

**Highlights of
Senate Fiscal Agency's
Economic Outlook and Budget Review**

FY 2009-10, FY 2010-11, and FY 2011-12

**Presented to the
Senate Appropriations Committee**



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Economic Review

- In September 2010, the National Bureau of Economic Research announced that the U.S. recession ended in June 2009.
- The 2008-2009 recession was identified as the most severe economic contraction in 70 years.
- During 2010, the U.S. economy is expected to show the strongest growth since 2004, while the Michigan economy is expected to finally finish contracting.
- Michigan's economy is forecast to exhibit both income and employment growth by 2012, although the improvements will be modest.
- Inflation-adjusted personal income is projected to have risen 0.9% in 2010, and then forecast to remain stable in 2011 and increase 0.7% in 2012.
- Payroll employment is expected to remain flat in 2011, after declining by 0.8% in 2010, and then increase 0.9% in 2012. The projected increase in wage and salary employment for 2012 would be the first increase since 2000.
- In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to decline, from 13.6% in 2009 and 13.3% in 2010, to 12.4% in 2011 and 11.6% in 2012.
- Compared with the May 2010 Consensus Economic Forecast, the U.S. forecast is slightly weaker while the Michigan forecast is slightly stronger.
- Table 1 summarizes the SFA's economic projections for calendar years 2009 through 2012.

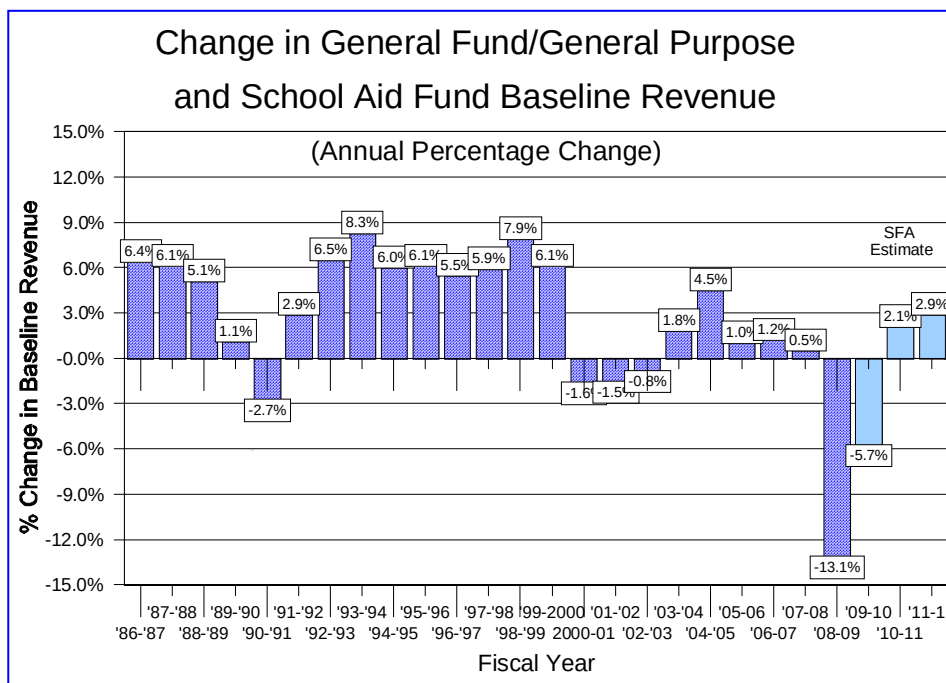
Table 1

SFA ECONOMIC PROJECTIONS (Calendar Year)				
	2009 Actual	2010 Estimate	2011 Estimate	2012 Estimate
Real Gross Domestic Product (% change)	(2.6)%	2.8%	2.0%	2.3%
U.S. Consumer Price Index (% change)	(0.4)%	1.8%	1.7%	2.0%
Light Motor Vehicle Sales (millions of units)	10.4	11.5	12.7	14.1
U.S. Unemployment Rate (%).	9.3%	9.6%	9.5%	9.6%
Real Michigan Personal Income (% change).....	(2.5)%	0.9%	0.0%	0.7%
Michigan Wage & Salary Employment (% change)	(6.9)%	(0.8)%	0.0%	0.9%
Michigan Unemployment Rate (%)	13.6%	13.3%	12.4%	11.6%

Forecast for State Revenue

- The percentage changes in baseline General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2009-10 through FY 2011-12 are compared with the actual growth rates during the preceding 20 years in [Figure 1](#).

