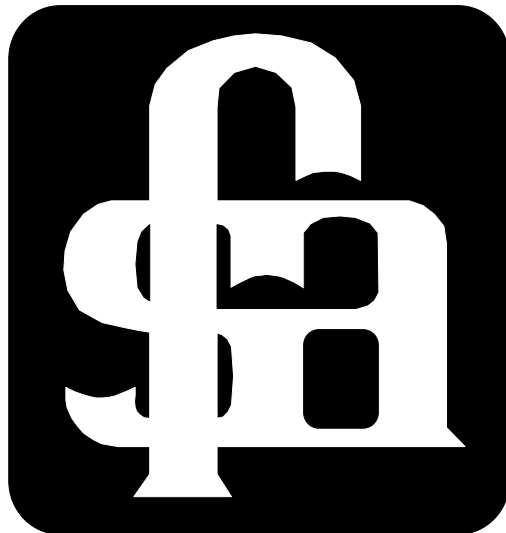


State Economic, Revenue, and Budget Update

**Presented to the
Senate Appropriations Committee**



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January 13, 2010

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

Economic Forecast

January 2010 Consensus Economic Forecast Highlights

Real Gross Domestic Product will increase by 2.2% in 2010 and by 2.7% in 2011. This follows a 2.6% decline in 2009.

Light vehicle sales will total 11.2 million units in 2010 and 12.5 million units in 2011. Light vehicle sales totaled 10.3 million units in 2009.

The Detroit three companies' share of total light vehicle sales is estimated at 41.1% in 2010 and 39.6% in 2011. During 2010 light vehicle sales from the Detroit three companies will total 4.8 million units. During the mid 1990s, sales from the Detroit three companies totaled 11.0 million units.

United States housing starts totaled 0.6 million units in 2009, but are expected to increase to 0.7 million units in 2010 and 1.1 million units in 2011. United States housing starts averaged 2.0 million units during the 2004 through 2006.

Michigan wage and salary employment will decline by 2.2% in 2010 and by 0.9% in 2011. Michigan wage and salary employment declined by 6.8% in 2009.

On an annual basis, Michigan wage and salary employment has declined by nine consecutive years through 2009. The current forecast of continuing decline in wage and salary employment in 2010 and 2011 will lead to 11 consecutive years of annual wage and salary employment decline in Michigan.

As of November 2009, Michigan has lost 831,500 wage and salary jobs from the June 2000 peak, a decline of 17.7%. By the time wage and salary employment begins to improve in Michigan, late in 2011, Michigan will have lost close to 1.0 million jobs over the past 11 years.

Michigan transportation equipment manufacturing employment is expected to continue to decline in 2010 and 2011. By the fourth quarter of 2011, employment in this critical industry will be down 74.2% or 260,900 jobs from the level in the second quarter of 2000.

Michigan personal income is expected to decline by 2.7% in 2009 and rise by 1.0% in 2010 and 1.7% in 2011. The 2.7% decline in personal income in 2009 will be the first decline since 1958 and the worst drop since 1945.

Revenue Estimates

Consensus Revenue Estimates

General Fund/General Purpose (GF/GP)

- **FY 2008-09:** Revenue from ongoing sources totaled \$7.4 billion, which is down by \$2.0 billion or 21.3% from FY 2007-08.
- **FY 2009-10:** Revenue from ongoing sources will total \$6.9 billion, which is down \$467.2 million or 6.3% from FY 2008-09. Over two fiscal years, GF/GP revenue has declined by \$2.5 billion or 26.3%.

The major reasons for these steep revenue declines are the impact of the economic recession on Michigan, the severe difficulties in the motor vehicle sector, and changes in Michigan tax laws, such as the new earned income tax credit and the tax subsidies to the film industry.

- **FY 2010-11:** Revenue from ongoing sources will total \$7.0 billion, which is up \$70.0 million or 1.0% from the FY 2009-10.

