



**MICHIGAN'S  
ECONOMIC OUTLOOK  
AND BUDGET REVIEW**

**FY 2010-11, FY 2011-12,  
FY 2012-13, and FY 2013-14**

**December 28, 2011**



# THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge, the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.
2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



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## ***ACKNOWLEDGEMENT***

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## **EXECUTIVE SUMMARY**

### **ECONOMIC FORECAST**

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 1.7% during 2011, is predicted to expand 1.9% in 2012, 1.7% in 2013, and 2.4% in 2014. Light vehicle sales are forecasted to rise from 12.7 million units in 2011, to 13.4 million units in 2012, 14.4 million units in 2013, and 15.1 million units in 2014. The unemployment rate is expected to rise from 9.0% in 2011 to 9.2% in 2012, and then decline to 9.1% in 2013, and 8.6% in 2014; while the consumer price index is estimated to increase 2.1% in 2012, 1.8% in 2013, and 1.7% in 2014.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 0.3% in 2012, 0.8% in 2013, and 3.0% in 2014, after rising 2.2% in 2011. Wage and salary employment is predicted to continue growing, increasing 0.4% during 2012, 0.1% in 2013, and 1.0% in 2014. The 1.7% increase during 2011 was the first increase in wage and salary employment since 2000.

### **REVENUE FORECAST**

Preliminary final fiscal year (FY) 2010-11 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$20.1 billion, up 8.6% from FY 2009-10. The increase reflects an improving economy, combined with lower income tax refunds, and is \$261.2 million above the May 2011 consensus estimate.

In FY 2011-12, the economy will grow more slowly than in FY 2010-11, resulting in slower revenue growth. General Fund/General Purpose and SAF revenue will total an estimated \$19.8 billion, down 1.5% from FY 2010-11 but \$393.1 million above the May 2011 consensus estimate. Reflecting tax changes enacted during 2011, GF/GP revenue is expected to increase 3.0% from the FY 2010-11 level to \$9.1 billion while SAF revenue is projected to decline 5.0% to \$10.7 billion.

In FY 2012-13, GF/GP and SAF revenue will total an estimated \$19.9 billion, up 0.8% from FY 2011-12 and \$67.4 million above the May 2011 consensus estimate. General Fund/General Purpose revenue will total an estimated \$9.0 billion, a decline of 0.9% from FY 2011-12, while SAF revenue will rise to an estimated \$10.9 billion, a 2.3% increase.

In FY 2013-14, GF/GP and SAF revenue will total an estimated \$20.4 billion. This initial estimate for FY 2013-14 is 2.3% higher than the revised estimate for FY 2012-13. General Fund/General Purpose revenue will total an estimated \$9.2 billion, an increase of 2.1% from FY 2012-13, while SAF revenue will rise to an estimated \$11.2 billion, a 2.5% increase.

### **YEAR-END BALANCE ESTIMATES**

Based on the accounting of State revenue and expenditures as of December 22, 2011, the Senate Fiscal Agency (SFA) is estimating that the FY 2010-11 GF/GP budget will close the fiscal year with a \$568.3 million balance. The FY 2010-11 SAF budget will close the fiscal year with a \$722.6 million balance.

A comparison of the SFA's FY 2011-12 revenue estimates with enacted and projected appropriations leads to a \$691.8 million GF/GP balance. The SFA is now estimating that the FY 2011-12 SAF budget is in balance by \$44.1 million.

A look ahead at the FY 2012-13 budget, based on current SFA estimates, indicates a GF/GP projected ending balance of \$695.5 million and an SAF projected ending balance of \$148.0 million.

## EXECUTIVE SUMMARY

### SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

<b>ECONOMIC PROJECTIONS</b> (Calendar Year)					
	<b>2010</b> Actual	<b>2011</b> Actual	<b>2012</b> Estimate	<b>2013</b> Estimate	<b>2014</b> Estimate
Real Gross Domestic Product (% change)	3.0%	1.7%	1.9%	1.7%	2.4%
U.S. Consumer Price Index (% change)	1.6%	3.2%	2.1%	1.8%	1.7%
Light Motor Vehicle Sales (millions of units)	11.6	12.7	13.4	14.4	15.1
U.S. Unemployment Rate (%)	9.6%	9.0%	9.2%	9.1%	8.6%
Real Michigan Personal Income (% change)	2.5%	2.2%	0.3%	0.8%	3.0%
Michigan Wage & Salary Employment (% chng)	(0.3%)	1.7%	0.4%	0.1%	1.0%

<b>REVENUE ESTIMATES</b> <b>GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF)</b> (Millions of Dollars)									
	<b>FY 2011-12 Estimate</b>			<b>FY 2012-13 Estimate</b>			<b>FY 2013-14 Estimate</b>		
	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>	<b>Baseline</b>	<b>Tax Changes</b>	<b>Net Available</b>
GF/GP	\$8,550.4	\$544.0	\$9,094.4	\$8,883.5	\$125.9	\$9,009.3	\$9,233.8	\$(34.0)	\$9,199.8
% Change	4.8%	---	3.0%	3.9%	---	(0.9%)	3.9%	---	2.1%
School Aid Fund	\$11,418.9	(\$733.4)	\$10,685.5	\$11,652.7	(\$721.8)	\$10,930.8	\$11,935.6	(\$736.5)	\$11,199.1
% Change	2.8%	---	(5.0%)	2.0%	---	2.3%	2.4%	---	2.5%
Total GF/GP & SAF	\$19,969.3	(\$189.4)	\$19,779.9	\$20,536.2	(\$596.0)	\$19,940.1	\$21,169.3	(\$770.4)	\$20,398.9
% Change	2.8%	---	(1.5%)	2.8%	---	0.8%	3.1%	---	2.3%
Revenue Limit – Under (Over)		\$5,695.1			\$7,386.8			\$8,401.7	
	<b><u>FY 2010-11 Estimate</u></b>			<b><u>FY 2011-12 Estimate</u></b>			<b><u>FY 2012-13 Estimate</u></b>		
Revision from May Consensus		\$261.2			\$393.1			\$67.4	
GF/GP		\$148.2			\$341.9			\$100.9	
SAF		\$113.0			\$51.2			(\$33.5)	

<b>YEAR-END BALANCE ESTIMATES</b> (Fiscal Year, Millions of Dollars)			
	<b>FY 2010-11</b> Estimate	<b>FY 2011-12</b> Estimate	<b>FY 2012-13</b> Estimate
General Fund/General Purpose .....	\$568.3	\$691.8	\$695.5
School Aid Fund .....	\$722.6	\$44.1	\$148.0
Budget Stabilization Fund .....	\$2.2	\$258.0	\$260.6

**ECONOMIC REVIEW  
AND OUTLOOK**



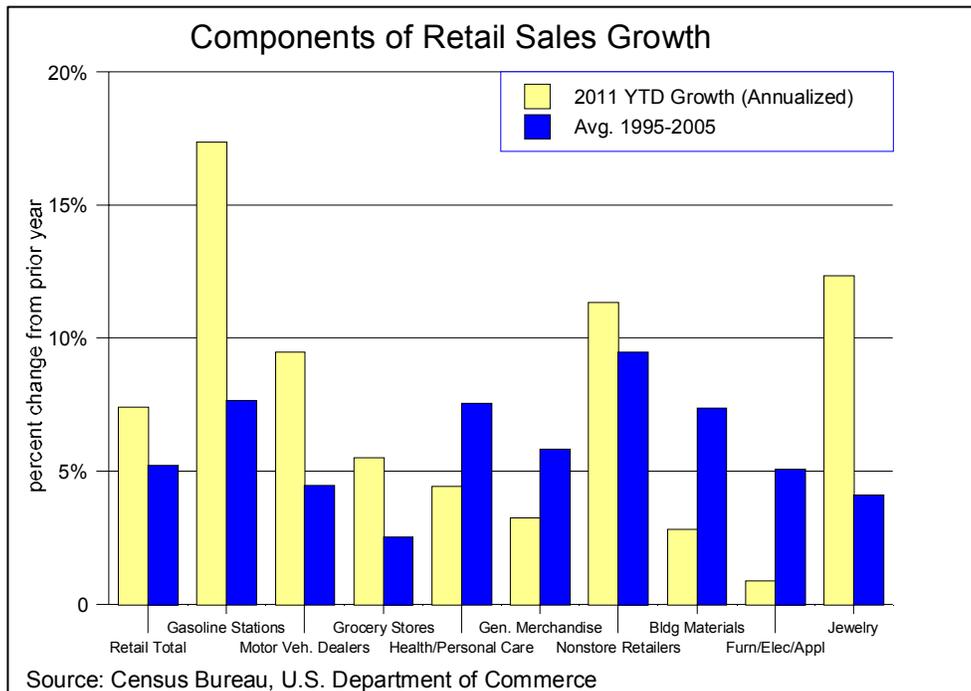
## ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's latest economic forecast for 2012, 2013, and 2014, as well as a summary of recent economic activity.

### RECENT U.S. ECONOMIC HIGHLIGHTS

On September 20, 2010, the National Bureau of Economic Research announced that the recession the U.S. economy had entered in December 2007 had ended in June 2009. Virtually every economic indicator identifies the 2008-2009 recession as the most severe economic contraction in more than 70 years. While the economy, particularly as measured by inflation-adjusted Gross Domestic Product (GDP), has grown since the second quarter of 2009, the gains have generally been modest. As of the third quarter of 2011, more than two years after the end of the recession, inflation-adjusted GDP was 5.5% above the level during the second quarter of 2009. Consumption has improved somewhat, but after nine quarters of growth, personal consumption expenditures in the third quarter of 2011 were only 4.8% above the level in the second quarter of 2009. Much of the growth in retail sales has been driven by higher fuel prices, higher food prices, and growth in the luxury market, such as jewelry (Figure 1). However, certain areas of consumer spending have shown more growth, with November 2011 light vehicle sales 47.1% above the February 2009 trough.

**Figure 1**



Despite the improvements in the economy, a number of fundamental indicators show limited, if any, improvement. The growth in payroll employment has remained weak, with a loss of more than 1.2 million jobs in the eight months after the recession ended in June 2009, and November 2011 employment only 835,000 jobs (0.9%) above the June 2009 level and only 1.9% above the February 2010 trough. Housing starts, a key indicator of the factors that led to the 2008-2009 recession, remain at depressed levels, with 2011 starts averaging only 2.9% above the level in

June 2009. In November 2011, consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, was 9.5% below the June 2009 level and down 10.5% from the November 2010 level. The index of consumer expectations component of sentiment, which measures future expectations of the economy, was 14.5% below the level in November 2010, with only 22.0% of consumers expecting their finances to improve in the coming year. Despite expectations of low inflation, more than half of the families in the survey expected their living standards to deteriorate during 2012. Business inventories have risen, and while some of the increase is likely intended, the increase means that production has exceeded consumption. Since the fourth quarter of 2009, inventories have increased by an inflation-adjusted \$321.3 billion, approximately 62.0% of the \$518.8 billion net increase in total inflation-adjusted GDP. Normally, increases in personal consumption account for approximately 70% to 75% of economic growth; and growth that is driven on increases in the value of unsold goods is not sustainable.

Several economic indicators currently exhibit conditions that have both positive and negative implications, and exhibit strength for some aspects of the economy but not for others. Productivity, as measured by output per worker, has risen at an average annual rate of 3.9% since the second quarter of 2009, well above the 1.7% average during much of the latter half of the 20<sup>th</sup> century. Productivity gains have increased output and income, but have reduced the need for additional workers and thus kept unemployment higher than would otherwise be expected. Personal income increased by 8.7% (not adjusted for inflation) between the second quarter of 2009 and the third quarter of 2011 (an average annual increase of only 3.8%, compared with an annual rate of 2.5% for inflation over the period), and personal saving as a share of disposable personal income (personal income after taxes) declined from 6.2% (the highest level in 18 years) in the second quarter of 2009 to 3.9% in the third quarter of 2011--only slightly above the levels of the last 15 years. Much of the increase in saving over this period was used to reduce household debt, which declined 3.3% between the second quarter of 2009 and the third quarter of 2011. Slower consumption growth and higher saving reduce the need for additional output and workers but improve the overall long-term financial health of consumers. Details for selected economic indicators are presented in [Table 1](#) and [Table 2](#).

Michigan's economy has spent the last 10 years in recession, largely driven by the same fundamental restructuring as that affecting manufacturing globally. Manufacturing has experienced a significant surge in productivity, driven by increased competition in the economy. For Michigan, the effect of productivity improvements was substantial, particularly given that there was more room for improvement in the durable goods and motor vehicle manufacturing sectors 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. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment from both productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Michigan wage and salary employment increased by an estimated 1.7% (64,200 jobs) during 2011, the first annual increase since 2000. Manufacturing employment in Michigan rose by 55,000 jobs (12.4%) between June 2009, when the U.S. recession ended, and November 2011. Employment in the transportation equipment manufacturing sector increased by 25.7% over that period, accounting for more than half (28,300) of the manufacturing jobs Michigan gained. Michigan payroll employment declined for 12 consecutive months between July 2008 and June 2009, but has risen in 15 of the last 23 months. (Manufacturing employment also has risen in 15 of

the last 23 months.) The unemployment rate declined from a high of 14.1% in August and September of 2009 to 9.8% in November 2011, although a portion of that decline represents the departure of individuals from the labor force.

**Table 1**  
**THE SENATE FISCAL AGENCY ECONOMIC FORECAST**  
**(Calendar Years)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b><u>United States</u></b>					
Nominal GDP (year-to-year growth)	4.2%	3.9%	3.7%	3.3%	3.9%
Inflation-Adjusted GDP (year-to-year growth)	3.0%	1.7%	1.9%	1.7%	2.4%
Unemployment Rate	9.6%	9.0%	9.2%	9.1%	8.6%
<b>Inflation</b>					
Consumer Price Index (year-to-year growth)	1.6%	3.2%	2.1%	1.8%	1.7%
GDP Implicit Price Deflator (year-to-year growth)	1.2%	2.2%	1.8%	1.6%	1.5%
<b>Interest Rates</b>					
90-day Treasury Bill	0.14%	0.06%	0.07%	0.15%	0.47%
Corporate Aaa Bond	4.94%	4.66%	4.00%	4.12%	4.34%
Federal Funds Rate	0.18%	0.10%	0.11%	0.19%	0.41%
<b>Light Motor Vehicle Sales (millions of units)</b>					
Auto	11.6	12.7	13.4	14.4	15.1
Truck	5.7	6.2	6.6	7.1	7.4
Import Share	5.8	6.5	6.8	7.3	7.7
	23.7%	22.5%	22.1%	22.2%	22.5%
<b><u>Michigan</u></b>					
Personal Income (millions)	\$342,663	\$362,295	\$371,164	\$380,230	\$397,618
Year-to-year growth	3.3%	5.7%	2.4%	2.4%	4.6%
Inflation-Adjusted Personal Income (year-to-year growth)	2.5%	2.2%	0.3%	0.8%	3.0%
Wage & Salary Income (millions)	\$173,642	\$183,794	\$187,279	\$192,035	\$199,199
Year-to-year growth	1.7%	5.8%	1.9%	2.5%	3.7%
Detroit Consumer Price Index (year-to-year growth)	0.8%	3.4%	2.2%	1.7%	1.6%
Wage & Salary Employment (thousands)	3,861.4	3,925.6	3,941.5	3,946.4	3,984.8
Year-to-year growth	(0.3%)	1.7%	0.4%	0.1%	1.0%
Unemployment Rate	12.5%	10.7%	10.6%	10.6%	10.2%

