

STATE BUDGET UPDATE



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<http://www.senate.michigan.gov/sfa/>

January 2008 Economic Forecast

- After increasing by 2.2% during 2007, the United States economy is expected to grow by 1.8% in 2008 and 2.6% in 2009.
- United States economic growth in 2008 and 2009 will be restrained by weakness in the housing market and higher prices, particularly for energy, food, and commodities.
- There is a 50% risk these factors may pull the national economy into a recession in early 2008.
- Following the 2001 recession, the United States economy did not experience significant employment growth until the summer of 2003. Since this time, United States employment has increased by 8.7 million jobs or 6.4%. United States payroll employment has increased for 52 consecutive months.
- The Michigan economy has shown little improvement since the 2001 recession.
- Since the Michigan employment peak in June 2000, Michigan wage and salary employment has declined by 448,100 jobs or 9.5%.
- During this same time period Michigan has lost 32.8% of its total manufacturing jobs and has lost 46.0% of its vehicle manufacturing jobs.
- Michigan wage and salary employment is expected to continue to decline, by 1.9% during 2008 and by 0.8% during 2009. The estimated decline in employment during 2009 will mark the ninth consecutive year of employment decline in Michigan.

Figure 1

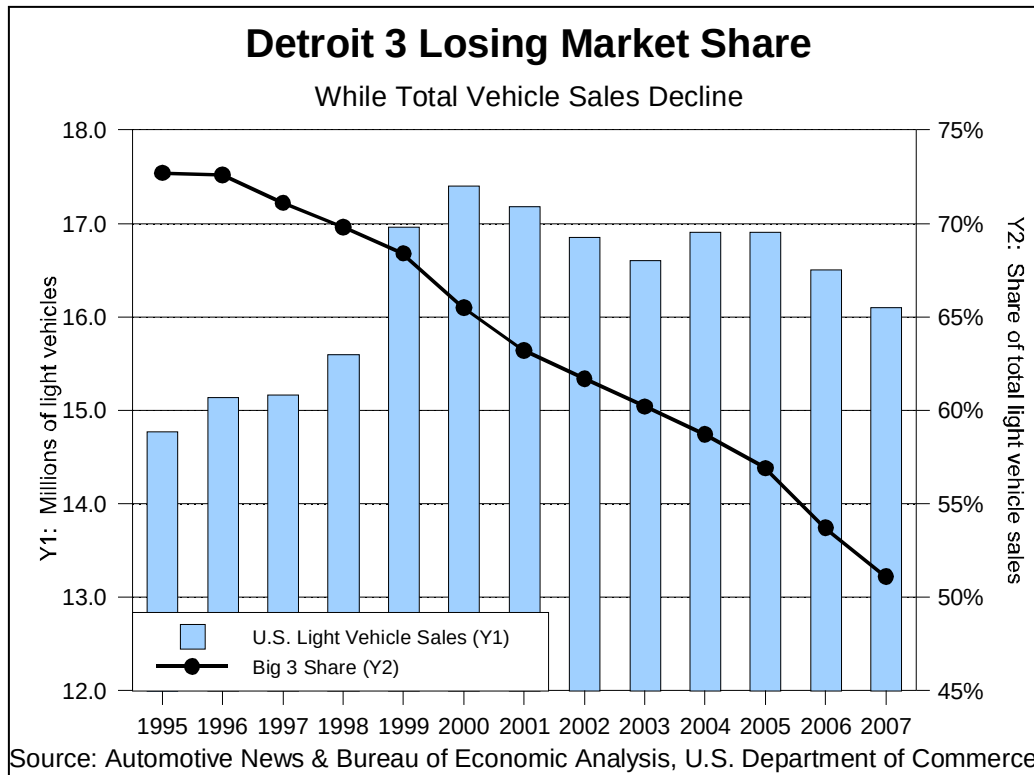