School Aid Fund (SAF)

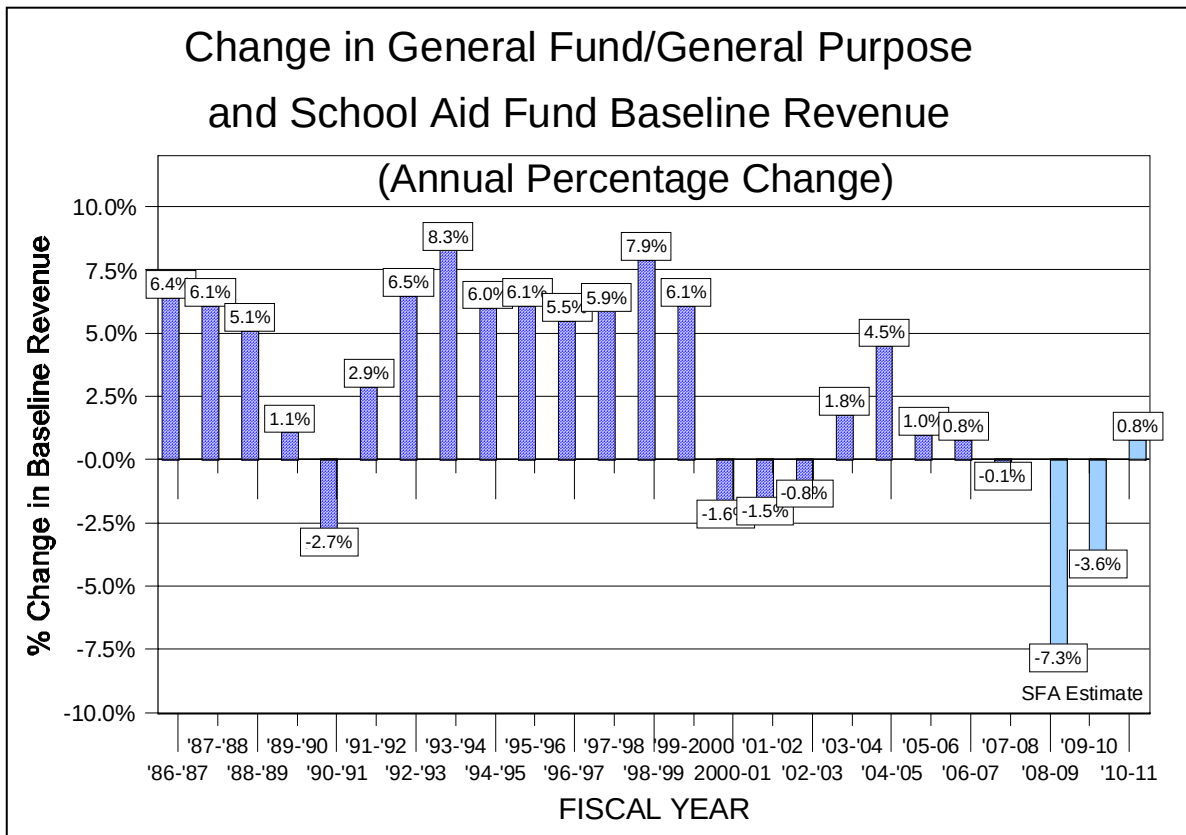
- **FY 2008-09:** Earmarked tax and lottery revenue will total \$10.9 billion, which is down by \$590.7 million or 5.1% from FY 2007-08.
- **FY 2009-10:** Earmarked tax and lottery revenue will total \$10.5 billion, which is down by \$464.1 million or 4.2% from FY 2008-09. Over two fiscal years, SAF revenue has declined by \$1.1 billion or 9.2%.
- **FY 2010-11:** Earmarked tax and lottery revenue will total \$10.5 billion, which is up \$22.4 million or 0.2% from FY 2009-10.

Table 1

Annual Percentage Changes in State Revenue			
	FY 2008-09	FY 2009-10	FY 2010-11
Income Tax.....	(19.0)%	(9.9)%	1.4%
Sales Tax	(10.1)	(3.2)	0.9
Use Tax	(19.2)	2.7	1.5
Michigan Business Tax	N/A	(1.4)	0.4
State Education Property Tax	(1.9)	(8.1)	(4.0)
General Fund/General Purpose	(21.3)	(6.3)	1.0
School Aid Fund	(5.1)	(4.3)	0.2

Based on January 2010 consensus revenue estimates.

Figure 1



Constitutional State Revenue Limit

Section 26 of Article IX of the State Constitution of 1963, limits State revenue collections to a maximum of 9.49% of the level of Michigan Personal Income. This Constitution provision, put in place by Michigan voters in 1978, limits the size of State government to the level that occurred in FY 1978-79.

