

**MICHIGAN'S
ECONOMIC OUTLOOK
AND BUDGET REVIEW**

**FY 2018-19, FY 2019-20,
FY 2020-21, and FY 2021-22**

December 30, 2019



THE SENATE FISCAL AGENCY

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

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



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ACKNOWLEDGEMENT

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The United States economy, as measured by inflation-adjusted gross domestic product, after growing an estimated 2.3% during 2019, is predicted to expand 1.8% in 2020, 1.7% in 2021, and 1.4% in 2022. Light vehicle sales are forecasted to decline from 17.0 million units in 2019 to 16.8 million units in 2020, 16.6 million units in 2021, and 16.4 million units in 2022. The unemployment rate is expected to fall from 3.7% in 2019 to 3.5% in 2020, and 3.4% in both 2021 and 2022. The Consumer Price Index (CPI) is estimated to increase 1.8% per year in 2020, 2021, and 2022, after increasing 1.7% in 2019.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.8% in 2020, 1.7% in 2021, and 1.5% in 2022, after rising 2.9% in 2019. Growth in wage and salary employment is predicted to grow more slowly over the forecast, increasing 0.7% during 2020, 0.5% in 2021, and 0.3% in 2022, after growing 0.5% in 2019.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2018-19 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$24.7 billion, up 1.4% from FY 2017-18, reflecting greater-than-expected economic growth that boosted tax revenue, especially from the individual and corporate income taxes, and less-than-expected refunds under the Michigan Business Tax (MBT). Combined FY 2018-19 GF/GP and SAF revenue is \$331.5 million above the May 2019 consensus estimate.

In FY 2019-20, GF/GP and SAF revenue will total an estimated \$25.0 billion, a 1.5% increase from FY 2018-19 and \$413.1 million above the May 2019 consensus estimate. General Fund/General Purpose revenue will total an estimated \$11.1 billion, a 0.1% decline from FY 2018-19 that reflects slowing growth and larger earmarks of individual income tax revenue to the Michigan Transportation Fund (MTF). School Aid Fund revenue will rise to an estimated \$13.9 billion, a 2.8% increase that reflects additional State and Federal policy changes that have increased revenue from online sales.

In FY 2020-21, GF/GP and SAF revenue will total an estimated \$25.6 billion, a 2.4% increase from FY 2019-20 and \$539.3 million above the May 2019 consensus estimate. General Fund/General Purpose revenue will total an estimated \$11.3 billion, a 1.9% increase from FY 2019-20 that reflects smaller increases in the earmark of individual income tax revenue to the MTF and slow income and employment growth in both the national and State economy. School Aid Fund revenue will rise to an estimated \$14.3 billion, a 2.9% increase.

In FY 2021-22, GF/GP and SAF revenue will total an estimated \$26.4 billion. This initial estimate for FY 2021-22 is 2.8% above the revised estimate for FY 2020-21. A flat earmark of individual income tax revenue to the MTF and fewer MBT credits will allow GF/GP revenue to grow 3.5%, to \$11.7 billion. School Aid Fund revenue will rise to an estimated \$14.7 billion, a 2.3% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 23, 2019, the Senate Fiscal Agency (SFA) is estimating that the FY 2018-19 GF/GP budget will close the fiscal year with an \$829.7 million balance. The SFA estimates that the FY 2018-19 SAF budget will close the fiscal year with a \$173.7 million balance.

A comparison of the SFA's FY 2019-20 revenue estimates with enacted and projected appropriations leads to a \$717.0 million GF/GP year-end balance. The SFA estimates that the FY 2019-20 SAF budget will end the year with a \$258.7 million balance.

Looking ahead at the FY 2020-21 budget, there is a projected GF/GP balance of \$725.6 million if the SFA's FY 2020-21 GF/GP revenue estimate is compared with FY 2020-21 GF/GP estimated expenditures that freeze initial ongoing spending at the FY 2019-20 level; include \$178.0 of estimated ongoing supplemental appropriations from Public Act (PA) 154 and 162 of 2019; adjust for Medicaid caseload and costs; and include increases for employee economics, State Building Authority rent, and other baseline adjustments. If the SFA's FY 2020-21 SAF revenue estimate is compared with the FY 2020-21 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs, the projected SAF surplus is \$613.4 million.

The FY 2018-19 estimated ending balances may change when the State's book-closing process is completed, and the final comprehensive annual financial report (CAFR) is published. The State Budget Office Supplemental Request 2019-7 was sent to the Legislature on December 4, 2019, and the SFA estimates that only a portion of that request will be funded in FY 2018-19 before book-closing. If the FY 2018-19 numbers change because of final supplemental spending and other book-closing issues, the ending balances in this report will be affected. If policy changes are enacted during FY 2019-20 (including anticipated and pending tax policy legislation) the ending balances for FYs 2019-20 and 2020-21 could be improved or worsened.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)					
	2018 Actual	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
Real Gross Domestic Product (% change)	2.9%	2.3%	1.8%	1.7%	1.4%
U.S. Consumer Price Index (% change)	2.4%	1.7%	1.8%	1.8%	1.8%
Light Motor Vehicle Sales (millions of units)	17.2	17.0	16.8	16.6	16.4
U.S. Unemployment Rate (%)	3.9%	3.7%	3.5%	3.4%	3.4%
Real Michigan Personal Income (% change)	2.5%	2.9%	1.8%	1.7%	1.5%
Michigan Wage & Salary Employment (% change)	1.1%	0.5%	0.7%	0.5%	0.3%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (millions of dollars)									
	FY 2019-20 Estimate			FY 2020-21 Estimate			FY 2021-22 Estimate		
	Baseline	Tax	Net	Baseline	Tax	Net	Baseline	Tax	Net
		Changes	Available		Changes	Available		Changes	Available
GF/GP	\$12,528.8	(\$1,433.7)	\$11,095.1	\$12,923.5	(\$1,622.0)	\$11,301.5	\$13,292.0	(\$1,597.0)	\$11,695.0
% Change	2.4%	---	(0.1%)	3.2%	---	1.9%	2.9%	---	3.5%
School Aid Fund	\$13,874.0	60.7	\$13,934.7	\$14,222.8	115.0	\$14,337.8	\$14,535.8	130.3	\$14,666.1
% Change	1.7%	---	2.8%	2.5%	---	2.9%	2.2%	---	2.3%
Total GF/GP & SAF	\$26,402.8	(\$1,373.0)	\$25,029.8	\$27,146.3	(\$1,507.0)	\$25,639.3	\$27,827.8	(\$1,466.7)	\$26,361.1
% Change	2.0%	---	1.5%	2.8%	---	2.4%	2.5%	---	2.8%
Revenue Limit – Under (Over)	\$11,393.2			\$12,411.9			\$13,197.9		
	<u>FY 2018-19 Estimate</u>			<u>FY 2019-20 Estimate</u>			<u>FY 2020-21 Estimate</u>		
Revision from May Consensus									
GF/GP	\$257.1			\$318.2			\$381.0		
SAF	74.4			94.9			158.3		
Total	\$331.5			\$413.1			\$539.3		

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2018-19 Estimate	FY 2019-20 Estimate	FY 2020-21 Estimate
General Fund/General Purpose.....	\$829.7	\$717.0	\$725.6
School Aid Fund	173.7	258.7	613.4
Budget Stabilization Fund (with formula pay-in)	1,152.7	1,217.0	1,272.2
Budget Stabilization Fund (with enacted deposits).....	1,152.7	1,205.9	1,260.8

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2020, 2021, and 2022, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

In 2018, inflation-adjusted gross domestic product (GDP) increased 2.9%, ranking slightly below the 2015 increase as the most rapid economic growth since 2006. While the 2008-2009 recession represented the most severe economic contraction in more than 70 years, the years following the recession also have represented the weakest recovery. As of the third quarter of 2019, the economy had been in recovery for 41 quarters after the recession trough in the second quarter of 2009. Four other recoveries since World War II lasted 20 quarters or more, although only two of those recoveries lasted 35 quarters or more (none have lasted 41 quarters). However, after 41 quarters the current recovery is only slightly more than half as strong as the average of those recoveries (Figure 1), even including the impact of the recessions that interrupted those recoveries. The economy has averaged only 2.3% annual growth since the end of the recession, compared with an average of 3.9% annual growth over the three longest recoveries since World War II (the recoveries after the 1961, 1982, and 1991 recessions). Most of the weakness in the recovery has reflected particularly slow growth through the first quarter of 2014: personal consumption spending (which generally has accounted for two-thirds of economic activity) grew at a rate of 1.7% per year between the recession trough and the first quarter of 2014 while the government sector contracted by 1.9% per year (Figure 2). Between the first quarter of 2014 and the fourth quarter of 2017, the government sector grew 1.4% per year, and between the third quarter of 2017 and the third quarter of 2019 it has grown at a 2.2% annual rate. Since the first quarter of 2014, personal consumption has consistently grown, averaging 3.1% growth per year. However, the growth in consumption since the first quarter of 2014 has been offset by a marked slowing in business investment from 9.8% growth per year to an average annual rate of 0.3% over the first three quarters of 2019.

Figure 1

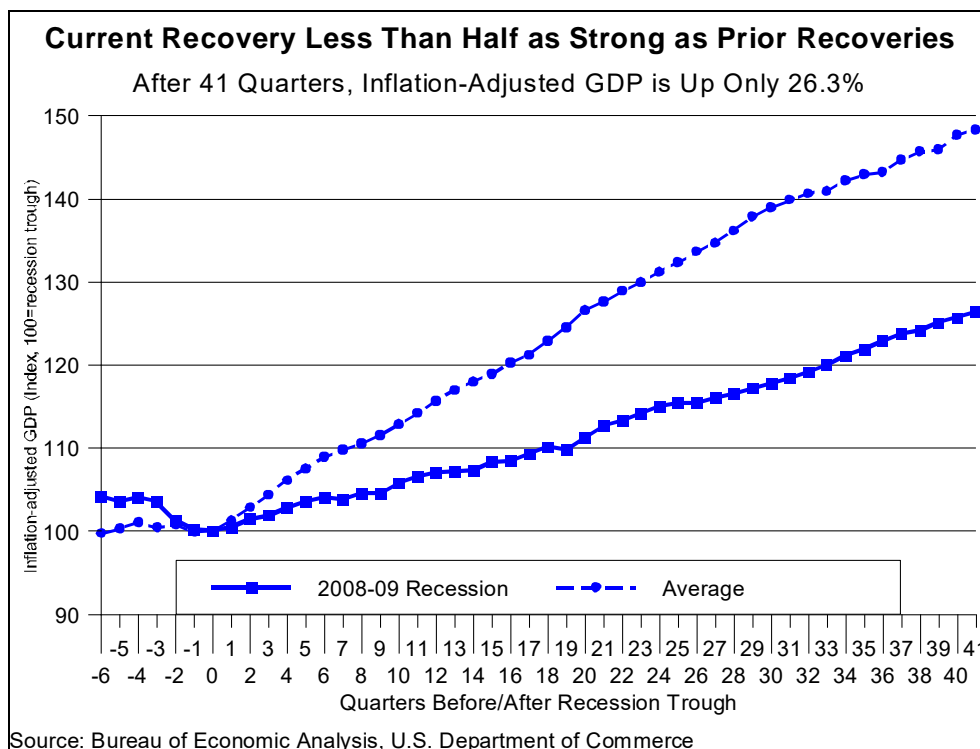
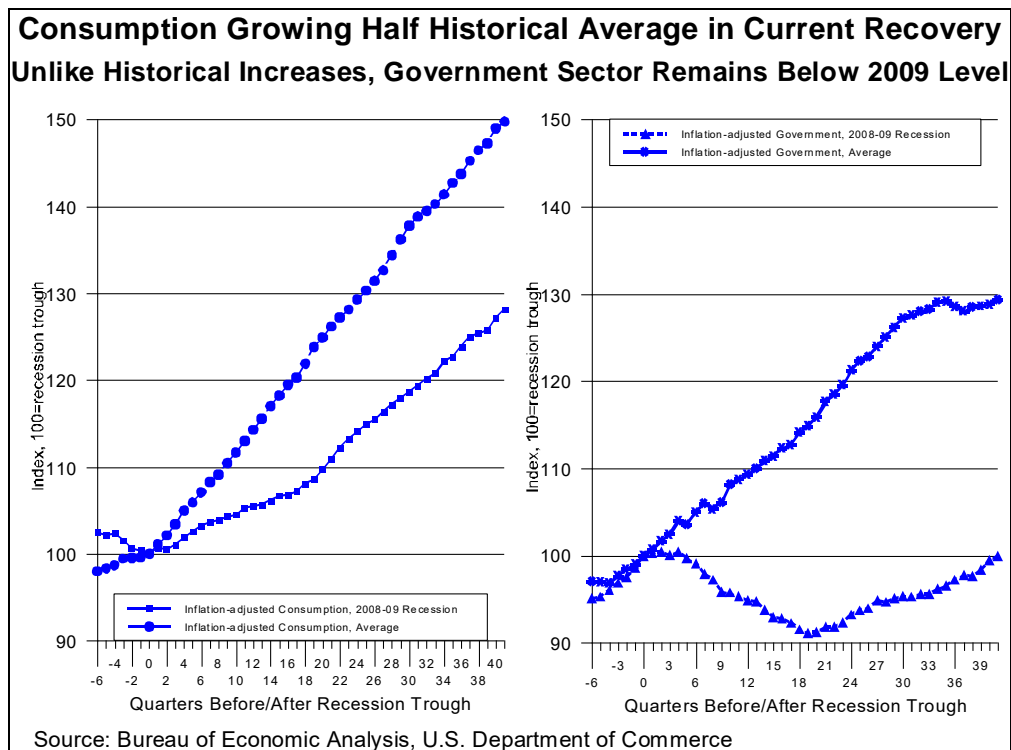


Figure 2



Recoveries from recessions caused by a crisis within the financial system often take longer than traditional recoveries, largely because of the increased level of risk aversion both borrowers and lenders exhibit, and the need to rebuild asset values rather than simply having the unemployed obtain jobs. Employment losses continued through February 2010, while housing prices continued to decline through late 2011, both depressing economic activity and delaying any potential recovery. In March 2013, the S&P 500 finally recovered to its prerecession peak, signaling new growth in asset prices; however, payroll employment did not regain its prerecession peak until May 2014. Depending on the price index used, housing prices had recovered to prerecession peaks by either the first or third quarter of 2016. With employment, housing prices, and the stock market all exhibiting an upward trend in the years after early 2014, and in many cases surpassing prerecession levels, consumption returned to relatively normal growth rates.

While economic growth has been stronger since the first quarter of 2014, when compared to the growth rates between the 2009 recession trough and the first quarter of 2014, those "stronger" growth rates are not only weaker than the long-term average before the 2008-2009 recession (inclusive of recessions) but are unlikely to be sustainable given current economic circumstances. The long-run growth of an economy is generally constrained by two factors: population growth and productivity growth. These two factors essentially represent how many people are available to 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 equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced during the current recovery 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 2018, this potential or trend growth averaged 1.5% per year. Despite the slow economic growth after the 2008-2009 recession, since 2011 the economy has consistently outperformed the average long-run trend growth suggested by these factors (Figure 3), causing the output gap (the difference between actual GDP and potential GDP) to narrow substantially, beginning in 2014 (Figure 4). As of the second quarter of 2018, the economy had exceeded the potential, an occurrence that

historically has been short-lived and associated with rising labor costs. A primary reason the economy was able to outperform the long-run average over this period was the slack in the labor force, particularly due to large numbers of unemployed and/or underemployed individuals. As a result, reductions in unemployment were able to compensate for slow population growth and slow productivity growth. However, as will be discussed later, declining unemployment rates and long-term declines in labor force participation rates (reflecting an aging population) reduce the ability of the economy to exceed the long-term potential growth rates, even in the short run.

Figure 3

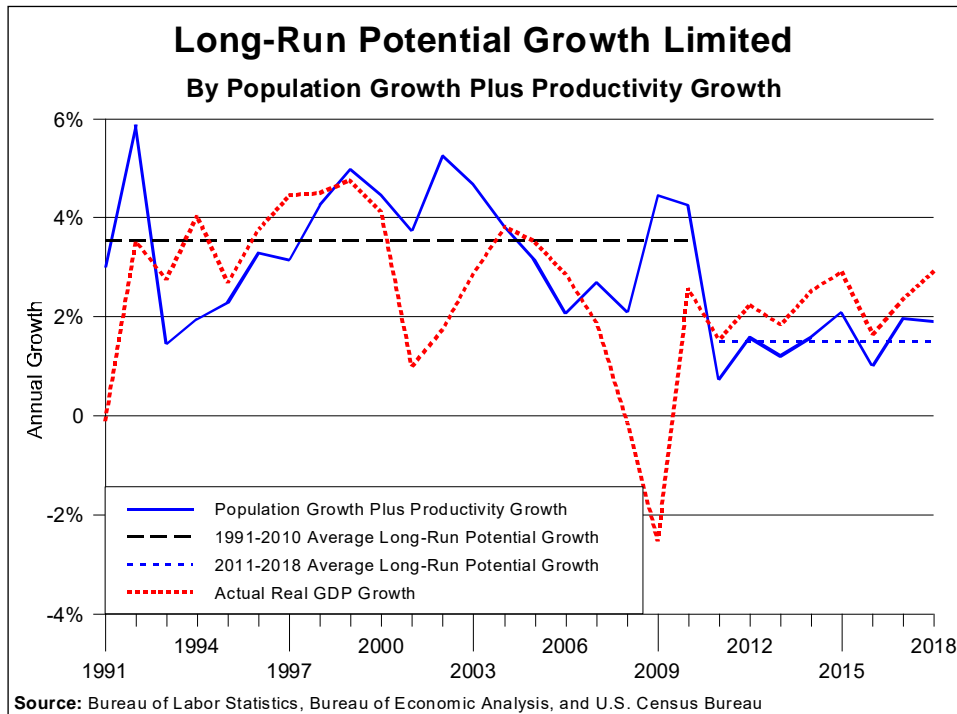
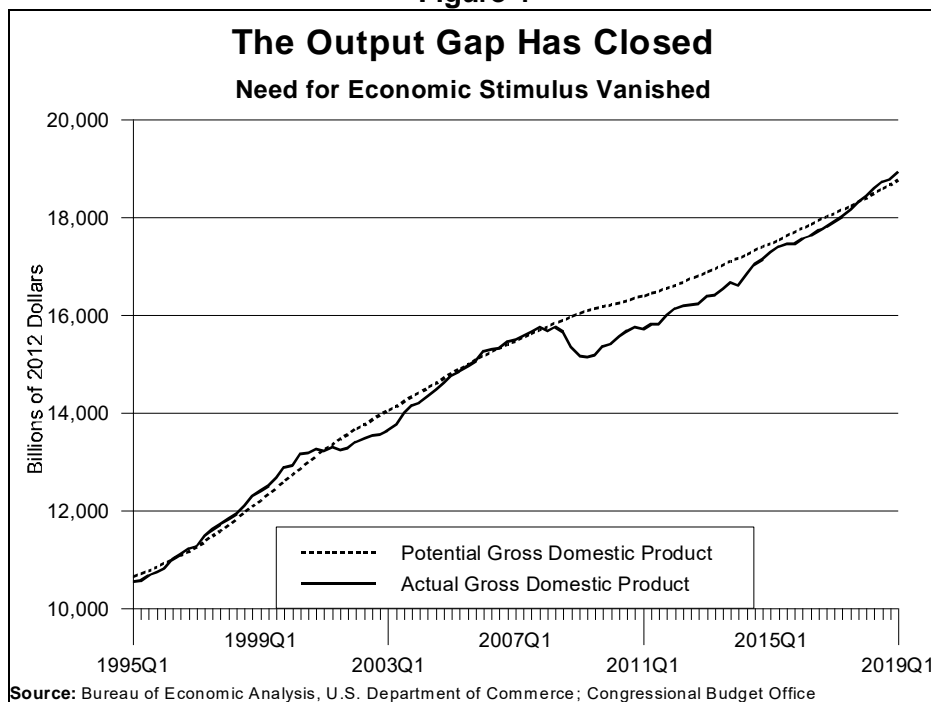
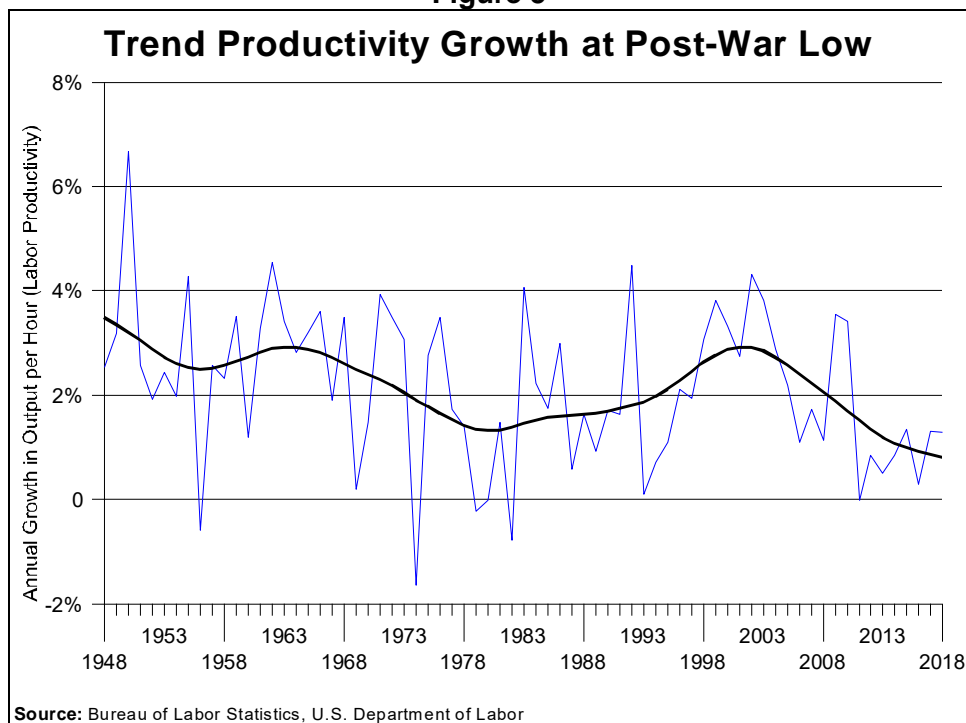


Figure 4



Productivity growth, as measured by output per hour in the nonfarm business sector, increased 0.3% in 2016, and rose 1.3% in both 2017 and 2018. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.8% growth per year since 2010—the longest and most severe slowdown in productivity experienced since at least World War II (Figure 5). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014, and been exacerbated by slowing investment growth since 2014. Business investment affects not only current economic growth but also future economic growth because investment generally improves 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 since 2010 has boosted employment growth over what it would have been had labor productivity grown at historical rates.

