



Jim Stansell, Senior Economist

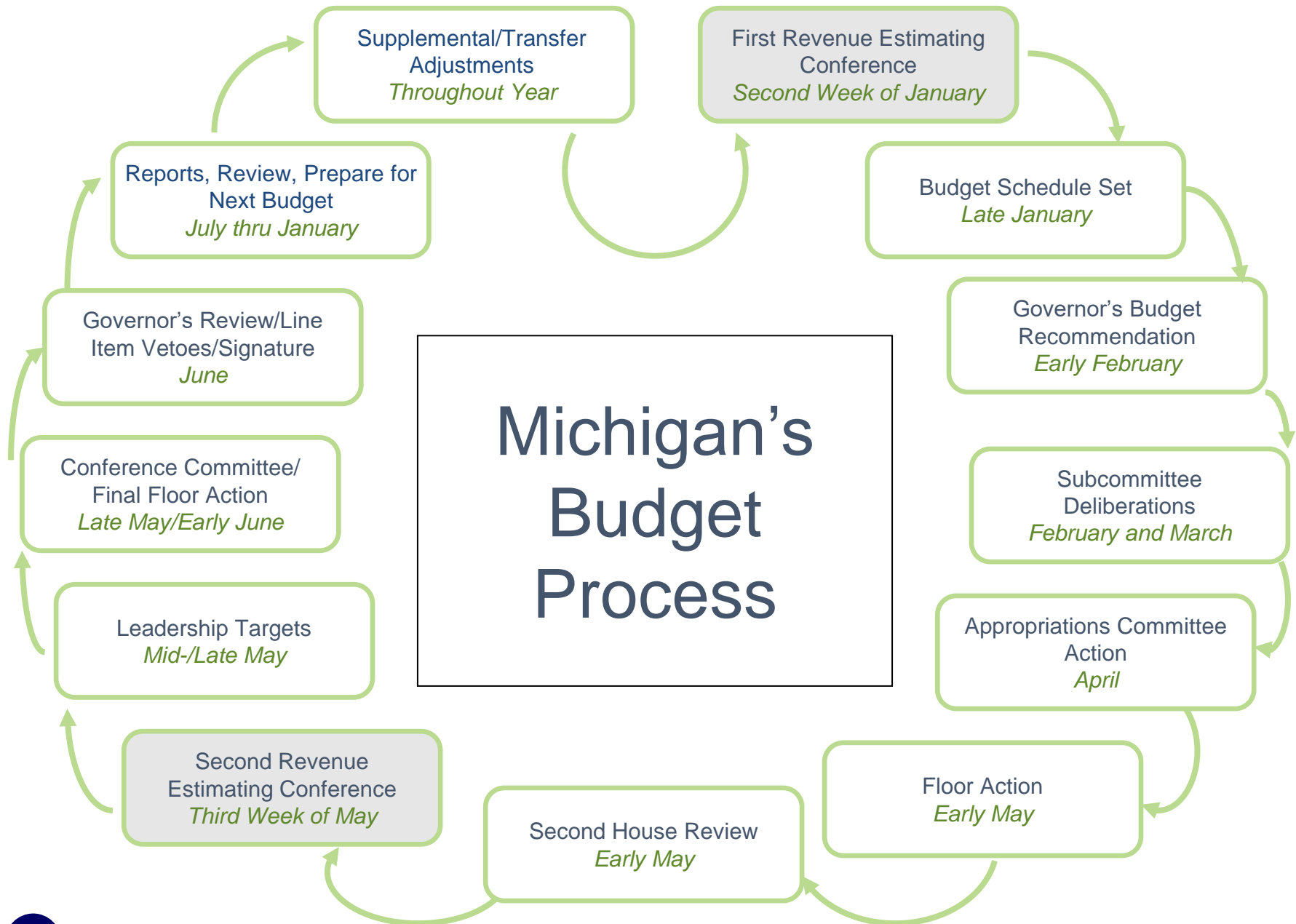


David Zin, Chief Economist

Legislative Staff Training

Michigan State University
Institute for Public Policy and Social Research
September 10, 2021

The CREC and its Role in the Budget Process



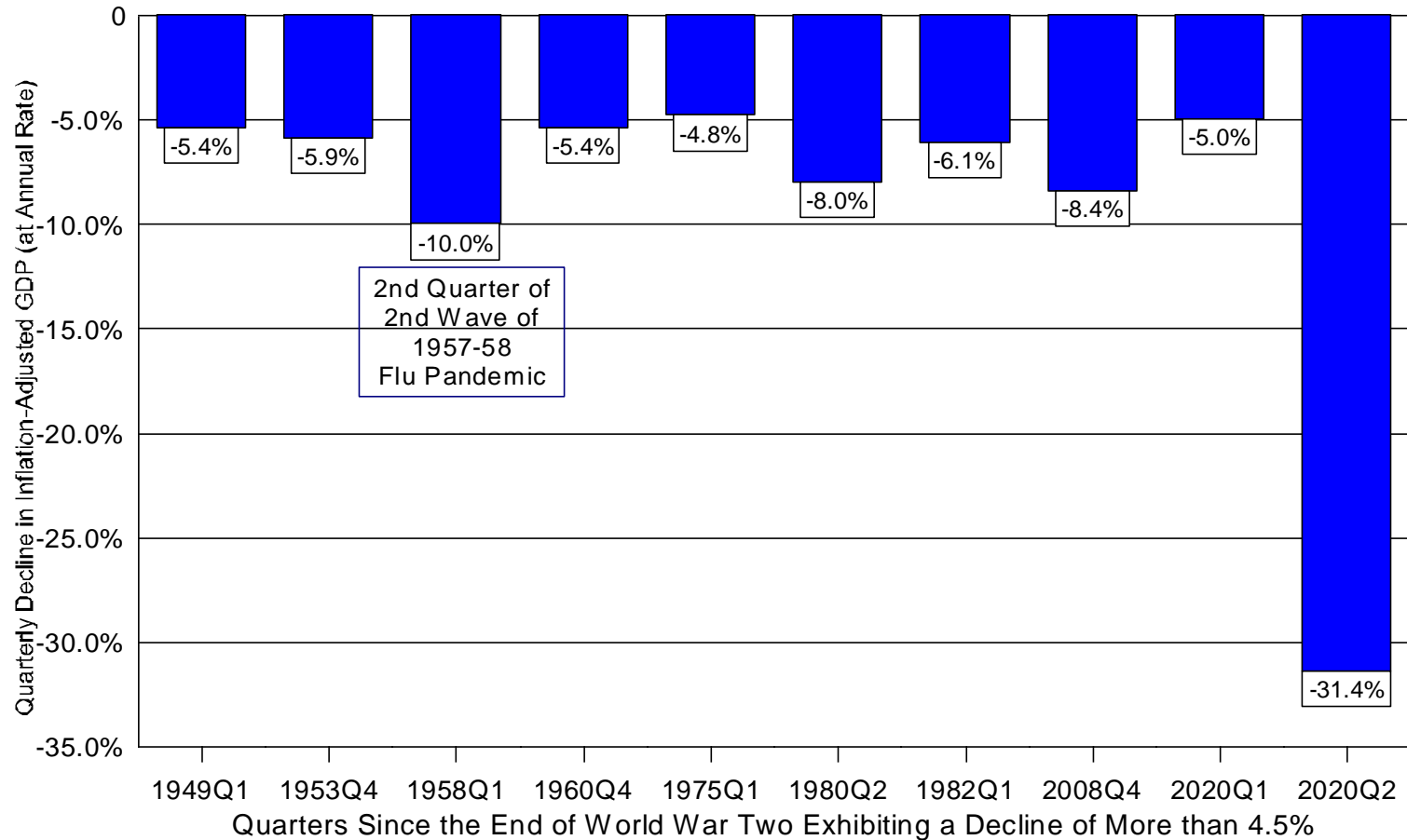
Overview of the Consensus Process

- The statutory authority lies in the Management and Budget Act, 1984 PA431
- The three principals are the director of the House Fiscal Agency, the director of the Senate Fiscal Agency, and either the state budget director or state treasurer.
- The conference is held during the second week of January and the third week of May each year, although additional conferences can be requested by any of the principals.

Consensus Conference Outcomes

- The conference shall establish an official economic forecast of major variables of the national and state economies. The conference shall also establish a forecast of anticipated state revenues as the conference determines including the following:
 - State income tax collections
 - State sales tax collections
 - Corporate income tax collections
 - Michigan business tax collections
 - Total general fund/general purpose (GF/GP) revenues
 - Lottery transfers to the school aid fund (SAF)
 - Total school aid fund revenues
- Pay-in or pay-outs indicated under the countercyclical budget and economic stabilization fund (BSF) formula
- Compliance with the state revenue limit established by section 26 of article IX of the state constitution

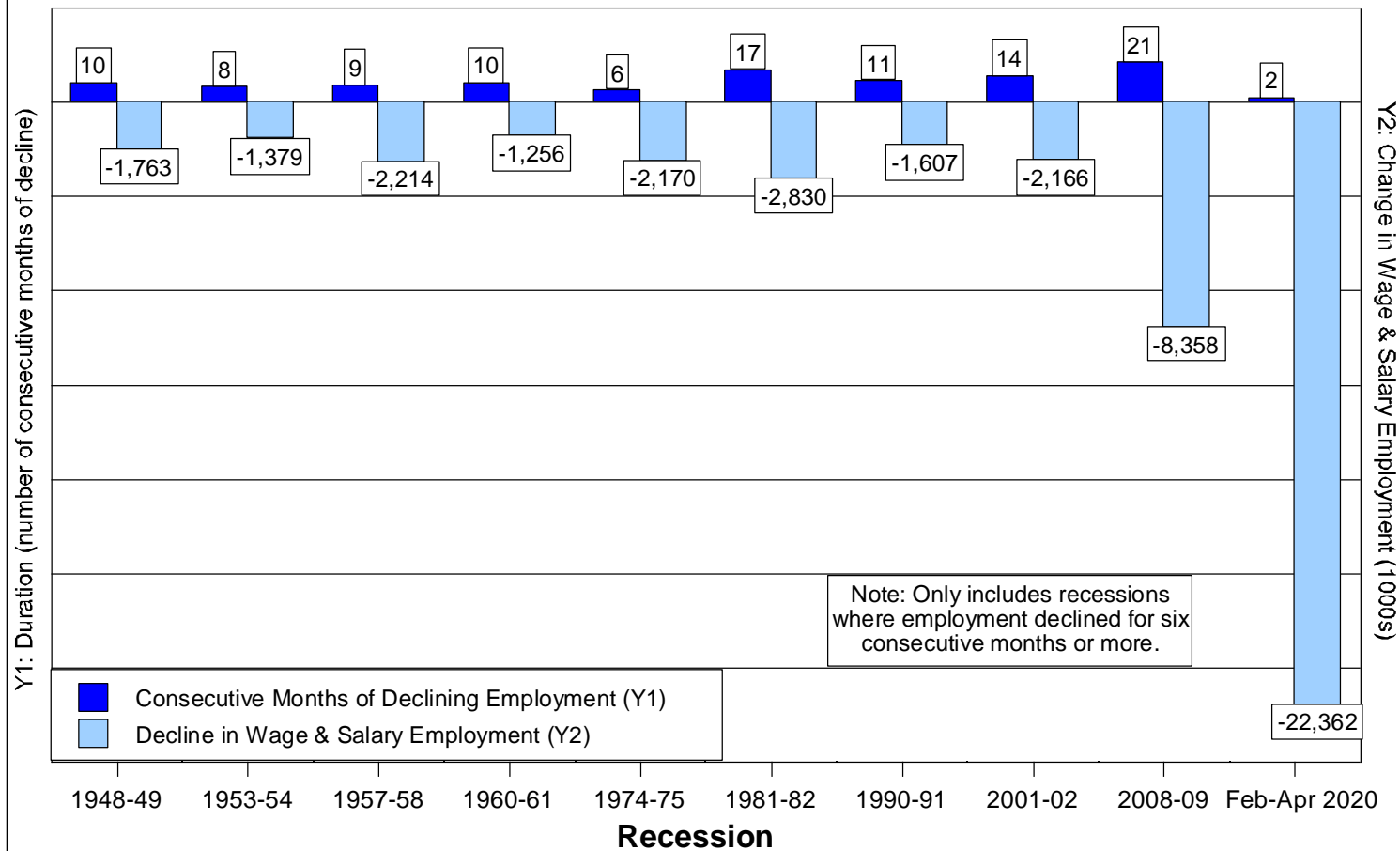
Most Significant Quarterly Economic Declines in Inflation-Adjusted Gross Domestic Product



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

Magnitude and Duration of Post-World War II Recessions

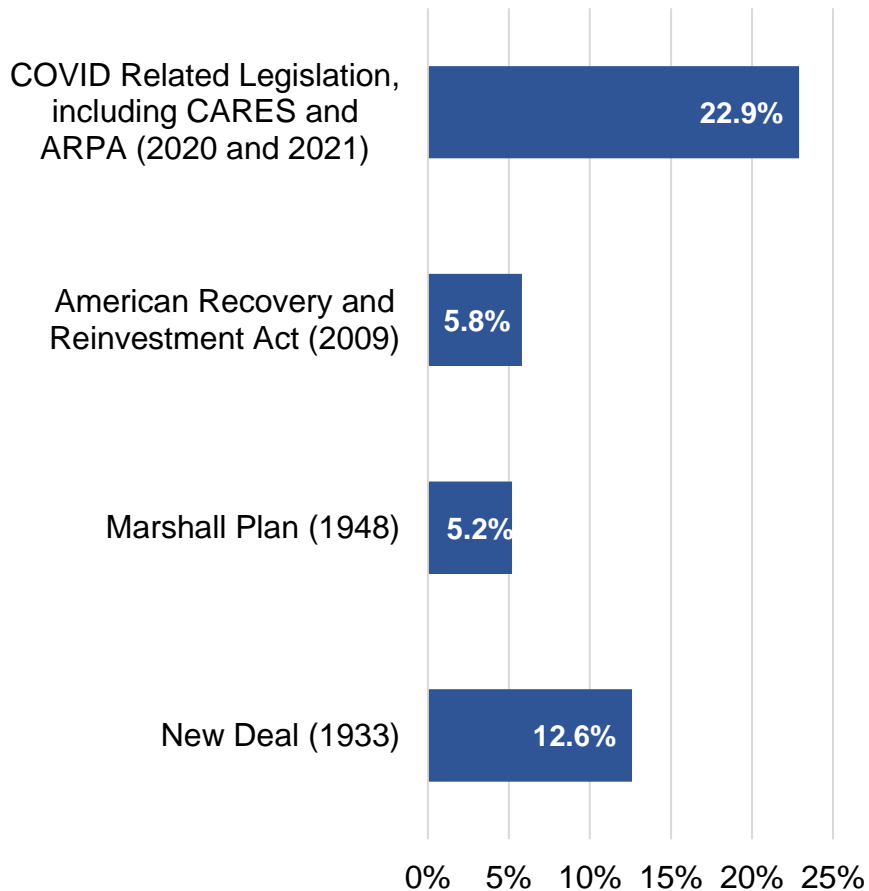
COVID-19 Declines Vastly More Significant



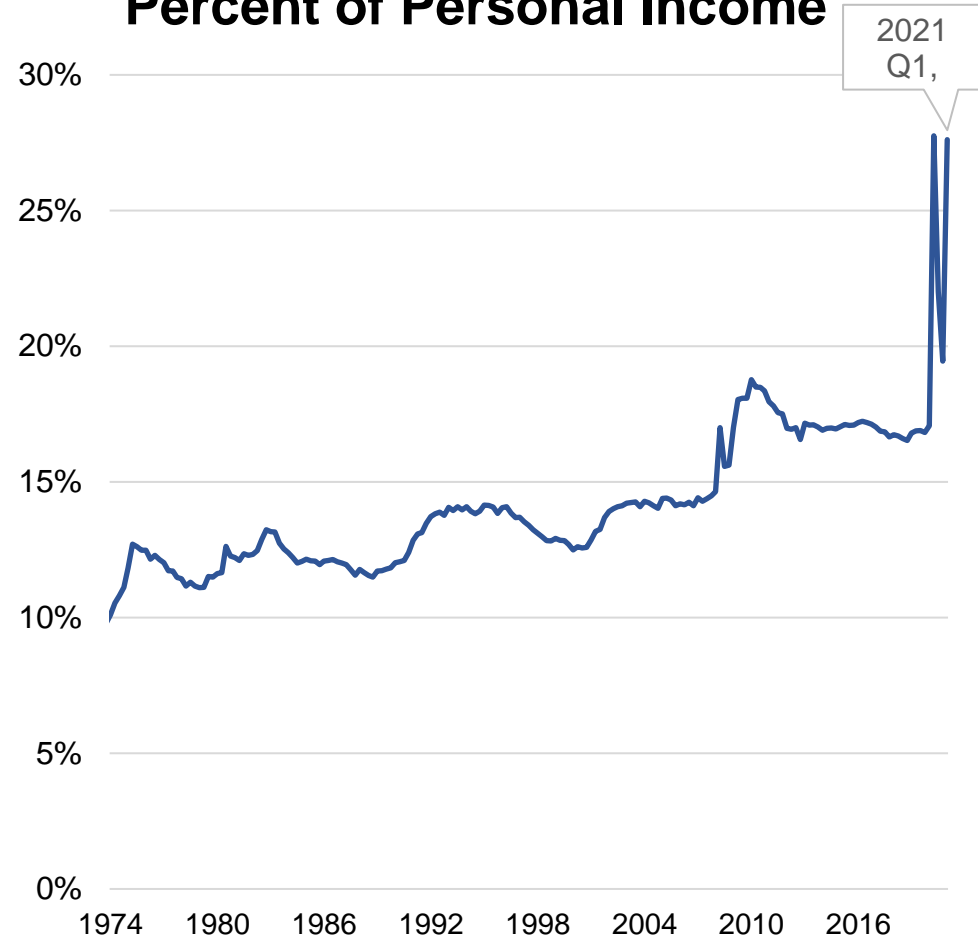
Source: Bureau of Labor Statistics, U.S. Department of Labor

