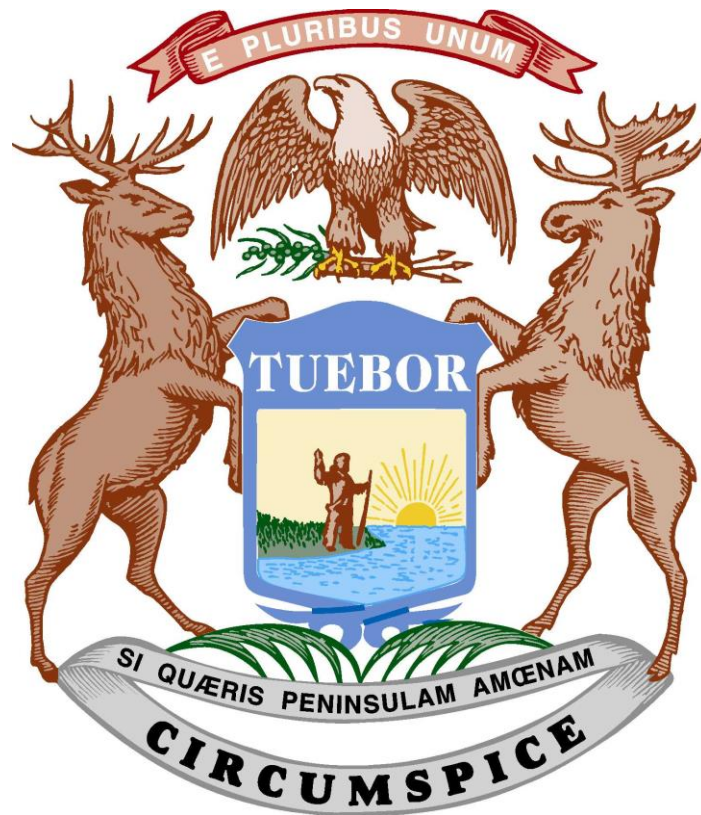


Economic and Revenue Outlook

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

Michigan Department of Treasury



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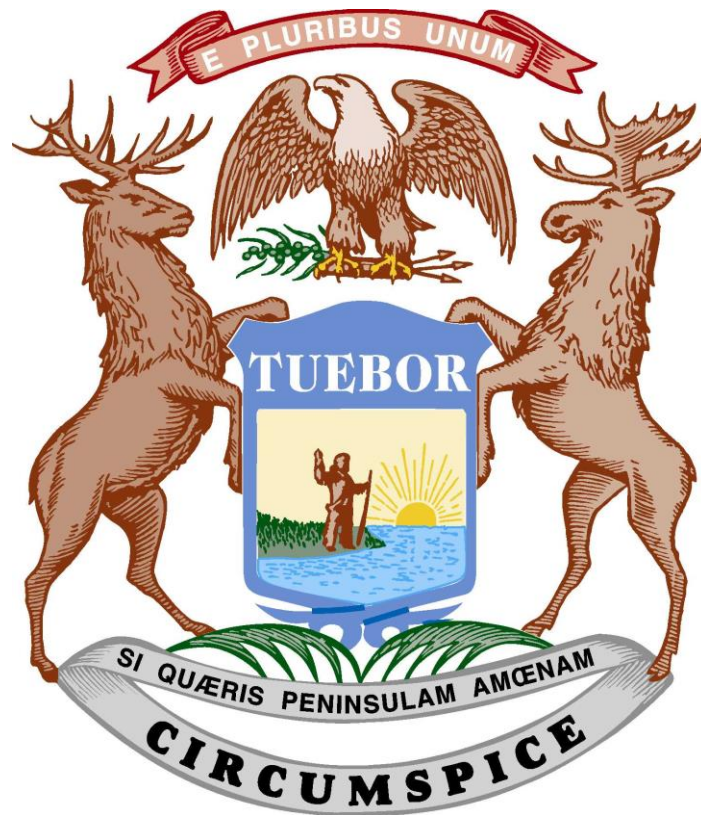
Thomas Patchak-Schuster, Economic Specialist

May 21, 2021

Economic and Revenue Outlook

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

Michigan Department of Treasury



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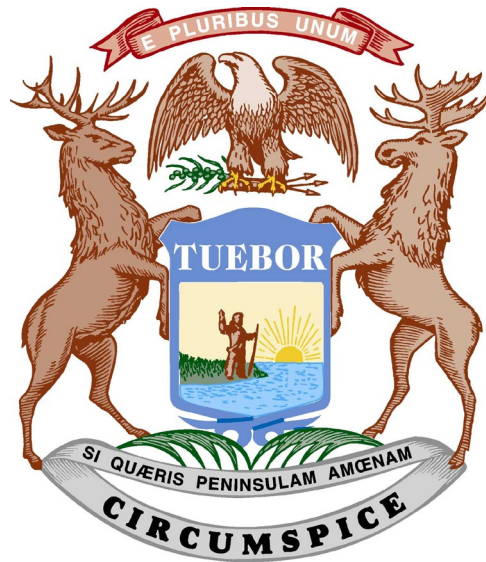
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SECTION I

Administration Estimates Executive Summary

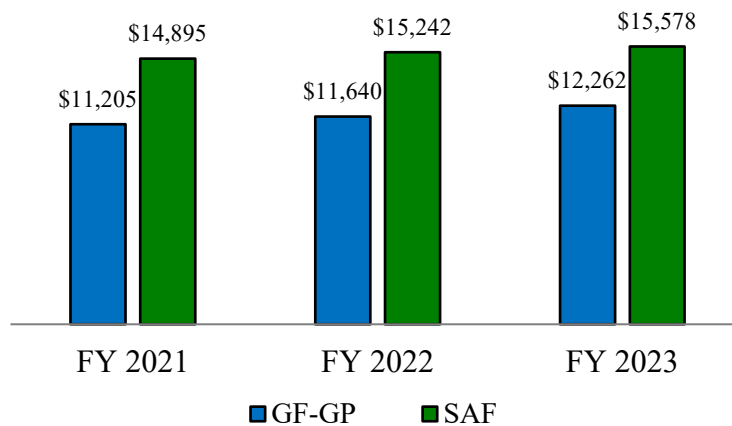


**Administration Estimates
Executive Summary
May 21, 2021**

Revenue Review and Outlook

- FY 2021 GF-GP revenue is forecast to increase 4.1 percent to \$11,204.6 million, up \$967.1 million from the January 2021 Consensus estimate. FY 2021 SAF revenue is forecast to increase 6.4 percent to \$14,895.3 million, up \$865.1 million from the January 2021 Consensus estimate.
- FY 2022 GF-GP revenue is forecast to increase 3.9 percent to \$11,639.9 million, up \$742.7 million from the January 2021 Consensus estimate. FY 2022 SAF revenue is forecast to increase 2.3 percent to \$15,242.4 million, up \$818.7 million from the January 2021 Consensus estimate.
- FY 2023 GF-GP revenue is forecast to increase 5.3 percent to \$12,261.6 million, up \$1,094.5 million from the January 2021 Consensus estimate. FY 2023 SAF revenue is forecast to increase 2.2 percent to \$15,577.6 million, up \$847.1 million from the January 2021 Consensus estimate.

**Administration GF-GP and School Aid Fund
Revenue Estimates
(millions of dollars)**



Economic Outlook

- Real GDP dropped 3.5 percent in calendar year 2020 – the largest calendar year decline since 1946. Real GDP is forecast to rise 6.4 percent in 2021, 4.7 percent in 2022, and 2.6 percent in 2023.
- U.S. employment dropped a record 5.8 percent in 2020, but is forecasted to increase 2.5 percent in 2021, 4.3 percent in 2022, and 2.3 percent in 2023.
- In 2020, the national unemployment rate soared from a 50-year low of 3.7 percent in 2019 to 8.1 percent in 2020. The U.S. rate is forecast to decline to 5.8 percent in 2021, 4.3 percent in 2022 and 4.0 percent in 2023.
- Housing starts rose 6.9 percent in 2020. Starts are expected to rise 16.3 percent in 2021, rise 5.9 percent in 2022, and then increase 0.1 percent in 2023.
- In 2020, light vehicle sales fell to an estimated 14.5 million units – down from 17.0 million units in 2019. Light vehicle sales are forecast to rise to 16.6 million units in 2021, 16.8 million units in 2022, and 16.9 million units in 2023.
- The U.S. CPI rose 1.2 percent in 2020 and is forecast to increase 3.1 percent in 2021, 2.4 percent in 2022 and 2.5 percent in 2023.

Michigan Economic Outlook

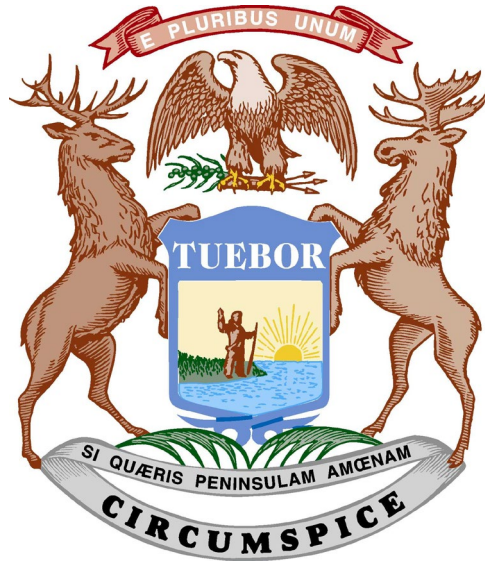
- In 2020, Michigan wage and salary employment declined 9.2 percent, the largest annual Michigan employment decline since 1958. Michigan employment is forecast to increase 3.7 percent in 2021, 3.8 percent in 2022 and 1.5 percent in 2023.
- The Michigan unemployment rate rose from 4.1 percent in 2019 to a 9.9 percent in 2020. The Michigan unemployment rate is forecast to decline to 5.0 percent in 2021, 4.4 percent in 2022 and 4.0 percent in 2023.
- Michigan wages and salaries dropped 2.8 percent in 2020 and are forecast to increase 4.0 percent in 2021, 4.8 percent in 2022 and 4.4 percent in 2023.
- Boosted by federal stimulus actions, Michigan personal income increased 7.4 percent in 2020 and is forecast to rise 2.3 percent in 2021, decline 0.7 percent in 2022, and increase 4.2 percent in 2023.

