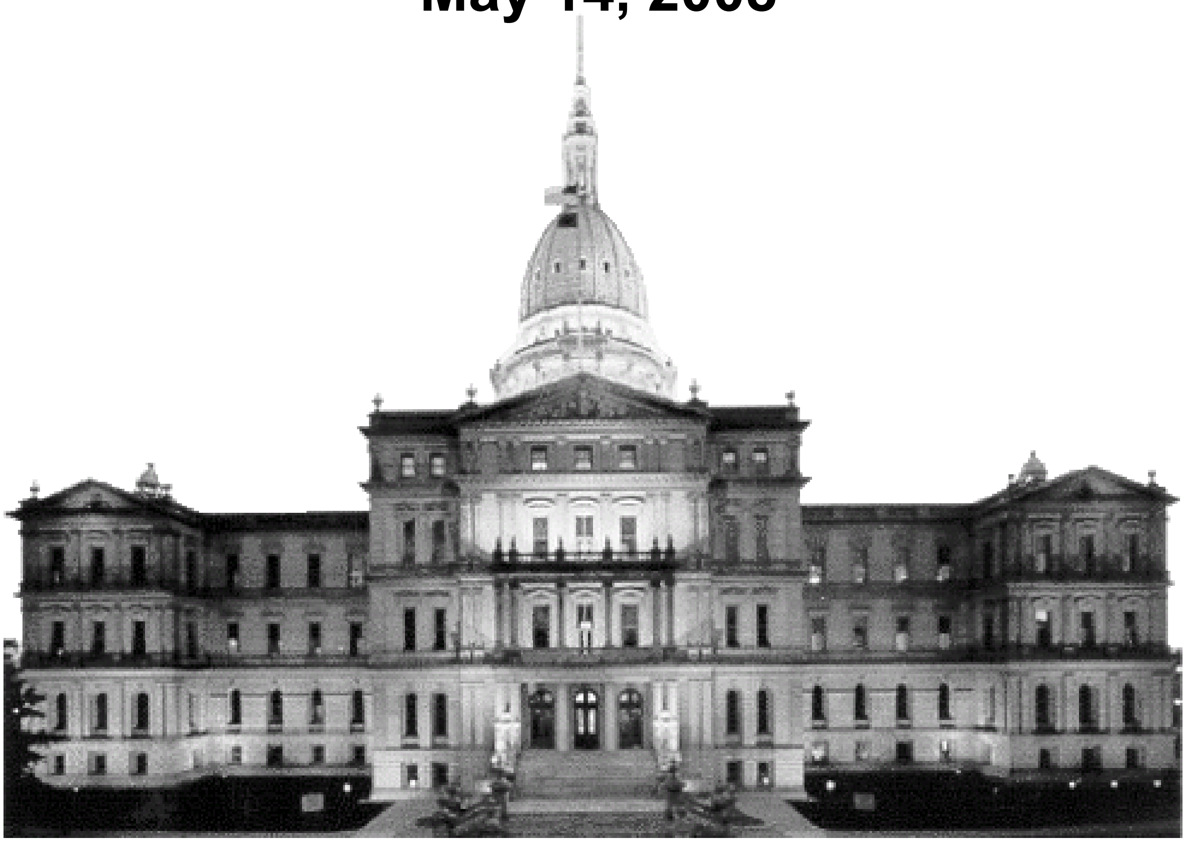
Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2007-08 AND FY 2008-09

May 14, 2008



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ACKNOWLEDGEMENT

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ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, is predicted to grow 1.0% in 2008 before expanding 1.7% in 2009. Light vehicle sales are forecast to decline from 16.1 million units in 2007 to 14.9 million units in 2008 before rising slightly to 15.0 million units in 2009. The unemployment rate is expected to rise to 5.3% in 2008 and 5.8% in 2009, while the consumer price index is estimated to grow by 4.1% in 2008 and 2.9% in 2009.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to contract 1.4% in 2008 and 0.6% in 2009. Wage and salary employment is predicted to decline 1.9% during 2008, before falling another 1.7% in 2009. Compared with the January 11, 2008, Consensus Economic Forecast, both the U.S. and Michigan forecasts are considerably weaker in each year. At both the State and national levels, inflation is expected to be more pronounced, income growth slower, and employment lower than was expected in January.

REVENUE FORECAST

In FY 2007-08, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated $20.54 billion, representing a 5.5% increase from FY 2006-07. General Fund/General Purpose revenue will increase an estimated 10.7% to $9.21 billion. This large increase will be due to the increase in the income tax and the surcharge on the Michigan business tax (MBT). School Aid Fund earmarked revenue will increase an estimated 1.6% to $11.33 billion. Compared with the January 2008 consensus revenue estimates, the GF/GP revenue estimate is down $40.3 million and the SAF revenue estimate is down $24.1 million.

In FY 2008-09, GF/GP and SAF revenue will total an estimated $20.51 billion, which is down 0.1% from the revised estimate for FY 2007-08. Compared with the January consensus estimate, this revised estimate is down $550.5 million. General Fund/General Purpose revenue will total an estimated $8.84 billion, representing a decline of 4.0% from the revised estimate for FY 2007-08. Most of this decline is due to weak economic activity, the new earned income tax credit, the new film MBT credit, and the impact of the Federal stimulus plan on MBT revenue. Compared with the January 2008 consensus estimate, this is down $352.9 million. School Aid Fund revenue will increase 3.0% to $11.67 billion, but most of this increase will be due to an increase in the MBT earmark to the SAF intended to cover increased foundation payments that will be required to hold schools harmless from the new personal property tax exemption on the 18-mill local school tax. This revised SAF revenue estimate is down $198.6 million from the January consensus estimate.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected State appropriations, the SFA is estimating that the FY 2007-08 General Fund/General Purpose budget will close the fiscal year with a $190.6 million balance. A comparison of the SFA revenue estimates and enacted and projected State School Aid Fund revenue leads to a $25.0 million year-end balance.

Comparing the SFA's FY 2008-09 revenue estimate with the appropriation recommendations of the Senate and several other appropriation adjustments leads to a projected deficit of $181.5 million in the FY 2008-09 GF/GP budget. A comparison of the SFA revenue estimates and the appropriations by the Senate leads to a projected $124.1 million SAF deficit.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)

	2006 Actual	2007 Actual	2008 Estimate	2009 Estimate
Real Gross Domestic Product (% change)	2.9%	2.2%	1.0%	1.7%
U.S. Consumer Price Index (% change)	3.2%	2.8%	4.1%	2.9%
Light Motor Vehicle Sales (millions of units)	16.5	16.1	14.9	15.0
U.S. Unemployment Rate (%)	4.6%	4.6%	5.3%	5.8%
Real Michigan Personal Income (% change)	0.2%	1.7%	(1.4)%	(0.6)%
Michigan Wage & Salary Employment (% change)	(1.4)%	(1.5)%	(1.9)%	(1.7)%

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

	FY 2007-08 Estimate			FY 2008-09 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose	$8,128.9	$1,077.3	$9,206.4	$8,101.5	$740.2	$8,841.7
% Change	(1.8)%	---	10.7%	(0.3)%	---	(4.0%)
School Aid Fund	$11,073.3	255.8	11,329.1	11,042.0	630.1	11,672.1
% Change	(0.7)%	---	1.6%	(0.3)%	---	3.0%
Total GF/GP and SAF	$19,202.3	$1,333.1	$20,535.5	$19,143.5	$1,370.3	$20,513.8
% Change	(1.2)%	---	5.5%	(0.3)%	---	(0.1)%

	FY 2007-08 Estimate	FY 2008-09 Estimate
Revenue Limit - Under (Over):	$5,053.8	$6,105.5

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

	FY 2006-07 Actual	FY 2007-08 Estimate	FY 2008-09 Estimate
General Fund/General Purpose	$259.1	$190.6	$(181.5)
School Aid Fund	$82.4	$25.0	$(124.1)
Budget Stabilization Fund	$2.1	$2.2	$2.3

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 2008 and 2009, as well as a summary of recent economic activity.

RECENT ECONOMIC HIGHLIGHTS

In the aftermath of the 2001 recession, national wage and salary employment finally began increasing steadily in the second quarter of 2003. Between the second quarter of 2003 and the end of 2006, inflation-adjusted Gross Domestic Product (GDP) grew at a steady and generally healthy pace, averaging annual growth of 3.2%, and dipping below 2.1% only twice over the period. Much of this growth was fueled by high productivity and a strong housing market that largely offset the dragging effects of high and volatile energy prices, uncertainty resulting from various international political disputes, and restrained investment growth. The strong housing market enabled consumers to reduce saving and consume more even as employment growth was hampered by sustained productivity improvements and numerous energy price shocks.

During 2007, many of these factors lost their ability to overcome the drags on economic growth, or even became new drags on the economy, as in the case of the steep decline in housing markets. The slowdown has been reflected in lower levels of consumption, a substantial decline in residential investment spending, and weak business investment spending. Residential investment spending fell 17.0% during 2007 and in the first quarter of 2008 was down 34.3% from its peak in the fourth quarter of 2005. Housing starts declined 24.8% in 2007, and the March 2008 level of 947,000 units was down 30.1% from the 2007 average level and down 58.7% from the most recent cycle peak in January 2006. In March 2008, housing starts were at their lowest level since March 1991. As the housing market has deteriorated and interest rates on adjustable rate mortgages have risen, consumers have needed to adjust their behavior and consumption has suffered as a result. Details for selected economic indicators for recent years are presented in Table 1 and Table 2.

Since the 2001 recession, the effect of high productivity on employment has been substantial. During the 1983-1989 and 1993-2000 recoveries, productivity increased by an average of approximately 2.0% per year, while wage and salary employment grew by an average of 2.6% per year. Those figures compare with a long-term average over the 1960-1992 period of annual productivity increases of 1.7% and employment gains of 2.2% per year. However, between 2001 and 2006, productivity averaged more than 2.6% per year and employment rose by only 0.65% per year. As overall productivity has declined in recent years, employment growth has strengthened. Wage and salary employment rose 1.1%, 1.7%, and 1.8% in 2004, 2005, and 2006, respectively; compared with average annual increases of 3.0% during 1983-1989 and 2.5% during 1993-2000.

Michigan's gains in personal income and employment have lagged behind those of nearly every other state in the country and occasionally trailed all of the states. The fact that Michigan has struggled so much compared with other states reflects the economic changes occurring in certain sectors of the economy combined with Michigan's industrial mix. Nationally, job losses during the recession were more severe, compared with the drop in inflation-adjusted GDP, than during previous recessions primarily because of substantial increases in productivity, particularly in the manufacturing sector. Similarly, job growth during the recovery has been slowed by continued high productivity. Although productivity slowed during 2006 and 2007 (Figure 1), productivity continued to remain high in the durable goods manufacturing sector, a sector in which Michigan industry is disproportionately concentrated (Figure 2).

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2005 Actual	2006 Actual	2007 Actual	2008 Estimate	2009 Estimate
United States					
Nominal GDP					
(year-to-year growth)	6.4%	6.1%	4.9%	3.4%	4.8%
Inflation-Adjusted GDP					
(year-to-year growth)	3.1%	2.9%	2.2%	1.0%	1.7%
Unemployment Rate	5.1%	4.6%	4.6%	5.3%	5.8%
Inflation					
Consumer Price Index					
(year-to-year growth)	3.4%	3.2%	2.8%	4.1%	2.9%
GDP Implicit Price Deflator					
(year-to-year growth)	3.2%	3.2%	2.7%	2.4%	3.0%
Interest Rates					
90-day Treasury bill	3.15%	4.73%	4.36%	1.58%	1.99%
Corporate Aaa bond	5.23%	5.59%	5.56%	4.99%	4.57%
Federal funds rate	3.22%	4.97%	5.02%	2.32%	2.48%
Light Motor Vehicle Sales					
(millions of units)	16.9	16.5	16.1	14.9	15.0
Auto	7.7	7.8	7.6	7.1	7.2
Truck	9.3	8.7	8.5	7.8	7.8
Import Share	20.1%	22.4%	23.3%	23.7%	24.6%
Michigan					
Personal Income (millions)	$330,474	$341,337	$353,376	$358,485	$365,238
Year-to-year growth	3.7%	3.3%	3.5%	1.4%	1.9%
Inflation-Adjusted Personal Income (year-to-year growth)	0.7%	0.2%	1.7%	(1.4)%	(0.6)%
Wage & Salary Income (millions)	$183,651	$185,169	$189,019	$189,072	$190,434
Year-to-year growth	1.8%	0.8%	2.1%	0.0%	0.7%
Detroit Consumer Price Index					
(year-to-year growth)	2.9%	3.0%	1.8%	2.9%	2.5%
Wage & Salary Employment					
(thousands)	4,390.3	4,327.1	4,262.0	4,182.0	4,110.8
Year-to-year growth	(0.2)%	(1.4)%	(1.5)%	(1.9)%	(1.7)%
Unemployment Rate	6.9%	6.9%	7.2%	7.6%	8.4%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2005 Actual	**2006 Actual**	**2007 Actual**	**2008 Estimate**	**2009 Estimate**
Gross Domestic Product					
(billions of dollars)	$12,433.9	$13,194.7	$13,841.3	$14,316.3	$15,008.4
Year-to-year growth	6.4%	6.1%	4.9%	3.4%	4.8%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2000 dollars)	$11,003.4	$11,319.4	$11,566.8	$11,684.1	$11,887.6
Year-to-year growth	3.1%	2.9%	2.2%	1.0%	1.7%
Consumption					
(billions of 2000 dollars)	$7,803.6	$8,044.1	$8,277.8	$8,385.5	$8,498.2
Year-to-year growth	3.2%	3.1%	2.9%	1.3%	1.3%
Business Fixed Investment					
(billions of 2000 dollars)	$1,225.8	$1,306.8	$1,368.4	$1,399.4	$1,411.3
Year-to-year growth	7.1%	6.6%	4.7%	2.3%	0.9%
Change in Business Inventories					
(billions of 2000 dollars)	$33.2	$40.3	$4.5	($7.7)	$0.9
Residential Investment					
(billions of 2000 dollars)	$597.1	$569.5	$472.8	$358.2	$346.8
Year-to-year growth	6.6%	-4.6%	-17.0%	-24.2%	-3.2%
Government Spending					
(billions of 2000 dollars)	$1,946.3	$1,981.4	$2,021.6	$2,060.6	$2,072.7
Year-to-year growth	0.8%	1.8%	2.0%	1.9%	0.6%
Net Exports					
(billions of 2000 dollars)	($618.1)	($624.5)	($555.5)	($468.3)	($387.9)
Exports (billions of 2000 dollars)	$1,203.4	$1,304.1	$1,409.9	$1,519.6	$1,626.0
Imports (billions of 2000 dollars)	$1,821.5	$1,928.6	$1,965.4	$1,988.0	$2,013.9
Personal Income					
(year-to-year growth)	5.9%	6.7%	6.2%	4.0%	4.3%
Adjusted for Inflation	2.4%	3.3%	3.2%	-0.1%	1.4%
Wage & Salary Income					
(year-to-year growth)	5.1%	6.3%	5.7%	3.9%	4.4%
Personal Savings Rate	0.5%	0.4%	0.4%	0.9%	0.9%
Capacity Utilization Rate	80.2%	80.9%	81.0%	79.2%	77.1%
Housing Starts (millions of units)	2.068	1.801	1.355	0.889	1.004
Conventional Mortgage Rates	5.9%	6.4%	6.3%	5.9%	5.7%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($318.3)	($220.0)	($220.6)	($399.2)	($373.3)