Unprecedented Federal Fiscal Support

Major U.S. Fiscal Stimulus Plans as a Percent of GDP

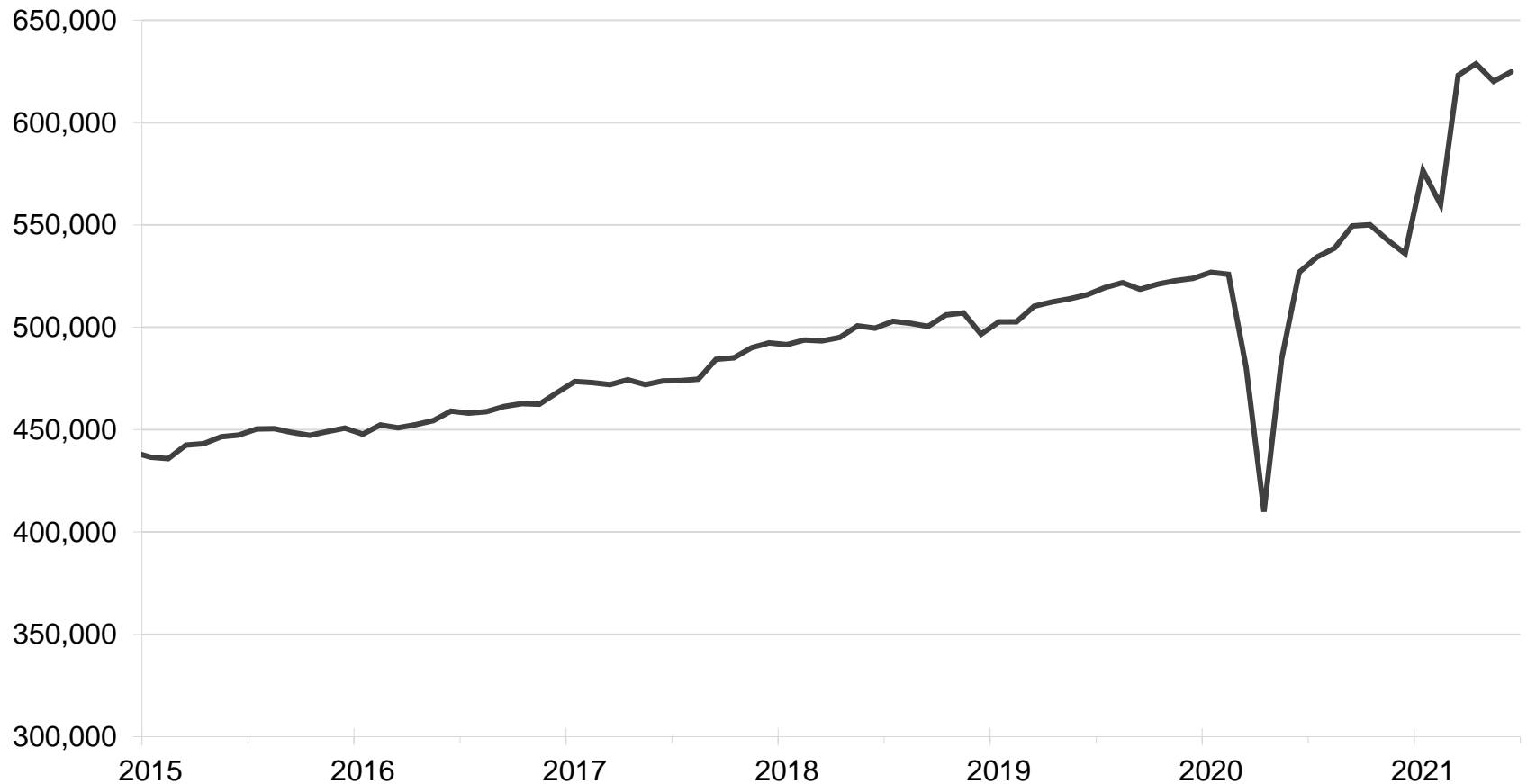


Transfer Payments as a Percent of Personal Income



Retail Sales Boosted by Stimulus

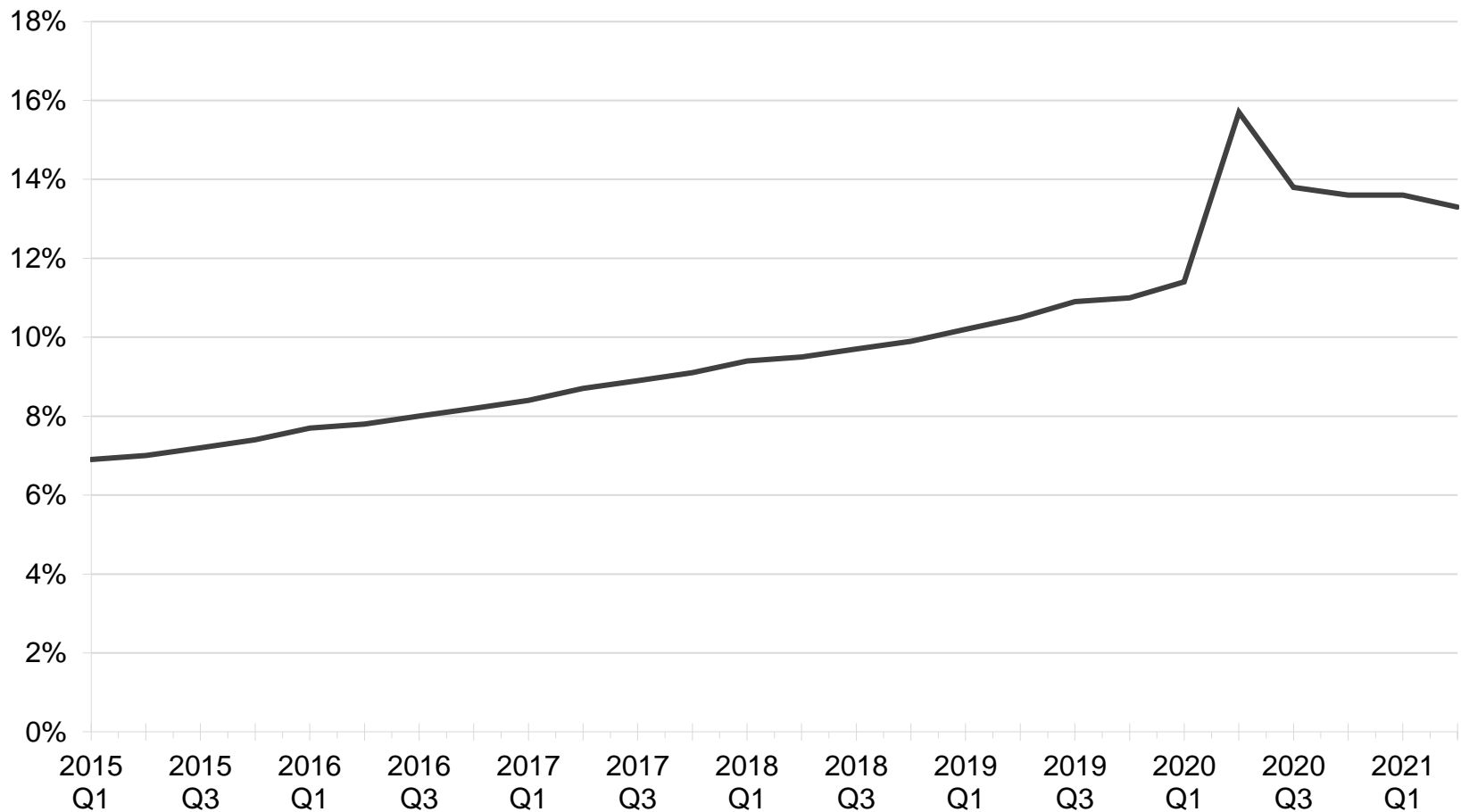
Monthly, Millions of Dollars



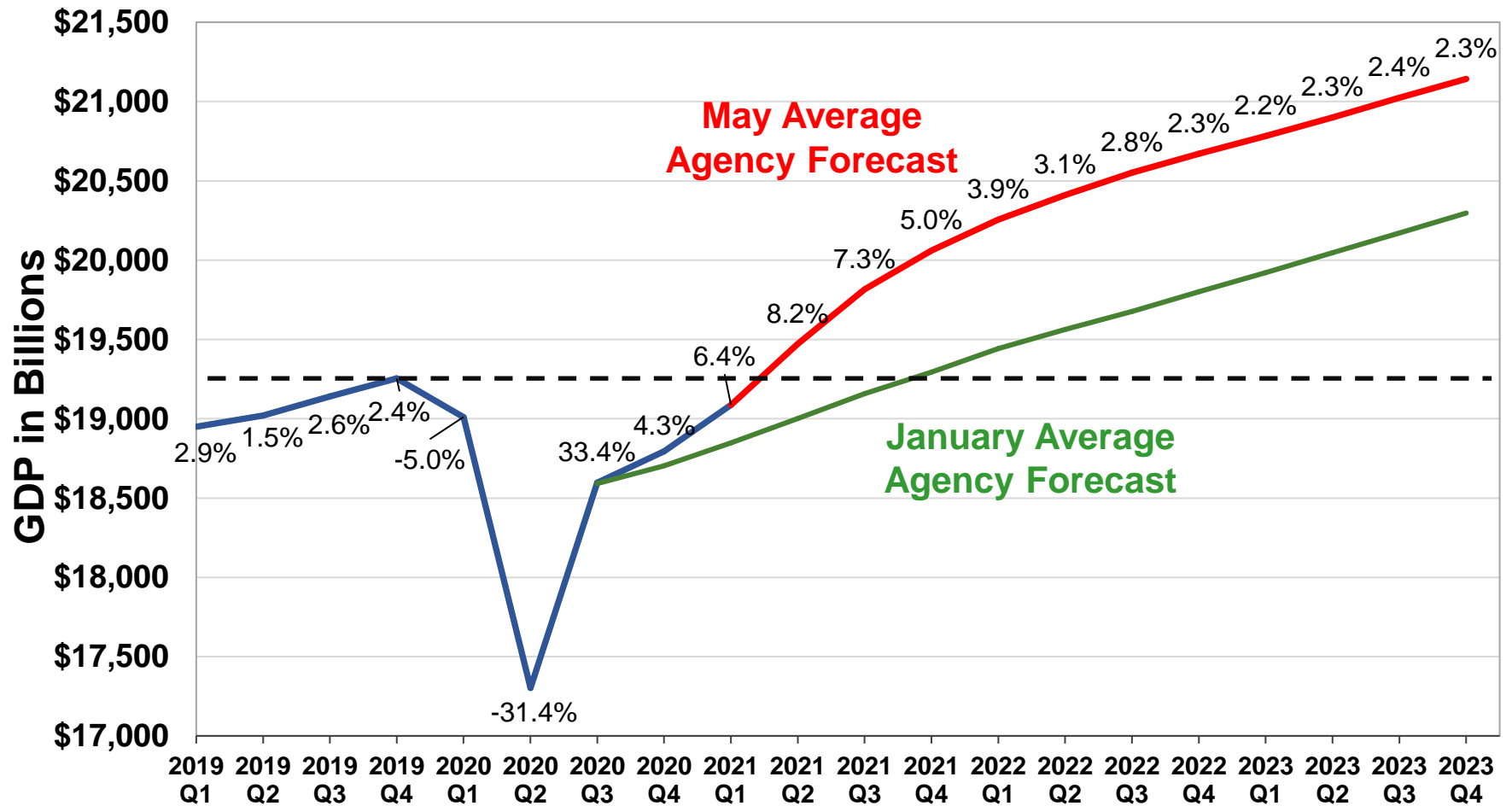
Source: Bureau of the Census

E-commerce Sales Jumped During the Pandemic

E-commerce as a Percentage of Total Retail Sales



2020 Recession – Real GDP Quarterly Forecast

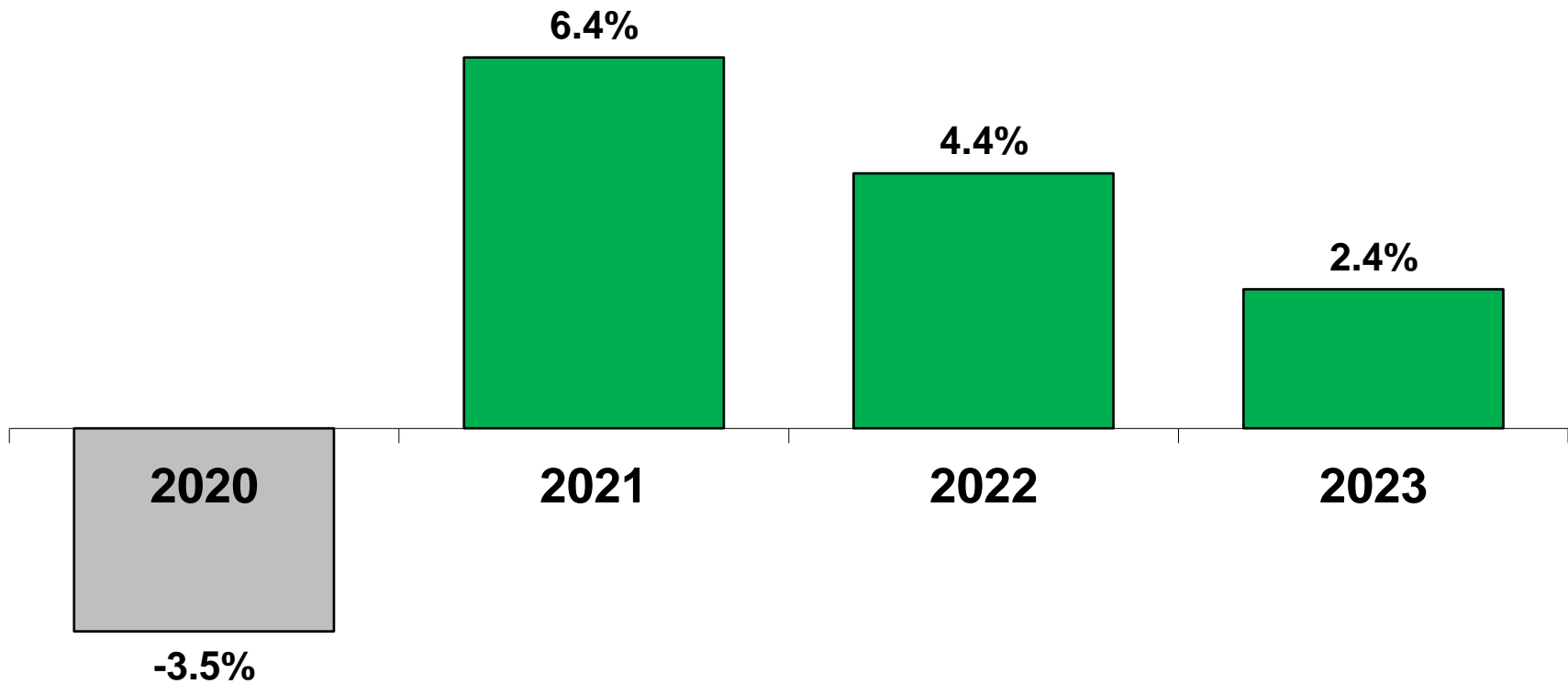


Labels: Percent Change at an Annual Rate

Source: U.S. Bureau of Economic Analysis.

GDP Forecast

Annual Percent Change

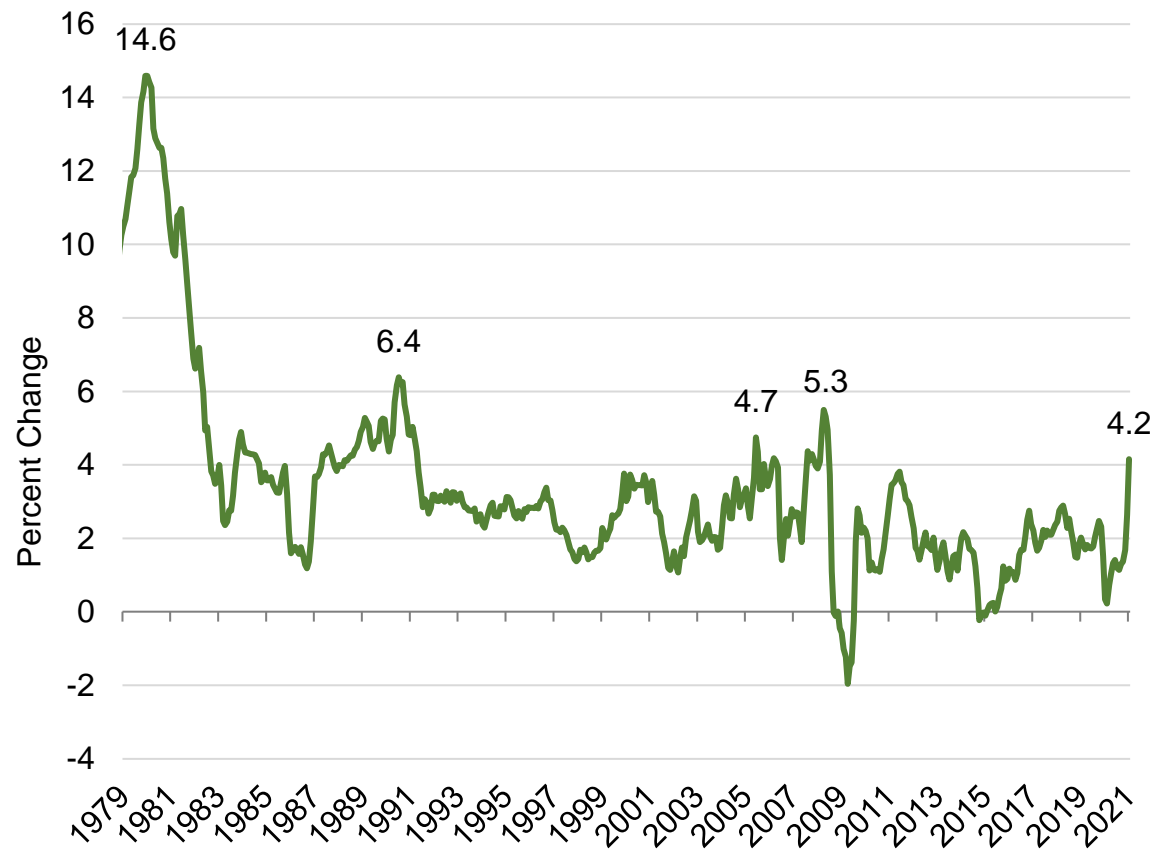


Actual

Inflation Levels Up Nationally, but Not Atypical

- April inflation is up year-over-year, but CPI experiences significant monthly swings
- Current inflation drivers are a short-term phenomena
 - Much of the current inflation is driven by the increase in housing, energy and vehicle prices, which are expected to be more stable going forward

**Consumer Price Index, Monthly
Year-Over-Year Percent Change**

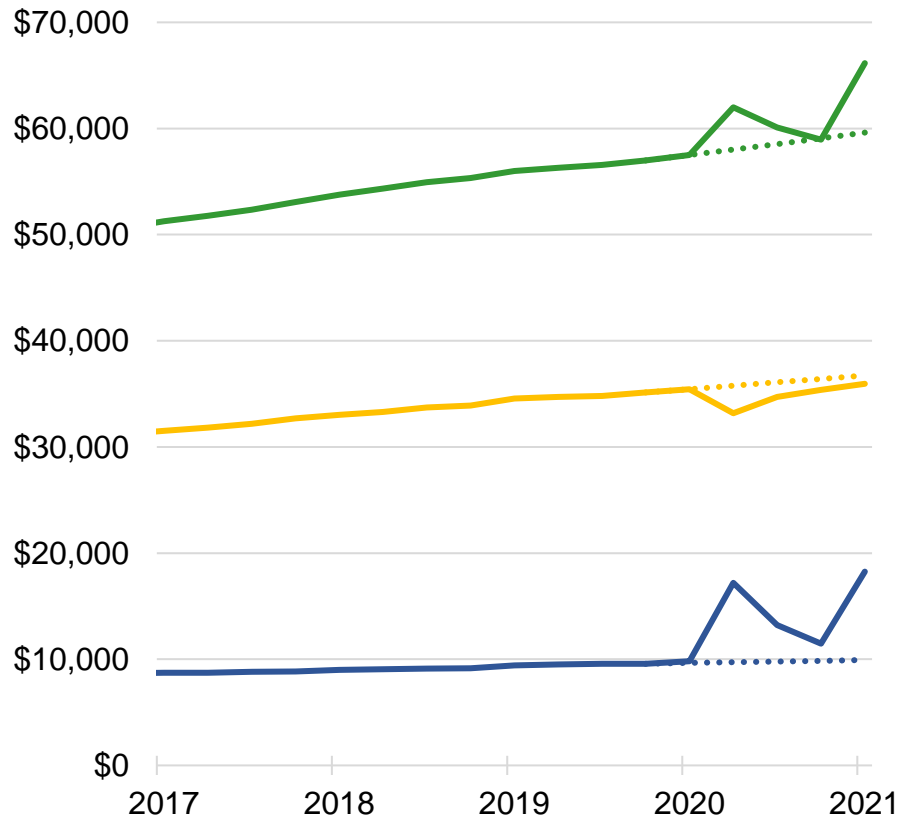


Source: Bureau of Labor Statistics

Transfer Receipts Boost Personal Income

Per Capita:

- Personal Income
- Compensation of Employees
- Current Transfer Receipts



| Per Capita Last 4 Quarters | Hypothetical No Pandemic | Actual | Difference |
|----------------------------|--------------------------|----------|------------|
| Personal Income | \$58,810 | \$61,805 | +\$2,995 |
| Compensation of Employees | \$36,253 | \$34,806 | -\$1,447 |
| Transfer Payments | \$9,822 | \$15,042 | +\$5,220 |

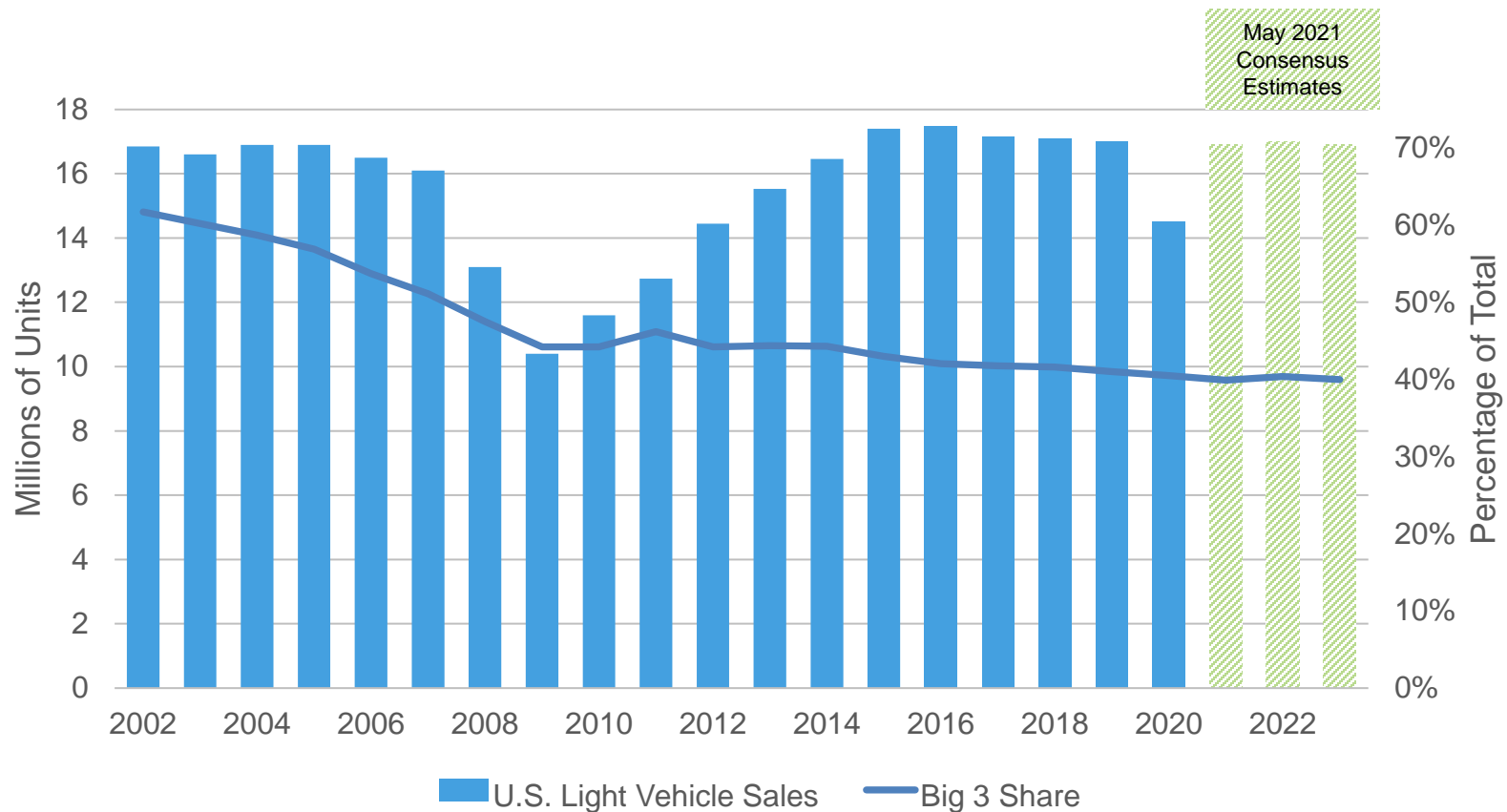
Employment and Spending in Michigan

In 2020-2021, the relationship between employment and spending was very different than in previous recessions.



