

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

**FY 2019-20, FY 2020-21,
FY 2021-22, and FY 2022-23**

January 5, 2021



THE SENATE FISCAL AGENCY

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

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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 (GDP), after contracting an estimated 3.6% during 2020, is predicted to expand 3.0% in 2021, and 2.4% in both 2022 and 2023. Light vehicle sales are forecasted to rise from 14.5 million units in 2020 to 15.9 million units in 2021, 16.1 million units in 2022, before totaling 16.0 million units in 2023. The unemployment rate is expected to fall from 8.1% in 2020 to 7.1% in 2021, 6.9% in 2022 and 6.4% in 2023. The Consumer Price Index (CPI) is estimated to rise 2.0% per year in 2020, and 2.1% in both 2022 and 2023, after increasing 1.2% in 2020.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to contract 6.1% in 2021, before growing 0.2% in 2022 and 1.4% in 2023, after rising 4.9% in 2020. Wage and salary employment is predicted to increase 2.4% during 2021, 2.1% in 2022, and 1.5% in 2023, after falling 9.5% in 2020.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2019-20 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$24.8 billion, up 0.6% from FY 2018-19, reflecting a less-than-expected economic decline related to the COVID-19 pandemic that boosted tax revenue, especially from individual income tax withholding, the sales tax and the use tax, less-than-expected refunds under the Michigan Business Tax (MBT), and a sizeable accounting adjustment under the Insurance Tax. Combined FY 2019-20 GF/GP and SAF revenue is \$810.9 million above the August 2020 consensus estimate.

In FY 2020-21, GF/GP and SAF revenue will total an estimated \$23.6 billion, a 4.8% decrease from FY 2019-20 but \$602.8 million above the August 2020 consensus estimate. General Fund/General Purpose revenue will total an estimated \$9.7 billion, a 10.0% decline from FY 2019-20 that reflects declines in COVID-19-related stimulus from the Federal government and larger earmarks of individual income tax revenue to the Michigan Transportation Fund (MTF). School Aid Fund revenue will decline to an estimated \$13.9 billion, a 0.7% decrease that reflects the decline in COVID-19-related stimulus being partially offset by additional State and Federal policy changes that have increased revenue from online sales.

In FY 2021-22, GF/GP and SAF revenue will total an estimated \$24.4 billion, a 3.3% increase from FY 2020-21 and \$30.4 million less than the August 2020 consensus estimate. General Fund/General Purpose revenue will total an estimated \$10.2 billion, a 5.1% increase from FY 2020-21 that reflects stable earmarks of individual income tax revenue to the MTF and income and employment growth in both the national and State economy. School Aid Fund revenue will rise to an estimated \$14.2 billion, a 2.0% increase.

In FY 2022-23, GF/GP and SAF revenue will total an estimated \$24.9 billion. This initial estimate for FY 2022-23 is 2.2% above the revised estimate for FY 2021-22. Continued economic growth and fewer MBT credits will allow GF/GP revenue to grow 2.3%, to \$10.5 billion. School Aid Fund revenue will rise to an estimated \$14.5 billion, a 2.1% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 28, 2020, the Senate Fiscal Agency (SFA) is estimating that the FY 2019-20 GF/GP budget will close the fiscal year with a \$2.5 billion balance. The SFA estimates that the FY 2019-20 SAF budget will close the fiscal year with a \$1.2 billion balance.

A comparison of the SFA's FY 2020-21 revenue estimates with enacted and projected appropriations leads to an \$1.1 billion GF/GP year-end balance. The SFA estimates that the FY 2020-21 SAF budget will end the year with an \$830.1 million balance.

Looking ahead at the FY 2021-22 budget, there is a projected GF/GP balance of \$296.5 million if the SFA's FY 2021-22 GF/GP revenue estimate is compared with FY 2021-22 GF/GP estimated expenditures that freeze initial ongoing spending at the FY 2020-21 level; include the projected year-end balance of \$1.1 billion from FY 2020-21; include \$150.0 million of projected savings from changes to the Federal share of Medicaid caseload and costs; \$146.0 million of GF/GP backfill of one-time Federal Coronavirus dollars; \$23.0 million of increased costs from the DHHS audit findings; and include increases for employee economics, State Building Authority rent, and other baseline adjustments. If the SFA's FY 2021-22 SAF revenue estimate is compared with the FY 2021-22 SAF estimated continuation expenditures adjusted for changes in estimated pupils and other costs, the projected SAF surplus is \$748.5 million.

The FY 2019-20 estimated ending balances may change when the State's book-closing process is completed, and the final comprehensive annual financial report (CAFR) is published. If the FY 2019-20 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 2020-21, the ending balances for FYs 2020-21 and 2021-22 could be improved or worsened.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)					
	2019 Actual	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Real Gross Domestic Product (% change)	2.2%	(3.6%)	3.0%	2.4%	2.4%
US Consumer Price Index (% change)	1.8%	1.2%	2.0%	2.1%	2.1%
Light Motor Vehicle Sales (millions of units)	17.0	14.5	15.9	16.1	16.0
US Unemployment Rate (%)	3.7%	8.1%	7.1%	6.9%	6.4%
Real Michigan Personal Income (% change)	1.7%	4.9%	(6.1%)	0.2%	1.4%
Michigan Wage & Salary Employment (% change)	0.3%	(9.5%)	2.4%	2.1%	1.5%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (millions of dollars)									
	FY 2020-21 Estimate			FY 2021-22 Estimate			FY 2022-23 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
	GF/GP	\$11,079.6	(\$1,357.1)	\$9,722.5	\$11,442.8	(\$1,228.8)	\$10,214.0	\$11,788.3	(\$1,335.4)
% Change	(7.5%)	---	(10.0%)	3.3%	---	5.1%	3.0%	---	2.3%
School Aid Fund	\$13,945.2	(26.3)	\$13,918.9	\$14,135.4	66.2	\$14,201.6	\$14,439.3	54.1	\$14,493.4
% Change	(1.1%)	---	(0.7%)	1.4%	---	2.0%	2.2%	---	2.1%
Total GF/GP & SAF	\$25,024.8	(\$1,383.4)	\$23,641.4	\$25,578.2	(\$1,162.6)	\$24,415.6	\$26,227.5	(\$1,281.3)	\$24,946.2
% Change	(4.0%)	---	(4.8%)	2.2%	---	3.3%	2.5%	---	2.2%
Revenue Limit – Under (Over)	\$14,095.2			\$14,843.2			\$12,706.7		
	<u>FY 2019-20 Estimate</u>			<u>FY 2020-21 Estimate</u>			<u>FY 2021-22 Estimate</u>		
Revision from August Consensus									
GF/GP	\$510.7			\$185.8			(\$178.5)		
SAF	<u>300.2</u>			<u>417.0</u>			<u>148.1</u>		
Total	\$810.9			\$602.8			(\$30.4)		

YEAR-END BALANCE ESTIMATES (Fiscal Year, millions of dollars)			
	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate
General Fund/General Purpose.....	\$2,521.6	\$1,080.9	\$296.5
School Aid Fund	1,189.6	830.1	748.5
Budget Stabilization Fund (with enacted deposits).....	820.3	873.6	892.0

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2021, 2022, and 2023, as well as a summary of recent economic activity.

RECENT US ECONOMIC HIGHLIGHTS

The longest economic expansion on record, based on the National Bureau of Economic Research dating recessions as far back as December 1854, ended in first quarter of 2020, as inflation-adjusted GDP declined 5.0%. While a single quarter of decline would not mark the end of an expansion period, the economic disruption associated with COVID-19 resulted in 31.4% decline (at an annual rate) during the second quarter of 2020, the largest single quarter decline in quarterly records going back to 1947. Two consecutive quarters of decline in inflation-adjusted GDP generally is considered sufficient to mark a recession. While the third quarter of 2020 exhibited growth at a 33.1% annual rate, the 10.1% decline in inflation-adjusted GDP between the fourth quarter of 2019 and the second quarter of 2020 exceeds the peak-to-trough decline of any recession since at least World War II. (The 2008-2009 recession represents the second largest peak-to-trough decline in inflation-adjusted GDP, with a 4.0% drop.)

While at the time, the 2008-2009 recession represented the most severe economic contraction in more than 70 years, the years following the 2008-2009 recession also represented the weakest recovery experienced during that time, with the most recent recovery being less than half as strong as the average of other long recoveries ([Figure 1](#)). The economy averaged only 2.2% annual growth during the expansion, compared with an average of 3.8% annual growth over the longest recoveries since World War II (42 quarters after the end of the 1961, 1982, and 1991 recessions). Most of the weakness during the recovery reflected particularly slow growth in personal consumption spending (which generally has accounted for two-thirds of economic activity) through the first quarter of 2014, combined with flat-to-declining activity in the government sector ([Figure 2](#)).

The weak recovery from the 2008-09 recession meant that, despite the record-setting duration, the US economy was more likely to see the expansions gains erased quickly. By the second quarter of 2020, the recessionary effects of the COVID-19 pandemic on inflation-adjusted GDP erased all of the growth experienced since the first quarter of 2015. Similarly, while total employment increased by 20.7 million jobs between the employment trough in December 2009 and February 2020, between February and April of 2020, total employment declined by 25.4 million jobs—more than wiping out all of the employment gains of the preceding 20 years and returning employment to levels not experienced since June 1999—before the 2001 recession. For economic variables, such as housing starts and industrial production, that had yet to recover to pre-recession peaks before the 2008-2009 recession, the current recession will further delay any recovery.

The economic contraction associated with COVID-19 has been rapid and global. For many economic variables, the changes already have been of unprecedented magnitudes—even compared to the changes over the duration of entire recessions that have occurred previously. While the reduction in inflation-adjusted GDP in the second quarter of 2020 ranks as the most significant quarterly decline since before World War II, even the decline in the first quarter of 2020 ranks as the eighth largest ([Figure 3](#)). In comparison, the 1957-58 recession exhibited declines at an annual rate of 4.1% in the fourth quarter of 1957 and 10.0% in the first quarter of 1958, reflecting the second wave of the H2N2 flu pandemic, represent the 14th and second most significant quarterly declines in inflation-adjusted GDP.

Figure 1

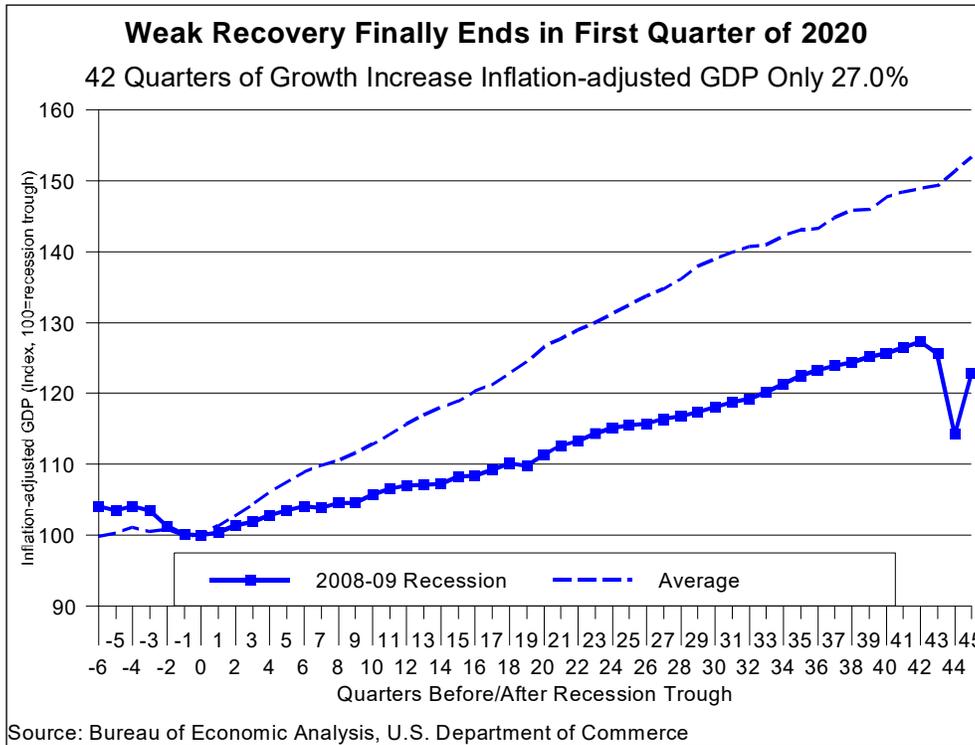


Figure 2

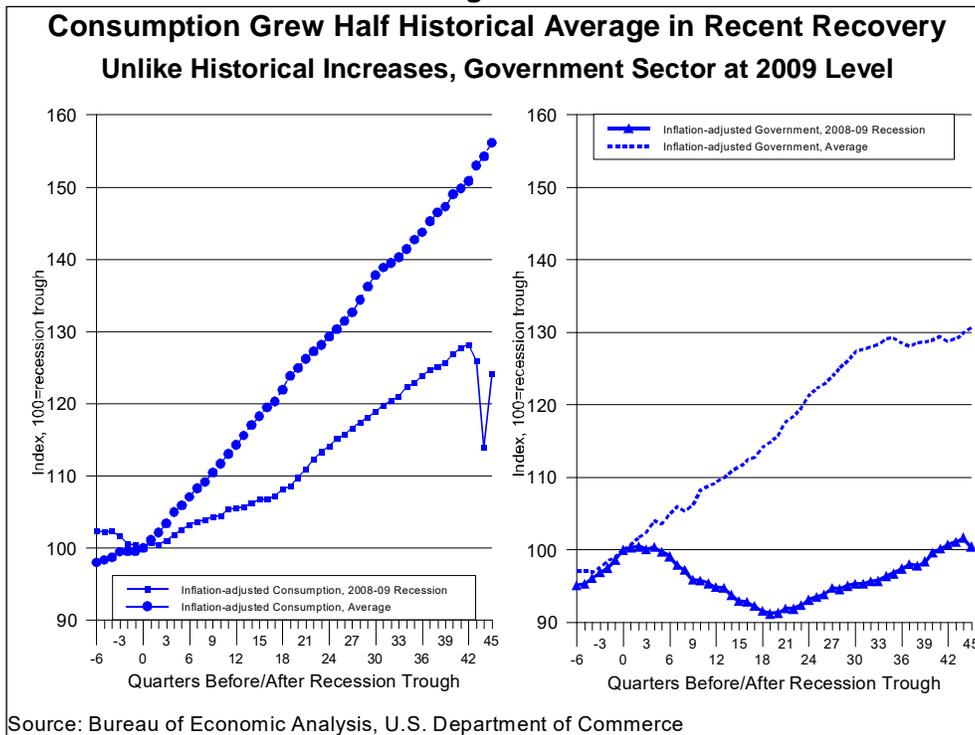
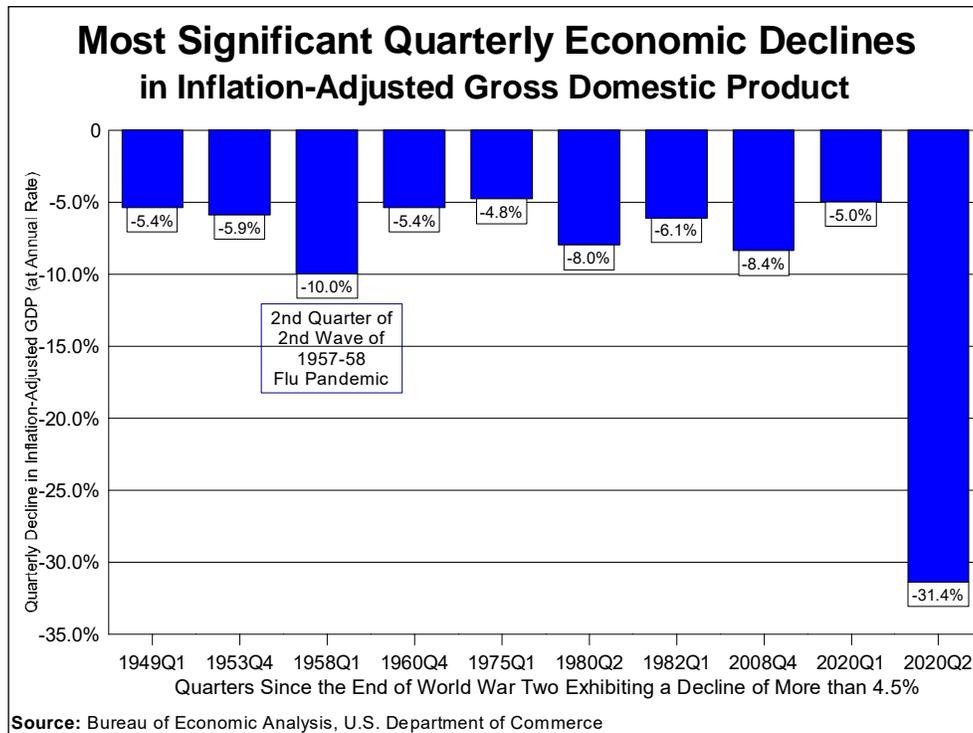


Figure 3



Job losses associated with the COVID-19 pandemic were significant and employment remains well below the pre-recession peak. The loss of 22.2 million payroll employment jobs (as opposed to total employment, which also includes self-employed workers and agricultural workers) between February and April 2020 not only erased nearly all of the 22.8 million payroll jobs created since February 2010 (the employment trough from the 2008-09 recession), but is almost three times the record-setting employment decline experienced during the 2008-09 recession ([Figure 4](#)). Similarly, the rapid onset of these substantial changes also is unprecedented, as illustrated by initial claims for unemployment insurance ([Figure 5](#)). Job losses associated with COVID-19 have pushed the April 2020 unemployment rate to an all-time post-World War II record high of 14.7%. The previous record was 10.8% in November and December 1982 ([Figure 6](#)). Since April 2020, payroll employment has grown, although the growth rate has consistently declined since June 2020, and as of November 2020 was still 6.5% below the February level.