Forecast Risks

- Progress to date on COVID-19 vaccinations will help support economic growth. On the other hand, the recent slowdown in vaccination rates and the possible emergence of more virulent COVID variant strains may slow economic growth.
- Housing demand is anticipated to be very high this summer and going through the next two to three years. However, the construction of new homes will be constrained by the price/availability of lumber and the availability of construction labor.
- Demand for new vehicles will be high this coming year, which could drive sales much higher than predicted. However, the semiconductor shortage is already limiting vehicle production on some vehicle assembly lines, which will limit the number of vehicles available for purchase.
- Increases in inflation may not be as transitory as is expected. Sustained increases in inflation could spur the Fed to raise interest rates sooner and higher than expected and potentially cause a sharp economic slowdown.

SECTION II

Economic Review



Economic Review

May 21, 2021

Current U.S. Economic Situation

Pre-Pandemic Recent History

In order to place recent economic activity in perspective, it is helpful to review where the U.S. and Michigan economies stood prior to the COVID-19 pandemic. Prior to the pandemic, the U.S. economy had reported modest but steady growth over a lengthy expansion:

- The U.S. experienced 10 straight years of economic growth, ending in 2019 with a 2.2 percent growth – slowing from 3.0 percent growth in 2018.
- In 2019, U.S. employment increased for the ninth straight year, increasing 1.3 percent following a 1.6 percent rise in 2018.
- The U.S. unemployment rate fell for the 9th straight year to 3.7 percent in 2019 – the lowest annual unemployment rate in 50 years. Between September 2019 and February 2020, the monthly unemployment rate ranged narrowly between 3.5 percent and 3.6 percent.
- While falling slightly from 2018, light vehicle sales remained close to 17.0 million in 2019.
- Since falling to an all-time low in 2009, housing starts rose each year through 2019. Starts rose to 1.29 million units in 2019, up 3.2 percent from 2018.

COVID-19 Economic Impact

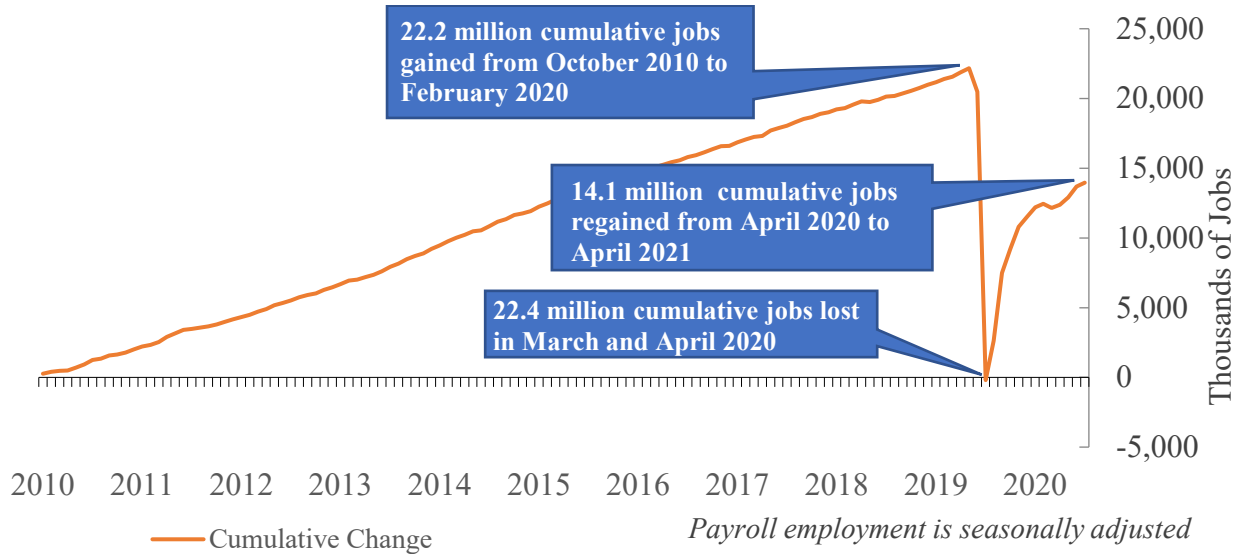
In the first quarter of 2020, the COVID-19 pandemic began to take hold in the U.S. As a result of COVID-19 and measures to contain the virus, the U.S. economy stalled with real GDP declining at a 5.0 percent annual rate in the first quarter of 2020 and plummeting in the second quarter at a record 31.4 percent annual rate. The economy rebounded in the third quarter with real GDP growing at a record 33.4 percent annual rate, followed by an annual growth of 4.3 percent in the fourth quarter. Overall, for calendar year 2020, annual real GDP declined 3.5 percent from 2019. In the first quarter of 2021, real GDP grew at a historically strong 6.4 annual pace with 2021Q1 real GDP recovering most of the recession's losses and slightly (0.9 percent) below its pre-pandemic 2019Q4 level.

After rising in 112 of 113 months and gaining a cumulative 22.2 million jobs, U.S. employment fell by 1.7 million jobs in March 2020 and then plummeted a record 20.7 million jobs in April. Wage and salary employment rose each month from May through November regaining slightly more than half of the 22.4 million jobs lost in March and April. Employment gained 2.8 million jobs in May and 4.8 million jobs in June. Employment growth slowed after June with the economy adding 1.7 million jobs in July, 1.6 million jobs in August, 716,000 jobs in September, 680,000 jobs in October, and 264,000 jobs in November, before falling 306,000 jobs in December.

Over the first three months of 2021, employment rose at an accelerating pace, gaining 233,000 jobs in January, 536,000 jobs in February, and 770,000 jobs in March. However, gains slowed in April

to a growth of 266,000 jobs. On net, the economy has recovered 14.1 million jobs through April 2021, but remains 8.2 million jobs (5.4 percent) below February 2020 levels, prior to pandemic.

Cumulative Change in U.S. Payroll Employment



Source: Bureau of Labor Statistics.

With the massive job losses in March and April of 2020, the unemployment rate rose sharply from 3.5 percent in February to a record high 14.8 percent in April. However, with the partial employment recovery, the unemployment rate fell each month between May and November and remained flat in December at a 6.7 percent unemployment rate.

The unemployment rate fell slightly over the first three months of 2021 dropping to 6.0 percent in March before rising slightly to 6.1 percent in April – 8.7 percentage points below the April 2020 peak and 2.6 percent above the February 2020 pre-pandemic rate.

The pandemic and its economic impact greatly affected consumer sentiment. In March and April of 2020, University of Michigan index of consumer sentiment fell a combined 29.2 points to its lowest level in almost nine years. As of April 2021, consumer sentiment has recovered a little more than half of the ground it lost early in the pandemic but remained 12.7 points below the index’s February 2020 reading.

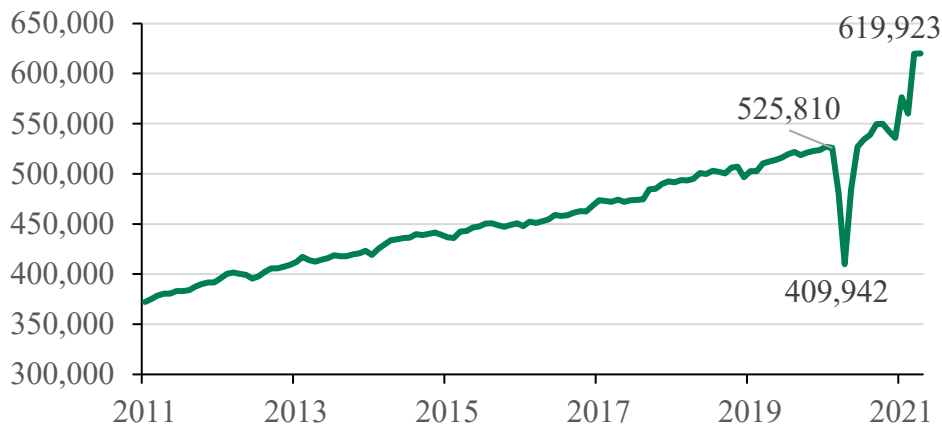
Consumer Sentiment



Source: University of Michigan Survey Research Center

Retail sales fell 5.9 percent in March 2020 year-over-year and then plummeted a record 20.0 percent y-o-y in April. However, since June, sales have been up compared to a year earlier – in large part because of stepped-up government assistance programs combined with pent-up demand. Between June 2020 and February 2021, y-o-y changes in retail sales ranged from 2.1 percent to 9.4 percent. As we reach a year after the start of the pandemic, the one-month change better shows how retail sales are currently changing. In March 2021, the one-month change in retail sales was 10.7 percent, followed by flat growth for April.