During FY 1999-2000, actual State revenue collections exceeded the constitutional revenue limit by \$159.7 million. Actual fiscal year 1999-2000 revenue equaled 9.55% of Michigan Personal Income.

During FY 2009-10, State revenue collections are estimated to be \$8.9 billion under the constitutional revenue limit. Estimated FY 2008-09 revenue will equal 6.93% of Michigan Personal Income.

This means that the size of State government in Michigan over the past nine fiscal years has contracted in a very significant manner. The Legislature and the Governor could raise State taxes by \$8.9 billion currently and still not be over the constitutional revenue limit. The current level of State revenue collected is now 26.9% under the constitutional revenue limit.

This decline in State revenue over the past 10 fiscal years results from a combination of tax reductions enacted into law, i.e., income tax rate reduction, earned income tax credit, film credit, and the fact that the current tax base of the State is not responsive to economic activity.

Year-End Balance Estimates

Table 2
FY 2008-09
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	Prelim. Closing December 2009
Revenue:	
Beginning Balance	\$457.9
Ongoing Revenue:	
Estimated Revenue Collections	7,365.7
Revenue Sharing Savings	489.3
Use Tax on HMOs (P.A. 440 of 2008)	179.0
Shift of Short-Term Borrowing Costs to School Aid Fund	<u>32.1</u>
Subtotal Ongoing Revenue	8,066.1
One-Time Revenue:	
Restricted Revenue Transfers (E.O. 2009-22)	75.7
21st Century Fund Transfer to General Fund (P.A. 183 of 2009)	10.0
Tourism Borrowing Transfer to General Fund (P.A. 183 of 2009)	10.0
Convention Fund Transfer to General Fund (P.A. 156 of 2009) ..	6.6
TEDF Transfer to General Fund (P.A. 136 of 2009)	<u>6.0</u>
Subtotal One-Time Revenue	108.3
Total Estimated Revenue.....	\$8,632.3
Expenditures:	
Initial Appropriations.....	\$9,701.4
Enacted Supplemental Appropriations:	
Public Act 279 of 2008.....	0.0
Public Act 286 of 2008.....	0.0
Public Act 3 of 2009.....	0.0
Public Act 7 of 2009.....	0.0
Public Act 23 of 2009.....	0.0
Public Act 24 of 2009.....	(6.9)
Public Act 38 of 2009.....	0.0
Public Act 64 of 2009.....	0.0
Public Act 73 of 2009.....	44.2
Public Act 79 of 2009.....	327.1
Public Act 122 of 2009.....	(863.6)
Public Act 140 of 2009.....	(277.7)
Boilerplate Supplementals	<u>1.5</u>
Subtotal Enacted Supplemental Appropriations	(775.4)
Executive Order 2008-21	(133.9)
Executive Order 2009-22	(221.9)
Projected Year-End Appropriation Lapses	(114.6)
Total Projected Expenditures.....	\$8,455.6
Projected Year-End Balance	\$176.7

Table 3
FY 2008-09
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	Prelim. Closing December 2009
Revenue:	
Beginning Balance.....	\$247.1
Estimated Restricted SAF Revenue	10,922.1
GF/GP Grant	76.5
Miscellaneous Revenue Adjustments.....	21.9
Federal Aid	1,503.6
ARRA-State Fiscal Stabilization Fund (P. A. 73 of 2009)	597.5
Total Estimated Revenue	\$13,368.7
Expenditures:	
Initial Appropriations	\$13,378.9
Formula Funding Adjustments.....	(119.1)
Federal Expenditure Adjustments.....	(58.4)
Other Expenditure Adjustments.....	(8.0)
Year-End Appropriation Lapses.....	(53.8)
Total Projected Expenditures	\$13,139.6
Projected Year-End Balance.....	\$229.1

Table 4
FY 2009-10
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$176.7
<u>Ongoing Revenue:</u>	
Consensus Revenue Estimate	\$6,898.4
Revenue Sharing Savings	495.2
Shift Short-Term Borrowing Costs to School Aid Fund	45.0
Use Tax on HMOs (PA 440 of 2008)	<u>339.5</u>
Subtotal Ongoing Revenue	7,778.1
<u>One-Time Revenue:</u>	
Transportation Economic Development Fund Transfer to Gen'l Fund	12.0
Railroad Improvement Fund Transfer to General Fund	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund	1.5
State Services Fee Fund Transfer to General Fund	1.6
Merit Award Fund Transfer to General Fund	140.0
21 st Century Jobs Fund Transfer to General Fund	<u>37.5</u>
Subtotal One-Time Revenue	198.4
Total Estimated Revenue	\$8,153.2
Expenditures:	
Initial Appropriations	\$8,128.0
<u>Enacted Supplemental Appropriations:</u>	
Public Act 140 of 2009	0.0
Public Act 145 Of 2009	0.0
<u>Other Expenditure Adjustments:</u>	
Employee Concessions	(27.5)
DMB Contract Savings	<u>(20.0)</u>
Subtotal Other Expenditure Adjustments	(47.5)
Total Projected Expenditures	\$8,080.5
Projected Year-End Balance	\$72.7

