



Senate Fiscal Agency

**MICHIGAN'S
ECONOMIC OUTLOOK
AND BUDGET REVIEW
ISSUE 2004-1**

**FY 2002-03, FY 2003-04
and FY 2004-05**

January 12, 2004



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.



Gary S. Olson, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2767; TDD (517) 373-0543

Internet Home Page <http://www.senate.michigan.gov/sfa>

ACKNOWLEDGMENT

This Budget Status Report was prepared and written by Gary S. Olson, Director, Jay Wortley, Senior Economist, and David Zin, Economist, of the Senate Fiscal Agency. Karen Hendrick prepared the graphs, performed the word processing, and coordinated the production of this report.

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
THE ECONOMIC REVIEW AND OUTLOOK	3
RECENT ECONOMIC HIGHLIGHTS	3
FORECAST SUMMARY	4
FORECAST ASSUMPTIONS AND RISKS	10
Assumptions	10
Risks to the Forecast	11
THE BUDGET STABILIZATION FUND	13
FY 2002-03	13
FY 2003-04	14
FY 2004-05	14
THE FORECAST FOR STATE REVENUES	17
SENATE FISCAL AGENCY REVENUE ESTIMATES	17
REVENUE OVERVIEW	17
FY 2002-03 ESTIMATED FINAL REVENUES	19
REVISED REVENUE ESTIMATES FOR FY 2003-04	21
FY 2004-05 INITIAL REVENUE ESTIMATES	24
SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY	27
COMPLIANCE WITH STATE REVENUE LIMIT	30
THE REVENUE LIMIT	30
REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED	30
REVENUE LIMIT COMPLIANCE PROJECTIONS	31
ESTIMATE OF YEAR-END BALANCES	33
FY 2002-03 YEAR-END BALANCE	33
FY 2003-04 YEAR-END BALANCE	36
FY 2004-05 STATE BUDGET OUTLOOK	39

EXECUTIVE SUMMARY

Economic Forecast

After increasing an estimated 3.1% in 2003, inflation-adjusted gross domestic product (GDP) is forecasted to grow 4.6% in 2004 and 3.6% in 2005. The improvement in the rate of growth, particularly during 2004, reflects expected improvements in business investment and export performance. Light motor vehicle sales will increase from 16.4 million units in 2003 to 16.9 million units in 2004 and 17.2 million units in 2005. Sluggish growth in employment is expected to moderate decreases in the unemployment rate that might be expected given the rate of growth in GDP, with the unemployment rate declining from 6.0% in 2003 to 5.7% in 2004 and 5.6% in 2005. Inflation, as measured by the Consumer Price Index, is anticipated to remain contained as prices rise 1.7% in 2004 and 2.3% in 2005, largely reflecting the effect of productivity improvements' more than offsetting higher import prices from the declining value of the dollar. The forecast assumes that the Federal Reserve Board is finished lowering short-term interest rates, with the Federal funds rate at 1.0%. Once the economy begins exhibiting stronger growth, in the second quarter of 2004, the Federal Reserve Board will begin increasing interest rates: slowly at first, but more rapidly as annualized inflation-adjusted GDP growth becomes stronger and more consistent, increasing concerns about the amount of expansionary monetary and fiscal stimulus present in the economy.

Over the next two years, the Michigan economy is expected to follow a pattern similar to the national economy, although economic activity will generally lag behind the national average. Inflation-adjusted personal income is estimated to rise 2.7% in 2004 and 3.6% in 2005, after rising 0.3% in 2003. The forecast predicts a number of factors will temper job growth and even increase unemployment, with wage and salary employment rising only 0.5% in 2004 and 1.7% in 2005, after falling 1.2% in 2003. The 2004 increase in employment would represent the first annual increase since 2000. Michigan's unemployment rate is expected to continue rising in 2004, to 7.3% from 7.1% in 2003, and, as the economy exhibits stronger growth in 2005, will decline to 6.6%.

Revenue Forecast

General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated \$18.47 billion in fiscal year (FY) 2003-04, which is down 0.9% from FY 2002-03. Excluding the \$450 million in one-time revenue realized in FY 2002-03 from the acceleration in the State education property tax due date, FY 2003-04 GF/GP and SAF revenue would have been up 1.5%. This revised revenue estimate for FY 2003-04 is \$39 million above the consensus revenue estimate adopted in October 2003. General Fund/General Purpose revenue will decline an estimated 1.1% to \$7.84 billion in FY 2003-04, while SAF revenue will decline 0.7% to \$10.63 billion. In FY 2004-05, GF/GP and SAF revenue will total \$18.82 billion, which is 1.9% above the revised FY 2003-04 estimate. The impact of the scheduled decline in the average income tax rate from 3.975% in FY 2003-04 to 3.9% in FY 2004-05, along with the ongoing phased reduction in the estate tax will help reduce GF/GP revenue 0.6% to \$7.79 billion in FY 2004-05. School Aid Fund revenue will increase an estimated 3.7% to \$11.03 billion. Revenues subject to the constitutional revenue limit will fall below the limit by an estimated \$4.7 billion in FY 2003-04 and \$5.1 billion in FY 2004-05.

Year-End Balance Estimates

Based on the Senate Fiscal Agency's (SFA's) revised revenue estimates and enacted State appropriations, the FY 2003-04 GF/GP and SAF budgets are still in balance following the December 2003 actions by the Legislature and the Governor to eliminate sizeable projected deficits. Comparison of FY 2003-04 revenues and appropriations indicate a \$16.5 million projected GF/GP year-end balance, and a zero SAF year-end balance. This zero year-end SAF balance is achieved by a pro-rata reduction in State per pupil school aid payments. The SFA now believes that this pro-rata reduction will be \$55 per pupil.

An analysis of the issues that will be facing the Governor and the Legislature in the development of the FY 2004-05 State budget shows very stark differences between the GF/GP and SAF budgets. The FY 2004-05 GF/GP budget will be severely constrained and the FY 2004-05 SAF budget may see modest growth. The restrained GF/GP budget results from actions taken to balance the FY 2003-04 budget that will affect the FY 2004-05 budget. Several non-ongoing revenue and appropriation items will result in major challenges in enacting a balanced FY 2004-05 GF/GP budget. The FY 2004-05 SAF budget is not as severely affected by such items. Absent any major changes in revenue or appropriation policy, the FY 2004-05 SAF budget may exhibit a modest growth in spending.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY ECONOMIC AND BUDGET SUMMARY

Economic Projections (Calendar Year)				
	2002 Actual	2003 Actual	2004 Estimate	2005 Estimate
Real Gross Domestic Product (% change)	2.2%	3.1%	4.6%	3.6%
U.S. Consumer Price Index (% change)	1.6	2.3	1.7	2.3
Light Motor Vehicle Sales (millions of units)	16.7	16.4	16.9	17.2
U.S. Unemployment Rate (%)	5.8	6.0	5.7	5.6
Michigan Personal Income (% change)	2.5	2.6	4.4	5.8
Michigan Unemployment Rate (%)	6.2	7.1	7.3	6.6

Revenue Estimates General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) (Dollars in Millions)						
	<u>FY 2003-04 Estimate</u>			<u>FY 2004-05 Estimate</u>		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose	\$8,027.4	(\$189.6)	\$7,837.9	\$8,340.5	\$(547.3)	\$7,793.3
% Change	1.2	---	(1.1)	3.9	---	(0.6)
School Aid Fund	10,556.5	78.5	10,634.9	10,952.9	75.5	11,028.3
% Change	2.9	---	(0.7)	3.8	---	3.7
Total GF/GP and SAF	18,583.8	(111.1)	18,472.8	19,293.4	(471.8)	18,821.6
% Change	2.2	---	(0.9)	3.8	---	1.9
	<u>FY 2002-03 Estimate</u>			<u>FY 2003-04 Estimate</u>		
Revenue Limit - Under (Over):	\$4,656.2			\$5,067.0		

Year-End Balance Estimates (Fiscal Year, Millions of Dollars)		
	FY 2002-03 Actual	FY 2003-04 Estimate
General Fund/General Purpose	\$174.0	\$16.5
School Aid Fund	113.7	0.0
Budget Stabilization Fund	0.0	0.0

THE 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 2003, 2004, and 2005, as well as a summary of recent economic activity.

RECENT ECONOMIC HIGHLIGHTS

Both the U.S. and Michigan economies have struggled since Michigan's employment began contracting in June 2000 and the U.S. entered a recession in March 2001. While the National Bureau of Economic Research (NBER), traditionally regarded as the authority for dating stages of the business cycle, announced that the national recession ended in November 2001, job growth and many other economic indicators have remained low or even at recessionary levels. The growth rate for inflation-adjusted Gross Domestic Product (GDP) increased from 0.5% in 2001 to 2.2% in 2002 and is expected to finish 2003 at a 3.1% rate. However, over this period wage and salary employment declined approximately 2.0%, or more than 2.6 million jobs. Wage and salary employment declined by only 82,000 in the third quarter of 2003, suggesting that the rate of job losses may be slowing given that 436,000 jobs vanished during the first nine months of 2003. The unemployment rate rose from 4.0% in 2000, the lowest level since 1969, to an expected rate of 6.0% in 2003, the highest annual rate since 1993.

Michigan's economy, particularly the Michigan job market, declined even more drastically than the national economy did. Michigan wage and salary employment peaked in June 2000, nine months before the national recession began. As of November 2003, Michigan wage and salary employment remained in decline, with employment more than 290,000 jobs, or 6.2%, below the June 2000 peak. The decline in employment does not simply reflect large job losses during 2002. In fact, employment was more than 60,000 jobs lower in November 2003 than in May 2003. These job losses have helped push the seasonally-adjusted unemployment rate in Michigan from 3.1% in the first quarter of 2000, the lowest level since 1966, to 7.6% in October 2003, the highest level since December 1992.

Lower employment also has reduced Michigan incomes. Inflation-adjusted Michigan personal income is forecasted to increase 0.3% in 2003, the first increase since 2000, when inflation-adjusted personal income rose 2.3%. Inflation-adjusted Michigan personal income fell 1.4% in 2001 and 0.1% in 2002. Inflation remained moderate in 2003, with prices in the Detroit Consumer Price Index expected to have risen only 2.3% in 2003, after increases of 2.7% and 2.6% in 2001 and 2002, respectively.

The economic slowdown since mid-2000 to a large degree reflected a number of economic shocks, ranging from the rapid collapse of speculative stock market valuations to corporate scandals, terrorist attacks and foreign military actions—one-time shocks, it is hoped. Nevertheless, the economy over that time developed several characteristics that will continue to affect the economy through 2004 and even 2005. The degree to which these characteristics affect the economy over the next two years will cause it to differ from the forecast presented here. The most significant of these risk factors reflect: 1) the effects on consumption, investment, and stock markets of differences between actual and expected economic performance; 2) inflation; 3) consumption growth being hampered by high debt burdens, particularly once interest rates begin rising, 4) production overcapacity and productivity behavior, and 5) weak growth in exports. These factors are discussed in more detail later in this section.

FORECAST SUMMARY

Both the U.S. and Michigan economies are expected to grow in 2004 and 2005, and at a higher rate than in recent years. [Table 1](#) provides a summary of key economic indicators from the SFA's economic forecast, with references to recent years, while [Table 2](#) provides additional detail regarding the U.S. forecast. Inflation-adjusted GDP grew an estimated 3.1% in 2003, and is expected to grow by 4.6% in 2004 and 3.6% in 2005. (See [Figure 1](#).) Most of the improvement in growth is expected to be fueled by greater business investment, including increases in inventories. Under the forecast, consumption is expected to grow slightly, monetary and fiscal policy will remain generally stimulative, and inflation will remain low. (See [Figure 2](#).) Government expenditures will contribute little to economic activity as large boosts in spending and additional tax breaks are not expected to occur. By 2005, growth in government spending will be limited, resulting in a substantially reduced contribution to the overall growth rate—a stark contrast to 2001, when declines in business investment and inventory accumulation essentially wiped out the contribution of consumption, leaving the overall growth rate almost entirely attributable to government spending. Businesses will begin to build inventories and increase investment in the fourth quarter of 2003, with inventory accumulation reaching a stable rate by the end of 2004. A declining dollar will improve the U.S. trade position, such that net exports become less of a drag on the economy. The unemployment rate will decrease from 6.0% in 2003 to 5.7% in 2004 and 5.6% in 2005.

In Michigan, economic activity will lag behind the national pickup considerably, primarily because employment growth will be slower than the national average ([Figure 3](#)) and the fastest growing sectors generally pay lower wages than those paid in stagnant and/or declining sectors. (See [Figures 4](#) and [5](#).) Inflation-adjusted personal income is expected to increase 2.7% in 2004 and 3.6% in 2005, compared with a 0.3% increase in 2003. (See [Figure 6](#).) However, wage and salary employment is forecasted to rise only 0.5% in 2004 and 1.7% in 2005. Such job growth represents an improvement from the 2.5%, 1.8%, and 1.2% declines in wage and salary employment reported for 2001, 2002, and 2003, respectively. Low-to-moderate growth in auto sales will combine with productivity improvements to increase the unemployment rate to 7.3% in 2004, from 7.1% in 2003, before the unemployment rate falls to 6.6% in 2005. The unemployment rate is expected to remain at least one full percentage point above the national average over the forecast period. The higher unemployment rate will combine with other economic factors to keep increases in Michigan prices slightly slower than the national average.

Compared with the October 2003 Consensus Economic Forecast for 2004, the U.S. economy is generally stronger while the Michigan economy is approximately the same. For example, the October estimates forecasted inflation-adjusted GDP to increase 3.7% in 2004, compared with a revised estimate of 4.6%. Light vehicle sales were estimated in October 2003 to total 16.6 million units in 2004, compared with a revised forecast of 16.9 million units in 2004, while the forecasted U.S. unemployment rate is being revised down to 5.7% from the 6.1% rate estimated in October. For Michigan, the October 2003 forecast estimated that wage and salary employment would rise 0.6% in 2004, compared with a minimally revised estimate of 0.5%. However, the October forecast estimated that personal income would rise 3.8% in 2004 and that the unemployment rate would remain at the forecasted 2003 rate of 7.1% in 2004, compared with the revised estimate of personal income growth of 4.4% in 2004 and an increase in the unemployment rate from 7.1% in 2003 to 7.3% in 2004.