Figure 4

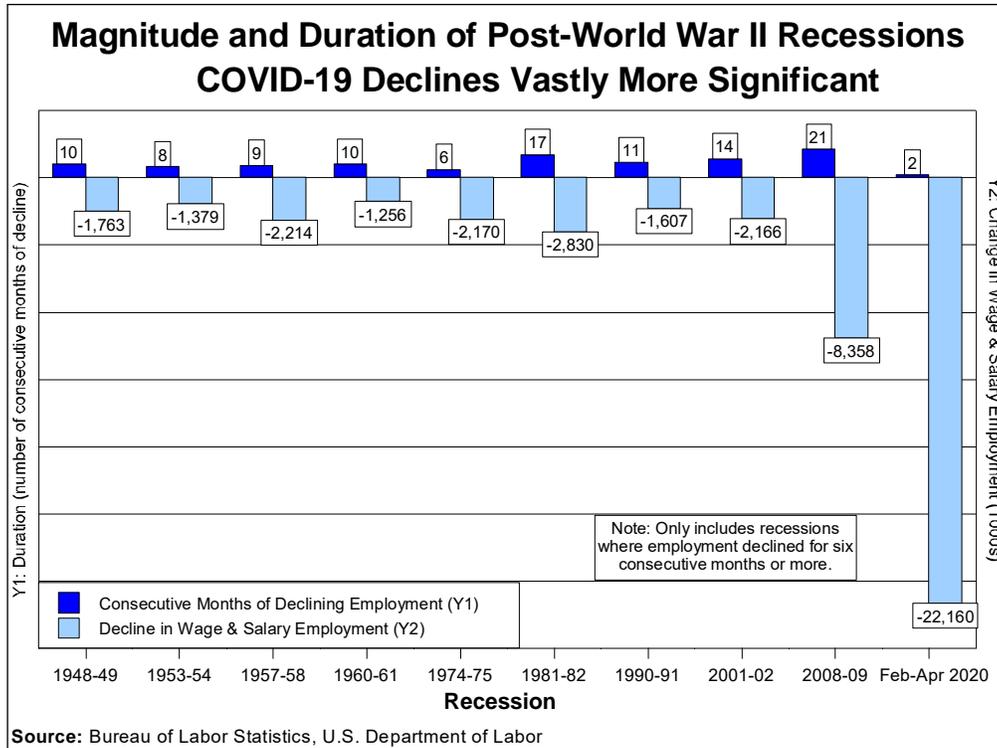


Figure 5

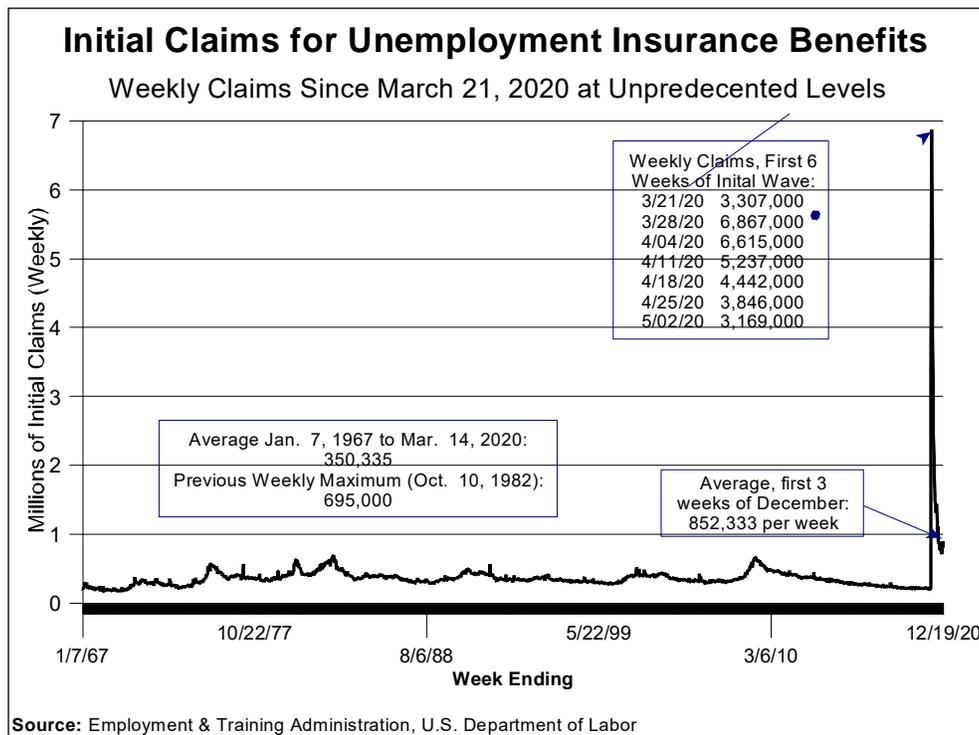
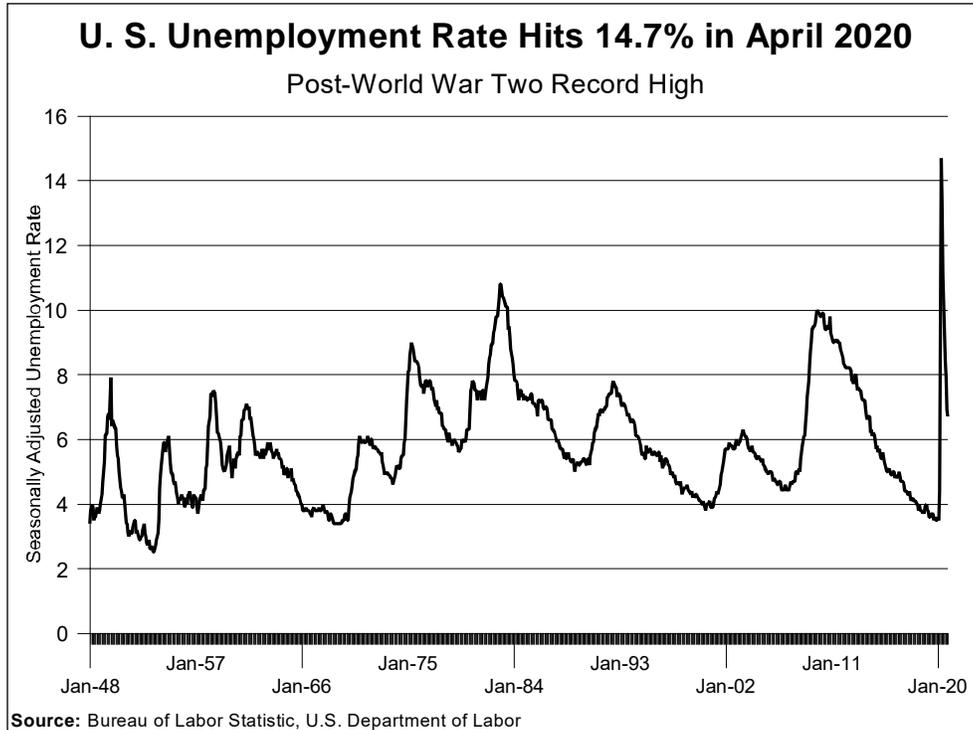


Figure 6



The impact of COVID-19 has lowered economic activity across a wide variety of sectors. Industrial production in the manufacturing sector, which had not yet recovered to pre-2008 recession peaks before the COVID pandemic, fell to the lowest level since December 1997 in April 2020, and as of November 2020 was still 3.7% below the level in December 2019 (Figure 7). The decline in manufacturing has not just been on the output side, with both employment and new orders contracting substantially in April 2020, despite a slowdown that had started in August 2019. While new orders have been improving since June 2020, with the exception of October 2020, employment has remained in a contractionary range (Figure 8). While the nonmanufacturing sector exhibited a slowing expansion during the year before the COVID-19 pandemic, and the sector contracted significantly during April and May of 2020, the sector has generally been expanding since May. However, employment in non-manufacturing has been slow to recover and did not exhibit expansion until September. Among nonmanufacturing services most substantially affected by COVID-19, the travel/transportation, hospitality, and food services (i.e. restaurants) sectors have experienced the most substantial declines (Figure 9). The COVID-19-related declines in activity (whether in states that imposed lockdowns, issued stay-at-home orders, or states that did some or none of these actions) have been substantial, and at various points of the year have represented year-over-year declines in activity of between 90% and 100%. While many sectors have improved from activity levels earlier in the year, most service sectors remain substantially below year-ago levels and, as of December, national activity in major service sectors remained at levels down approximately 60% from December 2019. Retail sales also exhibited the first year-over-year decline since the 2008-09 recession in March 2020 and did not exhibit year-over-year growth until June 2020, helped by a strong rebound in light vehicle sales (Figures 10 and 11).

Figure 7

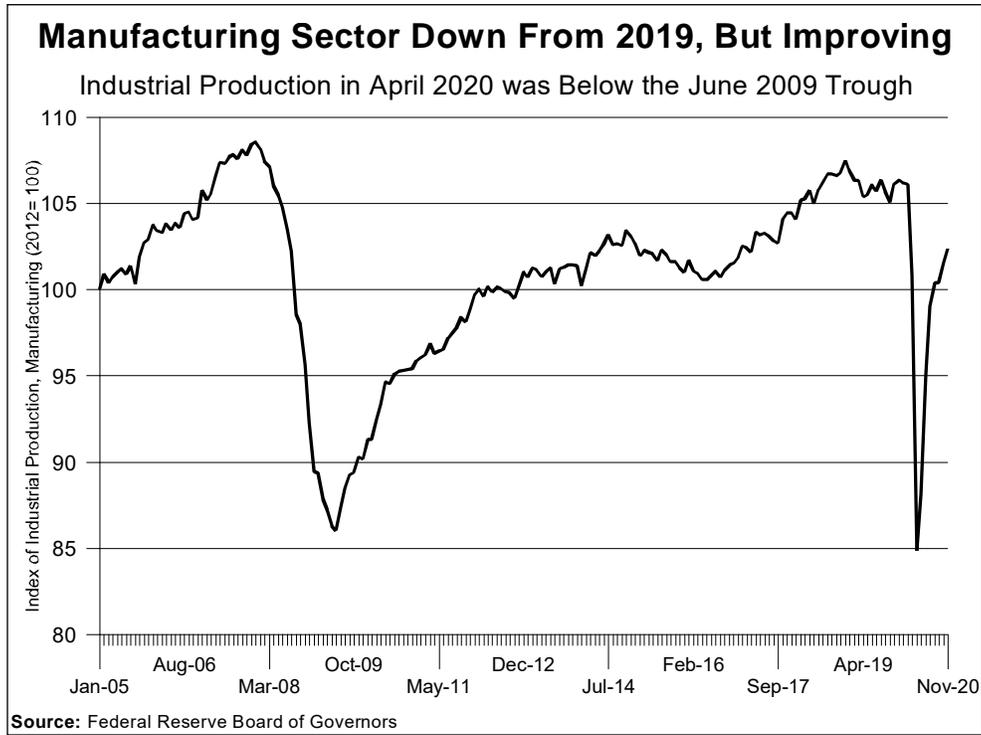


Figure 8

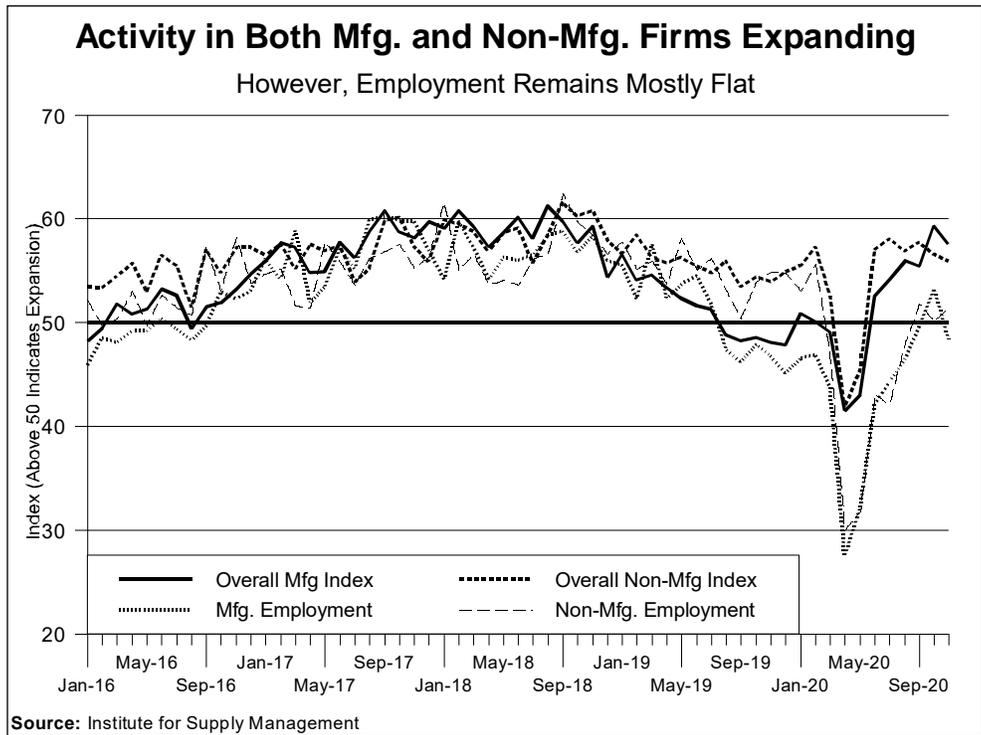


Figure 9

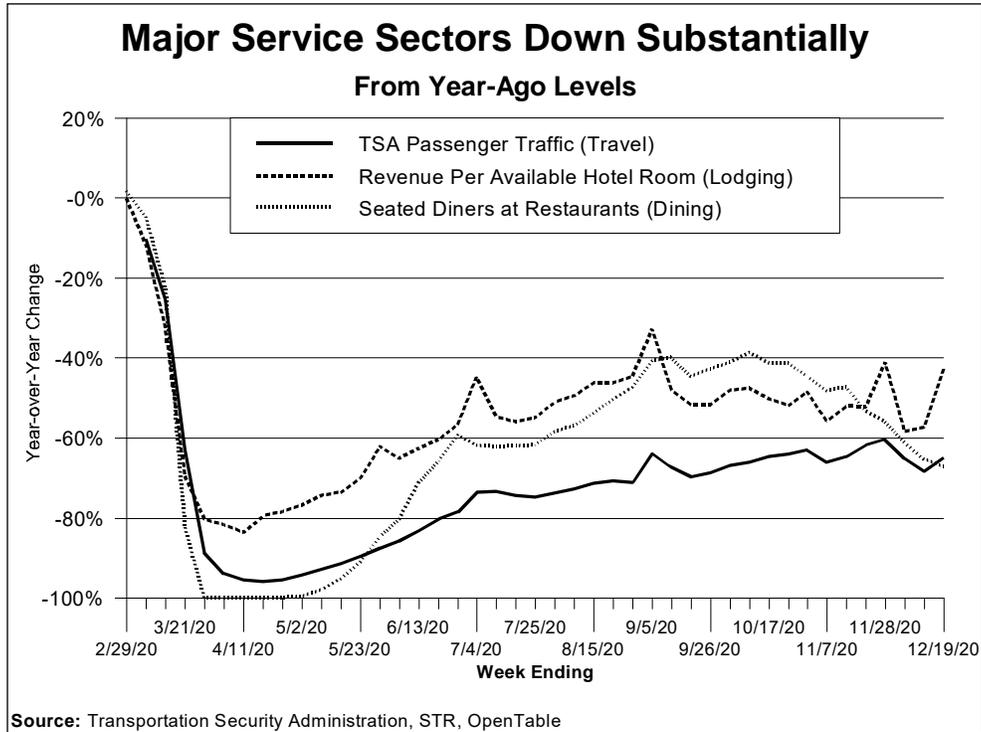
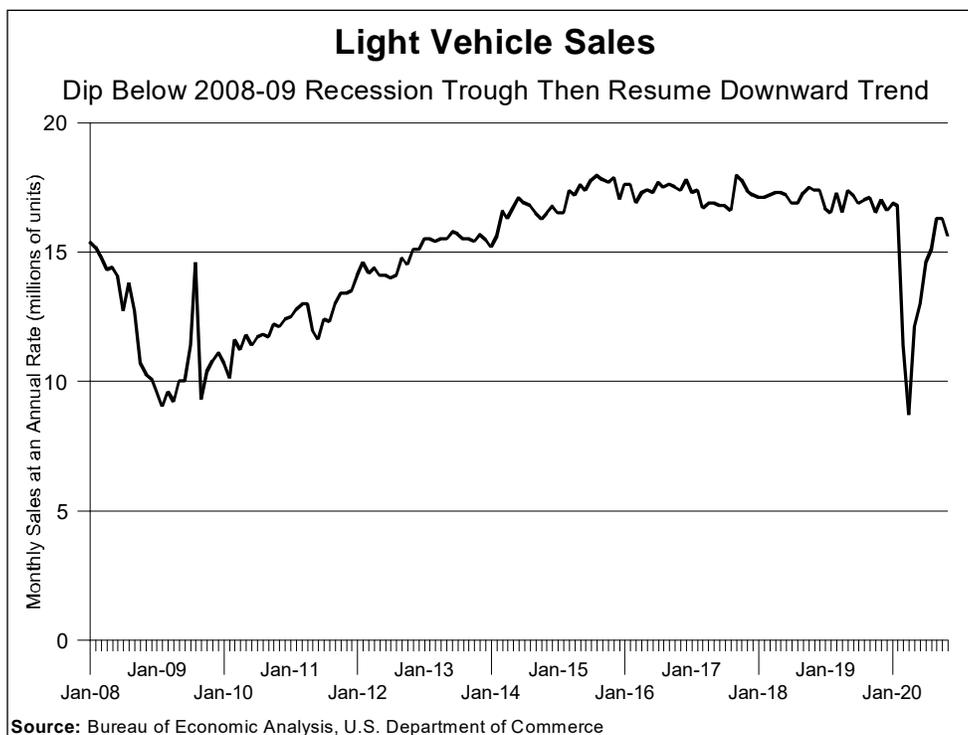


Figure 10



Figure 11



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 was 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 helped Michigan's economic situation. Manufacturing employment in Michigan rose 46.1% between June 2009, when the US recession ended, and December 2019, although most of the growth occurred before 2015. The increases largely reflected the 76.4% growth in employment in the transportation equipment manufacturing sector. Despite the gains since 2009, Michigan payroll employment remains below the June 2000 peak, with the most recent peak in February 2020 still down 230,000 jobs from June 2000 (but up 633,800 jobs from the July 2009 Michigan employment trough). Employment gains since 2009 helped the Michigan unemployment rate decline from a high of 14.9% in June 2009 to 3.6% in February 2020, the lowest level since May 2000.

The impact of COVID-19 on the Michigan economy was, and continues to be, substantial. Between February 2020 and April 2020, Michigan payroll employment declined by 23.8%, or approximately 1.1 million jobs. As of November 2020, payroll employment in Michigan was up 622,700 jobs from the April

2020 trough, but was still 9.8% below the level in February 2020 and roughly on par with the level in May 2012. The rapid recovery in motor vehicle sales at the national level has helped Michigan's employment levels recover more rapidly than any other states. Michigan's disproportionate participation in a variety of Federal stimulus programs, such as the Federal workshare program, also helped reduce COVID-19-related losses to personal income in Michigan and thus helped maintain consumption and employment at higher levels than would have otherwise occurred.

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

FORECAST SUMMARY

During 2021, both the US and Michigan economies are expected to continue to recover from the COVID-19-induced recession in 2020. Both the US and Michigan economies are expected to exhibit growth during 2022 and 2023, although 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 fall 3.6% in 2020, compared to a 2.2% increase during 2019. Inflation-adjusted GDP will expand 3.0% during 2021 and 2.4% in both 2022 and 2023. The recession during 2020 reflects both the impact of COVID-19 disruptions as well as factors that were causing the economy to slow even before the pandemic began. The expansion in 2021 and 2022 primarily reflects stable consumption growth and business investment that will more than offset reduced government spending, and relatively flat housing starts, light vehicle sales, and net trade position (exports minus imports).

Employment gains over the forecast period will be muted. Although productivity growth during 2020 was at the highest level since 2010, and is expected to remain relatively high during 2021, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replace labor with capital, and build upon new modes of goods and service delivery developed in response to COVID-19-related constraints. As a result, payroll employment will average about 1.5% annual growth (slower than every year between 2012 and 2018), and the US unemployment rate is expected to rise from 3.7% during 2019 to 8.1% in 2020, before declining to 7.1% in 2021, 6.9% in 2022 and 6.4% in 2023. Nationally, while inflation-adjusted GDP is expected to recover to prerecession peaks by the first half of 2022, payroll employment is not expected to recover to prerecession peaks until early 2024.