Table 5
FY 2009-10
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$229.1
Consensus Restricted SAF Revenue	10,458.1
Assumed SAF Revenue Increase.....	0.0
GF/GP Grant	30.2
Federal Aid	1,601.8
ARRA-State Fiscal Stabilization Fund	450.0
Total Estimated Revenue	\$12,769.2
Expenditures:	
Initial Appropriation.....	\$12,823.5
Formula Cost Adjustments	(108.0)
Total Appropriations	\$12,715.5
Projected Year-End Balance.....	\$53.7

Table 6

FY 2010-11 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	SFA Estimate
Projected Revenue:	
Beginning Balance	\$72.7
Ongoing Revenue:	
Consensus Revenue Estimate	6,968.4
Shift Short-Term Borrowing to School Aid Fund	45.0
Revenue Sharing Freeze	427.3
Use Tax on HMOs	363.3
Merit Award Trust Fund Transfer to General Fund	140.0
Subtotal Ongoing Revenue	7,944.0
Total Estimated Revenue	\$8,016.7
Potential Appropriations:	
FY 2009-10 Year-to-Date Appropriations	\$8,128.0
Remove FY 2009-10 ARRA Funding	1,071.3
FY 2010-11 ARRA Funding	(209.6)
Human Services Caseload/Cost	55.0
TANF Contingency Fund Offset	70.0
Medicaid Caseload/Costs	202.0
Federal Medicaid Match Rate Savings	(260.0)
State Employee Contractual Increases	120.0
Potential Appropriations	\$9,176.7
Projected Budget Imbalance	\$(1,160.0)

Table 7

FY 2010-11 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	SFA Estimate
Projected Revenue:	
Beginning Balance	\$53.7
Consensus Restricted SAF Revenue	10,480.5
GF/GP Grant	30.2
Federal Aid	1,602.0
Remaining Federal ARRA Funding	185.5
Total Estimated Revenue	\$12,350.5
Potential Appropriations:	
FY 2009-10 Current Services Baseline	12,773.9
Potential Appropriations	\$12,773.9
Projected Budget Imbalance	\$(422.0)

Historical Budget Data

Table 8

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	27,928.6	224.6	0.8
2007-08	28,441.7	513.1	1.8
2008-09	26,310.0	(2,131.7)	(7.5)
2009-10	25,156.8	(1,153.2)	(4.4)
Change FY 1999-2000 to FY 2009-10		\$577.8	2.2%

Table 9

K-12 Schools Minimum Foundation Allowance			
Fiscal Year	Enacted Per Pupil	After Reductions	Percent Change
1999-2000	\$5,700	\$5,700	N/A
2000-01	6,000	6,000	5.3%
2001-02	6,500	6,500	8.3
2002-03	6,700	6,626	1.9
2003-04	6,700	6,626	0.0
2004-05	6,700	6,700	1.1
2005-06	6,875	6,875	2.6
2006-07	7,108	7,085	3.4
2007-08	7,204	7,204	1.4
2008-09	7,316	7,316	1.6
2009-10	7,151	7,151	(2.3)
10-Year Change	\$1,451	\$1,451	
10-Year % Change	25.5%	25.5%	
10-Year Detroit CPI % Change	24.6%	24.6%	

Table 10

School Aid Fund Appropriations History (Millions of Dollars)			
Fiscal Year	State-Funded Appropriations	Dollar Change	Percent Change
1997-98	\$9,307.4	\$749.1	8.8%
1998-99	9,495.1	187.7	2.0
1999-2000	9,957.6	462.5	4.9
2000-01	10,732.3	774.7	7.8
2001-02	11,220.6	488.3	4.5
2002-03	11,334.6	114.0	1.0
2003-04	11,059.3	(275.3)	(2.4)
2004-05	11,113.5	54.2	0.5
2005-06	11,308.1	194.6	1.8
2006-07	11,597.0	288.9	2.6
2007-08	11,421.8	(175.2)	(1.5)
2008-09	11,097.8	(324.0)	(2.8)
2009-10	10,771.7	(326.1)	(2.9)
Change FY 1999-2000 to FY 2009-10		\$814.1	8.2%