Table 1

**THE SENATE FISCAL AGENCY ECONOMIC FORECAST
(Calendar years)**

	2001 Actual	2002 Actual	2003 Estimate	2004 Estimate	2005 Estimate
United States					
Nominal GDP (year-to-year growth)	2.9%	3.8%	4.8%	6.1%	5.7%
Inflation-adjusted GDP (year-to-year growth)	0.5%	2.2%	3.1%	4.6%	3.6%
Unemployment rate	4.7%	5.8%	6.0%	5.7%	5.6%
Inflation					
Consumer Price Index (year-to-year growth)	2.8%	1.6%	2.3%	1.7%	2.3%
GDP Implicit price deflator (year-to-year growth)	2.4%	1.5%	1.6%	1.5%	2.1%
Interest rates					
90-day Treasury bill	3.45%	1.62%	1.01%	1.44%	2.82%
Corporate Aaa bond	7.08%	6.49%	5.67%	5.66%	5.64%
Federal funds rate	3.88%	1.67%	1.13%	1.40%	2.71%
Light motor vehicle sales (millions of units)					
Auto	8.4	8.1	7.6	7.8	7.9
Truck	8.6	8.6	8.8	9.1	9.3
Michigan					
Personal Income (millions) year-to-year growth	\$296,480 1.3%	\$303,745 2.5%	\$311,633 2.6%	\$325,269 4.4%	\$344,132 5.8%
Inflation-adjusted personal income (year-to-year growth)	-1.4%	-0.1%	0.3%	2.7%	3.6%
Wage & salary income (millions) year-to-year growth	\$173,299 -1.3%	\$173,529 0.1%	\$175,029 0.9%	\$179,982 2.8%	\$187,935 4.4%
Detroit Consumer Price Index (year-to-year growth)	2.7%	2.6%	2.3%	1.7%	2.1%
Wage & Salary Employment year-to-year growth	4,555.9 -2.5%	4,476.1 -1.8%	4,424.2 -1.2%	4,447.6 0.5%	4,523.1 1.7%
Unemployment Rate	5.3%	6.2%	7.1%	7.3%	6.6%

Table 2

**THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL
(Calendar years)**

	2001	2002	2003	2004	2005
	Actual	Actual	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$10,100.8	\$10,480.8	\$10,979.9	\$11,652.9	\$12,322.1
year-to-year growth	2.9%	3.8%	4.8%	6.1%	5.7%
<u>Inflation-Adjusted GDP and Components</u>					
Gross Domestic Product (billions of 2000 dollars)	\$9,866.6	\$10,083.0	\$10,392.1	\$10,870.1	\$11,261.2
year-to-year growth	0.5%	2.2%	3.1%	4.6%	3.6%
Consumption (billions of 2000 dollars)	\$6,904.6	\$7,140.4	\$7,358.3	\$7,633.9	\$7,908.6
year-to-year growth	2.5%	3.4%	3.1%	3.7%	3.6%
Business fixed investment (billions of 2000 dollars)	\$1,176.8	\$1,092.6	\$1,120.3	\$1,236.5	\$1,359.5
year-to-year growth	-4.5%	-7.2%	2.5%	10.4%	10.0%
Change in Business inventories (billions of 2000 dollars)	\$(36.0)	\$5.7	\$(2.0)	\$49.8	\$53.6
Residential investment (billions of 2000 dollars)	\$448.5	\$470.3	\$513.0	\$529.2	\$513.1
year-to-year growth	0.4%	4.9%	9.1%	3.2%	-3.1%
Government spending (billions of 2000 dollars)	\$1,768.9	\$1,836.9	\$1,897.1	\$1,944.5	\$1,965.0
year-to-year growth	2.7%	3.8%	3.3%	2.5%	1.1%
Net Exports (billions of 2000 dollars)	(\$398.1)	(\$470.5)	(\$507.1)	(\$526.8)	(\$534.7)
Exports (billions of 2000 dollars)	\$1,039.0	\$1,014.2	\$1,028.7	\$1,115.5	\$1,216.1
Imports (billions of 2000 dollars)	\$1,437.1	\$1,484.7	\$1,535.7	\$1,642.3	\$1,750.8
Personal income (year-to-year growth)	3.4%	2.3%	3.2%	4.8%	5.7%
Adjusted for Inflation	0.5%	0.7%	0.8%	3.0%	3.3%
Wage & salary income (year-to-year growth)	2.4%	0.6%	2.0%	3.5%	4.3%
Personal savings rate	2.3%	1.7%	3.3%	4.0%	3.2%
Capacity utilization rate	77.4%	75.6%	74.8%	78.3%	80.2%
Housing starts (millions of units)	1.603	1.741	1.813	1.796	1.709
Conventional mortgage rates	7.0%	6.4%	5.8%	6.0%	5.9%
Federal budget surplus (billions of dollars, NIPA basis)	\$45.4	(\$258.6)	(\$344.6)	(\$467.7)	(\$362.5)