Figure 5



As of November 2019, payroll employment averaged 1.7% annual growth since the February 2010 trough and was up 1.5% from the November 2018 level, down slightly from the 1.8% year-over-year growth exhibited during the last four months of 2018. The combined effect of an improving economy, consistent payroll employment growth, and low productivity on the unemployment rate has been significant, especially given the underlying demographics affecting the labor force. The unemployment rate fell from a peak of 10.0% in October 2009, to 3.5% in both September and November 2019—the lowest rate since December 1969. However, through 2013, the labor force grew much more slowly than the working age population and declines in the unemployment rate often reflected a stagnant or declining labor force as much as increased employment. Between the December 2009 trough in total employment (as opposed to payroll employment) and September 2014, the labor force averaged 0.3% annual growth. In 2016, the labor force grew 1.3%, but that growth slowed to 0.7% in 2017. The labor force increased by 1.1% in 2018, and as of November 2019, was up 1.0% from November 2018 after being up as little as 0.5% from the year-ago level in June 2019. As of September 2014, total employment had surpassed the prerecession peak of November 2007 and the November 2019 level of total employment set an all-time record. However, labor force participation during 2018 remained at the same 40-year lows experienced since late 2013 (Figure 6), but rose slightly during 2019, to approximately 63.1%. In addition, the labor force participation rate is expected to decline over the longer term. A 2018 Congressional Budget Office study forecasted that given population demographics, particularly aging baby boomers

and the size of current age cohorts under the age of 18 ([Figure 7](#)), the labor force participation rate is expected to continue declining, from the 62.9% rate in 2018 to 60.1% in 2028—meaning that over the next 10 years economic growth will be further constrained by the exit of approximately 3% of the population from the labor force.

While lower labor force participation has limited labor supply, the growing economy has resulted in continued increases in labor demand. Since early 2016, the number of job openings has continued to increase, and openings have consistently exceeded separations (when an employee leaves a position, either as a result of quitting, being released, or because a limited term position ends). Over that period, the rate of growth in hourly compensation has risen, although it is still rising more slowly than during most previous nonrecession periods. Historically, labor costs have risen more rapidly when the unemployment rate has been below 5.0% than when the unemployment rate has been above 5.0%. Since 1980, hourly compensation has risen by approximately 3.3% per year when the unemployment rate has been above 5.0%. In contrast, during the 1990s, the last sustained period when the unemployment rate remained below 5.0%, hourly compensation increased by an average of 5.0% per year. The 1990s experience suggests the 2.9% annual growth rate in hourly compensation between the first quarter of 2016 (when the unemployment rate fell below 5.0%) and the third quarter of 2019 is unsustainable, and labor costs are more likely to increase the longer the unemployment rate remains low. To the extent that the unemployment rate continues to decline, the pressure on labor costs will be greater.

As of the first quarter of 2019, the economy exhibited characteristics of a healthy economy in many respects: low unemployment rates, high consumer sentiment, and low inflation—although inflation rose more rapidly during 2018 than any year since 2011. Vehicle sales remain at historically strong levels, initial unemployment claims are at record lows (especially as a share of the labor force), and housing starts are finally rising at a level consistent with household formation. However, even without considering fiscal and monetary policy risks (which will be addressed later), substantial concerns and uncertainties remain. Although growth in consumer debt has slowed, debt levels remain high and are likely to be more of a burden as interest rates rise; productivity growth remains exceptionally low; inflation-adjusted incomes have remained somewhat stagnant; business investment remains weak; and the gap between short-term and long-term interest rates (often referred to as the "yield curve") has declined to very low levels, and was even briefly negative at the end of March 2019 (a negative gap, or "inversion", in the curve has been a reliable indicator of recessions).

Inflation-adjusted consumption has grown approximately 2.8% per year since the first quarter of 2016, and much of the improvement has reflected increased purchases of motor vehicles and/or rising debt. Light vehicle sales in 2016 totaled 17.5 million units, breaking the previous all-time record of 17.4 million units set in 2015, dropped slightly to 17.1 million units in 2017, and finished 2018 at 17.2 million units. Overall retail sales in November 2019 were 3.1% above the level in November 2018, down from 4.5% growth in 2017 and 4.6% growth in 2018. Furthermore, a meaningful portion of consumption growth has been financed by increased borrowing, particularly between mid-2014 and the end of 2017. Between the first quarter of 2014 and the fourth quarter of 2017, inflation-adjusted consumption spending per person rose at an annual rate of 2.0%, compared with a 2.4% rate of increase in inflation-adjusted wage and salary income per person and a 3.2% increase in total consumer debt. While the gap between spending and income has narrowed, in most quarters between the fourth quarter of 2017 and the third quarter of 2019 inflation-adjusted outstanding consumer debt per person grew more rapidly than both inflation-adjusted personal income per person and inflation-adjusted wages per person.

Figure 6

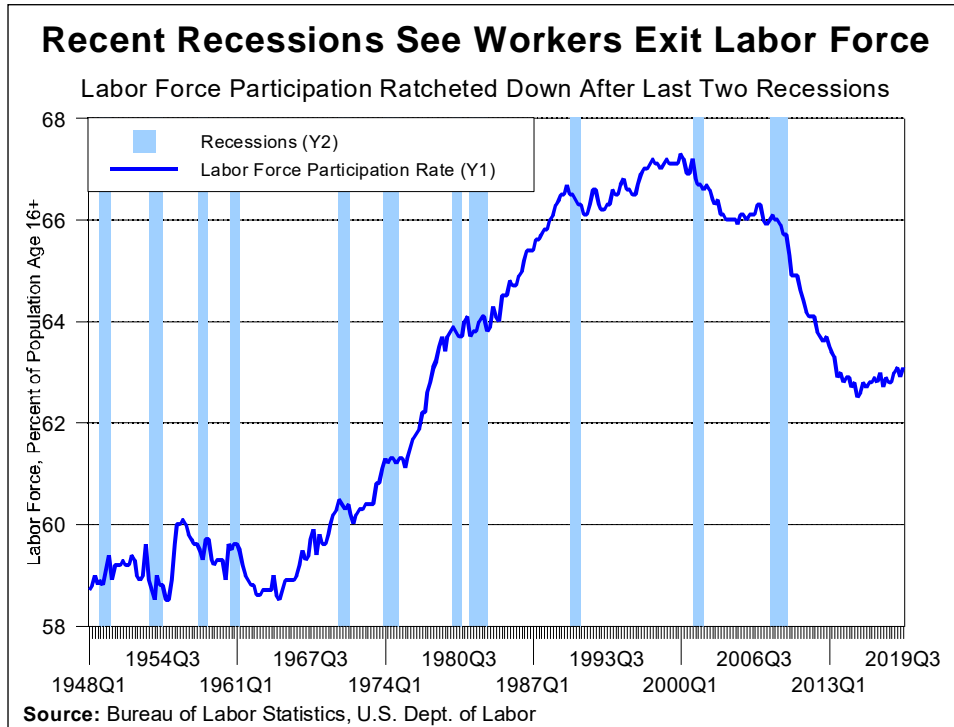
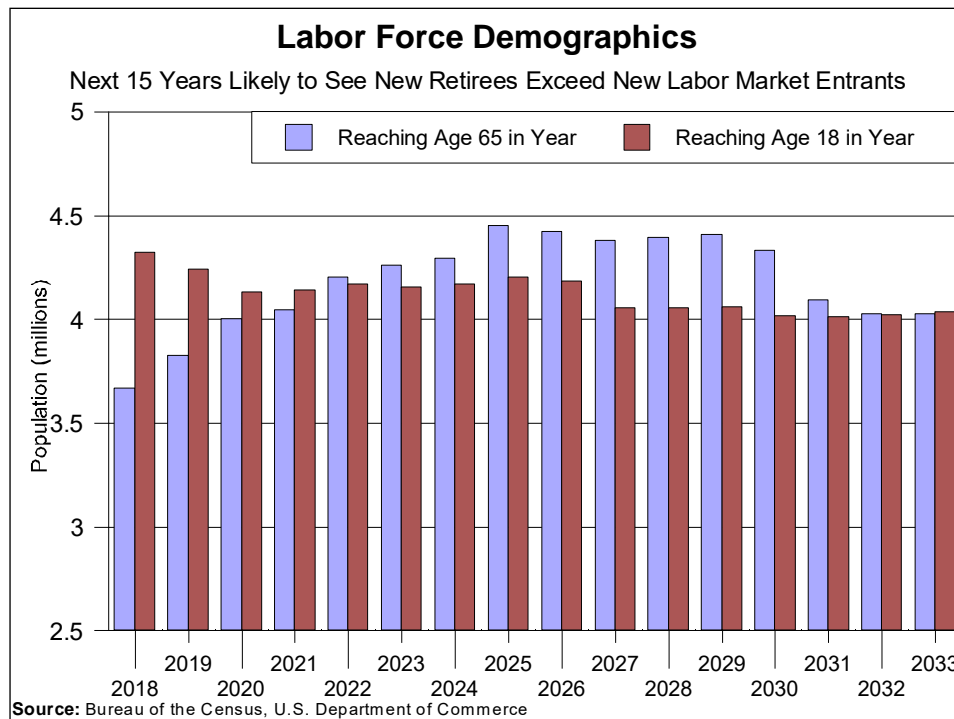
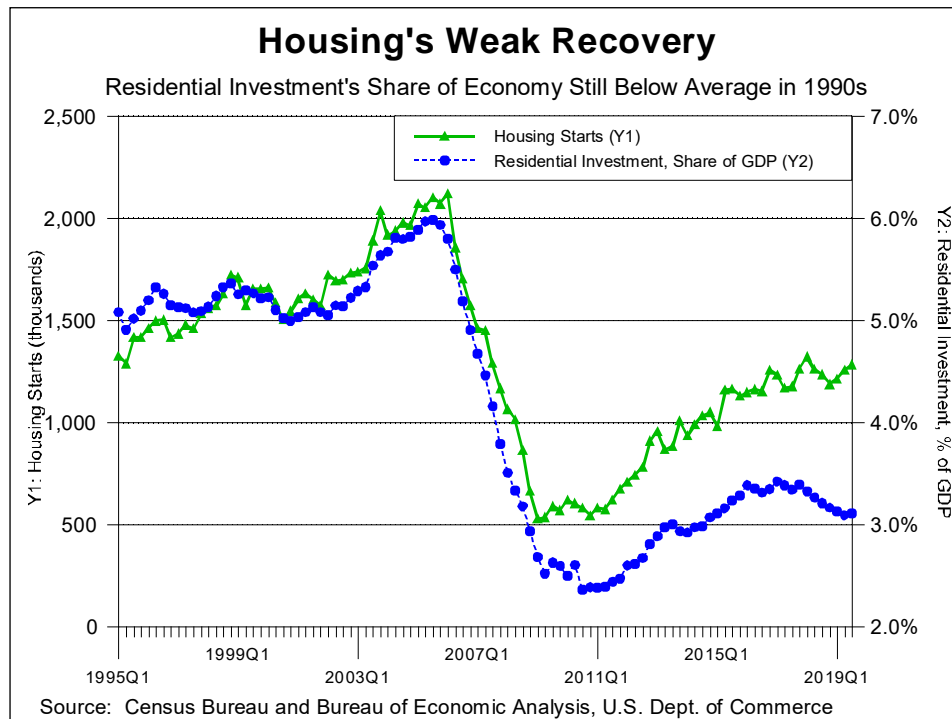


Figure 7



Housing construction, which counts as residential investment rather than consumption spending, improved in 2018 but has remained near the same level throughout 2019. Despite this stability, residential investment as a share of GDP remains substantially below historical norms (Figure 8) and declined slightly through the first three quarters of 2019. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP. Although residential construction as a share of GDP improved through 2017, reaching 3.4%, the share has fallen in almost every quarter since the fourth quarter of 2017, to 3.1% in the third quarter of 2019. Housing starts totaled 1.25 million units in 2018, a 3.9% increase from the 2017 level, marking the ninth consecutive annual increase in starts and the most starts since the 2008-2009 recession. However, the number of starts during 2018 was less than the number of starts in any year during the period of 1993 to 2007, despite the 25.9% increase in the U.S. population between 1993 and 2018.

Figure 8



RECENT MICHIGAN ECONOMIC HIGHLIGHTS

Michigan's economy spent the 2000-to-2010 period in 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 driven by increased competition in the economy. For Michigan, the effect of productivity improvements has been substantial 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 has become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade; thus, Michigan 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 drag from the manufacturing sector on Michigan's economy largely bottomed out in 2010 and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing

employment in Michigan rose 34.5% between June 2009, when the U.S. recession ended, and December 2014, or approximately 2,300 jobs per month (an average annual growth rate of 5.5%). Since December 2014, job growth in manufacturing has slowed with employment gains falling from 3.0% in 2015 to 2.4% in 2016, 1.7% in 2017, and 2.2% in 2018. Employment in the transportation equipment manufacturing sector increased by 65.3% between June 2009 and December 2014, accounting for 69,000 (46.1%) of the manufacturing jobs Michigan gained and 18.2% of the total jobs added in Michigan over that period. Like total manufacturing employment, Michigan transportation equipment manufacturing employment is growing more slowly, with the growth rate slowing from a 10.7% increase in 2011 to a 5.8% increase in 2014 and a projected 0.6% increase in 2019. Similarly, the growth in total Michigan payroll employment has slowed, declining from 1.8% growth in 2016 to 1.1% growth in both 2017 and 2018. Furthermore, since the end of 2017, most sectors of the Michigan economy have exhibited slower employment growth than the U.S. as a whole, especially during 2018 ([Figure 9](#)).

The Michigan unemployment rate declined from a high of 14.9% in June 2009 to 3.9% in August and September 2018, the lowest level since October 2000. The decline between June 2009 and May 2016 was partially attributable to the departure of approximately 145,100 individuals from the labor force in addition to the employment gain of 360,000 jobs. Almost half of the employment gain, representing 179,850 jobs, occurred during 2013 and 2014. Between September 2018 and November 2019, Michigan employment increased by 54,700 jobs, although the unemployment rate has remained steady ranging from 4.0% to 4.2%.

As job growth has slowed, increases in inflation-adjusted Michigan personal income also have slowed. In 2015, inflation-adjusted Michigan personal income increased 7.3%, compared to 1.7% in 2016, and 1.2% in 2017. While inflation-adjusted personal income grew 2.5% in 2018 and is on track to grow by 2.9% in 2019, the gains do not reflect increases in wage and salary earnings (perhaps driven by lower unemployment rates) as much as by increases in dividends, interest, and rent (from stock market gains and higher interest rates), increases in transfer payments (attributable to Federal fiscal policy), and a substantially lower inflation rate in 2019. Like with the national economy, Michigan personal income growth faces a number of constraints from slow population growth and low unemployment rates. Additionally, in many sectors, average weekly hours remain at or near record levels, limiting the ability of firms or workers to generate additional income by simply working more hours.

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

Figure 9

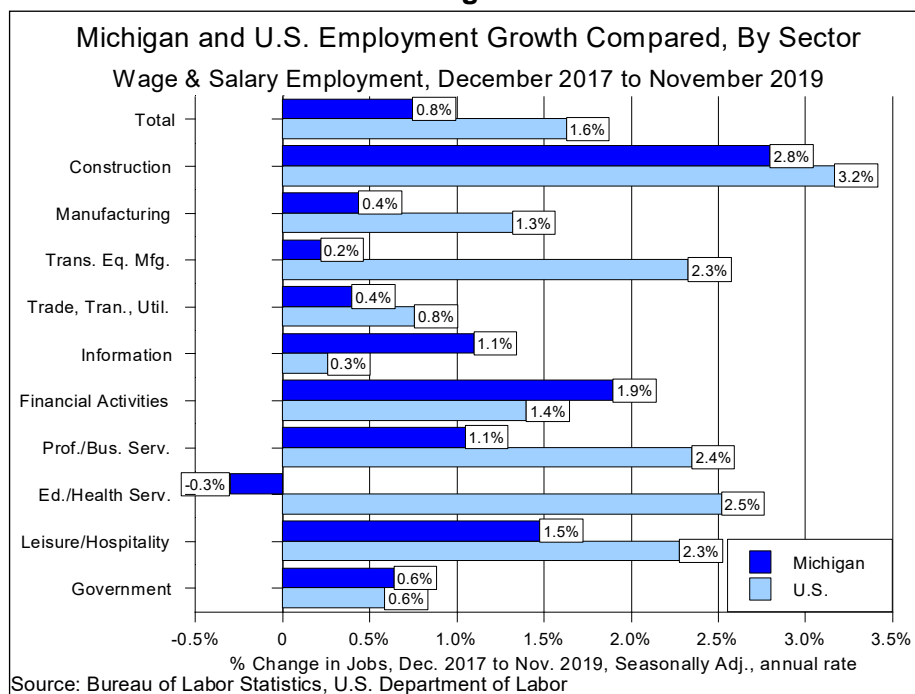


Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)					
	2018 Actual	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
United States					
Nominal GDP (year-to-year growth)	5.4%	4.1%	3.5%	3.8%	3.6%
Inflation-Adjusted GDP (year-to-year growth)	2.9%	2.3%	1.8%	1.7%	1.4%
Unemployment Rate	3.9%	3.7%	3.5%	3.4%	3.4%
Inflation					
Consumer Price Index (year-to-year growth)	2.4%	1.7%	1.8%	1.8%	1.8%
GDP Implicit Price Deflator (yr.-to-yr. growth)	2.4%	1.7%	1.7%	2.1%	2.2%
Interest Rates					
90-day Treasury Bill	1.94%	2.07%	1.60%	1.60%	1.70%
10-year Treasury Bill	2.91%	2.13%	1.80%	2.03%	2.18%
Corporate Aaa Bond	3.93%	3.39%	3.04%	3.14%	3.22%
Federal Funds Rate	1.83%	2.16%	1.62%	1.62%	1.69%
Light Motor Vehicle Sales (millions of units)					
Auto	17.2	17.0	16.8	16.6	16.4
Truck	5.3	4.7	4.2	3.7	3.4
Import Share	11.9	12.2	12.6	12.9	13.0
	23.0%	22.4%	22.7%	22.6%	22.5%
Michigan					
Personal Income (millions)	\$484,030	\$503,736	\$522,198	\$540,257	\$557,649
Year-to-year growth	4.9%	4.1%	3.7%	3.5%	3.2%
Inflation-Adjusted Personal Income (year-to-year growth)					
	2.5%	2.9%	1.8%	1.7%	1.5%
Wage & Salary Income (millions)	\$240,365	\$248,349	\$258,519	\$268,405	\$277,613
Year-to-year growth	3.7%	3.3%	4.1%	3.8%	3.4%
Detroit Consumer Price Index (year-to-year growth)					
	2.4%	1.1%	1.9%	1.7%	1.7%
Wage & Salary Employment (thousands)	4,418.6	4,442.0	4,471.6	4,493.1	4,508.4
Year-to-year growth	1.1%	0.5%	0.7%	0.5%	0.3%
Unemployment Rate	4.1%	4.1%	3.8%	3.7%	3.7%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2018 Actual	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
Gross Domestic Product (billions of dollars)	\$20,580.2	\$21,416.6	\$22,171.5	\$23,009.0	\$23,828.5
Year-to-year growth	5.4%	4.1%	3.5%	3.8%	3.6%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2012 dollars)	\$18,638.2	\$19,066.3	\$19,402.3	\$19,723.9	\$19,995.9
Year-to-year growth	2.9%	2.3%	1.8%	1.7%	1.4%
Consumption (billions of 2012 dollars)	\$12,944.6	\$13,283.0	\$13,605.0	\$13,900.6	\$14,212.3
Year-to-year growth	3.0%	2.6%	2.4%	2.2%	2.2%
Business Fixed Investment (billions of 2012 dollars)	\$2,692.3	\$2,749.1	\$2,751.7	\$2,833.6	\$2,913.4
Year-to-year growth	6.4%	2.1%	0.1%	3.0%	2.8%
Change in Business Inventories (billions of 2012 dollars)	\$48.1	\$75.8	\$42.2	\$38.4	\$34.0
Residential Investment (billions of 2012 dollars)	\$602.9	\$592.7	\$600.4	\$605.7	\$609.8
Year-to-year growth	-1.5%	-1.7%	1.3%	0.9%	0.7%
Government Spending (billions of 2012 dollars)	\$3,223.9	\$3,297.9	\$3,368.8	\$3,406.3	\$3,431.4
Year-to-year growth	1.7%	2.3%	2.1%	1.1%	0.7%
Net Exports (billions of 2012 dollars)	(\$920.1)	(\$972.9)	(\$1,008.5)	(\$1,119.3)	(\$1,296.6)
Exports (billions of 2012 dollars)	\$2,532.9	\$2,526.0	\$2,506.0	\$2,533.2	\$2,568.9
Imports (billions of 2012 dollars)	\$3,453.0	\$3,498.9	\$3,514.5	\$3,652.5	\$3,865.5
Personal Income (year-to-year growth)	5.6%	4.6%	4.2%	4.4%	4.3%
Adjusted for Inflation	3.1%	2.8%	2.3%	2.6%	2.5%
Wage & Salary Income (year-to-year growth)	5.0%	5.0%	4.6%	4.8%	4.6%
Personal Savings Rate	7.7%	8.0%	8.0%	8.3%	8.5%
Capacity Utilization Rate	78.7%	77.8%	76.7%	77.6%	78.7%
Output per hour (Labor productivity, annual growth)	1.3%	1.6%	0.8%	0.9%	0.9%
Unit labor costs (annual growth)	1.8%	2.7%	3.0%	3.2%	3.4%
Housing Starts (millions of units)	1.250	1.254	1.258	1.262	1.254
Conventional Mortgage Rates	4.5%	3.9%	3.7%	3.8%	3.9%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$1,009.8)	(\$1,227.5)	(\$1,295.9)	(\$1,294.9)	(\$1,298.0)

FORECAST SUMMARY

During 2020, both the U.S. and Michigan economies are expected to expand at a slower rate than during 2019. Although both the U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2020 and later years, Michigan is generally 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 rise 1.8% in 2020, slower than the 2.9% increase in 2018 and the forecasted 2.3% increase during 2019. Inflation-adjusted GDP will continue expanding, but at a slower rate, growing 1.7% during 2021 and 1.4% in 2022. The expansion over the forecast period primarily reflects stable consumption growth and business investment that will partially offset slowing residential investment and exports and the drag on the economy from increased imports. Export growth is expected to be tempered in the near term by a strong dollar, slowing foreign economic growth, and an uncertain trade environment.