Table 11

Pupil Membership History FY 1994-95 to FY 2009-10			
Fiscal Year	Local Districts	Charter Schools	Total
1994-95	1,593,306	0	1,593,306
1995-96	1,610,130	4,790	1,614,920
1996-97	1,634,074	11,520	1,645,594
1997-98	1,651,011	19,202	1,670,213
1998-99	1,656,186	31,109	1,687,295
1999-2000	1,651,300	45,290	1,696,590
2000-01	1,649,085	55,072	1,704,157
2001-02	1,647,459	62,113	1,709,572
2002-03	1,647,531	67,336	1,714,867
2003-04	1,640,929	73,473	1,714,402
2004-05	1,626,289	81,491	1,707,780
2005-06	1,607,880	89,654	1,697,534
2006-07	1,584,435	96,627	1,681,062
2007-08	1,553,568	98,987	1,652,555
2008-09	1,517,714	102,030	1,619,744
2009-10	1,488,800	108,650	1,597,450
2010-11	1,463,300	116,800	1,580,100

Table 12

State Spending from State Resources Appropriations Total Compared to Selected Budget Areas (millions of dollars)				
Budget Area	FY 1999-2000 Year-to Date Appropriation	FY 2009-10 Year-to-Date Appropriation	Change	Percent Change
Community Health	\$3,030.8	\$3,791.7	\$760.9	25.1%
Corrections	1,531.3	1,947.1	415.8	27.2
Human Services	1,246.3	909.3	(337.0)	(27.0)
K-12 School Aid	9,957.6	10,771.7	814.1	8.2
Community Colleges	297.2	299.4	2.2	0.7
Higher Education	1,782.1	1,538.1	(244.0)	(13.7)
Revenue Sharing	1,470.5	991.6	(478.9)	(32.6)
All Other Programs	5,263.2	4,907.9	(355.3)	(6.8)
Total State Spending	\$24,579.0	\$25,156.8	\$577.8	2.4%
Addendum:				
Medicaid Caseload	1,063,300	1,700,000	636,700	59.9%
Prison Population	44,065	46,364	2,299	5.2
K-12 Pupil Count	1,696,590	1,597,450	(99,140)	(5.8)
University FTE Students	227,973	257,203	29,230	12.8
Comm. College FTE Students	107,660	161,223	53,563	49.8
Federal Government Outlays	\$1,789,200	\$3,644,000	\$1,854,800	103.7%
Michigan Personal Income	\$292,606	\$329,840	\$37,234	12.7%
Detroit Consumer Price Index	168.3	206.2	37.9	22.5

Table 13

American Recovery and Reinvestment Act Funding Assumed in Michigan State Budget (Millions of Dollars)	
<u>FY 2008-09</u>	
General Fund/General Purpose	\$1,298.1
School Aid Fund.....	597.5
Total	<u>\$1,895.6</u>
<u>FY 2009-10</u>	
General Fund/General Purpose	\$1,071.3
School Aid Fund.....	450.0
Total	<u>\$1,521.3</u>
<u>FY 2010-11</u>	
General Fund/General Purpose	\$209.6
School Aid Fund.....	185.5
Total	<u>\$395.1</u>
<u>Three Year Totals</u>	
General Fund/General Purpose	\$2,579.0
School Aid Fund.....	1,233.0
Grand Total	<u>\$3,812.0</u>
Restricted Federal Aid Programs:	
Transportation Projects	\$912.3
K-12 Special Education Programs	426.4
K-12 At-Risk Programs	465.1
Workforce Training Programs	273.2
Environmental Cleanup Projects.....	248.6
Low Income Home Weatherization Programs.....	244.0
Food Assistance Programs	150.5
Energy Programs	120.5
Unemployment Assistance.....	86.0
All Other Restricted Programs	182.2
Subtotal Restricted Programs	<u>3,108.8</u>
Total Appropriated ARRA Funding	<u>\$6,920.8</u>