

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

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



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**January 2023**



# FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2022 through CY 2025. It also presents preliminary General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2021-22, revised revenue estimates for FY 2022-23 and FY 2023-24, and initial estimates for FY 2024-25. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 13, 2023, and will be used to facilitate the consensus estimating process.

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

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# **ECONOMIC OVERVIEW AND FORECAST**

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

The national economy has recovered from the worst impacts of the pandemic. After increasing by 6.0% during CY 2021, in part due to the unprecedented fiscal support from the federal government via the CARES Act and the American Rescue Plan Act, real Gross Domestic Product (GDP) surpassed the pre-pandemic high. Real GDP is projected to grow by a much more modest 1.9% in CY 2022.

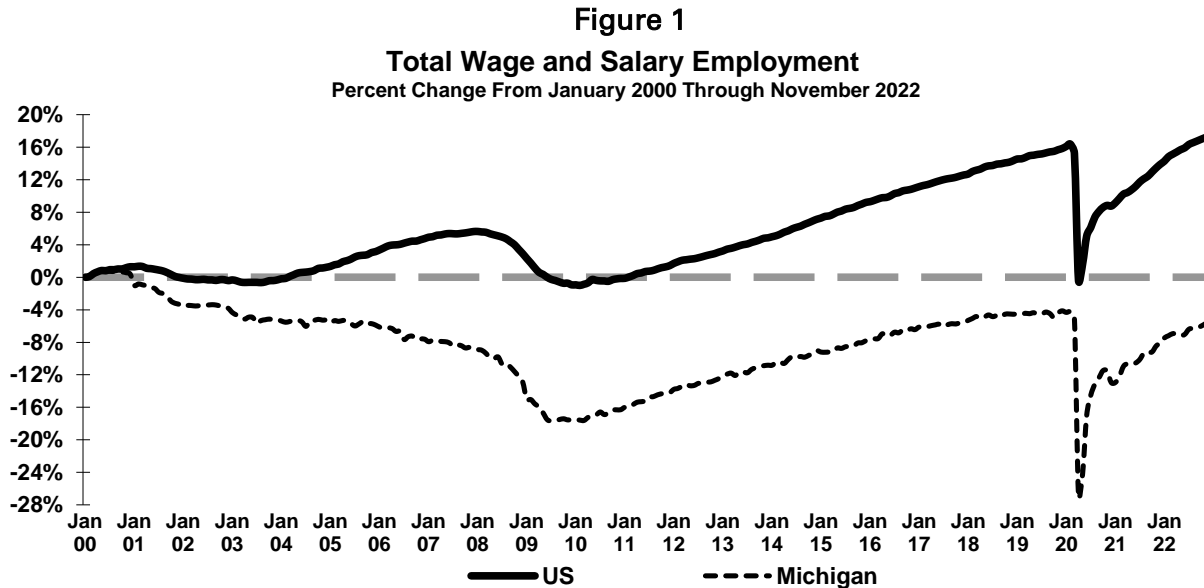
While the economy is expected to grow by 1.9% in CY 2022 despite aggressive rate hikes by the Federal Reserve to mitigate inflationary pressures, the forecast assumes that the Fed's actions to tighten financial conditions will ultimately lead to small declines in real GDP in the first two quarters of CY 2023. That said, the economy should return to modest growth in the second half of the year resulting in a slightly positive 0.4% growth rate for CY 2023. Growth is forecast to continue at a modest pace of 1.2% in CY 2024 and 2.3% in CY 2025.

As economic growth slows in CY 2023, employment growth softens to a 1.0% rate in CY 2023 with growth remaining relatively flat through the remainder of the forecast window. The unemployment rate is projected to tick up starting in early CY 2023 with more meaningful increases in the latter half of the year and the first half of CY 2024, ultimately rising to a high of 4.6% before declining to 4.1% by the end of CY 2025.

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

## Total Wage and Salary Employment

Figure 1 shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through November 2022.



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

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

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

The sharp decline brought about by COVID-19 saw employment drop back to roughly the same level as January 2000, but through November 2022, 23.0 million jobs have returned and total employment is now above pre-pandemic levels.

