

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2020-21
THROUGH
FY 2022-23**



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FOREWORD

This report includes a national and state economic forecast for calendar year (CY) 2020 through CY 2023. It also presents preliminary General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2019-20, revised revenue estimates for FY 2020-21 and FY 2021-22, and initial estimates for FY 2022-23. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 15, 2021, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2023, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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ECONOMIC OVERVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2020-21 through FY 2022-23. In developing the U.S. and Michigan forecasts, key macroeconomic data such as employment, interest rates, business investment, light vehicle sales, international trade, oil prices, and consumer spending are examined with the goal of combining these variables along with others into an overall snapshot of the U.S. economy for the past year, current year, and two subsequent years. The key segments for Michigan include the automotive sector, the labor force and employment, wage and salary income, and inflation rates.

The longest economic expansion in U.S. history came to an end in March 2020, an early casualty of the pandemic. After growing at an annualized 2.4% rate during the fourth quarter of 2019, the national economy declined at a 5.0% real Gross Domestic Product (GDP) growth rate in the first quarter of 2020, and plunged at a 31.4% annual rate in the second quarter, the largest quarterly reduction on record, as much of the economy was shuttered. Economic growth returned during the third quarter as various sectors of the economy opened up, and the record reduction was followed by a record 33.4% expansion. Fourth quarter 2020 growth is projected at a less volatile 2.3% rate, leading to an annual growth rate for all of 2020 of -3.6%.

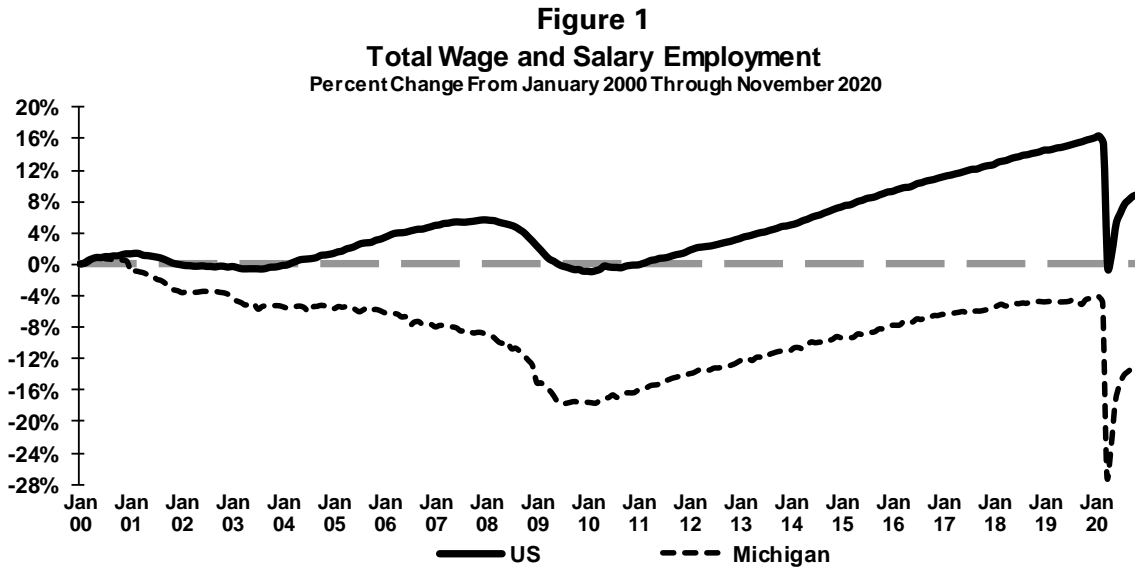
Light motor vehicle sales, which were just shy of 17.0 million units in CY 2019, are projected to fall to 14.5 million in CY 2020 in response to an almost 6.0% decline in wage and salary employment.

In spite of this large drop in wage and salary employment and a corresponding jump in the unemployment rate, personal income is projected to increase by 6.0%, which is reflective of the large amounts of stimulus designed to offset part of the negative economic impacts of the pandemic. Expanded unemployment insurance payments provided substantial income support in spite of the employment declines.

Michigan's economy and state revenue are significantly affected by national economic conditions. Michigan's wage and salary employment dropped by almost 25% in March 2020 as economic shutdowns were initiated to help control the spread of COVID-19, and while subsequent months generally produced job growth, through November 2020 employment is still almost 440,000 jobs below the February peak.