Figure 1

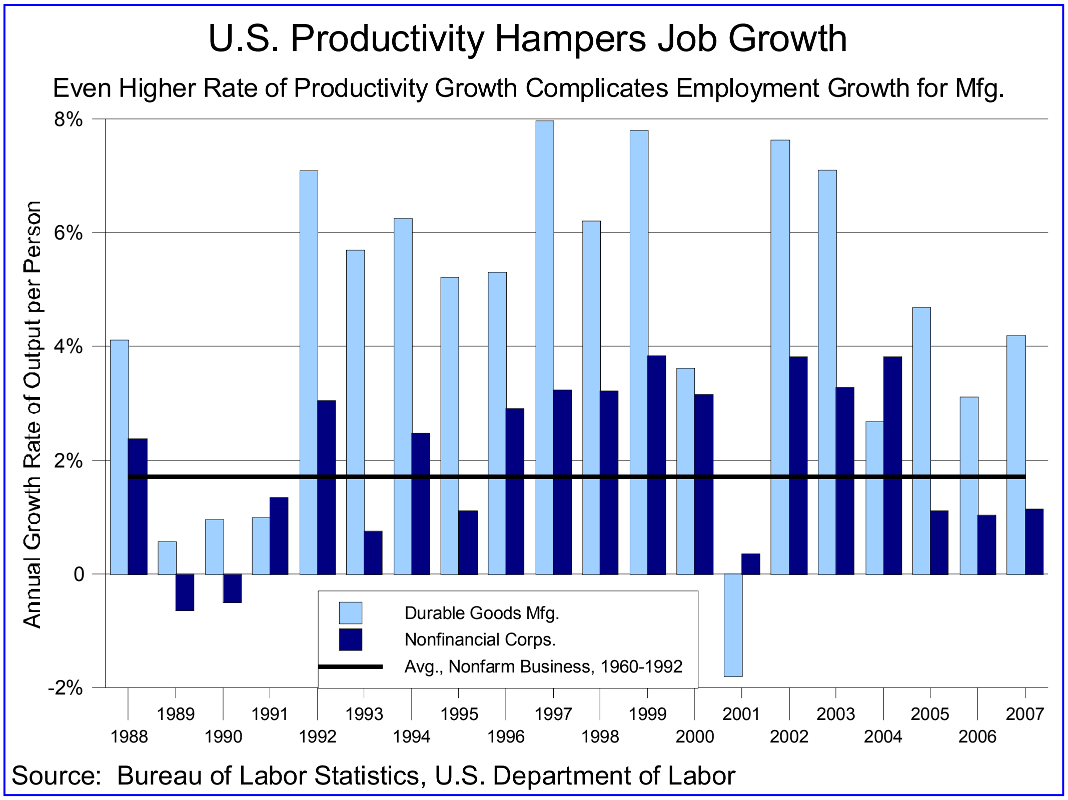
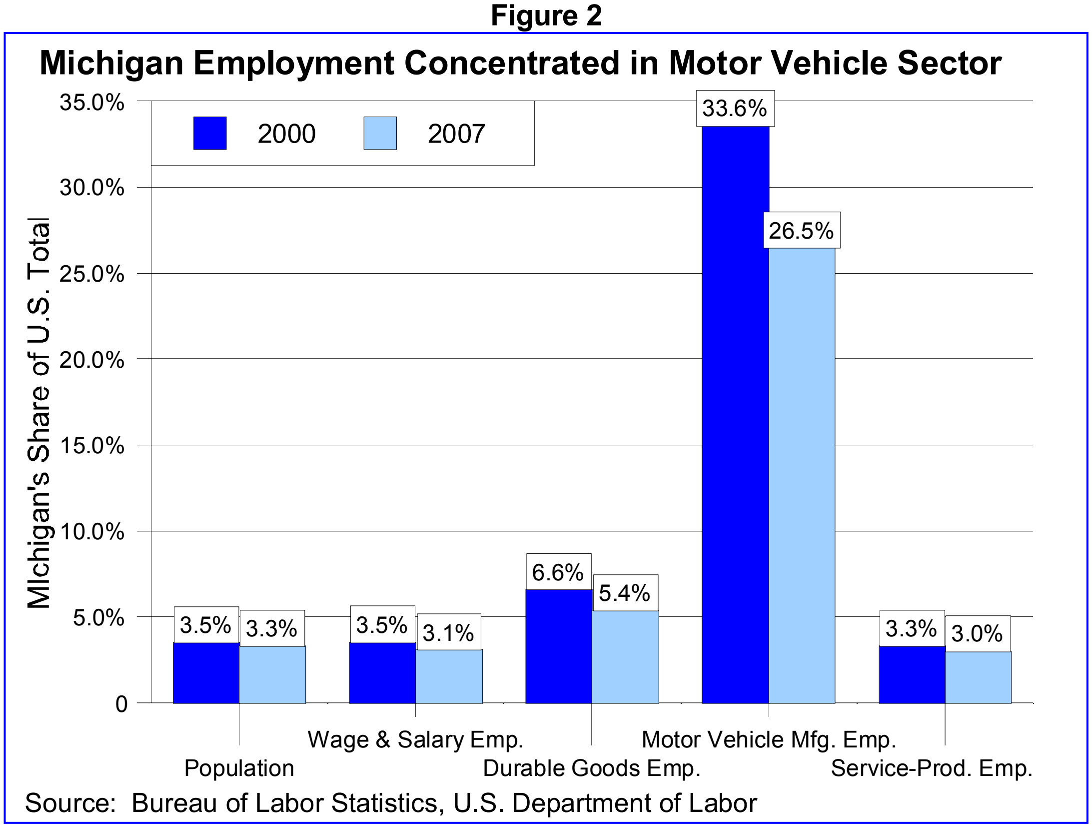


Figure 2



Productivity gains provide a number of positive economic benefits, including lower product prices and greater income growth in the future. However, productivity offers a transitory negative economic effect with its impact on job growth. For example, with stable sales, an 8.0% increase in productivity in one year (such as experienced in durable goods manufacturing over the 2002-2003 period) means that a firm could reduce its labor force by 8.0% that year and still produce the output needed to meet demand. In the case of Michigan's largest industry -- transportation equipment manufacturing -- total sales of light vehicles have remained fairly flat while vehicle sales of the domestic manufacturers (primarily DaimlerChrysler, Ford, and General Motors) have comprised a decreasing share of total sales (from 68.1% in 2000 to 52.4% in 2007).

As indicated earlier, productivity has risen most significantly in economic sectors in which the Michigan economy is heavily concentrated. Sales for those industries have remained mostly flat or slightly declined, while Michigan's share of the market has declined markedly. Even after seven years of employment declines, especially within those areas where Michigan is most concentrated relative to other states, Michigan is still heavily dependent upon sectors that are highly cyclical and likely to continue to experience substantial gains in productivity and declines in employment. Based on data through 2007, Michigan represented 3.1% of national employment, yet comprised 4.4% of manufacturing goods employment and 5.4% of durable goods manufacturing employment. Transportation equipment manufacturing comprises approximately 42.9% of Michigan's durable goods manufacturing employment and Michigan's motor vehicle manufacturing employment comprises nearly one-fourth of the nation's motor vehicle manufacturing employment.

Another way to see how concentrated Michigan is in motor vehicle manufacturing is to examine the share of employment related to motor vehicle production. Employment in motor vehicle manufacturing and motor vehicle parts manufacturing comprised 6.9% of Michigan employment in 2000, before the current contraction in motor vehicle-related manufacturing employment, and 4.5% in 2007. However, after Michigan, the state next most reliant on motor vehicle related manufacturing is Indiana, where that sector represented 3.5% of total employment in 2000 and 2.7% in 2007. Compared with the national average, where the sector comprised 0.9% of employment in 2000 and 0.6% in 2007, Michigan was 8.1 times more concentrated in motor vehicle-related employment than the rest of the nation as a whole in 2000 and was still more than 7.4 times as concentrated in 2007 (Figure 3). These measures exclude other sectors in states, such as the fabricated metals manufacturing sector, which may be heavily reliant on sales to vehicle manufacturers. Furthermore, 38 states have either negligible or no motor vehicle manufacturing-related employment.

While more difficult to quantify, many of Michigan's nonmanufacturing sectors rely heavily, either directly or indirectly, on activity in the motor vehicle sector. Average wages in transportation equipment manufacturing are higher than in any other economic sector in Michigan, workers in the transportation equipment manufacturing sector purchase goods and services across the spectrum for their own consumption, and vehicle manufacturers are significant consumers of a variety of goods and services as well. In 2006, wages and salaries paid to workers in the motor vehicle manufacturing sector comprised 1.2% of private sector wages and salaries paid nationally, but 10.1% of wages and salaries paid in Michigan (Figure 4). As a result, economic downturns (from either declining employment or business profits) in the motor vehicle sector are transmitted and multiplied throughout the Michigan economy, just as any national or local economic shock is transmitted through the affected economies, but will have a greater proportional impact on Michigan than on any other state or the nation as a whole (Figure 5).

Figure 3

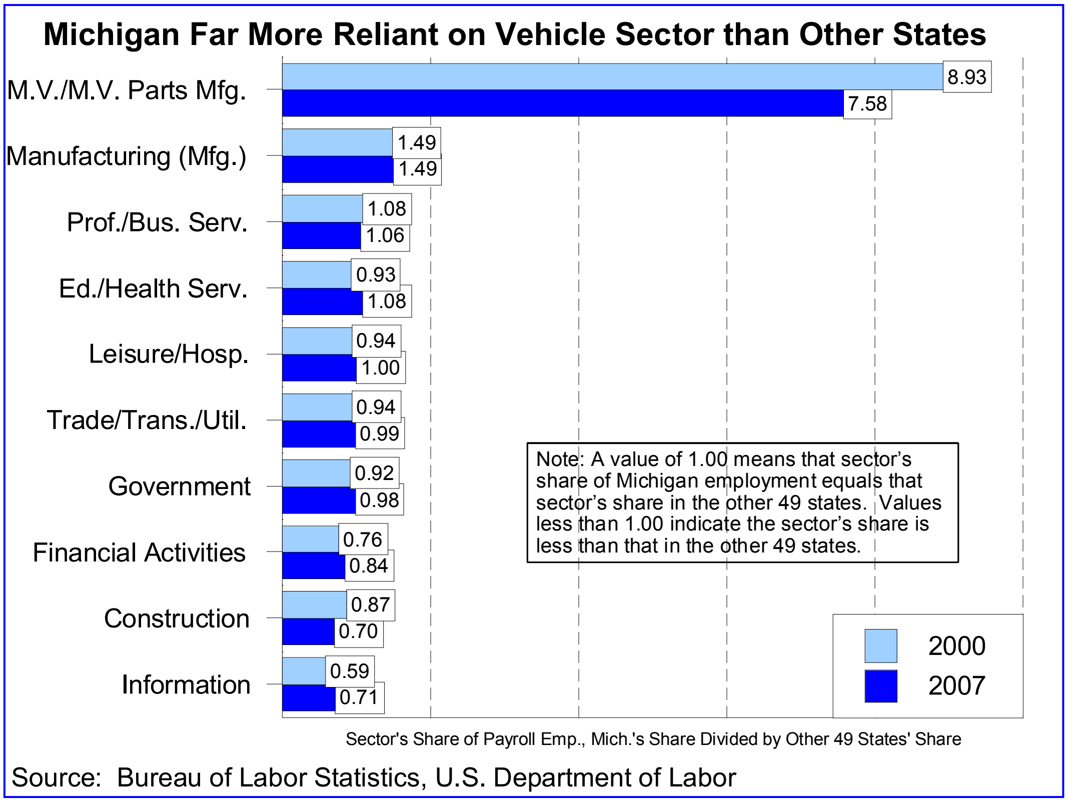


Figure 4

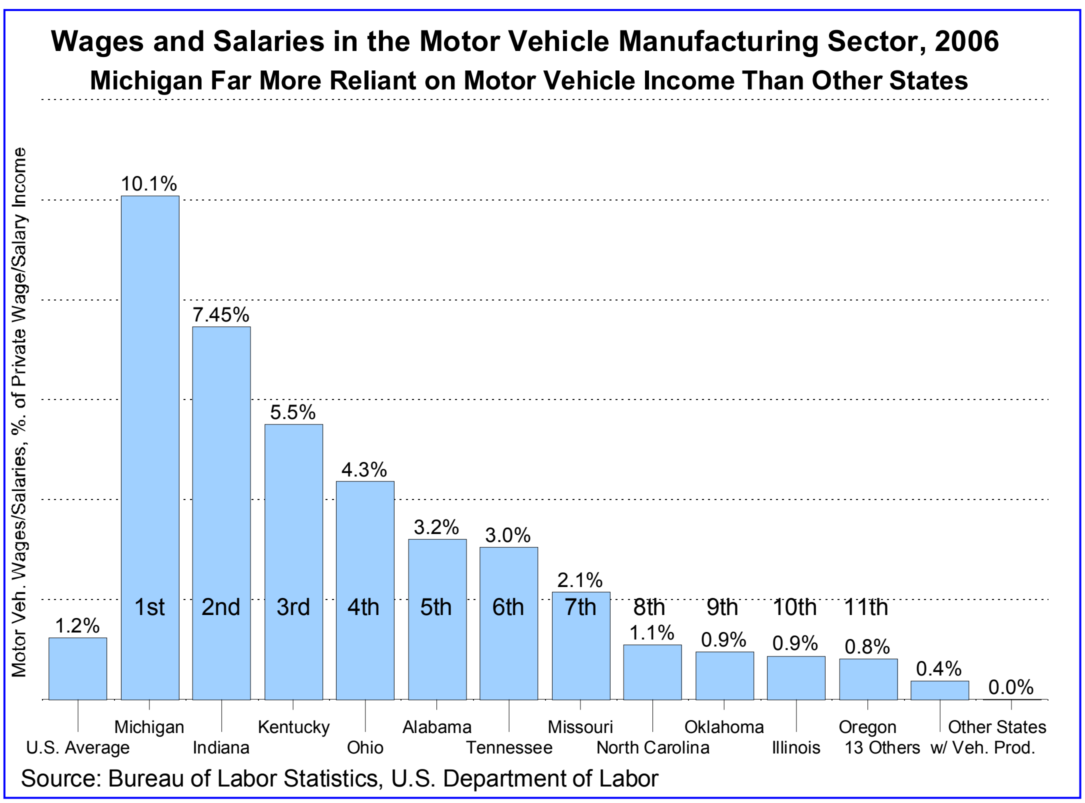
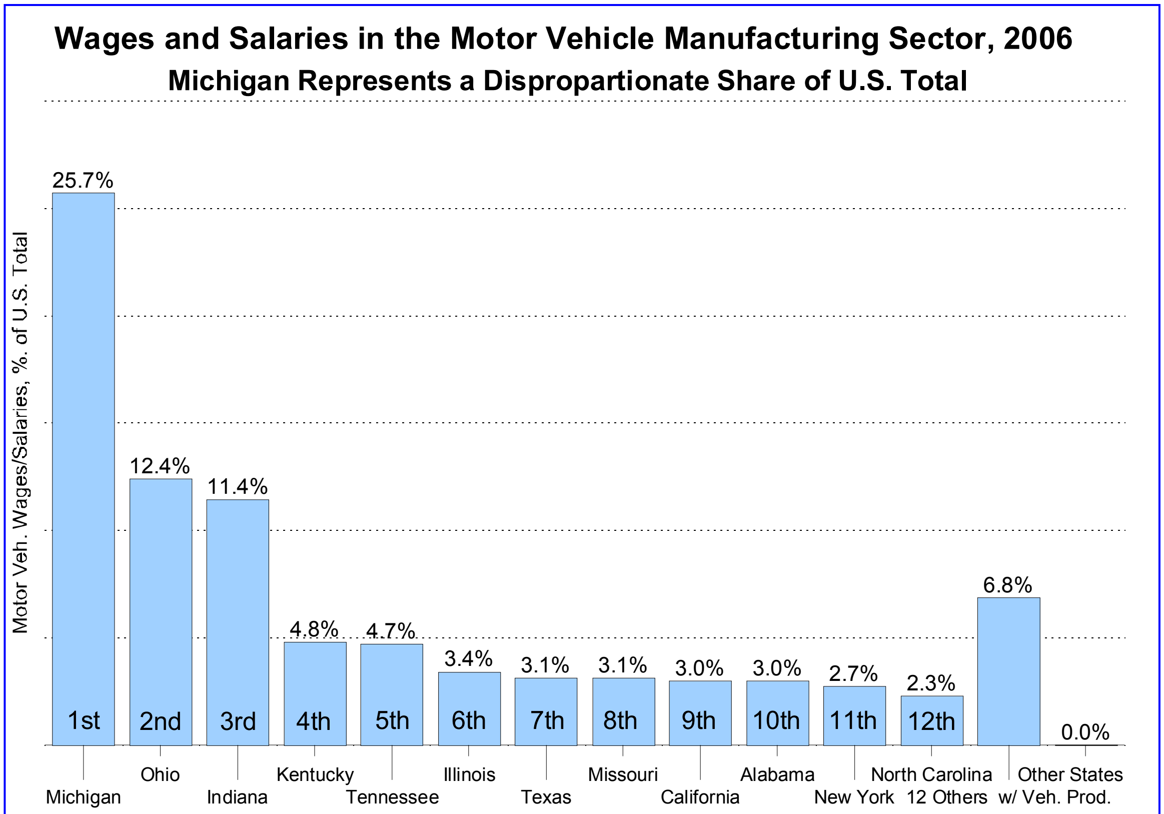


Figure 5



Source: Bureau of Labor Statistics, U.S. Department of Labor

Many of the factors affecting job growth over the last few years, such as high productivity in the manufacturing sector and high energy prices, are expected to continue to influence the economy over the forecast period. The principal factors that are affecting the economy, and present risks to the forecast, are: 1) weakness in the housing market, and how it will influence both consumer behavior and credit market liquidity; and 2) inflationary pressures, particularly from wage pressures, energy and commodity prices, changes in productivity, and depreciation of the dollar.