### *Michigan Wage and Salary Employment*

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



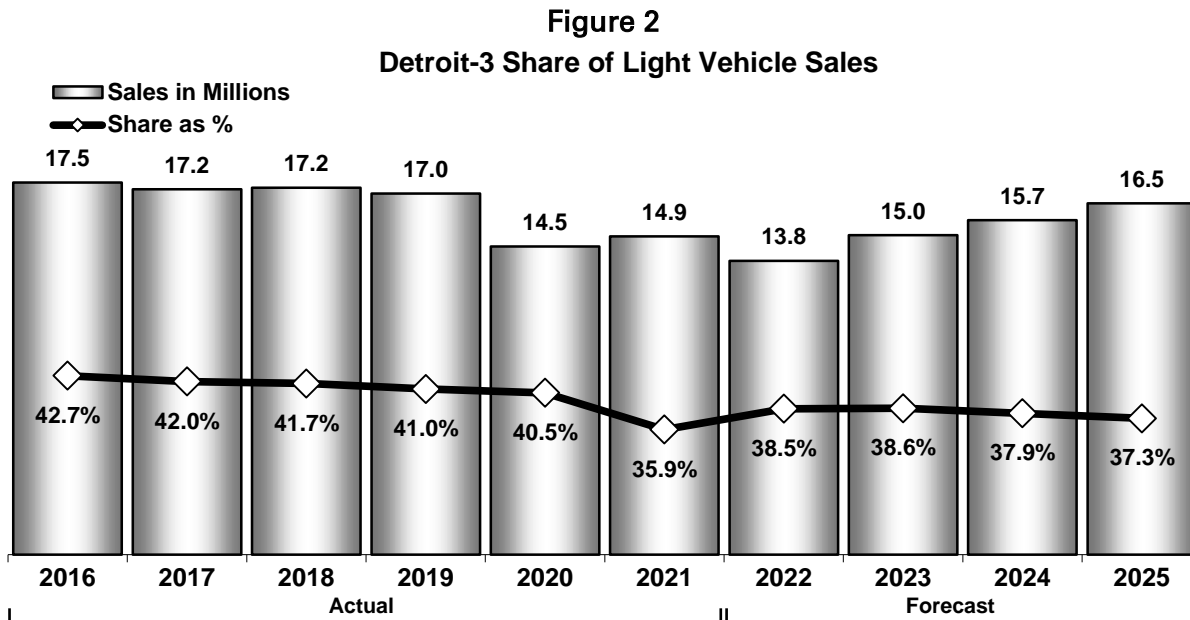
As with employment nationwide, sharp declines occurred in March and April of 2020 as employment plunged well below Great Recession levels. While about 93% of the job losses have been recovered as of November 2022, total employment is still about 68,600 jobs shy of the February 2020 levels.

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

Early releases indicate that light motor vehicle sales totaled 13.8 million units in CY 2022, a decrease of 7.3% from the 14.9 million vehicles sold in CY 2021. Light motor vehicle sales are forecast to increase to 15.0 million units in CY 2023, and continue growing to 15.7 million units in CY 2024 and 16.5 million units in CY 2025, as demand remains high and production increases as supply chain constraints ease.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years. As shown in **Figure 2**, the market share of the Detroit-3 auto manufacturers hovered around 38.5% in CY 2022 and is expected to decline to 37.3% by the end of the forecast horizon.

The level and composition of light motor vehicle sales as well as the extent to which the domestic nameplates can retain market share will have a direct impact on Michigan’s economy. In CY 2022, the Detroit-3 is expected to sell just over 5.3 million vehicles, which would translate to an 0.6% decrease from CY 2021. It is projected that the Detroit-3 will sell approximately 5.8 million vehicles in CY 2023 before sales increase to around 6.0 million units in CY 2024 and 6.1 million units in CY 2025.



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

Real GDP growth is forecast to increase 0.4% in CY 2023, 1.2% in CY 2024, and 2.3% in CY 2025.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 4.4% in CY 2023, 2.4% in CY 2024, and 2.3% in CY 2025.