Figure 1

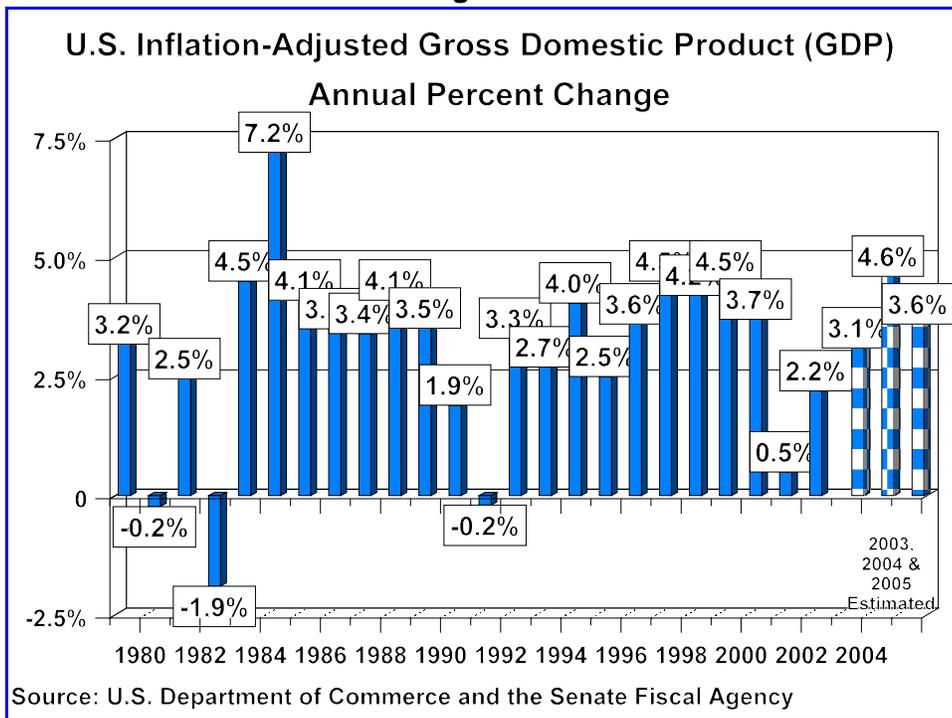


Figure 2

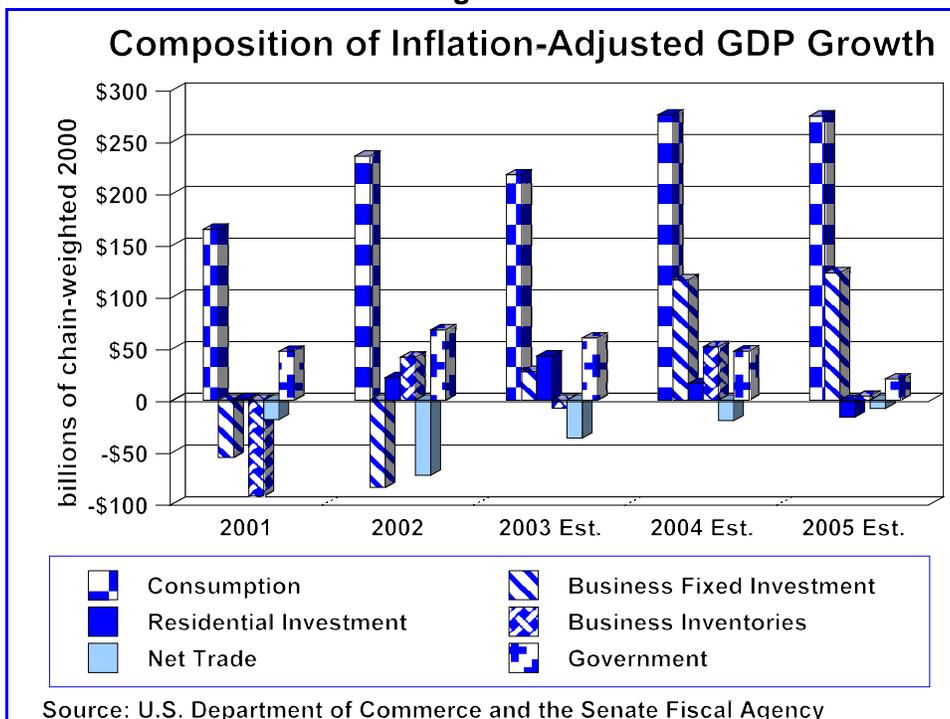


Figure 3

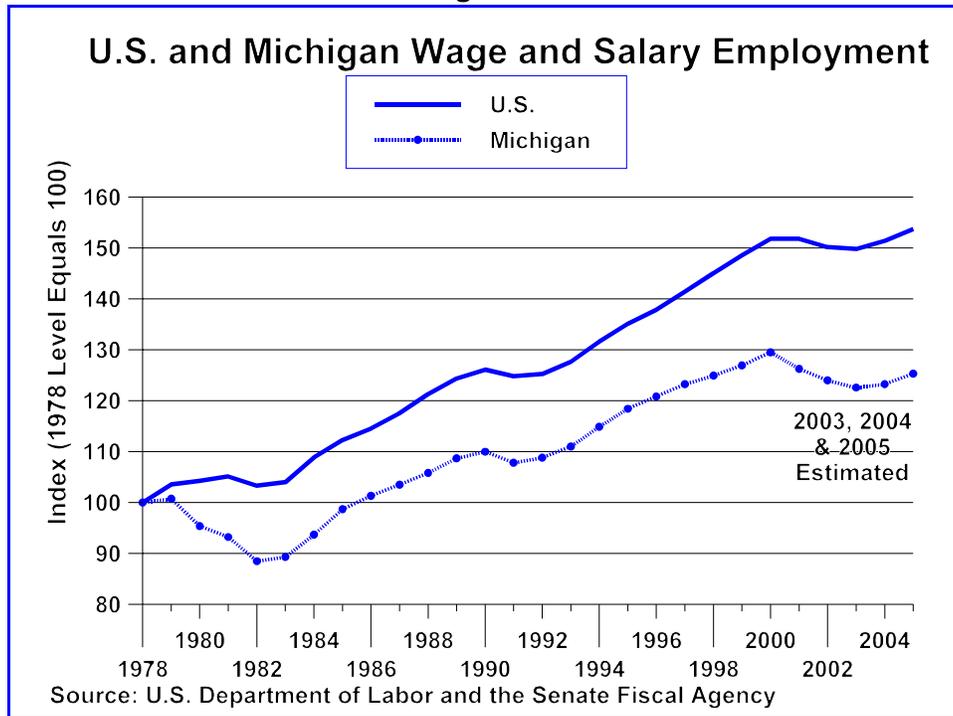


Figure 4

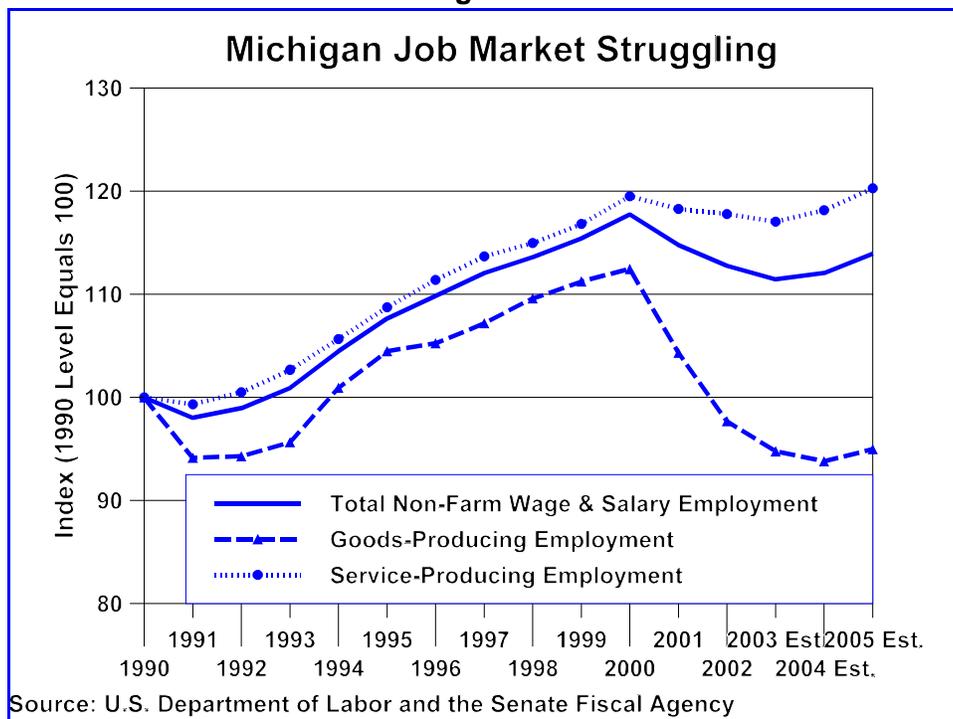


Figure 5

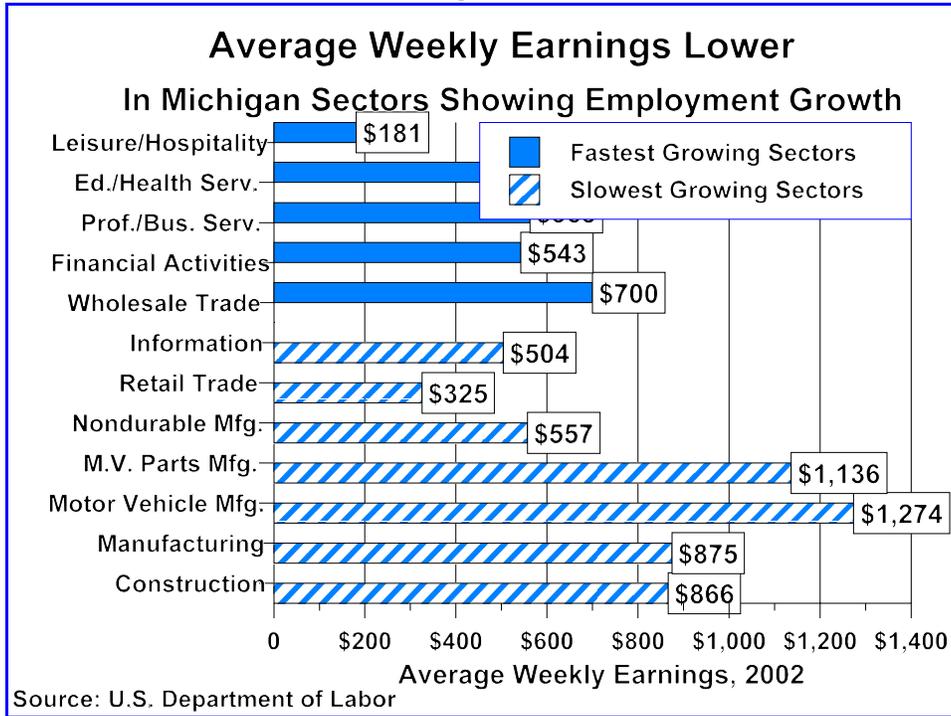
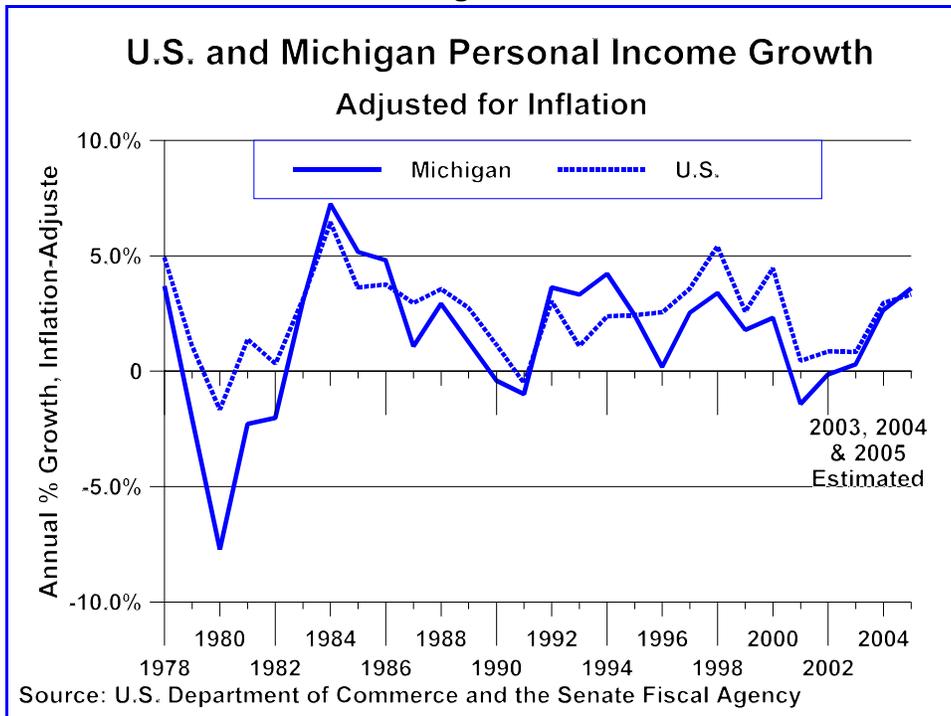


Figure 6



FORECAST ASSUMPTIONS AND RISKS

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. The current SFA forecast for 2003 through 2005 is based upon the assumptions as discussed below.

Assumptions

Monetary Policy. The Federal Reserve Board lowered interest rates 11 times during 2001 in an effort to help stimulate investment and lower the cost of debt for consumers and businesses. By the end of June 2003, the Federal Reserve Board had further lowered the Federal funds rate to 1.0%, the lowest level in more than 40 years. The forecast assumes that the Federal Reserve Board has created sufficient monetary stimulus for the economy and that current interest rates are not a significant factor deterring business investment. The business sector's willingness to borrow is expected to increase but will be tempered by mediocre growth in sales, strong productivity improvements from prior investments, and significant production overcapacity, more than by a perception of high borrowing costs. As a result, interest rates are anticipated to remain at current levels until late in the second quarter of 2004. The economy is expected to remain strong enough that once business investment exhibits a more consistent pattern of growth in mid-2004, inflation worries related to expansionary Federal deficits and the declining value of the dollar will prompt increases in the Federal funds rate, to 2.25% by the end of 2004 and 3.50% by the end of 2005.

Foreign Economies. Many of the U.S.'s key trading partners' economies are expected to grow slightly more slowly than the U.S. economy grows during most of the forecast period. The dollar is expected to continue declining in value, falling 4.5% in 2004 and 1.9% in 2005. Combining that with tepid economic growth for the U.S.'s major trading partners, the net effect is the dollar's value is forecasted to continue to restrain export growth and encourage imports, although by less than in the last two years. As a result, the forecast predicts that the trade deficit will continue to increase, particularly during 2004 when foreign growth is more below the U.S. level, and trade will tend to reduce economic growth over the forecast period.

Fiscal Policy. The forecast assumes that by 2004 the additional fiscal stimulus created by countercyclical Federal policy and the spending resulting from the September 11, 2001, terrorist attacks is effectively exhausted, leaving inflation-adjusted government spending to increase 2.5% in 2004 and 1.1% in 2005. Much of the remaining increase in 2004 will reflect defense obligations from prior years combined with the spending increases reflecting the political business cycle. The forecast predicts that Federal government spending will remain stagnant in 2005, with virtually all of the growth reflecting increases at the State and local levels. While the annual Federal budget deficit will peak at \$467.3 billion in 2004, the budget is expected to remain in deficit through the forecast period. As a result, not only will the total amount of Federal debt increase, but as interest rates rise the burden of servicing the debt will rise also. The current forecast does not anticipate that the Federal debt will significantly dampen the ability of the private sector to respond to the stimulative effects of the deficit or that significant budgetary changes will be required to accommodate the higher debt service burden.

Oil and Energy Prices. The forecast expects oil prices to decline slightly through 2004, from \$31 per barrel in the fourth quarter of 2003 to \$28 per barrel in the third quarter of 2004, before stabilizing in the range of \$27 to \$28 per barrel for the rest of the forecast period. Other energy prices also are expected to follow a similar pattern over the forecast period.

Consumer Behavior. Consumption growth remained moderate throughout the slowdown over the last three years, largely through increased borrowing and refinance activity. As a result, little, if any, pent-up demand exists in the consumer sector. While the economy is expected to improve, much of the growth in GDP will reflect productivity improvements rather than employment gains. Therefore, higher interest rates are likely to worsen the burden of servicing consumer debt and, when combined with slow job growth and modest personal income growth, will keep consumption growth from rising significantly faster than in recent years.

Business Inventories and Business Investment. The forecast assumes that the business sector will build on improvements posted in late 2003, with inflation-adjusted business fixed investment rising 10.4% in 2004 and 10.0% in 2005. Inventory accumulation is assumed to occur, although at lower levels than during the 1998-2000 period and at a level more consistent with the 1988-1996 period. Under the forecast, productivity increases will slow relative to the rate of growth in consumption, pushing capacity utilization rates higher. Capacity utilization rates are assumed to have bottomed in 2003, and will rise from 74.8% in 2003 to 80.2% in 2005.

Risks to the Forecast

All forecasts carry a certain amount of error, but the chances that a forecast will err substantially depend upon certain risks to economic fundamentals upon which the forecast is built. The uncertain economic environment in 2004, combined with concern regarding significant data revisions to most information regarding important economic variables, causes the current economic forecast to face a number of risks, somewhat balanced between being stronger or weaker than anticipated.

Monetary and Fiscal Stimulus. Both the Federal government and the Federal Reserve Board have done much to stimulate the economy over the 2001-2003 period. On the fiscal policy side, the forecast assumes that much of the stimulus effect has been exhausted and that Federal spending will remain mostly restrained, particularly in 2005. However, there is a significant risk that Federal spending will be higher than forecasted and both consumption and interest rates may be higher than forecasted. Such events could weaken both investment and export growth, as well as result in higher inflation and less job growth. The forecast assumes there is little response to the monetary stimulus during much of forecast period, with investment dominated by replacement activity. Substantial overcapacity is expected to combine with demands to improve corporate net worth and profits to reduce the incentive to acquire more debt. However, if business investment improves rapidly and inflation appears more likely, the Federal Reserve could tighten interest rates more quickly than forecasted. Such actions would primarily lower the forecast for growth in 2005.

Economic Expectations. One risk to the forecast relates to the interaction between actual economic developments and business and consumer expectations. Currently, confidence is generally improving in regard to the economy over the next year or two in both the business and consumer sectors. The stock market at the end of 2003 appeared to reflect confidence that corporate profits were improving and will continue to do so. Furthermore, concern regarding Federal deficits seems to be minimal and the dollar's devaluation is generally being regarded as a positive development. Forecasts of very strong economic growth in the coming two years are not uncommon. However, the economy may not live up to such high expectations. Many of the economic changes forecasted or currently taking place bring both positive and negative developments. In this forecast, employment growth is expected to remain moderate, particularly given the strength of the growth forecasted in GDP. As a result, the economy may perform well but not as well as expected or in the manner expected. If a substantial-enough number of consumers and businesses respond to the failure of the economy to live up to their expectations

by cutting back on spending, selling assets, etc., then the economic recovery forecasted here could be slower and take much longer.

Inflation. As indicated above, both the Federal government and the Federal Reserve Board have provided a significant amount of fiscal and monetary stimulus to the economy. The dollar's value is expected to decline, increasing the price of imports and allowing domestic producers greater pricing power. Furthermore, higher growth also will put substantial demands for additional energy in virtually every sector of the economy. With the petroleum refining sector operating at nearly 100% capacity even during the slowdown, energy prices may be substantially greater than forecasted even without external shocks. Inflation is largely held down in the forecast by reasonably healthy growth in productivity, which may not be as strong as forecasted. These factors may combine to produce substantial inflationary pressures. Significant inflation could be particularly problematic for the economy, not only resulting in a more rapid and larger interest rate increases from the Federal Reserve but also creating significant difficulties for the financial sectors that invested heavily in the refinancing boom of the last few years. These financial sectors are largely dependent upon interest payments locked in at low rates, and inflation will result in those loans' being repaid with substantially devalued dollars.

Data Revisions. It is difficult for any forecast to be better than the data upon which it is based. In 2002 and 2003, much of the data for the previous year or two were revised significantly. While anecdotal evidence and tax receipts suggested that the economy was performing at a much lower level than officially estimated, there was little concrete information to indicate that the early forecasts for 2002 through 2004 needed radical modification. However, when these revisions occurred, many economic fundamentals were changed significantly. In many cases, variables that were previously reported to have exhibited positive growth were revised to show negative growth. In 2003, many of the same phenomena have been observed, with anecdotal evidence and tax receipts suggesting that the economy, particularly in Michigan, has been growing at a slower-than-reported level. The existing forecast assumes the current data are correct, because any alternative assumption would require essentially inventing data. Should the existing data for recent years be revised significantly in early 2004, if the SFA were to go back and redo the forecast using the revised data, the resulting forecast would likely be more pessimistic and would certainly be different.

THE BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act (P.A.) 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 recessions, 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%. When the growth in real personal income less transfer payments is over 2%, the pay-in to the BSF is equal to the percentage growth in excess of 2% 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% or higher for a calendar quarter, up to 5% of the BSF 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 3 presents the history of the BSF in terms of transfers into and out of the Fund, interest earnings, and year-end balances. Also presented in this table are the final levels for these items for FY 2002-03, along with the revised estimates for FY 2003-04 and the initial estimates for FY 2004-05. The BSF year-end balance as a percentage of GF/GP and SAF revenues is shown in Figure 7, and the estimated economic stabilization trigger calculations for FY 2003-04 and FY 2004-05 are presented in Table 4.

FY 2002-03

The BSF began FY 2002-03 with a balance of \$145 million. During the year, \$9.1 million was transferred into the BSF from the State Trunkline Fund to return the unused portion of a \$69 million transfer that was made in FY 1996-97 from the BSF to the Trunkline Fund. The interest earned

on the funds in the BSF during FY 2002-03 totaled \$1.8 million. As a result of the beginning balance, the transfer from the State Trunkline Fund, and the interest earnings, there was a total of \$156.1 million available in the BSF in FY 2002-03. Of this amount, \$32 million was transferred to the School Aid Fund to finance the ongoing *Durant* payments to schools, and the remaining \$124.1 million was transferred to the General Fund/General Purpose budget. The BSF ended FY 2002-03 with a zero balance, which marks the first time in the history of the BSF that it has ended a fiscal year with no money.

FY 2003-04

Based on the SFA's revised forecast of Michigan personal income, transfer payments, and the Detroit Consumer Price Index, the economic pay-in/pay-out formula does not trigger any transfers into, or out of, the BSF, and the balance in the BSF will remain at zero in FY 2003-04.

FY 2004-05

Under current law, the BSF will receive an estimated \$154 million in FY 2004-05 due to a provision in the distribution formula for a portion of the cigarette tax. In FY 2001-02, the cigarette tax was increased \$0.50 per pack from \$0.75 to \$1.25. The distribution provisions included in the law enacting this cigarette tax increase specify that the revenue generated from \$0.22 per pack (74.2% of \$0.30 of the \$0.50 increase) will be distributed to the General Fund/General Purpose budget in FY 2001-02 through FY 2003-04 and in FY 2007-08 and each fiscal year thereafter. For FY 2004-05 through FY 2006-07, the law requires that the revenue generated from this portion of the cigarette tax be deposited into the BSF. It is estimated that this deposit will equal \$154 million in FY 2004-05. Under existing law, this deposit into the BSF will happen automatically. In addition, it is estimated that the economic pay-in/pay-out formula will trigger a \$34.5 million transfer into the BSF in FY 2004-05, as shown in Table 4. For this transfer to occur, it will have to be appropriated by the Legislature and approved by the Governor.