Table 2

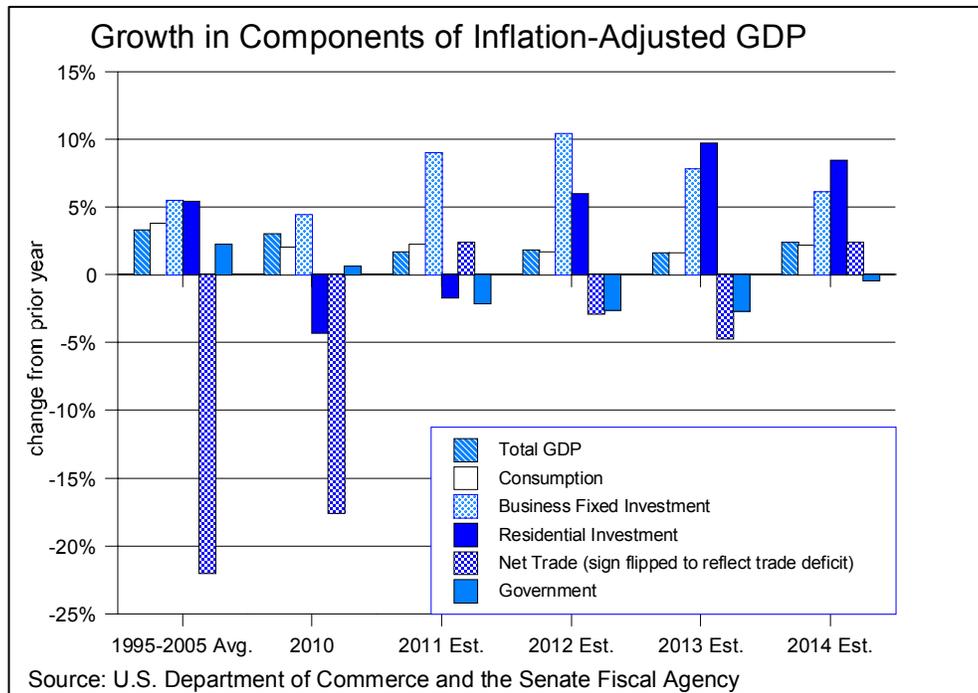
THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2010	2011	2012	2013	2014
	Actual	Actual	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$14,526.5	\$15,094.2	\$15,648.4	\$16,164.7	\$16,792.8
Year-to-year growth	4.2%	3.9%	3.7%	3.3%	3.9%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2005 dollars)	\$13,088.0	\$13,311.8	\$13,561.9	\$13,787.6	\$14,116.4
Year-to-year growth	3.0%	1.7%	1.9%	1.7%	2.4%
Consumption (billions of 2005 dollars)	\$9,220.9	\$9,427.1	\$9,590.0	\$9,749.7	\$9,964.4
Year-to-year growth	2.0%	2.2%	1.7%	1.7%	2.2%
Business Fixed Investment (billions of 2005 dollars)	\$1,319.2	\$1,438.5	\$1,588.1	\$1,712.8	\$1,818.6
Year-to-year growth	4.4%	9.0%	10.4%	7.9%	6.2%
Change in Business Inventories (billions of 2005 dollars)	\$58.8	\$22.7	\$31.8	\$42.1	\$32.3
Residential Investment (billions of 2005 dollars)	\$330.8	\$325.3	\$344.8	\$378.3	\$410.4
Year-to-year growth	-4.3%	-1.7%	6.0%	9.7%	8.5%
Government Spending (billions of 2005 dollars)	\$2,556.8	\$2,503.1	\$2,439.3	\$2,374.8	\$2,365.4
Year-to-year growth	0.7%	-2.1%	-2.5%	-2.6%	-0.4%
Net Exports (billions of 2005 dollars)	(\$421.8)	(\$411.6)	(\$423.4)	(\$443.2)	(\$432.5)
Exports (billions of 2005 dollars)	\$1,663.2	\$1,773.6	\$1,843.9	\$1,947.9	\$2,072.8
Imports (billions of 2005 dollars)	\$2,085.0	\$2,185.2	\$2,267.3	\$2,391.1	\$2,505.3
Personal Income (year-to-year growth)	3.7%	4.8%	2.7%	2.8%	5.0%
Adjusted for Inflation	2.0%	1.5%	0.6%	0.9%	3.2%
Wage & Salary Income (year-to-year growth)	2.2%	3.5%	2.6%	3.1%	4.3%
Personal Savings Rate	5.3%	4.3%	3.6%	2.7%	2.8%
Capacity Utilization Rate	74.5%	77.1%	77.3%	76.9%	77.6%
Housing Starts (millions of units)	0.587	0.595	0.654	0.768	0.847
Conventional Mortgage Rates	4.7%	4.5%	4.0%	4.3%	4.7%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$1,273.7)	(\$1,185.4)	(\$1,079.0)	(\$908.4)	(\$734.1)

### **FORECAST SUMMARY**

During 2012, the U.S. economy is expected to expand at roughly the same rate as during 2011, while the Michigan economy is expected to grow more slowly than during 2011. Michigan's economy is forecast to exhibit both income and employment growth during 2012, although the improvements will be modest. [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 GDP is projected to rise 1.9% in 2012, slightly faster than the 1.7% increase currently estimated for 2011. Economic growth will slow again during 2013, with inflation-adjusted GDP rising 1.7%,

before increasing 2.4% in 2014. The expansion over the forecast period primarily reflects improvements in business investment, and a slow but growing recovery in residential investment that will more than offset the drag on the economy from a declining public sector (Figure 2).

**Figure 2**



Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replaces capital for labor, although investment in structures, which represents new facilities, also is expected to exhibit significant growth. Reflecting weak employment growth, the unemployment rate is expected to increase slightly during 2012, rising from 9.0% during 2011 to 9.2% in 2012, before declining to 9.1% in 2013 and 8.6% in 2014. As has been true for the recovery so far, a meaningful portion of the improvement in the unemployment rate will reflect individuals leaving the labor force, rather than substantial gains in employment.

Inflation is not anticipated to be a concern over the forecast period, despite the assumption of high energy prices and a decline in the value of the dollar toward the end of the forecast period. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.1% in 2012, followed by increases of 1.8% in 2013 and 1.7% in 2014. Core inflation, which is less volatile but tracks overall long-term inflation quite accurately, is expected to be even less. Export growth is expected to be tempered by slower economic growth overseas, particularly due to a forecasted recession in Europe, and by growth in the value of the dollar. As foreign economies improve later in the forecast period, the twin impacts of healthier export markets and renewed declines in the value of the dollar will improve U.S. exports. Productivity, weak domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to decrease 0.3% in 2012, before rising only 0.13% in 2013 and 0.9% in 2014.

In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average, although employment is expected to exhibit its strongest performance in more than a decade (Figures 3 and 4). Inflation-adjusted personal income is projected to increase 0.3% in 2012 and 0.8% in 2013, before growing by 3.0% in 2014. Payroll employment is expected to increase a meager 0.4% in 2012, after expanding 1.7% during 2011, and then increase 0.1% in 2013 and 1.0% in 2014. Private sector gains in employment during 2012 and 2013 are expected to be partially offset by declines in public sector employment, as State and local governments experience continued budgetary problems (Figure 5). Nationally, light vehicle sales are expected to increase from 12.7 million units in 2011 to 13.4 million units in 2012, 14.4 million units in 2013, and 15.1 million units in 2014. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to slowly decline, from 12.5% in 2010 and 10.7% in 2011, to 10.6% in both 2012 and 2013, and 10.2% in 2014.

Compared with the May 16, 2011, Consensus Economic Forecast, both the U.S. and Michigan forecasts are slightly weaker. Continued weakness in the housing and financial markets, combined with weak employment growth, weak income growth, and slowdowns in overseas economies, will temper the pace of the U.S. and Michigan recoveries during 2012 and 2013. Improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation as the government sector contracts.

**Figure 3**

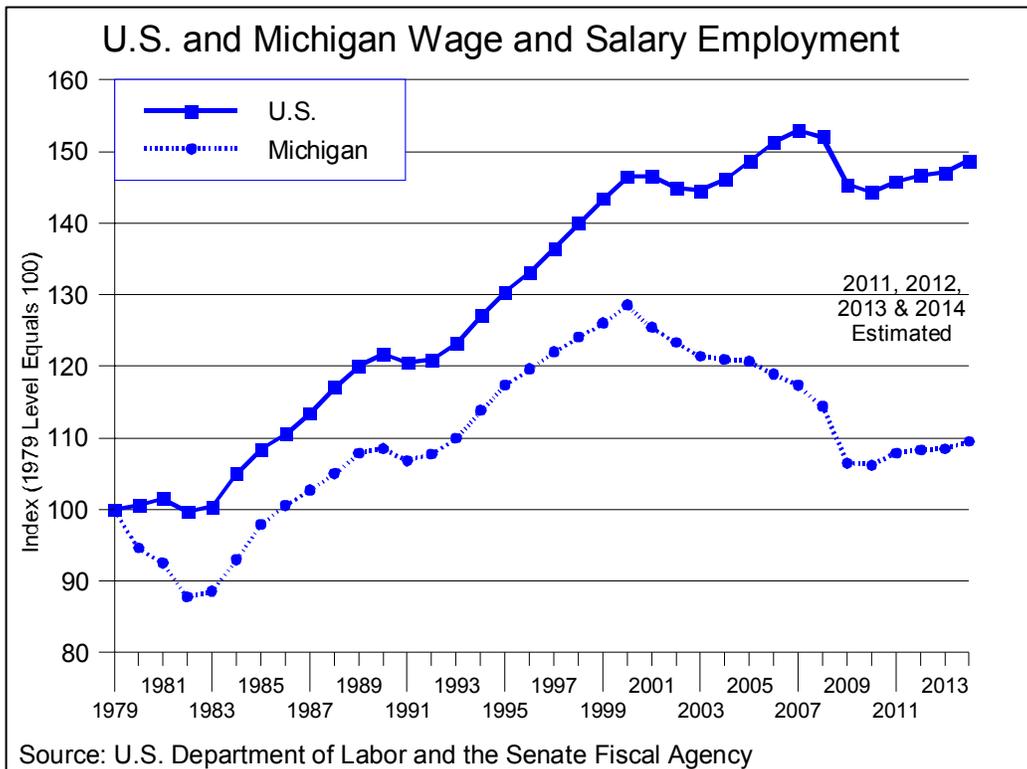


Figure 4

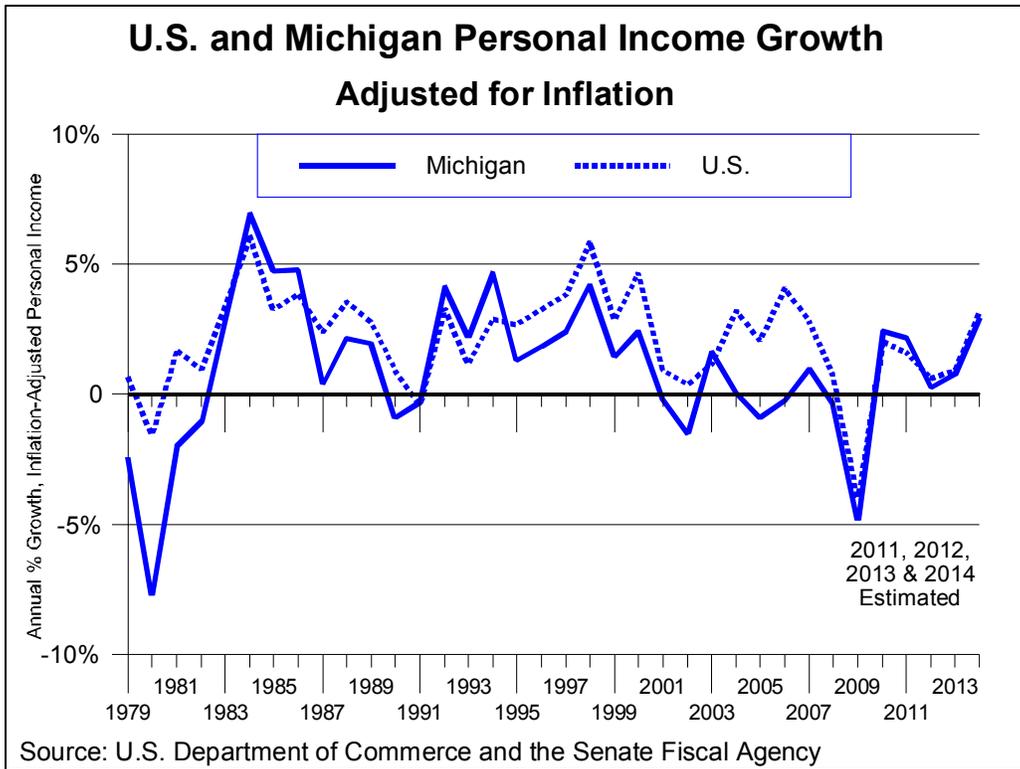
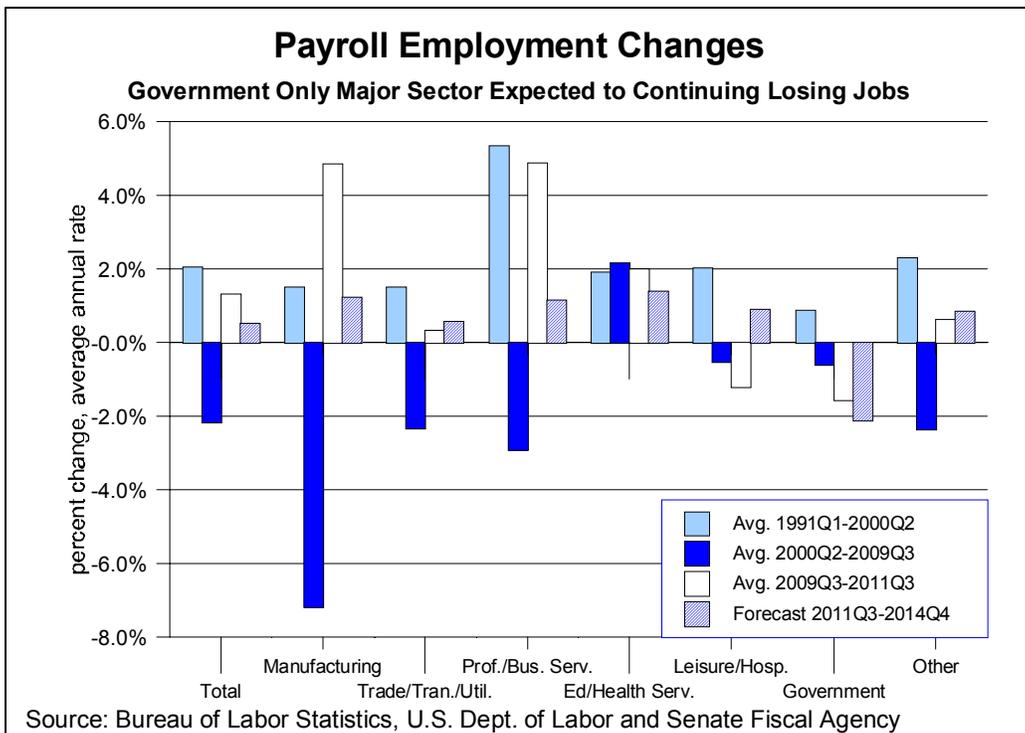


Figure 5

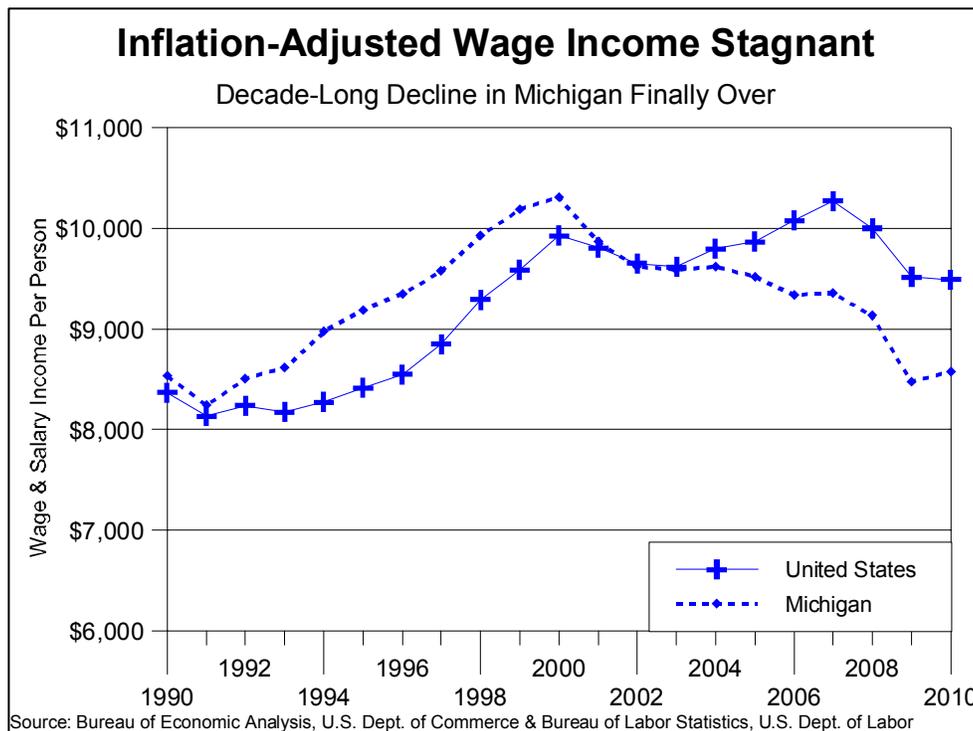


## **FORECAST RISKS**

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 potential for 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 the economic recovery could be weaker than forecasted.

**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 over the last three years have induced consumers to rein in their spending. As a result, the savings rate has been significantly higher over the last 15 quarters. However, consumers will need to save at a far higher rate than this to offset their losses in home equity and in the stock market. Limited income growth and high debt burdens will impede consumers in their ability to increase saving and/or significantly reduce debt. 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**



Historically consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, it was the largest percentage decline since 1942, and the largest peacetime decline since 1938. From peak to trough, inflation-adjusted consumption spending fell 3.3% between the fourth quarter of 2007 and the second

quarter of 2009, as the economy shed 6.9 million jobs. Personal income fell more slowly over that time period, declining 1.6%, indicating that consumers engaged in a large amount of precautionary savings: reducing consumption by more than accounted for by actual income changes. As consumption has improved over the last nine quarters, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much actual growth in the underlying consumption trend is actually occurring. For example, despite five quarters of growth in consumption, personal consumption expenditures in the third quarter of 2010 remained below the level in the fourth quarter of 2007 and in the third quarter of 2011 were only 1.3% above that level. Despite more than 30 months of consistent growth in retail sales, November 2011 retail sales levels were only 4.9% above the level in November 2007, without adjusting for inflation. As a result, another way of looking at the question of consumer saving behavior is to examine the nature of consumer spending. If consumers make their deferred purchases and only continue spending in the near future at replacement rates, then as income grows saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

The durability of consumer spending represents the primary determinant of the accuracy of the forecast. Retail sales data indicate that a substantial portion of the gains in consumer spending during 2011 represented expenditures on gasoline and on motor vehicles. Gasoline prices were largely driven higher by events in the Middle East, such as the revolution in Libya, and vehicle sales have been below scrappage rates for several years. Expenditures have risen more rapidly than incomes for much of the past year, especially during the summer of 2011, and saving rates have fallen to their lowest levels since 2007. The forecast assumes that consumers will not continue this behavior. Declines in debt levels suggest that consumers wish to reduce outstanding debt, even though the cost of servicing their debt has returned to prerecession levels. In the context of the data on consumer sentiment, the forecast assumes that much of the increase in consumption during 2011 reflects a view that the gasoline price increases were largely temporary and that the economy would provide enough stability to support replacement purchases of essential durable goods that were at the end of their product life. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

**Michigan's Situation.** While over the last 10 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, 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 10 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.

