



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

**FY 2010-11, FY 2011-12
AND FY 2012-13**

May 13, 2011



THE SENATE FISCAL AGENCY

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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
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Ellen Jeffries, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2768; TDD (517) 373-0543
Internet Home Page <http://www.senate.michigan.gov/sfa>

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This Economic Outlook and Budget Review was prepared and written by Ellen Jeffries, Director, and David Zin, Chief Economist, of the Senate Fiscal Agency. Karen Hendrick, Executive Secretary and Administrative Assistant, coordinated the production of this report.

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, is predicted to expand 2.4% in 2011, before growing another 2.8% in 2012 and 3.1% in 2013. Light vehicle sales are forecasted to rise from 11.6 million units in 2010 to 12.8 million units in 2011, 14.4 million units in 2012, and 15.0 million units in 2013. The unemployment rate is expected to fall from 9.6% in 2010 to 9.2% in 2011, 9.3% in 2012, and 8.9% in 2013; while the consumer price index is estimated to increase by 2.8% in 2011, and then rise 2.1% in 2012 and 1.9% in 2013.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 1.7% in 2011, 0.2% in 2012, and 2.5% in 2013. After declining 0.3% in 2010, wage and salary employment is predicted to increase 1.2% during 2011, 0.2% in 2012, and 0.9% in 2013, the first increases in wage and salary employment since 2000.

REVENUE FORECAST

Although discussed in the Year-End Balance section, the Senate Fiscal Agency's revenue estimates do not include any impact of the Governor's proposed tax code reforms.

In fiscal year (FY) 2010-11 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue is expected to total \$18.8 billion, up 6.6% from FY 2009-10. The increase reflects an improving economy, combined with lower income tax refunds, and is \$557.3 million above the January 2011 consensus estimate. General Fund/General Purpose revenue is estimated to rise 12.8% to \$7.7 billion while SAF revenue will increase 2.7% to \$11.1 billion.

In FY 2011-12, the economy will grow more slowly than in FY 2010-11, resulting in slower revenue growth. General Fund/General Purpose and SAF revenue will total an estimated \$19.2 billion, up 2.2% from FY 2010-11 and \$690.5 million above the January 2011 consensus estimate. General Fund/General Purpose revenue is expected to increase 2.3% from the FY 2010-11 level to \$7.8 billion and SAF revenue is projected to grow 2.1% to \$11.3 billion.

In FY 2012-13, GF/GP and SAF revenue will total an estimated \$19.3 billion. This initial estimate for FY 2012-13 is 0.7% higher than the revised estimate for FY 2011-12, with substantial tax changes causing revenue to grow much more slowly than economic conditions would suggest. General Fund/General Purpose revenue will total an estimated \$7.6 billion, a decline of 2.6% from FY 2011-12, while SAF revenue will rise to an estimated \$11.7 billion, a 3.0% increase.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2010-11 GF/GP budget will have a positive ending balance of \$371.3 million. A comparison of the FY 2010-11 SAF revenue estimates and enacted and projected SAF appropriations produces a \$644.7 million SAF surplus.

Comparing the SFA's FY 2011-12 revenue estimate with the appropriation bills as passed the Senate, leads to a \$953.4 million positive balance in the FY 2011-12 GF/GP budget. The SFA's FY 2011-12 SAF revenue estimate, combined with the Senate-passed SAF appropriations, results in a \$360.8 million SAF surplus.

If the SFA's FY 2012-13 GF/GP revenue estimate is compared to the FY 2011-12 Senate-passed GF/GP appropriation levels adjusted for estimated FY 2012-13 caseload and economic costs, there is a projected \$1.18 billion budget surplus. If the SFA's FY 2012-13 SAF revenue estimate is compared to the FY 2011-12 Senate-passed SAF appropriations adjusted for estimated formula costs, there is a projected \$452.8 million SAF surplus.

EXECUTIVE SUMMARY

**SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY**

ECONOMIC PROJECTIONS (Calendar Year)					
	2009 Actual	2010 Actual	2011 Estimate	2012 Estimate	2013 Estimate
Real Gross Domestic Product (% change)	(2.6%)	2.9%	2.4%	2.8%	3.1%
U.S. Consumer Price Index (% change)	(0.4%)	1.6%	2.8%	2.1%	1.9%
Light Motor Vehicle Sales (millions of units)	10.4	11.6	12.8	14.4	15.0
U.S. Unemployment Rate (%)	9.3%	9.6%	9.2%	9.3%	8.9%
Real Michigan Personal Income (% change)	(2.5%)	2.0%	1.7%	0.2%	2.5%
Michigan Wage & Salary Employment (% chng)	(7.0%)	(0.3%)	1.2%	0.2%	0.9%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)									
	FY 2010-11 Estimate			FY 2011-12 Estimate			FY 2012-13 Estimate		
	Baseline	Tax	Net	Baseline	Tax	Net	Baseline	Tax	Net
		Changes	Available		Changes	Available		Changes	Available
GF/GP	\$7,461.1	\$195.2	\$7,656.3	\$7,650.7	\$184.8	\$7,835.5	\$7,942.6	\$(310.3)	\$7,632.3
% Change	14.7%	---	12.8%	2.5%	---	2.3%	3.8%	---	(2.6%)
School Aid Fund	\$11,104.2	\$3.6	\$11,107.8	\$11,310.8	\$31.9	\$11,342.8	\$11,638.7	41.3%	\$11,680.0
% Change	2.7%	---	2.7%	1.9%	---	2.1%	2.9%	---	3.0%
Total GF/GP & SAF	\$18,565.3	\$198.8	\$18,764.1	\$18,961.5	\$216.7	\$19,178.3	\$19,581.3	\$(268.9)	\$19,312.3
% Change	7.2%	---	6.6%	2.1%	---	2.2%	3.3%	---	0.7%
	FY 2010-11 Estimate			FY 2011-12 Estimate			FY 2012-13 Estimate		
Revenue Limit Under (Over):	\$7,178.7			\$7,638.6			\$8,998.6		

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)			
	FY 2010-11 Estimate	FY 2011-12 Estimate	FY 2012-13 Estimate
General Fund/General Purpose.....	\$371.3	\$953.4	\$1,181.8
School Aid Fund.....	644.7	360.8	452.8
Budget Stabilization Fund.....	2.2	114.4	115.2

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 2011, 2012, and 2013, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

On September 20, 2010, the National Bureau of Economic Research announced that the recession the U.S. economy had entered in December 2007 had ended in June 2009. Virtually every economic indicator identifies the 2008-2009 recession as the most severe economic contraction in more than 70 years. While the economy, particularly as measured by inflation-adjusted Gross Domestic Product (GDP), has grown since the second quarter of 2009, the gains have generally been modest. As of the first quarter of 2011, inflation-adjusted GDP was 4.9% above the level during the second quarter of 2009. Consumption has improved somewhat, but after seven quarters of growth, personal consumption expenditures in the first quarter of 2011 were only 4.0% above the level in the second quarter of 2009. However, certain areas of consumer spending have shown more growth, with February 2011 light vehicle sales 43.6% above the February 2009 trough.

Despite the improvements in the economy, a number of fundamental indicators show limited, if any, improvement, as illustrated in [Figure 1](#). Payroll employment has remained weak, with a loss of more than 1.2 million jobs in the eight months after June 2009, and April 2011 employment only 835,000 jobs above the June 2009 level and only 1.4% above the February 2010 trough. Housing starts, a key indicator of the factors that led to the 2008-2009 recession, remain at depressed levels, with March 2011 starts 5.8% below the level in June 2009. Since the expiration of the homebuyer credit in 2010, housing starts have averaged 4.0% below the June 2009 level. In April 2011, consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, was 5.0% below the June 2009 level and down 3.3% from the April 2010 level. The index of consumer expectations component of sentiment, which measures future expectations of the economy, was 7.4% below the level in April 2010. Business inventories have risen, and while some of the increase is likely intended, the increase means that production has exceeded consumption. Since the fourth quarter of 2009, inventories have increased by an inflation-adjusted \$294.3 billion, approximately 70.1% of the \$419.8 billion net increase in total inflation-adjusted GDP. Normally, increases in personal consumption account for approximately 70% to 75% of economic growth; and growth that is driven on increases in the value of unsold goods is not sustainable.

Several economic indicators currently exhibit conditions that have both positive and negative implications, and exhibit strength for some aspects of the economy but not for others. Productivity, as measured by output per worker, has risen at an average annual rate of 4.1% since the second quarter of 2009, well above the 1.7% average during much of the latter half of the 20th century. Productivity gains have increased output and income, but have reduced the need for additional workers and thus kept unemployment higher than would otherwise be expected. As shown in [Figure 2](#), personal income increased by 6.4% between the second quarter of 2009 and the first quarter of 2011, and personal saving as a share of disposable personal income (personal income after taxes) declined from 7.2% (the highest level in 18 years) in the second quarter of 2009 to 5.7% in the first quarter of 2011 but remains well above the levels of the last 15 years. Much of that increase in saving has reduced consumption but also reduced household debt, which declined 2.2% between the second quarter of 2009 and the fourth quarter of 2010. Slower consumption and higher saving reduce the need for additional output and workers but improve the overall long-term financial health of consumers. Details for selected economic indicators are presented in [Table 1](#) and [Table 2](#).

Figure 1

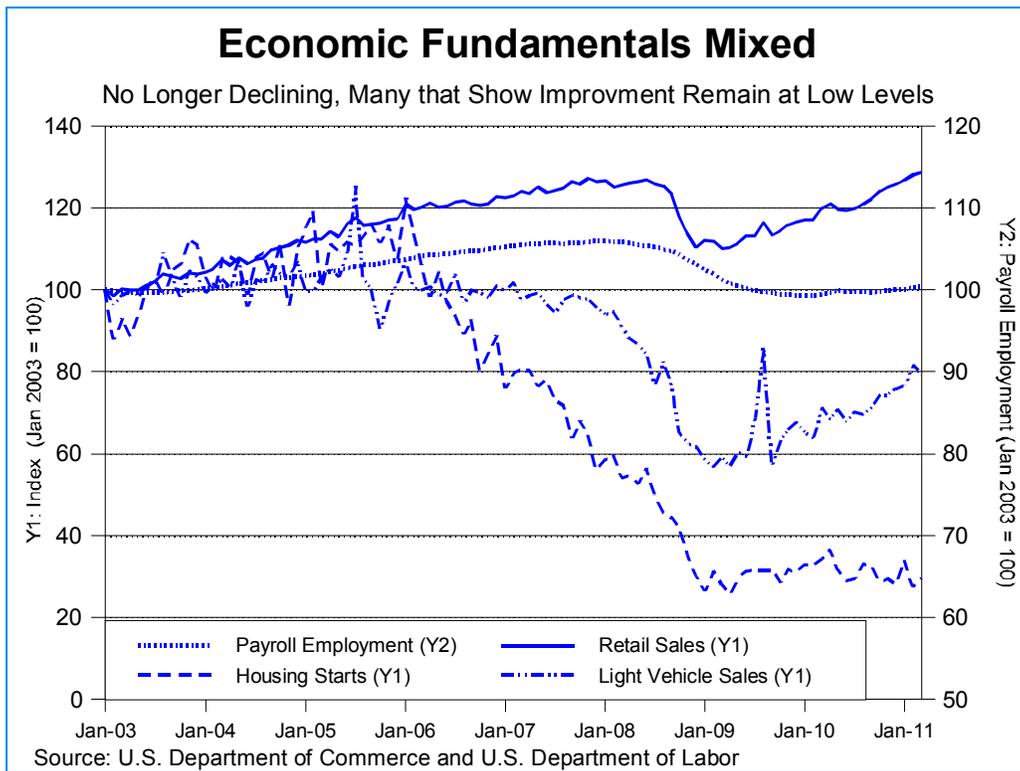


Figure 2

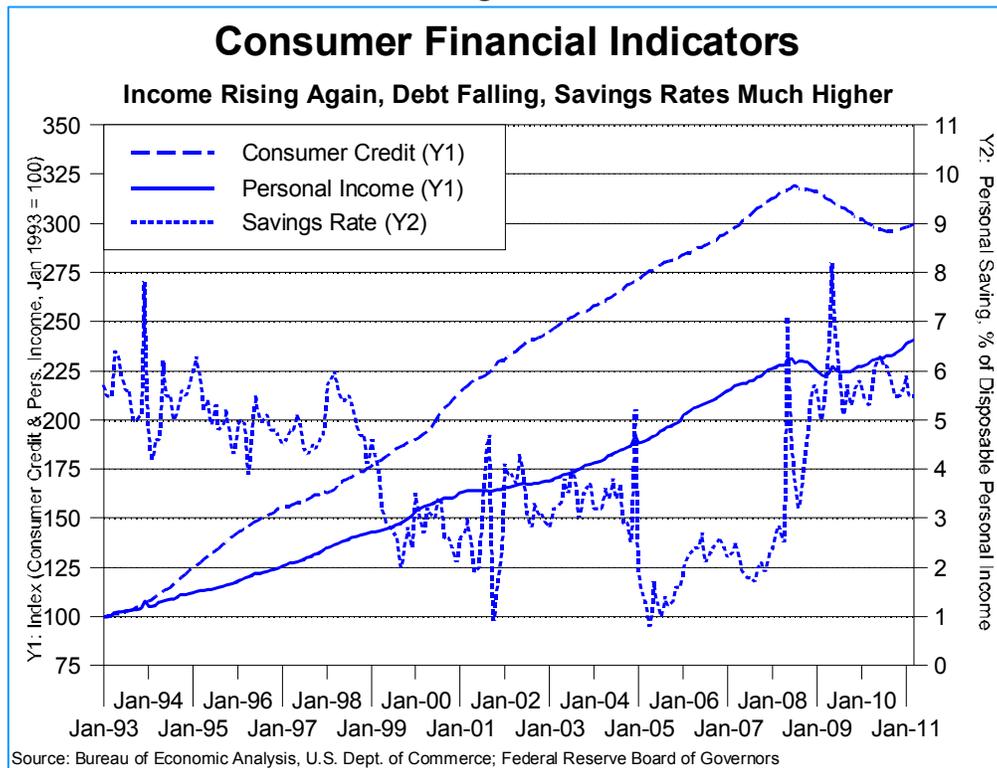


Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST					
(Calendar Years)					
	2009 Actual	2010 Actual	2011 Estimate	2012 Estimate	2013 Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	(1.7)%	3.8%	4.0%	4.3%	4.8%
Inflation-Adjusted GDP (year-to-year growth)	(2.6)%	2.9%	2.4%	2.8%	3.1%
Unemployment Rate	9.3%	9.6%	9.2%	9.3%	8.9%
Inflation					
Consumer Price Index (year-to-year growth)	(0.4)%	1.6%	2.8%	2.1%	1.9%
GDP Implicit Price Deflator (year-to-year growth)	0.9%	1.0%	1.5%	1.5%	1.7%
Interest Rates					
90-day Treasury bill	0.15%	0.14%	0.11%	0.24%	0.58%
Corporate Aaa bond	5.31%	4.94%	5.18%	4.91%	4.86%
Federal funds rate	0.16%	0.18%	0.18%	0.40%	1.01%
Light Motor Vehicle Sales					
(millions of units)	10.4	11.6	12.8	14.4	15.0
Auto	5.5	5.7	6.3	7.2	7.5
Truck	4.9	5.8	6.6	7.2	7.5
Import Share	26.2%	23.7%	24.2%	25.5%	25.8%
<u>Michigan</u>					
Personal Income (millions) Year-to-year growth	\$342,114 (3.1)%	\$351,830 2.8%	\$367,584 4.5%	\$374,990 2.0%	\$391,256 4.3%
Inflation-Adjusted Personal Income (year-to-year growth)	(2.5)%	2.0%	1.7%	0.2%	2.5%
Wage & Salary Income (millions) Year-to-year growth	\$170,663 (8.3)%	\$174,256 2.1%	\$181,078 3.9%	\$184,434 1.9%	\$191,331 3.7%
Detroit Consumer Price Index (year-to-year growth)	(0.6)%	0.8%	2.7%	1.8%	1.8%
Wage & Salary Employment (thousands) Year-to-year growth	3,872.3 (7.0)%	3,861.4 (0.3)%	3,907.8 1.2%	3,917.5 0.2%	3,954.0 0.9%
Unemployment Rate	13.3%	12.5%	10.4%	10.2%	9.9%

