Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2008-09, FY 2009-10, AND FY 2010-11

December 22, 2009

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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.

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ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, is predicted to contract 2.6% in 2009, before growing 1.9% in 2010 and 2.4% in 2011. Light vehicle sales are forecasted to decline to 10.3 million units in 2009 and then rise to 11.0 million units in 2010 and 11.9 million units in 2011. The unemployment rate is expected to increase to 9.4% in 2009 and continue rising, to 10.5% in 2010 before falling to 10.2% in 2011, while the consumer price index is estimated to decline by 0.3% in 2009, before growing 2.6% in 2010 and 1.9% in 2011.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to contract 3.0% in 2009, followed by a decline of 1.9% in 2010 before remaining flat in 2011. Wage and salary employment is predicted to decline 6.8% during 2009, followed by declines of 2.6% in 2010 and 1.3% in 2011.

REVENUE FORECAST

In FY 2008-09, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled $18.28 billion, down 12.4% from FY 2007-08. Most of the decrease reflects the extremely weak economy during the fiscal year, although several new tax credits exacerbated the decline. General Fund/General Purpose revenue fell 21.2% to $7.37 billion and SAF revenue declined 5.3% to $10.91 billion.

In FY 2009-10, while the economy will fare better than during FY 2008-09, it is expected to remain weak and exert a negative impact on revenue. General Fund/General Purpose and SAF revenue will total an estimated $17.28 billion, down 5.5% from FY 2008-09. This revised estimate is down $236.1 million from the May 2009 consensus estimate. General Fund/General Purpose revenue is expected to drop 7.7% from the FY 2008-09 level to $6.81 billion and SAF revenue is projected to decline 4.0% to $10.47 billion.

In FY 2010-11, GF/GP and SAF revenue will total an estimated $17.17 billion. This initial estimate for FY 2010-11 is 0.6% less than the revised estimate for FY 2009-10. General Fund/General Purpose revenue will total an estimated $6.64 billion, representing a decline of 2.4% from FY 2009-10, and SAF revenue will total an estimated $10.53 billion, which is up 0.6%.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 15, 2009, the Senate Fiscal Agency (SFA) is estimating that the FY 2008-09 GF/GP budget will close the fiscal year with a $181.8 million balance. The FY 2008-09 SAF budget will close the fiscal year with a $213.2 million balance.

A comparison of the SFA's FY 2009-10 revenue estimates with enacted and projected appropriations leads to a $15.3 million GF/GP budget balance. The SFA is now estimating that the FY 2009-10 SAF budget is in balance by $55.5 million.

A look ahead at the issues facing the Governor and the Legislature regarding the FY 2010-11 State budget leads to the conclusion that, absent significant increases in State taxes, very significant additional appropriation reductions will have to be made in both the GF/GP and SAF budgets. The debate between appropriation reductions and tax increases is likely to be the major issue surrounding the FY 2010-11 State budget.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate
Real Gross Domestic Product (% change)	0.4%	(2.6)%	1.9%	2.4%
U.S. Consumer Price Index (% change)	3.8%	(0.3)%	2.6%	1.9%
Light Motor Vehicle Sales (millions of units)	13.2	10.3	11.0	11.9
U.S. Unemployment Rate (%)	5.8%	9.4%	10.5%	10.2%
Real Michigan Personal Income (% change)	(0.5)%	(3.0)%	(1.9)%	0.0%
Michigan Wage & Salary Employment (% change)	(2.6)%	(6.8)%	(2.6)%	(1.3)%

REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF)
(Millions of Dollars)

	FY 2009-10 Estimate			FY 2019-11 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose	$6,062.5	$743.1	$6,805.6	$6,049.0	$594.0	$6,642.9
% Change	(4.2)%	---	(7.7)%	(0.2)%	---	(2.4)%
School Aid Fund	$10,459.3	$11.9	$10,471.3	$10,531.6	$(1.5)	$10,530.1
% Change	(4.3)%	---	(4.0)%	0.7%	---	0.6%
Total GF/GP and SAF	$16,521.8	$755.1	$17,276.9	$16,580.6	$592.5	$17,172.9
% Change	(4.3)%	---	(5.5)%	0.4%	---	(0.6)%

	FY 2009-10 Estimate	FY 2010-11 Estimate
Revenue Limit - Under (Over):	$9,131.0	$8,089.6

YEAR-END BALANCE ESTIMATES
(Fiscal Year, Millions of Dollars)

	FY 2008-09 Estimate	FY 2009-10 Estimate
General Fund/General Purpose	$181.8	$15.3
School Aid Fund	213.2	55.5
Budget Stabilization Fund	2.4	2.5

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's latest economic forecast for 2010 and 2011, as well as a summary of recent economic activity and estimates for the rest of 2009.

RECENT U.S. ECONOMIC HIGHLIGHTS

The National Bureau of Economic Research, the organization traditionally regarded as the authority for dating recessions, announced on November 28, 2008, that the U.S. economy had been in recession since December 2007. While debate remains on when the economy will (or did) turn around, virtually every economic indicator identifies the recession of 2008 and 2009 as the most severe economic contraction in more than 70 years (Figure 1). Light vehicle sales declined from an annual rate of 16.0 million units in December 2007 to 9.1 million units in February 2009. Preliminary data for 2009 indicate that 2009 ranked as the worst year of vehicle sales in modern records, which start in 1976 -- not surprising given that three of the four worst months on record for vehicle sales occurred during February, April, and September 2009. By April 2009, housing starts had fallen 78.9% from their January 2006 peak, to the lowest level since current records started in 1959 (Figure 2). United States wage and salary employment peaked in December 2007, at 138.1 million workers, and as of November 2009 had declined for 23 consecutive months (the longest string of consecutive declines since records began in 1939), and had fallen by nearly 7.2 million jobs, the largest decline on record. Consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, fell 33.7% between September 2007 and November 2008 and remained at historically low levels throughout much of 2009, with many components of the index exhibiting the lowest values ever recorded. Retail sales have declined in 14 of the last 24 months, and year-to-date sales through November 2009 were down 7.8%. Details for selected economic indicators are presented in Table 1 and Table 2.

Michigan's economy has spent the last nine years in recession (Figure 3), largely driven by the same fundamental restructuring as that affecting manufacturing globally. Manufacturing has experienced a significant surge in productivity, as the economy has become more competitive. For Michigan, the effect of productivity improvements have been substantial, particularly given that there was more room for improvements in the durable goods and motor vehicle manufacturing sectors to be implemented than in many other sectors, that Michigan is very disproportionately concentrated in motor vehicle manufacturing, and that the motor vehicle industries have become one of the most competitive sectors of the economy. Those factors have been complicated for Michigan as General Motors, Ford, and Chrysler also have lost market share, even as they have made productivity gains, leaving Michigan to lose employment from both productivity and reduced demand. The rapid and drastic decline in automobile sales in late 2008 and during 2009 has exacerbated Michigan's economic difficulties, as sectors such as construction, real estate, and finance have collapsed.

FORECAST SUMMARY

The U.S. economy is expected to exhibit the most severe contraction since 1946 (caused by the demobilization of wartime production) in 2009 before exhibiting relatively weak growth in 2010 and 2011, while the Michigan economy will remain in recession over the forecast period. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted Gross Domestic Product (GDP) is projected to fall 2.6% in 2009 before growing 1.9% in 2010 and 2.4% in 2011. The contraction during 2009 primarily reflects declines in consumption, including substantially lower light vehicle sales, and weak residential and business investment. The unemployment rate is expected to increase, from 5.8% during 2008 to 9.4% in 2009, and 10.5% in 2010, before declining to 10.2% in 2011.