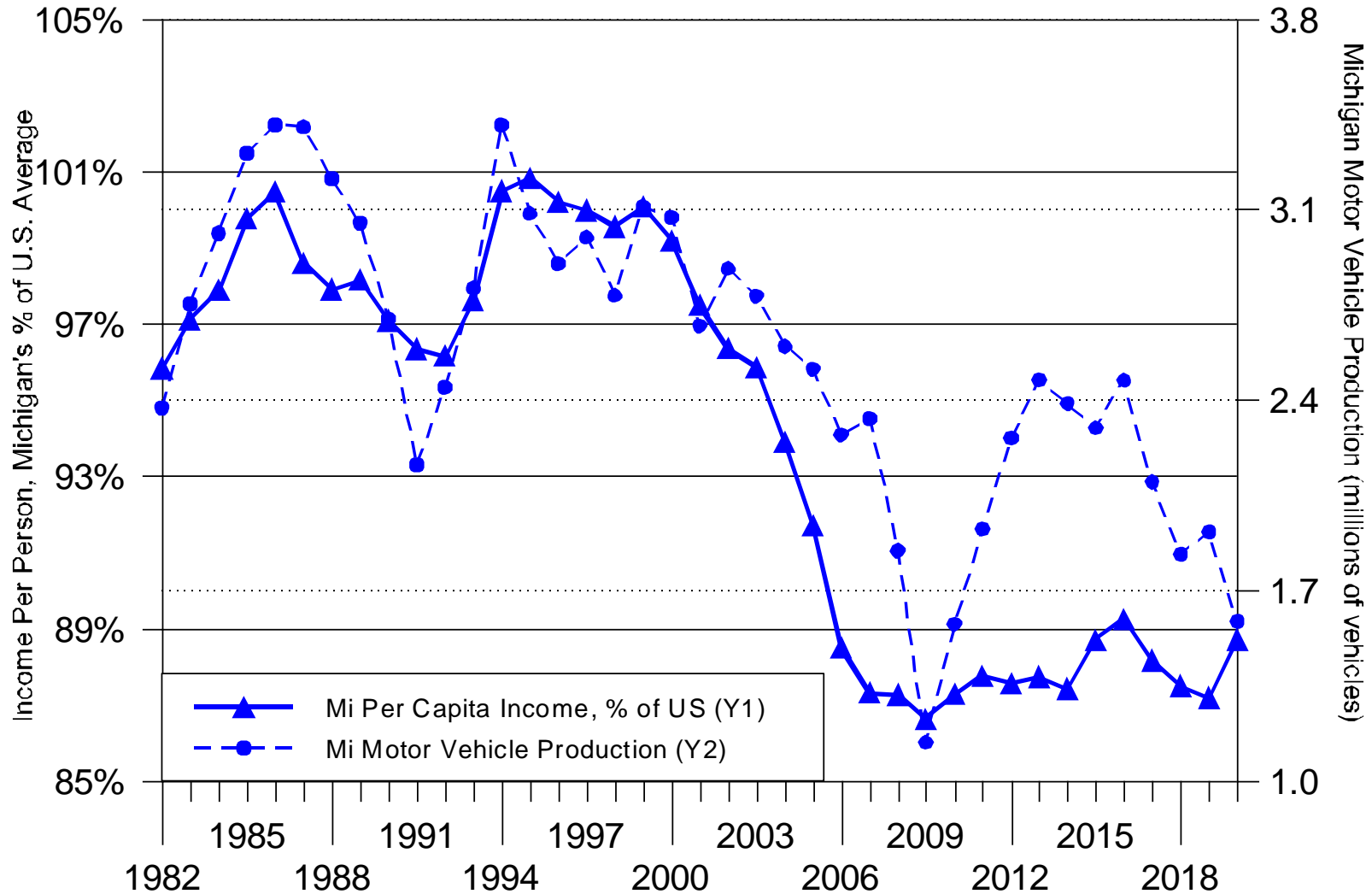
Light Vehicle Sales

With the share produced by domestic automakers having stabilized, vehicle sales increased to record levels. Sales levels, which plummeted due to the pandemic, are expected to increase over the forecast, but will remain below pre-pandemic levels.



The Michigan Economy's Link to the Auto Industry

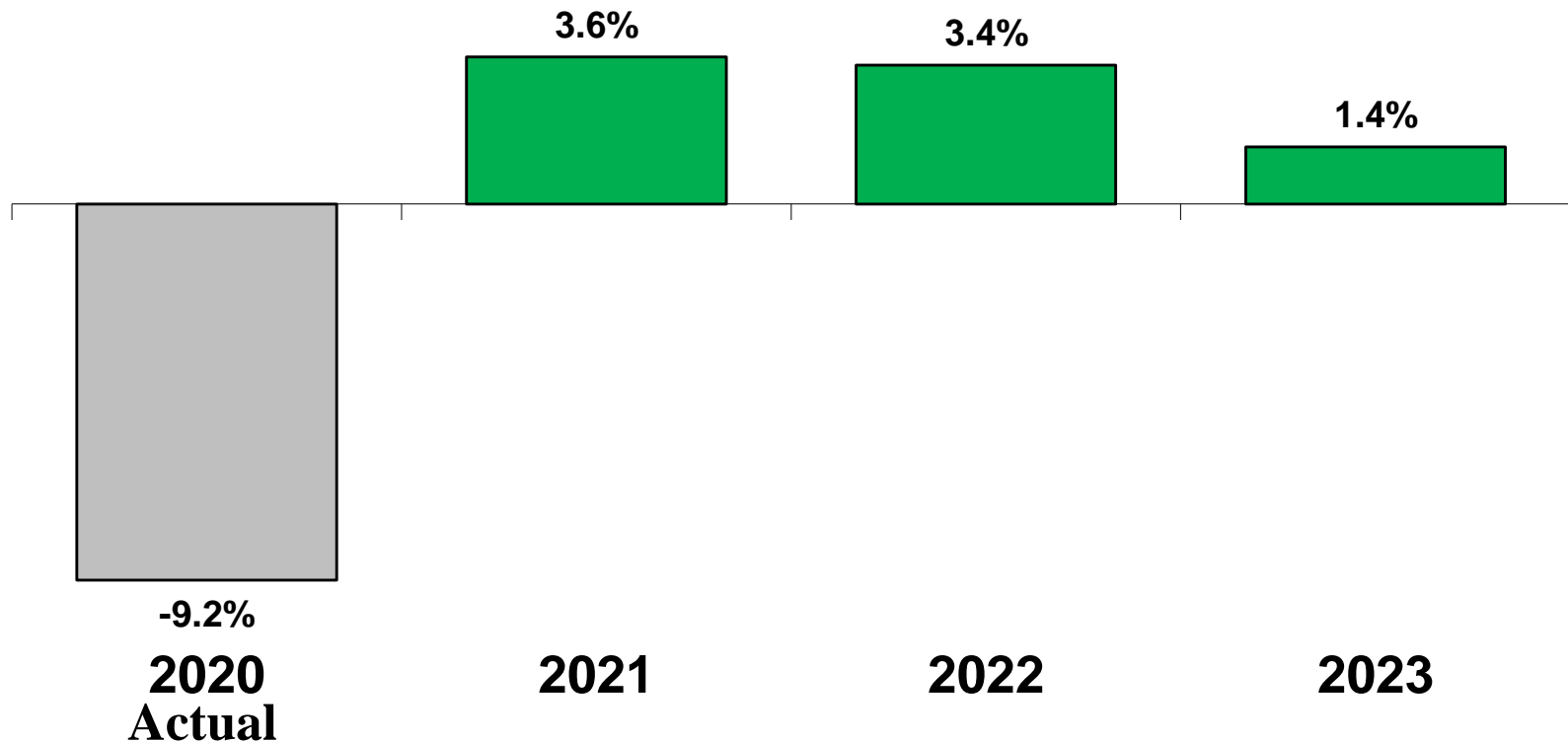
Historically, Michigan Performance Relative to US Follows MI Vehicle Production



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

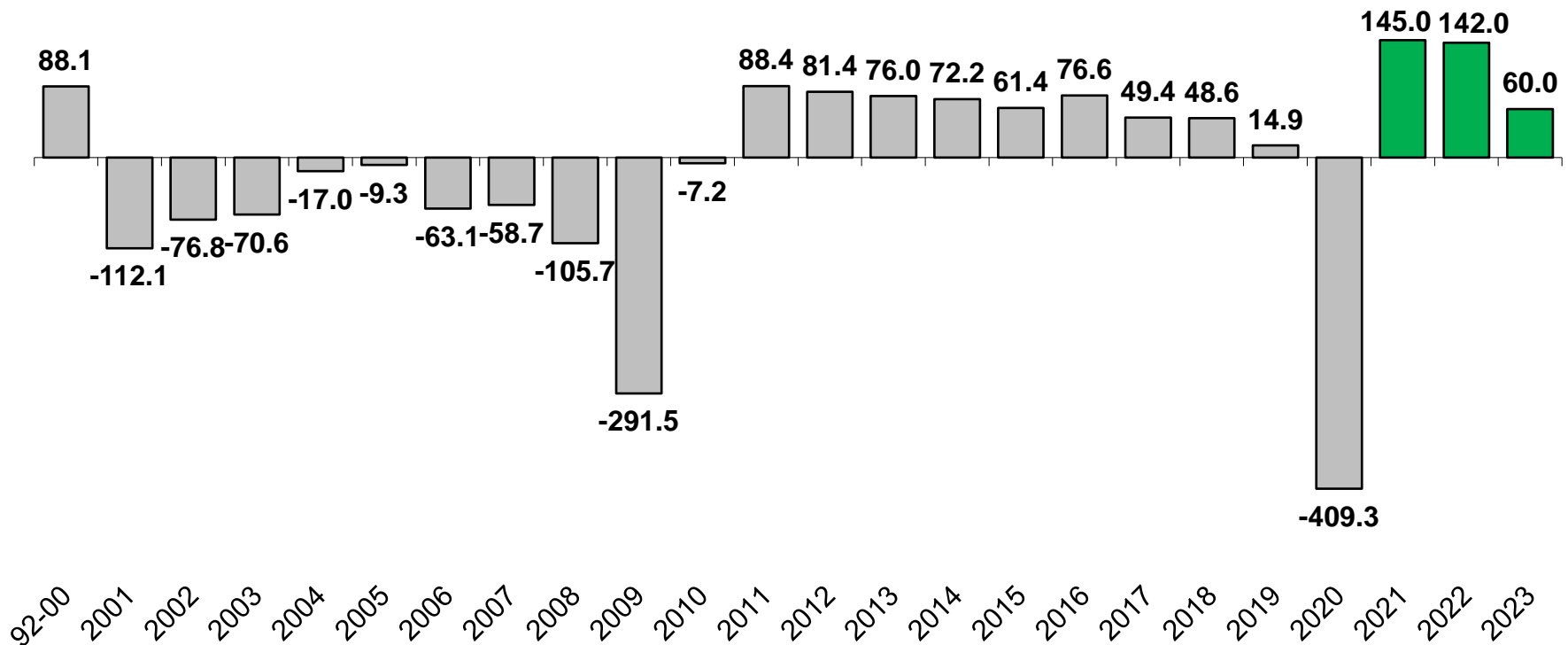
Michigan Wage and Salary Employment

Annual Percent Change



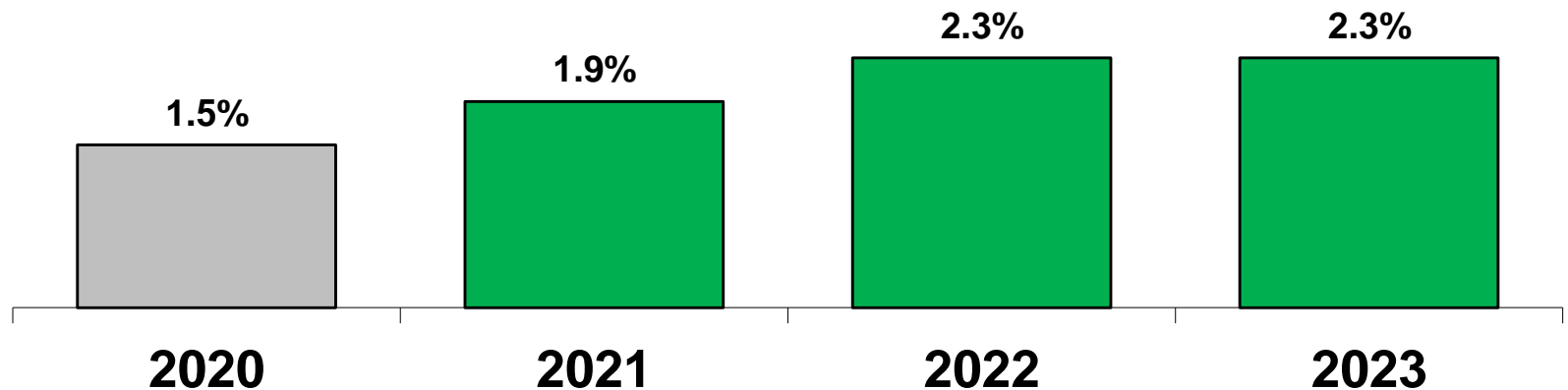
Michigan Job Gains Expected Through 2023

Change in Michigan Wage and Salary Employment Thousands



Michigan Inflation Forecast

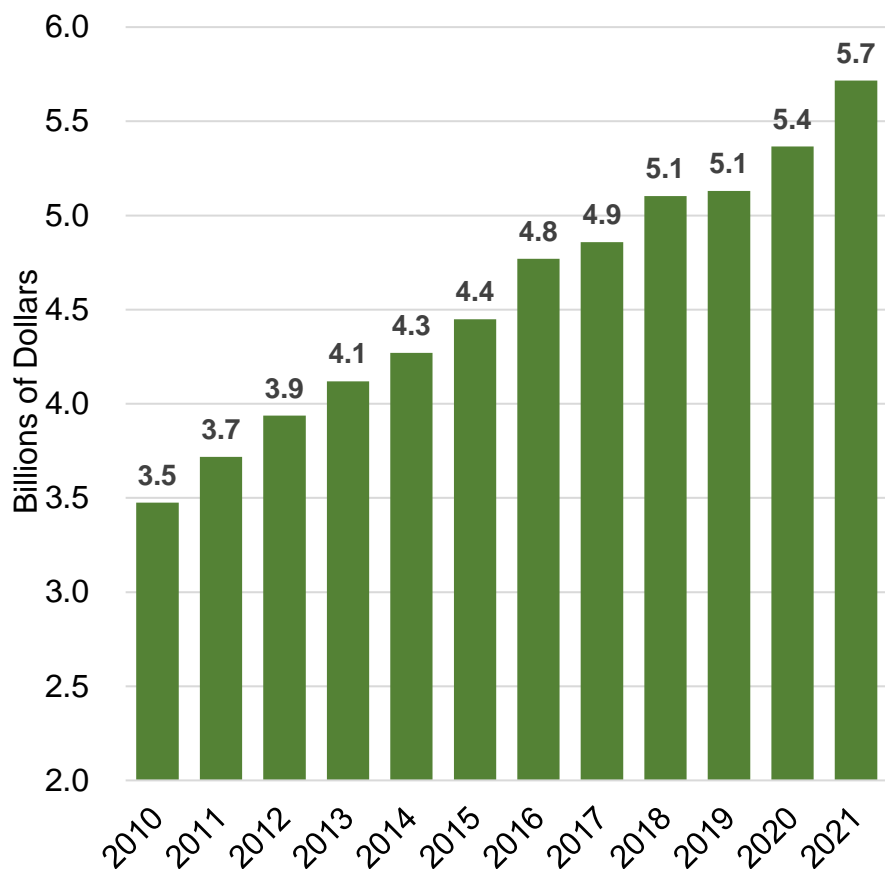
Detroit Consumer Price Index Fiscal Year Growth



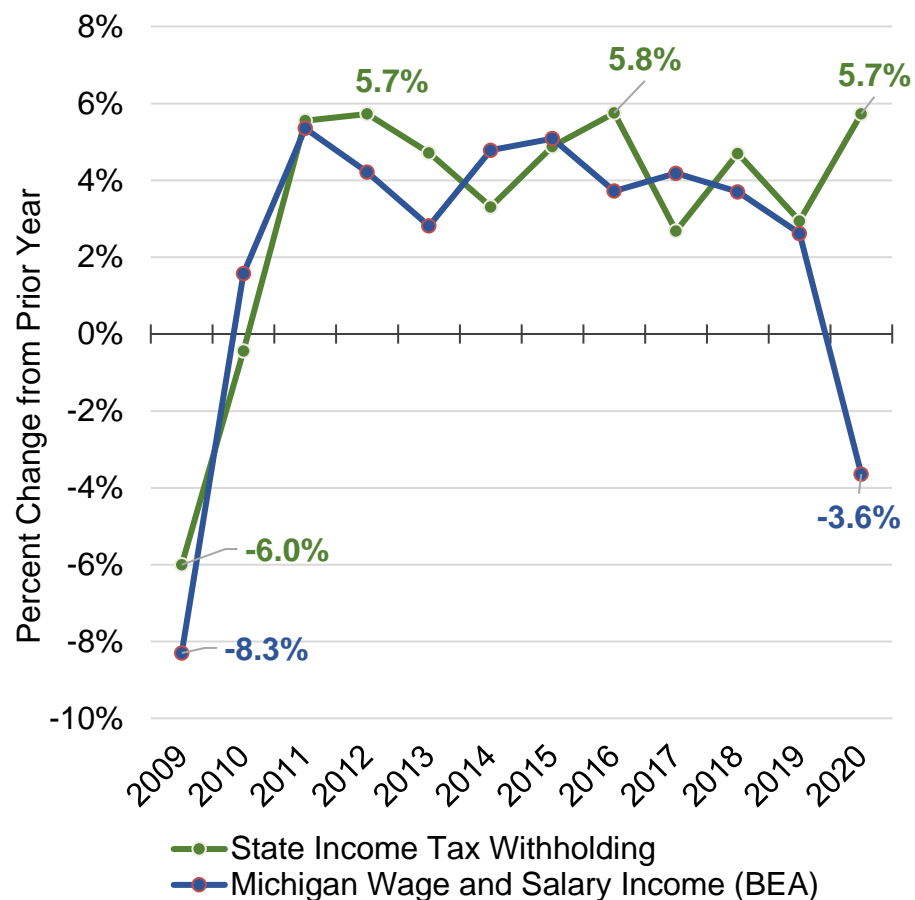
Forecast of Major Taxes

Withholding Collections Continue to Climb

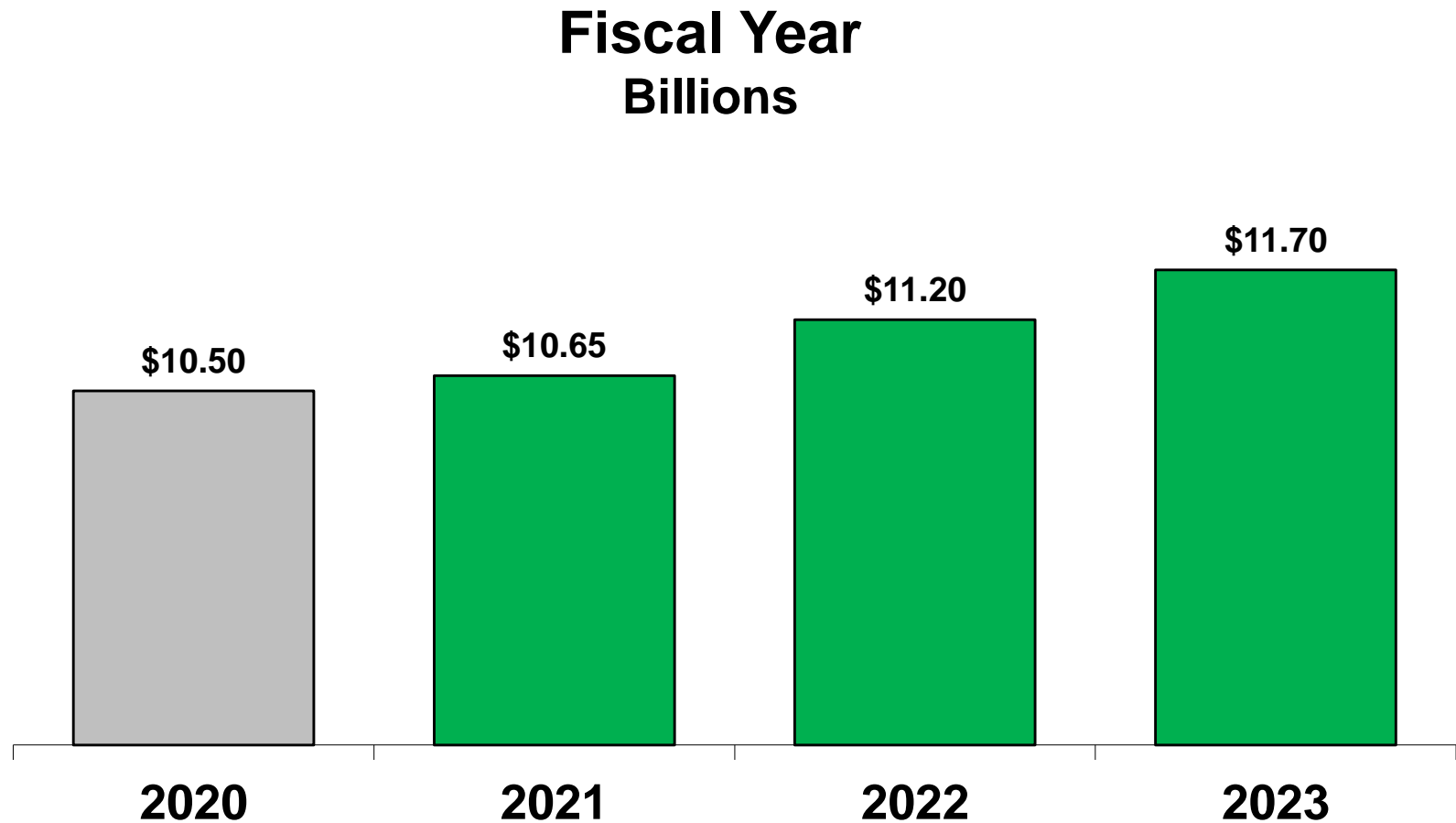
Withholding Tax Collections Fiscal Year to Date



Withholding versus Wage and Salary Income



Net Income Tax Revenue Estimates



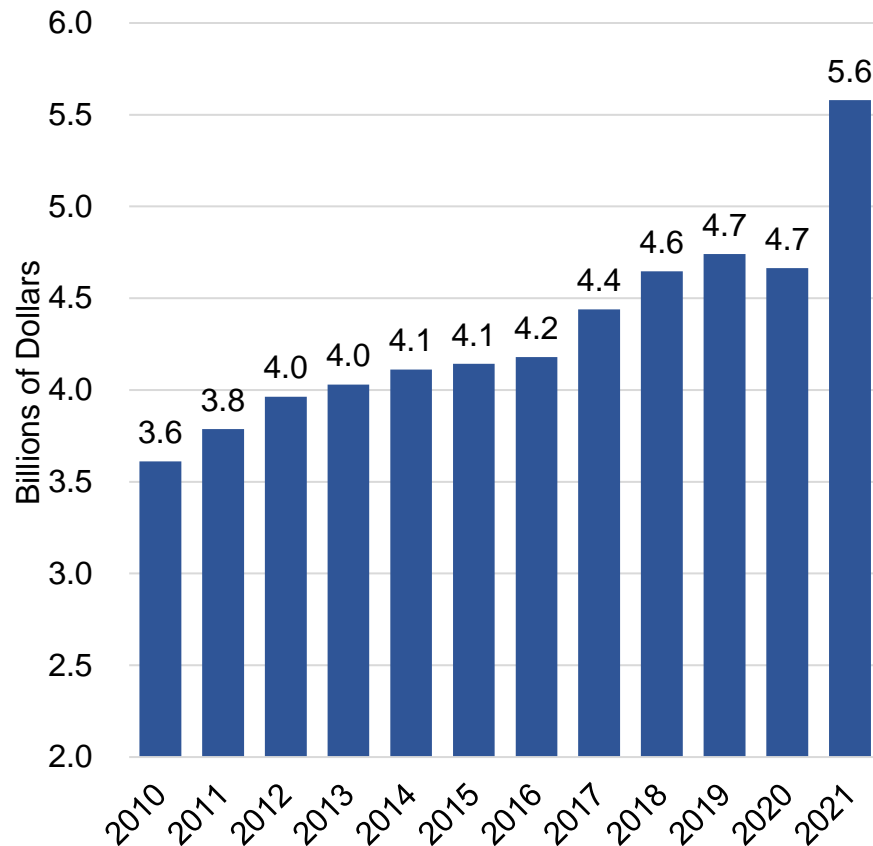
Income Tax Rate under MCL 206.51(1)

MCL 206.51(1) limits General Fund revenue growth to a factor of inflation from FY 2021 levels. If revenues surpass the limit, reductions in the individual income tax rate are triggered.