Total Wage and Salary Employment

Figure 1 shows the monthly percent change in total wage and salary employment for both the U.S. and Michigan from January 2000 through November 2020.



U.S. Wage and Salary Employment

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

The recession which began in February 2008 led to 25 continuous months of employment declines during which almost 8.8 million jobs were lost. Job gains finally reappeared in March 2010, and during the 128-month span of job growth that ensued, U.S. wage and salary employment surpassed the pre-recession peak and by February 2020, total cumulative growth during the expansion topped 22.7 million jobs.

The sharp decline that followed brought employment back to roughly the same level as January 2000, but in the following months through November 2020, 12.3 million jobs have returned.

Michigan Wage and Salary Employment

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

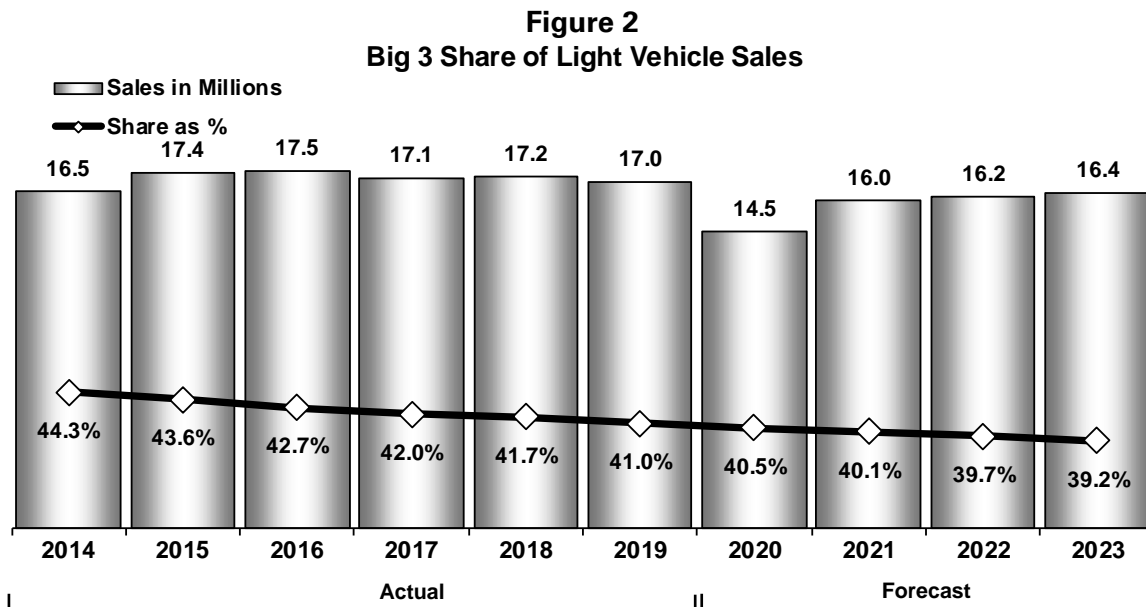
As with employment nationwide, sharp declines occurred in March and April of 2020 as employment plunged well below Great Recession levels in response to the COVID-19 virus. While almost 60% of the job losses have been recovered as of November 2020, total employment is still about 435,000 jobs shy of the February 2020 levels.

U.S. and Michigan Motor Vehicle Industry

Early releases indicate that light motor vehicle sales totaled 14.5 million units in CY 2020, a decline of 14.5% from the 17.0 million vehicles sold in CY 2019. Light motor vehicle sales are forecast to increase to 16.0 million units in CY 2021, and continue growing to 16.2 million units in CY 2022 and 16.4 million units in CY 2023.

The market share of imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) has stabilized in recent years. As shown in **Figure 2**, the market share of the Big 3 auto manufacturers hovered around 40.5% in CY 2020 and is expected to decline slowly to 39.2% by the end of the forecast horizon.

The level and composition of light motor vehicle sales as well as the extent to which the domestic nameplates can retain market share will have a direct impact on Michigan’s economy. In CY 2020, the Big 3 is expected to sell just under 5.9 million vehicles, which would translate to a 15.6% decrease from CY 2019. It is projected that the Big 3 will sell approximately 6.4 million vehicles in CY 2021, CY 2022, and CY 2023 as total light vehicle sales increases are offset by declines in the Big 3 share.