Figure 2

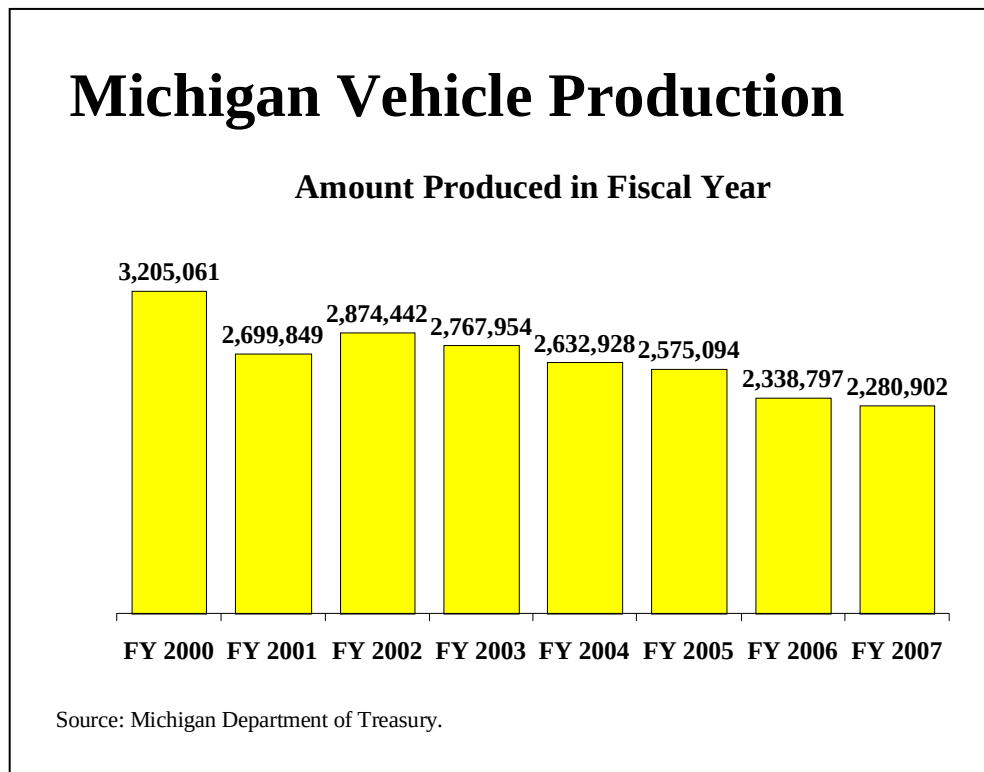


Figure 3

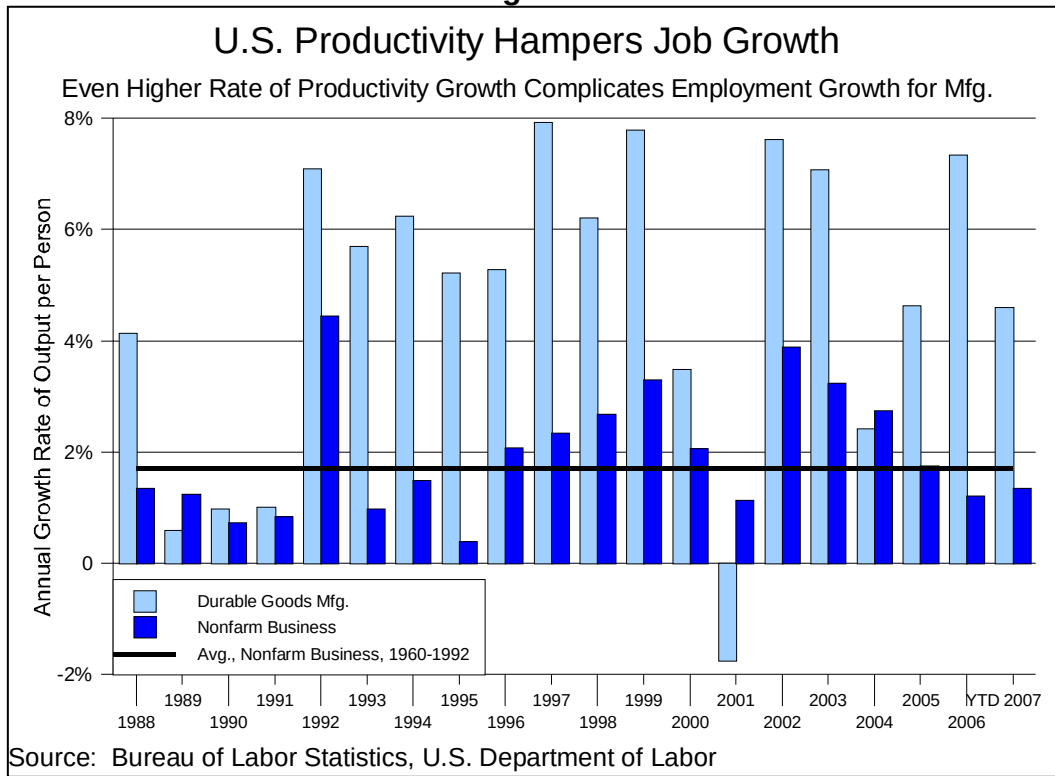


Figure 4

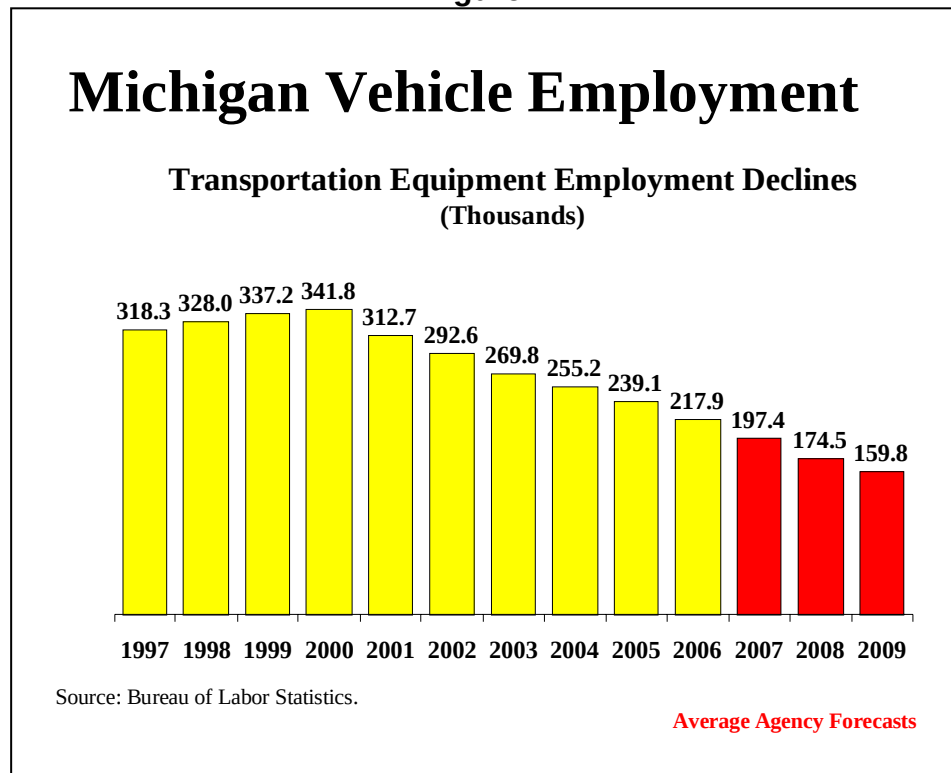


Figure 5

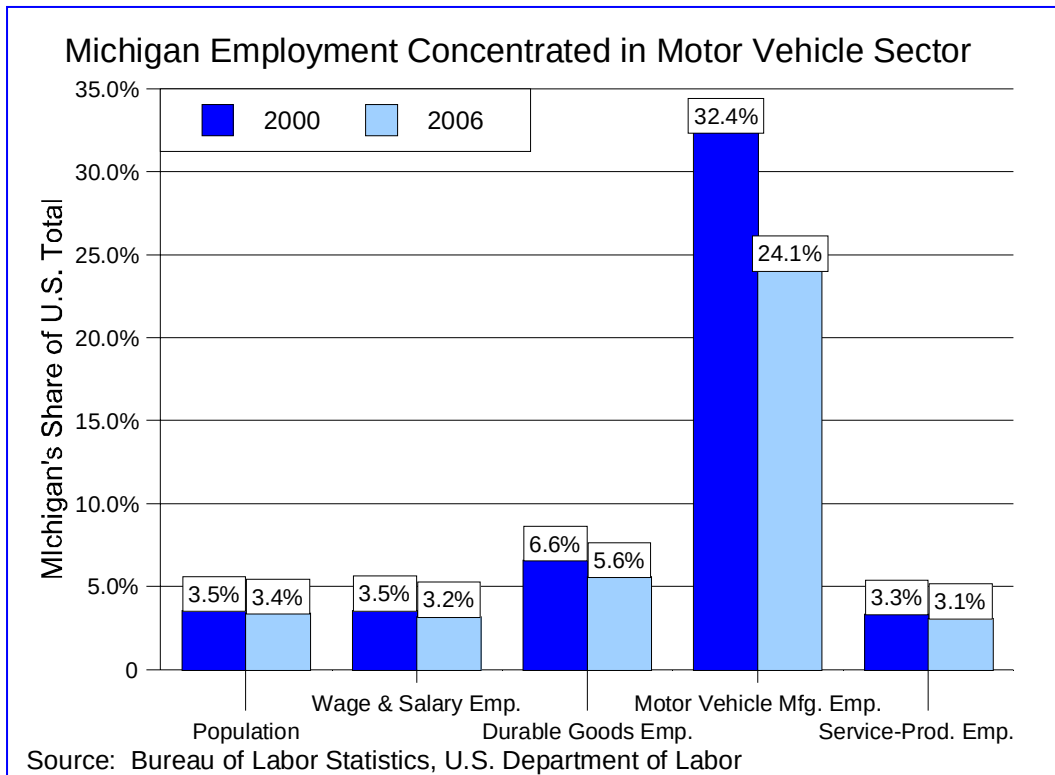


Figure 6

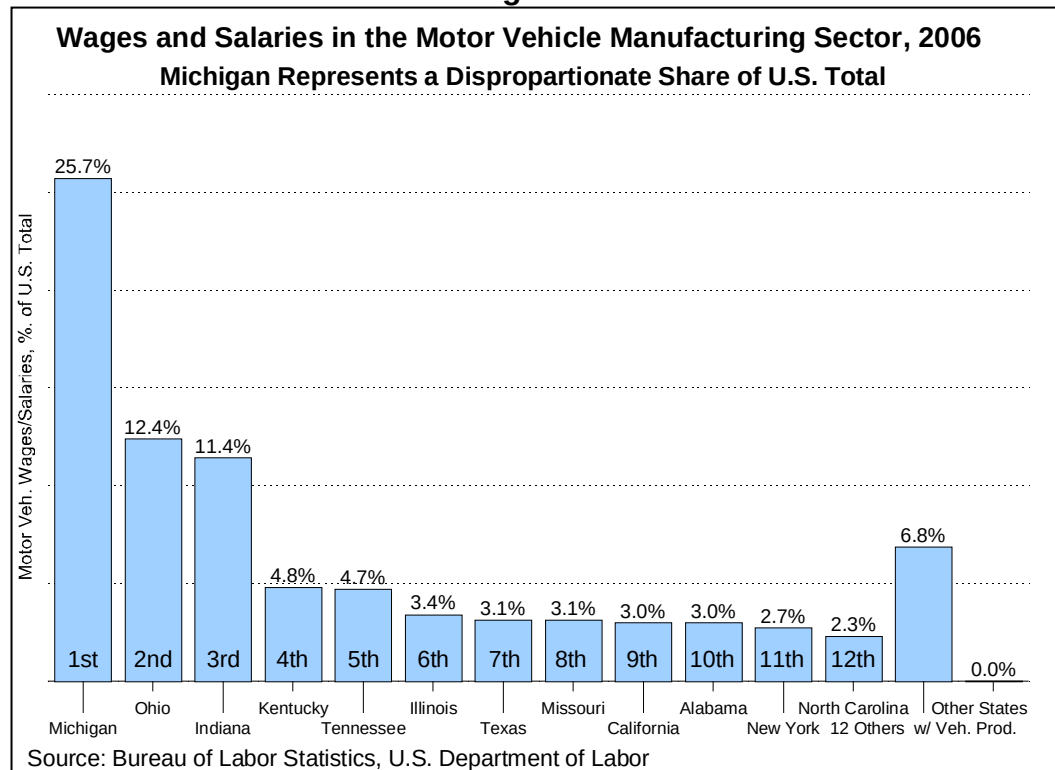


Figure 7

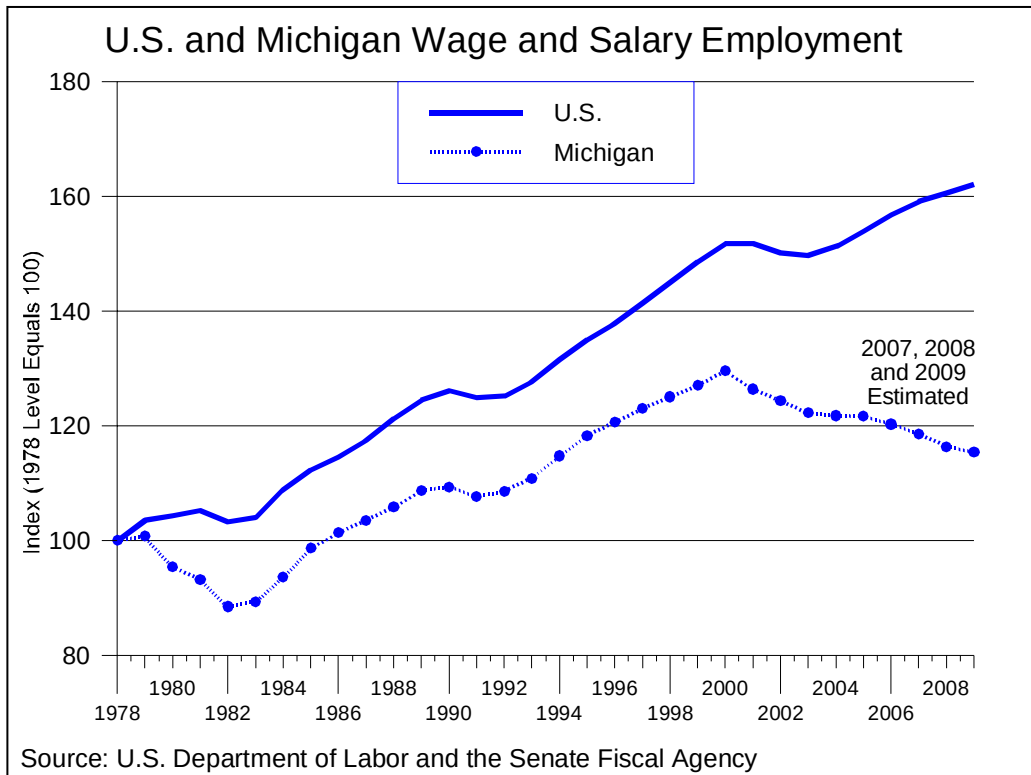


Figure 8

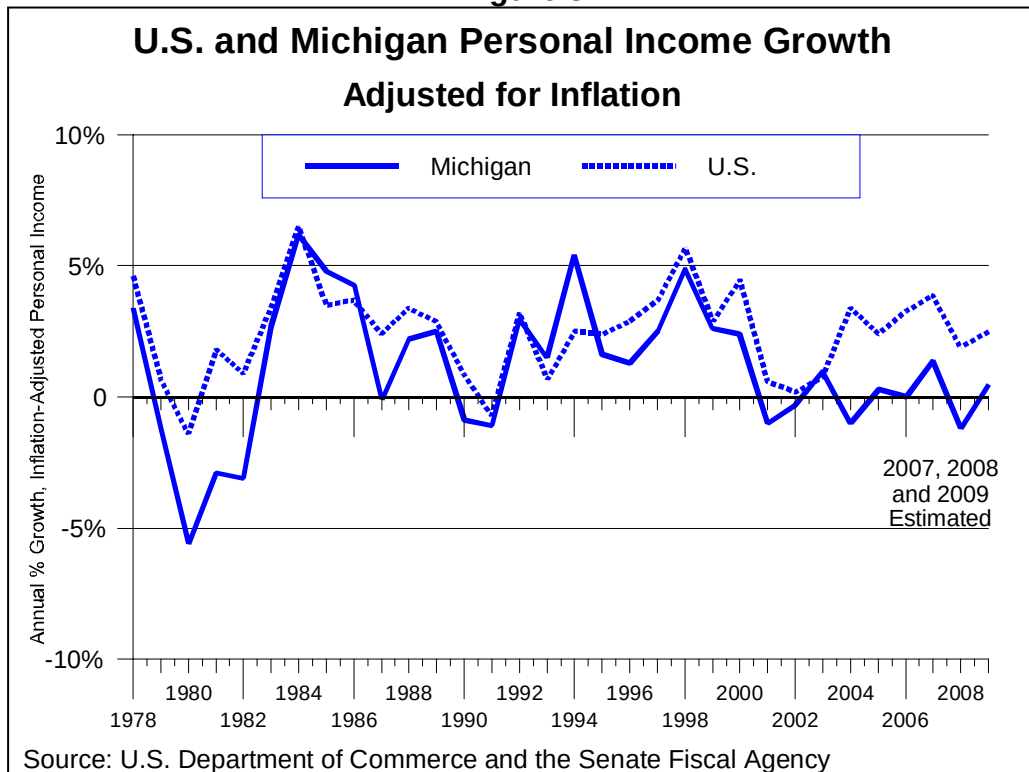


Figure 9

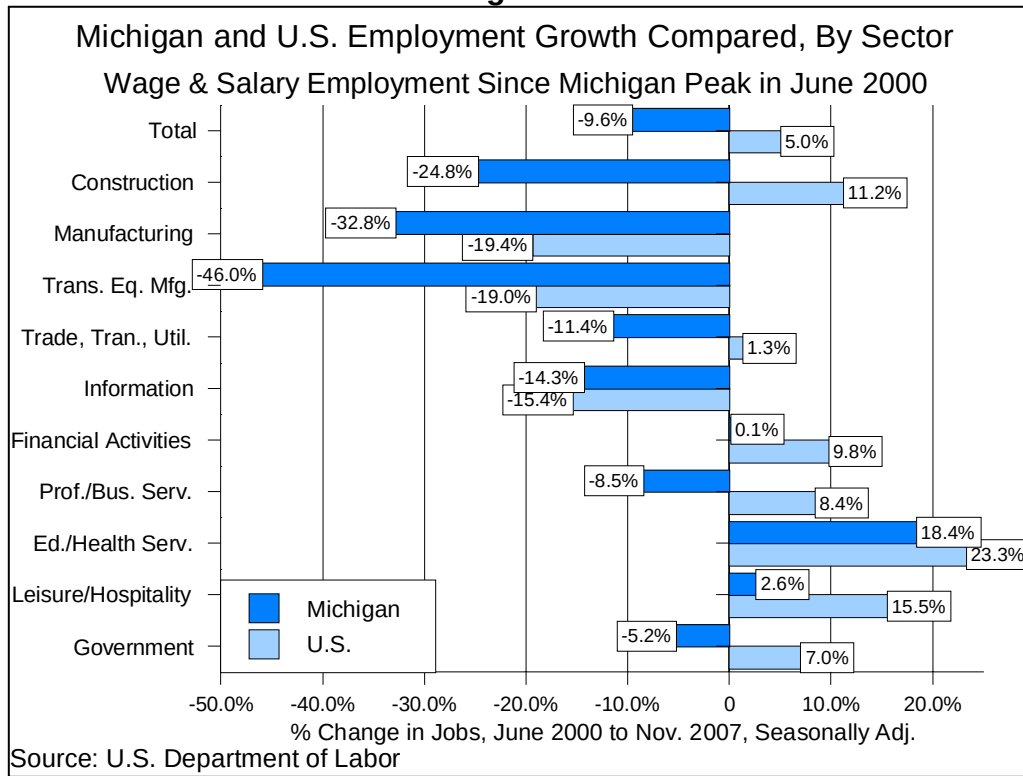
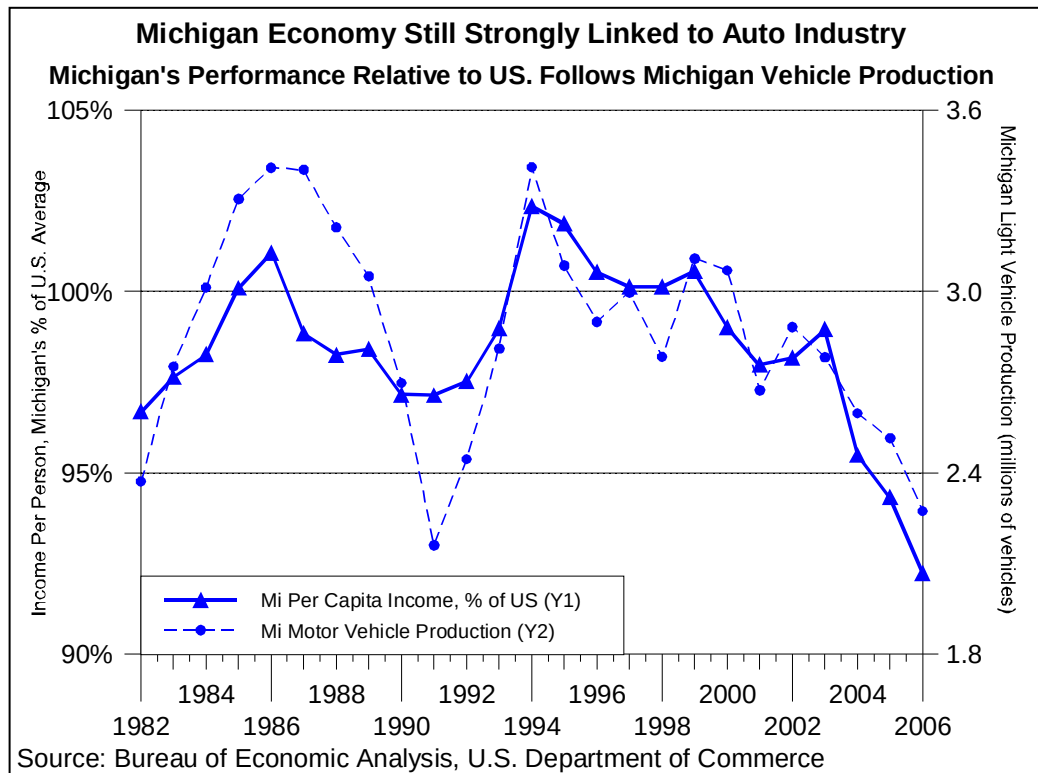


