Senate Fiscal Agency

# MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

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

## May 16, 2024

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www.senate.michigan.gov/sfa

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## ***ACKNOWLEDGEMENT***

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## ***ECONOMIC FORECAST***

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

The Michigan economy will be mixed over the forecast, with employment growth steadily slowing and the unemployment rate slowly rising. However, inflation-adjusted personal income will increase after declining in 2022 and 2023.

## ***REVENUE FORECAST***

Under the revised estimate for fiscal year (FY) 2023-24, the shifts in economic growth will combine with a variety of tax changes adopted during 2023 to lower General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue 0.1% from the FY 2022-23 level. Revenue growth also will be limited as consumers return to a more normal split between goods (subject to sales and use taxes) and services (which generally are exempt). The revised FY 2023-24 estimate is $242.4 million above the January 2024 consensus estimate.

In FY 2024-25, stable economic growth and continuing effects of the tax changes adopted in 2023 will cause GF/GP and SAF revenue to grow 2.8% above the revised estimate for FY 2023-24. The revised estimate for FY 2024-25 is $334.9 million above the January 2024 consensus estimate.

In FY 2025-26, continued stability in the economy's growth and continuing effects of the tax changes adopted in 2023 will result in GF/GP and SAF revenue growing 2.7%. The revised estimate for FY 2025-26 is $129.2 million above the January 2024 consensus estimate.

## ***YEAR-END BALANCE ESTIMATES***

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2023-24 GF/GP budget will have a positive ending balance of $1.8 billion. A comparison of the FY 2023-24 SAF revenue estimates and enacted and projected SAF appropriations produces a $293.8 million SAF balance. These balances would be carried forward and used in FY 2024-25.

Comparing the SFA's FY 2024-25 GF/GP revenue estimate with the Senate-passed appropriations bills leads to a $1.0 billion balance in the FY 2024-25 GF/GP budget. The SFA's FY 2024-25 SAF revenue estimate, combined with the Senate-passed budget bills, results in a negative $344.2 million balance in the FY 2024-25 SAF budget. (The Senate-passed SAF budget had a positive balance based on the January 2024 CREC revenues.) A budget cannot be enacted with an estimated negative balance; therefore, for the purposes of estimating the FY 2025-26 balance, it is assumed that the FY 2024-25 SAF budget that ultimately is adopted results in a $0 balance.

If the SFA's FY 2025-26 GF/GP revenue estimate is compared with the FY 2024-25 ongoing GF/GP appropriations found in Senate-passed bills, adjusted for a current services baseline, there is a projected $1.5 billion GF/GP budget balance. If the SFA's FY 2025-26 SAF revenue estimate is compared with a continuation of the Senate's ongoing spending for FY 2024-25, adjusted to result in a $0 ending balance and adjusted for estimated pupils and other costs, there is a projected balance of $144.9 million.

## *EXECUTIVE SUMMARY*

### SENATE FISCAL AGENCY
### ECONOMIC AND BUDGET SUMMARY

**ECONOMIC PROJECTIONS**
**(Calendar Year)**

| | 2022 Actual | 2023 Actual | 2024 Estimate | 2025 Estimate | 2026 Estimate |
|---|---|---|---|---|---|
| Real Gross Domestic Product (% change) | 1.9% | 2.5% | 2.4% | 2.0% | 2.2% |
| US Consumer Price Index (% change) | 8.0% | 4.1% | 3.2% | 2.5% | 2.5% |
| Light Motor Vehicle Sales (millions of units) | 13.8 | 15.5 | 15.9 | 16.4 | 16.3 |
| US Unemployment Rate (%) | 3.6% | 3.6% | 4.0% | 4.5% | 4.4% |
| Real Michigan Personal Income (% change) | (6.9%) | (1.0%) | 1.4% | 1.9% | 0.8% |
| Michigan Wage & Salary Employment (% change) | 4.1% | 1.8% | 0.7% | 1.1% | 0.2% |

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

| | FY 2023-24 Estimate | | | FY 2024-25 Estimate | | | FY 2025-26 Estimate | | |
|---|---|---|---|---|---|---|---|---|---|
| | Baseline | Tax Changes | Net Available | Baseline | Tax Changes | Net Available | Baseline | Tax Changes | Net Available |
| GF/GP | $16,968.9 | ($2,863.6) | $14,105.3 | $17,356.0 | ($2,809.6) | $14,546.4 | $17,427.1 | ($2,394.0) | $15,033.1 |
| % Change | (0.6%) | --- | 1.0% | 2.3% | --- | 3.1% | 0.4% | --- | 3.3% |
| School Aid Fund | $17,851.2 | (174.2) | $17,677.1 | $18,348.9 | (231.2) | $18,117.7 | $18,775.4 | (265.8) | $18,509.7 |
| % Change | (0.4%) | --- | (1.0%) | 2.5% | --- | 2.5% | 2.3% | --- | 2.2% |
| Total GF/GP & SAF | $34,820.2 | ($3,037.8) | $31,782.4 | $35,704.8 | ($3,040.7) | $32,664.1 | $36,202.6 | ($2,659.7) | $33,542.8 |
| % Change | (0.5%) | --- | (0.1%) | 2.5% | --- | 2.8% | 1.4% | --- | 2.7% |
| Revenue Limit – Under (Over) | | $12,040.2 | | | $13,506.7 | | | $14,578.6 | |

| | FY 2023-24 Estimate | FY 2024-25 Estimate | FY 2025-26 Estimate |
|---|---|---|---|
| Revision from January Consensus | | | |
| GF/GP | $507.9 | $524.2 | $325.5 |
| SAF | (269.8) | (189.3) | (196.3) |
| **Total** | **$238.1** | **$334.9** | **$129.2** |

**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.................................. | $1,758.3 | $959.6 | $1,504.0 |
| School Aid Fund ........................................................ | $293.8 | ($344.2) | $144.9 |
| Budget Stabilization Fund (with enacted deposits)...... | $1,986.8 | $2,093.7 | $2,194.9 |

## ***ECONOMIC REVIEW AND OUTLOOK***

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2024, 2025, and 2026, as well as a summary of recent economic activity.

### ***RECENT US ECONOMIC HIGHLIGHTS***

- The COVID-19 pandemic ended the longest, although weak by historical standards, expansion in US history with record setting declines in inflation-adjusted gross domestic product (GDP) and employment. Both the pandemic recession and the recovery affected various sectors in markedly different ways, both in terms of magnitude and direction.
- While many economic variables have recovered to or surpassed their pre-pandemic levels, some have not and the economy continues to adjust to a new "normal".
- Labor markets remain constrained: high consumption levels have combined with population demographics to create widespread labor shortages. Unemployment rates remain at lows experienced just before the pandemic, which were the lowest rates since the 1960s.
- Inflation remains elevated but is slowing; significant shifts in consumption from services to goods interacted with stimulus efforts, the labor market, international trade disruptions, and conflicts in Ukraine to push inflation to the highest levels in approximately 40 years. After peaking in the middle of 2022, inflation has been easing but remains high by historical standards.

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

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

**Figure 1**

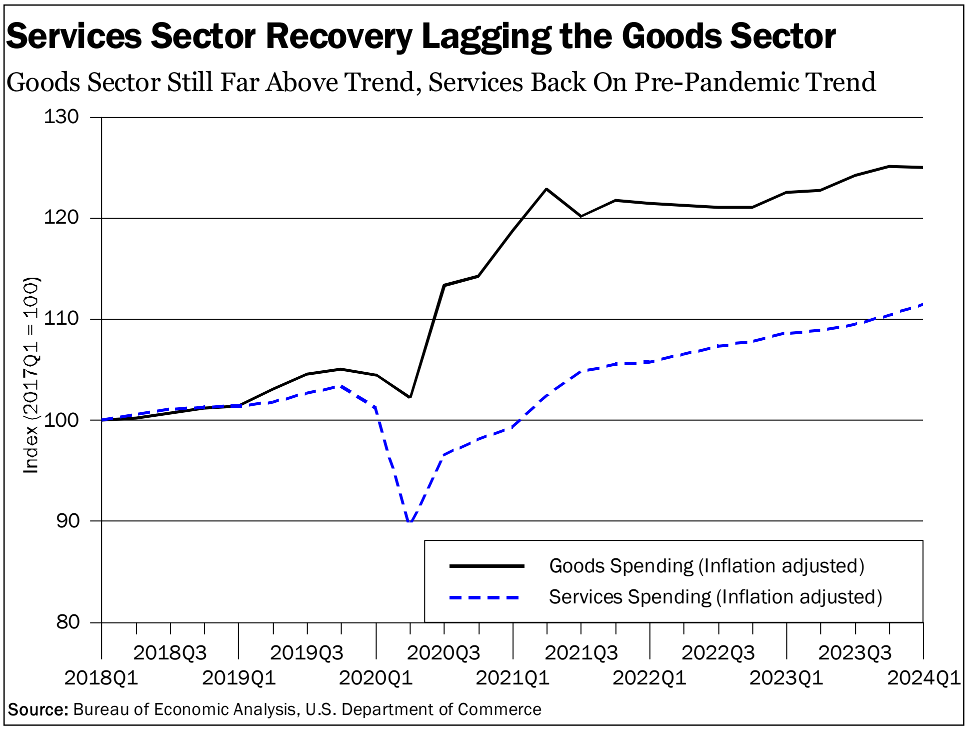
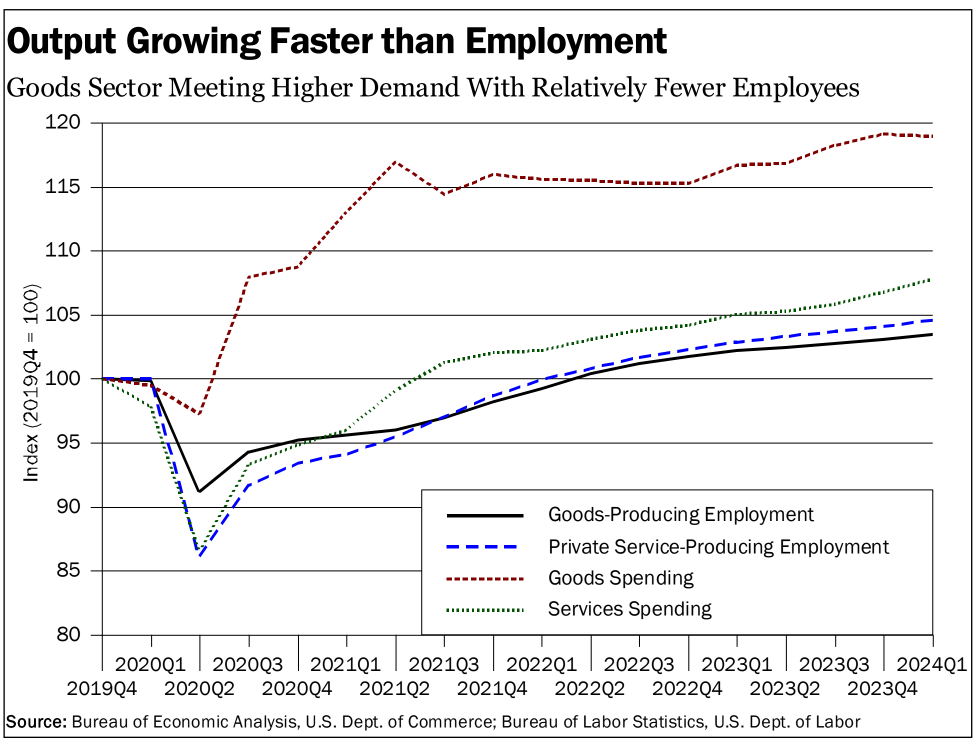



**Figure 2**



These changes exerted pronounced effects on the labor market and inflation. Labor shortages are a natural result of drastic shifts in consumer spending. When inflation-adjusted spending rises faster than employment, the only ways to satisfy consumer demand are: 1) in the case of goods, to draw down inventories of previously manufactured products, 2) to improve labor productivity, and/or 3) to bid workers away from other firms. Private inventories fell rapidly in 2020 and 2021, while labor productivity rose substantially. However, labor productivity fell 1.9% in 2022, the largest annual decline since records began in 1947. As a result, labor market churn has supplied much of the support for increased output, just as it was starting to do in the months leading up to the pandemic when unemployment rates dropped below 4.0%. During the 2001-2007 period, before the 2008-2009 recession (the "Great Recession"), the number of unemployed individuals per job opening averaged 2.0, while during the 2014-2019 period it averaged 1.3 (steadily declining from about 2.0 in 2014 to 0.8 in 2019 as the unemployment rate fell to the lowest levels in 50 years). During 2022, the number of unemployed individuals per job opening averaged 0.5, and as the economy has slowed somewhat in response to tightening monetary policy, that figure has risen to 0.8 in March 2024 (Figure 3). Such high demand for workers has pushed wages up, with average hourly earnings between July 2021 and March 2023 growing between 5.0% and 7.0% above year-ago levels—growth rates not seen since the 1970s (Figure 4). As higher interest rates have slowed the economy slightly and supply bottlenecks have resolved, year-over-year growth in hourly earnings has slowed, declining to 4.0% in April 2024 (which is still considerably above the 2.9% average increase over the 1991-2019 period).

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

**Figure 3**

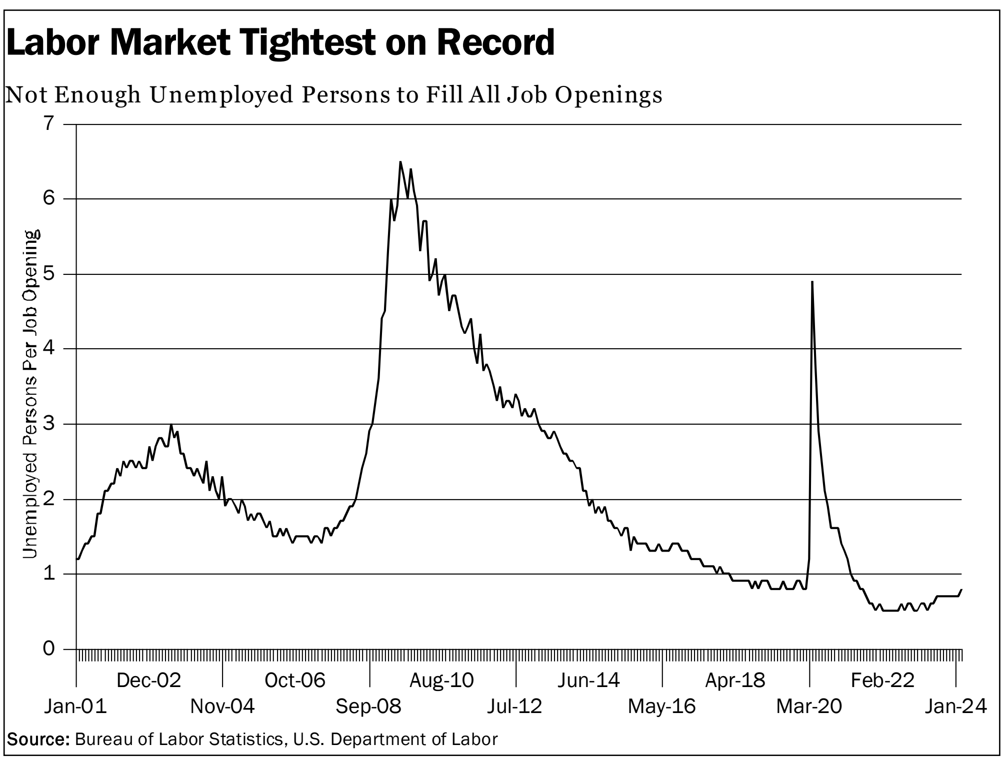
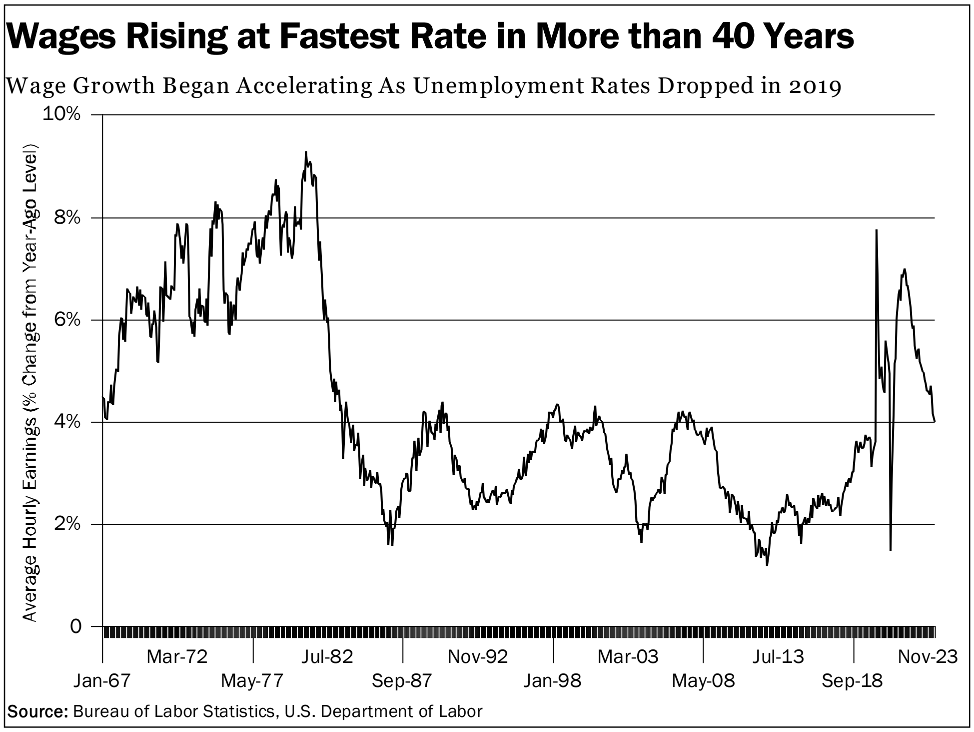