Retail Sales Decline and Recover Sharply (Annual Sales Rate (Millions of Dollars))

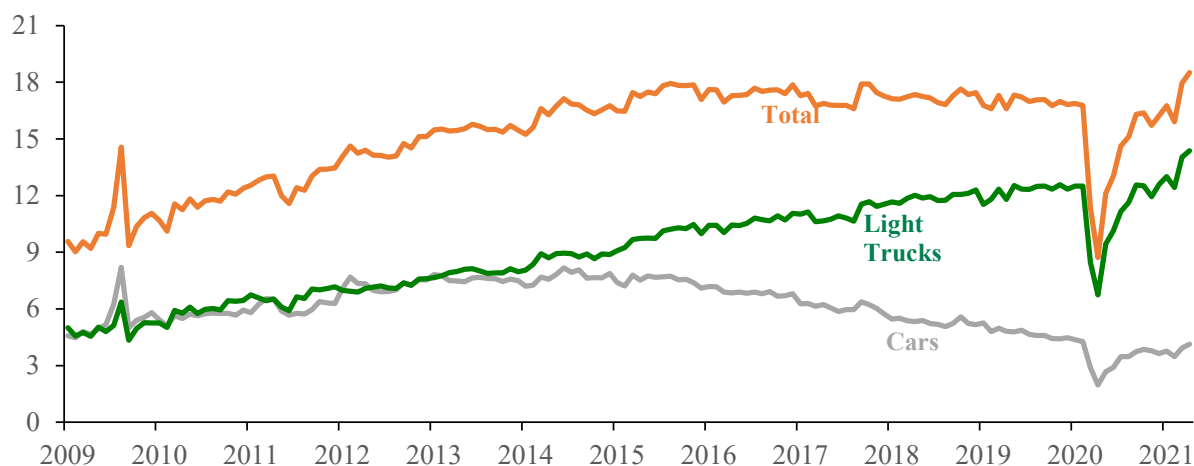


Source: U.S. Census Bureau.

Light vehicle sales dropped sharply in March and April 2020, with annualized sales plummeting from 16.8 million units in February to 8.7 million units in April – a near 50-year low. Annualized light vehicle sales rose each month between July and October – rising to 16.4 million units by October. Light vehicle sales fell modestly in November, but rose in each of the next two months

– rising to 16.8 million units in January 2021. After falling in February, sales jumped up sharply in March and rose to 18.5 million units in April – the highest monthly sales rate in over 15 years.

Light Vehicle Sales Decline Then Rebound



Source: Bureau of Economic Analysis

In April 2020, motor vehicle production came to a standstill because of the ongoing pandemic. Production partially restarted in May, picked up significantly in June and rose further in July and August, but declined in September. Production rose in October but fell in November and December. All told, national production dropped 17.1 percent in calendar year 2020. Through the first three months of 2021, U.S. vehicle production was down 2.1 percent compared with the first three months of 2020.

After falling modestly in February, housing starts dropped sharply in both March and April. As a result, annualized starts dropped to a five-year monthly low of 934,000. Through the end of 2020, housing starts then rose in all but one of the following months (August). Housing starts then fell slightly in January 2021 and, because of inclement weather, dropped substantially in February. However, starts rebounded sharply in March. Through the first three months of 2021, annualized housing starts have averaged 1,613,000 million units – up 8.6 percent from 2020Q1.

Monetary and Fiscal Policy Actions

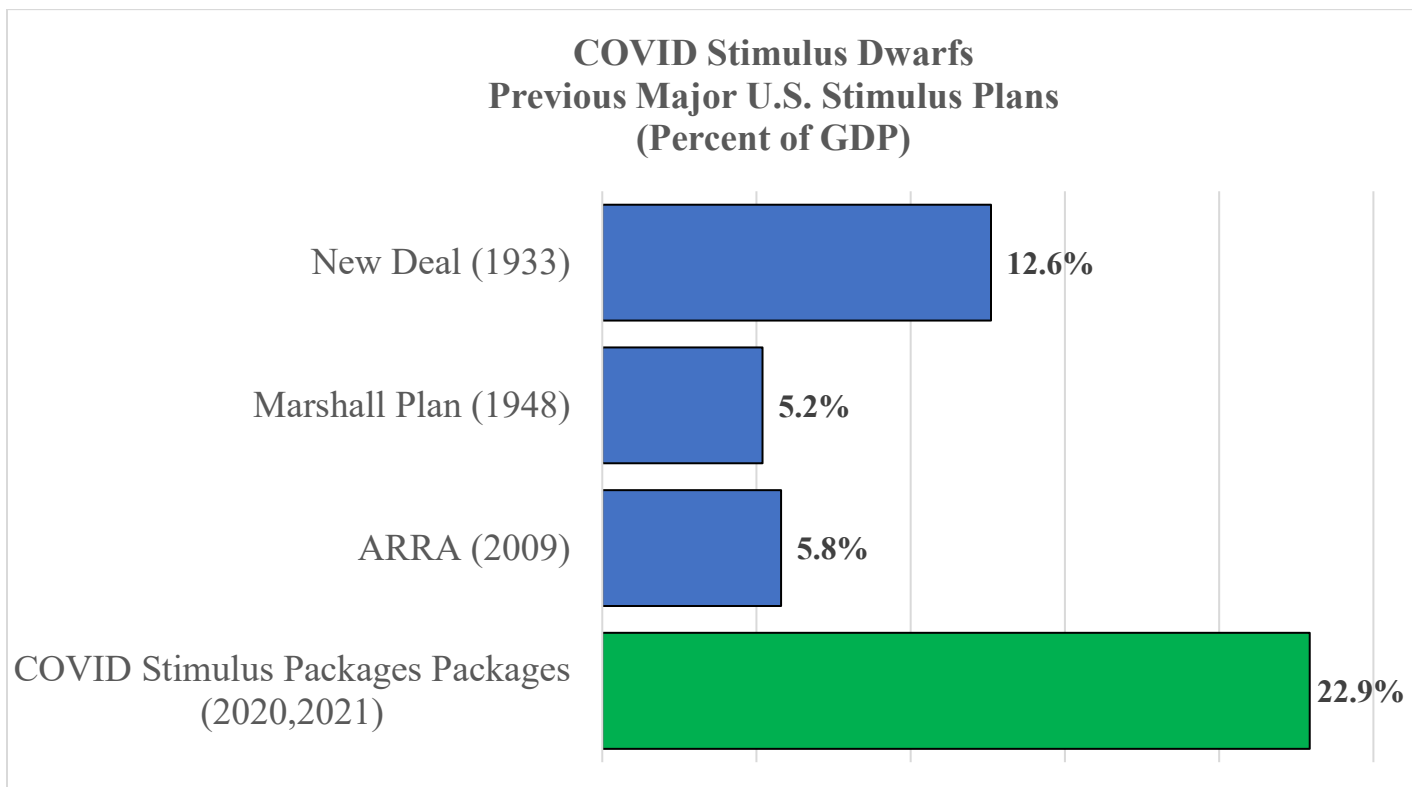
Monetary Policy

The Federal Reserve (Fed) has taken aggressive action to combat the impact of the pandemic and containment restrictions on the economy. In mid-March 2020, the Fed lowered the federal funds rate range to near zero and aggressively stepped up its quantitative easing program under which it purchases Treasury bonds and mortgage bond securities. As a result, the Fed holdings skyrocketed from \$4.2 trillion in late February to over \$6.7 trillion in late April. Continued steady substantial purchases increased Fed holdings to \$7.4 trillion by the end of 2020. The 76.2 percent increase in Fed holdings from February to December 2020 is in sharp contrast to the 4.8 percent rise over the same period in 2019. Continued Fed purchases through late April 2021 have raised the Fed's holdings to \$7.8 trillion – up 86.1 percent from late February 2020.

Most recently at its April 2021 meeting, the Fed stated that it is “committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.” The Fed reaffirmed its current highly stimulative monetary policies. In particular, the Fed stated that it will keep the federal funds near zero “until labor market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.” In addition, the Fed “will continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.”

Fiscal Policy

In response to the pandemic, the federal government enacted three extremely large economic stimulus packages, amounting to nearly \$5 trillion in estimated federal spending and tax expenditures. The near \$5 trillion stimulus equals 22.9 percent of GDP. As the graph below illustrates, COVID stimulus is tremendously larger than any other previous major stimulus plans.



Sources: Axios Research (December 23,2020), Bureau of Economic Analysis. The above COVID stimulus percentage above includes the \$1.9 trillion American Rescue Plan (ARP), which was enacted in March 2021 – after the December 2020 Axios release.

