, then rise 1.0 percent in 2026.

### Fiscal Year Economics

Michigan's largest taxes are the individual income tax (\$12.3 billion in FY 2023) and sales and use taxes (\$13.4 billion). Income tax withholding is the largest component of the income tax. Withholding (\$12.2 billion) is most affected by growth in wages and salaries. **Michigan wages and salaries** increased 6.2 percent in FY 2023. Wages and salaries are projected to rise 4.1 percent in FY 2024, 4.4 percent in FY 2025 and 3.3 percent in FY 2026.

Sales and use taxes depend, in part, on **Michigan disposable (after tax) income** and inflation. In FY 2023, disposable income rose an estimated 6.4 percent and is projected to rise in each the next three fiscal years – rising 4.1 percent in FY 2024, 4.1 percent in FY 2025 and 3.6 percent in FY 2026. Prices, as measured by the **Detroit CPI**, rose 6.7 percent in FY 2023. The Detroit CPI is forecast to increase 2.9 percent in FY 2024, 3.6 percent in FY 2025, and 2.0 percent in FY 2026.

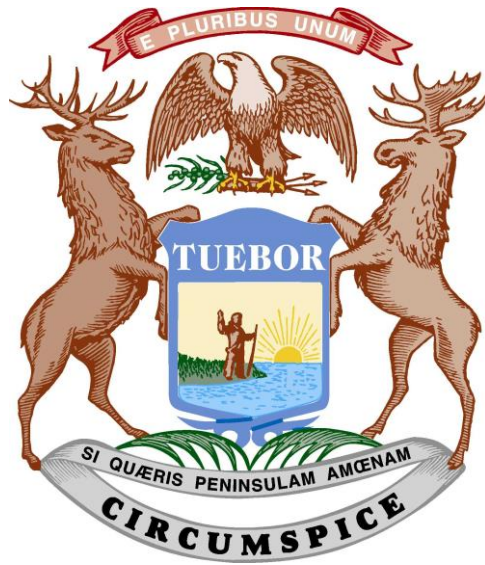
## **Forecast Risks**

Interest rates remain a risk for business investment and consumer spending. Although consumer spending has been remarkably resilient, many households have exhausted the savings accumulated during the pandemic and are now facing significantly higher debt costs and muted inflation-adjusted income growth. Business capital expenditures remain challenged by higher financing costs, tight lending standards, and uncertain demand prospects, while commercial real estate continues to deteriorate. A prolonged restrictive monetary policy will continue to put pressure on consumers and businesses, while also diminishing the federal government capacity to spend, as rising debt service burden can potentially constrain other areas of federal spending.

Higher than projected inflation could result in slower economic growth. Inflation decline has slowed its momentum in the beginning of 2024. While goods inflation remained in mild deflation territory lately, services inflation has not receded in this cycle, in large part due to the labor market that remains tight. The pace that services inflation takes to moderate will primarily determine when the Fed may start lowering interest rates in the coming months.

Light vehicle sales are projected to increase but rising financing costs and higher auto loan delinquency rates could curtail sales. A stronger than expected housing market could help sustain or increase economic growth. Housing affordability and construction costs remain as barriers to growth. Higher interest rates and tightening credits markets pose risks to both the light vehicle market and housing markets. Geopolitical conflicts and weaker economic activity throughout the world could have a negative impact on domestic economic activity.

**SECTION IV**  
**Administration**  
**Revenue Estimates**



## **Administration Revenue Estimates**

**May 17, 2024**

### **Revenue Estimate Overview**

The revenue estimates presented in this section consist of baseline revenues, revenue adjustments, and net revenues. Baseline revenues provide an estimate of the effects of the economy on tax revenues. For these estimates, FY 2023 is the base year. Any non-economic changes to the taxes occurring in FY 2024, FY 2025 and FY 2026 are not included in the baseline estimates. Non-economic changes are referred to in the tables as "tax adjustments". The net revenue estimates are the baseline revenues adjusted for tax adjustments.

This treatment of revenue is best illustrated with an example. Suppose tax revenues are \$10.0 billion in a given year, and that based on the economic forecast, revenues are expected to grow by 5.0 percent per year. Baseline revenue would be \$10.0 billion in Year 1, \$10.5 billion in Year 2, and \$11.0 billion in Year 3. Assume a tax rate cut is in place that would reduce revenues by \$100 million in Year 1, \$200 million in Year 2, and \$300 million in Year 3. If Year 1 is the base year, the revenue adjustments for Year 1 would be \$0 since the tax cut for this year is included in the base. The revenue adjustments for Year 2 would be \$100 million, and the revenue adjustments for Year 3 would be \$200 million, since the revenue adjustments are compared to the base year.