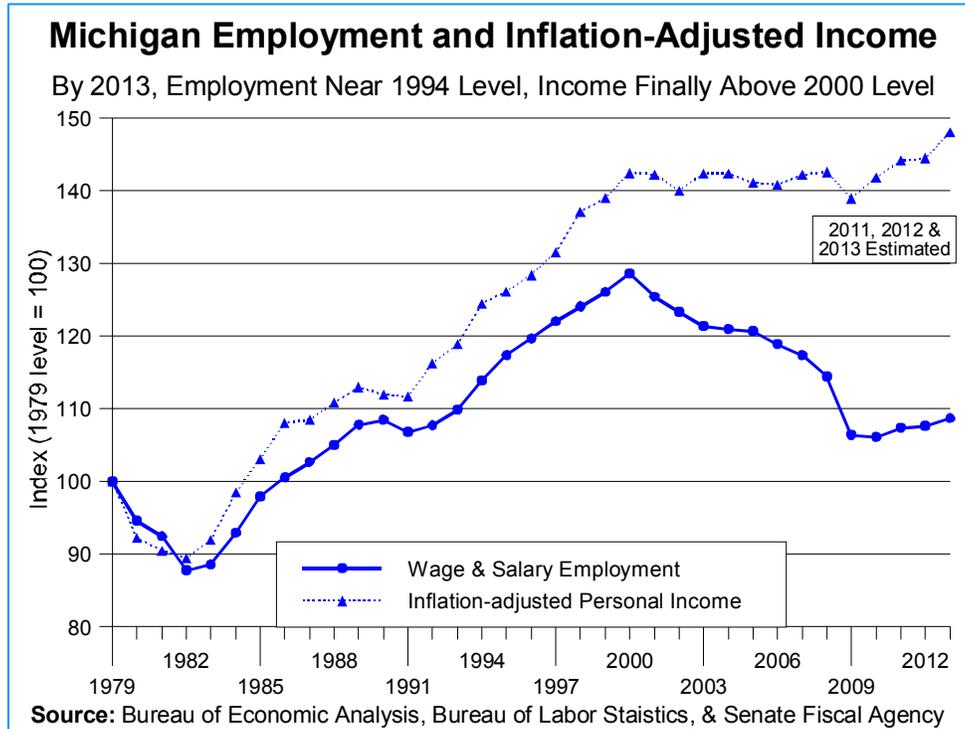
Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2009	2010	2011	2012	2013
	Actual	Actual	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$14,119.0	\$14,660.4	\$15,244.6	\$15,906.6	\$16,676.1
Year-to-year growth	(1.7)%	3.8%	4.0%	4.3%	4.8%
<i>Inflation-Adjusted GDP and Components</i>					
Gross Domestic Product (billions of 2000 dollars)	\$12,880.6	\$13,248.2	\$13,566.0	\$13,944.7	\$14,376.0
Year-to-year growth	(2.6)%	2.9%	2.4%	2.8%	3.1%
Consumption (billions of 2000 dollars)	\$9,153.9	\$9,313.6	\$9,562.1	\$9,759.8	\$9,952.7
Year-to-year growth	(1.2)%	1.7%	2.7%	2.1%	2.0%
Business Fixed Investment (billions of 2000 dollars)	\$1,290.8	\$1,364.9	\$1,476.5	\$1,621.3	\$1,737.9
Year-to-year growth	(17.1)%	5.7%	8.2%	9.8%	7.2%
Change in Business Inventories (billions of 2000 dollars)	(\$113.1)	\$62.7	\$58.1	\$31.6	\$51.9
Residential Investment (billions of 2000 dollars)	\$342.7	\$332.5	\$334.4	\$407.4	\$500.5
Year-to-year growth	(22.9)%	-3.0%	0.6%	21.8%	22.8%
Government Spending (billions of 2000 dollars)	\$2,542.6	\$2,568.3	\$2,506.3	\$2,458.5	\$2,447.4
Year-to-year growth	1.6%	1.0%	-2.4%	(1.9)%	(0.5)%
Net Exports (billions of 2000 dollars)	(\$363.1)	(\$422.5)	(\$383.4)	(\$326.9)	(\$289.7)
Exports (billions of 2000 dollars)	\$1,490.7	\$1,665.5	\$1,807.4	\$1,973.4	\$2,125.4
Imports (billions of 2000 dollars)	\$1,853.8	\$2,088.0	\$2,190.7	\$2,300.3	\$2,415.1
Personal Income (year-to-year growth)	(1.7)%	3.0%	4.4%	3.2%	5.1%
Adjusted for Inflation	(1.4)%	1.3%	1.5%	1.1%	3.1%
Wage & Salary Income (year-to-year growth)	(4.3)%	2.1%	3.2%	3.7%	4.6%
Personal Savings Rate	5.9%	5.8%	5.0%	3.9%	4.2%
Capacity Utilization Rate	69.2%	74.5%	76.4%	77.3%	79.2%
Housing Starts (millions of units)	0.554	0.587	0.631	0.892	1.099
Conventional Mortgage Rates	5.0%	4.7%	5.0%	5.0%	5.1%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$1,251.7)	(\$1,332.1)	(\$1,353.6)	(\$1,133.3)	(\$906.1)

Michigan's economy has spent the last 10 years in recession (Figure 3), largely driven by the same fundamental restructuring as that affecting manufacturing globally. Manufacturing has experienced a significant surge in productivity, driven by increased competition in the economy. For Michigan, the effect of productivity improvements was substantial, particularly given that there was more room for improvement in the durable goods and motor vehicle manufacturing sectors than in many other sectors, that Michigan is very disproportionately concentrated in motor vehicle manufacturing, and that the motor vehicle industries have become one of the most competitive sectors of the economy.

For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment from both productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

Figure 3



However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 48,500 jobs (7.6%) between June 2009, when the U.S. recession ended, and March 2011. Employment in the transportation equipment manufacturing sector increased by 20.5% over that period, accounting for 22,600 of the manufacturing jobs Michigan gained. Michigan payroll employment declined for 12 consecutive months between July 2008 and June 2009, but has risen in 11 of the last 15 months (with manufacturing employment rising in 16 of the last 21 months). The unemployment rate declined from a high of 14.1% in August and September of 2009 to 10.3% in March 2011, although a portion of that decline represents the departure of individuals from the labor force.

FORECAST SUMMARY

During 2011, the U.S. economy is expected to expand, although by less than in 2010, while the Michigan economy is expected to finish contracting. Michigan's economy is forecast to exhibit both income and employment growth in 2011, although the improvements will be modest. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted Gross Domestic Product is projected to rise 2.4% in 2011, slightly slower than the 2.9% increase in 2010, and will expand by 2.8% in 2012 and 3.1% in 2013. The expansion during 2011 primarily reflects improvements in personal consumption spending, while the gains in 2012 and 2013 will reflect increases in inventories, higher levels of business investment, and increased exports.

Employment gains over the forecast period will be muted, particularly compared to prior recoveries, because while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replaces capital for labor. Business investment in structures, which represents new facilities, is expected to remain weak over the forecast horizon. As a result of weak employment growth and limited business expansion, the U.S. unemployment rate is expected to remain stable in 2011 and 2012, averaging 9.2% during 2011 and 9.3% in 2012, before declining to 8.9% in 2013.

Inflation is not anticipated to be a concern over the forecast period, despite the assumption of high energy prices and a significant decline in the value of the dollar. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.8% in 2011, followed by increases of 2.1% in 2012 and 1.9% in 2013. Core inflation, which is less volatile but tracks overall long-term inflation quite accurately, is expected to be even less. The fall in the value of the dollar is expected to help U.S. exports, particularly of manufactured goods, and exports are expected to increase 27.6% between 2010 and 2013. Productivity, weak consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase only 0.5% in 2011, 0.7% in 2012, and 1.2% in 2013.

In Michigan, both job growth and personal income growth are expected to remain below the national average and the historical State average, although employment is expected to exhibit its strongest performance in more than a decade (as shown in [Figures 3, 4, and 5](#)). Inflation-adjusted personal income is projected to increase 1.7% in 2011, slightly less than the 2.0% increase in 2010, remain stable in 2012, growing only 0.2%, and then grow by 2.5% in 2013. Payroll employment is expected to increase 1.2% in 2011, after declining 0.3% during 2010, and then increase 0.2% in 2012 and 0.9% in 2013. The projected increase in Michigan wage and salary employment in 2011 will be the first increase since 2000. Private sector gains in employment during 2012 and 2013 are expected to be partially offset by declines in public sector employment, as state and local governments experience continuing budgetary problems. Nationally, light vehicle sales are expected to increase from 10.4 million units in 2009 and 11.6 million units in 2010, to 12.8 million units in 2011, 14.4 million units in 2012, and 15.0 million units in 2013. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to continue to decline, from 13.3% in 2009 and 12.5% in 2010, to 10.4% in 2011, 10.2% in 2012, and 9.9% in 2013.

Compared with the January 14, 2011, Consensus Economic Forecast, the U.S. forecast is slightly weaker while the Michigan forecast is slightly stronger. Continued weakness in the housing and financial markets, combined with weak employment growth and stable saving rates will temper the pace of the U.S. recovery, while improved vehicle sales and stronger profitability in Michigan's vehicle sector will allow Michigan's economy to grow more than was expected in January 2011.

Figure 4

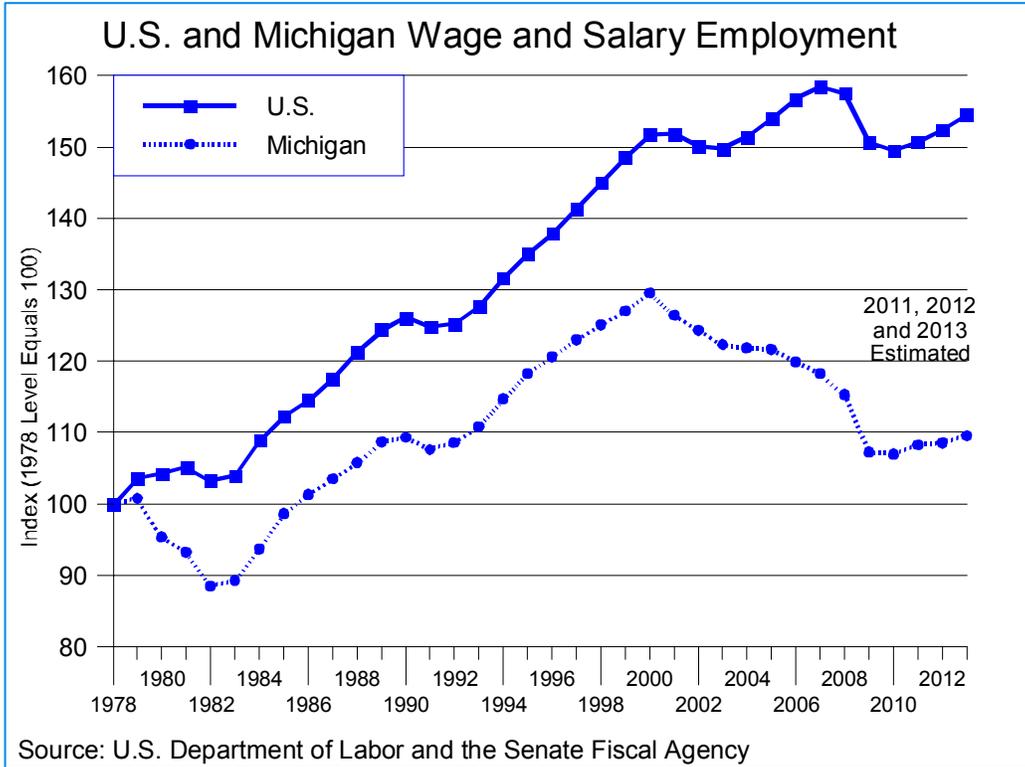
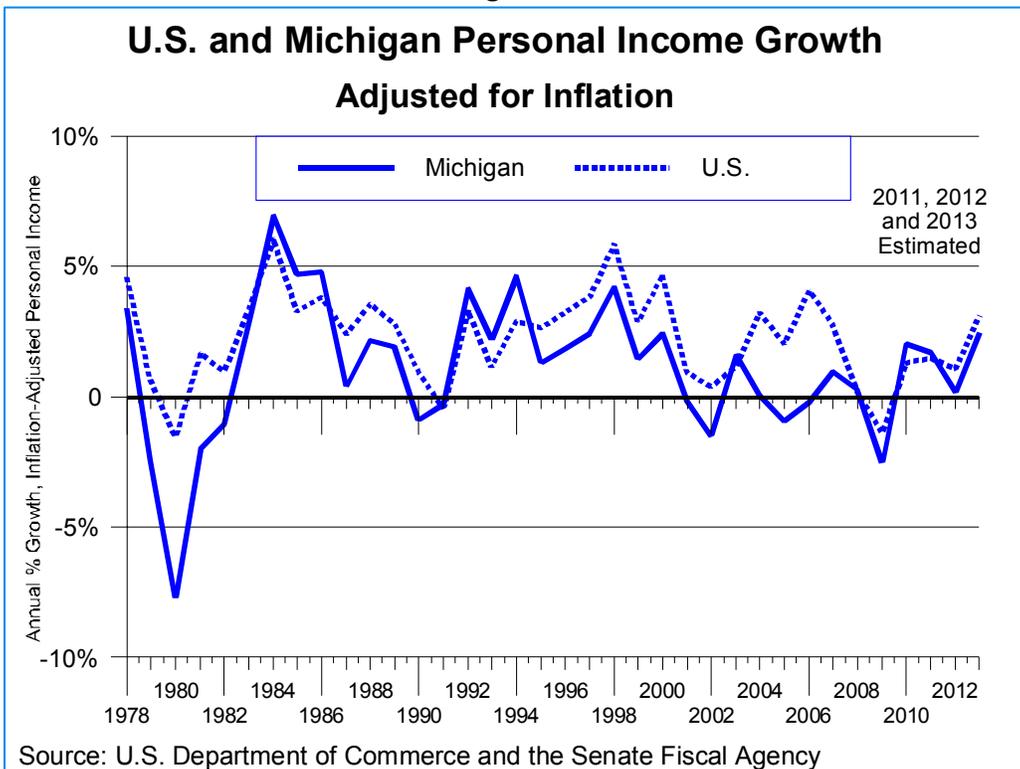