The recession is predicted to depress prices and restrain wage growth, minimizing inflation risks over the forecast period. After increasing 1.8% in 2019, the US CPI is anticipated to have increased 1.2% in 2020 and will rise by 2.0% in 2021 and 2.1% in both 2022 and 2023.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST					
(Calendar Years)					
	2019	2020	2021	2022	2023
	Actual	Estimate	Estimate	Estimate	Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	4.0%	(2.5%)	4.4%	4.2%	4.1%
Inflation-Adjusted GDP (year-to-year growth)	2.2%	(3.6%)	3.0%	2.4%	2.4%
Unemployment Rate	3.7%	8.1%	7.1%	6.9%	6.4%
Inflation					
Consumer Price Index (year-to-year growth)	1.8%	1.2%	2.0%	2.1%	2.1%
GDP Implicit Price Deflator (yr.-to-yr. growth)	1.8%	1.1%	1.4%	1.7%	1.8%
Interest Rates					
90-day Treasury Bill	2.06%	0.37%	0.10%	0.10%	0.10%
10-year Treasury Bill	2.14%	0.88%	1.04%	1.28%	1.48%
Corporate Aaa Bond	3.39%	2.50%	2.57%	2.62%	2.69%
Federal Funds Rate	2.16%	0.38%	0.11%	0.12%	0.12%
Light Motor Vehicle Sales (millions of units)					
Auto	4.7	3.4	3.4	3.2	3.0
Truck	12.2	11.0	12.4	12.9	12.9
Import Share	22.4%	22.4%	21.6%	21.7%	21.8%
<u>Michigan</u>					
Personal Income (millions)	\$491,632	\$521,201	\$500,859	\$512,456	\$531,719
Year-to-year growth	3.1%	6.0%	(3.9%)	2.3%	3.8%
Inflation-Adjusted Personal Income					
(year-to-year growth)	1.7%	4.9%	(6.1%)	0.2%	1.4%
Wage & Salary Income (millions)					
Year-to-year growth	\$246,831	\$235,101	\$236,726	\$247,229	\$254,912
	2.6%	(4.8%)	0.7%	4.4%	3.1%
Detroit Consumer Price Index					
(year-to-year growth)	1.3%	1.0%	2.4%	2.1%	2.3%
Wage & Salary Employment (thousands)					
Year-to-year growth	4,432.6	4,011.5	4,106.2	4,191.2	4,254.2
	0.3%	(9.5%)	2.4%	2.1%	1.5%
Unemployment Rate	4.1%	9.8%	7.3%	6.6%	5.8%

Table 2

THE SENATE FISCAL AGENCY US ECONOMIC FORECAST DETAIL (Calendar Years)					
	2019 Actual	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Gross Domestic Product (billions of dollars)	\$21,433.2	\$20,896.8	\$21,817.5	\$22,735.5	\$23,677.9
Year-to-year growth	4.0%	(2.5%)	4.4%	4.2%	4.1%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2012 dollars)	\$19,091.7	\$18,404.5	\$18,960.0	\$19,422.1	\$19,878.9
Year-to-year growth	2.2%	(3.6%)	3.0%	2.4%	2.4%
Consumption (billions of 2012 dollars)	\$13,240.2	\$12,735.6	\$13,281.7	\$13,623.7	\$13,977.8
Year-to-year growth	2.4%	(3.8%)	4.3%	2.6%	2.6%
Business Fixed Investment (billions of 2012 dollars)	\$2,776.8	\$2,651.9	\$2,790.4	\$2,938.1	\$3,054.8
Year-to-year growth	2.9%	(4.5%)	5.2%	5.3%	4.0%
Change in Business Inventories (billions of 2012 dollars)	\$48.5	(\$97.8)	\$39.0	\$55.9	\$49.3
Residential Investment (billions of 2012 dollars)	\$601.5	\$626.5	\$672.4	\$677.4	\$645.1
Year-to-year growth	(1.7%)	4.2%	7.3%	0.7%	(4.8%)
Government Spending (billions of 2012 dollars)	\$3,303.9	\$3,336.9	\$3,151.5	\$3,124.0	\$3,158.9
Year-to-year growth	2.3%	1.0%	(5.6%)	(0.9%)	1.1%
Net Exports (billions of 2012 dollars)	(\$917.6)	(\$900.3)	(\$1,034.7)	(\$1,045.9)	(\$1,033.4)
Exports (billions of 2012 dollars)	\$2,546.6	\$2,205.7	\$2,390.1	\$2,532.6	\$2,610.9
Imports (billions of 2012 dollars)	\$3,464.2	\$3,106.0	\$3,424.7	\$3,578.5	\$3,644.3
Personal Income (year-to-year growth)	3.9%	6.0%	(0.8%)	2.2%	4.8%
Adjusted for Inflation	2.1%	4.8%	(2.8%)	0.1%	2.6%
Wage & Salary Income (year-to-year growth)	4.7%	(0.0%)	2.3%	3.9%	4.2%
Personal Savings Rate	7.5%	16.0%	10.1%	7.7%	8.0%
Output per hour (Labor productivity, annual growth)	1.7%	2.8%	2.3%	1.1%	0.5%
Unit labor costs (annual growth)	1.9%	3.0%	(1.2%)	1.1%	1.9%
Housing Starts (millions of units)	1.290	1.360	1.365	1.373	1.380
Conventional Mortgage Rates	3.9%	3.1%	2.9%	3.0%	3.2%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$1,047.0)	(\$2,905.5)	(\$2,042.5)	(\$1,522.0)	(\$1,489.2)

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 12 and 13). After having increased 1.7% in 2019, inflation-adjusted personal income is projected to increase 4.9% in 2020, reflecting the impact of Federal stimulus efforts. With most stimulus exhausted by 2021, but employment levels well below prerecession peaks, inflation-adjusted personal income is expected to fall 6.1% in 2021, before rising 0.2% in 2022 and 1.4% in 2023. Payroll employment increased 0.3% during 2019, but is expected to have declined 9.5% in 2020. The forecast predicts payroll employment will increase 2.4% in 2021, 2.1% in 2022 and 1.5% in 2023. Nationally, light vehicle sales are expected to have decreased from 17.0 million units in 2019 to 14.5 million units in 2020, but will rise to 15.9 million units in 2021, 16.1 million units in 2022, and 16.0 million units in 2020 (Figure 14). The Michigan unemployment rate, which averaged 4.1% during 2019, is forecasted to average 9.8% in 2020 before decreasing to 7.3% in 2021, 6.6% in 2022 and 5.8% in 2023.

Compared with the August 24, 2020, Consensus Economic Forecast, forecasted economic growth at the national level is expected to be slightly greater in 2021, while the Michigan economy will be slightly weaker. Both the US and Michigan economics are expected to exhibit weaker growth in 2022 than was forecasted in August 2020, reflecting the revised forecast which now predicts less of a recession during 2020 and thus a more moderate anticipated recovery path.

Figure 12

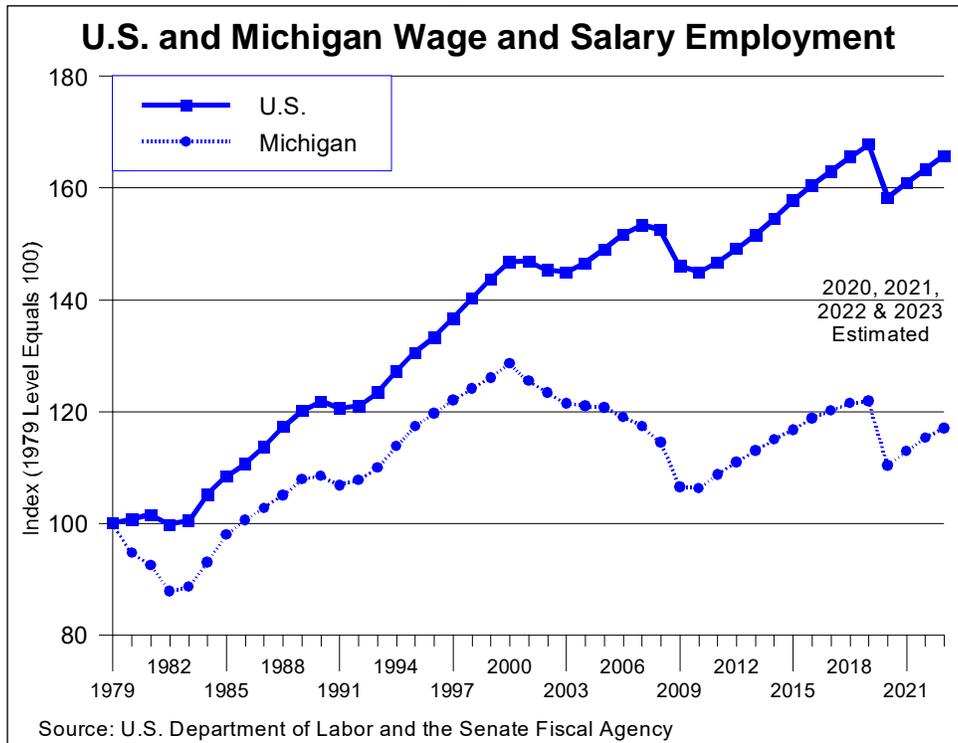


Figure 13

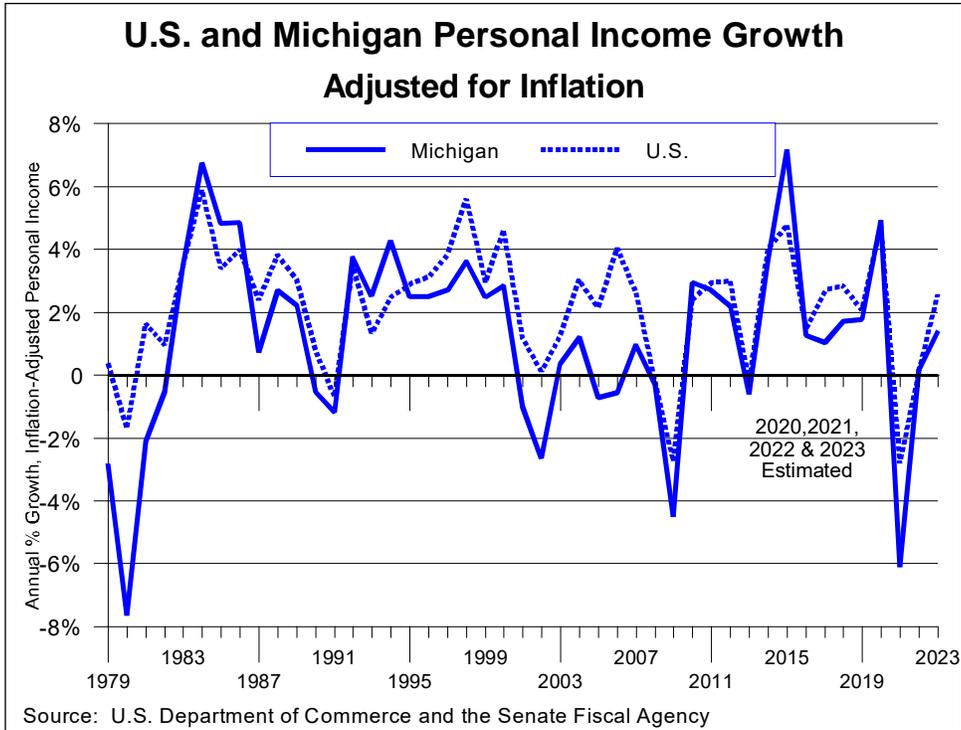
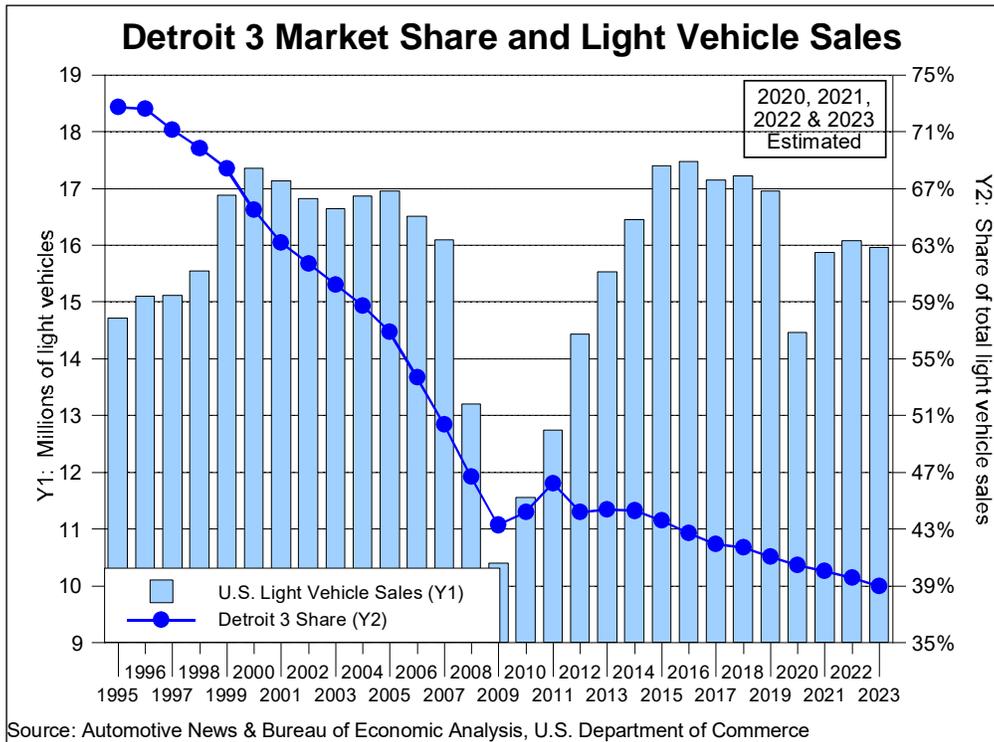


Figure 14



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

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

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

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

The COVID-19-induced recession of 2020 has seen many of these relationships change, sometimes in substantial ways. Even when the relationships have held, some of the changes have resulted in responses of unlikely and/or inconsistent magnitudes ([Figure 15](#)). Finally, the nature of expectations regarding the pandemic have resulted in behaviors not consistent with other recessions. For example, in 2001 and 2008, when Americans received stimulus checks, only about 20% of the money was spent, the rest was either saved (thus funding future consumption) or used to pay down debt. In contrast, current estimates suggest that somewhere between 60% and 75% of the 2020 payments were spent. Unlike most previous recessions, supply constraints played a major role in the slowdown. In 2020, the traditional relationship between spending and employment did not even move in the same direction. For example, during the 2008-09 recession, retail sales fell 10.1% between the beginning of the recession in December 2007 and the end of the recession in June 2009, while payroll employment fell 5.3%. In contrast, payroll employment in November 2020 is down 6.5% from February 2020, while retail sales are up 6.8%.

The changed relationships between economic variables during 2020 not only increases the risks regarding the economic forecast, but for the revenue forecast presented in the next section. For example, in Michigan payroll employment fell 23.8% between February 2020 and April 2020 and sales tax revenue fell 27.3%, yet individual income tax withholding rose 2.3%. Although payroll employment has slowly recovered between April 2020 and November 2020, it remains down an average of 10.3% from year-ago levels—while sales tax revenue has averaged 1.3% growth from year-ago levels (Figure 16). While lower energy prices led to lower severance tax revenues, and decreased sales led to lower Corporate Income Tax payments, some months have resulted in record setting collections for withholding, use tax, and sales tax on motor vehicles—despite substantial declines in employment. The revenue forecast essentially assumes that taxes return to their more traditional relationships with underlying economic variables. As illustrated with FY 2019-20 revenue, to the extent that this assumption is not correct, it can change the revenue forecast by hundreds of millions of dollars, or even by billions of dollars. The economic changes forecasted at the May 2020 Consensus Revenue Estimating Conference (CREC) were largely correct, yet the \$3.2 billion negative revision to revenue for FY 2019-20 had to be revised upward by \$2.3 billion in August 2020 because the traditional relationships between key economic variables and major taxes had not held.

Recoveries from recessions like the 2008-09 recession, which was caused by a crisis within the financial system, often take longer than traditional recoveries 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. In contrast, after the 1957-58 recession, which reflected the most recent pandemic in US history to have a significant economic impact, the economy recovered relatively quickly, with inflation-adjusted GDP surpassing the prerecession peak after just three quarters of growth. The current COVID-19-induced recession is not expected to result in a rapid recovery. Before COVID-19, the economy was exhibiting numerous signs of slowing and the corresponding restructuring of business activity. The pandemic, and the resulting technological changes many firms have implemented, are expected to fundamentally alter the need for some employees once the pandemic is no longer a concern. Additionally, the economy of 1958 was far more manufacturing-intensive, and services have suffered greater declines from COVID-19.

Figure 15

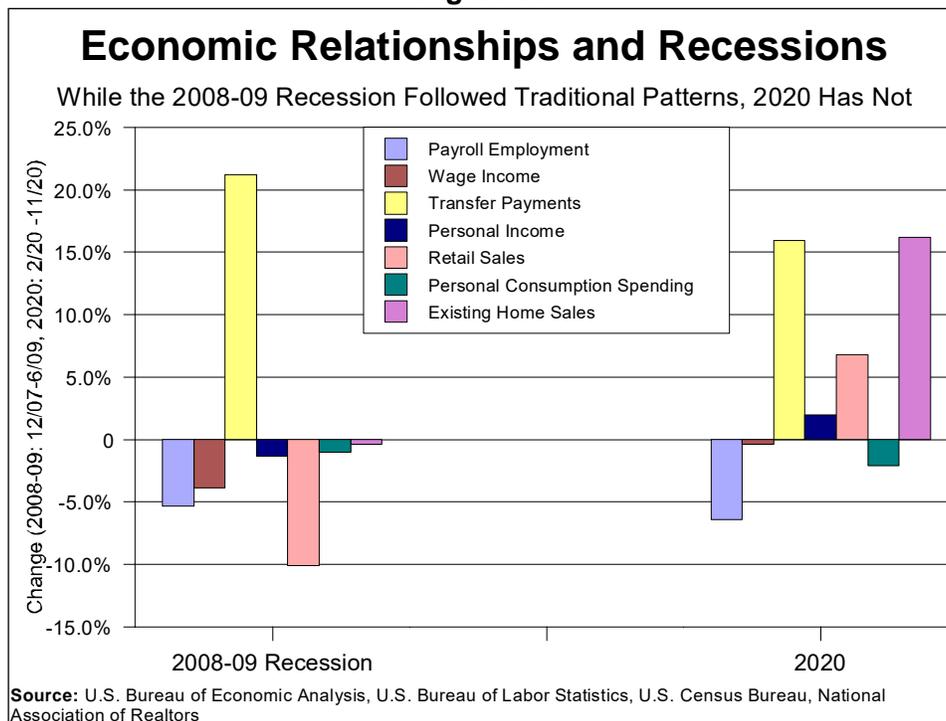
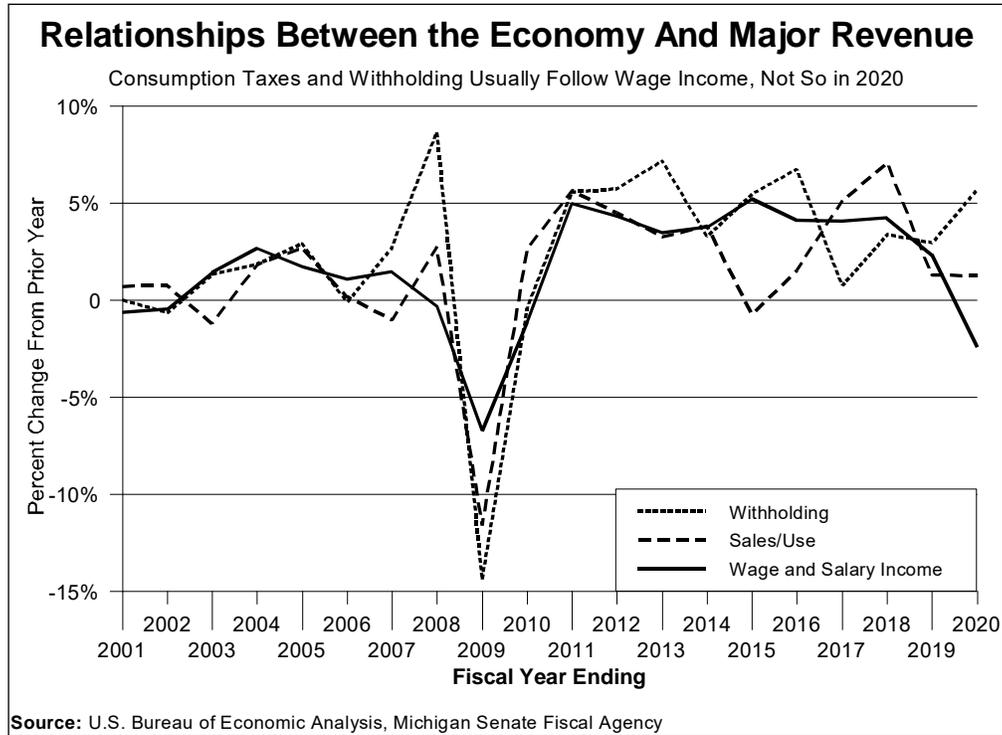


Figure 16



Monetary and Fiscal Policy. Changes in Federal tax policy since 2017 and subsequent growth in Federal spending increased Federal deficits to 5.6% of GDP in 2019, limiting the ability for fiscal policy to respond to any recession. Before the emergence of the COVID-19 pandemic, the economy had exhibited warning signs of a recession, which 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). Much of the May 2019 through October 2019 period was characterized by an inverted yield curve, as was much of February 2020, suggesting the economy was at risk of contraction. As a result of numerous signs warning of a slowdown, the Federal Reserve Board of Governors lowered interest rates three times during 2019. These interest rate reductions occurred in an already low interest rate environment, meaning that like Federal fiscal policy, monetary policy entered 2020 facing a more limited ability to respond to a recessionary shock.

After the economy began suffering impacts from the spread of COVID-19, both Federal fiscal and monetary policy began taking steps to provide economic stimulus. Many of the initiatives, ranging from supplemental unemployment benefits and stimulus checks to special lending facilities from the Federal Reserve Bank, were constructed to reduce economic disruptions associated with COVID-19. While the stimulus measures appear to have been quite effective at maintaining aggregate income levels, and to some degree consumption spending, the fiscal stimulus measures pushed the Federal deficit to 28.9% of GDP in the second quarter of 2020, and 16.6% of GDP in the third quarter.

The forecast does not anticipate any additional Federal fiscal stimulus beyond the stimulus package enacted at the end of December 2020. Monetary stimulus is expected to continue in roughly the same manner and form as exists currently. Interest rates are expected to remain low throughout the forecast, inflation is expected to remain muted. While the Federal budget will remain in deficit, and thus stimulative, state and local governments are expected to experience substantial revenue and budget pressures, resulting in contractionary state and local fiscal policy. To the extent that additional Federal fiscal stimulus is adopted and/or state and local governments are less financially constrained, growth will be stronger than forecasted.