Table 3

**ECONOMIC AND BUDGET STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1977-78 TO FY 2003-04
(millions of dollars)**

Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1977-78	\$108.7	\$6.2	\$0.0	\$114.9
1978-79	104.1	22.1	0.0	241.1
1979-80	0.0	32.1	263.7	9.5
1980-81	0.0	9.2	16.3	2.4
1981-82	0.0	0.6	0.0	3.0
1982-83	0.0	0.2	0.0	3.2
1983-84	0.0	0.2	0.0	3.4
1984-85	340.9	30.8	34.2	340.9
1985-86	30.6	28.2	14.7	385.1
1986-87	0.0	24.1	24.8	384.4
1987-88	0.0	29.2	20.4	393.1
1988-89	0.0	38.0	11.9	419.2
1989-90	0.0	35.8	69.9	385.1
1990-91	0.0	27.1	230.0	182.2
1991-92	0.0	8.1	170.1	20.1
1992-93	282.6	0.7	0.0	303.4
1993-94	460.2	11.9	0.0	775.5
1994-95	260.1	57.7	90.4	1,003.0
1995-96	91.3	59.2	0.0	1,153.6
1996-97	0.0	67.8	69.0	1,152.4
1997-98	0.0	60.1	212.0	1,000.5
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
Senate Fiscal Agency estimates:				
2003-04	\$0.0	\$0.0	\$0.0	\$0.0
2004-05	154.2	2.1	0.0	156.3
Summary of Appropriated Pay-Outs:				
		FY 2000-01	FY 2001-02	FY 2002-03
School Aid Fund:				
<i>Durant</i> Payments		\$ 32.0	\$ 32.0	\$ 32.0
Other Withdrawal		0.0	350.0	0.0
Subtotal SAF		\$ 32.0	\$382.0	\$ 32.0
Trunkline Fund		35.0	35.0	0.0
General Fund		270.0	452.8	124.1
Total		\$337.0	\$869.8	\$156.1
a) Pay-in equals GF/GP share of cigarette tax revenue from \$0.30 of the \$0.50 per pack increase that went into effect August 2002.				

Figure 7

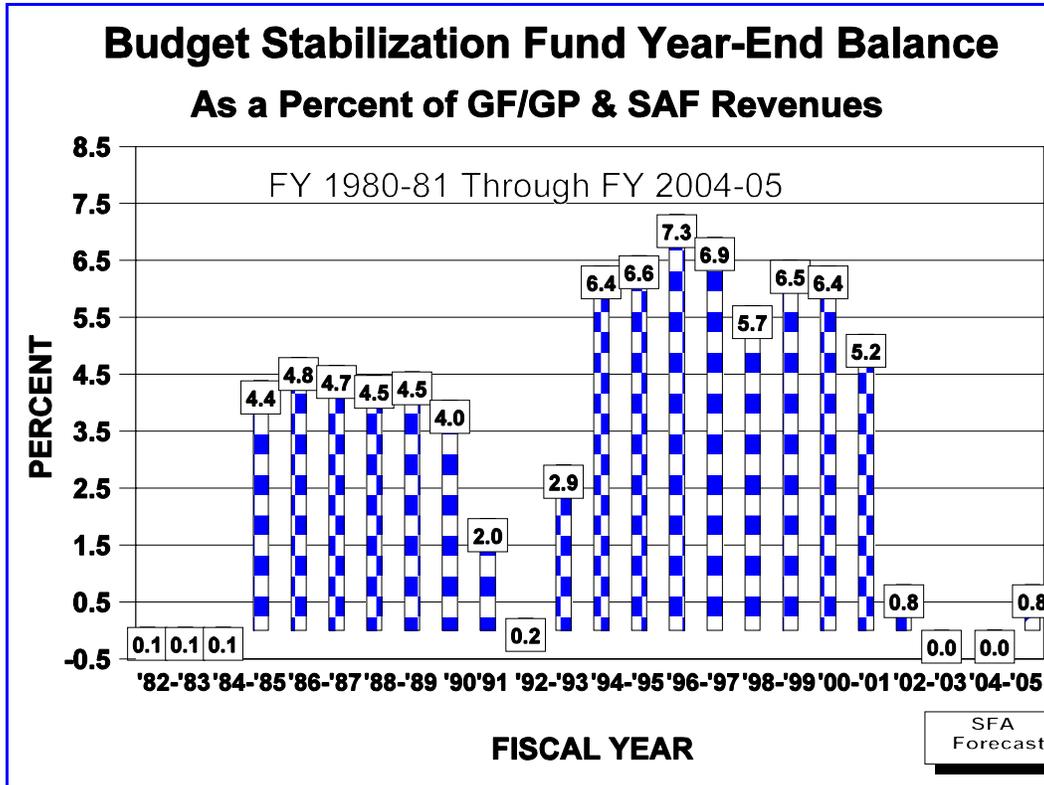


Table 4

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER FY 2003-04 and FY 2004-05 SENATE FISCAL AGENCY ESTIMATES (millions of dollars)			
	<u>CY 2003</u>	<u>CY 2004</u>	<u>CY 2005</u>
Michigan Personal Income (MPI)	\$311,633	\$325,269	\$344,132
Less: Transfer Payments	50,509	53,202	56,388
Subtotal	\$261,124	\$272,067	\$287,744
Divided by: Detroit CPI, 12 Months Average ending June 30 (1982-84 = 1)	1.814	1.845	1.878
Equals: Real Adjusted MPI	\$143,949	\$147,462	\$153,218
Percent Change from Prior Year	-1.20%	2.44%	3.90%
Excess Over 2%	0.00%	0.44%	1.90%
Amount Under 0%	1.20%	0.00%	0.00%
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	
Multiplied by: Estimated GF/GP Revenue	\$7,927.7	\$7,837.9	
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	
Equals: Transfer from the BSF	\$ 0.0	\$ 0.0	
OR Transfer to the BSF	0.0	34.5	
Note: Numbers may not add due to rounding. CY = Calendar Year; FY = Fiscal Year.			

THE FORECAST FOR STATE REVENUES

SENATE FISCAL AGENCY REVENUE ESTIMATES

This section of the Budget Status Report presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenues. The preliminary final revenues for FY 2002-03 are presented along with the revised estimates for FY 2003-04 and the initial revenue estimates for FY 2004-05. The revenue estimates for each of these fiscal years include the estimates for baseline revenues, which measure what revenues would be without any changes in the State's tax structure from the previous fiscal year, and net revenues, which reflect the impact of enacted tax changes.

REVENUE OVERVIEW

In FY 2002-03, GF/GP and SAF baseline revenues declined an estimated 0.8% due to the sluggish economy which continued to reduce employment in Michigan. This weakness in baseline revenues was exacerbated by several enacted tax reductions, including the ongoing phased reductions in the income tax rate and the estate tax. However, the underlying weakness in revenues was offset by the one-time acceleration in the collections of the State education property tax, which netted an additional \$450 million to the SAF in FY 2002-03. As a result, net GF/GP and SAF revenues totaled \$18.64 billion, which was actually up \$82 million or 0.4% from the final revenue for FY 2001-02.

The pace of economic activity in Michigan is expected to begin to pick up in the first quarter of 2004 and continue to improve through 2005, as discussed in the previous section of this report. As a result, baseline GF/GP and SAF revenues are expected to post a 2.2% increase in FY 2003-04. Several enacted tax changes will offset the baseline growth; however, the impact of the tax changes will be mitigated by the recently enacted delay in implementing the final scheduled reduction in the income tax rate from January 1, 2004, to July 1, 2004. This cut in the income tax rate, along with the continuing phased repeal of the estate tax and several other Federal and State tax changes, will result in an estimated \$18.47 billion in GF/GP and SAF revenues in FY 2003-04. This represents a 0.9% decline from the preliminary final revenue level for FY 2002-03.

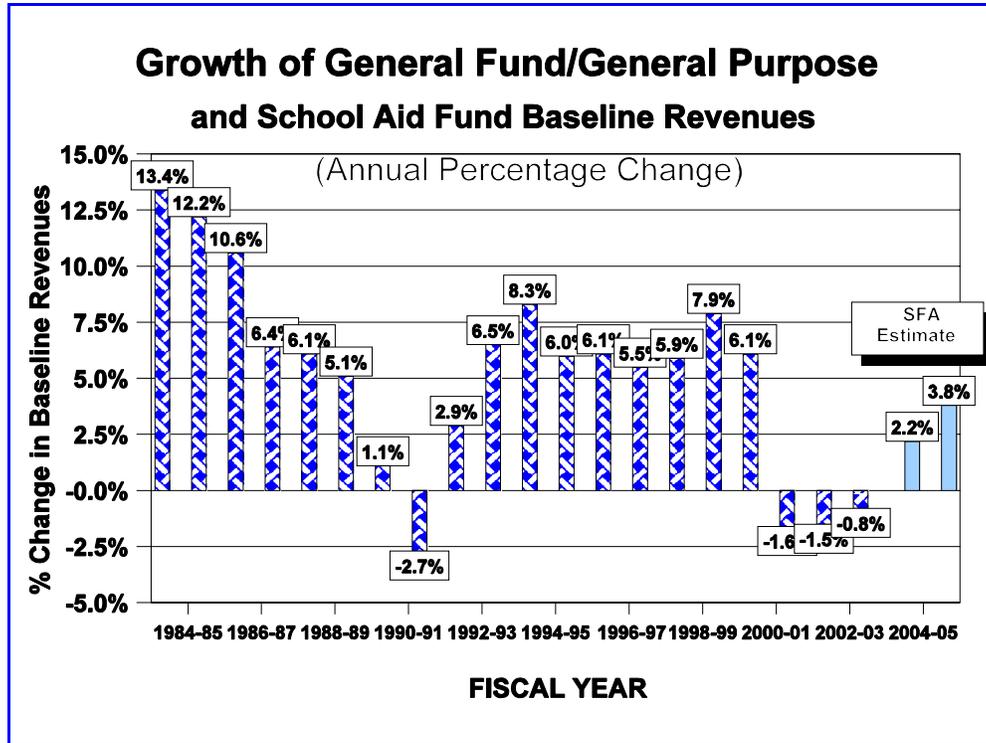
In FY 2004-05, the Michigan economy is expected to experience its strongest rate of growth since FY 1999-2000. The forecasted level of economic growth will generate an estimated 3.8% increase in baseline GF/GP and SAF revenues in FY 2004-05. This gain in baseline revenues will, however, be reduced due to the income tax rate being at 3.9% for the entire fiscal year, an indexed increase in the income tax personal exemption, the continuing phase-out of the estate tax, and a scheduled transfer of some cigarette tax revenue to the Budget Stabilization Fund. These tax changes will slow the growth in GF/GP and SAF revenues to 1.9% in FY 2004-05 to \$18.82 billion. The revenue forecast is summarized in [Table 5](#).

[Figure 8](#) presents an historical overview of the percentage change in baseline GF/GP and SAF revenues since FY 1982-83. From FY 1982-83 to FY 1999-2000, baseline GF/GP and SAF revenues increased at an average annual rate of 6.2%. The period from FY 1992-93 to FY 1999-2000 marked a phase of unprecedented steady growth as baseline revenue growth did not fall below 5.5% during these eight years. This remarkable period of fairly strong, consistent revenue growth came to an abrupt end as the recession and very modest recovery reduced baseline revenues by 1.6% in FY 2000-01, 1.5% in FY 2001-02, and 0.8% in FY 2002-03. After this three-year decline in GF/GP and SAF baseline revenues, it is estimated that baseline revenues will once again experience modest growth of 2.2% in FY 2003-04 and 3.8% in FY 2004-05.

Table 5

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2003-04 AND FY 2004-05 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (dollars in millions)			
	FY 2002-03 Preliminary Final	FY 2003-04 Revised Estimate	FY 2004-05 Initial Estimate
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	\$7,931.0	\$8,027.4	\$8,340.5
Tax Changes Not In Baseline	(3.3)	(189.6)	(547.3)
<u>Revenue After Tax Changes:</u>			
Net Income Tax	3,961.6	3,943.8	3,980.3
Single Business Tax & Insurance Tax	2,075.1	2,127.9	2,241.8
Other Taxes	1,569.9	1,566.4	1,371.3
Total Taxes	7,606.6	7,638.1	7,593.5
Nontax Revenue	321.1	199.8	199.8
TOTAL GF/GP REVENUE	\$7,927.7	\$7,837.9	\$7,793.3
SCHOOL AID FUND			
Baseline SAF	10,260.2	10,556.5	10,952.9
Tax Changes Not In Baseline	454.7	78.5	75.5
TOTAL SAF REVENUE	\$10,714.9	\$10,634.9	\$11,028.3
BASELINE GF/GP AND SAF REVENUE ...			
	\$18,191.2	\$18,583.8	\$19,293.4
Tax & Revenue Changes	451.4	(111.1)	(471.8)
GF/GP & SAF REV. AFTER CHANGES	\$18,642.6	\$18,472.7	\$18,821.6
ADDENDUM:			
Sales Tax	\$6,422.6	\$6,659.8	\$6,926.2
PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	(2.1)%	1.2%	3.9%
<u>Revenue After Tax Changes:</u>			
Net Income Tax	(6.4)	(0.4)	0.9
Single Business Tax & Insurance Tax	(6.1)	2.5	5.4
Other Taxes	(2.8)	(0.2)	(12.5)
Total Taxes	(5.6)	0.4	(0.6)
Nontax Revenue	(2.4)	(37.8)	0.0
TOTAL GF/GP REVENUE	(5.5)%	(1.1)%	(0.6)%
SCHOOL AID FUND			
Baseline SAF	0.2	2.9	3.8
TOTAL SAF REVENUE	5.7%	(0.7)%	3.7%
BASELINE GF/GP AND SAF REVENUE ...			
	(0.8)%	2.2%	3.8%
GF/GP & SAF REV. AFTER CHANGES	0.4	(0.9)	1.9
ADDENDUM:			
Sales Tax	(0.3)%	3.7%	4.0%

Figure 8



FY 2002-03 ESTIMATED FINAL REVENUES

Based on final book-closing data, GF/GP and SAF revenues totaled \$18.64 billion in FY 2002-03, which was down 0.3% from the FY 2001-02 revenue level, as presented in Table 6. Revenues would have been down by a much greater amount had it not been for the one-time acceleration in the State education property tax revenue, which generated \$450 million. While revenue collections were down in FY 2002-03 from the prior year, they were slightly higher than was estimated in the fall of 2003. The final GF/GP and SAF revenues in FY 2002-03 were actually up about \$100 million compared with the revenue estimates adopted at the special October 2003 Consensus Revenue Estimating Conference. This stronger-than-expected level of revenues was due to larger-than-anticipated revenue from some nontax revenue sources and stronger-than-expected year-end collections from the State education property tax and the real estate transfer tax.