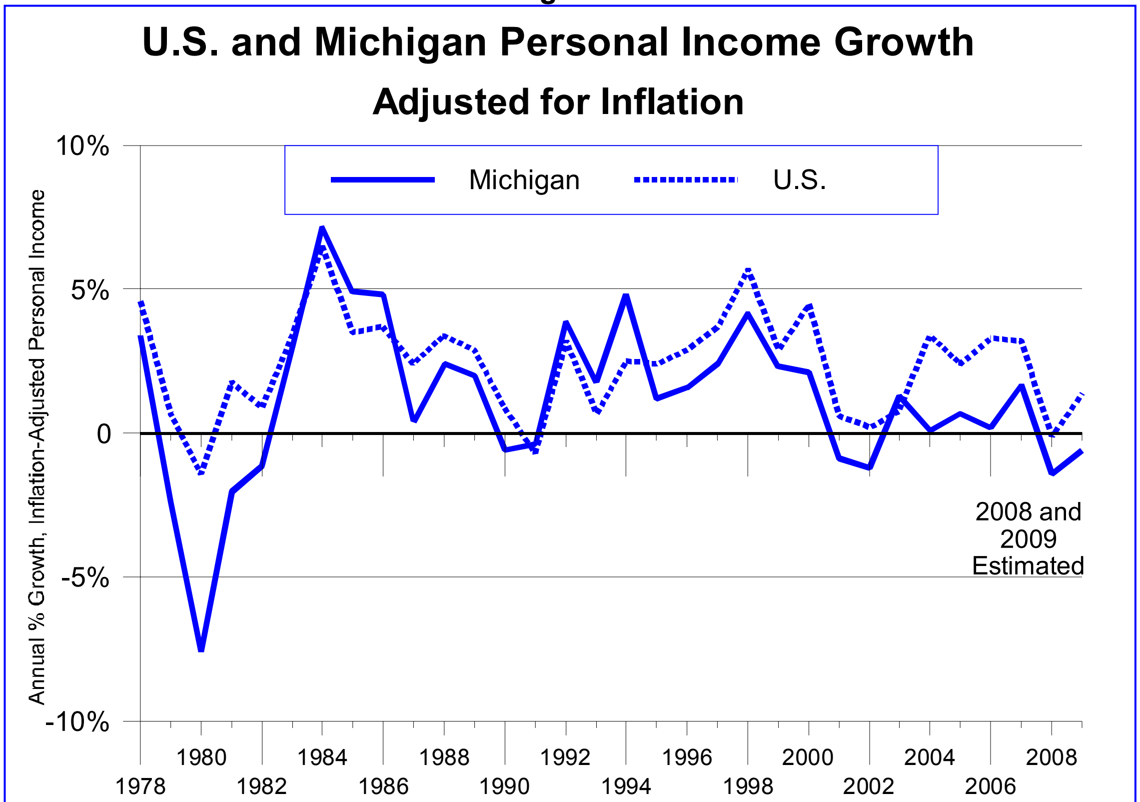
FORECAST SUMMARY

The U.S. economy is expected to continue growing over the forecast period, although some quarters of the next year will near recession levels, while the Michigan economy will essentially be in recession over the forecast period. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to grow 1.0% in 2008 before growing 1.7% in 2009, compared with 2.9% growth in 2006 and 2.2% in 2007. The decline in growth during 2008 primarily reflects lower business and residential investment combined with much weaker consumption growth. The unemployment rate is expected to increase, from 4.6% during 2007 to 5.3% in 2008 and 5.8% in 2009.

In Michigan, both job growth and personal income growth are expected to remain below the national average and the historical State average (Figures 6 and 7) and to spend most of the forecast period in recession. Inflation-adjusted personal income rose 1.7% in 2007 but is expected to fall 1.4% in 2008 and 0.6% in 2009. Wage and salary employment is forecast to decline 1.9% in 2008 and 1.7% in 2009, after falling 1.5% during 2007. The rate of employment declines should begin tapering during late 2009. The declines in wage and salary employment will extend the period of employment declines to nine consecutive years, the longest period on record. These declines will largely reflect continued high productivity and competitive pressures, particularly in the manufacturing sector. Nationally, light vehicle sales are expected to decline from 16.1 million units in 2007 to 14.9 million units in 2008, before rising negligibly to 15.0 million units in 2009. Declining vehicle sales, combined with productivity improvements and declining market share for domestic vehicle manufacturers, will depress employment and labor force participation. In Michigan, as a result, the unemployment rate will increase from 7.2% in 2007 to 7.6% in 2008 and 8.4% in 2009, keeping the Michigan unemployment rate above the national average.

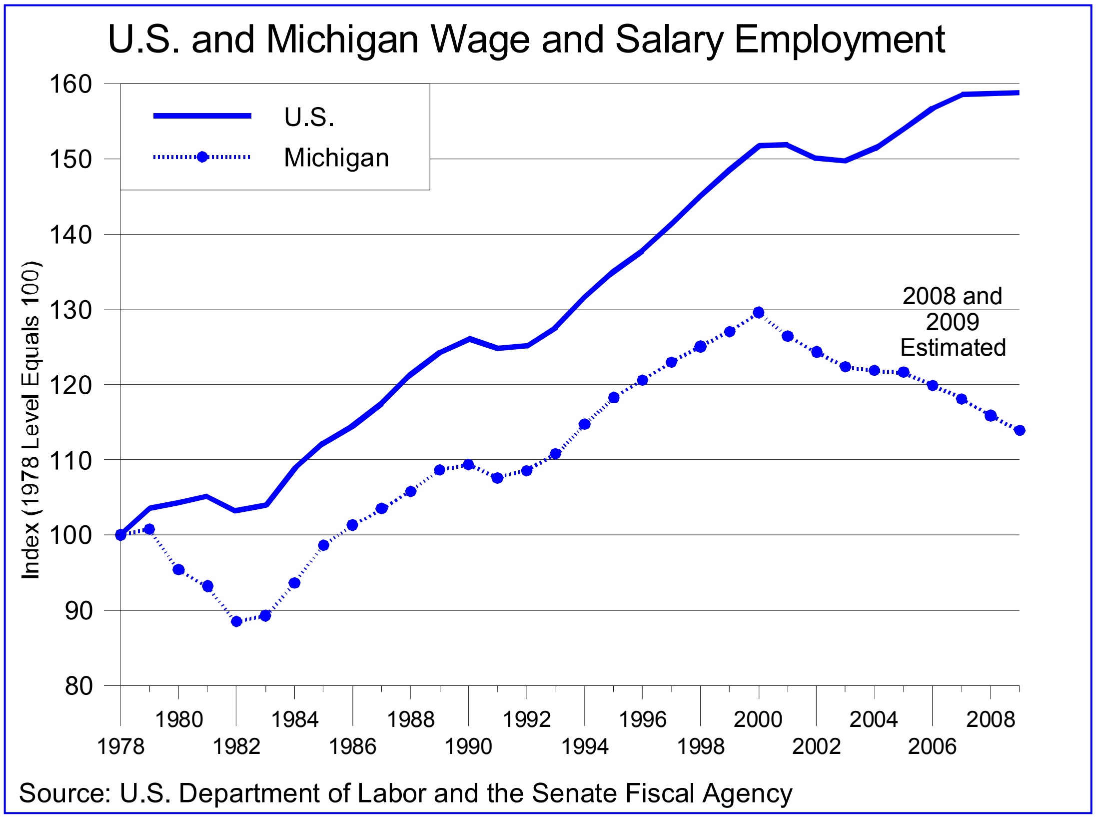
Compared with the January 11, 2008, Consensus Economic Forecast, both the U.S. and Michigan forecasts are considerably weaker in each year. At both the State and national levels, inflation is expected to be more pronounced, income growth slower, and employment lower than was expected in January.

Figure 6



Source: U.S. Department of Commerce and the Senate Fiscal Agency

Figure 7



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 2007 and 2008 is based upon the following assumptions:

Assumptions

Monetary Policy. The Federal funds rate target is currently 2.0%, down 250 basis points from when the January Consensus forecast was developed, and 325 basis points below the level in May 2007. The steep reductions in the rate since the January Consensus Revenue Estimating Conference were not expected in the January 2008 consensus estimate and reflect the Federal Reserve Board's concerns regarding liquidity constraints and credit market issues arising from the slowdown in the housing market. Despite these reductions, the Federal Reserve Board still must continue to focus on significant inflationary concerns. The forecast assumes that a number of inflationary concerns are realized to some degree and that the Federal Reserve Board will act to keep inflation in check, even at the expense of slowing down a sluggish economy. As a result, no additional declines in interest rates are anticipated, with the Federal Funds rate remaining at 2.0% through the second quarter of 2009. As the economy improves and inflationary pressures ease somewhat, the Federal funds rate is expected to reach 3.5% by the end of 2009.

Foreign Economies. Many of the U.S.'s key trading partners' economies are expected to grow more rapidly than the U.S. economy during 2008 and most of 2009. After an expected decline of 4.7% during 2007, the dollar is expected to fall in value another 9.4% during 2008 and 5.7% during

2009. As a result, the forecast predicts that the trade deficit will decrease over the forecast, shrinking from about 4.8% of GDP during 2007 to approximately 3.3% during 2009.

Oil and Energy Prices. The forecast expects oil prices in 2007 and 2008 to remain stable, and well above even recent historical averages, with the price of West Texas intermediate crude near $120 per barrel throughout the rest of 2008 before declining to around $100 per barrel during most of 2009. Other energy prices are expected to rise moderately over the forecast period. Prices are expected to remain above historical averages for a variety of reasons, ranging from political instability in many oil-producing nations to limited domestic refining capacity (which is essentially already at maximum) to growing domestic and worldwide energy demands and speculation in commodities markets.

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. While recent years have offered a fair amount of economic uncertainty, the economic environment in 2008 exhibits even greater uncertainty with many indicators suggesting a recession is possible or even likely during the year. While the current forecast does not expect the U.S. economy to experience a recession on the forecast horizon, growth is expected to be weak. As a result, the current economic forecast faces a number of risks, most suggesting that in inflation-adjusted terms, the economy could be weaker than forecasted or even recessionary.

Consumer Behavior. Consumption growth remained moderate throughout the slow recovery during the first part of the decade, largely through increased borrowing and housing refinance activity. Households generally felt wealthier, despite flat or declining inflation-adjusted wages, because the stock market was improving and home values were soaring. However, higher interest rates have worsened the burden of servicing consumer debt and weaker expectations for consumption are already lowering business plans for investment for much of the forecast period. The burden of servicing consumer debt reached an all-time high in the fourth quarter of 2006 and has remained near that level. A significant portion of debt is variable-rate debt -- meaning than the burden will increase if interest rates rise more quickly than income. When combined with slow job growth, continued high energy prices, a declining value of the dollar, and modest personal income growth, consumption growth is not likely to rise significantly over the forecast period. Weak financial markets and declining housing prices are likely to provide significant incentives for consumers to increase the personal saving rate from its current negative levels, although the rate will remain near record lows if consumption level predictions are generally correct. If the saving rate improves more than expected and/or higher interest rates have a greater effect than forecasted, both consumption growth and economic growth would be lower. Similarly, if the weak employment situation causes consumers to lose confidence in the economy, consumer spending (and thus economic growth) may be lower than expected.

Credit Markets and Financial Markets. In the January Consensus forecast, the collapse of the bubble for housing prices was expected to have significant effects on the economy during 2008 and 2009. However, the effects have been more substantial and more widespread than was expected in January. Drastic interest rate reductions, government-sponsored bailouts, and special auctions by monetary authorities all have demonstrated the degree to which credit markets have been affected. The problems associated with evaluating the risk for mortgage-backed securities have spread to a general concern regarding credit risk. As a result, lending to both consumers and businesses, and particularly between financial institutions, has been severely restricted. While the forecast expects that much of the worst of the credit market collapse has passed, the forecast assumes that lenders will maintain an aversion to risk, enhanced by concerns over the weak economy. As a result, both consumption and investment are expected to be reduced because borrowers will not have access to capital to fund these activities. To the extent that the credit market collapse worsens or that lenders become even more risk averse, economic growth will be substantially slower.

Inflation. While the forecast expects the rate of inflation to be only somewhat higher in 2008 and 2009, compared with 2007, a significant number of economic factors suggest that inflation could be a more significant issue. The assumption of largely stable energy prices has implications for both consumers and businesses, since higher energy expenses tend to create a lot of uncertainty in the economy, consumers often divert consumption from other areas to support the higher cost of energy, and businesses find it more costly to operate. Some recent forecasts have suggested that oil prices could reach $150-$200 per barrel some time over the next two years. With the petroleum refining sector operating at nearly 100% capacity, global energy demand rising, and oil production somewhat strained in the near future, energy prices may be substantially greater than forecasted even without external shocks. Additionally, the dollar's value is expected to decline, increasing the price of imports and giving greater pricing power to domestic producers, particularly those needing to pass on higher energy prices. Producers also are likely to face wage pressures that will be compounded by the fact that productivity, while still exhibiting historically strong growth, is growing more slowly than in recent years. Additionally, productivity in nonmanufacturing sectors has shown a marked slowdown in recent quarters, adding to the cost pressures producers are experiencing.

Inflation is largely held down in the forecast by a slower economy: moderate growth in productivity, which may not be as strong as forecasted; minimal wage growth, which may be stronger than predicted; and moderate declines in the value of the dollar, which may fall in value more rapidly than expected. Furthermore, the Federal Reserve Board is assumed to maintain a successful proactive approach to inflationary pressures.

