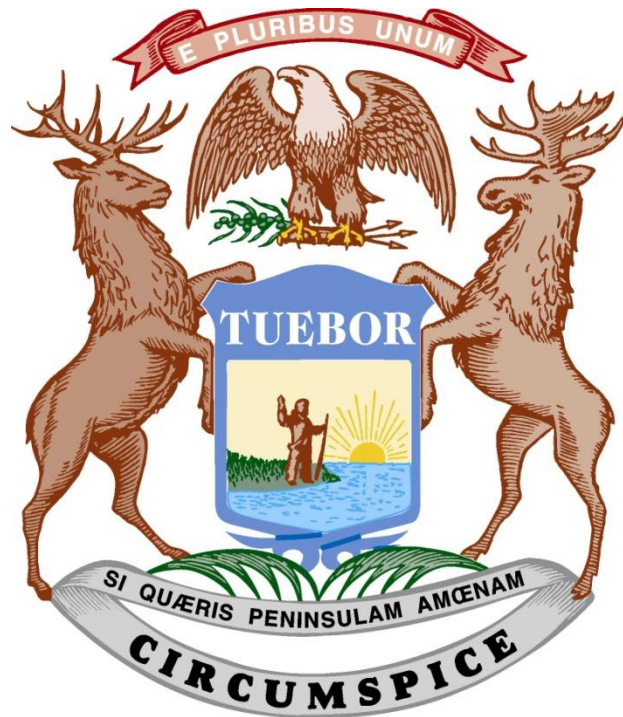


ECONOMIC AND REVENUE FORECASTS

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

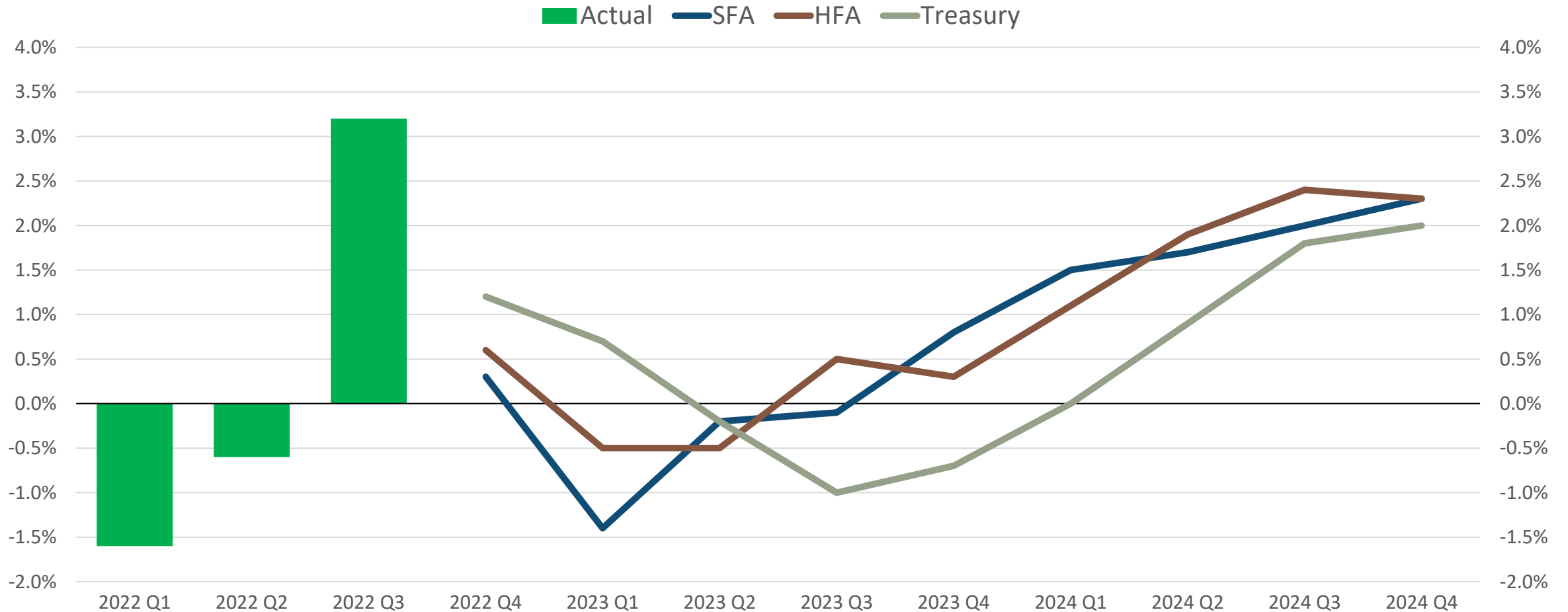
- Real GDP is forecast to be flat in 2023 (0.2% growth), gradually increasing in 2024 (0.8% growth) and further in 2025 (2.2% growth)
- Inflation is currently high, but is expected to slow over the next three years, with inflation around 4.6% in 2023 and declining to 2.7% in 2025
- Light vehicle sales 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