General Fund/General Purpose

As in the past several years, a disproportionate share of the weakness in overall GF/GP and SAF revenues in FY 2002-03 was in GF/GP revenue. This weakness in revenue collections was due primarily to declines in income tax collections, which were down 4.7% from the year-ago level. There were two major factors that contributed to this decline in income tax collections: 1) The weak level of economic activity coupled with strong productivity growth and resulted in declining employment, which had a particularly negative impact on income tax withholding payments; and 2) the rate of the income tax fell from 4.1% to 4.0% on January 1, 2003, which represents a 2.4% tax reduction. In addition, the ongoing phased reduction in the estate tax, along with several other tax cuts, further pulled down GF/GP revenue. General Fund/General Purpose revenue totaled \$7.93 billion, which was down \$499 million from the FY 2001-02 level. Compared with the October 2003 consensus revenue estimate, GF/GP revenue was up \$43 million.

Table 6

**FY 2002-03 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(dollars in millions)**

	FY 2001-02 Final	FY 2002-03 Preliminary Final	Change From FY 2001-02		\$ Change from 10/03 Consensus
			Dollar Change	Percent Change	
GEN'L FUND/GEN'L PURPOSE					
Baseline Revenue	\$8,280.1	\$8,107.9	\$(172.2)	(2.1)%	\$42.5
Tax Changes Not In Baseline	146.2	(180.2)	(326.4)	—	4.1
Revenue After Tax Changes:					
Personal Income Tax					
Gross Collections	7,542.4	7,362.0	(180.4)	(2.4)	(2.5)
Less: Refunds	(1,447.2)	(1,550.5)	(103.3)	7.1	(1.4)
Net Income Tax Collections	6,095.2	5,811.5	(283.7)	(4.7)	(3.9)
Less: Earmarking to SAF	(1,860.4)	(1,848.0)	12.4	(0.7)	3.4
Campaign Fund	(1.2)	(1.9)	(0.7)	58.3	(0.4)
Net Income Tax to GF/GP	\$4,233.6	\$3,961.6	\$(272.0)	(6.4)%	\$(0.9)
Other Taxes					
Single Business Tax	1,983.3	1,844.0	(139.3)	(7.0)	1.4
Sales	88.0	55.5	(32.4)	(36.9)	1.5
Use	868.3	819.6	(48.8)	(5.6)	(0.8)
Cigarette	194.2	289.2	95.0	48.9	(1.4)
Insurance Company Premiums ..	227.1	231.1	4.0	1.8	(2.7)
Telephone & Telegraph	137.3	124.2	(13.1)	(9.5)	(8.0)
Estate	131.0	98.6	(32.4)	(24.7)	(3.7)
Oil & Gas Severance	30.7	47.9	17.2	56.0	(9.1)
All Other	203.8	134.9	(68.9)	(33.8)	8.9
Subtotal Other Taxes	\$3,863.7	\$3,645.0	\$(218.7)	(5.7)%	\$(13.9)
Total Nontax Revenue	329.0	321.1	(7.9)	(2.4)	57.3
GF/GP REV. AFTER TAX CHANGES	\$8,426.3	\$7,927.7	\$(498.6)	(5.9)%	\$42.5
SCHOOL AID FUND					
Baseline Revenue	10,105.3	10,152.6	47.3	0.5	53.3
Tax Changes Not In Baseline	28.6	562.3	533.8	1,868.0	0.0
Revenue After Tax Changes:					
Sales Tax	4,695.3	4,681.4	(14.0)	(0.3)	4.0
Lottery Revenue	613.5	586.0	(27.5)	(4.5)	(1.0)
State Education Property Tax ...	1,583.7	2,127.5	543.8	34.3	35.3
Real Estate Transfer Tax	253.1	275.5	22.4	8.9	15.5
Income Tax	1,860.4	1,848.0	(12.4)	(0.7)	(3.4)
Casino Tax	91.9	90.9	(1.0)	(1.1)	(0.1)
Other Revenue	1,036.0	1,105.6	69.6	6.7	2.9
SAF REV. AFTER TAX CHANGES	\$10,133.9	\$10,715.0	\$581.0	5.7%	\$53.3
BASELINE GF/GP AND SAF	18,385.5	18,260.5	(125.0)	(0.7)	95.7
Tax & Revenue Changes	174.8	382.1	207.3	118.6	4.1
GF/GP & SAF REV. AFTER CHANGES	\$18,560.3	\$18,642.6	\$ 82.3	0.4%	\$99.8
SALES TAX	\$6,439.9	\$6,422.6	\$(17.3)	(0.3)%	\$ 5.5
Note: Baseline revenue in this table is based on FY 2001-02 to provide an accurate comparison of the revenue in these two fiscal years.					

School Aid Fund

School Aid Fund earmarked revenue totaled an estimated \$10.72 billion in FY 2002-03, which was up 5.7% from the FY 2001-02 revenue level. On a baseline basis, SAF revenue was up only 0.5%. While SAF revenue generated from the income, sales, use, and casino taxes, along with the lottery, was down in FY 2002-03, this loss in revenue was more than made up by the acceleration in the due date of the State education property tax, which generated a one-time increase in revenue of \$450 million. In addition, the income tax rate reduction had no negative impact on SAF revenue because the SAF is being held harmless from the impact of this tax reduction. Increases in the sales, State education property (other than the one-time revenue from the change in the due date), and casino tax revenues, were slightly greater than declines in revenue that occurred in the income and real estate transfer taxes. School Aid Fund revenue also benefitted from the August 2002 tobacco tax increase, which generated an additional \$116 million in SAF revenue in FY 2002-03. This final estimate of FY 2002-03 SAF revenue is up \$53 million from the October 2003 consensus estimate.

REVISED REVENUE ESTIMATES FOR FY 2003-04

The recent improvement in economic activity is expected to lead to sustained but modest growth in employment in Michigan in 2004. This long-awaited improvement in the job market will help boost the revenue from all of our major taxes, including the income, sales, and single business taxes. On a baseline basis, GF/GP and SAF revenues will increase an estimated 2.2% in FY 2003-04, which will mark the strongest rate of growth since FY 1999-2000. In addition, the final scheduled reduction in the income tax rate has been delayed for six months to help boost revenues in FY 2003-04. However, it is estimated that the additional revenues that will be generated by the renewed economic growth and the pause in the income tax rate cut will not be large enough to keep revenues from falling below the previous year's level. In FY 2003-04, net GF/GP and SAF revenues will total an estimated \$18.47 billion, which represents a 0.9% decline from the FY 2002-03 revenue level. This will mark the fourth consecutive decline in net combined GF/GP and SAF revenues. These revised revenue estimates for FY 2003-04 are presented in [Table 7](#) and a comparison of baseline revenue and revenue after the impact of the tax cuts for the major taxes and overall GF/GP and SAF budgets in FY 2003-04 are presented in [Figure 9](#).

Figure 9

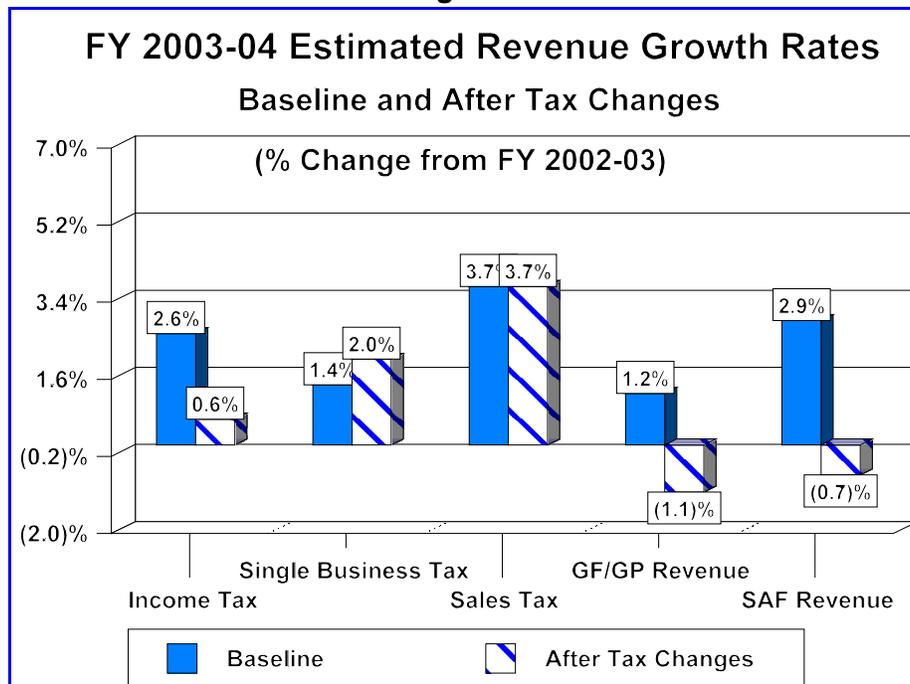


Table 7

**FY 2003-04 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(dollars in millions)**

	FY 2002-03 Preliminary Final	FY 2003-04 Revised Estimate	Change From FY 2002-03		\$ Change from 10/03 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE					
Baseline Revenue	\$7,931.0	\$8,027.4	\$ 96.3	1.2%	\$(15.1)
Tax Changes Not In Baseline	(3.3)	(189.6)	(186.3)	5,644.4	(4.1)
<u>Revenue After Tax Changes:</u>					
Personal Income Tax					
Gross Collections	7,362.0	7,456.1	94.1	1.3	7.8
Less: Refunds	(1,550.5)	(1,607.6)	(57.1)	3.7	0.0
Net Income Tax Collections	5,811.5	5,848.5	37.0	0.6	7.8
Less: Earmarking to SAF	(1,848.0)	(1,903.2)	(55.2)	3.0	0.3
Campaign Fund	(1.9)	(1.5)	0.4	(21.1)	0.0
Net Income Tax to GF/GP	\$3,961.6	\$3,943.8	\$(17.8)	(0.4)%	\$8.1
Other Taxes					
Single Business Tax	1,844.0	1,880.9	36.9	2.0	(17.6)
Sales	55.5	116.4	60.9	109.7	1.3
Use	819.6	828.4	8.8	1.1	0.0
Cigarette	289.2	282.6	(6.6)	(2.3)	(3.6)
Insurance Company Premiums	231.1	247.0	15.9	6.9	(3.0)
Telephone & Telegraph	124.2	120.8	(3.4)	(2.7)	(8.0)
Estate	98.6	66.1	(32.5)	(33.0)	(3.9)
Oil & Gas Severance	47.9	45.0	(2.9)	(6.1)	2.0
All Other	134.9	107.0	(27.9)	(20.7)	1.5
Subtotal Other Taxes	\$3,645.0	\$3,694.3	\$49.3	1.4%	\$(31.3)
Total Non-tax Revenue	321.1	199.8	(121.3)	(37.8)	4.0
GF/GP REV. AFTER TAX CHANGES	\$7,927.7	\$7,837.9	\$(89.8)	(1.1)%	\$(19.2)
SCHOOL AID FUND					
Baseline Revenue	10,260.2	10,556.5	296.3	2.9	59.8
Tax Changes Not In Baseline	454.7	78.5	(376.2)	(82.7)	(1.8)
<u>Revenue After Tax Changes:</u>					
Sales Tax	4,681.4	4,854.0	172.6	3.7	4.2
Lottery Revenue	586.0	623.5	37.5	6.4	3.5
State Education Property Tax	2,127.5	1,781.1	(346.4)	(16.3)	34.5
Real Estate Transfer Tax	275.5	272.0	(3.5)	(1.3)	15.0
Income Tax	1,848.0	1,903.2	55.2	3.0	(0.3)
Casino Tax	90.9	94.5	3.6	4.0	0.0
Other Revenue	1,105.6	1,106.7	1.1	0.1	1.2
SAF REV. AFTER TAX CHANGES ...	\$10,714.9	\$10,634.9	\$(79.9)	(0.7)%	\$58.0
BASELINE GF/GP AND SAF	18,191.2	18,583.8	392.6	2.2	44.8
Tax & Revenue Changes	451.4	(111.1)	(562.5)	—	(5.9)
GF/GP & SAF REV. AFTER CHANGES	\$18,642.6	\$18,472.7	\$(169.9)	(0.9)%	\$38.9
SALES TAX	\$6,422.6	\$6,659.8	\$ 237.2	3.7%	\$ 6.0
Note: Baseline revenue in this table is based on FY 2002-03 to provide an accurate comparison of the revenue in these two fiscal years.					

General Fund/General Purpose

On a baseline basis, GF/GP revenue will increase an estimated 1.2% in FY 2003-04, which will mark its strongest rate of growth since FY 1999-2000. Despite the recently enacted delay in the final scheduled reduction in the income tax rate, the modest increase in baseline revenue will be more than offset by various tax reductions, including the full impact of cutting the income tax rate to 4.0% in 2003, along with various other tax cuts, including some Federal tax reductions that are directly reducing Michigan tax collections. As a result, it is estimated that net GF/GP revenue will fall 1.1%, or \$90 million in FY 2003-04 to \$7.84 billion. Compared with the October 2003 consensus revenue estimate, GF/GP revenue has been revised down \$19 million.

Income Tax. Over half of GF/GP revenue comes from the income tax. In FY 2003-04, it is estimated that the portion of income tax revenue going into GF/GP revenue will total \$3.94 billion, which represents a 0.4% decline from the FY 2002-03 level. This revenue includes \$77 million from the delay in cutting the income tax rate to 3.9% from January 1, 2004, to July 1, 2004.

Single Business Tax. The other major source of GF/GP revenue is the single business tax. In FY 2003-04, single business tax revenue will total an estimated \$1.88 billion, which is up 2.0% from FY 2002-03. This estimate includes the loss of an estimated \$2.2 million in single business tax revenue due to the newly enacted exemption for a portion of the costs incurred by businesses to provide health care-related benefits to their employees located in Michigan. Compared with the October 2003 consensus revenue estimate, the single business tax revenue estimate has been lowered \$18 million.