Light vehicle sales are forecast to decline to 13.8 million units in CY 2022, but sales are forecast to grow to 15.0 million units in CY 2023, 15.7 million units in CY 2024, and 16.5 million units in CY 2025. The import share of light vehicles is forecast to remain relatively constant at about 21.5% throughout the forecast.

Wage and salary employment growth is expected to increase 4.1% in CY 2022, increase 1.0% in CY 2023, decrease 0.2% in CY 2024, and increase 0.8% in CY 2025.

The national unemployment rate is expected to be 3.6% in CY 2022; it is forecast to increase to 4.1% in CY 2023 and 4.5% in CY 2024 before decreasing slightly to 4.2% in CY 2025.

Interest rates on three-month T-bills are expected to increase from 2.07% in CY 2022 to 5.28% in CY 2023, and then decrease to 4.83% in CY 2024 and 3.85% in CY 2025 as the Federal Reserve lowers interest rates as inflation subsides.

## **Michigan Forecast Highlights**

Michigan wage and salary employment growth is expected to grow by 3.5% in CY 2022, 1.1% in CY 2023, 0.5% in CY 2024, and 1.0% in CY 2025.

Michigan's unemployment rate is expected to be 4.3% in CY 2022; it is forecast to increase to 5.0% in CY 2023 and 5.2% in CY 2024 before decreasing to 4.6% in CY 2025.

Michigan personal income is expected to increase by 0.1% in CY 2022, 4.5% in CY 2023 and continue to grow at rates of 3.8% in CY 2024 and 4.0% in CY 2025.

Michigan wage and salary income is expected to increase 8.6% in CY 2022; it is forecast to increase 5.8% in CY 2023, 3.1% in CY 2024, and 4.0% in CY 2025.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 4.4% in CY 2023, 2.2% in CY 2024, and 2.2% in CY 2025.

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

**Table 1**  
**ECONOMIC FORECAST VARIABLES**

	Calendar 2021 Actual	Calendar 2022 Estimate	% Change from Prior Year	Calendar 2023 Estimate	% Change from Prior Year	Calendar 2024 Estimate	% Change from Prior Year	Calendar 2025 Estimate	% Change from Prior Year
<b>United States</b>									
Real Gross Domestic Product (Billions of 2012 dollars)	\$19,609.8	\$19,990.2	1.9%	\$20,060.2	0.4%	\$20,294.8	1.2%	\$20,769.4	2.3%
Implicit Price Deflator GDP (2012 = 100)	118.866	127.327	7.1%	133.169	4.6%	136.536	2.5%	139.489	2.2%
Personal Consumption Deflator (2012 = 100)	115.592	122.897	6.3%	127.940	4.1%	130.987	2.4%	133.712	2.1%
Consumer Price Index (1982-84 = 100)	270.970	292.952	8.1%	305.833	4.4%	313.185	2.4%	320.337	2.3%
Consumer Price Index (FY) (1982-84 = 100)	266.616	287.723	7.9%	303.427	5.5%	311.482	2.7%	318.491	2.3%
Federal Funds Rate Interest Rate (Percent)	0.08%	1.70%		5.20%		4.70%		3.70%	
3-month Treasury Bills Interest Rate (Percent)	0.04%	2.07%		5.28%		4.83%		3.85%	
Aaa Corporate Bonds Interest Rate (Percent)	2.96%	5.45%		7.35%		6.53%		5.97%	
Unemployment Rate (Percent)	5.4%	3.6%		4.1%		4.5%		4.2%	
Wage and Salary Employment (Millions of workers)	146.1	152.1	4.1%	153.6	1.0%	153.3	-0.2%	154.5	0.8%
Housing Starts (Millions of units)	1.605	1.548	-3.6%	1.218	-21.3%	1.232	1.1%	1.361	10.5%
Light Vehicle Sales (Millions of units)	14.9	13.8	-7.3%	15.0	8.3%	15.7	4.7%	16.5	5.1%
Passenger Car Sales (Millions of units)	3.4	2.9	-14.1%	3.1	6.2%	3.0	-0.5%	3.1	2.0%
Light Truck Sales (Millions of units)	11.6	11.0	-5.4%	11.9	8.8%	12.7	6.0%	13.4	5.8%
Import Share of Light Vehicles (Percent)	23.8%	21.0%		21.3%		21.5%		21.6%	
Detroit-3 Share of Light Vehicle Sales (Percent)	35.9%	38.5%		38.6%		37.9%		37.3%	
Personal Income (Billions of current dollars)	\$21,294.8	\$21,726.6	2.0%	\$22,798.2	4.9%	\$23,573.3	3.4%	\$24,580.9	4.3%
<b>Michigan</b>									
Wage and Salary Employment (Thousands of workers)	4,196.3	4,343.2	3.5%	4,390.9	1.1%	4,414.4	0.5%	4,458.5	1.0%
Transportation Equipment Employment (Thousands of workers)	179.3	189.9	5.9%	194.6	2.5%	194.8	0.1%	195.9	0.6%
Unemployment Rate (Percent)	5.9%	4.3%		5.0%		5.2%		4.6%	
Personal Income (Millions of current dollars)	\$567,807	\$568,378	0.1%	\$594,020	4.5%	\$616,654	3.8%	\$641,371	4.0%
Real Personal Income (Millions of 1982-84 dollars)	\$229,110	\$211,977	-7.5%	\$212,569	0.3%	\$215,916	1.6%	\$219,739	1.8%
Wage and Salary Income (Millions of current dollars)	\$261,812	\$284,298	8.6%	\$300,683	5.8%	\$310,096	3.1%	\$322,478	4.0%
Detroit Consumer Price Index (1982-84 = 100)	247.806	267.835	8.1%	279.497	4.4%	285.656	2.2%	291.951	2.2%
Detroit Consumer Price Index (FY) (1982-84 = 100)	244.047	263.363	7.9%	277.131	5.2%	284.224	2.6%	290.311	2.1%





# RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast, and variations in the underlying factors can exert either optimistic or pessimistic influences on the forecast. That said, external forces have created far more volatility in the underlying factors than under more typical circumstances. Two of the more prevalent risks are highlighted below.

## **Inflation and Monetary Policy**

Elevated inflation levels led the Federal Reserve to aggressively raise rates throughout CY 2022. It is expected that the Fed will continue to raise interest rates at a more modest pace through the second quarter of 2023 ending at a terminal range of 5.25-5.50 that will persist throughout the second half of the year. As inflation subsides and unemployment slowly increases, the forecast assumes the Fed will begin to loosen monetary policy beginning in CY 2024. While the forecast assumes the Fed is successful at reducing inflation to levels closer to its target rate in the near- to medium term, if inflation persists at levels above the Fed's target with continued monetary tightening this would present a downside risk to the forecast.

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

The Russia-Ukraine conflict, supply chain constraints, and COVID-19-related disruptions continue to generate political and economic headwinds globally. The Russian invasion of Ukraine continues to present challenges on multiple fronts as countries respond politically, militarily, and economically. Oil, gas, raw materials, and other agricultural commodity prices have realized significant price fluctuations either due to sanctions or supply disruptions. A quicker end to the conflict presents an upside risk, while a protracted, intensified conflict and a more pronounced slowdown in global growth is a downside risk to the forecast.

While China has loosened its "Zero-COVID" policy, the danger of COVID-19-related disruptions still persists and presents a risk to the forecast.





# GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency's January 2023 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the May 2022 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

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

**Table 2** reports GF/GP and SAF revenue in terms of baseline and net revenue. Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The preliminary total baseline GF/GP and SAF revenue is \$34.6 billion in FY 2021-22. It is forecast to decrease 1.4% in FY 2022-23, increase 1.1% in FY 2023-24, and increase further by 2.5% in FY 2024-25.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary total net GF/GP and SAF revenue is \$33.0 billion in FY 2021-22, which would be a 13.7% increase from FY 2020-21. It is forecast to decrease 1.3% in FY 2022-23 before increasing 1.4% in FY 2023-24 and 2.6% in FY 2024-25.

**Table 2** also shows the May 2022 adjusted consensus estimates and the recommended revisions to these estimates for FY 2021-22 through FY 2023-24. The May 2022 adjusted consensus estimates include the CY 2022 consensus estimates plus enacted tax changes since the May 2022 consensus revenue estimating conference.