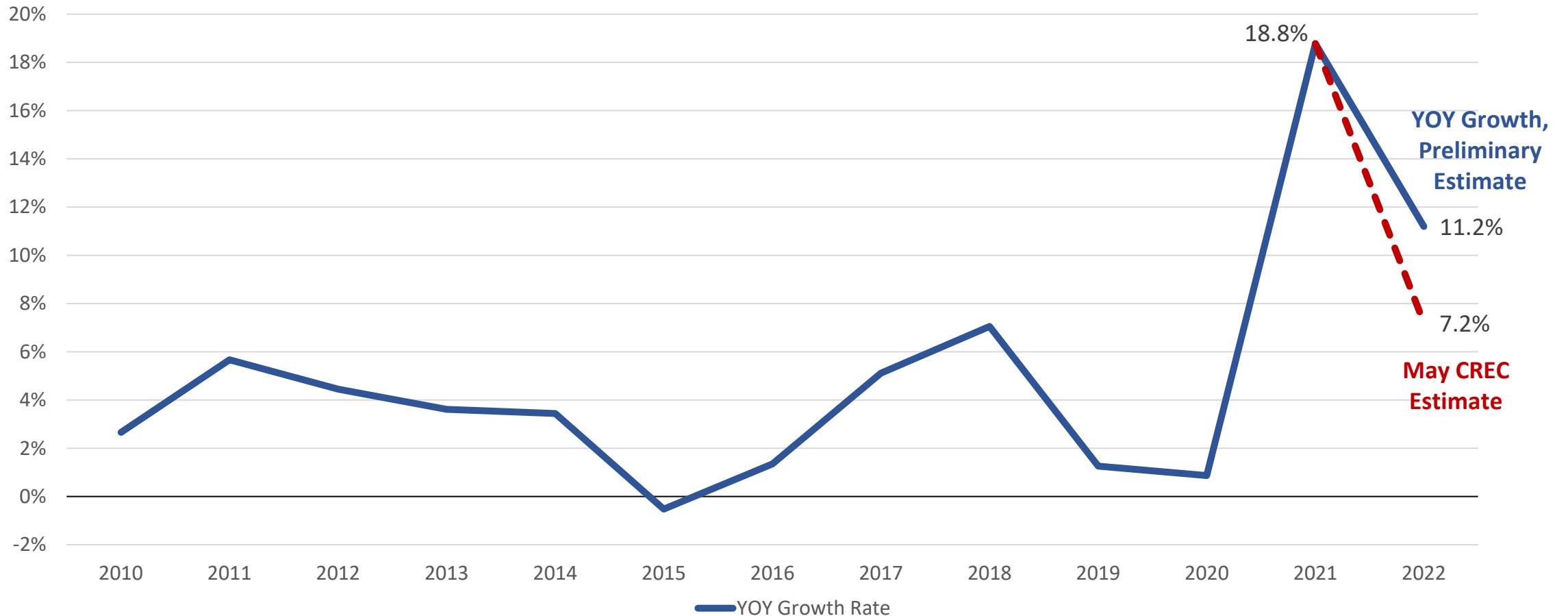


REVENUE UPDATES

- 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

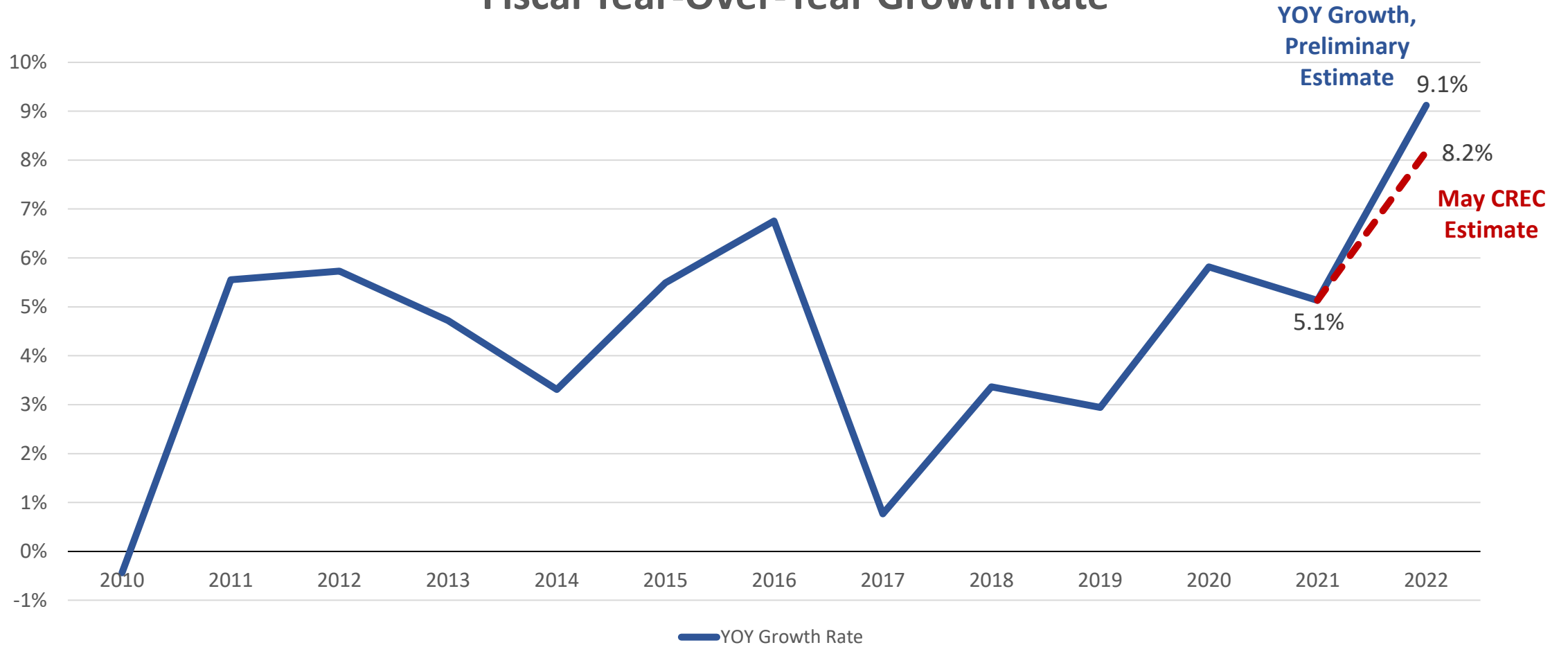
Sales and Use Growth Rate

Sales and Use Fiscal Year-Over-Year Growth Rate



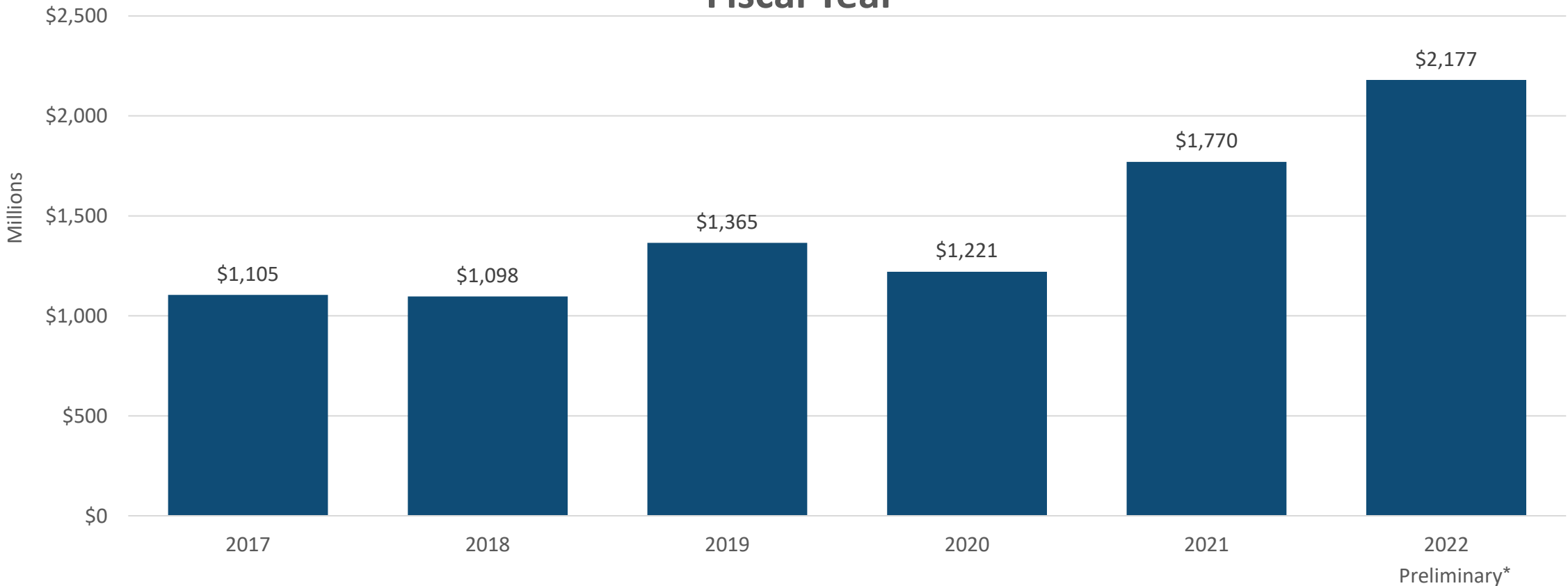
Income Tax Withholding Growth Rate

Income Tax Withholding Fiscal Year-Over-Year Growth Rate