Estate Tax. Michigan's estate tax is equal to the maximum credit allowed on the Federal estate tax for state death taxes. However, the Federal government is phasing out its estate tax by 2010 and is phasing out the state death tax credit by 2005. As a result, the revenue Michigan receives from its estate tax is getting smaller and will be totally eliminated in FY 2005-06. In FY 2003-04, the phased reduction in the Federal credit will reduce Michigan's estate tax revenue 33% or \$33 million, to \$66 million, compared with the FY 2002-03 revenue level. All estate tax revenue goes into GF/GP revenue.

School Aid Fund

School Aid Fund revenue from earmarked taxes and the lottery is expected to increase 2.9% on a baseline basis in FY 2003-04, but net revenue after all of the tax changes is expected to be down 0.7% to \$10.63 billion. This difference in baseline and net SAF revenues for FY 2003-04 is due to the fact that FY 2002-03 SAF revenue was artificially very high due to the acceleration in the due date of State education property tax revenue, which generated an estimated \$450 million. Because this additional revenue was one-time only, SAF revenue is expected to fall in FY 2003-04 compared with FY 2002-03. Compared with the October 2003 consensus revenue estimate, the SAF earmarked tax and lottery revenue estimate has been revised up \$58 million. The SAF revenue estimate for FY 2003-04 also is summarized in [Table 8](#).

Sales Tax. Approximately 73% of sales tax revenue is earmarked to the SAF, and in FY 2003-04, it is estimated that the sales tax earmarked to the SAF will total \$4.85 billion, representing a 3.7% increase from the level in FY 2002-03. This sales tax revenue will account for an estimated 46% of the SAF earmarked tax and lottery revenue in FY 2003-04.

State Education Property Tax. The State education property tax will generate an estimated \$1.78 billion in FY 2003-04. On a baseline basis, this represents an increase of 4.0%, but because of the additional \$450 million in one-time revenue this tax generated in FY 2002-03, State education property tax revenue including the impact of all tax changes will be down 16.3% in FY 2003-04 from the FY 2002-03 level. Compared with the October 2003 consensus revenue estimate, this revised estimate for the State education property tax is up \$35 million.

Lottery. All revenue from the lottery after paying prizes and expenses goes into the SAF. In FY 2003-04, net lottery revenue is expected to total \$624 million, which is up 6.4% from the FY 2002-03 level. All of this increase will be due to the new club keno and pull tab games, which will generate an estimated \$40 million in net new lottery revenue in FY 2003-04.

FY 2004-05 INITIAL REVENUE ESTIMATES

The renewed growth in economic activity forecast for 2004 is expected to be sustained in the Michigan economy in 2005. This improvement in the pace of economic growth will help generate an increase in employment, which also will help generate increases in tax revenues. As a result, in FY 2004-05, it is estimated that GF/GP and SAF revenues will total \$18.82 billion. This initial estimate of FY 2004-05 revenues represents an increase of 1.9%, or \$349 million, from the FY 2003-04 revised estimate, as presented in [Table 8](#). Total GF/GP and SAF baseline revenues will increase at a projected rate of 3.8%, which will mark the strongest increase since FY 1999-2000. The estimated FY 2004-05 baseline and after-tax-cut revenue growth rates for the major taxes and the GF/GP and SAF are compared in [Figure 10](#).

Figure 10

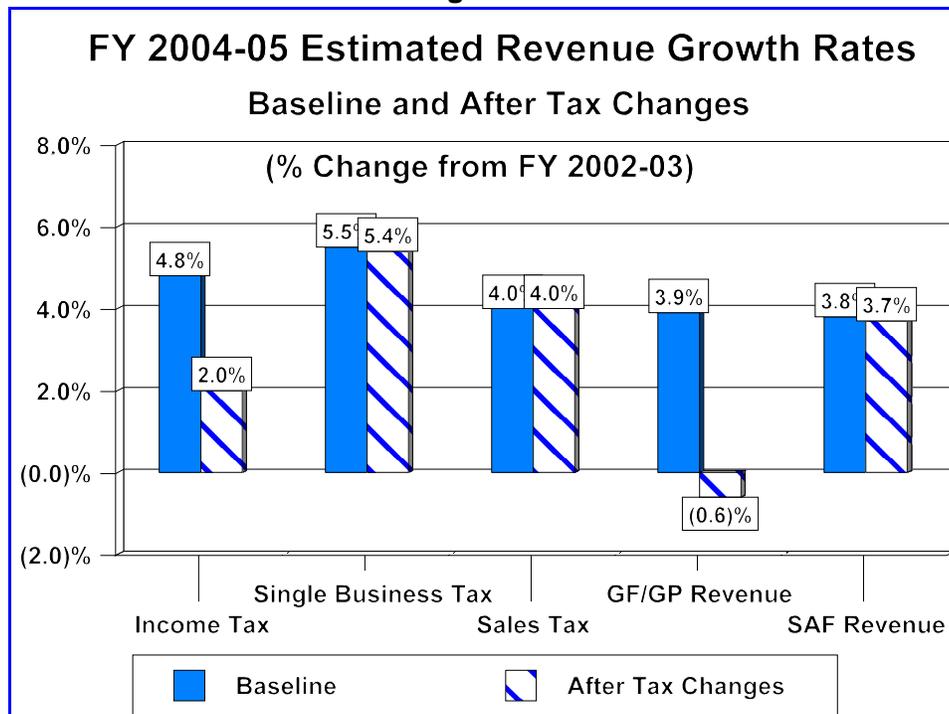


Table 8
FY 2004-05 INITIAL REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(dollars in millions)

	FY 2003-04 Revised Estimate	FY 2004-05 Initial Estimate	Change From FY 2003-04	
			Dollar Change	Percent Change
GEN'L FUND/GENERAL PURPOSE:				
Baseline Revenue	\$8,027.4	\$8,340.5	\$313.2	3.9%
Tax Changes Not In Baseline	(189.6)	(547.3)	(357.7)	188.7
<u>Revenue After Tax Changes:</u>				
Personal Income Tax				
Gross Collections	7,456.1	7,648.7	192.6	2.6
Less: Refunds	(1,607.6)	(1,681.7)	(74.1)	4.6
Net Income Tax Collections	5,848.5	5,967.0	118.5	2.0
Less: Earmarking to SAF	(1,903.2)	(1,985.2)	(82.0)	4.3
Campaign Fund	(1.5)	(1.5)	0.0	0.0
Net Income Tax to GF/GP	\$3,943.8	\$3,980.3	\$36.5	0.9%
Other Taxes				
Single Business Tax	1,880.9	1,981.8	100.9	5.4
Sales	116.4	85.8	(30.6)	(26.3)
Use	828.4	862.8	34.4	4.2
Cigarette	282.6	124.2	(158.4)	(56.0)
Insurance Company Premiums	247.0	260.0	13.0	5.3
Telephone & Telegraph	120.8	117.1	(3.7)	(3.1)
Estate	66.1	34.4	(31.7)	(48.0)
Oil & Gas Severance	45.0	39.0	(6.0)	(13.3)
All Other	107.0	108.0	1.0	0.9
Subtotal Other Taxes	\$3,694.3	\$3,613.1	\$(81.1)	(2.2)%
Total Nontax Revenue	199.8	199.8	0.0	0.0
GF/GP REV. AFTER TAX CHANGES	\$7,837.9	\$7,793.3	\$(44.6)	(0.6)%
SCHOOL AID FUND				
Baseline Revenue	10,556.5	10,952.9	396.4	3.8
Tax Changes Not In Baseline	78.5	75.5	(3.0)	(3.8)
<u>Revenue After Tax Changes:</u>				
Sales Tax	4,854.0	5,048.3	194.3	4.0
Lottery Revenue	623.5	642.5	19.0	3.0
State Education Property Tax	1,781.1	1,859.7	78.6	4.4
Real Estate Transfer Tax	272.0	275.0	3.0	1.1
Income Tax	1,903.2	1,985.2	82.0	4.3
Casino Tax	94.5	97.3	2.8	3.0
Other Revenue	1,106.7	1,120.3	13.6	1.2
SAF REV. AFTER TAX CHANGES	\$10,634.9	\$11,028.3	\$ 393.4	3.7%
BASELINE GF/GP AND SAF	18,583.8	19,293.4	709.5	3.8
Tax & Revenue Changes	(111.1)	(471.8)	(360.7)	324.7
GF/GP & SAF REV. AFTER TAX CHANGES	\$18,472.7	\$18,821.6	\$ 348.8	1.9%
SALES TAX	\$6,659.8	\$6,926.2	\$266.4	4.0%

Note: Baseline revenue in this table is based on FY 2002-03 to provide an accurate comparison of the revenue in these two fiscal years.

General Fund/General Purpose Revenue

General Fund/General Purpose baseline revenue will increase an estimated 3.9% in FY 2004-05, led by increases in the income, single business, use, and insurance taxes. This gain in baseline revenue, however, will be more than offset by enacted tax and earmarking changes, including the full-year impact of being at a 3.9% income tax rate, the final phase of the elimination of the estate tax, and the scheduled earmarking of a portion of GF/GP tobacco tax revenue to the Budget Stabilization Fund. After taking into account these enacted tax changes, it is estimated that FY 2004-05 GF/GP revenue will total \$7.79 billion, which represents a 0.6%, or \$45 million, reduction from the revised estimate for FY 2003-04.

Income Tax. Income tax revenue going to the General Fund will total an estimated \$3.98 billion, which will be up 0.9% from the FY 2003-04 level. On a baseline basis, net income tax collections after refunds, are expected to be up 2.0%, but baseline revenue will be reduced due to the fact that the tax rate will be at 3.9% for all of FY 2004-05, compared with 4.0% for the first three quarters of FY 2003-04. In addition, it is estimated that the personal exemption, which is automatically indexed to changes in the consumer price index, will increase \$100 to \$3,200 on January 1, 2005. This will reduce income tax revenue about \$33 million.

Single Business Tax. The major components of the single business tax base, which includes compensation paid to workers, business profits, and gross receipts, are all expected to improve in FY 2004-05 due to the expected increase in the pace of economic activity. As a result, single business tax revenue is expected to increase 5.4% to \$1.98 billion in FY 2004-05. This estimate includes the estimated \$9.9 million that will be foregone due to the new partial exemption for health-care related costs.

Estate Tax. Estate tax revenues will fall to an estimated \$34 million, a drop of 48%, due to the continuing phase out of the tax.

Cigarette Tax. When the cigarette tax was increased \$0.50 per pack in August 2002, the enacted amendments provided that, for FY 2004-05 through FY 2006-07, the General Fund share of the increased revenue would be transferred instead to the Budget Stabilization Fund. As a result, it is estimated that this provision in the law will reduce GF/GP cigarette tax revenue by an estimated \$154 million in FY 2004-05.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.03 billion in FY 2004-05, which represents a 3.7% increase from the revised estimate for FY 2003-04. This increase reflects a general improvement in most of the taxes that are earmarked to the SAF.

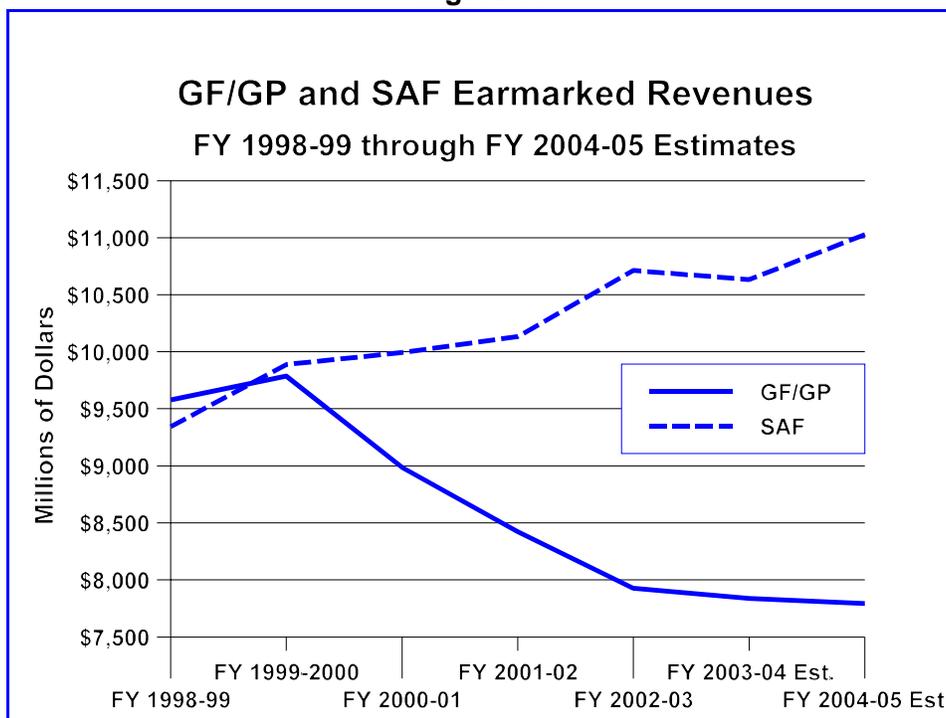
Sales Tax. Sales tax collections are expected to increase 4.0% in FY 2004-05 to \$6.93 billion. Of this total amount, \$5.05 billion will be earmarked to the SAF.

State Education Property Tax. The State education property tax is expected to generate \$1.86 billion in FY 2004-05, representing an increase of 4.4%.

Lottery. Net lottery revenue will total an estimated \$643 million in FY 2004-05, which is up 3.0% from the revised level for FY 2003-04. The new keno and pull tab games are expected to generate net new revenue of \$50 million.

Figure 11 compares the levels of GF/GP and SAF revenues beginning in FY 1998-99 with the revenue levels through FY 2004-05, as estimated. This illustrates the significant drop in GF/GP revenue and the significant divergence between GF/GP and SAF revenues. Based on the revenue projections presented in this report, it is estimated that GF/GP revenue in FY 2004-05 will be \$2.0 billion, or 20.4%, below GF/GP revenue in FY 1999-2000, which was the peak year for GF/GP revenue. During the same time period, it is estimated that SAF earmarked revenue will be up \$1.1 billion or 11.5%. As a result, in FY 2004-05, it is estimated that SAF revenue will top GF/GP revenue by almost \$3.2 billion.

Figure 11



SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

The history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenues for FY 2002-03 and FY 2003-04 is presented in Tables 9 and 10. Baseline estimates are used to track the forecast history for these two fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2002-03 and FY 2003-04 have been adjusted to reflect a baseline based on the FY 2001-02 tax structure.