In the example above, the baseline revenues would be \$10.0 billion, \$10.5 billion, and \$11.0 billion, for Years 1 through 3, respectively. The revenue adjustments would be \$0 in Year 1, \$100 million in Year 2, and \$200 million in Year 3. The \$200 million in Year 3 represents the tax cuts since Year 1. Net revenue would be \$10.0 billion in Year 1, \$10.4 billion in Year 2, and \$10.8 billion in Year 3.

The following revenue figures are presented on a Consensus basis. Generally speaking, the Consensus estimates do not include certain one-time budget measures, such as withdrawals from the Budget Stabilization Fund, the sale of buildings, and so on. The figures also do not include constitutional revenue sharing payments to local governments from the sales tax. In addition, the estimates only include enacted legislation and do not include the effects of any proposed changes. The School Aid Fund estimates consist of taxes plus the transfer from the State Lottery Fund.

## **FY 2024 Revenue Outlook**

FY 2024 GF-GP revenue is forecast to decrease 0.1 percent to \$13,948.4 million from FY 2023. The FY 2024 GF-GP revenue estimate is \$351.0 million above the January 2024 Consensus estimate. FY 2024 SAF revenue is forecast to decrease 0.2 percent to \$17,820.5 from FY 2023. The FY 2024 SAF estimate is \$126.5 million below the January 2024 Consensus estimate (see Table 2).

**Table 2**  
**FY 2023-24 Administration Revenue Estimates**  
(millions)

	<b>Administration May 17, 2024</b>		<b>Change from January 2024 Consensus</b>
	<b>Amount</b>	<b>Growth</b>	
<b>General Fund - General Purpose</b>			
Baseline Revenue	\$16,812.7	-0.6%	---
Tax Cut Adjustments	(\$2,864.3)	---	---
Net Resources	\$13,948.4	-0.1%	\$351.0
<b>School Aid Fund</b>			
Baseline Revenue	\$17,988.8	0.4%	---
Tax Cut Adjustments	(\$168.3)	---	---
Net Resources	\$17,820.5	-0.2%	(\$126.5)
<b>Combined</b>			
Baseline Revenue	\$34,801.5	0.0%	---
Tax Cut Adjustments	(\$3,032.6)	---	---
Net Resources	\$31,768.9	-0.2%	\$224.6

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## **FY 2025 Revenue Outlook**

FY 2025 GF-GP revenue is forecast to increase 0.9 percent to \$14,077.1 million from FY 2024. The FY 2025 GF-GP revenue estimate is \$54.8 million above the January 2024 Consensus estimate. FY 2025 SAF revenue is forecast to increase 2.0 percent to \$18,179.4 from FY 2025. The FY 2025 SAF revenue estimate is \$127.5 million below the January 2024 Consensus estimate. (see Table 3).

**Table 3**  
**FY 2024-25 Administration Revenue Estimates**  
(millions)

	<b>Administration May 17, 2024</b>		<b>Change from January 2024 Consensus</b>
	<b>Amount</b>	<b>Growth</b>	
General Fund - General Purpose			
Baseline Revenue	\$16,887.6	0.4%	---
Tax Cut Adjustments	(\$2,810.5)	---	---
Net Resources	\$14,077.1	0.9%	\$54.8
School Aid Fund			
Baseline Revenue	\$18,404.7	2.3%	---
Tax Cut Adjustments	(\$225.3)	---	---
Net Resources	\$18,179.4	2.0%	(\$127.5)
Combined			
Baseline Revenue	\$35,292.3	1.4%	---
Tax Cut Adjustments	(\$3,035.8)	---	---
Net Resources	\$32,256.5	1.5%	(\$72.7)

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## **FY 2026 Revenue Outlook**

FY 2026 GF-GP revenue is forecast to increase 5.6 percent to \$14,861.2 million from FY 2025. The FY 2026 GF-GP revenue estimate is \$54.8 million above the January 2024 Consensus estimate. FY 2026 SAF revenue is forecast to increase 2.5 percent to \$18,642.0 from FY 2025. The FY 2026 SAF revenue estimate is \$63.9 million below the January 2024 Consensus estimate. (see Table 4).