U.S. Forecast Highlights

Real GDP growth is forecast to increase 4.0% in CY 2021, 3.4% in CY 2022, and 2.5% in CY 2023.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.1% in CY 2021, 2.3% in CY 2022, and 2.2% in CY 2023.

A decline in light vehicle sales to 14.5 million units is expected in CY 2020, but are forecast to grow to 16.0 million units in CY 2021, 16.2 million units in CY 2022, and 16.4 million units in CY 2023. The import share of light vehicles is forecast to remain relatively constant at about 21.6% throughout the forecast.

Wage and salary employment growth is expected to drop by 5.7% in CY 2020; it is then forecast to increase 2.8% in CY 2021, 2.9% in CY 2022, and 1.2% in CY 2023.

The national unemployment rate is expected to be 8.1% in CY 2020; it is forecast to decline to 5.7% in CY 2021, 4.7% in CY 2022, and 4.5% in CY 2023.

Interest rates on three-month T-bills are expected to decrease from 0.4% in CY 2020 to 0.1% throughout the forecast period as the Federal Reserve delays any projected rate cuts.

Michigan Forecast Highlights

Michigan wage and salary employment growth is expected to fall by 9.5% in CY 2020, before growing by 3.0% in CY 2021, 5.7% in in CY 2022, and 1.6% in CY 2023.

Michigan's unemployment rate is expected to be 9.9% in CY 2020; it is forecast to decrease to 6.8% in CY 2021, 5.7% in CY 2022, and 5.2% CY 2023.

Michigan personal income is expected to increase by 5.8% in CY 2020 before declining by 1.2% in CY 2021. Personal income is expected to grow at a 2.4% rate in CY 2022 and 4.2% in CY 2023.

Michigan wage and salary income is expected to decrease 4.7% in CY 2020; it is forecast to increase 2.0% in CY 2021, 8.7% in CY 2022, and 4.2% in CY 2023.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 2.1% in CY 2021, 2.2% in CY 2022, and 2.0% in CY 2023.