The initial estimate for GF/GP and SAF baseline revenues for FY 2002-03 was \$19.53 billion, which was made in December 2001. At that time it was predicted that the economy would experience renewed economic growth following the 2001-02 recession. The economy remained sluggish and employment continued to fall, however, and as a result, revenue estimates were lowered in May 2002, January 2003, and May 2003. In October 2003, at a special Consensus Revenue Estimating Conference, GF/GP and SAF revenue estimates were again lowered significantly to \$18.16 billion. It now appears that revenues actually came in slightly higher than estimated in October 2003, but they still remain well below the initial estimate. In fact, final baseline GF/GP and SAF revenues for FY 2002-03 were below the initial estimate made in December 2001 by \$1.27 billion, or 6.5%.

The initial estimate for FY 2003-04 GF/GP and SAF baseline revenues was made in December 2002 at \$19.48 billion. The sluggish level of economic activity lasted longer than originally estimated, and as a result, the revenue estimates were lowered in May 2003 and October 2003. The Senate Fiscal Agency's revised estimates presented in this report increased GF/GP and SAF baseline revenues \$45 million or 0.2%; however, compared with the initial estimate made in December 2002, the revised estimate of GF/GP and SAF baseline revenues for FY 2003-04 is down \$804 million or 4.1%.

Table 9
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2002-03
(millions of dollars)

Forecast Date	GF/GP	SAF	Total
December 19, 2001	\$9,006.5	\$10,522.4	\$19,528.9
January 15, 2002 ^{a)}	9,166.7	10,617.2	19,783.9
May 14, 2002	8,846.8	10,503.6	19,350.4
May 16, 2002 ^{a)}	8,846.5	10,550.3	19,396.8
December 19, 2002	8,348.8	10,371.1	18,719.9
January 14, 2003 ^{a)}	8,298.6	10,279.9	18,578.6
May 8, 2003	8,283.5	10,199.9	18,483.5
May 13, 2003 ^{a)}	8,313.8	10,209.0	18,522.8
October 13, 2003	8,114.6	10,123.6	18,238.2
October 14, 2003 ^{a)}	8,065.4	10,099.3	18,164.7
Preliminary Final	\$8,107.9	\$10,152.6	\$18,260.5
<u>Change From Previous Estimate:</u>			
Dollar Change	\$ 42.5	\$ 53.3	\$ 95.8
Percent Change	0.5%	0.5%	0.5%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$(898.6)	\$(369.8)	\$(1,268.4)
Percent Change	-10.0%	-3.5%	-6.5%
Note: Baseline base year equals FY 2001-02.			
a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Engler Administration.			

Table 10

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2003-04 (millions of dollars)			
Forecast Date	GF/GP	SAF	Total
December 19, 2002	\$8,699.9	\$10,782.9	\$19,482.8
January 14, 2003 ^{a)}	8,653.2	10,714.4	19,367.6
May 8, 2003	8,653.4	10,637.6	19,291.2
May 13, 2003 ^{a)}	8,670.5	10,629.7	19,300.2
October 13, 2003	8,270.9	10,419.1	18,690.0
October 14, 2003 ^{a)}	8,243.6	10,390.7	18,634.3
January 10, 2004	\$8,228.5	\$10,450.6	\$18,679.1
<u>Change From Previous Estimate:</u>			
Dollar Change	\$(15.1)	\$ 59.9	\$ 44.8
Percent Change	-0.2%	0.6%	0.2%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$ (471.4)	\$ (332.3)	\$ (803.7)
Percent Change	-5.4%	-3.1%	-4.1%
Note: Baseline base year equals FY 2001-02.			
a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Engler Administration.			

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 2001-02, when State revenue was \$3.9 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 the new State revenue being generated as part of the reform of school financing that was enacted in 1994. In FY 1995-96, FY 1996-97, and FY 1997-98, revenue fell below the revenue limit once 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 and FY 2001-02, revenue fell well below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit remained well below the limit in FY 2002-03, and will remain well below the limit in both FY 2003-04 and FY 2004-05.

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 2001-02, State government revenue could not exceed 9.49% of personal income for calendar year 2000. Given that Michigan personal income for 2000 equaled \$289,390 million, the revenue limit for FY 2001-02 was \$27,463 million.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as fees, licenses, 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%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1% or more, the excess revenue must be refunded to income tax and single business tax (SBT) payers, on a pro rata basis. These refunds would be given to taxpayers who file an annual income tax or SBT return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report which determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the preliminary final revenue for FY 2002-03, the SFA's revised revenue estimates for FY 2003-04, and the SFA's initial revenue estimates for FY 2004-05, Table 11 provides a summary of the estimates of the State's compliance with the revenue limit for each of these fiscal years. The estimates for FY 2002-03, FY 2003-04, and FY 2004-05 are discussed below.

FY 2002-03

In FY 2002-03, it is estimated that revenue subject to the revenue limit equaled \$23,848 million. Based on data from the U.S. Department of Commerce, Michigan's personal income equaled \$297,609 million in 2001, which means the revenue limit equaled \$28,243 million for FY 2002-03. As a result, it is estimated that revenue subject to the limit fell under the revenue limit by \$4.4 billion, or 15.6%, in FY 2002-03.

FY 2003-04

Based on the SFA's revised revenue estimates for FY 2003-04, revenue subject to the revenue limit will total an estimated \$24,169 million, and based on the U.S. Department of Commerce's preliminary estimate of personal income in 2002, the revenue limit is expected to total \$28,825 million. As a result, it is estimated that revenue will remain well below the revenue limit, and in fact the gap between revenue subject to the limit and the revenue limit is expected to increase to \$4.66 billion, or 16.2%.

FY 2004-05

Based on the SFA's initial revenue estimates for FY 2004-05, it is estimated that revenue subject to the revenue limit will total \$24,507 million. The revenue limit will equal an estimated \$29,574 million in FY 2004-05, based on the SFA's estimate of personal income for 2003. As a result, revenue is expected to fall below the revenue limit by \$5.07 billion, or 17.1%, in FY 2004-05.

Table 11

STATE'S COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT				
Section 26 of Article IX of the State Constitution				
(millions of dollars)				
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
	Final	Estimate	Estimate	Estimate
Revenue Subject to Limit:				
Revenue:				
Gen'l Fund/Gen'l Purpose (baseline)	\$8,280.1	\$7,931.0	\$8,027.4	\$8,340.5
Revenue Sharing (baseline)	1,517.3	1,598.0	1,612.4	1,713.1
School Aid Fund (baseline)	10,105.3	10,260.2	10,556.5	10,952.9
Transportation Funds	2,172.4	2,243.5	2,344.1	2,402.7
Other Restricted Non-Federal Aid Revenue	1,260.8	1,260.8	1,260.8	1,260.8
Adjustments:				
GF/GP Federal Aid	(24.7)	(47.2)	(20.0)	(20.0)
GF/GP Balance Sheet Adjustments	201.7	146.6	260.9	(248.5)
SAF Balance Sheet Adjustments	33.1	454.7	127.1	105.5
Total Revenue Subject to Limit:	\$23,546.0	\$23,847.6	\$24,169.2	\$24,507.0
Revenue Limit:				
Personal Income:				
Calendar Year	CY 2000	CY 2001	CY 2002	CY 2003
Amount	\$289,390	\$297,609	\$303,745	\$311,633
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$27,463.1	\$28,243.1	\$28,825.4	\$29,574.0
1% of Limit	274.6	282.4	288.3	295.7
Amount Under (Over) Limit	\$3,917.1	\$4,395.5	\$4,656.2	\$5,067.0

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue estimates outlined earlier in this report, and enacted State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2002-03 and FY 2003-04 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report also contains a review of the major issues that the State will face in the development and enactment of the FY 2004-05 State budget.

Table 12 provides a summary of the actual year-end balances for the FY 2002-03 GF/GP and SAF budgets and the revised SFA estimates of the year-end balances for the FY 2003-04 GF/GP and SAF budgets. The final accounting of FY 2002-03 State revenues and expenditures has been completed and the FY 2002-03 GF/GP budget closed the fiscal year with a \$174.0 million year-end balance. The FY 2002-03 SAF budget closed the fiscal year with a \$113.7 million balance. Pursuant to statutory provisions, both of these year-end balances will carry forward and be available to support FY 2003-04 appropriations.

The Legislature and the Governor, in December 2003, completed action on a comprehensive plan to bring the FY 2003-04 GF/GP and SAF budgets into balance. This budget balancing plan was developed using the consensus revenue estimates agreed to on October 14, 2003. Based on the current SFA revenue estimates, the SFA now believes that the FY 2003-04 GF/GP budget is in balance by \$16.5 million. The FY 2003-04 SAF budget has a zero projected year-end balance.

The initial look ahead to the FY 2004-05 GF/GP budget situation leads to the conclusion that substantial adjustments will have to be made to current budget policy in order to keep estimated revenues and expenditures in balance. The FY 2004-05 SAF budget is likely to have a relatively modest level of growth if all revenue and appropriation policies are continued for another fiscal year.

Table 12

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (millions of dollars)		
	FY 2002-03 Actual	FY 2003-04 Estimate
General Fund/General Purpose	\$174.0	\$16.5
School Aid	\$ 113.7	\$ 0.0

FY 2002-03 YEAR-END BALANCE

The Office of the State Budget released the Michigan Comprehensive Annual Financial Report for FY 2002-03 on December 30, 2003. The publication of this report marks the final accounting of FY 2002-03 revenues and expenditures for both the GF/GP and SAF budgets. The report provides detailed information on the final unrestricted balances in the GF/GP and SAF budgets.

Table 13 provides a summary of the final accounting of FY 2002-03 GF/GP revenue, expenditures and year-end balance. The fiscal year closed with a \$174.0 million balance. Pursuant to provisions of the Management and Budget Act, this balance carries forward into FY 2003-04. Actual FY 2002-03 GF/GP revenue totaled \$8.94 billion. This revenue total included a \$114.5 million year-end

balance carried forward from FY 2001-02, \$7.9 billion of ongoing revenue and a total of \$899.3 million of revenue resulting from a combination of the transfer of restricted revenue accounts to the General Fund, the State's receipt of unrestricted Federal aid, a withdrawal from the Budget Stabilization Fund, reductions in the level of statutory revenue sharing payments, a transfer of a revenue sharing reserve account to the General Fund, and several revenue items from the settlement of lawsuits. The \$8.94 billion of FY 2002-03 GF/GP revenue represents a \$306.0 million or 3.3% decline from the final level of FY 2001-02 GF/GP revenue.

Table 13
FY 2002-03
General Fund/General Purpose
Revenues, Expenditures and Year-End Balance
(millions of dollars)

	Final Bookclosing
Revenue:	
Beginning Balance	\$ 114.5
Ongoing Revenue Estimate	7,927.7
<u>Other Revenue Adjustments:</u>	
Merit Award Trust Fund Transfer	151.3
Tobacco Settlement Trust Fund Transfer	14.6
Liquor Purchase Revolving Fund-Fire Protection Grant Reduction ..	3.7
Transfer of Waterways Fund to GF (PA 746 of 2002)	7.8
Transfer of Pre-Funded Health Reserve to GF (PA 743 of 2002) ...	58.2
Hospital Assessment Revenue (PA 562 of 2002)	8.9
Revenue Sharing Reductions	146.2
Investor Lawsuit Settlement	13.5
Vitamin Lawsuit Settlement	10.6
Tobacco Company Lawsuit Settlement	7.6
Revenue Sharing Reserve Account	181.0
Unrestricted Federal Aid	169.0
Executive Order 2002-22, Work Project Lapses	2.8
Budget Stabilization Fund Withdrawal (PA 504 of 2002)	124.1
Total Other Revenue Adjustments	899.3
Total Estimated Revenue	\$8,941.5
Expenditures:	
Original Enacted Appropriations	\$9,196.7
<u>Supplemental Appropriations:</u>	
Capital Outlay (Public Acts 530 & 560 of 2002)	(0.2)
Supplemental Appropriations (PA 746 of 2002)	(43.9)
Supplemental Appropriations (PA 39 of 2003)	(7.8)
Supplemental Appropriations (PA 173 of 2003)	(13.3)
School Aid Supplemental (PA 158 of 2003)	51.0
Executive Order 2002-22 (GF/GP Reductions)	(227.2)
Executive Order 2003-3 (GF/GP Reductions)	(125.5)
Bookclosing Adjustments	32.6
Projected Appropriation Lapses	(94.9)
Total Estimated Expenditures	\$8,767.5
Projected Year-End Balance	\$ 174.0

The final level of FY 2002-03 GF/GP expenditures totaled \$8.77 billion. This final level of expenditures included the original appropriations enacted at the beginning of the fiscal year, five supplemental appropriation bills that had an impact on GF/GP expenditures, appropriation reductions associated with Executive Orders 2002-22 and 2003-3, appropriation lapses by State departments and agencies, and a variety of other bookclosing adjustments that affected final expenditures. The \$8.77 billion of FY 2002-03 GF/GP expenditures represents a \$145.7 million or 1.6% decline from the final level of FY 2001-02 GF/GP expenditures.

Table 14 provides a summary of the final accounting of FY 2002-03 SAF revenue, expenditures and year-end balance. The fiscal year closed with a \$113.7 million balance. Pursuant to provisions of the State School Aid Act, this balance carries forward into FY 2003-04. Actual FY 2002-03 SAF revenue totaled \$12.58 billion. This revenue total included a \$237.0 million year-end balance carried forward from FY 2001-02, \$10.72 billion of ongoing State restricted SAF revenues, a \$130.6 million one-time revenue source from the refinancing of outstanding school bond loan fund debt, a \$32.0 million withdrawal from the Budget Stabilization Fund, a \$249.4 million GF/GP grant to the SAF budget, and \$1.22 billion of Federal aid. The \$12.58 billion of FY 2002-03 SAF revenue represents a \$60.3 million or 0.5% decline from the final level of FY 2001-02 SAF revenue, excluding Federal aid.