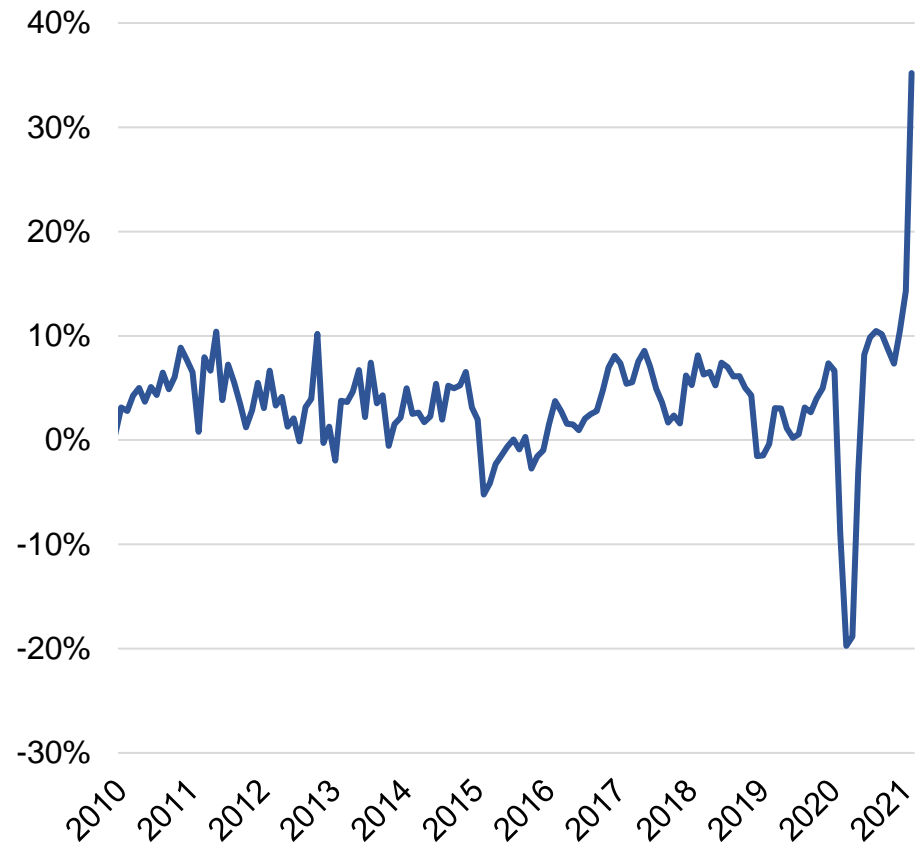
Based on the consensus revenue and inflation growth estimates, income tax rate would remain at 4.25% for TY 2023 and drop to 4.21% for TY 2024.

Sales and Use Tax Accelerate

Sales and Use Tax Collections Fiscal Year to Date

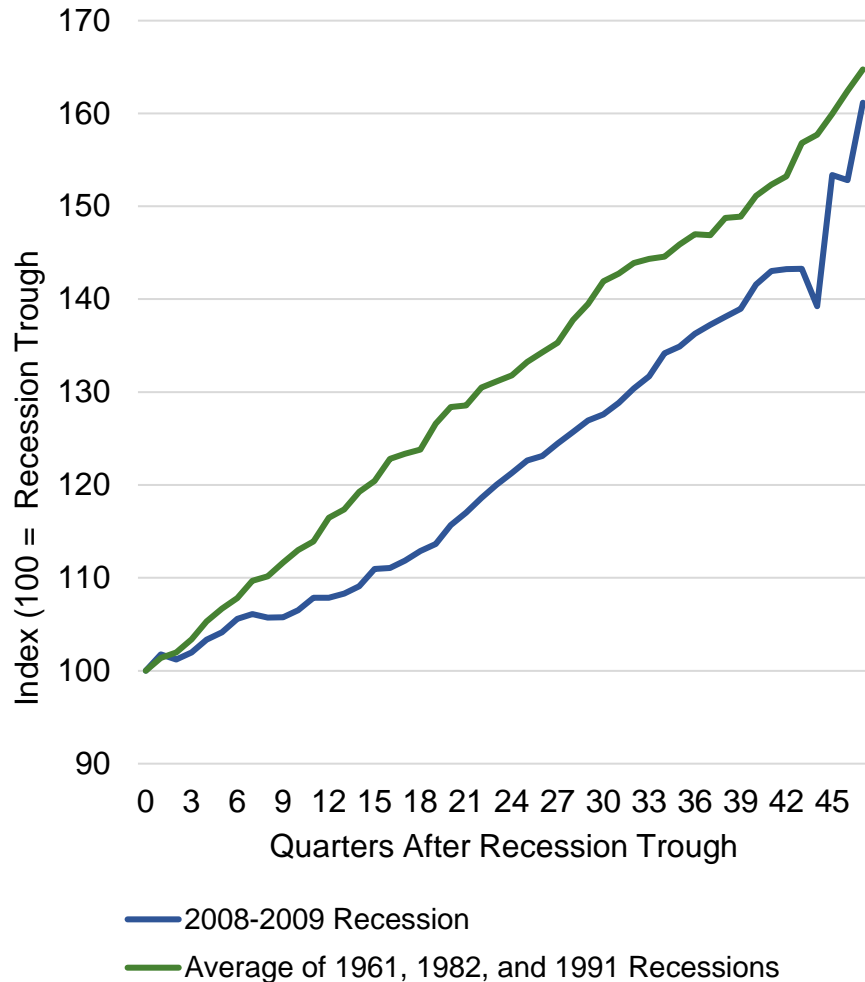


Year-Over-Year Percent Change Three Month Rolling Average

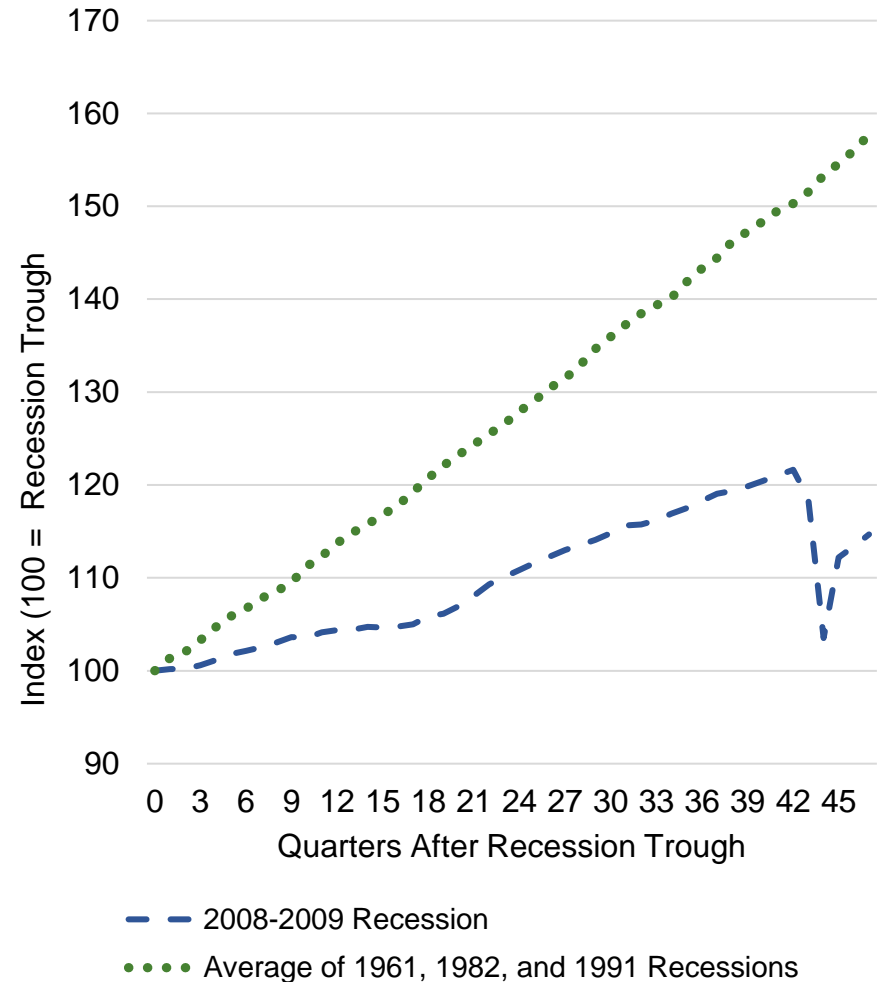


Consumption: Goods Up, Services Down

Real Goods Consumption

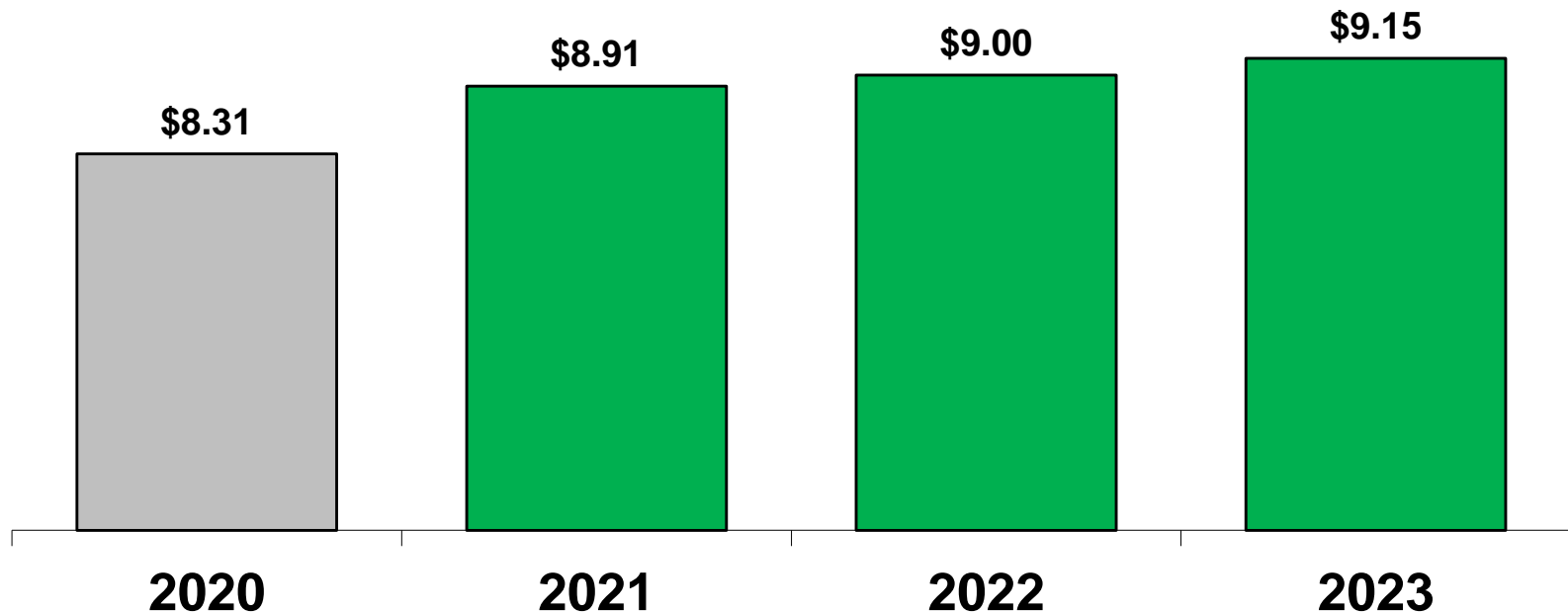


Real Services Consumption



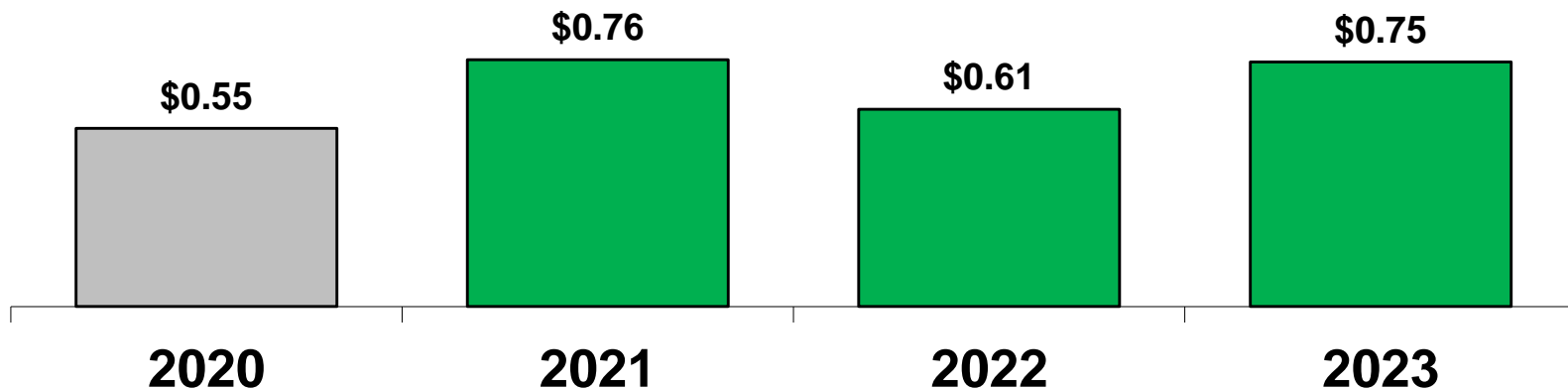
Net Sales Tax Revenue Estimates

**Fiscal Year
Billions**



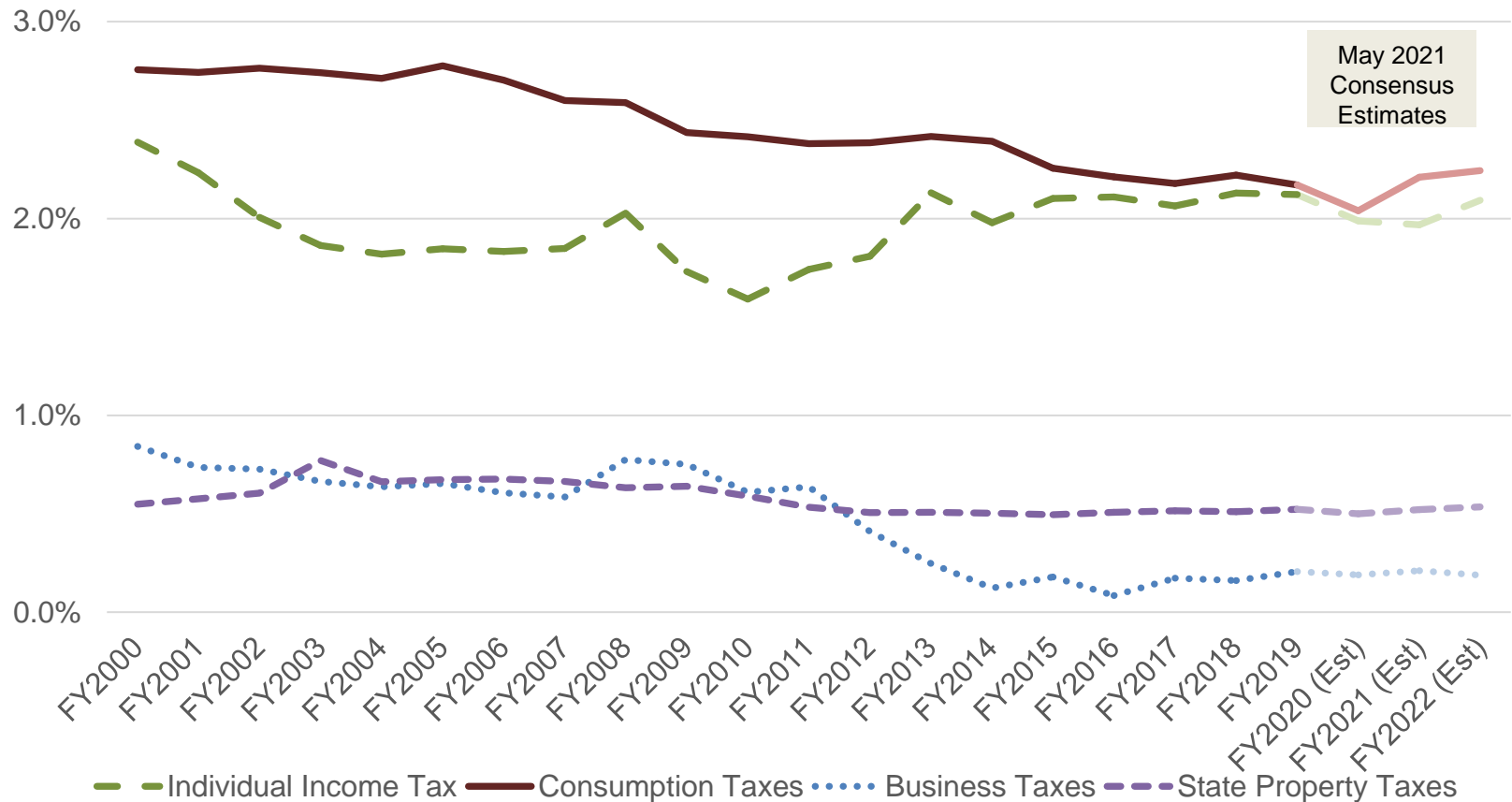
Net SBT/CIT/MBT Revenue Estimates

**Fiscal Year
Billions**

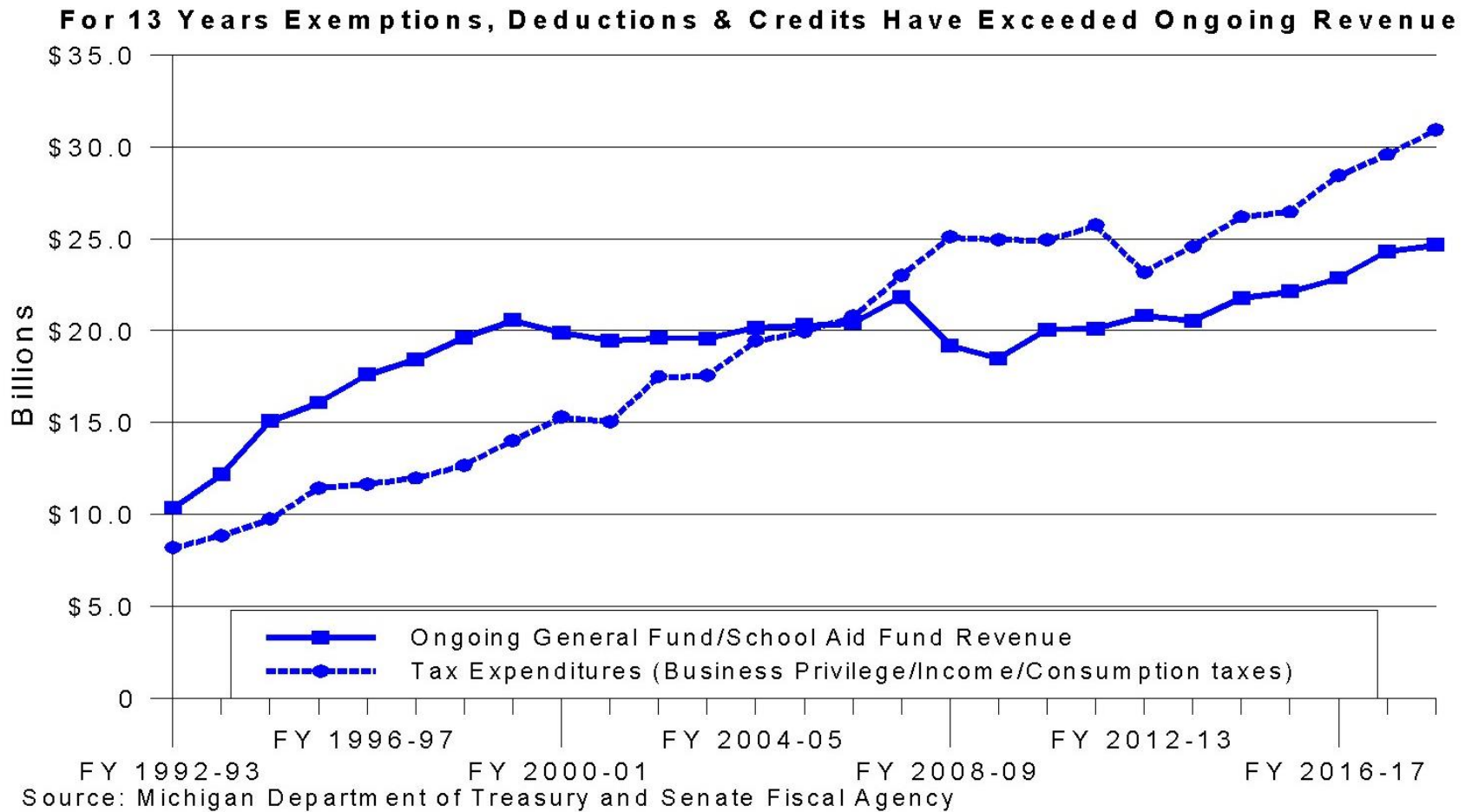


Major State Taxes as a Percentage of Michigan Personal Income

Recent growth in state revenue has been driven by individual income and consumption taxes. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.