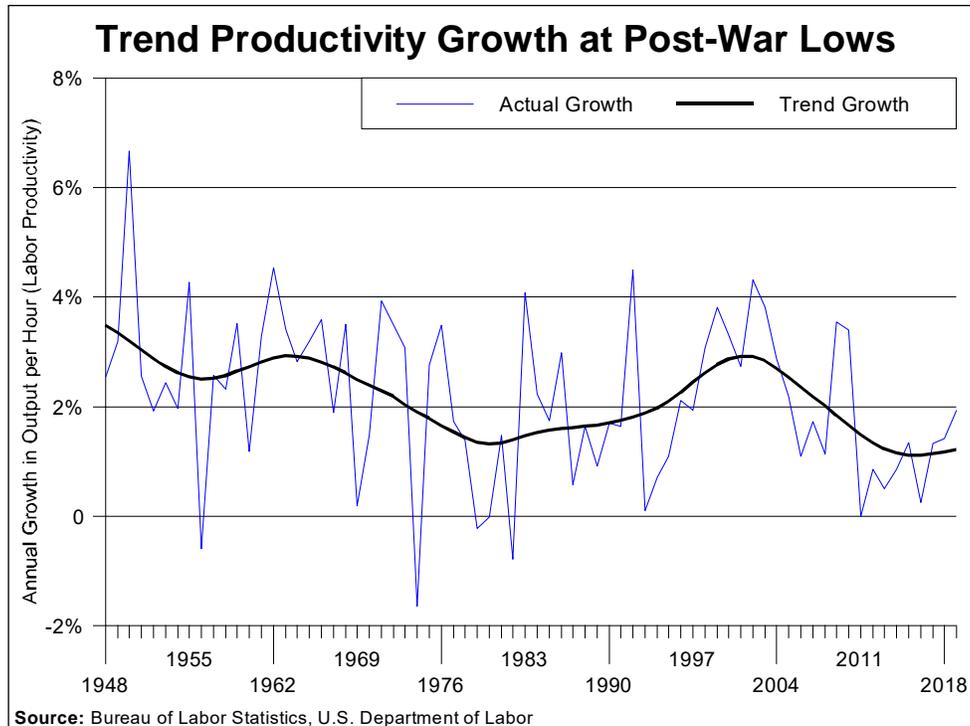
The Labor Market and Long-Term Constraints on Growth. Unemployment rate declines since 2009 have been accelerated by reduced labor market participation, although falling labor force participation rates have played a greater role in lowering the Michigan unemployment rate than in reducing the national unemployment rate. Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals' giving up their search for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that those individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages as the economy continues to recover. A March 2018 study from the Congressional Budget Office projects that population demographics will lower labor force participation by more than three percentage points (i.e., 3% of the population) over the next 10 years. This decline will help lower unemployment rates, but also will make it harder for firms to find the necessary workers, particularly in a growing economy, 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. Furthermore, the vulnerability of older populations to the COVID-19 virus may affect the rate at which some older adults leave (and/or return to) the labor force. Similarly, health risks or fears could substantially alter labor force participation for many others, especially in the near term. Additionally, these individuals also could exercise caution as consumers, thus constraining the recovery from both the perspective of labor supply as well as consumer spending. For example, not only must the individuals who would represent the flight crew on an airline flight or waiter/waitress in a restaurant be willing to face the risks associated with returning to work, but customers must be willing to face any risks associated with contracting COVID-19 while flying or dining out.

Aside from the short-term growth constraints related to COVID-19, low population growth and lower longer-term productivity will constrain the long-term economic growth potential of both the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they produce goods and services. While short-term deviations inevitably occur, especially as a result of variations in labor force participation and the number of unemployed workers, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced 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 2019, this potential or trend growth averaged 1.6% per year.

Nationally, population growth has slowly declined for decades. However, productivity growth since the 2008-09 recession has been much slower than what occurred before the recession. During the 1985-to-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 0.9% growth per year since 2010—the longest and most severe slowdown in productivity experienced since at least World War II (Figure 17). This decline in productivity has occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014. Business investment affects not only current economic growth but also future economic growth because investment is generally associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates.

Figure 17



In 2020 and 2021, productivity growth is expected to rise above the levels of the 2010-2019 period, reflecting business efforts to adapt to the pandemic. This short-term improvement in productivity will also be accompanied by increased investment in personal protection equipment—which is more likely to maintain current production capabilities with fewer workers than it is to generate additional economic growth in future years. If productivity growth is less than forecasted, in the short run it will help the economy recover from any job losses that occur during the current recession but will likely reduce growth in years beyond the forecast. Similarly, if productivity growth is greater than forecast, output will recover to pre-recession levels more rapidly, but employment will take longer to recover.

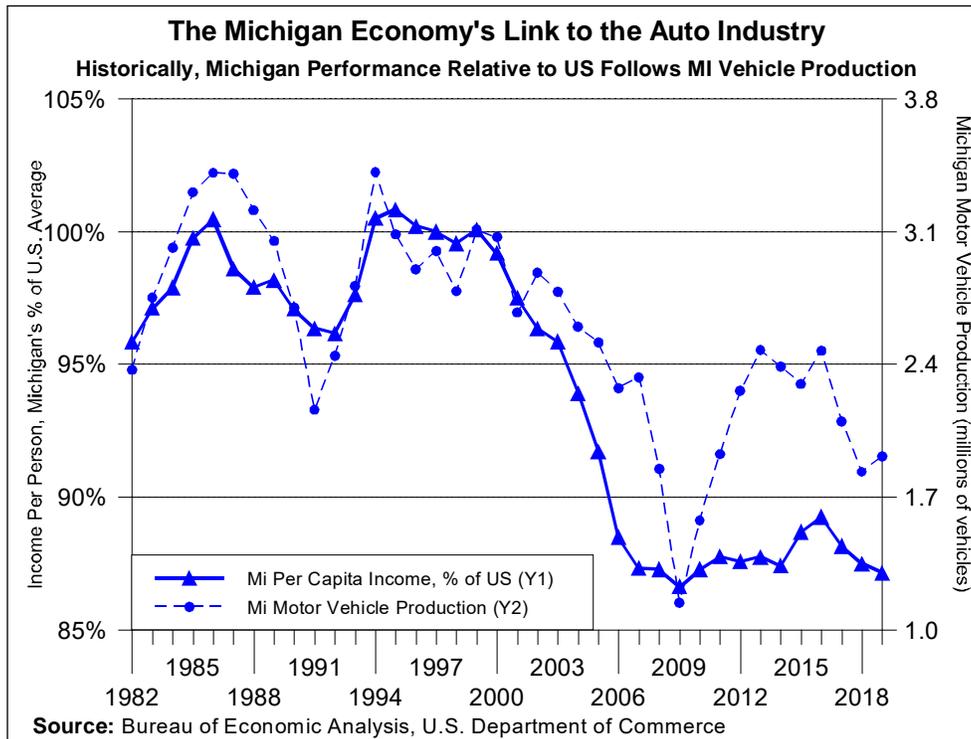
Michigan's Situation. While over the 2000-2009 period Michigan's employment situation fared worse than the national average, and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not particularly inconsistent with other states' when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) experienced weaker job performance during the last 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 18](#)). While that reliance has declined (for example, in 1998 wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 5.6% in 2017), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although with lower oil prices over the last few years, these states have faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 has helped mute the impact of COVID-19 on the Michigan economy.

However, as vehicle sales return to sustainable levels and productivity gains in the motor vehicle sector continue, there is a substantial risk that such production needs can be met with existing, or even lower, employment levels than those at the end of 2019. 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 US 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 2020-2030 decade.

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. For both the Michigan economy and State tax revenue to improve markedly, substantial employment gains in the economy as a whole will need to occur.

Figure 18



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 2019-20 is presented along with the revised estimates for FY 2020-21 and FY 2021-22 and the initial revenue estimates for FY 2022-23. 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 2019-20, FY 2020-21, and FY 2021-22 are discussed in the last section of this report.

In the most recent period, economic variables and consumer behavior have not followed established patterns. For example, while payroll employment was down in 2020, retail sales increased. For a more complete discussion of the risks these factors pose for the revenue forecast, see the discussion of risks in the economics section.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2019-20, along with the revised estimates for FY 2020-21 and FY 2021-22, and the initial estimates for FY 2022-23 are presented in [Table 3](#) and are summarized below.

FY 2019-20 Preliminary Final Revenue

- General Fund/General Purpose and SAF revenue is expected to total \$24.8 billion in FY 2019-20.
- This year-end estimate for FY 2019-20 increased 0.6% or \$153.9 million from the actual revenue for FY 2018-19, reflecting increases in the consumption taxes, income tax withholding, insurance company premiums, and a reduction in the credit payments under the Michigan Business Tax (MBT). These gains were offset mostly by higher individual income tax (IIT) refunds, smaller quarterly and annual income tax payments, and reduced CIT revenue.
- The preliminary final estimate for FY 2019-20 is \$810.9 million above the August 2020 consensus revenue estimate.

FY 2020-21 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$23.6 billion in FY 2020-21.
- This revised estimate for FY 2020-21 is down 4.8%, or \$1,180.8 million, from the preliminary final revenue for FY 2019-20. The projected revenue decrease in FY 2020-21 reflects reductions in nearly all major taxes, partially offset by increases in the State Education Tax (SET) and Real Estate Transfer Tax (RETT).
- The revised estimate for FY 2020-21 is \$602.8 million above the August 2020 consensus revenue estimate.

FY 2021-22 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$24.4 billion in FY 2021-22.
- The revised estimate for FY 2021-22 is up 3.3%, or \$774.2 million, from the revised estimate for FY 2020-21. The revenue increase in FY 2021-22 reflects growth in nearly all major taxes, particularly IIT. Also, 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 in which the earmark will be the same amount as in the previous year.

- The revised estimate for FY 2021-22 is \$30.4 million below the August 2020 consensus revenue estimate.

FY 2022-23 Initial Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total \$24.9 billion in FY 2022-23.
- This initial estimate for FY 2022-23 is 2.2%, or \$530.7 million, more than the revised estimate for FY 2021-22.
- The revenue increase in FY 2022-23 reflects continued growth in sales tax and IIT collections, increased CIT revenue, and a reduction in the credit payments under the MBT, offset in part by increased IIT refunds.

Historical Perspective

- Net GF/GP and SAF revenue is forecast to decrease in FY 2020-21, and then increase in FY 2021-22 and FY 2022-23. The projected growth rates are -4.8% in FY 2020-21, 3.3% in FY 2021-22, and 2.2% in FY 2022-23. 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.
- General Fund/General Purpose revenue rose to its highest level ever in FY 2018-19, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- Final GF/GP revenue from ongoing sources in FY 2019-20 was 40.7% (\$3,128.9 million) above the recent low from FY 2009-10, without adjusting for inflation.
- In FY 2020-21, ongoing GF/GP revenue is forecast to be 12.5% (\$1,393.3 million) below the FY 2018-19 level, but 26.6% (\$2,043.9 million) above the FY 2009-10 level.
- In FY 2021-22, ongoing GF/GP revenue is forecast to be 8.1% (\$901.8 million) below the FY 2018-19 level, but 33.0% (\$2,535.4 million) above the FY 2009-10 level.
- In FY 2022-23, ongoing GF/GP revenue is forecast to be 6.0% (\$663.0 million) below the FY 2018-19 level, but 36.1% (\$2,774.2 million) above the FY 2009-10 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 (PPT) changes. School Aid Fund revenue rose to its highest level ever in FY 2019-20, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.
- Final SAF revenue from ongoing sources in FY 2019-20 was 28.8% (\$3,135.7 million) above the recent low from FY 2011-12, without adjusting for inflation.
- In FY 2020-21, ongoing SAF revenue is forecast to be 0.7% (\$95.7 million) below the FY 2019-20 level, but 27.9% (\$3,040.0 million) above the FY 2011-12 level.
- In FY 2021-22, ongoing SAF revenue is forecast to be 1.3% (\$187.0 million) above the FY 2019-20 level, and 30.5% (\$3,322.7 million) above the FY 2011-12 level.
- In FY 2022-23, ongoing SAF revenue is forecast to be 3.4% (\$478.8 million) above the FY 2019-20 level, and 33.2% (\$3,614.5 million) above the FY 2011-12 level.

Baseline revenue is forecast to decrease in FY 2020-21, and then increase in FY 2021-22 and FY 2022-23. [Figure 19](#) presents the percentage changes in baseline GF/GP and SAF revenue (using the FY 2018-19 base year) from FY 1990-91 through the initial estimate for FY 2022-23. During this 32-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 2.0% in FY 2019-20. Using the FY 2018-19 base year, baseline GF/GP and SAF revenue is expected to decline approximately 3.7% in FY 2020-21, then increase 2.2% in FY 2021-22, and 2.4% in FY 2022-23.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2019-20 THROUGH FY 2022-23 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2019-20 Prelim. Final	FY 2020-21 Revised Est.	FY 2021-22 Revised Est.	FY 2022-23 Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue ¹⁾	\$12,522.8	\$11,740.4	\$12,104.2	\$12,448.6
Tax Changes Not In Baseline	(1,715.3)	(2,018.0)	(1,890.3)	(1,995.8)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	6,857.0	5,926.5	6,320.6	6,360.1
MBT, CIT, SBT & Insur. Tax	1,002.5	902.6	960.4	1,116.2
Other Taxes	2,503.2	2,518.9	2,543.5	2,582.8
Total Taxes	10,362.7	9,348.0	9,824.5	10,059.1
Nontax Revenue	444.8	374.5	389.5	393.7
TOTAL GF/GP REVENUE	\$10,807.5	\$9,722.5	\$10,214.0	\$10,452.8
SCHOOL AID FUND				
Baseline SAF	\$13,883.3	\$13,701.0	\$13,887.4	\$14,177.7
Tax Changes Not In Baseline	131.3	217.9	314.2	315.7
TOTAL SAF REVENUE	\$14,014.6	\$13,918.9	\$14,201.6	\$14,493.4
BASELINE GF/GP AND SAF REVENUE				
	\$26,406.1	\$25,441.4	\$25,991.7	\$26,626.3
Tax & Revenue Changes	(1,584.0)	(1,800.0)	(1,576.1)	(1,680.1)
GF/GP & SAF REV. AFTER CHANGES	\$24,822.1	\$23,641.4	\$24,415.6	\$24,946.2
Sales Tax	\$8,307.7	\$8,401.3	\$8,497.4	\$8,694.5
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	2.3%	(6.2%)	3.1%	2.8%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	(5.5%)	(13.6%)	6.6%	0.6%
MBT, CIT, SBT & Insur. Tax	(1.1)	(10.0)	6.4	16.2
Other Taxes	1.7	0.6	1.0	1.5
Total Taxes	(3.4)	(9.8)	5.1	2.4
Nontax Revenue	14.6	(15.8)	4.0	1.1
TOTAL GF/GP REVENUE	(2.8%)	(10.0%)	5.1%	2.3%
SCHOOL AID FUND				
Baseline SAF	1.8%	(1.3%)	1.4%	2.1%
TOTAL SAF REVENUE	3.4%	(0.7%)	2.0%	2.1%
BASELINE GF/GP AND SAF REVENUE				
	2.0%	(3.7%)	2.2%	2.4%
GF/GP & SAF REV. AFTER CHANGES	0.6%	(4.8%)	3.3%	2.2%
Sales Tax	0.7%	1.1%	1.1%	2.3%

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

Figure 19

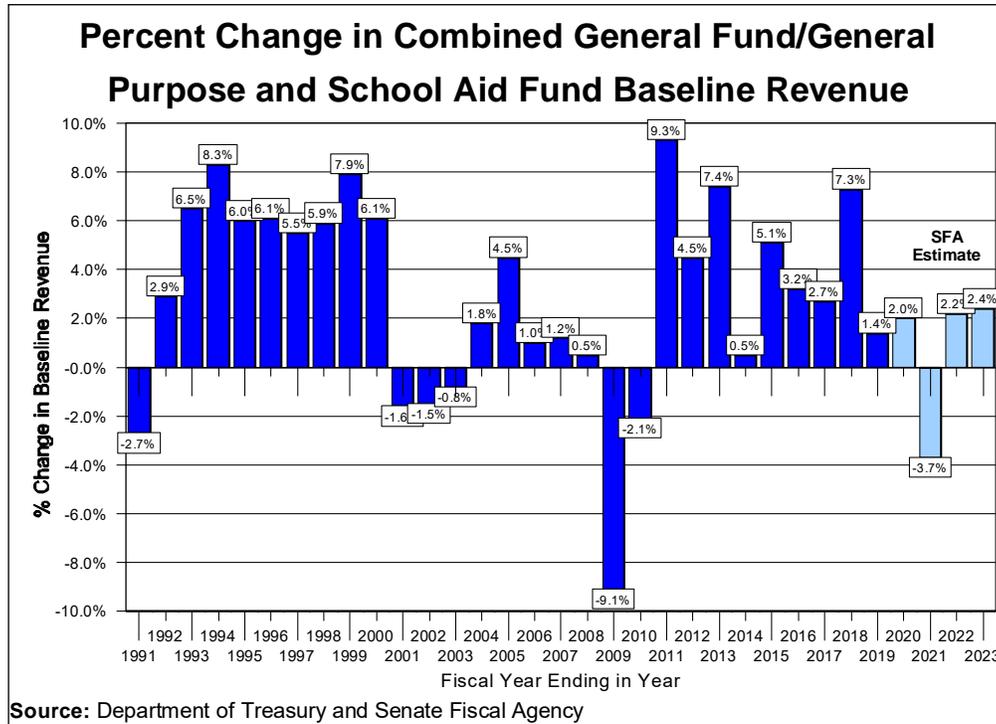


Figure 20 compares FY 1994-95 through estimated FY 2022-23 for both GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were enacted. Before FY 2017-18, GF/GP revenue peaked in FY 1999-2000 and then 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 because of 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 21, 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 2020-21 will be approximately 12.5% (or \$1,393.3 million) below the peak GF/GP revenue level in FY 2018-19 (without accounting for inflation). The estimated GF/GP revenue of \$10.2 billion in FY 2021-22 is 8.1% below the peak, and initial estimates for FY 2022-23 are 6.0% below the peak level. In inflation-adjusted terms, FY 2022-23 GF/GP revenue is estimated to be 16.0% (or \$1,597.4 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 fall slightly in FY 2020-21 and then continue sustained growth through the forecast period. In FY 2022-23, SAF revenue is predicted to be approximately 107.0% (\$7.5 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 6.1% (\$752.2 million) below if adjusted for inflation, as shown in Figure 22.