Figure 1



- The increases in baseline revenue estimated for FY 2010-11 and FY 2011-12 represent the first increases in several years. [Table 2](#) provides a summary of the SFA's FY 2010-11 and FY 2011-12 GF/GP and School Aid Fund revenue estimates.
- As [Table 2](#) indicates, FY 2010-11 GF/GP revenue is estimated to increase by 4.2% over FY 2009-10 and SAF revenue is estimated to increase by 1.2%. For FY 2011-12, after accounting for tax changes, GF/GP revenue is estimated to decline by 0.5% while SAF revenue will increase by 1.8%.
- The stronger economic fundamentals for FY 2011-12 will be offset by several tax policy changes that will reduce GF/GP and School Aid Fund revenue. Among the expected changes are:
 - The State income tax rate is scheduled to fall by 0.1% starting October 1, 2011, and will continue falling by 0.1% annually until it returns to the 3.9% level in 2015. The 0.1% rate reduction will result in a loss of \$162.0 million in FY 2011-12.
 - The net revenue loss due to Michigan's film credits will increase to \$142.1 million, up from \$105.3 million estimated for FY 2010-11.

- Based on the SFA's revised revenue estimates, revenue subject to the Constitutional revenue limit is estimated to be more than \$8.0 billion below the limit for FY 2010-11 and FY 2011-12.

Table 2

SFA REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)						
	<u>FY 2010-11 Estimate</u>			<u>FY 2011-12 Estimate</u>		
	Baseline	Revenue Adjust.	Net Available	Baseline	Revenue Adjust.	Net Available
Gen'l Fund/Gen'l Purpose.....	\$6,974.8	\$88.3	\$7,063.1	\$7,260.7	(\$230.5)	\$7,030.2
% Change	4.2%	---	4.2%	4.1%	---	(0.5)%
School Aid Fund	\$10,870.4	\$73.8	\$10,944.2	\$11,107.3	\$30.2	\$11,137.5
% Change	0.8%	---	1.2%	2.2%	---	1.8%
Total GF/GP and SAF.....	\$17,845.2	\$162.0	\$18,007.2	\$18,367.9	(200.2)	\$18,167.7
% Change	2.1%	---	2.3%	2.9%	---	0.9%
	<u>FY 2010-11 Estimate</u>			<u>FY 2011-12 Estimate</u>		
Revenue Limit - Under (Over):	\$8,032.0			\$8,499.2		

Estimate of Year-End Balances

- Table 3 summarizes the FY 2009-10 and FY 2010-11 GF/GP and SAF year-end balance estimates, and Tables 4-7 provide the detail for these estimates. There are positive year-end balances for GF/GP and SAF in both years.

Table 3

SFA YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)		
	FY 2009-10 Estimate	FY 2010-11 Estimate
General Fund/General Purpose	\$192.8	\$200.7
School Aid Fund.....	247.9	430.0

Table 4

FY 2009-10 GENERAL FUND/GENERAL PURPOSE REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	\$177.2
Ongoing Revenue:	
SFA Revenue Estimate	6,780.5
Revenue Sharing Savings-Cities, Villages and Townships	583.7
County Revenue Sharing-Payments Restoration.....	(55.3)
Shift of Short-Term Borrowing Costs to School Aid Fund	20.0
Use Tax on HMOs (PA 440 of 2008).....	<u>357.7</u>
Subtotal Ongoing Revenue	\$7,686.6
One-Time Revenue:	
FY 2008-09 Book-Closing MBT Transfer to SAF Budget.....	(\$7.9)
Transportation Economic Development Fund Transfer to Gen'l Fund	12.0
Railroad Improvement Fund Transfer to General Fund	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund	1.9
State Services Fee Fund Transfer to General Fund	1.6
Use Tax for Travel Promotion-PA 36 of 2010	(9.5)
21st Century Jobs Fund Transfer to General Fund	<u>37.5</u>
Subtotal One-Time Revenue.....	\$41.4
Total Estimated Revenue	\$7,905.2
Expenditures:	
Initial Appropriations.....	\$8,128.0
Appropriation Adjustments:	
Enacted Supplemental Appropriations	(340.6)
Projected Year-End Appropriation Lapses	<u>(75.0)</u>
Subtotal Appropriation Adjustments	(\$415.6)
Total Estimated Expenditures.....	\$7,712.4
Projected Year-End Balance	\$192.8

Table 5
FY 2009-10
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$238.2
SFA Estimate of Restricted SAF Revenue	10,815.5
GF/GP Grant	30.2
Federal Aid	1,612.3
ARRA-State Fiscal Stabilization Fund	450.0
FY 2008-09 Book-Closing MBT Transfer from GF/GP	7.9
FY 2008-09 Book-Closing Greentown Casino Adjustment.....	(9.3)
Total Estimated Revenue.....	\$13,144.8
Expenditures:	
Enacted Appropriation.....	\$12,823.6
<u>Enacted Supplemental Appropriations:</u>	
Fund Source Shift to Community Colleges (PA 158 of 2010)	208.4
Public Act 110 of 2010	(116.1)
Public Act 217 of 2100	30.0
Projected Year-End Appropriation Lapses	(49.0)
Total Appropriations	\$12,896.9
Projected Year-End Balance	\$247.9