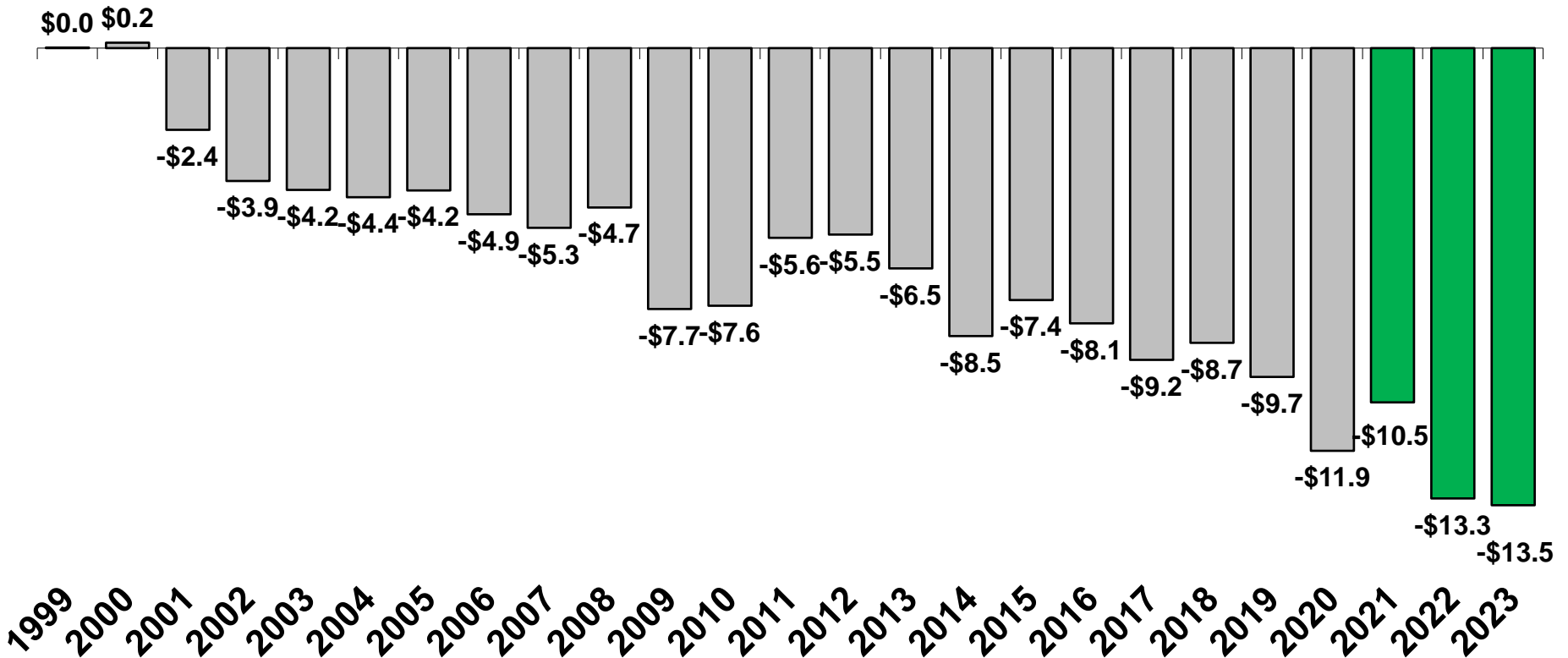


Tax Breaks Exceed Ongoing Revenue



Constitutional Revenue Limit Calculation

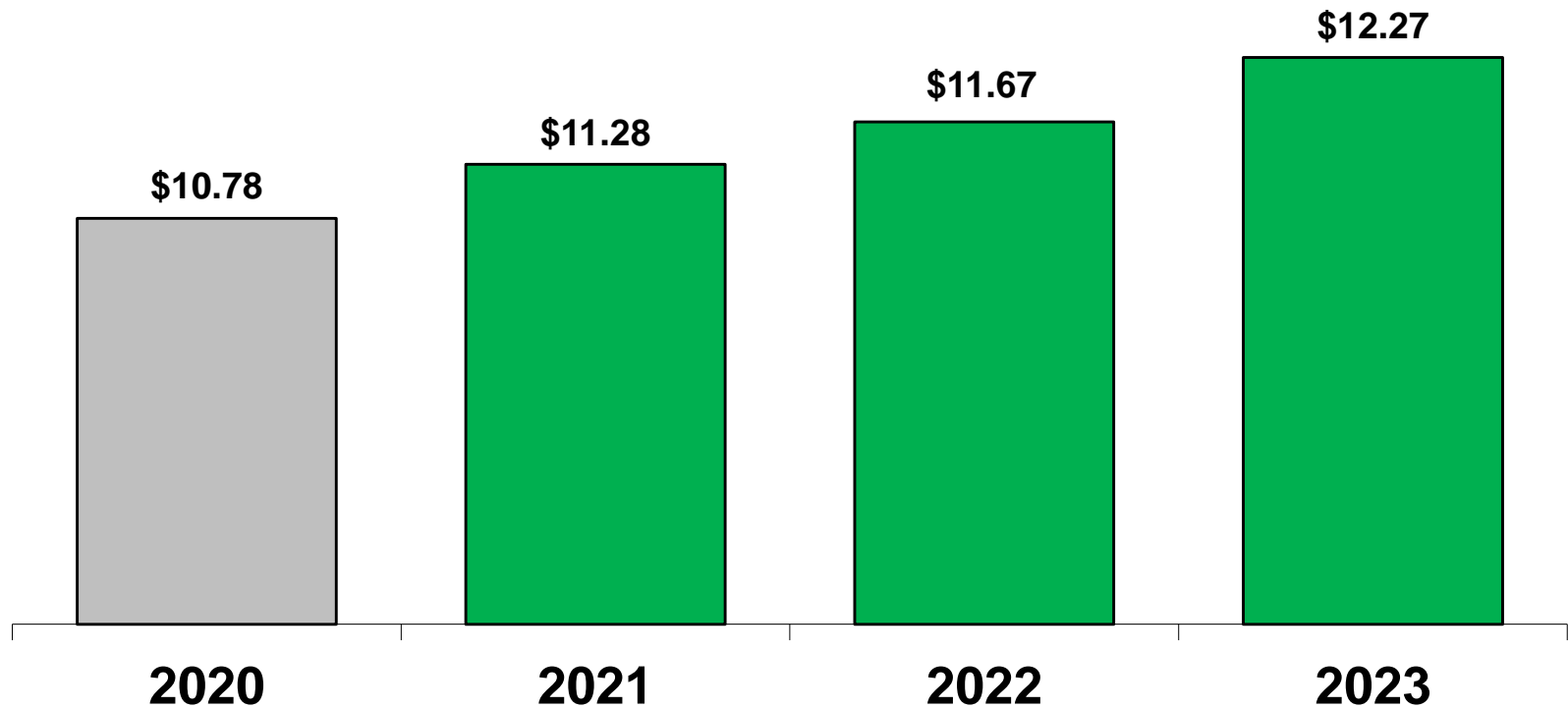
Billions



Forecast of GF-GP and School Aid Fund

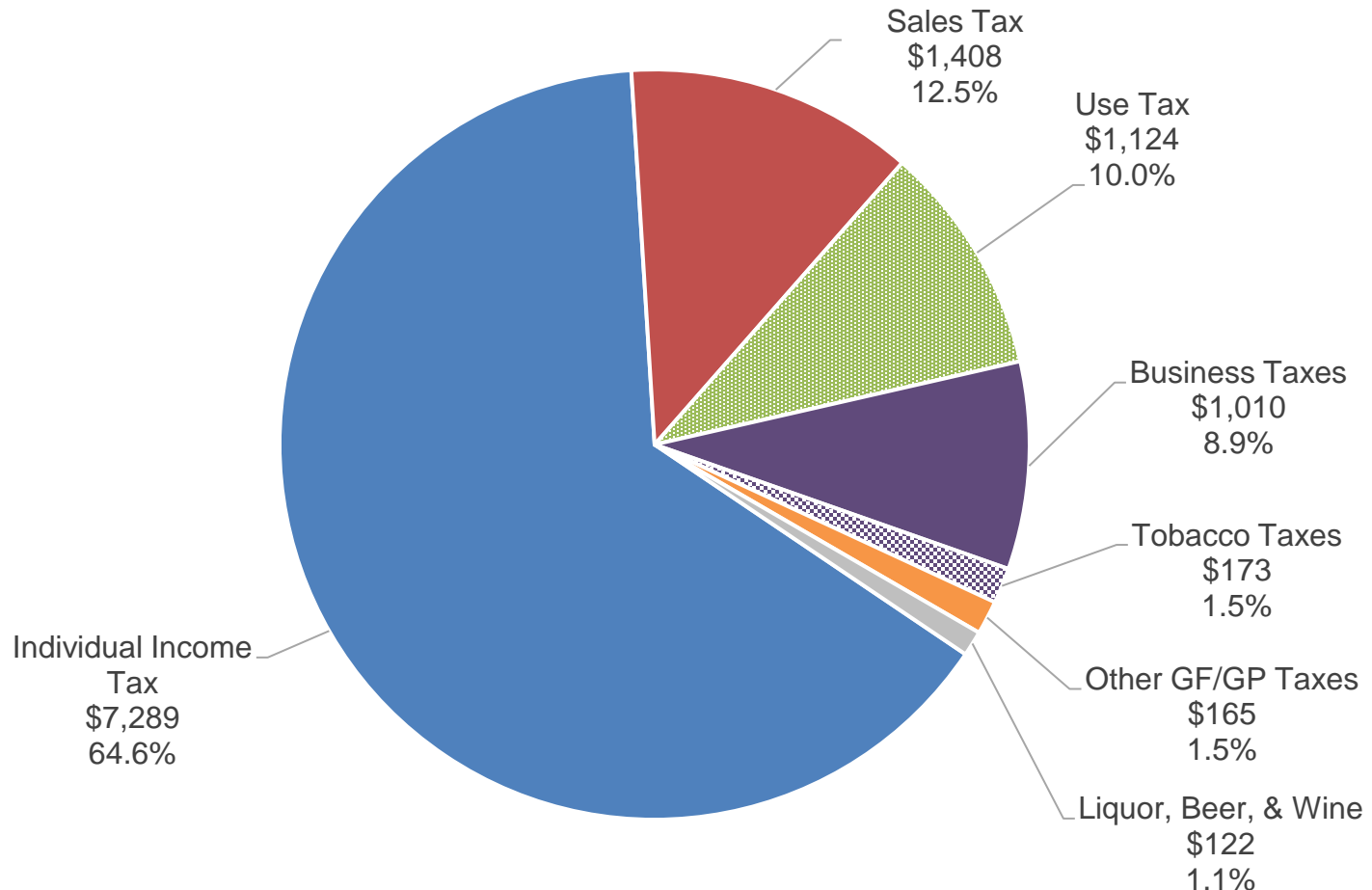
GF-GP Net Revenue Estimates

**Fiscal Year
Billions**

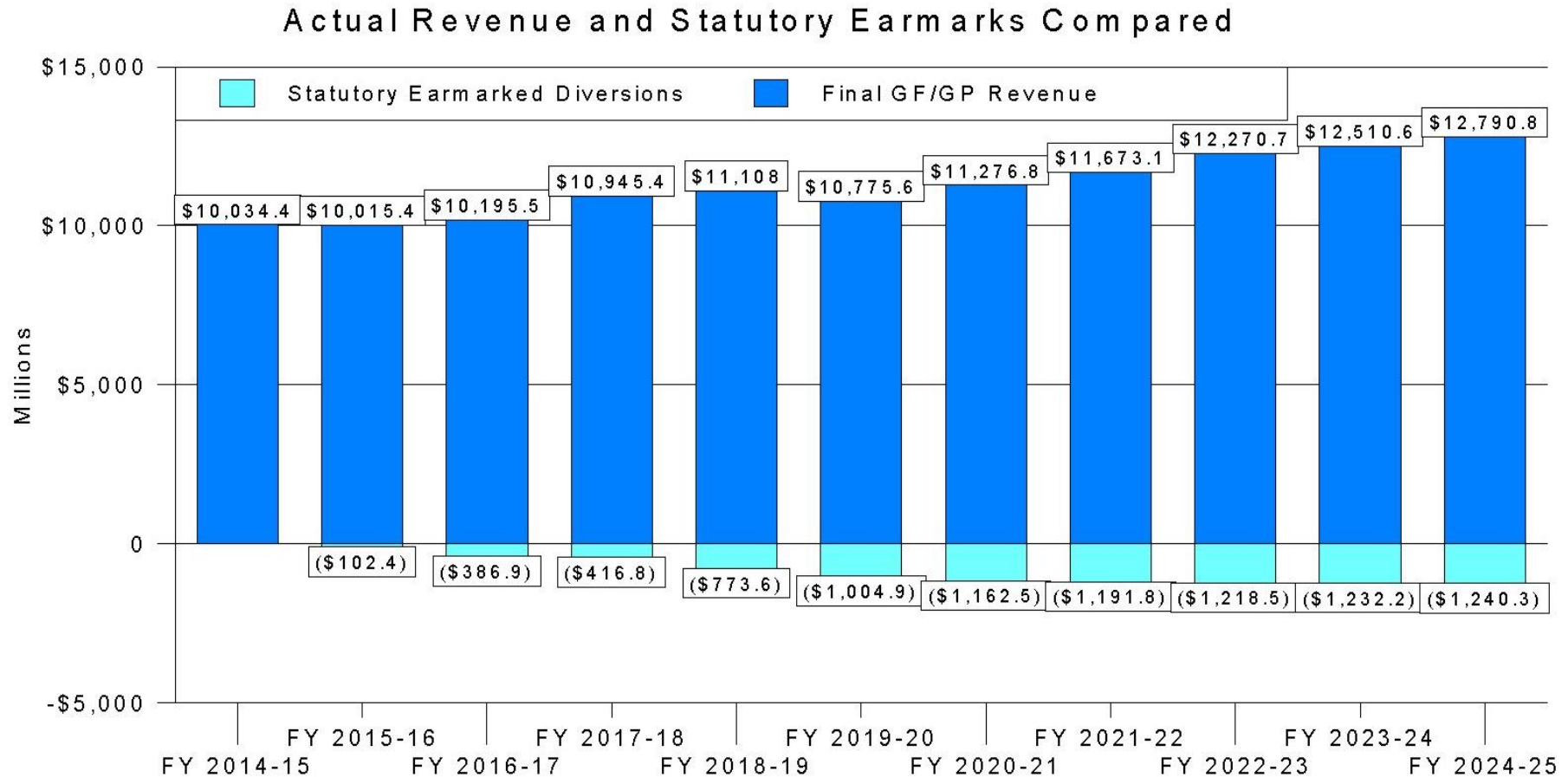


FY 2021-22 GF/GP Tax Revenue

The General Fund/General Purpose tax revenue is projected to total about \$11.3 billion in FY 2021-22. Dollar amounts below are in millions.



General Fund Revenue Growth

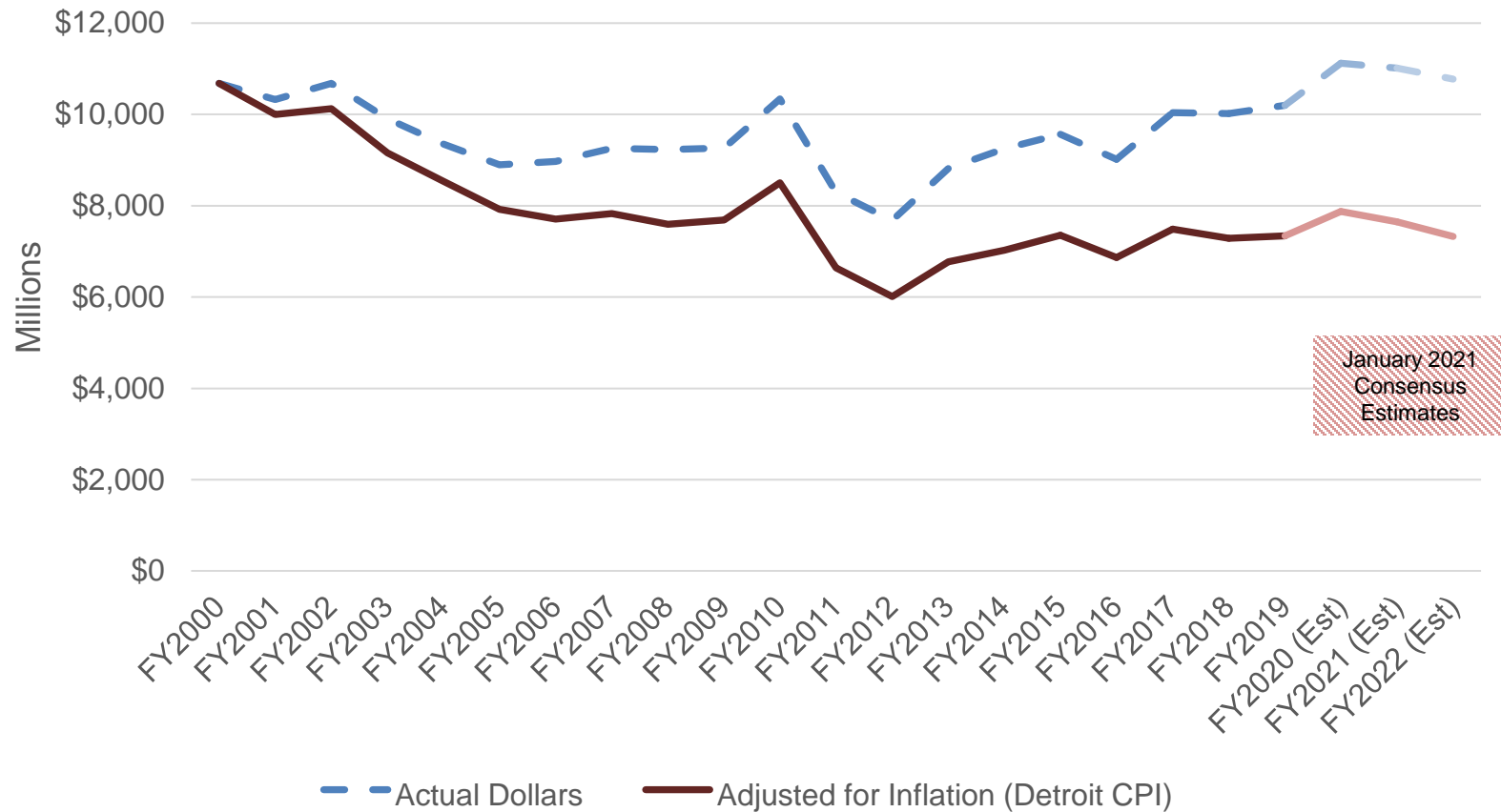


Source: Senate Fiscal Agency, May 2021 Consensus Revenue Estimates

Note: Diversions exclude annually determined transfers, such as GF appropriations to the School Aid Fund, as well as any tax increases/decreases adopted concurrent with enacted diversions. Assumes the School Aid Fund Individual Income Tax earmark is restored to the level prior to PA 588 of 2018.