**Figure 4**

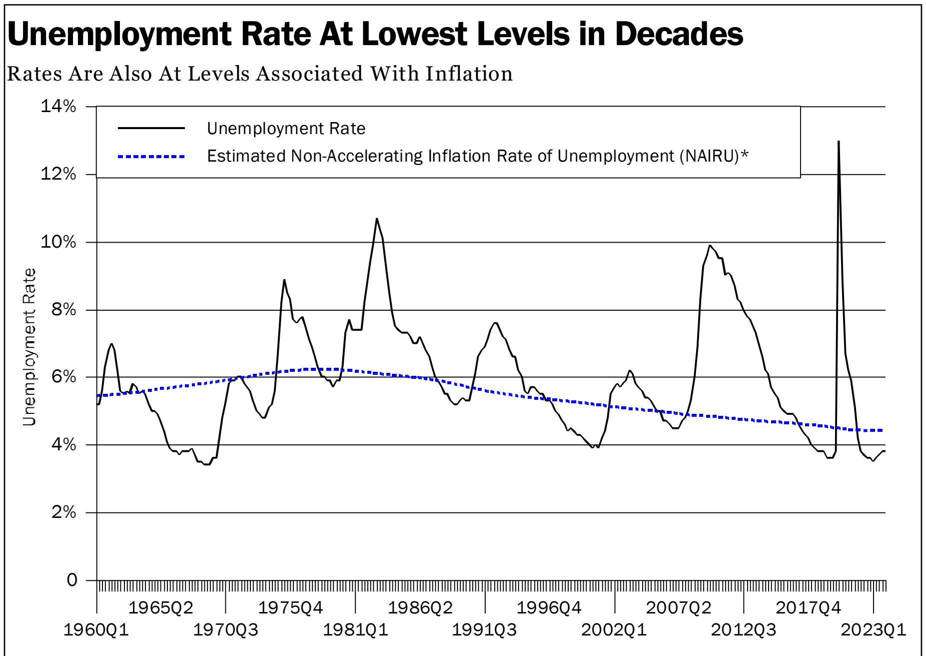



The shift in spending from services to goods during the pandemic and recovery produced significant dislocation in the economy. Goods producers struggled to find workers and raw materials for the higher output that consumers were demanding, and these shortages were amplified by disruptions in supply chains (both in terms of foreign and domestic transportation disruptions and pandemic impacts affecting production of supplies and parts in other countries). With the substantial increase in goods demand and the shifts in how many services are now delivered, many job openings--both during the pandemic and continuing into 2024—have required skills that most unemployed workers lacked.

Labor force changes have combined with a variety of supply-chain difficulties to lower the unemployment rate and generate the highest inflation in almost 40 years. The unemployment rate before the pandemic had fallen to 3.5% in January 2020 and February 2020, and at that level was below a level commonly associated with accelerating inflation. After rising to a high of 14.7% in April 2020, the unemployment rate steadily declined, reaching the pre-pandemic rate of 3.5% in July 2022. Between July 2022 and July 2023, the unemployment rate varied between 3.4% and 3.7%. Since July 2023, the unemployment rate has remained fairly stable, averaging 3.8% between August 2023 and April 2024.

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

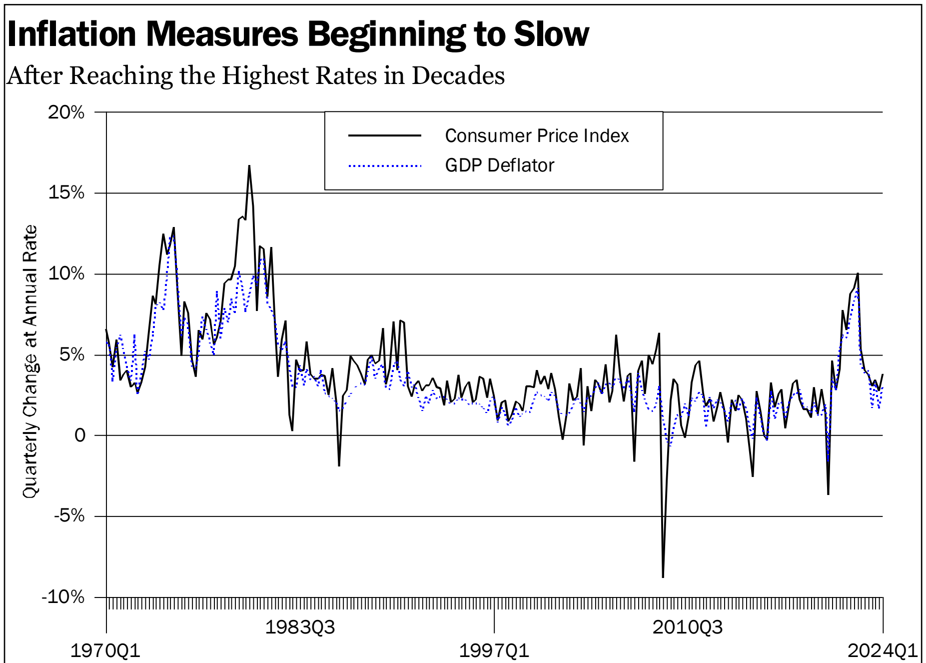
**Figure 5**




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

Given low unemployment rates, rising wages, and supply constraints, inflation has risen (Figure 6). The Consumer Price Index (CPI), the broadest measure of inflation facing consumers, averaged a 1.8% year-over-year monthly increase over the January 2010 to December 2019 period. After the CPI fell from a 2.3% year-over-year increase in February 2020 to 0.2% in May 2020, inflation began to accelerate, peaking at 8.9% in June 2022 (helped by the Russian invasion of Ukraine). Since June 2022, inflation has consistently slowed. In November 2023, the CPI was up 3.1% from November 2022 and represented the smallest year-over-year increase since March 2021. Over the first three months of 2024, inflation has averaged a 3.2% increase over the same period in 2023.

**Figure 6**




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

## ***RECENT MICHIGAN ECONOMIC HIGHLIGHTS***

- Michigan's economy has mirrored changes in the national economy, but Michigan's comparative over-reliance on the motor vehicle industry has accounted for significant deviations from the national-level changes.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and, even before COVID-19, Michigan had yet to regain employment levels experienced before the 2000-01 recession.
- The COVID-19 pandemic resulted in substantial job losses for Michigan, although the strength in manufactured goods demand (particularly for motor vehicles) in the wake of COVID-19 has resulted in Michigan ranking second nationally for the most rapid employment growth through 2022. Since 2023, Michigan employment growth has averaged 0.9% per year, ranking Michigan 41st among the 50 states.
- Unlike the US economy, although Michigan output has recovered to pre-COVID-19 levels, employment has not. Michigan's November 2023 payroll employment figure was down 0.6% from the February 2020 level.

Michigan's economy spent the 2000-2010 period in an employment recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, a significant surge in productivity for at least three reasons: 1) there was more room for productivity improvements in the durable goods and motor vehicle manufacturing sectors than in many other sectors; 2) Michigan was, and remains, disproportionately concentrated in motor vehicle manufacturing; and 3) the motor vehicle industry is one of the most competitive sectors of the economy (and, with the burgeoning transition to electric vehicles underway, exhibits perhaps the most flux of any sector in the economy). For Michigan, those factors have been complicated as General Motors, Ford, and Stellantis have consistently lost market share since the late 1990s. As a result, the motor vehicle sector in Michigan has lost jobs as a result of both higher productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

The impact of these economic changes on Michigan employment were significant, especially as changes in the motor vehicle industry were transmitted through the rest of the Michigan economy. As employment in the motor vehicle sector fell, the declines meant those who lost their jobs generally had less money to spend on eating out, recreation, legal and financial services, and consumer goods. This lowered economic activity in sectors across the state economy and created feedback effects for those secondarily affected sectors then to adjust their spending to reflect the slowing economy.

Payroll employment fell from a high of 4.7 million workers in June 2000 to 3.8 million in March 2010, a loss of more than 860,000 jobs (of which more than 220,000, or more than 25%, were in the transportation equipment manufacturing sector). Despite the gains since 2010, Michigan payroll employment had not yet recovered to the June 2000 peak before the COVID-19 pandemic began, with the most recent peak in December 2019 still down 235,900 jobs from June 2000 (but up 626,700 jobs from the July 2009 Michigan employment trough). Employment gains since 2009 helped the Michigan unemployment rate decline from a high of 14.9% in June 2009 to 3.6% in February 2020, the lowest level since May 2000.

The impact of COVID-19 on the Michigan economy was, and continues to be, substantial. Between February 2020 and April 2020, Michigan payroll employment declined by 23.7%, or approximately 1.1 million jobs and reduced employment to more than half a million fewer workers than the 2009 employment trough. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover from the pandemic recession more rapidly than almost any other state, with Michigan employment rising at a 9.5% annual rate between April 2020 and April 2023, when

Michigan employment surpassed the pre-pandemic level in February 2020. (Michigan ranks second, while Nevada ranks first at a 11.2% annual growth rate. Among the other Great Lakes states, Indiana ranked 15th at 3.6%, Illinois ranked 42nd, Ohio ranked 28th, and Wisconsin ranked 32nd.) Michigan's disproportionately strong participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan, which helped consumption and employment recover at more rapid rates than otherwise would have occurred. However, Michigan's COVID-19-related job decline was so significant that despite such rapid employment growth, as of March 2024, Michigan ranked 41st among states in recovering to pre-COVID-19 employment levels (comparing the March 2024 employment level to the February 2020 level). Between January 2023 and March 2024, Michigan ranked 41st in employment growth, with payroll employment rising at an average annual rate of 0.9%. (Indiana ranked 22nd at 1.6%, Illinois ranked 48th, Ohio ranked 43rd, and Wisconsin ranked 38th.)

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

## ***FORECAST SUMMARY***

- The US economy will slow from 2.5% inflation-adjusted GDP growth in 2023 to 2.4% growth in 2024 and 2.0% growth in 2025. Inflation-adjusted GDP is predicted to increase 2.2% in 2026.
- The Michigan economy will experience slowing employment growth over the forecast, and while inflation-adjusted personal income will grow, the path will be more varied. After falling 6.9% during 2022 and an estimated 1.0% in 2023, Michigan personal income, adjusted for inflation, will increase 1.4% in 2024, 1.9% in 2025 and 0.8% in 2026.
- Light vehicle sales will improve but remain below historical levels. The Detroit Three are expected to continue to lose market share.
- Reflecting slow employment growth, Michigan unemployment rates will rise slightly, but will remain low by historical standards.
- Inflationary pressures will decline but persist through much of the forecast, reflecting tight labor markets and consumer spending that will remain strong due to historically high consumer net worth. Inflation will near target levels over the forecast as a result of higher interest rates slowing economic activity, productivity gains, and consumption shifting to a more normal split between goods and services.

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

Nationally, inflation-adjusted GDP is projected to increase 2.4% in 2024, after growing 1.9% in 2022 and 2.5% in 2023. Inflation-adjusted GDP will expand 2.0% in 2025 and by 2.2% in 2026. The relative stability over the forecasts reflects slower increases in consumption aligning growth to a path consistent with potential GDP growth, given current unemployment rates, population demographics, and trends in productivity.

The economic dynamics of the forecast will mean that unemployment rates remain low and that inflation rates will decline slowly. Consumer demand is expected to remain strong enough that, when combined with tight labor markets, the slowing economy will primarily reduce job growth and any increases in the unemployment rate generally will reflect the labor force growth growing faster than employment rather than declines in employment. Nationally, the growth in payroll employment slowed from 4.3% in 2022 to 2.3% in 2023, and will growing more slowly over the forecast, with growth of 1.6% in 2024, 0.9% in 2025, and 1.0% in 2026. As a result, the US unemployment rate will rise, but will remain low by historical standards, rising from a 3.6% rate in

2023 to 4.0% in 2024, 4.5% in 2025, and 4.4% in 2026. Inflation rates will decline over the forecast at a modest but steady pace: after growth in the CPI fell from 8.0% in 2022 to 4.1% in 2023, the CPI is expected to increase 3.2% in 2024, and 2.5% in both 2025 and 2026.

**Table 1**

**THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)**

| | 2022 Actual | 2023 Actual | 2024 Estimate | 2025 Estimate | 2026 Estimate |
|---|---|---|---|---|---|
| **United States** | | | | | |
| Nominal GDP (year-to-year growth) | 9.1% | 6.3% | 5.1% | 4.3% | 4.5% |
| Inflation-Adjusted GDP (year-to-year growth) | 1.9% | 2.5% | 2.4% | 2.0% | 2.2% |
| Unemployment Rate | 3.6% | 3.6% | 4.0% | 4.5% | 4.4% |
| Wage & Salary Employment (year-to-year growth) | 4.3% | 2.3% | 1.6% | 0.9% | 1.0% |
| Inflation | | | | | |
| Consumer Price Index (year-to-year growth) | 8.0% | 4.1% | 3.2% | 2.5% | 2.5% |
| GDP Implicit Price Deflator (yr.-to-yr. growth) | 7.0% | 3.6% | 2.6% | 2.3% | 2.2% |
| Interest Rates | | | | | |
| 90-day Treasury Bill | 2.02% | 5.07% | 5.10% | 4.41% | 3.54% |
| 10-year Treasury Bill | 2.95% | 3.96% | 4.13% | 4.07% | 3.82% |
| Corporate Aaa Bond | 4.07% | 4.81% | 4.96% | 4.93% | 4.66% |
| Federal Funds Rate | 1.68% | 5.02% | 5.26% | 4.77% | 4.02% |
| Light Motor Vehicle Sales (millions of units) | 13.8 | 15.5 | 15.9 | 16.4 | 16.3 |
| Auto | 2.9 | 3.1 | 3.1 | 3.1 | 3.1 |
| Truck | 10.9 | 12.4 | 12.8 | 13.3 | 13.2 |
| **Michigan** | | | | | |
| Personal Income (millions) | $572,325 | $599,366 | $622,268 | $649,153 | $671,145 |
| (year-to-year growth) | 0.7% | 4.7% | 3.8% | 4.3% | 3.4% |
| Inflation-Adjusted Personal Income (year-to-year growth) | (6.9%) | (1.0%) | 1.4% | 1.9% | 0.8% |
| Wage & Salary Income (millions) | $282,922 | $300,571 | $315,149 | $328,735 | $338,206 |
| (year-to-year growth) | 7.8% | 6.2% | 4.9% | 4.3% | 2.9% |
| Detroit Consumer Price Index (year-to-year growth) | 8.2% | 5.8% | 2.4% | 2.4% | 2.6% |
| Wage & Salary Employment (thousands) | 4,371.7 | 4,451.0 | 4,483.7 | 4,531.2 | 4,541.1 |
| (year-to-year growth) | 4.1% | 1.8% | 0.7% | 1.1% | 0.2% |
| Unemployment Rate | 4.1% | 3.9% | 4.3% | 4.4% | 4.6% |