**Table 4**  
**FY 2025-26 Administration Revenue Estimates**  
 (millions)

	<b>Administration May 17, 2024</b>		<b>Change from January 2024 Consensus</b>
	<b>Amount</b>	<b>Growth</b>	
General Fund - General Purpose			
Baseline Revenue	\$17,256.1	2.2%	---
Tax Cut Adjustments	(\$2,394.9)	---	---
Net Resources	\$14,861.2	5.6%	\$153.5
School Aid Fund			
Baseline Revenue	\$18,901.9	2.7%	---
Tax Cut Adjustments	(\$259.8)	---	---
Net Resources	\$18,642.1	2.5%	(\$63.9)
Combined			
Baseline Revenue	\$36,158.0	2.5%	---
Tax Cut Adjustments	(\$2,654.8)	---	---
Net Resources	\$33,503.2	3.9%	\$89.6

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## Constitutional Revenue Limit

Article IX, Section 26, of the Michigan Constitution establishes a limit on the amount of revenue State government can collect in any given fiscal year. The revenue limit for a given fiscal year is equal to 9.49 percent of the State’s personal income for the calendar year prior to the year in which the fiscal year begins. For example, FY 2022 revenue is compared to CY 2020 personal income. If revenues exceed the limit by less than 1 percent, the State may deposit the excess into the Budget Stabilization Fund (BSF). If the revenues exceed the limit by more than 1 percent, the excess revenue is refunded to taxpayers.

FY 2022 revenues were \$7.4 billion below the revenue limit. State revenues will also be well below the limit for FY 2023 through FY 2026. FY 2023 revenues are expected to be about \$10.3 billion below the limit, FY 2024 revenues \$12.2 billion below the limit, FY 2025 revenues \$14.0 billion below the limit, and FY 2026 revenues \$14.4 billion below the limit (See Table 5).

**Table 5**  
**Administration Revenue Limit Calculation**  
(millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
	<u>Actual</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>
	<u>June 2023</u>	<u>May 2024</u>	<u>May 2024</u>	<u>May 2024</u>	<u>May 2024</u>
<b>Revenue Subject to Limit</b>	\$42,937.4	\$43,610.7	\$42,159.7	\$42,925.2	\$44,428.3
<b><u>Revenue Limit</u></b>	<b><u>CY 2020</u></b>	<b><u>CY 2021</u></b>	<b><u>CY 2022</u></b>	<b><u>CY 2023</u></b>	<b><u>CY 2024</u></b>
Personal Income	\$530,809	\$567,807	\$572,325	\$599,366	\$620,344
Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$50,373.8	\$53,884.9	\$54,313.6	\$56,879.8	\$58,870.6
<b><u>Amount Under (Over) Limit</u></b>	<b>\$7,436.4</b>	<b>\$10,274.1</b>	<b>\$12,153.9</b>	<b>\$13,954.6</b>	<b>\$14,442.4</b>

## Budget Stabilization Fund Calculation

The Management and Budget Act contains provisions for calculating a recommended deposit or withdrawal from the BSF. The calculation looks at personal income net of transfer payments. The net personal income figure is adjusted for inflation. The change in this figure for the calendar year determines whether a pay-in or pay-out is recommended. If the formula calls for a deposit into the BSF, the deposit is made in the next fiscal year. If the formula calls for a withdrawal, the withdrawal is made during the current fiscal year.

PA 613 of 2018 prohibits the legislature from appropriating money from the fund for a fiscal year when the annual growth rate of real personal income less transfer payments for the calendar year in which that fiscal year ends is estimated to be greater than 0% at the most recent consensus revenue estimating conference. When the annual growth rate is estimated to be less than 0% at the most recent consensus revenue estimating conference, the legislature may appropriate by law for



the fiscal year ending in the current calendar year no more than 25% of the prior fiscal year ending balance in the fund as reported in the comprehensive annual financial report. If personal income is forecast to be negative for subsequent fiscal years, the Legislature then could appropriate up to 25% of the available Fund balance in the first fiscal year for each subsequent fiscal year.

If real personal income less transfer payments grew by more than 2 percent in a given calendar year, the fraction of income growth over 2 percent is multiplied by the current fiscal year’s GF-GP revenue to determine the pay-in for the next fiscal year.

Real calendar year personal income less transfer payments is projected to be between 0 and 2 percent in 2024 through 2026. Therefore, no pay-ins or pay-outs are projected through the forecast horizon.

**School Aid Fund Revenue Adjustment Factor**

The School Aid Fund (SAF) revenue adjustment factor for the next fiscal year is calculated by dividing the sum of current year and subsequent year SAF revenue by the sum of current year and prior year SAF revenue. The SAF revenue totals are adjusted for any change in the rate and base of the SAF taxes. The year for which the adjustment factor is being calculated is used as the base year for any tax adjustments. For FY 2025, the SAF revenue adjustment factor is calculated to be 1.0140 (See Table 6). For FY 2026, the SAF revenue adjustment factor is calculated to be 1.0255 (See Table 7).