Figure 1

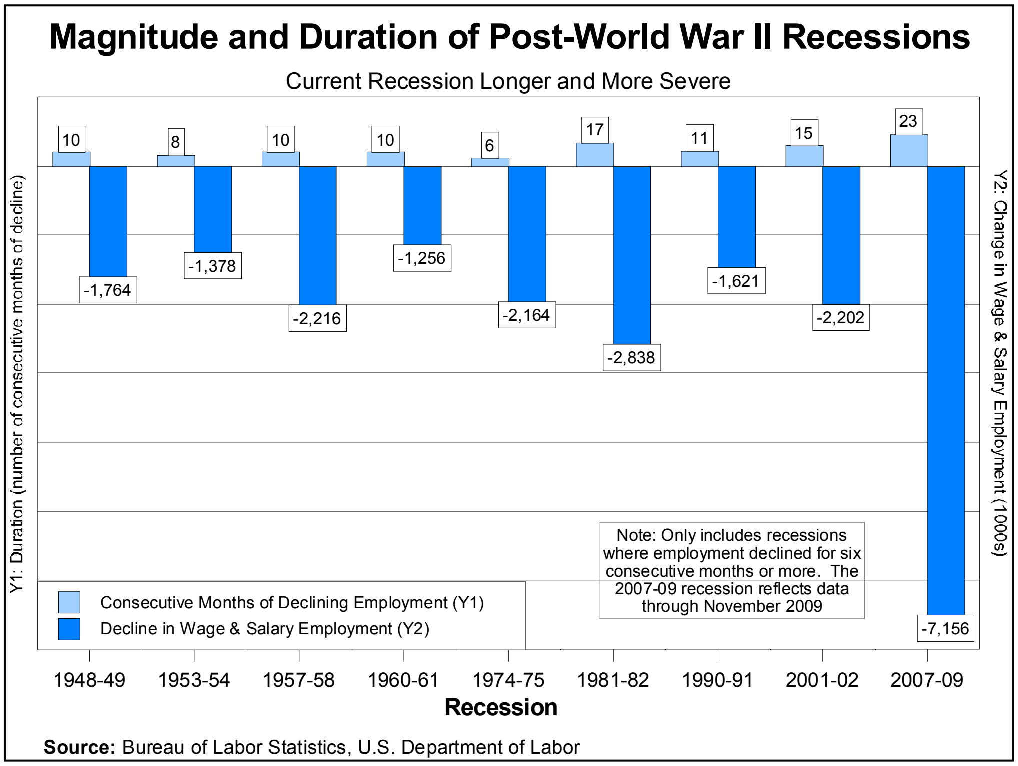


Figure 2

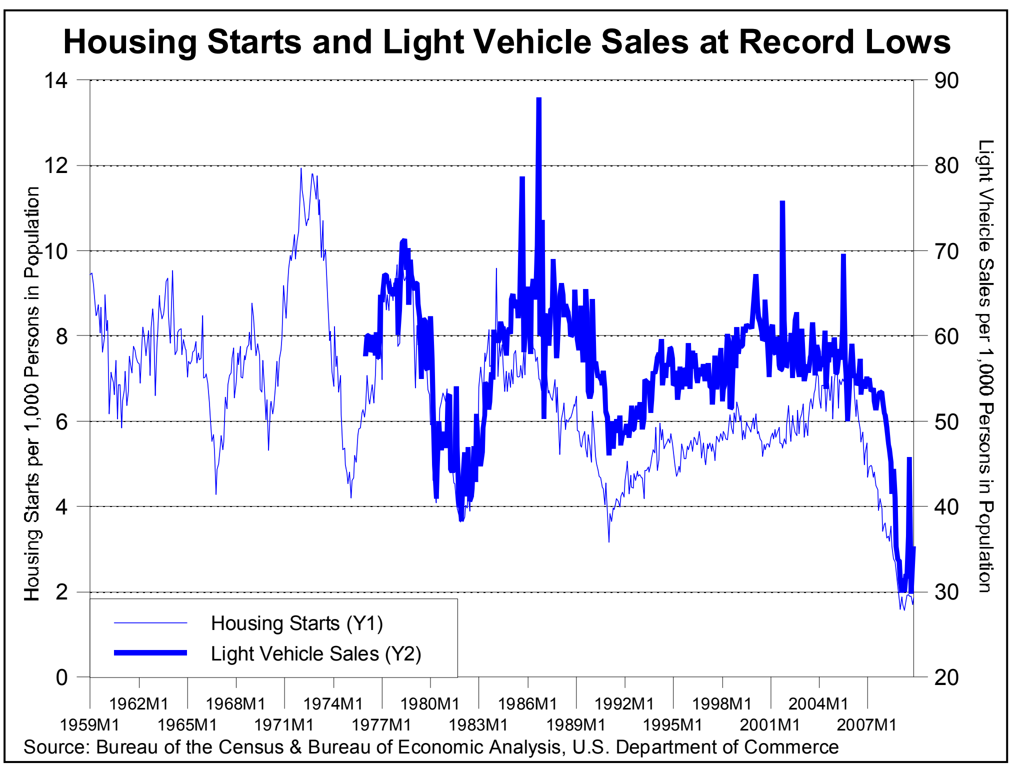


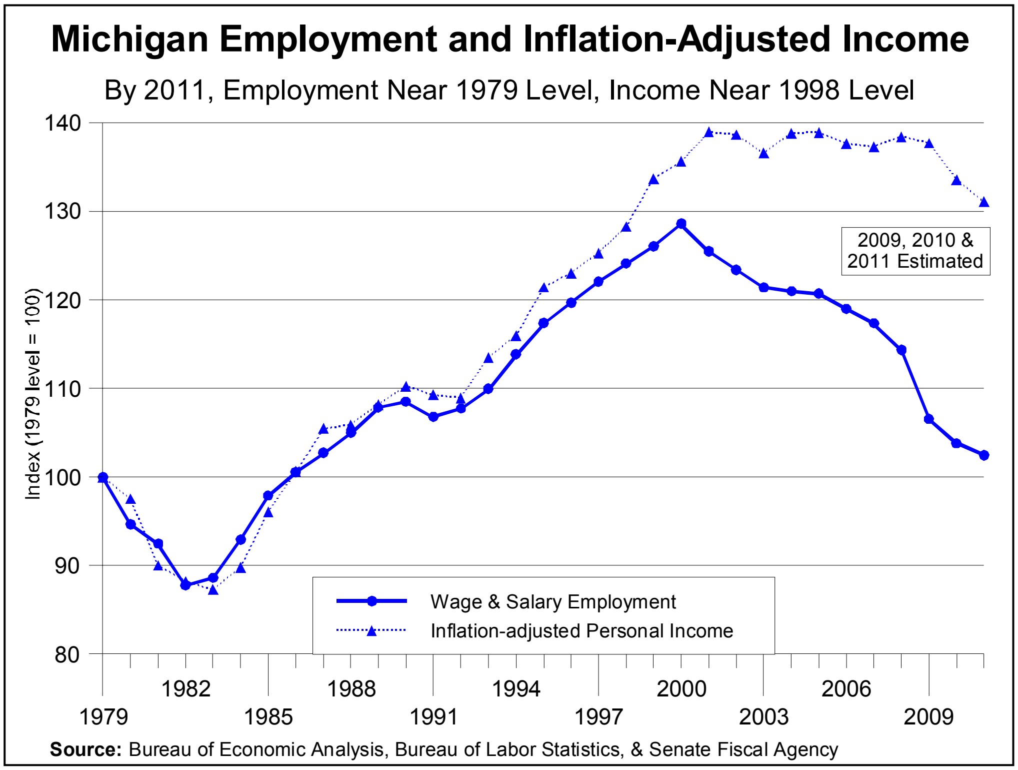
Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2007 Actual	2008 Actual	2009 Est.	2010 Est.	2011 Est.
United States					
Nominal GDP					
(year-to-year growth)	5.1%	2.6%	-1.4%	2.6%	3.7%
Inflation-Adjusted GDP					
(year-to-year growth)	2.1%	0.4%	-2.6%	1.9%	2.4%
Unemployment Rate	4.6%	5.8%	9.4%	10.5%	10.2%
Inflation					
Consumer Price Index					
(year-to-year growth)	2.8%	3.8%	-0.3%	2.6%	1.9%
GDP Implicit Price Deflator					
(year-to-year growth)	2.9%	2.1%	1.2%	0.7%	1.2%
Interest Rates					
90-day Treasury bill	4.36%	1.37%	0.07%	0.19%	0.84%
Corporate Aaa bond	5.56%	5.63%	5.25%	4.87%	4.74%
Federal funds rate	5.02%	1.92%	0.16%	0.19%	0.79%
Light Motor Vehicle Sales					
(millions of units)	16.1	13.2	10.3	11.0	11.9
Auto	7.6	6.8	5.4	5.7	6.2
Truck	8.5	6.4	4.9	5.3	5.7
Import Share	23.3%	25.6%	27.3%	25.9%	25.8%
Michigan					
Personal Income (millions)	$343,585	$349,612	$337,258	$338,696	$343,793
Year-to-year growth	2.6%	1.8%	-3.5%	0.4%	1.5%
Inflation-Adjusted Personal					
Income (year-to-year growth)	0.8%	-0.5%	-3.0%	-1.9%	-0.0%
Wage & Salary Income					
(millions)	$187,179	$186,197	$169,053	$165,126	$164,812
Year-to-year growth	1.6%	-0.5%	-9.2%	-2.3%	-0.2%
Detroit Consumer Price Index					
(year-to-year growth)	1.8%	2.3%	-0.6%	2.3%	1.5%
Wage & Salary Employment					
(thousands)	4,268.4	4,159.2	3,874.8	3,774.6	3,724.8
Year-to-year growth	-1.4%	-2.6%	-6.8%	-2.6%	-1.3%
Unemployment Rate	7.1%	8.4%	14.2%	16.1%	15.8%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2007 Actual	**2008 Actual**	**2009 Estimate**	**2010 Estimate**	**2011 Estimate**
Gross Domestic Product					
(billions of dollars)	$14,077.6	$14,441.4	$14,236.7	$14,603.8	$15,146.5
Year-to-year growth	5.1%	2.6%	-1.4%	2.6%	3.7%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2000 dollars)	$13,254.1	$13,312.2	$12,971.0	$13,214.1	$13,536.2
Year-to-year growth	2.1%	0.4%	-2.6%	1.9%	2.4%
Consumption					
(billions of 2000 dollars)	$9,313.9	$9,290.9	$9,228.7	$9,321.3	$9,423.7
Year-to-year growth	2.6%	-0.2%	-0.7%	1.0%	1.1%
Business Fixed Investment					
(billions of 2000 dollars)	$1,544.3	$1,569.7	$1,287.2	$1,273.0	$1,372.8
Year-to-year growth	6.2%	1.6%	-18.0%	-1.1%	7.8%
Change in Business Inventories					
(billions of 2000 dollars)	$19.5	($25.9)	($120.0)	$8.3	$33.0
Residential Investment					
(billions of 2000 dollars)	$585.0	$451.1	$361.3	$392.3	$490.1
Year-to-year growth	-18.5%	-22.9%	-19.9%	8.6%	24.9%
Government Spending					
(billions of 2000 dollars)	$2,443.1	$2,518.1	$2,553.3	$2,571.0	$2,571.0
Year-to-year growth	1.7%	3.1%	1.4%	0.7%	0.0%
Net Exports					
(billions of 2000 dollars)	($647.7)	($494.2)	($358.1)	($354.8)	($336.4)
Exports (billions of 2000 dollars)	$1,546.1	$1,629.3	$1,456.6	$1,569.8	$1,700.5
Imports (billions of 2000 dollars)	$2,193.8	$2,123.5	$1,814.7	$1,924.7	$2,036.9
Personal Income					
(year-to-year growth)	5.5%	2.9%	-2.5%	1.3%	3.0%
Adjusted for Inflation	2.6%	-0.9%	-2.2%	-1.3%	1.0%
Wage & Salary Income					
(year-to-year growth)	5.6%	2.1%	-4.7%	-0.2%	2.7%
Personal Savings Rate	1.7%	2.7%	3.5%	3.5%	2.2%
Capacity Utilization Rate	80.6%	77.6%	69.6%	73.0%	76.2%
Housing Starts (millions of units)	1.355	0.906	0.615	0.730	1.163
Conventional Mortgage Rates	6.3%	6.0%	4.9%	4.9%	4.9%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($236.5)	($642.6)	($1,264.1)	($1,793.7)	($1,557.7)

Figure 3



In Michigan, both job growth and personal income growth are expected to remain below the national average and the historical State average and to spend the forecast period in recession (Figures 3, 4 and 5). Inflation-adjusted personal income is projected to fall 3.0% in 2009, followed by a drop of 1.9% in 2010 and then is expected to remain at that level in 2011. The rate of employment declines should begin tapering during 2010, after falling an expected 6.8% during 2009, although employment is still forecast to decline 2.6%. Employment losses will be smaller in early 2011 and by the end of the year may exhibit some consistent gains, although on an annual basis employment in 2011 is expected to fall 1.3%. The declines in wage and salary employment will extend the period of employment declines to 11 consecutive years, the longest period on record. Nationally, light vehicle sales are expected to decline from 13.2 million units in 2008 to 10.3 million units in 2009, before rising to 11.0 million units in 2010 and 11.9 million units in 2011. In Michigan, depressed vehicle sales and high productivity growth will help keep the unemployment rate above the national average, with the unemployment rate increasing from 8.4% in 2008 to 14.2% in 2009 and 16.1% in 2010, before declining to 15.8% in 2011.

Compared with the May 15, 2009, Consensus Economic Forecast, both the U.S. and Michigan forecasts for 2009 and 2010 are considerably weaker. Income and employment growth are weaker at both the State and national levels, and unemployment is higher than was forecast in May.

Figure 4

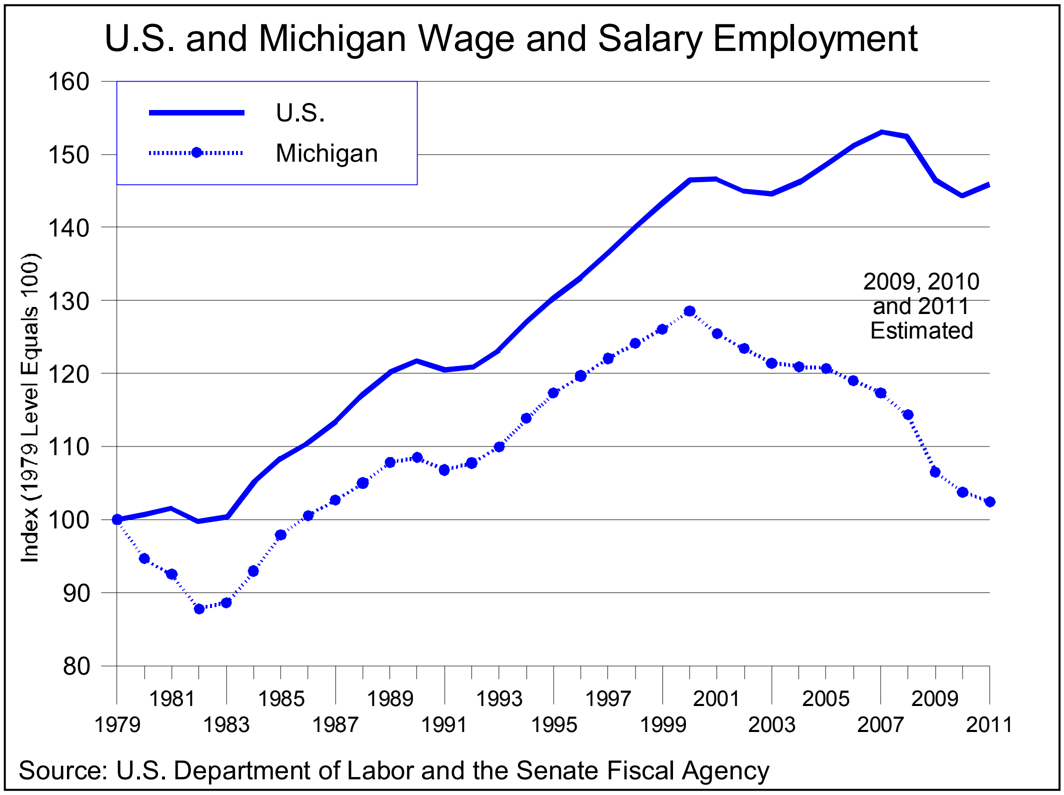
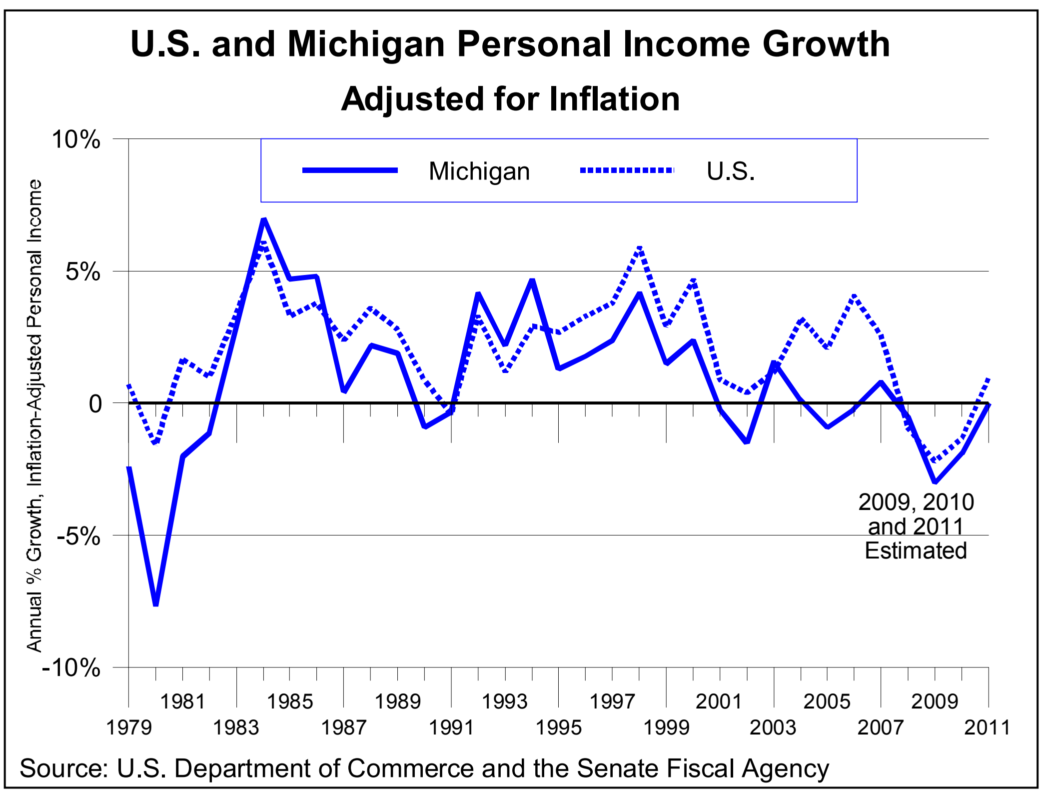


Figure 5

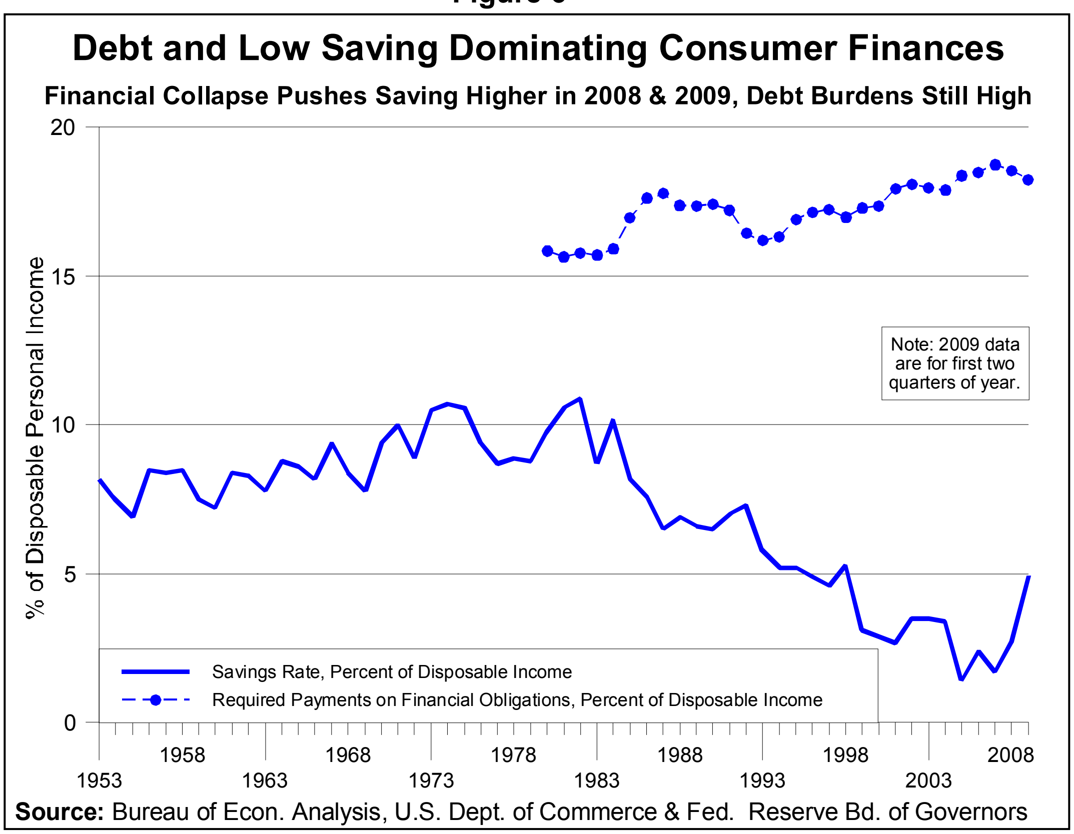


FORECAST RISKS

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. However, unexpected changes in economic fundamentals often represent the greatest source of error. The challenge for the current forecast is to determine when the economy will complete the adjustments required to exhibit consistent economic growth. Such turning points are notoriously difficult to predict and the current economic forecast faces a number of risks, with many suggesting that in inflation-adjusted terms, the economy could be weaker than forecasted and the recession could last much longer than predicted.