Three major COVID stimulus packages have been enacted over the last year:

- (1) The \$2 trillion-plus CARES Act enacted in March 2020, shortly after the onset of the pandemic. Major elements of the package included funding for direct relief payments to most adults of up to \$1,200 to individuals and \$2,400 to couples; funding for temporary \$600/week increases in unemployment insurance payments and increases in the coverage and the duration of unemployment insurance; a business loan/grant program (Payroll Protection Program), and payments to state, local and tribal governments.
- (2) A \$900 billion emergency COVID relief package enacted in late December 2020. The package included another round of stimulus checks of up to \$600 (individuals)/ \$1,200 (couples) and \$500 per child; funding through March 2021 for an additional \$300 per week for unemployment insurance along with an extension of the broader and lengthened UI coverage, along with additional funding for the Payroll Protection loan/grant program.
- (3) The \$1.9 trillion American Rescue Plan Act enacted in early March 2021 includes:
 - a. \$1,400 stimulus payments to most persons in the U.S. The legislation provided for full \$1,400 payments for individuals making less than \$75,000 annually and for married couples making less than \$150,000 and single parents making less than \$112,500. The payments phase out for individuals with income between \$75,000 and \$80,000 (\$150,000 to \$160,000 for couples; \$112,500-\$120,000 for single parents).
 - b. Extends the \$300 per week unemployment insurance payments under the federal unemployment insurance programs first implemented under the CARES Act. ARP extends the cutoff date for expanded coverage to self-employed workers and extensions of UI payments through September 6, 2021. The payments are extended through September 6, 2021. The legislation excludes the first \$10,200 of tax year 2020 benefits for each 2020 UI recipient from federal adjusted gross income for households making less than \$150,000.
 - c. Through 2021, the plan raises the \$2,000 Child Tax Credit to \$3,000, sets the credit at \$3,600 for parents of children under 6 and make parents of 17-year-olds eligible for the credit. The Act also expands the Child Care Tax Credit and the Earned Income Tax Credit (EITC). For the EITC, the Act reduces the eligibility age from 25 to 19 and nearly triples the maximum credit for those without children from \$543 to \$1,502.
 - d. \$360 billion to state, local governments and tribes. The Act prohibits states from using the federal funds directly or indirectly for tax cuts. Of the \$360 billion, \$195 billion is allocated to state governments, \$25 billion to tribes and territories, \$65.1 billion to counties, \$10 billion to capital projects, \$45.6 billion to metropolitan cities and \$19.5 billion to other local governments. The payments may be used for costs incurred through December 2024.
 - e. \$125 billion for K-12 schools and \$40 billion for universities and colleges with at least 50 percent of the \$40 billion used to provide emergency financial aid grants to students.
 - f. \$123 billion in COVID-related policy with \$47.8 billion for testing, contact tracing and mitigation efforts; \$47 billion for the Disaster Relief Fund including payments for COVID-related funeral expenses related to COVID-19, \$14.5 billion for vaccine distribution, confidence and supply chains and \$10 billion to use the Defense Production Act to buy and distribute medical supplies.
 - g. \$22 billion in rental assistance; \$39 billion for child care; \$29 billion for the restaurant industry; \$86 billion for new program for multiemployer pension plans.

Current Michigan Economic Situation

Pre-Pandemic Recent History

Prior to the pandemic, Michigan's economy posted a decade of economic growth, but was showing signs of slowing.

In 2019:

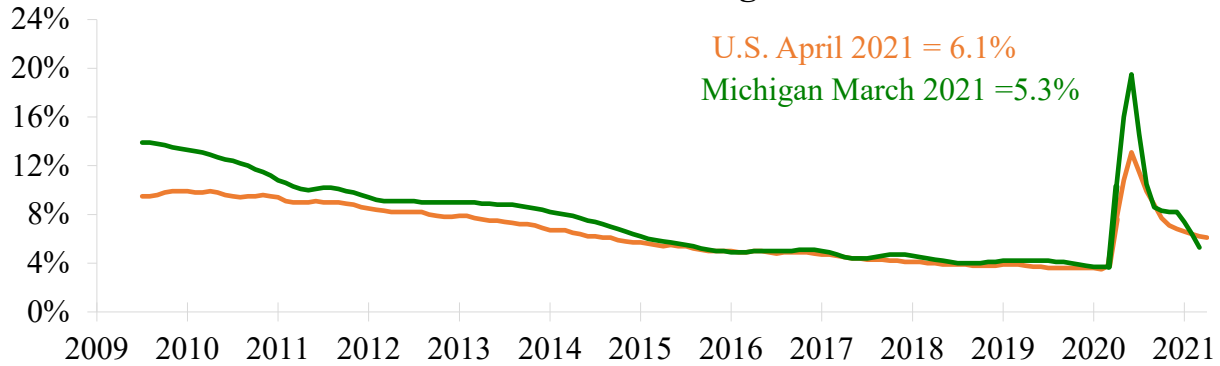
- Both Michigan wage and salary income and personal income increased for the tenth straight year. Wage and salary income grew 2.6 percent, slowing from 3.7 percent growth in 2018. Similarly, personal income increased 3.1 percent, slowing from 4.1 percent growth in 2018.
- Real Michigan gross domestic product (GDP) increased for the tenth straight year, rising 0.8 percent, slowing from 2.3 percent growth in 2018 and representing the slowest Michigan real GDP growth over the 10 years.
- Michigan wage and salary employment grew for the ninth straight year. Employment grew 0.4 percent, slowing from 1.1 percent growth both in 2018 and representing the slowest annual growth over the nine years.
- The Michigan annual unemployment rate fell for the tenth straight year, falling to 4.1 percent – the lowest Michigan annual unemployment rate since 2000.
- Approximately 1,914,000 vehicles were produced in Michigan, an increase of 4.4 percent from 2018, and well above the historical low of 1,146,000 units produced in 2009.

COVID-19 Economic Impact

The pandemic's impact on Michigan's economy mirrored the national impact. After rising to a 17-year monthly high in February 2020, Michigan wage and salary employment fell modestly in March (-38,700 jobs) and then plummeted in April – losing a record 1.0 million jobs. Michigan has regained jobs each month between May and November. State employment fell in December but then rose in each of the first three months of 2021. On net, Michigan regained 735,200 jobs between May 2020 and March 2021.

With the massive employment losses, Michigan's three-month average unemployment rate trended sharply upward starting in April, when the average rose from 3.7 percent to 10.3 percent. The three-month average peaked in June at 19.5 percent and has since trended downward – dropping to 8.2 percent in December 2020 and to 5.3 percent in March 2021.

Three-Month Average Unemployment Rates Have Declined Since Peaking in June 2020



Source: Bureau of Labor Statistics.

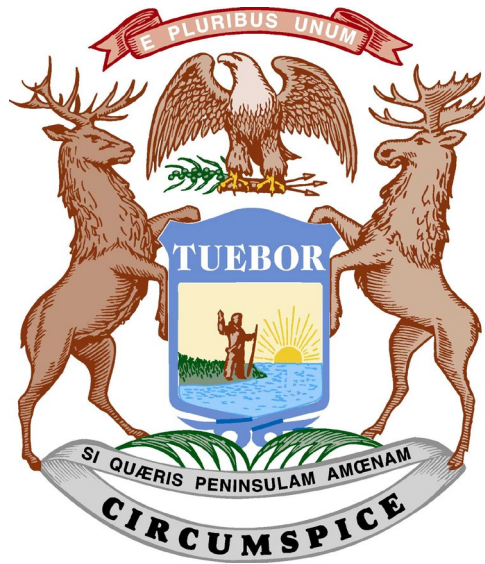
Largely because of the CARES Act and state unemployment insurance payments, personal income rose in the second quarter of calendar year 2020 despite a substantial decline in economic activity. In 2020Q2, while Michigan real GDP fell 12.0 percent from a year earlier, personal income *rose* 15.0 percent year-over-year (y-o-y). Michigan personal income increased at a still strong 8.7 percent y-o-y in 2020Q3 before slowing to 3.8 percent in 2020Q4. Excluding transfer payments, which encompass the federal stimulus direct relief payments and all unemployment insurance payments, Michigan personal income dropped 7.9 percent y-o-y in 2020Q2 and declined slightly y-o-y in 2020Q3 and 2020Q4.

Michigan Personal Income Change From Year Ago



SECTION III

Administration Economic Forecast



Administration Economic Forecast May 21, 2021

Administration Economic Forecast Summary

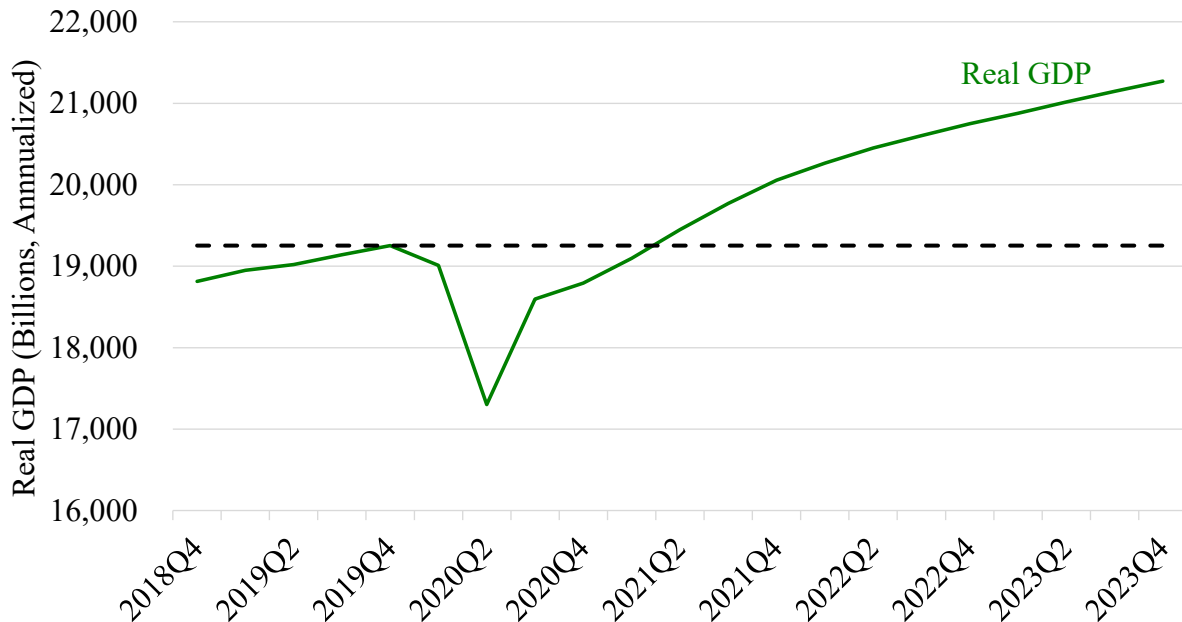
Table 1 provides a one-page summary table of the Administration forecast of the U.S. and Michigan economies.

