Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2025-26, FY 2026-27, and FY 2027-28

May 14, 2026

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https://sfa.senate.michigan.gov

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ECONOMIC FORECAST

The United States economy slowed in 2025 and is expected to continue growing at roughly the same rate, or slightly slower, through the 2026-to-2028 period. Consumer spending is forecasted to grow more slowly than in recent years, as consumers adapt to limited inflation-adjusted wage gains and flat employment levels, while business investment is expected to grow more rapidly in response to changes in Federal fiscal policy and lower interest rates. Both labor productivity and the unemployment rate will rise slightly over the forecast but remain low by historical standards.

The Michigan economy will mirror the changes in the national economy, although employment is predicted to continue small declines (payroll employment fell 0.1% in 2025) and the unemployment rate will be above the US average. Economic growth and inflation will interact such that inflation-adjusted personal income will be relatively flat over the forecast.

REVENUE FORECAST

Under the revised estimate for fiscal year (FY) 2025-26, employment and incomes will rise despite slowing economic growth, lifting General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue 3.5% above the FY 2024-25 level, without accounting for tax changes. Tax changes adopted in 2025, reflecting follow-on provisions to changes in Federal law and the 2025 transportation package, will cause net GF/GP and SAF revenue to rise 1.3%. Transfers to the transportation funds and SAF hold-harmless provisions will result in GF/GP revenue declining 0.3%, while SAF revenue will increase 2.5%. Economic activity combined with the tax policy changes results in a revised FY 2025-26 estimate that is $345.0 million above the January 2026 consensus estimate.

In FY 2026-27, continued modest economic growth will cause GF/GP and SAF revenue to grow 1.6% above the revised estimate for FY 2025-26, without accounting for tax changes. Extending the tax policy changes that affected FY 2025-26 revenue, net GF/GP and SAF revenue will increase 0.3%, with GF/GP revenue declining 2.3% and SAF revenue growing 2.2%. The revised estimate for combined GF/GP and SAF revenue in FY 2026-27 is $63.8 million above the January 2026 consensus estimate.

In FY 2027-28, reduced business tax credits and modest growth will result in GF/GP and SAF revenue growing 2.3%, after tax changes are taken into account. Net GF/GP revenue is expected to increase 2.5%, while SAF revenue will grow 2.1%. The revised estimate for combined GF/GP and SAF revenue in FY 2027-28 is $22.2 million above the January 2026 consensus estimate.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, along with assumed lapses from work projects ($200.0 million) and Strategic Outreach and Attraction Reserve (SOAR) funding ($651.9 million), the SFA is estimating that the FY 2025-26 GF/GP budget will have a positive ending balance of $912.5 million. A comparison of the FY 2025-26 SAF revenue estimates and enacted and projected SAF appropriations produces a $971.8 million SAF balance. These balances would be carried forward and used in FY 2026-27.

Comparing the SFA's FY 2026-27 GF/GP revenue estimate with the Senate-passed appropriations bills, and assuming the previous year's carryforward and the deposit of $174.7 million in restricted fund balances to the GF/GP, leads to a $354.3 million balance in the FY 2026-27 GF/GP budget. The SFA's FY 2026-27 SAF revenue estimate, combined with the Senate-passed budget bills and the transfer of roughly 25% of restricted SAF sub-funds balances to the SAF, results in a $225.4 million balance in the FY 2026-27 SAF budget.

If the SFA's FY 2027-28 GF/GP revenue estimate is compared with the FY 2026-27 ongoing GF/GP appropriations found in Senate-passed bills, adjusted for baseline adjustments in FY 2027-28, and assuming typical lapses, there is a projected $227.3 million negative GF/GP balance. This estimate assumes that the State will incur a new cost as a result of H.R. 1's provisions for states with payment error rates of 6% or higher in the food assistance program (estimated at $320.0 million ongoing GF/GP). If the SFA's FY 2027-28 SAF revenue estimate is compared with a continuation of the Senate's ongoing spending for FY 2026-27, adjusted for estimated pupils and other costs, and assuming typical lapses, there is a projected balance of $588.2 million.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)

	2024 Actual	2025 Actual	2026 Estimate	2027 Estimate	2028 Estimate
Real Gross Domestic Product (% change)	2.8%	2.1%	2.2%	2.0%	2.0%
US Consumer Price Index (% change)	2.9%	2.6%	3.4%	2.9%	2.6%
Light Motor Vehicle Sales (millions of units)	15.9	16.3	15.6	15.8	15.8
US Unemployment Rate (%)	4.0%	4.3%	4.6%	4.8%	4.9%
Real Michigan Personal Income (% change)	1.6%	2.6%	0.2%	0.2%	0.3%
Michigan Wage & Salary Employment (% change)	0.6%	(0.1%)	(0.3%)	(0.3%)	(0.1%)

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

	FY 2025-26 Estimate			FY 2026-27 Estimate			FY 2027-28 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$17,954.4	($3,514.5)	$14,439.9	$18,094.9	($3,991.4)	$14,103.5	$18,419.5	($3,959.9)	$14,459.6
% Change	4.8%	---	(0.3%)	0.8%	---	(2.3%)	1.8%	---	2.5%
School Aid Fund	$19,281.6	(107.0)	$19,174.6	$19,720.8	(117.5)	$19,603.2	$20,136.0	(123.5)	$20,012.5
% Change	2.4%	---	2.5%	2.3%	---	2.2%	2.1%	---	2.1%
Total GF/GP & SAF	$37,236.1	($3,621.5)	$33,614.5	$37,815.7	($4,109.0)	$33,706.7	$38,555.5	($4,083.4)	$34,472.1
% Change	3.5%	---	1.3%	1.6%	---	0.3%	2.0%	---	2.3%
Revenue Limit – Under (Over)		$12,747.1			$14,799.3			$15,886.0	

	FY 2025-26 Estimate	FY 2026-27 Estimate	FY 2027-28 Estimate
Revision from May Consensus			
GF/GP	$305.8	$28.9	($24.6)
SAF	39.2	34.9	46.8
Total	**$345.0**	**$63.8**	**$22.2**

YEAR-END BALANCE ESTIMATES
SENATE-PASSED BUDGETS (FY 2026-27), CONTINUATION BUDGET (FY 2027-28)
(Fiscal Year, millions of dollars)

	FY 2025-26 Estimate	FY 2026-27 Estimate	FY 2027-28 Estimate
General Fund/General Purpose	$912.5	$354.3	($227.3)
School Aid Fund	$971.8	$225.4	$588.2
Budget Stabilization Fund*	$1,882.9	$1,939.4	$1,987.9

*Reflects Senate-passed budget withdrawing $350.0 million in FY 2025-26 for the Medicaid Caseload Reserve Fund and the HR-1 Costs Fund.

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the SFA's latest economic forecast for 2026, 2027, and 2028, as well as a summary of recent economic activity.

RECENT US ECONOMIC HIGHLIGHTS

- The economy is experiencing a sustained increase in economic uncertainty driven not only by the war in Iran but by shifts in trade policy, ongoing Federal tax and policy changes, demographics shifts, and the increased adoption of artificial intelligence (AI) processes into many economic sectors. On an annual basis the transition has seen economic growth slow, although the quarterly changes have remained volatile.
- Labor markets have relaxed but remain constrained. Population demographics continue to depress the working age population, while slower economic growth and many of the factors driving heightened uncertainty have depressed labor demand and job growth. As a result, unemployment rates have slowly risen, although remain relatively low by historical standards.
- Inflation remains elevated. After peaking in the middle of 2022, inflation trended lower through mid-2025 but began rising in the second half of 2025. Disruptions in supply chains and higher energy prices have increased inflation pressures in 2026.

The COVID-19 pandemic and the subsequent economic recovery were characterized by significant imbalances between different parts of the economy, particularly differing impacts between goods-producing and service-producing sectors, between brick-and-mortar retailers and online merchants, and between sectors more reliant on international supply chains and those less reliant on supply chains. While the pandemic's impact on the economy has waned, the economy has remained in transition due to continuing demographic shifts and both tax and non-tax policy changes at the Federal level. This transition has been complicated by wars in Ukraine and Iran. Adapting to these changes has produced marked swings in the economy on a quarterly basis, with inflation-adjusted Gross Domestic Product (GDP) swinging from a 4.7% seasonally adjusted annual growth rate in the fourth quarter of 2023 to a 0.6% decline in the first quarter of 2025 back to a 4.4% increase in the third quarter of 2025.

Inflation has exhibited similar movements, with changes in the GDP price deflator varying over the same period from a high of 3.8% to a low of 1.6%. On an annual basis, the changes have averaged a downward trend, with both economic growth and inflation largely trending downward. Inflation-adjusted GDP declined from 2.9% growth in 2023 to 2.8% growth in 2024 and 2.1% growth in 2025, while inflation (as measured by the GDP price deflator) declined from 3.7% in 2023 to 2.5% in 2024 and 2.8% in 2025. Inflation, as measured by the Consumer Price Index (CPI) has declined from 8.0% in 2022 to 4.1% in 2023, 2.9% in 2024, and 2.6% in 2025. The slowing economy has also reduced employment gains, with payroll employment growth falling from 2.2% in 2023 to 1.3% in 2024 and 0.5% in 2025, pushing the unemployment rate up from 3.6% in 2023 (the lowest annual employment rate since 1969) to 4.0% in 2024 (still lower than every year between 1970 and 2017, excluding the year 2000) and 4.3% in 2025 (Figure 1).

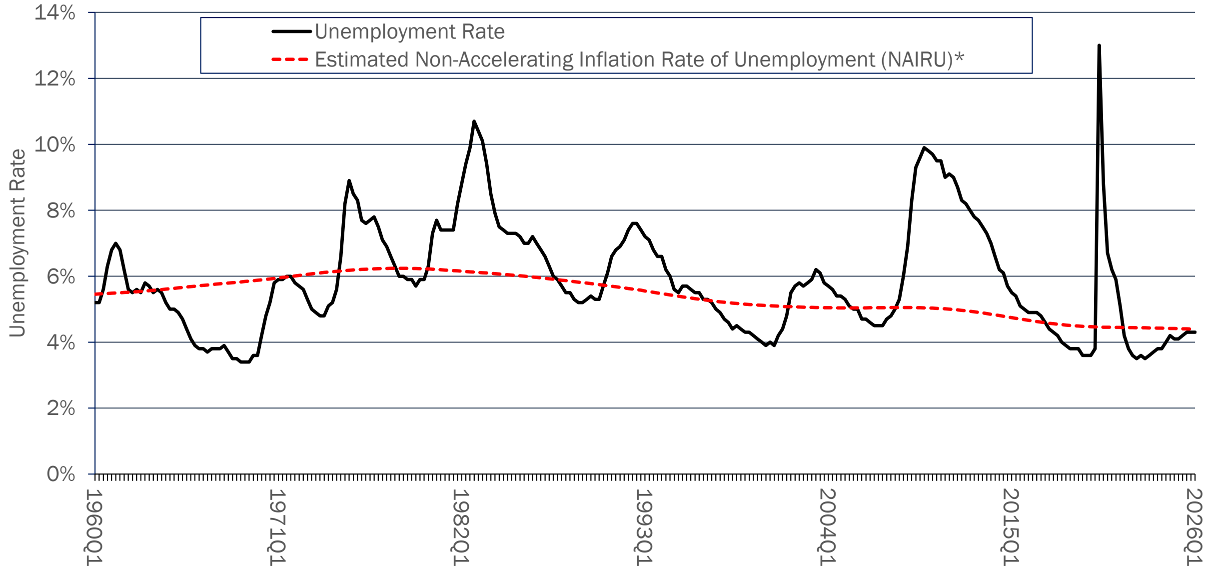
RECENT MICHIGAN ECONOMIC HIGHLIGHTS

- Michigan's economy has mirrored changes in the national economy, but Michigan's comparative over-reliance on the motor vehicle industry and relatively older population has limited the ability of the State economy to keep pace with the US economy.
- Productivity gains and market share declines in the motor vehicle industry caused Michigan to lose jobs from 2000 to 2010 and Michigan has yet to regain employment levels experienced before the 2000-01 recession.
- Like the US economy, the Michigan economy continues to grow, albeit at a slower rate. Inflation remains elevated and the unemployment rate has risen, although the unemployment rate remains low by historical standards.

Figure 1

Unemployment Rate Still Near Lowest Levels in Decades

Rates Are Also At Levels Associated With Inflation



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

Michigan's economy spent the 2000-2010 period in an employment recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Michigan's manufacturing sector experienced, and continues to experience, economic circumstances that limit the prospects for employment growth. In addition, Michigan's over-reliance on the motor vehicle industry has meant those impacts are transmitted through the rest of the Michigan economy. Economic changes in the motor vehicle sector affect the amount of money employees in the sector have to spend on eating out, recreation, legal and financial services, and consumer goods, which affects economic activity in sectors across the State economy and creates feedback effects for those secondarily affected sectors.

These swings are exemplified by the changes in Michigan payroll employment since 2000. Payroll employment fell from a high of 4.7 million workers in June 2000 to 3.8 million in July 2009, a loss of 862,600 jobs (of which more than 220,000, or more than 25%, were in the transportation equipment manufacturing sector). Although Michigan payroll employment recovered 629,800 jobs between the July 2009 Michigan employment trough and the pre-COVID-19 employment peak in December 2019, the pandemic lowered Michigan payroll employment below the 2009 employment trough. The rapid recovery in motor vehicle sales at the national level helped Michigan's employment levels recover from the pandemic recession more rapidly than almost any other state, adding more than 1.1 million jobs to Michigan payroll employment by July 2023. As vehicle sales have stabilized, so has total employment. Michigan's payroll employment totaled 4.5 million workers in March 2026, up more than 1.1 million jobs (31.8%) from the pandemic trough of 3.4 million jobs but relatively unchanged from the levels in mid-2023 (although payroll employment remained 218,200 jobs (4.6%) below the June 2000 all-time peak).

As the national economy has slowed, Michigan has followed suit. Michigan personal income slowed from 5.8% growth in 2023 to 4.6% in 2024 and 4.4% growth in 2025. Payroll employment increased 2.1% in 2023, 0.6% in 2024, and declined 0.1% in 2025, and the slowing rate of job growth helped increase the unemployment rate from 3.9% in 2023 to 4.7% in 2024 and 5.2% in 2025. However, slower economic growth helped reduce inflationary pressures, and the Detroit CPI rose an estimated 1.7% in 2025, after rising 5.8% in 2023 and 3.0% in 2024.

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

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2024 Actual	2025 Actual	2026 Estimate	2027 Estimate	2028 Estimate
United States					
Nominal GDP (year-to-year growth)	5.3%	5.0%	5.9%	4.9%	4.4%
Inflation-Adjusted GDP (year-to-year growth)	2.8%	2.1%	2.2%	2.0%	2.0%
Unemployment Rate	4.0%	4.3%	4.6%	4.8%	4.9%
Wage & Salary Employment (year-to-year growth)	1.2%	0.5%	0.0%	0.0%	0.3%
Inflation					
Consumer Price Index (year-to-year growth)	2.9%	2.6%	3.4%	2.9%	2.6%
GDP Implicit Price Deflator (yr.-to-yr. growth)	2.5%	2.8%	3.6%	2.8%	2.4%
Interest Rates					
90-day Treasury Bill	4.97%	4.07%	3.46%	2.87%	2.62%
10-year Treasury Bill	4.21%	4.29%	4.22%	3.93%	3.74%
Corporate Aaa Bond	5.04%	5.35%	5.42%	5.18%	4.99%
Federal Funds Rate	5.14%	4.21%	3.36%	2.63%	2.51%
Light Motor Vehicle Sales (millions of units)	15.9	16.3	15.6	15.8	15.8
Auto	3.0	2.7	2.6	2.6	2.6
Truck	12.9	13.5	13.0	13.2	13.3
Michigan					
Personal Income (millions)	$645,847	$674,071	$696,122	$717,568	$739,334
Year-to-year growth	4.6%	4.4%	3.3%	3.1%	3.0%
Inflation-Adjusted Personal Income (year-to-year growth)	1.6%	2.6%	0.2%	0.2%	0.3%
Wage & Salary Income (millions)	$310,165	$322,281	$331,370	$341,159	$351,505
Year-to-year growth	4.4%	3.9%	2.8%	3.0%	3.0%
Detroit Consumer Price Index (year-to-year growth)	3.0%	1.7%	3.1%	2.9%	2.7%
Wage & Salary Employment (thousands)	4,486.8	4,483.6	4,469.3	4,456.8	4,453.6
Year-to-year growth	0.6%	(0.1%)	(0.3%)	(0.3%)	(0.1%)
Unemployment Rate	4.7%	5.2%	5.7%	5.7%	5.7%

Table 2

THE SENATE FISCAL AGENCY US ECONOMIC FORECAST DETAIL (Calendar Years)	2024 Actual	2025 Actual	2026 Estimate	2027 Estimate	2028 Estimate
Gross Domestic Product					
(billions of dollars)	$29,298.0	$30,762.1	$32,568.0	$34,153.7	$35,672.1
Year-to-year growth	5.3%	5.0%	5.9%	4.9%	4.4%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2017 dollars)	$23,358.4	$23,850.4	$24,367.5	$24,853.5	$25,349.0
Year-to-year growth	2.8%	2.1%	2.2%	2.0%	2.0%
Consumption					
(billions of 2017 dollars)	$16,088.5	$16,510.6	$16,805.4	$17,084.9	$17,418.6
Year-to-year growth	2.9%	2.6%	1.8%	1.7%	2.0%
Business Fixed Investment					
(billions of 2017 dollars)	$3,518.9	$3,663.1	$3,889.5	$4,068.9	$4,224.7
Year-to-year growth	2.9%	4.1%	6.2%	4.6%	3.8%
Change in Business Inventories					
(billions of 2017 dollars)	$43.5	$28.5	$16.1	$44.5	$56.4
Residential Investment					
(billions of 2017 dollars)	$790.4	$773.1	$740.3	$750.1	$775.8
Year-to-year growth	3.2%	(2.2%)	(4.2%)	1.3%	3.4%
Government Spending					
(billions of 2017 dollars)	$3,945.3	$3,989.7	$4,001.1	$4,030.9	$4,071.5
Year-to-year growth	3.8%	1.1%	0.3%	0.7%	1.0%
Federal budget surplus (billions of dollars, NIPA basis)	($1,874.5)	($1,816.1)	($1,875.2)	($1,880.6)	($2,022.2)
Net Exports (billions of 2017 dollars)	($1,032.6)	($1,090.7)	($1,042.2)	($1,066.0)	($1,134.7)
Exports (billions of 2017 dollars)	$2,633.6	$2,675.6	$2,788.9	$2,835.4	$2,879.3
Imports (billions of 2017 dollars)	$3,666.2	$3,766.3	$3,831.0	$3,901.4	$4,014.0
Personal Income (year-to-year growth)	5.6%	4.9%	3.9%	3.9%	3.8%
Adjusted for Inflation	2.6%	2.2%	0.5%	1.0%	1.2%
Wage & Salary Income					
(year-to-year growth)	5.6%	4.7%	4.2%	3.8%	3.8%
Personal Savings Rate	5.4%	4.6%	3.7%	3.6%	3.6%
Output per hour					
(Labor productivity, annual growth)	3.0%	2.1%	2.2%	1.9%	1.6%
Unit labor costs (annual growth)	2.4%	2.4%	2.0%	1.7%	1.8%
Housing Starts (millions of units)	1.367	1.356	1.328	1.315	1.332
Conventional Mortgage Rates	6.7%	6.6%	6.2%	5.9%	5.7%