Figure 5



FORECAST RISKS

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

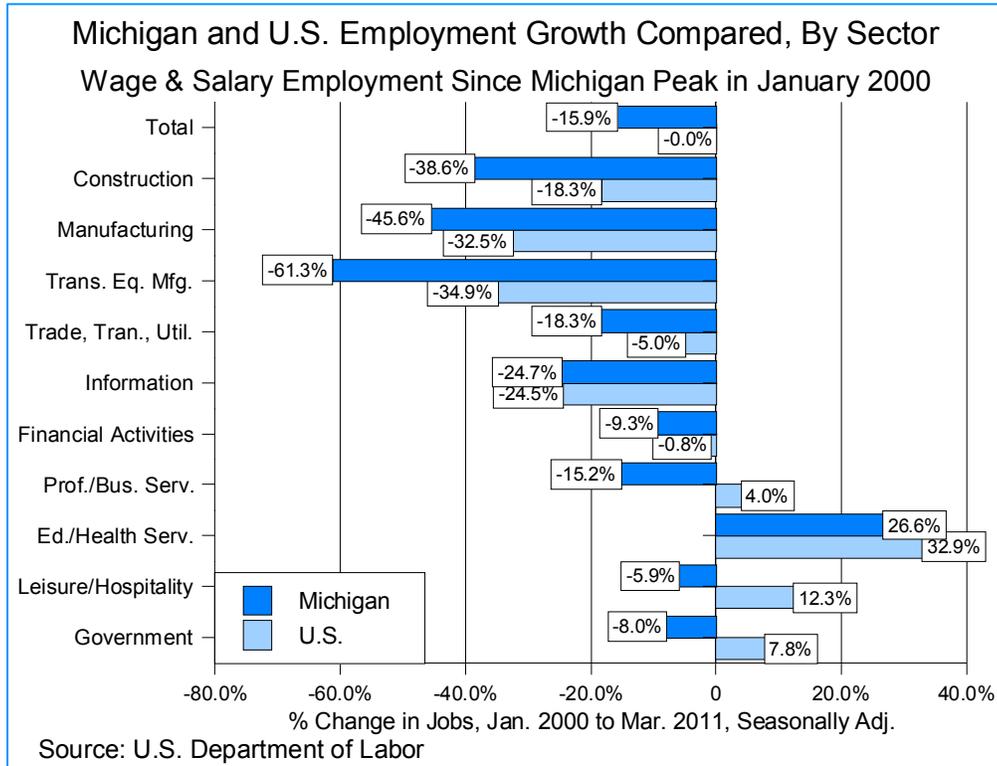
Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted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

Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, it was the largest percentage decline since 1942, and the largest peacetime decline since 1938. From peak to trough, inflation-adjusted consumption spending fell 2.4% between the fourth quarter of 2007 and the second quarter of 2009, as the economy shed 6.9 million jobs. However, personal income actually rose 0.5% over that time period, indicating that consumers engaged in a large amount of precautionary savings: reducing consumption by more than accounted for by actual income changes. As consumption has improved over the last seven quarters, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much actual growth in the underlying consumption trend is actually occurring. For example, after five quarters of growth in consumption, personal consumption expenditures in the third quarter of 2010 remained below the level in the fourth quarter of 2007 and in the first quarter of 2011 were only 1.5% above that level. Despite more than 24 months of consistent growth in retail sales, March 2011 retail sales levels were only 1.6% above the level in January 2008, without adjusting for inflation. As a result, another way of looking at the question of consumer saving behavior is to examine the nature of consumer spending. If consumers make their deferred purchases and only continue spending in the near future at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

Michigan's Situation. While over the last 10 years Michigan's employment situation has fared worse than the national average, and, in some cases or time periods within that range, worse than any other state ([Figure 6](#)), Michigan's performance is not particularly inconsistent with other states when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) have experienced weaker job performance over the last 10 years, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more

profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Figure 6



Weak markets for housing, credit, and employment, coupled with high energy prices and substantial debt burdens, are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to remain substantially below the levels experienced over the last two decades, although the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 7). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 8). Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the additional demand can be met with existing employees and the low cost of capital means there will be few incentives to increase hiring significantly. As a result, although as of March 2011, Michigan had lost nearly two-thirds of the jobs (62.4%, a decline of nearly 220,500 jobs) in transportation equipment manufacturing that existed during the peak in July 2000, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted. As identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of employment reported in June 2000 again until sometime near the year 2035.

The forecast expects employment levels in the transportation equipment manufacturing sector to increase slightly through 2011, 2012, and 2013. Overall employment levels in the State are expected to increase slightly, with many of the employment gains in 2012 and 2013 largely offset by declines in State and local government employment. However, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, meaningful growth is unlikely to occur until a meaningful recovery is experienced in both the financial sector and the housing industry, and consumers have improved their debt-to-income ratios. These

changes, which are expected to take years, will likely need to occur at both the national and statewide levels before Michigan will experience economic growth on a sustained basis.

Figure 7

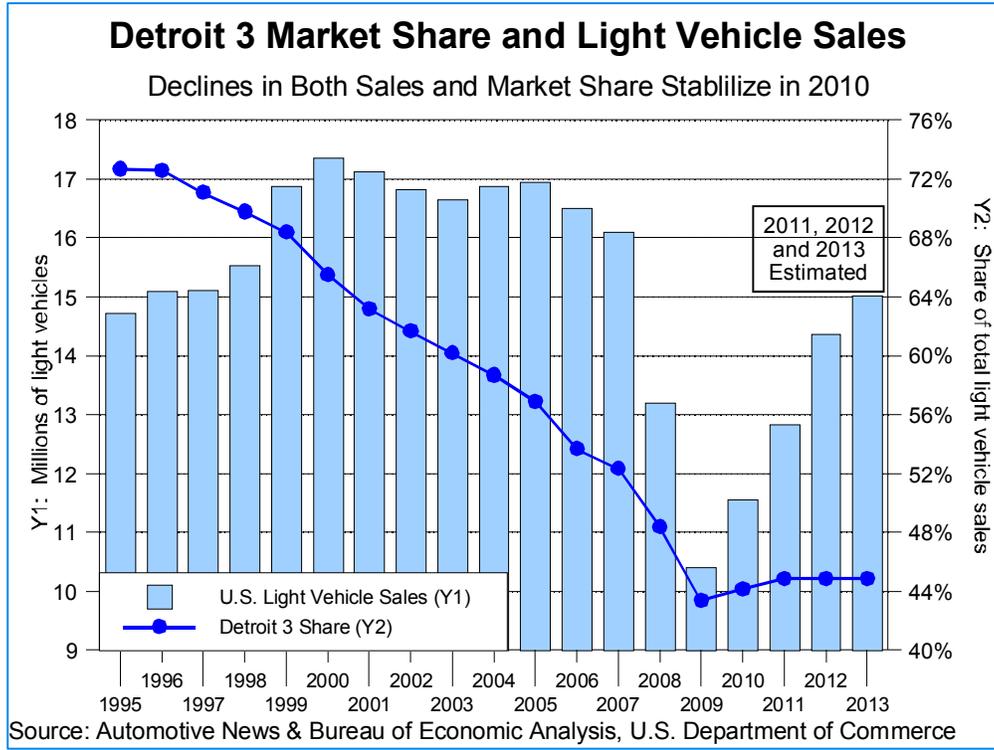
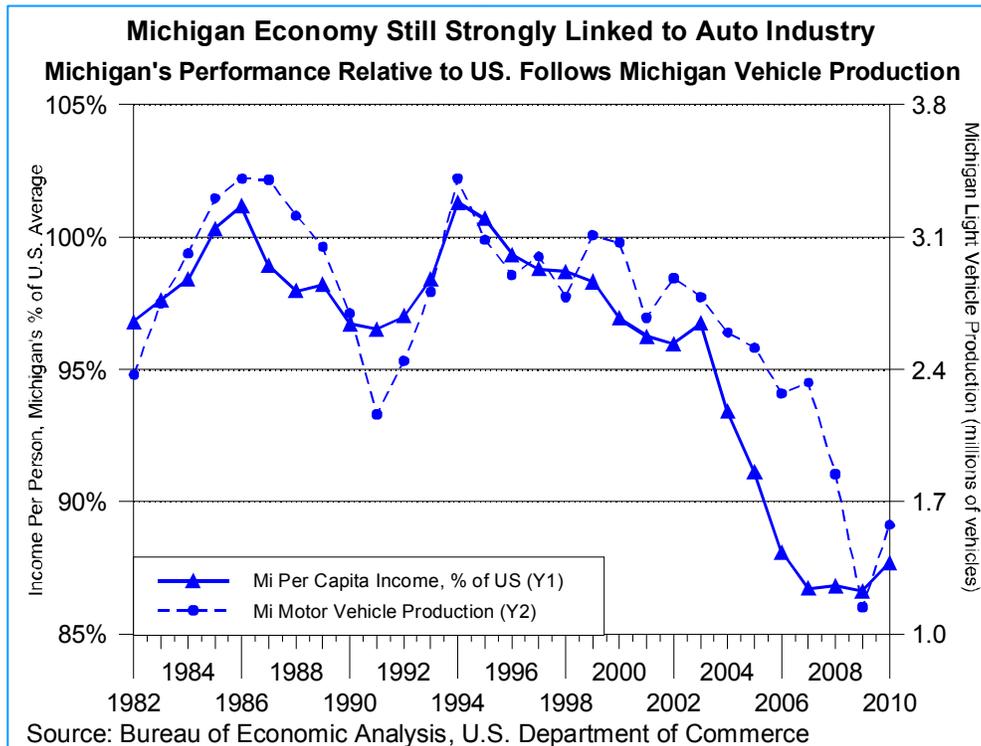


Figure 8



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 estimates for FY 2010-11, FY 2011-12, and FY 2012-13 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 changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, this revenue represents the revenue generated from ongoing revenue sources and does not include any revenue included in the GF/GP or SAF budgets from one-time revenue adjustments, transfers, or other nonrecurring revenue items. Any one-time revenue adjustments and transfers included in the GF/GP and SAF budgets are discussed in the last section of this report. This section of the forecast does not include any impact of the Governor's proposed tax code reforms.

REVENUE OVERVIEW

The revised estimates for FY 2010-11 and FY 2011-12 are presented in [Table 3](#), along with initial estimates for FY 2012-13, and summarized below.

FY 2010-11 Revised Revenue Estimate

- GF/GP and SAF revenue will total an estimated \$18.8 billion in FY 2010-11.
- This revised estimate represents an increase of 6.6% or \$1.2 billion from FY 2009-10.
- This projected increase in revenue reflects increased economic activity, particularly net employment gains and higher wages.
- The revised estimate for FY 2010-11 is \$557.3 million above the January 2011 consensus revenue estimate.

FY 2011-12 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$19.2 billion in FY 2011-12.
- This revised estimate for FY 2011-12 is up 2.2% or \$414.1 million from the revised estimate for FY 2010-11.
- As in FY 2010-11, this increase in revenue reflects increased economic activity although the increases are reduced by negative impacts from changes in both business tax credits and the individual income tax rate.
- The revenue projected for FY 2011-12 marks a second consecutive year of revenue gains, the first time since FY 2007-08 that revenue has increased for two consecutive years. The combined increase in GF/GP and SAF revenue projected for FY 2010-11 and FY 2011-12 is \$1.6 billion or 9.0%, compared with FY 2009-10.
- The revised estimate for FY 2011-12 is \$690.5 million above the January 2011 consensus revenue estimate.

FY 2012-13 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total \$19.3 billion in FY 2012-13.
- This initial estimate for FY 2012-13 is up 0.7% or \$134.0 million from the revised estimate for FY 2011-12.
- As in FY 2010-11 and FY 2011-12, the revenue increase in FY 2012-13 reflects increased economic activity, although the increases in GF/GP revenue are reduced by substantial

negative impacts from changes in both business tax credits and the tax rate under the individual income tax.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2010-11 THROUGH FY 2012-13				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(Millions of Dollars)				
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
	Final	Revised Est.	Revised Est.	Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	\$6,505.9	\$7,461.1	\$7,650.7	\$7,942.6
Tax Changes Not In Baseline	279.4	195.2	184.8	(310.3)
<u>Revenue After Tax Changes:</u>				
Net Income Tax	3,694.5	4,317.3	4,243.9	4,182.0
MBT, SBT & Insurance Tax	1,394.2	1,670.0	1,819.2	1,613.1
Other Taxes	<u>1,324.5</u>	<u>1,276.6</u>	<u>1,380.0</u>	<u>1,446.8</u>
Total Taxes	6,413.2	7,263.9	7,443.1	7,241.9
Nontax Revenue	372.1	392.4	392.4	390.4
TOTAL GF/GP REVENUE	\$6,785.3	\$7,656.3	\$7,835.5	\$7,632.3
SCHOOL AID FUND				
Baseline SAF	\$10,808.8	\$11,104.2	\$11,310.8	\$11,638.7
Tax Changes Not In Baseline	8.0	3.6	31.9	41.3
TOTAL SAF REVENUE	\$10,816.8	\$11,107.8	\$11,342.8	\$11,680.0
BASELINE GF/GP AND SAF REVENUE				
	\$17,314.7	\$18,565.3	\$18,961.5	\$19,581.2
Tax & Revenue Changes	287.4	198.8	216.7	(268.9)
GF/GP & SAF REV. AFTER CHANGES	\$17,602.1	\$18,764.1	\$19,178.3	\$19,312.3
<u>ADDENDUM:</u>				
SALES TAX	\$6,176.9	\$6,496.2	\$6,619.5	\$6,820.9
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	(3.8%)	14.7%	2.5%	3.8%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	(6.7)	16.9	(1.7)	(1.5)
Michigan Business Tax, SBT & Insurance Tax	(23.2)	19.8	8.9	(11.3)
Other Taxes	10.0	(3.6)	8.1	4.8
Total Taxes	(8.1)	13.3	2.5	(2.7)
Nontax Revenue	(3.7)	5.5	0.0	(0.5)
TOTAL GF/GP REVENUE	(7.9%)	12.8%	2.3%	(2.6%)
SCHOOL AID FUND				
Baseline SAF	(0.8)	2.7	1.9	2.9
TOTAL SAF REVENUE	(1.0%)	2.7%	2.1%	3.0%
BASELINE GF/GP AND SAF REVENUE				
	(2.0)	7.2	2.1	3.3
GF/GP & SAF REV. AFTER CHANGES	(3.7%)	6.6%	2.2%	0.7%
<u>ADDENDUM:</u>				
SALES TAX	1.4%	5.2%	1.9%	3.0%

Historical Perspective

- Net GF/GP and SAF revenue will increase an estimated 6.6% in FY 2010-11 and then rise another 2.2% in FY 2011-12 and 0.7% in FY 2012-13. These increases compared with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period.
- With the exception of FY 2007-08, when increases in the individual income tax and business taxes resulted in a 7.2% increase in revenue, the 6.6% in FY 2010-11 would be the strongest growth in combined GF/GP and SAF revenue since FY 1998-99.
- In FY 2010-11, the revised estimate for GF/GP revenue from ongoing sources will still be 21.9% (\$2.1 billion) below the FY 1999-2000 level and 23.1% below the record peak reached in FY 2007-08. By FY 2012-13, ongoing GF/GP revenue will remain nearly \$2.2 billion below the FY 1999-2000 level and more than \$2.3 billion below the level in FY 2007-08.
- In FY 2010-11, School Aid Fund revenue from ongoing sources is estimated to be 3.5% (\$405.1 million) below the FY 2007-08 peak, and 12.3% (\$1.2 billion) more than in FY 1999-2000. By FY 2012-13, ongoing SAF revenue will be \$167.1 million above the FY 2007-08 peak, and \$1.8 billion over the level in FY 1999-2000.

