State of Michigan Budget...Better "Bad" News

August 27, 2020

In May 2020, Michigan was staring at a $3.1 billion budget hole in the FY 2020 budget. After a third Consensus Revenue Estimating Conference on Monday, August 24, the Fiscal Year (FY) 2020 hole is now estimated at approximately a $936 million loss, based on updated state revenue numbers.

In better news comparatively, the FY 2021 revenue hole is approximately $384 million in the General Fund with a $12.4 million hole in the School Aid Fund. But economists are now projecting that the combined FY 2021 and FY 2022 revenue shortage will create a combined $4.2 billion hole that is unlikely to be fixed without federal support.

What has changed from May to August? Roughly $43.3 billion in federal COVID-19 assistance through the Paycheck Protection Program, the $600-a-week unemployment boost and other federal aid. All of these have contributed to the state income tax and sales tax dollars collections.

And at the same time....

- Income tax payments that had been delayed from April 15 to July 15 came back $200 million better than previously expected.

- Automotive production recovered faster than expected.

- The impact of the federal CARES Act on revenue was underestimated.
Spending on taxable goods is higher than expected.

But concerns still exist - including a COVID-19 second wave, closed businesses, and hundreds of thousands of people out of work. What concerns State of Michigan Budget Director Chris Kolb most, however, is the budget hole in FY 2022 which is projected to be in the "billions of dollars" barring the addition of more federal revenue.

Overall, Kolb said that the combined economic impact is a $4.2 billion revenue loss for FY 2021 and FY 2022.