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

**Table 1
ECONOMIC FORECAST VARIABLES**

	Calendar 2019 Actual	Calendar 2020 Estimated	% Change from Prior Year	Calendar 2021 Estimated	% Change from Prior Year	Calendar 2022 Estimated	% Change from Prior Year	Calendar 2023 Estimated	% Change from Prior Year
<u>United States</u>									
Real Gross Domestic Product (Billions of 2012 dollars)	\$19,091.7	\$18,403.5	-3.6%	\$19,144.8	4.0%	\$19,794.3	3.4%	\$20,287.1	2.5%
Implicit Price Deflator GDP (2012 = 100)	112.3	113.5	1.1%	115.4	1.6%	117.5	1.8%	120.0	2.1%
Personal Consumption Deflator (2012 = 100)	109.848	111.120	1.2%	113.121	1.8%	115.355	2.0%	117.729	2.1%
Consumer Price Index (1982-84 = 100)	255.657	258.664	1.2%	264.106	2.1%	270.191	2.3%	276.145	2.2%
Consumer Price Index (FY) (1982-84 = 100)	254.377	258.014	1.4%	262.606	1.8%	268.690	2.3%	274.625	2.2%
Federal Funds Rate Interest Rate (Percent)	0.4%	0.4%		0.1%		0.1%		0.1%	
3-month Treasury Bills Interest Rate (Percent)	2.1%	0.4%		0.1%		0.1%		0.1%	
Aaa Corporate Bonds Interest Rate (Percent)	3.4%	2.5%		2.7%		3.0%		3.2%	
Unemployment Rate (Percent)	3.7%	8.1%		5.7%		4.7%		4.5%	
Wage and Salary Employment (Millions of workers)	150.9	142.3	-5.7%	146.3	2.8%	150.5	2.9%	152.3	1.2%
Housing Starts (Millions of units)	1.295	1.363	5.2%	1.441	5.7%	1.352	-6.2%	1.318	-2.5%
Light Vehicle Sales (Millions of units)	17.0	14.5	-14.5%	16.0	10.3%	16.2	1.2%	16.4	1.2%
Passenger Car Sales (Millions of units)	4.7	3.4	-27.4%	3.5	1.0%	3.2	-6.7%	3.1	-3.6%
Light Truck Sales (Millions of units)	12.2	11.1	-9.5%	12.5	13.2%	13.0	3.5%	13.3	2.4%
Import Share of Light Vehicles (Percent)	22.4%	22.4%		21.5%		21.6%		21.6%	
Big 3 Share of Light Vehicle Sales (Percent)	41.0%	40.5%		40.1%		39.7%		39.2%	
Personal Income (Billions of current dollars)	\$18,551.5	\$19,665.4	6.0%	\$19,855.0	1.0%	\$20,348.9	2.5%	\$21,393.0	5.1%
Real Disposable Income (Billions of 2012 dollars)	\$14,882.8	\$15,735.2	5.7%	\$15,555.8	-1.1%	\$15,500.7	-0.4%	\$15,950.1	2.9%
<u>Michigan</u>									
Wage and Salary Employment (Thousands of workers)	4,433.7	4,012.5	-9.5%	4,133.1	3.0%	4,367.7	5.7%	4,437.3	1.6%
Transportation Equipment Employment (Thousands of workers)	188.6	158.7	-15.9%	172.5	8.7%	188.6	9.4%	190.9	1.2%
Unemployment Rate (Percent)	4.1%	9.9%		6.8%		5.7%		5.2%	
Personal Income (Millions of current dollars)	\$491,632	\$520,147	5.8%	\$513,903	-1.2%	\$526,282	2.4%	\$548,408	4.2%
Real Personal Income (Millions of 1982-84 dollars)	\$208,800	\$218,661	4.7%	\$211,080	-3.5%	\$211,593	0.2%	\$216,165	2.2%
Real Disposable Income (Millions of 1982-84 dollars)	\$185,332	\$196,285	5.9%	\$188,486	-4.0%	\$187,423	-0.6%	\$191,397	2.1%
Wage and Salary Income (Millions of current dollars)	\$246,831	\$235,142	-4.7%	\$239,825	2.0%	\$260,791	8.7%	\$271,645	4.2%
Detroit Consumer Price Index (1982-84 = 100)	235.267	238.326	1.3%	243.437	2.1%	248.680	2.2%	253.663	2.0%
Detroit Consumer Price Index (FY) (1982-84 = 100)	233.872	237.670	1.6%	242.398	2.0%	247.414	2.1%	252.386	2.0%



RISKS AND UNCERTAINTIES

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

COVID-19 Global Pandemic

The trajectory of COVID-19 is the primary source of risk and uncertainty for this forecast. Projecting the path of COVID-19 caseloads in the coming months is difficult. Preparedness and knowledge of the virus have improved and have allowed for less economic volatility even in times of growing case rates, but containment measures and individual reticence to return to normal activity without improved treatments and widespread vaccination present downside risks to the forecast. Increased case rates have corresponded with reduced economic activity even in instances where strict containment measures have not been imposed.

While the distribution of vaccines have started, widespread availability is not expected for a number of months. Any significant change to the projected pace of vaccinations would have an impact on this forecast. Additionally, the degree to which vaccines provide protection against contracting and/or spreading the virus is still not clear, so the impacts of COVID-19 could linger for a prolonged period.

Fiscal and Monetary Policy

Significant fiscal and monetary stimulus measures were, and continue to be, implemented in response to the COVID-19 pandemic. These stimulus measures provided immediate support for public health, state and local governments, businesses, and individuals. While the Federal Reserve has essentially said it would use all available monetary policy tools for as long as necessary, the fiscal stimulus measures, while significant, are limited in size, scope, and duration. Taken together, these measures have buoyed state revenues.

On December 27, 2020, a \$900.0 billion stimulus package was enacted providing \$600 direct payments to individuals; an additional \$284.5 billion for the Paycheck Protection Program; extensions for the federally enhanced unemployment insurance programs, including an

additional \$300 per week for any individual qualifying for unemployment; rental assistance; school funding; support for vaccine distribution and testing, among other things. While this stimulus bill was accounted for in the forecast, the availability and scope of any additional fiscal stimulus will be dependent on the new Congress and President.