The FY 2010-11 increase in GF/GP and SAF revenue measured in terms of both baseline revenue and net revenue from ongoing sources will be the first increase since FY 2007-08. Figure 9 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2012-13. During this 26-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budget problems, they represent relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is expected that GF/GP and SAF baseline revenue will rise 7.2% in FY 2010-11, followed by increases of 2.1% in FY 2011-12 and 3.3% in FY 2012-13. Between FY 2009-10 and FY 2012-13, GF/GP and SAF baseline revenue is predicted to increase 13.1%, the strongest three-year increase since the FY 1996-97 to FY 1999-2000 period.

Figure 9

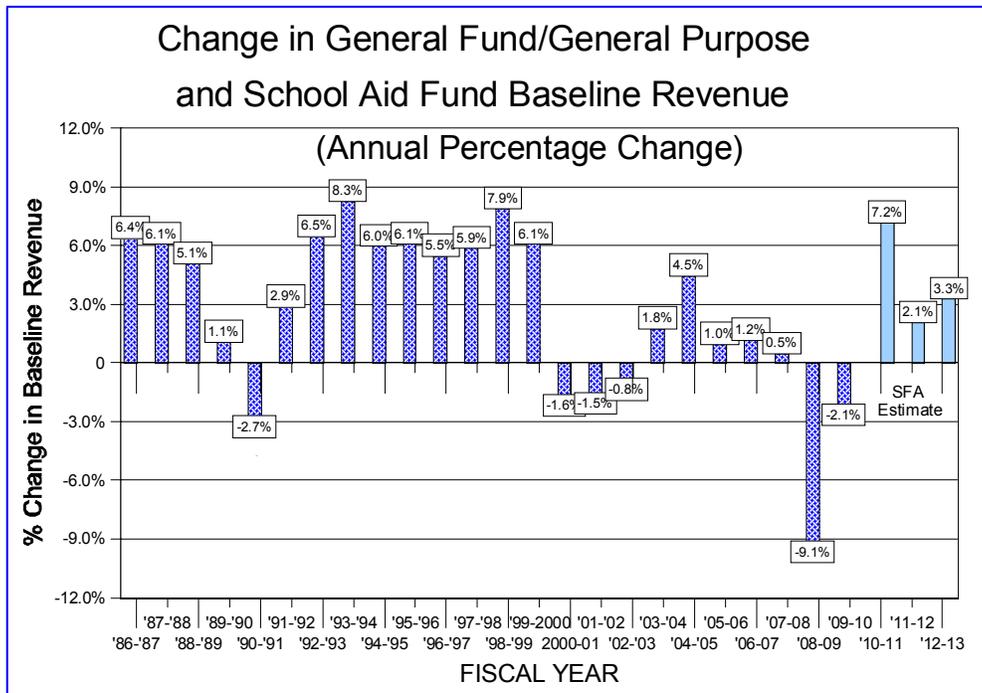


Figure 10 compares the FY 1995-96 through FY 2012-13 estimates for both the GF/GP and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to \$9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since FY 1987-88, as shown in Figure 11. Despite the growth estimated for FY 2010-11 and FY 2011-12, ongoing GF/GP revenue in FY 2011-12 will be approximately 9.9% below the FY 1995-96 level (without accounting for inflation), and FY 2012-13 is estimated to be approximately 12.2% below the FY 1995-96 level. In sharp contrast to the path GF/GP revenue has taken during this period, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10. Ongoing SAF revenue is expected to grow consistently through the forecast, with FY 2012-13 SAF revenue approximately 8.0% above the revenue level in FY 2009-10 and 58.0% above the level in FY 1995-96 (without accounting for inflation).

Figure 10

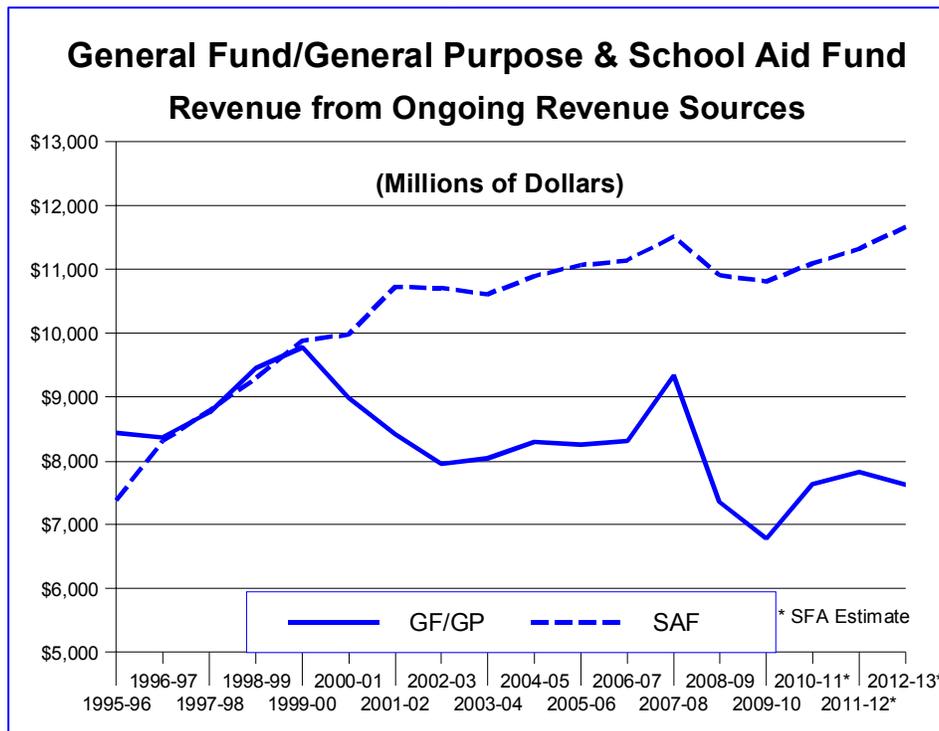
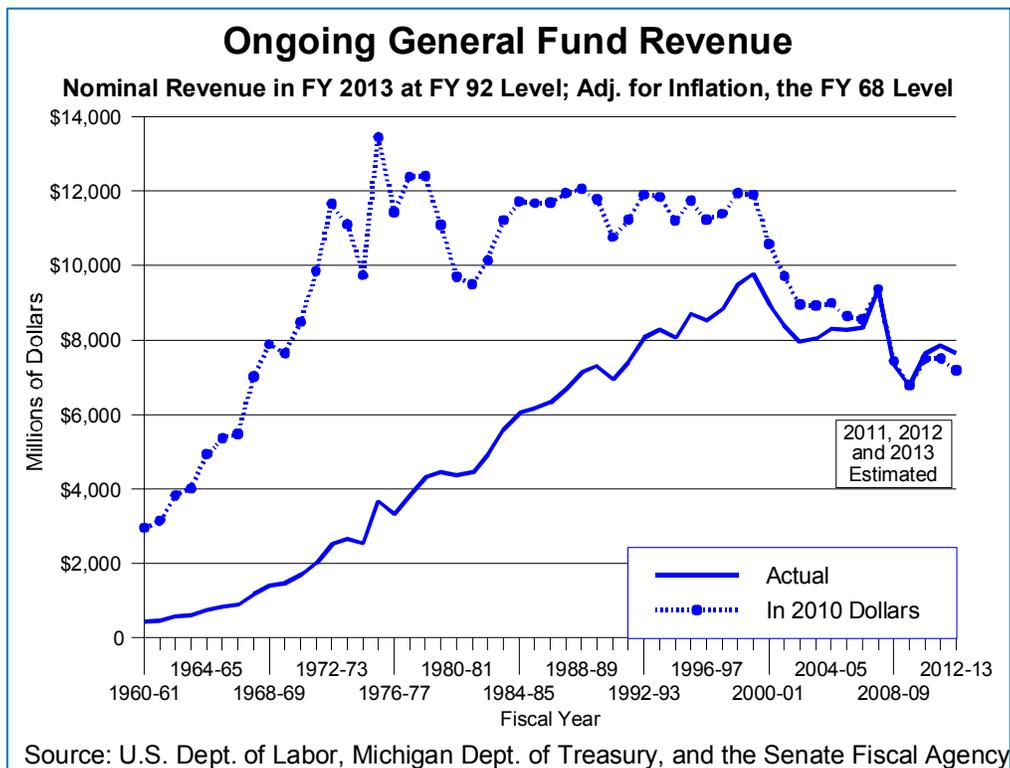


Figure 11



FY 2010-11 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will increase an estimated 6.6% in FY 2010-11 compared with FY 2009-10.
- Most of the revenue increase in FY 2010-11 reflects an improved economic climate in Michigan, although some gains are partially offset by some State and Federal tax policy changes.

The 6.6% increase in GF/GP and SAF revenue projected for FY 2010-11 reflects the improving State economy, largely resulting from higher vehicle sales levels and stable market shares for Michigan vehicle manufacturers. Revenue from many major taxes earmarked to the GF/GP budget and/or the SAF, including the income tax, sales tax, and MBT, is expected to grow significantly during FY 2010-11 compared with FY 2009-10. The revised estimate of GF/GP and SAF revenue for FY 2010-11 is \$557.3 million above the January 2011 consensus estimate. On a baseline basis, GF/GP and SAF revenue is projected to rise 7.2% in FY 2010-11. The revised GF/GP and SAF revenue estimates for FY 2010-11 are summarized in [Table 4](#).

Tax Policy Changes

Several tax policy changes by both the State and the Federal government will have negative impacts on revenue in FY 2010-11. These tax policy changes include the film tax credits and the Federal increase in tobacco taxes.

Film Credits. Three MBT credits related to film industry activity were enacted in 2008, the most significant one being a media production credit that allows production companies to receive a refundable credit equal to 40.0% of their direct production expenditures in Michigan. The production credit is expected to reduce MBT revenue directly by \$110.0 million in FY 2010-11, up from \$61.9 million in FY 2009-10. These credits are anticipated to generate new business activity

that will result in additional income tax, sales tax, and MBT receipts totaling an estimated \$13.1 million. Therefore, the film credits will result in a net overall reduction in revenue equal to an estimated \$96.9 million in FY 2010-11.

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

In addition, Michigan enacted legislation in late 2009 that significantly restricts smoking in public places such as restaurants and bars. In FY 2010-11, the legislation will have an impact on the full fiscal year, reducing tobacco tax revenue by approximately \$33.0 million, of which GF/GP revenue will be lowered \$6.5 million while SAF revenue will be \$13.7 million less.

General Fund/General Purpose

- General Fund/General Purpose revenue will total an estimated \$7.7 billion in FY 2010-11, which is up 12.8% or \$871.1 million from FY 2009-10.
- Compared with the January 2011 consensus estimate, GF/GP revenue for FY 2010-11 has been revised up by \$428.5 million.

The significant 12.8% increase in GF/GP revenue forecast for FY 2010-11 primarily reflects improvements in the Michigan economy that have had a positive impact on income tax and MBT revenue. Furthermore, income tax refunds are estimated to be down 7.6%, or \$183.6 million, from the FY 2009-10 level. Because income tax revenue earmarked to the SAF is based on gross collections, any decline in refunds increases GF/GP revenue. Similarly, MBT revenue earmarked to the SAF is determined by a fixed amount that grows by inflation, meaning that any increase in MBT revenue beyond that amount improves GF/GP revenue. The revised GF/GP revenue estimate for FY 2010-11 is summarized in [Table 4](#).

School Aid Fund

- School Aid Fund revenue from earmarked taxes and the lottery is expected to total \$11.1 billion in FY 2010-11, which represents an increase of 2.7% or \$290.9 million from FY 2009-10.
- The revised SAF revenue estimate is \$128.8 million higher than the January 2011 consensus estimate.

School Aid Fund revenue is expected to grow by 2.7% in FY 2010-11, reflecting the improved economic climate. While declines in the housing market will reduce the revenue collected from the State Education Tax and the real estate transfer tax, growth in the rest of the economy will improve sales tax and income tax revenue earmarked to the SAF. Sales tax collections earmarked to the SAF are expected to increase 5.2%, or \$233.9 million, while income tax collections are estimated to rise 7.9%, or 145.4 million, in FY 2010-11 from the FY 2009-10 level. In addition, the net revenue generated by the lottery is expected to increase \$25.4 million or 3.6% from FY 2009-10. The revised SAF revenue estimate for FY 2010-11 is summarized in [Table 4](#).

Table 4

**FY 2010-11 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)**

	FY 2009-10 Final	FY 2010-11 Revised Est.	Change from FY 2009-10		\$ Change from 01/11 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$6,505.9	\$7,461.1	\$955.2	14.7%	\$617.7
Tax Changes Not In Baseline	279.4	195.2	(84.1)	---	(189.0)
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	7,932.4	8,517.5	585.1	7.4	326.9
Less: Refunds	(2,400.8)	(2,217.2)	183.6	(7.6)	232.8
Net Income Tax Collections	5,531.6	6,300.3	768.7	13.9	559.8
Less: Earmarking to SAF	(1,836.1)	(1,981.5)	(145.4)	7.9	(76.1)
Campaign Fund	(1.0)	(1.5)	(0.5)	50.0	0.0
Net Income Tax to GF/GP	3,694.5	4,317.3	622.8	16.9	483.6
<u>Other Taxes</u>					
Michigan Business Tax	1,134.5	1,409.5	275.0	24.2	38.7
Sales	73.0	93.9	20.9	939.5	5.2
Use	818.2	766.3	(51.9)	(6.3)	(73.3)
Cigarette	200.8	193.0	(7.8)	(4.9)	(3.0)
Insurance Company Premiums	257.4	258.9	1.5	0.6	(12.7)
Telephone & Telegraph	60.8	58.0	(2.8)	(4.6)	(4.0)
Oil & Gas Severance	58.5	60.0	1.5	2.6	(6.0)
All Other	115.5	107.0	(8.5)	(7.4)	(7.0)
Subtotal Other Taxes	2,718.7	2,946.6	227.9	8.4	(62.1)
Total Nontax Revenue	372.1	392.4	20.3	5.5	7.0
GF/GP REV. AFTER TAX CHANGES	\$6,785.2	\$7,656.3	\$871.1	12.8%	\$428.5
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$10,808.8	\$11,104.2	\$295.4	2.7%	\$148.6
Tax Changes Not In Baseline	8.0	3.6	(4.4)	---	(19.8)
<u>Revenue After Tax Changes</u>					
Sales Tax	4,488.9	4,722.8	233.9	5.2	102.1
Use Tax	397.7	383.1	(14.6)	(3.7)	(36.7)
Lottery Revenue	701.3	726.7	25.4	3.6	12.7
State Education Property Tax	1,930.5	1,867.7	(62.8)	(3.3)	7.7
Real Estate Transfer Tax	121.6	120.3	(1.3)	(1.1)	(4.7)
Michigan Business Tax	726.8	739.2	12.4	1.7	0.0
Income Tax	1,836.1	1,981.5	145.4	7.9	76.1
Casino Tax	111.1	103.8	(7.3)	(6.6)	(8.2)
Other Revenue	502.9	462.7	(40.2)	(8.0)	(20.2)
SAF REV. AFTER TAX CHANGES	\$10,816.9	\$11,107.8	\$290.9	2.7%	\$128.8
BASELINE GF/GP AND SAF	\$17,314.7	\$18,565.3	\$1,250.6	7.2%	\$766.3
Tax & Revenue Changes	287.4	198.8	(88.6)	---	(208.8)
GF/GP & SAF REV. AFTER CHNGS	\$17,602.1	\$18,764.1	\$1,162.0	6.6%	\$557.3
SALES TAX	\$6,176.9	\$6,496.2	\$319.3	5.2%	\$139.2

¹⁾ FY 2009-10 is the base year for baseline revenue.