2021, 2022 and 2023 U.S. Economic Outlook

Real (inflation adjusted) GDP is expected to increase at a strong pace through most of 2021. After declining 3.5 percent in 2020 (the largest annual decline since 1946), real GDP is forecast to rise 6.3 percent in calendar year 2021, grow 4.7 percent in 2022, and increase 2.7 percent in 2023.

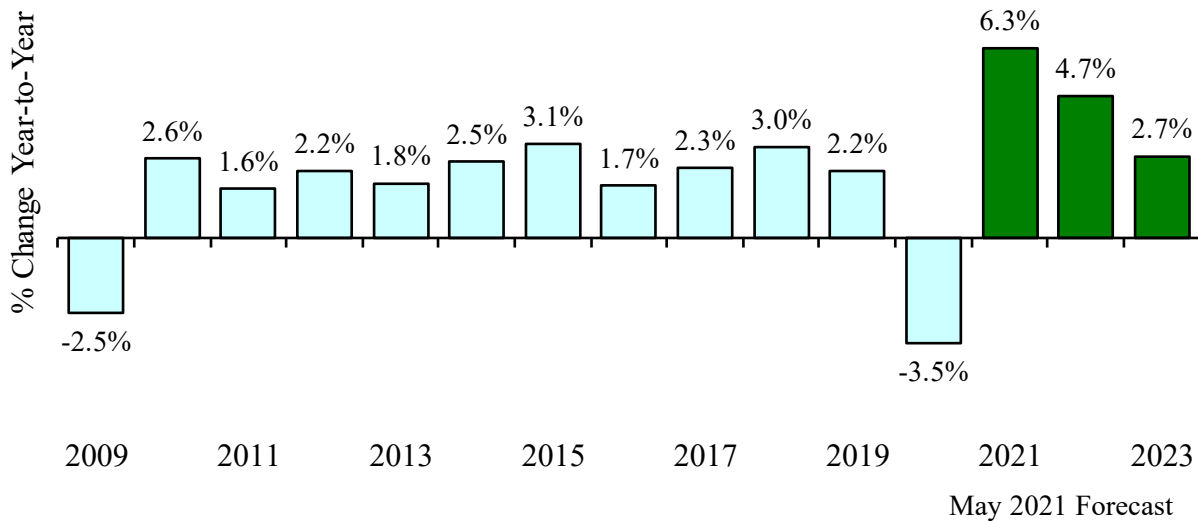
The forecast estimates that real GDP will fully regain the losses from the first two quarters of 2020 in the current quarter (2021Q2) – four quarters following the steep drop. Real GDP had regained 76.5 percent of its losses by the end of 2020. With strong growth in the first two quarters of 2021, it required two additional four quarters to fully recoup the steep real GDP drop from the first half of 2020. By the end of the forecast (2023Q4), real GDP is projected to be up 10.5 percent from its level directly before the pandemic in 2019Q4.

Steep and Sudden Economic Losses Recouped in Four Quarters



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2021.

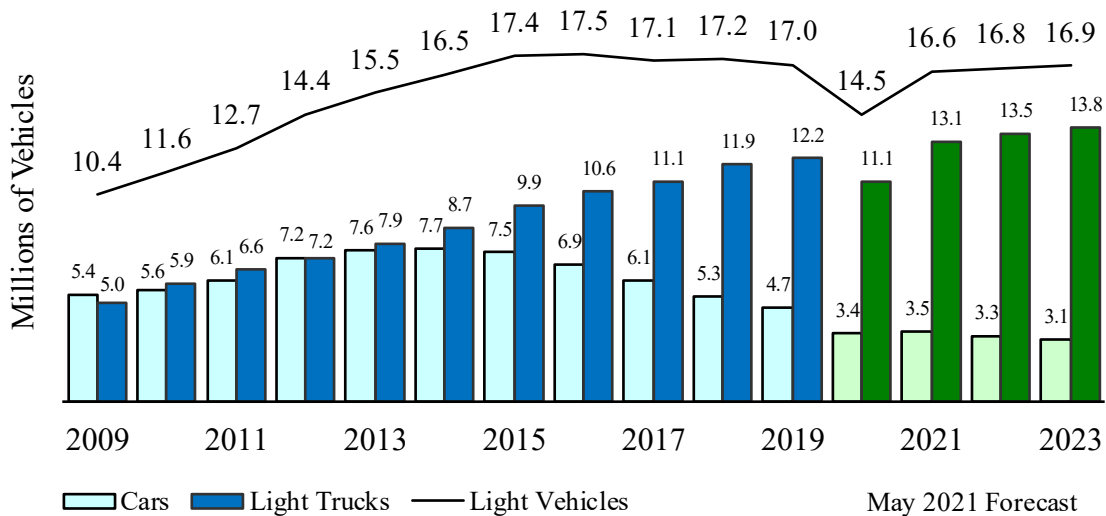
Real GDP Falls Sharply in 2020 Grows in 2021, 2022 and 2023



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2021.

As a result of sharp declines over the first half of 2020, **light vehicle sales** declined to 14.5 million units in 2020 – down from 17.0 million units in 2019. Light vehicle sales are expected to rebound to 16.6 million units in 2021, 16.8 million units in 2022, and 16.9 million units in 2023. Light trucks continue to dominate the light vehicle market over the forecast horizon.

Vehicle Sales Fall Sharply in 2020, Rebounds in 2021, 2022, 2023



Source Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2021.

Table 1
Administration Economic Forecast

May 21, 2021

	Calendar 2019 Actual	Calendar 2020 Actual	Percent Change from Prior Year	Calendar 2021 Forecast	Percent Change from Prior Year	Calendar 2022 Forecast	Percent Change from Prior Year	Calendar 2023 Forecast	Percent Change from Prior Year
United States									
Real Gross Domestic Product (Billions of Chained 2012 Dollars)	\$19,092	\$18,426	-3.5%	\$19,587	6.3%	\$20,508	4.7%	\$21,062	2.7%
Implicit Price Deflator GDP (2012 = 100)	112.3	113.6	1.2%	117.0	3.0%	120.3	2.8%	123.3	2.5%
Consumer Price Index (1982-84 = 100)	255.657	258.811	1.2%	266.727	3.1%	273.234	2.4%	280.008	2.5%
Consumer Price Index - Fiscal Year (1982-84 = 100)	254.376	258.014	1.4%	264.708	2.6%	271.551	2.6%	278.312	2.5%
Personal Consumption Deflator (2012 = 100)	109.9	111.2	1.2%	114.0	2.6%	116.7	2.4%	119.4	2.3%
3-month Treasury Bills Interest Rate (percent)	2.1	0.4		0.1		0.1		0.3	
Unemployment Rate - Civilian (percent)	3.7	8.1		5.8		4.3		4.0	
Wage and Salary Employment (millions)	150.905	142.185	-5.8%	145.740	2.5%	152.010	4.3%	155.510	2.3%
Housing Starts (millions of starts)	1.290	1.380	6.9%	1.604	16.3%	1.698	5.9%	1.700	0.1%
Light Vehicle Sales (millions of units)	17.0	14.5	-14.6%	16.6	14.7%	16.8	1.2%	16.9	0.6%
Passenger Car Sales (millions of units)	4.7	3.4	-27.9%	3.5	2.9%	3.3	-5.7%	3.1	-6.1%
Light Truck Sales (millions of units)	12.2	11.1	-9.5%	13.1	18.3%	13.5	3.1%	13.8	2.2%
Big 3 Share of Light Vehicles (percent)	41.0	40.5		39.7		40.3		40.4	
Michigan									
Wage and Salary Employment (thousands)	4,443	4,033	-9.2%	4,182	3.7%	4,341	3.8%	4,406	1.5%
Unemployment Rate (percent)	4.1	9.9		5.0		4.4		4.0	
Personal Income (millions of dollars)	\$491,632	\$528,093	7.4%	\$540,240	2.3%	\$536,458	-0.7%	\$558,989	4.2%
Real Personal Income (millions of 1982-84 dollars)	\$208,968	\$222,206	6.3%	\$221,670	-0.2%	\$214,936	-3.0%	\$218,678	1.7%
Wages and Salaries (millions of dollars)	\$246,831	\$239,866	-2.8%	\$249,548	4.0%	\$261,488	4.8%	\$272,908	4.4%
Detroit Consumer Price Index (1982-84 = 100)	235.267	237.659	1.0%	243.713	2.5%	249.590	2.4%	255.622	2.4%
Detroit CPI - Fiscal Year (1982-84 = 100)	233.843	237.426	1.5%	242.242	2.0%	248.081	2.4%	254.118	2.4%

The **U.S. unemployment rate** is forecast to decline over the forecast horizon. As a result, after rising to an 8.1 percent average in 2020, the U.S. unemployment rate is forecast to average 5.8 percent in 2021. In 2022, the average U.S. rate is forecast to fall to 4.3 percent and then decline to 4.0 percent in 2023.

U.S. wage and salary employment is forecast to continue recovering its steep 2020Q2 losses over the forecast horizon, but is not expected to fully recover its losses until 2023Q3. Annual employment is expected to rise 2.5 percent in 2021 and then grow 4.3 percent in 2022 and 2.3 percent in 2023.

The **U.S. consumer price index (CPI)** rose 1.2 percent in 2020. The CPI is forecast to increase 3.1 percent in 2021, rise 2.4 percent in 2022 and increase 2.5 percent in 2023. The personal consumption price deflator rate is projected to rise 2.6 percent in 2021, 2.4 percent in 2022, and 2.3 percent in 2023.