The International Economy. The current forecast does not expect a recession in the U.S. economy during 2008. However, the lack of a recession owes perhaps even more to the assumptions for export growth than to the assumptions regarding consumer behavior. The declines in the value of the dollar will make U.S. exports more attractive to other nations and raise the cost of imports in the United States. Economic growth in the U.S.'s major trading partners is assumed to remain solid. As a result, approximately 74.0% of the net economic growth experienced in 2008 will be due to the improvement in net trade (Figure 8). There is a substantial chance that foreign growth will be slower than forecast and thus trade will not contribute as much toward U.S. economic growth. Furthermore, under such a scenario, the economy still would experience all of the inflationary pressures of currency devaluation, but without the accompanying acceleration in exports. There is a small chance that the value of the dollar will decline less than expected, which again would lower growth from the trade sector but produce less inflationary pressure. As a result, virtually all of the risk for the forecast regarding trade is on the side for lower economic growth.

Michigan's Situation. While over the last seven years Michigan's employment situation has fared worse than the national average, and, in some cases or time periods within that range, worse than any other state (Figure 9), Michigan's performance is not particularly inconsistent with other states when this State's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) have experienced weaker job performance over the last seven years, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Figure 8

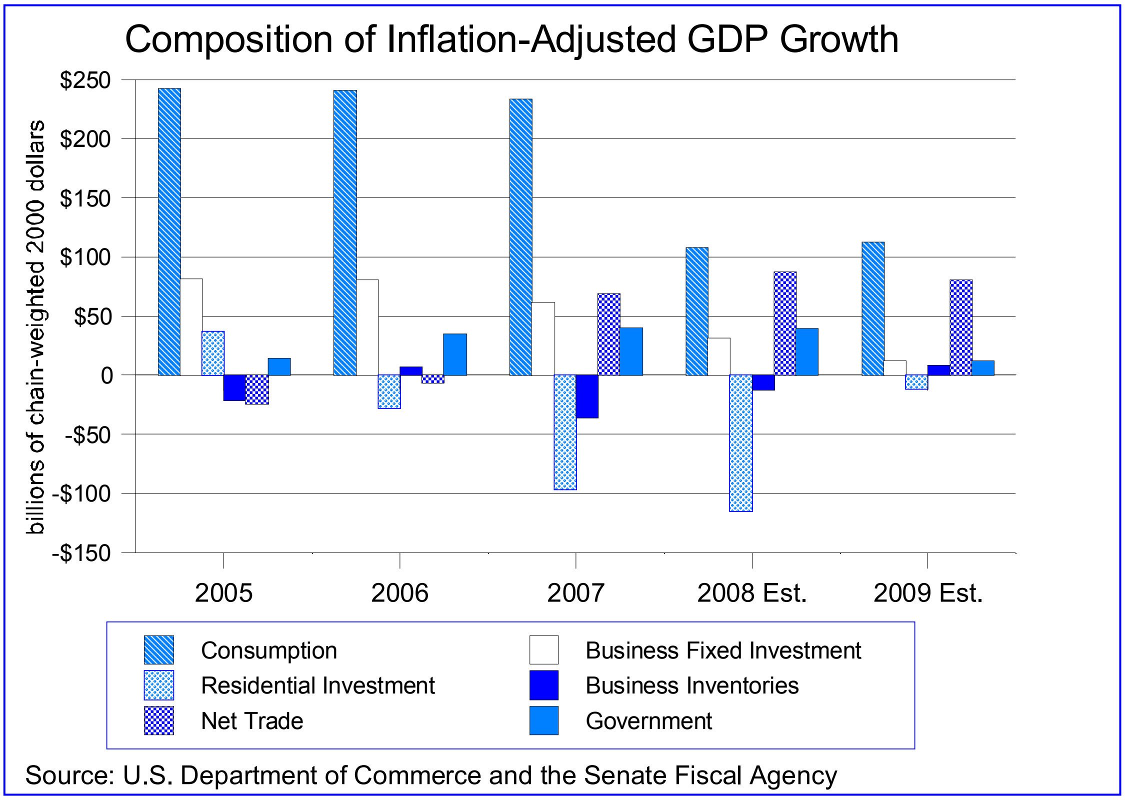
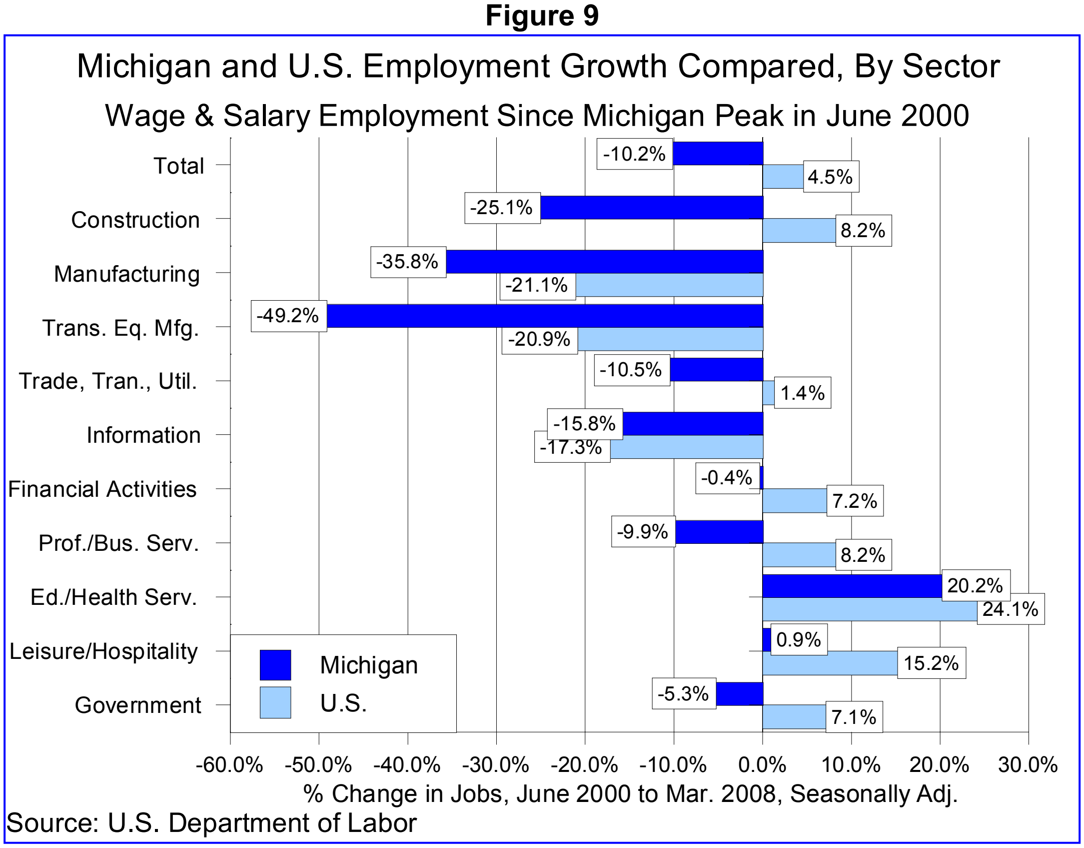
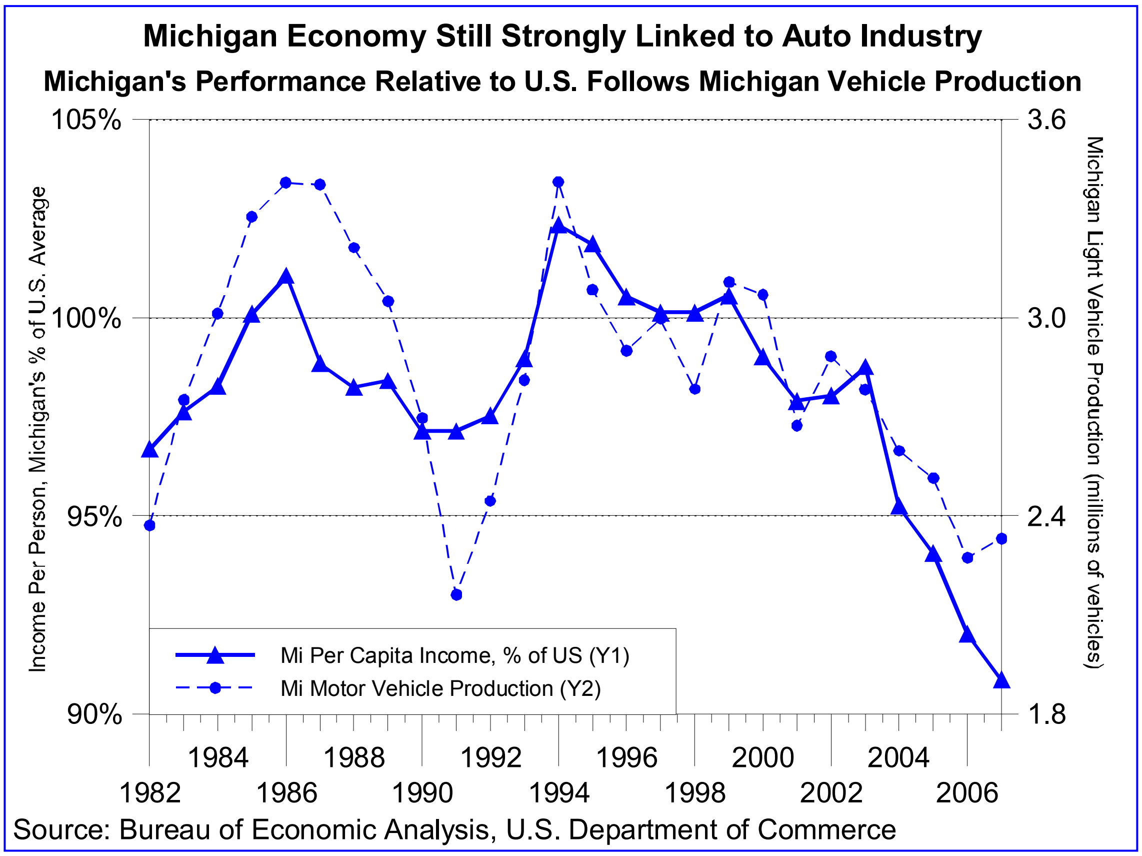


Figure 9



Weak markets for housing, credit and employment, high energy prices, and substantial debt burdens are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to drop below 15.0 million units for the first time since 1995, while the domestic share of the sales mix is expected to continue declining. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 10), so it is unclear whether Michigan's employment situation would be much better even if productivity were not rising so rapidly in the motor vehicle sector. However, the combination of high productivity and declining market share has been particularly dramatic: On a seasonally adjusted basis, as of March 2008, Michigan had lost approximately almost one-half of the jobs (49.0%, a decline of more than 174,300 jobs) in transportation equipment manufacturing that existed during the peak in July 2000.

Figure 10



Complicating the economic landscape, much of the downsizing in the domestic transportation equipment manufacturing sector actually has led auto companies to close facilities in other states more often than in Michigan. While those states were already less reliant on transportation equipment manufacturing, the changes have made them even less dependent. However, this "retreat-to-the-core" strategy means that Michigan's economy has become less reliant on transportation equipment manufacturing at a slower rate than the rest of the country. As a result, while that strategy has preserved more transportation equipment manufacturing jobs in Michigan than might otherwise have been saved, it means that the Michigan economy is likely to remain far more vulnerable to swings in the domestic vehicle manufacturing industry than other states.

Because of the number of individuals employed in transportation equipment manufacturing and the likelihood of continued substantial gains in productivity in the vehicle sector, it is likely that absent any shocks, the Michigan economy will spend years adjusting to the change. Offsetting a 10.0% annual decline in employment in the transportation equipment manufacturing sector essentially requires nearly 0.7% annual employment growth in the rest of the Michigan economy. Between 1995 and 2000, overall employment in Michigan grew only an average of 1.8% per year (and transportation equipment manufacturing employment over that period increased an average of 1.4% per year). For overall employment in Michigan to rise 1.8%, despite a 10.0% decline in transportation equipment manufacturing employment, employment in the rest of the Michigan economy would need rise by more than 2.5%, which has occurred only in three years since 1986 (and only in six of the last 25 years). Given that productivity improvements, changes in market share, and changing demographics are likely to result in a decline in transportation equipment manufacturing employment of 10.0% or more a year over a number of future years, if employment in other sectors grows at the 1990-2004 average of 0.9% per year, Michigan will not reach the 2000 level of employment again until some time after the year 2026.

The dilemma for Michigan is that for the economy and tax revenue to improve, employment gains need to occur. However, given Michigan's reliance on the automobile industry and manufacturing and the forecast for demand, employment gains are likely to occur only if productivity growth declines. On the other hand, lower productivity growth will impede the ability of Michigan businesses to compete and to be profitable. Therefore, Michigan is put in the dilemma that if productivity improves, there will be very little pressure to create additional jobs, although Michigan businesses will be better able to thrive; while if productivity growth falls, there will be a short-term improvement in employment that is likely to be lost as Michigan businesses find it more difficult to compete in the market with firms that are enjoying productivity improvements.

For Michigan, the biggest risks to the forecast are that vehicle sales are less than forecasted, that market shares for Michigan-based vehicle manufacturers fall more rapidly than predicted, that Michigan vehicle production is reduced more rapidly and/or by greater amounts that expected, and that the economic slowdown at the national level takes a greater toll on the consumption of nonvehicle-related goods and services provided by Michigan. For eight years, the fundamental changes occurring in manufacturing across the globe combined with falling market shares for Michigan manufacturers have kept the State in an employment recession. The speed at which Michigan emerges from the employment recession will depend upon the strength of those markets and how rapidly Michigan producers transform their businesses. The more rapid the transformation and the slower the national and international economy, however, the steeper the decline in Michigan employment will be in the near-term.

THE FORECAST FOR STATE REVENUE

This section of the Budget Status Report presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The revised revenue estimates for FY 2007-08 and FY 2008-09 are presented. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any enacted changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes.

REVENUE OVERVIEW

At the January 2008 Consensus Revenue Estimating Conference, the estimate of General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2007-08 was lowered by $369.9 million. It is now clear that the estimate needs a further modest adjustment downward. While monthly tax collections since January have tracked fairly well with the January consensus revenue estimates, economic activity is now expected to be slower during the second half of FY 2007-08 than was projected in January. As a result, GF/GP and SAF revenue in FY 2007-08 is now expected to total $20.54 billion, which is down $64.4 million from the January 2008 consensus estimate. Compared with the final revenue level for FY 2006-07, this revised estimate for FY 2007-08 is up 5.5% or $1.06 billion. This strong growth is due to the increase in the income tax rate and the surcharge on the new Michigan business tax.

The revenue estimate for FY 2008-09 also is being reduced but by a much more significant amount. Slower-than-expected economic growth coupled with some new tax credits and some direct negative repercussions on tax revenue from the Federal stimulus package will have adverse effects on tax collections in FY 2008-09. As a result, the GF/GP and SAF revenue estimate for FY 2008-09 is being revised down $550.5 million to an estimated $20.51 billion. This revised revenue estimate is down 0.1% or $21.6 million from the FY 2007-08 revised estimate. The revised revenue estimates for FY 2007-08 and FY 2008-09 are summarized in Table 3.