**Table 2**

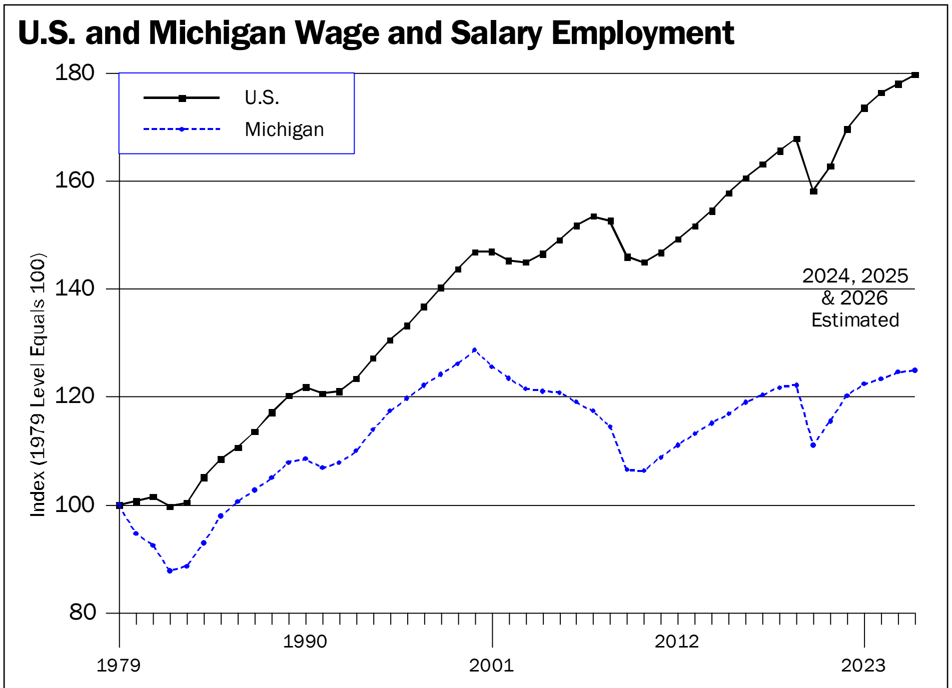
| THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years) | 2022 Actual | 2023 Actual | 2024 Estimate | 2025 Estimate | 2026 Estimate |
|---|---|---|---|---|---|
| Gross Domestic Product | | | | | |
| (billions of dollars) | $25,744.1 | $27,360.9 | $28,750.9 | $29,979.8 | $31,327.9 |
| Year-to-year growth | 9.1% | 6.3% | 5.1% | 4.3% | 4.5% |
| | | | | | |
| *Inflation-Adjusted GDP and Components* | | | | | |
| Gross Domestic Product | | | | | |
| (billions of 2017 dollars) | $21,822.0 | $22,376.9 | $22,924.6 | $23,378.1 | $23,899.9 |
| Year-to-year growth | 1.9% | 2.5% | 2.4% | 2.0% | 2.2% |
| Consumption | | | | | |
| (billions of 2017 dollars) | $15,090.8 | $15,426.1 | $15,838.0 | $16,157.2 | $16,468.8 |
| Year-to-year growth | 2.5% | 2.2% | 2.7% | 2.0% | 1.9% |
| Business Fixed Investment | | | | | |
| (billions of 2017 dollars) | $3,131.6 | $3,271.7 | $3,376.3 | $3,476.5 | $3,610.8 |
| Year-to-year growth | 5.2% | 4.5% | 3.2% | 3.0% | 3.9% |
| Change in Business Inventories | | | | | |
| (billions of 2017 dollars) | $128.1 | $43.7 | $38.7 | $54.6 | $66.5 |
| Residential Investment | | | | | |
| (billions of 2017 dollars) | $822.6 | $735.3 | $759.9 | $778.1 | $817.8 |
| Year-to-year growth | (9.0%) | (10.6%) | 3.3% | 2.4% | 5.1% |
| Government Spending | | | | | |
| (billions of 2017 dollars) | $3,670.4 | $3,819.7 | $3,930.5 | $3,986.8 | $4,037.1 |
| Year-to-year growth | (0.9%) | 4.1% | 2.9% | 1.4% | 1.3% |
| Federal budget surplus | | | | | |
| (billions of dollars, NIPA basis) | ($1,062.2) | ($1,658.6) | ($1,630.4) | ($1,455.7) | ($1,413.7) |
| Net Exports (billions of 2017 dollars) | ($1,051.0) | ($928.1) | ($1,035.4) | ($1,094.6) | ($1,122.1) |
| Exports (billions of 2017 dollars) | $2,439.6 | $2,503.9 | $2,534.5 | $2,591.9 | $2,671.4 |
| Imports (billions of 2017 dollars) | $3,490.6 | $3,432.0 | $3,570.0 | $3,686.5 | $3,793.5 |
| | | | | | |
| Personal Income (year-to-year growth) | 2.0% | 5.2% | 5.0% | 4.6% | 4.7% |
| Adjusted for Inflation | (5.5%) | 1.0% | 1.8% | 2.1% | 2.1% |
| Wage & Salary Income | | | | | |
| (year-to-year growth) | 7.8% | 6.3% | 5.4% | 4.2% | 4.1% |
| | | | | | |
| Personal Saving Rate | 3.3% | 4.5% | 3.4% | 3.0% | 3.6% |
| | | | | | |
| Output per hour | | | | | |
| (Labor productivity, annual growth) | (1.9%) | 1.4% | 1.9% | 1.1% | 0.8% |
| Unit labor costs (annual growth) | 5.7% | 3.0% | 2.4% | 2.3% | 2.2% |
| | | | | | |
| Housing Starts (millions of units) | 1.553 | 1.413 | 1.366 | 1.403 | 1.466 |
| Conventional Mortgage Rates | 5.3% | 6.8% | 6.4% | 5.8% | 5.5% |

In Michigan, job growth is expected to slow even as the growth in inflation-adjusted personal income improves (Figures 7 and 8). Michigan payroll employment rose a 1.8% during 2023, down from a 4.1% increase in 2022, and is forecasted to continue growing at slower rates over the forecast, rising 0.7% in 2024, 1.1% in 2025, and 0.2% in 2026. Inflation-adjusted personal income declined 6.9% in 2022, largely due to the exhaustion of various Federal stimulus efforts and stock market declines more than offsetting the 7.8% increase in wage and salary income. In 2023, inflation-adjusted personal income declined 1.0%, despite the 6.2% increase in wage and salary income outpacing 5.8% inflation, as income from nonwage sources failed to keep pace with inflation. In 2024, inflation-adjusted personal income is projected to rise 1.4%, as wage and salary income increases 4.9% and inflation increases only 2.4%. As the national economy stabilizes in 2025 and

2026, vehicle sales remain relatively stable, and inflation continues to grow more slowly, Michigan's inflation-adjusted personal income is predicted to grow 1.9% in 2025 and 0.8% in 2026. Nationally, light vehicle sales are estimated to rise from 15.5 million units in 2023 to 15.9 million units in 2024, 16.4 million units in 2025, and 16.3 million units in 2026 (Figure 9). For comparison purposes, light vehicles sales averaged 17.1 million units per year during the 2014-2019 period. The Michigan unemployment rate, which averaged 3.9% in 2023, is predicted to increase to 4.3% in 2024, 4.4% in 2025, and 4.6% in 2026. In comparison, Michigan's unemployment rate averaged 5.1% over the 2014-2019 period.

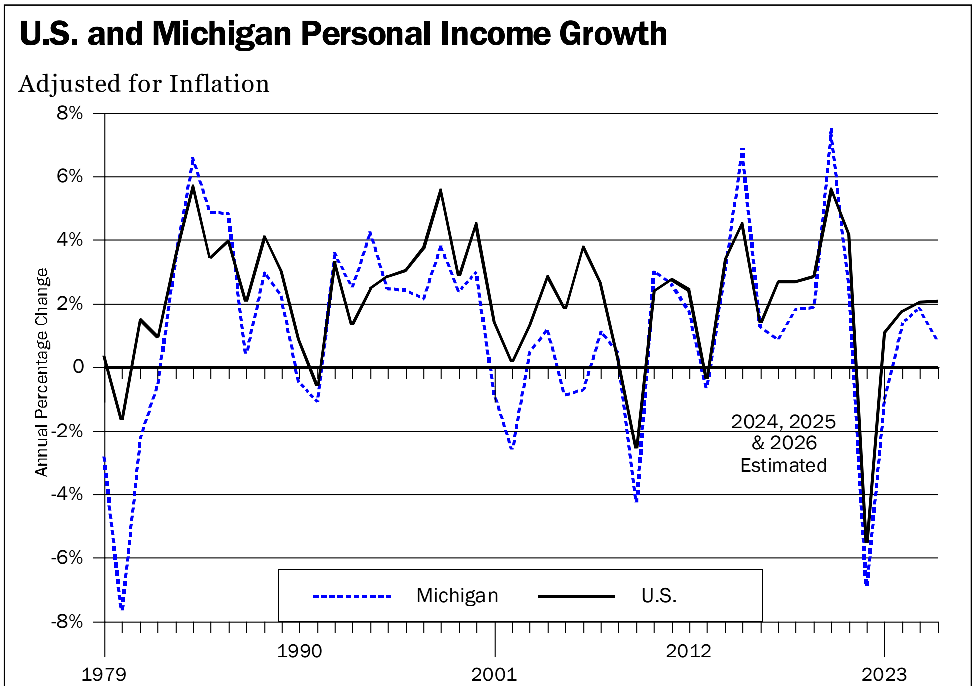
Compared with the January 12, 2024, Consensus Revenue Estimating Conference (CREC) forecast, economic growth is expected to be slightly stronger for both the national and Michigan economies over the entire forecast. Similarly, employment growth is expected to be slightly stronger, although inflation is also expected to higher.

**Figure 7**



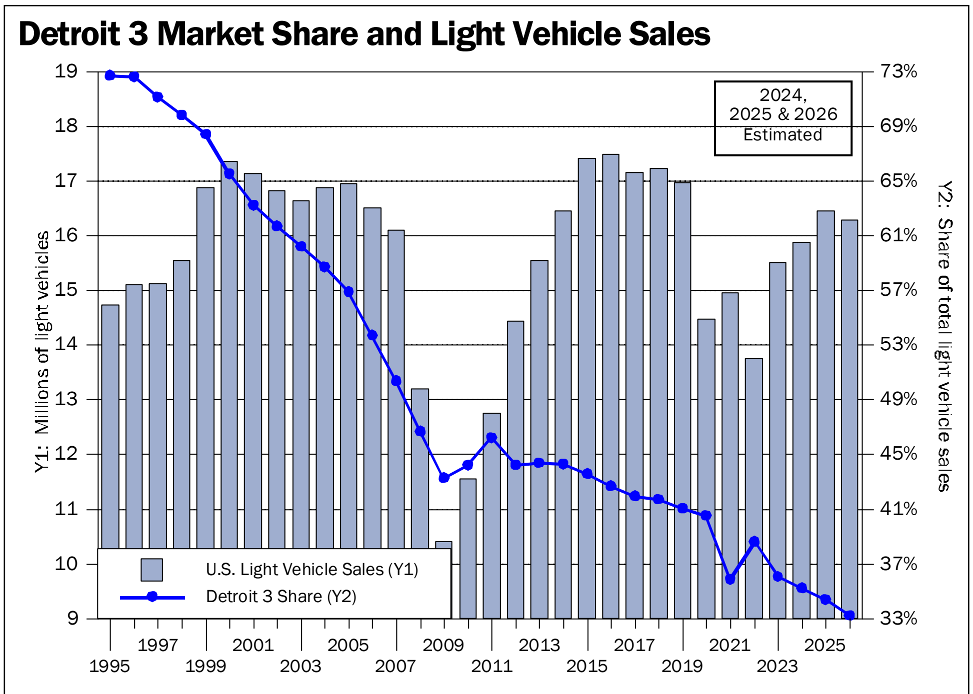
**Source:** Bureau of Labor Statistics, U.S. Department of Labor and Senate Fiscal Agency

**Figure 8**




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

**Figure 9**




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

## ***FORECAST RISKS***

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

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

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

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

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

The COVID-19-induced recession of 2020 saw many of these relationships change, sometimes in substantial ways. Even when the relationships held, some of the changes resulted in responses of unlikely and/or inconsistent magnitudes. Finally, the nature of expectations regarding the pandemic have resulted in behaviors not consistent with other recessions. For example, in 2001 and 2008, when Americans received stimulus checks, only about 20% of the money was spent and the rest either was saved (thus funding future consumption) or used to pay down debt. In contrast, estimates suggest that somewhere between 60% and 75% of the payments in early 2020 were spent, while it appears that only about 20% of the second and third round of stimulus checks were spent. Furthermore, unlike most previous recessions, supply constraints played a major role in the slowdown as pandemic-related issues restricted the availability of labor or the ways in which labor could be used. In 2020, the traditional relationship between spending and employment, in which both tend to move in the same direction, did not follow historical patterns. For example, during the 2008-09 recession, retail sales fell 10.1% between the beginning of the recession in December 2007 and the end of the recession in June 2009, while payroll employment fell 5.3%. In contrast, payroll employment in April 2021 was down 5.4% from February 2020, nearly the same decline as in the 2008-09 recession, while retail sales were up 20.8%.

The changed relationships between economic variables during 2020 and 2021 not only increase the risks regarding the economic forecast, but for the revenue forecast presented in the next section. Withholding is strongly related to wages and average weekly hours, while sales and use tax revenue are strongly related to personal income. The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables, although the timing of when and how this return occurs will affect revenue. As illustrated with FY 2019-20, FY 2020-21, and FY 2021-22 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions, or even billions, of dollars. For example, the economic changes forecasted at the May 2020 CREC largely were correct, yet the $3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by $2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held.

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 Federal spending, although fiscal policy will remain stimulative with net Federal saving declining from -5.7% of GDP in 2024 to -4.5% in 2026. Monetary policy is expected to remain contractionary, as the Federal Reserve seeks to rein in the possibility of higher long-term inflationary expectations. The Federal Reserve ended security purchases (another mechanism available to lower long-term interest rates) before March 2022 and increased interest rates in March 2022 for the first time since December 2018. The Federal Reserve continued to increase interest rates and by July 2023 had raised rates 11 times for a total of 525 basis points (increasing the target Federal Funds rate from 0.0-0.25% at the beginning of 2022 to 5.25-5.50% in July 2023). The forecast does not expect any additional rate increases, although rates are not expected to begin a slow decline until the end of the third quarter of 2024. Strong consumption will put upward pressures on the prices of goods and services, and low unemployment rates will continue to exert upward pressure on wages; these factors likely will slow the pace at which the inflation rate (and interest rates) will decline. Interest rates are not expected to fall 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 occur in in early 2025.

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

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

**Figure 10**

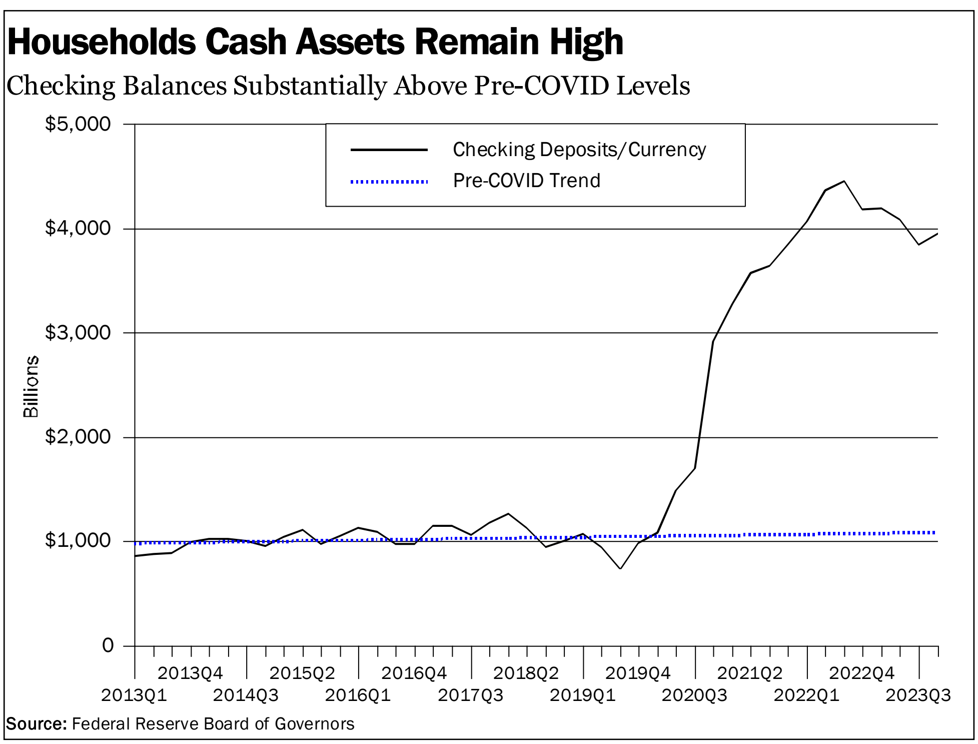
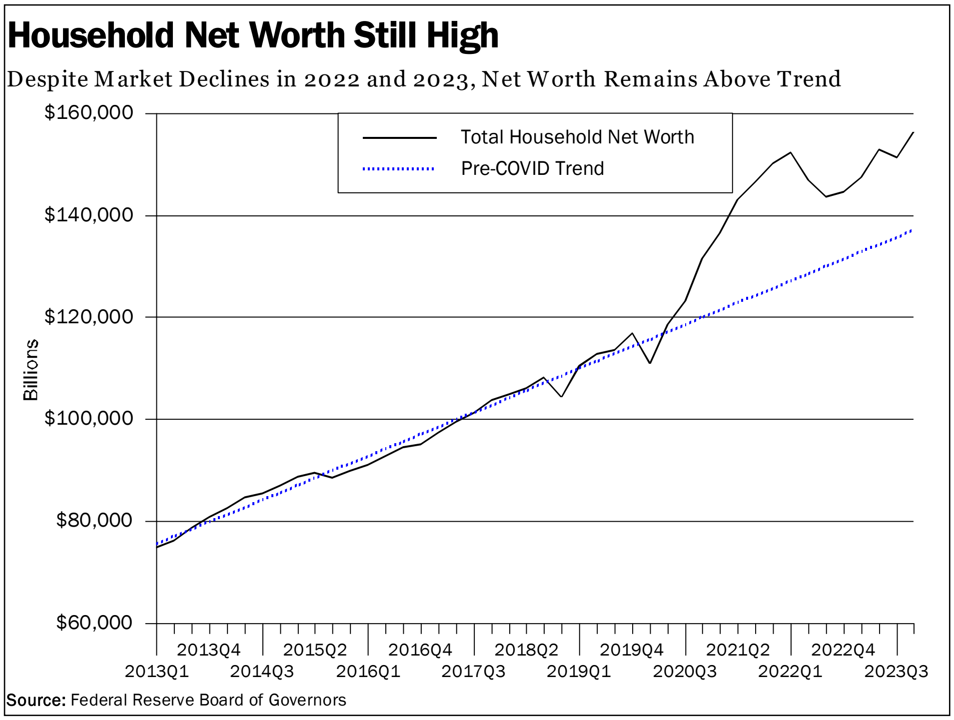


**Figure 11**




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

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. In 2020 and 2021, the pandemic drastically reduced labor force participation, particularly among women and older adults. By late 2023, labor force participation had largely recovered to pre-pandemic levels, and for some demographics was even above where demographic trends would have predicted, although labor force participation for older age groups remains below pre-pandemic levels. Continued reductions in labor force participation among older adults likely reflects a combination of the vulnerability of older populations to the COVID-19 virus and the difficulties older adults often have finding employment. Even absent COVID-19-related concerns and issues, recent history suggests many who have left the labor force will not return (Figure 12). As a result, unemployment rates have declined relatively rapidly as output has expanded, and the economy has experienced slower employment growth and worker shortages have been widespread. Despite expecting slowing economic activity in

2024 and 2025, the forecast anticipates that labor force dynamics will constrain growth over the next few years (if not decades). Moreover, unemployment rates will continue to be lower than suggested by the rate of job growth, and worker shortages will maintain greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

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

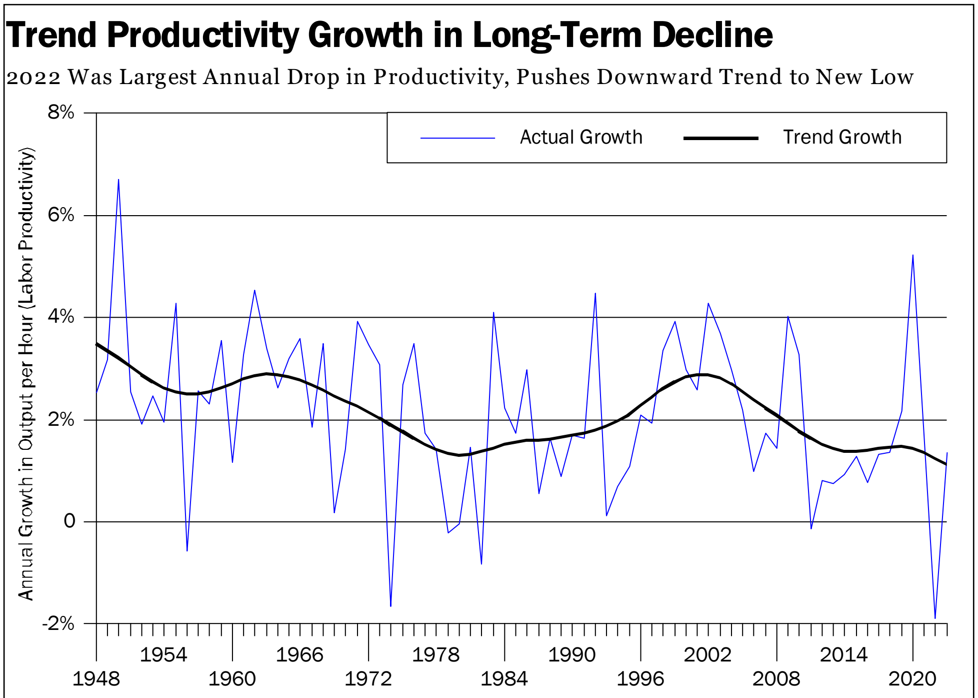
**Figure 12**

**Source:** Bureau of Labor Statistics, U.S. Dept. of Labor

For the US as a whole, and Michigan specifically, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 1.0% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 13). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014. Business investment affects not only current economic growth but also future economic growth because investment generally is associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates. While productivity increased more rapidly in 2020 and 2021, productivity fell 1.9% in 2022.