Economic Data

Economic forecasting is difficult even in normal times. Most economic data are collected on a monthly or quarterly interval, usually with a collection lag and subsequent revisions, which in normal times is adequate for economic forecasting because the economy doesn't typically experience the volatility it has experienced over the course of the pandemic. While available high-frequency data (daily or weekly reported) are informative, there is a lot of noise. The economic data is less noisy today than it was in the early stages of the pandemic; however, changes in the trajectory of COVID-19 caseloads can have an immediate impact on economic conditions. The lack of available data that accurately reflect current economic conditions results in a forecast with a relatively wide range of possible scenarios.

In addition, relationships between economic variables and revenues have become more disconnected in recent years. For example, in recent years wage and salary income has become less of a predictor of withholding, and more recently sales/use tax revenue seems to be less reliant on disposable income than historic trends would suggest. Deviations from the wage and salary income trend have been both positive and negative. This trend presents continued risks to the forecast.



GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency's January 2021 baseline and net General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) estimates as well as recommended revisions from the August 2020 Consensus Revenue Estimating Conference (**Table 2**), detailed net GF/GP estimates (**Table 3**), and detailed net SAF (**Table 4**) estimates. Also, included in this section are estimated year-end balances for GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

Baseline and Net GF/GP and SAF Revenue Estimates

Table 2 reports GF/GP and SAF revenue in terms of baseline and net revenue. Baseline revenue does not include the impact of partial-year policy changes or certain other policy changes that have recently been adopted. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The preliminary total baseline GF/GP and SAF revenue is \$26.1 billion in FY 2019-20. It is forecast to decrease 2.0% in FY 2020-21, increase 4.6% in FY 2021-22, and increase further by 2.3% in FY 2022-23.

Net revenue captures the effects of all policy changes and represents actual resources available. Preliminary total net GF/GP and SAF revenue is \$24.8 billion in FY 2019-20, which would be a 0.1% decline from FY 2018-19. It is forecast to decrease 3.7% in FY 2020-21 before increasing 6.0% in FY 2021-22 and 1.3% in FY 2022-23.

Table 2 also shows the August 2020 adjusted consensus estimates and the recommended revisions to these estimates for FY 2019-20 through FY 2021-22. The August 2020 adjusted consensus estimates include the August 2020 consensus estimates plus enacted tax changes since August 2020.

Preliminary FY 2019-20 figures suggest an increase of \$811.0 million from the August 2020 adjusted consensus estimates, due in part to continued strong growth in withholding payments which reflects the income support provided by the federal government in response to the pandemic.

The recommended revision for FY 2020-21 is an increase of \$868.6 million, driven by higher than anticipated collections from the use tax, sales tax, and corporate income tax. Finally, the recommended revision for FY 2021-22 is an increase of \$891.5 million, reflecting the ongoing impact of prior year revenue trends.

GF/GP Revenue by Source

GF/GP Tax Revenue

Relative to FY 2018-19, preliminary GF/GP tax revenue decreased 4.6% to \$10,401.2 million in FY 2019-20. Net income taxes (after refunds) accruing to the general fund declined by 5.5% and corporate income tax revenue fell by 14.6%, which more than offset increased use tax and insurance premiums tax collections, leading to a decrease in net GF/GP tax revenue of \$506.1 million. GF/GP tax revenue in FY 2020-21 is estimated to be \$9,585.1 million, a decrease of \$816.0 million as individual income tax revenue falls in response to the ongoing pandemic and a decline in federal assistance relative to FY 2019-20. GF/GP tax revenue will increase by \$875.7 million to \$10,460.8 million in FY 2021-22 as the economy rebounds and earnings increase. Despite continued economic growth, GF/GP tax revenue is estimated to increase by just \$16.1 million in FY 2022-23 as the income tax trigger reduces FY 2022-23 GF/GP tax revenue by more than \$400.0 million.

Total GF/GP Net Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to be appropriated. Preliminary net GF/GP revenue is expected to be \$10,846.0 million in FY 2019-20. In FY 2020-21 it is forecast to be \$9,922.2 million, a decrease of \$923.7 million, and \$10,826.9 million in FY 2021-22, an increase of \$904.7 million. Net GF/GP revenue is estimated to increase just 0.3% in FY 2022-23 due to the impact of the income tax trigger.

Net GF/GP revenue estimates are reduced by \$491.5 million for FY 2020-21, \$521.3 million for FY 2021-22, and \$548.0 million for FY 2022-23 due to the diversion of use tax revenue for personal property tax reimbursement to local units of government. In addition, \$600.0 million of income tax revenue is diverted each fiscal year to the Michigan Transportation Fund as part of the enacted roads package.