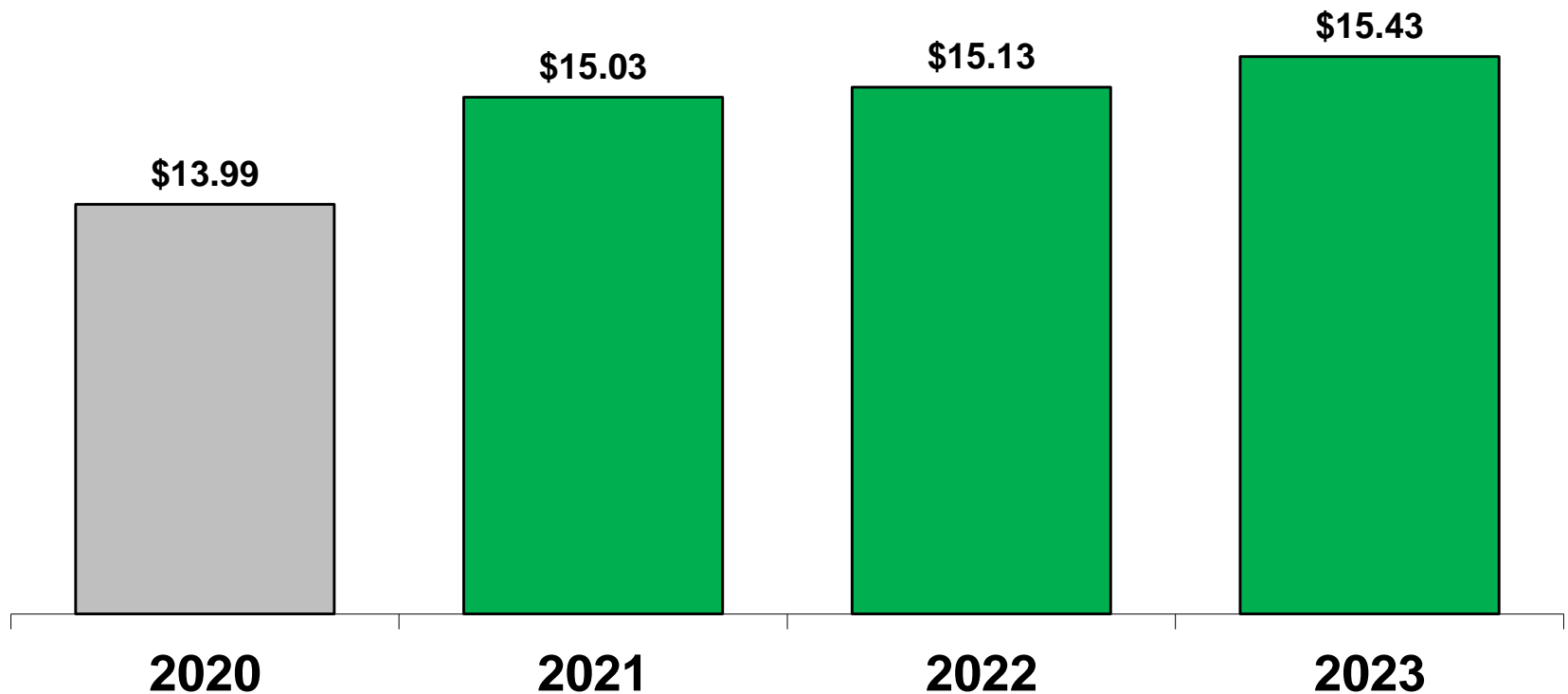
GF/GP Revenue

Nominal GF/GP revenue is expected to approach \$10.8 billion in FY 2021-22. When adjusted for inflation, however, GF/GP revenue is estimated to be 31.4% below the FY 1999-00 level.



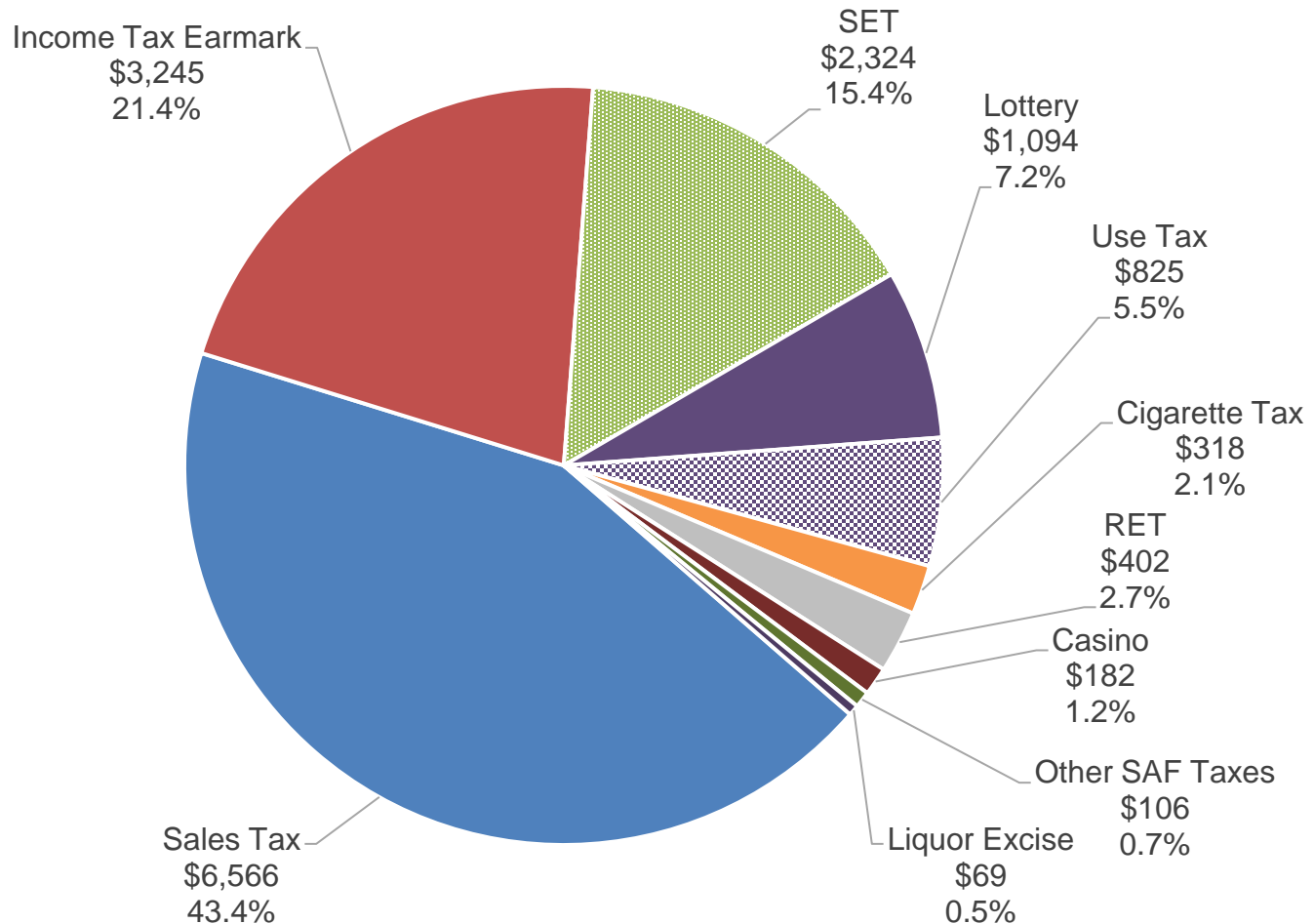
School Aid Fund Net Revenue Estimates

**Fiscal Year
Billions**



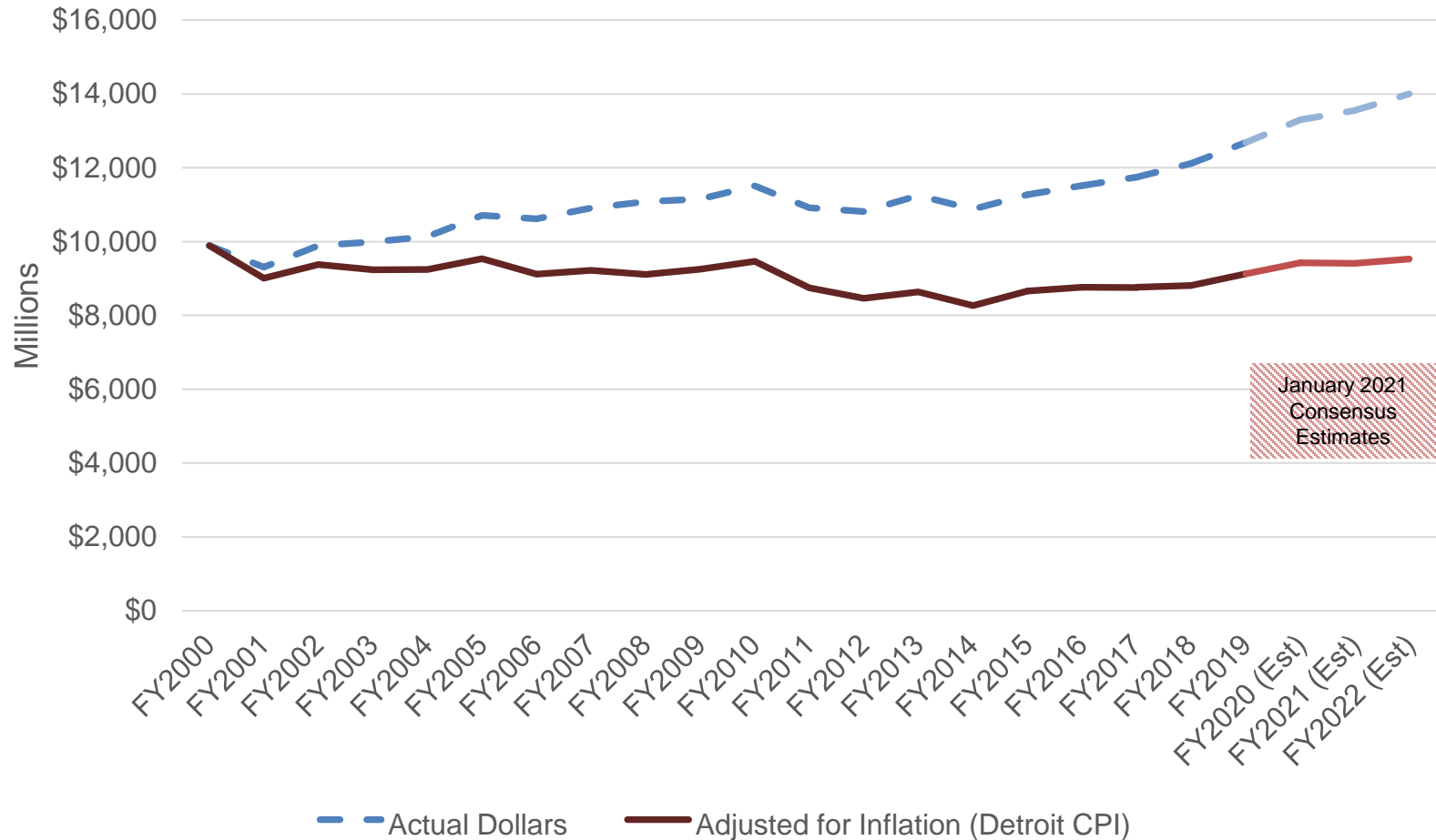
FY 2021-22 SAF Tax and Lottery Revenue

The School Aid Fund is projected to total approximately \$15.1 billion in FY 2021-22.
Dollar amounts below are in millions.



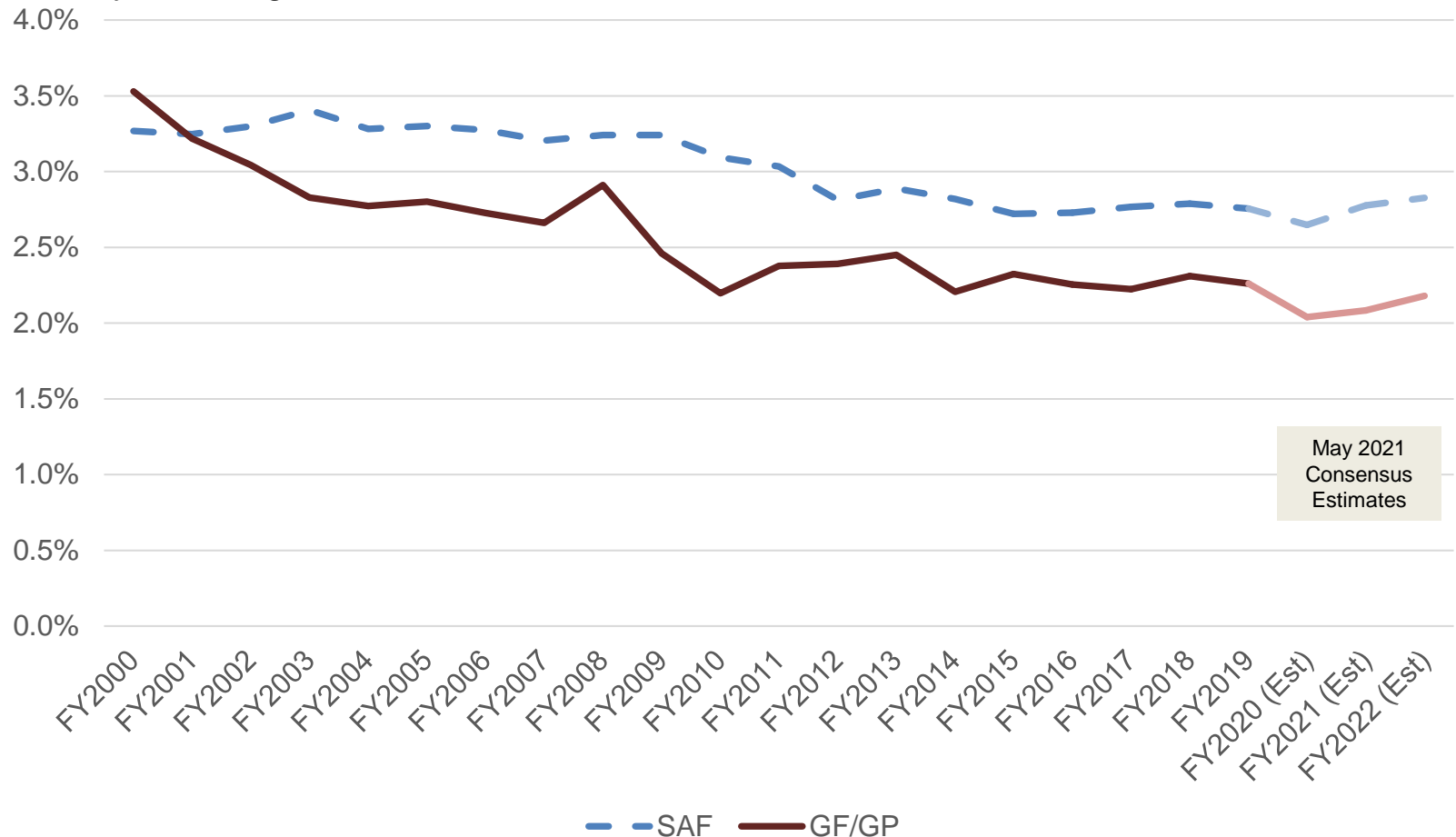
School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, SAF revenue has remained below the FY 1999-00 level.



SAF and GF/GP Revenue as a Percent of Michigan Personal Income

As a percent of Michigan personal income, both SAF and GF/GP revenue have been generally declining since FY 2000.



Forecast Risks

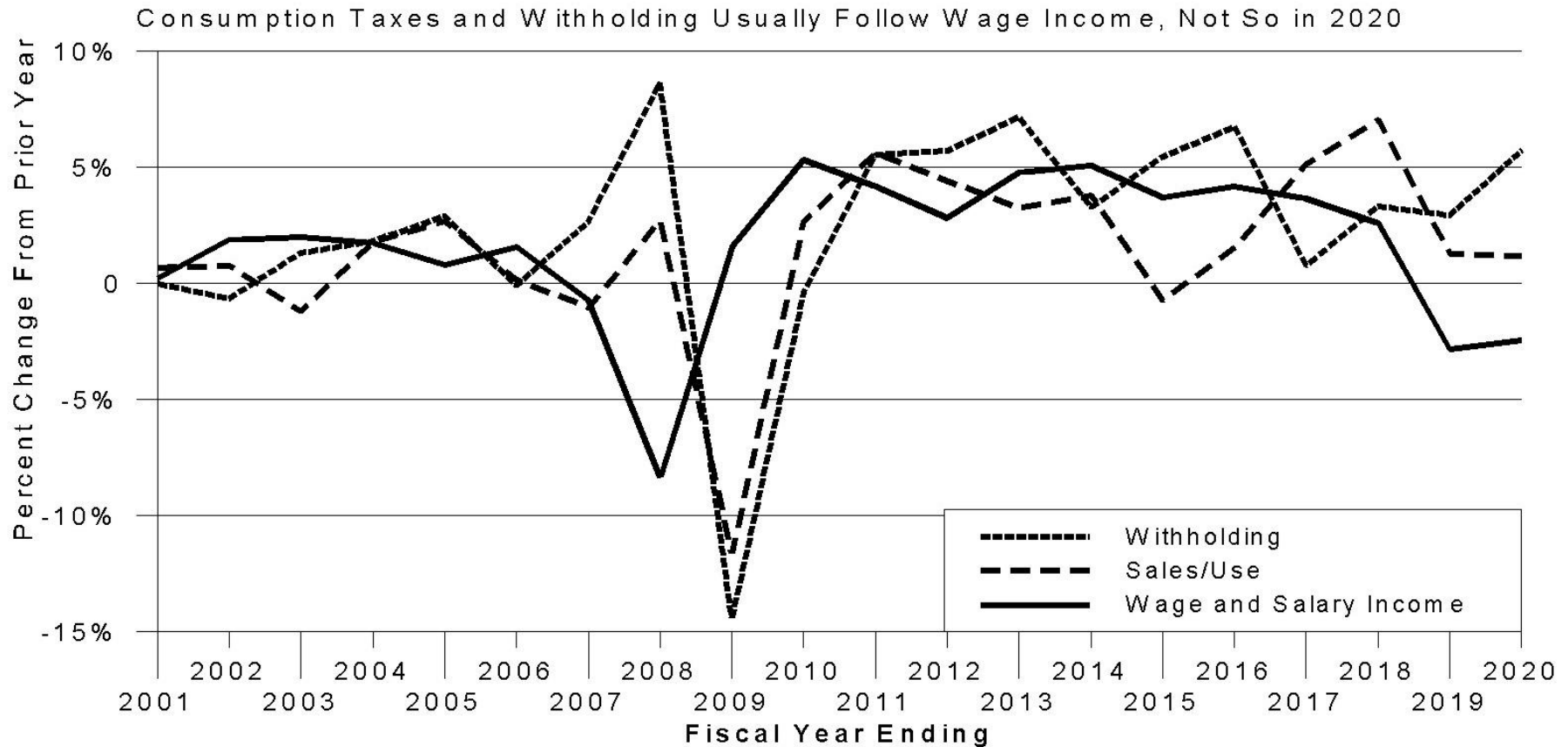
Economy

- Uncertainty from the path of the pandemic remains the largest risk
- The transition from expansionary fiscal policy to “normal” fiscal policy
- Forecast assumes current federal law for tax policy and infrastructure spending

Michigan Tax Revenue

- Large increases in FY 2020 taxable consumer spending creates uncertainty about FY 2021 and FY 2022
- Pent-up demand for goods and services is expected to be high, but shortages of raw materials and industry labor shortages may constrain currently predicted growth

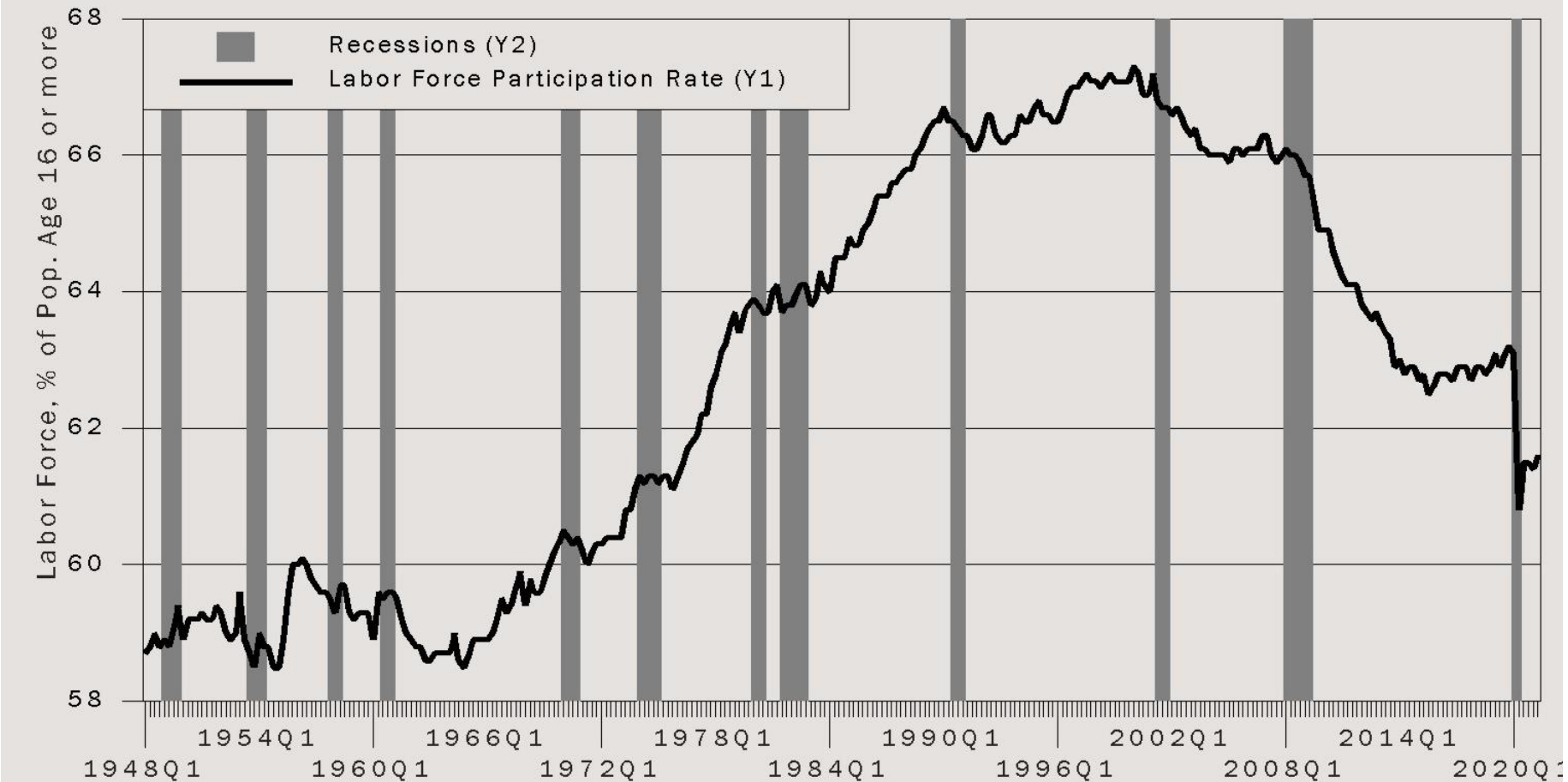
Relationships Between the Economy and Major Revenue