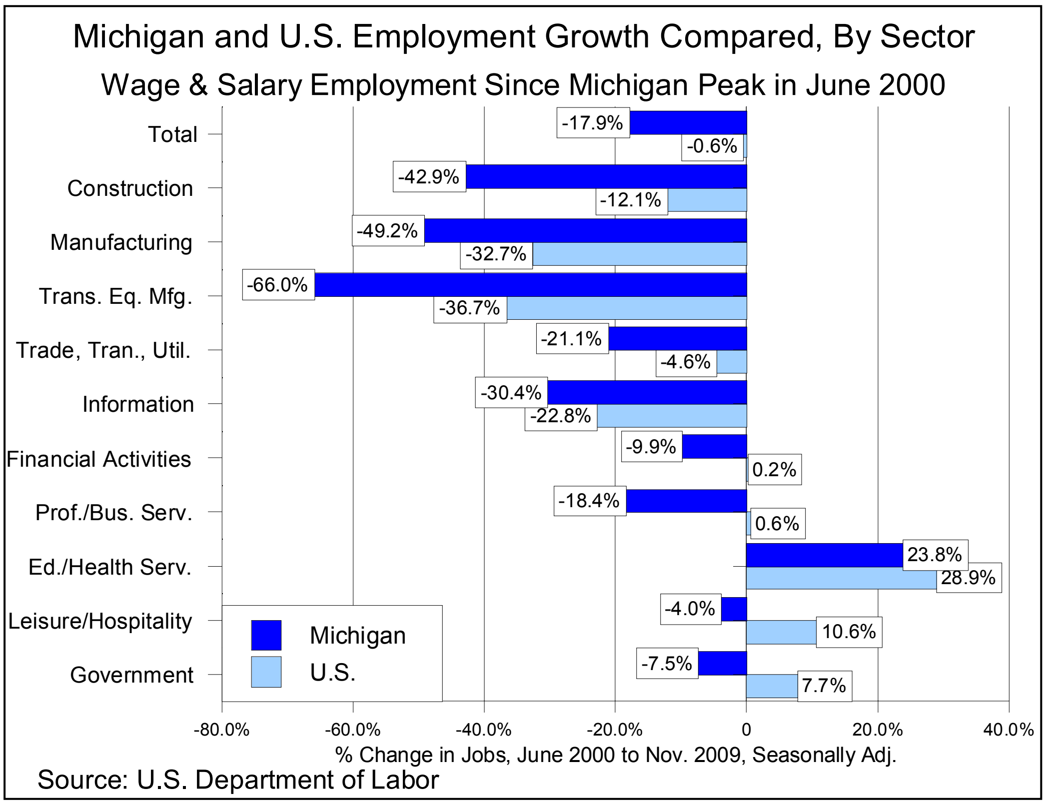
Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages (Figure 6). Weak financial markets and declining housing prices have now induced consumers to rein in their spending. As a result, the savings rate is expected to rise over the forecast from its recent near-zero levels. Under the forecast, the saving rate spiked briefly during mid-2009 and will stabilize at levels near those at the beginning of the decade. However, consumers will need to save at a far higher rate than this to offset their losses in home equity and the stock market. Limited income growth and high debt burdens will impede consumers in their ability to increase saving. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the late 2000s and growth would be stronger than forecasted.

Figure 6



Michigan's Situation. While over the last nine years Michigan's employment situation has fared worse than the national average, and, in some cases or time periods within that range, worse than any other state (Figure 7), Michigan's performance is not particularly inconsistent with other states when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) have experienced weaker job performance over the last nine years, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Figure 7



Weak markets for housing, credit and employment, high energy prices, and substantial debt burdens are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to remain substantially below the levels experienced over the last two decades (Figure 8), while the domestic share of the sales mix is expected to continue declining. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 9), so it is unclear whether Michigan's employment situation would be much better even if productivity were not rising so rapidly in the motor vehicle sector. However, the combination of high productivity and declining market share has been particularly dramatic: On a seasonally adjusted basis, as of November 2009, Michigan had lost nearly two-thirds of the jobs (65.7%, a decline of nearly 232,000 jobs) in transportation equipment manufacturing that existed during the peak in July 2000. As identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of employment reported in June 2000 again until some time near the year 2035.

Figure 8

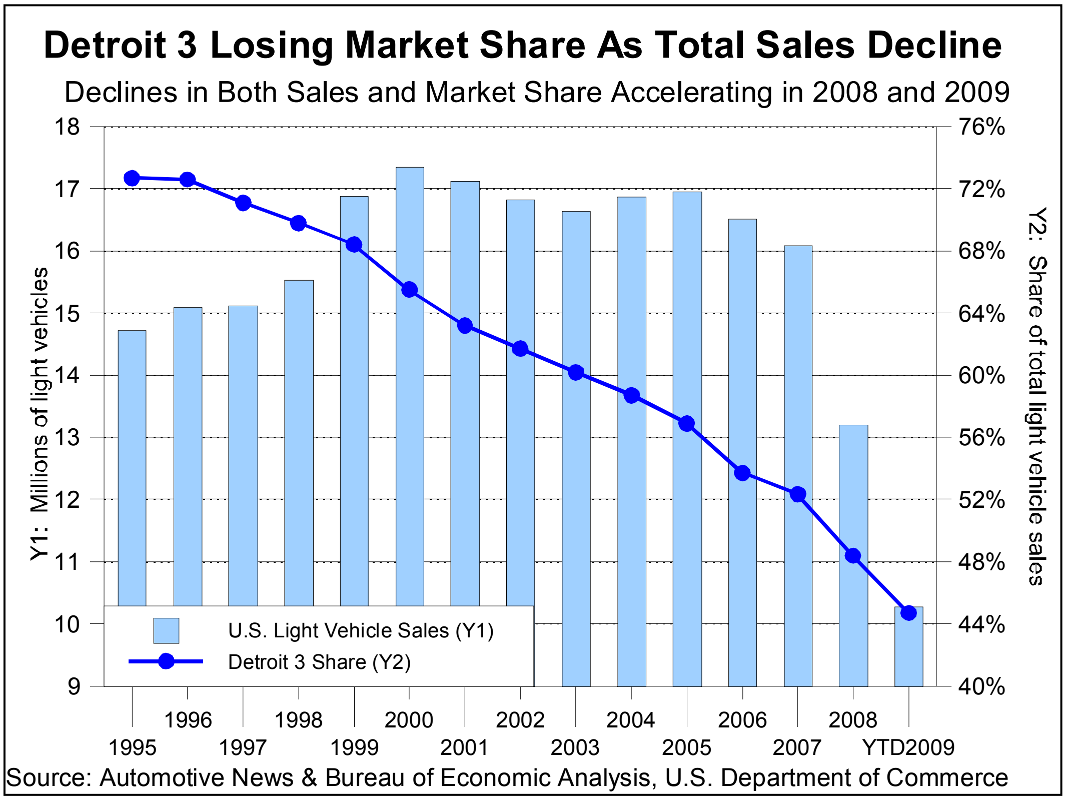
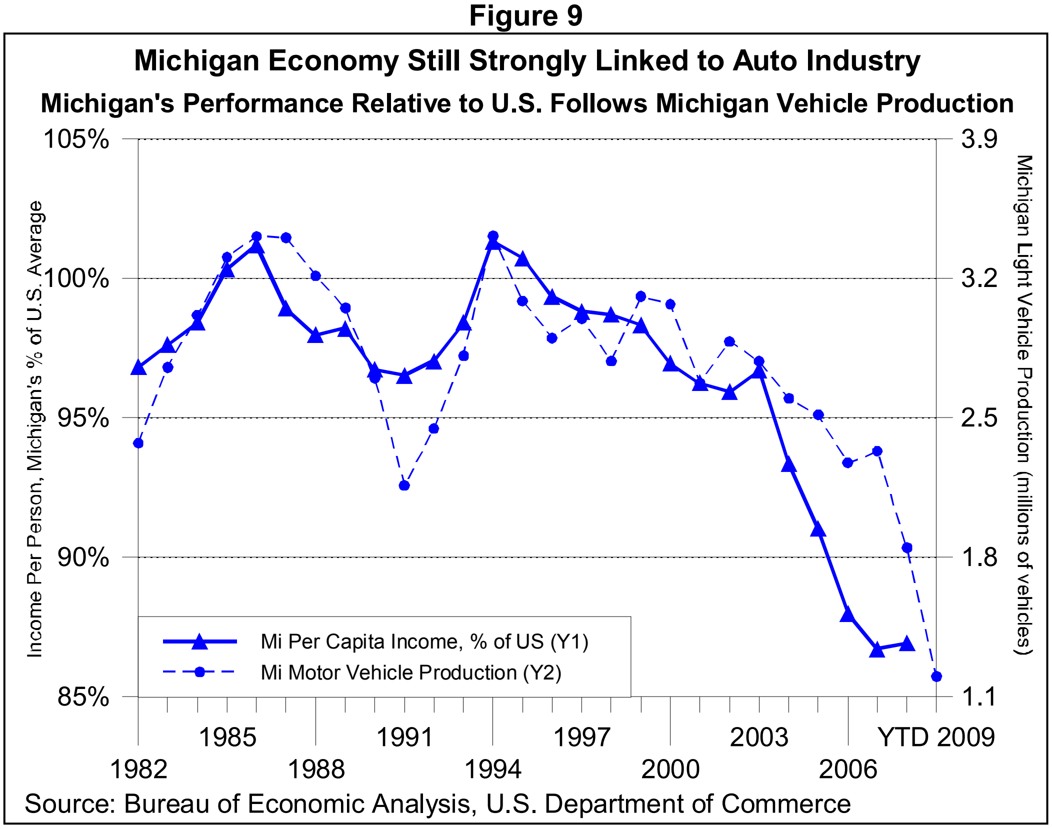


Figure 9



The bankruptcy of Chrysler Corporation and General Motors during 2009 did not change the level of employment these companies will likely be able to sustain once the economy has stabilized, but it did change the rate at which the companies can adjust to the economy. The forecast expects the transportation equipment manufacturing sector to continue to shed jobs through 2010 and 2011, finally reaching a sustainable size late in 2011. However, for both the economy and State tax revenue to improve, employment gains in the economy as a whole will need to occur. If the manufacturing sector adjusts to a sustainable level more slowly, the recession in Michigan employment will last even longer. Similarly, if vehicle sales are even less than forecasted or if market shares for Michigan-based vehicle manufacturers fall more rapidly than predicted, the Michigan economy will take longer to recover. For nine years, the fundamental changes occurring in manufacturing across the globe combined with falling market shares for Michigan manufacturers to keep Michigan in an employment recession. With the U.S. and world economies experiencing the most substantial recession in decades, Michigan's opportunities to emerge from its own recession have been reduced. The speed at which Michigan will emerge from the employment recession will depend upon the markets for Michigan goods and services and how rapidly Michigan producers transform their businesses. The more rapid the transformation and the slower the national and international economy, the steeper the decline in Michigan employment will be in the near term.

THE FORECAST FOR STATE REVENUE

This section of the Budget Status Report presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The preliminary year-end revenue for FY 2008-09 is presented along with the revised estimates for FY 2009-10 and the initial revenue estimates for FY 2010-11. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, this revenue represents the revenue generated from ongoing revenue sources and does not include any revenue included in the GF/GP or SAF budgets from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2008-09 and FY 2009-10 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2008-09, along with the revised estimates for FY 2009-10 and the initial estimates for FY 2010-11 are presented in Table 3 and are summarized below.

FY 2008-09 Preliminary Final Revenue:

- GF/GP and SAF revenue totaled $18.28 billion, down 12.4% from FY 2007-08.
- Most of this decrease was due to the drastic declines in economic activity during late 2008 and all of 2009. The decrease was exacerbated by some new tax credits that began exhibiting an impact during FY 2008-09.
- On a baseline basis, GF/GP and SAF revenue was down 11.1% in FY 2008-09.
- GF/GP and SAF revenue fell short of the consensus revenue estimate adopted in May 2008 by $101.1 million.

FY 2009-10 Revised Revenue Estimate:

- GF/GP and SAF revenue will total an estimated $17.28 billion in FY 2009-10, a decline of 5.5% ($1.0 billion) from FY 2008-09.
- This projected decline in revenue is due primarily to continued weak economic activity, but also is due to the negative repercussions of some tax policy changes.
- Compared with the May 2009 consensus revenue estimates, the revised estimate for FY 2009-10 is down $236.1 million.

FY 2010-11 Initial Revenue Estimate:

- GF/GP and SAF revenue is expected to total $17.18 billion in FY 2010-11, down 0.6% ($104.0 million) from the revised estimate for FY 2009-10.
- Ongoing weakness in economic activity is the main reason behind this decline; however, some tax policy changes also contribute to this projected fall in revenue.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2009-10 AND FY 2010-11 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)	FY 2008-09 Preliminary Final	FY 2009-10 Revised Estimate	FY 2010-11 Initial Estimate
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	$6,327.5	$6,062.5	$6,049.0
Tax Changes Not In Baseline	1,042.5	743.1	594.0
Revenue After Tax Changes:			
Net Income Tax	3,939.0	3,459.8	3,370.8
MBT, SBT, & Insurance Tax	1,863.5	1,691.5	1,662.9
Other Taxes	1,196.5	1,262.6	1,240.9
Total Taxes	6,999.0	6,413.9	6,274.6
Nontax Revenue	371.0	391.7	368.3
TOTAL GF/GP REVENUE	**$7,370.0**	**$6,805.6**	**$6,642.9**
SCHOOL AID FUND			
Baseline SAF	10,928.8	10,459.3	10,531.6
Tax Changes Not In Baseline	(21.2)	12.0	(1.5)
TOTAL SAF REVENUE	**$10,907.6**	**$10,471.3**	**$10,530.1**
BASELINE GF/GP & SAF REVENUE	17,256.3	16,521.8	16,580.6
Tax & Revenue Changes	1,021.3	755.1	592.5
GF/GP & SAF REV. AFTER CHANGES	**$18,277.6**	**$17,276.9**	**$17,172.9**
ADDENDUM:			
Sales Tax	$6,089.1	$5,886.7	$5,885.1
		PERCENT CHANGE	
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	(22.5)%	(4.2)%	(0.2)%
Revenue After Tax Changes:			
Net Income Tax	(22.9)	(12.2)	(2.6)
MBT, SBT, & Insurance Tax	(20.7)	(9.2)	(1.7)
Other Taxes	(21.8)	5.5	(1.7)
Total Taxes	(22.1)	(8.4)	(2.2)
Nontax Revenue	(0.5)	5.6	(6.0)
TOTAL GF/GP REVENUE	**(21.2)%**	**(7.7)%**	**(2.4)%**
SCHOOL AID FUND			
Baseline SAF	(2.8)	(4.3)	0.7
TOTAL SAF REVENUE	**(5.3)%**	**(4.0)%**	**0.6%**
BASELINE GF/GP & SAF REVENUE	(11.1)	(4.3)	0.4
GF/GP & SAF REV. AFTER CHANGES	**(12.4)%**	**(5.5)%**	**(0.6)%**
ADDENDUM:			
Sales Tax	(10.1)%	(3.3)%	(0.0)%

Historical Perspective

The percentage changes in baseline GF/GP and SAF revenue for FY 2008-09 through FY 2010-11 are compared with the actual growth rates experienced during the preceding 20 years in Figure 10. The declines in baseline revenue estimated for FY 2008-09 and FY 2009-10 not only represent the first such declines since baseline revenue fell for three consecutive years from FY 2000-01 through

FY 2002-03, but also represent the most severe declines during this time frame. In fact, both the 11.1% decline estimated for FY 2008-09 and the 4.3% decline estimated for FY 2009-10 represent much deeper declines than the 2.7% decrease experienced in FY 1990-91 or the combined decline of about 4.0% experienced in the three-year period from FY 2000-01 through FY 2002-03. The projected decline in baseline revenue, particularly in FY 2008-09, reflects the fact that the current economic recession has been much more severe than was experienced in the previous two recessions.