SAF Revenue by Source

Total Net SAF Revenue

Preliminary net SAF revenue is anticipated to increase 3.1% to \$13,972.0 million in FY 2019-20. Net SAF revenue is forecast to be \$13,976.7 million in FY 2020-21, an increase of \$4.7 million. Net SAF revenue is estimated to increase 3.7% in FY 2021-22 and 2.0% in FY 2022-23.

Table 2
HFA JANUARY 2021 REVENUE ESTIMATES FOR FY 2020-21 THROUGH FY 2022-23
(Millions of Dollars)

	<u>Preliminary FY 2019-20</u>	<u>HFA Est. FY 2020-21</u>	<u>HFA Est. FY 2021-22</u>	<u>HFA Est. FY 2022-23</u>	<u>FY 2020-21 % Change</u>	<u>FY 2021-22 % Change</u>	<u>FY 2022-23 % Change</u>
<u>Baseline</u>							
GF/GP	\$12,084.6	\$11,584.8	\$12,311.3	\$12,546.0	-4.1%	6.3%	1.9%
SAF	14,062.5	14,047.8	14,490.2	14,863.2	-0.1%	3.1%	2.6%
Total	\$26,147.1	\$25,632.6	\$26,801.5	\$27,409.3	-2.0%	4.6%	2.3%
<u>Net</u>							
GF/GP	\$10,846.0	\$9,922.2	\$10,826.9	\$10,859.0	-8.5%	9.1%	0.3%
SAF	13,972.0	13,976.7	14,499.7	14,791.9	0.0%	3.7%	2.0%
Total	\$24,818.0	\$23,898.9	\$25,326.6	\$25,650.9	-3.7%	6.0%	1.3%
<u>August 2020 Adjusted Consensus¹</u>							
<u>Net</u>							
GF/GP	\$10,296.9	\$9,536.4	\$10,392.4				
SAF	13,714.3	13,501.9	14,053.6				
Total	\$24,011.2	\$23,038.3	\$24,466.0				
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$549.1	\$385.8	\$434.5				
SAF	261.9	482.8	457.0				
Total	\$811.0	\$868.6	\$891.5				

NOTE: Numbers may not add due to rounding.

¹ The August 2020 adjusted consensus estimate includes the August 2020 consensus estimate plus enacted tax changes since August 2020.

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

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2020-21		FY 2021-22		FY 2022-23	
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Income Tax	\$6,857.0	\$6,073.4	\$6,817.7	\$6,617.5	(\$783.6)	-11.4%	\$744.3	12.3%	(\$200.2)	-2.9%
Sales Tax	1,342.8	1,312.2	1,353.2	1,374.4	(30.6)	-2.3%	41.0	3.1%	21.2	1.6%
Use Tax	773.7	893.2	910.5	930.5	119.5	15.4%	17.4	1.9%	20.0	2.2%
Michigan Business Tax	(553.7)	(626.9)	(592.9)	(526.7)	(73.2)	13.2%	34.0	-5.4%	66.2	-11.2%
Corporate Income Tax	1,104.8	1,074.9	1,093.1	1,178.9	(29.9)	-2.7%	18.2	1.7%	85.8	7.8%
Insurance	456.8	415.0	420.0	425.0	(41.8)	-9.2%	5.0	1.2%	5.0	1.2%
Other GF/GP Taxes	419.8	443.4	459.2	477.3	23.6	5.6%	15.7	3.6%	18.1	3.9%
GF/GP Net Tax Revenue	\$10,401.2	\$9,585.1	\$10,460.8	\$10,476.9	(\$816.0)	-7.8%	\$875.7	9.1%	\$16.1	0.2%
Non-Tax Revenue	444.8	337.1	366.1	382.1	(107.7)	-24.2%	29.0	8.6%	16.0	4.4%
Total GF/GP Net Revenue	\$10,846.0	\$9,922.2	\$10,826.9	\$10,859.0	(\$923.7)	-8.5%	\$904.7	9.1%	\$32.1	0.3%

NOTE: Numbers may not add due to rounding.