Preliminary FY 2021-22 figures suggest an increase of \$1,525.6 million from the CY 2021 adjusted consensus estimates, due in part to continued strong growth in individual income tax, which grew by 12.1%. In addition, sales tax revenue grew by 14.7% as consumers continued to purchase taxable goods at a higher rate than untaxed services. Corporate income tax revenue increased at a 19.3% rate and reached new highs.

The recommended revision for FY 2022-23 is an increase of \$1,461.9 million, driven by higher than anticipated collections from the use tax, sales tax, and corporate income tax. Finally, the recommended revision for FY 2023-24 is an increase of \$1,408.4 million, reflecting the ongoing impact of prior year revenue trends.

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

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

**Table 3** shows that relative to FY 2020-21, preliminary GF/GP tax revenue increased 16.5% to \$14,564.3 million in FY 2021-22. Net income taxes (after refunds) accruing to the general fund increased by 19.4% and corporate income tax revenue rose by 19.3%. Sales taxes also grew substantially, by 15.4%. GF/GP tax revenue in FY 2022-23 is estimated to be \$14,106.3 million, a decrease of \$458.0 million as corporate income tax revenue declines by an estimated \$349.1 million. GF/GP tax revenue will increase by \$321.7 million to \$14,428.1 million in FY 2023-24 as the economy rebounds and earnings increase. GF/GP tax revenue is estimated to grow to \$14,929.7 million in FY 2024-25, an increase of \$501.6 million.

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

Net GF/GP revenue includes non-tax revenue and represents the amount available to be appropriated. Preliminary net GF/GP revenue is expected to be \$15,220.6 million in FY 2021-22. In FY 2022-23 it is forecast to be \$14,897.4 million, a decrease of \$323.2 million, and \$15,102.2 million in FY 2023-24, an increase of \$204.7 million. Net GF/GP revenue is estimated to increase 2.9% in FY 2024-25 to \$15,540.8 million.

## **SAF Revenue by Source**

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

**Table 4** shows that preliminary net SAF revenue is anticipated to increase 11.0% to \$17,825.3 million in FY 2021-22. Net SAF revenue is forecast to be \$17,733.2 million in FY 2022-23, a decline of \$92.1 million. Net SAF revenue is estimated to increase 1.4% in FY 2023-24 and 2.3% in FY 2024-25.



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

	<u>Preliminary FY 2021-22</u>	<u>HFA Est. FY 2022-23</u>	<u>HFA Est. FY 2023-24</u>	<u>HFA Est. FY 2024-25</u>	<u>FY 2022-23 % Change</u>	<u>FY 2023-24 % Change</u>	<u>FY 2024-25 % Change</u>
<b><u>Baseline</u></b>							
GF/GP	\$16,872.4	\$16,301.4	\$16,427.7	\$16,864.0	(3.4%)	0.8%	2.7%
SAF	\$17,763.5	\$17,866.2	\$18,127.5	\$18,541.2	0.6%	1.5%	2.3%
<b>Total</b>	<b>\$34,635.9</b>	<b>\$34,167.6</b>	<b>\$34,555.2</b>	<b>\$35,405.2</b>	<b>(1.4%)</b>	<b>1.1%</b>	<b>2.5%</b>
<b><u>Net</u></b>							
GF/GP	\$15,220.6	\$14,897.4	\$15,102.2	\$15,540.8	(2.1%)	1.4%	2.9%
SAF	\$17,825.3	\$17,733.2	\$17,979.9	\$18,385.6	(0.5%)	1.4%	2.3%
<b>Total</b>	<b>\$33,045.9</b>	<b>\$32,630.7</b>	<b>\$33,082.1</b>	<b>\$33,926.4</b>	<b>(1.3%)</b>	<b>1.4%</b>	<b>2.6%</b>
<b><u>CY 2022 Adjusted Consensus<sup>1</sup></u></b>							
<b><u>Net</u></b>							
GF/GP	\$14,179.7	\$13,973.5	\$14,228.9				
SAF	\$17,340.6	\$17,195.3	\$17,444.8				
<b>Total</b>	<b>\$31,520.3</b>	<b>\$31,168.8</b>	<b>\$31,673.7</b>				
<b><u>Recommended Revision</u></b>							
<b><u>Net</u></b>							
GF/GP	\$1,040.9	\$923.9	\$873.3				
SAF	\$484.7	\$537.9	\$535.1				
<b>Total</b>	<b>\$1,525.6</b>	<b>\$1,461.9</b>	<b>\$1,408.4</b>				

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

<sup>1</sup> The CY 2022 adjusted consensus estimate includes the CY 2022 consensus estimate plus enacted tax changes since CY 2022.