Figure 10

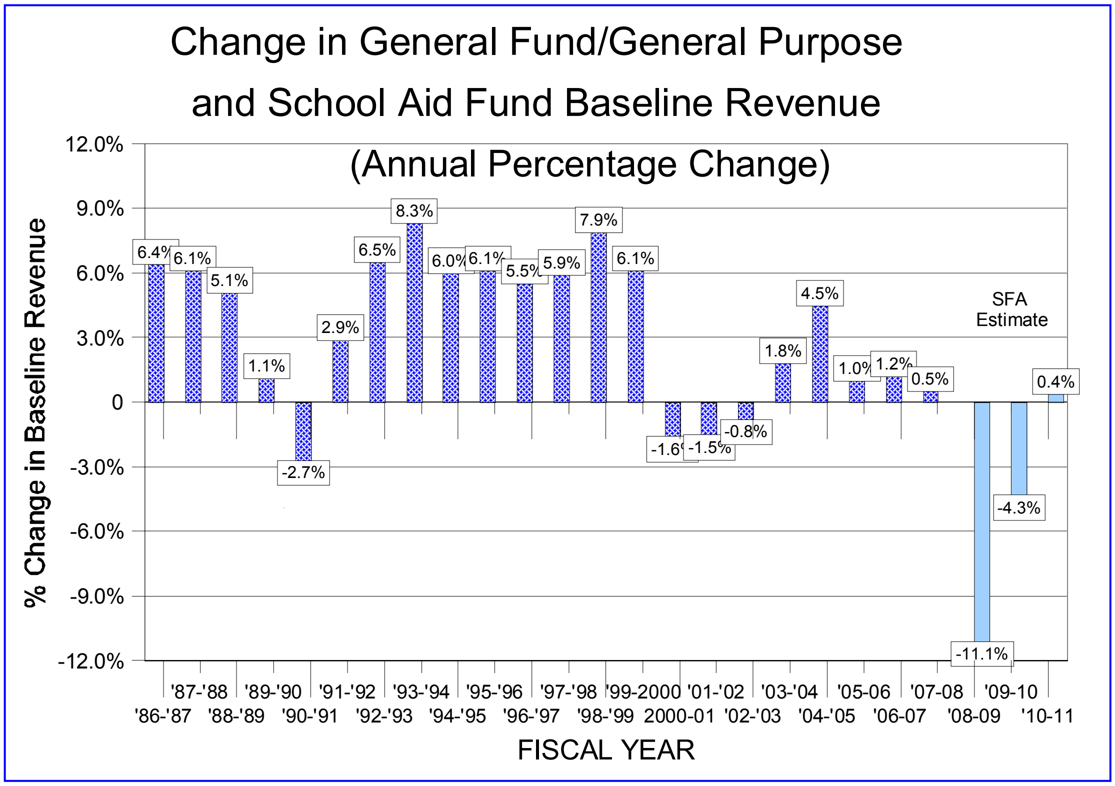


Figure 11 compares the FY 2008-09 through FY 2010-11 estimates for both the GF/GP and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax. As a result, GF/GP revenue fell to about $8.0 billion in both FY 2002-03 and FY 2003-04. After remaining at about $8.3 billion from FY 2004-05 through FY 2006-07, GF/GP revenue jumped to $9.3 billion in FY 2007-08 due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax. The significant decline in GF/GP revenue experienced during FY 2008-09 reduced GF/GP revenue to its lowest level since before Proposal A in 1995. The additional declines estimated for FY 2009-10 and FY 2010-11 will lower GF/GP revenue to its lowest level during this 15-year period, and approximately 21.4% below the FY 1995-96 level (without accounting for inflation), see Figure 12. In sharp contrast to the path GF/GP revenue has taken during this period, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and is expected to lower it again during FY 2009-10. Without adjusting for inflation, by the end of FY 2010-11, SAF revenue is expected to total slightly above the revenue level in FY 2000-01.

Figure 11

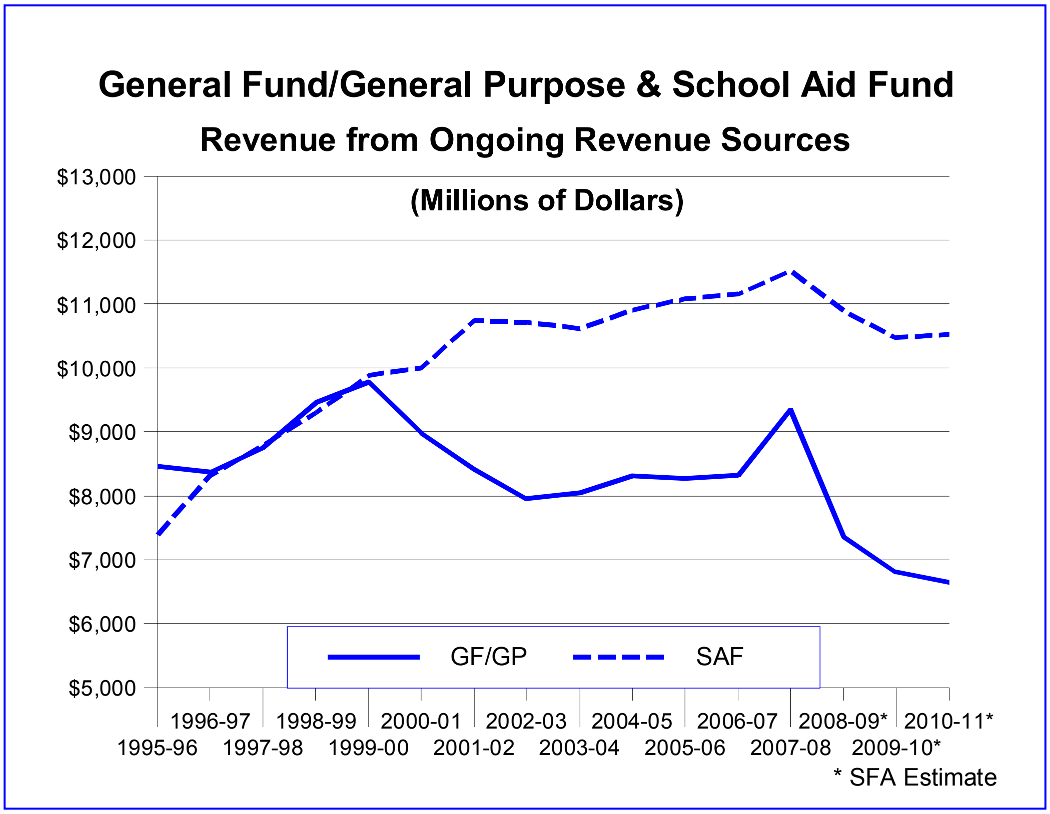
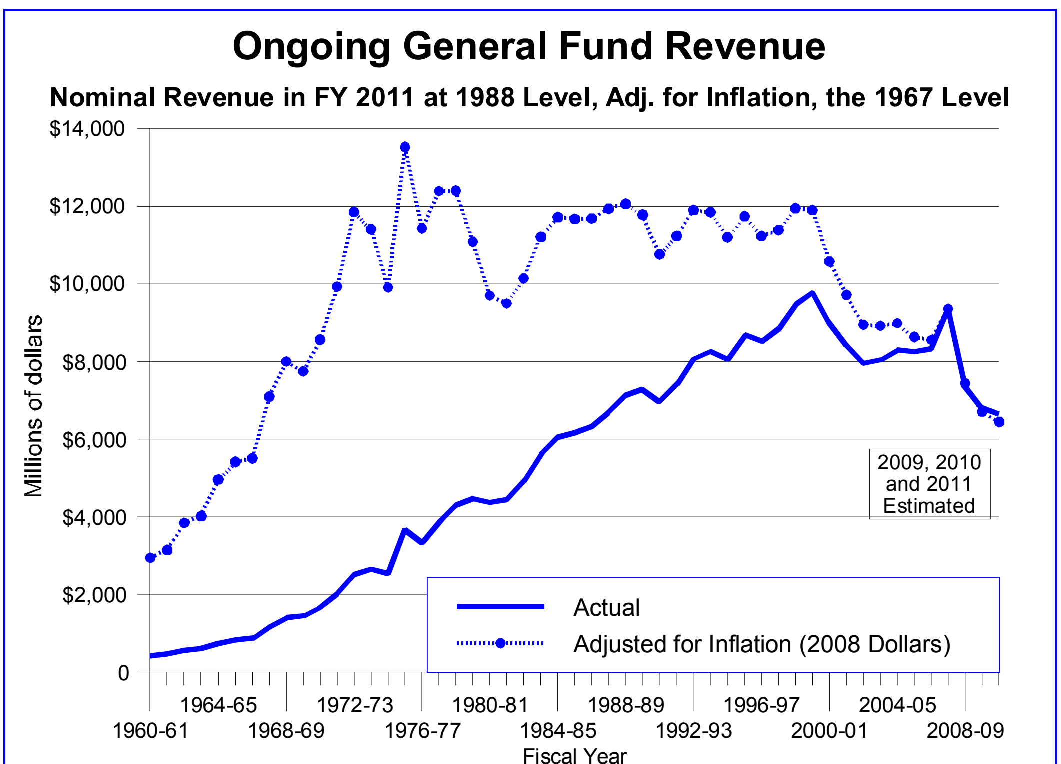


Figure 12



Source: U.S. Dept. of Labor, Michigan Dept. of Treasury, and the Senate Fiscal Agency

FY 2008-09 PRELIMINARY YEAR-END REVENUE

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled $18.27 billion in FY 2008-09, which is down 12.4% from the FY 2007-08 revenue level, as presented in Table 4. While GF/GP and SAF revenue was expected to be down significantly in FY 2008-09 due largely to the weak economy, it came in even lower than was anticipated. The preliminary final revenue level fell below the May 2009 consensus revenue estimate by $101.1 million. Most of the shortfall in revenue from the May 2009 estimates came from the income tax and sales tax, although those declines were offset by higher-than-expected revenue from the repealed single business tax. Adjusting for the tax changes and the other enacted revenue adjustments, baseline revenue declined 11.1% in FY 2008-09.

Tax Policy Changes

New tax policy changes by both the State and Federal governments exhibited negative impacts on revenue in FY 2008-09. Among the major new tax policy changes were the State's earned income tax credit and film tax credits, the Federal increase in tobacco taxes, and tax changes included in the Federal American Recovery and Reinvestment Act (ARRA) of 2009.

Earned Income Tax Credit. A new earned income tax credit, administered through the income tax, went into effect for the 2008 tax year; therefore, eligible taxpayers claimed this credit for the first time when they filed their 2008 tax returns in 2009. The Michigan earned income tax credit equaled 10.0% of the Federal earned income tax credit for the 2008 tax year and will increase to 20.0% of the Federal credit beginning in 2009. It is estimated the credit reduced income tax revenue $140.0 million in FY 2008-09 and all of this loss will be incurred by GF/GP revenue.

Motion Picture Related Credits. Three Michigan Business Tax (MBT) credits related to film industry activity were enacted in 2008. Film production companies may claim 1) a production credit, which allows the companies to receive a refundable credit equal to 40.0% or 42.0% of their direct production expenditures in Michigan, 2) a job training credit equal to 50.0% of qualified expenses incurred in training workers for film industry jobs, and 3) an infrastructure credit equal to 25.0% of the cost to construct a film-related production facility. An additional MBT credit may be granted by the Michigan Economic Growth Authority (MEGA). These credits were expected to reduce MBT revenue directly by $107.5 million in FY 2008-09, although some of the revenue loss would be offset by new income, sales, and MBT receipts from the business activity these credits will attract. Timing issues related to when the credits are issued and may be claimed resulted in actual credits claimed during FY 2008-09 being less than was expected by $52.0 million.

Federal Tobacco Tax Increase. On April 1, 2009, the Federal government increased its cigarette tax by $0.61 per pack and the resulting increase in the price of cigarettes was forecasted to reduce Michigan's cigarette tax revenue by approximately $29.3 million in FY 2008-09. The Federal tax on other tobacco products was also increased effective April 1, 2009; however, due to the fact that Michigan's tax on other tobacco product is 32.0% of the wholesale price, the Federal tax increase is expected to boost Michigan's tax revenue an estimated $1.2 million in FY 2008-09. Therefore, it is estimated that Michigan's tobacco tax revenue will decline a net $28.1 million in FY 2008-09 due to the increase in the Federal tobacco tax. The net loss in revenue affected the following budget areas: School Aid Fund revenue declined $12.2 million, GF/GP revenue fell $5.5 million, and most of the remaining loss in tobacco tax revenue reduced the Medicaid Trust Fund.

Federal Stimulus Tax Changes. The Federal American Recovery and Reinvestment Act of 2009 included a number of tax reductions, some of which impacted Michigan tax revenue. These changes include such items as an increase in the earned income tax credit and an income tax exemption for the first $2,400 in unemployment compensation. These various tax changes reduced Michigan's tax revenue an estimated $51.2 million in FY 2008-09 and most of the reduction lowered General Fund revenue.

General Fund/General Purpose

General Fund/General Purpose revenue totaled $7.37 billion in FY 2008-09, down 21.2% from FY 2007-08, and $65.1 million below the May 2009 consensus revenue estimate. The decrease from the May consensus revenue estimate primarily reflected unexpected increases in income tax refunds and weaker-than-expected sales tax receipts, income tax withholding payments, and quarterly income tax payments. A breakdown of GF/GP revenue for FY 2008-09 is presented in Table 4.

School Aid Fund

The tax and lottery revenue earmarked to the SAF totaled $10.91 billion in FY 2008-09, down 5.3% from the FY 2007-08 revenue level. The decrease primarily reflected lower revenue from sales and use taxes as well as property taxes on industrial and commercial facilities. Compared with the May 2009 consensus revenue estimate, SAF revenue was down $35.8 million, due largely to lower-than-expected collections from the sales, use, and industrial facility taxes that were not completely offset by higher-than-expected revenue from the lottery, the State Education Property Tax, and the real estate transfer tax. The preliminary final SAF revenue for FY 2008-09 also is presented in Table 4.