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because, while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than the sum of productivity growth and population growth. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace labor with capital. The U.S. unemployment rate is expected to fall from 3.7% during 2019, to 3.5% in 2020, and 3.4% in both 2021 and 2022.

While low productivity growth and low unemployment rates will make inflation a greater concern over the forecast period than in recent years, the Federal Reserve is expected to successfully balance the mix of inflationary pressures and slowing growth. After increasing 2.4% in 2018, the most rapid increase since 2011, the U.S. CPI is anticipated to increase 1.7% in 2019, followed by annual increases of 1.8% in 2020, 2021, and 2022. Slow but stable productivity growth of less than 1% per year, modest growth in domestic consumer demand, and continued tightness in the labor market will increase labor costs somewhat, with unit labor costs expected to increase 3.0% in 2020, 3.2% in 2021, and 3.4% in 2022.

In Michigan, both job growth and personal income growth are expected to remain below the national averages (despite outperforming the national averages in both 2010 and 2011) and below the historical State average ([Figures 10](#) and [11](#)). Inflation-adjusted personal income is projected to increase 1.8% in 2020, 1.7% in 2021, and 1.5% in 2022, compared with a 2.9% increase during 2019. Payroll employment is expected to increase 0.7% in 2020, more than the 0.5% growth rate during 2019, before slowing to 0.5% growth in 2021, and 0.3% growth in 2022. Private sector gains in employment over the forecast are expected to be fairly modest, although above the flat-to-declining employment predicted in the government sector. Nationally, light vehicle sales are expected to decrease from 17.0 million units in 2019 to 16.8 million units in 2020, 16.6 million units in 2021, and 16.4 million units in 2022. In Michigan, the relatively high, but declining, level of vehicle sales, stability in the housing market, and modest growth in national economy are expected to result in the unemployment rate decreasing from 4.1% in 2019 to 3.8% in 2020 and 3.7% in both 2021 and 2022.

Compared with the May 17, 2019, Consensus Economic Forecast, forecasted economic growth for both the U.S. and Michigan is weaker in all years, although both the U.S. and Michigan forecasts predict continued growth. The slowing growth reflects the maturing expansion, limits on growth due to the tight labor market, reduced Federal fiscal stimulus, and for Michigan, the effects of major restructuring efforts from the Detroit Three. The revisions incorporate plans for restructuring in the automobile industry that were announced in late 2018 and early 2019, slowing economic growth overseas, and an uncertain trade policy—although, as identified in the forecast risks, the estimates do not assume major disruptions in foreign trade or the international economy from either a trade war with China or escalating tensions in the Middle East.

Figure 10

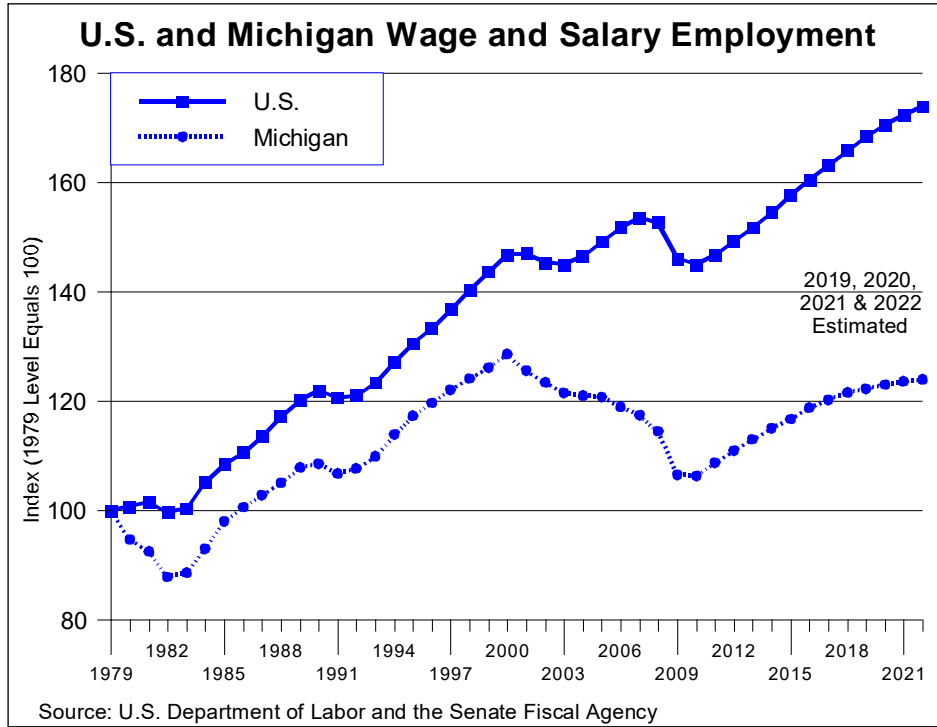
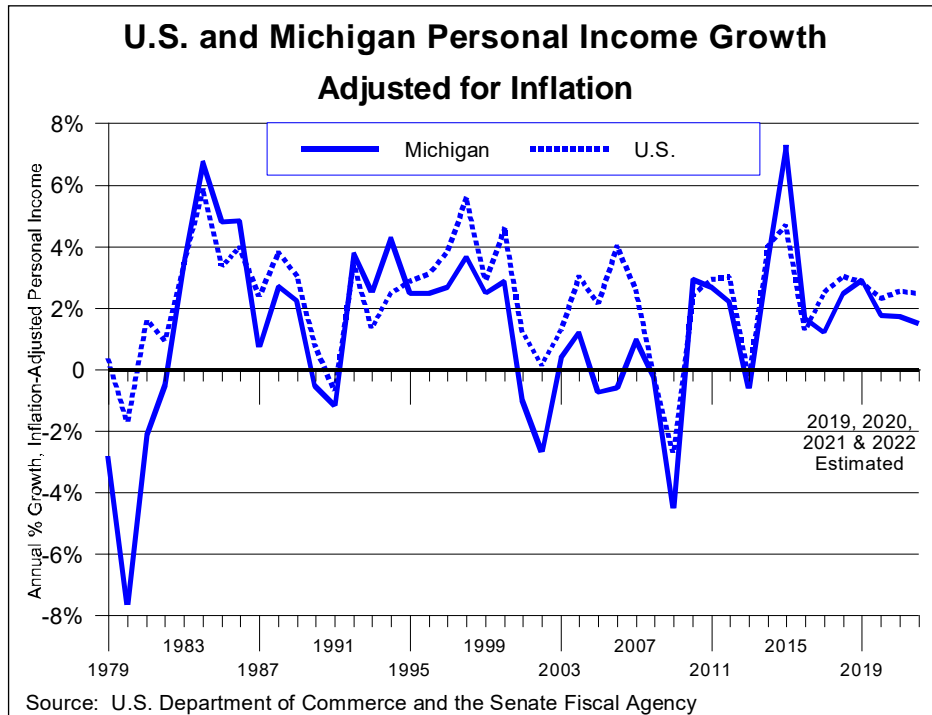


Figure 11



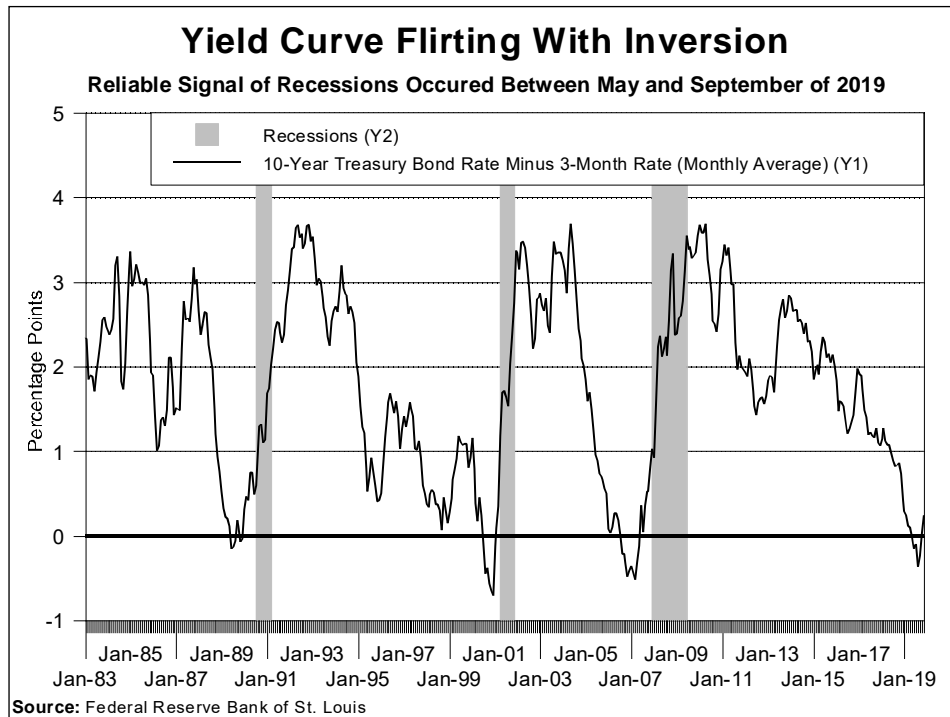
FORECAST RISKS

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. However, unexpected changes in economic fundamentals often represent the greatest source of error. The challenge for the current forecast is to determine if and when the economy is entering a new phase. Such turning points are difficult to predict and adjustments after financial collapses, such as occurred during the 2008-2009 recession, often take longer than after recessions not associated with financial collapses.

Monetary and Fiscal Policy. In December 2017, the Federal government adopted a multi-year tax reform package estimated to add approximately 0.6% to GDP in 2018, and 1.2% to 1.4% to GDP in 2019 and 2020, respectively. Subsequently, in 2018 and 2019 Federal budget bills were adopted that increased spending, adding additional stimulus to the economy. With the economy already operating beyond potential and unemployment well below the estimated nonaccelerating inflation rate of unemployment, these fiscal policy changes have (and will) increase inflationary pressures, although, as of the third quarter of 2019, such pressures have largely remained contained.

The forecast expects relatively flat interest rates from the Federal Reserve, with small rate increases in the second half of 2022. It is unknown to what degree the Federal Reserve will accommodate the inflationary effects of fiscal policy should Federal spending be greater than is currently expected or if there is a serious disruption in the international trade situation. Recessions are particularly likely when the "yield curve", which represents the difference between short-term and long-term interest rates, "inverts" (meaning that short-term rates exceed long-term rates). From May 2019 until October 2019, the yield curve was inverted, helping prompt the Federal Reserve to lower interest rates in an attempt to prevent a recession. Although long-term rates are currently above short-term rates ([Figure 12](#)), the gap remains at lower levels than in any other year since the 2008-09 recession.

Figure 12



Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over the 2000-2008 period those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession induced consumers to rein in their spending, and pushed the saving rate significantly higher. During the 2008-2009 recession, consumption dropped significantly; on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. The durability of consumer spending represents the primary determinant of the accuracy of the forecast. As indicated earlier, purchases of motor vehicles have dominated consumption growth during much of the 2013-to-2018 period. The forecast assumes that consumers will slightly increase their saving rates and that consumption will be limited by flat real wages and limited access to and/or use of additional increases in debt. To the extent that this perspective is not accurate and consumers assume more debt and/or pursue lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than anticipated.

If the saving rate increases more than expected, perhaps as a precaution to job concerns related to the international economy or recession fears, both consumption growth and economic growth will be lower than estimated. On the other hand, to the extent that tight labor markets generate wage gains that are not completely passed on in the form of higher consumer prices, the real wage gains could cause both consumption growth and economic growth to be higher than estimated.

The Labor Market. While the Michigan unemployment rate has declined since 2009, reduced labor market participation has played a greater role in lowering the Michigan unemployment rate than what has occurred in the national rate. Job gains have helped reduce the unemployment rate, but a significant factor causing the unemployment rate to decline since 2009 has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

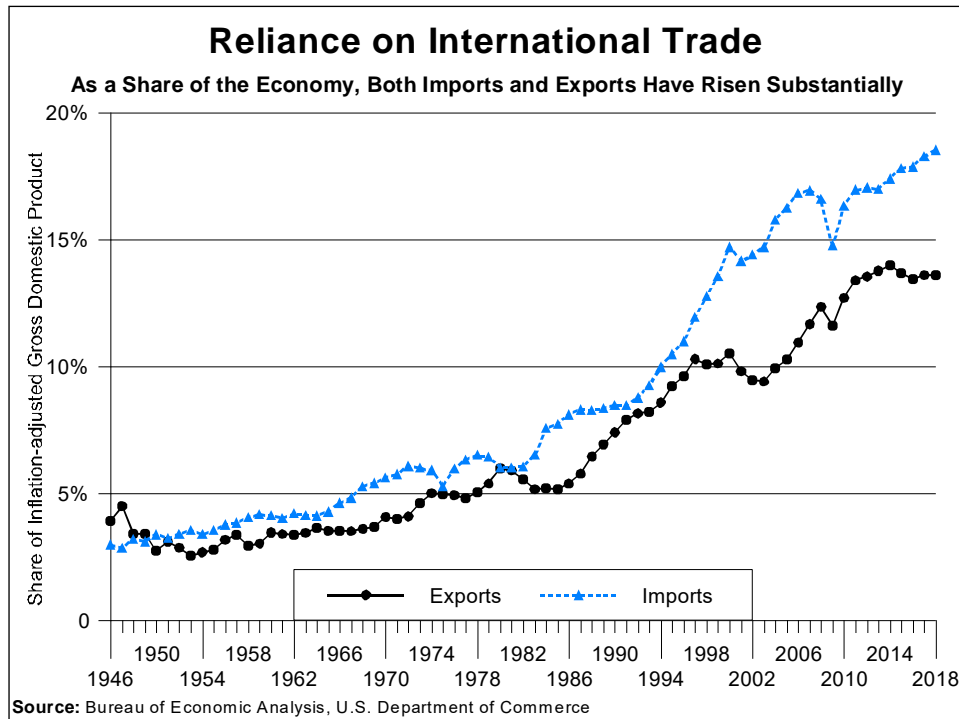
Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals' giving up their search for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the 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. Furthermore, while declining labor force participation will help lower unemployment rates, it also will make it harder for firms to find the necessary workers, particularly in a growing economy, 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. The forecast assumes that the labor force will increase at a slightly slower rate than the rate of population growth, and more slowly than new jobs will be created. As a result, employment gains are anticipated but wage growth is expected to be relatively modest. If job growth rises more rapidly than the labor force increases, it will put upward pressure on wages, making interest rate increases from the Federal Reserve more likely and encouraging firms to make greater investments in labor-saving capital equipment.

Recession Risk. The claim is often made that expansions do not die of old age, but as a result of some sort of shock, particularly policy changes. Shocks can include natural events, such as an earthquake, drought, or hurricane, or events in foreign countries, such as the OPEC oil embargo, a war or civil war, or a major regime change. Policy changes can reflect a variety of both monetary and fiscal decisions, ranging from monetary policy targets to tax policy to trade policy to spending policy. In some cases, policy changes can even reflect how fast the economic environment is changing; if the policy landscape changes too fast or too often, it can create substantial uncertainty and lead consumers and/or firms to change their behavior in anticipation of either a more stable decision-making environment or in anticipation of a future change.

Similarly, while shocks are largely unpredictable, many events in other countries have provided a large amount of uncertainty. The last few years have witnessed a variety of changes in both fiscal and monetary policy, and there is substantial uncertainty in the economy around many drivers of both economic activity and policy. During much of 2019, the global, national and State economies have faced a wide variety of actual and potential policy changes that have created substantial economic uncertainty, including trade disputes between the U.S. and China, U.S. actions regarding enforcing an oil embargo against Iran and Venezuela, and the potential withdrawal from the North American Free Trade Agreement (NAFTA) and/or the adoption of the U.S.-Mexico-Canada Agreement (USMCA). Given that the U.S. economy is more reliant on trade, both in terms of exports and imports, than at any time in history, any serious disruptions in trade flows is likely to have a substantially greater impact than experienced historically ([Figure 13](#)).

Figure 13



To avoid a recession over the forecast period, even in the absence of any shocks, consumers and businesses not only need to avoid substantial precautionary behavior in the face of this uncertainty, but monetary and fiscal policy decisions must be consistent with maintaining growth. At least one major forecasting service places the probability of a recession during 2020 at 20%, down from a 30% probability earlier in 2019. However, as growth continues to slow below trend, the probability of a recession in 2021 or 2022 increases. If the probability of a recession beginning in 2020, 2021 or 2022 were 30% in each year, and the probability in each year was independent (which is not true—having a recession in early 2021 would make it less likely to have a recession starting in 2022) then the

probability of getting through all three years without a recession is only 34%—meaning that there is a 66% chance of a recession at some point in the next three years. While the forecast does not anticipate an actual recession, it does estimate much of 2021 and 2022 will be dominated by below-trend growth and the nature of the economic climate over the forecast period does leave it vulnerable to recession.

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 particularly 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 the 2000-2009 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 7.5% in 2018), Michigan is still 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 with lower oil prices over the last few years, these states have faced challenges.) However, for Michigan's future, both employment gains and improvements in economic growth will be restrained by slowing vehicle sales and because the vehicle manufacturing sector (unlike much of the wider economy) is expected to continue to exhibit strong productivity gains. While the level of vehicle sales is high and will remain elevated when compared to historical levels, vehicle sales are expected to exhibit a downward trend over the forecast period. The Detroit 3 share of the sales mix is expected to decline somewhat ([Figure 15](#)).

As vehicle sales return to more sustainable levels and productivity gains in the motor vehicle sector continue, production needs can be met with existing, or even lower, employment levels. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (67.7%, a decline of approximately 239,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return, and any gains in employment in the near future are likely to be muted. While Michigan payroll employment returned to the January 2008 level (the U.S. prerecession peak) during 2015, as identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the Michigan prerecession peak) again until sometime late in the 2020s.

The forecast expects employment levels in the transportation equipment manufacturing sector to decline slightly over the forecast period. Overall employment in Michigan is expected to grow slightly, with all of the growth in 2021 and 2022 in private sector employment. The most significant risks to the Michigan economy under the forecast reflect the limited upward potential that exists unless a sector other than motor vehicles begins to show substantial growth. With a risk of rising labor costs in many other sectors, and all of the risk regarding vehicle sales being on the downside, any substantial growth in the Michigan economy likely will need to originate from a different sector and be strong enough to exceed the flat-to-downward trajectory the motor vehicle industry will exhibit over the forecast.

