ECONOMIC AND REVENUE FORECASTS
FY 2023 * FY 2024 * FY 2025

CONSENSUS REVENUE ESTIMATING CONFERENCE

JANUARY 13, 2023
OUTLINE

• Recent Economic and Revenue Updates
  Jim Stansell, House Fiscal Agency

• Revenue Estimates for Major Taxes
  David Zin, Senate Fiscal Agency

• Revenue Estimates by Fund
  Eric Bussis, Department of Treasury
ECONOMIC OUTLOOK

• U.S. Economy
  • Real GDP is forecast to be flat in 2023 (0.2% growth), gradually increasing in 2024 (0.8% growth) and further in 2025 (2.2% growth)
  • Inflation is currently high, but is expected to slow over the next three years, with inflation around 4.6% in 2023 and declining to 2.7% in 2025
  • Light vehicle sales are expected to pick up in 2023 and increase moderately through 2024 and 2025

• Michigan Economy
  • Michigan’s unemployment rate is forecast to trend slightly above the national rate through 2025
  • Michigan wage and salary income growth is expected to be similar to national growth
All Agency Forecasts Predict Recession in 2023

Quarterly Real GDP

- Actual
- SFA
- HFA
- Treasury
**Revenue Updates**

- FY 2022 preliminary totals show revenue above May 2022 estimates
  - School Aid Fund (SAF) revenue above estimate by $480 million
  - GF-GP revenue exceeded estimate by just over $1 billion

- Revenue collections boosted by Consumption and Income Taxes
  - Sales Tax exceeded estimate by about $485 million
  - Revenue from Individual Income Tax Withholding exceeded estimate by over $104 million
  - Corporate Income Tax revenue exceeded target by over $200 million
Sales and Use Growth Rate

Sales and Use
Fiscal Year-Over-Year Growth Rate

YOY Growth Rate

-2% 0% 2% 4% 6% 8% 10% 12% 14% 16% 18% 20%


YOY Growth, Preliminary Estimate
11.2%
7.2%
May CREC Estimate
18.8%
Income Tax Withholding Growth Rate

Income Tax Withholding
Fiscal Year-Over-Year Growth Rate

YOY Growth Rate


YOY Growth, Preliminary Estimate
9.1%

May CREC Estimate
8.2%

5.1%

Michigan Revenue

January 2023 Consensus Conference
Increased Business Tax Payments

CIT and MBT
Excluding MEGA and MBT Credits
Fiscal Year

*FY 2022 year-to-date includes revenue prior to MEGA and MBT credits.
Preliminary FY 2022 Revenue Totals

GF-GP and SAF Combined
Fiscal Year 2022
Billions

$26.2
January 2020

$24.1
May 2020

$24.5
August 2020

$25.3
January 2021

$26.8
May 2021

$28.5
January 2022

$31.5
May 2022

$33.0
Preliminary Total

Fiscal Year 2022
FORECAST OF MAJOR TAXES
Michigan Forecast

Baseline Income Tax Growth

Fiscal Year Growth

2022
Preliminary

-11.8%

2023

-1.5%

2024

2.4%

2.2%

3.1%

2025

7.5%

3.7%

1.5%

SFA
HFA
Admin.
Net Income Tax Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Preliminary</th>
<th>SFA</th>
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<td>2025</td>
<td>$13.61</td>
<td>$14.67</td>
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Baseline Sales Tax Growth

Fiscal Year Growth

- 2022 Preliminary: 14.6%
- 2023: -0.9% SFA, -1.0% HFA, 1.4% Admin.
- 2024: -2.3% SFA, 0.6% HFA, 1.6% Admin.
- 2025: 0.1% SFA, 1.5% HFA, 2.0% Admin.
Net Sales and Use Tax Revenue Estimates

Fiscal Year
Billions

2022 Preliminary $13.39
2023 $13.17 $13.20 $13.53
2024 $12.93 $13.25 $13.71 $13.98
2025 $13.00 $13.42 $13.98

SFA
HFA
Admin.
Consumption Taxes Reach Records

Sales and Use
Annual Collections in Millions

Source: Michigan Department of Treasury, 5/16/2022.
Net SET Revenue Estimates

Fiscal Year
Billions

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>SFA</th>
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<td>2025</td>
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<td>$2.86</td>
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FORECAST OF GF-GP AND SCHOOL AID FUND
GF-GP Net Revenue Estimates

Fiscal Year
Billions

<table>
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<tr>
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<th>HFA</th>
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School Aid Fund Net Revenue Estimates

Fiscal Year
Billions

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<th>Year</th>
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<th>HFA</th>
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<td>2025</td>
<td>$17.38</td>
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### Michigan Forecast

#### Revenue Forecast Comparison

<table>
<thead>
<tr>
<th>Total Revenue (Values in Millions)</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
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<tbody>
<tr>
<td></td>
<td>SFA</td>
<td>HFA</td>
<td>Admin.</td>
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<tr>
<td>GF-GP</td>
<td>$13,620.7</td>
<td>$14,879.4</td>
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<tr>
<td>School Aid Fund</td>
<td>$17,059.7</td>
<td>$17,733.2</td>
<td>$17,823.6</td>
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#### Difference from May Consensus Estimates

<table>
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<tr>
<th>Difference from May Consensus Estimates</th>
<th>FY 2023</th>
<th>FY 2024</th>
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<tbody>
<tr>
<td></td>
<td>SFA</td>
<td>HFA</td>
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<tr>
<td>GF-GP</td>
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<td>School Aid Fund</td>
<td>-$135.6</td>
<td>$537.9</td>
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<td>Combined</td>
<td>-$488.4</td>
<td>$1,461.9</td>
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Public Act 180 of 2015 amended the Income Tax Act

Beginning with tax year 2023, the income tax rate will be reduced if General Fund-General Purpose revenue growth exceeds defined levels.

The reduction calculation uses General Fund-General Purpose revenue as published in the Annual Comprehensive Financial Report (ACFR):

- In each subsequent year, revenue is capped at FY 2021 multiplied by cumulative inflation and an adjustment factor of 1.425.
- For tax year 2023, the level of capped revenue is based on the inflation-adjusted growth and statutory adjustment, between FY 2021 and FY 2022.
- If actual ACFR reported revenue surpasses the capped total, a reduction in the individual income tax rate is triggered.

Since the ACFR for FY 2022 has not yet been completed and audited, it is not possible to calculate the impact of the trigger on the income tax rate for TY 2023 under the requirements set forth in the statute.

This calculation and rate determination will be made after publication of the ACFR.
Both pay-ins and pay-outs require an appropriation

The agency estimates calculate:

*Pay-ins*
- No pay-ins during FY 2023, FY 2024 and FY 2025

*Pay-outs*
- No pay-outs during FY 2023, FY 2024 and FY 2025
Constitutional Revenue Limit Calculation

Amount Under/Over the Constitutional Revenue Limit
Billions

Average Agency Forecasts
FORECAST RISKS

Economy
• Shifting monetary policy and the timing of Federal Reserve rate changes could help ease or hasten the economic downturn
• The projected recession may be of greater severity and duration than expected
• International conflict and resulting sanctions could derail the economy
• Inflation and gas prices may impact consumer spending

Michigan Tax Revenue
• When, and how quickly, both incomes and spending return to normal
• How quickly inflation is contained and how it ends up affecting economic activity
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