The **three-month Treasury bill rate** decreased to 0.4 percent in 2020, during which the federal funds rate was lowered to near zero. With the federal funds rate remaining close to zero until the end of 2023Q2, when it is expected to raise the rate 25 basis points, the Treasury bill rate is expected to average 0.1 percent in 2021 and 2022 and average 0.3 percent in 2023.

Housing starts rose 6.9 percent in 2020. In 2021, housing starts are forecast to jump 16.3 percent, followed by increases of 5.9 percent in 2022 and 0.1 percent in 2023.

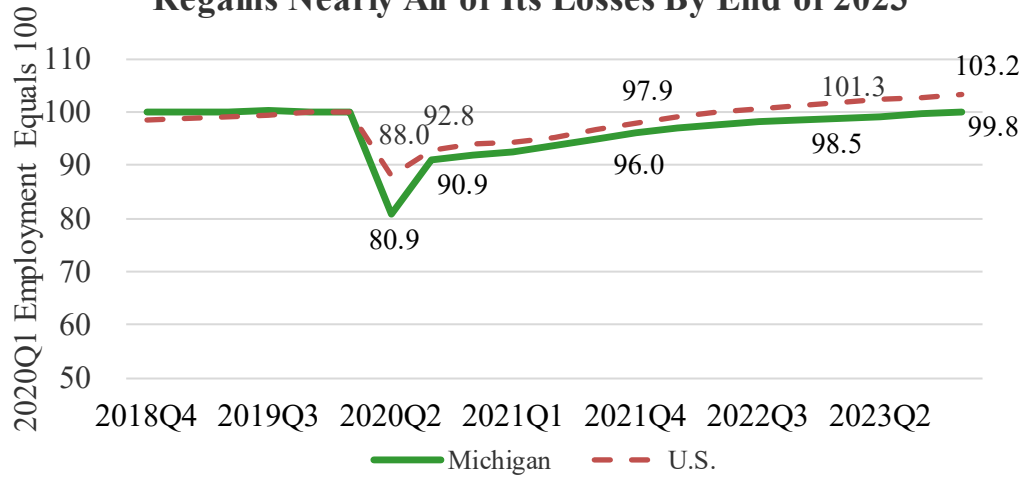
2021, 2022 and 2023 Michigan Economic Outlook

Michigan wage and salary employment is forecast to rise over each quarter of the forecast horizon. By 2021Q1, Michigan employment had regained 60.3 percent of its 19.1 percent decline in 2020Q2. As a result, 2021Q1 Michigan employment remained 7.6 percent below its 2020Q1 level. Michigan employment regains nearly all (99.1 percent) its 2020Q2 losses by the end of the forecast horizon. Michigan employment is expected to be down 1.5 percent from its pre-pandemic level by the end of 2022 and be 0.2 percent below its pre-pandemic level in 2023Q4.

Average annual 2020 Michigan wage and salary employment declined 9.2 percent -- the largest annual Michigan employment decline since 1958. Michigan employment is expected to rise 3.7 percent in 2021, increase 3.8 percent in 2022 and grow 1.5 percent in 2023.

In 2020, annual **Michigan manufacturing employment** dropped 11.0 percent. Michigan manufacturing employment is expected to increase 2.6 percent in 2021, 3.9 percent in 2022 and 2.8 percent in 2023.

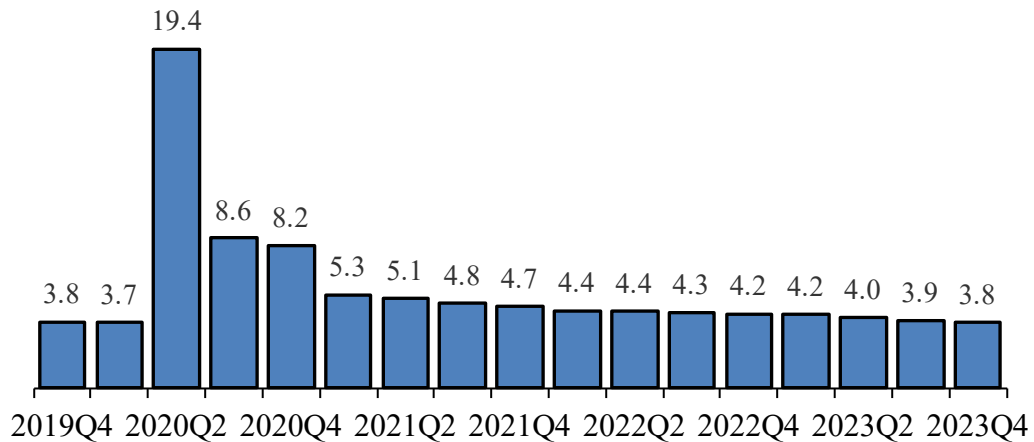
Michigan Employment Plummeted in 2020Q2 Regains Nearly All of Its Losses By End of 2023



Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and May 2021 Administration Forecast.

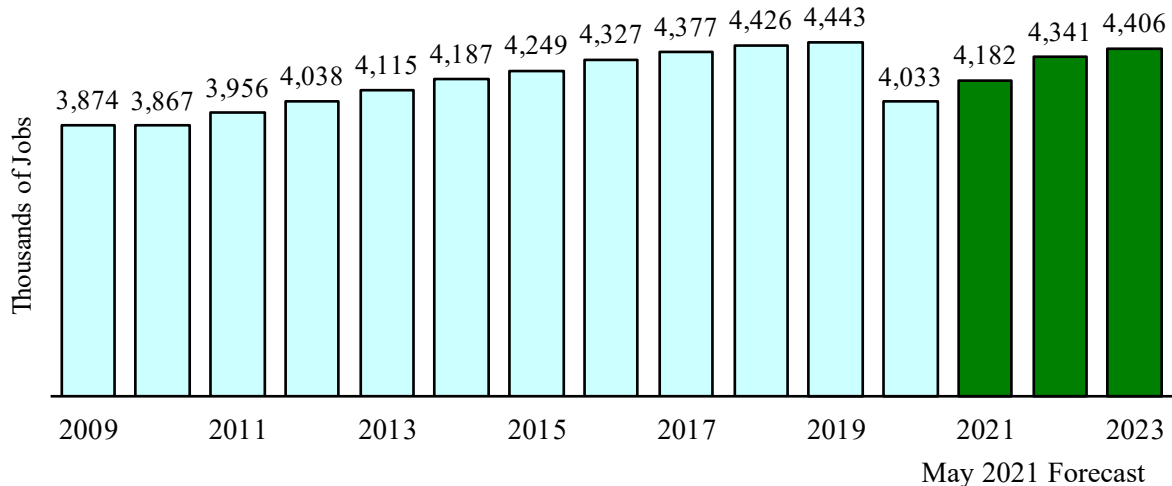
After soaring to 19.4 percent in 2020Q2 and then dropping to 8.6 percent in 2020Q3, the **Michigan unemployment rate** fell to 5.3 percent in 2021Q1. The Michigan unemployment rate is expected to fall slightly or be unchanged from the prior quarter through 2023, ending in 2023Q4 at 3.8 percent. The Michigan annual unemployment rate was 9.9 percent in 2020 and is forecast to drop to 5.0 percent in 2021, 4.4 percent in 2022 and 4.0 percent in 2023.

State Unemployment Rate Soars in 2020Q2 Returns To Pre-Pandemic Levels by End of Forecast



Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and May 2021 Administration Forecast.

Michigan Wage and Salary Employment Plummets in 2020 Rebounds Partially in 2021, 2022, 2023



Source: Michigan Department of Technology, Management, & Budget, U.S. Bureau of Labor Statistics and May 2021 Administration Forecast.

Michigan wages and salaries declined 2.8 percent in 2020 and are forecast to rise 1.7 percent in 2021, 5.4 percent in 2022 and 4.0 percent in 2023.

Michigan personal income rose 7.4 percent in 2020 and is forecast to increase 2.3 percent in 2021. Personal income is then expected to fall 0.7 percent in 2022 and rise 4.2 percent in 2023.

The **Detroit CPI** rose 1.0 percent in 2020 and is forecast to increase 2.5 percent in 2021, 2.4 percent in 2022 and in 2023. After rising 6.3 percent in 2020, **real (inflation adjusted) Michigan personal income** is forecast to fall 0.2 percent in 2021 and then decline 3.0 percent in 2022, followed by a 1.7 percent increase in 2023.

Fiscal Year Economics

Michigan’s largest taxes are the individual income tax (\$12.6 billion in FY 2019) and sales and use taxes (\$10.0 billion). Income tax withholding is the largest component of the income tax. Withholding (\$9.9 billion) is most affected by growth in wages and salaries. **Michigan wages and salaries** declined 1.8 percent in FY 2020. In FY 2021, wages and salaries are forecast to increase 3.1 percent. Wages and salaries then are projected to rise 4.2 percent in FY 2022 and to increase 4.3 percent in FY 2023.