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

	Preliminary	HFA Est.	HFA Est.	HFA Est.	FY 2020-21		FY 2021-22		FY 2022-23	
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Sales Tax	\$6,009.0	\$6,114.2	\$6,276.2	\$6,391.7	\$105.2	1.8%	\$162.0	2.6%	\$115.5	1.8%
Use Tax	622.5	695.3	718.2	741.5	72.8	11.7%	22.8	3.3%	23.3	3.2%
Income Tax	3,097.7	2,889.0	3,131.8	3,207.1	(208.7)	-6.7%	242.8	8.4%	75.3	2.4%
State Education Tax	2,189.9	2,255.0	2,300.0	2,340.0	65.1	3.0%	45.0	2.0%	40.0	1.7%
Lottery/Casinos	1,246.9	1,177.9	1,198.7	1,213.5	(69.0)	-5.5%	20.8	1.8%	14.8	1.2%
Tobacco Tax	331.8	317.8	310.7	306.5	(14.0)	-4.2%	(7.1)	-2.2%	(4.2)	-1.3%
Real Estate Transfer Tax	335.4	375.0	383.0	395.0	39.6	11.8%	8.0	2.1%	12.0	3.1%
Other Taxes	138.8	152.4	181.1	196.6	13.6	9.8%	28.7	18.8%	15.5	8.6%
SAF Net Revenue	\$13,972.0	\$13,976.7	\$14,499.7	\$14,791.9	\$4.7	0.0%	\$523.0	3.7%	\$292.2	2.0%

NOTE: Numbers may not add due to rounding.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Table 5** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2022-23. Estimates include the impact of 2014 PA 186, which amended the Michigan Trust Fund Act to require annual \$17.5 million deposits of tobacco settlement revenue to the BSF from FY 2014-15 through FY 2034-35.

The statutory BSF trigger calculation, based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue, indicates whether deposits (pay-ins) or withdrawals (pay-outs) are recommended for a fiscal year. Regardless of the calculated amounts, however, all deposits and withdrawals must be appropriated. After an appropriated pay-out of \$350.0 million, the BSF ending fund balance for FY 2019-20 was \$829.3 million. Although no pay-in is indicated by the calculation, a \$35.0 million appropriation has already been enacted for FY 2020-21. A \$60.5 million pay-in would be implied for FY 2021-22 with no pay-in for FY 2022-23. No pay-outs would be expected during the forecast period.

After adjusting for the required \$17.5 million deposits and estimating interest earnings, the year-end balance is estimated at \$886.1 million for FY 2020-21, \$907.3 million for FY 2021-22, and \$928.6 million for FY 2022-23.

Table 5
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	\$0.0	\$230.0	\$27.1	\$182.2
1991-92	\$0.0	\$170.1	\$8.1	\$20.1
1992-93	\$282.6	\$0.0	\$0.7	\$303.4
1993-94	\$460.2	\$0.0	\$11.9	\$775.5
1994-95	\$260.1	\$90.4	\$57.7	\$1,003.0
1995-96	\$91.3	\$0.0	\$59.2	\$1,153.6
1996-97	\$0.0	\$69.0	\$67.8	\$1,152.4
1997-98	\$0.0	\$212.0	\$60.1	\$1,000.5
1998-99	\$244.4	\$73.7	\$51.2	\$1,222.5
1999-2000	\$100.0	\$132.0	\$73.9	\$1,264.4
2000-01	\$0.0	\$337.0	\$66.7	\$994.2
2001-02	\$0.0	\$869.8	\$20.8	\$145.2
2002-03	\$0.0	\$156.1	\$10.9	\$0.0
2003-04	\$81.3	\$0.0	\$0.0	\$81.3
2004-05	\$0.0	\$81.3	\$2.0	\$2.0
2005-06	\$0.0	\$0.0	\$0.0	\$2.0
2006-07	\$0.0	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$2.2
2008-09	\$0.0	\$0.0	\$0.0	\$2.2
2009-10	\$0.0	\$0.0	\$0.0	\$2.2
2010-11	\$0.0	\$0.0	\$0.0	\$2.2
2011-12	\$362.7	\$0.0	\$0.2	\$365.1
2012-13	\$140.0	\$0.0	\$0.5	\$505.6
2013-14	\$75.0	\$194.8	\$0.4	\$386.2
2014-15	\$111.6	\$0.0	\$0.3	\$498.1
2015-16	\$112.5	\$0.0	\$1.7	\$612.4
2016-17	\$92.5	\$0.0	\$5.1	\$710.0
2017-18	\$282.5	\$0.0	\$13.5	\$1,006.0
2018-19	\$117.5	\$0.0	\$25.1	\$1,148.6
2019-20	\$17.5	\$350.0	\$13.2	\$829.3
2020-21*	\$52.5	\$0.0	\$4.3	\$886.1
2021-22*	\$17.5	\$0.0	\$3.7	\$907.3
2022-23*	\$17.5	\$0.0	\$3.8	\$928.6