In 2023, productivity growth increased 1.4%, and while 2024 is expected to exhibit a 1.9% gain, productivity growth is expected to slow to 1.1% in 2025 and 0.8% in 2026. If productivity growth is less than forecasted, in the short run it will reduce economic growth and risk higher inflation than presented in the forecast. Similarly, if productivity growth is greater than forecast, output will increase and inflation will decline more rapidly, but employment growth will be slower. For example, one reason inflation in 2023 was less than was forecasted under the May 2023 SFA forecast is that in May the SFA forecasted that productivity would decline slightly (instead of the current forecast of a 1.1% increase).

**Figure 13**

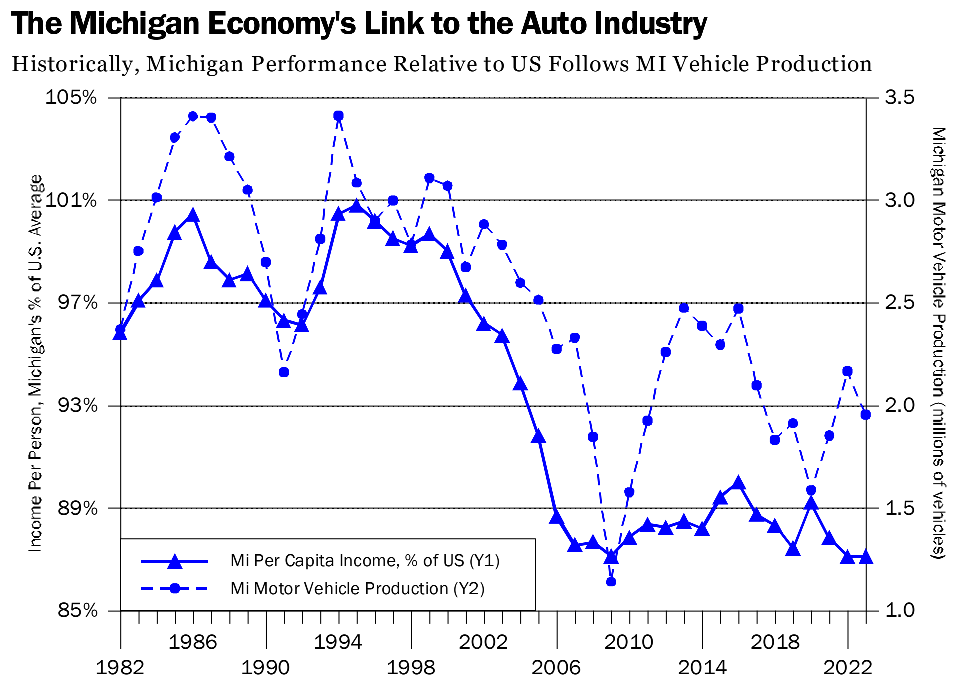


**Source:** Bureau of Labor Statistics, U.S. Department of Labor

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

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

**Figure 14**



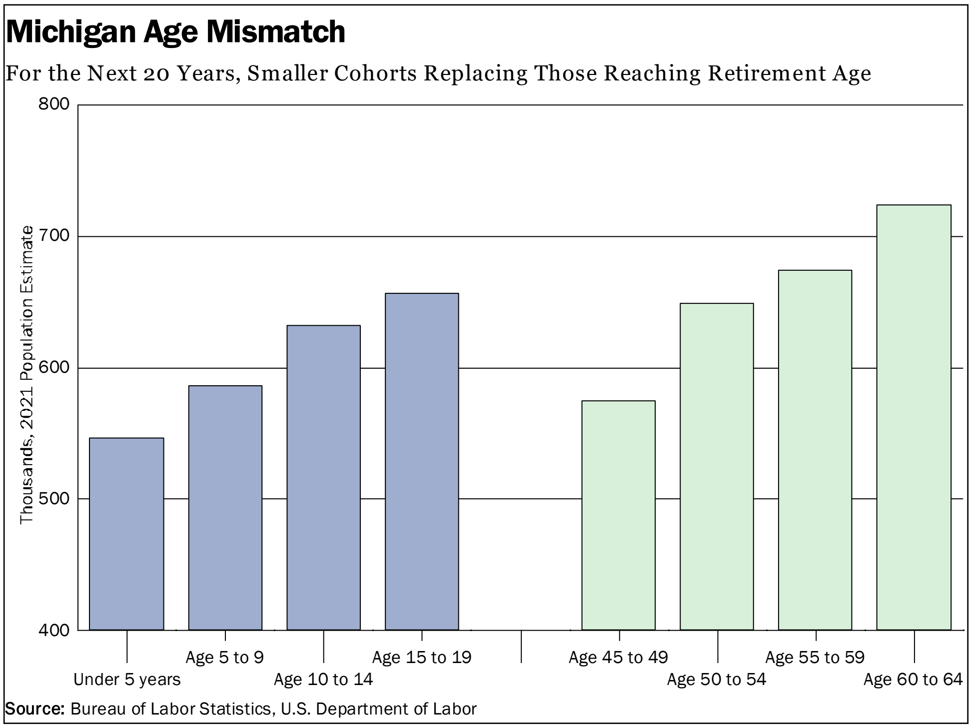

**Source:** Bureau of Economic Analysis, U.S. Department of Commerce; Michigan Department of Treasury

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

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

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

**Figure 15**



## *THE FORECAST FOR STATE REVENUE*

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's revised estimates for GF/GP and SAF revenue for FY 2023-24, FY 2024-25, and FY 2025-26. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measure 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 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 GF/GP and SAF revised revenue estimates for FY 2023-24, FY 2024-25, and FY 2025-26 are presented in Table 3 and are summarized below. Changes from the January 2024 CREC estimates are illustrated in Figure 16.

**Figure 16**

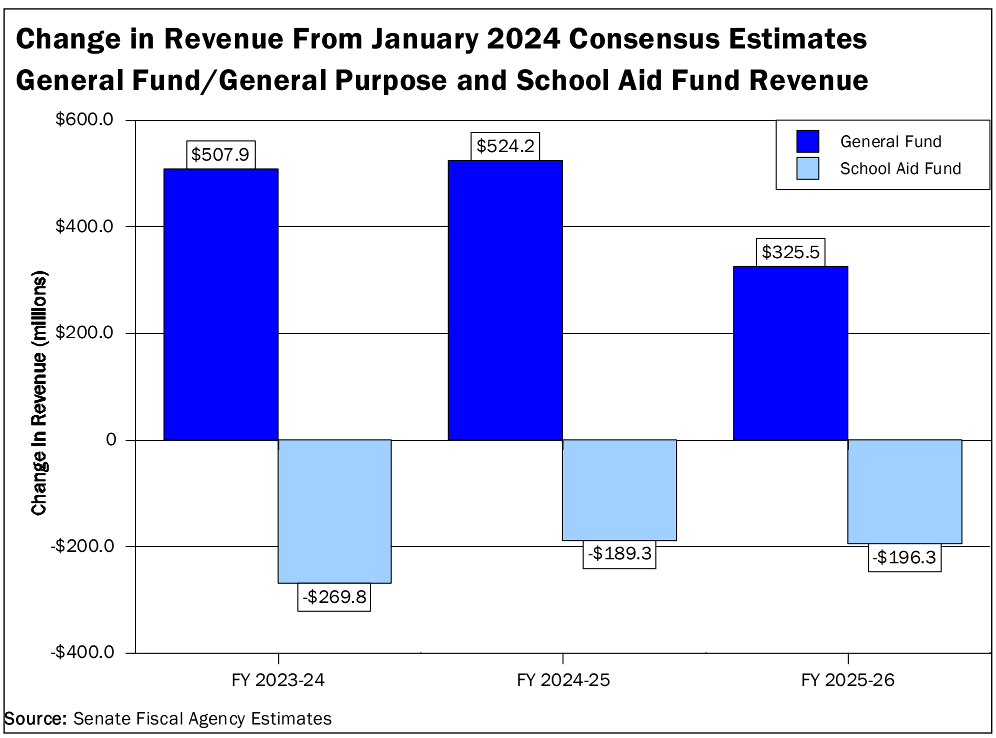


**Table 3**

| SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2022-23 THROUGH FY 2025-26<br>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND<br>(millions of dollars) | | | | |
|---|---|---|---|---|
| | **FY 2022-23 Final** | **FY 2023-24 Revised Est.** | **FY 2024-25 Revised Est.** | **FY 2025-26 Revised Est.** |
| **GENERAL FUND/GENERAL PURPOSE** | | | | |
| Baseline Revenue[1)] | $16,908.4 | $16,968.9 | $17,356.0 | $17,427.1 |
| Tax Changes Not In Baseline | (2,941.7) | (2,863.6) | (2,809.6) | (2,394.0) |
| Revenue After Tax Changes: | | | | |
| Net Income Tax | 7,762.3 | 8,069.6 | 8,684.5 | 8,755.3 |
| MBT, Corp. Income Tax, SBT & Insur. Tax | 1,638.2 | 1,681.6 | 1,627.6 | 2,077.0 |
| Other Taxes | 3,368.3 | 3,290.9 | 3,391.6 | 3,480.8 |
| Total Taxes | 12,768.8 | 13,042.1 | 13,703.7 | 14,313.1 |
| Nontax Revenue | 1,197.8 | 1,063.2 | 842.6 | 720.0 |
| **TOTAL GF/GP REVENUE** | **$13,966.7** | **$14,105.3** | **$14,546.4** | **$15,033.1** |
| | | | | |
| **SCHOOL AID FUND** | | | | |
| Baseline SAF | $17,908.5 | $17,851.2 | $18,348.9 | $18,775.4 |
| Tax Changes Not In Baseline | (48.5) | (174.2) | (231.2) | (265.8) |
| **TOTAL SAF REVENUE** | **$17,860.0** | **$17,677.1** | **$18,117.7** | **$18,509.7** |
| | | | | |
| **BASELINE GF/GP AND SAF REVENUE** | $34,816.9 | $34,820.2 | $35,704.8 | $36,202.6 |
| Tax & Revenue Changes | (2,990.2) | (3,037.8) | (3,040.7) | (2,659.7) |
| **GF/GP & SAF REV. AFTER CHANGES** | **$31,826.7** | **$31,782.4** | **$32,664.1** | **$33,542.8** |
| | | | | |
| SALES TAX | $10,674.4 | $10,366.7 | $10,539.4 | $10,699.6 |
| | **Percent Change** | | | |
| **GENERAL FUND/GENERAL PURPOSE** | | | | |
| Baseline Revenue | 0.1% | 0.4% | 2.3% | 0.4% |
| Revenue After Tax Changes: | | | | |
| Net Income Tax | (15.6) | 4.0 | 7.6 | 0.8 |
| MBT, Corp. Income Tax, SBT & Insur. Tax | (16.0) | 2.6 | (3.2) | 27.6 |
| Other Taxes | (0.5) | (2.3) | 3.1 | 2.6 |
| Total Taxes | (12.2) | 2.1 | 5.1 | 4.4 |
| Nontax Revenue | 77.2 | (11.2) | (20.7) | (14.6) |
| **TOTAL GF/GP REVENUE** | **(8.2%)** | **1.0%** | **3.1%** | **3.3%** |
| | | | | |
| **SCHOOL AID FUND** | | | | |
| Baseline SAF | 0.6% | (0.3%) | 2.8% | 2.3% |
| **TOTAL SAF REVENUE** | **(0.1%)** | **(1.0%)** | **2.5%** | **2.2%** |
| | | | | |
| BASELINE GF/GP AND SAF REVENUE | 0.4% | 0.0% | 2.5% | 1.4% |
| **GF/GP & SAF REV. AFTER CHANGES** | **(3.8%)** | **(0.1%)** | **2.8%** | **2.7%** |
| | | | | |
| SALES TAX | (1.0%) | (2.9%) | 1.7% | 1.5% |

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

***FY 2023-24 Revised Revenue Estimate***

- General Fund/General Purpose and SAF revenue is expected to total $31.8 billion in FY 2023-24.
- This revised estimate for FY 2023-24 is down 0.1%, or $44.3 million, from the revenue for FY 2022-23. The projected revenue decrease in FY 2023-24 reflects reductions in business income taxes, lottery, and sales tax, partially offset by increases in personal income tax, use tax, insurance company premiums, and gaming taxes.
- The revised estimate for FY 2023-24 is $238.1 million above the January 2024 consensus revenue estimate.
- Baseline growth is expected to decline 0.5% and tax adjustments are expected lower baseline revenue by $3.0 billion.

Personal income will increase 3.8%, wage and salary employment will increase 0.7%, and wage and salary income will increase 4.9% from FY 2022-23. Total GF/GP and SAF revenue will reach an estimated $31.8 billion in FY 2023-24, a decrease of 0.1%, or $44.3 million, from the revenue for FY 2022-23.

***General Fund/General Purpose Revenue***

General Fund/General Purpose revenue will total an estimated $14.1 billion in FY 2023-24, an increase of 1.0%, or $138.7 million, from the revised estimate for FY 2022-23. Baseline GF/GP revenue is expected to increase 0.4% ($60.5 million) from FY 2022-23. The increase in GF/GP revenue reflects increases in personal income taxes and higher insurance company premiums compared to FY 2022-23. The revised GF/GP revenue estimates for FY 2023-24 are $507.9 million above the January 2024 consensus estimates and are summarized in Table 4.

***School Aid Fund***

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $17.7 billion in FY 2023-24, a decrease of $182.9 million, or 1.0%, from the revised estimate for FY 2022-23. The forecasted decrease in SAF revenue reflects reduced income tax revenue dedicated to the SAF, reduced sales tax, and decreased lottery revenue, partially offset by increased SET, use tax, and gaming taxes. The revised SAF revenue estimates for FY 2022-23 are $269.8 million below the January 2024 consensus estimates and are summarized in Table 4.

***FY 2024-25 Revised Revenue Estimate***

- General Fund/General Purpose and SAF revenue is expected to total $32.7 billion in FY 2024-25.
- The revised estimate for FY 2024-25 is up 2.8%, or $881.8 million, from the revised estimate for FY 2023-24. The revenue increase in FY 2024-25 reflects an increase in personal income tax, sales tax, use tax, and State Education Tax (SET), partially offset by a decrease in Corporate Income Tax (CIT) and lottery revenue.
- The revised estimate for FY 2024-25 is $334.9 million above the January 2024 consensus revenue estimate.
- Baseline growth is expected to increase 2.5% and tax adjustments are expected to lower baseline revenue by $3.0 billion.

Personal income will grow 4.3%, wage and salary employment will grow 1.1%, and wage and salary income will grow 4.3%. General Fund/General Purpose and SAF revenue will reach an estimated $32.7 billion in FY 2024-25, an increase of 2.8%, or $881.8 million, from the revised estimate for FY 2023-24.