Table 6
FY 2010-11
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$192.8
<u>Ongoing Revenue:</u>	
SFA Revenue Estimate	7,063.1
Shift of Short-Term Borrowing Costs to School Aid Fund.....	45.0
Revenue Sharing Freeze-Cities, Villages and Townships	602.3
County Revenue Sharing- Payment Restoration	(114.7)
Use Tax on Health Maintenance Organizations	377.3
Enhanced Tax Enforcement Revenue	15.0
Liquor Reforms	9.1
Subtotal Ongoing Revenue.....	\$7,997.1
<u>One-Time Revenue:</u>	
Tax Amnesty	\$61.8
Unclaimed Property Reforms.....	168.0
Convention Facilities Transfer to General Fund	5.0
Lapse of Secretary of State Work Project to General Fund.....	6.0
Subtotal One-Time Revenue	\$240.8
Total Estimated Revenue	\$8,430.7
 Expenditures:	
Initial Appropriations	\$8,311.0
State Employees Retirement Savings	(81.0)
Total Proposed Expenditures.....	\$8,230.0
 Projected Year-End Balance.....	\$200.7

Table 7
FY 2010-11
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$247.9
SFA Estimate of Restricted SAF Revenue	\$10,944.2
Revenue Adjustments:	
GF/GP Grant to School Aid Fund.....	18.6
Ongoing Federal Aid	1,677.8
American Recovery and Reinvestment Act Funding.....	184.3
Federal Education Jobs Fund of 2010	316.3
Enhanced Tax Enforcement Revenue	2.3
Lottery Reform	5.0
Tax Amnesty	26.1
Liquor Reforms.....	0.9
Subtotal Revenue Adjustments	\$2,231.3
Total Estimated School Aid Fund Revenue	\$13,423.4
Expenditures:	
Enacted Initial Appropriations - PA 110 of 2010.....	\$12,838.7
Race to the Top State Funding - PA 110 of 2010	26.2
Supplemental Appropriations - PA 204 of 2010	(46.8)
Supplemental Appropriations - PA 205 of 2010	70.3
Supplemental Appropriations - PA 217 of 2010	246.0
Projected Year-End Appropriation Lapses	(141.0)
Total Projected Expenditures.....	\$12,993.4
Projected Year-End School Aid Fund Balance.....	\$430.0

- The FY 2010-11 GF/GP budget is balanced using temporary Federal funds and other one-time revenue items. The combination of one-time revenue sources, the income tax rate reduction, and current law spending pressures creates a sizeable imbalance between projected current law FY 2011-12 GF/GP revenue and current law GF/GP appropriations. As Table 8 indicates, the SFA is estimating a potential GF/GP funding imbalance of \$1.8 billion.

Table 8
FY 2011-12
STATE BUDGET OUTLOOK
GENERAL FUND/GENERAL PURPOSE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$200.7
SFA Revenue Estimate	7,030.2
<u>Other Revenue Adjustments:</u>	
Revenue Sharing Freeze-Cities, Villages, and Townships.....	630.6
County Revenue Sharing Payments	(152.0)
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Tax Amnesty.....	(29.9)
Unclaimed Property Reforms	<u>35.0</u>
Subtotal Other Revenue Adjustments	528.7
Current Law GF/GP Revenue.....	<u>\$7,759.6</u>
Appropriations:	
FY 2010-11 Enacted GF/GP Appropriations	\$8,230.0
<u>Appropriation Adjustments:</u>	
Enhanced Medicaid Match Rate.....	520.0
Human Services Emergency TANF Funds.....	239.0
Medicaid One-Time VEBA Payment	160.0
Medicaid Caseload/Costs.....	210.0
Federal Medicaid Match Rate.....	(35.0)
Human Services Caseload/Costs/Full-Year Staffing Levels.....	91.0
General Obligation Bond Debt Restructuring	83.3
State Police One-Time Revenue Adjustments	5.8
State Employee Economic Costs	<u>103.7</u>
Subtotal Funding Adjustments.....	1,377.8
Adjusted FY 2011-12 GF/GP Appropriation Base	<u>\$9,607.8</u>
Potential Funding Imbalance.....	<u>\$(1,848.2)</u>

- The outlook for the FY 2011-12 SAF budget is more favorable. The FY 2010-11 SAF budget is less reliant on temporary Federal funding and the SAF revenue base is held harmless from the impact of the scheduled rate reduction in the State income tax. Table 9 shows a potential FY 2011-12 SAF year-end balance of \$192.4 million, assuming current law revenue and a restoration to the FY 2008-09 per-pupil funding levels.

Table 9 FY 2011-12 SCHOOL AID FUND REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	\$430.0
SFA Estimate of Restricted SAF Revenue	11,137.5
Ongoing Federal Funds.....	1,677.8
GF/GP Grant to SAF	18.6
Enhanced Tax Enforcement Revenue	2.3
Lottery Reforms.....	5.0
Liquor Reforms.....	0.9
Tax Amnesty	(6.7)
Current Law SAF Revenue	\$13,265.4
Expenditures:	
Continuation Appropriation Level	\$13,073.0
Potential Year-End Balance.....	\$192.4