Weak markets for housing, credit, and employment, coupled with 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, although the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 7). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 8). Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the additional demand can be met with existing employees, and low capital costs combined with meaningful

productivity growth means few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (68.8%, a decline of nearly 243,100 jobs) in transportation equipment manufacturing that existed at the July 2000 peak, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted. 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 for decades.

The forecast expects employment levels in the transportation equipment manufacturing sector to increase slightly through 2012, 2013, and 2014. Overall employment in Michigan is expected to grow slightly, with many of the employment gains in 2012 and 2013 largely offset by declines in State and local government employment. However, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, meaningful growth is unlikely to occur until a meaningful recovery occurs in both the financial sector and the housing industry, and consumers have improved their debt-to-income ratios. These changes, which are expected to take years, will need to occur at both the national and statewide levels before Michigan will experience economic growth on a sustained basis.

**Figure 7**

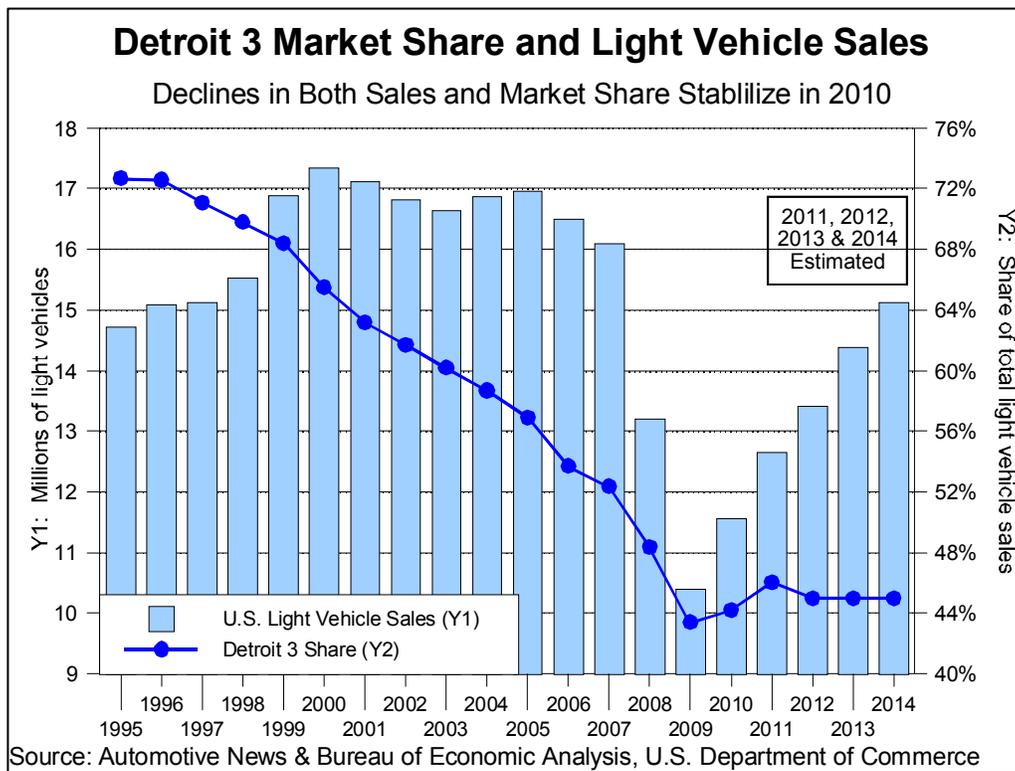
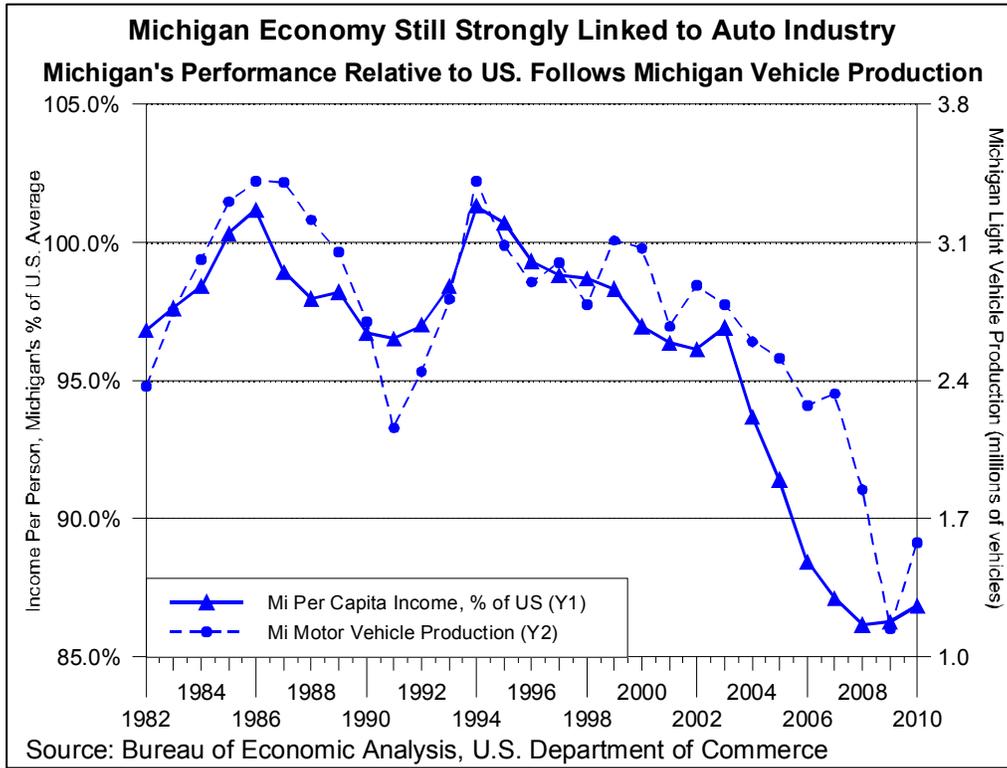


Figure 8





**FORECAST FOR  
STATE REVENUE**



## **THE FORECAST FOR STATE REVENUE**

This section of the Economic Outlook and Budget Review 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 2010-11 is presented along with the revised estimates for FY 2011-12 and FY 2012-13 and the initial revenue estimates for FY 2013-14. 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, these revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget 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 2010-11 and FY 2011-12 are discussed in the last section of this report.

### **REVENUE OVERVIEW**

The preliminary final GF/GP and SAF revenue for FY 2010-11, along with the revised estimates for FY 2011-12 and FY 2012-13, and the initial estimates for FY 2013-14 are presented in Table 3 and are summarized below.

#### **FY 2010-11 Preliminary Final Revenue**

- GF/GP and SAF revenue totaled \$20.1 billion, up 8.6% from FY 2009-10.
- Most of the increase in GF/GP and SAF revenue reflected increased employment and higher wages, combined with high gasoline prices, during 2011.
- On a baseline basis, GF/GP and SAF revenue was up 7.1% in FY 2010-11.
- GF/GP and SAF revenue exceeded the consensus revenue estimate adopted in May 2010 by \$261.2 million.

#### **FY 2011-12 Revised Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$19.8 billion in FY 2011-12.
- This revised estimate for FY 2011-12 is down 1.5% or \$303.3 million from the revised estimate for FY 2010-11.
- In FY 2011-12, increased revenue from higher economic activity is more than offset by negative impacts from changes in business taxes and the absence of the certain one-time revenue sources from FY 2010-11.
- The revenue projected for FY 2011-12 marks the first decrease in revenue since FY 2008-09.
- The revised estimate for FY 2011-12 is \$393.1 million above the May 2011 consensus revenue estimate.

#### **FY 2012-13 Revised Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$19.9 billion in FY 2012-13.
- This revised estimate for FY 2012-13 is up 0.8% or \$160.2 million from the revised estimate for FY 2011-12.
- While the revenue increase in FY 2012-13 reflects improvements in the level of economic activity, the increases are reduced by substantial negative impacts from changes in business taxes. However, unlike in FY 2011-12, the negative impacts do not exceed the gains.

### **FY 2013-14 Initial Revenue Estimate**

- GF/GP and SAF revenue is expected to total \$20.4 billion in FY 2013-14.
- This initial estimate for FY 2013-14 is up 2.3% or \$458.8 million from the revised estimate for FY 2012-13.
- As in FY 2012-13, the revenue increase in FY 2013-14 reflects improvements in the level of economic activity, although substantial negative impacts from changes in business taxes still reduce revenue.

### **Historical Perspective**

- Net GF/GP and SAF revenue increased 8.6% in FY 2010-11 and is forecasted to decline 1.5% in FY 2011-12 before growing 0.8% in FY 2012-13 and 2.3% in FY 2013-14. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period.
- The 8.6% increase in combined GF/GP and SAF revenue for FY 2010-11 is the strongest growth in combined GF/GP and SAF revenue since FY 1984-85, excluding the increases associated with adoption of Proposal A in 1994.
- The revised estimate for GF/GP revenue from ongoing sources in FY 2010-11 is 19.4% (\$1.9 billion) below the FY 1999-2000 level and 15.7% below the record peak reached in FY 2007-08. By FY 2013-14, ongoing GF/GP revenue will still be nearly \$1.6 billion below the FY 1999-2000 level and almost \$1.2 billion below the level in FY 2007-08.
- In FY 2010-11, School Aid Fund revenue from ongoing sources is estimated to be 2.3% (\$261.4 million) below the FY 2007-08 peak, and 13.8% (\$1.4 billion) more than in FY 1999-2000. By FY 2013-14, ongoing SAF revenue will be \$313.8 million below the FY 2007-08 peak, and \$1.3 billion over the level in FY 1999-2000.

The FY 2010-11 increase in GF/GP and SAF revenue measured in terms of both baseline revenue and net revenue from ongoing sources will be the strongest increase in over a decade. [Figure 9](#) presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2013-14. During this 27-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budget problems, they represent relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and the additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue rose 7.1% in FY 2010-11, and will increase 2.8% in FY 2011-12, 2.8% in FY 2012-13, and 3.1% in FY 2013-14.

Table 3

<b>SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2010-11 THROUGH FY 2013-14</b>				
<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND</b>				
<b>(Millions of Dollars)</b>				
	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
	<b>Prelim. Final</b>	<b>Revised Est.</b>	<b>Revised Est.</b>	<b>Initial Est.</b>
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	\$8,157.1	\$8,550.4	\$8,883.5	\$9,233.8
Tax Changes Not In Baseline	674.4	544.0	125.9	(34.0)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	4,447.4	4,958.6	5,778.8	5,998.7
Business Taxes <sup>1)</sup>	1,622.9	1,478.1	598.6	225.6
Other Taxes	2,215.1	2,237.1	2,306.2	2,658.6
Total Taxes	8,285.4	8,673.8	8,683.6	8,882.9
Nontax Revenue	546.1	420.6	325.8	316.9
<b>TOTAL GF/GP REVENUE</b>	<b>\$8,831.5</b>	<b>\$9,094.4</b>	<b>\$9,009.3</b>	<b>\$9,199.8</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF\$	\$11,274.7	\$11,418.9	\$11,652.7	\$11,935.6
Tax Changes Not In Baseline	(23.2)	(733.4)	(721.8)	(736.5)
<b>TOTAL SAF REVENUE</b>	<b>\$11,251.5</b>	<b>\$10,685.5</b>	<b>\$10,930.8</b>	<b>\$11,199.1</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>	<b>\$19,431.8</b>	<b>\$19,969.3</b>	<b>\$20,536.2</b>	<b>\$21,169.3</b>
Tax & Revenue Changes	651.1	(189.4)	(596.0)	(770.4)
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>\$20,082.9</b>	<b>\$19,779.9</b>	<b>\$19,940.1</b>	<b>\$20,398.9</b>
SALES TAX	\$6,710.9	\$6,817.6	\$6,964.2	\$7,160.6
<b>PERCENT CHANGE</b>				
<b>GENERAL FUND/GENERAL PURPOSE</b>				
Baseline Revenue	11.5%	4.8%	3.9%	3.9%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	20.4	11.5	16.5	3.8
Business Taxes <sup>1)</sup>	16.4	(8.9)	(59.5)	(62.3)
Other Taxes	(0.2)	1.0	3.1	(87.1)
Total Taxes	13.4	4.7	0.1	2.3
Nontax Revenue	46.8	(23.0)	(22.5)	(2.7)
<b>TOTAL GF/GP REVENUE</b>	<b>15.0%</b>	<b>3.0%</b>	<b>(0.9%)</b>	<b>2.1%</b>
<b>SCHOOL AID FUND</b>				
Baseline SAF	4.1%	1.3%	2.0%	2.4%
<b>TOTAL SAF REVENUE</b>	<b>4.0%</b>	<b>(5.0%)</b>	<b>2.3%</b>	<b>2.5%</b>
<b>BASELINE GF/GP AND SAF REVENUE</b>	<b>7.1%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>3.1%</b>
<b>GF/GP &amp; SAF REV. AFTER CHANGES</b>	<b>8.6%</b>	<b>(1.5%)</b>	<b>0.8%</b>	<b>2.3%</b>
SALES TAX	8.6%	1.6%	2.2%	2.8%
<sup>1)</sup> Business taxes include revenue from the Single Business Tax (SBT), the Michigan Business Tax (MBT), the Corporate Income Tax (CIT), and the Insurance Tax.				

Figure 9

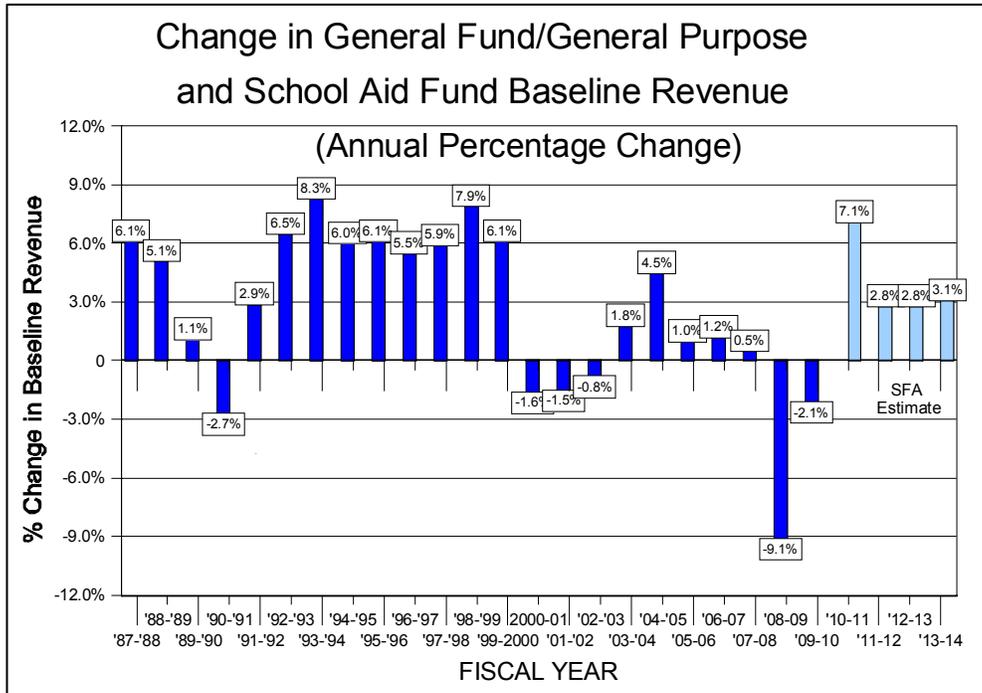


Figure 10 compares actual FY 1995-96 through estimated FY 2013-14 GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to \$9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during FY 2008-09 and FY 2009-10, due to the 2008-09 recession, reduced GF/GP revenue to its lowest level since FY 1987-88, as shown in Figure 11. Despite the growth estimated over most of the forecast period, ongoing GF/GP revenue in FY 2013-14 will be approximately 6.1% (or \$531.3 million) below the FY 1995-96 level (without accounting for inflation), and 18.0% (or \$1.7 billion) below the FY 1967-68 level if adjusted for inflation. 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 FY 2009-10. Ongoing SAF revenue is expected to grow consistently through the forecast period, except for a significant decline during FY 2011-12 due to tax policy changes. In FY 2013-14, SAF revenue is predicted to be approximately 51.5% above the revenue level in FY 1995-96 (without accounting for inflation) and 14.7% (or \$1.2 billion) below if adjusted for inflation, as shown in Figure 12.