Increased Business Tax Payments

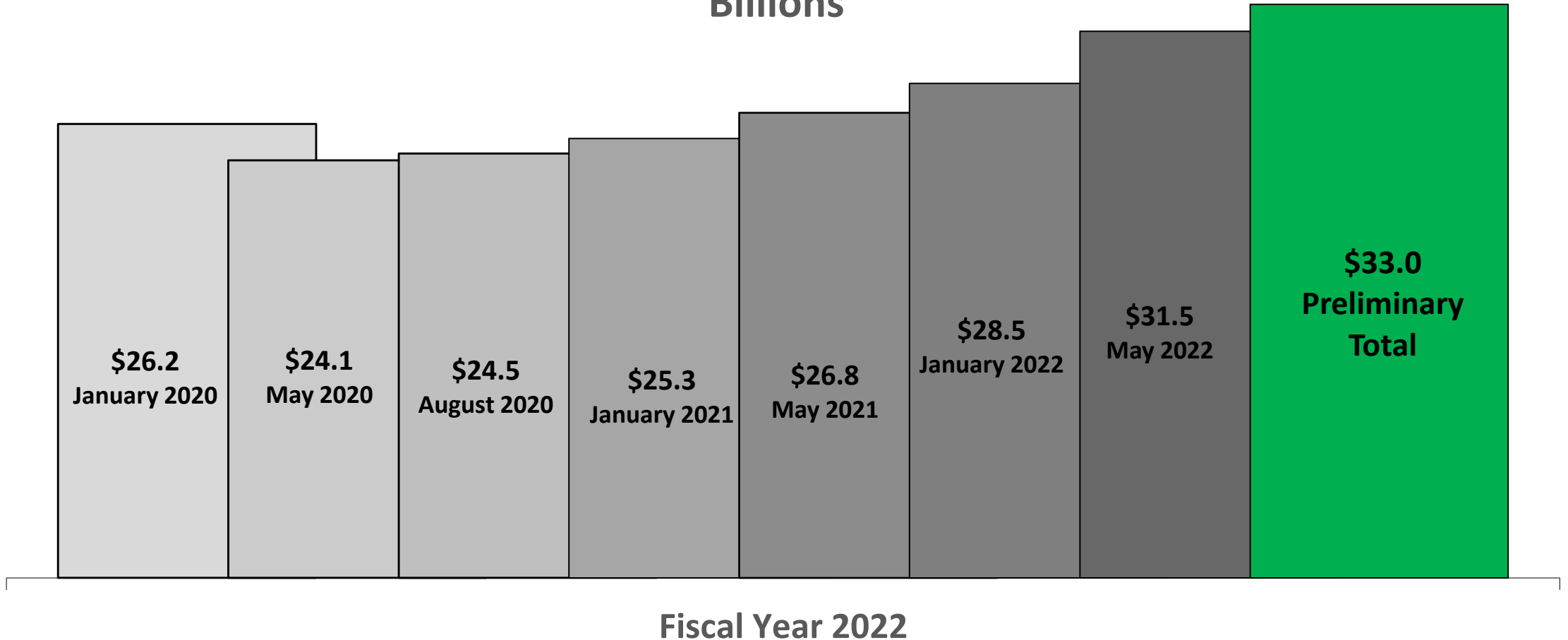
CIT and MBT Excluding MEGA and MBT Credits Fiscal Year



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

Preliminary FY 2022 Revenue Totals

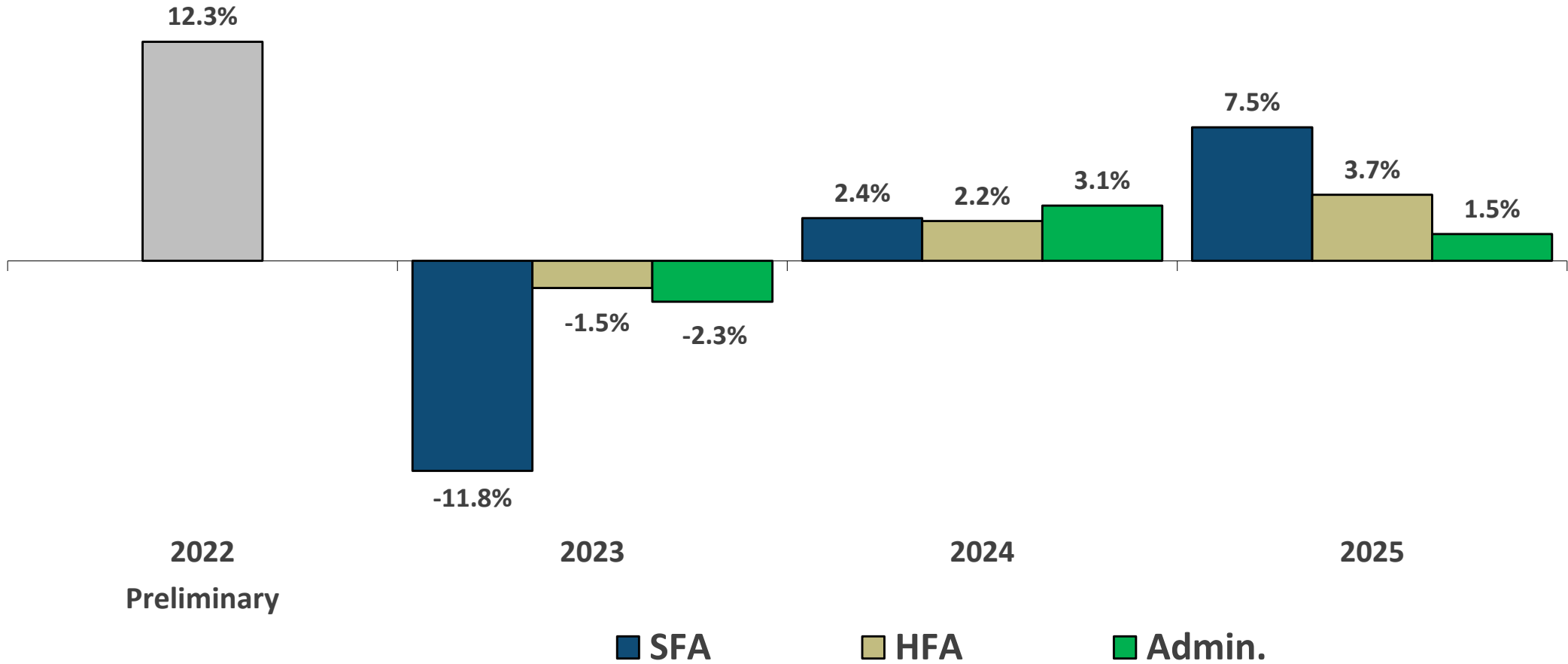
GF-GP and SAF Combined Fiscal Year 2022 Billions