FY 2011-12 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will total an estimated \$19.2 billion in FY 2011-12, which is up 2.2% or \$414.1 million from the revised estimate for FY 2010-11.
- The revised estimate for FY 2011-12 is \$690.5 million above the January 2011 consensus estimate.

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

Tax Policy Changes

Several tax policy changes are expected to reduce revenue during FY 2011-12, the most significant reduction coming from a scheduled reduction in the tax rate under the individual income tax. The fiscal impacts of the film tax credits and Federal tobacco tax increase are expected to increase in FY 2011-12 compared with their impacts in FY 2010-11. Furthermore, several MBT credits enacted in earlier years will begin to reduce revenue during FY 2011-12.

Income Tax Rate Reduction. Based on legislation passed in 2007, the income tax rate increased from 3.9% to 4.35%. Under the same legislation, this rate increase is scheduled to fall by 0.1% starting on October 1, 2011. The rate will continue falling by 0.1% annually until it returns to the 3.9% level in 2015. This 0.1% rate reduction will result in a loss \$163.5 million in FY 2011-12.

Film Credits. The cost of the film credits also is expected to increase significantly in FY 2011-12, partially due to the approval of one substantial project. As a result, it is estimated that the net revenue loss due to Michigan's film credits will increase to \$140.9 million in FY 2011-12 from the \$96.9 million cost estimated for FY 2010-11.

Tobacco Taxes. In FY 2011-12, the increase in the Federal tobacco tax combined with the smoking ban is expected to lower Michigan's tobacco tax collections by an estimated \$72.2 million. The changes are expected to reduce General Fund/General Purpose revenue by \$14.4 million, with SAF revenue \$30.9 million less, and various other funds down \$27.0 million.

Other MBT Credits. Between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. During FY 2010-11, only the photovoltaic credit is expected to have an impact, reducing MBT revenue by approximately \$1.5 million. By FY 2011-12, the photovoltaic credit and battery credits are expected to reduce revenue by \$47.5 million, with all of the impact reducing GF/GP revenue.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated \$7.8 billion in FY 2011-12, an increase of 2.3% or \$179.2 million from FY 2010-11.
- The revised GF/GP estimate is \$541.4 million above the January 2011 consensus revenue estimate.

Table 5

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

	FY 2010-11 Revised Est.	FY 2011-12 Initial Est.	Change from FY 2010-11		\$ Change from 01/11 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$7,461.1	\$7,650.7	\$189.6	2.5%	\$543.2
Tax Changes Not In Baseline Revenue After Tax Changes	195.2	184.8	(10.4)	---	(1.9)
<u>Personal Income Tax</u>					
Gross Collections	8,517.5	8,565.4	47.9	0.6	280.6
Less: Refunds	(2,217.2)	(2,285.8)	(68.6)	3.1	238.4
Net Income Tax Collections	6,300.3	6,279.6	(20.7)	(0.3)	519.0
Less: Earmarking to SAF Campaign Fund	(1,981.5)	(2,034.2)	(52.7)	2.7	(66.0)
	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	4,317.3	4,243.9	(73.4)	(1.7)	453.0
<u>Other Taxes</u>					
Michigan Business Tax	1,409.5	1,547.2	137.7	9.8	127.4
Sales	93.9	84.9	(9.0)	(9.6)	(17.3)
Use	766.3	872.6	106.3	13.9	(3.3)
Cigarette	193.0	187.9	(5.1)	(2.6)	(3.9)
Insurance Company Premiums	258.9	272.0	13.1	5.1	(8.0)
Telephone & Telegraph	58.0	59.0	1.0	1.7	(3.0)
Oil & Gas Severance	60.0	67.0	7.0	11.7	(3.0)
All Other	107.0	108.6	1.6	1.5	(8.5)
Subtotal Other Taxes	2,946.6	3,199.2	252.6	8.6	80.4
Total Nontax Revenue	392.4	392.4	0.0	0.0	8.0
GF/GP REV. AFTER TAX CHANGES	\$7,656.3	\$7,835.5	\$179.2	2.3%	\$541.4
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$11,104.2	\$11,310.8	\$206.6	1.9%	\$146.8
Tax Changes Not In Baseline Revenue After Tax Changes	3.6	31.9	28.3	---	2.3
Sales Tax	4,722.8	4,812.6	89.8	1.9	56.8
Use Tax	383.1	436.3	53.2	13.9	(1.6)
Lottery Revenue	726.7	732.0	5.3	0.7	13.0
State Education Property Tax	1,867.7	1,872.0	4.3	0.2	37.0
Real Estate Transfer Tax	120.3	135.0	14.7	12.2	(1.0)
Michigan Business Tax	739.2	756.9	17.7	2.4	6.7
Income Tax	1,981.5	2,034.2	52.7	2.7	66.0
Casino Tax	103.8	108.0	4.2	4.0	(7.0)
Other Revenue	462.7	455.8	(6.9)	(1.5)	(33.8)
SAF REV. AFTER TAX CHANGES	\$11,107.8	\$11,342.8	\$235.0	2.1%	\$136.1
BASELINE GF/GP AND SAF	\$18,565.3	\$18,961.5	\$396.2	2.1%	\$690.1
Tax & Revenue Changes	198.8	216.7	17.9	---	0.4
GF/GP & SAF REV. AFTER CHNGS	\$18,764.1	\$19,178.3	\$414.1	2.2%	\$690.5
SALES TAX	\$6,496.2	\$6,619.5	\$123.3	1.9%	\$77.2

¹⁾ FY 2009-10 is the base year for baseline revenue.

Modest economic growth during 2012 will result in higher tax collections during FY 2011-12, although the increases will not be as strong as in FY 2010-11. Use tax revenue in FY 2011-12 is expected to rise 13.9%, although baseline use tax revenue is expected to rise only 8.0%. The remaining growth in use tax revenue during FY 2011-12 occurs because FY 2010-11 use tax revenue will be reduced by more than \$63.0 million due to a large one-time refund. Michigan Business Tax revenue in FY 2011-12 is expected to be 7.2% above the FY 2010-11 level. Because the SAF earmark of MBT revenue will rise by the rate of inflation, estimated to total 2.4%, the GF/GP share of MBT revenue will rise 9.8%. The revised GF/GP revenue estimate for FY 2011-12 is summarized in [Table 5](#).

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.3 billion in FY 2011-12, which is up 2.1% or \$235.0 million from the revised estimate for FY 2010-11.
- This revised SAF revenue estimate for FY 2011-12 is \$136.1 million above the January 2011 consensus revenue estimate.

The projected 2.1% increase in SAF revenue in FY 2011-12 will primarily reflect modest increases in sales tax and income tax revenue combined with a more stable housing market. Revenue from the State Education Tax is expected to increase only 0.2%, but it will be the first increase in revenue from the statewide property tax levy since FY 2006-07. The 12.2% increase in revenue from the real estate transfer tax will be the first increase since FY 2003-04. The revised SAF revenue estimate for FY 2011-12 is summarized in [Table 5](#).

FY 2012-13 INITIAL REVENUE ESTIMATES

The level of economic activity in Michigan is expected to increase more rapidly in FY 2012-13 than during FY 2011-12. However, the effect of these stronger economic fundamentals on tax revenue will be offset by several significant tax policy changes for FY 2012-13 which will reduce GF/GP and SAF revenue. Total GF/GP and SAF revenue will reach an estimated \$19.3 billion in FY 2012-13, an increase of 0.7% or \$134.1 million from the revised estimate for FY 2011-12. On a baseline basis, GF/GP and SAF revenue is expected to increase 3.3% in FY 2012-13, reflecting the stronger level of State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2012-13 is summarized in [Table 6](#).

Tax Policy Changes

Several tax policy changes are expected to reduce revenue during FY 2012-13, the most significant reductions coming from additional reductions scheduled in the tax rate under the individual income tax and substantial increases in MBT credits. The fiscal impacts of the film tax credits and Federal tobacco tax increase are expected to increase in FY 2012-13 compared with FY 2011-12, but the increases will be less than in previous years.

Income Tax Rate Reduction. Based on legislation passed in 2007, the income tax rate increased from 3.9% to 4.35%. Under the same legislation, this rate increase is scheduled to fall by 0.1% starting on October 1, 2011. The rate will continue falling by 0.1% annually, declining to 4.15% on October 1, 2012, until it returns to the 3.9% level in 2015. These rate reductions will lower income tax revenue by \$343.0 million in FY 2012-13.

Film Credits. The cost of the film credits also is expected to increase in FY 2012-13. The net revenue loss due to Michigan's film credits is forecast to rise to \$158.5 million in FY 2012-13, compared with a \$140.9 million cost estimated for FY 2011-12.

Table 6

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

	FY 2011-12 Revised Est.	FY 2012-13 Initial Est.	Change From FY 2011-12	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue¹⁾	\$7,650.7	\$7,942.6	\$291.9	3.8%
Tax Changes Not In Baseline Revenue After Tax Changes	184.8	(310.3)	(495.1)	---
<u>Personal Income Tax</u>				
Gross Collections	8,565.4	8,662.4	97.0	1.1
Less: Refunds	(2,285.8)	(2,377.5)	(91.7)	4.0
Net Income Tax Collections	6,279.6	6,285.0	5.4	0.1
Less: Earmarking to SAF Campaign Fund	(2,034.2)	(2,101.5)	(67.3)	3.3
	(1.5)	(1.5)	0.0	0.0
Net Income Tax to GF/GP	4,243.9	4,182.0	(61.9)	(1.5)
<u>Other Taxes</u>				
Michigan Business Tax	1,547.2	1,338.1	(209.1)	(13.5)
Sales	84.9	94.8	9.9	11.7
Use	872.6	929.3	56.7	6.5
Cigarette	187.9	183.2	(4.7)	(2.5)
Insurance Company Premiums	272.0	275.0	3.0	1.1
Telephone & Telegraph	59.0	61.0	2.0	3.4
Oil & Gas Severance	67.0	65.0	(2.0)	(3.0)
All Other	108.6	113.5	4.9	4.5
Subtotal Other Taxes	3,199.2	3,059.9	(139.3)	(4.4)
Total Nontax Revenue	392.4	390.4	(2.0)	(0.5)
GF/GP REV. AFTER TAX CHANGES	\$7,835.5	\$7,632.3	(\$203.2)	(2.6%)
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$11,310.8	\$11,638.7	\$327.9	2.9%
Tax Changes Not In Baseline Revenue After Tax Changes	31.9	41.3	9.4	---
Sales Tax	4,812.6	4,960.3	147.7	3.1
Use Tax	436.3	464.7	28.4	6.5
Lottery Revenue	732.0	747.9	15.9	2.2
State Education Property Tax	1,872.0	1,915.0	43.0	2.3
Real Estate Transfer Tax	135.0	155.0	20.0	14.8
Michigan Business Tax	756.9	774.7	17.8	2.4
Income Tax	2,034.2	2,101.5	67.3	3.3
Casino Tax	108.0	115.0	7.0	6.5
Other Revenue	455.8	445.9	(9.9)	(2.2)
SAF REV. AFTER TAX CHANGES	\$11,342.8	\$11,680.0	\$337.2	3.0%
BASELINE GF/GP AND SAF	\$18,961.5	\$19,581.3	\$619.7	3.3%
Tax & Revenue Changes	216.7	(268.9)	(485.7)	---
GF/GP & SAF REV. AFTER TAX CHNGS	\$19,178.3	\$19,312.3	\$134.1	0.7%
SALES TAX	\$6,619.5	\$6,820.9	\$201.4	3.0%

¹⁾ FY 2009-10 is the base year for baseline revenue.

Tobacco Taxes. In FY 2012-13, the increase in the Federal tobacco tax combined with the smoking ban is expected to lower Michigan's tobacco tax collections by an estimated \$74.6 million. The changes are expected to reduce General Fund/General Purpose revenue by \$14.4 million, with SAF revenue \$33.0 million less, and various other funds down \$27.2 million.

Other MBT Credits. Between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. By FY 2012-13, these credits are expected to reduce revenue by \$297.0 million, compared with \$47.5 million in FY 2011-12, with all of the impact reducing GF/GP revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$7.6 billion in FY 2012-13, a decline of 2.6% or \$203.2 million from the revised estimate for FY 2011-12. Baseline GF/GP revenue is expected to increase 3.8%, but the increases in the MBT credits are expected to more than offset the revenue gain from the improving economy. The initial GF/GP revenue estimates for FY 2012-13 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.7 billion in FY 2012-13, an increase of \$337.2 million, or 3.0%, from the revised estimate for FY 2011-12. The forecasted increase in SAF revenue reflects growth in every major revenue source other than tobacco taxes, and total SAF revenue is projected to surpass the previous peak, reached in FY 2007-08, by \$167.1 million. The initial SAF revenue estimates for FY 2012-13 are summarized in Table 6.

Major General Fund and School Aid Fund Taxes in FY 2010-11 through FY 2012-13

Income Tax. The income tax will generate an estimated \$6.3 billion in FY 2010-11, which represents an increase of 13.9% from FY 2009-10, the most rapid growth in individual income tax revenue since FY 1994-95. Modest increases in economic activity will fail to offset the impact of tax changes, particularly the scheduled reductions in the tax rate, resulting in a decline in income tax revenue of 0.3% in FY 2011-12. Stronger economic growth in FY 2012-13 is expected to approximately offset the effect of the tax changes, and net collections are expected to increase by 0.2%. Approximately 23.9% of the improvement in income tax revenue in FY 2010-11 reflects the decline in refunds, particularly as a result of fewer homestead property tax credits being claimed. Compared with January 2011 consensus revenue estimates, the revised income tax estimate for FY 2010-11 is up \$559.8 million and the revised estimate for FY 2011-12 is up \$519.0 million. These projected increases in income tax revenue will increase both GF/GP revenue and SAF revenue. The School Aid Fund receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds, including the refund payments for the homestead property tax credit and the earned income tax credit.

Sales Tax. As employment has stabilized and the economy has continued to grow, consumers and businesses have become less cautious, increasing spending on items subject to the sales tax. In FY 2010-11, sales tax revenue will total an estimated \$6.5 billion, which is 5.2% above the level in FY 2009-10. Sales tax collections are expected to continue growing, rising 1.9% in FY 2011-12, to \$6.6 billion, and 3.0% in FY 2012-13, to \$6.8 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates

experienced during much of the last decade. Compared with January 2011 consensus revenue estimates, the revised sales tax estimate for FY 2010-11 is up \$139.2 million and the revised estimate for FY 2011-12 is up \$77.2 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes both constitutional and statutory earmarkings, but over the past several years a significant portion of the amount earmarked statutorily has been diverted to the General Fund. This is discussed further in the last section of this report.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, telephone service (both residential and business), and business equipment purchased in other states for use in Michigan, can be volatile. A large refund payment is anticipated late in FY 2010-11, which will reduce use tax collections an estimated \$63.0 million. Baseline use tax revenue is expected to remain relatively flat in FY 2010-11, declining 0.2%, but net revenue is expected to decline 5.5%, almost entirely due to the refund. In later fiscal years, improvements in economic activity and business investment will result in substantial growth in use tax revenue. In FY 2011-12, use tax receipts will total an estimated \$1.3 billion, an increase of 13.9% from the revised estimate for FY 2010-11, although almost half of the increase is due to the absence of the large refund expected in FY 2010-11. As the economy continues to improve, use tax revenue is expected to increase 6.5% in FY 2012-13, to \$1.4 billion. Compared with the January 2011 consensus revenue estimates, the FY 2010-11 estimate for use tax collections has been revised down by \$110.0 million and the FY 2011-12 estimate is \$4.9 million less. The GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF.