Table 14
FY 2002-03
School Aid Fund
Revenue, Expenditures and Year-End Balance
(millions of dollars)

	Final Bookclosing
Revenue:	
Beginning Balance	\$ 237.0
Ongoing Revenue Estimate	10,715.0
Non-ongoing Revenue Adjustments:	
School Bond Loan Refinancing	130.6
Budget Stabilization Fund (<i>Durant</i>)	<u>32.0</u>
Total Non-ongoing Revenue Adjustments	162.6
Other Revenue Sources:	
General Fund/General Purpose Grant (PA 191 of 2002)	198.4
General Fund/General Purpose Grant (PA 158 of 2003)	51.0
Local Revenues	0.7
Federal Aid	<u>1,219.8</u>
Total Other Revenue Sources	1,469.9
Total Estimated Revenue	\$12,584.5
Expenditures:	
Enacted Appropriations (PA 121 of 2001)	\$8,128.4
Supplemental Appropriations (PA 191 of 2002)	4,563.5
Supplemental Appropriations (PA 521 of 2002)	18.5
Supplemental Appropriations (PA 158 of 2003)	(28.3)
Pro-Rata Reduction (February 2003)	(127.0)
Bookclosing Adjustments	(21.6)
Projected Appropriation Lapses	<u>(62.7)</u>
Total Estimated Expenditures	\$12,470.8
Projected Year-End Balance	\$ 113.7

The final level of FY 2002-03 SAF expenditures totaled \$12.47 billion. This final level of expenditures included the initial FY 2002-03 SAF appropriations, the enactment of three supplemental appropriation bills, appropriation lapses, bookclosing adjustments, and a \$127.0 million appropriation reduction resulting from a pro-rata reduction in per pupil State aid payments to local school districts and public school academies. The \$12.47 billion of FY 2002-03 SAF expenditures represents a \$63.0 million or 0.6% increase from the final level of FY 2001-02 expenditures, excluding SAF expenditures financed from Federal aid.

FY 2003-04 YEAR-END BALANCE

On December 18, 2003, the Legislature completed action on a comprehensive plan to bring the FY 2003-04 GF/GP and SAF budgets into balance. Projected deficits in both the GF/GP and SAF budgets were eliminated through a combination of appropriation reductions, revenue adjustments, and transfers of restricted revenue accounts to the General Fund. This budget balancing plan was based on consensus revenue estimates agreed to on October 14, 2003. The revised SFA estimates of FY 2003-04 GF/GP and SAF revenues will change the overall projected year-end balances in the budgets from the amounts based on current consensus revenue estimates.

Table 15 provides a summary of the current SFA estimate of a \$16.5 million balance in the FY 2003-04 GF/GP budget. The SFA is now estimating that actual GF/GP revenues will total \$8.83 billion. This revenue total includes a \$174.0 million balance carried forward from FY 2002-03, \$7.76 billion of ongoing revenue, and \$892.3 million of other revenue adjustments that have been made to support the final level of appropriations. The SFA estimate of \$7.76 billion of ongoing revenue represents a \$19.2 million decline from the October 14, 2003, consensus revenue estimate. Included in the \$892.3 million of other revenue adjustments are the following: \$77.0 million from the pause in the scheduled reduction in the rate of the State income tax from January 1, 2004, until July 1, 2004, a \$2.2 million revenue reduction from the initial process of phasing out of employer-paid health care premiums from the single business tax base, \$293.9 million from reductions in the level of statutory revenue sharing payments, \$169.0 million of unrestricted Federal aid, \$65.0 million of fee revenues from driver responsibility legislation, \$25.9 million from changes in driver license fees, \$49.0 million from enhanced enforcement of State tax laws, \$100.9 million of revenue related to Executive Order 2003-23, \$76.6 million from the sale of surplus State property, and \$37.2 million from other minor revenue adjustments. This \$8.83 billion of FY 2003-04 GF/GP revenue represents a \$112.1 million or 1.3% decline from the final level of FY 2002-03 GF/GP revenue.

The current level of FY 2003-04 GF/GP appropriations is \$8.81 billion. This includes \$8.89 billion of appropriations initially enacted for the fiscal year, supplemental appropriations that increased appropriations by \$127.0 million, and a \$200.9 million appropriation reduction implemented by Executive Order 2003-23. The \$8.81 billion of FY 2003-04 GF/GP appropriations represents a \$45.5 million or 0.5% increase over the final level of FY 2002-03 GF/GP expenditures.

Table 15
FY 2003-04
General Fund/General Purpose
Revenue, Expenditures and Year-End Balance
(millions of dollars)

	Jan. 2004 SFA Est.
Revenue:	
Beginning Balance	\$ 174.0
Ongoing Revenue Estimate	7,763.1
Other Revenue Adjustments:	
Income Tax Rate Pause (PA 239 of 2003)	77.0
Single Business Tax Health Care Base Phase-Out (PA 240 of 2003)	(2.2)
Transfer from Employment Security Fund (PA 84 of 2003)	10.0
Revenue Sharing Reductions	293.9
Sale of Property (Detroit Plaza Building)	12.1
Sale of Property (Northville State Hospital)	64.5
Unrestricted Federal Aid	169.0
Driver Responsibility Legislation (PA 165 of 2003)	65.0
Driver License Fee Legislation (PA 152 of 2003)	25.9
Enhanced Enforcement of Delinquent Taxes	49.0
Escheats Law Revision	15.0
Executive Order 2002-23 (Work Project Lapse to GF/GP)	31.0
Executive Order 2003-23 (Restricted Revenue Lapse to GF/GP) ...	69.9
Nonparticipating Cigarette Manufacture Bills	2.6
Teacher Certification Fee Revenue to GF/GP	1.0
Information Technology Project Cancellations	4.5
Lapse of Prior Year Airport Improvement Funds (HB 4367)	4.1
Total Other Revenue Adjustments	892.3
Total Estimated Revenue	\$8,829.4
Expenditures:	
Enacted Appropriations	\$8,886.8
Supplemental Appropriations:	
Supplemental Appropriations (PA 237 of 2003)	81.4
Supplemental Appropriations GF/GP to SAF (PA 236 of 2003)	45.6
Executive Order 2003-23 (GF/GP Reductions)	(200.9)
Projected Appropriation Lapses	0.0
Total Estimated Expenditures	\$8,812.9
Projected Year-End Balance	\$ 16.5

Table 16 provides a summary of the current SFA estimate of a zero year-end balance in the FY 2003-04 SAF budget. This zero balance is a result of the fact that a pro rata reduction in per pupil payments to local school districts and public school academies will be implemented to leave a projected zero year-end budget balance. Following the budget balancing plan approved by the Legislature in December 2003, it was anticipated that this pro-rata reduction in school aid payments would be approximately \$100 per pupil. Using the new SFA revenue estimates along with a higher-than-anticipated SAF balance carried forward from FY 2002-03, the SFA now believes that the pro-rata reduction will total \$55 per pupil. The final level of this pro-rata reduction will be determined following the Consensus Revenue Estimating Conference to be held on January 14, 2003.

Table 16
FY 2003-04
School Aid Fund
Revenue, Expenditures and Year-End Balance
(millions of dollars)

	Jan 2004 SFA Estimate
Revenue:	
Beginning Balance	\$ 113.7
Ongoing Revenue Estimate	10,634.9
Other Revenue Adjustments:	
General Fund/General Purpose Grant	282.1
General Fund/General Purpose Grant (PA 236 of 2003)	45.6
Personal Property Tax Amnesty	20.0
Enhanced Enforcement of Delinquent Taxes	<u>28.6</u>
Total Other Revenue Adjustments	384.8
Federal Aid	1,316.7
Total Estimated Revenue	\$12,441.6
Expenditures:	
Enacted Appropriation (PA 521 of 2002)	\$12,696.9
Supplemental Appropriations (PA 158 of 2003)	(92.8)
Supplemental Appropriations (PA 236 of 2003)	2.7
Homestead Exemption Audit (PA 105 of 2003)	(50.7)
Personal Property Tax Audits Revision	9.0
School Aid Proration Reduction (\$55 per pupil)	(98.5)
Projected Appropriation Lapses	<u>(25.0)</u>
Total Estimated Expenditures	\$12,441.6
Projected Year-End Balance	\$ 0.0

On the revenue side of the FY 2003-04 SAF budget ledger, the SFA is estimating that revenue will total \$12.44 billion. This revenue total includes a \$113.7 million balance carried forward from FY 2002-03, \$10.63 billion of ongoing restricted revenues, a \$327.7 million GF/GP grant to the SAF, \$20.0 million from the implementation of a personal property tax amnesty program, \$28.6 million from enhanced efforts to collect delinquent taxes owed to the State, and \$1.32 billion of Federal aid. The SFA estimate of restricted SAF revenue represents a \$58.0 million increase from the October 14, 2003, consensus revenue estimate. The current SFA estimate of total SAF revenue, excluding Federal aid, represents a \$239.8 million or 2.1% decline from the actual level of revenue collected in FY 2002-03.

The current SFA estimate of FY 2003-04 SAF expenditures is \$12.44 billion. This total includes the original appropriations for the fiscal year, two enacted supplemental appropriations, a \$98.5 million saving from the projected \$55 per pupil pro-rata reduction in State aid payments to local school districts and public school academies, and other adjustments in projected expenditures related to estimated pupils, tax base and efforts to collect delinquent taxes. The current SFA estimate of total SAF expenditures, excluding Federal aid, represents a \$126.1 million or 1.1% decline from the final level of FY 2002-03 SAF expenditures.

FY 2004-05 STATE BUDGET OUTLOOK

On February 12, 2004, Governor Granholm will present her FY 2004-05 State budget recommendation to the Legislature. This budget recommendation will be based on the consensus revenue estimate to be agreed upon at the January 14, 2004, meeting of the Consensus Revenue Estimating Conference. Using the SFA's estimates of FY 2004-05 GF/GP and SAF revenues and the current levels of FY 2003-04 GF/GP and SAF year-to-date appropriations, we can look ahead at the general parameters that will apply to the FY 2004-05 budget recommendation.

In terms of the FY 2004-05 GF/GP budget, the Governor is likely facing another budget year that will be characterized by significant fiscal restraint. The GF/GP budget recommendation will be affected by the fact that a significant number of one-time revenue sources have been built into the FY 2003-04 GF/GP budget and these sources are not likely to be available to support GF/GP appropriations in FY 2004-05. These one-time revenue sources include a \$174.0 million year-end balance carried forward from FY 2002-03, \$169.0 million of unrestricted Federal aid, \$76.6 million from the sale of surplus State property, and a variety of other small restricted revenue transfers to the General Fund that are unlikely to be repeated. The level of FY 2004-05 GF/GP revenue is also affected by a previously enacted change in the distribution of revenue generated from the State cigarette tax. Beginning in FY 2004-05, \$154.2 million of GF/GP cigarette tax revenue will be redirected to the Budget Stabilization Fund. This change was part of the 50-cent-per-pack cigarette tax increase enacted in August 2002.

On the appropriation side of the FY 2004-05 GF/GP budget, the Medicaid budget will need a considerable increase in GF/GP appropriations to maintain the programs that are funded in FY 2003-04. The final portion of a two-year special Federal Medicaid payment removes \$168.4 million from the Medicaid budget and a change in the allowable use of special financing mechanisms by the Federal government will result in the loss of \$130.0 million of Federal Medicaid funding. Outside of other normal expenditure pressures facing the FY 2004-05 GF/GP budget, the State again will be required to deal with negotiated increases in the compensation of State civil service employees. These costs are estimated to add \$160.0 million to the GF/GP budget.

Table 17 provides a brief summary of the status of the FY 2004-05 GF/GP budget that is being developed by the Governor. This table is built on the assumption of no change in current State tax policy combined with a freeze in the FY 2004-05 GF/GP and State revenue sharing appropriations at the levels currently appropriated in FY 2003-04. The table also assumes a continuation of the State Medicaid program at the current levels and the appropriation of funds to provide for the cost of State employee compensation increases. Comparing the SFA's initial estimate of FY 2004-05 GF/GP revenue with these appropriation assumptions leads to a potential \$920.9 million imbalance between revenue and expenditures. This potential imbalance equals approximately 10.5% of current year GF/GP appropriations. The Governor and the Legislature will face significant challenges as they attempt to structure the FY 2004-05 GF/GP budget in the months ahead.

Table 17

FY 2004-05 Budget Outlook General Fund/General Purpose (millions of dollars)	
	SFA Estimate
Projected Revenue:	
Beginning Balance	\$ 16.5
SFA Estimated Revenue	7,793.4
<u>Other Revenue Adjustments:</u>	
Enhanced Tax Enforcement Revenue	50.0
Driver Responsibility Legislation	67.6
Driver License Fee Legislation	27.0
Nonparticipating Cigarette Manufacturers	2.6
Total Estimated Revenue	\$7,957.1
Potential Appropriations:	
Freeze of FY 2004-05 Appropriations at FY 2003-04 Levels ...	\$8,812.9
Freeze of Revenue Sharing Payments at FY 2003-04 Level	(393.3)
<u>Other FY 2004-05 GF/GP Appropriation Issues:</u>	
Medicaid Elimination of Special Federal Funding	168.4
Medicaid Phase-Out of Special Financing Mechanisms	130.0
State Employee Compensation Increases	160.0
Adjusted FY 2004-05 GF/GP Appropriations	\$8,878.0
Potential Imbalance	\$ (920.9)

Table 18 provides a similar look ahead at the FY 2004-05 SAF budget. As contrasted with the GF/GP budget, the potential outlook for the SAF budget is brighter. The FY 2003-04 SAF budget does not depend on a significant number of one-time revenue items and there are no enacted tax policy changes that will have an impact on FY 2004-05 SAF revenue. The only significant one-time revenue source in the FY 2003-04 SAF budget is a \$113.7 million beginning balance. Therefore, a comparison of the SFA's FY 2004-05 SAF revenue estimate combined with a freeze in FY 2004-05 SAF appropriations at the FY 2003-04 level leads to a \$252.6 million balance. This potential balance equals 2.0% of FY 2003-04 SAF appropriations.

Table 18

FY 2004-05 Budget Outlook School Aid Fund Budget (millions of dollars)	
	SFA Estimate
Projected Revenue:	
Beginning Balance	\$ 0.0
SFA Estimated Revenue	11,028.3
<u>Other Revenue Adjustments:</u>	
GF/GP Grant at FY 2003-04 Level	327.7
Federal Aid	1,316.7
Enhanced Tax Enforcement Revenue	30.0
Total Estimated Revenue	\$12,702.7
FY 2003-04 Year-to-Date Appropriations	\$12,450.1
Projected Appropriation Growth	\$ 252.6
Note: Represents a 2.0% increase in appropriations	