**Table 6**  
**Administration School Aid Revenue Adjustment Factor**  
**For Fiscal Year 2025**

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Baseline SAF Revenue	\$17,908.5	\$17,988.8	\$18,404.7
Balance Sheet Adjustments	<u>(\$48.5)</u>	<u>(\$168.3)</u>	<u>(\$225.3)</u>
Net SAF Estimates	\$17,860.0	\$17,820.5	\$18,179.4
Subtotal Adjustments to FY 2025 Base	<u>(\$176.8)</u>	<u>(\$57.0)</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2025 Base	\$17,683.2	\$17,763.5	\$18,179.4

**School Aid Fund Revenue Adjustment Calculation for FY 2025**

Sum of FY 2023 & FY 2024	\$17,683.2	+	\$17,763.5	=	\$35,446.7
Sum of FY 2024 & FY 2025	\$17,763.5	+	\$18,179.4	=	\$35,942.9

<b>FY 2025 Revenue Adjustment Factor</b>	<b>1.0140</b>
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Note: Factor is calculated off a FY 2025 base year.

**Table 7**  
**Administration School Aid Revenue Adjustment Factor**  
**For Fiscal Year 2026**

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Baseline SAF Revenue	\$17,988.7	\$18,404.7	\$18,901.9
Balance Sheet Adjustments	(\$168.3)	(\$225.3)	(\$259.8)
Net SAF Estimates	\$17,820.5	\$18,179.4	\$18,642.1
Subtotal Adjustments to FY 2026 Base	<u>(\$91.6)</u>	<u>(\$34.6)</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2026 Base	\$17,729.0	\$18,144.9	\$18,642.1

School Aid Fund Revenue Adjustment Calculation for FY 2026

Sum of FY 2024 & FY 2025	\$17,729.0	+	\$18,144.9	=	\$35,873.8
Sum of FY 2025 & FY 2026	\$18,144.9	+	\$18,642.1	=	\$36,786.9

<b>FY 2026 Revenue Adjustment Factor</b>	<b>1.0255</b>
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Note: Factor is calculated off a FY 2026 base year.

**Revenue Detail**

The estimated tax and revenue totals include the effects of all enacted tax changes. The revenue totals by tax are presented separately for GF-GP and for the SAF (See Tables 8 and 9). Tax totals for the income, sales, use, CIT/MBT, tobacco and casino taxes for all funds are also included (See Table 10).

**Table 8**  
**Administration General Fund General Purpose Revenue Detail**  
(millions)

	<b>FY 2024</b>		<b>FY 2025</b>		<b>FY 2026</b>	
	<b>Amount</b>	<b>Growth</b>	<b>Amount</b>	<b>Growth</b>	<b>Amount</b>	<b>Growth</b>
<b>GF-GP Tax Amounts</b>						
Income Tax	\$7,888.8	1.9%	\$8,292.8	5.1%	\$8,631.5	4.1%
Sales	\$1,587.0	-2.3%	\$1,623.8	2.3%	\$1,648.1	1.5%
Use	\$1,267.1	1.4%	\$1,289.4	1.8%	\$1,324.7	2.7%
Cigarette	\$140.3	-2.4%	\$136.5	-2.7%	\$134.5	-1.5%
Beer & Wine	\$48.0	3.7%	\$49.0	2.1%	\$50.0	2.0%
Liquor Specific	\$67.6	-0.4%	\$68.4	1.2%	\$69.3	1.3%
Insurance Co. Premium	\$490.0	5.2%	\$501.0	2.2%	\$509.0	1.6%
CIT/MBT	\$1,155.4	-1.4%	\$1,141.6	-1.2%	\$1,660.0	45.4%
Telephone & Telegraph	\$34.0	-5.3%	\$33.0	-2.9%	\$32.0	-3.0%
Oil & Gas Severance	\$30.0	10.7%	\$30.0	0.0%	\$30.0	0.0%
Essential Services Assess.	\$150.0	5.9%	\$159.0	6.0%	\$165.0	3.8%
Penalties and Interest	\$143.0	1.3%	\$147.0	2.8%	\$150.0	2.0%
Railroad/Car Loaning	\$15.0	0.0%	\$15.0	0.0%	\$15.0	0.0%
Enhanc. Enforce/ACS	(\$151.0)	3.7%	(\$152.0)	0.7%	(\$153.0)	0.7%
<b>Total GF-GP Taxes</b>	<b>\$12,865.2</b>	<b>1.0%</b>	<b>\$13,334.5</b>	<b>3.6%</b>	<b>\$14,266.1</b>	<b>7.0%</b>
<b>GF-GP Non-Tax Revenue</b>						
Federal Aid	\$10.0	-28.1%	\$10.0	0.0%	\$10.0	0.0%
From Local Agencies	\$0.1	NA	\$0.1	0.0%	\$0.1	0.0%
From Services	\$7.0	79.5%	\$7.0	0.0%	\$7.0	0.0%
From Licenses & Permits	\$14.0	25.0%	\$14.0	0.0%	\$14.0	0.0%
Miscellaneous	\$35.0	-43.7%	\$35.0	0.0%	\$35.0	0.0%
Interfund Interest	\$580.0	-5.5%	\$250.0	-56.9%	\$100.0	-60.0%
Liquor Purchase	\$303.1	-1.9%	\$292.5	-3.5%	\$294.9	0.8%
Charitable Games	\$4.0	-46.7%	\$4.0	0.0%	\$4.0	0.0%
Transfer From Escheats	\$130.0	-26.3%	\$130.0	0.0%	\$130.0	0.0%
Other Non Tax	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
<b>Total Non Tax</b>	<b>\$1,083.2</b>	<b>-9.6%</b>	<b>\$742.6</b>	<b>-31.4%</b>	<b>\$595.0</b>	<b>-19.9%</b>
<b>Total GF-GP Revenue</b>	<b>\$13,948.4</b>	<b>0.0%</b>	<b>\$14,077.1</b>	<b>0.9%</b>	<b>\$14,861.1</b>	<b>5.6%</b>