Tobacco Taxes. Tax collections from the cigarette and other tobacco products taxes will total an estimated \$959.4 million in FY 2010-11, which represents a decrease of 4.7% from FY 2009-10. In FY 2011-12, tobacco tax revenue is expected to decline another 2.6%, to \$934.7 million, before falling 2.8% in FY 2012-13, to \$908.4 million. These estimated declines reflect the ongoing steady decline in tobacco consumption, further accelerated by the increase in the Federal tobacco tax and the smoking ban, as discussed in more detail earlier in this section. Tobacco tax revenue is earmarked to several different funds including the General Fund and the SAF.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2010-11, casino tax revenue will total an estimated \$103.8 million, a decline of 6.6% from FY 2009-10. As the economy improves, casino tax revenue is expected to rebound, rising 4.0% in FY 2011-12, to \$108.0 million, and 6.5% in FY 2012-13, to \$115.0 million.

State Education Property Tax. Weakness in the housing sector has driven State Education Tax revenue down since FY 2006-07. Few housing starts and declining home values will continue to depress State Education Tax revenue in FY 2010-11, with collections expected to fall 3.3%, to slightly less than \$1.9 billion. The housing market is expected to stabilize during FY 2011-12, resulting in only a 0.2% increase in State Education Tax revenue. While the housing market is expected to remain weak, by FY 2012-13, State Education Tax revenue will mostly be able to keep pace with inflation, and is expected to increase 2.3%, to slightly more than \$1.9 billion. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Lottery. An improving economy, coupled with new games and policy changes, is expected to result in a 3.6% increase in lottery revenue to the SAF, to \$726.7 million. Net lottery revenue is expected to grow slightly in subsequent years, rising 0.7% in FY 2011-12, to \$732.0 million, and 2.2% in FY 2012-13, to 747.9 million. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax. The Michigan Business Tax generated slightly less than \$1.9 billion in FY 2009-10, and roughly what the Single Business Tax generated in FY 2001-02. Fiscal year 2009-10 collections were pushed down by a significant increase in refunds, largely resulting from transition issues related to the implementation of the MBT in 2008 and 2009. In FY 2010-11, Michigan Business Tax revenue will total an estimated \$2.1 billion, with the absence of such a large number of refunds helping push net revenue up 15.4% from the FY 2009-10 level. Improved economic conditions are expected to result in MBT revenue growth of 7.2% in FY 2011-12, to \$2.3 billion. As film credits, battery credits and other significant MBT credits increase, the impact of these provisions is expected to wipe out any growth in baseline MBT revenue. As a result, baseline MBT revenue is expected to increase 5.0% in FY 2012-13, but net MBT revenue will fall 8.3%, to \$2.1 billion. The revised estimate for FY 2010-11 is \$38.7 million above the January 2011 consensus estimate, while the revised estimate for FY 2011-12 is \$134.1 million higher. According to the law, the SAF received \$729.0 million of MBT revenue in FY 2008-09, with that amount indexed in future years to the percentage change in the U.S. Consumer Price Index (CPI) during the previous fiscal year. The U.S. CPI is expected to increase by an estimated 2.4% in both FY 2010-11 and FY 2011-12, so the amount of the Michigan Business Tax that will be earmarked to the SAF will increase to an estimated \$756.9 million in FY 2011-12 and \$774.7 million in FY 2012-13. All remaining Michigan Business Tax revenue goes to the General Fund.

REVENUE TRENDS

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

In any given year, actual revenue from any tax will generally deviate from the average growth rates and the strength of forecasts largely depends on the ability to estimate these deviations. Table 7 presents long-term average growth rates for select major taxes, as well as GF/GP and SAF revenue. Due to the difficulties in producing a common baseline over this period, the historical averages reflect the growth net revenue rather than baseline growth. Table 7 also presents the average baseline growth rate over the FY 2010-11 through FY 2012-13 period forecast in this report. Finally, Table 7 presents an estimated trend in baseline growth rates for FY 2013-14 through FY 2015-16. The inherent uncertainty of the future means that these longer-term trend growth rates are less accurate than the more detailed forecast data for earlier fiscal years. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Table 7

REVENUE TRENDS FOR SELECTED TAXES			
Tax	Average Net Growth FY 1995-96 to FY 2009-10	Average Baseline Growth FY 2009-10 to FY 2012-13	Trend Baseline Growth FY 2012-13 to FY 2015-16
Individual Income			
Withholding	1.6%	4.0%	2.1%
Quarterly	0.2%	7.3%	3.1%
Annual	3.0%	9.9%	4.3%
Gross Collections	1.6%	4.7%	2.3%
Refunds	7.0%	0.1%	4.5%
Net Income Tax	0.1%	6.5%	1.5%
Sales	1.3%	3.3%	3.1%
Use	1.1%	4.7%	4.0%
Liquor/Beer/Wine	1.5%	2.0%	1.7%
Tobacco Taxes	4.0%	(2.9)%	(2.5)%
State Education Tax	4.0%	(0.4)%	5.0%
Real Estate Transfer Tax	(2.0)%	8.4%	6.0%
Michigan Business Tax ¹⁾	(11.5)%	9.0%	5.0%
Insurance	1.6%	2.2%	1.6%
Severance	3.5%	3.6%	3.5%
Casino ²⁾	3.4%	1.1%	4.0%
Lottery	---	0.4%	0.4%
GF/GP Earmarked Taxes	(1.8)%	7.2%	4.0%
SAF Earmarked taxes (incl. Lottery)	2.8%	2.5%	4.0%
1) Average net growth for FY 1995-96 to FY 2009-10 is replaced with SBT growth from FY 1995-96 to FY 2006-07.			
2) Average net growth for FY 1995-96 to FY 2009-10 is replaced with growth from FY 2000-01 to FY 2009-10.			

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

The history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2010-11 and FY 2011-12 is presented in [Tables 8](#) and [9](#). 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 for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2010-11 and FY 2011-12 have been adjusted to reflect a common base year.

The Senate Fiscal Agency's initial GF/GP and SAF baseline revenue estimate for FY 2010-11 of \$17.0 billion was made in December 2009, as shown in [Table 8](#). The estimate adopted at the January 2010 Consensus Revenue Estimating Conference was \$264.2 million above the SFA's estimate, and then at the May 2010 conference the estimate was increased another \$509.6 million to \$17.8 billion. At the January 2011 consensus conference, the estimate was increased again by \$35.7 million. Based on the revised economic outlook and actual tax collections through April 2011, the SFA has substantially increased the GF/GP and SAF baseline estimate another \$766.1 million, to \$18.6 billion. This latest revision to the FY 2010-11 GF/GP and SAF baseline revenue estimate is \$1.6 billion or 9.3% above the SFA's original estimate made in December 2009.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2010-11 (Millions of Dollars)			
Forecast Date	GF/GP	SAF	Total
December 18, 2009	\$6,504.6	\$10,485.1	\$16,989.7
January 11, 2010 ^{a)}	6,818.4	10,435.5	17,253.9
May 14, 2010	6,568.5	10,707.0	17,275.5
May 21, 2010 ^{a)}	7,012.9	10,750.6	17,763.5
December 17, 2010	6,974.8	10,870.4	17,845.2
January 14, 2011 ^{a)}	6,843.5	10,955.7	17,799.2
May 13, 2011	7,461.1	11,104.2	18,565.3
<u>Change From Previous Estimate:</u>			
Dollar Change	\$617.6	\$148.5	\$766.1
Percent Change	9.0%	1.4%	4.3%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$956.5	\$619.1	\$1,575.6
Percent Change	14.7%	5.9%	9.3%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2009-10.			

The initial GF/GP and SAF baseline revenue estimate for FY 2011-12 was made in December 2010 at \$18.4 billion, as shown in [Table 9](#). This estimate was lowered by \$96.6 million at the January 2011 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2011-12 presented in this report increases the baseline estimate \$690.1 million above the January 2011 consensus estimate, to \$19.0 billion.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2011-12 (Millions of Dollars)			
Forecast Date	GF/GP	SAF	Total
December 17, 2010	\$7,260.7	\$11,107.3	\$18,368.0
January 14, 2011 ^{a)}	7,107.4	11,164.0	18,271.4
May 13, 2011	7,650.7	11,310.8	18,961.5
<u>Change From Previous Estimate:</u>			
Dollar Change	\$543.3	\$146.8	\$690.1
Percent Change	7.6%	1.3%	3.8%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$390.0	\$203.5	\$593.5
Percent Change	5.4%	1.8%	3.2%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2009-10.			

BUDGET STABILIZATION FUND

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

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

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

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

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

Table 10 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 2009-10. Also presented in this table are the SFA's estimates for FY 2010-11, FY 2011-12, and FY 2012-13. 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 2010-11, FY 2011-12, and FY 2012-13 are presented in Table 11.

FY 2009-10

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

FY 2010-11, FY 2011-12, and FY 2012-13

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula does not trigger any payments out of, or into, the Fund for FY 2010-11. The strong growth in inflation-adjusted personal income during calendar year 2011 results in a calculated transfer into the BSF of \$157.1 million during FY 2011-12. However, because inflation-adjusted personal income less transfer payments is projected to decline in calendar year 2012, the calculation indicates that a \$44.9 million transfer from the BSF is also permitted. Any transfer into or out of the BSF would need to be approved by the Legislature. No transfer out of, or into, the BSF is calculated for FY 2012-13, as shown in Table 11.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2012-13 ESTIMATE (Millions of Dollars)				
Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1998-99	\$244.4	\$51.2	\$73.7	\$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	9.1	1.8	156.1	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
Senate Fiscal Agency estimates:				
2010-11	0.0	0.0	0.0	2.2
2011-12	157.1	0.0	44.9	114.4
2012-13	0.0	0.8	0.0	115.2

Figure 12

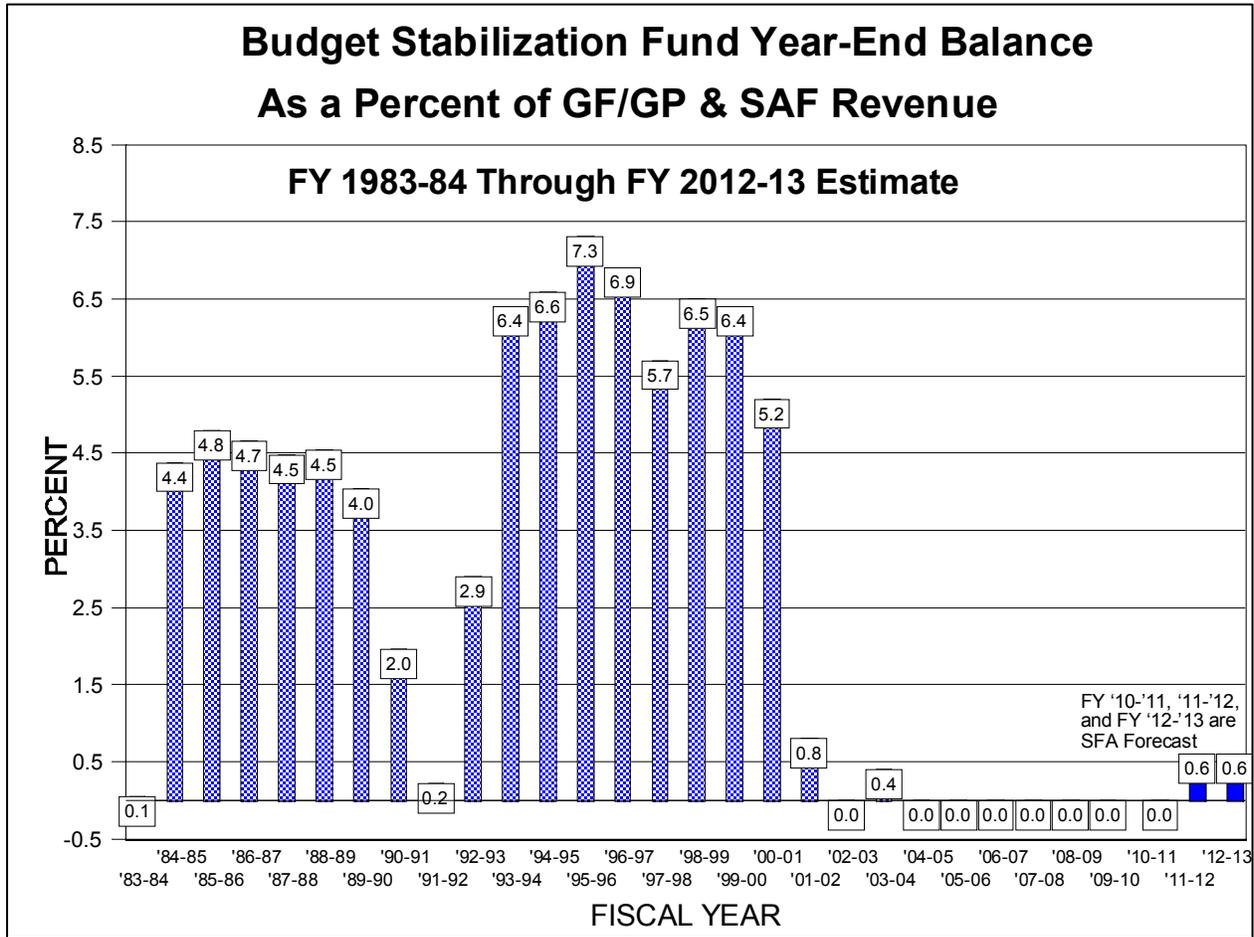


Table 11

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER				
FY 2010-11, FY 2011-12, and FY 2012-13				
(Millions of Dollars)				
	CY 2010	CY 2011	CY 2012	CY 2013
Michigan Personal Income (MPI)	\$351,830	\$367,583	\$374,990	\$391,257
Less: Transfer Payments	81,536	82,008	84,134	87,266
Subtotal	\$270,295	\$285,575	\$290,856	\$303,990
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)				
Equals: Real Adjusted MPI	2.046	2.078	2.128	2.164
Percent Change from Prior Year	\$132,109	\$137,461	\$136,674	\$140,470
Excess Over 2.0%		4.05%	-0.57%	2.78%
		FY 2010-11	FY 2011-12	FY 2012-13
Multiplied by: Estimated GF/GP Revenue		\$7,656.3	\$7,835.5	\$7,632.3
Equals: Transfer to the BSF		\$0.0	\$157.1	\$0.0
OR Transfer from the BSF		\$0.0	\$44.9	\$0.0

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. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by \$109.6 million. This was due to new State revenue being generated as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. The largest gap between revenue and the limit occurred in FY 2009-10, when State revenue was \$9.4 billion 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 continue to remain well below the revenue limit in FY 2010-11 through FY 2012-13.