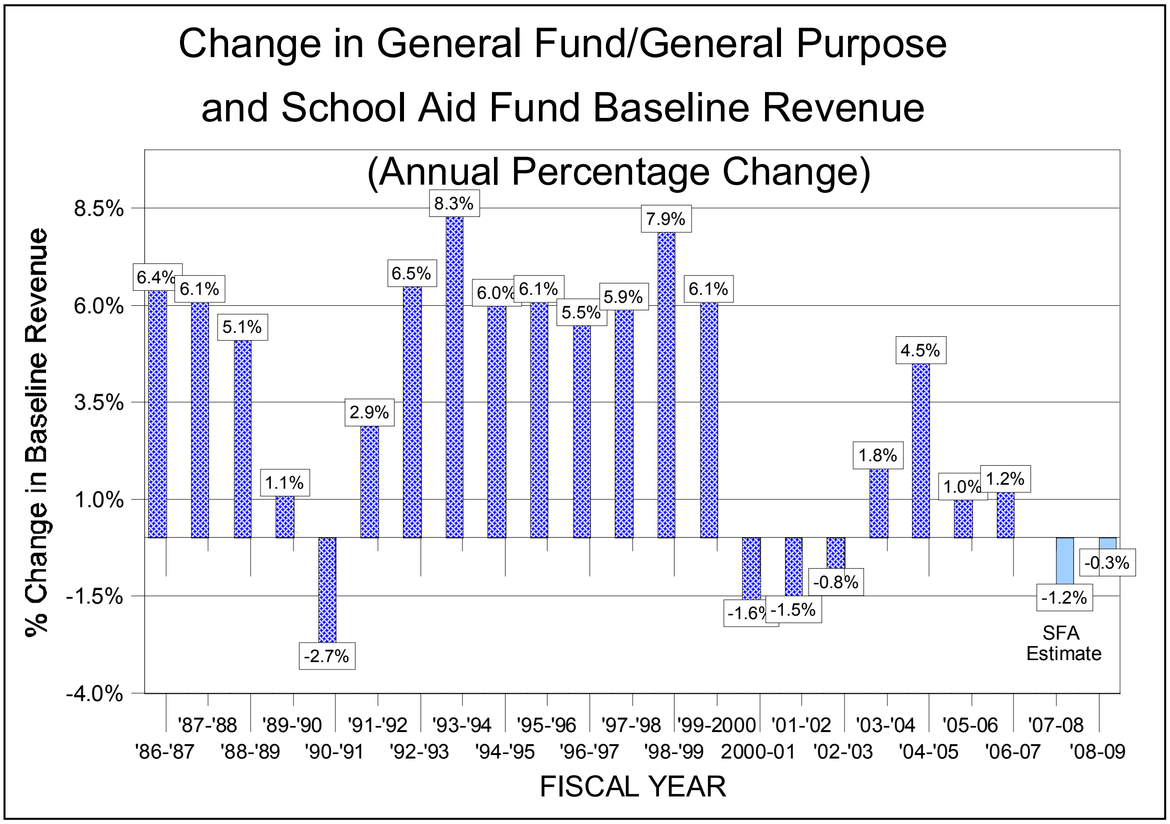
Historical Perspective

While GF/GP and SAF revenue is expected to increase 5.6% in FY 2007-08, this strong rate of growth is due to the increase in the income tax rate and the surcharge on the new Michigan business tax and therefore masks the underlying weakness in baseline revenue. Figure 11 presents a historical overview of the percentage change in baseline GF/GP and SAF revenue since FY 1986-87. On a baseline basis, GF/GP and SAF revenue in FY 2007-08 and FY 2008-09 is expected to decline 1.2% and 0.3%, respectively. These projected growth rates are down significantly from the growth rates experienced during much of the 1990s.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2007-08 AND FY 2008-09 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)			
	FY 2006-07 Final	**FY 2007-08 Revised Est.**	**FY 2008-09 Revised Est.**
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	$8,279.7	$8,128.9	$8,101.5
Tax Changes Not In Baseline	38.0	1,077.3	740.2
Revenue After Tax Changes:			
Net Income Tax	4,330.7	5,027.7	4,887.9
MBT, SBT , & Insurance Tax	2,039.9	2,367.7	2,161.8
Other Taxes	1,574.1	1,476.6	1,465.7
Total Taxes	7,944.7	8,872.1	8,515.4
Nontax Revenue	373.0	334.3	326.3
TOTAL GF/GP REVENUE[1)]	**$8,317.7**	**$9,206.4**	**$8,841.7**
SCHOOL AID FUND			
Baseline SAF	$11,149.7	$11,073.3	$11,042.0
Tax Changes Not In Baseline	3.4	255.8	630.1
TOTAL SAF REVENUE	**$11,153.1**	**$11,329.1**	**$11,672.1**
BASELINE GF/GP & SAF REVENUE	**$19,429.5**	**$19,202.3**	**$19,143.5**
Tax & Revenue Changes	41.4	1,333.1	1,370.3
GF/GP & SAF REV. AFTER CHANGES	**$19,470.9**	**$20,535.5**	**$20,513.8**
ADDENDUM:			
Sales Tax	$6,552.2	$6,609.1	$6,595.0
		PERCENT CHANGE	
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	1.2%	(1.8)%	(0.3)%
Revenue After Tax Changes:			
Net Income Tax	3.5	16.1	(2.8)
MBT, SBT & Insurance Tax	(1.0)	16.1	(8.7)
Other Taxes	0.2	(6.2)	(0.7)
Total Taxes	1.6	11.7	(4.0)
Nontax Revenue	(17.0)	(10.4)	(2.4)
TOTAL GF/GP REVENUE	**0.6%**	**10.7%**	**(4.0)%**
SCHOOL AID FUND			
Baseline SAF	0.6	(0.7)	(0.3)
TOTAL SAF REVENUE	**0.6%**	**1.6%**	**3.0%**
BASELINE GF/GP & SAF REVENUE	0.8	(1.2)	(0.3)
GF/GP & SAF REV. AFTER CHANGES	**0.6%**	**5.5%**	**(0.1)%**
ADDENDUM:			
Sales Tax	(1.3)%	0.9%	(0.2)%
Note: FY 2006-07 is the base year for baseline revenue.			

Figure 11



<u>KEY FACTORS AFFECTING THE FY 2007-08 AND FY 2008-09 REVENUE ESTIMATES</u>

In addition to the slower level of economic activity forecast for 2008 and 2009 compared with the economic forecast adopted at the January 2008 Consensus Revenue Estimating Conference, three other key factors also are having a significant impact on the revised revenue estimates presented in this section of the report. These factors are: 1) the Federal fiscal stimulus plan, 2) the newly enacted film tax credit against the Michigan business tax, and 3) the impact of the slowdown in the housing sector on the State education and real estate transfer taxes. Each of these factors and their estimated impacts on revenue, are summarized below.

<u>Federal Fiscal Stimulus Plan</u>

In February 2008, the Federal government enacted the Federal Economic Stimulus Act of 2008. The purpose of this Act is to provide a fiscal stimulus to the slumping U.S. economy. Under this Act, taxpayers will receive basic refundable income tax rebate check ranging from $300 to $1,200, plus an additional child rebate of $300 for each child under 17 years old. Individuals who do not currently have a tax liability are eligible for a rebate and the rebates are phased out for taxpayers with incomes in excess of $150,000. In addition to this fiscal stimulus aimed at individuals, the Act provides some tax relief to businesses by accelerating the amount of depreciation businesses may deduct when computing their taxable income under the corporate income tax. In total, the Federal government expects to inject $168.0 billion into the economy, which will affect both FY 2007-08 and FY 2008-09.

The Federal economic stimulus rebates and tax breaks will have a direct impact on Michigan's tax revenue, as summarized in Table 4. The amount of the rebates spent by individuals in Michigan will boost sales tax, casino tax, and lottery revenue an estimated $68.9 million in FY 2007-08 and $26.0 million in FY 2008-09. The tax reduction provided to businesses by an acceleration of their depreciation deduction will reduce Federal taxable income, which is the starting point for the income tax component of the new Michigan business tax. As a result, MBT revenue will decline an estimated $36.5 million in FY 2007-08 and $120.4 million in FY 2008-09. These business tax reductions will be recouped in subsequent years as the extra depreciation claimed in the 2008 tax year will lead to reduced depreciation, and therefore increased taxable income, in tax years starting in 2009. In total, the Federal stimulus plan will increase Michigan's tax revenue an estimated $32.4 million in FY 2007-08 and decrease it an estimated $94.4 million in FY 2008-09.

Table 4

ESTIMATED FISCAL IMPACT OF FEDERAL ECONOMIC STIMULUS ACT OF 2008 ON MICHIGAN STATE GOVERNMENT REVENUE FY 2007-08 TO FY 2009-10

		Revenue Impact (Millions of Dollars)		
Federal Stimulus Provision	**State Tax Affected**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**
Rebates to Individuals	Sales Tax	$53.8	$24.6	$0.0
	Lottery Revenue	10.6	1.0	0.0
	Casino Tax	4.5	0.4	0.0
	Subtotal	$68.9	$26.0	$0.0
Accelerated Depreciation	Michigan Business Tax	($33.2)	($116.4)	$15.3
	Individual Income Tax	(3.2)	(4.0)	1.0
	Subtotal	($36.5)	($120.4)	$16.2
	Total Tax Impact	**$32.4**	**($94.4)**	**$16.2**
	Impact by Fund:			
	GF/GP	(22.3)	(114.2)	16.2
	SAF	54.0	19.4	0.0
	Other	0.8	0.3	0.0

Film Credit

In March 2008, a new tax credit was enacted to help benefit the film production industry. This new refundable Michigan business tax credit is equal to 40.0% of the production costs incurred in Michigan by film production companies. For example, if a film production company comes to Michigan to produce a film and incurs $10.0 million in production costs, this film production company will be eligible for a credit equal to $4.0 million. As shown in Table 5, this new tax credit will reduce Michigan business tax revenue an estimated $5.0 million in FY 2007-08 and $127.6 million in FY 2008-09. These estimates are based on past film production activity in Michigan and the number of applications for the credit that have already been submitted to Michigan's Film Office. Much of the film activity that will qualify for this credit will represent new business activity in Michigan, so this new business activity will generate some positive impacts on other taxes such as the income and sales taxes, but these secondary positive tax benefits will in no way be large enough to replace the direct cost of these credits. As shown in Table 5, it is estimated that the increase in film production activity in Michigan will generate $4.0 million in new income tax revenue and $13.4 million in new sales tax revenue in FY 2008-09.

Table 5

ESTIMATED FISCAL IMPACT OF NEW MICHIGAN BUSINESS TAX FILM CREDIT (Dollars in Millions)		
Tax Affected	**FY 2007-08**	**FY 2008-09**
Direct Impact:		
Michigan Business Tax	$(5.0)	$(127.6)
Indirect Secondary Impact:		
Individual Income Tax	$0.0	$4.0
Sales Tax	0.5	13.4
Subtotal	$0.5	$17.4
Net Fiscal Impact	**$(4.5)**	**$(110.2)**
Fiscal Impact by Fund:		
GF/GP	(4.9)	(121.0)
SAF	0.4	10.8

Housing Slump and the State Education Property and State Real Estate Transfer Taxes

The downturn in the housing sector is having an adverse impact on the value of property in Michigan and this will have a negative impact on the amount of revenue collected through the State education property and real estate transfer taxes in FY 2007-08 and FY 2008-09. Based on preliminary information on property values, it is estimated that State education property tax revenue will increase only 1.0% on a baseline basis in FY 2007-08 and then post no change in FY 2008-09. Factoring in the impact of the new industrial personal property tax exemption that was enacted with the Michigan business tax and a couple of other one-time revenue adjustments, State education property tax revenue is expected to decline 2.4% in FY 2007-08 and then increase a slight 0.4% in FY 2008-09. As shown in Table 6, the projected decline in FY 2007-08 followed by a modest increase in FY 2008-09 in State education property tax revenue is in sharp contrast to the relatively strong rates of growth experienced since FY 2000-01. The revenue from the real estate transfer tax also is being adversely affected by the weak housing market, due to the fact that along with weakness in property values, property ownership transactions are down significantly. As shown in Table 6, real estate transfer tax collections peaked in FY 2003-04 and then declined 1.3% in FY 2004-05 and 5.0% in FY 2005-06. Housing activity slowed considerably in FY 2006-07, and as a result transfer tax revenue fell a significant 20.2%. In FY 2007-08, real estate transfer tax revenue is expected to decline an additional 21.7% followed by a 10.8% decline in FY 2008-09. Compared with the peak level in FY 2003-04, the revised estimate for FY 2008-09 is down 52.2%. The revenue from both the State education property tax and the real estate transfer tax is earmarked to the School Aid Fund.

Table 6

STATE EDUCATION PROPERTY TAX AND REAL ESTATE TRANSFER TAX REVENUE FY 2000-01 TO FY 2008-09 ESTIMATE (Millions of Dollars)					
	State Education Property Tax			Real Estate Transfer Tax	
Fiscal Year	Actual Revenue	% Change	Baseline % Change[1)]	Actual Revenue	% Change[2)]
				$257.1	
2000-01	$1,489.6	7.8%	7.7%	252.9	(1.6)%
2001-02	1,583.7	6.3	6.3	253.1	0.1
2002-03	1,673.2	5.7	5.5	275.5	8.9
2003-04	1,824.5	9.0	9.1	317.5	15.2
2004-05	1,914.6	4.9	4.7	313.5	(1.3)
2005-06	2,003.5	4.6	4.8	297.7	(5.0)
2006-07	2,081.0	3.9	4.2	237.5	(20.2)
2007-08					
Jan. Estimate	2,071.2	(0.5)	2.7	211.0	(11.2)
Revised	2,032.0	(2.4)	1.0	186.0	(21.7)
Change	(39.2)			(25.0)	
2008-09					
Jan. Estimate	2,143.2	3.5	3.0	211.0	0.0
Revised	2,040.8	0.4	0.0	166.0	(10.8)
Change	(102.4)			(45.0)	

1) Baseline percent change equals what the annual change would have been without any tax or one-time revenue changes and therefore reflects the impact economic activity is having on tax collections.

2) Real estate transfer tax has not incurred any tax or other revenue changes during this time period, so actual annual percent change is also baseline percent change.

Source: Michigan Comprehensive Annual Financial Report and baseline estimates by Senate Fiscal Agency

REVISED REVENUE ESTIMATES FOR FY 2007-08

General Fund/General Purpose and SAF revenue is expected to total $20.54 billion in FY 2007-08, which is up 5.5% from FY 2006-07. This revised revenue estimate is $64.4 million below the estimate adopted at the January 2008 Consensus Revenue Estimating Conference. While actual tax collections since January have been tracking fairly closely with the January consensus estimates, the downward revision in the revenue estimate primarily reflects a change in the economic forecast for the remainder of the fiscal year, coupled with some other unexpected noneconomic declines in tax collections. The weaker economic forecast will have a particularly severe impact on the State education, real estate transfer, and use taxes. Some unexpected audit related refunds will lower single business tax collections in FY 2007-08. In addition, the Federal stimulus package will help boost sales tax collections, but will have a negative impact on Michigan business tax revenue. The revised GF/GP and SAF revenue estimates for FY 2007-08 are summarized in Table 7.

General Fund/General Purpose

General Fund/General Purpose revenue will total an estimated $9.2 billion, which is up 10.7% or $889.0 million from the final level for FY 2006-07. Tax collections, which account for about 96.0% of GF/GP revenue from ongoing sources, will total an estimated $8.87 billion representing an 11.7% or $927.4 increase from FY 2006-07. This increase reflects the income tax increase and the surcharge on the new Michigan business tax. In fact, GF/GP tax collections excluding these tax increases will be down an estimated $91.0 million in FY 2007-08 compared with FY 2006-07. Nontax revenue will fall an estimated 10.4% or $38.7 million in FY 2007-08. Compared with the January consensus estimates, the GF/GP revenue estimate is being revised down $40.3 million.