Figure 10



State Budget History

Table 1

State's Compliance with Constitutional Revenue Limit Sec. 26, Article IX, State Constitution of 1963 (Millions of Dollars)	
Fiscal Year	Actual Amount Under/(Over) Limit
1993-94	\$2,151.0
1994-95	(109.6)
1995-96	183.2
1996-97	977.9
1997-98	640.1
1998-99	(21.7)
1999-00	(159.7)
2000-01	2,406.2
2001-02	3,917.1
2002-03	4,181.5
2003-04	4,440.7
2004-05	4,215.5
2005-06	4,946.2
2006-07	5,445.4
2007-08	5,067.4
2008-09	5,447.9

Table 2

Adjusted Gross Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	36,953.3	1,535.6	4.3
2001-02	38,751.3	1,798.0	4.9
2002-03	39,553.1	801.8	2.1
2003-04	39,115.3	(437.8)	(1.1)
2004-05	39,909.5	794.2	2.0
2005-06	41,322.7	1,413.2	3.5
2006-07	41,854.2	531.5	1.3
2007-08 Enacted	42,791.8	937.6	2.2
Change FY 2000-01 to FY 2007-08		5,838.5	15.8

Table 3

State Spending from State Resources Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,761.6	1,182.6	4.8
2001-02	26,086.8	325.2	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,802.5	(218.0)	(0.8)
2004-05	26,285.3	482.8	1.9
2005-06	27,704.0	1,418.7	5.4
2006-07	27,926.2	222.2	0.8
2007-08 Enacted	28,348.5	422.3	1.5
Change FY 2000-01 to FY 2006-07		2,586.9	10.0

Table 4

General Fund/General Purpose Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,770.1	(60.8)	(0.7)
2004-05	8,702.8	(67.3)	(0.8)
2005-06	9,106.3	403.5	4.6
2006-07	9,118.7	12.4	0.1
2007-08 Enacted	9,856.3	737.6	8.1
Change FY 2000-01 to FY 2006-07		111.9	1.1

Table 5

FY 2007-08 General Fund/General Purpose Appropriations (Millions of Dollars)	
	Year-to-Date
Total GF/GP Appropriations	\$9,856.3
<u>Major Program Areas</u>	
Debt Service Payments	321.4
Human Service Programs.....	4,433.7
Higher Education Programs.....	2,080.7
Corrections	<u>1,996.1</u>
Subtotal	\$8,831.9
Major Program Areas as % of Total	89.6%
Note: Human Services include Department of Community Health and Department of Human Services	

Source: Senate Fiscal Agency, December 4, 2007

Table 6

State Spending from State Resources Appropriations Total Compared to Selected Budget Areas (Millions of Dollars)				
Budget Area	FY 2002-03 Appropriations	FY 2007-08 Enacted	Dollar Change	Percent Change
Community Health	\$3,259.4	\$4,987.6	\$1,728.2	53.0%
Corrections	1,655.6	2,066.2	410.6	24.8
Human Services	1,199.6	1,368.1	168.5	14.0
K-12 School Aid	11,334.6	11,526.7	192.1	1.7
Community Colleges	310.9	318.9	8.0	2.6
Higher Education	1,839.4	1,889.0	49.6	2.7
Revenue Sharing ¹⁾	1,250.0	1,073.0	(177.0)	(14.2)
All Other Programs	<u>5,171.0</u>	<u>5,119.0</u>	<u>(52.0)</u>	<u>(1.0)</u>
Total State Spending	\$26,020.5	\$28,348.5	\$2,328.0	8.9%
ADDENDUM:				
Federal Government Outlays (millions)	2,160,117	2,901,861		34.3%
Michigan Personal Income (millions)	313,503	356,211		13.6
Detroit Consumer Price Index	<u>182.0</u>	<u>203.6</u>		11.9
¹⁾ Excludes Revenue Sharing paid to counties in FY 2002-03.				