Table 4

FY 2008-09 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2007-08 Final	FY 2008-09 Prelim. Final	Change from FY 2007-08: Dollar Change	Change from FY 2007-08: Percent Change	$ Change from 05/09 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$8,167.2	$6,877.5	$(1,289.7)	(15.8)%	---
Tax Changes Not In Baseline	1,191.4	492.5	(698.9)	---	---
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	9,015.8	8,099.1	(916.7)	(10.2)	$(69.8)
Less: Refunds	(1,790.3)	(2,263.5)	(473.2)	26.4	(152.2)
Net Income Tax Collections	7,225.5	5,835.6	(1,389.9)	(19.2)	(220.0)
Less: Earmarking to SAF	(2,117.7)	(1,895.5)	222.2	(10.5)	3.9
Campaign Fund	(1.2)	(1.1)	0.1	(8.3)	0.4
Net Income Tax to GF/GP	$5,106.6	$3,939.0	$(1,167.6)	(22.9)%	$(217.7)
Other Taxes					
Single Business Tax	573.8	24.1	(549.7)	(95.8)	182.3
Michigan Business Tax	1,551.6	1,579.8	28.2	1.8	(9.2)
Sales	76.5	4.2	(72.3)	(94.5)	(28.1)
Use	911.6	736.5	(175.1)	(19.2)	(31.9)
Cigarette	212.9	208.3	(4.6)	(2.2)	5.1
Insurance Company Premiums	223.2	259.6	36.4	16.3	15.8
Telephone & Telegraph	80.8	63.0	(17.8)	(22.0)	(11.0)
Oil & Gas Severance	97.1	47.2	(49.9)	(51.4)	(13.8)
Casino Wagering	15.4	11.6	(3.8)	(24.7)	8.2
All Other	136.3	125.7	(10.6)	(7.8)	5.8
Subtotal Other Taxes	$3,879.3	$3,060.0	$(819.3)	(21.1)%	$123.2
Total Nontax Revenue	372.7	371.0	(1.7)	(0.5)	29.3
GF/GP REV. AFTER TAX CHANGES	**$9,358.6**	**$7,370.0**	**$(1,988.6)**	**(21.2)%**	**$(65.2)**
SCHOOL AID FUND:					
Baseline Revenue[1]	$11,248.3	$10,282.6	$(965.7)	(8.6)%	---
Tax Changes Not In Baseline	264.6	625.0	360.4	---	---
Revenue After Tax Changes					
Sales Tax	4,928.1	4,424.7	(503.4)	(10.2)	(89.9)
Lottery Revenue	740.7	724.7	(16.0)	(2.2)	36.6
State Education Property Tax	2,079.7	2,026.0	(53.7)	(2.6)	20.0
Real Estate Transfer Tax	169.8	125.3	(44.5)	(26.2)	25.3
Michigan Business Tax	341.0	729.0	388.0	113.8	0.0
Income Tax	2,117.7	1,895.5	(222.2)	(10.5)	(3.9)
Casino Tax	112.1	108.1	(4.0)	(3.6)	(1.5)
Other Revenue	1,023.9	874.3	(149.6)	(14.6)	(22.4)
SAF REV. AFTER TAX CHANGES	**$11,512.9**	**$10,907.6**	**$(605.3)**	**(5.3)%**	**$(35.8)**
BASELINE GF/GP AND SAF	19,415.5	17,160.1	(2,255.4)	(11.6)	---
Tax & Revenue Changes	1,456.0	1,117.5	(338.5)	---	---
GF/GP & SAF REV. AFTER CHNGS	**$20,871.5**	**$18,277.6**	**$(2,593.9)**	**(12.4)%**	**$(101.1)**
SALES TAX	$6,773.3	$6,089.1	$(684.2)	(10.1)%	$(122.6)

[1] FY 2007-08 is the base year for baseline revenue.

REVISED REVENUE ESTIMATES FOR FY 2009-10

General Fund/General Purpose and SAF revenue is expected to total $17.28 billion in FY 2009-10, a decrease of 5.5% from FY 2008-09. While the reduction is less than that experienced in FY 2008-09, the continued weakness in the economic activity forecast for 2009 is expected to be reflected in additional revenue declines. Almost every major tax earmarked to the GF/GP and/or SAF budgets, including the income, sales, State education, and tobacco taxes, are expected to experience a decline in revenue during FY 2009-10 compared with FY 2008-09, although in most cases the declines are not expected to be as drastic as during FY 2008-09. The revised estimate of GF/GP and SAF revenue for FY 2009-10 is $236.1 million below the May 2009 consensus estimate, on which the enacted budgets were based. On a baseline basis, GF/GP and SAF revenue is projected to fall 4.3% in FY 2009-10. The revised GF/GP and SAF revenue estimates for FY 2009-10 are summarized in Table 5.

Tax Policy Changes

While few new tax policy changes go into effect in FY 2009-10, the fiscal impacts of the earned income tax credit, film tax credits, Federal tobacco tax increase, and the Federal ARRA are all expected to increase in FY 2009-10 compared with their impacts in FY 2008-09. The FY 2009-10 estimated fiscal impacts of each of these tax policy changes are discussed below.

Earned Income Tax Credit. The earned income tax credit increases from 10.0% of the Federal earned income tax credit to 20.0% beginning in the 2009 tax year, so that earned income tax credits claimed for the 2009 tax year on the income tax returns that will be filed in FY 2009-10 will be much larger than in FY 2008-09. Furthermore, the Federal ARRA legislation expanded the scope and amount of the Federal credit, and it is anticipated that the economic recession will push more taxpayers down into the income levels that are eligible for the earned income tax credit. As a result, the earned income tax credit is expected to reduce income tax revenue an estimated $333.0 million in FY 2009-10, significantly more than the $140.0 million cost estimated for FY 2008-09.

Film Credits. The cost of the film credits also is expected to increase significantly in FY 2009-10. Other states that adopted film credits similar to Michigan's, none of which are as generous as Michigan's credits, experienced a significant increase in film activity during the second full year the credits were available. While timing issues caused the FY 2008-09 impact to be less than expected, the credits are expected to grow rapidly. As a result, it is estimated that the net revenue loss due to Michigan's film credits will increase from the $45.2 million net cost estimated for FY 2008-09, to $96.0 million in FY 2009-10.

Federal Tobacco Tax Increase. In FY 2009-10, Michigan's tobacco tax collections will reflect the full-year negative impact of the increase in the Federal tobacco tax, which went into effect on April 1, 2009. As a result, in FY 2009-10, Michigan's tobacco tax collections will be lower than they otherwise would be by an estimated $54.6 million. General Fund/General Purpose revenue will be down $10.7 million, SAF revenue will be down $23.8 million, and various other funds will be down $20.1 million.

General Fund/General Purpose

General Fund/General Purpose revenue will total an estimated $6.81 billion in FY 2009-10, down 7.7% or $564.4 million from FY 2008-09. While the decline is not as substantial as that experienced between FY 2007-08 and FY 2008-09, it does represent one of the more significant declines in GF/GP revenue and approximately the same proportional reduction as that experienced in FY 2000-01. The decline primarily reflects the serious economic downturn and the continuing depressed state of the economy, although the earned income and film tax credits described above also contribute to this projected revenue decline. This revised estimate for GF/GP revenue is $144.2 million below the May 2009 consensus revenue estimate. The major weakness in GF/GP revenue in FY 2009-10 is expected to reflect higher income tax refunds and weak collections from the MBT and utility property taxes. Income tax refunds also are expected to increase, due in part to the new earned income tax credit (described above). Continued declines in employment will reduce gross income tax collections an estimated 5.0% lower than in FY 2008-09.

School Aid Fund

School Aid Fund revenue from earmarked taxes and the lottery is expected to total $10.47 billion in FY 2008-09, a decline of 4.0% or $436.4 million from the FY 2008-09 level. The revenue derived from most of the major earmarked taxes is expected to decline in FY 2009-10 due to the weak level of economic activity forecast, including collection from sales, State education, income, and tobacco taxes. In addition, the net revenue generated by the lottery is expected to fall from its FY 2008-09 level. On a baseline basis, SAF revenue is expected to be down 4.3% in FY 2009-10. This revised estimate for SAF-earmarked revenue is $91.9 million below the May 2009 consensus revenue estimate, and the major downward revisions occurred in the sales tax and industrial/commercial facilities tax. The revised SAF revenue estimates for FY 2009-10 are summarized in <u>Table 5</u>.

Table 5

FY 2009-10 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)			Change from FY 2008-09		
	FY 2008-09 Prelim. Final	FY 2009-10 Revised Est.	Dollar Change	Percent Change	$ Change from 05/09 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$6,327.5	$6,062.5	$(265.0)	(4.2)%	---
Tax Changes Not In Baseline	1,042.5	743.1	(299.4)	---	---
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	8,099.1	7,695.7	(403.4)	(5.0)	$20.1
Less: Refunds	(2,263.5)	(2,437.5)	(174.0)	7.7	(116.0)
Net Income Tax Collections	5,835.6	5,258.2	(577.4)	(9.9)	(95.9)
Less: Earmarking to SAF	(1,895.5)	(1,796.9)	98.6	(5.2)	(12.9)
Campaign Fund	(1.1)	(1.5)	(0.4)	36.4	0.0
Net Income Tax to GF/GP	$3,939.0	$3,459.8	$(479.2)	(12.2)%	$(108.8)
Other Taxes					
Single Business Tax	24.1	(20.0)	(44.1)	(183.0)	0.0
Michigan Business Tax	1,579.8	1,425.4	(154.4)	(9.8)	(81.0)
Sales	4.2	44.0	39.8	939.5	(29.0)
Use	736.5	769.3	32.8	4.5	(26.7)
Cigarette	208.3	198.2	(10.1)	(4.9)	5.1
Insurance Company Premiums	259.6	286.1	26.5	10.2	42.3
Telephone & Telegraph	63.0	59.0	(4.0)	(6.3)	(14.0)
Oil & Gas Severance	47.2	56.0	8.8	18.6	(7.0)
Casino Wagering	11.6	11.6	0.0	0.0	11.6
All Other	125.7	124.5	(1.2)	(1.0)	6.4
Subtotal Other Taxes	$3,060.0	$2,954.1	$(105.9)	(3.5)%	$(92.3)
Total Nontax Revenue	371.0	391.7	20.7	5.6	57.0
GF/GP REV. AFTER TAX CHANGES	**$7,370.0**	**$6,805.6**	**$(564.4)**	**(7.7)%**	**$(144.2)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	10,928.8	10,459.3	(469.5)	(4.3)	---
Tax Changes Not In Baseline	(21.2)	11.9	33.1	---	---
Revenue After Tax Changes					
Sales Tax	4,424.7	4,275.3	(149.4)	(3.4)	(133.4)
Lottery Revenue	724.7	708.0	(16.7)	(2.3)	31.0
State Education Property Tax	2,026.0	1,866.8	(159.2)	(7.9)	0.0
Real Estate Transfer Tax	125.3	130.0	4.7	3.8	22.0
Michigan Business Tax	729.0	726.7	(2.3)	(0.3)	(0.9)
Income Tax	1,895.5	1,796.9	(98.6)	(5.2)	12.9
Casino Tax	108.1	115.8	7.7	7.1	8.9
Other Revenue	874.3	851.8	(22.5)	(2.6)	(32.4)
SAF REV. AFTER TAX CHANGES	**$10,907.6**	**$10,471.3**	**$(436.3)**	**(4.0)%**	**$(91.9)**
BASELINE GF/GP AND SAF	17,256.3	16,521.8	(734.5)	(4.3)	---
Tax & Revenue Changes	1,021.3	755.1	(266.2)	---	---
GF/GP & SAF REV. AFTER CHNGS	**$18,277.6**	**$17,276.9**	**$(1,000.7)**	**(5.5)%**	**$(236.1)**
SALES TAX	$6,089.1	$5,886.7	$(202.4)	(3.3)%	$(180.6)

1) FY 2008-09 is the base year for baseline revenue.

FY 2010-11 INITIAL REVENUE ESTIMATES

The level of economic activity in Michigan is expected to contract again in FY 2010-11, albeit at a slower rate than is expected in FY 2009-10, and, combined with the expected impact of several tax policy changes for FY 2010-11, will reduce GF/GP and SAF revenue again in FY 2010-11. Total GF/GP and SAF revenue will reach an estimated $17.17 billion in FY 2010-11, a decline of 0.6% or $104.0 million from the revised estimate for FY 2009-10. On a baseline basis, GF/GP and SAF revenue is expected to increase 0.4% in FY 2010-11, the first increase since FY 2007-08. The initial estimate of GF/GP and SAF revenue for FY 2010-11 is summarized in Table 6.

Tax Policy Changes

While the impact of tax policy changes is expected to remain relatively unchanged between FY 2009-10 and FY 2010-11, three issues will exhibit a markedly larger impact on FY 2010-11 revenue.

Film Credits. The cost of the film credits also is expected to continue to increase significantly in FY 2010-11, consistent with the experience of other states, as noted earlier. As a result, the net revenue loss due to Michigan's film credits will increase nearly 50.0% in FY 2010-11, to $141.3 million, up from the $96.0 million cost estimated for FY 2009-10.

Smoking Ban. In late 2009, Michigan enacted legislation which significantly restricts smoking in public places such as restaurants and bars. While the legislation will take effect on May 1, 2010, the impact on FY 2009-10 is expected to be somewhat limited. However, the legislation will impact the full fiscal year during FY 2010-11, and is predicted to reduce cigarette tax revenue by approximately $36.7 million, lowering both GF/GP and SAF revenue.

ARRA Provisions. Several provisions in the Federal ARRA legislation are expected to increase income tax revenue during FY 2009-10. Most notable of these changes are provisions for increased unemployment compensation during 2009 and a portion of 2010. By FY 2010-11, the boost from these increases will be exhausted, lowering income revenue by an expected $41.2 million.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $6.64 billion in FY 2010-11, a decline of 2.4% or $162.7 million from the revised estimate for FY 2009-10. As shown in Figure 11, the initial estimate for FY 2010-11 is lower than the level in any other fiscal year during the past 15 years. The rate of decline is not as large as is projected for FY 2009-10, nor as steep as what was experienced in FY 2008-09, but the reasons for the projected decline are the same: poor economic activity coupled with the loss of tax revenue due to tax policy impacts. The initial GF/GP revenue estimates for FY 2010-11 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $10.53 billion in FY 2010-11, an increase of 0.6% or $58.7 million from the revised estimate for FY 2009-10 and the first increase since FY 2007-08. The forecasted increase in SAF revenue reflects growth in several major revenue sources, such as the State Education Tax, the real estate transfer tax and the casino tax, coupled with very stable sales and income tax revenue. The SAF will also receive a boost from the earmarked revenue from the MBT, which are indexed to inflation in the preceding year, and unlike in 2009, inflation is expected to be positive during 2010. The initial SAF revenue estimates for FY 2010-11 are summarized in Table 6.