Source: U.S. Bureau of Economic Analysis, Michigan Senate Fiscal Agency

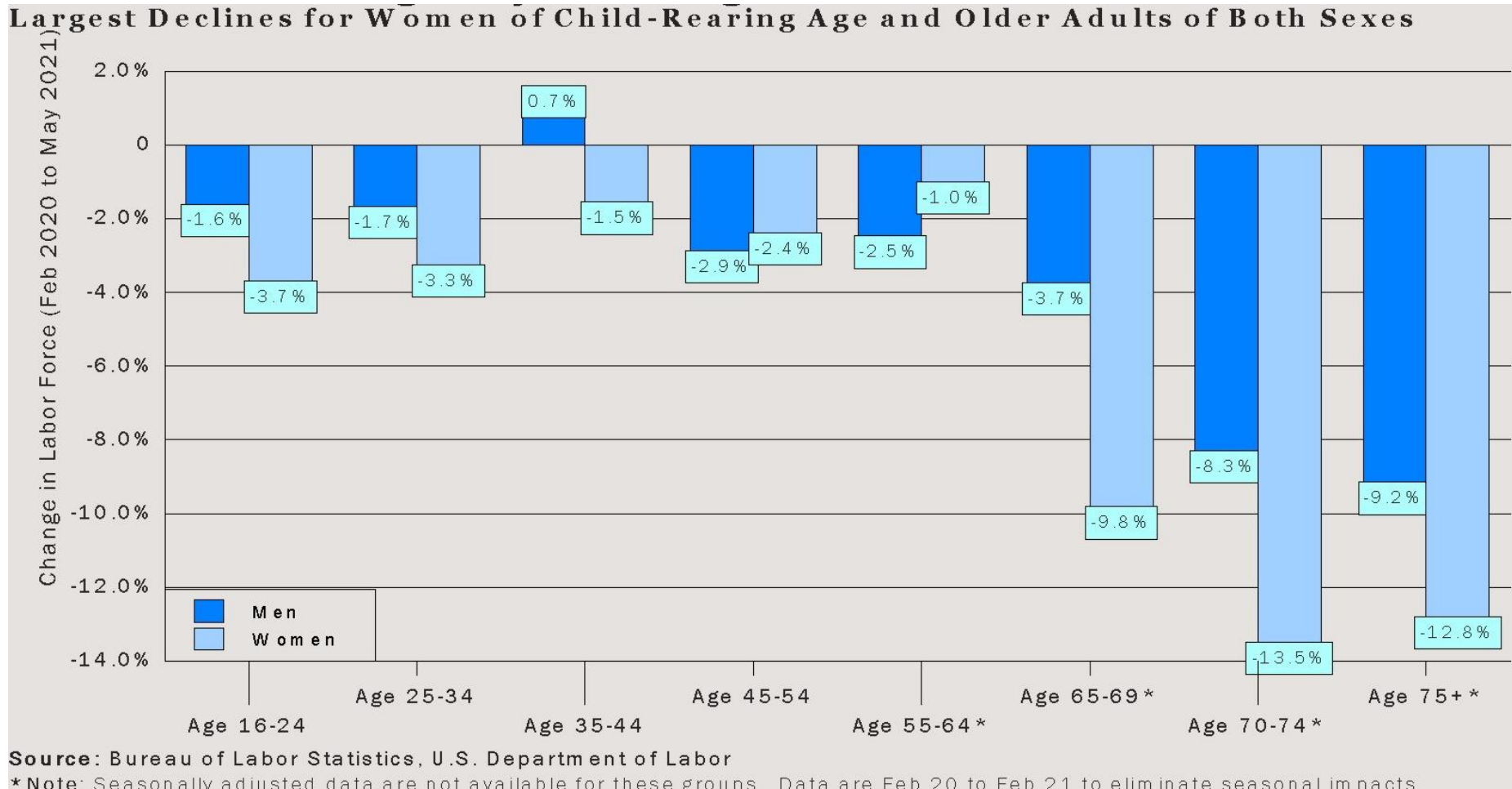
Recent Recessions See Workers Exit Labor Force

Labor Force Participation Ratcheted Down After Last Two Recessions



Source: Bureau of Labor Statistics, U.S. Dept. of Labor

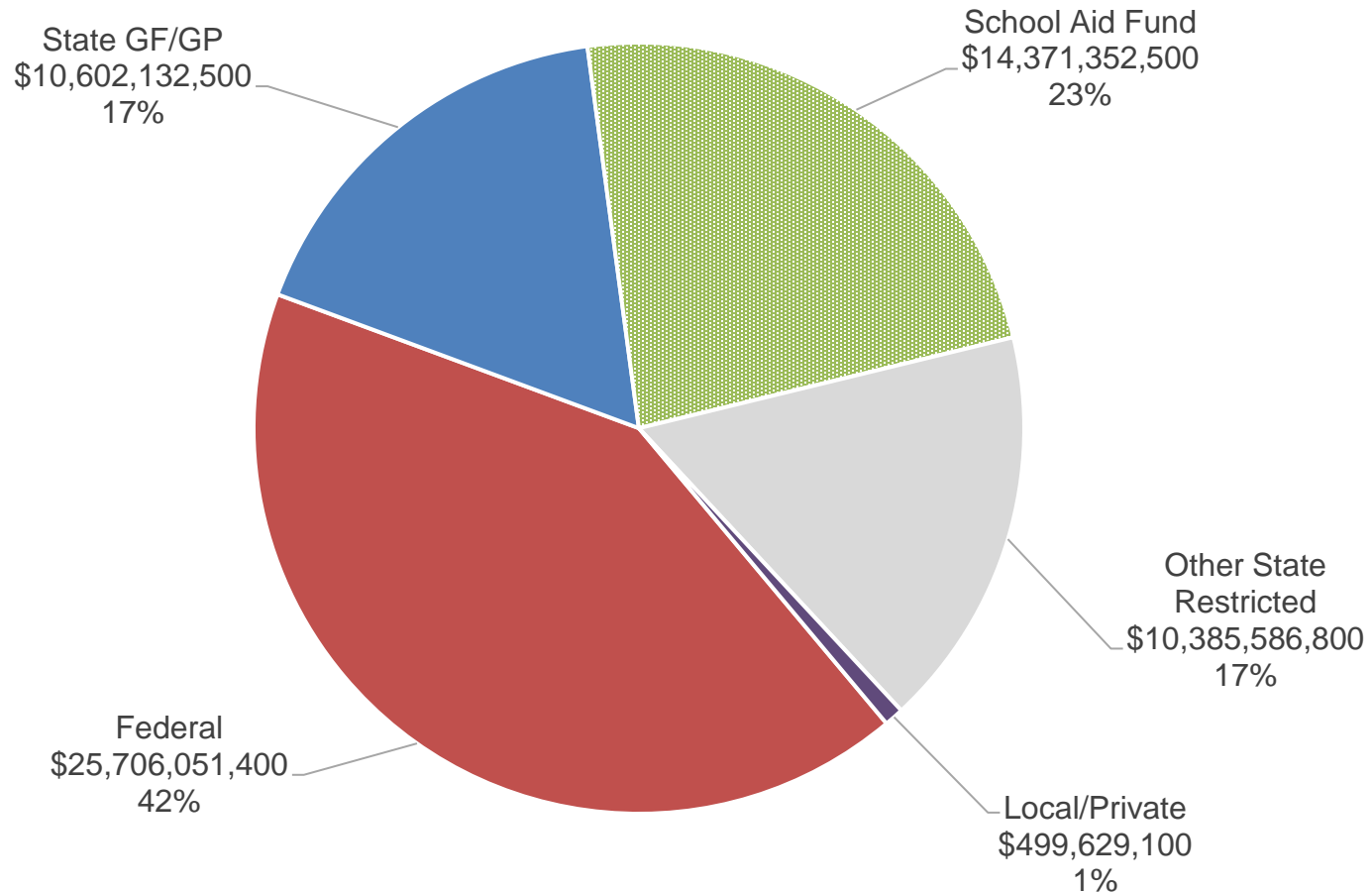
Labor Force Changes by Sex and Age



State Budget Overview

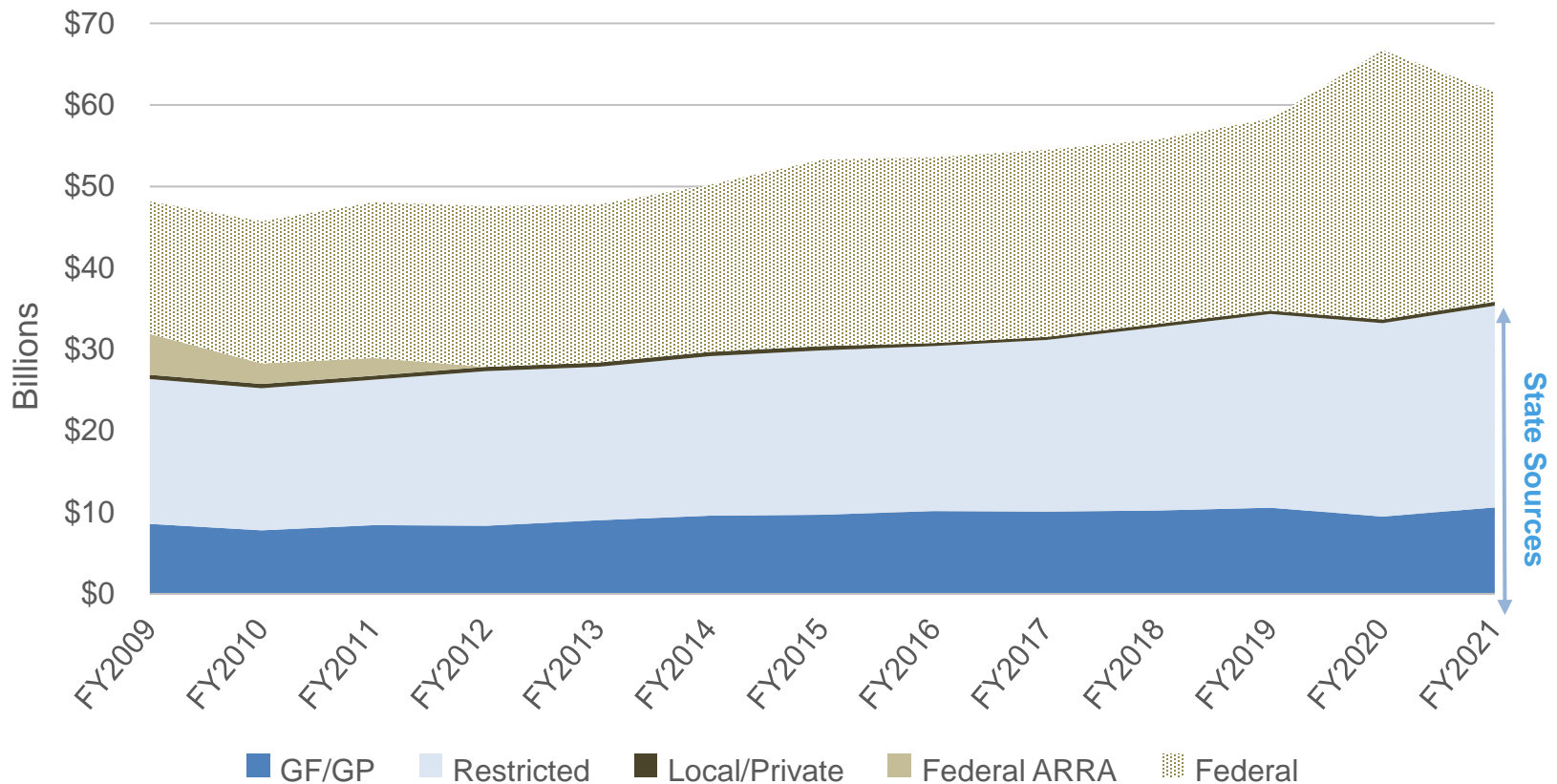
FY 2020-21 Fund Sources

Discretionary GF/GP funds make up 17% of the **\$61.6 billion** state budget (adjusted gross). Including the School Aid Fund, which must be used for K-12 or postsecondary education, brings the percentage up to 40%.



Total State Budget History

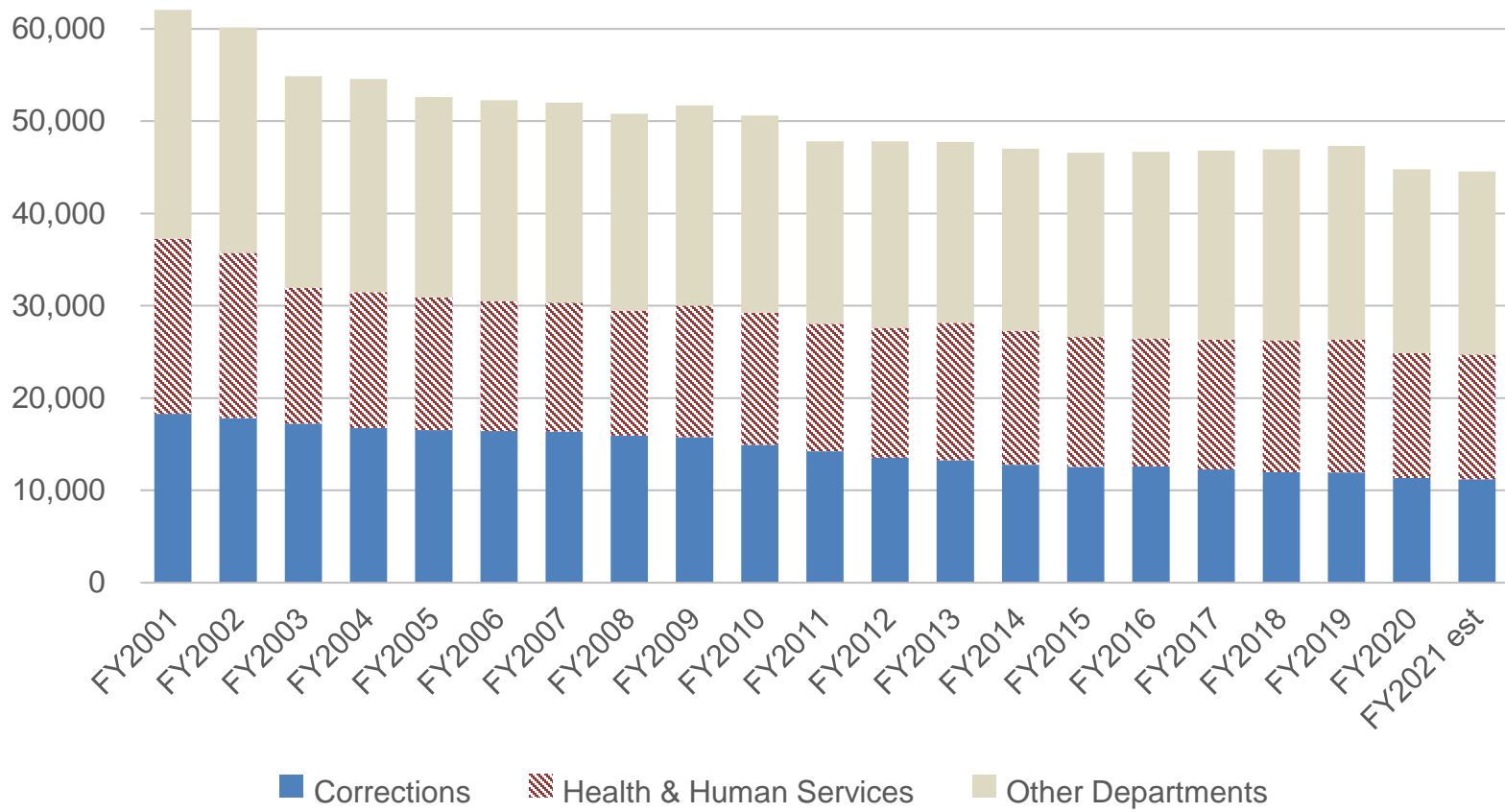
Total state budget growth of 19% since FY 2009 has been driven by both growth in federal and state funds for Medicaid expansion and federal stimulus funding in response to the coronavirus pandemic.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Total Classified State Employees

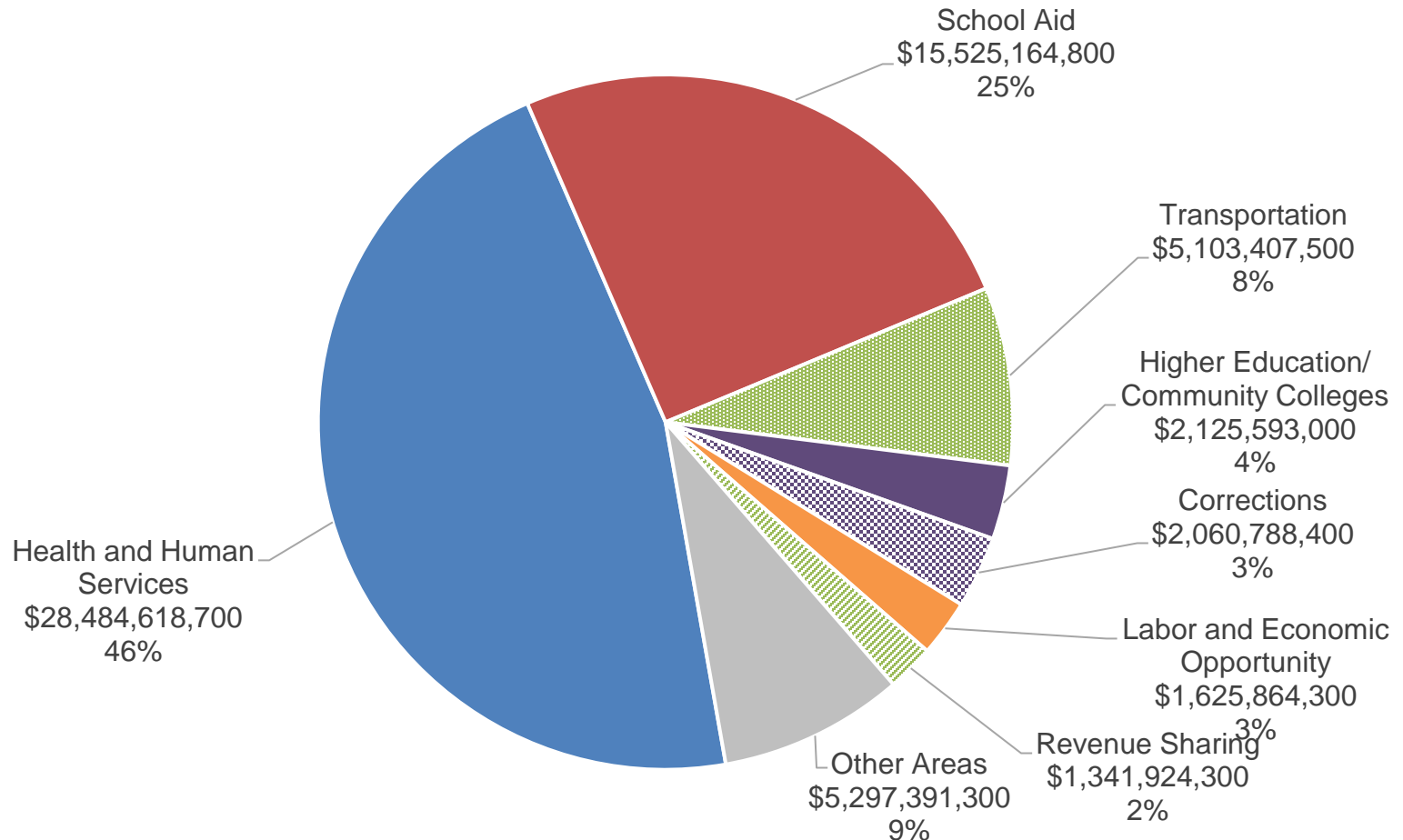
The total number of state employees has declined by about 17,500 (39%) since FY 2001.



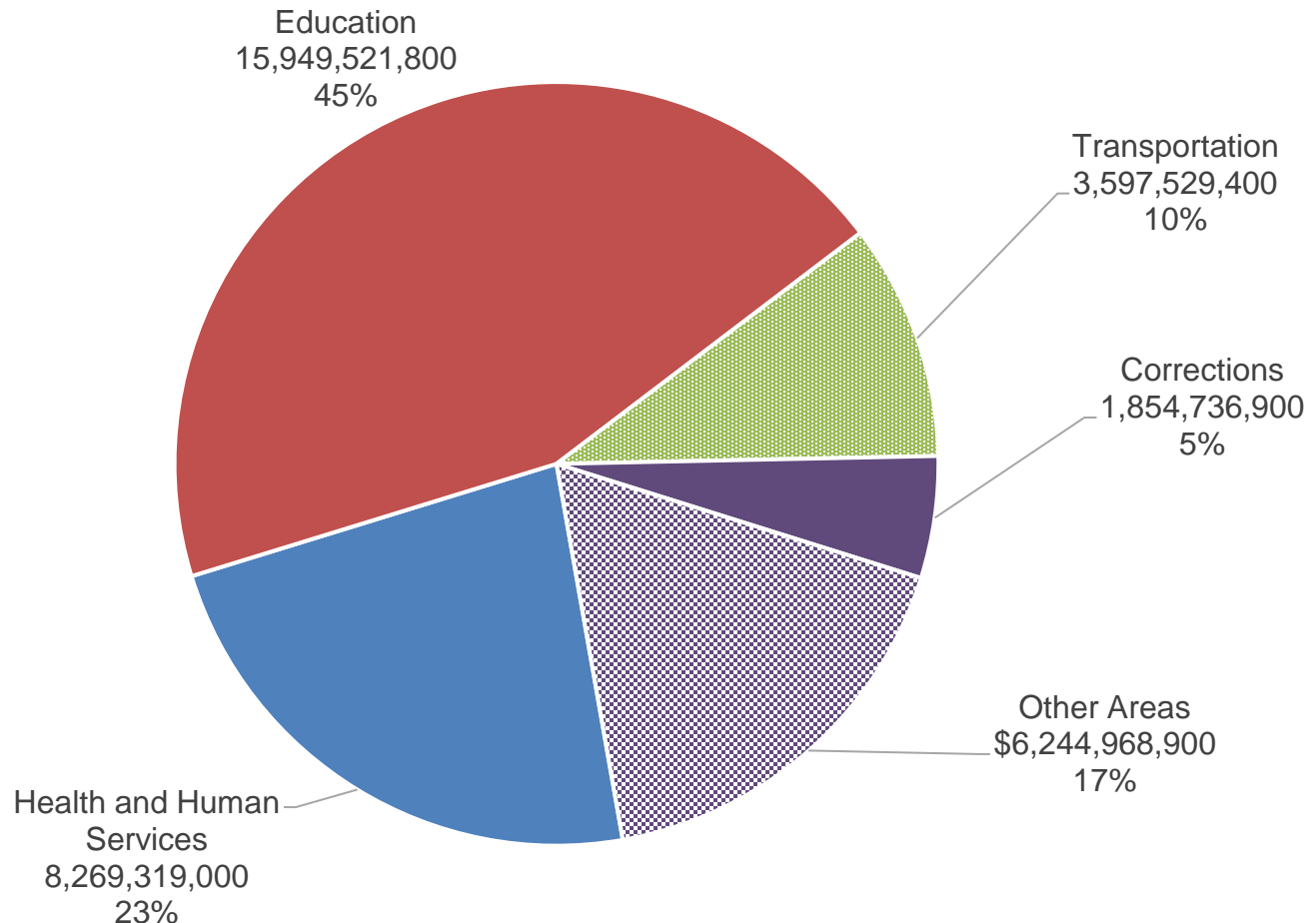
Source: Michigan Civil Service Commission, Annual Workforce Report

FY 2020-21 Adjusted Gross Appropriations

Large portions of the **\$61.6 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.