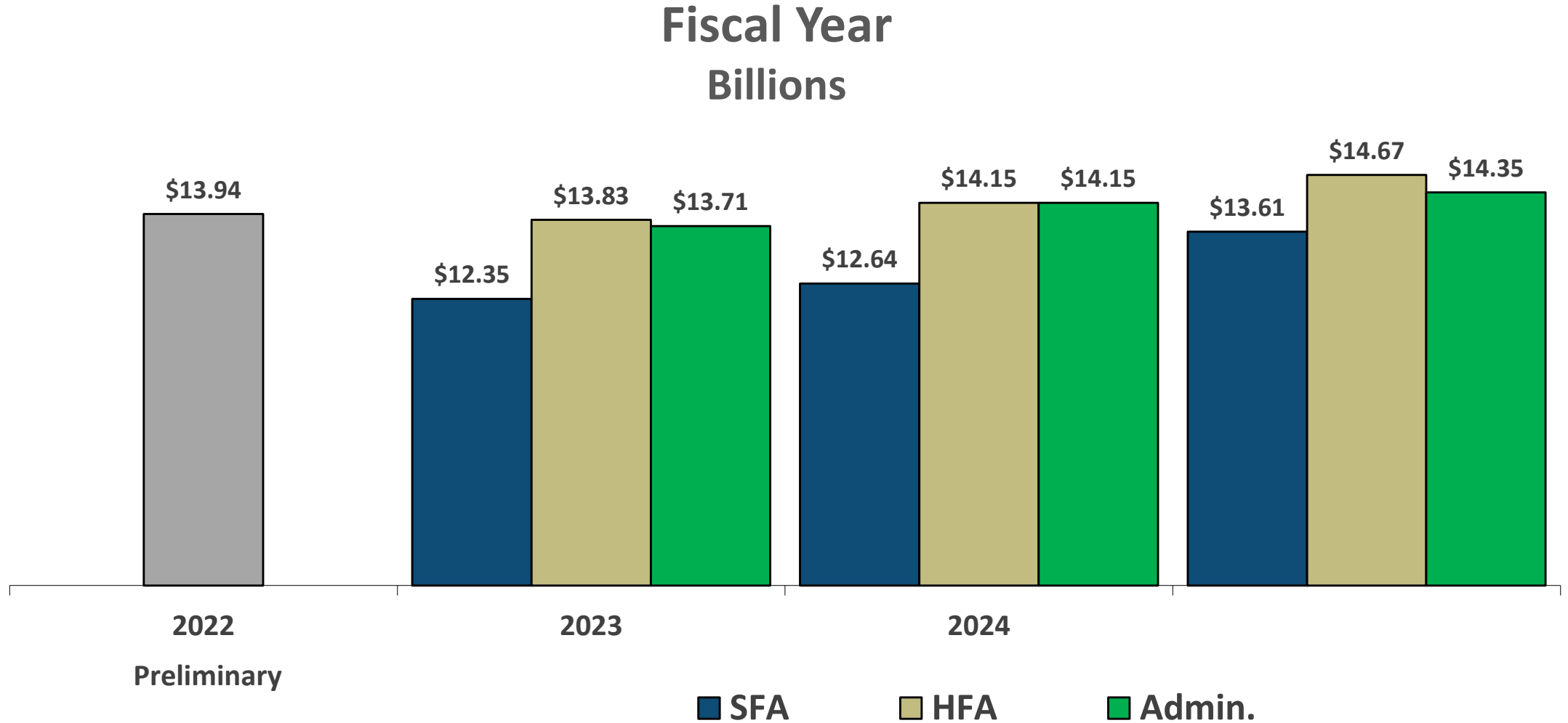
FORECAST OF MAJOR TAXES

Baseline Income Tax Growth

Fiscal Year Growth

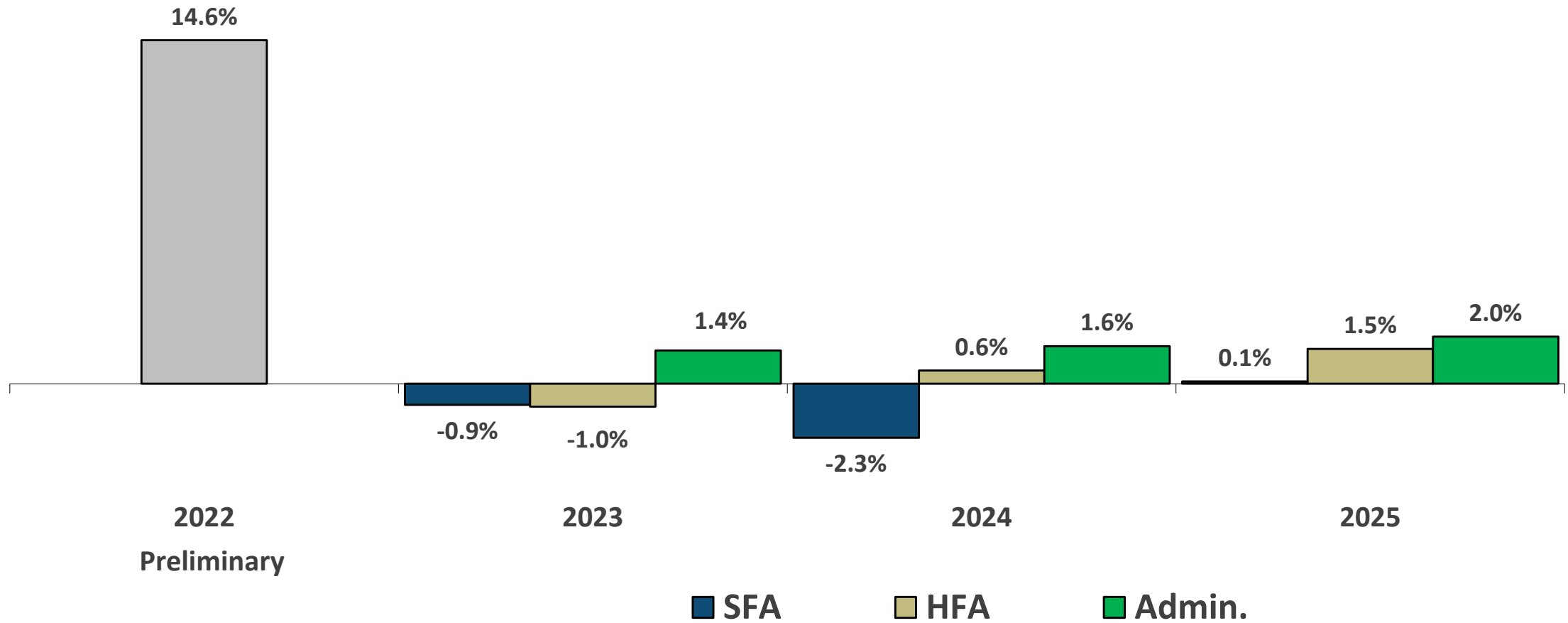


Net Income Tax Revenue Estimates

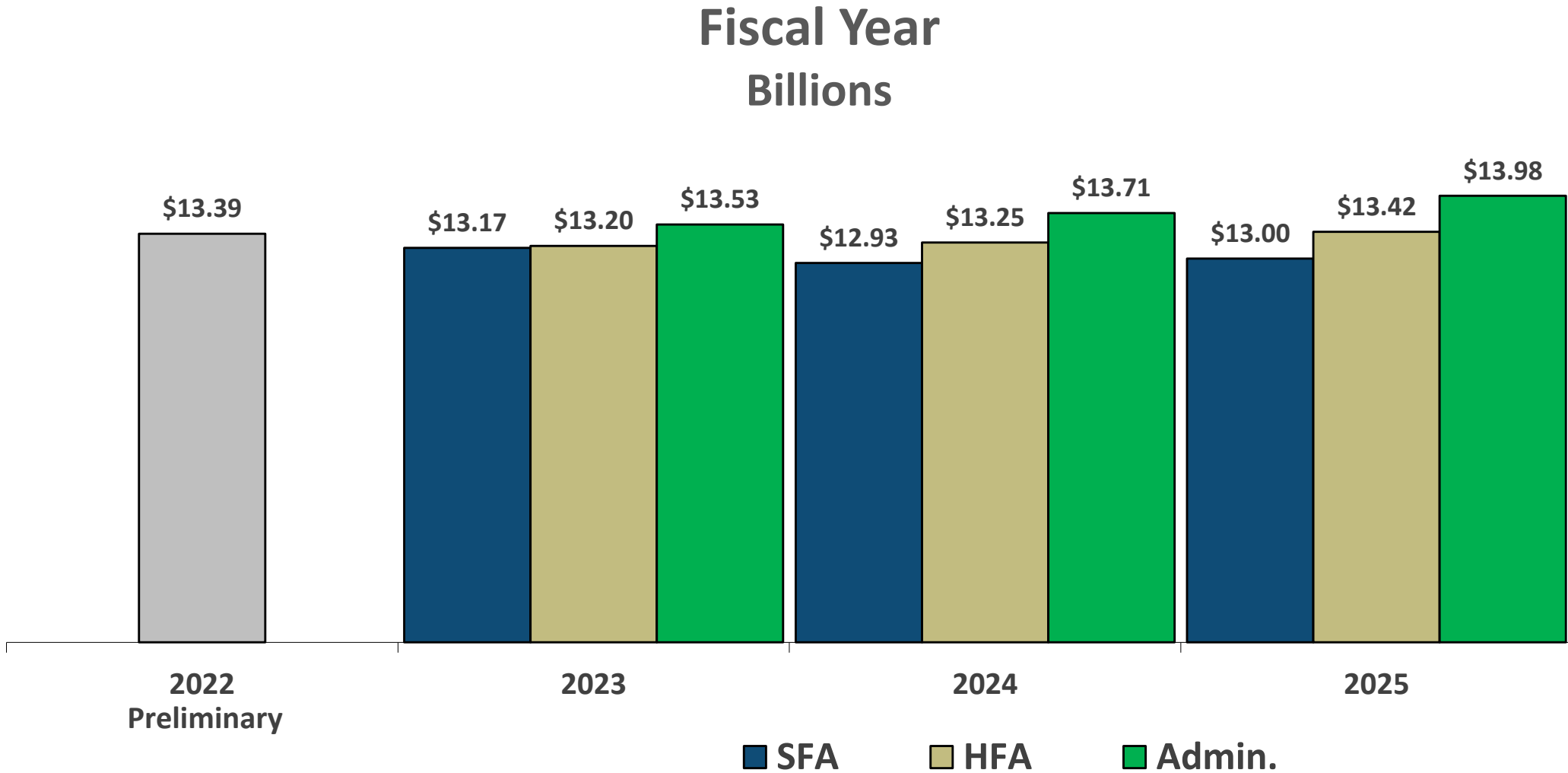


Baseline Sales Tax Growth

Fiscal Year Growth

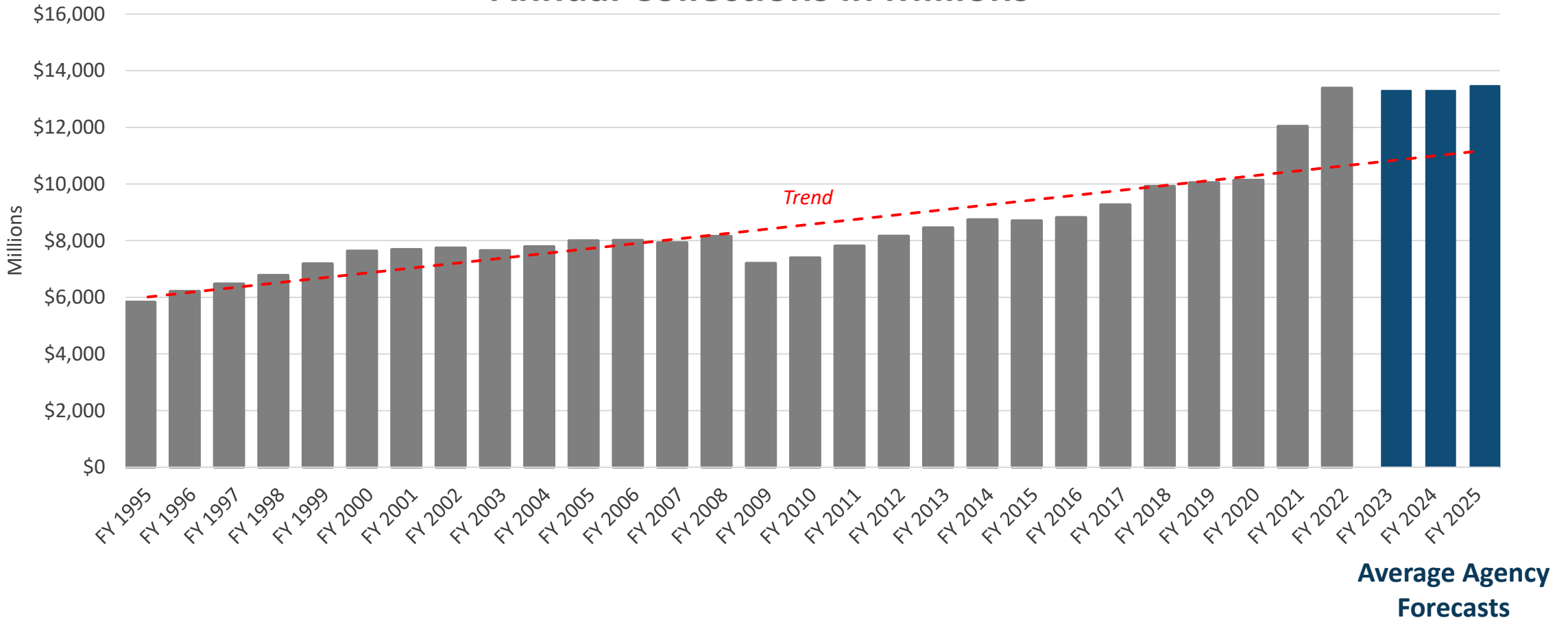


Net Sales and Use Tax Revenue Estimates



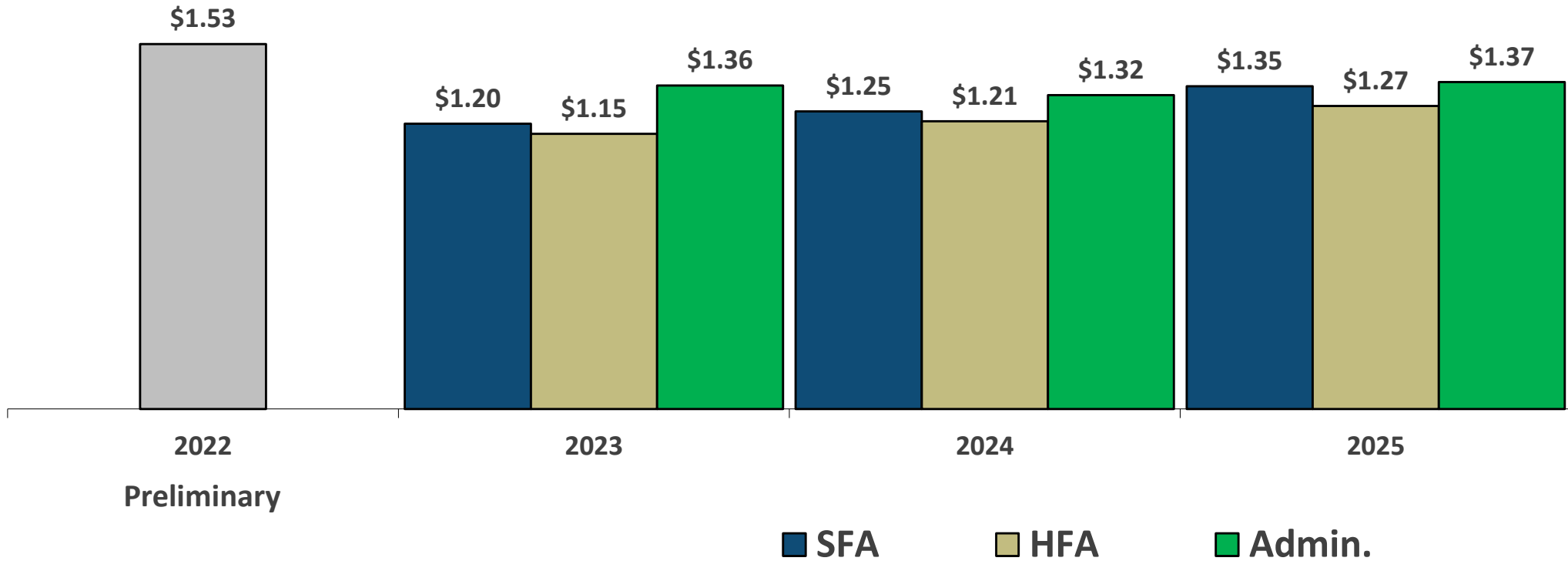
Consumption Taxes Reach Records