Source: Senate Fiscal Agency, December 5, 2007

Table 7

Shifting Priorities in the State Budget State Spending from State Resources Appropriations Education, Corrections, and Medicaid as Percentage of Total Appropriations				
Fiscal Year	Education Programs	Corrections	Medicaid	All Other Programs
2000-01	50.3%	6.5%	8.5%	34.7%
2001-02	51.7%	6.3%	8.4%	33.5%
2002-03	51.8%	6.4%	9.7%	32.1%
2003-04	50.3%	6.5%	11.1%	32.1%
2004-05	49.9%	6.7%	12.6%	30.8%
2005-06	48.1%	6.8%	13.1%	32.1%
2006-07	48.2%	6.9%	14.0%	30.9%
2007-08	48.4%	7.3%	14.0%	30.3%

Table 8

Final Year-End GF/GP Balances (Millions of Dollars)		
Fiscal Year	Final Year-End Balance	Amount of Balance to BSF
1994-95	\$67.4	\$67.4
1995-96	91.3	91.3
1996-97	(100.8)	0.0
1997-98	55.2	0.0
1998-99	244.4	0.0
1999-2000	211.8	0.0
2000-01	28.1	0.0
2001-02	114.5	0.0
2002-03	174.0	0.0
2003-04	81.3	81.3
2004-05	220.5	0.0
2005-06	2.5	0.0
2006-07	259.1	0.0

Table 9

Final Year-End School Aid Fund Balances (Millions of Dollars)	
Fiscal Year	Final Year-End Balance
1994-95	\$144.7
1995-96	116.3
1996-97	193.8
1997-98	274.3
1998-99	512.0
1999-2000	853.4
2000-01	694.8
2001-02	237.0
2002-03	113.7
2003-04	74.1
2004-05	93.7
2005-06	0.0
2006-07	82.4

**January 2008
Consensus Revenue
Estimates**

Consensus Revenue Estimates: January 11, 2008 Summary

FY 2006-07 Final Revenue Collections

The actual level of FY 2006-07 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue collections exceeded the May 2007 consensus revenue estimate.

FY 2006-07 GF/GP revenue collections exceeded the May 2007 consensus revenue estimate by \$133.3 million. The majority of the increased revenue can be attributed to income tax collections and a variety of nontax revenue sources.

FY 2006-07 SAF revenue collections exceeded the May 2007 consensus revenue estimate by \$76.0 million. The majority of the increased revenue can be attributed to income tax collections and net revenue from the State lottery.

FY 2007-08 Revenue Estimates

The January 2008 consensus revenue estimate represents a decline from the May 2007 consensus revenue estimates.

The current FY 2007-08 GF/GP consensus revenue estimate is \$234.1 million below the May 2007 consensus revenue estimate. This revenue decline is from a combination of changes in tax policies, \$114.0 million; and a reduction in forecasted economic growth, \$120.1 million. The tax policy revenue loss represents the revenue loss from shifting from an expansion of the use tax base to a surcharge on the Michigan Business Tax.

The current FY 2007-08 SAF consensus revenue estimate is \$135.8 million below the May 2007 consensus revenue estimate. This revenue decline results from a reduction in forecasted economic growth.

FY 2008-09 Revenue Estimates

The January 2008 consensus revenue estimate is the first estimate of FY 2008-09 GF/GP and SAF revenue. The consensus estimates forecast modest revenue growth as a result of continuing economic problems in the State and the implementation of tax policy changes.

The FY 2008-09 GF/GP revenue estimate is \$52.8 million or 0.6% below the current estimate of FY 2007-08 GF/GP revenue. This initial estimate of FY 2008-09 GF/GP revenue reflects a \$133.6 million revenue loss from the first phase of the implementation of an earned income tax credit under the income tax. Continuing economic problems in the State will lead to growth of less than 1.0% in both sales tax collections and income tax withholding.

The FY 2008-09 SAF revenue estimate is \$517.5 million or 4.6% above the current estimate of FY 2007-08 SAF revenue. This estimate reflects the earmarking of an additional \$341.6 million of Michigan Business Tax revenue to offset local losses of personal property taxes. Adjusting for this earmarking increase results in a 1.6% increase in net SAF revenue.