Figure 20

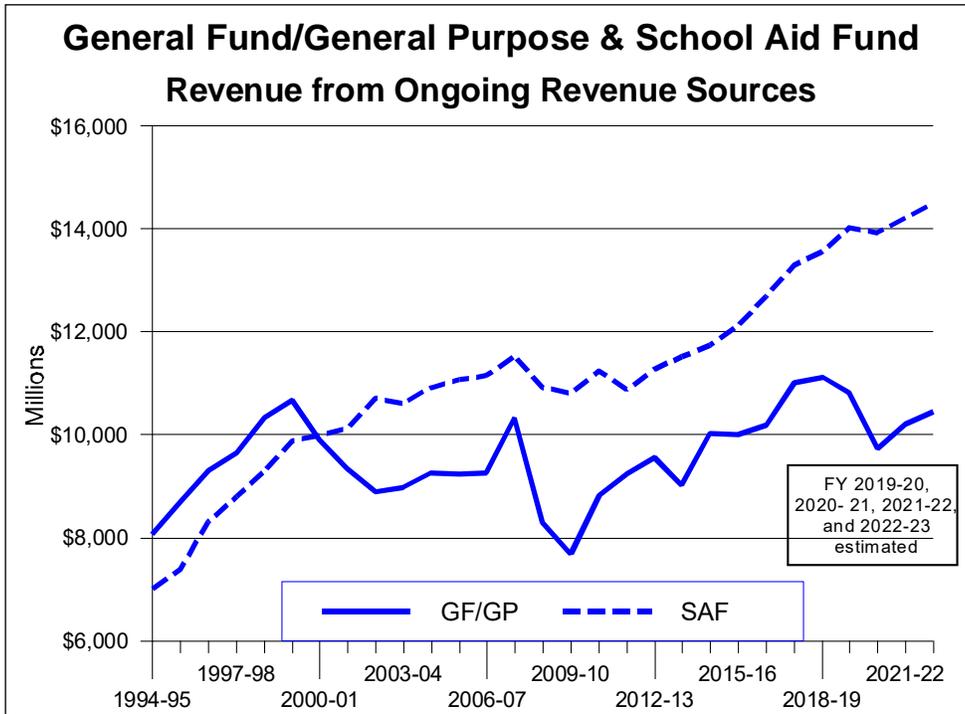


Figure 21

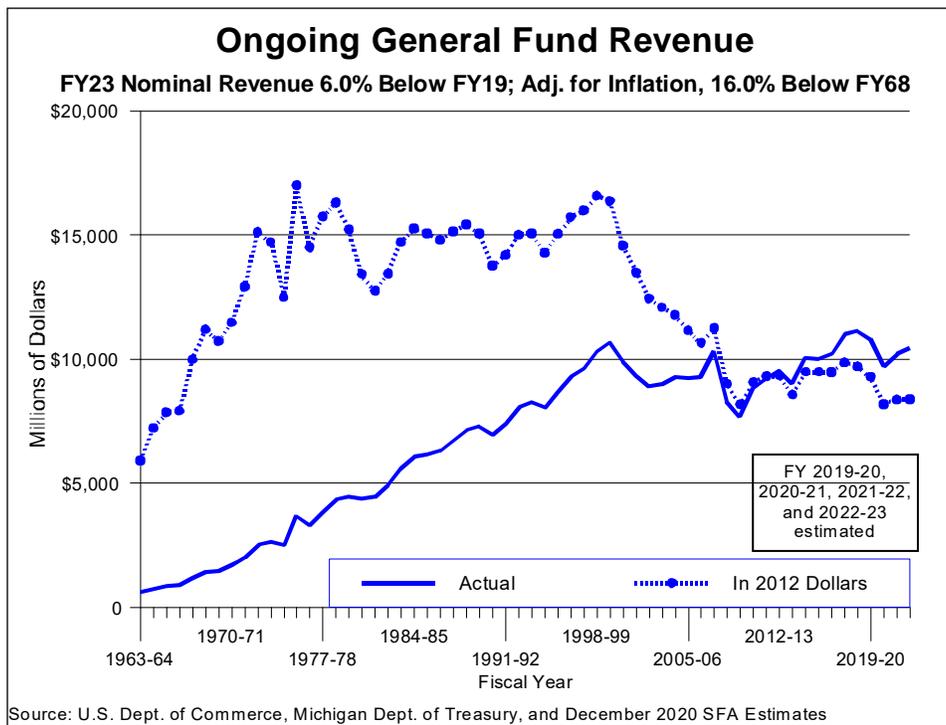
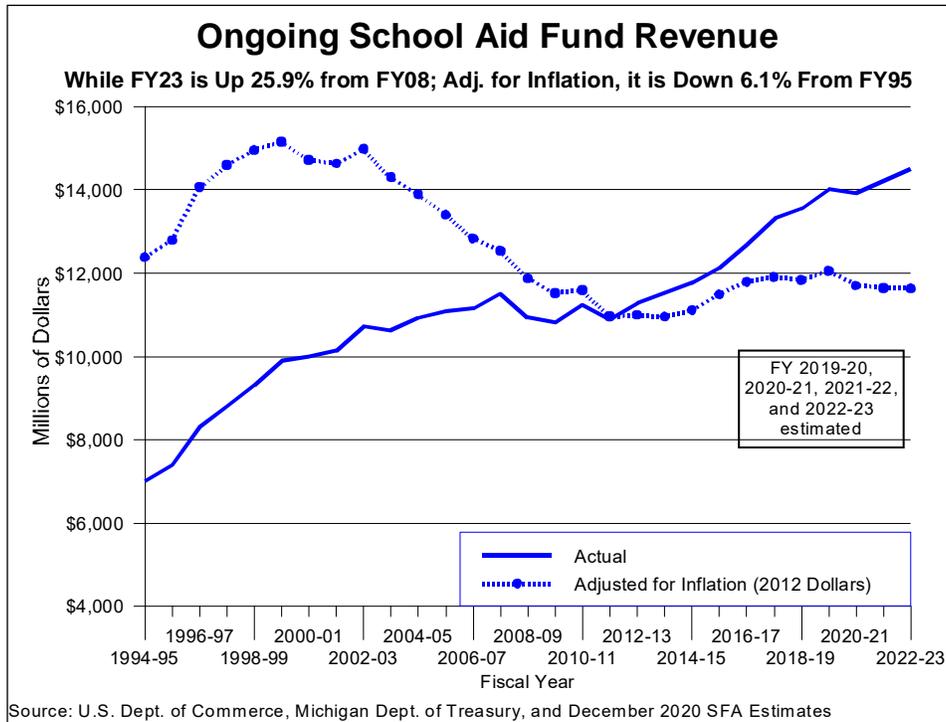


Figure 22



FY 2019-20 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 0.6% in FY 2019-20 compared with FY 2018-19.
- The revenue increase in FY 2019-20 primarily reflected increases in consumption taxes, income tax withholding, insurance company premiums, and a reduction in the credit payments under the MBT. These gains were mostly offset by higher IIT refunds, smaller quarterly and annual income tax payments, and reduced CIT revenue.

Michigan's economy grew during FY 2019-20, with personal income growing 6.0%; however, wage and salary employment fell 9.5% and wage and salary income fell 4.8%. Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$24.8 billion in FY 2019-20, which is 0.6% above the FY 2018-19 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 0.9% increase in FY 2018-19.

The preliminary final GF/GP and SAF revenue level for FY 2019-20 is \$810.9 million above the August 2020 consensus revenue estimate. The largest share of the revenue increase from the August 2020 estimates reflects gross income tax collections, which were \$231.4 million above the August consensus estimate. Sales and use tax revenue was \$194.6 million above the August estimate. Refunds paid under the MBT were \$87.3 million lower than expected, although this may reflect timing issues, and companies could claim these refunds in a subsequent year. Corporate income tax collections fell 13.6%, but still finished \$59.7 million above the August 2020 estimates. Insurance company premiums were \$105.0 million above the August 2020 estimates. Baseline GF/GP and SAF revenue increased 2.0% in FY 2019-20.

Table 4

FY 2019-20 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2018-19 Final	FY 2019-20 Prelim. Final	Change from FY 2018-19		\$ Change from 08/20 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$12,246.5	\$12,522.8	\$276.3	2.3%	\$320.8
Tax Changes Not In Baseline Revenue After Tax Changes	(1,130.8)	(1,715.3)	(584.5)	----	189.9
<u>Personal Income Tax</u>					
Gross Collections	12,555.1	13,010.0	454.9	3.6	231.4
Less: Refunds	(2,124.5)	(2,517.7)	(393.2)	18.5	(156.4)
Net Income Tax Collections	10,430.6	10,492.3	61.7	0.6	75.0
Less: Earmarking to SAF	(2,845.1)	(3,097.8)	(252.7)	8.9	(55.1)
Earmarking to MI Transp. Fund	(264.0)	(468.0)	(204.0)	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	0.0	(0.6)	(0.6)	----	0.2
Net Income Tax to GF/GP	\$7,252.5	\$6,857.0	(\$395.5)	(5.5%)	\$20.1
<u>Other Taxes</u>					
Corporate Income Tax	1,278.1	1,104.8	(173.3)	(13.6)	59.7
Michigan Business Tax	(511.5)	(553.7)	(42.2)	8.3	87.3
Sales	1,277.3	1,304.6	27.3	2.1	24.6
Use	752.5	773.5	21.0	2.8	76.5
Cigarette	175.7	180.1	4.4	2.5	5.6
Insurance Company Premiums	314.9	456.8	141.9	45.1	105.0
Telephone & Telegraph	30.3	32.4	2.1	6.9	2.4
Oil & Gas Severance	22.3	12.8	(9.5)	(42.6)	(1.2)
All Other	135.6	194.4	58.8	43.4	7.5
Subtotal Other Taxes	\$3,475.2	\$3,505.7	\$30.5	0.9%	\$367.4
Total Nontax Revenue	388.0	444.8	56.8	14.6	123.2
GF/GP REV. AFTER TAX CHANGES	\$11,115.8	\$10,807.5	(\$308.3)	(2.8%)	\$510.7
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,639.1	\$13,883.3	\$244.2	1.8%	\$300.2
Tax Changes Not In Baseline Revenue After Tax Changes	(86.7)	131.3	218.0	----	0.0
Sales Tax	6,008.1	6,047.1	39.0	0.6	58.6
Use Tax	596.4	622.7	26.3	4.4	38.2
Lottery Revenue	1,070.6	1,179.9	109.3	10.2	49.9
State Education Property Tax	2,111.6	2,189.9	78.3	3.7	34.0
Real Estate Transfer Tax	350.1	335.4	(14.7)	(4.2)	34.8
Income Tax	2,845.1	3,097.8	252.7	8.9	55.1
Casino Tax	117.3	67.0	(50.3)	(42.9)	5.6
Other Revenue	453.2	474.8	21.6	4.8	24.0
SAF REV. AFTER TAX CHANGES	\$13,552.4	\$14,014.6	\$462.2	3.4%	\$300.2
BASELINE GF/GP AND SAF	\$25,885.6	\$26,406.1	\$520.5	2.0%	\$621.0
Tax & Revenue Changes	(1,217.4)	(1,584.0)	(366.6)	----	189.9
GF/GP & SAF REV. AFTER CHNGS	\$24,668.2	\$24,822.1	\$153.9	0.6%	\$810.9
Sales Tax	\$8,253.1	\$8,307.7	\$54.6	0.7%	\$79.9

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

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT reduced revenue by \$22.9 million (\$17.4 million GF/GP and \$5.5 million SAF), while additional increases in the personal exemption that were adopted in February 2018 reduced revenue by \$146.0 million (\$113.7 million GF/GP and \$32.3 million SAF).

Personal Property Tax Reform. Use tax collections of \$465.9 million in FY 2019-20 were levied by the Local Community Stabilization Authority (LCSA). These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption and reduce GF/GP revenue by \$465.9 million. Partially offsetting the reduction, the Essential Services Assessment increased GF/GP revenue by \$122.0 million. The General Fund reimbursed the SAF \$2.0 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 \$2.0 million and increased the SAF by \$2.0 million.

Michigan Business Tax. The MBT lowered GF/GP revenue by \$553.7 million in FY 2019-20, a larger reduction than in FY 2018-19. All the impact of MBT credits reduces GF/GP revenue.

Consumption Taxes (Including Marijuana Taxes and Sales Tax). The marijuana excise tax generated \$42.0 million, of which \$4.2 million was directed to the SAF and \$37.8 million to other funds, primarily the Michigan Transportation Fund and distribution to local units of government. Sales taxes on marijuana sales increased sales tax revenue by \$25.0 million (\$4.2 million GF/GP, \$18.3 million SAF, and \$2.5 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins reduced revenue by approximately \$47.8 million, of which \$5.6 million was GF/GP, \$35.1 million was SAF, and \$7.1 million other funds.

Federal Tax Reform and the CARES Act. Changes to the IIT and CIT stemming from Federal tax changes increased revenue by \$147.0 million, of which \$136.2 million was a GF/GP increase, and \$10.8 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. Tax changes related to the CARES Act, passed in March 2020, reduced IIT and CIT revenue by \$285.0 million (\$240.3 million GF/GP and \$44.7 million SAF).

New Gaming. New casino gaming options including internet gaming, sports betting and fantasy sports increased casino tax revenue \$4.4 million, of which \$3.0 million was directed to the SAF and \$1.4 million to other funds.

Other Changes. Changes to the Michigan Liquor Control Code lowered GF/GP revenue by \$3.0 million. Insurance tax adjustments increased GF/GP revenue by \$85.0 million.

General Fund/General Purpose

General Fund/General Purpose revenue totaled an estimated \$10.8 billion in FY 2019-20, a decrease of 2.8%, or \$308.3 million, from FY 2018-19. The revised GF/GP estimate is \$510.7 million above the August 2020 consensus revenue estimate. Baseline GF/GP revenue increased 2.3%; however, revenue adjustments were more negative than in the previous year. These adjustments totaled \$1,715.3 million (primarily for the cost of MBT credits, income tax earmarks to the MTF, and PPT reform) and lowered net GF/GP revenue by 13.7%. The revised GF/GP revenue estimates for FY 2019-20 are summarized in [Table 4](#). The increase of \$510.7 million from the August 2020 consensus estimate for FY 2019-20 reflects higher income tax, sales and use tax, and

CIT revenue, and lower MBT credit payments, than previously expected, and higher than expected insurance company premiums.

School Aid Fund

School Aid Fund revenue totaled an estimated \$14.0 billion in FY 2019-20, an increase of 3.4%, or \$462.2 million, from FY 2018-19. The revised SAF estimate is \$300.2 million higher than the August 2020 consensus revenue estimate. The increase in SAF revenue reflects growth in most major earmarked tax sources, as well as lottery revenue, partially offset by reduced RETT and casino tax. The SAF revised revenue estimates for FY 2019-20 are summarized in [Table 4](#).

FY 2020-21 REVISED REVENUE ESTIMATES

Michigan's economy is expected to shrink during FY 2020-21. Personal income will fall, while wage and salary employment and income will increase from FY 2019-20 (after having fallen in FY 2019-20). Total GF/GP and SAF revenue will reach an estimated \$23.6 billion in FY 2020-21, a decrease of 4.8%, or \$1,180.7 million, from the preliminary final revenue for FY 2019-20. On a baseline basis, GF/GP and SAF revenue is expected to decrease 4.0% in FY 2020-21, reflecting the decline in State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2020-21 is \$602.8 million above the August 2020 forecast and is summarized in [Table 5](#).

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by \$30.7 million (\$23.4 million GF/GP and \$7.3 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by \$198.8 million (\$154.1 million GF/GP and \$44.7 million SAF).

Personal Property Tax Reform. Use tax collections of \$491.5 million in FY 2020-21 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption and reduce GF/GP revenue by \$491.5 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$126.0 million. The General Fund will reimburse the SAF \$2.0 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 \$2.0 million and increase the SAF by \$2.0 million.

Michigan Business Tax. The MBT will lower GF/GP revenue by \$626.9 million in FY 2020-21, a larger reduction than in FY 2019-20. All the impact of MBT credits reduces GF/GP revenue.

Consumption Taxes (Including Marijuana Taxes and Sales Tax). The marijuana excise tax will generate \$98.0 million, of which \$27.3 million will be directed to the SAF and \$70.7 million to other funds, primarily the Michigan Transportation Fund and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by \$59.0 million (\$9.8 million GF/GP, \$43.3 million SAF, and \$5.9 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 will be GF/GP, \$38.9 million will be SAF, and \$8.0 million other funds.

Federal Tax Reform and the CARES Act. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by \$176.0 million, of which \$161.1 million will be a GF/GP increase, and \$14.9 million will be an increase to the SAF. This increase will be more than 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. Tax changes related to the CARES

Act, passed in March 2020, will reduce IIT and CIT revenue by \$234.6 million (\$196.9 million GF/GP and \$37.7 million SAF).

New Gaming. New casino gaming options including internet gaming, sports betting and fantasy sports will increase casino tax revenue \$46.0 million, of which \$31.9 million will be directed to the SAF and \$14.1 million to other funds. The new gaming options are expected to reduce lottery revenue by \$29.0 million (all SAF).

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by \$15.0 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$9.7 billion in FY 2020-21, a decrease of 10.0% or \$1,085.0 million from the revised estimate for FY 2019-20. Baseline GF/GP revenue is expected to decrease 7.5% (\$904.1 million) from FY 2019-20. Most of the GF/GP revenue reduction reflects reduced IIT collections, partially offset by increased CIT collections. The revised GF/GP revenue estimates for FY 2020-21 are \$185.8 million above the August 2020 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 2020-21, a decrease of \$95.7 million, or 0.7%, from the revised estimate for FY 2019-20. The forecasted decrease in SAF revenue reflects reduced income tax revenue and decreased lottery revenue. The revised SAF revenue estimates for FY 2020-21 are \$417.0 million above the August 2020 consensus estimates and are summarized in Table 5.

FY 2021-22 REVISED REVENUE ESTIMATES

Michigan's economy is expected to grow during FY 2021-22. Personal income will grow, and wage and salary income will grow faster than in FY 2020-21. Wage and salary employment will increase at a slightly lower rate than in FY 2020-21. Total GF/GP and SAF revenue will reach an estimated \$24.4 billion in FY 2021-22, an increase of 3.3% or \$774.2 million from the revised estimate for FY 2020-21. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.2% in FY 2021-22, reflecting improvements in the State economy. Estimated GF/GP and SAF revenue is \$30.4 million below the August 2020 consensus estimate. The revised estimate of GF/GP and SAF revenue for FY 2021-22 is summarized in Table 6.

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by \$53.2 million (\$40.5 million GF/GP and \$12.7 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by \$187.5 million (\$151.7 million GF/GP and \$35.8 million SAF).

Personal Property Tax Reform. Use tax collections of \$521.3 million in FY 2021-22 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption and reduce GF/GP revenue by \$521.3 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$134.2 million. The General Fund will reimburse the SAF \$1.5 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 \$1.5 million and increase the SAF by \$1.5 million.

Table 5
FY 2020-21 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2019-20 Prelim. Final	FY 2020-21 Revised Est.	Change from FY 2019-20		\$ Change from 08/20 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,983.7	\$11,079.6	(\$904.1)	(7.5%)	(\$552.1)
Tax Changes Not In Baseline Revenue After Tax Changes	(1,176.2)	(1,357.1)	(180.9)	----	737.9
<u>Personal Income Tax</u>					
Gross Collections	13,010.0	11,977.2	(1,032.8)	(7.9)	(161.2)
Less: Refunds	(2,517.7)	(2,529.3)	(11.6)	0.5	(162.4)
Net Income Tax Collections	10,492.3	9,447.9	(1,044.4)	(10.0)	(323.6)
Less: Earmarking to SAF	(3,097.8)	(2,851.6)	246.2	(7.9)	38.3
Earmarking to MI Transp. Fund	(468.0)	(600.0)	(132.0)	28.2	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	(0.6)	(0.8)	(0.2)	----	0.0
Net Income Tax to GF/GP	\$6,857.0	\$5,926.5	(\$930.5)	(13.6%)	(\$285.3)
<u>Other Taxes</u>					
Corporate Income Tax	1,104.8	1,148.7	43.9	4.0	235.9
Michigan Business Tax	(553.7)	(626.9)	(73.2)	----	17.0
Sales	1,304.6	1,306.8	2.2	0.2	56.6
Use	773.5	774.0	0.5	0.1	119.5
Cigarette	180.1	179.2	(0.9)	(0.5)	11.5
Insurance Company Premiums	456.8	380.8	(76.0)	(16.6)	0.4
Telephone & Telegraph	32.4	32.8	0.4	1.2	2.8
Oil & Gas Severance	12.8	11.5	(1.3)	(10.2)	(0.5)
All Other	194.4	214.6	20.2	10.4	4.5
Subtotal Other Taxes	\$3,505.7	\$3,421.5	(\$84.2)	(2.4%)	\$447.7
Total Nontax Revenue	444.8	374.5	(70.3)	(15.8)	23.4
GF/GP REV. AFTER TAX CHANGES	\$10,807.5	\$9,722.5	(\$1,085.0)	(10.0%)	\$185.8
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$14,093.9	\$13,945.2	(\$148.7)	(1.1%)	\$661.2
Tax Changes Not In Baseline Revenue After Tax Changes	(79.3)	(26.3)	53.0	----	(244.2)
Sales Tax	6,047.1	6,126.8	79.7	1.3	177.5
Use Tax	622.7	635.7	13.0	2.1	59.7
Lottery Revenue	1,179.9	1,074.2	(105.7)	(9.0)	47.4
State Education Property Tax	2,189.9	2,246.8	56.9	2.6	83.8
Real Estate Transfer Tax	335.4	375.7	40.3	12.0	50.7
Income Tax	3,097.8	2,851.6	(246.2)	(7.9)	(38.3)
Casino Tax	67.0	121.9	54.9	81.9	9.1
Other Revenue	474.8	486.2	11.4	2.4	27.1
SAF REV. AFTER TAX CHANGES	\$14,014.6	\$13,918.9	(\$95.7)	(0.7%)	\$417.0
BASELINE GF/GP AND SAF	\$26,077.6	\$25,024.8	(\$1,052.8)	(4.0%)	\$109.2
Tax & Revenue Changes	(1,255.5)	(1,383.4)	(127.9)	----	493.6
GF/GP & SAF REV. AFTER CHNGS	\$24,822.1	\$23,641.4	(\$1,180.7)	(4.8%)	\$602.8
Sales Tax	\$8,307.7	\$8,401.3	\$93.6	1.1%	\$242.3

¹⁾ FY 2019-20 is the base year for baseline revenue.