FORECAST SUMMARY

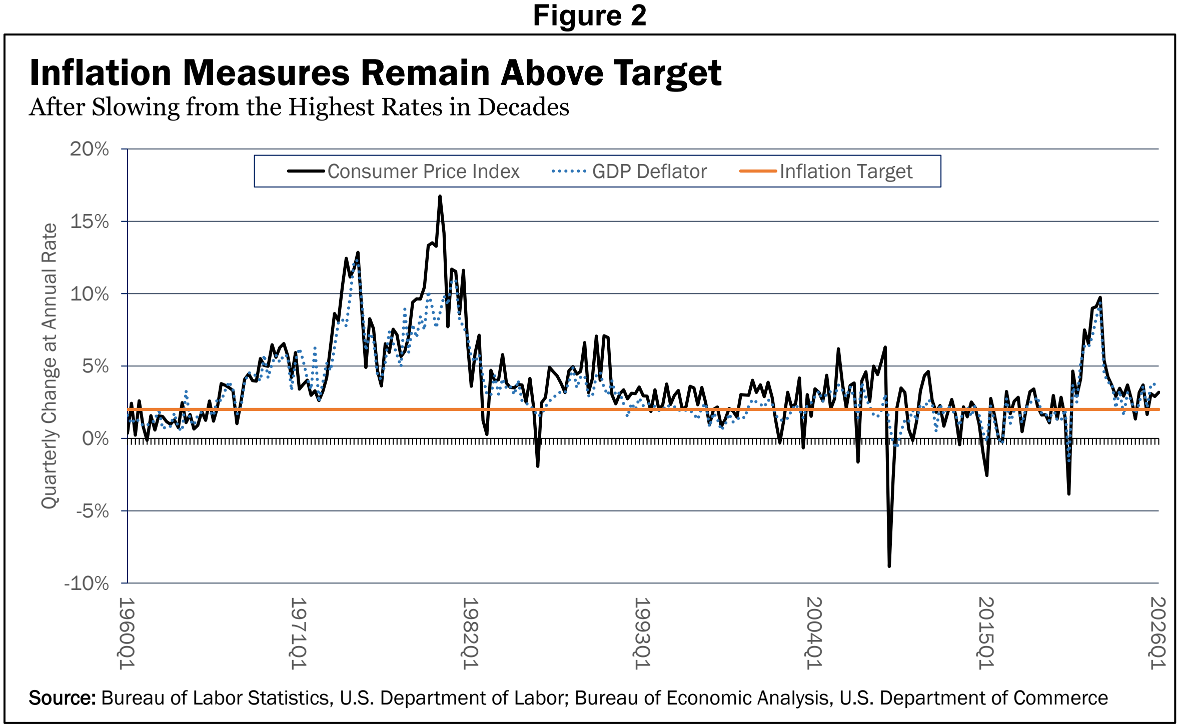
- Throughout the forecast, the US economy is expected to grow at rates similar to those experienced in 2025. Michigan is expected to grow more slowly than the nation as a whole, with inflation-adjusted personal income remaining relatively flat.
- Both the US and Michigan economies will experience limited employment growth over the forecast, resulting in higher unemployment rates.
- Light vehicle sales will weaken in 2026 and remain relatively stable throughout the forecast at levels below the 2014-2019 period. The Detroit Three are expected to continue to lose market share.
- Inflationary pressures will persist through much of the forecast, reflecting events in the national economy.

The US economy is expected to grow at rates similar to those experienced in 2025, while Michigan is expected to grow more slowly than the nation. 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 increased 2.1% in 2025, after growing 2.9% in 2023 and 2.8% in 2024. Inflation-adjusted GDP is forecast to expand 2.2% in 2026, and 2.0% in both 2027 and 2028. The stability in overall growth masks a changing composition in the economic sectors driving growth. In 2025, consumption growth was relatively strong while contributions from nonresidential investment, net exports, and the government sector were less or even subtracted from growth. Over the forecast, personal consumption is expected to slow but the decline will be relatively offset by increases in nonresidential investment and energy exports. Slower consumption growth and higher nonresidential investment are expected to combine to slow job growth.

The economic dynamics of the forecast will mean that unemployment rates will rise (but remain relatively low by historical standards) and inflation will remain above target levels. Nationally, payroll employment slowed from 1.2% growth in 2024 to 0.5% growth in 2025 and is forecast to remain essentially flat in 2026 and 2027 before increasing 0.3% in 2028. As a result, the US unemployment rate will rise, after rising from 4.0% in 2024 to 4.3% in 2025, the unemployment rate is predicted to increase to 4.6% in 2026, 4.8% in 2027, and 4.9% in 2028. Inflation rates slowed slightly in 2025, with growth in the CPI declining from 2.9% in 2024 to 2.6% in 2025, but the forecast expects the CPI to rise 3.4% in 2026, 2.9% in 2027, and 2.6% in 2028 (Figure 2).

Figure 2



In Michigan, the economy will mirror many of the changes in the national economy, although growth will generally be at lower levels (Figures 3 and 4). Michigan payroll employment shifted from 0.6% growth in 2024 to a 0.1% decline in 2025 and is forecasted to decline at near-zero rates over the forecast, falling 0.3% in both 2026 and 2027 and shrinking 0.1% in 2028. Inflation-adjusted personal income increased 1.6% in 2024 and 2.6% in 2025, with the higher growth in 2025 resulting from wage and salary income increasing 3.9% while inflation rose only 1.7%. Reflecting the changes in the national economy in 2026 through 2028, Michigan's inflation-adjusted personal income is predicted to remain relatively flat, growing 0.2% in both 2026 and 2027, and rising 0.3% in 2028.

Nationally, light vehicle sales are estimated to decline in 2026 and then remain relatively stable over the forecast. After increasing from 15.9 million units in 2024 to 16.3 million units in 2025, light vehicle sales are expected to decline to 15.6 million units in 2026 and 15.8 million units in both 2027 and 2028 (Figure 5). For comparison purposes, light vehicles sales averaged 17.1 million units per year during the 2014-2019 period. The "Detroit 3" market share increased slightly in 2025 but is expected to resume its decades long downward trend through the forecast.

The Michigan unemployment rate, which averaged 3.9% in 2023, 4.7% in 2024 and 5.2% in 2025, is predicted to increase to 5.7% in 2026 and remain at that level through 2028. In comparison, Michigan's unemployment rate averaged 5.1% over the 2014-2019 period.

Compared with the January 16, 2026, Consensus Revenue Estimating Conference (CREC) forecast, the current forecast is relatively unchanged at the national level (although both housing and vehicle markets are expected to be weaker in 2028) but somewhat weaker in Michigan, reflecting the impact on the motor vehicle industry of the changed composition of national economic growth and the impact of global events and trade policy. Generally, for both the US and Michigan economies, employment growth is expected to be slower and inflation is expected to be higher than was predicted in January 2026.

Figure 3

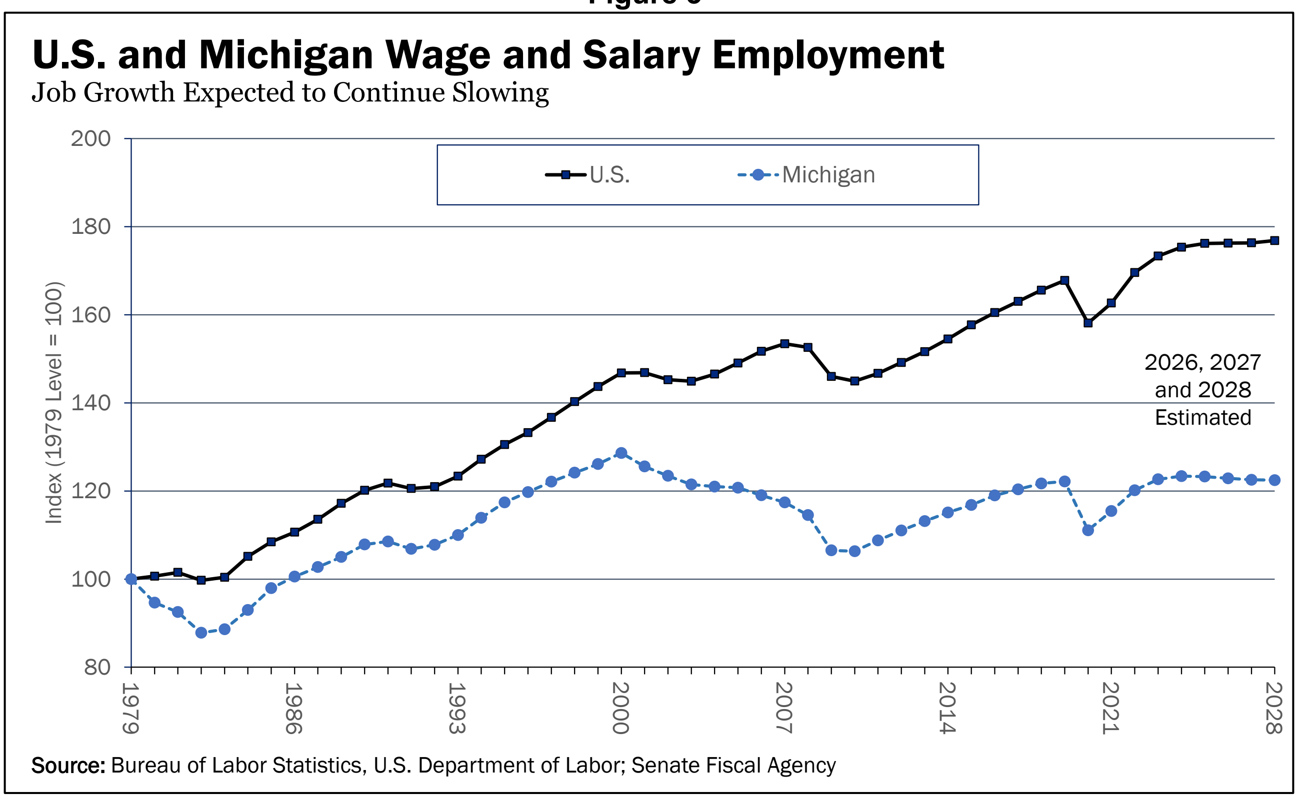


Figure 4

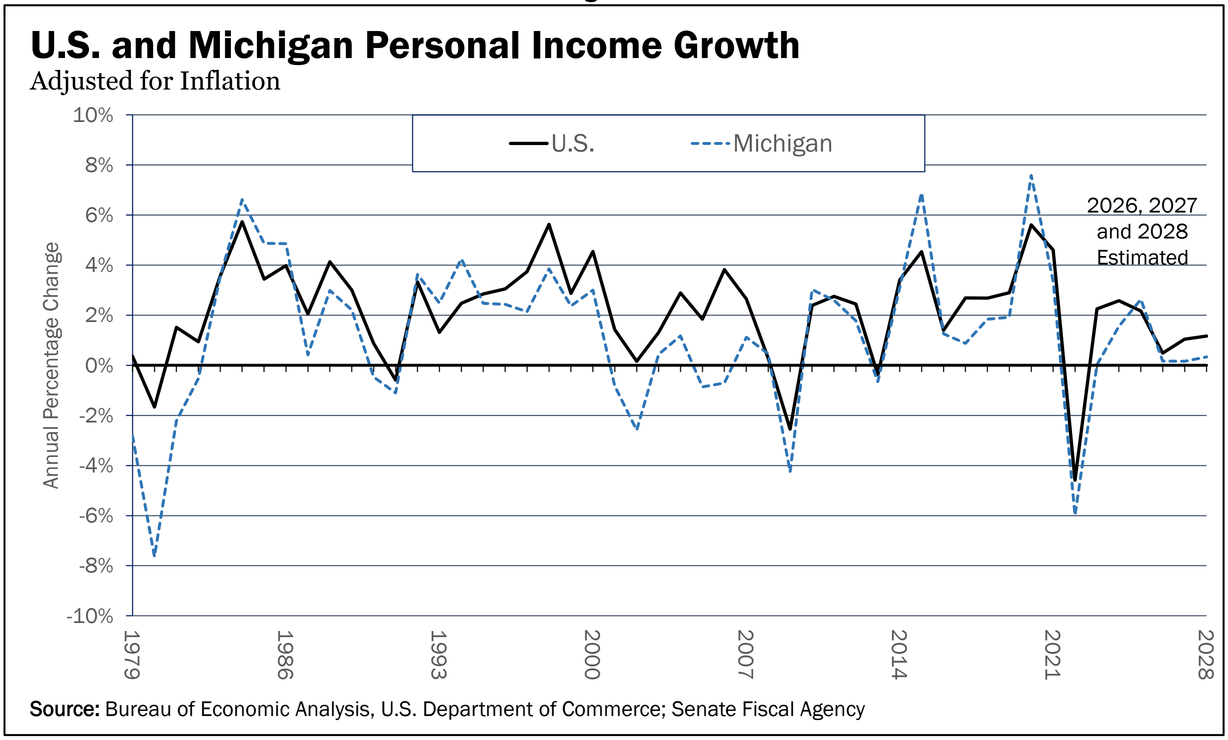
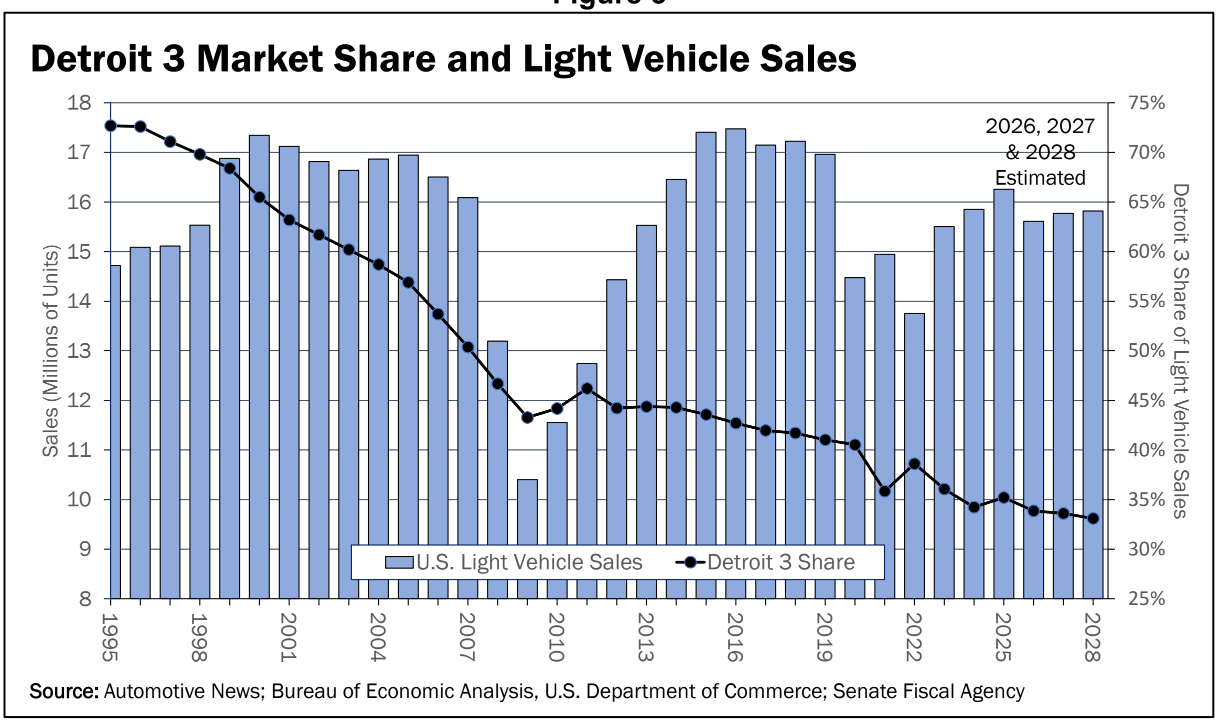


Figure 5



FORECAST RISKS

- Inflationary risks are expected to remain, with monetary policy working to balance price pressures with a softening labor market. Above-forecast interest rates would result in less inflation but slower job growth and higher unemployment rates, causing economic growth to be weaker than forecasted. Similarly, below-forecast interest rates would increase inflationary pressures, with the outcome on employment and economic growth uncertain due to labor market demographics and the incentive rates would have to increase labor substitution.

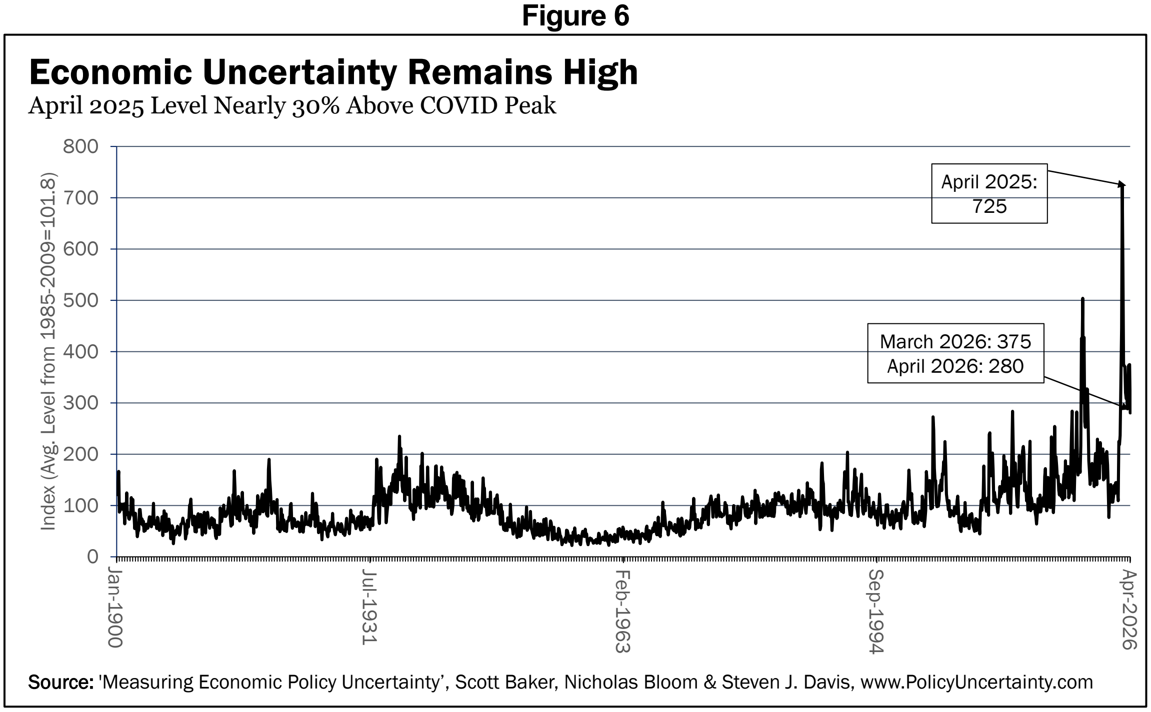
- Uncertainty, whether due to policy changes or geopolitical risks, tends to reduce economic activity. The accuracy of the forecast will be affected by the degree to which monetary and fiscal policy remain stable and predictable and that geopolitical risks remain contained.
- Both the US and Michigan labor markets will face labor market constraints on growth resulting from aging workforces lowering labor force participation.
- Recovery in the Michigan economy will be dominated by what happens with the motor vehicle industry.

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. Traditionally, unexpected changes in economic fundamentals often represent the greatest source of error. Forecast models are driven by historical experience; when circumstances change within a range represented by an adequate history, the models will provide a relatively accurate prediction of the result. What is more difficult is predicting when those changes in economic fundamentals will occur. As the economy continues along a new demographic path and policy represents an additional source of uncertainty, the current forecast suggests a significant number of risks and a large possibility for estimation error.