Figure 11

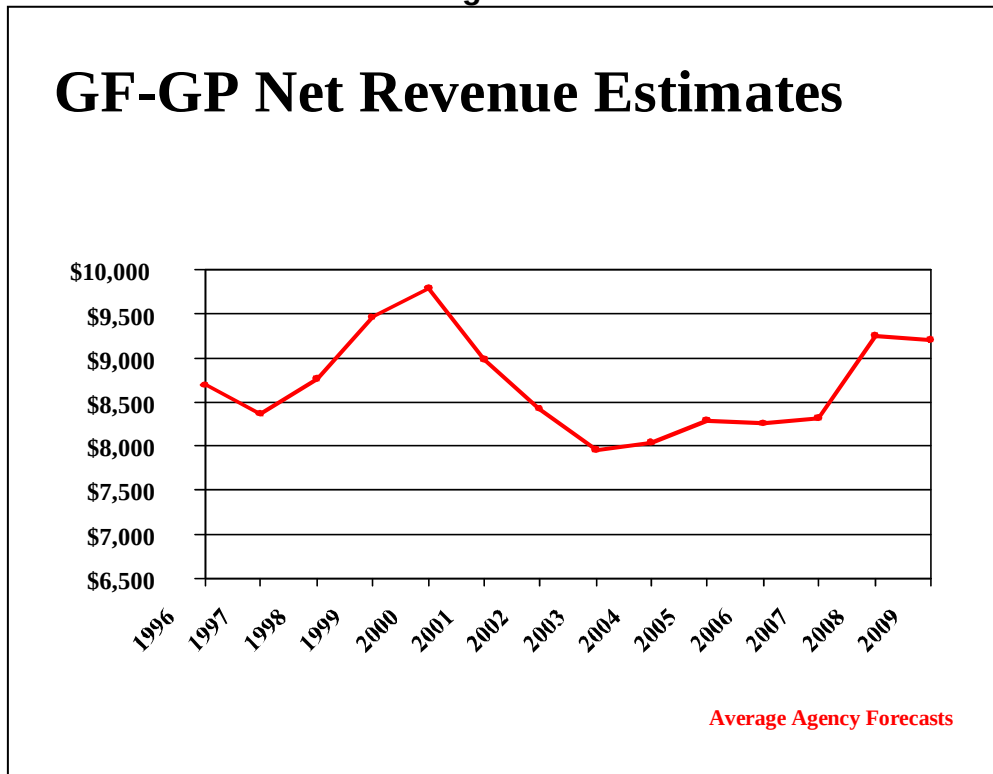
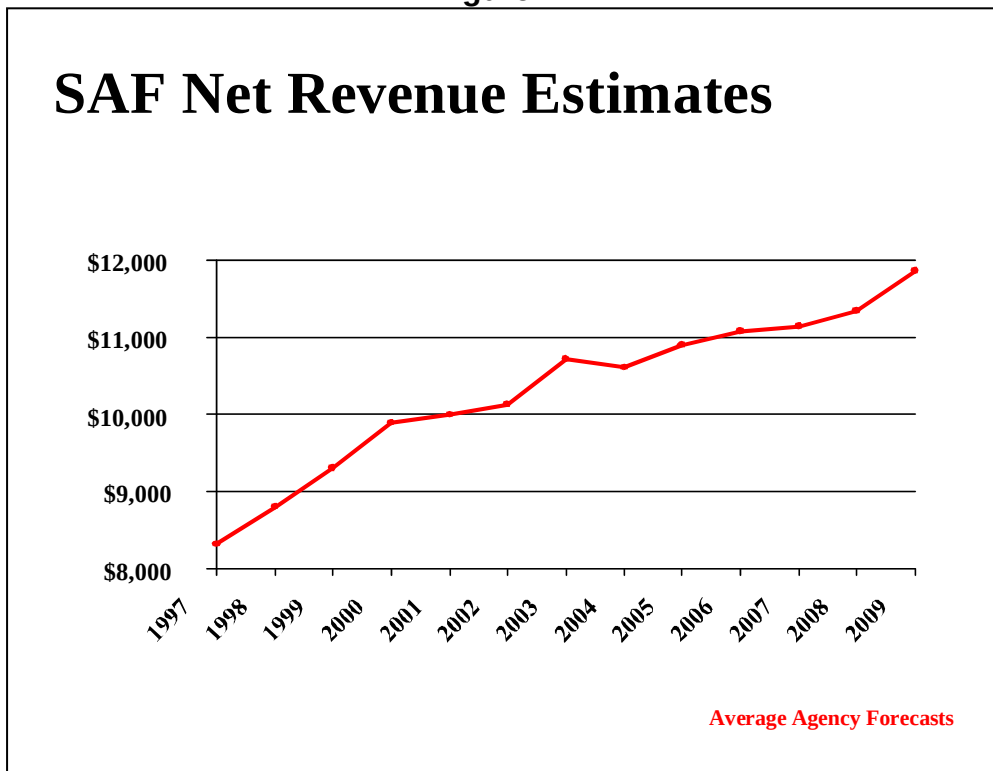


Figure 12



State Budget Year-End Balances Estimates

Table 10
FY 2006-07
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	December 2007 Final Closing
Revenue:	
Beginning Balance	\$ 2.5
Ongoing Revenue:	
Ongoing Actual Revenue Collections.....	8,317.7
Revenue Sharing Freeze	540.8
Shift of Short-Term Borrowing Costs to School Aid Fund	<u>22.8</u>
Subtotal Ongoing Revenue	8,881.3
One-Time Revenue Sources:	
Forensic Center Settlement Revenue.....	7.8
Liquor Purchase Revolving Fund Transfer to General Fund	4.0
Consumer Finance Fees Transfer to General Fund	7.3
Executive Order 2007-3 (Revenue Items)	35.7
Tobacco Securitization Borrowing (Public Act 18 of 2007)	207.2
Convention Facilities Fund Transfer	35.0
Comprehensive Transportation Fund Transfer	5.3
21st Century Jobs Fund Transfer	30.0
State Campaign Fund Transfer	7.2
Michigan Conservation Corps Fund Transfer	<u>20.0</u>
Subtotal One-Time Revenue Sources	359.5
Total Revenue	\$9,243.3
Expenditures:	
Initial Enacted Appropriations	\$9,222.8
Supplemental Appropriations (Public Act 3 of 2007).....	17.6
Supplemental Appropriations (Public Act 7 of 2007).....	0.0
Supplemental Appropriations (Public Act 17 of 2007).....	69.5
Supplemental Appropriations (Public Act 36 of 2007).....	1.0
Supplemental Appropriations (Public Act 41 of 2007).....	73.9
Supplemental Appropriations (Public Act 93 of 2007).....	0.1
Supplemental Appropriations (Public Act 94 of 2007).....	0.1
Supplemental Appropriations (Public Act 142 of 2007).....	<u>8.0</u>
Subtotal Supplemental Appropriations.....	170.2
Executive Order 2007-3 (Appropriation Reductions)	(274.2)
Health Care Advance Account Transfer to Restricted Revenue Accounts	6.2
Restoration of Auto Theft Prevention Reduction in EO 2007-3.....	4.0
Projected Year-End Appropriation Lapses	(136.1)
Other Book Closing Adjustments	<u>(8.7)</u>
Total Expenditures	\$8,984.2
Projected Year-End Balance	\$ 259.1

Table 11

Final Year-End GF/GP Appropriation Lapses As a Percentage of GF/GP Expenditures		
Fiscal Year	Lapses	As a Percentage of Expenditures
1997-98	\$146.2	1.7%
1998-99	114.5	1.2
1999-2000	126.5	1.3
2000-01	28.1	0.3
2001-02	67.2	0.8
2002-03	94.9	1.1
2003-04	87.7	1.0
2004-05	58.3	0.7
2005-06	88.2	1.0
2006-07	136.1	1.5