**Table 4**

| FY 2023-24 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars) | | | | | |
|---|---|---|---|---|---|
| | | | Change from FY 2022-23 | | |
| | **FY 2022-23 Final** | **FY 2023-24 Revised Est.** | **Dollar Change** | **Percent Change** | **$ Change from 01/24 Consensus** |
| **GENERAL FUND/GENERAL PURPOSE:** | | | | | |
| **Baseline Revenue**[1)] | $16,908.4 | $16,968.9 | $60.5 | 0.4% | $496.0 |
| **Tax Changes Not In Baseline** | (2,941.7) | (2,863.6) | 78.1 | ---- | (12.0) |
| **Revenue After Tax Changes** | | | | | |
| Personal Income Tax | | | | | |
| Gross Collections | $15,619.6 | $15,789.3 | $169.7 | 1.1% | $103.1 |
| Less: Refunds | (3,278.2) | (3,248.9) | 29.3 | (0.9) | 98.1 |
| Net Income Tax Collections | 12,341.4 | 12,540.4 | 199.0 | 1.6 | 201.2 |
| Less: Earmarking to SAF | (3,907.7) | (3,801.0) | 106.7 | (2.7) | (20.0) |
| Earmarking to MI Transp. Fund | (602.3) | (600.0) | 2.3 | (0.4) | 0.0 |
| Earmarking to Renew MI Fund | (69.0) | (69.0) | 0.0 | 0.0 | 0.0 |
| Campaign Fund | (0.1) | (0.8) | (0.8) | ---- | 0.0 |
| Net Income Tax to GF/GP | $7,762.3 | $8,069.6 | $307.3 | 4.0% | $181.2 |
| Other Taxes | | | | | |
| Corporate Income Tax | 1,609.9 | 1,615.0 | 5.1 | 0.3 | 90.0 |
| Michigan Business Tax | (434.1) | (494.6) | (60.5) | ---- | 0.0 |
| Sales | 1,626.6 | 1,548.3 | (78.3) | (4.8) | (78.7) |
| Use | 1,251.6 | 1,298.7 | 47.1 | 3.8 | 115.0 |
| Cigarette | 143.4 | 131.5 | (11.9) | (8.3) | (10.8) |
| Insurance Company Premiums | 465.9 | 561.2 | 95.3 | 20.4 | 83.2 |
| Telephone & Telegraph | 35.9 | 34.0 | (1.9) | (5.3) | 0.0 |
| Oil & Gas Severance | 27.1 | 23.6 | (3.5) | (12.9) | (6.4) |
| All Other | 280.2 | 254.8 | (25.4) | (9.1) | (17.8) |
| Subtotal Other Taxes | $5,006.5 | $4,972.5 | ($34.0) | (0.7%) | $174.5 |
| Total Nontax Revenue | 1,197.8 | 1,063.2 | (134.6) | (11.2) | 152.2 |
| **GF/GP REV. AFTER TAX CHANGES** | **$13,966.7** | **$14,105.3** | **$138.7** | **1.0%** | **$507.9** |
| | | | | | |
| **SCHOOL AID FUND:** | | | | | |
| **Baseline Revenue**[1)] | $17,908.5 | $17,851.2 | ($57.3) | (0.3%) | ($270.0) |
| **Tax Changes Not In Baseline** | (48.5) | (174.2) | (125.7) | ---- | (0.1) |
| **Revenue After Tax Changes** | | | | | |
| Sales Tax | 7,806.9 | 7,594.4 | (212.5) | (2.7) | (301.1) |
| Use Tax | 909.5 | 982.0 | 72.5 | 8.0 | 57.4 |
| Lottery Revenue | 1,351.9 | 1,238.5 | (113.4) | (8.4) | (61.5) |
| State Education Property Tax | 2,559.6 | 2,699.5 | 139.9 | 5.5 | (10.5) |
| Real Estate Transfer Tax | 389.2 | 370.0 | (19.2) | (4.9) | 0.0 |
| Income Tax | 3,907.7 | 3,801.0 | (106.7) | (2.7) | 20.0 |
| Gaming Tax | 429.9 | 492.8 | 62.9 | 14.6 | 39.6 |
| Other Revenue | 505.3 | 498.9 | (6.4) | (1.3) | (13.7) |
| **SAF REV. AFTER TAX CHANGES** | **$17,860.0** | **$17,677.1** | **($182.9)** | **(1.0%)** | **($269.8)** |
| | | | | | |
| **BASELINE GF/GP AND SAF** | **$34,816.9** | **$34,820.2** | **$3.3** | **0.0%** | **$226.0** |
| Tax & Revenue Changes | (2,990.2) | (3,037.8) | (47.6) | ---- | (12.1) |
| **GF/GP & SAF REV. AFTER CHNGS.** | **$31,826.7** | **$31,782.4** | **($44.3)** | **(0.1%)** | **$238.1** |
| SALES TAX | $10,674.4 | $10,366.7 | ($307.7) | (2.9%) | ($410.6) |

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

***General Fund/General Purpose Revenue***

General Fund/General Purpose revenue will total an estimated $14.5 billion in FY 2024-25, an increase of $441.1 million from the revised estimate for FY 2023-24. Baseline GF/GP revenue is expected to increase 2.3%. Most of the increase in GF/GP revenue reflects higher personal income tax, sales tax, use tax, and insurance company premiums, partially offset by lower CIT revenue and lower refunds. The revised GF/GP revenue estimates for FY 2024-25 are $524.2 million above the January 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 $18.1 billion in FY 2024-25, an increase of $440.6 million from the revised estimate for FY 2023-24. The baseline SAF revenue increase will be 2.8% in FY 2024-25. The forecasted increase in SAF revenue reflects an increase in SET, sales tax, and income tax, partially offset by a decrease in lottery revenue. The revised SAF revenue estimates for FY 2024-25 are $189.3 million below the January 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 $33.5 billion in FY 2025-26.
- This revised estimate for FY 2025-26 is up 2.7%, or $878.7 million, more than the revised estimate for FY 2024-25.
- The revenue increase in FY 2025-26 reflects growth in personal income tax, sales tax, use tax, and insurance company premiums, as well as the end of the earmark directing $500.0 million of CIT revenue from the General Fund to the Strategic Outreach and Attraction Reserve (SOAR) Fund.
- The revised estimate for FY 2024-25 is $129.2 million above the January 2024 consensus revenue estimate.
- Baseline growth is expected to increase 1.4% and tax adjustments are expected to reduce baseline revenue by $2.7 billion.

Personal income is forecasted to grow 3.4%, while wage and salary income will grow 2.9%, and wage and salary employment will grow 0.2%. As a result, total GF/GP and SAF revenue will reach an estimated $33.5 billion in FY 2025-26, an increase of 2.7%, or $878.7 million, from the revised estimate for FY 2024-25.

***General Fund/General Purpose Revenue***

General Fund/General Purpose revenue will total an estimated $15.0 billion in FY 2025-26, an increase of 3.3%, or $486.8 million, from the revised estimate for FY 2024-25. Baseline GF/GP revenue is expected to increase 0.4% due to the continued growth in the economy. The revised GF/GP revenue estimates for FY 2025-26 are $325.5 million above the January 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 $18.5 billion in FY 2025-26, an increase of $392.0 million, or 2.2%, from the revised estimate for FY 2024-25. The revised SAF revenue estimates for FY 2025-26 are $196.3 million below the January 2024 consensus estimates and are summarized in Table 6.

**Table 5**

| FY 2024-25 REVISED REVENUE ESTIMATES<br>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND<br>(millions of dollars) | | | | | |
|---|---|---|---|---|---|
| | | | Change from FY 2023-24 | | |
| | FY 2023-24 Revised Est. | FY 2024-25 Revised Est. | Dollar Change | Percent Change | $ Change from 01/24 Consensus |
| **GENERAL FUND/GENERAL PURPOSE:** | | | | | |
| **Baseline Revenue**[1)] | $16,968.9 | $17,356.0 | $387.0 | 2.3% | $526.9 |
| **Tax Changes Not In Baseline** | (2,863.6) | (2,809.6) | 54.0 | ---- | (2.8) |
| **Revenue After Tax Changes** | | | | | |
| Personal Income Tax | | | | | |
| Gross Collections | 15,789.3 | 16,496.1 | 706.8 | 4.5 | 245.1 |
| Less: Refunds | (3,248.9) | (3,175.0) | 73.9 | (2.3) | 75.0 |
| Net Income Tax Collections | 12,540.4 | 13,321.1 | 780.7 | 6.2 | 320.1 |
| Less: Earmarking to SAF | (3,801.0) | (3,966.8) | (165.8) | 4.4 | (54.2) |
| 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 | $8,069.6 | $8,684.5 | $614.9 | 7.6% | $265.9 |
| Other Taxes | | | | | |
| Corporate Income Tax | 1,615.0 | 1,530.0 | (85.0) | (5.3) | 10.0 |
| Michigan Business Tax | (494.6) | (503.4) | (8.8) | 1.8 | 0.0 |
| Sales | 1,548.3 | 1,602.2 | 53.9 | 3.5 | (61.6) |
| Use | 1,298.7 | 1,336.0 | 37.3 | 2.9 | 130.0 |
| Cigarette | 131.5 | 128.5 | (3.0) | (2.3) | (9.9) |
| Insurance Company Premiums | 561.2 | 601.0 | 39.8 | 7.1 | 112.0 |
| Telephone & Telegraph | 34.0 | 33.0 | (1.0) | (2.9) | 0.0 |
| Oil & Gas Severance | 23.6 | 22.5 | (1.1) | (4.7) | (7.5) |
| All Other | 254.8 | 269.4 | 14.6 | 5.7 | (17.0) |
| Subtotal Other Taxes | $4,972.5 | $5,019.2 | $46.7 | 0.9% | $156.0 |
| Total Nontax Revenue | 1,063.2 | 842.6 | (220.6) | (20.7) | 102.2 |
| **GF/GP REV. AFTER TAX CHANGES** | **$14,105.3** | **$14,546.4** | **$441.1** | **3.1%** | **$524.2** |
| | | | | | |
| **SCHOOL AID FUND:** | | | | | |
| **Baseline Revenue**[1)] | $17,851.2 | $18,348.9 | $497.6 | 2.8% | ($189.3) |
| **Tax Changes Not In Baseline** | (174.2) | (231.2) | (57.0) | ---- | 0.0 |
| **Revenue After Tax Changes** | | | | | |
| Sales Tax | 7,594.4 | 7,721.3 | 126.9 | 1.7 | (275.0) |
| Use Tax | 982.0 | 1,005.3 | 23.3 | 2.4 | 65.0 |
| Lottery Revenue | 1,238.5 | 1,225.0 | (13.5) | (1.1) | (65.0) |
| State Education Property Tax | 2,699.5 | 2,794.6 | 95.1 | 3.5 | (8.0) |
| Real Estate Transfer Tax | 370.0 | 385.0 | 15.0 | 4.1 | 0.0 |
| Income Tax | 3,801.0 | 3,966.8 | 165.8 | 4.4 | 54.2 |
| Gaming Tax | 492.8 | 521.5 | 28.7 | 5.8 | 52.5 |
| Other Revenue | 498.9 | 498.2 | (0.7) | (0.1) | (13.0) |
| **SAF REV. AFTER TAX CHANGES** | **$17,677.1** | **$18,117.7** | **$440.6** | **2.5%** | **($189.3)** |
| | | | | | |
| **BASELINE GF/GP AND SAF** | **$34,820.2** | **$35,704.8** | **$884.7** | **2.5%** | **$337.6** |
| Tax & Revenue Changes | (3,037.8) | (3,040.7) | (2.9) | ---- | (2.8) |
| **GF/GP & SAF REV. AFTER CHNGS.** | **$31,782.4** | **$32,664.1** | **$881.8** | **2.8%** | **$334.9** |
| | | | | | |
| SALES TAX | $10,366.7 | $10,539.4 | $172.7 | 1.7% | ($375.0) |

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

**Table 6**

| FY 2025-26 REVISED REVENUE ESTIMATES<br>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND<br>(millions of dollars) | | | | | |
|---|---|---|---|---|---|
| | | | Change from FY 2024-25 | | |
| | FY 2024-25 Revised Est. | FY 2025-26 Revised Est. | Dollar Change | Percent Change | $ Change from 01/24 Consensus |
| **GENERAL FUND/GENERAL PURPOSE:** | | | | | |
| **Baseline Revenue**[1)] | $17,356.0 | $17,427.1 | $71.2 | 0.4% | $333.3 |
| **Tax Changes Not In Baseline** | (2,809.6) | (2,394.0) | 415.6 | ---- | (7.8) |
| **Revenue After Tax Changes** | | | | | |
| Personal Income Tax | | | | | |
| Gross Collections | 16,496.1 | 16,735.0 | 238.9 | 1.4 | 95.2 |
| Less: Refunds | (3,175.0) | (3,245.0) | (70.0) | 2.2 | 50.0 |
| Net Income Tax Collections | 13,321.1 | 13,490.0 | 168.9 | 1.3 | 145.2 |
| Less: Earmarking to SAF | (3,966.8) | (4,064.9) | (98.1) | 2.5 | (18.4) |
| Earmarking to MI Transp. Fund | (600.0) | (600.0) | 0.0 | ---- | |
| Earmarking to Renew MI Fund | (69.0) | (69.0) | 0.0 | ---- | |
| Campaign Fund | (0.8) | (0.8) | 0.0 | 0.0 | 0.0 |
| Net Income Tax to GF/GP | $8,684.5 | $8,755.3 | $70.8 | 0.8% | $126.8 |
| Other Taxes | | | | | |
| Corporate Income Tax | 1,530.0 | 1,970.0 | 440.0 | 28.8 | (80.0) |
| Michigan Business Tax | (503.4) | (515.0) | (11.6) | 2.3 | 0.0 |
| Sales | 1,602.2 | 1,625.6 | 23.4 | 1.5 | (62.5) |
| Use | 1,336.0 | 1,394.7 | 58.7 | 4.4 | 153.3 |
| Cigarette | 128.5 | 126.7 | (1.8) | (1.4) | (9.8) |
| Insurance Company Premiums | 601.0 | 622.0 | 21.0 | 3.5 | 125.0 |
| Telephone & Telegraph | 33.0 | 32.0 | (1.0) | (3.0) | 0.0 |
| Oil & Gas Severance | 22.5 | 22.5 | 0.0 | 0.0 | (7.5) |
| All Other | 269.4 | 279.3 | 9.9 | 3.7 | (17.0) |
| Subtotal Other Taxes | $5,019.2 | $5,557.8 | $538.6 | 10.7% | $101.5 |
| Total Nontax Revenue | 842.6 | 720.0 | (122.6) | (14.6) | 97.2 |
| **GF/GP REV. AFTER TAX CHANGES** | **$14,546.4** | **$15,033.1** | **$486.8** | **3.3%** | **$325.5** |
| **SCHOOL AID FUND:** | | | | | |
| **Baseline Revenue**[1)] | $18,348.9 | $18,775.4 | $426.6 | 2.3% | ($196.5) |
| **Tax Changes Not In Baseline** | (231.2) | (265.8) | (34.6) | ---- | 0.1 |
| **Revenue After Tax Changes** | | | | | |
| Sales Tax | 7,721.3 | 7,839.8 | 118.5 | 1.5 | (275.0) |
| Use Tax | 1,005.3 | 1,035.7 | 30.4 | 3.0 | 76.7 |
| Lottery Revenue | 1,225.0 | 1,213.0 | (12.0) | (1.0) | (77.0) |
| State Education Property Tax | 2,794.6 | 2,895.0 | 100.4 | 3.6 | (0.1) |
| Real Estate Transfer Tax | 385.0 | 420.0 | 35.0 | 9.1 | 10.0 |
| Income Tax | 3,966.8 | 4,064.9 | 98.1 | 2.5 | 18.4 |
| Gaming Tax | 521.5 | 541.8 | 20.3 | 3.9 | 63.0 |
| Other Revenue | 498.2 | 499.5 | 1.3 | 0.3 | (12.3) |
| **SAF REV. AFTER TAX CHANGES** | **$18,117.7** | **$18,509.7** | **$392.0** | **2.2%** | **($196.3)** |
| **BASELINE GF/GP AND SAF** | **$35,704.8** | **$36,202.6** | **$497.7** | **1.4%** | **$136.8** |
| Tax & Revenue Changes | (3,040.7) | (2,659.7) | 381.0 | ---- | (7.7) |
| **GF/GP & SAF REV. AFTER CHNGS** | **$32,664.1** | **$33,542.8** | **$878.7** | **2.7%** | **$129.2** |
| SALES TAX | $10,539.4 | $10,699.6 | $160.2 | 1.5% | ($375.0) |

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

## *TAX POLICY CHANGES*

**Individual Income Taxes.** The indexing of the personal exemption for the individual income tax (IIT) will reduce 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, and $382.5 million ($291.4 million GF/GP and $91.1 million SAF) in FY 2025-26.

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, and $453.0 million ($356.2 million GF/GP and 96.8 million SAF) in FY 2025-26. Public Act 4 of 2023 also increased the Earned Income Tax Credit (EITC) from 6.0% of the Federal level to 30.0% of the Federal level. This will reduce revenue by $400.0 million (all GF/GP) in FY 2023-24, $404.0 million (all GF/GP) in FY 2024-25, and $408.0 million (all GF/GP) in FY 2025-26.

**Personal Property Tax Reform.** Use tax collections of $561.7 million in FY 2023-24, $569.8 million in FY 2024-25, and $571.4 million in FY 2025-26 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 Michigan Business Tax (MBT) will lower GF/GP revenue by $494.6 million in FY 2023-24, $503.4 million in FY 2024-25, and $515.0 million in FY 2025-26. 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.

**Federal Tax Reform and the COVID-19 Relief Measures.** The CARES Act will increase IIT revenue by $6.5 million ($5.0 million GF/GP and $1.5 million SAF) for each of the forecasted fiscal years.