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 unpredictable and/or extreme changes in the data.

Economic Uncertainty. Over the last two years, measures of economic uncertainty have increased to some of the highest levels observed in over a century. Sources of uncertainty range from micro-level issues where historically useful measures like consumer confidence no longer seem to accurately gauge consumer spending, or the level of job openings in labor surveys no longer seem to accurately reflect labor force dynamics, to more macro-level issues like wars in Iran and Ukraine, the upcoming review of the US-Mexico-Canada Agreement (USMCA), and Federal policies. Federal policy has become a source of substantial uncertainty for both consumers and businesses. Many Federal policies have changed, in some cases significantly, relative to practices of recent years or even decades. However, in some cases, the new policies themselves have been issued, revised or suspended, modified, or come with guidance indicating the policies may change in the future. As a result, many consumers and businesses are more uncertain about the economy than in recent years (Figure 6). Swings in the stock market during the first four months of both 2025 and 2026 have also illustrated this uncertainty and how markets respond to that uncertainty.

Figure 6



The changes in Federal policy have been broad-based and continued to evolve, creating uncertainty that compounds what is created by the initial change. Under the 2025 reconciliation bill (often referenced as the "One Big Beautiful Bill Act" or OBBBA), Federal policy significantly altered the tax treatment of many different types of income and spending, thus affecting the relative prices of different types of economic activity. As with all tax changes, many of the new provisions require the Federal government to provide additional guidance as to the specifics covered by the provisions and often these more precise definitions will differ from what the public has perceived to be covered by the changes. Regardless of definitional clarity, many provisions of the legislation are designed to lower the cost of capital (i.e. non-labor components of production, such as machinery and equipment) and will change the relative costs of labor and capital. Beyond the reconciliation bill, tariff policy has exhibited considerable variability, both over time (in some cases due to court decisions) and across different trading partners. Similarly, changes in immigration policy have affected both the cost and availability of workers that fill demand in the labor market.

Consumers and businesses typically respond to uncertainty by slowing or postponing economic activity. Regardless of whether the economy or a policy change is viewed favorably or unfavorably, if certainty exists then consumers and businesses know the activities they may be able to pursue and can calculate the return on investments. During uncertain times, consumers and businesses will wait until they can reliably determine the costs and benefits of economic actions, such as investments in plant and equipment, major purchases such as homes or motor vehicles, or how much cash to retain on hand or save for retirement, and what financial precautions are necessary to protect against the risk uncertainty represents. To the extent that uncertainty increases or decreases, as well as how long it lasts, will significantly affect the accuracy of the forecast. If the current period of uncertainty is less, or resolved more quickly than estimated, then economic growth will likely be stronger, while more severe uncertainty or prolonged uncertainty will slow economic growth more than forecasted.

Monetary and Fiscal Policy. The forecast does not anticipate any additional major changes in overall Federal spending, although where funds are directed is anticipated to change somewhat over the forecast. On the revenue side, the extension and/or expansion of tax cuts, particularly under the 2025 reconciliation bill, will reduce Federal revenue in the short term and increase the budget deficit. As a result, from both the spending and revenue sides of the budget, Federal fiscal policy is predicted to remain stimulative and to roughly the same degree experienced in 2025. Net Federal saving declined from -6.4% of GDP in 2024 to -5.9% in 2025 and is forecasted to remain between -5.5% and -5.8% of GDP from 2026 through 2028. Budget deficits, whether the result of spending increases or tax reductions, tend to increase inflationary pressure.

Despite inflationary pressures, monetary policy is expected to become more accommodative, as the Federal Reserve seeks to balance concerns about a weaker labor market with the possibility of higher long-term inflationary expectations. The forecast anticipates limited job growth and rising unemployment rates, while the war in Iran, tax cuts, tariff policies, budget deficits, and restrictive immigration policies will work to maintain inflationary pressures. The forecast assumes rate reductions will be concentrated while the labor market remains at its weakest levels, in 2026 and 2027, with the effective Federal Funds Rate falling from 4.21% in 2025 to 3.36% in 2026, 2.63% in 2027, and 2.51% in 2028. However, interest rates are unlikely to be high enough to lower inflation over the forecast to the long-term target of 2.0%.

A major risk affecting how well monetary policy will succeed in slowing inflation relates to consumer spending. Many consumers saw their net worth and cash balances rise in 2020 and 2021 (Figures 7 and 8). Despite the changes in inflation and a variety of stock market swings, consumers remain wealthier than before the pandemic, particularly those consumers with high-income or who are homeowners. Ultimately, inflation has reflected strong consumer demand and the way that demand is transmitted through the rest of the economy, whether by increasing the demand for goods that supply chains struggle to fulfill or a need for additional workers (who are in short supply) to provide goods and services. Whether that demand is fueled by wage growth, boosted by high checking and savings balances, financed by rising consumer borrowing or strong stock market gains, the demand puts pressure on firms to increase output. Because consumer balances and net worth remain above trend, consumers can feel wealthy enough to maintain (or increase) consumption in a world with rising consumer prices and rising interest rates. Consumer spending in the 2022-through-2025 period reflected this behavior, with inflation at the highest levels in decades and inflation-adjusted spending still exhibiting solid growth. The forecast expects consumer spending to grow much more slowly than in recent years. To the extent that spending is stronger than forecasted, both economic growth and inflation are likely to be greater, while if spending declines more than forecast, both growth and inflation will be lower, although unemployment rates will also be higher.

Similarly, if inflation falls more rapidly than expected, economic growth will be stronger, especially if lower inflation allows the Federal Reserve to lower interest rates more rapidly than predicted. However, to the extent that the Federal Reserve finds it necessary to raise interest rates higher than expected or keep them at high levels for longer than expected (perhaps because consumers respond less than expected to rising interest rates), economic growth will be slower than forecasted and unemployment will be higher. Higher-than-anticipated interest rates are likely to curtail loan demand from both consumers and businesses, reducing both consumption and investment.

Figure 7

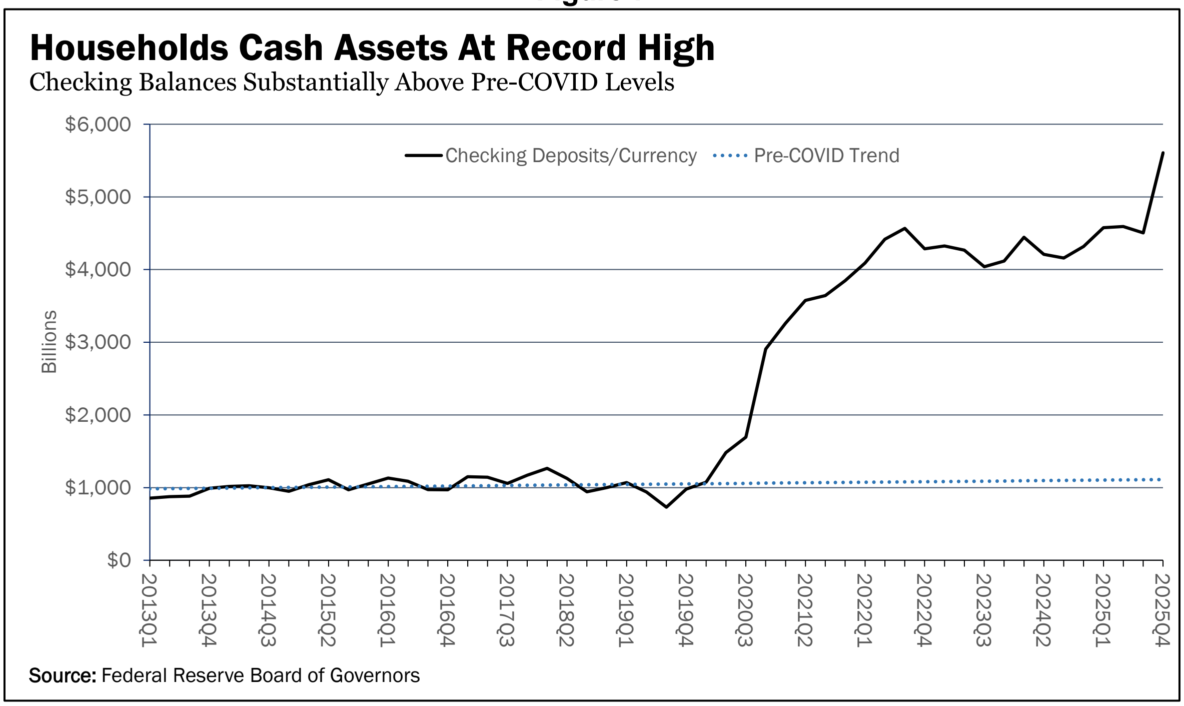
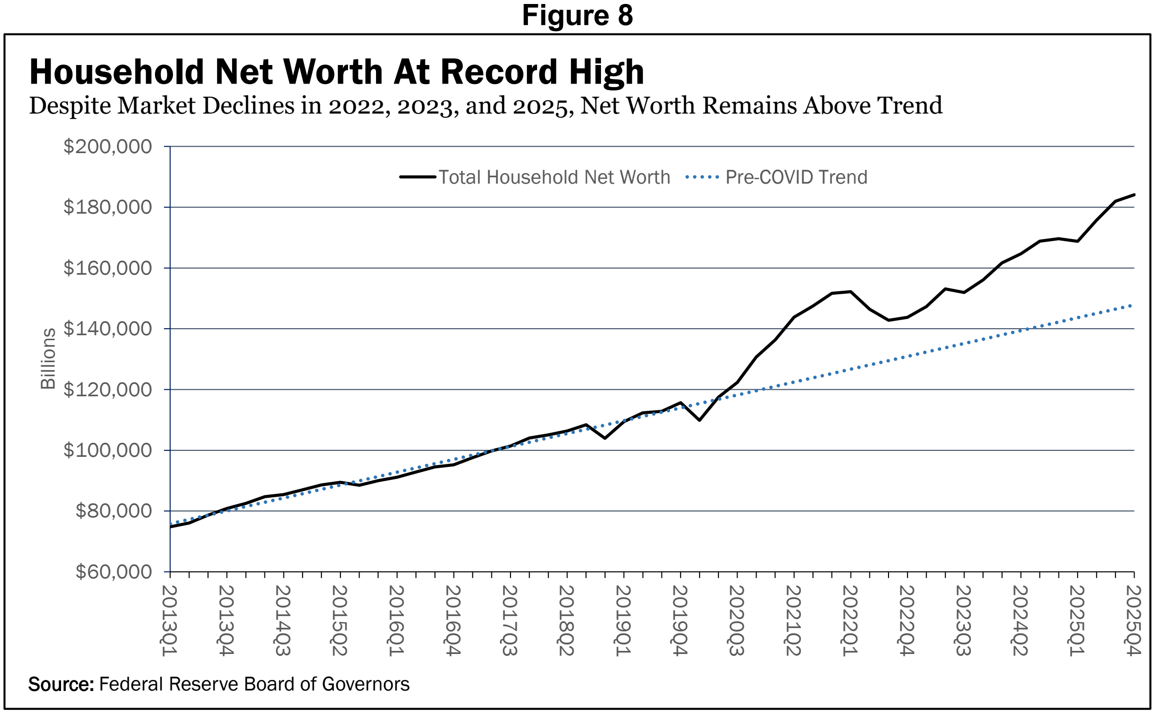


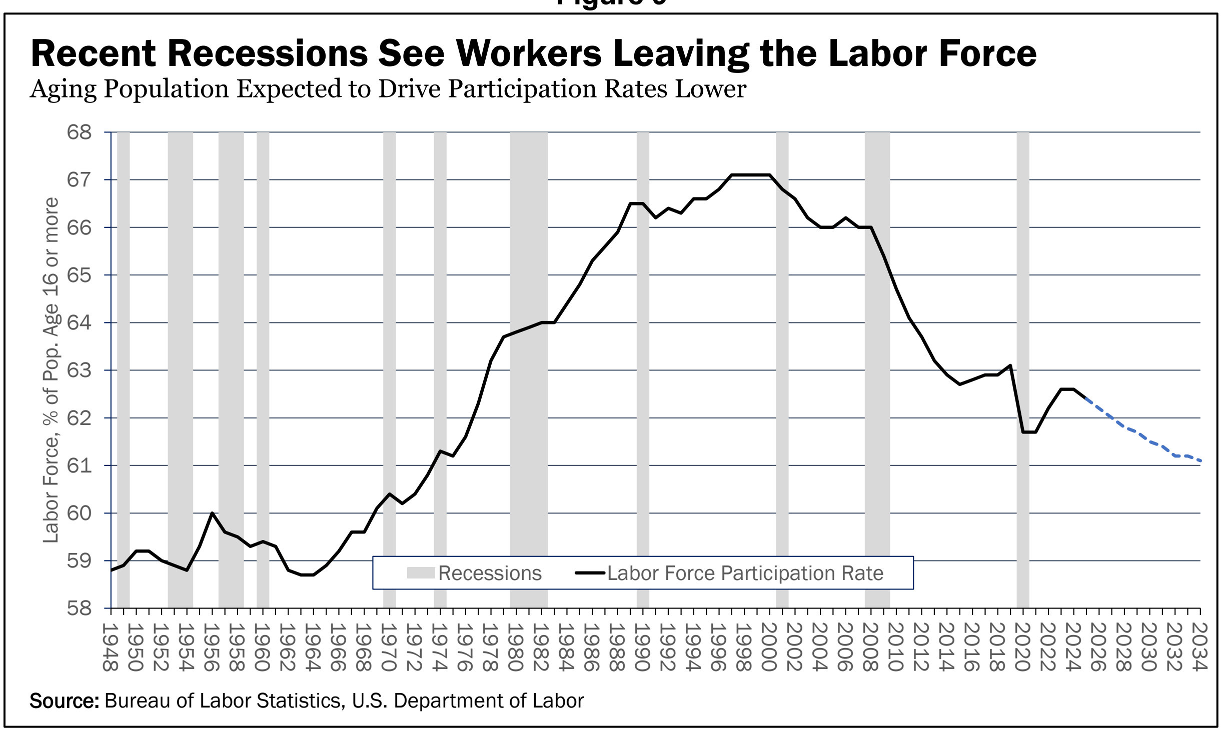
Figure 8



The Labor Market and Long-Term Constraints on Growth. Unemployment rate declines since 2009 have been accelerated by reduced labor market participation, although falling labor force participation rates have played a greater role in lowering the Michigan unemployment rate than they have in reducing the national unemployment rate. Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals giving up their search for jobs. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that those individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages as the economy continues to recover. A March 2018 study from the Congressional Budget Office projected that population demographics would lower labor force participation by more than three percentage points (i.e., 3% of the population) over the next 10 years. Data from the Bureau of Labor Statistics project between 2024 and 2034, the labor force participation rate will fall by 1.5 percentage points, including a 2.2 percentage point decline for men. A declining labor force participation rate will lower unemployment rates, make it more difficult for firms to find the necessary workers, and increase labor costs, particularly in a growing economy. Declining labor force participation will also restrict economic growth.

Both nationally and in Michigan, the large number of individuals who have left (or will leave) the labor force represents a factor that may exert a substantial slowing effect on the future growth of the economy. In 2020 and 2021, the pandemic drastically reduced labor force participation, particularly among women and older adults. By late 2023, labor force participation had largely recovered to pre-pandemic levels, and for some demographics was even above where demographic trends would have predicted. Even absent COVID-19-related concerns and issues, recent history suggests that many who have left the labor force will not return (Figure 9). As a result, unemployment rates have declined relatively rapidly as output has expanded, and the economy has experienced slower employment growth and worker shortages have been widespread. Despite expecting slowing economic activity in 2026 and 2027, the forecast anticipates that labor force dynamics and immigration policy will constrain growth over the next few years (or, in the case of aging population demographics, decades). Moreover, unemployment rates will continue to be lower than suggested by the rate of job growth, and worker shortages will maintain greater pressure on business both to increase investment in labor-reducing equipment and to raise wages.

Figure 9

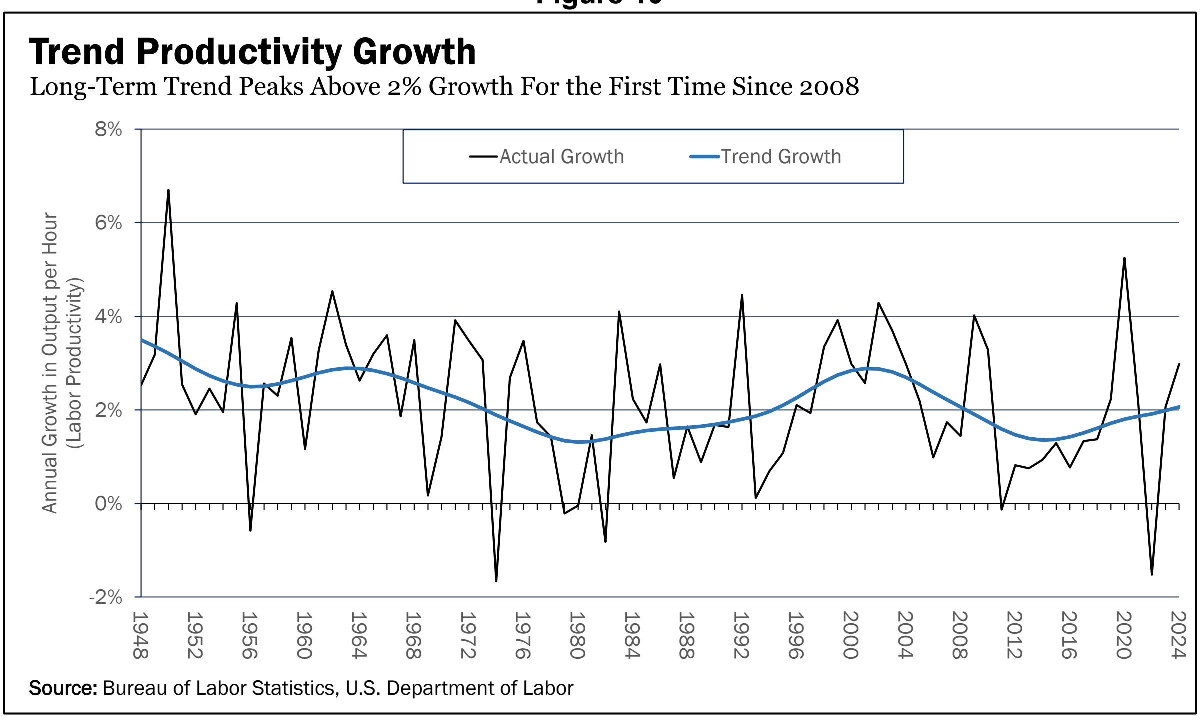


Low population growth and a longer-term slowing in productivity growth will reduce the long-term economic growth potential of the Michigan and US economies. The long-run growth of an economy generally is limited by two factors: population growth and productivity growth. These two factors essentially represent how many people participate in an economy and how effectively they produce goods and services. While short-term deviations inevitably occur, especially as a result of variations in labor force participation and the number of unemployed workers, the trend growth of an economy (or at least of its maximum potential growth) will tend to equal the sum of the growth rates of these two factors. As a result, a portion of the lower growth experienced since the 2008-09 recession can be attributed to slower rates of both population growth and productivity growth. From 1991 to 2010, the average potential growth based on the sum of population growth and productivity was 3.5% per year. From 2011 to 2019, this potential growth averaged 1.7% per year.