As a result, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. Those gains are unlikely to occur because the population demographics of an aging labor force and low unemployment rates indicate labor for additional output is already somewhat scarce. While increased profitability in the vehicle industry has

stabilized much of the Michigan economy, significant and sustained growth at both the national and statewide levels will require a consumer sector with a stronger balance sheet: rising inflation-adjusted wages, reduced debt-to-income ratios and debt service burdens, sustained growth in the value of real and financial assets, and a substantially lower level of risk-aversion than currently held by both the consumer and business sides of the economy. If these changes occur in sufficient magnitude, they can offset the drag from the lower labor force participation associated with an aging population, limited population growth, and slow productivity growth.

Figure 14

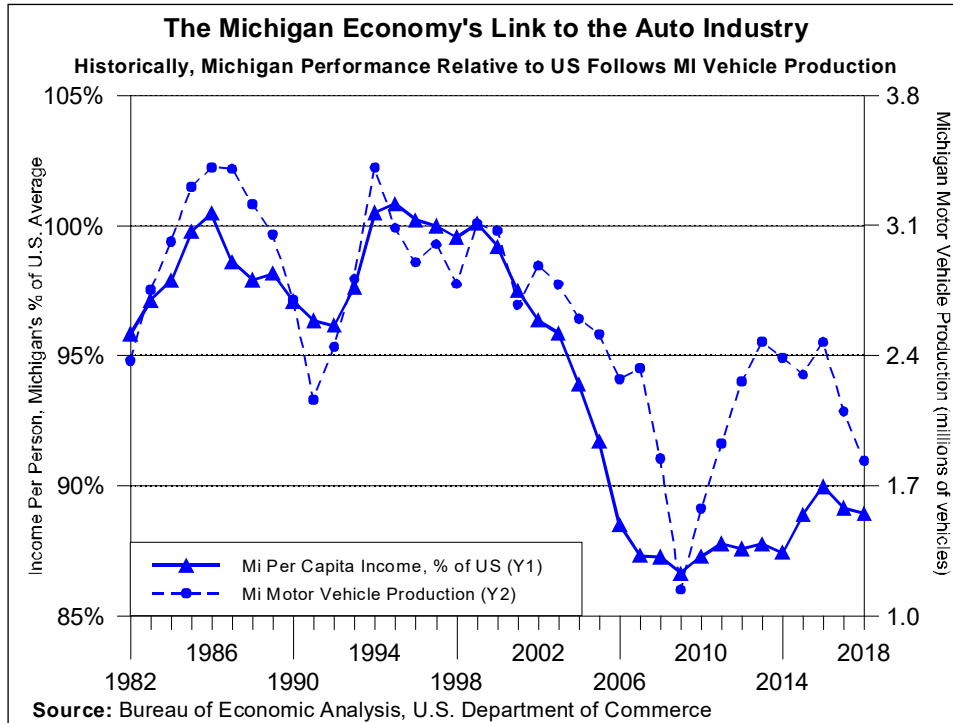
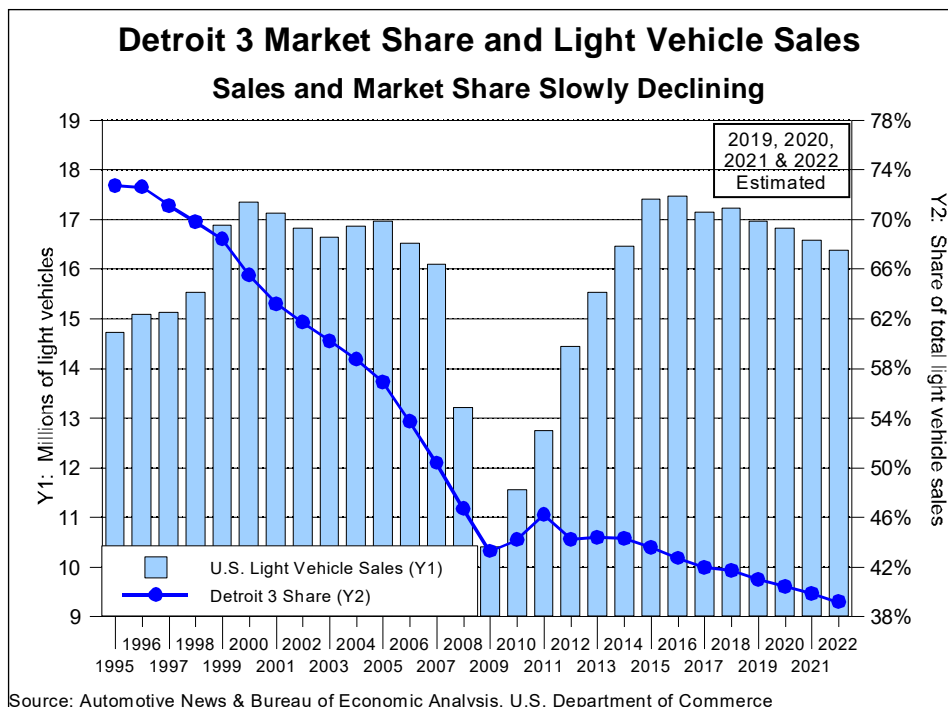


Figure 15



**FORECAST FOR
STATE REVENUE**

THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's estimates for General Fund/General Purpose and School Aid Fund revenue. The preliminary year-end revenue for FY 2018-19 is presented along with the revised estimates for FY 2019-20 and FY 2020-21 and the initial revenue estimates for FY 2021-22. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2018-19, FY 2019-20, and FY 2020-21 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2018-19, along with the revised estimates for FY 2019-20 and FY 2020-21, and the initial estimates for FY 2021-22 are presented in [Table 3](#) and are summarized below.

FY 2018-19 Preliminary Final Revenue

- GF/GP and SAF revenue is expected to total \$24.7 billion in FY 2018-19.
- This year-end estimate for FY 2018-19 increased 1.4% or \$346.4 million from the actual revenue for FY 2017-18, reflecting increases in the sales tax, individual income tax, and corporate income tax (CIT), and a reduction in the credit payments under the Michigan Business Tax. These gains were mostly offset by higher individual income tax refunds and the first year of earmarks of income tax revenue to the Michigan Transportation Fund and the Renew Michigan Fund, as well as increased homestead property tax credit payments included in the 2015 transportation package.
- The preliminary final estimate for FY 2018-19 is \$331.5 million above the May 2019 consensus revenue estimate.

FY 2019-20 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$25.0 billion in FY 2019-20.
- This revised estimate for FY 2019-20 is up 1.5% or \$364.3 million from the preliminary final revenue for FY 2018-19. The projected revenue increase in FY 2019-20 reflects the continued growth in sales and individual income taxes, offset in part by increased refunds, lower CIT revenue, an increase in the credit payments under the MBT, and the increased earmark of income tax revenue to the MTF.
- The revised estimate for FY 2019-20 is \$413.1 million above the May 2019 consensus revenue estimate.

FY 2020-21 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$25.6 billion in FY 2020-21.
- The revised estimate for FY 2020-21 is up 2.4% or \$609.5 million from the revised estimate for FY 2019-20. The revenue increase in FY 2020-21 reflects continued growth in sales tax and individual income tax collections, offset in part by increased refunds and another increase to the earmark of income tax revenue to the MTF.

- The revised estimate for FY 2020-21 is \$539.3 million above the May 2019 consensus revenue estimate.

FY 2021-22 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total \$26.4 billion in FY 2021-22.
- This initial estimate for FY 2021-22 is 2.8%, or \$721.8 million, more than the revised estimate for FY 2020-21.
- The revenue increase in FY 2021-22 reflects continued growth in sales tax and individual income tax collections, offset in part by increased refunds. The earmark of income tax revenue to the MTF will be fully phased in in FY 2020-21, so this will be the first year where the earmark will be the same amount as in the previous year.

Historical Perspective

- Net GF/GP and SAF revenue is forecast to increase each year during the forecast period. The projected growth rates are 1.5% in FY 2019-20, 2.4% in FY 2020-21, and 2.8% in FY 2021-22. 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 3.3% in the years from FY 2010-11 to FY 2018-19.
- GF/GP revenue rose above the previous record FY 1999-2000 level in FY 2017-18. This comparison does not adjust for inflation.
- The preliminary final GF/GP revenue from ongoing sources in FY 2018-19 is 4.0% (\$428.2 million) above the FY 1999-2000 level, and 7.5% (\$771.8 million) above the most recent peak reached in FY 2007-08, without adjusting for inflation.
- In FY 2019-20, ongoing GF/GP revenue is forecast to be 3.9% (\$414.5 million) above the FY 1999-2000 level, and 7.3% (\$758.1 million) above the FY 2007-08 level.
- GF/GP revenue is forecast to continue growing in FY 2020-21 and FY 2021-22, with projected growth rates of 1.9% and 3.5%, respectively. General Fund/General Purpose revenue in FY 2021-22 will be above the FY 2007-08 peak by 13.1% (\$1,358.0 million) and 9.5% (\$1,014.4 million) above the FY 1999-2000 level.
- 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 changes. In every year since FY 2013-14, School Aid Fund revenue has surpassed the previous peak revenue in FY 2007-08.
- Revenue in the SAF is projected to rise annually from FY 2019-20 through FY 2021-22. Projected growth rates are 2.8% in FY 2019-20, 2.9% in FY 2020-21, and 2.3% in FY 2021-22, without adjusting for inflation.

Baseline revenue is forecast to increase each year during the forecast period. [Figure 16](#) presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2017-18 base year) from FY 1986-87 through the initial estimate for FY 2021-22. During this 36-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue increased by 2.5% in FY 2018-19. Using the FY 2017-18 base year, baseline GF/GP and SAF revenue is expected to grow approximately 2.0% in FY 2019-20, 2.8% in FY 2020-21, and 2.5% in FY 2021-22.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2018-19 THROUGH FY 2021-22				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(millions of dollars)				
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
	Prelim. Final	Revised Est.	Revised Est.	Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$12,523.0	\$12,813.3	\$13,208.0	\$13,586.4
Tax Changes Not In Baseline	(1,414.2)	(1,718.2)	(1,906.5)	(1,891.4)
Revenue After Tax Changes:				
Net Income Tax	7,252.6	7,196.1	7,325.9	7,635.0
MBT, CIT, SBT & Insur. Tax	1,013.8	932.9	938.1	972.0
Other Taxes	2,461.2	2,568.3	2,630.6	2,672.8
Total Taxes	10,727.6	10,697.3	10,894.6	11,279.8
Nontax Revenue	381.2	397.8	406.9	415.2
TOTAL GF/GP REVENUE	\$11,108.8	\$11,095.1	\$11,301.5	\$11,695.0
SCHOOL AID FUND				
Baseline SAF	\$13,644.6	\$13,881.9	\$14,230.7	\$14,545.4
Tax Changes Not In Baseline	(87.9)	52.8	107.1	120.7
TOTAL SAF REVENUE	\$13,556.7	\$13,934.7	\$14,337.8	\$14,666.1
BASELINE GF/GP AND SAF REVENUE				
	\$26,167.6	\$26,695.2	\$27,438.7	\$28,131.8
Tax & Revenue Changes	(1,502.1)	(1,665.4)	(1,799.4)	(1,770.7)
GF/GP & SAF REV. AFTER CHANGES	\$24,665.5	\$25,029.8	\$25,639.3	\$26,361.1
Sales Tax	\$8,252.8	\$8,697.8	\$8,999.3	\$9,210.8
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	2.2%	2.3%	3.1%	2.9%
Revenue After Tax Changes:				
Net Income Tax	(0.2)	(0.8)	1.8	4.2
MBT, CIT, SBT & Insur. Tax	32.5	(8.0)	0.6	3.6
Other Taxes	(3.4)	4.4	2.4	1.6
Total Taxes	1.4	(0.3)	1.8	3.5
Nontax Revenue	(12.6)	4.4	2.3	2.0
TOTAL GF/GP REVENUE	0.8%	(0.1%)	1.9%	3.5%
SCHOOL AID FUND				
Baseline SAF	2.7%	1.7%	2.5%	2.2%
TOTAL SAF REVENUE	1.9%	2.8%	2.9%	2.3%
BASELINE GF/GP and SAF Revenue				
	2.5%	2.0%	2.8%	2.5%
GF/GP & SAF REV. AFTER CHANGES	1.4%	1.5%	2.4%	2.8%
Sales Tax	2.2%	5.4%	3.5%	2.4%

¹⁾ FY 2017-18 is the base year for baseline revenue.

Figure 16

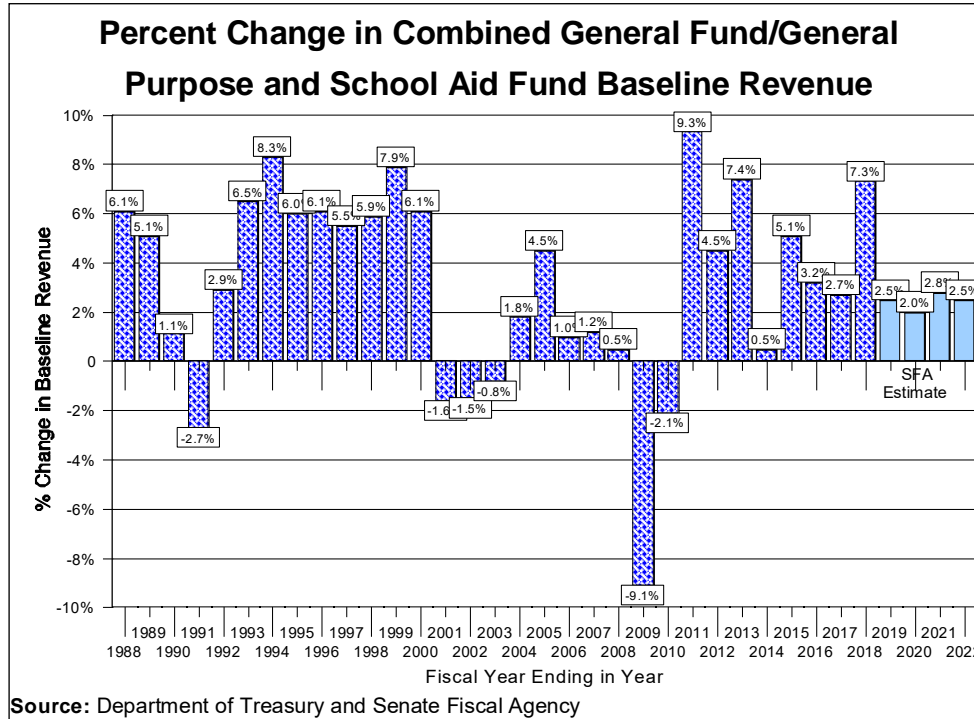


Figure 17 compares FY 1994-95 through estimated FY 2021-22 for both GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. Before FY 2017-18, GF/GP revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to \$10.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during the 2008-2009 recession reduced GF/GP revenue to its lowest level since FY 1991-92, as shown in Figure 18, which displays ongoing General Fund revenue beginning in FY 1963-64. With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2019-20 will be approximately 3.9% (or \$414.5 million) above the peak GF/GP revenue level in FY 1999-2000 (without accounting for inflation). The estimated GF/GP revenue of \$11.3 billion in FY 2020-21 is 5.8% above the peak, and initial estimates for FY 2021-22 are 9.5% above the peak level. In inflation-adjusted terms, however, FY 2021-22 GF/GP revenue is estimated to be 4.5% (or \$453.9 million) below the FY 1967-68 level.

In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a fairly 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 grow consistently through the forecast period. In FY 2021-22, SAF revenue is predicted to be approximately 109.4% (\$7.7 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 3.5% (\$429.3 million) below if adjusted for inflation, as shown in Figure 19.

Figure 17

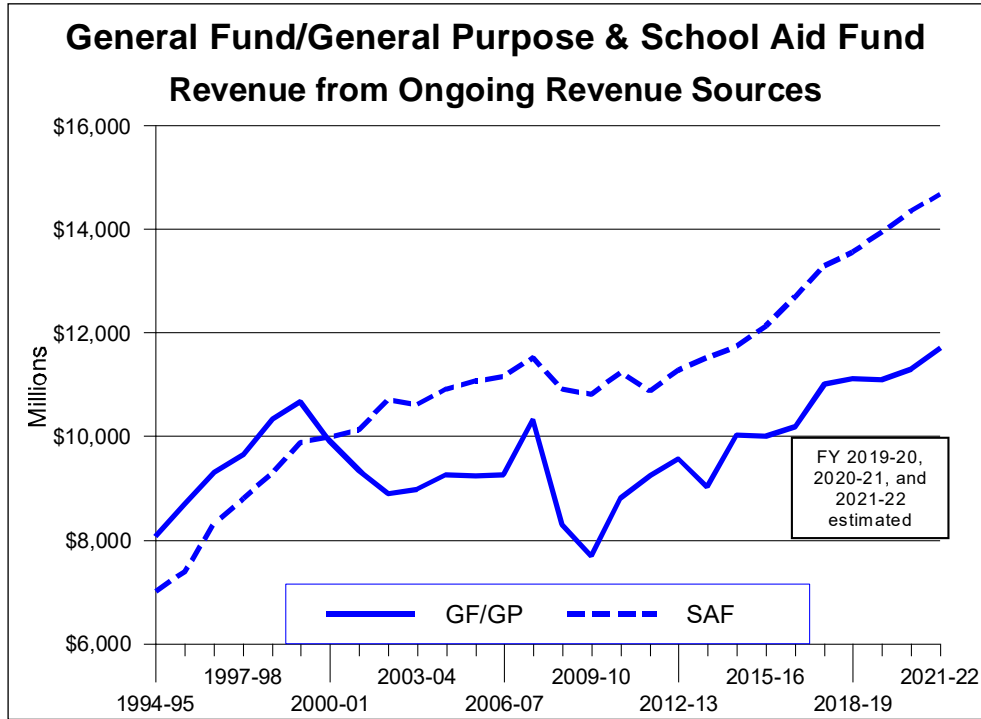


Figure 18

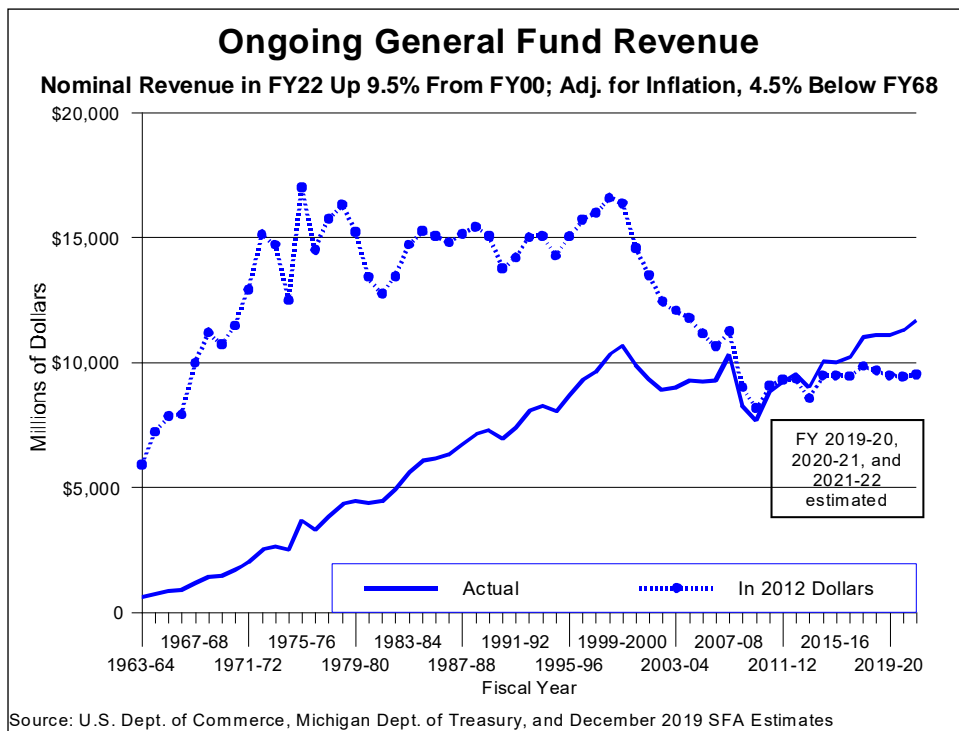
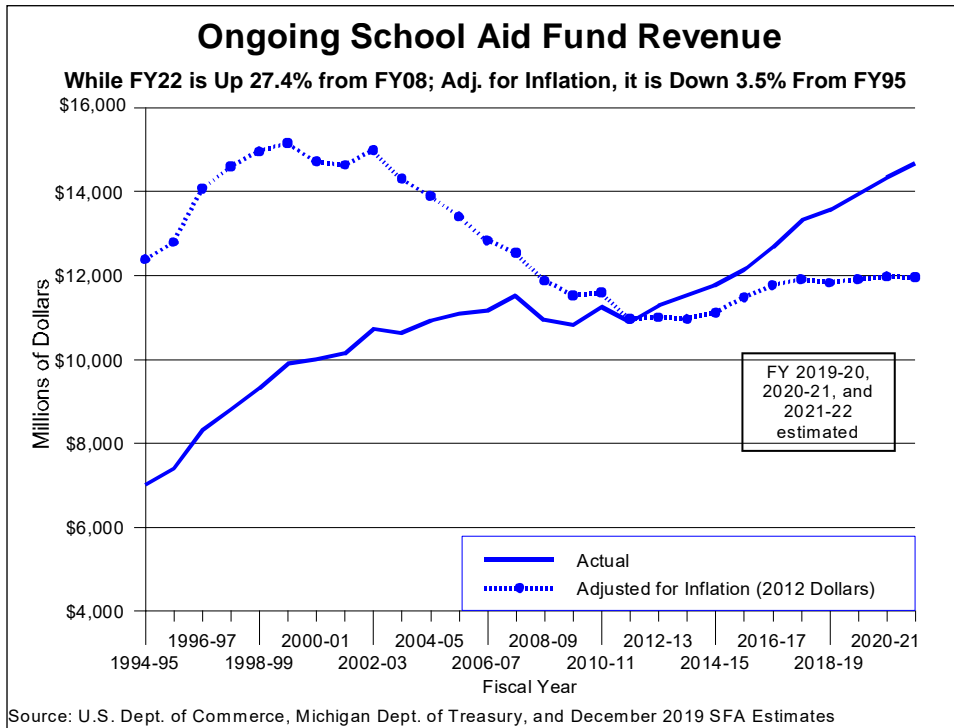


Figure 19



FY 2018-19 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 1.4% in FY 2018-19 compared with FY 2017-18.
- The revenue increase in FY 2018-19 primarily reflected increases in the sales tax, individual income tax, and CIT revenue, and a reduction in MBT credit payments. These gains were mostly offset by higher individual income tax refunds and the first year of earmarks of income tax revenue to the MTF and the Renew Michigan Fund, as well as increased homestead property tax credit payments included in the 2015 transportation package.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$24.7 billion in FY 2018-19, which is 1.4% above the FY 2017-18 revenue level, as presented in [Table 4](#). These figures are preliminary in that they remain under review by the Office of Financial Management, which prepares the Michigan Comprehensive Annual Financial Report. Decisions made in the book-closing process regarding the accrual of various types of revenue may change these numbers, in particular with regard to the treatment of business tax credits. The growth rate is lower than the 6.3% increase in FY 2017-18.