**Table 9**  
**Administration School Aid Fund Revenue Detail**

	FY 2024		FY 2025		FY 2026	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>School Aid Fund</b>						
Income Tax	\$3,765.6	-4.2%	\$3,888.4	3.3%	\$4,063.5	4.5%
Sales Tax	\$7,719.5	-1.0%	\$7,820.3	1.3%	\$7,938.8	1.5%
Use Tax	\$966.2	6.8%	\$981.9	1.6%	\$1,000.7	1.9%
Liquor Excise Tax	\$79.1	5.5%	\$80.5	1.8%	\$81.8	1.6%
Cigarette & Tobacco	\$248.3	-2.3%	\$240.0	-3.3%	\$235.8	-1.8%
Marijuana Excise Tax	\$118.0	16.1%	\$123.6	4.7%	\$127.0	2.8%
State Education Tax	\$2,720.0	6.3%	\$2,812.6	3.4%	\$2,905.0	3.3%
Real Estate Transfer	\$370.0	-4.9%	\$385.0	4.1%	\$410.0	6.5%
Industrial Facilities Tax	\$45.0	0.9%	\$45.0	0.0%	\$45.0	0.0%
Casino (45% of 18%)	\$102.6	-0.1%	\$105.0	2.3%	\$106.1	1.0%
iGaming, Sports Betting	\$358.1	9.4%	\$379.1	5.9%	\$390.3	3.0%
Commercial Forest	\$4.0	0.0%	\$4.0	0.0%	\$4.0	0.0%
Other Spec Taxes	\$24.0	-4.0%	\$24.0	0.0%	\$24.0	0.0%
<b>Subtotal Taxes</b>	\$16,520.5	0.0%	\$16,889.4	2.2%	\$17,332.1	2.6%
Lottery Transfer	\$1,300.0	-3.8%	\$1,290.0	-0.8%	\$1,310.0	1.6%
<b>Total SAF Revenue</b>	\$17,820.5	-0.2%	\$18,179.4	2.0%	\$18,642.1	2.5%

**Table 10**  
**Administration Major Tax Totals**

	FY 2024		FY 2025		FY 2026	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>Major Tax Totals (Includes all Funds)</b>						
Income Tax	\$12,324.2	-0.1%	\$12,851.0	4.3%	\$13,364.8	4.0%
Sales Tax	\$10,537.3	-1.2%	\$10,674.4	1.3%	\$10,834.6	1.5%
Use Tax	\$2,795.0	3.4%	\$2,841.1	1.6%	\$2,896.8	2.0%
CIT/MBT (GF/GP Only)	\$1,155.4	-1.4%	\$1,141.6	-1.2%	\$1,660.0	45.4%
Cigarette and Tobacco	\$706.0	-2.2%	\$687.0	-2.7%	\$677.0	-1.5%
Casino Tax	\$102.6	-0.1%	\$105.0	2.3%	\$106.1	1.0%