For the US as a whole, and Michigan specifically, the rate of population growth has slowly declined for decades. Similarly, productivity growth since the 2008-2009 recession has been much slower than what occurred before the recession. During the 1985-2005 period, productivity grew by approximately 2.3% per year, while productivity averaged 1.0% growth per year between 2010 and 2019, the longest and most severe slowdown in productivity experienced since at least World War II (Figure 10). This decline in productivity occurred despite business investment growing at roughly the same rates as in previous recoveries, at least through mid-2014. Business investment affects not only current economic growth but also future economic growth because investment generally is associated with improving the long-run ability of the economy to grow by increasing productivity. In addition to productivity's role in influencing long-term economic growth, by increasing output and income in the long run, productivity can reduce the need for additional workers in the short run. Conversely, the low productivity growth experienced between 2010 and 2019 boosted employment growth over what it would have been had labor productivity grown at historical rates.

After falling 1.5% in 2022, productivity growth increased 2.1% in 2023 and 3.0% in 2024 but slowed to 2.1% in 2025. The forecast expects output per hour (the measure of productivity discussed here) to increase 2.2% in 2026 and average approximately 1.9% in 2027 and 1.6% in 2028, reflecting stronger rates of business investment than the economy might otherwise expect due to the changes in Federal tax policy and expanded adoption of artificial intelligence technologies. If productivity growth is less than forecasted, in the short run it will reduce economic growth and risk higher inflation than presented in the forecast. Similarly, if productivity growth is greater than forecasted, output will increase and inflation will decline more rapidly, but employment growth will be slower.

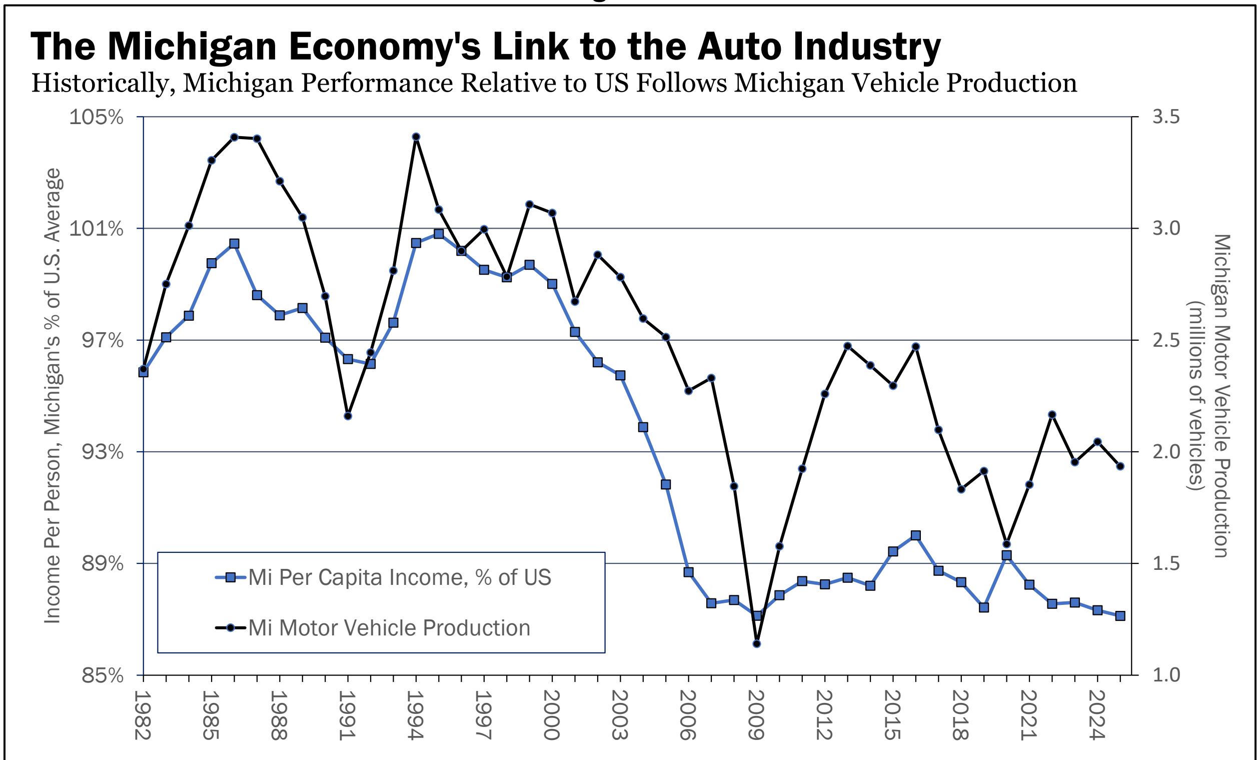
Figure 10



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

Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 11). While that reliance has declined over the long term (for example, in 1998, wages and salaries from transportation equipment manufacturing represented 11.7% of total Michigan wage and salary income, compared to 6.3% in 2024), Michigan still is heavily dependent on manufacturing—particularly motor vehicle manufacturing—and far more dependent than any other state in the country. As a result, when the vehicle market recovered between 2009 and 2016, Michigan generally performed better than other states, particularly those less reliant on the vehicle sector. (A notable exception was that states with large energy sectors grew quite rapidly when oil prices were high, although when oil prices started to fall, these states faced challenges.) Similarly, the relatively rapid recovery in vehicle sales during 2020 helped mute the impact of the COVID-19 pandemic on the Michigan economy.

Figure 11



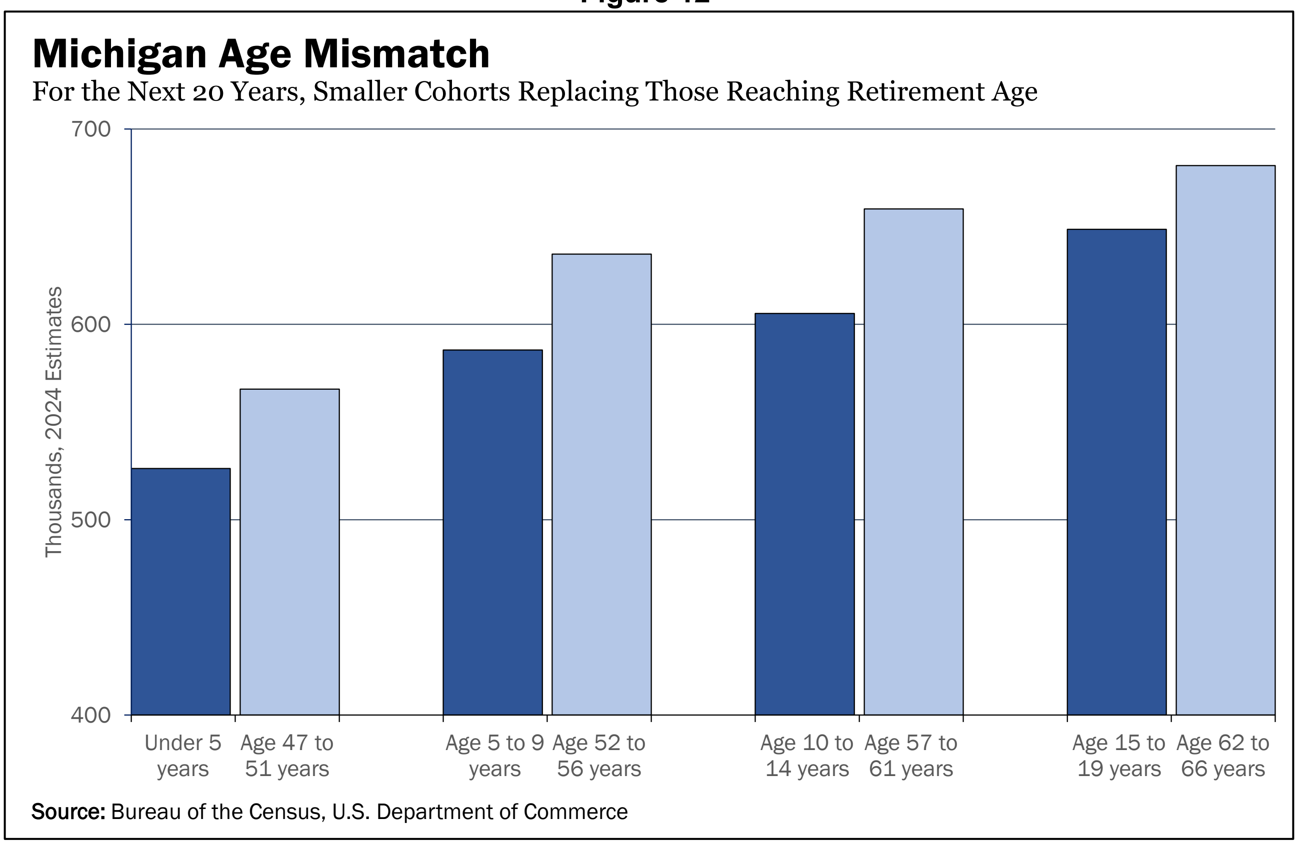
Source: Bureau of Economic Analysis, U.S. Department of Commerce; Michigan Department of Treasury

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

Compounding the employment situation, Michigan exhibits an older population. In 2023, Michigan ranked 13th in the share of population comprised of individuals between the ages of 50 and 64, meaning that age-related declines in the labor force are likely to reduce the Michigan labor force by proportionately more than in most states. Additionally, Michigan exhibited the 16th highest old-age dependency ratio, which represents the pressure on the working-age population to support retired populations. Furthermore, the forecast expects significant productivity growth within the motor vehicle industry and that Michigan vehicle manufacturers are likely to see declining market shares (although the declines will not be as steep as they were during the 1999-2009 period). The aging population is complicated by the lack of younger individuals available to replace workers lost to retirement (Figure 12). For much of the next 20 years, an average of roughly 9,000 more individuals will reach retirement age each year than will reach working age, implying that for the next 20 years Michigan is likely to see its labor force contract substantially each year. Combined with Michigan's reliance on the motor vehicle industry, Michigan's demographic trends suggest Michigan is unlikely to reach the level of total employment reported in April 2000 (the Michigan pre-recession peak) again until sometime in the second half of the 21st century.

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

Figure 12



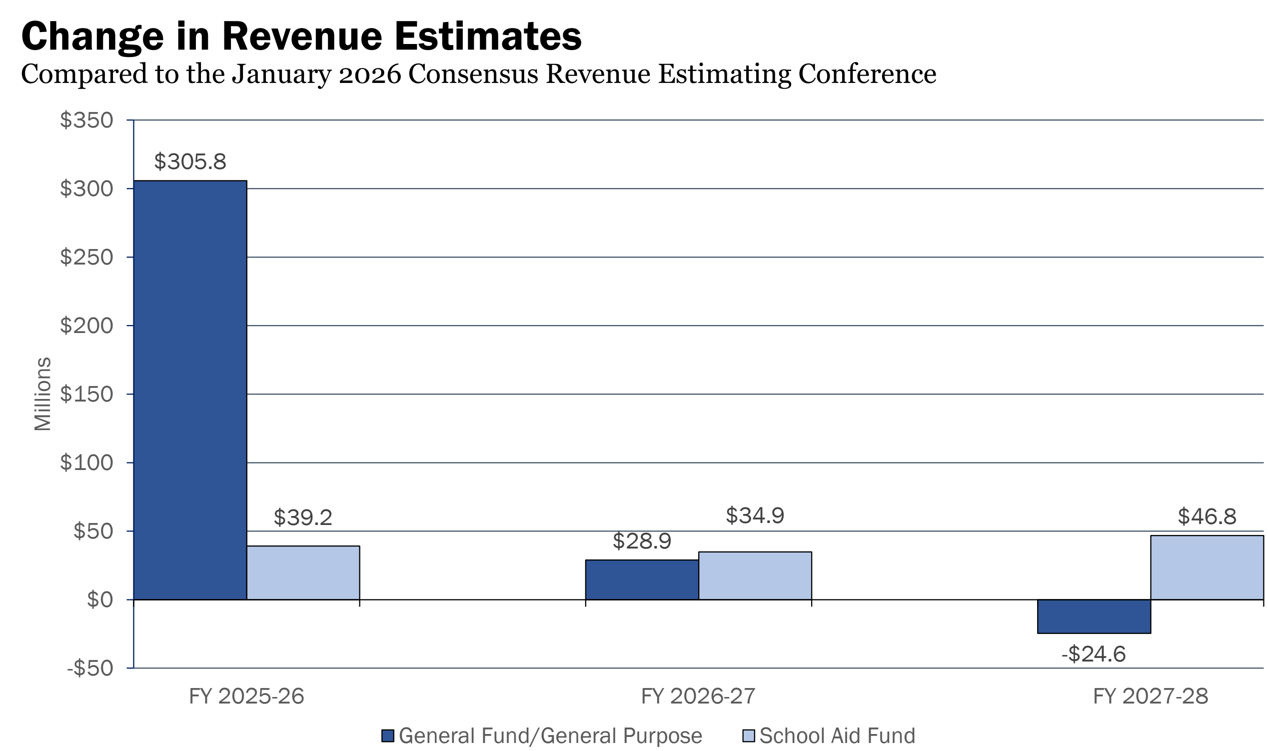
THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the SFA's revised estimates for GF/GP and SAF revenue for FY 2025-26, FY 2026-27, and FY 2027-28. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measure what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. The revenue estimates (generally) do not include adjustments for tax changes proposed but not enacted at the time of the forecast. In addition, the revenue estimates represent the revenue generated from ongoing sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, beginning balances, transfers, or other nonrecurring revenue items. The revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2025-26, FY 2026-27, and FY 2027-28 are discussed in the last section of this report.

REVENUE OVERVIEW

The GF/GP and SAF revised revenue estimates for FY 2025-26, FY 2026-27, and FY 2027-28 are presented in Table 3 and the differences from the January 2026 CREC are summarized below. Changes from the January 2026 CREC estimates are illustrated in Figure 13.

Figure 13



Source: Senate Fiscal Agency

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2024-25 THROUGH FY 2027-28 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)				
	FY 2024-25 Final	**FY 2025-26 Revised Est.**	**FY 2026-27 Revised Est.**	**FY 2027-28 Revised Est.**
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue[1)]	$17,139.2	$17,954.4	$18,094.9	$18,419.5
Tax Changes Not In Baseline	(2,658.0)	(3,514.5)	(3,991.4)	(3,959.9)
Revenue After Tax Changes:				
Net Income Tax	8,442.7	9,641.4	9,626.6	9,764.9
MBT, CIT, SBT & Insur. Tax	1,599.2	1,300.9	1,191.6	1,432.3
Other Taxes	3,307.5	2,756.2	2,628.2	2,659.3
Total Taxes	13,349.4	13,698.5	13,446.4	13,856.5
Nontax Revenue	1,131.9	741.4	657.1	603.1
TOTAL GF/GP REVENUE	**$14,481.2**	**$14,439.9**	**$14,103.5**	**$14,459.6**
SCHOOL AID FUND				
Baseline SAF	$18,834.3	$19,281.6	$19,720.8	$20,136.0
Tax Changes Not In Baseline	(120.7)	(107.0)	(117.5)	(123.5)
TOTAL SAF REVENUE	**$18,713.6**	**$19,174.6**	**$19,603.2**	**$20,012.5**
BASELINE GF/GP AND SAF REVENUE	$35,973.5	$37,236.1	$37,815.7	$38,555.5
Tax & Revenue Changes	(2,778.7)	(3,621.5)	(4,109.0)	(4,083.4)
GF/GP & SAF REV. AFTER CHANGES	**$33,194.8**	**$33,614.5**	**$33,706.7**	**$34,472.1**
ADDENDUM:				
Sales Tax	$10,802.6	$9,835.2	$9,812.7	$9,982.4
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	(1.2%)	4.8%	0.8%	1.8%
Revenue After Tax Changes:				
Net Income Tax	1.3	14.2	(0.2)	1.4
MBT, CIT, SBT & Insur. Tax	(8.8)	(18.7)	(8.4)	20.2
Other Taxes	1.6	(16.7)	(4.6)	1.2
Total Taxes	0.1	2.6	(1.8)	3.1
Nontax Revenue	(4.5)	(34.5)	(11.4)	(8.2)
TOTAL GF/GP REVENUE	**(0.3%)**	**(0.3%)**	**(2.3%)**	**2.5%**
SCHOOL AID FUND				
Baseline SAF	3.6%	2.4%	2.3%	2.1%
TOTAL SAF REVENUE	**3.5%**	**2.5%**	**2.2%**	**2.1%**
Baseline GF/GP and SAF Revenue	1.2%	3.5%	1.6%	2.0%
GF/GP & SAF REV. AFTER CHANGES	**1.8%**	**1.3%**	**0.3%**	**2.3%**
ADDENDUM:				
Sales Tax	2.1%	(9.0%)	(0.2%)	1.7%

1) FY 2024-25 is the base year for baseline revenue.

FY 2025-26 Revised Revenue Estimates

- General Fund/General Purpose and SAF revenue is expected to total $33.6 billion in FY 2025-26.
- This revised estimate for FY 2025-26 is up 1.3%, or $419.7 million, from the revenue for FY 2024-25. The projected revenue increase in FY 2025-26 reflects increases in net personal income taxes, internet gaming revenue, and State Education Property Tax (SET), partially offset by decreases in sales tax and Corporate Income Tax (CIT).
- The revised estimate for FY 2025-26 is $345.0 million above the January 2026 consensus revenue estimate.
- Baseline growth is expected to increase 3.5% and tax adjustments are expected to lower baseline revenue by $3.6 billion.

As indicated in the previous section, personal income will increase 3.3%, wage and salary employment will decrease 0.3%, and wage and salary income will increase 2.8% during 2026, helping to support baseline revenue growth. After tax adjustments, total GF/GP and SAF revenue will reach an estimated $33.6 billion in FY 2025-26, an increase of 1.3%, or $419.7 million, from FY 2024-25.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.4 billion in FY 2025-26, a decrease of 0.3%, or $41.3 million, from the revised estimate for FY 2024-25. Baseline GF/GP revenue is expected to increase 4.8% ($815.2 million) from FY 2024-25. The decrease in GF/GP revenue reflects decreases in sales tax and CIT, compared to FY 2024-25. The revised GF/GP revenue estimates for FY 2025-26 are $305.8 million above the January 2026 consensus estimates and are summarized in Table 4.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $19.2 billion in FY 2025-26, an increase of $461.0 million, or 2.5%, from the revised estimate for FY 2024-25. The forecasted increase in SAF revenue reflects increased income tax revenue dedicated to the SAF, SET, and gaming taxes, partially offset by decreased sales tax and lottery revenue. The revised SAF revenue estimates for FY 2025-26 are $39.2 million above the January 2026 consensus estimates and are summarized in Table 4.

FY 2026-27 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $33.7 billion in FY 2026-27.
- The revised estimate for FY 2026-27 is up 0.3%, or $92.2 million, from the revised estimate for FY 2025-26. The revenue increase in FY 2025-26 reflects an increase in SET and gaming taxes partially offset by a decrease in CIT and lottery revenue.
- The revised estimate for FY 2026-27 is $63.8 million above the January 2026 consensus revenue estimate.
- Baseline growth is expected to increase 1.6% and tax adjustments are expected to lower baseline revenue by $4.1 billion.

During 2027, personal income will grow 3.1%, wage and salary employment will decrease 0.3%, and wage and salary income will grow 3.0%. General Fund/General Purpose and SAF revenue will reach an estimated $33.7 billion in FY 2026-27, an increase of 0.3%, or $92.2 million, from the revised estimate for FY 2025-26.