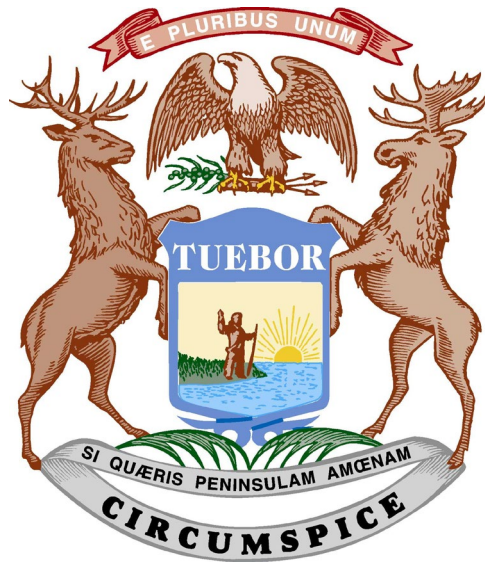
Sales and use taxes depend, in part, on **Michigan disposable (after tax) income** and inflation. Disposable income rose 8.2 percent in FY 2020. In FY 2021, disposable income is forecast to rise 2.9 percent, and it is then projected to decline 2.7 percent in FY 2022 and to rise 4.2 percent in FY 2023. Prices, as measured by the **Detroit CPI**, rose 1.5 percent in FY 2020. The Detroit CPI is forecast to increase 2.0 percent in FY 2021, 2.4 percent in FY 2022, and 2.4 percent in FY 2023.

Forecast Risks

The risks to the forecast include:

- Progress to date on COVID-19 vaccinations will help support economic growth. On the other hand, the recent slowdown in vaccination rates and the possible emergence of new more virulent COVID variant strains may slow economic growth.
- Strong housing demand and supply constraints: The demand for housing is anticipated to be very high this summer and going through the next two to three years. However, the construction of new homes will be constrained by the price/availability of lumber and the availability of construction labor.
- Strong vehicle sales and supply constraints: The demand for new vehicles will be high this coming year, which could drive sales much higher than predicted. However, the semiconductor shortage is already limiting vehicle production on some vehicle assembly lines, which will limit the number of vehicles available for purchase.
- In general, shortages of other raw materials and sectoral labor shortages may constrain growth more than assumed in the baseline forecast.
- Increases in inflation may not be as transitory as is expected. Sustained increases in inflation could spur the Fed to raise interest rates sooner and higher than expected and potentially cause a sharp economic slowdown.

SECTION IV
Administration
Revenue Estimates



Administration Revenue Estimates

May 21, 2021

Revenue Estimate Overview

The revenue estimates presented in this section consist of baseline revenues, revenue adjustments, and net revenues. Baseline revenues provide an estimate of the effects of the economy on tax revenues. For these estimates, FY 2020 is the base year. Any non-economic changes to the taxes occurring in FY 2021, FY 2022 and FY 2023 are not included in the baseline estimates. Non-economic changes are referred to in the tables as "tax adjustments". The net revenue estimates are the baseline revenues adjusted for tax adjustments.

This treatment of revenue is best illustrated with an example. Suppose tax revenues are \$10.0 billion in a given year, and that based on the economic forecast, revenues are expected to grow by 5.0 percent per year. Baseline revenue would be \$10.0 billion in Year 1, \$10.5 billion in Year 2, and \$11.0 billion in Year 3. Assume a tax rate cut is in place that would reduce revenues by \$100 million in Year 1, \$200 million in Year 2, and \$300 million in Year 3. If Year 1 is the base year, the revenue adjustments for Year 1 would be \$0 since the tax cut for this year is included in the base. The revenue adjustments for Year 2 would be \$100 million, and the revenue adjustments for Year 3 would be \$200 million, since the revenue adjustments are compared to the base year.

In the example above, the baseline revenues would be \$10.0 billion, \$10.5 billion, and \$11.0 billion, for Years 1 through 3, respectively. The revenue adjustments would be \$0 in Year 1, \$100 million in Year 2, and \$200 million in Year 3. The \$200 million in Year 3 represents the tax cuts since Year 1. Net revenue would be \$10.0 billion in Year 1, \$10.4 billion in Year 2, and \$10.8 billion in Year 3.

The following revenue figures are presented on a Consensus basis. Generally speaking, the Consensus estimates do not include certain one-time budget measures, such as withdrawals from the Budget Stabilization Fund, the sale of buildings, and so on. The figures also do not include constitutional revenue sharing payments to local governments from the sales tax. In addition, the estimates only include enacted legislation and do not include the effects of any proposed changes. The School Aid Fund estimates consist of taxes plus the transfer from the State Lottery Fund.

FY 2021 Revenue Outlook

FY 2021 GF-GP revenue is estimated to be \$11,204.6 million, a 4.2 percent increase compared to FY 2020. The FY 2021 GF-GP revenue estimate is \$967.1 million above the January 2021 Consensus estimate. SAF revenue is forecast to be \$14,895.3 million, a 6.4 percent increase compared to FY 2020. The FY 2021 SAF estimate is \$865.1 million above the January 2021 Consensus estimate (see Table 2).

Table 2
FY 2020-21 Administration Revenue Estimates
 (millions)

	Administration May 21, 2021		Change from Jan 2021 Consensus
	Amount	Growth	
General Fund - General Purpose			
Baseline Revenue	\$13,453.2	12.2%	---
Tax Cut Adjustments	(\$2,248.6)	---	---
Net Resources	\$11,204.6	4.2%	\$967.1
School Aid Fund			
Baseline Revenue	\$14,995.2	6.3%	---
Tax Cut Adjustments	(\$99.9)	---	---
Net Resources	\$14,895.3	6.4%	\$865.1
Combined			
Baseline Revenue	\$28,448.4	9.0%	---
Tax Cut Adjustments	(\$2,348.5)	---	---
Net Resources	\$26,099.9	5.4%	\$1,832.2

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

FY 2022 Revenue Outlook

FY 2022 GF-GP revenue is estimated to be \$11,639.8 million, a 3.9 percent increase compared to FY 2021. The FY 2022 GF-GP revenue estimate is \$742.7 million above the January 2021 Consensus estimate. SAF revenue is forecast to be \$15,242.4 million, a 2.3 percent increase compared to FY 2021. The FY 2022 SAF estimate is \$818.7 million above the January 2021 Consensus estimate (see Table 3).

Table 3
FY 2021-22 Administration Revenue Estimates
 (millions)

	Administration May 21, 2021		Change from Jan 2021 Consensus
	Amount	Growth	
General Fund - General Purpose			
Baseline Revenue	\$13,385.7	-0.5%	---
Tax Cut Adjustments	(\$1,745.9)	---	---
Net Resources	\$11,639.8	3.9%	\$742.7
School Aid Fund			
Baseline Revenue	\$15,230.8	1.6%	---
Tax Cut Adjustments	\$11.6	---	---
Net Resources	\$15,242.4	2.3%	\$818.7
Combined			
Baseline Revenue	\$28,616.5	0.6%	---
Tax Cut Adjustments	(\$1,734.3)	---	---
Net Resources	\$26,882.2	3.0%	\$1,561.4

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

FY 2023 Revenue Outlook

FY 2023 GF-GP revenue is estimated to be \$12,261.6 million, a 5.3 percent increase compared to FY 2022. The FY 2023 GF-GP revenue estimate is \$1,094.5 million above the January 2021 Consensus estimate. SAF revenue is forecast to be \$15,577.6 million, a 2.2 percent increase compared to FY 2022. The FY 2023 SAF estimate is \$847.2 million above the January 2021 Consensus estimate (see Table 4).

Table 4
FY 2022-23 Administration Revenue Estimates
 (millions)

	May 21, 2021		Change from Consensus Consensus
	Amount	Growth	
General Fund - General Purpose			
Baseline Revenue	\$13,726.2	2.5%	---
Tax Cut Adjustments	(\$1,464.6)	---	---
Net Resources	\$12,261.6	5.3%	\$1,094.5
School Aid Fund			
Baseline Revenue	\$15,512.8	1.9%	---
Tax Cut Adjustments	\$64.8	---	---
Net Resources	\$15,577.6	2.2%	\$847.2
Combined			
Baseline Revenue	\$29,239.0	2.2%	---
Tax Cut Adjustments	(\$1,399.8)	---	---
Net Resources	\$27,839.2	3.6%	\$1,941.7

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Constitutional Revenue Limit

Article IX, Section 26, of the Michigan Constitution establishes a limit on the amount of revenue State government can collect in any given fiscal year. The revenue limit for a given fiscal year is equal to 9.49 percent of the State’s personal income for the calendar year prior to the year in which the fiscal year begins. For example, FY 2017 revenue is compared to CY 2015 personal income. If revenues exceed the limit by less than 1 percent, the State may deposit the excess into the Budget Stabilization Fund (BSF). If the revenues exceed the limit by more than 1 percent, the excess revenue is refunded to taxpayers.

FY 2019 revenues were \$9.7 billion below the revenue limit. State revenues will also be well below the limit for FY 2020 through FY 2023. FY 2020 revenues are expected to be about \$11.4 billion below the limit, FY 2021 revenues \$10.6 billion below the limit, FY 2022 revenues \$13.2 billion below the limit, and FY 2023 revenues \$13.2 billion below the limit (See Table 5).

Table 5
Administration Revenue Limit Calculation
(millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>
	<u>May 2021</u>	<u>May 2021</u>	<u>May 2021</u>	<u>May 2021</u>
Revenue Subject to Limit	\$34,513.9	\$36,007.0	\$36,933.5	\$38,044.3
<u>Revenue Limit</u>	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2021</u>
Personal Income	\$484,030	\$491,632	\$528,093	\$540,240
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$45,934.4	\$46,655.9	\$50,116.0	\$51,268.8
<u>Amount Under (Over) Limit</u>	\$11,420.6	\$10,648.9	\$13,182.5	\$13,224.5

Budget Stabilization Fund Calculation

The Management and Budget Act contains provisions for calculating a recommended deposit or withdrawal from the BSF. The calculation looks at personal income net of transfer payments. The net personal income figure is adjusted for inflation. The change in this figure for the calendar year determines whether a pay-in or pay-out is recommended. If the formula calls for a deposit into the BSF, the deposit is made in the next fiscal year. If the formula calls for a withdrawal, the withdrawal is made during the current fiscal year.