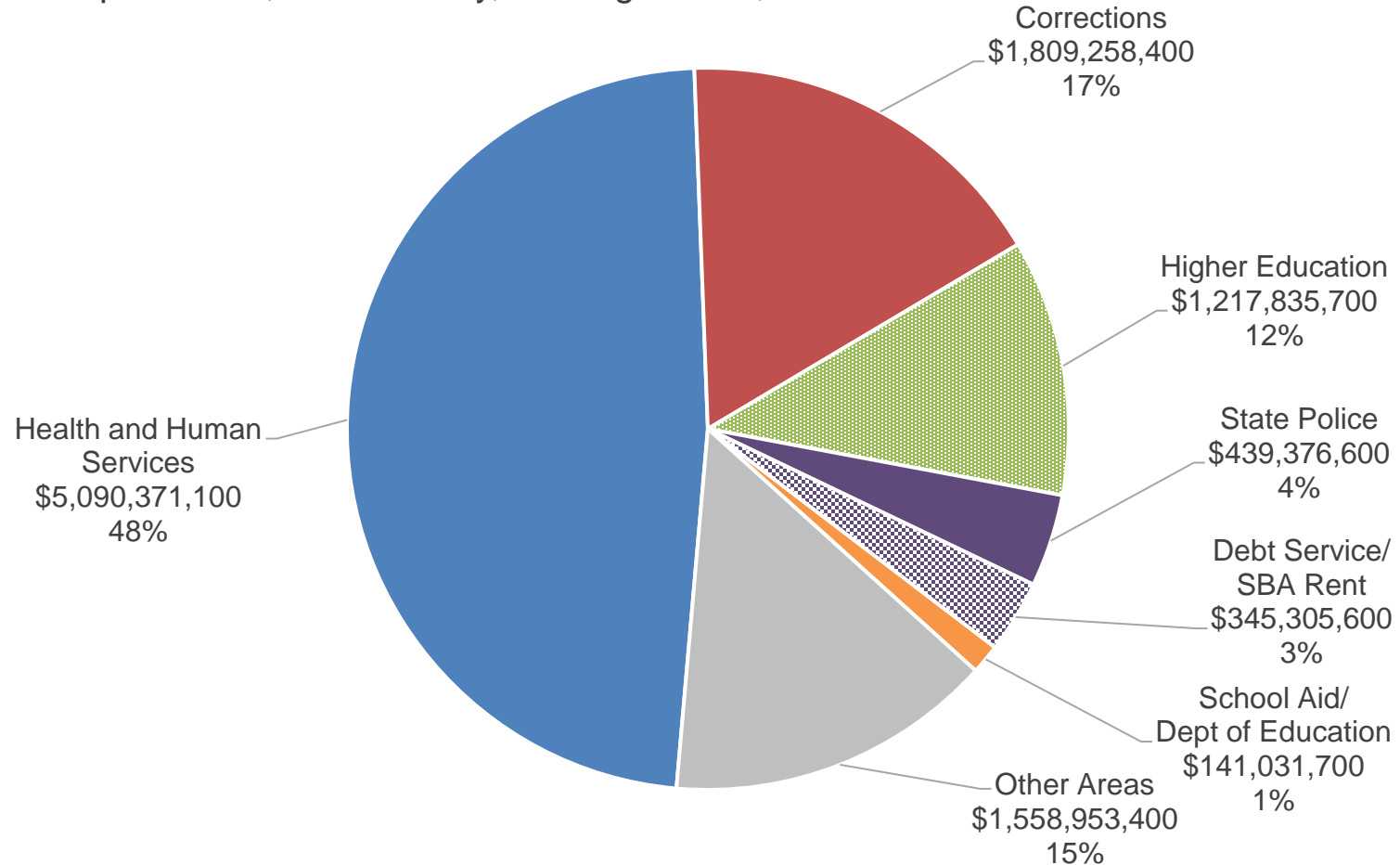


State Spending from State Sources FY 2020-21 Year-to-Date



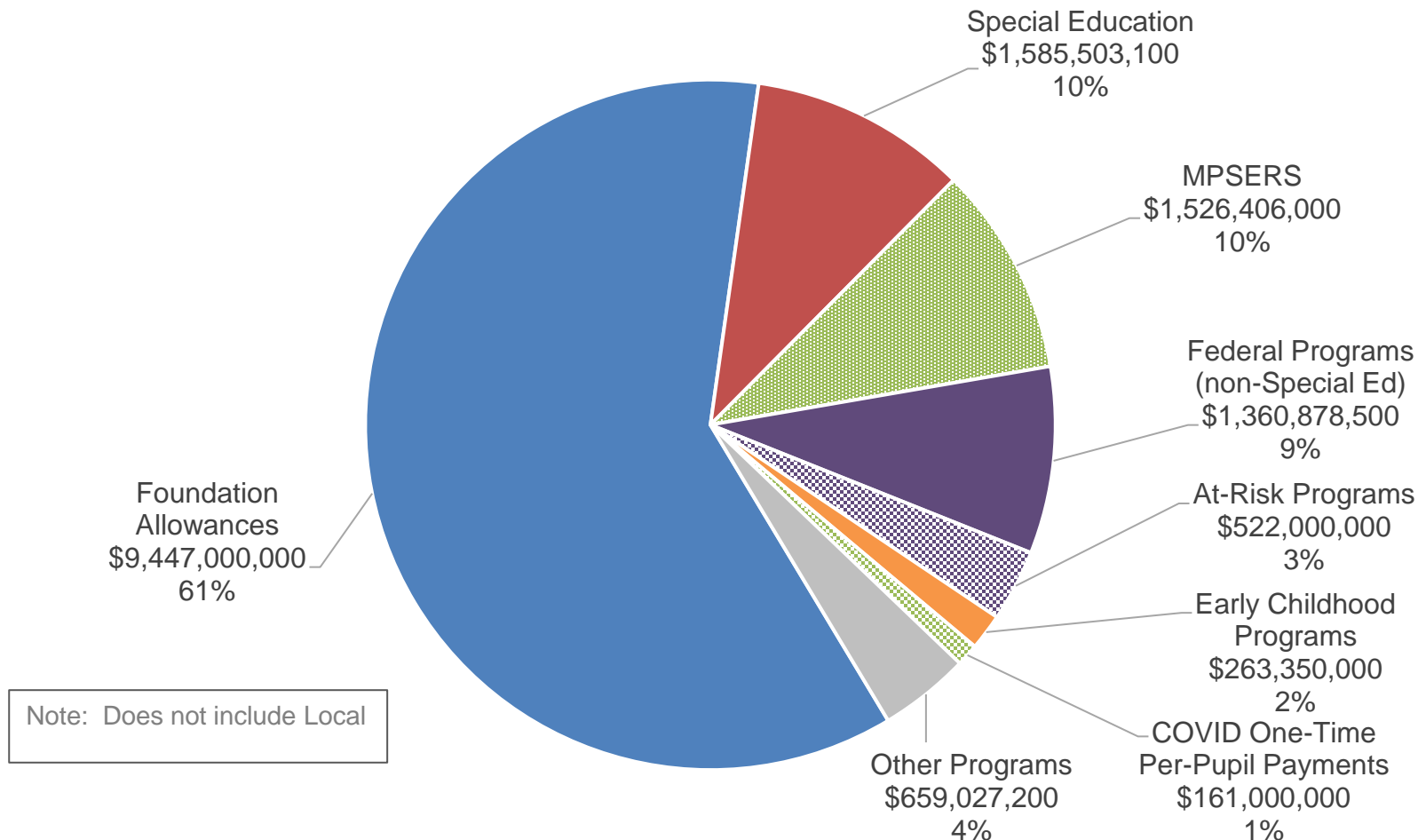
FY 2020-21 GF/GP Appropriations

85% of the **\$10.6 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 15% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



FY 2020-21 School Aid Appropriations

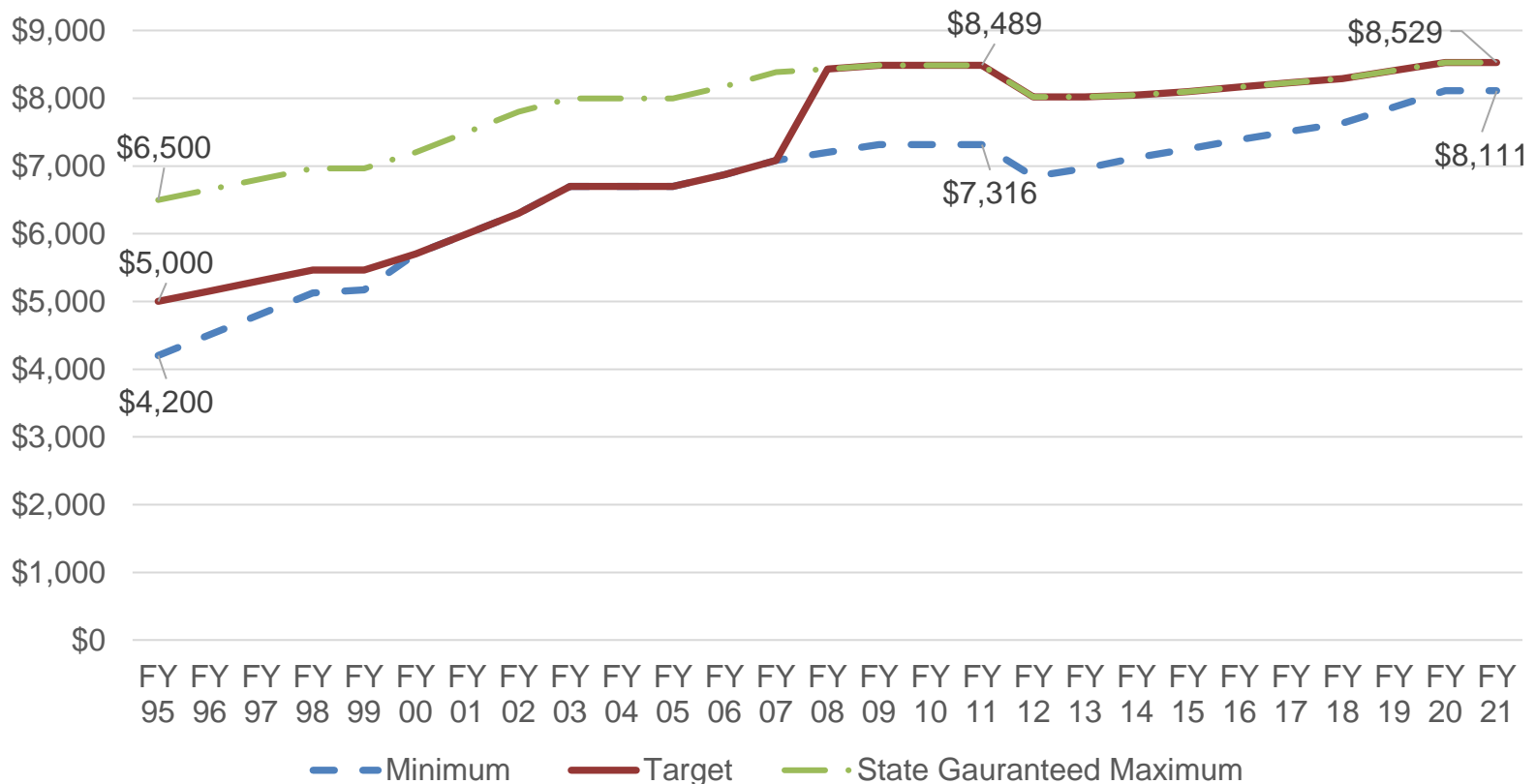
About two-thirds of the **\$15.5 billion** School Aid budget supports per pupil foundation allowances used for school district general operations.



Foundation Allowance History

Growth Since Proposal A

The FY 2020-21 foundation allowance for districts at the Minimum level is **\$795** above the previous FY 2010-11 peak. For districts at the State Maximum level, the foundation allowance surpassed the FY 2010-11 peak in FY 2019-20; it is **\$40** above the peak. The “equity gap” between the Minimum and Maximum is down to **\$418** per pupil.



Year-End Balance Estimates

General Fund/General Purpose(GF/GP) Revenue, Expenditures and Year-End Balance Estimates

(Million of Dollars)

| | SFA Estimates | | |
|--|--------------------------------|-------------------------------|-------------------------------|
| | FY 2020-21 Year-To- Date | FY 2021-22 SFA Estimate | FY 2022-23 SFA Estimate |
| Revenue: | | | |
| Beginning Balance | \$2,363.1 | \$2,848.7 | \$2,978.5 |
| Ongoing Revenue: | | | |
| Consensus Revenue Estimate (January 2021) | \$10,237.5 | \$10,897.1 | \$11,167.1 |
| Consensus Revenue Estimate Change | <u>1,039.3</u> | <u>776.0</u> | <u>1,103.6</u> |
| Consensus Revenue Estimate (May 2021) | \$11,276.8 | \$11,673.1 | \$12,270.7 |
| Other Revenue Adjustments: | | | |
| Revenue Sharing Payments | (\$490.1) | (\$490.5) | (\$490.5) |
| Sen. Passed Revenue Sharing increase | 0.0 | (9.8) | (9.8) |
| VMF II Voucher Purchase | <u>0.0</u> | <u>75.0</u> | <u>75.0</u> |
| Subtotal Ongoing Revenue | \$10,786.7 | \$11,247.8 | \$11,845.4 |
| Non-ongoing Revenue: | | | |
| Implementation of Recreational Marijuana | \$5.7 | 0.0 | 0.0 |
| Increase unassigned fund balance- inventory | 155.9 | 0.0 | 0.0 |
| GF-equivalent restricted revenue | 0.8 | 0.0 | 0.0 |
| Redirection of Restricted Revenue | <u>(2.6)</u> | <u>(2.6)</u> | <u>0.0</u> |
| Subtotal Non-Ongoing Revenue | \$159.8 | (\$2.6) | 0.0 |
| Total Estimated GF/GP Revenue | \$13,309.6 | \$14,093.9 | \$14,823.9 |
| Expenditures: | | | |
| Ongoing Appropriations: | | | |
| Initial/Senate-Passed | \$10,329.9 | \$11,079.3 | \$11,038.5 |
| Subtotal Ongoing Appropriations | \$10,329.9 | \$11,079.3 | \$11,038.5 |
| One-Time and Other Appropriations: | | | |
| Estimated One-Time Appropriations | \$272.3 | \$156.7 | \$0.0 |
| Consensus DHHS (May '21 adjusted for Sen.-passed) | 7.5 | 0.5 | 0.5 |
| Budget Stabilization Fund Deposit | 35.0 | 0.0 | 0.0 |
| Enacted Supplementals | 320.3 | 0.0 | 0.0 |
| Pending Senate Supplementals (SB36,37) | 77.2 | 0.0 | 0.0 |
| Est. GF/GP Offset for COVID-19 FMAP Adj. (Q2'21-Q1'22) | (631.1) | (220.9) | 0.0 |
| GF/GP for DPSCD Add'l Cost Exceeding CDTF \$72m/yr | 0.0 | 13.6 | 15.6 |
| Restricted revenue reduction | (13.0) | 0.0 | 0.0 |
| Defined calculations | 0.0 | 3.1 | 0.0 |
| State Building Authority rent | 0.0 | (14.7) | 0.0 |
| Flint Settlement Debt Service | 0.0 | 35.0 | 35.0 |
| Reimbursement of Federal Disallowed Psych DHS costs | 62.8 | 62.8 | 62.8 |
| Other CSB Adjustments | <u>0.0</u> | <u>0.0</u> | <u>70.0</u> |
| Subtotal One-Time and Other Appropriations | \$131.0 | \$36.1 | \$183.9 |
| Total Estimated GF/GP Expenditures | \$10,460.9 | \$11,115.4 | \$11,222.4 |
| PROJECTED YEAR-END GF/GP BALANCE | \$2,848.7 | \$2,978.5 | \$3,601.5 |

School Aid Fund (SAF)

Revenue, Expenditures and Year-End Balance Estimates

(Million of Dollars)

| | SFA Estimates | | |
|--|--------------------------------|-------------------------------|-------------------------------|
| | FY 2020-21 Year-To- Date | FY 2021-22 SFA Estimate | FY 2022-23 SFA Estimate |
| Revenue: | | | |
| Beginning Balance | \$1,177.4 | \$1,714.2 | \$2,256.0 |
| Ongoing Revenue: | | | |
| Consensus Revenue Estimate (January 2021) | \$14,030.2 | \$14,423.7 | \$14,730.4 |
| Consensus Revenue Estimate Change | <u>1,002.2</u> | <u>707.3</u> | <u>697.2</u> |
| Consensus Revenue Estimate (May 2021) | \$15,032.4 | \$15,131.0 | \$15,427.6 |
| Other Revenue Adjustments: | | | |
| General Fund/General Purpose Grant | \$51.0 | \$50.3 | \$50.3 |
| Community District Education Trust Fund | 79.8 | 72.0 | 72.0 |
| Federal Ongoing Aid | <u>1,806.9</u> | <u>1,822.5</u> | <u>1,822.5</u> |
| Subtotal Ongoing Revenue | \$16,970.0 | \$17,075.8 | \$17,372.4 |
| Non-Ongoing Revenue: | | | |
| Federal Stimulus (PA 3 of 2021 and pending SB 216) | \$2,267.8 | \$0.0 | \$0.0 |
| GF/GP for DPSCD Addtl Cost Exceeding CDTF \$72m/yr | 0.0 | 13.6 | 15.6 |
| Subtotal Non-Ongoing Revenue | <u>\$2,267.8</u> | <u>\$13.6</u> | <u>\$15.6</u> |
| Total Estimated School Aid Fund Revenue | \$20,415.3 | \$18,803.5 | \$19,644.0 |
| Expenditures: | | | |
| Ongoing Appropriations: | | | |
| Initial K-12/Senate-Passed Appropriations | \$15,430.2 | \$15,775.5 | \$15,751.5 |
| Consensus Cost Adjustments | (39.2) | (24.0) | (68.8) |
| Fund Community Colleges with SAF | 425.7 | 434.7 | 440.8 |
| Partially Fund Higher Education with SAF | <u>356.1</u> | <u>361.4</u> | <u>362.5</u> |
| Subtotal Ongoing Appropriations | \$16,172.7 | \$16,547.6 | \$16,486.0 |
| One-Time and Other Appropriations: | | | |
| Initial One-Time K-12 Appropriations | \$95.0 | \$0.0 | \$0.0 |
| Enacted Supplementals (PA 3 of 2021) | 1,009.2 | 0.0 | 0.0 |
| Pending Senate Supplemental (SB 216 and Fed IDEA, lunch) ... | <u>1,424.3</u> | <u>0.0</u> | <u>0.0</u> |
| Subtotal One-Time and Other Appropriations | <u>\$2,528.4</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total Estimated School Aid Fund Expenditures | \$18,701.2 | \$16,547.6 | \$16,486.0 |
| PROJECTED YEAR-END SCHOOL AID FUND BALANCE | \$1,714.2 | \$2,256.0 | \$3,157.9 |

State Appropriations from All Sources: How much is Discretionary?

(Actual Dollars)

| | |
|---|-------------------------|
| FY 2018-19 Initial Adjusted Gross Appropriation | \$55,862,443,800 |
| <u>Constitutional/Statutory Earmarking Requirements:</u> | |
| School Aid Fund (50% Constitutional) | (\$13,916,801,700) |
| Transportation (87% Constitutional) | (3,169,293,700) |
| Regulatory Restricted Revenue (Statutory) | (1,276,842,500) |
| Constitutional Revenue Sharing | (835,333,800) |
| Federal Funding Requirement | (22,417,975,000) |
| Local and Private Revenue | (386,253,200) |
| Debt Service Payments (GF/GP) | (365,550,600) |
| Caseload/Inmate Driven | (8,241,714,700) |
| Estimated Balance for Discretionary Spending | \$5,252,678,600 |
| <u>Estimated Balance for Discretionary Spending Includes:</u> | |
| GF/GP Funding for Community Colleges and Higher Education | \$1,046,017,900 |
| <u>Nonconstitutional</u> State Revenue Sharing Funding | 479,071,500 |
| State Restricted and GF/GP Funding for State Police | 608,151,500 |
| Medicaid Programs-includes GME and <u>MIChoice</u> waiver | 400,000,000 |
| Non-Medicaid Programs-includes CMH, Local Public Health, Aging | 320,000,000 |
| GF/GP Funding for K-12 School Aid-includes Foundation Allowance | 32,227,400 |
| GF/GP Funding for Judiciary | 196,079,500 |
| State Restricted and GF/GP Funding for Department of State | 225,152,700 |
| State Restricted Revenue for Various State Departments | 491,644,200 |
| GF/GP Funding for: Agriculture; Attorney General; Civil Rights; Education; Environmental Quality; Executive; Insurance & Financial Services; Legislature; Licensing & Regulatory Affairs; Military & Veterans Affairs; Natural Resources; Talent & Economic Development; Technology, Management, & Budget; and Treasury | 1,454,333,900 |
| Estimated Discretionary Spending | \$5,252,678,600 |

For more information



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