Table 4

FY 2025-26 PRELIMINARY FINAL REVENUE GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (millions of dollars)					
			Change from FY 2024-25		
	FY 2024-25 Final	FY 2025-26 Revised Est.	Dollar Change	Percent Change	$ Change from 01/26 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$17,139.2	$17,954.4	$815.2	4.8%	$382.1
Tax Changes Not In Baseline	(2,658.0)	(3,514.5)	(856.5)	----	(76.3)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$17,401.9	$18,213.3	$811.4	4.7%	$534.8
Less: Refunds	(4,052.9)	(4,004.3)	48.6	(1.2)	34.6
Net Income Tax Collections	13,349.0	14,209.0	860.0	6.4	569.4
Less: Earmarking to SAF	(4,232.3)	(4,497.8)	(265.5)	6.3	(137.2)
Earmarking to MI Transp. Fund	(604.5)	0.0	604.5	(100.0)	0.0
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	0.0	0.0
Campaign Fund	0.5	(0.8)	(1.3)	----	0.0
Net Income Tax to GF/GP	$8,443.7	$9,641.4	$1,197.8	14.2%	$432.2
Other Taxes					
Corporate Income Tax	$1,501.4	$1,248.7	($252.7)	(16.8%)	($91.3)
Michigan Business Tax	(429.1)	(503.1)	(74.0)	----	0.0
Sales	1,644.9	886.3	(758.6)	(46.1)	(227.5)
Use	1,149.5	1,286.2	136.7	11.9	76.0
Cigarette	122.7	118.8	(3.9)	(3.2)	(2.4)
Insurance Company Premiums	526.7	555.3	28.6	5.4	15.3
Telephone & Telegraph	53.0	54.0	1.0	1.9	8.0
Oil & Gas Severance	19.4	23.7	4.3	22.2	3.7
All Other	317.2	387.2	69.9	22.0	91.8
Subtotal Other Taxes	$4,905.7	$4,057.1	($848.6)	(17.3%)	($126.4)
Total Nontax Revenue	1,131.9	741.4	(390.5)	(34.5)	0.0
GF/GP REV. AFTER TAX CHANGES	**$14,481.2**	**$14,439.9**	**($41.3)**	**(0.3%)**	**$305.8**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$18,834.3	$19,281.6	$447.3	2.4%	$1.6
Tax Changes Not In Baseline	(120.7)	(107.0)	13.7	----	37.6
Revenue After Tax Changes					
Sales Tax	$7,930.8	$7,815.3	($115.5)	(1.5%)	($244.2)
Use Tax	921.4	981.4	60.0	6.5	38.0
Lottery Revenue	1,163.8	1,132.4	(31.5)	(2.7)	(2.6)
State Education Property Tax	2,911.9	3,057.0	145.2	5.0	52.0
Real Estate Transfer Tax	440.2	445.4	5.2	1.2	(14.6)
Income Tax	4,232.3	4,497.8	265.5	6.3	137.2
Gaming Taxes	633.3	763.2	129.9	20.5	67.2
Other Revenue	479.8	482.1	2.2	0.5	6.2
SAF REV. AFTER TAX CHANGES	**$18,713.6**	**$19,174.6**	**$461.0**	**2.5%**	**$39.2**
BASELINE GF/GP AND SAF	**$35,973.5**	**$37,236.1**	**$1,262.5**	**3.5%**	**$383.7**
Tax & Revenue Changes	(2,778.7)	(3,621.5)	(842.8)	----	(38.7)
GF/GP & SAF REV. AFTER CHNGS	**$33,194.8**	**$33,614.5**	**$419.7**	**1.3%**	**$345.0**
Sales Tax	$10,820.6	49,835.2	(4985.4)	(9.1%)	($524.8)

[1)] FY 2024-25 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.1 billion in FY 2026-27, a decrease of $336.4 million from the revised estimate for FY 2025-26. Although baseline GF/GP revenue is expected to increase 0.8%, net GF/GP is forecasted to decline 2.3% due to lower CIT, sales tax, and lower net income tax revenue being only partially offset by higher use tax and insurance premium taxes. The revised GF/GP revenue estimate for FY 2026-27 is $28.9 million above the January 2026 consensus estimates and summarized in Table 5.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $19.6 billion in FY 2026-27, an increase of $428.6 million from the revised estimate for FY 2025-26. Baseline SAF revenue is predicted to increase 2.3% in FY 2026-27. The forecasted increase in SAF revenue reflects an increase in SET, sales tax, income tax, use tax, and gaming taxes, partially offset by a decrease in lottery revenue. The revised SAF revenue estimate for FY 2026-27 is $34.9 million above the January 2026 consensus estimates and summarized in Table 5.

FY 2027-28 Revised Revenue Estimate

- General Fund/General Purpose and SAF revenue is expected to total $34.5 billion in FY 2027-28.
- The revised estimate for FY 2027-28 is up 2.3%, or $765.4 million, from the revised estimate for FY 2026-27. The revenue increase in FY 2027-28 reflects growth in sales tax, SET, and net income tax.
- The revised estimate for FY 2027-28 is $22.2 million below the January 2026 consensus revenue estimate.
- Baseline growth is expected to increase 2.0% and tax adjustments are expected to lower baseline revenue by $4.1 billion.

During 2028, personal income is forecasted to grow 3.0%, while wage and salary income will grow 3.0%, and wage and salary employment will fall 0.1%. As a result, total GF/GP and SAF revenue will reach an estimated $34.5 billion in FY 2027-28, an increase of 2.3%, or $765.4 million, from the revised estimate for FY 2026-27.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $14.5 billion in FY 2027-28, an increase of 2.5%, or $356.1 million, from the revised estimate for FY 2026-27. Baseline GF/GP revenue is expected to increase 1.8% due to continued growth in the economy. The revised GF/GP revenue estimate for FY 2027-28 is $24.6 million below the January 2026 consensus estimates and summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $20.0 billion in FY 2027-28, an increase of $409.3 million, or 2.1%, from the revised estimate for FY 2026-27. The revised SAF revenue estimate for FY 2027-28 is $46.8 million above the January 2026 consensus estimates and summarized in Table 6.

Table 5

FY 2026-27 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

			Change from FY 2025-26		
	FY 2025-26 Revised Est.	**FY 2026-27 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 01/26 Consensus**
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$17,954.4	$18,094.9	$140.5	0.8%	$138.1
Tax Changes Not In Baseline	(3,514.5)	(3,991.4)	(476.9)	----	(109.2)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	18,213.3	18,403.7	190.4	1.0	350.0
Less: Refunds	(4,004.3)	(4,135.0)	(130.7)	3.3	40.0
Net Income Tax Collections	14,209.0	14,268.7	59.7	0.4	390.0
Less: Earmarking to SAF	(4,497.8)	(4,572.3)	(74.5)	1.7	(91.4)
Earmarking to MI Transp. Fund	0.0	0.0	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	$9,641.4	$9,626.6	($14.8)	(0.2%)	%298.6
Other Taxes					
Corporate Income Tax	$1,248.7	$1,140.0	($108.7)	(8.7%)	($140.0)
Michigan Business Tax	(503.1)	(524.4)	(21.3)	4.2	0.0
Sales	886.3	759.1	(127.2)	(14.4)	(240.1)
Use	1,286.2	1,327.1	40.9	3.2	64.6
Cigarette	118.8	115.1	(3.7)	(3.1)	(2.7)
Insurance Company Premiums	555.3	576.0	20.7	3.7	16.0
Telephone & Telegraph	54.0	54.0	0.0	0.0	9.0
Oil & Gas Severance	23.7	26.5	2.8	11.8	5.5
All Other	387.2	346.4	(40.8)	(10.5)	43.0
Subtotal Other Taxes	$4,057.1	$3,819.8	($237.3)	(5.8%)	($244.7)
Total Nontax Revenue	741.4	657.1	(84.3)	(11.4)	(25.0)
GF/GP REV. AFTER TAX CHANGES	**$14,439.9**	**$14,103.5**	**($336.4)**	**(2.3%)**	**$28.9**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$19,281.6	$19,720.8	$439.1	2.3%	$4.0
Tax Changes Not In Baseline	(107.0)	(117.5)	(10.5)	----	30.9
Revenue After Tax Changes					
Sales Tax	$7,815.3	$7,967.7	$152.4	2.0%	($256.7)
Use Tax	981.4	1,002.7	21.3	2.2	32.4
Lottery Revenue	1,132.4	1,110.0	(22.4)	(2.0)	0.0
State Education Property Tax	3,057.0	3,208.0	151.0	4.9	108.0
Real Estate Transfer Tax	445.4	470.0	24.6	5.5	(5.0)
Income Tax	4,497.8	4,572.3	74.5	1.7	91.4
Gaming Taxes	763.2	809.3	46.1	6.0	72.0
Other Revenue	482.1	463.1	(18.9)	(3.9)	(7.2)
SAF REV. AFTER TAX CHANGES	**$19,174.6**	**$19,603.2**	**$428.6**	**2.2%**	**$34.9**
BASELINE GF/GP AND SAF	**$37,236.1**	**$37,815.7**	**$579.6**	**1.6%**	**$142.1**
Tax & Revenue Changes	(3,621.5)	(4,109.0)	(487.4)	----	(78.3)
GF/GP & SAF REV. AFTER CHNGS	**$33,614.5**	**$33,706.7**	**$92.2**	**0.3%**	**$63.8**
Sales Tax	$9,835.2	$9,812.7	($22.5)	(0.2%)	($562.3)

1) FY 2024-25 is the base year for baseline revenue.

Table 6

FY 2027-28 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(millions of dollars)

	FY 2026-27 Revised Est.	FY 2027-28 Revised Est.	Change from FY 2026-27: Dollar Change	Change from FY 2026-27: Percent Change	$ Change from 01/26 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$18,094.9	$18,419.5	$324.5	1.8%	$89.7
Tax Changes Not In Baseline	(3,991.4)	(3,959.9)	31.6	----	(114.3)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	$18,403.7	$18,606.8	$203.1	1.1%	$243.0
Less: Refunds	(4,135.0)	(4,148.0)	(13.0)	0.3	37.1
Net Income Tax Collections	14,268.7	14,458.8	190.1	1.3	280.1
Less: Earmarking to SAF	(4,572.3)	(4,624.1)	(51.8)	1.1	(66.7)
Earmarking to MI Transp. Fund	0.0	0.0	0.0	----	
Earmarking to Renew MI Fund	(69.0)	(69.0)	0.0	----	
Campaign Fund	(0.8)	(0.8)	0.0	0.0	0.0
Net Income Tax to GF/GP	$9,626.6	$9,764.9	$138.3	1.4%	$213.4
Other Taxes					
Corporate Income Tax	$1,140.0	$1,181.1	$41.1	3.6%	($72.0)
Michigan Business Tax	(524.4)	(344.9)	179.5	(34.2)	0.0
Sales	759.1	760.4	1.3	0.2	(248.8)
Use	1,327.1	1,378.3	51.2	3.9	58.7
Cigarette	115.1	111.8	(3.3)	(2.9)	(4.3)
Insurance Company Premiums	576.0	596.1	20.1	3.5	16.5
Telephone & Telegraph	54.0	54.0	0.0	0.0	9.0
Oil & Gas Severance	26.5	25.7	(0.8)	(3.0)	3.7
All Other	346.4	329.1	(17.3)	(5.0)	19.2
Subtotal Other Taxes	$3,819.8	$4,091.6	$271.8	7.1%	($218.0)
Total Nontax Revenue	657.1	603.1	(54.0)	(8.2)	(20.0)
GF/GP REV. AFTER TAX CHANGES	**$14,103.5**	**$14,459.6**	**$356.1**	**2.5%**	**($24.6)**
SCHOOL AID FUND:					
Baseline Revenue[1]	$19,720.8	$20,136.0	$415.3	2.1%	$13.1
Tax Changes Not In Baseline	(117.5)	(123.5)	(6.0)	----	33.7
Revenue After Tax Changes					
Sales Tax	$7,967.7	$8,112.6	$144.9	1.8%	($275.0)
Use Tax	1,002.7	1,028.7	26.0	2.6	29.3
Lottery Revenue	1,110.0	1,099.0	(11.0)	(1.0)	(6.0)
State Education Property Tax	3,208.0	3,356.1	148.1	4.6	160.0
Real Estate Transfer Tax	470.0	498.3	28.3	6.0	10.0
Income Tax	4,572.3	4,624.1	51.8	1.1	66.7
Gaming Taxes	809.3	837.4	28.1	3.5	73.4
Other Revenue	463.1	456.3	(6.8)	(1.5)	(11.6)
SAF REV. AFTER TAX CHANGES	**$19,603.2**	**$20,012.5**	**$409.3**	**2.1%**	**$46.8**
BASELINE GF/GP AND SAF	**$37,815.7**	**$38,555.5**	**$739.8**	**2.0%**	**$102.8**
Tax & Revenue Changes	(4,109.0)	(4,083.4)	25.6	----	(80.6)
GF/GP & SAF REV. AFTER CHNGS	**$33,706.7**	**$34,472.1**	**$765.4**	**2.3%**	**$22.2**
Sales Tax	$9,812.7	$9,982.4	$169.7	1.7%	($592.6)

[1] FY 2024-25 is the base year for baseline revenue.

TAX POLICY CHANGES

Individual Income Taxes. Indexing the personal exemption under the IIT for inflation will reduce revenue by $382.5 million ($291.4 million GF/GP and $91.1 million SAF) in FY 2025-26, $442.5 million ($337.1 million GF/GP and $105.4 million SAF) in FY 2026-27, and $502.6 million ($383.0 million GF/GP and $119.6 million SAF) in FY 2027-28.

Public Act 4 of 2023 expanded exemptions for certain retirement income, reducing IIT revenue by $453.0 million ($356.2 million GF/GP and $96.8 million SAF) in FY 2025-26, $503.0 million ($394.7 million GF/GP and $108.3 million SAF) in FY 2026-27, and $518.0 million ($406.5 million GF/GP and $111.5 million SAF) in FY 2027-28. Public Act 4 of 2023 also increased the Earned Income Tax Credit (EITC) from 6.0% of the Federal level to 30.0% of the Federal level. The EITC changes will reduce revenue by $475.0 million (all GF/GP) in FY 2025-26, $500.0 million (all GF/GP) in FY 2026-27, and $515.0 million (all GF/GP) in FY 2027-28.

Decoupling and Federal Tax Reform. The 2025 reconciliation bill, i.e., the OBBBA, made a number of changes to Federal taxes. Absent changes in Michigan statute, some of those changes would automatically affect Michigan tax revenue, while other changes would not. Public Act 24 of 2025 altered Michigan statute to “decouple” from the Federal changes, so that many of the tax changes would not automatically flow through and alter Michigan tax liabilities. Public Act 24 also “coupled” to select changes in Federal law, particularly for retirement income, overtime pay and tip income, that would not have altered Michigan liabilities without statutory changes. The ”decoupling” primarily affected CIT revenue, although there was some impact under the IIT due to flow-through entities and sole proprietorships. The “coupling” changes will reduce IIT revenue to the General Fund by $153.6 million in FY 2025-26, $178.0 million in FY 2026-27, and $189.0 million in FY 2027-28.

Transportation Funding Legislation. Many of the changes enacted in 2025 to provide additional funds to highway and road construction and maintenance did not affect either the General Fund or the SAF. However, three changes did affect GF/GP and SAF revenue. First, the legislation eliminated, beginning in FY 2025-26, the $600.0 million earmark of IIT revenue from the General Fund to the Michigan Transportation Fund. Second, the legislation created an earmark of CIT revenue from the General Fund to the Neighborhood Roads Fund (NRF), which totals $688.0 million in FY 2025-26, $776.0 million in FY 2026-27, and $864.0 million in FY 2027-28. The earmark will continue to grow until FY 2029-30, when it will total slightly more than $1.0 billion. Third, the legislation eliminated the sales tax on motor fuels, which reduced GF/GP revenue, as well as revenue to the Comprehensive Transportation Fund (CTF) and constitutional revenue sharing to local units of government. The sales tax exemption also would have reduced SAF revenue except that the legislation included a provision to require the General Fund to reimburse the SAF for any revenue losses due to the exemption. The exemption is forecasted to reduce sales tax collections by $831.3 million in FY 2025-26 ($709.5 million GF/GP), $1.1 billion in FY 2026-27 ($906.0 million GF/GP), and $1.1 billion in FY 2027-28 ($928.6 million GF/GP).

Personal Property Tax Reform. Use tax collections of $571.4 million in FY 2025-26, $572.2 million in FY 2026-27, and $572.6 million in FY 2027-28 will be levied by the Local Community Stabilization Authority (LCSA). These collections finance reimbursements of local revenue losses associated with exempting eligible manufacturing personal property from property taxation and the continuing impact of the small taxpayer exemption. Use tax collections for the LCSA reduce GF/GP revenue.

Business Taxes. The MBT will lower GF/GP revenue by $503.1 million in FY 2025-26, $524.4 million in FY 2026-27, and $344.9 million in FY 2027-28. All the impact of MBT credits reduces GF/GP revenue. Earmarks of CIT revenue adopted in Public Act 4 of 2023 will reduce GF/GP revenue by $50.0 million in each fiscal year, while additional earmarks adopted in Public Act 24 of 2025 will reduce GF/GP revenue by 688.0 million in FY 2025-26, $776.0 million in FY 2026-27, and $864.0 million in 2027-28.

Other Changes. Changes to the Michigan Liquor Control Code will lower GF/GP revenue by $16.7 million in FY 2025-26, $17.2 million in FY 2026-27, and $17.7 million in FY 2027-28. The LCSA small taxpayer exemption will reduce revenue by $75.0 million, all GF/GP, in all forecasted fiscal years. The SAF hold-harmless provisions for several tax exemptions will reduce sales tax revenue $56.4 million ($50.8 million GF/GP and $5.6 million other) in FY 2025-26, $57.0 million ($51.3 million GF/GP and $5.7 million other) in FY 2026-27, and $58.7 million ($52.9 million GF/GP and $5.9 million other) in FY 2027-28. The SAF hold-harmless provisions for several tax exemptions will reduce use tax revenue $25.8 million in FY 2025-26, $26.5 million in FY 2026-27, and $27.1 million in FY 2027-28, all GF/GP. Adjustments to the Liquor Purchase Revolving Fund for authorized distribution agents will lower General Fund revenue by $48.1 million in FY 2025-26, $50.7 million in FY 2026-27, and $54.1 million in FY 2027-28.