**Other Changes.** Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $15.7 million in FY 2023-24, $16.3 million in FY 2024-25, and $16.7 million in FY 2025-26. 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, and $56.4 million ($50.8 million GF/GP and $5.6 million other) in FY 2025-26. 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, and $25.8 million in FY 2025-26, all GF/GP. Adjustments to the Liquor Purchase Revolving Fund for authorized distribution agents will lower General Fund revenue by $26.9 million in FY 20234-24, $42.5 million in FY 2024-25, and $48.0 million in FY 2025-26.

### *Historical Perspective*

- Net GF/GP and SAF revenue decreased 3.8% in FY 2022-23. Net GF/GP and SAF revenue is forecast to decrease 0.1% in FY 2023-24, increase 2.8% in FY 2024-25 and increase 2.7% in FY 2025-26. These changes compare with an average decline of 0.9% per year for the FY 2000-01 to FY 2009-10 period and an average increase of 3.0% per year from FY 2010-11 to FY 2019-20.

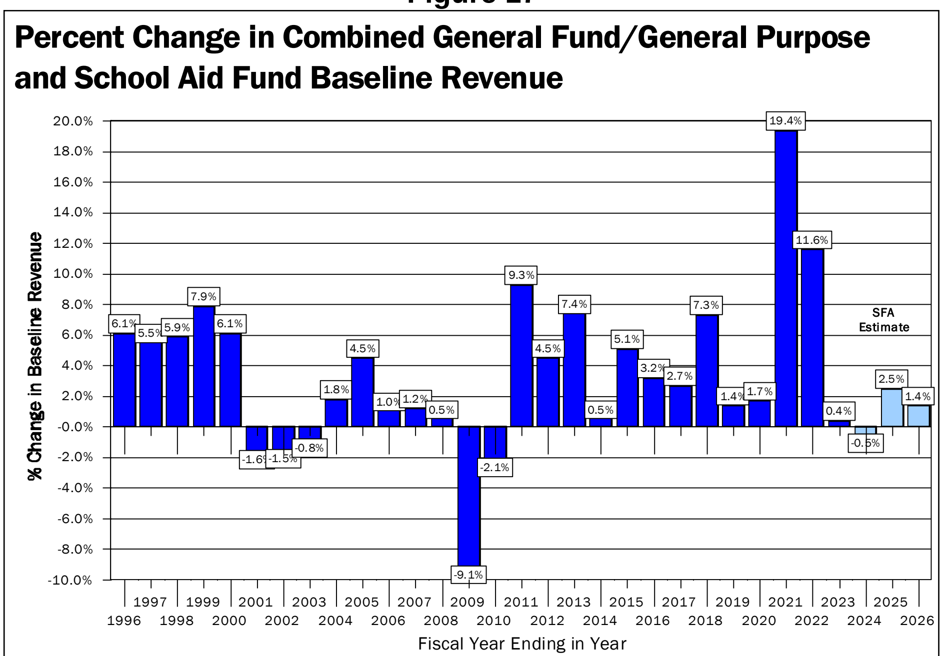
- General Fund/General Purpose revenue fell 8.2% in FY 2022-23, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- The School Aid Fund has regained the amounts lost during the 2008-2009 recession and been reimbursed from the General Fund for revenue losses due to personal property tax (PPT) changes. School Aid Fund revenue fell 0.1% in FY 2022-23, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.

Baseline revenue is forecast to decrease 0.5% in FY 2023-24 and then increase in the following two fiscal years (Figure 17). General Fund/General Purpose 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. General Fund/General Purpose and SAF baseline revenue increased by 0.1% in FY 2022-23. Using the FY 2022-23 base year, baseline GF/GP and SAF revenue is expected to decrease approximately 0.5% in FY 2023-24, and then increase 2.5% in FY 2024-25, and 1.4% in FY 2025-26.

With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2023-24 will be approximately 7.3% (or $1,106.7 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of $14.5 billion in FY 2024-25 is 4.4% below the peak, and FY 2025-26 are 1.2% below the peak level (Figure 18). In inflation-adjusted terms, FY 2025-26 GF/GP revenue is estimated to be 1.4% (or $152.8 million in 2017 dollars) above the FY 1967-68 level (Figure 19).

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 decrease in FY 2023-24 and increase in FY 2024-25 and FY 2025-26 (Figure 18). In FY 2025-26, SAF revenue is predicted to be approximately 164.3% ($11.5 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 0.7% ($94.6 million in 2017 dollars) above if adjusted for inflation (Figure 20).

**Figure 17**




Source: Department of Treasury and Senate Fiscal Agency

Figure 18

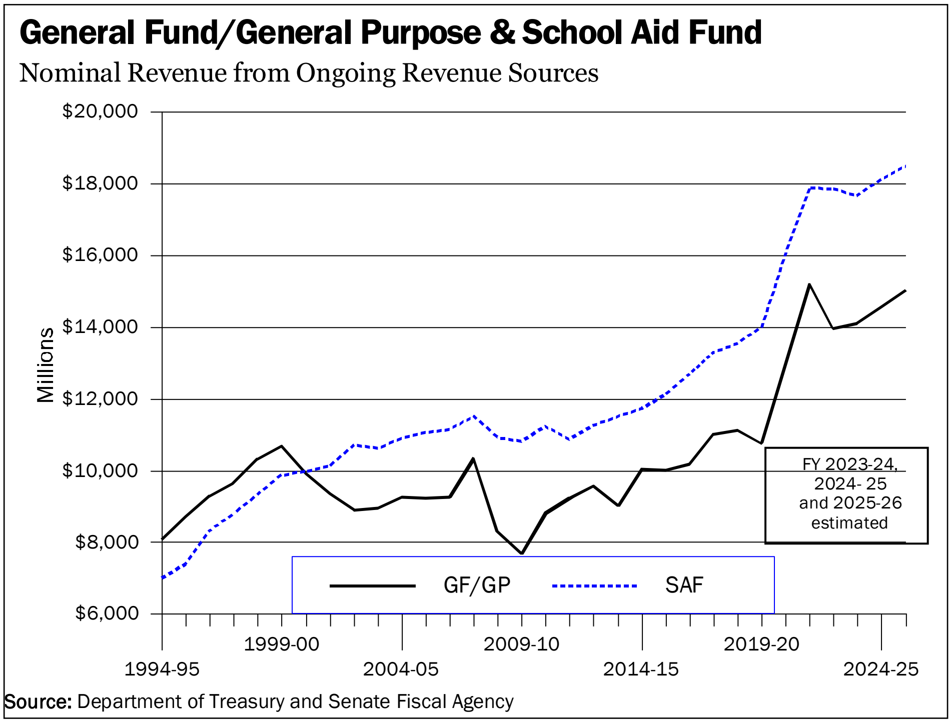



Figure 19

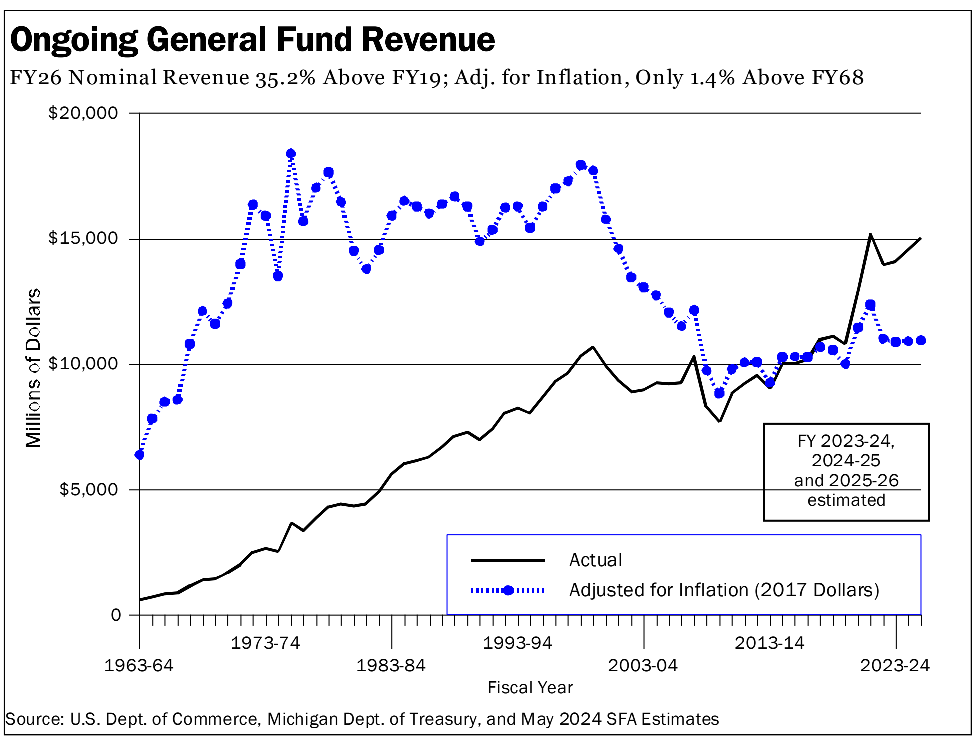
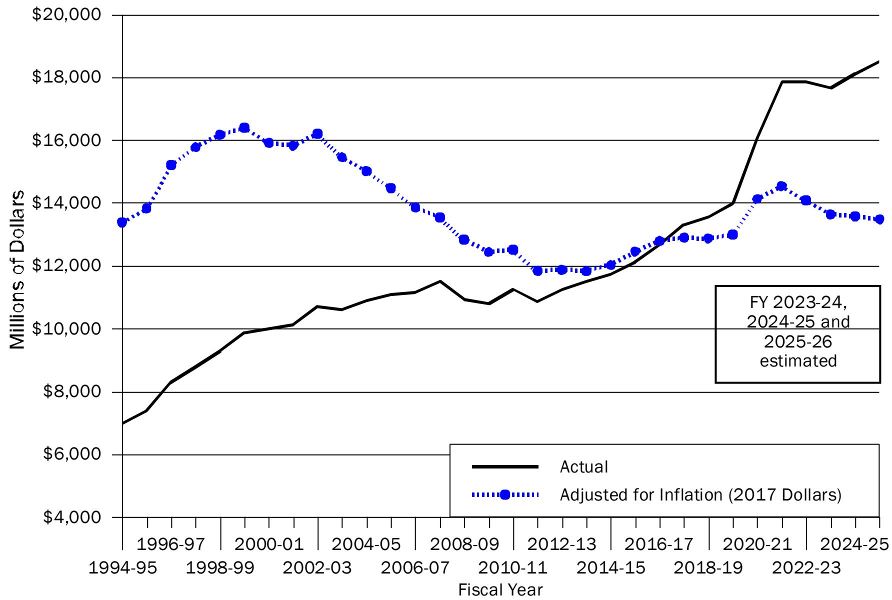


**Figure 20**

**Ongoing School Aid Fund Revenue**

While FY26 is Up 36.6% from FY19; Adj. for Inflation, it is Up 0.7% from FY95




Source: U.S. Dept. of Commerce, Michigan Dept. of Treasury, and May 2024 SFA Estimates

## ***MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2023-24 THROUGH FY 2025-26***

**Individual Income Tax.** Individual income tax net collection will increase an estimated 1.6% in FY 2023-24, to $12.5 billion. Fiscal year 2023-24 withholding, which represents the majority of gross IIT revenue, will increase 3.0%. Quarterly estimates and annual payments will fall 7.2% and 8.5%, respectively, as the timing issues associated with the adoption of the Flow-Through Entity tax are resolved. As economic growth resumes, withholding will continue to grow 3.8% in FY 2024-25 and 2.4% in FY 2025-26. Compared with the January 2024 consensus revenue estimates, the revised estimate for FY 2023-24 IIT revenue is $201.2 million higher, and the revised estimate for FY 2024-25 is $320.1 million higher, reflecting higher employment and wage growth forecasts.

Because GF/GP revenue increased in FY 2021-22 by an amount greater than 1.425 times the rate of inflation, Public Act 180 of 2015 requires a reduction in the IIT rate, which will reduce GF/GP revenue beginning in FY 2022-23. Based on the FY 2021-22 Annual Comprehensive Financial Report, the IIT rate for tax year 2023 is 4.05%, which will reduce revenue by $218.7 million ($228.4 million GF/GP and $9.7 million SAF) in FY 2023-24. Based on an opinion from the Attorney General, the rate reduction is a temporary rate reduction for tax year 2023, although the reduction will affect both FY 2022-23 and 2023-24. Public Act 4 of 2023 adopted an increase in the EITC and changes to taxation on certain retirement income. The increase in the EITC will reduce GF/GP by $404.0 million in FY 2024-25 and $408.0 million in FY 2025-26. The changes affecting retirement income will reduce IIT revenue in FY 2024-25 by $350.0 million ($275.9 million GF/GP and $74.1 million SAF) and will reduce IIT revenue in FY 2025-26 by $453.0 million ($356.2 million GF/GP and $96.8 million SAF).

**Sales Tax.** The forecast predicts Michigan sales tax revenue will fall 2.9% in FY 2023-24, rise 1.7% in FY 2024-25, and rise 1.5% in FY 2025-26. Compared with the January 2024 consensus revenue estimates, the FY 2023-24 sales tax estimate is down $410.6 million while the revised sales tax estimates for FY 2024-25 and FY 2025-26 are each down $375.0 million. The changes primarily reflect revised estimates of consumer spending due to changes in personal income, declining savings balances, and a shift from the current goods-heavy consumption (largely subject to sales and use taxes) to a more normal split between goods and services (which are largely exempt from sales and use taxes), as well as new tax exemptions. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, 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 4.9% in FY 2023-24, 2.4% in FY 2024-25, and 3.1% in FY 2025-26. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at $96.4 million in FY 2015-16, rose over time to $548.0 million in FY 2022-23, and will total $561.7 million in FY 2023-24, $569.8 million in FY 2024-25, and $571.4 million in FY 2025-26 as they increase annually. Compared with the January 2024 consensus revenue estimates, the FY 2023-24 estimate for combined State and local use tax collections is revised upward by $172.4 million, the FY 2024-25 estimate is $195.0 million higher, and the FY 2025-26 estimate is $230.0 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

**Tobacco Taxes.** Tobacco tax revenue is expected to continue its long-term downward trend, declining 8.1% in FY 2023-24, 2.2% in FY 2024-25, and 1.5% in FY 2025-26. However, the overall decline in total tobacco tax revenue has masked a change in the composition of tobacco tax revenue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. In the forecast period, this trend is expected to continue, as tax revenue from cigarettes is expected to decline, with tax revenue from other tobacco products increasing, but not enough to stop the decline in total tobacco tax revenue. Tobacco taxes are split across multiple funds, including the General Fund, the SAF, 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 2023-24, casino tax revenue is projected to total $97.4 million, a 5.2% decrease from FY 2022-23, as new gaming options (internet gaming and sports and fantasy betting) are introduced. Casino tax revenue is expected to grow 2.5% in FY 2024-25 and 2.0% in FY 2025-26, reflecting a more typical growth pattern. Online gaming options are expected to continue growing over the forecast, with online gaming revenue to the SAF increasing 20.9% in FY 2023-24, to $395.4 million, with growth slowing to a 6.6% increase in FY 2024-25 and a 4.3% gain in FY 2025-26.

**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. State Education Tax collections are projected to increase 5.5% in FY 2023-24, 3.5% in FY 2024-25, and 3.6% in FY 2025-26, as the housing market stabilizes and inflation recedes, mitigating further increases in taxable values. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue because of the exemption of eligible manufacturing personal property from ad valorem property taxation.

**Lottery.** Competition with other gaming options (including new casino gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period. Lottery revenue is forecasted to decrease 8.4% in FY 2023-24, 1.1% in FY 2024-25, and 1.0% in FY 2025-26 as online gaming options compete with the lottery. All the net revenue generated by the lottery is earmarked to the SAF. In FY 2023-24, lottery revenue is expected to be 7.0% of total earmarked SAF revenue, with the percentage dropping to 6.8% in FY 2024-25 and continuing to fall to 6.6% in FY 2025-26.

**Michigan Business Tax/Corporate Income Tax.** Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning on January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay tax under the CIT. Instead, these 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 and at the same rate and distributed in the same manner as the IIT. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is generally a 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 $434.1 million (as refunds exceeded revenue) in FY 2022-23, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between roughly $500.0 million and $600.0 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.

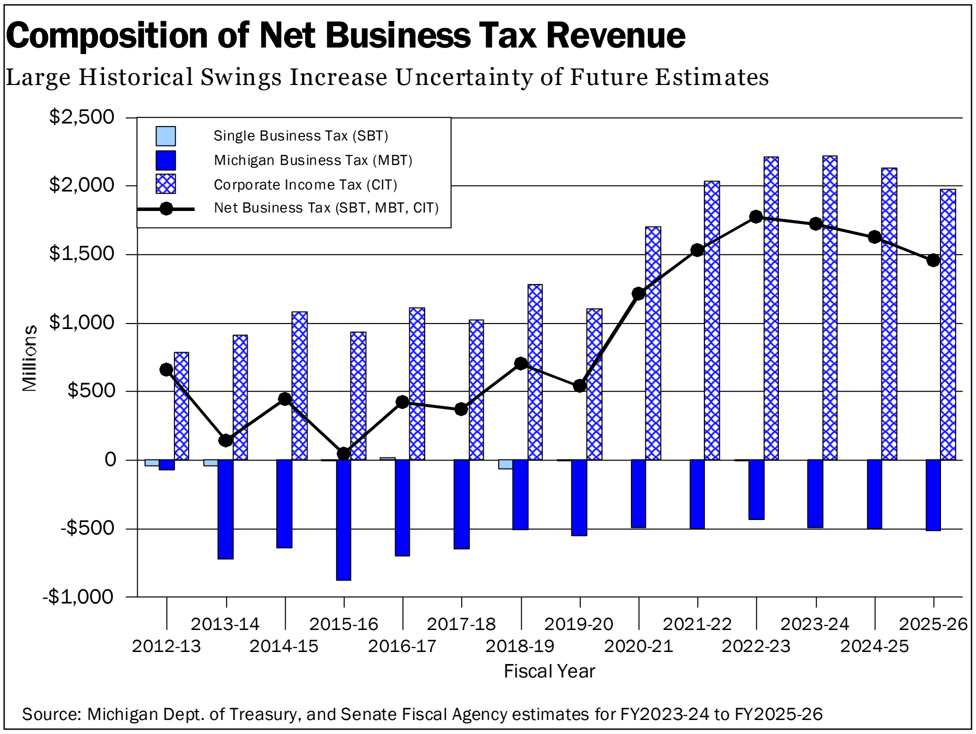
These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately $1.0 billion, 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 $434.1 million in FY 2022-23, they still represented a 3.1% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally hold constant, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 3.5% in FY 2023-24 and FY 2024-25, and 3.4% in FY 2025-26. When these credits will be claimed and processed, as well as the amount that will be claimed, has little to no relationship with economic fundamentals, which limits efforts to correctly predict revenue.