Sales and Use Annual Collections in Millions

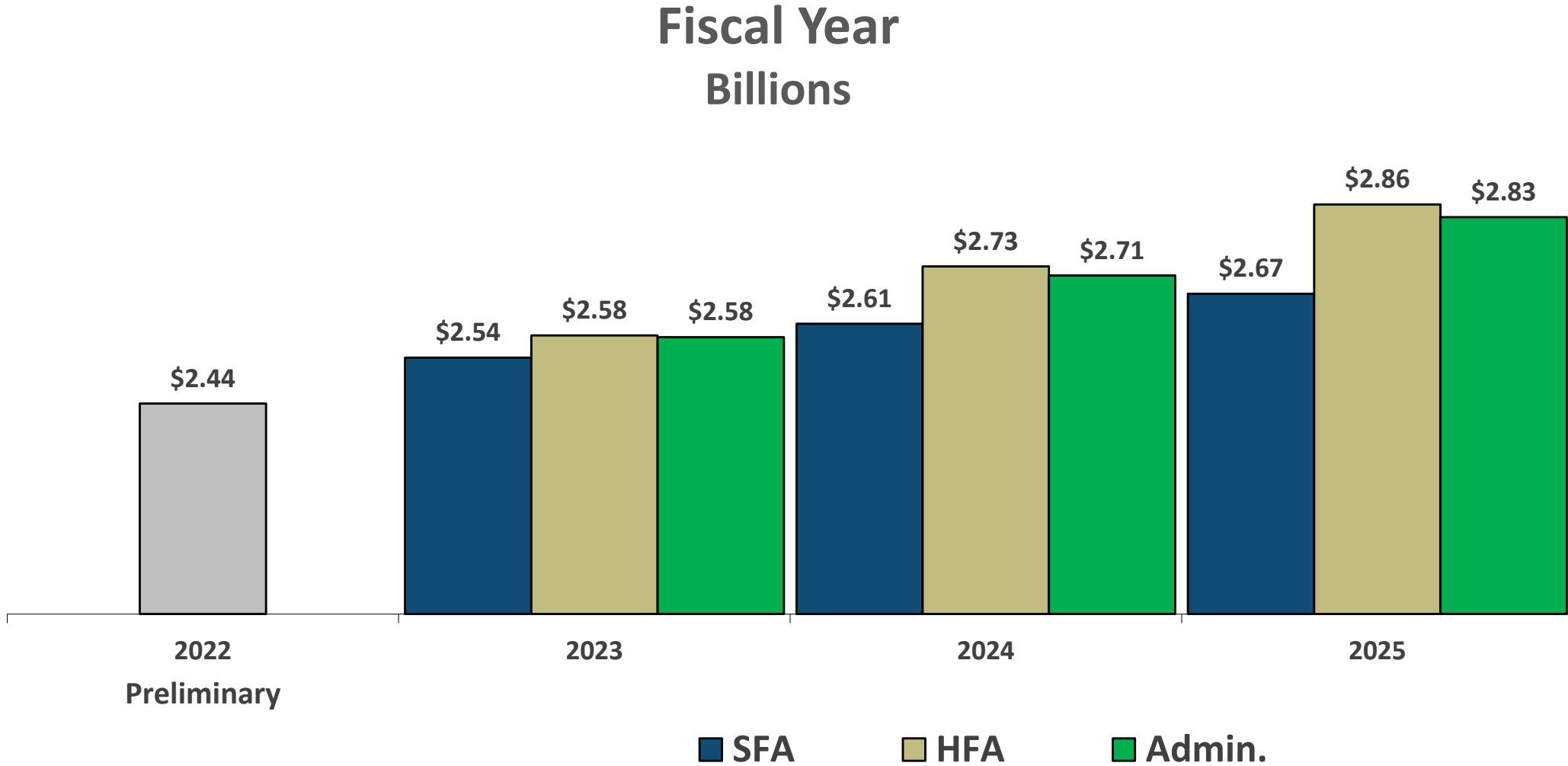


Net CIT/MBT Revenue Estimates

Fiscal Year Billions

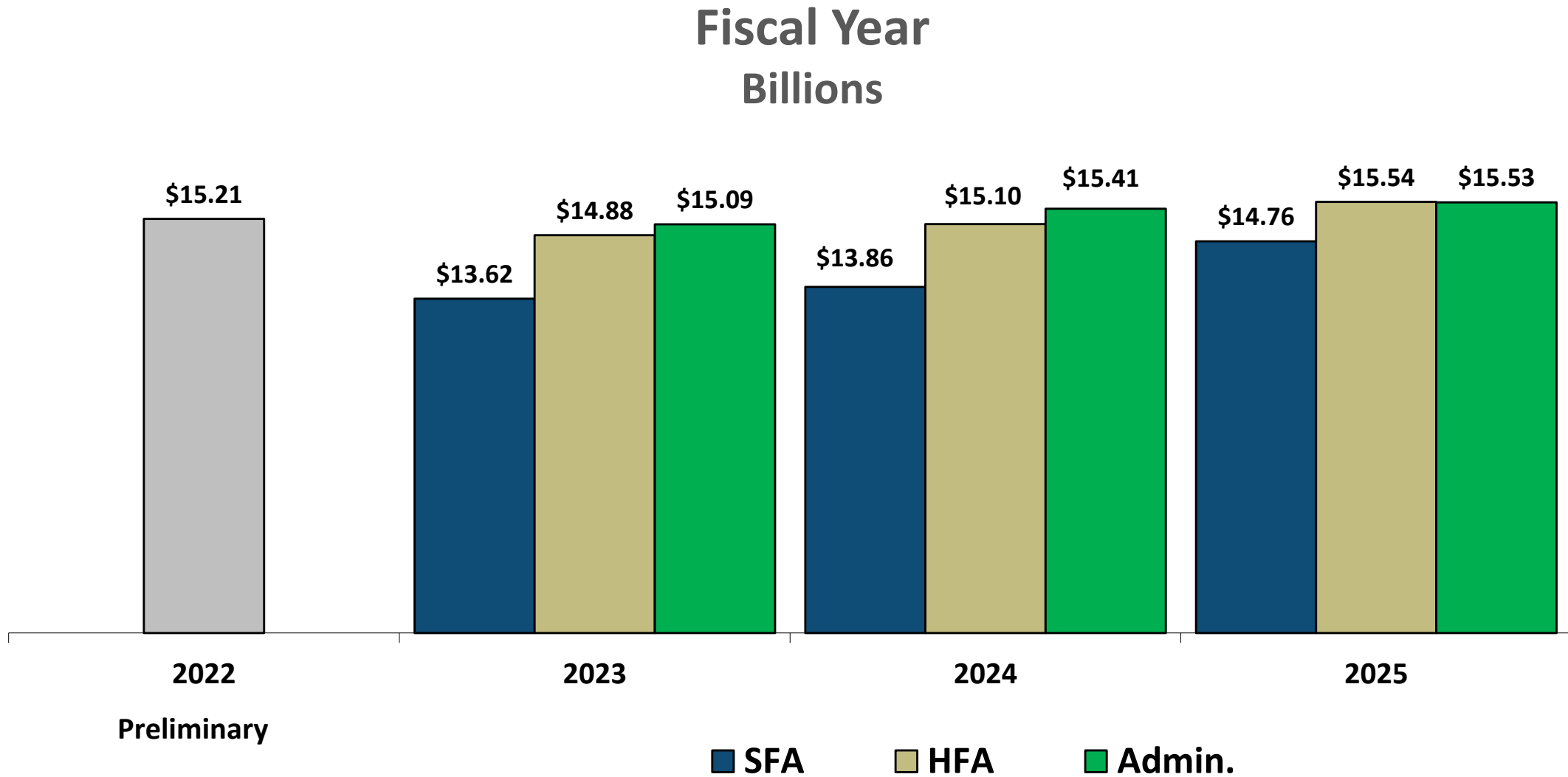


Net SET Revenue Estimates

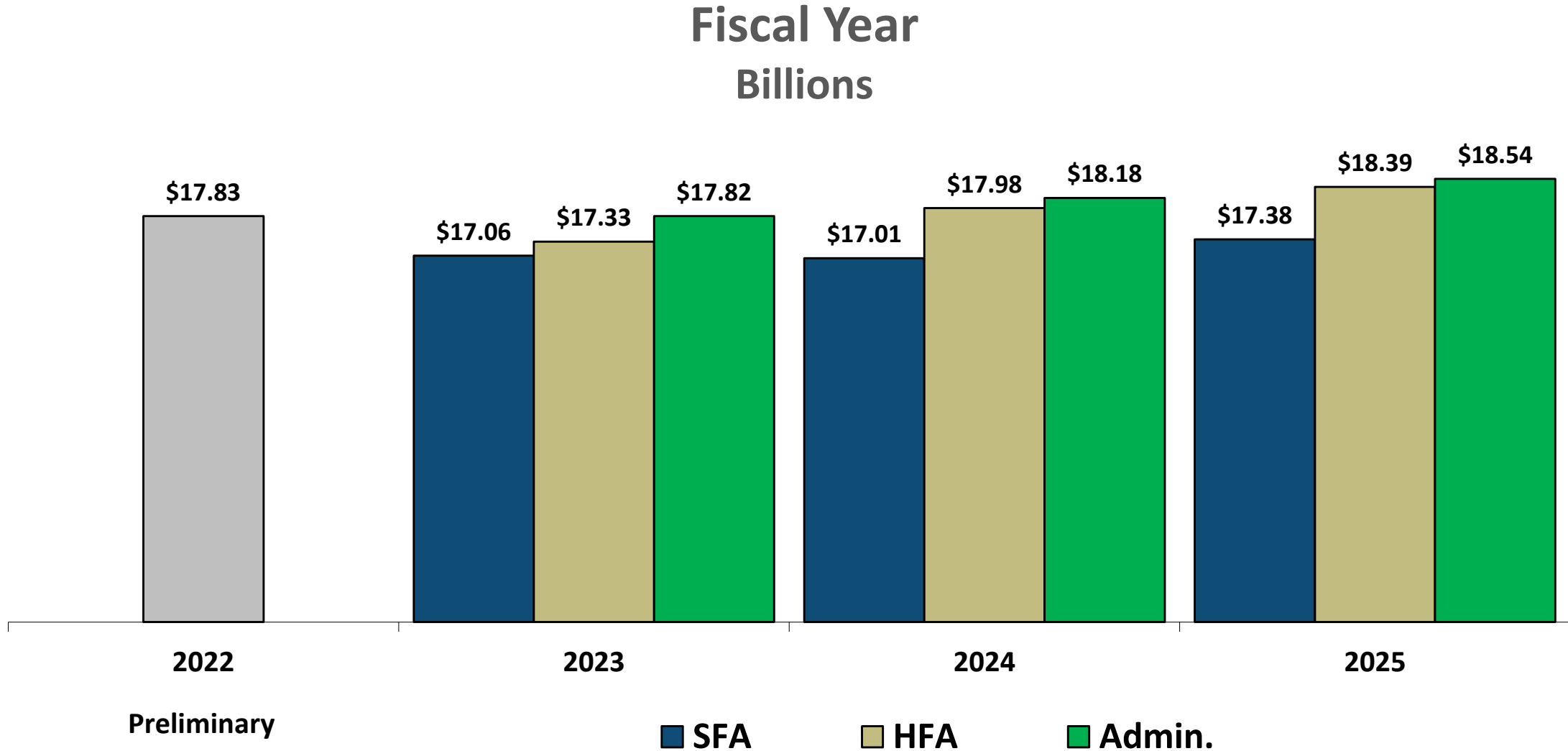


FORECAST OF GF-GP AND SCHOOL AID FUND

GF-GP Net Revenue Estimates



School Aid Fund Net Revenue Estimates



Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2023			FY 2024			FY 2025		