Table 6
FY 2021-22 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2020-21 Revised Est.	FY 2021-22 Revised Est.	Change from FY 2020-21		\$ Change from 08/20 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$11,079.6	\$11,442.8	\$363.2	3.3%	(\$840.1)
Tax Changes Not In Baseline Revenue After Tax Changes	(1,357.1)	(1,228.8)	128.3	----	661.7
<u>Personal Income Tax</u>					
Gross Collections	11,977.2	12,531.3	554.1	4.6	(358.6)
Less: Refunds	(2,529.3)	(2,557.2)	(27.9)	1.1	(164.8)
Net Income Tax Collections	9,447.9	9,974.1	526.2	5.6	(523.4)
Less: Earmarking to SAF	(2,851.6)	(2,983.7)	(132.1)	4.6	85.3
Earmarking to MI Transp. Fund	(600.0)	(600.0)	0.0	----	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	0.0
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	\$5,926.5	\$6,320.6	\$394.1	6.6%	(\$438.1)
<u>Other Taxes</u>					
Corporate Income Tax	1,148.7	1,170.3	21.6	1.9	185.3
Michigan Business Tax	(626.9)	(597.9)	29.0	(4.6)	0.2
Sales	1,306.8	1,320.7	13.9	1.1	(10.7)
Use	774.0	778.9	4.9	0.6	60.0
Cigarette	179.2	177.8	(1.4)	(0.8)	13.3
Insurance Company Premiums	380.8	388.0	7.2	1.9	(4.9)
Telephone & Telegraph	32.8	33.0	0.2	0.6	3.0
Oil & Gas Severance	11.5	12.3	0.8	7.0	(7.7)
All Other	214.6	220.8	6.2	2.9	(2.3)
Subtotal Other Taxes	\$3,421.5	\$3,503.9	\$82.4	2.4%	\$236.2
Total Nontax Revenue	374.5	389.5	15.0	4.0	23.4
GF/GP REV. AFTER TAX CHANGES	\$9,722.5	\$10,214.0	\$491.5	5.1%	(\$178.5)
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$13,945.2	\$14,135.4	\$190.2	1.4%	\$396.0
Tax Changes Not In Baseline Revenue After Tax Changes	(26.3)	66.2	92.5	----	(248.0)
Sales Tax	6,126.8	6,196.9	70.1	1.1	13.3
Use Tax	635.7	652.3	16.6	2.6	30.0
Lottery Revenue	1,074.2	1,054.3	(19.9)	(1.9)	42.1
State Education Property Tax	2,246.8	2,280.5	33.7	1.5	89.1
Real Estate Transfer Tax	375.7	381.3	5.6	1.5	35.4
Income Tax	2,851.6	2,983.7	132.1	4.6	(85.3)
Casino Tax	121.9	145.4	23.5	19.3	(0.4)
Other Revenue	486.2	507.2	21.0	4.3	23.9
SAF REV. AFTER TAX CHANGES	\$13,918.9	\$14,201.6	\$282.7	2.0%	\$148.1
BASELINE GF/GP AND SAF	\$25,024.8	\$25,578.2	\$553.4	2.2%	(\$444.1)
Tax & Revenue Changes	(1,383.4)	(1,162.6)	220.8	----	413.7
GF/GP & SAF REV. AFTER CHNGS	\$23,641.4	\$24,415.6	\$774.2	3.3%	(\$30.4)
Sales Tax	\$8,401.3	\$8,497.4	\$96.1	1.1%	\$18.6

¹⁾ FY 2019-20 is the base year for baseline revenue.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by \$597.9 million in FY 2021-22, a smaller reduction than in FY 2020-21. All the impact of MBT credits reduces GF/GP revenue.

Consumption Taxes (Including Marijuana Taxes and Sales Tax). The marijuana excise tax will generate \$151.0 million, of which \$52.9 million will be directed to the SAF and \$98.1 million to other funds, primarily the Michigan Transportation Fund and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by \$91.0 million (\$15.2 million GF/GP, \$66.7 million SAF, and \$9.1 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$58.3 million, of which \$7.0 million will be GF/GP, \$42.7 million will be SAF, and \$8.6 million other funds.

Federal Tax Reform and the CARES Act. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by \$180.0 million, of which \$161.1 million will be a GF/GP increase, and \$18.9 million will be an increase to the SAF. This increase will be more than 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. Tax changes related to the CARES Act, passed in March 2020, will increase IIT revenue by \$6.0 million (\$4.7 million GF/GP and \$1.3 million SAF) and decrease CIT by \$2.5 million, all GF/GP.

New Gaming. New casino gaming options including internet gaming, sports betting and fantasy sports will increase casino tax revenue \$48.5 million, of which \$33.8 million will be directed to the SAF and \$14.7 million to other funds. The new gaming options are expected to reduce lottery revenue by \$30.1 million (all SAF).

Other Changes. Tax vouchers from the Michigan Early Stage Venture Capital program will reduce CIT by \$75.0 million (all GF/GP).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.2 billion in FY 2021-22, an increase of \$491.5 million from the revised estimate for FY 2020-21. Baseline GF/GP revenue is expected to increase 3.3% and the more than \$1.2 billion in negative adjustments will be slightly less than in the previous year, raising net GF/GP growth to 5.1%. Most of the increase in GF/GP revenue reflects increased income tax collections and somewhat higher consumption tax and business tax collections. The revised GF/GP revenue estimates for FY 2021-22 are \$178.5 million below the August 2020 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 \$14.2 billion in FY 2021-22, an increase of \$282.7 million from the revised estimate for FY 2020-21. Baseline SAF revenue growth will be 1.4% in FY 2021-22. Small positive revenue adjustments will boost SAF net revenue growth to 2.0%. The forecasted increase in SAF revenue reflects growth in most major earmarked tax sources, offset slightly by reduced lottery revenue. The revised SAF revenue estimates for FY 2021-22 are \$148.1 million above the August 2020 consensus estimates and are summarized in [Table 6](#).

FY 2022-23 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2022-23. Personal income will grow faster, and wage and salary employment and income will grow at a slightly slower rate than in FY 2021-22. Total GF/GP and SAF revenue will reach an estimated \$24.9 billion in FY 2022-23, an increase of 2.2%, or \$530.6 million, from the revised estimate for FY 2021-22. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.5% in FY 2022-23, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2022-23 is summarized in [Table 7](#).

Tax Policy Changes

Individual Income Taxes. The indexing of the personal exemption for the IIT will reduce revenue by \$82.7 million (\$63.0 million GF/GP and \$19.7 million SAF), while additional increases in the personal exemption that were adopted in February 2018 will reduce revenue by \$194.1 million (\$154.7 million GF/GP and \$39.4 million SAF). Since GF/GP revenue is forecasted to increase in FY 2021-22 by an amount greater than 1.425 times the rate of inflation, Public Act 180 of 2015 requires a permanent reduction in the IIT rate, which will reduce GF/GP revenue in FY 2022-23 by \$125.5 million.

Personal Property Tax Reform. Use tax collections of \$548.0 million in FY 2022-23 will be levied by the LCSA. These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption and reduce GF/GP revenue by \$548.0 million. Partially offsetting the reduction, the Essential Services Assessment will increase GF/GP revenue by \$140.9 million. The General Fund will reimburse the SAF \$1.5 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 \$1.5 million and increase the SAF by \$1.5 million.

Michigan Business Tax. The Michigan Business Tax will lower GF/GP revenue by \$526.7 million in FY 2022-23, a smaller reduction than in FY 2021-22. All the impact of MBT credits reduces GF/GP revenue.

Consumption Taxes (Including Marijuana Taxes and Sales Tax). The marijuana excise tax will generate \$154.0 million, of which \$53.9 million will be directed to the SAF and \$100.1 million to other funds, primarily the Michigan Transportation Fund and distribution to local units of government. Sales taxes on marijuana sales will increase sales tax revenue by \$98.0 million (\$16.3 million GF/GP, \$71.9 million SAF, and \$9.8 million other funds, primarily constitutional revenue sharing). The sales tax exemption on motor vehicle trade-ins will reduce revenue by approximately \$65.1 million, of which \$7.8 million will be GF/GP, \$47.8 million will be SAF, and \$9.5 million other funds.

Federal Tax Reform. Changes to the IIT and CIT stemming from Federal tax changes will increase revenue by \$180.0 million, of which \$163.3 million will be a GF/GP increase, and \$16.7 million will be an increase to the SAF. This increase will be more than 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.

New Gaming. New casino gaming options including internet gaming, sports betting and fantasy sports will increase casino tax revenue \$50.7 million, of which \$35.7 million will be directed to the SAF and \$15.0 million to other funds. The new gaming options are expected to reduce lottery revenue by \$31.5 million (all SAF).

Other Changes. Tax vouchers from the Michigan Early Stage Venture Capital program will reduce CIT by \$75.0 million (all GF/GP).

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$10.5 billion in FY 2022-23, an increase of 2.3%, or \$238.8 million, from the revised estimate for FY 2021-22. Baseline GF/GP revenue is expected to increase 3.0% due the continued growth in the economy. The initial GF/GP revenue estimates for FY 2022-23 are summarized in [Table 7](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$14.5 billion in FY 2022-23, an increase of \$291.8 million, or 2.1%, from the revised estimate for FY 2021-22. The initial SAF revenue estimates for FY 2022-23 are summarized in [Table 7](#).

Table 7

FY 2022-23 INITIAL REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2021-22 Revised Est.	FY 2022-23 Initial Est.	Change from FY 2021-22	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$11,442.8	\$11,788.3	\$345.5	3.0%
Tax Changes Not In Baseline Revenue After Tax Changes	(1,228.8)	(1,335.4)	(106.6)	----
<u>Personal Income Tax</u>				
Gross Collections	12,531.3	12,674.9	143.6	1.1
Less: Refunds	(2,557.2)	(2,599.6)	(42.4)	1.7
Net Income Tax Collections	9,974.1	10,075.3	101.2	1.0
Less: Earmarking to SAF	(2,983.7)	(3,045.4)	(61.7)	2.1
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	\$6,320.6	\$6,360.1	\$39.5	0.6%
<u>Other Taxes</u>				
Corporate Income Tax	1,170.3	1,246.8	76.5	6.5
Michigan Business Tax	(597.9)	(526.7)	71.2	(11.9)
Sales	1,320.7	1,352.6	31.9	2.4
Use	778.9	778.2	(0.7)	(0.1)
Cigarette	177.8	176.4	(1.4)	(0.8)
Insurance Company Premiums	388.0	396.1	8.1	2.1
Telephone & Telegraph	33.0	33.0	0.0	0.0
Oil & Gas Severance	12.3	13.1	0.8	6.5
All Other	220.8	229.5	8.7	3.9
Subtotal Other Taxes	\$3,503.9	\$3,699.0	\$195.1	5.6%
Total Nontax Revenue	389.5	393.7	4.2	1.1
GF/GP REV. AFTER TAX CHANGES	\$10,214.0	\$10,452.8	\$238.8	2.3%
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$14,135.4	\$14,439.3	\$303.9	2.1%
Tax Changes Not In Baseline Revenue After Tax Changes	66.2	54.1	(12.1)	----
Sales Tax	6,196.9	6,341.2	144.3	2.3
Use Tax	652.3	665.4	13.1	2.0
Lottery Revenue	1,054.3	1,063.7	9.4	0.9
State Education Property Tax	2,280.5	2,326.1	45.6	2.0
Real Estate Transfer Tax	381.3	396.6	15.3	4.0
Income Tax	2,983.7	(3,045.4)	(6,029.1)	(202.1)
Casino Tax	145.4	149.5	4.1	2.8
Other Revenue	507.2	6,596.3	6,089.1	1,200.5
SAF REV. AFTER TAX CHANGES	\$14,201.6	\$14,493.4	\$291.8	2.1%
BASELINE GF/GP AND SAF	\$25,578.2	\$26,227.5	\$649.3	2.5%
Tax & Revenue Changes	(1,162.6)	(1,281.3)	(118.7)	----
GF/GP & SAF REV. AFTER CHNGS	\$24,415.6	\$24,946.2	\$530.6	2.2%
Sales Tax	\$8,497.4	\$8,694.5	\$197.1	2.3%

¹⁾ FY 2019-20 is the base year for baseline revenue.

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2019-20 THROUGH FY 2022-23

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

Individual Income Tax. Individual income tax revenue will decrease an estimated 10.0% in FY 2020-21, to \$9.4 billion, primarily due to higher unemployment related to the economic effects of the COVID-19 public health emergency. Fiscal year 2020-21 withholding will decline 8.1%, reflecting lower levels of wages and employment combined with substantially lower stimulus-related unemployment insurance benefits. (Unemployment insurance is taxable in Michigan and many taxpayers elect to have withholding taken from those benefits.) As economic growth resumes, the growth rate in withholding will increase to 3.1% in FY 2021-22 and 1.4% in FY 2022-23. Annual payments are expected to decrease 7.8% in FY 2020-21 before increasing 7.1% in FY 2021-22 and then decreasing 2.1% in FY 2022-23. Compared with the August 2020 consensus revenue estimates, the revised estimate for FY 2020-21 IIT revenue is \$323.6 million lower, and the revised estimate for FY 2021-22 is \$523.4 million lower, reflecting slower employment and wage growth forecasts.

Sales Tax. The forecast predicts sales subject to the Michigan sales tax will increase at a faster rate than the 0.7% gain experienced in FY 2019-20, with sales tax revenue rising 1.1% in FY 2020-21 and FY 2021-22, and 2.3% in FY 2022-23. Compared with the August 2020 consensus revenue estimates, the revised sales tax estimate for FY 2020-21 is \$242.3 million higher while the revised estimate for FY 2021-22 is up \$18.6 million. The increase is due primarily to revised estimates of consumer spending. 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 2.1% in FY 2020-21, 2.7% in FY 2021-22 and 2.0% in FY 2022-23; 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 converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at \$96.4 million in FY 2015-16, rose to \$465.9 million in FY 2019-20, and will total \$491.5 million in FY 2020-21, \$521.3 million in FY 2021-22, and \$548.0 million in FY 2022-23, as they increase annually. Compared with the August 2020 consensus revenue estimates, the FY 2020-21 estimate for combined State and local use tax collections is revised upward by \$179.2 million and the FY 2021-22 estimate is \$90.0 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds of use tax

revenue is allocated between the State General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Revenue from tobacco taxes totaled an estimated \$904.7 million in FY 2019-20, an increase of 1.7% from FY 2018-19. Tobacco tax revenue is expected to resume its long-term downward trend, declining 0.5% in FY 2020-21, 0.8% in FY 2021-22, and 0.8% in FY 2022-23. 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 is directed to the SAF. In FY 2020-21, casino tax revenue is projected to total \$121.9 million, an 82.0% increase from FY 2019-20, when casinos in the State were forced to close or operate at less than full capacity for most of the year. Casino tax revenue is expected to grow 19.3% in FY 2021-22, reflecting a full fiscal year of operation without pandemic related capacity constraints, and 2.8% in FY 2022-23, as the economy recovers and new gaming options (internet gaming and sports and fantasy betting) are introduced.

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 3.7% in FY 2019-20, SET collections are projected to increase another 2.6% in FY 2020-21, 1.5% in FY 2021-22, and 2.0% in FY 2022-23, 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 (including new casino gaming options) and between different lottery games is expected to limit the growth in lottery revenue over the forecast period, although FY 2019-20 saw 10.2% growth as other gaming options were closed or limited during the pandemic. As a result, lottery revenue is forecasted to decline 9.0% in FY 2020-21 and 1.9% in FY 2021-22, before increasing 0.9% in FY 2022-23. All of the net revenue generated by the lottery is earmarked to the SAF. From FY 2019-20 to FY 2022-23, lottery revenue is expected to decline from 8.4% to 7.3% 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, a negative \$652.5 million in FY 2018-19, and a negative \$553.7 million in FY 2019-20, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are

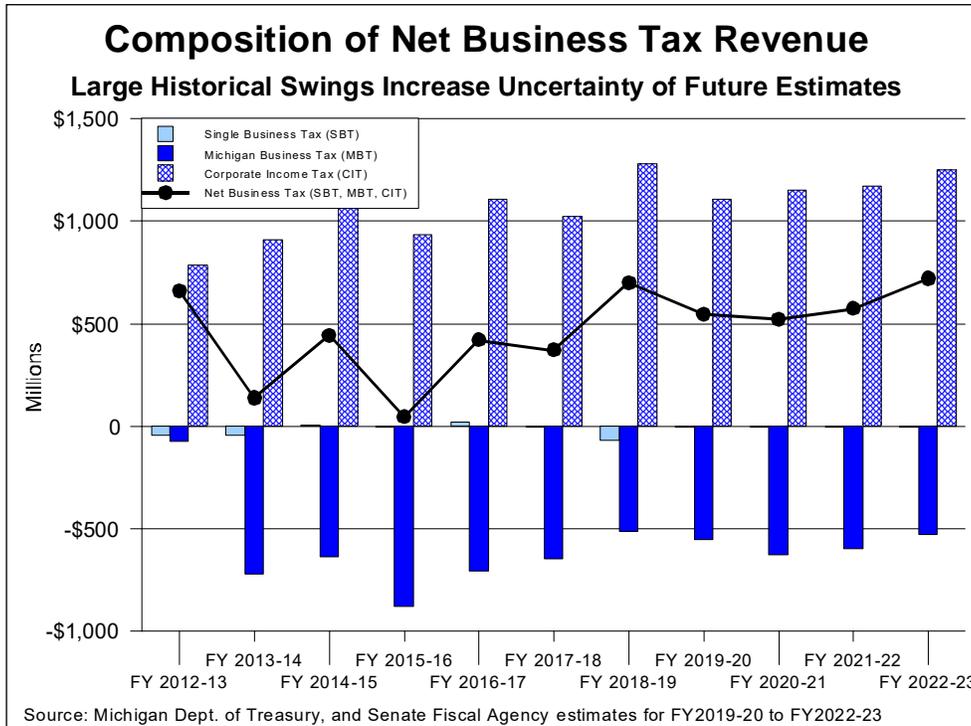
projected to reduce State revenue by between \$500.0 million and \$700.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded 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 previous tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates.

These MBT credits represent a significant reduction in General Fund revenue. The combination of the substantial magnitude of the credits and their unpredictable nature can produce large swings in General Fund revenue. In FY 2015-16, MBT credits reduced General Fund revenue by approximately \$1.0 billion, or approximately 10.4%, and net MBT revenue reduced General Fund revenue by \$878.9 million, or approximately 9.2%. While the credits lowered General Fund revenue by \$446.3 million less in FY 2019-20, they still represented a 4.9% 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 6.1% in FY 2020-21, 5.5% in FY 2021-22, and 4.8% in FY 2022-23. 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 2019-20, CIT revenue fell 13.6%, after rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, underscoring the potential volatility in CIT revenue ([Figure 23](#)). In FY 2018-19, net business tax revenue from the MBT, CIT, and SBT totaled \$698.9 million, up 88.0% from FY 2017-18. The preliminary final estimate for business taxes in FY 2019-20 is \$545.7 million, a 21.9% decrease from FY 2018-19 that is \$141.6 million above the August 2020 consensus estimate. Net business tax revenue is expected to decline 4.4% in FY 2020-21 before increasing 9.7% in FY 2021-22 and 25.8% in FY 2022-23. (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.

Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled an estimated \$456.8 million in FY 2019-20, a 45.0% increase from FY 2018-19, due to a single large refund in FY 2018-19 and a large positive accounting adjustment in FY 2019-20. Revenue from taxes on insurance companies is expected to return to trend levels over the forecast period, first falling 16.6% in FY 2020-21, but then rising 1.9% in FY 2021-22 and 2.1% in FY 2022-23. All revenue from insurance taxes is directed to the General Fund.