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

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2022-23		FY 2023-24		FY 2024-25	
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$9,212.1	\$9,291.9	\$9,546.4	\$9,939.7	\$79.8	0.9%	\$254.5	2.7%	\$393.3	4.1%
Sales Tax	\$1,694.4	\$1,641.7	\$1,657.7	\$1,686.3	(\$52.7)	(3.1%)	\$16.1	1.0%	\$28.6	1.7%
Use Tax	\$1,194.9	\$1,136.2	\$1,119.1	\$1,121.0	(\$58.7)	(4.9%)	(\$17.0)	(1.5%)	\$1.9	0.2%
Michigan Business Tax	(\$500.3)	(\$527.0)	(\$509.7)	(\$505.5)	(\$26.7)	5.3%	\$17.3	(3.3%)	\$4.2	(0.8%)
Corporate Income Tax	\$2,029.3	\$1,680.2	\$1,715.0	\$1,775.0	(\$349.1)	(17.2%)	\$34.8	2.1%	\$60.0	3.5%
Insurance	\$419.9	\$410.0	\$420.0	\$430.0	(\$9.9)	(2.4%)	\$10.0	2.4%	\$10.0	2.4%
Other GF/GP Taxes	\$514.0	\$473.4	\$479.5	\$483.2	(\$40.6)	(7.9%)	\$6.1	1.3%	\$3.7	0.8%
<b>GF/GP Net Tax Revenue</b>	<b>\$14,564.3</b>	<b>\$14,106.3</b>	<b>\$14,428.1</b>	<b>\$14,929.7</b>	<b>(\$458.0)</b>	<b>(3.1%)</b>	<b>\$321.7</b>	<b>2.3%</b>	<b>\$501.6</b>	<b>3.5%</b>
Non-Tax Revenue	\$656.3	\$791.1	\$674.1	\$611.1	\$134.8	20.5%	(\$117.0)	(14.8%)	(\$63.0)	(9.3%)
<b>Total GF/GP Net Revenue</b>	<b>\$15,220.6</b>	<b>\$14,897.4</b>	<b>\$15,102.2</b>	<b>\$15,540.8</b>	<b>(\$323.2)</b>	<b>(2.1%)</b>	<b>\$204.7</b>	<b>1.4%</b>	<b>\$438.6</b>	<b>2.9%</b>

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

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

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2022-23		FY 2023-24		FY 2024-25	
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Sales Tax	\$7,865.1	\$7,786.4	\$7,826.7	\$7,940.2	(\$78.7)	(1.0%)	\$40.3	0.5%	\$113.5	1.5%
Use Tax	\$859.4	\$844.8	\$843.2	\$848.2	(\$14.6)	(1.7%)	(\$1.7)	(0.2%)	\$5.0	0.6%
Income Tax	\$4,059.8	\$3,868.5	\$3,935.2	\$4,060.4	(\$191.3)	(4.7%)	\$66.7	1.7%	\$125.2	3.2%
State Education Tax	\$2,441.6	\$2,584.9	\$2,729.9	\$2,859.9	\$143.3	5.9%	\$145.0	5.6%	\$130.0	4.8%
Lottery/Casinos	\$1,295.4	\$1,324.0	\$1,323.0	\$1,333.0	\$28.6	2.2%	(\$1.0)	(0.1%)	\$10.0	0.8%
Tobacco Tax	\$284.7	\$268.1	\$263.0	\$258.8	(\$16.6)	(5.8%)	(\$5.1)	(1.9%)	(\$4.2)	(1.6%)
Real Estate Transfer Tax	\$546.6	\$502.0	\$483.0	\$497.0	(\$44.6)	(8.2%)	(\$19.0)	(3.8%)	\$14.0	2.9%
Other Taxes	\$472.7	\$554.5	\$576.0	\$588.2	\$81.8	17.3%	\$21.5	3.9%	\$12.2	2.1%
<b>SAF Net Revenue</b>	<b>\$17,825.3</b>	<b>\$17,733.2</b>	<b>\$17,979.9</b>	<b>\$18,385.6</b>	<b>(\$92.1)</b>	<b>(0.5%)</b>	<b>\$246.7</b>	<b>1.4%</b>	<b>\$405.6</b>	<b>2.3%</b>