In FY 2022-23, CIT collections rose 48.3% after rising 54.4% in FY 2020-21, falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the volatility in CIT revenue (Figure 21). Combined revenue from the CIT, MBT and Single Business Tax (SBT) totaled $1,175.8 million in FY 2022-23, a 23.1% decrease from FY 2021-22. Net business tax revenue is expected to decrease 4.7% in FY 2023-24, 8.4% in FY 2024-25, and increase 41.7% in FY 2025-26. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) All the swings in revenue from the CIT, MBT, and SBT, affect only the General Fund.

Before FY 2022-23, all CIT revenue was directed to the General Fund. Public Act 4 of 2023 created several earmarks of CIT revenue to other funds. In FY 2022-23 through FY 2024-25, the first $1.2 billion of CIT is directed to the General Fund, and the next $600.0 million is distributed to other funds: $50.0 million is earmarked each year to the Michigan Housing and Community Development Fund, another $50.0 million each year is earmarked to the Revitalization and Placemaking Fund, and $500.0 million to the SOAR Fund, with any remaining CIT revenue after these three earmarks directed to the General Fund. Beginning in FY 2025-26, the earmarks to the Revitalization and Placemaking and SOAR funds end, adding $550.0 million to General Fund revenue in FY 2025-26, while the Housing and Community Development Fund earmark continues in future fiscal years.

**Insurance Taxes.** Revenue from Michigan's taxes on insurance companies totaled an estimated $465.9 million in FY 2022-23, a 11.0% increase from FY 2021-22. Revenue from taxes on insurance companies is expected to increase 20.4% in FY 2023-24 to $561.2 million, followed by increases of 7.1% in FY 2024-25 and 3.5% in FY 2025-26. All revenue from insurance taxes is directed to the General Fund.

**Figure 21**



Composition of Net Business Tax Revenue
Large Historical Swings Increase Uncertainty of Future Estimates
$2,500
$2,000
$1,500
$1,000
$500
0
-$500
-$1,000
Millions
Single Business Tax (SBT)
Michigan Business Tax (MBT)
Corporate Income Tax (CIT)
Net Business Tax (SBT, MBT, CIT)
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
2024-25
2025-26
Fiscal Year
Source: Michigan Dept. of Treasury, and Senate Fiscal Agency estimates for FY2023-24 to FY2025-26

## ***SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY***

Tables 7, 8, and 9 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 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 7. 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 Senate Fiscal Agency's revised estimate for FY 2023-24 presented in this report increases the baseline estimate by $226.0 million above the January 2024 consensus estimate, to $34.8 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2024-25 was made in January 2023, as shown in Table 8. 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. The revised SFA estimate for FY 2024-25 increases baseline revenue by $337.6 million, to $35.7 billion.

**Table 7**

**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 |
| Change From Previous Estimate: | | | |
| Dollar Change | $496.0 | ($270.0) | $226.0 |
| Percent Change | 3.0% | (1.5%) | 0.7% |
| Change From Initial Estimate: | | | |
| Dollar Change | $2,548.5 | $1,650.5 | $4,199.0 |
| Percent Change | 17.7% | 10.2% | 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 8**

| 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 |
| Change From Previous Estimate: | | | |
| Dollar Change | $526.9 | ($189.3) | $337.6 |
| Percent Change | 3.2% | (1.0%) | 1.0% |
| Change From Initial Estimate: | | | |
| Dollar Change | $2,286.5 | $1,196.5 | $3,482.9 |
| Percent Change | 15.2% | 7.0% | 10.8% |

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

**Note:** Baseline base year equals FY 2022-23.

The initial GF/GP and SAF baseline revenue estimate for FY 2025-26 was made in January 2024, as shown in Table 9. 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. The revised SFA estimate for FY 2025-26 increases baseline revenue by $136.8 million, to $36.2 billion.

**Table 9**

| 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 |
| Change From Previous Estimate: | | | |
| Dollar Change | $333.3 | ($196.5) | $136.8 |
| Percent Change | 2.0% | (1.1%) | 0.8% |
| Change From Initial Estimate: | | | |
| Dollar Change | $212.6 | ($124.7) | $88.0 |
| Percent Change | 1.2% | (0.7%) | 0.2% |

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 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. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income taxpayers on returns filed after the end of that fiscal year. (For FY 2022-23, combined GF/GP and SAF revenue is estimated at $31.8 billion; 15% applied to that would yield a BSF limit of roughly $4.8 billion. The balance at the end of FY 2022-23 was roughly $1.8 billion, lower than the limit of $4.8 billion; therefore, no rebate is triggered.)

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

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

To calculate the pay-in, the amount of real personal income growth over 2.0% in the previous calendar year is applied to the amount of General Fund revenue in the previous fiscal year. For example, the calculated pay-in for FY 2022-21 is based on personal income growth from calendar year 2021 to 2022 and GF/GP revenue in FY 2021-22. Different years are used to calculate a potential pay-out. A pay-out in FY 2022-23 depends on the change in personal income from calendar year 2022 to calendar year 2023, whether there was a calculated pay-out in FY 2021-22, and the BSF balance at the end of FY 2021-22.

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

Table 10 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2022-23. This table also presents the SFA's estimates for FY 2023-24, FY 2024-25, and FY 2025-26, assuming enacted transfers to the BSF and estimated interest earnings. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 22, and the estimated economic stabilization trigger calculations for FY 2023-24, FY 2024-25, and FY 2025-26 are presented in Table 11.

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

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula does not forecast any pay-ins or pay-outs in FY 2023-24, FY 2024-25, or FY 2025-26.

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 $1,986.8 million in FY 2023-24, $2,093.7 million in FY 2024-25, and $2,194.9 million in FY 2025-26 as shown in Table 10. (Note that the Senate Appropriations Subcommittee budget recommends a $100.0 million FY 2024-25 deposit into the BSF, not reflected in Table 10. The FY 2024-25 budget has not yet been adopted as of the writing of this report.)

**Table 10**

| BUDGET AND ECONOMIC STABILIZATION FUND<br>TRANSFERS, EARNINGS, AND FUND BALANCE<br>FY 1998-99 TO FY 2025-26 ESTIMATES<br>(millions of dollars) | | | | | |
|---|---|---|---|---|---|
| | Pay-In | | | | |
| **Fiscal Year[a)]** | **Trust Fund Act** | **Other Approp.** | **Interest Earned** | **Pay-Out** | **Fund Balance** |
| 1998-99 | | $244.4 | $51.2 | $73.7 | $1,222.5 |
| 1999-00 | | 100.0 | 73.9 | 132.0 | 1,264.4 |
| 2000-01 | | 0.0 | 66.7 | 337.0 | 994.2 |
| 2001-02 | | 0.0 | 20.8 | 869.8 | 145.2 |
| 2002-03 | | 9.1 | 1.8 | 156.1 | 0.0 |
| 2003-04 | | 81.3 | 0.0 | 0.0 | 81.3 |
| 2004-05 | | 0.0 | 2.0 | 81.3 | 2.0 |
| 2005-06 | | 0.0 | 0.0 | 0.0 | 2.0 |
| 2006-07 | | 0.0 | 0.1 | 0.0 | 2.1 |
| 2007-08 | | 0.0 | 0.1 | 0.0 | 2.2 |
| 2008-09 | | 0.0 | 0.0 | 0.0 | 2.2 |
| 2009-10 | | 0.0 | 0.0 | 0.0 | 2.2 |
| 2010-11 | | 0.0 | 0.0 | 0.0 | 2.2 |
| 2011-12 | | 362.7 | 0.2 | 0.0 | 365.1 |
| 2012-13 | | 140.0 | 0.5 | 0.0 | 505.6 |
| 2013-14[b)] | | 75.0 | 0.4 | 194.8 | 386.2 |
| 2014-15[c)] | $17.5 | 94.0 | 0.4 | 0.0 | 498.1 |
| 2015-16 | 17.5 | 95.0 | 1.8 | 0.0 | 612.4 |
| 2016-17 | 17.5 | 75.0 | 5.1 | 0.0 | 710.0 |
| 2017-18 | 17.5 | 265.0 | 13.5 | 0.0 | 1,006.0 |
| 2018-19 | 17.5 | 100.0 | 25.1 | 0.0 | 1,148.6 |
| 2019-20 | 17.5 | 0.0 | 13.0 | 350.0 | 829.1 |
| 2020-21 | 17.5 | 535.0 | 0.8 | 0.0 | 1,382.4 |
| 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 | $89.0 | $0.0 | $1,986.8 |
| 2024-25 | 17.5 | 0.0 | 89.4 | 0.0 | 2,093.7 |
| 2025-26 | 17.5 | 0.0 | 83.7 | 0.0 | 2,194.9 |

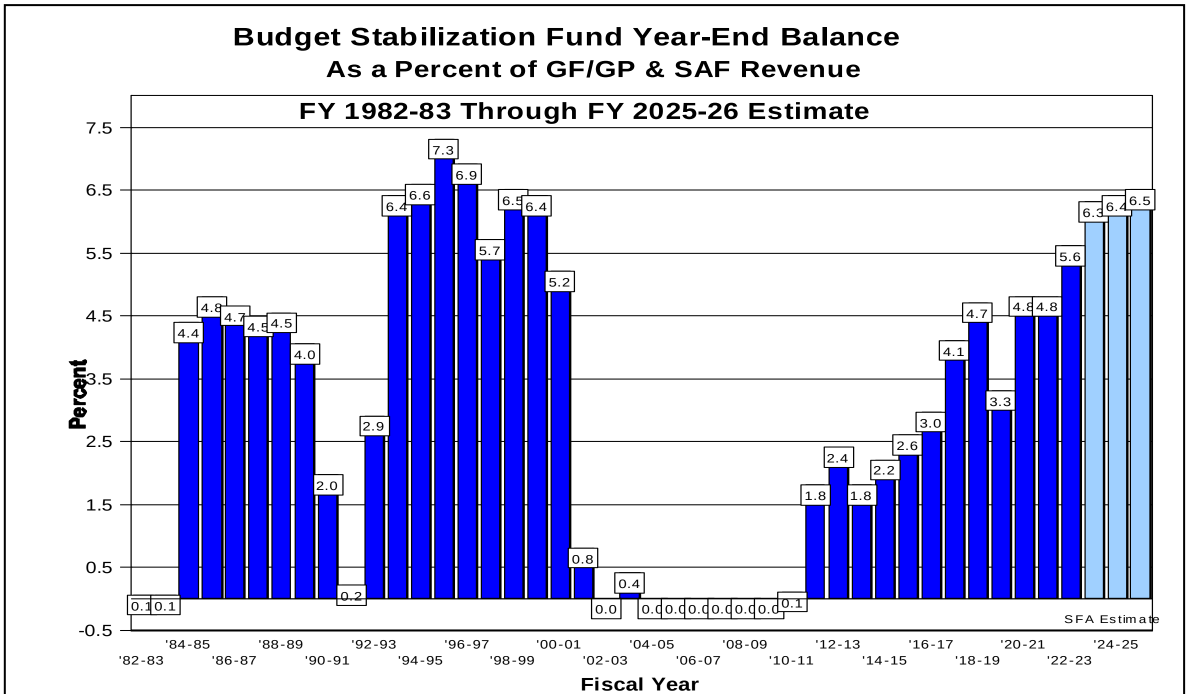
a) For FY 1998-99 to FY 2020-21, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Annual Comprehensive Financial Report. FY 2021-22 to FY 2024-25 include enacted legislation and estimated interest earnings.

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

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

**Source:** State of Michigan Annual Comprehensive Financial Reports through FY 2022-23 and Senate Fiscal Agency.

**Figure 22**



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

**Table 11**

**ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGERS**
**FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26**
**(millions of dollars)**

| | CY 2022 | CY 2023 | CY 2024 | CY 2025 | CY 2026 |
|---|---|---|---|---|---|
| Michigan Personal Income (MPI) | $572,325.1 | $599,366.0 | $622,268.3 | $649,152.7 | $671,144.6 |
| Less: Transfer Payments | 123,353.9 | 126,699.9 | 129,527.7 | 134,672.1 | 139,520.3 |
| Subtotal | $448,971.2 | $472,666.1 | $492,740.6 | $514,480.7 | $531,624.3 |
| Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1) | 2.6812 | 2.8373 | 2.9051 | 2.9755 | 3.0515 |
| Equals: Real Adjusted MPI | $167,451.0 | $166,591.0 | $169,611.0 | $172,908.0 | $174,219.0 |
| Percent Change from Prior Year | | (0.5%) | 1.8% | 1.9% | 0.8% |
| Excess Over 2.0% | | 0.00% | 0.00% | 0.00% | 0.00% |
| | | **FY 2022-23** | **FY 2023-24** | **FY 2024-25** | **FY 2025-26** |
| Multiplied by: Estimated GF/GP Revenue | | $13,966.7 | $14,105.3 | $14,546.4 | $15,033.1 |
| Equals: Transfer to the BSF | | | $0.0 | $0.0 | $0.0 |
| OR Transfer from the BSF | | | $0.0 | $0.0 | $0.0 |

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

## ***COMPLIANCE WITH STATE REVENUE LIMIT***

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), it was never exceeded. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to the generation of new State revenue as part of the school financing reform enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the limit in FY 2007-08 despite increases in the income tax and MBT rates. Revenue remained substantially below the limit for FY 2009-10 through FY 2020-21. To date, the largest gap between revenue and the limit occurred in FY 2019-20, when State revenue was $11.9 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2023-24, FY 2024-25, and FY 2025-26, with State revenue forecast to be $14.6 billion below the limit in FY 2025-26.

### ***THE REVENUE LIMIT***

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year before the calendar year in which the fiscal year begins. For example, in FY 2020-21, State government revenue could not exceed 9.49% of personal income for calendar year 2019. Given that Michigan personal income for 2019 equaled $491.6 billion at the time compliance was determined, the revenue limit for FY 2020-21 was $46.7 billion.

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

### ***REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED***

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

***REVENUE LIMIT COMPLIANCE PROJECTIONS***

Based on the SFA's revenue estimates for FY 2023-24, FY 2024-25, and FY 2025-26, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years, as illustrated in Figure 23. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

***FY 2023-24***

The SFA estimates that personal income in Michigan during 2022 will equal $572.3 billion and, as a result, the revenue limit will equal $54.3 billion in FY 2023-24. Based on the SFA's revised revenue estimates for FY 2023-24, revenue subject to the revenue limit will equal an estimated $42.3 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.0 billion, or 22.2%, in FY 2023-24. Personal income is forecasted to increase 0.8% while State revenue subject to the revenue limit is forecasted to increase 0.3%, thus increasing the amount by which revenue will fall below the limit.

***FY 2024-25***

The SFA estimates that personal income in Michigan during 2023 will equal $599.4 billion and the revenue limit will equal $56.9 billion in FY 2024-25. Based on the SFA's revised revenue estimates for FY 2024-25, revenue subject to the revenue limit will equal an estimated $43.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $13.5 billion, or 23.7%, in FY 2024-25. Personal income is forecasted to increase 4.7% while State revenue subject to the revenue limit is forecasted to increase 2.6%, thus increasing the amount by which revenue will fall below the limit.

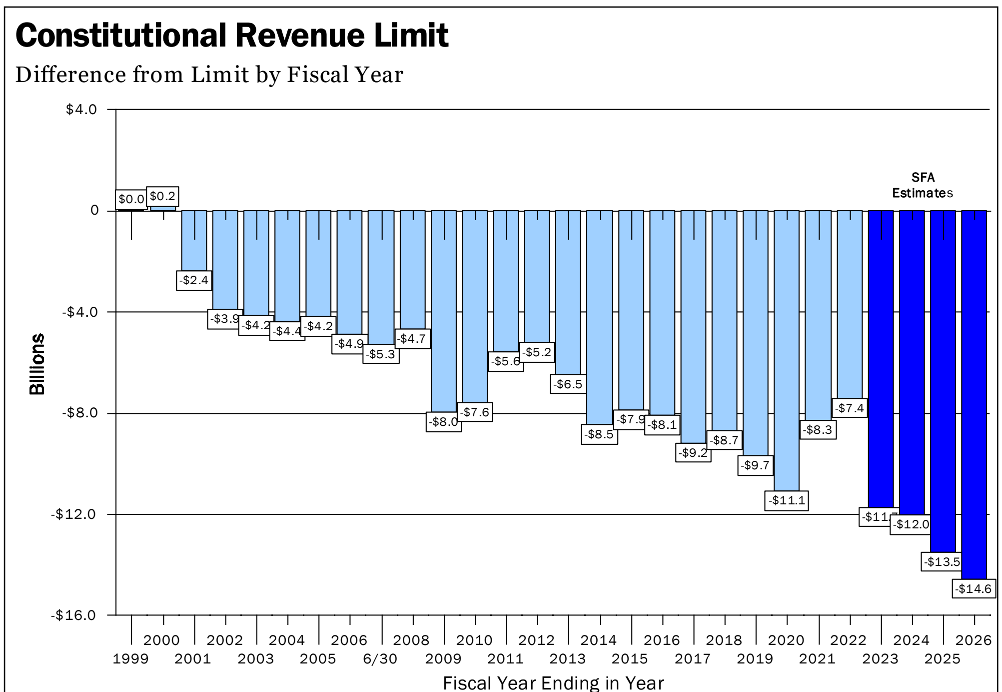
***FY 2025-26***

The SFA estimates that personal income in Michigan during 2024 will equal $622.3 billion, and the revenue limit will equal $59.1 billion in FY 2025-26. Based on the SFA's initial revenue estimates for FY 2025-26, revenue subject to the revenue limit will equal an estimated $44.5 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $14.6 billion, or 24.7%, in FY 2025-26. Personal income is forecasted to increase 3.8% while State revenue subject to the revenue limit is forecasted to increase 2.5%, thus increasing the percentage by which revenue will fall below the limit.