Table 6

FY 2010-11 INITIAL REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)				
			Change from FY 2009-10	
	FY 2009-10 Rev. Est.	FY 2010-11 Initial Est.	Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue:	$6,062.5	$6,049.0	$(13.5)	(0.2)%
Tax Changes Not In Baseline:	743.1	594.0	(149.1)	---
Revenue After Tax Changes:				
Personal Income Tax				
Gross Collections	7,695.7	7,661.8	(33.9)	(0.4)
Less: Refunds	(2,437.5)	(2,500.0)	(62.5)	2.6
Net Income Tax Collections	5,258.2	5,161.8	(96.4)	(1.8)
Less: Earmarking to SAF	(1,796.9)	(1,789.5)	7.4	(0.4)
Campaign Fund	(1.5)	(1.5)	0.0	0.0
Net Income Tax to GF/GP	$3,459.8	$3,370.8	$(89.0)	(2.6)%
Other Taxes				
Single Business Tax	(20.0)	(10.0)	10.0	(50.0)
Michigan Business Tax	1,425.4	1,364.0	(61.4)	(4.3)
Sales	44.0	54.0	10.0	22.7
Use	769.3	752.5	(16.8)	(2.2)
Cigarette	198.2	190.1	(8.1)	(4.1)
Insurance Company Premiums	286.1	308.9	22.8	8.0
Telephone & Telegraph	59.0	60.8	1.8	3.1
Oil & Gas Severance	56.0	58.5	2.5	4.5
Casino Wagering	11.6	0.0	(11.6)	(100.0)
All Other	124.5	125.0	0.5	0.4
Subtotal Other Taxes	$2,954.1	$2,903.8	$(50.3)	(1.7)%
Total Nontax Revenue	391.7	368.3	(23.4)	(6.0)
GF/GP REVENUE AFTER TAX CHANGES	**$6,805.6**	**$6,642.9**	**$(162.7)**	**(2.4)%**
SCHOOL AID FUND:				
Baseline Revenue:	10,459.3	10,531.6	72.3	0.7
Tax Changes Not In Baseline:	11.9	(1.5)	(13.4)	----
Revenue After Tax Changes:				
Sales Tax	4,275.3	4,273.9	(1.4)	(0.0)
Lottery Revenue	708.0	706.0	(2.0)	(0.3)
State Education Property Tax	1,866.8	1,929.6	62.8	3.4
Real Estate Transfer Tax	130.0	137.0	7.0	5.4
Michigan Business Tax	726.7	744.9	18.2	2.5
Income Tax	1,796.9	1,789.5	(7.4)	(0.4)
Casino Tax	115.8	123.0	7.2	6.2
Other Revenue	851.8	826.1	(25.7)	(3.0)
SAF REVENUE AFTER TAX CHANGES	**$10,471.3**	**$10,530.1**	**$58.8**	**0.6%**
BASELINE GF/GP AND SAF	16,521.8	16,580.6	58.8	0.4
Tax & Revenue Changes	755.1	592.5	(162.6)	---
GF/GP & SAF REV. AFTER TAX CHANGES	**$17,276.9**	**$17,172.9**	**$(104.0)**	**(0.6)%**
SALES TAX	5,886.7	5,885.1	(1.6)	(0.0)
Note: FY 2008-09 is the base year for baseline revenue.				

MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2009-10 AND FY 2010-11

Income Tax

The income tax will generate an estimated $5.26 billion in FY 2009-10, a decline of 9.9% from FY 2008-09. Income tax revenue will fall an additional 1.8% in FY 2010-11 to an estimated $5.16 billion. The declines in both years will reflect declining employment and income, as well as tax policy changes such as the earned income tax credit and the exhaustion of certain ARRA-related benefits. These projected declines in income tax revenue will reduce both GF/GP revenue and SAF revenue. The SAF receives 23.3% of the gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, plus the negative impact of all income tax refunds, including the cost of income tax credits paid out in refunds.

Sales Tax

The severe economic downturn will have negative repercussions on consumer and business spending in 2009, and not much improvement is expected in 2010 or 2011. As a result, sales tax receipts will fall an estimated 3.3% in FY 2009-10 to $5.89 billion and remain essentially flat in FY 2010-11. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes both constitutional and statutory earmarkings, but over the past several years a significant portion of the amount earmarked statutorily has been diverted to the General Fund. This is discussed further in the last section of this report.

Use Tax

Use tax collections will increase an estimated 4.5% in FY 2009-10, to $1.15 billion and decline approximately 2.2% in FY 2010-11 to an estimated $1.13 billion. The GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF.

Tobacco Taxes

Tax collections from the cigarette and other tobacco products taxes will total an estimated $984.7 million in FY 2009-10, a decrease of 5.2% from FY 2008-09. In FY 2010-11, tobacco tax revenue is expected to decline another 4.2%, to $943.0 million. Tobacco tax revenue is earmarked to several different funds including the General Fund and the SAF.

Casino Tax

The State's tax on casinos equals an 8.1% permanent tax on gross gaming receipts plus a temporary rate of 4.0% that each of the three Detroit casinos must pay until they begin operating in their new permanent casinos. All of the revenue generated from the permanent 8.1% tax goes to the SAF, while the revenue from the temporary 4.0% tax goes to the GF/GP budget (3.5%) and the Agriculture Equine Industry Development Fund (0.5%). Two of the three Detroit casinos are now in their permanent facilities and the third is expected to have its permanent facility approved sometime during FY 2009-10. As a result, after totaling $121.3 million in FY 2008-09, casino tax revenue will total an estimated $129.0 million in FY 2009-10 and $123.0 million in FY 2010-11. The SAF share will increase from $108.1 million in FY 2008-09 to $115.8 million in FY 2009-10 and $123.0 million in FY 2010-11. The GF/GP share will drop from $11.6 million in FY 2008-09 to zero in FY 2010-11.

State Education Property Tax

After declining 2.6% in FY 2008-09, State education property tax revenue is expected to decline 7.9% in FY 2009-10 as continued weakness in the housing sector is expected to further reduce property values. These negative economic forces will ease somewhat in FY 2009-10, allowing State education property tax revenue to rise an expected 3.4% in FY 2010-11, to $1.93 billion.

Lottery

The economic downturn has also exhibited a negative impact on lottery revenue. The introduction of several new games during FY 2009-10 is expected to help offset some of these pressures. After totaling $724.7 million in FY 2008-09, net lottery revenue is expected to decline 2.3% to $708.0 million in FY 2009-10 and then remain essentially flat, at $706.0 million, in FY 2010-11. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax

The Michigan Business Tax generated $2.31 billion in FY 2008-09, the first full year of this tax. In FY 2009-10, Michigan Business Tax revenue will total an estimated $2.15 billion, reflecting the weaker economy experienced during 2009. According to the law, the SAF will receive $729.0 million of this business tax revenue in FY 2008-09 and then, in subsequent years, this earmarking will be indexed to the percentage change in the U.S. Consumer Price Index, which will push the earmarking to the SAF down to $726.7 million in FY 2009-10 and up to estimated $744.9 million in FY 2010-11.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

The history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2008-09 and FY 2009-10 is presented in Tables 7 and 8. Baseline estimates are used to track the forecast history for these two fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2008-09 and FY 2009-10 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2008-09 was made in January 2008 at $19.23 billion, as shown in Table 7. This estimate was lowered by $259.7 million at the May 2008 Consensus Revenue Estimating Conference and another $470.3 million at the January 2009 Consensus Revenue Estimating Conference. In May 2009, the estimate was revised down an even greater amount, by $821.3 million. The preliminary final estimate equals $17.26 billion, down $422.3 million or 2.4% from the May 2009 estimate. Compared with the SFA's initial estimate made in January 2008, FY 2008-09 GF/GP and SAF baseline revenue is down $1.98 billion, or 10.3%.

The Senate Fiscal Agency's initial GF/GP and SAF baseline revenue estimate for FY 2009-10 of $18.05 billion was made in December 2008, as shown in Table 8. The estimate adopted at the January 2009 Consensus Revenue Estimating Conference was $123.6 million above the SFA's estimate. At the May 2009 Conference the estimate was lowered $1.31 billion. Based on the revised economic outlook, the SFA has lowered the GF/GP and SAF baseline estimate another $342.3 million to $16.52 billion. This latest revision to the FY 2009-10 GF/GP and SAF baseline revenue estimate is $1.53 billion or 8.5% below the SFA's original estimate made in December 2008.

Table 7

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2008-09 (Millions of Dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 21, 2007	$7,539.5	$11,795.7	$19,239.0
January 18, 2008[a)]	7,544.4	11,781.7	19,229.9
May 14, 2008	7,482.1	11,546.0	18,931.9
May 16, 2008 [a)]	7,482.6	11,583.8	18,970.2
December 18, 2008	7,055.7	11,289.3	18,345.0
January 9, 2009 [a)]	7,094.4	11,405.5	18,499.9
May 13, 2009	6,485.8	10,954.1	17,439.9
May 15, 2009 [a)]	6,674.4	11,004.2	17,678.6
Preliminary Final	6,327.5	10,928.8	17,256.3
Change From Previous Estimate:			
Dollar Change	($346.9)	($75.4)	($422.3)
Percent Change	(5.2)%	(0.7)%	(2.4)%
Change From Initial Estimate:			
Dollar Change	$(1,212.0)	$(866.9)	$(1,982.7)
Percent Change	(16.1)%	(7.3)%	(10.3)%

a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2008-09. Previously published baseline estimates reflected different baseline years. For example, the Consensus baseline estimate published in May 2009 reflected a FY 2007-08 baseline.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2009-10 (Millions of Dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 18, 2008	$6,893.4	$11,159.4	$18,052.8
January 9, 2009 [a)]	6,910.1	11,266.3	18,176.4
May 13, 2009	5,979.1	10,350.2	16,329.3
May 15, 2009 [a)]	6,300.7	10,563.4	16,864.1
December 18, 2009	6,062.5	10,459.3	16,521.8
Change From Previous Estimate:			
Dollar Change	$(238.2)	$(104.1)	$(342.3)
Percent Change	(3.8)%	(1.0)%	(2.0)%
Change From Initial Estimate:			
Dollar Change	$(830.9)	$(700.1)	$(1,531.0)
Percent Change	(12.1)%	(6.3)%	(8.5)%

a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2008-09. Previously published baseline estimates reflected different baseline years. For example, the Consensus baseline estimate published in May 2009 reflected a FY 2007-08 baseline.

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977. The BSF is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities.

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total General Fund/General Purpose (GF/GP) revenue.

Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. The withdrawal equals the percentage decline in adjusted real personal income multiplied by the annual GF/GP revenue. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

Withdrawals from the BSF also are permitted for State job creation programs in times of high unemployment. When the State's unemployment rate averages between 8.0% and 11.9% during a calendar quarter, 2.5% of the balance in the BSF may be withdrawn during the subsequent quarter and appropriated for projects that will create job opportunities. If the unemployment rate averages 12.0% or higher for a calendar quarter, up to 5.0% of the BSF balance may be withdrawn.

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of $55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled $189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of $73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case.

Table 9 presents the recent history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2008-09. Also presented in this table are the SFA's estimates for FY 2009-10 and FY 2010-11. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 13, and the estimated economic stabilization trigger calculations for FY 2009-10 and FY 2010-11 are presented in Table 10.

FY 2008-09

In FY 2008-09, the BSF had a beginning balance of $2.2 million. During the fiscal year there were no payments into or out of the Fund, but $0.1 million of interest was earned, leaving an ending balance of $2.3 million.

FY 2009-10 AND FY 2010-11

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula triggers payments out of the Fund equal to $140.3 million in FY 2009-10 and $9.1 million in FY 2010-11, as shown in Table 10. Given that there is only $2.3 million in the BSF, and given that no additional transfers into the Fund were appropriated as part of the FY 2009-10 enacted budget, no transfers out of the BSF are anticipated in either FY 2009-10 or FY 2010-11.

Table 9

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1998-99 TO FY 2009-10 ESTIMATE
(Millions of Dollars)

Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1998-99	$244.4	$51.2	$73.7	$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	9.1	1.8	156.1	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.1	0.0	2.3
Senate Fiscal Agency estimates:				
2009-10	0.0	0.1	0.0	2.4
2010-11	0.0	0.1	0.0	2.5

Figure 13

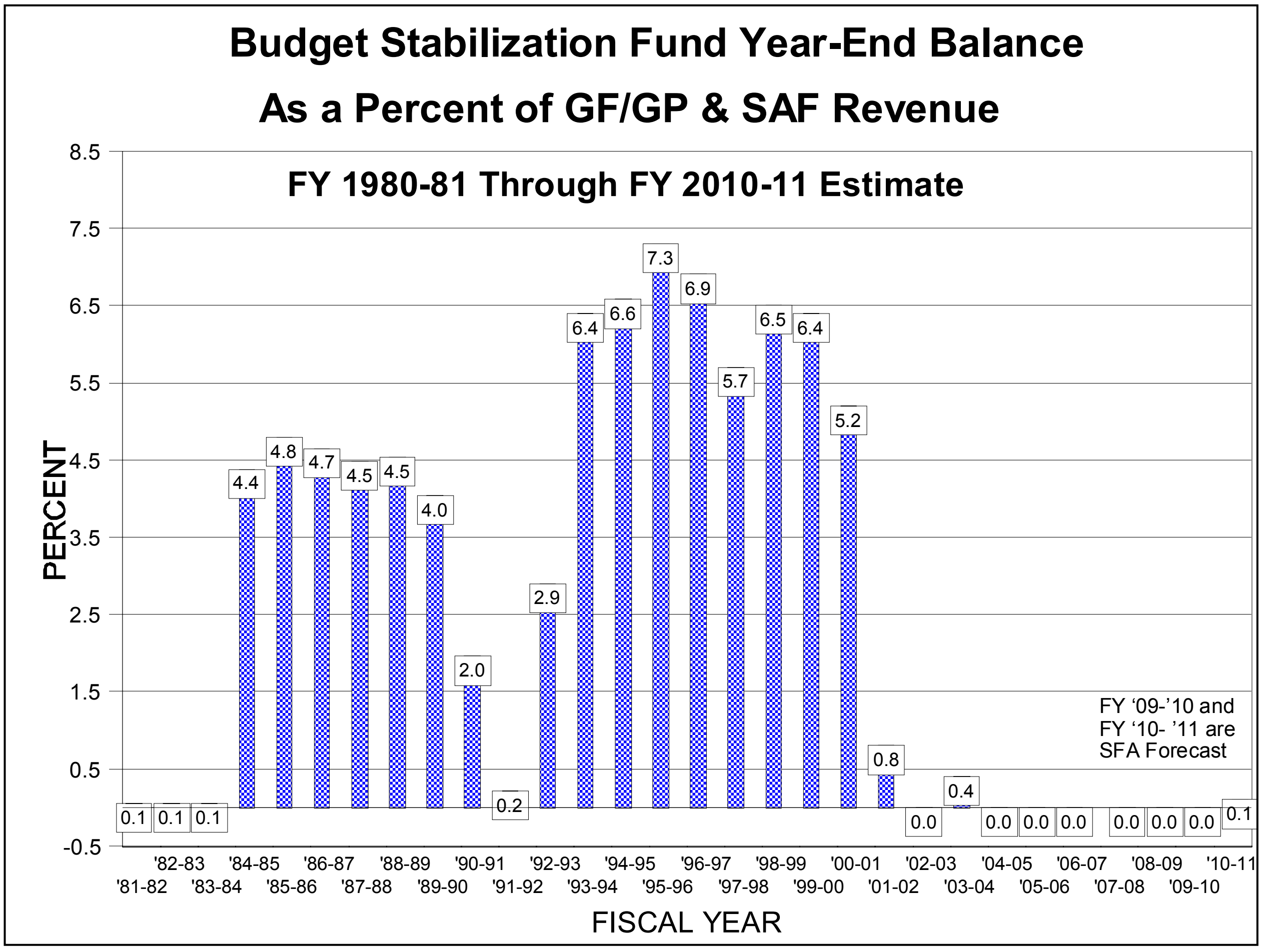


Table 10

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2009-10 AND FY 2010-11
(Millions of Dollars)