Figure 23



SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency and consensus estimates for GF/GP and SAF baseline revenue for FY 2019-20, FY 2020-21, and FY 2021-22. 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 2019-20, FY 2020-21, and FY 2021-22 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2019-20 was made in December 2017, as shown in Table 8. At that time, baseline revenue in FY 2019-20 was estimated at \$25.6 billion. This estimate was increased by \$148.0 million at the January 2018 Consensus Revenue Estimating Conference (CREC), then increased another \$262.6 million at the May 2018 CREC. The January 2019 consensus conference increased the estimate by another \$198.6 million, but the May 2019 CREC lowered it by \$17.6 million. The January 2020 CREC increased the estimate by \$213.4 million, but the May 2020 CREC lowered that estimate by \$2.9 billion. The August 2020 CREC increased the estimate by \$2.3 billion. The Senate Fiscal Agency's revised estimate for FY 2019-20 presented in this report increases the baseline estimate by \$621.0 million above the August 2020 consensus estimate, to \$26.4 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2020-21 was made in December 2018, as shown in Table 9. At that time, baseline revenue in FY 2020-21 was estimated at \$27.0 billion. This estimate was decreased by \$103.2 million at the January 2019 CREC, then lowered again by \$13.6 million at the May 2019 CREC. The January 2020 CREC increased the estimate by \$265.5 million, while the May 2020 CREC lowered it by \$2.8 billion. The August 2020 CREC increased the estimate by \$579.0 million. The Senate Fiscal Agency's revised estimate for FY 2020-21 presented in this report increases the baseline estimate by \$525.9 million above the August 2020 consensus estimate, to \$25.4 billion.

Table 8
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2019-20
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 18, 2017	\$11,798.5	\$13,796.3	\$25,594.8
January 11, 2018 ^{a)}	11,929.2	13,813.6	25,742.8
May 14, 2018	12,100.8	13,990.7	26,091.5
May 16, 2018 ^{a)}	12,090.3	13,915.1	26,005.4
December 14, 2018	12,217.5	13,930.0	26,147.5
January 11, 2019 ^{a)}	12,288.7	13,915.3	26,204.0
May 15, 2019	12,296.9	13,704.6	26,001.5
May 17, 2019 ^{a)}	12,352.7	13,833.7	26,186.4
December 20, 2019	12,607.9	13,884.1	26,492.0
January 10, 2020 ^{a)}	12,524.9	13,874.9	26,399.8
May 14, 2020	10,623.8	12,466.9	23,090.7
May 15, 2020 ^{a)}	10,933.4	12,545.4	23,478.8
August 24, 2020 ^{a)}	12,202.0	13,583.1	25,785.1
January 5, 2021	12,522.8	13,883.3	26,406.1
<u>Change From Previous Estimate:</u>			
Dollar Change	\$320.8	\$300.2	\$621.0
Percent Change	2.6%	2.2%	2.4%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$724.3	\$87.0	\$811.3
Percent Change	6.1%	0.6%	3.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2018-19.			

Table 9
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2020-21
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 14, 2018	\$12,663.0	\$14,298.2	\$26,961.2
January 11, 2019 ^{a)}	12,633.5	14,224.5	26,858.0
May 15, 2019	12,681.7	13,998.5	26,680.2
May 17, 2019 ^{a)}	12,708.8	14,135.6	26,844.4
December 20, 2019	13,004.6	14,232.6	27,237.2
January 10, 2020 ^{a)}	12,897.6	14,212.3	27,109.9
May 14, 2020	11,192.5	12,881.4	24,073.9
May 15, 2020 ^{a)}	11,374.1	12,962.4	24,336.5
August 24, 2020 ^{a)}	11,631.6	13,283.9	24,915.5
January 5, 2021	11,740.4	13,701.0	25,441.4
<u>Change From Previous Estimate:</u>			
Dollar Change	\$108.8	\$417.1	\$525.9
Percent Change	0.9%	3.1%	2.1%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$922.6)	(\$597.2)	(\$1,519.8)
Percent Change	(7.3%)	(4.2%)	(5.6%)
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2018-19.			

The initial GF/GP and SAF baseline revenue estimate for FY 2021-22 was made in December 2019, as shown in Table 10. At that time, baseline revenue in FY 2021-22 was estimated at \$27.4 billion. This estimate was increased by \$322.9 million at the January 2020 CREC, but lowered at the May 2020 CREC by \$2.1 billion. The August 2020 CREC increased the estimate by \$375.9 billion. The revised Senate Fiscal Agency estimate for FY 2021-22 lowers baseline revenue for FY 2021-22 by \$30.7 million from the August 2020 estimate, to \$26.0 billion.

Table 10
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2021-22
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 20, 2019	\$13,208.0	\$14,230.7	\$27,438.7
January 10, 2020 ^{a)}	13,229.7	14,531.9	27,761.6
May 14, 2020	11,969.3	13,611.8	25,581.1
May 15, 2020 ^{a)}	12,040.1	13,606.3	25,646.4
August 24, 2020 ^{a)}	12,282.9	13,739.4	26,022.3
January 5, 2021	12,104.2	13,887.4	25,991.6
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$178.7)	\$148.0	(\$30.7)
Percent Change	(1.5%)	1.1%	(0.1%)
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$1,103.8)	(\$343.3)	(\$1,447.1)
Percent Change	(8.4%)	(2.4%)	(5.3%)
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2018-19.			

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 2020-21 is based on personal income growth from calendar year 2019 to 2020 and GF/GP revenue in FY 2019-20. Different years are used to calculate a potential pay-out. A pay-out in FY 2020-21 depends on the change in personal income from calendar year 2020 to calendar year 2021, whether there was a calculated pay-out in FY 2019-20, and the BSF balance at the end of 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 2018-19. This table also presents the SFA's estimates for FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23, 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 24, and the estimated economic stabilization trigger calculations for FY 2020-21, FY 2021-22, and FY 2022-23 are presented in Table 12.

FY 2019-20

The BSF ended FY 2018-19 with a balance of \$1,148.6 million. During FY 2019-20, \$17.5 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. Public Act 146 of 2020 transferred \$350.0 million from the BSF to the School Aid Fund. Interest earnings are estimated at \$4.2 million in FY 2019-20, resulting in an estimated ending balance of \$820.3 million. There was no calculated pay-in or pay-out to the BSF for FY 2019-20 estimated at the time of budget enactment.

FY 2020-21, FY 2021-22, and FY 2022-23

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 allow a pay-out of up to \$287.2 million for FY 2020-21, but no other pay-in or pay-out in FY 2020-21, FY 2021-22, or FY 2022-23.

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 \$873.6 million in FY 2020-21, \$892.0 million in FY 2021-22, and \$910.4 million in FY 2022-23 as shown in Table 11.

Table 11

**BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2022-23 ESTIMATES
(millions of dollars)**

Fiscal Year ^{a)}	Pay-In		Interest Earned	Pay-Out	Fund Balance
	Trust Fund Act	Other Approp.			
1998-99		\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14 ^{b)}		75.0	0.4	194.8	386.2
2014-15 ^{c)}	\$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
Enacted Deposits and Estimated Interest Earnings:					
2019-20 ^{d)}	17.5	0.0	4.2	350.0	820.3
2020-21 ^{e)}	17.5	35.0	0.8	0.0	873.6
2021-22 ^{f)}	17.5	0.0	0.9	0.0	892.0
2022-23 ^{f)}	17.5	0.0	0.9	0.0	910.4

a) For FY 1998-99 to FY 2018-19, 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 2019-20 to FY 2021-22 include enacted legislation and estimated interest earnings.

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

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

d) PA 146 of 2020 transferred \$350.0 million from the BSF to the School Aid Fund.

e) PA 166 of 2020 deposited \$35.0 million to the Fund.

f) Based on the SFA's revised estimates, the statutory formula would allow a pay-out from the fund of up to \$287.2 million in FY 2020-21 and no other pay-ins or pay-outs. Pay-ins and pay-outs must be appropriated. See text for discussion.

Source: State of Michigan Comprehensive Annual Financial Reports through FY 2018-19 and Senate Fiscal Agency.

Figure 24

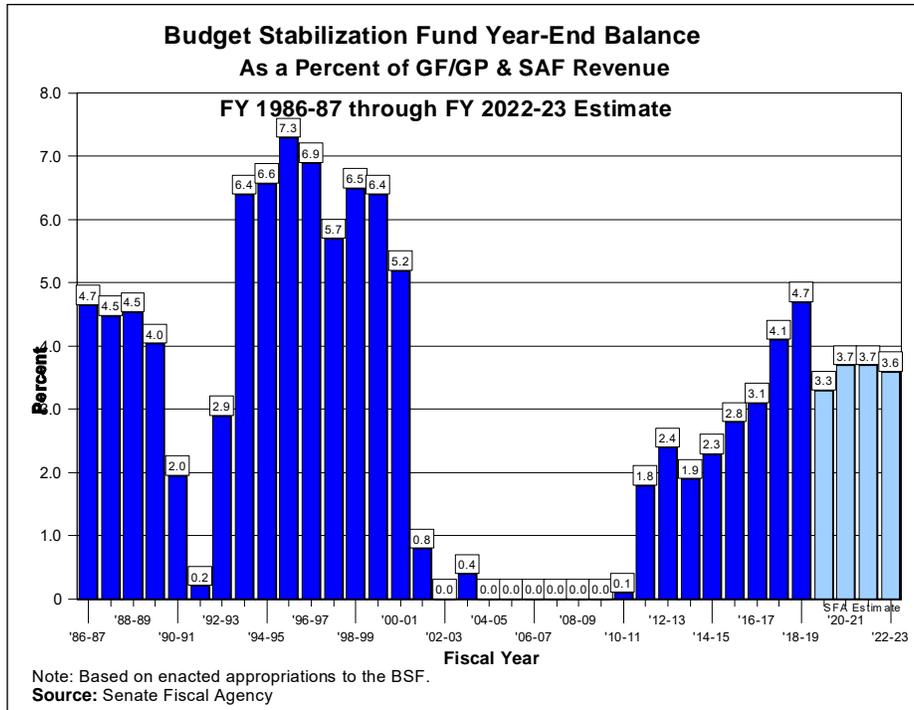


Table 12

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23
(millions of dollars)

	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
Michigan Personal Income (MPI)	\$491,631.8	\$521,201.2	\$500,859.2	\$512,455.9	\$531,719.5
Less: Transfer Payments	\$103,672.5	\$144,928.3	\$120,668.9	\$118,194.9	\$122,336.5
Subtotal	\$387,959.3	\$376,272.9	\$380,190.3	\$394,261.0	\$409,383.0
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.3527	2.3771	2.4330	2.4849	2.5423
Equals: Real Adjusted MPI	\$164,902	\$158,294	\$156,264	\$158,665	\$161,028
Percent Change from Prior Year		(4.0%)	(1.3%)	1.5%	1.5%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Multiplied by: Estimated GF/GP Revenue		\$10,807.5	\$9,722.5	\$10,214.0	\$10,452.8
Equals: Transfer to the BSF			\$0.0	\$0.0	\$0.0
OR Maximum transfer from the BSF			(\$287.2)	\$0.0	\$0.0

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

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. 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 2018-19. To date, the largest gap between revenue and the limit occurred in FY 2018-19, when State revenue was \$9.7 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 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23, with State revenue forecast to be \$12.7 billion below the limit in FY 2022-23.

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 2018-19, State government revenue could not exceed 9.49% of personal income for calendar year 2017. Given that Michigan personal income for 2017 equaled \$460.3 billion at the time compliance was determined, the revenue limit for FY 2018-19 was \$43.7 billion.

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

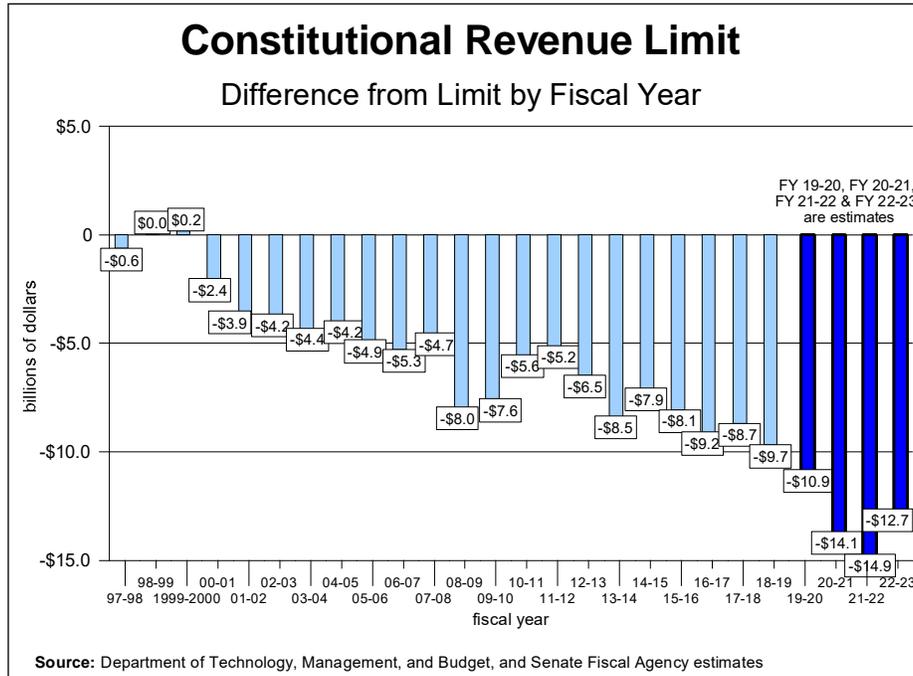
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the 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 (CIT) return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report that determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary final revenue for FY 2019-20 and the SFA's revenue estimates for FY 2020-21, FY 2021-22, and FY 2022-23, 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 25](#). The SFA's estimates of the State's compliance with the revenue limit are presented in [Table 13](#).

Figure 25



FY 2019-20

The US Department of Commerce Bureau of Economic Analysis estimate for Michigan personal income during 2018 equals \$477.0 billion and, as a result, the revenue limit equals \$45.3 billion in FY 2019-20, an increase of \$1.6 billion over FY 2018-19. Based on the SFA's revised revenue estimates for FY 2019-20, revenue subject to the revenue limit will equal an estimated \$34.4 billion. State revenue subject to the revenue limit will be below the limit by an estimated \$10.9 billion, or 24.1%, in FY 2019-20. Anticipated growth in personal income of 3.6% will outpace the forecasted 1.0% increase in State revenue subject to the revenue limit.

FY 2020-21

The Senate Fiscal Agency estimates that personal income in Michigan during 2019 will equal \$491.6 billion, and as a result, the revenue limit will equal \$46.7 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 \$32.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$14.1 billion, or 30.2%, in FY 2020-21. Personal income is forecasted to increase 3.1% while State revenue subject to the revenue limit is forecasted to decrease 5.2%, 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 \$521.2 billion and, as a result, the revenue limit will equal \$49.5 billion in FY 2021-22. Based on the SFA's revised revenue estimates for FY 2021-22, revenue subject to the revenue limit will equal an estimated \$34.6 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$14.8 billion, or 30.0%, in FY 2021-22. The forecasted 6.3% increase in State revenue subject to the revenue limit will outpace the anticipated growth in personal income of 6.0%, thus decreasing the percent by which revenue will fall below the limit, although the amount will increase.

FY 2022-23

The Senate Fiscal Agency estimates that personal income in Michigan during 2021 will equal \$500.9 billion, and as a result, the revenue limit will equal \$47.5 billion in FY 2022-23. Based on the SFA's initial revenue estimates for FY 2022-23, revenue subject to the revenue limit will equal an estimated \$24.8 billion. State revenue subject to the revenue limit will fall below the limit by an estimated \$12.7 billion, or 26.7%, in FY 2022-23. Personal income is forecasted to decrease 3.9% while State revenue subject to the revenue limit in forecasted to increase 0.6%, thus decreasing 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 2018-19 THROUGH FY 2022-23 ESTIMATE
(millions of dollars)

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
	Final	Estimate	Estimate	Estimate	Estimate
Revenue Subject to Limit					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$12,246.5	\$11,983.7	\$11,192.5	\$11,969.3	\$11,969.3
Constitutional Revenue Sharing (baseline)	837.6	849.6	759.4	812.9	812.9
School Aid Fund (baseline)	13,639.1	14,093.9	12,881.4	13,611.8	13,611.8
Transportation Funds	3,373.3	3,389.0	3,670.4	3,783.6	3,939.9
Other Restricted Non-Federal Aid Revenue	5,137.4	5,291.6	5,450.3	5,613.8	5,782.2
<u>Adjustments:</u>					
GF/GP Federal Aid	(5.1)	(3.9)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(1,130.8)	(1,176.2)	(1,357.1)	(1,228.8)	(1,335.4)
SAF Balance Sheet Adjustments	(86.7)	(79.3)	(26.3)	66.2	54.1
Total Revenue Subject to Limit	\$34,011.3	\$34,348.4	\$32,560.6	\$34,618.8	\$34,824.8
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Amount	\$460,270	\$477,010	\$491,632	\$521,201	\$500,859
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$43,679.6	\$45,268.2	\$46,655.9	\$49,462.0	\$47,531.5
1.0% of Limit	436.8	452.7	466.6	494.6	475.3
Amount Under (Over) Limit	\$9,668.3	\$10,919.9	\$14,095.2	\$14,843.2	\$12,706.7
Percent Below Limit	22.1%	24.1%	30.2%	30.0%	26.7%
CY = Calendar Year; FY = Fiscal Year					

ESTIMATE OF YEAR-END BALANCES

This section of the SFA's report provides details of the estimated year-end balances of the GF/GP and SAF budgets for FY 2019-20 and FY 2020-2021. This section also outlines projections for the FY 2021-2022 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2019-20, FY 2020-21, and FY 2021-22 GF/GP and SAF budgets. The FY 2019-20 book-closing process has not yet concluded. The State Budget Office issued Legislative Transfer Request 2020-9, on October 30, 2020, requesting multiple transfers for the Departments of Correction, Health and Human Services, Military and Veterans Affairs, and State Police. The two legislative appropriations committees did not act on the transfer request within 60 days of it being transmitted, as is required for book-closing transfers, and the book-closing process is being held open to accommodate the pending request for adjustments to FY 2019-20 appropriations. Any action on these items would now need to be done through the supplemental process. Though the final accounting of FY 2019-20 revenue and appropriations has not been completed, the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have a \$2.5 billion balance and the SAF budget will have a \$1.2 billion balance. A comparison of the SFA estimate of FY 2020-21 revenue with actual and projected appropriations leads to a \$1.1 billion GF/GP year-end balance and an \$830.1 million SAF year-end balance.

The outlook for an FY 2021-22 continuation budget points to a GF/GP budget ending balance of \$296.5 million and an SAF ending balance of \$748.5 million.

Table 14
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
ESTIMATED YEAR-END BALANCES
(Millions of Dollars)

	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Estimate
General Fund/General Purpose	\$2,521.6	\$1,080.9	\$296.5
School Aid Fund	\$1,189.6	\$830.1	\$748.5

FY 2019-20 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 2019-20 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 FY 2019-20 with a \$2.5 billion balance. The SFA is estimating that the FY 2019-20 SAF budget will close the fiscal year with a \$1.2 billion balance.

The first column of Table 15 provides a summary of the current SFA estimate of a \$2.5 billion balance in the FY 2019-20 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2020-21 revenue source. During the development of the FY 2020-21 budget, an estimated FY 2019-20 carry-forward amount of \$1.6 billion in GF/GP revenue was built into the budget for 2020-21, so this revised estimate is \$916.5

million above the amount initially estimated as the ending balance for FY 2019-20 that would carry forward into FY 2020-21. This change in the FY 2019-20 ending balance is largely due to anticipated lapses from various State departments provided in a notification by the State Budget Office, which suggests approximately \$260.0 million of \$413.8 million in assumed lapses is related to Medicaid and other caseload adjustments. The other major adjustment is reflected in the revised SFA revenue estimate increase of \$510.7 million.

On the revenue side of the FY 2019-20 GF/GP budget ledger, the SFA now is estimating that available revenue will total more than \$11.5 billion. This represents a \$54.8 million increase from the level of FY 2018-19 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a \$510.7 million increase from the August 2020 consensus revenue estimate. When compared to the previous consensus revenue estimate, the SFA estimates a \$20.1 million increase in personal income tax and an additional \$127.2 million in sales, use, and other consumption taxes. The single largest estimate increase is a one-time adjustment to the insurance company premium tax, resulting in an increase from previous estimates of \$105.0 million. The combination of these factors, as well as accounting for State revenue sharing payments, other restricted revenue adjustments, results in the net \$11.5 billion revenue estimate.

On the expenditure side of the FY 2019-20 GF/GP budget ledger, the SFA now is estimating that expenditures will total \$9.0 billion. The primary change in expenditures, compared to August 2020 estimates, is related to the State Budget Office's suggested levels of department and caseload lapses. When combined with the \$80.8 million of lapsed work projects that were put forward alongside Executive Order (EO) 2020-155 reductions, these lapse amounts account for a mid-year reduction in expenditures of \$494.6 million. The \$9.0 billion of expenditures represents a \$1.6 billion reduction from the final level of FY 2018-19 GF/GP expenditures. This year-to-year GF/GP reduction is offset significantly by an increase in Federal dollars appropriated in response to the COVID-19 pandemic.