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

## **Income Tax Trigger**

Public Act 180 of 2015 amended the income tax act so that beginning with tax year 2023, in the event general fund revenue growth exceeds certain levels the income tax rate will be automatically reduced. The base of the trigger is FY 2020-21 general fund revenue, and that amount is multiplied by cumulative inflation and an adjustment factor of 1.425 to determine the level of capped revenue in subsequent years. For tax year 2023, the level of capped revenue is based on the inflation-adjusted growth (including the adjustment factor) between FY 2020-21 and FY 2021-22. For tax year 2024, the span would be FY 2020-21 through FY 2022-23.

If the actual amount of general fund revenue in a given year, as published in the Annual Comprehensive Financial Report (ACFR), exceeds the capped revenue for that year, the excess amount will be offset by a reduction in the income tax rate, and thus income tax revenues. Note that because the ACFR for FY 2021-22 has not yet been published, it's not possible to calculate the impact of the trigger on the income tax rate for TY 2023 under the requirements set forth in the statute. However, based on preliminary FY 2021-22 general fund revenue, the trigger would take effect and lower the income tax rate for TY 2023 to 4.05%.

## **BSF Year-End Balance**

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Table 5** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2024-25. Estimates include the impact of 2014 PA 186, which amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35.

The statutory BSF trigger calculation, based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue, indicates whether deposits (pay-ins) or withdrawals (pay-outs) are recommended for a fiscal year. Regardless of the calculated amounts, however, all deposits and withdrawals must be appropriated. After an appropriated pay-in of \$180.0 million in FY 2021-22, the BSF ending fund balance was \$1,588.9 million. Based on the formula, no pay-ins or pay-outs would be indicated for FY 2022-23, FY 2023-24, or FY 2024-25.

After adjusting for the required \$17.5 million deposits and estimating interest earnings, the estimated year-end balances are \$1,688.1 million for FY 2022-23, \$1,795.5 million for FY 2023-24, and \$1,888.9 million for FY 2024-25.

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

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$2.2
2008-09	\$0.0	\$0.0	\$0.0	\$2.2
2009-10	\$0.0	\$0.0	\$0.0	\$2.2
2010-11	\$0.0	\$0.0	\$0.0	\$2.2
2011-12	\$362.7	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.5	\$0.0	\$13.5	\$1,006.0
2018-19	\$117.5	\$0.0	\$25.1	\$1,148.6
2019-20	\$17.5	\$350.0	\$13.2	\$829.1
2020-21	\$552.5	\$0.0	\$1.0	\$1,382.3
2021-22	\$17.5	\$0.0	\$3.1	\$1,588.9
2022-23*	\$17.5	\$0.0	\$81.7	\$1,688.1
2023-24*	\$17.5	\$0.0	\$89.8	\$1,795.5
2024-25*	\$17.5	\$0.0	\$75.9	\$1,888.9

\* HFA estimates

NOTE: Numbers may not add due to rounding.