Historical Perspective

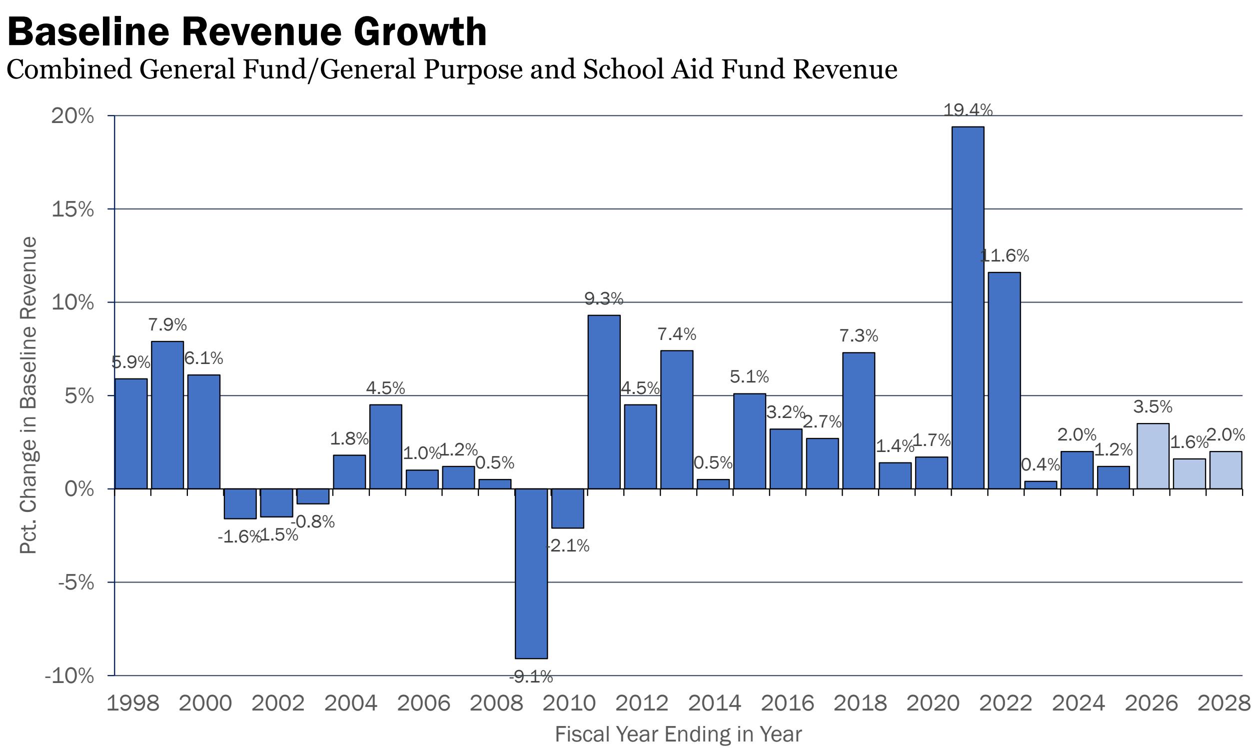
- Net GF/GP and SAF revenue increased 1.8% in FY 2024-25. Net GF/GP and SAF revenue is forecast to increase 1.3% in FY 2025-26, 0.3% in FY 2026-27, and 2.3% in FY 2027-28. These changes compare with an average decline of 0.9% per year for the FY 2000-01 to FY 2009-10 period and an average increase of 3.0% per year from FY 2010-11 to FY 2019-20.
- General Fund/General Purpose revenue fell 0.3% in FY 2024-25, after climbing steadily from the recent low in FY 2009-10. This comparison does not adjust for inflation.
- The SAF has regained the amounts lost during the 2008-2009 recession and has been reimbursed from the General Fund for revenue losses due to personal property tax (PPT) changes. School Aid Fund revenue rose 3.5% in FY 2024-25, after climbing steadily from the recent low in FY 2011-12. This comparison does not adjust for inflation.

Combined GF/GP and SAF baseline revenue increased 1.2% in FY 2024-25 and is predicted to increase over the forecast (Figure 14). General Fund/General Purpose and SAF baseline revenue declined during several periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. Using the FY 2024-25 base year, baseline GF/GP and SAF revenue is expected to increase approximately 3.5% in FY 2025-26, 1.6% in FY 2026-27, and 2.0% in FY 2027-28.

With the growth estimated over the forecast period, ongoing GF/GP revenue in FY 2025-26 will be approximately 5.1% (or $772.1 million) below the peak GF/GP revenue level in FY 2021-22 (without accounting for inflation). The estimated GF/GP revenue of $14.1 billion in FY 2026-27 is 7.3% below the peak, and FY 2027-28 is 5.0% below the peak level (Figure 15). In inflation-adjusted terms, FY 2027-28 GF/GP revenue is estimated to be 8.9% (or $959.4 million in 2017 dollars) below the FY 1967-68 level (Figure 16).

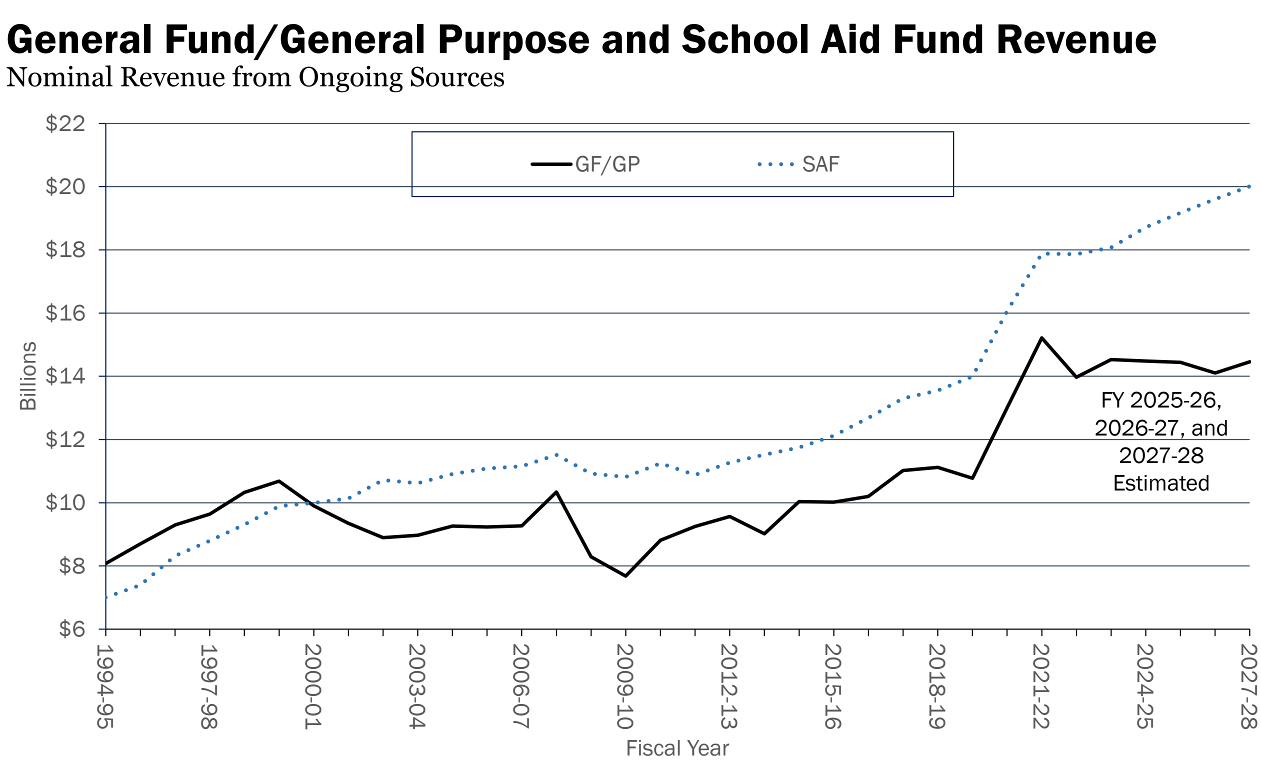
In contrast to the swings in the path of GF/GP revenue over the last decade, SAF-earmarked revenue has been on a smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10, and enacted tax legislation reduced revenue in FY 2011-12. Ongoing SAF revenue is expected to increase in FY 2025-26 and increase in FY 2026-27 and FY 2027-28 (Figure 17). In FY 2027-28, SAF revenue is predicted to be approximately 185.8% ($13.0 billion) above the revenue level in FY 1994-95 (without accounting for inflation) and 1.7% ($227.3 million in 2017 dollars) higher if adjusted for inflation (Figure 17).

Figure 14



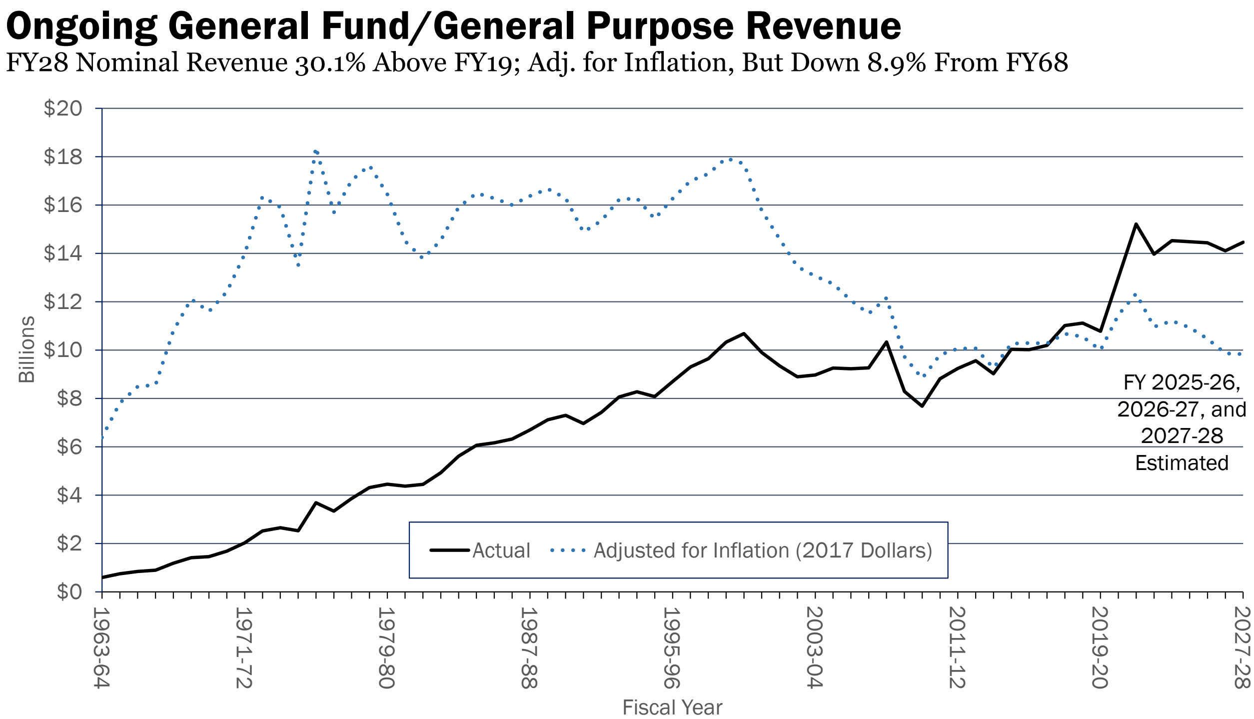
Source: Michigan Department of Treasury and Senate Fiscal Agency

Figure 15



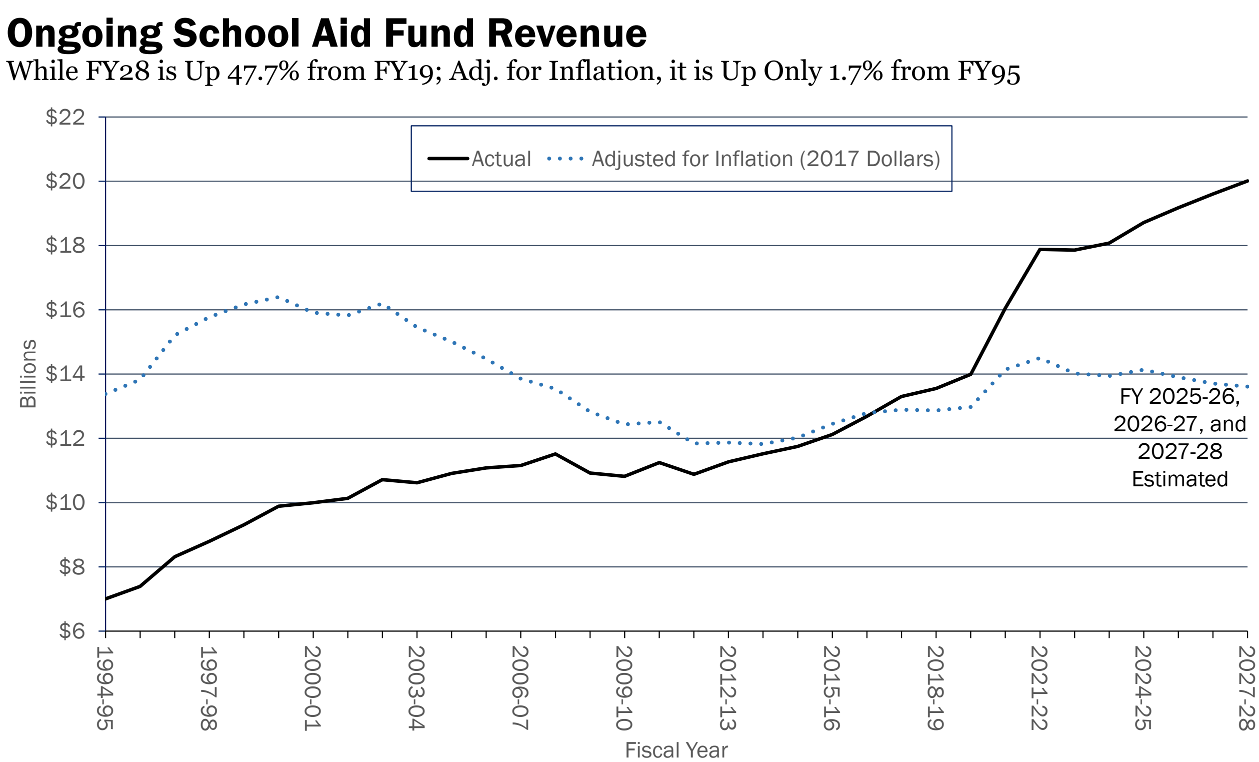
Source: Michigan Department of Treasury and Senate Fiscal Agency

Figure 16



Source: Bureau of Economic Analysis, U.S. Department of Commerce; Michigan Department of Treasury; Senate Fiscal Agency

Figure 17



Source: Bureau of Economic Analysis, U.S. Department of Commerce; Michigan Department of Treasury; Senate Fiscal Agency

MAJOR GENERAL FUND & SCHOOL AID FUND TAXES IN FY 2025-26 THROUGH FY 2027-28

Individual Income Tax. Individual income tax net collection will increase an estimated 6.4% in FY 2025-26, to $14.2 billion. Fiscal year 2025-26 withholding, which represents the majority of gross IIT revenue, will increase 4.3%. Quarterly estimates will increase 9.1%, and annual payments will decrease 2.6%. As economic growth slows, withholding will grow 1.6% in FY 2026-27 and 2.3% in FY 2027-28. Compared with the January 2026 consensus revenue estimates, the revised estimate for FY 2025-26 IIT revenue is $569.4 million higher, and the revised estimates for FY 2026-27 and FY 2027-28 are $390.0 million and $280.1 million higher, respectively, reflecting higher employment and wage growth forecasts.

Sales Tax. The forecast predicts Michigan sales tax revenue will fall 9.0% in FY 2025-26 and 0.2% in FY 2026-27 and rise 1.7% in FY 2027-28. Compared with the January 2026 consensus revenue estimates, the FY 2025-26 sales tax estimate is down $524.8 million while the revised sales tax estimate for FY 2026-27 is $562.3 million lower and the estimate for FY 2027-28 is $592.6 million lower. The year-to-year changes primarily reflect revised estimates of consumer spending due to changes in personal income and changes made to the sales tax in the 2025 road funding bills (which exempted sales of motor fuel from the sales tax). Most sales tax revenue is earmarked to the SAF (73.3%) and the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. To reflect the significant portion of sales tax revenue earmarked in statute for revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report. As a result, the estimates presented in this section are reduced only for constitutional revenue sharing.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, to telephone service (both residential and business), to the purchase of business equipment in other states for use in Michigan, to vehicle leases, can be volatile. Use tax revenue is expected to increase 7.3% in FY 2025-26, then increase 2.2% in FY 2026-27, and 2.6% in FY 2027-28. Beginning in FY 2015-16, a portion of use tax revenue previously directed to the General Fund is converted into a local use tax used to fund reimbursements to local units affected by PPT exemptions adopted in 2012. Payments to the LCSA started at $96.4 million in FY 2015-16, rose over time to $571.4 million in FY 2025-26, and will total $572.2 million in FY 2026-27, and $572.6 million in FY 2027-28 as they increase annually. Compared with the January 2026 consensus revenue estimates, the FY 2025-26 estimate for combined State and local use tax collections is revised upward by $114.0 million, the FY 2026-27 estimate is $97.0 million higher, and the FY 2027-28 estimate is $88.0 million higher. One-third of use tax revenue at a 6.0% rate is directed to the SAF, while the remaining two-thirds is allocated between the General Fund and the LCSA according to statutory provisions that alter the relative shares each year.

Tobacco Taxes. Tobacco tax revenue is expected to continue its long-term downward trend, declining 3.2% in FY 2025-26, 3.2% in FY 2026-27, and 3.0% in FY 2027-28. However, the overall decline in total tobacco tax revenue has masked a change in the composition of tobacco tax revenue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products (cigars, noncigarette smoking tobacco, and smokeless tobacco) increases. In the forecast period, this trend is expected to continue, as tax revenue from cigarettes is expected to decline, with tax revenue from other tobacco products increasing, but not enough to stop the decline in total tobacco tax revenue. Tobacco taxes are split across multiple funds, including the General Fund, the SAF, the Medicaid Benefits Trust Fund, the Healthy Michigan Fund, the State Capitol Historic Site Fund, and the Health and Safety Fund, as well as distributions to Wayne County and the State Police.

Gaming Taxes. The State's tax on casinos is directed to the SAF. In FY 2025-26, casino tax revenue is projected to total $102.9 million, a 0.3% decrease from FY 2024-25. Casino tax revenue is expected to grow 1.4% in FY 2026-27 and 3.0% in FY 2027-28, reflecting a more typical growth pattern. Online gaming options are expected to continue growing over the forecast, with online gaming revenue to the SAF increasing 24.6% in FY 2025-26, to $660.3 million, and growth slowing to a 6.8% increase in FY 2026-27 and a 3.5% gain in FY 2027-28.

State Education Property Tax. Weakness in the housing sector drove SET revenue down each year from FY 2007-08 to FY 2012-13. Recovery in the housing market and taxable values resulted in growth in this tax beginning in FY 2013-14, when collections increased by 1.9%, to $1.8 billion. State Education Tax collections totaled $2.9 billion in FY 2024-25 and are projected to increase 5.0% in FY 2025-26, 4.9% in FY 2026-27, and 4.6% in FY 2027-28. All of the revenue generated by the SET is earmarked to the SAF. The General Fund reimburses the SAF for reductions in SET revenue because of the exemption of eligible manufacturing personal property from ad valorem property taxation.

Lottery. Competition with other gaming options and between different lottery games is expected to limit the growth in lottery revenue over the forecast period. Lottery revenue is forecasted to decrease 2.7% in FY 2025-26, 2.0% in FY 2026-27, and 1.0% in FY 2027-28 as online gaming options compete with the lottery. All the net revenue generated by the lottery is earmarked to the SAF. In FY 2025-26, lottery revenue is expected to be 5.9% of total earmarked SAF revenue, with the percentage dropping to 5.7% in FY 2026-27 and continuing to fall to 5.5% in FY 2027-28.