* HFA estimates

NOTE: Numbers may not add due to rounding.

Compliance with the State Revenue Limit

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

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

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

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

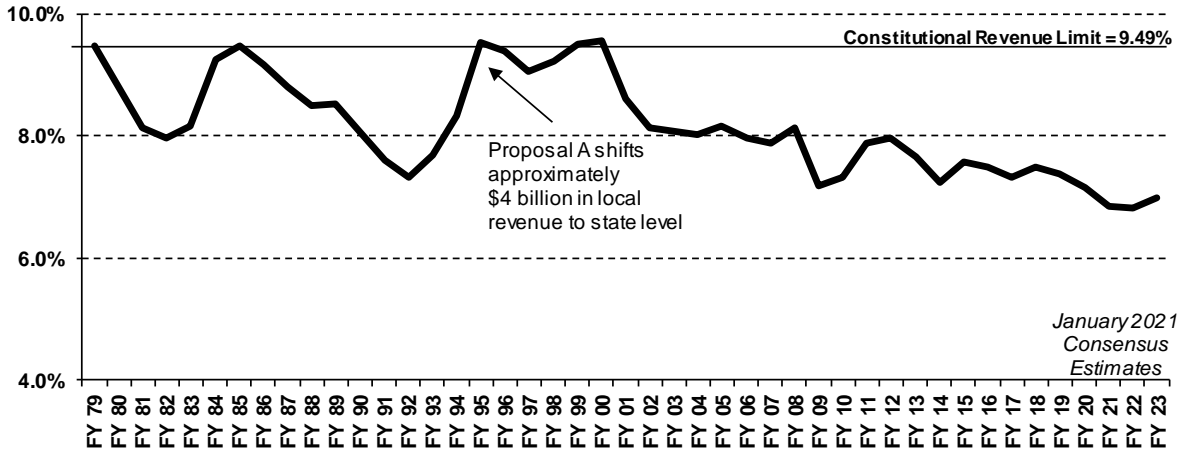
As shown in **Table 6** and **Figure 3**, the FY 2019-20 revenue limit calculation is expected to show state revenue collections at \$11.1 billion below the revenue limit. For FY 2020-21, state revenue is estimated to be below the limit by \$12.9 billion. For FY 2021-22 and FY 2022-23, state revenue is estimated to remain well below the revenue limit – by \$13.9 billion and \$12.8 billion, respectively.

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

<u>Revenue Limit Calculations</u>	<u>Estimated FY 2019-20</u>	<u>Estimated FY 2020-21</u>	<u>Estimated FY 2021-22</u>	<u>Estimated FY 2022-23</u>
Personal Income				
Calendar Year	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2021</u>
Amount	\$477,010	\$491,632	\$520,147	\$513,903
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$45,268.2	\$46,655.9	\$49,361.9	\$48,769.3
Total Revenue Subject to Revenue Limit	\$34,179.7	\$33,712.5	\$35,429.5	\$35,923.9
Amount Under (Over) State Revenue Limit	\$11,088.5	\$12,943.4	\$13,932.4	\$12,845.4

NOTE: Numbers may not add due to rounding.

Figure 3
Constitutional Revenue Limit
 Total State Tax and Fee Revenue as Percentage of Personal Income



HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2020-21 estimates are based on year-to-date appropriations and HFA revenue and K-12 cost estimates. Preliminary FY 2019-20 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

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

	Preliminary FY 2019-20	Estimated FY 2020-21
General Fund/General Purpose	\$2,489.7	\$1,490.6
School Aid Fund	\$1,177.3	\$868.6
Budget Stabilization Fund	\$829.3	\$886.1

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



Additional copies of this report can be obtained from:

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