## Table 12

| COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT<br>SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION<br>FY 2021-22 THROUGH FY 2025-26 ESTIMATE<br>(millions of dollars) | FY 2021-22 Final | FY 2022-23 Estimate | FY 2023-24 Estimate | FY 2024-25 Estimate | FY 2025-26 Estimate |
|---|---|---|---|---|---|
| **Revenue Subject to Limit** | | | | | |
| Revenue: | | | | | |
| Gen'l Fund/Gen'l Purpose (baseline) | $16,885.1 | $16,908.4 | $16,968.9 | $17,356.0 | $17,427.1 |
| Constitutional Revenue Sharing (baseline) | 1,072.7 | 1,089.8 | 1,090.7 | 1,080.8 | 1,096.1 |
| School Aid Fund (baseline) | 17,794.1 | 17,908.5 | 17,851.2 | 18,348.9 | 18,775.4 |
| Transportation Funds | 3,841.0 | 4,151.1 | 4,220.4 | 4,318.5 | 4,393.1 |
| Other Restricted Non-Federal Aid Revenue | 4,939.9 | 5,063.4 | 5,190.0 | 5,319.7 | 5,452.7 |
| Adjustments: | | | | | |
| GF/GP Federal Aid | (9.2) | 13.9 | (10.0) | (10.0) | (10.0) |
| GF/GP Balance Sheet Adjustments | (1,673.1) | (2,941.7) | (2,863.6) | (2,809.6) | (2,394.0) |
| SAF Balance Sheet Adjustments | 86.9 | (48.5) | (174.2) | (231.2) | (265.8) |
| **Total Revenue Subject to Limit** | **$42,937.4** | **$42,144.9** | **$42,273.4** | **$43,373.1** | **$44,474.6** |
| | | | | | |
| **Revenue Limit** | | | | | |
| Personal Income: | | | | | |
| Calendar Year | **CY 2020** | **CY 2021** | **CY 2022** | **CY 2023** | **CY 2024** |
| Amount | $530,809.0 | $567,807.0 | $572,325.1 | $599,366.0 | $622,268.3 |
| Revenue Limit Ratio | 9.49% | 9.49% | 9.49% | 9.49% | 9.49% |
| Revenue Limit | $50,373.8 | $53,884.9 | $54,313.7 | $56,879.8 | $59,053.3 |
| 1.0% of Limit | 503.7 | 538.8 | 543.1 | 568.8 | 590.5 |
| **Amount Under (Over) Limit** | **$7,436.4** | **$11,740.0** | **$12,040.2** | **$13,506.7** | **$14,578.6** |
| Percent Below Limit | 14.8% | 21.8% | 22.2% | 23.7% | 24.7% |
| CY = Calendar Year; FY = Fiscal Year | | | | | |

## Figure 23




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

## ***ESTIMATES OF YEAR-END BALANCES***

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the SFA has revised its estimates of FY 2023-24, FY 2024-25, and FY 2025-26 GF/GP and SAF year-end balances. This section of the report discusses the year-end balances and addresses some of the issues the members of the Legislature will face as they make mid-year alterations to the FY 2023-24 State budget and complete action on the FY 2024-25 State budget.

On February 7, 2024, Governor Gretchen Whitmer presented her FY 2024-25 and FY 2025-26 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 12, 2024. The Governor's FY 2024-25 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Table 13 provides a summary of the SFA's estimates of the FY 2023-24, FY 2024-25, and FY 2025-26 year-end balances of the GF/GP and SAF budgets; Tables 14 and 15 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and enacted and projected State appropriations, the FY 2023-24 GF/GP and SAF budgets will have positive ending balances. The projected GF/GP balance for FY 2023-24 is $1.8 billion and the projected SAF balance is $293.8 million. This combined GF/GP and SAF balance of $2.1 billion is assumed to carry-forward into FY 2024-25.

Based on current SFA revenue estimates, and assuming the expenditures from the Senate-passed FY 2024-25 budget bills, the FY 2024-25 GF/GP budget will have a positive ending balance of $1.0 billion and the SAF budget will have a negative balance of $344.2 million. The combined ending balance of these two FY 2024-25 fund projections is a balance of $626.3 million. (Note that a budget cannot be enacted with a projected deficit, so for purposes of estimating FY 2025-26, it is assumed that a budget is enacted that eliminates this projected deficit.)

A comparison of the SFA's estimate of FY 2025-26 GF/GP revenue with a continuation of the Senate-passed FY 2024-25 budgets, adjusted SFA caseload estimates, and carrying forward the projected year-end balance leads to a projected $1.5 billion GF/GP budget balance. A comparison of the SFA's estimate of FY 2025-26 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2025-26 (at a level that eliminates the projected deficit for FY 2024-25), adjusting for pupil membership estimates, and carrying forward projected year-end balance, points to a projected balance of $144.9 million in the SAF. Actions taken in FY 2023-24 to appropriate additional funds that are continued in FYs 2024-25 and 2025-26 will reduce the projected balances in those fiscal years, and final action taken that enacts FY 2024-25 budgets that differ from Senate-passed budgets will result in adjustments to the estimated balances.

**Table 13**

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

| | FY 2023-24 Year-to-Date | FY 2024-25 SFA Estimate | FY 2025-26 SFA Estimate |
|---|---|---|---|
| General Fund/General Purpose | $1,758.3 | $959.6 | $1,504.0 |
| School Aid Fund | $293.8 | ($344.2) | $144.9 |

## ***SFA REVENUE ADJUSTMENTS FOR FISCAL YEARS 2023-24, 2024-25, AND 2025-26***

As illustrated in the balance sheets, the SFA is forecasting positive adjustments for FYs 2023-24, 2024-25, and 2025-26 in the General Fund, and negative adjustments in the SAF. Over the three-year period, GF/GP revenue would increase $1.4 billion compared to the January 2024 consensus revenue estimates, while the SAF would decrease $655.4 million over that same period. The balance sheets show both the adjustments to revenue as estimated by the SFA in this forecast along with the Senate-passed budget bill spending levels and estimates produced by the SFA with respect to school aid costs, Medicaid costs, and other adjustments to spending. The balance sheets shown here will be updated after the CREC to reflect consensus adjustments to revenue and costs.

## ***CONCLUSION***

The GF/GP side of the ledger is estimated to end FY 2023-24, FY 2024-25, and FY 2025-26 with significant year-end balances, while the SAF is estimated to have negative balances in FY 2024-25. These figures are based on the SFA's estimates of revenue as well as Senate-passed budgets. A budget cannot be enacted with an estimated negative balance; therefore, the FY 2024-25 SAF budgets would need to be reduced (compared to the Senate-passed levels), additional restricted fund revenue would need to be added, or additional GF/GP would need to be used in support of K-12, Community Colleges, and/or Higher Education to fill in the estimated shortfall.

Any spending in a given year will reduce the out-year's revenue and ending balance as well as the current year's balance. The GF/GP budget appears to be structurally balanced; in other words, ongoing revenue (not including carryforward balances) is estimated to exceed ongoing (excluding one-time) spending. (The FY 2024-25 SAF ongoing balance is negative, but that turns to positive in FY 2025-26.) A caution to the preceding statement is that the revenue estimates *assume growth* and the out-year expenditure estimates for FY 2025-26 *assume baseline (or flat)* spending. Spending in FY 2025-26 that is greater than a baseline amount (which will be established when FY 2024-25 budgets are enacted) will reduce the gap between ongoing revenue and ongoing expenditure estimates.

Tables 14 and 15 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and SAF budgets, respectively. All of the estimated year-end balances in this report are based on the SFA'S revenue projections, which the SFA will take to the May 17, 2024, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the final actions taken on the FY 2024-25 State budget, as well as for subsequent fiscal years.

**Table 14**

| GENERAL FUND/GENERAL PURPOSE (GF/GP) REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES (millions of dollars) | SFA Estimates | | |
|---|---|---|---|
| | **FY 2023-24 Enacted/ Projected** | **FY 2024-25 Senate Passed** | **FY 2025-26 Estimated Baseline** |
| **Revenue:** | | | |
| Beginning Balance | $3,925.2 | $1,758.3 | $959.6 |
| Ongoing Revenue: | | | |
| CREC Forecast January 2024 | $13,597.4 | $14,022.2 | $14,707.6 |
| SFA Forecast Change (May 2024) | 507.9 | 524.2 | 325.5 |
| Subtotal: SFA Forecast May 2024 | $14,105.3 | $14,546.4 | $15,033.1 |
| SFA Adjustments: Restore temp. revenue losses to baseline (May 2024) | 778.4 | 550.0 | 0.0 |
| Adjusted CREC Forecast Ongoing Revenue Estimate (May 2024) | $14,883.7 | $15,096.4 | $15,033.1 |
| Other Ongoing Revenue Adjustments: | | | |
| Potential Policy Bills | $0.0 | ($60.0) | ($60.0) |
| Ongoing revenue adjustment (settlement agreement) | (25.0) | (25.0) | (25.0) |
| Proposed R&D Tax Credit | 0.0 | 0.0 | (100.0) |
| Revenue Sharing Payments+Senate hold harmless provision | (552.2) | (665.0) | (665.0) |
| Subtotal Ongoing Revenue | $14,306.5 | $14,346.4 | $14,183.1 |
| Non-Ongoing Revenue: | | | |
| Redirection of Restricted Revenue | ($2.6) | ($2.6) | ($2.6) |
| Lapsing work projects | 0.0 | 35.5 | 0.0 |
| VMF early conversion to GF | 0.0 | 40.0 | 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 |
| Subtotal Non-Ongoing Revenue | ($791.5) | ($477.1) | ($2.6) |
| **Total Estimated GF/GP Revenue Including Beginning Balance** | **$17,440.3** | **$15,627.6** | **$15,140.1** |
| **Total Estimated GF/GP Revenue Excluding Beginning Balance** | **$13,515.0** | **$13,869.3** | **$14,180.5** |
| **Expenditures:** | | | |
| Ongoing Appropriations: | | | |
| Initial/Baseline Appropriations | $12,727.6 | $13,252.0 | $13,706.3 |
| Ongoing investments | 0.0 | 454.3 | 0.0 |
| Ongoing Community District Trust Fund GF payment | 32.8 | 68.8 | 0.0 |
| Restricted revenue backfill | 0.0 | (31.0) | 0.0 |
| Ongoing Appropriation changes post-budget (Filter First admin+MiLEAP | 7.0 | 0.0 | 0.0 |
| Subtotal Ongoing Appropriations | $12,767.4 | $13,744.1 | $13,706.3 |
| One-Time and Other Appropriations: | | | |
| One-Time Appropriations | $2,466.0 | $894.2 | $0.0 |
| BSF Deposit | 100.0 | 100.0 | 0.0 |
| Reserve for Federal reimbursement (UIA) | 142.0 | 0.0 | 0.0 |
| HB 4292 one-time spending PA 321 of 2023 | 96.7 | 0.0 | 0.0 |
| Estimated lapses of items being reappropriated in HB 4292 | (36.5) | 0.0 | 0.0 |
| Proposed Supplemental 2024-2 | (15.9) | 0.0 | 0.0 |
| DHHS caseload estimates (SFA) | 172.3 | (70.3) | (70.3) |
| Net out ARP-HCBS from HB 4437 | (10.0) | 0.0 | 0.0 |
| Subtotal One-Time and Other Appropriations | $2,914.6 | $923.9 | ($70.3) |
| **Total Estimated GF/GP Expenditures** | **$15,682.0** | **$14,668.0** | **$13,636.1** |
| **PROJECTED YEAR-END GF/GP BALANCE (Total)** | **$1,758.3** | **$959.6** | **$1,504.0** |
| **PROJECTED YEAR-END GF/GP BALANCE (Ongoing)** | **$1,539.1** | **$602.3** | **$476.8** |
| **PROJECTED YEAR-END GF/GP BALANCE (One-Time)** | **$219.2** | **$357.3** | **$1,027.3** |

**Table 15**

| SCHOOL AID FUND (SAF)<br>REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES<br>(millions of dollars) | | | |
|---|---|---|---|
| | SFA Estimates | | |
| | FY 2023-24 Enacted/ Projected | FY 2024-25 Senate Passed | FY 2025-26 Estimated Baseline |
| **Revenue:** | | | |
| Beginning Balance | $2,192.5 | $293.8 | $0.0 |
| Ongoing Revenue: | | | |
| CREC Forecast January 2024 | $17,946.9 | $18,307.0 | $18,706.0 |
| SFA Forecast Change (May 2024) | (269.8) | (189.3) | (196.3) |
| Subtotal: SFA Forecast May 2024 | $17,677.1 | $18,117.7 | $18,509.7 |
| SFA Adjustments: Remove temp. revenue gains from baseline (Jan 2024) | (9.7) | 0.0 | 0.0 |
| Adjusted CREC Forecast Ongoing Revenue Estimate (Jan 2024) | $17,667.4 | $18,117.7 | $18,509.7 |
| Other Revenue Adjustments: | | | |
| 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 | 2,272.8 | 2,272.8 |
| Subtotal Ongoing Revenue | $19,993.8 | $20,481.6 | $20,832.6 |
| Non-Ongoing Revenue: | | | |
| Income tax reduction | $9.7 | $0.0 | $0.0 |
| MPSERS Reserve Fund | 215.8 | 84.1 | 0.0 |
| MPSERS Reserve Fund Deposit | 0.0 | (150.0) | 0.0 |
| SAF BSF Deposit | 0.0 | (100.0) | 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 | 30.0 | 0.0 |
| Enrollment Stability Reserve Fund | 71.0 | 71.0 | 0.0 |
| GSRP Reserve Fund | 18.0 | 18.0 | 0.0 |
| Additional One-Time GF | 38.5 | 9.7 | 0.0 |
| Proposed repurposing of $13.3m GEER plus $30m school meals reserve fund | 43.3 | 0.0 | 0.0 |
| GF/GP for DPSCD Addt'l Cost Exceeding CDTF $72m/yr | 32.8 | 68.8 | 0.0 |
| Subtotal Non-Ongoing Revenue | $862.1 | $156.6 | $0.0 |
| **Total Estimated School Aid Fund Revenue Including Beginning Balance** | **$23,048.4** | **$20,932.0** | **$20,832.6** |
| **Total Estimated School Aid Fund Revenue Excluding Beginning Balance** | **$20,855.9** | **$20,638.2** | **$20,832.6** |
| **Expenditures:** | | | |
| Ongoing Appropriations: | | | |
| Initial/Ongoing K-12 State Appropriations | $16,934.8 | $17,149.8 | $17,400.4 |
| Other state restricted funds in K12 (ongoing) | 0.0 | 173.1 | 0.0 |
| School Aid Federal Funds | 2,204.8 | 2,272.8 | 2,272.8 |
| State Funds Cost Adjustments | 57.4 | 30.0 | 0.0 |
| Fund Community Colleges with SAF | 496.2 | 460.2 | 469.5 |
| Partially Fund Higher Education with SAF | 452.3 | 451.7 | 545.0 |
| Subtotal Ongoing Appropriations | $20,145.4 | $20,537.6 | $20,687.7 |
| One-Time and Other Appropriations: | | | |
| Initial One-Time K-12 SAF Appropriations | $2,324.1 | $524.0 | $0.0 |
| Reserve funds (transportation/enrollment) | 0.0 | 196.0 | 0.0 |
| Additional one-time GF/GP | 0.0 | 9.7 | 0.0 |
| Initial One-Time Community College Appropriations | 48.4 | 8.9 | 0.0 |
| Initial One-Time University Appropriations | 30.0 | 0.0 | 0.0 |
| Enacted supplemental (SB 174) | 162.1 | 0.0 | 0.0 |
| Proposed supplemental 2024-3 ($13.3m GEER, $30m school meals) | 44.6 | 0.0 | 0.0 |
| Subtotal One-Time and Other Appropriations | $2,609.2 | $738.6 | $0.0 |
| **Total Estimated School Aid Fund Expenditures** | **$22,754.6** | **$21,276.2** | **$20,687.7** |
| **PROJECTED YEAR-END SCHOOL AID FUND BALANCE (Total)** | **$293.8** | **($344.2)** | **$144.9** |
| **PROJECTED YEAR-END SCHOOL AID FUND BALANCE (Ongoing)** | **($151.6)** | **($56.0)** | **$144.9** |
| **PROJECTED YEAR-END SCHOOL AID FUND BALANCE (One-Time)** | **$445.4** | **($288.2)** | **$0.0** |