	CY 2009	CY 2010	CY 2011
Michigan Personal Income (MPI)	$337,258	$338,696	$343,793
Less: Transfer Payments	75,662	79,222	79,903
Subtotal	$261,596	$259,474	$263,890
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.037	2.063	2.101
Equals: Real Adjusted MPI	$128,422	$125,775	$125,602
Percent Change from Prior Year		(2.40)%	(0.14)%
Excess Over 2.0%		0.00%	0.00%
		FY 2009-10	**FY 2010-11**
Multiplied by: Estimated GF/GP Revenue		$6,805.6	$6,642.9
Equals: Transfer to the BSF		$0.0	$0.0
OR Transfer from the BSF		$140.3	$9.1

Note: Numbers may not add due to rounding.
CY = Calendar Year; FY = Fiscal Year

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit was never exceeded. The largest gap between revenue and the limit occurred in FY 2006-07, when State revenue was $5.3 billion below the revenue limit. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to new State revenue being generated as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2008-09 through FY 2010-11.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977. This calculation equals 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year prior to the calendar year in which the fiscal year begins. For instance, in FY 2008-09, State government revenue may not exceed 9.49% of personal income for calendar year 2007. Given that Michigan personal income for 2007 equaled $343,585 million, the revenue limit for FY 2008-09 is $32,606 million.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees, and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments. It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the U.S. Department of Commerce's Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to income tax and business taxpayers, on a pro rata basis. These refunds would be given to taxpayers who file an annual income tax return or a Michigan Business Tax return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report which determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revised revenue estimates for FY 2009-10 and FY 2010-11, it is estimated that revenue subject to the constitutional revenue limit will remain well below the revenue limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit for FY 2009-10 and FY 2010-11 are presented in Table 11.

FY 2008-09

In FY 2008-09, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2007. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2007 was $343.6 billion, so the revenue limit equaled $32.6 billion. Based on the final revenue for FY 2008-09, revenue subject to the limit totaled $25.1 billion. As a result, revenue subject to the limit fell below the revenue limit by $7.5 billion, or 23.1%. This gap between the revenue limit and revenue subject to the limit is larger than it has ever been, despite the enacted increases in the income and Michigan business taxes in FY 2007-08, as a result of the weak economy and significant tax policy changes that have reduced revenue.

FY 2009-10

In FY 2009-10, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2008. The U.S. Department of Commerce's Bureau of Economic Analysis' initial estimate of Michigan personal income in calendar 2008 equaled $349.6 billion, so the revenue limit is estimated at $33.2 billion for FY 2009-10. Based on the SFA's revised revenue estimates for FY 2009-10, revenue subject to the revenue limit will equal an estimated $24.0 billion. As a result, it is estimated that revenue subject to the limit will fall below the limit by $9.1 billion, or 27.5%, in FY 2009-10.

FY 2010-11

The Senate Fiscal Agency estimates personal income in Michigan during 2009 will equal $337.3 billion, and as a result, the revenue limit will equal $32.0 billion in FY 2010-11. Based on the Senate Fiscal Agency's initial revenue estimates for FY 2010-11, revenue subject to the revenue limit will equal an estimated $23.9 billion. As a result, revenue subject to the revenue limit will fall below the revenue by an estimated $8.1 billion, or 25.3% in FY 2010-11. The decline in the gap between estimated revenue and the limit during FY 2010-11 does not reflect an increase in revenue subject to the limit but a decrease in personal income during 2009. Revenue subject to the limit in FY 2010-11 is estimated to decline approximately 0.6% from the FY 2009-10 level, while personal income is expected to fall 3.5% between 2008 and 2009. The 2009 decline in personal income lowers the FY 2010-11 revenue limit by $1.2 billion.

Table 11

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2006-07 THROUGH FY 2009-10 ESTIMATE
(Millions of Dollars)

	FY 2007-08 Final	FY 2008-09 Estimate	FY 2009-10 Estimate	FY 2010-11 Estimate
Revenue Subject to Limit				
Revenue:				
General Fund/General Purpose (baseline)	$8,168.2	$6,327.5	$6,062.5	$6,049.0
Revenue Sharing (baseline)	1,665.5	1,570.7	1,474.4	1,462.2
School Aid Fund (baseline)	11,248.6	10,928.8	10,459.3	10,531.6
Transportation Funds	2,068.4	2,041.6	2,019.8	2,009.7
Other Restricted Non-Federal Aid Revenue	3,124.4	2,999.4	2,939.4	2,924.7
Adjustments:				
GF/GP Federal Aid	(14.8)	(31.1)	(30.0)	(30.0)
GF/GP Balance Sheet Adjustments	1,191.4	1,221.5	1,109.8	970.5
SAF Balance Sheet Adjustments	264.6	0.5	12.0	(1.5)
Total Revenue Subject to Limit	$27,716.3	$25,058.9	$24,047.2	$23,916.2
Revenue Limit				
Personal Income:				
Calendar Year	**CY 2006**	**CY 2007**	**CY 2008**	**CY 2009**
Amount	$334,769	$343,585	$349,612	$337,258
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$31,769.6	$32,606.2	$33,178.2	$32,005.8
1.0% of Limit	317.7	326.1	331.8	320.1
Amount Under (Over) Limit	$4,053.3	$7,547.3	$9,131.0	$8,089.6
Percent Below Limit	12.8%	23.1%	27.5%	25.3%

ESTIMATE OF YEAR-END BALANCES

This section of the Senate Fiscal Agency's (SFA's) report provides details of the estimated year-end balances of the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets for FY 2008-09 and FY 2009-10. This section of the report also contains a review of the issues that the Governor and the Legislature will be facing in the development and enactment of the FY 2010-11 State budget.

Table 12 provides a summary of the estimated year-end balances for the FY 2008-09 and FY 2009-10 GF/GP and SAF budgets. The good news is that in both fiscal years, the GF/GP and SAF budgets are balanced between estimated revenue and expenditures. The final accounting of FY 2008-09 revenue and expenditures has not been completed, but the SFA is estimating that when the final accounting is completed, the GF/GP budget will have a $181.8 million balance and the SAF budget will have a $213.2 million balance. A comparison of the SFA estimates of FY 2009-10 revenue with actual and projected appropriations leads to a $15.3 million GF/GP balance and a $55.5 million SAF balance.

The initial look ahead to the FY 2010-11 GF/GP budget leads to the conclusion that absent an increase in State taxes, the level of GF/GP appropriations will have to be reduced significantly below the FY 2009-10 levels to ensure a balance between estimated revenue and appropriations. In regard to the FY 2009-10 SAF budget, absent an increase in State taxes, SAF appropriations will have to be modestly reduced below the FY 2009-10 levels to ensure a balance between estimated revenue and appropriations.

Table 12

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
ESTIMATED YEAR-END BALANCES
(Millions of Dollars)

	FY 2008-09 Estimate	**FY 2009-10 Estimate**
General Fund/General Purpose	$181.8	$15.3
School Aid Fund	$213.2	$55.5

FY 2008-09 YEAR-END BALANCE

The Office of the State Budget (OSB) is expected to complete the preliminary accounting of FY 2008-09 State revenue and expenditures by December 31, 2009. The final accounting of FY 2008-09 revenue and expenditures is expected to be completed by March 2010. Once the final accounting is completed, the State of Michigan will publish the FY 2008-09 Comprehensive Annual Financial Report.

Based on the year-to-date accounting of FY 2008-09 GF/GP revenue and expenditures, the SFA is now estimating that the GF/GP budget will close the fiscal year with a $181.8 million balance. The SFA is now estimating that the FY 2008-09 SAF budget will close the fiscal year with a $213.2 million balance.

Table 13 provides a summary of the current SFA estimate of a $181.8 million year-end balance in the FY 2008-09 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2009-10 revenue source.

Table 13

FY 2008-09 GENERAL FUND/GENERAL PURPOSE REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	SFA Estimate
Revenue:	
Beginning Balance	$457.9
Ongoing Revenue:	
Estimated Revenue Collections	7,370.0
Revenue Sharing Savings	489.3
Use Tax on HMOs (P.A. 440 of 2008)	179.0
Shift of Short-Term Borrowing Costs to School Aid Fund	32.0
Subtotal Ongoing Revenue	8,070.3
One-Time Revenue:	
Restricted Revenue Transfers (E.O. 2009-22)	75.7
21st Century Fund Transfer to General Fund (H.B. 4182)	10.0
Tourism Borrowing Transfer to General Fund (H.B. 4182)	10.0
Convention Fund Transfer to General Fund (P.A. 156 of 2009)	6.6
TEDF Transfer to General Fund (P.A. 136 of 2009)	6.0
Subtotal One-Time Revenue	108.3
Total Estimated Revenue	**$8,636.5**
Expenditures:	
Initial Appropriations	$9,701.4
Enacted Supplemental Appropriations:	
Public Act 279 of 2008	0.0
Public Act 286 of 2008	0.0
Public Act 3 of 2009	0.0
Public Act 7 of 2009	0.0
Public Act 23 of 2009	0.0
Public Act 24 of 2009	(6.9)
Public Act 38 of 2009	0.0
Public Act 64 of 2009	0.0
Public Act 73 of 2009	44.2
Public Act 79 of 2009	327.1
Public Act 122 of 2009	(863.6)
Public Act 140 of 2009	(277.7)
Subtotal Enacted Supplemental Appropriations	(776.9)
Executive Order 2008-21	(133.9)
Executive Order 2009-22	(221.9)
Projected Year-End Appropriation Lapses	(114.0)
Total Projected Expenditures	**$8,454.7**
Projected Year-End Balance	**$181.8**

On the revenue side of the FY 2008-09 GF/GP budget ledger, the SFA is now estimating that revenue will total $8.6 billion. This represents a $1.7 billion or 16.4% decline from the final level of FY 2007-08 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue is $65.1 million below the May 2009 consensus revenue estimate.

The major components of the FY 2008-09 GF/GP revenue total include a $457.9 million balance carried forward from FY 2007-08, $8.1 billion of revenue from ongoing sources, and $108.3 million of revenue from a variety of one-time revenue sources.

On the expenditure side of the FY 2008-09 GF/GP budget ledger, the SFA is now estimating that expenditures will total $8.5 billion. This represents a $1.4 billion or 14.4% decline from the final level of FY 2007-08 GF/GP expenditures.

The major components of the FY 2008-09 GF/GP expenditure total include the initial appropriations of $9.7 billion, GF/GP appropriation reductions of $776.9 million from the enactment of 12 supplemental appropriation bills, GF/GP appropriation reductions of $355.8 million from the approval of Executive Order 2008-21 and Executive Order 2009-22, and $114.0 million from year-end appropriation lapses.

The final level of FY 2008-09 expenditures was greatly influenced by the appropriation of Federal funds that became available to help balance the overall FY 2008-09 GF/GP budget under provisions of the American Recovery and Reinvestment Act of 2009 (ARRA). During FY 2008-09, GF/GP appropriations were offset with Federal ARRA funding of $1.3 billion. This ARRA funding provided for a substitution of GF/GP fund sources with ARRA funding and helped account for a majority of the $1.4 billion decline in GF/GP expenditures. The ARRA funding used to help balance the FY 2008-09 GF/GP budget included $1.0 billion of enhanced Medicaid match rate revenue and $287.7 million of State Fiscal Stabilization Fund unrestricted funding.

Table 14 provides a summary of the current SFA estimate of a $213.2 million year-end balance in the FY 2008-09 SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2009-10 revenue source.

Table 14

FY 2008-09
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$247.1
Estimated Restricted SAF Revenue	10,907.6
GF/GP Grant	76.5
Miscellaneous Revenue Adjustments	21.9
Federal Aid	1,503.6
ARRA-State Fiscal Stabilization Fund Appropriation to K-12 (P.A. 73 of 2009)	597.5
Total Estimated Revenue	**$13,354.2**
Expenditures:	
Initial Appropriations	**$13,378.9**
Formula Funding Adjustments:	(119.1)
Federal Expenditure Adjustments	(58.4)
Other Expenditure Adjustments	(6.6)
Year-End Appropriation Lapses	(53.8)
Total Projected Expenditures	**$13,141.0**
Projected Year-End Balance	**$213.2**

On the revenue side of the FY 2008-09 SAF budget ledger, the SFA is now estimating that revenue will total $13.3 billion. This represents a $346.0 million or 2.7% increase from the final level of FY 2007-08 SAF revenue. The current SFA estimate of ongoing Restricted SAF revenue is $35.8 million below the May 2009 consensus revenue estimate.

The major components of the FY 2008-09 SAF revenue total include a $247.1 million balance carried forward from FY 2007-08, $10.9 billion of revenue from ongoing sources, a $76.5 million GF/GP grant to the SAF budget, $21.9 million of miscellaneous revenue adjustments, $1.5 billion of ongoing Federal aid, and the appropriation of $597.5 million of Federal funds related to ARRA.

On the expenditure side of the FY 2008-09 SAF budget ledger, the SFA is now estimating that expenditures will total $13.1 billion. This total takes into account the initial appropriations enacted for the SAF budget and all of the cost adjustments in expenditures related to final pupil counts, final taxable property valuations, Federal funding adjustments, and the final expenditures of categorical aid programs. The final projected level of FY 2008-09 SAF expenditures represents a $380.1 million or 3.0% increase from the final level of FY 2007-08 SAF expenditures.