PA 613 of 2018 prohibits the legislature from appropriating money from the fund for a fiscal year when the annual growth rate of real personal income less transfer payments for the calendar year in which that fiscal year ends is estimated to be greater than 0% at the most recent consensus revenue estimating conference. When the annual growth rate is estimated to be less than 0% at the

most recent consensus revenue estimating conference, the legislature may appropriate by law for the fiscal year ending in the current calendar year no more than 25% of the prior fiscal year ending balance in the fund as reported in the comprehensive annual financial report. 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.

If real personal income less transfer payments grows by more than 2 percent in a given calendar year, the fraction of income growth over 2 percent is multiplied by the current fiscal year’s GF-GP revenue to determine the pay-in for the next fiscal year.

Real calendar year personal income is projected to be above 2 percent in 2022. This results in a pay-in for FY 2023 of \$41.9 million

School Aid Fund Revenue Adjustment Factor

The School Aid Fund (SAF) revenue adjustment factor for the next fiscal year is calculated by dividing the sum of current year and subsequent year SAF revenue by the sum of current year and prior year SAF revenue. The SAF revenue totals are adjusted for any change in the rate and base of the SAF taxes. The year for which the adjustment factor is being calculated is used as the base year for any tax adjustments. For FY 2022, the SAF revenue adjustment factor is calculated to be 1.0388 (See Table 6). For FY 2023, the SAF revenue adjustment factor is calculated to be 1.0171 (See Table 7).

Table 6

Administration School Aid Revenue Adjustment Factor For Fiscal Year 2022

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Baseline SAF Revenue	\$14,100.6	\$14,995.2	\$15,230.8
Balance Sheet Adjustments	<u>(\$94.9)</u>	<u>(\$99.9)</u>	<u>\$11.6</u>
Net SAF Estimates	\$14,005.7	\$14,895.3	\$15,242.4
Subtotal Adjustments to FY 2022 Base	<u>\$106.5</u>	<u>\$111.5</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2022 Base	\$14,112.2	\$15,006.8	\$15,242.4

School Aid Fund Revenue Adjustment Calculation for FY 2022

Sum of FY 2020 & FY 2021	\$14,112.2	+	\$15,006.8	=	\$29,119.1
Sum of FY 2021 & FY 2022	\$15,006.8	+	\$15,242.4	=	\$30,249.3

FY 2022 Revenue Adjustment Factor	1.0388
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Note: Factor is calculated off a FY 2022 base year.

Table 7
Administration School Aid Revenue Adjustment Factor
For Fiscal Year 2023

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Baseline SAF Revenue	\$14,995.2	\$15,230.8	\$15,512.8
Balance Sheet Adjustments	(\$99.9)	\$11.6	\$64.8
Net SAF Estimates	\$14,895.3	\$15,242.4	\$15,577.6
Subtotal Adjustments to FY 2023 Base	<u>\$164.7</u>	<u>\$53.2</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2023 Base	\$15,060.0	\$15,295.6	\$15,577.6

School Aid Fund Revenue Adjustment Calculation for FY 2022

Sum of FY 2021 & FY 2022	\$15,060.0	+	\$15,295.6	=	\$30,355.7
Sum of FY 2022 & FY 2023	\$15,295.6	+	\$15,577.6	=	\$30,873.3

FY 2023 Revenue Adjustment Factor	1.0171
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Note: Factor is calculated off a FY 2023 base year.

Revenue Detail

The estimated tax and revenue totals include the effects of all enacted tax changes. The revenue totals by tax are presented separately for GF-GP and for the SAF (See Tables 8 and 9). Tax totals for the income, sales, use, CIT/MBT, tobacco and casino taxes for all funds are also included (See Table 10).

Table 8
Administration General Fund General Purpose Revenue Detail
(millions)

	FY 2021		FY 2022		FY 2023	
	Amount	Growth	Amount	Growth	Amount	Growth
GF-GP Tax Amounts						
Income Tax	\$6,753.4	-1.5%	\$7,291.0	8.0%	\$7,694.0	5.5%
Sales	\$1,362.0	4.7%	\$1,446.4	6.2%	\$1,464.1	1.2%
Use	\$1,118.3	44.6%	\$1,084.2	-3.0%	\$1,094.0	0.9%
Cigarette	\$174.7	-3.0%	\$171.7	-1.7%	\$170.6	-0.6%
Beer & Wine	\$53.0	3.1%	\$53.0	0.0%	\$54.0	1.9%
Liquor Specific	\$68.0	-7.0%	\$69.0	1.5%	\$70.5	2.2%
Insurance Co. Premium	\$398.7	-12.7%	\$410.0	2.8%	\$420.0	2.4%
CIT/MBT	\$757.2	88.7%	\$569.8	-24.7%	\$730.4	28.2%
Telephone & Telegraph	\$32.0	-1.2%	\$32.0	0.0%	\$31.0	-3.1%
Oil & Gas Severance	\$15.0	17.2%	\$18.5	23.3%	\$22.0	18.9%
Essential Services Assess.	\$126.0	3.3%	\$135.0	7.1%	\$143.0	5.9%
Penalties and Interest	\$125.0	37.8%	\$129.0	3.2%	\$132.0	2.3%
Railroad/Car Loaning	\$2.0	0.0%	\$2.0	0.0%	\$2.0	0.0%
Enhanc. Enforce/ACS	(\$152.0)	8.7%	(\$155.0)	2.0%	(\$157.0)	1.3%
Total GF-GP Taxes	\$10,833.3	4.6%	\$11,256.6	3.9%	\$11,870.6	5.5%
GF-GP Non-Tax Revenue						
Federal Aid	\$10.0	156.4%	\$10.0	0.0%	\$10.0	0.0%
From Local Agencies	\$0.1	NA	\$0.1	0.0%	\$0.1	0.0%
From Services	\$7.0	204.3%	\$7.0	0.0%	\$7.0	0.0%
From Licenses & Permits	\$14.0	-72.6%	\$14.0	0.0%	\$14.0	0.0%
Miscellaneous	\$10.0	-171.4%	\$10.0	0.0%	\$10.0	0.0%
Interfund Interest	\$2.0	11.1%	\$2.0	0.0%	\$2.0	0.0%
Liquor Purchase	\$250.0	-9.5%	\$256.6	2.6%	\$263.0	2.5%
Charitable Games	\$1.0	25.0%	\$1.0	0.0%	\$2.0	100.0%
Transfer From Escheats	\$77.2	3.9%	\$82.5	6.9%	\$83.0	0.6%
Other Non Tax	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
Total Non Tax	\$371.3	-6.4%	\$383.2	3.2%	\$391.1	2.1%
Total GF-GP Revenue	\$11,204.6	4.2%	\$11,639.8	3.9%	\$12,261.6	5.3%

Table 9
Administration School Aid Fund Revenue Detail

	FY 2021		FY 2022		FY 2023	
	Amount	Growth	Amount	Growth	Amount	Growth
School Aid Fund						
Income Tax	\$3,193.7	3.1%	\$3,272.5	2.5%	\$3,399.7	3.9%
Sales Tax	\$6,486.5	7.3%	\$6,662.1	2.7%	\$6,762.6	1.5%
Use Tax	\$807.9	29.7%	\$805.0	-0.4%	\$823.2	2.3%
Liquor Excise Tax	\$67.6	-4.7%	\$68.6	1.5%	\$70.1	2.2%
Cigarette & Tobacco	\$322.3	-2.9%	\$316.5	-1.8%	\$312.5	-1.3%
Marijuana Excise Tax	\$19.3	0.0%	\$42.0	117.6%	\$52.5	25.0%
State Education Tax	\$2,272.6	3.8%	\$2,328.4	2.5%	\$2,384.4	2.4%
Real Estate Transfer	\$393.6	17.4%	\$401.6	2.0%	\$410.0	2.1%
Industrial Facilities Tax	\$37.0	-9.5%	\$37.0	0.0%	\$37.5	1.4%
Casino (45% of 18%)	\$142.4	112.5%	\$178.4	25.3%	\$186.7	4.7%
Commercial Forest	\$3.5	6.1%	\$3.5	0.0%	\$3.8	8.6%
Other Spec Taxes	\$23.0	-3.0%	\$23.0	0.0%	\$23.0	0.0%
Subtotal Taxes	\$13,769.4	7.3%	\$14,138.6	2.7%	\$14,466.0	2.3%
Lottery Transfer	\$1,125.9	-4.6%	\$1,103.9	-2.0%	\$1,111.5	0.7%
Total SAF Revenue	\$14,895.3	6.4%	\$15,242.5	2.3%	\$15,577.6	2.2%

Table 10
Administration Major Tax Totals

	FY 2021		FY 2022		FY 2023	
	Amount	Growth	Amount	Growth	Amount	Growth
Major Tax Totals (Includes all Funds)						
Income Tax	\$10,616.9	1.2%	\$11,233.3	5.8%	\$11,763.5	4.7%
Sales Tax	\$8,891.0	7.0%	\$9,130.8	2.7%	\$9,268.4	1.5%
Use Tax	\$2,417.7	32.4%	\$2,410.5	-0.3%	\$2,465.2	2.3%
CIT/MBT	\$757.2	38.8%	\$569.8	-24.7%	\$730.4	28.2%
Cigarette and Tobacco	\$879.0	-2.8%	\$864.0	-1.7%	\$857.7	-0.7%
Casino Tax	\$142.4	1.6%	\$178.4	25.3%	\$186.7	4.7%