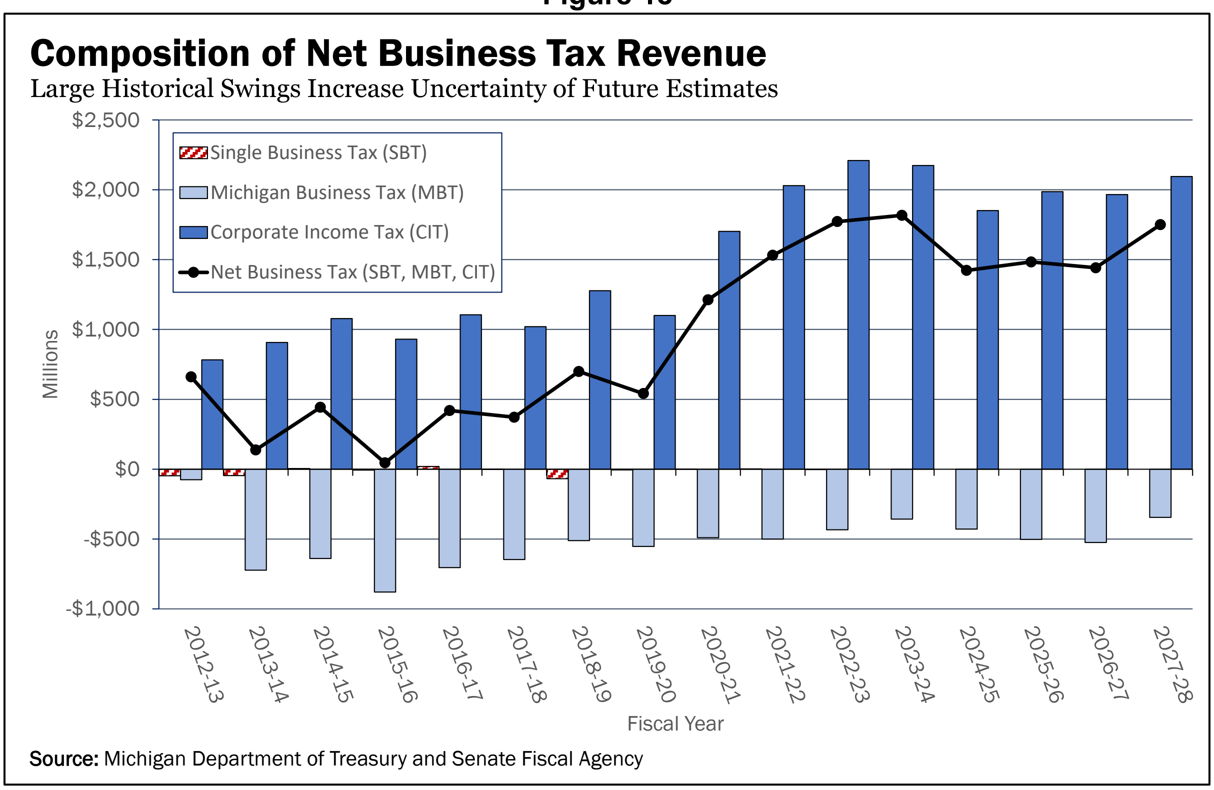
Michigan Business Tax/Corporate Income Tax. Legislation enacted in May 2011 repealed the MBT for most taxpayers beginning on January 1, 2012. Corporate taxpayers began paying the CIT, which generates about 40% as much revenue as what was received under the MBT. Unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies do not pay tax under the CIT. Instead, these businesses paid taxes by reporting business income on their IIT return although, beginning with tax year 2021, Public Act 135 of 2021 allows these firms to pay under a separate "flow-through entity tax" that is levied and at the same rate and distributed in the same manner as the IIT. Those businesses that continue to pay the MBT do so in order to retain the ability to claim substantial refundable credits awarded in previous years. As a result, over the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to generate positive revenue over the forecast period, although the CIT is generally a more volatile tax than the MBT.

Michigan Business Tax refunds are expected to have a significant negative impact on business tax revenue over the forecast period. After totaling a negative $429.1 million (as refunds exceeded revenue) in FY 2024-25, net MBT revenue is expected to remain negative over the forecast period, as estimated MBT credits are projected to reduce State revenue by between roughly $300.0 million and $600.0 million each year. Several factors make it difficult to produce reliable estimates of MBT credit refunds. Although no new credits are being awarded, the Michigan Strategic Fund Board, from time to time, amends previously awarded credits to adjust the terms based on the individual circumstances of eligible companies. These adjustments tend to increase the refund amounts in the near term; however, in some cases, the amendments may reduce the number of years for which a business is eligible for a credit. Additionally, eligible businesses have considerable flexibility as to when they will submit claims for credits, including credits for previous tax years. The credits are processed by the Michigan Strategic Fund agency that is responsible for reviewing compliance with the terms of the credits and issuing credit certificates to companies that have qualified. Furthermore, once the credit certificates are issued, the taxpayer has some flexibility as to when to file an original or amended return that claims the credit. Once the return is submitted to Treasury, if there are issues requiring an audit or review (which could relate to the credit or to other aspects of the taxpayer's return), processing of the credit may be delayed. These revisions, timing, and processing issues create uncertainty in the estimates.

The 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 $429.1 million in FY 2024-25, they still represented a 3.0% reduction in General Fund revenue. As MBT credits (of which MEGA credits represent the majority that may be claimed) generally hold constant, the impact will remain significant, with net MBT revenue lowering General Fund revenue by 3.5% in FY 2025-26, 3.7% in FY 2026-27, and 2.4% in FY 2027-28. 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 2024-25, CIT collections fell 4.3% from the FY 2023-24 level. Underscoring the volatility in CIT revenue, several years have exhibited substantial swings in revenue, with CIT collections rising 54.4% in FY 2020-21, falling 13.6% in FY 2019-20, rising 25.3% in FY 2018-19, falling 7.8% in FY 2017-18, rising 18.9% in FY 2016-17, and falling 13.7% in FY 2015-16, (Figure 18). (Corporate profits generally exhibit significant volatility. One reason Michigan replaced the former CIT in 1976 with the Single Business Tax (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.) Combined revenue from the CIT, MBT and SBT totaled $1.4 billion in FY 2024-25, a 21.7% decline from FY 2023-24. Net business tax revenue is expected to increase 4.3% in FY 2025-26, decrease 2.8% in FY 2026-27, and increase 21.4% in FY 2027-28. All revenue from the MBT and SBT, as well as credits or refunds against these taxes, is allocated to the General Fund. Revenue from the CIT is primarily directed to the General Fund, and beginning in FY 2025-26, the NRF. All credits and refunds against the tax reduce General Fund revenue.

Figure 18



Insurance Taxes. Revenue from Michigan's taxes on insurance companies totaled $526.7 million in FY 2024-25, a 2.0% decrease from FY 2023-24. Revenue from taxes on insurance companies is expected to increase 5.4% in FY 2025-26 to $555.3 million, followed by increases of 3.7% in FY 2026-27 and 3.5% in FY 2027-28. All revenue from insurance taxes is directed to the General Fund.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 7, 8, and 9 present the history of the SFA's and consensus estimates for GF/GP and SAF baseline revenue for FY 2025-26, FY 2026-27, and FY 2027-28**.** 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 2025-26, FY 2026-27, and FY 2027-28 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2025-26 was made in December 2023, as shown in Table 7. At that time, baseline revenue in FY 2025-26 was estimated at $36.1 billion. This estimate was decreased by $48.9 million at the January 2024 CREC, but then increased by $63.1 million at the May 2024 CREC. The January 2025 CREC increased the estimate by $935.6 million. The May 2025 CREC decreased the estimate, by $220.2 million, and the January 2026 CREC increased it by $10.3 million. The SFA's revised estimate for FY 2025-26 GF/GP and SAF baseline revenue presented in this report increases the baseline estimate by $394.0 million, to $37.2 billion, from the January 2026 consensus estimate.

The initial GF/GP and SAF baseline revenue estimate for FY 2026-27 was made in January 2025, as shown in Table 8. At that time, baseline revenue in FY 2026-27 was estimated at $37.6 billion. This estimate was increased by $321.6 million at the January 2025 CREC, but the May 2025 CREC decreased it by $212.6 million. The January 2026 CREC lowered the estimate by an additional $53.1 million. The revised SFA estimate for FY 2026-27 increases baseline revenue by $89.0 million, to $37.8 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2027-28 was made in January 2026, as shown in Table 9. At that time, baseline revenue in FY 2027-28 was estimated at $38.2 billion. The January 2026 CREC raised the estimate by $273.2 million. The revised SFA estimate for FY 2027-28 increases baseline revenue by $102.8 million, to $38.6 billion.

Table 7

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2025-26 (millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 21, 2023	$17,131.4	$18,981.1	$36,112.5
January 12, 2024 [a)]	17,010.7	19,052.9	36,063.6
May 15, 2024	17,344.0	18,856.4	36,200.5
May 17, 2024 [a)]	17,209.8	18,916.9	36,126.7
January 3, 2025	17,789.8	19,297.0	37,086.8
January 10, 2025 [a)]	17,938.2	19,124.1	37,062.3
May 14, 2025	17,578.8	19,029.2	36,608.0
May 16, 2025 [a)]	17,755.5	19,086.6	36,842.1
January 15, 2026	17,314.6	19,255.5	36,570.1
January 16, 2026 [a)]	17,572.3	19,280.0	36,852.4
May 16, 2026	$17,954.4	$19,281.6	$37,236.1
Change From Previous Estimate:			
Dollar Change	$382.1	$1.6	$383.7
Percent Change	2.2%	0.0%	1.0%
Change From Initial Estimate:			
Dollar Change	$823.0	$300.5	$1,123.6
Percent Change	4.8%	1.6%	3.1%

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

Note: Baseline base year equals FY 2024-25.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2026-27 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
January 3, 2025	$17,907.0	$19,710.7	$37,617.7
January 10, 2025 [a)]	18,323.8	19,615.5	37,939.3
May 14, 2025	17,866.9	19,475.4	37,342.3
May 16, 2025 [a)]	18,166.7	19,560.0	37,726.7
January 15, 2026	17,708.9	19,641.1	37,350.0
January 16, 2026[a)]	17,956.8	19,716.8	37,673.6
May 16, 2026	$18,094.9	$19,720.8	$37,815.7
<u>Change From Previous Estimate</u>:			
Dollar Change	$138.1	$4.0	$142.1
Percent Change	0.8%	0.0%	0.4%
<u>Change From Initial Estimate</u>:			
Dollar Change	$187.9	$10.0	$198.0
Percent Change	1.0%	0.1%	0.5%

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

Note: Baseline base year equals FY 2024-25.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2027-28 (millions of dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
January 15, 2026	$18,137.6	$20,041.9	$38,179.5
January 16, 2026 [a)]	18,329.8	20,122.9	38,452.7
May 14, 2026	$18,419.5	$20,136.0	$38,555.5
<u>Change From Previous Estimate</u>:			
Dollar Change	$89.7	$13.1	$102.8
Percent Change	0.5%	0.1%	0.6%
<u>Change From Initial Estimate</u>:			
Dollar Change	$281.9	$94.1	$376.0
Percent Change	1.6%	0.5%	1.0%

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

Note: Baseline base year equals FY 2024-25.

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977 and subsequently included in the Management and Budget Act, Sections 351 to 359. The BSF, which also is known as the "Rainy Day Fund", is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities. The balance in the BSF is limited to 15.0% of the combined level of GF/GP and SAF revenue. A balance at the end of a fiscal year higher than that amount is required to be rebated to individual income taxpayers on returns filed after the end of that fiscal year. (For FY 2024-25, combined GF/GP and SAF revenue is estimated at $33.2 billion; 15% applied to that would yield a BSF limit of roughly $5.0 billion. The balance at the end of FY 2024-25 was roughly $2.2 billion, lower than the limit of $5.0 billion; therefore, no rebate is triggered.)

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

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

To calculate the pay-in, the amount of real personal income growth over 2.0% in the previous calendar year is applied to the amount of General Fund revenue in the previous fiscal year. For example, the calculated pay-in for FY 2024-25 is based on personal income growth from calendar year 2023 to 2024 and GF/GP revenue in FY 2023-24. Different years are used to calculate a potential pay-out. A pay-out in FY 2024-25 depends on the change in personal income from calendar year 2024 to calendar year 2025, whether there was a calculated pay-out in FY 2023-24, and the BSF balance at the end of FY 2023-24.

For any payment into or out of the BSF to occur, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of $55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the GF/GP budget, which equaled $189.2 million. Also, in FY 1998-99, the Legislature appropriated the transfer of $73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case. In FY 2013-14, the Legislature transferred $194.8 million from the BSF to the new Settlement Administration Fund for use as part of the resolution of the City of Detroit bankruptcy. At the same time, Public Act 186 of 2014 amended the Michigan Trust Fund Act to require the deposit of $17.5 million from tobacco settlement revenue to the BSF annually for 21 years, from FY 2014-15 through FY 2034-35, to repay that transfer. This repayment was ended early in FY 2024-25.

Table 10 presents the history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2024-25. This table also presents the SFA's estimates for FY 2025-26, FY 2026-27, and FY 2027-28, 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 19, and the estimated economic stabilization trigger calculations for FY 2025-26, FY 2026-27, and FY 2027-28 are presented in Table 11.

FY 2025-26, FY 2026-27, and FY 2027-28

Based on the SFA's revised estimates of personal income, transfer payments, the Detroit CPI, and GF/GP revenue, the statutory formula does not forecast any pay-ins in FY 2025-26, FY 2026-27, or FY 2027-28. The statutory formula does forecast a potential pay-out of $539.3 million for FY 2025-26, but not in FY 2026-27 or FY 2027-28.

Based on current appropriations, the BSF ending balance is estimated at $2,232.9 million in FY 2025-26, $2,299.9 million in FY 2026-27, and $2,357.4 million in FY 2027-28 as shown in Table 10.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1998-99 TO FY 2027-28 ESTIMATES
(millions of dollars)

	Pay-In				
Fiscal Year[a]	Trust Fund Act	Other Approp.	Interest Earned	Pay-Out	Fund Balance
1998-99		$244.4	$51.2	$73.7	$1,222.5
1999-00		100.0	73.9	132.0	1,264.4
2000-01		0.0	66.7	337.0	994.2
2001-02		0.0	20.8	869.8	145.2
2002-03		9.1	1.8	156.1	0.0
2003-04		81.3	0.0	0.0	81.3
2004-05		0.0	2.0	81.3	2.0
2005-06		0.0	0.0	0.0	2.0
2006-07		0.0	0.1	0.0	2.1
2007-08		0.0	0.1	0.0	2.2
2008-09		0.0	0.0	0.0	2.2
2009-10		0.0	0.0	0.0	2.2
2010-11		0.0	0.0	0.0	2.2
2011-12		362.7	0.2	0.0	365.1
2012-13		140.0	0.5	0.0	505.6
2013-14[b]		75.0	0.4	194.8	386.2
2014-15[c]	$17.5	94.0	0.4	0.0	498.1
2015-16	17.5	95.0	1.8	0.0	612.4
2016-17	17.5	75.0	5.1	0.0	710.0
2017-18	17.5	265.0	13.5	0.0	1,006.0
2018-19	17.5	100.0	25.1	0.0	1,148.6
2019-20	17.5	0.0	13.0	350.0	829.1
2020-21	17.5	535.0	0.8	0.0	1,382.3
2021-22	17.5	180.0	9.1	0.0	1,588.9
2022-23	17.5	100.0	73.9	0.0	1,780.3
2023-24	17.5	100.0	98.7	0.0	1,996.5
2024-25	17.5	50.0	93.3	0.0	2,157.4
Enacted Deposits and Estimated Interest Earnings:					
2025-26	$0.0	$0.0	$75.5	$0.0	$2,232.9
2026-27	0.0	0.0	67.0	0.0	2,299.9
2027-28	0.0	0.0	57.5	0.0	2,357.4

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

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

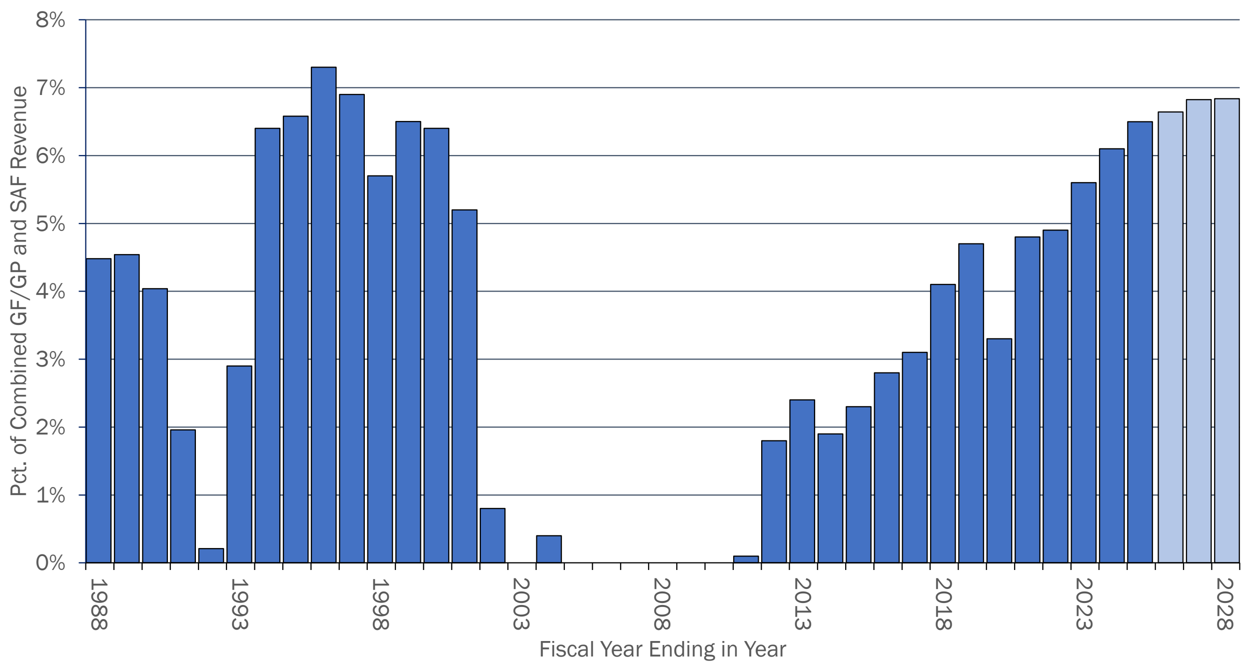
c) PA 252 of 2014 appropriated $94.0 million to the BSF and PA 186 of 2014, which amended the Trust Fund Act, authorizes the deposit of $17.5 million of tobacco settlement revenue to the BSF annually from FY 2014-15 to FY 2034-35 to repay the withdrawal related to the Detroit bankruptcy.

Sources: State of Michigan Annual Comprehensive Financial Reports through FY 2024-25 and Senate Fiscal Agency.

Figure 19

Budget Stabilization Fund Year-End Balance

As a Percent of Combined General Fund/General Purpose and School Aid Fund Revenue



Source: Senate Fiscal Agency

Table 11

ESTIMATED BUDGET AND ECONOMIC STABILIZATION FUND TRIGGER
FY 2024-25, FY 2025-26, FY 2026-27, and FY 2027-28
(millions of dollars)

	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Michigan Personal Income (MPI)	$645,846.8	$674,070.6	$696,122.5	$717,567.7	$739,334.2
Less: Transfer Payments	$140,944.6	$152,242.1	$159,591.5	$165,285.9	$170,836.3
Subtotal	$504,902.2	$521,828.5	$536,531.0	$552,281.8	$568,497.8
Divided by: Detroit CPI, 12 months average for calendar year (1982-84=1)	2.9235	2.9731	3.0651	3.1545	3.2393
Equals: Real Adjusted MPI	$172,702.0	$175,518.0	$175,043.0	$175,077.0	$175,502.0
Percent Change from Prior Year		1.6%	(0.3%)	0.0%	0.2%
Excess Over 2.0%		0.00%	0.00%	0.00%	0.00%
		FY 2024-25	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**
Multiplied by: Estimated GF/GP Revenue		$14,481.2	$14,439.9	$14,103.5	$14,459.6
Equals: Transfer to the BSF			$0.0	$0.0	$0.0
OR Maximum transfer from the BSF			($539.3)	$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 2020-21. To date, the largest gap between revenue and the limit occurred in FY 2019-20, when State revenue was $11.9 billion below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2025-26, FY 2026-27, and FY 2027-28, with State revenue forecast to be $15.9 billion below the limit in FY 2027-28.