	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
GF-GP	\$13,620.7	\$14,879.4	\$15,094.8	\$13,856.7	\$15,102.3	\$15,406.3	\$14,759.9	\$15,540.9	\$15,533.3
School Aid Fund	\$17,059.7	\$17,733.2	\$17,823.6	\$17,011.1	\$17,980.1	\$18,175.9	\$17,375.8	\$18,385.7	\$18,541.2

Difference from May Consensus Estimates						
	FY 2023			FY 2024		
	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
GF-GP	-\$352.8	\$923.9	\$1,121.3	-\$372.2	\$873.3	\$1,177.4
School Aid Fund	-\$135.6	\$537.9	\$628.3	-\$433.8	\$535.1	\$731.0
Combined	-\$488.4	\$1,461.9	\$1,749.6	-\$806.0	\$1,408.4	\$1,908.4

Income Tax Rate under MCL 206.51(1)

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

Budget Stabilization Fund

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



FORECAST RISKS

Economy

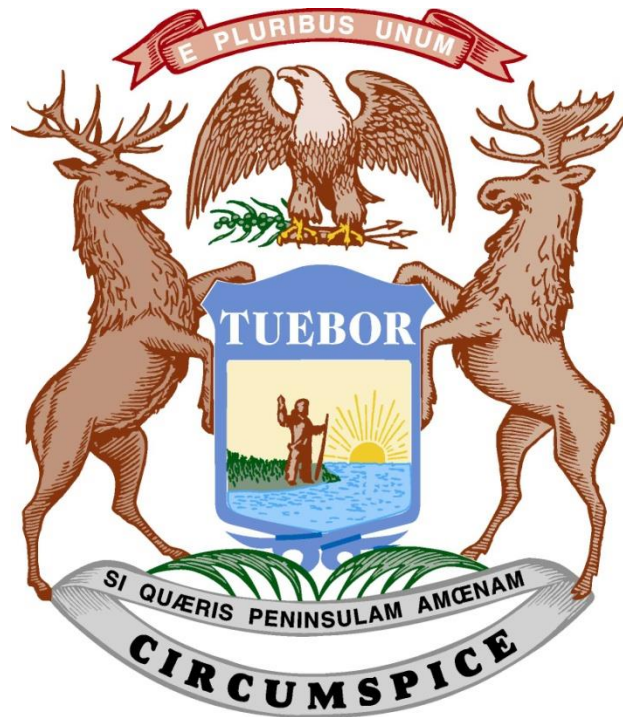
- Shifting monetary policy and the timing of Federal Reserve rate changes could help ease or hasten the economic downturn
- The projected recession may be of greater severity and duration than expected
- International conflict and resulting sanctions could derail the economy
- Inflation and gas prices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

ECONOMIC AND REVENUE FORECASTS

FY 2023 * FY 2024 * FY 2025



CONSENSUS REVENUE ESTIMATING CONFERENCE

JANUARY 13, 2023