Figure 10

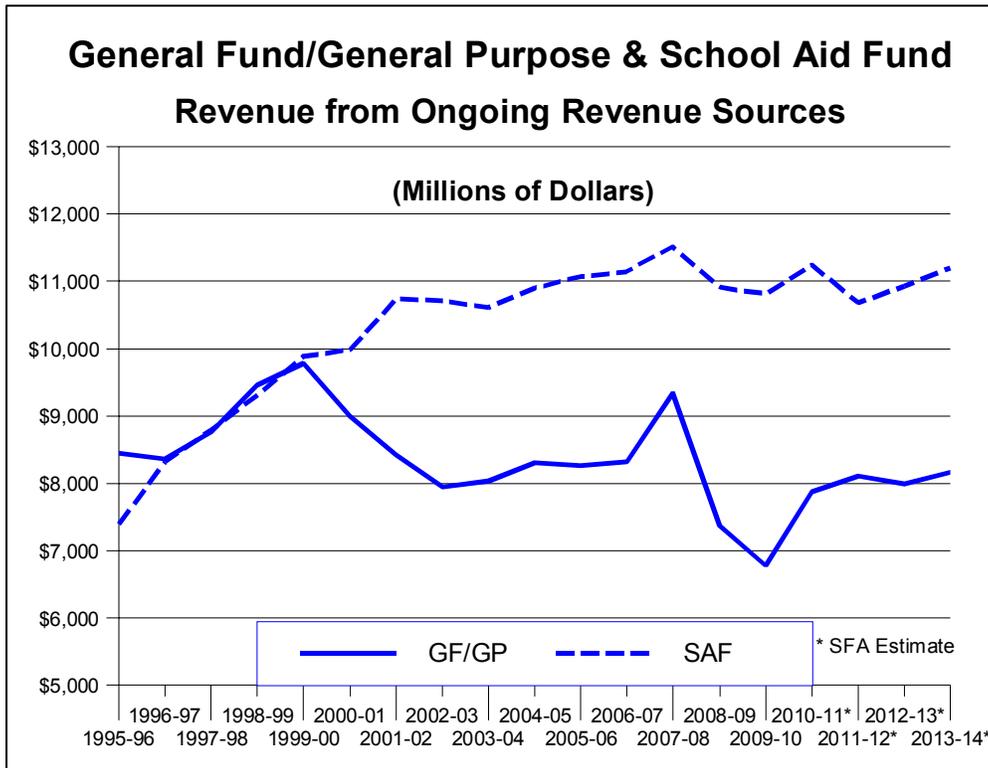


Figure 11

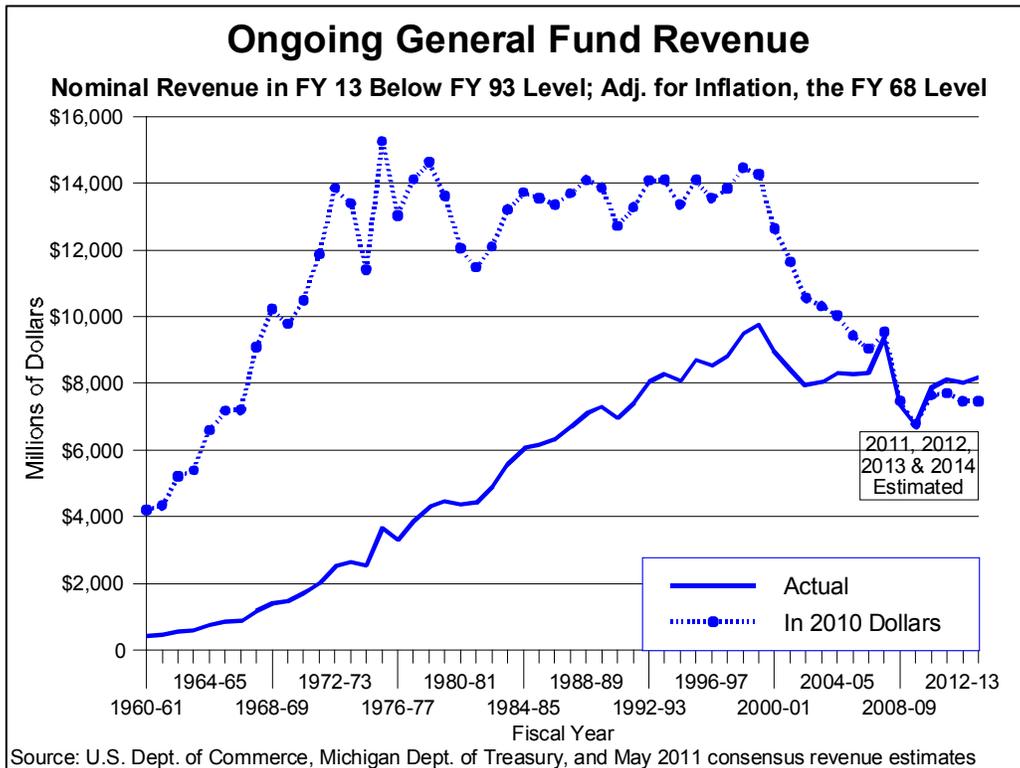
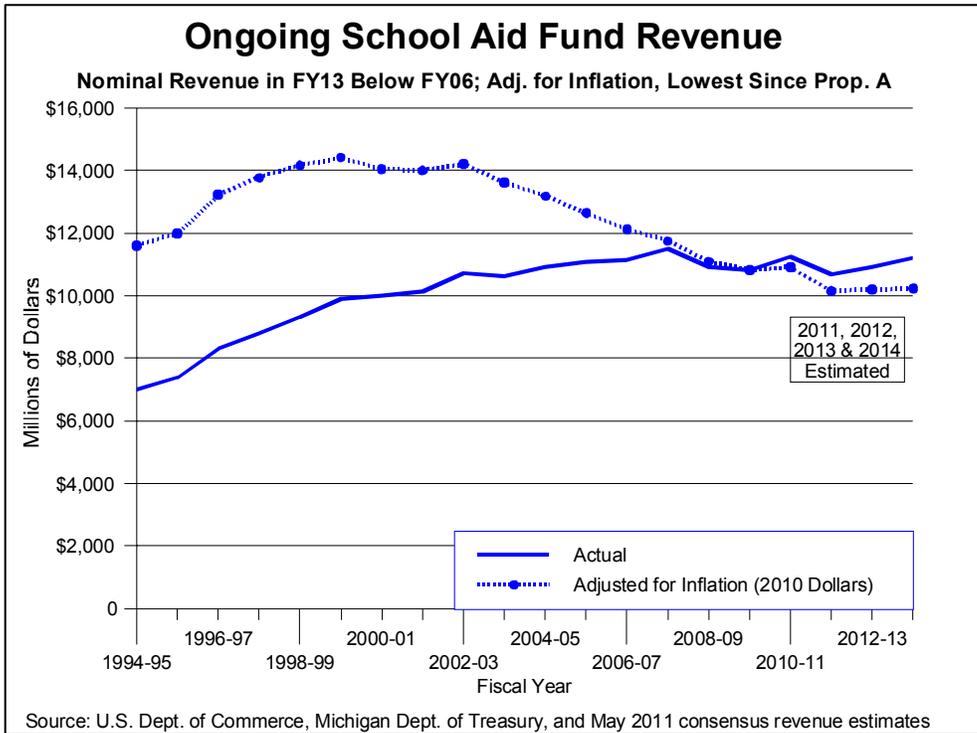


Figure 12



**FY 2010-11 PRELIMINARY YEAR-END REVENUE**

- General Fund/General Purpose and SAF revenue increased an estimated 8.6% in FY 2010-11 compared with FY 2009-10.
- The revenue increase in FY 2010-11 reflects an improved economic climate in Michigan, as well as some State and Federal tax policy changes.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$20.1 billion in FY 2010-11, which is 8.6% above the FY 2009-10 revenue level, as presented in Table 4. While GF/GP and SAF revenue was expected to be up significantly in FY 2010-11, due largely to the improving economy and one-time revenue increases, the changes in the economy boosted revenue above expected levels, especially through the summer of 2011. The preliminary final revenue level is above the May 2011 consensus revenue estimate by \$261.2 million. Most of the revenue increase from the May 2011 estimate came from the income tax and sales tax. Adjusted for tax changes and other special revenue provisions, baseline GF/GP and SAF revenue increased 7.1% in FY 2010-11.

**Tax Policy Changes**

Several tax policy changes by both the State and the Federal government had positive impacts on revenue in FY 2010-11. These tax policy changes include a tax amnesty, changes in the way unclaimed property is handled, and the Federal increase in tobacco taxes.

**Tax Amnesty.** Public Act 198 of 2010 enacted a tax amnesty from May 15, 2011, through June 30, 2011, for taxes due before January 1, 2010. Based on current estimates, the amnesty produced collections of \$81.2 million during FY 2010-11, including \$65.5 million in GF/GP revenue and \$14.7 million in SAF revenue. However, a portion of this revenue represents collections the State would have received in later fiscal years through the delinquent collections process. As a

result, while the amnesty increased revenue during FY 2010-11, the amnesty also will reduce revenue collections in later years, particularly during FY 2011-12.

**Unclaimed Property.** Michigan statute requires that certain property that remains unclaimed by its owner for a proscribed period of time be remitted to the State. Such property may be tangible or intangible, and common intangible property affected by the law includes bank deposits, life insurance payments, gift cards, and other financial instruments such as stocks. While owners of the property are always able to claim their property, even after it has been turned over to the State, accounting rules allow the State to assume a portion of the property will never be claimed if it remains unclaimed for a sufficient period of time. Public Act 197 of 2010 altered the applicable dormancy period for many types of property to be considered abandoned, accelerating when the State would receive the property. As a result, the State collected an additional \$175.4 million during FY 2010-11, and is expected to receive an additional \$35.0 million during FY 2011-12. Similar to the issue with the tax amnesty, a portion of these increases represents property that the State would have received in later fiscal years. As a result, the changes are expected to reduce revenue by approximately \$35.0 million per year during FY 2012-13 and FY 2013-14.

**Tobacco Taxes.** On April 1, 2009, the Federal government increased its cigarette tax \$0.61 per pack. This increase in the Federal tax boosts the price of cigarettes and therefore reduces the number of packs purchased. Michigan's tax on cigarettes is \$2 per pack, so this decline in the sale of cigarettes reduced Michigan's cigarette tax revenue an estimated \$48.3 million in FY 2010-11. The Federal tax on other tobacco products also was increased effective April 1, 2009; however, due to the fact that Michigan's tax on other tobacco products is 32.0% of the wholesale price, the Federal tax increase is expected to have boosted Michigan's tax revenue an estimated \$2.7 million in FY 2010-11. Therefore, it is estimated that Michigan's tobacco tax revenue declined a net \$45.6 million in FY 2010-11 due to the increase in the Federal tobacco tax and this loss in revenue affected the following budget areas: School Aid Fund revenue declined \$20.1 million, GF/GP revenue fell \$8.8 million, and most of the remaining loss in tobacco tax revenue reduced revenue deposited in the Medicaid Trust Fund.

In addition, in late 2009 Michigan enacted legislation that significantly restricts smoking in public places such as restaurants and bars. In FY 2010-11, the legislation exhibited an impact for the full fiscal year, and reduced tobacco tax revenue by an estimated \$33.0 million, including \$6.5 million of GF/GP revenue and \$13.7 million in revenue directed to the SAF.

### **General Fund/General Purpose**

- General Fund/General Purpose revenue totaled an estimated \$8.8 billion in FY 2010-11, which is up 15.0% or \$1,152.0 million from FY 2009-10.
- Compared with the May 2011 consensus estimate, GF/GP revenue for FY 2010-11 has been revised up by \$148.2 million.

The significant 15.0% increase in GF/GP revenue for FY 2010-11 reflects several factors: improvements in the Michigan economy that have had a positive impact on income tax revenue, a prolonged period of high gasoline and energy prices that increased sales tax revenue, improved business profits that boosted MBT revenue, and one-time revenue increases from the tax amnesty and unclaimed property transfers. Furthermore, income tax refunds were down 11.4%, or \$273.7 million, from the FY 2009-10 level. Because income tax revenue earmarked to the SAF is based on gross collections, any decline in refunds increases GF/GP revenue. Similarly, MBT revenue earmarked to the SAF is determined by a fixed amount that grows by inflation, meaning that any increase in MBT revenue beyond that amount improves GF/GP revenue. A breakdown of the preliminary final GF/GP revenue estimate for FY 2010-11 is presented in [Table 4](#).

**Table 4**  
**FY 2010-11 PRELIMINARY FINAL REVENUE**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
**(Millions of Dollars)**

	FY 2009-10 Final	FY 2010-11 Prelim. Final	Change from FY 2009-10		\$ Change from 05/11 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$7,400.1	\$8,254.0	\$853.9	11.5%	\$79.4
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	279.4	577.5	298.1	---	---
<u>Personal Income Tax</u>					
Gross Collections	7,932.4	8,548.3	615.9	7.8	68.1
Less: Refunds	(2,400.8)	(2,127.1)	273.8	(11.4)	111.7
Net Income Tax Collections	5,531.6	6,421.3	889.7	16.1	179.8
Less: Earmarking to SAF Campaign Fund	(1,836.1) (1.0)	(1,972.9) (1.0)	(136.8) 0.0	7.5 0.0	2.6 0.0
Net Income Tax to GF/GP	\$3,694.5	\$4,447.4	\$752.9	20.4%	\$182.3
<u>Other Taxes</u>					
Michigan Business Tax	1,134.5	1,347.2	212.7	18.7	8.4
Sales	967.2	1,067.1	99.9	10.3	35.4
Use	818.2	734.5	(83.7)	(10.2)	(34.6)
Cigarette	200.8	195.7	(5.1)	(2.5)	2.0
Insurance Company Premiums	257.4	271.2	13.8	5.3	5.7
Telephone & Telegraph	60.8	56.1	(4.7)	(7.7)	(4.9)
Oil & Gas Severance	58.5	59.8	1.3	2.3	(7.2)
Casino Wagering	115.5	106.4	(9.2)	(7.9)	(26.5)
All Other	3,612.9	3,838.0	225.1	6.2	(21.7)
Subtotal Other Taxes	\$1,134.5	\$1,347.2	\$212.7	18.7%	\$8.4
Total Nontax Revenue	372.1	546.1	174.0	46.8	(12.4)
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$7,679.5</b>	<b>\$8,831.4</b>	<b>\$1,152.0</b>	<b>15.0%</b>	<b>\$148.2</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue<sup>1)</sup></b>	\$10,808.8	\$11,252.6	\$443.8	4.1%	\$143.6
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	8.0	(1.1)	(9.2)	---	---
Sales Tax	4,488.9	4,880.0	391.1	8.7	141.6
Use Tax	397.7	367.2	(30.5)	(7.7)	(18.2)
Lottery Revenue	701.3	727.3	26.0	3.7	(6.3)
State Education Property Tax	1,930.5	1,845.1	(85.4)	(4.4)	(6.9)
Real Estate Transfer Tax	121.6	123.3	1.7	1.4	(2.1)
Michigan Business Tax	726.8	739.2	12.4	1.7	0.0
Income Tax	1,836.1	1,845.1	9.0	0.5	(2.6)
Casino Tax	111.1	114.0	2.9	2.6	0.0
Other Revenue	502.9	610.3	107.4	21.3	7.5
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$10,816.9</b>	<b>\$11,251.5</b>	<b>\$434.6</b>	<b>4.0%</b>	<b>\$113.0</b>
<b>BASELINE GF/GP AND SAF</b>	\$18,208.9	\$19,506.6	\$1,297.7	7.1%	\$222.9
Tax & Revenue Changes	287.4	576.3	288.9	---	---
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$18,496.3</b>	<b>\$20,082.9</b>	<b>\$1,586.6</b>	<b>8.6%</b>	<b>\$261.2</b>
SALES TAX	\$6,176.9	\$6,710.9	\$534.0	8.6%	\$195.5

<sup>1)</sup> FY 2009-10 is the base year for baseline revenue in FY 2009-10.

## **School Aid Fund**

- School Aid Fund revenue from earmarked taxes and the lottery totaled \$11.3 billion in FY 2010-11, an increase of 4.0% or \$434.6 million from FY 2009-10.
- The preliminary year-end SAF revenue estimate is \$113.0 million higher than the May 2011 consensus estimate.

School Aid Fund revenue totaled \$11.3 billion in FY 2010-11, up 4.0% from the FY 2009-10 revenue level. While the weak housing market reduced the revenue collected from the State Education Tax and limited revenue growth from the real estate transfer tax, improvements in the economy led to higher collections under the sales tax and individual income tax. Sales tax collections earmarked to the SAF increased 8.7%, or \$391.1 million, largely driven by higher gasoline prices and higher residential utility prices. Income tax collections earmarked to the SAF rose 7.5%, or 136.8 million, in FY 2010-11 from the FY 2009-10 level. In addition, the net revenue generated by the lottery increased \$26.0 million or 3.7% from FY 2009-10. The preliminary final SAF revenue for FY 2010-11 is summarized in [Table 4](#).

## **FY 2011-12 REVISED REVENUE ESTIMATES**

- General Fund/General Purpose and SAF revenue will total an estimated \$19.8 billion in FY 2011-12, which is down 1.5% or \$303.3 million from the revised estimate for FY 2010-11.
- The revised estimate for FY 2011-12 is \$393.1 million above the May 2011 consensus estimate.