The preliminary final GF/GP and SAF revenue level for FY 2018-19 is \$331.5 million above the May 2019 consensus revenue estimate. The largest share of the revenue increase from the May 2019 estimates reflects net income tax collections, which were \$152.3 million above the May consensus estimate. Refunds paid under the MBT were \$96.2 million lower than expected, although this may reflect timing issues, and companies could potentially claim these refunds in a subsequent year. Corporate income tax collections grew at a strong 25.3%, finishing \$91.7 million above the May 2019 estimates. Sales tax revenue was \$45.9 million below the May estimate. Insurance company premiums were \$61.6 million below the May 2019 estimates due to a single large refund. Baseline GF/GP and SAF revenue increased 2.5% in FY 2018-19.

Table 4
FY 2018-19 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2017-18 Final	FY 2018-19 Prelim. Final	Change from FY 2017-18		\$ Change from 05/19 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$12,252.8	\$12,523.0	\$270.2	2.2%	\$195.6
Tax Changes Not In Baseline	(1,235.6)	(1,414.2)	(178.6)	----	61.4
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	12,156.5	12,555.1	398.6	3.3	92.6
Less: Refunds	(1,996.1)	(2,124.4)	(128.3)	6.4	59.7
Net Income Tax Collections	10,160.4	10,430.7	270.3	2.7	152.3
Less: Earmarking to SAF	(2,892.9)	(2,845.1)	47.8	(1.7)	(19.0)
Earmarking to MI Transp. Fund	0.0	(264.0)	(264.0)	----	0.0
Earmarking to Renew MI Fund	0.0	(69.0)	(69.0)	----	0.0
Campaign Fund	(0.6)	0.0	0.6	(100.0)	0.8
Net Income Tax to GF/GP	\$7,266.9	\$7,252.6	(\$14.3)	(0.2%)	\$134.1
<u>Other Taxes</u>					
Corporate Income Tax	1,019.9	1,278.1	258.2	25.3	91.7
Michigan Business Tax	(646.7)	(511.5)	135.2	(20.9)	96.2
Sales	1,270.9	1,277.3	6.4	0.5	(12.2)
Use	801.1	754.0	(47.1)	(5.9)	4.5
Cigarette	181.4	175.7	(5.7)	(3.1)	(3.5)
Insurance Company Premiums	393.2	314.9	(78.3)	(19.9)	(61.6)
Telephone & Telegraph	30.1	30.3	0.2	0.7	(1.7)
Oil & Gas Severance	26.2	22.3	(3.9)	(14.9)	3.7
All Other	237.8	133.9	(103.9)	(43.7)	(20.9)
Subtotal Other Taxes	\$3,313.9	\$3,475.0	\$161.1	4.9%	\$96.2
Total Nontax Revenue	436.4	381.2	(55.2)	(12.6)	26.8
GF/GP REV. AFTER TAX CHANGES	\$11,017.1	\$11,108.8	\$91.7	0.8%	\$257.1
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,284.5	\$13,644.6	\$360.1	2.7%	\$104.6
Tax Changes Not In Baseline	17.5	(87.9)	(105.4)	----	(30.2)
<u>Revenue After Tax Changes</u>					
Sales Tax	5,881.1	6,008.1	127.0	2.2	(33.6)
Use Tax	632.3	602.0	(30.3)	(4.8)	(0.6)
Lottery Revenue	979.9	1,070.6	90.7	9.3	88.6
State Education Property Tax	1,987.9	2,113.2	125.3	6.3	13.6
Real Estate Transfer Tax	350.3	350.1	(0.2)	(0.1)	(0.8)
Income Tax	2,892.9	2,845.1	(47.8)	(1.7)	19.0
Casino Tax	115.4	117.3	1.9	1.6	(4.0)
Other Revenue	462.2	450.3	(11.9)	(2.6)	(7.8)
SAF REV. AFTER TAX CHANGES	\$13,302.0	\$13,556.7	\$254.7	1.9%	\$74.4
BASELINE GF/GP AND SAF	\$25,537.3	\$26,167.6	\$630.3	2.5%	\$300.2
Tax & Revenue Changes	(1,218.1)	(1,502.1)	(284.0)	----	31.3
GF/GP & SAF REV. AFTER CHNGS	\$24,319.1	\$24,665.5	\$346.4	1.4%	\$331.5
Sales Tax	\$8,077.5	\$8,252.8	\$175.3	2.2%	(\$45.9)

¹⁾ FY 2017-18 is the base year for baseline revenue.

Tax Policy Changes

Michigan's economy grew during FY 2018-19, with personal income growing more slowly than in FY 2017-18 and wage and salary employment increasing at a slower rate than in FY 2017-18. Total GF/GP and SAF revenue reached an estimated \$24.7 billion in FY 2018-19, an increase of 1.4%, or \$346.4 million, from FY 2017-18. On a baseline basis, GF/GP and SAF revenue increased 2.5% in FY 2018-19, reflecting continued growth in State economic activity. The preliminary final estimate of GF/GP and SAF revenue for FY 2018-19 is summarized in [Table 4](#).

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2018-19 included several significant transfers from the General Fund to other State funds and the first General Fund impacts of the 2015 transportation package. General Fund income tax collections were reduced by an estimated \$205.8 million because of the expansion of the Homestead Property Tax Credit. Income tax revenue was reduced by another \$264.0 million by the earmark of income tax revenue to the Michigan Transportation Fund, and \$69.0 million for the earmark to the Renew Michigan Fund. Public Act 588 of 2018 changed the income tax earmark to the School Aid Fund, reducing SAF revenue by \$171.3 million and increasing GF/GP revenue by \$171.3 million. In addition, the indexing of the personal exemption for the individual income tax reduced revenue by \$22.5 million (\$17.1 million GF/GP and \$5.4 million SAF), while additional increases in the personal exemption that were adopted in February 2018 reduced revenue by \$75.0 million (\$59.8 million GF/GP and \$15.2 million SAF).

Personal Property Tax Reform. Use tax collections of \$438.0 million in FY 2018-19 were levied by the Local Community Stabilization Authority. 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, and reduce GF/GP revenue by \$438.0 million. Partially offsetting the reduction, the Essential Services Assessment increased GF/GP revenue by \$111.2 million. The General Fund reimbursed the SAF \$6.0 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer reduced the General Fund by \$6.0 million and increased the SAF by \$6.0 million.

Michigan Business Tax/Corporate Income Tax. The Michigan Business Tax lowered GF/GP revenue by \$511.5 million in FY 2018-19, a smaller reduction than in FY 2017-18. All of the impact of MBT credits reduces GF/GP revenue. Changes to the handling of business refunds reduced CIT and MBT revenue by a total of \$25.0 million.

Sales Tax. Sales tax collections increased \$160.0 million in FY 2018-19 (\$26.7 million GF/GP, \$117.3 million SAF, and \$16.0 million other funds, primarily constitutional revenue sharing) because of new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states' greater ability to collect sales tax from out-of-state retailers. Sales taxes on marijuana sales increased sales tax revenue by \$18.2 million (\$3.1 million GF/GP, \$13.3 million SAF, and \$1.8 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins reduced revenue by approximately \$41.6 million, of which \$5.0 million was GF/GP, \$30.5 million was SAF, and \$6.1 million other funds.

Federal Tax Reform. In FY 2018-19, changes to the individual income tax and CIT stemming from Federal tax changes increased revenue by \$80.0 million, of which \$74.9 million was a GF/GP increase, and \$5.1 million was an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Reductions to the gross premiums tax for health insurers reduced GF/GP revenue by \$13.5 million in FY 2018-19.

General Fund/General Purpose

General Fund/General Purpose revenue totaled an estimated \$11.1 billion in FY 2018-19, an increase of 0.8%, or \$91.7 million, from FY 2017-18. The revised GF/GP estimate is \$257.1 million above the May 2019 consensus revenue estimate. Baseline GF/GP revenue increased 2.2%; however, revenue adjustments were more negative than in the previous year. These adjustments totaled \$1,414.2 million (primarily for the cost of MBT credits, income tax earmarks to the MTF, and personal property tax (PPT) reform) and lowered the increase in net GF/GP revenue to 0.8%. The revised GF/GP revenue estimates for FY 2018-19 are summarized in [Table 4](#). The increase of \$257.1 million from the May 2019 consensus estimate for FY 2018-19 reflects higher income tax and CIT revenue, and lower MBT credit payments, than previously expected, partially offset by lower than expected insurance company premiums.

School Aid Fund

School Aid Fund revenue totaled an estimated \$13.6 billion in FY 2018-19, an increase of 1.9%, or \$254.7 million, from FY 2017-18. The revised SAF estimate is \$74.4 million higher than the May 2019 consensus revenue estimate. The increase in SAF revenue reflects growth in sales tax and SET revenue, as well as lottery revenue. The SAF revised revenue estimates for FY 2018-19 are summarized in [Table 4](#).

FY 2019-20 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2019-20. Personal income will grow more slowly than in FY 2018-19 and wage and salary employment will increase at a slightly faster rate than in FY 2018-19. Total GF/GP and SAF revenue will reach an estimated \$25.0 billion in FY 2019-20, an increase of 1.5%, or \$364.3 million, from the preliminary final revenue for FY 2018-19. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.0% in FY 2019-20, reflecting continued improvements in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2019-20 is \$413.1 million above the May 2019 forecast and is summarized in [Table 5](#).

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2019-20 include several significant transfers from the General Fund to other State funds, including General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by an estimated \$205.8 million because of the expanded Homestead Property Tax Credit. Income tax revenue will be reduced by \$468.0 million by the earmark of income tax revenue to the Michigan Transportation Fund, and \$69.0 million for the earmark to the Renew Michigan Fund. The change in the income tax earmark to the School Aid Fund will reduce SAF revenue by \$174.3 million and increase GF/GP revenue by \$174.3 million. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$52.2 million (\$39.8 million GF/GP and \$12.4 million SAF), while additional increases in the personal exemption, that were adopted in February 2018, will reduce revenue by \$146.0 million (\$116.4 million GF/GP and \$29.6 million SAF).

Michigan Business Tax/Corporate Income Tax. The Michigan Business Tax will lower GF/GP revenue by \$636.0 million in FY 2019-20, a larger reduction than in FY 2018-19. Tax vouchers from the first year of the second round of the Michigan Early Stage Venture Capital program will reduce Corporate Income Tax by \$19.1 million (all GF/GP).

Personal Property Tax Reform. Use tax collections of \$465.9 million in FY 2019-20 will be levied by the Local Community Stabilization Authority and used to reimburse local revenue losses due to exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption, reducing GF/GP revenue by \$465.9 million. Partially offsetting the

reduction, the Essential Services Assessment will increase GF/GP revenue by \$120.1 million. The General Fund will reimburse the SAF \$6.0 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by \$6.0 million and increase the SAF by \$6.0 million.

Sales Tax. Sales tax collections will increase \$292.5 million in FY 2019-20 (\$48.8 million GF/GP, \$214.5 million SAF, and \$29.3 million other funds, primarily constitutional revenue sharing) because of new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states' greater ability to collect sales tax from out-of-state retailers, along with accompanying legislation passed in 2019. Imposing the sales tax on marijuana sales is projected to increase sales tax revenue by \$78.0 million (\$13.0 million GF/GP, \$57.2 million SAF, and \$7.8 million other funds, primarily constitutional revenue sharing). The increase in sales tax revenue from marijuana sales over FY 2018-19 reflects the legalization of recreational marijuana under Proposal 1 of 2018. The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$47.8 million, of which \$5.6 million is GF/GP, \$35.1 million is SAF, and \$7.1 million other funds.

Federal Tax Reform. In FY 2019-20, changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by \$147.0 million, of which \$136.2 million is a GF/GP increase, and \$10.8 million is an increase to the SAF. This increase was largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Reductions to the gross premiums tax for health insurers will reduce GF/GP revenue by \$18.0 million in FY 2019-20. The portion of the excise tax on recreational marijuana earmarked to the SAF will increase SAF revenue by \$23.6 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$11.1 billion in FY 2019-20, a decrease of 0.1% or \$13.7 million from the revised estimate for FY 2018-19. Baseline GF/GP revenue is expected to increase 2.4% (\$290.3 million) from FY 2018-19. Most of the GF/GP revenue reduction reflects increased individual income tax exemptions, increased earmarks to the Michigan Transportation Fund, and decreased business tax revenue. The revised GF/GP revenue estimates for FY 2019-20 are \$318.2 million above the May 2019 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 \$13.9 billion in FY 2019-20, an increase of \$378.0 million, or 2.8%, from the revised estimate for FY 2018-19. The forecasted increase in SAF revenue reflects growth in all major earmarked tax sources, partially offset by decreased lottery revenue. The revised SAF revenue estimates for FY 2019-20 are \$94.9 million above the May 2019 consensus estimates and are summarized in Table 5.

Table 5
FY 2019-20 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2018-19 Prelim. Final	FY 2019-20 Revised Est.	Change from FY 2018-19		\$ Change from 05/19 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$12,238.5	\$12,528.8	\$290.3	2.4%	\$269.6
Tax Changes Not In Baseline	(1,129.7)	(1,433.7)	(304.0)	----	48.6
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	12,555.1	12,766.7	211.6	1.7	132.3
Less: Refunds	(2,124.4)	(2,167.4)	(43.0)	2.0	64.9
Net Income Tax Collections	10,430.7	10,599.3	168.6	1.6	197.2
Less: Earmarking to SAF	(2,845.1)	(2,865.4)	(20.3)	0.7	(29.0)
Earmarking to MI Transp. Fund	(264.0)	(468.0)	(204.0)	77.3	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	0.0	(0.8)	(0.8)	----	0.0
Net Income Tax to GF/GP	\$7,252.6	\$7,196.1	(\$56.5)	(0.8%)	\$168.2
<u>Other Taxes</u>					
Corporate Income Tax	1,278.1	1,190.6	(87.5)	(6.8)	53.9
Michigan Business Tax	(511.5)	(636.0)	(124.5)	----	55.0
Sales	1,277.3	1,367.0	89.7	7.0	3.5
Use	754.0	763.4	9.4	1.2	32.3
Cigarette	175.7	172.6	(3.1)	(1.8)	(4.4)
Insurance Company Premiums	314.9	375.1	60.2	19.1	(6.7)
Telephone & Telegraph	30.3	32.0	1.7	5.6	0.0
Oil & Gas Severance	22.3	21.5	(0.8)	(3.6)	(6.5)
All Other	133.9	215.0	81.1	60.6	(10.0)
Subtotal Other Taxes	\$3,475.0	\$3,501.2	\$26.2	0.8%	\$117.1
Total Nontax Revenue	381.2	397.8	16.6	4.4	32.9
GF/GP REV. AFTER TAX CHANGES	\$11,108.8	\$11,095.1	(\$13.7)	(0.1%)	\$318.2
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,637.2	\$13,874.0	\$236.8	1.7%	\$47.8
Tax Changes Not In Baseline	(80.5)	60.7	141.2	----	47.1
<u>Revenue After Tax Changes</u>					
Sales Tax	6,008.1	6,333.2	325.1	5.4	50.6
Use Tax	602.0	623.6	21.6	3.6	16.2
Lottery Revenue	1,070.6	990.0	(80.6)	(7.5)	0.0
State Education Property Tax	2,113.2	2,166.2	53.0	2.5	(0.7)
Real Estate Transfer Tax	350.1	367.3	17.2	4.9	10.8
Income Tax	2,845.1	2,865.4	20.3	0.7	29.0
Casino Tax	117.3	118.3	1.0	0.9	(1.0)
Other Revenue	450.3	470.7	20.4	4.5	(10.0)
SAF REV. AFTER TAX CHANGES	\$13,556.7	\$13,934.7	\$378.0	2.8%	\$94.9
BASELINE GF/GP AND SAF	\$25,875.7	\$26,402.8	\$527.1	2.0%	\$317.4
Tax & Revenue Changes	(1,210.2)	(1,373.0)	(162.8)	----	95.7
GF/GP & SAF REV. AFTER CHNGS	\$24,665.5	\$25,029.8	\$364.3	1.5%	\$413.1
Sales Tax	\$8,252.8	\$8,697.8	\$445.0	5.4%	\$69.1

¹⁾ FY 2018-19 is the base year for baseline revenue.

FY 2020-21 REVISED REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2020-21. Personal income will grow somewhat more slowly than in FY 2019-20, and wage and salary employment will increase at a slightly lower rate than in FY 2019-20. Total GF/GP and SAF revenue will reach an estimated \$25.6 billion in FY 2020-21, an increase of 2.4% or \$609.5 million from the revised estimate for FY 2019-20. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.8% in FY 2020-21, reflecting continued improvements in the State economy. Estimated GF/GP and SAF revenue is \$539.3 million above the May 2019 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2020-21 is summarized in [Table 6](#).

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2020-21 include several significant transfers from the General Fund to other State funds and the increasing General Fund impacts of the 2015 transportation package. General Fund income tax collections will be reduced by \$205.8 million because of the expanded homestead property tax credit. Income tax revenue will be reduced by \$600.0 million in FY 2020-21 by the earmark of income tax revenue to the Michigan Transportation Fund, and \$69.0 million for the earmark to the Renew Michigan Fund. The change in the income tax earmark to the School Aid Fund will reduce SAF revenue by \$179.5 million and increase GF/GP revenue by \$179.5 million. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$82.5 million (\$62.9 million GF/GP and \$19.6 million SAF), while additional increases in the personal exemption, that were adopted in February 2018, will reduce revenue by \$176.0 million (\$140.4 million GF/GP and \$35.6 million SAF).

Michigan Business Tax/Corporate Income Tax. The Michigan Business Tax will lower GF/GP revenue \$643.9 million, a larger reduction than in FY 2019-20. Tax vouchers from the second year of the second round of the Michigan Early Stage Venture Capital program will reduce Corporate Income Tax by \$56.3 million (all GF/GP).

Personal Property Tax Reform. Use tax collections of \$491.5 million in FY 2020-21 will be levied by the Local Community Stabilization Authority and used to reimburse local revenue losses due to exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption, and will reduce GF/GP revenue by \$491.5 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$129.7 million. The General Fund will reimburse the SAF \$6.0 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by \$6.0 million and increase the SAF by \$6.0 million.

Sales Tax. Sales tax collections will increase \$337.2 million in FY 2020-21 (\$56.2 million GF/GP, \$247.3 million SAF, and \$33.7 million other funds, primarily constitutional revenue sharing) because of new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states' greater ability to collect sales tax from out-of-state retailers, along with accompanying legislation passed in 2019. Imposing the sales tax on marijuana sales is projected to increase sales tax revenue by \$105.6 million (\$17.6 million GF/GP, \$77.4 million SAF, and \$10.6 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$53.1 million, of which \$6.2 million is GF/GP, \$38.9 million is SAF, and \$8.0 million other funds.