Table 12

FY 2006-07 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	December 2007 Final Closing
Revenue:	
Beginning Balance	\$ 0.0
Ongoing Revenue:	
Ongoing Actual Revenue Collections	11,153.1
GF/GP Grant	34.1
Federal Aid	<u>1,381.9</u>
Subtotal Ongoing Revenue	12,569.1
One-Time Revenue:	
PSERS Retirement Contribution Rate (Mark to Market)	175.1
PSERS Interest Only on Unfunded Accrued Liability	86.4
Tobacco Securitization Borrowing (PA 18 of 2007)	207.8
SAF Reimbursement from Renaissance Zones	11.7
Miscellaneous Revenue	<u>1.9</u>
Subtotal One-Time Revenue	482.9
Total Revenue	\$13,052.0
Expenditures:	
Initial Enacted Appropriations	\$13,093.8
Midland Property Tax Case (PA 6 of 2007)	24.8
Refinance of Debt Service Payments (PA 6 of 2007)	(40.4)
Reduction of Various Categorical Grants (PA 6 of 2007)	(5.0)
Cost Adjustments (PA 6 of 2007)	(65.0)
Federal Expenditure Adjustments	(29.3)
Appropriation Lapses (Consensus Agreement)	(11.9)
Change in Long-Term Receivables Reserve	2.6
Total Expenditures	\$12,969.6
Final Year-End Balance	\$ 82.4

Table 13
FY 2007-08
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	January 2008 SFA Estimate
Revenue:	
Beginning Balance	\$ 259.1
<u>Ongoing Revenue:</u>	
Ongoing Consensus Revenue Estimate	9,246.5
Revenue Sharing Freeze	557.6
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Subtotal Ongoing Revenue	9,826.9
<u>One-Time Revenue:</u>	
Sale of Northville State Property	22.9
Juror Compensation Fund Transfer to General Fund	2.3
Comprehensive Transportation Fund Transfer to General Fund	5.0
Transportation Economic Development Fund Transfer to General Fund	13.0
Financial Institutions Fund Shift to General Fund	2.0
Subtotal One-Time Revenue	45.2
Total Revenue	\$10,131.2
Expenditures:	
Initial Enacted Appropriations	\$9,856.3
<u>Projected Supplemental Appropriations:</u>	
Presidential Primary Costs	10.0
Environmental Quality GF/GP Supplemental	11.0
Medicaid School Health Disallowance	36.0
Subtotal Pending Supplemental Appropriations	57.0
Total Expenditures	\$9,913.3
Projected Year-End Balance	\$ 217.9

Table 14
Estimates of the FY 2007-08
General Fund/General Purpose Budget
Senate Fiscal Agency Year-End Balance Estimates
(Millions of Dollars)

SFA Estimate of Original Enacted Budget	\$226.8
Current SFA Estimate	217.9
Change in Estimate	\$ (8.9)
<u>Components of Change in Estimates:</u>	
Surplus Revenue from FY 2006-07	\$259.1
Base Revenue Adjustments	(121.6)
Tax Policy Changes	(114.0)
Sale of Surplus Northville State Property	22.9
Revenue Sharing Freeze Adjustment	1.7
Projected Supplemental Appropriation Needs	(57.0)
Summary of Changes in Estimates	\$ (8.9)

Table 15

FY 2007-08 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	January 2008 SFA Estimate
Revenue:	
Beginning Balance	\$ 82.4
Ongoing Consensus Revenue Estimate	11,353.1
GF/GP Grant to School Aid Fund	34.9
Federal Revenue	1,479.3
Total Revenue	\$12,949.7
Expenditures:	
Initial Enacted Appropriations	\$13,006.0
Revised Funding Cost Estimates	(117.0)
Total Expenditures	\$12,889.0
Projected Year-End Balance	\$60.7

Table 16

Estimates of the FY 2007-08 School Aid Fund Budget Senate Fiscal Agency Year-End Balance Estimates (Millions of Dollars)	
SFA Estimate of Original Enacted Budget	\$12.1
Current SFA Estimate	60.7
Change in Estimate	\$48.6
Components of Change in Estimates:	
Surplus Revenue from FY 2006-07	\$82.4
Base Revenue Adjustments	(135.8)
Other Revenue Adjustments	(2.9)
Revised Formula Expenditures	117.0
Summary of Changes in Estimates	\$60.7

Table 17

**FY 2008-09
General Fund/General Purpose
Budget Outlook
(Millions of Dollars)**

	January 2008 SFA Estimate
Revenue:	
Beginning Balance	\$ 217.9
Ongoing Consensus Revenue	9,193.7
Revenue Sharing Freeze	542.9
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Total Estimated Revenue	\$9,977.3
Potential Appropriations:	
Freeze of FY 2008-09 Appropriations at FY 2007-08 Initial Levels	\$9,856.3
Potential Funding Balance	\$ 121.0
Other Potential Funding Issues:	
Elimination of Higher Education Funding Delay	\$(138.7)
Elimination of Community College Funding Delay	(25.8)
Increase in Federal Medicaid Match Rate	(208.0)
Medicaid Caseload, Utilization, and Cost Increases	170.0
Debt Service Increases	50.0
Revenue Sharing for Counties	3.1
State Employee Economic Adjustments	80.0
Net Potential Funding Issues	(69.4)
Adjusted FY 2008-09 Potential Appropriations	\$9,786.9
Potential Funding Balance	\$ 190.4

Table 18

**FY 2008-09
School Aid Fund Budget
Budget Outlook
(Millions of Dollars)**

	January 2008 SFA Estimate
Revenue:	
Beginning Balance	\$ 60.7
Ongoing Consensus Revenue Estimate	11,870.6
GF/GP Grant at FY 2007-08 Level	34.9
Federal Aid	1,479.3
Total Estimated Revenue	\$13,445.5
Potential Appropriations	
Freeze of FY 2008-09 Foundation Allowance, Discretionary Categoricals at Prior Fiscal Year Levels	13,039.0
FY 2008-09 Potential Appropriations	13,039.0
Potential Funding Balance	\$ 406.5

Table 19

Pupil Membership History FY 1994-95 to FY 2008-09				
Blend Calculation	Fiscal Year	Local Districts	Charter Schools	Total
50/50	1994-95	1,593,306	0	1,593,306
50/50	1995-96	1,610,130	4,790	1,614,920
50/50	1996-97	1,634,074	11,520	1,645,594
60/40	1997-98	1,651,011	19,202	1,670,213
60/40	1998-99	1,656,186	31,109	1,687,295
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,402
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,585,750	96,850	1,682,600
75/25	2007-08	1,554,634	99,221	1,653,855
75/25	2008-09	1,525,600	103,000	1,628,600