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 2009-10, State government revenue could not exceed 9.49% of personal income for calendar year 2008. Given that Michigan personal income for 2008 equaled \$353,296 million, the revenue limit for FY 2009-10 was \$33,527.8 million.

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

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

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

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on the SFA's revised revenue estimates for FY 2010-11, FY 2011-12, and FY 2012-13, 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 2010-11 through FY 2012-13 are presented in Table 12.

FY 2009-10

In FY 2009-10, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2008. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2008 was \$353.3 billion, so the revenue limit equaled \$33.5 billion. Based on the final revenue for FY 2009-10, revenue subject to the limit totaled \$24.1 billion. As a result, revenue subject to the limit fell below the revenue limit by \$9.4 billion, or 28.2%. This gap between the revenue limit and revenue subject to the limit is larger than it has ever been, despite the enacted increases in the income and Michigan business taxes in FY 2007-08, as a result of the weak economy and significant tax policy changes that reduced revenue.

FY 2010-11

In FY 2010-11, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2009. The U.S. Department of Commerce's Bureau of Economic Analysis estimate of Michigan personal income in calendar year 2009 equals \$342.3 billion, so the revenue limit is estimated at \$32.5 billion for FY 2010-11. Based on the SFA's revised revenue estimates for FY 2010-11, revenue subject to the revenue limit will equal an estimated \$25.3 billion. As a result, it is estimated that revenue subject to the limit will fall below the limit by \$7.2 billion, or 22.1%, in FY 2010-11. The decline in the gap between estimated revenue and the limit during FY 2010-11 does reflect both an increase in revenue subject to the limit and a decrease in personal income during 2009. Revenue subject to the limit in FY 2010-11 is estimated to increase approximately 5.0% from the FY 2009-10 level, while personal income fell 3.1% between 2008 and 2009. The 2009 decline in personal income lowers the FY 2010-11 revenue limit by \$1.1 billion.

FY 2011-12

The Senate Fiscal Agency estimates that personal income in Michigan during 2010 will have equaled \$351.8 billion, and as a result, the revenue limit will equal \$33.4 billion in FY 2011-12. Based on the SFA's revised revenue estimates for FY 2011-12, revenue subject to the revenue limit will equal an estimated \$25.8 billion. As a result, revenue subject to the revenue limit will fall below the revenue by an estimated \$7.6 billion, or 22%, in FY 2011-12.

FY 2012-13

The Senate Fiscal Agency estimates that personal income in Michigan during 2011 will equal \$367.6 billion, and as a result, the revenue limit will equal \$34.9 billion in FY 2012-13. Based on the SFA's initial revenue estimates for FY 2012-13, revenue subject to the revenue limit will equal an estimated \$25.9 billion. As a result, revenue subject to the revenue limit will fall below the revenue limit by an estimated \$9.0 billion, or 25.8%, in FY 2012-13.

Table 12

STATE'S COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT					
Section 26 of Article IX of the State Constitution					
FY 2008-09 to FY 2012-13 Estimate					
(Millions of Dollars)					
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
	Final	Final	Estimate	Estimate	Estimate
<u>Revenue Subject to Limit</u>					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	\$7,097.2	\$6,505.9	\$7,461.1	\$7,650.7	\$7,942.6
Revenue Sharing (baseline)	1,568.3	1,523.4	1,588.4	1,630.0	1,673.8
School Aid Fund (baseline)	10,896.2	10,808.8	11,104.2	11,310.8	11,638.7
Transportation Funds	1,999.0	1,999.7	2,065.5	2,142.4	2,181.1
Other Restricted Nonfederal Aid Rev.	3,014.5	2,984.4	2,909.8	2,822.5	2,737.8
Adjustments:					
GF/GP Federal Aid	(31.2)	(20.8)	(22.0)	(23.0)	(20.0)
GF/GP Balance Sheet Adjustments	268.5	279.4	195.2	184.8	(310.3)
SAF Balance Sheet Adjustments	26.0	8.0	3.6	31.9	41.3
Total Revenue Subject to Limit	\$24,838.5	\$24,088.7	\$25,305.7	\$25,750.1	\$25,885.0
<u>Revenue Limit</u>					
Personal Income:					
Calendar Year	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
Amount	\$345,885	\$353,296	\$342,302	\$351,830	\$367,583
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$32,824.5	\$33,527.8	\$32,484.5	\$33,388.7	\$34,883.7
1.0% of Limit	328.2	335.3	324.8	333.9	348.8
Amount Under (Over) Limit	\$7,985.9	\$9,439.1	\$7,178.7	\$7,638.6	\$8,998.6
% Below Limit	24.3%	28.2%	22.1%	22.9%	25.8%

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2010-11, FY 2011-12, and FY 2012-13 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 2011-12 State budget.

On February 17, 2011, Governor Rick Snyder presented his FY 2011-12 and FY 2012-13 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 14, 2011, preliminary revenue estimates by the State Treasurer for FY 2012-13, recommended changes in State taxes and fees, and adjustments to both GF/GP and SAF appropriations. The Governor's FY 2011-12 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2011-12 State budget to the Legislature in February 2011, several factors have changed, which will have a direct impact on the final decisions to be made by the Legislature on the State budget. The recent performance of the United States and Michigan economies has generally exceeded the levels assumed at the January 2011 Consensus Revenue Estimating Conference. This fact results in increases in the estimates of GF/GP and SAF revenue. The upward revenue adjustments related to economic performance, however, may be affected by changes to the Governor's original tax code reforms that are still being developed. One of the proposed changes to the Governor's tax reform is a mitigation of his proposed income tax on pensions. Any changes in the tax proposal could result in a loss of State revenue and would affect the GF/GP and SAF revenue estimates for both FY 2011-12 and FY 2012-13.

For the purposes of this report, the SFA estimates for FY 2011-12 and FY 2012-13 for both GF/GP revenue and SAF revenue in this section are based on preliminary analysis of the revised tax code reform package passed by the House of Representatives on May 5, 2011. The SFA estimated that the original income tax reforms proposed by the Governor would provide net additional FY 2011-12 GF/GP revenue of \$339.8 million and would reduce SAF revenue by \$593.9 million. The SFA estimates that the revisions to the tax reforms that were passed by the House would further lower FY 2011-12 GF/GP revenue by \$114.1 million and SAF revenue by \$85.6 million, compared with the Governor's original proposal. For FY 2012-13, the tax code revisions are estimated to lower GF/GP revenue and SAF revenue by \$193.6 million and \$130.5 million, respectively, compared with the Governor's original proposal.

Table 13 provides a summary of the SFA's estimates of the FY 2010-11, FY 2011-12, and FY 2012-13 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 2010-11 GF/GP budget will have a surplus of \$371.3 million and the SAF budget will have a surplus of \$644.7 million. Based on current SFA revenue estimates along with Senate-passed State appropriations, the FY 2011-12 GF/GP budget will have a surplus of \$953.4 billion and the SAF budget will have a surplus of \$360.8 million. A comparison of the SFA's estimate of FY 2012-13 revenue and the Senate-passed FY 2011-12 appropriation bills adjusted for caseload and other cost increases, leads to a projected \$1.18 billion GF/GP budget surplus and a projected \$452.8 million SAF surplus.

Table 13

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND SFA ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2010-11 Estimate	FY 2011-12 Estimate	FY 2012-13 Estimate
General Fund/General Purpose	\$371.3	\$953.4	\$1,181.8
School Aid Fund	\$644.7	\$360.8	\$452.8

FY 2010-11 YEAR-END BALANCE

During September 2010, the Michigan Legislature approved FY 2010-11 GF/GP budgets that were balanced between estimated revenue and enacted appropriations. The initial budget approved by the Legislature was based on a May 2010 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2011 were relatively modest and the enacted FY 2010-11 GF/GP and SAF budgets were still in balance. The current SFA revenue estimates, which result in increases in both GF/GP and SAF revenue, produce a surplus in the FY 2010-11 GF/GP budget of \$371.3 million and a surplus in the FY 2010-11 SAF budget of 644.7 million. Under current law, ending balances for both the GF/GP budget and the SAF budget are carried forward into the ensuing fiscal year.

Table 14 provides the details of the SFA's estimate of a \$371.3 million FY 2010-11 GF/GP budget surplus. On the revenue side of the FY 2010-11 GF/GP budget ledger, the SFA now believes that ongoing GF/GP revenue will total \$7.7 billion. This projected level of FY 2010-11 GF/GP revenue represents an \$871.0 million or 12.8% increase from the final level of FY 2009-10 GF/GP revenue. The May 2011 SFA estimate of current law GF/GP revenue is up \$428.5 million from the January 2011 consensus revenue estimate. The FY 2010-11 GF/GP revenue total of \$9.0 billion includes \$187.2 million of surplus revenue carried forward from FY 2009-10, \$7.7 billion of ongoing revenue, and \$1.1 billion of revenue from other sources.

On the expenditure side of the FY 2010-11 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total \$8.6 billion. This projected level of FY 2010-11 GF/GP expenditures reflects an \$888.5 million or 11.5% increase from the final level of FY 2009-10 GF/GP expenditures. It should be noted that there was a \$208.4 million fund shift from GF/GP to SAF in the FY 2009-10 Community Colleges budget, and over \$1.1 billion of Federal American Recovery and Reinvestment Act funding that was used to offset GF/GP in the FY 2009-10 budgets. The projected level of GF/GP expenditures includes enacted appropriations, pending supplemental appropriations, projected caseload and cost estimates in the Departments of Community Health and Human Services, and the recognition of potential funding risks. Included in the potential FY 2010-11 GF/GP funding risks are Federal disallowances regarding Medicaid claims made by the State at the Center for Forensic Psychiatry between FY 2000-01 and FY 2008-09. The Federal government has informed Michigan that it will disallow these Medicaid payments due to the lack of Medicare certification of this facility. Other potential Federal disallowances include payments to the Huron Valley Center, reimbursement for the Family Planning Waiver, and a settlement related to special pharmaceutical services. It is estimated that these Federal disallowances could total approximately \$192.0 million of lost GF/GP revenue in the Department of Community Health budget.

Table 14
FY 2010-11
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$187.2
<u>Ongoing Revenue:</u>	
Senate Fiscal Agency Revenue Estimate (May 2011)	\$7,656.3
Revenue Sharing Freeze for Cities, Villages, and Townships	594.5
Restore Payments for County Revenue Sharing.....	(114.7)
Shift of Short-Term Borrowing Costs to School Aid Fund	15.0
Use Tax on Health Maintenance Organizations	368.4
<u>Non-ongoing Revenue:</u>	
Enhanced Tax Enforcement Revenue.....	15.0
Liquor Reforms	9.1
Tax Amnesty.....	61.8
Unclaimed Property Reforms.....	166.0
Lawsuit Settlements.....	0.4
Lapse of Secretary of State Work Project to General Fund	6.0
Total Estimated GF/GP Revenue.....	\$8,965.0
Expenditures:	
Initial Appropriations	\$8,311.0
<u>Enacted Supplemental Appropriations:</u>	
Public Act 191 of 2010-Grant to Detroit Institute of Arts.....	10.0
Public Act 204 of 2010-Eliminate GF Reimbursement to K-12 for Ren. Zones.....	(9.2)
<u>Pending Supplementals:</u>	
House Bill 4291-Early Retirement Savings.....	(57.4)
Revenue Sharing Census Adjustments	11.8
<u>Other Expenditure Adjustments:</u>	
Community Health Caseload/Costs.....	90.0
Human Services Caseload/Costs	7.5
Other Potential Funding Risks.....	230.0
Total Estimated GF/GP Expenditures	\$8,593.7
Projected Year-End GF/GP Balance.....	\$371.3

Table 15 provides a summary of the SFA estimate of a \$644.7 million FY 2010-11 SAF budget surplus. This surplus estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2010-11 SAF budget ledger, the SFA now believes that ongoing SAF revenue will total \$11.1 billion. This projected level of total SAF revenue represents a \$290.9 million or 2.7% increase over the final level of FY 2009-10 SAF revenue. The May 2011 SFA estimate of current-law SAF revenue is up \$128.8 million from the January 2011 consensus revenue estimate. The FY 2010-11 SAF revenue total of \$13.6 billion includes \$255.9 million of surplus revenue carried forward from FY 2009-10, \$11.1 billion of restricted SAF revenue, an \$18.6 million GF/GP grant, \$1.7 billion of ongoing Federal aid, \$184.3 million of temporary Federal aid appropriated as part of the American Recovery and Reinvestment Act of 2009, and \$316.3 million of temporary aid from the Federal Education Jobs Fund. There is also revenue related to enhanced tax enforcement, the tax amnesty program, and liquor law reforms.

On the expenditure side of the FY 2010-11 SAF budget ledger, the SFA now believes that final SAF expenditures will total \$12.9 billion. This projected level of FY 2010-11 SAF expenditures reflects a \$278.1 million or 2.1% decline from the final level of FY 2009-10 SAF expenditures. The \$12.9 billion of projected SAF expenditures includes \$12.86 billion of funding in the original enacted appropriation bill and adjustments based on increased Federal funds, updated pupil counts, the elimination of \$9.2 million GF/GP for Renaissance Zone reimbursements, and other formula cost adjustments.

Table 15
FY 2010-11
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$255.9
Senate Fiscal Agency Revenue Estimate (May 2011).....	\$11,107.8
Other Revenue Adjustments:	
GF/GP Grant to School Aid Fund.....	18.6
Ongoing Federal Aid.....	1,677.8
American Recovery and Reinvestment Act Funding.....	184.3
Federal Education Jobs Fund of 2010.....	316.2
Enhanced Tax Enforcement Revenue.....	2.3
Tax Amnesty.....	26.1
Liquor Reforms.....	0.9
Subtotal Other Revenue Adjustments.....	\$2,226.2
Total Estimated School Aid Fund Revenue.....	\$13,589.9
Expenditures:	
Initial Appropriations (Public Act 110 of 2010).....	\$12,864.7
Enacted Supplemental Appropriations:	
Public Act 204 of 2010-Cost Adjustments and Eliminate Renaissance Zone GF.....	(46.8)
Public Act 205 of 2010-Federal Education Jobs Fund.....	70.3
Public Act 217 of 2010-Federal Education Jobs Fund 2x Distribution.....	246.0
Pending Supplementals:	
House Bill 4445-Technical Cost Adjustments and \$500,000 for Bus Inspections.....	(180.0)
Other Expenditure Adjustments:	
Formula Cost Adjustments.....	(9.0)
Total Estimated School Aid Fund Expenditures.....	\$12,945.2
Projected Year-End School Aid Fund Balance.....	\$644.7

FY 2011-12 YEAR-END BALANCE

The Legislature has been considering Governor Snyder's FY 2011-12 State budget recommendation since the budget was presented to the Legislature on February 17, 2011. To date, the Senate and House have acted on all of the appropriation bills necessary to implement the budget. The Senate-passed appropriation bills reflect the Senate policy decision to appropriate additional funds for the K-12 School Aid budget but to achieve this by reducing GF/GP appropriations for other State budget areas. The Senate did not entirely concur with the Governor on his proposal to shift \$699.7 million in SAF revenue from the K-12 budget to the Higher Education budget, but did agree to shift \$200.0

million of SAF revenue from K-12 to Higher Education. The Senate did concur in shifting \$195.9 million of SAF revenue from K-12 to Community Colleges. Using the Senate-passed appropriation bills as the basis of the FY 2011-12 budget, there will be positive ending balances for both the GF/GP and the SAF balance sheets.