THE REVENUE LIMIT

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

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

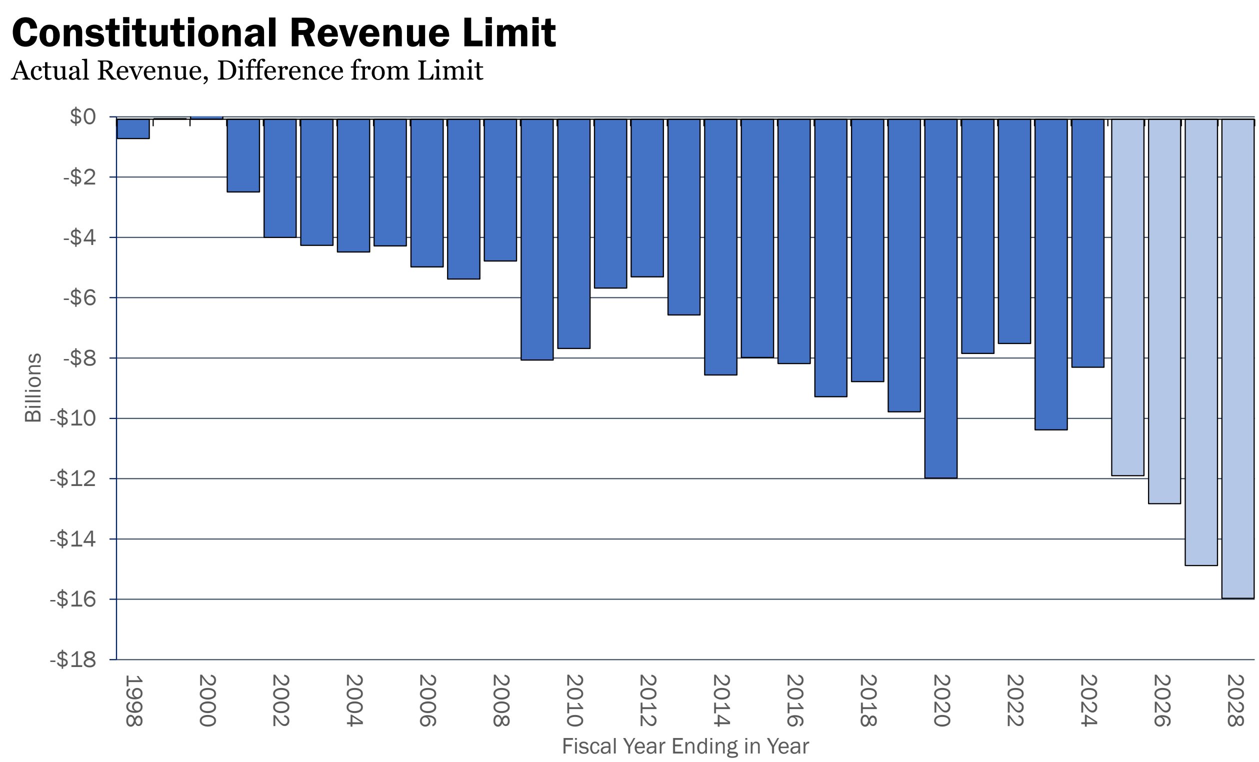
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revenue estimates for FY 2025-26, FY 2026-27, and FY 2027-28, 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 20. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

Figure 20



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

FY 2025-26

The SFA estimates that personal income in Michigan during 2024 will equal $645.8 billion and, as a result, the revenue limit will equal $61.3 billion in FY 2025-26. Based on the SFA's revised revenue estimates for FY 2025-26, revenue subject to the revenue limit will equal an estimated $48.5 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $12.7 billion, or 20.8%, in FY 2025-26. Personal income is forecasted to increase 4.6% while State revenue subject to the revenue limit is forecasted to increase 3.8%, thus increasing the amount by which revenue will fall below the limit.

FY 2026-27

The SFA estimates that personal income in Michigan during 2025 will equal $674.1 billion and the revenue limit will equal $64.0 billion in FY 2026-27. Based on the SFA's revised revenue estimates for FY 2026-27, revenue subject to the revenue limit will equal an estimated $49.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $14.8 billion, or 23.1%, in FY 2026-27. Personal income is forecasted to increase 4.4% while State revenue subject to the revenue limit is forecasted to increase 1.3%, thus increasing the amount by which revenue will fall below the limit.

FY 2027-28

The SFA estimates that personal income in Michigan during 2026 will equal $696.1 billion, and the revenue limit will equal $66.1 billion in FY 2027-28. Based on the SFA's revised revenue estimates for FY 2027-28, revenue subject to the revenue limit will equal an estimated $50.2 billion. State revenue subject to the revenue limit will fall below the limit by an estimated $15.9 billion, or 24.0%, in FY 2027-28. Personal income is forecasted to increase 3.3% while State revenue subject to the revenue limit is forecasted to increase 2.0%, thus increasing the percentage by which revenue will fall below the limit.

Table 12

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2023-24 THROUGH FY 2027-28 ESTIMATE
(millions of dollars)

	FY 2023-24 Final	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate	FY 2027-28 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$17,352.5	$17,139.2	$17,954.4	$18,094.9	$18,419.5
Constitutional Revenue Sharing (baseline)	1,111.3	1,096.2	1,122.5	1,109.3	1,136.4
School Aid Fund (baseline)	18,184.5	18,834.3	19,280.0	19,720.8	20,136.0
Transportation Funds	4,220.9	4,281.2	5,615.1	6,144.4	6,341.5
Other Restricted Non-Federal Aid Revenue	8,170.5	8,186.8	8,203.2	8,219.6	8,236.1
Adjustments:					
GF/GP Federal Aid	(14.0)	(10.0)	(10.0)	(10.0)	(10.0)
GF/GP Balance Sheet Adjustments	(2,825.5)	(2,658.0)	(3,514.5)	(3,991.4)	(3,959.9)
SAF Balance Sheet Adjustments	(109.9)	(120.7)	(107.0)	(117.5)	(123.5)
Total Revenue Subject to Limit	**$46,090.3**	**$46,749.1**	**$48,543.8**	**$49,170.0**	**$50,176.1**
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2022**	**CY 2023**	**CY 2024**	**CY 2025**	**CY 2026**
Amount	$572,325.0	$617,163.2	$645,846.8	$674,070.6	$696,122.5
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$54,313.6	$58,568.8	$61,290.9	$63,969.3	$66,062.0
1.0% of Limit	543.1	585.7	612.9	639.7	660.6
Amount Under (Over) Limit	$8,223.4	$11,819.7	$12,747.1	$14,799.3	$15,886.0
Percent Below Limit	15.1%	20.2%	20.8%	23.1%	24.0%
CY = Calendar Year; FY = Fiscal Year					

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the SFA has revised its estimates of FY 2025-26, FY 2026-27, and FY 2027-28 GF/GP and SAF year-end balances. This section of the report discusses the year-end balances and addresses some of the issues the members of the Legislature will face as they make mid-year alterations to the FY 2025-26 State budget and complete action on the FY 2026-27 State budget.

On February 11, 2026, Governor Gretchen Whitmer presented her FY 2026-27 and FY 2027-28 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 16, 2026. The Governor's FY 2026-27 budget recommendation was balanced between estimated revenue, proposed tax changes, proposed restricted fund adjustments, and recommended appropriations pursuant to constitutional requirements. Similarly, the Senate-passed budgets adopted on April 29 and 30, 2026, were balanced based on the January 2026 CREC revenue estimates, recommended appropriations, and proposed restricted fund and work project adjustments.

Table 13 provides a summary of the SFA's estimates of the FY 2025-26, FY 2026-27, and FY 2027-28 year-end balances of the GF/GP and SAF budgets; Tables 14 and 15 provide more detail regarding these year-end balances. Based on current SFA revenue estimates and enacted and projected State appropriations, the FY 2025-26 GF/GP and SAF budgets will have positive ending balances. The projected GF/GP balance for FY 2025-26 is $912.5 million and the projected SAF balance is $971.8 million. This combined GF/GP and SAF balance of $1.9 billion is carried forward into FY 2026-27.

Based on current SFA revenue estimates, and assuming the expenditures from the Senate-passed FY 2026-27 budget bills, the FY 2026-27 GF/GP budget will have a balance of $354.3 million and the SAF budget will have a balance of $225.4 million. The combined ending balance of these two FY 2026-27 fund projections is $579.7 million.

A comparison of the SFA's estimate of FY 2027-28 GF/GP revenue with a continuation of the Senate-passed FY 2026-27 budgets, SFA caseload estimates, and carrying forward the projected year-end balance leads to a projected $227.3 million negative GF/GP budget balance. Of note, the FY 2027-28 estimate includes an assumption that Michigan will continue to have the same Supplemental Nutrition Assistance Program (SNAP) error rate as it did in FY 2024-25, incurring a $320.0 million ongoing cost sharing requirement as prescribed under House Resolution 1 (enacted at the Federal level in July 2025) that will begin in FY 2027-28. The ultimate impact on Michigan will depend on the final error rate determination and FY 2027-28 SNAP caseload costs, both of which are currently unknown.

A comparison of the SFA's estimate of FY 2027-28 SAF revenue and continuation of the projected continuation of SAF expenditures into FY 2027-28, adjusting for pupil membership estimates, and carrying forward projected year-end balance, points to a projected balance of $588.2 million in the SAF. This estimate includes an assumption of $170.0 million in ongoing SAF costs in FY 2027-28 to support the existing Michigan Achievement Scholarship program.

Table 13
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
ESTIMATED YEAR-END BALANCES
(millions of dollars)

	FY 2025-26 Year-to-Date	FY 2026-27 SFA Estimate	FY 2027-28 SFA Estimate
General Fund/General Purpose	$912.5	$354.3	($227.3)
School Aid Fund	$971.8	$225.4	$588.2

SFA Revenue Adjustments for Fiscal Years 2025-26, 2026-27 and 2027-28

As illustrated in the balance sheets, the SFA is forecasting generally positive, albeit moderate, adjustments for FYs 2025-26, 2026-27, and 2027-28 in the General Fund and the SAF. Over the three-year period, GF/GP revenue would increase $310.1 million compared to the January 2026 consensus revenue estimates, while the SAF would increase $120.9 million over that same period. The balance sheets show both the adjustments to revenue as estimated by the SFA in this forecast along with the Senate-passed budget bill spending levels and estimates produced by the SFA with respect to school aid costs, Medicaid costs, and other adjustments to spending. The balance sheets shown here will be updated after the CREC to reflect consensus adjustments to revenue and costs.

CONCLUSION

The GF/GP side of the ledger is estimated to end FY 2026-27 with a positive balance based on the Senate-passed budget. If that budget were continued into FY 2027-28, an estimated baseline budget, assuming the inclusion of a $320.0 million GF/GP cost in the SNAP, would lead to a negative balance. The SAF is estimated to have positive balances in both years. These figures are based on the SFA's estimates of revenue as well as Senate-passed budgets.

Tables 15 and 16 summarize the projected year-end balances for all three fiscal years included in this report, for the GF/GP and SAF budgets, respectively. All of the estimated year-end balances in this report are based on the SFA's revenue projections, which the SFA will take to the May 15, 2026, CREC. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the final actions taken on the FY 2026-27 State budget, as well as for subsequent fiscal years.

Table 14

FY 2025-26, 2026-27, AND 2027-28
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES
(millions of dollars)

	SFA Estimates		
	Senate Passed FY 2025-26	**Senate Passed FY 2026-27**	**Estimated Baseline FY 2027-28**
Revenue:			
Beginning Balance	$242.0	$912.5	$354.3
Ongoing Revenue:			
Consensus revenue forecast January 2026	$14,134.1	$14,074.6	$14,484.2
SFA May 2026 revenue changes	305.8	28.9	(24.6)
SFA May 2026 GF/GP forecast	$14,439.9	$14,103.5	$14,459.6
Other Ongoing Revenue Adjustments:			
R&D tax credit	($100.0)	($100.0)	($100.0)
Revenue sharing payments	(627.2)	(627.2)	(627.2)
Restore ongoing revenue for tips, overtime (and move to one-time)	153.6	178.0	165.0
Savings from lower PPT reimbursement costs	50.0	50.0	50.0
Subtotal Ongoing Revenue	$13,916.3	$13,604.3	$13,947.4
Non-Ongoing Revenue:			
Redirection of restricted revenue	($2.7)	($2.7)	($2.7)
Deposit select restricted revenue balances into GF/GP	0.0	174.7	0.0
Tax, tips, overtime (three years)	(153.6)	(178.0)	(165.0)
Public safety trust fund (three years)	(50.0)	(50.0)	(50.0)
SOAR – deposit all remaining funds into GF/GP	651.9	0.0	0.0
Estimated lapses from work projects	200.0	0.0	0.0
Savings from lower PPT reimbursement costs	116.0	0.0	$0.0
Subtotal Non-Ongoing Revenue	$761.6	($56.0)	($217.7)
Total Estimated GF/GP Revenue Including Beginning Balance	**$14,919.9**	**$14,460.8**	**$14,084.0**
Total Estimated GF/GP Revenue Excluding Beginning Balance	**$14,677.9**	**$13,548.3**	**$13,729.7**
Expenditures:			
Ongoing Appropriations:			
Initial/baseline appropriations	$13,588.1	$13,590.7	$13,491.2
Baseline adjustments (with add'l $250m available in HR1, Medicaid FY 27)	0.0	464.4	700.0
SFA caseload adjustments May 2026 (DHHS and CDC)	2.6	(46.6)	0.0
Ongoing cuts	0.0	(339.9)	0.0
Shift ongoing spending into one-time	0.0	(312.2)	0.0
Investments (FY 27); SNAP error rate cost sharing (FY 28)	0.0	225.9	320.0
Redirect 21st Century Jobs, MBTF to Medicaid costs (saving GF)	0.0	(91.0)	0.0
Subtotal Ongoing Appropriations	$13,590.7	$13,491.2	$14,511.2
One-Time and Other Appropriations:			
One-time appropriations	$526.5	$615.3	$0.0
PA 22 of 2025 FY 26 supplemental/FY26 non caseload supplemental	36.5	0.0	0.0
DHHS caseloads (with another $100m available FY 26 from Medicaid fund)	179.9	0.0	0.0
DHHS estimated lapse from $100m cost offset	(32.2)	0.0	0.0
Lapse of RAP interest to GF/GP	(6.0)	0.0	0.0
SFRF payroll swap (spring 2026 estimate)	(48.0)	0.0	0.0
QAAP multi-year revenue accrual net zero	(270.0)	0.0	0.0
Community District Trust Fund (CDTF) GF/GP payment	125.0	0.0	0.0
Use $30m of lapses for FY 2025-26 corrections healthcare costs	30.0	0.0	0.0
Shift CDTF to SAF (fall 2025 budget agreement)	(125.0)	0.0	0.0
Estimated lapses	0.0	0.0	(200.0)
Subtotal One-Time and Other Appropriations	$416.7	$615.3	($200.0)
Total Estimated GF/GP Expenditures	**$14,007.4**	**$14,106.5**	**$14,311.2**
PROJECTED YEAR-END GF/GP BALANCE (Total)	**$912.5**	**$354.3**	**($227.3)**
PROJECTED YEAR-END GF/GP BALANCE (Ongoing)	**$325.6**	**$113.1**	**($563.8)**
PROJECTED YEAR-END GF/GP BALANCE (One-Time)	**$586.9**	**$241.2**	**$336.6**

Table 15

FY 2025-26, 2026-27, AND 2027-28 SCHOOL AID FUND (SAF) REVENUE, EXPENDITURES AND YEAR-END BALANCE ESTIMATES (millions of dollars)	SFA Estimates		
	Senate Passed FY 2025-26	**Senate Passed FY 2026-27**	**Estimated Baseline FY 2027-28**
Revenue:			
Beginning Balance	$1,705.6	$971.8	$225.4
Ongoing Revenue:			
Consensus revenue forecast January 2026	$19,135.4	$19,568.3	$19,965.7
SFA May 2026 revenue changes	39.2	34.9	46.8
SFA May 2026 SAF forecast	$19,174.6	$19,603.2	$20,012.5
Other Revenue Adjustments:			
General Fund/General Purpose (GF/GP) grant	$46.2	$31.6	$31.6
Other	0.0	0.5	0.0
Federal ongoing aid	2,407.7	2,405.7	2,405.7
Subtotal Ongoing Revenue	$21,628.5	$22,041.0	$22,449.8
Non-Ongoing Revenue:			
Deposit into funds	($456.1)	($150.0)	$0.0
Infrastructure and consolidation fund	183.4	0.0	0.0
Scholarship reserve fund support of MAS	0.0	100.0	0.0
School aid pupil support reserve fund	97.0	119.0	0.0
Transportation reserve fund	125.0	125.0	0.0
General pupil support reserve fund	0.6	0.7	0.0
Enrollment stability reserve fund	71.0	130.0	0.0
GSRP reserve fund	18.0	18.0	0.0
Use of other reserve funds	30.0	30.0	0.0
Additional one-time GF/GP	27.0	19.2	0.0
Transfer from sub-fund balances to SAF (~25%)	0.0	406.5	0.0
Subtotal Non-Ongoing Revenue	$95.9	$798.4	$0.0
Total Estimated SAF Revenue Including Beginning Balance	**$23,430.0**	**$23,811.2**	**$22,675.2**
Total Estimated SAF Revenue Excluding Beginning Balance	**$21,724.4**	**$22,839.4**	**$22,449.8**
Expenditures:			
Ongoing Appropriations:			
Initial ongoing K-12 SAF appropriations/CSB	$16,745.1	$17,226.2	$18,247.1
Initial ongoing investments	664.7	992.5	0.0
Ongoing GF/GP	50.1	31.6	31.6
Initial school aid Federal funds	2,407.7	2,405.7	2,405.7
SFA K12 estimated cost adjustments	2.4	28.4	80.2
SAF in MDARD	0.0	4.0	4.0
Reconnect to age 21 expansion	0.0	25.0	25.0
Michigan Achievement Scholarship (MAS) baseline costs	0.0	0.0	170.0
Fund community colleges with SAF	482.1	476.1	478.5
Partially fund higher education with SAF	850.8	844.9	844.9
Subtotal Ongoing Appropriations	$21,202.9	$22,034.4	$22,287.0
One-Time and Other Appropriations:			
Initial one-time K-12 SAF appropriations	$1,217.3	$936.0	$0.0
Additional one-time			
Initial one-time SAF restricted sub-funds - scholarship fund in FY 27	27.0	100.0	0.0
One-time sub-fund appropriations in K12	0.0	411.8	0.0
Initial one-time community college appropriations	11.0	14.6	0.0
Initial one-time higher education appropriations	0.0	69.8	0.0
One-time GF/GP	0.0	19.2	0.0
Estimated lapses	0.0	0.0	(200.0)
Subtotal One-Time and Other Appropriations	$1,255.3	$1,551.4	($200.0)
Total Estimated School Aid Fund Expenditures	**$22,458.2**	**$23,585.8**	**$22,087.0**
PROJECTED YEAR-END SAF BALANCE (Total)	**$971.8**	**$225.4**	**$588.2**
PROJECTED YEAR-END SAF BALANCE (Ongoing)	**$425.6**	**$6.6**	**$162.8**
PROJECTED YEAR-END SAF BALANCE (One-Time)	**$546.2**	**$218.8**	**$425.4**