Economic activity in Michigan is expected grow more slowly during FY 2011-12, so while baseline GF/GP and SAF revenue will rise, the growth will be less than experienced during FY 2010-11. In addition, several reductions in revenue due to tax policy changes will reduce FY 2011-12 revenue, as discussed below. The revised estimates for FY 2011-12 GF/GP and SAF revenue are summarized in [Table 5](#).

## **Tax Policy Changes**

Several tax policy changes are expected to alter revenue during FY 2011-12, the most significant changes coming from newly enacted changes to the individual income tax and the replacement of the MBT with a Corporate Income Tax (CIT). Furthermore, despite the repeal of the MBT, several MBT credits enacted in earlier years will begin to reduce revenue during FY 2011-12.

**Income Tax Reform.** Legislation adopted in May 2011 made fundamental changes to the Michigan individual income tax. The changes included postponing or eliminating scheduled rate reductions, expanding the tax base by eliminating many deductions and exemptions, and repealing or reducing a large number of credits. The combined effect of these changes is expected to increase individual income tax revenue in FY 2011-12 by approximately \$502.2 million, of which \$448.1 million is expected to be directed to the General Fund. Updated estimates of the impact of these changes are presented in [Table 6](#).

**Business Tax Changes.** Coincident with the reforms adopted for the individual income tax, the legislation also repealed the MBT effective January 1, 2012, and replaced it with a Corporate Income Tax. The CIT taxes a narrower base and fewer firms, and thus is expected to generate substantially less revenue than the MBT. Therefore, revenue during FY 2011-12 will be lowered by the loss of three quarters of a year of estimated MBT payments, and the three quarters of CIT estimated payments are expected to replace less than a third of the lost revenue.

The legislation also provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. This "option" allows taxpayers to continue to claim those credits if they continue to file under the MBT. The option reduces revenue significantly, beginning in FY 2011-12, because between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. During FY 2010-11, only the photovoltaic credit exhibited an impact, reducing MBT revenue by approximately \$1.5 million. In FY 2011-12, the value of these credits is expected to increase, reducing revenue by an estimated \$47.5 million. The combined effect of the elimination of the MBT, the new Corporate Income Tax, the increased business tax credits, and the other legislative changes is to lower FY 2011-12 revenue by \$886.4 million.

**Long-Term Impact of FY 2010-11 Tax Policy Changes.** As indicated above, while the 2011 tax amnesty boosted FY 2010-11 revenue, it will result in lower revenue during FY 2011-12, reducing GF/GP revenue by \$49.7 million and SAF revenue by \$11.1 million. Similarly, much of the impact of the changes with unclaimed property will be exhausted by FY 2011-12, such that the changes are expected to increase GF/GP revenue only by approximately \$35.0 million. The combined impact of these two policies results in a revenue impact that swings from a \$256.4 million increase in FY 2010-11 to a \$26.5 million reduction in FY 2011-12, a change of \$282.9 million.

### **General Fund/General Purpose Revenue**

- General Fund/General Purpose revenue will total an estimated \$9.1 billion in FY 2011-12, an increase of 3.0% or \$262.9 million from FY 2010-11.
- The revised GF/GP estimate is \$341.9 million above the May 2011 consensus revenue estimate.

Modest economic growth during 2012 will result in higher tax collections during FY 2011-12, although the increases will not be as strong as in FY 2010-11. Use tax revenue in FY 2011-12 is expected to rise 6.4%, although baseline use tax revenue is expected to rise only 1.2%. The remaining growth in use tax revenue during FY 2011-12 occurs because FY 2010-11 use tax revenue was reduced by more than \$63.0 million due to a large one-time refund. The tax reform legislation is expected to primarily increase GF/GP revenue, and income tax revenue also will increase as a result of an expected 7.5% decline in individual income tax refunds. The revised GF/GP revenue estimate for FY 2011-12 is summarized in Table 5.

### **School Aid Fund**

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$10.7 billion in FY 2011-12, which is down 5.0% or \$566.0 million from the revised estimate for FY 2010-11.
- This revised SAF revenue estimate for FY 2011-12 is \$51.2 million above the May 2011 consensus revenue estimate.

The projected 5.0% decrease in SAF revenue in FY 2011-12 almost exclusively reflects the tax reform legislation that repealed the MBT and its earmark of revenue to the SAF. Continued weakness in the housing market also is expected to result in net declines in revenue from the State Education Tax and the real estate transfer tax. Revenue from the State Education Tax is expected to decrease only 1.1% while revenue from the real estate transfer tax will decline 1.4%. The revised SAF revenue estimate for FY 2011-12 is summarized in Table 5.

**Table 5**  
**FY 2011-12 REVISED REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
(Millions of Dollars)

	FY 2010-11 Prelim. Final	FY 2011-12 Revised Est.	Change from FY 2010-11		\$ Change from 05/11 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b> <sup>1)</sup>	\$8,157.1	\$8,550.4	\$393.3	4.8%	\$199.8
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	674.4	544.0	(130.4)	---	142.1
<u>Personal Income Tax</u>					
Gross Collections	8,548.3	9,019.9	471.6	5.5	210.8
Less: Refunds	(2,127.1)	(1,966.6)	160.5	(7.5)	58.2
Net Income Tax Collections	6,421.3	7,053.3	632.0	9.8	269.1
Less: Earmarking to SAF Campaign Fund	(1,972.9) (1.0)	(2,093.7) (1.0)	(120.8) 0.0	6.1 0.0	1.7 0.0
Net Income Tax to GF/GP	\$4,447.4	\$4,958.6	\$511.2	11.5%	\$270.8
<u>Other Taxes</u>					
Michigan Business Tax	1,347.2	712.9	(634.3)	(47.1)	173.5
Corporate Income Tax	0.0	489.0	489.0	----	(21.5)
Sales	1,067.1	1,070.9	3.8	939.5	23.6
Use	734.5	781.3	46.8	6.4	(63.2)
Cigarette	195.7	189.8	(5.9)	(4.9)	1.0
Insurance Company Premiums	271.2	285.0	13.8	5.1	7.5
Telephone & Telegraph	56.1	57.0	0.9	1.6	(4.0)
Oil & Gas Severance	59.8	59.0	(0.8)	(1.3)	(12.6)
All Other	106.4	70.3	(36.1)	(33.9)	(21.4)
Subtotal Other Taxes	\$3,838.0	\$3,715.2	(\$122.8)	(3.2%)	\$82.9
Total Nontax Revenue	546.1	420.6	(125.5)	(23.0)	(11.8)
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$8,831.4</b>	<b>\$9,094.4</b>	<b>\$262.9</b>	<b>3.0%</b>	<b>\$341.9</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b> <sup>1)</sup>	\$11,274.7	\$11,418.9	\$144.2	1.3%	\$68.5
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(23.2)	(733.4)	(710.2)	---	(17.4)
Sales Tax	4,880.0	4,954.5	74.5	1.5	128.8
Use Tax	367.2	390.6	23.4	6.4	(31.6)
Lottery Revenue	727.3	715.2	(12.1)	(1.7)	(24.2)
State Education Property Tax	1,845.1	1,825.0	(20.1)	(1.1)	(4.0)
Real Estate Transfer Tax	123.3	121.6	(1.7)	(1.4)	(16.2)
Michigan Business Tax	739.2	0.0	(739.2)	(100.0)	0.0
Income Tax	1,845.1	2,093.7	248.6	13.5	(1.7)
Casino Tax	114.0	114.5	0.5	0.4	(5.0)
Other Revenue	610.3	470.4	(139.9)	(22.9)	5.1
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$11,251.5</b>	<b>\$10,685.5</b>	<b>(\$566.0)</b>	<b>(5.0%)</b>	<b>\$51.2</b>
<b>BASELINE GF/GP AND SAF</b>	\$19,431.8	\$19,969.3	\$537.5	2.8%	\$268.3
Tax & Revenue Changes	651.1	(189.4)	(840.5)	---	124.7
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$20,082.9</b>	<b>\$19,779.9</b>	<b>(\$303.0)</b>	<b>(1.5%)</b>	<b>\$393.1</b>
SALES TAX	\$6,710.9	\$6,817.6	\$106.7	1.6%	\$179.8

<sup>1)</sup> FY 2010-11 is the base year for baseline revenue.



## **FY 2012-13 REVISED REVENUE ESTIMATES**

The level of economic activity in Michigan is expected to increase more rapidly in FY 2012-13 than during FY 2011-12. However, the effect of these stronger economic fundamentals on tax revenue will continue to be offset by several significant tax policy changes for FY 2012-13 that reduce GF/GP and SAF revenue. Total GF/GP and SAF revenue will reach an estimated \$19.9 billion in FY 2012-13, an increase of 0.8% or \$160.2 million from the revised estimate for FY 2011-12. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.8% in FY 2012-13, reflecting the stronger level of State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2012-13 is summarized in [Table 7](#).

### **Tax Policy Changes**

As in FY 2011-12, several tax policy changes are expected to reduce revenue during FY 2012-13, with the most significant reductions coming from substantial increases in business tax credits and the full-year impact of the tax reform legislation. A portion of the tax reform legislation also is expected to significantly increase individual income tax revenue.

**Income Tax Reform.** Legislation adopted in May 2011 made fundamental changes to the Michigan individual income tax. The changes included postponing or eliminating scheduled rate reductions, expanding the tax base by eliminating many deductions and exemptions, and repealing or reducing a large number of credits. The combined effect of these changes is expected to increase individual income tax revenue by approximately \$1.3 billion in FY 2012-13, of which \$1.2 billion is expected to be directed to the General Fund. Updated estimates of the impact of these changes are presented in [Table 6](#).

**Business Tax Changes.** Coincident with the reforms adopted for the individual income tax, the legislation also repealed the MBT effective January 1, 2012, and replaced it with a Corporate Income Tax. The CIT taxes a narrower base and fewer firms, and thus is expected to generate substantially less revenue than the MBT.

The legislation also provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. This "option" allows taxpayers to continue to claim those credits if they continue to file under the MBT. The option reduces revenue significantly, beginning in FY 2011-12, because between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. By FY 2012-13, the photovoltaic credit, polycrystalline silicon credit, and battery credits are expected to reduce revenue by \$297.0 million, with all of the impact reducing GF/GP revenue. The combined effect of the elimination of the MBT, the new Corporate Income Tax, the increased business tax credits, and the other legislative changes is to lower FY 2012-13 revenue by \$1.6 billion.

**Long-Term Impact of FY 2010-11 Tax Policy Changes.** While the long-term effects of the tax amnesty are expected to have largely dissipated by FY 2012-13, the changes to the treatment of unclaimed property are predicted to continue to affect revenue in FY 2012-13. While the changes were expected to generate \$35.0 million during FY 2011-12, the changes are expected to decrease GF/GP revenue in FY 2012-13 by approximately \$35.0 million, a net swing of \$70.0 million.

**Table 7**  
**FY 2012-13 REVISED REVENUE ESTIMATES**  
**GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND**  
(Millions of Dollars)

	FY 2011-12 Revised Est.	FY 2012-13 Revised Est.	Change from FY 2011-12		\$ Change from 05/11 Consensus
			Dollar Change	Percent Change	
<b>GENERAL FUND/GENERAL PURPOSE:</b>					
<b>Baseline Revenue</b> <sup>1)</sup>	\$8,550.4	\$8,883.5	\$333.1	3.9%	\$167.2
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	544.0	125.9	(418.1)	---	(66.2)
<u>Personal Income Tax</u>					
Gross Collections	9,019.9	9,451.2	431.3	4.8	332.3
Less: Refunds	(1,966.6)	(1,469.7)	496.9	(25.3)	(92.3)
Net Income Tax Collections	7,053.3	7,981.5	928.2	13.2	240.0
Less: Earmarking to SAF Campaign Fund	(2,093.7) (1.0)	(2,201.7) (1.0)	(108.0) 0.0	5.2 0.0	12.4 0.0
Net Income Tax to GF/GP	\$4,958.6	\$5,778.8	\$820.2	16.5%	\$252.4
<u>Other Taxes</u>					
Michigan Business Tax	712.9	(462.0)	(1,174.9)	(164.8)	0.0
Corporate Income Tax	489.0	768.6	279.6	57.2	(36.4)
Sales	1,070.9	1,095.5	24.6	2.3	10.7
Use	781.3	808.7	27.4	3.5	(72.0)
Cigarette	189.8	184.4	(5.4)	(2.8)	(0.5)
Insurance Company Premiums	285.0	292.0	7.0	2.5	7.6
Telephone & Telegraph	57.0	58.0	1.0	1.8	(2.0)
Oil & Gas Severance	59.0	60.5	1.5	2.5	(12.5)
All Other	70.3	99.1	28.7	40.9	(18.7)
Subtotal Other Taxes	\$3,715.2	\$2,904.8	(\$810.4)	(21.8%)	(\$123.8)
Total Nontax Revenue	420.6	325.8	(94.8)	(22.5)	(27.7)
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$9,094.4</b>	<b>\$9,009.3</b>	<b>(\$85.0)</b>	<b>(0.9%)</b>	<b>\$100.9</b>
<b>SCHOOL AID FUND:</b>					
<b>Baseline Revenue</b> <sup>1)</sup>	\$11,418.9	\$11,652.7	\$233.8	2.0%	\$17.9
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(733.4)	(721.8)	11.6	---	(51.4)
Sales Tax	4,954.5	5,061.7	107.2	2.2	83.9
Use Tax	390.6	404.3	13.7	3.5	(36.0)
Lottery Revenue	715.2	731.9	16.7	2.3	(20.1)
State Education Property Tax	1,825.0	1,835.0	10.0	0.5	(14.0)
Real Estate Transfer Tax	121.6	125.5	3.9	3.2	(26.3)
Michigan Business Tax	0.0	0.0	0.0	----	0.0
Income Tax	2,093.7	2,201.7	108.0	5.2	(12.4)
Casino Tax	114.5	109.6	(4.9)	(4.3)	(13.4)
Other Revenue	470.4	461.1	(9.3)	(2.0)	4.8
<b>SAF REV. AFTER TAX CHANGES</b>	<b>\$10,685.5</b>	<b>\$10,930.8</b>	<b>\$245.3</b>	<b>2.3%</b>	<b>(\$33.5)</b>
<b>BASELINE GF/GP AND SAF</b>	19,969.3	20,536.2	566.9	2.8	185.1
Tax & Revenue Changes	(189.4)	(596.0)	(406.6)	---	(117.7)
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$19,779.9</b>	<b>\$19,940.1</b>	<b>\$160.2</b>	<b>0.8%</b>	<b>\$467.4</b>
SALES TAX	\$6,817.6	\$6,964.2	\$146.6	2.2%	\$118.8

<sup>1)</sup> FY 2010-11 is the base year for baseline revenue.

## **General Fund/General Purpose Revenue**

General Fund/General Purpose revenue will total an estimated \$9.0 billion in FY 2012-13, a decline of 0.9% or \$85.0 million from the revised estimate for FY 2011-12. Baseline GF/GP revenue is expected to increase 3.9%, but the impact of the tax reform legislation is expected to more than offset the revenue gain from the improving economy. The initial GF/GP revenue estimates for FY 2012-13 are summarized in [Table 7](#).

## **School Aid Fund**

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$10.9 billion in FY 2012-13, an increase of \$245.3 million, or 2.3%, from the revised estimate for FY 2011-12. The forecasted increase in SAF revenue reflects growth in every major revenue source other than casino taxes, which are expected to be lowered somewhat by the first full year impact of new casinos opening in Ohio, beginning in the second half of 2012. Because all of the tax reform legislation's negative impact on the SAF will be experienced during FY 2011-12, the only impact in FY 2012-13 will reflect increases attributable to the individual income tax changes. The initial SAF revenue estimates for FY 2012-13 are summarized in [Table 7](#).

## **FY 2013-14 INITIAL REVENUE ESTIMATES**

Michigan's economy is expected to continue growing during FY 2013-14, with both personal income and employment exhibiting the strongest growth since FY 2010-11, although the increases will remain less than the improvements experienced during FY 2010-11. Tax policy changes still will affect both GF/GP revenue and SAF revenue during FY 2013-14, but the incremental impact relative to the prior fiscal year is expected to be less. Total GF/GP and SAF revenue will reach an estimated \$20.4 billion in FY 2013-14, an increase of 2.3% or \$458.8 million from the revised estimate for FY 2012-13. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.1% in FY 2013-14, reflecting the stronger level of State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2013-14 is summarized in [Table 8](#).

## **Tax Policy Changes**

Tax policy changes are expected to continue affecting revenue during FY 2013-14, with the most significant impact reflecting the tax reform legislation and additional increases in business tax credits. However, the year-over-year change in the impacts of these provisions will be less than in previous years.

**Income Tax Reform.** Legislation adopted in May 2011 made fundamental changes to the Michigan individual income tax. The changes included postponing or eliminating scheduled rate reductions, expanding the tax base by eliminating many deductions and exemptions, and repealing or reducing a large number of credits. The combined effect of these changes is expected to increase individual income tax revenue by approximately \$1.5 billion in FY 2013-14, of which \$1.4 billion is expected to be directed to the General Fund. Updated estimates of the impact of these changes are presented in [Table 6](#).

**Business Tax Changes.** Coincident with the reforms adopted for the individual income tax, the legislation also repealed the MBT effective January 1, 2012, and replaced it with a Corporate Income Tax. The CIT taxes a narrower base and fewer firms, and thus is expected to generate substantially less revenue than the MBT.