FY 2009-10 YEAR-END BALANCE

During October 2009, the Michigan Legislature approved and the Governor signed into law an FY 2009-10 GF/GP budget that was balanced between estimated revenue and enacted appropriations. At the time of the enactment of the original FY 2009-10 GF/GP budget, the SFA was estimating a $187.9 million GF/GP year-end balance. The current SFA estimate is that the FY 2009-10 GF/GP budget will close the fiscal year with a $15.3 million balance. Table 15 provides the details of the SFA estimate of a $15.3 million FY 2009-10 GF/GP budget balance. This change in the projected level of the GF/GP year-end balance results primarily from changes in the estimate of GF/GP revenue from the May 2009 consensus revenue estimate upon which the original budget was based, along with changes in the level of surplus GF/GP revenue carried forward from FY 2008-09.

On the revenue side of the FY 2009-10 GF/GP budget ledger, the SFA is now estimating that revenue will total $8.1 billion. This represents a $540.7 million or 6.3% decline from the estimated level of final FY 2008-09 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue is $144.2 million below the May 2009 consensus revenue estimate.

The major components of the FY 2009-10 GF/GP revenue total include an estimated $181.8 million balance carried forward from FY 2008-09, $7.7 billion of revenue from ongoing sources, and $198.4 million of revenue from a variety of one-time sources. The major sources of one-time revenue built into the FY 2009-10 GF/GP budget include a $140.0 million transfer of Merit Award Trust Fund revenue to the General Fund from the elimination of the Michigan Promise Grant Program and a $37.5 million transfer from the 21st Century Jobs Fund to the General Fund. The current SFA estimate of a $181.8 million balance carried forward from FY 2008-09 represents a $30.1 million decline from the level assumed in the original budget.

On the expenditure side of the FY 2009-10 GF/GP budget ledger, the SFA is now estimating that expenditures will total $8.1 billion. This represents a $374.2 million or 4.4% decline from the estimated level of final FY 2008-09 GF/GP expenditures. The projected level of GF/GP expenditures includes the original appropriations signed into law and a projected $47.5 million of year-end savings resulting from employee concessions and projected savings from re-bidding State contracts.

The final level of FY 2009-10 expenditures was greatly influenced by the appropriation of Federal funds that became available to help balance the overall FY 2009-10 GF/GP budget under provisions of ARRA. During FY 2009-10, GF/GP appropriations were offset with Federal ARRA funding of $1.1 billion. This ARRA funding provided for a substitution of GF/GP fund sources with ARRA funding and played a critical role in ensuring a balance between estimated GF/GP revenue and appropriations. The ARRA funding used to help balance the GF/GP budget included $1.0 billion of enhanced Medicaid match rate revenue and $68.2 million from the State Fiscal Stabilization Fund appropriated in the Higher Education budget.

Table 15

FY 2009-10 GENERAL FUND/GENERAL PURPOSE REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	SFA Estimate
Revenue:	
Beginning Balance	$181.8
Ongoing Revenue:	
SFA Revenue Estimate	6,805.6
Revenue Sharing Savings	498.4
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Use Tax on HMOs (P.A. 440 of 2008)	366.6
Subtotal Ongoing Revenue	7,715.6
One-Time Revenue:	
Transportation Economic Development Fund Transfer to General Fund	12.0
Railroad Improvement Fund Transfer to General Fund	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund	1.5
State Services Fee Fund Transfer to General Fund	1.6
Merit Award Trust Fund Transfer to General Fund	140.0
21st Century Jobs Fund Transfer to General Fund	37.5
Subtotal One-Time Revenue	198.4
Total Estimated Revenue	**$8,095.8**
Expenditures:	
Initial Appropriations	$8,128.0
Enacted Supplemental Appropriations:	
Public Act 140 of 2009	0.0
Public Act 145 of 2009	0.0
Other Expenditure Adjustments:	
Employee Concessions	(27.5)
DMB Contract Savings	(20.0)
Subtotal Other Expenditure Adjustments	(47.5)
Total Projected Expenditures	**$8,080.5**
Projected Year-End Balance	**$15.3**

During October 2009, the Michigan Legislature approved and the Governor signed into law an FY 2009-10 SAF budget that was balanced between estimated revenue and enacted appropriations. At the time of the enactment of the original FY 2009-10 SAF budget, the SFA was estimating a $123.1 million SAF year-end balance. The current SFA estimate is that the FY 2009-10 SAF budget will close the fiscal year with a $55.5 million balance. Table 16 provides the details of the SFA estimate of a $55.5 million FY 2009-10 SAF budget balance. The change in the projected level of the SAF year-end balance results from a combination of changes in estimated revenue and the reestimation of actual SAF expenditures.

On the revenue side of the FY 2009-10 SAF budget ledger, the SFA is now estimating that revenue will total $12.8 billion. This represents a $587.7 million or 4.4% decline from the projected final level of FY 2008-09 SAF revenue. The current SFA estimate of Restricted SAF revenue is $91.9 million below the May 2009 consensus revenue estimate.

The major components of the FY 2009-10 SAF revenue total include an estimated $213.2 million balance carried forward from FY 2008-09, $10.5 billion of Restricted SAF revenue, a $30.2 million GF/GP grant, $1.6 billion of ongoing Federal aid, and the appropriation of $450.0 million of Federal funds related to ARRA. The original enacted FY 2009-10 SAF budget included the assumption of $100.0 million of increased SAF revenue from tax policy changes that have not been enacted into law. The SFA's current estimate of FY 2009-10 SAF revenue does not include these tax policy changes that have not been enacted.

On the expenditure side of the SAF budget ledger, the SFA is now estimating that expenditures will total $12.7 billion. This total takes into account the initial level of SAF appropriations and a projected $112.5 million formula cost savings from reestimations of taxable property valuations, pupil counts, and categorical aid expenditures. The vast majority of the projected formula cost savings results from a modest increase in the expected levels of local property taxes raised by local school districts as a result of the 18-mill property tax on nonhomestead property. The projected level of FY 2009-10 SAF expenditures represents a $430.0 million or 3.3% decline from the projected final level of FY 2008-09 SAF expenditures.

Table 16

FY 2009-10 SCHOOL AID FUND REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	SFA Estimate
Revenue:	
Beginning Balance	$213.2
Estimated Restricted SAF Revenue	10,471.3
Assumed SAF Revenue Increase	0.0
GF/GP Grant	30.2
Federal Aid	1,601.8
ARRA-State Fiscal Stabilization Fund	450.0
Total Estimated Revenue	**$12,766.5**
Expenditures:	
Initial Appropriation	$12,823.5
Formula Cost Adjustments	(112.5)
Total Appropriations	**$12,711.0**
Projected Year-End Balance	**$55.5**

FY 2010-11 STATE BUDGET OUTLOOK

Governor Granholm is required to submit her recommendations for the FY 2010-11 State budget to the Legislature no later than February 12, 2010. The budget recommendation will be balanced between estimated revenue and appropriations. Due to the continuing economic problems forecasted in the State during FY 2010-11, and the heavy reliance on Federal ARRA funding to balance the FY 2009-10 GF/GP and SAF budgets, it can be expected that the budget recommendations submitted to the Legislature will include additional cuts in both GF/GP and SAF appropriations below the levels in place during FY 2009-10. The only likely way to limit the need for additional GF/GP and SAF appropriation reductions during FY 2010-11 will be for the Governor and the Legislature to agree on significant increases in State revenue. This section of the report will examine the outlook for the FY 2010-11 GF/GP and SAF budgets assuming the Governor and the Legislature decide to continue current law tax policy.

Table 17 provides an overview of the outlook for the FY 2010-11 GF/GP budget. This outlook points to a $1.5 billion imbalance between estimated revenue and appropriations. This estimate is developed using several key revenue assumptions. The first assumption is that no increases in State revenue are enacted. The second assumption involves a continuation of a freeze in the level of statutory revenue sharing payments paid to cities, villages, townships, and counties. The final revenue assumption concerns the continuation of the transfer of $140.0 million of surplus Merit Award Trust

Fund revenue to the General Fund. These revenue assumptions, combined with the SFA estimate of a GF/GP balance carried forward from FY 2009-10 and the SFA estimate of $6.6 billion in ongoing GF/GP revenue, lead to total available revenue of $7.7 billion.

Table 17

FY 2010-11
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$15.3
Ongoing Revenue Estimate	6,642.9
Shift of Short-Term Borrowing to School Aid Fund	45.0
Revenue Sharing Freeze	442.0
Use Tax on HMOs	376.5
Merit Award Trust Fund Transfer to General Fund	140.0
Total Estimated Revenue	**$7,661.7**
Potential Appropriations:	
FY 2009-10 Year-to-Date Appropriations	$8,128.0
Removal of FY 2009-10 ARRA Funding	1,071.3
FY 2010-11 ARRA Funding	(209.6)
Human Services Caseload/Cost	55.0
TANF Contingency Fund Offset	70.0
Medicaid Caseload/Costs	202.0
Federal Medicaid Match Rate Savings	(260.0)
State Employee Contractual Increases	120.0
Potential Appropriations	**$9,176.7**
Projected Budget Imbalance	**$(1,515.0)**

On the expenditure side of the FY 2010-11 GF/GP budget outlook, the SFA is assuming that FY 2009-10 GF/GP appropriations are frozen at the FY 2009-10 levels and adjusted only for statutory and caseload costs and the reduction in the amount of Federal ARRA funding that will be available to support the FY 2010-11 GF/GP budget.

During FY 2009-10, Federal ARRA funding will support $1.1 billion of GF/GP appropriations. The level of Federal ARRA funding available to support FY 2010-11 GF/GP appropriations will decline to $209.6 million, thus creating an $861.7 million Federal funding hole in the budget. This Federal funding alone accounts for 10.6% of the entire level of FY 2009-10 GF/GP appropriations. Other expenditure adjustments included in the SFA outlook include a $55.0 million increase in the Department of Human Services budget due to caseload and cost increases, a $70.0 million GF/GP cost increase from the elimination of Temporary Assistance for Needy Families Federal contingency funding that was supporting appropriations in the Department of Human Services budget, a $202.0 million GF/GP cost increase from Medicaid caseload and costs, a $260.0 million GF/GP cost savings from an increase in the base Federal Medicaid match rate Michigan will receive during FY 2010-11, and a projected $120.0 million GF/GP cost increase from State employee contractual issues. These contractual issues include a 3.0% salary increase for State employees effective October 1, 2010, and anticipated increases in health insurance costs and retirement costs for State employees.

Therefore, the SFA is projecting that under these assumptions FY 2010-11 GF/GP appropriations will total $9.2 billion. This projection assumes a freeze in statutory revenue sharing payments to cities, villages, townships, and counties and a freeze in State support to Michigan's public universities and community colleges.

These FY 2010-11 GF/GP assumptions lead to the projected $1.5 billion imbalance between estimated revenue and appropriations. This imbalance equates to 16.5% of the projected FY 2010-11 spending base.

Table 18 provides an overview of the outlook for the FY 2010-11 SAF budget. This outlook points to a $339.4 million imbalance between estimated revenue and appropriations. The estimate is developed using several key revenue assumptions. The first assumption is that no increases in State revenue are enacted. The second assumption involves a continuation of the current level of the GF/GP grant to the SAF at the FY 2009-10 level. The final important revenue assumption involves the level of Federal ARRA funding in the budget. During FY 2009-10, Federal ARRA funding will support $450.0 million of SAF expenditures. The FY 2010-11 SAF budget will be supported by $184.1 million of Federal ARRA funding.

Table 18

FY 2010-11
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$55.5
Estimated Restricted SAF Revenue	10,530.0
GF/GP Grant	30.2
Federal Aid	1,602.0
Remaining Federal ARRA Funding	184.1
Total Estimated Revenue	**$12,401.7**
Potential Appropriations:	
FY 2009-10 Current Services Baseline	$12,741.3
Potential Appropriations	**$12,741.3**
Projected Budget Imbalance	**$(339.4)**

On the expenditure side of the FY 2010-11 SAF budget, the SFA's current services baseline assumes a freeze in SAF appropriations at the FY 2009-10 levels. This means the base per-pupil funding and categorical aid programs are continued at the current-year levels. The expenditure adjustments built into the SFA estimate of FY 2010-11 SAF expenditures include estimates of the number of pupils, estimates of taxable property values, and estimates of special education costs.

These FY 2010-11 SAF assumptions lead to a $339.4 million imbalance between revenue and expenditures. Eliminating this projected SAF budget imbalance with a pro-rata reduction in per- pupil funding would equate to a $215-per-pupil funding reduction. This represents a 3.0% reduction in the minimum per-pupil funding levels.

The major question that will be facing the Governor and the Legislature involving the FY 2010-11 GF/GP and SAF budgets will likely involve the debate between additional significant reductions in appropriations to balance the budget or a lessening of these appropriation reductions to be offset by increases in State tax revenue. In many respects this was the same debate between the Governor and the Legislature regarding the FY 2009-10 State budget. The outcome of this debate almost certainly will be the key policy decision made regarding the FY 2010-11 State budget.

FEDERAL AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 SUMMARY

The receipt of Federal funds under the provisions of ARRA has played a major role in balancing the FY 2008-09 and FY 2009-10 GF/GP and SAF budgets. During FY 2010-11, an additional $393.7 million of Federal ARRA funding will be used in the GF/GP and SAF budgets. Table 19 provides a summary of the total level of ARRA funding that is expected to be appropriated in the Michigan budget during FY 2008-09, FY 2009-10, and FY 2010-11. As illustrated in the table, $3.8 billion of Federal ARRA funding is being used over three fiscal years to help balance the GF/GP and SAF budgets. In addition, the Legislature has appropriated another $3.1 billion of Federal ARRA funding for programs specified in the Federal legislation. These include programs for K-12 education, workforce training, environmental cleanup, low-income home weatherization assistance, food assistance, energy programs, and unemployment assistance. In total, $6.9 billion of Federal ARRA funding will be appropriated by the Michigan Legislature during the FY 2008-09 through FY 2010-11 period.

Table 19

AMERICAN RECOVERY AND REINVESTMENT ACT FUNDING ASSUMED IN MICHIGAN STATE BUDGET (Millions of Dollars)

FY 2008-09	
General Fund/General Purpose	$1,298.1
School Aid Fund	597.5
Total	1,895.6
FY 2009-10	
General Fund/General Purpose	1,071.3
School Aid Fund	450.0
Total	1,521.3
FY 2010-11	
General Fund/General Purpose	209.6
School Aid Fund	184.1
Total	393.7
Three Year Totals	
General Fund/General Purpose	2,579.0
School Aid Fund	1,231.6
Grand Totals	**$3,810.6**
Restricted Federal Aid Programs:	
Transportation Projects	912.3
K-12 Special Education Programs	426.4
K-12 At-Risk Programs	465.1
Workforce Training Programs	273.2
Environmental Cleanup Projects	248.6
Low-Income Home Weatherization Programs	244.0
Food Assistance Programs	150.5
Energy Programs	120.5
Unemployment Assistance	86.0
All Other Restricted Programs	182.2
Subtotal Restricted Programs	3,108.8
Total Appropriated ARRA Funding	**$6,919.4**

Source: Senate Fiscal Agency