Table 7

FY 2007-08 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change from FY 2006-07		
	FY 2006-07 Final	FY 2007-08 Revised Est.	Dollar Change	Percent Change	$ Change from 01/08 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$8,279.7	$8,128.9	$(150.8)	(1.8)%	$35.5
Tax Changes Not In Baseline	38.0	1,077.3	1,039.3	---	(76.0)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	8,129.4	8,961.3	831.9	10.2	50.8
Less: Refunds	(1,687.3)	(1,818.6)	(131.3)	7.8	10.0
Net Income Tax Collections	6,442.1	7,142.7	700.6	10.9	60.8
Less: Earmarking to SAF	(2,110.2)	(2,113.5)	(3.3)	0.2	(13.2)
Campaign Fund	(1.2)	(1.5)	(0.3)	25.0	0.0
Net Income Tax to GF/GP	$4,330.7	$5,027.7	$697.0	16.1%	$47.6
Other Taxes					
Single Business Tax	1,816.1	604.6	(1,211.5)	(66.7)	(33.4)
Michigan Business Tax	0.0	1,505.1	1,505.1	---	(38.2)
Sales	83.2	62.8	(20.4)	(24.6)	(1.3)
Use	920.0	887.3	(32.6)	(3.5)	(36.7)
Cigarette	225.4	217.1	(8.3)	(3.7)	(4.0)
Insurance Company Premiums	223.8	258.0	34.2	15.3	14.0
Telephone & Telegraph	87.3	79.0	(8.3)	(9.5)	0.0
Estate	0.7	0.0	(0.7)	(100.0)	0.0
Oil & Gas Severance	72.0	87.0	15.0	20.8	15.0
Casino Wagering	46.1	15.8	(30.3)	(65.7)	0.6
All Other	139.4	127.6	(11.8)	(8.5)	(1.0)
Subtotal Other Taxes	$3,614.0	$3,844.3	$230.3	6.4%	$(84.9)
Total Nontax Revenue	373.0	334.3	(38.7)	(10.4)	(3.0)
GF/GP REV. AFTER TAX CHANGES	**$8,317.7**	**$9,206.4**	**$888.7**	**10.7%**	**$(40.3)**
SCHOOL AID FUND:					
Baseline Revenue	$11,149.7	$11,073.3	$(76.4)	(0.7)%	$(77.6)
Tax Changes Not In Baseline	3.4	255.8	252.4	---	53.7
Revenue After Tax Changes					
Sales Tax	4,768.5	4,806.5	38.0	0.8	56.0
Lottery Revenue	748.9	747.6	(1.3)	(0.2)	4.6
State Education Property Tax	2,081.0	2,032.0	(49.0)	(2.4)	(39.2)
Real Estate Transfer Tax	237.5	186.0	(51.5)	(21.7)	(25.0)
Michigan Business Tax	0.0	341.0	341.0	---	0.0
Income Tax	2,110.2	2,113.5	3.3	0.2	13.2
Casino Tax	106.7	112.0	5.3	5.0	(6.0)
Other Revenue	1,100.3	990.5	(109.8)	(10.0)	(27.7)
SAF REV. AFTER TAX CHANGES	**$11,153.1**	**$11,329.2**	**$176.0**	**1.6%**	**$(24.0)**
BASELINE GF/GP AND SAF	$19,429.5	$19,202.3	$(227.2)	(1.2)%	$(42.1)
Tax & Revenue Changes	41.4	1,333.1	1,291.7	---	(22.3)
GF/GP & SAF REV. AFTER CHNGS	**$19,470.9**	**$20,535.4**	**$1,064.5**	**5.5%**	**$(64.4)**
SALES TAX	6,552.2	6,609.1	56.9	0.9	79.3

Note: FY 2006-07 is the base year for baseline revenue.

School Aid Fund

School Aid Fund revenue from earmarked taxes and the lottery is expected to total $11.33 billion in FY 2007-08, which is up 1.6% or $176.0 million from FY 2006-07. Increases in the revenue from the sales and casino taxes, along with the $341.0 million earmarked from the new Michigan business tax, will more than offset expected declines in the State education and real estate transfer taxes. This revised estimate for SAF revenue is down $24.0 million from the January consensus estimate, as upward revisions in the sales and income tax revenue more than offset the downward revisions in the State education, real estate transfer, and use taxes. The SAF revenue estimate for FY 2007-08 also is summarized in Table 7.

Major General Fund and School Aid Fund Taxes

Income Tax. The revenue generated from the income tax will total an estimated $7.14 billion in FY 2007-08, which is up 10.9% from the FY 2006-07 level. This large jump in income tax revenue is due to the increase in the income tax rate from 3.9% to 4.35%, which went into effect October 1, 2007. The increase in the tax rate will generate an estimated $744.4 million in FY 2007-08. A portion of the income tax is earmarked to the SAF (approximately 23.3% of gross collections) and the remaining income tax revenue goes into the General Purpose portion of the General Fund. In FY 2007-08, the GF/GP share of income revenue will total an estimated $5.03 billion, which is up 16.1% from FY 2006-07. This sharp increase is due to the fact that by law all of the revenue generated from the increase in the tax rate goes to GF/GP revenue. Compared with January estimate, this revised estimate of GF/GP income tax revenue is up $47.6 million. The SAF share of income tax revenue will total an estimated $2.03 billion, which is up a slight 0.2% from the FY 2006-07 level and is up $13.2 million compared with the January estimate.

Single Business Tax. The single business tax was repealed effective December 31, 2007, so the revenue that will be collected during FY 2007-08 will only reflect business activity in the fourth quarter of 2007 and annual payments due for the 2007 tax year. As a result, single business tax revenue, which is earmarked entirely to the General Fund, will decline an estimated 66.7% from the FY 2006-07 level to $604.6 million in FY 2007-08. This revised estimate is down $66.7 million from the January estimate largely due to some unexpected large refunds to certain taxpayers.

Michigan Business Tax. The Michigan business tax went into effect on January 1, 2008, and the first quarterly payment was due on April 15. As a result, no meaningful data are yet available on which to measure whether the initial estimate of the revenue this new tax will generate is accurate; however, the initiate estimate of Michigan business tax adopted in January is being revised downward by $38.2 million due to two factors: 1) The enactment of the new film credit will lower MBT revenue an estimated $5.0 million in FY 2007-08, and 2) the recently enacted Federal stimulus package will lower MBT revenue an estimated $33.2 million.

Sales Tax. Sales tax revenue will total an estimated $6.61 billion in FY 2007-08, which is up 0.9% from FY 2006-07. This revised estimate is up $79.3 million from the January consensus estimate due to two factors: 1) Actual sales tax collections during the first half of FY 2007-08 have tracked above the January consensus estimate, and 2) sales tax revenue will receive a boost when taxpayers spend at least a portion of their Federal stimulus rebate checks on taxable items. The SAF receives 73.3% of sales tax revenue and the remaining amount goes for revenue sharing to local units of government, the Comprehensive Transportation Fund, and GF/GP revenue.

State Education Property Tax. The ongoing weakness in the housing sector is having a larger negative impact on property values than was originally estimated in January. As a result, the State education property tax revenue estimate for FY 2007-08 is being revised down $39.0 million. The revised estimate of $2.03 billion is 2.4% below the FY 2006-07 level. All revenue from the State education property tax is earmarked to the SAF.

Real Estate Transfer Tax. The slowdown in the housing market also is having a negative impact on the revenue generated from the real estate transfer tax. The real estate transfer tax generated $237.5 million in FY 2006-07 and in FY 2007-08 the revenue from this tax will total an estimated $186.0 million, representing a decline of 21.7%. The revised estimate is down $25.0 million from the January consensus estimate. All real estate transfer tax revenue is earmarked to the SAF.

Tobacco Tax. Tobacco tax revenue collected so far during FY 2007-08 has been tracking below the January consensus estimate. As a result, the tobacco tax revenue estimate has been lowered by $20.0 million to $1.11 billion. Approximately 40.0% of tobacco tax revenue goes to the SAF, 20.0% to the General Fund, and 34.0% to the Medicaid Trust Fund, and the remaining 6.0% is distributed to several other funds.

Casino Tax. At the beginning of FY 2007-08, the State's tax on casinos was equal to 12.1% of gross gaming receipts. The State's tax had been increased in 2004 from 8.1% to 12.1% and a provision in the law requires that this increase be eliminated for each of the three Detroit casinos when their permanent facilities are fully operational. All of the revenue generated from the original 8.1% tax goes to the SAF, while the revenue from the 4.0 percentage point increase goes to the GF/GP budget (3.5%) and the Agriculture Equine Industry Development Fund (0.5%). During the first quarter of FY 2007-08, two of the casinos began operating their permanent facilities so their tax rate has been reduced to 8.1%, while the tax rate for the third casino is expected to remain at 12.1% through FY 2007-08. As a result, it is estimated that the revenue generated from the casino tax will decline to an estimated $130.1 million in FY 2007-08 from $159.4 million in FY 2006-07, an 18.4% reduction. The SAF will continue to receive the revenue generated from the 8.1% tax, so SAF casino tax revenue is expected to increase from $106.7 million in FY 2006-07 to $112.0 million in FY 2007-08. On the other hand, casino revenue going to the General Fund will decline from an estimated $46.1 million in FY 2006-07 to $15.8 million in FY 2007-08 and the revenue earmarked to the Equine Fund will fall from $6.6 million in FY 2006-07 to an estimated $2.3 million in FY 2007-08.

FY 2008-09 REVISED REVENUE ESTIMATES

As discussed in the first section of this report, almost all of the major components of the national economy, including consumer spending, business investment, housing starts and sales, and the financial sector, are now expected to be weaker during the second half of 2008 through 2009 than was forecast in January 2008. As a result, employment will continue to decline in Michigan, which will temper the growth in wage and salary income and overall personal income. In fact, personal income is expected to decline from the previous year's level in both 2008 and 2009 after adjusting for inflation. This weakness in the Michigan economy will have a negative impact on tax revenue in FY 2008-09. In addition, the recently enacted film tax credit will lower MBT revenue by more than $100.0 million and the business component of the Federal stimulus plan will reduce the MBT revenue another $116.0 million. As a result, total GF/GP and SAF revenue will decline slightly in FY 2008-09 from the revised estimate for FY 2007-08. In FY 2008-09, GF/GP and SAF revenue will total an estimated $20.51 billion, which is down 0.1% or $21.6 million from the revised estimate for FY 2007-08. This revised estimate for FY 2008-09 is down $550.5 million from the January consensus estimate. The details of the GF/GP and SAF revenue estimate for FY 2008-09, are summarized in Table 8.

Table 8

FY 2008-09 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)	FY 2007-08 Revised Est.	FY 2008-09 Revised Est.	Change from FY 2007-08: Dollar Change	Change from FY 2007-08: Percent Change	$ Change from 01/08 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue	$8,128.9	$8,101.5	$(27.4)	(0.3)%	$(62.3)
Tax Changes Not In Baseline	1,077.3	740.2	(337.1)	---	(289.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	8,961.3	9,040.7	79.4	0.9	(44.0)
Less: Refunds	(1,818.6)	(2,039.1)	(220.5)	12.1	10.0
Net Income Tax Collections	7,142.7	7,001.6	(141.1)	(2.0)	(34.0)
Less: Earmarking to SAF	(2,113.5)	(2,112.2)	1.3	(0.1)	11.4
Campaign Fund	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	$5,027.7	$4,887.9	$(139.8)	(2.8)%	$(22.6)
Other Taxes					
Single Business Tax	604.6	0.0	(604.6)	(100.0)	0.0
Michigan Business Tax	1,505.1	1,887.8	382.7	25.4	(294.0)
Sales	62.8	94.8	32.1	51.1	1.9
Use	887.3	873.3	(14.0)	(1.6)	(56.7)
Cigarette	217.1	211.1	(6.0)	(2.8)	(5.5)
Insurance Company Premiums	258.0	274.0	16.0	6.2	14.0
Telephone & Telegraph	79.0	75.0	(4.0)	(5.1)	0.0
Estate	0.0	0.0	0.0	----	0.0
Oil & Gas Severance	87.0	84.0	(3.0)	(3.4)	15.0
Casino Wagering	15.8	0.0	(15.8)	(100.0)	0.0
All Other	127.6	127.5	(0.1)	(0.1)	(1.0)
Subtotal Other Taxes	$3,844.3	$3,627.5	$(216.8)	(5.6)%	$(326.3)
Total Nontax Revenue	334.3	326.3	(8.0)	(2.4)	(3.0)
GF/GP REV. AFTER TAX CHANGES	**$9,206.4**	**$8,841.7**	**$(364.7)**	**(4.0)%**	**$(351.9)**
SCHOOL AID FUND:					
Baseline Revenue	$11,073.3	$11,042.0	$(31.3)	(0.3)%	$(235.7)
Tax Changes Not In Baseline	255.8	630.1	374.3	---	37.2
Revenue After Tax Changes					
Sales Tax	4,806.5	4,794.0	(12.6)	(0.3)	5.4
Lottery Revenue	747.6	741.7	(5.9)	(0.8)	(1.3)
State Education Property Tax	2,032.0	2,040.8	8.8	0.4	(102.4)
Real Estate Transfer Tax	186.0	166.0	(20.0)	(10.8)	(45.0)
Michigan Business Tax	341.0	729.0	388.0	113.8	0.0
Income Tax	2,113.5	2,112.2	(1.3)	(0.1)	(11.4)
Casino Tax	112.0	117.5	5.5	4.9	(2.9)
Other Revenue	990.5	970.9	(19.6)	(2.0)	(41.0)
SAF REV. AFTER TAX CHANGES	**$11,329.2**	**$11,672.1**	**$342.9**	**3.0%**	**$(186.6)**
BASELINE GF/GP AND SAF	19,202.3	19,143.5	(58.8)	(0.3)	(298.0)
Tax & Revenue Changes	1,333.1	1,370.3	37.2	---	(252.5)
GF/GP & SAF REV. AFTER CHNGS	**$20,535.4**	**$20,513.8**	**$(21.6)**	**(0.1)%**	**$(550.5)**
SALES TAX	6,609.1	6,595.0	(14.1)	(0.2)	13.0

Note: FY 2006-07 is the base year for baseline revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $8.84 billion in FY 2008-09. This represents a 4.0% or $364.7 million decrease from the FY 2007-08 revised estimate. This sharp decrease will be due primarily to the weaker-than-expected slowdown in economic activity, two new tax credits, and the negative repercussions of the Federal stimulus plan on the new MBT. Compared with the January consensus estimate, this revised estimate is down $351.9 million.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.67 billion in FY 2008-09, which represents an increase of 3.0% or $342.9 million from the revised estimate for FY 2007-08. This relatively large increase forecast for the SAF in FY 2008-09 overstates the true increase in underlying SAF revenue. Beginning in FY 2008-09, the earmarked revenue from the Michigan business tax will increase from $341.6 million to $729.0 million, which includes the amount needed to reimburse the SAF for increased foundation allowance payments the SAF will have to make to local school districts that will experience a reduction in their local 18-mill school property tax as a result of the new personal property tax exemption that was enacted as part of the Michigan business tax package. Adjusting for this large increase in the Michigan business tax earmark, which will be directly offset by an increase in SAF expenditures, SAF revenue will be essentially unchanged from the FY 2007-08 revised level.

Major General Fund and School Aid Fund Taxes

Income Tax. Income tax revenue will total an estimated $7.0 billion in FY 2008-09, which represents a decrease of 2.0% or $141.1 million from the FY 2007-08 revised estimate. While gross collections (withholding, quarterly, and annual payments before refunds) will increase by an estimated 0.9%, income tax refunds will increase an estimated 12.1% or $220.5 million, which will more than offset the gain in gross collections. The increase in refund payments will be primarily due to the new earned income tax credit. The earned income tax credit went into effect for the 2008 tax year and will be claimed by eligible taxpayers beginning in FY 2008-09 when they file their 2008 annual income tax return. It is estimated that taxpayers will qualify for $133.6 million in earned income tax credits that will be refunded to them in FY 2008-09. The increase in the tax rate from 3.9% to 4.35% will generate an estimated $819.1 million in FY 2008-09. Under the distribution formula, all of this additional revenue from the tax rate increase will go to the General Fund. The income tax revenue going to GF/GP revenue will total an estimated $4.89 billion, representing a decline of 2.8% from the revised estimate for FY 2007-08. The revised estimate for GF/GP income tax revenue is down $22.6 million from the January consensus estimate. The SAF will receive 23.3% of gross income tax collections, which equates to $2.11 billion in FY 2008-09, which is the same amount the SAF would have received if there was no increase in the tax rate. This revised estimate for the SAF income tax revenue is up $11.4 million from the January consensus estimate.