Federal Tax Reform. In FY 2020-21, changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by \$176.0 million, of which \$161.1 million is a GF/GP increase, and \$14.9 million is an increase to the SAF. This increase will be largely offset by the

increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Reductions to the gross premiums tax for health insurers will reduce GF/GP revenue by \$18.0 million in FY 2020-21. The portion of the excise tax on recreational marijuana earmarked to the SAF will increase SAF revenue by \$43.1 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$11.3 billion in FY 2020-21, an increase of \$206.4 million from the revised estimate for FY 2019-20. Baseline GF/GP revenue is expected to increase 3.2%; however, over \$1.6 billion in negative adjustments will reduce net GF/GP growth to 1.9%. Most of the GF/GP revenue reduction reflects increased individual income tax exemptions, increased earmarks to the Michigan Transportation Fund, and decreased business tax revenue. The revised GF/GP revenue estimates for FY 2020-21 are \$381.0 million above the May 2019 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 \$14.3 billion in FY 2020-21, an increase of \$403.1 million from the revised estimate for FY 2019-20. Baseline SAF revenue growth will be 2.5% in FY 2020-21. Small positive revenue adjustments will boost SAF net revenue growth to 2.9%. The forecasted increase in SAF revenue reflects growth in all major earmarked tax sources and increased lottery revenue. Since the most recent SAF revenue decline in FY 2011-12, FY 2020-21 will represent the ninth consecutive year of increases in SAF revenue. The revised SAF revenue estimates for FY 2020-21 are \$158.3 million above the May 2019 consensus estimates and are summarized in [Table 6](#).

FY 2021-22 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2021-22. Personal income and wage and salary employment will grow at a slightly slower rate than in FY 2020-21. Total GF/GP and SAF revenue will reach an estimated \$26.4 billion in FY 2021-22, an increase of 2.8%, or \$721.8 million, from the revised estimate for FY 2020-21. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.5% in FY 2021-22, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2021-22 is summarized in [Table 7](#).

Tax Policy Changes

Road Funding Package and Individual Income Taxes. Tax policy changes affecting FY 2021-22 include several significant transfers from the General Fund to other State funds. General Fund income tax collections will continue to be reduced by \$215.3 million because of the expanded homestead property tax credit. Income tax revenue will be reduced by \$600.0 million in FY 2021-22 by the earmark of income tax revenue to the Michigan Transportation Fund, and \$69.0 million for the earmark to the Renew Michigan Fund. The change in the income tax earmark to the School Aid Fund will reduce SAF revenue by \$185.9 million and increase GF/GP revenue by \$185.9 million. In addition, the indexing of the personal exemption for the individual income tax will reduce revenue by \$85.4 million (\$65.1 million GF/GP and \$20.3 million SAF), while additional increases in the personal exemption, that were adopted in February 2018, will reduce revenue by \$182.2 million (\$145.2 million GF/GP and \$37.0 million SAF).

Table 6
FY 2020-21 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2019-20 Revised Est.	FY 2020-21 Revised Est.	Change from FY 2019-20		\$ Change from 05/19 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$12,528.8	\$12,923.5	\$394.7	3.2%	\$349.2
Tax Changes Not In Baseline	(1,433.7)	(1,622.0)	(188.3)	----	31.8
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	12,766.7	13,155.6	388.9	3.0	193.9
Less: Refunds	(2,167.4)	(2,206.0)	(38.6)	1.8	62.9
Net Income Tax Collections	10,599.3	10,949.6	350.3	3.3	256.8
Less: Earmarking to SAF	(2,865.4)	(2,953.9)	(88.5)	3.1	(44.0)
Earmarking to MI Transp. Fund	(468.0)	(600.0)	(132.0)	----	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	\$7,196.1	\$7,325.9	\$129.8	1.8%	\$212.8
<u>Other Taxes</u>					
Corporate Income Tax	1,190.6	1,171.7	(18.9)	(1.6)	54.5
Michigan Business Tax	(636.0)	(643.9)	(7.9)	1.2	13.5
Sales	1,367.0	1,416.4	49.4	3.6	17.9
Use	763.4	768.7	5.3	0.7	53.6
Cigarette	172.6	168.5	(4.1)	(2.4)	(6.9)
Insurance Company Premiums	375.1	408.3	33.2	8.9	16.9
Telephone & Telegraph	32.0	32.0	0.0	0.0	0.0
Oil & Gas Severance	21.5	21.8	0.3	1.4	(8.2)
All Other	215.0	225.2	10.2	4.7	(7.5)
Subtotal Other Taxes	\$3,501.2	\$3,568.7	\$67.5	1.9%	\$133.8
Total Nontax Revenue	397.8	406.9	9.1	2.3	34.4
GF/GP REV. AFTER TAX CHANGES	\$11,095.1	\$11,301.5	\$206.4	1.9%	\$381.0
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,874.0	\$14,222.8	\$348.8	2.5%	\$89.2
Tax Changes Not In Baseline	60.7	115.0	54.3	----	69.1
<u>Revenue After Tax Changes</u>					
Sales Tax	6,333.2	6,553.4	220.2	3.5	97.0
Use Tax	623.6	639.1	15.5	2.5	26.8
Lottery Revenue	990.0	1,000.0	10.0	1.0	0.0
State Education Property Tax	2,166.2	2,207.4	41.2	1.9	(11.6)
Real Estate Transfer Tax	367.3	382.7	15.4	4.2	20.5
Income Tax	2,865.4	2,953.9	88.5	3.1	44.0
Casino Tax	118.3	120.0	1.7	1.4	(1.0)
Other Revenue	470.7	481.3	10.6	2.3	(17.4)
SAF REV. AFTER TAX CHANGES	\$13,934.7	\$14,337.8	\$403.1	2.9%	\$158.3
BASELINE GF/GP AND SAF	\$26,402.8	\$27,146.3	\$743.5	2.8%	\$438.4
Tax & Revenue Changes	(1,373.0)	(1,507.0)	(134.0)	----	100.9
GF/GP & SAF REV. AFTER CHNGS	\$25,029.8	\$25,639.3	\$609.5	2.4%	\$539.3
Sales Tax	\$8,697.8	\$8,999.3	\$301.5	3.5%	\$132.4

¹⁾ FY 2018-19 is the base year for baseline revenue.

Michigan Business Tax/Corporate Income Tax. The Michigan Business Tax will lower GF/GP revenue \$598.1 million, a smaller reduction than in FY 2020-21. Tax vouchers from the third year of the second round of the Michigan Early Stage Venture Capital program will reduce Corporate Income Tax by \$56.3 million (all GF/GP).

Personal Property Tax Reform. Use tax collections of \$521.3 million in FY 2021-22 will be levied by the Local Community Stabilization Authority and used to reimburse local revenue losses due to exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption, and will reduce GF/GP revenue by \$521.3 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$140.0 million. The General Fund will reimburse the SAF \$6.0 million from GF/GP use tax revenue to replace the loss of SET revenue due to the phase-in of additional tax exemptions and to pay the additional foundation allowance cost due to lower local school operating revenue. This transfer will reduce the General Fund by \$6.0 million and increase the SAF by \$6.0 million.

Sales Tax. Sales tax collections will increase \$353.0 million in FY 2021-22 (\$58.8 million GF/GP, \$258.9 million SAF, and \$35.3 million other funds, primarily constitutional revenue sharing) because of new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states' greater ability to collect sales tax from out-of-state retailers, along with accompanying legislation passed in 2019. The imposition of sales tax on marijuana is projected to increase sales tax revenue by \$112.6 million (\$18.7 million GF/GP, \$82.6 million SAF, and \$11.3 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$60.3 million, of which \$7.2 million is GF/GP, \$44.2 million is SAF, and \$8.9 million other funds.

Federal Tax Reform. In FY 2021-22, changes to the individual income tax and CIT stemming from Federal tax changes will increase revenue by \$184.1 million, of which \$167.8 million is a GF/GP increase, and \$16.3 million is an increase to the SAF. This increase will be largely offset by the increases in the personal exemption that were adopted in February 2018 in response to the anticipated effects of Federal tax reform on Michigan revenue.

Other Changes. Reductions to the gross premiums tax for health insurers will reduce GF/GP revenue by \$18.0 million in FY 2021-22. The portion of the excise tax on recreational marijuana earmarked to the SAF will increase SAF revenue by \$53.9 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$11.7 billion in FY 2021-22, an increase of 3.5%, or \$393.5 million, from the revised estimate for FY 2020-21. Baseline GF/GP revenue is expected to increase 2.9% due the continued growth in the economy and the effects of negative tax adjustments will be less than in FY 2020-21. The initial GF/GP revenue estimates for FY 2021-22 are summarized in [Table 7](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$14.7 billion in FY 2021-22, an increase of \$328.3 million, or 2.3%, from the revised estimate for FY 2020-21. Since the most recent SAF revenue decline in FY 2011-12, FY 2021-22 will represent the tenth consecutive year of increases in SAF revenue. From FY 2011-12 to FY 2021-22, SAF revenue is projected to increase by 34.8% or \$3.8 billion. The initial SAF revenue estimates for FY 2021-22 are summarized in [Table 7](#).

Table 7
FY 2021-22 INITIAL REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2020-21 Revised Est.	FY 2021-22 Initial Est.	Change from FY 2020-21	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$12,923.5	\$13,292.0	\$368.4	2.9%
Tax Changes Not In Baseline Revenue After Tax Changes	(1,622.0)	(1,597.0)	25.0	----
<u>Personal Income Tax</u>				
Gross Collections	13,155.6	13,618.7	463.1	3.5
Less: Refunds	(2,206.0)	(2,255.1)	(49.1)	2.2
Net Income Tax Collections	10,949.6	11,363.6	414.0	3.8
Less: Earmarking to SAF	(2,953.9)	(3,058.8)	(104.9)	3.6
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----
Campaign Fund	(0.8)	(0.8)	0.0	0.0
Net Income Tax to GF/GP	\$7,325.9	\$7,635.0	\$309.1	4.2%
<u>Other Taxes</u>				
Corporate Income Tax	1,171.7	1,149.3	(22.4)	(1.9)
Michigan Business Tax	(643.9)	(598.1)	45.8	(7.1)
Sales	1,416.4	1,450.6	34.2	2.4
Use	768.7	766.9	(1.8)	(0.2)
Cigarette	168.5	164.2	(4.3)	(2.6)
Insurance Company Premiums	408.3	419.8	11.5	2.8
Telephone & Telegraph	32.0	32.0	0.0	0.0
Oil & Gas Severance	21.8	22.3	0.5	2.3
All Other	225.2	237.8	12.6	5.6
Subtotal Other Taxes	\$3,568.7	\$3,644.8	\$76.1	2.1%
Total Nontax Revenue	406.9	415.2	8.3	2.0
GF/GP REV. AFTER TAX CHANGES	\$11,301.5	\$11,695.0	\$393.5	3.5%
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$14,222.8	\$14,535.8	\$313.0	2.2%
Tax Changes Not In Baseline Revenue After Tax Changes	115.0	130.3	15.3	----
Sales Tax	6,553.4	6,707.6	154.2	2.4
Use Tax	639.1	653.0	13.9	2.2
Lottery Revenue	1,000.0	1,007.0	7.0	0.7
State Education Property Tax	2,207.4	2,245.0	37.6	1.7
Real Estate Transfer Tax	382.7	389.6	6.9	1.8
Income Tax	2,953.9	3,058.8	104.9	3.6
Casino Tax	120.0	121.4	1.4	1.2
Other Revenue	481.3	483.7	2.4	0.5
SAF REV. AFTER TAX CHANGES	\$14,337.8	\$14,666.1	\$328.3	2.3%
BASELINE GF/GP AND SAF	\$27,146.3	\$27,827.8	\$681.5	2.5%
Tax & Revenue Changes	(1,507.0)	(1,466.7)	40.3	----
GF/GP & SAF REV. AFTER CHNGS	\$25,639.3	\$26,361.1	\$721.8	2.8%
Sales Tax	\$8,999.3	\$9,210.8	\$211.5	2.4%

¹⁾ FY 2018-19 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2018-19 THROUGH FY 2021-22

Transportation Package and Individual Income Tax Revenue. The major changes included in the transportation package enacted in November 2015 will have a significant impact on General Fund revenue beginning in FY 2018-19, when provisions of the legislation lowered General Fund revenue by \$469.8 million: \$264.0 million for the revenue earmarked to the Michigan Transportation Fund and \$205.8 million for the expansion of the homestead property tax credit. The reduction in General Fund revenue will increase in FY 2019-20 to \$673.8 million: \$205.8 million from the expanded homestead property tax credit and \$468.0 million from the increased earmark of individual income tax revenue to the Michigan Transportation Fund. The reduction will increase again in FY 2020-21 to \$805.8 million: \$205.8 million from the expanded homestead property tax credit and \$600.0 million from the increased earmark of individual income tax revenue to the Michigan Transportation Fund. The reduction in FY 2021-22 will be largely the same as the previous year at \$815.3 million: \$215.3 million from the expanded homestead property tax credit and \$600.0 million from the earmark of individual income tax revenue to the Michigan Transportation Fund.

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

Individual Income Tax. Individual income tax revenue will increase an estimated 1.6% in FY 2019-20, to \$10.6 billion. Much like FY 2018-19, when income tax withholding rose 2.9%, FY 2019-20 withholding will rise 3.1% as wages and employment continue to grow. As economic growth increases, the growth rate in withholding will increase further to 3.8% in FY 2020-21 and 3.7% in FY 2021-22. Annual payments are expected to decrease 10.0% in FY 2019-20 and 3.0% in FY 2020-21, but increase 2.0% in FY 2021-22. As prices rise, inflation-indexed adjustments for the personal exemption are projected to lower net revenue beginning in FY 2018-19. Baseline income tax revenue is projected to grow 2.2% in FY 2019-20; however, growth in net income tax revenue will be only 1.6% in that year, reflecting the impacts of the expanded homestead property tax credit and increased personal exemption indexing. Compared with the May 2019 consensus revenue estimates, the revised estimate for FY 2019-20 individual income tax revenue is \$197.2 million higher, and the revised estimate for FY 2020-21 is \$256.8 million higher, reflecting faster wage growth forecasts. Individual income tax revenue currently is directed to the General Fund and the School Aid Fund. Through FY 2017-18, the School Aid Fund received 23.8% of gross income tax collections (withholding, quarterly, and annual payments), and the GF/GP budget received the remaining 76.2% of gross collections and incurred the negative impact of all income tax refunds (or the positive impact of reduced refunds). Beginning in FY 2018-19, the School Aid Fund receives only 22.2% of the gross income tax collections (with the remaining 77.8% going to the GF/GP budget), but the General Fund portion of collections are reduced because of the statutory requirement to deposit a fixed amount of income tax revenue into the Michigan Transportation Fund. These deposits will reduce GF/GP revenue by \$264.0 million in FY 2018-19, \$468.0 million in FY 2019-20, and \$600.0 million in FY 2020-21 and each following year.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax will increase at a faster rate than the 2.2% gain experienced in FY 2018-19, with sales tax revenue rising 5.4% in FY 2019-20, 3.5% in FY 2020-21, and 2.4% in FY 2021-22. Compared with the May 2019 consensus revenue

estimates, the revised sales tax estimate for FY 2019-20 is \$69.1 million higher while the revised estimate for FY 2020-21 is up \$132.4 million. The increase is due primarily to new guidance issued after the United States Supreme Court decision in *South Dakota v. Wayfair, Inc.*, which allowed states greater ability to collect sales tax from out-of-state retailers, along with accompanying legislation passed in 2019 to require sales tax collection by marketplace facilitators. The new guidance went into effect October 1, 2018. Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments (10%), the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to increase 3.3% in FY 2019-20, 2.5% in FY 2020-21 and 2.2% in FY 2021-22. However, the portion of use tax revenue received by the State of Michigan is expected to decline. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is being converted into a local use tax used to fund reimbursements to local units affected by personal property tax exemptions adopted in 2012. Payments to the Local Community Stabilization Authority started at \$96.4 million in FY 2015-16, rose to \$438.0 million in FY 2018-19, and will total \$465.9 million in FY 2019-20, \$491.5 million in FY 2020-21, and \$521.3 million in FY 2021-22, as they increase annually. Compared with the May 2019 consensus revenue estimates, the FY 2019-20 estimate for combined State and local use tax collections is revised upward by \$48.5 million and the FY 2020-21 estimate is \$80.4 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax revenue is allocated between the State General Fund and the Local Community Stabilization Authority according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated \$884.6 million in FY 2018-19, a decrease of 3.6% from FY 2017-18. Tobacco tax revenue is expected to continue its long-term downward trend, declining 1.7% in FY 2019-20, 2.5% in FY 2020-21, and 2.7% in FY 2021-22. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, 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. Tobacco taxes are split across multiple funds, including the General Fund, the School Aid Fund, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2019-20, casino tax revenue is projected to total \$118.3 million, a 0.9% increase from FY 2018-19. Casino tax revenue is expected to grow 1.4% in FY 2020-21 and 1.2% in FY 2021-22.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to \$1.8 billion. After increasing 6.3% in FY 2018-19, SET collections are projected to increase another 2.5% in FY 2019-20, and then by 1.9% in FY 2020-21 and 1.7% in FY 2021-22, as the housing market stabilizes, 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, and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, although FY 2018-19 saw unexpected growth due to a few very large jackpots. As a result, lottery revenue is forecasted to decline 7.5% in FY 2019-20, before increasing 1.0% in FY 2020-21 and 0.7% in FY 2021-22. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2018-19 to FY 2021-22, lottery revenue is expected to decline from 7.9% to 6.9% of total earmarked SAF revenue, reflecting that lottery revenue will grow more slowly compared to other SAF revenue sources.

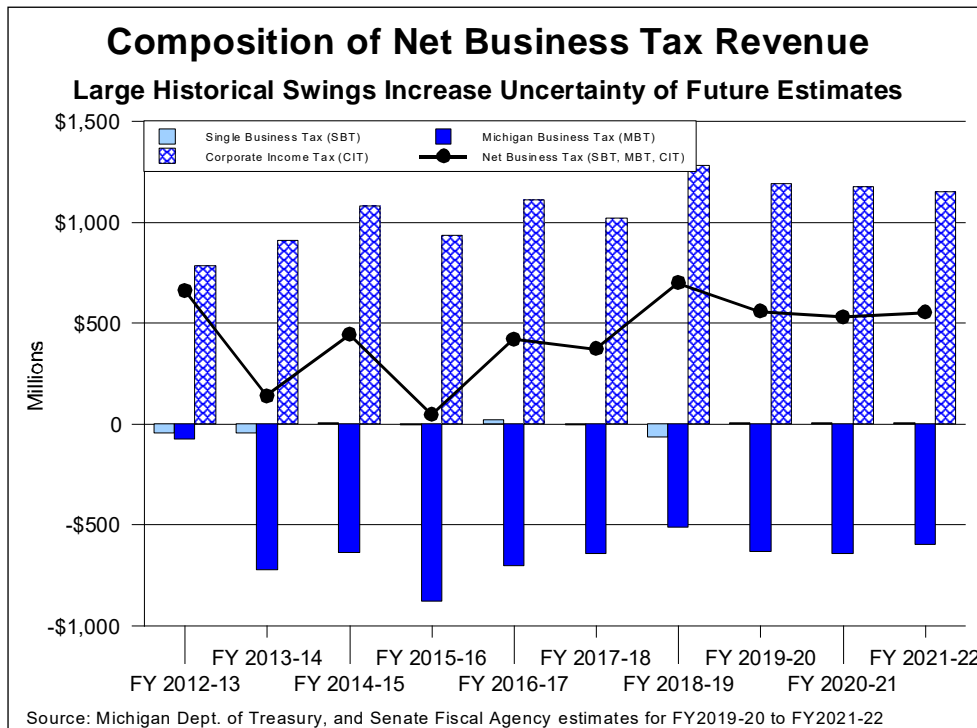
Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs), do not pay a separate business tax to the State. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is expected to be a significantly more volatile tax than the MBT.

Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative \$878.9 million (as refunds exceeded revenue) in FY 2015-16, a negative \$704.6 million in FY 2016-17, a negative \$596.7 million in FY 2017-18, and a negative \$652.5 million in FY 2018-19, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between \$600.0 million and \$700.0 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, although, 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 prior 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 \$174.3 million less in FY 2016-17, they still represented a 6.9% reduction in General Fund revenue. The credits lowered General Fund revenue by \$107.9 million less in FY 2017-18, but still represented a 5.4% reduction in General Fund revenue. The credits lowered General Fund revenue by \$135.2 million less in FY 2018-19, representing a 4.4% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally decline in later years, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 5.4% in FY 2019-20 and FY 2020-21, and 4.9% in FY 2021-22. 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 2018-19, CIT revenue increased 25.3%, after falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the potential volatility in CIT revenue (Figure 20). In FY 2017-18, net business tax revenue from the MBT, CIT, and SBT totaled \$371.9 million, down 11.4% from FY 2016-17. The preliminary final estimate for business taxes in FY 2018-19 is \$698.9 million, an 87.9% increase from FY 2017-18 that is \$185.2 million above the May 2019 consensus estimate. Net business tax revenue is expected to decline 20.2% in FY 2019-20 and 5.0% in FY 2020-21 before increasing 4.2% in FY 2021-22. (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the SBT was large swings in revenue from the CIT. These large swings helped create budget problems because unexpected revenue growth one year led to increased spending, only to be followed the next year by unexpected revenue shortfalls that required spending cuts and/or tax increases.) All revenue from the CIT, MBT, and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund.