The legislation also provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. This "option" allows taxpayers to continue to claim those credits if they continue to file under the MBT. The option reduces revenue significantly, beginning in FY 2011-12, because between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. The photovoltaic credit, polycrystalline silicon credit, and battery credits are expected to reduce revenue by another \$297.0 million in FY 2013-14, with all of the impact reducing GF/GP revenue. The combined effect of the elimination of the MBT, the new Corporate Income Tax, the increased business tax credits, and the other legislative changes is to lower FY 2013-14 revenue by \$1.8 billion.

**Long-Term Impact of FY 2010-11 Tax Policy Changes.** As in FY 2012-13, the changes to the treatment of unclaimed property are expected to continue to affect revenue in FY 2013-14, lowering GF/GP revenue in FY 2013-14 by approximately \$35.0 million.

### **General Fund/General Purpose Revenue**

General Fund/General Purpose revenue will total an estimated \$9.2 billion in FY 2013-14, an increase of 2.1% or \$190.5 million from the revised estimate for FY 2012-13. Baseline GF/GP revenue is expected to increase 3.9%, but the changes from the tax reform legislation are expected to offset a portion of the revenue gain from the improving economy. The initial GF/GP revenue estimates for FY 2013-14 are summarized in Table 8.

### **School Aid Fund**

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.2 billion in FY 2013-14, an increase of \$268.3 million, or 2.5%, from the revised estimate for FY 2012-13. The forecasted increase in SAF revenue reflects growth in every major revenue source other than lottery revenue. Total SAF revenue in FY 2013-14 is projected to remain below the peak reached in FY 2007-08, by \$313.8 million. The initial SAF revenue estimates for FY 2013-14 are summarized in Table 8.

## **MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2011-12 THROUGH FY 2013-14**

**Individual Income Tax.** The income tax will generate an estimated \$7.1 billion in FY 2011-12, which represents an increase of 9.8% from FY 2010-11. Modest increases in economic activity will combine with the impact of tax reform legislation and fewer income tax refunds to push individual income tax revenue higher in both FY 2011-12 and FY 2012-13. By FY 2013-14, faster year-over-year growth in individual income tax revenue attributable to the tax reform legislation will have dissipated, but stronger economic growth is expected to increase net collections by 3.4%. Compared with May 2011 consensus revenue estimates, the revised individual income tax estimate for FY 2011-12 is up \$269.1 million and the revised estimate for FY 2012-13 is up \$240.0 million. These projected increases in income tax revenue will increase both GF/GP revenue and SAF revenue. The School Aid Fund receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds (or positive impact of reduced refunds), including the refund payments for the homestead property tax credit and the earned income tax credit (both of which are reduced substantially by the tax reform legislation).

**Sales Tax.** As employment has stabilized and the economy has continued to grow, consumers and businesses have become less cautious, increasing spending on items subject to the sales tax. Much of the sales tax growth experienced during the summer of 2011 reflects higher gas prices

and increases in residential utility rates, and at least the high gasoline prices appeared to have been viewed as temporary by consumers. While gasoline prices are expected to remain high over the forecast period, they are not expected to show the types of increases experienced during 2011. Furthermore, the economy is expected to be weaker during FY 2011-12 and FY 2012-13 than during FY 2010-11. As a result, in FY 2011-12 sales tax revenue will total an estimated \$6.8 billion, which is 1.6% above the level in FY 2010-11. Sales tax collections are expected to continue growing, rising 2.2% in FY 2012-13, to \$7.0 billion, and 2.8% in FY 2013-14, to \$7.2 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with May 2011 consensus revenue estimates, the revised sales tax estimate for FY 2011-12 is up \$179.8 million and the revised estimate for FY 2012-13 is up \$118.8 million. 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 only constitutional revenue sharing earmarks, and, to reflect the significant portion of sales tax revenue earmarked statutorily to revenue sharing that has been diverted to the General Fund, this report directs all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report.

**Use Tax.** Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, telephone service (both residential and business), and business equipment purchased in other states for use in Michigan, can be volatile. A large refund payment late in FY 2010-11 reduced use tax collections an estimated \$63.0 million, although declining revenue from telecommunications services also lowered the FY 2010-11 total. Baseline use tax revenue is expected to remain relatively flat in FY 2011-12, rising 1.2%, but net revenue is expected to increase 6.4%, almost entirely reflecting the FY 2010-11 refund. In later fiscal years, improvements in economic activity and business investment will result in growing use tax revenue. In FY 2012-13, use tax receipts will total an estimated \$1.2 billion, an increase of 3.5% from the revised estimate for FY 2011-12. As the economy continues to improve, use tax revenue is expected to increase 3.7% in FY 2013-14, to \$1.3 billion. Compared with the May 2011 consensus revenue estimates, the FY 2011-12 estimate for use tax collections has been revised down by \$94.9 million and the FY 2012-13 estimate is \$108.0 million less, largely reflecting the reduced base from FY 2010-11 due to declines in use tax revenue from telecommunications services. 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 \$943.7 million in FY 2011-12, which represents a decrease of 2.6% from FY 2010-11. In FY 2012-13, tobacco tax revenue is expected to decline another 2.9%, to \$916.1 million, before falling 3.4% in FY 2013-14, to \$885.4 million. These estimated declines reflect the ongoing steady decline in tobacco consumption, further accelerated by the increase in the Federal tobacco tax and the smoking ban, as discussed in more detail earlier in this section. 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 8.1% of gross gaming receipts and is directed to the SAF. In FY 2011-12, casino tax revenue will total an estimated \$114.5 million, an increase of 0.4% from FY 2010-11. Baseline casino tax revenue is expected to increase 4.4% during FY 2011-12, but the opening of new casinos in northern Ohio is expected to reduce revenue in late 2012 and early 2013. As the economy improves and the novelty of the Ohio casinos declines, a portion of the lost casino tax revenue will be recovered. As a result, casino tax revenue is expected to decline in FY 2012-13, falling 4.3% to \$109.6 million, despite 5.9% baseline growth, and then rebound in FY 2013-14, rising 3.9% to \$113.9 million.

**State Education Property Tax.** Weakness in the housing sector has driven State Education Tax revenue down since FY 2006-07. Few housing starts and declining home values will continue to depress State Education Tax revenue in FY 2011-12, with collections expected to fall 1.1%, to \$1.8 billion. The housing market is expected to stabilize during FY 2012-13, resulting in only a 0.5% increase in State Education Tax revenue. While the housing market is expected to remain weak, by FY 2013-14, State Education Tax revenue will mostly be able to keep pace with inflation, and is expected to increase 2.3%, to slightly less than \$1.9 billion. All of the revenue generated by the State Education Tax is earmarked to the SAF.

**Lottery.** Net lottery revenue is expected to decline slightly over the forecast period, varying as tepid income growth trades off with increased competition from other types of gaming activity and few significant new games. As a result, lottery revenue is expected to decrease 1.7% in FY 2011-12, to \$715.2 million, before rising 2.3% in FY 2012-13, to \$731.9 million, and then declining 1.0% in FY 2013-14. All of the net revenue generated by the lottery is earmarked to the SAF.

**Michigan Business Tax/Corporate Income Tax.** Legislation adopted in May 2011 repeals the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers will begin paying a Corporate Income Tax that is expected to generate less than one-third of the revenue of the MBT. Under the legislation, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs) will not pay any separate business tax to the State. Those businesses that continue to pay the MBT will do so largely to claim substantial refundable credits awarded in previous years. As a result, over much of the forecast period, MBT revenue will be negative, reflecting refund payments. The Corporate Income Tax is expected to grow over the forecast period, as profits improve, although the CIT is expected to be a more volatile tax than the MBT.

Business taxes, representing the combination of MBT and Corporate Income Tax revenue, are expected to decline 42.4% in FY 2011-12, from \$2.1 billion to \$1.2 billion, largely reflecting the incomplete revenue replacement under the CIT and a partial year of lost MBT revenue. As the MBT credits increase in FY 2012-13 and the full-year impact of the transition to the Corporate Income Tax occurs, business tax revenue is expected to decline another 74.5%, to \$306.6 million. In FY 2013-14, the second full year under the Corporate Income Tax, CIT revenue is expected to increase 5.3%, but increased MBT credits will cause net business tax revenue to decline another 26.4% to \$225.6 million. The revised estimate for business taxes in FY 2011-12 is \$152.0 million above the May 2011 consensus estimate, while the revised estimate for FY 2012-13 is \$36.4 million lower.

According to the MBT Act, , the SAF received \$729.0 million of MBT revenue in FY 2008-09, with that amount indexed in future years to the percentage change in the U.S. Consumer Price Index (CPI) during the previous fiscal year. In FY 2010-11, MBT revenue earmarked to the SAF totaled \$739.2 million. The tax reform legislation repeals the earmark along with the MBT, so no revenue from the MBT will be directed to the SAF in FY 2011-12 or later, lowering SAF by an estimated \$758.8 million in FY 2011-12, \$778.1 million in FY 2012-13, and \$792.3 million in FY 2013-14. All remaining MBT revenue, and all of the Corporate Income Tax revenue, goes to the General Fund.

Table 8

**FY 2013-14 INITIAL REVENUE ESTIMATES  
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND  
(Millions of Dollars)**

	FY 2012-13 Revised Est.	FY 2013-14 Initial Est.	Change from FY 2012-13	
			Dollar Change	Percent Change
<b>GENERAL FUND/GENERAL PURPOSE:</b>				
<b>Baseline Revenue<sup>1)</sup></b>	\$8,883.5	\$9,233.8	\$350.3	3.9%
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	125.9	(34.0)	(159.8)	---
<u>Personal Income Tax</u>				
Gross Collections	9,451.2	9,702.2	251.0	2.7
Less: Refunds	(1,469.7)	(1,446.2)	23.5	(1.6)
Net Income Tax Collections	7,981.5	8,256.0	274.5	3.4
Less: Earmarking to SAF Campaign Fund	(2,201.7) (1.0)	(2,266.3) (1.0)	(64.6) 0.0	2.9 0.0
Net Income Tax to GF/GP	\$5,778.8	\$5,988.7	\$209.9	3.6%
<u>Other Taxes</u>				
Michigan Business Tax	(462.0)	(583.5)	(121.5)	26.3
Corporate Income Tax	768.6	809.1	40.5	5.3
Sales	1,095.5	1,128.7	33.2	3.0
Use	808.7	838.7	30.0	3.7
Cigarette	184.4	178.4	(6.0)	(3.3)
Insurance Company Premiums	292.0	297.0	5.0	1.7
Telephone & Telegraph	58.0	58.0	0.0	0.0
Oil & Gas Severance	60.5	62.5	2.0	3.3
All Other	99.1	105.3	6.2	6.3
Subtotal Other Taxes	\$2,904.8	\$2,894.2	(\$10.6)	(0.4%)
Total Nontax Revenue	325.8	316.9	(8.9)	(2.7)
<b>GF/GP REV. AFTER TAX CHANGES</b>	<b>\$9,009.3</b>	<b>\$9,199.8</b>	<b>\$190.5</b>	<b>2.1%</b>
<b>SCHOOL AID FUND:</b>				
<b>Baseline Revenue<sup>1)</sup></b>	\$11,652.7	\$11,935.6	\$282.9	2.4%
<b>Tax Changes Not In Baseline Revenue After Tax Changes</b>	(721.8)	(736.5)	(14.6)	---
Sales Tax	5,061.7	5,205.8	144.1	2.8
Use Tax	404.3	419.3	15.0	3.7
Lottery Revenue	731.9	724.9	(7.0)	(1.0)
State Education Property Tax	1,835.0	1,878.0	43.0	2.3
Real Estate Transfer Tax	125.5	141.0	15.5	12.4
Michigan Business Tax	0.0	0.0	0.0	---
Income Tax	2,201.7	2,266.3	64.6	2.9
Casino Tax	109.6	113.9	4.3	3.9
Other Revenue	461.1	449.9	(11.2)	(2.4)
<b>SAF REV. AFTER TAX CHANGES</b>	<b>10,930.8</b>	<b>11,199.1</b>	<b>268.3</b>	<b>2.5%</b>
<b>BASELINE GF/GP AND SAF</b>	\$20,536.2	\$21,169.3	\$633.2	3.1%
Tax & Revenue Changes	(596.0)	(770.4)	(174.5)	---
<b>GF/GP &amp; SAF REV. AFTER CHNGS</b>	<b>\$19,940.1</b>	<b>\$20,398.9</b>	<b>\$458.8</b>	<b>2.3%</b>
<b>SALES TAX</b>	\$6,964.2	\$7,160.6	\$196.4	2.8

<sup>1)</sup> FY 2010-11 is the base year for baseline revenue.

## **REVENUE TRENDS**

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law. However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for earlier fiscal years. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer term view of Michigan's economy for FY 2014-15 and FY 2015-16, net GF/GP revenue is expected to increase 4.3% in FY 2014-15, to \$9.6 billion, while SAF revenue will increase 3.5%, to \$11.6 billion. In FY 2015-16, net GF/GP revenue is expected to increase 3.4%, to \$9.9 billion, while SAF revenue will increase 2.5%, to \$11.9 billion.

## **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 2010-11, FY 2011-12, and FY 2012-13 is presented in Tables 9, 10, and 11. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2010-11, FY 2011-12, and FY 2012-13 have been adjusted to reflect a common base year.

The Senate Fiscal Agency's initial GF/GP and SAF baseline revenue estimate for FY 2010-11 of \$16.9 billion was made in December 2009, as shown in Table 9. The estimate adopted at the January 2010 Consensus Revenue Estimating Conference was \$264.2 million above the SFA's estimate, and then at the May 2010 conference the estimate was increased another \$509.6 million to \$17.8 billion. At the January 2011 consensus conference, the estimate was increased again by \$35.7 million, and then by another \$558.1 million in May 2011. Preliminary final revenue for FY 2010-11 equals \$18.5 billion, up \$205.4 million from the May 2011 estimate. Compared with the SFA's initial estimate in December 2009, preliminary final 2010-11 GF/GP and SAF baseline revenue is up \$1.6 billion, or 9.3%.

The initial GF/GP and SAF baseline revenue estimate for FY 2011-12 was made in December 2010 at \$18.4 billion, as shown in Table 10. This estimate was lowered by \$96.6 million at the January 2011 Consensus Revenue Estimating Conference, but that revised estimate was increased by \$580.5 million at the May 2011 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2011-12 presented in this report increases the baseline estimate \$140.3 million above the May 2011 consensus estimate, to \$19.0 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2012-13 was made in May 2011 at \$19.6 billion, as shown in Table 11. This estimate was lowered by \$143.3 million at the May 2011

Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2012-13 presented in this report increases the baseline estimate \$60.5 million above the May 2011 consensus estimate, to \$19.5 billion.

**Table 9**  
**CHANGES IN SENATE FISCAL AGENCY**  
**BASELINE REVENUE ESTIMATES FOR FY 2010-11**  
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 18, 2009	\$6,407.7	\$10,507.2	\$16,914.9
January 11, 2010 <sup>a)</sup>	6,721.5	10,457.6	17,179.1
May 14, 2010	6,471.6	10,729.1	17,200.7
May 21, 2010 <sup>a)</sup>	6,916.0	10,772.7	17,688.7
December 17, 2010	6,877.9	10,892.5	17,770.4
January 14, 2011 <sup>a)</sup>	6,746.6	10,977.8	17,724.4
May 13, 2011	7,364.2	11,126.3	18,490.5
May 16, 2011 <sup>a)</sup>	7,151.4	11,131.1	18,282.5
Preliminary Final	7,213.2	11,274.7	18,487.9
<u>Change From Previous Estimate:</u>			
Dollar Change	\$61.8	\$143.6	\$205.4
Percent Change	0.9%	1.3%	1.1%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$805.5	\$767.5	\$1,573.0
Percent Change	12.6%	7.3%	9.3%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2010-11, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**Table 10**  
**CHANGES IN SENATE FISCAL AGENCY**  
**BASELINE REVENUE ESTIMATES FOR FY 2011-12**  
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 17, 2010	\$7,224.9	\$11,131.6	\$18,356.5
January 14, 2011 <sup>a)</sup>	7,071.6	11,188.3	18,259.9
May 13, 2011	7,614.9	11,335.1	18,950.0
May 16, 2011 <sup>a)</sup>	7,513.7	11,326.7	18,840.4
December 22, 2011	7,561.8	11,418.9	18,980.7
<u>Change From Previous Estimate:</u>			
Dollar Change	\$48.1	\$92.2	\$140.3
Percent Change	0.6%	0.8%	0.7%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$336.9	\$287.3	\$624.2
Percent Change	4.7%	2.6%	3.4%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2010-11, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**Table 11**

<b>CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2012-13 (Millions of Dollars)</b>			
<b>Forecast Date</b>	<b>GF/GP</b>	<b>SAF</b>	<b>Total</b>
May 13, 2011	\$7,909.1	\$11,701.8	\$19,610.9
May 16, 2011 <sup>a)</sup>	7,819.4	11,648.2	19,467.6
December 22, 2011	7,875.4	11,652.7	19,528.1
<u>Change From Previous Estimate:</u>			
Dollar Change	\$56.0	\$4.5	\$60.5
Percent Change	0.7%	0.0%	0.3%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$33.7)	(\$49.1)	(\$82.8)
Percent Change	(0.4)%	(0.4)%	(0.4)%
<sup>a)</sup> Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
<b>Note:</b> Baseline base year equals FY 2010-11, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**BUDGET  
STABILIZATION FUND**



## **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 12 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 2010-11. Also presented in this table are the SFA's estimates for FY 2011-12, FY 2012-13, and FY 2013-14. 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 2011-12, FY 2012-13, and FY 2013-14 are presented in Table 13.