Sales Tax. Sales tax collections are expected to decline a modest 0.2% in FY 2008-09 to $6.6 billion. The decline is due to the weak economy and the fact that the positive boost to sales tax receipts from the Federal stimulus rebate checks will be down from an estimated $53.8 million in FY 2007-08 to an estimated $24.6 million in FY 2008-09. This revised estimate is up $13.0 million from the January 2008 consensus revenue estimate. Of the total sales tax estimate, $4.79 billion will be earmarked to the SAF and an estimated $94.8 million will go to the General Fund.

Use Tax. Use tax collections will total an estimated $1.31 billion in FY 2008-09, representing a decrease of 1.6% from the revised estimate for FY 2007-08. This revised estimate is down $85.0

million from the January 2008 consensus estimate. The GF/GP share, which equals two-thirds of use tax revenue, will total an estimated $873.3 million, down $56.7 million from the January estimate, and the SAF share, equal to one-third of the total, will equal $436.7 million, which is down $28.3 million from the January estimate. This projected decline in use tax collections in FY 2008-09 is due in part to a large one-time audit-related payment that was received in FY 2007-08 and will not be repeated in FY 2008-09.

Tobacco Taxes. Tax collections from the cigarette and other tobacco products taxes will total an estimated $1.06 billion in FY 2008-09, which represents a decrease of 2.8% from the revised estimate for FY 2007-08. This is a downward revision of $28.0 million from the January 2008 consensus estimate. Of the total amount of tobacco tax revenue estimated for FY 2008-09, the SAF will receive $420.2 million and $211.1 million will go into GF/GP revenue.

Casino Tax. It is estimated that the temporary 4.0% tax rate on casino gaming revenue that went into effect in 2004 will expire in FY 2008-09 because the third casino is expected to move into its permanent facility at the beginning of the fiscal year. As a result, all three casinos will be subject to a gaming tax rate of 8.1% in FY 2008-09. This drop in the tax rate will reduce casino tax revenue. As a result, it is estimated that casino tax revenue will total $117.5 million in FY 2008-09, which is down 9.7% from the $130.1 million estimated for FY 2007-08. All of this revenue will go to the SAF.

State Education Property Tax. As explained earlier in this section, the weak housing sector is adversely affecting property values, and as a result, revenue from the State education property tax is expected to remain flat on a baseline basis in FY 2008-09. Compared with the January 2008 consensus estimate, this revised estimate is down $102.4 million. All of the revenue generated by the State education property tax is earmarked to the SAF.

Lottery. Net lottery revenue will total an estimated $741.7 million in FY 2008-09, which is down 0.8% from the revised level for FY 2007-08. While administrative expenses are expected to decline as a percentage of total ticket sales, overall lottery activity is expected to decline slightly in FY 2008-09. This revised lottery estimate is down $1.3 million from the January 2008 consensus estimate.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

The history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2007-08 and FY 2008-09 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 or one-time revenue adjustments occur. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2007-08 and FY 2008-09 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2007-08 was made in January 2007 at $19.86 billion, as shown in Table 9. This estimate was increased about $20.0 million at the January 2007 Consensus Revenue Estimating Conference and then was lowered $380.0 million at the May 2007 Conference. In January 2008, the estimate was reduced another $256.0 million to $19.24 billion. The Senate Fiscal Agency's revised estimates presented in this report, lowers GF/GP and SAF baseline revenue $42.1 million or 0.2% from the January 2008 consensus estimate. Compared with the initial estimate made in January 2007, the Senate Fiscal Agency's revised estimate of GF/GP and SAF baseline revenue for FY 2007-08 is down $657.1 million or 3.3%.

The Senate Fiscal Agency's first estimate of GF/GP and SAF baseline revenue for FY 2008-09 was $19.45 billion and it was made in December 2007. The revenue estimate history for FY 2008-09 is presented in Table 10. At the January 2008 Consensus Revenue Estimating Conference, an estimate of $19.44 billion was adopted. The Senate Fiscal Agency's revised estimates presented in this report lowers the GF/GP and SAF baseline revenue estimate $307.1 million or 1.6% from the January 2008 consensus estimate.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2007-08 (Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
January 16, 2007	$8,293.5	$11,565.9	$19,859.4
January 18, 2007[a)]	8,345.0	11,534.8	19,879.8
May 17, 2007	8,232.8	11,288.9	19,521.7
May 18, 2007[a)]	8,210.5	11,289.3	19,499.8
December 21, 2007	8,089.5	11,155.9	19,245.4
January 18, 2008[a)]	8,093.4	11,150.9	19,244.3
May 14, 2008	8,128.9	11,073.3	19,202.3
Change From Previous Estimate:			
Dollar Change	$35.5	$(77.6)	$(42.1)
Percent Change	0.4%	(0.7)%	(0.2)%
Change From Initial Estimate:			
Dollar Change	$(164.6)	$(492.6)	$(657.1)
Percent Change	(2.0)%	(4.3)%	(3.3)%

Note: Baseline base year equals FY 2006-07.

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

Table 10

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2008-09 (Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 21, 2007	$8,158.9	$11,291.7	$19,450.6
January 18, 2008[a)]	8,163.8	11,277.7	19,441.5
May 14, 2008	8,101.5	11,042.0	19,143.5
Change From Previous Estimate:			
Dollar Change	$(62.3)	$(235.7)	$(298.0)
Percent Change	(0.8)%	(2.1)%	(1.5)%
Change From Initial Estimate:			
Dollar Change	$(57.4)	$(249.7)	$(307.1)
Percent Change	(0.7)%	(2.2)%	(1.6)%

Note: Baseline base year equals FY 2006-07.

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

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 recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities.

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

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

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

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

Table 11 presents the recent history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2006-07. Also presented in this table are the SFA's estimates for FY 2007-08 and FY 2008-09. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 12, and the estimated economic stabilization trigger calculations for FY 2007-08 and FY 2008-09 are presented in Table 12.

FY 2006-07

In FY 2006-07, the BSF had a beginning balance of $2.0 million. During the fiscal year there were no payments into or out of the Fund, but $0.1 million in interest was earned, leaving an ending balance of $2.1 million in FY 2006-07.

FY 2007-08 AND FY 2008-09

Based on the SFA's revised estimates for personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula triggers payments out of the Fund equal to $145.2 million in FY 2007-08 and another $170.4 million in FY 2008-09, as shown in Table 12. Given that there is only $2.1 million in the BSF and given that no additional transfers into the BSF were appropriated as part of the FY 2007-08 enacted budget, no transfers out of the BSF are anticipated in either FY 2007-08 or FY 2008-09.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1998-99 TO FY 2008-09 ESTIMATE
(Millions of Dollars)

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

Figure 12

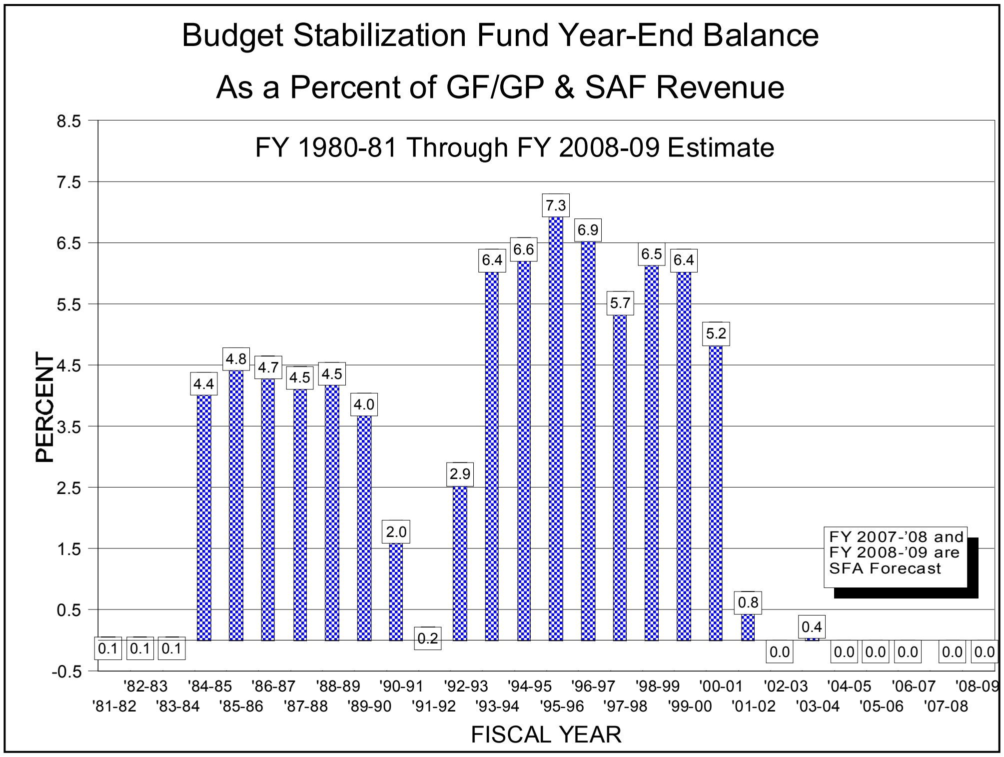


Table 12

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2007-08 AND FY 2008-09
(Millions of Dollars)

	CY 2007	CY 2008	CY 2009
Michigan Personal Income (MPI)	$353,377	$358,485	$365,238
Less: Transfer Payments	59,619	62,948	66,966
Subtotal	$293,758	$295,537	$298,272
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)			
Equals: Real Adjusted MPI	1.984	2.028	2.087
Percent Change from Prior Year	$148,064	$145,728	$142,919
Excess Over 2.0%		-1.58%	-1.93%

	FY 2007-08	FY 2008-09
Multiplied by: Estimated GF/GP Revenue	$9,202.2	$8,841.7
Equals: Transfer to the BSF	$0.0	$0.0
OR Transfer from the BSF	$145.1	$170.4

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

COMPLIANCE WITH STATE REVENUE LIMIT

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

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 2007-08, State government revenue may not exceed 9.49% of personal income for calendar year 2006. Given that Michigan personal income for 2006 equaled $341,075 million, the revenue limit for FY 2007-08 is $32,368 million.

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

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revised revenue estimates for FY 2007-08 and FY 2008-09, it is estimated that revenue subject to the constitutional revenue limit will remain well below the revenue limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit for FY 2007-08 and FY 2008-09 are presented in Table 13.

FY 2006-07

Based on Michigan's personal income for calendar year 2005, the revenue limit in FY 2006-07 was $31.4 billion and revenue subject to the limit equaled $26.1 billion. As a result, revenue fell short of the revenue limit by $5.3 billion, or 16.9%, in FY 2006-07.

FY 2007-08

In FY 2007-08, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2006. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2006 was $341.1 billion. The revenue limit is 9.49% of this personal income level, which equals $32.4 billion. Based on the SFA's revised revenue estimates for FY 2007-08, revenue subject to the limit will total $27.3 billion. As a result, it is estimated that revenue subject to the limit will fall below the revenue limit in FY 2007-08 by $5.1 billion or 15.6%. This estimated gap between the revenue limit and revenue subject to the limit is slightly smaller than it was in FY 2006-07, and that is due to the enacted increases in the income and Michigan business taxes.

FY 2008-09

In FY 2008-09, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2007. Based on the SFA's economic forecast, Michigan personal income in calendar 2007 equaled an estimated $353.4 billion, so the revenue limit is estimated at $33.5 billion for FY 2008-09. Based on the SFA's revised revenue estimates for FY 2008-09, revenue subject to the revenue limit will equal an estimated $27.4 billion. As a result, it is estimated that revenue subject to the limit will fall below the limit by $6.1 billion or 18.2% in FY 2008-09.

Table 13

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2005-06 THROUGH FY 2008-09 ESTIMATE
(Millions of Dollars)

	FY 2005-06 Final	FY 2006-07 Final	FY 2007-08 Estimate	FY 2008-09 Estimate
Revenue Subject to Limit				
Revenue:				
General Fund/General Purpose (baseline)	$8,185.2	$8,279.7	$8,128.9	$8,101.5
Revenue Sharing (baseline)	1,645.5	1,611.7	1,654.8	1,621.2
School Aid Fund (baseline)	11,085.4	11,149.7	11,073.3	11,042.0
Transportation Funds	2,182.4	2,119.3	2,104.1	2,125.0
Other Restricted Non-Federal Aid Revenue	2,666.0	2,897.8	3,000.0	3,150.0
Adjustments:				
GF/GP Federal Aid	(20.1)	18.8	20.0	20.0
GF/GP Balance Sheet Adjustments	80.9	38.0	1,077.3	740.2
SAF Balance Sheet Adjustments	(3.3)	3.4	255.8	630.1
Total Revenue Subject to Limit	**$25,822.0**	**$26,118.4**	**$27,314.2**	**$27,430.0**
Revenue Limit				
Personal Income:				
Calendar Year	**CY 2004**	**CY 2005**	**CY 2006**	**CY 2007**
Amount	$324,134	$331,304	$341,075	$353,377
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$30,760.3	$31,440.7	$32,368.0	$33,535.5
1.0% of Limit	307.6	314.4	323.7	335.4
Amount Under (Over) Limit	$4,938.3	$5,322.4	$5,053.8	$6,105.5
Percent Below Limit	16.1%	16.9%	15.6%	18.2%

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue estimates outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2007-08 and FY 2008-09 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report discusses the year-end balances and addresses the issues the members of the Legislature are facing as they attempt to complete action on the FY 2008-09 State budget.

On February 8, 2008, Governor Granholm presented her FY 2008-09 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendation were based on the consensus revenue estimates agreed to on January 11, 2008, recommended changes in tax policy, assumptions concerning the level of Federal funds available in the budget, and assumptions concerning the carryforward into FY 2008-09 of surplus FY 2007-08 GF/GP and SAF revenue. The Governor's budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2008-09 State budget to the Legislature in February 2008, several factors have experienced changes that directly will influence the final decisions to be made by the Legislature on the budget. First, the SFA has revised downward the January consensus estimates of FY 2008-09 GF/GP and SAF revenue. These downward revisions are primarily attributed to the passage by the United States Congress of a Federal stimulus package and this package's direct and indirect impact on revenue collections in Michigan, the impact of the slowdown in the housing sector on collections of the State education property tax and the real estate transfer tax, the impact of the refundable credit available for film production companies in Michigan, and the actual level of tobacco settlement revenue received in Michigan. These major changes along with other budget adjustments lead the SFA to the conclusion that substantial reductions will have to be made to the FY 2008-09 appropriation recommendations of the Governor. This assumes that no action is taken by the Legislature and the Governor to increase revenue above the levels currently in law.

Table 14 provides a summary of the SFA's estimates of the FY 2007-08 and FY 2008-09 year-end balances of the GF/GP and SAF budgets. Based on current SFA revenue estimates along with enacted and projected State appropriations, the FY 2007-08 GF/GP budget is in surplus by $190.6 million. Based on the current SFA revenue estimates along with enacted and projected State appropriations, the FY 2007-08 SAF budget is in surplus by $25.0 million. A comparison of the SFA estimates of current law revenue and the appropriation targets as established by the Senate Republicans, leads to the conclusion that the FY 2008-09 GF/GP budget would be in deficit by $181.5 million. A comparison of the SFA estimates of current law revenue and the School Aid appropriation bill as approved by the Senate, leads to the conclusion that the FY 2008-09 SAF budget is in deficit by $124.1 million. The following information provides a considerable level of detail on these year-end balance estimates.