Figure 20



Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated \$314.9 million in FY 2018-19, a 19.9% decrease from FY 2017-18, mostly due to a single large refund. Revenue from taxes on insurance companies is expected to return to trend growth over the forecast period, bouncing back to rise 19.1% in FY 2019-20, 8.9% in FY 2020-21, and 2.8% in FY 2021-22. All revenue from insurance taxes is directed to the General Fund.

REVENUE TRENDS

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law. However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference

between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates, and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for fiscal years in the near future. Furthermore, history indicates that not only will the economy likely deviate from trends over this period, but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer-term view of Michigan's economy, net GF/GP revenue is expected to increase 1.6% in FY 2022-23, to \$11.9 billion, while SAF revenue will increase 2.4%, to \$15.0 billion. In FY 2023-24, net GF/GP revenue is expected to increase 1.6%, to \$12.1 billion, while SAF revenue will increase 2.3%, to \$15.4 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2018-19, FY 2019-20, and FY 2020-21. 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 2018-19, FY 2019-20, and FY 2020-21 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2018-19 was made in December 2016, as shown in Table 8. At that time, baseline revenue in FY 2018-19 was estimated at \$25.1 billion. This estimate was increased by \$36.4 million at the January 2017 Consensus Revenue Estimating Conference (CREC), then increased another \$151.3 million at the May 2017 Consensus Revenue Estimating Conference. The January 2018 consensus conference increased the estimate by another \$3.7 million, but the May 2018 consensus conference increased it by \$231.6 million. The January 2019 consensus conference increased the estimate by \$240.8 million, and the May 2019 consensus conference increased it by \$124.3 million. The Senate Fiscal Agency's revised estimate for FY 2018-19 presented in this report increases the baseline estimate by \$300.3 million above the May 2019 consensus estimate, to \$26.2 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2019-20 was made in December 2017, as shown in Table 9. At that time, baseline revenue in FY 2019-20 was estimated at \$25.9 billion. This estimate was increased by \$148.0 million at the January 2018 CREC, then increased again, by \$197.6 million at the May 2018 CREC. The January 2019 consensus conference increased the estimate by \$198.6 million, while the May 2019 consensus conference lowered it by \$17.6 million. The Senate Fiscal Agency's revised estimate for FY 2019-20 presented in this report increases the baseline estimate by \$317.4 million above the May 2019 consensus estimate, to \$26.7 billion.

Table 8
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2018-19
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 16, 2016	\$11,896.6	\$13,182.6	\$25,079.2
January 12, 2017 ^{a)}	11,980.4	13,135.2	25,115.6
May 12, 2017	11,811.7	13,293.8	25,105.5
May 17, 2017 ^{a)}	11,951.8	13,315.1	25,266.9
December 18, 2017	11,727.8	13,442.7	25,170.5
January 11, 2018 ^{a)}	11,823.2	13,447.4	25,270.6
May 14, 2018	11,909.6	13,625.3	25,534.9
May 16, 2018 ^{a)}	11,931.6	13,570.6	25,502.2
December 14, 2018	12,102.8	13,618.1	25,720.9
January 11, 2019 ^{a)}	12,158.5	13,584.5	25,743.0
May 15, 2019	12,411.9	13,489.7	25,901.6
May 17, 2019 ^{a)}	12,327.3	13,540.0	25,867.3
December 30, 2019	12,523.0	13,644.6	26,167.6
<u>Change From Previous Estimate:</u>			
Dollar Change	\$195.7	\$104.6	\$300.3
Percent Change	1.6%	0.8%	1.2%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$626.4	\$462.0	\$1,088.4
Percent Change	5.3%	3.5%	4.3%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2017-18.			

Table 9
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2019-20
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 18, 2017	\$12,054.5	\$13,796.7	\$25,851.2
January 11, 2018 ^{a)}	12,185.2	13,814.0	25,999.2
May 14, 2018	12,356.8	13,991.1	26,347.9
May 16, 2018 ^{a)}	12,281.3	13,915.5	26,196.8
December 14, 2018	12,408.5	13,930.4	26,338.9
January 11, 2019 ^{a)}	12,479.7	13,915.7	26,395.4
May 15, 2019	12,487.9	13,705.0	26,192.9
May 17, 2019 ^{a)}	12,543.7	13,834.1	26,377.8
December 30, 2019	12,813.3	13,881.9	26,695.2
<u>Change From Previous Estimate:</u>			
Dollar Change	\$269.6	\$47.8	\$317.4
Percent Change	2.1%	0.3%	1.2%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$758.8	\$85.2	\$844.0
Percent Change	6.3%	0.6%	3.3%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2017-18.			

The initial GF/GP and SAF baseline revenue estimate for FY 2020-21 was made in December 2018, as shown in Table 10. At that time, baseline revenue in FY 2020-21 was estimated at \$27.1 billion. This estimate was lowered by \$103.2 million at the January 2019 Consensus Revenue Estimating Conference, and the May 2019 consensus conference decreased it by \$13.6 million. The revised Senate Fiscal Agency estimate for FY 2020-21 increases baseline revenue for FY 2020-21 by \$438.4 million above the May 2019 estimate, to \$27.4 billion.

Table 10
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2020-21
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 14, 2018	\$12,813.0	\$14,304.1	\$27,117.1
January 11, 2019 ^{a)}	12,783.5	14,230.4	27,013.9
May 15, 2019	12,831.7	14,004.4	26,836.1
May 17, 2019 ^{a)}	12,858.8	14,141.5	27,000.3
December 30, 2019	13,208.0	14,230.7	27,438.7
<u>Change From Previous Estimate:</u>			
Dollar Change	\$349.2	\$89.2	\$438.4
Percent Change	2.7%	0.6%	1.6%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$395.0	(\$73.4)	\$321.6
Percent Change	3.1%	-0.5%	1.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2017-18.			

**BUDGET
STABILIZATION FUND**

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 tax payers on returns filed after the end of that fiscal year.

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 either 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 2019-20 is based on personal income growth from calendar year 2018 to 2019 and GF/GP revenue in FY 2018-19. Different years are used to calculate a potential pay-out. A pay-out in FY 2019-20 depends on the change in personal income from calendar year 2019 to calendar year 2020 and the amount of GF/GP revenue in FY 2019-20.

In order for any payment into or out of the BSF actually 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 General Fund/General Purpose 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 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 the 21 years, from FY 2014-15 through FY 2034-35, to repay that transfer.

Table 11 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2017-18. This table also presents the SFA's estimates for FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22, 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 21, and the estimated economic stabilization trigger calculations for FY 2019-20, FY 2020-21, and FY 2021-22 are presented in Table 12.

FY 2018-19

The BSF ended FY 2017-18 with a balance of \$1,006.0 million. During FY 2018-19, \$117.5 million was appropriated to the Fund. As noted above, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of \$17.5 million annually from tobacco settlement revenue to the BSF beginning in FY 2014-15 and extending through FY 2034-35. A supplemental appropriation bill, Public Act 618 of 2018, appropriated \$100.0 million of General Fund money to the BSF. Interest earnings are estimated at \$29.2 million in FY 2018-19, resulting in an estimated ending balance of \$1,152.7 million. There was no calculated pay-in to the BSF for FY 2018-19 estimated at the time of budget enactment.

FY 2019-20, FY 2020-21, and FY 2021-22

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula is forecast to trigger a pay-in of \$11.1 million for FY 2019-20, but no other pay-in or pay-out in FY 2019-20, FY 2020-21, or FY 2021-22.

Based on growth in inflation-adjusted personal income, under the current statutory formula, a deposit of \$11.1 million would be required in FY 2019-20, but no deposit would be required in FY 2020-21 and FY 2021-22. A deposit of \$17.5 million in each of these years already is required under the Trust Fund Act, so no additional calculated pay-in is anticipated in any of the years.

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 \$1,205.9 million in FY 2019-20, \$1,260.8 million in FY 2020-21, and \$1,318.6 million in FY 2021-22 as shown in Table 11.

Table 11

**BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2021-22 ESTIMATES
(millions of dollars)**

Fiscal Year ^{a)}	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
1998-99		\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14 ^{b)}		75.0	0.4	194.8	386.2
2014-15 ^{c)}	\$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
Enacted Deposits and Estimated Interest Earnings:					
2018-19 ^{d)}	17.5	100.0	29.2	0.0	1,152.7
2019-20	17.5	0.0	35.7	0.0	1,205.9
2020-21	17.5	0.0	37.4	0.0	1,260.8
2021-22	17.5	0.0	40.3	0.0	1,318.6

a) For FY 1998-99 to FY 2017-18, the table shows the actual appropriated pay-in and pay-out to the BSF and the interest earned as reported in the State of Michigan Comprehensive Annual Financial Report. Fiscal years 2018-19 to FY 2021-22 include enacted legislation (Public Act 618 of 2018) 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.

d) Public Act 618 of 2018 appropriated \$100.0 million. There was no calculated deposit for FY 2018-19.

Source: State of Michigan Comprehensive Annual Financial Reports through FY 2017-18 and Senate Fiscal Agency.

Figure 21

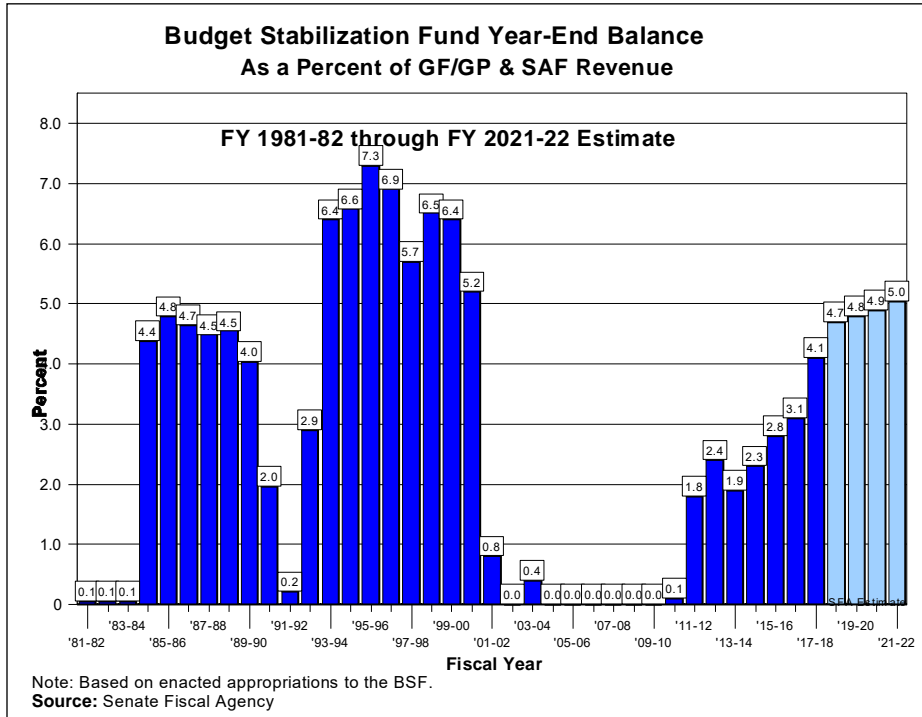


Table 12

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22
(millions of dollars)

	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Michigan Personal Income (MPI)	\$484,029.8	\$503,735.8	\$522,197.7	\$540,256.5	\$557,649.2
Less: Transfer Payments	\$97,776.3	\$105,110.1	\$109,067.7	\$112,959.5	\$117,051.2
Subtotal	\$386,253.5	\$398,625.8	\$413,130.0	\$427,297.1	\$440,598.0
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.3225	2.3487	2.3927	2.4336	2.4751
Equals: Real Adjusted MPI	\$166,309	\$169,722	\$172,663	\$175,583	\$178,013
Percent Change from Prior Year		2.1%	1.7%	1.7%	1.4%
Excess Over 2.0%		0.10%	0.00%	0.00%	0.00%
		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Multiplied by: Estimated GF/GP Revenue		\$11,108.8	\$11,095.1	\$11,301.5	\$11,695.0
Equals: Transfer to the BSF			\$11.1	\$0.0	\$0.0
OR Transfer from the BSF			\$0.0	\$0.0	\$0.0

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

**COMPLIANCE WITH
STATE REVENUE LIMIT**

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 2017-18. To date, the largest gap between revenue and the limit occurred in FY 2016-17, when State revenue was \$9.2 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 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22 with State revenue forecast to be \$13.2 billion below the limit in FY 2021-22.

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 2017-18, State government revenue could not exceed 9.49% of personal income for calendar year 2016. Given that Michigan personal income for 2016 equaled \$439.4 billion at the time compliance was determined, the revenue limit for FY 2017-18 was \$41.7 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 U.S. Department of Commerce's Bureau of Economic Analysis.

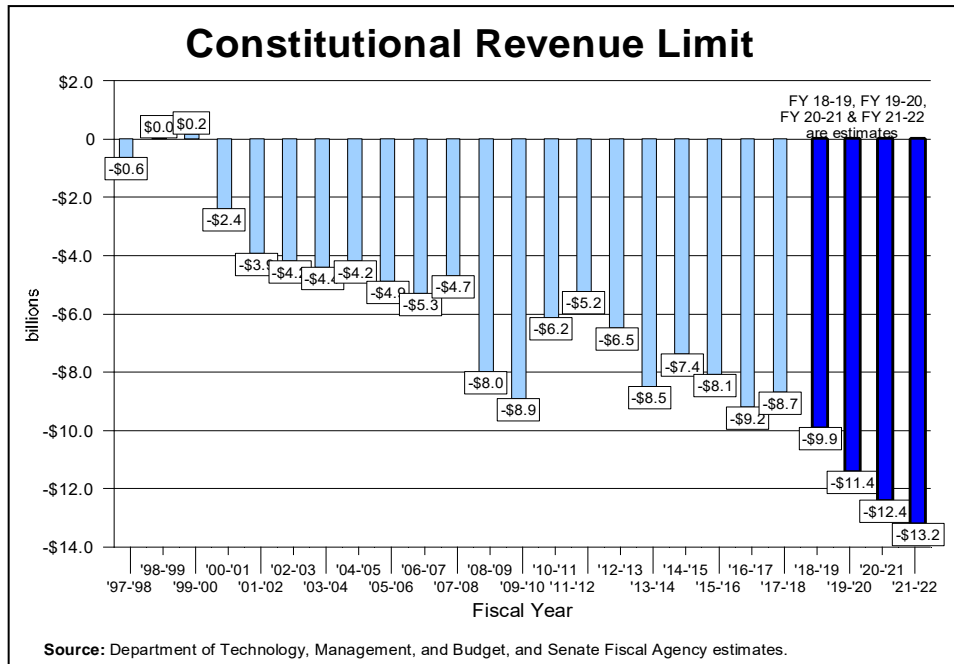
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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 Budget Stabilization Fund. 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 individual income tax return or a Michigan Business Tax or Corporate Income Tax return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report that determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary final revenue for FY 2018-19 and the SFA's revenue estimates for FY 2019-20, FY 2020-21, and FY 2021-22, 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 22](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 13](#).

Figure 22



FY 2018-19

The U.S. Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2017 equals \$461.5 billion and, as a result, the revenue limit equals \$43.8 billion in FY 2018-19, an increase of \$2.1 billion over FY 2017-18. Based on the SFA's revised revenue estimates for FY 2018-19, revenue subject to the revenue limit will equal an estimated \$33.9 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$9.9 billion, or 22.6%, in FY 2018-19. The substantial increase in the Homestead Property Tax Credit, the effects of which will begin during FY 2018-19, accounts for a portion of the significant increase in the amount by which State revenue is projected to be below the limit. Additionally, anticipated growth in personal income of 5.0% will outpace the forecasted 2.8% increase in State revenue subject to the revenue limit.

FY 2019-20

The Senate Fiscal Agency estimates that personal income in Michigan during 2018 will equal \$484.0 billion, and as a result, the revenue limit will equal \$45.9 billion in FY 2019-20. Based on the SFA's revised revenue estimates for FY 2019-20, revenue subject to the revenue limit will equal an estimated \$34.5 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$11.4 billion, or 24.8%, in FY 2019-20. Anticipated growth in personal income of 4.9% will outpace the forecasted 1.9% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

FY 2020-21

The Senate Fiscal Agency estimates that personal income in Michigan during 2019 will equal \$503.7 billion and, as a result, the revenue limit will equal \$47.8 billion in FY 2020-21. Based on the SFA's revised revenue estimates for FY 2020-21, revenue subject to the revenue limit will equal an estimated \$35.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$12.4 billion, or 26.0%, in FY 2020-21. Anticipated growth in personal income of 4.1% will outpace the forecasted 2.5% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

FY 2021-22

The Senate Fiscal Agency estimates that personal income in Michigan during 2020 will equal \$522.2 billion, and as a result, the revenue limit will equal \$49.6 billion in FY 2021-22. Based on the SFA's initial revenue estimates for FY 2021-22, revenue subject to the revenue limit will equal an estimated \$36.4 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$13.2 billion, or 26.6%, in FY 2021-22. Anticipated growth in personal income of 3.7% will outpace the forecasted 2.7% increase in State revenue subject to the revenue limit, thus increasing the amount by which revenue will fall below the limit.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION FY 2017-18 THROUGH FY 2021-22 ESTIMATE (millions of dollars)					
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
	Final	Estimate	Estimate	Estimate	Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	\$12,220.5	\$12,523.0	\$12,813.3	\$13,208.0	\$13,586.4
Constitutional Revenue Sharing (baseline)	816.6	837.3	848.1	872.6	893.6
School Aid Fund (baseline)	13,321.0	13,644.6	13,881.9	14,230.7	14,545.4
Transportation Funds	2,950.2	3,373.3	3,506.8	3,569.1	3,632.6
Other Restricted Non-Federal Aid Revenue	4,873.1	5,019.3	5,169.9	5,325.0	5,484.7
Adjustments:					
GF/GP Federal Aid	(2.9)	(13.3)	(13.3)	(13.3)	(13.3)
GF/GP Balance Sheet Adjustments	(1,203.4)	(1,414.2)	(1,718.2)	(1,906.5)	(1,891.4)
SAF Balance Sheet Adjustments	(19.0)	(87.9)	52.8	107.1	120.7
Total Revenue Subject to Limit	\$32,956.1	\$33,882.0	\$34,541.2	\$35,392.7	\$36,358.7
Revenue Limit					
Personal Income:					
Calendar Year	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020
Amount	\$439,361	\$461,486	\$484,030	\$503,736	\$522,198
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$41,695.4	\$43,795.0	\$45,934.4	\$47,804.5	\$49,556.6
1.0% of Limit	417.0	437.9	459.3	478.0	495.6
Amount Under (Over) Limit	\$8,739.3	\$9,912.9	\$11,393.2	\$12,411.9	\$13,197.9
Percent Below Limit	21.0%	22.6%	24.8%	26.0%	26.6%
CY = Calendar Year; FY = Fiscal Year					

**ESTIMATES OF
YEAR-END BALANCES**

ESTIMATE OF YEAR-END BALANCES

This section of the SFA's report provides details of the estimated year-end balances of the GF/GP and SAF budgets for FY 2018-19 and FY 2019-20. This section also outlines projections for the FY 2020-21 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2018-19, FY 2019-20, and FY 2020-21 GF/GP and SAF budgets. The FY 2018-19 book-closing process has not yet concluded. The State Budget Office issued Supplemental Request 2019-7, on December 4, 2019, requesting an additional \$327.9 million Gross, \$148.7 million GF/GP for the Department of Health and Human Services. The Legislature has not yet acted on this request and the book-closing process is being held open to accommodate the pending request for additional FY 2018-19 appropriations. Although the SFA is forecasting slow revenue growth for FYs 2019-20 and 2020-21, the SFA's combined GF/GP and SAF revenue estimates for these two fiscal years are above the May CREC estimates. The final accounting of FY 2018-19 revenue and appropriations has not been completed, but the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have an \$829.7 million balance and the SAF budget will have a \$173.7 million balance. A comparison of the SFA estimate of FY 2019-20 revenue with actual and projected appropriations leads to a \$717.0 million GF/GP year-end balance and a \$258.7 million SAF year-end balance.

The outlook for an FY 2020-21 continuation budget points to a GF/GP budget ending balance of \$725.6 million and an SAF ending balance of \$613.4 million.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2018-19 Estimate	FY 2019-20 Estimate	FY 2020-21 Estimate
General Fund/General Purpose	\$829.7	\$717.0	\$725.6
School Aid Fund	\$173.7	\$258.7	\$613.4

FY 2018-19 YEAR-END BALANCE ESTIMATES

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. A comprehensive annual financial report (commonly referred to as the CAFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available but based on year-to-date accounting reports of FY 2018-19 GF/GP revenue and expenditures from the State Budget Office and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the FY 2018-19 fiscal year with a \$829.7 million balance. The SFA is estimating that the FY 2018-19 SAF budget will close the fiscal year with a \$173.7 million balance.