The net enacted supplemental appropriations for FY 2019-20 total a reduction of \$32.1 million from the initially enacted budget. Additionally, EO 2020-155 further reduced GF/GP spending by \$620.0 million. As mentioned previously, the FY 2019-20 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 2019-20.

The first column of [Table 16](#) provides a summary of the FY 2019-20 SFA estimate of a \$1.2 billion 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 2020-21 revenue source. As stated earlier, the FY 2020-21 budget was developed assuming that funds carried forward from FY 2019-20 would be used for FY 2020-21 appropriations. When the FY 2020-21 SAF budget was developed, the assumption was that \$869.4 million would be available at the FY 2019-20 year-end and carried forward; the estimate now is that \$1.2 billion is available, \$320.2 million more than originally projected. The additional \$320.2 million in the estimated year-end balance reflects estimated lapses of \$20.0 million and additional revenue of \$300.2 million.

On the revenue side of the FY 2019-20 SAF budget ledger, the SFA now is estimating that available revenue will total \$17.2 billion. This represents a \$1.5 billion, or 9.3%, increase from the final level of FY 2018-19 SAF revenue; in FY 2019-20, there was \$803.3 million more in Federal aid than in FY 2018-19 (mostly related to COVID-19), a \$350.0 million deposit from the Budget Stabilization Fund, \$16.7 million more in GF/GP support of the School Aid budget, growth in SAF-earmarked revenue, and other miscellaneous revenue adjustments. The current SFA estimate of ongoing SAF revenue for FY 2019-20 (excluding GF/GP, Community District Education Trust Fund revenue, tax, and Federal revenue) represents an increase of \$300.2 million from the August 2020 consensus revenue estimate.

On the expenditure side of the FY 2019-20 SAF budget ledger, the SFA now is estimating that expenditures will total \$16.1 billion. This represents a \$281.6 million, or 1.8%, increase from the final level of FY 2018-19 SAF expenditures. The estimated final level of FY 2019-20 SAF expenditures includes the initial ongoing K-12 appropriation of \$15.1 billion, cost adjustments totaling a negative \$89.2 million, enacted supplementals totaling \$295.7 million, along with estimated K-12 lapses totaling a negative \$20.0 million. It also should be noted that the estimated final 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 \$901.2 million appropriated for postsecondary purposes in FY 2018-19.

FY 2020-21 YEAR-END BALANCE ESTIMATES

On September 23, 2020, the Michigan Legislature completed action on the initial set of FY 2020-21 appropriation bills. The FY 2020-21 initially enacted budget was balanced based on the August 2020 consensus estimates. At the time the initial budget was enacted, the SFA was projecting a \$29.2 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2020-21 GF/GP year-end balance is \$1.1 billion. At the same time, based on the August 2020 consensus revenue estimate, the SFA was projecting no balance left in the SAF budget at the end of FY 2020-21. The current SFA estimate of the FY 2020-21 SAF year-end balance is \$830.1 million.

The second column of Table 15 provides a summary of the current SFA estimate of an \$1.1 billion year-end balance in the FY 2020-21 GF/GP budget. The increase in the projected level of the FY 2020-21 GF/GP year-end balance results primarily from an estimated increase of \$185.8 million from the revenue amount estimated at the August 2020 CREC, a larger carry-forward balance from FY 2020-21 (\$916.5 million more than expected), and an assumption of the continuation of emergency Federal Medical Assistance Percentages (FMAP) associated with the COVID-19 pandemic through the second quarter of the fiscal year, offsetting the need for GF/GP by \$479.3 million.

On the revenue side of the FY 2020-21 GF/GP budget ledger, the SFA now is estimating that available revenue will total \$11.8 billion. This estimate includes a projected \$2.5 billion balance carried forward from FY 2019-20, \$9.7 billion of revenue from ongoing sources, a \$490.1 million reduction to reflect ongoing State revenue sharing payments, and a \$1.8 million reduction from restricted revenue sources. The current SFA estimate of FY 2020-21 ongoing GF/GP revenue represents a \$185.8 million increase from the August 2020 consensus revenue estimate. The upward revision in revenue reflects a reduction of \$285.3 million in personal income tax collections offset primarily by \$200.1 million of estimated increases in consumption taxes and \$235.9 million of increased CIT collections.

On the expenditure side of the FY 2020-21 GF/GP budget ledger, the SFA now is estimating that expenditures will total \$10.7 billion. This total includes \$10.6 billion of ongoing appropriations in the initial appropriation bills, \$272.3 million in one-time appropriations in the initial appropriation bills, \$243.3 million in enacted supplemental appropriations (PA 257 of 2020), an additional one quarter of emergency FMAP rates through March 2021, equal to a Federal offset of GF/GP of \$239.7 million each of the first two quarters of the fiscal year, a \$62.8 million payment to reimburse the Federal government for previously disallowed Medicaid psychiatric disproportionate share hospital (DSH) payments and a \$35.8 million deposit to the General Fund, a restricted fund shift of \$13.0 million, and \$25.0 million in lapses from additional Medicaid risk corridor savings.

The second column in Table 16 provides a summary of the current SFA estimate of a \$830.1 million year-end balance in the FY 2020-21 SAF budget. The increase in the projected level of the FY 2020-21 SAF year-end balance results primarily from a larger carry-forward balance from FY 2019-20 (\$320.2 million more than expected), and an estimated increase in net ongoing revenue of \$417.0 million from the amount estimated at the August 2020 consensus revenue conference. In addition,

costs in FY 2020-21 now are estimated to be \$87.9 million lower than appropriated, primarily due to lower pupil counts than anticipated, even after enacting a 'superblend' that calculates pupil memberships for FY 2020-21 with a 75% weight on the previous year's membership added to a 25% weight on the current year's membership.

On the revenue side of the FY 2020-21 SAF budget ledger, the SFA now is estimating that available revenue will total \$17.0 billion. This estimate includes a \$1.2 billion balance carried forward from FY 2019-20, \$15.9 billion of ongoing State Restricted SAF revenue, a \$56.0 million GF/GP grant to the SAF budget, a deposit of \$77.7 million from the Community District Trust Fund (CDTF), and \$1.8 billion of ongoing Federal aid. Note that the enacted GF/GP grant to the SAF is \$51.0 million; however, MCL 12.262 requires the General Fund to reimburse the SAF for any costs in excess of \$72.0 million per year for local revenue raised Detroit Public Schools Community District (DPSCD) that is used to pay down debt. For FY 2020-21, the cost is estimated at \$82.7 million but only \$77.7 million has been appropriated from CDTF dollars (the annual \$72.0 million plus \$5.7 million in carryforward funds that were available), leaving a \$5.0 million shortfall in funds that, according to statute,¹ must be paid for by the General Fund. This also is reflected on the GF/GP balance sheet as a current services budget adjustment.

The current SFA estimate of total FY 2020-21 SAF revenue represents a \$197.9 million, or 1.1%, decrease from the projected level of FY 2019-20 SAF revenue, which is driven primarily by slightly declining restricted SAF revenue (\$95.7 million), the removal of one-time Federal aid (\$712.0 million), not continuing the BSF deposit of \$350.0 million, a reduction in the GF/GP grant to the SAF (\$48.6 million), and reductions in nonongoing revenue (\$41.6 million). These negative adjustments are mostly offset by a larger beginning balance (\$994.9 million higher). The current estimate of FY 2020-21 State Restricted SAF revenue is \$417.0 million higher than the August 2020 consensus estimate.

On the expenditure side of the FY 2020-21 SAF budget ledger, the SFA now is estimating that expenditures will total \$16.2 billion. This expenditure estimate includes \$15.4 billion of ongoing K-12 appropriations in the initial appropriation bill, \$95.0 million in one-time appropriations, and cost adjustments totaling a negative \$87.9 million. It also should be noted that the estimated level of FY 2020-21 SAF expenditures includes \$781.8 million of appropriations to the Community Colleges and Higher Education budgets, an increase from the previous year's \$764.1 million SAF revenue appropriated for postsecondary purposes. The projected level of FY 2020-21 SAF expenditures represents a \$161.6 million, or 1.0%, increase from the estimated year-end level of FY 2019-20 SAF expenditures.

FY 2021-22 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2021-22 State budget recommendation to the Legislature no later than February 12, 2021. This State budget recommendation will continue the discussion of the FY 2020-21 budget and begin the discussion of the FY 2021-22 State budget.

If a beginning balance of \$1.1 billion is carried forward into FY 2021-22 and the SFA's new revenue estimate is assumed, and if FY 2021-22 appropriations essentially are frozen at FY 2020-21 levels

¹ Under Michigan Compiled Laws 12.262(7), to the extent that the amount deposited into the Community District Education Trust Fund under subsection (6) is less than the amount necessary to offset the absence of local school operating revenue in a community district in the funding of the State portion of foundation allowances under Section 22b of the State School Aid Act, MCL 388.1622b, and for as long as that community district is prohibited under Section 386 of the Revised School Code, MCL 380.386, from levying a school operating tax, the General Fund must reimburse the School Aid Fund.

but adjusted for caseload estimates for the Department of Health and Human Service, the FY 2021-22 projected year-end GF/GP balance is \$296.5 million. The third column of [Table 15](#) outlines these assumptions.

On the revenue side of the FY 2021-22 budget outlook, the SFA is projecting that total estimated GF/GP revenue available will equal \$10.9 billion. This estimate assumes a beginning balance of \$1.1 billion and SFA-estimated ongoing revenue of \$10.2 billion, which represents a reduction of \$178.5 million from the August 2020 consensus estimate. This downward revision in revenue is primarily the result of the SFA's projection of lower personal income tax collections than previously estimated, a \$438.1 million reduction in revenue since August 2020 estimates. This downward revision is offset in part by assumed increases in other taxes, such as CIT revenue which is now forecast at \$185.3 million higher than previous estimates. The total GF/GP revenue estimate also assumes a continuation of State revenue sharing payments at the FY 2020-21 level (\$490.1 million ongoing) and \$75.0 million in revenue as the State continues to repurchase tax vouchers from the Venture Michigan Fund II program.

On the appropriation side of the FY 2021-22 budget outlook, the SFA estimate assumes the continuation of FY 2020-21 initial ongoing GF/GP appropriations. Adjustments are made to reduce \$150.0 million to reflect an increase in the projected Federal share of ongoing FMAP costs associated with the Department of Health and Human Services; include an additional \$23.0 million in costs to address DHHS audit findings; assuming a second year of \$62.8 million in costs to reimburse the Federal government for previously disallowed Medicaid psychiatric DSH payments; add \$50.0 million for anticipated costs associated with State employee economic adjustments; include \$10.8 million for State Building Authority Rent increases; add \$46.8 million in ongoing GF/GP costs associated with PA 166 of 2020 and to reimburse SAF for costs associated with the CDTF and DPSCD to pay down debt; and include \$146.0 million to backfill ongoing staffing costs from the FY 2020-21 budget which are supported with one-time Federal Coronavirus Relief Fund (CRF). These assumptions lead to total estimated FY 2021-22 GF/GP expenditures of \$10.6 billion and a projected year-end GF/GP balance of \$296.5 million.

The third column of [Table 16](#) provides a summary of the SFA's outlook for the FY 2021-22 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2020-21 funding levels, adjusted for estimated pupils and costs, leads to a projected balance of \$748.5 million for FY 2021-22.

On the revenue side of the FY 2021-22 SAF budget outlook, the SFA is estimating that available revenue will total \$17.0 billion, a decrease of \$76.0 million, or 0.4%, below FY 2020-21. This estimate assumes a carry-forward of \$830.1 million from FY 2020-21, an increase in the level of ongoing School Aid Fund revenue of \$148.1 million from the August 2020 consensus forecast, a GF/GP grant of \$62.5 million (the \$51.0 million enacted for FY 2020-21 plus \$11.5 million for the difference in costs between local revenue raised by DPSCD and redirected to pay down debt, estimated at \$83.5 million for FY 2021-22, and the \$72.0 million appropriated from the CDTF), a continuation of the \$72.0 million deposit from the CDTF, and estimated Federal aid continuing at \$1.8 billion.

On the appropriation side of the FY 2021-22 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$16.2 billion. This funding level assumes that SAF appropriations of \$781.8 million for community colleges and universities are continued (with another \$7.9 million for additional MPSERS costs).

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 2021-22 by 11,500 from the number of pupils in

membership for FY 2020-21. 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 \$92.6 million net baseline cost increase for FY 2021-22.

A comparison of projected FY 2021-22 SAF current-law revenue and a continuation of current spending leads to an estimated ending balance of \$748.5 million, which equates to roughly \$520 on an equal per-pupil basis. Again, this estimate assumes a continuation of ongoing initial and supplemental appropriations and SAF support of \$789.7 million for community colleges and universities.

CONCLUSION

Although the GF/GP and SAF budgets are estimated to end FY 2021-21 and FY 2021-22 with year-end balances, there are several budgetary pressures looming in subsequent fiscal years that are likely to mitigate the extension of these positive balances. The single largest risk continues to be the unpredictable nature of the COVID-19 pandemic. For example, in the Department of Health and Human Services expenses have been significantly offset during the COVID-19 pandemic with additional Federal resources. Those Federal emergency declarations and the subsequent additional Federal match rates provided will be eliminated as the pandemic recedes, leaving those costs to again fall to the GF/GP as a fund source. Similarly, the FY 2020-21 budget was built with Federal CRF dollars partially supporting programming and staffing for some departments through the first quarter. These CRF dollars were authorized only through calendar year 2020 and those ongoing costs will again need to be supported with State resources in future budgets unless additional Federal resources are similarly authorized.

The FY 2019-20 estimated ending balances may change when the State's final CAFR is published, which is not required by law until the end of March 2021. To the extent that the FY 2019-20 numbers change, the ending balances for FY 2020-21 and FY 2021-22 will be affected. Also, to the extent that policy changes are enacted during FY 2020-21, 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 15, 2021 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 2021-22 State budget, as well as for subsequent fiscal years.

Table 15
FY 2019-20, 2020-21, AND 2021-22
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	FY 2019-20	FY 2020-21	FY 2021-22
Revenue:			
Beginning Balance (Adjusted).....	\$916.2	\$2,521.6	\$1,080.9
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (August 2020)	\$10,296.8	\$9,536.7	\$10,392.5
Senate Fiscal Agency Revenue Estimate Change	510.7	185.8	(178.5)
Senate Fiscal Agency Revenue Estimate (January 2020).....	\$10,807.5	\$9,722.5	\$10,214.0
<u>Other Revenue Adjustments:</u>			
Revenue Sharing Payments	(\$490.1)	(\$490.1)	(\$490.1)
Revenue Sharing One-Time Reduction	96.5	0.0	0.0
PA 126 of 2020	(3.8)	0.0	0.0
Shift VMFII to Voucher Purchase.....	0.0	0.0	75.0
Subtotal Ongoing Revenue	\$10,410.2	\$9,232.4	\$9,798.9
<u>Non-ongoing Revenue:</u>			
Reimbursement for Implementation of Recreational Marihuana ...	\$10.0	\$0.0	\$0.0
Legal Settlements/Redirection of Restricted Revenue	(7.6)	(2.6)	0.0
Restricted Revenue Redirected to GF	165.7	0.0	0.0
GF-equivalent Lapsed Work Projects	0.6	0.0	0.0
GF-equivalent /Restricted Revenue	0.0	0.8	0.0
Coronavirus Relief Fund: Interest Earnings	5.8	0.0	0.0
Subtotal Non-Ongoing Revenue	\$174.4	(\$1.8)	\$0.0
Total Estimated GF/GP Revenue	\$11,500.8	\$11,752.3	\$10,879.8
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Appropriations	\$9,940.0	\$9,865.0	\$9,865.0
DHHS Base and Caseload Adjustments	169.3	704.5	378.8
Subtotal Ongoing Appropriations	\$10,109.3	\$10,569.5	\$10,243.8
<u>One-Time and Other Appropriations:</u>			
Estimated One-Time Appropriations	\$175.1	\$272.3	\$0.0
Estimated GF/GP Offset from COVID FMAP Increase	(523.3)	(479.3)	0.0
Enacted Supplementals (PAs 154 and 162 of 2019).....	261.0	0.0	0.0
Enacted Supplementals (PAs 66 and 67 of 2020).....	225.7	0.0	0.0
Enacted Supplementals (PAs 144, 146, 150, and 165 of 2020).....	(154.4)	0.0	0.0
Executive Order Reductions (EO 2020-155).....	(620.0)	0.0	0.0
Pending Supplemental (PA 257 of 2020).....	0.0	243.3	0.0
Estimated Employee Economic Adjustments	0.0	0.0	50.0
Reimbursement of Federal Disallowed Psych DSH Costs	0.0	62.8	62.8
DHHS Audit Findings	0.0	0.0	23.0
SBA Rent Increases	0.0	0.0	10.8
Current Services Budget Adjustment	0.3	5.0	46.8
TEDF Restricted Revenue Shift	0.0	(13.0)	0.0
CRF/GF Backfill.....	0.0	0.0	146.0
BSF Deposit	0.0	35.8	0.0
Lapsed Work Projects	(80.8)	0.0	0.0
Estimated Lapses.....	(413.8)	(25.0)	0.0
Subtotal One-Time and Other Appropriations	(\$1,130.2)	\$96.8	\$339.4
Total Estimated GF/GP Expenditures	\$8,979.2	\$10,671.4	\$10,583.3
PROJECTED YEAR-END GF/GP BALANCE	\$2,521.6	\$1,080.9	\$296.5

Table 16

**FY 2019-20, 2020-21, AND 2021-22
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)**

	FY 2019-20	FY 2020-21	FY 2021-22
Revenue:			
Beginning Balance	\$194.7	\$1,189.6	\$830.1
<u>Ongoing Revenue:</u>			
Consensus Revenue Estimate (August 2020)	\$13,714.4	\$13,501.9	\$14,053.5
Senate Fiscal Agency Revenue Estimate Change	300.2	417.0	148.1
Senate Fiscal Agency Revenue Estimate (January 2020).....	\$14,014.6	\$13,918.9	\$14,201.6
<u>Other Revenue Adjustments:</u>			
General Fund/General Purpose Grant	\$62.6	\$51.0	\$51.0
Community District Education Trust Fund.....	75.9	77.7	72.0
Federal Ongoing Aid	1,749.6	1,806.9	1,806.9
Subtotal Ongoing Revenue	\$15,902.7	\$15,854.4	\$16,131.5
<u>Non-ongoing Revenue:</u>			
Budget Stabilization Fund Deposit	\$350.0	0.0	0.0
Federal CRF	712.0	0.0	0.0
Talent Investment Fund.....	9.7	0.0	0.0
One-time GF Deposit	42.0	0.0	0.0
GF/GP for DPSCD Add'l Cost Exceeding CDTF \$72m/yr	0.0	5.0	11.5
Reserve Fund for MPSERS	31.9	0.0	0.0
CEPI Work Project Lapse.....	3.9	0.0	0.0
Subtotal Non-Ongoing Revenue	\$1,149.6	\$5.0	\$11.5
Total Estimated School Aid Fund Revenue.....	\$17,247.0	\$17,049.1	\$16,973.1
Expenditures:			
<u>Ongoing Appropriations:</u>			
Initial Ongoing K-12 Appropriations	\$15,106.8	\$15,430.2	\$15,342.3
Cost Adjustments (December 2020)	(89.2)	(87.9)	92.6
Enacted Supplementals (PA 265 of 2018, PA 162 of 2019)	59.9	0.0	0.0
Fund Community Colleges with School Aid Fund	414.7	425.7	428.3
Partially Fund Higher Education with School Aid Fund.....	349.4	356.1	361.4
Subtotal Ongoing Appropriations	\$15,841.6	\$16,124.0	\$16,224.6
<u>One-Time and Other Appropriations:</u>			
Initial One-Time K-12 Appropriations	\$0.0	\$95.0	\$0.0
Enacted Supplementals (PA 586 of 2018 and PAs 58,162 of 2019)	10.7	0.0	0.0
Enacted Supplemental (PA 146 of 2020).....	225.2	0.0	0.0
Estimated Lapses	(20.0)	0.0	0.0
Subtotal One-Time and Other Appropriations	\$215.8	\$0.0	\$0.0
Total Estimated School Aid Fund Expenditures.....	\$16,057.4	\$16,219.0	\$16,224.6
PROJECTED YEAR-END SCHOOL AID FUND BALANCE.....	\$1,189.6	\$830.1	\$748.5