Table 14

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

	FY 2007-08 Estimate	FY 2008-09 Estimate
General Fund/General Purpose	$190.6	$(181.5)
School Aid Fund	$ 25.0	$ (124.1)

FY 2007-08 YEAR-END BALANCE

The current SFA estimates of the FY 2007-08 GF/GP and SAF budgets present a favorable picture for the balance of the fiscal year. With over 50.0% of the fiscal year completed, it now appears that a modest year-end balance will exist in both the GF/GP and the SAF budgets. Under current statutory requirements, any FY 2007-08 GF/GP and SAF year-end balances will carry forward into FY 2008-09. The size of this carry-forward balance is one of the key factors that will influence the final decisions on the FY 2008-09 GF/GP and SAF budgets.

Table 15 provides a detailed summary of the SFA estimate of a $190.6 million FY 2007-08 GF/GP budget surplus. This estimate is based on the SFA revenue estimate, enacted and pending revenue adjustments, enacted State appropriations, the resolution of a tobacco settlement revenue shortfall, and the projection of a modest level of year-end appropriation lapses.

Table 15

FY 2007-08
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	May 2008 SFA
Revenue:	
Beginning Balance	$ 259.1
Ongoing Revenue:	
Ongoing Revenue Estimate	9,206.4
Revenue Sharing Freeze	579.7
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Subtotal Ongoing Revenue	9,808.9
One-Time Revenue:	
Sale of Northville State Property	22.9
Juror Compensation Fund Transfer to General Fund	2.3
Comprehensive Transportation Fund Transfer to General Fund	5.0
Transportation Economic Development Fund Transfer to General Fund	13.0
Financial Institutions Fund Shift to General Fund	2.0
Tobacco Settlement Refinancing (PA 101 of 2008)	60.0
Subtotal One-Time Revenue	105.2
Total Estimated Revenue	**$10,173.2**
Expenditures:	
Initial Enacted Appropriations	**$9,856.3**
Supplemental Appropriations:	
Public Act 113 of 2008	41.3
Public Act 98 of 2008	60.0
Tobacco Revenue Funding Shortfall	74.9
Subtotal Supplemental Appropriations	176.2
Year-End Appropriation Lapses	(50.0)
Total Projected Expenditures	**$9,982.5**
Projected Year-End Balance	**$ 190.6**

On the revenue side of the FY 2007-08 GF/GP budget ledger, the SFA now believes that final GF/GP revenue will total $10.2 billion. This projected level of total GF/GP revenue represents a $929.9 million or 10.1% increase over the final level of FY 2006-07 GF/GP revenue. The FY 2007-08 GF/GP revenue total includes $259.1 million of surplus revenue carried forward from FY 2006-07, $9.2 billion of ongoing estimated revenue, $579.7 million of GF/GP revenue resulting from a freeze in the level of statutory revenue sharing payments to cities, villages, townships and counties, $22.8 million from the shifting of a portion of the State's cash flow borrowing costs to the School Aid Fund, and $105.2 million of revenue from non ongoing sources included in the budget. These non-ongoing revenue sources in the budget include: $22.9 million from the sale of surplus State property in Northville Township, the transfer of $2.3 million of Juror Compensation Fund revenue to the General Fund, the transfer of $5.0 million of Comprehensive Transportation Fund revenue to the General Fund, the transfer of $13.0 million of Transportation Economic Development Fund revenue to the General Fund, the transfer of $2.0 million of Financial Institutions Fund revenue to the General Fund, and $60.0 million of one-time revenue resulting from the refinancing of and the extension of terms of tobacco settlement borrowing done by the State in 2006. The $5.0 million transfer from the Comprehensive Transportation Fund and the $13.0 million transfer from the Transportation Economic Development Fund will not be accomplished unless statutory changes are approved by the Legislature and signed into law by the Governor.

The level of ongoing FY 2007-08 GF/GP revenue now estimated by the SFA represents a $40.3 million reduction from the revenue estimated at the January 2008 Consensus Revenue Estimating Conference.

On the expenditure side of the FY 2007-08 GF/GP budget ledger, the SFA now believes that final FY 2007-08 GF/GP expenditures will total $9.98 billion. This projected level of FY 2006-07 GF/GP expenditures represents a $998.3 million or 11.1% increase over the final level of FY 2007-08 GF/GP expenditures. To date, the Legislature has approved and the Governor has signed into law GF/GP appropriations of $9.96 billion. This includes the initial FY 2007-08 appropriation bills approved in October 2007 and two supplemental appropriation bills that have been enacted into law. Public Act 113 of 2008 provided for general supplemental appropriations to cover several funding shortfalls in the original budget and Public Act 98 of 2008 appropriated from the General Fund to the 21st Century Jobs Fund the $60.0 million of revenue generated for the promotion of tourism and business development in the State.

The SFA is anticipating that an additional supplemental appropriation bill of $74.9 million will be enacted by the Legislature to cover an overappropriation of tobacco settlement revenue contained in the original budget. This supplemental appropriation will be needed because assumptions concerning the resolution of payment disputes between the major tobacco companies and the State have not been realized. The $74.9 million funding shortfall reflects the actual tobacco settlement revenue received by the State in April 2008. The final item included in the SFA's estimate of FY 2007-08 GF/GP expenditures is an assumed $50.0 million GF/GP appropriation lapse. This estimate of year-end appropriation lapses might be conservative based on the recent history of GF/GP appropriation lapses.

The estimated $190.6 million FY 2007-08 GF/GP year-end balance will carry forward into FY 2008-09. This level of carry-forward revenue can be combined with FY 2008-09 GF/GP revenue to determine the final parameters of the FY 2008-09 GF/GP budget.

Table 16 provides a detailed summary of the SFA estimate of a $25.0 million FY 2007-08 SAF budget surplus. This estimate is based on the SFA revenue estimate, enacted appropriations and the projection of a year-end appropriation lapse resulting from a final estimation of per-pupil funding costs.

On the revenue side of the FY 2007-08 SAF budget ledger, the SFA now believes that final SAF revenue will total $12.92 billion. This projected level of total SAF revenue represents a $129.6 million or 1.0% decline from the final level of FY 2006-07 SAF revenue. The FY 2007-08 SAF revenue total includes $82.4 million of surplus revenue carried forward from FY 2006-07, $11.3

billion of ongoing estimated revenue, a $34.9 million GF/GP grant to the SAF budget, and $1.5 billion of Federal aid. The current SFA estimate of ongoing SAF revenue represents a $24.1 million decrease from the revenue estimated at the January 2008 Consensus Revenue Estimating Conference.

On the expenditure side of the FY 2007-08 SAF budget ledger, the SFA now believes that final FY 2007-08 SAF expenditures will total $12.9 billion. This projected level of SAF expenditures represents a $72.0 million or 0.6% decrease from the final level of FY 2006-07 SAF expenditures. This expenditure total includes the initial SAF appropriations for the fiscal year and a supplemental appropriation bill enacted into law. These enacted SAF appropriations total $12.9 billion. In addition, the State recently authorized the settlement of a property tax case in Midland. This settlement primarily will affect local units of government, but the cost to the State's school aid budget totals $9.6 million not included in the original budget. The final item having an impact on FY 2007-08 SAF expenditures is a $10.0 million lapse at year end. This is a reconciliation of the final estimated school aid spending with the appropriated levels.

The SFA estimate of a $25.0 million FY 2007-08 SAF year-end balance will carry forward into FY 2008-09. This level of carry-forward revenue can be combined with FY 2008-09 SAF revenue to determine the final parameters of the FY 2008-09 SAF budget.

Table 16

FY 2007-08
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	May 2008 SFA
Revenue:	
Beginning Balance	$ 82.4
Ongoing Revenue Estimate	11,329.1
GF/GP Grant to School Aid Fund	34.9
Federal Revenue	1,476.0
Total Estimated Revenue	**$12,922.4**
Expenditures:	
Initial Enacted Appropriations	$13,006.0
Supplemental Appropriations:	
Public Act 112 of 2008	(108.2)
Midland Property Tax Settlement (Non-Homestead Property Tax)	9.6
Projected Year-End Appropriation Lapses	(10.0)
Total Projected Expenditures	**$12,897.4**
Projected Year-End Balance	**$ 25.0**

FY 2008-09 YEAR-END BALANCE

As illustrated in Table 17, the SFA now believes that substantial adjustments will have to be made in the FY 2008-09 GF/GP and SAF budgets submitted by Governor Granholm in February 2008 to ensure a balance between estimated revenue and appropriations. These adjustments will be either reductions in the recommended level of appropriations or revenue increases. It is now the responsibility of the Legislature to approve an FY 2008-09 State budget that is balanced between estimated revenue and appropriations.

Table 17 provides the details of the SFA estimate of a $181.5 million FY 2008-09 GF/GP budget deficit. This estimate is developed using the SFA estimate of a carry-forward balance from FY 2007-08, the SFA estimate of ongoing revenue, an assumed freeze in revenue sharing payments, the appropriations at the level recommended by the Senate Republican leadership, and funding to recognize an additional shortfall in tobacco settlement revenue.

Table 17

FY 2008-09
GENERAL FUND/GENERAL PURPOSE
BUDGET OUTLOOK
(Millions of Dollars)

	May 2008 SFA
Revenue:	
Beginning Balance	$ 190.6
Revenue Estimate	8,841.7
Revenue Sharing Freeze	546.1
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Sale of Surplus State Property-Northville	6.5
Total Estimated Revenue	**$9,630.0**
Expenditures:	
Senate Appropriation Targets	$9,773.7
Tobacco Revenue Funding Shortfall	37.8
Total Projected Expenditures	**$9,811.5**
Projected Year-End Balance	**$ (181.5)**

On the revenue side of the FY 2008-09 budget ledger, the SFA now believes that GF/GP revenue will total $9.6 billion. This projected level of total GF/GP represents a $543.2 million or 5.3% decrease from the projected level of total FY 2007-08 GF/GP revenue.

The FY 2008-09 GF/GP revenue total includes $190.6 million of surplus revenue carried forward from FY 2007-08, $8.8 billion of ongoing estimated revenue, $546.1 million from a freeze in the level of revenue sharing payments to cities, villages, townships, and counties, $45.0 million from the shifting of a portion of the State's cash flow borrowing costs to the School Aid Fund, and $6.5 million from the sale of surplus State property in Northville Township.

The level of FY 2008-09 ongoing revenue now estimated by the SFA represents a $351.9 million reduction from the revenue estimated at the January 2008 Consensus Revenue Estimating Conference. The major components of this revenue decline are a $114.2 million revenue decrease from the impact of the Federal stimulus package on Michigan revenue, a $127.6 million reduction in Michigan business tax revenue resulting from the implementation of a 40.0% refundable credit for films shot in Michigan, a $50.0 million Michigan business tax reduction resulting from reduced economic activity in the State forecast by the SFA, and a $56.7 million reduction in the use tax.

There are two revenue adjustments included in the Governor's budget recommendation that are not included in the SFA revenue numbers. The first is a $16.2 million increase in appropriations for statutory revenue sharing. This reduction in sales tax revenue is not part of the Senate Republican appropriation targets. The second adjustment is a $34.8 million revenue reduction linked to a proposal to provide a Michigan business tax credit for the creation of new jobs in certain types of business. No action has taken place in the Legislature on this proposal.

On the expenditure side of the FY 2008-09 budget ledger, the SFA now believes that expenditures will total $9.8 billion. This projected level of GF/GP expenditures represents a $171.0 million or 1.7% decline from the projected level of FY 2007-08 expenditures. This estimate includes the Senate Republican appropriation targets of $9.77 billion and one adjustment that will have to be built into the appropriation base. The adjustment is a $37.8 million appropriation to cover a projected shortfall in the amount of tobacco settlement revenue available to fund State programs. The Governor's budget assumed a dispute between the State and major tobacco companies regarding a portion of their payments to Michigan would be resolved. It now appears unlikely that this dispute will be resolved during FY 2008-09.

The Senate Republican GF/GP appropriation targets are $75.6 million below the Governor's appropriation recommendations. The Senate Republican appropriation targets eliminated the major program expansions recommended by the Governor. These reductions in the Senate Republican appropriation targets will not be enough to bring appropriations down to the level of estimated revenue. The Legislature and the Governor will be forced to come up with $181.5 million of additional appropriation reductions or raise revenue in order to ensure that the FY 2008-09 GF/GP budget is balanced between estimated revenue and appropriations.

Table 18 provides a detailed summary of the SFA estimate of a $124.1 million FY 2008-09 SAF budget deficit. This estimate is developed using the SFA estimate of SAF revenue and the appropriations contained in the K-12 School Aid appropriation bill as approved by the Senate in March 2008. The $124.1 million projected SAF deficit equates to approximately 0.9% of SAF appropriations.

Table 18

FY 2008-09
SCHOOL AID FUND
BUDGET OUTLOOK
(Millions of Dollars)

	May 2008 SFA
Revenue:	
Beginning Balance	$ 25.0
Revenue Estimate	11,672.1
GF/GP Grant	43.0
Federal Aid	1,562.0
Total Estimated Revenue	**$13,302.1**
Expenditures:	
Senate-Passed K-12 School Aid Appropriation Bill	$13,381.8
Midland Property Tax Settlement (Non-Homestead Property Tax)	8.0
Non Homestead Property Tax Adjustment	54.4
Other Funding Adjustments	(18.0)
Total Projected Expenditures	**$13,426.2**
Projected Year-End Balance	**$ (124.1)**

On the revenue side of the FY 2008-09 SAF budget ledger, the SFA now believes that SAF revenue will total $13.3 billion. This projected level of total SAF revenue represents a $379.7 million or 2.9% increase over the estimated level of FY 2007-08 SAF revenue. The FY 2008-09 SAF revenue total includes $25.0 million of surplus revenue carried forward from FY 2007-08, $11.7 billion of ongoing estimated revenue, a $43.0 million GF/GP grant to the SAF budget, and $1.56 billion of Federal aid.

The level of ongoing FY 2008-09 SAF revenue now estimated by the SFA represents a $198.6 million reduction from the revenue estimated at the January 2008 Consensus Revenue Estimating Conference. The major components of this revenue decline are a $102.4 million reduction in the estimated revenue from the State education property tax, a $45.0 million reduction in the real estate transfer tax, a $28.3 million reduction in the use tax and a $11.4 million reduction in the income tax.

On the expenditure side of the FY 2008-09 budget ledger, the SFA now believes that FY 2008-09 SAF expenditures will total $13.43 billion. This projected level of total SAF expenditures represents a $528.8 million or 4.1% increase over the estimated level of FY 2007-08 SAF expenditures. While the projected level of appropriation growth represents a 4.1% increase in year-over-year appropriations, $341.6 million of the appropriation increase is a result of increased earmarks of Michigan business tax revenue to the SAF budget to offset local revenue lost from enacted reductions in personal property taxes paid by industrial and commercial taxpayers. This leaves the net increase in K-12 appropriations available to support actual programmatic increases in the budget at 1.5%. The SFA estimate includes the Senate-passed K-12 School Aid appropriation bill of $13.38 billion, an $8.0 million adjustment to reflect a settlement in a property tax case in Midland, a $54.4 million formula adjustment to offset estimated declines in local school nonhomestead property taxes that help finance the basic per-pupil funding formula, and $18.0 million of savings from other formula cost adjustments. These formula cost adjustments include $23.0 million of savings from an estimated 3,100 drop in students, offset by other formula cost adjustments. The Senate-passed K-12 School Aid appropriation bill is $133.4 million below the level recommended by the Governor.

The $124.1 million projected deficit in the FY 2008-09 SAF budget is likely to be eliminated by adjusting the level of the basic per-pupil funding. The Senate-passed K-12 School Aid appropriation bill assumed per-pupil funding increases of between $71 and $142. If the entire projected deficit of $124.1 million were eliminated by reducing this per-pupil funding increase, the funding increase would range from $28 to $56 per pupil. There are other options to eliminate this projected deficit and they would include reductions in such large categorical grant programs as at-risk programs, preschool programs, and infrastructure grants.