The first column of Table 15 provides a summary of the current SFA estimate of a \$829.7 million balance in the FY 2018-19 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2019-20 revenue source. During the development of the FY 2019-20 budget, an estimated FY 2018-19 carry-forward amount of \$640.1 million in GF/GP revenue was built into the budget for FY 2019-20, so this revised estimate is \$189.6 million above the amount initially estimated as the ending balance for FY 2018-19 that would carry

forward into FY 2019-20. This change in the FY 2018-19 ending balance is partially due to increased expenditures related to the State Budget Office's Supplemental Request 2019-7, which are requested to increase expenditures by \$148.7 million but are anticipated by the SFA to increase expenditures by \$118.7 million. These increased anticipated expenditures are offset by estimated department lapse amounts, which are projected to be \$46.7 million more than previous estimates, and final revenue projections for FY 2018-19, including higher net income tax and Corporate Income Tax revenue, and reduced Michigan Business Tax payments, that are expected to reflect a net revenue increase of \$257.1 million more than the May 2019 estimate.

On the revenue side of the FY 2018-19 GF/GP budget ledger, the SFA now is estimating that available revenue will total more than \$11.4 billion. This represents a \$303.7 million, or 2.7%, increase from the level of FY 2017-18 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a \$257.1 million increase from the May 2019 consensus revenue estimate. It is important to note that the \$96.2 million savings from estimated MBT payments may not recur and could potentially be claimed in later fiscal years. The combination of these factors, as well as accounting for State revenue sharing payments and other restricted revenue adjustments, results in the net \$11.4 billion revenue estimate.

On the expenditure side of the FY 2018-19 GF/GP budget ledger, the SFA now is estimating that expenditures will total \$10.6 billion, which includes an appropriation to the Budget Stabilization Fund of \$100.0 million. The primary change in expenditures, compared to May 2019 estimates, is related to the State Budget Office's Supplemental Request 2019-7. The SFA estimates that \$118.7 million of the total request will be appropriated, a reduction of \$30.0 million from the initial request. The \$10.6 billion of expenditures represents a \$256.9 million, or 2.5%, increase from the final level of FY 2017-18 GF/GP expenditures.

As [Table 15](#) indicates, net enacted supplemental appropriations for FY 2018-19 total \$420.2 million. Of that total, \$27.9 million represents a shift in funding from GF/GP to the School Aid Fund. For FY 2018-19, lapses are less than the previous fiscal year, at an estimated total of \$56.2 million, with the largest estimated lapse amount of \$21.8 million in the Department of Technology, Management, and Budget's State Building Authority Rent. As mentioned previously, the FY 2018-19 book-closing process is still under way, and any adjustments that occur during that process could have an impact on the final revenue and expenditures recorded for FY 2018-19.

The first column of [Table 16](#) provides a summary of the FY 2018-19 SFA estimate of a \$173.7 million year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2019-20 revenue source. As stated earlier, the FY 2019-20 budget was developed assuming that funds carried forward from FY 2018-19 would be used for FY 2019-20 appropriations. When the FY 2019-20 SAF budget was developed, the assumption was that \$49.3 million would be available at the FY 2018-19 year-end and carried forward; the estimate now is that \$173.7 million is available, or \$124.4 million more than originally projected. The additional \$124.4 million in the estimated year-end balance reflects estimated lapses of \$50.0 million and additional revenue of \$74.4 million.

On the revenue side of the FY 2018-19 SAF budget ledger, the SFA now is estimating that available revenue will total \$15.8 billion. This represents a \$340.7 million, or 2.2%, increase from the final level of FY 2017-18 SAF revenue; in FY 2018-19, there was \$143.1 million more in Federal aid than in FY 2017-18, \$80.4 million more in GF/GP support of the School Aid budget, and growth in SAF-earmarked revenue. The current SFA estimate of ongoing SAF revenue for FY 2018-19 (excluding GF/GP, Community District Education Trust Fund revenue, tax, and Federal revenue) represents an increase of \$74.4 million from the May 2019 consensus revenue estimate.

On the expenditure side of the FY 2018-19 SAF budget ledger, the SFA now is estimating that expenditures will total \$15.7 billion. This represents a \$487.5 million, or 3.2%, increase from the final level of FY 2017-18 SAF expenditures. The estimated final level of FY 2018-19 SAF expenditures includes the initial ongoing K-12 appropriation of \$14.6 billion, \$120.8 million in initial one-time K-12 appropriations, and enacted supplementals totaling \$45.7 million, along with estimated K-12 lapses totaling a negative \$50.0 million. It also should be noted that the estimated final level of FY 2018-19 SAF expenditures includes \$908.3 million of appropriations to the Community Colleges and Higher Education budgets, an increase from the \$636.6 million appropriated for postsecondary purposes in FY 2017-18.

FY 2019-20 YEAR-END BALANCE ESTIMATES

On September 19 and September 24, 2019, the Michigan Legislature completed action on the initial set of FY 2019-20 appropriation bills. The FY 2019-20 initially enacted budget was balanced based on the May 2019 consensus estimates. At the time the initial budget was enacted, the SFA was projecting a \$650.0 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2019-20 GF/GP year-end balance is \$717.0 million. At the same time, based on the May 2019 consensus revenue estimate, the SFA was projecting a \$79.3 million year-end balance in the SAF budget. The current SFA estimate of the FY 2019-20 SAF year-end balance is \$258.7 million. It should be noted that revenue projections for PAs 143 and 144 of 2019, which were recently signed by Governor Whitmer to require a marketplace facilitator engaged in the business of making sales in Michigan to remit sales tax on all taxable sales, are now included in the SFA's revenue estimates. The revenue assumptions from the expansion of online and sports gambling, signed by the Governor as PAs 147 through 153, 157, and 158 of 2019, have not yet been included in the SFA's revenue assumptions and, therefore, included as separate adjustments on the SAF balance sheet beginning in FY 2019-20. Additionally, the budget agreement for FY 2019-20 included an assumed change to income tax earmarks shifting between the GF/GP and SAF. This legislation has been introduced as House Bill (HB) 4125 of 2019 but has not yet been enacted and, therefore, is accounted for on Table 15 and Table 16 as separately assumed adjustments in addition to the SFA's estimated revenue.

The second column of Table 15 provides a summary of the current SFA estimate of a \$717.0 million year-end balance in the FY 2019-20 GF/GP budget. The increase in the projected level of the FY 2019-20 GF/GP year-end balance results primarily from an estimated increase of \$318.2 million from the revenue amount estimated at the May 2019 CREC, and a larger carry-forward balance from FY 2018-19 (\$189.6 million more than expected), offset by \$261.0 million in additional spending under recently signed supplemental spending bills, PAs 154 and 162 of 2019.

On the revenue side of the FY 2019-20 GF/GP budget ledger, the SFA now is estimating that available revenue will total \$11.3 billion. This estimate includes a projected \$829.7 million balance carried forward from FY 2018-19, \$11.1 billion of revenue from ongoing sources, a \$490.1 million reduction to reflect ongoing State revenue sharing payments, a reduction of \$174.3 million to shift income tax revenue to the SAF, and a one-time increase of \$10.0 million from restricted funds paid to the General Fund to reimburse for the implementation of recreational marihuana. The current SFA estimate of FY 2019-20 ongoing GF/GP revenue represents a \$133.2 million increase from the May 2019 consensus revenue estimate. The upward revision in revenue reflects an increase in income tax revenue but is offset by the anticipated adjustment to the income tax earmark in HB 4125.

On the expenditure side of the FY 2019-20 GF/GP budget ledger, the SFA now is estimating that expenditures will total \$10.6 billion. This total includes \$9.9 billion of ongoing appropriations in the initial appropriation bills, \$168.6 million in one-time appropriations in the initial appropriation bills, \$261.0 million in supplemental appropriations (PAs 154 and 162 of 2019), \$114.6 million of estimated caseload and cost adjustments and to reflect the projected ongoing portion of FY 2018-19 Supplemental Request 2019-7 for the Department of Health and Human Services, and \$62.8 million

to reimburse the Federal government for previously disallowed Medicaid psychiatric disproportionate share hospital (DSH) payments.

The second column in [Table 16](#) provides a summary of the current SFA estimate of a \$258.7 million year-end balance in the FY 2019-20 SAF budget. The increase in the projected level of the FY 2019-20 SAF year-end balance results primarily from a larger carry-forward balance from FY 2018-19 (\$124.4 million more than expected), and an estimated increase in net ongoing revenue of \$94.9 million from the amount estimated at the May 2019 consensus revenue conference (primarily due to enactment of PA 143 of 2019, expanding sales tax collection in the marketplace). The estimate continues to assume the enactment of House Bill 4125 that would increase SAF revenue by \$174.3 million in FY 2019-20, which would reverse the earlier income tax earmark of *Wayfair* revenue to the General Fund. In addition, costs in FY 2019-20 now are estimated to be \$24.3 million lower than appropriated, primarily due to higher taxable values offsetting more of the foundation allowance cost than estimated, and because of reductions in cash flow borrowing costs.

On the revenue side of the FY 2019-20 SAF budget ledger, the SFA now is estimating that available revenue will total \$16.2 billion. This estimate includes a \$173.7 million balance carried forward from FY 2018-19, \$13.9 billion of ongoing State Restricted SAF revenue, a \$62.6 million GF/GP grant to the SAF budget, \$3.6 million from the expansion of online gaming, a deposit of \$75.4 million from the Community District Education Trust Fund, the assumed enactment of HB 4125 increasing SAF by \$174.3 million, and \$1.7 billion of ongoing Federal aid.

The current SFA estimate of total FY 2019-20 SAF revenue represents a \$332.7 million, or 2.1%, increase from the projected level of FY 2018-19 SAF revenue, which is driven primarily by growth in restricted SAF revenue (\$378.0 million plus the \$174.3 million increase under HB 4125), partially offset by a smaller beginning balance (\$146.8 million lower), and reduction in the GF/GP grant to the SAF (\$25.3 million), and reductions in nonongoing revenue (\$58.1 million). The current estimate of FY 2019-20 State Restricted SAF revenue (exclusive of the assumed increase under HB 4125) is \$94.9 million higher than the May 2019 consensus estimate.

On the expenditure side of the FY 2019-20 SAF budget ledger, the SFA now is estimating that expenditures will total \$15.9 billion. This expenditure estimate includes \$15.1 billion of ongoing K-12 appropriations in the initial appropriation bill, \$70.5 million in supplemental appropriations, and cost adjustments totaling a negative \$24.3 million. It also should be noted that the estimated level of FY 2019-20 SAF expenditures includes \$764.1 million of appropriations to the Community Colleges and Higher Education budgets, a decrease from the previous year's \$908.3 million SAF revenue appropriated for postsecondary purposes. The projected level of FY 2019-20 SAF expenditures represents a \$247.6 million, or 1.6%, increase from the estimated year-end level of FY 2018-19 SAF expenditures.

FY 2020-21 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2020-21 State budget recommendation to the Legislature no later than February 7, 2020. This State budget recommendation will continue the discussion of the FY 2019-20 budget and begin the discussion of the FY 2020-21 State budget. On March 5, 2019, Governor Whitmer presented her FY 2019-20 budget and her projections for FY 2020-21. The Legislature subsequently enacted an FY 2019-20 State budget and the majority of decisions affecting the FY 2020-21 State budget will be made in the coming calendar year.

If a beginning balance of \$717.0 million is carried forward into FY 2020-21 and the SFA's new revenue estimate is assumed, and if FY 2020-21 appropriations essentially are frozen at FY 2019-20 levels (including a portion of the supplemental appropriations in PAs 154 and 162 of 2019) and

adjusted for caseload estimates for the Department of Health and Human Service, the FY 2020-21 projected year-end GF/GP balance is \$725.6 million. The third column of Table 15 outlines these assumptions.

On the revenue side of the FY 2019-20 budget outlook, the SFA is projecting that total estimated GF/GP revenue available will equal \$11.3 billion. This estimate assumes a beginning balance of \$717.0 million and SFA-estimated ongoing revenue of \$11.3 billion, which represents an increase of \$381.0 million from the May 2019 consensus estimate. This upward revision in revenue is primarily the result of the SFA's projection of modest growth in the economy that is partially offset by income tax earmarks shifting revenue from the General Fund to the School Aid Fund. The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2019-20 level (\$490.1 million ongoing).

On the appropriation side of the FY 2020-21 budget outlook, the SFA estimate assumes the continuation of appropriations at the FY 2019-20 levels initial ongoing GF/GP appropriations, and assumes a portion of the appropriation amount in PA 154 and 162 of 2019 are carried into FY 2020-21. Adjustments of a net \$678.8 million are then made to do the following: add \$315.0 million to continue to reflect caseload and cost increases associated with the Department of Health and Human Services, address related audit findings, and provide for one quarter of payments related the Federal Affordable Care Act Insurer fee; add \$59.2 million in continued costs to reimburse the Federal government for previously disallowed Medicaid psychiatric DSH payments; add \$90.0 million for costs associated with State employee economic adjustments; include \$14.6 million for State Building Authority Rent increases; \$178.0 million in ongoing GF/GP costs associated with FY 2019-20 supplemental spending bills (PAs 154 and 162 of 2019); and \$20.0 million for other baseline adjustments. These assumptions lead to total estimated FY 2020-21 GF/GP expenditures of \$10.6 billion and a projected year-end GF/GP balance of \$725.6 million.

The third column of Table 16 provides a summary of the SFA's outlook for the FY 2020-21 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2019-20 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of \$613.4 million for FY 2020-21.

On the revenue side of the FY 2020-21 SAF budget outlook, the SFA is estimating that available revenue will total \$16.7 billion, an increase of \$495.6 million, or 3.1%, above FY 2019-20. This estimate assumes a carry-forward of \$258.7 million from FY 2019-20, an increase in the level of ongoing School Aid Fund revenue of \$158.3 million from the May 2019 consensus forecast, a GF/GP grant of \$62.6 million (the same level as appropriated for FY 2019-20), a continuation of the deposit from the Community District Education Trust Fund, an estimated increase of \$179.5 million assuming enactment of House Bill 4125, an increase of \$4.8 million due to the expansion of online gaming, and estimated Federal aid continuing at \$1.7 billion.

On the appropriation side of the FY 2020-21 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$16.1 billion. This funding level assumes that SAF appropriations of \$764.1 million for community colleges and universities are continued (with another \$17.7 million for additional MPSERS costs) and that the FY 2019-20 supplemental of \$70.5 million is rolled into base funding for FY 2020-21.

In addition, the SFA estimate of a continuation level of K-12 funding takes into account updated estimates as to the number of students in school districts and preliminary estimates of local property tax valuations, special education costs, debt service costs, MPSERS rate cap costs, and other MPSERS costs related to changes in assumptions like the assumed rate of return and mortality tables. The SFA is estimating that pupils will decrease in FY 2020-21 by 7,300 from the number of pupils in membership for FY 2019-20. There are some anticipated savings from local taxable values and combining those savings with pupil savings will offset increases in special education costs and other

baseline cost adjustments; however, an increase in the cost of required State contributions for the MPSERS rate cap leads to a \$123.4 million net baseline cost increase for FY 2020-21.

A comparison of projected FY 2020-21 SAF current-law revenue and a continuation of current spending leads to an estimated ending balance of \$613.4 million, which equates to roughly \$420 on an equal per-pupil basis. Again, this estimate assumes a continuation of ongoing initial and supplemental appropriations and SAF support of \$781.8 million for community colleges and universities.

CONCLUSION

Although the GF/GP and SAF budgets are estimated to end FY 2019-20 and FY 2020-21 with healthy year-end balances, there are several budgetary pressures looming in subsequent fiscal years that are likely to mitigate the extension of these large positive balances. For example, in the Department of Health and Human Services, under current policy and Federal guidance, the State match rate for the Children's Health Insurance Program is expected to be reduced to the original level of approximately 75%, which will result in an increased cost to the state of approximately \$28.0 million GF/GP. Other potential cost increases could occur if caseload utilization outpaces projections.

Among other longer-term budget constraints are the following: the continued phase-in of personal property tax reform, which will grow to an estimated cost of \$572.6 million in FY 2026-27; the continued increase of transportation-related earmarks increasing to \$814.0 million in FY 2021-22; the phase-in of statutory requirements, such as the Raise the Age package (PA 98 through 113 of 2019); and the potential of future litigation and settlements against the State.

The FY 2018-19 estimated ending balances may change when the State's final CAFR is published, which is not required by law until the end of March 2020. To the extent that the FY 2018-19 numbers change because of pending supplemental requests or other issues, the ending balances for FY 2019-20 and FY 2020-21 will be affected. Also, to the extent that policy changes are enacted during FY 2019-20, the projected ending balances could be improved or worsened.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and School Aid Fund budgets, respectively. All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 10, 2020, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2020-21 State budget, as well as for subsequent fiscal years.

Table 15

**FY 2018-19, 2019-20, FY 2020-21
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)**

	FY 2018-19	FY 2019-20	FY 2020-21
Revenue:			
Beginning Balance (Adjusted).....	\$788.3	\$829.7	\$717.0
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2019)	\$10,851.7	\$10,776.9	\$10,920.5
Senate Fiscal Agency Revenue Estimate Change	257.1	318.2	381.0
Senate Fiscal Agency Revenue Estimate (December 2019).....	\$11,108.8	\$11,095.1	\$11,301.5
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(\$466.0)	(\$490.1)	(\$490.1)
Income Tax Earmark Change (HB 4125).....	0.0	(174.3)	(179.5)
Subtotal Ongoing Revenue	\$10,642.8	\$10,430.7	\$10,631.9
<u>Nonongoing Revenue:</u>			
One-Time Appropriation for Revenue Sharing.....	(\$13.1)	\$0.0	\$0.0
Legal Settlements.....	17.7	0.0	0.0
Revenue from sale of Farnum building	4.5	0.0	0.0
Reimbursement for implementation of recreational marihuana ...	0.0	10.0	0.0
Other Adjustments	(6.3)	0.0	0.0
Subtotal Non-Ongoing Revenue	\$2.8	\$10.0	\$0.0
Total Estimated GF/GP Revenue	\$11,433.9	\$11,270.5	\$11,348.9
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Appropriations	\$9,614.6	\$9,946.5	\$9,946.5
Subtotal Ongoing Appropriations	\$9,614.6	\$9,946.5	\$9,946.5
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$406.8	\$168.6	\$0.0
Appropriation to Budget Stabilization Fund.....	100.0	0.0	0.0
Enacted Supplementals (PA 586, 618 of 2018/28, 45,56 of 2019).....	420.2	0.0	0.0
FY 2019-20 Supplementals (PA 154 and 162 of 2019)	0.0	261.0	178.0
Estimated Employee Economic Adjustments	0.0	0.0	90.0
Pending Supplemental Request 2019-7	118.7	0.0	0.0
Baseline DHHS Adjustments	0.0	114.6	315.0
Reimbursement of Federal Disallowed Psych DSH Costs	0.0	62.8	59.2
SBA Rent Increases	0.0	0.0	14.6
Other baseline adjustments	0.0	0.0	20.0
Estimated Lapses.....	(56.2)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$989.5	\$607.0	\$676.8
Total Estimated GF/GP Expenditures	\$10,604.2	\$10,553.5	\$10,623.3
PROJECTED YEAR-END GF/GP BALANCE	\$829.7	\$717.0	\$725.6

Table 16

**FY 2018-19, FY 2019-20, AND FY 2020-21
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)**

	FY 2018-19	FY 2019-20	FY 2020-21
Revenue:			
Beginning Balance	\$320.5	\$173.7	\$258.7
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (May 2019).....	\$13,482.3	\$13,839.8	\$14,179.5
Senate Fiscal Agency Revenue Estimate Change	74.4	94.9	158.3
Senate Fiscal Agency Revenue Estimate (Dec. 2019)	\$13,556.7	\$13,934.7	\$14,337.8
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$87.9	\$62.6	\$62.6
Community District Education Trust Fund.....	72.2	75.4	78.4
Federal Ongoing Aid	1,745.9	1,749.6	1,749.6
Anticipated Income Tax Earmark Change (HB 4125).....	0.0	174.3	179.5
Expanded Gaming Estimates.....	0.0	3.6	4.8
Subtotal Ongoing Revenue	\$15,462.7	\$16,000.2	\$16,412.7
<u>Nonongoing Revenue:</u>			
Reserve Fund for MPSERS	30.0	1.9	0.0
Mental Health Services and Support Fund	30.0	0.0	0.0
Subtotal Non-Ongoing Revenue	\$60.0	\$1.9	\$0.0
Total Estimated School Aid Fund Revenue.....	\$15,843.2	\$16,175.9	\$16,671.5
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$14,664.7	\$15,106.8	\$15,153.0
Cost Adjustments (December 2019)	0.0	(\$24.3)	\$123.4
Fund Community Colleges with School Aid Fund	401.8	414.7	425.7
Partially Fund Higher Education with School Aid Fund.....	499.4	349.4	356.1
Subtotal Ongoing Appropriations	\$15,545.9	\$15,846.6	\$16,058.1
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$120.8	\$0.0	\$0.0
Initial One-Time Community Colleges Appropriations	6.4	0.0	0.0
Initial One-Time Higher Education Appropriations	0.7	0.0	0.0
Enacted Supplementals (PA 586 of 2018 and PAs 58 and 162 of 2019)	45.7	70.5	0.0
Estimated Lapses	(50.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$123.6	\$70.5	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$15,669.5	\$15,917.1	\$16,058.1
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$173.7	\$258.7	\$613.4