### **FY 2010-11**

The BSF ended FY 2009-10 with a balance of \$2.2 million. During FY 2010-11, there were no payments into or out of the Fund, and very little interest was earned (primarily due to low interest rates), leaving an ending balance of \$2.2 million.

**FY 2011-12, FY 2012-13, AND FY 2013-14**

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula does not trigger any payments into the Fund for FY 2011-12, but would trigger a withdrawal of \$76.0 million. However, based on the appropriations that have been enacted for FY 2011-12, no such withdrawal is scheduled – although a deposit of \$255.8 million has been appropriated. Strong growth in inflation, combined with a 2.4% increase in transfer payments during calendar year 2012, accounts for a decline in inflation-adjusted personal income used in the calculation for FY 2011-12, resulting in a calculated transfer out of the BSF of \$76.0 million. Any transfer out of the BSF would need to be approved by the Legislature. No transfer out of, or into, the BSF is calculated for FY 2012-13 or FY 2013-14, as shown in Table 13. Given the enacted appropriations for FY 2011-12, combined with the revised year-end balance estimates presented later in this report, no transfers out of the BSF are anticipated in FY 2011-12.

**Table 12**

<b>BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2013-14 ESTIMATE (Millions of Dollars)</b>				
<b>Fiscal Year</b>	<b>Pay-In</b>	<b>Interest Earned</b>	<b>Pay-Out</b>	<b>Fund Balance</b>
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	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.0	0.0	2.2
<b>Senate Fiscal Agency estimates:</b>				
2011-12	255.8	0.0	0.0	258.0
2012-13	0.0	2.6	0.0	260.6
2013-14	0.0	3.9	0.0	264.5

Figure 13

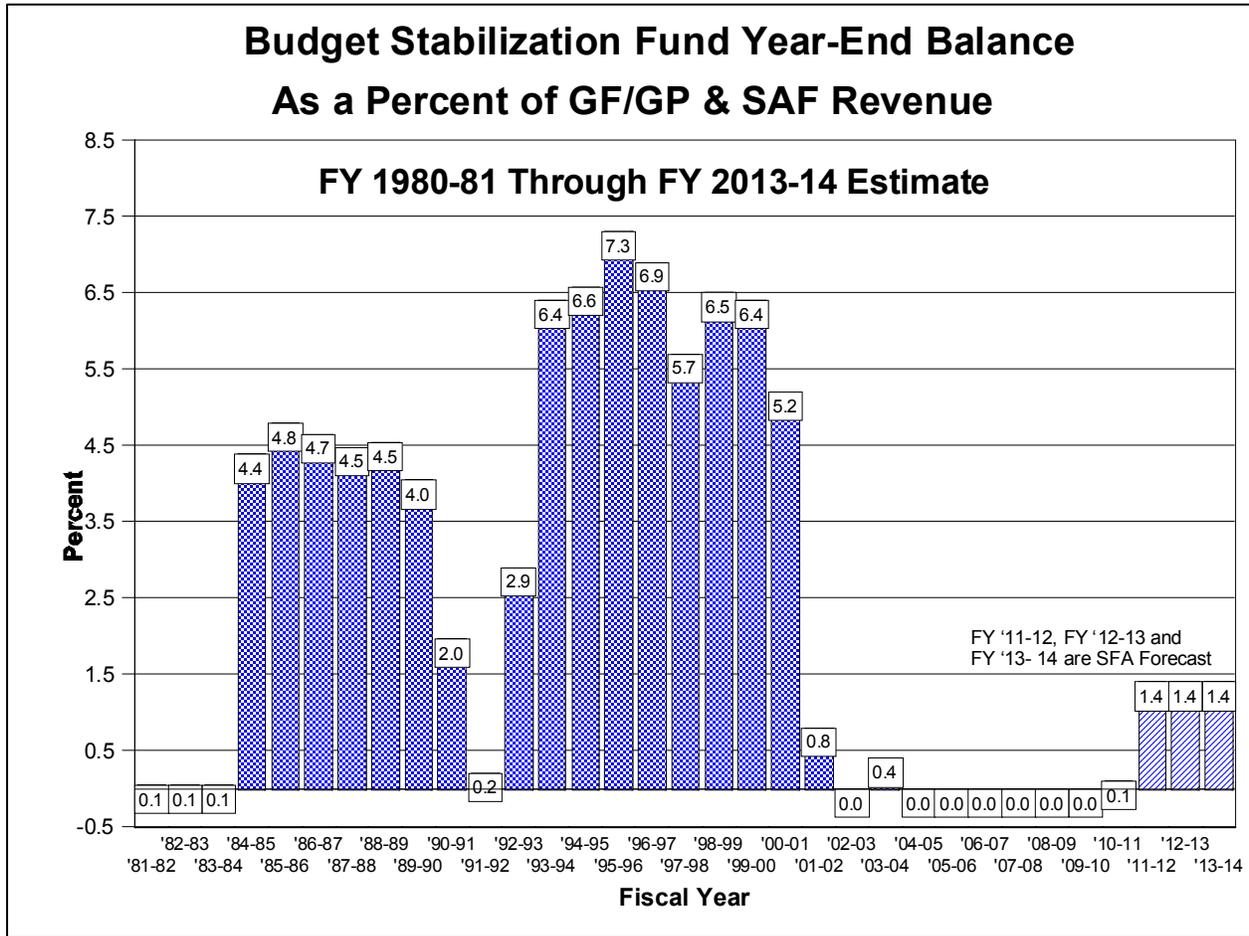


Table 13

**ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER**  
**FY 2011-12, FY 2012-13, and FY 2013-14**  
**(Millions of Dollars)**

	CY 2011	CY 2012	CY 2013	CY 2014
Michigan Personal Income (MPI)	\$362,295	\$371,164	\$380,230	\$397,618
Less: Transfer Payments	82,723	84,743	87,341	92,293
Subtotal	\$279,571	\$286,421	\$292,889	\$305,325
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.080	2.151	2.186	2.220
Equals: Real Adjusted MPI	\$134,442	\$133,182	\$133,984	\$137,515
Percent Change from Prior Year		-0.94%	0.60%	2.64%
Excess Over 2.0%		0.00%	0.00%	0.64%
		<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
Multiplied by: Estimated GF/GP Revenue		\$8,105.8	\$8,001.2	\$8,165.8
Equals: Transfer to the BSF		\$0.0	\$0.0	\$0.0
OR Transfer from the BSF		\$76.0	\$0.0	\$0.0

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



**COMPLIANCE WITH  
STATE REVENUE LIMIT**



## **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 2008-09, when State revenue was \$8.0 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 2011-12 through FY 2013-14.

### **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 2008 equaled \$349,612 million, the revenue limit for FY 2009-10 was \$33,178.2 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 preliminary final revenue for FY 2010-11 and the SFA's revenue estimates for FY 2011-12, FY 2012-13, and FY 2013-14, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 14.

### **FY 2010-11**

In FY 2010-11, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2009. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2009 was \$331.8 billion, so the revenue limit equaled \$31.5 billion. Based on the final revenue for FY 2010-11, revenue subject to the limit totaled \$27.2 billion. As a result, revenue subject to the limit fell below the revenue limit by \$4.3 billion, or 13.8%. This gap between the revenue limit and revenue subject to the limit is less than it has been since FY 2004-05, as a result of strong revenue growth during FY 2010-11 combined with the substantial 5.0% decline in personal income during 2009.

### **FY 2011-12**

In FY 2011-12, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2010. The Bureau of Economic Analysis's estimate of Michigan personal income in calendar year 2010 equals \$342.7 billion, resulting in a revenue limit of \$32.5 billion for FY 2011-12. Based on the SFA's revised revenue estimates for FY 2011-12, revenue subject to the revenue limit will equal an estimated \$26.8 billion, and will fall below the limit by \$5.7 billion, or 17.5%, in FY 2011-12. The increase in the gap between estimated revenue and the limit during FY 2011-12 reflects the 1.2% decrease in revenue subject to the limit combined with the 3.3% increase in personal income during 2010. The 2010 increase in personal income increases the FY 2011-12 revenue limit by \$1.0 billion.

### **FY 2012-13**

The Senate Fiscal Agency estimates that personal income in Michigan during 2011 will equal \$362.3 billion, and as a result, the revenue limit will equal \$34.4 billion in FY 2012-13. Based on the SFA's revised revenue estimates for FY 2012-13, revenue subject to the revenue limit will equal an estimated \$27.0 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated \$7.4 billion, or 21.5% in FY 2012-13. The additional increase in the gap between estimated revenue and the limit during FY 2012-13 reflects factors similar to those related to the increase during FY 2011-12. Revenue subject to the limit is estimated to increase 0.6% in FY 2012-13, compared to the 5.7% increase in personal income during 2011 that will increase the revenue limit by \$1.9 billion.

### **FY 2013-14**

The Senate Fiscal Agency estimates that personal income in Michigan during 2012 will equal \$371.2 billion, and as a result, the revenue limit will equal \$35.2 billion in FY 2013-14. Based on the SFA's initial revenue estimates for FY 2013-14, revenue subject to the revenue limit will equal an estimated \$26.8 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated \$8.4 billion, or 23.9% in FY 2013-14.

Table 14

**COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT  
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION  
FY 2009-10 THROUGH FY 2013-14 ESTIMATE  
(Millions of Dollars)**

	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
	<b>Final</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>Revenue Subject to Limit</b>					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$7,399.8	\$8,157.1	\$8,550.4	\$8,883.5	\$9,233.8
Constitutional Revenue Sharing (baseline)	629.2	664.7	696.2	709.9	728.2
School Aid Fund (baseline)	10,808.8	11,274.7	11,418.9	11,652.7	11,199.1
Transportation Funds	1,999.7	2,070.5	2,139.4	2,176.9	2,220.5
Other Restricted Non-Federal Aid Revenue	4,468.5	4,356.8	4,226.1	4,183.8	4,225.7
<u>Adjustments:</u>					
GF/GP Federal Aid	(20.8)	(17.3)	(18.0)	(16.0)	(15.0)
GF/GP Balance Sheet Adjustments	279.4	674.4	544.0	125.9	(34.0)
SAF Balance Sheet Adjustments	8.0	(23.2)	(733.4)	(721.8)	(736.5)
<b>Total Revenue Subject to Limit</b>	<b>\$25,572.6</b>	<b>\$27,157.7</b>	<b>\$26,823.6</b>	<b>\$26,995.0</b>	<b>\$26,821.7</b>
<b>Revenue Limit</b>					
<u>Personal Income:</u>					
Calendar Year	<b>CY 2008</b>	<b>CY 2009</b>	<b>CY 2010</b>	<b>CY 2011</b>	<b>CY 2012</b>
Amount	\$349,612	\$331,847	\$342,663	\$362,295	\$371,164
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$33,178.2	\$31,492.3	\$32,518.7	\$34,381.8	\$35,223.5
1.0% of Limit	331.8	314.9	325.2	343.8	352.2
<b>Amount Under (Over) Limit</b>	<b>\$7,605.6</b>	<b>\$4,334.6</b>	<b>\$5,695.1</b>	<b>\$7,386.8</b>	<b>\$8,401.7</b>
Percent Below Limit	22.9%	13.8%	17.5%	21.5%	23.9%



**ESTIMATE OF  
YEAR-END BALANCES**



**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 2010-11 and FY 2011-12. This section also provides an outlook for the FY 2012-13 State budget.

Table 15 provides a summary of the estimated year-end balances for the FY 2010-11, FY 2011-12, and FY 2012-13 GF/GP and SAF budgets. The good news is that in all three fiscal years, the GF/GP and SAF budgets are estimated to be in balance. The final accounting of FY 2010-11 revenue and appropriations has not been completed, but the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have a \$568.3 million balance and the SAF budget will have a \$722.6 million balance. A comparison of the SFA estimate of FY 2011-12 revenue with actual and projected appropriations leads to a \$691.8 million GF/GP balance and a \$44.1 million SAF balance.

The outlook for the FY 2012-13 GF/GP budget points to an ending balance of \$695.5 million and an SAF ending balance of \$148.0 million.

**Table 15**

<b>GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)</b>			
	<b>FY 2010-11 Estimate</b>	<b>FY 2011-12 Estimate</b>	<b>FY 2012-13 Estimate</b>
General Fund/General Purpose	\$568.3	\$691.8	\$695.5
School Aid Fund	\$722.6	\$44.1	\$148.0

**FY 2010-11 YEAR-END BALANCE ESTIMATES**

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. A comprehensive annual financial report (commonly referred to as the CAFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2010-11 GF/GP revenue and expenditures from the State Budget Office (SBO) and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the fiscal year with a \$568.3 million balance. The SFA is estimating that the FY 2010-11 SAF budget will close the fiscal year with a \$722.6 million balance.

Table 16 provides a summary of the current SFA estimate of a \$568.3 million balance in the FY 2010-11 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2011-12 revenue source. In fact, during the development of the FY 2011-12 budget, an estimated FY 2010-11 carry-forward amount of \$912.9 million from combined GF/GP and SAF revenue was built into the budget for FY 2011-12 one-time appropriations.

**Table 16**  
**FY 2010-11**  
**GENERAL FUND/GENERAL PURPOSE**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$187.2
<u>Ongoing Revenue:</u>	
SFA Revenue Estimate .....	\$7,641.6
Revenue Sharing Freeze for Cities, Villages, Townships .....	629.6
Restore Payments for County Revenue Sharing .....	(112.5)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	6.9
Use Tax on Health Maintenance Organizations .....	<u>383.2</u>
Subtotal Ongoing Revenue .....	<u>\$8,548.8</u>
<u>Non-Ongoing Revenue:</u>	
Liquor Reforms.....	5.1
Tax Amnesty .....	60.6
Unclaimed Property Reforms .....	175.4
Lawsuit Settlements .....	1.7
Appropriation to Medicaid Benefits Trust Fund (Public Act 157 of 2011) .....	(213.8)
Unemployment Insurance Contingent Fund Payable (Interest Repayment) .....	38.2
Reserve for GASB 54 (First Year Adjustment) .....	(14.6)
State Budget Office (SBO) Revenue Adjustment (December 21, 2011) .....	(8.1)
Lapse Secretary of State Work Project to General Fund/Prior Year Lapses.....	7.7
<b>Total Estimated GF/GP Revenue .....</b>	<b>\$8,788.2</b>
<b>Expenditures:</b>	
Initial Appropriations .....	\$8,311.0
<u>Enacted Supplemental Appropriations:</u>	
Public Act 191 of 2010-Grant to Detroit Institute of Arts .....	10.0
Public Act 204 of 2010-Eliminate GF Reimbursement to K-12 for Ren Zones .....	(9.2)
Public Act 49 of 2011-Early Retirement Savings .....	(57.4)
Public Act 50 of 2011-Federal/Restricted Revenue Only.....	0.0
Public Act 83 of 2011-Medicaid Database; Grants for Flint, Battle Creek .....	3.2
Public Act 83 of 2011-Community Health Caseload/Costs.....	98.7
Public Act 83 of 2011-Human Services Caseload/Costs .....	(2.0)
Public Act 83 of 2011-Tax Plan Implementation .....	31.9
Public Act 142 of 2011-Health Claims Assessment Implementation .....	1.0
Public Act 157 of 2011-Military & Veterans Affairs, State Police, UI Interest .....	<u>37.4</u>
Total Year-To-Date Enacted Supplemental Appropriations .....	\$113.6
Projected Year-End Lapses (SBO, November 28, 2011).....	(204.7)
<b>Total Estimated GF/GP Expenditures.....</b>	<b>\$8,219.9</b>
<b>Projected Year-End GF/GP Balance .....</b>	<b>\$568.3</b>

On the revenue side of the FY 2010-11 GF/GP budget ledger, the SFA is now estimating that revenue will total \$8.8 billion. This represents an \$895.8 million increase from the final level of FY 2009-10 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a \$148.2 million increase from the May 2011 consensus revenue estimate.

On the expenditure side of the FY 2010-11 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$8.2 billion. This represents a \$514.7 million or 6.7% increase from the final level of FY 2009-10 GF/GP expenditures. It should be noted that in FY 2009-10, \$1.2 billion of Federal American Recovery and Reinvestment Act (ARRA) funds were available to offset GF/GP expenditures.

Due to a negative \$57.4 million GF/GP supplemental appropriation to account for early retirement savings, and sizable estimated year-end lapses of \$204.7 million, the initial FY 2010-11 appropriation level of \$8.3 billion was reduced by \$91.1 million to \$8.2 billion by year-end. Among the positive supplemental appropriations for FY 2010-11 were \$98.7 million in caseload and cost increases for the Department of Community Health, \$38.2 million for partial payment of interest owed to the Federal government by Michigan's Unemployment Insurance Fund, and \$31.9 million for the Department of Treasury's implementation costs related to tax code changes.

Table 17 provides a summary of the FY 2010-11 SFA estimate of a \$722.6 million year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2011-12 revenue source. As mentioned previously, the FY 2011-12 budget was developed assuming that most of the funds carried forward from FY 2010-11 would be used for FY 2011-12 one-time appropriations.