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

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

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

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

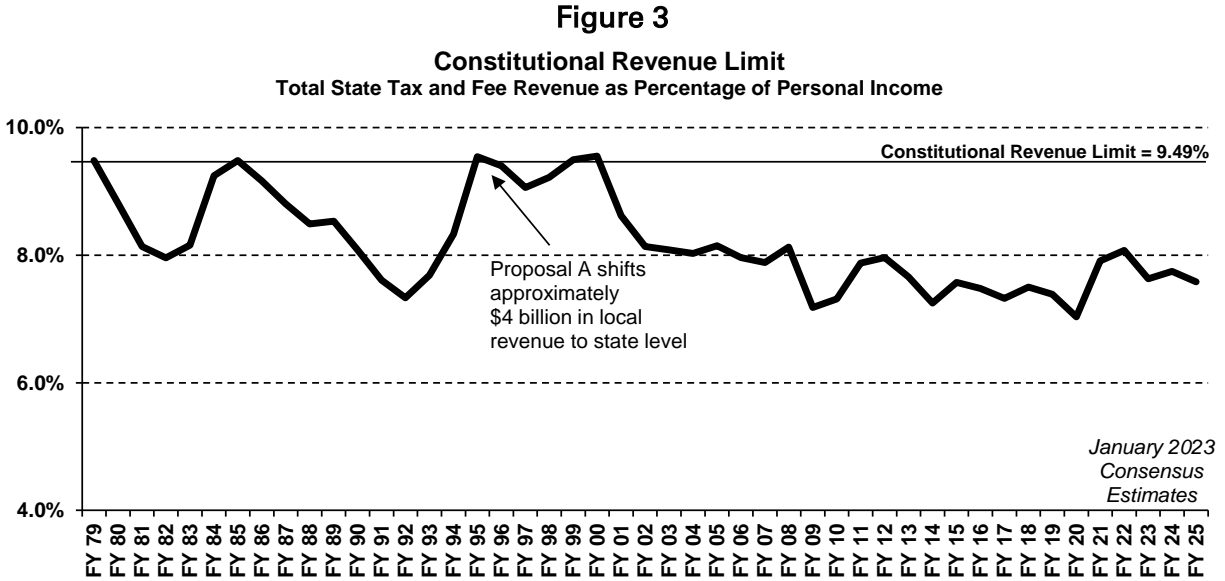
Furthermore, limit established in Section 26 by Article IX, Section 28 prohibits the state from spending any current-year revenue in excess of that amount.

As shown in **Table 6** and **Figure 3**, the FY 2021-22 revenue limit calculation is expected to show state revenue collections at \$7.6 billion below the revenue limit. For FY 2022-23, state revenue is estimated to be below the limit by \$10.6 billion. For FY 2023-24 and FY 2024-25, state revenue is estimated to remain well below the revenue limit – by \$9.9 billion and \$11.3 billion, respectively.

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

<b><u>Revenue Limit Calculations</u></b>	<b><u>Estimated FY 2021-22</u></b>	<b><u>Estimated FY 2022-23</u></b>	<b><u>Estimated FY 2023-24</u></b>	<b><u>Estimated FY 2024-25</u></b>
Personal Income				
Calendar Year	<u>CY 2020</u>	<u>CY 2021</u>	<u>CY 2022</u>	<u>CY 2023</u>
Amount	\$537,493	\$567,807	\$568,378	\$594,020
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
<b>State Revenue Limit</b>	<b>\$51,008.1</b>	<b>\$53,884.9</b>	<b>\$53,939.0</b>	<b>\$56,372.5</b>
Total Revenue Subject to Revenue Limit	\$43,409.5	\$43,321.6	\$44,042.1	\$45,056.4
<b>Amount Under (Over) State Revenue Limit</b>	<b>\$7,598.7</b>	<b>\$10,563.3</b>	<b>\$9,896.9</b>	<b>\$11,316.1</b>

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



**HFA Estimates of Year-End Balances**

Table 7 reports HFA estimates of year-end balances for GF/GP, the SAF, and the BSF. FY 2021-22 estimates are based on preliminary year end revenues, year-to-date appropriations, and K-12 cost estimates. FY 2022-23 estimates include HFA revenues, year-to-date appropriations, additional GF/GP savings from enhanced federal Medicaid reimbursements, K-12 cost estimates, and a preliminary negative adjustment for the income tax trigger.

BSF estimates are based on the current balance and HFA estimates of future deposits and interest earned.

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

	<u>Preliminary</u> <u>FY 2021-22</u>	<u>Estimated</u> <u>FY 2022-23</u>
General Fund/General Purpose	\$7,346.1	\$5,536.4
School Aid Fund	\$4,566.8	\$4,268.5
Budget Stabilization Fund	\$1,588.9	\$1,688.1

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



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