Table 16 provides a summary of the \$953.4 million projected year-end balance in the FY 2011-12 GF/GP budget. This projected balance is based on carrying forward the FY 2010-11 projected year-end balance, the SFA estimate of current-law revenue, revenue adjustments that are part of the Senate-passed appropriation bills, and the Senate-passed appropriation levels.

Table 16
FY 2011-12
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance	\$371.3
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate (May 2011)	\$7,835.5
Revenue Sharing Savings	\$656.4
Tax Code Reforms	339.8
Updated Estimate of Tax Code Reforms.....	(114.1)
Shift of Short-Term Borrowing Costs to School Aid Fund	20.0
Non-ongoing Revenue:	
Tax Amnesty	(49.8)
Unclaimed Property Reforms	35.0
Liquor Reforms	9.1
Northville Sale (Balloon Payment, Oct. 14, 2011).....	6.5
Transfer Comprehensive Transportation Fund Revenue to Gen'l Fund	15.0
Total Estimated GF/GP Revenue	\$9,124.7
Expenditures:	
Senate-Passed Appropriations.....	\$8,125.2
Employee Concessions	(180.0)
Payment for Other Post-Employment Benefits.....	160.0
Community Health Caseload/Costs.....	70.0
Human Services Caseload/Costs	(4.0)
Total Estimated GF/GP Expenditures	\$8,171.2
Projected Year-End GF/GP Balance	\$953.4

On the revenue side of the FY 2011-12 GF/GP budget ledger, the SFA now believes that ongoing GF/GP revenue will total \$7.8 billion. This projected level of FY 2011-12 GF/GP revenue reflects a \$179.2 million or 2.3% increase from the estimated level of FY 2010-11 GF/GP revenue. The May 2011 SFA estimate of ongoing revenue represents a \$541.4 million increase from the January 2011 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include revenue sharing savings of \$656.4 million, which were proposed by the Governor, as well as the Governor's tax code reforms, modified by the House, which produce a net additional \$225.7 million in GF/GP revenue. The FY 2011-12 revenue total of \$9.1 billion assumes an additional \$135.4 million of GF/GP revenue from proposed revenue adjustments. These revenue adjustments include a \$49.8 million reduction to reflect the end of the tax amnesty program, \$35.0 million for unclaimed property tax reforms, \$15.0

million from the transfer of Comprehensive Transportation Fund revenue to the General Fund, and several other smaller revenue adjustments.

On the expenditure side of the FY 2011-12 GF/GP budget ledger, the Senate-passed appropriation bills total \$8.1 billion. Based on revised SFA estimates, caseload and cost increases in the Department of Community Health will lead to \$70.0 million of GF/GP appropriation increases and caseload and cost adjustments in the Department of Human Services will reduce GF/GP appropriations by \$4.0 million. The Senate-passed budget also assumes \$180.0 million of savings from the implementation of the Governor's proposal for employee concessions. This proposal is still being negotiated and savings will need to be allocated by department when the proposal is finalized. Table 17 provides a summary of the Governor's FY 2011-12 GF/GP budget recommendations compared with the Senate-passed appropriation bills. Including the savings from a reduction in the Other Post-Employment Benefits (OPEB) payment from the Governor's recommended level of \$200.0 million to \$160.0 million, the Senate-passed appropriation bills are \$285.0 million Adjusted gross and \$25.4 million GF/GP below the Governor's recommendations.

Table 17

FY 2011-12 ADJUSTED GROSS AND GF/GP APPROPRIATIONS GOVERNOR'S RECOMMENDATION VS SENATE-PASSED						
Department/Budget Area	Adjusted Gross Appropriations			GF/GP Appropriations		
	FY 2011-12 Gov's Rec.	Senate-Passed Appropriation	Adj. Gross \$ Difference	FY 2011-12 Gov's Rec.	Senate-Passed Appropriation	GF/GP \$ Difference
Agriculture and Rural Development	\$71,171,700	\$71,521,700	\$350,000	\$27,102,700	\$28,002,700	\$900,000
Attorney General	52,455,500	52,455,500	0	28,117,600	28,117,600	0
Civil Rights	13,530,200	13,530,300	100	10,479,000	10,479,100	100
Community Health	13,902,005,500	13,770,556,100	(131,449,400)	2,701,024,900	2,641,024,900	(60,000,000)
Corrections	2,011,462,600	1,905,305,500	(106,157,100)	1,929,836,200	1,854,511,700	(75,324,500)
Education	114,058,300	113,908,300	(150,000)	18,759,200	18,609,200	(150,000)
Environmental Quality	405,733,800	398,524,400	(7,209,400)	21,491,600	21,491,600	0
Executive	4,399,200	4,399,200	0	4,399,200	4,399,200	0
Human Services	6,890,281,600	6,785,219,100	(105,062,500)	1,096,478,200	1,010,231,400	(86,246,800)
Judiciary	257,701,900	253,399,700	(4,302,200)	152,876,900	152,534,300	(342,600)
Legislative Auditor General	12,136,900	12,136,900	0	10,597,000	10,597,000	0
Legislature	100,083,200	100,083,200	0	98,573,400	98,573,400	0
Licensing and Regulatory Affairs	796,425,500	796,425,500	0	26,582,500	26,582,500	0
Military and Veterans Affairs	151,230,700	151,230,700	0	33,044,900	33,044,900	0
Natural Resources	328,260,800	328,145,800	(115,000)	13,716,200	13,716,200	0
State	191,885,000	191,885,000	0	11,286,200	11,286,100	(100)
State Police	497,936,400	500,936,400	3,000,000	261,676,000	261,676,000	0
Technology, Management and Budget	410,715,400	405,715,400	(5,000,000)	313,357,800	308,357,800	(5,000,000)
Transportation	3,374,319,200	3,309,319,200	(65,000,000)	0	0	0
Treasury-Debt Service	140,928,000	140,928,000	0	125,413,500	125,413,500	0
Treasury-Operations	427,520,500	431,970,100	4,449,600	60,271,300	60,220,900	(50,400)
Treasury-Revenue Sharing	958,979,300	958,979,300	0	0	0	0
Treasury-Strategic Fund Agency	938,460,300	893,460,300	(45,000,000)	88,963,700	33,963,700	(55,000,000)
Subtotal State Departments	\$32,051,681,500	\$31,590,035,600	(\$461,645,900)	\$7,034,048,000	\$6,752,833,700	(\$281,214,300)
Community Colleges	295,880,500	285,880,500	(10,000,000)	100,000,000	90,000,000	(10,000,000)
Higher Education	1,362,278,400	1,362,278,400	0	564,032,500	1,063,752,000	499,719,500
School Aid	12,173,559,100	12,400,238,000	226,678,900	412,542,400	218,642,400	(193,900,000)
Subtotal Education	\$13,831,718,000	\$14,048,396,900	\$216,678,900	\$1,076,574,900	\$1,372,394,400	\$295,819,500
Other Post-Employment Benefits Payment	200,000,000	160,000,000	(40,000,000)	200,000,000	160,000,000	(40,000,000)
Employee Concessions	(180,000,000)	(180,000,000)	0	(180,000,000)	(180,000,000)	0
Total GF/GP Appropriations	\$45,903,399,500	\$45,618,432,500	(\$284,967,000)	\$8,130,622,900	\$8,105,228,100	(\$25,394,800)

Note: Governor and Senate are adjusted for LARA EO.

Table 18 provides the details of the SFA estimate of a \$360.8 million balance in the FY 2011-12 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue and the Senate-passed K-12 School Aid appropriation bill.

On the revenue side of the FY 2011-12 SAF budget, the SFA now believes that ongoing SAF revenue will total \$11.3 billion. This projected level of FY 2011-12 SAF revenue is \$235.0 million or 2.1% above the estimated level of FY 2010-11 SAF revenue. The May 2011 SFA estimate of restricted SAF revenue represents a \$149.1 million increase from the January 2011 consensus revenue estimate. The estimate of total SAF revenue of \$12.8 billion includes \$644.7 million of surplus SAF revenue carried forward from FY 2010-11, a \$218.6 million GF/GP grant to the SAF budget, \$1.7 billion of ongoing Federal aid, and savings of \$8.0 million in nontax revenue adjustments. The Governor's tax code reforms, modified by the House, produce a net \$679.5 million loss of SAF revenue. The Senate concurred with the Governor's recommendation to shift \$195.9 million in SAF revenue to the Community Colleges budget but agreed to shift only \$200.0 million in SAF revenue to Higher Education instead of the \$699.7 million the Governor recommended.

On the expenditure side of the FY 2011-12 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals \$12.4 billion. Formula funding cost adjustments of \$15.0 million will occur as a result of revised pupil estimates. The FY 2011-12 Senate-passed K-12 appropriation bill includes a per-pupil reduction of \$340, which consists of continuing the existing \$170 State reduction and an additional \$170 cut. The Senate changed kindergarten funding to provide a half-day foundation allowance for half-day programs. The Senate also included \$200.0 million for a best practices incentive grant program.

Table 18
FY 2011-12
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance	\$644.7
Senate Fiscal Agency Revenue Estimate (May 2011)	\$11,342.8
Other Revenue Adjustments:	
General Fund/General Purpose Grant.....	\$18.6
Federal Ongoing Aid	1,653.3
Tax Code Reforms	(593.9)
Updated Estimate of Tax Code Reforms	(85.6)
Additional GF/GP to Partially Offset Tax Code Reforms	200.0
Partially Fund Community Colleges with SAF	(195.9)
Partially Fund Higher Education with SAF	(200.0)
Nontax Revenue Adjustments	(8.0)
Subtotal Other Revenue Adjustments	\$788.5
Total Estimated K-12 School Aid Fund Revenue.....	\$12,776.0
Expenditures:	
Senate-Passed Appropriations	\$12,400.2
Funding Formula Cost Adjustments.....	15.0
Total Estimated K-12 School Aid Fund Expenditures.....	\$12,415.2
Projected Year-End School Aid Fund Balance	\$360.8

FY 2012-13 BUDGET OUTLOOK

When Governor Snyder presented his FY 2011-12 budget on February 17, 2011, he also proposed anticipated appropriations for FY 2012-13. The FY 2011-12 appropriation bills passed by the House and the Senate include references to anticipated FY 2012-13 appropriations which are only expressions of an intent to appropriate those funds for FY 2012-13.

Table 19 provides a summary of the \$1.18 billion projected year-end balance in the FY 2012-13 GF/GP budget. This projected balance is based on carrying forward the FY 2011-12 projected year-end balance, the SFA estimate of current-law revenue, revenue adjustments related to tax code reforms, and the FY 2011-12 Senate-passed appropriation levels, adjusted for caseloads and costs.

Table 19
FY 2012-13
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$953.4
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate (May 2011).....	\$7,632.3
Revenue Sharing Savings.....	\$682.1
Tax Code Reforms	658.7
Updated Estimate of Tax Code Reforms.....	(193.6)
Shift of Short-Term Borrowing Costs to School Aid Fund	30.0
Non-ongoing Revenue:	
Unclaimed Property Reforms	(35.0)
Liquor Reforms	9.1
Total Estimated GF/GP Revenue.....	\$9,737.0
Expenditures:	
Senate-Passed FY 2011-12 Appropriations.....	\$8,125.2
Employee Concessions	(\$180.0)
Payment for Other Post-Employment Benefits.....	150.0
Community Health Caseload/Costs.....	70.0
Human Services Caseload/Costs.....	(20.0)
Other Cost Increases (5.0%).....	410.0
Total Estimated GF/GP Expenditures.....	\$8,555.2
Projected Year-End GF/GP	\$1,181.8

On the revenue side of the FY 2012-13 GF/GP budget ledger, the SFA now believes that GF/GP ongoing revenue will total \$7.6 billion. This projected level of GF/GP FY 2012-13 revenue reflects a \$203.2 million or 2.6% decline from estimated ongoing GF/GP revenue for FY 2011-12. The primary reason for the revenue decline is that the estimate reflects current-law tax policy that would result in a further lowering of the income tax rate during FY 2012-13. The Senate FY 2012-13 GF/GP revenue estimate continues the revenue sharing savings of \$682.1 million, which were proposed by the Governor, as well as the Governor's tax code reforms, modified by the House, which produce a net \$465.1 million in GF/GP revenue. The FY 2012-13 revenue total of \$9.7 billion also assumes \$30.0 million of revenue by continuing to shift short-term borrowing costs to the School Aid Fund, \$9.1 million of revenue from liquor law reforms, and a \$35.0 million reduction to reflect the loss of revenue from unclaimed property tax reforms implemented in prior fiscal years.

On the expenditure side of the FY 2012-13 budget ledger, when FY 2011-12 Senate-passed appropriations are adjusted for \$180.0 million in employee concessions, an OPEB payment of \$150.0 million, \$50.0 million in combined caseload and costs for the Departments of Community Health and Human Services, and \$410.0 million for economic costs, total FY 2012-13 GF/GP expenditures are estimated to be \$8.6 billion.

Table 20 provides a summary of the \$452.8 million projected year-end balance in the FY 2012-13 SAF budget. This projected balance is based on carrying forward the FY 2011-12 projected year-end balance, the SFA estimate of current-law revenue, revenue adjustments related to tax code reforms, and the FY 2011-12 Senate-passed appropriation levels, adjusted for pupils and other costs.

	SFA Estimate
Revenue:	
Beginning Balance	\$360.8
Senate Fiscal Agency Revenue Estimate (May 2011)	\$11,680.0
Other Revenue Adjustments:	
General Fund/General Purpose Grant.....	\$18.6
Federal Ongoing Aid	1,653.3
Tax Code Reforms	(526.6)
Updated Estimate of Tax Code Reforms	(130.5)
Additional GF/GP to Partially Offset Tax Reforms.....	200.0
Partially Fund Community Colleges with SAF	(195.9)
Partially Fund Higher Education with SAF	(200.0)
Nontax Revenue Adjustments	3.3
Subtotal Other Revenue Adjustments	\$822.2
Total Estimated K-12 School Aid Fund Revenue.....	\$12,863.0
Expenditures:	
Senate-Passed FY 2011-12 Appropriations	\$12,400.2
Funding Formula Cost Adjustments.....	10.0
Total Estimated K-12 School Aid Fund Expenditures.....	\$12,410.2
Projected Year-End School Aid Fund Balance	\$452.8

On the revenue side of the FY 2012-13 SAF budget ledger, the SFA now believes that ongoing SAF revenue will total \$11.7 billion. This projected level of FY 2012-13 SAF revenue reflects a \$337.2 million or 3.0% increase from estimated ongoing SAF revenue for FY 2011-12. The Senate FY 2012-13 SAF revenue estimate continues to partially fund Community Colleges (\$195.9 million) and Higher Education (\$200.0 million) from SAF revenue. The Senate estimate continues the Governor's tax code reforms, modified by the House, which produce a reduction of \$657.1 million in SAF revenue. The FY 2012-13 revenue total of \$12.9 billion also assumes a GF/GP grant of \$218.6 million, \$1.7 billion in ongoing Federal aid, and a nontax revenue adjustment of \$3.3 million.

On the expenditure side of the FY 2012-13 budget ledger, when FY 2011-12 Senate-passed appropriations are adjusted for funding formula costs, total FY 2012-13 SAF expenditures are estimated to be \$12.4 billion.