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$255.9
SFA Revenue Estimate .....	\$11,235.9
<b>Other Revenue Adjustments:</b>	
GF/GP Grant to School Aid Fund .....	18.6
Ongoing Federal Aid .....	1,677.8
American Recovery and Reinvestment Act Funding .....	184.3
Federal Education Jobs Fund of 2010 .....	316.2
Tax Amnesty .....	14.7
Liquor Reforms.....	0.9
Subtotal Other Revenue Adjustments .....	2,212.5
<b>Total Estimated School Aid Fund Revenue .....</b>	<b>\$13,704.3</b>
<b>Expenditures:</b>	
Initial Appropriations (Public Act 110 of 2010) .....	\$12,864.7
<b>Enacted Supplemental Appropriations:</b>	
Public Act 204 of 2010-Cost Adjustments and Eliminate Ren Zone GF.....	(46.8)
Public Act 205 of 2010-Federal Education Jobs Fund.....	70.3
Public Act 217 of 2010-Federal Education Jobs Fund 2x Distribution.....	246.0
Public Act 62 of 2011-Technical Cost Adjustments/Bus Inspections .....	(180.0)
Public Act 299 of 2011-Book-Closing Adjustments .....	27.5
<b>Total Estimated School Aid Fund Expenditures .....</b>	<b>\$12,981.7</b>
<b>Projected Year-End School Aid Fund Balance.....</b>	<b>\$722.6</b>

On the revenue side of the FY 2010-11 SAF budget ledger, the SFA is now estimating that revenue will total \$13.7 billion. This represents a \$225.1 million or 1.7% increase from the final level of FY 2009-10 SAF revenue. The current SFA estimate of ongoing SAF revenue represents a \$113.0 million increase from the May 2011 consensus revenue estimate.

On the expenditure side of the FY 2010-11 SAF budget ledger, the SFA is now estimating that expenditures will total \$13.0 billion. This represents a \$241.6 million or 1.8% decline from the final level of FY 2009-10 SAF expenditures. The final level of SAF expenditures includes the initial

appropriation of \$12.9 billion, \$316.2 million in Federal Education Jobs Fund supplemental appropriations, and net negative supplemental appropriation adjustments of \$152.5 million.

The FY 2010-11 SAF budget was less reliant on temporary Federal American Recovery and Reinvestment Act funding than in previous years, with a total ARRA appropriation of \$184.3 million, compared to \$450.0 million in FY 2009-10. However, \$316.2 million of Federal Education Jobs Fund revenue was available for FY 2010-11; neither the ARRA nor the Education Jobs Fund revenue was included in the FY 2011-12 SAF budget.

### **FY 2011-12 YEAR-END BALANCE ESTIMATES**

On May 26, 2011, the Michigan Legislature completed action on the initial set of FY 2011-12 appropriation bills. The FY 2011-12 enacted budget was balanced with a combination of appropriation reductions and fund shifts. The enacted budget did not include a net increase in State taxes but did include \$3.1 million in fee increases in the Department of Environmental Quality. At the time of the enactment of the initial budget, based on the May 2011 consensus revenue estimate, the SFA was projecting a \$39.4 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2011-12 GF/GP year-end balance is \$691.8 million. At the time of the enactment of the initial budget, based on the May 2011 consensus revenue estimate, the SFA was projecting a \$0.2 million year-end balance in the SAF budget. The current SFA estimate of the FY 2011-12 SAF year-end balance is \$44.1 million.

Table 18 provides a summary of the current SFA estimate of a \$691.8 million year-end balance in the FY 2011-12 GF/GP budget. The increase in the projected level of the FY 2011-12 GF/GP year-end balance results primarily from a larger carry-forward balance from FY 2010-11 (\$280.0 million more than expected) and an estimated increase in GF/GP revenue from the May 2011 consensus of \$341.9 million.

On the revenue side of the FY 2011-12 GF/GP budget ledger, the SFA is now estimating that revenue will total \$9.6 billion. This estimate includes a projected \$568.3 million balance carried forward from FY 2010-11, \$8.8 billion of revenue from ongoing sources, \$200.7 million in use tax revenue from the phase-out of the use tax on health maintenance organizations, and \$6.5 million in one-time revenue related to the sale of the former Northville psychiatric facility. The total GF/GP revenue of \$9.6 billion represents a \$763.7 million or 8.7% increase over the FY 2010-11 estimate. The current SFA estimate of ongoing GF/GP revenue represents a \$341.9 million increase from the May 2011 consensus revenue estimate.

On the expenditure side of the FY 2011-12 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$8.9 billion. This total includes \$8.3 billion of ongoing appropriations in the initial appropriation bills, \$427.4 million in one-time appropriations in the initial appropriation bills, a projected lapse of \$19.8 million from the sale of State Building Authority bonds, a saving of \$145.0 million from State employee concessions, and a \$140.0 million payment for other post-employment benefits (OPEB). Since the initial budget was enacted, there have been several supplemental appropriation bills passed by the Legislature and signed by the Governor totaling \$181.4 million in GF/GP revenue. Of the additional \$181.4 million, \$167.3 million is related to the phase-out of the use tax on health maintenance organizations and its replacement by the health claims assessment. The phase-out of the use tax added \$200.7 million in revenue to the GF/GP balance sheet which offsets a \$167.3 million GF/GP supplemental appropriation in the Department of Community Health, resulting in a net GF/GP revenue increase of \$33.4 million for FY 2011-12. The use tax on health maintenance organizations ends as of April 1, 2012.

The remaining \$14.1 million in FY 2011-12 GF/GP supplemental funding to date includes appropriations to the Department of Treasury for tax plan implementation (\$1.0 million) and

unemployment insurance bonding (\$1.0 million); \$10.0 million to the Department of Licensing and Regulatory Affairs for heating assistance; \$1.4 million to the Department of Community Health as matching funds for the Federal electronic health record incentive; \$0.5 million to the Legislative Council for retirement costs; and \$0.2 million to the Executive Office for the Governor's Council on Educator Effectiveness.

**Table 18**  
**FY 2011-12**  
**GENERAL FUND/GENERAL PURPOSE**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$568.3
<b>Ongoing Revenue:</b>	
SFA Revenue Estimate .....	\$9,094.4
Revenue Sharing Payments.....	(300.0)
One-Time Appropriation for Revenue Sharing.....	(30.0)
Shift of Short-Term Borrowing Costs to School Aid Fund .....	12.0
Subtotal Ongoing Revenue .....	\$8,776.4
<b>Non-Ongoing Revenue:</b>	
Northville Sale (Balloon Payment, Oct. 14, 2011).....	6.5
Use Tax on Health Maintenance Organizations.....	200.7
<b>Total Estimated GF/GP Revenue.....</b>	<b>\$9,551.9</b>
<b>Expenditures:</b>	
Initial Ongoing Appropriations .....	\$8,275.2
Auditor General Boilerplate Appropriation.....	0.9
One-Time Appropriations .....	171.6
One-Time Appropriation to Budget Stabilization Fund.....	255.8
Projected Lapse from State Building Authority Bond Sale .....	(19.8)
Employee Concessions .....	(145.0)
Payment for Other Post-Employment Benefits.....	140.0
<b>Enacted Supplementals:</b>	
Public Act 38 of 2011-Tax Plan Implementation .....	1.0
Public Act 267 of 2011-UI Bonding, Michigan Finance Authority.....	1.0
Public Act 275 of 2011-Heating Assistance .....	10.0
Public Act 278 of 2011-Multiple Departments .....	169.4
<b>Total Estimated GF/GP Expenditures.....</b>	<b>\$8,860.1</b>
<b>Projected Year-End GF/GP Balance .....</b>	<b>\$691.8</b>

Table 19 provides a summary of the current SFA estimate of a \$44.1 million year-end balance in the FY 2011-12 SAF budget. The increase in the projected level of the FY 2011-12 SAF year-end balance results from a larger carry-forward balance from FY 2010-11 (\$76.7 million more than expected) and an estimated increase from the May 2011 consensus of \$51.2 million. Additional cost adjustments, combined with a pending supplemental, offset some of the revenue changes, resulting in a projected ending balance of \$44.1 million.

On the revenue side of the FY 2011-12 SAF budget ledger, the SFA is now estimating that revenue will total \$13.2 billion. This estimate includes a \$722.6 million balance carried forward from FY 2010-11, \$10.7 billion of State Restricted SAF revenue, a \$118.6 million GF/GP grant to the SAF budget, \$1.7 billion of ongoing Federal aid, and a negative \$8.0 million of nontax revenue adjustments. The current SFA estimate of total FY 2011-12 SAF revenue represents a \$532.3 million or 3.9% decline from the projected level of FY 2010-11 SAF revenue. It should be noted

that temporary Federal revenue of \$184.3 million from ARRA and \$316.2 million from the Education Jobs Fund, totaling \$500.5 million, was included in the FY 2010-11 SAF budget. The current estimate of FY 2011-12 State Restricted SAF revenue is \$51.2 million higher than the May 2011 consensus estimate.

On the expenditure side of the FY 2011-12 SAF budget ledger, the SFA is now estimating that expenditures will total \$13.1 billion. This expenditure estimate includes \$12.2 billion of ongoing K-12 appropriations in the initial appropriation bill, \$455.5 million in one-time appropriations in the initial appropriation bill, K-12 foundation allowance cost adjustments of \$60.4 million, and funding of \$195.9 million and \$200.0 million for community colleges and universities, respectively. House Bill 4445, a pending \$12.5 million FY 2011-12 supplemental appropriation for early childhood education that passed the Senate on November 10, 2011, is included as an expenditure item. The projected level of FY 2011-12 SAF expenditures represents a \$146.2 million or 1.1% increase from the projected level of FY 2010-11 SAF expenditures.

**Table 19**  
**FY 2011-12**  
**SCHOOL AID FUND**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$722.6
SFA Revenue Estimate .....	\$10,685.5
<b>Other Revenue Adjustments:</b>	
General Fund/General Purpose Grant .....	\$118.6
Federal Ongoing Aid.....	1,653.3
Nontax Revenue Adjustments .....	(8.0)
Subtotal Other Revenue Adjustments .....	\$1,763.9
<b>Total Estimated School Aid Fund Revenue .....</b>	<b>\$13,172.0</b>
<b>Expenditures:</b>	
Initial Ongoing K-12 Appropriations.....	\$12,203.6
Foundation Allowance Cost Adjustments (SFA Estimate, December 2011) .....	60.4
Partially Fund Community Colleges with School Aid Fund .....	195.9
Partially Fund Higher Education with School Aid Fund.....	200.0
<b>One-Time Appropriations:</b>	
Public School Employees Retirement System (MPERS) Payments .....	\$155.0
K-12 Best Practices .....	154.0
MPERS Retirement Obligation Reform Reserve Fund .....	133.0
Partially Restore K-12 Small Class Size Grants.....	13.5
Subtotal One-Time Appropriations .....	\$455.5
Pending Supplemental: HB 4445 (As Passed the Senate).....	\$12.5
<b>Total Estimated School Aid Fund Expenditures .....</b>	<b>\$13,127.9</b>
<b>Projected Year-End School Aid Fund Balance.....</b>	<b>\$44.1</b>

**FY 2012-13 STATE BUDGET OUTLOOK**

Pursuant to statutory requirements, the Governor must submit a detailed FY 2012-13 State budget recommendation to the Legislature no later than February 9, 2012. This State budget recommendation will continue the debate on the FY 2012-13 State budget. On February 17, 2011, Governor Snyder presented his FY 2011-12 budget and his projections for FY 2012-13. The Legislature subsequently enacted an FY 2011-12 State budget and included language within that

budget expressing intent to provide FY 2012-13 appropriations that would be the same as those for FY 2011-12, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2011-12 GF/GP revenue and expenditures produce a healthy projected ending balance of \$691.8 million. If this balance is carried forward into FY 2012-13, and if FY 2012-13 GF/GP expenditures are essentially frozen at the FY 2011-12 ongoing appropriation level with adjustments for caseload and costs, there will be an FY 2012-13 projected year-end GF/GP balance of \$695.5 million. Table 20 outlines these assumptions.

**Table 20**  
**FY 2012-13**  
**GENERAL FUND/GENERAL PURPOSE**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance.....	\$691.8
<b>Ongoing Revenue:</b>	
SFA Revenue Estimate .....	\$9,009.3
Revenue Sharing Payments.....	(300.0)
Shift of Short-Term Borrowing Costs to School Aid Fund .....	20.0
<b>Total Estimated GF/GP Revenue.....</b>	<b>\$9,421.1</b>
<b>Expenditures:</b>	
FY 2011-12 Total Appropriations.....	\$8,860.1
Remove FY 2011-12 One-Time Appropriations .....	(438.4)
Remove Health Claims Assessment GF/GP Adjustment.....	(167.3)
Community Health Caseload/Costs.....	200.0
Medicaid Match Rate Increase (66.14% to 66.39%).....	(25.0)
Increase for Debt Service Payments.....	46.2
Estimate of Other Cost Increases (3.0%).....	250.0
<b>Total Estimated GF/GP Expenditures.....</b>	<b>\$8,725.6</b>
<b>Projected Year-End GF/GP Balance .....</b>	<b>\$695.5</b>

On the revenue side of the FY 2012-13 budget ledger, the SFA is projecting that current law revenue will equal \$9.4 billion. This estimate includes the assumed carry-forward from FY 2011-12 of \$691.8 million and ongoing revenue of \$9.0 billion, as estimated by the SFA. This revenue estimate also assumes that State revenue sharing payments will continue at the FY 2011-12 ongoing level of \$300.0 million.

On the appropriation side of the FY 2012-13 budget ledger, the SFA estimate is built from the enacted level of FY 2011-12 GF/GP appropriations. Adjustments are then made to remove FY 2011-12 one-time GF/GP appropriations and the FY 2011-12 GF/GP appropriation related to the replacement of the use tax on health maintenance organizations with the health claims assessment in the Department of Community Health (DCH) budget. Additional adjustments factored into this analysis include DCH caseload and cost increases, an increase in the Medicaid match rate, an increase in debt service payments, and an estimate of other cost increases in the budget of approximately 3.0%. These assumptions lead to an FY 2012-13 GF/GP appropriation base of \$8.7 billion. This assumption is based on a freeze in major GF/GP programs such as operations payments to State community colleges and universities.

A comparison of projected FY 2012-13 GF/GP current law revenue and a continuation type of appropriation base leads to a projected ending balance of \$695.5 million. It should be noted that if

FY 2011-12 one-time GF/GP appropriations of \$427.4 million and one-time State revenue sharing appropriations of \$30.0 million are not removed from the spending base, the FY 2012-13 projected year-end GF/GP balance would be \$233.1 million instead of \$695.5 million.

Table 21 provides a summary of the SFA's outlook for the FY 2012-13 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2011-12 ongoing funding levels, adjusted for estimated pupils and costs, leads to a \$148.0 million FY 2012-13 projected year-end balance.

**Table 21**  
**FY 2012-13**  
**SCHOOL AID FUND**  
**REVENUE, EXPENDITURES, AND YEAR-END BALANCE**  
**(Millions of Dollars)**

	<b>SFA Estimate</b>
<b>Revenue:</b>	
Beginning Balance .....	\$44.1
SFA Revenue Estimate .....	\$10,930.8
<b>Other Revenue Adjustments:</b>	
General Fund/General Purpose Grant .....	118.6
Federal Ongoing Aid .....	1,653.3
Nontax Revenue Adjustments .....	3.3
Subtotal Other Revenue Adjustments .....	\$1,775.2
<b>Total Estimated K-12 School Aid Fund Revenue.....</b>	<b>\$12,750.1</b>
<b>Expenditures:</b>	
FY 2011-12 Total K-12 Appropriations .....	\$12,671.6
K-12 Foundation Allowance Cost Adjustments (SFA Estimate) .....	60.4
FY 2011-12 Total Comm. Colleges/Higher Education SAF Appropriations ....	395.9
Remove FY 2011-12 One-Time Appropriations .....	(455.5)
Remove Funding for FY 2011-12 Supplemental H.B. 4445 .....	(12.5)
Other One-Time Funding Adjustments .....	(14.2)
Funding Formula Cost Adjustments.....	(43.6)
<b>Total Estimated K-12 School Aid Fund Expenditures.....</b>	<b>\$12,602.1</b>
<b>Projected Year-End School Aid Fund Balance .....</b>	<b>\$148.0</b>

On the revenue side of the FY 2012-13 SAF budget outlook, the SFA is estimating that revenue will total \$12.75 billion. This estimate includes the assumed carry-forward from FY 2011-12 of \$44.1 million, the continuation of the \$118.6 million GF/GP grant, and estimated Federal aid of \$1.7 billion.

On the appropriation side of the FY 2012-13 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$12.6 billion. This funding level assumes that SAF appropriations of \$395.9 million for community colleges and universities are continued and that one-time K-12 appropriations of \$455.5 million are removed. The FY 2011-12 one-time K-12 appropriations equate to, on average, approximately \$200 per pupil. The SFA estimate of a continuation level of K-12 funding takes into account preliminary estimates as to the number of students in local school districts and preliminary estimates of local property tax valuations.

A comparison of projected FY 2012-13 SAF current law revenue and a continuation of ongoing appropriations leads to a projected ending balance of \$148.0 million. It should be noted that if FY 2011-12 one-time SAF appropriations of \$455.5 million are not removed from the spending base, the FY 2012-13 projected year-end SAF balance would be a negative \$307.5 million.



